OUTLOOK

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Treading water: Waiting for the next wave

About Outlook

Outlook is the Chamber of Commerce and Industry of Western Australia's (CCIWA) 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 Daniel Norrie, Senior Economist.

Chamber of Commerce and Industry WA

Outlook at a glance

Western Australia's economic hangover has entered its seventh year. Significant contractions in resources and dwelling investment have reverberated across the Western Australian economy, and prudent households are denying the economy any meaningful stimulus from consumption. As a result, we enter the new decade with our domestic economy continuing to contract, and Gross State Product (including net exports) growing at a subdued pace.

Peeling back a layer, the decline in business investment has had direct repercussions for households, including fewer job opportunities, weaker wage growth and little growth in overall hours worked. These factors, along with people continuing to leave Western Australia for opportunities in other States, have weakened rates of property turnover and price growth, reducing consumption even further. Completing the vicious cycle, weak consumer demand and prospects for economic and population growth have weighed on business confidence, as shown in the *WA Super-CCI Business Confidence Survey.*

Looking forward, there are renewed hopes that the mining sector will once again lift the economy, with new resources projects expected to boost business investment and activity in construction and manufacturing businesses. This shows up in the *WA Super-CCI Business Confidence Survey*, with improved confidence led by the construction industry. Evidence also suggests that businesses are borrowing to get work started on construction contracts. However, project delays are pushing back the business investment pipeline. The upshot is that investment is now expected to increase 3 per cent in 2019-20, 9 per cent in 2020-21 and 5 per cent in 2021-22. These forecasts are highly sensitive to the timing of major LNG projects.

The expected increase in mining-related business investment won't ignite the economy like investment phases of the past. Some information suggests coming business investment will amount to around 20 per cent of the investment surge between 2010-11 and 2012-13, and — significantly — around half of the spending in the pipeline is still subject to Final Investment Decisions.

Indeed, most households and businesses won't directly benefit from a pick-up in resources investment, especially in the short term. Around half of WA workers are employed in small or medium-sized businesses – which on average have seen no growth in profits or investment. Compounding the difficulties for SMEs, the costs of doing business and starting projects in Western Australia are rising (**see the special section: The cost burden on WA business and households**).

At the same time as resources investment is expected to improve, dwelling investment will continue to fall in 2019-20. Dwelling investment should begin to grow again from 2020-21 as population growth gradually picks up. However, although the coming bump in business investment will grow demand and draw more people to WA, many of these projects are replacement projects. As such, it is less likely that the business investment pipeline will create the levels of population growth and dwelling investment seen previously.

For the overall economy moving forward, Gross State Product is

Around half of WA workers are employed in small or medium-sized businesses – which on average have seen no growth in profits or investment

forecast to grow 3 per cent in 2019-20 and 2 per cent in 2020-21 and 2021-22. This dynamic largely reflects export volumes, which we forecast will grow by 4 per cent in 2019-20, but drop back to 1 per cent growth thereafter. This is largely due to a lack of new projects coming on board and constraints on existing projects increasing production. Ultimately, this will weigh on growth in Gross State Product moving forward.

While the demand for skilled workers will place some upward pressure on wages in certain occupations, this is not expected to spread more broadly through the economy in the short-term. Until the unemployment rate falls closer to the 'full' level of employment (around 4.5 per cent) and headway is made into reducing the number of underemployed workers, it is difficult to see a substantial lift in wages growth.

The positive is that — as always — we don't have to sit by and accept our economic fate. While global headwinds are largely out of our control, governments at all levels have enough policy levers with which to inject confidence into the economy, creating the conditions for businesses to invest and drive the economy forward once again. With the state's finances at a more sustainable position and factoring in recent cuts to payroll tax, Western Australia has a strong platform on which to build and reap the benefits of further reform.

As it has done for 130 years, the Chamber of Commerce and Industry WA and its members are committed to playing a central role in creating the impetus for further policy reform.

Section 1: Economic Outlook

Economic forecasts for Western Australia

Forecasts[1]	2018-19[2] Actual	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Economic Activity				
Household Consumption	1.0%	1.2%	1.5%	2.0%
Dwelling Investment	-3.6%	-6.0%	1.0%	3.0%
Business Investment	-7.6%	3.0%	9.0%	5.0%
State Final Demand	-1.0%	2.0%	3.0%	2.5%
Exports[3]	1.4%	4.0%	1.0%	1.0%
Imports[3]	-7.2%	1.0%	3.0%	2.0%
Gross State Product	1.0%	3.0%	2.0%	2.0%
Labour Market				
Unemployment	6.1%	5.8%	5.7%	5.6%
Inflation	1.3%	1.5%	1.7%	1.9%
Wages	1.6%	1.7%	1.9%	2.0%

Footnotes:

1 Forecasts are produced in terms of year-on-year growth, comparing four quarters of data to the previous four quarters of data.

