Quick Guide

Victorian Economic Snapshot

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Executive Summary

This paper provides a broad overview of Victoria’s economy using key indicators. The indicators used aim to measure different aspects of the economy and specific economic trends. Data and trends are also compared to other states and territories in order to assess Victoria’s economic position in Australia.

- **GSP (Real)** - $399,009 million
- **Unemployment** - 5.9 per cent
- **Population** - 6,179,000

Victoria has the second highest Gross State Product (GSP) of all Australian states and territories and accounts for over 23 per cent of the national economy. However, Victorian GSP per capita is ranked fifth highest in Australia at $63,900, below the Australia-wide average of just above $69,000.¹

Victoria currently has over 3.1 million employed persons, a growth of 3.9 per cent from last financial year. The unemployment rate sits at 5.9 per cent, unchanged since 2015–16. Victoria has experienced a stable unemployment rate since the early 2000s, ranging between 4.5 and 6.5 per cent. The unemployment rate is forecast to stabilise at 5.75 per cent for the next two years.² While the past couple of years have seen a positive overall employment trend, youth unemployment and underemployment has remained high, with rising rates of underutilisation.³

Victoria’s consumer price index (CPI) grew 1.9 per cent in 2016–17, compared to an average of 1.8 per cent for the eight capital cities. The wage price index (WPI), however, has seen a slowdown since 2008–9 and in 2016–17 Victoria experienced the lowest growth rate in over two decades, at 2 per cent. Sluggish WPI growth means wages rise slower and stagnate compared to inflation and rising prices. Forecasts show incremental increases of WPI with 2.25 per cent for 2017–18, 2.5 for 2018–19 and 2.75 for 2019–20.⁴

Victoria is a net importer of goods and services and has a substantial trade deficit; however, exports have increased over the last five years at an annual rate of 6.1 per cent.⁵ International education is Victoria’s largest services export, while food and fibre represent the largest goods export.⁶

Victoria’s population at the end of the June quarter 2017 was recorded at 6,323,000, representing a 2.3 per cent increase from the previous year.⁷ In 2016–17, Victoria had the highest population growth rate out of all Australian jurisdictions, at 2.3 per cent. Greater Melbourne, which currently stands at over 4.7 million persons, has grown faster than any other city in Australia over the past decade.⁸

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Indicators

The economy of Victoria is considered to be mid-sized and accounts for over 23 per cent of Australia’s Gross Domestic Product (GDP). In the past decade the economy has seen strong growth, with an average annual increase of 2.2 per cent. There are approximately 3.1 million people employed in Victoria, accounting for 26 per cent of all employed workers in Australia. Victoria has over 6 million people, which represents around 25 per cent of the Australian population. This figure is forecast to rise and the Australian Bureau of Statistics (ABS) estimates Victoria’s population will reach between ten and twelve million people by 2060. Important year-on-year indicators are shown below.

<table>
<thead>
<tr>
<th></th>
<th>2015–16</th>
<th>2016–17</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth</td>
<td>3.5%</td>
<td>3.3%</td>
<td>Annual GSP growth</td>
</tr>
<tr>
<td>Unemployment</td>
<td>5.9%</td>
<td>5.9%</td>
<td>Unemployment rate</td>
</tr>
<tr>
<td>CPI</td>
<td>1.6%</td>
<td>1.9%</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>WPI</td>
<td>2.3%</td>
<td>2%</td>
<td>Wage Price Index</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>2%</td>
<td>1.5%</td>
<td>Official Cash Rate</td>
</tr>
<tr>
<td>Population</td>
<td>2.2%</td>
<td>2.3%</td>
<td>Annual Population Growth</td>
</tr>
</tbody>
</table>

The 2018 CommSec State of the States report places Victoria second to New South Wales in economic performance. Victoria retains this position from the previous quarter mainly due to strong population growth and its effect on increasing housing demand. Victoria also places second on five out of the eight economic performance indicators: retail trade, housing finance, population growth, construction work completed and equipment investment. Victoria’s unemployment rate is its lowest indicator, coming in fifth. Victoria currently has a positive outlook for business and government investment, which will help in offsetting the decline in the automotive manufacturing sector. Although dwelling construction is currently at its peak, stronger than expected demand will most likely support housing prices. A growth in jobs is also predicted in 2018, supporting consumer spending.

