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## Victoria in perspective

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

### Overview

**E**conomic activity in Victoria continued to expand during 1997–98, driven largely by private consumer spending and the strong momentum in housing construction. Victoria achieved high levels in both private business investment and employment in 1998, with trend unemployment falling to its lowest level since December 1990.

The Victorian economy has undergone extensive structural change during the prolonged period of growth since late 1992. Productivity has grown more rapidly than the national average, rising by over 13% during this period. Employment has increased in trend terms by 240,000 persons since early 1993. The improved performance of the economy over the past few years, relative to the rest of the nation, has also seen a reversal of the population losses to other States.

The restructuring in Victoria's economy has meant it is better positioned to respond to the challenges of global competition. While Victoria's net exports were affected by the Asian slowdown during the first half of 1998, exporters were relatively successful in finding alternative markets.

### Recent economic trends

Overall expenditure in the Victorian economy picked up strongly in the first half of 1998, following a period of weaker growth in the second half of 1997. Real trend Victorian State final demand rose by 1.7% in the June quarter 1998—the twenty-eighth consecutive rise. However, growth for 1997–98, as a whole, slowed somewhat to 4.3% (table 1.1).

Victorian employment rose steadily from July 1997, to reach a new record high in September 1998. Employment in Victoria grew more strongly than nationally over the year to September. Despite strong growth in the number of job seekers, the trend Victorian unemployment rate declined through the year to 8.2% in September.

1.1 TRENDS IN ACTIVITY(a)

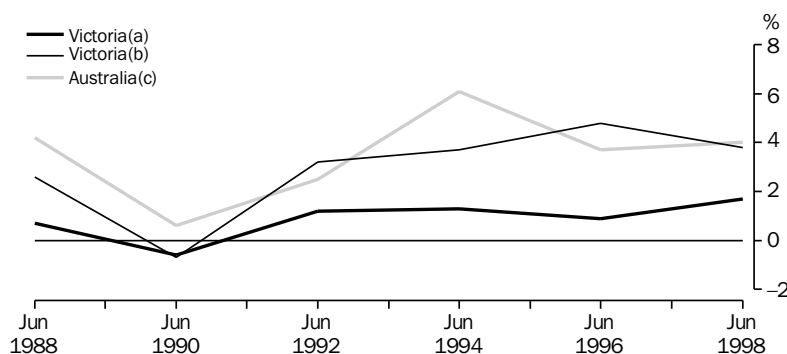
	1996-97(b)	1997-98(b)
	%	%
<b>Expenditure &amp; output(c)</b>		
Final consumption expenditure		
Private	3.3	4.8
Government	2.1	0.8
Gross fixed capital expenditure(d)		
Private		
Dwellings	11.2	18.8
Non-dwelling construction	42.0	-19.2
Equipment	32.2	-1.6
Total business investment	34.8	-6.5
Total private	26.4	1.0
Public	-34.5	41.9
State final demand	5.8	4.3
International trade in goods		
Exports	7.6	n.a.
Imports	11.5	n.a.
Gross State Product	2.6	n.a.
<b>Employment &amp; inflation</b>		
Employment	1.2	1.3
Unemployment rate (end of period)	9.2	8.3
Consumer Price Index, Melbourne	1.3	-0.1

(a) Percentage change from previous period unless otherwise indicated. (b) Original data except for the unemployment rate (seasonally adjusted). (c) Constant prices. (d) Private and public investment have been affected in recent years by privatisations.

Source: Australian National Accounts: State Accounts (Cat. no. 5242.0); Labour Force, Australia, Preliminary (Cat. no. 6202.0); Consumer Price Index (Cat. no. 6401.0).

The explosion at Esso's Longford gas plant in late September 1998 caused a major disruption to Victorian businesses and households over the ensuing two-week period. The impact on State final demand and Gross State Product, still unclear at the time of writing, was dependent on the extent to which firms could make up lost production following re-supply.

1.2 DOMESTIC FINAL DEMAND GROWTH



(a) Quarterly percentage change. (b) Annual percentage change. (c) Annual percentage change.

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

## The impact of East Asia

Victoria relies slightly less than most other States on international trade and more on internal spending (private and public consumption and investment spending) and interstate trade to support economic activity. Victorian State final demand remained solid in the first half of 1998. However, the adverse impact of the Asian situation on the other States was expected to result in lower interstate exports for Victoria.

During 1998, Victorian exporters diversified away from troubled Asian markets to other regions, particularly in Europe. In the six months to August 1998 compared with the same period a year earlier, the nominal value of Victorian international merchandise exports increased by 0.8% (excluding the sale of an Anzac frigate to New Zealand, which is regarded as a Commonwealth export). Over this period, a 42% fall in exports to South East Asia and Korea was more than offset by a 2% rise to other Asian countries (including Japan) and a 28% rise to the rest of the world.

However, Victorian merchandise imports rose strongly by 21.9% over this period. This included a rise in imports from each of the ASEAN countries (51.7%), North East Asia (23.8%) and the United States (25.9%).

Commodity data show that increased exports of gold, miscellaneous and confidential items have been largely responsible for the rise in total Victorian merchandise exports over this period. Much of Victorian gold exports, which are sourced domestically, are mined outside the State. Excluding these items, Victorian merchandise exports actually fell by 3.8%. Victorian and national trade data more generally have been affected by a strong rise in gold trade. According to Australian Bureau of Agricultural and Resource Economics, a large part of this increase reflects a surge in gold imports for processing and re-export.

