

OUTLOOK

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World Title Beckons



Chamber of Commerce
and Industry WA



Outlook at a glance

The most significant force behind WA's economic punch has been the strength of the mining sector. A cocktail of surging commodity prices and robust demand from WA's largest trading partner boosted activity in the mineral resources sector and delivered the State Budget an unexpected windfall of cash.

When COVID-19 first arrived on Western Australia's shores just over one year ago, the WA economy copped a belting. In the blink of an eye, the domestic economy collapsed to the same level it was in 2010, nearly 100,000 jobs evaporated, and community sentiment plummeted to record lows.

Since then, COVID-19 has hardly landed a punch, and the domestic economy has climbed off the canvas and roared back to life. Indeed, Western Australia is one of very few jurisdictions (globally) that has officially transitioned from 'recovery' to 'expansion'.

So, how did WA's economy regain its footing and fight back?

The first counterpunch came from the public sector. Record levels of government stimulus flooded the economy with cash and capital – pump priming the balance sheets of businesses and households. Looser

About Outlook

Outlook is the CCIWA's biannual analysis of the WA economy. All growth rates cited in Outlook are calculated in terms of year-on-year growth, comparing four quarters of data to the previous four quarters of data, unless otherwise stated.

The editor of Outlook is James Walsh, Senior Economist.



restrictions in WA helped to unlock much of this stimulus, supporting a strong recovery in household consumption.

The second strike came from the RBA. Record low interest rates and the largest bond-buying program in Australian history pushed borrowing costs down, lending crucial support to businesses and households – particularly those grappling with high levels of mortgage stress.

Support for the residential property sector didn't stop there. Generous housing grants from the State and Commonwealth Governments, assurance from the RBA that rates would remain low for some time, and 'fear of missing out' spurred demand for residential properties – lighting a fire under the local construction pipeline.

Above all, the most significant force behind WA's economic punch has been the strength of

the mining sector. A cocktail of surging commodity prices and robust demand from WA's largest trading partner boosted activity in the mineral resources sector and delivered the State Budget an unexpected windfall of cash (around \$1.2 billion).

Industries closely tied to the mining sector, like professional services, construction and transport, also benefited from stronger conditions – sending measures of business confidence soaring to new highs. And with mining comprising a record 43 per cent of the economy, now more than ever when commodity markets are strong, the WA economy is strong.

Indeed, the size of WA's economy has now rocketed past the level it was before the pandemic, and most economic indicators are flashing bright green.

While the introduction of snap

lockdowns inflict deep and far reaching impacts on the WA business community – with small businesses bearing the brunt – the swift containment of recent outbreaks has, in aggregate, avoided sustained damage to WA's economic recovery.

Looking ahead, we expect Western Australia's strong economic tailwind to continue building into this financial year.

Household spending is expected to hold strong, despite the roll back of government support payments. A record number of Western Australians have found employment, consumer confidence is hovering at record highs, and house prices are on the rise. The vaccine rollout will provide upward support to consumer sentiment and help to unlock an additional \$650 million in accumulated savings over the coming months.

While the overall picture is largely positive, significant challenges could, if left unaddressed, derail WA's strong economic trajectory

And despite escalating tensions with WA's largest trading partner, our central case remains that demand for WA's mineral exports will hold firm over the next twelve months.

The upshot of this is that we expect the domestic economy to grow by 3.5 per cent in 2021-22, the strongest annual rise in almost 10 years. The overall economy (including exports and imports) is forecast to grow 3.1 per cent, a marked improvement from our 2.1 per cent estimate back in February.

Yet while the overall picture is largely positive, significant challenges could, if left unaddressed, derail WA's strong economic trajectory.

Rising skills shortages remain the largest challenge facing the economy, with CCIWA's latest *Business Confidence Survey* identifying that four out of five (79%) WA businesses are struggling to fill a skilled occupation – up from 54 per cent in March.

