ATTACHMENT A

2022 State Wage Case – Economic Conditions and Outlook[1,2]

1. Overview

The Western Australian economy has continued to perform strongly, despite a volatile and uncertain global environment. This reflects the State's positive health outcomes and relatively low levels of public health measures, supported by controlled borders while the COVID-19 vaccination rates picked-up significantly.

After expanding by 2.6% in 2020-21, the State's economy, as measured by Gross State Product (GSP), is forecast to grow by 3.75% in 2021-22 and by 2.0% in 2022-23. This growth is being underpinned by very strong conditions in the State's domestic economy. The moderation in GSP growth between 2021-22 and 2022-23 largely reflects the impact of an expected return to normal international travel patterns (resulting in Western Australians spending more on overseas travel than international visitors and students will contribute to the State), at a time when growth in merchandise exports is expected to ease as major producers operate at close to capacity levels.

The State's domestic economy, as measured by State Final Demand (SFD), is estimated to grow by a very strong 5.25% in 2021-22 – the strongest rate of growth in a decade, with further growth of 4.0% forecast in 2022-23. These strong growth rates are being driven by exceptionally strong growth in consumer spending, as well as rebounding business investment and elevated levels of Government investment.

Strong growth in the domestic economy is flowing through to Western Australia's labour market, which is characterised by very high rates of employment growth, low rates of unemployment and historically high rates of participation.

Employment is estimated to grow by 5.0% in 2021-22 and by a further 2.0% in 2022-23. This growth is expected to underpin a decline in the State's unemployment rate to 3.75% from 2022-23. Robust labour demand in a tight labour market is expected to result in wages growth lifting from an estimated 2.0% in 2021-22 to 2.75% in 2022-23.

Strong domestic economic conditions, combined with national and global supply chain constraints and geopolitical factors, are driving elevated inflation, with the Perth Consumer Price Index (CPI) now estimated to increase by 4.0% in 2021-22[3]. These inflationary pressures are expected to ease somewhat over the next year, with CPI growth of 2.75% forecast for 2022-23.

Risks to the outlook include: how the pandemic develops; the pace and extent to which central banks globally lift policy rates to address inflation; developments in China's economy as it tackles Omicron outbreaks; the extent of labour and supply-chain disruptions; the impact of increasing borrowing costs on households; and the pace of recovery in the State's tourism and education sectors.

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1 The forecasts for Western Australia's economic aggregates in the attachment are those published in the 2022-23 Western Australian State Budget, released on 12 May 2022.
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 CPI growth forecasts in 2021-22 and 2022-23 are based on the total index excluding the electricity sub-sector.

Table 1 below summarises forecasts for the major economic aggregates, with a more detailed table of forecasts from the 2022-23 Budget provided in Table 5 at the end of this Attachment.

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

	2020-21 Actual	2021-22 Estimated Actual	**2022-23** **Budget Year**	2023-24 Forward Estimate	2024-25 Forward Estimate	2025-26 Forward Estimate
State Final Demand	4.4	5.25	**4.0**	3.0	2.25	2.5
Gross State Product	2.6	3.75	**2.0**	1.0	1.5	1.5
Employment	1.8	5.0	**2.0**	1.25	1.25	1.25
Unemployment rate (a)	6.1	4.0	**3.75**	3.75	3.75	3.75
Consumer Price Index (b)	1.6	4.0	**2.75**	2.5	2.5	2.5
Wage Price Index	1.5	2.0	**2.75**	3.0	3.0	3.0
Population	0.9	0.9	**1.2**	1.4	1.5	1.5

(a) Data expressed as annual average during the financial year.
(b) CPI growth rates in 2021-22 and 2022-23 are based on the total index excluding the electricity sub-sector.
Source: Western Australia 2022-23 Budget and Australian Bureau of Statistics

2. Global Outlook

The global economic outlook has deteriorated over recent months. This follows a strong rebound in 2021 from a pandemic-induced sharp contraction in 2020, with the rebound supported by significant economic stimulus in advanced economies. The recent deterioration in the outlook reflects that: persistent and rising inflation has prompted central banks in many countries to tighten monetary policy; Russia's invasion of Ukraine has disrupted global supplies of key raw materials and contributed to an overall climate of uncertainty; and recent COVID-19 outbreaks in China have presented a risk to that country's economic outlook.

In its April 2022 update, the International Monetary Fund (IMF) forecast that world economic growth will slow to 3.6% in 2022 compared to its January 2022 forecast of 4.4% (see Table 2).

