OUTLOOK

Inflation - the home straight

March 2024

Chamber of Commerce and Industry WA

Economic Outlook

Outlook is the Chamber of Commerce and Industry of Western Australia's biannual analysis of the WA economy.

The editor of *Outlook* is Sam Collins, Senior Economist.

ECONOMIC FORECASTS FOR WESTERN AUSTRALIA

FORCASTS[1,2]	2022-23 (ACTUAL)	2023-24 FORECAST	2024-25 FORECAST	2025-26 FORECAST
ECONOMIC ACTIVITY				
HOUSEHOLD CONSUMPTION	3.5%	**2.0%**	2.25%	2.5%
DWELLING INVESTMENT	-2.7%	**4.25%**	4.75%	6.0%
BUSINESS INVESTMENT	4.5%	**12.75%**	4.0%	2.75%
STATE FINAL DEMAND	3.9%	**4.75%**	2.5%	2.5%
EXPORTS	5.6%	**0.25%**	2.0%	1.0%
IMPORTS	12.6%	**9.0%**	3.5%	2.5%
GROSS STATE PRODUCT	3.5%	**1.5%**	1.75%	1.25%
LABOUR MARKET AND PRICES				
UNEMPLOYMENT[3]	3.5%	**3.75%**	4.25%	4.5%
INFLATION[4]	5.1%	**3.75%**	3.0%	2.75%
WAGES	3.8%	**4.5%**	3.5%	3.25%

Footnotes:
1 Actual outcomes are as reported in the 2022-23 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 unless otherwise stated.
3 Annual average through the financial year.
4 Year ended terms; excludes the electricity sub-index as a result of the Household Electricity Credit provided across the State.

Our Key Calls

Inflation and Interest Rates

Evidence suggests we are homing in on a return to the 2-3% target band. Nonetheless, services inflation will continue to prove sticky, delaying the first interest rate cut to late this calendar year. Expect inflation to settle at a higher level than pre-Covid, towards the top end of the Reserve Bank's target band.

Jobs Market

The jobs market is set to remain tight, despite strong international migration. We expect the unemployment rate to loosen gradually, remaining at relatively tight levels over the next three years. Expect wage pressures to remain elevated over the same period, but ease in line with the labour market.

Global Economy

Expect the global economy to stay resilient in the face of geopolitical turmoil, unless Iran is pulled directly into the current conflict in the Middle East. While parts of Europe appear weak, the US and Asia are set for solid growth.

Domestic Economy

Western Australia's economy is set to continue its strong performance, particularly compared to the rest of Australia.

Housing Market

There are no quick solutions to the issues in the housing market, so expect conditions to remain tight for the forecast period.

Outlook at a glance

The global economy appears to be on the home straight in its fight against inflation.

Interest rates are now sitting firmly in restrictive territory after skyrocketing at the fastest pace in recent memory. In Australia, the Reserve Bank has raised the cash rate to 4.35%, while policy rates in some other advanced economies have been lifted even higher.

There is now mounting evidence that these efforts are working, as inflation rates around the world close in on their respective targets. Year ended inflation in Australia was 4.1% to December 2023, down from the 7.8% recorded 12 months prior. Overseas there has been even greater progress, with the US recording an inflation rate of 3.1% for the year to January, down from 6.3% a year ago, while in the UK inflation now reads 4.0% for the same period, down from 10.1%.

While significant progress has been made, the race isn't over.

Outlook at a glance

Geopolitical tensions have flared again over the last six months, headlined by the ongoing Israel-Hamas conflict and more recently the attacks from Houthi rebels on ships traveling through the Red Sea. Beyond the devastating humanitarian impact the conflict is having, it also has the potential to inflict wide-reaching economic consequences. While it has so far remained largely contained, if the conflict were to escalate and draw in surrounding countries there is a risk that oil prices could spike, which would place further pressure on both inflation and economic activity. The risk of escalation has risen with the recent targeting of vessels in the Red Sea by Houthi rebels in Yemen. These attacks have re-routed ships around the Cape of Good Hope, adding significant travel time to cargo and pushing shipping costs up once again, albeit to a lesser extent than seen during the early stages of the pandemic.

Services inflation has also proven to be stubbornly persistent and looks set to draw out the final descent of inflation towards target. Supported by strong domestic demand and cost pressures linked to rising unit labour costs, services inflation continues to be the primary driver of the overall level of inflation, given goods prices have largely moderated. Rent inflation also remains high on the back of a tight rental market, which is likely to continue for some time as rental supply remains constrained.

At the same time, these higher interest rates, while doing their job in curbing inflationary pressures, are also weighing on economic growth. Already, quarterly economic growth figures have slowed in Australia over the last year, while major economies including Germany, Japan and the UK have entered a technical recession. Weak growth is set to continue over the year as the most recent interest rate rises continue to work their way through the economy.

The most important watch-point for Western Australia remains China. China's faltering property sector, weak consumer confidence and declining population are all colliding and continue to drag on economic growth. These headwinds have led to modest growth forecasts over the next two years, with the risk for WA being a slowdown in demand for our resources as a result. Nonetheless, it should be recognised that China is now a $19 trillion economy, and as such will continue to be a significant source of demand for WA exports.

