

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

March 2020

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

February 2020

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

OVERVIEW	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
New South Wales	-1.43	-1.21	-1.08	-0.70	-1.08	-1.51
Victoria	-1.34	-0.97	-0.67	-0.64	-0.26	-0.89
Queensland	-0.99	-0.77	-0.76	-0.21	-0.54	-1.01
South Australia	-1.40	-0.75	-0.64	-0.61	-0.69	-1.31
Western Australia	-0.79	-0.72	-0.86	-0.76	-0.94	-1.22

Economic activity across major states to worsen

The latest Melbourne Institute State Leading Indexes of Economic Activity signal that economic conditions across major states are likely to worsen in the coming months as disruptions caused by the Coronavirus outbreak filters through to economic activity. The February readings of the year-ended deviation-from-trend growth in the Indexes in Table 1 all declined further from their below-trend levels in January.

Tables 2-6 provide the year-ended deviation-from-trend growth in the State Leading Indexes as well as the contributions from the components. Weaknesses in retail trade and in labour market conditions are major detractors from growth in all major states, subtracting a total of 0.62 ppts in NSW, 0.58 ppts in VIC, 0.37 ppts in QLD, 1.07 ppts in SA and 0.48 ppts in WA. Retail trade and labour market conditions are likely to weaken further in the coming months amid the current outbreak, putting further downward pressure on household consumption and economic activity.

Weak economic activity together with weak consumer sentiment is starting to weigh down on housing market activity across the major states, particularly in NSW and WA. Dwelling approval and housing finance commitment together subtracted a total of 0.68 and 0.41 ppts off NSW and WA growth in February. The contributions of the yield spread, the difference between the 10-year government bond rate and 90-day bill rate, have turned negative, having just turned positive in January. This change resulted crucially from a 0.17 ppts drop in the long-term bond yield (from 1.15% to 0.98% while the 90-day bill rate was unchanged), suggesting that market participants are expecting a lower long-term growth. The decline in the Australian dollar is also contributing negatively to activity across the major states.

The RBA has lowered the target cash rate twice in March, to a historic low of 0.25%, and has started implementing unconventional monetary policy. Meanwhile, both the Federal and State governments have announced stimulus packages in an attempt to mitigate the adverse impacts of the Coronavirus outbreak on economic activity across Australia. It may take time for these measures to gain material traction on activity. In the meantime, economic activity across the major states is likely to weaken further in the coming months.

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

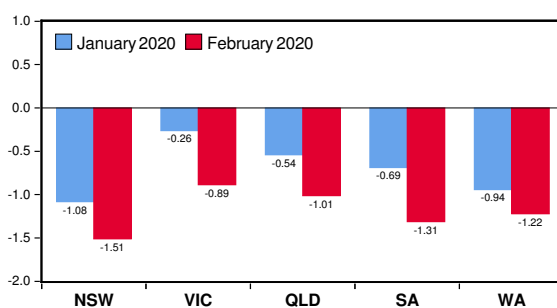
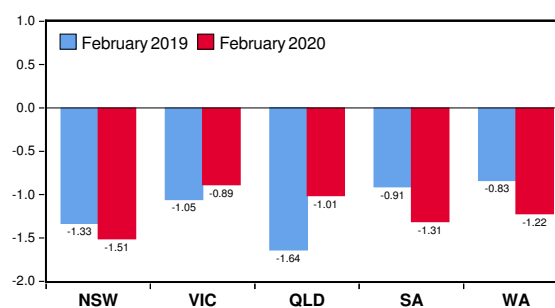


