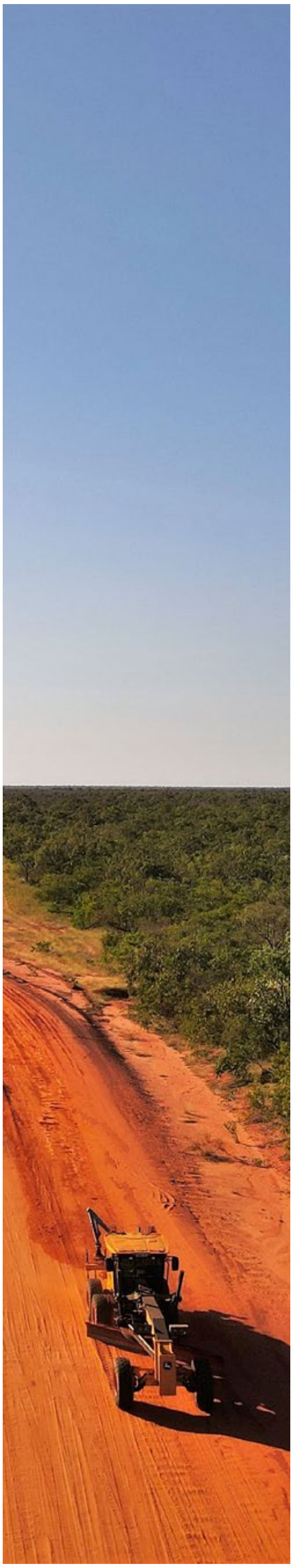
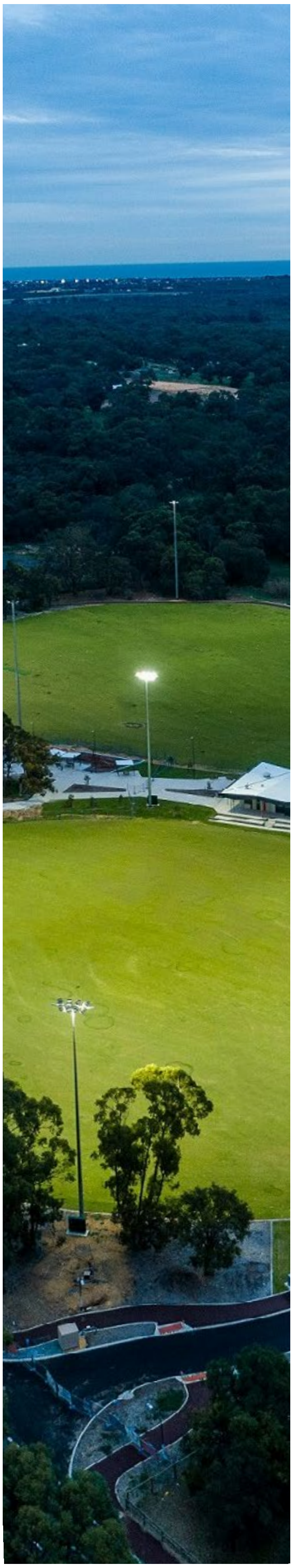





ECONOMIC BRIEFING

DECEMBER 2023

WALGA

OVERVIEW

Despite the economic headwinds, the Western Australian economy has remained strong.

All industries grew in 2022-23, with the exception of retail which felt the impact of the rising cost of living on households.

Local Governments in Western Australia have endured a period of rapidly rising costs. Whilst the inflation rate has peaked, costs are still increasing at a rate above the long-term average. Looking forward, the economy is expected to slow and inflation is forecast to gradually return to the target band.

The **Local Government Cost Index (LGCI)** increased 1.3% in the September quarter and 3.9% in the last year. Looking forward, growth in the LGCI is set to remain at 3.9% for the rest of 2023-24 before easing over the following years. Whilst the slowdown in the growth of construction costs is welcome, labour costs are becoming the key driver of LGCI growth for the sector.

Despite the economic headwinds, the **WA economy** grew 3.5% in 2022-23. With the exception of the retail trade, all industries in WA grew in 2022-23, led by the mining sector. The slowdown in retail reflected the impact of the rising cost of living on household expenditure. Public and private investment are growing strongly with capital expenditure at levels not seen since the mining boom. Global economic uncertainty, geopolitical conflicts and the ongoing impact of inflation and the cost of living are significant risks to the economic outlook. Looking forward, economic growth is expected to continue, but at a slower pace.

After four consecutive months of holding, the **RBA increased the cash rate by 25 basis points** in November, before holding again in December. The RBA considered that inflation was not falling as fast as they would like. The headline inflation rate fell to 5.4%, the lowest level since March 2022, but still well above the target band of 2% to 3%. The rate of decline in inflation will drive the RBA's next interest rate decision in February.

WA wages are growing at the fastest rate since 2012 due to the tight labour market and growing economy. Wages make up a third of the Local Government cost base and will continue to pressure budgets in the sector. The labour market remains tight with the unemployment rate sitting at 3.8%. It has now been two years since it was above 4%.

Construction costs are growing but at a slower rate. The wages of construction workers are growing quickly as the labour market struggles to meet the demand from high levels of investment. The fluctuations in petroleum prices will continue to influence construction costs, particularly roads and bridges.

Net overseas migration has grown faster than forecast, driving up the population and placing pressure on the housing market. WA is also a net beneficiary of interstate migration, making it the fastest growing state in the country. As a result, the rental vacancy rates are low in the regions and metropolitan area, and housing rents and prices are surging. Population growth places pressure on all levels of Government to provide the infrastructure and services to support the community.

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 1.3% in the September quarter and 3.9% in the last year.**
- **Looking forward, growth in the LGCI is set to remain at 3.9% for the rest of 2023-24 before easing over the following years.**
- **Whist the slowdown in the growth of construction costs is welcome, labour costs are becoming the key driver of LGCI growth for the sector.**

The Local Government Cost Index (LGCI) increased by 1.3% in the September quarter, well above the previous quarter's increase of 0.6%. In annual terms, the LGCI increased by 3.9% in the twelve months to September, up slightly from 3.8% last quarter, but significantly down from 5.3% a year ago.

