Economic Briefing
March 2024

WALGA

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Overview

Global uncertainty, persistent cost of living pressures and slowing growth mean that the outlook for Australia's economy is in the balance and the path to avoiding recession remains narrow.

The Reserve Bank remains focussed on bring inflation back to within its 2-3 per cent target, however the impact of the prolonged period of high interest rates is now evident as unemployment increases and economic growth stalls. The dilemma for the RBA is that lowering interest rates too quickly risks inflation staying higher for longer, but moving too slowly risks turning a soft landing into a hard one which comes with its own set of problems.

WA's powerful resources sector and strong budget position provides a buffer from the economic slowdown, but as has been seen in the past, the reliance on the mining sector is a double-edged sword with employment and the economy exposed to movements in the economies of our trading partners, in particular China. Other trading partners have already felt the impact of the global economic downturn with the United Kingdom and Japan both in recession.

The **Local Government Cost Index (LGCI)** increased 0.8% in the December quarter and 3.5% in the last year. The LGCI is forecast to fall to 3.1% in 2024-25 and then 2.8% in both 2025-26 and 2026-27. As construction cost growth eases, employee costs are the main driver of cost growth in for local governments.

The **Australian economy continues to slow**, increasing just 0.2% in the December quarter. Per capita growth has gone backwards 1.0% in the last year. Households have suffered most from the rise in interest rates with living standards falling, however wages are starting to climb and tax cuts will begin in July. The WA economy is in a better shape due the strong resources sector and robust business and public investment. The global slowdown is an ongoing risk to the economy but economic growth is expected to continue in the coming years at a slower pace.

The **labour market is slowly turning** with unemployment starting to rise. Despite the loosening labour market, wages continue to grow quickly, up 4.7% in WA in the last 12 months. Wages growth is positive for employees but this will present a challenge for Local Government budget setting.

Inflation fell to 4.1% in December, the lowest level in two years. Whilst goods inflation has fallen faster than forecast, services inflation remains high. The RBA has indicated it will not reduce interest rates until it is confident that inflation will reach its target band.

Construction costs have steadied as demand weakens and the supply-chain constraints ease. While the costs of materials are easing, construction wages are rising rapidly. A strong pipeline of projects is expected to support the construction sector in the near-term even as economic growth slows.

Growth in insurance and risk financing costs are expected to ease from the recent highs. Costs of insurance for infrastructure projects is high due to the risk of project delays and increased costs. Drivers of increased insurance and risk financing costs include the elevated levels of inflation, increasing number of severe weather events and slower economic growth.

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, wars in Ukraine and the Middle East, 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 0.8% in the December quarter and 3.5% in the last year.**
- **The LGCI is forecast to fall to 3.1% in 2024-25 and then 2.8% in both 2025-26 and 2026-27.**
- **As construction cost growth eases, employee costs are the main driver of cost growth in for local governments.**

The Local Government Cost Index (LGCI) increased by 0.8% in the December quarter, down from 1.3% in September. Over the year to December, the LGCI increased by 3.5%, down from the 4.8% recorded in December 2022.

In recent quarters, the drivers of growth in the LGCI have shifted from construction costs which make up around a quarter of the index, to wages costs which is around one third. The growth in construction costs was largely driven by challenges in the supply of materials due to the impact of the pandemic and the war in Ukraine on supply chains as well as the elevated levels of demand from the post-pandemic stimulus. As the market has moved closer to a balance between supply and demand, price rises have eased, with construction costs settling at the new, higher level (see Construction section).

Road and bridge construction costs are forecast to increase 1.8% in 2024-25 before increasing 2.2% in 2025-26 and 2.7% in 2026-27. Non-residential building costs are expected to rise 2.6% in 2024-25, 1.0% in 2025-26 and 1.1% in 2026-27. Non-road infrastructure is forecast to increase around 2% for the next three years. Key risks to the forecast include the risk of an ongoing tight labour market driving up construction wages as well as future geopolitical shocks impacting construction material supply chains.

Wages across all sectors have responded to the tight labour market to increase rapidly with the WA Wage Price Index up 4.7% in the year to December. Whilst WA public sector wages have sat above 4.2% growth in annual terms for the last five quarters, public sector wages have caught up in the last two quarters to now sit at 5.2% growth in the year to December. The RBA expects that wages growth is around its peak and WA Treasury's Mid-Year review, released in December, forecast wages to end the financial year up 4.25% although this figure may be revised upwards in the May budget if current trends continue (see Labour Market and Wages section).

Materials and contracts expenditure has been largely influenced by the widespread inflation impacting goods and services across the economy. Costs are forecast to end the year up 4.5% before slowing to annual growth of around 3% in the coming years. One risk to this forecast is if the labour market remains tight, demand continues to be elevated and wages grow strongly, services that Local Governments use such as real estate, research, legal and financial services may grow faster than inflation.

Insurance and risk management costs have increased across the economy and Local Governments have not been immune with price rises in double-digits in recent years. It is expected that growth in these costs will slow in aggregate in 2024-25, although the increasing frequency of extreme weather events and the sustained impact of inflation will lead to elevated insurance and risk management costs in 2024-25. (See Insurance and Risk Financing section in conjunction with LGIS.)