The impacts of these shortages are widespread; no industry has been spared. And with vacant roles requiring around 3.3 years on average, it is no surprise that only 35 per cent of WA businesses expect to fill all of their vacant roles locally. To make matters worse, other States and Territories are experiencing labour shortages of their own, meaning the only option for many WA businesses is to tap the international labour market.

However, unlike the previous mining boom, it will be difficult to address labour shortages with overseas workers. The upshot is that labour shortages are spreading rapidly across the economy, which according to CCIWA's recent *Business Confidence Survey* is increasing pressure on existing staff to manage workloads (cited by 69% of respondents), damaging the quality of product and/or service delivery (42%) and delaying project completion

timeframes (40%). In turn, two out of five (39%) businesses are worried about reputational impacts, with concerns highest in the resources (48%), manufacturing (41%) and construction (37%) sectors.

Looking forward, rising skilled labour shortages risk keeping WA's supercharged economic engine stuck in a lower gear and denting the State's reputation as a great place to invest. According to CCIWA's recent national survey*, the 'availability of skilled labour' was cited by one out of two Australian businesses as a key factor driving their decision to invest/expand into other States.

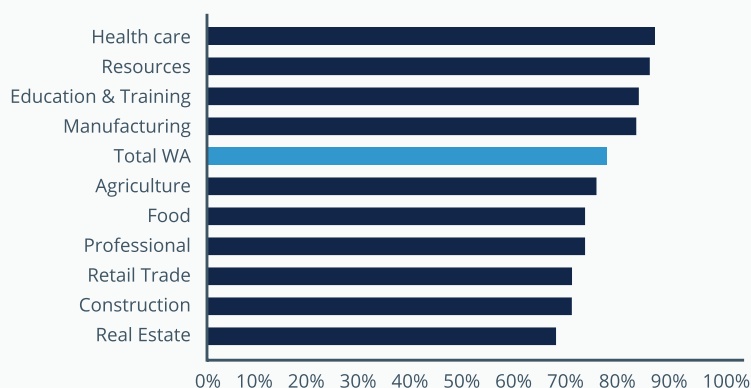
Overseas migration is historically WA's largest source of population growth, and roughly three quarters of our workforce arrivals in the previous mining boom hailed from other nations. The longer international borders remain clasped shut to international workers, the greater the risk this poses to Western Australia's economic future.

To this end, it is essential that as many eligible Western Australians as possible become fully vaccinated. Attaining a high rate of vaccination is the only viable path to successfully moving beyond the economic and health risks of COVID-19 and reserving the terms 'snap lockdown' and 'hard border' to history textbooks. Any further delays to the vaccine rollout will pour cold water on an otherwise red hot economic recovery.

Another key risk to the outlook is the reduction in significant new private investment announcements – particularly in the mining sector.

Is your business struggling to hire for a particular skillset?

Proportion that responded 'yes'



Source: CCIWA Consumer Confidence Survey – June 2021

*CCIWA commissioned polling, delivered independently by Coredata.

Despite record high commodity prices and robust demand for iron ore, mining businesses are acutely aware that current price levels are unlikely to be sustained and the commodity cycle will one day turn.

In this light, fostering an environment that incentivises new significant capital investment will help to solidify WA's economic footing in the years ahead. Streamlining the approvals process of major mining and infrastructure projects by reforming 'Greenfields agreements' would be a great place to start.

While the mining sector will continue to play an important role in driving the economy in the coming years, WA cannot rely solely on the success of a single industry for our economic prosperity.

Developing high-growth industries like advanced manufacturing and critical minerals, facilitating entrepreneurship and innovation, and attracting new investment in emerging sectors will all help to smooth out WA's traditional 'boom-bust' economic cycle and enhance Western Australians' standard of living.

The good news is that Western Australia is sitting in the box seat to



catalyse its economic potential. For instance, CCIWA's recent national survey found nearly three out of five (57%) businesses across the nation have expressed an increased interest to expand their presence into WA, including 74 per cent of those in New South Wales.

