Chamber of Commerce and Industry WA

OUTLOOK

Last Mile Turbulence September 2024

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

FORECASTS[1,2]	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
ECONOMIC ACTIVITY					
HOUSEHOLD CONSUMPTION	4.6%	2.7%	**2.0%**	2.75%	2.75%
DWELLING INVESTMENT	-2.6%	6.0%	**3.75%**	5.5%	4.0%
BUSINESS INVESTMENT	4.3%	11.8%	**2.75%**	3.25%	3.5%
STATE FINAL DEMAND	4.4%	5.3%	**3.25%**	3.0%	2.75%
EXPORTS	5.9%	-3.0%	**1.75%**	1.0%	1.25%
IMPORTS	15.8%	12.0%	**2.0%**	2.25%	2.5%
GROSS STATE PRODUCT	3.5%	-0.25%[3]	**2.75%**	2.25%	2.25%
LABOUR MARKET AND PRICES					
UNEMPLOYMENT[4]	3.6%	3.7%	**4.0%**	4.25%	4.5%
INFLATION[5,6]	5.1%	4.7%	**3.25%**	2.75%	2.5%
WAGES[5]	4.2%	4.2%	**3.75%**	3.25%	3.0%

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 Estimated actual.
4 Annual average through the financial year.
5 Year ended terms.
6 Excludes the electricity sub-index as a result of the Household Electricity Credit provided across the State.

Our Key Calls

Inflation and Interest Rates

Progress has slowed in bringing inflation back to towards the Reserve Bank's 2-3% target band, as services inflation continues to prove sticky. While CCIWA's baseline call is for a rate cut in February next year, our view is that interest rates in Australia will lag behind other countries in the rate cut cycle, which will put upward pressure on the Australian dollar over the next 12 months.

Global Economy

The global economy has started to diverge, with some central banks already cutting interest rates as others continue to hike. While some countries appear weaker than others, overall we expect the global economy to remain resilient in the face of current headwinds.

Jobs Market

WA's job market continues to remain tight, despite strong international migration. We expect the unemployment rate to loosen gradually over the coming years but remain at relatively tight levels. Expect wage growth to remain robust but to ease in line with the labour market.

Domestic Economy

Western Australia's economic momentum is set to slow over the coming year, however still expect performance to remain solid, particularly compared with the rest of Australia.

Housing Market

The housing market continues to run red hot and will take some time before conditions settle, particularly in Western Australia. Expect conditions to remain tight for the forecast period.

Outlook at a Glance

Just when it seemed inflation was finally coming in for a smooth landing, it has stalled at altitude with uncertainty still clouding the horizon.

Year-end inflation in Australia was 3.8% to June 2024, an improvement from the 6.0% recorded a year ago but a tick up from the 3.6% in March this year and higher than previously expected. Australia's inflation rate now exceeds that of most other advanced economies, many of which have made solid progress and brought their inflation rates back below 3%.

Services inflation has proven particularly stubborn and has stopped disinflation in its tracks. Growth in unit labour costs – a key input into the price of services – remains too high, and while productivity has started to grow again following its recent slump, it has merely returned to the level it was a year ago. Productivity is unlikely to return to its pre-Covid trend, and if it remains subdued, inflation will remain elevated and further delay progress.

Outlook at a Glance

The ongoing housing crisis is also keeping prices elevated, especially in Western Australia, where rent and new dwelling costs are outpacing the rest of the country. Although price growth has started to ease nationally, mid-tier capitals like Perth and Adelaide have shown no signs of slowing down as demand continues to run hot.

As a result, the Reserve Bank of Australia has considered further rate hikes and warned against expecting cuts before February next year. This contrasts with the UK, EU, Canada and New Zealand, which have already begun lowering rates to stave off potential recessions. The US is widely expected to follow suit this month having seemingly overcome its own inflation stickiness.

The fragility of global markets has also been on full display, when weaker than expected employment data in the US and a surprise rate hike by the Bank of Japan sent markets tumbling. While these losses have since been recovered, the reaction underscored the current uncertainty shrouding the global economy.

Geopolitical tensions, led by the ongoing conflicts in the Middle East and Ukraine, continue to exacerbate this uncertainty. The conflict in the Middle East is still causing ships to be re-routed away from the Red Sea, lengthening shipping times and keeping freight costs elevated. There is also still the risk that the conflict could escalate into a regional war and disrupt the supply of oil, pushing up prices and further weakening economic activity.

The upcoming US election will also be a critical juncture, with the potential for significant upheaval in trade and foreign relations if Donald Trump in particular returns to the presidency.

Western Australia's key concern, however, remains China. Although still in striking distance of its growth target, plummeting real estate investment, weak consumer confidence and a declining population are all contributing to the country's economic uncertainty. The weakness in the property market has now spilled over to the steel industry, pushing down the price of iron ore and potentially weakening future demand. However, China's 'new productive industries', bolstered by significant government support, as well as demand for transmission infrastructure, are expected to sustain growth over the coming years.

While a soft landing in Australia is still achievable, the RBA's path is narrowing and appears further away than first thought. Despite the pressure building to cut rates, the RBA must remain vigilant to the upside risks that may unravel the hard work done to get to this point.

