

Local Government Economic Briefing



24 May 2019

WA LOCAL GOVERNMENT COST INDEX

Local Government cost pressures remained relatively stable to begin 2019, with the Local Government Cost Index (LGCI) increasing by just 0.2% over the March quarter.

Table 1 LGCI by component, March 2019

Index	Quarterly change (%)	Annual change (%)
Wages (WA Wage Price Index)	0.3	1.6
Road and Bridge Construction	0.2	2.0
Non-residential Building	0.0	0.0
Other costs (Perth CPI)	-0.1	1.1
Machinery and Equipment	0.0	-0.3
Electricity and street lighting	0.0	5.8
Local Government Cost Index	0.2	1.4

The subdued level of growth experienced during the March quarter was on the back of three of the LGCI categories experiencing no growth, one category declining, and two categories only modestly increasing.

The cost categories that increased during the first three months of the year were WA wages (quarterly growth of 0.3%) and road and bridge construction (quarterly growth of 0.2%).

In contrast, non-residential building costs continued to remain stable during the March quarter – and have now not increased for four and half years. Machinery and equipment and electricity costs also remained unchanged to begin the year.

In a slight surprise, consumer prices fell by 0.1% in Perth during the first three months of 2019. This was the first quarterly fall in Perth CPI since March 2016, and was largely due to price declines in transport and recreation and culture services.

Although Local Government cost pressures have eased slightly to begin this year, the LGCI still stands 1.6% higher when compared to the beginning of 2018.

The areas where Local Governments have most felt the pinch over the past year are wages (annual growth of 1.6%), roads and bridge construction (annual growth of 2%) and electricity costs (annual growth of 5.8%).

Non-residential building construction costs (no increase) and machinery and equipment costs (fall of 0.3%) have remained subdued, and have provided some cost relief for Local Governments over the past year.

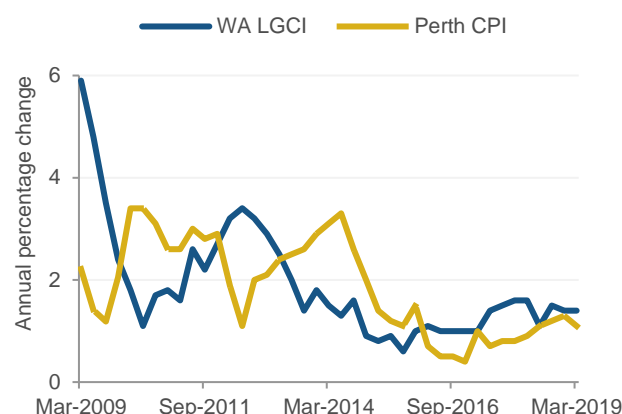


Figure 1 LGCI vs Perth CPI

Based on lower than expected CPI and wages growth forecasts outlined by the State Government in its most recent Budget, WALGA has slightly revised down its own LGCI forecasts over the forward estimates (see Table 2 below).

Table 2 LGCI revised forecasts

Year	Previous LGCI annual growth forecast	Revised LGCI annual growth forecast
2018-19	1.7%	1.7%
2019-20	2.0%	1.8%
2020-21	2.8%	2.7%
2021-22	3.8%	3.5%

Despite the slight downward revisions, it is still prudent for the sector to prepare for progressively increasing costs over the coming years.

WA Economic Update

The delicate nature of the State's economic recovery has been brought to the surface over the past month, with downward revisions reported for a number of key economic indicators in the State Government's May Budget (see Table 3 below) compared to the figures reported in the March Economic Briefing.

Table 3 2019-20 State Budget Revisions to Economic Forecasts Provided in the December 2018 Mid-Year Review

	2018-19 Estimated Actual (previous estimate)	2019-20 Estimate (previous estimate)	2020-21 Estimate (previous estimate)
Real GDP	2% (3%)	3.5% (3.5%)	3% (3%)
Real State Final Demand	-1% (-0.5%)	3% (3.5%)	3.5% (3.75%)
Employment growth	1% (1.75%)	1.75% (2%)	2% (2.25%)
Unemployment rate	6.25% (6%)	6% (5.75%)	5.75% (5.5%)
Wage Price Index	1.75% (1.75%)	2.25% (2.75%)	2.75% (3%)
Consumer Price Index	1.25% (1.5%)	1.75% (2%)	2.25% (2.5%)

The State Government has cited a number of causes for the weaker than expected economic outlook in WA, including:

- a tightening of access to credit as a result of the recent Royal Commission into the Banking, Superannuation and Financial Services Industry, which has resulted in a subdued level of dwelling investment and household spending;
- lower perceptions of wealth as a result of declining house prices and a weaker housing market outlook;
- lower than expected employment growth to begin the year; and
- global economic conditions weakening to end 2018, and global growth forecasts for 2019 being downgraded by the International Monetary Fund.

Many of the above factors were also cited by the Reserve Bank Governor, Phillip Lowe, in a recent speech where he hinted that the Reserve Bank of Australia would look to lower the official cash rate in the near future.

On the back of this, several economists and banks now see the RBA lowering the cash the cash rate by 25 basis points during the upcoming June meeting, and then possibly again during the August meeting.

Although interest rate decreases will support WA's economic recovery to an extent, policies and projects introduced and referred to in the most recent State Budget will also play an important role. Particularly the State Government's \$5.8 billion METRONET project and \$1.3 billion roads infrastructure package.

In addition to this, the Coalition's recent election victory provides some certainty that the economic polices announced in their recent Budget will be introduced – assuming that they are able to receive support from the upper house. Some of the key measures that will impact on the WA economy and Local Government sector include:

- WA receiving \$151.3 million in Financial Assistance Grants in 2019-20, with \$91.4 million allocated for general purpose assistance and the remaining \$59.9 million in untied road funding.
- Increased funding for Roads to Recovery, Blackspot and Bridges Renewal Programs as part of a \$2.2 billion Road Safety and Upgrade Package.
- Funding for a range of WA transport infrastructure projects under the Urban Congestion fund and Roads of Strategic Significant program, as well as other identified priority projects.

Given the WA Government's imperative to restrict spending and use surpluses to pay down debt during the State's delicate economic recovery, the above federally funded initiatives will be of welcome news to the WA public and Local Government sector.

To learn more about the State and Federal Governments' recently announced Budgets, please take a look at WALGA's past Economic Briefings [here](#). In these briefings, we comprehensively reviewed the recent State and Federal Budgets and provided a view of their potential impact on Local Governments.

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