2 Actual outcomes as reported in the 2018-19 State Accounts, updated with the latest State Final Demand and Balance of Payments data.

3 Exports and imports figures are for goods and services trade measured on a Balance of Payments basis.

Economic Growth

Forecasts	Economic Activity: State Final Demand	Economic Activity: Gross State Product
2018-19 Actual	-1.0%	1.0%
2019-20 Forecast	2.0%	3.0%
2020-21 Forecast	3.0%	2.0%
2021-22 Forecast	2.5%	2.0%

Falling business and dwelling investment have buffeted overall growth in the WA economy since 2012. Compounding this has been flat growth in household consumption. In net terms, the domestic economy is now 15 per cent smaller than it was in 2012-13, as measured by State Final Demand. State Final Demand fell another 1 per cent in 2018-19.

Investments in resources projects have increased the output of the mining industry, its share of total output, and exports. However, export growth has softened. Even though the Brazilian tailings disaster increased average iron ore prices by 29 per cent in 2018-19 (compared with 2017-18), the volume of WA's exports grew by just 1.4 per cent. As a result, Gross State Product (GSP) grew by less than forecast, at 1 per cent in 2018-19.

An uptick in resources investment, driven by higher commodity prices, will again help to grow the WA economy. The volume of exports is expected to grow by 4 per cent in 2019-20, supporting growth in GSP of 3 per cent. However, exports growth in 2020-21 and 2021-22 is expected to fall to 1 per cent, reflecting lower growth in export volumes and new projects. GSP is forecast to increase by 2 per cent in 2020-21 and 2021-22.

Household Consumption

	Economic Activity
Forecasts	**Household Consumption**
2018-19 Actual	1.0%
2019-20 Forecast	1.2%
2020-21 Forecast	1.5%
2021-22 Forecast	2.0%

Household consumption grew by just 1 per cent in 2018-19, in line with CCIWA's forecasts. The *CCIWA Consumer Confidence Survey* shows that consumer confidence is at a two-year low, with personal financial issues and reduced business investment continuing to put downward pressure on disposable income. Consumption growth is expected to improve only modestly, growing by 1.2 per cent in 2019-20 and 1.5 per cent in 2020-21.

Weak household consumption has partly been driven by a 60 per cent fall in business investment over the past seven years. Since 2012:

- total hours worked in the WA economy have been flat. Given the WA population has grown by 9 per cent, this means that on average, people in the labour force are working fewer hours;
- although people are getting paid more (total private sector hourly rates of pay increased by 11.8 per cent over this time), there has been little growth in average total weekly earnings (up 1 per cent); and
- gross disposable household income per capita is no higher than it was in 2012. Adjusted for inflation, real household disposable income per capita fell by 1.4 per cent last financial year.

In addition, WA consumers have more significant financial concerns than people in other States, with data on personal liabilities showing that people in WA have higher property-related debt.

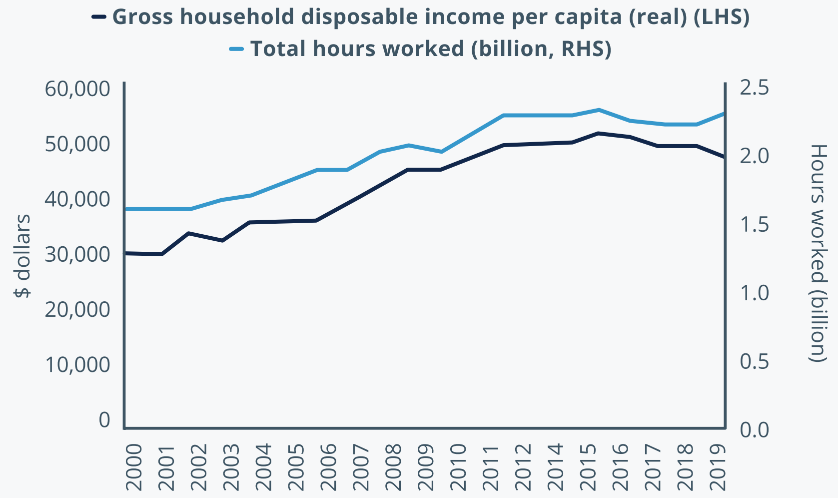
It is no surprise then that Western Australians are focused on paying down debts. This is reflected in the WA savings rate, which is around three times higher than the national average. This measure shot up across Australia at the time of the global financial crisis, and then declined across the east coast but remained high in WA.

