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# BCEC Briefing Note WA Economic Update

This BCEC Briefing Note examines the latest Western Australian economic data released by the Australian Bureau of Statistics.

Authored by Professor Alan Duncan and Dr Daniel Kiely

# ECONOMIC GROWTH

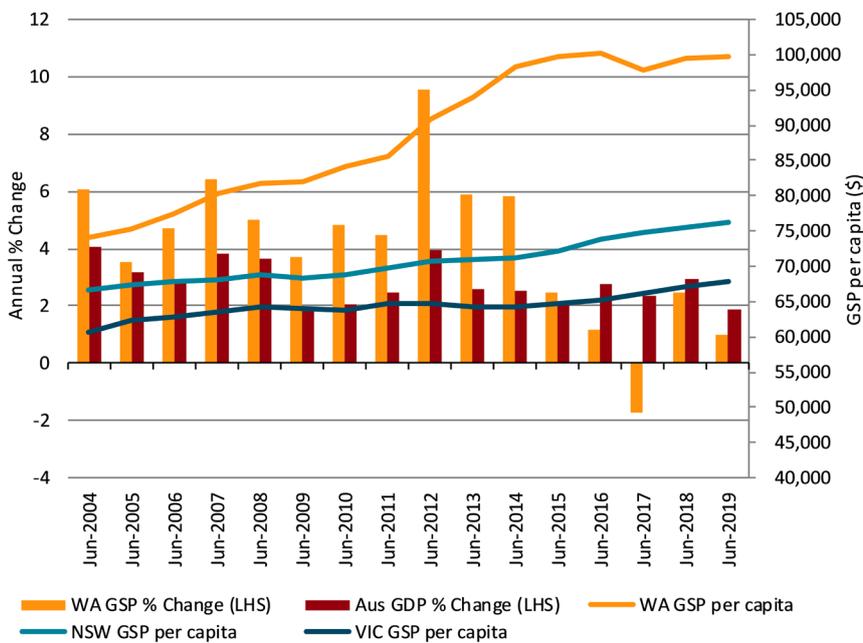
## Gross State Product

A holistic view of the Western Australia economy for the 2018-19 financial year is available today, with the release of the annual Gross State Product<sup>1</sup> data.

While the WA economy continues to grow, the GSP figures released today show only a very modest growth of 0.98 per cent over the year to June 2019 (Figure 1). This is lower than every other jurisdiction with the exception of the Northern Territory (with GSP down by 1.5%). In fact, with the exception of the negative growth displayed in June 2017, this is the lowest annual GSP growth rate displayed in the last twenty five years in WA (averaging 4.2% annually over the past twenty five years). The Australian economy (GDP) grew at 1.9% to June 2019, which is also weak on historical terms (averaging 3.2% over the last quarter of a century).

For WA, we shouldn't forget the historical context of the State's lower growth figures in recent years. In the ten years to June 2016, WA's annual GSP growth rates averaged 4.9 per cent during a period of unprecedented resources-fueled economic growth in the West. Despite the decline reported in June 2017, WA's GSP per capita nevertheless sits at \$99,640. This figure is \$25,100 higher than the national average.

Figure 1: Percentage change in Gross State Product (GSP), and level of GSP per capita, various states, 2004-2019



Notes: Chain volume; Reference year is 2017/18. June 2019 GSP per capita is calculated using March 2019 population data due to time lags in population data releases. Previous years use June population data.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5220, Table 1 and ABS Cat 3101, Table 4.

<sup>1</sup> Gross State Product (GSP) represents a broad measure of the economic value of goods and services production, including the difference between the State's exports and imports, in WA and in other state jurisdictions.