To capture these opportunities, we cannot afford to stand still; we need to get on the front foot and throw a few well targeted economic punches. There's no reason why WA can't take on the world and win. A world title beckons.

To this end, CCIWA has developed a raft of proactive reform proposals that, if adopted, would help to strengthen and diversify WA's economy over the long term. They include:



Reform WA's payroll tax model to provide relief for small and medium sized businesses. Many WA businesses are lumped with the heaviest payroll tax burden in the country.



Make it easier for women to re-enter the workforce after having children. A key reform measure is allowing the funding for the delivery of kindy services to 'follow the child', as occurs in most other States.



Outline and commit to a plan for safely reopening Western Australia with the rest of the world as soon as it is safe to do so. This includes ramping up the State's effort to fully vaccinate as many Western Australians as possible, as swiftly as possible, and upping Western Australia's effort to source new investment through interstate and global activation. To help prospective foreign direct and interstate investors looking to invest in WA, we recommend that the State Government develop an Investment Portfolio Deal Book.



Unshackle local businesses, including by allowing SMEs to choose their electricity retailer, and providing more flexibility on opening hours by undertaking incremental reforms to WA's retail trading restrictions.



Provide funding to implement the *Digital Strategy for the WA Government 2021-2025*. Doing so would quickly improve regulatory and administrative processes across multiple industry sectors, enabling businesses to focus on doing business and diversifying our economy.

Economic Outlook

Economic forecasts for Western Australia

Forecasts ¹	2019-20 Actual	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast
Economic Activity					
Household Consumption	-2.3%	1.9%	2.5%	2.25%	2.25%
Dwelling Investment	-13.2%	2.9%	21.2%	-4.5%	-4.7%
Business Investment	9.7%	2.7%	2.0%	2.5%	2.0%
State Final Demand	0.9%	3.1%	3.5%	2.0%	2.0%
Exports	0.8%	-0.5%	1.9%	1.7%	0.7%
Imports	-4.5%	-7.0%	3.5%	6.1%	5.4%
Gross State Product	1.6%	2.9%	3.1%	1.5%	1.0%
Labour Market					
Unemployment	6.1%	6.1% ³	5.25%	5.0%	5.0%
Inflation	1.3%	1.6% ³	1.9%	2.0%	2.0%
Wages	1.7%	1.5% ³	2.2%	2.1%	2.1%

Notes:

1 Actual outcomes are as reported in the 2019-20 State Accounts, updated with the latest State Final Demand and Balance of Payments data.

2 Forecasts for economic activity are produced in terms of annual average growth, comparing four quarters of data to the previous four quarters of data.