Table 2 – IMF Global Economic Forecasts April 2022

Annual GDP Growth, %

	2021 Actual	**2022** Forecast	**2023** Forecast	**2022** Difference(a)	**2023** Difference(a)
World	**6.1**	**3.6**	**3.6**	**-0.8**	**-0.2**
Advanced Economies	**5.2**	**3.3**	**2.4**	**-0.6**	**-0.2**
Euro area	5.3	2.8	2.3	-1.1	-0.2
United States	5.7	3.7	2.3	-0.3	-0.3
Japan	1.6	2.4	2.3	-0.9	0.5
Australia	4.7	4.2	2.5	0.1	0.0
United Kingdom	7.4	3.7	1.2	-1.0	-1.1
Emerging and Developing Economies	**6.8**	**3.8**	**4.4**	**-1.0**	**-0.3**
China	8.1	4.4	5.1	-0.4	-0.1
India	8.9	8.2	6.9	-0.8	-0.2
ASEAN 5	3.4	5.3	5.9	-0.3	-0.1

(a) Difference from the January 2022 Update World Economic Outlook
Source: IMF World Economic Outlook (WEO), April 2022

According to the IMF, the Russian invasion of Ukraine is expected to slow global economic growth and increase inflation even further after it had already surged in many economies, amidst soaring commodity prices and pandemic-induced supply-demand imbalances.

Risks to the global economic outlook are discussed in the section on ‘Risks to the Outlook’ below.

2.1 Global commodity markets

Global commodity markets tightened significantly over 2021 and into 2022. This reflects a combination of strong demand as developed countries have rebounded from an initial shock at the onset of the COVID-19 pandemic and constrained supply.

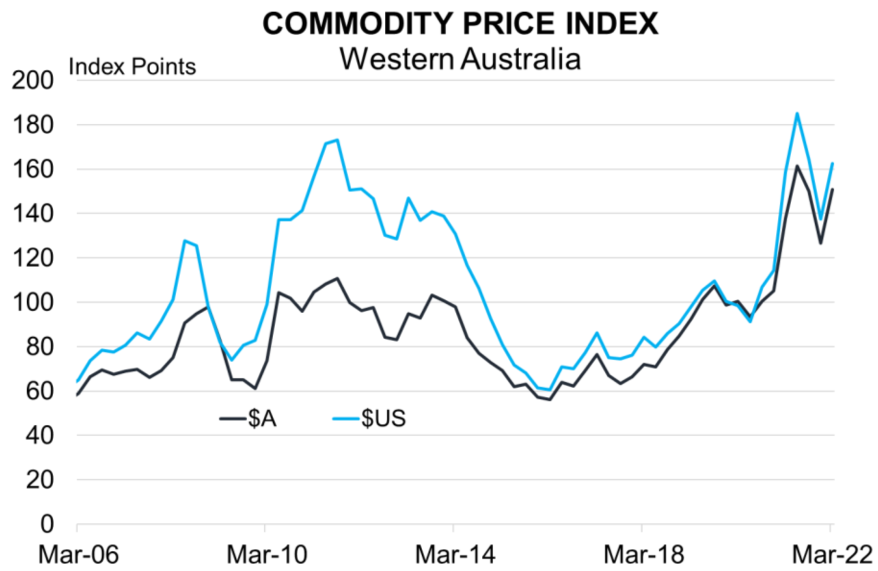
Supporting commodity demand has been a global shift in consumption patterns from services towards goods, as a result of pandemic related restrictions on services such as travel. The supply of commodities has been constrained due to supply chain challenges as well as production caps (in the case of oil). These challenges have been exacerbated by the Russian invasion of Ukraine.

Commodity prices, particularly energy (e.g. oil and gas), metals (e.g. nickel), and fertilisers (e.g. potash) have risen significantly on the back of the Ukraine crisis. Russia and Ukraine are major exporters of commodities, and sanctions and other disruptions to supply have, and could continue to keep, commodity prices high.

Prices for commodities involved in battery production for electric vehicles and energy storage continue to be strong. Lithium, cobalt and nickel prices have all trended up strongly over the past year. Global demand has been supported by Government policies to encourage sales of electric vehicles as part of the broader aim to reduce carbon emissions, proactive moves by automobile manufacturers and growing consumer acceptance of electric vehicles.

The commodity price index, a weighted index of commodity prices most relevant to the Western Australian economy, has risen but remains below its recent peak in the June quarter 2021 (see Chart 1).

Chart 1



Source: WA Treasury

Demand for commodities has remained strong over the past year, with the value of Western Australian exports rising by 19.4% to $240 billion in the year to March 2022. Annual exports to China totalled $143 billion over the year (or 59.6% of total exports), up 22.4% from a year prior, largely a result of the rise in the iron ore price.

The iron ore market has been characterised by strong swings in Chinese demand and unresponsive seaborne supply, which have resulted in the benchmark iron ore price (62% Fe, CFR China) fluctuating considerably over the past two years. After reaching a record high of $US236 per tonne in mid-May 2021, the iron price fell sharply to a low of $US87 per tonne by mid-November, before rebounding to $US151 per tonne at Budget cut-off (11 April 2022).

