

MELBOURNE INSTITUTE  
Applied Economic & Social Research

# Monthly Bulletin of Economic Trends: Economic Activity in the Major States

July 2019

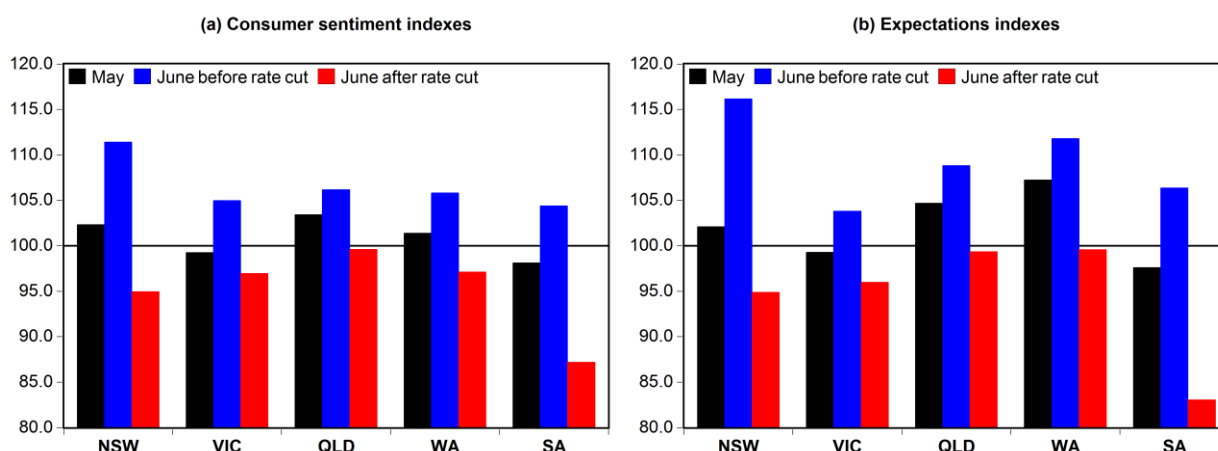
## Economic Activity in the Major States

- **Consumer sentiment:** *still pessimistic despite RBA's consecutive rate cuts.*
- **March-2019 State accounts:** *weaker economic activity across the board, as foreshadowed by previous readings of the Melbourne Institute State Leading Indexes of Economic Activity*
- **State leading indexes of economic activity:** *will ongoing below-trend activity across the major states prompt another rate cut in 2019?*

### Consumer sentiment: still pessimistic despite RBA's rate cuts

- The Reserve Bank of Australia (RBA) decided at its monetary policy meetings on the 4<sup>th</sup> of June and again on the 2<sup>nd</sup> of July, to lower the cash rate by 25 basis points, bringing it to a historic low of 1.0 per cent. The RBA statements at both of the meetings emphasize that the "decision to lower the cash rate will help make further inroads into the spare capacity in the economy. It will assist with faster progress in reducing unemployment and achieve more assured progress towards the inflation target".
- The June and July Westpac-Melbourne Institute Consumer Sentiment Surveys were carried out during the weeks when the RBA rate cuts were announced, hence capturing consumers' reaction to the RBA's policy decisions. Figure 1 plots the reactions of consumers across the major states to the June rate cut and Figure 2 plots their reactions to the July rate cut.
- Figure 1(a) provides the readings of the Westpac-Melbourne Institute Consumer Sentiment Index (CSI) across the major states, before and after the June rate cut together with the May readings. The "before" readings across the major states indicate improvements on the CSI readings in May. Since the May survey was conducted before the Federal election, the improvement in CSI reflected, to some extent, the political (and hence policy) certainty post-election. The "after" readings, however, show that consumer sentiment has declined markedly across all the major states, and this is despite the RBA's June rate cut.

