

Economic Update

September 2018

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

Highlights

- ▶ Economic indicators released over the past month point to strong economic conditions in Victoria
- ▶ State final demand grew 1.2 per cent in the June quarter and 5.2 per cent over the year, the fastest annual growth of all the states
- ▶ Victoria's unemployment rate fell 0.6 percentage points to 5.0 per cent in July, representing the lowest unemployment rate since January 2012
- ▶ Victoria's retail trade activity increased by 5.8 per cent over the year to June
- ▶ The Victorian consumer sentiment index fell to 107.2 in August, but was the highest among the mainland states
- ▶ The NAB business confidence and conditions indices for Victoria rose in July



Domestic developments

Victoria's state final demand grew by 1.2 per cent in the June quarter. This was driven by growth in dwelling investment (4.6 per cent), public demand (3.1 per cent) and household consumption (0.9 per cent), but partly offset by weak business investment (-2.7 per cent).

Over the year to June quarter 2018, Victoria's state final demand grew by 5.2 per cent. This was the highest growth among the states and well above national final demand growth (3.4 per cent).

Australia's gross domestic product grew by 0.9 per cent in the June quarter and 3.4 per cent over the year. This was above market expectations of 0.7 per cent and 2.8 per cent, respectively.

Employment in Victoria increased by 29 400 (0.9 per cent) in July. This was driven by a 30 100 increase in part-time employment, while aggregate hours worked rose by 0.9 per cent. Over the year to July, Victorian employment increased by 94 100 persons (2.9 per cent), the equal fastest annual growth rate among the states.

Victoria's unemployment rate fell by 0.6 percentage points to 5.0 per cent in July, representing the lowest unemployment rate since January 2012. Victoria's unemployment rate is down from 6.2 per cent one year ago, and is below the national rate of 5.3 per cent.

Victoria's participation rate remained unchanged at 65.7 per cent in July, and is down from 66.1 per cent at the same time last year. The annual decline was driven by both female and male participation, which are 0.5 and 0.2 percentage points lower, respectively.

The unemployment rate in regional Victoria decreased by 0.8 percentage points to 4.7 per cent in the three months to July, and is below the Australian regional average of 5.5 per cent.

Victoria's regional employment increased by 6 500 persons in the three months to July. Rising employment in Bendigo and Shepparton was partly offset by declines in Geelong, Warrnambool and South West regions.

Victorian wages grew by 0.5 per cent in the June quarter to be 2.5 per cent higher over the year. This was the equal highest annual wage growth of the states (along with Tasmania), and above national wage growth of 2.1 per cent. Wage growth in Victoria was still primarily driven by the public sector.

National wages grew by 0.6 per cent in the quarter to June and 2.1 per cent over the year, in line with market expectations. Nationally, private sector wages grew by 0.4 per cent in the quarter to be 2.0 per cent higher over the year, while public sector wages grew by 0.4 per cent in the quarter and 2.3 per cent over the year.

The value of Victoria's investment pipeline increased by \$18.5 billion to \$106.2 billion over the quarter to June 2018, according to the DAE Investment Monitor. This represented a 21.1 per cent rise over the quarter. DAE noted that Victoria's investment pipeline remains healthy, supported by engineering and commercial construction projects at various stages of planning. Major projects currently under construction include the \$10.9 billion Melbourne Metro Rail Project and the \$6.7 billion West Gate Tunnel Project.

The value of Australia's investment pipeline fell by \$39.5 billion (-5.2 per cent), to \$712.4 billion over the quarter to June 2018. The steep decline in the national value of projects was largely due to the completion of the \$45 billion Ichthys LNG development in the Northern Territory and \$34 billion Wheatstone LNG project in Western Australia.

The value of Victoria's retail trade increased by 1.1 per cent in June and 5.8 per cent over the year. The monthly and annual results were the strongest among all the states. The key drivers of growth in June were 'clothing, footwear and personal accessories' and 'cafes, restaurants and takeaway food', which were partly offset by a decline in 'department stores'. Retail volumes grew 1.7 per cent in the June quarter and 4.6 per cent over the year.

The Westpac-Melbourne Institute consumer sentiment index for Victoria fell 1.9 per cent to 107.2 in August, although it remains 5.7 per cent higher over the year. Victoria's consumer sentiment was highest among the states.

