Economic Briefing September 2024

WALGA

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Overview

The Australian economy is struggling, growing just 1.5% in the year to June 2024, primarily off the back of increased government spending. Households are grappling with cost of living pressures and living standards that are the same level as four years ago. The Reserve Bank of Australia held interest rates steady in September, with inflation still above target, although signs of improvement exist.

Encouragingly the labour market remains strong, absorbing the population increase. This is particularly the case in WA, where the State's economy is outperforming the nation off the back of strong business and government investment. However, risks from a slowing Chinese economy and ongoing inflation persist.

The **Australian economy** is growing at the slowest rate since 1991-92 (excluding the pandemic). Nationally, it is Government consumption that is driving economic growth. Households are struggling, with retail sales volumes going backwards and living standards at the same level as four years ago.

WA's economy is brighter, outperforming the nation on most measures. Business investment is a key driver of economic growth, along with Government expenditure and investment. The slowdown in the Chinese economy and ongoing inflation are risks to future economic growth.

The RBA kept interest rates on hold in September as **inflation** remains well above the target band. There are some signs that inflation is moving in the right direction, but housing costs and insurances are contributing to high prices. In WA, Perth CPI is tracking above the national figure.

There is a record number of people employed in WA as the **labour market** grows along with population growth. The unemployment rate remains low, which, along with a high participation rate, is indicative of a tight labour market. As a result, wages continue to climb, although the rate of growth has fallen since the peak in the December quarter.

Local Government costs increased 3.5% over the last 12 months. Employee costs continue to be a key driver of these increases. Construction costs have eased since the post-pandemic surge, however capacity constraints in materials and labour continue to impact costs.

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.

Australian Economic Update

- **The Australian economy grew just 1.5% over the last 12 months**
- **Nationally, it is Government consumption that is driving economic growth**
- **Households are struggling, with retail sales volumes going backwards and living standards at the same level as four years ago**

The Australian economy is sluggish growing just 0.2% in the June quarter and 1.5% for the year. This is the lowest level of economic growth (excluding the pandemic) since 1991-92. Gross Domestic Product (GDP) per capita, fell for the sixth quarter in a row, down 0.4%. Over the last 12 months, GDP per capita fell 1.5%.

Reflecting the weakness in the national economy, it was the public sector that drove economic growth over the year with public final demand up 3.7% in 2023-24, led by government spending which rose 4.7%. Total government spending has reached a record 27.3% of GDP, driven by social assistance to households, national health expenditure, and wages and salaries for employees of all tiers of government. Across the country, governments have sought to balance the need to provide services and cost of living relief without adding to inflationary pressures.

The private sector grew just 0.7% in 2023-24 with household expenditure up 0.5% and private investment up 1.0%. Looking forward, the Federal Budget forecasts the private sector to improve, rising 1.75% in 2024-25 with household consumption increasing 2.0%.

Total retail turnover in Australia grew 2.9% over 2023-24 with sales in the June quarter boosted by discretionary spending on clothing, electrical goods and furniture in the end of financial year sales. However, to gauge consumer sentiment, it is more indicative to look at retail volumes which measures the amount of goods purchased rather than the value of goods purchased. This removes the impact of inflation on retail sales figures. Retail trade volumes fell 0.6% in Australia over 2023-24. National retail volumes have been negative in annual terms for five consecutive quarters, reaching a low of -1.7% in September 2023.