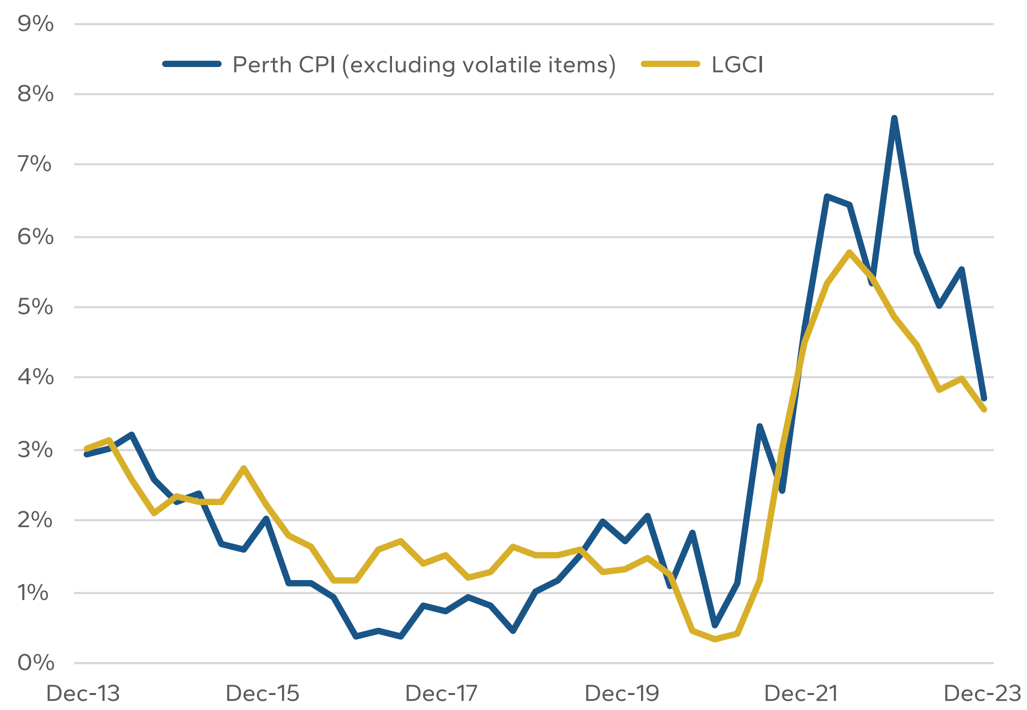
Local Governments are encouraged to prepare for multiple scenarios through their budgeting process and be ready to respond to changing economic conditions. The LGCI uses statewide data and regional variances will impact each Local Government. Liaising with suppliers to understand the local economic conditions and constraints will enable Local Governments to effectively plan the timing of their projects.

LGCI Table

Component	Weighting	2022-23 (a)	2023-24 (f)	2024-25 (f)	2025-26 (f)	2026-27 (f)
Employee costs	35%	4.2	4.3	3.8	3.5	3.3
Materials and contracts	28%	4.3	4.5	3.1	2.8	2.8
Furniture	1%	5.8	1.8	1.4	1.4	1.4
Non-residential building	5%	1.0	3.5	2.6	1.0	1.1
Machinery and Equipment	5%	11.5	3.4	2.8	2.5	2.5
Non-road infrastructure	9%	3.3	2.8	2.2	1.8	2.2
Road and bridge construction	10%	3.8	2.0	1.8	2.2	2.7
Utilities	3%	2.5	2.5	2.5	2.5	2.5
Insurance	1%	12.4	11.6	8.5	5.0	3.0
Other	3%	6.2	4.0	3.0	2.8	2.5
LGCI	**100%**	**4.4**	**3.9**	**3.1**	**2.8**	**2.8**

LGCI vs CPI (excluding volatile items), Annual % Change

SOURCE: ABS; WALGA



Domestic and Global Economy

Key points

- **The Australian economy grew narrowly, with GDP increasing just 0.2% in the December quarter. Per capita GDP has fallen 1.0% in the last year.**
- **Households have felt the impact of the rise in interest rates with disposable income falling. Looking forward, wages are rising and tax cuts are on the horizon which ease some of the pressure on household budgets.**
- **The WA economy is leading the nation due the strong resources sector and robust business and public investment.**
- **The global slowdown is an ongoing risk to the economy but economic growth is expected to remain positive in the coming years albeit at a slower pace.**

The Australian economy continues to slow, with Gross Domestic Product (GDP) growing just 0.2% in the December quarter and 1.5% in the last year. With the population growing faster than the economy, per capita GDP has shrunk for three consecutive quarters to be down 1.0% over the last year – effectively a per capital GDP recession.

The Reserve Bank of Australia (RBA) has often talked about the 'narrow path to a soft landing' as it seeks to tame inflation without the economy going backwards. There is reason to be optimistic about the first step as inflation fell to 4.1% in December, its lowest level in two years (see Inflation and Interest Rates section). However, the soft landing also requires the economy to slow just enough to avoid large increases in unemployment until inflation is back in the target band of 2% to 3% and interest rates can be lowered from their current restrictive setting.

The prolonged period of high interest rates on households is evident, with consumption flat and falling in per capita terms. Real household disposable income, a measure of living standards, increased just 0.3% in 2023 after falling 3.7% in 2022 (see chart). Households are spending more on interest payments than they have for a decade, with around 7% of household disposable income spent on mortgage interest and credit card interest payments, up 3.25% since the cash rate began to climb. The RBA expects that this figure peak at around 8% of household disposable income – a level not seen since 2010-11.

But there is some light at the end of the tunnel for households. In the second half of 2024, employees will see more of their wages hit their bank accounts as tax cuts are implemented for 13.6 million taxpayers. On the current trajectory, it is expected that the RBA will begin to cut interest rates from the middle of the year which will improve consumer sentiment and lower the burden of interest rates on mortgage holders. At the same time, wages are expected to continue to outstrip inflation and this growth in real wages will also underpin consumer spending and support jobs growth. On top of this, both State and Federal Governments have flagged additional cost-of-living support in their upcoming May Budgets.

Risks to inflation returning to the target band include ongoing geopolitical conflicts and tensions in Ukraine and the Middle East with possible impacts on energy and commodity prices; the increased frequency of extreme weather events; and increasing shipping costs as a result of the Red Sea attacks and capacity constraints in the Panama Canal.

