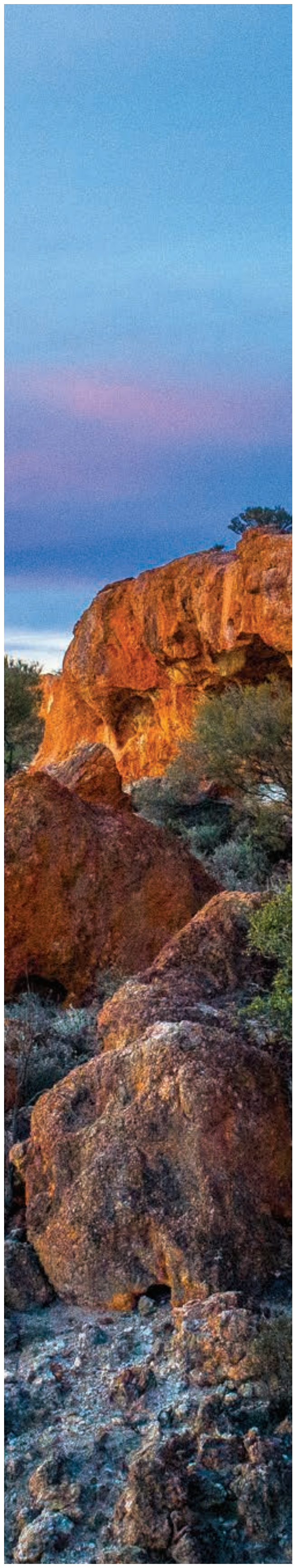


ECONOMIC BRIEFING

JUNE 2023

WALGA

OVERVIEW

Local Governments have endured a challenging period, with costs rising at a rapid rate, primarily as a result of skyrocketing construction costs in response to global supply chain pressures and COVID-19 inducted stimulus.

As these factors start to unwind, growth in Local Government costs will begin a path back towards the long-term average levels. However, the real costs faced by Local Government will stabilise at a new high and are not expected to return to their pre-pandemic levels.

The latest data for the **Local Government Cost Index (LGCI)** confirm that growth in costs have peaked as was flagged in the previous economic briefing, however it remains well above the medium-term levels.

The easing in **cost growth in the construction sector** reflects some relief from strong increases for some materials and input costs, particularly in relation to fuel – as global supply chain pressures driven by COVID-19 and the conflict in Ukraine ease.

However, this is not uniform, with other materials costs – particularly road materials – continuing to record strong growth.

Feedback from Local Governments suggests many are not yet feeling this relief, with ongoing challenges with tender pricing and availability of labour and materials and equipment.

The construction sector will remain competitive in the near term, with a significant volume of public and private sector projects still to be completed. This may create ongoing challenges, particularly in regional areas where there are limited suppliers and labour shortages are more acute.

While the sector can expect to see gradual relief in some areas of its cost base,new pressures are emerging in the near term in the form of wages and employee costs. This will be an important issue for Local Governments to monitor, given that employee costs represent around a third of the sector’s cost base.

There are now clear signs that wages are starting to rise, with the **WA Wage Price Index (WPI)** growing at its highest rate in more than a decade over the year to March 2023, as employers compete for workers in the State's tight labour market, and inflation is running at historically high levels.

Wage pressures are expected to persist in the coming year with the WA WPI predicted to grow by 4% in 2023-24.

While no data is specifically available on wages pressures faced by Local Governments, the WALGA Employee Relations Team advises there is also mounting pressure on the sector for wages to rise in 2023. A significant number of Local Governments are reporting that Unions are seeking pay increases to match inflation in the order of 7% to 8% as part of enterprise bargaining for 2023.

Over the longer term, some of the factors that have driven recent wage increases will start to ease, though this will take a number of years.

Extremely tight labour market conditions are forecast to abate as economic conditions ease and the return of overseas migrants adds to the labour pool.

CPI growth remains historically high, but there are signs that inflation has peaked and is beginning to track downwards. This is primarily due to improved global supply chains and weaker demand from consumers as higher interest rates take effect.

Notwithstanding, it will be some time before inflation returns to more acceptable levels, with Reserve Bank of Australia (RBA) estimates showing that inflation will not return to its target band until 2025. As a result, interest rates are expected to remain elevated for some time, with the RBA concerned that there still remains an upside risk to inflation.

While the **LGCI has increased** at near record highs since 2021, broader economic conditions have meant that there has been an unusual period of time where the LGCI has been growing at a slower pace than the Consumer Price Index (CPI).

The factors behind this phenomenon are two-fold. Growth in the consumer price index (CPI) has been excessively high and well outside of the Reserve Bank's target band of 2 to 3% since June 2021, with the Perth CPI peaking at 8.3% in December 2022. At the same time, wages – which account for a third of the Local Government sector's cost base – have been running at historically low levels, which has weighed on the LGCI.

Looking ahead, the LGCI is expected to ease to 3.3% in 2023-24 as construction costs and materials and contracts pricing start to settle at a higher level.

Over time, the relationship between the LGCI and CPI is expected to revert to normal as inflation is forecast to ease.

NOTE

The significant challenges of forecasting in the current economic environment, mean **the LGCI should be used with caution**. The LGCI will be subject to revisions in coming months, as the impact of major economic shocks such as the pandemic, war in Ukraine, and the impact of recent rate rises become clearer. An increase in wage pressures may also see the index revised higher.

It is important that Local Governments take into account their own local issues and experiences when considering cost pressures. It would also be prudent for Local Governments to prepare for multiple scenarios for cost increases in coming years.

