

Economic Update

October 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 are consistent with a positive outlook for Victoria's economy.
- ▶ Victoria's population grew 2.2 per cent over the year to the March quarter, the highest of all jurisdictions and above the national average of 1.6 per cent.
- ▶ Victoria's unemployment rate fell 0.2 percentage points to 4.8 per cent in August, representing the lowest unemployment rate since June 2011.
- ▶ Victoria's retail trade activity increased by 5.2 per cent over the year to July.
- ▶ The Victorian consumer sentiment index fell to 105.1 in September but was the highest among the mainland states.
- ▶ The NAB business confidence and conditions indices for Victoria fell in August.



Domestic developments

Victoria's population grew 2.2 per cent over the year to the March quarter, the highest of all jurisdictions and above the national average of 1.6 per cent. The remaining states recorded annual growth of between 0.7 per cent (SA) and 1.7 per cent (QLD).

Employment in Victoria decreased by 1 600 (0.05 per cent) in August. This was driven by part time employment, which fell by 12 200 persons (-1.1 per cent), offsetting a rise in full time employment of 10 600 persons (0.5 per cent). Over the year to August, Victorian employment increased by 72 900 persons (2.3 per cent), the second fastest annual growth rate among the states.

Victoria's unemployment rate fell by 0.2 percentage points to 4.8 per cent in August, representing the lowest unemployment rate since June 2011. It 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 fell by 0.3 percentage points to 65.4 per cent in August, compared to 66.4 per cent at the same time last year. The annual decline was driven by both female and male participation, which were 1.4 and 0.5 percentage points lower, respectively.

The unemployment rate in regional Victoria decreased by 0.6 percentage points to 4.5 per cent in the three months to August, to be below the Australian regional average of 5.5 per cent.

Employment in regional Victoria was flat in the three months to August. Rising employment in Bendigo (+6 300 persons), Latrobe-Gippsland (+2 600) and Shepparton (+1 500 persons) was offset by declines in Geelong (-3 100 persons), North West (-2 900) and Hume (-2 600 persons).

The value of Victoria's retail trade decreased by 0.2 per cent in July but was 5.2 per cent higher over the year. The annual result was the strongest among all the states. The key drivers of annual growth in July were 'other retailing' (+9.2 per cent, which includes pharmaceutical goods); and 'clothing, footwear and personal accessories' (+6.8 per cent). The value of total retail turnover in July was \$7.0 billion (26.0 per cent of national total turnover).

The Westpac-Melbourne Institute consumer sentiment index for Victoria fell 1.9 per cent to 105.1 in September, and is 0.6 per cent lower over the year. Despite the decline, Victoria's consumer sentiment was the highest among the states.

Two of the five component indices for Victoria's consumer sentiment decreased in September. Declines were recorded in 'Economic Conditions next 5 years' (-7.3 per cent) and 'Family Finance next 12 months' (-6.6 per cent). The largest increase was recorded in 'Family Finance vs a year ago' (3.2 per cent), followed by 'Economic Conditions next 12 months' (1.3 per cent) and 'Time to Buy Major Household Items' (0.5 per cent).

The national consumer sentiment index fell 3.0 per cent in September to 100.5, but remained 2.7 per cent higher over the year. Nationally, all five components of the index decreased in the month.

The NAB business confidence index for Victoria fell by 2 points to +4 index points in August, but was unchanged compared to a year ago. The Victorian business confidence index was the third lowest of all the states, ahead of New South Wales and Tasmania (+2 index points). Victoria's business conditions index fell by 5 points to +12 index points in August, 10 points lower than a year ago.



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 201 000 in August, following a downwardly revised 147 000 in July – above market expectations of 191 000.

Job gains predominantly occurred in professional and business services, health care, wholesale trade and transportation and warehousing. The US unemployment rate was unchanged at 3.9 per cent in August 2018, above market expectations of 3.8 per cent.

China's annual consumer price inflation was 2.3 per cent in August. This was above market expectations of 2.2 per cent, but below the Chinese government's target of 3.0 per cent.

The value of engineering construction work done in Victoria fell by 4.7 per cent over the quarter to June 2018, below national growth of 2.2 per cent. Over the year to June 2018, engineering construction work done rose by 36.8 per cent, driven by strong growth in bridges, railways and road construction.

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

The RBA noted that global economic conditions generally remain positive, but that downside risks to global growth from trade frictions were mounting. The minutes of the RBA's September Board meeting noted that many economies in Asia are vulnerable to an escalation in trade tensions reflecting their small and trade-dependent economies.

The Chinese Caixin monthly manufacturing PMI fell to 50.6 points from 50.8 points in August, in line with market expectations.

Euro Area GDP expanded by 0.4 per cent in the June quarter 2018 and was up 2.2 per cent over the year. The result matched market expectations of 0.4 per cent and 2.2 per cent, respectively. Quarterly growth was strong in Germany (0.5 per cent) and the Netherlands (0.7 per cent).

The annual inflation rate in the Euro Area was 2.0 per cent in August, below market expectations of 2.1 per cent.

Note: Data reported in the newsletter are as at 28 September 2018

Movements in financial data over the past month

	31 Aug 2018	28 Sep 2018	Change
AUD/USD	0.726	0.722	-0.5%
ASX 200	6,320	6,208	-1.8%
S&P 500	2,902	2,914	0.4%
90-day bank bill rate*	1.96	1.93	-0.03
10-year Commonwealth bond rate*	2.59	2.63	0.03

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

* Changes are calculated as percentage points.

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