



2024 State Wage Case – Economic Conditions and Outlook^{1,2}

1. Overview

The Western Australian economy, as measured by Gross State Product (GSP), is expected to grow by 1.75% in 2023-24, following growth of 3.5% in 2022-23 – a nine year high. The moderation reflects a decline in net exports in 2023-24, as resource producers operate near capacity, agricultural exports normalise after a record harvest in 2022-23, and goods imports pick up in support of business investment. In addition, international travel patterns are expected to gradually return to pre-pandemic patterns, as more Western Australians travel overseas, which also detracts from net exports.

Growth in GSP is forecast to lift slightly to 2% in 2024-25 and continue to grow by 2% to 2.25% per annum across the forward estimates period, mainly reflecting a levelling off of export volumes, with producers operating at close to capacity and most new investment being sustaining rather than expansionary.

Western Australia's domestic economy (measured by State Final Demand or SFD) grew by 4.7% in 2023, with growth forecast to strengthen to 5.25% in 2023-24. All key components of domestic economy are contributing to growth, with strong contributions from business investment (which grew by 10.7% in 2023), Government investment (underpinned by the State Government's record Asset Investment Program) and household consumption (supported by the strongest population growth in the nation).

Activity in the domestic economy is expected to moderate from 2024-25, as business investment consolidates at a high level and as migration levels normalise. The public sector is expected to make a larger contribution to domestic growth, with Government spending on health, education, other front-line services, and infrastructure to meet the demands from a larger population.

The availability of skilled trades remains an issue for residential construction, though the rate of housing completions in the second half of 2023 rose to its highest level since 2017. Dwelling investment is forecast to grow by 6.75% in 2023-24 and 7.5% in 2024-25, supported by ongoing work as well as an expected pick-up in starts, in line with lead indicators of new residential construction which have lifted recently, including land sales, building approvals, and finance commitments for new construction (for both owner occupiers and investors).

The recent strength in the economy has driven record employment outcomes, with Western Australia's total employment exceeding 1.6 million people for the first time in February 2024, and an annual average unemployment rate of just 3.7% in March 2024. Wage growth has picked up recently, growing by 4.2% in year-ended terms to March 2024. Growth in the WPI across financial years is likely to peak in 2023-24 and ease to 3.75% by June 2025. This coincides with a modest easing in the labour market, slower inflation in response to interest rate rises, and a focus on business cost control³.

¹ The forecasts for Western Australia's economic aggregates in this Attachment are those published in the 2024-25 Western Australian State Budget, released on 9 May 2024.

² Data for historical levels of activity and historical growth rates are based on data published by the Australian Bureau of Statistics, unless otherwise stated.

³ As indicated in the Reserve Bank of Australia's February 2024 Statement of Monetary Policy.

Inflation in Perth (excluding the electricity sub-index) has moderated sharply to 4.1% in the March quarter 2024 (less than half the peak growth of 8.6% at the end of 2022), due to a fall in prices of goods as pandemic-related supply chain issues dissipated, and consumer demand slowed.⁴ Year-ended inflation is expected to remain steady at around 4% to June 2024, with price pressures persisting particularly for housing-related costs (new dwellings and rents) and to ease to 3% by June 2025, as weaker consumer demand contains price hikes, wage pressures lessen, and supply keeps pace with demand.

There is a number of risks to this outlook. The external economic environment has become increasingly uncertain and volatile, impacting key commodity prices in the mining industry, which has seen several investment projects delayed and has coincided with a potential peak in mining employment. A slowing Chinese economy (with an already weak property market), the potential for a broadening of the conflicts in the Middle East and Ukraine, and volatile international markets all heighten risks to global economic growth – and Australia and Western Australia will not be immune from any further deterioration.

Table 1 below summarises forecasts for the major economic aggregates, with a more detailed table of forecasts from the 2024-25 Budget provided in Table 6 at the end of this Attachment.

Table 1 – Major Economic Aggregates, Annual Growth (%)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	Actual	Estimated Actual	Budget Year	Outyear	Outyear	Outyear
State Final Demand	3.9	5.25	3.25	3.0	3.0	2.75
Gross State Product	3.5	1.75	2.0	2.0	2.25	2.25
Employment	3.1	3.75	1.75	1.5	1.5	1.5
Unemployment rate ^(a)	3.6	3.75	4.0	4.25	4.5	4.75
Consumer Price Index ^{(b)(c)}	5.0	4.0	3.0	2.5	2.5	2.5
Wage Price Index ^(c)	4.2	4.25	3.75	3.5	3.0	3.0
Population ^(c)	3.2	2.8	1.8	1.7	1.7	1.7

(a) Data expressed as annual average during the financial year.

(b) CPI growth rates are based on the total index excluding the electricity sub-sector.

(c) Growth is expressed in year-ended terms.

Source: Western Australia 2024-25 Budget and Australian Bureau of Statistics.

2. Global Outlook

Global economic growth is estimated to have moderated from 3.5% in 2022 to 3.2% in 2023. Growth rates differ across major economies due to the uneven impacts of monetary and fiscal policy and varying exposure to global conflicts. Resilience in the United States has offset some of the weakness elsewhere, particularly in the United Kingdom and Euro Area.

In its April 2024 World Economic Outlook, the International Monetary Fund (IMF) revised up its global growth forecast for 2024 to 3.2% (from 3.1% in its January 2024 update) and left its 2025 forecast unchanged at 3.2% (see Table 2).