While still tilted to the downside, overall risks to the economy appear more balanced than they have for some time and should give some confidence that we are on track for the so called 'soft landing' that has been depicted. And despite talks of rate cuts heating up as we get closer to the finish line, central banks must be careful not to do so too early and risk all the hard work done to get to this point being unravelled.

Amongst all this, Western Australia has enjoyed a dream run, and remains well positioned to capitalise on what this future economy may hold. Strong population growth, a world leading resources sector, abundance of renewable energy and critical minerals, and natural advantages in sectors such as space and defence all hold us in good stead for economic prosperity now and in the future.

However, we cannot be complacent and think this will happen by itself – the current challenges facing the nickel industry is evidence of how quickly these advantages can evaporate in the face of shifting policy settings elsewhere. It is imperative that the government takes proactive measures to attract the investment that is required to unlock WA's economic potential – beginning immediately with the development of a more competitive payroll tax system and reducing the unnecessary regulatory burden facing the WA businesses looking to invest in these industries set to power our future. At the federal level, we also cannot underestimate the damage that recent industrial relations reforms have done to our competitiveness as an investment destination. They provide another reason for local and international firms to invest elsewhere.

The following sections detail some of the key factors we think are set to impact Western Australia's economic outlook over the coming years.

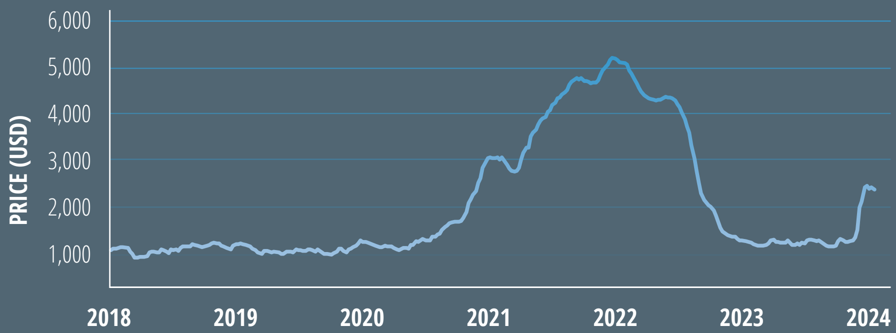
Outlook at a glance

Geopolitical tensions continue to threaten the global economy

Geopolitical tensions have continued to dominate headlines over the last six months, headlined by the Israel-Hamas conflict and more recently the attacks led by Houthi rebels in the Red Sea. At the same time, the Russia-Ukraine war continues to simmer away in the background, while more than 70 countries are set to head to the election polls this year where some results could have profound consequences on geopolitical stability.

The outbreak of conflict between Israel and Hamas has rekindled geopolitical tensions in the Middle East and threatens to destabilise economic activity globally. While the conflict has remained largely contained so far with limited economic consequences, there is a risk that conflict escalates into a regional war, drawing in oil-producing nations such as Iran. If key transport routes for oil and gas from the Middle East are impacted as a result, supply bottlenecks would intensify and energy prices pushed upwards.

SHANGHAI CONTAINERISED FREIGHT INDEX



The risk of escalation has risen with the recent targeting of vessels in the Red Sea by Houthi rebels in Yemen. These attacks have forced many ships to re-route past the Cape of Good Hope, increasing travel time by approximately 30-50% and pushing shipping costs up once again - already, freight prices have more than doubled compared with immediately prior to the attacks. Given approximately 11% of global trade passes through the Red Sea, the continuation of these attacks risks disrupting supply chains and stoking inflation once again, albeit to a lesser extent than seen during the early stages of the pandemic. Besides this conflict, the significant number of elections in 2024 also has the potential to destabilise the global economy, with approximately half the world's population set to vote at some stage this year. None are bigger than the upcoming US election, with a possible return to the Presidency for Donald Trump in particular having the potential for significant economic and geopolitical ramifications, especially considering his outspoken stance on a range of foreign policy issues.

The risk of further geoeconomic fragmentation, both from ongoing conflicts and changes in political leaders, could constrain trade further, particularly in commodity markets which would add to price volatility and inflationary expectations.

Outlook at a glance

China remains a key risk

China's economy limped to the end of 2023, growing 5.2% over the year and just managing to scrape past its 5% economic growth target. This is despite the fact that this target was already considered modest given the post-Covid rebound that was expected. Indeed, this was the lowest rate of growth in the country since 1990 (excluding the pandemic years.

All eyes remain firmly fixed on the faltering property sector – in a sign of just how weak conditions have been, real estate investment plummeted 24.0% over the 2023 calendar year, while floor space under construction declined 7.2% over the same period. Property developers are coming under increasing financial pressure as a result, highlighted by the recent liquidation of Evergrande – one of the country's biggest developers – after it was unable to successfully restructure, owing hundreds of billions of dollars to creditors.

