Economic Briefing
December 2024

WALGA

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Overview

Australia's economy grew by an anaemic 0.8% in the year to September 2024, propped up by public expenditure and population growth. WA's economy remains the standout performer nationally, but continues to be impacted by ongoing factors that are acting as a handbrake on growth. Interest rates remain on hold as inflation slowly falls towards the Reserve Bank of Australia's (RBA) target band.

WA jobs growth is keeping pace with population growth, with a record number of people in the labour force and continuing low unemployment. Housing supply challenges persist with the increase in building completions still well short of demand.

Population growth is slowing across the country, but remains high. WA's population growth is higher still. WA housing completions and building approvals are increasing but remain below the level required to meet demand and national housing targets.

Local Government costs increased 3.3% over the last 12 months. Employee costs are a key driver of price increases. The strong infrastructure and construction pipeline could lead to increased construction costs in the short term.

The **Australian economy** grew just 0.8% in the last 12 months, propped up by public sector spending and population growth. The WA domestic economy continues to outperform the nation.

The RBA kept interest rates on hold in December as **inflation** continues to fall slowly but remains above the target band. Inflation in WA is higher than the national average with increasing housing costs a key concern.

Employment in WA is continuing to grow in line with population growth. The labour market continues to be tight with low unemployment and high workforce participation. Wages growth continues but at a slower rate with public sector wages growing at a slower pace than the private sector

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 COVID-19, 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.

Domestic Economy

Key points

- **The Australian economy grew just 0.8% in the year to September**
- **Public sector spending is driving economic growth**
- **WA's domestic economy continues to outperform the nation**

The Australian economy has weakened further since the last Economic Update, with GDP up just 0.8% in the year to September. This continues to be the slowest rate of economic growth since the 1991 recession, outside of the pandemic. Over the same time period GDP per capita, which considers population growth, fell 1.5%, falling for the seventh consecutive quarter.

The Commonwealth Government's Mid-Year Economic and Fiscal Outlook (MYEFO) released on 18 December highlighted a return to regular programming of ongoing budget deficits after two years of surpluses driven by elevated commodity exports. The deficit for 2024-25 is forecast to be $26.9 billion with the total for deficit the four years to 2027-28 to reach $143.9 billion, up from the $122.1 billion forecast in May.

The economic growth forecast in 2024-25 was cut from 2% in the May budget to 1.75% due to the underperforming national economy in recent quarters. Household spending has been even weaker than expected as cost-of-living pressures bite, with increased government spending filling the gap. Public final demand is expected to grow 3.75% in 2024-25, well up from the forecast in May of 1.5%.

The national accounts showed that economic growth was driven by the public sector and by population growth. Households account for more than half of Australia's national economy and household spending was flat for the September quarter. This was despite the Stage 3 tax cuts received by households that saw income tax receipts down 3.8%. Rather than spending the extra money in their bank accounts, households saved the difference with household savings up from 2.4% in June to 3.2% in September. This will give the RBA some confidence that the tax cuts would not be inflationary by reigniting household spending.

Public sector spending has kept growth positive in the September quarter. Public sector spending has increased significantly since the pandemic and is now above 28% of GDP. The 1.4% increase in government consumption was driven by the energy bill relief to address cost of living pressures. Other areas of increased Government expenditure include the NDIS, aged care and general non-defence expenditure, which resulted from several large agencies receiving additional funding to improve and expand service delivery

Public sector investment has also increased, up 6.3% in the September quarter after it fell for three consecutive quarters. This was driven by Commonwealth imports of defence equipment and investment in road and hospital projects, as well as state and local government expenditure on major road and renewable projects.

Domestically, the twin challenges of reducing inflation without sinking the economy and the impacts of international uncertainty are the greatest risk to the Australian economy. China has flagged further stimulus for its economy to drive up the sluggish levels of economic growth, with reports that monetary policy will be loosened in 2025 and the Government will be more pro-active in seeking to lift consumption and stimulate domestic demand. The possibility of a trade war next year flagged by the incoming US President remains a threat to Australia's most important trading partner and a potential challenge for Australian exporters.

A Western Australia Perspective

Economic growth in WA increased just 0.5% in 2023-24, down from 3.7% in 2022-23. This was largely driven by a fall in net exports. Growth in the mining sector was down 2.1% due to weather disruptions and impacted operations, and the agriculture, forestry and fishing industries fell 6.6% due to lower levels of grain production after a bumper crop in the previous year. These falls were offset by growth in construction, health care and social assistance and transport, postal and warehousing industries.