⁴ Forecasts for growth in the Consumer Price Index exclude the electricity sub-index and are expressed in year-ended terms.

Table 2 – IMF Global Economic Forecasts April 2024

Annual GDP Growth, %

	2023 Estimate	2024 Projection	2025 Projection	2024 Difference ^(a)	2025 Difference ^(a)
World	3.2	3.2	3.2	0.1	0.0
Advanced Economies	1.6	1.7	1.8	0.2	0.0
United States	2.5	2.7	1.9	0.6	0.2
Euro Area	0.4	0.8	1.5	-0.1	-0.2
Japan	1.9	0.9	1.0	0.0	0.2
United Kingdom	0.1	0.5	1.5	-0.1	-0.1
Australia	2.1	1.5	2.0	0.1	-0.1
Emerging Market and Developing Economies	4.3	4.2	4.2	0.1	0.0
China	5.2	4.6	4.1	0.0	0.0
India	7.8	6.8	6.5	0.3	0.0
ASEAN 5	4.1	4.5	4.6	-0.2	0.2

(a) Difference from the January 2024 Update World Economic Outlook
Source: IMF World Economic Outlook (WEO), April 2024

Forecasts are below the historical (2000-19) average of 3.8% reflecting several factors that are weighing on growth, including tight monetary policy to fight inflation, a tapering of fiscal support amid high sovereign debt levels, and low underlying productivity growth.

The IMF forecasts growth in advanced economies to rise from 1.6% in 2023 to 1.7% in 2024, with continued strength in the United States projected to support the modest growth. However, restrictive monetary policy continues to impact growth, including in economies such as the United Kingdom and Euro Area economies (which briefly went into recession in the second half of 2023 but recorded positive economic growth in the March quarter 2024).

Risks to the global economic outlook are discussed in Section 8 on ‘Risks to the Outlook’.

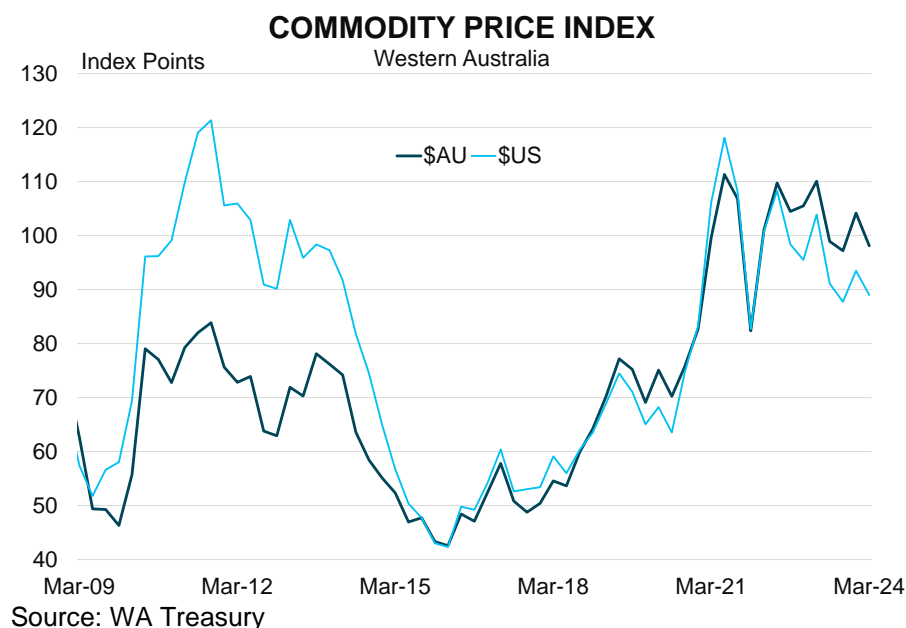
2.1 Global commodity markets

Despite some volatility, global commodity prices converged towards their pre-COVID decade averages during 2023. Those commodity prices which either increased during the COVID-19 rebound and/or spiked following Russia’s invasion of Ukraine have largely corrected, reflecting softening global demand, improvement in global supply chains and increases in supply. A notable exception is the gold price, which has risen to record levels in 2024.

2023 was a challenging year for battery raw materials such as lithium and nickel, as prices fell rapidly due to cyclical and structural factors. Iron ore prices have been volatile, continuing to fluctuate with changes in Chinese demand and global iron ore supply.

The Western Australian Commodity Price Index has fallen since the first quarter of 2023, reflecting a decline in prices of key commodities relevant to Western Australia, including LNG, iron ore, nickel, and lithium. The depreciation of the \$A/\$US over the last year has resulted in commodity prices in Australian dollar terms falling less than prices in US dollar terms (see Chart 1).

Chart 1



Goods exports declined by 5.5% to \$257 billion in nominal terms over the year to March 2024 (representing 47.1% of national exports). However, annual exports to China were up 2.4% to \$148 billion over the year (or 57.5% of total Western Australian exports).

Iron ore prices remain highly volatile, falling from an 18-month high of \$US144 per tonne at the start of 2024 to around \$US100 per tonne at Budget cut off (8 April 2024). This 30% decline in prices reflects weak downstream steel demand and rising iron ore inventory levels in China, alongside a pick-up in global iron ore supply.

Market sentiment deteriorated in mid-March after there were no major announcements from China's annual National People's Congress (NPC), suggesting China is committed to stabilising its slowing economy without resorting to large scale stimulus. The absence of supportive measures from the NPC raised concerns about near term steel demand, contributing to a sharp decline in steel and iron ore prices in March 2024.