Amidst this uncertainty, Western Australia's economy has continued to perform strongly, although momentum is set to slow over the coming year.

The State is nonetheless well-positioned to continue growing by capitalising on the shifting global economy. Robust population growth, a world leading resources sector, and natural advantages in emerging industries such as renewable energy and defence are set to underpin the State's economic prosperity over the coming years.

To ensure the slowdown does not become entrenched, we must be prepared to adopt policies that encourage the necessary investment to achieve this potential. This should start with creating a more competitive payroll tax system to better align WA with other states and ensuring the Federal Government's highly damaging Nature Positive agenda does not compromise WA's future. These efforts will be critical, especially considering the recent industrial relations reforms that will negatively impact our competitiveness and attractiveness as an investment destination.

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

Progress on inflation has been mixed, putting central banks on different paths

Following the onset of the pandemic, inflation and interest rates surged largely in unison across economies as supply chains were disrupted around the world. After peaking in late 2022 however, inflation rates have since diverged, with some countries making more headway than others.

The US was among the first countries to see inflation begin to moderate, but it has made very little progress over the last year as price pressures from services have kept inflation above 3% since mid-2023. Only in the last month has it fallen below this point, reaching 2.9% in July. In contrast, the UK and major European economies, such as Germany, experienced some of the largest peaks in inflation and were later to see an initial decline. However, they have since managed to bring inflation under control, with rates now at 2.2% in the UK as of July and 1.9% in Germany as of August.

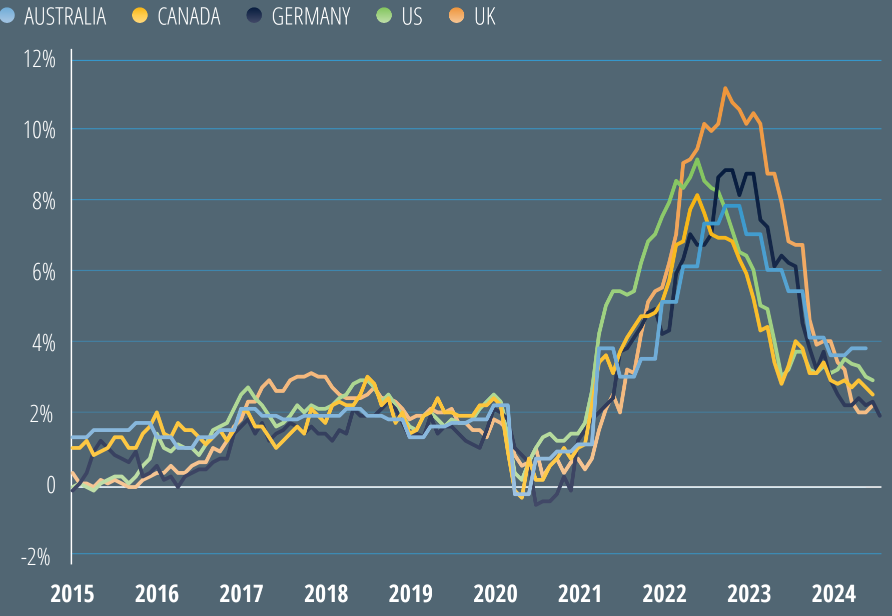
Australia, despite having a lower peak in inflation, has struggled to bring inflation back to target within the same timeframe. Inflation remains stubbornly high at 3.8% and has proven challenging to reduce further.

As a result, central banks are now diverging in their policy positions. The Bank of England, European Central Bank, and Bank of Canada have already begun cutting interest rates, given inflation has largely been brought under control in these economies. However, these regions are also experiencing greater signs of economic weakness, including slower growth and rising unemployment.

The US Federal Reserve has yet to cut rates but is widely expected to do so at the upcoming September meeting, as inflation seems to have finally moved past its sticking point and the labour market continues to slow.

Meanwhile, the RBA is still some time away from considering rate cuts, with inflation higher and more persistent than in other economies.

GLOBAL INFLATION RATES YEAR ON YEAR



Indeed, Governor Bullock indicated at her latest post-meeting press conference that the RBA is still considering a rate hike, and any discussion of rate cuts is premature. This now sets Australia on its own path to achieving a soft landing, and the longer rates remain elevated the more constrained economic activity will be.

All else equal, CCIWA expects the cash rate to be cut for the first time in February next year, with inflation in Western Australia returning to the top of the RBA's target band by the first half of 2026.

Outlook at a Glance

China's property slump continues to weigh on outlook

China's economy slowed slightly in the first half of 2024, growing by 4.7% over the year to June. This growth has primarily been driven by investments in 'new productive forces', such as electric vehicles, batteries, and renewable technologies, which are key areas of focus in the country's development agenda. While this has kept China within reach of its growth target of 'around 5%', several challenges, including a persistent downturn in the property market, weak domestic consumption, and increasing trade frictions threaten to hinder this achievement in the absence of any material policy support.

