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Victoria in Perspective

This chapter has been provided by the Department of Treasury and Finance.

Overview

According to major economic indicators, the Victorian economy performed strongly in 1998–99.

Victorian state final demand grew much faster than the national average in 1998–99. Although employment growth slowed and then trended downward in the second half of 1998, it finished the financial year growing faster than the national average. Victorian exporters managed to weather the Asian economic slowdown by switching exports to other destinations. Victoria's net exports have begun improving since late 1998, partly reflecting the emerging economic recovery in East Asia.

Improved employment prospects and economic performance in Victoria, relative to the rest of Australia have seen the reversal of population losses to other states. Victoria recorded a net population gain from interstate in 1998 for the first time in over 20 years.

Recent economic trends

Following a period of more moderate growth during 1997–98, Victorian state final demand grew by more than 1% in trend terms in every quarter of 1998–99 (graph 1.2). Spending growth was broadly-based across the private and public sectors. Consumer spending, construction and public investment were all robust.

After a pause in the second half of 1998, Victorian employment growth resumed in early 1999 and strengthened throughout the year. During 1998–99 the unemployment rate trended down, although it stabilised temporarily in the first half of 1999 as labour force participation began to rise.

The Consumer Price Index for Melbourne remained subdued during 1998–99, with the CPI increasing 0.9% between 1997–98 and 1998–99. Victorian wages growth was moderate during 1998–99. The Victorian wage cost index grew by 3.1% compared to 1997–98. National wages growth was of a similar magnitude.

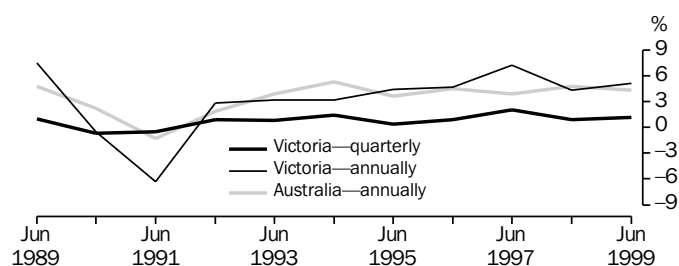
1.1 TRENDS IN ACTIVITY(a)

	1997–98r(b)	1998–99(b)
	%	%
Expenditure & output(c)		
Final consumption expenditure		
Private	5.6	4.6
Government	3.2	2.0
Gross fixed capital expenditure(d)		
Private		
Dwellings	21.7	12.9
Non-dwelling construction	-9.2	15.4
Equipment	11.1	-6.1
Total private	12.1	5.2
Public	-2.3	8.1
State final demand	6.0	4.6
International trade in goods		
Exports	5.6	n.a.
Imports	8.6	n.a.
Gross State product	5.1	n.a.
Employment & inflation		
Employment	1.5	1.9
Unemployment rate (end of period)	8.3	7.8
Consumer Price Index, Melbourne	-0.1	0.0

(a) Percentage change from previous period unless otherwise indicated. (b) Original data except for the unemployment rate (seasonally adjusted). (c) Chain volume measures. (d) Trend data (abstracts from major sales of assets between the public and private sectors.)

Source: Australian National Accounts: State Accounts (Cat. no. 5220.0); Labour Force, Australia, Preliminary (Cat. no. 6202.0); Consumer Price Index (Cat. no. 6401.0).

1.2 DOMESTIC FINAL DEMAND GROWTH



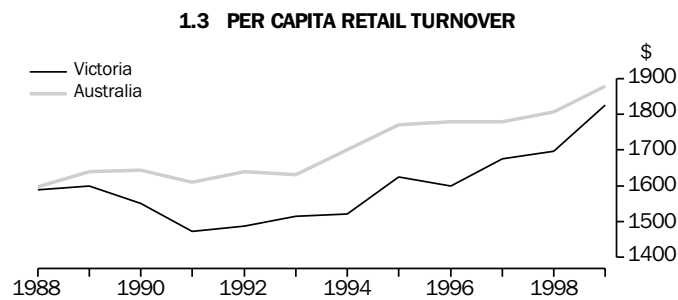
Source: Australian National Accounts: National Income, Expenditure and Product (Cat. no. 5206.0).

Consumer spending

Victorian consumer spending was robust in 1998–99, after a period of slower growth in early 1998, recording 4.6% growth compared with 4.5% nationally. The strong consumer spending over recent years has been underpinned by rising employment, wealth effects associated with rising stock and real estate markets, and two interest rate reductions in late 1998.

Spending growth was particularly strong in the retail sector. Victorian retail turnover grew by 6.7% in 1998–99, compared with 3.4% nationally, and faster than in other state or territory. Clothing and hospitality sector spending grew especially rapidly. In contrast, sales of household goods have fallen in the last two years. The number of new motor vehicles registered in Victoria rose 7.3% to record levels in 1998–99.

Victorian retail spending per capita declined more sharply than in other states in the early 1990s recession, but its recent strong growth has moved it closer to the national average (graph 1.3).



Source: *Australian Demographic Statistics* (Cat. no. 3101.0); *Retail Trade, Australia* (Cat. no. 8501.0).

Housing sector

The continued net gain of people to Victoria from interstate and overseas, coupled with improved housing affordability, has encouraged strong dwelling investment growth over the past three years. Victorian private dwelling investment grew 12.9% in 1998–99, compared with 7.4% Australia-wide.

Growth in the value of residential building approvals (including alterations, additions and conversions) in Victoria has recovered following a slowdown in early 1999. Industry analysts consider that this may be due to construction being brought forward in order to avoid the impact of the GST on housing costs in July 2000.

