



Government of **Western Australia**
Department of **Treasury**

2021 State Wage Case

The Western Australian Economy

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Director

Economic and Revenue Forecasting

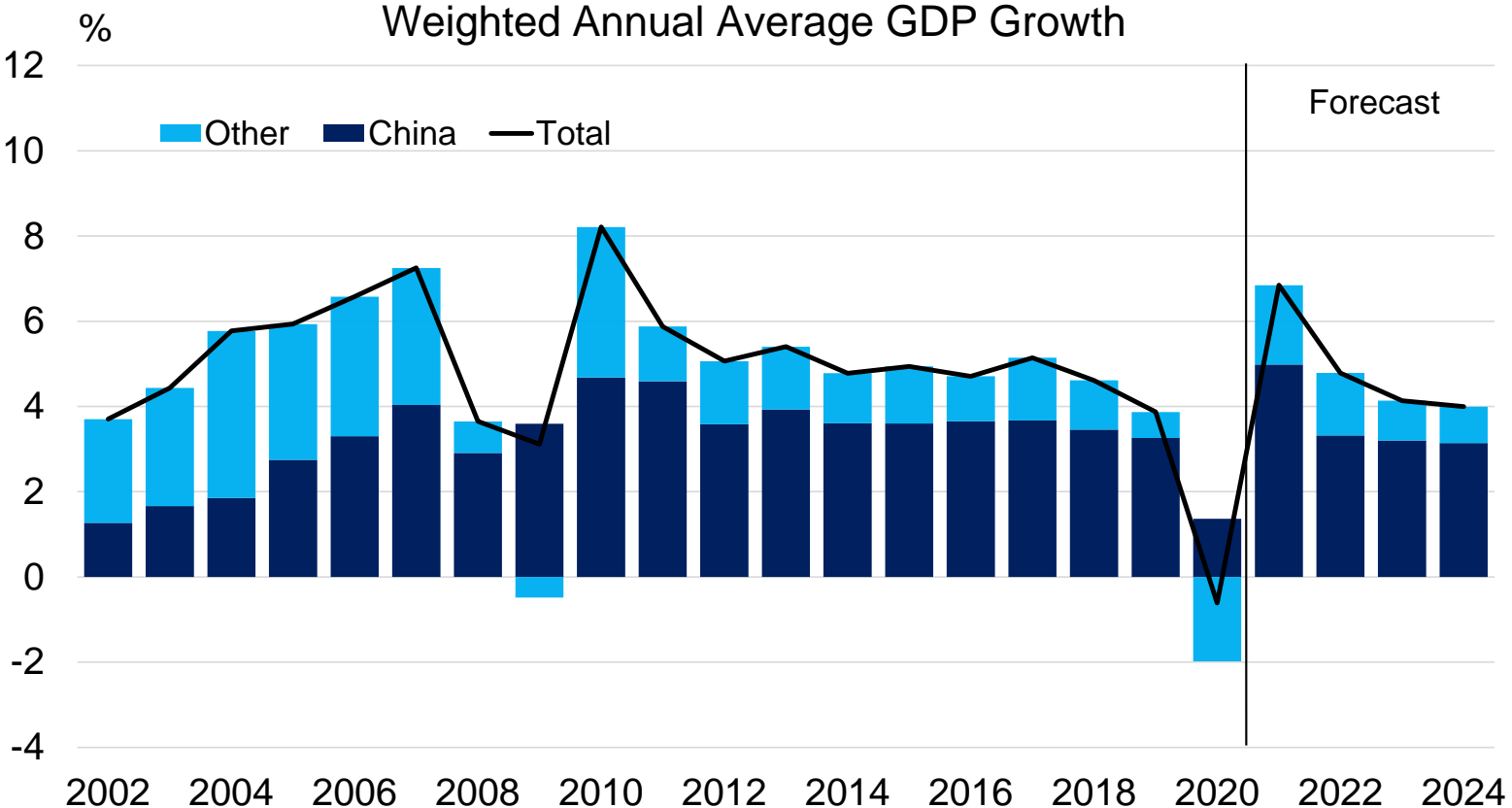
20 May 2021

Global and National Context

Global Context

▶ As in the case of the Global Financial Crisis, WA has benefited from having China as its major export partner.

WESTERN AUSTRALIA'S KEY EXPORT MARKETS (a)

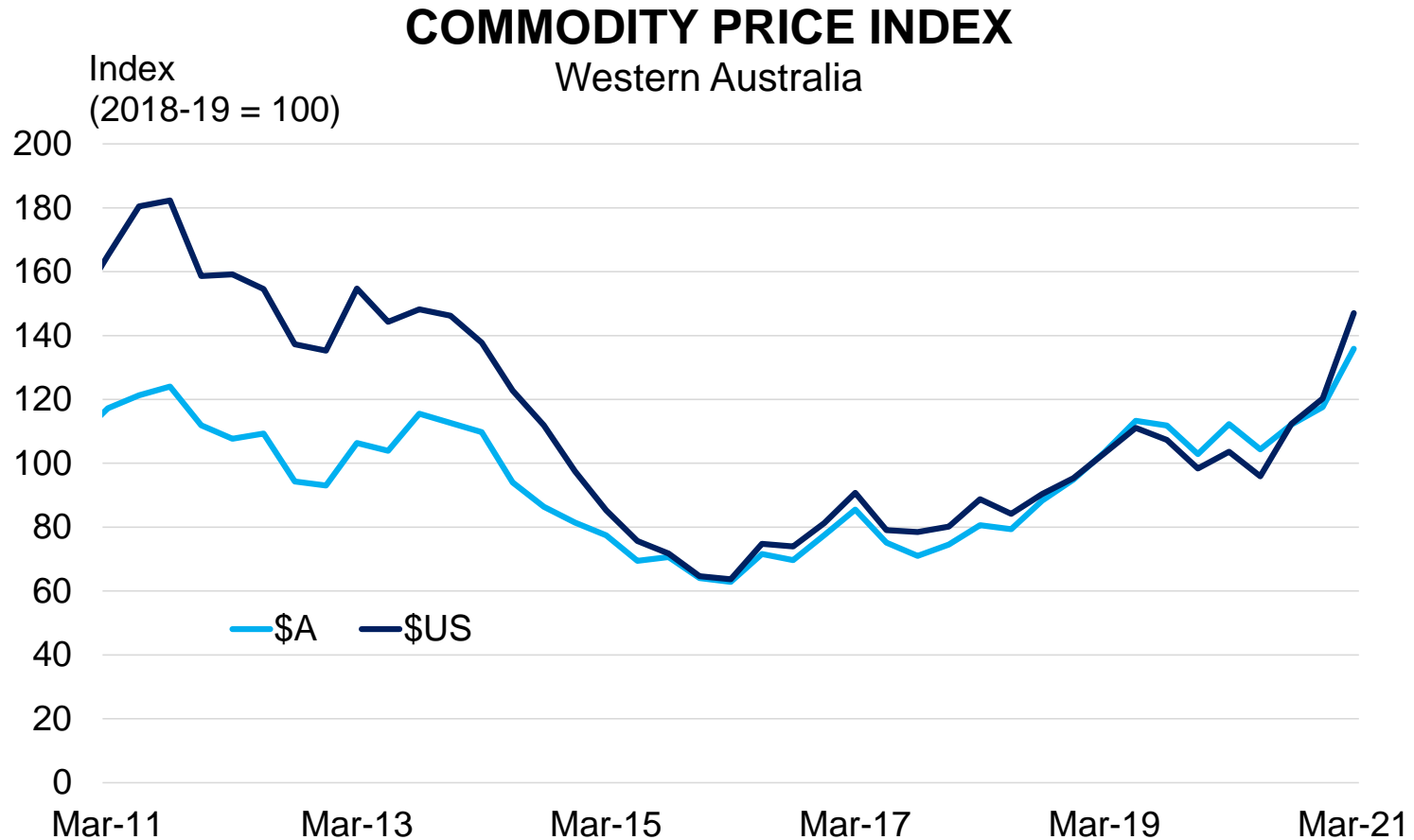


(a) Comprises China, Japan, South Korea, India and nine other countries. Together, these accounted for over 90% of the State's exports in 2020.

Source: IMF & Department of Treasury

Commodity Prices

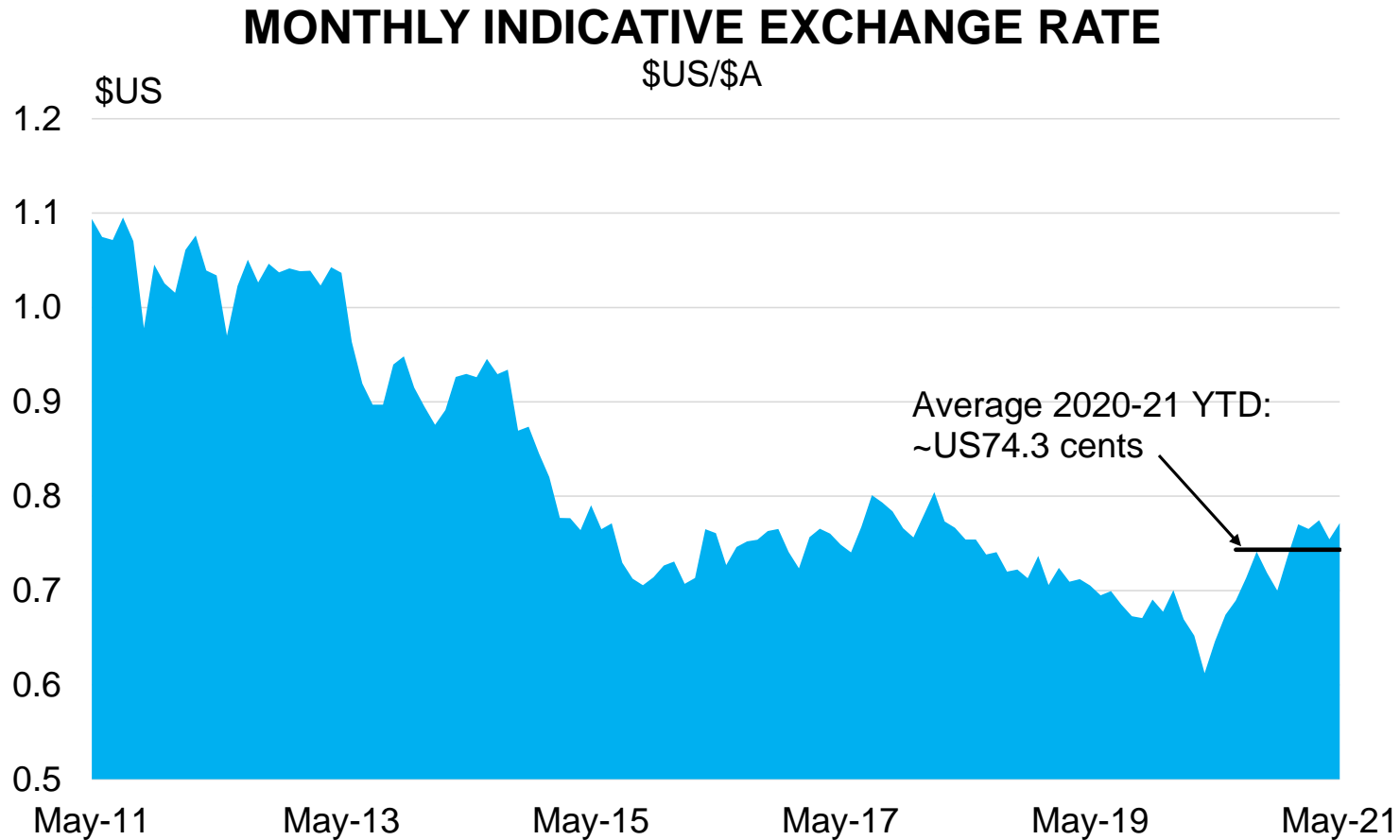
▶ The strong recovery in China and its commodity intensive stimulus program has underpinned high levels of WA's commodity prices, most notably for iron ore.



Source: Refinitiv, DMIRS and Department of Treasury

Exchange Rate

▶ The \$US/\$A has recovered from a 17-year low in April 2020, reflecting confidence in the Australian economy.



Source: Reserve Bank of Australia

National Economic Forecasts^(a)

- ▶ The Australian economy is now expected to resume growing in 2020-21. This represents a marked improvement on previous forecasts for a contraction, as activity has recovered faster than previously expected.

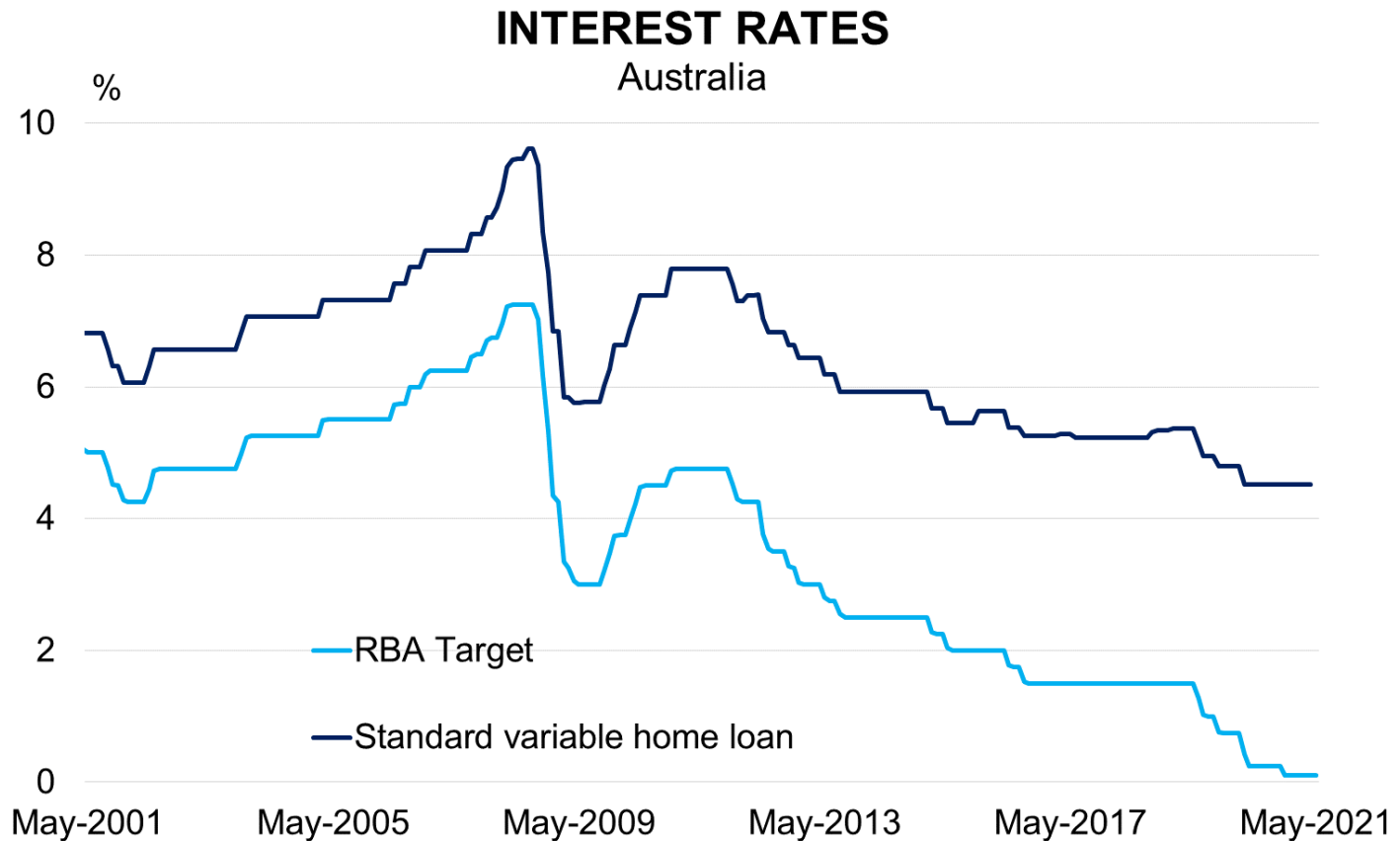
	Outcomes	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1.25	4.25	2.5	2.25	2.5
Employment growth	-4.2	6.5	1.0	1.0	1.25	1.25
Unemployment rate	6.9	5.5	5.0	4.75	4.5	4.5
Consumer Price Index	-0.3	3.5	1.75	2.25	2.5	2.5
Wage Price Index	1.8	1.25	1.5	2.25	2.5	2.75

(a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: 2021-22 Budget, Commonwealth Government

Interest Rates

▶ Notwithstanding the faster than expected recovery to date, the Reserve Bank of Australia has left the cash rate at record lows, emphasising the need for on-going supportive monetary policy.