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11 Invest Victoria (2017) op. cit.
14 Department of Treasury and Finance, ‘Macroeconomic Indicators’, Victorian Government, Department of Treasury and Finance website.
16 Reserve Bank of Australia, ‘Cash Rate’.
17 While the official cash rate remained at 2 per cent for the majority of the financial year, it fell to 1.75 per cent for May, June and July 2016.
20 ibid.
Gross State Product

The GSP is a broad measurement of the state’s overall economic activity. It represents the monetary value of all finished goods and services produced within the state during the financial year.22 GSP differs from GDP in that it measures the state’s economic activity, whereas GDP encompasses all economic activity in Australia.23 Nominal GSP evaluates GSP at current market prices. It differs from real GSP in that it accounts for changes in prices due to inflation or a rise in the overall price level.24 GSP per capita is the measure of the total economic output of a state (GSP) by person. GSP per capita is calculated by taking the GSP and dividing it by the number of people in a state.25

In the 2016–17 financial year Victoria’s real GSP was $399 billion, representing a 3.3 per cent growth on the previous year. While the past three years have seen relatively high rates of growth, Victoria experienced mediocre growth from 2008 to 2014 at an average of 1.85 per cent. In terms of nominal GSP, Victoria’s growth rate is much higher at 5.3 per cent in 2016–17 and 3.9 per cent for 2015–16.26 Forecasting conducted by the Department of Treasury and Finance estimates that GSP will grow 3 per cent in 2017–18 and 2.75 per cent in 2018–19.

Victoria is the second largest economy in Australia and accounts for over 23 per cent of the national economy. NSW holds the largest share of the national economy at around 33 per cent with a GSP of around $557 billion. Table 2 below shows the share of national economy and GSP by state and territory.27

Table 1. GSP by state and territory, 2016–17

<table>
<thead>
<tr>
<th>State/territory</th>
<th>Share of national economy</th>
<th>GSP (million $)</th>
<th>Annual growth rate (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>32.97</td>
<td>557,861</td>
<td>2.87</td>
</tr>
<tr>
<td>VIC</td>
<td>23.58</td>
<td>399,009</td>
<td>3.33</td>
</tr>
<tr>
<td>QLD</td>
<td>18.24</td>
<td>308,009</td>
<td>1.77</td>
</tr>
<tr>
<td>WA</td>
<td>13.78</td>
<td>233,152</td>
<td>-2.68</td>
</tr>
<tr>
<td>SA</td>
<td>6.02</td>
<td>101,791</td>
<td>2.17</td>
</tr>
<tr>
<td>ACT</td>
<td>2.22</td>
<td>37,566</td>
<td>4.65</td>
</tr>
<tr>
<td>TAS</td>
<td>1.69</td>
<td>28,577</td>
<td>1.11</td>
</tr>
<tr>
<td>NT</td>
<td>1.50</td>
<td>25,427</td>
<td>3.95</td>
</tr>
<tr>
<td>Australia</td>
<td>100</td>
<td>1,692,092</td>
<td>1.96</td>
</tr>
</tbody>
</table>

While Victoria is placed second in terms of GSP, it comes in fifth in GSP per capita, lagging behind Northern Territory, Australian Capital Territory, Western Australia and New South Wales. In 2016–17,

27 ibid.
GSP per capita in Victoria was $63,900, representing a growth of 0.9 per cent from the previous year. This was around $5,500 lower than the Australian average for the same period, which stood at $69,400. Chart 2 below displays GSP per capita for 2016–17 by state and territory.28