It is expected that the LGCI will stay at this level through 2023-24 and then gradually ease over the next two years. Whilst the slowdown in construction costs will be welcomed by Local Governments with large capital budgets, this contrasts with rising wages, which impact payrolls as well as the procurement of services.

Employee costs make up more than a third of the LGCI and the sharp jump in wages has driven the first quarterly increase in the LGCI since it peaked in June 2022. The WA Wage Price Index rose 1.9% in September, the largest quarterly increase since the series began in 1997. The September quarter typically sees the highest increase in wages as pay increases are applied from the new financial year and the Western Australian Industrial Relations Commission applies an increase to the award and minimum wages. In annual terms, wages are growing at 4.6%, the fastest rate since 2012. Given the tight labour market in WA and nationally, wages growth is expected to remain strong in the near term, with a forecast rise of 4.25% over 2023-24 and growth above medium term trends for 2024-25 and 2025-26. See the Labour Market and Wages section of this Economic Briefing for further analysis.

This increase in wages flows through to other sectors of the economy, most notably the services sector. Whilst goods inflation peaked in September last year, the cost of services continued to rise through 2023 due to the strong correlation with domestic labour costs. This has seen the growth in Materials and Contracts revised upwards to 5.1% in 2023-24 before easing in the following years. Local Governments may see this reflected in increased quotes for consultancies and professional services (see inflation and interest rates section).

The increase in construction costs continues to ease after the rapid rises of recent years, however the cost of construction is expected to settle at this higher level with continuing high levels of public and private investment infrastructure keeping demand high. In 2023-24, increases in construction costs are expected to be modest across the key sectors of Local Government spending: Non-residential (+1.6%); Non-road Infrastructure (+2.2%); and Road and Bridge Construction (+2.4%). However, there are considerable risks to this forecast including a tight labour market for construction and professional workers, fluctuations in the cost of fuel and bottlenecks in the supply of materials. See the construction costs section for more commentary.

Sustained inflation poses a considerable risk to Local Government bottom lines, as it permeates most areas of the budget through wages and the cost of goods, contracts and materials. The Commonwealth and State Treasuries will provide a mid-year update of their forecasts in late December and these will inform the next LGCI release and Economic Briefing in March.

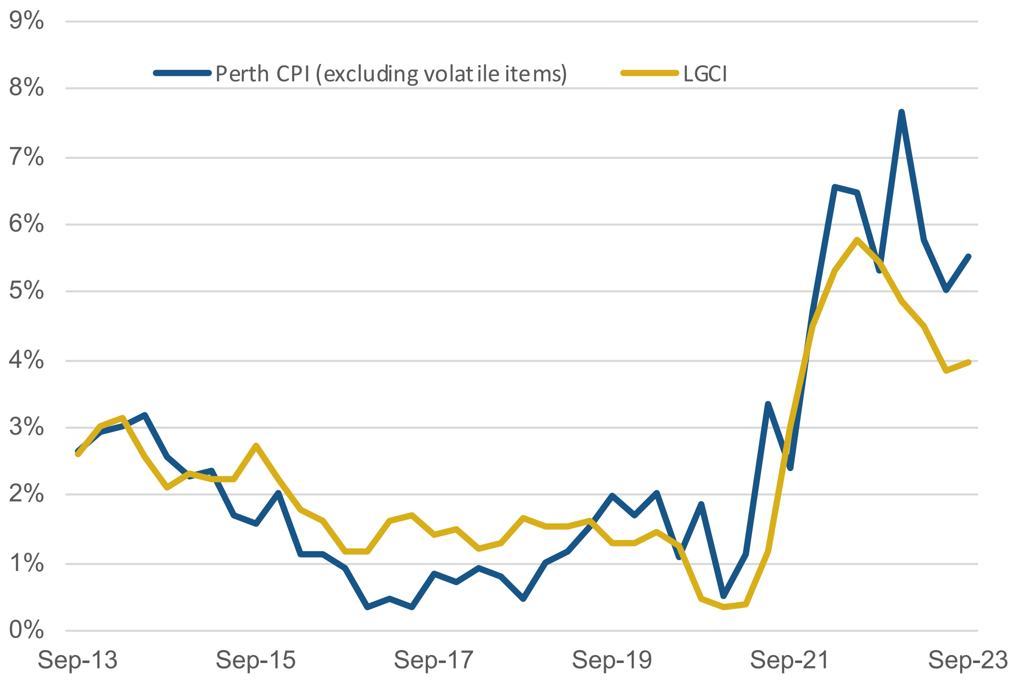
Local Governments are encouraged to prepare for multiple scenarios through their budgeting process and be ready to respond to changing economic conditions. The LGCI uses statewide data and regional variances will impact each Local Government. Liaising with suppliers to understand the local economic conditions 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)
Employee costs	35%	4.2	4.3	4.0	3.5
Materials and contracts	28%	4.3	5.1	2.8	1.6
Furniture	1%	5.8	1.4	1.3	1.3
Non-residential building	5%	1.0	1.6	1.4	2.1
Machinery and Equipment	5%	11.5	3.8	2.4	2.3
Non-road infrastructure	9%	3.6	2.2	1.8	2.3
Road and bridge construction	10%	3.8	2.4	1.8	2.4
Utilities	3%	2.5	2.5	2.5	2.5
Insurance	1%	12.4	11.6	3.6	3.2
Other	3%	6.2	4.0	3.3	3.0
LGCI	**100%**	**4.4**	**3.9**	**2.6**	**2.5**

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

SOURCE: ABS; WALGA



DOMESTIC ECONOMY

KEY POINTS

- **Despite the economic headwinds, the WA economy grew 3.5% in 2022-23.**
- **With the exception of retail trade, all industries in WA grew in 2022-23 led by the mining sector. The slowdown in the retail trade reflected the impact of the rising cost of living on household expenditure.**
- **Public and private investment are growing strongly with capital expenditure at levels not seen since the mining boom.**
- **Global economic uncertainty, geopolitical conflicts and the ongoing impact of inflation and the cost of living are significant risks to the economic outlook.**
- **Looking forward, economic growth is expected to continue, but at a slower pace.**

Despite the economic headwinds, the WA economy continued its strong growth, up 3.5% in 2022-23, above the Australian growth rate of 3.0%. This growth was driven by the ongoing post-pandemic recovery, demand for commodity exports and strong population growth. The increase in population was a large driver of economic growth. In per capita terms both the WA and Australian economies grew just 1.0%.

