

March 2021

BCEC

Bankwest Curtin Economics Centre



Swan Valley Vineyards, 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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Is the WA economy in good shape?

Western Australia is in better economic shape than any other state as it sets a course for continued recovery during 2021. And much of the state's momentum is founded on the economic return from its success in containing COVID-19.

Retail spending in WA is stronger now than before the pandemic, with retail trade sales reaching historic highs over the last two quarters. Labour markets have bounced back strongly, with the lion's share of jobs lost during the COVID-19 lockdown now recovered. Consumer and business confidence is high, supported by economic stimulus particularly in the construction sector. And the strength of WA's mining sector has again afforded the state a level of protection through historically strong export values and rising business investment.

The recent release of state final demand (SFD) data for the December 2020 quarter provides the latest evidence to demonstrate the health of WA's economy, and the strength of its recovery through the COVID-19 pandemic. After falling by 6.2% during the first three months of the pandemic, state final demand in WA grew by 5.5% in the September 2020 quarter and a further 1.5% in the final quarter of 2020.

And WA still punches well above its population weight when it comes to the size of the domestic economy. The state accounts for 10.9 per cent of national State Final Demand, for a population share of around 10.4 per cent. This represents the largest per capita SFD contribution of any state in Australia.

These headline economic indicators demonstrate that the WA economy has rebounded strongly since the pandemic, and this recovery has largely taken the shape and form of a V, which means that most parts of the economy are doing well, and in some sectors better than before the pandemic.

Some of these indicators may start to edge down again, and this to be expected as supports wind back. What we need to see is sustained growth.

However, there are also a number of risks and challenges up ahead. We see three key challenges outside of further virus outbreaks and lockdowns eroding business and consumer confidence.

What are the challenges that lie ahead for the WA economy?

Skills shortages

One of the shorter-term challenges facing the state are skills shortages and labour market mismatches. This was highlighted in our recent [labour market update](#), with the internet vacancy index the highest it has been since 2012 in WA, yet employment falling and the unemployment rate remaining flat at 6.2%. Skills shortages have been raised as an issue by many WA small businesses in our recent [BCEC Small Business Survey](#), with around four in ten small business owners having more trouble finding workers now compared to a pre-COVID environment. This was as high as 51 per cent for businesses in the accommodation and food services and manufacturing industries, and 44 per cent in the construction sector – the state's second biggest employer.

Both interstate and international border closures restricting labour mobility, combined with significant stimulus in the construction sector are all likely to be having an impact on these challenges. Labour isn't as mobile as it needs to be and this has consequences for production and business operations – particularly those that are competing for labour within a set timeframe.

Population growth

There has been a small increase in population as residents returned home from interstate and overseas, but longer-term population growth will place downward pressure on the economy. Since 2013, population growth in WA had fallen substantially – this had a flow on effect to other parts of the economy, particularly the construction sector, with little demand for new residential dwellings.

Population growth picked up between 2017 and 2019 reaching national trend growth of around 1.6%, but it is now expected to halve to 0.8% in the coming financial year, and will be almost entirely driven by births and deaths. Continued low population growth will have an ongoing impact on particular sectors – especially construction – and will ultimately constrain more sustainable growth patterns.

Industry and trade concentration

Industry diversification is a conversation that we have been having for some time in WA, and despite some efforts to address this, the WA economy has become more reliant on Mining. In fact, the WA economy is now more concentrated than it has ever been in the last 27 years. WA is a Mining state, but this level of industry concentration poses a risk, and commits the economy to boom-bust cycles.

WA's trading partners have also become less diversified with China dominating our export markets. The concentration of WA's exports to a small number of countries has also meant that WA is more vulnerable to geopolitical tensions and economic shocks within these countries. China not only imports 80% of WA's iron ore, but, with the exception of gold, China ranks among the top three destinations for WA's main commodity exports which include barley, canola, wheat, wool, Alumina and petroleum. Recent trade tensions have largely impacted the agriculture sector, but these episodes further highlight the need for greater diversification – both in commodities and in export markets.



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How is our economy doing?

GSP $\uparrow\uparrow$ 1.4%

Year-on-year change (June 2020)

SFD $\uparrow\uparrow$ 1.5%

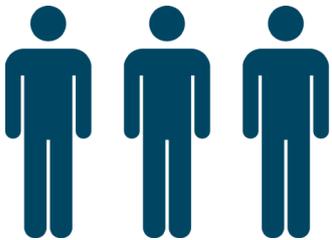
Quarter-on-quarter change (December 2020)



Business Investment

$\downarrow\downarrow$ 1.0%

Quarter-on-quarter change (December 2020)



Job Vacancies

$\uparrow\uparrow$ 31.1%

Year to January 2021



Housing Finance Commitments

$\uparrow\uparrow$ 11.4%

Month-on-month change (January 2021)



Retail Trade

$\uparrow\uparrow$ 7.6%

Year-on-year change (December 2020)



Inflation and Wages

CPI $\downarrow\downarrow$ 1.0%

WPI $\uparrow\uparrow$ 0.4%

Quarter-on-quarter change (December 2020)



Dwelling Approvals

$\uparrow\uparrow$ 30.8%

Quarter-on-quarter change (January 2021)



Labour Market

Unemployment Rate

$\uparrow\uparrow$ 0.5ppt

Employed Persons

$\uparrow\uparrow$ 0.3%

Year to January 2021



How is our economy doing?

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

Gross State Product

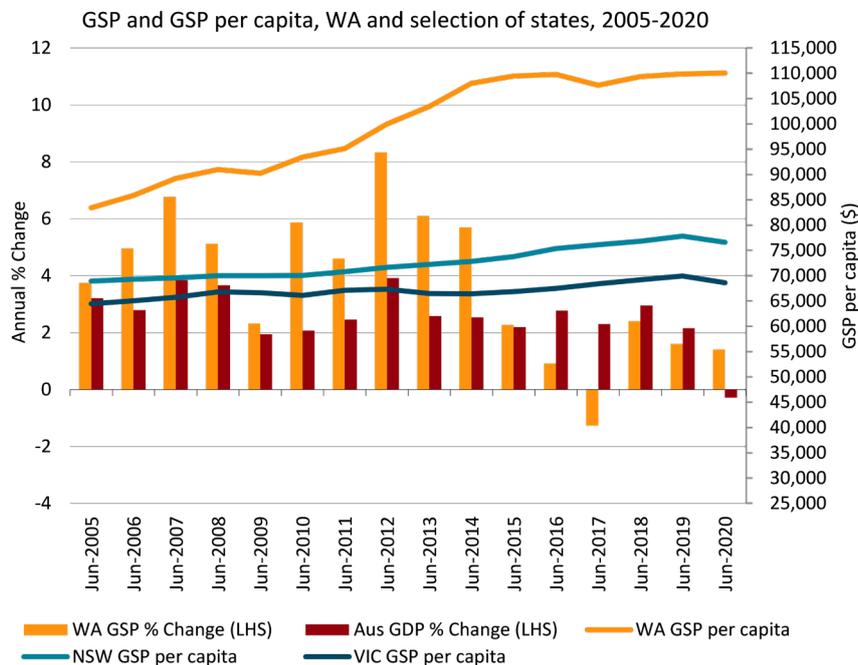
Australia's economic recovery from the slowdown caused by the COVID-19 pandemic has continued in the September and December quarters. Gross State Product (GSP) figures are only available for the year to June 2020. However, data on State Final Demand (SFD) as a measure of domestic economic activity, and trade as the main incremental component of GSP, provide strong indicators of how GSP is likely to have tracked since June.

Western Australia's economy has been more resilient than the eastern states. Western Australia faced a much smaller decline in GSP in the June quarter and has subsequently

achieved an earlier recovery. Strong exports from the mining sector sustained WA through the pain of lockdowns and social distancing restrictions. The impact on household expenditure was smaller in WA, given the lesser burden felt by families in the West from the pandemic compared to other jurisdictions.

We expect GSP in WA to grow more slowly over the next two quarters compared to the eastern states as they seek to catch up from the greater declines in the June quarter.

Figure 1: 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.

