

# **WALGA Economic Briefing**

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*December 2021*



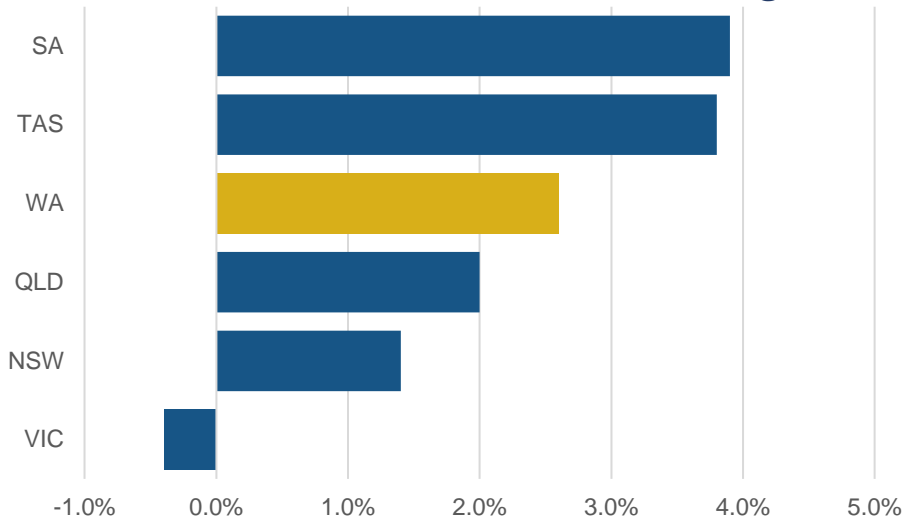
- **In 2020-21 the Western Australian economy grew 2.6%**, well ahead of the national GDP growth of 1.5%. The sectors that contributed most to the expansion of the economy were Health Care and Social Assistance; Agriculture, Forestry and Fishing; and Manufacturing. This is the fourth consecutive year of economic growth for WA.
- Lockdowns in NSW, Victoria and the ACT led to a 1.9% fall in Australian GDP in the September quarter, driven by a 2.4% decrease in consumer spending. In WA the domestic economy remained strong with a **0.6% quarterly increase in State Final Demand**, led by a 1.9% increase in household consumption.
- **The labour market in WA continues to tighten with unemployment falling to 3.9% in October**, the lowest rate in almost a decade. Similarly, underemployment at 6.3% is significantly below the national average of 9.5%. In WA the labour force participation rate, which measures the proportion of people aged fifteen years and older who are employed or seeking work, is at 68.4% almost 4ppts above the national rate. Combined, these numbers demonstrate that there is little scope for additional local workers to be found either within the labour force (unemployed or underemployed people) or outside the labour force. With employers increasingly struggling to find skilled workers, the labour market may act as a drag on the economy in coming months until border restrictions are eased and labour can be sourced from outside of WA.
- **COVID-19 remains the greatest threat to the WA economy in the short-term.** Western Australia is forecast to reach 80% double vaccination rates in mid-December when the State Government will set a date for opening up the interstate and international borders which is anticipated in late January or early February 2022. It is likely that this will introduce COVID-19 into WA at the same time as easing some of the labour supply issues for businesses.

- As projected last quarter, **cost increases** experienced by Local Governments in recent months are now being reflected in the data. This is particularly evident in building and non-building infrastructure costs as well as the costs of materials and contracts.
- WALGA forecasts the **Local Government Cost Index (LGCI) to increase 3.9% in 2021-22** as the increased demand from Government stimulus arrives at the same time as labour supply is constrained by closed interstate and international borders, and supply issues continue for materials from both domestic and global challenges.
- It is expected that these twin pressures of increased demand and capacity constraints will ease in future years with the **LGCI expected to grow by 2.4% in 2022-23 and 2.2% in 2023-24**. These forecasts will be updated as the impacts of WA and Australia opening up are realised.
- It should be noted that there are significant challenges with forecasting in the current economic environment, and so **the LGCI should be used with caution**.
- **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 coming years.

