ATTACHMENT A

2023 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 4.25% in 2022-23, following growth of 3.1% in 2021-22. Strong growth in 2022-23 has been largely supported by a lift in exports, including for mining commodities and agricultural exports, which has more than offset slower growth in household spending (due elevated inflation and a lift in interest rates), and dwelling, business, and public investment.

Growth in GSP is expected to ease to 2.25% in 2023-24, primarily reflecting a smaller contribution from international trade and a modest easing in domestic demand, before averaging around 1.75% per annum over the period 2024-25 to 2026-27.

Western Australia's domestic economy has already started to lose momentum, with growth in State Final Demand (SFD) projected to moderate from 5.6% in 2021-22 to 3.25% in 2022-23, 3.0% in 2023-24 and 2.5% in 2024-25. Slower SFD growth primarily reflects a significant easing in household spending, which has already begun. Households are expected to pull back on durable goods and non-essential purchases, given rising mortgage interest rates and elevated prices. Household consumption growth is expected to slow to 1.5% in 2023-24 before recovering in 2024-25.

Capacity constraints within the economy are also impacting on current investment activity. Houses under construction are taking longer to complete due to labour shortages in the finishing trades, while new demand has also been impacted by elevated costs and rising interest rates. At the same time, some major business investments are proceeding more slowly than originally expected as a result of equipment delays and labour shortages.

Growth in the international trade sector is also forecast to moderate and provide a smaller contribution to economic growth from 2023-24 onwards. This reflects a stabilisation in export volumes, given that most new projects sustain rather than lift output, and a return to pre-pandemic international travel patterns (where Western Australians traditionally spend more on overseas holidays than international tourists and students spend in the State).

The State's labour market appears to have reached capacity in 2022. More recently, conditions have started to ease in line with more moderate domestic economic conditions. Employment growth in annual average terms has slowed to 3% in March 2023 from 5.8% in 2021-22 (although employment is at record levels). In line with this moderating trend, employment is forecast to grow by 1.75% in 2022-23 and by 1% in 2023-24. The unemployment rate is forecast to gradually rise from 3.5% in 2022-23 (the lowest annual rate in 15 years) to 4.0% in 2023-24 and 4.5% by 2025-26, as labour demand is outpaced by additions to the working age population.

Wages growth, as measured by the Wage Price Index (WPI), has lifted over the past year supported by sustained labour demand in a tight labour market. Wages are expected to increase further as firms aim to attract and retain staff.

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1 The forecasts for Western Australia's economic aggregates in this Attachment are those published in the 2023-24 Western Australian State Budget, released on 11 May 2023.

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.

Headline inflation in Perth appears to have peaked at 8.3% in year-ended terms in the December quarter 2022, moderating to 5.8% in the March quarter 2023 (released after the Budget cut-off). The 2023-24 Budget forecasts inflation[3] to decline to 5.75% in the June quarter 2023, easing to 3.5% by the June quarter 2024, as improved global supply chains and weaker consumer demand cools inflation for goods, growth in the price of new housing moderates, and travel prices normalise.

Risks to the outlook remain heightened and include: uncertainties regarding the full impact of interest rate increases (given it takes around three months for increases in the cash rate to flow through to repayments, and that most fixed-rate loans are due to expire over the next two years); the potential for labour shortages, input constraints and cost pressures to further delay investment activity and housing build times; and global uncertainty (including the impact of higher interest rates, the ongoing conflict in the Ukraine and recent instability in the global financial sector).

Table 1 below summarises forecasts for the major economic aggregates, with a more detailed table of forecasts from the 2023-24 Budget provided in Table 6 at the end of this Attachment.

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

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	Actual	Estimated Actual	**Budget Year**	Outyear	Outyear	Outyear
State Final Demand	5.6	3.25	**3.0**	2.5	2.75	2.5
Gross State Product	3.1	4.25	**2.25**	1.75	2.0	1.5
Employment	5.8	1.75	**1.0**	1.25	1.25	1.5
Unemployment rate (a)	3.7	3.5	**4.0**	4.25	4.5	4.5
Consumer Price Index (b)	5.1	5.75	**3.5**	2.75	2.5	2.5
Wage Price Index	2.2	3.75	**4.0**	3.75	3.25	3.0
Population	1.2	2.0	**1.8**	1.7	1.6	1.6

(a) Data expressed as annual average during the financial year.
(b) CPI growth rates from 2021-22 are based on the total index excluding the electricity sub-sector. Forecasts from 2022-23 are expressed in year-ended terms.
Source: Western Australia 2023-24 Budget and Australian Bureau of Statistics.

2. Global Outlook

Global economic growth is estimated to have slowed from 6.3% in 2021 to 3.4% in 2022. The slower rate of growth in 2022 reflects the impact of major headwinds throughout the year, such as continued COVID-19 lockdowns in China, Russia's invasion of Ukraine causing instability in energy and financial markets, surging inflation and an associated tightening of global monetary policy by central banks.

In its April 2023 World Economic Outlook, the International Monetary Fund (IMF) forecast that global growth will slow further to 2.8% in 2023 before rising to 3% in 2024 (see Table 2).