Mining was the largest contributor to economic growth in 2022-23 (+3.3%), again led by an increased production of iron ore, as well as other minerals such as lithium, where investment in new mines is responding to strong global demand. Agriculture, forestry and fishing industries grew 7.3% in 2022-23, with a record level of rural goods exported. This has driven strong growth in downstream activities like Wholesale Trade (+12.7%). Nineteen of the twenty industries in WA experienced growth in 2022-23, with the exception of Retail Trade (-0.8%), which was impacted by the fall in discretionary household spending as consumers responded to the rising cost of living and the fall in real incomes.

More recently, the September National Accounts show a slowing of economic growth. In the September quarter, the Australian economy, measured by Gross Domestic Product (GDP), grew just 0.2%, with the rate of growth slowing for three consecutive quarters. In annual terms, GDP grew 2.1% but fell 0.3% per capita, demonstrating the reliance that the economy has on population growth to drive economic growth (See Population and Housing section).

Despite the headwinds, Western Australia's domestic economy remains the strongest in Australia, with State Final Demand (which excludes imports and exports), increasing 2.4% in the September quarter, almost five times the Australian average of 0.5%. Business investment for WA is a key driver of future economic and jobs growth, and is an indicator of the longer term confidence in the State's economy. It increased 8.8% in the September quarter and 16.8% for the year. Growth in public investment is also very strong, increasing 2.9% for the quarter and 15.9% for the year off the back of investment in METRONET, road projects, and major health projects. Capital Expenditure in WA has increased more than 30% in the year to September. Encouragingly it is not just in the mining sector, with non-mining capital expenditure up 37% in the same time period (see chart).

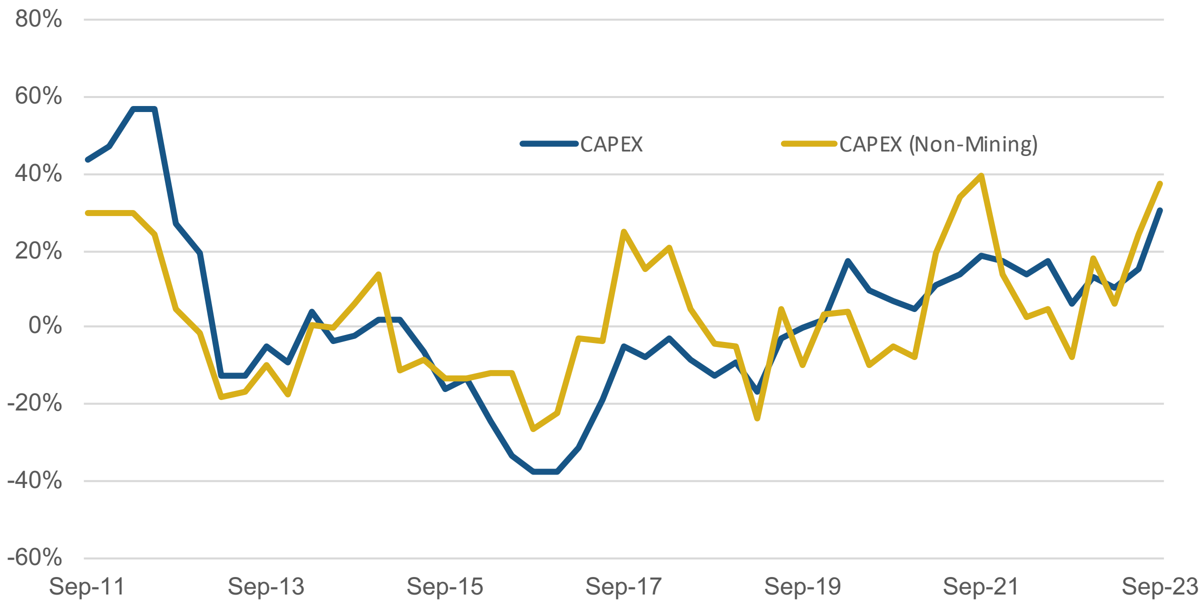
Whilst the amount of private and public investment is positive, high levels of investment increase competition for a labour and materials, which increases the risk of blowouts to budgets and timelines. When the market is overheating, Governments may seek to delay projects and/or reduce investment levels to ensure that private investment is not crowded out, such as seen recently with the Federal Government's infrastructure review.

Government expenditure increased 3.2% in the September quarter, led by the household electricity credit. Due to the design of the program, it is expected that this will continue to be elevated in the December quarter as the second tranche is rolled out to households. Household Consumption is the only sector of the State's domestic economy that is going backwards, falling 0.3% in the September quarter. This is reflected by Retail Trade data, with volumes turning negative in WA for the first time since before the pandemic (-0.4%). However, once again WA is performing better than the rest of the country with retail volumes across Australia falling 1.7% in the year to September. The impact of the rising cost of living and the increases in the interest rates continues to grow (see Inflation and Interest Rates section).

Considerable risks to the domestic economy remain. Globally, uncertainty around the Chinese economy remains elevated, although to date their demand for Australian commodities has remained strong. An escalation of conflict in the Middle East and the ongoing conflict in Ukraine add to uncertainty in the global economy. Domestically, the challenge is to navigate a path to lower inflation without destroying gains made in the labour market and the broader economy.