Excluding exports and imports, WA's domestic economy, measured by State Final Demand, was the highest of the States, increasing 4.4% in 2023-24. Household consumption held up better than other states, up 1.9%, whilst business investment grew 6.9%, due to engineering construction in mining and energy projects. Public investment continued to grow rapidly with major investment in road, rail, health and energy projects.

The WA Treasury released the 2024–25 Government Mid-year Financial Projections Statement on 23 December. The State Government highlighted the $3.1 billion surplus in 2023-24, up from May's estimate of $2.6 billion, with surpluses forecast for the next three years. Higher than expected income from taxes and royalties drove this increased surplus. Taxation income benefited from higher prices leading to an additional $1.4 billion in duty collections as well as higher than expected car sales boosting motor vehicle taxes by $895 million. Income from royalties was up $1.3 billion off the back of iron ore (+$1.7 billion) and gold (+$608 million) which more than offset falls in lithium (-$673 million) and nickel (-$240 million).

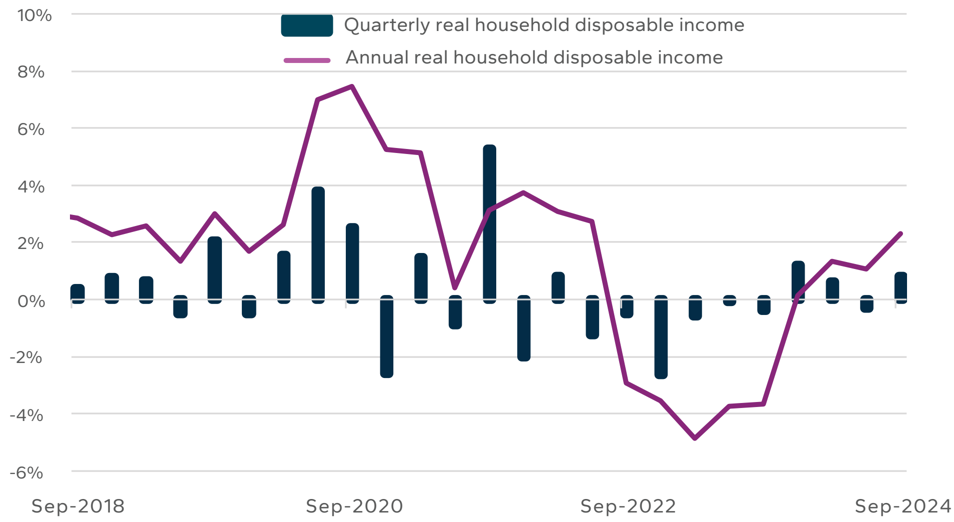
Whilst some of this additional income was banked to increase the surplus, expenditure was also up with an increase in spending on services to support the increased population in particular in health, housing, communities, justice and education. The major new spending announcement in the Mid-year Review was the $400 million Housing Enabling Infrastructure Fund which seeks to increase housing supply by funding water and power infrastructure.

Looking forward, Treasury expects the domestic economy to continue its strong run of growth, with State Final Demand forecast to increase by 3.5% in 2024-25 and 3.25% in each of the next two years. The public sector is a major contributor to this growth with Government consumption forecast to increase 5.5% in 2024-25 driven by the increase in services delivery and cost of living support. Government investment is expected to increase 7.0% in 2024-25, however the public sector is forecast to contribute less to economic growth in the out years as population growth eases and the State's record infrastructure spending slows.

As growth in the public sector recedes it is the private sector that is forecast to drive economic growth in the coming years. Dwelling investment is forecast to jump 11.25% in 2024-25 as the residential construction industry ramps up and more houses are built. Household consumption in WA has held up better than in other states due to the strong economy and population growth. Investment from business is expected to grow just 1.0% in 2024-25 after a jump of 12.7% in 2023-24. This is expected to increase to 3.25% in 2025-26 due to the strong pipeline of projects in the mining, renewables, and infrastructure sectors.

