

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

May 2020

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April 2020

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

OVERVIEW	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
New South Wales	-0.98	0.13	-0.62	-1.11	-1.78	-0.33
Victoria	-0.40	-0.14	0.38	-0.76	-0.65	-0.19
Queensland	-0.84	0.24	-0.52	-1.11	-0.89	0.14
South Australia	-0.30	0.06	-0.16	-0.87	-1.21	-0.14
Western Australia	-1.10	-0.68	-0.60	-1.26	-1.45	-0.53

Surprising lifts in the Indexes following spikes in retail sales and housing finances

In April, the readings of the year-ended deviation-from-trend growth in the Melbourne Institute State Leading Indexes of Economic Activity all increased from their respective March readings. These increases, to a large extent, were driven by strong, probably temporary, increases in retail trade and housing finance commitment in March. The next several readings in the Indexes will reveal whether the improvement this month are sustainable.

Tables 2-6 provide the year-ended deviation-from-trend growth in the State Leading Indexes as well as the contributions from the components. The decline in aggregate monthly hours worked was the biggest detractor from growth in the Indexes across the major states, subtracting 0.74 ppts off growth in the NSW Index, 0.63 ppts in VIC, 0.72 ppts in QLD, 0.82 ppts in SA and 0.83 ppts in WA. This reflects the significant adverse impacts of the COVID19 pandemic on the major states' labour markets. Consumers' weak family financial conditions and concerns about future job prospects continued to weigh down on growth in the Indexes.

Increases in retail trade, housing finance commitment and the yield spread were the major contributors to growth in the Indexes in April. The positive contributions from retail trade across the major states (adding 0.21 ppts in NSW, 0.29 ppts in VIC, 0.62 ppts in QLD, 0.45 ppts in SA and 0.59 ppts in WA) resulted from the huge increases in retail trade in March as consumers across Australia prepared for the lockdowns. Meanwhile, the considerable contributions of housing finance commitment (adding 0.46 ppts in NSW, 0.53 ppts in VIC, 0.65 ppts in QLD, 0.47 ppts in SA and 0.20 ppts in WA) were attributable to huge increases in the number of household refinancing as homeowners took advantage of lower mortgage rates following the RBA's rate cuts in March.

The positive contributions from the yield spread, the difference between the 10-year government bond yield and the 90-day bill rate, to a certain extent, reflect the positive impacts of the current accommodating monetary policy on economic activity across the major states in general and on housing market activity in particular. With the gradual easing of restrictions in the coming months, economic activity across the major states is likely to pick up towards the end of 2020.

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

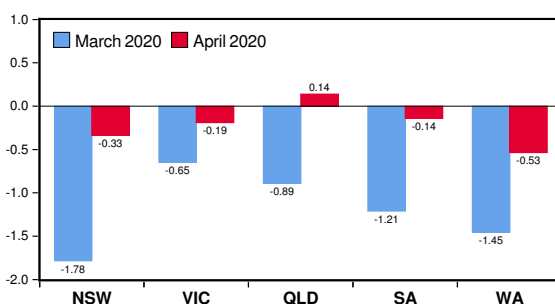
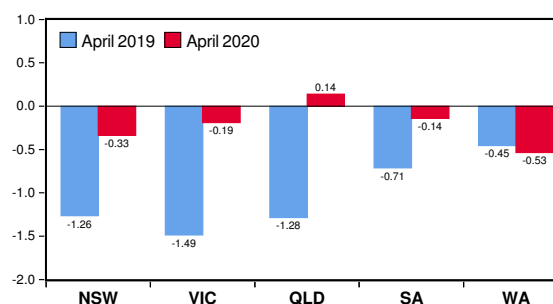


