

Chapter 1

Victoria in Perspective

Photo:

City from Williamstown

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ECONOMIC TRENDS IN VICTORIA

The following article has been provided by the Department of Treasury and Finance, Victoria.

Overview

The Victorian economy has experienced a prolonged expansion following the recession of the early 1990s. The recovery has been characterised by:

- Per capita growth rates in excess of the national average, reflecting a comparatively strong labour productivity performance.
- A progressive reduction in population losses to other States, which peaked at almost 32,000 in 1993–94 but had declined to just over 8,000 in 1996–97.
- A shift in resources away from the public sector towards private enterprises. Public sector wage and salary earner employment has declined by 26% or 119,800 from its peak in 1988–89 to the year ending March quarter 1997. Three out of every four of these jobs were in the State Government sector, reflecting in part the privatisation of government enterprises. These losses were more than offset by an additional 211,800 private sector jobs over the same period.
- An expansion in the relative importance of commercial services with growth having been particularly strong in such areas as computer services, marketing, employment placement and tourism-related activities such as food retailing, hospitality and cultural and recreational services. Over the same period Victoria has become less reliant on manufacturing.
- A sustained increase in private business fixed investment from 7.6% of gross state product (GSP) in 1991–92 to 11.9% of GSP in 1996–97.

Economic Trends

1.1 TRENDS IN ACTIVITY – VICTORIA(a)

	1995–96(b)	1996–97(b)
Expenditure & output(c)		
Final consumption expenditure		
Private	3.5	3.0
Government	1.7	0.7
Gross fixed capital expenditure(d)		
Private		
Dwellings	–10.4	7.4
Non-dwelling construction	44.9	40.5
Equipment	20.9	29.2
Total business investment	26.6	32.3
Total private	12.6	23.9
Public	–16.9	–27.1
State final demand	3.7	5.2
International trade in goods		
Exports	20.3	6.7
Imports	3.0	10.6
Gross state product (GSP)	3.9	2.1
Employment & inflation		
Employment	2.6	1.2
Unemployment rate (end of period)	8.2	9.4
Consumer Price Index, Melbourne	3.8	1.3

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

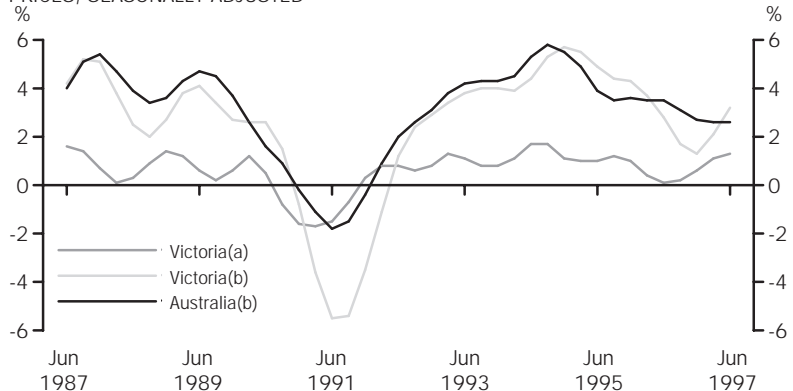
Source: Australian National Accounts: State Accounts (Cat. no. 5242.0), Labour Force, Australia, Preliminary (Cat. no. 6202.0), Consumer Price Index (Cat. no. 6401.0).

Following a slowing in Victorian economic growth during 1996, in line with the nation as a whole, activity began to accelerate in the first half of 1997 in response to strengthening demand.

The slowing in 1996 was also reflected in the Victorian labour market with growth in State employment slowing in 1996–97. Part-time jobs growth outweighed full-time employment losses. The trend Victorian unemployment rate remained between 9.0% and 9.2% for most of 1996–97. However, the September 1997 labour force data showed an encouraging improvement in employment prospects, with Victorian trend employment rising for the first time since January and the unemployment rate declining slightly.

In terms of major expenditure items, net exports, inventory investment and the statistical discrepancy, rather than State final demand, were mainly responsible for the slowdown. Victorian private business fixed investment continued to recover strongly during 1996–97, even after adjusting for the distorting effects of privatisations and major asset sales. Private consumer spending also held up well, although growth in retail turnover eased in the first half of 1997.

PERCENTAGE CHANGE IN GROSS DOMESTIC AND STATE PRODUCT AT CONSTANT PRICES, SEASONALLY ADJUSTED



(a) Change from previous quarter. (b) Change from same period last year.