LOCAL GOVERNMENT COST INDEX

KEY POINTS:

- **The Local Government Cost Index increased 0.9% in the March quarter and 4.5% in the last year.**
- **Looking forward, growth of the LGCI is set to slow to 3.3% in 2023-24 and 2.7% in 2024-25.**
- **The slowdown in the index reflects an easing in supply-chain constraints that have driven sharp increases in construction costs in recent years. However, a pick up in wages will see new cost pressures emerging for the sector.**

Local Government costs increased 0.9% in the March quarter, dropping below 1% quarterly growth for the first time since June 2021. The LGCI increased 4.5% in the last 12 months, down from its peak of 5.8% in June 2022. The LGCI is expected to end 2022-23 at 4.4% before slowing to 3.3% growth in 2023-24 and 2.7% in 2024-25.

Whilst Local Government costs in 2021-22 were driven by rapid construction cost increases of 10% to 15%, these have mostly moderated in 2022-23 with prices settling at a higher level with modest growth forecast in the coming years. Growth in non-residential building costs in particular have slowed rapidly, whilst non-road infrastructure and roads and bridges costs are coming down too (see Construction section for more information).

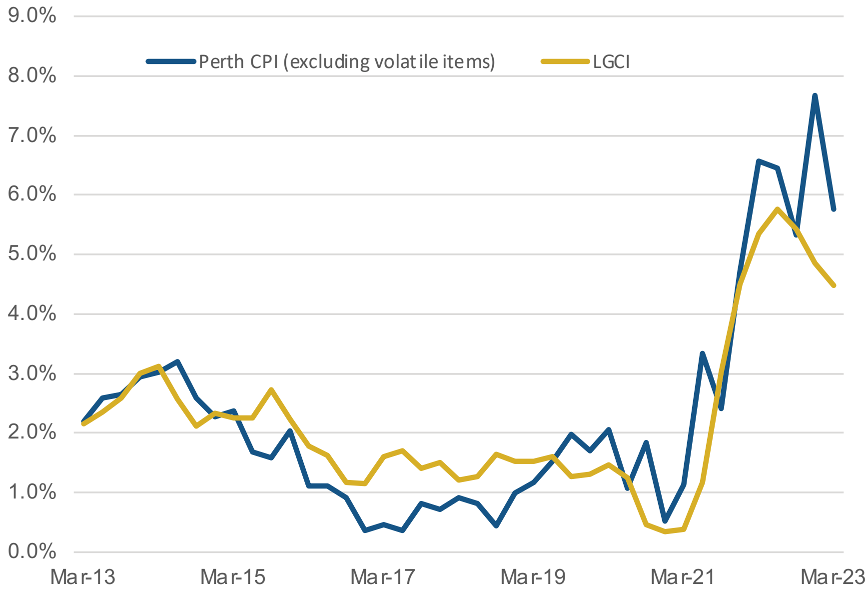
Machinery and equipment purchases continue to be impacted by supply chain issues with prices increasing 9% in 2022-23, although costs here too are expected to settle at a higher level as these issues are resolved.

Looking forward, increases in Local Government costs are expected to be driven by employee costs, which make up more than a third of the LGCI (see Labour Market and Wages section). Wages are expected to grow above the LGCI in the next two years, increasing by 4.0% in 2023-24 and 3.8% 2024-25 as the labour market gradually normalises.

A key lesson from recent years for WA Local Governments is the importance of building flexibility into four-year budgets and preparing for multiple scenarios. For those with major upcoming construction projects, liaising with suppliers to understand the regional cost pressures and supply constraints, will help to make better decisions around the timing of these projects.

LGCI vs CPI
(excluding volatile items)
Annual % Change

SOURCE: ABS; WALGA



LGCI Table

Component	Weighting	2021-22 (a)	2022-23 (f)	2023-24 (f)	2024-25 (f)
Employee costs	35%	2.7	3.8	4.0	3.8
Materials and contracts	28%	5.7	4.5	2.6	2.3
Furniture	1%	7.5	3.0	1.4	1.4
Non-residential building	5%	14.4	1.6	3.4	1.5
Machinery and Equipment	5%	12.2	9.0	2.2	1.9
Non-road infrastructure	9%	12.1	4.4	3.2	1.8
Road and bridge construction	10%	12.0	5.2	3.6	1.9
Utilities	3%	1.4	2.5	3.5	3.0
Insurance	1%	7.0	9.8	5.1	4.1
Other	3%	5.9	5.8	3.5	2.8
LGCI	**100%**	**6.4**	**4.4**	**3.3**	**2.7**

CONSTRUCTION COSTS

KEY POINTS:

- **Official data shows that construction costs have eased from their pandemic-induced highs and are expected to stabilise at a higher level.**
- **The slowdown in prices growth in the construction sector reflects some relief from strong increases in some materials and input costs, particularly in relation to fuel – as supply gain pressures ease. However other materials costs – particularly road materials – continue to record strong growth.**
- **Feedback from Local Governments suggests many are not yet feeling relief, with ongoing challenges with tender pricing and availability of labour and materials and equipment.**
- **The construction sector will remain competitive in the near term with a significant volume of public and private sector projects still to be completed, which may create ongoing challenges particularly in areas where there are limited suppliers.**

Construction costs are continuing to ease according to the official data. However, this is little comfort for Local Governments finalising their budgets, as prices are still well above levels seen just two years ago.

Non-residential building costs in WA increased 0.85% in the March quarter of 2023, and 3% compared to a year earlier, continuing a run of four consecutive quarters of slower growth in annual terms. While growth in non-residential building costs has slowed, it is important to note that this follows a period of double-digit growth, and so prices are stabilising at a high level.

