

# Economic Update

## February 2019

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 were mixed, though the broader economic picture in Victoria remains strong.
- ▶ Victorian employment increased by 0.3 per cent in December, the highest of the states.
- ▶ Victoria's unemployment rate fell to 4.2 per cent in December, the equal lowest unemployment rate on record.
- ▶ Victoria's population grew by 2.2 per cent over the year to June 2018.
- ▶ The unemployment rate in regional Victoria decreased to 4.3 per cent in the three months to December, the lowest unemployment rate on record.
- ▶ The number of dwelling unit approvals fell by 14.6 per cent in November.



## Domestic developments

Overall conditions in the Victorian economy remain positive, despite softening property market indicators over the past month.

Victoria's population grew by 2.2 per cent over the year to the June quarter, above the historical average. Net overseas migration made the largest contribution to growth, adding 84 100 persons over the year.

Victoria's share of national net overseas migration was 35.5 per cent, significantly higher than the population share and well above the historical average. Net interstate migration remains strong and added 14 300 persons over the year, although this is below recent highs.

Victoria's labour market is very strong with low unemployment and above-trend employment growth.

Victorian employment increased by 0.3 per cent in December, although aggregate hours worked rose by a stronger 0.6 per cent. Over the year to December, Victorian employment increased by 3.7 per cent driven by full-time employment, which increased by 4.0 per cent.

Victoria's unemployment rate fell by 0.4 percentage points to 4.2 per cent in December to its equal lowest rate on record. The unemployment rate has declined by 1.9 percentage points over the year.

Victoria's labour market participation rate decreased by 0.2 percentage points to 65.8 per cent in December and is 0.5 percentage points lower than a year ago.

Labour market strength is broad based. The youth (15-24 years) unemployment rate declined by 1.6 percentage points to 11.4 per cent over the year to December. In regional Victoria, employment increased by 5 500 in the three months to December and the unemployment rate declined to a record low of 4.3 per cent.

The tight labour market has supported consumer confidence. The Westpac-Melbourne Institute consumer sentiment index rose by 3.1 per cent to 106.6 in January.

Four of the five component indices for Victoria rose in January with the largest rises in 'Family Finance vs a Year Ago' and 'Family Finance Next 12 Months'. However, 'Economic Conditions Next 12 Months' fell by 4.6 per cent.

Despite continued strength in the labour market and healthy consumer sentiment, retail trade growth slowed. The value of Victoria's retail trade grew by 0.1 per cent in November, although growth remains solid at 4.6 per cent over the year.

Property market indicators softened in January, reflecting declining property prices and tightening credit conditions.

The Melbourne CoreLogic Home Value Index decreased 1.6 per cent in January, which was the largest monthly fall on record, and was down 8.3 per cent over the year. Prices for detached houses fell by 1.7 per cent in January and 10.6 per cent over the year, while prices for units fell by 1.3 per cent in January and 3.0 per cent over the year.

Lower dwelling prices in Melbourne resulted in improved housing affordability, but building approvals, work done and lending for residential property were lower over the year.

The HIA Housing Affordability Index for Melbourne improved by 1.0 per cent in the December quarter and 5.9 per cent over the year. However, in regional Victoria housing affordability declined by 2.4 per cent in the quarter and 5.1 per cent over the year.

Victoria's 'Time to Buy a Dwelling' index rose by 3.3 per cent to 116.6 in January. The index is now 9.0 per cent above its level from a year ago. Westpac noted that dwelling price declines in New South Wales and Victoria are improving affordability.

The value of residential building approvals fell by 8.3 per cent in December, and is down 17.5 per cent over the year. The number of dwelling units approved fell by 8.1 per cent in December and 23.4 per cent over the year.

The value of construction work done in Victoria declined by 2.3 per cent in the September quarter, but rose 14.2 per cent over the year.

Growth in housing credit has eased over recent months. Victorian monthly loan approvals to owner occupiers increased by 0.7 per cent in November 2018. Nationally, loan approvals to owner-occupiers fell 0.9 per cent.

The NAB Victorian business confidence index was flat at 0 points in December but was 14 points lower than a year ago. The Victorian business conditions index fell by 11 points to +5 index points and was 10 points lower than a year ago.

Victoria's Performance of Manufacturing Index increased by 7.1 points to 60.1 points in January. The result signals strong expansion in manufacturing activity.

The Melbourne CPI rose by 0.5 per cent in the December quarter and 2.0 per cent over the year. Inflation expectations remain subdued with market forecasts predicting the cash rate will remain unchanged up to the June quarter 2020. The RBA left its policy rate unchanged at 1.50 per cent in February.



## Global developments

Key global economic indicators were weaker in the start of 2019, confirming that global economic conditions are cooling.

The IMF downgraded its global growth forecast to 3.5 per cent in 2019 and 3.6 per cent in 2020, 0.2 and 0.1 percentage points lower than projected in October 2018 respectively.

Employment in the United States increased by 312 000 persons in December, above market expectations of 177 000. The unemployment rate rose 0.2 percentage points to 3.9 per cent, partly due to a rise in the participation rate.

Job gains predominantly occurred in health care, construction, manufacturing, retail trade and professional and business services.

Consumer price inflation in the United States was 2.2 per cent in the year to December. This was in line with market expectations but above the Federal Reserve target of 2 per cent.

Trade activity in China contracted over the year to December, with imports declining 7.6 per cent and exports 4.4 per cent. This was significantly below market expectations of growth of 5 per cent and 3 per cent respectively.

The Chinese Caixin monthly manufacturing PMI declined to 49.7 points in December from 50.2 points in November, below market expectations of 50.1 points. The latest reading points to the first contraction in the manufacturing sector since May 2017.

Consumer price inflation in China slowed to 1.9 per cent year on year in December, from 2.2 per cent in the previous month and below market expectations of 2.1 per cent.

China's annual GDP growth rate was 6.4 per cent in December, matching market expectations but was the lowest growth rate since the global financial crisis.

The Euro Area unemployment rate fell to 7.9 per cent in November and was below market expectations of 8.1 per cent. It was the lowest jobless rate since October 2008.

The annual inflation rate in the Euro Area was 1.6 per cent in December, below November's reading of 1.9 per cent and below market expectations of 1.8 per cent.

### Movements in financial data over the past month

Note: Data reported in the newsletter are current as at 1 February 2019.

	31 Dec 2018	31 Jan 2019	Change
AUD/USD	0.705	0.726	+3.0
ASX 200	5,646	5,864	+3.9
S&P 500	2,507	2,704	+7.9
90-day bank bill rate*	2.02	2.07	+0.05
10-year Commonwealth bond rate*	2.32	2.23	-0.09

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

\* Changes are calculated as percentage points.

Disclaimer: No responsibility is taken for any action(s) taken on the basis of information contained in this Newsletter nor for any errors or omissions in that information.

Copyright queries may be directed to [IPpolicy@dtf.vic.gov.au](mailto:IPpolicy@dtf.vic.gov.au).



You are free to re-use this work under a Creative Commons Attribution 4.0 licence, provided you credit the State of Victoria (Department of Treasury and Finance) as author, indicate if

changes were made and comply with the other licence terms.

The licence does not apply to any branding, including Government logos.