



The Basin, Rottneest Island, Tourism WA

# BCEC Quarterly Economic Commentary

Providing quarterly updates and expert commentary and analysis around economic and social indicators for WA.

Authored by Professor Alan Duncan, Dr Daniel Kiely and Dr Silvia Salazar

## Mixed economic tidings for WA this Christmas

### Prof Alan Duncan



With the recently announced Mid-Year Financial Projections Statement, WA Treasurer Ben Wyatt has delivered mixed news as we head into the new calendar year. The downward revisions to economic growth forecasts were to be expected, with Gross State Product growth over the year to June 2019 coming in at 1.0 per cent, a full percentage point lower than Budget 2019-20 assumptions as a result of “global and national economic headwinds”. However, the revised GSP growth projection for 2019-20 is still strong, and predicated on improving business investment, household consumption and wage growth.

With this in mind, the eye is particularly drawn to wage growth forecasts in the 2019-20 Mid-Year Review of 2.0 per cent for the 2019-20 financial year (down from 2.25 per cent) with further downward revisions of 0.5ppt in each of the forward estimate years to 2022-23. This seems a reasonable adjustment to make, given the slow pace of labour market recovery. However, WPI growth of 0.7 per cent for the September 2019 quarter provide some grounds for optimism that wages growth could indeed cross the 2 per cent threshold by the end of the 2019-20 financial year.

General government revenues have been revised upwards by \$1.22bn for 2019-20, with the lion's share of this boost coming from increased royalty income driven by higher iron ore prices. Coupled with a focus on expenses through control of public sector pay, this has led to a forecast budget surplus of \$2.6bn for 2019-20, \$1bn more than was forecast in the 2019 budget. With mining now accounting for 40 per cent of the WA economy, the State's exposure to international trade wars is extreme heading into 2020. As we hit an election year, sensible financial control should continue. In the meantime, policies aimed at economic diversification will continue to be a key 2020 mantra.

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## As we look forward to 2020, has business investment in WA finally bottomed out?

### Dr Daniel Kiely



Even those with 2020 vision can't see with any certainty what the future holds. For some time now the question of whether business investment has 'bottomed out' has been asked across WA, with the question 'are we there yet?' being posed in this commentary some two years ago. Positive growth across the last two quarters suggest that we are there.

However, looking at the road travelled is of interest. Non-dwelling construction expenditure - by far the largest component of business investment in WA for over fifteen years, has declined now for seventeen (17) consecutive quarters (averaging -6.2% over that period), with a -2.2 per cent growth in the most recent September 2019 quarter. Decreases were always inevitable in this component as the WA economy shifted from the construction to production phase of the mining boom. While the rate of decline in this component is decelerating, there is not yet an end in sight for continued declines.

The road to positive growth in business investment is driven by machinery and equipment, which comprises a 38 per cent share of total business investment in WA. Growth in this component has averaged 4.5 per cent over the last three quarters, and stood at 6.0 per cent in the quarter to September 2019. While overall business investment growth is to be welcomed, the road to this position suggests that we may not be 'there' just yet.

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### Dr Silvia Salazar



## A Christmas bonus: Wage growth on the up across the nation

Nationally, the Wage Price Index (WPI) is showing some positive signs, increasing by 2.3 per cent over the previous twelve months. For WA this figure is a much lower (1.6%), with increases in hourly rates of pay in WA remaining lower than those reported nationally for twenty two (22) quarters now. Nevertheless, we should also keep in mind that WA continues to have the highest average weekly earnings of all states (\$1,780) despite its low growth.

However, for WA the WPI growth in the quarter to September 2019 stood at 0.7 per cent, the highest seen in WA since December 2014 (also 0.7%). Nationally, the quarter-on-quarter growth in wages to September 2019 stood slightly higher at 0.8 per cent.

While it is not yet at a stage to hear 'shouts of joy' across the nation this Christmas, a continuation of this upward trend into 2020 will be of critical importance towards a stronger economy. In fact, the Mid Year Financial Statement estimates Wage Price Index growth of 2.0 per cent for 2019-20, with an additional quarter of a percentage point each year to 2022-23 (that is, 2.75% WPI growth in 2022-23). Together with a stronger labour market in 2020, such improvements would certainly lead to a much needed boost to consumer spending, with the retail sector barely starting to get its head above water in WA (+0.4% in the month to October).

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# WA ECONOMIC OVERVIEW



## How is our economy doing?

GSP  $\uparrow$  1.0%  
Year-on-year change (June 2019)

SFD  $\uparrow$  0.4%  
Quarter-on-quarter change (September 2019)



## Business Investment

$\uparrow$  1.6%  
Quarter-on-quarter change (September 2019)



## Construction Work

$\downarrow$  1.5%  
Quarter-on-quarter change (September 2019)



## Housing Finance Commitments

$\downarrow$  6.8%  
Year-on-year change (August 2019)



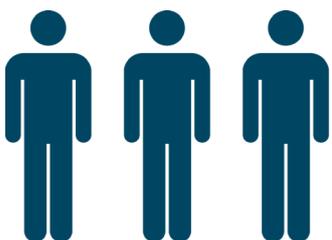
## Household Consumption

$\uparrow$  0.3%  
Quarter-on-quarter change (September 2019)



## Inflation and Cost of Living

CPI  $\uparrow$  0.5%  
WPI  $\uparrow$  0.7%  
Quarter-on-quarter change (September 2019)



## Population Change

$\uparrow$  1.1%  
Year-on-Year change (June 2019)



## Labour Market

Unemployment Rate  $\downarrow$  0.5ppt  
Employed Persons  $\uparrow$  0.9%  
Year-on-Year change (September 2019)

# ECONOMIC GROWTH



## How is our economy doing?

GSP 1.0%  
Year-on-year change  
(June 2019)

