

Economic Update

September 2019

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

Highlights

- ▶ **Victoria's employment increased in July and the unemployment rate remained low at 4.8 per cent.**
- ▶ **Melbourne dwelling values increased in July and the auction clearance rate has risen.**
- ▶ **Trade tensions between the US and China escalated in August, affecting financial markets.**
- ▶ **The regional unemployment rate fell to a record low of 3.7 per cent in the three months to July.**
- ▶ **Annual wages growth in June was the highest rate of growth since September 2013.**
- ▶ **The RBA left the cash rate unchanged at 1.00 per cent, but markets anticipate a further cut by the end of 2019.**



Domestic developments

Victoria's labour market remains strong. Employment increased by 3 600 persons in July, driven by a rise in full-time employment. Over the year to July, employment grew by 3.0 per cent.

Victoria's unemployment rate remained steady at 4.8 per cent in July. Victoria's unemployment rate declined by 0.1 percentage points over the year to July and is below the national rate of 5.2 per cent.

Victoria's labour force participation rate was 66.0 per cent in July, an increase of 0.3 percentage points over the year. The participation rate remains close to record high levels.

Victoria's regional unemployment rate fell by 0.5 percentage points to a record low of 3.7 per cent in the three months to July. This was driven by a decrease in the regional participation rate.

Employment in regional Victoria fell by 4 900 persons in the three months to July, although over the year it increased by 8 200 persons.

Victoria's youth (15-24 years) unemployment rate was 10.5 per cent in July (12-month average), the lowest rate since July 2009.

Although conditions in Victoria's housing market remain soft, there are signs that the market has stabilised. Dwelling values increased for the second consecutive month and the auction clearance rate has increased. Housing credit growth remains weak, but has stopped falling.

The CoreLogic Home Value Index for Melbourne increased by 0.2 per cent in July, following a similar rise in June, while prices remain down 8.2 per cent over the year.

Victoria's auction clearance rate has increased to average around 78 per cent in August, up from 61 per cent at this time last year and above the average of 74 per cent observed between 2012-2017. However, sales volumes remain around 10 per cent lower than this time last year and around 40 per cent below the average observed between 2012-2017.

Lending commitments increased in June for both owner occupiers and investors. The value of loans to owner occupiers increased by 0.3 per cent in the month but remains down 16.3 per cent over the year; the value of loans to investors increased by 0.6 per cent in the month but is down by 22.6 per cent over the year to June.

Total construction activity in Victoria declined in the June quarter. Construction work done fell by 4.4 per cent in the quarter and by 7.0 per cent over the year.

Consumer sentiment and retail spending remain subdued despite low interest rates and improving wage growth.

The value of residential building approvals fell by 15.4 per cent in July and was down 11.9 per cent over the year. The number of dwelling units approved fell by 24.3 per cent in July and was down 25.8 per cent over the year.

The Westpac-Melbourne Institute Consumer Sentiment Index fell by 2.6 per cent to 100.0 in August and was down by 6.7 per cent compared to a year ago. An index of 100 indicates an equal number of positive and negative responses to the survey questions.

Four of the five component sub-indices decreased in August, with 'Time to buy major household items' the only sub-index to rise. Separately, the 'Time to buy a dwelling' index rose by 2.0 per cent in August and is 22.6 per cent higher than a year ago.

The value of Victoria's retail trade grew by 0.3 per cent in June. The strongest growth was recorded in 'clothing, footwear and personal accessories' and 'cafes, restaurants and takeaway food'. This was partially offset by declines in 'department stores', 'household goods retailing' and 'food retailing'.

Victorian wages growth continued to improve in the June quarter, growing by 2.9 per cent over the year, the highest rate of growth since September 2013. Victorian wages growth was 0.4 percentage points faster than the national average in the June quarter, which partly reflects Victoria's stronger economic conditions and tighter labour market.

Business indicators declined in the month, with surveyed conditions and confidence decreasing.

The NAB Victorian business conditions index decreased by 3 points to +2 index points in July, below the long-run average of +6 points, and the business confidence index decreased by 1 point to +1 index point in the month, below its long-run average of +4 points.

Conditions in Victoria's manufacturing industry remained in contractionary territory in July despite a slight increase of 1.2 points in the Performance of Manufacturing Index. The Index is now at 45.0 points, with an index below 50 points indicating that the industry is contracting.

The RBA left the cash rate unchanged at 1.0 per cent in August, following cuts in the previous two months. In its statement, the RBA board indicated that it will ease monetary policy further if needed to meet achievement of its inflation targets over time. Market participants expect at least one further rate cut by the end of 2019.



Global developments

Global economic conditions are mixed. An escalation of the US-China trade dispute has caused ongoing uncertainty and volatility in financial markets. However, labour markets in major advanced economies remain strong.

Trade tensions between the US and China escalated with both countries announcing additional tariffs to commence later this year.

Employment in the United States increased by 164 000 persons in July, in line with market expectations. The unemployment rate remained steady at 3.7 per cent. Consumer price inflation was 0.3 per cent in July, but remained weak at 1.8 per cent over the year.

China's exports grew by 3.3 per cent over the year to July, with imports falling by 5.6 per cent over the same period, resulting in a trade surplus of US\$45 billion. The Chinese Caixin Performance of Manufacturing Index rose to 49.9 points in July, although this was slightly above market expectations of 49.6 points. Consumer price inflation was 2.8 per cent over the year to July, which was above market expectations of 2.7 per cent.

The euro area unemployment rate fell by 0.1 percentage points to 7.5 per cent in June, the lowest rate since July 2008. Inflation was 1.0 per cent over the year to July, down from 1.3 per cent in June.

Movements in financial data over the past month

Note: Data reported in the newsletter are current as at 30 August 2019.

	31 July 2019	29 August 2019	Change
AUD/USD	0.689	0.672	-2.5%
ASX 200	6813	6507	-4.5%
S&P 500	2980	2925	-1.9%
90-day bank bill rate*	1.03	0.97	-0.06
10-year Commonwealth bond rate*	1.19	0.88	-0.31

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

* Changes are calculated as percentage points.

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