Chart 2. GSP per capita by state and territory, 2016–17


Employment

Victoria recorded approximately 3.1 million employed persons in 2016–17, representing a 3.9 per cent growth from the previous year. This figure is forecast to grow by 3 and 2 per cent annually for the next two years, respectively. The unemployment rate sits at 5.9 per cent, a figure that has remained static since 2015–16. Victoria has maintained a relatively stable unemployment rate since the early 2000s, fluctuating between 4.5 and 6.5 per cent. The unemployment rate is forecast to stabilise at 5.75 per cent for the next two years.\textsuperscript{29} Despite that stability, there are approximately 296,700 underemployed persons in Victoria, representing 9.1 per cent of all employed persons.\textsuperscript{30}

<table>
<thead>
<tr>
<th></th>
<th>November 2016</th>
<th>November 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>3,141,900</td>
<td>3,251,300</td>
</tr>
<tr>
<td>Underemployed</td>
<td>306,400</td>
<td>296,700</td>
</tr>
<tr>
<td>Unemployed</td>
<td>190,500</td>
<td>176,100</td>
</tr>
</tbody>
</table>

While the past couple of years have seen a positive overall employment trend, a tendency that has seen little sign of improvement is the high unemployment and underemployment rate of youth. Since the global financial crisis (GFC) youth unemployment has grown considerably, in line with trends around the world.\textsuperscript{31}

Chart 3. Youth underutilisation in Australia

Source: 6202.0 - Labour Force, Australia, Dec 2017, Table 22, trend data.


\textsuperscript{30} ibid.

\textsuperscript{31} Brotherhood of St Laurence (2017) op. cit. p. 2.
Youth underemployment is at one of the highest levels ever recorded and affects approximately 18 per cent of the youth labour force. Youth unemployment is also a significant challenge, comprising approximately 13 per cent of the youth labour force. These high rates of underemployment and unemployment are not explained by the growing number of young people who work and study; the rise has instead been seen mostly among young workers who are not studying.

What do Victorians do?
The two industries that employ the most Victorians are health care and social assistance, and retail trade, together accounting for 23.9 per cent of all employees in the state. Professional, scientific and technical services rank third, employing 9 per cent of Victorians. While the manufacturing industry has been declining, it still employs 8.8 per cent of workers, followed by construction at 8.7 per cent and education and training at 8.3 per cent.

Chart 4. Employment by industry, Victoria, November 2017


Underemployment refers the underutilisation of the productive capacity of the employed population. It encompasses those working part time who want to work more hours, or those employed full time but working part time hours due to economic reasons. Underutilisation refers to all of those who are unemployed, underemployed or marginally attached to the labour force.

ibid. 
ibid. 
ibid. 
Chart 5 below shows employment by industry as a proportion between metropolitan and regional Victoria.

**Chart 5. Employment by industry, 2016, regional and metropolitan proportion**

Source: Industry of Employment in Regional and Metropolitan State Electoral Divisions by 2016 Census Data, place of usual residence, data compiled by Parliamentary Library.
Prices and Wages

The CPI is an indicator of inflation and measures the fluctuating price of a fixed basket of goods and services purchased by the average household in a designated market or markets. In this case, the eight capital cities in Australia are used to calculate an index number.\(^{37}\) The Wage Price Index (WPI) measures changes in the price of labour in Victoria’s labour market. The WPI is similar to the CPI in that it follows a fixed basket of jobs and is not affected by changes in quantity or quality of work.\(^{38}\)

In the year to September 2017, the CPI for the eight capital cities increased 1.8 per cent while in Melbourne it saw an increase of 2.2 per cent. Victoria-wide, CPI saw growth of 1.9 per cent, compared to rises of 1.6 per cent in 2015–16 and 1.4 per cent in 2014–15.\(^{39}\)

**Chart 6. CPI for Melbourne and Australia**

[Graph showing CPI for Melbourne and Australia from March 2010 to July 2017.]