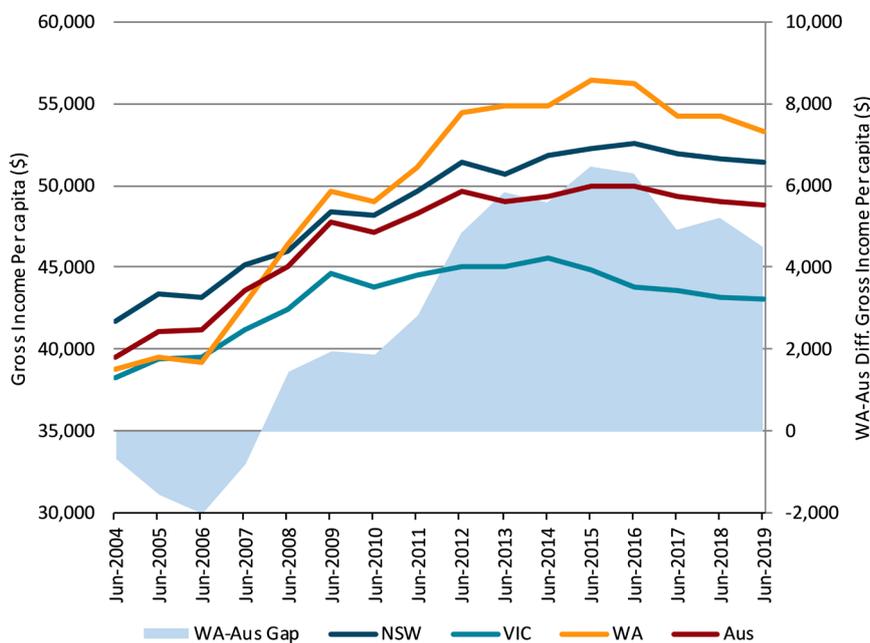
# ECONOMIC GROWTH

## Household Disposable Income

Per capita household disposable income can provide a more reliable measure of economic wellbeing from the perspective of an individual or family (Figure 2). WA saw the steepest growth in household disposable income per capita over the course of the resources boom, rising at an annual average of some 3.7 per cent over the decade from 2006. This trend has reversed since 2015, averaging -1.4 per cent over the last four years. This is a consequence of the cooling economic conditions in the West.

Despite a decline of 1.7 per cent in household disposable income per capita for the year to June 2019, household disposable income per capita in WA (at \$53,320) still remains above NSW (\$51,440), VIC (\$43,040) and the Australian average (\$48,810). While the latter states also saw declines in this metric, WA's declines were 1.3ppts larger than the national average, with a clear convergence towards NSW levels.

Figure 2: Gross Household Disposable Income per capita, Various States, 2004-2019



Notes: Current prices realised using CPI and rebased to 2018/19.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5220, Table 12, Table 13, Table 16 and Table 20 and ABS Cat 6401 Table 9.

# ECONOMIC GROWTH

## Contribution to Gross Value Added by Industry

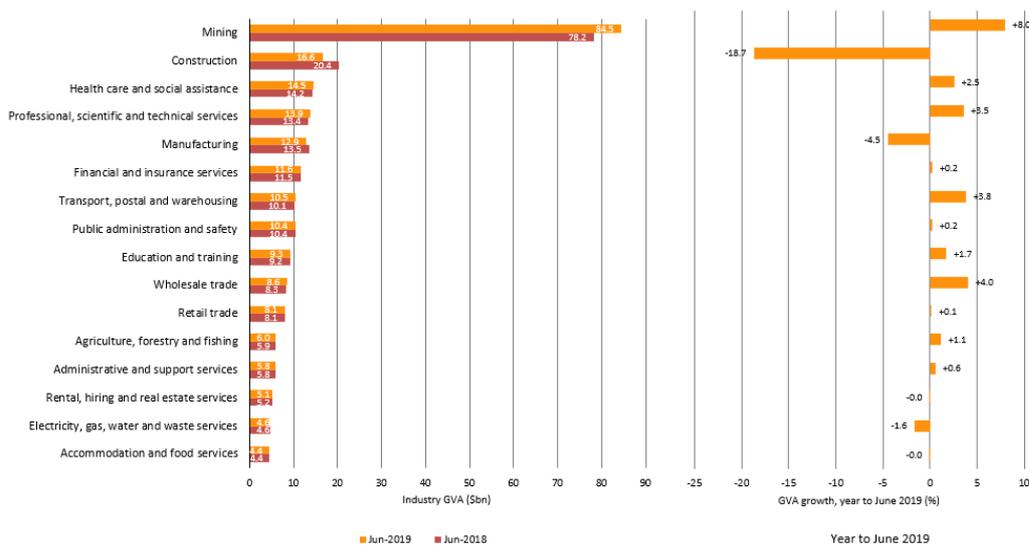
For a number of years now, Mining has hovered at around a third of WA's total Industry Gross Value Added (GVA). However, this has now reached a whopping 40 per cent (Figure 4). While partially driven by the large increase in the value of the mining sector (Figure 3), it also occurs alongside a striking decline in Construction (down 18.7%), and Manufacturing (down 4.5%). In real terms, Construction is now at its lowest value since June 2006, with Manufacturing at its lowest level since June 2008.

