

# Economic Update

## March 2020

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

### Highlights

- ▶ **The RBA cut the cash rate to 0.5 per cent in March.**
- ▶ **Melbourne dwelling prices rose in February and are now equal to their previous peak.**
- ▶ **In response to the COVID-19 outbreak, the OECD lowered its global GDP growth forecast for 2020 by 0.5 percentage points, while noting that circumstances remain highly uncertain.**
- ▶ **Victoria's employment increased in January, as did workforce participation.**
- ▶ **Victorian wages grew by 0.7 per cent in the December quarter to be 2.7 per cent higher over the year.**
- ▶ **Consumer sentiment and business confidence rose in the month, but fell over the year.**



## Domestic developments

The outbreak of the novel coronavirus (COVID-19) is causing increasing challenges for the global economy, and Victoria is unlikely to be immune from the effects. For Victoria, this follows the recent bushfires from which affected communities are still recovering. The Victorian economy has continued to perform well, but current data releases lag the impact of the virus.

Labour market conditions remained positive in January with an additional 2 900 jobs added to the economy. Employment growth was driven by a strong increase in full-time employment (30 600), outweighing a fall in part-time employment. Over the year to January, total employment grew by 2.7 per cent.

The labour force participation rate increased by 0.2 percentage points in January to a new record high of 66.9 per cent, an increase of 0.9 percentage points over the year.

With this increase in participation, the unemployment rate in Victoria rose by 0.4 percentage points to 5.4 per cent in January.

There were 13 600 more people employed in regional Victoria in the three months to January, and 6 400 additional jobs over the year.

The unemployment rate in regional Victoria rose by 0.2 percentage points to 4.1 per cent in the three months to January, but was down from 4.4 per cent a year earlier.

Victoria's youth (15-24 years) unemployment rate rose by 0.1 percentage points to 10.4 per cent in January (12-month average).

Victorian wages grew by 0.7 per cent in the December quarter and were 2.7 per cent higher over the year. This was above the national rate of 2.2 per cent over the same period.

Conditions in Victoria's housing market continue to improve. The CoreLogic Home Value Index for Melbourne increased by 1.2 per cent in February and was up by 10.7 per cent over the year. The Melbourne index is now equal to its previous peak in November 2017.

Melbourne's auction clearance is high, averaging around 79 per cent in February, significantly higher than the 56 per cent clearance rate for the same period last year.

Sales volumes have also increased, with sales in February 2020 higher than the same period a year earlier, though they remain below their average from 2013-2018, according to REIV data.

The number of new loans to owner-occupiers increased by 8.9 per cent in December. The value of new loans to owner-occupiers rose by 7.5 per cent in December and by 19.4 per cent over the year. The value of new loans to investors increased by 2.4 per cent in December and was up by 14.3 per cent over the year.

The value of residential building approvals rose by 26.0 per cent in December and by 47.5 per cent over the year. The number of dwelling units approved rose by 34.0 per cent in December and was up by 38.5 per cent over the year.

The Westpac-Melbourne Institute Consumer Sentiment Index rose by 4.3 per cent to 97.0 in February, while it was 3.4 per cent lower over the year. An index of 100 indicates an equal number of positive and negative responses to the survey questions.

All five indicators of the survey rose in February. 'Economic Conditions next 5 years' was up by 8.3 per cent, 'Economic Conditions next 12 months' was up by 4.5 per cent, 'Family Finance vs a year ago' was up by 4.4 per cent, 'Time to Buy

Major Household Items' was up by 4.0 per cent, and 'Family Finance next 12 months' was up by 0.4 per cent.

The value of Victoria's retail trade was steady at \$7.3 billion in December. Over the year to December, the value of Victoria's retail trade rose by 3.2 per cent. Sales volumes increased by 0.2 per cent in the December quarter, and were unchanged over the year.

The NAB business confidence index increased by 8 points to 0 index points in January, while it was 4 points lower over the year. The business conditions index decreased by 7 points to 1 index point in January and was 5 points lower than a year ago.

The RBA cut the cash rate to 0.50 per cent in March, in response to the global COVID-19 outbreak. In its statement, the RBA indicated that it will be monitoring developments closely and is prepared to ease monetary policy further to support the Australian economy.



## Global developments

Global economic conditions remain mixed. Although trade tensions have eased somewhat, downside risks stemming from the COVID-19 outbreak have escalated, leading to volatility in the financial markets and the Australian dollar weakening to around an 11-year low.

In response to the COVID-19 outbreak, the OECD has downgraded its 2020 forecasts for Chinese economic growth by 0.8 percentage points to 4.9 per cent and global growth by 0.5 percentage points to 2.4 per cent. Japan, Korea and Australia were noted as countries that would be particularly effected by a slowing Chinese economy. These forecasts are based on the OECD's baseline scenario that the epidemic peaks in China in the first quarter of 2020, and outbreaks in other countries remain mild and contained. The OECD noted though that a longer lasting and more intensive outbreak would weaken prospects considerably.

China's GDP increased by 1.5 per cent in the December quarter and by 6.0 per cent over the year – equal to the previous quarter's lowest annual growth in 30 years.

Exports increased by 6.3 per cent over the year to December, while imports increased by 11.8 per cent, resulting in a trade surplus of US\$46.8 billion. These data predate the outbreak of the coronavirus, which is expected to weigh on China's economic activity in the first quarter of 2020.

United States GDP increased by 0.5 per cent in the December quarter and by 2.3 per cent over the year. Employment increased by 225 000 persons in January and the unemployment rate rose slightly to 3.6 per cent. Annual inflation rose to 2.5 per cent over the year to January.

Euro area GDP increased by 0.1 per cent in the December quarter and by 0.9 per cent over the year. The unemployment rate fell by 0.1 percentage points to 7.4 per cent in December. Annual inflation rose to 1.4 per cent over the year to January.

*Movements in financial data over the past month*

*Note: Data reported in the newsletter are current as at 3 March 2020.*

	31 January 2020	28 February 2020	Change
AUD/USD	0.672	0.652	-3.0%
ASX 200	7 017	6 441	-8.2%
S&P 500	3 226	2 954	-8.4%
90-day bank bill rate*	0.88	0.80	-0.08
10-year Commonwealth bond rate*	0.96	0.81	-0.15

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

\* Changes are calculated as percentage points.

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