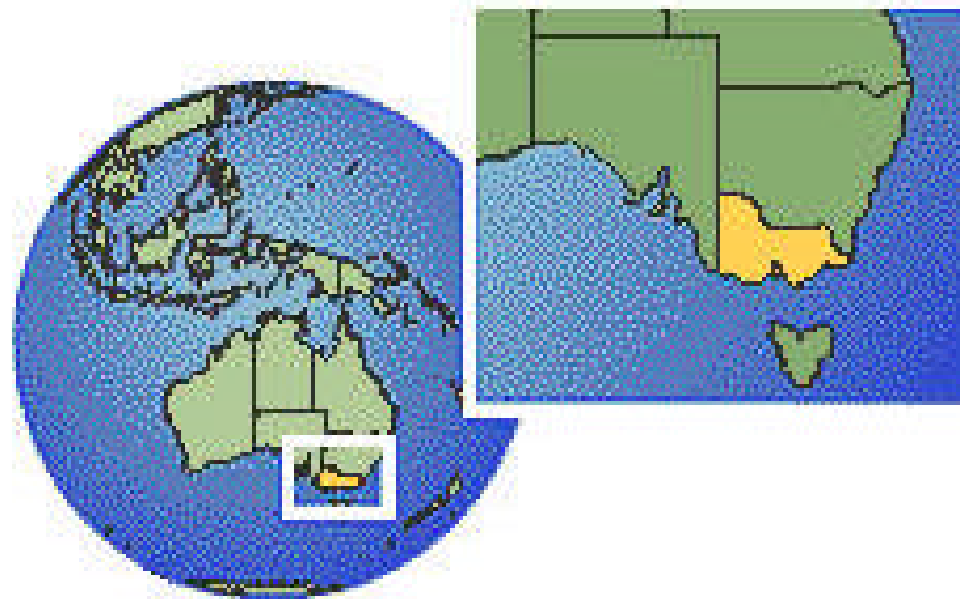


# Victorian Economic Update

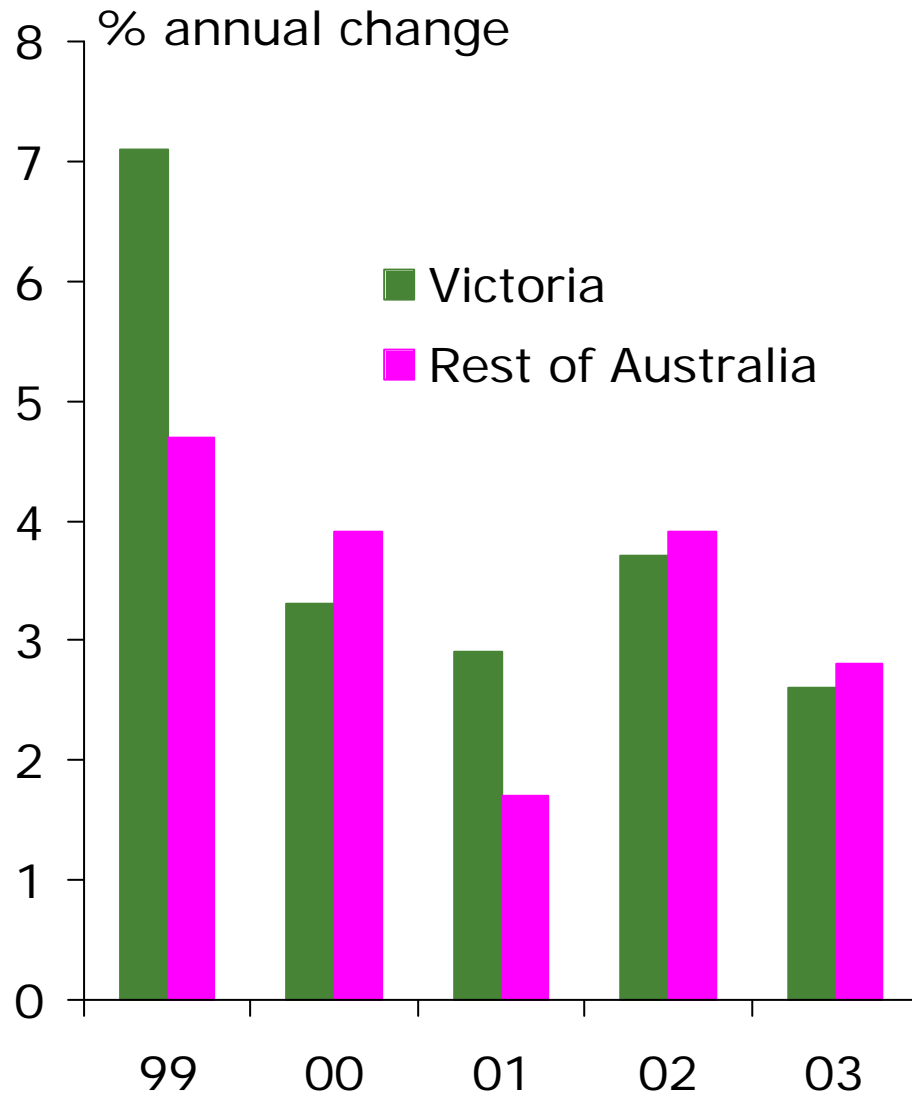


**Katie Dean**  
**Economist**  
**ANZ Bank**

**23 December 2003**

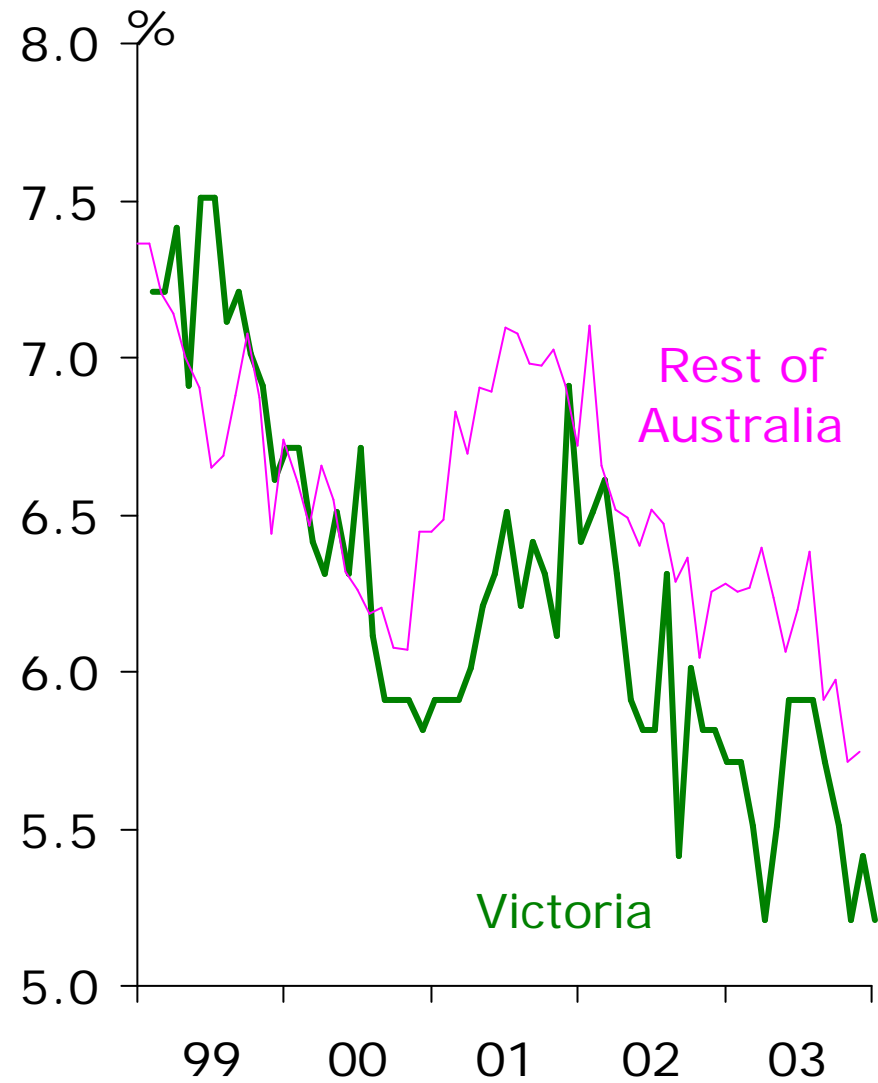
# Victoria has performed well over the last 5 years