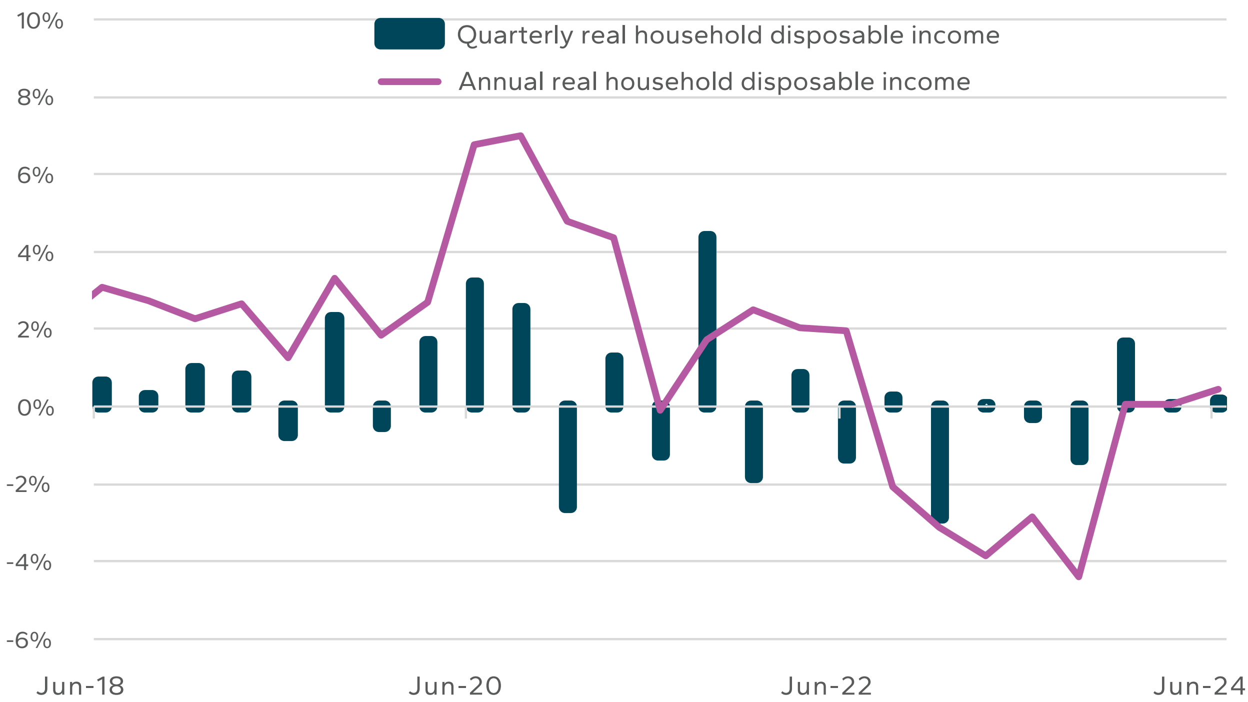
More indicative again is to look at national per capita retail volumes to account for the impact of population growth driving up total retail volumes. These have fallen for eight consecutive quarters and are down 6.7% since the June 2022 peak. In 2023-24 the total volume of goods purchased per capita fell 3.0%. This is a clearer representation of low consumer sentiment and the impact that the subdued economic climate and cost of living challenges has had on households. It is important to note that retail trade volumes per capita are still 2.0% above the equivalent quarter in 2019, before the pandemic supercharged retail sales in 2020-21 and 2021-22.

This is echoed in the real household disposable income data that shows an increase of just 0.4% over the last 12 months. Living standards across the nation haven't risen in four years, although there has been a small rise since the low of September 2023.

Globally, economic growth continues to be subdued. In China, persistent weaknesses in the property sector are impacting consumption and economic activity, and placing downward pressures on commodity prices. The iron ore price The iron ore price recently fell to a low of $US90 a tonne, down from $US135 in January off the back of weak Chinese demand.

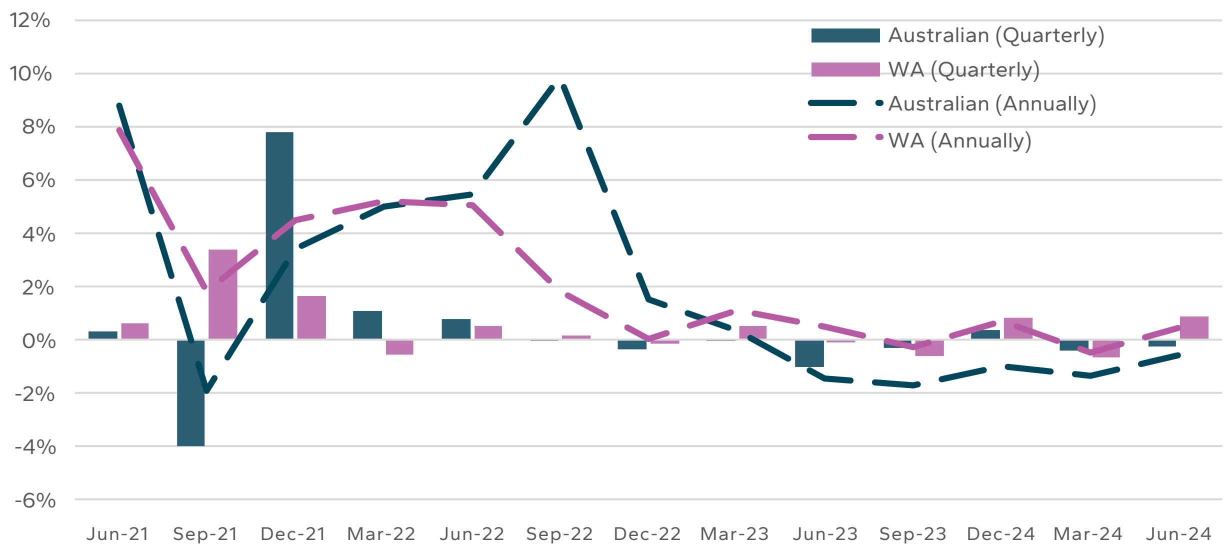
Real Household Disposable Income, Australia, Annual v Quarterly % Change