Chart 1(b): State Leading Indexes vs Last Year's



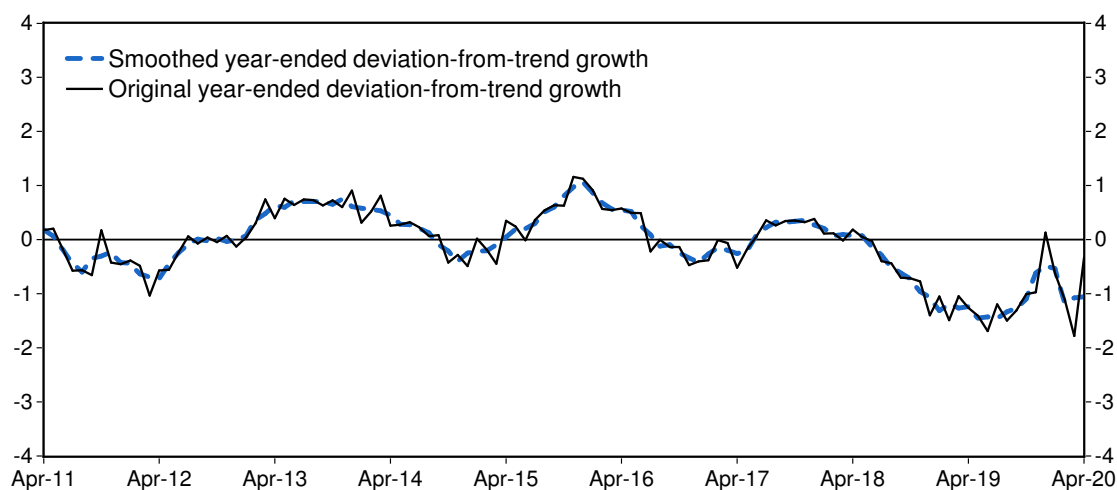
Melbourne Institute NSW Leading Index of Economic Activity April 2020

Table 2: New South Wales Leading Index of Economic Activity

NEW SOUTH WALES	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Monthly level	99.00	99.59	98.93	98.14	97.71	98.96
Monthly growth	-0.10	0.59	-0.66	-0.79	-0.44	1.28
<i>Year-ended growth</i>	-0.98	0.13	-0.62	-1.11	-1.78	-0.33
<i>Year-ended growth contributions[◇]:</i>						
NSW Expectations index [†]	-0.12	-0.01	-0.16	-0.04	-0.35	-0.09
NSW Unemployment expectation index [†]	-0.17	-0.11	-0.13	-0.06	-0.21	-0.12
NSW Aggregate monthly hours worked	0.06	0.13	0.02	0.00	-0.09	-0.74
NSW Retail trade	-0.20	-0.16	-0.25	-0.32	-0.35	0.21
NSW Dwelling approvals	-0.24	0.03	-0.12	-0.13	-0.14	0.09
NSW Housing finance commitment	0.08	0.33	0.31	-0.37	-0.29	0.46
NSW Current family finance index [†]	-0.04	0.00	-0.11	0.04	-0.12	-0.15
AUD/USD	-0.18	-0.03	-0.18	-0.21	-0.31	-0.16
Yield spread	-0.17	-0.04	0.01	-0.03	0.07	0.17

[◇]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



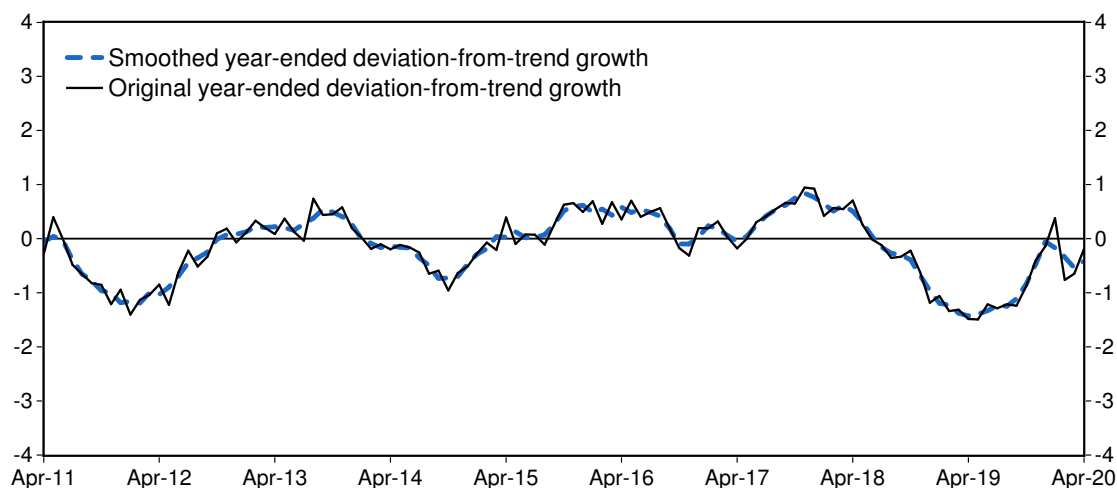
Melbourne Institute VIC Leading Index of Economic Activity April 2020