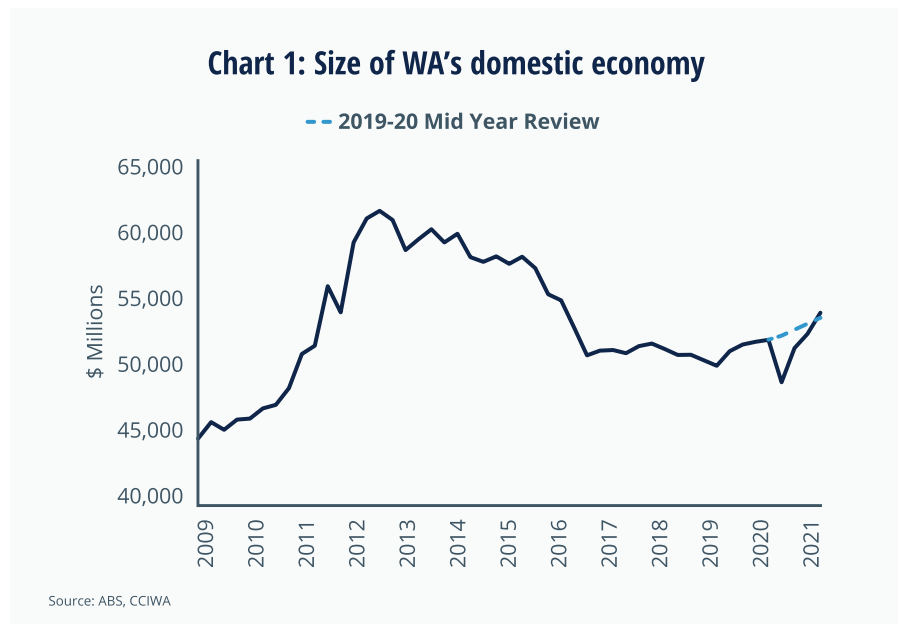
3 Actual outcome

Economic Growth

Economic Activity		
Forecasts	State Final Demand	Gross State Product
2019-20 Actual	0.9%	1.6%
2020-21 Forecast	3.1%	2.9%
2021-22 Forecast	3.5%	3.1%
2022-23 Forecast	2.0%	1.5%
2023-24 Forecast	2.0%	1.0%

The Western Australian economy is looking to record its strongest year in almost 10 years. The progressive easing of COVID-19 restrictions, record levels of fiscal support and a booming mining sector have led to a remarkable turnaround in Western Australia's economic fortunes in 2020-21 (**Chart 1**).

Looking forward to 2021-22, we expect WA's strong economic



momentum to continue building, with the domestic economy (e.g., State Final Demand) forecast to grow by 3.5 per cent this financial year – its fastest rate since 2012-13 – before moderating slightly to 2.0 per cent in 2022-23 and 2023-24.

Strong export volumes will help the overall economy to grow by 3.1 per cent in 2021-22, before slowing in 2022-23 and 2023-24 as international borders gradually reopen, boosting services imports (e.g., international travel).

Closure of international borders forced travel-hungry Western Australians to redirect much of their travel funds to the regions – adding up to \$6 billion to the economy

Household Spending

Economic Activity

Forecasts	Household Consumption
2019-20 Actual	-2.3%
2020-21 Forecast	1.9%
2021-22 Forecast	2.5%
2022-23 Forecast	2.25%
2023-24 Forecast	2.25%

It has been a big year for Western Australian households. Lighter restrictions, soaring consumer confidence and nearly \$17 billion worth of Commonwealth stimulus washing through the economy has helped underpin a tidal wave of spending in 2020-21.

The closure of international borders forced travel-hungry Western Australians to redirect much of their travel funds to the regions – adding up to \$6 billion to the economy – and a steep rise in savings helped shore up the health of Western Australians bank accounts.

According to CCIWA's latest



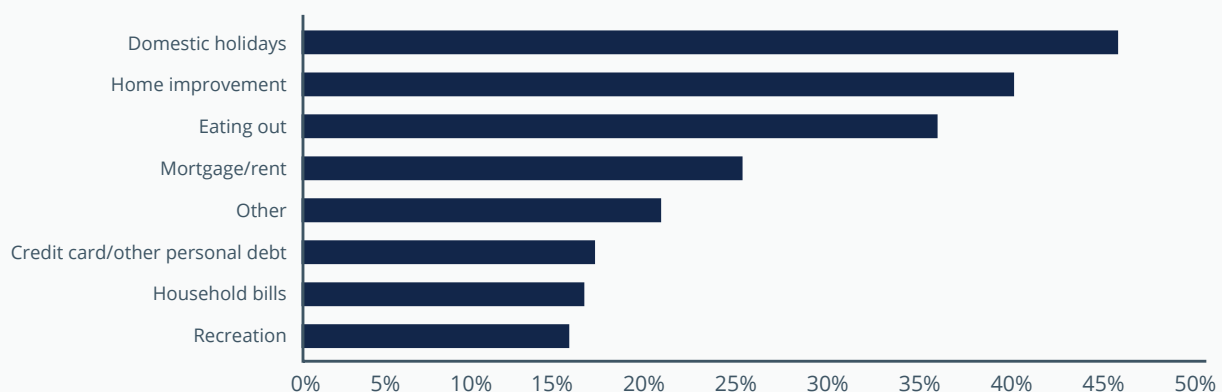
Consumer Confidence Survey, around \$650 million of these accumulated savings are set to be unlocked over the rest of this year, with 'domestic holidays' set to receive the lions share (**Chart 2**).