SOURCE: ABS; WALGA



Change in Retail Volumes, Australia v Western Australia, Annual v Quarterly % Change

SOURCE: ABS; WALGA



WA Economic Update

Key points

- **WA's economy is brighter, outperforming the nation on most measures**
- **Business investment is a key driver of economic growth, along with Government expenditure and investment**
- **The slowdown in the Chinese economy and ongoing inflation are risks to future economic growth**

The Western Australian economy continues to outperform the national economy in almost every measure. Whilst there are similarities between the economies, most notably a slowdown in household consumption, the strong performance of the resources sector supports the rest of the WA economy through the supply chains, boosting job creation and sustaining household incomes.

In the year to June 2024, the WA domestic economy, as measured by State Final Demand, grew 3.9%, well above Australia's domestic economic growth rate of 1.5%. Encouragingly this has been driven by private business investment which has grown more than 50% since it bottomed out in March 2019. When business investment is strong, it flows through the economy, supporting employment and underpinning household consumption. In 2023-24, business investment in WA grew 6.6%, contrasting with the national performance of 1.6%.

The Chamber of Commerce and Industry of WA report that business confidence in WA remains steady, with concerns about rising costs falling to its lowest level since March 2022. Whilst 62% of businesses struggle to fill job vacancies, this too is falling and is at its lowest level since June 2021.

As noted in the Australian Economy section, it is Government expenditure that is driving economic growth at the national level (+4.7%). In WA, Government expenditure continues to grow but at a slower pace, up 3.3% in the year to June.

Public investment in WA (+4.1%) is also a major source of economic growth as the State Government invests in health, housing, METRONET, and other infrastructure projects.

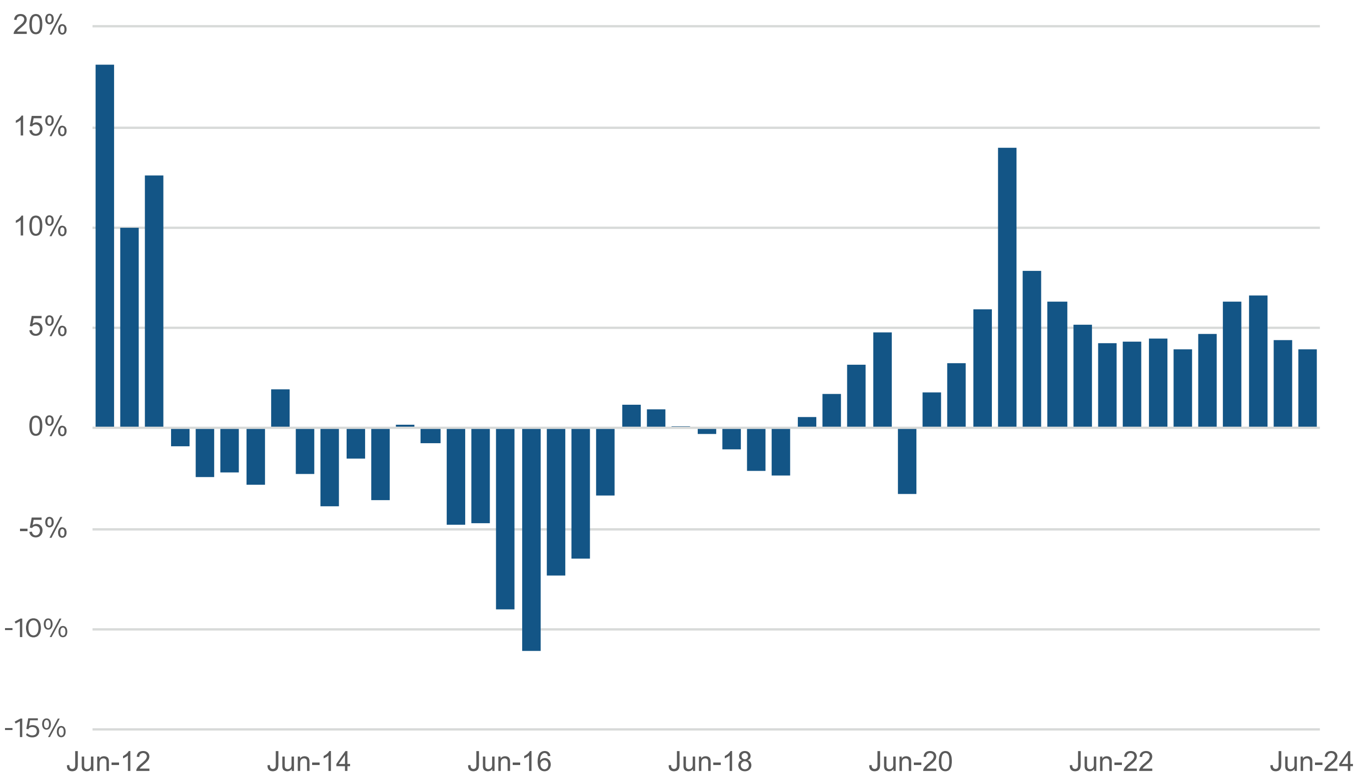
As expected, Household Consumption is the weakest component of the WA economy, increasing 1.6% in the last 12 months as cost of living pressures and interest rates take hold. The WA Treasury expects Household Consumption to grow 2.25% in 2024-25 and gradually accelerate to 3.0% by 2026-27 as inflation eases and real wages grow.