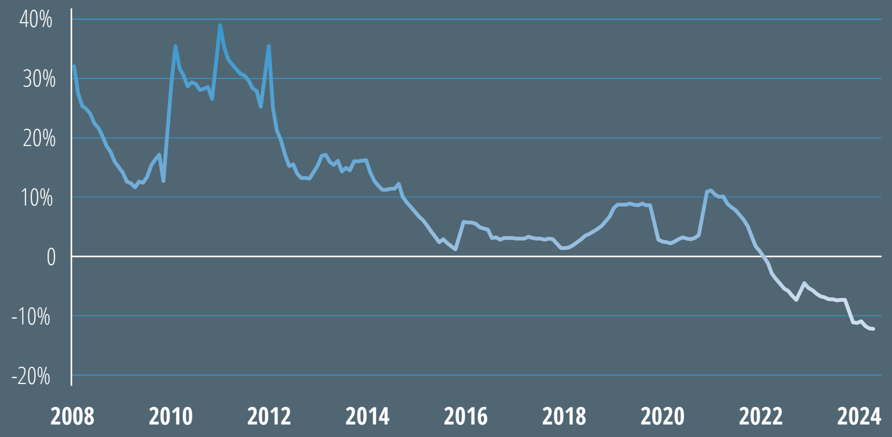
The ongoing slump in the property sector is particularly concerning, with the downturn showing no signs of improving. Real estate investment fell 8.9% year-on-year in July, while new construction starts plummeted a staggering 24.4%. This weakness has begun to ripple through to the steel industry, which relies heavily on the property market as it accounts for approximately 30% of China's steel demand.

As domestic steel demand from the property sector dwindles, China has increasingly turned to exports to fill the void, leading to reports of dumping on the global market. In response, countries like India and Thailand, along with other regional competitors, have recently filed dumping charges against China following the surge in exported steel.

Reflecting the outlook for the property and steel industries, the chairman of Baowu Steel, the world's largest steel producer, recently warned of a 'long and harsh winter' ahead. Similarly, the privately-owned Jianbang Group expects that around 30% of China's steelmakers may exit the industry given many are believed to be operating on negative margins, fuelling expectations of further weakness in the sector.

These struggles have also weighed on the price of iron ore, the lifeblood of Western Australia's economy. Prices have already fallen by 30% over 2024 and now sit below $US100 per tonne for the first time in almost two years.

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



Any further decline will be a huge blow to the State Government's coffers and risks undermining WA's fiscal stability, given its heavy reliance on iron ore royalties as a revenue stream. Meanwhile, weak housing demand has seen house prices slip 4.9% over the past year, hammering consumer confidence and keeping household spending sluggish – retail sales grew 2.7% over the year to July, far weaker than pre-pandemic levels. With no consumer-focused policy support announced at the recent Third Plenum, this trend is unlikely to change soon, continuing to drag on economic activity.

While there are clear concerns around the current state of China's economy, CCIWA is optimistic that it is not set for protracted decline, but rather is undergoing a shift towards lower, more sustainable growth rates. The significant amount of steel that will be needed to build the massive amount of transmission infrastructure required as part of the energy transition should support baseline production levels, aiding WA's iron ore exporters over the longer term.

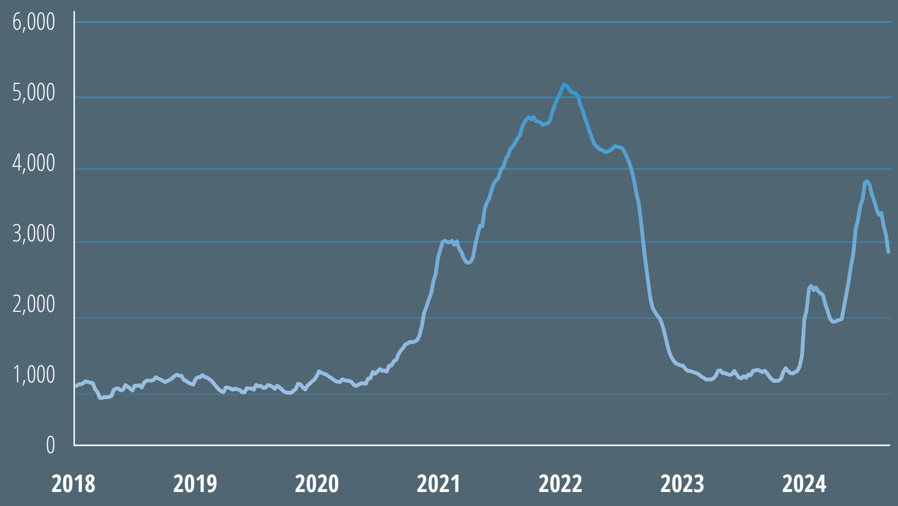
Outlook at a Glance

Geopolitical tensions remain heightened, threatening global markets

Geopolitical risks remain heightened, with the conflict in the Middle East, the war in Ukraine, and changes in political leadership around the world continuing to fuel uncertainty in the global economy.

The ongoing conflict in the Middle East has dominated headlines, which have ranged from ceasefire talks to concerns about a broader regional war as violence spreads to neighbouring countries.

SHANGHAI CONTAINERISED FREIGHT INDEX



Economically, the conflict continues to disrupt supply chains, particularly as ships are rerouted away from the Red Sea, maintaining upwards pressure on shipping prices. A near disaster occurred in late August when a tanker was attacked by Houthi rebels, almost causing the largest oil spill from a ship in history.

