

# OUTLOOK

February 2021 | Chamber of Commerce and Industry of Western Australia Limited

## Digging Deep

### About Outlook

Outlook is the Chamber of Commerce and Industry of Western Australia's biannual analysis of the WA economy. All annual growth rates in the text of Outlook are calculated in terms of year-ended growth, comparing the latest quarter with the same quarter in the previous year, unless otherwise stated. The editor of Outlook is Daniel Norrie, Senior Economist.



Chamber of Commerce  
and Industry WA



## Outlook at a glance

In 2020 COVID-19 inflicted a severe economic blow on Western Australia's economy, cutting domestic economic activity to levels last recorded in 2010, wiping out a decade of growth.

Yet while the WA domestic economy today still remains well below the levels it was at a year ago, it has nonetheless rebounded quickly, thanks to two key forces.

First, is the success of the mining sector. Global commodity markets have worked in Western Australia's favour, with China's recovery and global stimulus fuelling demand for record amounts of iron ore, and ongoing fear and uncertainty driving demand for safe-haven assets like gold.

With mining comprising 43 per cent of our economy, now more than ever when global commodity markets are strong, the WA economy is strong (**Chart 1**).

The second force underpinning our economy is the significant levels of Federal Government

stimulus injected into the local economy. CCIWA estimates that as of early December last year, close to \$17 billion had been injected into the economy from stimulus measures and the early withdrawal of superannuation. On top of this is the estimated \$6 billion that Western Australians usually spend overseas. This stimulus, in combination with looser restrictions within Western Australia, has enabled household spending to support the economy.

What then, for the months and years ahead?

Global commodity markets are expected to continue working in WA's favour. The rest of the world produces too little iron ore to meet China's needs, and as such China will continue to rely on Western Australia for this critical commodity. A range of other factors will also work in WA's favour — ongoing global uncertainty will continue to underpin the gold sector, and continued investment in low-carbon products and infrastructure will fuel demand

for copper and nickel. More recently the cold spike in Asia is improving the outlook for WA's LNG industry.

At the same time, WA households are well placed to manage the coming withdrawal of Federal Government stimulus payments. In contrast to what happened during the Global Financial Crisis, households have significantly grown their pool of savings. One of the best indications of the resilience of local households is the fact that, after steadily increasing for many years, mortgage arrears rates in Western Australia are declining.

Another important support for our economy over the next 18 months is the pipeline of housing construction, thanks to record support from the Commonwealth and State Governments. While aspects of the design of these stimulus programs have been questioned, they will nonetheless achieve their policy aim of providing immediate support for the economy through a difficult period. At the same time, there has



also been some support provided to WA's population, with net interstate migration turning positive for the first time in seven years. Its critical these people stay in WA once the pandemic passes, to ensure new housing construction is absorbed.

The upshot of all this is we expect the domestic economy to grow this financial year by 0.7 per cent, and the overall economy (including exports and imports), by 2.7 per cent. While these growth figures will still see the WA economy smaller than what it was expected to be prior to the

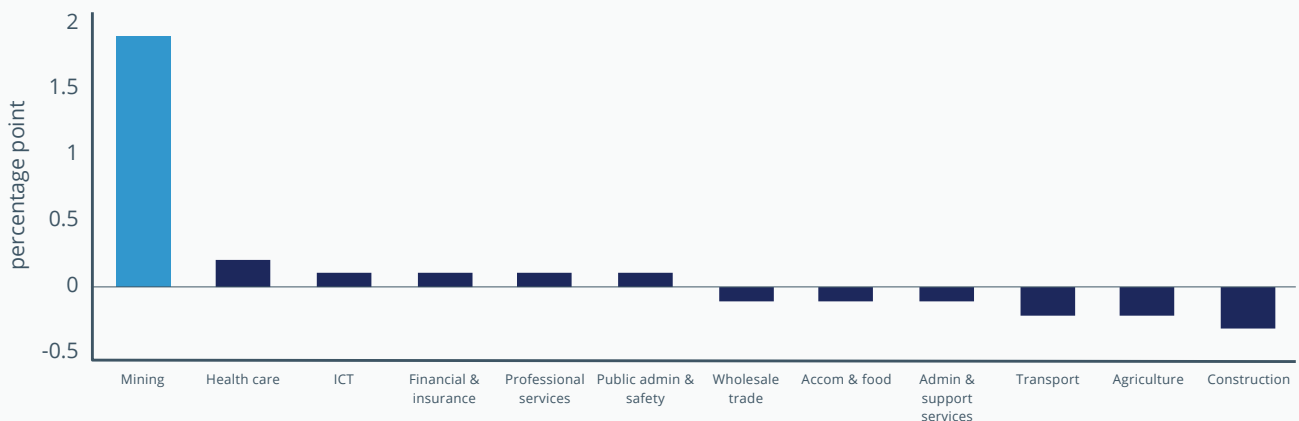
pandemic, they are nonetheless impressive and the envy of many economies around the world.