There is also a challenge in supporting those most in need in the economy which includes people experiencing homelessness, renters, and low and middle income earners with a mortgage who have been most impacted by the cost of living pressures and interest rate rises. At the same time, there are many that have benefited from the interest rate rises such as positively-geared property investors, home owners without a mortgage, self-funded retirees and those with large savings who benefit from the interest rate rises.

Private Capital Expenditure, WA CAPEX vs CAPEX (Non-Mining), % Annual Growth



SOURCE: ABS; WALGA

WA Treasury Economic Forecasts

Economic Forecasts	2020-21 %	2021-22 %	2022-23 %	2023-24 %	2024-25 %	2026-27 %
Gross State Product	3.1	4.25	2.25	1.75	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
Good Exports	-3.1	6.0	2.0	1.75	1.5	0.75
Good 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

INFLATION AND INTEREST RATES

KEY POINTS

- **After four consecutive months of holding, the RBA increased the cash rate by 25 basis points in November, before holding again in December**
- **The RBA considered that inflation was not falling as fast as they would like.**
- **The headline inflation rate fell to 5.4%, the lowest rate since March 2022, but still well above the target band of 2% to 3%.**
- **The rate of decline in inflation will drive the RBA's next interest rate decision in February.**

After a short hiatus, interest rates became the country's major economic focus once again when the Reserve Bank of Australia (RBA) increased the cash rate target by 25 basis points in November, the first rise since June. The driver of this decision was that inflation was not falling as fast as the RBA had forecast, placing its forecast timeline back to the 2 to 3 per cent target band in jeopardy. In particular, the economy was stronger than expected and the labour market remained tight (see Labour Market and Wages section).

The RBA kept rates on hold in December as it saw inflation moderating in line with expectations. January Consumer Price Index (CPI) data will inform RBA Board's rate deliberations at its February meeting. This longer break will assist the RBA to evaluate the impact of the rate rises to date on the economy, the labour market and most importantly, inflation. In November, the RBA forecast inflation to fall within the target band by the end of 2025. It has been very clear about its unwillingness to let this timeline slip further, given the damaging impact of entrenched high inflation.

In Australia, CPI increased by 1.2% in the September quarter to reach 5.4% in annual terms, down from 6.0% in June. Importantly, the RBA's preferred measure of inflation, the Trimmed Mean, also fell, down to 5.2%. This shows that the slowdown in inflation is having an impact across the whole of the economy. Quarterly inflation was driven by increases in automotive fuel (+7.2%), rents (+2.2%), new dwellings (+1.3%), and electricity (+4.2%).

In Perth, which stands as a proxy for WA, the main drivers of inflation were the same as nationally, with the exception of electricity which fell a massive 44.6% due the impact of the Government's electricity credit for households. As a result, Perth CPI increased just 0.4% in the September quarter, the lowest of all of the capital cities. Whilst positive, this low figure should be taken with a grain of salt as the impact of the electricity credits will be reversed in future quarters once they are fully distributed. In annual terms, Perth CPI is 5.8%. To counter the distortion of the electricity credits, the ABS produces a CPI figure that excludes Food and Energy. This index showed Perth CPI falling from 5.1% to 4.5%.

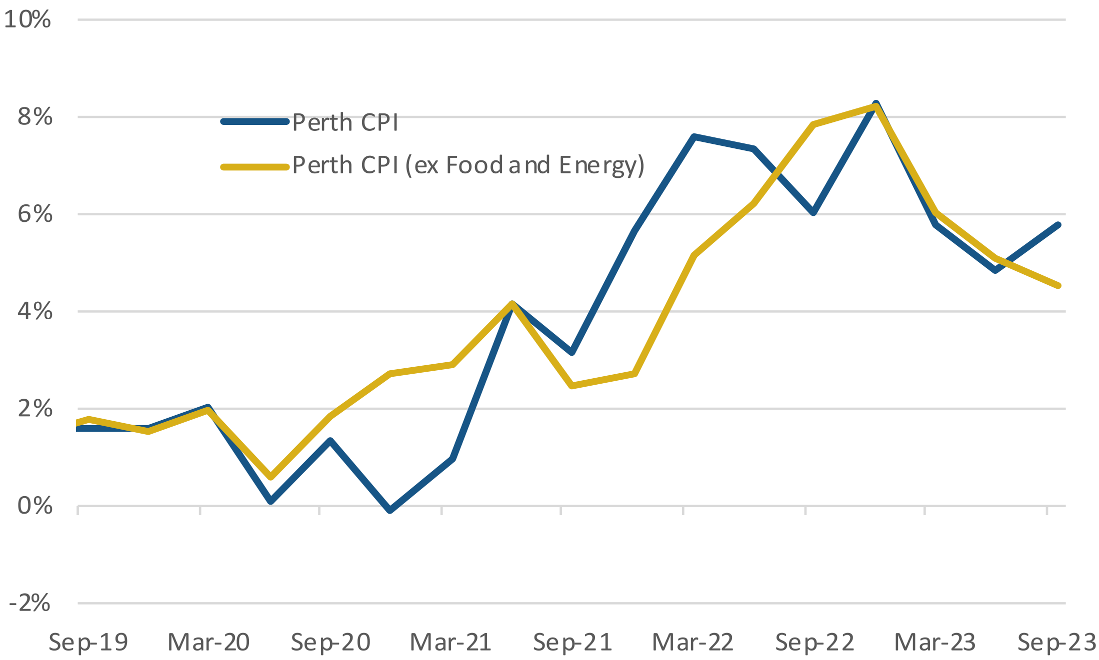
The RBA remains particularly concerned about the stickiness of services inflation in Australia. September saw the first decline in services inflation on an annual basis since this period of high inflation began, down to 5.8% from 6.3% in June. Services are more reliant on labour than goods, so this reflects the recent increases in wages along with the ongoing high levels of demand across service industries. This contrasts with the goods sector where the annual inflation rate peaked at 9.6% in September 2022 and has been steadily falling since then. Continued high services inflation is not consistent with the RBA's path back to the inflation target band and the services sector is one to watch ahead of the next interest rate decision in February.