Despite the slowdown in household consumption, retail trade in WA continues to outpace the rest of the country, up 4.6% in 2023-24, well above the national figure of 2.9%. However, when adjusting by price increases and considering retail volumes only, the growth in the State's retail trade falls to just 0.5%. Nationwide, retail volumes fell 0.6%.

Whilst the WA economy is currently outperforming the rest of the country, there are longer term risks to the economy that are being monitored. Globally, weaker than anticipated growth in the Chinese economy is a substantial risk. The RBA has revised downwards its near-term outlook for China in their latest Statement on Monetary Policy in August as the Chinese economy was at risk of missing their 5% annual economic growth target. Since then, China's central bank has released a package to stimulate the economy and support the property market through lowering borrowing costs and easing bank lending criteria. It is expected that fiscal stimulus from the Chinese Government will be required to work with monetary policy for economic growth to reach their target.

Locally, the RBA also identifies stubborn inflation as a risk to the economy if it takes longer to fall than anticipated. This risk is heightened in WA where the State's economy is outperforming the national economy and inflation is higher. With housing rents and the cost of new dwellings driving inflation, particularly in WA, ongoing inflationary pressure will only intensify the impact on the housing market, as well as household consumption more broadly.

State Final Demand, WA, Annual % Change SOURCE: ABS; WALGA



WA Treasury Economic Forecasts

State Budget 2024/25	2022/23 % actual	2023/24 % estimated actual	2024/25 % forecast	2025/26 % forecast	2026/27 % forecast
Gross State Product	3.5	1.75	2.0	2.0	2.25
Household Consumption	3.5	2.0	2.25	2.75	3.0
Business Investment	4.5	13.25	1.75	3.75	4.25
Dwelling Investment	-2.7	6.75	7.5	2.5	3.25
Goods Exports	4.7	-0.5	1.5	1.25	1.25
Goods Imports	7.8	10.0	1.25	2.0	2.25
Employment Growth	3.1	3.75	1.75	1.5	1.5
Unemployment Rate	3.6	3.75	4.0	4.25	4.5
Wage Price Index	4.2	4.25	3.75	3.5	3.0
Population Growth	3.2	2.8	1.8	1.7	1.7

Inflation and Interest Rates

Key points

- **The RBA kept rates on hold in September as inflation remains well above the target band**
- **There are some signs that inflation is moving in the right direction, but housing costs and insurances are contributing to high prices**
- **In WA, Perth CPI is tracking above the national figure**

Inflation and its impact on cost of living remains the focus of economic discussions heading into the State and Federal elections due by the first half of 2025. Whilst headline inflation nationally has fallen significantly since its peak of 7.8% in December 2022, at 3.8%, it is still outside of the Reserve Bank of Australia's target band of 2% to 3%. As a result, the Reserve Bank decided on September 24 to hold the cash rate target at 4.35%.