Median house prices in Melbourne continued to grow strongly in 1998–99, being 25% higher than in 1996–97. Melbourne house prices grew 10.9% in the year to the June quarter 1999, compared with 5.8% nationally. The Melbourne rental market tightened again in late 1998, after softening somewhat over 1997–98.

Business investment

The Victorian investment cycle appears to be entering a more mature phase. Private non-residential construction almost doubled in trend terms between its trough in 1991–92 and 1998–99. Private equipment investment declined between 1996–97 and 1997–98, although in 1998–99 it was more than double the 1991–92 level.

The investment “pipeline” in Victoria has shortened considerably over the past year. In the March quarter 1998 over seven months work remained to be done on existing engineering construction and non-residential building projects at current rates of activity; by the end of the June quarter 1999, this had declined to just over three months. This reflects the completion of a number of major projects. In particular, the Western link section of City Link was opened in August 1999, but a completion date for the Southern link had yet to be confirmed at the time of publication. Docklands Stadium is scheduled to open in March 2000. However, a number of other projects are yet to commence, including many in the Docklands precincts.

Other notable infrastructure projects in Victoria in 1999 included:

- expansion of Southland and Knox shopping centres;
- the expansion of Montell’s polypropylene plant at Geelong;
- expansion of car electronics manufacturing plants by Robert Bosch Australia;
- upgrading of the Calder and Goulburn Valley highways;
- the construction of a gas-fired power plant in Bairnsdale by Eastcoast Power;
- a multi-purpose venue at Melbourne Park;
- new premises for the Museum of Victoria; and
- construction of a gas pipeline by Envestra, between Berri (in South Australia) and Mildura.

Non-residential construction in regional Victoria remained largely unchanged in 1998–99. Strong growth in Shepparton (up 27%) and Bendigo (up 17%) was offset by declines in Geelong (down 9%) and Ballarat (down 5%). Residential accommodation and industrial construction in Shepparton more than doubled in 1998–99, while in Bendigo growth was driven by the retail sector, which almost doubled in the same period. Lower industrial construction was the main contributor to the declines in Geelong and Ballarat.

Labour market

Although Victorian employment grew at a robust 1.9% in year-average terms in 1998–99, employment levels actually trended down between late 1998 and early 1999, before resuming a strong upward trend. The Victorian trend participation rate declined a full percentage point in the second half of 1998, in line with the weakening in the labour market at the time, but subsequently began to recover. The declining participation rate enabled the unemployment rate to decline from just over 8% in mid-1998 to around 7.5% in early 1999, despite slow employment growth. The unemployment rate was broadly unchanged during the first half of 1999 but has subsequently resumed its downward trend.

Strong employment growth in the Melbourne metropolitan area (2.3% in 1998–99) resulted in a decrease in the unemployment rate by 0.8 percentage points to 7.4% in 1998–99 in year-average terms. The largest falls were in the North West, Outer Western, North East and Outer Eastern suburbs, and the Mornington Peninsula. The unemployment rate outside the Melbourne Statistical Region fell by 0.7 percentage points to 8.6% in 1998–99 in year-average terms. Regional employment growth was patchy. Strong growth in the Goulburn/Ovens/Murray and Barwon/Western Districts contrasted with declining employment in the Loddon/Campaspe/Mallee region. Employment outside Melbourne was 0.5% higher in 1998–99 than in 1997–98.

External sector

Victorian non-gold merchandise exports were largely unchanged in 1998–99. Declines in exports to East Asia were offset by rising exports to the US and Europe. Since the beginning of the Asian financial crisis in July 1997, Victorian merchandise exports to South East Asia and South Korea have fallen by 23%. These exports have been replaced by exports to the US (up 53%) and Europe (up 17%).

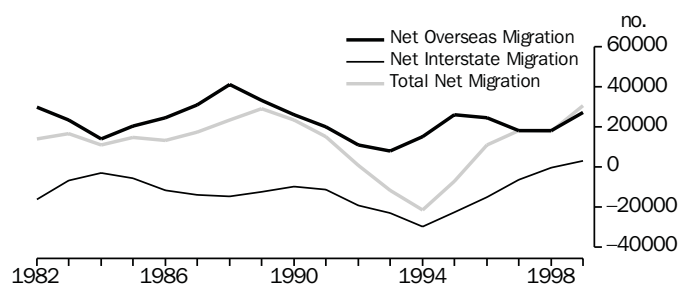
Victorian food exports rose 10% in 1998–99, but exports of other primary products declined by more than 20%; increased exports of simply and elaborately transformed manufactures offset reduced exports of non-gold mining products and other goods.

The recent partial recovery in South East Asia and South Korea is reflected in increased exports to this region. In the June quarter of 1999, Victorian exports to this region were 21% higher than the June quarter 1999.

Demography

Between the June quarter 1991 and the March quarter 1995, Victoria lost a net 94,000 residents to other states. This outflow has been reversed and in the year ended June 1999, Victoria recorded a net gain of 3,975 people from interstate. 1998 was the first calendar year in over 20 years that Victoria gained population from the rest of Australia (graph 1.4).

1.4 NET INTERSTATE AND OVERSEAS MIGRATION



Source: Australian Demographic Statistics (Cat. no. 3101.0).

References

ABS sources

Australian Demographic Statistics (Cat. no. 3101.0)

Australian National Accounts: National Income, Expenditure and Product (Cat. no. 5206.0)

Australian National Accounts: State Accounts (Cat. no. 5220.0)

Consumer Price Index, Australia (Cat. no. 6401.0)

Labour Force, Australia, Preliminary (Cat. no. 6202.0)

Retail Trade, Australia (Cat. no. 8501.0)