

5
***Victoria:
A Broad
Economic
Overview***



INTRODUCTION

This chapter provides an overview of a selected range of important economic indicators drawn mainly from National Accounts and includes comparisons with the Australian economy. This serves as a prelude to chapters 6 to 11, which cover specific sectors of the Victorian economy in more detail.

Economic growth

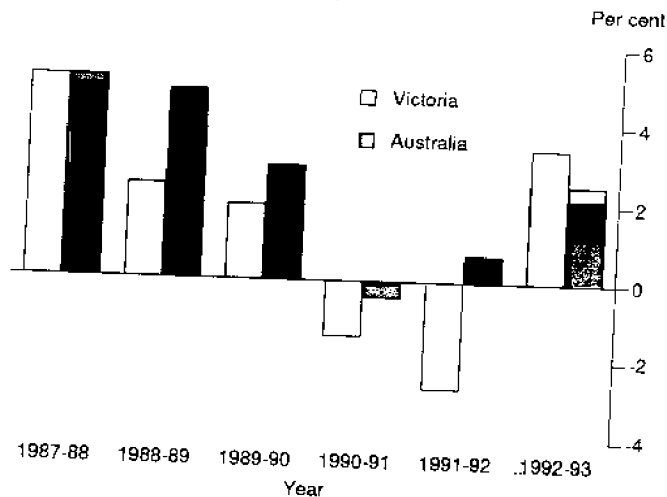
The 1992-93 year saw Victoria emerging from the 1991 recession, with a growth rate in the Gross State Product (GSP) of 3.4 per cent over the previous year. The recession, as measured in terms of two quarters of negative growth in the national Gross Domestic Product (GDP) at constant prices, affected Victoria more severely than it did Australia as a whole.

TABLE 5.1 GROSS DOMESTIC PRODUCT (a)

Year	Market Prices				Constant Prices (a)			
	\$m		Percentage change		\$m		Percentage change	
	Victoria	Australia	Victoria	Australia	Victoria	Australia	Victoria	Australia
1987-88	84,244	298,426	12.9	12.8	96,832	342,963	5.1	5.1
1988-89	93,713	339,850	11.2	13.9	99,167	359,565	2.4	4.8
1989-90	101,045	370,007	7.8	8.9	101,045	370,007	1.9	2.9
1990-91	102,685	379,902	1.6	2.7	99,597	368,535	-1.4	-0.4
1991-92	101,345	388,180	-1.3	2.2	96,888	370,959	-2.7	0.7
1992-93	105,834	401,360	4.4	3.4	100,222	380,149	3.4	2.5

(a) Based on the income based measure of GDP and average 1989-90 prices using GDP deflator for Australia.

REAL GROSS DOMESTIC PRODUCT GROWTH (a)
(\$m)



(a) based on average 1989-90 prices using GDP deflator for Australia.

Gross state product per capita

Victoria's GSP per capita at current prices was, apart from the Territories and, in recent years, Western Australia, consistently higher than the other States over the six year period, as shown in Table 5.2.

TABLE 5.2 GROSS STATE PRODUCT PER HEAD OF MEAN POPULATION, BY STATE AND TERRITORY

	\$					
	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
New South Wales	16,516	18,459	20,804	22,264	22,546	22,827
Victoria	17,844	19,922	21,880	23,311	23,387	22,858
Queensland	14,280	15,533	17,833	19,287	19,347	19,775
South Australia	14,902	16,347	18,324	19,908	20,138	20,316
Western Australia	17,011	19,109	21,360	23,080	23,565	23,874
Tasmania	13,586	14,761	16,493	17,363	17,386	17,990
Northern Territory	18,762	20,031	20,971	24,618	26,647	24,554
Australian Capital Territory	19,733	21,742	24,299	25,931	27,208	28,341
Australia	16,392	18,201	20,369	21,857	22,086	22,178

However, on an average annual basis over the six years to 1991-92, growth in GSP per head of mean population was lowest in Victoria. Growth was highest in Western Australia, the Australian Capital Territory and New South Wales.

