Economic Update

August 2019

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

Highlights

- **Employment growth in Victoria slowed in June, but the regional unemployment rate fell to a record low of 3.8 per cent.**
- **Melbourne house prices increased in June and the auction clearance rate has risen.**
- **Business indicators are mixed with surveyed conditions up but confidence down.**
- **Melbourne inflation rose by only 1.3 per cent over the year to the June quarter.**
- **The RBA reduced the cash rate to a new low of 1.0 per cent in July and the market is pricing in another cut.**
- **The US Federal Reserve cut interest rates and markets anticipate further easing.**

Domestic developments

Victoria's labour market remains strong but growth moderated in June. Employment fell by 4 100 persons, driven by a fall in full-time employment. However, employment grew by 3.9 per cent over the year to June, which is above trend growth of 1.75 per cent.

The fall in employment pushed Victoria's unemployment rate up by 0.2 percentage points to 4.8 per cent in June. Despite the rise, Victoria's unemployment rate has declined over the year to June and is below the national rate of 5.2 per cent.

Victoria's labour force participation rate decreased by 0.1 percentage points to 66.1 per cent in June. It remains close to record highs and is up over the year to June.

Victoria's regional unemployment rate fell by 0.8 percentage points to a record low of 3.8 per cent in the three months to June. This was partly driven by a decrease in the regional participation rate to 60.5 per cent.

Employment in regional Victoria fell by 5 600 persons in the three months to June but increased by 14 300 persons over the year. Employment growth in Hume, North West and Warrnambool and South West was offset by declines in Shepparton, Ballarat and Geelong.

Conditions facing young people looking for work have improved. Victoria's youth (15-24 years) unemployment rate decreased by 0.1 percentage points to 10.6 per cent in June, the lowest rate since July 2009.

Although conditions in Victoria's housing market remain soft, there are signs that the downturn has started to bottom. House prices have stabilised and the auction clearance rate has increased. Housing credit growth remains weak.

The CoreLogic Home Value Index for Melbourne increased by 0.2 per cent in June but was down 9.2 per cent over the year. This was the first monthly increase since November 2017.

Melbourne's auction clearance rate has increased to average around 73 per cent in July, up from 63 per cent at this time last year and slightly above the average of 72 per cent observed between 2012-2017. However, sales volumes remain around 50 per cent below the average observed between 2012-2017.

Lending commitments fell in May for both owner occupiers and investors. The value of loans to owner occupiers declined by 1.4 per cent in the month and 18.0 per cent over the year to May, while the value of loans to investors declined by 0.8 per cent in the month and 27.3 per cent over the year.

The residential construction pipeline improved in June. The value of residential building approvals rose by 10.4 per cent in June and was up 1.9 per cent over the year. The number of dwelling units approved rose by 9.7 per cent in June and was down 3.8 per cent over the year.

Interest rate cuts and the stabilisation in the property market appear to be supporting consumer and homebuyer confidence.

The Westpac-Melbourne Institute Consumer Sentiment Index rose by 2.7 per cent to 102.7 in July. The Victorian index moved above the national index, driven by an improvement in 'Family finance vs a year ago', but it remains down over the year to July.

Four of the five component indices increased in July, with 'Economic conditions next 12 months' the only index to fall. The 'Time to buy a dwelling' index rose by 9.5 per cent in July and is 41.2 per cent higher than a year ago.

Consistent with the recent improvement in sentiment, the value of Victoria's retail trade grew by 0.6 per cent in May. All categories except for 'clothing, footwear and personal accessories' recorded growth, with the strongest growth in 'cafes, restaurants, and takeaway food' and 'household goods' retailing.

Business indicators were mixed in the month, with surveyed conditions improving but confidence decreasing.

The NAB Victorian business conditions index increased by 4 points to +4 index points in June. The business confidence index decreased by 7 points to +2 index points in the month.

Conditions in Victoria's manufacturing industry weakened in June with the Performance of Manufacturing Index falling by 13.3 points to 43.8 points. The index has been volatile in recent months and has moved below 50.0 points, which indicates that the industry is contracting.

Price pressures in the economy are subdued. Melbourne inflation rose by 0.5 per cent in the June quarter and by 1.3 per cent over the year. This was below the national average and is well below the RBA's target of 2-3 per cent. The main contributor to the quarterly increase was automotive fuel.

The RBA reduced the cash rate by 25 basis points for a second consecutive month in July, taking the cash rate to a record low of 1.0 per cent. In a recent speech, the RBA Governor indicated rates would remain low for an "extended period". Market participants expect a further rate cut by the end of 2019.

Global developments

Global labour markets remain strong, while overall global economic conditions are mixed.

The IMF lowered its global growth forecast in its latest World Economic Outlook. Economic growth is now projected at 3.2 per cent in 2019 and 3.5 per cent in 2020, a downgrade of 0.1 percentage points for both years. The IMF cited weakness in global manufacturing and trade as key reasons for the downgrade.

Employment in the United States rose by 224 000 persons in June, above market expectations of 160 000 persons. The unemployment rate rose by 0.1 percentage points to 3.7 per cent. Consumer price inflation remained weak at 0.1 per cent in June and 1.6 per cent over the year.

The US Federal Reserve cut the target Fed funds rate by 25 basis points. The move was widely expected and markets anticipate further easing over the coming year.

China's trade surplus increased in June to its highest level since December 2018. Exports fell 1.3 per cent over the year to June, while imports fell by 7.3 per cent over the same period. The Chinese Caixin Performance of Manufacturing Index fell to 49.4 points in June, below market expectations of 50.0 points. Consumer price inflation was 2.7 per cent over the year to June, which was in line with market expectations.

Following the G20 summit, the US and China agreed to resume trade negotiations and to not increase existing tariffs at present. Although there is uncertainty about the outcome, a trade deal could reduce some downside risks to the global outlook.

The euro area unemployment rate fell by 0.1 percentage points to 7.5 per cent in May, the lowest rate since July 2008. Inflation was 1.3 per cent over the year to June, up from 1.2 per cent in May.

Movements in financial data over the past month

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

	28 June 2019	31 July 2019	Change
AUD/USD	0.701	0.689	-1.7%
ASX 200	6619	6813	2.9%
S&P 500	2942	2980	1.3%
90-day bank bill rate*	1.20	1.03	-0.18
10-year Commonwealth bond rate*	1.32	1.21	-0.12

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

* Changes are calculated as percentage points.