Chart 1(b): State Leading Indexes vs Last Year's



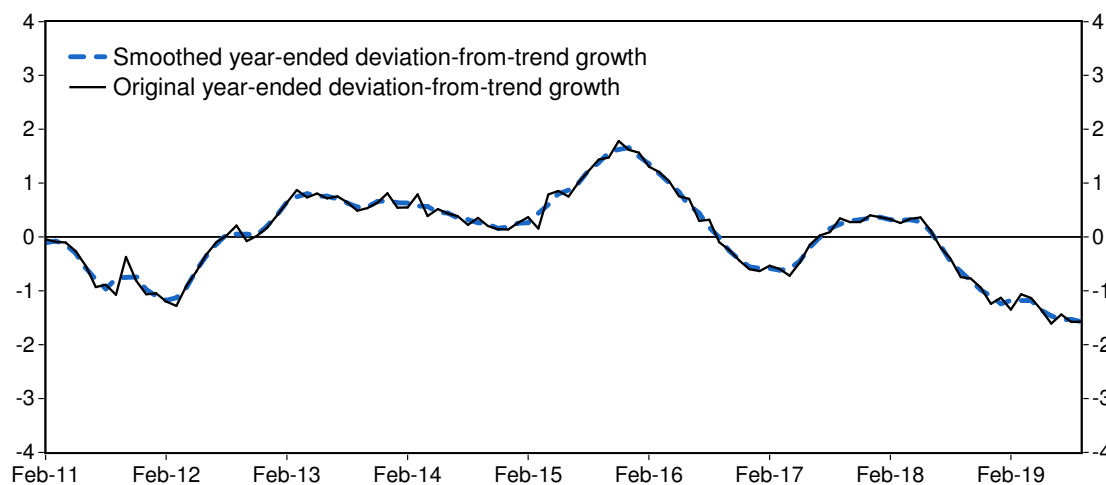
Melbourne Institute NSW Leading Index of Economic Activity February 2020

Table 2: New South Wales Leading Index of Economic Activity

NEW SOUTH WALES	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Monthly level	98.56	98.71	98.66	98.76	98.43	97.79
Monthly growth	-0.11	0.16	-0.05	0.10	-0.32	-0.66
<i>Year-ended growth</i>	-1.43	-1.21	-1.08	-0.70	-1.08	-1.51
<i>Year-ended growth contributions[◇]:</i>						
NSW Expectations index [†]	-0.06	-0.10	-0.08	-0.01	-0.11	-0.02
NSW Unemployment expectation index [†]	-0.09	-0.06	-0.11	-0.08	-0.09	-0.04
NSW Aggregate monthly hours worked	0.29	0.26	0.21	0.14	0.06	-0.03
NSW Retail trade	-0.53	-0.49	-0.48	-0.49	-0.54	-0.59
NSW Dwelling approvals	-0.50	-0.45	-0.41	-0.39	-0.39	-0.40
NSW Housing finance commitment	-0.25	-0.11	0.06	0.17	0.18	-0.28
NSW Current family finance index [†]	-0.04	-0.07	-0.03	0.00	-0.08	0.03
AUD/USD	-0.11	-0.04	-0.12	-0.02	-0.12	-0.14
Yield spread	-0.15	-0.14	-0.11	-0.03	0.01	-0.02

[◇] 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



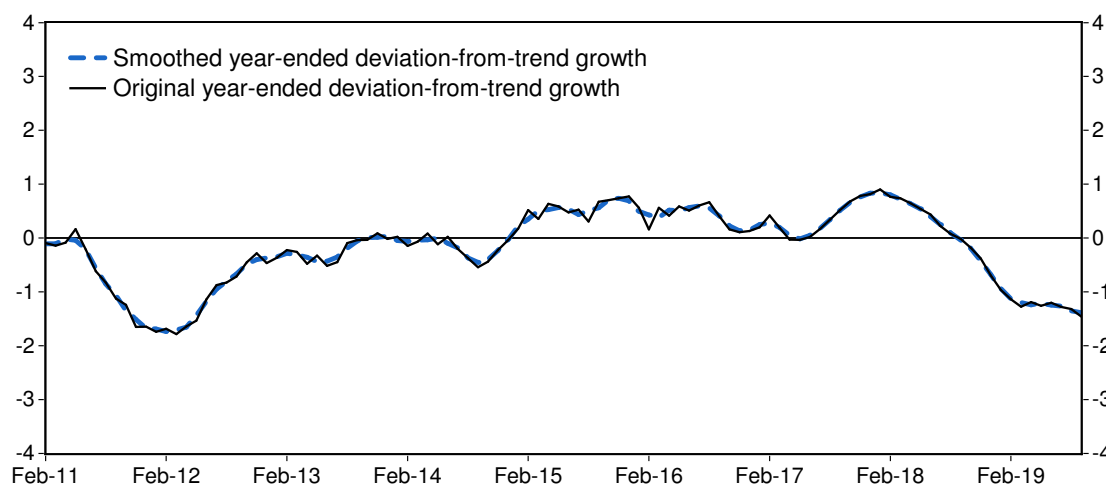
Melbourne Institute VIC Leading Index of Economic Activity February 2020