Elections have also been a key feature of the geopolitical landscape this year, with leadership changes in several key economies. In the UK, a landslide victory returned Labour to power for the first time since 2010, while France's snap election resulted in a fragmented parliament, complicating any efforts to advance domestic agendas.

Perhaps most significantly, a tumultuous few months has seen the upcoming U.S. election in November upended. After the attempted assassination of Donald Trump and Joe Biden's withdrawal in favour of Kamala Harris, the race for the White House is now highly uncertain. While the attack on Trump initially seemed to rally his supporter base, momentum has since shifted toward Harris after she was thrust into contention, with polls suggesting the result is a toss of the coin.

The election result is poised to significantly influence the geopolitical landscape over the next four years.

Globally, protectionism is on the rise, with more countries seeking to onshore or "friend-shore" their supply chains. The number of trade restrictions has surged over recent years, with more than five times as many restrictions in place today compared to 2015. This growing geoeconomic fragmentation could further constrain trade, leading to weaker growth and the potential for higher and more volatile prices.

Outlook at a Glance

Housing remains hot property, as supply struggles to keep up with demand

Western Australia's housing market continues to run red hot, with the supply of houses struggling to keep pace with the current population surge. Recent data reveals that WA's population grew by 3.3% over the 2023 calendar year, adding approximately 94,000 people. In contrast, the residential construction industry completed only 17,590 dwellings during the same period, meaning the rise in population outstripped new builds more than five times over.

Adding additional pressure, the significant difference in property prices between WA and the Eastern States has attracted a wave of cashed-up investors from the East Coast, further intensifying the market. As a result, rental vacancy rates in Perth continue to hover near record lows, while house prices have soared. The current vacancy rate in Perth is just 0.6%, while the median house price surged 24.4% over the year to August and an astonishing 72.5% since the beginning of the pandemic. Although housing remains a national concern, the increase has been far more moderate across Australia, with prices rising 7.1% over the last year and 37.8% since the pandemic began. This stark contrast underscores the extreme tightness of WA's housing market.

Looking ahead, demand is expected to remain high in the medium term, driven by continued population growth. Dwelling approvals have risen by 58.9% since June last year, and there are still over 25,000 dwellings sitting in the pipeline. However, supply-side constraints will likely limit the pace of construction, continuing to exert upward pressure on both housing and rental markets. The high cost of construction, combined with persistent skills shortages in key trades, continues to hinder activity in the sector, and the resolution of these constraints will be the primary determinant as to when the market will stabilise.

Given these factors, we expect dwelling investment to rise by 3.75% in 2024-25 and 5.5% in 2025-26 as current supply constraints begin to ease.

Economic Growth

Western Australia's domestic economy soared to new heights in 2023-24, growing to its largest size on record.

Robust household consumption, a surge in business investment and strong public spending have all fuelled this economic momentum, with the domestic economy growing 5.3% in annual average terms.

Looking ahead, the outlook for WA's economy remains positive, although a slowdown in momentum is anticipated. Households continue to feel the pressure of the higher cost of living, which is set to weigh on spending, while business investment is expected to consolidate at higher levels. However, strong population growth and robust public spending, particularly from the State Government's Asset Investment Plan, should help sustain economic activity over the next 12 months.

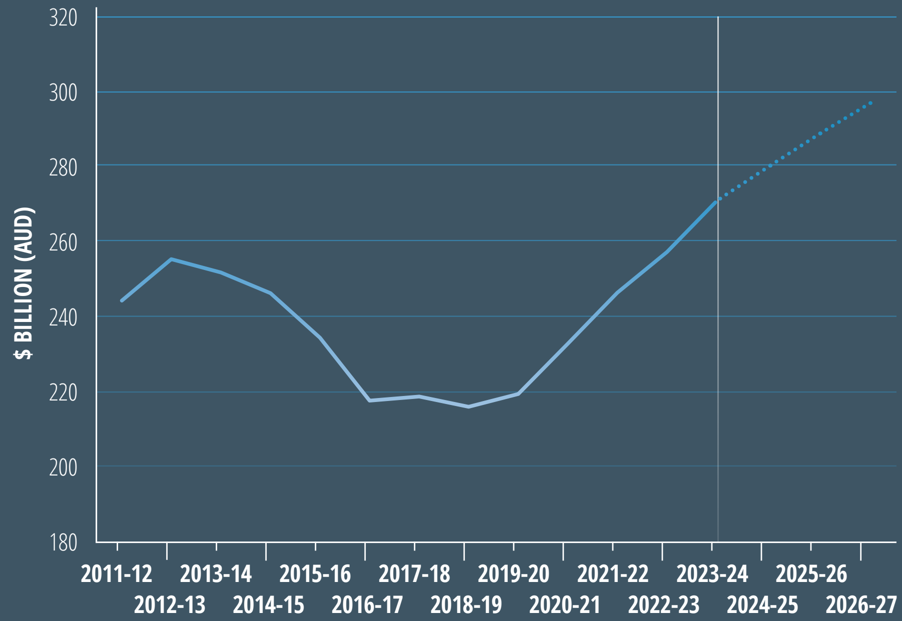
Growth in the overall economy (Gross State Product) is expected to accelerate to 2.5% this financial year, as export growth rebounds on the back of an increase in iron ore production capacity and more favourable growing conditions for agricultural exporters.