WA's overall economy continues to rely heavily on the fortunes of the resources sector. According to new ABS data (Figure 3), Mining grew strongly by 8 per cent in the year to June 2019, and now contributes \$84.5bn to the WA economy. This is on the back of Mining playing a key role in the state's return to positive growth twelve months ago.

But the WA economy has also benefitted from strong growth in the health care and social assistance sector (up 2.5% to \$14.5bn in the year to June 2019), Professional, scientific and technical services (up 3.5% to \$13.8bn), and Education and training (up 1.5% to \$9.3bn). Wholesale trade (up 4.0%) and Transport, postal and warehousing (up 3.8%) also displayed strong growth.

However, it is hard to find positives across other sectors, with for example, Financial and insurance services remaining relatively flat (up 0.1% to \$11.5bn), as is the case for Retail trade (up 0.1% to \$8.1bn).

Figure 3: Industry GVA (\$bn) and GVA growth (%), selected industries: 2017-18 and 2018-19

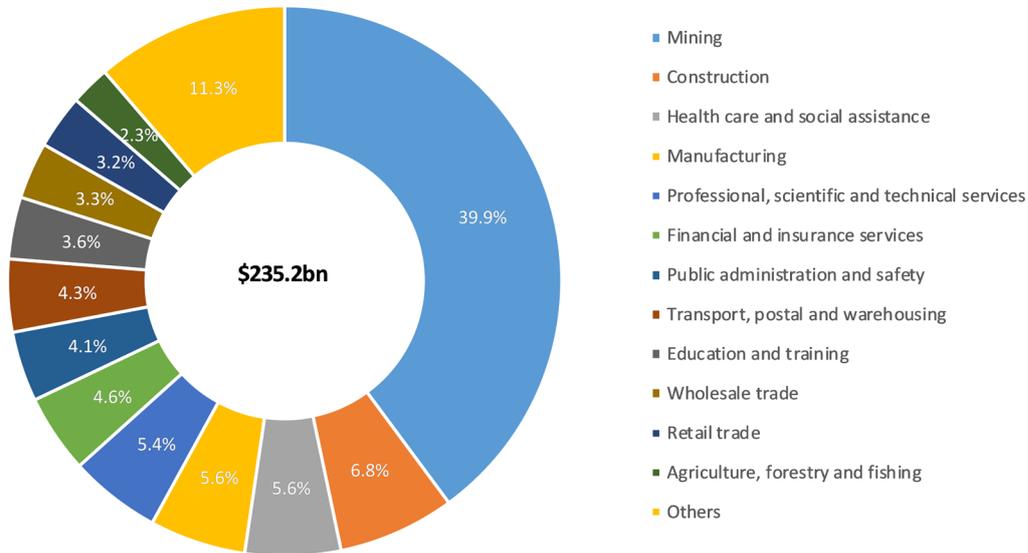


Notes: Economic Activity is measured through Gross Value Added (GVA). It is the value of output of goods and services minus the value of intermediate consumption. GVA is expressed in chain volume measures; Reference year is 2017/18.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5220, Table 6

