

# Local Government Economic Briefing



19 November 2019

## WA Local Government Cost Index

Local Government cost pressures eased slightly over the September quarter, but remain elevated when compared to the 2014 to 2017 period.

The Local Government Cost Index (LGCI) increased by 0.4% in the first quarter of the 2019-20 financial year, to stand 1.6% higher over the year.

Table 1 LGCI by component, September 2019

Index	Quarterly change (%)	Annual change (%)
Wages (WA Wage Price Index)	0.7	1.6
Road and Bridge Construction	0.1	1.2
Non-residential Building	0.0	0.0
Other costs (Perth CPI)	0.5	1.6
Machinery and Equipment	0.1	2.9
Electricity and street lighting	1.8	1.8
<b>Local Government Cost Index</b>	<b>0.4</b>	<b>1.6</b>

The growth recorded during the September quarter was due to sustained price pressures across the board, with all categories except for non-residential building construction increasing during the quarter.

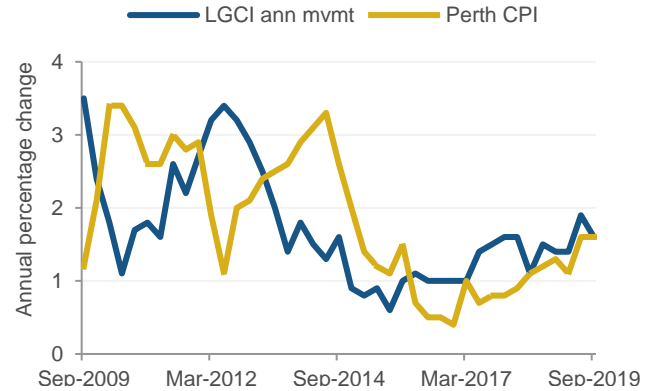
The largest increases related to energy costs, with the new annual regulated electricity and street lighting tariffs coming into effect during the quarter. Electricity costs increased by 1.7% in both quarterly and annual terms, while street lighting costs were up by 2%.

WA wages also recorded their strongest quarterly increase since December 2014, rising by 0.7%. In annual terms, WA wages are up by 1.6%.

Perth consumer prices, road and bridge construction and machinery and equipment also recorded modest growth of 0.5%, 0.1% and 0.1% respectively during the quarter. In annual terms, Perth CPI increased by 1.6% over the September quarter, while road and bridge construction and machinery and equipment costs increased by 1.2% and 2.9%, respectively.

By contrast, non-residential building costs still remain subdued, being flat again during the September quarter in both quarterly and annual terms. The cost of non-residential construction has now not increased since December 2014.

Figure 1 LGCI vs Perth CPI



## 2018-19 Financial Year Fails to Meet Economic Forecasts

The performance of the WA economy during 2018-19 demonstrates the full extent of the fragile economy recovery the State is going through.

On the back of lacklustre demand, economic forecasts for 2018-19 that were reported in the 2018-19 Budget were revised down on multiple occasions during the 2018-19 financial year. This includes during both the Mid-Year Review in December 2018 and the 2019-20 Budget in May 2019 (see Figure 2).

Even with downward revisions, the WA economy still fell short of forecast growth. The key areas where the economy unexpectedly underperformed in 2018-19 included:

- Household consumption, which was driven by subdued wages growth and negative wealth impacts from declining house prices; and
- Government consumption and government investment, which were driven by operational delays following Machinery of Government changes and timing issues.

The end result of the above is that State Final Demand, which measures output in the domestic economy only, declined by 1.1% in 2018-19. This is a worse decline than originally forecast in the 2018-19 Budget (-0.25%), the Mid-Year Review (-0.5%) and the 2019-20 Budget (-1%).

In addition, WA's Gross State Product, which measures output in the domestic economy plus net exports, increased by just 1% in 2018-19. This is also lower than forecast in the 2018-19 Budget (3.25%), the Mid-Year Review (3%) and the 2019-20 Budget (2%).

Despite the WA economy underperforming in 2018-19, the outlook for 2019-20 and onwards still remains bright.

The current financial year, 2019-20, is expected to be the first that WA will experience an increase in business investment since it peaked in 2012. Once again, it will be on the back of increased resources sector investment.

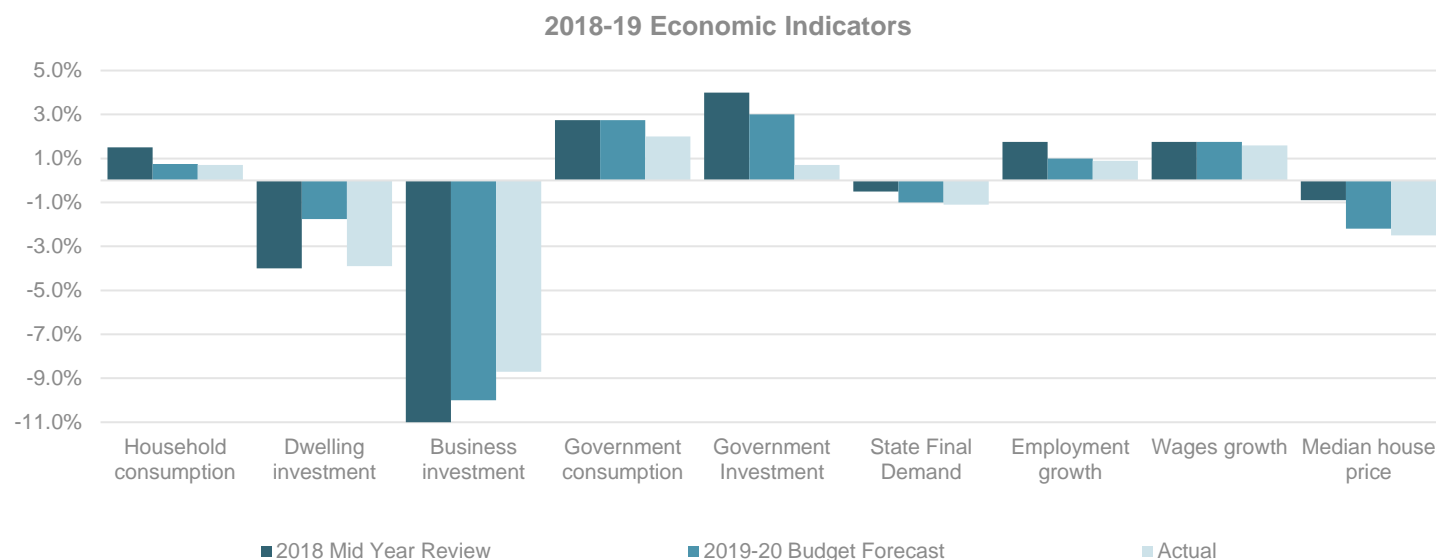
Also, households are expected to progressively increase their spending as population and wages

growth steadily increase and conditions in the property sector improve.

The State Government will also contribute by rolling out expenditure it had planned for 2018-19, but failed to get out the door.

The Mid-Year review, which will be released by the State Government in December, will provide an indication of whether 2019-20 is on track to meet the above expectations.

**Figure 2 – 2018-19 Economic Indicators**



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