## Economic growth



Source: ABS

## Unemployment rate

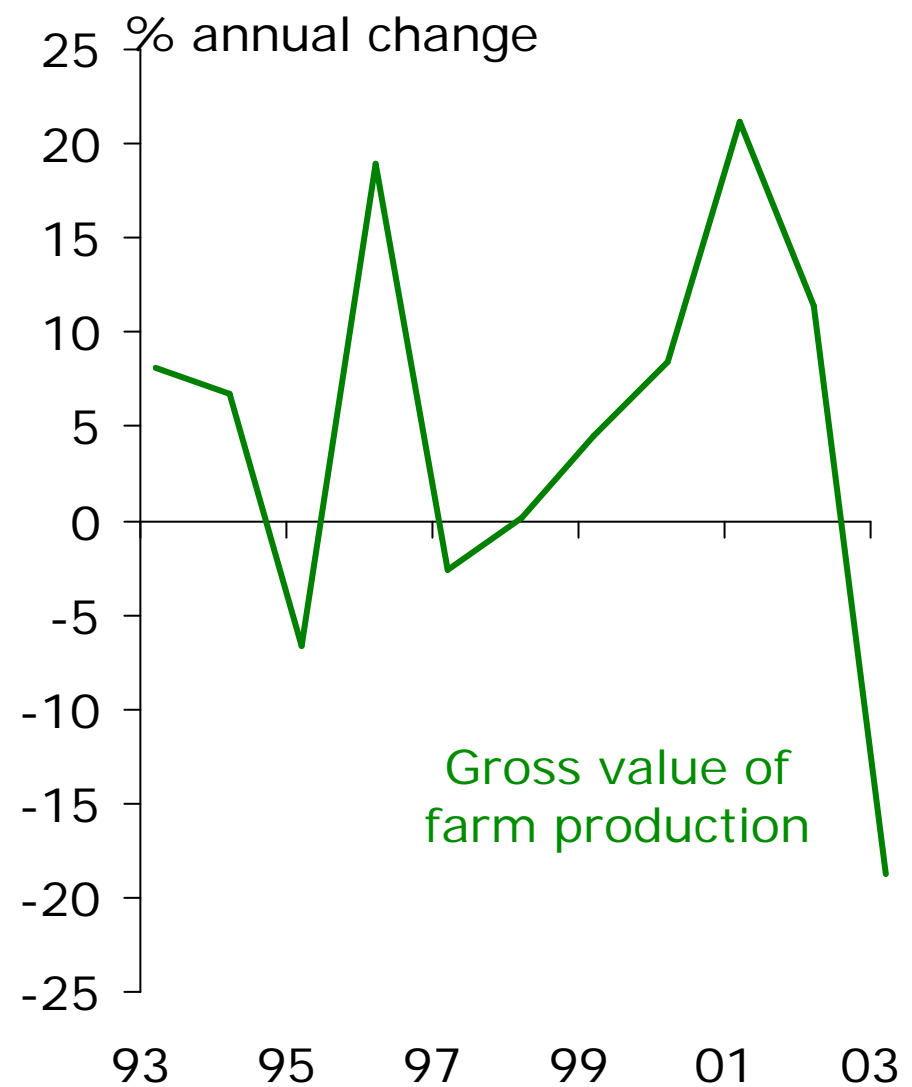


# However the drought and weak global growth slowed the Victorian economy in 2002-03

## Victorian economic growth



## Victorian farm production

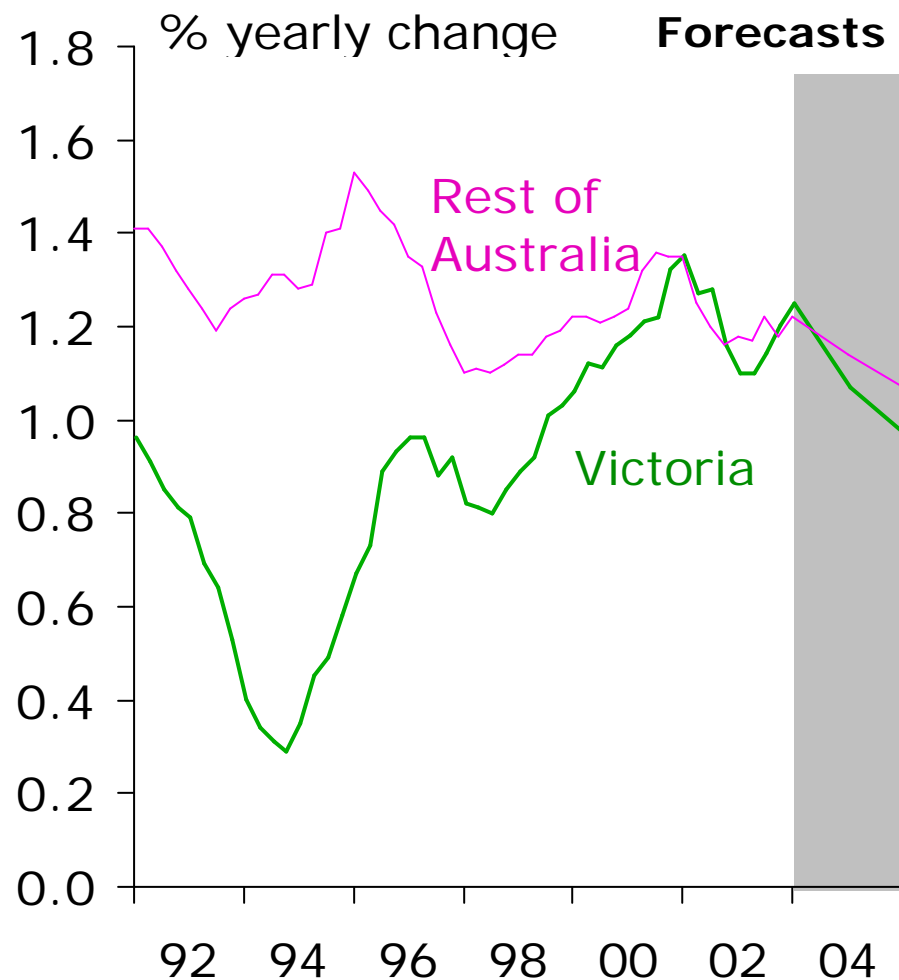


Source: ABS

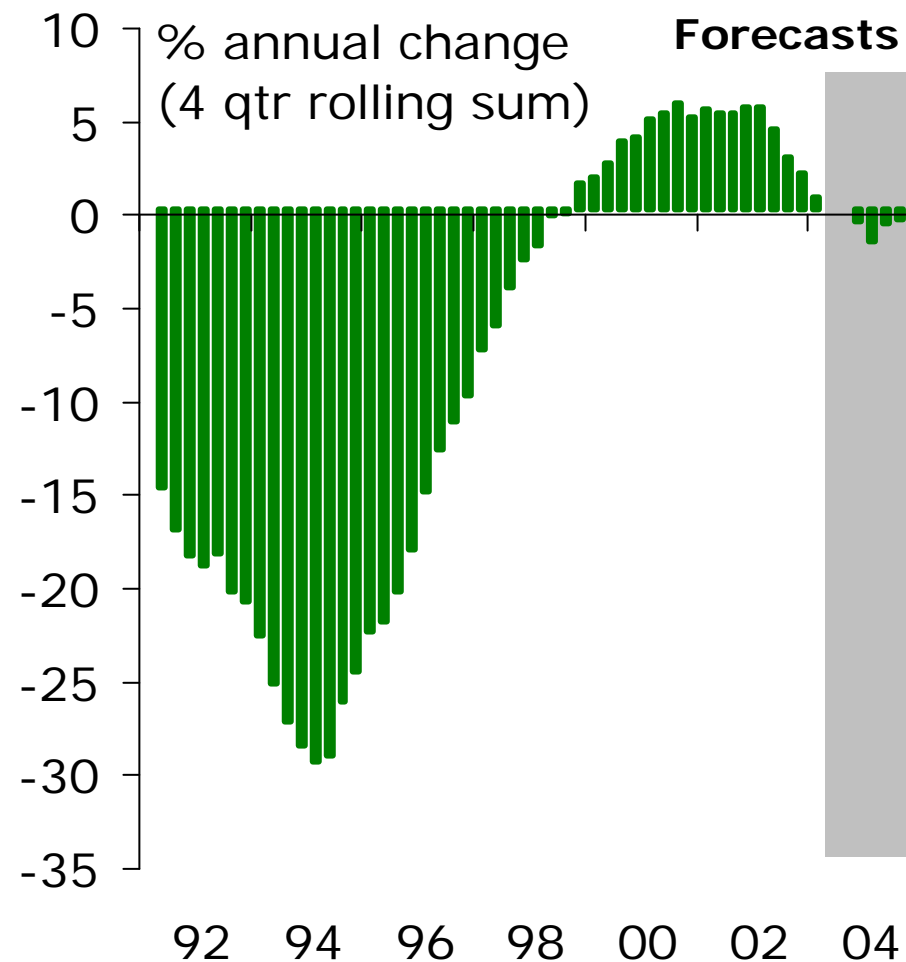
<sup>1</sup> Dragged down by the relocation of a gold refinery to Western Australia

# Having boosted the economy in recent years, a turnaround in net interstate migration will negatively affect Victorian growth prospects