Table 3: Victoria Leading Index of Economic Activity

VICTORIA	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Monthly level	101.03	101.01	101.36	99.93	100.00	100.40
Monthly growth	0.31	-0.02	0.35	-1.41	0.06	0.40
<i>Year-ended growth</i>	-0.40	-0.14	0.38	-0.76	-0.65	-0.19
<i>Year-ended growth contributions[◇]:</i>						
VIC Expectations index [†]	-0.07	-0.14	-0.05	-0.12	-0.16	-0.11
VIC Unemployment expectation index [†]	-0.14	-0.11	-0.13	-0.17	-0.23	-0.17
VIC Aggregate monthly hours worked	0.05	0.05	-0.11	-0.12	0.11	-0.63
VIC Retail trade	-0.24	-0.15	-0.13	-0.17	-0.17	0.29
VIC Dwelling approvals	-0.11	-0.03	0.14	-0.01	0.05	-0.02
VIC Housing finance commitment	0.47	0.41	0.82	0.10	0.08	0.53
VIC Current family finance index [†]	-0.03	-0.10	0.00	-0.04	-0.10	-0.08
AUD/USD	-0.17	-0.03	-0.18	-0.20	-0.30	-0.16
Yield spread	-0.17	-0.04	0.01	-0.03	0.07	0.17

[◇] 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



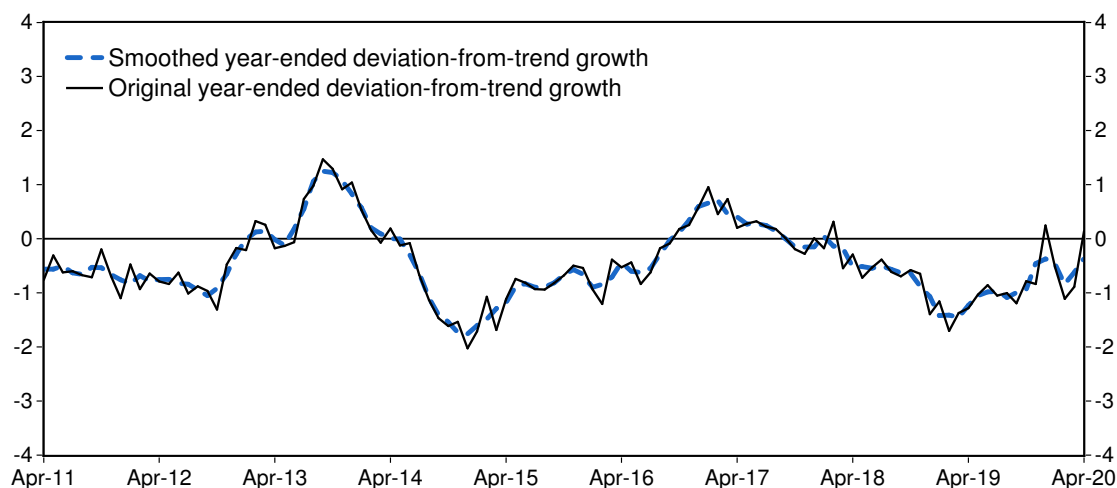
Melbourne Institute QLD Leading Index of Economic Activity April 2020