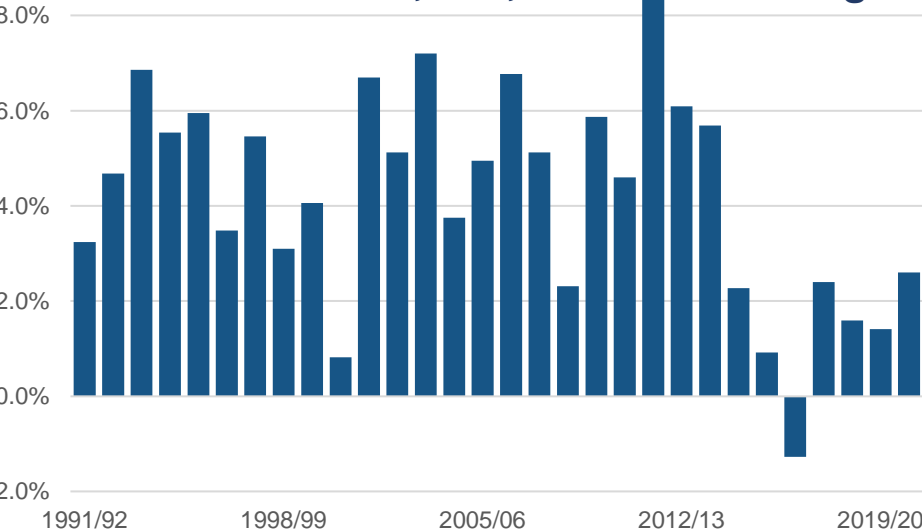
# WA economy defies COVID-19 growing 2.6% in 2020-21



**Gross State Product, Annual % Change, 2020-21**



**Gross State Product, WA, Annual % Change**

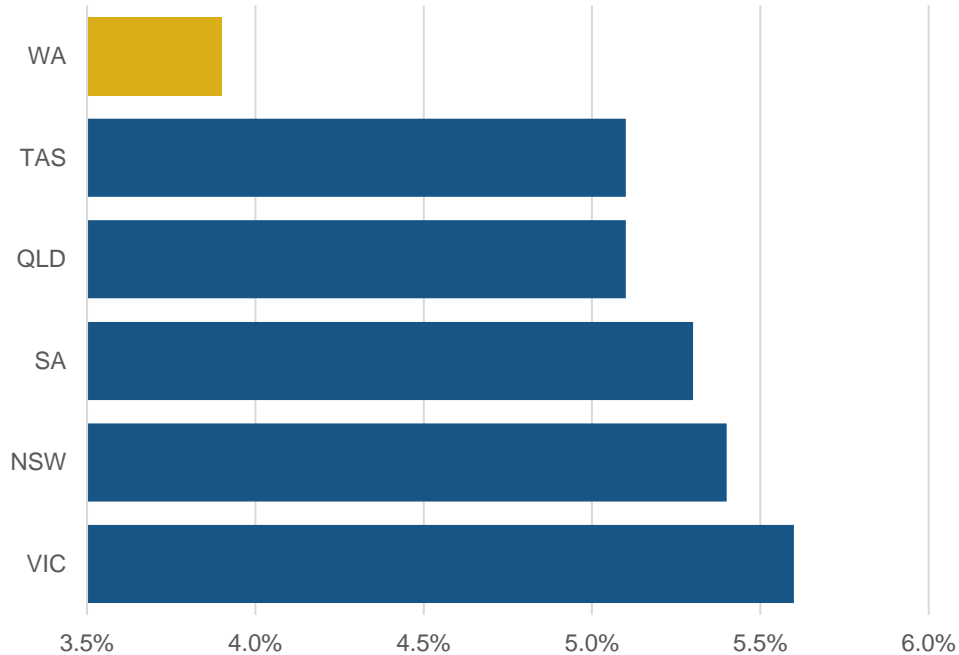


- The WA economy grew 2.6% in 2020-21, ahead of the national economy at 1.5%.
- This was the fourth consecutive year of growth for the WA economy and the highest growth rate since 2013-14.
- Victoria (-0.4%) and NSW (+1.4%) were the weakest performing states due to the COVID-19 outbreak and subsequent lockdowns.
- Major industry contributors to growth in WA were Health Care and Social Assistance on the back of the pandemic response and Agriculture, Forestry and Fishing, which benefited from favourable weather conditions and a strong harvest.
- Also contributing significantly to growth was the Manufacturing sector with strong contributions from Mineral and Chemical Product Manufacturing, and Machinery and Transport Equipment Manufacturing.
- Similar to the rest of the country, the hardest hit industries were Transport, Postal and Warehousing, and Administrative and Support Services.