[3] 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 2023

Annual GDP Growth, %

	2022 Actual	2023 Projection	2024 Projection	2023 Difference[(a)]	2024 Difference[(a)]
World	**3.4**	**2.8**	**3.0**	**-0.1**	**-0.1**
Advanced Economies	**2.7**	**1.3**	**1.4**	**0.1**	**0.0**
United States	2.1	1.6	1.1	0.2	0.1
Euro Area	3.5	0.8	1.4	0.1	-0.2
Japan	1.1	1.3	1.0	-0.5	0.1
United Kingdom	4.0	-0.3	1.0	0.3	0.1
Australia	3.7	1.6	1.7	0.0	0.0
Emerging Market and Developing Economies	**4.0**	**3.9**	**4.2**	**-0.1**	**0.0**
China	3.0	5.2	4.5	0.0	0.0
India	6.8	5.9	6.3	-0.2	-0.5
ASEAN 5	5.5	4.5	4.6	0.2	-0.1

(a) Difference from the January 2023 Update World Economic Outlook
Source: IMF World Economic Outlook (WEO), April 2023

The IMF expects that advanced economies (especially the euro area and the United Kingdom) will experience a pronounced slowdown in growth, from 2.7% in 2022 to 1.3% in 2023, reflecting the rise in interest rates needed to control inflation, and the recent instability in the financial sector.

There are signs emerging that headline inflation globally has peaked and is falling in the US, the euro area and Australia. However, core inflation rates, which exclude food and energy prices, remain elevated, and central banks are targeting policy rates to control inflation.

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

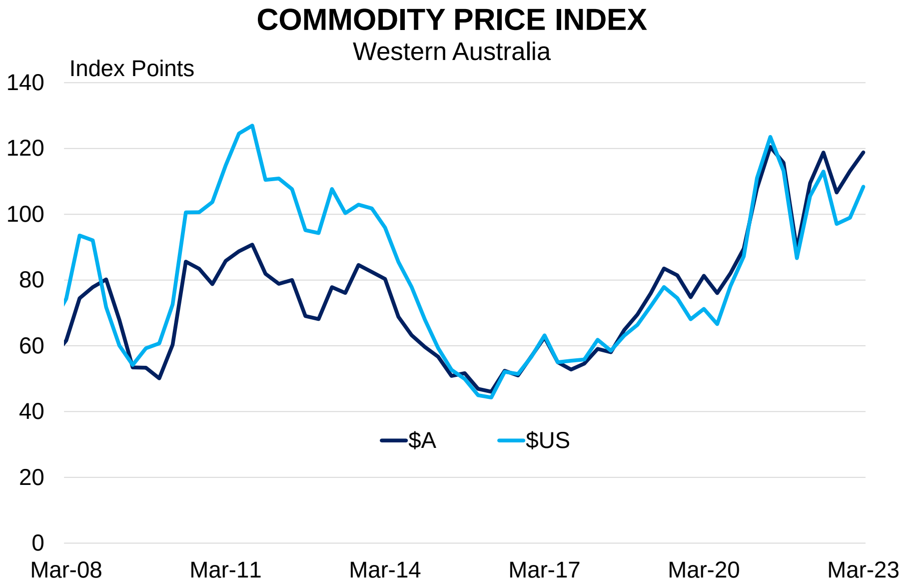
2.1 Global commodity markets

Global commodity markets tightened significantly through early 2022 due to a combination of strong demand as countries transitioned from restrictions imposed during the COVID-19 pandemic and interruptions to supply from Russia's invasion of Ukraine. Conditions started to ease in the second half of 2022 in response to a slowing global economy and realignment of trade flows.

Most commodity prices have returned to levels around or below those prior to the Russian invasion of Ukraine. Global demand for commodities involved in battery production for electric vehicles and energy storage has been strong and continues to be supported by Government policies to decarbonise.

The Western Australian Commodity Price Index, a weighted index of commodity prices most relevant to the State's economy, remains slightly 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 goods exports reaching a record $272 billion in nominal terms over the year to March 2023 (representing 44.7% of national exports). Annual exports to China totalled $144 billion over the year (or 53.1% of total Western Australian exports).

Iron ore market conditions have remained volatile, with the current price well below its peak of May 2021. Iron ore prices fell in the second half of 2022 (the benchmark iron ore price fell by more than 50% to a three-year low of $US79 per tonne in late-October 2022), mainly due to weaker steel demand in China, as frequent COVID-19 lockdowns and an ongoing downturn in the Chinese property market constrained activity.

Iron ore prices began to recover after the Chinese government dropped its zero-COVID policy in November 2022 and pledged further support for its property sector, leading to an improved outlook for iron ore and steel demand. Prices rebounded nearly 70% to $US133 per tonne in mid-March. The price then eased to $US119 per tonne as at the cut-off date for the 2023-24 Budget and has since declined further.