Given the significant influence the property sector has on China's economic growth prospects – the sector accounts for around 30% of its economy – significant support and reform will be necessary to help insolvent property developers continue to operate and maintain economic growth. However, any further fiscal support is likely to prove difficult given the high levels of debt China already finds itself in, particularly after the recent CNY 1 trillion debt issuance largely targeted towards infrastructure projects.

The challenging state of the property sector has also decreased consumer confidence, given a significant proportion of household wealth in China is tied up in property. Persistently weak consumer confidence could drag further on activity, especially as China begins its transition towards a more consumption driven model of economic growth. Combined with a declining population, this could place further downward pressure on consumer demand. This is already somewhat evident, with consumer prices falling at their fastest pace in over a decade as consumer demand remains insufficient to sustain current price levels.

CHINA FLOORSPACE UNDER CONSTRUCTION: PER CENT CHANGE, YEAR-ON-YEAR

This economic environment has led to a divergent policy stance to many advanced economies, with reserve requirement ratios and lending rates being lowered by policy makers in a bid to boost liquidity. Following a rise in interest rates overseas, the widening interest rate differential has triggered a wave of capital outflows from China – the September 2023 quarter saw negative foreign direct investment for the first time since 1998 – posing another challenge to its economic outlook.

While there are clear concerns around the current state of China's economy, CCIWA is optimistic that it is not set for collapse, but rather is undergoing a shift towards lower, more sustainable growth rates. And despite the current weakness being experienced, there are still pockets of strength. In particular, steel production remains high on the back of increased infrastructure spending and strong export activity, supporting WA's iron ore exporters. We expect China's economy to stabilise as the global economy recovers, supporting demand for WA's exports.

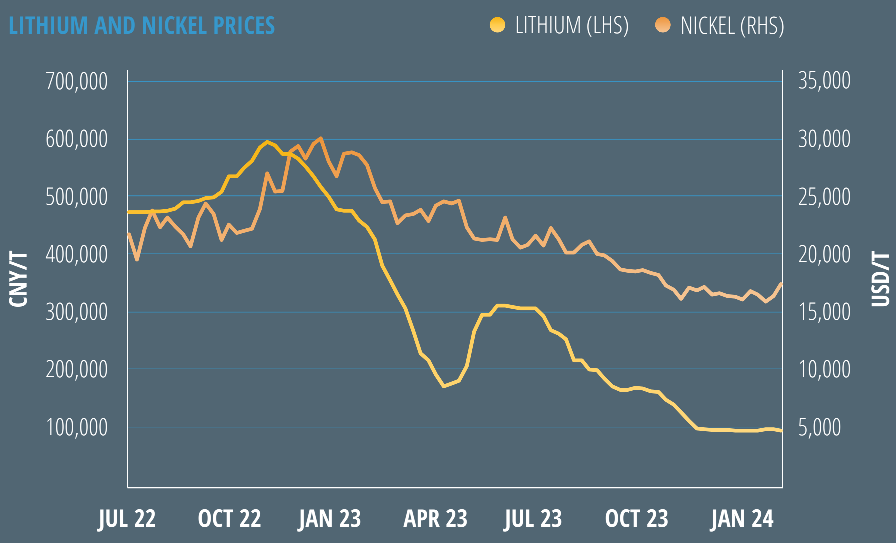
Outlook at a glance

Resources sector to boost investment despite nickel and lithium price rout

The past 12 months has seen the price of nickel and lithium – two key WA exports – collapse. The price of lithium has plunged around 80% since this time last year, while nickel prices have slumped more than 40%.

Lithium prices have been driven down by weaker than expected demand for electric vehicles (EVs), combined with a supply glut following years of undersupply. EVs are the dominant source of lithium demand, comprising around 60% of lithium consumption in 2022.

LITHIUM AND NICKEL PRICES



Disappointing EV sales figures, particularly out of the US, has seen some manufacturers delay investment in factories, weakening demand for the key battery metal. At the same time, strong lithium prices over the last couple of years has seen a ramp up in production, with this rush of supply now coming online at the same time as demand is weakening. As a result, miners are now reporting an increase in inventories and have warned future production cuts may be on the cards if prices remain soft.

The surge in supply of cheap nickel from Indonesia has also flooded the market, placing significant downwards pressure on prices and threatening the competitiveness of Western Australia's nickel industry. Already, five nickel producers have announced plans to close or scale down production, with BHP's Nickel West – the State's largest nickel miner – also reviewing development plans, which includes the potential to place assets into a period of care and maintenance.

Despite the headwinds facing these sectors, robust demand for steel paints a more positive picture for the iron ore industry. As discussed, strong steel production in China, combined with the lowest level of inventories at Chinese ports since 2016, has helped maintain solid demand for iron ore. This will help maintain solid baseline levels of investment, while the transition to net zero and the infrastructure required to decarbonise should also help maintain demand for iron ore over the coming years, further supporting business investment.

A number of big-ticket investment projects in other resources, such as Woodside's Scarborough and Pluto 2 Extension Project and Perdaman's Urea Project, will also help underpin solid business investment growth over the coming years. We expect business investment to grow 12.75% in 2023-24 and 4.0% in 2024-25.