# Labour market continues to tighten as unemployment rate drops below 4%



Unemployment Rate, October 2021



Monthly Hours Worked, WA, Millions



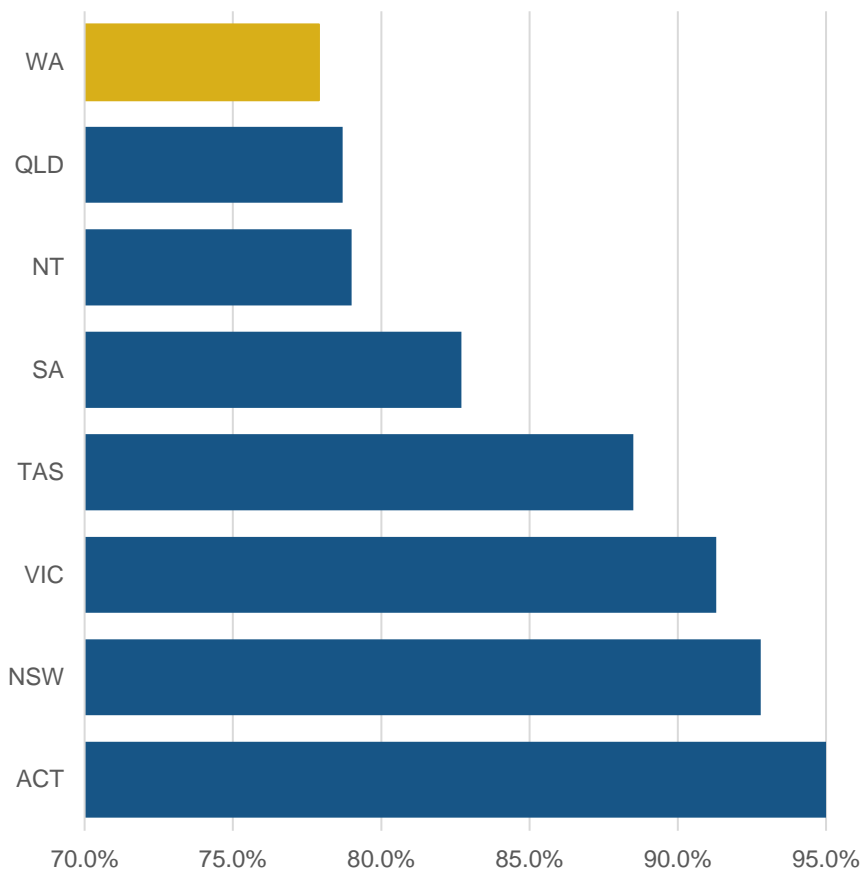
SOURCE: ABS CAT 6202

- WA's unemployment rate continued to fall in October reaching 3.9%, the lowest since July 2012. Nationally the unemployment rate rose to 5.2% off the back of restrictions in NSW and Victoria.
- Underemployment (employed people who would like to work additional hours) in WA also fell to 6.3%, significantly below the national rate of 9.5%.
- The strength of the labour market saw WA's participation rate at 68.4% in October, well above the national average of 64.7%.
- Combined, these figures demonstrate a tight labour market with little spare capacity.
- Total hours worked in WA remains above pre-pandemic levels.

# A COVID-19 outbreak remains the greatest short-term threat to the WA economy



*Vaccination rate, % double-dosed aged 16+, December 6 2021*



- An outbreak of COVID-19 remains the greatest threat to the WA economy in the short-term. The best protection against COVID-19 is vaccination. At December 6, WA is the least vaccinated state in the country with 77.9% of residents aged 16+ fully vaccinated compared with the national average of 88.1%.
- WA is predicted to reach 80% double-vaccination by December 13. Once this threshold has been reached, the State Government will set a re-opening date for the State at the estimated date that double-dose vaccination rates will reach 90% of the population aged 12 and over. This is flagged to be around late January or early February 2022.
- It is expected that State-wide vaccination mandates will exert upward pressure on vaccination rates. Emergency and community service workers are required to be fully vaccinated by the end of the year and critical service workers (including education, construction, hospitality and retail sectors) by January 31 2022.
- The Federal Government has progressively opened the international borders to States with higher vaccination rates, however the Omicron variant has forced a pause in the reopening schedule. Globally the easing of border restrictions have been reversed as the WHO declares Omicron a “variant of concern”, highlighting the ongoing and unpredictable impact of COVID-19 on the global economy.