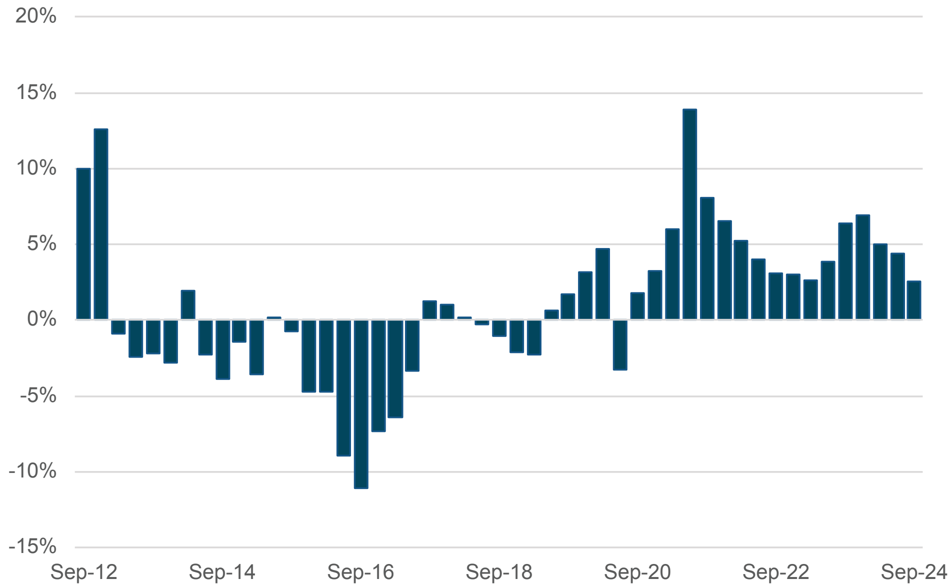
Real Household Disposable Income, Australia, Annual v Quarterly % Change

SOURCE: RBA; WALGA



State Final Demand, WA, Annual % Change

SOURCE: ABS; WALGA



WA Treasury Economic Forecasts

Mid-Year 2024/25	2022/23 % Actual	2023/24 % Actual	2024/25 % Forecast	2025/26 % Forecast	2026/27 % Forecast
Gross State Product	3.5	0.5	2.25	2.5	2.5
Household Consumption	3.5	3.1	2.5	3.0	3.0
Business Investment	4.5	12.7	1.0	3.25	5.5
Dwelling Investment	-2.7	4.1	11.25	9.75	5.5
Goods Exports	4.7	-3.7	0.5	1.5	0.5
Goods Imports	7.8	9.1	0.75	1.75	2.75
Employment Growth	3.1	3.8	2.5	1.75	1.5
Unemployment Rate	3.6	3.7	4.0	4.25	4.5
Wage Price Index	4.2	4.2	3.75	3.5	3.0
Population	3.2	2.8	1.9	1.8	1.8

Inflation And Interest Rates

Key points

- **Interest rates on hold in December**
- **CPI falling slowly but remains above the target band**
- **Perth CPI higher than the national average**
- **Increasing housing costs a key concern**

On December 10, the RBA held interest rates steady at 4.35% for the ninth consecutive meeting. The last interest rate change was an increase of 25 basis points in November 2023. Whilst this was widely anticipated by markets and major institutions, the RBA did soften its language to indicate that they are increasingly confident that inflation is falling as they anticipate and that they are less concerned about risks to the upside.

Three of the four Australian big banks anticipate the first rate cut will come in May next year, however the RBA has been clear that any change to interest rates will be dependent on the data collected over the next few months. Key economic indicators that the RBA considers are mixed. The national accounts showed the economy growing slower than expected and wages growth has slowed, but the labour market continues to outperform expectations with low unemployment, high workforce participation, high job vacancies. On balance, the RBA considers their restrictive interest rate setting to be working in slowing economic activity to bring down inflation.

“Taking account of recent data, the Board’s assessment is that monetary policy remains restrictive and is working as anticipated. Some of the upside risks to inflation appear to have eased and while the level of aggregate demand still appears to be above the economy’s supply capacity, that gap continues to close”

Statement by the Reserve Bank Board: Monetary Policy Decision, December 2024

The headline CPI fell to 2.8% in the September quarter (compared to 3.8% in the June quarter), bringing it back inside the RBA’s target band of 2% to 3% for the first time since March 2021. The RBA’s preferred national indicator of inflation, the Trimmed Mean, also fell in the September quarter, from 4.0% to 3.5%, but is still half a percentage point above the target zone. Australian and State Government electricity rebates have resulted in a 17.3% fall in electricity prices over the quarter, distorting the headline CPI. The gap between the Trimmed Mean and headline CPI of 0.7% is due largely to these electricity rebates, as well as other large price rises and falls. Excluding rebates, the ABS reports that electricity prices would have risen by 0.7% in the September quarter. The RBA Board continues to stress that it will look through the temporary impact of the electricity credits and focus on the Trimmed Mean which is more indicative of price movements across the entire economy.

