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Windjana Gorge, Kimberley, Western Australia

BCEC Briefing Note WA Economic Update

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

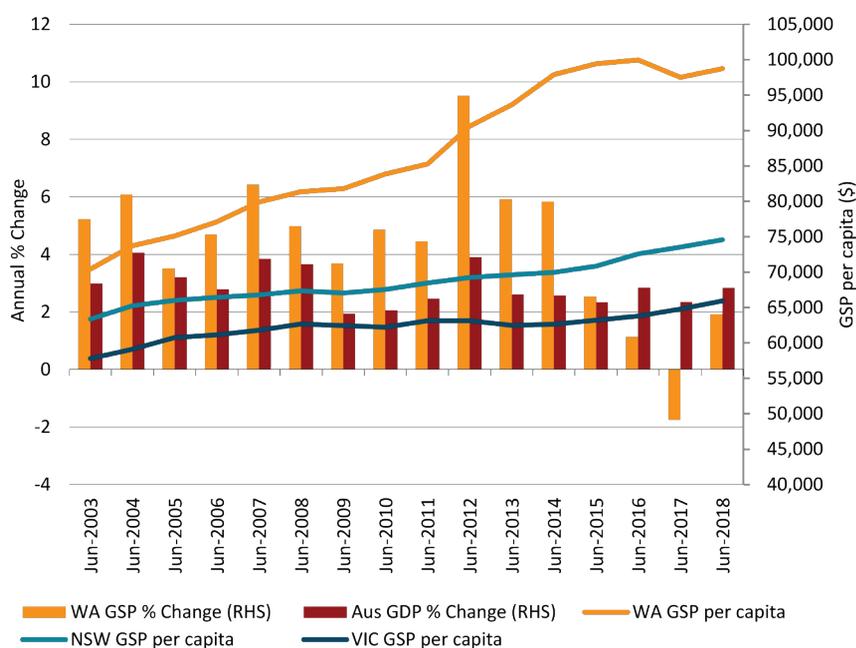
ECONOMIC GROWTH

Gross State Product

Western Australia today welcomes positive signs for the West Australian economy, with new Gross State Product¹ (GSP) figures released today revealing a welcomed move out of negative territory. The WA economy has grown by 1.9% over the last 12 months (Figure 1), which is still lower compared to national trends and other states and territories, but is a step in the right direction compared to last year's negative growth figure of -1.75%. The Australian economy (GDP) grew at 2.83% to June 2018.

For WA, we shouldn't forget the historical context of the State's lower growth figures in recent years. In the ten years to June 2016, WA's annual GSP growth rates averaged 4.9% during a period of unprecedented resources-fuelled economic growth in the West. Despite the decline reported in June 2017, WA's per capita GSP nevertheless sits at \$98,725, still far in excess of the equivalent measures for other states and \$24,000 above that of NSW.

Figure 1: Gross State Product, various states, 2003-2018



Notes: Chain volume; Reference year is 2016/17. June 2018 GSP per capita is calculated using March 2018 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.

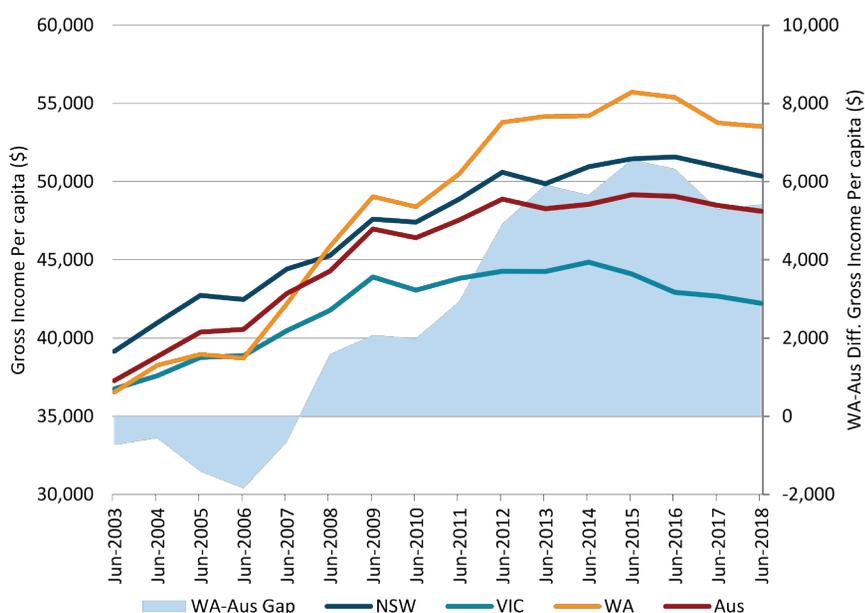
¹ Gross State Product (GSP) represents a broad measure of the economic value of goods and services production, including the difference between the State's exports and imports, in WA and in other state jurisdictions.