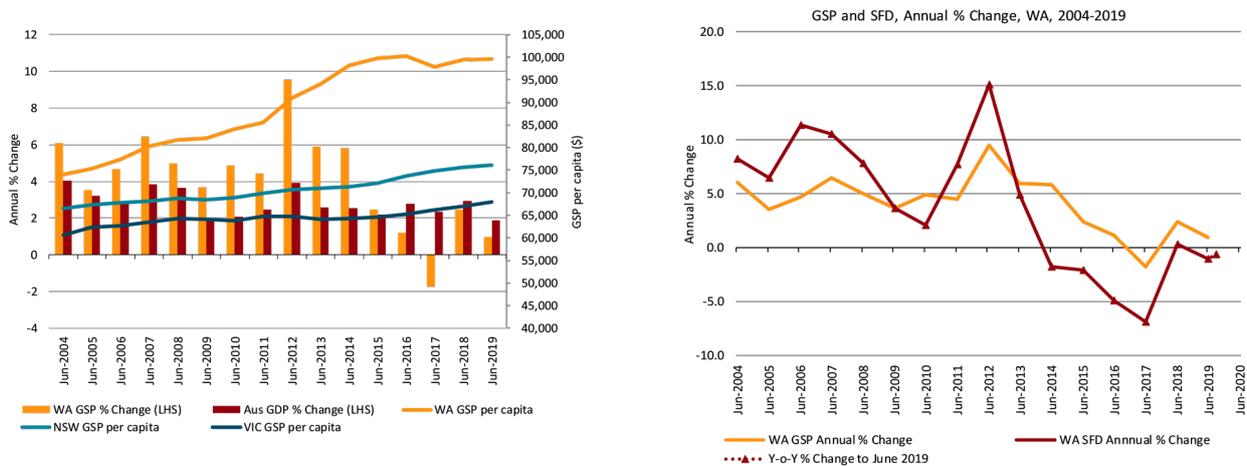
### Gross State Product and State Final Demand

As reported in BCEC’s WA Economic Update briefing note released in November 2019, Gross State Product (GSP) for WA in the year to June 2019 came in at a modest 1.0 per cent (Figure 1, LHS), a full percentage point lower than the 2.0 per cent growth projected in the 2019-20 Budget. Nevertheless, WA’s GSP per capita, at \$99,640, remains far stronger in comparison to other states and some \$25,100 higher than the national average.

The WA economy continues to rely heavily on mining, with the sector now comprising almost a 40 per cent share of Gross Value Added (GVA). Strong iron ore prices, and related royalty income remain critical to the sustained recovery in WA’s public finances. Royalty income alone led to 93 per cent of the \$1.2bn variation to the Government revenue variations since the 2019-20 budget - which were announced in the State Government’s Mid-Year Financial Projections Statement released recently.

Meanwhile, State Final Demand (SFD) for the year to September 2019 (Figure 1, RHS) remains in negative territory, declining by 0.6 per cent. In levels terms, annual SFD came to \$201bn over the year to June 2019, some 15.7 per cent lower than the peak of \$238.4bn reported in March 2013.

Figure 1: Gross State Product and State Final Demand, WA and selection of states, 2004 to 2019



Notes: Chain volume; Reference year is 2016/17.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors’ calculations from ABS Cat 5220, Table 6; ABS Cat 5206, Table 25.

# ECONOMIC GROWTH



## How is our economy doing?

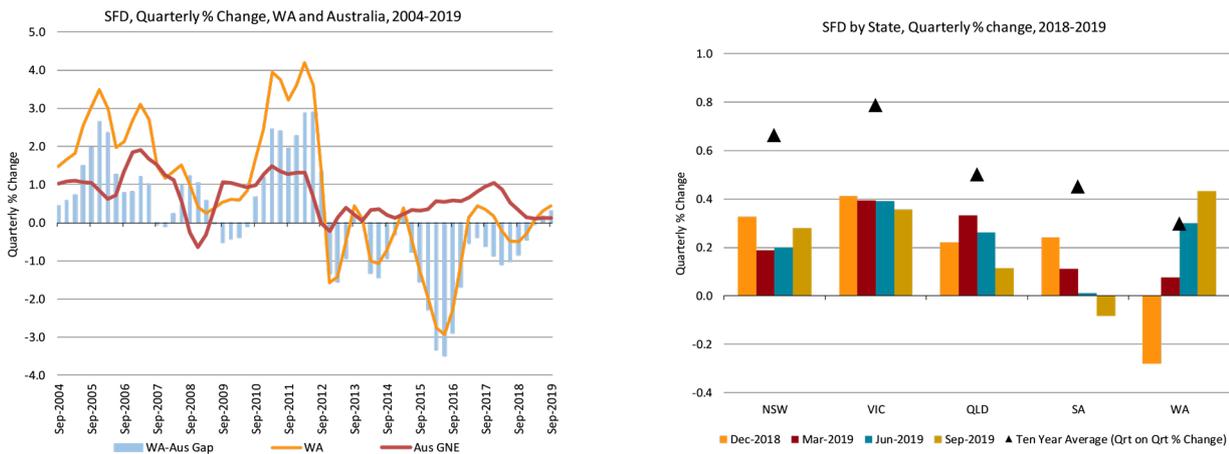
SFD **↑↑↑ 0.4%**  
 Quarter-on-quarter change (September 2019)

### State Final Demand

State Final Demand in WA grew by 0.43 per cent over the quarter to September 2019 (Figure 2, LHS), bringing us to a total value for the quarter of just under \$50.5bn. Positive SFD growth over the last three quarters has averaged 0.27 per cent. This is close to the state's ten-year average quarterly SFD growth rate (0.3 per cent) and a welcome reversal from the contraction in SFD over each of the four quarters of 2018. NSW, VIC and QLD all posted positive SFD growth figures for the September 2019 quarter, but the pace of change for WA is far more rapid than for the other states (Figure 2, RHS).

Turning to the national picture, Gross National Expenditure (GNE) growth has remained relatively flat at 0.1 per cent growth over each of the last three quarters. Such figures imply a continued weakness in the Australian domestic economy, and puts a positive context on WA's stronger SFD growth. Indeed, WA's SFD growth has exceeded the national GNE growth rate over the last two quarters, something rarely seen over the previous seven years (Figure 2, LHS).