In 1991-92 a decrease in GSP per capita was experienced only in Victoria and the Northern Territory.

TABLE 5.3 ANNUAL GROWTH RATES, GSP PER HEAD OF MEAN POPULATION (Per cent)

	Average 1985-86 to 1991-92	1990-91 to 1991-92
Western Australia	7.7	1.3
Australian Capital Territory	7.6	4.2
New South Wales	7.4	1.2
Queensland	6.9	2.2
Tasmania	6.7	3.5
Northern Territory	6.7	-7.9
South Australia	6.3	0.9
Victoria	5.5	-2.3
Australia	6.7	0.4

Industry gross domestic product

Over the six years to 1991-92 Victoria's contribution to Australia's GDP decreased from 28 per cent in 1986-87 to 26 per cent in 1991-92.

Manufacturing continued to be the most important Victorian industry in terms of its impact on overall activity in Australia, contributing 32 per cent to Australia's manufacturing industry gross product in 1991-92. All of Victoria's industries contributed at least 20 per cent to overall Australian activity in their sector.

TABLE 5.4 VICTORIAN INDUSTRY GDP AS A PERCENTAGE OF AUSTRALIAN INDUSTRY GDP

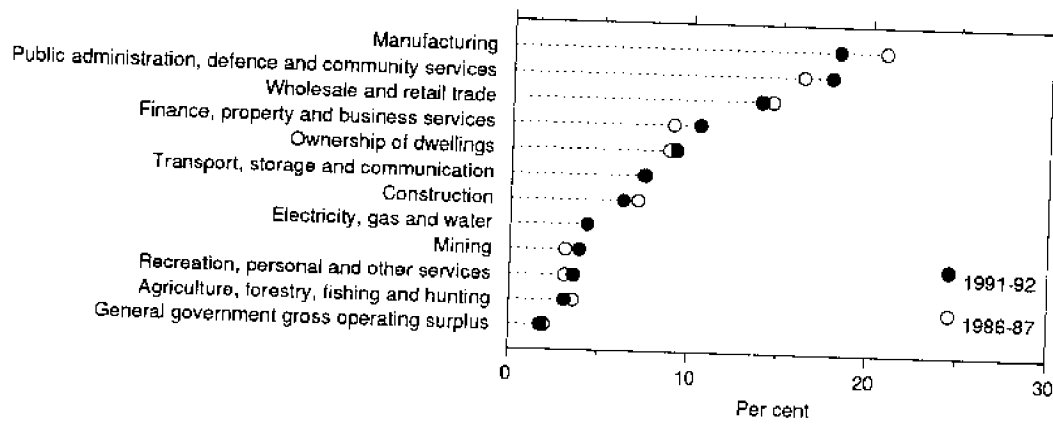
Industry	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Agriculture, forestry, fishing and hunting	22.9	23.0	21.8	21.4	22.4	25.0
Mining	17.4	20.7	21.4	20.4	21.8	20.6
Manufacturing	34.0	34.2	33.3	33.1	32.4	32.2
Electricity, gas and water	31.0	30.6	29.9	31.2	30.9	30.2
Construction	25.2	24.7	24.6	25.5	24.2	22.7
Wholesale and retail trade	28.8	28.8	29.2	27.9	26.7	25.5
Transport, storage and communication	24.9	25.0	24.6	24.2	24.1	23.5
Finance, property and business services	29.6	29.2	29.2	29.3	29.4	26.9
Public administration, defence and community services	26.9	27.1	26.7	26.8	27.3	26.7
Recreation, personal and other services	22.6	22.8	21.6	20.9	21.0	20.4
Ownership of dwellings	27.4	26.5	25.3	25.2	25.3	24.8
General government gross operating surplus	23.9	23.7	23.5	23.3	23.1	22.9
All Industries	27.6	27.7	27.3	27.1	26.8	26.0

In 1991-92, the manufacturing, public administration and wholesale and retail trade industries accounted for about half of the Victorian GSP at factor cost. The contribution of the manufacturing sector to the Victorian GSP has decreased each year from 1986-87, but manufacturing was still the main contributing industry to the Victorian GSP in 1991-92.

