

# Economic Update

## February 2018

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

### Highlights

- ▶ **Victoria's unemployment rate dropped to 5.6 per cent in January.**
- ▶ **Employment growth was 3.2 per cent in the year to January, which is well above population growth.**
- ▶ **Business confidence and consumer sentiment were both positive in January.**
- ▶ **Property price growth has eased from its peak but is strong on an annual basis.**
- ▶ **Retail trade grew by 4.5 per cent in Victoria in the year to December 2017.**
- ▶ **Victoria's wage price index increased by 2.4 per cent in the year to the December quarter.**
- ▶ **Victoria's goods exports rose by 12.6 per cent in the year to the December quarter, well above the national average.**
- ▶ **Global economic conditions are improving, providing support for Victoria's economy.**



## Domestic developments

Economic indicators released in February are consistent with a positive outlook for Victoria's economy.

Labour market data was mixed in January. On the positive side, the unemployment rate dropped to 5.6 per cent after averaging 5.8 per cent in the previous three months. The number of unemployed persons dropped to 193 600, which is below the 2017 year average of 203 100.

However, the participation rate declined by 0.5 percentage points. This supported the decline in the unemployment rate. Employment increased by 2 100 persons in January (0.1 per cent). This is a below-trend result but recouped some of the 4 000 person decline in December. Annual employment growth was strong at 3.2 per cent (100 200).

National employment growth was 3.3 per cent in the year to January. Employment growth has now expanded for 16 consecutive months, the longest streak on record. Queensland and Western Australia are in the midst of a recovery in labour demand from lows reached in early 2017.

On the back of a strong labour market cycle, Victorian wage growth showed signs of recovery in December. The wage price index grew by 2.4 per cent in the year to the December quarter 2017, the highest growth among the states.

The value of Victoria's retail trade fell 0.8 per cent in December. However, retail trade finished the quarter up 2.0 per cent, and was 4.5 per cent higher year-on-year. The annual result was driven by growth in other retailing (mainly pharmaceuticals and cosmetics); cafés, restaurants and take away food; and household goods retailing.

Victoria's retail trade volumes increased by 1.8 per cent in the December quarter, the second highest growth rate among the states. The quarterly retail volume and sales result is expected to support December quarter growth in household consumption, which is the largest contributor to state final demand.

Building approvals were lower in Victoria in December. The value of total building approvals declined 30.8 per cent over the month, driven by a 43.4 per cent fall in the value of residential approvals. Non-residential approvals were 4.5 per cent higher. Over the year, the value of Victoria's residential approvals was down 9.3 per cent, but non-residential approvals were up 36.6 per cent.

Nationally, the total value of building approvals fell by 17.8 per cent in December. Similar to Victoria, the decline was driven by a fall in residential approvals.

The Melbourne CoreLogic Home Value Index decreased 0.2 per cent in January, equal to the decline in December. Over the year, the index was up 8.0 per cent. This was the highest annual growth among the mainland state capitals and above the national average of 3.2 per cent.

CoreLogic noted that Melbourne's housing market has been far more resilient than Sydney to market headwinds due to better housing affordability and stronger population growth. In the past year, home values in Sydney were 1.3 per cent higher.

Victoria's Performance of Manufacturing Index was at 51.7 in January, slightly lower than a month earlier but representing continued expansion in activity. January marked one full year the index has been in positive territory.

The WMI Consumer Sentiment Index fell by 5.5 per cent to 103.0 in February, but was still 2.3 per cent higher than a year earlier.

The index has now been above 100 for seven consecutive months. Key factors underpinning higher confidence are low interest rates and positive labour market conditions.

NAB's Monthly Business Survey showed that Victoria's business conditions and confidence were both positive in January.

That said, a divergence between conditions and confidence persists. Business confidence fell 6 points to +7. Business conditions rose 5 points to +17, continuing a run of over four years in positive territory.



## Global developments

Global economic conditions over the month continued to improve, which supports the outlook for Victoria's economy.

Global equity markets endured a period of volatility in mid-February. Volatility was largely due to higher than expected wages and inflation outcomes, which increased investor expectations of earlier interest rate hikes by the United States (US) Federal Reserve.

US non-farm employment rose by 200 000 in January, and the unemployment rate held at 4.1 per cent. Average hourly earnings for non-farm private employees increased by 2.9 per cent over the year to January 2018, which is the fastest growth rate for the series since mid-2009.

The UK economy grew by 1.4 per cent in the year to the December quarter 2017. This was below the growth rate of the euro area over the same period, which was 2.7 per cent.

Japan's economy grew by 1.6 per cent in 2017. Although this was slightly below expectations, it was the best result since 2013.

Note: All data reported in the newsletter is as at 28 February 2018.

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

	31-Jan-18	28-Feb-18	-3.5 per cent
AUD/USD	0.807	0.779	-0.4 per cent
ASX 200	6,038	6,016	-3.9 per cent
S&P 500	2,824	2,714	-0.2 percentage points
90-day bank bill rate	1.79	1.77	0.11 percentage points
10-year Commonwealth bond rate	2.75	2.86	0.14 percentage points

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

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