**Figure 1: Consumer sentiment before/after the RBA's June rate cut by states**

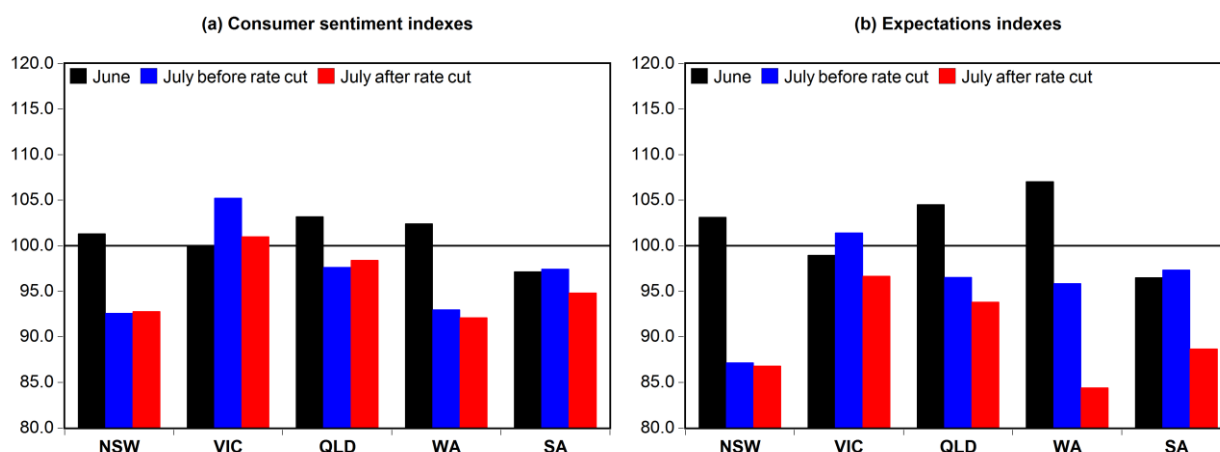


Source: Melbourne Institute

## Consumers' reactions to the RBA's rate cuts

- Figure 1(b) gives the readings of the Expectations Indexes which are the averages of the three forward-looking components in the CSIs; namely the index relating to the outlook for family finances, and the indexes relating to the near-term and mid-term outlooks for the economy. The figure shows that there is a marked difference between the "before" and "after" readings, mirroring the pattern in Figure 1(a). This indicates that much of the decline in consumer sentiment post-rate cut in Figure 1(a) is due to drastically more pessimistic forward-looking outlook.
- Figure 2 provides consumers' responses to the RBA's July rate cut and indicates that the responses were more moderate, as compared to their June responses. Responses varied across the states. Figure 2(a) shows that there was not much difference in the "before" and "after" CSI readings for NSW, QLD and WA and that both the "before" and "after" readings were well below their June readings. There were stronger responses to the July rate cut in VIC and SA, though both pointed to lower sentiment post-rate cut, like in June.
- A closer look at how consumers adjusted their outlooks following the July rate cut, however, offer a similar story as in the June survey. Figure 2(b) gives the readings of the Expectations Indexes, "before" and "after" the July rate cut together with their June readings. Consumers across the major states again revised their outlooks downwards following the July rate cut. The "after" readings were lower than the "before" readings in all major states and also lower than their June readings.
- Both the RBA's June and July statements read that "[t]he Board will continue to monitor developments in the labour market closely and adjust monetary policy if needed to support sustainable growth in the economy and the achievement of the inflation target over time." This signals the possibility of further rate cuts to support economic activity. However, it is likely that the RBA will wait to see the impacts of the June and July rate cuts on the economy before deciding on a further course of action as it will take a few months for the cuts to gain tractions on economic activity.
- It appears that consumers viewed the RBA's June and July rate cuts as signals of weaker economic activity ahead. They appear to be rather concerned about future conditions in spite of the fact that these cuts are stimulatory in nature. The government's \$158 billion tax cut package was passed on late Thursday the 4<sup>th</sup> of July. The next several readings in the Westpac-Melbourne Institute Consumer Sentiment Index will reveal how consumers across the country react to this fiscal stimulus measure. For the moment, both the RBA and the Treasury's feet are on the accelerator pedal.

