

State Economic Report

Wednesday, 21 February 2018



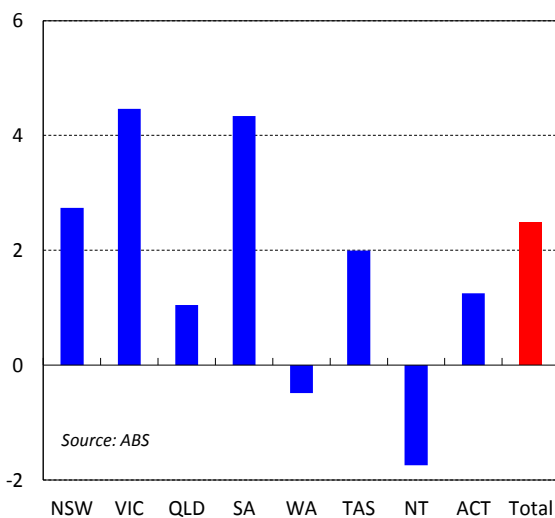
Bank of Melbourne

Victorian Economic Outlook

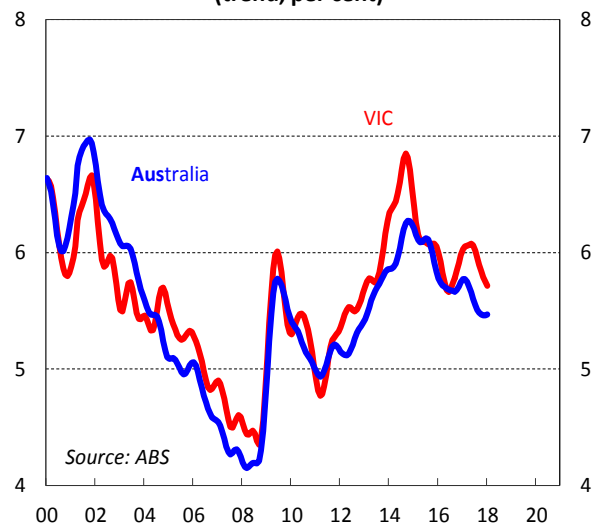
Summary

The Victorian economy continues to perform well. It has benefitted from low interest rates, which have boosted construction. Strong growth in population has been a boon for the State, helping to drive demand. The lower Australian dollar has led to increased numbers of international students and overseas visitors. Jobs growth has slowed from last year's very strong pace, although it remains solid. The Victorian economy is expected to grow in excess of 3 percent in 2017-18 and growth is expected to remain close to 3.0% over the next few years.

Nominal Retail Sales by State
(December 2017, Annual % Change)



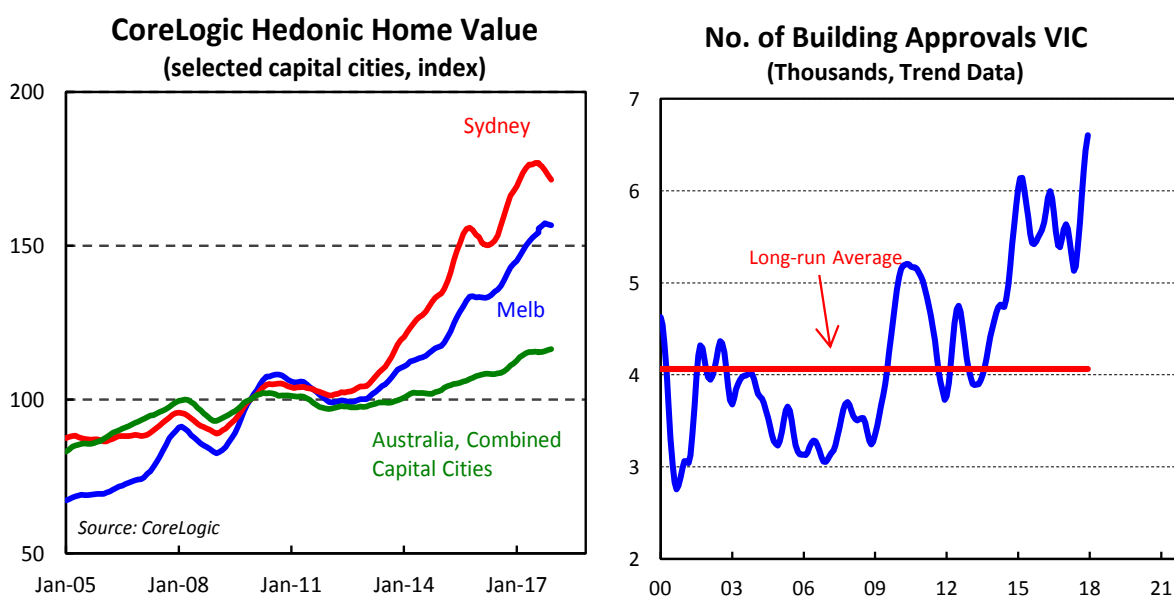
Unemployment Rate
(trend, per cent)



