



# 2016-17 BUDGET

## FACT SHEET

### WESTERN AUSTRALIAN ECONOMY

Latest data show that Western Australia has the highest level of business investment of any State (\$57.4 billion in 2015), the equal second lowest unemployment rate of all States (over the year to March 2016), and accounts for around 40% of merchandise exports nationally (over the year to March 2016).

Following a period of unprecedented investment in the productive capacity of the State's economy, the number of people employed in Western Australia has increased by more than 184,000 between 2008 and 2015. However, over the short to medium term, the Western Australian economy is expected to experience a period of below trend growth as activity consolidates at a high level.

The economic transition underway in Western Australia from a period of substantial investment in resources projects to the production and exports phase is taking longer than previously expected and having a deeper impact.

This is anticipated to see overall economic growth (as measured by Gross State Product, GSP) moderate from 3.5% in 2014-15 to 1% in 2015-16 and 1.25% in 2016-17 (see table below).

Economic growth is forecast to gradually increase to 3% by 2019-20 supported by a recovery in domestic economic activity and continued growth in exports. Overall, the size of the Western Australian economy is expected to increase by almost \$30 billion from 2014-15 to be worth in excess of \$305 billion by 2019-20.

#### ECONOMIC FORECASTS

Table 1

#### Western Australia, Annual Growth (%)

	2014-15 Actual	2015-16 Estimated Actual	2016-17 Budget Estimate	2017-18 Forward Estimate	2018-19 Forward Estimate	2019-20 Forward Estimate
Gross State Product	3.5	1.0	1.25	2.5	2.5	3.0
State Final Demand	-3.6	-4.25	-3.75	-0.25	1.0	3.25
Merchandise Exports	8.6	5.5	5.5	4.5	3.5	2.5
Employment	1.5	0.25	0.25	0.75	1.5	2.0
Unemployment Rate <sup>(a)</sup>	5.4	6.25	6.75	6.5	6.25	5.75
Wage Price Index	2.2	1.75	1.75	2.25	2.75	3.25
Perth Consumer Price Index	1.8	1.25	1.75	2.25	2.5	2.5
Population	1.4	1.2	1.3	1.5	1.7	1.9

(a) Average over the year.

Source: Australian Bureau of Statistics and Department of Treasury

The domestic economy, as measured by State Final Demand (SFD), is contracting as business investment declines from a peak in 2012-13 to more normal levels by the end of the forecast period. As a result, SFD is expected to contract for a fourth consecutive year in 2016-17.

Business investment is expected to decline in each year of the forecast period to 2018-19, as major LNG projects continue to wind down their capital expenditure and move into production. Beyond 2018-19, investment is projected to increase modestly, supported by a rise in sustaining capital expenditure for the large resource projects built in recent years, as well as the potential for some strategic investment in anticipation of a re-balancing of the iron ore market.

As a share of the total economy, investment is expected to fall from a peak of over 31% in 2012-13 to around 12% by the end of the forecast period, which is much closer to the average share of around 11% prior to the last decade where iron ore and LNG investment has been unusually large.

Exports are expected to continue to be a key driver of the States' economic growth across the Budget period, primarily due to the ramp up in production from large resource projects.

For example, from 2015-16 to 2019-20, LNG exports are projected to more than double (from around 20 to almost 50 million tonnes) and as a result, by 2020, Western Australia is expected to have the third largest installed LNG production capacity in the world after Qatar and the US.

Weakness in the domestic economy is translating into soft labour market conditions. Employment is expected to increase by 0.25% per annum in 2015-16 and 2016-17 and grow more strongly in 2017-18 and beyond. The unemployment rate is expected to rise and peak at 6.75% in 2016-17, before steadily declining to 5.75% in 2019-20.

Increasing spare capacity in the labour market is expected to contain wage pressure, with the Wage Price Index (CPI) projected to increase by only 1.75% per annum over the two years to 2016-17.

Inflation pressures are also expected to remain subdued in the near term. Perth's Consumer Price Index is forecast to increase by only 1.25% in 2015-16 and 1.75% in 2016-17 reflecting the combined impact of low fuel prices, falling residential rents, incentives by builders for purchasers building a new home, and historically low wages growth.

Estimates of CPI in the March 2016 quarter, released after the cut-off date for Budget (19 April) shows the largest quarterly decline in the Perth CPI since the March 1991 quarter. This was primarily the result of lower project home costs, rents and automotive fuel prices. Fuel prices are no longer acting to moderate CPI growth. However, softer house construction and rental markets represent a downside to the 2016-17 Budget forecasts.

Population growth in Western Australia is anticipated to remain modest over the short-term as softer economic conditions continue to translate into lower levels of overseas migration to the State. Population growth is forecast at 1.3% in 2016-17, and is projected to increase gradually to 1.9% by 2019-20.