Economic Update

June 2019

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

Highlights

- **Victoria's labour market is solid but softened in April, with a decline in employment and an increase in the unemployment rate.**
- **Annual wages growth in March was the highest rate of growth since December 2014.**
- **Despite the weakness in the state-level data, the regional unemployment rate decreased to the lowest rate on record in April.**
- **Victoria's housing market remains soft but there are early signs that the downturn in prices has started to ease.**
- **In a speech, the RBA Governor said the bank will consider the case for lower interest rates at its June meeting.**
- **The US unemployment rate fell to the lowest rate since December 1969.**

Domestic developments

The labour market softened in April and consumer spending growth is expected to be subdued following weak retail sales volumes in the March quarter. However, easing financial conditions appear to be leading to improved sentiment in the housing market and clearance rates have increased in May.

Victoria's labour market is solid but softened in April, with a decline in employment, an increase in the unemployment rate and a decline in the participation rate.

Victorian employment fell by 7 600 persons in April, driven by a fall in full-time employment. The decline reduced the 2019 average growth rate to 3 000 persons per month, below the 2018 average of 10 000 persons per month.

The employment result pushed Victoria's unemployment rate up by 0.2 percentage points to 4.9 per cent. Despite the rise, Victoria's unemployment rate remains below trend and below the national rate of 5.2 per cent.

Victoria's labour force participation rate decreased by 0.1 percentage points to 65.9 per cent in April. However, the rate remains relatively high and has increased by 0.6 percentage points over the year.

The Victorian regional unemployment rate fell by 0.2 percentage points to 4.2 per cent in the three months to April. This was the lowest rate on record and the lowest of all the states.

Conditions facing young people looking for work has also improved. The youth (15-24 years) unemployment rate decreased by 0.1 percentage points to 10.7 per cent in April, the lowest rate since July 2009.

Consumer spending is expected to come under some pressure in March following weak retail sales volumes growth. But better consumer sentiment, improving wages growth and the early signs of a bottom in the housing market are expected to provide support.

Victoria's retail sales volumes fell by 0.3 per cent in March, which will drag on quarterly consumption growth and Victoria's state final demand.

Although the quarterly result was weak, retail trade values were up in the month of March by a solid 0.7 per cent and up by 4.7 per cent over the year, the highest since October 2018. The divergence reflects retail price inflation. The strongest growth in values was in 'clothing, footwear and personal accessories' and 'food retailing'.

The Westpac-Melbourne Institute Consumer Sentiment Index rose by 1.5 per cent to 99.2 in May but remained negative and below the national index of 101.3.

Victorian wages growth continued to improve in the March quarter, growing by 2.7 per cent over the year, the highest rate of growth since December 2014. Victorian wages growth was 0.4 percentage points faster than the national average in the March quarter, which partly reflects Victoria's stronger economic conditions and tighter labour market.

Although Victoria's housing market remains soft, there are early signs that the downturn may start to bottom. The rate of house price decline moderated in the month, while the auction clearance rate and house price expectations improved.

The Melbourne CoreLogic Home Value Index decreased by 0.6 per cent in April and 10.0 per cent over the year. Although the annual fall was the largest on record, the monthly result improved on the 0.8 per cent decline in March, suggesting the beginning of a bottom in the market.

Melbourne's auction clearance rate has improved from the start of the year to average around 63 per cent in May, although volumes remain low. The clearance rate is below the average of around 70 per cent observed between 2012-2017 and below rates observed in 2018.

Credit growth was weak in March for both owner occupiers and investors. The value of loans to owner occupiers fell by 0.5 per cent and the value of loans to investors fell by 4.9 per cent, both remain down more than 15 per cent over the year.

Credit growth will be supported by APRA's proposed changes to mortgage serviceability guidelines. The new guidelines removed the hard serviceability floor of 7.0 per cent which will reduce the assessed mortgagee rate by up to 0.75 percentage points.

Total construction activity is high in Victoria but declined in the March quarter. Construction work done fell by 2.2 per cent in the quarter and by 1.4 per cent over the year. Growth in non-residential construction was offset by declines in residential and engineering construction.

Victoria's residential construction pipeline remains high but declined in March. The number of dwelling units approved fell by 16.1 per cent in the month and 34.3 per cent over the year.

Business confidence and conditions both softened in April, despite the prospect of future interest rate cuts.

The NAB Victorian business confidence index declined by 5 points to -6 index points in April and was 12 points lower compared to a year ago. The business conditions index decreased by 1 point to +6 index points in April and was down 17 points over the year.

Victoria's Performance of Manufacturing Index rose by 3.1 points to 46.4 points in April. The index remained below 50.0 points and in contraction for the second consecutive month.

The RBA left the cash rate unchanged in May, despite some market participants expecting an interest rate cut following zero national inflation in the March quarter. However, in a recent speech, the RBA Governor said that the RBA would consider the case for lower interest rates at its June meeting. Following this statement, the market now expects the RBA to cut interest rates twice in 2019, including at the June meeting.

In the May Statement on Monetary Policy, the RBA revised down its economic growth and inflation forecasts. Growth was revised down due to a softer outlook for household consumption and dwelling investment, while inflation was downgraded due to weaker actuals, partly because of the downturn in the housing market.

Global developments

Global economic conditions are mixed, with subdued global growth indicators and strong labour market outcomes.

This was reflected in the latest OECD outlook with downgrades to the global growth forecast by 0.1 percentage point to 3.2 per cent. The slowdown is due in part to the downturn in global trade, which reflects lower growth in China as well as the ongoing impact of the US-China trade dispute.

Employment in the US increased by 263 000 persons in April, which drove the US unemployment rate down by 0.2 percentage points to 3.6 per cent, its lowest rate since December 1969. Consumer price inflation in the US was only 0.3 per cent in April and 2.0 per cent over the year.

Despite increased fiscal spending to support the economy, the Chinese Caixin manufacturing PMI fell to 50.2 points in April, below market expectations of 51.1 points. Consumer price inflation remains modest in China, with an annual rate of 2.5 per cent in April, which was in line with market expectations.

The euro area unemployment rate fell by 1 percentage points to 7.7 per cent in March, which is the lowest jobless rate since September 2008. Despite this, the rate remains relatively high compared to other advanced economies.

Movements in financial data over the past month

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

	30 April 2019	31 May 2019	Change
AUD/USD	0.704	0.692	-1.7%
ASX 200	6326	6397	1.1%
S&P 500	2946	2752	-6.6%
90-day bank bill rate*	1.56	1.42	-0.15
10-year Commonwealth bond rate*	1.79	1.53	-0.26

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

* Changes are calculated as percentage points.