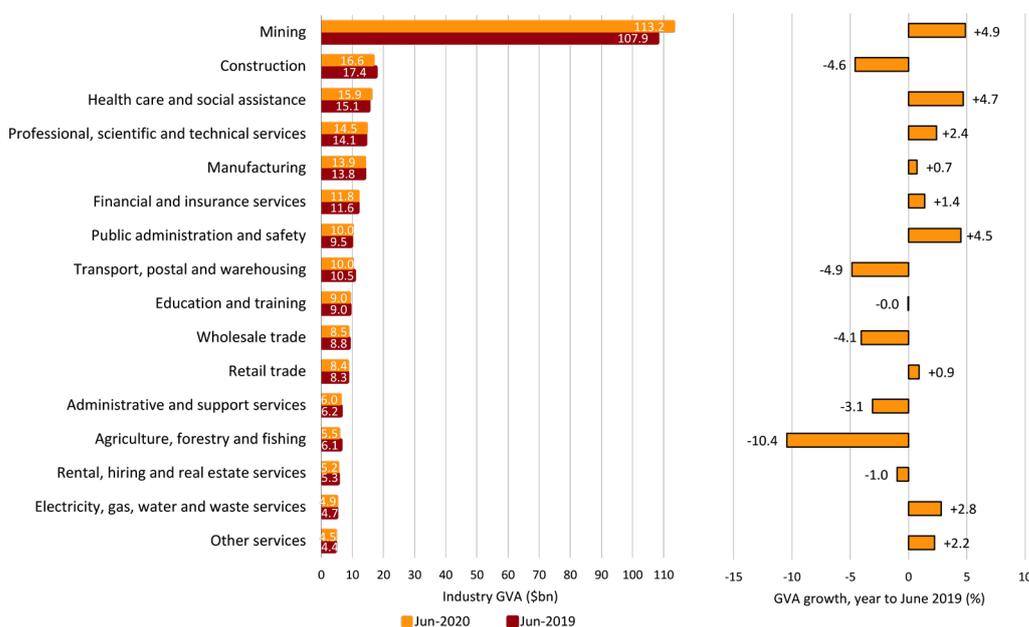
Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Cat 5220, Table 1 and ABS Cat 3101, Table 4.

Much of WA's resilience to the COVID-19 pandemic has come from the continued strength of the mining sector, especially in the value of exports to China and to other trading partners.

Yet this strength also creates something of an Achilles heel. In recent years, WA's concentration in mining has exposed its economy to greater volatility compared to other states.

This has been the case both during the state's expansion into resources and during the post-mining boom period. The current strength and resilience of WA's economy should therefore be interpreted with caution due to the underlying risks inherent in a highly specialised economy. Diversification should remain a priority in WA.

Figure 2: 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.



Trading partners

WA **58.3%**
Share of Australian exports
(January 2021)

Exports and Imports

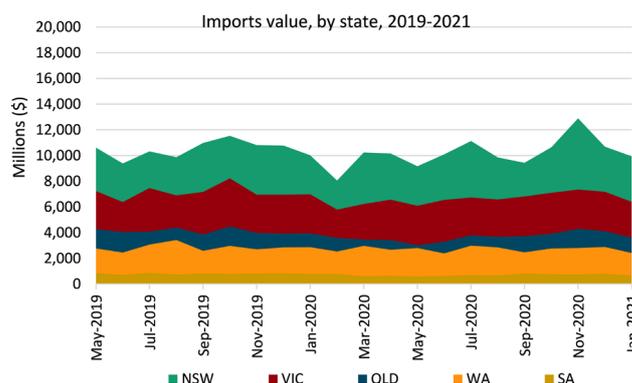
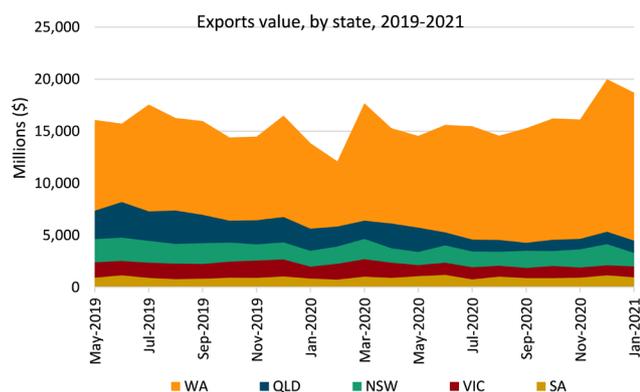
The strength of WA's exports throughout the pandemic has propped up the wider Australian economy. Total exports by value in WA jumped to \$17.7 billion in March 2020, making up for earlier declines at the start of 2020. WA's strong international trading activity continues to provide support to the nation's economy according to the most recent data, with exports valued at \$20 billion in December 2020 and \$18.7 billion in January 2021.

During the mining boom, WA contributed between 45 and 50 per cent of Australia's overall exports by value, before

reverting to a mostly constant 40 per cent share in the years since the boom. Yet in January 2021, WA accounted for 58 per cent of Australia's exports.

This elevated contribution stems from the unusually high iron ore price over the last quarter, but serves nevertheless to demonstrate the important role that WA's exports have played in supporting the Australian economy over the course of the COVID-19 pandemic.

Figure 3: Exports and imports value, by state, 2019-2021



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.

China has become progressively more important as a destination for Western Australia exports. Since 2014, the share of WA's exports destined for China has hovered around or below 50 per cent. But since 2019, China has consistently taken more than half of WA's exports. For some months now it has been over 60 per cent, despite the recent trade tensions with China in some commodities.

A strong export sector in WA has provided a degree of

economic resilience during the pandemic. China's economy has recovered faster than other export markets, and the iron ore price remains strong. However, the concentration of Australia's exports from WA, and WA's exports to China, as well as the state's growing reliance on the resources sector, exposes us to vulnerabilities from negative shocks to the iron ore price, and from an escalating trade war with China.

Table 1: Top ten destinations and provenances of exports and imports, Western Australia, January 2021

Exports			Imports		
Country	Share	Value (millions)	Country	Share	Value (millions)
China (excludes SARs and Taiwan)	56%	10409	China (excludes SARs and Taiwan)	21%	510
Japan	9%	1681	United States of America	10%	253
South Korea	6%	1048	Japan	7%	172
Singapore	5%	900	Malaysia	5%	110
United Kingdom	4%	797	Thailand	4%	92
Hong Kong (SAR of China)	4%	684	United Kingdom	4%	87
France	2%	412	Singapore	3%	83
United States of America	2%	409	Germany	3%	73
Taiwan	2%	310	India	3%	71
India	1%	268	Brunei Darussalam	3%	64

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.



How is our economy doing?

SFD  **1.5%**
 Quarter-on-quarter change (December 2020)

State Final Demand

All states except Victoria had recorded substantial recovery in State Final Demand during the September 2020 quarter as social distancing restrictions were eased. This return to normality was largely a result of a dramatic recovery in household consumption. In the December 2020 quarter, Victoria joined the rebound in household consumption following the end of its second wave lockdown. For other states, including WA, quarterly growth was more modest in the December quarter.

State Final Demand across Australia grew by 3.4 per cent in

the September 2020 quarter and 3.1 per cent in the quarter to December 2020. However, these aggregate results conceal the fact that Victoria's economic activity over the course of the COVID-19 pandemic has been out of sync with the rest of Australia. While Victoria's lockdown dragged down national growth in the September quarter, the end of the Victorian lockdown led to a 10.4 per cent increase in household consumption expenditure over the December quarter.

Table 2: Components of State Final Demand by state/territory, quarterly percentage change, December 2020

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
percentage changes - quarter to December 2020									
Final consumption expenditure									
Household	+3.1	+10.4	+2.3	+0.9	+0.3	+2.4	+5.1	+4.2	+4.3
General government	+1.5	+0.8	-1.3	+0.1	+4.4	+2.1	-0.3	-1.4	+0.8
Gross fixed capital formation									
Private	+4.2	+5.1	+4.9	-1.5	+1.5	+8.4	+14.2	+4.8	+3.9
Public	+2.2	+1.5	+4.1	+6.1	+1.2	+5.7	-0.6	+0.9	+2.5
State Final Demand	+2.9	+6.8	+2.0	+0.6	+1.5	+3.3	+4.1	+1.3	+3.1

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.

Western Australia's State Final Demand growth of 1.5 per cent over the December 2020 quarter was lower than all other states bar South Australia. This is in part due to its earlier recovery from COVID-19 and its earlier removal of restrictions, which led to household consumption recovering more strongly in the previous quarters compared to other states. Western Australia recorded the strongest increase in household consumption expenditure in the September quarter compared to other states, at 11.7 per cent, but posted a more modest growth of 0.3 per cent in the December quarter.

However, WA still punches well above its population weight when it comes to the size of the domestic economy. The state delivers a 10.9 per cent share of national State Final

Demand for a population share of around 10.4 per cent. This represents the largest SFD contribution relative to population share of any state in Australia.