Inflation patterns of goods and services differ markedly. While goods prices initially increased quicker and higher, the price of goods has increased just 1.4% in Australia in the last 12 months, whereas service prices have increased 4.6% over the same period and have stubbornly plateaued.

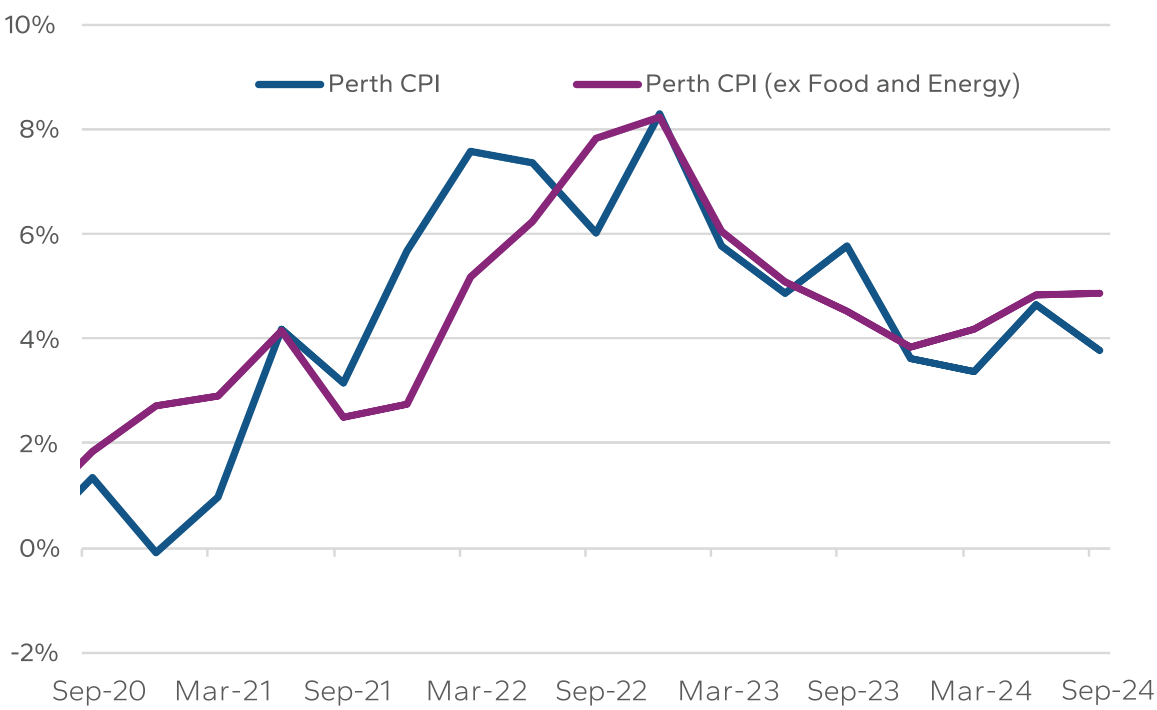
According to the ABS, the fall in goods inflation was driven by the falls in electricity and automotive fuel prices. Petrol prices have fallen in four of the past five months, a result of falling global demand and the subsequent lower oil and wholesale fuel prices.

Increased services inflation has been driven by rent, insurance, education and health services. High rental prices reflect ongoing housing supply issues, with low vacancy rates and little stock. According to the ABS, rents in Perth have had the highest annual growth across the country, with an annual change of 10%. Rising insurance premiums reflect higher reinsurance, natural disaster and claims costs.

In WA, the Perth CPI continues to be volatile due to the impact of electricity credits, falling 0.4% in the September quarter after increasing 2.1% in the June quarter. These distortions are also impacting annual figures, with the Perth CPI falling to 3.8% from 4.6% in June. Excluding 'volatile items', the ABS reports the Perth CPI to be 4.2% in September. Looking further into the figures, it is housing costs (which includes electricity) that continue to drive inflation - when housing is excluded, Perth CPI is up just 2.5% in the year to September. Housing affordability continues to be a major issue both for renters and those constructing new dwellings. New housing supply is critical in containing the cost of housing and accommodating the new arrivals as the population continues to grow at a fast pace.