Consumer spending

Victorian private final consumption increased by 3.5% through the course of 1996–97, the second fastest rate in Australia and well above the national average of 2.2% over the same period. Retail trade grew more rapidly in 1996–97 in Victoria than in any other State or Territory, with growth in household goods and food retailing being particularly high. Victorian new motor vehicle registrations increased strongly in late 1996 and early 1997 in response to a decline in vehicle prices.

Housing sector

The Victorian housing construction cycle began to turn up in late 1996 when commencements bottomed at just over 5,400 dwelling units. Historically high levels of housing affordability (reflecting reductions in mortgage interest rates and rising household incomes) and an emerging excess demand for housing in Victoria (in contrast to many other parts of Australia) helped push commencements to over 6,800 per quarter in the first half of 1997 (still well below the last quarterly peak of over 8,700 units in early 1994). Private dwelling investment grew by 19.1% and finance commitments rose steadily during the course of 1996–97. Auction clearance rates are at their highest level since early 1989 and Melbourne house prices are rising faster than the national average. The Melbourne rental market also remains tight, with the vacancy rate at just 2% and rents rising steadily in most locations.

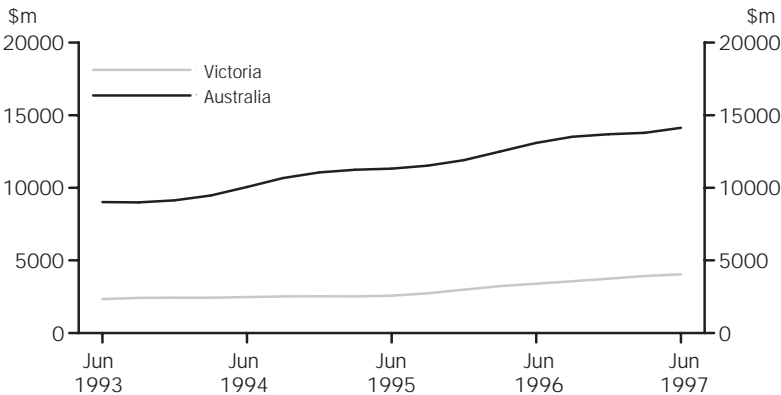
Business investment

In 1996–97 Victoria accounted for 29% of national private business investment (includes major sales from the public sector), above its population share of 25% and GSP share of 26%. Victorian private business investment at present is spread widely across hotels, shops, offices and factories. Business investment has been boosted in recent quarters by the completion of the Crown Entertainment Complex.

The value of non-residential building commencements has been trending upwards, work remaining to be completed on existing projects (\$705 million at end March quarter 1997 in current prices) exceeds the value immediately before the start of the Crown Entertainment Complex. Engineering construction is likely to be supported by the City Link project over the next few years.

Among a number of new projects in the pipeline work on the first stage of the \$2 billion-plus Docklands project – the Docklands Stadium – has commenced. Toyota has also recently announced plans to upgrade its Altona plant to produce the new six-cylinder Avalon motor car, involving up to \$1 billion over the next seven years.

PRIVATE BUSINESS FIXED INVESTMENT – VICTORIA AND AUSTRALIA



Source: Australian National Accounts: National Income, Expenditure and Product (Cat. no. 5206.0). Australian National Accounts: State Accounts (Cat. no. 5242.0).

Labour market

Victorian and national labour market conditions were subdued during 1996–97, although there were some encouraging signs in September 1997.

The services sector has continued its role as the main generator of new jobs in Victoria, accounting for all of the growth in employment over the 1996–97 year. Employment in the fourteen service industries rose by 0.9% (15,000 persons) over the year to August 1997, with strongest growth in property and business services and finance and insurance. In contrast the manufacturing sector reduced its workforce by 5.8% (21,000 persons) over the same period and lower employment was also recorded in the mining and agricultural sectors.

Metropolitan Melbourne unemployment rates are highest in the Outer-Western, North-Western and Mornington Peninsula regions. Unemployment rates are lowest in the eastern and southern suburbs, reflecting rises in employment in the services sector. In country Victoria unemployment rates remain highest in Gippsland and the Barwon-Western District region. The strongest labour market in country Victoria is the Goulburn-Ovens-Murray region where employment growth has been underpinned by the strength of local food production and processing.

Manufacturing

Manufacturing accounts for nearly one-fifth of total production in the Victorian economy – a larger share than in any other State. Victorian respondents to the ABS Australian Business Expectations Survey forecast a rise in manufacturing sales in late 1997, with demand being partly met through further destocking. Increased capital expenditure is also expected, despite current low levels of capacity utilisation. According to the Australian Chamber of Manufactures' Survey of Australian Manufacturing most manufacturing industries are expecting a rise in sales in the short term, with the food, beverages and tobacco industry forecasting the strongest improvement.

