

Melbourne Institute State Leading Indexes of Economic Activity: New South Wales, Victoria, Queensland, South Australia, Western Australia

August 2020

Melbourne Institute State Leading Indexes of Economic Activity: New South Wales, Victoria, Queensland, South Australia, Western Australia

July 2020

Table 1: Year-ended deviation-from-trend growth over last 6 months (%)

OVERVIEW	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
New South Wales	-1.14	-1.82	-0.36	-1.86	0.33	0.07
Victoria	-0.80	-0.69	-0.25	-1.51	0.19	0.22
Queensland	-1.17	-0.90	-0.02	-2.03	-0.43	0.06
South Australia	-0.89	-1.23	-0.15	-1.35	0.70	1.44
Western Australia	-1.28	-1.45	-0.66	-2.06	0.23	0.16

The Indexes signal improvement in activity in the months ahead

In July, the year-ended deviation-from-trend growth in the Melbourne Institute State Leading Indexes of Economic Activity continued to signal improvement in economic activity across major states in the coming months. The readings of growth in the Indexes in the past two months seem to suggest that the Indexes have bottomed out from their lows in May. Nevertheless, the contributions from their components exhibit major weaknesses in consumer expectations and in labour market conditions. Hence, there is still considerable uncertainty around future economic activity across the major states.

Tables 2-6 provide the year-ended deviation-from-trend growth in the State Leading Indexes as well as the year-ended contributions from the components. The major detractors from growth in the Indexes across the major states in July were consumer expectations, hours worked and dwelling approvals. Meanwhile, the major contributors to growth in the Indexes were the yield spread, retail trade and housing finance commitment. The positive contributions of the yield spread reflect the ongoing positive influence of the current accommodating monetary policy on economic activity across the country.

Housing finance commitment again contributed significantly to year-ended growth in the Indexes in July, adding 0.74 pts in NSW, 0.93 pts in VIC, 0.93 pts in QLD, 1.29 pts in SA and 0.63 in WA. These contributions were mainly driven by notable increases in the number of refinancing loans in the past several months. Hence, these contributions reflect households taking advantage of low mortgage rates to improve their financial conditions rather than strong housing markets ahead. The negative contributions of dwelling approvals in all the states, though small, signal weak housing market activity moving forward.

The current stage-4 restriction in Victoria seems to have weighed down on consumer confidence across the country. Both the Westpac-Melbourne Institute Expectations and Unemployment Expectation Indexes detracted significantly from growth the Indexes, subtracting a total of 0.44 pts in NSW, 0.43 pts in VIC, 0.38 pts in QLD, 0.23 pts in SA and 0.44 pts in WA. Hours worked continued to detract strongly from growth in the Indexes in July. Rising consumer pessimism about future activity and job prospects, together with weak labour market conditions, is likely to put downward pressure on future consumption and household family finance. Therefore, any improvement in activity in the coming months is likely to be moderate.

Chart 1(a): State Leading Indexes vs Previous Month's

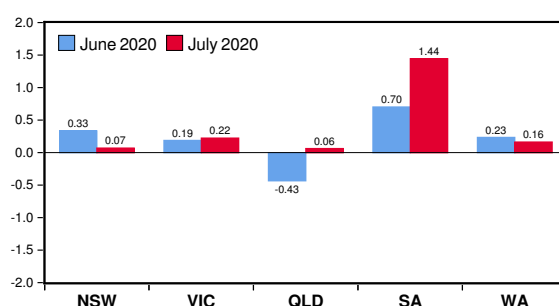
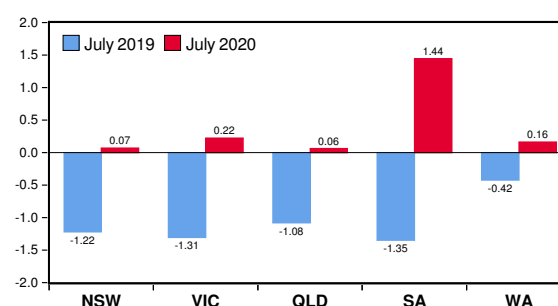