The September quarter saw prices for discretionary goods and services such as takeaway meals, alcohol and tobacco increase 0.8% (5.0% for the year) and non-discretionary goods and services such as fuel, utilities and rent rise 1.4% (5.5% for the year). This data indicates that households are tightening their belts as they direct their spending away from non-essential purchases. The real test will be in the December quarter where we see the impact of Christmas, and increasingly the Black Friday sales, on non-discretionary spending. Last year, this jumped by a massive 2.6% in the December quarter, so if households are more restrained with their festive spending there may be a significant lowering of the inflation rate for non-discretionary spending.

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 impact ratepayers' behaviour (such as use of services and payment timeframes) that are important considerations in the budget and rate setting process.

As WA's economy continues to outperform the nation (see Domestic Economy section), there is a risk that inflation in WA will stay higher for longer. This remains a concern for Local Governments and may see an upwards shift to the forecasts in the LGCI. The next round of WA Treasury forecasts, due before the New Year, will inform the March Economic Briefing and LGCI update.

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



SOURCE: ABS; WALGA

LABOUR MARKET AND WAGES

KEY POINTS:

- **WA wages are growing at the fastest rate since 2012 due to the tight labour market and growing economy.**
- **Wages make up a third of the Local Government cost base and will continue to pressure budgets in the sector.**
- **The labour market remains tight with the unemployment rate sitting at 3.8%. It has now been two years since it was above 4%.**

As highlighted earlier in the Economic Briefing, wages growth continues to accelerate. Wages increased at a similar rate to inflation in the September quarter. Consequently employees are no longer seeing their salaries falling in real terms. Wage rises will increase pressure on Local Government budgets, given that on average one third of the sector's cost base comprises employee costs.

The WA Wage Price Index (WPI) surged 1.9% in the September quarter, well above the national increase of 1.3%. In annual terms, the WA WPI increased 4.6%, the highest rate since 2012 and above the national average of 4.1%. WA and Australia saw the highest quarterly rise in the WPI in the 26 years that the series has been tracked by the Australian Bureau of Statistics. The September quarter typically shows the highest rate of growth in wages as pay rises flow through from end of financial year wage reviews and the impact of the State Minimum Wage and award decisions are seen. It is expected that wages growth will continue to be strong in the near term.

The WA Industrial Relations Commission's decision to increase the State Minimum Wage and award rates by 5.3%, which came into effect from the start of July is estimated to impact more than 300,000 employees across the State. The Commission justified the size of the increase on the cost of living pressures arising from the high levels of inflation and increased interest rates, along with the tight labour market. Their focus was on striking a balance between social and industrial factors and the current economic climate. This decision has broader impacts, as it is used as a justification for wage increases across the economy.

Wages are now growing in both the private and public sectors. While the private sector was quicker to respond to the tight labour market, increasing 3.9% in 2022 compared to just 1.1% for the public sector, the public sector has now met the market, with the Public WPI increasing 4.8% in the year to September 2023, above the Private WPI of 4.6%. This statewide competition for workers is not expected to slow until we see an increase in the unemployment rate or a slowdown in economic growth.

In its November Statement of Monetary Policy, the RBA forecast that wages growth is close to the peak and can be expected to ease as the labour market loosens in the coming years. An easing of the labour market has been forecast for some time but with the economy continuing to grow, this is yet to eventuate. The unemployment rate in WA has been at, or below, 4.0% for more than two years. Whilst the population has been booming (see Population section), jobs growth has kept pace with the number of employed persons in WA, increasing by 60,000 in the year to September 2023. The participation rate remains close to its record high at 69.1% reflecting the tightness of the labour market.

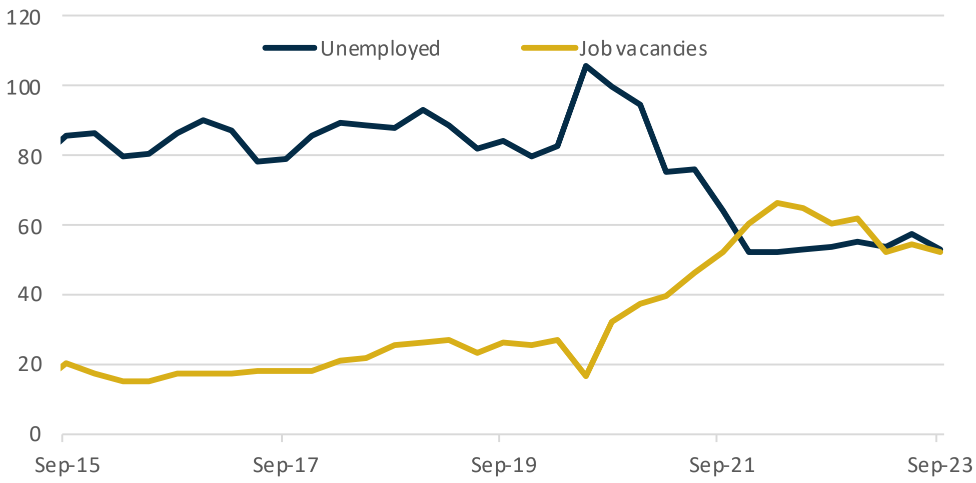
This tightness has not dampened the demand for workers across the State. As of September 2023, there are 52,500 jobs available in WA. Although this is down from the peak of 66,500 in March 2022, it remains well above the pre-pandemic level of 20,000 – 30,000 job vacancies in WA at a point in time. Despite the difficulty of hiring in a tight labour market, WA organisations continue to seek to grow their staff numbers. Local Governments will continue to experience challenges in attracting and retaining employees as long as the economy remains buoyant and unemployment low.

