

# Local Government Economic Briefing



16 August 2019

## WA LOCAL GOVERNMENT COST INDEX

Local Government cost pressures increased heavily over the June quarter, with the Local Government Cost Index (LGCI) increasing by 0.7% in quarterly terms and 1.9% in annual terms at the close of the 2018-19 financial year.

Table 1 LGCI by component, June 2019

Index	Quarterly change (%)	Annual change (%)
Wages (WA Wage Price Index)	0.3	1.6
Road and Bridge Construction	0.5	2.1
Non-residential Building	0.0	0.0
Other costs (Perth CPI)	0.7	1.6
Machinery and Equipment	2.8	2.9
Electricity and street lighting	0.0	5.8
<b>Local Government Cost Index</b>	<b>0.7</b>	<b>1.9</b>

The sharp rise in the LGCI in the June quarter was primarily driven by price increases for machinery and equipment, which were up 2.8% over the quarter alone and 2.9% in annual terms. The increase in machinery and equipment prices was the first recorded since the 2018 September quarter.

The general prices of all goods and services in Perth also drove the LGCI upwards during the June quarter, with Perth CPI increasing by 0.7% in quarterly terms. This was the highest quarterly increase reported for Perth CPI since June 2014, while the annual increase in Perth CPI of 1.6% was the highest recorded since December 2014.

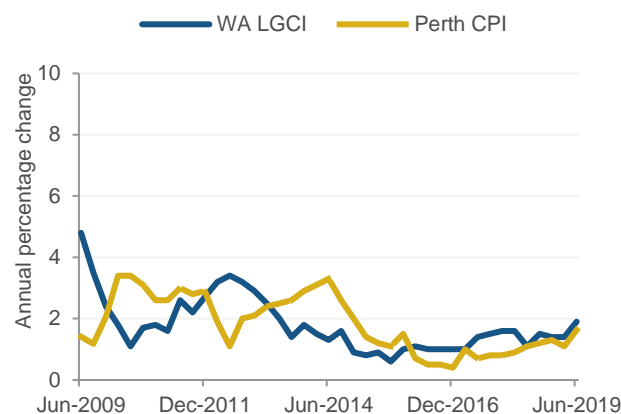
Road and bridge construction costs continue to contribute to cost pressures faced by Local Governments, increasing by 0.5% in quarterly terms, and 2.1% in annual terms, during the June quarter.

In addition to the above costs, the new regulated electricity and street lighting prices that came into effect earlier in the year are also continuing to place financial pressure on the sector (up 7.3% and 3.2% respectively in annual terms).

The primary component of the LGCI that ensured growth in the Index would remain below 2% for 2018-19 was subdued wages growth. WA wages increased by just 0.3% in quarterly terms, and 1.6 per cent in annual terms, over the June quarter.

In addition to wages, non-residential building construction prices also continued to weigh down the Index, with prices for these services not increasing since December 2015.

Figure 1 LGCI vs Perth CPI



## THE KEY RISKS TO AUSTRALIA'S ECONOMIC OUTLOOK

Reserve Bank of Australia Deputy Governor, Guy Debelle, spoke in Sydney yesterday about some key risks to the economic outlook in Australia.

The Deputy Governor highlighted three key risks to the economy in his address, including:

1. Current technology and trade disputes across the world;
2. Subdued household consumption; and
3. Climate change.

In terms of the potential impact of these three risks on the Australian economy, Debelle outlined that:

- **World technology and trade disputes** are not as concerning for Australia in the near term, when compared to those countries heavily involved in the global supply chain, particularly for technology products. In addition, Australia has probably been a beneficiary of the disputes so far, due to Chinese policymakers responding with the implementation of a domestic stimulus package, which has increased their demand for Australia's iron ore exports.

In the longer term, however, Debelle noted that the trade disputes represent a significant

downside risk to the Australian economy due to the uncertainty that they pose to the rules based global trading system, which has been in place for many decades now.

- **Subdued household consumption** poses a significant risk to the Australian economy in the near term, given that around 60 per cent of Australian GDP depends on it. In recent years, a number of factors have been weighing on household consumption, including increased household tax payments, a slower pace of growth in disposable income, declining property prices and their associated impact on household wealth, and a decline in housing turnover and the complementary expenditure that takes place when people move houses.

Looking forward, Debelle noted that longer term prospects for household consumption expenditure remain sound. This is due to lower interest rates, recent tax cuts, and an expected stabilisation in property prices.

- **Climate change poses** significant risks to the longer term prospects of the Australian economy. The risks highlighted by the Deputy Governor were two pronged, and included the physical and transition risks associated with climate change.

The physical risks the Deputy Governor referred to include those directly associated with changes in the climate, such as the impact of climate events (cyclones and droughts etc.) and a persistent increase in the temperature. The transition risks are to do with the impact of businesses, consumers and the overall economy adjusting to changes in the climate, including government policy responses.

While the risks noted by Debelle in his Sydney address are mostly macroeconomic in their nature, their potential impact will be felt on the ground by local communities and their citizens. It is essential that Local Governments, being the level of Government closest to the community and often looked upon in times of community need, are aware of these broader risks to the national economic outlook as they delivery their own advocacy activities, policies, programs and services.

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