Table 3: Victoria Leading Index of Economic Activity

VICTORIA	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Monthly level	100.79	101.14	101.36	101.24	101.45	100.60
Monthly growth	0.02	0.35	0.22	-0.12	0.21	-0.84
<i>Year-ended growth</i>	-1.34	-0.97	-0.67	-0.64	-0.26	-0.89
<i>Year-ended growth contributions[◇]:</i>						
VIC Expectations index [†]	-0.08	-0.02	-0.05	-0.10	-0.03	-0.08
VIC Unemployment expectation index [†]	-0.06	-0.13	-0.09	-0.08	-0.09	-0.12
VIC Aggregate monthly hours worked	0.01	-0.03	-0.07	-0.12	-0.18	-0.23
VIC Retail trade	-0.29	-0.32	-0.34	-0.34	-0.35	-0.35
VIC Dwelling approvals	-0.35	-0.27	-0.19	-0.11	-0.02	0.07
VIC Housing finance commitment	-0.25	-0.02	0.32	0.22	0.52	0.01
VIC Current family finance index [†]	-0.06	0.00	-0.02	-0.07	0.00	-0.03
AUD/USD	-0.11	-0.04	-0.12	-0.02	-0.12	-0.14
Yield spread	-0.15	-0.14	-0.11	-0.03	0.01	-0.02

[◇] 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



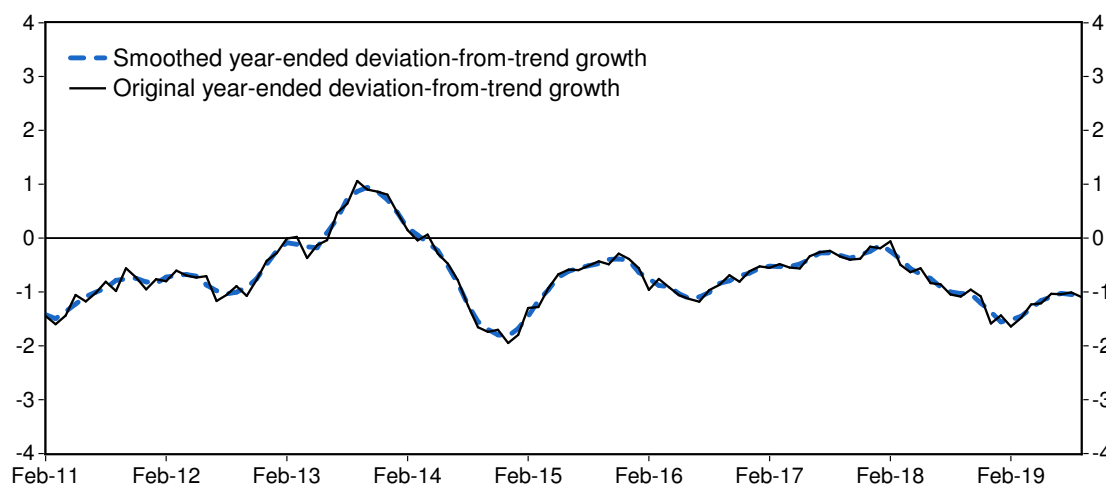
Melbourne Institute QLD Leading Index of Economic Activity February 2020