Source: Reserve Bank of Australia

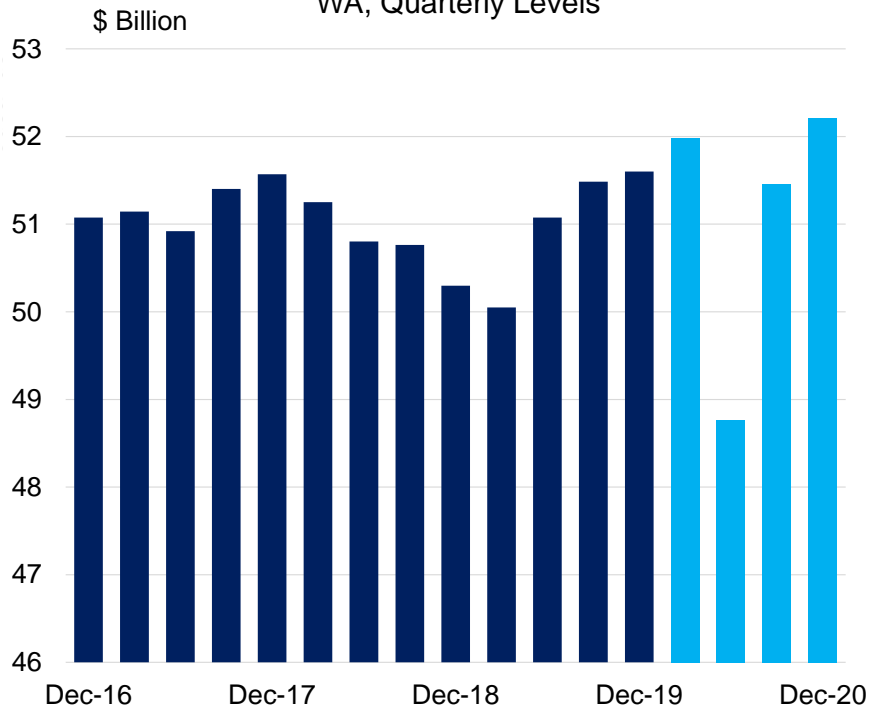
The Western Australian Economy

Current Conditions

- ▶ After falling in mid-2020, both State Final Demand and merchandise exports have recovered to be above pre-COVID-19 levels.

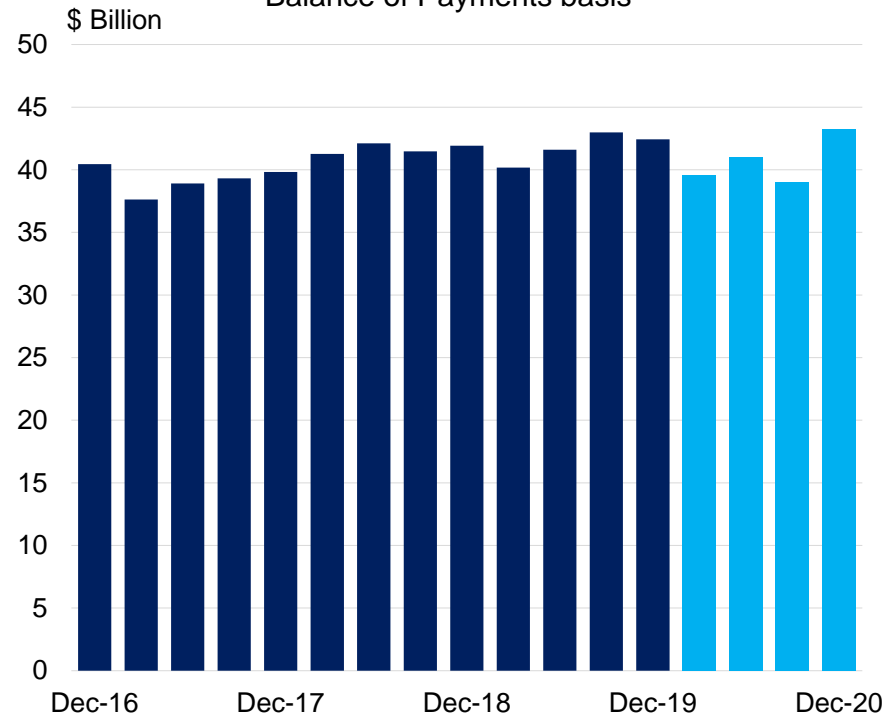
STATE FINAL DEMAND

WA, Quarterly Levels



WA GOODS EXPORTS

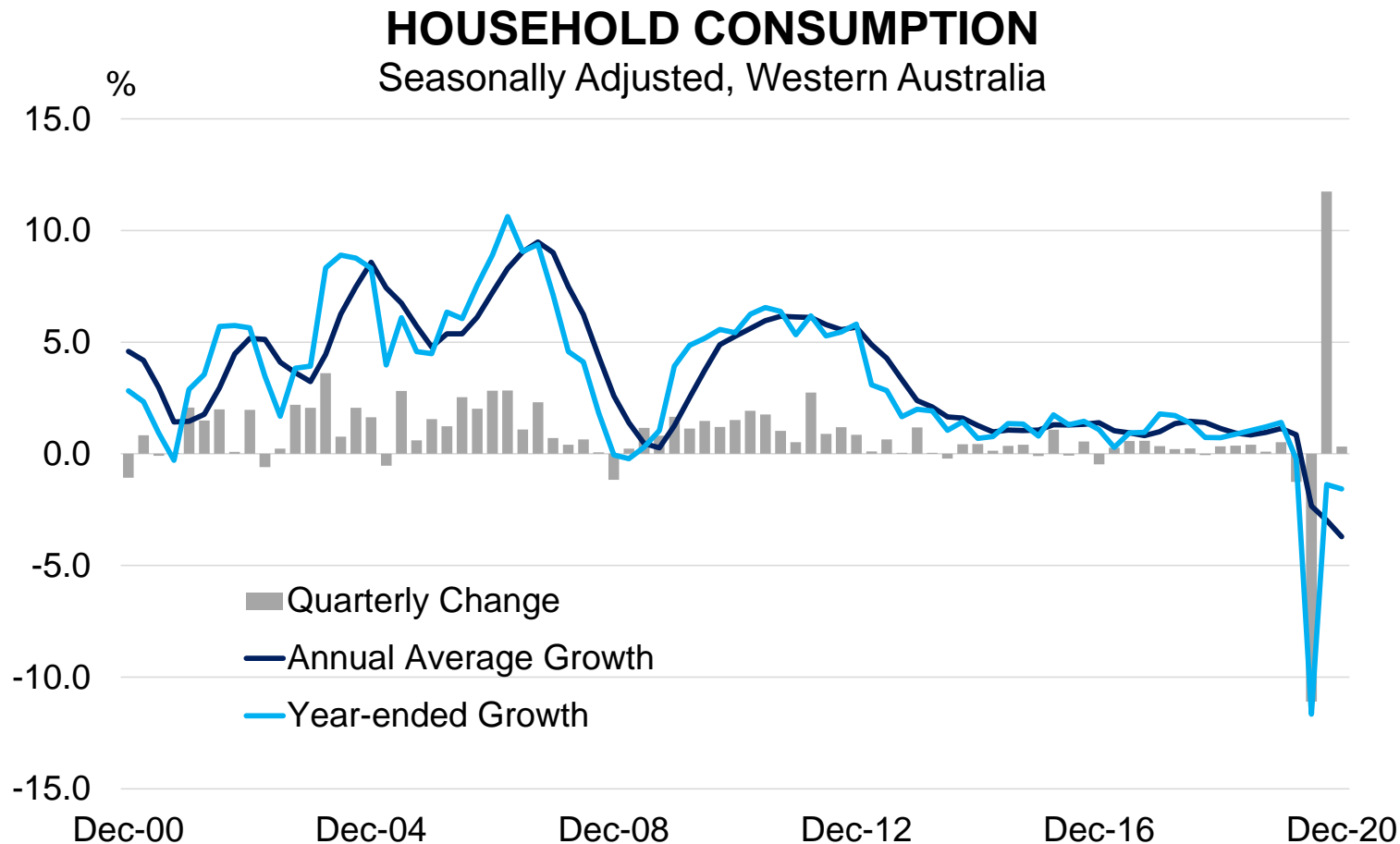
Balance of Payments basis



Source: ABS Cat. 5206.0 and 5302.0

Household Consumption

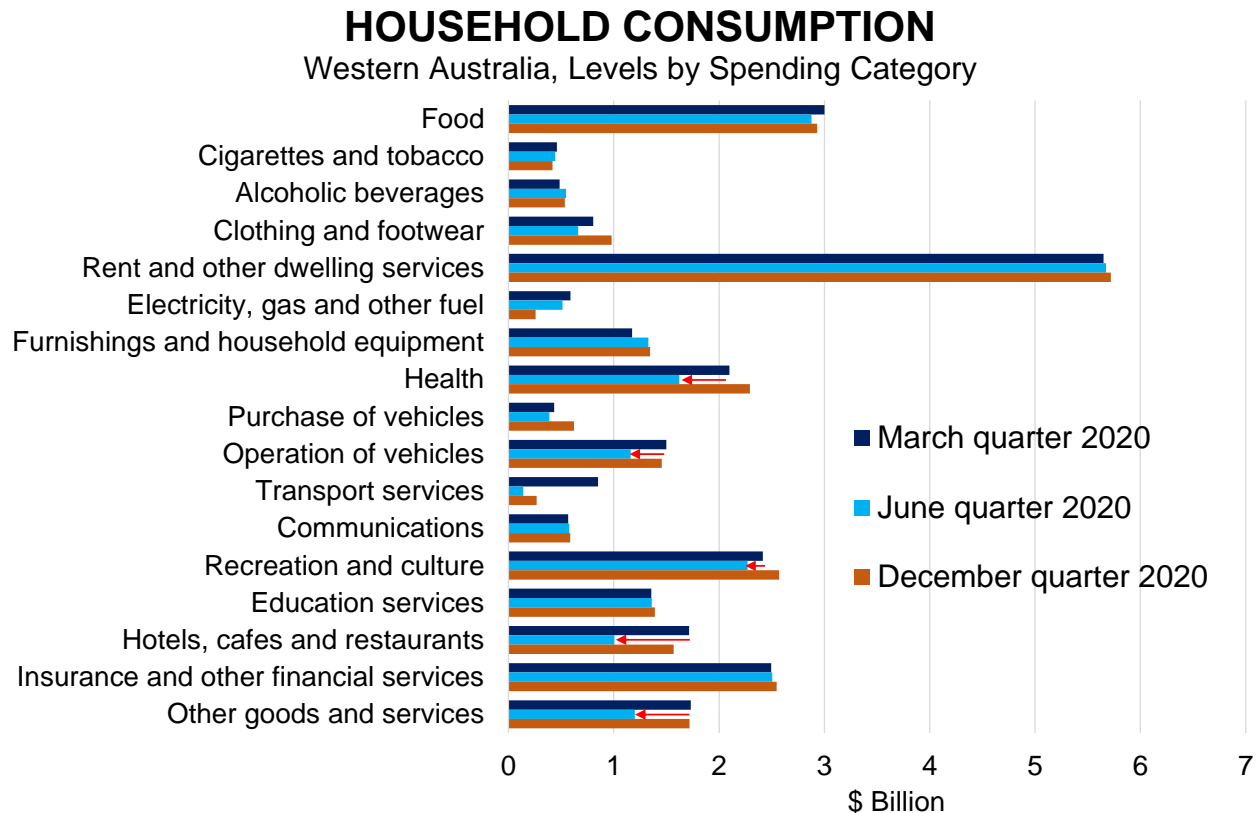
▶ Household consumption has largely (but not fully) recovered following the COVID-19 induced record decline in the June quarter 2020.



Source: ABS Cat. 5206.0

Household Consumption

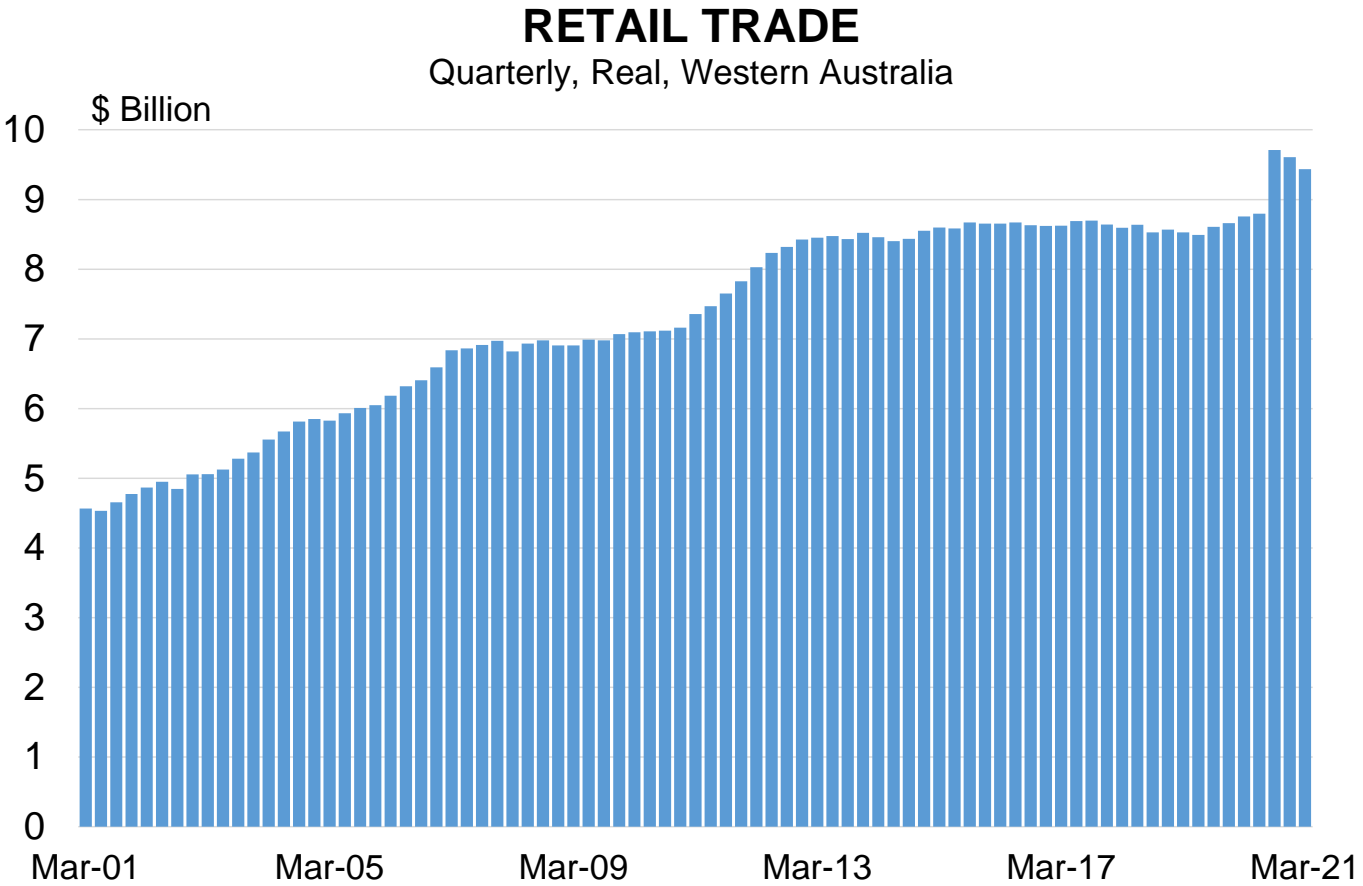
Areas most affected by COVID-19 restrictions experienced the largest declines. In some cases, spending has largely recovered, but sectors impacted by international border closures continue to find conditions challenging.