Table 4: Queensland Leading Index of Economic Activity

QUEENSLAND	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Monthly level	98.74	99.40	98.80	97.78	97.91	98.85
Monthly growth	-0.04	0.66	-0.60	-1.04	0.13	0.96
<i>Year-ended growth</i>	-0.84	0.24	-0.52	-1.11	-0.89	0.14
<i>Year-ended growth contributions[◇]:</i>						
QLD Expectations index [†]	-0.14	-0.05	-0.06	-0.13	-0.22	-0.18
QLD Unemployment expectation index [†]	-0.11	0.02	-0.09	-0.12	-0.20	-0.12
QLD Aggregate monthly hours worked	0.00	0.01	-0.15	-0.18	-0.21	-0.72
QLD Retail trade	-0.11	0.03	-0.04	-0.03	-0.03	0.62
QLD Dwelling approvals	-0.07	-0.07	-0.08	0.01	-0.03	-0.02
QLD Housing finance commitment	0.20	0.39	0.38	-0.15	0.21	0.65
QLD Current family finance index [†]	-0.11	0.09	-0.10	-0.07	-0.01	-0.04
AUD/USD	-0.21	-0.04	-0.21	-0.25	-0.36	-0.19
Yield spread	-0.20	-0.05	0.01	-0.04	0.09	0.20
RBA commodity prices AUD	-0.10	-0.09	-0.17	-0.16	-0.12	-0.07

[◇] 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



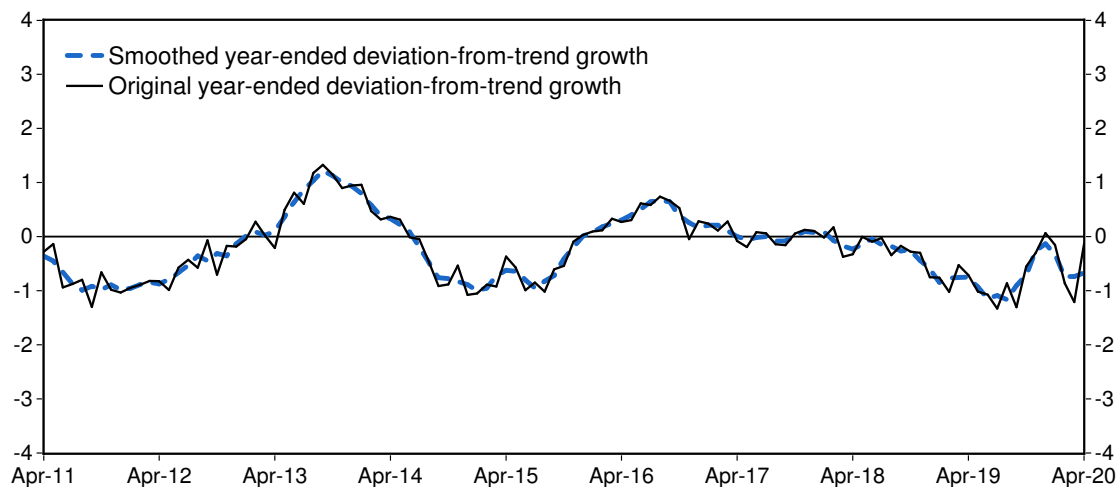
Melbourne Institute SA Leading Index of Economic Activity April 2020

