

# Economic Update

## November 2018

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

### Highlights

- ▶ Labour market and construction sector performance indicators confirm that Victoria's economy continues to perform strongly
- ▶ Employment increased by 20 000 persons (0.6 per cent) in September, driven by full-time employment
- ▶ Victoria's unemployment rate fell 0.2 percentage points to 4.5 per cent in September
- ▶ The unemployment rate in regional Victoria declined by 0.4 percentage points to 4.5 percentage points in the three months to September
- ▶ The value of building work done increased by 7.0 per cent in the June quarter, and 11.7 per cent over the year
- ▶ The Victorian consumer sentiment index rose 2.5 per cent to 107.8 in October



## Domestic developments

Deloitte Access Economics (DAE) estimates that the Victorian economy grew by 3.3 per cent in 2017-18 led by household consumption, business investment and Government infrastructure investment. DAE cited low interest rates, the weaker Australian dollar and strong population growth as the key drivers of growth.

DAE has lowered Victoria's growth outlook for 2018-19 by 0.2 percentage points to 3.5 per cent but left its 2019-20 growth forecast broadly unchanged. Household consumption, business investment and government infrastructure investment are expected by DAE to be the main contributors to growth.

Victoria's labour market remains strong. Employment in Victoria increased by 20 000 persons (0.6 per cent) in September, the highest among the states in both absolute and percentage terms. This was driven by a 33 500 person (1.5 per cent) increase in full-time employment, while part-time employment decreased by 13 600 persons (-1.3 per cent). Aggregate hours worked rose by 1.3 per cent in September.

Over the year to September 2018, Victorian employment increased by 85 500 persons (2.6 per cent).

Victoria's 4.5 per cent unemployment rate is at the lowest rate since March 2011. It is 6.0 per cent lower than a year ago and below the national rate of 5.0 per cent.

Victoria's youth (15-24 years) unemployment rate is 12.0 per cent (12 month average, original data), 1.2 percentage points lower than one year ago.

While Victoria's participation rate rose by 0.2 percentage points to 65.6 per cent in September, it was lower than the 66.3 per cent rate at the same time last year.

Victoria's regional labour market is also continuing to gain strength. In the three months to September 8 400 jobs were created and the unemployment rate declined by 0.4 percentage points to 4.5 per cent. This is below the Australian regional average of 5.2 per cent.

The strength in Victoria's jobs market is in line with improved consumer and business sentiment.

The Westpac-Melbourne Institute consumer sentiment index rose 2.5 per cent to 107.8 in October, and remains 2.8 per cent higher over the year. Four of the five component indices rose in October with the largest increase in 'economic conditions next 5 years' (9.0 per cent higher). Notably, the 'time to buy a dwelling' index rose by 3.0 per cent to 103.5 in October and is now 17.5 per cent higher than a year ago, driven by declining dwelling prices.

The NAB Victorian business confidence index rose by 2 points to +6 index points in September but was unchanged compared to a year ago. The Victorian business conditions index rose by 5 points to +19 index points and was 3 points higher than a year ago. NAB noted that businesses had reported lower forward orders, which can be a forward indicator of underlying business conditions.

Indicators of Victoria's housing markets were subdued over the past month. While lower dwelling prices in Melbourne resulted in improved housing affordability, building approvals, work done and lending for residential property were lower over the year.

Melbourne dwelling prices declined by 0.9 per cent in September and 3.4 per cent over the year. The decline was led by house prices, which fell 1.1 per cent in September and 4.5 per cent over the year. Unit prices declined 0.2 per cent but were 0.3 per cent higher over the year. Nationally, property prices fell 0.6 per cent in September and by 3.7 per cent over the year, primarily led by falls in Melbourne and Sydney.

The HIA Housing Affordability Index for Melbourne improved by 2.8 per cent in the September quarter and 3.3 per cent over the year. However, Melbourne's affordability remained the second lowest among all capital cities ahead of Sydney.