China's property sector, which accounts for about 25-35% of the country's steel demand, is on track for a soft recovery in 2023 after the Government announced a number of measures to support activity in November 2022. Policymakers have eased some financing restrictions for property developers to help them complete unfinished housing projects. This follows increased public criticism in 2022 due to a large stock of unfinished homes. In China, homes are often paid for before construction commences.

A number of property market indicators have already started responding to policy support, with recent data suggesting that the rate at which the property market is contracting may be bottoming. However, given the Government's focus on completing unfinished projects (less steel intensive) rather than new construction starts (more steel intensive), steel demand from the property sector is not expected to increase significantly.

China's infrastructure sector, which accounts for about 30% of Chinese steel demand, is expected to remain the key driver of steel demand growth in 2023. The automotive sector, which accounts for about 7% of China's steel demand, is expected to show a slightly weaker performance in 2023 after subsidies were removed at the end of 2022. The outlook across these sectors of the Chinese economy suggests a relatively steady outlook for steel demand in 2023.

The combined effect of these steel intensive sectors suggests a relatively steady outlook for steel demand in 2023.

3. National Economic Conditions and Outlook

The Australian economy (as measured by Gross Domestic Product, GDP) grew by 3.7% in the 2022 calendar year (following 5.2% growth in the 2021 calendar year), primarily due to 6.5% growth in household spending, the largest increase on record. Notwithstanding this, growth in the Australian economy has slowed in recent quarters – in response to elevated cost of living pressures and higher interest rates. Domestic demand was steady in the December quarter as investment declined and household consumption growth weakened, despite higher population growth over this period.

The 2023-24 Commonwealth Budget (released on 9 May 2023) forecasts growth in the national economy to ease to 3.25% in 2022-23 and 1.5% in 2023-24 before growth picks up again to 2.25% in 2024-25 (see Table 3).

GDP growth in 2022-23 has been supported by a strong increase in household consumption, and in particular, by a strong post-pandemic pick-up in services spending. The high level of spending has been underpinned by strong employment growth and the highest level of wages growth in a decade. Elevated commodity prices have also supported growth through higher export earnings.

In 2023-24, GDP growth is expected to slow in line with a moderation in domestic demand. That moderation "has materialised slightly earlier than anticipated, with consumers and the housing sector most exposed. Cost of living pressures and higher interest rates …will increasingly weigh on household budgets and spending over the year ahead". By 2024-25, GDP growth is forecast to rebound to 2.25%, supported by an increase in household spending, as household disposable income grows reflecting a lift in wages as well as inflation subsidies.

Table 3 – Major Economic Parameters, Australia
Annual Growth, %(a)

	Outcomes	Forecasts				
	2021-22	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Real GDP	3.7	3.25	1.5	2.25	2.75	2.75
Employment	3.6	2.5	1.0	1.0	1.75	1.75
Unemployment rate	3.8	3.5	4.25	4.5	4.5	4.25
Consumer Price Index	6.1	6.0	3.25	2.75	2.5	2.5
Wage Price Index	2.6	3.75	4.0	3.25	3.25	3.5

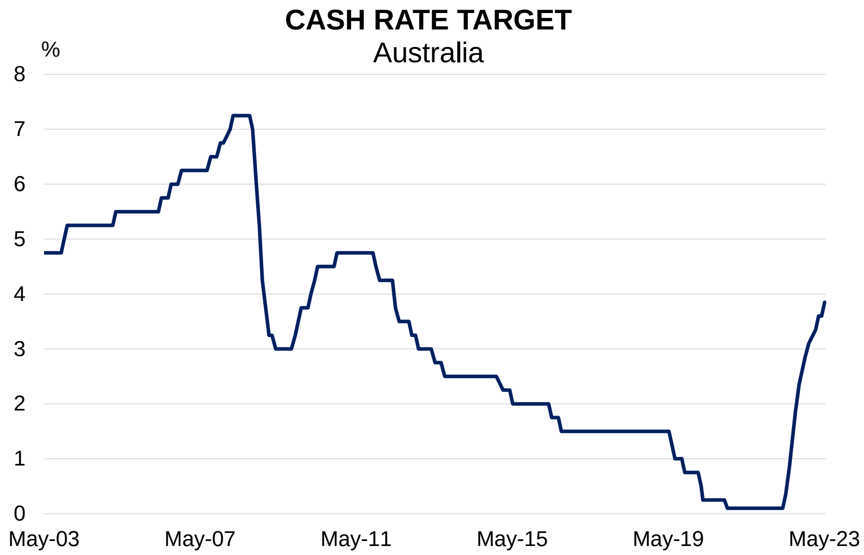
(a) Real GDP growth is the percentage change on the preceding year. Growth in employment, the Consumer Price Index and Wage Price Index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.
Source: 2023-24 Budget Commonwealth Treasury.

The Commonwealth Budget projects that conditions in the national labour market will gradually soften in line with lower domestic demand. Employment is expected to grow by 2.5% in 2022-23 and 1.0% in 2023-24, supported by stronger migration, while the unemployment rate is forecast to increase from near 50-year lows of 3.5% to around 4.25% in the June quarter 2024. Reflecting the recent strength of the labour market, wages growth as measured by the Wage Price Index (WPI), is expected to lift to 4.0% by the June quarter of 2024.