These factors have created a strong tailwind for consumer spending over the next twelve months. We expect

household consumption to grow 2.5 per cent in 2021-22 (~\$2.7 billion) and hold firm throughout the forecast horizon.

Key risks to this outlook include additional snap lockdowns and the introduction of 'hard border' restrictions with other States and Territories.

Chart 2: How Western Australians plan to spend savings



Source: CCIWA Consumer Confidence Survey – June 2021



Business Investment

Economic Activity

Forecasts	Business Investment
2019-20 Actual	9.7%
2020-21 Forecast	2.7%
2021-22 Forecast	2.0%
2022-23 Forecast	2.5%
2023-24 Forecast	2.0%

Western Australian business investment surged 11.5 per cent in the first quarter of 2021, driven by a significant rise in machinery and equipment expenditure in the resources sector. With soaring commodity prices and robust demand, WA mining companies are looking to shore up their capital stock and operate at full capacity.

Mineral exploration spending is also on the rise, with total deposit expenditure in WA up 13.5 per in March 2021 to \$553 million – a 9 year high (**Chart 3**). Taken together, these factors will help to underpin steady growth in WA's business investment levels over the coming

years. We expect WA business investment to grow by 2.0 per cent in 2021-22 and 2.5 per cent in 2022-23 before tapering to 2.0 per cent in 2023-24.

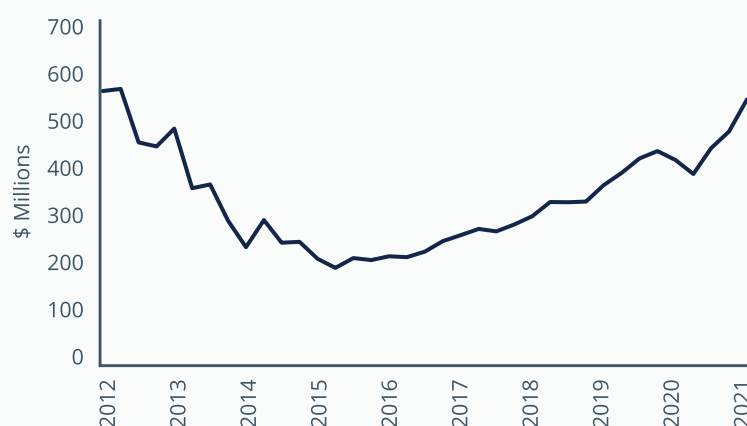
At the same time, ongoing trade issues with China will weigh on the appetite of non-mining entities to pull the trigger on new projects, particularly those operating in the agricultural industry.

Additionally, a reduction in significant investment

announcements in the resources sector could pose longer term risks to WA's overall investment base. To this end, attracting new investment into WA must remain a key focus for all levels of Government in the coming years.

As mentioned, Western Australia is well positioned to achieve this objective, with more than half (54%) of Australian businesses considering WA a more attractive place to invest compared to before the pandemic.

