

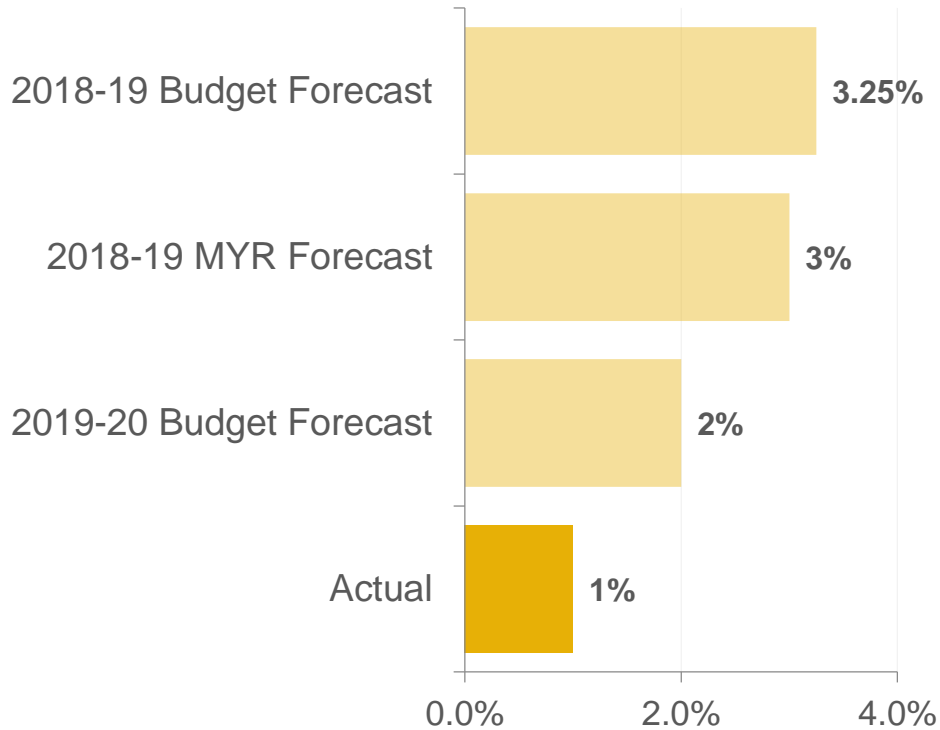
WA Economic Update

The lasting impact of COVID-19 on the economy

WA's economy was shaky before COVID-19..

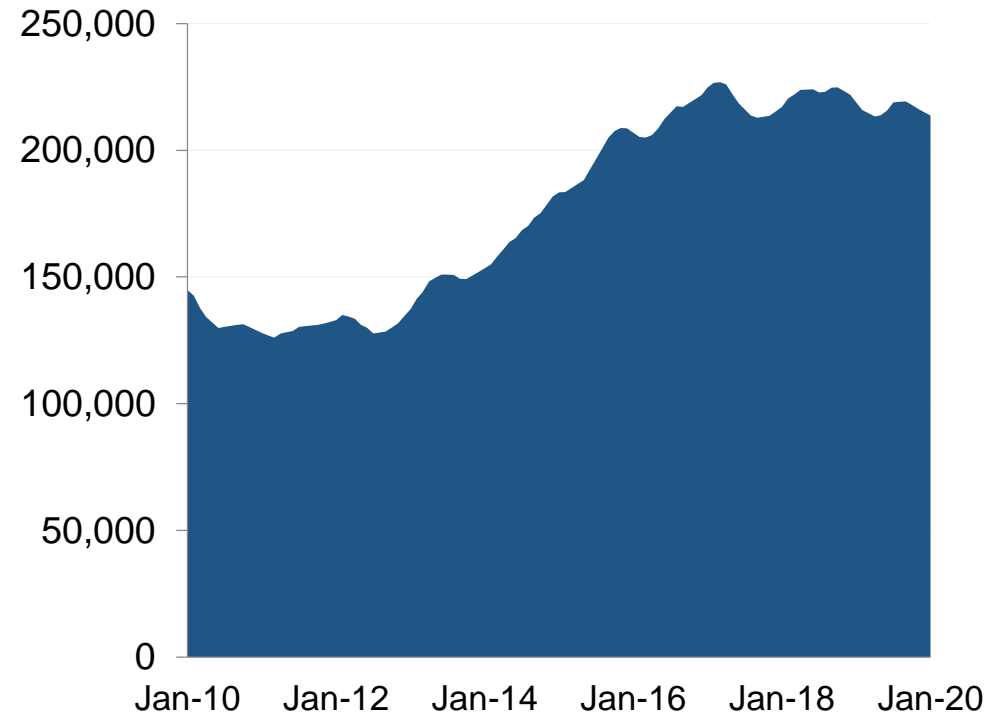


2018-19 WA Gross State Product Growth



SOURCE: WA GOVERNMENT BUDGET PAPERS AND MID-YEAR REVIEW

Underutilised people in WA (Unemployed people and people wanting to work more hours)



SOURCE: ABS CAT 6202.0

Economic forecasts were continually downgraded in 2019, with high levels of labour force underutilisation, subdued household consumption and persistently low wages growth providing ongoing causes for concern.

But the outlook for 2020-21 was bright



Rio Tinto commits to \$1bn Tom Price iron ore expansion

November 27, 2019 News Molly Hancock



Fortescue Metals Group gives green light to \$3.6b Iron Bridge project in WA's Pilbara

By Kathryn Dies Updated 2 Apr 2019, 4:51pm



FMG green lights \$1.7b Eliwana with 500 jobs to come

Daniel Newell | The West Australian Monday, 28 May 2018 8:17AM



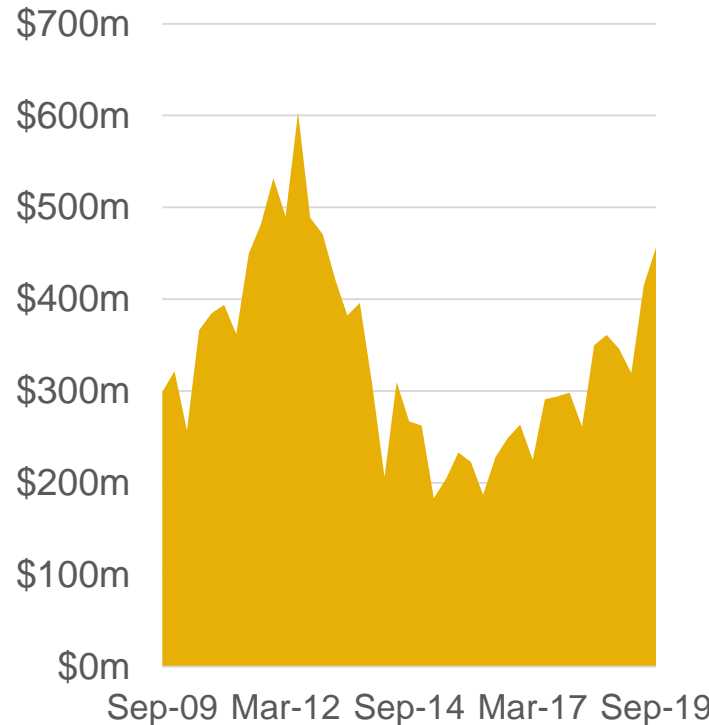
Rio Tinto counting on Koodaideri in \$2.2bn new ore mine spend