**Figure 2: Consumer sentiment before/after the RBA's July rate cut by states**

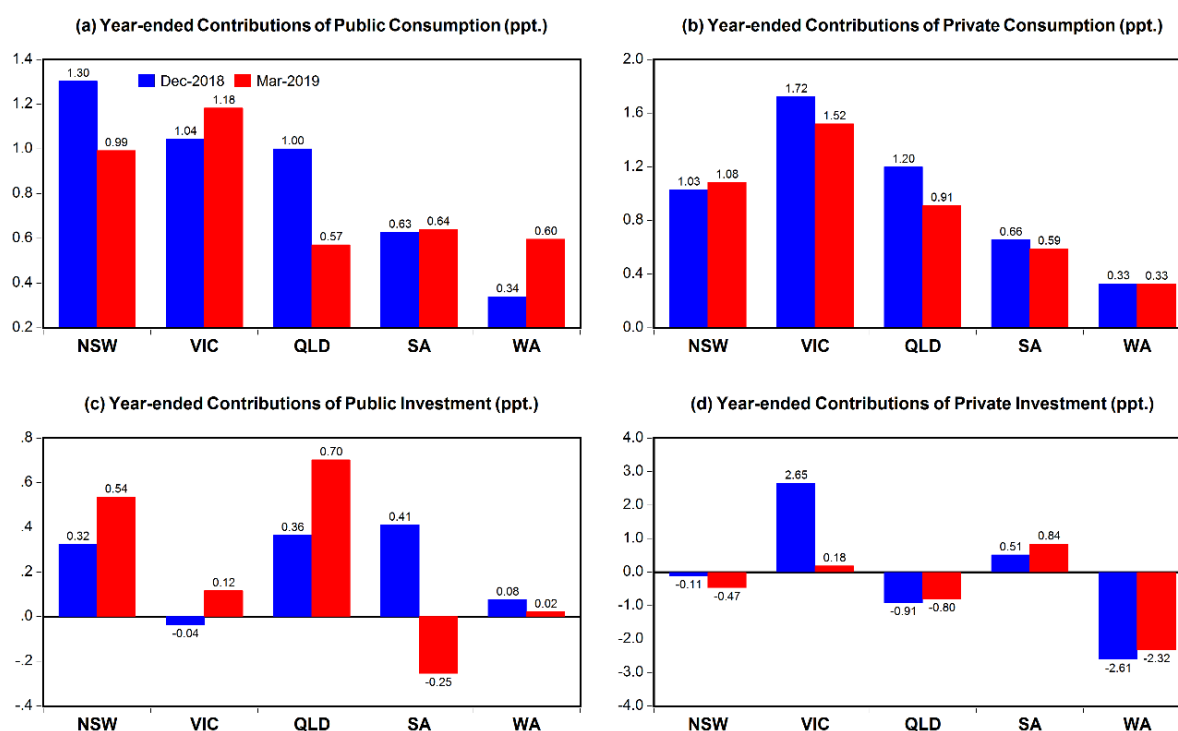


Source: Melbourne Institute

### State accounts: weaker economic activity across the board

- The latest Australian Bureau of Statistics’ National Accounts showed that State Final Demands (SFDs) grew in three out of the five mainland states in March. QLD recorded the strongest quarterly SFD growth of 0.5%, followed by NSW (up by 0.4 per cent) and by VIC (up by 0.2 per cent). In contrast, SFD declined in SA (down by 0.2%) and in WA, for the second consecutive quarter (down by 0.3%).
- The solid quarterly SFD growth in QLD was driven mainly by growth in QLD public and private investment (up by 7.5% and 0.7%). Meanwhile, NSW SFD growth was supported by a solid growth in public investment (up by 3.2%) and a pickup in private consumption growth (up by 0.4% as compared to just 0.1% in December 2018). The moderate quarterly growth in VIC SFD in March resulted from declines in both public and private investment (down by 2.3% and 1.5%) and from a slowdown in private consumption growth (up by 0.3% as compared to an average of 0.9% in the previous 8 quarters).
- Of the two major states experiencing quarterly declines in their SFDs in March, namely SA and WA, the main detractors were weak growth in private consumption (up by 0.0% and 0.1%) and declines in public investments (down by 16.2% and 3.5%). A decline in private investment (down by 2.2%) also contributed to the decline of 0.3% in WA SFD in March.
- In year-ended terms, VIC again led the pack with a 3.0% SFD growth, followed by NSW (up by 2.1%), SA (up by 1.8%) and by QLD (up by 1.4%). WA SFD declined again, at a year-end rate of 1.4% in March. Overall, economic activity was weaker across the board than it was in December, as foreshadowed by previous readings of the MI State Leading Indexes.
- Figure 2 provides the contributions to year-ended growths in SFDs of the major states and shows that the private sector in WA is really struggling. WA private consumption is relatively weak, compared to the contributions of private consumption in other major states while WA private investment continued to detract significantly from growth.

**Figure 2: Contributions to year-ended growth in SFDs (percentage points)**

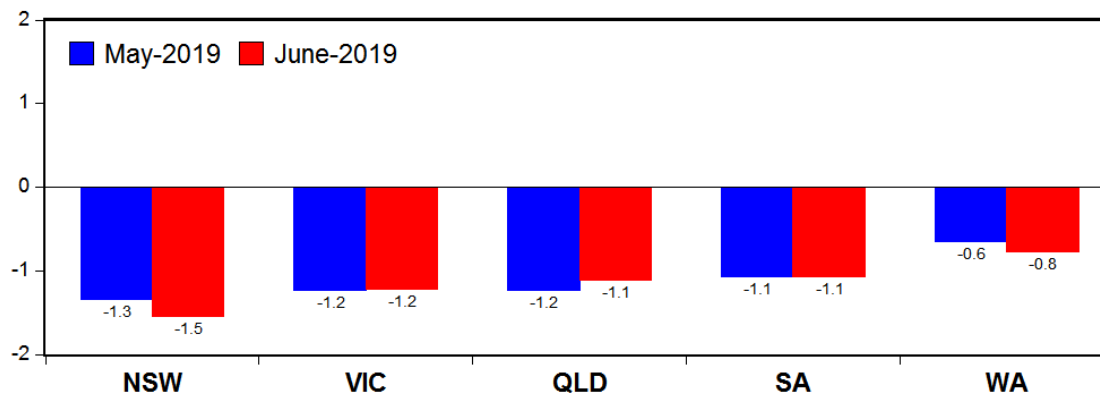


Source: Australian Bureau of Statistics (ABS).