However, market conditions shifted somewhat in the second week of April (following Budget cut-off), with prices rebounding above \$US115 per tonne. This partial upswing can be attributed to a combination of factors, including declining steel inventories (in line with seasonal norms), improving steel margins (following a more than \$US100/t fall in coal prices), and expectations of frontloading steel production. The latter comes following reports that the Chinese government would impose limits on steel production in 2024.

China's domestic steel consumption remains relatively subdued, dragged down by continued weakness in its property sector. A negative feedback loop persists between poor homebuyer confidence (affecting new home sales and home prices) and new construction activity (linked to cash strapped developers, who are heavily reliant on pre-sold properties to commence new and finish existing projects).

Nevertheless, strong growth in direct steel exports has played a key role in supporting China's steel sector (and iron ore demand) over the past year, with steel exports up 35% in 2023 - to a seven-year high. Considerable investment in infrastructure and manufacturing has also helped offset the drag from property investment.

Infrastructure spending is expected to continue providing support to China's economy. The Chinese Government has allocated substantial funding, including an RMB3.9 trillion target for local government special bond issuance in 2024, dedicated to infrastructure projects, as well as RMB1 trillion of ultra long special sovereign bonds to finance long term projects. This follows the issuance of RMB1 trillion worth of sovereign bonds in late 2023 for disaster relief and recovery efforts. Collectively, these measures convey a positive signal that fiscal policy will support traditional construction materials.

New investment in manufacturing has focused on emerging industries such as electric vehicles, lithium batteries, and solar cells, bolstering steel intensive exports. These industries are likely to continue to expand rapidly in 2024, driven by policy measures and still resilient external and domestic demand in these areas. China is now the world's leading exporter of vehicles, surpassing major exporters like Japan, Germany, and South Korea over the past two years.

These factors are expected to persist in the near term, with Chinese demand for steel anticipated to track sideways in 2024 before moderating over the outlook period.

3. National Economic Conditions and Outlook

The Australian economy (as measured by Gross Domestic Product, GDP) grew by 2.1% in the 2023 calendar year (following 3.8% growth in the 2022 calendar year). Growth in 2023 was supported by a 9.1% increase in business investment during the year, while annual growth in household spending slowed to 1.1% from 6.6% growth a year earlier.

The 2024-25 Commonwealth Budget (released on 14 May 2024) notes that 'the Australian economy has slowed in response to elevated inflation and higher interest rates, amidst global economic volatility'. This has impacted on Australian households, weighing on consumption growth (particularly reflected in a pull back on discretionary spending in response to cost-of-living pressures) and dwelling investment (which declined by 2% in 2023).

Reflecting this, the Commonwealth Budget forecasts growth in the national economy to ease to 1.75% in 2023-24, before rising to 2% in 2024-25, increasing gradually thereafter to reach 2.75% by 2027-28 (see Table 3).

'Recent strength in business investment, net exports and public investment is expected to continue and provide further support for the economy. Net exports are expected to contribute to growth in 2024–25, driven by the ongoing recovery of services exports'. Government spending is also expected to support activity, underpinned by infrastructure investment and spending on essential services.

Table 3 – Major Economic Parameters, Australia

Annual Growth, %^(a)

	Outcomes		Forecasts			
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Real GDP	3.1	1.75	2.0	2.25	2.5	2.75
Employment	3.5	2.25	0.75	1.25	1.75	1.75
Unemployment rate	3.6	4.0	4.5	4.5	4.5	4.25
Consumer Price Index	6.0	3.5	2.75	2.75	2.5	2.5
Wage Price Index	3.7	4.0	3.25	3.25	3.5	3.5

(a) Real GDP growth is the percentage change on the preceding year. Growth in employment, the Consumer Price Index and Wage Price Index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: 2024-25 Budget, Commonwealth Treasury.

The Commonwealth Budget notes that while the national labour market has proven to be highly resilient, ‘there are clear signs that labour market conditions are softening’.⁵ The Budget points to lead indicators, such as, job advertisements that have consistently declined since mid-2022. Employment is forecast to continue to grow, though at a more modest pace than recently, increasing by 2.25% in 2023-24 and 0.75% in 2024-25. More modest hiring conditions are expected to lead to a gradual rise in the unemployment rate, which is forecast to rise to 4.5% from 2024-25, remaining broadly steady over the forecast period and below the pre-pandemic decade average of 5.5%.

The Commonwealth Budget notes that wages (as measured by the Wage Price Index) have picked up, growing at the fastest rate in nearly 15 years (prior to the release of Wage Price Index data for March 2024 on 15 May), which was broad-based across both the private and public sectors. The Commonwealth Budget forecasts annual year-ended wages growth to moderate to 3.25% in the June quarter 2025 from 4% in the June quarter 2024, as labour market conditions ease in line with aggregate demand.