National inflation appears to have peaked, with year-ended growth slowing from 7.8% in the December quarter 2022 to 7.0% in the March quarter 2023. The Commonwealth Budget forecasts national inflation to ease further to 6% in the June quarter 2023 and to 3.25% in the June quarter 2024. The projected easing reflects a combination of a waning in the effects of global price shocks (including energy price shocks) stemming from Russia's invasion of Ukraine and supply disruptions from the pandemic. The Commonwealth's Energy Price Relief Plan, which includes temporary caps on wholesale gas and coal prices as well as targeted energy relief for households, is also expected to contribute to lower inflation. By the June quarter 2025, national inflation is expected to return to within the Reserve Bank of Australia's target range of 2-3%.

In response to higher inflation, the Reserve Bank of Australia (RBA) has increased the cash rate by a cumulative 375 basis points since May 2022 from a record low of 0.10% (where it had remained since November 2020) to 3.85% in May 2023 (Chart 2). In comments made following the latest decision to raise the cash rate by 0.25% in May 2023, Governor Lowe noted that "Looking forward, some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve. The Board is not on a pre-set course. It will pay close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market … we will do what is necessary to bring inflation back to target".[4]

Chart 2



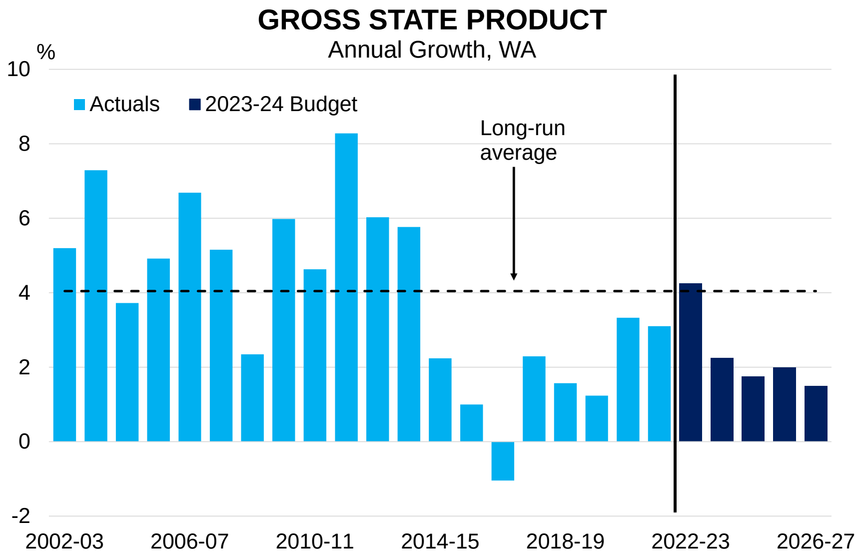
Source: Reserve Bank of Australia

[4] Dr P. Lowe, "Remarks at the Reserve Bank Board Dinner", 2 May 2023

4. Western Australia's Economic Outlook and Risks

The 2023-24 State Budget forecasts Western Australia's GSP to grow by 4.25% in 2022-23 and by 2.25% in 2023-24. Economic growth is then forecast to ease to average around 1.75% per year from 2024-25 to 2026-27.

Chart 3



Growth in GSP in 2022-23 is expected to be largely supported by a lift in exports across a range of mining commodities, along with agricultural exports following a record harvest. The strong contribution from exports has more than offset slower growth in household spending (due to elevated inflation and a lift in interest rates), and dwelling, business, and public investment (due to labour shortages, as well as equipment delays and higher costs).

Annual growth in SFD softened to 3.9% in 2022, from 5.6% in 2021-22. While over half of the growth in 2022 (2.3 pp) was underpinned by household consumption, this sector is likely to come under increasing pressure over 2023, given rising mortgage repayments (particularly for those with expiring fixed rate loans) and elevated prices.

Table 4 – Components of Economic Growth (Seasonally Adjusted)

Annual Average Growth to December 2022, %

	Western Australia (%)	Australia (%)
Household consumption expenditure	4.7	6.5
Business Investment	0.3	3.7
Dwelling Investment	-8.1	-3.4
Government Consumption	7.3	5.2
Government Investment	7.4	3.1
State/Domestic Final Demand	**3.9**	**4.9**
International exports[(a)]	0.3	3.3
International imports[(a)]	12.3	12.6
Gross Product	**N/A**	**3.7**

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

Growth in GSP is set to ease to 2.25% in 2023-24, with slower growth primarily reflecting a smaller contribution from international trade. Growth in the domestic economy is expected to soften albeit more modestly, from 3.25% in 2022-23 to 3.0% in 2023-24. The modest easing in growth in the domestic economy in 2023-24 masks a significant easing in household spending being offset by a lift in dwelling investment and business investment.

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 grew by 4.7% in the 2022 calendar year, easing from growth of 5.6% in 2021-22, as consumers started to pull back on spending in response to elevated prices and rising interest rates. More recent data shows that retail trade in real terms (adjusted for prices) was flat in the March quarter 2023, with annual growth (1.9%) slipping to its weakest rate in three years.