Source: ABS Cat. No. 5206.0

Retail Trade

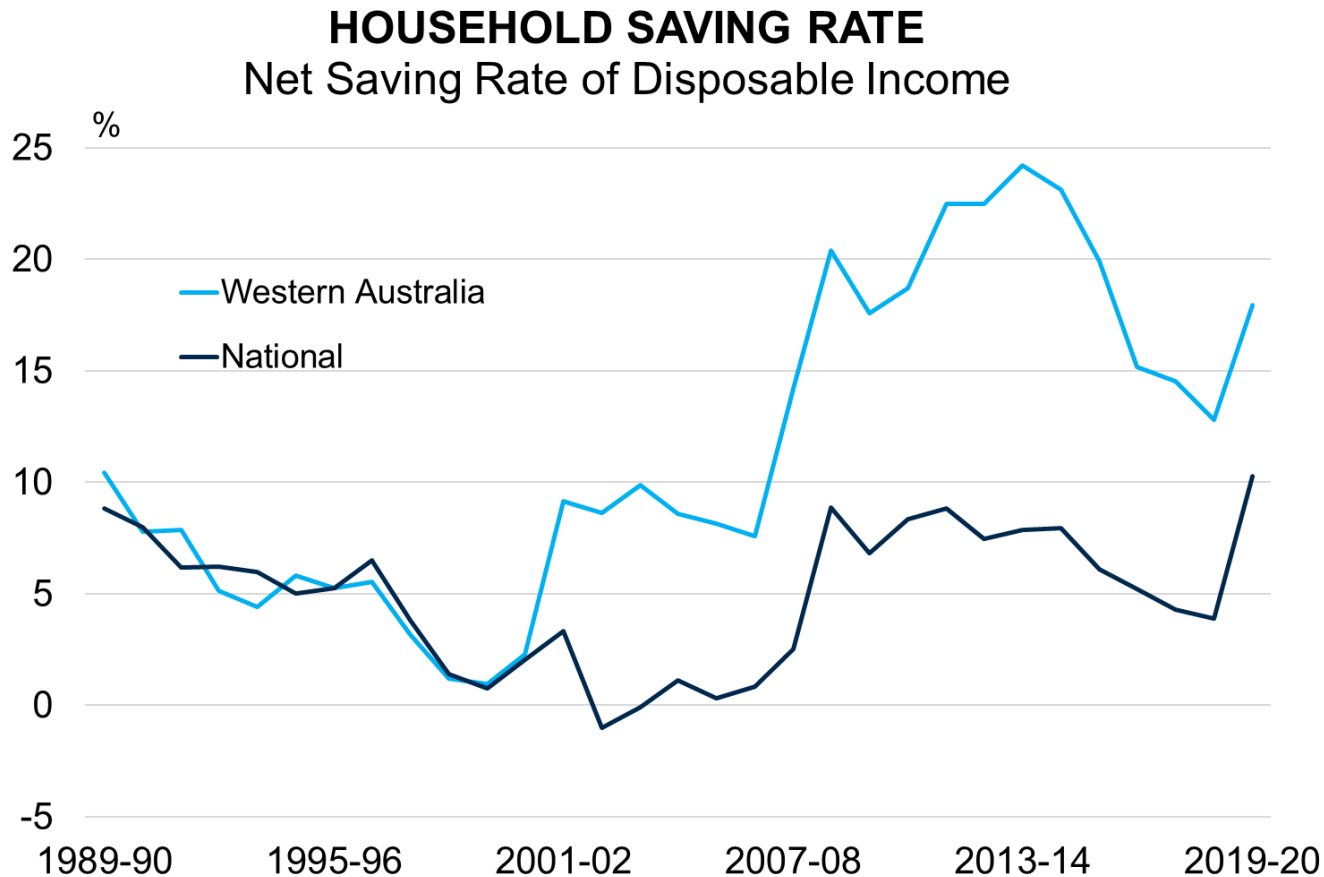
- ▶ Retail spending within the State has been high through the pandemic to date, supported by stimulus measures and the redirection of interstate and international travel spend to spending in WA.



Source: ABS Cat. 8501.0

Household Savings

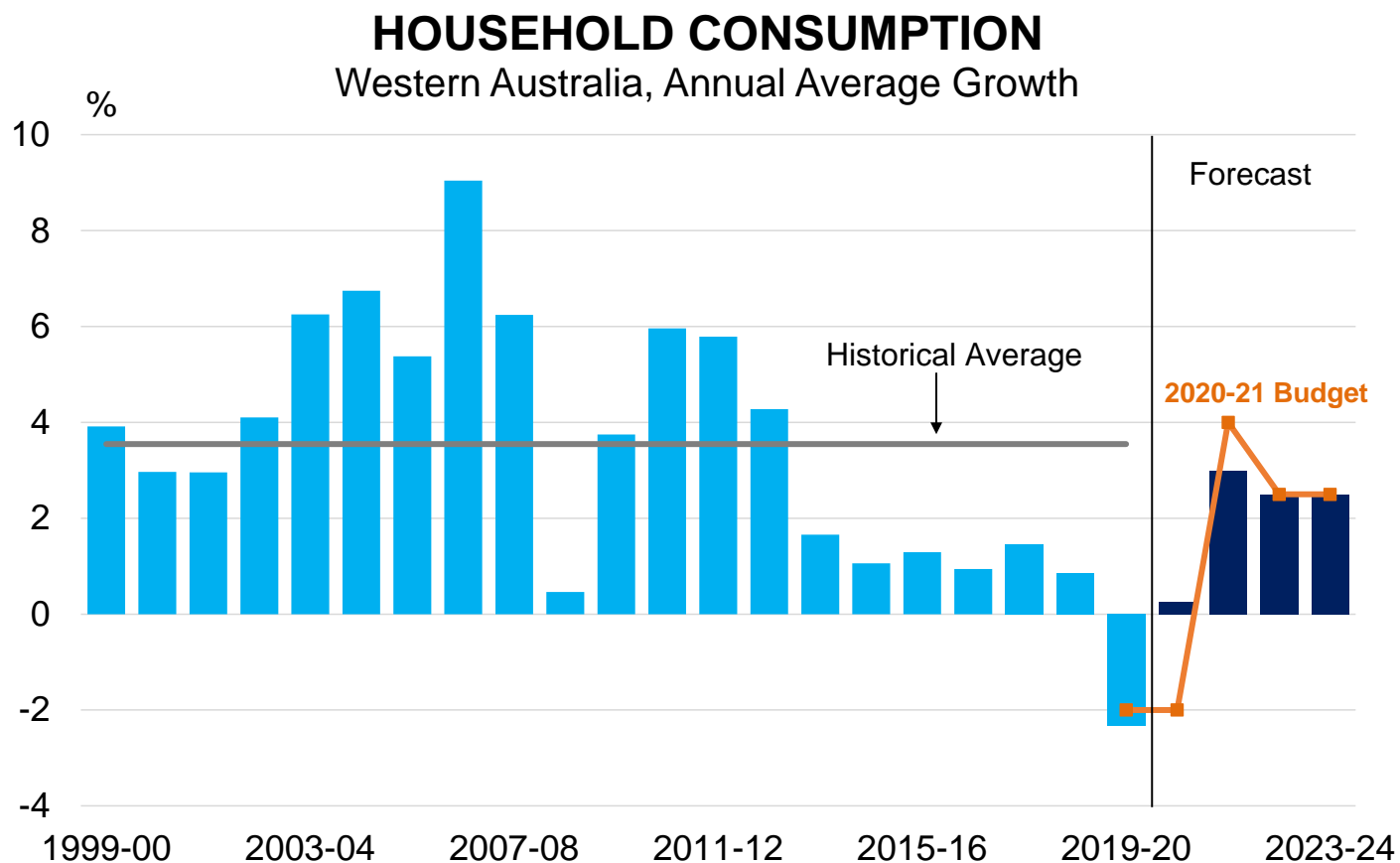
- ▶ Unprecedented fiscal support, together with constraints on spending interstate and internationally, have enabled households to save more and strengthen their balance sheets.



ABS Cat. 5220.0 and Treasury

Household Consumption

- ▶ Although harder hit than many other areas of activity, household spending has recovered at a faster pace than previously expected. Nevertheless, forecast growth in 2020-21 is very modest.



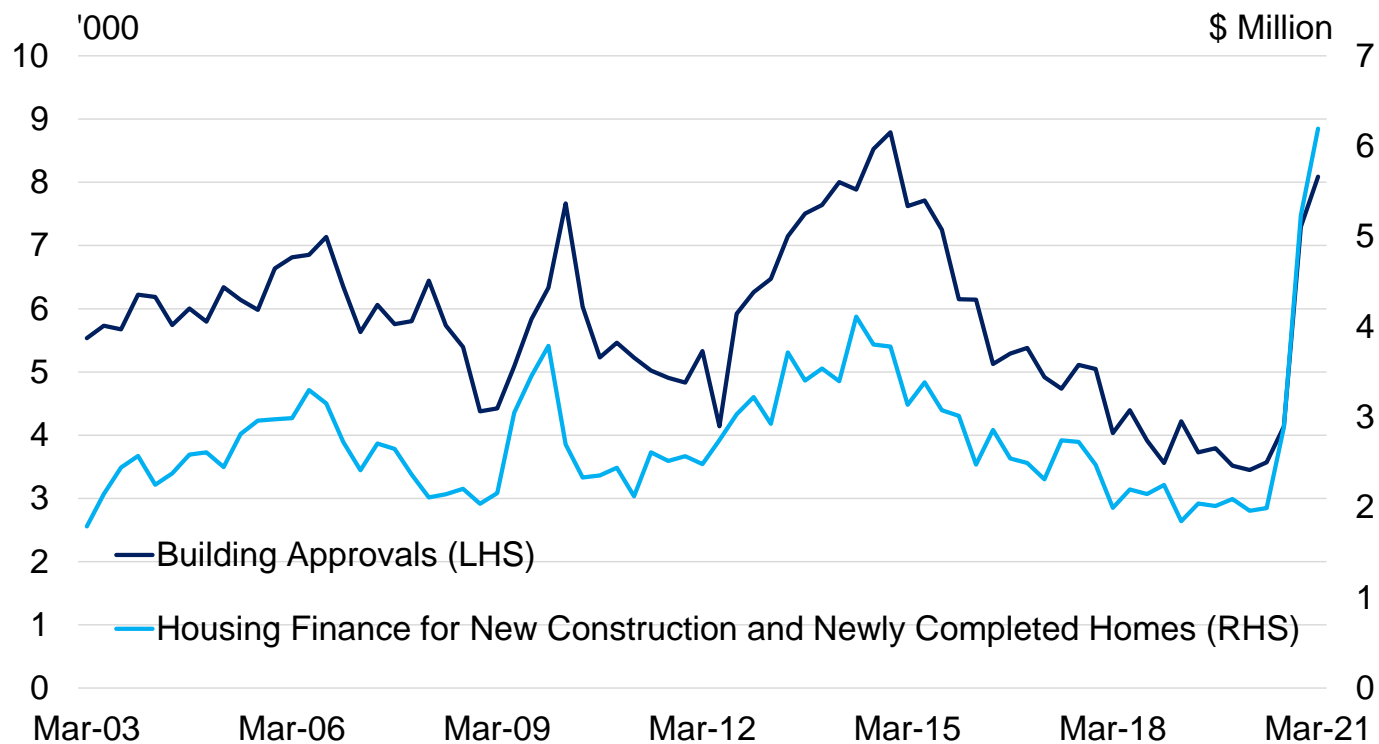
Source: ABS Cat. 5206.0 & Department of Treasury

Housing Market

- ▶ Residential construction is an area of particular strength, supported by stimulus measures undertaken by both the State and Commonwealth Governments.

HOUSING FINANCE AND BUILDING APPROVALS

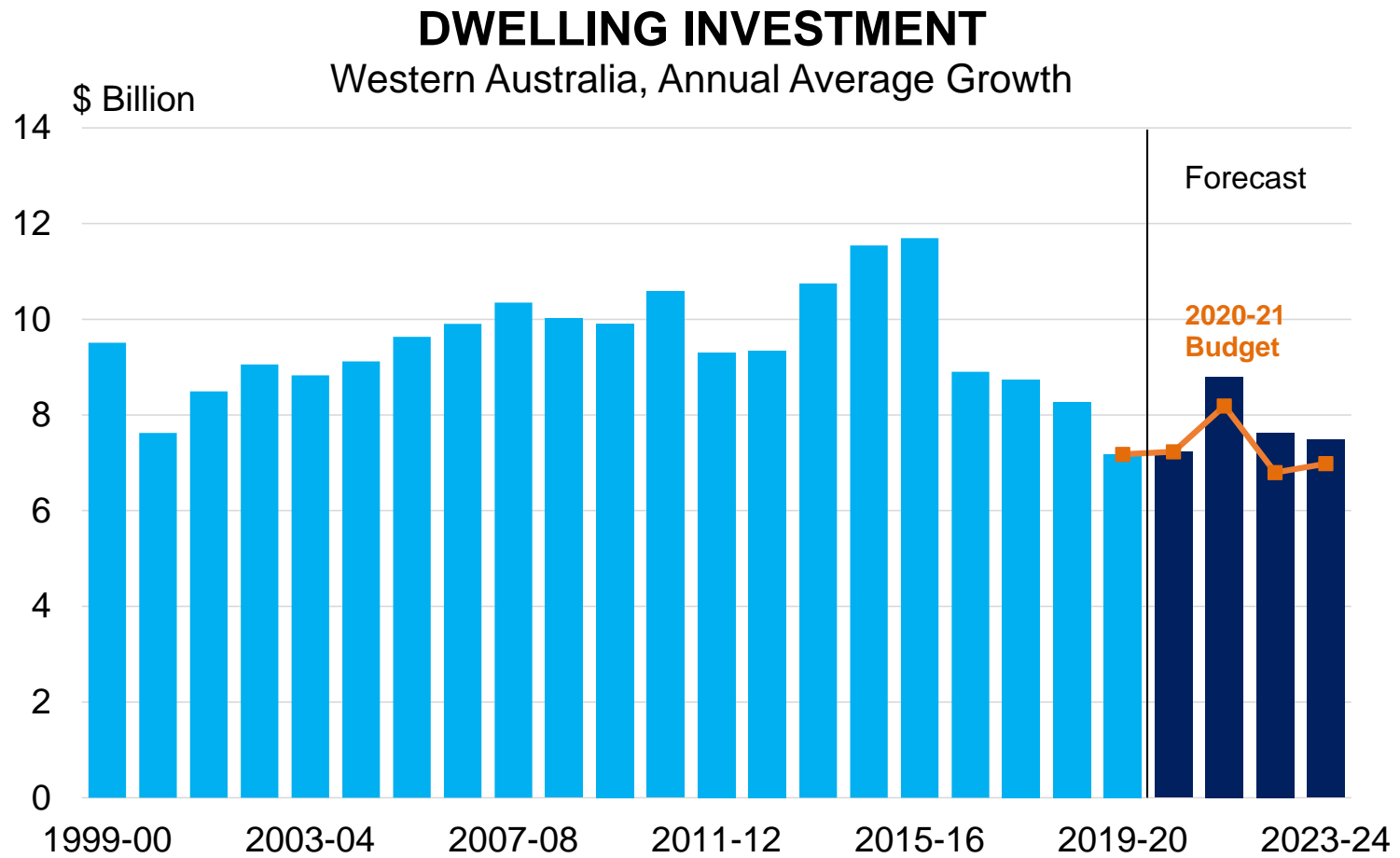
Western Australia, Quarterly



Source: ABS Cat. 5601.0 and 8731.0

Dwelling Investment

▶ Government stimulus measures have boosted residential construction by more than initially expected.