But for many businesses still suffering, they are just that: figures.

Ongoing border restrictions will continue to inflict deep impacts on some WA businesses. Businesses that rely on skilled workers, supply chains (particularly air freight), and travel to other states to pitch for work or deliver services are severely hampered by restrictions on the movement of people across borders.

And of course, travel, tourism and events businesses and international education providers will continue to suffer until there is a return to normal travel. More recently, the snap lockdown on the WA economy in February cost some WA businesses tens of thousands of dollars, income they will never recover and a burden carried by small business owners, their families and workers. The plight of these businesses does not show up in the overall economic growth figures; not surprising for an economy so dominated by mining.

**Chart 1: Contributions to GSP Growth**



Source: ABS, CCIWA

# It is vital for these businesses and for the broader economy that border restrictions do not linger any longer than is absolutely necessary

It is vital for these businesses and for the broader economy that border restrictions do not linger any longer than is absolutely necessary. When Western Australia maintains a 14-day quarantine requirement for longer than other States, those businesses suffering are owed an explanation as to why policy settings must be different for WA.

More broadly, WA cannot continue to rely so heavily on the mining sector going forward. As sure as the sun rises tomorrow, commodity markets will one day turn. When they do, the economy needs to be ready.

That is why CCIWA continues to call on the State Government to introduce reforms that would help strengthen and diversify the economy. In particular, we are

calling for the following:

- Further reduce the burden of payroll tax in WA. It makes no sense to have the strongest budget, but for many WA businesses to face the highest payroll tax burden in the country.
- As most other states do, direct funding for the delivery of kindy services to centre-based childcare centres. That would go a significant way to helping women back into the workforce, critical for WA to transition to a knowledge economy.
- Remove restrictions on when WA businesses can open, and what they can sell. Relaxing restrictions on shopping hours would create jobs and hours of work.
- Signal the State is keen to bring

back international students as soon as it is safe to do so, and push hard into international markets to secure the trade and investment opportunities that will catalyse our economic recovery and diversification.

Western Australia's history is replete with Governments that became complacent due to the success of the mining sector, and its outsized influence on overall growth figures. We cannot continue to make these same mistakes, solely riding on the miner's back. We have an enviable launching pad on which we can further grow the prosperity of current and future generations of Western Australia's citizens. But it won't just happen — we must make the bold reform decisions today, to realise that better future tomorrow.

## Section 1: Economic Outlook

### Economic forecasts for Western Australia

Forecasts	2019-20 Actual	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
<b>Economic Activity</b>				
Household Consumption	-2.3%	-1.5%	3.0%	2.5%
Dwelling Investment	-13.2%	3.0%	9.5%	-4.0%
Business Investment	9.5%	0.5%	-1.0%	2.0%
State Final Demand	0.8%	0.7%	2.6%	2.0%
Exports	0.7%	1.0%	1.5%	1.0%
Imports	-4.1%	-11.0%	4.0%	2.0%
Gross State Product	1.4%	2.7%	2.1%	1.6%
<b>Labour Market</b>				
Unemployment	6.1%	6.7%	7.0%	6.2%
Inflation	1.3%	1.6%	1.8%	2.0%
Wages	1.7%	1.8%	2.0%	2.0%

Notes:

1 Actual outcomes are as reported in the 2019-20 State Accounts, updated with the latest State Final Demand and Balance of Payments data.

2 Forecasts for economic activity are produced in terms of annual average growth, comparing four quarters of data to the previous four quarters of data.