Industry News, Latest News, Projects, Western Australia

METRONET gets \$4.1B to create thousands of construction jobs

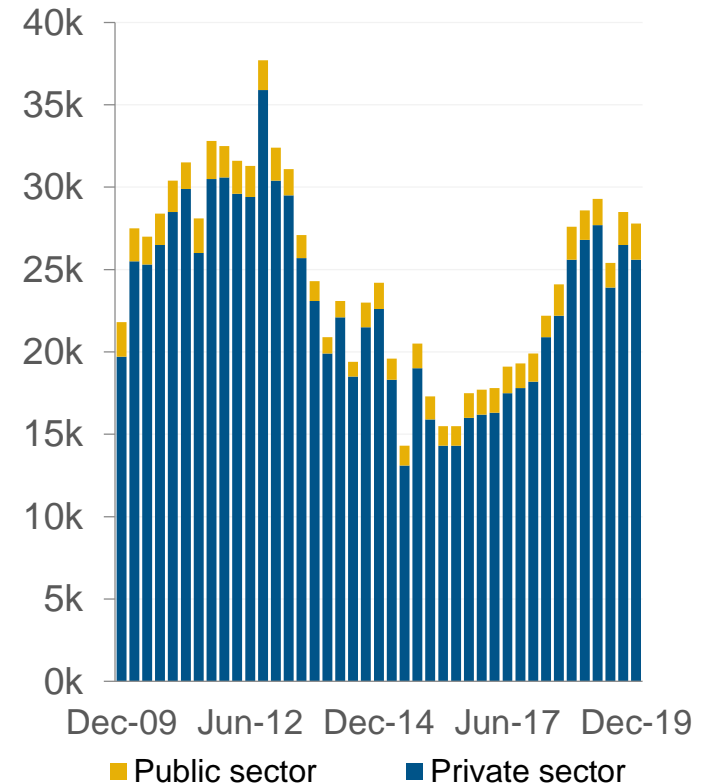
May 13, 2019, 9:36 am 5833

WA Mineral Exploration Expenditure



SOURCE: ABS CAT 8412.0

WA Job Vacancies



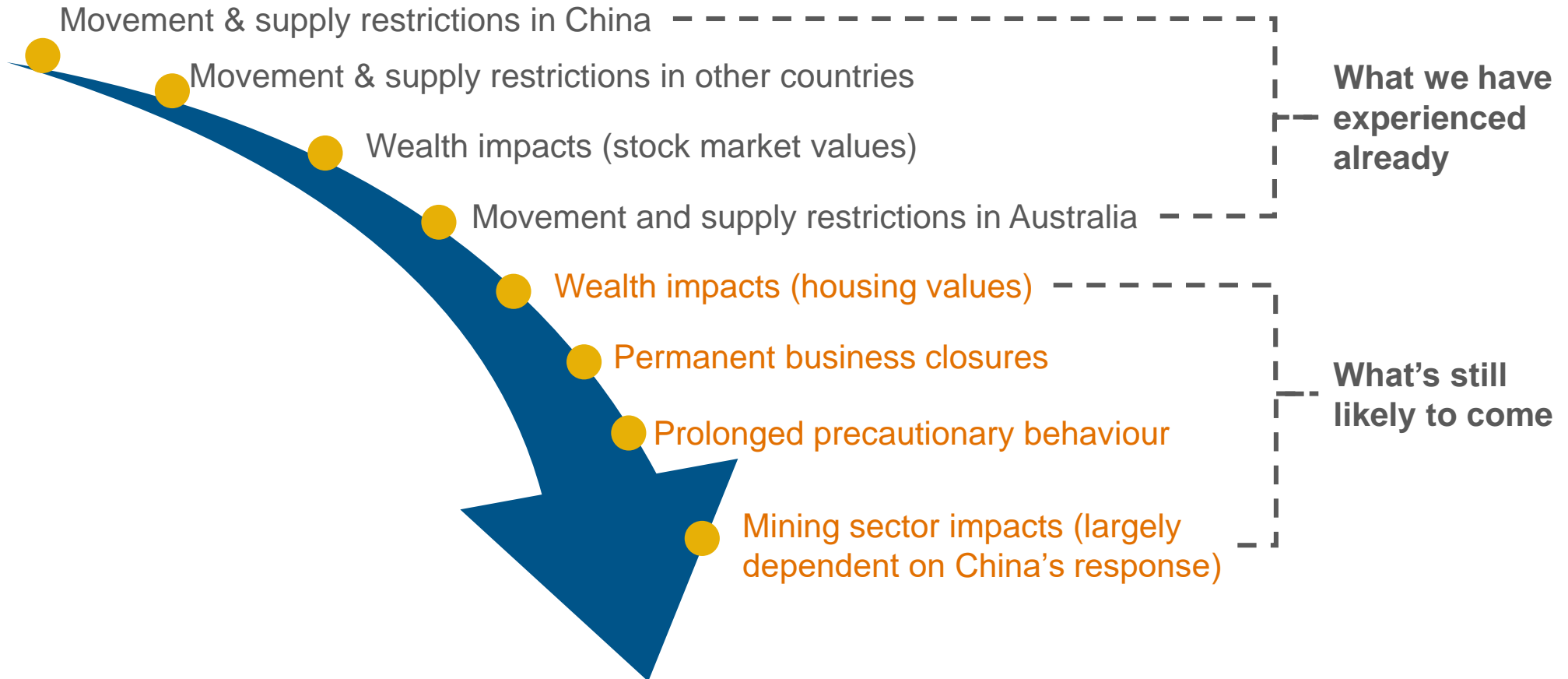
SOURCE: ABS CAT 6354.0

On the back of increased resources sector mineral exploration and capital investments, the prospects for the WA economy in 2020-21 were the best they had been for some time. Job vacancy data signalled improved activity levels, especially in WA's regional areas.