The RBA tends to look through the Headline Inflation to focus on the Trimmed Mean, a measure of underlying inflation which strips out some of the more volatile price movements in items that make up the Consumer Price Index's basket of goods. This also strips out the temporary distortion of the electricity credits and other cost of living relief to give a more accurate reading of price movements across the economy. As of the June quarter, the Trimmed Mean sat at 3.9% in annual terms, the lowest level since March 2022, but still outside of the target band.

When considering monetary policy settings, the RBA notes the weak economic growth and the negative impact of low disposable income and high interest rates on household consumption. It also considers the labour market to be tight with high levels of participation and hours worked, despite the slight increase in the unemployment rate. On balance, the RBA considers that the current restrictive level of interest rates is working to reduce inflation at a pace that maintains the gains in employment.

The August monthly CPI shows a further slowdown with annual inflation at 2.7% in August, down from 3.5% in July. This fall was driven by the impact of the electricity credits and the reduction in fuel prices. More importantly, the monthly Trimmed Mean figure fell from 3.8% to 3.4%. The monthly CPI is less comprehensive than the quarterly CPI and is best used as a guide to the direction that inflation is heading. When considering changes to the cash rate target, the RBA places more weight on the complete quarterly CPI data.

Globally, there is a shift towards lowering interest rates amidst concerns over low economic growth and weakening labour market conditions. The US Federal Reserve started a rate-cutting cycle at their September meeting, lowering interest rates for the first time in more than four years. The sizable 50 point cut was a response to inflation falling to 2.5% in August and sustainably approaching the Fed's target of 2%. In the US, interest peaked higher than in Australia, with the reduced US interest rate target of 4.75 to 5 per cent, still tracking above the RBA's target rate of 4.35%. The US has now joined the European Union, UK, New Zealand and others in cutting rates.

Looking forward, Westpac is projecting the Australian CPI to increase 0.3% in the September quarter to reach 2.9% for the year. More importantly for interest rates, they forecast the Trimmed Mean to increase 0.7% for the quarter and 3.5% for the year, then returning to the high-end of the RBA's target band of 3% by the March quarter of 2025. The RBA forecasts a slower drop with the Trimmed Mean forecast to fall to 3.1% by June 2025 and 2.9% by December 2025.

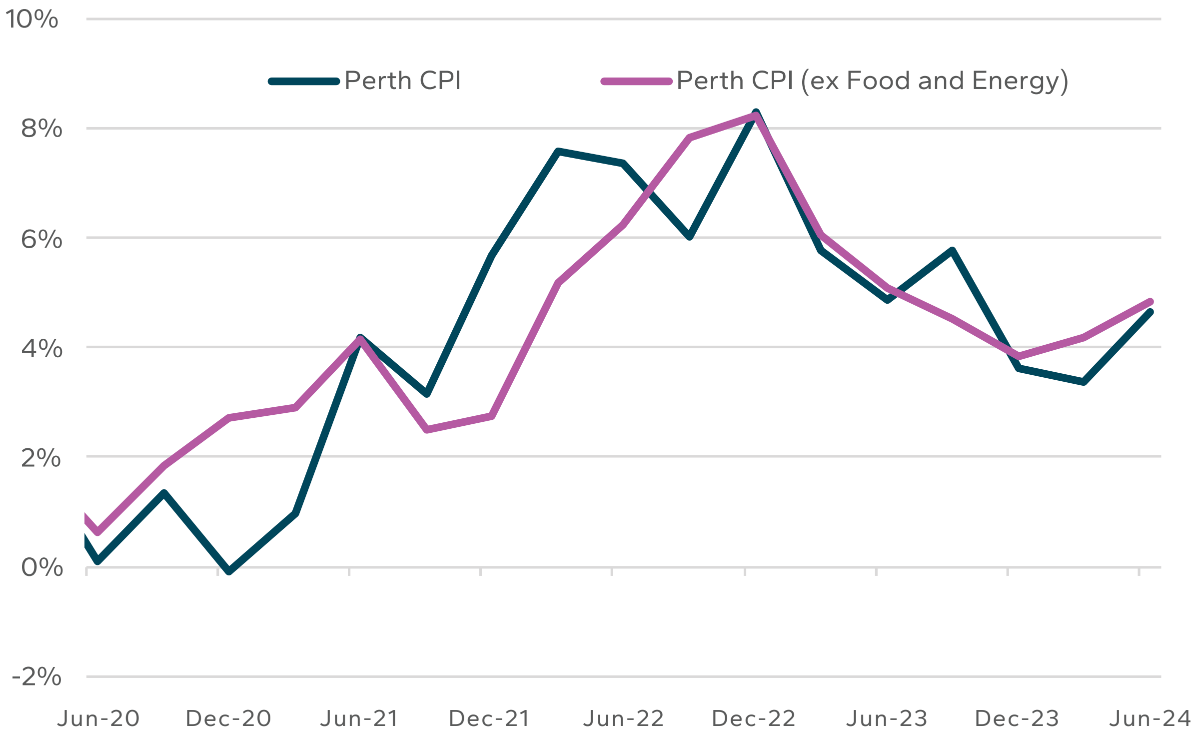
In WA, the Perth CPI is volatile as the impact of electricity credits distorts headline inflation. In the March quarter, Perth CPI growth was the lowest of the capital cities (+0.6%). In the June quarter, it was the highest (+2.1%). Perth CPI jumped from a recent low of 3.4% in March to 4.6% in June as a result. The ABS releases a series for the Perth CPI excluding food and energy. This smooths out some of this volatility and sits at 4.8% in the 12 months to June, 0.9% above the national Trimmed Mean. Given the relative strength of the WA economy, it tracks that inflation in WA is above the national figure.