## Economic Growth

Forecasts	State Final Demand	Gross State Product
<b>2019-20 Actual</b>	0.8%	1.4%
<b>2020-21 Forecast</b>	0.7%	2.7%
<b>2021-22 Forecast</b>	2.6%	2.1%
<b>2022-23 Forecast</b>	2.0%	1.6%

Thanks to its isolation and management of the virus, WA has been spared the worst effects of the pandemic and repeated lockdowns. WA's domestic economy grew by 4.9 per cent (\$2.4bn) in the first quarter of this financial year, driven by a strong recovery in consumer spending after COVID-19 restrictions were removed.

Nonetheless, COVID-19 has still disrupted our economy to a significant extent. Output in the domestic economy fell by 6.4 per cent (\$3.3 billion) in the final three months of 2019-20, back to the same level in 2010 (**Chart 2**).

Some businesses have continued to incur losses. Around a third of WA businesses applied for JobKeeper in September, only down marginally from 38 per cent in July. In response, the Commonwealth

has injected close to \$17 billion into WA households and businesses, significantly underpinning consumer and business spending.

Looking forward, increased residential construction and business investment will help offset a small fall in consumer spending in the current financial year. This will help to support growth in WA's economy.

The mining sector will also continue to buttress WA's economic output. Global stimulus, investment in low-carbon products and renewable energy infrastructure and a cold winter in Asia are increasing demand

for commodities. On average, commodity prices have increased 17.6 per cent across 2020. This is helping to increase exploration spending and the prospect of new mining project announcements.

Some industries continue to face difficult conditions. Although vaccines are being distributed across the globe, it is unclear when the transmission of new virus strains will no longer be a threat and international travel will recover to its previous levels. This will delay a sustained recovery in businesses that rely on international travel, including tourism and hospitality businesses.

**Chart 2: WA's domestic economy**



Source: ABS, CCIWA



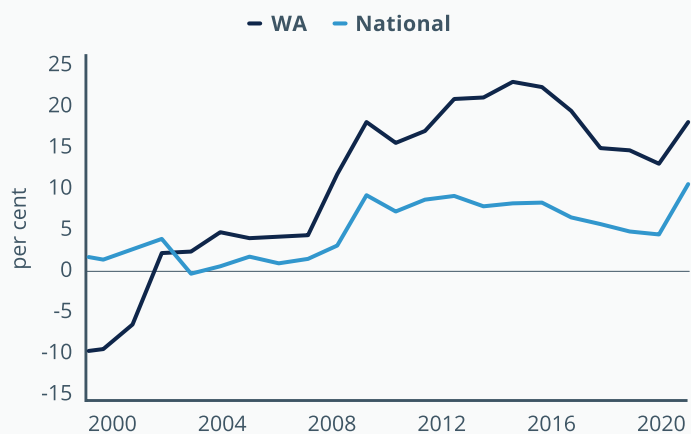
Household spending grew by \$3 billion (11.7%) at the start of FY20-21, after spending fell by around the same amount in the June quarter

## Household Spending

Forecasts	Household Consumption
2019-20 Actual	-2.3%
2020-21 Forecast	-1.5%
2021-22 Forecast	3.0%
2022-23 Forecast	2.5%

Western Australians have spent big on lifestyle and recreational goods to adapt to working at home and make up for reduced spending during the lockdown. This has been bolstered by historic levels of government stimulus and Western Australians redirecting some of their usual spending on international travel (approximately \$6 billion annually) to spending in WA. Household spending grew by \$3 billion (11.7%) at the start of FY20-21, after spending fell by the same amount in the June quarter.

Chart 3: Households are saving more



Source: ABS, CCIWA

Consumers spent big on household goods (up 20.9%); vehicles (up 19.5%); and takeaway alcohol (up 14.6%) in September-2020 compared with September-2019. At the same time, spending was well down for travel (down 79.1%), and at hotels, cafes and restaurants (down 21.3%).

Households have also used stimulus payments to pay down debt and build their savings, with the net saving rate in WA reaching 18 per cent (**Chart 3**).

At the same time, lower population growth, interstate tourism and a reduction in government payments will weigh on future spending.