COVID-19's impact is unprecedented...

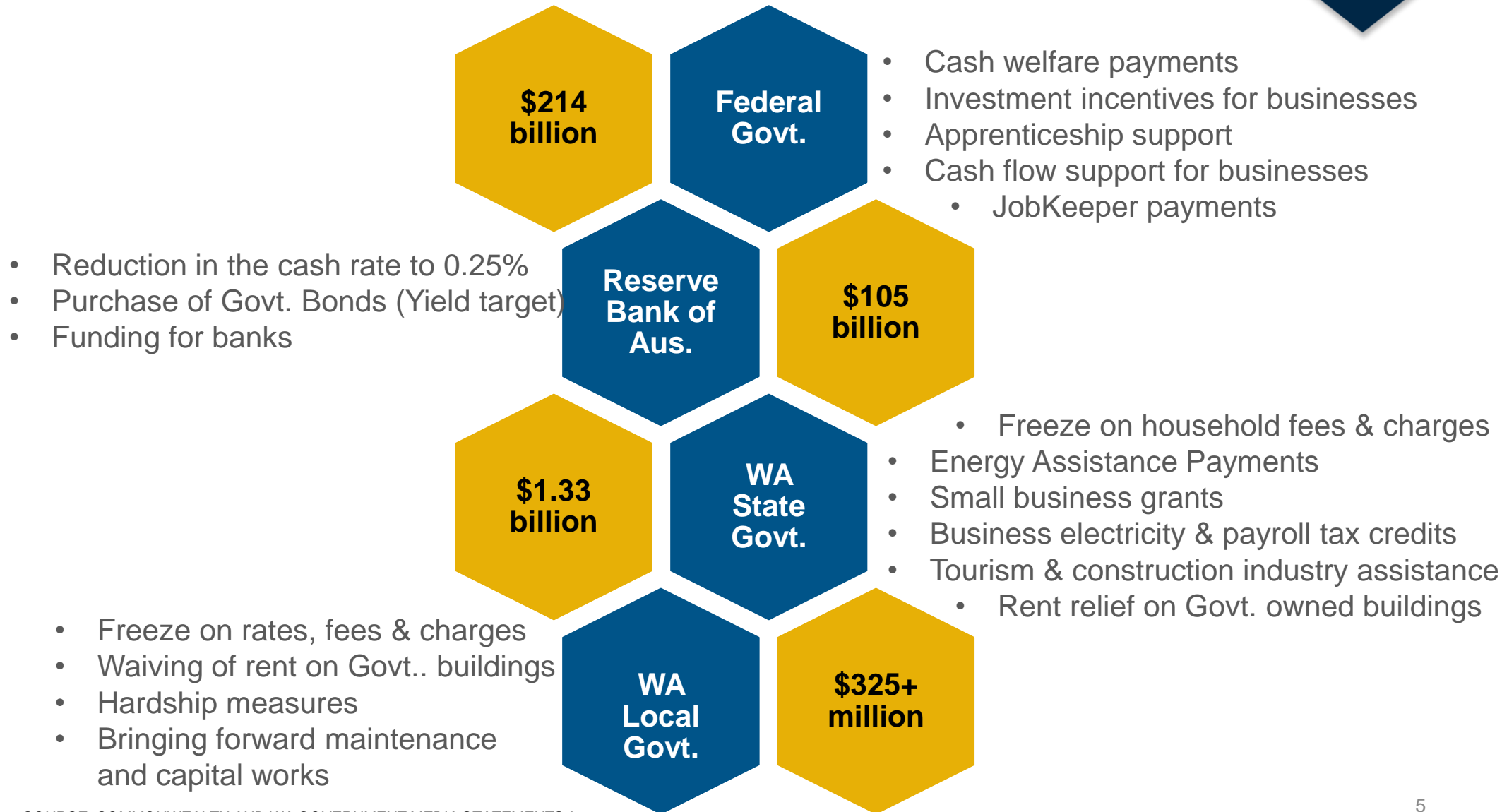


The cascading economic impacts of COVID-19



Although restrictions are easing and our economy has already been severely impacted, we still have a long way to go. COVID-19 is likely to have a lasting impact on every economy in the world. This is primarily due to some businesses being forced to permanently close their doors and prolonged precautionary behaviour.

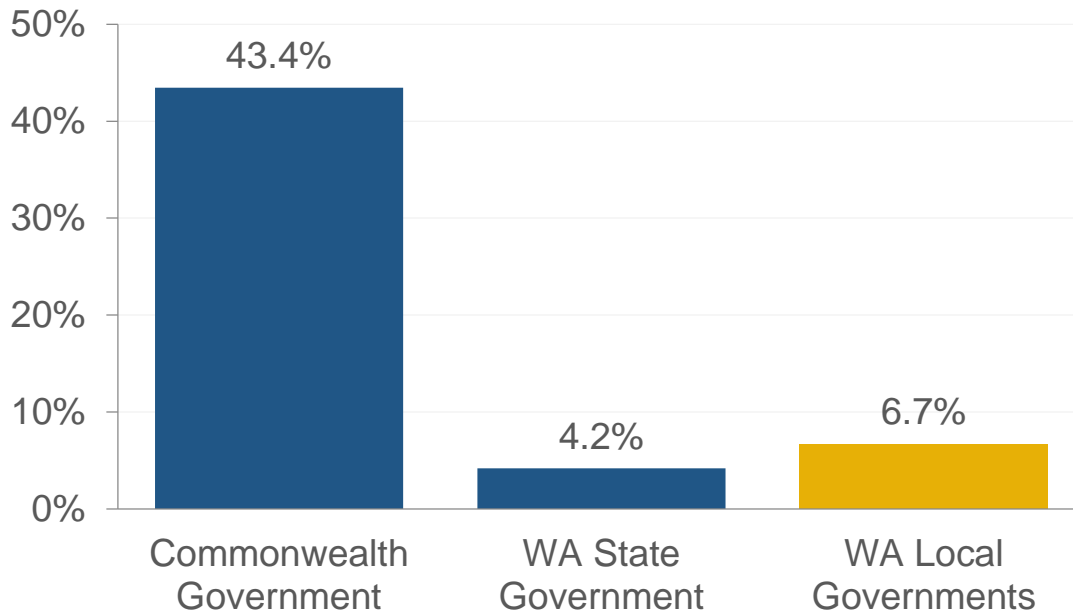
And so is the public policy response...



