

# Economic Update

**April 2019**

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

## Highlights

- ▶ Victoria's economic performance remains solid, although some indicators released in the month were mixed.
- ▶ Victoria's annual growth of state final demand at 5.2 per cent in the year to December was the strongest annual growth since September 2015.
- ▶ Victoria's employment increased by 136 700 persons or 4.2 per cent over the year to February.
- ▶ Victoria's unemployment rate increased in February to 4.8 per cent but remains 0.9 percentage points lower than a year ago.
- ▶ Victoria's population grew by 2.2 per cent over the year to September 2018.
- ▶ The Melbourne CoreLogic Home Value Index is 9.1 per cent lower over the year to February.



## Domestic developments

Data released in the month indicate that overall economic conditions in Victoria remain solid. The labour market is strong, with employment growth well above population growth and the unemployment rate below trend. However, conditions in the property market continue to weaken, weighing on consumer sentiment.

Victoria's state final demand grew by 0.6 per cent in December and 5.2 per cent over the year. This was the strongest annual growth since September 2015 and above growth in national final demand of 2.5 per cent.

The main contributions to the annual result were business investment (+1.9 percentage points), household consumption (+1.8 percentage points), and public demand (+1.0 percentage points).

Victoria's economic growth is being partly driven by strong population growth. Over the year to the September quarter, Victoria's population grew by 2.2 per cent, above national population growth of 1.6 per cent.

Net overseas migration made the largest contribution to Victoria's population growth, adding 84 800 persons over the year. Victoria's share of national net overseas migration was 35.3 per cent, significantly higher than Victoria's population share and well above the historical average.

Net interstate migration remains strong and added 14 000 persons over the year, although this was 2 400 persons lower compared to the previous year.

Regional population growth was driven by Greater Melbourne with an increase of 119 400 persons (+2.5 per cent) in 2017-18, compared with regional Victoria rising by 19 600 (+1.3 per cent). Geelong was the fastest growing area in regional Victoria with population growth of 2.7 per cent.

Victoria's labour market is strong, with employment growth well above population growth and the unemployment rate below trend.

Victorian employment increased by 5 700 (0.2 per cent) in February and by 136 700 or 4.2 per cent over the year. The annual result was driven by full-time employment, which grew by 114 000 or 5.2 per cent. Over the year, part-time employment increased by 22 700 or 2.2 per cent.

Victoria's labour force participation rate increased by 0.1 percentage points to 66.1 per cent in February and is 0.6 percentage points higher than a year ago.

Rising labour force participation has contributed to Victoria's unemployment rate increasing for a second consecutive month, despite robust employment growth.

In February, the unemployment rate rose by 0.2 percentage points to 4.8 per cent, which is slightly below the national rate of 4.9 per cent and down 0.9 percentage points over the year.

The strength in Victoria's labour market is broad-based, with a 2.3 percentage point fall in the youth (15-24 years) unemployment rate to 10.9 per cent over the year to February.

Victoria's regional employment increased by 10 200 persons (1.4 per cent) in the three months to February. Rising employment in Geelong (+5 100) and Warrnambool and South West (+4 100) was partly offset by declines in Hume (-4 100) and North West (-3 700). Victoria's regional unemployment rate rose by 0.1 per cent to 4.6 per cent in the three months to February.

Labour demand remains strong with a 2.2 per cent rise in job vacancies in the February quarter and a 9.3 per cent increase over the year. This suggests employment growth will remain strong over the next 6-12 months.

Despite solid conditions in the economy and a strong labour market, the housing market continues to weaken. This was reflected in declining property prices and weaker building approvals.

The ABS Residential Property Price Index fell 2.4 per cent in the December quarter and is down 6.4 per cent over the year. Over the year attached dwelling prices fell by 2.0 per cent whilst established houses fell faster at 7.6 per cent.

The Melbourne CoreLogic Home Value Index decreased 1.0 per cent in February and was down 9.1 per cent over the year. Prices for detached houses fell by 11.5 per cent and prices for units fell by 3.7 per cent over the year.