# Business Investment

Forecasts	Business Investment
2019-20 Actual	9.5%
2020-21 Forecast	0.5%
2021-22 Forecast	-1.0%
2022-23 Forecast	2.0%

Business investment fell by 4.9 per cent in the first quarter of 2020-21, driven by a 4.9 per cent fall in mining investment and falls in investment across all business sizes.

The primary factor driving investment in WA is demand for commodities, which have been underpinned by global stimulus, investment in low-carbon products and renewable energy infrastructure and a cold winter in Asia. On average, commodity prices have increased 17.6 per cent across 2020.

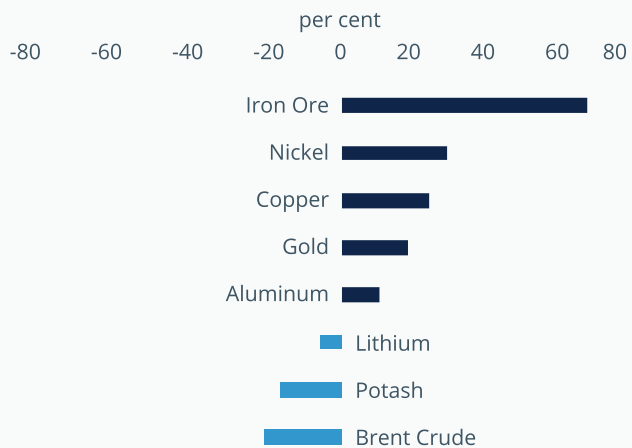
Increases in commodity prices (**Chart 4**) directly increase the cash flow of miners and the attractiveness of investing in new projects. As a result, mineral exploration spending is well up (**Chart 5**), which should see future announcements regarding new projects and investments.

In contrast, falls in turnover that have been experienced in other industries have reduced the ability and willingness of some businesses to invest in new projects. For example, new tariffs and import restrictions mean that some WA exporters of agricultural and food products (such as rock lobster and wine) are no longer able to sell products in China at a competitive price. These issues reduce the attractiveness of investing in new projects and will weigh on investment in WA.

On balance, we expect that increased mining investment will offset falls in investment in other areas and help stabilize investment levels in WA.

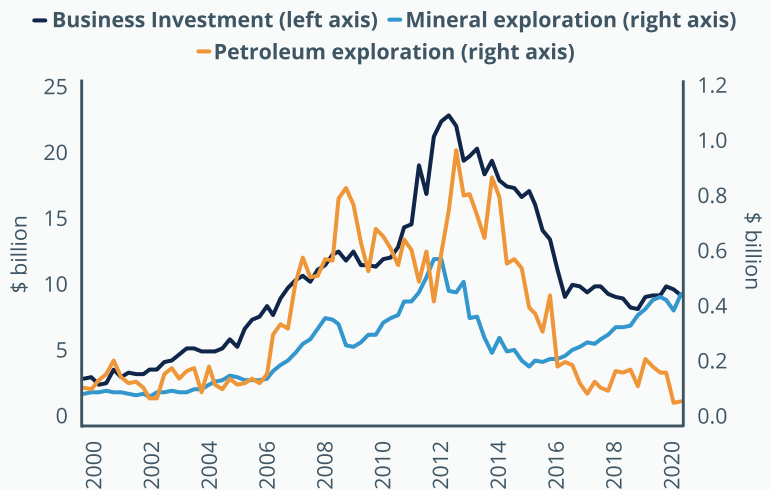


**Chart 4: Average commodity prices have increased**



Source: Refinitiv, CCIWA

**Chart 5: Increased exploration activity in WA**



Source: ABS, CCIWA

# Dwelling Investment

Forecasts	Dwelling Investment
<b>2019-20 Actual</b>	-13.2%
<b>2020-21 Forecast</b>	3.0%
<b>2021-22 Forecast</b>	9.5%
<b>2022-23 Forecast</b>	-4.0%

A quadrupling of first-home builder incentives has brought forward demand for house and land packages. In December, building approvals were 111 per cent higher than the same time in 2019 (**Chart 7**), generating a solid pipeline of work for builders over the next 18 months. Building activity and progress payments on this work are likely to peak in 2021-22.

Critically, there has also been some support provided to WA's population, with net interstate migration in the September 2020 quarter turning positive for the first time in seven years. Its critical these people stay in WA once the pandemic passes, to ensure new housing construction is absorbed.