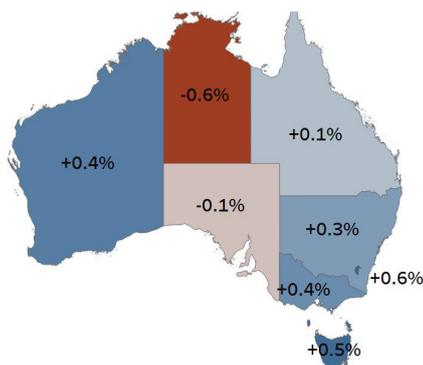
Figure 2: State Final Demand by state, 2004 to 2019



Notes: Chain Volume; Trend; Australia refers to the average percentage change for all states in Australia.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5206, Table 2 and Table 25.

Figure 3: State Final Demand, Australian states and territories, September 2019



Notes: Chain Volume; Trend; Quarter-on-quarter percentage change.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5206, Table 25.

## Components of State Final Demand

So, what can be said of the components of State Final Demand (SFD) (Table 1)? Interestingly, all four major components of SFD report positively for this quarter for WA. The sizable nature of household consumption (54.3% share of SFD) implies that the weaker growth in this component (0.26%) keeps overall SFD lower than what would otherwise be the case in WA. The 0.9 per cent growth in Private Gross Fixed Capital Formation (Private GFCF) is a welcome sign for WA, with upward revisions for the quarter to June 2019 implying that this has shown positive growth for two quarters now – a very welcome sign on the back of twenty six previous quarter-on-quarter declines going back to December 2012.

As previously noted here, for Australia, Gross National Expenditure (GNE) remained reasonably flat (0.1%) in the quarter to September 2019, with reasonable growth in General Government expenditure (1.4%) and Public GFCF (0.6%) insufficient to offset the weak household consumption (0.2%) and negative Private GFCF (-1.1%) growth.

Table 1: Components of State Final Demand by state and territory, quarterly percentage change, September 2019

Components   State	NSW	VIC	QLD	SA	WA	AUS
Percentage Change						
<b>State Final Demand</b>	+0.3	+0.4	+0.1	-0.1	+0.4	+0.1
<b>Final consumption expenditure</b>						
General government	+1.7	+1.6	+1.1	+0.2	+0.4	+1.4
Households	+0.2	+0.2	+0.4	+0.1	+0.3	+0.2
<b>Gross fixed capital formation</b>						
Private	-1.4	-0.5	-2.2	-0.9	+0.9	-1.1
Public	+1.4	+0.1	+1.0	+0.0	+0.8	+0.6

Notes: Chain Volume; Trend; Australia data refers to Gross National Expenditure and its various components.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5206, Table 2 and Table 25.

# BUSINESS INVESTMENT



## Business Investment

↑↑ 1.6%  
Quarter-on-quarter  
change (September 2019)

### Business Investment

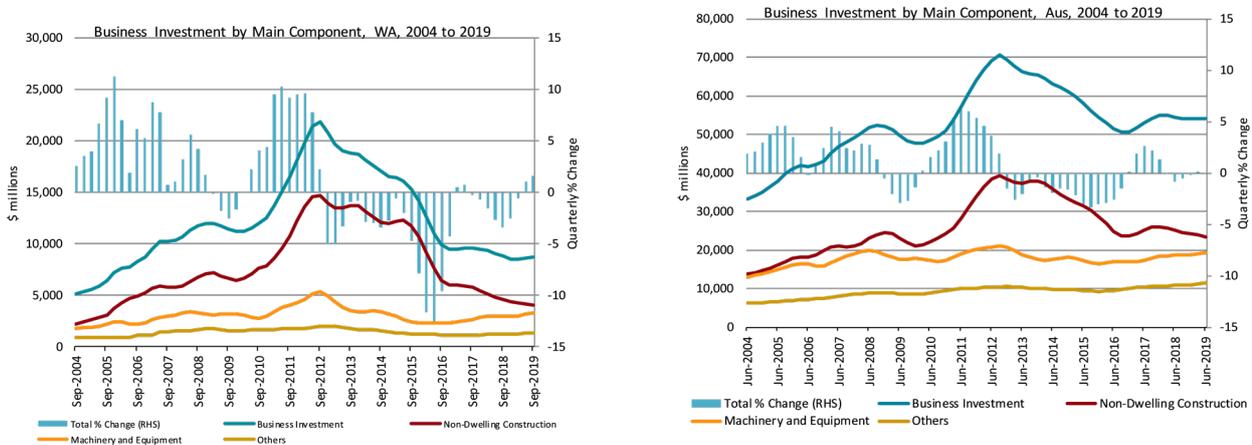
For some time now the question of whether business investment has ‘bottomed out’ has been asked, with the question ‘are we there yet?’ being posed in this commentary some two years ago. Two quarters of positive growth (trend terms) for June (revised up to 1.1%) and the most recent September quarter (1.6%) might suggest that we are there.

However, the road travelled is of interest. That is, non-dwelling construction expenditure (the maroon line in Figure 4, LHS below) - by far the largest component of business investment in WA for over fifteen years, has declined now for seventeen (17) consecutive quarters (averaging 6.2% over that period), with a negative 2.2 per cent growth in the most recent September 2019 quarter (the smallest decline since June 2017). Decreases were always inevitable in this component as the WA economy shifted from the construction to production phase of the mining boom. While the rate of decline in this component is decelerating there is not yet an end in sight for continued negative growth.

The road to growth in business investment is driven by machinery and equipment, which comprises a 38 per cent share of total business investment in WA. Growth in this component has averaged 4.5 per cent over the last three quarters, and stood at 6.0 per cent in the quarter to September 2019. While overall business investment growth is to be welcomed, the road to this position suggests that we may not quite be ‘there’ yet.

Nationally, business investment remains relatively flat (Figure 4, RHS), declining by 0.6 per cent in the most recent quarter.

Figure 4: Business Investment, WA and Australia, quarterly, 2004 to 2019



Notes: Chain volume; Trend. Business investment is Private Gross Fixed Capital Formation, excluding Dwellings and Ownership transfer costs. Others includes Intellectual Property products and cultivated biological resources.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors’ calculations from ABS Cat 5206, Table 2 and Table 30.