# ECONOMIC GROWTH

Figure 4: Industry Share (%) of GVA, WA, June 2019



Notes: Economic activity is measured through Gross Value Added (GVA). It is the value of output of goods and services minus the value of intermediate consumption. GVA share in current prices; GVA share calculations exclude 'Ownership of dwellings' and statistical discrepancies. Top 12 industries selected. Others relates to the share of the remaining 7 industry sectors. Total value is for the 19 industry sectors, and does not include Ownership of dwellings and Statistical discrepancies.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5220, Table 6

## Expenditure Components of GSP Growth

In share terms<sup>2</sup>, household consumption expenditure contributes 38.3 per cent of GSP in WA. In the year to June 2019, household consumption grew at a weak rate of 0.9 per cent. This compares to household consumption growth averaging 2.7 per cent over the last decade.

The State's net exports (exports minus imports) grew by 4.9 per cent over the year to June 2019, supported primarily by a strong demand for WA minerals. Although this is lower than the 9.5 per cent growth recorded over the last ten years.

Breaking this down further, WA exports increased by 1.3 per cent in real terms (4.4% to June 2018), with imports declining by 6.1 per cent (-3.1% to June 2017). Net exports now account for 44 per cent of the WA economy.

In WA, the sharp contraction in private investment (Private Gross Fixed Capital Formation) in the four years to June 2017 (averaging 14.4%) appeared to bottom out in June 2018 (-1.0%), but declined by a sizeable 8.2 per cent in the year to June 2019.

General government consumption expenditure (13.8% share) grew by 1.75 per cent, with Public GFCF down by 0.9 per cent.

## Overview

As forecast in BCEC's Quarterly Economic Commentary in September 2019, the WA economy continues to report positive growth, but is still heavily reliant on mining and the related export sector.

The McGowan government is well aware of the need to diversify the WA economy, with a continued push to support trade and infrastructure and with payroll tax reforms intended to provide support for small business owners. BCEC too has provided a framework towards Future Proofing the WA economy, with the heightened reliance on the Mining sector (40% share of GVA) signaling even greater industry concentration in the state. This emphasizes the need for the state to press forward with a smart specialization strategy.

Continued improvements in WA's unemployment figures will give the McGowan Government some small comfort despite the weak GSP growth. However, the continuation of global trade uncertainties – despite being outside of the State's control – continue to leave a headache, with business and consumer confidence, and related expenditure patterns remaining low.

The impact of the RBA rate cuts and Federal government tax reforms have not yet made their way fully through the system, and it may be well into 2020 before they are seen. Early signs are that these factors are having only a limited positive impact, with private debt a factor of play. As the critical metric of wage growth remains low, government spending will play a critical role in the year ahead, both in WA and nationally.

The McGowan Government has got public finances under control. This will be a key legacy of this term of office. However, laying further foundations for future growth through 'The Premier's Plan' remains a work in progress. Much has been achieved in steadying the state's economic ship, but these figures show that there is much more navigation to do.

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<sup>2</sup> GSP shares by component do not sum to 100 due to Balancing items and Statistical discrepancies.

# About the Bankwest Curtin Economics Centre

The Bankwest Curtin Economics Centre is an independent economic and social research organisation located within the Curtin Business School at Curtin University. The Centre was established in 2012 through the generous support of Bankwest, a division of the Commonwealth Bank of Australia. The Centre's core mission is to deliver high quality, accessible research that enhances our understanding of key economic and social issues that contribute to the wellbeing of West Australian families, businesses and communities.

The Bankwest Curtin Economics Centre is the first research organisation of its kind in Western Australia, and draws great strength and credibility from its partnership with Bankwest, Curtin University and the Western Australian government.

The centre brings a unique philosophy to research on the major economic issues facing the state. By bringing together experts from the research, policy and business communities at all stages of the process – from framing and conceptualising research questions, through the conduct of research, to the communication and implementation of research findings – we ensure that our research is relevant, fit for purpose, and makes a genuine difference to the lives of Australians, both in WA and nationally.

The centre is able to capitalise on Curtin University's reputation for excellence in economic modelling, forecasting, public policy research, trade and industrial economics and spatial sciences. Centre researchers have specific expertise in economic forecasting, quantitative modelling, micro-data analysis and economic and social policy evaluation. The centre also derives great value from its close association with experts from the corporate, business, public and not-for-profit sectors.