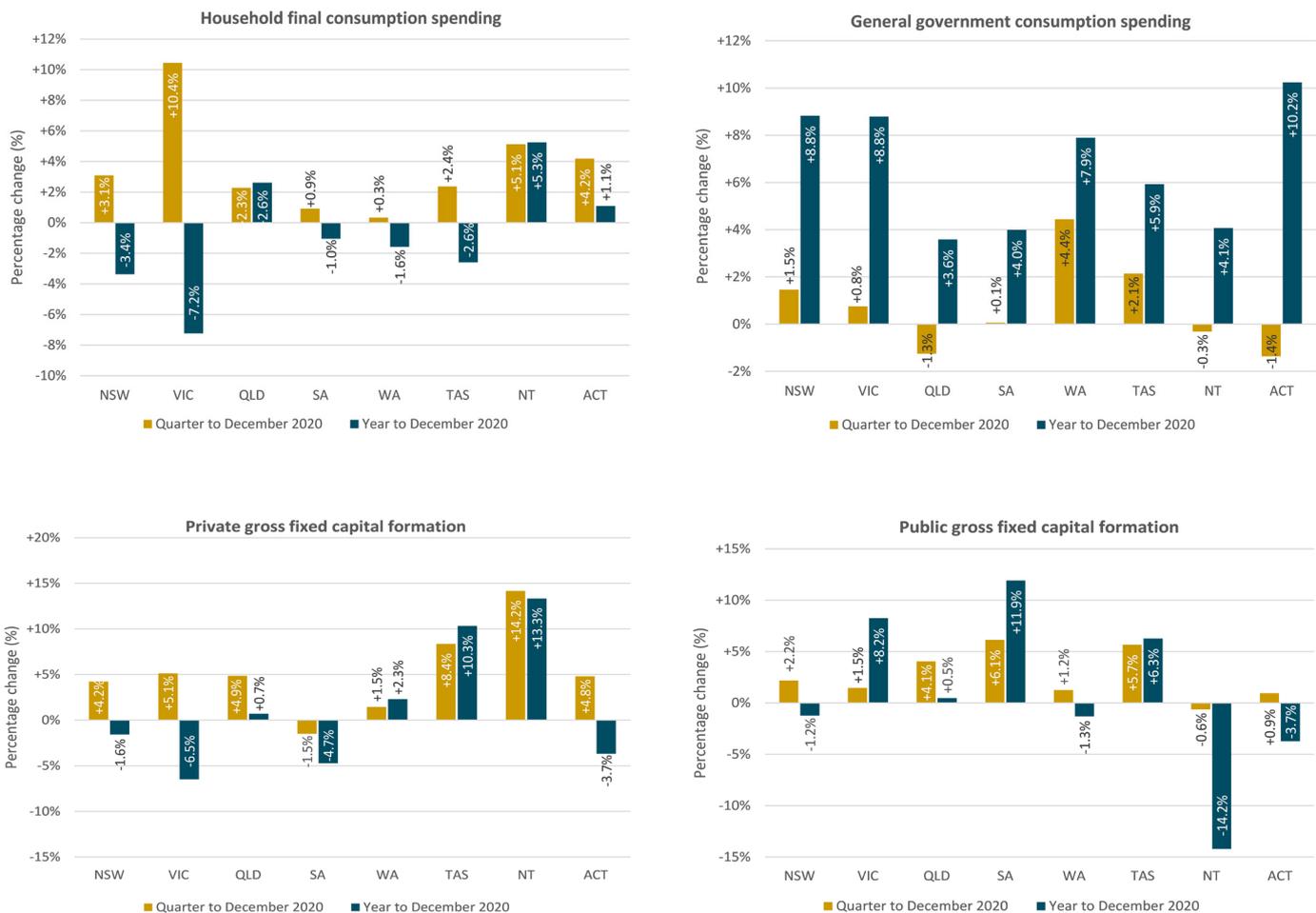
The \$600 electricity credit introduced by the WA government in October 2020 meant that a share of consumption expenditure shifted from the household account to the general government account. This led to a one-off boost of 4.4 per cent in government consumption expenditure in WA over the December quarter. As a result, comparisons between WA and other states on growth in household and government consumption expenditure should be treated with caution, and in the context of government support measures in WA and in other jurisdictions.

ECONOMIC GROWTH

Private fixed capital formation in WA grew by 1.5 per cent in the December 2020 quarter, building on a more modest increase of 0.1 per cent in the previous September quarter. The hope is that the measures recently introduced by the Federal government to incentivise capital investment will start to have an effect as business confidence grows. While WA has in the past been vulnerable to volatility in the price of iron ore, the resilience of the mining sector in WA has provided a degree of protection to the state's economy.

Public fixed capital formation has started to increase in WA after a negative quarter in September. However, we are still yet to see the substantial forecasted growth in WA's latest budget estimates of 18 per cent for government investment in 2020-21 and 12 per cent in 2021-22. If realised, this expenditure should provide a further boost in confidence in future quarters.

Figure 4: Components of State Final Demand by State, 2005 to 2020



Notes: Chain Volume; seasonally adjusted.

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



Business Investment



1.0%

Quarter-on-quarter change (December 2020)

Business Investment

Business investment in WA fell by 1.0 per cent over the December quarter, following a 2.3 per cent decline in the June quarter and a 2.5 per cent decline in the September quarter. These three successive quarters of decline have offset the 7.0 per cent increase in the March 2020 quarter, leading to overall growth of 0.9 per cent in business investment over the year to December 2020.

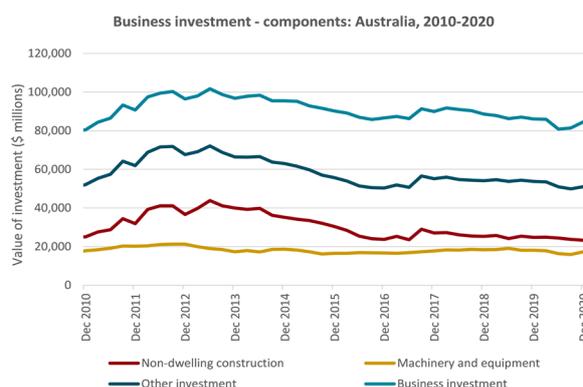
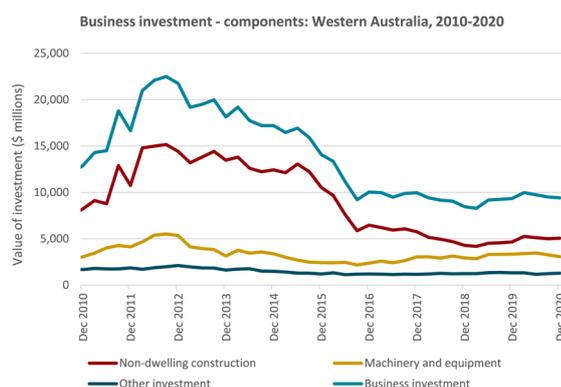
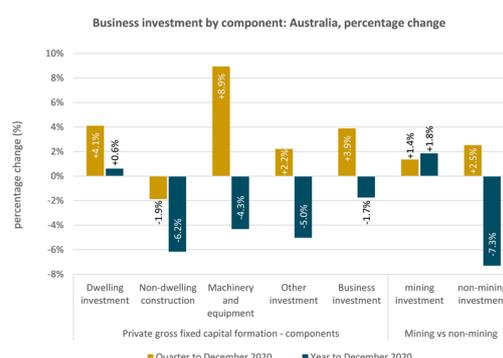
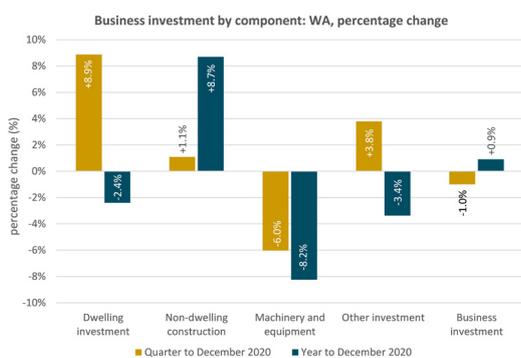
Western Australia continues to run on a different economic cycle than Australia as a whole. Nationally, business investment returned to growth of 0.7 per cent in the September quarter and 3.9 per cent in the December quarter. Despite this recent optimism, aggregate business investment for Australia remains down 1.7 per cent for the year to December.

The small decrease in business investment in WA this quarter is a result of continuing declines in machinery and equipment investment. Non-dwelling construction has returned to positive growth after a decline of 2.1 per cent

in the September quarter and for the year to December it has a growth rate of 8.7 per cent. Notably, non-dwelling construction is showing the opposite trend to dwelling investment. It may be the case that residential construction activity in the hot housing market due to government policies is crowding out investment in non-dwelling construction.

It is perhaps unsurprising that business investment is still relatively flat in the December quarter. Businesses are likely to defer investment while the outlook remains uncertain, both domestically and internationally, due to the ongoing pandemic. Recent declines in new cases of COVID-19 internationally might be a sign that the pandemic is finally coming to an end-stage. The global roll-out of vaccine programs since December might translate into confidence and investment might start to increase again in future quarters.