## Population growth



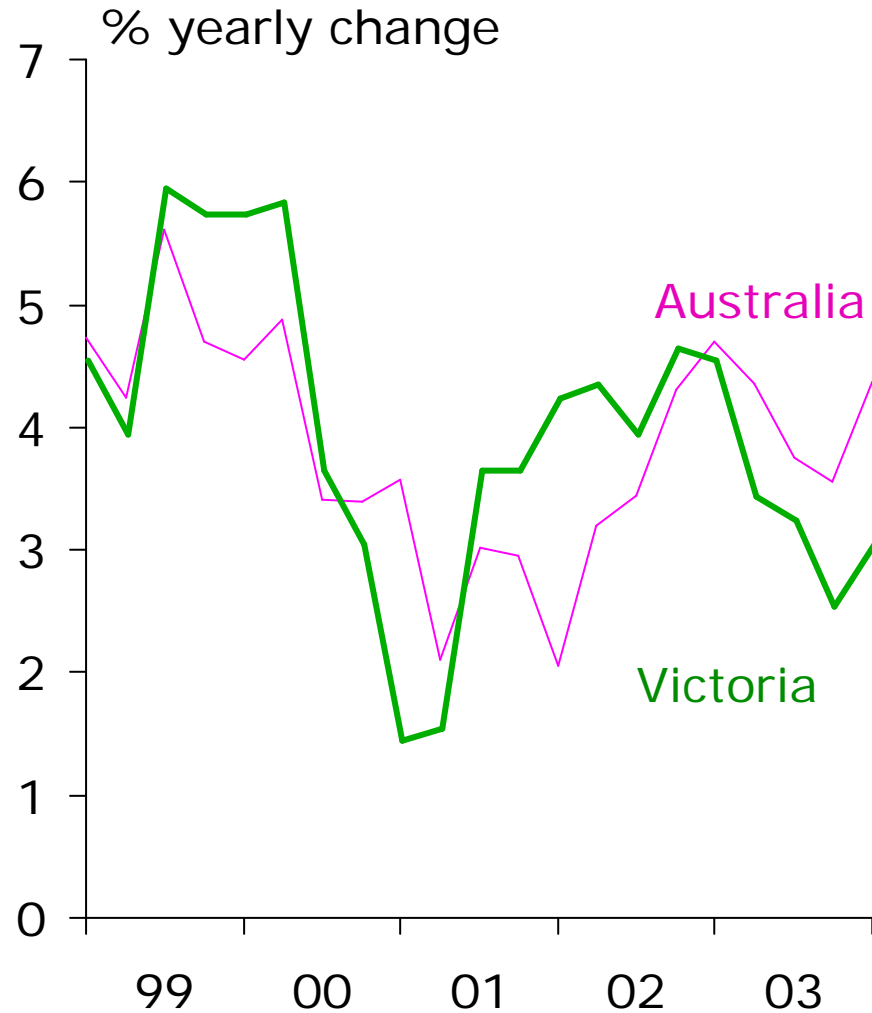
## Victorian net interstate migration



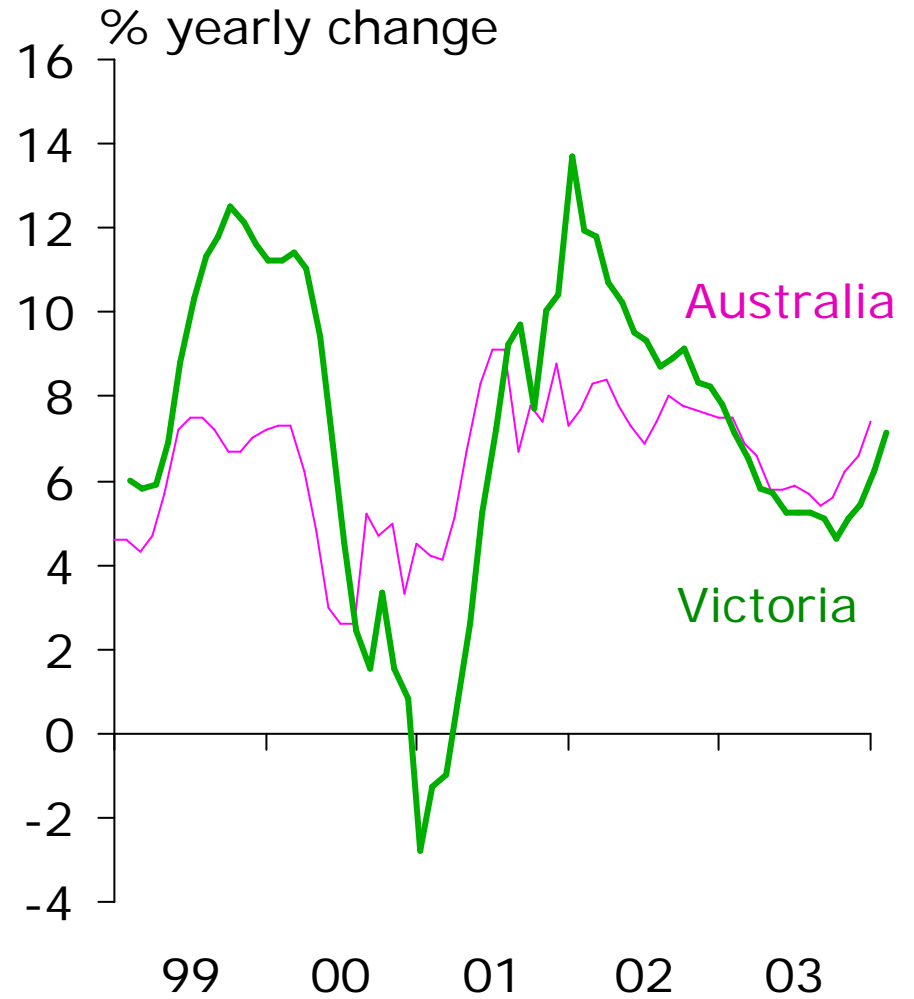
Source: ABS and Economics@ANZ

# Slower population growth will keep the pace of Victorian household spending below the national average

## Household consumption



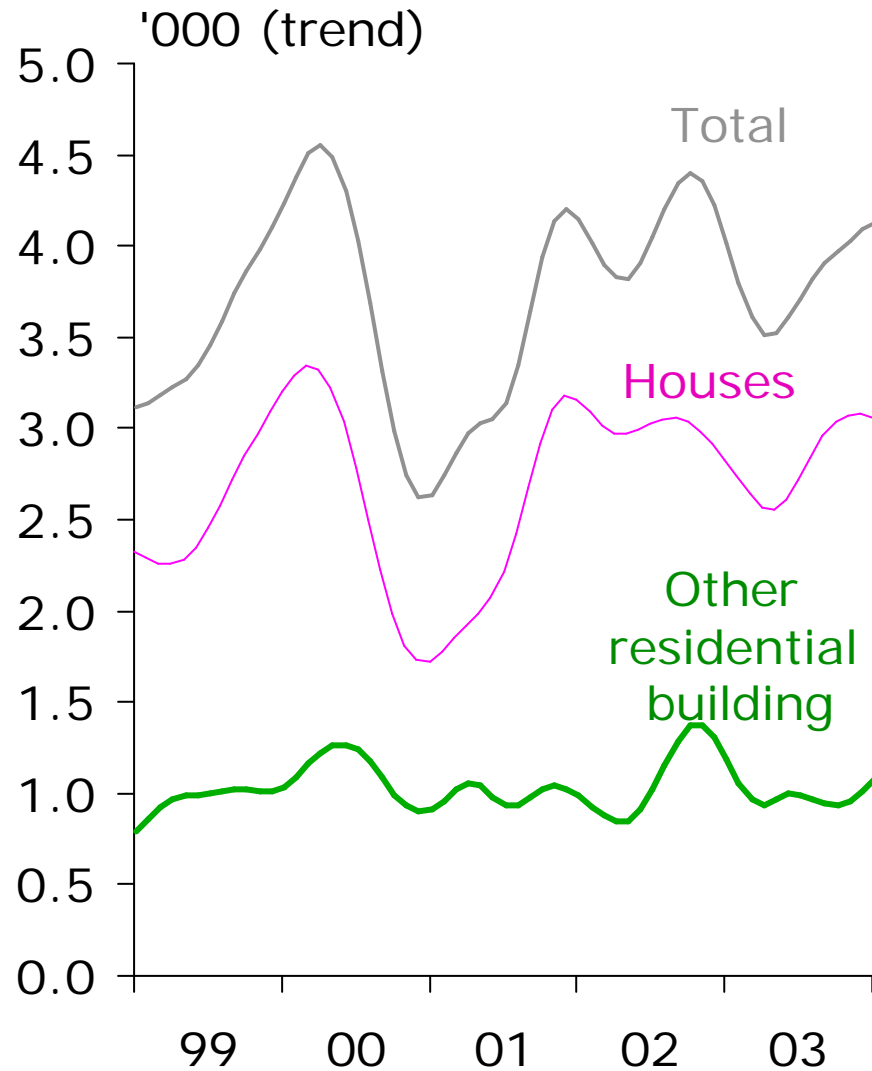
## Retail sales



Source: ABS

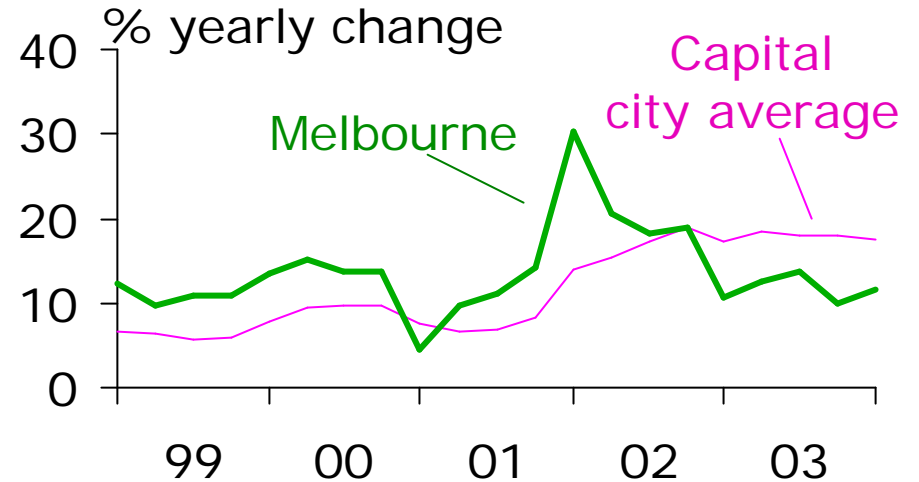