Growth in consumption is expected to ease further to 3.25% in 2022-23 and to 1.5% in 2023-24 reflecting the full effect of higher interest rates. This is likely to further weaken non-essential spending, with households also expected to spend less on some one-off items (such as vehicles and furnishings) following record levels of spending on these items over the past two years. Weaker household consumption across a number of discretionary items will be partly offset by a spending recovery in both domestic and international travel. Higher migration levels to the State will also support household spending.

4.2 Dwelling Investment

Dwelling investment contracted by 8.1% in 2022, with ongoing labour shortages continuing to hamper progress on the record level of dwellings under construction. Construction times are now expected to be the longest on record (around 24 to 36 months), with delays shifting some work from 2022-23 into 2023-24. Dwelling investment is expected to increase in 2023-24 (by 6.5%) as the current large pipeline of work is steadily completed.

In 2024-25, expenditure is anticipated to decline by 7.75%, in line with recent declines in building approvals and first homeowner grants, which are lead indicators of new residential construction. This reflects the impact of the record pace of increases in interest rates since May 2022 on new construction work, at a time when the current backlog of work is expected to be largely completed.

4.3 Business Investment

Growth in business investment eased from 4.0% in 2021-22 to just 0.3% in the 2022 calendar year, with activity constrained by labour availability and delays in sourcing equipment. In addition, higher interest rates and cost pressures are causing some companies to re-evaluate or delay their investment plans.

Nonetheless, a solid pipeline of current and committed mining projects across commodities including LNG, iron ore and critical minerals is expected to support investment levels over the forecast period. Construction of major LNG projects such as Scarborough and Crux are expected to continue ramping up, lifting growth in business investment to 3% in 2022-23 and 6.75% in 2023-24.

Growth is projected to remain solid to 2025-26, supported by work on major projects (such as Jansz-Io and Western Range), along with a substantial lift in decarbonisation investment. Investment over the forecast period will also be supported by capital expenditure to sustain current operations in the resources sector, as companies look to maintain and incrementally add to current high levels of production.

International Trade

4.4 Exports

Despite challenging conditions in the global economy, the State's export performance has been strong, with goods exports reaching a record $272 billion in nominal terms over the year to March 2023 (representing 44.7% of national exports).

Merchandise exports are projected to grow by a robust 6% (in volume terms) in 2022-23, underpinned by a lift in exports across a range of commodities including iron ore, LNG and lithium, as well as wheat and canola.

Growth in goods exports is then projected to moderate to 2% in 2023-24 and 0.75% by 2026-27, with key producers operating at close to capacity. Iron ore is forecast to continue to underpin growth, with production ramping up at some mines through the period, including Gudai Darri, Eliwana and South Flank in the near term, and Iron Bridge and Onslow Iron in the later years.

Growth will also be supported by agriculture, with expected expansions to grains storage and shipping capacity, and increased production of critical minerals such as lithium, reflecting elevated global demand for battery metals.

Services exports are expected to continue to recover to pre-pandemic levels (as students return to the State and international arrivals pick up). After falling by 4.4% in 2021-22, services exports are now anticipated to rise by 40.75% in 2022-23 and by a further 21.5% in 2023-24, supported initially by a large influx of overseas students and a continued recovery of international travel. Services exports are projected to exceed pre-COVID levels in 2024-25, and to revert to more moderate rates of growth in 2025-26 and 2026-27.

4.5 Imports

After declining by 2% in 2021-22, merchandise imports are anticipated to grow by 4.25% in 2022-23 and by 2.75% in 2023-24. This reflects higher imports of consumer and capital goods (underpinned by stronger business investment). Growth in goods imports is expected to moderate over the out years to 1.5% by 2026-27 as business investment eases.

Services imports are projected to grow by 56.75% in 2022-23 and to exceed pre-pandemic levels in 2024-25. As travel by Western Australians (including tourism, business, and education) accounts for around half of all services imports, the trajectory for the recovery is predicated on improved aviation capacity and a desire of households to spend on travel given restrictions in recent years. Services imports growth is forecast to moderate in 2025-26 and 2026-27 as outbound travel returns to historical trends.

5. The Labour Market

Western Australia's labour market operated at capacity in the 2022 calendar year, and while conditions have eased more recently, they remain strong. Employment reached a record 1.528 million people in March 2023, the unemployment rate has risen slightly but remains historically low, the participation rate has trended down from an all-time high of 70.1% in February 2022, and after dipping through the second half of 2022, the number of job vacancies has returned to a record level in April 2023.