A declining contribution to the Victorian GSP has also occurred in agriculture and wholesale and retail trade, the latter reflecting the effects of the recession on consumer spending. In contrast, relative growth has been shown by the public administration and recreation sectors.

The contribution of the construction industry to the Victorian GSP has fluctuated over the 6 year period. In 1991-92 it was only 6 per cent, following much higher shares during the boom conditions of the late 1980s. The subsequent recession resulted in a dampening of activity in this sector which picked up some momentum in the housing industry during 1992.

INDUSTRY CONTRIBUTION TO GROSS DOMESTIC PRODUCT (a), VICTORIA



(a) At factor cost.

Private final consumption expenditure (PFCE)

In the six years to 1992-93 the private sector accounted for, on an average annual basis, approximately 78 per cent of total Victorian final consumption expenditure.

Growth in PFCE in Victoria has been lower than for Australia overall, resulting in a decrease in Victoria's share of national PFCE.

TABLE 5.7 PRIVATE FINAL CONSUMPTION EXPENDITURE (\$m)

Year	Current Prices				Constant Prices (a)			
	\$m		Percentage change		\$m		Percentage change	
	Victoria	Australia	Victoria	Australia	Victoria	Australia	Victoria	Australia
1987-88	46,388	175,586	9.7	11.5	52,377	199,140	3.1	4.2
1988-89	50,815	194,500	9.5	10.8	54,091	206,750	3.3	3.8
1989-90	55,248	214,830	8.7	10.5	55,248	214,830	2.1	3.9
1990-91	57,359	226,875	3.8	5.6	54,444	216,127	-1.5	0.6
1991-92	59,615	237,738	3.9	4.8	55,227	221,388	1.4	2.4
1992-93	61,823	247,571	3.7	4.1	56,519	226,834	2.3	2.5

(a) At average 1989-90 prices.

In 1992-93, real PFCE in Victoria increased by 2.3 per cent in contrast to a 2.5 per cent increase for Australia. This increase followed an improvement in consumer spending in 1991-92 after the marked downturn in consumption expenditure in 1990-91 which was mainly due to a fall in consumer confidence, stemming from the high unemployment levels, relatively high interest rates, and slower wages growth associated with the 1990-91 recession.

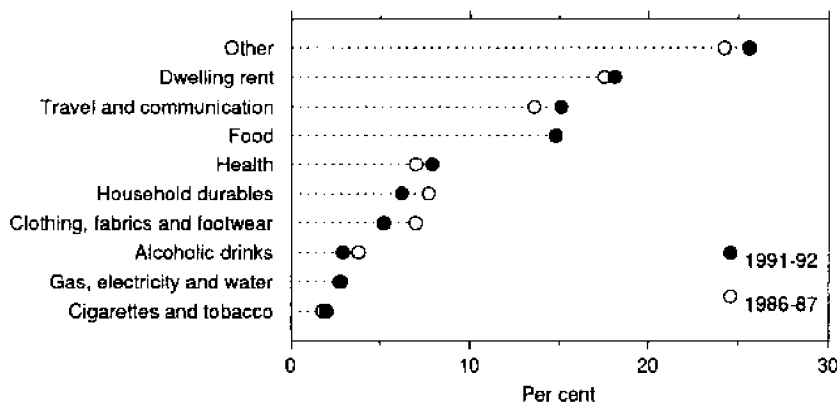
TABLE 5.8 PRIVATE FINAL CONSUMPTION EXPENDITURE, VICTORIA
(\$m)

