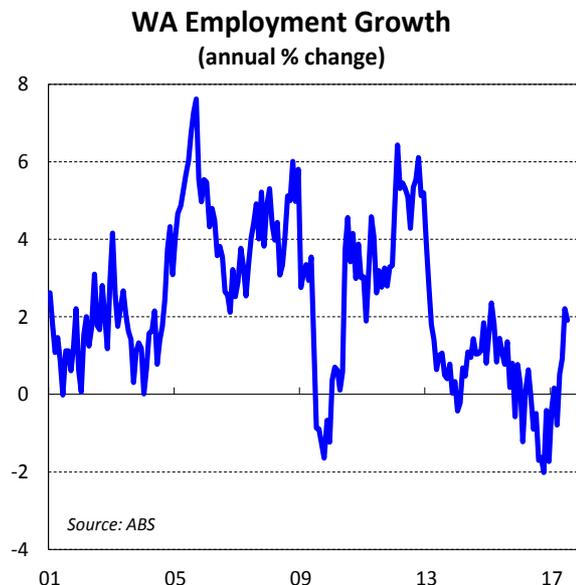
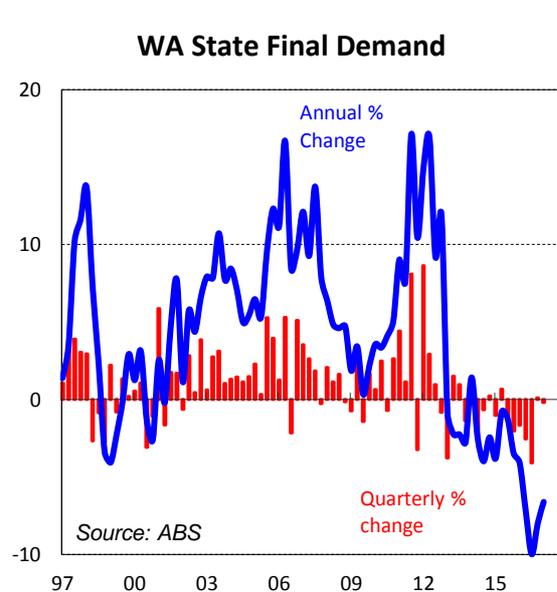


## Economic Update and Outlook for WA

### Summary:

- The Western Australian economy is still suffering from the slowdown in its mining construction sector, the consequences of which continue to flow through the economy. The State government's budget has been disrupted, population growth has slowed, house prices are falling and the pace of consumer spending remains dismal. On a brighter note, export volumes are solid and low interest rates are helping to support the economy.



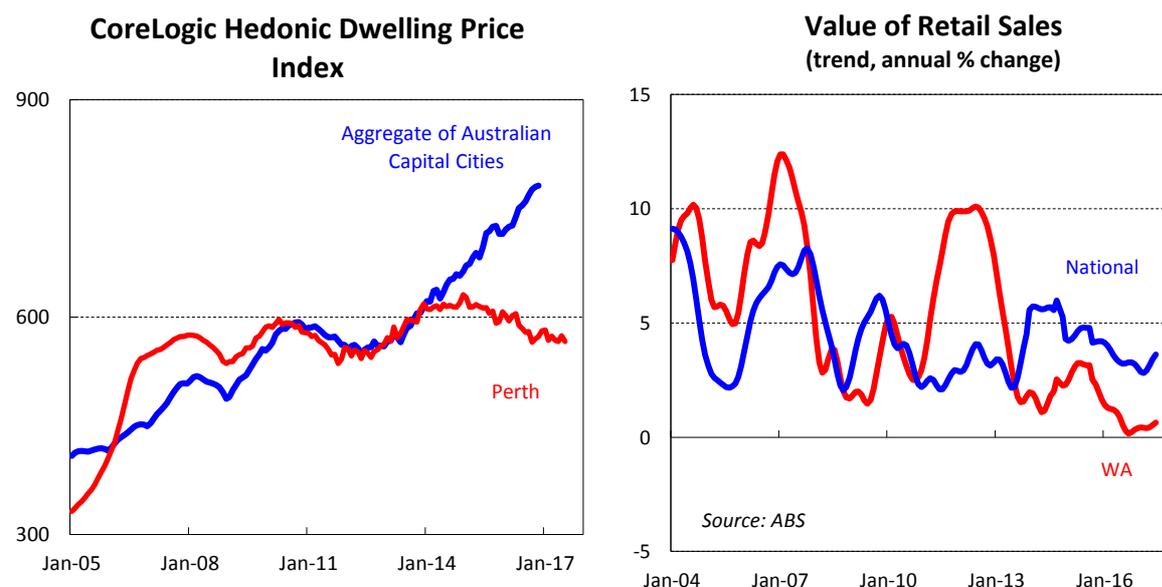
### Key Points:

