November 2020

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Elizabeth Quay, Western Australia, Tourism WA

BCEC Quarterly Economic Commentary

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

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Careful navigation required, as optimism emerges in the New Year horizon

Through a combination of geographic isolation, good management and strong leadership, the community spread of coronavirus was eliminated in WA by the middle of April, a situation which continues to the current day. While strict border restrictions remained in place, the winter months saw an easing of restrictions and social gatherings, and a lift to regional travel bans. This has positioned the WA economy better than most, with WA's situation the envy of many jurisdictions both nationally and globally.

The WA economy grew by 1.4 per cent in the year to June 2020, with the mining sector contributing the lion's share of that growth. The mining sector now accounts for 47 per cent of gross value add. Yet with the state's continued reliance on mining, and in particular on iron ore, the WA economy has become less diversified over time. This reiterates the case for economic diversification, to ensure that Western Australia can benefit from stable and secure economic growth into the future.

Exports in the year to June 2020 rose by 13 per cent in WA, driven primarily by the increasing volume and price of WA's main export, iron ore. The bulk of WA's exports (57.4%) are directed to China. This leaves the state vulnerable to geopolitical tensions, and trade wars. While commodities such as barley have been able to pivot quickly to alternative markets, others will be more vulnerable.

WA's domestic economy contracted by 6 per cent in the quarter to June 2020, with the initial COVID restrictions taking a toll. A key driver of this decline was household consumption (down 10.6% over the quarter to June 2020), which comprises 50 per cent the state's domestic economy. This hit to household consumption comes on the back of a decline of 1.2 per cent in the quarter to March 2020, and despite the green shoots displayed in 2019, household consumption has now declined by 2 per cent overall in the twelve months to June 2020. However, more current retail trade data is showing a significant bounce back with growth of 11 per cent in the quarter to September 2020, some 15 per cent higher than that reported in the month to September 2019.

Business investment in WA grew by 9.3 per cent over the year to June 2020, but declined by 1.8 per cent in the June 2020 quarter. While Australian businesses have shown a great deal of resilience, cash flow has become a major concern for many businesses. For many, this, along with general uncertainty caused by the COVID-19 pandemic, weakened supply chains and restricted access to global markets will no doubt have led to a cancellation or deferral of investment decisions. It will be interesting in the months ahead to see the extent to which various government incentives aimed at increasing business investment and general business confidence will impact capital expenditure programs.

In times of economic downturn, most economists would agree that Governments needs to step up to minimise the size and duration of a downturn. The Federal and State governments have acted swiftly in this regard, with financial institutions too playing a critical role. While public gross fixed capital formation, the smallest component of the domestic WA economy, declined by 1.7 per cent in the June quarter, this component will take on a much more significant role in the months and years ahead. The 2020-21 budget estimates forecast growth of 18 per cent in government investment for 2020-21 and 12 per cent for 2021-22. Economic activity generated from such expenditure will likely have a positive knock on impact on business and consumer confidence.

Data to September 2020 shows that the number of dwelling units approved have risen by 42 per cent, coming on the back of a 34 per cent increase in August. Meanwhile, in the month to September, housing finance commitments for both owner-occupiers and investors have gone up by 25 per cent and 18 per cent respectively, with signs that the Federal government's HomeBuilder grant and the State government's Building Bonus scheme are taking effect in WA.

Meanwhile, the WA labour market has shown incredible resilience over 2020, with 93 per cent of jobs lost since March 2020, and 81 per cent of hours lost, recovered to date – one of the strongest performers among all states and territories. The most recent labour market data show an additional 15,000 jobs added to the state and an almost equal split between full and part-time work.

WA's small business owners have also shown remarkable resilience in navigating the COVID-19 crisis.

This Commentary includes some important insights from the new BCEC Small Business Survey 2020. The findings are based on data collected during November 2020, and hence give us a truly contemporary picture of the small business sector in Western Australia.

The share of small businesses that increased the number of employees over the course of the pandemic at least matched the share that had to lay off workers. Revenues have fallen during COVID-19 for more than 4 in 10 small businesses. Yet despite this, many small businesses have adapted to the new circumstances presented by the pandemic, sustaining themselves and their workforces and seizing opportunities where they can.

The BCEC Small Business Survey 2020 invites small business owners to rate which policy measures have helped them through COVID-19, and more than 40 per cent nominated the JobKeeper wage subsidy as the most important support for their business.

There is also a striking degree of optimism shown by the small business sector, with a quarter of small business owners expecting to hire more workers over the next six months. However, this optimism is tempered with some trepidation over what's in store in 2021 when JobKeeper payments and other supports are withdrawn, and when deferred tax and loan payments become due.

The long term outlook for the WA economy is bright. However, there are some risks and opportunities to take advantage of ahead. The first risk relates to a second outbreak of COVID-19, which would likely result in large scale shutdowns and lockdowns across the State. Recent experiences in Victoria have shown the devastating effect of a second outbreak of the virus on the Victorian economy. The second risk is an acceleration in the trade disputes with China, with announced suspensions of imports of Australian beef, barley, coal, wine, sugar, copper ore and concentrate, timber and rock lobster.

The COVID-19 pandemic, global political instabilities, and trade wars have created a significant stress test for the economy. Leadership from both the State and Federal governments remains critical during this time, as the economy navigates these choppy waters. Meanwhile a clear roadmap to support economic diversification and emerging opportunities is required.

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WA ECONOMIC OVERVIEW

How is our economy doing?

GSP ↑ 1.4%

Year-on-year change (June 2020)

SFD ↓ 6.0%

Quarter-on-quarter change (June 2020)

Business Investment

↓ 1.8%

Quarter-on-quarter change (June 2020)

Job Vacancies

↑ 25.0%

Year-on-year change (October 2020)

Housing Finance Commitments

↑ 25.0%

Month-on-month change (September 2020)

Retail Trade

↑ 11.0%

Quarter-on-quarter change (September 2020)

Inflation and Wages

CPI ↑ 1.8%

WPI ↑ 0.5%

Quarter-on-quarter change (September 2020)

Dwelling Approvals

↑ 42.0%

Month-on-month change (September 2020)

Labour Market

Unemployment Rate

↑ 0.9ppt

Employed Persons

↑ 0.2%

Year-on-Year change (October 2020)

The BCEC Quarterly Economic Commentary is based primarily on ABS data. Various ABS data is subject to sampling variability and revisions.


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How is the global economy doing?

OUTPUT 4.4%
Year-on-year change (2020f)

OUTPUT 5.2%
Year-on-year change (2021f)

Globally, 2020 is a year that many want to see the back of as COVID-19 swept the globe and caused extensive economic, health and social disruptions. Many countries failed to effectively contain the virus and a number are now dealing with second, and in some cases third waves of the virus.

The International Monetary Fund issued its most recent 'World Economic Outlook' in October 2020, providing forecasts for global economic growth. Global output is forecast to decline by 4.4 per cent in 2020 (**Table 1**), with stronger growth of 5.2% forecast for 2021, with the latter grounded on assumptions of the production of a safe and effective vaccine.

Table 1: International Economic Growth Outlook to 2021

	World Output	USA	Euro	China	India	ASEAN 5	Japan	Australia
	Actual and Forecast Growth rates (%)							
2017	+3.8	+2.2	+2.4	+6.8	+7.2	+5.3	+1.9	+2.2
2018	+3.6	+2.9	+1.9	+6.6	+6.8	+5.2	+0.8	+2.7
2019	+2.8	+2.2	+1.3	+6.1	+4.2	+4.9	+0.7	+1.8
2020 (f)	-4.4	-4.3	-8.3	+1.9	-10.3	-3.4	-5.3	-4.1
2021 (f)	+5.2	+3.1	+5.2	+8.2	+8.8	+6.2	+2.3	+2.5

Notes: ASEAN 5 includes: Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Forecast denoted by (f).

Source: International Monetary Fund. 2020. World Economic Outlook: A Long and Difficult Ascent. Washington, DC, October.

The recent announcements of successful vaccine trials have provided hope that a return to a more normal life may be on the horizon, although the final approval and then rollout of such vaccines on a mass scale will take some time yet. Until there is widespread vaccination of the world's population, social distancing will be an ongoing requirement.

The tentacles of the COVID-19 pandemic have spread wide and far, with countries heavily dependent on tourism, oil exports and remittances particularly impacted. India, is forecast to see its economy shrink by over 10 per cent in 2020, with greater effects of the pandemic evident due to high population density, and with declines in critical emigrant remittances also evident. This is an economy that was already seeing declining growth rates, albeit from a high base.

Overall, the Euro zone is set to see a -8.3 per cent decline in 2020. The Euro area continues to struggle with containment of the virus, with many countries in the Euro area forced to scramble for personal protective equipment and an adequate supply of ventilators. The IMF forecast for the US is a 4.3 per cent contraction, in line with other global forecasts.

The ASEAN 5 countries forecast of a smaller contraction of 3.4 per cent reflects many of these countries ability to suppress the spread of the virus and business activity to continue. Citizens in these countries are more inclined to wear a face mask, which is a proven strategy of lowering the risk of transmission. Growth is expected to exceed 6 per cent for this region in 2021.

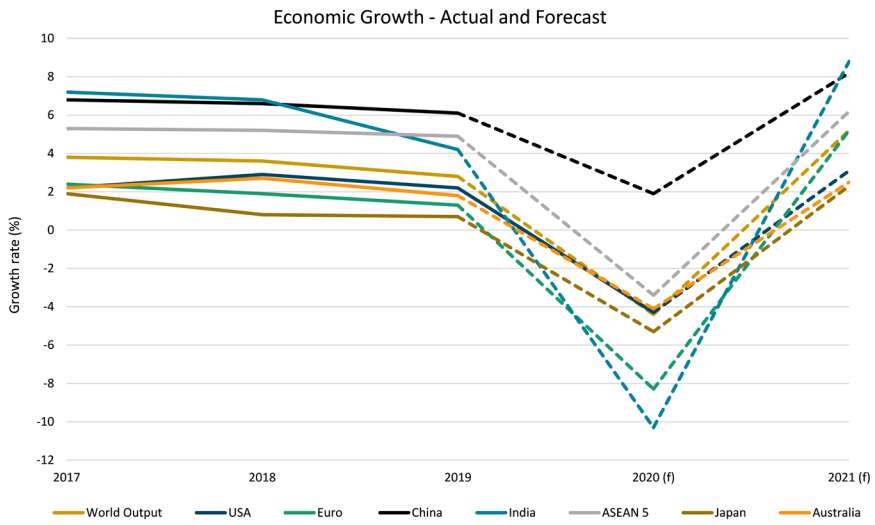
The notable exception to negative growth forecast for 2020 is China, which reflects the effectiveness of their suppression efforts, enabling economic activity to return close to normal faster than was originally expected. As a key trading partner of Australia, this is good news.

Globally, significant government transfers have assisted in supporting household incomes and expenditure, without which, outcomes would be markedly worse. Many economies are looking to reduce and remove these support, but doing so too early may jeopardise the economic recovery and the safety of the most vulnerable community members.

Alongside the pandemic, geopolitical instability presents a continuing challenge for a return to worldwide economic growth. Any acceleration in the trade war between the US & China, will have flow-on effects to the global economy. President elect Joe Biden may serve to reduce these tensions, but such repairs will take some time. He also has the domestic challenges to contend with, particularly containment of the pandemic and the growing social unrest observed this year.

In Europe, the UK's transitional arrangement with the EU expires at year's end. If both parties fail to agree and ratify a trade deal, there is likely to be a hefty rise in trade barriers. The continued spread of the pandemic, as reflected in the Euro and UK, has resulted in a second lockdown being implemented. The resulting social unrest presents a significant challenge for leaders and the consequences of another lockdown will be widespread throughout all sectors of the economy.

Figure 1: International Economic Growth Outlook to 2021



Notes: ASEAN 5 includes: Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

Source: International Monetary Fund. 2020. World Economic Outlook: A Long and Difficult Ascent. Washington, DC, October.

How is our economy doing?

GSP 1.4%
Year-on-year change (June 2020)

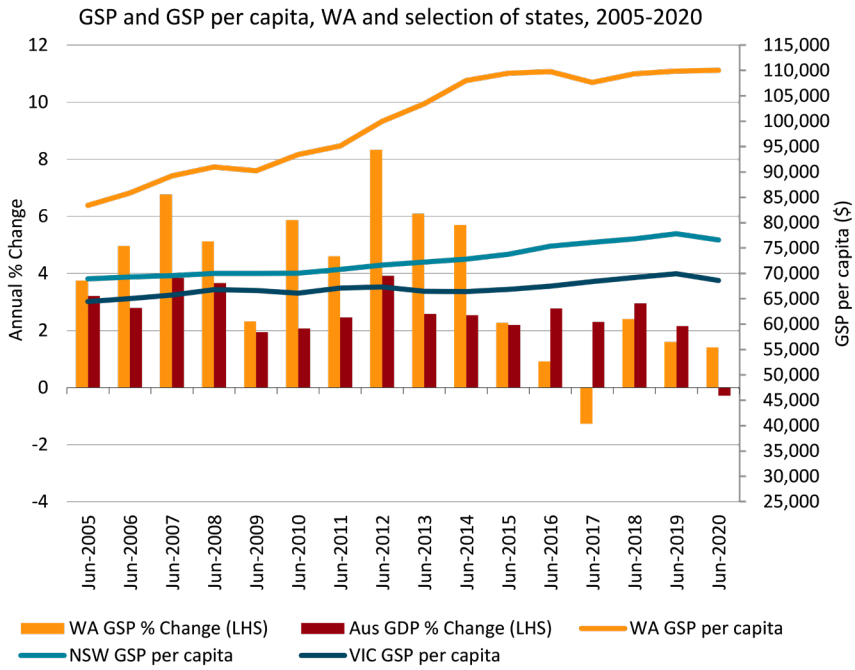
Gross State Product

Last week, with the release of annual Gross State Product data, a holistic view of the Western Australia economy for the 2019-20 financial year was provided. While only capturing one quarter of the COVID-19 pandemic, it is nonetheless important to see how the WA economy tracked over the financial year, and the base from which the economy can emerge.

