



WA Super - CCI Survey of Consumer Confidence

March Quarter 2016 | 1300 4 CCIWA | economics@cciwa.com



Just under **half of consumers** expect the WA economy to remain relatively unchanged in the short-term

Confidence weakens in an uncertain environment

Short-term consumer confidence in Western Australia (WA) weakened during the March quarter, according to the latest *WA Super-CCI Survey of Consumer Confidence*.

The March quarter survey, which is the only survey of its kind in the State, canvassed the views of 402 adults, located across both metropolitan and regional WA.

The results showed that after improving for the two previous quarters, short-term confidence moderately declined in the March quarter. Just under half of consumers expect the WA economy to remain relatively unchanged in the short-term, a small decline in the number reporting the same for the December quarter. At the same time, five per cent of respondents are optimistic about the short-term outlook. This was nine per cent the previous quarter.

With regard to consumer confidence over the next 12 months, just under a third of respondents expect the medium-term outlook to remain stable. This is up from 22 per cent in the December quarter. While just over 50 per cent of respondents expect the medium-term outlook to worsen, around 19 per cent of respondents believe that the WA economy will improve in the medium term.

The decline in both the short term and medium term outlook for the WA economy reflects consumer concerns over public finances following another credit rating downgrade from ratings agency Moody's. The agency downgraded WA from Aa1 to

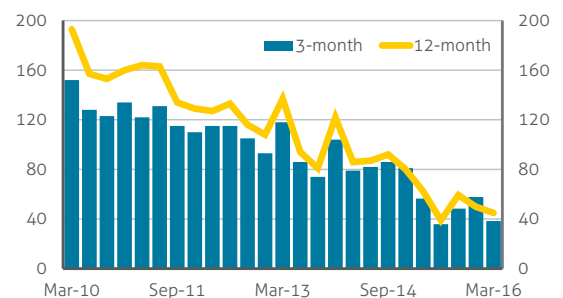
Aa2 in early February. Political uncertainty resulting from inconsistent positions on substantive tax reform in the lead up to the Federal election has also contributed to the fall in consumer confidence.

Global economic news was also a concern for consumers, with 50 per cent of respondents indicating this was the most significant factor influencing their perception of the State's economy. This represents an increase from 41 per cent during the December quarter. Meanwhile, some 44 per cent of consumers indicated living costs were also a significant influence this quarter. However, this is down from the 51 per cent reported last quarter. Interestingly, global economic news has overtaken living costs as a factor influencing consumers for the first time in four quarters.

The survey's index for personal finance decreased to historically low levels during the March quarter. Compared to the previous quarter, there was a seven per cent fall in respondents reporting their personal finances were better off than a year prior. This resulted in a corresponding increase in respondents indicating their personal finances were about the same at 49 per cent. The percentage of respondents who reported they were financially worse off remained steady from last quarter at 32 per cent.

The survey's index for job prospects also modestly declined during the March quarter. Just under half of all respondents

WA Economic Conditions
3 Month and 12 Month Expected, Index, 100 = "Neutral"

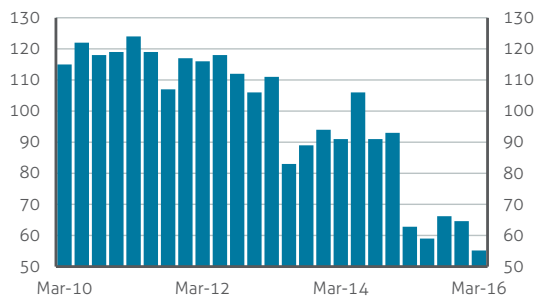


indicated their job prospects were about the same when compared to a year ago. This is a decrease from 54 per cent last quarter. Further, 30 per cent of respondents indicated their job prospects were worse, which remained unchanged from last quarter. There was only a slight fall in the number of respondents who believed their job prospects were better, decreasing from 14 per cent in the December quarter to 13 per cent this quarter.

This quarter's feature question examines consumer opinion of the WA State Government's economic performance. The majority of respondents believe the Government could be doing more to support the economy through the transition from construction to production. Two of the key industries that consumers identified as priorities for diversification and economic growth were 'agriculture', and 'innovation and science'. Further, when asked a question surrounding the government's plan to regain the State's AAA credit rating, it was evident consumers place high importance on having a plan and believe this should be a Government priority.

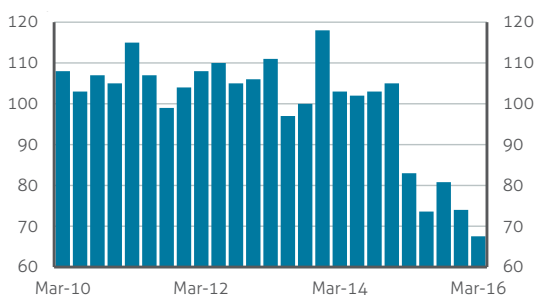


Job Prospects
Compared to a Year Earlier, Index, 100 = "Neutral"



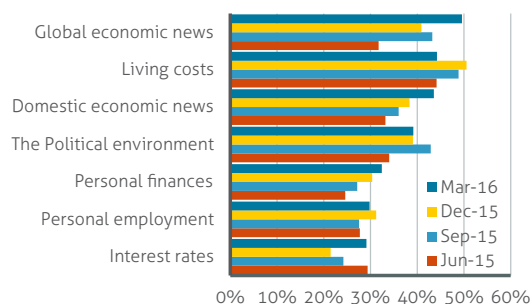
Consumer attitudes towards their job prospects modestly declined during the March quarter. Analysis has shown that movements in the job prospects index tracks consumer sentiment towards the WA economy.