# Household Consumption

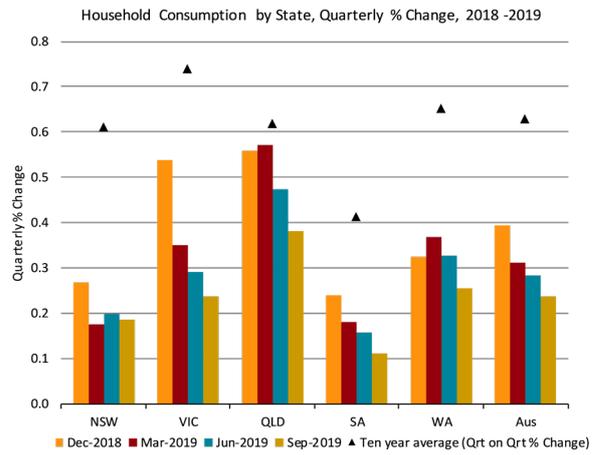
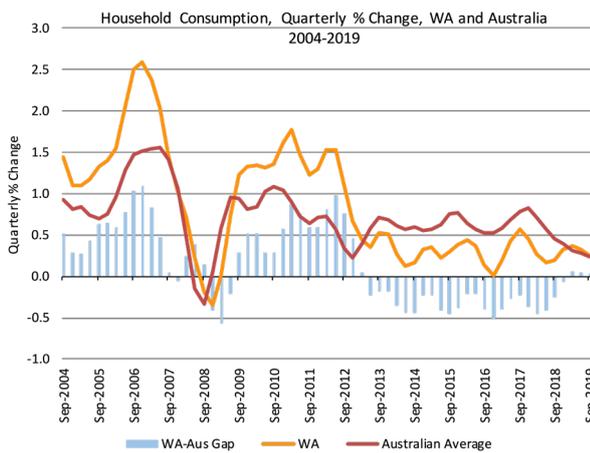
**↑ 0.3%**  
 Quarter-on-quarter change (September 2019)

## Household Consumption

Household consumption growth remains very weak (0.26%) in WA. Household consumption makes up over a 54 per cent of WA's SFD and around 40 per cent of GSP, and therefore is a critical marker of economic confidence. Average quarter-on-quarter household consumption growth over the past ten years stands at 0.65 per cent for WA.

The lower quarter-on-quarter growth across all states going from June to September 2019 will not bring shouts of joy from the RBA and Federal Governments. The year 2020 will see the full effects of their stimulus measures come through, but early signs suggest that more needs to be done.

Figure 5: Household Consumption Growth, WA and Australia, 2004 to 2019



Notes: Chain volume, Trend.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5206, Table 25.

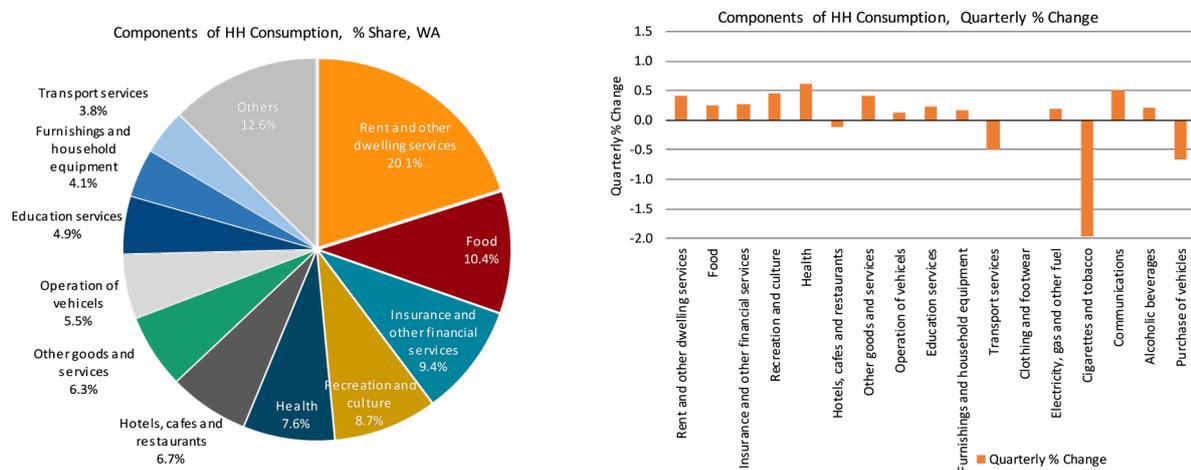
## Components of Household Consumption

Looking at the components of household consumption growth and their relative weight provides further details on consumer spending behaviour. Rent and dwelling services hold the largest share of household consumption (20.1%) (Figure 6, LHS), and grew by 0.4 per cent over the last quarter (Figure 6 RHS).

Food expenditure, the second largest component of household consumption at just over a tenth of the total, increased by 0.3 per cent, as did insurance and other financial services. The latter sector has a 9.4% share of total household consumption.

Recreation and culture expenditure returned to positive growth this quarter (0.5%), with declines in hotels, cafes and restaurants (-0.1%), transport services (-0.5%), cigarettes and tobacco (-2.0%) and the purchase of vehicles (-0.7%) (Figure 6 RHS).

Figure 6: Components of Household Consumption in WA, % share and quarterly % change, June 2019



Notes: Chain volume, Trend. Shares based on current prices. Components are ranked based on percentage share.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5206, Table 30.