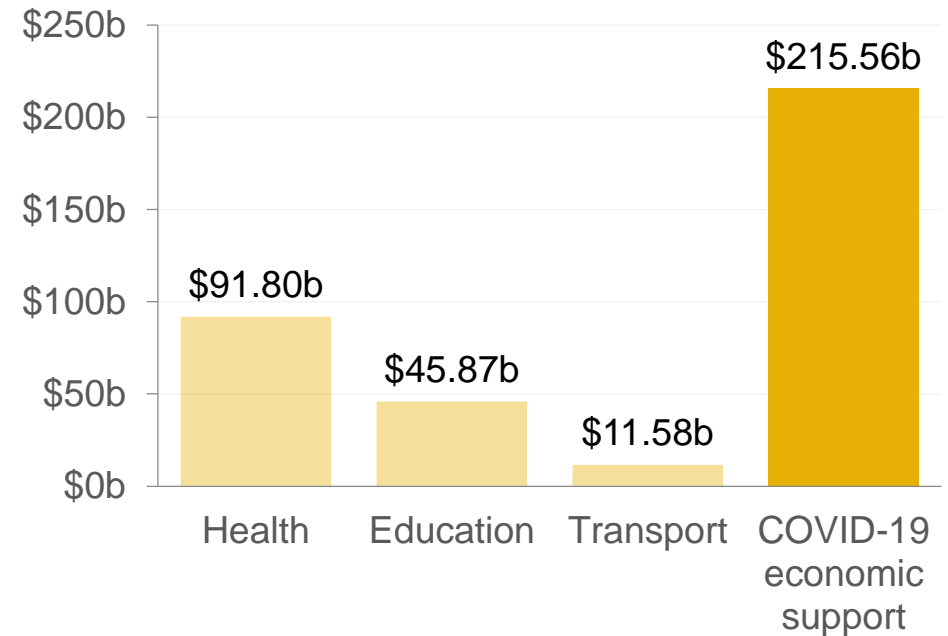
With all levels of Government stepping up



Cost of COVID-19 economic support* announced by each level of Govt. as a share of its 2018-19 revenue



COVID-19 economic support provided by all levels of Govt. compared to other forms of public expenditure in 2018-19



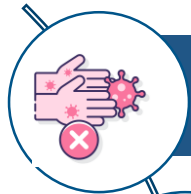
*Economic support figures exclude expenditure to increase health or police capacity

SOURCE: ANALYSIS BASED ON ABS CAT 5512.0, COMMONWEALTH AND WA GOVERNMENT MEDIA STATEMENTS & UNPUBLISHED LOCAL GOVERNMENT SECTOR SURVEY RESULTS

The level of funding provided by all three levels of Government has been substantial. The economic support provided by the Commonwealth is second only to the United States in terms funding provided as a proportion of GDP. In considering the Local Government sector's limited options available to raise revenue, its response has also been impressive.

Because of this, forecasting is difficult...

Factors that will have a direct influence on Australia's economic recovery



The presence of COVID-19 in our communities



The speed at which social distancing restrictions are eased



The re-opening of interstate and international borders



Business confidence and the willingness of businesses to invest in capital projects and employ additional staff

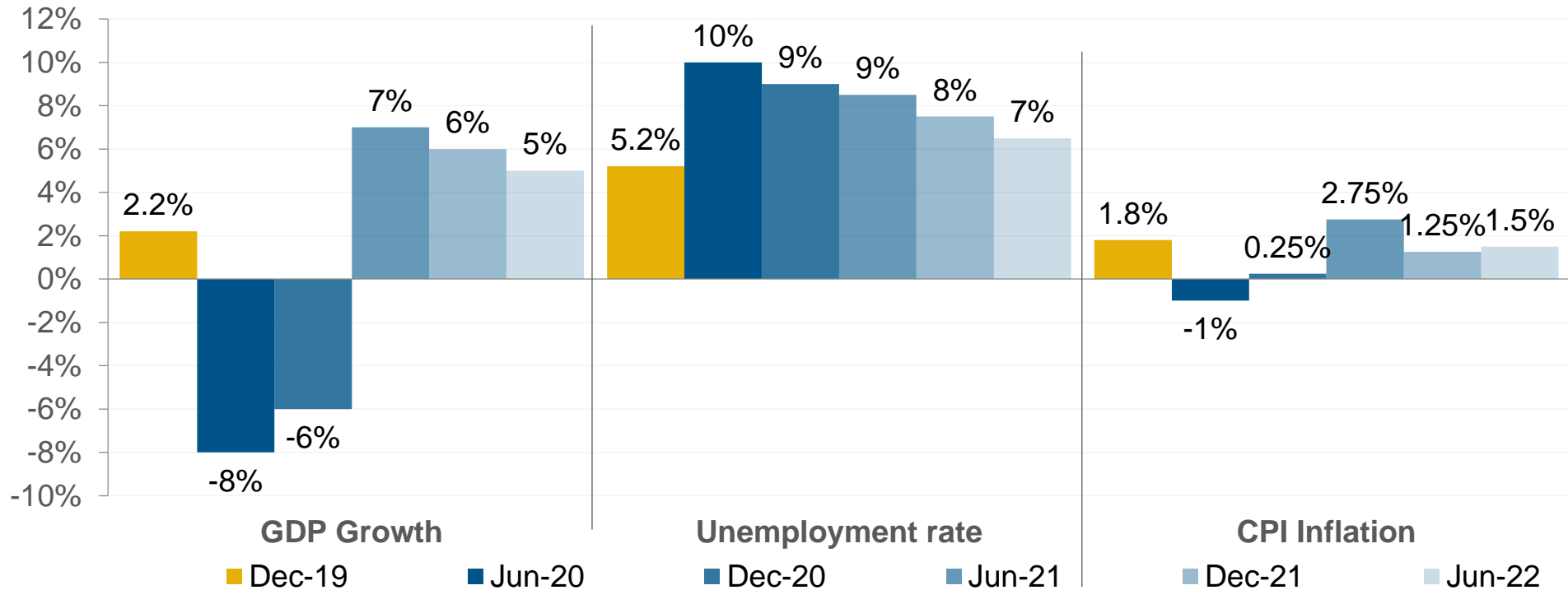


Consumer confidence and the willingness of consumers to spend rather than save

But we know the economic impacts will be substantial...