As covered in detail in December's Economic Briefing, the availability and affordability of housing continues to be a key issue for the economy with high population growth and an undersupply of housing leading to record low vacancy rates and booming rents and house prices. While the State Government is adamant it is pulling all possible levers to increase housing supply, the ongoing shortage is acting as a handbrake on economic growth and is having an impact on communities across the State. A key challenge is balancing the need for more construction workers with the required to find adequate numbers of dwellings to house them.

According to REIWA, a balanced rental market sees vacancy rates of 2.5-3.5 per cent. All cities tracked by REIWA have vacancy rates below this threshold with Albany sitting at 0.4%, Perth 0.7%, Geraldton 0.9%, Kalgoorlie 1.9% and Bunbury 2.3%.

Housing loan commitments spiked during the pandemic as Government stimulus was rolled out. As this stimulus was phased out, housing loan commitments fell. However, since the February 2023 trough, housing loan commitments have increased by 20 per cent. This has led to an increase in housing credit growth easing fears of a slump in housing construction.

Although similar concerns to the national economy are present, the WA economy continues to outperform the national economy in most measures thanks largely to the strong resources sector. The WA domestic economy measured by State Final Demand grew 0.8% in the December quarter and 5.5% over the last 12 months (see chart). Household consumption has slowed to 1.7% for the year compared with the near flat national figure of 0.1%. Importantly, business investment, a key driver of jobs growth, is at its highest level since 2016 and up 14.9% for the year. Government investment in transportation, energy and utilities remains a large contributor to growth, up 5.9% for the quarter and 23.9% over the year. So whilst the WA economy's growth rate is slowing, it is not yet at the critical level that is seen elsewhere in the nation.

In WA, there are risks to the resources industry retaining its strong position in an increasingly competitive global market, demonstrated recently by a fall in the nickel price driven by cheaper Indonesian supply leading to job losses. This has been compounded with job losses in other sectors such as lithium and alumina. Mitigating this risk is the high demand for workers in the mining and construction sectors with elevated job vacancies providing an alternate path to employment. Whilst this can be devastating for individuals and their communities, on a state level, the impacts are expected to be modest provided there is not a broader and deeper downturn.

As it stands, the resources sector is again expected to deliver a large surplus to the WA Government with revenue up $1.8 billion in the first half of 2023-24 from the previous year. This is driven by higher royalty income (+$1.1b) and higher taxation revenue

WA Treasury Economic Forecasts

Economic Forecasts	2022-23 % Actual	2023-24 % Forecast	2024-25 % Forecast	2025-26 % Forecast	2026-27 % Forecast
Gross State Product	3.5	1.75	2.0	2.0	1.75
Household Consumption	3.5	2.5	2.25	2.5	2.5
Business Investment	4.3	8.5	5.5	4.75	3.75
Dwelling Investment	-2.5	12.0	7.75	0.25	2.0
Good Exports	4.7	-0.5	1.75	1.75	0.75
Good Imports	7.8	3.25	2.5	2.25	2.0
Employment Growth	2.8	2.5	1.75	1.25	1.5
Unemployment Rate	3.5	3.75	4.0	4.25	4.5
Wage Price Index	4.2	4.25	3.5	3.25	3.0
Population	3.1	2.4	1.7	1.7	1.7

SOURCE: WA TREASURY

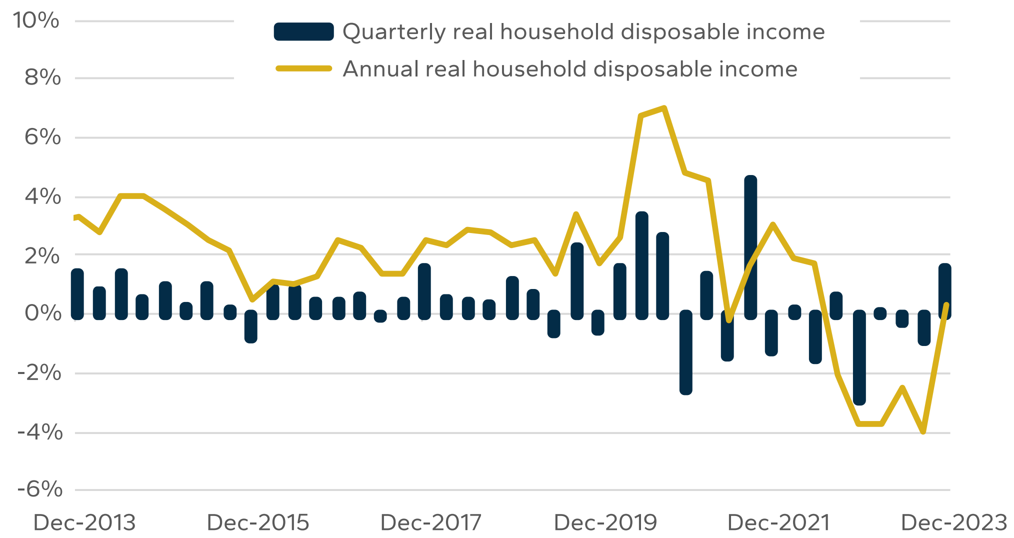
Domestic and Global Economy CONTINUED

(+0.7b). Conservative estimates from the WA Treasury are key to this outperformance with the iron ore price budgeted for 2023-24 at $US74.1/tonne in May adjusted to $US104.2/tonne in December's mid-year review and sitting at $US94/tonne at the time of writing. This windfall will provide the State Government with the fiscal space to provide cost-of-living relief, continue their program of public investment and pay down State debt.