Victorian monthly loan commitments to first home buyers rose 1.2 per cent in August but owner occupier housing finance fell 3.0 per cent. Nationally, loan approvals to owner occupiers decreased by 2.1 per cent to 51 266. The national value of lending for new and established housing decreased by 2.7 per cent in August 2018.

The total value of building approvals declined by 4.8 per cent to \$3.0 billion in August and by 11.3 per cent over the year, respectively.

The number of dwelling unit approvals fell by 12.0 per cent in August, and by 17.3 per cent over the year. Nationally, the number of dwelling unit approvals fell by 9.4 per cent in August and 13.6 per cent over the year.

Building work done in Victoria increased by 7 per cent to \$9.5 billion in the June quarter 2018 to be 11.7 per cent higher over the year. This reflected rises in non residential work done, (up 12.2 per cent to \$3.3 billion) and residential building work (up 4.4 per cent to \$6.2 billion). Nationally, building work done fell 0.2 per cent in the June quarter 2018 to \$29.3 billion.

Engineering construction in Victoria declined by 4.7 per cent in the June quarter, while Australia experienced an increase of 2.2 per cent. The largest rises were in bridges, railways and harbours (up \$129 million), while telecommunications declined \$119 million.

Victoria's Performance of Manufacturing Index (PMI) rose 0.9 per cent to 60.4 points in September, adding to the 12.4 point rise in August. The national index rose by 2.3 points to 59.0 points in September, its 23rd consecutive month of expansion.

The RBA left its policy rate unchanged at 1.50 per cent in October. The RBA noted that non-mining business investment, public infrastructure investment and resource exports were key contributors to growth. However, high household debt combined with weakness in household income growth continue to pose risks to the outlook for household consumption.

The RBA noted that growth in China has slowed marginally, with authorities easing policy while continuing to pay close attention to risks in the financial sector. Global inflation remains low but is vulnerable to upward pressure from higher oil prices and wages.

The IMF has downgraded its Australian GDP forecast for 2019 by 0.3 percentage points to 2.8 per cent, partially reflecting recently introduced trade protectionist measures. The IMF forecast for 2018 remains unchanged at 3.2 per cent.



## Global developments

In its October World Economic Outlook, the IMF downgraded global GDP growth for 2018 and 2019 to 3.7 per cent, 0.2 per cent lower for each respective year. The downward revision reflects escalating global trade tensions and a weaker outlook for key emerging market and developing economies.

The labour market in the United States continues to tighten. The unemployment rate declined to 3.7 per cent in September compared to the consensus forecast of 3.8 per cent. The rate was 0.5 percentage points lower over the year. Non-farm payrolls increased by 134 000 persons – slightly below market expectations of 185 000 persons. It followed an

upwardly revised rise of 270 000 persons in August. Labour force participation fell marginally to 62.7 in September, 0.1 percentage point below August. Job gains predominantly occurred in professional and business services, health care and transportation and warehousing.

China's GDP growth was 6.5 per cent over the year to October, 0.1 per cent below market expectations, reflecting the impact of escalating US China trade tensions. China's NBS manufacturing PMI was 50.2 points in October, and the Caixin Services PMI was 53.1 points in September, above market expectations of 51.5 points.

The unemployment rate in the Euro Area slightly declined in August to 8.1 per cent, below market expectations of 8.2 per cent. It remains the lowest unemployment rate since November 2008. Unemployment rates among the member states were low in Germany (5.1 per cent) and highest in Spain (14.6 per cent) and Greece (19.1 per cent).

*Note: Data reported in the newsletter are current as at 31 October 2018.*

#### *Movements in financial data over the past month*

	30 Sep 2018	31 Oct 2018	Change
AUD/USD	0.7224	0.7094	-1.8
ASX 200	6 207.6	5 830.3	-6.1
S&P 500	2 914.0	2 711.7	-6.9
90-day bank bill rate*	1.93	1.93	0.0
10-year Commonwealth bond rate*	2.667	2.626	-1.5

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

\* Changes are calculated as percentage points.

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