Figure 5: 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.

CONSUMER SPENDING



Consumer Spending

0.3%

Quarter-on-quarter change (December 2020)

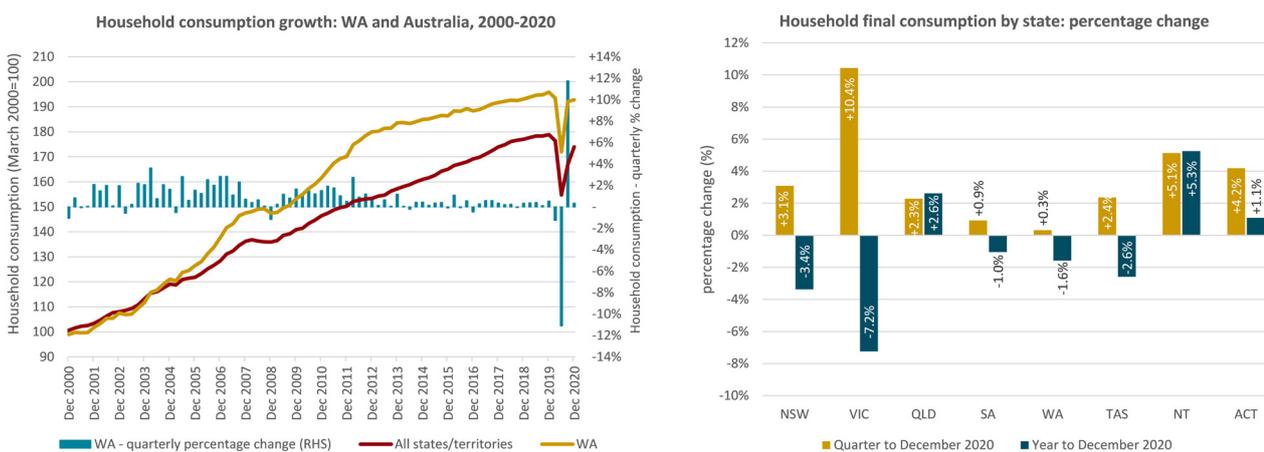
Household Consumption

Household consumption expenditure in WA recovered strongly in the September quarter to near pre-pandemic levels. The increase in the December quarter, though smaller, was still in positive territory at around 0.3 per cent.

In fact, household consumption growth has been dampened by a reduction in household expenditure on electricity due to the WA government's \$600 electricity credit. The credit essentially shifts a share of State Final Demand from households to the government.

The electricity credit is intended to help West Australians through the economic downturn. The credit on consumers' electricity bills may actually support an increase in electricity consumption in the short term, although this is seen as a decline in expenditure in the data. Along with other initiatives, these relief mechanisms could also lead to medium term increases in consumption in other areas due to spare disposable cash.

Figure 6: 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.

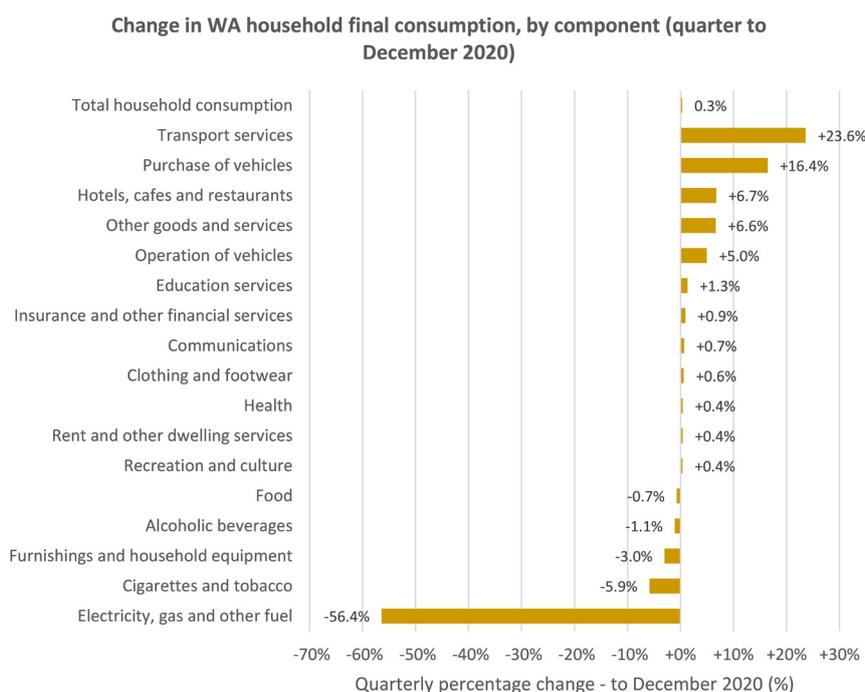
The electricity credit is most apparent in the 56.4 per cent decline in the electricity, gas and other fuel component of household consumption. This is not really a reduction in expenditure within the sector as such, but rather in the share of consumers' own spending that has been directed towards energy. Patterns of consumer spending in WA are otherwise largely comparable to other states.

Notably, a continued return to normal demand patterns saw an increase of 6.7 per cent in expenditure in hotels, cafes and restaurants. Similarly, expenditure on transport services increased 23.6 per cent and operation of vehicles increased 5.0 per cent as people continue to increase their mobility while any COVID-19 cases remain confined to hotel quarantine. In the next update in the March 2021 quarter it

will be interesting to see if mobility and expenditure patterns are sustained despite the short sharp lock-down in February.

Closed international borders are possibly creating extra pent-up demand leading to an increase of 16.4 per cent in the purchase of vehicles. In previous quarters there was an increase in purchases of household equipment and furnishings. Anecdotally, consumers who expected to spend more time at home might have spent more on household renovation projects and convenience items for their homes. This has now fallen by 3.0 per cent in the latest quarter. Similarly, increases in food consumption outside the home resulted in a decline in supermarket food purchases by 0.8 per cent.

Figure 7: Components of household consumption growth: WA vs Australia



Notes: Chain volume, seasonally adjusted

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

CONSUMER SPENDING



Retail Trade

↑↑↑ 7.6%

Year-on-year change (December 2020)

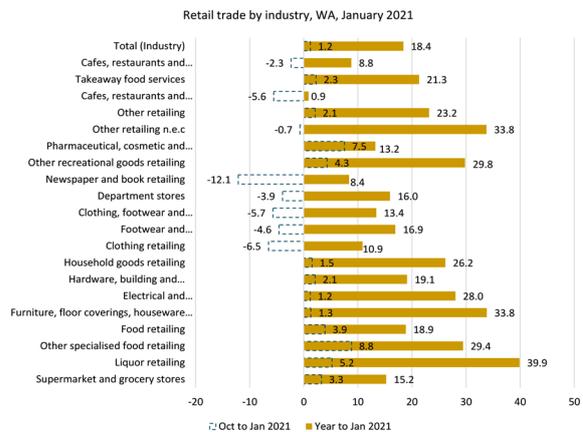
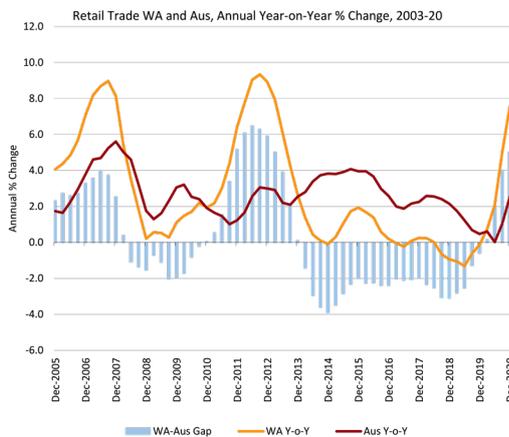
Retail Trade/Turnover

Retail trade turnover continues its upward trajectory on a year-on-year basis. Retailers in both WA and Australia have benefited from the re-allocation of funds usually directed towards international travel to boost domestic consumption. In the year to December 2020, WA retail trade turnover grew by 7.6 per cent, significantly higher than the growth rate for Australia (2.5%). Indeed, WA has experienced historically high retail trade sales over the last two quarters.

The RHS of Figure 13 shows the strongest contributors to the growth in retail trade turnover on a year-on-year

basis, and over the last three months. Monthly sales of all consumption items increased without exception in January 2021 compared to a year ago, most notably for furniture, houseware and textile goods (+33.8%), household goods retailing (+26.2%), electrical and electronic goods (+28%) and takeaway food services (+21.3%). Liquor retailing (+40%) has the highest increase, partly due to the increase in prices due to the new containers for change scheme.