People are also spending more on new builds and alterations due to:

- record low interest rates;
- a tight rental market (**Chart 6**), which increases the attractiveness of building; and
- increased working-from-home.



Looking forward, housing construction is one sector that may be compromised by prolonged border closures and labour

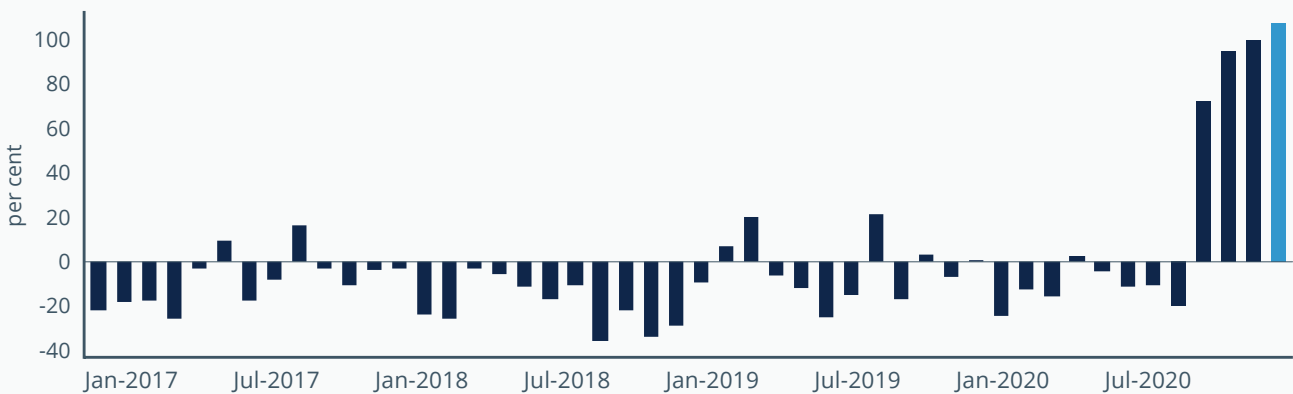
shortages, which could delay the completion of some projects. Lower population growth will also weigh on future construction activity.

**Chart 6: The rental vacancy rate has fallen**



Source: REIWA Research

**Chart 7: Incentives have boosted building approvals**



Source: ABS, CCIWA





## International Trade

Forecasts	Exports	Imports
<b>2019-20 Actual</b>	0.7%	-4.1%
<b>2020-21 Forecast</b>	1.0%	-11.0%
<b>2021-22 Forecast</b>	1.5%	4.0%
<b>2022-23 Forecast</b>	1.0%	2.0%

Despite project, transport and port constraints, iron ore export volumes grew by 5.1 per cent in 2019-20 (**Chart 8**). This helped to meet strong demand for iron ore after Brazilian iron ore exports plummeted.

Despite the strength of the resources sector, total goods export volumes still fell by 8.7 per cent in September-2020 compared with September-2019, due to falls in exports of food, animals and other commodities.

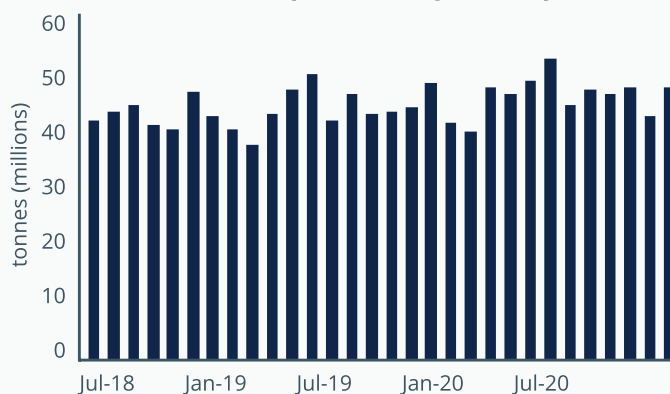
Services trade has experienced the brunt of the impacts of COVID-19 (Chart 9). WA's services exports have fallen by 47.2 per cent, driven largely by falls in tourism and international students.

Goods imports fell by 3.7 per cent in September-2020 compared with September-2019, driven by falls in imports of fuel products, chemicals, fertilisers and cars. Imports of services have fallen 68.3 per cent, reflecting falls in overseas travel.

