

Economic Update

May/June 2018

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

Highlights

- ▶ In the March quarter, Victoria's state final demand growth was the highest since 2013
- ▶ Victoria's employment rose by 22 100 persons in May and the unemployment rate was 5.1 per cent
- ▶ Victorian wages grew by 2.3 per cent over the year to March
- ▶ The value of Victoria's retail trade increased by 4.7 per cent over the year to April
- ▶ Victoria's NAB business confidence index was unchanged in May although business conditions fell
- ▶ The number of dwelling units approved fell by 8.4 per cent in April
- ▶ The US unemployment rate fell to 3.8 per cent in May, the lowest unemployment rate since April 2000



Domestic developments

Victoria's state final demand grew by 1.9 per cent in the March quarter 2018, the highest since March 2013. This was driven by household consumption (0.5 per cent), dwelling investment (5.1 per cent), business investment (10.6 per cent) and public demand (0.5 per cent).

Over the year, Victoria's state final demand grew by 4.9 per cent, the highest growth rate of all the states and above growth in national final demand (3.2 per cent).

Australia's gross domestic product grew by 1.0 per cent in the March quarter and 3.1 per cent over the year. This was above market expectations of 0.8 per cent.

Victoria's employment rose by 22 100 persons in May. The result was driven by part-time employment which increased by 26 200 persons and partly offset by a fall in full-time employment of 4 000 persons.

Over the year, Victoria's employment grew by 2.2 per cent, which is lower than the recent highs of over 4.0 per cent recorded in late 2016 and early 2017.

Victoria's unemployment rate fell by 0.1 percentage point to 5.1 per cent in May. The unemployment rate has declined by 1.0 percentage point over the year and is below the national average of 5.4 per cent.

Victoria's participation rate increased by 0.2 percentage points to 65.6 per cent in May but is 0.7 percentage points lower over the year. The annual decline has been driven by both female and male participation which are down 0.6 and 0.8 percentage points respectively.

Victoria's regional employment decreased by 8 100 persons in the three months to April. Falling employment in Hume and the Warrnambool and South West region was partly offset by increases in Bendigo and the North West.

The unemployment rate in regional Victoria decreased by 0.2 percentage points to 5.5 per cent in the three months to April. It is below the Australian regional average of 6.1 per cent.

Victorian wages grew by 0.5 per cent in the March quarter to be 2.3 per cent higher over the year. This was above national wage growth of 2.1 per cent. Victorian private sector wages grew by 2.2 per cent over the year to March, while public sector wages grew by 2.9 per cent.

According to the ABS, wages growth in the March quarter largely reflected mandated increases in wages in sectors covered by enterprise bargaining agreements.

The value of Victoria's retail trade increased by 0.3 per cent in April and 4.7 per cent over the year.

The key drivers of growth in April were 'household goods retailing' and 'other goods retailing', but were partly offset by declines in 'clothing, footwear and personal accessories' and 'department stores'.

Victoria's retail volumes grew 0.9 per cent in the March quarter and 4.8 per cent over the year.

Victoria's Westpac-Melbourne Institute consumer sentiment index increased 0.3 per cent to 105.0 in June and is up 7.5 per cent over the year. The index has been above 100 for 10 of the last 11 months.

Two of the five components of Victoria's index improved in June. The 'family finance next 12 months' index rose 7.8 per cent to 115.6 in June, and the 'economic conditions over next 12 months' index increased 2.9 per cent to 108.7.

Westpac noted that the first half of 2018 marked the best run of sentiment in the national index since 2014.

Victoria's NAB business confidence index was unchanged at +5 points in May and was up 1 point over the year. The Victorian business confidence index is below the 2017 average of +7.5 points and below readings of conditions.

Victoria's NAB business conditions index fell by 10 points to +15 points in May, and was 1 point higher over the year. May surveyed conditions were below the average level of +15.9 points recorded in 2017.

The NAB noted that business conditions remain at relatively high levels despite the pull-back from April's record high result, while national business confidence fell back to around its historic average.

Indicators of future activity and employment continue to suggest robust outcomes for the business sector as strength is generally broad-based across industries.

Victoria's AIG Performance of Manufacturing Index (PMI) decreased by 5.9 points to 55.1 points in May, but continues to indicate expansion in the sector. Victoria's PMI has been above 50 for 16 consecutive months. Seven of the eight sub-sectors in the Australian PMI expanded in May.

According to the Deloitte Access Economics Investment Monitor, the total value of Victorian investment projects increased by \$7.6 billion to \$87.6 billion in the March quarter 2018.

The Investment Monitor identified 81 projects worth \$42.9 billion currently under construction in Victoria. The largest projects that commenced in the March quarter 2018 were the \$10.9 billion Melbourne Metro Rail Project and the \$6.7 billion West Gate Tunnel Project.

The total value of building approvals decreased by 8.5 per cent to \$3.25 billion in April 2018, and is down 0.2 per cent over the year. The number of dwelling units approved fell by 8.4 per cent in April, but remains 25.8 per cent higher over the year.

The Melbourne CoreLogic Home Value Index decreased by 0.5 per cent in May, but was up 2.2 per cent over the year.

The sub-index for Melbourne houses decreased 0.6 per cent in the month, but was up 1.5 per cent over the year. The sub-index for units decreased 0.1 per cent in the month but increased 4.4 per cent over the year.

The national CoreLogic Home Value Index (8 Capitals) decreased by 0.2 per cent in May. Over the year, the national index decreased 1.1 per cent, with Sydney down 4.2 per cent and Perth down 1.8 per cent.

The RBA left its policy rate unchanged at 1.5 per cent in June. It noted that long-term bond yields had risen over the past six months and that there had been some tightening of conditions in US dollar short-term money markets. This had flowed through to higher short-term interest rates in Australia.



Global developments

Key global economic indicators improved in the month, confirming a further strengthening in global economic conditions.

US non-farm payrolls increased by 223 000 in May, an improvement on the 159 000 recorded in April and beating market expectations of 189 000. Employment continued to trend up in several industries including retail trade, health care and construction. The US unemployment rate fell 0.1 percentage points to 3.8 per cent in May, an 18-year low.

The unemployment rate in the euro area decreased slightly to 8.5 per cent in April, above market expectations of

8.4 per cent. It remains the lowest jobless rate since December 2008, well below the rate of 9.2 per cent a year ago.

China's inflation was 1.8 per cent in May, in line with market expectations. It remained the lowest rate since January. Producer price inflation was 4.1 per cent over the year to May, the highest since January.

The Chinese Caixin manufacturing PMI was unchanged at 51.1 points in May, below market expectations of 51.3.

Note: Data reported in the newsletter are as at 15 June 2018.

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

	15-May-18	15-Jun-18	Change
AUD/USD	0.751	0.747	-0.6%
ASX 200	6 098	6 094	-0.1%
S&P 500	2 711	2 780	2.5%
90-day bank bill rate	1.91	2.06	0.15
10-year Commonwealth bond rate	2.83	2.70	-0.13

Notes: Changes are based on the movement in unrounded figures.

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