In 2016–17, the WPI in Victoria was 125.6 (2008–9 = 100), representing a 2 per cent increase from the previous year. Other states and territories recorded similar indices and there was little difference between jurisdictions. Victoria has seen a slowdown in WPI growth rates since 2008–9, when the growth rate was 4 per cent. Since then there has been a steady decline in growth, with 2016–17 seeing the lowest range of WPI growth in over two decades. Forecasts show incremental increases with 2.25 per cent for 2017–18, 2.5 for 2018–19 and 2.75 for 2019–20.\(^{40}\)

Slow WPI growth means wages stagnate in comparison to inflation and the overall price increase in the economy, adding to cost of living pressures. Continued low wage growth impacts on monetary policy, making it difficult to remain in the 2–3 per cent target band for inflation.

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Trade

Victoria has a diverse economy and is currently transitioning away from its traditional base in manufacturing. Finance and insurance is the largest income producing sector, while health care and social assistance are the state’s biggest employers. International education is Victoria’s largest services export, while food and fibre represent the largest goods export. Victoria is Australia’s largest supplier and exporter of food and fibre products, which account for about 24 per cent of Victoria’s total goods and services exports.41 Moreover, Victorian exports in dairy account for 80 per cent of Australia’s dairy exports, 48 per cent of horticultural exports and 39 per cent of prepared food exports.42

<table>
<thead>
<tr>
<th></th>
<th>Goods ($m)</th>
<th>Services ($m)</th>
<th>Total ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td>27,400</td>
<td>20,905</td>
<td>48,305</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>75,419</td>
<td>20,127</td>
<td>95,546</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td>-48,019</td>
<td>778</td>
<td>-47,241</td>
</tr>
</tbody>
</table>

% share of Aus. trade

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td>9.4</td>
<td>25.6</td>
<td>12.9</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>27.1</td>
<td>24</td>
<td>26.4</td>
</tr>
</tbody>
</table>

Victoria has a substantial trade deficit, in that it imports more goods and services than it exports. However, exports have increased over the last five years at an annual rate of 6.1 per cent.43 Overall, Victoria depends quite heavily on imports and proportionately accounts for a relatively large percentage of Australian goods imports. Shown below is goods trade in Victoria in 2016-17.44

<table>
<thead>
<tr>
<th>Major exports</th>
<th>$m</th>
<th>Major imports</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wool and other animal hair</td>
<td>1,792</td>
<td>Passenger motor vehicles</td>
<td>7,294</td>
</tr>
<tr>
<td>Meat (excl. beef)</td>
<td>1,355</td>
<td>Crude petroleum</td>
<td>2,910</td>
</tr>
<tr>
<td>Passenger motor vehicles</td>
<td>1,196</td>
<td>Goods vehicles</td>
<td>2,234</td>
</tr>
<tr>
<td>Edible products</td>
<td>1,116</td>
<td>Refined petroleum</td>
<td>1,891</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>965</td>
<td>Telecom equipment</td>
<td>1,581</td>
</tr>
<tr>
<td>Milk, cream and yoghurt</td>
<td>944</td>
<td>Vehicle parts and acc.</td>
<td>1,461</td>
</tr>
<tr>
<td>Fruits and nuts</td>
<td>895</td>
<td>Furniture and bedding</td>
<td>1,357</td>
</tr>
</tbody>
</table>

42 Trade Victoria (2017) op. cit.
43 Department of Foreign Affairs and Trade (2017) op. cit.
44 Ibid.
The composition of imports and exports is also different, showing the large amount of agricultural goods Victoria exports and specialist technology it imports. Shown below are the major export destinations and import source countries for Victoria in 2016-17.46