Feedback from WALGA's Employee Relations Team suggests there continues to be significant pressure on the sector for wages to rise in 2023, with Unions reportedly seeking pay increases in the order of 7% to 8% as part of industrial agreement negotiations. Newly registered industrial agreements contain pay rises of between 4% to 5% and wages are being linked to CPI or WPI (with the inclusion of a maximum cap).

The WA Treasury will update its forecasts in the upcoming Mid-Year Financial Projections Statement and these forecasts will feed into the March Economic Briefing and LGCI update.

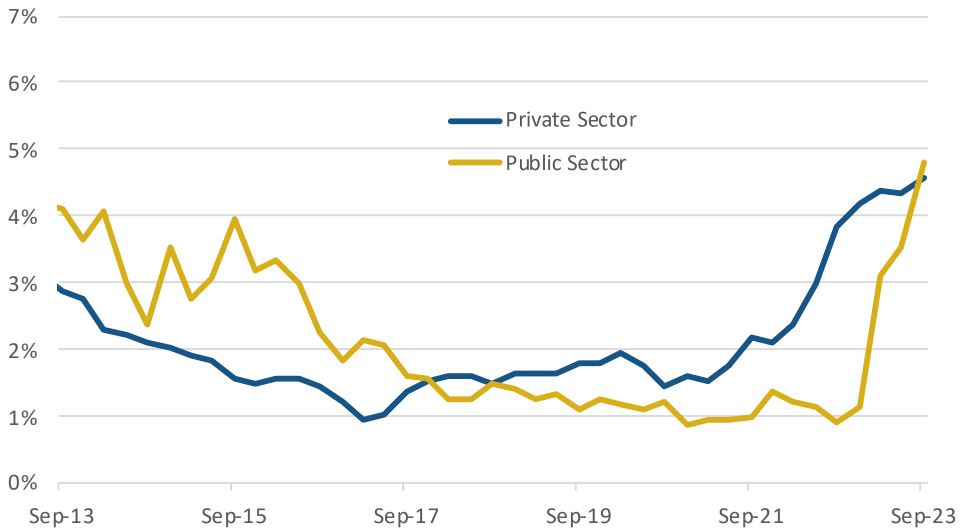
Job Vacancies vs Unemployed Persons, WA, '000s

SOURCE: ABS; WALGA



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

SOURCE: ABS; WALGA



CONSTRUCTION COSTS

KEY POINTS

- **Construction costs are growing but at a slower rate.**
- **The wages of construction workers are growing quickly as the labour market struggles to meet the demand from high levels of investment.**
- **The fluctuations in petroleum prices will continue to influence construction costs, particularly roads and bridges.**

Growth in construction costs continues to slow with prices beginning to settle, albeit at a higher level. Whilst the cost of construction is far higher than experienced before the pandemic, the easing of supply chain issues has reduced price volatility, which is welcome news for Local Governments formulating their budgets for the next four years.

As with other industries, a major driver of price increases in recent times has been the cost of labour (see Labour Market and Wages section). Construction wages have been growing faster than the WA Wage Price Index and this is expected to continue in the near term. In 2022-23 construction wages increased by 5.0% and are forecast to continue to climb by a further 3.8% in 2023-24. As wages comprise 25-30% of construction costs in WA, wage inflation is expected to be a key driver in the increase of the cost of construction in the coming years.

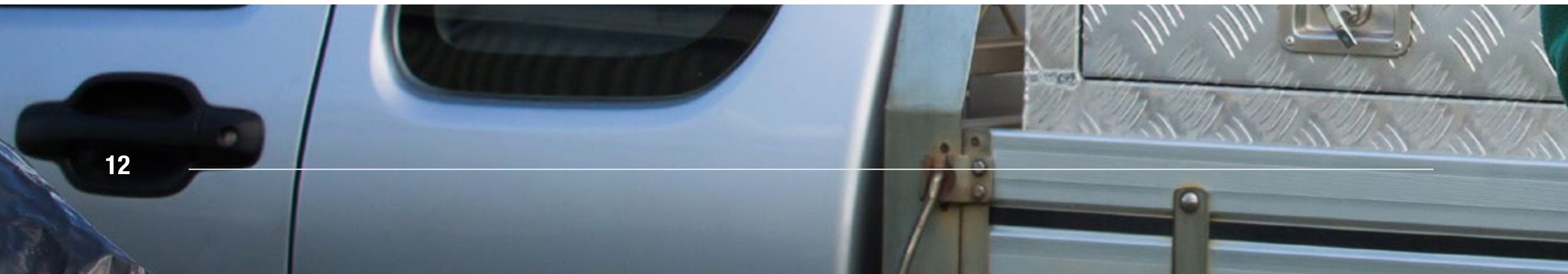
The cost of constructing roads and bridges in WA decreased slightly for the second quarter in a row, down 0.5%. Over the past year, costs have increased by 1.6% to September 2023. Since September 2019, the cost of constructing roads and bridges has increased by 20% in WA.

The cost of materials required to construct roads and bridges, which comprises almost half of the index, increased by 7.7% in the year to September 2023, down from a peak of 27.2% in the year to March 2022. Whilst the cost of some materials are still increasing such as Quarry Products (+20%), Readymixed Concrete (+8%) and Asphalt (+4%), some materials are seeing a reversal of recent prices rises such as Bitumen (-9%) and Steel Products (-3%). Looking forward, materials cost growth is expected to ease in aggregate as conditions continue to normalise.

The quarterly growth in the cost of both Non-Residential Building (+0.8%) and Non-Road Infrastructure (+0.2%) also continues to ease although it's important to note that both categories have escalated around 20% in just four years. Total cost of Non-Residential materials have increased by 5.4% in the year to September, down from the peak of 16.9% in June 2022. "There continues to be a divergence in costs across the different components with fast annual growth ongoing for Bricks and Tiles (+23.6%), Sand and Aggregate (+19.8%), and Cement (+11.9%). Looking forward, Macromonitor forecasts these growth rates to ease.

