

Economic Update

November 2019

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

Highlights

- ▶ **Victoria's employment increased in September, and the unemployment rate decreased to 4.7 per cent.**
- ▶ **Melbourne dwelling prices increased for a third consecutive month and the auction clearance rate is high.**
- ▶ **The US Federal Reserve cut interest rates by 25 basis points, the third rate cut since July.**
- ▶ **Business sentiment remained subdued due to uncertainty about the economic outlook.**
- ▶ **Melbourne inflation rose by 1.7 per cent over the year to the September quarter.**



Domestic developments

Victoria's labour market remains strong. Employment increased by 8 600 persons in September, driven by a rise in full-time employment. Over the year to September, employment grew by 3.1 per cent.

Victoria's unemployment rate decreased by 0.2 percentage points to 4.7 per cent in September, below the national rate of 5.2 per cent.

The labour force participation rate decreased by 0.1 percentage points to 66.3 per cent in September but increased by 0.6 percentage points over the year.

Victoria's regional unemployment rate fell by 0.1 percentage points to a record low of 3.7 per cent in the three months to September.

Employment in regional Victoria fell by 9 200 persons in the three months to September, and over the year it decreased by 4 500 persons.

Victoria's youth (15-24 years) unemployment rate fell by 0.1 percentage points to 10.3 per cent in September (12-month average), the lowest rate since July 2009.

Victoria's housing market is firming. The CoreLogic Home Value Index for Melbourne increased by 1.7 per cent in September, the highest monthly growth since April 2017, although prices remain down 3.9 per cent over the year.

Melbourne's auction clearance rate has increased to average around 75 per cent in October, up from 53 per cent at this time last year and above the average of 73 per cent observed between 2012-2017. Sales volumes are around 22 per cent higher than this time last year, although they remain 21 per cent below the average observed between 2012-2017.

Lending commitments increased in August for both owner occupiers and investors. The value of loans to owner occupiers increased by 3.2 per cent in the month but remains down 3.2 per cent over the year to August; the value of loans to investors increased by 9.5 per cent in the month but is down by 5.8 per cent over the year to August.

The value of residential building approvals rose by 0.5 per cent in September but was down 15.8 per cent over the year. The number of dwelling units approved rose by 3.3 per cent in September but was down 27.6 per cent over the year.

Consumer sentiment and retail spending remain subdued.

The Westpac-Melbourne Institute Consumer Sentiment Index fell by 2.9 per cent to 97.0 in October and was down by 10.0 per cent compared to a year ago. An index of 100 indicates an equal number of positive and negative responses to the survey questions.

All of the five component sub-indices decreased in October: 'Family Finance next 12 months', 'Economic Conditions next 12 months', 'Family Finance vs a year ago', 'Economic Conditions next 5 years' and 'Time to Buy Major Household Items'. Separately, the 'Time to Buy a Dwelling' index fell by 6.1 per cent in October but is 10.2 per cent higher than a year ago.

The value of Victoria's retail trade increased by 0.3 per cent in August. Growth was recorded in 'clothing, footwear and personal accessories', 'household goods retailing' and 'food retailing'. This was partially offset by decline in 'cafes, restaurants and takeaway food' and 'other retailing' in the month.

Business sentiment remained subdued. The NAB Victorian business confidence index decreased by 6 points to -3 index

points in September, below its long-run average of +4 points. The business conditions index increased by 2 points to -1 index points in the month, below the long-run average of +6 points.

Conditions in Victoria's manufacturing industry remained in contractionary territory in September, with a decrease of 1.9 points in the AiG Performance of Manufacturing Index. The Index is now at 46.9 points, with an index below 50 points indicating that the industry is contracting.

Price pressures in the economy are subdued. Melbourne inflation rose by 0.5 per cent in the September quarter and by 1.7 per cent over the year. This was in line with the national average and is below the RBA's target of 2-3 per cent. The main contributor to the quarterly increase was international holiday, travel and accommodation.

The RBA cut the cash rate to 0.75 per cent at its October meeting, which was in line with market expectations. In its statement, the RBA board indicated that it will ease monetary policy further if needed to support sustainable growth in the economy and achieve its inflation target over time. Market participants expect the RBA to cut the cash rate further by mid 2020.



Global developments

Global economic conditions are mixed. The US-China trade dispute has contributed to a reduction in global manufacturing activity and created ongoing uncertainty in financial markets. However, labour markets in major advanced economies remain strong.

Employment in the United States increased by 136 000 persons in September. The unemployment rate declined to 3.5 per cent, the lowest rate in over 50 years. Consumer price inflation was unchanged in September at 1.7 per cent over the year.

The US Federal Reserve cut the target Fed funds rate by 25 basis points, as widely expected. This was the Federal

Reserve's third rate cut since July.

China's exports fell by 3.2 per cent over the year to September, while imports fell by 8.5 per cent over the same period, resulting in a trade surplus of US\$39.65 billion, which was higher than expected. The Chinese Caixin Performance of Manufacturing Index rose to 51.4 points in September, above market expectations. Consumer price inflation was 3.0 per cent over the year to September.

The euro area unemployment rate fell to 7.4 per cent in August, the lowest rate since May 2008. Inflation eased to 0.8 per cent over the year to September, 0.2 percentage points lower than in the previous month.

Movements in financial data over the past month

Note: Data reported in the newsletter are current as at 31 October 2019.

	30 September 2019	30 October 2019	Change
AUD/USD	0.676	0.686	1.5%
ASX 200	6 716	6 689	-0.4%
S&P 500	2 962	3 046	2.9%
90-day bank bill rate*	0.96	0.93	-0.03
10-year Commonwealth bond rate*	0.94	1.18	0.24

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

* Changes are calculated as percentage points.

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