The next release of the Chinese Government's Five Year Plan in March 2021 will contain important guidance about China's future

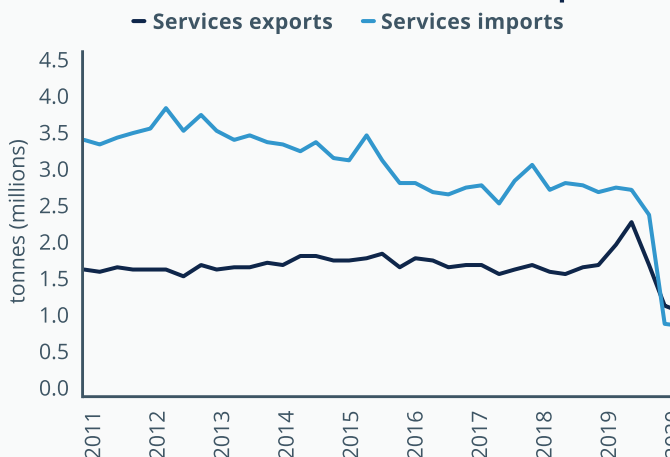
growth objectives, with important implications for commodity prices and WA's exports.

**Chart 8: Iron ore exports have grown 5 per cent**



Source: ABS, CCIWA

**Chart 9: Total services trade has fallen 60 per cent**



Source: ABS, CCIWA

While shortages of workers will crimp the productive potential of WA businesses, it will nonetheless help to maintain a lower unemployment rate in WA

## Unemployment

Forecasts	Unemployment
2019-20 Actual	6.1%
2020-21 Forecast	6.7%
2021-22 Forecast	7.0%
2022-23 Forecast	6.2%

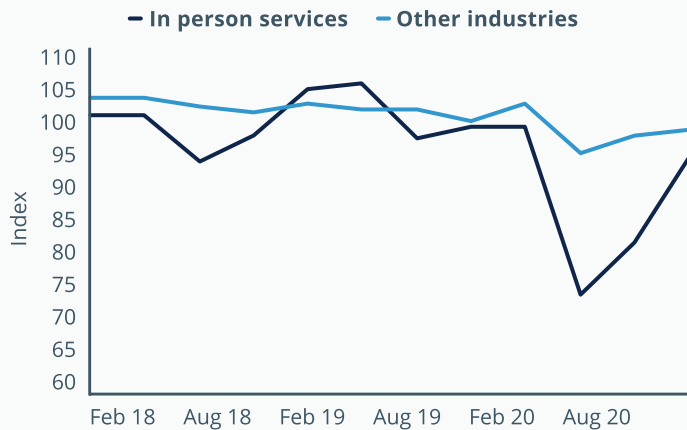
The easing of restrictions, strength in the mining sector, and a consumer spending recovery on the back of Federal stimulus helped to reduce the unemployment rate to 6.2 per cent in December, from a high of 8.7 per cent in June.

Workers in retail, hospitality and events businesses were damaged by events in 2020. These businesses rely more on travel and human interaction, and as such workers in these businesses suffered the largest falls in hours worked (**Chart 10**).

In workers' favour is that job vacancies are now at levels not seen since the mining boom (**Chart 11**), reflecting improvements in consumption spending, residential construction, mining investment and a shortage of workers. While shortages of workers will crimp the productive potential of WA businesses, it will nonetheless help to maintain a lower unemployment rate in WA.