### State Leading Indexes: Ongoing below-trend activity across the board

- The Melbourne Institute State Leading Indexes have signalled below-trend activity across major states since the second-half of 2018. Latest readings of the Indexes in Figure 3 continue to indicate below-trend activity across the board in the second half of 2019.

**Figure 3: State Leading Indexes (year-ended deviation from trend growth, %)**



Source: Melbourne Institute

- Table 1 provides the year-ended deviation from trend growth in the State Leading Indexes as well as the contributions from each component. Weakness in household consumption, as indicated by the large negative contributions of retail trade, is the major detractor to growth in all major states except for QLD. Weakness in housing markets and hence construction activity is the other major detractor from growth across the major states. The combined contributions of dwelling approvals and housing finance commitments subtracted 0.81 ppts off NSW growth, 0.95 ppts VIC growth and 1.06 ppts QLD growth, 0.65 ppts off SA growth and 0.29 ppts off WA growth.
- The negative contributions of the yield spread, the different between the 10-year government bond rate and 90-day bill rate, indicates that market participants are expecting weaker economic growth in the medium to the longer terms. As the effects of the RBA's rate cuts may take some time to feed into economic activity, growth is likely to be below-trend across the board in the second half of 2019. Given weak activity and low inflation, the probability of another rate cut in 2019, though low, is non-negligible.

**Table 1: Contributions of to Year-end Growth in State Leading Indexes**

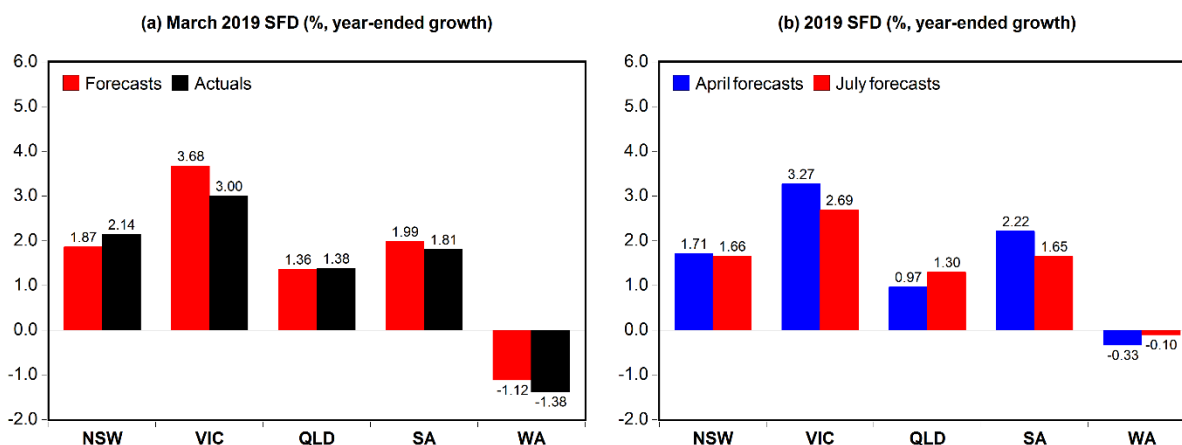
	Jun-2019	NSW	VIC	QLD	SA	WA
Monthly level		0.00	0.00	0.00	0.00	0.00
Monthly growth		-0.20	-0.09	-0.08	-0.06	-0.17
Year-ended growth		<b>-1.54</b>	<b>-1.22</b>	<b>-1.11</b>	<b>-1.06</b>	<b>-0.77</b>
Westpac-MI CSI expectations index		-0.15	-0.05	-0.02	-0.08	-0.05
Westpac-MI UE index		-0.09	-0.02	-0.02	-0.09	0.00
Aggregate monthly hours worked		0.23	0.19	-0.08	0.28	0.03
Retail trade		-0.49	-0.16	0.01	-0.26	-0.44
Dwelling approvals		-0.34	-0.44	-0.57	-0.46	-0.10
Housing finance commitment		-0.47	-0.51	-0.49	-0.20	-0.18
Current family finance index		-0.04	-0.02	0.05	-0.01	-0.01
AUD/USD		-0.08	-0.08	0.21	-0.10	0.18
Yield spread		-0.12	-0.12	-0.09	-0.15	-0.07
RBA commodity prices AUD				-0.13		-0.11