According to the latest Bureau of Tourism Research International Visitors Survey, the number of international visitors travelling to Victoria increased by 3% in the year ending March 1998 compared with the previous year. Asian arrivals fell by 5% during the period (with particularly large falls from Thailand, Indonesia and Malaysia), while visitation increased from the United States (up 6%) and Europe (up 4%). Victoria also recorded a 7% rise in international visitor nights over the period, despite a decline nationally.

## Consumer spending

Victorian consumer spending continued to rise during the first half of 1998, although its growth rate had halved since mid-1997. Real private final consumption increased by 4.8% in 1997–98, compared with 4.6% nationally. The high level of consumer spending over the previous few years was underpinned by a rise in household disposable incomes associated with stronger employment growth and a low interest rate environment.

Retail turnover was particularly strong, rising by 1% or more in each of the four months to August. This was mainly due to a rise in food, clothing and soft good retailing, as well as spending on hospitality and services. In contrast, household good retailing started to weaken through the middle of 1998. New motor vehicle registrations increased strongly throughout the

1990s and were at record levels in 1997–98. Consumer sentiment, a key forward indicator of spending behaviour, remained generally positive, despite increasing signs of a global economic downturn.

## Housing sector

The Victorian housing sector continued its resurgence since mid-1996. This was associated with a rise in home loan affordability, stronger population growth (following a reversal in population losses to other States) and a surge in demand for investment properties. Overall private dwelling investment, which also includes conversions, alterations and additions, rose by 18.8% during 1997–98, reaching record levels.

Dwelling activity for investment purposes in Victoria continued to boom in 1997–98, with the value of loan approvals for the purchase of dwellings for rental/resale increasing by 74%. This followed a 56% rise in the previous year. Increased dwelling activity was reflected in a significant rise in house prices. Median house prices continued to grow more strongly in Melbourne than in any other capital city, up 16% through the year to the June quarter 1998. While the Melbourne rental market remained tight through 1997–98, short-term forward indicators indicated that housing activity may have peaked.

## Business investment

Following a decline in the second half of 1997, in trend terms, private business fixed investment in Victoria reached high levels in the first half of 1998, boosted by the completion of the Crown Casino and work on the City Link project. Forward indicators of Victorian private non-residential construction activity remained positive, with a \$1,240 million pipeline of work on existing building projects and \$740 million on engineering projects.

Among the major private sector projects, the \$2 billion City Link is expected to be completed by 2000. The Docklands Stadium is scheduled to open in February 2000. Ford Australia launched the new AU Falcon during 1998. Other investments announced in 1997–98 included:

- establishment of a large-scale silicon chip manufacturing operation by Robert Bosch at Clayton;
- consolidation of Simplot's Australian bakery manufacturing in Melbourne and expansion of its Echuca operations;
- expansion of Postel's call centre operations; and
- establishment of German-based industrial lubricant manufacturer Fuchs Groups' new Australian Head Office at Sunshine.

## Labour market

Victorian labour market conditions strengthened markedly during 1997–98 and into the September quarter 1998. Trend employment rose for 15 consecutive months to be at record levels in September (2,163,200 persons). Some 64,000 new jobs were created in Victoria over

the year to September. This was one-third of the national total, compared with Victoria's share of national output of around one-quarter. At the same time, Victoria's participation rate (the share of working-age population either employed or actively seeking work) rose sharply and remained well above the national average.

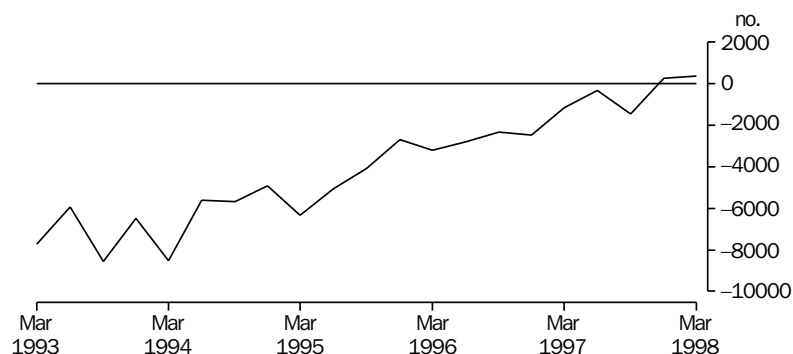
With employment growth more than sufficient to absorb this rise in job seekers, the trend Victorian unemployment rate declined to 8.2% in September, well down on a year earlier. In September, the trend Victorian unemployment rate was equal to the national rate and at its lowest level since December 1990. The net positive employment growth recorded in the services sector during the year offset the small declines in manufacturing, mining and agricultural employment. Property and business services, wholesale trade, and construction recorded the fastest growth in average employment over the year to August, with the latter benefiting from the surge in housing activity.

Metropolitan Melbourne employment rose by 3.8% over the year to the September quarter (in original terms), with strongest growth in the inner eastern and outer western suburbs. The metropolitan Melbourne unemployment rate fell to 7.5% in the September quarter, compared with 8.2% a year earlier. In country Victoria, employment rose by 1.5%, following strong growth in the Central Highlands-Wimmera and Goulburn-Ovens-Murray regions. The regional unemployment rate was 9.6% in the September quarter, down from 10.5% a year earlier.

## Demography

Between 1992–93 and 1994–95, Victoria lost more than 25,000 persons interstate per year (graph 1.3). However, over the year to the March quarter 1998, this was reduced to just under 1,200 persons, and Victoria actually gained interstate migrants in the December and March quarters for the first time since records began in 1981. The decline in interstate migration losses has seen a pick-up in Victoria's population growth to 1.1% per year, similar to the national rate.

1.3 NET INTERSTATE MIGRATION, VICTORIA



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. 5242.0)

*Consumer Price Index* (Cat. no. 6401.0)

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