The WA economy grew by 1.4 per cent in the financial year to June 2020 (Figure 2), the only state across Australia to show growth, with the national economy (GDP) contracting 0.3 per cent. For WA, this is the lowest growth recorded over the last three years, with the one quarter of COVID-19 to June 2020 taking some steam out of the green shoots train. WA's 2019-20 growth is 0.6ppts lower than that forecast (2.0%) in the recently released WA Budget.

WA's 1.4 per cent growth to June 2020 compares to an average annual GSP growth rate of 3.2 per cent over the last decade, with the Australian economy growing at an average rate of 2.4 per cent over the same time frame. Nevertheless, WA's GSP per capita now sits at historic high of $110,000. This figure is $34,100 higher than the national average, increasing some $1,230 from that seen in June 2018.

Figure 2: Percentage change in Gross State Product (GSP), and level of GSP per capita, various states, 2005-2020



Notes: Chain volume; Reference year is 2018/19. June 2020 GSP per capita is calculated using March 2020 population data due to time lags in population data releases. Previous years use June population data.

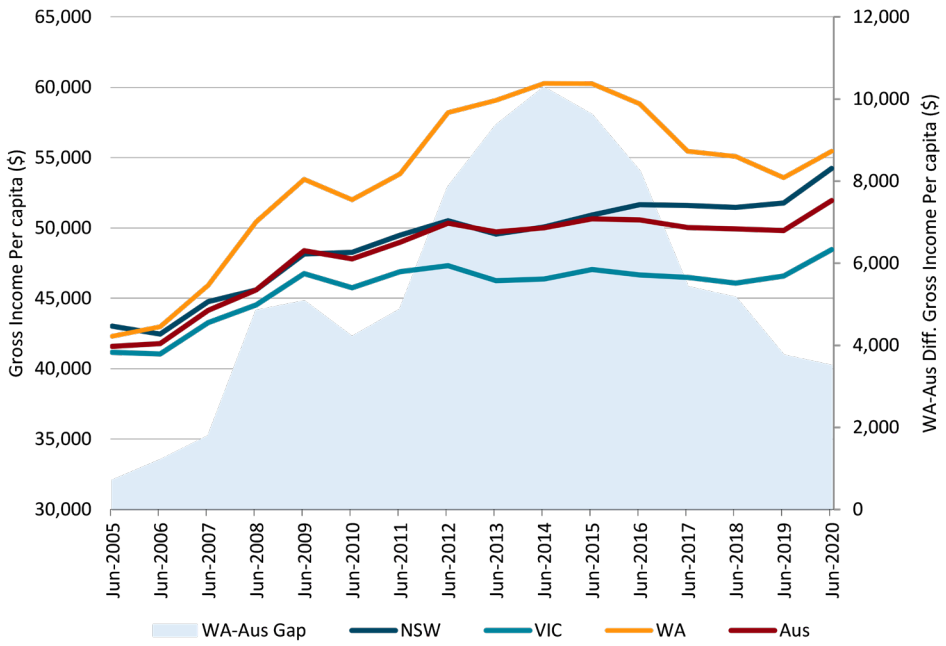
Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5220, Table 1 and ABS Cat 3101, Table 4.

Household Disposable Income

Per capita household disposable income can provide a more relatable measure of economic wellbeing from the perspective of an individual or family (Figure 3). Since June 2015, household disposable income per capita declined for four consecutive years in WA, averaging -2.9 per cent annually, and, while remaining above the national average, there was a substantial convergence during this period.

While real household disposable income per capita increased by 3.5 per cent in WA to June 2020, such incomes increased by 4.3 per cent nationally, meaning that the convergence has continued. That said, household disposable income per capita in WA (at $55,460) still remains above NSW ($54,240), and VIC ($48,470) and continues to sit $3,500 above the national average ($51,960).

Figure 3: Gross Household Disposable Income per capita, Various States, 2005-2020



Notes: Current prices realised using CPI and rebased to 2019/20. June 2020 is calculated using March 2020 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 12, Table 13, Table 16 and Table 20 and ABS Cat 6401 Table 9.

Expenditure Components of GSP Growth

Household consumption expenditure contributes 34.2 per cent of GSP in WA and is one of the largest contributors to economic growth. In the year to June 2020, household consumption declined by 2.4 per cent. The compares to household consumption growth averaging 2.1 per cent over the last decade.

The State's net exports (exports minus imports) grew by 2.4 per cent over the year to June 2020, supported primarily by a strong demand for WA minerals. Breaking net exports down further, WA exports increased by 0.7 per cent with imports declining by 4.1 per cent to June 2020. Net exports now account for 47 per cent of the WA economy.

In WA, the sharp contraction in private investment across the six years to June 2019 saw a welcome reversal to June 2020, increasing by 4.9 per cent. This compares to an average contraction over the last six years of 11.1 per cent. General government consumption expenditure, which makes up 13.2 per cent of GSP, grew by 3.2 per cent over the year, while public government finance fell by 0.1 per cent.

Industry contribution to growth

Mining **47%**
Share (June 2020)

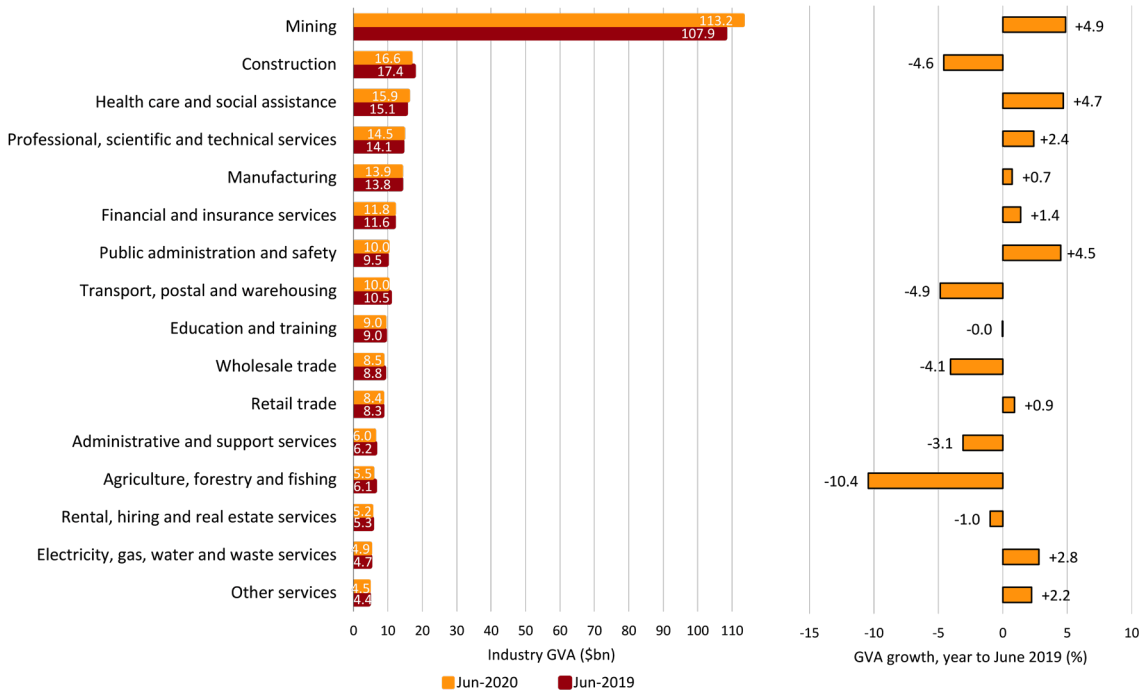
Contribution to Gross Value Added by Industry

This time last year BCEC's Briefing Note on the WA economy reported that mining's contribution to WA's total industry output had reached a "whopping 40 per cent…". It is hard to find an adjective to describe the 47 per cent share that the mining sector now holds in WA (**Figure 6**).

The mining sector grew by 4.9 per cent in the year to June 2020 (**Figure 4**), and in doing so, contributed 1.8ppts to the state's gross valued added (GVA) growth. Growth in the mining sector has stemmed primarily from iron ore exports, which in nominal terms, saw an increase in value of 21 per cent and a quantity increase of 5 per cent, reflecting high iron ore prices and increasing production volumes. The iron ore price remained high over the year due to a shortage of international supply, with mine closures in Brazil having a particular impact along with the continued strength in Chinese demand.

Construction declined by 4.6 per cent over the same period, representing the sixth consecutive year of negative growth, which has averaged -11.8 per cent annually. Other sectors experiencing a decline in the year to June 2020 include those most impacted by COVID-19 including Accommodation and Food services (-9.1%) and Transport, postal and Warehousing (-4.9%). Agriculture also saw a significant decline (-10.4%), although this was on the back of a strong 2019 cropping season. Of other interest from an industry perspective is that Professional, scientific and technical services became the fourth largest sector in the economy, and in doing so, overtakes Manufacturing.

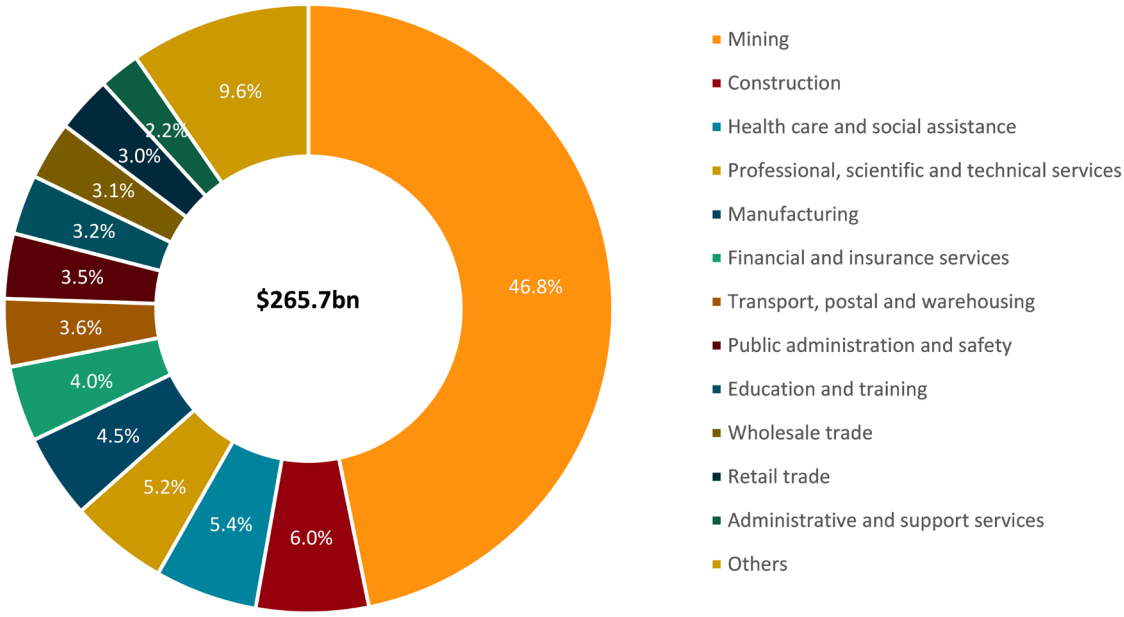
Figure 4: Industry GVA ($bn) and GVA growth (%), selected industries: 2018-2019 and 2019-20



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 2018/19.

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

Figure 5: Industry Share (%) of GVA, WA, June 2020



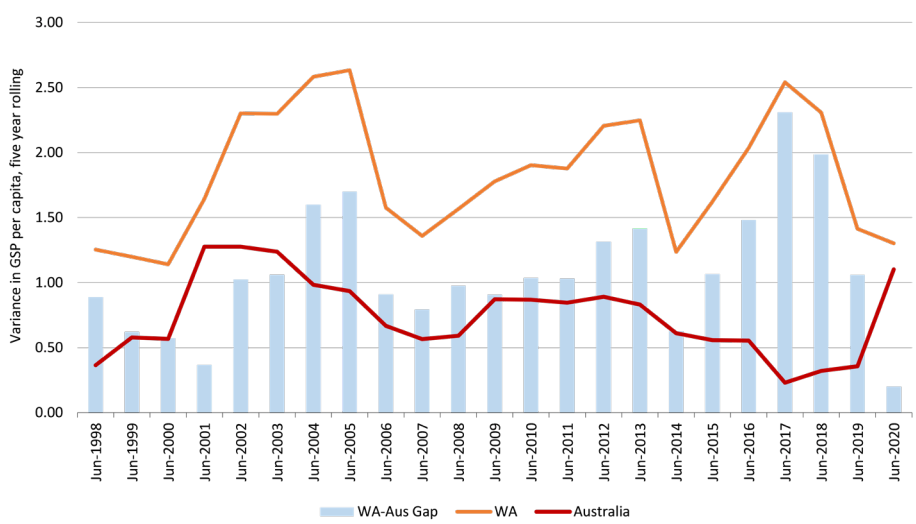
Notes: Economic activity is measured through Gross Value Added (GVA). It is the value of output of goods and services minus the value of intermediate consumption. GVA share in current prices; GVA share calculations exclude 'Ownership of dwellings' and statistical discrepancies. Top 12 industries selected. 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

WA's economy continues to rely heavily on the fortunes of the resources sector. Applying a five year rolling standard deviation metric, **Figure 6** shows that since 1998, WA's economic growth is more volatile than that reported nationally.