Source: Melbourne Institute

### Forecasts for Key Macroeconomic Variables in Major States

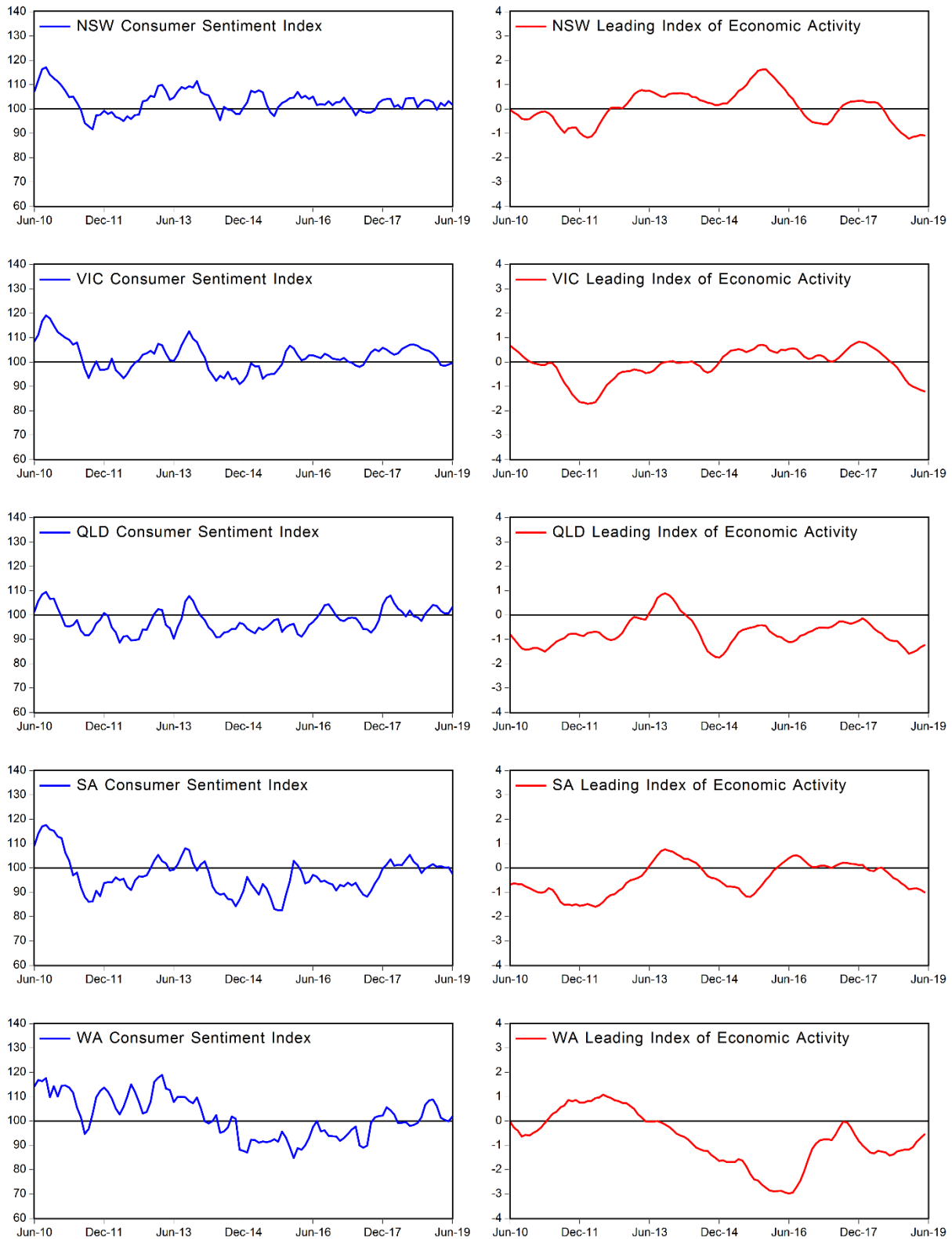
- Figure 4(a) provides the Melbourne Institute forecasts for the year-end SFD growth in the March quarter together with the actual outcomes released by the ABS. These forecasts were based on information from the Melbourne Institute State Leading Indexes of economic activity. The figure indicated that economic activity in VIC, SA and WA was a little weaker than suggested by information from the State Leading Indexes. Meanwhile, economic activity in NSW was a tad stronger than forecasted by the NSW State Leading Index, though still well below trend growth.
- Going forward, we forecast year-ended growth in SFD to be strongest in VIC in the coming quarters, just under 3.0% before rising to be above 3.0% in early 2020. Forecasts for NSW and SA SFD growth are similar over the next several quarters, hovering around 1.5% before picking up to about 2.0% in early 2020. QLD SFD growth is forecast to slow to around 1.0% before rising to around 2.0% in early 2020. Meanwhile, WA SFD growth is likely to remain in the negative territory for another quarter before picking up towards the end of 2019 and early 2020.
- Labour market conditions are likely to be more moderate across major states with varying rates of employment growth. We forecast year-ended employment growth to be strongest in VIC over the next three quarters, though declining from just above 3.0% to just above 2.0% in early 2020, other things being equal. Similarly, employment growth in NSW is forecast to decline from around 3.0% to just under 2.0% in early 2020. Meanwhile, year-ended employment growth is likely to be weaker in QLD, SA and WA (around 2.0% over the same period).
- With the updated information in the State Leading Indexes in July, forecasts for the year-ended SFD growth rates in the whole 2019 have been revised from the MI forecasts produced in April. 2019 SFD growth has been revised downwards in NSW, VIC, and SA while QLD and WA 2019 SFD growth has been revised upwards. Overall, the forecasts remain consistent with below trend economic activity across the major states as signalled by the State Leading Indexes.