All five component indices for Victoria's consumer sentiment decreased in August, with the largest fall recorded in 'Family Finance vs a Year Ago', which declined by 6.7 per cent. However, the 'Time to buy a dwelling' index rose by 17.5 per cent to 108.5 in August, and is now 30.7 per cent above its level a year ago.

The national consumer sentiment index fell 2.3 per cent in August to 103.6, but is 8.6 per cent higher over the year. The sharpest monthly fall among the states was reported in New South Wales, which declined by 7.1 per cent.

The NAB business confidence index for Victoria rose by 2 points to +5 index points in July, but remained 5 points lower than a year ago. The Victorian business confidence index is below the 2017 average of +7.5 points. Victoria's business conditions index rose by 3 points to +18 index points in July, 3 points higher than a year ago. Business conditions remain comfortably in positive territory and above the average level of +15.9 points recorded in 2017.

The value of construction work done in Victoria rose by 3.9 per cent over the quarter to June 2018, outpacing national growth of 1.6 per cent. Over the year to June 2018, construction work done rose by 18.6 per cent, driven by strong growth in engineering construction (32.6 per cent) and non-residential building construction (18.6 per cent).

Private capital expenditure fell 5.4 per cent in the June quarter and was down 1.4 per cent over the year. Nationally, private capital expenditure decreased 2.5 per cent in the June quarter, but was up 0.4 per cent over the year.

The total value of building approvals increased by 0.3 per cent to \$3.16 billion in July 2018, but was down 5.3 per cent over the year. The number of dwelling unit approvals fell by 4.6 per cent in July, and was down 8.4 per cent over the year. Nationally, the number of dwelling unit approvals fell by 5.2 per cent in July and 5.6 per cent over the year, compared with market expectations of a 2.0 per cent and 3.0 per cent decline, respectively.

The RBA left its policy rate unchanged at 1.5 per cent in August. Non-mining business investment, public infrastructure investment and resource exports were highlighted as key contributors to growth. However, high household debt continues to pose risks to the outlook for household consumption.

The RBA revised down its near-term inflation forecasts in its quarterly Statement on Monetary Policy. The annual inflation forecast for 2018 was revised down to 1.75 per cent from 2.25 per cent, due to expected one-off falls in administered prices. However, the RBA still expects annual inflation to rise to 2.25 per cent by late 2019.

The RBA noted that global economic conditions generally remain positive, but downside risks to global growth from trade protectionism were rising. The minutes of the RBA's August Board meeting noted that many economies in Asia are vulnerable to an escalation in trade tensions reflecting their small and trade-dependent economies and high integration with global supply chains.



Global developments

Key global economic indicators were positive during the month, confirming a further strengthening in global economic conditions.

Employment in the United States increased by 157 000 in July 2018, following an upwardly revised 248 000 in June — below market expectations of 190 000.

Job gains predominantly occurred in professional and business services, manufacturing and health care. The US unemployment rate fell 0.1 percentage points to 3.9 per cent in July 2018, in line with market expectations.

China's annual consumer price inflation was 2.1 per cent in July. This was above market expectations of 1.9 per cent, but below the Chinese government's target of 3 per cent. The Chinese Caixin monthly manufacturing PMI fell to 50.8 points from 51.0 points in July, in line with market expectations.

GDP in the euro area increased by 0.4 per cent in the June quarter 2018 and was up 2.2 per cent over the year. The result slightly exceeded market expectations of 0.3 per cent and 2.1 per cent, respectively. Quarterly growth was strong in Germany (0.5 per cent) and the Netherlands (0.7 per cent).

The unemployment rate in the euro area remained unchanged in July, at 8.2 per cent. This was in line with market expectations and remains the lowest unemployment rate since November 2008.

Note: Data reported in the newsletter are current as at 31 August 2018

Chart 1: Movements in financial data over the past month

	31-Jul-18	31-Aug-18	Change
AUD/USD	0.7431	0.726	-2.3%
ASX 200	6,280	6,320	0.6%
S&P 500	2,816	2,901	3.0%
90-day bank bill rate*	1.97	1.95	-0.03
10-year Commonwealth bond rate*	2.65	2.57	-0.09

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

*Changes are calculated as percentage points.

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