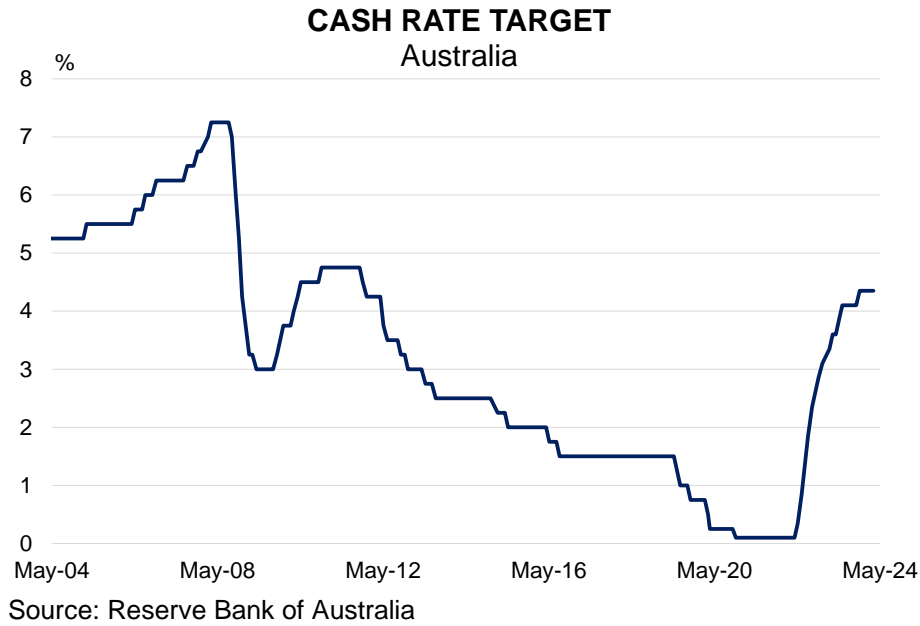
Although national inflation remains elevated, it has moderated substantially, and annual inflation is expected to be 3.5% in year-ended terms in the June quarter 2024. The Commonwealth Budget states that the moderation in inflation has been assisted by a continued easing of goods inflation – and the Government’s cost-of-living policies. ‘Services inflation remains elevated, due to the increased cost of business inputs’, but is expected to gradually normalise over the next two years.

In response to elevated inflation, the Reserve Bank of Australia (RBA) has increased the cash rate by a cumulative 425 basis points since it began raising rates in May 2022. The cash rate rose from a record low of 0.10% in April 2022 to sit at 4.35% since November 2023 where it has remained on hold since then (Chart 2). In its statement following the monetary policy decision to keep the cash rate target on hold on 7 May 2024, the Reserve Bank Board noted “recent data indicate that, while inflation is easing, it is doing so more slowly than previously expected and it remains high. The Board expects that it will be some time yet before inflation is sustainably in the target range and will remain vigilant to upside risks. The path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and the Board is not ruling anything in or out”.⁶

⁵ 2024-25 Budget Paper No. 1: Budget Strategy and Outlook – Statement 2: Economic Outlook, Page 39.

⁶ RBA - Statement by the Reserve Bank Board: Monetary Policy Decision, 7 May 2024.

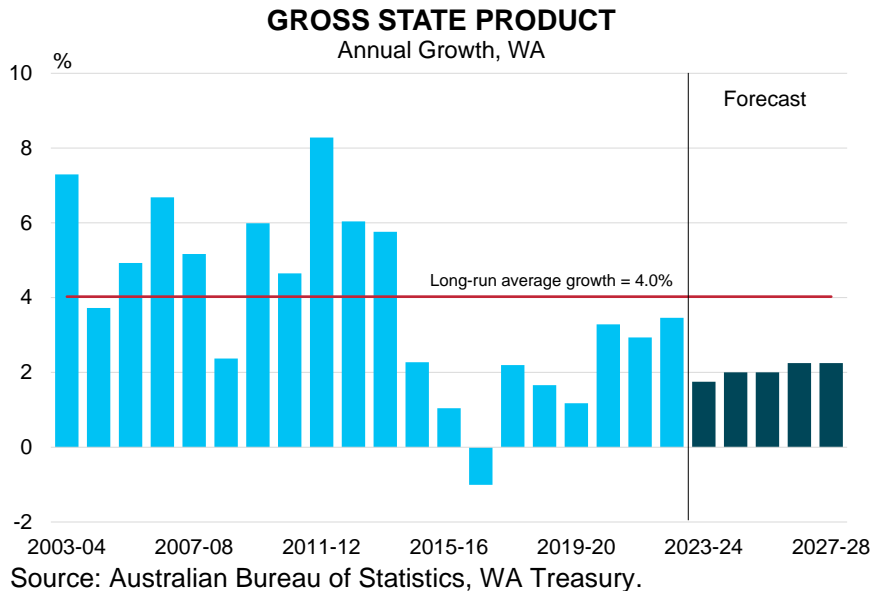
Chart 2



4. Western Australia’s Economic Outlook and Risks

The 2024-25 State Budget forecasts Western Australia’s GDP to grow by 1.75% in 2023-24 and by 2% in 2024-25. Economic growth is then forecast to remain steady at 2% to 2.25% per year from 2025-26 to 2027-28.

Chart 3



Growth in GDP is expected to slow in 2023-24 and 2024-25 following 3.5% growth in 2022-23 – a nine year high. The slowdown is due to subdued growth in the external sector, with resource producers operating at close to capacity, agricultural exports normalising after a record harvest in 2022-23, and goods imports picking up in support of business investment. In addition, a gradual return to pre-pandemic international travel patterns (with more Western Australians travelling overseas) is also expected to detract from net exports.

Western Australia's domestic economy grew by 4.7% in 2023, reflecting a resilient household sector, supported by strong population growth and robust labour market conditions, combined with strong growth in both business and Government investment. SFD growth is forecast to strengthen further to 5.25% in 2023-24, largely underpinned by business investment, with spending on resource projects and machinery and equipment propelling growth to its strongest rate in over a decade, and Government investment also lifting (in line with the State Government's record Asset Investment Program).