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

SOURCE: ABS; WALGA



Labour Market and Wages

Key points

- **WA employment increasing in line with population growth**
- **Continuing tight labour market with low unemployment and high workforce participation**
- **Wages growing more slowly**

Employment in WA continues to grow in line with population growth, with the number of employed persons up 3.2% in the year to November. The unemployment rate dropped to 3.3% in November, the lowest level since August 2022. In its October State of the States Report, Commsec rated the WA job market as the nation's strongest. WA's unemployment rate is likely to rise in the coming months, however it has now been three years (with the exception of one month), with unemployment in WA at 4% or lower, defying consistent forecasts of an increase in unemployment in line with a slowing economy.

With the participation rate sitting at 68.8%, the highest of the states, there is little spare capacity in the labour market. Job vacancies in WA continue to fall, but remain well above the pre-pandemic levels. There is no sign yet that there are more prospective workers than jobs available which will place upwards pressure on the unemployment. In WA, the constraint on growing the workforce is not the size of the workforce, but matching the right skills, especially as new industries emerge, such as renewable energy, which will require workers with different skills to the traditional energy industry. The deficit of housing and services to support the workforce, such as education and childcare, continue to also stifle growth, especially in the regions.

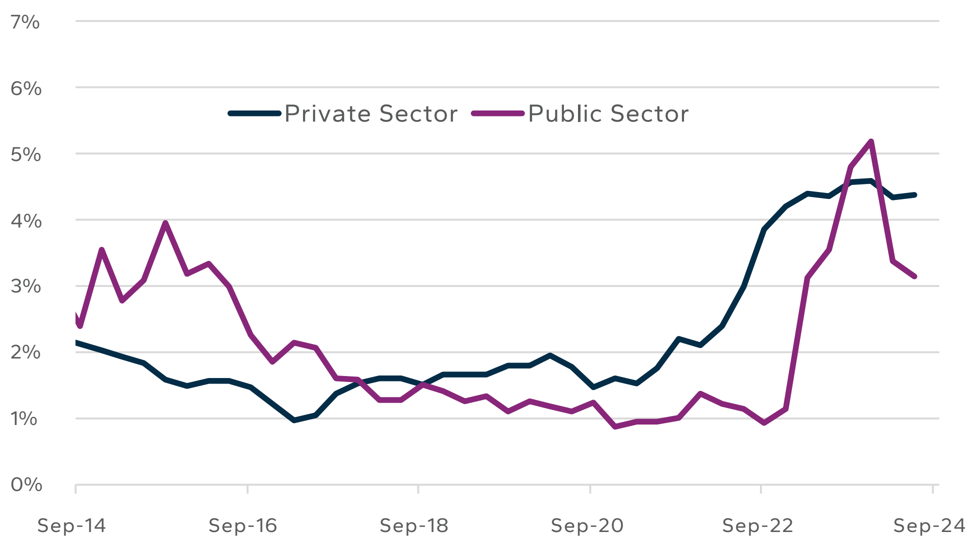
In 2024, the construction industry added more than 21,000 jobs to support infrastructure projects and residential building. Other major contributors to jobs growth were Public administration and safety (+14,000), and Administrative and support services (+12,000). At the other end, mining sector employment fell more than 8,000, likely driven by multiple mine closures, and manufacturing jobs fell more than 12,000.

The WA Wage Price Index fell below 4.0% for the first time since December 2022, with wages increasing 3.5% in the year to September 2024. It also ended a run of nine consecutive quarters that WA wages grew faster than the national average. Wages growth has slowed 1.1% in the last 12 months.

Both the private and public sectors have seen a slowdown in wages growth with the public sector up just 2.2% in the year to September, down from 4.8% annual growth in the previous twelve months. Private sector wages which make up the majority of state wages, grew 3.8% over the last year, down from 4.6% in the previous year. Given the tight labour market, it is expected that wages will continue to grow as both the public and private sector compete for the limited pool of workers.