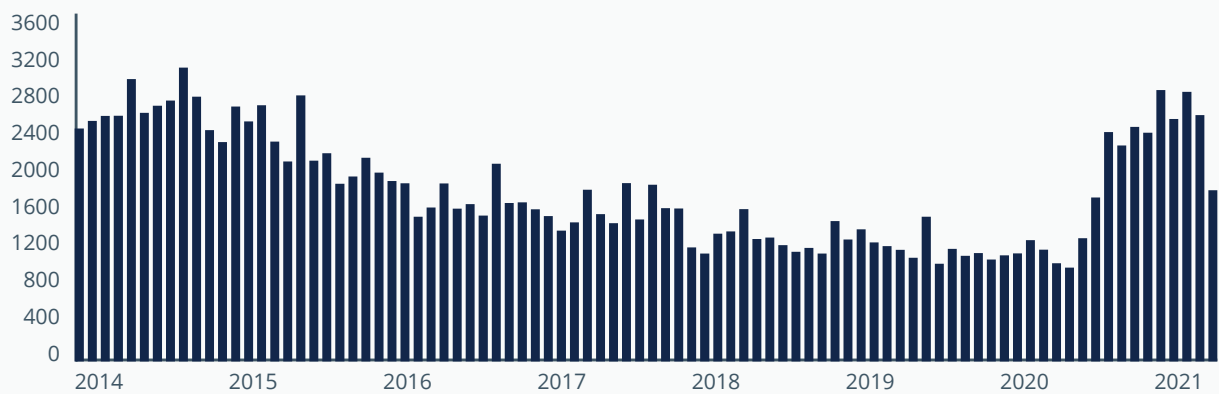
Chart 3: WA Mineral Deposit Expenditure



Source: ABS, CCIWA

Chart 4: Building Approvals

WA, Total Number, SA



Source: ABS, CCIWA

| New dwelling construction soared 287 per cent to a record \$790 million

Dwelling Investment

Economic Activity

Forecasts	Dwelling Investment
2019-20 Actual	-13.2%
2020-21 Forecast	2.9%
2021-22 Forecast	21.2%
2022-23 Forecast	-4.5%
2023-24 Forecast	-4.7%

Generous support from the State and Commonwealth Governments, record low interest rates and soaring confidence have sparked an explosion in demand for residential properties in WA.

In February 2021, owner-occupier loan commitments for new dwelling construction soared 287 per cent to a record \$790 million, driving residential building approvals to a six year high (**Chart 4**).

For the majority of these builds, construction will commence before the end of this calendar year. However, shortages of both skilled labour and key materials have pushed back completion timelines, smoothing the construction pipeline further along the forecast horizon.

International Trade

Economic Activity

Forecasts	Exports	Imports
2019-20 Actual	0.8%	-4.5%
2020-21 Forecast	-0.5%	-7.0%
2021-22 Forecast	1.9%	3.5%
2022-23 Forecast	1.7%	6.1%
2023-24 Forecast	0.7%	5.4%

Western Australia's exporters had a bumpy ride in 2020-21.

Export volumes of key agricultural and food commodities, like barley, grain and rock lobsters were hit for six when China announced a raft of stringent import tariffs in 2020.

Then in February 2021, tropical lows in the Pilbara disrupted shipments of iron ore, denting WA's overall export performance in the last financial year.

Looking ahead, we expect Western Australia's overall export volumes to recover – growing 1.9 per cent in 2021-22. Exporters in the agricultural sector are eyeing off a bumper crop and will seek to penetrate new markets, and demand for key commodities is expected to hold

firm — having already rebounded from the February low point.

Key risks to the outlook include a rapid unwinding of China's aggressive infrastructure spending program (easing demand for steel-making materials), and a speedy recovery from Brazil's iron ore miners after facing COVID-19 related operational setbacks.

While much uncertainty remains about how and when these factors will play out, they are likely to both pose challenges to commodity prices and WA's export volumes in the years to come.



WA's headline unemployment rate fell below 5 per cent for the first time 7 years, and there are now more Western Australians employed than before the pandemic

Unemployment

Economic Activity

Forecasts	Unemployment
2019-20 Actual	6.1%
2020-21 Forecast	6.1%*
2021-22 Forecast	5.25%
2022-23 Forecast	5.0%
2023-24 Forecast	5.0%

*Actual

Western Australia's jobs market is running red hot. In April 2021, WA's headline unemployment rate fell below 5 per cent for the first time 7 years, and there are now more Western Australians employed than before the pandemic.

This has all been underpinned by a sharp rise in demand for WA-based workers. Job vacancies have soared to levels not seen since the last mining boom (**Chart 5**) and skilled labour shortages are continuing to grow – creating significant challenges for WA businesses.