Figure 8: Retail trade turnover, WA and Australia, 2004 to 2021



Notes: Chain volume, seasonally adjusted.

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

CONSUMER PRICE INDEX



Inflation



1.0%

Quarter-on-quarter change
(December 2020)

The consumer price index (CPI) for Australia's capital cities continues to rise after its decline in the quarter to June as a consequence of the pandemic restrictions. In fact, all capital cities apart from Perth have experienced increases of at least 0.5 per cent in the quarter to December 2020.

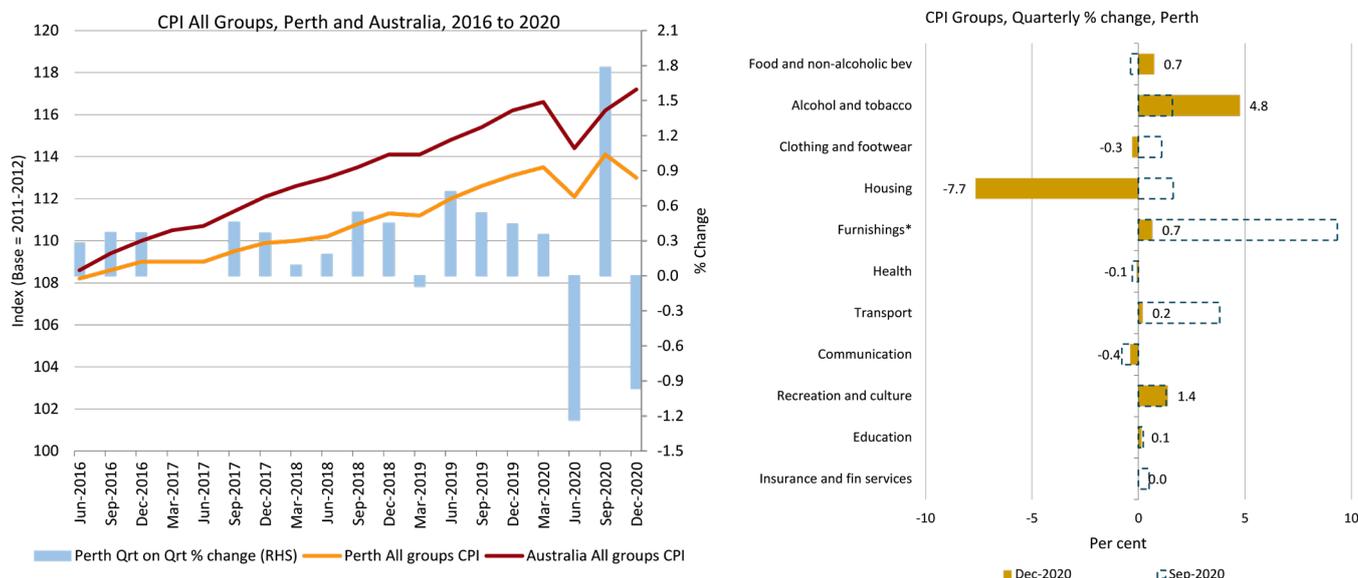
The consumer price index in Perth, on the other hand, declined by 1% in the December 2020 quarter, mainly due to the \$600 household electricity credit offered by Western Australian government as a part of its COVID-19 stimulus package. Figure 14 shows the effects of this stimulus very clearly, with housing CPI falling by 7.7 per cent over the December 2020 quarter. This has in turn been driven by a decline in the sub-group CPI for electricity charges, which fell by some 67%.

Clothing and footwear (-0.3%), communication (-0.4%) and health (-0.1%) are the only consumption items other than

housing that saw a slight decline in prices in the quarter to December 2020.

The containers for change scheme that began in late 2020 seems to be the main contributor to the price increases for both the alcohol and tobacco (4.8%) and the food and non-alcoholic beverages (0.7%) categories. Indeed, the price of non-alcoholic beverages increased by 6.3 per cent and that of beers by 3 per cent in the last quarter. The consumer price index for the furnishings, household equipment and services category grew by an additional 0.7 per cent in the December 2020 quarter, following a 9.3 per cent increase in the quarter to September 2020. This is again the result of significant price increases in childcare services (+15%) and domestic household services (+5.3%). Prices for the recreation and culture sector continue to increase at the same rate (+1.4%) as for the previous quarter.

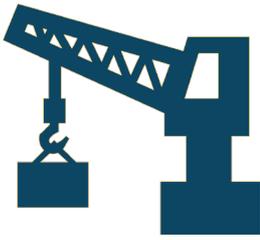
Figure 9: Consumer price index, major Australian cities and Perth, 2016-2020



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



Construction Work

4.0%

Quarter-on-quarter change (December 2020)

Value of Construction Work Done

The total value of construction work in WA declined by 4.0 per cent in the quarter to December 2020, principally due to a fall of some \$330 million (equivalent to 7.0 per cent) in the value of engineering work during the December quarter, after six previous quarters of consecutive growth. The value of building construction increased by 2.7 per cent over the quarter, but this has not been enough to avert an overall decline in the total value of construction work done.

There are some indications to suggest that the dip in engineering work might be short-lived, with recent activity in construction work in the mining sector likely to see the value

of engineering work in WA return to positive growth in first quarter of 2021.

We've seen a similar but less pronounced pattern for Australia over the last quarter. The total value of construction work done in Australia fell by 0.5 per cent over the December quarter. The value of building work done rose by 0.6 per cent nationally, while the value of engineering work decreased by 2.9 per cent. All states bar QLD and TAS experienced a decline in the engineering work done, particularly South Australia (-14%) and Victoria (-7.3%).

Figure 10: 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

↑↑↑ 30.8%

Quarter-on-quarter change (January 2021)

Dwelling Approvals

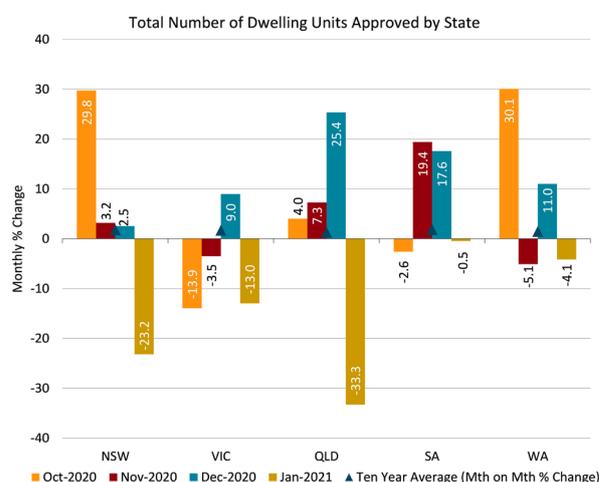
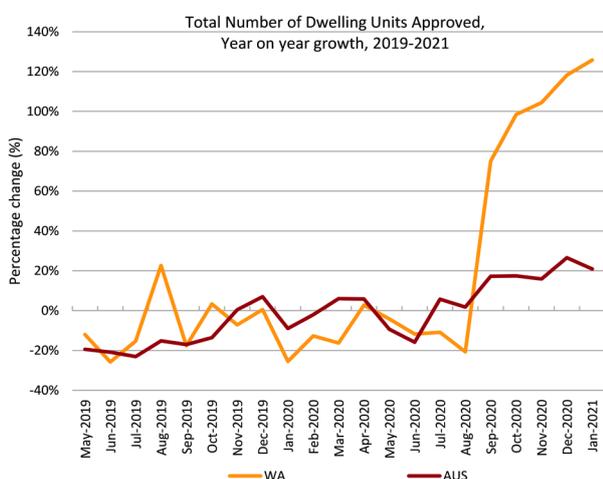
The number of dwellings units approved has risen by 30.8 per cent over the quarter to January 2021, and by a staggering 126 per in the month of January 2021 compared to the same month last year. Approvals dipped slightly in January 2021 (by 4.1%) compared to December 2020, but the WA results are nevertheless well above the national figures.

A total of 2,450 dwellings were approved in January 2021, well above the monthly average over the past five years (1,540). The combination of the WA government's Building Bonus and the Federal government's HomeBuilder stimulus package has boosted the WA construction sector significantly. We can see this from Figure 16 (LHS), where dwellings approvals are shown to have more than doubled in each of the past four months compared to the equivalent month of the previous year.

Dwelling approvals have increased across Australia, but not nearly to the same extent as in WA. Overall, dwellings approvals increased by one fifth in Australia in the quarter to January 2021 compared to the same period of last year. Apart from WA, the growth in dwelling approvals over the last quarter has been strongest for SA (+40%) and TAS (+33%), followed by QLD (+21%) and NSW (+17%).

