Economic Update

March 2019

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 were mixed, though the broader economic picture in Victoria remains strong.**
- **Victoria's unemployment rate remained low at 4.5 per cent in January.**
- **Youth (15-24 years) unemployment decreased to 11.1 per cent in January, the lowest since September 2009.**
- **Regional employment increased by 13 700 in the three months to January.**
- **The number of loans to owner-occupiers fell by 10.4 per cent in December, the largest monthly fall on record.**
- **Wages rose by 0.8 per cent in the December quarter to be 2.7 per cent higher over the year.**

Domestic developments

Economic data released in the past month are consistent with a robust Victorian economy. The labour market is strong and a large pipeline of public infrastructure is supporting overall investment, although the weakening property market is weighing on consumer sentiment.

Victoria's labour market remains strong, despite a slight increase in the unemployment rate in January 2019.

Victorian employment increased by 2 200 (0.1 per cent) in January. This was driven by full time employment, which increased by 20 700 (0.9 per cent), despite being offset by a fall of 18 500 (1.7 per cent) in part-time employment for January.

Over the year to January 2019, Victorian employment increased by 114 200 (3.5 per cent). This reflected an increase in both full-time employment of 98 500 (4.5 per cent) and part time employment of 15 800 (1.5 per cent).

The increase in the labour force in the month was more than the increase in employment. As a result, Victoria's unemployment rate increased by 0.4 percentage points to 4.5 per cent in January. Notwithstanding this, Victoria's unemployment rate remains below the national rate of 5.0 per cent and is down from 5.6 per cent one year ago.

Victoria's labour force participation rate increased by 0.1 percentage points to 66.0 per cent in January and is 0.1 percentage points higher than a year ago.

The youth (15-24 years) unemployment rate was 11.1 per cent in January, 2.0 percentage points lower than one year ago, and its lowest level since September 2009.

Victoria's regional unemployment rate was unchanged at 4.4 per cent in the three months to January, below the Australian regional average of 5.2 per cent.

Victoria's regional employment increased by 13 700 persons in the three months to January. Rising employment in Latrobe-Gippsland, Warrnambool and South West and Shepparton was partly offset by declines in North West and Hume.

There are signs that the strength in the labour market is flowing through to higher wages. Victoria's wage price index increased by 0.8 per cent in the December quarter to be 2.7 per cent higher over the year. This was above national growth of 2.3 per cent and was the largest annual growth in wages since the 2014 December quarter.

Victorian private sector wages grew by 2.5 per cent over the year to December, while public sector wages grew by 3.1 per cent.

The strong labour market is supporting household incomes and will help to offset the impact of declining household wealth from the weakening property market.

The value of Victoria's retail trade decreased by 0.5 per cent in December but was 4.5 per cent higher over the year. The key drivers of annual growth were 'other recreational goods retailing' (+13.8 per cent) and 'clothing retailing' (+10.6 per cent).

Victorian retail sales volumes lifted by 0.5 per cent in the December quarter to be 3.7 per cent higher than one year ago.

The Westpac-Melbourne Institute Consumer Sentiment Index for Victoria fell 5.8 per cent to 100.5 in February and is 2.4 per cent lower over the year.

All the five component indices for Victoria fell in February. The largest declines were recorded in 'Economic Conditions next 5 years' (13.1 per cent) and 'Family Finance vs a year ago' (8.1 per cent).

Property market indicators softened further, reflecting declining property prices and tight credit conditions.

The Melbourne CoreLogic Home Value Index decreased 1.6 per cent in January 2019, which was the largest monthly fall on record, and was down 8.3 per cent over the year, the largest annual fall in a decade.

Prices for houses fell by 1.7 per cent in January and 10.6 per cent over the year, while prices for units fell by 1.3 per cent for the month and 3.0 per cent over the year.

Credit conditions remained tight in December. The number of loans to owner-occupiers declined by 10.4 per cent, the largest monthly fall on record. The number of loans to owner occupiers fell by 16.8 per cent over the year. Nationally, loan approvals to owner occupiers fell 8.2 per cent in the month and by 14.4 per cent over the year.

Investment conditions remain broadly positive, supported by a large pipeline of public infrastructure projects.

According to the Deloitte Access Economics Investment Monitor, the total value of Victorian investment projects decreased by $5.1 billion to $103.5 billion in the December Quarter 2018 but was $23.4 billion higher over the year.

The Investment Monitor identified 81 projects worth $41.1 billion currently under construction in Victoria. The largest project currently underway was the $10.9 billion Melbourne Metro Rail Project.

The NAB Business Confidence Index for Victoria rose by 3 points to +3 index points in January but was 4 points lower compared to a year ago. Victoria's business conditions index fell by 1 point to +5 index points in January, 14 points lower than a year ago.

Total construction work done in Victoria declined by 1.1 per cent in the December quarter, but was 11.6 per cent higher over the year.

Total private capital expenditure increased by 1.8 per cent in the December quarter and by 8.0 per cent in the year.

Global developments

Key global economic indicators were mixed during the month, although conditions remain broadly supportive.

Employment in the United States increased by 304 000 in January, above market expectations of 165 000. The unemployment rate rose by 0.1 percentage points to 4.0 per cent, partly due to the Federal Government Shutdown.

US GDP growth was 2.6 per cent annualised in the December quarter, down from 3.4 per cent in the September quarter.

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

Consumer price inflation in China slowed to 1.7 per cent year on year in January, from 1.9 per cent in the previous month and below market expectations of 1.9 per cent.

The Chinese Caixin monthly manufacturing PMI declined to 48.3 points in January from 49.7 points in December, below market expectations of 49.5 points. The latest reading is the second consecutive month of contraction and the lowest result since 2016.

The Euro Area unemployment rate was unchanged at 7.9 per cent in December. This was in line with market expectations and remains the lowest jobless rate since October 2008.

The annual inflation rate in the Euro Area was 1.4 per cent in January, below December's reading of 1.5 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 28 February 2019.

	31 Jan 2018	28 Feb 2019	Change
AUD/USD	0.726	0.715	-1.7
ASX 200	5,864	6,169	+5.0
S&P 500	2,704	2,784	+3.0
90-day bank bill rate*	2.07	1.87	-0.20
10-year Commonwealth bond rate*	2.23	2.08	-0.10

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

* Changes are calculated as percentage points.