Outlook at a glance

Interest rates finally look to have peaked; all eyes now on the first rate cut

Central bank policy rates have started to stabilise as inflation gradually moves closer to target. The Reserve Bank of Australia has hiked the cash rate only once in the past six months, taking it to 4.35%, while other major central banks have kept policy rates steady over the same period.

With interest rates now sitting in restrictive territory and evidence mounting they are doing their job, speculation is growing as to when central banks will pivot to a cutting cycle and bring rates down to a more neutral level.

Despite the hopes of many mortgage holders and business owners, the RBA is likely to keep interest rates near current levels for some time yet – while inflation is falling, there needs to be clear evidence that it will reach, and ultimately stay, within the target band once rate cuts begin. Any premature rate cuts risk pushing inflation expectations back up and unravelling the hard work already done to get to this point.

However, there is also the risk that the future drag from past cash rate increases could be stronger than anticipated. Interest rates have been increased at a speed and scale rarely seen in history, while the more recent increases are still working their way through the economy and are yet to be felt.

As a result, there is some uncertainty as to how much demand reduction has already been set in train by the increases to date, and how much is still yet to come. It remains possible that the lagged effects of these interest rate hikes could be stronger than currently anticipated.

On balance, CCIWA's view is that interest rates have now peaked, and we see the RBA cutting the cash rate for the first time around the September or November meetings, all else equal.

Economic Growth

The Western Australian economy has continued to defy expectations with economic growth surging over the last six months.

Indeed, growth in the September 2023 quarter was the strongest recorded in more than two years, driven by a sharp lift in business investment and strong spending in the public sector.

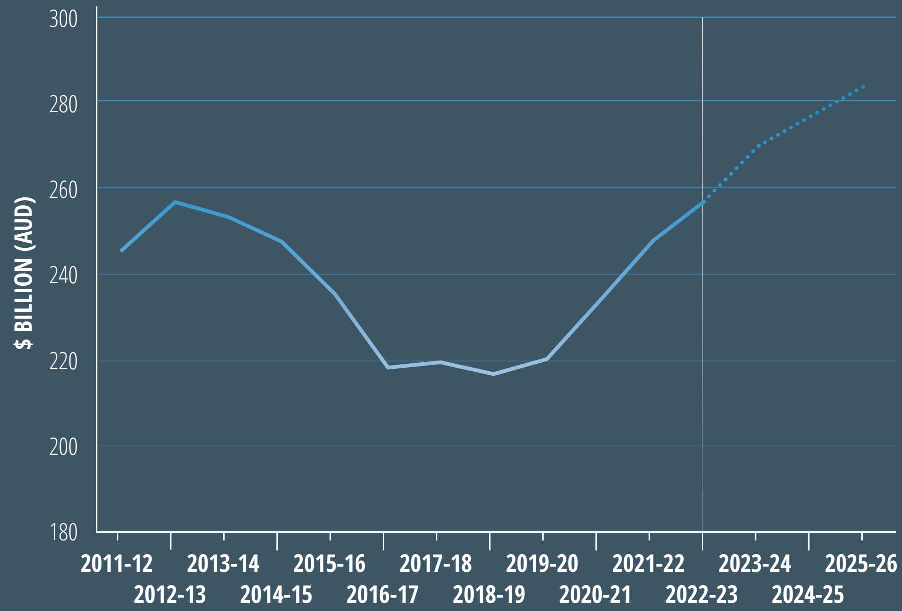
Growth this financial year is expected to be further underpinned by significant business investment stemming from large-scale projects in the resources sector, the State Government's Asset Investment Program and the backlog of residential construction being worked through. As such, we expect the domestic economy to grow 4.75% in 2023-24, before easing in 2024-25 and 2025-26 as the expected pickup in household consumption offsets the completion of these investment projects. And while risks continue to be tilted to the downside, they appear more balanced than they have in some time.

Growth in the overall economy (Gross State Product) is expected to slow to 1.5% this financial year, driven by a moderation in goods exports as the iron ore majors operate close to capacity, while the El Niño weather event is likely to see a fall in agricultural exports following a bumper 2022-23.

Strong import growth, driven by the pickup in business investment, is also expected to detract from overall economic activity.

FORECASTS	2022-23 (ACTUAL)	2023-24 FORCAST	2024-25 FORCAST	2025-26 FORCAST
STATE FINAL DEMAND (%)	3.9	4.75	2.5	2.5
GROSS STATE PRODUCT (%)	3.5	1.5	1.75	1.25

STATE FINAL DEMAND CCIWA FORECAST



Source: CCIWA, ABS

Household Spending

The brakes are being applied to household consumption, with spending already slowing to begin the current financial year.

Restrictive interest rates and the high cost-of-living have forced consumers to pull back their consumption over the last six months, as evidenced by falling retail trade volumes per person.

The increase in financial stress being placed on WA households is evident – CCIWA's upcoming Consumer Confidence Survey found three in five (59%) WA households reported at least one financial stressor over the March quarter, up 14 percentage points from two years ago.