- Despite the poor news for Western Australia, the State economy needs to be put into context. The current downturn is modest considering the extent of the boom years. Business investment is only slowing to more “normal” levels and there is room for export volumes to grow further. Long-term prospects remain positive for Western Australia, although in the short-term the economy continues to look soft.
- **Gross state product** data shows that the **West Australian economy grew 1.9%** in 2015-16, after growth of 3.6% in 2014-15. The winding down of mining construction activity is hurting economic activity, but exports volumes are growing and net exports should contribute credibly to growth in 2016-17.

- Gross state product is the broadest measure of economic growth, but this data is only released annually. State final demand data is released more regularly but excludes the trade sector. **State final demand** showed a decline of 0.2% in the March quarter. WA State final demand has contracted in six out of the past seven quarters. On an annual basis, State final demand contracted 6.6% in the year to the March quarter, as mining investment drags on growth.
- **Exports** continue to grow as production comes on line. Profits of miners in Western Australia are also higher due to the improvement in commodity prices recorded last year. The bulk commodity prices have retraced, but have not revisited the lows and we expect that they will not, providing support to incomes. For example, since hitting a low of US\$38.30 a tonne in December 2015, iron ore prices jumped to above US\$94 in February this year and currently sit at around US\$75 per tonne.
- Western Australia's growth remains highly dependent upon the outlook for China and the global demand/supply balance for commodity prices. A synchronised global upswing is underway in the global economy and stimulus from Chinese authorities has been supportive of growth in China. However, there remain longer-term challenges for the Chinese economy, including the ability to liberalise financial markets and reforming inefficient sectors.
- **Engineering construction** has declined significantly in WA with the completion of the \$61 billion Gorgon LNG project this year. Once WA's Wheatstone LNG project worth \$34 billion is completed in 2018 the downside in engineering construction will have largely run its course and the drag on economic growth should ease. The State government is unlikely to be able to meaningfully contribute to engineering construction given the precarious fiscal position the government faces. The State Budget is due on September 7th. The WA government has not ruled out a State-based bank tax, similar to the proposal in SA.
- **Non-residential construction** in WA has weakened in step with a decline in mining investment; moreover, the pipeline is shrinking. Construction is almost complete on the \$1.2 billion Perth Children's Hospital. Projects due for completion this year are worth around \$3 billion, with new projects due to begin worth around \$2 billion. Projects under construction this year include the \$1.2 billion Perth Stadium. Office vacancy rates are high and retail sales remain soft, suggesting a subdued outlook for commercial construction.
- **Perth dwelling prices** have been in decline for some time now. Dwelling prices fell 2.1% in the year to July. The weakness in Perth's property prices has been led by house prices, which have declined 2.5% over the year to July. In contrast, unit prices have risen 3.0% over the same time period. From the peak in property prices in December 2014, dwelling prices have now declined 10.2%. Weak growth in incomes and slowing population growth suggest further weakness in WA's housing market.
- Softer **housing market conditions** in the State are also reflected in indicators on building activity. Dwelling approvals in WA declined 8.3% in the year to June on a trend basis. A

downward trend has now been in place for over two years.

- Home lending has been weak since early 2015 in WA. We expect further weakness, especially with the recent widening of APRA’s supervisory measures. The number of home loans for owner occupiers fell 9.2% in WA in the year to June. Home loans to investors are also softening, declining 12.0% in the year to June. The recent widening of APRA’s supervisory measures is likely adding to the weakness in home lending in the state. The share of lending to investors is much lower than in many other States and territories (for example, 27% in WA compared with 48% in NSW).



- **Retail spending** in Western Australia eked out growth of 0.6% in the year to June, in trend terms, which is below both the inflation and population growth rates in WA. In contrast, national retail-sales growth was 3.6% in trend terms over the same period. Weaker growth in incomes and softer conditions in the housing market in comparison to other States and territories are keeping a lid on consumer spending.
- **Employment growth** went through a very soft run in 2016, but it is showing signs of life. Employment rose by 25.6k in the year to July 2017. In percentage terms, employment increased 1.9% in the year to July, an encouraging turnaround from a contraction of 2.0% in the year to October 2016. The unemployment rate declined to 5.4% in July, from a recent peak of 7.3% in April.
- **Population growth** slowed significantly to an annual pace of 1.0% in the September quarter 2016, reflecting a less enticing jobs market in WA. This pace is well down from the recent peak of 3.7% in the September quarter 2012. Australia-wide, the population is growing at 1.4%.

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