Chart 1(b): State Leading Indexes vs Last Year's



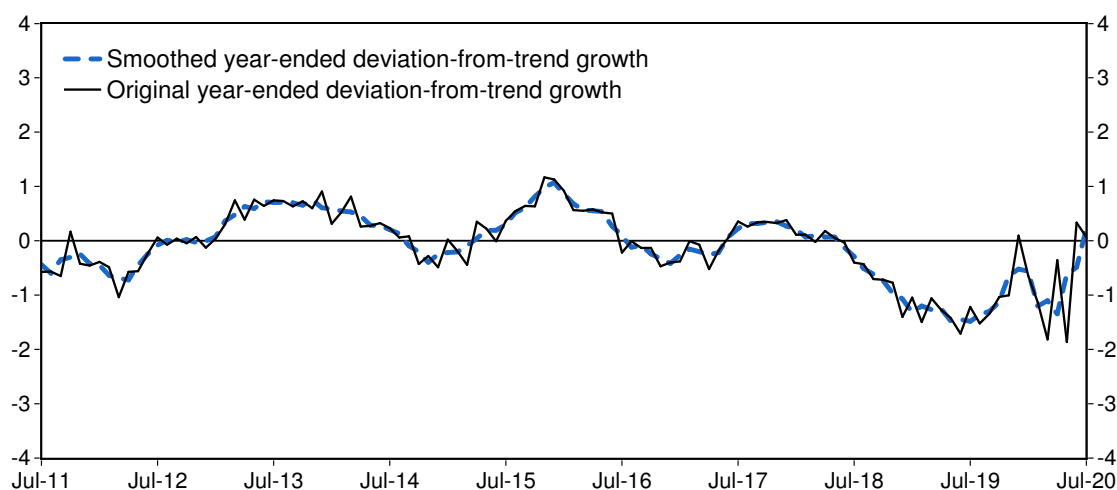
Melbourne Institute NSW Leading Index of Economic Activity July 2020

Table 2: New South Wales Leading Index of Economic Activity

NEW SOUTH WALES	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Monthly level	98.11	97.65	98.93	97.25	99.12	99.07
Monthly growth	-0.81	-0.47	1.30	-1.69	1.92	-0.06
<i>Year-ended growth</i>	-1.14	-1.82	-0.36	-1.86	0.33	0.07
<i>Year-ended growth contributions[◇]:</i>						
NSW Expectations index [†]	-0.04	-0.35	-0.09	-0.05	0.05	-0.23
NSW Unemployment expectation index [†]	-0.06	-0.21	-0.12	-0.02	-0.03	-0.20
NSW Aggregate monthly hours worked	-0.04	-0.13	-0.79	-0.88	-0.43	-0.45
NSW Retail trade	-0.32	-0.35	0.21	-1.18	-0.05	0.20
NSW Dwelling approvals	-0.11	-0.14	0.11	-0.08	-0.14	-0.19
NSW Housing finance commitment	-0.36	-0.29	0.46	0.29	0.76	0.74
NSW Current family finance index [†]	0.04	-0.12	-0.15	-0.10	-0.02	-0.09
AUD/USD	-0.21	-0.31	-0.16	-0.09	-0.06	0.09
Yield spread	-0.03	0.07	0.17	0.24	0.25	0.20

[◇]Contributions may not add up to the total due to rounding. [†]CSI: Consumer Sentiment Index. [‡]UE: Unemployment Expectations. The contribution of the Unemployment expectations index to growth is multiplied by -1 to reflect its countercyclical property. Data sources: Australian Bureau of Statistics, Reserve Bank of Australia, and Melbourne Institute of Applied Economic and Social Research.

Chart 2: New South Wales Leading Index of Economic Activity



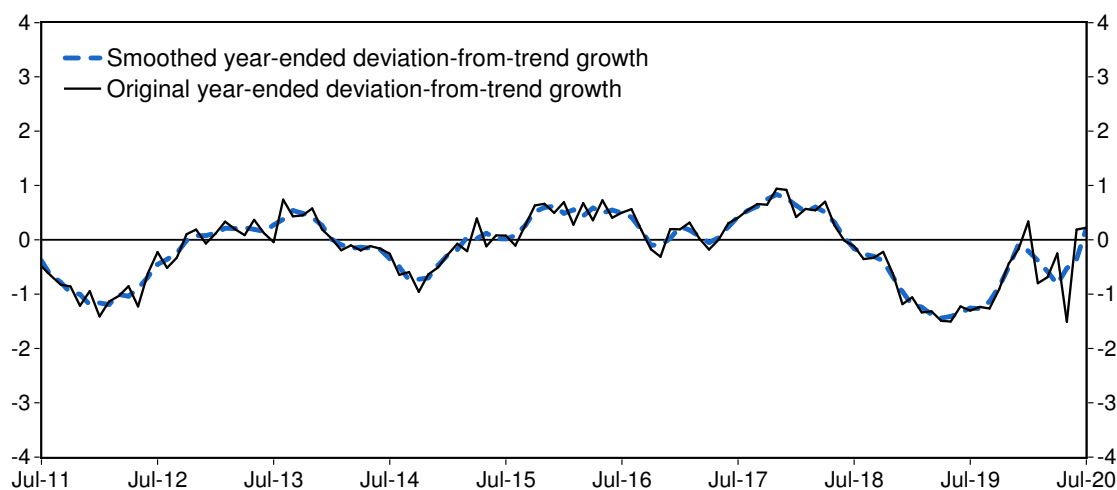
Melbourne Institute VIC Leading Index of Economic Activity July 2020