Cost increases for roads and bridges have also slowed, although not to the same extent. In the 12 months to March 2023, road and bridge costs increased 0.5% and 7.1% respectively. While this is still a sharp increase, it is the fourth consecutive month of slower growth in annual terms and down from a peak of 12% over the year to June 2022.

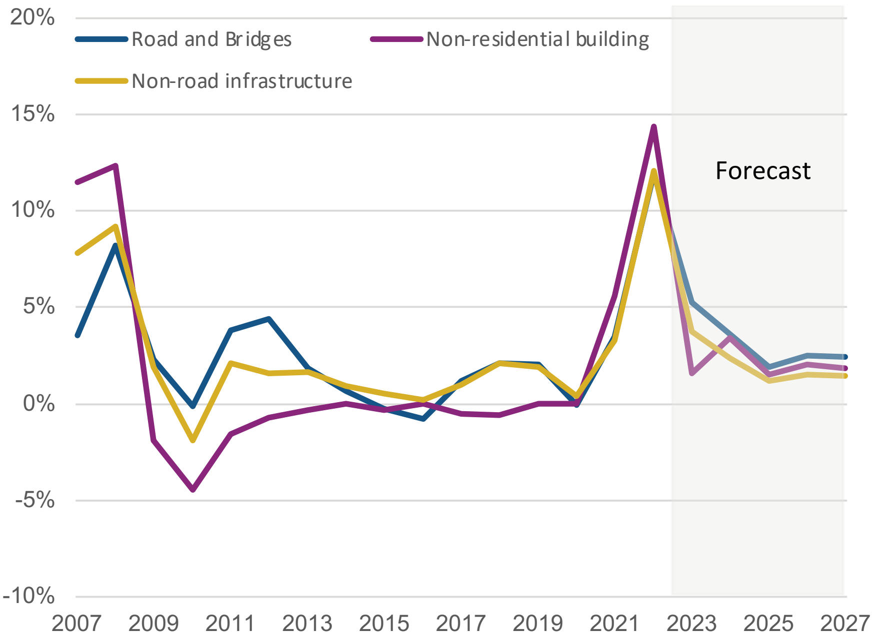
The slowdown in prices growth in the construction sector reflects moderating increases in some materials and input costs.

Of particular note are fuel costs, which according to Macromonitor data have slowed significantly in the first quarter of 2023. After recording double-digit growth since June 2021, fuel costs 4.8% grew over the year to March 2023 and are expected to fall in the year ahead.

Costs have also eased for some materials and equipment, such as electrical items, copper pipes, structural steel and steel products.

Construction Cost Indexes, WA, Annual % Change

SOURCE: ABS; MACROMONITOR; WALGA



However other material costs continue to climb. Bricks and tiles were up by 40% over the year to March 2023, cement 11.6% and reinforcing steel grew by 10.6%. For road and bridge projects, strong increases were recorded over the year to December in relation to bitumen (up 30.1%), quarry products (up 22%), steel pipe and tube (up 21.5%) and plastic products (up 20%).

The slowdown in materials costs reflects improvements in global supply chain as economies normalise trade post-pandemic. This has been reflected in the measures such as the Federal Reserve's Global Supply Chain Index, which combines variables from several indices in transportation and manufacturing, such as those related to delivery times, prices, and inventory. The index has been tracking towards its historical average in recent months after peaking during the pandemic.[1]

While the official data shows that construction costs are starting to slow down, many Local Governments are still reporting significant price increases for tenders and access to materials and supplies. Discussions between Members and WALGA's commercial team, highlight that the easing seen in State-wide construction cost data hasn't yet translated to lower quotes for local governments, particularly in regional WA.

Looking forward, the construction sector is expected to remain competitive. There will be less activity in the residential construction market in coming years as demand for new construction projects eases as a result of increased costs and rising interest rates, however $2.5 billion worth of non-residential and $72 billion worth of outstanding engineering construction activity remains to be completed in WA, which will ensure activity remains robust in the short term. This may cause challenges for local infrastructure construction projects, particularly in regional areas where there are fewer suppliers and labour availability is a greater issue.

Construction activity is also expected to remain robust over the longer term, with a significant number of new public and private sector projects in the planning phase. According to the Deloitte Access Economics Investment Monitor, a further $3 billion of new projects are already committed for WA and are set to commence in coming years, with a further $107 billion either under consideration or possible. Over 60% of the projects in the planning pipeline are in the mining sector.

[1] *Federal Reserve Bank of New York, January 2023, Global Supply Chain Pressure Index*

LABOUR MARKET AND WAGES

KEY POINTS:

- **Wages are rising, with the WA Wage Price Index growing at its highest rate in more than a decade over the year to March 2023.**
- **Wage pressure is emanating from competition for workers in the State's extremely tight labour market.**
- **Labour market conditions are forecast to moderate over 2023-24 as economic conditions ease and overseas migration increases the available labour pool.**
- **Despite the forecast softening of labour market conditions, wage pressures are expected to persist in the coming year with the WPI predicted to grow by 4% in 2023-24.**

After years of subdued wages growth, employee costs are now on the rise. This is particularly relevant for Local Governments, given that employee costs represent around a third of the sector's overall cost base.

In WA, the Wage Price Index grew by 1.06% over the year to March 2023, and 4.1% compared to a year earlier. This was the highest rate of growth in annual terms since December 2012. Wages growth in WA continues to outpace the rest of the nation, with the WPI for Australia rising by 0.8% in the March quarter of 2023, and 3.6% higher than a year earlier.