# And will also dampen demand in Victoria's housing market, which already appears to have peaked

## Building approvals

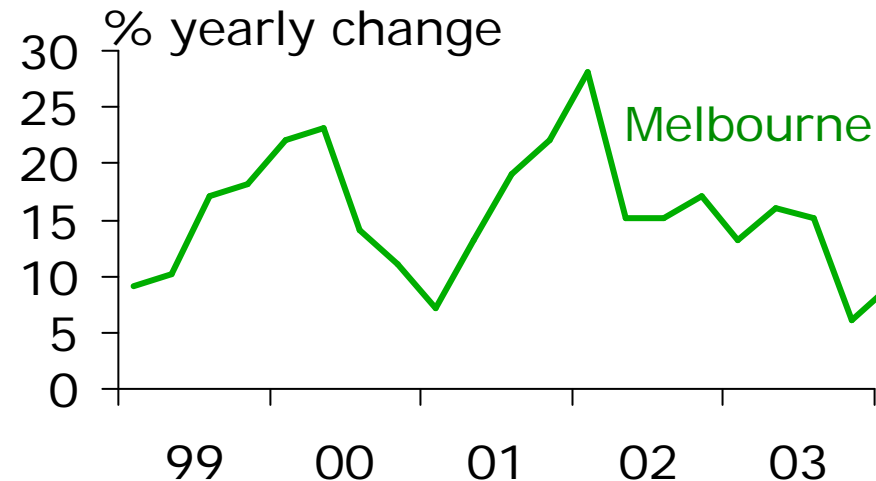


Source: ABS, REIA

## Established house prices

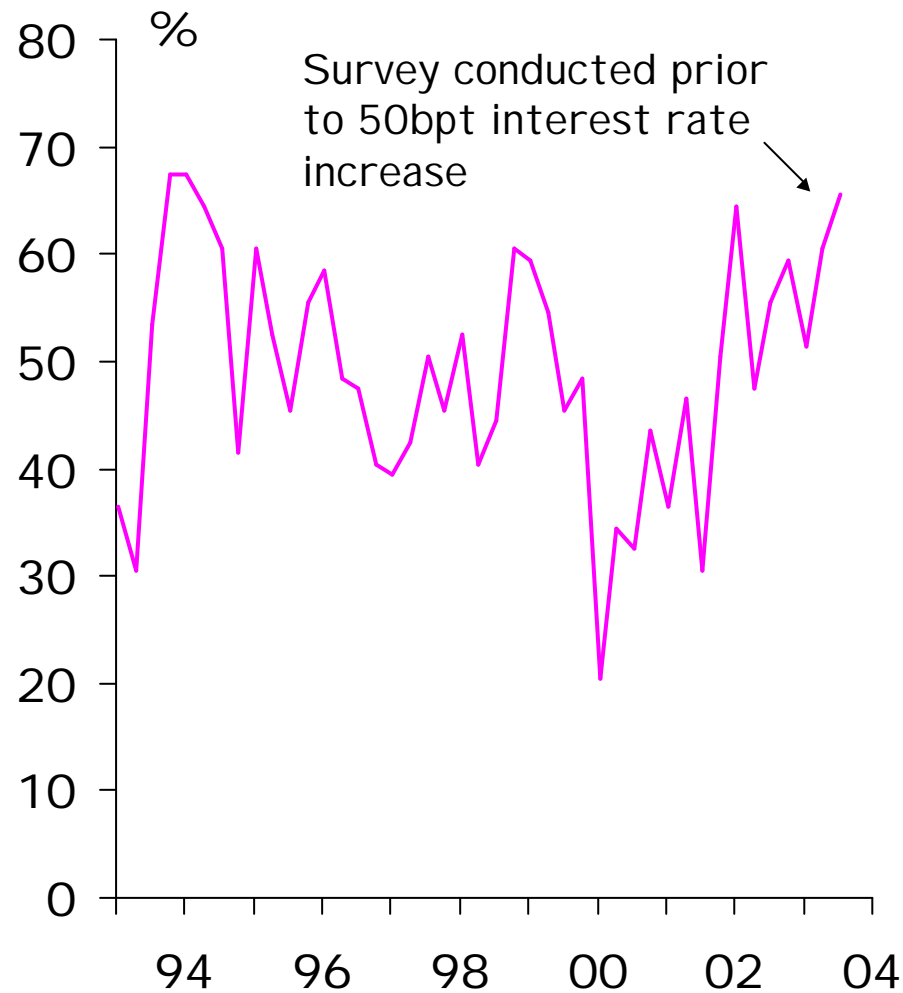


## Unit prices



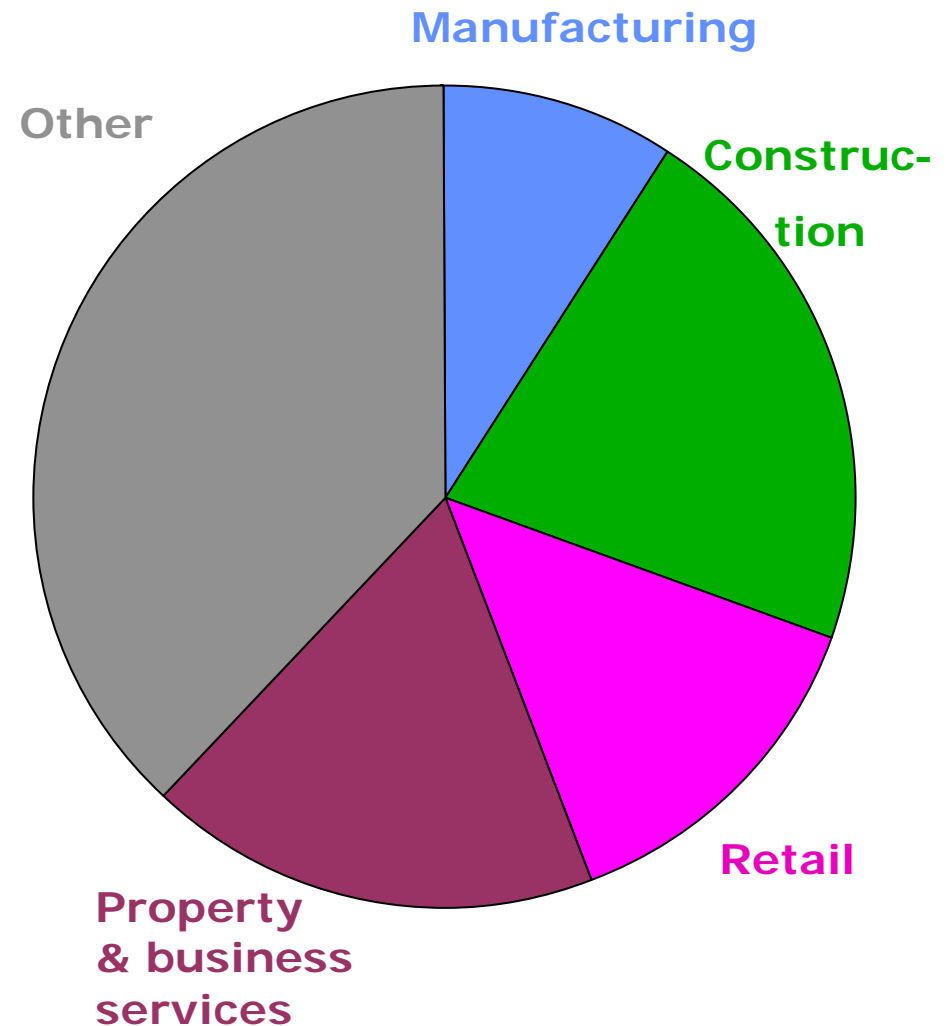
# Small business confidence is high, however large exposure to the construction and retail industries – which are expected to slow- pose a challenge