Table 4: Queensland Leading Index of Economic Activity

QUEENSLAND	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Monthly level	96.69	96.96	96.91	97.13	96.89	96.21
Monthly growth	-0.13	0.28	-0.05	0.22	-0.24	-0.70
<i>Year-ended growth</i>	-0.99	-0.77	-0.76	-0.21	-0.54	-1.01
<i>Year-ended growth contributions[◇]:</i>						
QLD Expectations index [†]	-0.03	-0.06	-0.08	-0.03	-0.03	-0.08
QLD Unemployment expectation index [†]	0.04	-0.06	-0.06	0.02	-0.05	-0.07
QLD Aggregate monthly hours worked	0.06	0.03	-0.05	-0.15	-0.23	-0.28
QLD Retail trade	-0.09	-0.10	-0.09	-0.08	-0.08	-0.09
QLD Dwelling approvals	-0.38	-0.32	-0.23	-0.15	-0.09	-0.08
QLD Housing finance commitment	-0.33	0.02	0.11	0.20	0.20	-0.12
QLD Current family finance index [†]	-0.03	-0.05	-0.07	0.06	-0.06	-0.04
AUD/USD	-0.11	-0.04	-0.12	-0.02	-0.13	-0.15
Yield spread	-0.15	-0.14	-0.12	-0.03	0.01	-0.02
RBA commodity prices AUD	0.04	-0.05	-0.04	-0.02	-0.07	-0.09

[◇]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



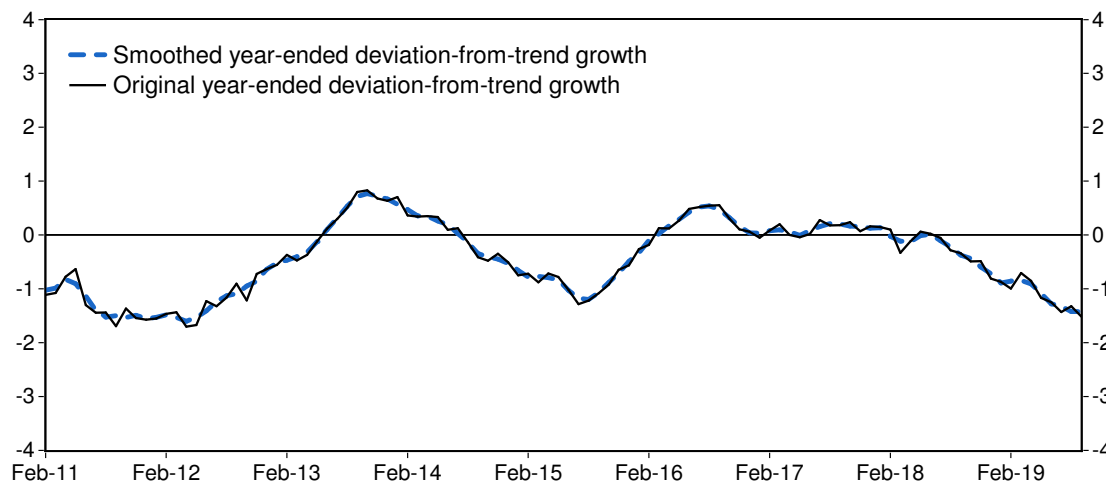
Melbourne Institute SA Leading Index of Economic Activity February 2020

Table 5: South Australia Leading Index of Economic Activity

SOUTH AUSTRALIA	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Monthly level	100.19	100.60	100.71	100.50	100.42	99.59
Monthly growth	-0.11	0.41	0.11	-0.21	-0.08	-0.82
<i>Year-ended growth</i>	-1.40	-0.75	-0.64	-0.61	-0.69	-1.31
<i>Year-ended growth contributions[◇]:</i>						
SA Expectations index [†]	-0.09	-0.02	-0.01	-0.13	-0.06	-0.05
SA Unemployment expectation index [†]	-0.09	-0.05	-0.04	-0.12	-0.11	-0.10
SA Aggregate monthly hours worked	-0.22	-0.32	-0.39	-0.45	-0.50	-0.55
SA Retail trade	-0.42	-0.43	-0.44	-0.45	-0.47	-0.52
SA Dwelling approvals	-0.05	0.12	0.21	0.22	0.16	0.08
SA Housing finance commitment	-0.15	0.24	0.38	0.38	0.48	0.01
SA Current family finance index [†]	-0.07	-0.06	-0.07	0.00	-0.04	0.02
AUD/USD	-0.13	-0.05	-0.15	-0.03	-0.15	-0.17
Yield spread	-0.18	-0.17	-0.14	-0.04	0.01	-0.03