Inflation in WA has eased across much of the measured basket of goods. Over the last 12 months, Food and Non-Alcoholic Beverages (+3.2%), Clothing and Footwear (+3.1%), Recreation and Culture (+0.8%) have increased at a slower rate. However, Rents (+10.0%), New Dwellings (+5.1%), and Insurance (+18.1%) continue to climb at a rapid rate. Nationwide, housing and insurance costs continue to climb, although not as fast as in WA. The RBA considers that the growth in rents will continue to be elevated for some time as rental contracts rollover and rents reflect the new market pricing. The cost of new dwellings is also expected to climb due to constraints in the supply of materials and skilled labour.

The RBA's next interest rate decision is on November 4 and will consider the September quarter CPI figures which will be released on October 30. The RBA's statement after their September meeting suggests that it is most likely that they will hold interest rates at the current level unless there is an unexpected shift in the inflation rate. The RBA is clear that they will keep the cash rate at restrictive levels until they consider that inflation is returning sustainably towards the target range of 2% to 3%.

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

SOURCE: ABS; WALGA



Labour Market and Wages

Key points

- **There is a record number of people employed in WA as the labour market grows along with population growth**
- **The unemployment rate remains low, which along with a high participation rate, is indicative of a tight labour market**
- **As a result wages continue to climb, although the rate of growth has fallen since the peak in the December quarter**

The WA labour market continues to perform strongly with a record 1.62 million people now employed, up 3.1% over the last 12 months. Job creation in WA has matched the high population growth rate as migrants from overseas and interstate are filling skills gaps. As a result, job vacancies have fallen to 42,000 in June, down from a record 66,500 in March 2022. This is still well above the pre-pandemic level of 23,200 in June 2019.

The participation rate, which measures the proportion of people of working-age that are in the workforce, continues to sit close to record highs at 68.9% in WA. This is above the national figure of 67.1% and continues to be the highest of all the states. Along with a high employment to population ratio, this demonstrates that there is little slack within the labour market and highlights the importance of migration in filling job vacancies and driving economic growth.

In-line with this, the unemployment rate remains low at 3.9%, the equal lowest of the States, and below the Australian figure of 4.2%. It has now been three years since the unemployment rate has exceeded 4.3% and with an average of 3.8% over the last 12 months, the unemployment rate has yet to increase significantly since the rate hiking cycle began. The State budget forecasts an unemployment rate averaging 4.0% over 2024-25.

As a result of the tight labour market, wages in WA increased 4.2% in 2023-24 which was above the 4.0% that was forecast in the 2023-24 State Budget. Wages growth has eased from 4.7% in the December quarter, suggesting that the peak has been reached. Looking forward, the State budget forecasts wages growth to continue to ease with wages expected to grow 3.75% over 2024-25. This is above the forecast Consumer Price Index of 3.0%, which would result in real wages growth for the first time since 2021-22.