ECONOMIC GROWTH

Household Disposable Income

Per capita household disposable income can provide a more relatable measure of economic wellbeing from the perspective of an individual or family (Figure 2). WA saw the steepest growth in household disposable income per capita over the course of the resources boom, rising at an annual average of some 3.7% over the decade from 2006. This trend has reversed since 2015, averaging -1.3% over the last three years. This is a consequence of the cooling economic and labour market conditions in the West. Despite this, household disposable income per capita in WA (at \$53,535) still remains above NSW (\$50,364), VIC (\$42,222) and the Australian average (\$48,115).

Figure 2: Household Disposable Income per capita, Various States, 2003-2018



Notes: Current prices realised using CPI and rebased to 2016/17.

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

ECONOMIC GROWTH

Contribution to Gross Value Added by Industry

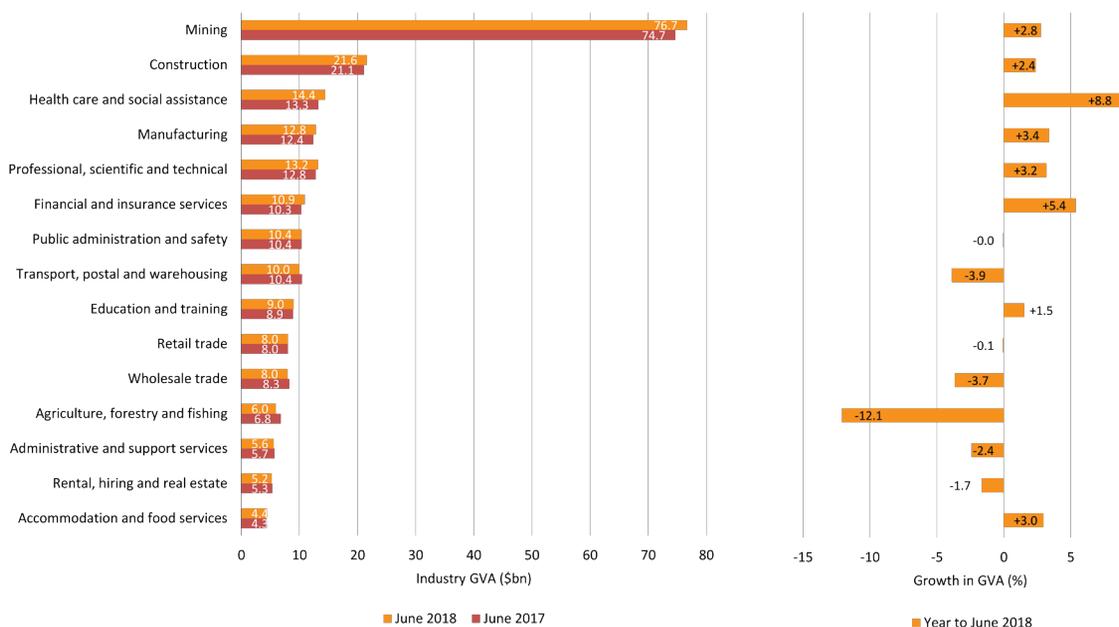
Mining accounts for more than a third (33.8%) of WA's total Industry Gross Value Added (GVA), which means that the state's overall economic continues to rely heavily on the fortunes of the resources sector. According to new ABS figures (Figure 3), Mining grew by 2.8% in the year to June 2018, and now contributes \$76.7bn to the WA economy. This has been a key factor in the state's return to positive economic growth.

But the WA economy has also benefitted from strong growth in Construction (up 2.4% to \$21.6bn in the year to June 2018), Financial and Insurance Services (up 5.4% to \$10.9bn) and Manufacturing (up 3.4% to \$12.8bn). This provides encouraging evidence that other industry sectors in WA are putting a shoulder to the wheel in driving economic growth. The return to growth in the state's Construction sector is especially noteworthy, given that last year's decline in construction was a strong factor in the state recording negative GSP growth in the year to June 2017.

The other significant story is the strong growth in WA's health sector, with GVA up fully 8.8% over the year. This provides further evidence of the important role of the services sector in a strengthening economy, both in terms of economic growth and future employment.

But the growth story doesn't hold up across the board. The State's Agriculture, Forestry and Fishing sector has weakened over the last year, with GVA falling 12.1% to \$6bn in the year to June 2018. Other sectors that have contracted over the last year include Transport and Postal services (down 3.9%) and Wholesale trade (down 3.7%).