Table 4 – Components of Economic Growth (Seasonally Adjusted)

Annual Average Growth to December 2023, %

	Western Australia (%)	Australia (%)
Household consumption expenditure	2.7	1.1
Business Investment	10.7	9.1
Dwelling Investment	4.5	-2.0
Government Consumption	1.4	1.7
Government Investment	18.0	11.0
State/Domestic Final Demand	4.7	2.3
International exports ^(a)	1.5	6.8
International imports ^(a)	11.7	3.3
Gross Product	N/A	2.1

(a) Exports/imports refers to merchandise (goods) and services exports/imports.
Source: ABS Catalogue 5206.0 and 5302.0

A more detailed analysis of the outlook for the individual components of GSP is contained in the remainder of this section.

4.1 Consumer Spending

Household consumption growth eased to 2.7% in the 2023 calendar year as consumers reprioritised spending towards necessities and pulled back on non-essential purchases in response to elevated price growth and interest rates, and consumption declined in per capita terms. This follows 5% growth in calendar 2022, when spending on interstate and international travel, holidays, and recreational activities resumed after the opening of State borders.

Growth in consumption is expected to ease further to 2% in 2023-24, before lifting slightly to 2.25% in 2024-25 and rising to 3% by 2026-27. Solid population growth is expected to provide support for growth in household consumption, together with a lift in per capita spending, underpinned by ongoing income and employment growth, lower cost of living pressures and rising house prices.

4.2 Business Investment

Growth in business investment rose to 10.7% in the 2023 calendar year, primarily driven by a rise in non-dwelling construction, in line with a ramp-up of construction work on large resource projects. The alleviation of supply chain issues through the year also supported investment by facilitating the delivery of machinery and equipment into the State.

Business investment is forecast to grow by 13.25% in 2023-24 – the strongest growth in over a decade. The lift in growth reflects work ramping up on large resources projects including the Scarborough/Pluto LNG project, Crux, Onslow Iron and Western Range. In 2024-25, business investment is projected to consolidate at a high level, underpinned by ongoing construction on major LNG projects, as well as minerals projects, some of which had previously experienced delays caused by cost pressures, labour availability and sourcing materials.

Over the remainder of the forecast period, business investment will be supported by sustaining capital expenditure in the resources sector, as companies look to maintain current high levels of production, as well as significant decarbonisation spending. A solid pipeline of current and prospective projects across industries including oil and gas, iron ore, other minerals, and non-mining infrastructure is also expected to support growth in the outyears.

4.3 Dwelling Investment

Dwelling investment grew by 4.5% in 2023, following a decline of 2.7% in 2022-23, as the large volume of outstanding work (23,153 dwellings under construction at December 2023) continues to be completed. While the availability of skilled trades remains an issue, the rate of completions in the second half of 2023 was at its highest level since 2017.

Growth in dwelling investment is expected to lift to 6.75% in 2023-24 and 7.5% in 2024-25, supported by ongoing work as well as an expected pick-up in building starts, in line with lead indicators of new residential construction. Recent increases in land sales, building approvals, and finance commitments for new construction (for both owner occupiers and investors) all suggest that demand for new buildings is strengthening.

International Trade

4.4 Exports

Goods exports are projected to decline by 0.5% in 2023-24, following solid growth of 4.7% in 2022-23 – the strongest growth in five years. Merchandise exports growth eased to just 0.3% in the 2023 calendar year. More recent nominal data shows that the value of the State's goods exports fell by 5.5% in annual average terms in March 2024, totalling \$257 billion in nominal terms over the past 12 months (47.1% of national exports).

The expected moderation in 2023-24 primarily reflects declines in grains exports resulting from a significantly smaller harvest in 2023, after the record harvest in 2022, and weaker LNG exports as production eases from record high levels in 2022-23. Also contributing to the fall, albeit to a smaller extent, were falls in minerals including alumina, copper, nickel, and zinc, in line with announcements of mine closures, suspensions and production curtailments.

In 2024-25, goods exports are projected to grow by 1.5%, underpinned by a lift in iron ore export volumes, reflecting new production coming online from the Iron Bridge and Onslow Iron mines, as well as an increase in lithium exports, with a ramp-up in production at the Mt Holland, Bald Hill, Kathleen Valley, and Pilgangoora projects.

Services exports are anticipated to grow by 36.25% in 2023-24 supported by strength in international education and the continued recovery in overseas visitors to Western Australia. Services exports are expected to level off in 2024-25 and 2025-26 as education exports consolidate and visitor arrivals stabilise.

4.5 Imports

Goods imports are estimated to grow by 10% in 2023-24, primarily reflecting higher imports of capital goods underpinned by stronger business investment. Growth for goods imports is then forecast to moderate to 1.25% in 2024-25, consistent with trends in business investment. Growth in imports is then expected to lift slightly over the outyears, averaging around 2% per annum, in line with steady growth in business investment.

Growth in services imports is anticipated to ease from 47.1% in 2022-23 to 14.75% in 2023-24, with recent trends suggesting services imports (primarily Western Australians travelling overseas) continue to recover from pandemic lows at a slower pace than services exports. The more gradual than previously forecast recovery in services imports to date means that a full recovery in activity to pre-pandemic levels has been pushed out to 2025-26. Service imports are anticipated to level off in the final outyear as conditions normalise.