Indeed, CCIWA's June 2021 *Business*



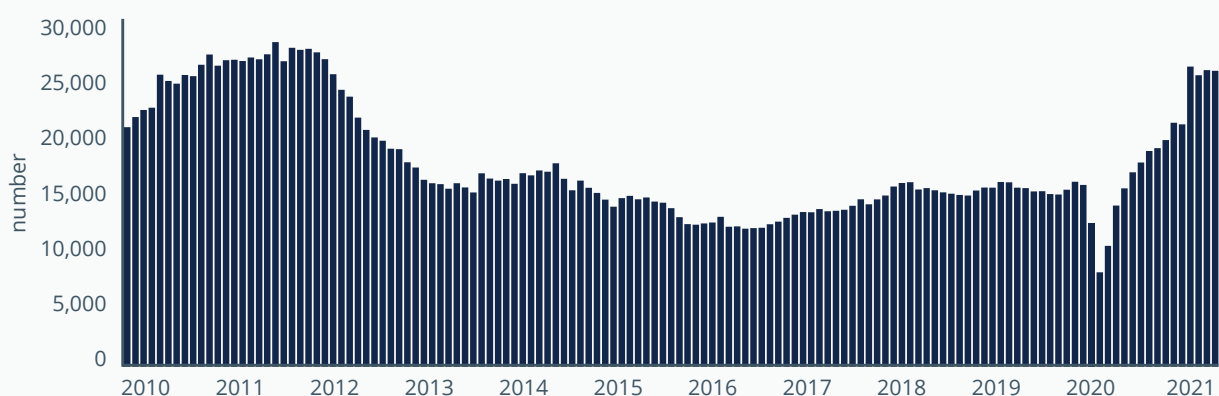
Confidence Survey identified that nearly four out of five Western Australian businesses (78%) consider skilled labour shortages as a barrier to growing their business over the coming year, more than 20 percentage points higher

than the next barrier, rising operating costs (56%).

Looking to the year ahead, we anticipate sustained tightness in WA's jobs market, forecasting the unemployment rate to average 5.25 per cent in 2021-22.

Chart 5: Internet Job Ads

Western Australia, Seasonally Adjusted



Source: ABS, CCIWA



Wages and Inflation

Forecasts	Economic Activity	
	Inflation	Wages
2019-20 Actual	1.3%	1.7%
2020-21 Forecast	1.6%*	1.5%*
2021-22 Forecast	1.9%	2.2%
2022-23 Forecast	2.0%	2.1%
2023-24 Forecast	2.0%	2.1%

*Actual

Wage outlook

Rising skills shortages are starting to apply upward pressure to wages in pockets of the labour market. CCIWA's June 2021 *Business Confidence Survey* revealed just under half (47%) of WA businesses are boosting their existing

employees' base wage in response to the skills crisis – including two out of three in the agriculture (68%) and resources (67%) sectors. At the same time, 12 per cent are providing sign-on bonuses or other incentives to new employees.

Despite this, we consider there is some way to go before the unemployment rate falls sustainably low enough to trigger a rapid and broad-based rise in wages. To this end, we expect wages to grow by 2.2 per cent this financial year before settling at around 2 per cent in 2022-23 and 2023-24.

Inflation outlook

The ABS' latest Consumer Price Index release revealed consumer prices in WA surged 4.2% over the year to June 2021. However, this was

primarily driven by record falls in childcare and fuel prices 12 months ago, creating a lower base period.

Underlying inflation remains relatively subdued, with national trimmed mean inflation rising only 1.6% over the past year.

Compared to pre-pandemic (March 2020), Perth prices have risen 2.9 per cent, around one percentage point above the national figure (1.8%). Rising input costs remain a key concern for WA businesses, particularly those operating in the construction and manufacturing sectors.

All up, we are expecting headline annual growth in the Perth Consumer Price Index to average around 2 per cent per year over the forecast horizon.

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