Victoria, on the other hand, has experienced both a quarterly and yearly contraction in the number of dwellings approved. This is in all likelihood due to the lockdown and health care measures put in place for the state.

Figure 11: Total Number of Dwelling Units Approved by state, 2010 to 2021



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

↑↑↑ 11.4%

Month-on-month change (January 2021)

Housing Finance Commitments

Along with the rise in the number of dwellings approved, the value of new housing commitments continued to soar in the last quarter in both WA and Australia. Indeed, WA has experienced eight months of continuous growth in the value of new commitments by owner occupiers, rising to nearly \$2.1 billion in the month of January 2021 alone.

To put the value of housing finance commitments into some sort of perspective, this is double the value in the same month of last year, and represents a rise of 48 per cent compared to August 2020. We've also seen a sharp increase nationally, but the yearly growth rate is less than half that of WA.

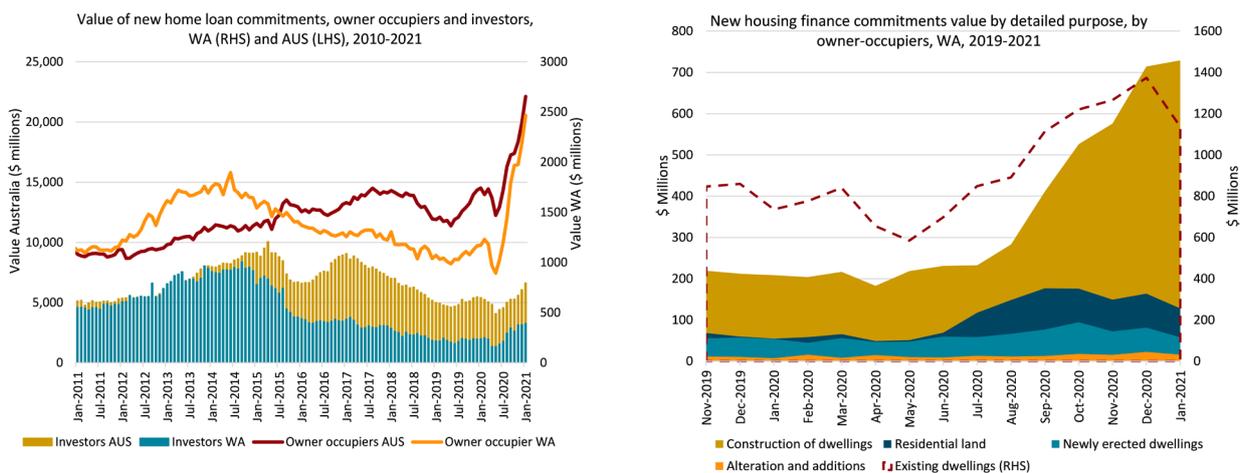
The RHS of Figure 17 shows a breakdown of housing financial commitments by purpose, and demonstrates just how effective the housing support measures have been in stimulating the construction and property markets. Loans for new dwelling construction in WA amounted to \$729 million in January 2021 alone. This represents an increase of 158 per cent on August 2020, and is an extraordinary 250 per cent higher than the total value in January 2020.

The total value of loans for home alterations and additions in January 2021 has increased by 114 per cent compared to January 2020, and the purchase of existing dwellings by 54%.

After the initial boost to the construction sector from the various housing stimulus measures, the value of loans for the purchase of residential land (-12%) and newly erected dwellings (-11%) have eased over the last quarter to January 2021. However, the overall loan values are significantly higher compared to pre-pandemic figures.

Finance commitments for WA's housing investors have also increased over the last quarter. Loans to WA's housing investors increased by 62 per cent in January 2021 compared to a year ago. Nationally, we've seen an increase of 23 per cent over the same period. This is a strong sign of growing confidence among property investors in WA since the onset of the pandemic, reinforced by housing stimulus measures and the success of WA in responding to the COVID-19 pandemic.

Figure 12: New Housing Finance Commitments Excluding Refinancing, Owner-Occupier and Investors, WA and Australia, 2006 to 2021



Notes: Seasonally adjusted. Major cities.

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



Residential Property Price

↑↑↑ 1.4%

Quarter-on-quarter change (September 2020)

Residential Property Price Index and established house prices

The dynamics of housing market activity in WA, and indeed across much of Australia, since the start of the COVID-19 pandemic has inevitably affected property prices across the country. The initial lockdown from March of last year slowed the property market to a crawl, but growing confidence and heightened demand among those seeking to take advantage of housing stimulus measures has led to a significant bounce back in the construction and housing sector.

Figure 18 (RHS) shows the residential property price index (RPPI) for the five main capital cities of Australia. Perth's housing prices increased by 1.4 per cent over the quarter to September 2020, the highest quarterly increase since December 2013. Brisbane (+1.5%) and Adelaide (+1.6%) also experienced similar growth rates, while residential prices in Melbourne have fallen for two consecutive quarters.

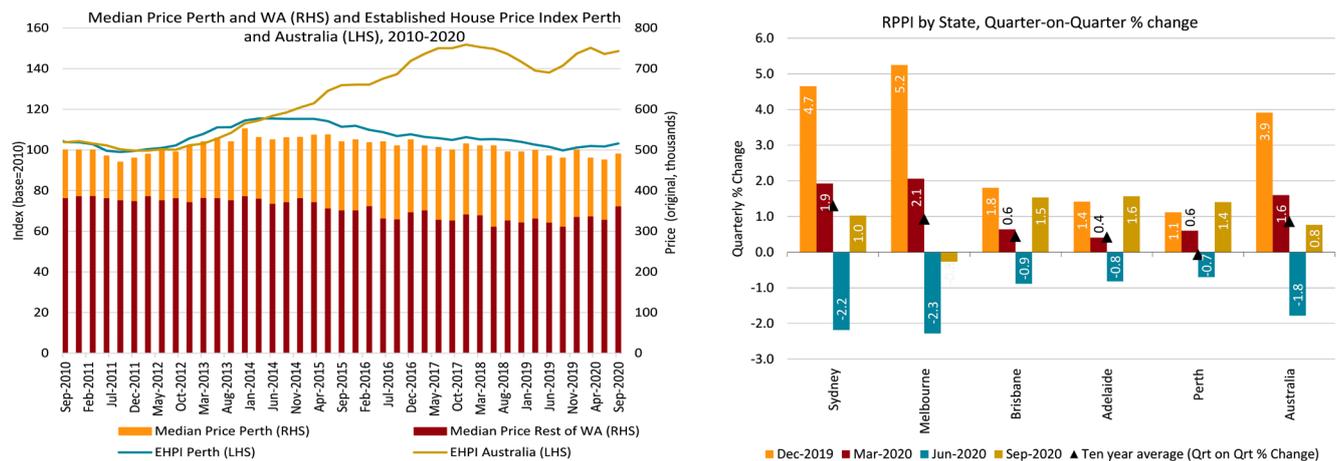
We expect this trend to continue through the December 2020 quarter and into 2021 as the value of housing loans

commitments and the number of dwellings approved continues to rise.

The median price of established house transfers in Perth was \$490,000 for the September 2020 quarter (Figure 18 LHS). This represents an increase of \$15,000 relative to the June 2020 quarter. Perth's established house price index grew by 1.5 per cent over the same period, twice as much as the national growth rate.

Prices for established houses in regional WA have increased at an even faster rate than in metropolitan Perth, with prices reaching similar levels to those of five years ago. Prospective purchasers in regional WA can now expect to pay a median of \$360,000 for an existing house.

Figure 13: Median Price of Established House Transfers, Perth and Rest of WA and Residential Property Price Index, Australia by state, 2006 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

As predicted in our last commentary, Perth rental prices finally increased in the December 2020 quarter, by a modest 0.3 per cent over the last quarter. This is the first time in the past six years that WA's capital has recorded positive growth in the rental CPI index. We expect rents to rise further, and potentially significantly, over the first two quarters of 2021, particularly after the moratorium on rents comes to an end in March 2021.