## Retail Trade

↑↑↑ 0.0%  
 Quarter-on-quarter  
 change (September 2019)

### Retail Trade/Turnover

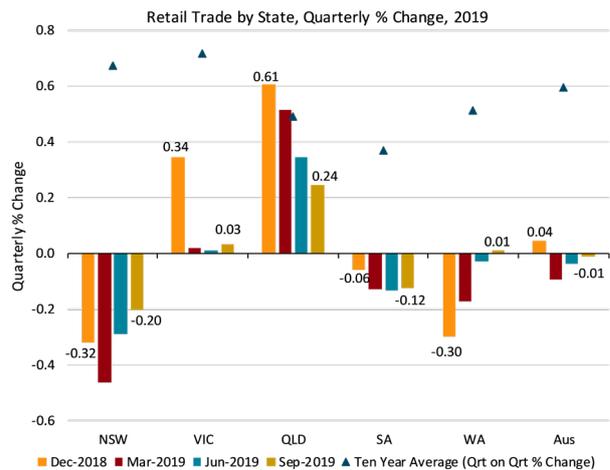
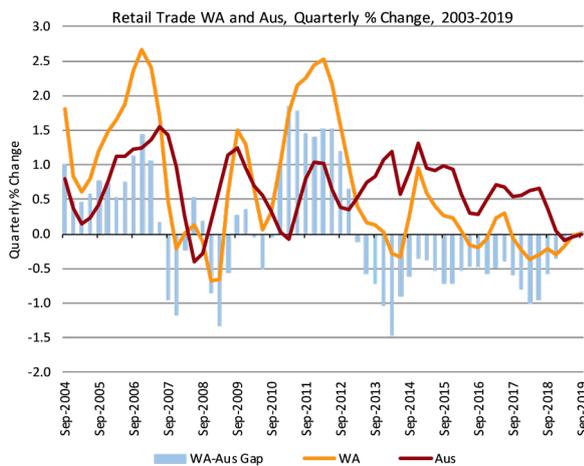
Retail trade in WA has grown slightly in the quarter to September (+0.01%). Such negligible growth is not what the doctor ordered, but this is the first time since June 2017 that WA has experienced any growth in retail trade. Hopefully, the WA retail growth trajectory will continue for the next quarter and we will have a much needed rebound in sales over the Christmas period.

On average, retail trade in Australia has declined for three consecutive quarters, although the rate of decline is falling. In the quarter to September, retail trade shrunk by -0.01 per cent, barely under the negative bar, with the situation remaining stagnant.

Australian's poor retail trade growth is driven primarily by NSW and SA. The situation in NSW is particularly worrisome as the fall has been significant across the last four quarters. In the quarter to September, NSW retail trade contracted an extra 0.2 per cent relative to the previous quarter while VIC has barely had any growth in retail since October 2018.

On the opposite side, QLD continues to display positive growth in retail trade, although the rate of this growth is also declining.

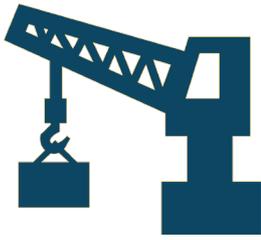
Figure 7: Retail Trade, WA and Australia, 2004 to 2019



Notes: Chain volume, Trend.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 8501, Table 9.

# CONSTRUCTION WORK



## Construction Work

1.5%  
 Quarter-on-quarter  
 change (September 2019)

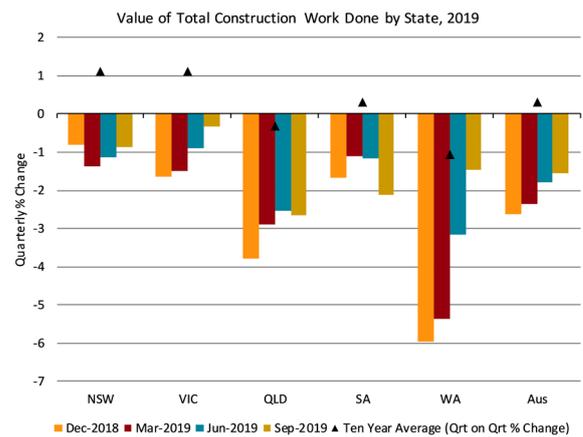
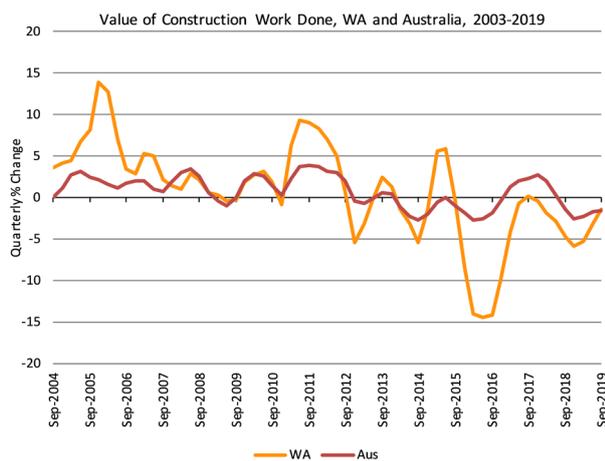
### Value of Construction Work Done

All Australian states have suffered a fall in the value of construction work done in the last four quarters. The situation shows no let up in the rate of decline for QLD and SA, whereas in VIC, NSW and WA, the pace of decline is now smaller in nature.

In the case of WA, there has been a fall of -1.5 per cent in the value of construction work done in the quarter to September 2019. Nevertheless, the rate of decline is about a quarter of the rate seen in December 2018, signalling a possible bottoming out in the construction sector.

WA's rate of decline is also lower than that seen nationally although this is due in part to the bad performance of the average Australian construction sector.

Figure 8: Value of Construction Work Done by state, quarterly change, 2004 to 2019



Notes: Chain volume; Trend. Preliminary data. The value of building work done includes the construction of new buildings and alterations and additions to existing buildings.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 8755, Table 8.