The steep decline in the iron ore price in the second half of 2021 was the result of the enforcement of steel production cuts in China, aimed at reducing emissions, as well as a downturn in the country's property and construction sectors. Prices began to recover from late November after the Chinese Government shifted to a more accommodative macroeconomic policy stance, promoting 'economic stability' as a key objective for 2022. This led to improved sentiment in the iron ore and steel markets, pushing prices higher.

China's infrastructure sector, which accounts for about 30% of Chinese steel demand, is expected to play a key role in stabilising economic growth in 2022. Authorities have allocated a record RMB4.85 trillion in local government special bonds for major infrastructure projects in 2022 after unused funds were reallocated from prior years. The pace of bond issuance has also accelerated with local governments issuing RMB1,250 billion in the March quarter 2022, compared to RMB26.4 billion issuance in the same period last year.

Chinese authorities have introduced a number of measures to stabilise China's property market, which accounts for around 25-35% of Chinese steel demand. Credit conditions have started to ease with the People's Bank of China cutting the Reserve Ratio Requirement and announcing an easing of the benchmark mortgage rate since November 2021. Authorities have also partially relaxed control measures imposed upon property developers in late 2020 aimed at curbing debt levels, with previously restricted pre-sale funding available to developers to finish existing projects. Together, these actions have boosted steel production in China and suggest a relatively steady outlook for demand in 2022.

3. National Economic Conditions and Outlook

The Australian economy (as measured by Gross Domestic Product, GDP) grew by 4.7% in calendar 2021 after contracting by 2.2% in calendar 2020, due largely to a 6.8% decline in output in the June quarter 2020, the largest quarterly decline on record. Economic activity has strengthened since, with output in the December quarter 2021 rising to be 3.4% greater than prior to the pandemic, notwithstanding a decline in the September quarter 2021 as COVID-19 restrictions in some States dragged on growth.

The 2022-23 Commonwealth Budget (released on 29 March 2022), forecasts the national economy to grow by 4.25% in 2021-22 and by 3.5% in 2022-23. Forecast economic growth in 2021-22 was revised upwards in the 2022-23 Budget relative to the 2021-22 Mid-Year Economic and Fiscal Outlook, released in December 2021, reflecting 'stronger-than-expected momentum in the labour market and consumer spending'. The 2022-23 Commonwealth Budget notes that 'a strong economic recovery is well underway, notwithstanding the pandemic and new shocks, such as the recent floods in Queensland and New South Wales' and the Ukraine crisis.

In its April 2022 World Economic Outlook (WEO), the IMF broadly maintained its growth projections for Australia at 4.2% in 2022 and 2.5% in 2023, similar to some other major commodity exporters, while downgrading its expectations for the global economy.

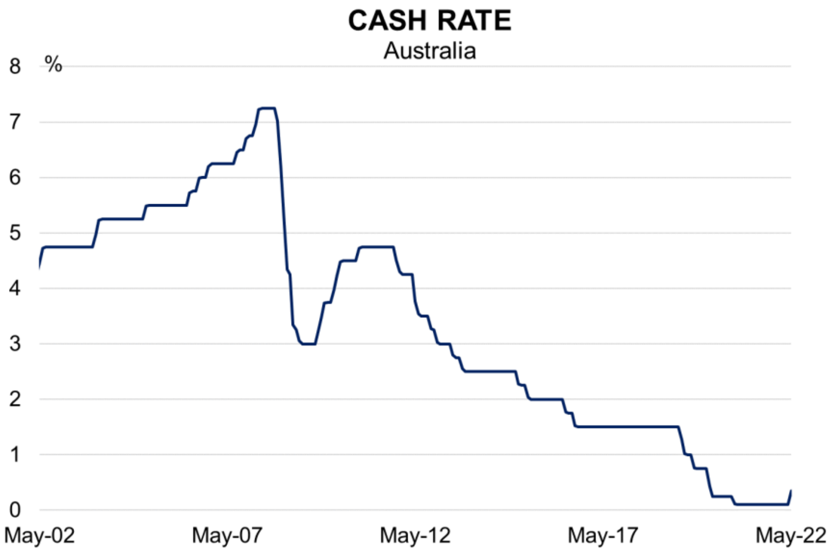
Most recently, in its May 2022 Statement of Monetary Policy (SMP), the Reserve Bank of Australia (RBA) forecast Australia's GDP to grow by 4.25% in 2022 and 2% in 2023, noting that 'a strong expansion in the Australian economy is underway' that is 'expected to continue over the forecast period, despite the slowdown in global growth'. The outlook is anticipated to be supported by a boost in national income from higher commodity prices, though the RBA notes that this has been 'mainly in the form of elevated profits for companies in the resources sector and higher government tax revenue'.