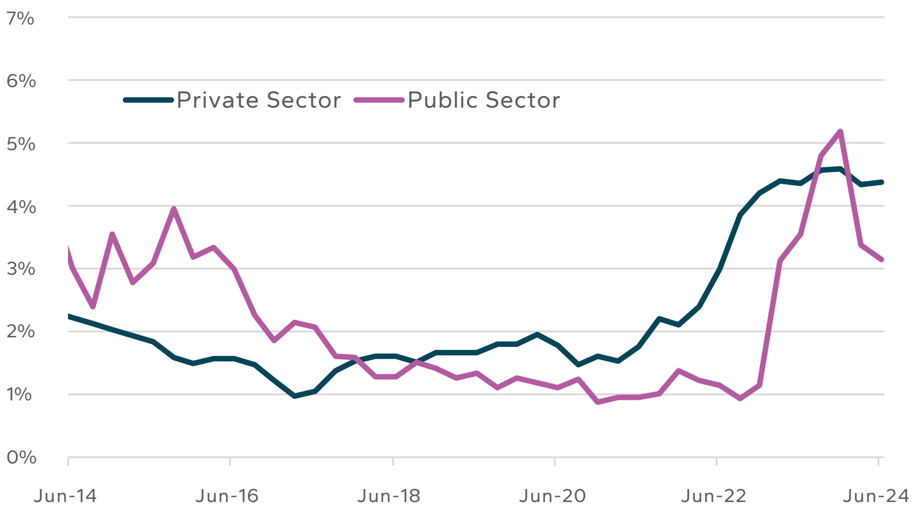
In WA it is the private sector that is currently driving wages growth with an increase of 0.9% in the June quarter and 4.4% over the last 12 months. Private sector wages growth in WA has now exceeded 4% in annual terms for seven consecutive quarters and has consistently grown at a faster rate than the national figure which currently sits at 4.1%.

Public sector wages growth continues to ease, up just 0.3% for the quarter and 3.1% for the year to June 2024. The September quarter typically sees the highest increase in wages each year as the impact of start-of-financial year wage increases flow through the economy. This is particularly noticeable in public sector wages as the increases in minimum and award wages take effect. The WA Industrial Relations Commission has declared a 6.3% increase in the minimum wage effective July 1 impacting approximately 27,000 employers and 300,000 employees. On a national scale, the Fair Work Commission raised the National Minimum Wage by 3.75%.

On average, employee expenses account for one-third of local government costs in the State. The Economic Briefing will keep tracking labour market trends and their effects on wages.

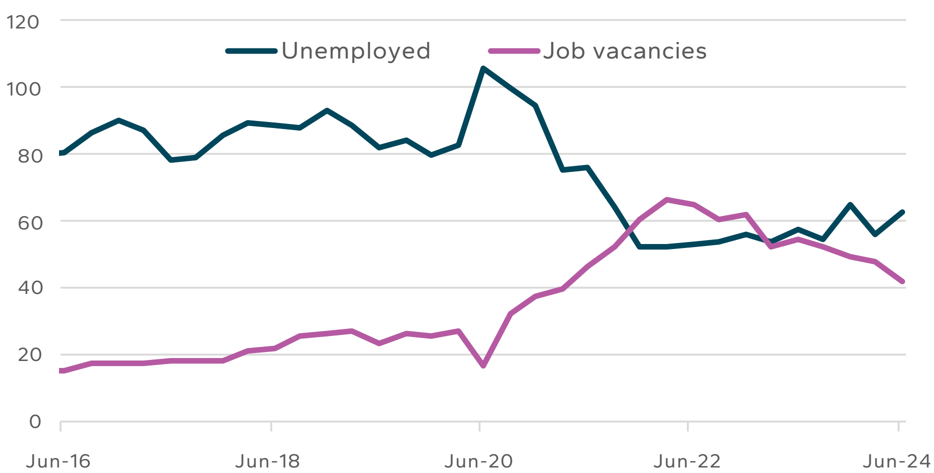
Wage Price Index Private vs Public, WA, Annual % Change

SOURCE: ABS; WALGA



Job Vacancies vs Unemployed Persons, WA, ’000s

SOURCE: ABS; WALGA



Local Government Cost Index

Key points

- **Local Government costs increased 3.5% over the last 12 months**
- **Employee costs continue to be a key driver of cost increases**
- **Construction costs have eased since the post-pandemic surge, however capacity constraints in materials and labour continue to impact costs**

The Local Government Cost Index (LGCI) increased by 0.8% in the June quarter, up slightly from 0.7% December quarter. In annual terms the LGCI increased by 3.5%, up from 3.3% in the December quarter.