The standard deviation (deviation from the long term State mean) for WA has remained above one for the period reported, but has declined somewhat since 2017. Meanwhile volatility has increased nationally, with a variance above one reported to June 2020. This same volatility was last seen in 2003.

Figure 6: Level of volatility in per capita growth, WA and Australia, 1998 to 2020



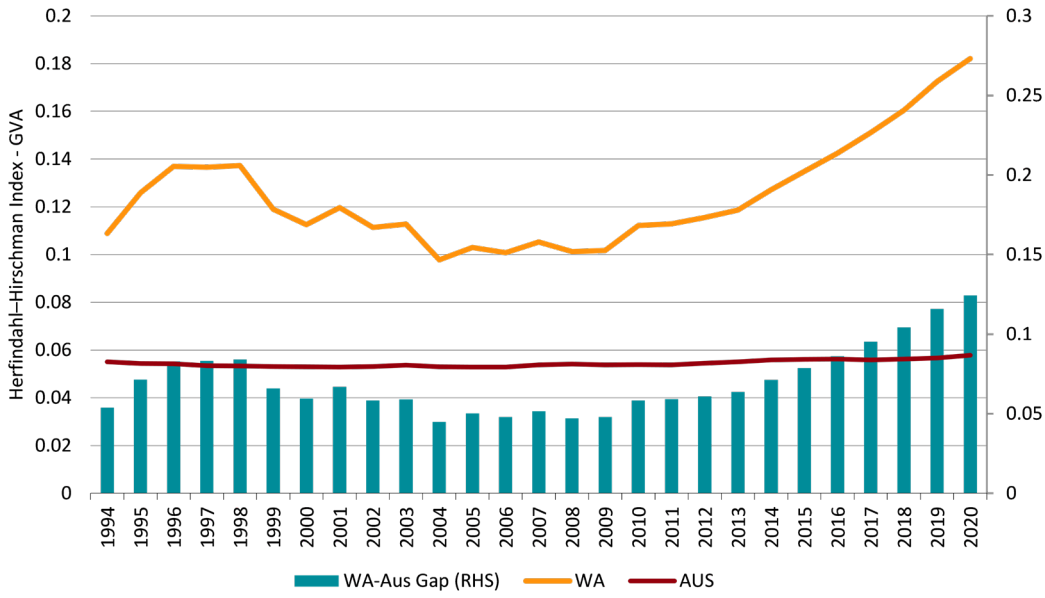
Notes: A five year rolling standard deviation is applied to GSP (WA) and GDP (Australia) per capita growth rates.

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

More telling of how the WA economy has become less diversified over time, is shown by constructing an index of industry concentration - the Herdindahl-Hirschman Index (HH Index), as presented in **Figure 7**. An increasing HH Index implies a less diversified economy over time.

Between 1994 and 2020, Australia's GVA-based HH Index has remained stable, hovering at around 0.054. However, for WA, the GVA-based HH Index has shown greater variation (average of 0.124), and has increased each year since 2008, to now stand at the highest (0.182) over the period reported. That is, in GVA terms, the WA economy is now more concentrated than it has ever been over the last 27 years. The WA-Aus gap is also at an all-time high (0.124).

Figure 7: Industry concentration, WA versus Australia, 1994 to 2020, GVA-based Herfindahl-Hirschman Index



Notes: Higher values of the index represent less industry diversification. Ownership of dwellings is excluded.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5220, Table 6 and Table 10

Trading partners

China **57.4%**

Share of exports (September 2020)

Exports and Imports

Trading volumes during the COVID-19 pandemic have declined worldwide as a result of decreased economic activity and production, a decline in freight movement, as well as regulatory measures to control the spread of the virus.

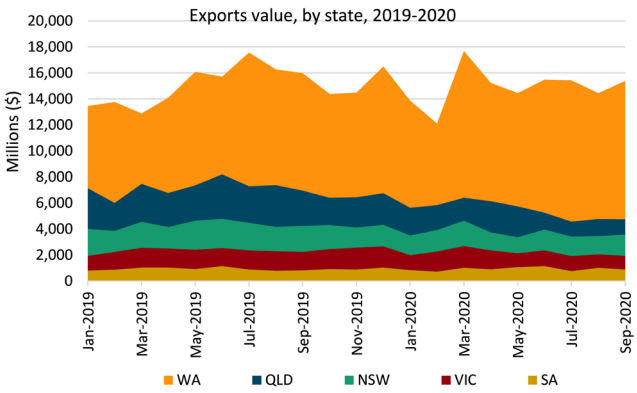
Australia has not escaped trade volatility, and after a 2 per cent fall in imports during the quarter to June, driven by SA, QLD and WA, the value of imports has increased by 6.5 per cent in the last quarter. This increase is due to imports bouncing back in these three states to almost the same levels reported in the first quarter of the year, along with increasing imports from NSW and VIC.

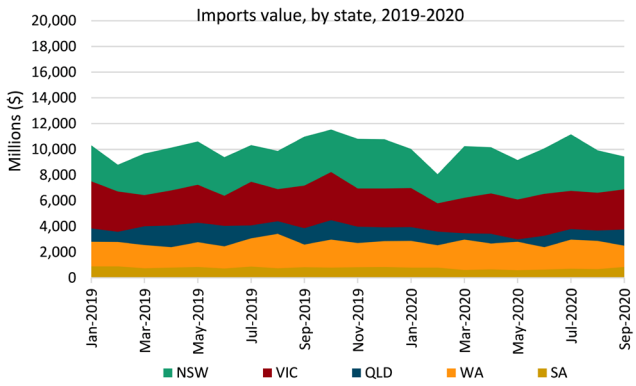
WA has reached almost the same value of imports as before the pandemic, with $2.5 billion worth of imports in September 2020. Around one fifth of WA's imports came from mainland China, followed by the United States (12%) and Japan (6%). The South-Eastern Asian countries of Indonesia, Malaysia, Thailand and Singapore, together, accounted for 20 per cent of imports to the state.

WA exports, on the other hand, have increased slightly by 0.2 per cent between the last two quarters to September. Even though this increase does not seem significant, WA is the only state with positive growth in exports in the quarter to September 2020. QLD experienced the largest decline, with almost an 18 per cent fall in exports, followed by SA (-15%), VIC (-14%) and NSW (-5%).

As a consequence, the share of WA exports has increased to more than 53 per cent of total Australian exports in the month of September. The weight of WA exports has softened the national decline in exports to less than 6 per cent in the September quarter.

Figure 8: Exports and imports value, by state, 2019-2020





Notes: Current prices. Exports are showed in free on board values and imports in customs value.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5368, Table 15a and 15b.

Trading Partners and Commodity Exports

Mainland China continues to be WA's main trading partner, with significant volumes of both imports and exports (**Table 2**). The bulk of WA's exports (57.4%) are directed to China. The United Kingdom and Japan are the second and third largest export partners sitting at 7.9 per cent and 7.4 per cent, respectively. WA's high dependency on China for its exports is better shown in **Table 3**. During the 2019 financial year, China not only imported 83 per cent of WA's iron ore (WA's largest export commodity), but it was also the number one destination of canola seeds, barley and wool. With the exception of gold, China ranks among the top three destinations for WA's top eight commodity exports.

Exports in nominal values between the 2018-19 and 2019-20 financial years rose by 13 per cent in WA, driven primarily by the increasing volume and price of WA's main export, iron ore. Indeed, between the previous financial years, iron ore has recorded the second largest increase in price (22.5%) among WA's main exports, after the safe haven that is gold (32%). Given that exports increased by only 0.7 per cent in chain volume terms, points to the fact that most of the increase in export values is related to an increase in price.

The significant concentration of WA's exports to a small number of countries has left the state vulnerable to geopolitical tensions. For example, recent threats and action by China to limit imports and increase tariffs on Australian wine, wheat, barley and lobster has created uncertainty in these industries. As agricultural related exports to China have increased by around 10ppt in the past five years and now account by more than 30% of WA's agricultural exports, a breakdown in trade represent a real risk to the industry. While some exports such as barley, have found alternative markets, these episodes further highlight the need for greater diversification – both in commodities and in export markets to guarantee better stability and less volatility for the state's economy.

Table 2: Top ten destinations and provenances of exports and imports, Western Australia, September 2020

Exports			Imports		
Country	Share	Value (millions)	Country	Share	Value (millions)
China (excludes SARs and Taiwan)	57%	8835	China (excludes SARs and Taiwan)	21%	515
United Kingdom	8%	1209	United States of America	12%	294
Japan	7%	1141	Japan	6%	153
South Korea	5%	732	Indonesia	6%	141
Singapore	4%	630	Malaysia	5%	126
France	3%	430	Thailand	4%	112
Hong Kong (SAR of China)	3%	428	Singapore	4%	109
Taiwan	2%	261	United Arab Emirates	4%	92
Germany	1%	227	United Kingdom	4%	89
Malaysia	1%	213	Germany	3%	81

Notes: Current prices. Exports are showed in free on board values and imports in customs value.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5368, Table 36e and 37e.

Table 3: Main commodity exports, Western Australia, by country of destination, 2019-20 FY

Commodity exports ($m)							
Iron Ore	101.10	Gold	21.52	Alumina	6.08	Petroleum	15.16
China	83.86	UK	12.71	UAE	1.90	Japan	5.96
Japan	7.04	USA	3.01	Bahrain	0.58	China	5.74
South Korea	6.13	Hong Kong	2.97	China	0.54	Singapore	2.89
Taiwan	1.87	Singapore	0.85	South Africa	0.51	South Korea	1.18
Viet Nam	0.76	China	0.82	Mozambique	0.45	Indonesia	1.15
Wheat	2.75	Canola seeds	0.78	Barley	0.77	Wool	0.47
South Korea	0.42	China	0.25	China	0.41	China	0.42
China	0.38	Germany	0.23	Thailand	0.13	India	0.03
Philippines	0.32	Netherlands	0.18	Japan	0.11	Czechia	0.01
Japan	0.32	Japan	0.05	Vietnam	0.06	Italy	0.00
Indonesia	0.21	Belgium	0.04	Qatar	0.03	Thailand	0.00

Notes: Current prices. Exports are showed in free on board values.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations based on the Major Commodities Resource Data from Department of Mines, Industry Regulation and Safety, WA Government and data provided by the Department of Primary Industries and Regional Development.

How is our economy doing?

SFD 6.0%

Quarter-on-quarter change (June 2020)

State Final Demand

Data for the quarter to June 2020 provides the most in-depth currently available insight into the impact of COVID-19 on the Australian domestic economy.

Restrictions from the pandemic, meant that many businesses across the nation were forced into trading restrictions, with many changing their employees working arrangements and the manner in which they serviced their markets. The period saw unprecedentedly high unemployment rates in the modern Australia era, an issue discussed further in this release.

These factors, coupled with the uncertain nature of the new world, meant that consumer and business confidence took an extreme blow, which is borne out in the data. The Australian domestic economy shrunk by 7 per cent with the hardest hit states being NSW and VIC (Table 4). While SA, QLD and WA also saw sizeable declines in growth, they were less impacted than those more populated states that saw greater and longer restrictions imposed upon them.

Table 4: Components of State Final Demand by state/territory, quarterly percentage change, June 2020

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
	percentage changes - quarter to June 2020								
Final consumption expenditure									
Household	-13.3	-13.7	-9.6	-9.9	-10.6	-12.5	-7.5	-11.6	-12.1
General government	+2.9	+1.6	+4.6	+0.9	+3.5	+3.1	-0.3	+4.4	+2.9
Gross fixed capital formation									
Private	-7.8	-7.3	-7.6	-3.0	-4.2	-3.3	-6.2	+2.7	-6.5
Public	+0.0	+9.9	-4.0	+2.9	-1.7	-8.5	-9.2	-5.1	+1.0
State Final Demand	-8.6	-8.5	-5.9	-5.8	-6.0	-7.4	-4.9	-2.2	-7.0

Notes: Chain Volume; seasonally adjusted; Australia data refers to Gross National Expenditure (GNE).

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

In WA, household consumption, which comprises 50 per cent the state's domestic economy, fell by 10.6 per cent in the June quarter. This hit to household consumption comes on the back of a decline of 1.2 per cent in the quarter to March 2020, and despite the green shoots displayed in 2019, household consumption has now declined by 2 per cent overall in the twelve months to June 2020.

Private gross fixed capital formation, the second largest component of SFD in WA, declined by 4.2 per cent in the June quarter. This highlights the lack of business confidence, with many businesses unwilling or unable to commit to investment decisions given an uncertain trade outlook both on the domestic and international front, with supply chain issues and deteriorations in cash flow also impacting.