The RBA notes that 'the Omicron outbreak experienced throughout the country and flooding in New South Wales and Queensland weighed on economic activity in the March quarter', but this impact should be temporary and short-lived and that 'the impact of Omicron on domestic activity has been much less than that seen during earlier outbreaks'.

The RBA lifted its cash rate for the first time in more than eleven years in May 2022, to 0.35% from a record low 0.1% where it had remained since November 2010 (Chart 2). In its May 2022 Monetary Policy Decision, Governor Philip Lowe noted that 'the economy has been very resilient, unemployment is low and economic growth is expected to be strong this year'. He further notes that 'inflation has picked up more quickly, and to a higher level, than was expected and there is evidence that labour costs are increasing more quickly'. On this basis, the RBA Board judged that 'it is now time to begin withdrawing some of the extraordinary monetary support that was put in place to help the Australian economy during the pandemic'.

The national labour market has recovered rapidly from the initial shock at the onset of the pandemic, when 855,700 jobs were lost. Employment was 3% above pre-COVID levels in March 2022, coinciding with record-equalling low unemployment (4%) and the equal highest workforce participation on record (66.4%).

Chart 2

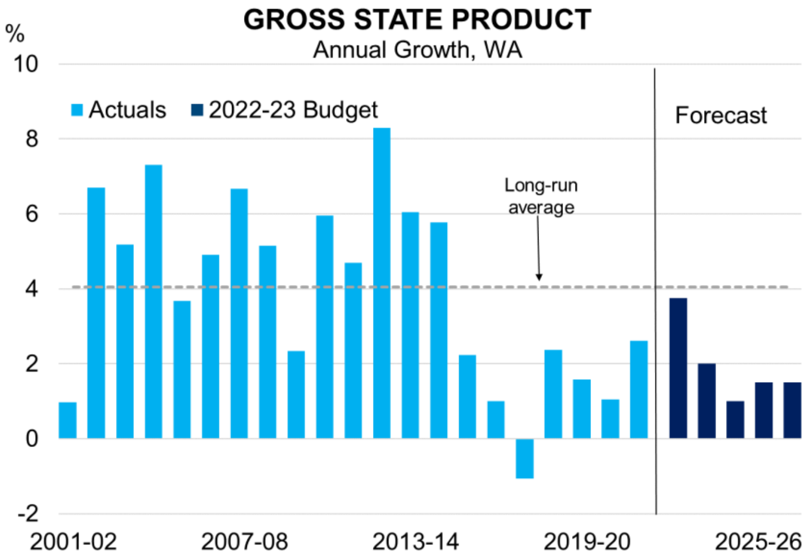


Source: Reserve Bank of Australia

4. Western Australia's Economic Outlook and Risks

The 2022-23 State Budget forecasts Western Australia's GSP to grow by 3.75% in 2021-22 and by 2% in 2022-23. Economic growth is then forecast to ease to 1% in 2023-24 before strengthening to 1.5% per year in 2024-25 and 2025-26.

Chart 3



Growth in GSP is being driven by very strong growth in the domestic economy, while net exports are expected to detract from growth over 2022-23 and 2023-24 as services imports (such as Western Australians travelling overseas) are expected to lift sharply.

Western Australia's domestic economy is experiencing its strongest economic growth in a decade, supported by exceptionally strong growth in household spending. The sustained strong performance also reflects the State's positive health outcomes and relatively low levels of restrictions, supported by controlled borders while the COVID-19 vaccination rate picked-up significantly.

In 2021, Western Australia's domestic economy expanded by 6.6% - stronger than national growth of 5.9%. Growth in household spending, dwelling investment and government investment were all stronger than nationally in 2021.

Table 3 – Components of Economic Growth (Seasonally Adjusted)

Annual Average Growth to December 2021, %

	Western Australia (%)	Australia (%)
Household consumption expenditure	6.0	4.8
Business Investment	4.8	5.8
Dwelling Investment	15.6	9.2
Government Consumption	4.8	5.0
Government Investment	13.3	8.8
State/Domestic Final Demand	6.6	5.9
International exports[(a)]	0.7	-1.6
International imports[(a)]	-2.8	5.8
Gross Product	N/A	4.7

(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

The 2022-23 Budget forecasts household consumption to grow by 5% in 2021-22, up from 2.7% in 2020-21. Household spending is then expected to ease to 2.25% in 2022-23.

The current strong growth in household consumption, which increased by 6% in calendar 2021, reflects the success of controlled borders mitigating the need for extended lockdowns in the State, as well as sustained demand for domestic retailing, including strong demand for vehicles and household furnishings. High levels of spending have also been supported by strong household balance sheets and consumers diverting spending from international travel to spending within the State.

The spending momentum has continued into 2022, with retail trade volumes in the March quarter exceeding $10 billion for the third consecutive quarter. Experience from the eastern States suggests that the outbreak of the Omicron variant in Western Australia will likely have a negligible impact on spending.