Wage increases have been led by private industry, with the Private Sector WPI in WA growing by 0.85% in the past quarter, and 4.4% over the year – the strongest increase in annual terms since September 2012. However the Public Sector has started to catch up, with the Public Sector WPI jumping by 2.1% in the past quarter and 3.1% over the year.

WA wage growth is being driven by employers' response to high inflation and cost of living increases (see Inflation and Interest Rates section) and the State's persistent tight labour market. WA Treasury has recently commented that the WA labour market has been operating "at capacity" throughout 2022. This has been characterised by low unemployment (with the State's unemployment rate below 4% for the past year), high rates of labour force participation, record numbers of people in work and historically high job vacancies (reaching a peak of 66,500 in March 2022).

While the jobs market remains robust, there are early signs that labour market pressures are starting to abate in as economic conditions ease and the State's borders have opened to new migrants.

Unemployment in WA has increased from 3.1% to 3.7% in the year to May 2023. The number of unemployed persons in WA rose to 59,000 in May, with an additional 1,300 Western Australians out of work in the past month.

Job vacancies have also fallen sharply in the past quarter. There were 52,800 jobs unfilled in March 2023, down from 61,900 in the previous quarter. For the first time since September 2021, the number of job vacancies no longer outstrips the number of people available to fill them. However, the number of roles available remains high by historical standards.

Looking ahead, WA labour market conditions are expected to ease further in line with the forecast slowdown in economic conditions and an increase in overseas migration. According to the latest estimates produced by WA Treasury, employment growth is forecast to slow to 1.75% in 2022-23 and 1% in 2023-24, while the unemployment rate is predicted to increase to 4% in 2023-24, and 4.5% by 2025-26.

Despite the softening labour market conditions, wage pressures are expected to persist in the coming year. WA Treasury's estimates show that the Wage Price Index is expected to grow by 4% in 2023-24, before starting to ease from 2024-25, as labour demand eases in line with the more subdued economic conditions and higher levels of overseas migration add to the pool of available workers.

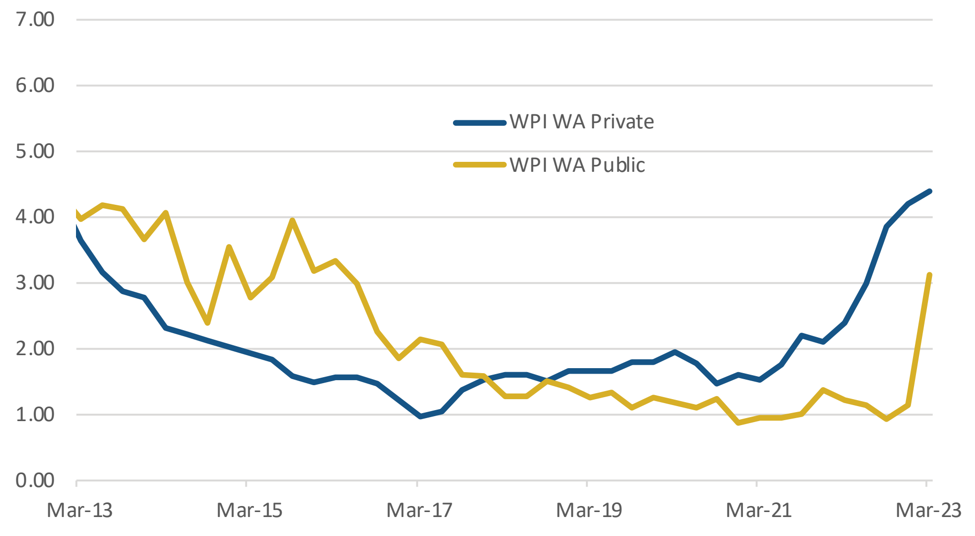
While no current data is specifically available on wages pressures faced by Local Governments, feedback from WALGA's Employee Relations Team suggests there is also mounting pressure on the sector for wages to rise in 2023. A significant number of Local Governments are reporting that Unions are seeking pay increases in the order of 7% to 8% as part of enterprise bargaining for 2023. Informal feedback from Local Governments suggests that wage increases provided to employees this year are ranging from 3% to 6%.There have also been reports that some Local Governments are offering one-off bonuses and sign off bonuses to staff to obtain approval for these increases when bargaining.

Another important consideration for Local Government wages is the State Wage Case, which determines the minimum wage for employees covered under the State Industrial Relations (IR) system and the minimum rates of pay in the State Local Government awards.

The State and Federal Governments recently legislated for WA Local Governments and Regional Councils to be State system employers which required approximately 80% of the sector to transition from the Federal IR system to the State IR system on 1 January 2023. Therefore the 2023 State Wage General Order will apply to all Local Governments and Regional Councils in WA (with the exception of the Shire of Christmas Island and the Shire of Cocos (Keeling) Islands) by setting the minimum wage rates that must be provided to employees.

When the Western Australian Industrial Relations Commission (WAIRC) determines the State Wage Case General Order, a number of factors are considered including the written submissions of interested parties and the annual wage review decision of the Fair Work Commission (FWC). The FWC released its annual wage review decision on 2 June 2023 which provides for a 5.75% increase to minimum wages in all Federal modern awards and an effective increase of 8.6% to the National Minimum Wage, which takes effect from the first pay period commencing on or after 1 July 2023. The WAIRC handed down its decision to increase the State minimum adult wage by $43.50 per week (or 5.3%) to $863.40. WA award rates of pay will also increase by 5.3% effective from the start of the first full pay period on or after 1 July.