With the most recent interest rate hikes still working their way through the economy and the high cost-of-living continuing to weigh on consumption, household spending per person is set to remain sluggish the first half of 2024.

Compounding this is the fact that many households have already made large one-off purchases over the last two years, likely leading to reduced spending on these items.

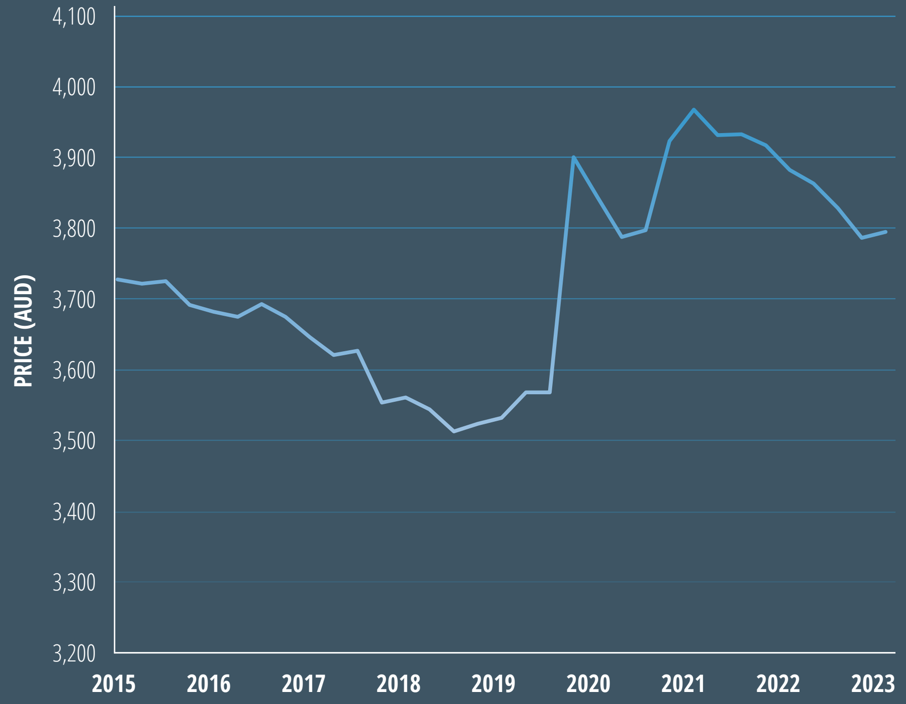
However, stronger than expected population growth, solid employment growth, elevated incomes and strong house price growth should help maintain aggregate baseline consumption levels, more so than previously anticipated.

On the back of these factors, we expect household consumption to grow 2.0% this financial year, rising to 2.25% in 2024-25 and 2.5% in 2025-26 as inflation moderates further and interest rates are cut as expected.

Risks to this outlook include inflation remaining higher for longer and interest rate cuts being pushed back further than forecast.

FORECASTS	2022-23 (ACTUAL)	2023-24 FORCAST	2024-25 FORCAST	2025-26 FORCAST
HOUSEHOLD CONSUMPTION (%)	3.5	2.0	2.25	2.5

RETAIL TRADE VOLUMES PER CAPITA CHAIN VOLUME MEASURES, SEASONALLY ADJUSTED



Source: CCIWA, ABS

Business Investment

A cocktail of high interest rates, a tight labour market and the rising cost of doing business has seen operating conditions remain challenging for many WA businesses.

Indeed, CCIWA's upcoming *Business Confidence Survey* has seen almost one in five (18%) WA businesses report they are at risk of closing or scaling back their operations in 2024 as a result of these challenges.

Despite these obstacles, WA's business investment pipeline remains strong on the back of large-scale investment projects that are set to ramp up construction over the year – including Woodside's Scarborough and Pluto 2 extension, Shell's Crux project and Perdaman's urea plant.

In addition, baseline levels of capital expenditure are expected to remain solid as WA's iron ore majors look to sustain their current operating levels close to capacity. The ongoing ramp-up of new mines, including BHP's South Flank, FMG's Iron Bridge and Mineral Resource's Onslow project, will also support business investment growth over the forecast years.