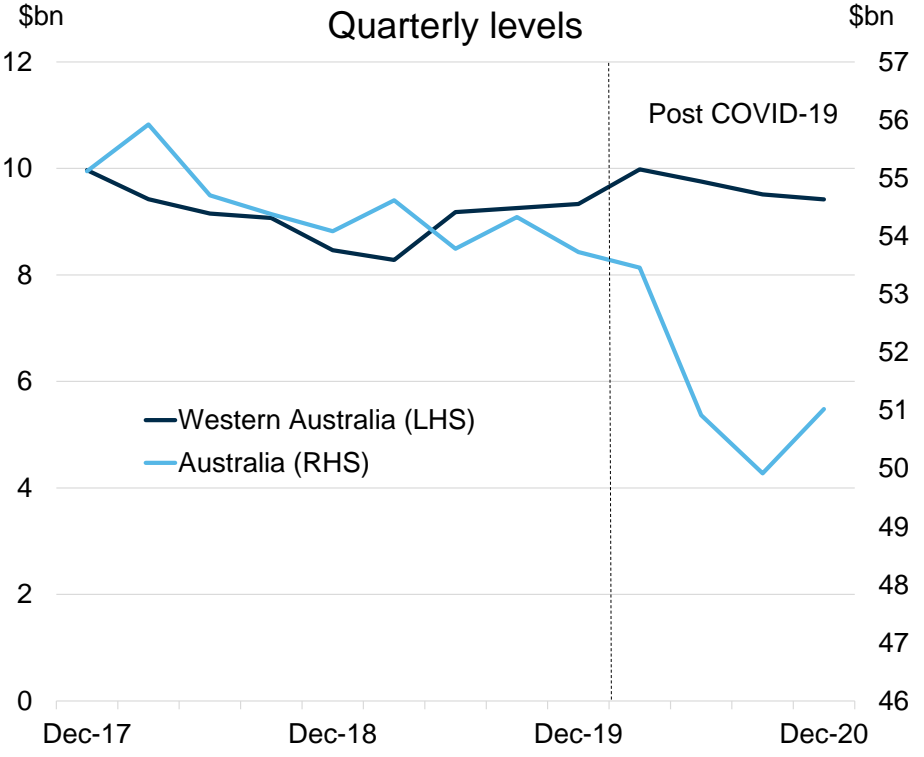


Source: ABS Cat. 5206.0 & Department of Treasury

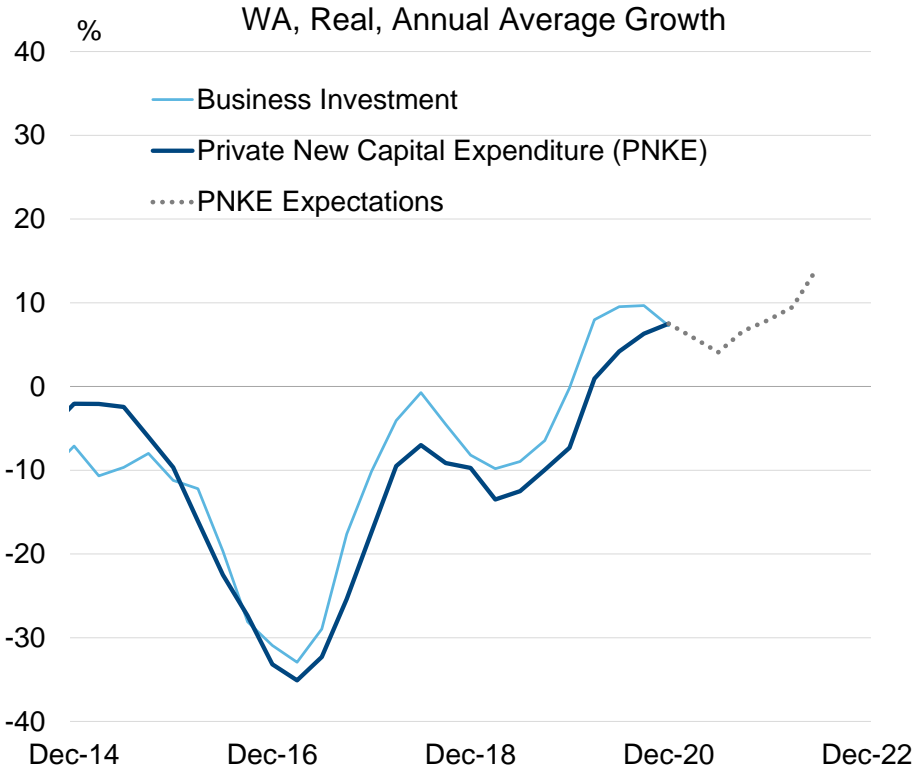
Business Investment

▶ Business investment has held up well in Western Australia, largely reflecting construction work on large backfill iron ore projects.

BUSINESS INVESTMENT
Quarterly levels



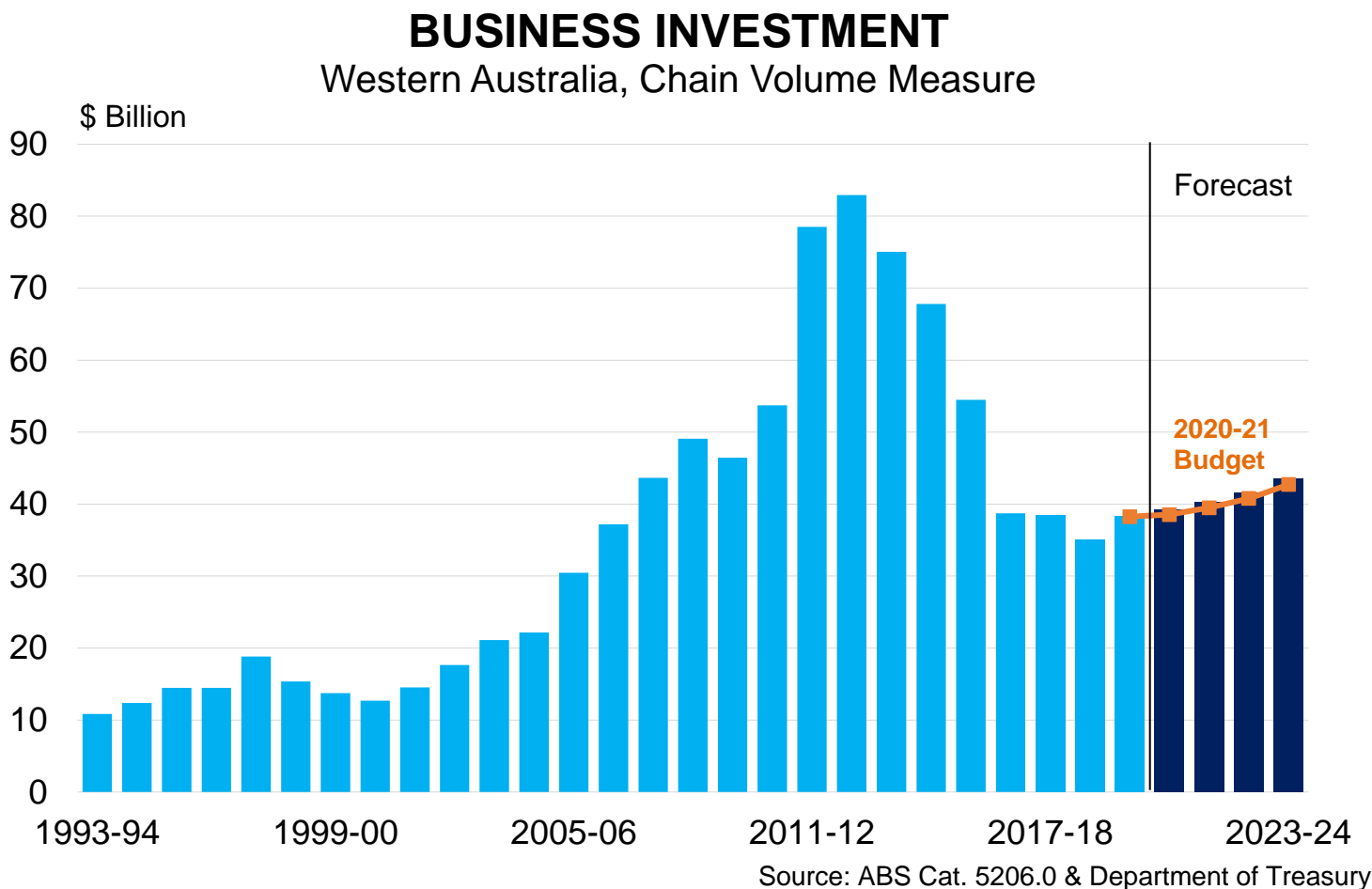
PNKE AND BUSINESS INVESTMENT



Source: ABS Cat. 5206.0 and 5625.0

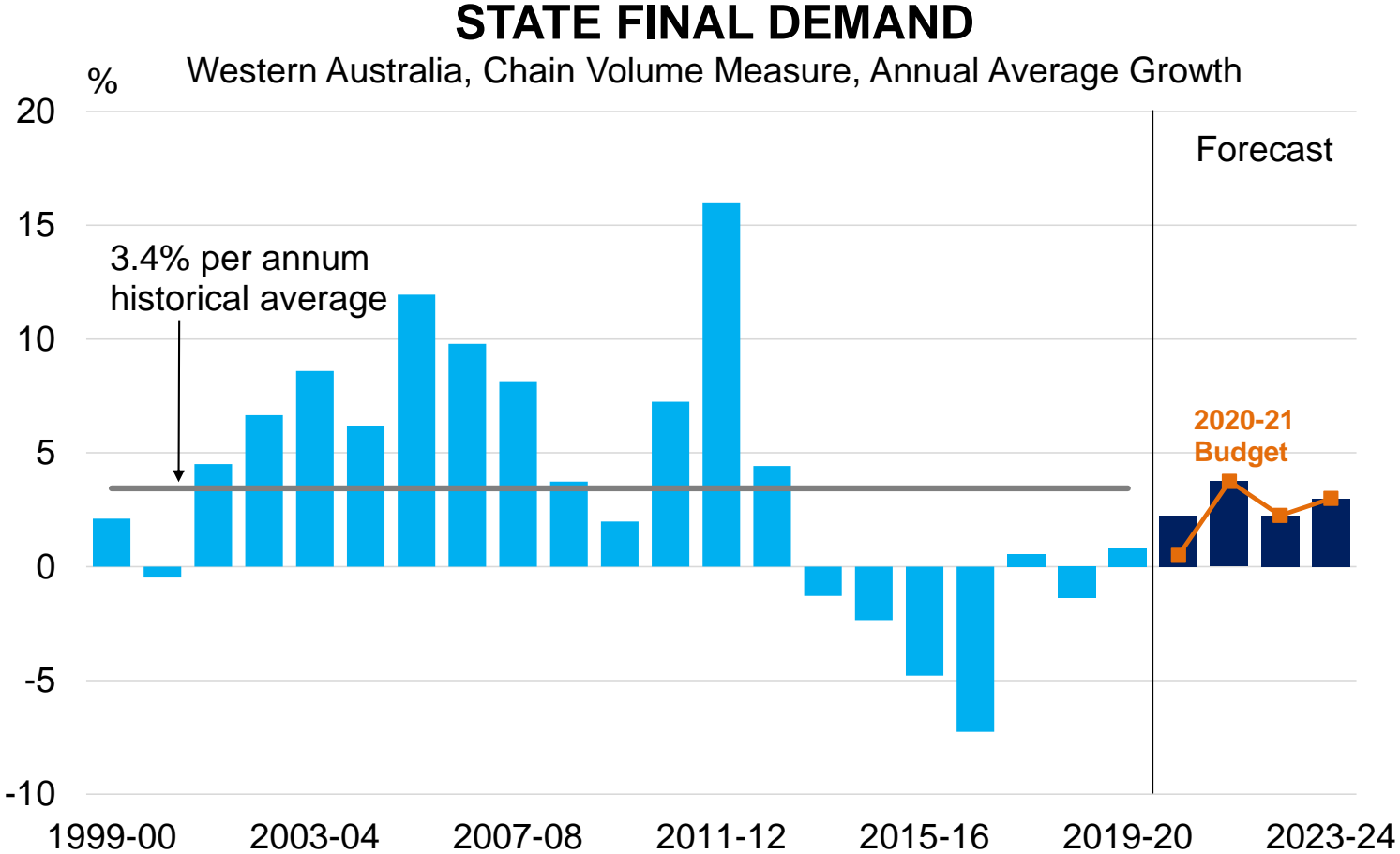
Business Investment

- ▶ Investment grew by 9.5% in 2019-20, the first increase in 7 years.
- ▶ Investment is expected to grow in each of the out-years, although the rate of growth is more modest than in the past.



Domestic Economy

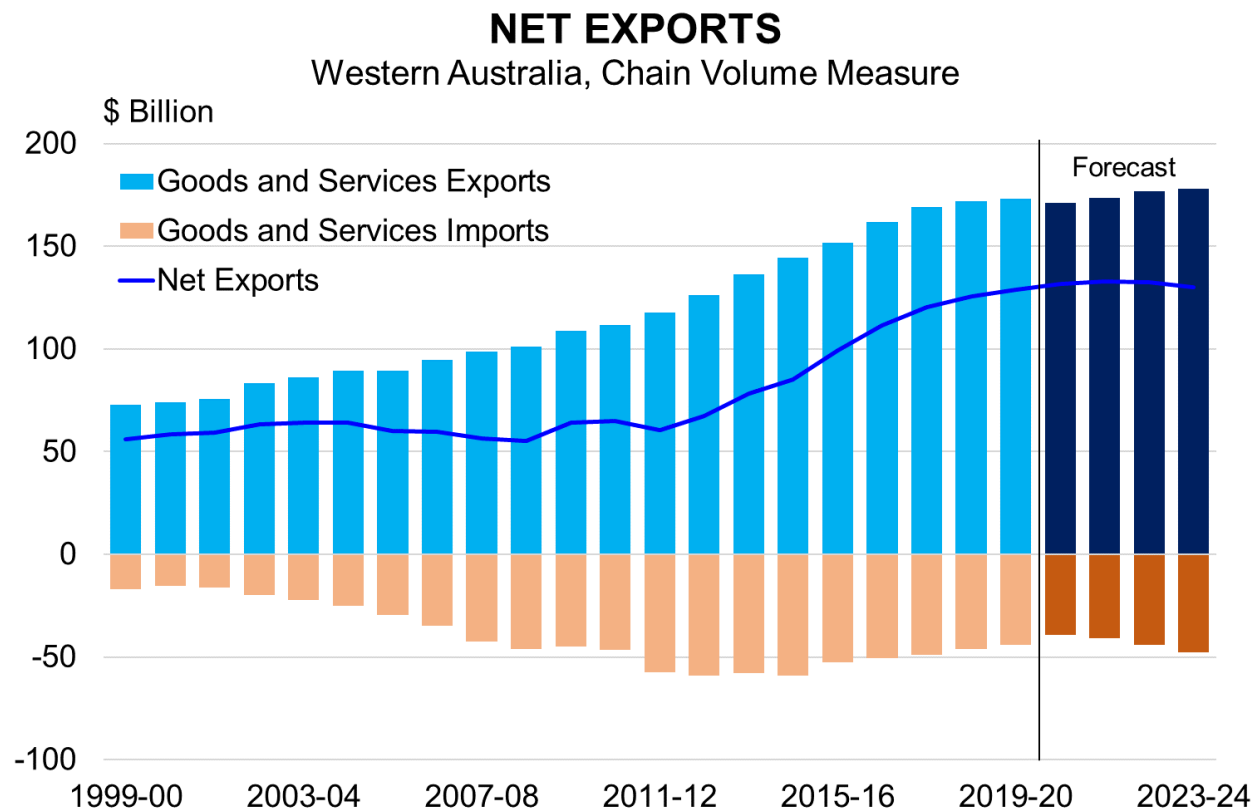
- ▶ The domestic economy is expected to grow by its fastest rate in 8 years in 2020-21, although growth is still modest by historical standards.



Source: ABS Cat. 5206.0 & Department of Treasury

External Sector

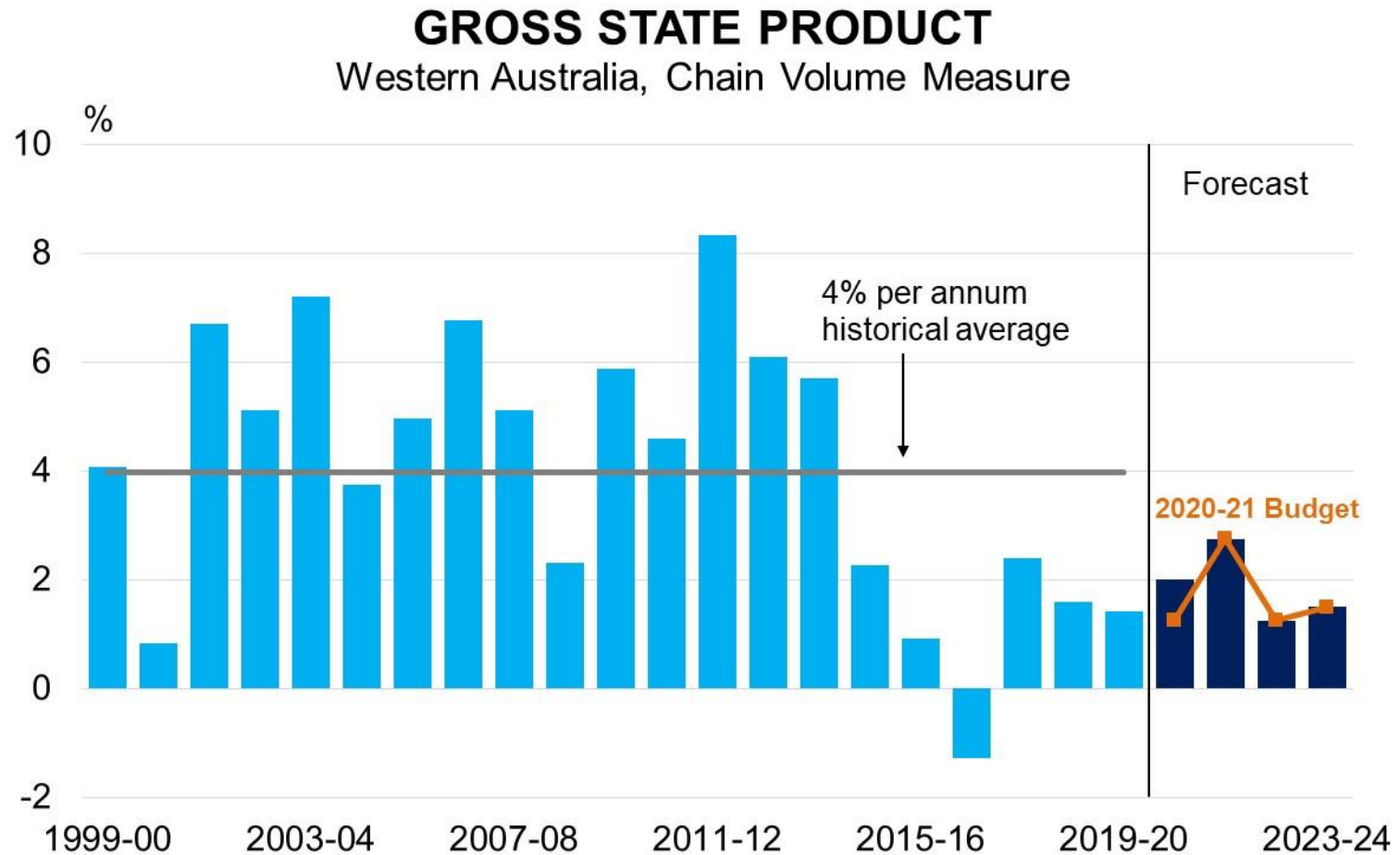
- ▶ Net exports are not expected to provide the same boost to activity as experienced in the past as major producers are operating at, but not adding to, capacity.
- ▶ Services trade has been heavily impacted by COVID-19. Services imports are expected to grow as international borders reopen.