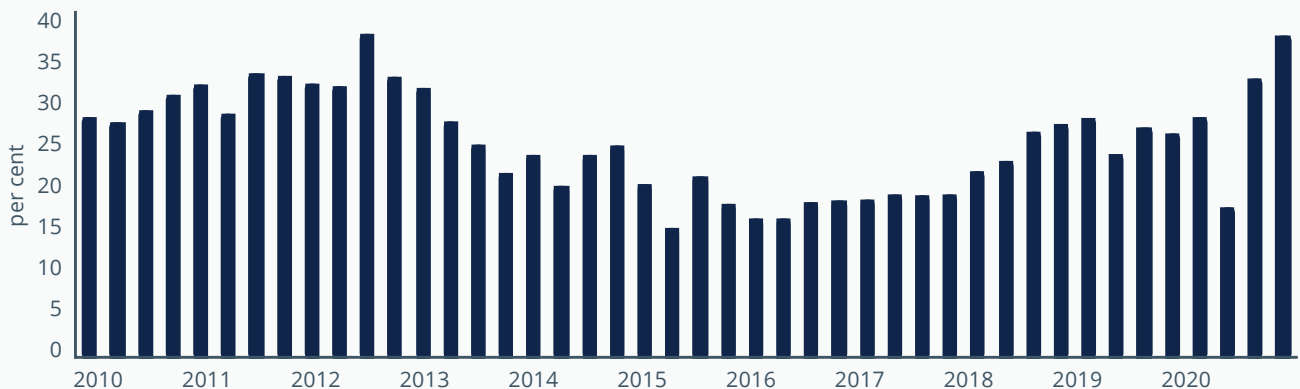


**Chart 10: Industries that rely on customer interaction were more impacted in 2020**



Source: ABS, CCIWA

**Chart 11: Job vacancies in WA are now as high as the peak of the mining boom**



Source: ABS, CCIWA



## Wages and Inflation

Forecasts	Inflation	Wages
2019-20 Actual	1.3%	1.7%
2020-21 Forecast	1.6%	1.8%
2021-22 Forecast	1.8%	2.0%
2022-23 Forecast	2.0%	2.0%

### Inflation outlook

Consumer prices fell by 0.1 per cent through the year to December 2020, largely due to the State

Government's electricity rebate.

The largest price rises since December-2019 have occurred in the price of tobacco (up 19.7 per cent) waters, soft drinks and juices (up 12.8 per cent), fruit (10.5 per cent), new dwelling purchases (up 8.9 per cent) and household goods (up 8.1 per cent) (Chart 12).

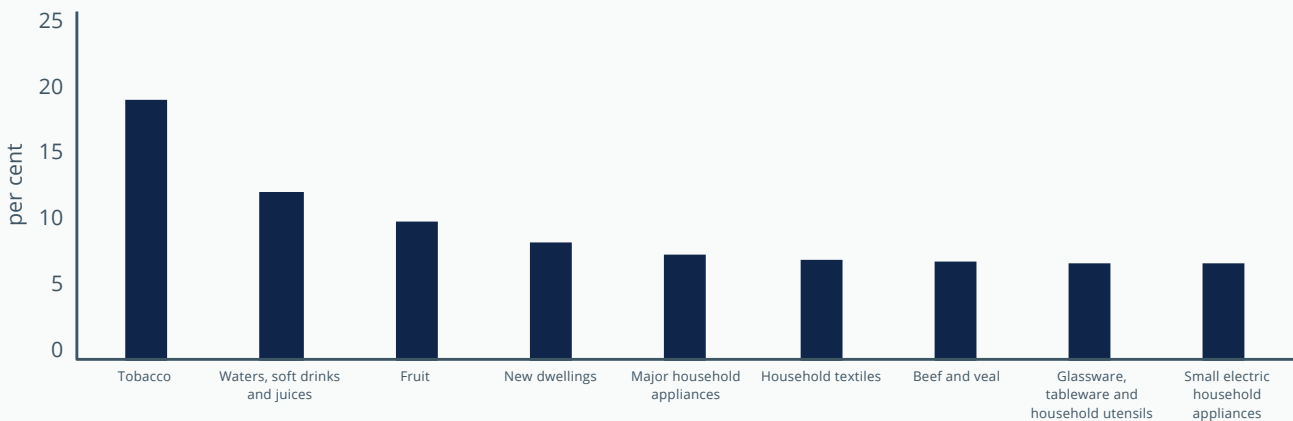
### Wage outlook

Wages grew by 1.7 per cent on average in 2019-20. In some areas,

labour shortages are increasing the cost of attracting workers (e.g. diesel fitters and data analysts). This is helping to bid up wages in some parts of the economy.

In some highly competitive industries, such as the services sector, employers are facing higher costs, but also a lower productivity environment and lower margins. This may place additional pressure on businesses and weigh on wage growth.

Chart 12: Prices are rising



Source: ABS, CCIWA  
 Note: Chart displays year-ended growth, comparing prices in December 2020 with December 2019

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