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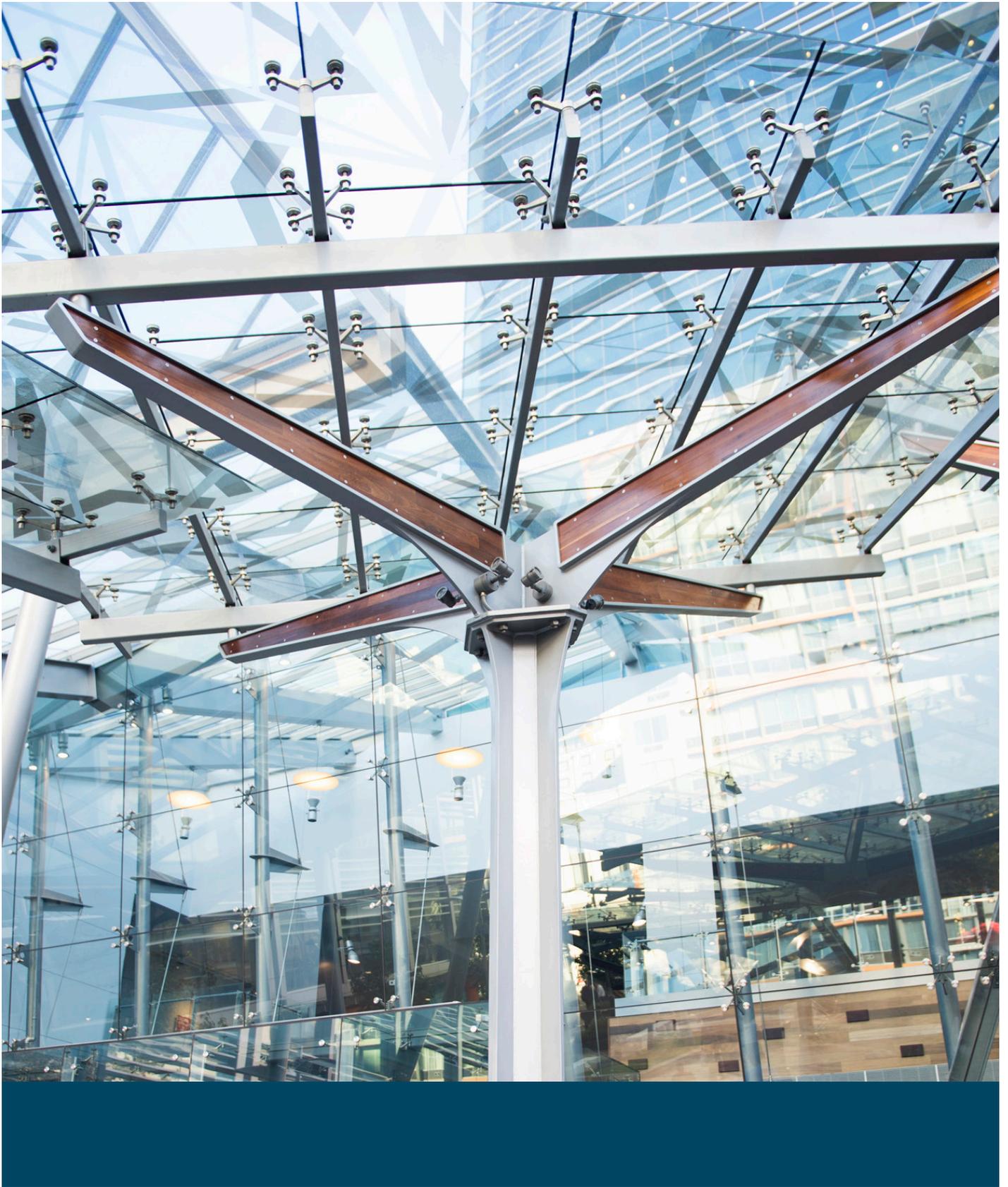
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