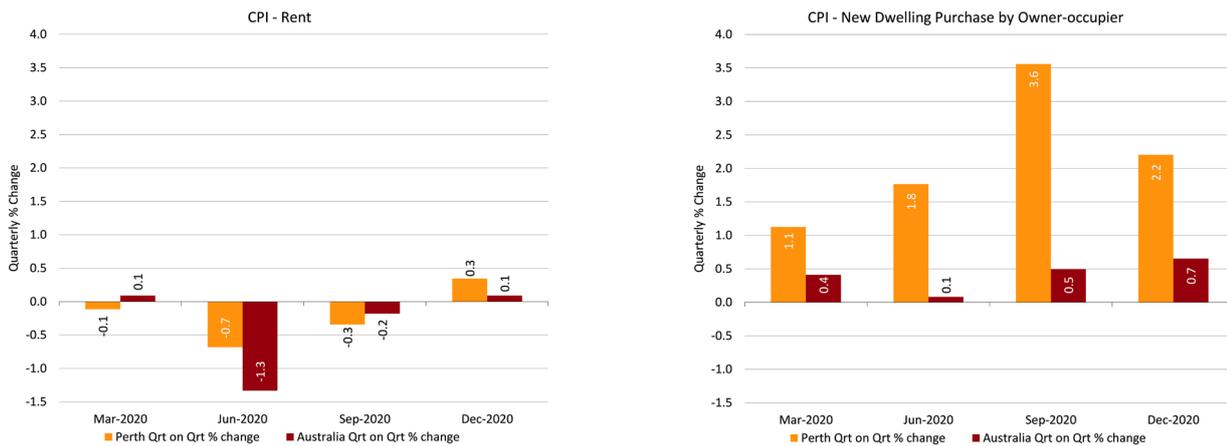
Australia nationally also recorded a positive growth in rental prices but to a lesser extent (0.1%).

In contrast to these modest changes in rental prices, Perth's CPI for new dwelling purchases by owner-occupiers continues to grow strongly, with an additional 2.2 per cent

increase in the December quarter. The new dwelling CPI has increased by 9.0 per cent over the year, driven by a combination of increased demand for new houses fuelled by stimulus measures, and supply challenges faced by the construction sector in meeting those demands.

Shortages of materials and skilled construction workers in WA have added to the upward pressure on the price of new dwellings. These price increases stand in sharp contrast to the much more modest CPI growth seen across Australia as a whole. Over the year, the CPI for new dwelling purchases in Australia has only increased by a fifth of the value relative to WA.

Figure 14: Change in Rents and Owner-Occupier New Dwelling Purchases, WA and Australia, 2020



Notes: Index Base = 2011-2012.

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



Employed Persons

▼ 0.3%

Year-on-Year change
(January 2021)

Labour market impacts of COVID-19

The Western Australian labour market faltered in the beginning of 2021, but continues to demonstrate its resilience and adaptability, recording gains in employment for nine consecutive months through December 2020.

The most recent labour market statistics show that WA recorded a loss of 13,400 jobs over the month of January, yet recorded the highest number of hours recovered nationwide at 88 per cent.

Year-to-date measures present a further source of encouragement with WA recording the third strongest recovery in employment over the year, only 0.3 per cent down from January 2020 and above the national decline of 0.4 per cent.

Part-time employment growth has been a key strength in WA, increasing by 1.0 per cent over the year, whilst full-time

work lagged slightly behind, down 0.9 per cent since this time last year. The trend of stronger part-time employment growth is reflected across most states and territories, but also suggests that there are challenges in creating full-time jobs.

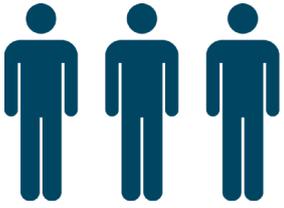
WA's unemployment rate held steady between December and January, remaining at 6.2 per cent and encouragingly was 0.2 percentage points lower than the national unemployment rate. However, year-to-date statistics show that the unemployment rate is still 0.5 percentage points higher than the same time last year, highlighting the progress still to be made. Furthermore, as a result of WA's stagnating unemployment rate over the month, the state has now fallen into the bottom half of all states and territories in the overall unemployment rate.

Table 3: Employment and Unemployment, Australian state and territories, January 2021

	Employed Persons ('000)	Change from January 2020:			Change (%) from January 2020		Unemployment Rate		Unemployed ('000)	Change ('000) from:
	January 2021	(%)	Rank	('000)	Full-time	Part-time	January 2021	Rank	January 2021	January 2020
Australia	12,939.9	▼ -0.4%	---	▼ -45.6	-0.7%	0.4%	6.4%	---	877.6	▲ +156.0
NSW	4,075.2	▼ -1.3%	8	▼ -53.1	-1.7%	-0.2%	6.0%	4	261.3	▲ +67.8
VIC	3,429.4	▼ -0.5%	5	▼ -16.2	-0.3%	-0.9%	6.3%	6	231.0	▲ +37.2
QLD	2,582.2	▲ 1.2%	1	▲ +29.7	-1.0%	6.0%	7.0%	7	193.8	▲ +25.2
SA	840.2	▼ -1.0%	6	▼ -8.2	+0.7%	-4.0%	7.1%	8	64.1	▲ +13.1
WA	1,366.4	▼ -0.3%	4	▼ -4.1	-0.9%	1.0%	6.2%	5	89.9	▲ +6.9
TAS	257.1	▼ -0.1%	3	▼ -0.3	+2.4%	-4.2%	5.9%	3	16.1	▲ +0.3
NT	130.6	▼ -1.2%	7	▼ -1.6	-2.2%	+2.3%	5.6%	2	7.8	▲ +0.8
ACT	234.0	▲ 0.7%	2	▲ +1.7	+3.0%	-5.2%	4.4%	1	10.7	▲ +3.7

Notes: Seasonally adjusted values are used.

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



Job Vacancies

31.3%

Year-on-year change (January 2021)

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 complements other indicators of underutilised labour supply such as unemployment, marginal attachment and underemployment, making it a useful indicator of economic recovery.

Vacancy trends across both WA and Australia have seen strong recovery, particularly over the last six months. Notably, WA has been the clear leader in internet vacancy index recovery. Job vacancies in WA are now 31.3% higher than they were in January 2020, which is significantly higher than national year-to-date vacancy index growth of 11.1%.

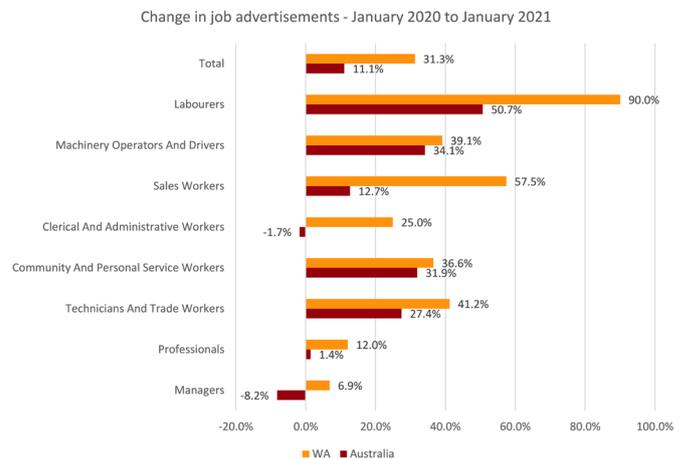
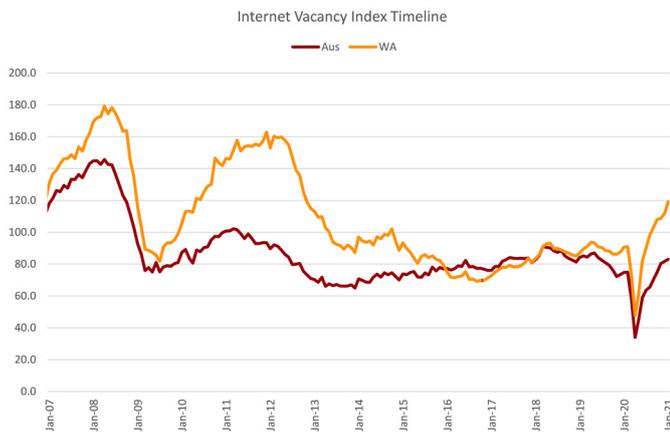
Monthly vacancy index statistics reinforce WA's significant growth, leading all states and territories over the month to January 2021 with a growth of 6.3 per cent, which equates to an extra 1,263 job advertisements compared to December 2020. And even greater encouragement can be taken from

the fact that WA has now recorded nine consecutive monthly increases in the vacancy index since recording a record low 47.6 index points in April 2020.

Looking at year-to-date changes in job advertisements, every occupation group has seen an increase in job advertisements in WA since January 2020. The demand for labourers has increased by a whopping 90% in WA and 50.7% in Australia, leading all other occupations.

There has also been strong demand for sales workers (57.5%), technicians and trade workers (41.2%), machinery and operator drivers (39.1%) and community and personal service workers (36.6%) over the last year. The significant demand for labour combined with employment losses in the last month is evidence of a skills shortage, with many of the skills being demanded not able to be met by the current labour force.

Figure 15: Change in job advertisements, WA and Australia



Notes: Seasonally adjusted values are used.