The pace of growth in household spending is expected to moderate to 2.25% in 2022-23 from current high levels. Spending on travel is expected to pick-up substantially during the year, reflecting higher levels of interstate and international travel. At the same time, spending on vehicles and household furnishings is likely to moderate, reflecting that some of this spend would have been brought forward into 2020-21 and 2021-22.

Growth in household spending is forecast to increase slightly to 2.75% in 2023-24 underpinned by forecast growth in population and wages, before settling at 2.5% per annum in 2024-25 and 2025-26 as consumption patterns stabilise.

4.2 Dwelling Investment

Dwelling investment is forecast to grow by 12.75% in 2021-22, underpinned by on-going work on dwellings commenced in response to the Commonwealth and State Government's building construction grants made available in the second half of 2020. Elevated levels of activity are forecast to continue into 2022-23 as the build times for dwellings currently under construction have been extended further than previously anticipated. This reflects on-going labour constraints and delays in sourcing some building materials.

Dwelling investment activity is expected to moderate in 2023-24 as the current pipeline of building work is largely completed, and return to growth from 2024-25, supported by growth in the State's population.

4.3 Business Investment

Business investment is forecast to grow by 4.75% in 2021-22. This follows a similar rate of growth of 4.6% in 2020-21 and strong growth of 9.9% in 2019-20. Business investment over the period has been primarily supported by construction work across various iron ore back fill projects (including Gudai-Darri, Robe Valley Mesa and Western Turner Syncline 2 projects). More recently, labour shortages and supply chain disruptions have resulted in some delays to investment spending, particularly for smaller non-mining businesses. Reflecting this, business investment in 2021-22 is forecast to grow at a slower pace (4.75%) than previously forecast.

Growth in business investment is expected to strengthen to 8.25% in 2022-23, as spending on the construction of the large iron ore backfill projects is replaced by spending on LNG projects (including the Scarborough/Pluto Stage 2 LNG project and the Jansz-Io Compression project). Across the resources sector, capital expenditure to sustain current operations will also support investment spending, as companies look to maintain strong levels of production.

International Trade

4.4 Exports

Merchandise exports are estimated to grow by 1.75% in 2021-22, after increasing by 0.5% in 2020-21. Growth in 2021-22 is expected to be underpinned by an increase in iron ore, LNG and agricultural exports. The increase in agricultural exports reflects a record grain harvest in 2021.

In 2022-23, merchandise exports are forecast to grow by 1.0%, underpinned by an increase in LNG exports, with more production uptime expected at key projects following unplanned maintenance across 2020-21 and 2021-22.

Growth in merchandise exports is expected to moderate to 0.25% per annum from 2024-25. This reflects that a depletion of LNG resources will detract from overall growth over the outyears (with production from the Scarborough/Pluto Stage 2 project not expected to commence until 2026), more than offsetting growth in other commodities, including nickel and lithium, reflecting increasing demand for battery metals.

Services exports are anticipated to fall by 2% in 2021-22 but are forecast to rebound strongly from 2022-23. The strong rebound reflects an expected pick up in inbound education, tourism and business-related travel. Services exports are projected to reach pre-COVID levels in 2023-24, before rates of growth moderate in the last two outyears.

4.5 Imports

Merchandise imports are estimated to grow by 2.5% in 2021-22, with growth lifting to 4.5% in 2022-23. These growth rates reflect a combination of higher capital goods imports as growth in business investment picks up, and elevated imports of consumer goods supported by strong levels of household consumption. Growth is expected to moderate over the outyears as discretionary spending eases and the level of business investment stabilises.

Services imports are anticipated to recover more quickly than services exports and to exceed pre-pandemic levels in 2023-24, supported by pent up demand from Western Australians for international tourism travel (the largest component of services imports, worth almost $7 billion prior to COVID-19). Services imports growth is forecast to moderate in 2024-25 and 2025-26.

5. The Labour Market

Conditions in Western Australia's labour market have strengthened significantly in the past year, with employment reaching a record 1,464,100 people in March 2022, the unemployment rate falling to its lowest level in more than a decade, and near record levels of job vacancies and workforce participation.