Table 5: South Australia Leading Index of Economic Activity

SOUTH AUSTRALIA	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Monthly level	100.95	100.94	100.72	99.65	99.52	100.37
Monthly growth	0.33	-0.01	-0.21	-1.07	-0.12	0.85
<i>Year-ended growth</i>	-0.30	0.06	-0.16	-0.87	-1.21	-0.14
<i>Year-ended growth contributions[◇]:</i>						
SA Expectations index [†]	-0.01	-0.19	-0.08	-0.07	-0.33	-0.10
SA Unemployment expectation index [†]	-0.06	-0.17	-0.15	-0.15	-0.27	0.00
SA Aggregate monthly hours worked	-0.13	-0.13	-0.14	-0.16	-0.15	-0.82
SA Retail trade	-0.26	-0.12	-0.24	-0.26	-0.26	0.45
SA Dwelling approvals	0.11	0.14	0.00	-0.02	-0.02	-0.06
SA Housing finance commitment	0.55	0.61	0.72	0.05	0.17	0.47
SA Current family finance index [†]	-0.10	0.01	-0.06	0.03	-0.07	-0.09
AUD/USD	-0.21	-0.04	-0.21	-0.25	-0.37	-0.19
Yield spread	-0.20	-0.05	0.01	-0.04	0.09	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 5: South Australia Leading Index of Economic Activity



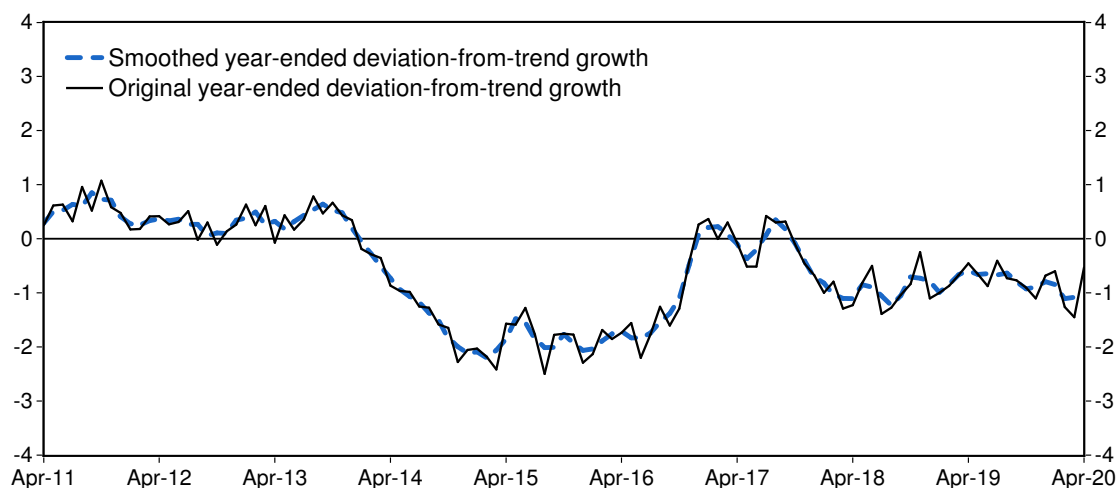
Melbourne Institute WA Leading Index of Economic Activity April 2020

Table 6: Western Australia Leading Index of Economic Activity

WESTERN AUSTRALIA	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Monthly level	96.18	96.01	95.91	95.38	94.98	95.89
Monthly growth	0.10	-0.17	-0.10	-0.56	-0.42	0.96
<i>Year-ended growth</i>	-1.10	-0.68	-0.60	-1.26	-1.45	-0.53
<i>Year-ended growth contributions[◇]:</i>						
WA Expectations index [†]	-0.14	-0.05	-0.12	-0.10	-0.23	-0.10
WA Unemployment expectation index [†]	-0.12	-0.04	-0.07	-0.07	-0.21	-0.14
WA Aggregate monthly hours worked	-0.19	-0.10	0.07	-0.03	-0.18	-0.83
WA Retail trade	-0.11	-0.11	-0.12	-0.21	-0.15	0.59
WA Dwelling approvals	0.03	-0.04	0.01	-0.20	-0.08	-0.11
WA Housing finance commitment	0.02	-0.09	-0.03	-0.22	-0.15	0.20
WA Current family finance index [†]	-0.12	-0.09	0.00	-0.01	-0.09	-0.08
AUD/USD	-0.19	-0.03	-0.19	-0.22	-0.33	-0.17
Yield spread	-0.18	-0.05	0.01	-0.04	0.08	0.18
RBA commodity prices AUD	-0.09	-0.08	-0.15	-0.15	-0.11	-0.06

[◇] 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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