Reserve Bank of Australia's base-case year-ended economic forecasts

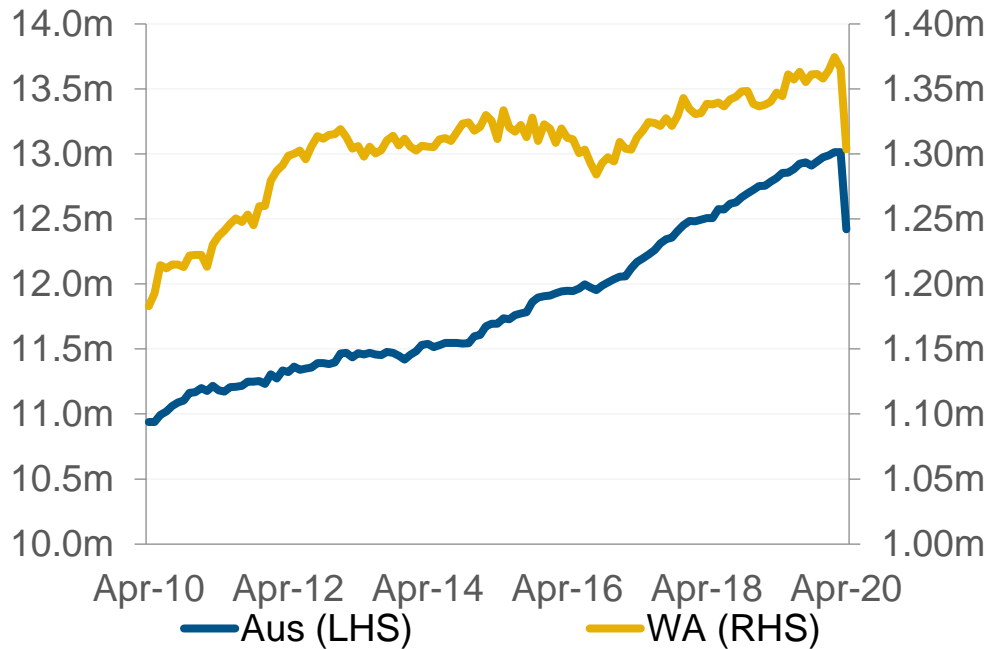


Under its base-case scenario, the Reserve Bank of Australia expects that national GDP will fall sharply during the first half of 2020, recording a contraction of 10% in the first six months of the year alone. Assuming that social restrictions are progressively relaxed in the coming months, GDP growth will begin to turn around in the September quarter, but it will take years for labour market capacity to be absorbed and for the economy to fully recover.

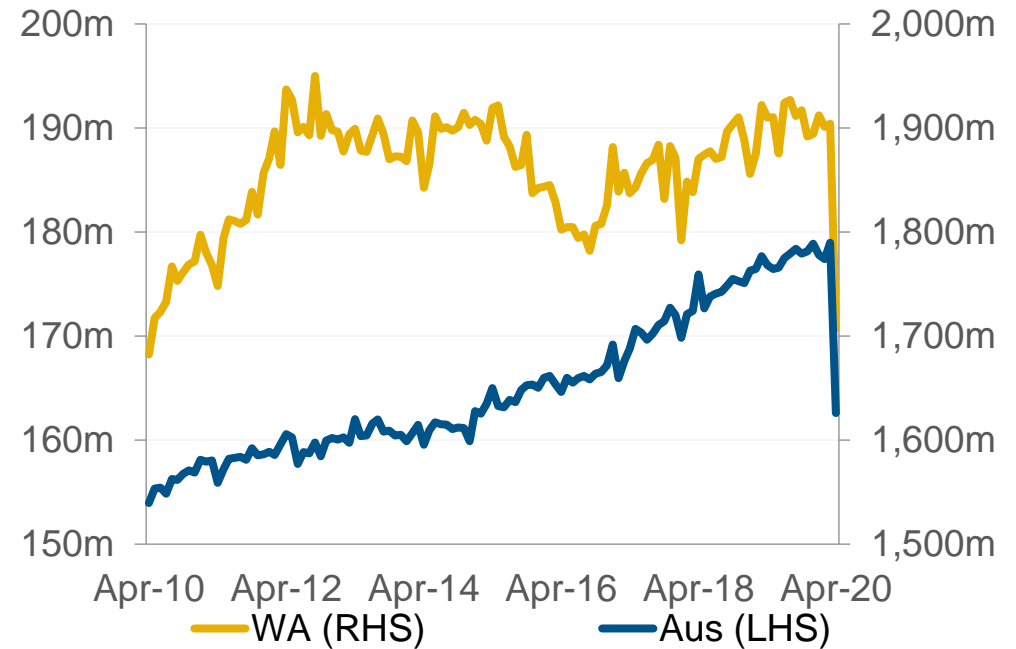
We have already seen mass labour force exits, unemployment and reduced hours