Source: ABS Cat. 5302 and Treasury

Western Australian Economic Output

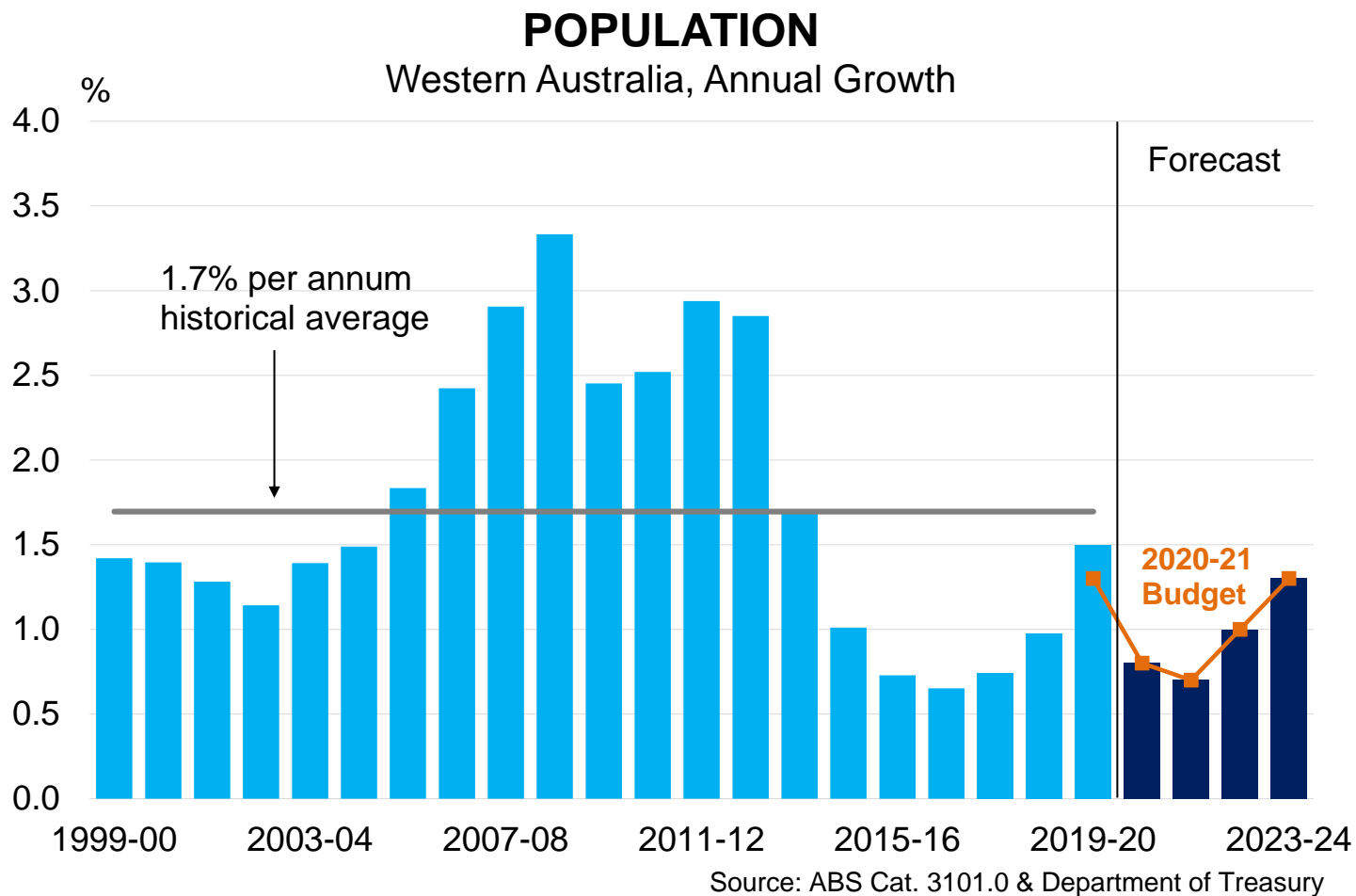
Overall, Western Australia's economy is expected to grow in 2020-21 and beyond, but below historical average rates.



Source: ABS Cat. 5220.0 & Department of Treasury

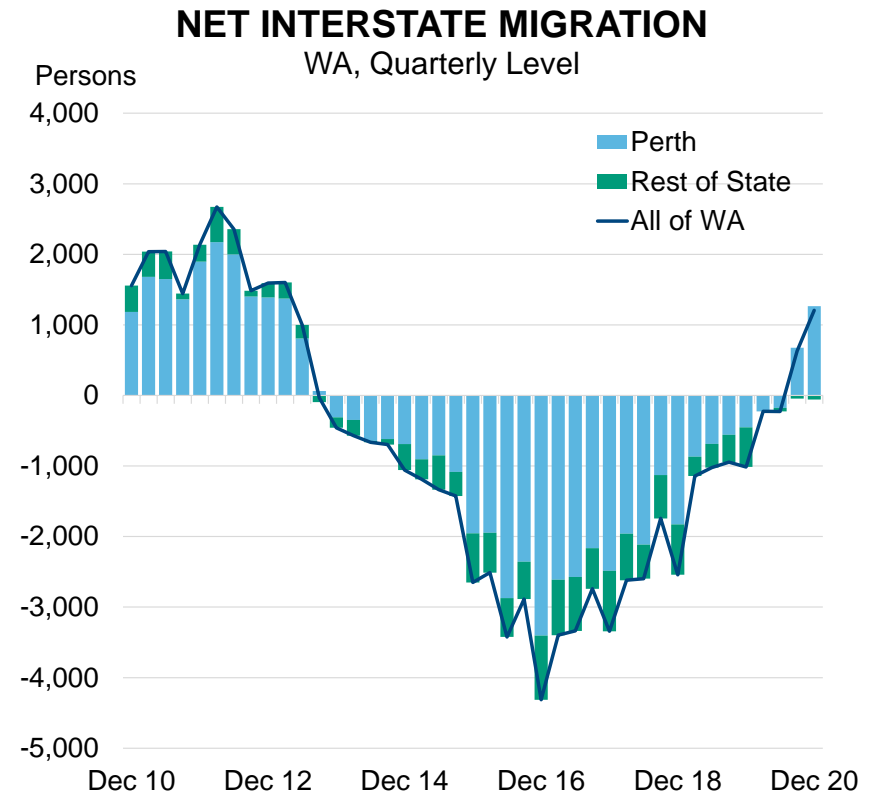
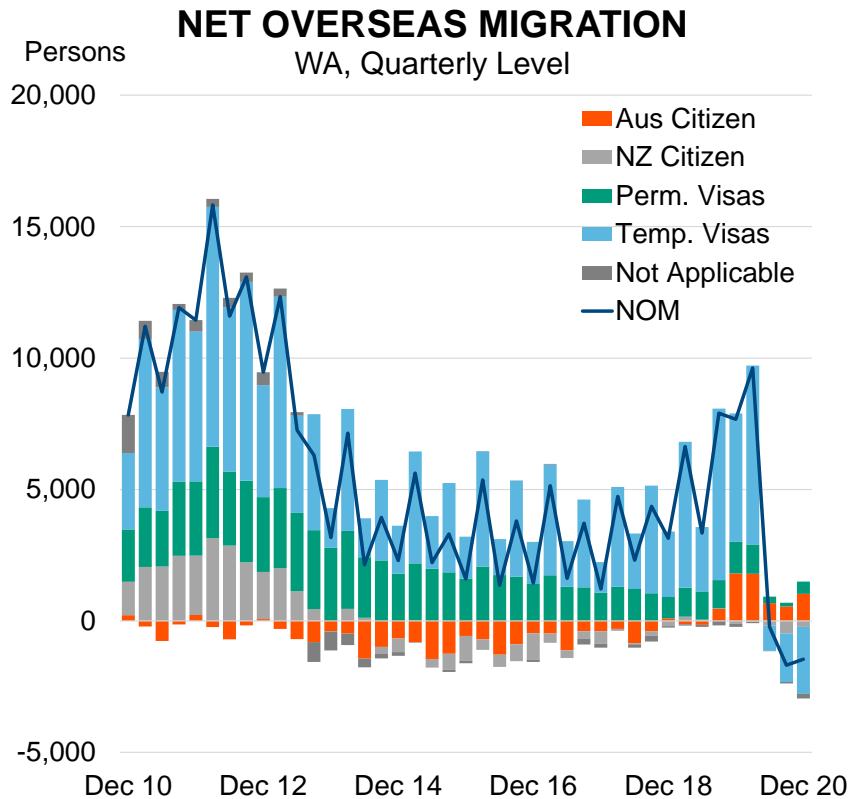
Population

- ▶ Restrictions required to suppress COVID-19 have resulted in lower population growth in 2020-21, with growth over the forecast period below the historical average rate.



Population

- ▶ The closure of international borders has constrained overseas migration, while WA's relative economic performance has resulted in a small boost to net interstate migration.



Source: ABS Cat. 3101.0 and 3412.055005, Centre for Population, Commonwealth Treasury.

The Labour Market

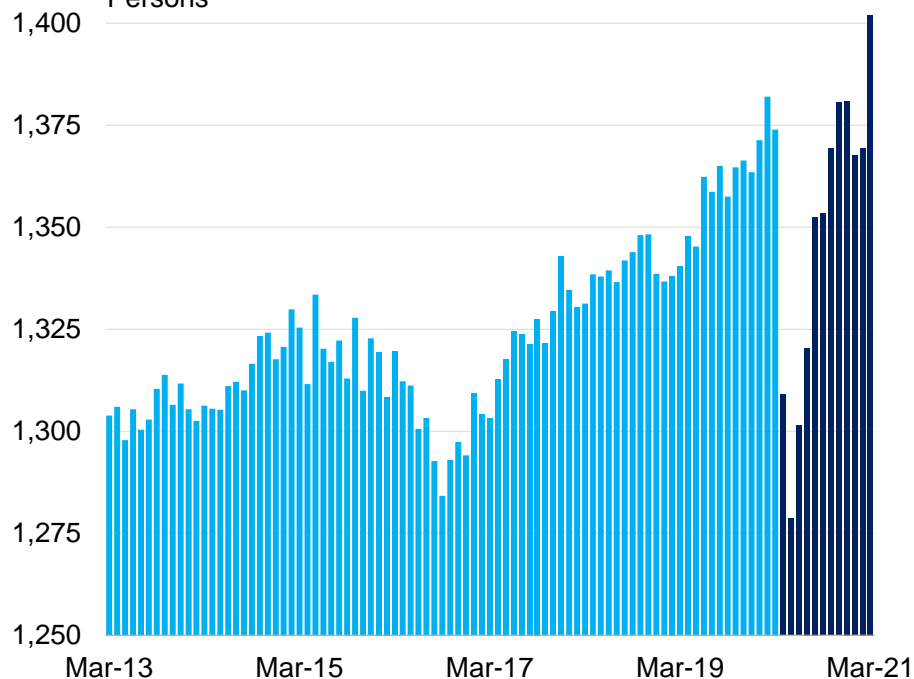
Employment

- ▶ Employment and hours worked have recovered strongly from COVID-19 induced lows, and after a slow start to 2021, are now both at record monthly levels.