**Figure 4 State Final Demand Forecasts (% , year-ended growth)**



Source: Australian Bureau of Statistics and Melbourne Institute

**Figure 6: Consumer Sentiment Indexes and State Leading Index**  
 (3-month moving averages of CSIs and year-ended growth in the State Leading Index)



**Note:** The figure plots the 3-month centered moving averages of the Westpac-Melbourne Institute Consumer Sentiment Indexes and the 3-month centered moving averages of the year-ended deviation-from-trend growth of the Leading Indexes for NSW, VIC, QLD, SA and WA. Source: Melbourne Institute. The State Leading Indexes combine the latest information from consumer expectations on future activity and unemployment, current family finance, aggregate monthly hours work, retail trade, dwelling approvals, housing finance commitments, AUD/USD exchange rate, the yield spread and RBA's \$A commodity price index (for QLD and WA only).

**Table 2: Outlook for Australia<sup>1</sup>**

	Actual				Forecasts				Actual	Forecast
	2018	2018	2018	2019	2019	2019	2019	2020	Calendar Year	
	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	2018	2019
<b><i>Economic Activity</i></b>										
GDP	3.1	2.8	2.4	1.8	1.5	1.7	2.2	2.5	2.8	1.8
	(0.9)	(0.3)	(0.2)	(0.4)	(0.5)	(0.5)	(0.7)	(0.6)		
Household Consumption	2.9	2.6	2.0	1.8	1.2	1.3	1.5	1.8	2.6	1.4
	(0.8)	(0.3)	(0.4)	(0.3)	(0.2)	(0.4)	(0.6)	(0.6)		
Private Dwellings	5.1	7.1	3.5	-3.1	-6.6	-8.8	-7.5	-6.6	4.7	-6.5
	(1.7)	(0.7)	(-2.9)	(-2.5)	(-2.0)	(-1.8)	(-1.5)	(-1.5)		
New Business Investment	3.7	-1.5	-1.2	-1.3	0.4	3.5	4.7	5.7	1.4	1.8
	(-0.5)	(-1.7)	(0.3)	(0.6)	(1.2)	(1.4)	(1.5)	(1.5)		
Domestic Final Demand	3.2	2.8	2.4	1.6	1.4	1.5	1.7	2.3	2.9	1.6
	(0.6)	(0.5)	(0.4)	(0.1)	(0.4)	(0.5)	(0.7)	(0.6)		
Imports of Goods & Services	6.7	1.9	1.2	-0.5	-0.6	1.3	1.5	2.2	3.9	0.4
	(0.6)	(-1.4)	(0.4)	(-0.1)	(0.5)	(0.5)	(0.6)	(0.6)		
Exports of Goods & Services	4.9	3.9	4.8	1.7	1.6	2.4	3.6	3.2	5.0	2.3
	(1.3)	(0.0)	(-0.5)	(1.0)	(1.1)	(0.8)	(0.7)	(0.6)		
<b><i>Inflation &amp; Financial Market</i></b>										
Underlying inflation <sup>2</sup>	1.7	1.7	1.8	1.6	1.3	1.3	1.2	1.3	1.8	1.3
	(0.5)	(0.4)	(0.5)	(0.3)	(0.2)	(0.3)	(0.4)	(0.4)		
Headline Inflation	2.1	1.9	1.8	1.3	1.2	1.0	0.9	1.3	1.9	1.1
	(0.4)	(0.4)	(0.5)	(0.0)	(0.2)	(0.3)	(0.4)	(0.4)		
90-day Bill Rate <sup>3</sup>	2.0	2.0	2.0	1.9	1.8	1.6	1.4	1.4		
Trade Weighted Index <sup>4</sup>	62.5	62.6	62.0	60.9	60.0	60.0	60.0	60.0		
\$A/\$US rate (100) <sup>4</sup>	0.77	0.73	0.73	0.72	0.69	0.70	0.70	0.70		
<b><i>Labour Market</i></b>										
Unemployment Rate <sup>4</sup>	5.4	5.2	5.0	5.0	5.1	5.2	5.3	5.2	5.3	5.2
Employment Growth Rate <sup>5</sup>	2.7	2.4	2.3	2.3	2.5	2.2	2.0	1.8	2.7	2.2
	(0.4)	(0.6)	(0.7)	(0.6)	(0.6)	(0.4)	(0.4)	(0.4)		
Participation Rate <sup>4</sup>	65.6	65.5	65.6	65.7	65.9	65.9	65.8	65.7	65.6	65.8
Wage Price Index	2.1	2.3	2.3	2.3	2.2	2.1	2.1	2.0	2.2	2.2
	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)		