At the same time, import growth is set to slow in line with the moderation in business investment and normalisation of international travel, further supporting economic growth.

FORECASTS	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
STATE FINAL DEMAND (%)	4.4	5.3	5.25	3.0	2.75
GROSS STATE PRODUCT (%)	3.5	-0.25*	2.75	2.25	2.25

*Estimated actual

STATE FINAL DEMAND CCIWA FORECAST



Source: CCIWA, ABS

Household Spending

Household consumption has continued to defy expectations, with spending remaining more buoyant over the 2023-24 financial year than previously forecast.

Robust population growth, soaring house prices and rising wages have all supported spending over the last 12 months.

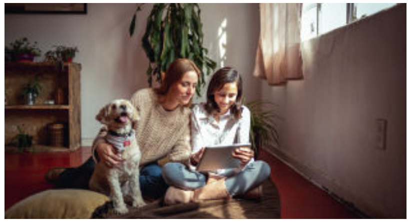
Despite this strong aggregate growth, many individuals are feeling the squeeze as restrictive interest rates, the rising cost of living and bracket creep strain household finances. Indeed, CCIWA's *latest consumer confidence survey* found just over three in five (61%) Western Australians experienced some form of financial stress in the September quarter, as these factors continue to bite. This is reflected in the ongoing decline in retail trade volumes per capita, which have now fallen 6% over the last two and a half years.

A downward revision to the national savings rate – indicating a greater run down of extra savings than previously estimated – also suggests households have smaller buffers to help boost future spending, further limiting growth in consumption.

With a number of competing factors, the outlook for consumption remains uncertain.

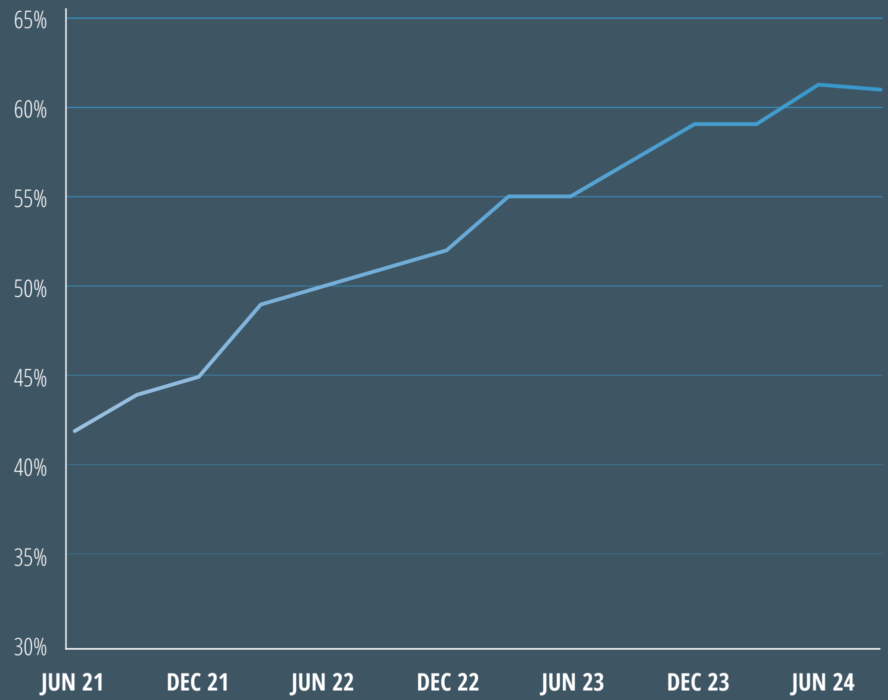
We expect household consumption growth to slow to 2.0% this financial year as households consolidate their spending, with interest rates remaining restrictive and wage growth slowing. However, continued population growth should help maintain baseline consumption levels. We predict that consumption growth will rise to 2.75% in both 2025-26 and 2026-27 as inflation moderates further and interest rate cuts begin to take effect.

Risks to the outlook include the possibility of inflation remaining higher for longer than anticipated, interest rate cuts being pushed back further and population growth remaining more robust than expected.



FORECASTS	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
HOUSEHOLD CONSUMPTION (%)	4.6	2.7	2.0	2.75	2.75

PROPORTION OF CONSUMER CONFIDENCE RESPONDENTS EXPERIENCING FINANCIAL STRESS OVER THE PAST 3 MONTHS



Source: CCIWA, ABS

Business Investment

Despite rising cost pressures and a tight labour market, business investment in Western Australia surged 11.8% over the past financial year.

This is the fastest pace of growth in just over a decade – driven by progress on several large-scale projects in the resources sector.

However, the collapse in the price of nickel and lithium, along with a weak medium-term outlook for these commodities, has led to several mines being placed into care and maintenance. As a result, some future projects such as Albemarle's Kemerton stage 3 and 4 trains have stopped construction, with this set to weigh on future business investment.