### Small business confidence



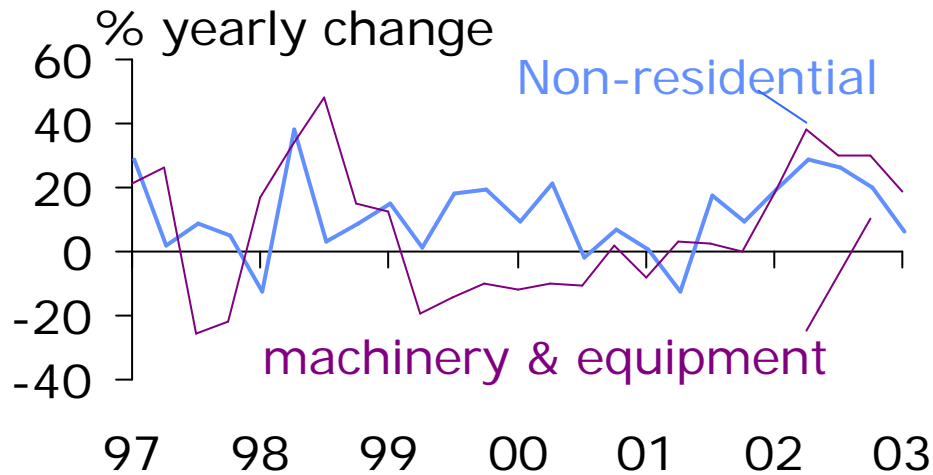
Source: Sensis Business Index, ABS

### Distribution of small business

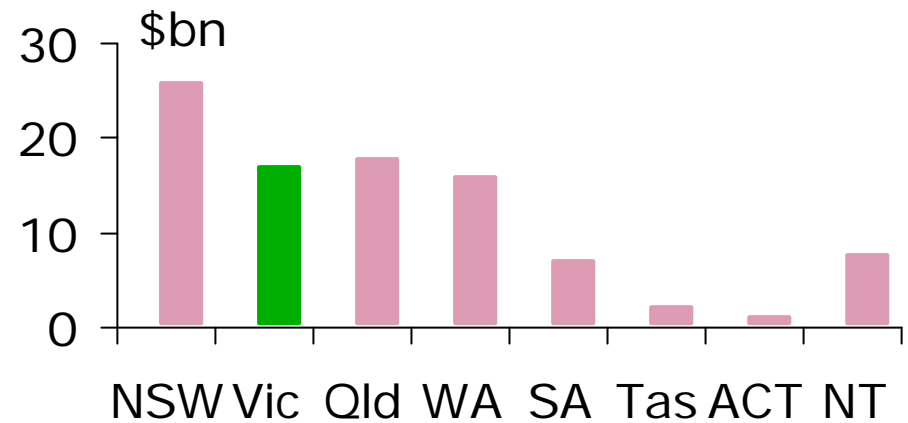


# Investment in Victoria is past its peak, but will remain strong over 2004

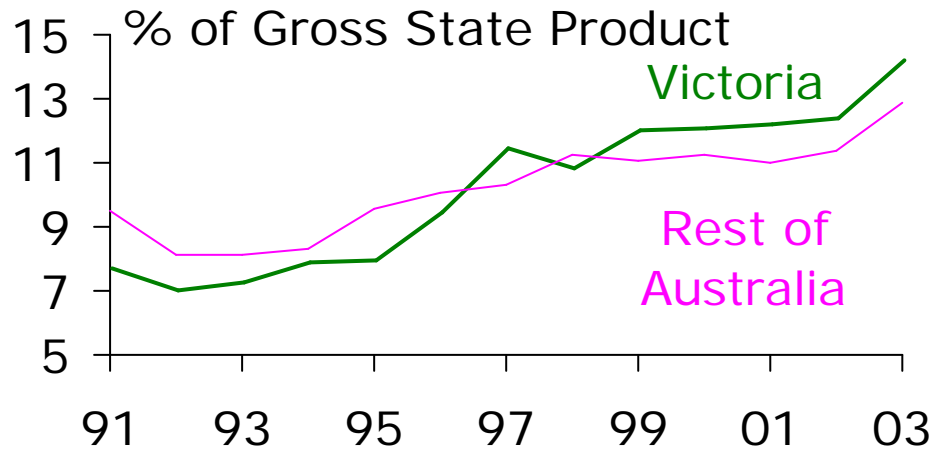
**Victorian business investment<sup>1</sup>**



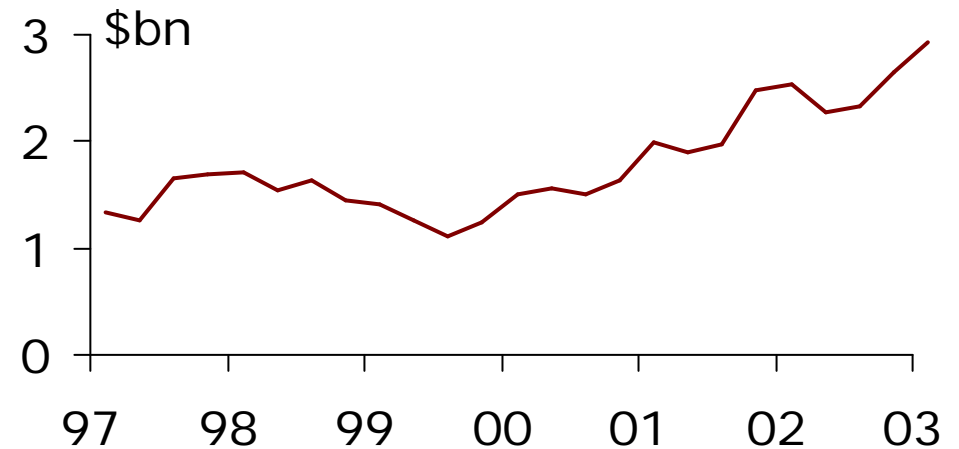
**Investment projects under construction or committed**