In times of economic downturn, most economists would agree that Government needs to step up to minimise the size and duration of a downturn. The Federal and State governments have acted swiftly in this regard, with financial institutions too playing a critical role. Nationally, general government expenditure increased by 2.9 per cent, with a rate of 3.5 per cent for WA, second only to QLD.

Yet, public gross fixed capital formation, the smallest component of the domestic economy, declined by 1.7 per cent in the June quarter. However, this will take on a much more significant role in the months and years ahead, with the 2020-21 budget estimates forecasting growth of 18 per cent in government investment for 2020-21 and 12 per cent for 2021-22. Economic activity generated from such expenditure will likely have a positive knock on impact on business and consumer confidence.

Figure 9: Components of State Final Demand by State, 2020

Notes: Chain Volume; seasonally adjusted.

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

Business Investment

1.8%

Quarter-on-quarter change (June 2020)

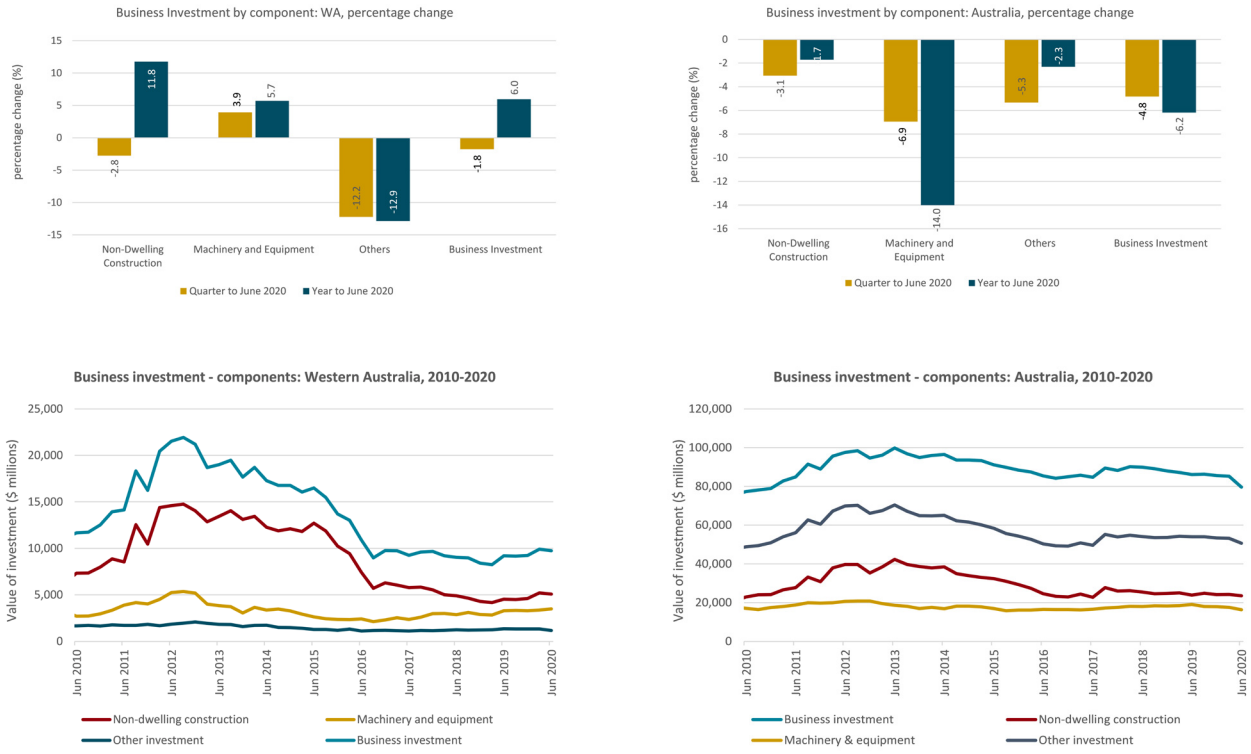
Business Investment

While business investment in the quarter to June 2020 was down 1.8 per cent, annually, it grew by 9.3 per cent, and was up 6.0 per cent on a year-on-year basis. In the four quarters prior to June 2020, business investment in WA had seen four quarters of positive growth, driven by non-dwelling construction and machinery and equipment. This was leading to much optimism for the economy.

Nationally the picture is much bleaker, with business investment declining by 4.8 per cent in the quarter to June 2020. This is on the back of declines in March 2020 and December 2019, with quarterly growth averaging -1.6 per cent across the last four quarters.

While Australian businesses have shown much resilience, cash-flow has been a major concern for businesses. For many, this, along with general uncertainty relating to the COVID climate, supply chains and access to global markets will no doubt lead to a cancellation or deferral of investment decisions. It will be interesting in the months ahead to see the extent to which various government incentives, aimed at increasing business investment and general business confidence, will impact capital expenditure programs.

Figure 10: Business Investment, WA and Australia, quarterly, 2010 to 2020



Notes: Chain volume; seasonally adjusted. 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

10.6%

Quarter-on-quarter change (June 2020)

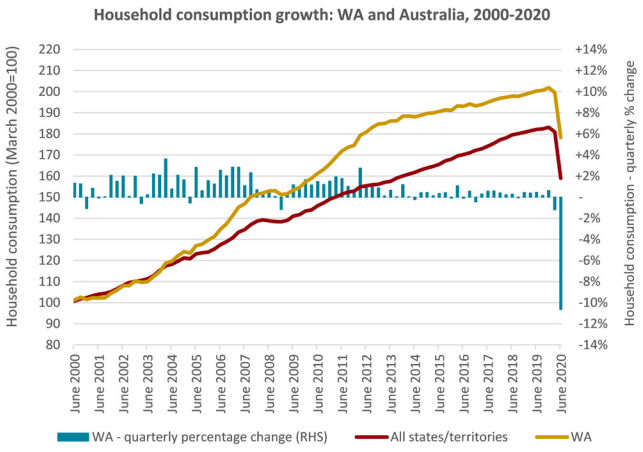
Household Consumption

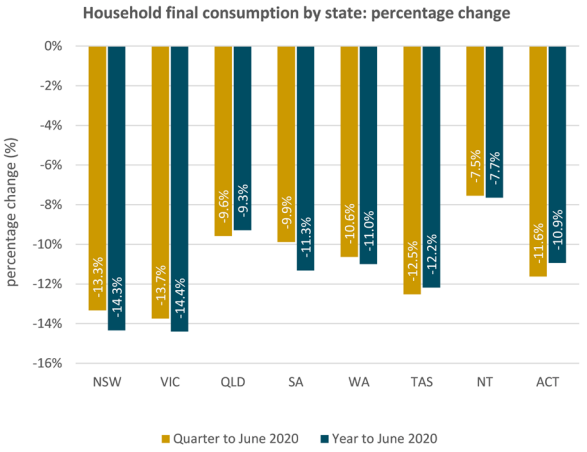
Household consumption comprises approximately 50 per cent of WA's domestic economy, and is therefore, a key marker of economic confidence. Given that the pandemic led to a reduction in opportunities to participate in normal expenditure behaviours, the quarter to June 2020 saw household consumption decline by -10.6 per cent in WA.

The fact that WA has had a less serve and shorter period of strict lockdowns, this decline in WA is lower than the -12.1 per cent reported nationally, with rates of -13.7 and -13.3 reported for VIC and NSW, respectively.

The easing of many restrictions in WA since June should bode well for an improvement in the data we observe for the quarter to September 2020. For the eastern states however, clouds are likely to be evident for both the September and December quarters.

Figure 11: Household final consumption spending: growth, 2000-2020 and percentage change





Notes: Chain volume, seasonally adjusted.

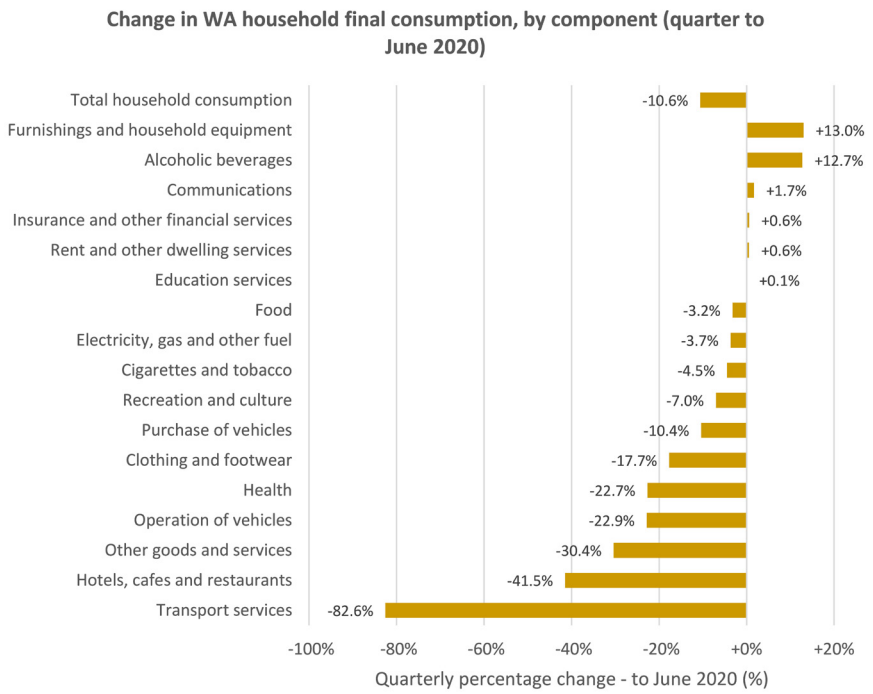
Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5206, Table 25.

By sector, we see that there were some winners in regard to household consumption, with a greater amount of time spent at home, coupled with some forced savings, leading to additional expenditure on furnishings and household equipment (+13.0%), alcoholic beverages (+12.7%) and communications (+.17%).

Sectors clearly suffering from the restrictions included transport services (-82.6%), hotels, cafes and restaurants (-41.5%) and other goods and services (-30.4%). Many of the latter are linked to the tourism sector which has been hit particularly hard, as evidenced further through the decline in recreation and culture spend (-7.0%). Many others in the broader services sectors are also observing negative growth.

A decline was also seen for vehicle purchases and the operation of vehicles, with the particularly low fuel prices playing a role for the latter, in addition to the fact that many workers, through working from home and split team arrangements, having their commute times reduced or eliminated.

Figure 12: Components of household consumption growth in WA



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

11.0%

Quarter-on-quarter change (September 2020)

Retail Trade

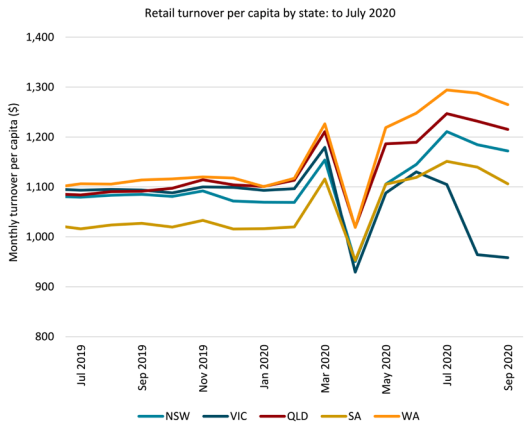
Despite a decline of 1.7% in September, WA is the state with the largest growth in retail trade turnover since May 2020. The growth observed in July is mainly responsible for an overall increase of 11 per cent in the quarter to September. Other states such as VIC and NSW have been affected by the second wave of the COVID-19 pandemic in Australia, and have as a consequence, seen a decline in retail trade in the last quarter, which was particularly steep in the month of August.

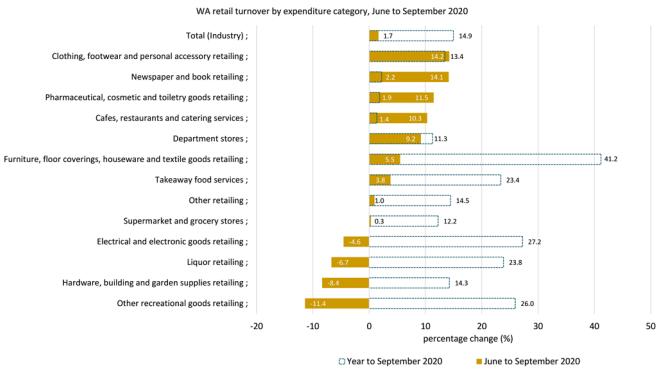
A rise in economic activity along with the JobSeeker and JobKeeper packages are all likely to be aiding consumer spending and increasing retail trade in WA. Between September 2019 and 2020, retail trade has grown by an additional 15%, the largest of any state.

The most important contributors to retail growth over the year to September 2020 include: Furniture, houseware and textile goods retailing (41%), electrical and electronic goods (27%) and other recreational goods retailing (26%). The fact that leisure and durable commodities sales have picked up significantly is a signal of an increase in consumer confidence. Other non-essential goods such as liquor and takeaway food services have also observed double digits growth since last year.

In terms of the changes in retail trade between June and September of this year personal care items such as clothing, footware and personal accessories (+14.2%), newspaper and book retailing (+14.1%), and pharmaceutical, cosmetic and toiletry goods (+11.5%) have all shown strong growth, followed by cafes and restaurants (+10.3%). Meanwhile, over the most recent quarter, there were declines in electrical and electronic goods (-4.6%), liquor retailing (-6.7%), hardware supplies (-8.4%) and other recreational goods retailing (-11.4%).