Personal Finances
Compared to a Year Earlier, Index, 100 = "Neutral"



The index of personal finance decreased during the March quarter. This was mainly driven by a decrease in respondents reporting their personal finances were better off than a year prior, despite the low interest rate environment.

Factors Influencing Consumers
Net Major Percentage



Global economic news was the number one concern for consumers in the March quarter, followed by living costs. Domestic economic news ranked as the third most important issue for consumers.



A plan for the future

Early February saw Moody's downgrade Western Australia's (WA) credit rating to Aa2 from Aa1, with a stable outlook. WA now has the lowest credit rating in the nation.

Moody's highlighted that the downgrade reflected the ongoing deterioration in WA's financial and debt metrics, and an increasing risk that the State's debt burden will be higher than indicated in the 2015-16 Mid-year Review.

There is concern from Moody's that WA's debt burden could reach 140 per cent of revenue by 2016-17, which is higher than other Australian States. Further, given WA's increasing dependency on royalty revenue, and widening deficits, Moody's suggests that there is a lack of financial cushioning against further falls in key commodity prices.

Moody's stated that the WA Government needs to strengthen its commitment to budget improvements, in particular

achieving the State's assumed average rate of spending growth of 2.7 per cent over the forward estimates. This will require very low increases in public sector employee costs and a concerted reduction in the growth rate of spending on healthcare and other social services.

In the Chamber of Commerce and Industry of Western Australia's (CCI) submission to the State Government 2016-17 Budget, areas of government spending where expenditure could, and should, be reduced were identified. Options were also offered for reform of the public sector and machinery of government that could produce significant savings, improve efficiencies, and allow greater strategic direction of operational activities and outcomes.

The severe fiscal challenges that will confront the Government for the foreseeable future are well understood. The primary threats to public finances

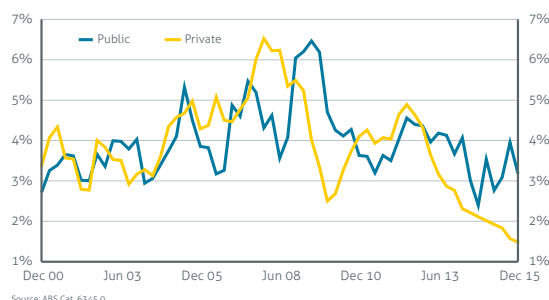
ultimately emerge from current levels of expenditure and debt. Over the past decade, WA general government spending has increased by an average of 8.6 per cent per year, rising from \$13 billion in 2004-05 to \$27.8 billion in 2014-15.

Of particular concern is the growth in health expenditure, which has grown at a decade average of approximately 9.5 per cent per annum. Health expenditure accounts for around 30 per cent of general government recurrent expenditure in 2015-16. CCI considers that this growth is unsustainable. To provide further context, over the same period the average growth of WA's population was only approximately 2.4 per cent, while Consumer Price Index growth was approximately 3 per cent.

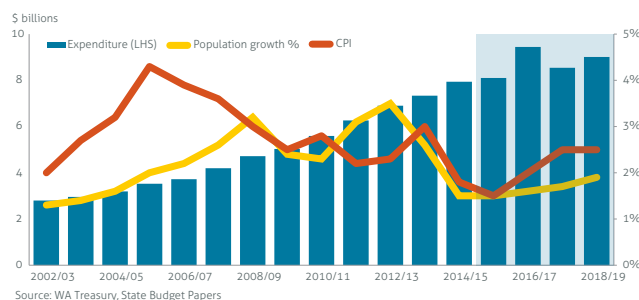
That expenditure is the main problem seems clear. While the Government often

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Wage Price Index
Wage growth, Private Sector Vs Public Sector



Total Expenditure of WA Health, Population Growth and CPI



lays blame on decreases in revenue and, in particular GST share, CCI analysis does not support this premise. For example, according to the State Budget papers, between 2004-05 and 2014-15 general government revenue has increased by a decade average of 7.3 per cent almost doubling over the period from \$14 billion to \$27.4 billion.

A significant proportion of this expenditure is recurrent. As such, one priority reform area is the public sector wage system. Salaries expenditure is the single largest component of general government sector expenses. Over the decade to 2013-14, total public sector wages doubled to over \$11 billion and in 2014-15 wages constituted nearly 40 per cent of total public sector expenditure.

Unsustainable wage growth can clearly be traced over time by referring to the Australian Bureau of Statistics' Wage Price Index data series. Changes to wage settings in the public sector have generally lagged wage settings in the private sector.