SOURCE: Commonwealth of Australia, Department of Health

# Regional and remote WA vaccination rates rising steadily but still lagging nation



Region	Fully Vaccinated Age 15+ (at November 29)	Weekly increase Age 15+ (to November 29)
Outback (North)	48.4%	2.6%
Outback (South)	68.1%	3.6%
Wheatbelt	74.8%	3.2%
Perth – North East	75.5%	3.0%
Perth – South East	76.4%	2.9%
Bunbury (South West)	77.9%	2.5%
Perth – South West	78.0%	2.5%
Mandurah	78.0%	3.6%
Perth – North West	78.1%	2.3%
Perth – Inner	85.3%	1.5%

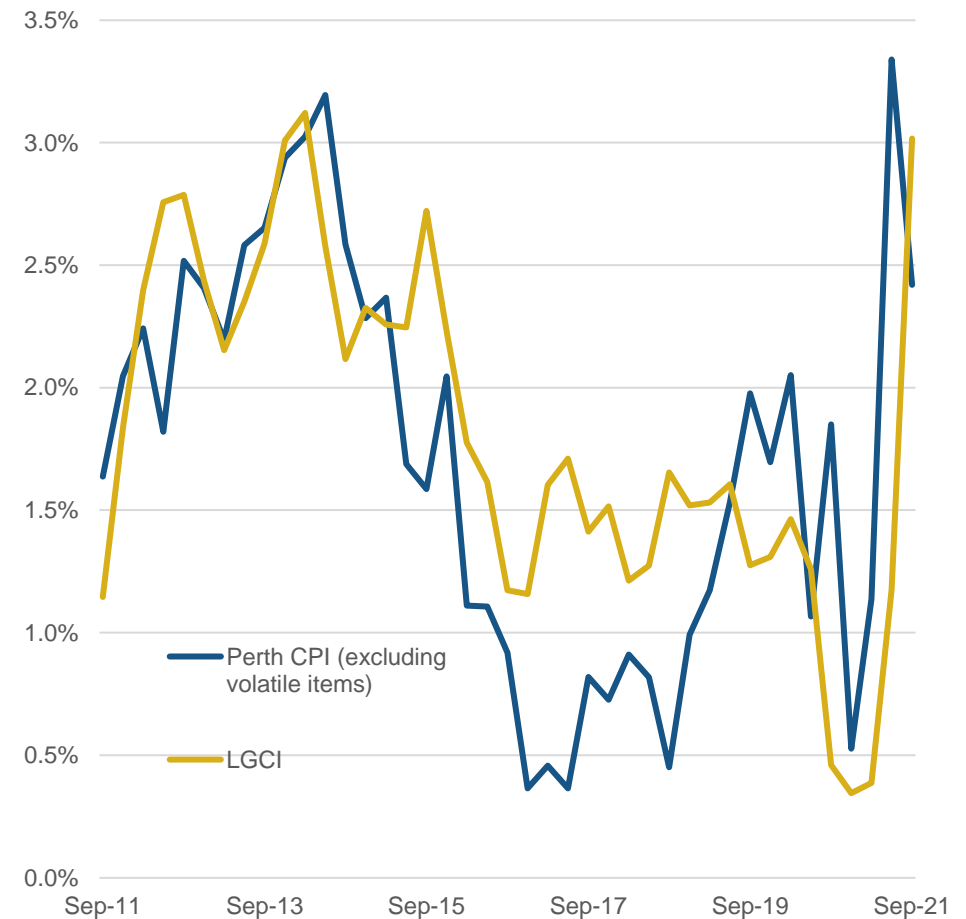
- **Vaccination rates are not consistent across regions.** As WA nears a date to remove State borders, the Government has flagged that regions with low vaccination rates may face additional restrictions.
- At November 29, The Outback North region (Kimberley and Pilbara zones) remained the least vaccinated region in the country at 48.4% fully vaccinated. 61.4% have received one dose. The rate of second doses remains slower than the State average. The first dose rate is above the State average as regions with higher vaccination rates slow down on first doses.
- The Outback South region at 68.1% fully vaccinated (approximately the Gascoyne, Murchison, Goldfields Esperance and Northern Country zones) is also below the State average, however it leads the State in vaccination rates in recent weeks. On a first dose basis this region is catching up to the rest of the State with 83.0% at least partly vaccinated.
- The State Government has deployed significant resources to regional and remote WA which has had a positive impact on vaccination rates. This remains critical due to vulnerable communities in these regions and the regions' significant economic contribution as a driver of the WA economy.