	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Food	6,263	6,757	7,591	8,189	8,311	8,809
Cigarettes and tobacco	754	814	891	1,011	1,118	1,202
Alcoholic drinks	1,597	1,716	1,791	1,829	1,811	1,716
Clothing, fabrics and footwear	2,947	3,162	3,192	2,985	3,003	3,095
Health	2,945	3,207	3,570	3,913	4,243	4,723
Dwelling rent	7,408	8,118	8,912	9,762	10,534	10,787
Gas, electricity and fuel	1,153	1,200	1,276	1,430	1,530	1,663
Household durables	3,247	3,475	3,774	4,005	3,711	3,696
Travel and communication	5,751	6,424	7,182	8,186	8,842	9,031
Other	10,214	11,515	12,645	14,071	14,633	15,246
Total	42,279	46,388	50,815	55,248	57,359	59,615

The bulk of private consumption expenditure in Victoria was concentrated on food, dwelling rent, and travel and communication in the six years to 1991-92.

Travel and communication and dwelling rent increased their shares of PFCE, whereas clothing, household durables and alcoholic drinks experienced a decrease in share over the six year period.

PRIVATE FINAL CONSUMPTION EXPENDITURE, VICTORIA



**Government final
consumption
expenditure
(government FCE)**

In the six years to 1992-93, the public sector accounted for, on an average annual basis, approximately 22 per cent of total Victorian final consumption expenditure. Over this period government FCE in Victoria increased in real terms at an average annual rate of 3.1 per cent compared with 3.4 per cent for Australia.

TABLE 5.9 GOVERNMENT FINAL CONSUMPTION EXPENDITURE
(\$m)

Year	Current Prices				Constant Prices (a)			
	\$m		Percentage change		\$m		Percentage change	
	Victoria	Australia	Victoria	Australia	Victoria	Australia	Victoria	Australia
1987-88	12,870	52,400	5.6	7.2	14,204	58,089	1.7	3.0
1988-89	13,980	56,850	8.6	8.5	14,626	59,633	3.0	2.7
1989-90	15,124	62,077	8.2	9.2	15,124	62,077	3.4	4.1
1990-91	16,211	67,020	7.2	8.0	15,484	63,893	2.4	2.9
1991-92	17,228	71,832	6.3	7.2	15,987	66,698	3.2	4.4
1992-93	18,445	75,454	7.7	5.0	16,770	68,757	4.9	3.1

(a) At average 1989-90 prices. Includes Commonwealth, State and Local Governments.

**Private gross fixed
capital expenditure
(PGFCE)**

In Victoria, approximately 78 per cent of expenditure on all fixed capital was accounted for by the private sector in the six years to 1992-93. During this period, Victoria's share of national private gross fixed capital expenditure declined from 26 per cent in 1987-88 to 23 per cent in 1992-93.

TABLE 5.10 PRIVATE GROSS FIXED CAPITAL EXPENDITURE
(\$m)

Year	Current Prices				Constant Prices (a)			
	\$m		Percentage change		\$m		Percentage change	
	Victoria	Australia	Victoria	Australia	Victoria	Australia	Victoria	Australia
1987-88	14,337	54,325	9.3	19.9	16,008	61,522	3.4	12.9
1988-89	17,694	67,570	23.4	24.4	18,708	71,433	16.9	16.1
1989-90	17,289	68,496	-2.3	1.4	17,289	68,496	-7.6	-4.1
1990-91	13,884	61,591	-19.7	-10.1	13,879	60,868	-19.7	-11.1
1991-92	12,321	55,820	-11.3	-9.4	12,572	55,231	-9.4	-9.3
1992-93	13,060	58,222	6.0	4.3	13,123	56,368	4.4	2.1

(a) At average 1989-90 prices.

Private investment in fixed capital in Victoria fell sharply in the three years 1989-90 to 1991-92 after growth in the previous year. In 1992-93 an improvement in investment occurred with a real increase of 4.4 per cent. A similar pattern was evident for Australia.