Wage Price Index Private vs Public, WA, Annual % Change



SOURCE: ABS; WALGA

INFLATION AND INTEREST RATES

KEY POINTS:

- **While CPI growth remains at historically high levels, there are signs that inflation has now peaked, and is beginning to track downwards.**
- **Moderating inflation reflects improved global supply chains, the impact of higher interest rates on consumer demand, and slowing growth in the price of new housing and travel.**
- **However it will be some time before prices growth returns to more acceptable levels, with RBA estimates showing that inflation will not return to its target band until 2025.**
- **Interest rates are expected to remain elevated for some time, with the RBA concerned that there still remains an upside risk to inflation.**

Cost of living pressures, fuelled by high inflation and rapidly increasing interest rates, have dominated the news in recent times and were a key focus of the Federal and State Budgets handed down May.

Growth in the consumer price index (CPI) has been running at rates well outside of the RBA's target band of 2 to 3% since June 2021. The national CPI peaked at 7.8% over the year to December 2022, with a further 7% increase recorded over the year to March 2023.

In WA, inflationary pressures have been even higher, with the Perth CPI peaking at 8.3% in December 2022, though it has since eased back to 5.8% over the year to March 2023.

Importantly, measures of underlying inflation are also elevated, with the trimmed mean running in excess of 6% in annual terms over the past three quarters. Underlying inflation measures exclude volatile items in order to provide a more accurate read on price pressures in the economy and are used by the Reserve Bank in making its monetary policy decisions.

While the CPI measures the prices of goods purchased by households and isn't a direct measure of the costs faced by Local Government, it is an important indicator for the sector as it may influence rate payers' behaviours (such as use of services and payment timeframes) that are important considerations in the budget and rate setting process.

While growth in the CPI remains at historically high levels, there is evidence that inflation has now peaked, and is beginning to track downwards. Monthly estimates of the CPI for Australia have shown that growth in consumer prices has slowed for the past four consecutive months. After peaking at 8.4% over the year to December, the CPI had slowed to 6.3% by March before rising again to 6.8% in April.

The moderation in inflation both nationally and in WA reflects improved global supply chains, weaker demand from consumers as interest rate hikes take effect, and more moderate growth in the price of new housing and travel.

It will still be some time before prices growth returns to acceptable levels. Recent estimates produced by the RBA show that it is not forecasting inflation to return to the target band until 2025. The WA Treasury also expects that the Perth CPI will remain elevated for a number of years and is projected to slow modestly to 5.75% by the June 2023 quarter and 3.5% by June 2024.

It follows that interest rates are also expected to remain elevated for some time.

The RBA has responded to inflationary pressures through a series of interest rate hikes, raising interest rates in 12 of its past 13 meetings, and taking the official cash rate from a low of 0.1% during the COVID-19 pandemic, to 4.1% in June 2023.

There had been some speculation that the tightening cycle had reached an end after the RBA decided to pause during April. The Minutes of the May Monetary Policy Meeting show that the RBA weighed up both options to hold the cash rate steady, or to increase by a further 25 basis points. On balance, the Board determined that prices growth still remains too high and broadly based, and that there were upside risks

to inflation that would be damaging to the economy if they materialised.[2] On this basis, the decision was made to raise the cash rate by a further 25 basis points. This commentary was echoed in June with the RBA highlighting services price inflation and unit labour costs in particular.

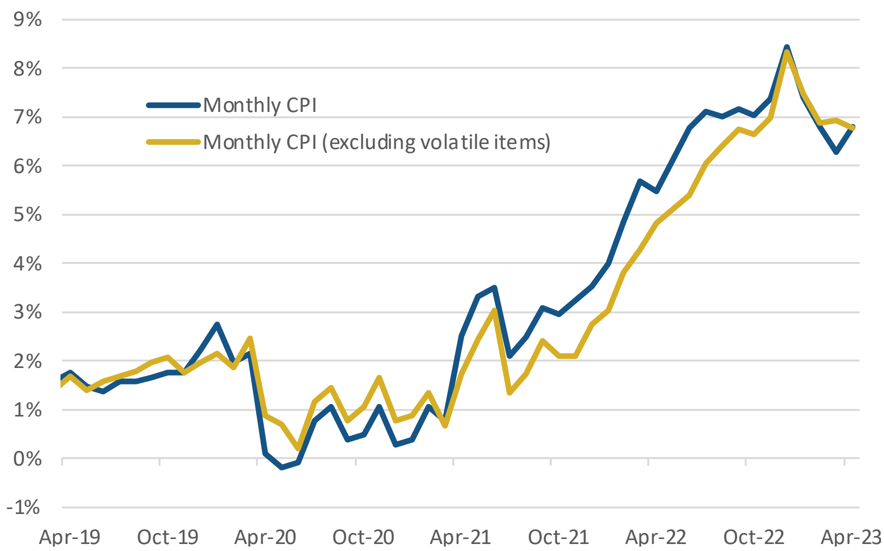
The future direction for interest rates remains an area of debate for economists. In recent times some prominent economists – including former Reserve Bank Governor Glenn Stevens – have suggested that we are entering a new era where interest rates will be higher for a long period of time in order to keep prices under control.[3] He points towards structural factors that will keep prices elevated, including the energy transition, greater levels of Government involvement in the economy, and international supply change challenges.[4]

However, other economists from AMP and the Commonwealth Bank of Australia (CBA) suggest that interest rate cuts may soon be on the cards if the current cycle pushes Australia into a recession. CBA Head of Economics Gareth Aird has recently predicted that rates will fall by 0.5% in the second half of 2023, with further cuts expected in 2024.[5]

While much of the focus on the impact of interest rate rises has been on households, Local Governments will also be impacted by the rising interest rates when they take out new loans or use a short-term loan facility. The bulk of existing Local Government borrowings are long-term fixed rate loans through the WA Treasury Corporation (WATC) that will not be impacted by the recent interest rate rises. Local Governments with cash investments should expect to see higher returns.

