

Economic Update

July 2019

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

Highlights

- ▶ **Victoria's state final demand growth was subdued in the March quarter.**
- ▶ **Victoria's population growth remains strong and above the national average.**
- ▶ **Victoria's labour market strengthened in May and the regional unemployment rate fell to a record low of 4.1 per cent.**
- ▶ **The RBA reduced the cash rate to a record low of 1.25 per cent in June and more cuts are expected.**
- ▶ **Business indicators are mixed with confidence up but surveyed conditions down.**
- ▶ **The monthly pace of house price decline has moderated and the auction clearance rate has increased.**



Domestic developments

Victoria's state final demand growth slowed in the month, although conditions in the labour market remain strong.

Victoria's state final demand grew by 0.2 per cent in the March quarter and by 3.0 per cent over the year. This was slightly above national final demand growth but the lowest quarterly and annual result since September 2014.

The quarterly result was impacted by a fall in dwelling investment and subdued growth in household consumption. This was offset by an increase in public demand and private business investment.

Nationally, Australia's gross domestic product grew by 0.4 per cent in the quarter and 1.8 per cent over the year. National household consumption growth slowed, partly due to an increase in the household saving ratio to 2.8 per cent.

Victoria's population growth remains strong and the highest of the states. Over the year to the December quarter, Victoria's population grew by 2.2 per cent to reach 6.53 million persons, above the national average growth rate of 1.6 per cent.

Net overseas migration made the largest contribution to growth, adding 86 000 persons over the year. This accounted for 34.6 per cent of national net overseas migration, which is higher than Victoria's population share and above the historical average.

Victoria's labour market strengthened in May, with an increase in employment, a decrease in the unemployment rate and an increase in the participation rate.

Victorian employment grew by 28 600 persons in May, which helped push the unemployment rate down by 0.3 percentage points to 4.6 per cent. Victoria's unemployment rate has declined by 0.5 percentage points over the year to be below estimates of trend and the national rate.

Victoria's labour force participation rate increased by 0.3 percentage points to 66.2 per cent in May, its highest rate since December 2017. Victoria's female and male participation rates have both increased over the year to 60.7 per cent and 71.9 per cent, respectively.

The strength in Victoria's labour market is broad-based. Victoria's regional unemployment rate fell by 0.5 percentage points to a record low of 4.1 per cent in the three months to May. However, this was partly driven by a decrease in the regional participation rate to 60.8 per cent.

Employment growth in Hume, Warrnambool and South West was offset by declines in Bendigo, Shepparton and Latrobe-Gippsland.

The strength in Victoria's labour market is also reflected in the youth statistics. Victoria's youth (15-24 years) unemployment rate remained stable at 10.7 per cent in May, the equal lowest rate since July 2009.

Although conditions in Victoria's housing market remain soft, there are signs that the downturn may start to bottom. The monthly pace of house price decline has moderated and the auction clearance rate has increased. Credit growth and residential building approvals remain weak.

The CoreLogic Home Value Index for Melbourne decreased by 0.3 per cent in May and by 9.9 per cent over the year. The monthly decline was the smallest since February 2018.

Melbourne's auction clearance rate has increased, although sales volumes remain low. The clearance rate has averaged 66 per cent in June, below the average of around 70 per cent observed between 2012-2017, but up from 62 per cent at this time last year. Sales volumes are 50 per cent below the average observed between 2012-2017.

Lending commitments fell in April for both owner occupiers and investors. The value of loans to owner occupiers declined by 0.2 per cent in the month and 14.7 per cent over the year, while the value of loans to investors declined by 2.0 per cent in the month and 24.4 per cent over the year.

Consumer spending was subdued in the March quarter, partly due to the softness in the housing market and slow income growth. However, Victorian consumer confidence improved in June to be around neutral.

Victoria's household consumption rose by 0.3 per cent in the March quarter, with quarterly gains in non-discretionary spending categories (like electricity, gas and other fuel), partly offset by declines in discretionary categories (like hotels, cafes and restaurants).



Global developments

Global economic conditions are mixed and risks to the outlook are elevated, but global labour markets remain strong.

The US unemployment rate remained at a record low of 3.6 per cent in May, although employment increased by a modest 75 000 persons, which was below market expectations. Consumer price inflation remained weak at only 0.1 per cent in May and 1.8 per cent over the year.

Although the US Federal Open Market Committee kept interest rates unchanged in June, market participants are expecting a rate cut in the coming months after the Committee removed a reference to 'being patient' from the statement.

China's trade surplus increased in May, despite the escalating trade dispute with the US, with imports declining 8.5 per cent over the year and exports increasing by 1.1 per cent.

The softness in consumption is likely to continue into the June quarter as the value of Victoria's retail trade fell by 0.4 per cent in the month of April. The result was weighed down by 'cafes, restaurants, and takeaway food' and 'household goods' retailing.

Despite the spending results, the Westpac-Melbourne Institute Consumer Sentiment Index rose by 0.8 per cent to 100.0 in June. The index remains below the national index and is down over the year.

Business indicators were mixed in the month. The positive impact of interest rate cuts was offset by global uncertainty and a softening in national economic growth.

The NAB Victorian business confidence index increased by 14 points to 9 index points in May. However, the business conditions index decreased by 6 points to 0 index points in May, its lowest level since September 2013.

Conditions in Victoria's manufacturing industry have improved with the Performance of Manufacturing Index up by 10.7 points to 57.1 points in May. The index has been volatile in recent months but has moved above 50.0 points, which indicates that the industry is expanding.

The RBA reduced the cash rate by 25 basis points to a record low of 1.25 per cent in June. The RBA board noted that spare capacity in the labour market remains elevated and that 'it was more likely than not that a further easing in monetary policy would be appropriate in the period ahead'. As a result, the market now expects two more rate cuts by December 2019, which would lower the cash rate to 0.75 per cent.

US Treasury Secretary Steven Mnuchin said that a trade deal between China and the US is '90 per cent completed'. Such a deal could reduce some downside risks to the global outlook.

The Chinese Caixin Performance of Manufacturing Index remained unchanged at 50.2 points in May, slightly above market expectations of 50.0 points. Consumer price inflation was 2.7 per cent over the year to May, which was in line with market expectations.

The euro area unemployment rate fell by 0.1 percentage points to 7.6 per cent in April, the lowest rate since August 2008. Inflation was only 1.2 per cent over the year to May, down from 1.7 per cent in April.

Movements in financial data over the past month

Note: Data reported in the newsletter are current as at 28 June 2019.

	31 May 2019	28 June 2019	Change
AUD/USD	0.692	0.701	1.4%
ASX 200	6 397	6619	3.5%
S&P 500	2 752	2942	6.9%
90-day bank bill rate*	1.42	1.20	-0.22
10-year Commonwealth bond rate*	1.53	1.35	-0.18

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

* Changes are calculated as percentage points.

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