EMPLOYMENT

Monthly Level, Western Australia

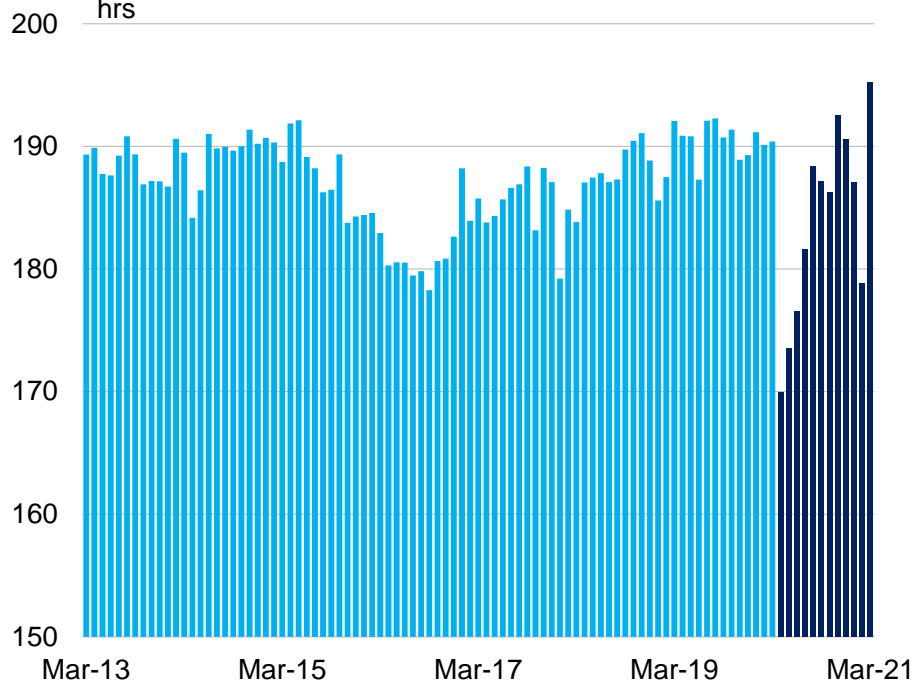
'000
Persons



AGGREGATE HOURS WORKED

Monthly, Western Australia

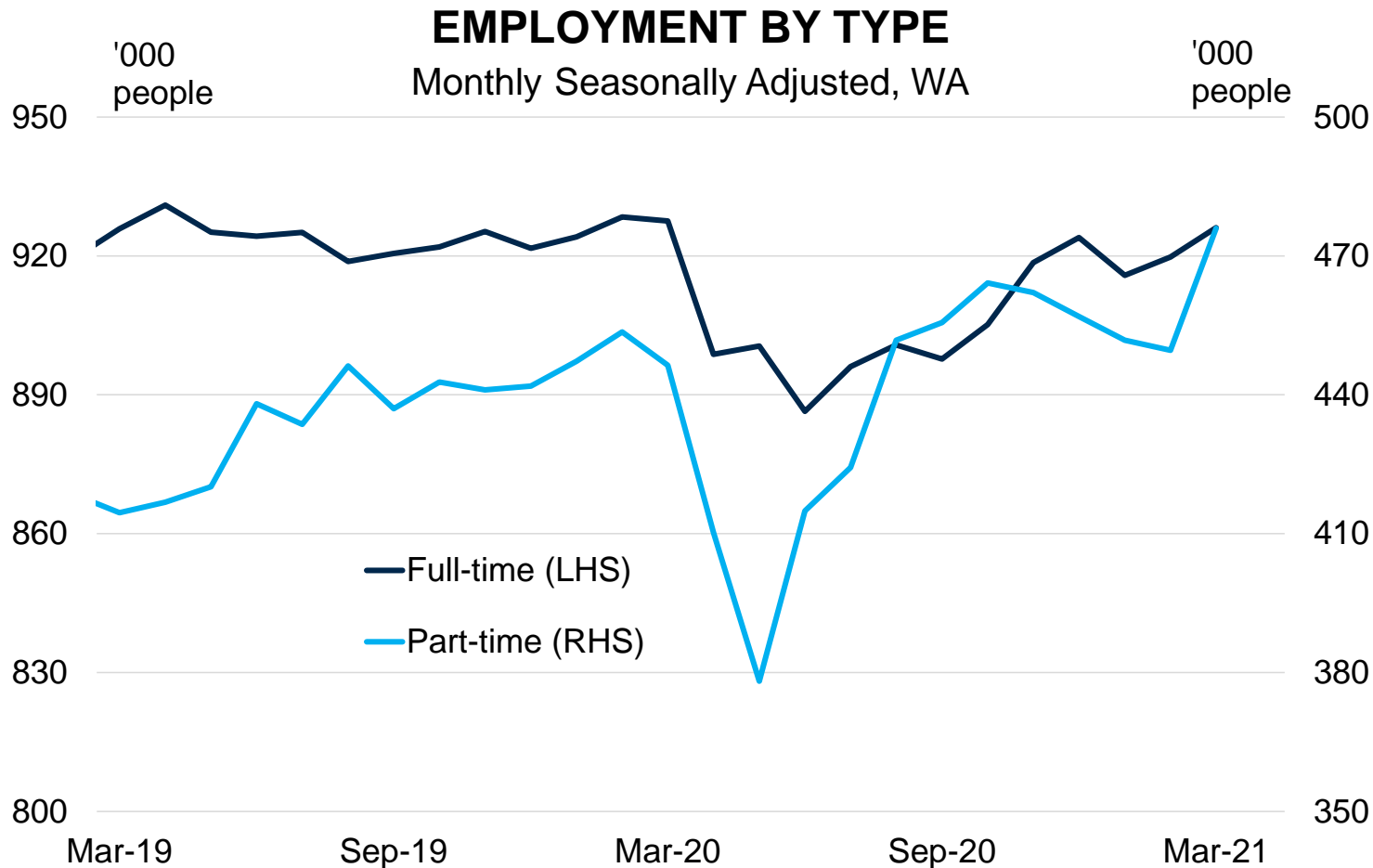
Million
hrs



Source: ABS Cat. 6202.0

Employment

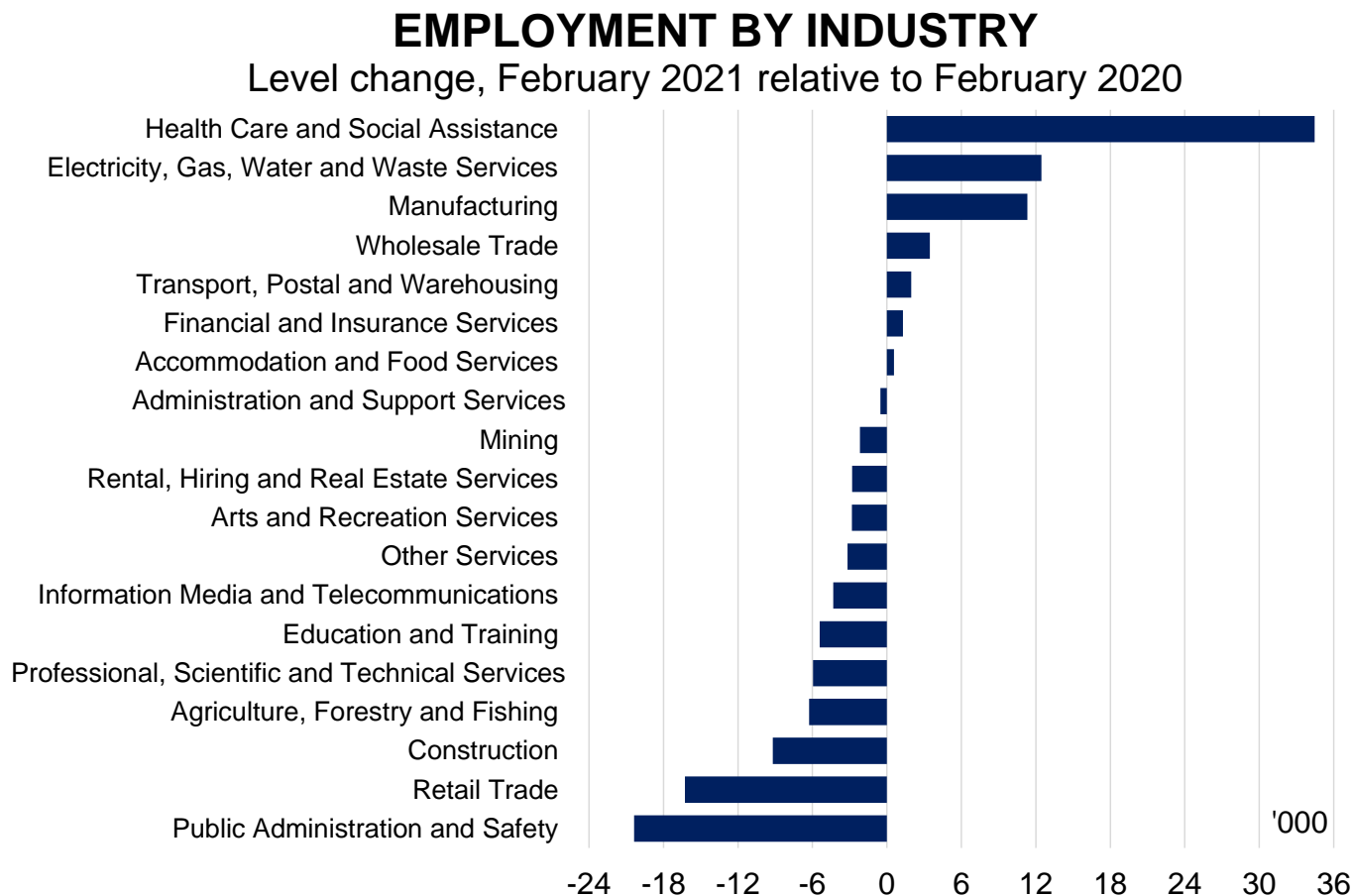
▶ Part-time employment was hit harder than full-time employment by restrictions, but has recovered to be well above pre-COVID levels.



Source: ABS Cat. 6202.0

Employment by Industry

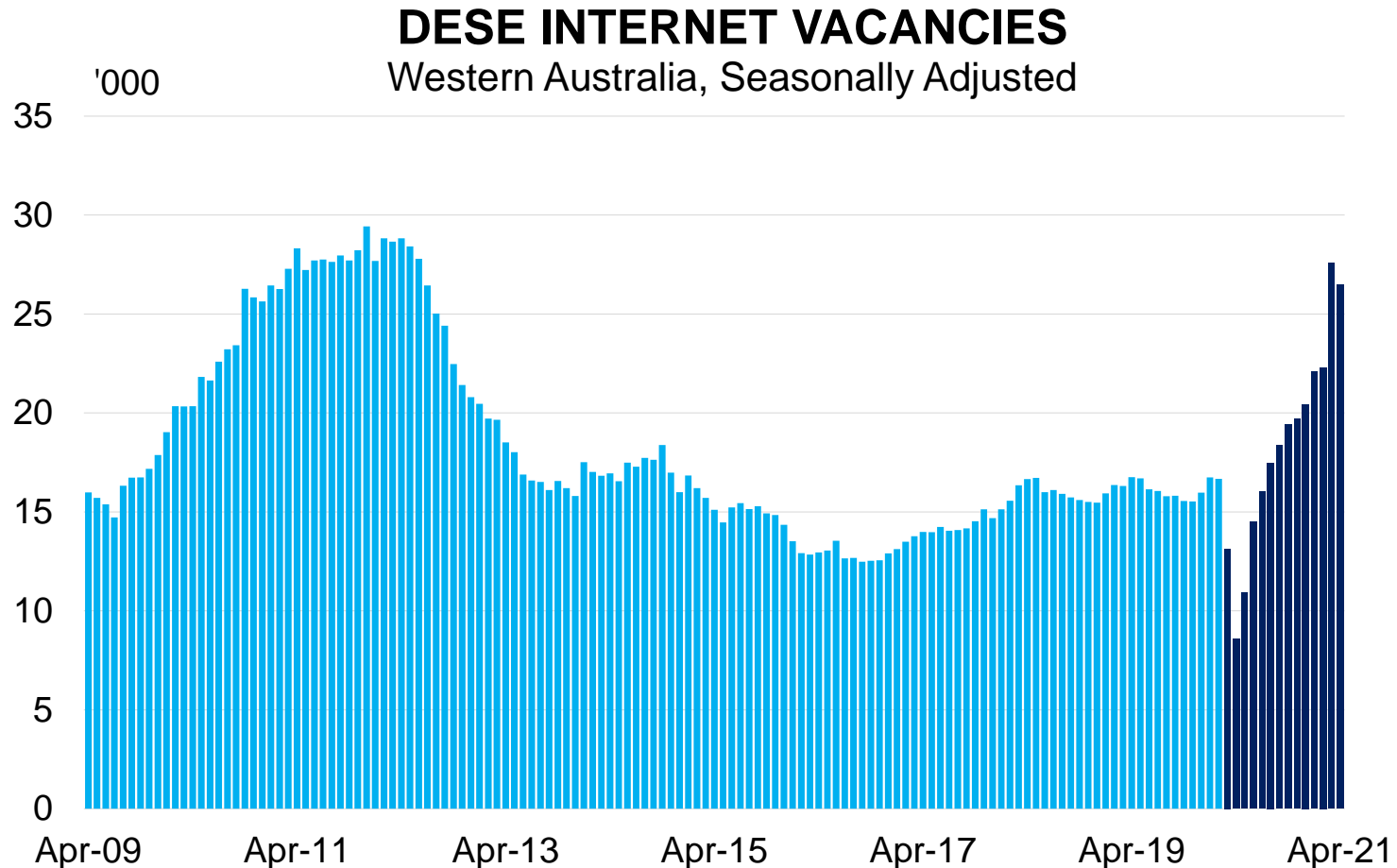
While total employment in WA now exceeds pre-COVID levels, the most recent data shows that some industries are yet to recover the job losses from the onset of the pandemic.



Source: ABS Cat. 6291.0.55.003

Job Vacancies

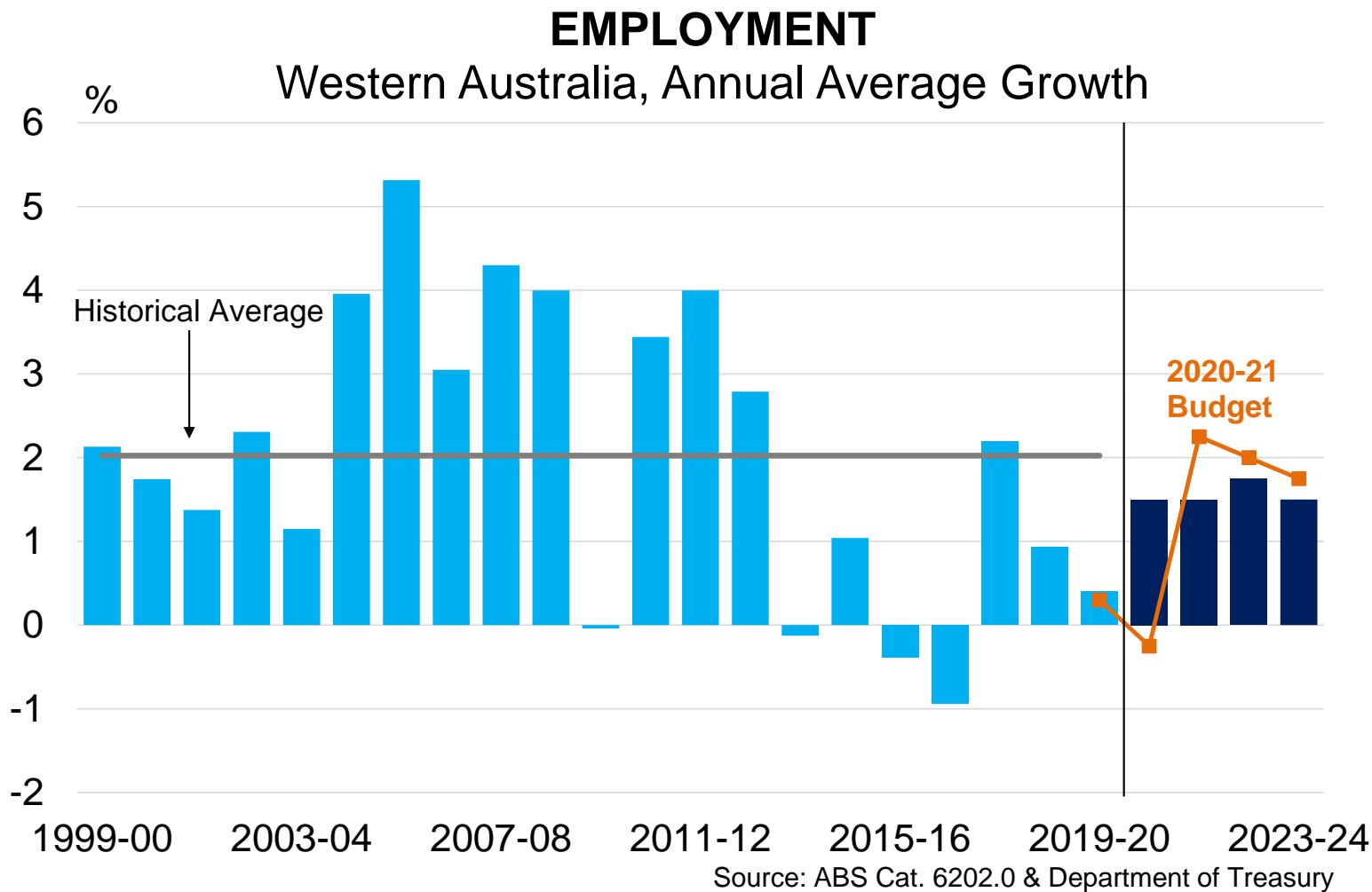
After declining sharply due to COVID-19 restrictions, advertised vacancies recovered to the highest level in over 8 years in the most recent two months, which bodes well for future employment growth.



Source: Department of Education, Skills and Employment

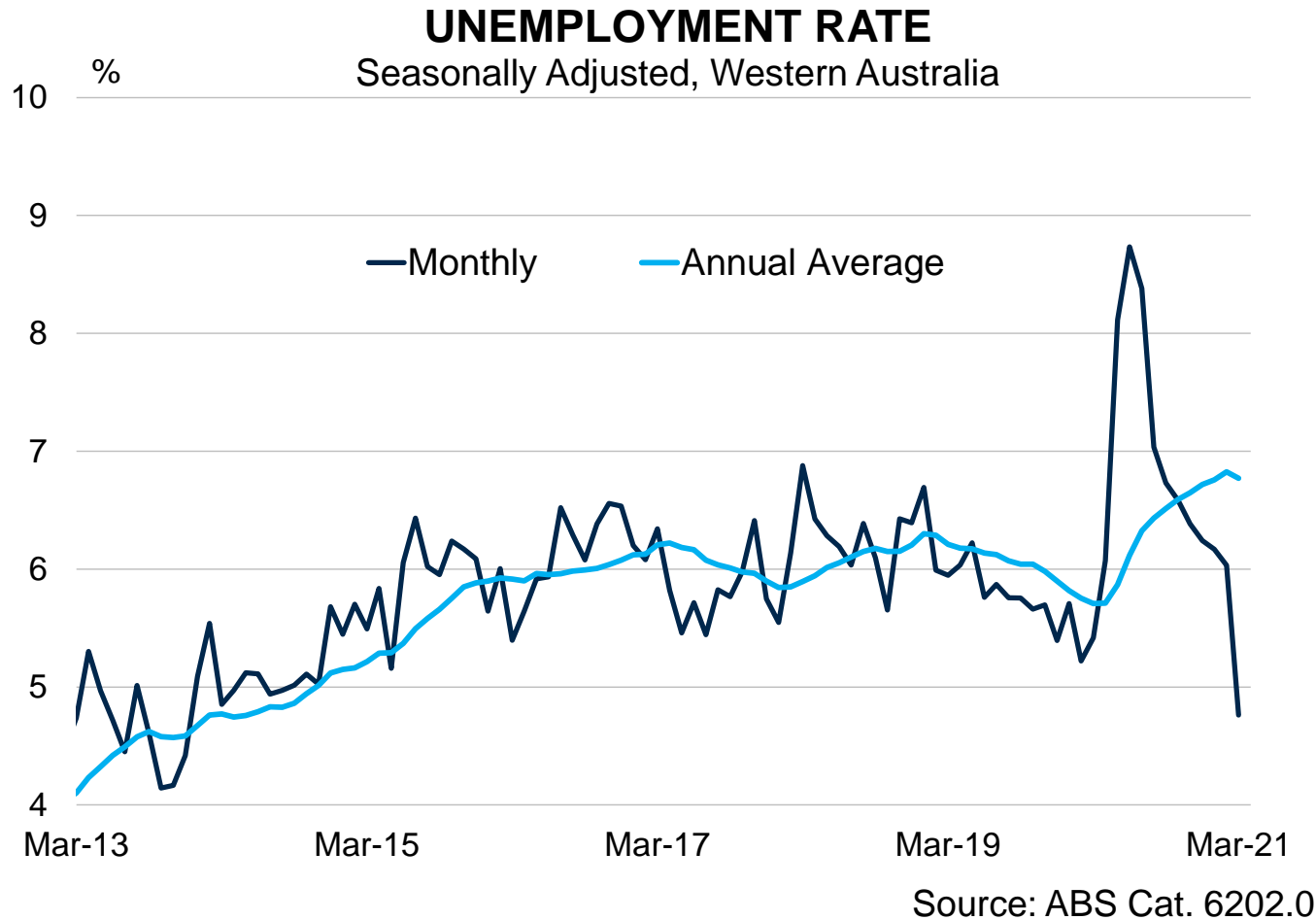
Employment

- ▶ Employment is now expected to grow at a solid pace in 2020-21 and through the out-years.