Table 3: Victoria Leading Index of Economic Activity

VICTORIA	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Monthly level	99.90	99.96	100.33	98.73	100.58	100.53
Monthly growth	-1.41	0.06	0.38	-1.60	1.87	-0.04
<i>Year-ended growth</i>	-0.80	-0.69	-0.25	-1.51	0.19	0.22
<i>Year-ended growth contributions[◇]:</i>						
VIC Expectations index [†]	-0.12	-0.16	-0.11	-0.04	-0.17	-0.22
VIC Unemployment expectation index [†]	-0.17	-0.23	-0.17	-0.04	-0.15	-0.21
VIC Aggregate monthly hours worked	-0.16	0.07	-0.70	-0.81	-0.51	-0.41
VIC Retail trade	-0.17	-0.17	0.29	-1.31	-0.27	0.01
VIC Dwelling approvals	-0.01	0.05	-0.01	0.12	-0.02	-0.06
VIC Housing finance commitment	0.10	0.08	0.53	0.41	1.20	0.93
VIC Current family finance index [†]	-0.04	-0.10	-0.08	0.02	-0.09	-0.10
AUD/USD	-0.20	-0.30	-0.16	-0.09	-0.06	0.08
Yield spread	-0.03	0.07	0.17	0.23	0.24	0.20

[◇] Contributions may not add up to the total due to rounding. [†] These indexes are taken from the Westpac-Melbourne Institute Survey of Consumer Sentiment. The contribution of the Unemployment expectations index to growth is multiplied by -1 to reflect its counter-cyclical property. Data sources: Australian Bureau of Statistics, Reserve Bank of Australia, and Melbourne Institute of Applied Economic and Social Research.

Chart 3: Victoria Leading Index of Economic Activity



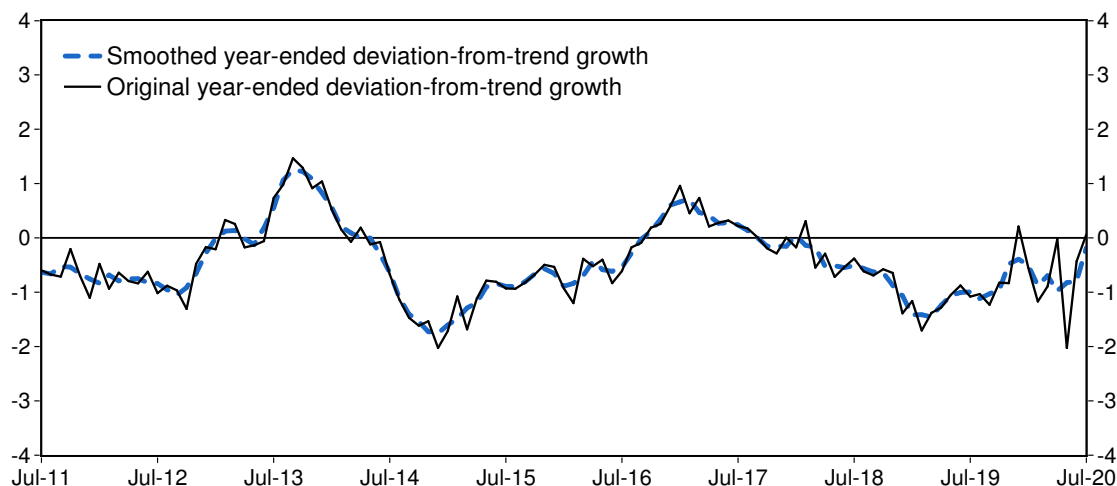
Melbourne Institute QLD Leading Index of Economic Activity July 2020