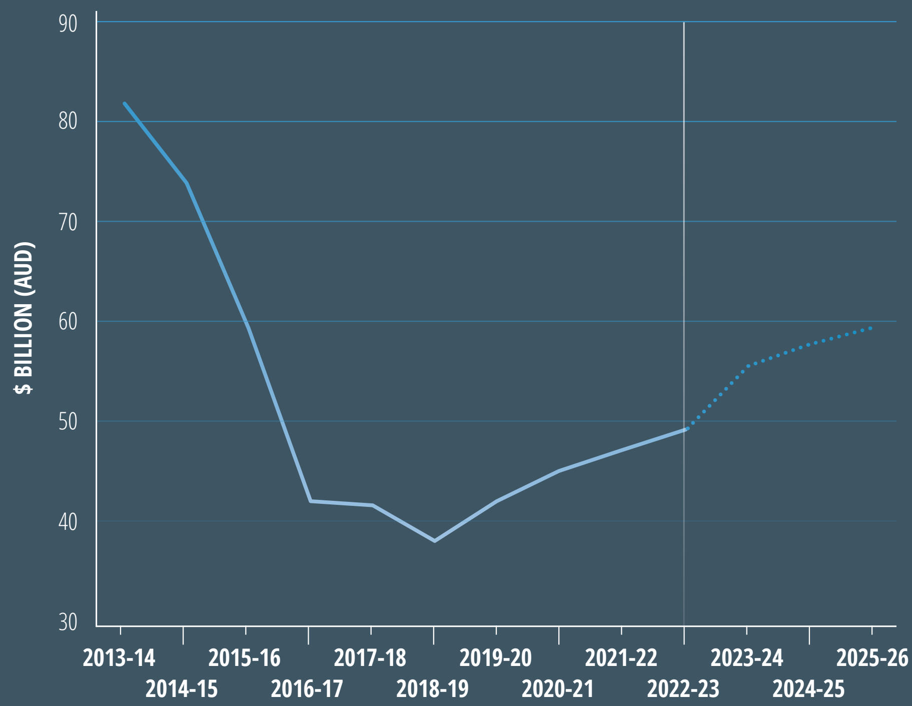
However, the recent plunge in the price of both nickel and lithium risks delaying or cancelling investment projects in these sectors, with many of the State's nickel mines already placed into care and maintenance. The shutdown of these mines would be a major blow to WA's business sector and likely drag on future investment.

In the longer term, the global push toward decarbonisation is expected to support growth in WA's critical minerals and iron ore sectors, while several large-scale hydrogen projects have also been slated for development in the coming years.

Given this, we expect business investment to grow 12.75% this financial year and 4.0% in 2024-25, moderating further in 2025-26 as the current project pipeline nears completion. Persistent cost pressures, prolonged labour shortages and regulatory reforms that delay approval timelines remain risks to this outlook.

FORECASTS	2022-23 (ACTUAL)	2023-24 FORCAST	2024-25 FORCAST	2025-26 FORCAST
BUSINESS INVESTMENT (%)	4.5	12.75	4.0	2.75

BUSINESS INVESTMENT CCIWA FORECAST



Source: CCIWA, ABS

Dwelling Investment

WA's enormous construction pipeline continues to be chipped away...

With the number of dwellings under construction now at its lowest level in two years following a pickup in dwelling completions, as builders have recently prioritised current builds over new builds.

Demand for housing has also picked up and is expected to remain strong on the back of a swelling population and increased investment activity from the eastern states. This is evidenced through the pickup in dwelling approvals over the last six months, which continue to gradually rise from very low levels, while lot sales also improved over the second half of 2023 and are expected to grow further over the next six to 12 months.

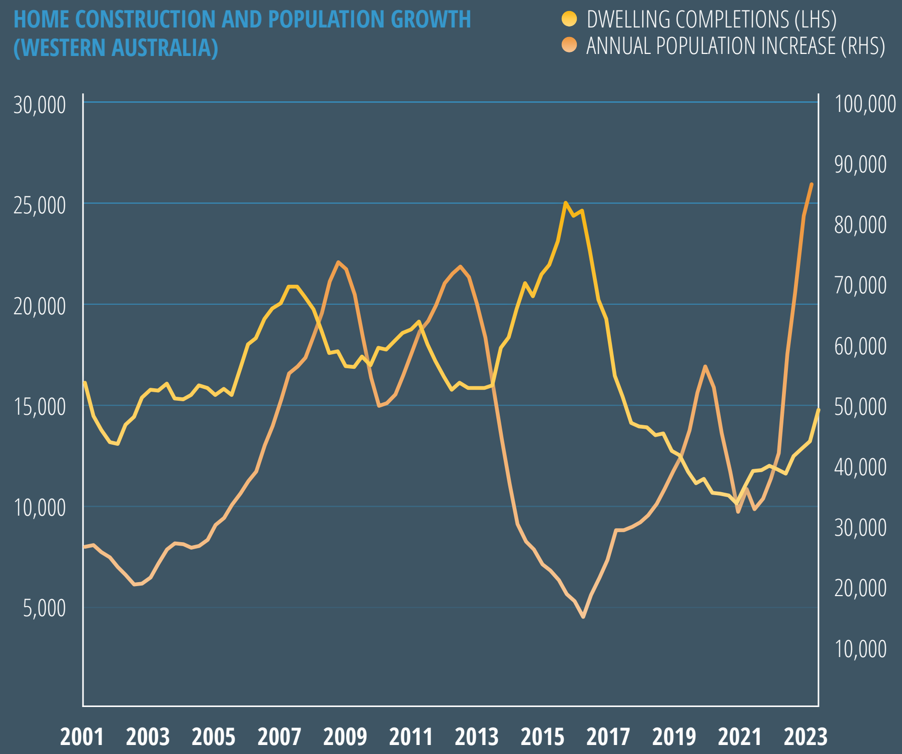
Despite this, dwelling investment is set to be constrained by supply issues over the forecast period. High costs continue to drag on building companies' profits, stifling the ability for many to bid for new work, while labour shortages also remain an issue for the construction sector, particularly in the finishing trades. At the same time, the prioritisation of current builds by some major builders has meant fewer new builds have been taken on as a result.