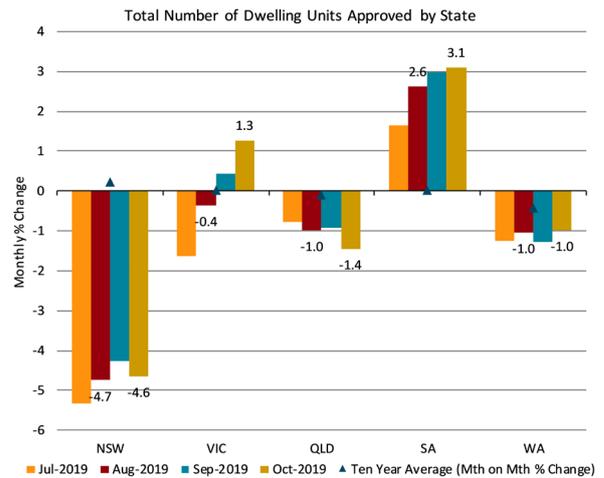
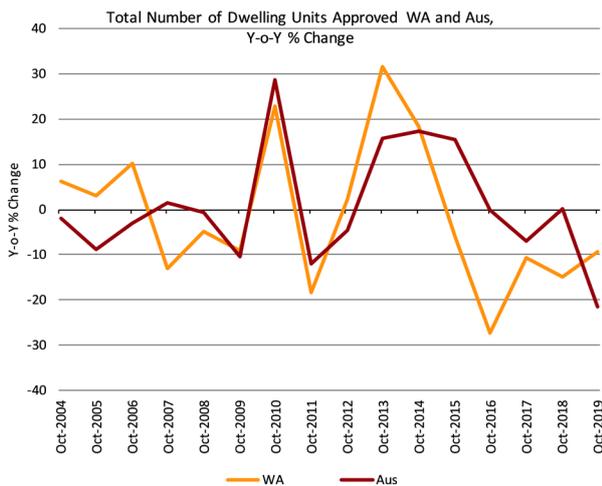
# Dwelling Approvals


**9.4%**  
 Year-on-year change  
 (October 2019)

## Dwelling Units Approved

The number of dwelling units approved continues to decline in WA, with average declines of 1 per cent across the last four quarters. On a year-on-year (Y-o-Y) basis (Figure 9, LHS), declines in dwelling units approved in WA have fallen by over 9% since October 2018. Australia is faring worse than WA, with Y-o-Y declines in dwelling units approved experiencing a monumental fall of -21.5 per cent. SA is the only state keeping afloat across the last four quarters, with not only an increasing number of dwelling units approved but also an accelerating rate of growth. Victoria seems out of the storm and has now bounced back to a positive growth in the dwelling units approved. NSW on the other hand, has suffered a significant decline in the last four quarters and the situation does not seem to be improving (-4.6% in the quarter to September). QLD is also in a declining phase, although not to the same extent of NSW.

Figure 9: Total Number of Dwelling Units Approved by state, 2004 to 2019



Notes: Trend.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 8731, Table 7.

# HOUSING AFFORDABILITY



## Housing Affordability


**1.2%**  
 Quarter-on-quarter RPPI change (September 2019)

### Residential Property Price Index

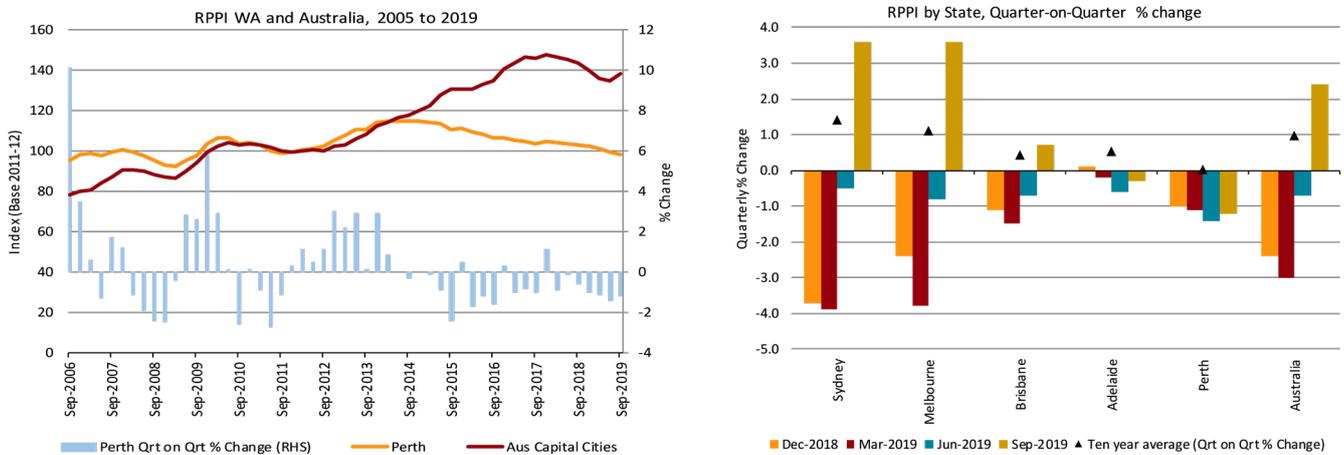
Still no good news coming from the residential property index (RPPI) in Perth as the price of residential property continues its steady decline. Over the last quarter, there has been an additional fall of 1.2 per cent in the RPPI for Perth. This is consistent with the picture over the last twelve months, with an average quarter-on-quarter decline of 1 per cent.

Furthermore, the gap between Australia and WA continues to widen, now that the Australian RPPI has picked up significantly in the quarter to September 2019 (+2.4%).

The overall recovery of Australia is mainly due to improvements evident in Sydney and Melbourne, where the RPPI has bounced back significantly, hitting around the 3.6 per cent mark in both cities. Brisbane also has a positive growth in the last quarter, but more moderately than in Sydney and Melbourne. Importantly, Brisbane's growth is still above its ten year average. Alongside WA, Adelaide has also seen a decrease in the RPPI, however it has not been as significant as that displayed for WA.

The gap in the residential property market between Perth and Australia might shrink in 2020, with declines in the stamp duty tax for new dwelling taking effect, along with the re-categorisation of Perth as a regional area. These two initiatives are likely to see an increase in the number of people and eventually buyers in the real estate market, with increased demand putting upward pressure on house prices.

Figure 10: Residential Property Price Index, Australia by state, 2006 to 2019



Notes: Index, Base 2011-12. Major cities.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 6416, Table 1.