Table 5 – Population and Labour Force Forecasts

Western Australia

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Annual Level						
Total population ('000)	2,770	2,826	2,877	2,926	2,972	3,020
Working age population (15+) ('000)	2,242	2,289	2,338	2,382	2,427	2,471
Employment ('000)	1,491	1,517	1,532	1,551	1,571	1,594
Unemployment ('000)	58	55	64	69	74	75
Unemployment rate (%)	3.7	3.5	4.0	4.25	4.5	4.5
Participation rate (%)	69.4	69.1	68.7	68.4	68.2	68.0
Annual growth (%)						
Total population growth	1.2	2.0	1.8	1.7	1.6	1.6
Working age population (15+)	1.5	2.1	2.1	1.9	1.9	1.8
Employment	5.8	1.75	1.0	1.25	1.25	1.5

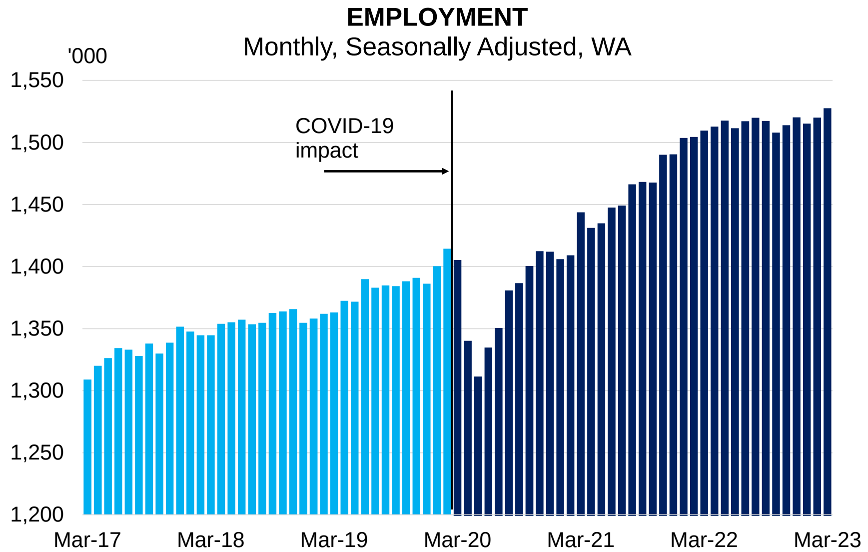
Source: ABS and WA Treasury

5.1 Employment

Employment grew by 3% in annual average terms in March 2023, easing from a peak of 6.5% in March 2022. After recovering strongly from recent lows early in the COVID-19 pandemic, employment levels have varied between 1.508 million and 1.528 million people since May 2022 (Chart 4).

Employment growth is forecast to moderate to 1.75% in 2022-23 and 1.0% in 2023-24, in line with slower growth in the domestic economy.

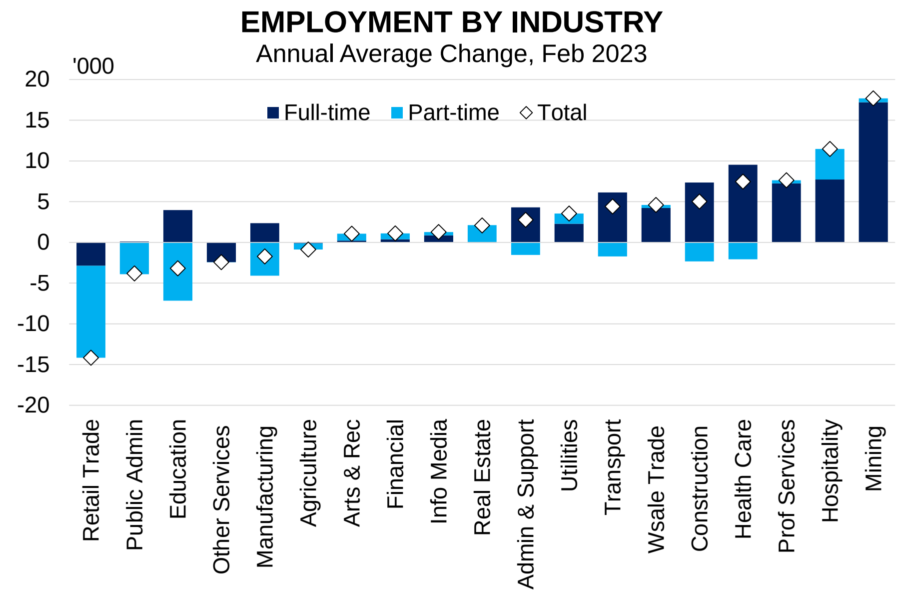
Chart 4



Source: Australian Bureau of Statistics

Annual growth in employment has been underpinned entirely by growth in full-time employment, which increased by 6.8% in annual average terms in March 2023 (contributing 4.6 percentage points (pp) to annual growth), whereas part-time employment declined by 4.6%, detracting 1.5pp from annual growth. Employment increased across most industries in the year to February 2023, with the strongest growth recorded in mining, hospitality, and professional services (Chart 5).