Figure 3: Industry GVA (\$bn) and GVA growth (%), selected industries: 2016-2017 and 2017-18

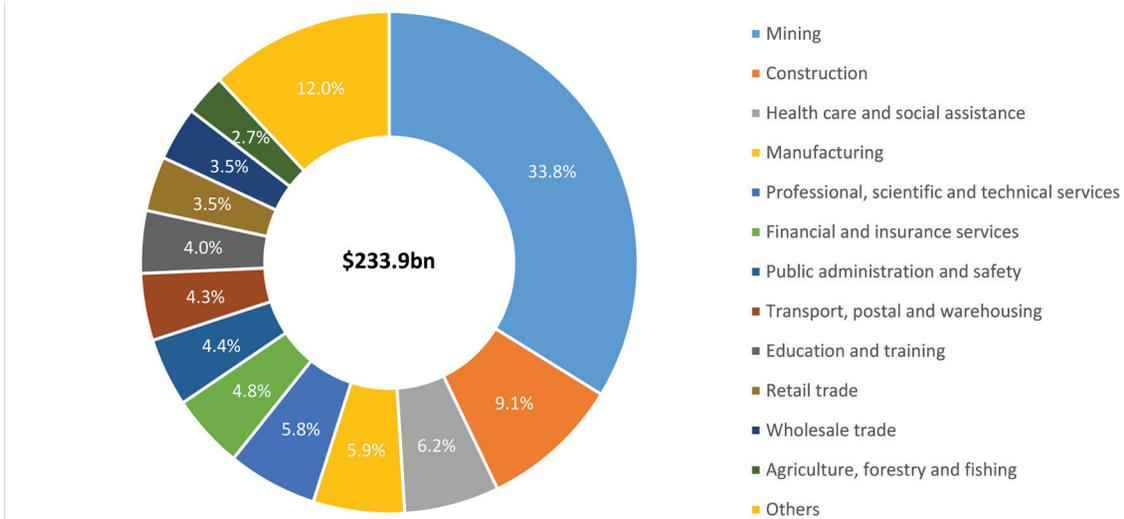


Notes: Economic Activity is measured through Gross Value Added (GVA). It is the value of output of goods and services minus the value of intermediate consumption. GVA is expressed in chain volume measures; Reference year is 2016/17.

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

ECONOMIC GROWTH

Figure 4: Industry Share (%) of GVA, WA, June 2018



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

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

Expenditure Components of GSP Growth

Household consumption expenditure contributes a 42% share² of GSP in WA. In the year to June 2018, household consumption grew at a very modest rate of 1.6%. This compares to household consumption growth averaging 4.1% between June 2009 and June 2013.

The State's net exports (exports minus imports) grew by 8.5% over the year to June 2018. Although this is lower than the 12.9% growth recorded in the year to June 2017, it has been a significant contributor to WA's overall GSP growth. Breaking this down further, WA exports increased by 4.3% in real terms (6.6% to June 2017), with imports declining by 3.6%. This follows a fall of 3.8% over the previous year to June 2017.

The sharp contraction in private investment (Private Gross Fixed Capital Formation) in WA over the previous four years has effectively bottomed out, with only a marginal negative growth of -0.6% reported for 2017-2018. There are encouraging signs of recovery in business investment, which grew by 0.1% over the year – a return to positive, albeit marginal, growth territory for the first time in five years. General government consumption expenditure (14.8% share) grew by 2.7%, with public GFCF down by 0.16%.

Overview

As forecast in BCEC's [Quarterly Economic Commentary in September 2018](#), the WA economy has returned to positive growth. This is on the back of strength in the Mining sector, which has driven the state's strong net export position. Business investment has returned to modest but positive growth for the first time in five years. Coupled with the recent GST win for WA and improvements in WA's unemployment figures, the McGowan Government will draw confidence from these latest economic figures as they seek to steer the WA economy back to full strength.

However, the Government's job is far from complete. As the Treasurer continues to battle with fiscal debt and budget deficits, there is an ever-pressing need to stride towards a more diversified WA economy. WA remains dependent on the Mining sector, and while its strength is an important and differentiating asset for the state, it leaves the economy over-exposed to the international economy, particularly in a time of much international economic and political uncertainty, including risks related to trade agreements, and to a lesser extent for WA, from the fallout from Brexit.

In terms of the domestic economy, consumer confidence remains weak. With a 42% share of the economy, stronger growth in household consumption is critical to the creation of growth and employment. But this is in turn dependent on strong wage and population growth, both of which remain weak for WA, with increasing uncertainty in the housing market adding to the drag.

Further strides towards boosting business and consumer confidence are required. However, these latest economic data should be looked at as an overall positive step. There has been much done, but still much more to do!

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

About the Bankwest Curtin Economics Centre

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

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

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

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

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