Figure 13: Retail trade turnover, WA and Australia, 2019 to 2020





Notes: Chain volume, seasonally adjusted.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 8501, Table 9 and Table 12.

Inflation

1.8%

Quarter-on-quarter change (September 2020)

After a significant fall in the consumer price index in the quarter to June 2020, the Perth CPI has bounced back to pre-pandemic levels in the quarter to September. An increase of 1.8 per cent in the index was recorded in the last quarter, recovering from a 1.2 per cent decline in June. With increasing economic activity after the first restrictions at the onset of the pandemic, these price levels suggest that the WA economy is heading back to a more normal growth path.

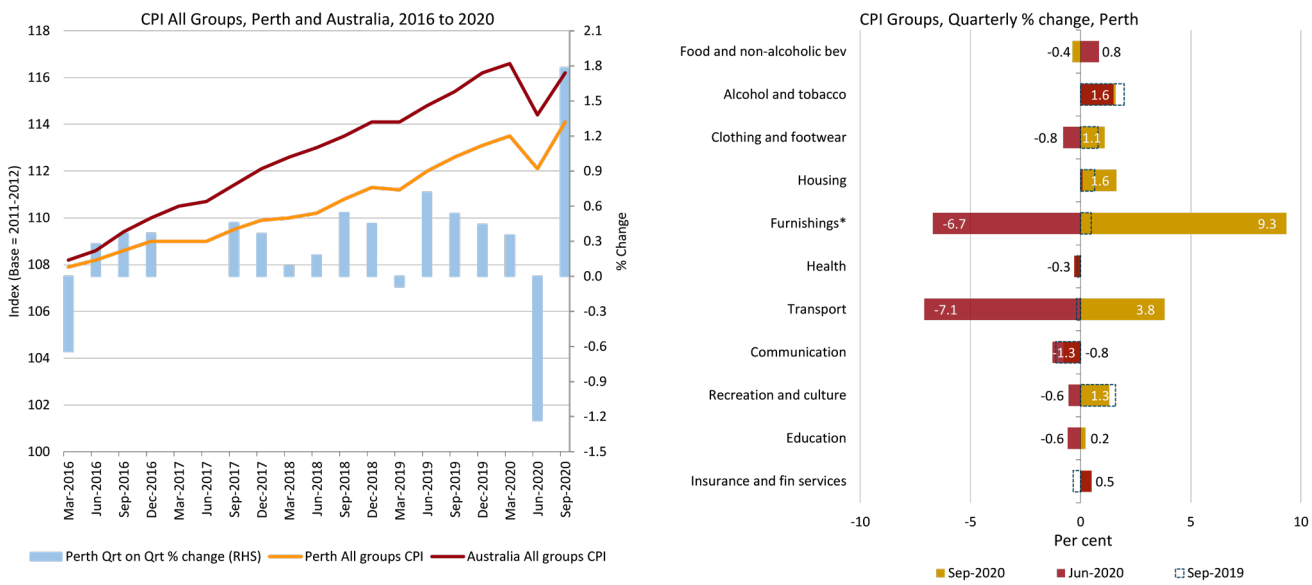
There has been almost a symmetrical reaction in prices between the last two quarters, in the sense that items that suffered a significant decrease in prices in June have bounced back by almost the same amount in September (**Figure 14**). Furnishings, clothing, education, recreation and culture have regained at least the same ground that was lost in the June quarter.

Price increases of furnishings, household equipment and services group are, to some extent, due to higher prices in furniture and home appliances. However, the end of the Early Childhood Education and Care Relief Package by the Federal government is the largest contributor to the rise of this sub-index. Transportation prices suffered the same fate, as oil prices have risen since June due to increasing economic activity worldwide and a decrease in oil production, but are yet to reach pre-pandemic prices.

Despite a 1.5 per cent decline in property rates and charges as a consequence of local council rebates during the COVID-19 pandemic, the housing sub-index increased by 1.6 per cent in Perth in the quarter to June. This is mainly due to increases in new dwelling purchases by owner occupiers but also due to a 3.5 per cent rise in electricity prices in the metropolitan area.

Australia wide, the CPI has recovered by 1.6 per cent but has not reached the levels of March. This is the result of weak increases in goods and services in the cities of Melbourne (0.8%), Adelaide (1%) and Hobart (1%). The COVID-19 restrictions in Melbourne have hindered economic activity which is reflected in the city seeing only a modest increase in prices. The significant weight placed on Melbourne in the national CPI is dragging the overall index down and will likely reverse over the coming months as Victoria opens up again.

Figure 14: Consumer price index, major Australian cities and Perth, 2016-2020



Notes: : *Furnishings includes furnishings, household equipment and services. Index Base = 2011-2012. Major Australian cities. Seasonally adjusted values are used

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

Construction Work

0.7%

Quarter-on-quarter change (June 2020)

Value of Construction Work Done

The overall value of construction work done in WA has risen in the past two quarters. In the quarter to March, there has been an increase of 0.4 per cent in total construction work done, followed by an additional 0.7 per cent increase in the quarter to June. This is the first time in almost five years since WA has observed two periods of consecutive growth. This is remarkable not only at the WA level - but also at the Australian level where no state has recorded positive growth in the past year.

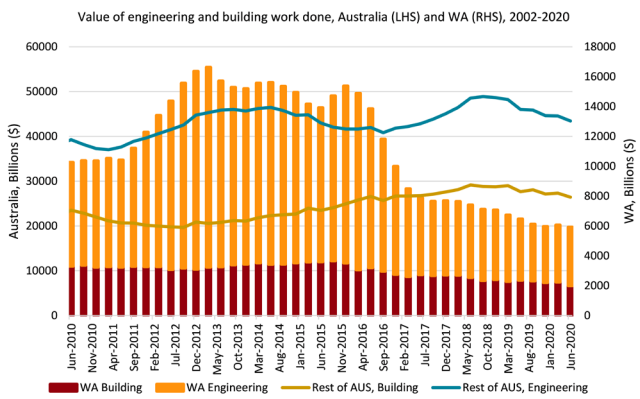
The fall in construction work done has been significant in states such as NSW and SA. For these two states, we have to go back to 2013-14 to observe this sort of decline in output. Furthermore, NSW, QLD and SA have completed a full year of quarter-on-quarter falls in construction work done.

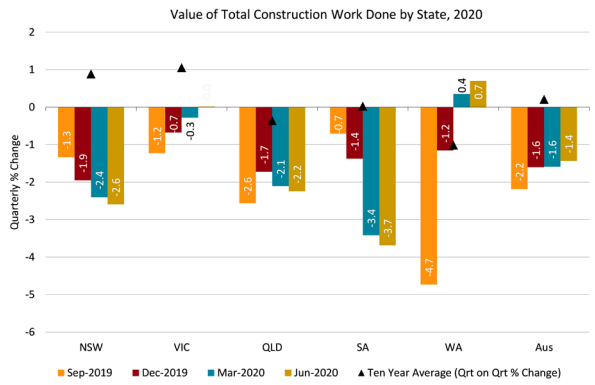
The Federal and State Governments policy boost to the construction sector, as a part of the COVID-19 recovery measures, could change this glum picture rapidly. Since the key measure at the Federal level to provide $25,000 as a part of the HomeBuilder grant and the $20,000 building bonus of the State government only commenced in June, it is too early to observe any effects in the latest available data for this indicator.

In WA, engineering work seems to be driving the increase in value of construction work done, increasing by 5 per cent in the value of engineering work done over the last year. On the other hand, the value of building work done has been declining across the same period, where an 11 per cent decline was observed in this sector. However, as engineering work weighs more heavily in the total composition of construction work done, this has kept the overall indicator positive.

It will be interesting to see how government initiatives play out in WA's construction sector. An increase in demand in engineering work, would likely be matched by an increasing demand in the building sector as a result of both Federal and State government stimulus measures.

Figure 15: Value of Construction Work Done by state, quarterly change, 2010 to 2020





Notes: Chain volume; seasonally adjusted. 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

42.0%

Month-on-month change (September 2020)

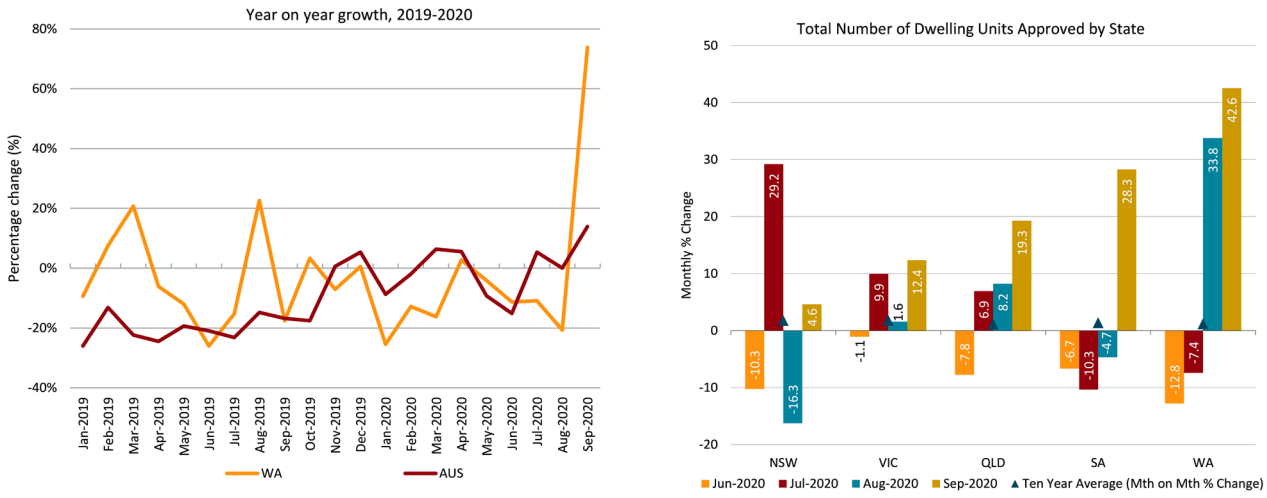
Dwelling Approvals

More recent monthly data on the number of dwellings units approved shows that there has been a significant uptake by new home buyers, driven by government housing stimulus measures and a historically low interest rate environment. This effect is even more pronounced in WA, where there has been a huge 42 per cent increase in the month to September on the back of an already significant increase in dwelling approvals of 34 per cent in August. This has meant that the number of dwellings approved in WA has almost doubled since July. Other states have also seen significant increase in dwelling approvals over this period, however growth rates in WA have towered over the rest.

COVID-19 has created significant variability in month-on-month changes in dwelling approvals. Looking at this indicator over the year to August shows a decline of 21 per cent in dwellings approvals, however this has completed reversed in September with a staggering 74 per cent increase when we compared to a year ago.

The extent to which housing supply can keep up with housing demand is currently being tested in the state, with skills shortages in the construction sector and delays in housing commencements placing pressure on the sector. The recent HomeBuilder grant deadline and Building Bonus extensions should ease some of these pressures.

Figure 16: Total Number of Dwelling Units Approved by state, 2019 to 2020



Notes: Seasonally adjusted. Annual monthly growth in Australia does not include the Territories.

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

Housing Finance Commitments

25.0%

Month-on-month change (September 2020)

Housing Finance Commitments

In concert with the total number of dwelling units approved, the value of new loan commitments have significantly improved since June 2020 in WA. WA had been increasing the value of new loan commitments since May 2019, however this progression was hindered by the onset of the pandemic in March 2020 when a significant and abrupt fall was observed in WA and Australia. Increasing confidence in the economy and advantageous stimulus to the construction industry have reversed the cycle to an upward trend from May 2020.

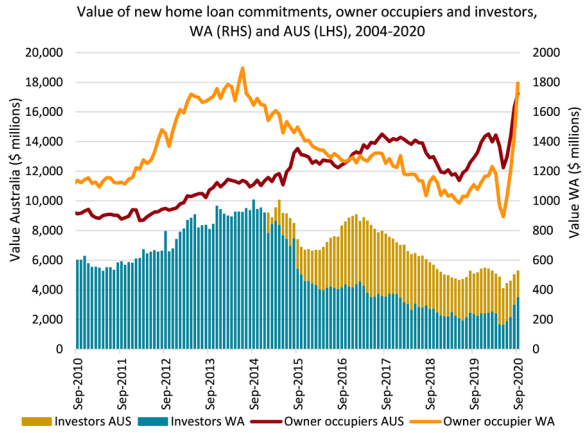
The value of new loan commitments have not only increased to pre-pandemic levels but, in the case of owner-occupier loans, they have risen to some of the highest levels reported in the past decade.

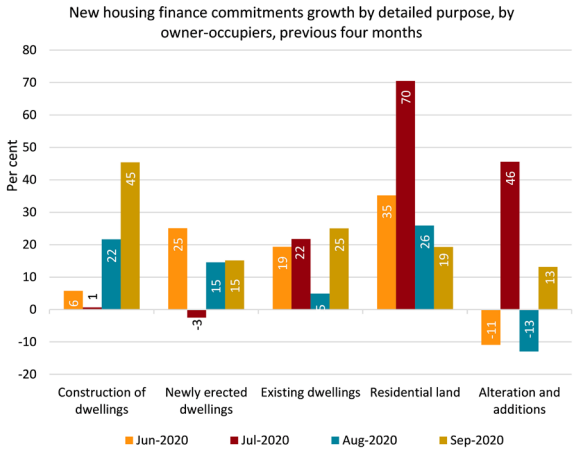
Relative to May 2020, the value of new home loan commitments of owner-occupiers in WA more than doubled in September, the highest growth of any state. In that month alone, there has been an increase of 25 per cent compared to the previous month. The rate of growth is also higher in WA than in Australia, although Australia has also experienced a significant increase of 33 per cent during the same period.