Combined with the low level of dwelling approvals in 2022-23, these constraints mean the number of dwelling commencements is expected to remain low this year, growing slowly over the outlook period but remaining below the 15-year average.

As a result, we expect dwelling investment to grow 4.25% in 2023-24 and 4.75% in 2024-25 as the existing pipeline is worked through while few new dwellings are commenced. Growth is expected to pick up in 2025-26 as the current strong population growth sees the demand for housing intensify at the same time as the current headwinds facing builders and borrowers eases.

FORECASTS	2022-23 (ACTUAL)	2023-24 FORCAST	2024-25 FORCAST	2025-26 FORCAST
DWELLING INVESTMENT (%)	-2.7	4.25	4.75	6.0

HOME CONSTRUCTION AND POPULATION GROWTH (WESTERN AUSTRALIA)



Source: CCIWA, ABS

International Trade

WA's exporters experienced a solid six months to end 2023, primarily underpinned by a pickup in iron ore exports on the back of elevated prices.

Services exports have also helped drive this result, as international travel into WA continues to pick up and the number of international students has now exceeded pre-pandemic levels.

However, export growth is expected to moderate over the forecast period as the iron ore majors operate at capacity, international travel moderates and a number of headwinds face other key exporting sectors. The plunge in the price of nickel and lithium over the past 12 months risks impacting export volumes for these commodities. As discussed, WA's key nickel mines have been placed into care and maintenance as a result of weak prices, while lithium miners have also flagged the possibility of future production cuts if prices remain soft. Additionally, LNG exports are also forecast to decline modestly following a record level of production last year.

The current El Niño weather event has also created hot, dry conditions that is likely to curb agricultural exports over the coming year, particularly when compared with the bumper crop recorded last year.

Iron ore exports are expected to underpin export growth but at a slower rate than 2022-23. The majors continue to operate close to full capacity, with the ramp up of FMG's Iron Bridge, BHP's South Flank and Mineral Resource's Onslow project all expected to bring additional capacity online in the coming years. China's faltering property market remains a key risk, however the increasing investment in decarbonisation infrastructure and offsetting demand from other economies should maintain steady demand for iron ore.

On balance, we expect exports to grow 0.25% in 2023-24 as iron ore exports remain steady and international travel into WA reaches pre-Covid levels.

Imports of goods are expected to remain robust this year, as the anticipated acceleration in business investment leads to strong demand for capital goods. International travel will support imports of services as capacity continues to recover, however the pace of growth will slow over the forecast years as flight traffic normalises. Given this, we expect imports to grow by 9.0% this financial year.

FORECASTS	2022-23 (ACTUAL)	2023-24 FORCAST	2024-25 FORCAST	2025-26 FORCAST
EXPORTS (%)	5.6	0.25	2.0	1.0
IMPORTS (%)	12.6	9.0	3.5	2.5

Unemployment

While labour market conditions in Western Australia have softened slightly over the past six months, they remain remarkably robust.

The unemployment rate crept up to 4.2% in January, and while this is the highest rate recorded in just over two years it is still well below the decade average of 5.3%.

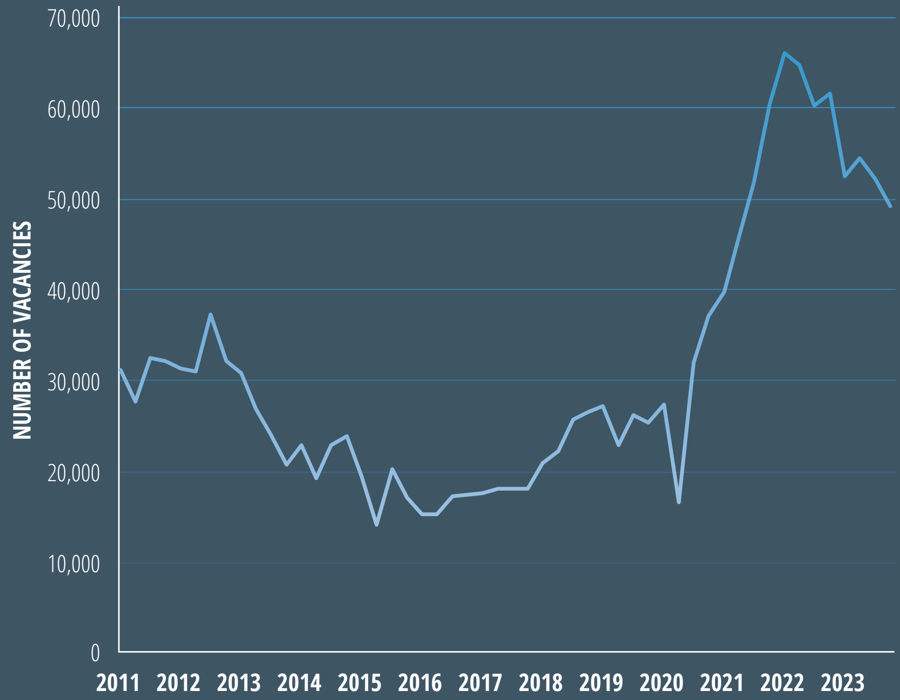
At the same time, job vacancies have eased further to sit at their lowest level in more than two years, while CCIWA's December Business Confidence Survey revealed 70 per cent of businesses are struggling to fill a skilled occupation – the lowest proportion since we began asking the question in December 2021.