5. The Labour Market

Labour market conditions in Western Australia remain strong in 2023-24 to date, reflecting the underlying strength of the domestic economy. Employment reached a record 1.603 million people in March 2024, while the unemployment rate averaged 3.7% over the past 12 months. The participation rate has remained elevated in 2023-24, broadly unchanged from 68.7% in 2022-23. Despite moderating from a record level in April 2023, monthly job vacancy numbers remain well above levels seen before the COVID-19 pandemic.

Table 5 – Population and Labour Force Forecasts

Western Australia

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Annual Level						
Total population ('000)	2,881	2,962	3,015	3,066	3,119	3,172
Working age population (15+) ('000)	2,344	2,417	2,465	2,512	2,560	2,608
Employment ('000)	1,523	1,581	1,608	1,632	1,657	1,682
Unemployment ('000)	56	62	67	72	78	84
Unemployment rate (%)	3.6	3.75	4.0	4.25	4.5	4.75
Participation rate (%)	68.7	68.9	68.8	68.5	68.4	68.3
Annual growth (%)^(a)						
Total population growth	3.2	2.8	1.8	1.7	1.7	1.7
Working age population (15+)	3.8	3.1	2.0	1.9	1.9	1.9
Employment	3.1	3.75	1.75	1.5	1.5	1.5

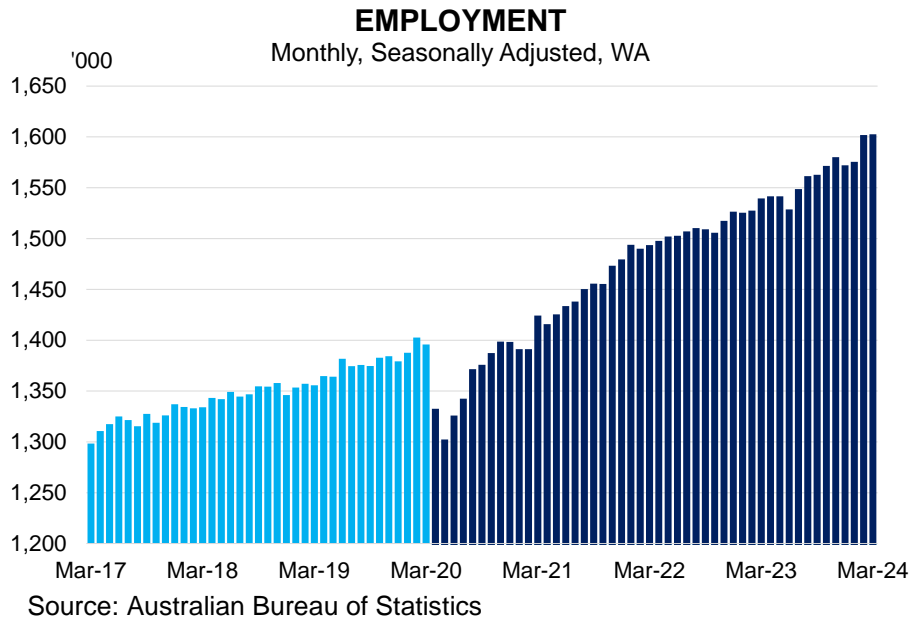
(a) Population growth is expressed in year-ended terms and employment growth is in annual average terms.
Source: ABS and WA Treasury

5.1 Employment

Employment growth strengthened to 3.4% in annual average terms in March 2024, building on strong hiring since the onset of the pandemic (Chart 4), up from 3.1% in 2022-23. Annual average growth in employment is expected to strengthen further to 3.75% in 2023-24.

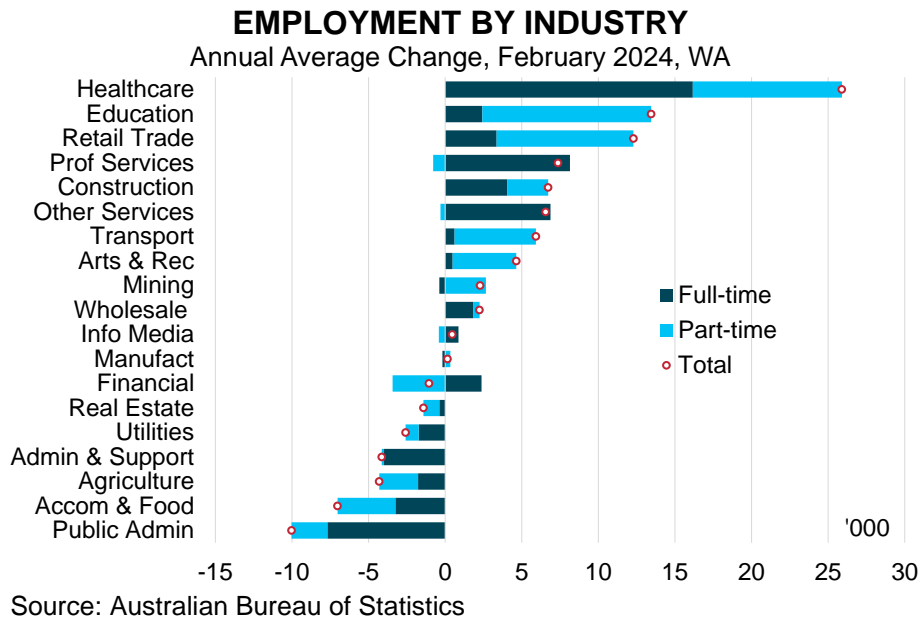
Employment growth is anticipated to moderate to 1.75% in 2024-25 and 1.5% per annum in the outyears. This is consistent with slower growth in the domestic economy, while also in line with average employment growth over the past decade.