Owner-occupiers are not the only ones taking advantage of the stimulus packages, with investors in WA also cashing in. The $20,000 grants to construct new homes seem to have awoken WA investors' appetites. Double figure increases each month since June have been observed in the value of new home loan commitments by investors, especially in August when new loans by investors increased by 38 per cent relative to July. This has been the largest monthly growth rate in this sector in the last decade at least and similar to the overall value levels than more than two years ago, when housing investors' commitments were significantly higher.

Nationally, the value of new home loan commitments by investors has also increased, but only back to pre-pandemic levels. SA, QLD and NSW in the last month seem to be driving this increase whereas VIC housing finance commitments have declined for both investors and owner-occupiers alike in the month of September.

Figure 17: New Housing Finance Commitments Excluding Refinancing, Owner-Occupier and Investors, WA and Australia, 2010 to 2020





Notes: Seasonally adjusted. Major cities.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5601, Table 4 and Table 14.

Residential Property Price

1.1%

Quarter-on-quarter RPPI change (September 2020)

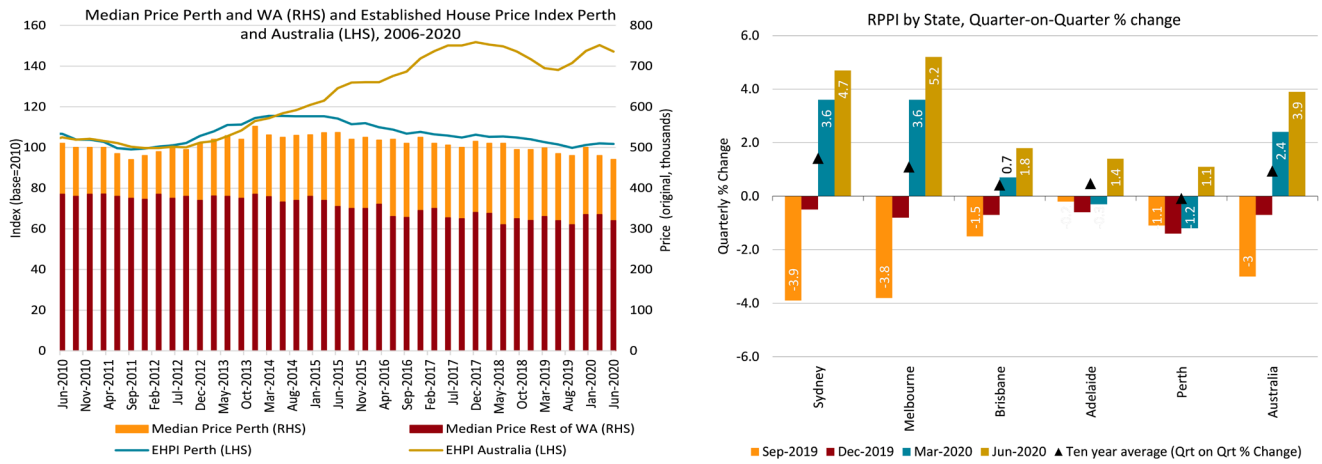
Residential Property Price Index and established house prices

The established house price index slightly declined in both Perth and Australia in the quarter to June, decreasing by 0.3 and 3.1 percentage points respectively. For Australia, this is the first decrease in the established house price in more than a year. For WA, the index has remained reasonably stable over the last year.

In the quarter to June, there has been a decline of almost a third in the number of transfers of established houses in Perth. The same situation can be observed in regional WA, with the number of transfers outside the metropolitan area falling by around a quarter.

Despite the fall of prices in established houses transfers, overall residential property market prices in Perth have increased by 1.1 per cent, likely driven entirely by new dwelling purchases as prospective home owners opt for new homes rather than existing. Even though this increase seems small, it is the first time that WA has recorded an increase in the residential property price index over the past two years. This tendency is likely to continue, given that the value and number of housing loans has increased significantly in WA since June.

Figure 18: Median Price of Established House Transfers, Perth and Rest of WA and Residential Property Price Index, Australia by state, 2010 to 2020



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

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 6416, Table 4 and Table 7.

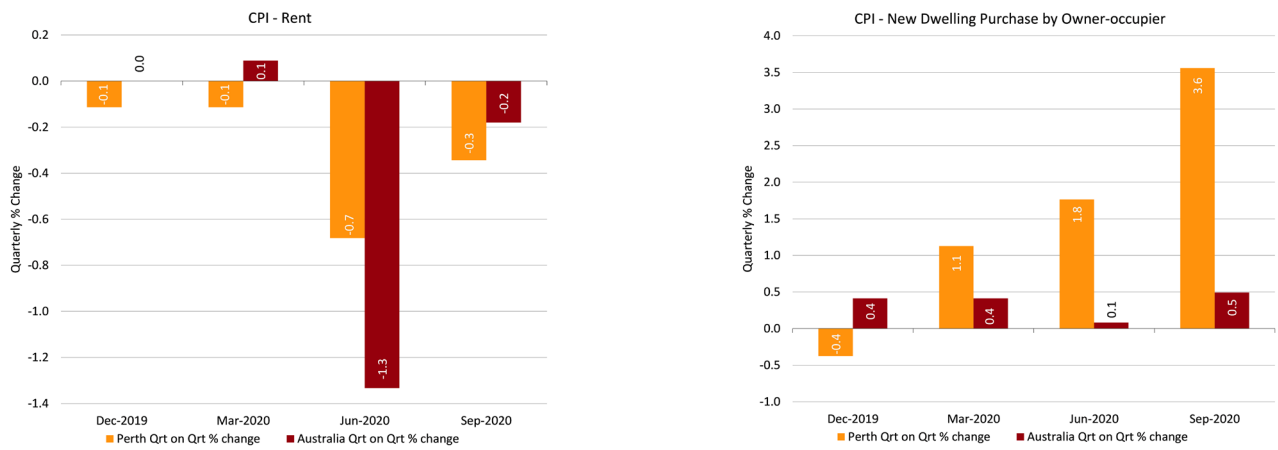
Change in Rents and new dwelling purchases by owner-occupiers

The CPI for new owner-occupier dwelling purchases has increased consecutively over the last three quarters and on latest data has seen a significant increase of almost 4 per cent in the quarter to September. This has been the first time in five years that the CPI of new dwelling purchases by owner-occupiers has increased by more than 1 per cent.

While this may be viewed overall as good news for the construction sector, such a sharp increase is likely the result of increasing demand generated from the stimulus packages, as well as increasing tension in the supply side of the construction sector. Skills shortages amplified by the border closure have prevented an adequate labour supply in the sector to be able to meet the initial deadlines attached to the HomeBuilder grant and Building Bonus. Input prices have also increased due to the fall in trade flows, and resulting supply chain issues observed since the onset of the pandemic. All this, combined with the rise in land prices as a result of increased demand and limited supply, have contributed to price increases.

The CPI of rents, on the other hand, continued to decline in the quarter to September and now completes a five year fall in every single quarter. A 0.7 per cent decline in the CPI of rents was recorded in the quarter to June in Perth, followed by an additional 0.3 per cent decline in September. The sharp fall in rents, especially in the quarter to June, are likely due to the State government moratorium on rent increases and evictions and , however, this is likely to change when more recent data becomes available as rental vacancies fall to below 1 per cent in the state.

Figure 19: Change in Rents and Owner-Occupier New Dwelling Purchases, WA and Australia, 2019 to 2020



Notes: Index Base = 2011-2012.

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

Employed Persons

0.2%
Year-on-Year change (October 2020)

Labour market impacts of COVID-19

The West Australian labour market has shown incredible resilience over 2020, with 93 per cent of jobs lost and 81 per cent of hours lost since March, recovered to date – one of the strongest performers among all states and territories. The most recent labour market data show an additional 15,000 jobs added to the state and an almost equal split between full and part-time work.

On year-to-date measures full-time employment growth remains in negative territory, down by 1.9 per cent, with part-time growth steaming ahead at 4.7 per cent over the last 12 months. This trend is similar across most states and territories, where part-time employment growth is generally stronger than full-time employment.

Unemployment has continued to fall in WA and currently stands at 6.6 per cent, which is lower than the national unemployment rate of 7.0 per cent but almost a full percentage point higher when compared to 2019. Compared to other states and territories, WA is among the top performers, and consistently making progress as each new month of labour market statics are released.

Table 5: Employment changes, full-time and part-time, September 2020

	Employed Persons ('000)	Change from October 2019:				Change (%) from October 2019		Unemployment Rate		Unemployed ('000)	Change ('000) from:
	October 2020	(%)	Rank	('000)		Full-time	Part-time	October 2020	Rank	October 2020	October 2019
Australia	12,773.9	▼ -1.0%	---	▼ -132.3		-2.1%	1.3%	7.0%	---	960.9	▲ +238.9
NSW	4,070.8	▼ -1.2%	7	▼ -47.5		-2.9%	2.8%	6.5%	3	281.7	▲ +76.1
VIC	3,302.4	▼ -3.6%	8	▼ -124.1		-2.3%	-6.4%	7.4%	6	264.2	▲ +91.3
QLD	2,563.5	▲ 0.9%	2	▲ +22.6		-2.3%	7.9%	7.7%	7	213.9	▲ +40.5
SA	853.0	▲ 0.5%	3	▲ +4.2		-0.1%	1.6%	7.0%	5	64.2	▲ +8.0
WA	1,366.2	▲ 0.2%	4	▲ +2.8		-1.9%	4.7%	6.6%	4	96.2	▲ +14.4
TAS	251.6	▼ -0.1%	5	▼ -0.3		-1.3%	1.7%	8.2%	8	22.5	▲ +6.4
NT	129.2	▼ -1.1%	6	▼ -1.4		-4.0%	+8.7%	5.7%	2	7.8	+0.0
ACT	247.9	▲ 5.9%	1	▲ +13.8		+8.5%	-0.4%	3.9%	1	10.1	▲ +2.9

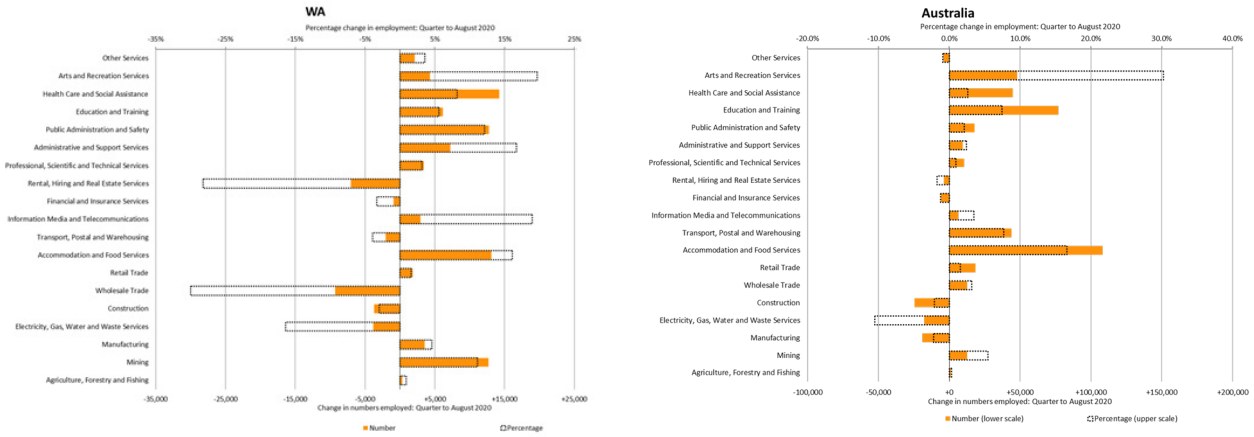
Notes: Seasonally adjusted values are used.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Australian Bureau of Statistics No 6202.0

Over the quarter to August 2020, most industries in WA experienced an increase in employment, in line with national trends and in stark contrast to the May quarter industry-wide contraction.

Health Care and Social Assistance saw the largest increase in employment, adding an additional 14,200 jobs over the quarter. In percentage terms, this was just over three times the growth seen in this industry at the national level (+8.2% compared to +2.6%). Accommodation and Food Services saw the second largest absolute rise in employment (+13,100), followed closely by Public Administration and Safety (+12,800) and Mining (+12,700).

Figure 20: Change in total employment by industry, WA and Australia, August 2020



Notes: Values are original and are subject to greater volatility. Values show quarterly growth between May 2020 and August 2020.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 6202.

When looking at employment growth, the best performing industry in WA was Arts and Recreation Services (+19.7%), however, this was noticeably below national growth (+30.2%). Information Media and Telecommunications followed with strong employment growth over the quarter (+19.0%), along with Administrative and Support Services (+16.7%), and Accommodation and Food Services (+16.1%) all seeing a resurgence in employment. Public Administration and Safety and Mining also experienced employment growth above 10 per cent over the last quarter. Almost all of these top performing WA industries experienced stronger growth in comparison to national trends.