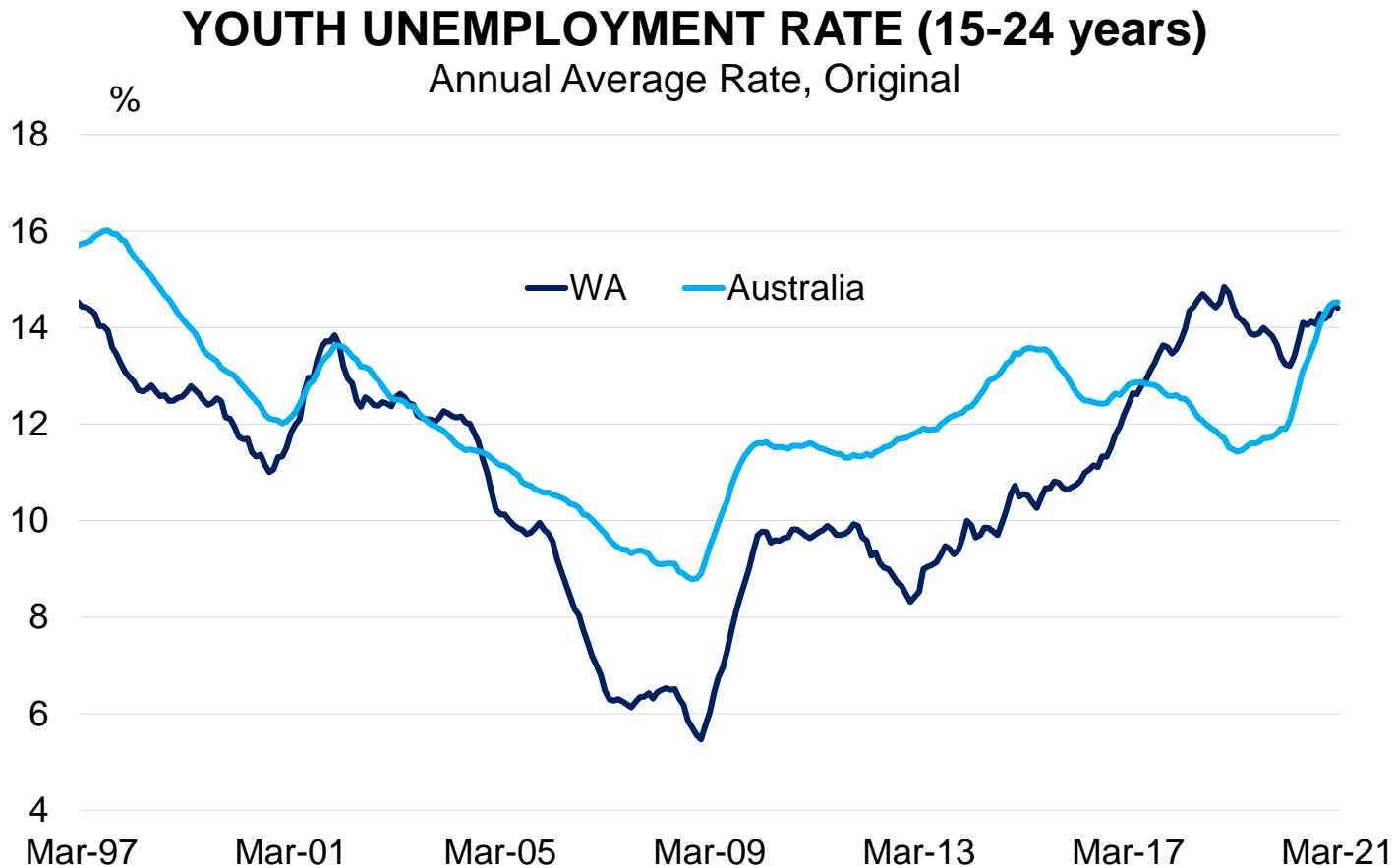
Unemployment Rate

- ▶ After a COVID-19 restriction related spike, the unemployment rate has fallen rapidly in monthly terms, but remains above its pre-COVID rate in annual average terms.



Youth Unemployment

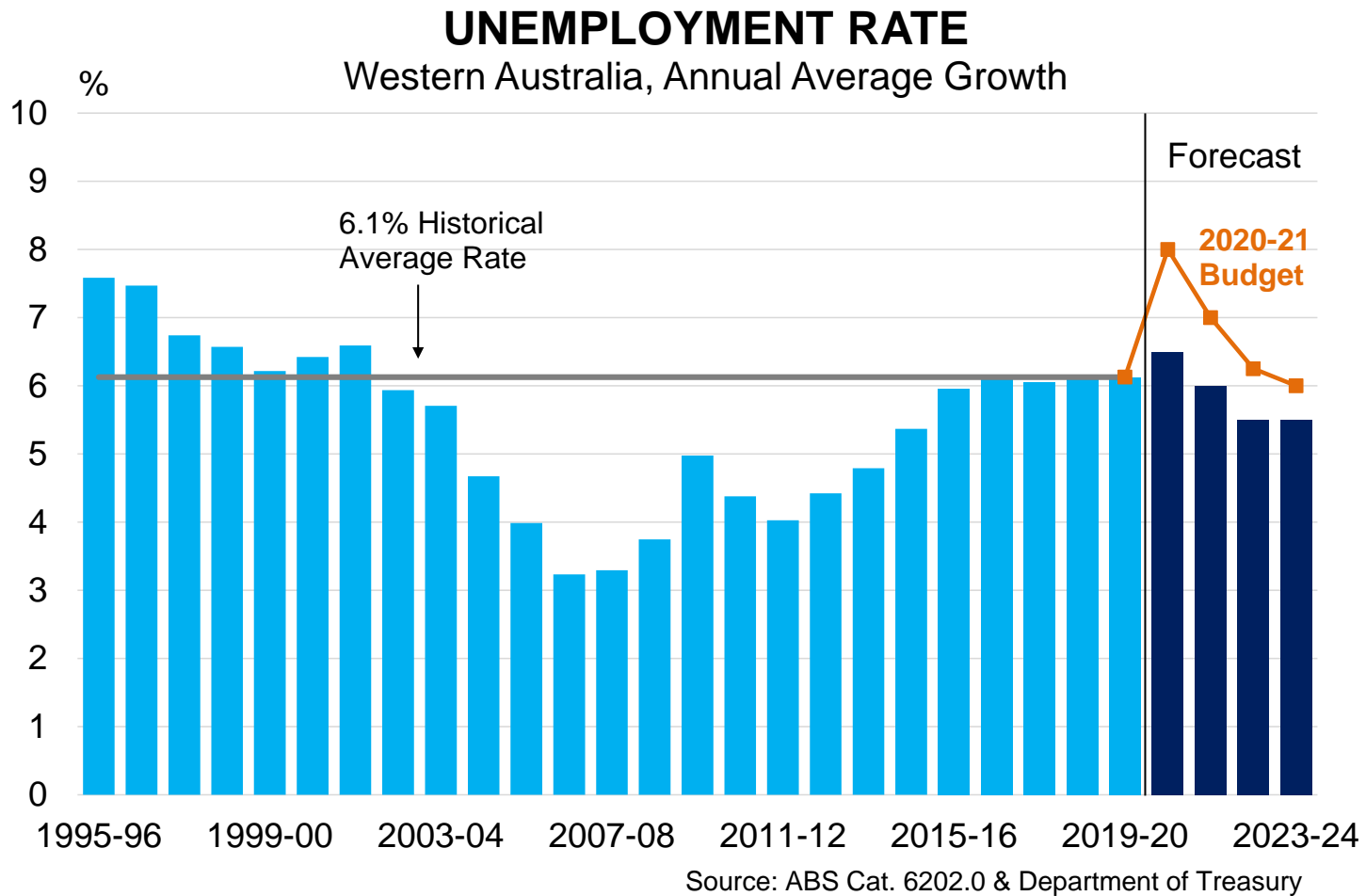
▶ The State's youth unemployment rate has not increased as much as it has nationally, although it was elevated prior to the COVID-19 pandemic.



Source: ABS Cat. 6202.0

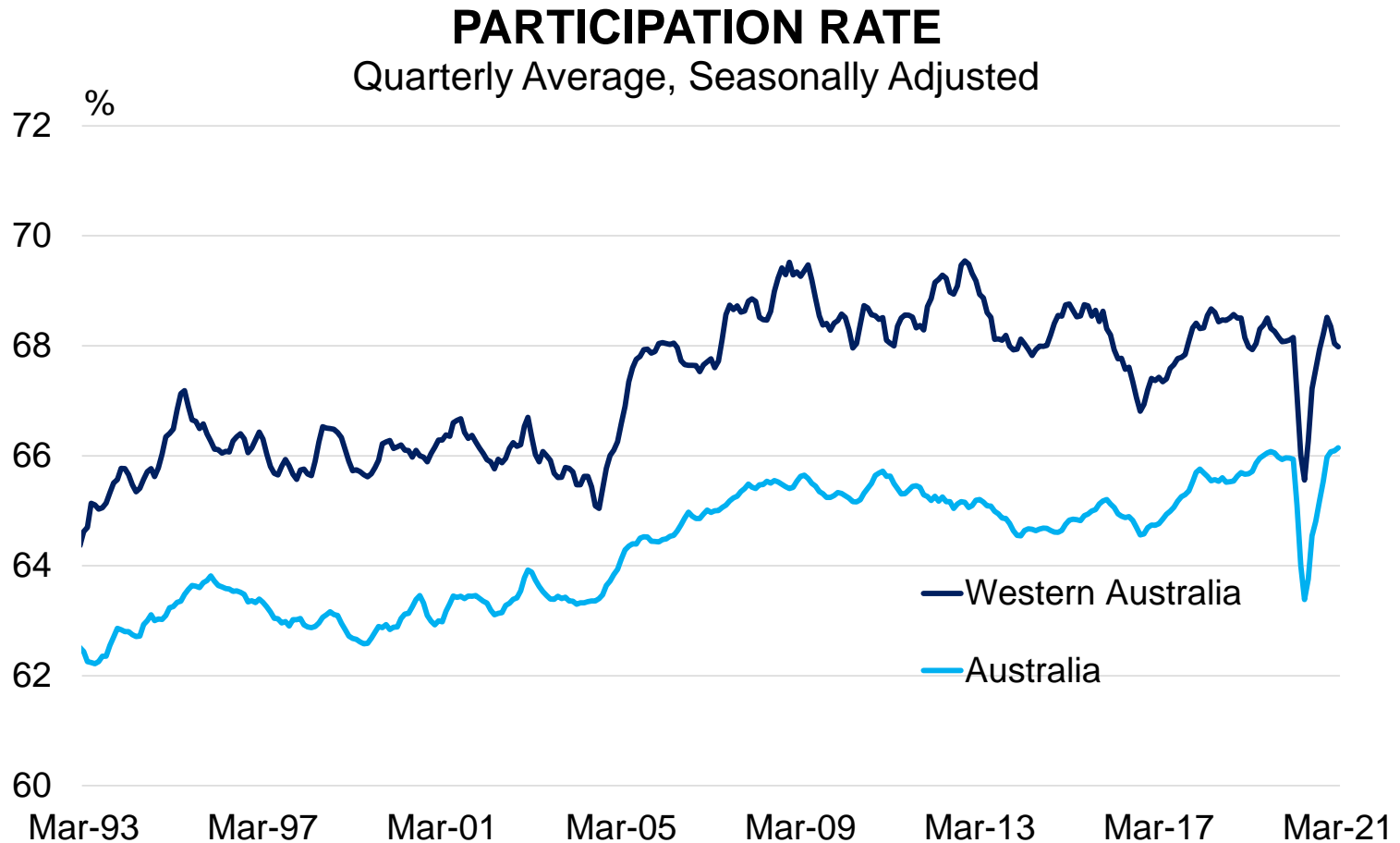
Unemployment Rate

- ▶ The unemployment rate did not spike as much as previously anticipated, although it is forecast to be slightly higher in 2020-21 than in 2019-20.



Participation Rate

- ▶ Workforce participation fell sharply at the onset of the pandemic but has since recovered, both in WA and nationally.