Chart 4



While annual growth in employment has been underpinned by a rise in full-time employment for most of the post-pandemic period, part-time roles have begun to contribute toward the recent uplift in employment, adding 1.8 percentage points (pp) to annual average growth in March (after detracting from growth for most of 2023). In line with this, employment growth across the largest employing industries (such as healthcare, mining, education, and construction) has been supported by increases in part-time roles in the year to February 2024 (Chart 5).

Chart 5



5.2 Unemployment and Participation

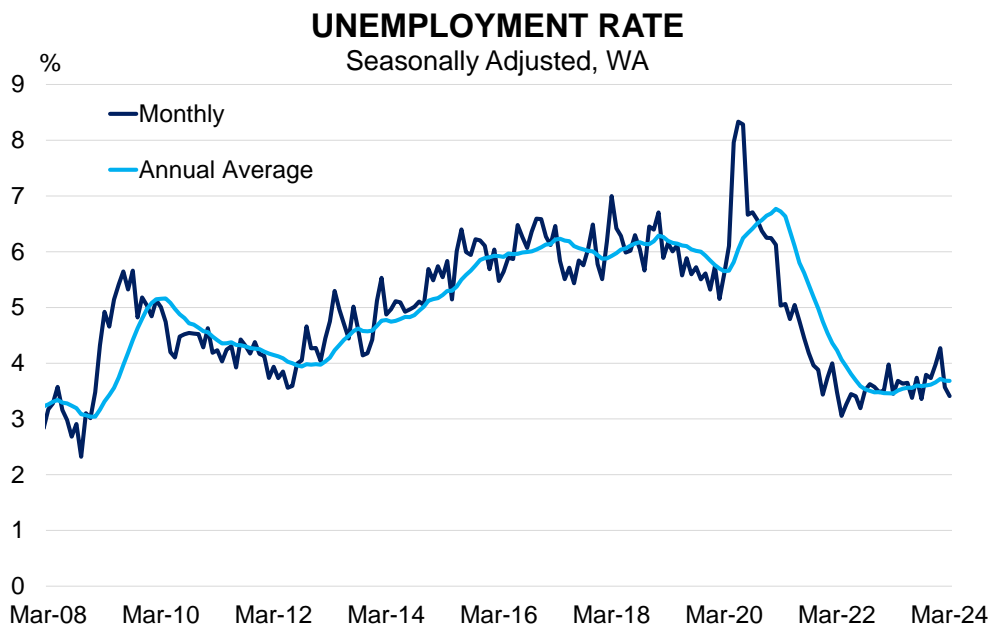
Western Australia's unemployment rate has remained fairly steady over the past year, averaging 3.7% in the year to March 2024 (Chart 6), lifting only slightly from 3.6% in 2022-23. Unemployment has remained historically low, partially due to many long-term unemployed people (those out of work for 12 months or more) finding work, while many people previously not in the labour force have moved straight into employment rather than looking for work for an extended period.

As employment growth is expected to moderate, the unemployment rate is forecast to lift slightly to 4% in 2024-25. In the remaining forecast period, the unemployment rate is then anticipated to rise gradually, reaching 4.75% by 2027-28, consistent with growth in the labour supply outpacing labour demand, but remaining well below its long-run average rate of 6%.

Western Australia's participation rate is forecast to remain elevated, averaging 68.8% in 2024-25. This follows a projected participation rate of 68.9% in 2023-24, the third highest annual rate in a financial year ever recorded in the State (behind only 69.3% in 2008-09 and 69% in 2012-13, both during phases of the previous mining investment boom).

In line with softer labour market conditions and stronger population growth, the participation rate is anticipated to trend lower in the outyears toward its decade average of around 68% by 2027-28 (falling to 68.3%).

Chart 6



Source: Australian Bureau of Statistics

6. Wages

Wages in Western Australia (as measured by the Wage Price Index, WPI⁷) grew by 4.2% in year-ended terms to the March quarter 2024, easing from 4.7% growth in December 2023, which was the fastest pace since June 2012. The combination of rising wages along with slowing inflation has also meant that real wage growth has returned to positive territory.

Wages growth is anticipated to remain consistent with its current pace, growing by 4.25% in year-ended terms in 2023-24, easing to 3.75% by June 2025. This coincides with a modest easing in the labour market, slower inflation in response to interest rate rises, and a focus on business cost control⁸. It is also consistent with a slowing in leading indicators of wage growth, such as SEEK's advertised salaries and trends in the National Australia Bank labour costs measure⁹.

7. Inflation

Perth's CPI growth (excludes the electricity sub-component) fell sharply to 4.1% in year-ended terms in March 2024, down from a peak of 8.6% in December 2022, but up slightly from 3.9% in the previous quarter. Perth's headline CPI, which remains more volatile due to Household Electricity Credit (HEC) impacts, also moderated from 8.3% in the December quarter 2022 to 3.4% in the March quarter 2024.

Year-ended growth in Perth's CPI is anticipated¹⁰ to remain steady at around 4% to June 2024, highlighting persistent price pressures for housing-related costs (new dwellings and rents) and insurance premiums, in addition to some other services where business expenses (such as labour) are more likely to be passed on.

Inflation is then forecast to ease to 3% by June 2025, in line with both declining wage pressures and weaker consumer demand containing further price hikes.