Roads and bridge construction is particularly sensitive to petroleum prices, both as a key material input to construction, and also to fuel trucks and machinery. Fuel prices have fluctuated dramatically in recent years, dropping initially during the pandemic and then increasing rapidly as production was ramped up and stimulus programs drove increased investment. Fuel prices are also sensitive to global economic conditions, including the recent impacts of war and the geopolitical manoeuvring of OPEC+, the Organization of Petroleum Exporting Countries which control around 30% of global oil production. Future fluctuations in the price of oil are an ongoing risk to the forecasts of construction costs across all sectors.

Demand in the construction sector in WA is expected to remain strong, with the Deloitte Access Economics Investment Monitor reporting that $46 billion of projects are under construction in WA, with total engineering work done increasing by 20% in 2022-23. This high 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 is particularly significant for 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.

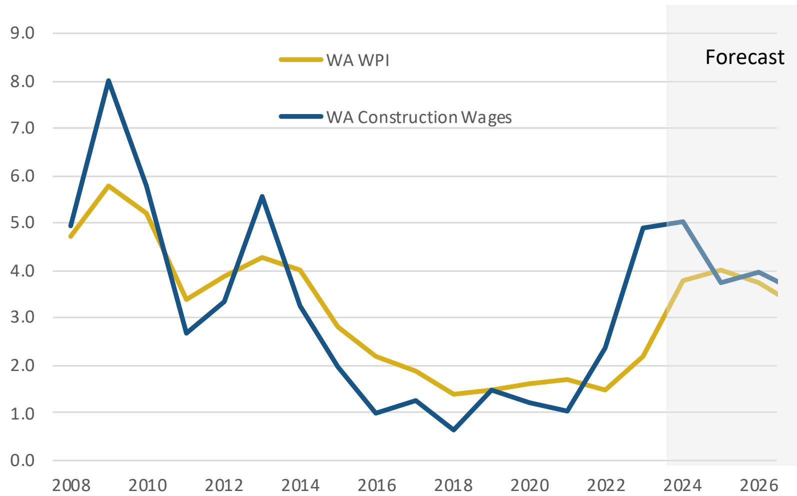


WALGA's Procurement and Commercial teams report anecdotal evidence that many Local Governments are struggling to receive sufficient tender responses to deliver a competitive process, or worse, may not receive any responses at all. While this may be linked to an inadequate tender submission period, it does suggest that suppliers may already be overcommitted to respond to new tender opportunities.

A further issue is that Local Governments may have an indicative pricing in mind for a particular procurement activity but the market response is sometimes significantly higher than expected, especially in the regions. This may simply be a reflection of current market conditions. Local Governments should use every opportunity to first assess the market, its capacity and the rising costs of materials and labour, before making a decision to approach the market. It may be more cost effective to defer a non-urgent requirement until the economy stabilises.

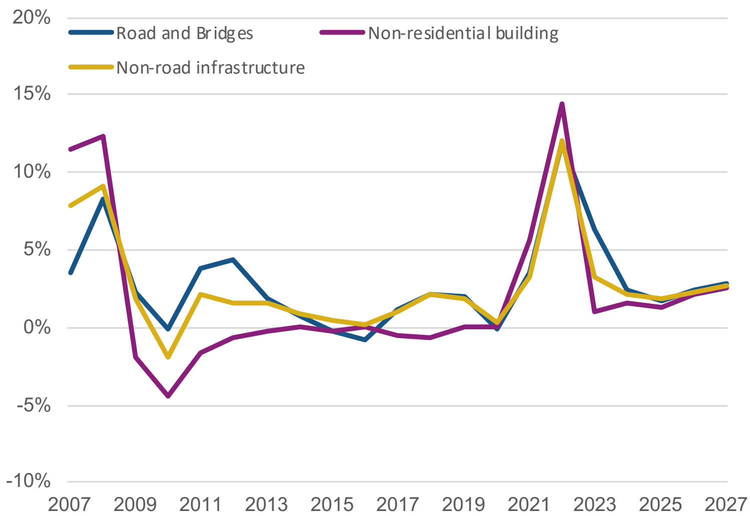
Construction wages growth vs Wage Price Index, WA, Annual % Change

SOURCE: ABS; Macromonitor; WALGA



Construction Cost Indexes, WA, Annual % Change

SOURCE: ABS; Macromonitor; WALGA



POPULATION AND HOUSING

KEY POINTS

- **Net overseas migration has grown faster than forecast, driving up the population and placing pressure on the housing market.**
- **WA is also a net beneficiary of interstate migration, making it the fastest growing state in the country.**
- **As a result, the rental vacancy rates are low in the regions and metropolitan area, and housing rents and prices are surging.**
- **Population growth places pressure on all levels of Government to provide the infrastructure and services to support the community**

The population of Australia, and particularly WA, continues to rise far quicker than forecast by Treasury officials off the back of strong net overseas migration, contributing to a housing crunch. In Australia, the population increased 2.2% in the year to March 2023. WA was the fastest growing state, increasing by 2.8%, which equates to 78,300 new people arriving in the previous 12 months. This is above the State's long term average of 1.7% annual growth.

The Australian population increased by 181,600 people (0.7%) in the March quarter and 563,200 over the year. Of this growth figure, 454,400 was attributable to net overseas migration. 11.6% of this net overseas migration happened in WA (52,664 people) which was slightly above WA's population share of Australia of 10.8%. At the time of writing these were the latest available figures but expectations are that this high rate of growth continued throughout 2023. In December, the Federal Government released its Migration Strategy which aims to streamline the migration process and ensure that the system supports workers and businesses to meet skill shortages and support the economy.

Whilst net overseas migration was the major driver of population growth, WA is also one of just two states, along with Queensland, that has recorded positive net interstate migration. In the year to March, 11,000 more people moved to WA from other States than departed. This marked the thirteenth consecutive quarter that WA recorded positive net interstate migration. A move interstate to WA is closely linked to the performance of the State's economy. Over the preceding six years, WA lost people to other states as the boom ended and unemployment climbed. Before that, WA was again a net importer of people as jobs were plentiful and many made the shift west.

