NOVEMBER 2016

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| **Scope:** This monthly newsletter outlines economic and financial developments in Victoria, nationally and globally. | **By David Martine, Secretary, Department of Treasury and Finance**  |

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|  **Highlights*** The **US presidential election** dominated news and marketsin November.
* In Victoria, **national accounts** data showed Victoria grew by 3.3 per cent in 2015‑16.
* Growth in **economic activity** in 2015-16 was faster than the pace recorded in 2014‑15.
* **GSP per capita** increased by 1.4 per cent in 2015‑16.
* Victoria added 20,500 **jobs** in October, with the **unemployment rate** edging down to 5.7 per cent.
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|  | Domestic developments |

The Victorian economy (GSP) grew by a strong 3.3 per cent in 2015-16, the highest since 2007-08, according to the **2015-16 State Accounts.** The report showed that Victoria continued to grow faster than the previous financial year and growth remains above trend.

Victoria’s annual growth rate was second to New South Wales with growth of 3.5 per cent.

Key influences in driving Victoria’s economic growth were increases in dwelling investment of 11.1 per cent, underlying business investment by 4.0 per cent and household consumption by 3.2 per cent. The growth in dwelling investment was driven by construction activity in a number of large multi-story residential towers.

**Net exports** detracted 0.3 percentage points from Victorian economic growth in 2015-16. While growth in exports was positive, it was outweighed by an even stronger increase in imports. Service exports reached a record high of $16.5 billion in 2015-16, driven by international education, and tourism.

GSP growth was above estimated population growth in 2015-16, and **GSP per capita** increased by 1.4 per cent, the highest since 2007-08.

Looking forward, Victorian GSP growth is expected to remain above trend, with the low Australian dollar assisting the State’s competitiveness and major transport infrastructure projects proceeding.

Nationally, GDP grew by 2.8 per cent in 2015-16.

Victoria’s **labour market** is continuing to show strength, adding 20,500 jobs in October. The Victorian **unemployment rate** edged down to 5.7 per cent, but remains above the national rate of 5.6 per cent.

Over the year, Victorian **employment** rose by 107,300 persons. Victoria’s unemployment rate is 0.1 percentage point higher than a year ago. Compared with the other states, Victoria's annual employment result was the highest in both absolute and percentage terms.

The increase in jobs was associated with a 1.1 percentage point rise in the **participation rate** – the amount of people in work and looking for work. This resulted in Victoria’s unemployment rate not falling despite the strong employment growth. The participation rate in all other states declined over the past year.

Victorian **wages growth** continued to be subdued, growing by 0.6 per cent in the September quarter and 2.0 per cent during the year.Annual growth in public sector wages of 1.9 per cent was weaker than growth in private sector wages of 2.0 per cent. Among the states, Victoria's annual wage growth was behind South Australia, Tasmania and New South Wales.

**Consumer sentiment** remains in positive territory in Victoria despite a fall in November. Victoria is the third most optimistic state behind New South Wales and Queensland.

According to Westpac, consumers reacted to national developments during the month, including weakness in the share market as investors were influenced by uncertainties around the **United States presidential election**, a disappointing

September jobs report and an unchanged interest rate decision from the Reserve Bank of Australia (RBA).

Victoria'smonthly **retail sales** growthwas 0.6 per cent in September, the second strongest of all states only behind New South Wales with growth of 0.8 per cent. Victoria had monthly turnover gains across all main industry groups with strength in household goods retailing and food retailing. Victoria's annual retail sales growth rate of 2.9 per cent is slightly below the national average.

Following a rebound in August, the value of Victoria’s **building approvals** reached record heightsin September. While monthly results continue to be volatile, Victoria’s annual growth remains the second highest of the states, supported by strong population growth and record-low interest rates.

The October release of the **NAB business confidence survey** showed that Victorian and national confidence levels fell slightly. However both measures remain in positive territory (with levels in Victoria below the national measure).

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The biggest item dominating economic news in November was the **US election**. The election result increased risks around the economic outlook, with uncertainty surrounding parts of the election platform of what will be delivered and when.President-elect Donald Trump has said he will issue a notice of intent to withdraw from the Trans-Pacific Partnership trade deal on his first day as President.

US bond yields and equity markets increased reflecting proposed company tax cuts and infrastructure investment.

The US dollar has also appreciated against most currencies since the election. In fact, the US dollar index (the value of the US dollar relative to a basket of top 6 currencies) is at its highest level in more than a decade.

Following the election outcome, global bonds were sold off. The rise in yields since the election reflects the view that the President‑elect’s policies are: (i) inflationary; and (ii) positive for US growth.

The **US Federal Reserve** kept its target for the federal funds rate constant at 0.25 – 0.50 per cent at their November meeting, held before the US election. The Chair of the US Federal Reserve stated the case for an increase in the target range had continued to strengthen. Furthermore, there are dangers in waiting too long to tighten monetary policy.

The RBA also kept the cash rate steady at 1.50 per cent in November.

**UK** **retail sales** rose by 7.4 per cent over the year to October, the fastest annual rate in 14 years. Growth was bolstered by colder weather and Halloween sales at supermarkets. This result supports the view that consumer confidence remains robust despite uncertainty caused by Brexit.

Concerns in relation to the sustainability of China’s growth continue.China's **industrial production** grew at an annualised pace of 6.1 per cent in October. However, retail sales were surprisingly weak, growing at 10 per cent over the year, below the 10.7 per cent growth recorded in September.

**Japan's** economy grew at 0.5 per cent in the three months to September 2016. On an annualised basis, GDP growth was 2.2 per cent, well above the June quarter's 0.7 per cent year-on-year growth.It was the third consecutive quarter of growth, boosted by exports, government spending and private residential investment while household consumption was subdued.

**Movements in financial data in November**

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|  | 18 Nov 2016 | 18 Oct 2016 | Change |
| AUD/USD | 0.74 | 0.77 | -3.6 per cent |
| ASX 200 | 5 359 | 5 411 | -0.9 per cent |
| S&P 500 | 2 182 | 2 140 | +2.0 per cent  |
| 90 day bank bill rate | 1.76 | 1.75 | +0.01 percentage points |
| 10 year Commonwealth bond rate | 2.67 | 2.29 | +0.38 percentage points |

*Note: Changes are based on the movement in unrounded figures.*