Chart 5



Source: Australian Bureau of Statistics

5.2 Unemployment and Participation

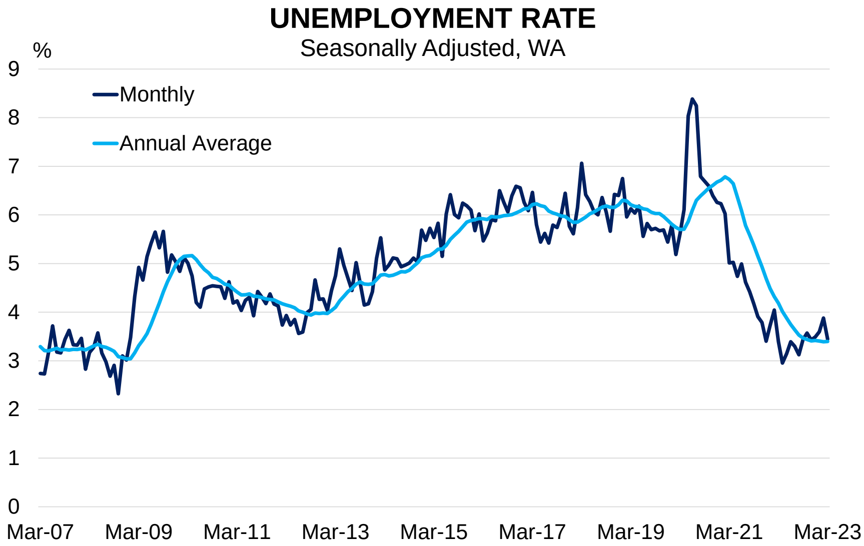
Western Australia's unemployment rate is expected to average 3.5% in 2022-23, which would be the lowest annual unemployment rate since 2007-08. Notably, a fall in unemployment has occurred for groups of people that have traditionally had trouble finding work. The youth unemployment rate fell to 7.9% in March 2023, the lowest annual average rate in over 13 years, while the number of long-term unemployed people (those who have been out of work for 12 months or more) has fallen to its lowest level in seven years.

As employment growth moderates and labour market conditions gradually ease, the unemployment rate is then anticipated to rise to 4.0% in 2023-24, increasing to 4.5% over the remaining forecast period, well below the long-run average unemployment rate of 6.1%. The low rate of unemployment throughout the forecast period reflects that the conditions in the labour market are expected to remain relatively tight.

Throughout the COVID-19 period, more people opted to join the workforce (especially women, youth and older cohorts). This resulted in the participation rate increasing to a record 69.5% in annual average terms in October 2022. The participation rate has since eased from this record, although remains elevated at 69.2% in the year to March 2023.

Reflecting an easing in labour market conditions and stronger population growth, the participation rate is expected to decline throughout the forecast period, from an estimated 68.7% in 2023-24 to 68.0% by 2026-27. The ageing of the population is expected to put downward pressure on the participation rate over the period.

Chart 6



Source: Australian Bureau of Statistics

6. Wages

Western Australian wages (as measured by the Wage Price Index, WPI[5]) increased by 3.4% in annual average terms in March 2023, following growth of 2.2% in 2021-22, as tight labour market conditions have begun to flow through to higher base wages. At the same time, businesses continue to use non-base wage means, such as bonuses and one-off payments, which are not captured in the headline WPI data.

Wages growth is expected to continue to rise to 3.75% in 2022-23 and 4.0% in 2023-24, as private sector firms continue to compete for labour and as public sector wages rise (in line with the State Government's new wages policy). The pace of WPI growth is forecast to slow from 2024-25, as labour demand eases and labour supply is supported by rising overseas migration.

7. Inflation

Perth's headline CPI growth appears to have peaked at 8.3% in year-ended terms in the December quarter 2022, with growth easing to 5.8% in the March quarter 2023. Perth's CPI (excluding the electricity sub-component) also eased from 8.6% in the December quarter 2022 to 5.9% in the March quarter 2023.

Perth's CPI is projected[6] to ease to 5.75% by the June 2023 quarter and 3.5% by June 2024, reflecting improved global supply chains, slower growth in consumer demand (as a result of higher interest rates), easing inflation for goods, more moderate growth in the price of new housing, and a normalisation of travel prices as additional flight capacity is brought online.

[5] 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.

[6] The 2023-24 Budget forecasts for growth in the Perth CPI from 2021-22 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.

The projected moderation in inflation is supported by the decline in annual growth in the national monthly CPI indicator from 8.4% in December 2022 to 6.3% in March 2023. It is also consistent with the Federal Reserve's global supply chain pressure index which has declined from a peak in December 2021, and is now below pre-pandemic levels. Shipping container costs from China have also fallen by around 80% from the peak in January 2022. In addition, the rate of producer price inflation for new houses has eased from 6.4% per quarter in the first half of 2022 to 1.1% per quarter in the following three quarters.

From 2024-25, CPI growth for Perth is expected to return to being within the RBA's target band of 2% to 3%.

8. Risks to the Outlook

8.1 Global Risks

Risks to the global economy have increased over the past year and remain tilted towards the downside, with recession concerns gaining prominence. These risks include the difficulties of controlling inflation, how economies react to higher interest rates, the continuing effects of Russia's invasion of Ukraine, and recent instability in the global financial sector.