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



Wages

0.4%

Quarter to December 2020

Wages

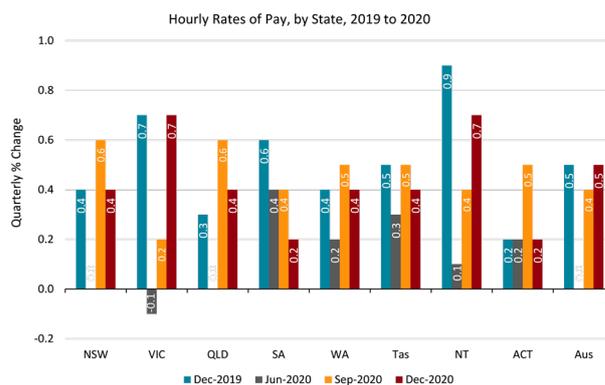
Annual wage growth for both WA and Australia has remained at an historical low of 1.4 per cent over the year to December 2020. Looking at the most recent quarter, WA has slipped below the national average, recording wage growth of 0.4 per cent compared to 0.5 per cent nationally. This comes after two consecutive quarters of higher hourly pay increases in WA compared to national trends, dating back to the June 2020 quarter.

Well-known labour market impacts of COVID-19, including increased unemployment and underemployment are placing

downward pressure on wages, however there are longer-term structural trends that will need to be addressed to induce stronger wage growth. These trends include strong growth of female dominated lower paid occupations, coupled with growth in part-time work and falling full-time employment.

Encouragingly, trend growth in full-time work in WA and Australia are beginning to strengthen and skills shortages have become problematic for many businesses, which could signal stronger wage growth in the shorter term.

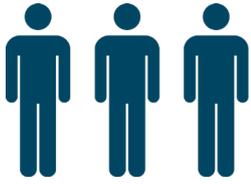
Figure 16: Wages growth, WA and Australia, 1999 to 2020



Notes: Hourly rates of pay do not include bonuses.

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

POPULATION



Population Change



0.1%

Quarter-on-quarter change (June 2020)

Population

The pandemic has closed Australia's international borders. As a result, population growth since the March quarter in 2020 is very different than usual. This is finally showing in the most recent data available on population growth, the quarter to June 2020.

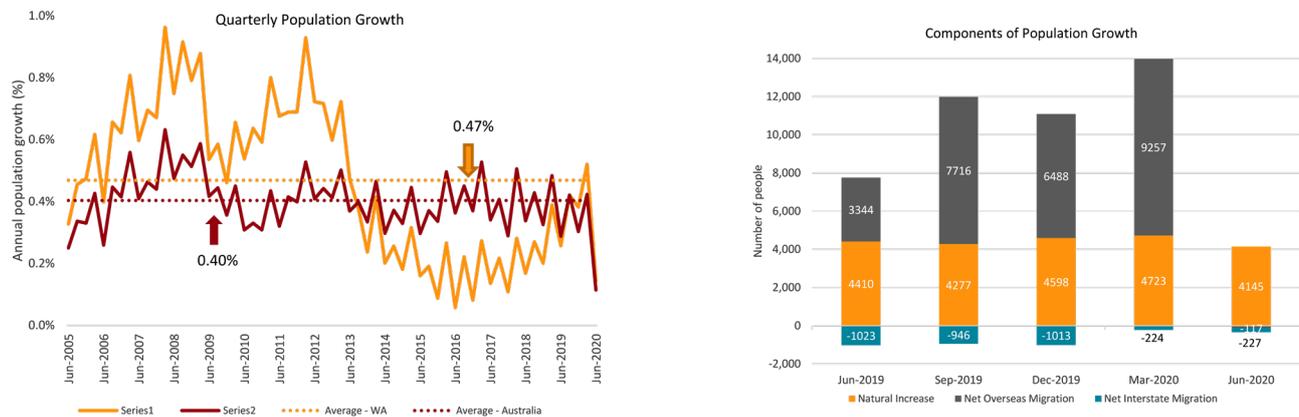
The decline in quarterly population growth for WA is comparable to recent periods of economic hardship and out-migration from WA following the mining boom. But for Australia as a whole, population growth is even lower than the worst quarter in the previous recession, 27 years ago. This dramatic decline in population growth could be expected to drag on Australia's and WA's economic growth in subsequent periods.

For Western Australia, this is first quarter in 27 years with negative net overseas migration. In the quarter to June 2020 there was a decline of 117 residents in net overseas migration, compared to a net gain of 9257 residents in the

previous quarter.

Net interstate migration to WA has copied recent trends being only slightly negative. Interstate migration has often followed the fortunes of the iron ore industry. Given the contribution of the mining industry to both WA's economic growth and its resilience to the economic impacts of the COVID-19 pandemic, it is perhaps surprising that net interstate migration was still negative in the June quarter. However, the WA government's closure of state borders (with exceptions) may have prevented this typical response to strength in the mining sector. On this basis, it could be expected that subsequent quarters might finally see a return to positive net interstate migration, and possibly substantially higher, partially compensating WA for the loss of international arrivals.

Figure 17: 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.

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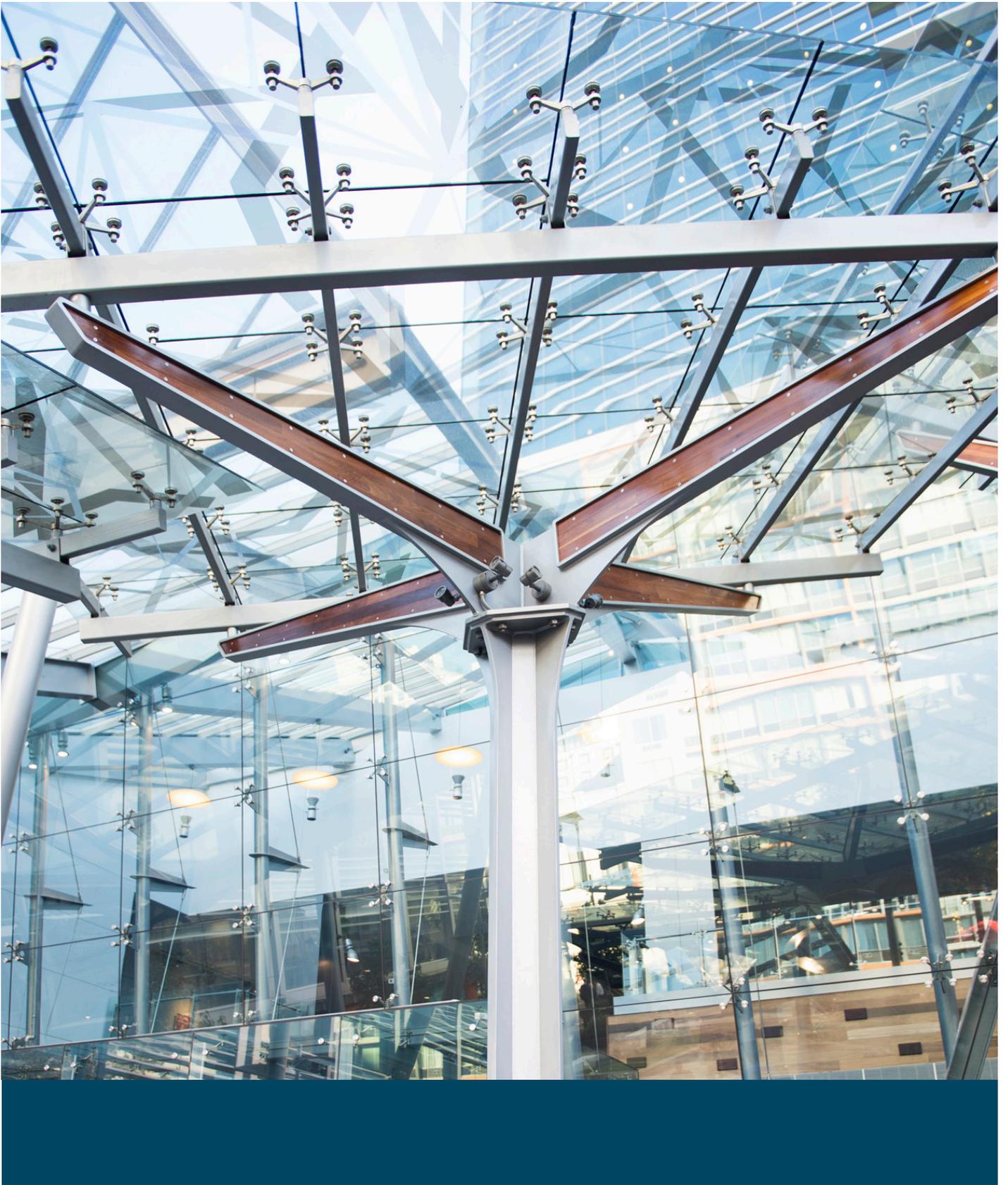
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