8. Risks to the Outlook

8.1 Global Risks

The global outlook remains highly uncertain. A slowing Chinese economy, conflict in the Middle East, and volatile international markets all heighten risks to global economic growth – and Australia and Western Australia will not be immune from any further deterioration. Gold prices have risen by around 15% since late February 2024 amid increasing demand for safe haven assets.

Ongoing geopolitical conflicts increase the likelihood of commodity price shocks and supply disruptions, including the Russia Ukraine war and the broader Israel Hamas conflict. Global freight indexes have risen in recent months as the attacks in the Red Sea have forced shipping companies to use a much longer route around southern Africa. Any sustained recovery in global demand in combination with these supply challenges and rising oil prices could cause a reacceleration in inflation.

⁷ Of the various wage indicators published by the Australian Bureau of Statistics, the WPI is generally viewed as the preferred measure of underlying wage growth. This is because the WPI is designed to measure wage changes for a fixed quantity and quality of labour, and thus abstracts from changes in average hours worked and other compositional changes in the labour market.

⁸ As indicated in the Reserve Bank of Australia's February 2024 Statement of Monetary Policy.

⁹ Based on a monthly survey of firm expectations of growth in labour costs.

¹⁰ The 2024-25 Budget forecasts for growth in the Perth CPI from 2022-23 are based on the total index excluding the electricity sub-index. This is to abstract from the impact of the successive State Government's Housing Electricity Credits on electricity prices.

There are elections for over half the world's population in 2024, which may result in political instability and could have significant impacts for trade and global climate policy.

Monetary policy still needs to 'thread the needle', not staying restrictive for too long leading to deep recessions or loosening too early leading to a resurgence in inflation. Further, the property market in China shows little sign of improvement, and elevated sovereign debt levels globally limit the fiscal capacity to respond to future crises.

8.2 Domestic Risks

The outlook for Western Australia's economy is subject to several key domestic risks.

Cost of living pressures have seen household spending growth slow. A continuation of elevated costs (including mortgages) could see consumers reduce their discretionary spending for longer as they re-prioritise their budgets towards essentials. As the largest component of the domestic economy, this would have a noticeable impact on economic growth.

Progress on the State's residential construction pipeline continues to be impacted by skills shortages, especially in the finishing trades. While dwelling investment growth is expected to pick up over the remainder of 2023-24, further delays could prolong the current supply and demand imbalance within the industry. This in turn could flow through to higher inflation (through rent and new dwelling prices) and house price growth.

Western Australia's economy is heavily reliant on the mining industry, which directly accounted for almost 50% of total output in 2022-23 and is the State's second largest employer. Many of Western Australia's key commodity prices have been very volatile over recent months, including iron ore, nickel and lithium. This has seen several investment projects delayed and has coincided with a potential peak in mining employment. If commodity price volatility continues, this could have ramifications for the State's economic activity.

Detailed Economic Forecasts

Table 6

ECONOMIC FORECASTS						
Western Australia, Annual Growth (%)						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	Actual	Estimated Actual	Budget Year	Outyear	Outyear	Outyear
Demand and Output ^(a)						
Household Consumption	3.5	2.0	2.25	2.75	3.0	3.0
Dwelling Investment	-2.7	6.75	7.5	2.5	3.25	2.25
Business Investment	4.5	13.25	1.75	3.75	4.25	2.25
Government Consumption	4.8	3.25	4.0	2.5	2.25	2.5
Government Investment	10.8	10.0	15.0	1.0	1.0	-0.25
State Final Demand	3.9	5.25	3.25	3.0	3.0	2.75
Goods Exports	4.7	-0.5	1.5	1.25	1.25	1.5
Goods Imports	7.8	10.0	1.25	2.0	2.25	1.75
Net Exports ^(b)	3.8	-2.25	0.25	0.5	0.75	1.5
Gross State Product ^(c)	3.5	1.75	2.0	2.0	2.25	2.25
Labour Market						
Employment	3.1	3.75	1.75	1.5	1.5	1.5
Unemployment Rate ^(d)	3.6	3.75	4.0	4.25	4.5	4.75
Participation Rate ^(d)	68.7	68.9	68.8	68.5	68.4	68.3
Population ^(e)						
Population	3.2	2.8	1.8	1.7	1.7	1.7
Working Age Population (15+)	3.8	3.1	2.0	1.9	1.9	1.9
Prices						
Consumer Price Index ^{(e) (f)}	5.0	4.0	3.0	2.5	2.5	2.5
Wage Price Index ^(e)	4.2	4.25	3.75	3.5	3.0	3.0
Perth Median House Price	4.7	12.4	4.5	2.5	1.2	0.8
Other Key Parameters ^(d)						
Exchange Rate \$US/\$A (US cents)	67.3	65.5	65.9	67.0	68.2	69.4
Iron Ore Price (\$US per tonne) Cost and Freight Inclusive (CFR)	109.6	116.1	75.0	71.0	71.0	71.0
Crude Oil Price (\$US/barrel)	86.5	84.4	83.3	77.5	74.1	71.8

(a) Based on 2022-23 annual State Accounts data, updated with the latest State Final Demand and Balance of Payments data for the December 2023 quarter.

(b) Net exports include international trade in both goods and services.

(c) Forecasts for ownership transfer costs, international trade in services and the balancing item are not separately reported.

(d) Data expressed as annual average during the financial year.

(e) Data expressed in year-ended terms.

(f) The CPI growth rates are based on the total index excluding the electricity sub-index as a result of the successive Household Electricity Credits provided across the State.