Table 4: Queensland Leading Index of Economic Activity

QUEENSLAND	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Monthly level	97.72	97.91	98.71	96.66	98.23	98.65
Monthly growth	-1.09	0.19	0.82	-2.08	1.63	0.42
<i>Year-ended growth</i>	-1.17	-0.90	-0.02	-2.03	-0.43	0.06
<i>Year-ended growth contributions[◇]:</i>						
QLD Expectations index [†]	-0.13	-0.22	-0.18	-0.10	-0.13	-0.18
QLD Unemployment expectation index [†]	-0.12	-0.20	-0.12	0.08	-0.09	-0.19
QLD Aggregate monthly hours worked	-0.22	-0.25	-0.80	-0.83	-0.65	-0.69
QLD Retail trade	-0.03	-0.03	0.62	-0.86	0.42	0.46
QLD Dwelling approvals	0.01	-0.03	-0.01	-0.06	-0.08	-0.12
QLD Housing finance commitment	-0.15	0.21	0.65	-0.08	0.34	0.93
QLD Current family finance index [†]	-0.07	-0.01	-0.04	-0.08	-0.06	-0.03
AUD/USD	-0.25	-0.36	-0.19	-0.11	-0.07	0.10
Yield spread	-0.04	0.09	0.20	0.28	0.29	0.23
RBA commodity prices AUD	-0.19	-0.10	-0.16	-0.25	-0.41	-0.46

[◇] Contributions may not add up to the total due to rounding. [†] These indexes are taken from the Westpac-Melbourne Institute Survey of Consumer Sentiment. The contribution of the Unemployment expectations index to growth is multiplied by -1 to reflect its counter-cyclical property. Data sources: Australian Bureau of Statistics, Reserve Bank of Australia, and Melbourne Institute of Applied Economic and Social Research.

Chart 4: Queensland Leading Index of Economic Activity



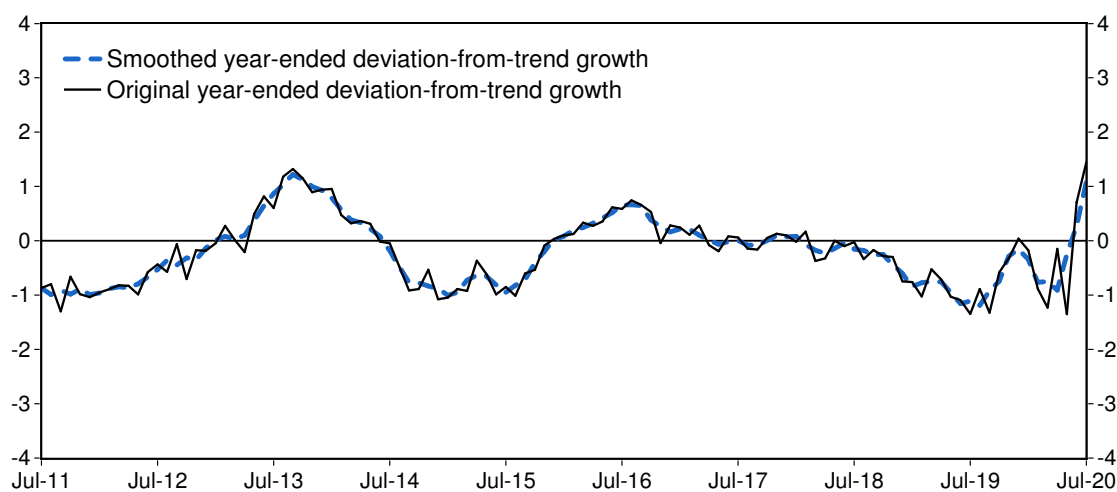
Melbourne Institute SA Leading Index of Economic Activity July 2020

Table 5: South Australia Leading Index of Economic Activity

SOUTH AUSTRALIA	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Monthly level	99.63	99.51	100.36	99.05	101.01	101.54
Monthly growth	-1.08	-0.12	0.85	-1.31	1.99	0.52
<i>Year-ended growth</i>	-0.89	-1.23	-0.15	-1.35	0.70	1.44
<i>Year-ended growth contributions[◇]:</i>						
SA Expectations index [†]	-0.07	-0.33	-0.10	-0.10	-0.10	-0.10
SA Unemployment expectation index [†]	-0.15	-0.27	0.00	0.06	-0.03	-0.12
SA Aggregate monthly hours worked	-0.18	-0.18	-0.84	-0.84	-0.70	-0.41
SA Retail trade	-0.26	-0.26	0.45	-0.87	0.29	0.44
SA Dwelling approvals	-0.01	-0.02	-0.06	0.06	0.03	-0.02
SA Housing finance commitment	0.05	0.17	0.47	0.14	1.01	1.29
SA Current family finance index [†]	0.03	-0.07	-0.09	0.02	-0.02	0.02
AUD/USD	-0.25	-0.37	-0.19	-0.11	-0.07	0.10
Yield spread	-0.04	0.09	0.20	0.28	0.30	0.24

[◇] Contributions may not add up to the total due to rounding. [†] These indexes are taken from the Westpac-Melbourne Institute Survey of Consumer Sentiment. The contribution of the Unemployment expectations index to growth is multiplied by -1 to reflect its counter-cyclical property. Data sources: Australian Bureau of Statistics, Reserve Bank of Australia, and Melbourne Institute of Applied Economic and Social Research.

