

# Economic Update

## October 2017

By David Martine, Secretary, Department of Treasury and Finance.  
This monthly newsletter outlines economic and financial developments.

### Highlights

- ▶ Victoria's labour market is strong, driven by robust demand for labour and high labour force participation.
- ▶ Business confidence and conditions suggest a healthy operating environment for businesses.
- ▶ Consumer confidence is well above the national average.
- ▶ Residential property values in Melbourne are growing faster than all other capital cities.
- ▶ The US labour market is strong with unemployment at a 16-year low and signs of wage growth emerging.
- ▶ China's economy is robust and growing in line with government targets.



## Domestic developments

Economic indicators released in the past month are consistent with strong economic conditions in Victoria.

Victoria's **labour market** remains strong, though employment growth has eased from the peak reached in early 2017. Employment rose by 8 900 in the month, and was up 114 400 over the year. Annual employment growth is highest among the states.

Leading labour market indicators suggest employment growth will remain strong through 2017. NAB's quarterly index of surveyed hiring intentions reached +12.9 in the September quarter, well above the 10-year average of +3.5. Job vacancies were up 25.3 per cent for the quarter to August.

The unemployment rate declined to 6.0 per cent in September, as employment increased and the participation rate remained steady. Unemployment is being partly supported by the participation rate, which remained at 66.3 per cent in September, its highest level on record.

Business conditions and confidence suggest a healthy operating environment for Victorian firms. Despite this, business investment remains soft. Victoria's **business conditions** index declined 10 points but remained at a strong +14 in September, in line with national business conditions. **Business confidence** improved 2 points to +6 points and is slightly below the national average of +7.

Victorian **consumer sentiment** remained at a high 104.9 in September despite decreasing 0.8 per cent in the month. This suggests that the outlook for **household consumption** remains strong.

Melbourne's consumer price index (CPI) increased by 0.5 per cent in the September quarter. Australia's annual trimmed mean inflation was 1.8 per cent, below the RBA's 2–3 per cent target range.

The Corelogic **home value index** for Melbourne rose 0.9 per cent in September, the highest of all mainland capital cities. Over the year, Melbourne residential property values increased 12.1 per cent, the highest among mainland capital cities. Strong population growth is driving a positive outlook for the residential property market.

The RBA left the **cash rate** unchanged at 1.50 per cent in September. The RBA noted there had been some tightening in credit conditions following APRA mortgage lending restrictions imposed on banks to contain rising household debt.



## Global developments

Key global economic indicators improved in the past month and a global recovery is underway.

The **US** economy continued to improve in September. GDP increased by an annualised rate of 3.0 per cent in the September quarter 2017. This was driven by solid consumption expenditure.

US labour market outcomes were mixed in September. The unemployment rate fell to 4.2 per cent despite employment decreasing by 33 000. Average hourly earnings increased 2.9 per cent over the year, providing a strong signal that wage growth is recovering.

**US consumer prices** rose 2.2 per cent over the year. This is up on the previous quarter when annual growth was 1.9 per cent. However, the measure of inflation targeted by the Federal Reserve, the personal consumption expenditure deflator, increased 1.6 per cent in the year to September. This has raised uncertainty around the path of interest rate normalisation.

**China's** economy expanded by 6.8 per cent over the year to the September quarter, supported by expansionary fiscal policy and accommodative financial conditions. Retail spending increased by 10.3 per cent over the year and is becoming an important driver of growth.

The economic outlook for the UK remains weak since the Brexit referendum. Recent data suggests a widening economic divergence between the strengthening Euro area and the UK.

UK GDP increased by 0.4 per cent in the September quarter and 1.5 per cent over the year. The annual growth rate was unchanged from the previous quarter.

**Eurozone** GDP increased by 0.6 per cent in the September quarter and 2.5 per cent over the year. While a recovery is underway across much of the Eurozone, recent data has been mixed. The unemployment rate increased slightly to 8.9 per cent in September. Retail sales were down 0.5 per cent in August and annual sales grew by just 1.2 per cent. Consumer price inflation was 1.4 per cent over the year to October.

**Japan** held a general election in late October, with the Liberal Democratic Party claiming victory. Markets reacted positively to the victory of Shinzo Abe, who has led Japan since 2012. Japan's unemployment rate remained flat at 2.8 per cent in September, and retail sales increased 0.8 per cent for the month.

Note: All data reported in the newsletter is as at 31 October 2017.

**Chart 1: Movements\* in financial data over the past month**

	29-Sep-17*	31-Oct-17	Change
AUD/USD	0.784	0.767	2.2 per cent
ASX 200	5,682	5,909	-3.8 per cent
S&P 500	2,519	2,575	-2.2 per cent
90-day bank bill rate	1.71	1.69	0.02 percentage points
10-year Commonwealth bond rate	2.84	2.67	0.18 percentage points

Notes: Changes are based on the movement in unrounded figures. \* From last business day of previous month..

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