The RBA forecasts that Australia's population growth will peak at 2.5% in annual terms and return to its pre-pandemic average of around 1.5% in the coming months. This rapid increase in population has led to a rise in the working-age population which has helped to alleviate some labour shortages and contain some wage pressures. Whilst this has been advantageous for the labour market, it has impacted other markets where there is limited spare capacity, most notably the housing market where rental vacancy rates are at record lows.

The Real Estate Institute of WA report a rental vacancy rate in Perth of 0.7% in October, well below the 2.5% to 3.5% that they consider to represent a balanced market, where there are sufficient properties available to rent for people moving in and out of the rental market, but not so many that there are long term vacancies. This is echoed in the regions where data from Corelogic shows vacancy rates below 1% in Bunbury, Busselton, Geraldton and Albany.

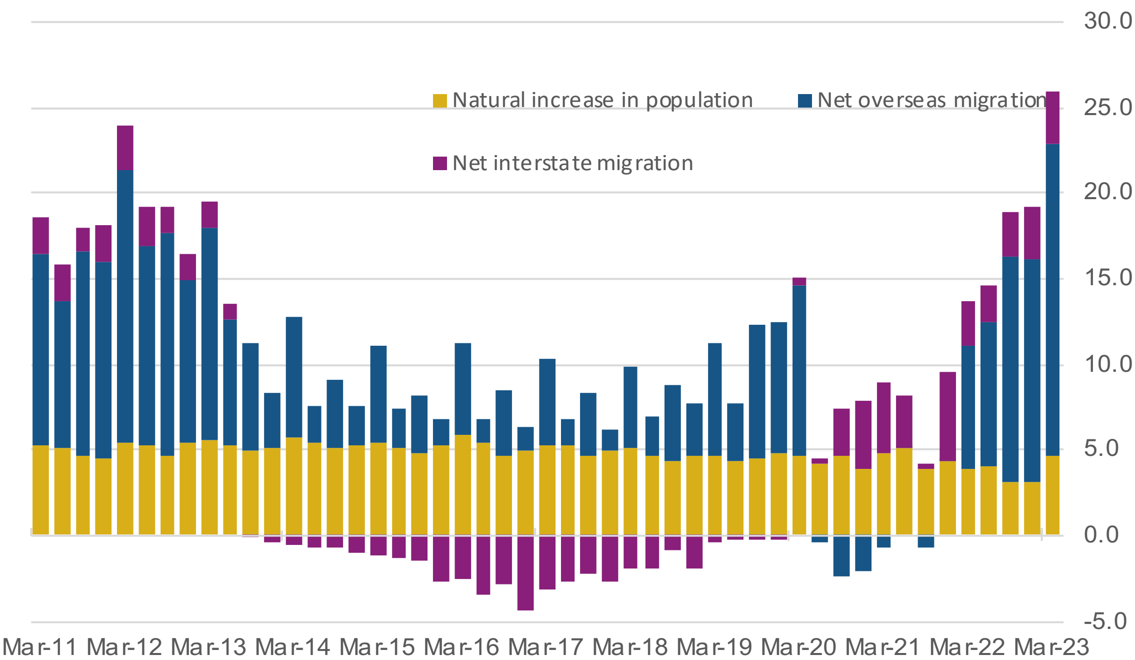
This has led to ballooning rents across the country with rents in regional capitals of WA increasing by 55% over the last five years in Bunbury and Busselton, 53% in Kalgoorlie-Boulder and 45% in Geraldton. There hasn't yet been a slowdown in the rental market, with rents over the least year increasing around 10% (see table). Corelogic reports that outside of the ten largest cities in WA, the vacancy rate is 1.3% and rents increased 7.7% in the last twelve months. This is an issue that cuts across all markets in all states with implications on the attraction and retention of workers and rising homelessness which will increase demands for Government services and require further funding and a policy response.

Regional house prices too have seen a rapid rise over the last five years, up by close to half in Busselton (+50%), Bunbury (+47%) and Geraldton (+45%), and with significant increases in Albany (+34%) and Kalgoorlie-Boulder (+23%). Annual figures suggest that housing prices are easing in some markets with the regional housing market growing 3.4% in the last twelve months, well below the national average of 7.0% and ongoing elevated market growth of 8.2% in the combined capital cities.

Indeed, the Perth housing market grew the fastest of the capital cities at 13.5% in the year to November according to Corelogic. And this is accelerating, with a 5.4% jump in the last quarter alone. Whilst this rapid increase is disconcerting for those seeking to enter the housing market, Perth's house prices remain attractive to the interstate market with a median value of $646,000 well below the national capital city average of $827,000 and ahead only of Darwin. This is a comparative advantage for Perth in attracting interstate migration to Perth and WA to fill the elevated level of job vacancies (see Labour Market and Wages). However, in the longer term it is expected that, along with the relative attractiveness to property investors, this demand will drive up housing prices. Perth, like other major capitals, is currently struggling to supply the number of dwellings to keep up with demand.

In May, the WA Treasury forecast population growth of 1.8% in 2023-24. It is very likely that this will be significantly increased in the Mid-Year Review which will inform spending decisions in the May budget to inform how the State will manage the increased demand on infrastructure and services from a growing population.

Components of Population Change, WA, '000s



SOURCE: ABS; WALGA

Change in Regional City House Values and Rents, November 2023

	Values		Rents	
Regional Cities	**Annual**	**5 year**	**Annual**	**5 year**
Albany	6%	34%	7%	25%
Bunbury	9%	47%	11%	55%
Busselton	7%	50%	10%	55%
Geraldton	-1%	45%	9%	45%
Kalgoorlie-Boulder	4%	23%	11%	53%

SOURCE: Corelogic

QUESTIONS

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

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