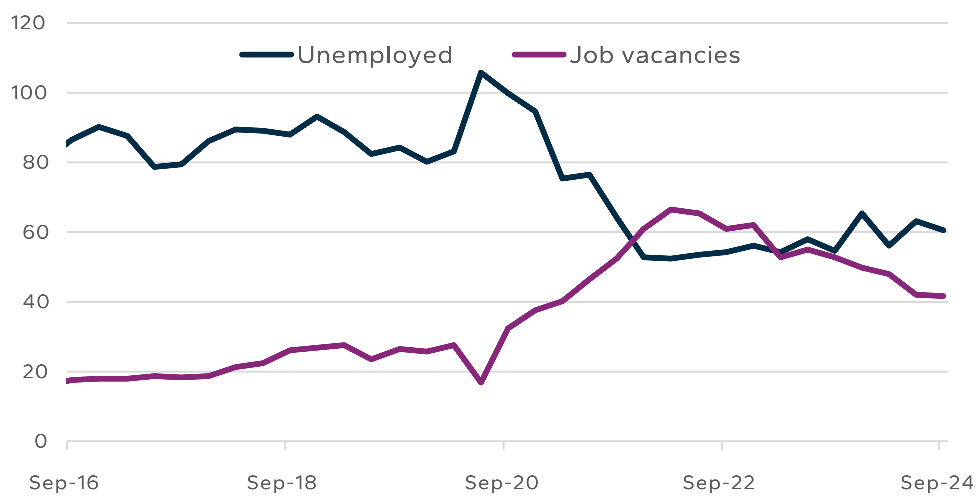
Wage Price Index Private vs Public, WA, Annual % Change

SOURCE: ABS; WALGA



Job Vacancies vs Unemployed Persons, WA, '000s

SOURCE: ABS; WALGA



Population and Housing

Key points

- **Population growth is slowing across the country**
- **WA's population is growing at a faster pace than the rest of the country, although this is easing**
- **WA housing completions and building approvals are increasing but remain below the level required to meet demand**

Australia's population continues to grow strongly, up 2.1% in the year to September. The rate of population growth has eased from the recent peak of 2.5% in September 2023. This is due to a slowing of net overseas migration. In the September quarter, net overseas migration increased by 63,155 which is the lowest quarterly increase since December 2021 and less than half of its peak of 165,500 in March 2023.

This slowdown is a result of policy changes by the Australian Government and an easing of the migration surge that followed the closed border period of COVID-19. However, this slowdown is not happening as fast as the Commonwealth expected, with the forecast net overseas migration in 2024-25 increasing from the 260,000 in May's budget to 340,000 in the Mid-year economic update. This is still expected to ease to 255,000 the following year.

Overseas arrivals to Australia in the June quarter fell to their lowest level since 2021 with 121,900 arrivals in the September quarter, down from the peak of 214,600 in the March quarter 2023 and below the 2017-2019 pre-pandemic quarterly average of 139,500. Overseas departures are at 75% of their pre-pandemic average, with 58,700 departing in the June quarter. It is expected that departures will steadily increase as the number of international students completing their studies returns to the long-term average once the impact of the closed borders recedes.

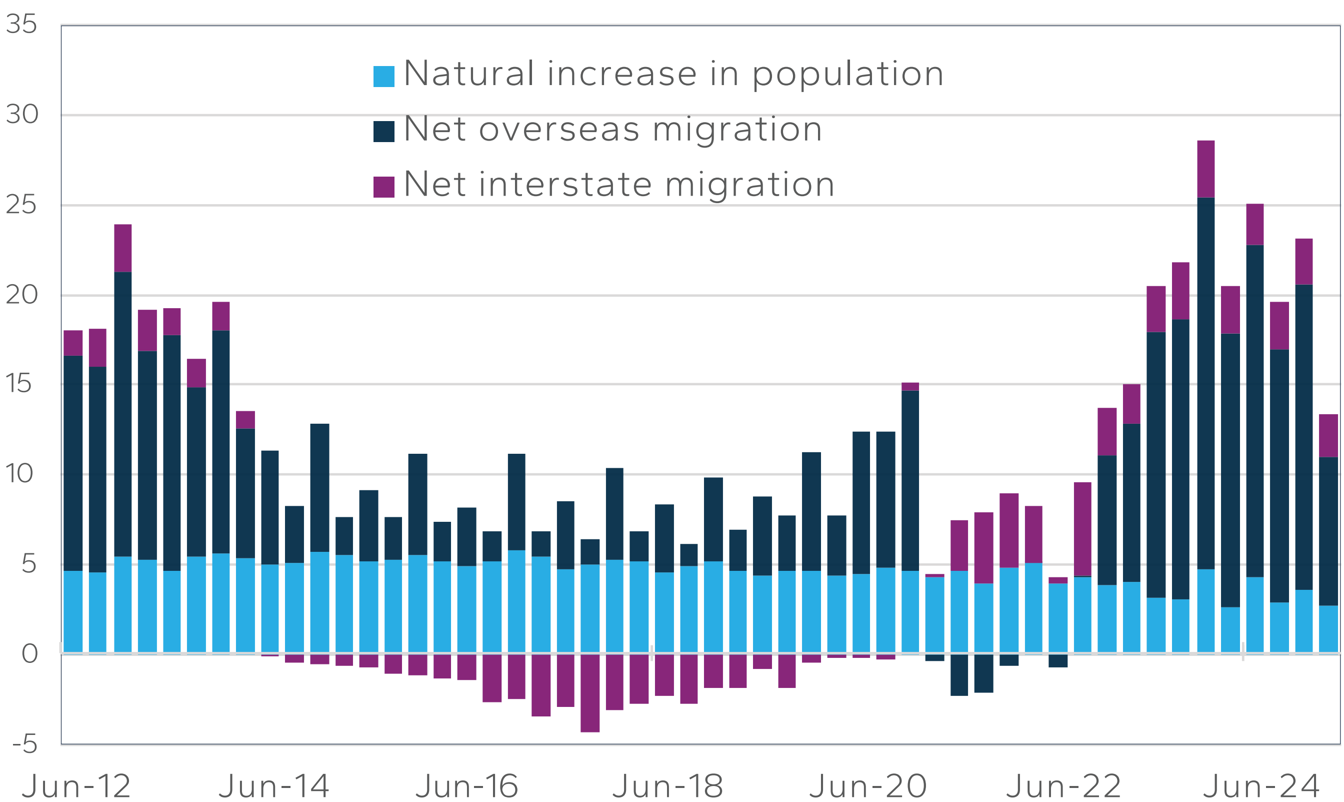
WA continues to have the fastest growing population of all states and territories, up 2.8% in 2023-24, well above the national rate of 2.1%. As with other states, WA's population growth is being driven by net overseas migration, which was up 58,000 in 2023-24. WA continues to have the second-highest interstate migration in the nation, with 9,742 more arrivals than departures in the twelve months to June. The ABS estimates that 78% settled of these arrivals settled in Greater Perth.