Employed people, Australia and WA



Monthly hours worked, Australia and WA



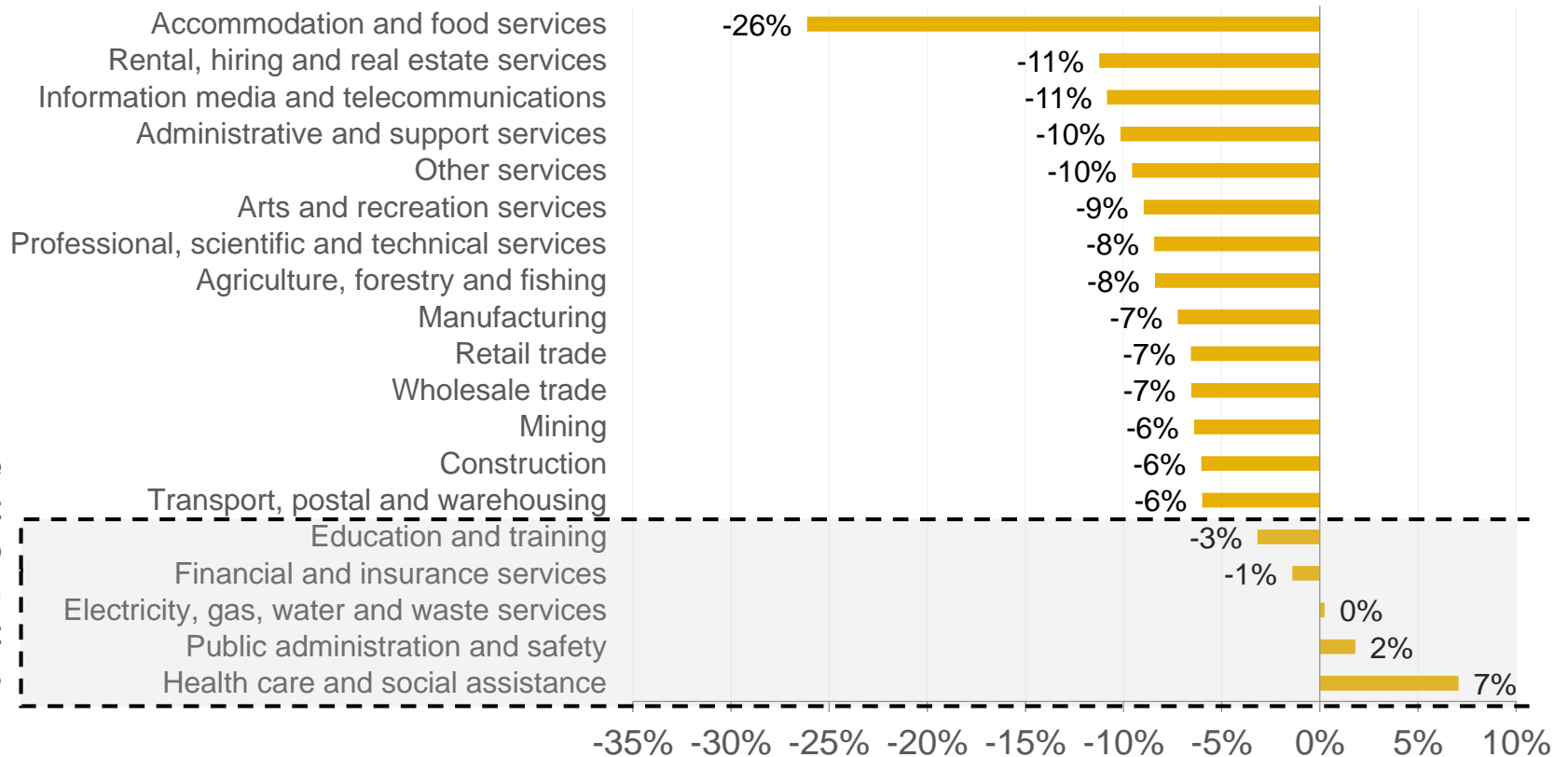
SOURCE: ABS CAT 6202.0

During the month of April alone, employment in Australia and WA dropped by 4.6% (594,000 job losses in Australia and 62,000 in WA). These figures don't, however, take into account the significant number of people who had their working hours reduced. Hours worked figures demonstrate the added impact of this cohort losing work, with total hours worked down 9.2% in Australia and 10.3% in WA in the month of April.

Some industries will be, and already are, feeling it more than others...



Change in total jobs in WA since March 14, by industry



Industries that have been impacted least by COVID-19 due to their high proportion of Government funded employees

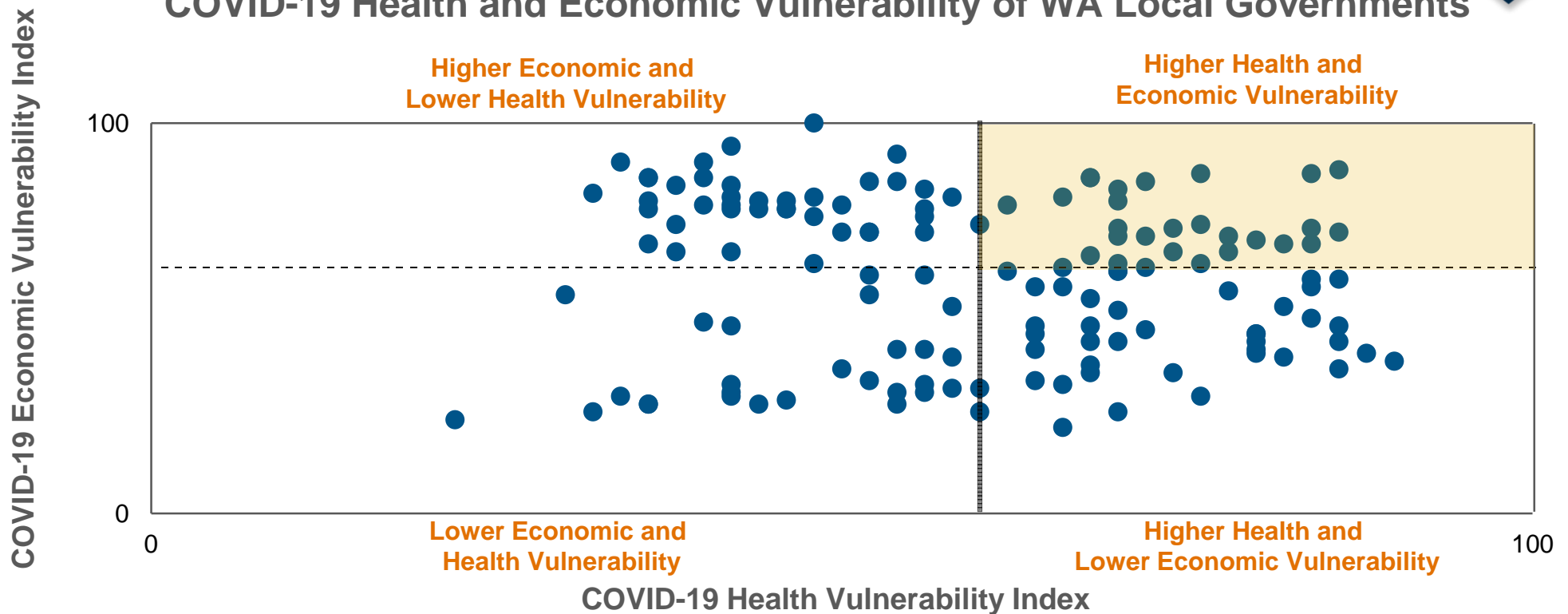
SOURCE: ABS CAT 6160.0.55.001

COVID-19 has significantly impacted almost every industry in WA, with the only industries not experiencing job losses since March 14 being utilities; public administration and safety; and healthcare and social assistance. By far, the industry that has taken the biggest employment hit has been accommodation and food services, with 26% fewer jobs since March 14.