Inflation had been building since late 2020 and early 2021, due to accommodative monetary and fiscal policies implemented during the pandemic to support both households and businesses, and the supply chain disruptions that occurred due to lockdowns. Then, after a period of rising tensions, Russia invaded Ukraine, which drove up the costs of energy and food globally. The combination of these events led to inflation reaching levels that had not been seen for decades.

There are signs that headline inflation has peaked in many global economies, partially due to the unwinding of supply-chain disruptions and that the dislocations to energy and food markets caused by the invasion of Ukraine are receding. However, core inflation (which excludes food and energy prices) remains elevated and there is a risk that inflationary pressures may remain stronger for longer than currently projected.

Central banks across many countries have responded to rising inflation by tightening monetary policy. There is a risk that the sharp rise in rates could put some major economies at risk of recession. Due to the lags in how monetary policy affects economic conditions, the full effects of rising interest rates have yet to materialise.

In early March 2023, several banks in the US collapsed following a run on their deposits, most notably Silicon Valley Bank and shortly after, Credit Suisse had liquidity issues and was bought out by competitor UBS. This generated concern in the markets as to whether there would be another banking crisis, but to date, it appears issues have been contained. The IMF notes that there is a significant risk that the recent turbulence in the banking system will result in a sharper and more persistent tightening of global financial conditions. Also, to the extent that banks are now less willing to lend and instead seek to protect their balance sheets, this could lead to a further slowing of growth.

Any significant changes in China's domestic economy can have a major impact on the State's economic outlook. China has rebounded strongly following the reopening of its economy and the strength in the Chinese economy's recovery will be a key factor in determining how well the global (and Western Australian) economy fares, and should it be weaker than expected, it would represent a significant downside risk.

8.2 Domestic Risks

There are several domestic risks to the outlook for the Western Australian economy.

The RBA has increased the cash rate by a cumulative 375 basis points since May 2022. The full effect of this substantial increase in interest rates (and hence borrowing costs) is yet to be fully felt. This presents some risk to the outlook for household spending, though many households have been able to build a savings buffer or pay down debt during the pandemic.

The impact of higher rates for borrowers with floating rate loans, who have predominantly felt the impact of higher rates to date (albeit with a lag of around three months between increases in the cash rate and higher payments), will be accompanied by a large number of expiring fixed rate mortgages. Fixed rate loans account for more than a third of all loans in Australia and more than 50% of the fixed rate loans in Western Australia are scheduled to roll over in 2023.

The State is also facing continued challenges that could impact the near-term outlook. Labour shortages, input constraints and cost pressures have impacted recent investment activity in both residential and business sectors. Any additional disruptions could result in build times for residential and non-residential projects being stretched further.

Detailed Economic Forecasts

Table 6

ECONOMIC FORECASTS

Western Australia, Annual Growth (%)

	2021-22 Actual	2022-23 Estimated Actual	2023-24 Budget Year	2024-25 Outyear	2025-26 Outyear	2026-27 Outyear
Demand and Output [(a)]						
Household Consumption	5.6	3.25	1.5	2.25	2.5	2.5
Dwelling Investment	2.3	-1.75	6.5	-7.75	7.75	2.0
Business Investment	4.0	3.0	6.75	5.25	4.25	0.75
Government Consumption	5.4	5.0	1.25	1.75	2.0	2.75
Government Investment	12.2	6.25	13.0	6.0	0.25	1.75
State Final Demand	5.6	3.25	3.0	2.5	2.75	2.5
Goods Exports	-3.1	6.0	2.0	1.75	1.5	0.75
Goods Imports	-2.0	4.25	2.75	2.75	2.5	1.5
Net Exports [(b)]	-3.9	5.75	1.25	1.0	1.25	0.5
Gross State Product [(c)]	3.1	4.25	2.25	1.75	2.0	1.5
Labour Market						
Employment	5.8	1.75	1.0	1.25	1.25	1.5
Unemployment Rate [(d)]	3.7	3.5	4.0	4.25	4.5	4.5
Participation Rate [(d)]	69.4	69.1	68.7	68.4	68.2	68.0
Population						
Population	1.2	2.0	1.8	1.7	1.6	1.6
Working Age Population (15+)	1.5	2.1	2.1	1.9	1.9	1.8
Prices						
Consumer Price Index [(e)]	5.1	5.75	3.5	2.75	2.5	2.5
Wage Price Index	2.2	3.75	4.0	3.75	3.25	3.0
Perth Median House Price	3.6	2.4	2.3	.1	2.9	0.2
Other Key Parameters [(d)]						
Exchange Rate $US/$A (US cents)	72.6	67.4	67.7	69.5	71.4	72.3
Iron Ore Price ($US per tonne) Cost and Freight Inclusive (CFR)	138.2	112.3	74.1	66.0	66.0	66.0
Crude Oil Price ($US/barrel)	90.3	88.2	79.6	74.9	71.6	69.0

(a) Based on 2021-22 annual State Accounts data, updated with the latest State Final Demand and Balance of Payments data for the December 2022 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) The CPI growth rates from 2021-22 onwards is based on the total index excluding the electricity sub-index as a result of the successive Household Electricity Credits provided across the State. Forecasts from 2022-23 are expressed in year-ended terms.