The performance of the WA economy is closely tied to that of its largest trading partner, China. China is the biggest consumer of WA good exports accounting for 55% of the total and its economic growth has been a key driver of WA's economic rise. As recently as 1992-93, China accounted for just 6% of WA goods exports. Recently however, China's rise appears to be slowing. Cracks have appeared in China's property market which has been underpinned by WA iron ore, there is low consumer and business confidence and it is experiencing price deflation. At the recent Annual National People's Congress in Beijing, the Chinese Government committed to a target of 5% economic growth for 2024. If the Chinese economy does grow at this rate, the WA economy will continue to be a benefit from this strong economic relationship.

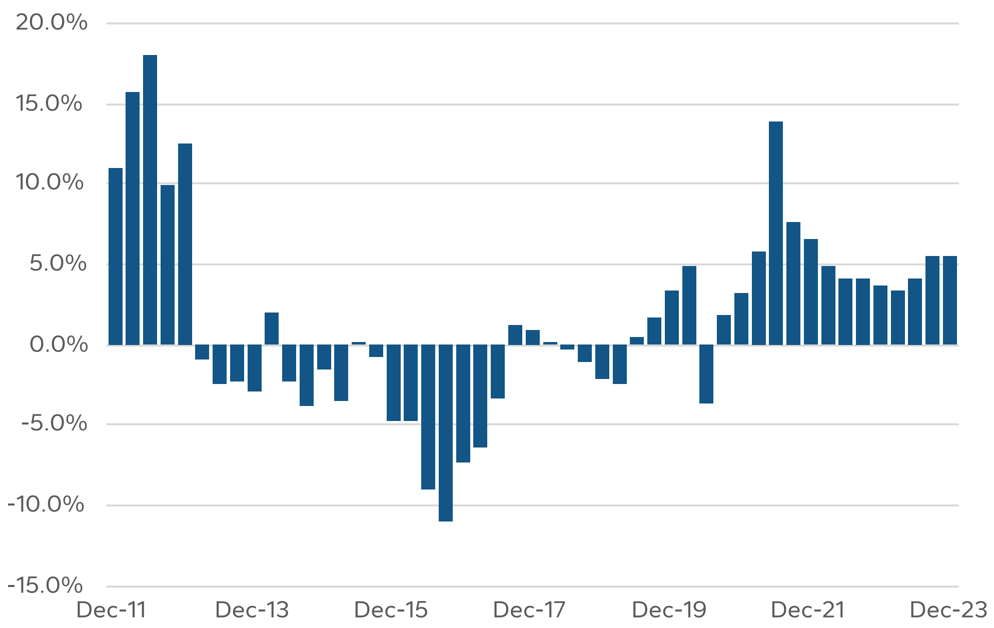
Real Household Disposable Income, Australia, Annual v Quarterly % Change

SOURCE: ABS; WALGA



State Final Demand, WA, Annual % Change

SOURCE: ABS; WALGA



Inflation and Interest Rates

Key points

- **Inflation fell to 4.1% in December, the lowest level in two years.**
- **Whilst goods inflation has fallen faster than forecast, services inflation remains high.**
- **The RBA will not reduce rates from their restrictive setting until they are convinced that inflation will reach its target band.**

Inflation continues to moderate in Australia, falling to 4.1% in December, the lowest level since December 2021. The Reserve Bank of Australia's (RBA) preferred measure, the Trimmed Mean, sat at 4.2%. In Western Australia, the Perth Consumer Price Index (CPI) fell to 3.6% as the impact of the State Government's Electricity Credit washed through. Removing the impact of the volatile Food and Energy groups, the Perth CPI fell from 4.5% in September to 3.8% in December – a similar level to the Australian CPI (ex Food and Energy) of 3.7%.

A key driver of inflation in the Perth CPI is housing costs. Rents are continuing to squeeze households, increasing 8.9% in 2023, following increases of 8.0% in 2022 and 7.9% in 2021. With rental vacancy rates in Perth and across the State at record lows, it is expected that increasing rents will continue to hamper the drive to lower inflation. The cost of new dwellings is also included in the CPI calculation with prices up 8.8% in 2023 following on from a massive increase of 26.4% in 2022 and 5.2% in 2021. How quickly the growth in the cost of new dwellings will slow will depend on capacity constraints in the building sector.

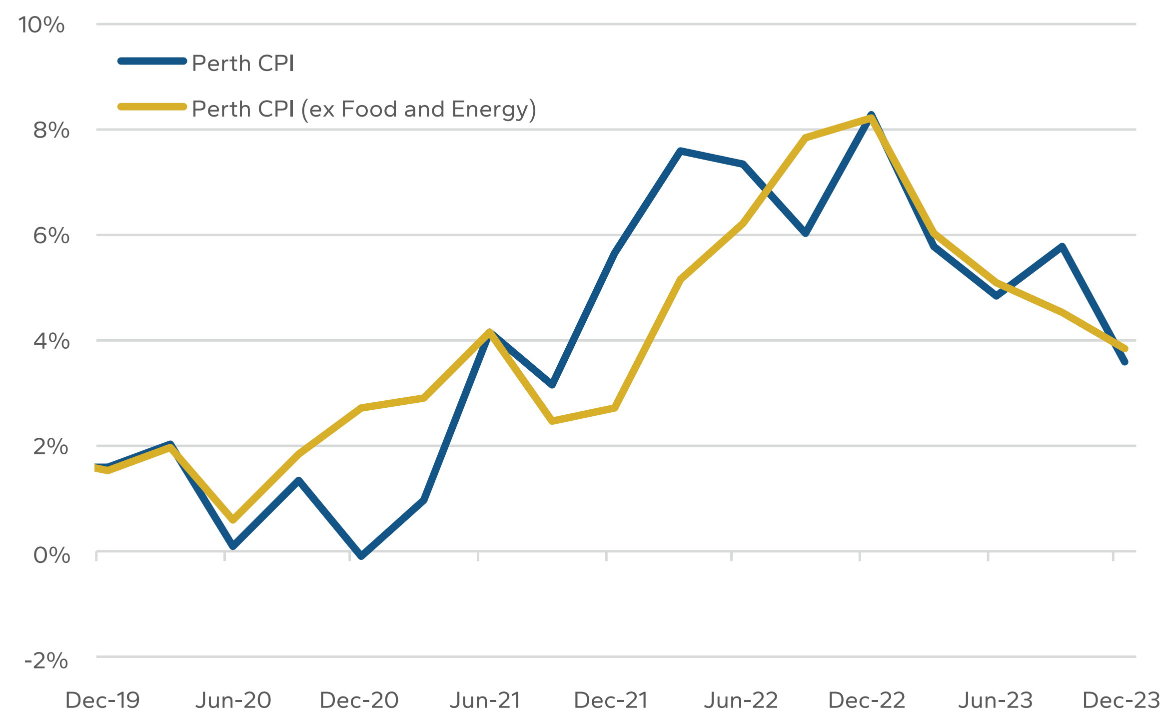
Despite the promising trajectory of the CPI, the Reserve Bank continues to stress that the battle against inflation is not yet over. In its February Statement on Monetary Policy, the RBA forecast that inflation will fall to 3.2% by December 2024 and drop into the 2% to 3% target band by December 2025, when it will reach 2.8%.