## Change in Rents and New Dwelling Purchase by Owner-Occupier

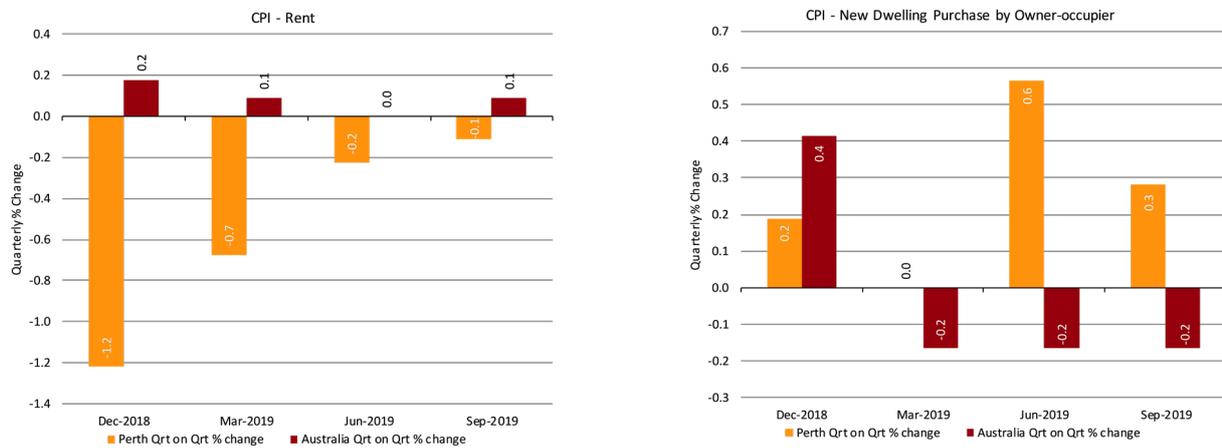
The RHS of Figure 11 shows the CPI for new dwelling purchases by owner-occupiers (NDP). We observe that Australian CPI NDP has decreased by -0.2 per cent in the last quarter, in line with the declines displayed over the last three quarters.

This is not the case in WA, which has experienced a rise of 0.3 per cent in the CPI NDP. This is the second quarter in a row where the CPI NDP have increased in WA, leading to a year-long positive growth of real estate prices of NDP in WA.

While we expected to see positive CPI for rent in Perth this quarter (Figure 11, LHS), it seems that we have to wait a little longer. The trend already unravelled in the September QEC update is consolidated here, and while the quarterly change in CPI rent is still negative (-0.1%), the rate of decline is much smaller, and hopefully, next quarter, we will see positive growth.

Australia is doing better than in the previous quarter and now has a small but positive growth in the CPI rent (+0.1%). Nevertheless, neither the CPI rent nor the CPI for new dwelling purchase by owner occupier have managed to keep pace with the overall CPI growth of 0.5 per cent in the quarter to September 2019.

Figure 11: Change in Rents and Owner-Occupier New Dwelling Purchases, WA and Australia, 2018 to 2019



Notes: Index, Base = 2011-2012.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 6401, Table 9.

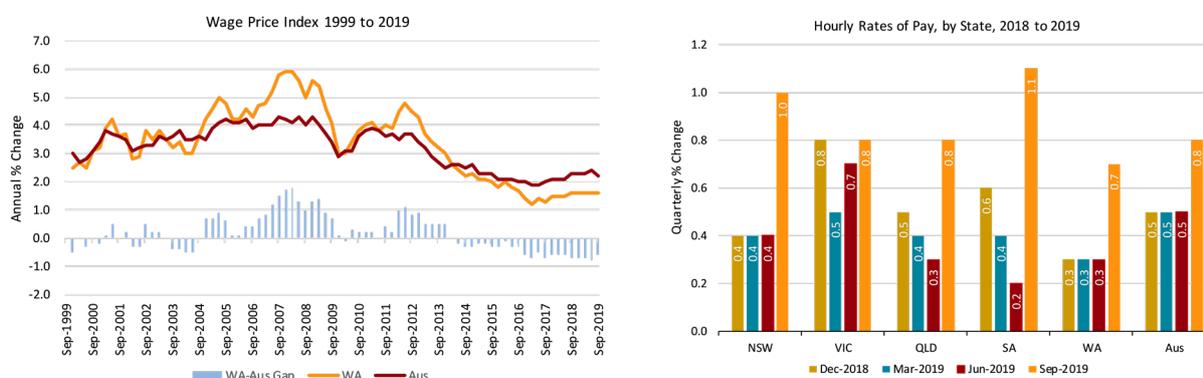
## Earnings

Nationally, the Wage Price Index (WPI) is showing some positive signs, increasing by 2.3 per cent over the last twelve months. For WA this figure is a much lower 1.6 per cent. However, for WA the WPI growth in the quarter to September 2019 stood at 0.7 per cent. Yet, quarter-on-quarter growth to September (0.7%) is the highest in WA since that seen in December 2014 (also 0.7%). Nationally, the quarter-on-quarter growth in wages to September 2019 stood at 0.8 per cent.

Increases in hourly rates of pay in WA have remained lower than those reported nationally for twenty two (22) quarters.

As outlined in the September release of the BCEC Monthly Labour Market Update (MLMU), strong growth in the female dominated 'non-market' sectors, coupled with growth in part-time work in WA, but a decline in full-time employment are all contributing to weak wage growth.

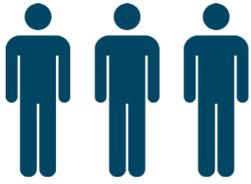
Figure 12: Wages growth, WA and Australia, 1999 to 2019



Note: Hourly rates of pay do not include bonuses.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 6345, Table 2b.