As highlighted in previous Economic Briefings, employee costs, which make up around a third of the LGCI, is a key driver of local government costs. Wages in WA have increased by 4.2% over the last 12 months, although this has eased from its peak of 4.7% in the December quarter. Public sector wages growth has eased over the last two quarters, sitting at 3.1% in annual terms. The impact of significant minimum and award wage increases will be evident in the next quarterly update (see Labour Market and Wages section).

Construction costs continue to grow at a more modest pace after the jump in costs through the post-pandemic stimulus period. However, capacity constraints are still biting as the demand for labour and materials in the construction sector remains high. Non-residential Building costs has seen the biggest jump, up 4.6% over the last 12 months as it competes with the residential sector for inputs. Non-road Infrastructure has increased 3.2% and Roads and Bridges costs have increased 2.1% in the same timeframe. Through 2024-25 it is expected that construction costs will see modest growth of 2% to 3%.

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 growth in Materials and Contracts costs has eased in recent quarters after a period of high growth related to elevated demand for services. Sustained increases in employee costs may drive further increases in Materials and Contracts, however there is also a downside risk to price if the domestic economy slows and demand for these services falls.

Insurance costs have skyrocketed for households and businesses in recent years. In comparison, the mutuals' pricing continues to trend positively. To discuss protection and pricing, WA Local Governments can speak to their LGIS account manager.

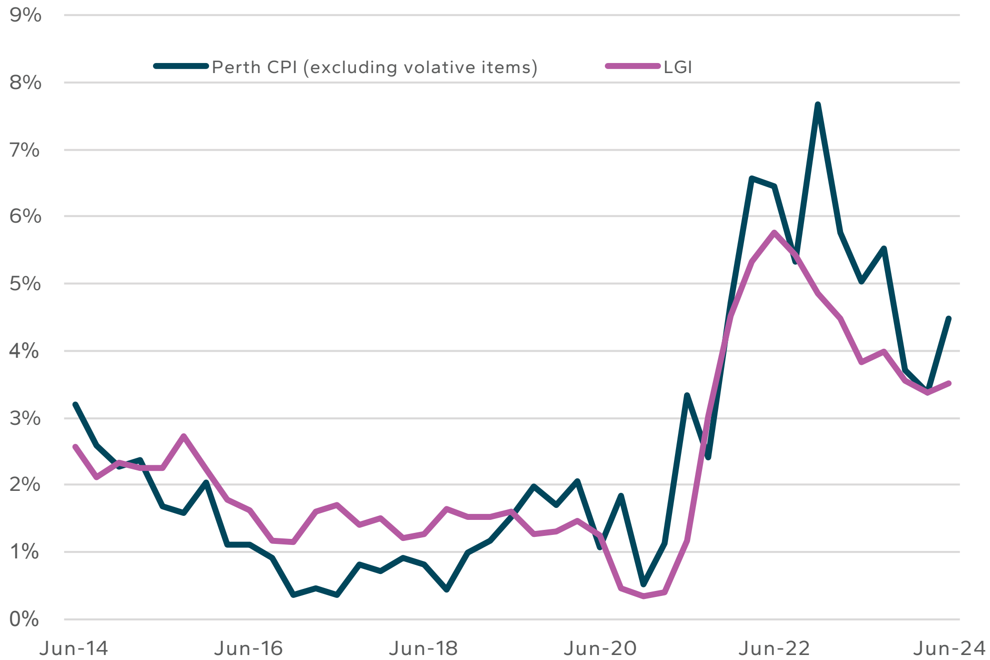
Local Governments are encouraged to prepare for multiple scenarios through their budgeting process and be ready to respond to changing economic conditions by building in flexibility to their projects and procurement processes. The LGCI uses statewide data and regional variances will impact each Local 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 (actual)	2023/24 (forecast)	2024/25 (forecast)	2025/26 (forecast)	2026/27 (forecast)
Employee costs	35%	4.2	4.3	3.8	3.5	3.0
Materials and contracts	28%	4.3	4.3	3.3	3.0	3.0
Furniture	1%	5.8	3.5	2.5	2.2	2.0
Non-residential building	5%	1.0	4.2	2.0	1.9	2.2
Machinery and Equipment	5%	11.5	4.0	2.4	1.9	1.7
Non-road infrastructure	9%	3.3	2.9	2.2	2.0	2.4
Road and bridge construction	10%	3.8	2.1	2.0	2.0	2.6
Utilities	3%	2.5	3.0	3.0	3.0	3.0
Insurance	1%	12.4	11.6	8.5	5.0	3.0
Other	3%	6.2	4.0	3.0	2.5	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



Questions

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

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