The slowdown in prices for goods has been the key factor influencing falling inflation, with Goods CPI falling for five consecutive quarters and now sitting at 3.8%. This has been driven both by the ongoing easing of supply chain constraints and a slowing in demand for goods. Services have been slower to fall but have dropped for the second consecutive quarter to reach 4.6% growth. The RBA expects services inflation to continue to fall, but at a slower pace, as demand for services reduces due to a slowing domestic economy. Labour costs are generally a greater concern for the services sector due to their comparatively labour-intensive composition. As wages growth reaches its peak and starts to moderate it is expected that this will flow through to the services sector, further reducing services inflation which is required for inflation to return to the RBA's target band.

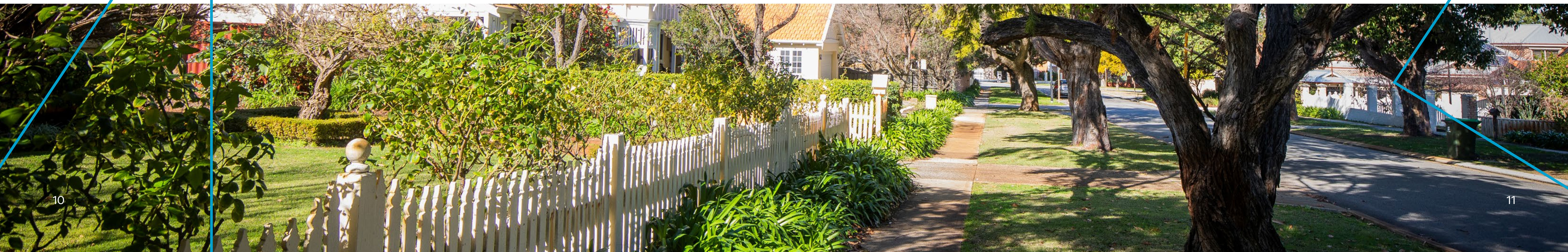
The RBA Board next meets on March 19, after the release of this Economic Briefing. Whilst it is expected that the Board will hold the cash rate target at 4.35%, the RBA is clear that its priority is to return inflation to the target range in line with its projected timeline. Risks to this include, uncertainty around the outlook for the Chinese economy; geopolitical conflicts in Ukraine and the Middle East with implications for price shocks for oil and other commodities; and the pace of the slowdown in domestic household consumption.

Based on the current trajectory of inflation, the broad consensus is that the RBA will look to cut interest rates in the second half of 2024 as inflation eases in order to avoid the economy slowing too much, with consequent impacts on business investment and household consumption and increasing unemployment to a level higher than their target of full employment.

CPI vs CPI (ex Food and Energy), Perth, Annual % Change



SOURCE: ABS; WALGA



Labour Market and Wages

Key points

- **Wages continue to grow quickly, up 4.7% in WA in the last 12 months.**
- **Wages growth is positive for employees but will be a challenge for Local Governments setting their budgets.**
- **The labour market is slowly turning with unemployment starting to rise**

Wages growth continued in the December quarter with the WA Wage Price Index (WPI) increasing by 4.7% over the last year, up slightly from the September figure of 4.6% and above the national figure of 4.3%. On a quarterly basis, wages growth slowed from 1.9% in September to 0.8%. This was in line with forecasts, as the September quarter typically records the largest increase due to the impact of pay increases through awards, enterprise agreements and individual agreements that are effective at the start of July.

Public sector wages continued to play catch up in December with quarterly growth of 1.0% leading to an annualised figure of 5.2% wages growth over the last 12 months. The recent rapid rise in public sector wages contrasts with 2022 where public sector wages grew just 1.1%.

In contrast, private sector wages increased 0.8% over the December quarter and 4.6% over the year. Growth in private sector wages in WA has plateaued, sitting between 4.2% and 4.6% in annual terms for each of the last five quarters. This is in line with expectations from the RBA and the WA Treasury that wages growth is around its peak and is expected to gradually slow through 2024 as the labour market loosens.

The Seek Advertised Salary Index, which tracks changes in advertised salaries for jobs posted on the SEEK platform, tells a similar story with WA advertised salaries increasing 4.4% over the last 12 months to January 2024. In-line with the Wage Price Index the pace of growth in advertised salaries has slowed, increasing 0.6% in the past quarter.