Key Points:

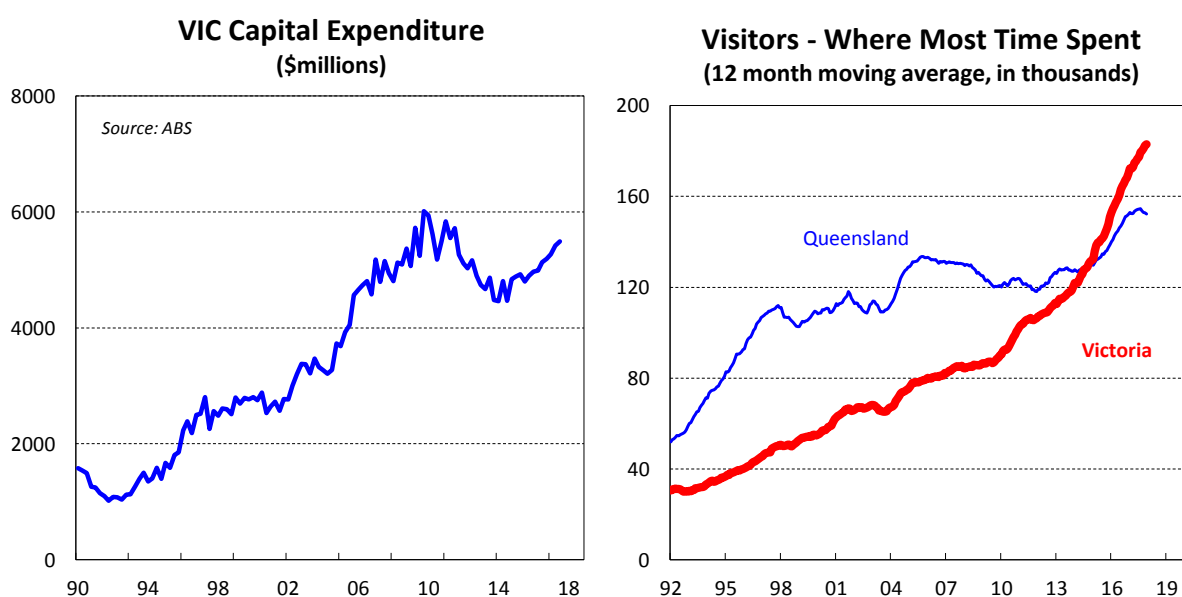
- **State final demand** increased by 0.4% in the September quarter, following a rise of 1.5% in the June quarter. For the year to the September quarter, State final demand rose by 4.7%, the strongest growth among the States and well above Victoria's 10-year average growth of 3.0%.
- The **Victorian economy** has been growing at a solid pace in recent years. State economic growth (Gross State Product) stood at a firm 3.3% in 2016-17, the second consecutive year growth has held above 3%. It was the strongest growth of all States, although the NT and the ACT had stronger growth.