Table 4 – Population and Labour Force Forecasts

Western Australia

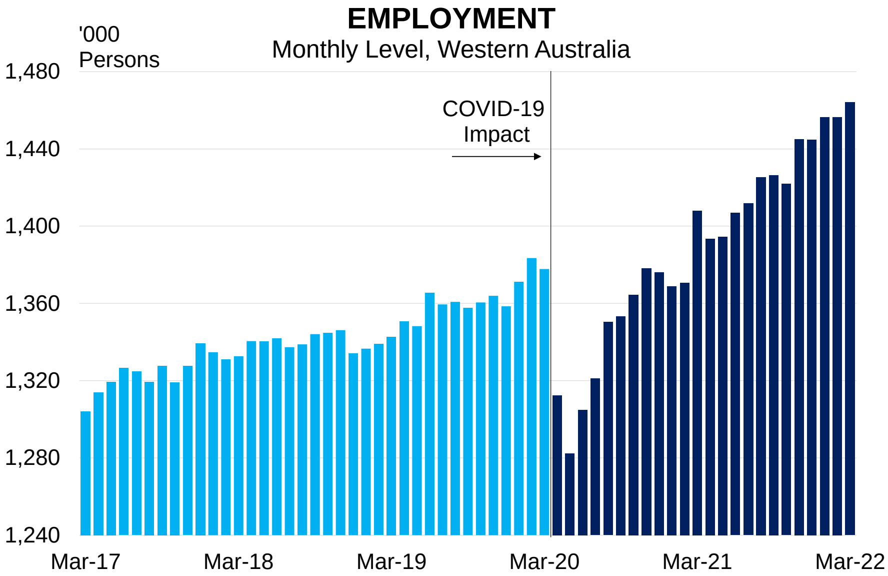
	2021-22	2022-23	2023-24	2024-25	2025-26
Annual Level					
Total population ('000)	2,698	2,731	2,769	2,811	2,853
Working age population (15+) ('000)	2,177	2,207	2,243	2,282	2,321
Employment ('000)	1,443	1,471	1,490	1,508	1,527
Unemployment ('000)	60	57	58	59	60
Unemployment rate (%)	4.0	3.75	3.75	3.75	3.75
Participation rate (%)	69.2	69.4	69.1	68.8	68.5
Annual growth (%)					
Total population growth	0.9	1.2	1.4	1.5	1.5
Working age population (15+)	1.0	1.4	1.7	1.7	1.7
Employment	5.0	2.0	1.25	1.25	1.25

Source: ABS and WA Treasury

5.1 Employment

Employment is estimated to grow by 5.0% in 2021-22, after growing by 1.8% in 2020-21. Employment growth is then forecast to moderate to 2.0% in 2022-23 and to 1.25% per annum over the remaining forward estimates period.

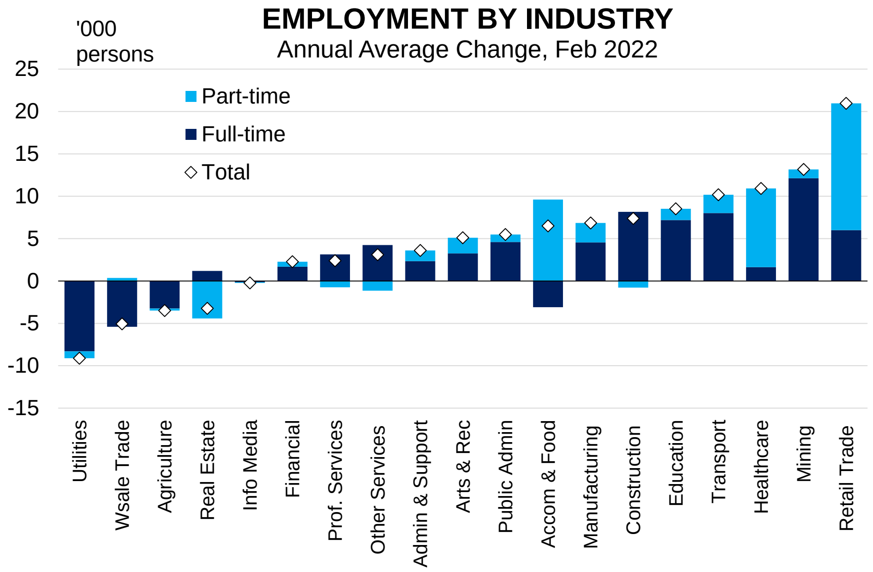
Chart 4



Source: Australian Bureau of Statistics

Employment grew by 5.9% in annual average terms in March 2022, reflecting a strong recovery since the onset of the COVID-19 pandemic. In annual average terms, in March 2022, full-time employment increased by 5.7% (contributing 3.8 percentage points (pp) to growth), while part-time employment increase by 6.3% (contributing 2.1 pp to growth). Employment increased in most industries in the year to February 2022, with growth strongest in retail trade, mining, health care, transport, education and construction (see Chart 5).

Chart 5



Source: Australian Bureau of Statistics

Employment is expected to continue growing in the near term, supported by a high level of job vacancies across a number of industries. Reflecting this, employment is forecast to increase by 2.0% in 2022-23, on top of strong growth in 2021-22. This is anticipated to be supported by continued hiring in the mining and health care sectors, as well as sustained residential construction activity.

Consistent with trends in the domestic economy, employment is forecast to grow at a more moderate pace of 1.25% per annum for the remainder of the forecast period.