The expected pickup in business and dwelling investment will support demand for WA based workers over the coming year, helping employment remain solid. Despite this, we expect employment growth to slow over the forecast years as the domestic economy cools and the record influx of overseas migrants continues to create a better balance between the supply and demand for new workers. As a result, we expect the unemployment rate to average 3.75% this financial year.

These factors will also see the unemployment rate drift upwards to average 4.25% in 2024-25 and 4.5% in 2025-26.

FORECASTS	2022-23 (ACTUAL)	2023-24 FORCAST	2024-25 FORCAST	2025-26 FORCAST
UNEMPLOYMENT (%)	3.5	3.75	4.25	4.5

JOB VACANCIES (WESTERN AUSTRALIA)



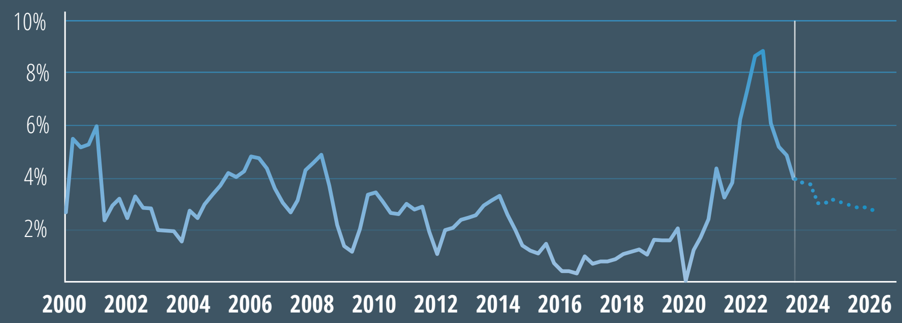
Source: CCIWA, ABS

Wages and Inflation

FORECASTS	2022-23 (ACTUAL)	2023-24 FORCAST	2024-25 FORCAST	2025-26 FORCAST
INFLATION (%)	5.1	3.75	3.0	2.75
WAGES (%)	3.8	4.5	3.5	3.25

Wages and Inflation

INFLATION CCIWA FORECAST



Source: CCIWA, ABS

Wages Outlook

Wages in Western Australia have continued to climb on the back of persistent strength in the labour market.

A majority of WA businesses continue to report a rise in labour costs, with CCIWA's upcoming Business Confidence Survey revealing three in four (76%) reported higher wage costs over the March quarter – whilst still high, this is the lowest proportion since June 2022.

The significant increase to the minimum wage and award rates of pay, which came into effect in July 2023, has also contributed to the strong growth in wages experienced in the first half of the current financial year – indeed, WA recorded its greatest quarterly wage growth figure on record in the September 2023 quarter.

With WA's labour market forecast to remain robust over the coming year, we anticipate base wage pressures to remain elevated over the period, with the Wage Price Index to grow 4.5% in annual average terms in 2023-24. In line with the slight easing in labour market conditions, we expect wage growth to edge down slightly towards its long-run average, hitting 3.5% in 2024-25 and 3.25% in 2025-26.

Inflation Outlook

Policy makers around the world appear to be on the home straight in the fight against inflation.

The surge in interest rates experienced over the last 18 months continues to flow through the economy. As a result, consumer demand has cooled, reducing some of the upward pressure on prices. The resolution of supply chain disruptions has also seen energy and freight prices moderate, placing further downward pressure on prices.

Together, this has seen inflation gradually decline – in Western Australia, inflation is now 3.6% year-on-year to December 2023, a far cry from the 8.3% recorded 12 months prior. While this is a positive development for the economy, it is too soon to be certain that these underlying price pressures are fully contained, with risks to the upside remaining.

Geopolitical risks remain high, most recently with the attacks by Houthi rebels on ships in the Red Sea, which has re-routed trade flows around the Cape of Good Hope and increased shipping times, pushing costs up once again. High unit labour costs – a key share of input costs for market services firms - also threatens to keep inflation elevated for longer, especially if productivity growth does not return towards its long run average. The current undersupply of housing, which is expected to persist in the short term, continues to place upward pressure on rental costs, also keeping inflation elevated.

Despite these risks, we expect inflation to continue to moderate over the coming year as domestic demand eases, forecasting inflation (excluding the electricity component) in Perth to reach 3.75% by June 2024 in year ended terms, before returning to the top of the RBA's target range of 2-3% in 2025.

Chamber of Commerce and Industry WA

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