1: Actual in black and forecasts in blue; values in parentheses are quarterly growth rates. 2: As measured by the Reserve Bank's trimmed mean measure of inflation. 3: Average over last month in quarter. 4: Average of 3-months in the quarter. 5: Calculated from quarterly employment numbers that are averaged over the 3 months in the quarter.



**Table 3: Actuals and Forecasts for Major States**

	Actual				Forecasts				Calendar Year	
	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Actual 2018	Forecast 2019
<b>NEW SOUTH WALES</b>										
<i>State Final Demand</i>	3.4 (0.5)	3.9 (1.4)	2.5 (-0.1)	2.1 (0.4)	1.5 (-1.7)	1.4 (1.4)	1.6 (-0.1)	2.2 (0.4)	3.5	1.7
<i>Consumption</i>	3.1 (1.0)	2.7 (0.2)	1.7 (0.1)	1.8 (0.4)	1.7 (-0.8)	2.0 (0.2)	2.3 (0.1)	2.5 (0.4)	2.5	2.0
<i>Employment</i>	3.7 (1.0)	3.4 (0.7)	3.0 (0.7)	3.5 (1.0)	3.5 (1.0)	3.0 (-2.7)	2.2 (0.7)	1.6 (1.0)	3.5	3.0
<i>Unemployment</i>	4.8	4.6	4.4	4.2	4.6	4.7	4.8	4.6	4.7	4.6
<b>VICTORIA</b>										
<i>State Final Demand</i>	5.1 (1.3)	4.8 (0.7)	5.4 (0.9)	3.0 (0.2)	2.7 (1.0)	2.4 (0.4)	2.7 (1.2)	3.3 (0.8)	5.0	2.7
<i>Consumption</i>	3.8 (1.1)	3.4 (0.6)	2.9 (0.6)	2.6 (0.3)	2.7 (1.2)	2.7 (0.6)	2.8 (0.7)	3.1 (0.6)	3.4	2.7
<i>Employment</i>	2.0 (0.5)	2.7 (1.3)	3.3 (1.1)	3.8 (0.9)	3.8 (0.5)	3.3 (0.8)	2.6 (0.4)	2.1 (0.4)	2.7	3.3
<i>Unemployment</i>	5.3	4.7	4.4	4.7	4.7	4.5	4.5	4.9	5.0	4.6
<b>QUEENSLAND</b>										
<i>State Final Demand</i>	3.3 (0.6)	1.8 (-0.5)	1.7 (0.8)	1.4 (0.5)	1.0 (0.2)	1.2 (-0.3)	1.4 (1.0)	2.1 (1.2)	2.6	1.3
<i>Consumption</i>	2.6 (0.4)	2.4 (0.4)	2.2 (0.7)	1.6 (0.2)	1.6 (0.3)	2.0 (0.7)	2.4 (1.1)	2.9 (0.7)	2.6	1.9
<i>Employment</i>	3.1 (-0.2)	1.8 (0.5)	1.5 (0.4)	0.9 (0.2)	1.8 (0.7)	1.7 (0.4)	1.5 (0.3)	1.5 (0.1)	2.8	1.5
<i>Unemployment</i>	6.2	6.2	6.2	5.9	6.2	6.2	6.3	6.1	6.2	6.1
<b>SOUTH AUSTRALIA</b>										
<i>State Final Demand</i>	3.0 (1.0)	2.7 (0.1)	2.2 (0.9)	1.8 (-0.2)	1.6 (0.8)	1.6 (0.1)	1.7 (1.0)	1.9 (-0.0)	2.5	1.7
<i>Consumption</i>	1.9 (0.6)	2.0 (0.1)	1.1 (0.3)	1.0 (0.0)	1.1 (0.7)	1.3 (0.3)	1.4 (0.4)	1.5 (0.1)	1.8	1.2
<i>Employment</i>	2.9 (0.3)	1.4 (-0.3)	1.9 (0.5)	0.7 (0.1)	1.7 (1.3)	1.4 (-0.5)	1.0 (0.1)	0.7 (-0.2)	2.1	1.2
<i>Unemployment</i>	5.6	5.6	5.6	6.0	5.9	5.9	5.8	6.0	5.7	5.9
<b>WESTERN AUSTRALIA</b>										
<i>State Final Demand</i>	0.0 (-0.6)	-1.0 (0.2)	-1.9 (-0.6)	-1.4 (-0.3)	-0.6 (0.2)	0.4 (1.2)	1.1 (0.1)	1.9 (0.5)	-0.7	-0.1
<i>Consumption</i>	1.5 (0.3)	0.7 (-0.1)	0.6 (0.4)	0.6 (0.1)	1.2 (0.8)	1.8 (0.5)	2.4 (1.0)	2.9 (0.5)	1.2	1.5
<i>Employment</i>	1.6 (0.5)	1.3 (0.1)	1.1 (0.3)	0.5 (-0.4)	0.9 (0.9)	1.3 (0.6)	1.8 (0.7)	2.1 (-0.1)	1.5	1.1
<i>Unemployment</i>	6.3	6.2	6.2	6.2	6.0	5.8	5.8	5.8	6.2	6.0