Over the longer term, the global push towards 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.

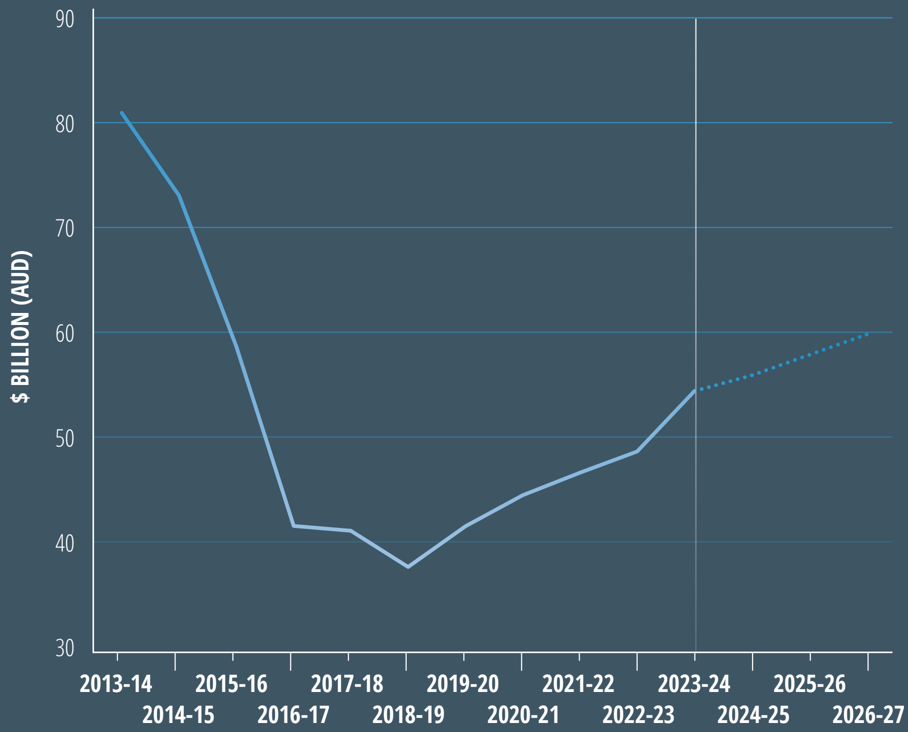
We expect business investment to grow a modest 2.75% in 2024-25 as activity consolidates at current high levels, underpinned by work on major LNG projects and other resources projects, some of which were delayed.

Business investment is projected to expand 3.25% in 2025-26, supported by sustaining activity in the resources sector combined with the ramp up of new projects.

However, persistent cost pressures, further labour shortages and regulatory reforms that delay approval timelines pose risks to this outlook.

FORECASTS	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
BUSINESS INVESTMENT (%)	4.3	11.8	2.75	3.25	3.5

BUSINESS INVESTMENT CCIWA FORECAST



Source: CCIWA, ABS

Dwelling Investment

Despite the massive residential construction pipeline still to be completed, dwelling investment remains constrained by ongoing labour shortages in key trades and a high-cost environment for builders.

Dwelling investment grew 6.0% in annual average terms over 2023-24 – an improvement on the previous year but weaker than what has been needed to keep up with housing demand.

The current cost environment has particularly hurt developers in the multi-residential sector. The high costs of getting projects off the ground means that few new developments are expected in the sector over the coming year, which will likely drag on dwelling investment.

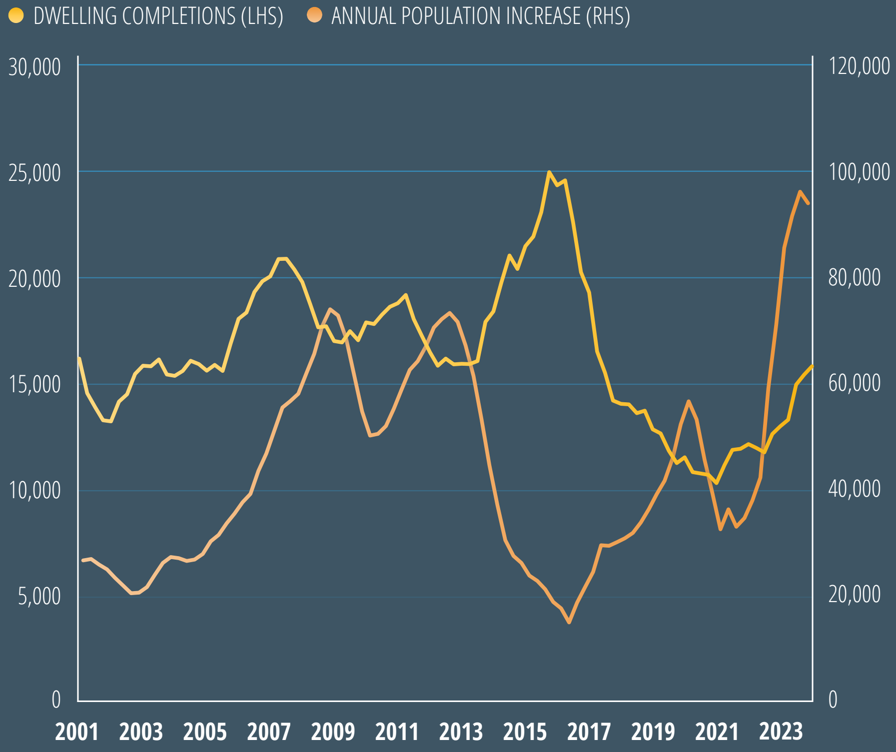
In contrast, demand for housing is through the roof as WA's population grows at its fastest rate in 15 years. Consequently, dwelling approvals have risen 59% over the year to June, while greenfield lots are now in undersupply following near-record levels of sales.