WA's dwelling construction is not keeping pace with population growth. Only 18,000 of the 26,000 new dwellings per year required to meet the National Housing Accord target were built in 2023-24, with workforce constraints and cost of materials continuing to be impact delivery. Despite this, there has been improvement in completions over the last twelve months. Promisingly, WA building approvals have increased steadily, with the September quarter approvals at their highest level since 2016 outside of the pandemic stimulus temporary spike. The Housing Industry Association of WA estimates that WA needs 120,000 skilled construction workers over the next 10 years to meet the level of demand.

Increased building activity is yet to flow through to improved housing affordability. While the rate of increase in Perth rents has slowed, they remain prohibitively high at 8.7% in November. This has fallen from a 13.5% in March, but is still well above the national average of 5.5%. The Real Estate Institute of WA (REIWA) reports that housing vacancies in Perth have increased to 1.7% from 0.7% in the previous year, however this is still well below the 2.5% to 3.5% that is considered to be a balanced market. Elsewhere in WA, REIWA reports that Bunbury's vacancy rate has risen to 3.3% whilst it remains low in Geraldton (0.8%), Albany (0.5%) and Kalgoorlie (0.5%).

The National Shelter-SGS Economics and Planning Rental Affordability Index released in November saw Perth fall to the least affordable capital city in Australia for renters with rental affordability falling 13% in the last 12 months. Regional WA has also hit an all-time low in the index as rental increases outpace wage rises. The situation is worst for local income renters with both regional and metropolitan markets classed as critically unaffordable for pensioners and those receiving JobSeeker payments. Housing affordability continues to be a critical national issue, but it is not expected to be resolved quickly and housing pressures will continue to challenge local communities.

Components of Population Change, WA, '000s



Local Government Cost Index

Key points

- **Local Government costs increased 3.3% over the last 12 months**
- **Employee costs are a key driver of price increases**
- **The strong infrastructure and construction pipeline could lead to increased construction costs in the short term**

The Local Government Cost Index (LGCI) increased by 0.8% in the September quarter, the same as the June quarter. In annual terms the LGCI increased by 3.3%, falling from 3.5% in the June quarter.

Employee costs, which account for approximately a third of the LGCI, are a significant driver of Local Government expenses. WA wages strengthened 1.2% in the September quarter, up from June's rise of 0.8% as the increases in award wages and negotiated salaries flowed through the system. However, this rise was less than the 1.9% jump in the equivalent quarter last year, leading to a softening of the Wage Price Index to 3.5%, the lowest rate since September 2022. Growth in WA public sector wages continues to ease faster than the private sector, down to 2.2%.