5.2 Unemployment and Participation

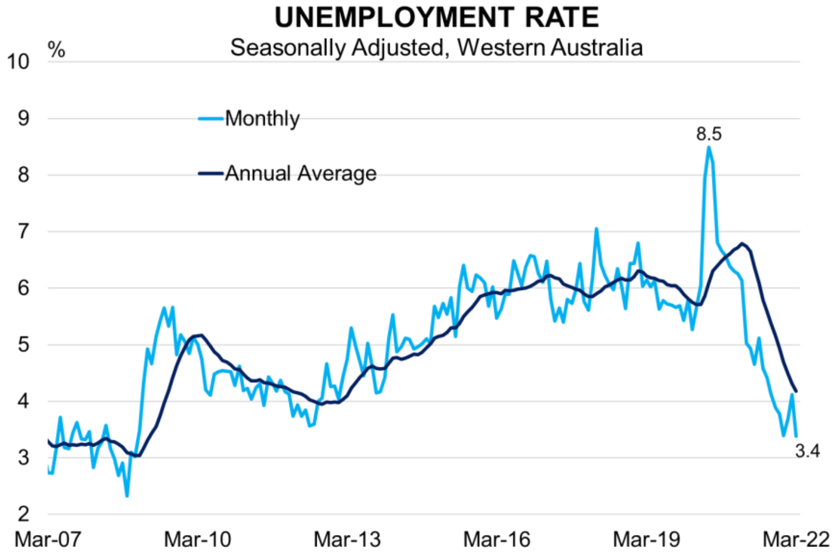
Western Australia's unemployment rate is estimated to average 4.0% in 2021-22, before easing to 3.75% over the remaining forecast period.

The low rate of unemployment throughout the forecast period reflects that the conditions in the labour market are expected to remain tight. In particular, ongoing demand for labour is expected to be sufficient to sustain a low unemployment rate in the context of stronger population growth and an easing in the participation rate.

Reflecting a trend for more people to join the workforce evident in the COVID-19 period, the participation rate is estimated to rise from 68.0% in 2020-21 to 69.2% in 2021-22 and reach a record 69.4% in 2022-23. The increase in participation since the onset of the pandemic has coincided with subdued population growth.

The participation rate is forecast to moderate over the Budget period to 68.5% by 2025-26, as the population ages and older cohorts (who have recently had the largest increase in participation) are expected to retire from the labour market.

Chart 6



Source: Australian Bureau of Statistics

6. Wages

Western Australian wages (as measured by the Wage Price Index, WPI[4]) increased by 1.7% in calendar 2021, following growth of 1.5% in the 2020-21 financial year. These rates of growth remain subdued despite the current tight labour market conditions. Businesses have been using a range of ways to attract and retain people without building increases into base wages. This includes the use of targeted bonuses and one-off payments, as well as flexible work policies and more internal training and development, which are not captured in the headline WPI data.

Continued strong labour demand is projected to result in wages growth picking up from 2% in 2021-22 to 2.75% in 2022-23 and 3% from 2023-24. Based on the forecasts in this Budget for growth in the Consumer Price Index (CPI), this is expected to see real wage growth from 2023-24.

7. Inflation

Perth's CPI (excluding the electricity sub-component)[5], is estimated to increase by 4.0% in 2021-22. This follows five years of subdued growth.

Price pressures in Perth have accelerated in recent months reflecting a combination of high global oil prices (due to strong demand and supply constraints, including as a result of the Ukraine crisis), as well as supply chain disruptions related to Omicron absenteeism and weather events (such as the temporary closure of the east-west rail route and eastern States floods).

[4] 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.

[5] The 2022-23 Budget forecasts for growth in the Perth CPI in 2021-22 and 2022-23 are based on the total index excluding the electricity sub-index. This is to abstract from the impact of the $600 Housing Electricity Credit (HEC) introduced in late 2020 and the $400 HEC, announced in the 2022-23 Budget, from July 2022.

Perth's headline CPI grew by 3.3% in the March quarter 2022 and by 5.2% in annual average terms. The largest contributors to annual growth were 'automotive fuel' (contributing 0.99 pp); 'electricity' (0.83); 'new dwelling purchase' prices (0.75pp); 'food and non-alcoholic beverages' (0.43pp); 'rent' (0.26pp); 'tobacco' (0.22 pp) and 'childcare' (0.2pp).

The large contribution from the electricity sub-component in the year to the March quarter 2022 reflects the unwinding of the impact of the $600 Household Electricity Credit (HEC) in late 2020, which reduced headline CPI inflation in the year to March 2021. The Perth CPI excluding the electricity sub-component grew by 4.4% in the year to the March quarter 2022.

Inflationary pressures are expected to moderate in 2022-23, with forecast CPI growth of 2.75%. This reflects the passing of temporary impacts on local supply chains and the easing of other global pressures (for example, growth in new vehicle purchase prices has begun moderating, and freight costs have eased from their recent peak). Pressures are expected to continue for the cost of construction of new homes.