Rising costs also continue to limit households' ability to spend money in WA. For example, property rates and charges have grown at 6 per cent per year on average since 2000, a significant drag on disposable income and spending power (**see the special feature section**).

Over the year to September 2019, there were increases in spending on health (up 3.9 per cent), clothing and footwear (2.2 per cent), hotels, cafes and restaurants (up 2.0 per cent) and rent and other dwelling services (1.7 per cent). This represented the first annual increases in spending in some discretionary categories in years.

However, spending on purchases

Chart 1: Disposable Income Per Capita and Hours Worked Per Capita



Source: ABS, CCIWA

Investment is now expected to increase by 3 per cent in 2019-20, 9 per cent in 2020-21 and 5 per cent in 2021-22

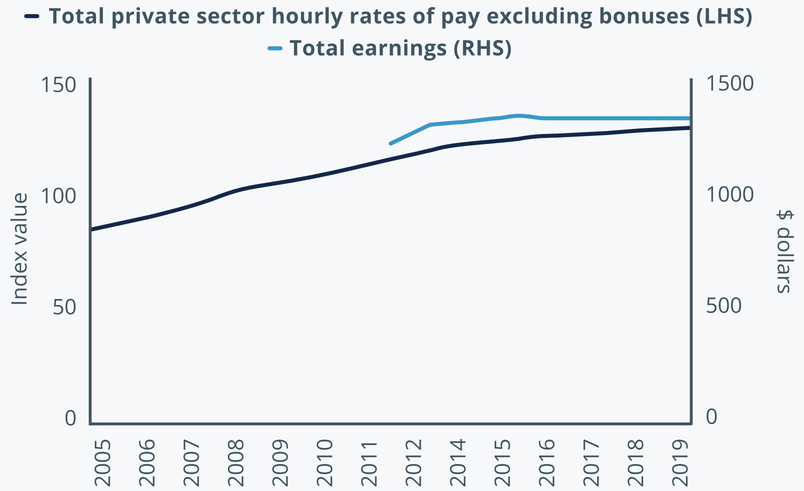
of vehicles fell by 4.1 per cent, transport services fell by 1.9 per cent and furnishings and household equipment fell by 1 per cent. Lower spending on furnishing and household equipment likely reflects lower rates of turnover in the housing market.

Looking forward, consumption growth will be supported to some extent by increased employment of skilled workers in major projects.

Recent reductions in the cash rate, along with Federal Government income tax cuts, are helping consumers to pay down debts and free up more cash over the medium-term for additional discretionary spending.

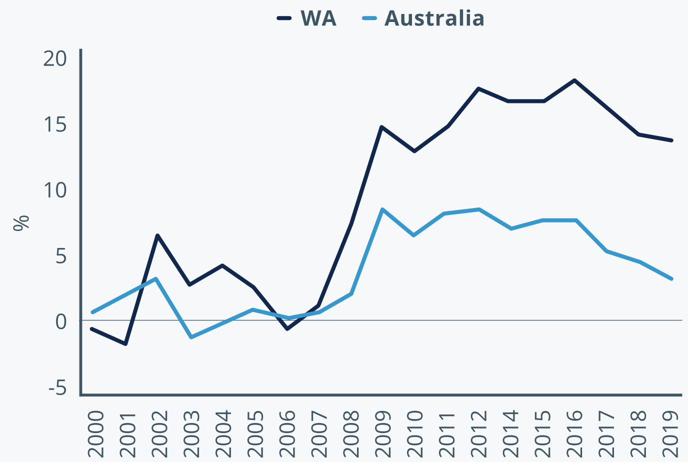
However, consumption growth will ultimately be limited by the ability of major projects to generate income and consumption growth across the economy.