Of the six industries that saw negative employment growth in WA over the quarter, the worst performer was Wholesale trade, both in percentage and absolute terms (-30%, and -9,300). This is in stark contrast to national trends, where wholesale trade saw positive growth of 3.2 per cent (+12,400 jobs).

Rental, Hiring and Real Estate Services also experienced a significant contraction with employment shrinking by 28.2 per cent, significantly more than the national contraction of 1.7 per cent. Electricity, Gas, Water and Waste Services and Construction also saw a decrease in employment.

Job Vacancies

25.0%

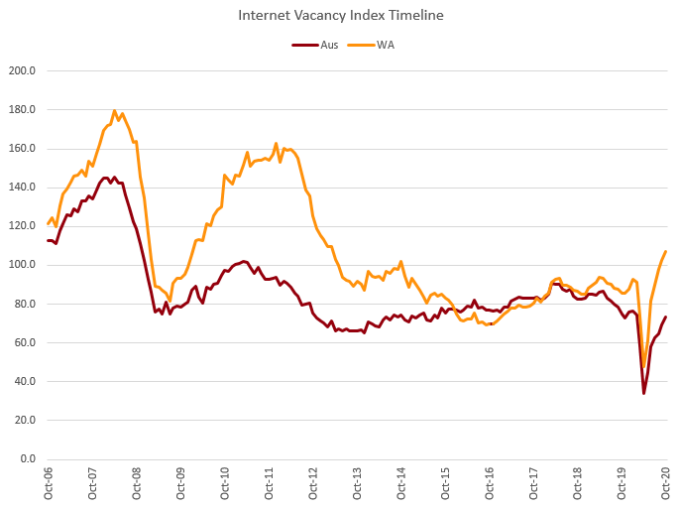
Year-on-year change (October 2020)

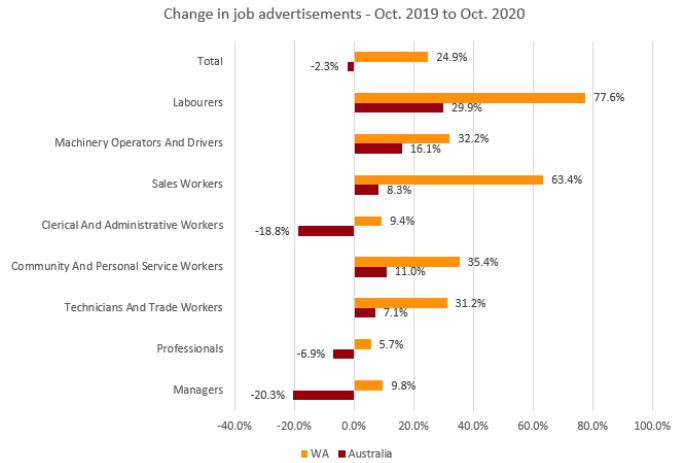
The internet vacancy index provides detailed data on the number of newly advertised job vacancies during the month, providing important information on unmet labour demand. The vacancy index compliments other indicators of underutilised labour supply such as unemployment, marginal attachment and underemployment, making it a useful indicator of economic recovery.

Both WA and national vacancy trends have seen a strong V-shaped recovery over the last few months, however WA's recovery has been significantly more robust and job vacancies in the state are now higher than they were a year ago – increasing by almost 25 per cent.

Over the month to October 2020, WA's internet vacancy index increased by 4.6 per cent, equivalent to an additional 861 job advertisements compared to September 2020. This builds on the consecutive monthly increases seen since April, when the vacancies reached their lowest ever recorded level of 47.6 index points.

Figure 21: Change in job advertisements, WA and Australia, 2006 to 2020





Notes: Seasonally adjusted values are used.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Australian Government National Skills Commission.

Across occupation groups, strong demand for labourers, sales workers, community and personal workers and technicians and trade is evident compared to a 12 months ago. Advertisements for labourers have increased by 77.6 per cent over the year and saw 5 per cent growth in the month between September and October 2020. Sales workers are also in strong demand, up 63.4 per cent on year-to-date measures and rising by 13 per cent in the last month. This significant boost in labour demand across the state and across all occupation groups signal skills shortages may become more of a challenge for business owners if these trends continue.

Wages

1.4%

Year to September 2020

Wages

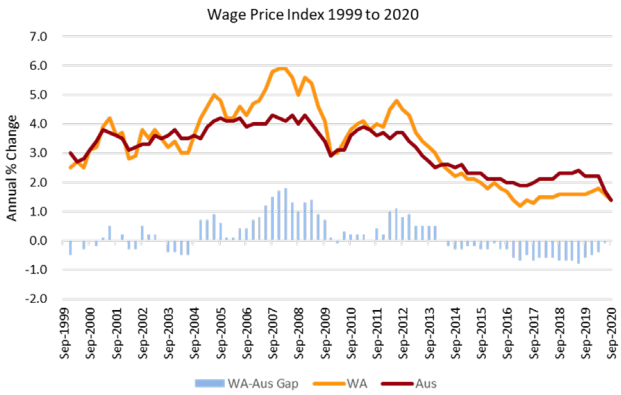
Over the last 12 months the national wage price index has grown by 1.4 per cent, the lowest recorded growth over the last 20 years. For WA, wages have grown at the same rate as the national growth rate over the year (1.4%), sitting slightly below the average yearly growth seen in the state over the past four years.

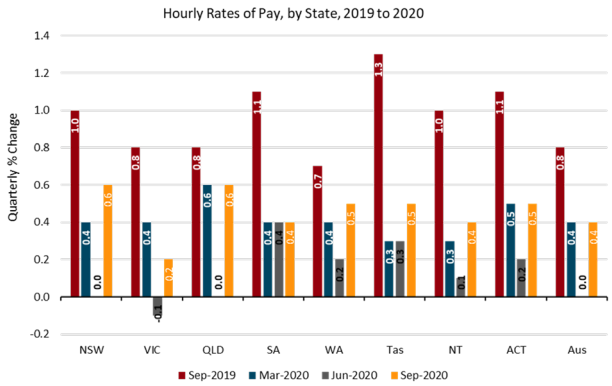
When looking at the two most recent quarters, WA has been performing above the national average in terms of wage growth. In the June 2020 quarter, WA recorded growth of 0.2 per cent while at the national level, wages remained unchanged – zero growth. In the most recent September quarter WA recorded an increase in the WPI of 0.5 per cent, just above the national increase of 0.4 per cent. However, this is lower than the 0.7 per cent growth experienced in the September 2019 quarter.

Increases in hourly rates of pay in WA overtook those reported nationally for the first time in 17 quarters in June 2020, and have remained above the national level in the most recent September quarter.

Labour market disruptions form COVID-19 including the large expansion of unemployment and underemployment are placing downward pressure on wages, however there are longer-term structural trends within the labour market that will need to be addressed to induce stronger wage growth going forward. These trends include strong growth of female dominated lower paid occupations, coupled with growth in part-time work and falling full-time employment.

Figure 22: Wages growth, WA and Australia, 1999 to 2020





Notes: Hourly rates of pay do not included bonuses.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 6345.

Population Change

1.5%

Quarter-on-quarter change (March 2020)

Population

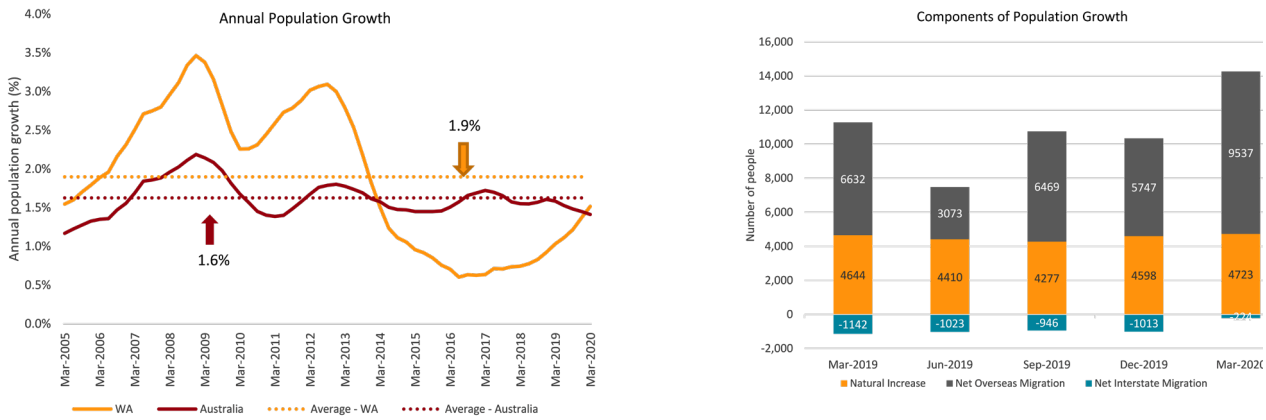
Population growth is a key driver of economic activity in any economy. In WA, interstate and overseas migration have been critical in providing the workforce required for growth, particularly during the construction phase of the mining boom, but also in meeting the seasonal requirements in sectors such as agriculture and tourism. Migrants too provide substantial demand for the housing sector and in turn the construction and real estate industries.

The most recent data available on population growth for WA is to March 2020, with population growth of 1.5 per cent. The key driver of this growth was net overseas migration, at almost twice the rate of natural increase, and over 3,000 the number seen in March 2019. The latter is likely to have been driven by the Federal government's decision to close international borders to all non-citizens and non-residents on March 19th.

International arrivals have been prioritised for returning Australian citizens and permanent residents. In the short term, this will undoubtedly bring a brain gain to the economy. But returning citizens and permanent residents will not necessarily continue over the longer term period, and such workers may also be unlikely to do the type of work that seasonal and visa specific workers would have done.

The March 2020 data revealed that the rate of net decline in interstate migration fell substantially, with indicative June 2020 data showing that this trend has continued. More will be known on these trends in December of this year, when data to June will be available. However, as WA only recently relaxed its strict border policy, more on the impacts of that removal will not be known until well into the New Year.

Figure 23: Annual Population Growth and Components of Population Change, 2005 to 2020



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

FEATURE: INSIGHTS FROM THE BCEC SMALL BUSINESS SURVEY 2020

Insights on the WA small business sector

Small businesses have been referred to as the 'engine room' for growth – but they are also the engine room for jobs. Small businesses in WA employ more than 500,000 workers, and play a critical role in supplying and serving customers and larger businesses across the state's cities and regions.

The Bankwest Curtin Economics Centre is currently collecting data for a new survey of small businesses, supported by funding from the WA Department of Jobs, Tourism, Science and Innovation and enriched by insights from a range of stakeholders. The survey builds on the Centre's first BCEC Small Business Survey 2017, but with additional questions that specifically explore the experiences of WA's small businesses owners during the COVID-19 crisis.

Early findings from the survey reveal some important insights on how small business owners have been affected by COVID-19, how effective policy measures at State and Federal level have been in supporting the small business sector during the crisis, and how small business owners view the future as WA continues to make up the ground lost during the pandemic.

The impact of COVID-19 on small business activity

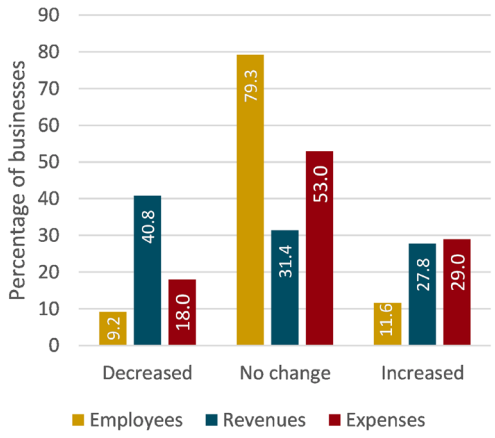
Early findings from the survey reveal that employment among small business owners has remained remarkably stable during the COVID-19 pandemic, with as many businesses increasing jobs as decreasing employment over the course of the crisis to date.

While more than 40 per cent of small businesses reported that their revenue had decreased over the last calendar year, the vast majority of businesses surveyed (around 79%) reported that at they experienced no change in the number of employees over the year. These results are a testament to the strength of the JobKeeper package and additional business supports provided by federal and state governments in keeping businesses afloat and workers employed.

And while downward pressure on revenues was observed for many businesses, this was accompanied by a decrease in expenses for 12 per cent of business owners. However, 29 per cent of businesses reported both a decline in revenue at the same time as an increase or no change in expenses, illustrating the potential for substantial financial pressures for these businesses.

Figure 24: Changes in employment, revenue and expenses among small businesses during COVID-19

(a) Share of businesses with changed employment, revenue or expenses



(b) Combinations of revenue and expenses changes during COVID-19

		Expenses		
		Decrease	No change	Increase
Revenues	Decrease	12%	18%	11%
	No change	3%	20%	8%
	Increase	3%	15%	10%

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the BCEC Small Business Survey 2020.

Support for small businesses during COVID-19

Significant supports have been directed towards businesses over the course of the COVID-19 pandemic with state and federal governments along with financial institutions and landlords all lending support.

Nearly half of small business owners have accessed the JobKeeper wage subsidy, or intend to access the payment in the future. And when asked "what action, measure, relief or support has helped your business the most during the COVID crisis?" the majority of small business owners report that JobKeeper has been the most important measure in supporting them through the worst impacts of the COVID-19 pandemic. In fact four in ten small businesses regard JobKeeper as one of the measures that helped their business the most during the COVID-19 crisis.