# POPULATION



## Population Change

↑↑↑ 1.0%  
Year-on-Year change  
(June 2019)

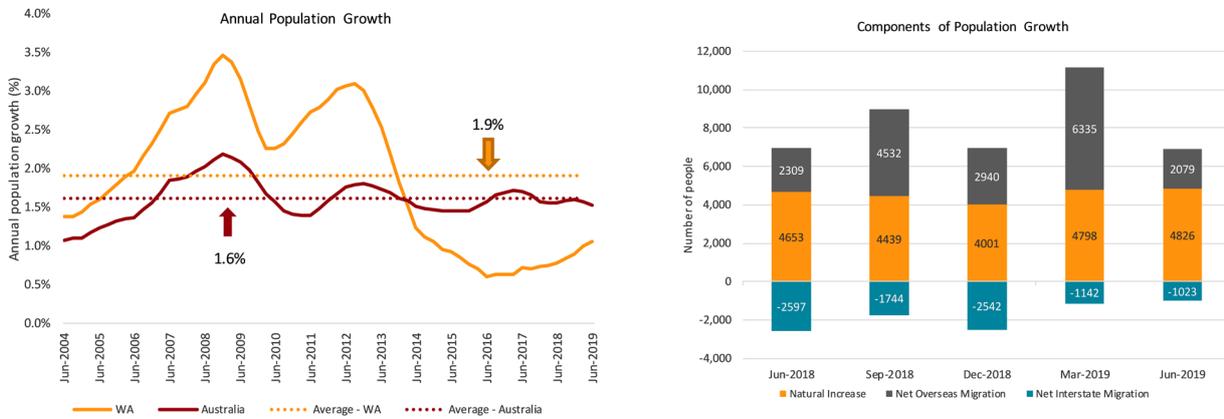
### Population

WA's annual population growth continues to lie above the 1 per cent mark in the year to June 2019, the highest reported since December 2014 (Figure 13, LHS), and continues on a positive upward trajectory. While population growth remains well below the average of 1.9 per cent for the fifteen years reported here, it is nonetheless a welcome sign, with WA trending towards the currently higher Australian population growth rate (1.5% in the year to June 2019).

Net interstate migration in WA remains negative (-1,023), but is well below the declines recorded in June 2018 (-2,597). On an annual basis the natural increase (births minus deaths) remains the largest component of population growth. Net overseas migration in the quarter to March 2019 displayed strong growth, with March of each year often displaying higher growth than that of other quarters, with international student enrolments playing being a key determinant of this variation. Net overseas migration to WA in June 2019 (2,079) is a little lower than that displayed in June 2018 (2,309).

It will be interesting to see if the recent Federal government announcement providing Perth with 'regional status' has an impact in 2020, with strong potential to increase additional skilled migrants, while also going towards supporting the state's international education sector.

Figure 13: Annual Population Growth and Components of Population Change, 2004 to 2019



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 3101.0, Table 2, 4.

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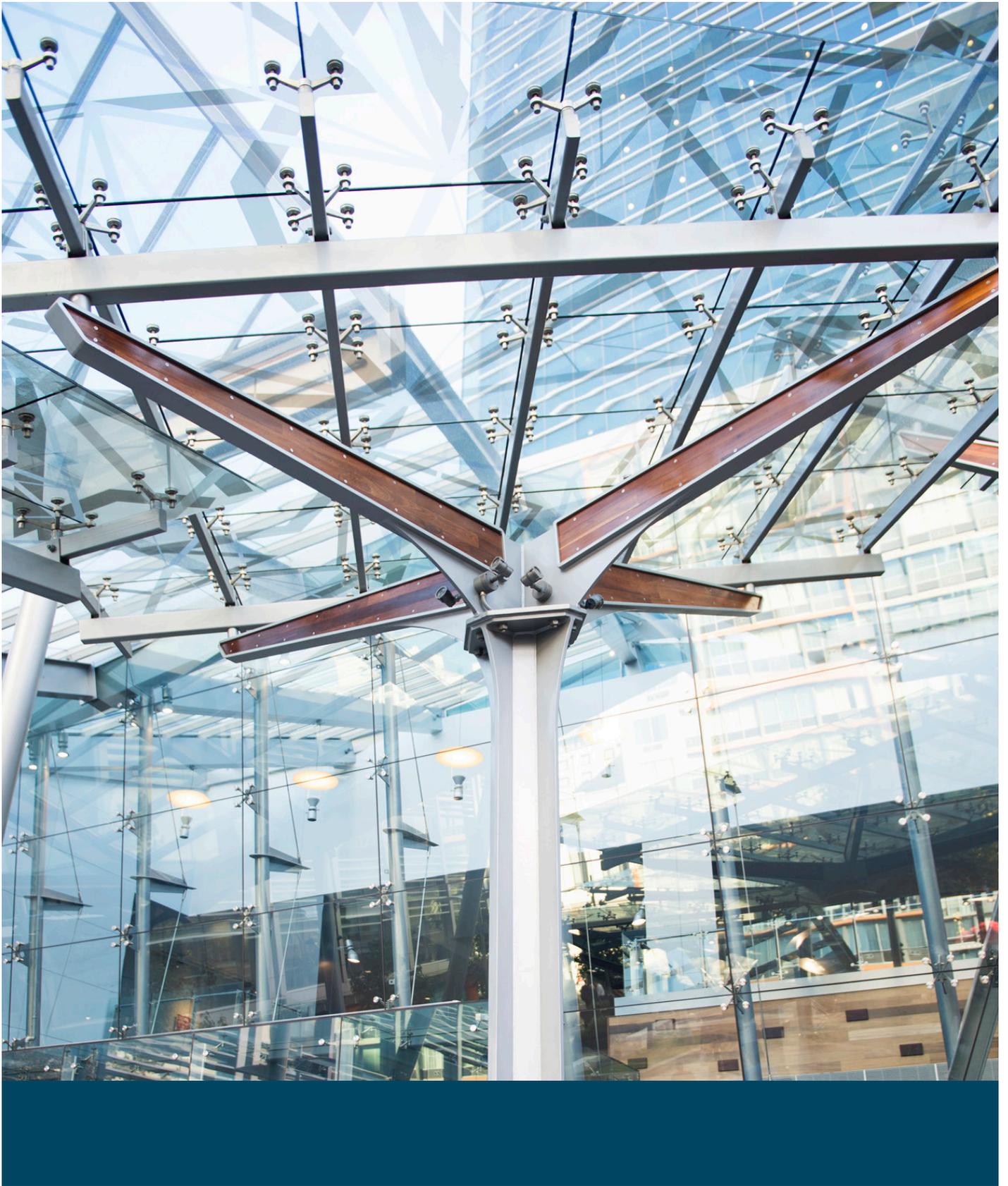
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The Bankwest Curtin Economics Centre is an independent economic and social research organisation located within the Curtin Business School at Curtin University. The Centre was established in 2012 through the generous support of Bankwest, a division 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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