# Local Government costs rising at fastest pace since mining boom



- **The Local Government Cost Index (LGCI) spiked in the September quarter** as the data revealed price increases that have been anecdotally reported in recent months.
- In the September quarter the LGCI grew by 1.4% to reach 3% in annual terms. This increase was driven by large rises in building and construction costs and jumps in machinery and equipment costs as well as in materials and contracts.
- In **2021-22 Local Government costs are forecast to increase by 3.9%** following a modest increase of 1.4% in 2020-21 when the pandemic kept a lid on prices growth.
- The expected increase in price pressures is being largely **driven by components of the index that are related to infrastructure and construction**. These sectors are experiencing significant capacity constraints, which is flowing through into higher prices.
- In particular, the ability to access workers is expected to be a significant driver of costs in the coming year, reflecting the WA's **tight labour market conditions** with shortages of workers being experienced in all regions of the State.
- This is being exacerbated by interstate and international border controls. How quickly these labour constraints can be resolved will determine the degree to which they act as a handbrake on the State economy.
- **Cost of materials and supplies are also rising sharply** as the supply of building materials is struggling to keep up with the elevated demand due to strong activity in the construction sector in large part due to the Federal and State Government stimulus programs, as well as by global shipping and supply chain issues.

*LGCI vs Perth CPI, Annual % Change*



SOURCE: ABS CAT 6401.0; WALGA



# LGCI Components – Forecast % Change



Component	2020-21(a)	2021-22(f)	2022-23(f)	2023-24(f)
Employee costs	1.50	2.25	2.25	2.50
Materials and contracts	-0.9	4.8	2.8	1.7
Furniture	-0.1	2.6	1.4	1.4
Non-residential building	5.6	6.6	2.8	2.5
Machinery and Equipment	-0.5	3.6	1.8	1.8
Non-road infrastructure	5.2	6.1	2.7	2.4
Road and bridge construction	3.5	5.5	2.7	2.5
Utilities	0.0	1.4	1.4	1.4
Insurance	2.2	3.3	3.0	2.9
Other costs	1.6	1.9	2.0	2.0
<b>LGCI</b>	<b>1.4</b>	<b>3.9</b>	<b>2.4</b>	<b>2.2</b>

SOURCE: WALGA  
 (a) Actual figures  
 (f) Forecast figures

# Data volatility means that the LGCI forecasts should be used with caution

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- The significant challenges of forecasting in the current economic environment, mean **the LGCI should be used with caution.**
- The LGCI is a guide for economy-wide cost pressures, and **doesn't take into account local or regional issues** which may impact costs for individual Local Governments.
- In recent months, Local Governments have reported **significantly higher costs**, particularly in relation to construction. These increases have begun to be reflected in the backwards looking datasets and if prices continue to rise, the LGCI will be revised upwards.
- **It is important that Local Governments take into account their own local issues and experiences when considering cost pressures.** It will also be prudent for Local Governments to prepare for multiple scenarios for cost increases coming years.
- **Downside risks also exist**, particularly if another wave of COVID-19 hits WA and causes extended periods of lock down.
- WALGA will continue to **monitor cost pressures** and provide updates to the forecasts as more information becomes available.

# Questions

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If you have any question on the contents of this report, please direct them to the WALGA Economics team:

- Daniel Thomson – [dthomson@walga.asn.au](mailto:dthomson@walga.asn.au) or (08) 9213 2015
- Dana Mason – [dmason@walga.asn.au](mailto:dmason@walga.asn.au) or (08) 9213 2020