

Economic and Fiscal Outlook

The strength of the WA economy and the State's financial position formed a central part of the Government's Budget narrative.

The 2021-22 Budget painted a positive picture for both the WA economy and the State's financial position - at odds with other States and countries. The positive outcomes were put down to the Government's sound management of the COVID-19 pandemic, which allowed our key industries to continue operating.

The Budget was headlined by a \$5.6 billion operating surplus in 2020-21, which far exceeds any surplus previously reported in WA. A number of factors contributed to the record surplus, including:

- Higher than expected royalty revenues – Iron ore royalties were up by \$1.4 billion, largely due to the higher than expected iron ore price;
- Stronger than expected tax receipts as the WA economy outperformed expectations – Tax revenue was up by \$560 million, as a result of higher collections from transfer duty, payroll tax and motor vehicle taxes; and
- GST revenues – WA's allocation was up by \$318 million, as higher national consumption led to a larger than expected GST pool.

The State's robust financial position is expected to continue going forward, with an operating surplus of \$2.8 billion expected in 2021-22, and surpluses forecast across the forward estimates.

The Government will use the strong operating surpluses to fund a record \$30.7 billion infrastructure program. This has reduced pressure to rely on debt to fund major projects. As a result, net debt will fall by \$1.5 billion in 2021-22, marking the third consecutive year of decline. Total public sector net debt is expected to stand at \$32.06 billion at 30 June 2022, and rise modestly to almost \$36 billion by the end of the forward estimate period.

Although the Government is investing record amounts into infrastructure, the unexpected strength of the local economy has meant that efforts have been made to 'smooth' out the State's infrastructure spending in an attempt to avoid competing with the private sector.

At the height of the COVID-19 pandemic, significant amounts of stimulus funding was injected into the economy by all levels of Government, particularly in the form of grants to support the housing construction sector. As a result, the economy is now experiencing challenges in the form of capacity, constraints, skills shortages and cost and time blow outs on projects.

The extent to which the housing sector is benefitting from the stimulus spending is reflected in dwelling investment, which grew for the first time in 2020-21 (up by 4.75%), and is predicted to surge by a record 27.25% in 2021-22. However, this will unwind across the forward estimates as the pipeline of work is completed.

A review of the Asset Investment Program has been undertaken, and a project schedules for a number of projects (largely road projects) have now been adjusted.

To the extent that this reduces some of the pressures resulted to the growing costs and timeframes for major projects, this will be welcome news for Local Governments that also have significant capital works programs under way and are facing increases to costs and construction timeframes.

In addition to the housing sector, other parts of the WA domestic economy have also performed well and will continue to support strong economic growth in coming years.

Consumer spending has exceeded expectations on the back of strong consumer confidence and the substitution of spending on domestic activities given the limits on overseas travel. Household spending is expected to grow by 2.5% in 2021-22, peaking at 2.75% in 2023-24.

Business investment activity also continues apace, and is expected to grow by 9.75% in 2021-22 driven mainly by resources sector spending on both maintenance and capital expansion.

The strength of the domestic economy has meant that WA has outperformed the rest of the nation, with Treasury estimating that Gross State Product expanded by 3.25% in 2020-21. Growth is expected to accelerate in 2021-22 to 3.5% - the fastest rate since 2013-14.

Thereafter, growth is expected to ease across the forward estimates, averaging around 1.25% per annum. This reflects a number of factors including the unwinding of stimulus spending, the completion of major iron ore projects, and an increase in services imports as international borders reopen and Western Australians return to overseas travel.

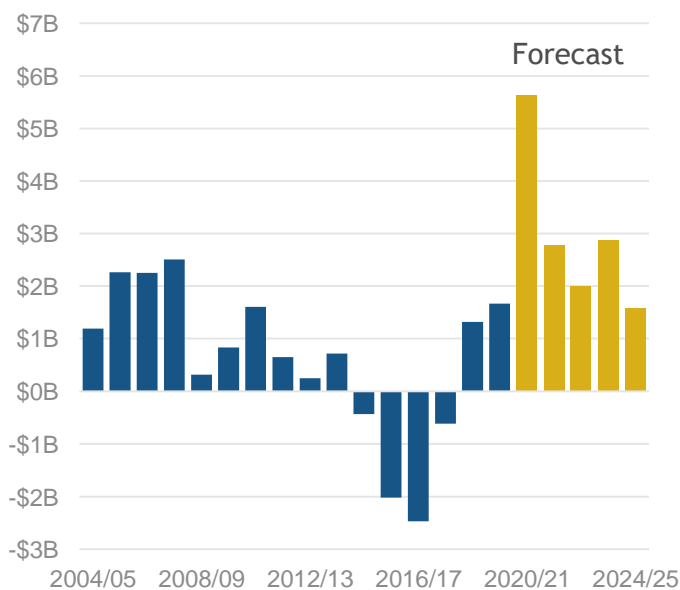
The robust outlook for the economy means that inflationary pressures are set to rise in coming years – though still remain relatively contained. It will be important that Local Governments plan for price increases in coming years as part of their annual budget process.

The wage price index is forecast to increase by 2.25% in 2021-22, and reach 2.5% by the end of the forward estimates. The increase reflects the tightness in the labour market, with the unemployment rate dropping to 4.75% in 2021-22, down from 6.1% in the previous year. Skills shortages have emerged in a number of industries, particularly due to the lack of overseas migration.

The Perth consumer price index is also expected to increase across the forward estimates, and is predicted to increase by 1.75% in 2021-22, climbing to 2% by 2024-25.

While the outlook for WA remains positive, there still remains significant risks on the horizon which have the potential to dampen growth in the local economy if they eventuate. The most significant risk identified by Treasury is a widespread COVID-19 outbreak, skills shortages and capacity constraints have also been identified as key risks.

Net Operating Balance, \$Billion



WA Gross State Product, Annual % Change