[◇] 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



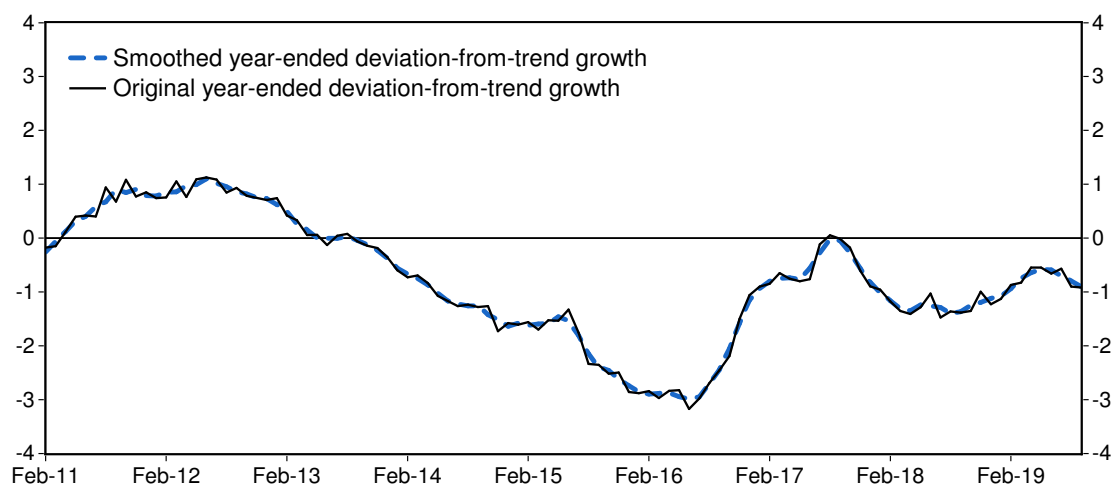
Melbourne Institute WA Leading Index of Economic Activity February 2020

Table 6: Western Australia Leading Index of Economic Activity

WESTERN AUSTRALIA	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Monthly level	94.59	94.57	94.54	94.37	94.21	93.92
Monthly growth	-0.01	-0.02	-0.02	-0.19	-0.17	-0.30
<i>Year-ended growth</i>	-0.79	-0.72	-0.86	-0.76	-0.94	-1.22
<i>Year-ended growth contributions[◇]:</i>						
WA Expectations index [†]	-0.04	-0.06	-0.08	-0.03	-0.07	-0.06
WA Unemployment expectation index [†]	-0.02	-0.08	-0.07	-0.02	-0.04	-0.04
WA Aggregate monthly hours worked	-0.10	-0.15	-0.18	-0.21	-0.23	-0.25
WA Retail trade	-0.20	-0.17	-0.17	-0.19	-0.21	-0.23
WA Dwelling approvals	-0.12	-0.07	-0.06	-0.11	-0.18	-0.26
WA Housing finance commitment	-0.11	-0.03	0.01	-0.09	-0.05	-0.15
WA Current family finance index [†]	-0.01	0.04	-0.07	-0.05	0.00	-0.01
AUD/USD	-0.09	-0.04	-0.11	-0.02	-0.11	-0.12
Yield spread	-0.13	-0.12	-0.10	-0.03	0.01	-0.02
RBA commodity prices AUD	0.03	-0.04	-0.03	-0.02	-0.06	-0.08

[◇] 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.

Disclaimer: The University of Melbourne and the Melbourne Institute give no representation, make no warranty, nor take any responsibility as to the accuracy or completeness of any information contained herein and will not be liable in contract tort, for negligence or for any loss or damage arising from reliance on any such information. The *Melbourne Institute State Leading Index of Economic Activity: New South Wales, Victoria, Queensland, South Australia, Western Australia* report presents the professional analysis and views of the Melbourne Institute.

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

©The University of Melbourne, Melbourne Institute of Applied Economic and Social Research.

This report is copyright. Apart from any fair dealing for the purposes of study, research, criticism or review, as permitted under the *Copyright Act*, no part may be reproduced without written permission.

For more information about the Melbourne Institute, see:
<http://melbourneinstitute.unimelb.edu.au/>

For more information about Macro@MI and other Reports see:
<http://melbourneinstitute.unimelb.edu.au/research-programs/macroeconomics>