Chart 2: Wages and Total Earnings



Source: ABS, CCIWA

Chart 3: Household Net Savings Rate, WA and Australia



Source: ABS, CCIWA

Business Investment

Forecasts	Economic Activity: Business Investment
2018-19 Actual	-7.6%
2019-20 Forecast	3.0%
2020-21 Forecast	9.0%
2021-22 Forecast	5.0%

The conclusion of major projects saw business investment fall by 7.6 per cent in 2018-19. This was less than forecast, partly because of large investments in automated mining equipment in the June quarter. Investment is now expected to increase by 3 per cent in 2019-20, 9 per cent in 2020-21 and 5 per cent in 2021-22. Importantly, these forecasts are highly sensitive to the timing of major projects, particularly the Scarborough and Browse LNG projects.

Current and planned projects include:

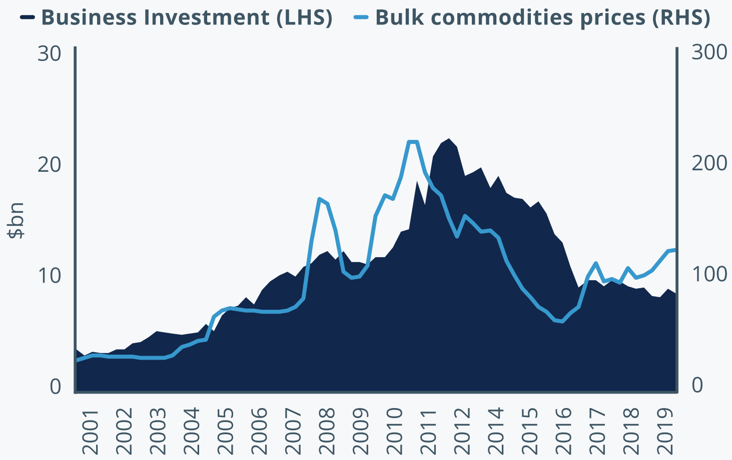
1. projects designed to help miners maintain existing export capacity, such as BHP's South Flank project to replace production from the Yandi mine;
2. projects that commercialise new resources, such as the Yangibana rare earths project, and LNG projects; and
3. downstream mineral projects, including Lynas Corporation's Kalgoorlie Cracking and Leaching plant and FYI Resources' High Purity Alumina plant.

More information on projects can be found in WA Works.

Significantly, around half of total projects in the pipeline are subject to final investment decisions. The Browse project alone accounts

Employment growth will be held back by low consumption growth, dwelling investment and investment by small businesses

Chart 4: Business Investment and Commodity Prices



Source: ABS, CCIWA

for around 20 per cent of the total investment pipeline, with Scarborough accounting for another 10 per cent.

Some decisions on lithium projects have been deferred in the face of recent falls in lithium prices. Nonetheless, demand for battery-related products is expected to increase, which will support prices and investment in new projects (see our report: WA's Future in the Lithium Battery Value Chain).

The best proxy for small and medium-size business investment is data on bank lending to businesses for construction or purchase of real property.[1] Bank lending to businesses for property purchases peaked in 2015 and recent falls mean total lending is currently lower than prior to the global financial crisis. Low investment levels align with profit data, which shows there has been no increase in mean unincorporated business profits over the past twenty years (**see the special feature section: The cost burden on WA businesses and households**).

That said, there was some improvement as bank lending to businesses for property purchases increased by 4.1 per cent over the year to September 2019.

The *WA Super-CCIWA Survey of Business Confidence* provides further information on issues affecting investment by businesses. Many businesses outside the resources sector cite weak demand as the major issue weighing on investment decisions. The major supply-side issues weighing on confidence include rising costs and the availability of skilled employees.

The Productivity Commission has blamed low rates of business investment for weak rates of productivity growth. Since 2016-17, WA's annual productivity growth has fallen to an average of 0.3 per cent (**see the special feature section**).

1 As outlined in Outlook-July 2019, this is a good proxy because SMEs rely more on banks for finance, while large businesses are less dependent on banks to access capital.

Dwelling Investment

	Economic Activity
Forecasts	**Dwelling Investment**
2018-19 Actual	-3.6%
2019-20 Forecast	-6.0%
2020-21 Forecast	1.0%
2021-22 Forecast	3.0%

Dwelling investment fell by 3.6 per cent in 2018-19, reflecting continued falls in finance commitments and building approvals. Investment in dwellings is expected to fall a further 6 per cent in 2019-20. However, as business investment picks up in 2020-21, dwelling investment will also rise, growing by 1 per cent in 2020-21 and 3 per cent in 2021-22.