The sharp decline in private investment was preceded by high spending on dwelling and non-dwelling buildings, following the stockmarket crash in late 1987. Boom conditions predominated in the housing industry, and in the strongly growing non-dwelling construction industry a speculative office construction boom occurred. Such activities contributed to high internal demand conditions within the economy which saw interest rates rise sharply in the late 1980s.

The end of the boom in the late 1980s was reflected in the declining rates of growth in expenditure on dwellings, other dwellings and equipment in 1989-90 and 1990-91. Since then, some gradual recovery has occurred with a pick up in momentum in dwelling investment which increased by 11 per cent in Victoria in 1992-93, though investment in non-dwelling construction and equipment remained subdued.

TABLE 5.11 PRIVATE GROSS FIXED CAPITAL EXPENDITURE (a), VICTORIA
(Percentage change over previous year)

Year	Dwellings	Non-dwelling construction	Equipment
1987-88	3.0	22.5	-5.3
1988-89	10.6	18.9	20.4
1989-90	-8.1	10.8	-12.9
1990-91	-23.4	-26.9	-18.1
1991-92	-5.6	-20.4	-8.2
1992-93	10.7	3.7	2.5

(a) At 1989-90 average prices.

Government gross fixed capital expenditure (GGFCE)

The government sector (Commonwealth, State and Local) accounted for, on average, 22 per cent of total gross fixed capital expenditure in Victoria in the six years to 1992-93.

Government investment expenditure in Victoria, in real terms, decreased in each of the years 1990-91 to 1992-93 after some growth in the previous two years.

TABLE 5.12 GOVERNMENT GROSS FIXED CAPITAL EXPENDITURE (a), VICTORIA
(\$m)

Year	Current prices	Percentage change	Constant prices (a)	Percentage change
1987-88	3,760	-6.0	4,147	-9.5
1988-89	4,127	9.8	4,346	4.8
1989-90	4,998	21.1	4,998	15.0
1990-91	4,551	-8.9	4,484	-10.3
1991-92	4,298	-5.6	4,333	-3.4
1992-93	3,491	-18.8	3,599	-16.9

(a) At 1988-90 average prices.

Generally from 1987-88 to 1991-92, approximately two thirds of government fixed investment occurred in the public enterprises sector and one third in the general government sector. By 1992-93, this pattern had changed with general government incurring 47 per cent and public enterprises 53 per cent of government gross fixed capital expenditure. Thus in 1992-93, real fixed capital expenditure in public enterprises decreased by 32 per cent compared with an increase of 10 per cent for general government.

TABLE 5.13 GOVERNMENT GROSS FIXED CAPITAL EXPENDITURE (a), VICTORIA

Year	General government				Public enterprises			
	\$m		Percentage change		\$m		Percentage change	
	Current prices	Constant prices (b)	Current prices	Constant prices (b)	Current prices	Constant prices (b)	Current prices	Constant prices (b)
1987-88	1,276	1,370	-4.7	-8.4	2,484	2,777	-6.7	-10.1
1988-89	1,306	1,367	2.4	-0.2	2,821	2,979	13.6	7.3
1989-90	1,466	1,466	12.3	7.2	3,532	3,532	25.2	18.6
1990-91	1,499	1,494	2.3	1.9	3,052	2,990	-13.6	-15.3
1991-92	1,466	1,537	-2.2	2.9	2,832	2,796	-7.2	-6.5
1992-93	1,574	1,684	7.4	9.6	1,917	1,915	-32.3	-31.5

(a) Includes Commonwealth, State and Local governments.

(b) At average 1989-90 prices.

REFERENCES

ABS Publications

Australian National Accounts, National Income and Expenditure (5204.0 and 5206.0)

Australian National Accounts, State Accounts (5220.0, 5206.0 and 5242.0)