Farm sector

According to the Australian Bureau of Agriculture and Resource Economics (ABARE) Victoria experienced a cold and dry crop growing season in 1996–97, with the driest areas in the north western part of the Mallee region. ABARE has significantly revised downward forecasts of State crop yields for 1997–98 with wheat, barley, oats and pulse production expected to be well below average. Dairy industries are also suffering from the impact of dry weather with farmers in the Gippsland region worst affected. With the probability of below average seasonal conditions in 1997–98 livestock slaughterings are expected to remain high.

Inflation and wages

The Melbourne headline consumer price index (CPI) increased by just 0.6% over 1996–97, the lowest annual rise in 4½ years. Nationally, headline CPI recorded its first quarter of deflation in five years to be 0.3% higher than a year earlier. Lower interest rates, intense competition in product markets and an appreciating exchange rate helped restrain inflation during 1996–97.

Victorian average weekly ordinary time earnings (AWOTE) grew by 4.1%. Nationally, public sector AWOTE growth continues to outstrip private sector wages growth. However, this is substantially explained by recent restructuring in the Commonwealth public sector which has concentrated job losses among lower paid employees and raised 'average' earnings in the sector independently of movements in wage rates. Enterprise bargaining data suggest that new federal agreements in the public sector are yielding similar wage rises to those in the private sector.

Photo:

Hattah National Park

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CHRONOLOGY OF EVENTS, 1997

January

- 1
- The Legal Practice Act improving the regulation of legal practice and the legal profession came into force in Victoria.
- 21
- 3 people died and 41 houses were destroyed in bush fires which ravaged the Ferny Creek, Tremont and Upwey areas of the Dandenong Ranges.
- 26
- Martina Hingis from Switzerland and Pete Sampras from the US won the singles finals in the 1997 Australian Open Tennis Championships.
- 26
- An outbreak of anthrax was discovered on two properties near Shepparton initiating a large scale campaign in the district to contain the infection.

February

- 1
- Independent candidate Susan Davies won the by-election for the seat of West Gippsland with a 13% swing against the Kennett Government.
- 9
- Kirstie Marshall won a gold medal in the aerial section at the World Freestyle championships in Nagano in Japan.

March

- 1
- Luciano Pavarotti, Placido Domingo and Jose Carreras (The Three Tenors) performed at the MCG before a crowd of more than 50,000.
- 9
- David Coulthard (UK) won the Australian Formula One Grand Prix in his McLaren Mercedes Benz.
- 15
- Local government elections took place across Victoria in 55 Municipalities for the first time since the amalgamations and boundary changes of 1994.
- 21
- Two people died and many were reported ill from salmonella poisoning from eating contaminated smallgoods in Melbourne, with other incidents of food poisoning in the following weeks.
- 24
- The State Treasurer, Alan Stockdale, announced plans for the breakup of the Gas and Fuel Corporation of Victoria (GASCOR) into six new companies.
- 31
- David Millard of Adelaide, great grandson of the first winner in 1878, was the winner of the Stawell Gift.

Photo:

Moomba, Girls waterskiing

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April

- 12** Sir Eric Herbert Pearce, radio and television announcer, news reader and community leader, died at the age of 92.
- 17** The State Minister for Transport, Robin Cooper, announced that the States public transport system would be completely privatised by the end of 1998.
- 22** Loy Yang Power Station A in Gippsland was sold to the US based CMS Energy for \$4.855 billion, Australia's largest privatisation deal to this time.
- 24** Sir James Gobbo took over as the 25th Governor of Victoria

May

- 7** The long term leasehold for Tullamarine Airport was finalised with the Australia Pacific Airports Corporation (a consortium formed by the AMP, the British Airports Authority (BAA and Axiom Funds Management) for \$1.3 billion.
- 8** The new \$1.8 billion Crown Casino complex was opened on Southbank with great spectacle.
- 14** Professor Adrienne Clarke, former chief of the CSIRO, was appointed Lieutenant Governor of Victoria.
- 26–28** The Reconciliation Convention was held in Melbourne with representative of Aboriginal and Torres Strait Islander organisations and communities, and relevant non-indigenous groups, celebrating the 30th anniversary of the referendum which ensured that Indigenous Australians would be counted in the census.
- 27** Mrs Brigitte Muir, 39, from Natimuk, became the first Australian woman to succeed in climbing Mount Everest.
- 30** The State Government announced the sale of Melbourne Port Services to Skilled Engineering for \$7.7 billion.