Table 6: Share of small businesses accessing policy supports: November 2020

Share of small businesses that accessed, or plan to access, specific policy measures	
Policy measure	
JobKeeper wage subsidy	48.2%
Loan deferral	12.4%
WA business grant	11.9%
Renegotiated property lease	8.6%
Federal small business loan	3.8%

Share of businesses that rated specific policies as most important in helping them through COVID-19	
Policy measure	
JobKeeper wage subsidy	40.2%
ATO tax relief	12.7%
Small business grants	7.5%
Cash flow boost	4.9%
Payroll tax reform	2.2%

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the *BCEC Small Business Survey 2020*.

The wage subsidy has been especially important to businesses in those sectors that have suffered the most extreme impacts from the COVID-19 pandemic. Nearly 60 per cent of businesses in the accommodation and food sector, more than half in real estate, and nearly half in construction flagging JobKeeper to have provided the greatest support during COVID-19.

Loan deferrals, the WA state government business grant along with the ATO's business tax relief have also proved valuable to small businesses during the COVID crisis.

Small business owners almost invariably feel they have a relatively good understanding of the skills necessary to operate their businesses, and to create and implement a business plan. However, more than a third are uncertain about the availability of government funding and support, but this has decreased from around 70 per cent in 2017, suggesting that businesses are far more engaged with government agencies than ever before.

Health and wellbeing among small business owners

Establishing and running a small business can be hugely exciting and rewarding for many entrepreneurs and business owners. However, the pressures of sustaining a business can drive considerable stress among small business owners, and these stresses may well have been exacerbated as a result of the COVID-19 pandemic.

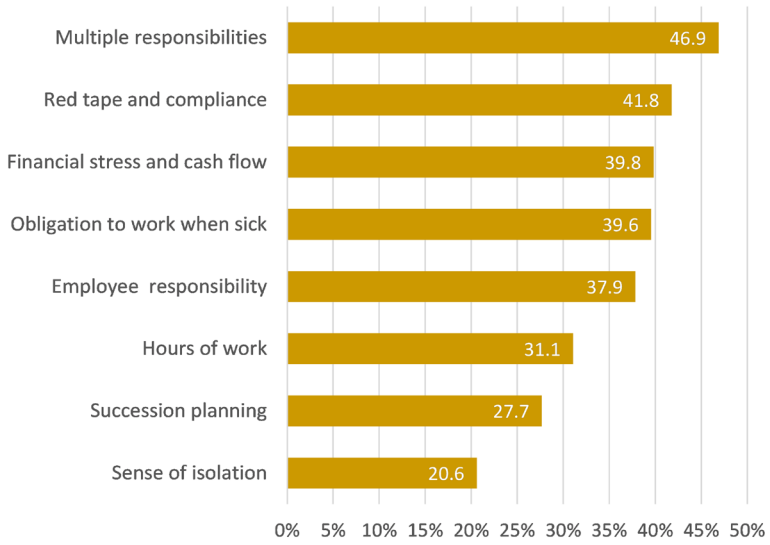
In an important section of the BCEC Small Business Survey 2020, respondents were asked to rate stress levels on a scale of 0 to 10 for different aspects of running their businesses, with scores of 7 and above denoting a high or very high level of stress.

The most prominent aspects of business-related stress relate to the pressures of holding down multiple responsibilities, with nearly half of survey respondents (46.9 per cent) reporting high or very high levels of stress against this domain (**Figure 25**).

Red tape and compliance issues feature among the stressors for 41.8% of small business owners, and four in ten face financial stress from challenges of cash flow and unpredictable income.

What comes across clearly from the survey is the burden of responsibility that business owners take on for their workforce and their customers, and the extent to which that burden impacts on the stresses of running a business. Nearly 40 per cent of business owners feel an obligation to work when sick, with broadly the same share reporting high or very high levels of stress from the responsibilities they feel for their employees.

Figure 25: Shares of small business owners reporting high or very high levels of stress from…



Notes: Respondents were asked to rate levels of stress on a scale of 0 to 10 for different aspects of running their businesses, with scores of 7 and above denoting a high or very high level of stress.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the *BCEC Small Business Survey 2020*.

Health and wellbeing among small business owners

The stresses associated with sustaining a business, and the pressures felt by small business owners in supporting their families and workers, can take a heavy toll on personal health and relationships. Very often, these stresses occur in combination rather than isolation (**Figure 26a**).

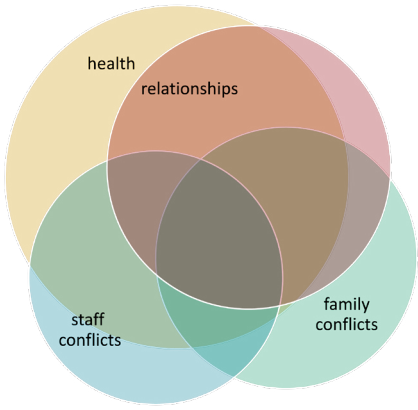
The *BCEC Small Business Survey 2020* asks small business owners about the degree to which stress causes adverse mental or physical health issues, affects personal relationships, or leads to conflicts with family or in the workplace.

The survey finds that nearly half (49.3%) of small business owners suffer adverse mental and physical health challenges due to the stress from running their business, with more than a third facing relationship pressures (**Figure 26b**). Stress also drives conflicts with family members, and with staff in the workplace, for more than a quarter of respondents.

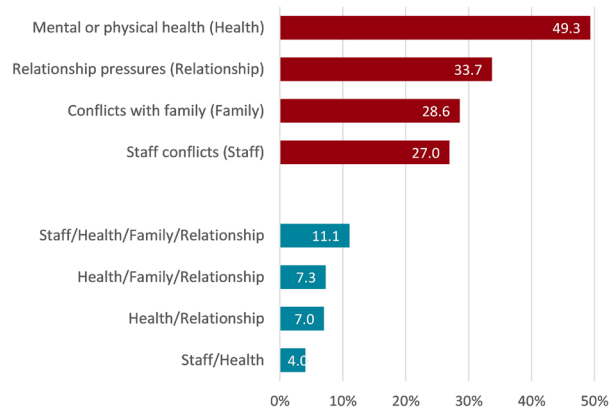
Indeed, one in nine small business owners (11.1%) face negative effects across the board - on health, in terms of family and staff conflict, and in the fact that personal relationships are suffering.

Figure 26: Combinations of stress impacts among small business owners: 2020

(a) Combinations of stress impacts



(b) Main stress impacts



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the *BCEC Small Business Survey 2020*.

Small businesses optimistic about the future

One of the strongest take-homes from the 2020 BCEC Small Business Survey is a degree of optimism shown by the small business sector, with more than a quarter of small business owners (27%) expecting to employ additional workers over the next six months, with only 2 per cent anticipating lower employment (**Figure 27**).

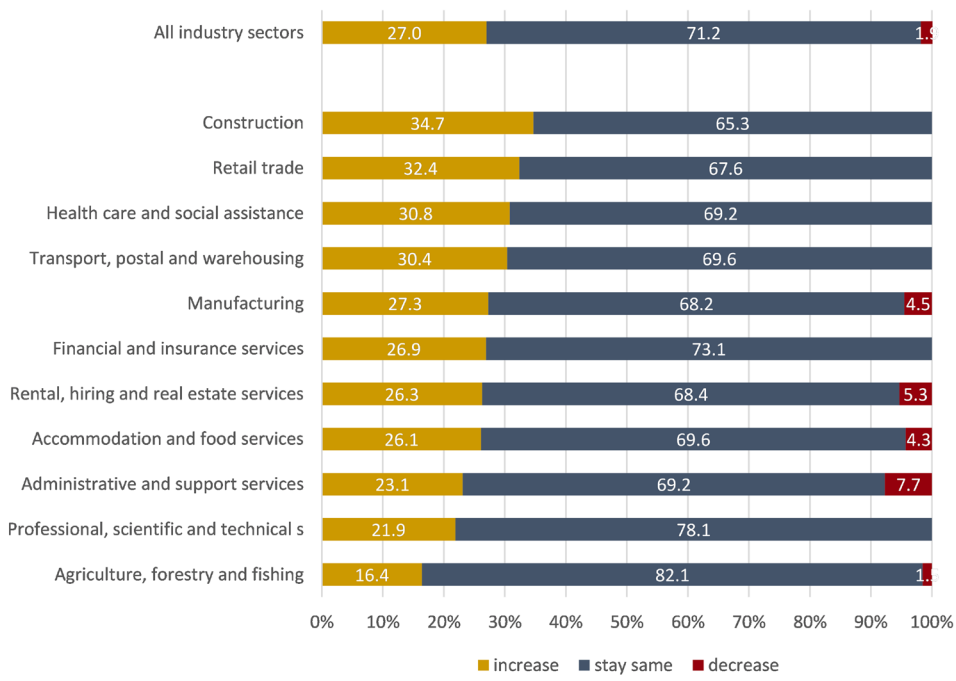
Businesses in the construction and retail sectors have been among the hardest hit during the COVID-19 pandemic, and hence have some ground to make up to get back to pre-COVID employment levels. Nevertheless, more than a third of small businesses in construction (34.7%) and nearly a third of retail business owners (32.4%) expect to hire more workers over the next six months.

However, this optimism is tempered by a degree of nervousness as existing government supports are withdrawn, and as deferred tax and loan payments become due.

There is a general acceptance among business owners that the JobKeeper wage subsidy won't extend beyond March of next year.

Asked what they expect will happen when JobKeeper payments and other supports are withdrawn, most businesses anticipate that they will have to manage their cash flows carefully, control expenses, and lean into the journey towards a slow economic recovery.

Figure 27: Employment intentions of small businesses over the next 6 months: by industry sector



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the *BCEC Small Business Survey 2020*.

Late payments to small businesses in WA

With many small business owners facing up to the challenges of unpredictable finances and managing cash flow, they still face a real problem with larger businesses honouring payment terms.

Our survey finds that 58 per cent of small businesses have to manage late payments from the big end of town, with 29 per cent now facing payment delays of more than 30 days (**Figure 28**).

In fact, the issue of late payments seems to have intensified during COVID-19. The share of small businesses facing payment delays of 30 days or more has risen by 7.5 percentage points, from 22 per cent in 2017. Fewer small businesses (42%) are currently being paid on time compared to 2017 (46%), a drop of 4.2 percentage points.

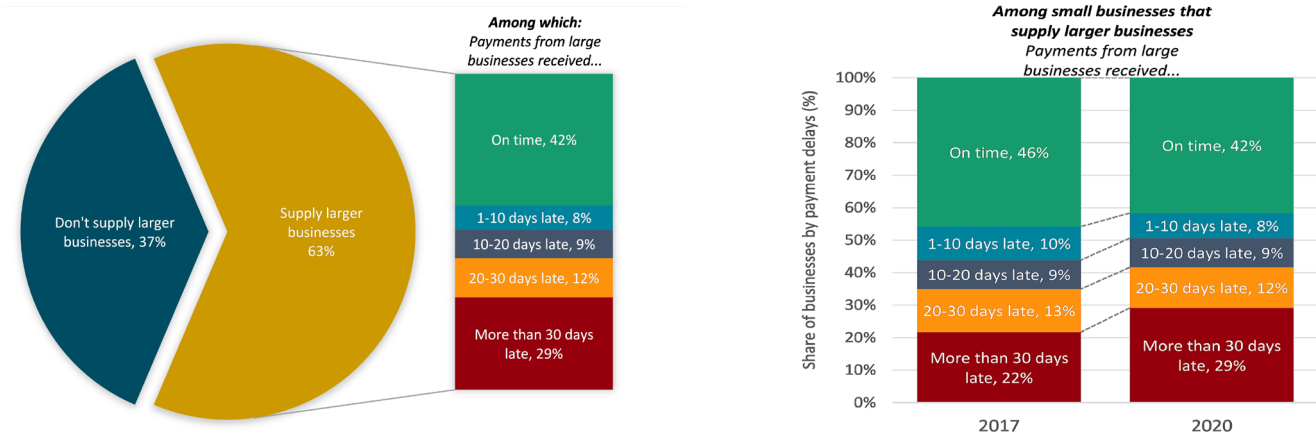
This behaviour adds unnecessarily to the financial challenges and personal stresses faced by small business owners, particularly during a time when they are working to chart a course through and beyond the COVID-19 pandemic.

The Business Council of Australia established a voluntary national supplier payment code in 2017, to ensure that small businesses are paid on time. By signing up to the code, larger businesses commit to pay small businesses on time and 'within 30 days of receiving a correct invoice', and to work with the small business sector on implementing technologies to support prompt invoicing.

However, only 135 businesses nationally have signed up to the BCA voluntary code as at November 2020. This compares to a population of around 4,000 businesses employing 200 or more workers, which is one common definition of a large business.

These data emphasise the clear need for demonstrated action by larger companies to support small businesses as they navigate their way through the COVID-19 recovery.

Figure 28: Pattern of late payments to WA small businesses: 2020 and change, 2017 to 2020



Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from the *BCEC Small Business Survey 2020*.

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Bankwest Curtin Economics Centre *Quarterly Economic Commentary*

ISSN: 2208-9373

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This report may be cited as: Cassells R, Duncan A, Kiely D and Salazar S (2020), BCEC Quarterly Economic Commentary, Issue #12, Bankwest Curtin Economics Centre, November 2020.

Special thanks to Natalie Sullivan and Michael Kirkness for their research assistance.

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