[2] *Reserve Bank of Australia, May 2023, Monetary Policy Minutes. Accessed 30 May 2023 from 2023 | Minutes of the Monetary Policy Meeting of the Board | RBA*
[3] *Stevens, G., May 2023, Speech to APPEA Conference*
[4] *Stevens, G., May 2023, Speech to APPEA Conference*
[5] *Bavin, E., May 2023, "CBA's Major RBA Interest Rate Prediction", Yahoo Finance. Accessed 30 May 2023 from CBA's major RBA interest rate cut prediction (yahoo.com)*

Monthly Consumer Price Index, Australia, Annual % Change



SOURCE: ABS; WALGA

POPULATION GROWTH

KEY POINTS:

- **Population growth both nationally and in WA has exceeded expectations in the past year, on the back of an influx of international migrants now that the COVID-19 related restrictions on the movement of people have been wound back.**
- **While overseas migration is currently the primary driver of population growth in WA, the State also continues to benefit from high levels of interstate migration, as people take advantage of our relatively strong labour market.**
- **Population growth is expected to increase pressure on the provision of infrastructure and services by all levels of Government, including Local Governments.**

Following the removal of COVID-19 related border restrictions, population growth has picked up sharply and exceeded expectations in recent times.

Estimates in the Federal Budget show that population growth forecasts for Australia have been revised upwards from 1.4% to 2.0% for 2022-23. This is driven by an expected increase in net overseas migration of 400,000 in 2022-23 as the country plays catch-up from the restricted movement of people during the pandemic.

Population growth in WA has also increased, and the number of people in the State is expected to grow by 56,000 in 2022-23. At 2% annual growth, this is above the long-run average of 1.7%. In the last year, overseas migration has been the largest driver of the population increase in WA, with a net 37,910 people moving to WA from overseas in the year to December 2022.

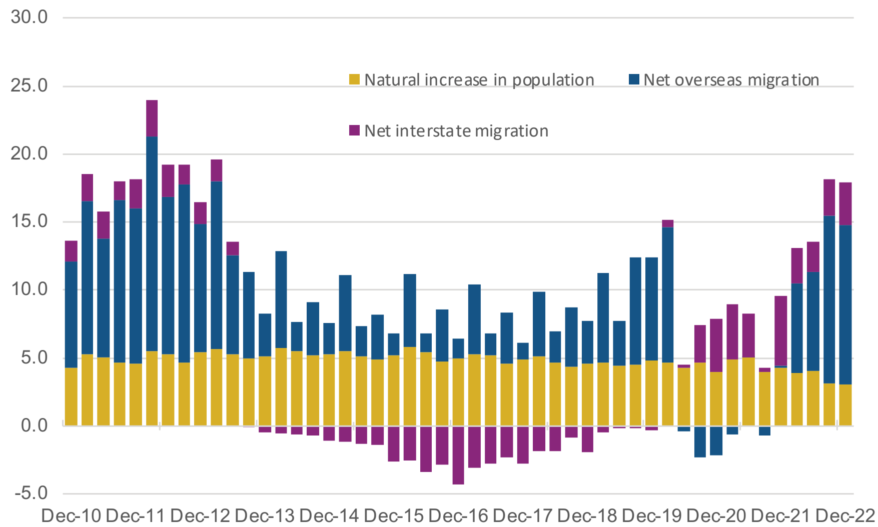
Net interstate migration to WA has been positive since September 2020, with a net 10,593 people moving to WA from other states in the year to September 2022. Typically, interstate migration in WA follows the economic cycle. The recent run of 10 consecutive quarters of positive interstate migration follows on from seven years of more people leaving WA for other states than those arriving.

A key benefit of this population growth in recent times is that it has alleviated some of the pressure in the State's labour market (see Labour Market section). However population growth also can create challenges for local communities – particularly in terms of infrastructure and service provision – if not appropriately planned for.

In WA and across the nation, a key example of this is in terms of housing. According to CoreLogic, median rents in Perth have increased 12.8% in the last year, the fastest growth in the nation. Across the country, regional rents have increased 6.6% over the last 12 months. Vacancy rates sit at historically low levels, with Perth at 1.1% and the national regional vacancy rate sitting at 1.3%. These housing pressures are replicated in regional WA with REIWA reporting vacancy rates in Albany and Bunbury at 0.5%, Geraldton at 0.9% and Kalgoorlie at 1.1% at April 2023.

Components of Population Change, WA, 000s

SOURCE: ABS; WALGA

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WA ECONOMIC OUTLOOK – FORECASTS AND DRIVERS OF GROWTH

KEY POINTS:

- **After recording its highest rate of growth in almost a decade, Western Australia's economy is forecast to slow in coming years.**
- **The slowdown is expected to occur as production from key export industries stabilises and households tighten their belts in response to interest rate rises.**
- **Government investment will remain strong for the next few years as the State Government's record asset investment program is delivered, which will mean that some Local Governments may still feel the impacts of competing for labour and materials on major projects.**
- **The long-term prospects for the WA economy remain sound, with a strong pipeline of new projects expected to drive activity beyond the forward estimates.**

In a year of significant economic challenges both globally and locally, WA's economy has been strong and is expected to grow 4.25% in 2022-23, the highest since 2013-14. However, WA Treasury forecasts in the May State Budget show WA's economy will slow in coming years, with growth in Gross State Product expected to slow to 2.25% in 2023-24, and remain below trend across the forward estimates, averaging 1.75%.