**Business investment<sup>1</sup>**

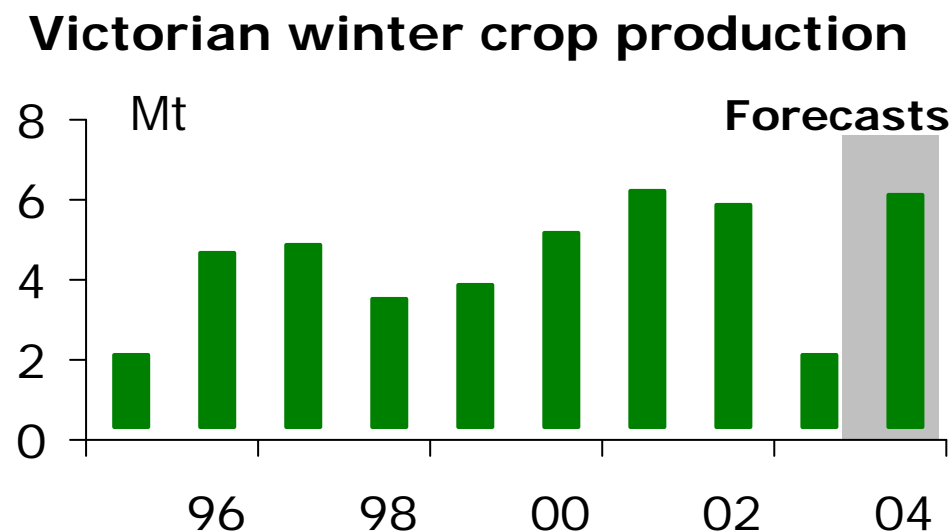
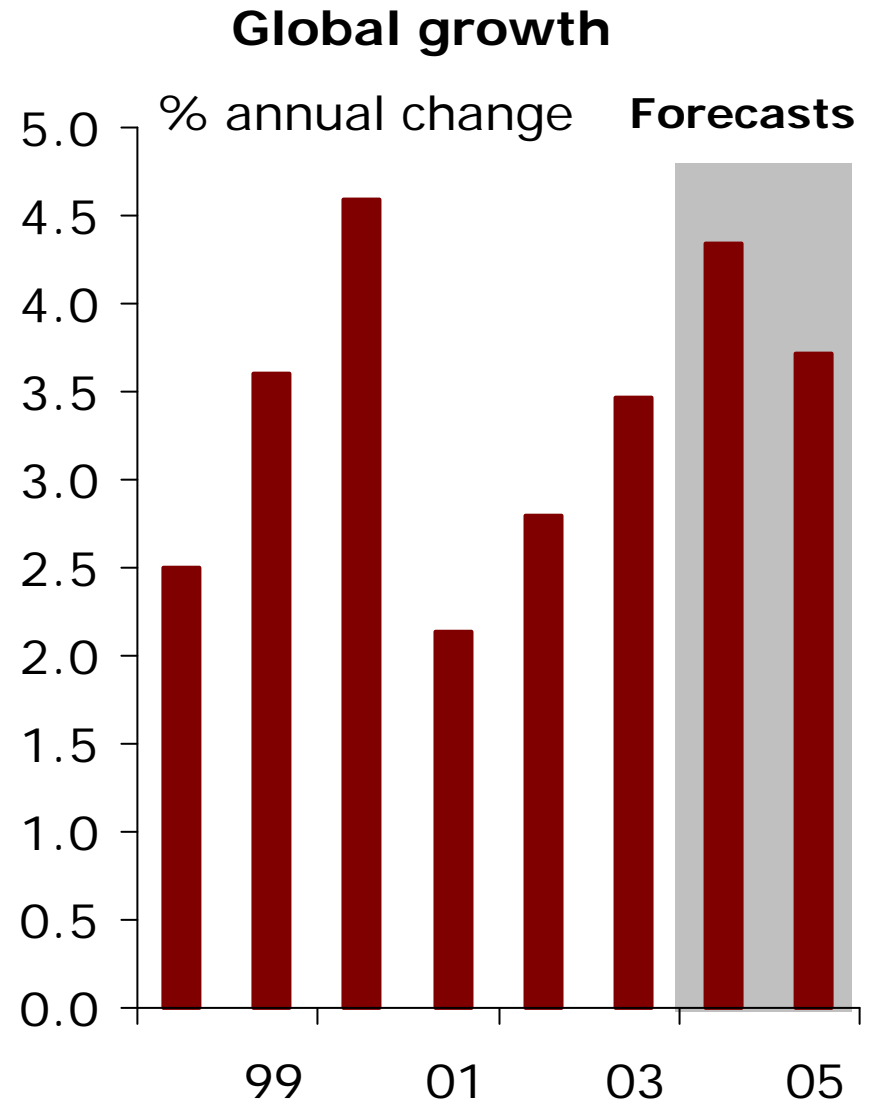
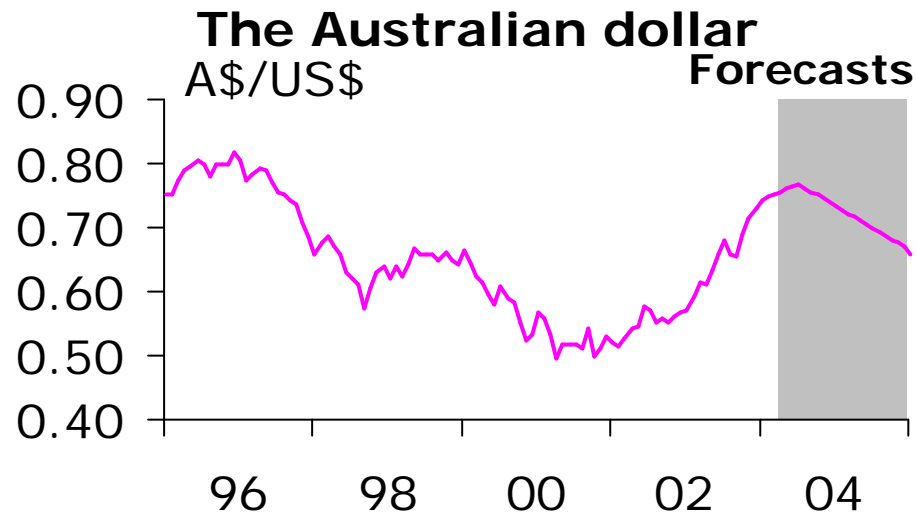


**Victorian non-residential work-yet-to-be-done**



Source: ABS and Access Economics <sup>1</sup>New business investment, excluding net second hand asset sales

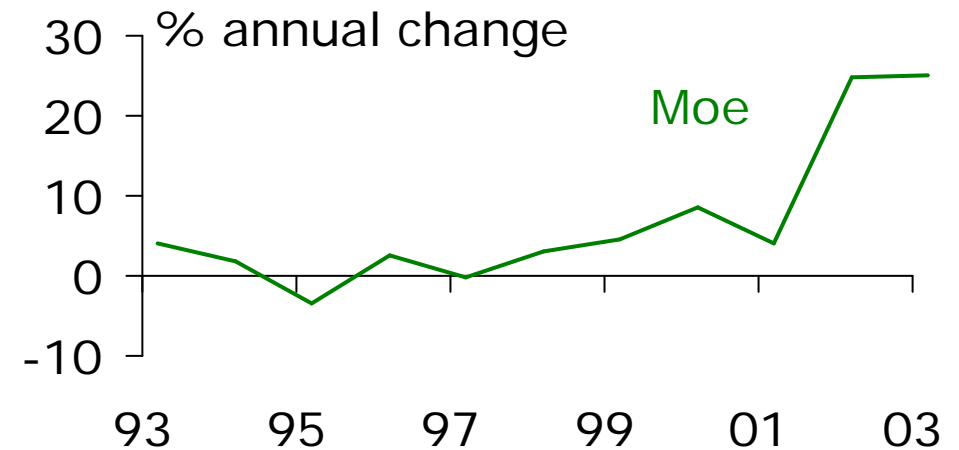
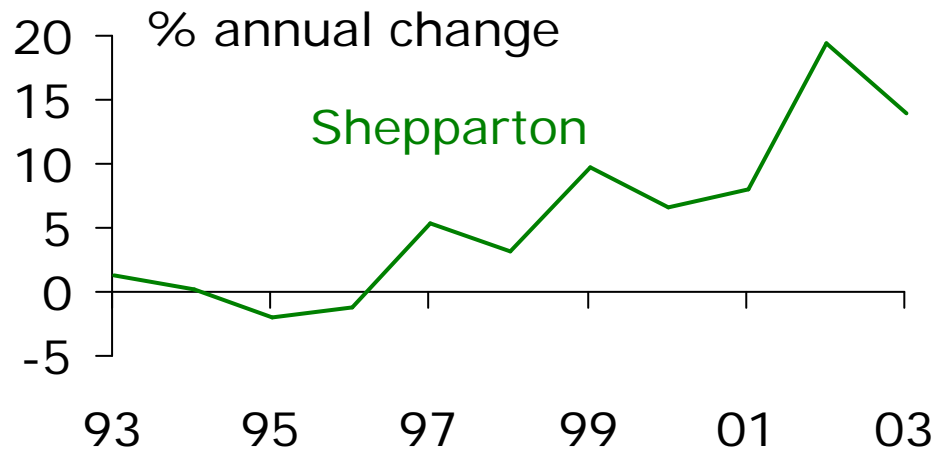
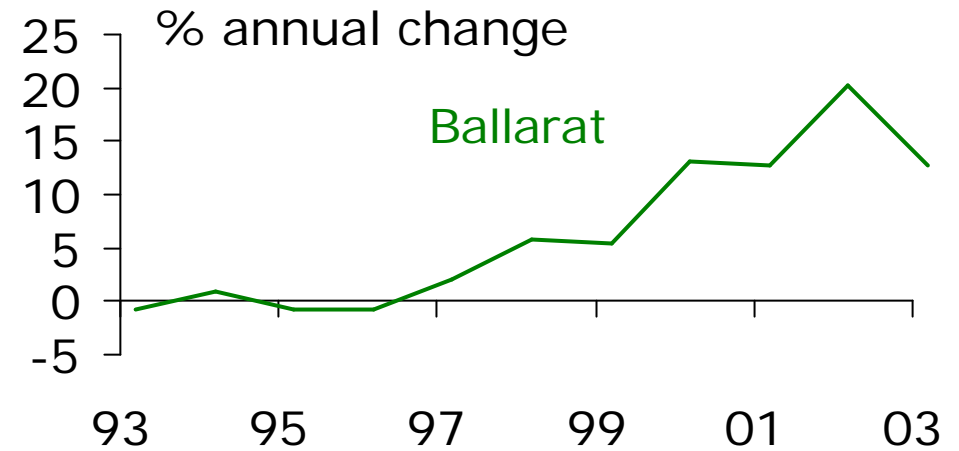
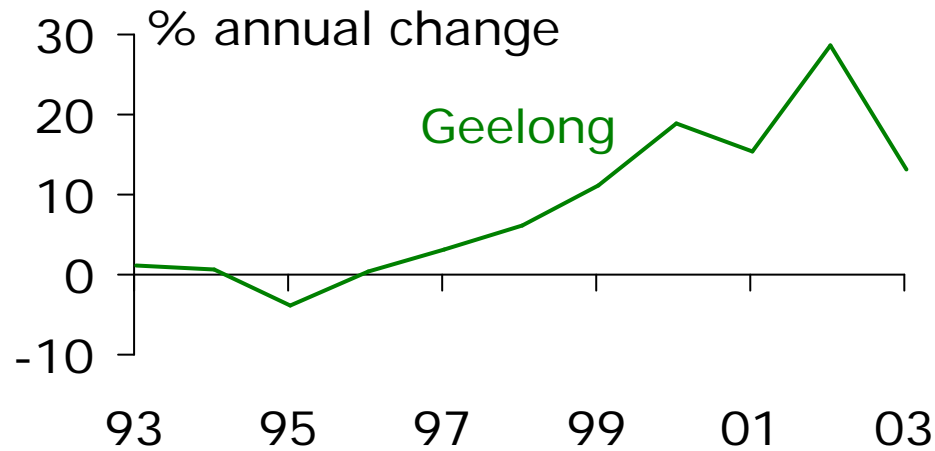
**The higher A\$ has delayed the expected rebound in Victorian exports, but better seasonal conditions and global demand will win in the end**