Construction costs have increased by approximately 20% over the last three years. The rate of price rises has slowed on average across the State as global supply chain constraints have eased and post-pandemic stimulus works its way through the system. However there remains significant upside pressure on construction costs as high-levels of investment in public infrastructure projects continue and Governments respond to the housing crisis by incentivising construction. With ongoing strong population growth, and a more robust private sector than elsewhere in the country, there is a risk of construction cost increases re-escalating.

It should be noted that this construction cost data represents an average for WA. Local governments have reported receiving quotes that significantly exceed these averages due to regional supply chain challenges, increased demand for materials and labour driven by major infrastructure projects, or heightened risk premiums resulting from recent disruptions in the construction industry.

The cost of services contracts procured by local governments is closely linked to wages, with increases in both slowing after a period of high growth. However, WA's strong domestic economy is expected to keep price rises above that of inflation as demand for services remains above supply. A downturn in the economy would see an easing of this price pressure.

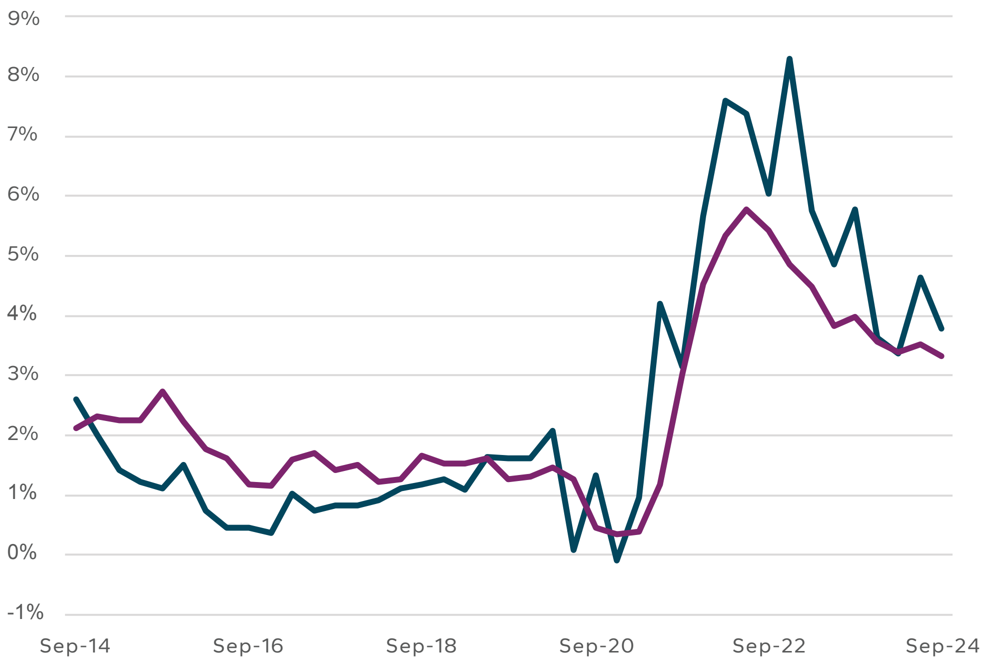
Local Governments should prepare for multiple scenarios through their budgeting process and be ready to respond to changing economic conditions by incorporating flexibility into their projects and procurement processes. The LGCI is based on statewide data, and regional variances will impact each Local Government. Engaging with suppliers to understand local economic conditions and constraints will enable Local Governments to effectively plan the timing of their projects.

LGCI Table

Component	Weighting	2022-23 (actual)	2023-24 (actual)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)
Employee costs	35%	4.2	4.2	3.8	3.5	3.0
Materials and contracts	28%	4.3	3.2	4.0	3.8	3.5
Furniture	1%	5.8	4.7	3.7	3.5	3.2
Non-residential building	5%	1.0	4.6	3.5	3.0	2.3
Machinery and Equipment	5%	11.5	2.0	4.0	2.5	1.4
Non-road infrastructure	9%	3.3	3.2	2.8	2.7	2.6
Road and bridge construction	10%	3.8	2.1	2.8	2.7	2.8
Utilities	3%	2.5	2.5	3.0	3.0	3.0
Insurance	1%	12.4	13.1	8.6	6.0	4.0
Other	3%	6.2	4.6	3.5	3.0	2.8
LGCI	**100%**	**4.4**	**3.6**	**3.6**	**3.3**	**3.0**

Perth CPI (ex volatile items) vs LGCI, Annual % Change

SOURCE: ABS; WALGA



Questions

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

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