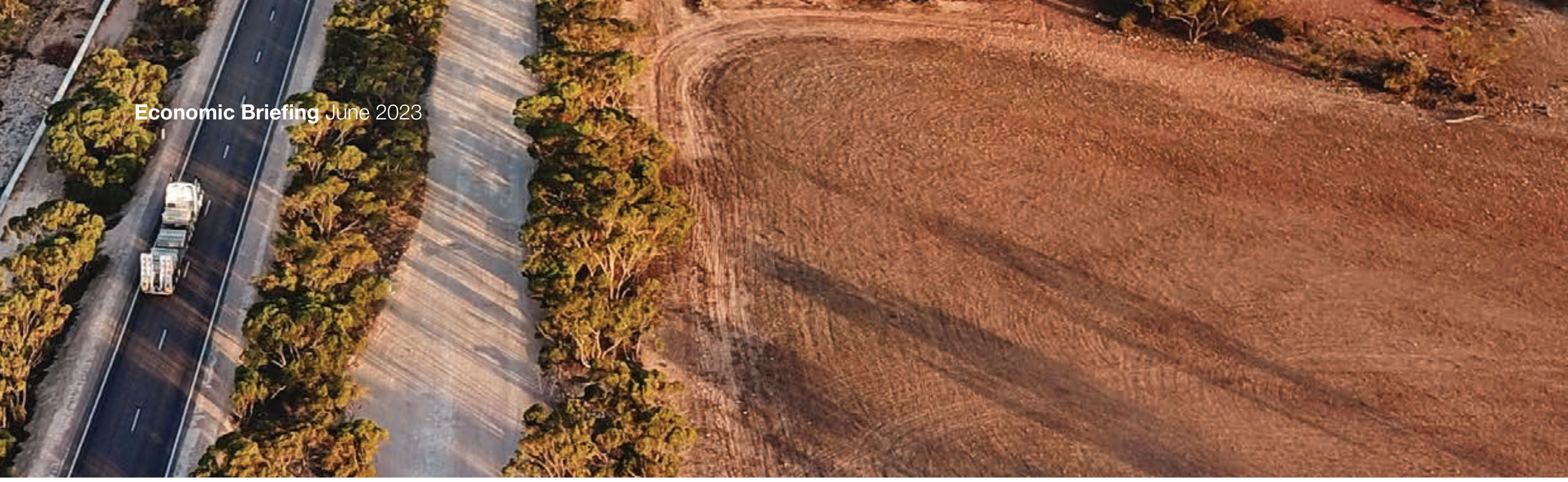
The slowdown in the WA economy will result from a weaker external sector, while the domestic economy is also expected to moderate to some extent in coming years.

As an export focused economy, WA's strong performance in 2022-23 was driven by a 6% increase in goods exports, led by iron ore, LNG and lithium as well as agricultural exports such as wheat and canola.

However, the external sector is expected to make a more modest contribution to growth in coming years as many of the State's key resources projects are now at full production capacity and Western Australians resume their overseas travel. Net exports are forecast to grow by 1.25% in 2023-24, slowing to 0.5% by 2026-27. However, the longer-term prospects for the State's export industries are sound, with new capacity in iron ore and LNG production to come on stream and production of critical minerals for battery metals expected to add to the State's export earnings beyond the forward estimates.

The domestic economy also remained robust in 2022-23 despite the twin challenges of inflation and rising interest rates, with State Final Demand forecast to grow at 3.25%. However, domestic economic conditions are expected to weaken in coming years, primarily as a result of the impacts of recent interest rate rises on households, and the unwinding of Government stimulus spending related to COVID-19.

Household consumption is forecast to slow from 3.25% in 2022-23 to 1.5% in 2023-24, as consumers tighten their belts in response to cost of living pressures and recent interest rate hikes (see Inflation and Interest Rates section). This has been reflected in recent retail trade data showing that retail volumes have grown just 0.9% in the year to March 2023 in WA and are lower than the levels seen in September last year. Nationally, retail volumes have fallen for two consecutive quarters



as consumers cut back on buying Household Goods (down 8.9% over 12 months) and Other Retailing (down 2.75% over 12 months) which includes recreational goods, pharmaceuticals and other broadly discretionary items.

Dwelling investment will also contribute to the slowdown in the domestic economy. While considerable challenges in the supply chain and in the battle for labour have meant that there is still a substantial pipeline of work underway, dwelling investment will drop off as these projects are completed. Treasury forecasts a 7.75% contraction in dwelling investment in 2024-25. However this contraction is expected to be short lived as demand from a growing population will see activity pick up in the out years. Local Governments may see this reflected in demand for planning and building services.

Slowing State Government investment will also contribute to reduced growth in the domestic economy, but not for a few more years. Major road projects, METRONET, port, health and utility infrastructure will result in two more years of high growth before slowing to an average of 1% in 2025-26 and 2026-27. As a result, over the next two years Local Governments with major projects in their region continue to continue to experience elevated prices for suppliers and materials, as well as high competition for labour (see Construction section). Government consumption growth, which is the public expenditure on goods and services is expected to reduce to 1.25% in 2023-24 after recent spikes from stimulus spending.