<table>
<thead>
<tr>
<th>Exports</th>
<th>$m</th>
<th>% share</th>
<th>Imports</th>
<th>$m</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>887</td>
<td></td>
<td>Other textile clothing</td>
<td>1,255</td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>802</td>
<td></td>
<td>Footwear</td>
<td>1,191</td>
<td></td>
</tr>
<tr>
<td>Cheese and curd</td>
<td>699</td>
<td></td>
<td>Prams, toys and sporting acc.</td>
<td>1,162</td>
<td></td>
</tr>
</tbody>
</table>

Education remains the highest-value service export in Victoria, accounting for over 43 per cent of all service exports. Personal travel comes in second for exports and first for imports, highlighting the importance of Victoria as a tourist destination. Personal travel makes up almost half of all service imports in Victoria.46

<table>
<thead>
<tr>
<th>Exports</th>
<th>$m</th>
<th>% share</th>
<th>Imports</th>
<th>$m</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education-related travel</td>
<td>9,089</td>
<td>43.5</td>
<td>Personal travel</td>
<td>9,607</td>
<td>47.7</td>
</tr>
<tr>
<td>Personal travel</td>
<td>5,172</td>
<td>24.7</td>
<td>Freight transport</td>
<td>2,550</td>
<td>12.7</td>
</tr>
<tr>
<td>Professional consulting</td>
<td>1,324</td>
<td>6.3</td>
<td>Passenger transport</td>
<td>1,762</td>
<td>8.8</td>
</tr>
</tbody>
</table>

For a more detailed understanding, it is useful to look at merchandise exports and imports and the country of destination and source. Data from the ABS shows that for the month of November 2017, almost 38 per cent of all merchandise imports came from China, followed by 15 per cent from the United States of America and 8 per cent from Japan. In terms of exports, over 33 per cent went to China, almost 16 per cent to the United States and 12 per cent to New Zealand. The following charts show the top ten source and destination countries for merchandise imports and exports for the month of November 2017.47

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45 Department of Foreign Affairs and Trade (2017) op. cit.
46 Ibid.
Chart 7. Imports, November 2017, Victoria

Chart 8. Exports, November 2017, Victoria

Source: 5368.0 International Trade in Goods and Services, Australia
Population

Figures from the ABS show that at the end of the June quarter 2017, Victoria’s population was at 6,323,000—representing a 2.3 per cent increase from the previous year. In 2016–17, Victoria had the highest population growth rate out of all Australian jurisdictions, at 2.3 per cent, with the ACT coming in second at 1.7 per cent and NSW and Queensland tied for third at 1.6 per cent. The population of Greater Melbourne, which currently stands at over 4.7 million, has grown faster than any other city in Australia over the past decade. If this trend continues as forecast, Melbourne will overtake Sydney as home to the largest population in Australia by 2030. Moreover, Victoria is the fastest-growing state in Australia with strong international migration flows. Chart 9 below outlines the share of population in Australia by state and territory.

Chart 9. Population percentage—states and territories

Source: 3101.0 - Australian Demographic Statistics, Jun 2017

On average, since 2010 Victoria has had the highest rate of interstate migration in Australia, along with an increasing rate of overseas migration. The natural increase in population has remained almost static for the same period, with only slight variation. Chart 9 below displays these changes.

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Population is an important indicator to the economy and contributes substantially to the state’s economic growth. High rates of interstate and overseas migration mean goods and services need to be created to cater to the new arrivals. As the need for goods and services grows there becomes demand for new jobs, inevitably growing the Victorian economy.

**Chart 10. Population change in Victoria**

![Diagram showing population change in Victoria from 2011-12 to 2016-17 for natural increase, net overseas migration, and net interstate migration.](source: 3101.0 - Australian Demographic Statistics, June 2017)

On average, only NSW has had slightly higher natural increases in population and overseas migration, but falls behind in negative interstate migration rates. The last half decade has seen all states and territories, except Victoria and Queensland, experience negative interstate migration rates. Queensland, like Victoria, has experienced positive interstate migration, however at a smaller rate than Victoria.
References


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