And because of this, some regions are more vulnerable too



COVID-19 Health and Economic Vulnerability of WA Local Governments



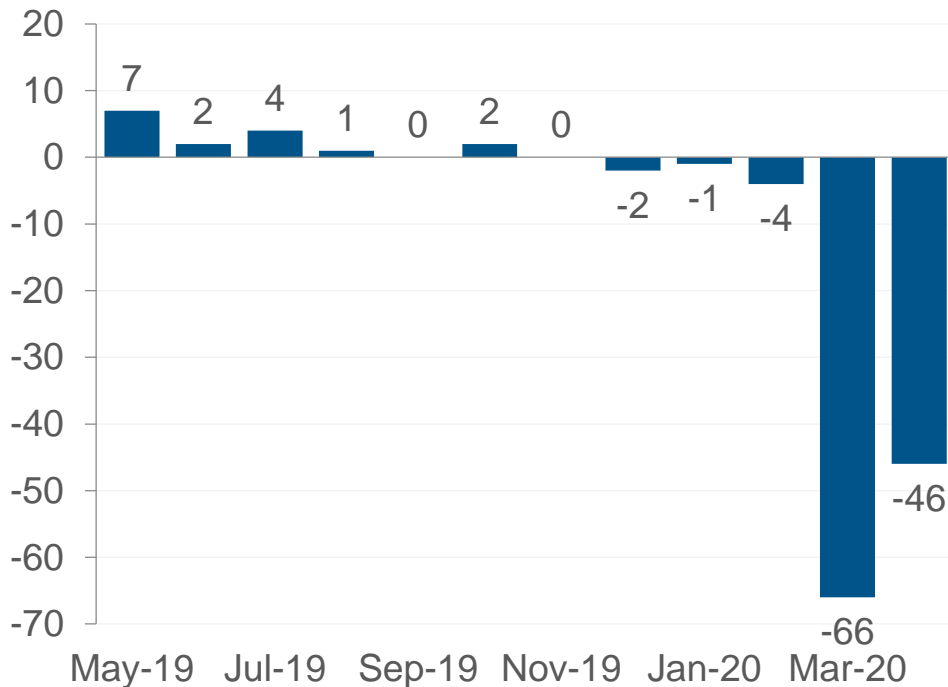
SOURCE: ANALYSIS BASED ON ABS 2016 CENSUS AND 2019 COUNTS OF BUSINESS DATA

To provide our members with a view of the COVID-19 vulnerability of their communities, WALGA has analysed a range of demographic and economic data for each Local Government in WA. From this analysis, each Local Government was assigned overall health and economic vulnerability scores, which are between 0 and 100. The subsequent COVID-19 vulnerability positioning of each Local Government is shown in the above chart, with one Local Government represented by each blue dot. This analysis has been provided to Local Government CEOs upon request.

While the economy may bounce back 'quickly', some impacts will be ongoing...

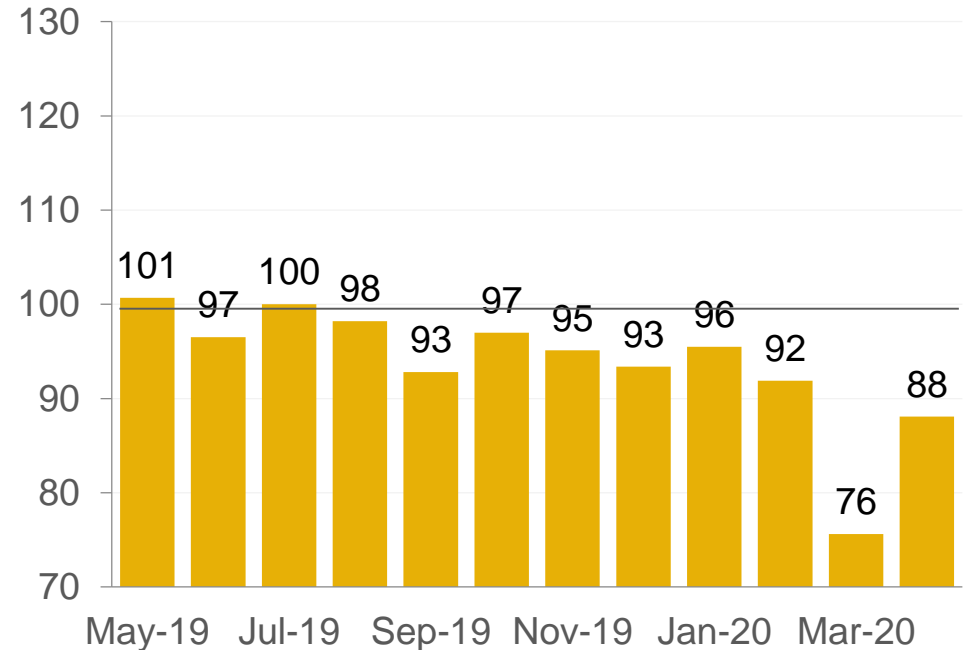


NAB Monthly Business Confidence (Aus.)



SOURCE: NAB MONTHLY BUSINESS CONFIDENCE SURVEY

Westpac-Melbourne Institute Monthly Consumer Sentiment Index (Aus.)