Credit growth remained low in January. The value of loans to owner-occupiers fell by 0.6 per cent in the month and were 18.0 per cent lower over the year. The value of loans to investors also fell in January by 1.5 per cent and was down 29.0 per cent over the year.

The value of residential building approvals fell by 5.7 per cent in January and by 36.0 per cent over the year. The number of dwelling units approved fell by 7.9 per cent in January and 35.9 per cent over the year.

With falling house prices, housing affordability improved in the December quarter. According to REIA, Victoria's home buyers required 33.1 per cent of income to meet loan repayments which was 0.4 percentage points less than last quarter. Over the year, the proportion of income needed to meet loan repayments declined by 0.3 percentage points.

Rental affordability also improved in the December quarter, with a 0.2 percentage point reduction in the proportion of income required to meet rent repayments.

The weakness in Victoria's housing market is weighing on consumer and home buying sentiment, despite the strong labour market conditions. The Westpac-Melbourne Institute Consumer Sentiment Index fell by 2.2 per cent to 98.3 points in March. The index is down 1.3 per cent over the year.

Four of the five component indices fell in March. The largest decline was recorded in 'Family Finance next 12 months' (-8.7 per cent) with 'Economic Conditions next 5 years' (+7.3 per cent) the only index to rise in the month of March.

Notably, the 'time to buy a dwelling' index fell by 7.9 per cent to 115.5 points in March but remains 15.1 per cent higher than a year ago.

The value of Victoria's retail trade rose by 0.1 per cent in January and 4.2 per cent over the year. The key drivers of annual growth were 'clothing, footwear and personal accessories' (+7.8 per cent) and 'Cafes, restaurants, and takeaway food' (+5.7 per cent).

The softness in consumer sentiment was not reflected in business confidence in the month which improved slightly. The NAB Victorian business confidence index rose by 1 point to +4 index points in February and is 1 point higher compared to a year ago. Victoria's business conditions index rose by 2 points to +7 index points in February but is 15 points lower than a year ago.

Victoria's Performance of Manufacturing Index (PMI) fell by 4.4 points to 55.7 points in February but remains above 50 signalling expansion in the sector. The national index rose by 1.5 points to 54.0 points.

Engineering construction in Victoria declined by 5.2 per cent in the December quarter, while Australia experienced a decrease of 4.1 per cent. Over the year Victoria is 13.4 per cent higher, while Australia is 6.6 per cent lower.

The RBA left its policy rate unchanged for the 31st consecutive month at 1.50 per cent in March. The RBA noted the strength of Australia's labour market, with an expected pick-up in wages growth, as economic growth is supported by rising business investment, higher levels of public infrastructure spending and increased employment. Risks to the outlook cited continue to be the strength of household consumption in the context of weak growth in household income and falling housing prices in some cities.



## Global developments

Global economic indicators were mixed in the month and conditions have softened compared to late 2018.

Consumer price inflation in the United States was 1.5 per cent in the year to February. This was below market expectations of 1.6 per cent.

Employment in the United States increased by only 20 000 in February, well below market expectations of 180 000. Despite this, the unemployment rate declined by 0.2 percentage points to 3.8 per cent, partly due to the return of federal workers from the partial government shutdown.

Indicators for the Chinese economy improved in the month but conditions remains subdued. The Chinese Caixin manufacturing PMI rose to 49.9 points in February, above market expectations of 48.5 points and an improvement from the previous month. Consumer price inflation in China slowed to 1.5 per cent in February, in line with market expectations.

The Euro Area unemployment rate was unchanged at 7.8 per cent in January. This was slightly below market expectations of 7.9 per cent and remains the lowest jobless rate since October 2008. The annual inflation rate in the Euro Area was 1.5 per cent in February, slightly above January's reading of 1.4 per cent, but in line with market expectations.

### Movements in financial data over the past month

Note: Data reported in the newsletter are current as at 1 April 2019.

	28 February 2019	29 March 2019	Change
AUD/USD	0.709	0.710	+0.1
ASX 200	6,169	6,180	+0.2
S&P 500	2,784	2,834	+1.8
90-day bank bill rate*	1.87	1.78	-0.1
10-year Commonwealth bond rate*	2.15	1.78	-0.4

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

\* Changes are calculated as percentage points.

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