WA Average Weekly Earnings (AWE) for full-time adults in WA was $2,107.70 in November, compared with the Australian AWE of $1,888.80. This is largely due to the prevalence of high paying industries in WA, in particular mining where the average weekly ordinary time earnings for full-time adults in Australia was $2,951.80. In WA, AWE for full-time adults increased 6.0% in 2023 compared with the national increase of 4.5% with the AWE rising at its fastest pace in a decade. It should be noted that AWE is not directly comparable to the WPI although the two indicators do track each other closely. AWE is influenced by changes in hours worked and changes in the performance of work, whereas the WPI considers the changes in remuneration over time for the same job.

In its Mid-year Review the WA Treasury revised its forecast for wages growth in 2023-24 upwards from 4.0% to 4.25%. Wages are then expected to ease to 3.5% in 2024-25, 3.25% in 2025-26 and 3.0% in 2026-27. While real wages growth (that is, above inflation) is positive after a period going backwards, it does increase pressure on local government budgets, given approximately one-third of the sector's cost base are employee costs.

A key driver of wages growth has been the persistent tight labour market across the country and particularly in WA. In 2023, 53,200 jobs were created in WA, an increase of 3.5% in seasonally adjusted terms. Whilst this demonstrated significant growth in the number of total jobs, there was a very notable shift from full time jobs (down 1,900) to part time jobs (up 54,900). This shift to part time work was reflected in the total number of hours worked in 2023 (+2.6%) which grew slower than the increase in total jobs (+3.5%).

Whilst the composition of jobs being created shifted towards part-time jobs, the participation rate remains historically high at 69.4% in January. The participation rate measures the proportion of the working-age population that is engaged in the labour market and is a good indicator of how much spare capacity exists in the labour market. For the last three years, WA's participation rate, at between 68% and 70% has been the highest in the nation.

Despite the increase in part-time jobs, WA's underemployment rate, which measures the proportion of workers who would like to work more hours, remains the lowest in Australia at 6.0% in January. This suggests that the increase in part-time jobs is reflecting the demand for part-time jobs rather than substituting for full-time work.

The State's unemployment rate is 4.2%, narrowly above the national figure of 4.1%. If the unemployment rate continues to climb, it is expected that the WA Treasury will revise their forecast of 4.0% in 2024-25 upwards in May's budget. The underemployment rate added to the unemployment rate shows the underutilisation of workers in the labour market. At 10.2%, WA's underutilisation is the lowest in the country.

Job vacancies are continuing to fall slowly, with 49,500 jobs available in December 2023. This is still well above the pre-pandemic level of 20,000 – 30,000 job vacancies in WA at any given time.

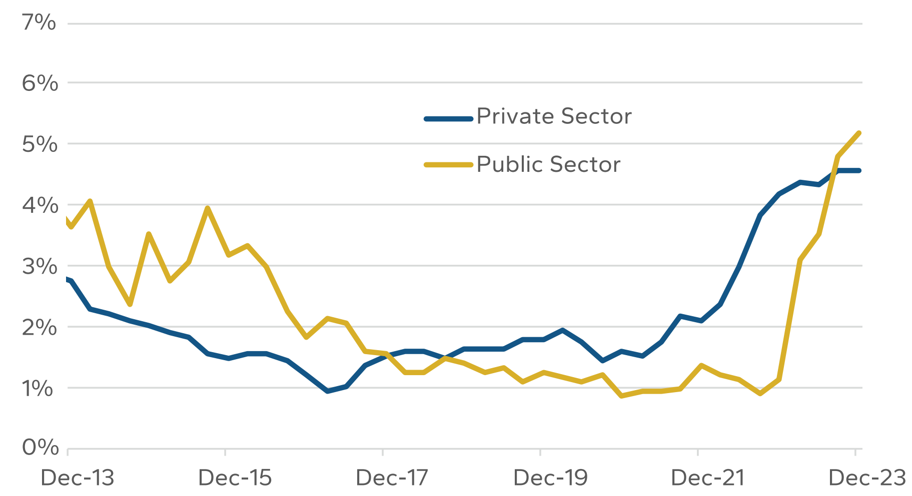
So far in 2023-24, job creation has exceeded the WA Treasury's expectations from the May Budget, with its jobs growth forecast revised upwards from 1.0% to 2.5% in the Mid-year Review. This rate is similar to its updated population growth forecast of 2.4% in 2023-24, suggesting that the labour market is able to absorb the increasing population and avoiding placing upwards pressure on unemployment.

Looking forward, Treasury is forecasting jobs growth to struggle to keep pace with population growth with the unemployment rate shifting upwards as a result. Local Governments should expect to continue to find attracting and retaining staff challenging in the short term, however this challenge will ease in the medium term as the labour market loosens.

The 2023-24 WALGA Salary and Workforce Survey is now available to subscribers. Of the 78 Local Governments that participated in the survey, the median rate for employment costs was 36.0% of total revenue. This ranged from 29.3% for Band 4 to 40.3% for Band 3. Over the past five years, the proportion of full-time employees decreased 2.5% to 54.9%; part-time employees increased 1.5% to 19.2%; and casual employees increased 1.0% to 25.9%. Median annual employee turnover was 25.1% in June 2023, compared with 27.6% the year before. To find out more about the Salary and Workforce Survey, Members can log into their portal or subscribe to WALGA's Employee Relations service here.