Source: Datastream, ABARE, and Economics@ANZ

**While hit hard by the drought, regional Victoria has enjoyed otherwise good conditions, demonstrated by the sharp rise in regional city house prices**

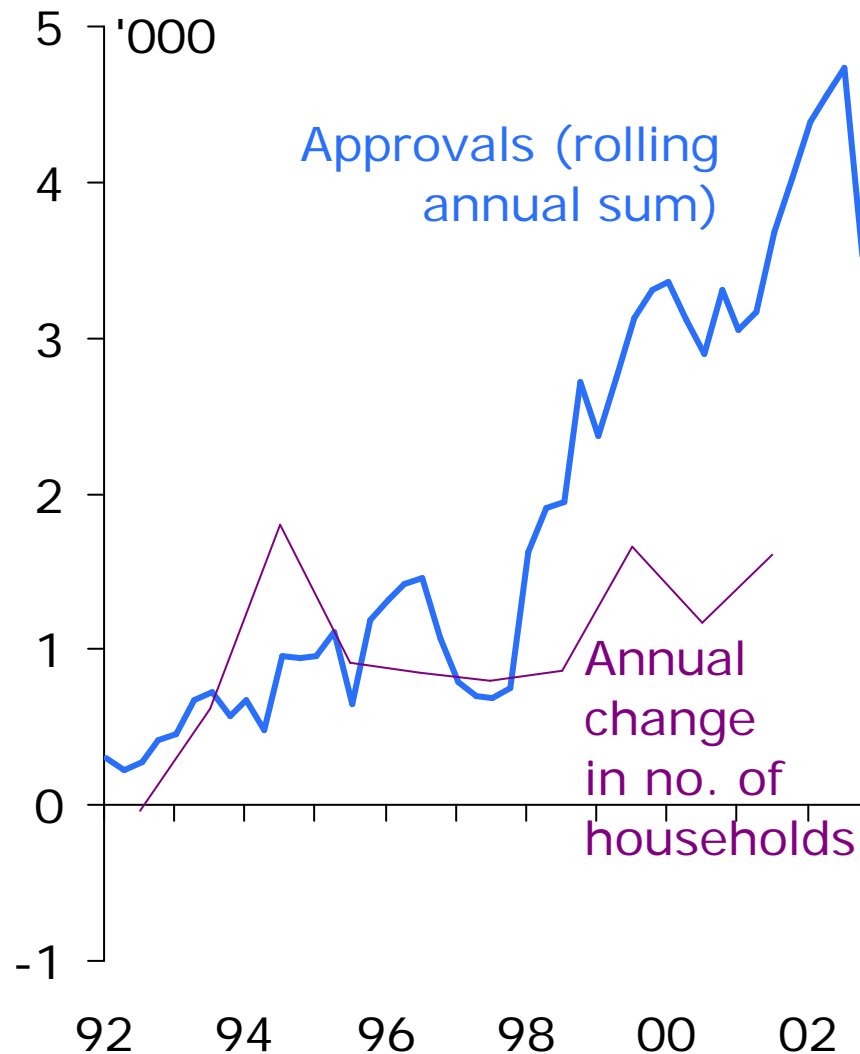
### Regional Victorian house prices



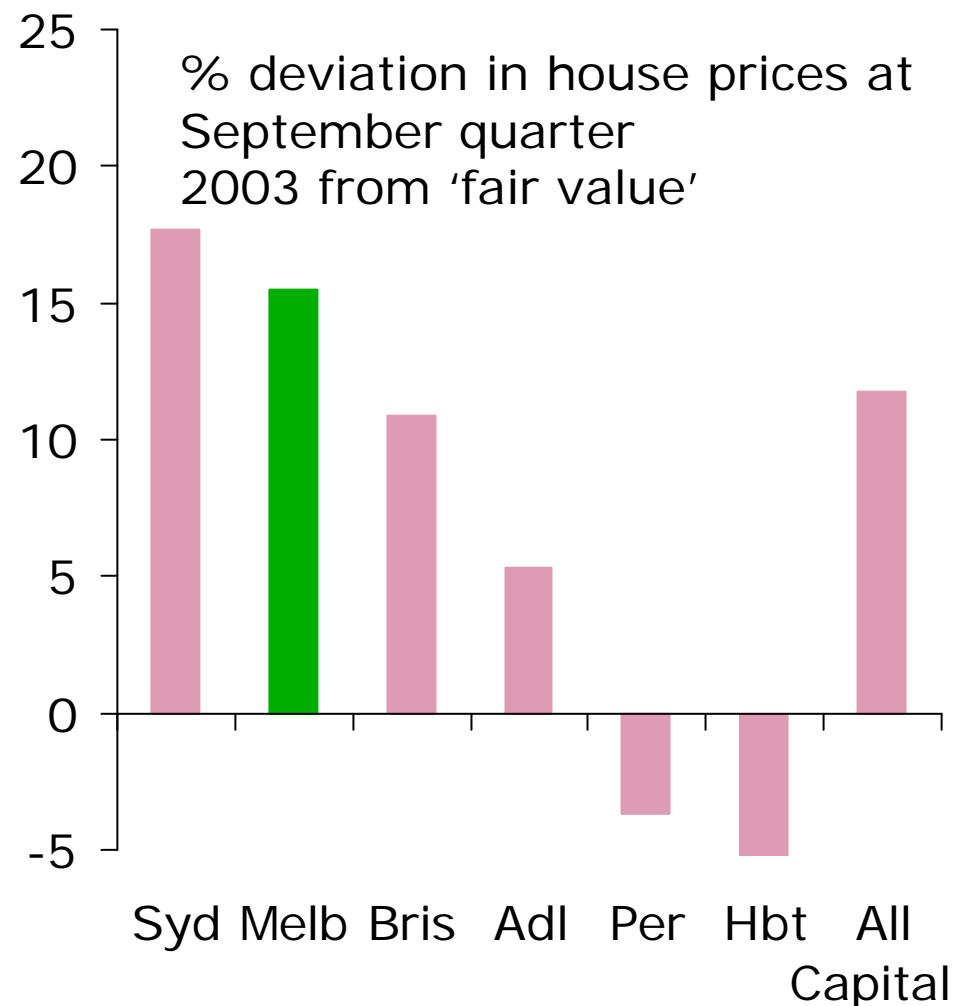
Source: Residex

# Victoria's housing sector looks vulnerable, with Melbourne house prices well above 'fair value'

### Inner-Melbourne dwellings



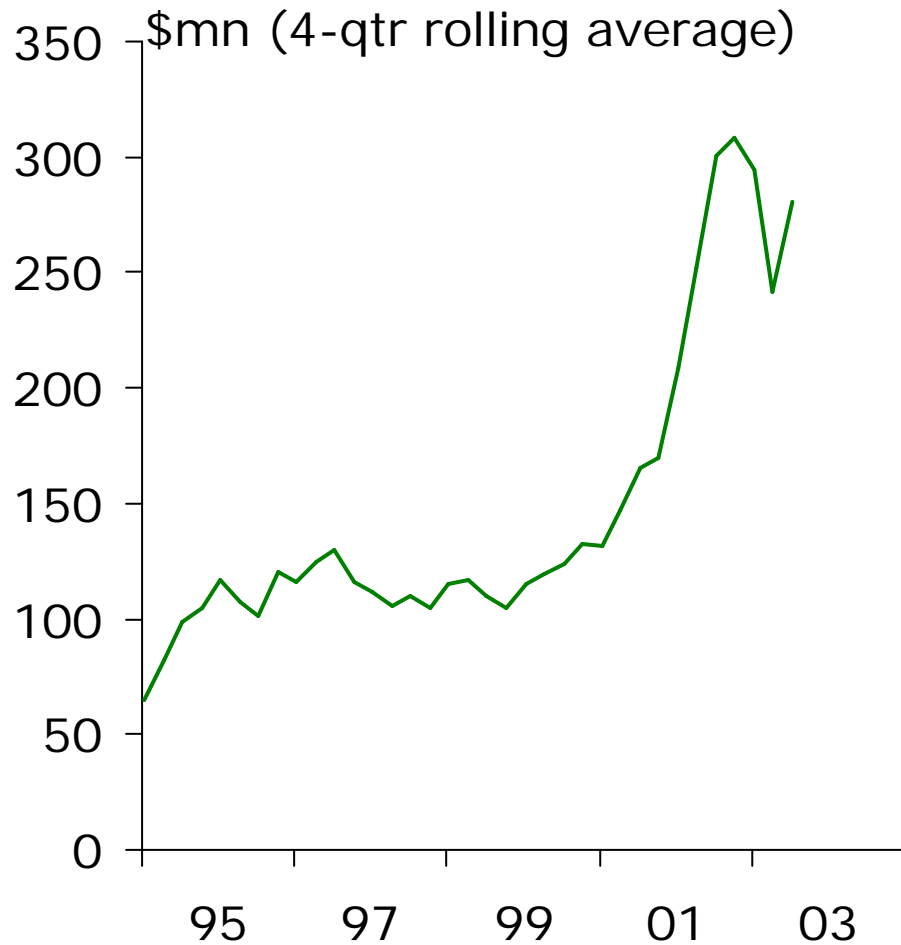
### Current house prices versus 'fair value'



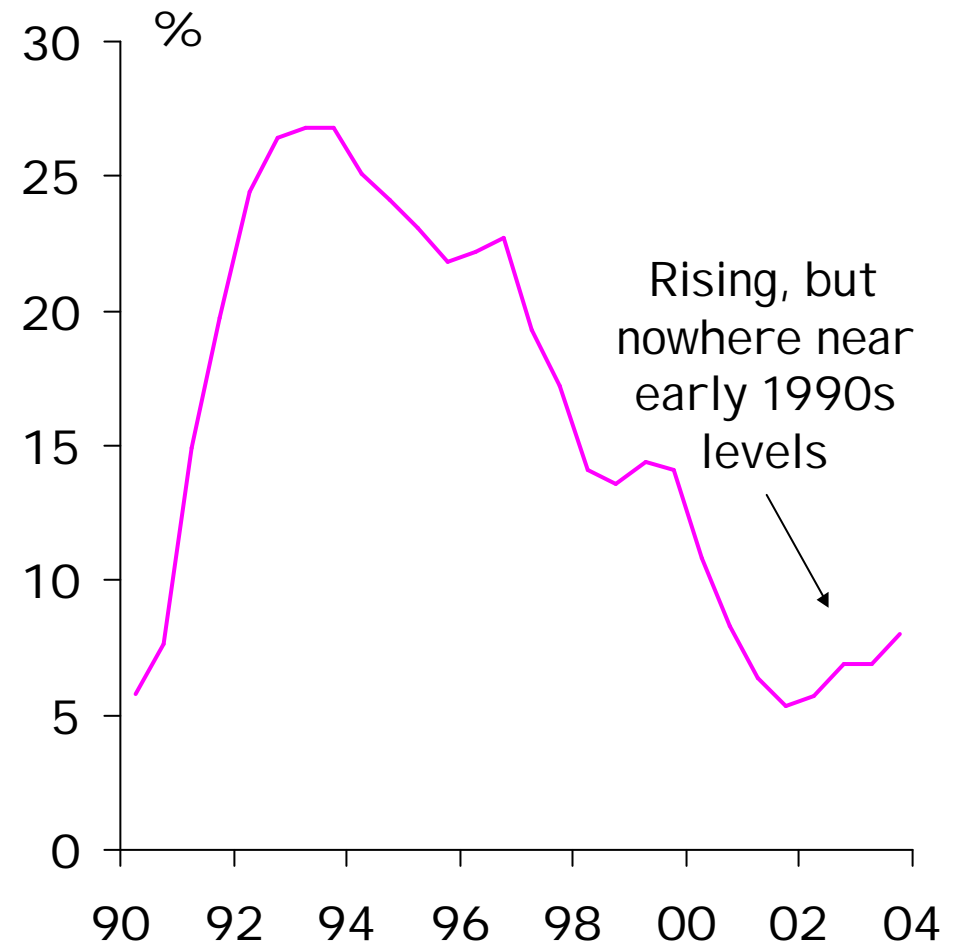