- **Strong population growth** in Victoria has been a driving force behind economic growth in recent years. The strength of Victoria's population growth further lifts the State's potential growth rate. Indeed, the latest data has annual population growth at 2.3% in the June quarter. This is the highest annual pace of population growth among all the States and territories and close to its strongest since the 1960s.
- The **number of owner occupier home loans** approved in Victoria has slowed, however, demand remains resilient. Owner occupier loans were up 6.6% in the year to December. The value of investor loans has declined 1.9% over the year to December in Victoria. Investor loans comprise a smaller proportion of the value of all loans at 33.8% in the December quarter 2017, down from 34.6% in the previous three months.
- Total **residential building approvals** in Victoria have been strong, rising by 18.2% in the year to December, in trend terms. Building approvals in Victoria are at a record high in trend terms, with apartments driving the increase. Despite the recent growth in building approvals, we believe they are close to a peak. Given the elevated level of building approvals, however, there remains a solid pipeline of construction work. The growth in construction has been met by growing demand boosted by strong population growth.
- Growth in **Melbourne dwelling prices** has eased from the peaks of mid-2017. In the year to January 2018, prices rose 8.0%. This compares to Sydney where prices edged up 1.3% and Brisbane where prices gained 2.1% over the same period. Dwelling price growth in Melbourne was one of the strongest among capital cities, second only to Hobart. House prices in Melbourne rose by 8.0% in the year to January, while unit prices rose by 8.2%.



- **Rental vacancy rates** in Victoria have edged lower, to 2.1% in the September quarter 2017, down from 2.4% a year earlier. A rental vacancy rate below 3% signals a tight rental market.
- **Auction clearance rates** eased towards the end of 2017 in Melbourne, averaging 65.5% over December, down from an average of 69.0% over November. We will get a clearer picture over the next month as activity recovers from the seasonal holiday lull.

- Victoria reported 2.1k **new jobs** in January. Over the year to January, 100.2k jobs have been created, with a growth rate of 3.2%. It was above the long-term average annual growth of 2.1%, but below the current pace of national job growth at 3.3%. The unemployment rate fell to 5.6% in January, from 6.1% in December, but just above the national average of 5.5%.
- **Retail sales** in Victoria fell 0.8% in December, after rising by 2.0% in November. The annual pace of growth in Victoria edged down to 4.5% in the year to December, from 5.0% in the year to November, however, it remains above the long-term average of 4.1%. It compares favourably to national growth of 2.5% and is the fastest growth in retail sales among all the States and territories.
- Victorian **motor vehicle sales** were strong, rising by 19.3% in the year to December, to a record high. It compares to national growth of 6.7% in the year to December.
- Victorian **consumer sentiment** fell to 103.0 in February, from an elevated level of 109.0 in January. Victorian consumer sentiment has been above the neutral level of 100 for seven consecutive months now. It compares with a national reading on consumer sentiment of 102.8 in February.
- **Business conditions and business confidence** have eased in Victoria, according to the NAB survey. In trend terms Victorian business conditions and confidence are below the national average, although they remain at reasonable levels on a historical comparison.
- In terms of **business investment**, Victoria has experienced solid growth over the past year. The broader measure of business investment has increase in four out of the last five quarters in Victoria and is up 11.7% in the year to the September quarter.
- **Capital expenditure** in Victoria has increased in eleven out of the past 12 quarters. For the year to the September quarter, capital expenditure in Victoria rose by 7.1%, above national growth of 2.3%.
- Victoria eclipsed Queensland as the second most popular **overseas tourist destination** after NSW back in 2014. Victoria has held onto that mantle last year, with overseas arrivals to Victoria rising by 2.7% in the year to December 2017.



- **Engineering construction** work is being led by infrastructure projects, including the Melbourne Metro Rail Project (\$11.0bn) and the Western Distributor (\$5.5bn). Additionally, there is a robust pipeline of engineering construction projects due to begin this year, including the North East Link (\$10.0bn) and the Stockyard Hill Wind Farm (\$0.9bn).

- **Commercial construction** activity remains at an elevated level. There are currently four projects underway with construction values in excess of \$1bn. These include the \$2.5bn Collins Square project and the \$1.2bn Merrifield development. The outlook for commercial construction remains firm, with high levels of non-residential building approvals in the second half of 2017.

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