Chart 5: South Australia Leading Index of Economic Activity



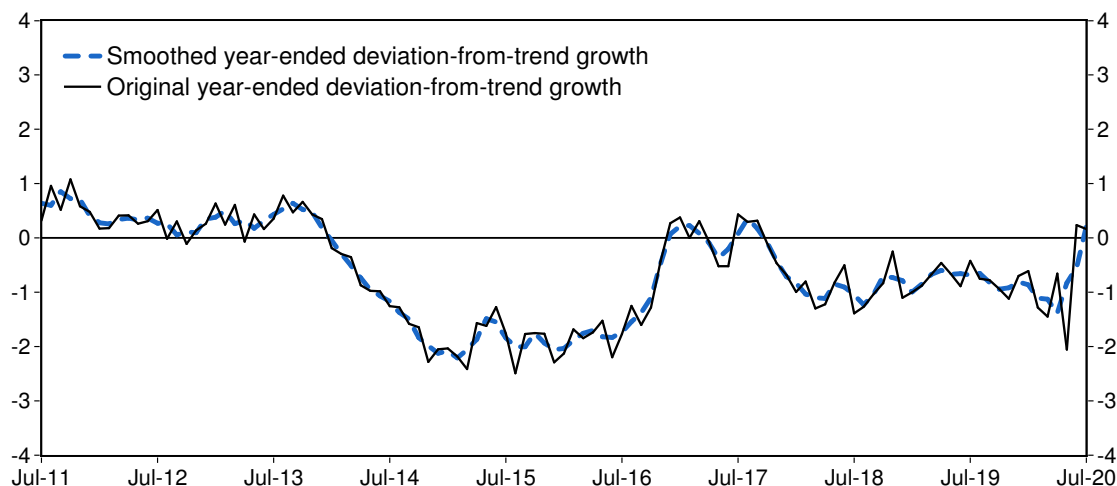
Melbourne Institute WA Leading Index of Economic Activity July 2020

Table 6: Western Australia Leading Index of Economic Activity

WESTERN AUSTRALIA	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Monthly level	95.35	95.00	95.78	94.29	96.09	96.52
Monthly growth	-0.60	-0.36	0.82	-1.56	1.92	0.44
<i>Year-ended growth</i>	-1.28	-1.45	-0.66	-2.06	0.23	0.16
<i>Year-ended growth contributions[◇]:</i>						
WA Expectations index [†]	-0.10	-0.23	-0.10	-0.08	-0.05	-0.22
WA Unemployment expectation index [†]	-0.08	-0.21	-0.14	-0.04	0.12	-0.22
WA Aggregate monthly hours worked	-0.05	-0.20	-0.88	-0.74	-0.51	-0.49
WA Retail trade	-0.21	-0.15	0.59	-0.73	0.56	0.68
WA Dwelling approvals	-0.18	-0.08	-0.11	0.03	-0.02	-0.06
WA Housing finance commitment	-0.22	-0.15	0.20	-0.28	0.39	0.63
WA Current family finance index [†]	-0.01	-0.09	-0.08	-0.14	-0.09	-0.04
AUD/USD	-0.22	-0.33	-0.17	-0.10	-0.06	0.09
Yield spread	-0.04	0.08	0.18	0.25	0.27	0.22
RBA commodity prices AUD	-0.17	-0.09	-0.14	-0.23	-0.37	-0.42

[◇]Contributions may not add up to the total due to rounding. [†]These indexes are taken from the Westpac-Melbourne Institute Survey of Consumer Sentiment. The contribution of the Unemployment expectations index to growth is multiplied by -1 to reflect its counter-cyclical property. Data sources: Australian Bureau of Statistics, Reserve Bank of Australia, and Melbourne Institute of Applied Economic and Social Research.

Chart 6: Western Australia Leading Index of Economic Activity



**Melbourne Institute State Leading Index of Economic Activity:
New South Wales, Victoria, Queensland, South Australia, Western Australia.**

The *Melbourne Institute State Leading Index of Economic Activity for New South Wales, Victoria, Queensland, South Australia, Western Australia* are summary measures of the growth prospects of the mainland states. They combine the latest information from consumer expectations on future activity, unemployment and their assessment of current family finance, together with aggregate monthly hours worked, 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.

The Indexes assess the likely path of growth relative to trend in three to nine months' time.

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For information on the data contained in the report contact the Melbourne Institute, The University of Melbourne, on (03) 8344 2196.

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