June

- 3** Fiona Hall from Adelaide won the inaugural \$100,000 biennial Contemporary5 visual art prize.
- 14** William Henry (Bill) Collins, race caller and radio and television personality died aged 69 years.
- 15** The disappearance of 14 month old Jaidyn Leskie from the home of his mother's boyfriend in Newborough in Gippsland led to the biggest police man-hunt held in Victoria since the disappearance of the former Prime Minister Harold Holt in 1967.

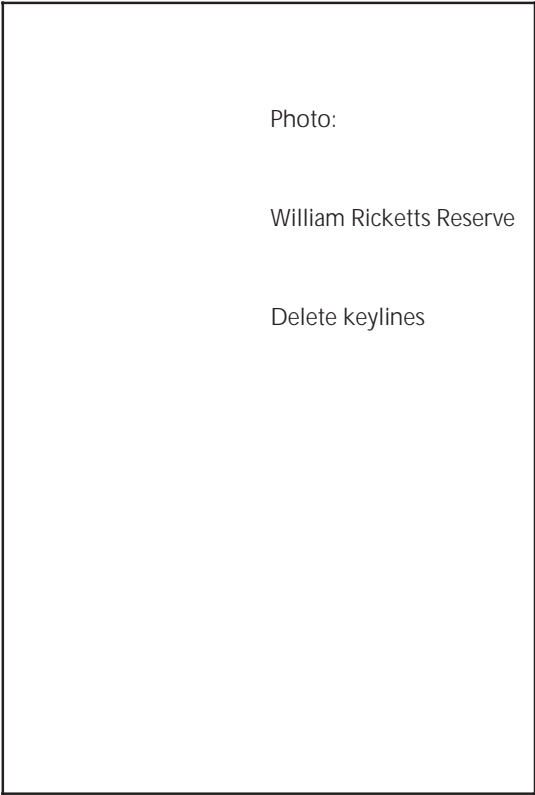
July

- 7** Sir John Angus Nimmo, barrister and Federal Court judge, died at Mt Eliza aged 88.
- 13** The Museum of Victoria was closed at its Swanston Street address to be re-opened in its new buildings in Carlton in 2000.
- 24** The Premier, Jeff Kennett, opened the new \$65 million Sports and Aquatic Centre at Albert Park in Melbourne.
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30 A rally of some 5,000 people in Melbourne protested against the proposed tariff cuts in the textiles, clothing and footwear industries, with a similar rally in Geelong on 6 August.

August

6 Nurses reinstituted their bans, closing 20% of beds in the hospitals over unresolved issues concerned with their pay and work conditions. The bans were lifted on 26 August following their acceptance of an 11% pay rise over 3 years and additional staffing.



September

16 The Spring Session of Parliament was opened with a petition of some 20,000 signatures presented against the Government's proposed legislation to amend the Audit Act to change the role of the Auditor General.

22 Robert Harvey, St Kilda Football Club, secured the 1997 Brownlow Medal.

27 The Adelaide Crows (19-11) defeated St Kilda (13-16) in the AFL Grand Final at the Melbourne Cricket Ground.

October

1 The national ban on automatic and semi-automatic high powered guns came into effect and the national buy-back scheme came to an end. As at 25 September 1997, in Victoria, 199,279 prohibited firearms were surrendered for a total value of \$97,925,853.

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- 5 Alex Criville (Spain) won the Australian 500cc motorcycle Grand Prix at the Phillip Island racecourse.
- 7 The Victorian Government announced changes to the State workers' compensation scheme, WorkCover, which abolished the rights of injured workers to sue their employers.
- 11 The Victorian State high voltage electrical grid system, PowerNet Victoria, was sold for \$2.7 Billion to the US based General Public Utilities.
- 12 The controversial Serrano photographic exhibition at the National Gallery of Victoria was closed following the attempted theft and later attack on the photograph 'Piss Christ'.
- 17 The State Coroner, Graeme Johnstone, found the State Government was to blame in the deaths of nine intellectually disabled men at the Kew Cottages in April 1996.

November

- 4 The 1997 Melbourne Cup winner was Might and Power, Caulfield Cup winner on 18 October, the tenth occasion of a Caulfield and Melbourne cup double.
- 28 Pentridge Prison was formally closed as the last prisoners there were removed to the new privately run prison at Laverton.

December

- 10 The Audit Act Amendment Act was passed in the Victorian Upper House after a 3.5 hour debate.
- 11 Mirvac won the right to build the Yarra Waters precinct in the Dockland Project in Melbourne.
- 13 The by election for the seat of Mitcham saw a 16% swing against the Liberals with the seat going to Labor.
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