After the private sector experienced wage growth of 4.9 per cent in June 2012, wage growth slowed to a record low 1.5 per cent in December 2015. Wages growth in the public sector experienced a similar phenomenon, albeit lagged, until wage growth jumped from 2.4 per cent in September 2014 to 3.5 per cent in December 2014, and then peaked in

September 2015 at four per cent. For a significant amount of time public sector wages have grown at a much higher rate than the private sector and this has continued into December 2015.

Recent WA inflationary pressures have been significantly more subdued than growth in public sector wages. Prices growth in WA during the December quarter of 2015 came in at 1.5 per cent, with wages growth of just 1.1 per cent during the September quarter, considerably lower than the decade average of 2.8 per cent growth per month.

Growth of this magnitude in public sector wages is unsustainable in the long-term. Given the fiscally constrained environment the government is operating in, public sector wage reform must be a priority.

The WA Government recently released their 2016 Public Sector Wages Policy Statement, which commits to capping public sector wage growth at 1.5 per cent per annum. CCI recognises that this is significant progress. However, there is more that could be achieved.

For example, public service holidays and leave loading should be phased out, as these entitlements are outdated and not applicable to a modern public sector. Long service leave should also be brought more into line with the private sector. Presently, public sector long service leave accumulation is significantly faster than the private sector.

Further, public sector wages reform should be part of a broader reform strategy that will help WA to regain its AAA credit rating. The broader reform package should consist of implementing a fiscal management paradigm to manage public sector finances through different business cycles, helping ensure that there will be cash surpluses across all public sector activities.

The divestment of assets that no longer need to be owned by government is another area of key reform that needs to be considered. The government's asset sale program should be accelerated by moving towards the sale of electricity and water assets immediately, as well as a more sustained effort on implementing long-term leases of WA's ports.

The WA community could also benefit from outsourcing components of service provision to introduce innovation, reduce costs, and improve focus on outcomes. In some areas of service delivery, it is difficult to see justification as to why the government should have as big a role as it does, if any.

Areas where WA has already outsourced a number of services to the private sector include delivery of health and corrective services. Outsourcing of appropriate services should be further investigated by the State Government with the aim of driving down costs, increasing efficiencies and improving service delivery for West Australians.

State Government performance

This quarter's feature question gained insight into consumer opinion around the way that the State Government is managing the impact on economic activity and employment through the current economic environment.

Respondents were asked how they would describe their opinion of the way the State Government is managing the impact on economic activity and employment with the current transition in WA's economy from construction to production.

Overall, the vast majority of surveyed consumers (90 per cent) believe the Government could be doing more to support the economy through this transition. This compares to around seven per cent of respondents who believe the State Government is doing enough to support the economy through this transition.

Consumers were then asked which industries they believe are the most important to promote growth and increase employment in the State. Consumers acknowledged that mining remains an important industry for economic growth, and that it will continue to be so in the future, receiving 39 per cent of responses. However, the results clearly indicate that consumers

believe that other industries should be promoted and facilitated in order to stimulate economic development throughout the State.

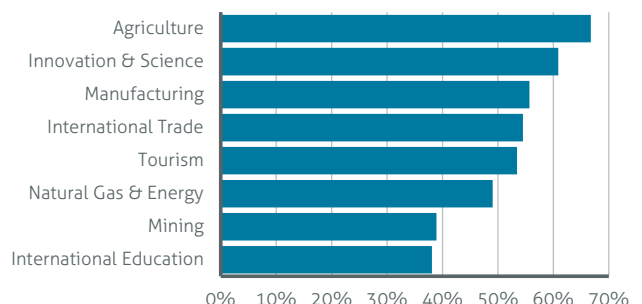
Agriculture was reported as the highest priority industry, with 67 per cent of respondents regarding it as the top priority. At 61 per cent, innovation and science was considered the second highest priority industry to focus on. The manufacturing industry (56 per cent), international trade (55 per cent), and tourism (53 per cent) followed as significant areas requiring development. Natural gas and energy was the sixth highest priority (49 per cent), followed by mining (39 per cent), and international education (38 per cent).

Following the recent downgrade in February 2016, and as a variable that can affect consumer confidence, consumers were asked if they believed the State Government had a realistic plan to regain the State's AAA credit rating and how much importance they place on having a plan.

Over 60 per cent of respondents believe that the Government has no realistic plan to regain the AAA credit rating. Only 16 per cent of respondents believe the Government has a plan. Interestingly, 20 per cent of respondents are unclear regarding whether or not the Government has a plan to regain the AAA credit rating. This means that 80 per cent of consumers considered that the Government either had no realistic plan, or were unclear whether the Government had a plan or not which, from consumers' perspective, amounts to the same thing.

Almost 70 per cent of respondents place high importance on the development of a plan to regain the rating. This compares with just seven per cent of respondents who believe that regaining the State's AAA credit rating is of low importance.

Government Priority Industries
Percentage of Respondents Reporting Industry as Priority





90 per cent of respondents believe the Government could be doing more to support the economy through this transition.



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