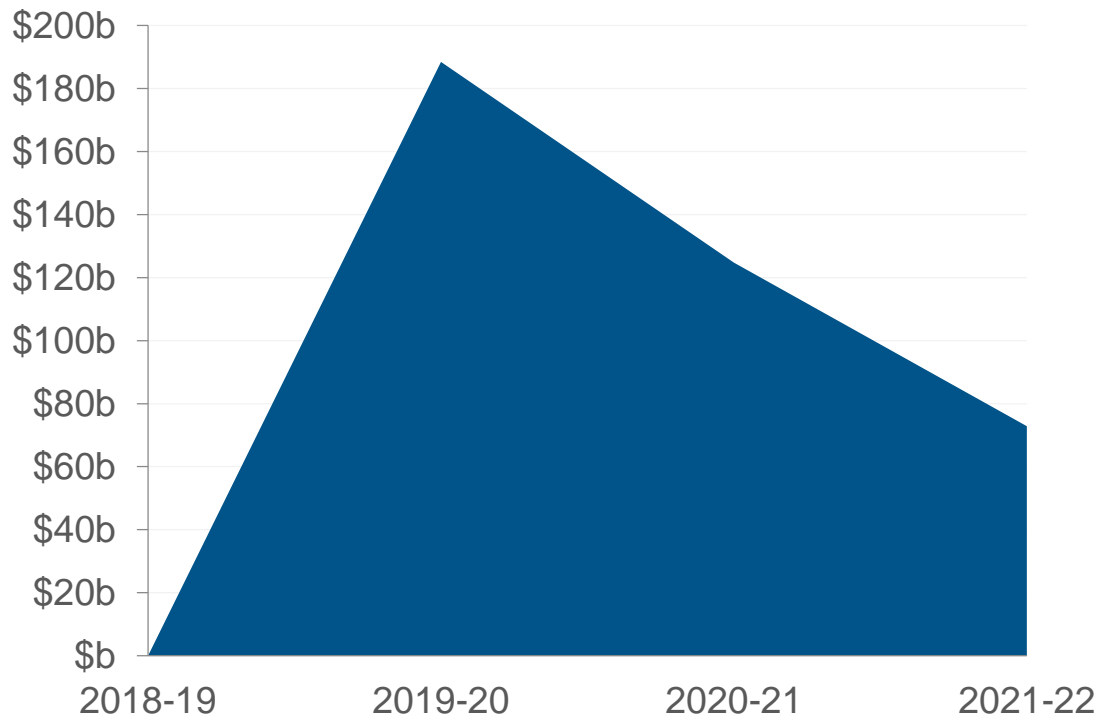
SOURCE: WESTPAC-MELBOURNE INSTITUTE MONTHLY CONSUMER SENTIMENT SURVEY

Although economic growth is expected to be strong once restrictions ease, the economic impacts of the COVID-19 pandemic will be long lasting. This will primarily be due to some businesses being forced to permanently close their doors and prolonged levels of low business confidence and subdued consumer sentiment.

Which may even result in a permanent loss in living standards

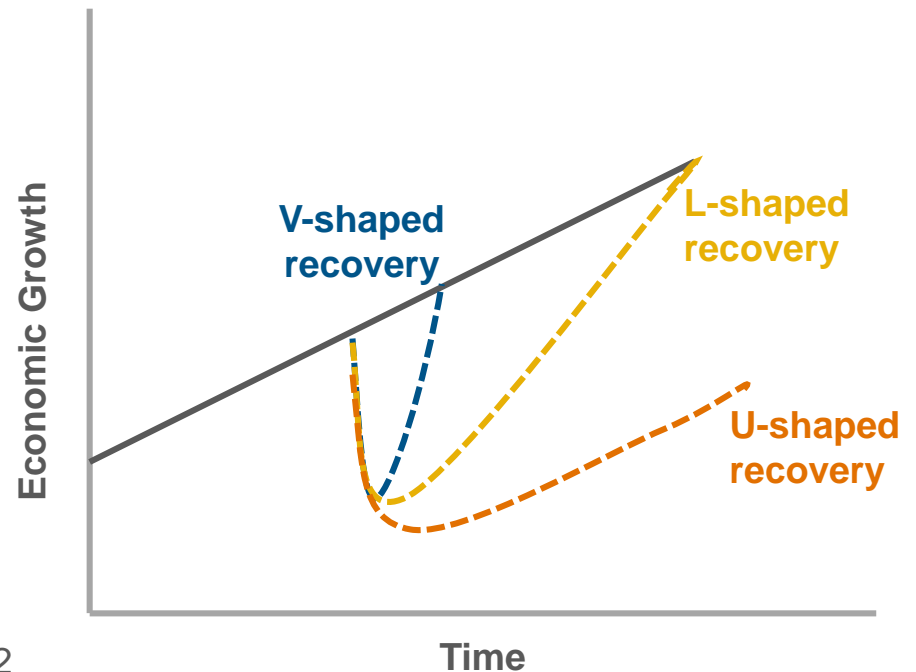


Cumulative Aus. GDP lost due to COVID-19 (forecast)



SOURCE: ANALYSIS BASED ON RESERVE BANK OF AUSTRALIA FORECASTS

The three different types of economic recoveries



Depending on how long precautionary behaviours persist, COVID-19 could have a permanent negative impact on living standards across Australia. Primarily, this would be seen through increases to long term unemployment and the emergence of a cohort of workers who are unable to find employment again after they lost their job during COVID-19.

What this means for the Local Govt. sector



- Overall, the impact of COVID-19 on the WA economy will be felt most in the shorter term, particularly during the June quarter with large falls in output and total hours worked. The economic outlook beyond the June quarter is more uncertain, due to the economic recovery being entirely dependent on the Government relaxing social distancing and containment restrictions. Notwithstanding, it is likely that the current economic disruption will have long-lasting effects on the Australian and WA economies over several years. For the Local Government sector, the worsening economic outlook will impact on the sector's expenditure and revenue sources:
 - **Rates revenue is expected to be negatively affected in 2020-21** due to an increase in bad debts and a higher proportion of people in financial hardship.
 - **Fees and charges revenue is expected to be negatively affected in 2020-21** due to lower levels of economic activity and service use.
 - **The impact on grant revenue in 2020-21 is unknown** as it is largely dependent on the degree to which Federal and State Governments elect to utilise Local Government grants as a means to facilitate economic stimulus to local communities.
 - **Downward pressure on most types of expenditure is expected in 2020-21** due to stagnant wages and inflation growth. WALGA will not be releasing an update to the Local Government Cost Index until the medium term outlook becomes more certain, so Local Governments should take into account the following wage and inflation considerations as they set their 2020-21 budgets:
 - Wages growth in 2020-21 will be dependent on each Local Government's negotiated wage agreement for 2020-21.
 - Inflation growth in 2020-21 will be mixed. Based on the Reserve Bank of Australia's forecasts, inflation growth will be flat for the first half of the 2020-21 financial year after initially falling during the 2019-20 June quarter. Inflation growth is expected to rebound strongly during the second half of the 2020-21 financial year – albeit from a low base. Overall, it is forecast that across Australia, inflation growth will be -1% in 2019-20 and 2.75% in 2020-21. Together, this means that over the two year period from July 2019 to June 2021, prices are forecast to grow by only 1.7% across Australia.
- All Local Governments will be impacted differently by COVID-19. Each local community has its own unique makeup of residents and businesses, which inherently means that some communities will be more vulnerable than others in both a health and economic sense. Because of this, as Local Governments plan their response and recovery activities, added focus should be directed towards the community cohorts that will require more support than others.

Questions



If you have any question on the contents of this report, please direct them to Nebojsa Franich, Policy Manager - Economics at WALGA on nfranich@walga.asn.au or 0417 917 748.