Business investment remains a bright spot for the domestic economy. Investment by businesses in WA has been limited by labour and supply chain constraints in recent years, growing by 3% in 2022-23. However, there are a number of major resource projects across LNG, iron ore and critical minerals are forecast to drive business investments to levels not seen for a decade, with growth of 6.75% predicted for 2023-24. According to the Deloitte Access Economics Investment Monitor, there are $8 billion worth of commercial projects in WA with almost half under construction.

Economic Forecasts	2020-21 %	2021-22 %	2022-23 %	2023-24 %	2024-25 %	2026-27 %
Gross State Product	3.1	4.25	2.25	1.72	2.0	1.5
Household Consumption	5.6	3.25	1.5	2.25	2.5	2.5
Business Investment	4.0	3.0	6.75	5.25	4.25	0.75
Dwelling Investment	2.3	-1.75	6.5	-7.75	7.75	2.0
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
Employment Growth	5.8	1.75	1.0	1.25	1.25	1.5
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

SOURCE: WA TREASURY

QUESTIONS

If you have any questions on the contents of this report, please direct them to the WALGA Economics Team.

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 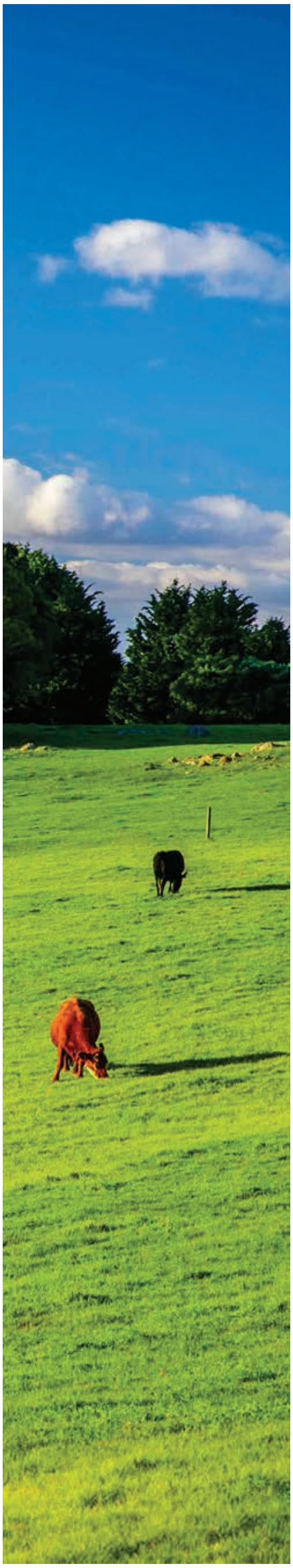 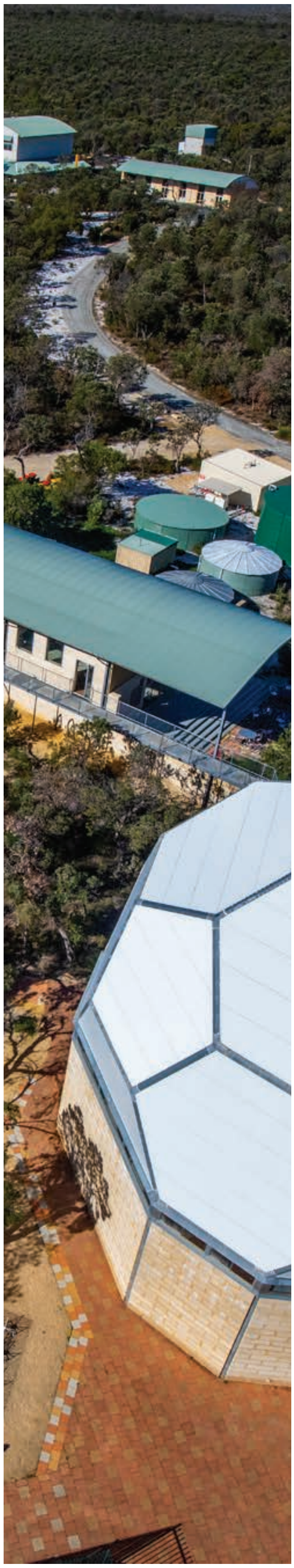 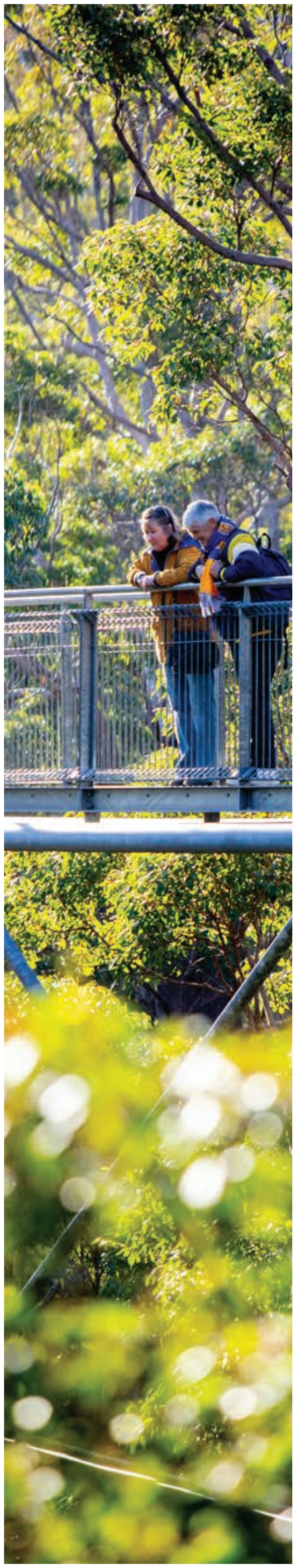

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