Source: ABS, Economics@ANZ, ANZ measure of housing affordability

# And construction in the commercial office sector is outstripping demand, posing a medium-term risk

### Victorian office building commencements



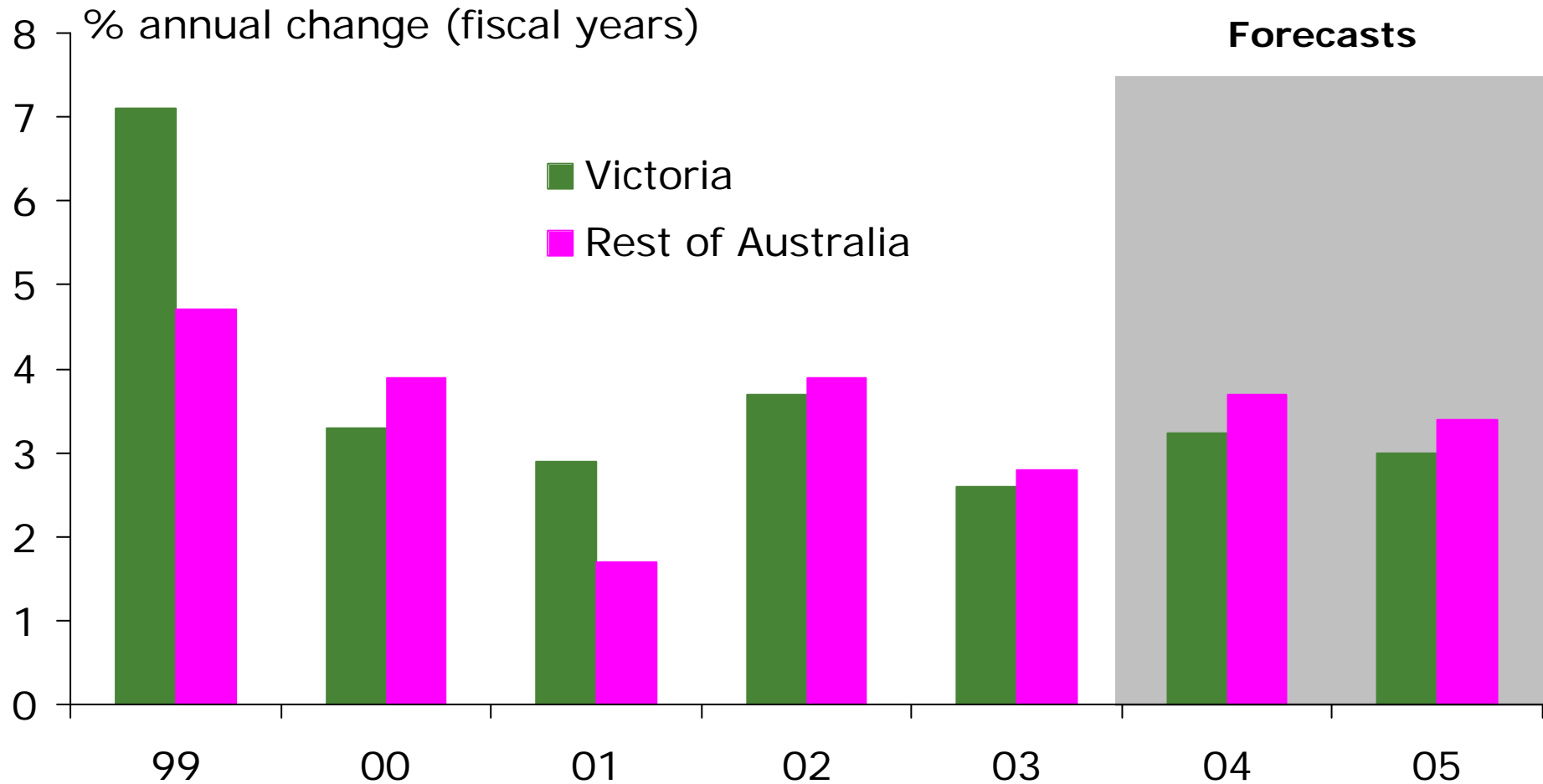
### Melbourne CBD office vacancy rate



Source: ABS, PCA

After a weak 12 months, Victorian economic growth will recover in 2003-04 and 2004-05, although State growth will slightly lag the rest of Australia

### Economic growth



Source: ABS and Economics@ANZ