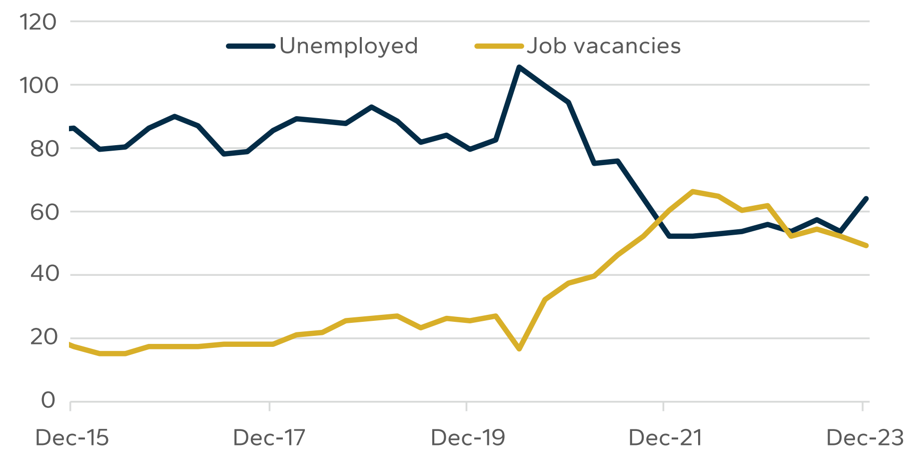
Wage Price Index Private vs Public, WA, Annual % Change

SOURCE: ABS; WALGA



Job Vacancies vs Unemployed Persons, WA, '000s

SOURCE: ABS; WALGA



Construction Costs

Key points

- **Construction costs have steadied after the recent increases as demand weakens and the supply-chain constraints ease.**
- **Whilst the cost of material is easing, construction wages are rising rapidly.**
- **A strong pipeline of projects is expected to support the construction sector in the near-term even as economic growth slows.**

The period of unprecedented rises in construction costs in WA rapidly appears to have ended, with growth in construction costs now slower than inflation. This can largely be attributed to an improvement in supply chains and shipping rates; a decline in commodity prices that were driving the increases such as oil and metals; and weakening demand due to the higher interest rates and a slowing of the residential building market after the stimulus-led surge in previous years.

Some upwards pressure on prices remains, which suggests modest increases in construction costs will persist in coming years. These include rising construction wages due to the continuing tight labour market; capacity constraints in the provision of construction materials; a caution around business investment due to an uncertain business environment; and a rising cost in imports from the falling Australian Dollar.

The interaction between all of these factors is likely to play out differently depending on the type of construction project and location. The cost of materials for road and bridge construction is easing from the double-digit growth experienced in the last two years, with price rises of 3.1% forecast for the current financial year. The price of bitumen closely tracks the oil price, which has fallen from its recent highs driven by the post-pandemic stimulus and the geopolitics surrounding the war in Ukraine.

Forecasts in 2023-24 for cost increases for bitumen (+5.1%) and asphalt (+4.7%) are more modest and are expected to continue to grow at a slower pace in the coming years.

Steel products surged even more during the post-pandemic period, up 11.2% in 2020-21 and 35.4% in 2021-22, again influenced by stimulus and impact of the war on Russian and Ukrainian steel exports. This was followed by a small decline in 2022-23 of 2.7% with further small price decreases expected in 2023-24 (-3.5%) and 2024-25 (-2.6%) as global demand weakens. Looking ahead, steel is also expected to return to its usual pattern of modest growth, subject to further geopolitical shocks.

For the construction of buildings, bricks and tiles have been a key driver of increased materials costs with prices rising 32.0% in 2021-22 and 29.4% in 2022-23. This price increase was driven by an increase in domestic demand from the post-pandemic stimulus and the impact of supply-chain disruptions. Price increases have begun to moderate, forecast to end 2023-24 up 10.0% before returning to more normal rates of 2% to 3% in the following years.

Timber prices have followed a similar path with price increases of 20.5% in 2021-22 and 8.5% in 2022-23 easing to a price fall of 2.1% forecast for 2023-24. The drivers of this dynamic are similar with stimulus-led demand coinciding with supply challenges from disruptions to shipping, the slowdown in international trade and the impact of the war in Ukraine. The fall in the timber price is not expected to be long-lived as prices are forecast to rise in the coming years supported by ongoing construction activity.

As the cost increases of construction materials slow, construction wage pressure remains (see Labour Market and Wages section). Construction wages have been growing quickly due to the uptick in demand in WA and shortages in the skilled workforce. There may be some impact on the workforce from the recent surge in immigration and the State Government's efforts to grow the construction workforce through wage subsidies, support for apprentices and investment in TAFE. However, in the short-term it is expected that construction wages will continue to grow at elevated levels.

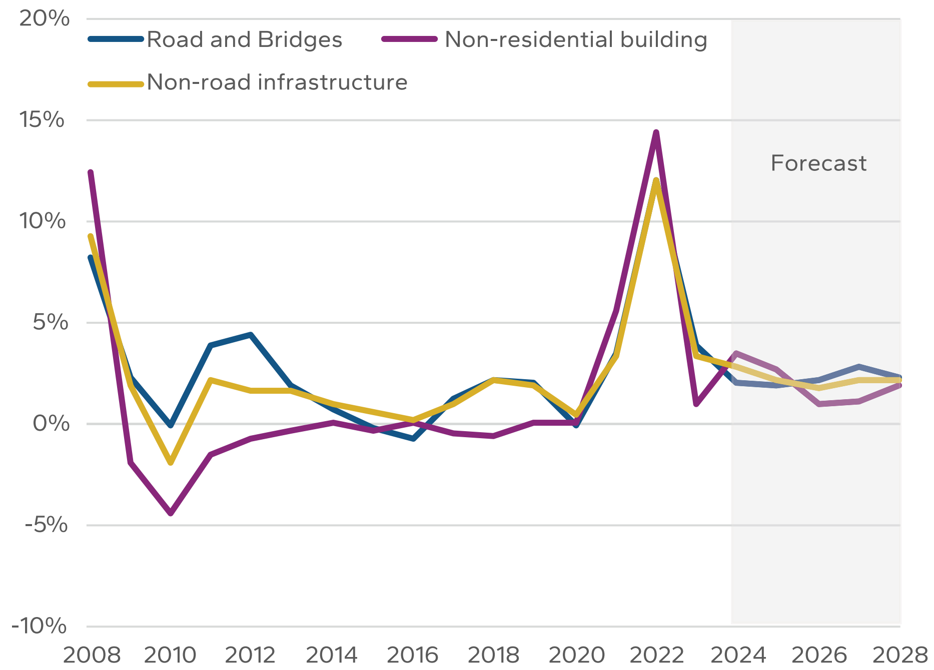
Looking forward, there remains a strong pipeline of construction in Western Australia, with Deloitte Access Economics reporting $47 billion worth of projects under construction, around the same as the last quarter. Engineering work done increased 23% in 2023, led by the transportation and resources industries. This is the fifth consecutive quarter annual growth has been above 20%.