8. Risks to the Outlook

8.1 Global Risks

The Ukraine conflict poses a significant risk to the global economy. Wars are inherently unpredictable and there are numerous associated risks, such as other nations becoming directly involved (by design or accident). This conflict and its aftermath will likely be a source of ongoing instability of global consequence for a number of years.

Many of the world's nations have been experiencing persistent and rising inflation. In response, central banks have started tightening monetary policy and there are expectations that policy settings will shift considerably over the course of 2022. Interest rate rises are designed to cool economic growth, but there is a risk that rates could be raised too quickly which could put some major economies at risk of recession. The risk to the global economy is heightened given the number of central banks lifting rates at the same time.

Any significant changes in China's domestic economy can have a major impact on the State's economic outlook. The demand for commodities from China may be impacted by the outbreak of more transmissible strains of COVID-19, which is resulting in significant interventions from authorities who appear committed to a zero-tolerance approach to domestic transmission.

8.2 Domestic Risks

A key domestic risk is how the COVID-19 pandemic develops. Experience highlights the potential for new COVID-19 variants to emerge which make any transition uncertain. Even if Western Australia continues to restrict transmission of any new outbreaks, there is a risk that an accumulation of cases across the rest of the country may dent confidence levels and further disrupt supply chains.

Labour and supply-chain disruptions have impacted activity recently, most notably new dwelling investment, over the period since COVID-19 commenced, and remain a risk to the outlook. Within the residential construction sector, further shortages and disruptions could extend build times further, leading to escalating costs.

Rising inflation is another key risk, both globally and domestically. Following CPI data for the March quarter being stronger than expected, the RBA increased the cash rate by 25 basis points to 0.35% at its May Board meeting, with more interest rate rises expected in the near term. The prospect of increased borrowing costs presents a risk to the outlook for household spending, though many households have built a savings buffer or have paid down debt during the pandemic.

While the State's interstate and international borders opened on 3 March 2022, there is uncertainty about the pace of recovery in the State's tourism and international education sectors. In particular, the extent of travel hesitancy is uncertain, as is the extent to which businesses continue to use online tools to hold meetings instead of travelling to meet in person.

Detailed Economic Forecasts

Table 5

Economic Forecasts

Western Australia, Annual Growth (%)

	2020-21 Actual	2021-22 Estimated Actual	2022-23 Budget Year	2023-24 Outyear	2024-25 Outyear	2025-26 Outyear
Demand and Output [(a)]						
Household Consumption	2.7	5.0	2.25	2.75	2.5	2.5
Dwelling Investment	2.0	12.75	0.5	-3.0	1.5	5.75
Business Investment	4.6	4.75	8.25	4.0	0.5	0.25
Government Consumption	6.2	3.0	2.5	1.25	2.5	2.5
Government Investment	4.0	12.5	16.5	7.5	3.25	0.75
State Final Demand	**4.4**	**5.25**	**4.0**	**3.0**	**2.25**	**2.5**
Merchandise Exports	0.5	1.75	1.0	0.5	0.25	0.25
Merchandise Imports	4.6	2.5	4.5	3.0	1.5	1.5
Net Exports [(b)]	1.1	1.75	-1.25	-2.0	0.0	0.0
Gross State Product [(c)]	**2.6**	**3.75**	**2.0**	**1.0**	**1.5**	**1.5**
Labour Market						
Employment	1.8	5.0	2.0	1.25	1.25	1.25
Unemployment Rate [(d)]	6.1	4.0	3.75	3.75	3.75	3.75
Participation Rate [(d)]	68.0	69.2	69.4	69.1	68.8	68.5
Population						
Population	0.9	0.9	1.2	1.4	1.5	1.5
Working Age Population (15+)	1.1	1.0	1.4	1.7	1.7	1.7
Prices						
Consumer Price Index [(e)]	1.6	4.0	2.75	2.5	2.5	2.5
Wage Price Index	1.5	2.0	2.75	3.0	3.0	3.0
Perth Median House Price	3.6	6.2	1.0	2.0	2.1	2.9
Other Key Parameters [(d)]						
Exchange Rate $US/$A (US cents)	74.7	73.5	75.1	73.1	70.6	68.2
Iron Ore Price ($US per tonne) Cost and Freight Inclusive (CFR)	154.5	139.5	77.5	66.0	66.0	66.0
Crude Oil Price ($US/barrel)	54.6	88.0	97.7	88.1	82.6	79.0

(a) Based on 2020-21 annual State Accounts data, updated with the latest State Final Demand and Balance of Payments data for the December 2021 quarter, the latest data available when the forecasts were finalised.

(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) The CPI growth rates in 2021-22 and 2022-23 are based on the total index excluding the electricity sub-index.