**Table 4: Precision of year-ended Forecasts for Australia and Major States**

	Precision of (year-end) Forecasts					Calendar Year 2019
	2019	2019	2019	2020		
	Jun	Sep	Dec	Mar		
<b>Australia</b>						
<i>Economic Activity</i>						
GDP	0.6	0.9	1.1	1.2		0.7
Consumption	0.5	0.8	1.0	1.1		0.7
Dwelling	2.3	2.4	2.5	2.8		1.9
Business Investment	5.2	6.0	6.7	7.5		4.6
Import	2.5	4.2	5.8	6.6		3.7
Export	2.6	3.4	4.0	4.4		2.9
<i>Inflation &amp; Financial Market</i>						
Underlying Inflation		0.2	0.3	0.4		0.3
Headline Inflation		0.4	0.5	0.7		0.6
90 day bill		0.3	0.5	0.7		0.6
Trade Weighted Index		3.3	3.7	3.9		2.3
<i>Labour Market</i>						
Unemployment Rate		0.1	0.2	0.3		0.3
Employment		0.2	0.4	0.5		0.5
Participation Rate		0.2	0.3	0.4		0.3
Wage Price Index	0.4	0.5	0.6	0.7		0.4

	Precision of year-ended Forecasts					2019
	Jun-2019	Sep-2019	Dec-2019	Mar-2020		
<b>NEW SOUTH WALES</b>						
<i>State Final Demand</i>	1.2	1.4	1.5	1.6		1.4
<i>Consumption</i>	0.8	1.0	1.0	1.1		0.9
<i>Employment</i>		0.7	0.9	1.0		1.0
<i>Unemployment</i>		0.3	0.4	0.4		0.4
<b>VICTORIA</b>						
<i>State Final Demand</i>	1.3	1.5	1.6	1.6		1.4
<i>Consumption</i>	1.0	1.2	1.2	1.3		1.1
<i>Employment</i>		0.6	0.9	1.0		1.0
<i>Unemployment</i>		0.3	0.4	0.5		0.5
<b>QUEENSLAND</b>						
<i>State Final Demand</i>	2.0	2.5	2.7	2.9		2.4
<i>Consumption</i>	1.0	1.5	1.7	1.8		1.4
<i>Employment</i>		0.8	1.1	1.2		1.2
<i>Unemployment</i>		0.4	0.5	0.5		0.5
<b>SOUTH AUSTRALIA</b>						
<i>State Final Demand</i>	1.7	1.8	1.8	1.9		1.8
<i>Consumption</i>	0.9	1.1	1.3	1.3		1.1
<i>Employment</i>		0.8	1.0	1.1		1.1
<i>Unemployment</i>		0.4	0.5	0.6		0.5
<b>WESTERN AUSTRALIA</b>						
<i>State Final Demand</i>	3.3	3.7	3.9	3.9		3.6
<i>Consumption</i>	1.2	1.6	1.7	1.8		1.5
<i>Employment</i>		0.8	1.1	1.2		1.2
<i>Unemployment</i>		0.4	0.5	0.6		0.6

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