Commercial work increased by 14% in 2023 and the value of work commenced increased by 14%. This suggests that the construction sector will remain strong in the coming years, although looking further ahead the appetite for new major projects will be subject to shifts in global demand and the shape of the domestic economy.

There is a risk that the elevated level of demand in the construction sector may lead to costs staying higher for longer, which could lead to an upwards revision of the LGCI. This may be particularly evident in regional areas where a limited number of suppliers and workers, as well as the impact of major infrastructure projects, can drive up project costs and blow out timelines.

Construction Cost Indexes, WA, Annual % Change

SOURCE: ABS; MACROMONITOR; WALGA



Insurance and Risk Financing

(in conjunction with LGIS)

Key points

- **It is expected that insurance and risk financing costs will ease from the recent highs.**
- **Costs of insurance for infrastructure projects is high due to the risk of project delays and increased costs.**
- **Drivers of increased insurance and risk financing costs include the high levels of inflation, increasing number of severe weather events and slower economic growth.**

The trend of price hardening has eased due to the recent lift in investment gains by insurers and a period of natural events in 2023 that was less severe than expected.

However, economic factors such high inflation and slower growth continue to have a negative impact on the LGISWA Scheme and the cost of capital. Insurers, including the Scheme, are particularly vulnerable to the impacts of extreme weather events associated with climate change become more frequent and severe. This will result in higher claims costs challenges in underwriting.

Despite decreasing inflationary pressure, the recent period of inflation still affects the Scheme across all areas of protection provided through LGIS.

It is expected that the severity and frequency of **workers' compensation** will increase as the cost of living challenges continue and wages rise. Changes in legislation will further compound the economic impact.

The increased costs of repairs and manufacturing challenges are forecast to contribute to increased severity of **motor vehicle** claims.

Property claims are impacted by the heightened costs of construction materials and labour supply constraints, increasing the severity of claims. They are also impacted by the increasing frequency of weather events.

Higher **liability** claims are expected due to the rising cost of living, increased litigation expenses, and an overall increase in claim frequency during challenging economic conditions

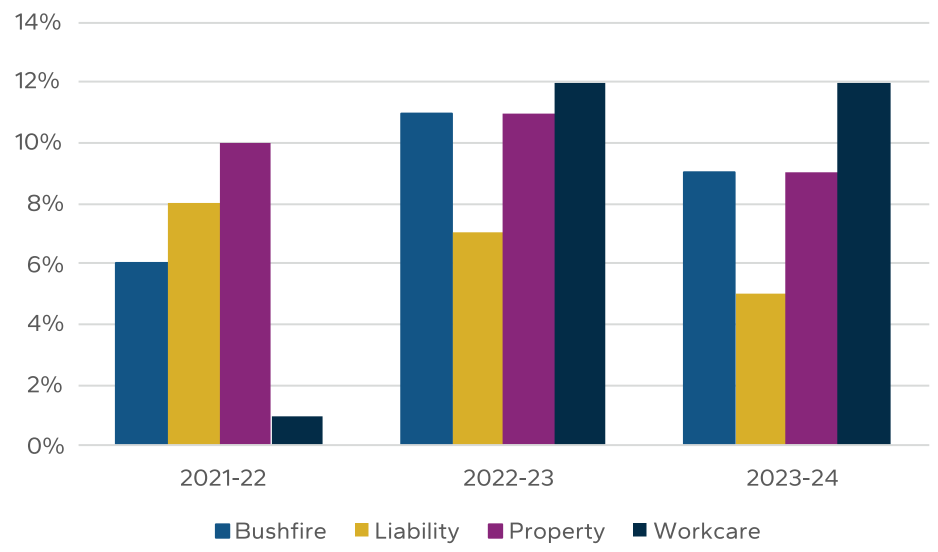
Apart from the Scheme protections, it is important for councils to consider the impact of insurance costs on their infrastructure programs. Insurers are facing significant cost increases due to supply chain delays and labour shortages, which drive up project costs and extend project durations. These challenges also affect repair times, further increasing expected claim costs. As a result, insurers are targeting increases of 10% to 20% for infrastructure projects before considering individual client performance.

Despite the moderation in pricing increases, it is expected that (re)insurers will continue to drive change through technical underwriting, focusing on coverage reductions and pricing. During the budgeting process, it is important for councils to take into account various factors such as exposure to weather events, claims, population, wages, asset values, and changes in operations.

Overall, a positive outlook for 2024-25 is maintained with pricing expected to land in the mid-high single digits, subject to scheme performance and the global claims outlook.

Local Governments can discuss protection and pricing with their LGIS account manager or find out more at https://www.lgiswa.com.au

LGIS Protection, Annual % Change



SOURCE: LGIS

Questions

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

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