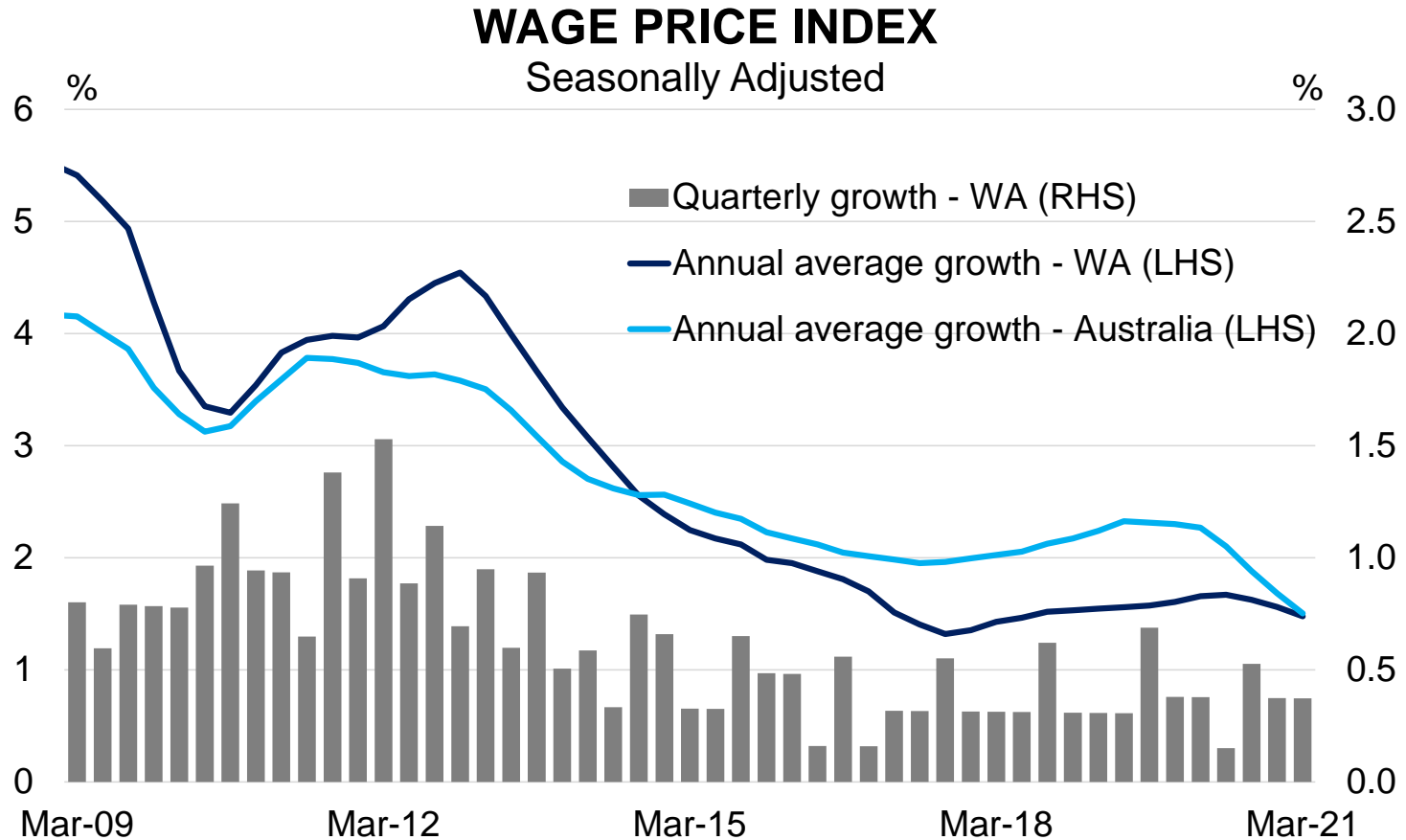
Source: ABS Cat. 6202.0

Wages



Wage Price Index

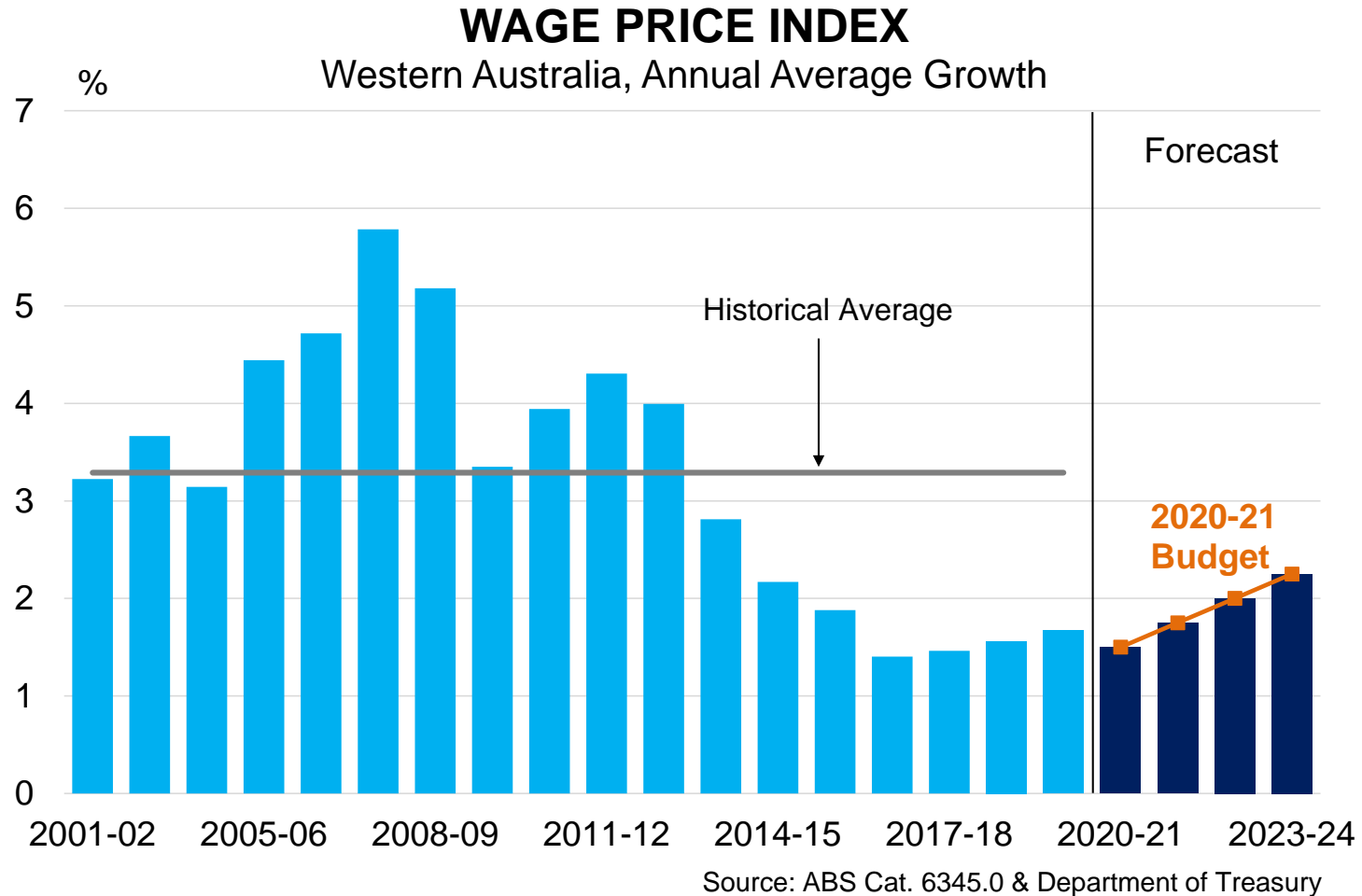
▶ Wages growth has been modest in WA in recent years, with wages growth nationally converging with growth in WA over the past year.



Source: ABS Cat. 6345.0

Wage Price Index

▶ Wages growth is expected to lift in the medium term as overall economic and labour market conditions improve.

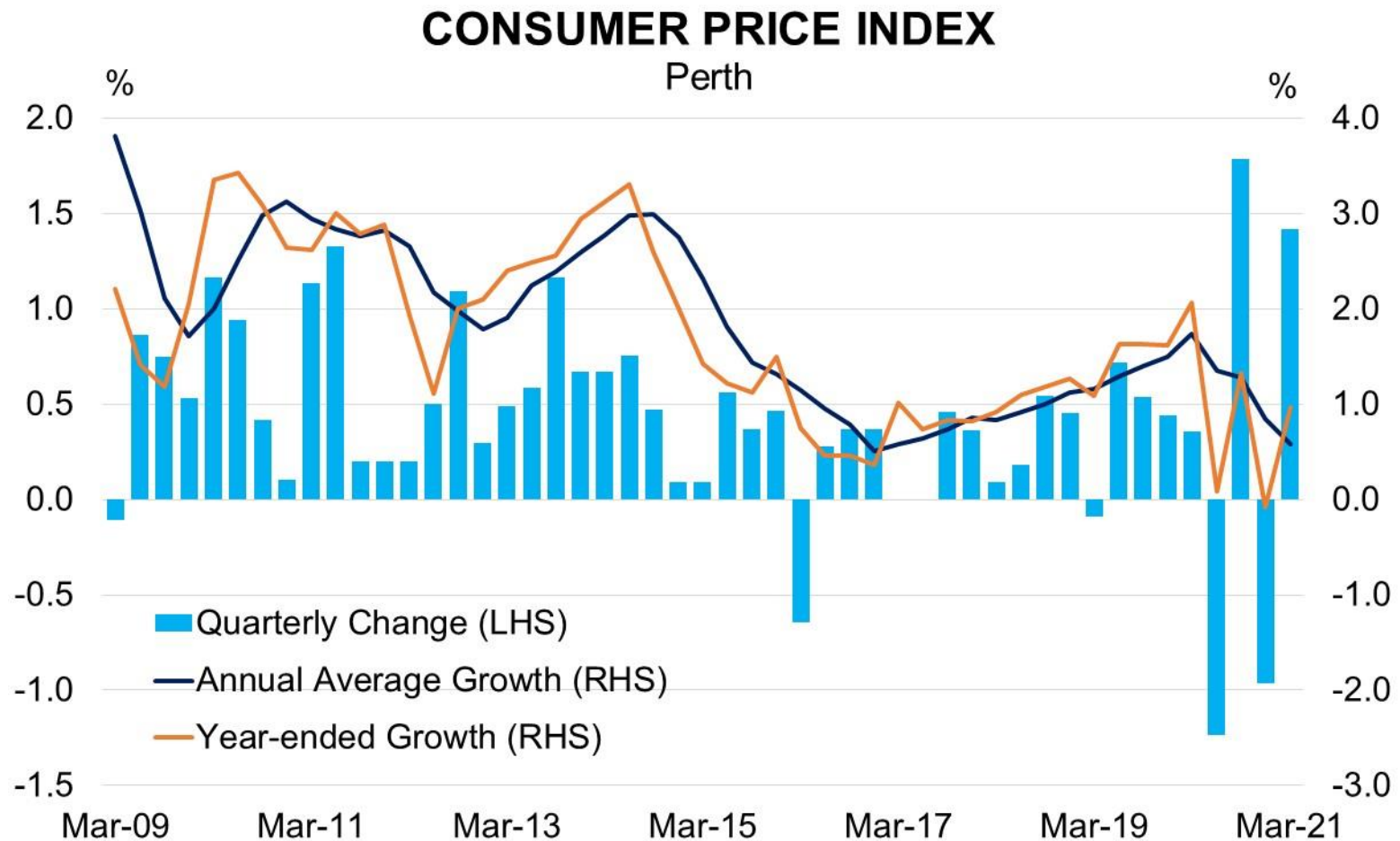


Inflation



Consumer Price Index

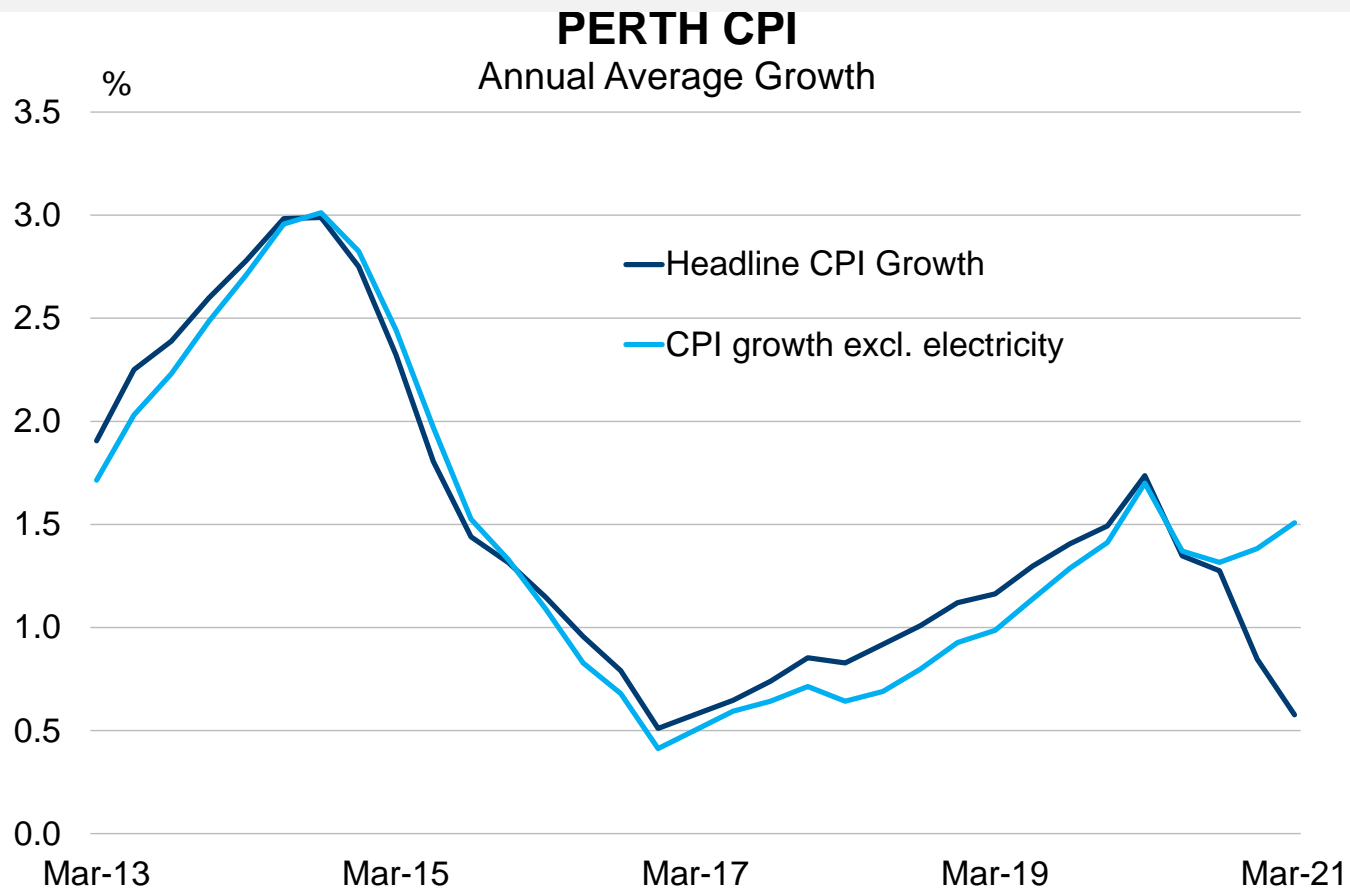
Measures put in place to assist households through the pandemic have resulted in a high level of volatility in CPI inflation.



Source: ABS Cat. 6401.0

Consumer Price Index

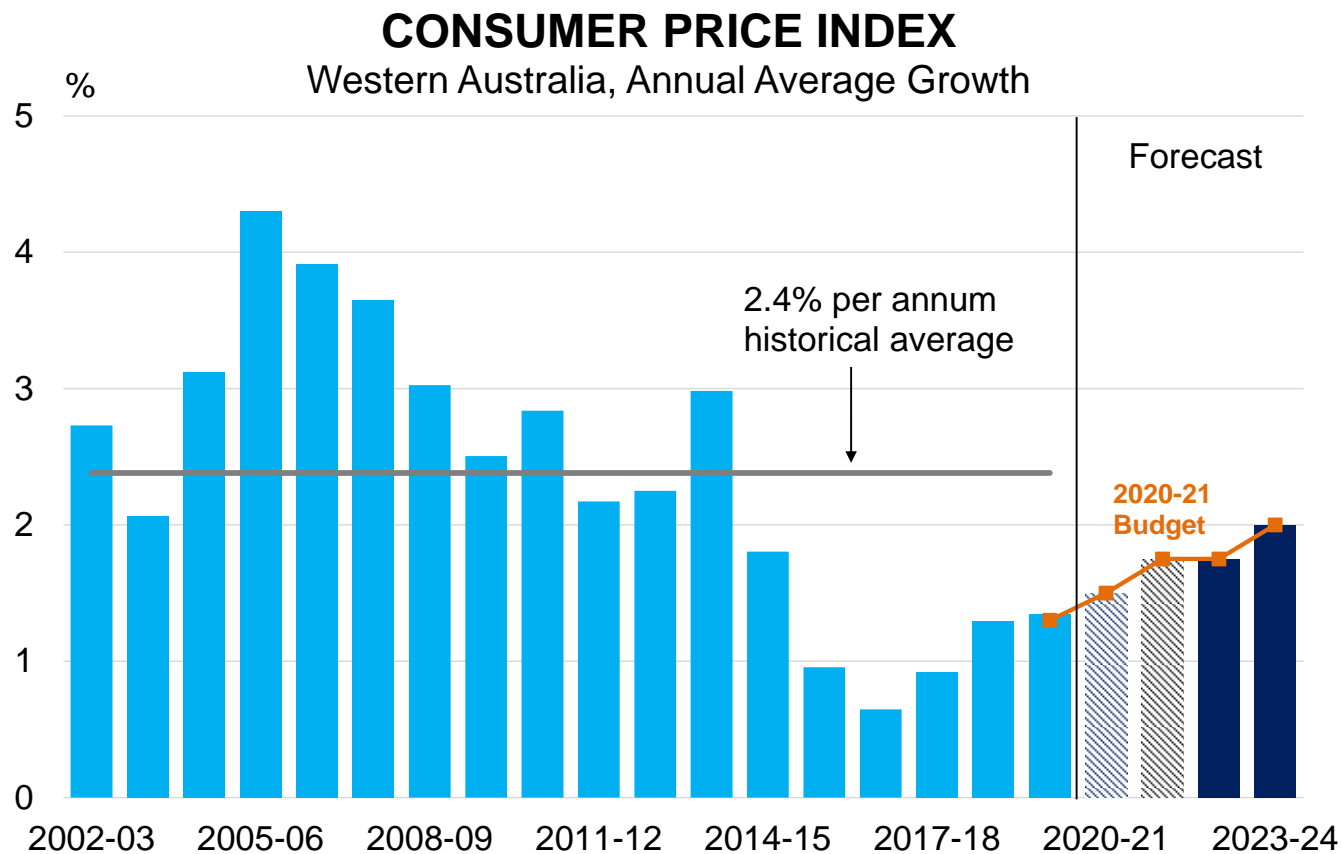
- ▶ The provision of the \$600 Household Electricity Credit in November 2020 has had a particularly large impact on annual growth.



Source: ABS Cat. 6401.0

Consumer Price Index

CPI growth is expected to be modest, gradually picking up to the bottom of the RBA's target range. This is consistent with overall growth in economic activity, albeit below average rates of the past.



Source: ABS Cat. 6401.0 & Department of Treasury

CPI growth rates in 2020-21 and 2021-22 are based on the total index excluding the electricity sub-index.

Summary of Forecasts and Risks to Outlook



Major Economic Aggregates

- ▶ The overall outlook is for ongoing growth in the State's domestic and overall economies, leading to progressive improvements in labour market conditions, albeit in the context of moderate wage and price growth and subdued population growth.

	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual	PFPS Estimate	Forward Estimate	Forward Estimate	Forward Estimate
State Final Demand	0.8	2.25	3.75	2.25	3.0
Gross State Product	1.4	2.0	2.75	1.25	1.5
Employment growth	0.4	1.5	1.5	1.75	1.5
Unemployment rate ^(a)	6.1	6.5	6.0	5.5	5.5
Consumer Price Index ^(b)	1.3	1.5	1.75	1.75	2.0
Wage Price Index	1.7	1.5	1.75	2.0	2.25
Population ^(c)	1.5	0.8	0.7	1.0	1.3

(a) Average rate over the year.

(b) CPI growth rates in 2020-21 and 2021-22 are based on the total index excluding the electricity sub-index.

(c) 2019-20 actual is updated for latest data from ABS Cat. 3101.0

Source: 2020-21 Pre-election Financial Position Statement, WA Treasury

Risks to the Outlook

- ▶ While current conditions are favourable, the outlook for the WA economy remains subject to a number of risks.
 - A more significant outbreak of COVID-19 in WA, requiring a sustained lockdown.
 - Unwinding of fiscal support.
 - Global recovery is slower than expected.
 - Potential for a prolonged period of negligible migration into WA.