With demand set to remain strong over the coming years, the outlook for dwelling investment hinges on the industry's ability to boost supply. However, with high costs dragging on profits and persistent labour shortages in trades, supply is likely to remain somewhat constricted, limiting the growth in dwelling investment.

As a result, we expect dwelling investment to grow 3.75% in 2024-25 and 5.5% in 2025-26 as the existing pipeline is worked through and supply constraints gradually ease.

FORECASTS	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
DWELLING INVESTMENT (%)	-2.6	6.0	3.75	5.5	4.0

HOME CONSTRUCTION AND POPULATION GROWTH WESTERN AUSTRALIA



Source: CCIWA, ABS

International Trade

WA's exporters faced a challenging year in 2023-24, with exports falling 3.0% compared with the year earlier.

While iron ore exports remained steady, LNG exports fell following a record 2022-23 and agricultural exports plummeted due to a lack of rainfall after two years of bumper crops.

Export growth is expected to pick up slightly over the coming year, driven by additional capacity in iron ore production as Mineral Resources' Onslow mine ramps up. The iron ore majors are also expected to continue operating near full capacity, further supporting current export levels. Additionally, more favourable weather conditions should improve agricultural yields, boosting exports in this sector.

However, weaker commodity prices are likely to act as a drag, particularly for lithium and nickel. As discussed, this has led to the closure of several mines and the postponement of future expansion projects, reducing export levels of these commodities over the coming years. The price of iron ore has also tumbled around 30% since the beginning of the calendar year, placing pressure on iron ore miners. Nevertheless, given WA's miners are among the lowest cost producers globally, they are likely to withstand the current price softness.

Woodside's Scarborough and Pluto 2 extension project, which continues to target first cargo in 2026, should support export volumes in the further outyears.

On balance, we expect exports to grow 1.75% in 2024-25. China's economy remains a key risk to this outlook, particularly the weak property sector and resulting oversupply of steel, which could dampen the demand for iron ore. However, new demand from other South-East Asian economies should offset this.

Imports are expected to moderate this year following two years of rapid growth. In line with the moderation in business investment, growth in goods imports is set to slow as the demand for capital goods stabilises at current high levels. At the same time, growth in services imports is also set decline as the level of international travel normalises following sharp increases after the lifting of border restrictions. As a result, we expect imports to grow 2.0% this financial year.

FORECASTS	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
EXPORTS (%)	5.9	-3.0	1.75	1.0	1.25
IMPORTS (%)	15.8	12.0	2.0	2.25	2.5

Unemployment

Despite signs of easing, Western Australia's labour market has remained tight over the last six months.

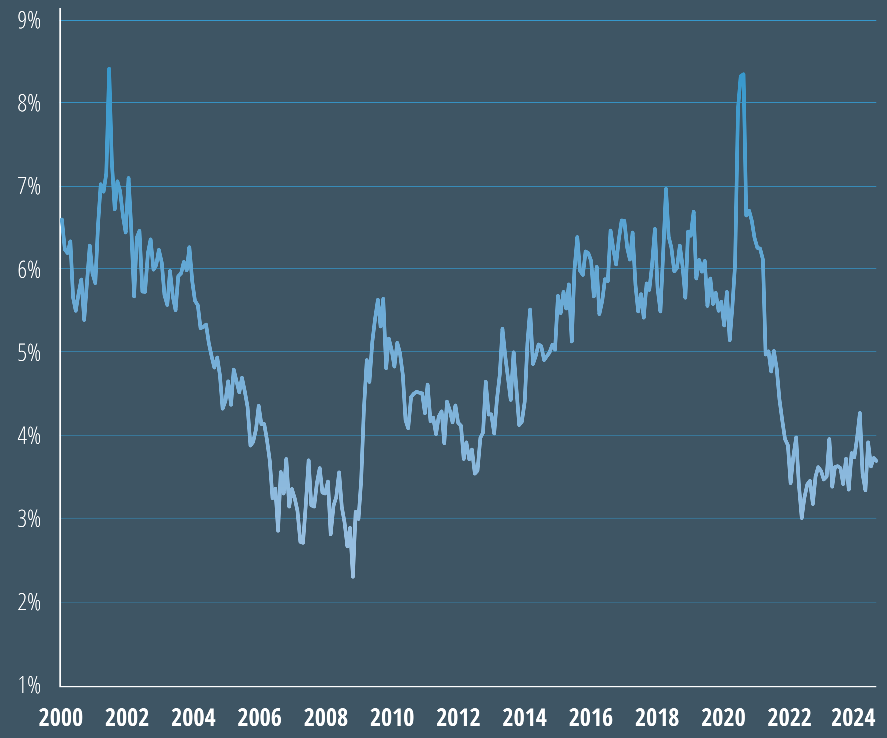
After drifting up to 4.3% in January, the unemployment rate dropped back below 4% for the remainder of the financial year, settling at 3.7% as of July. This likely comes on the back of stronger than expected domestic activity and businesses' reluctance to shed their workforce, instead opting to reduce hours worked.

