

Economic Update

May 2019

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

Highlights

- ▶ Victoria's labour market remained strong in the month with solid employment growth, a below trend unemployment rate and a high participation rate.
- ▶ Victoria's youth unemployment rate fell to the lowest level since August 2009.
- ▶ Conditions in Victoria's housing market remain soft but there are early signs that the downturn is beginning to bottom.
- ▶ The decline in house prices is weighing on consumer sentiment, despite strong labour market conditions.
- ▶ Melbourne inflation rose by only 0.1 per cent and national inflation was flat in the March quarter.
- ▶ Following the March inflation report, the market now expects the RBA to cut rates twice in 2019.



Domestic developments

The labour market is strong, but soft property market conditions are weighing on consumer and homebuyer confidence, which is likely to put some downward pressure on consumer spending.

Victoria's labour market remained strong in the month with solid employment growth, a below trend unemployment rate and a high participation rate.

Victorian employment increased by 10 000 persons in March and by 122 700 persons (3.8 per cent) over the year. Annual employment growth was driven by an increase in full-time employment of 5.7 per cent, while part-time employment fell slightly.

Strong employment growth helped push Victoria's unemployment rate down by 0.1 of a percentage point to 4.6 per cent in March. Victoria's unemployment rate has declined by 0.6 percentage points over the year, to be below estimates of trend and the national rate of 5.0 per cent.

Despite solid employment growth, Victoria's labour force participation rate decreased by 0.1 of a percentage point to 66.0 per cent in March. However, it has increased by 0.4 percentage points compared to a year ago and is the second highest of the states.

The strength in Victoria's labour market is broad-based and is reflected in youth and regional statistics. Victoria's youth (15-24 years) unemployment rate decreased by 0.1 percentage points to 10.8 per cent in March. This is the lowest rate since August 2009.

Victoria's regional employment increased by 6 200 persons (0.9 per cent) in the three months to March. Employment growth in Geelong and Ballarat was partly offset by declines in Hume and North West.

Despite strong regional employment growth, Victoria's regional unemployment rate rose by 0.3 percentage points to 4.6 per cent in the three months to March. However, the regional unemployment rate has declined by 1.2 percentage points over the year and is the lowest of the states.

Victoria's housing market remains soft but there are early signs that the downturn in prices and volumes is beginning to bottom out. Housing credit growth and approvals rose in the month and the rate of house price decline moderated.

The Melbourne CoreLogic Home Value Index decreased by 0.8 per cent in March and 9.8 per cent over the year. Although the annual fall was the largest on record, the monthly result was improved on the 1.0 per cent decline in February, suggesting the beginning of a bottom in the market.

Annual credit growth remained weak in February, although growth was positive in the month. The value of loans to owner occupiers rose by 1.5 per cent and the value of loans to investors rose by 3.9 per cent in February.

Melbourne's auction clearance rate has improved from the start of the year to average around 57 per cent in April, although volumes remain low. The clearance rate remains below the average of around 70 per cent observed between 2012-2017 and below rates observed in 2018.

Victoria's construction pipeline increased in the month, consistent with the improvement in other housing market data. The number of dwelling units approved rose by 37.3 per cent in February, likely due to a jump in apartment approvals. However, the index remains down 5.9 per cent over the year.

Weakness in the housing market is continuing to weigh on consumer sentiment, despite strong labour market conditions.

The Westpac-Melbourne Institute Consumer Sentiment Index fell by 0.5 per cent to 97.8 in April and is down 8.2 per cent over the year. Three of the five component indices fell in April, with the largest declines recorded in 'Family Finances next 12 months' (-6.5 per cent) and 'Economic Conditions next 5 Years' (-1.7 per cent).

Despite soft consumer sentiment data, the value of Victoria's retail trade rose by 0.8 per cent in February and by 4.2 per cent over the year. The solid result is partly due to Victoria's strong population growth which is helping to offset weak spending per person.



Global developments

Global economic conditions are solid, with strength in the labour market despite soft activity data and subdued prices.

Employment in the United States increased by 196 000 persons in March, above market expectations of 175 000 persons. The unemployment rate remained steady at 3.8 per cent, with notable job gains in health care and in professional and technical services.

Consumer price inflation in the United States rose 0.4 percentage points to 1.9 per cent in the year to March. This was above market expectations of 1.8 per cent.

The main drivers of annual retail trade growth were 'clothing, footwear and personal accessories' (6.1 per cent) and 'other retailing' (5.8 per cent).

Business conditions deteriorated in the month, partly due to the softening global data.

The NAB Victorian business confidence index declined by 5 points to -1 index point in March and was 6 points lower compared to a year ago. The business conditions index remained steady at +7 index points in March but was down 16 points over the year.

Victoria's Performance of Manufacturing Index (PMI) fell by 12.4 points to 43.3 points in March, suggesting a contraction in manufacturing activity for the first time since July 2018 and the lowest reading for Victoria since June 2015. The national index fell by 3.0 points to 51.0 points.

Price pressures in the economy are subdued, despite strong labour market conditions. Melbourne inflation rose by only 0.1 per cent in the March quarter and by 1.2 per cent over the year, well below the RBA's target of 2-3 per cent. Melbourne's result was above the national average of zero inflation in the March quarter but below annual growth of 1.3 per cent. The main contributors to the weak quarterly result were automotive fuel (-9.1 per cent) and new housing related purchases (-1.2 per cent).

Following the release of the weak inflation result the market now expects the RBA to cut interest rates twice in 2019 to 1.0 per cent. At its April meeting, the RBA left its target rate unchanged but noted that the National Accounts data painted a softer picture of the economy than the labour market data.

The Chinese Caixin manufacturing PMI rose to 50.8 points in March, above market expectations of 50.1 points and an improvement from the previous month. Consumer price inflation in China rose to 2.3 per cent in March, in line with market expectations.

The euro area unemployment rate remained unchanged at 7.8 per cent in February. This was in line with market expectations and remains the lowest jobless rate since September 2008. The annual inflation rate was 1.4 per cent in March, a slight decrease from February'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 1 May 2019.

	31 March 2019	30 April 2019	Change
AUD/USD	0.710	0.704	-0.8
ASX 200	6 180	6 325	+2.3
S&P 500	2 834	2 943	+3.8
90-day bank bill rate*	1.78	1.56	-0.22
10-year Commonwealth bond rate*	1.78	1.79	+0.01

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

* Changes are calculated as percentage points.

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