However, there are still signs that the labour market is easing. The number of job vacancies in the state has declined further over the first half of the year, suggesting reduced demand for new workers. Additionally, *CCIWA's latest Business Confidence Survey* revealed 63% of businesses are struggling to fill a position – the lowest proportion since the question was first asked just over three years ago.

Over the coming year, demand for WA based workers should be supported by the pickup in construction activity and ongoing large-scale projects. Nevertheless, the unemployment rate will continue to drift upwards as the pace of employment growth slows and labour supply becomes more balanced with demand. Given this, we expect the unemployment rate to average 4.0% over this financial year, rising to 4.25% in 2025-26 and 4.5% in 2026-27.

FORECASTS	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
UNEMPLOYMENT (%)	3.6	3.7	4.0	4.25	4.5

WA UNEMPLOYMENT RATE SEASONALLY ADJUSTED



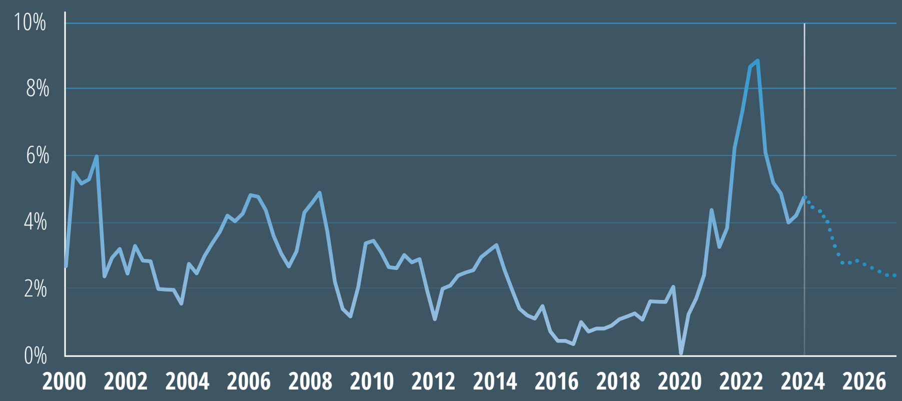
Source: CCIWA, ABS

Wages and Inflation

FORECASTS	2022-23 ACTUAL	2023-24 ACTUAL	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST
INFLATION (%)	5.1	4.7	3.25	2.75	2.5
WAGES (%)	4.2	4.2	3.75	3.25	3.0

Wages and Inflation

INFLATION CCIWA FORECAST



Source: CCIWA, ABS

Ex-electricty only after 2020.

Wages Outlook

Wage growth in Western Australia has remained strong through the second half of 2023-24 but appears to have reached its peak.

Tight labour market conditions have supported wages over the past three years, with the pace of wage growth rising steadily since mid-2021. However, despite WA's Wage Price Index growing a solid 4.2% year-on-year to June, this is down from the 4.7% recorded in December, indicating that momentum has begun to fade. At the same time, CCIWA's Labour Cost Index now sits at its lowest level in two years, a further indication that the pace of wage growth is cooling.

The latest increase to minimum and award rates of pay, which came into effect in July, was also smaller than the previous year and is set to relieve some of the upward pressure that has been placed on wages in recent years.

In line with the slight easing of labour market conditions, we expect wage growth to edge down to 3.75% in year ended terms by June 2025, easing further to 3.25% in 2025-26 and 3.0% in 2026-27.

Inflation Outlook

Inflation has started to show some stickiness across Australia, holding stubbornly above target over the last six months.

In Perth, the rate of inflation (excluding electricity) has risen in each of the last two quarters, reaching 4.7% over the year to June – up from 4.0% in December. This now gives Perth the unenviable title of having the fastest price growth in the country. Skyrocketing housing and insurance costs continue to drive this, with the price of new dwelling purchases soaring 18.1% over the year to June, rents rising 10.0% and insurance costs also up 18.1%.

At the same time, geopolitical risks continue to threaten progress, with shipping costs in particular remaining elevated as a result of the conflict in the Middle East. There is also the potential for energy supply disruptions if the conflict escalates, which could push up oil prices. Domestically, the current undersupply of housing continues to place upwards pressure on both rents and housing costs, with this likely to continue in the near term as the residential construction sector remains constrained. And while productivity has lifted, the risk that it remains subdued could further pressure inflation.

We expect disinflation to continue over the coming years as restrictive financial conditions weigh on demand. Inflation (excluding electricity) is forecast to fall to 3.25% by June 2025, and to return to the upper end of the RBA's target band by the following year.

Chamber of Commerce and Industry WA

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