Declines in dwelling investment and property prices are being driven by many of the same factors that are limiting consumption, including falls in average hours worked and flat growth in disposable income.

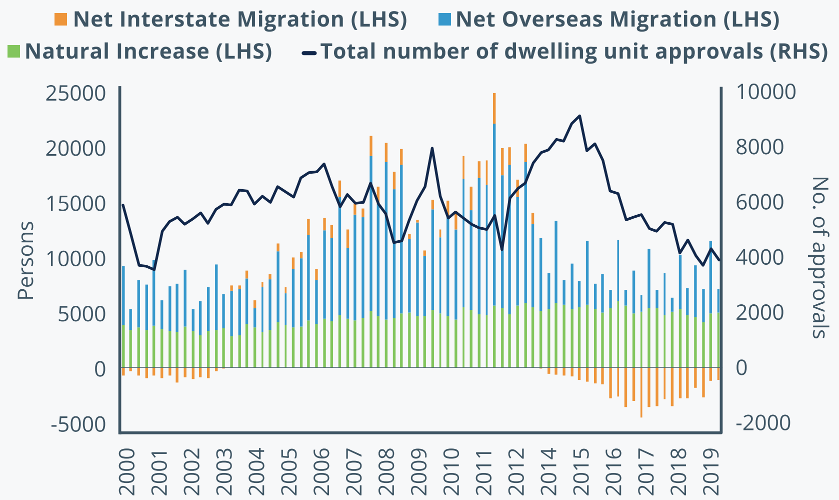
However, the most important factor for property prices and dwelling investment is population growth. The annual population growth rate during boom times in WA has been around 2.5 per cent, while it has been around 1.5 per cent outside these times. Since the end of the latest mining construction boom, WA's annual population has grown at just 1 per cent per year on average.

The coming bump in business investment is unlikely to lead to a significant boost in population growth. Expected investment levels are smaller than previous investment surges, and many new investment projects replace existing export capacity from older mines. These projects will create new jobs during construction, however the fact that these are replacement projects means that operational roles will likely be filled by current workers rather than through the creation of new positions. LNG projects also require fewer workers in the construction phase compared with iron ore projects.

Nonetheless, we expect that population growth will pick up gradually. This will help to increase dwelling investment and price growth in more locations in WA. This will be supported by:

- the reinstatement of Perth as a regional city in the context of Designated Migration Area Agreements, helping to attract more overseas migration to WA; and

Chart 5: Population Change and Dwelling Approvals



Source: ABS, CCIWA

Over the last five years, iron ore has accounted for around half of the total value of goods exports from WA, while gold and LNG have accounted for around 15 per cent each

- a pickup on the east coast points to further increases in property prices in WA in the medium-term, since property prices in capital cities in most circumstances move together.

Some other factors that will bring forward increased dwelling approvals in the short run include:

- a lower vacancy rate should eventually lead to increases in median rents;
- recent interest rate cuts will make it more attractive for people to invest in dwellings, rather than rent;
- a relaxation of Australian Prudential Regulation Authority lending standards and Keystart eligibility criteria, in addition to a new Commonwealth guarantee for first home buyers, will allow people to take out larger loans; and
- changes to stamp duty will increase the attractiveness of investing now.

However, the dwelling market won't reach its full potential if policy settings aren't right. Builders have sought to highlight the cumulative impact of recent and upcoming regulatory, planning and policy changes. For example, upcoming changes to the National Construction Code are expected to increase costs and delay construction on projects (due to come into full effect in 2020).

Some additional risks to the Outlook include the expiry of interest-only loans (approximately 60 per cent of interest only loans expire between 2019 and 2021) and a fall in construction traineeships.

International Trade

Economic Activity		
Forecasts	**Exports**	**Imports**
2018-19 Actual	1.4%	-7.2%
2019-20 Forecast	4.0%	1.0%
2020-21 Forecast	1.0%	3.0%
2021-22 Forecast	1.0%	2.0%

WA's export volumes grew just 1.4 per cent in 2018-19. This relatively weak growth reflects several factors, including fewer resources projects starting up, constraints on increased production, and unforeseen weather events. Export volumes are forecast to grow by 4 per cent in 2019-20 but then by just 1 per cent in 2020-21 and 2021-22.

Over the past five years, iron ore has accounted for around half of the total value of goods exports from WA, while gold and LNG have accounted for around 15 per cent each.

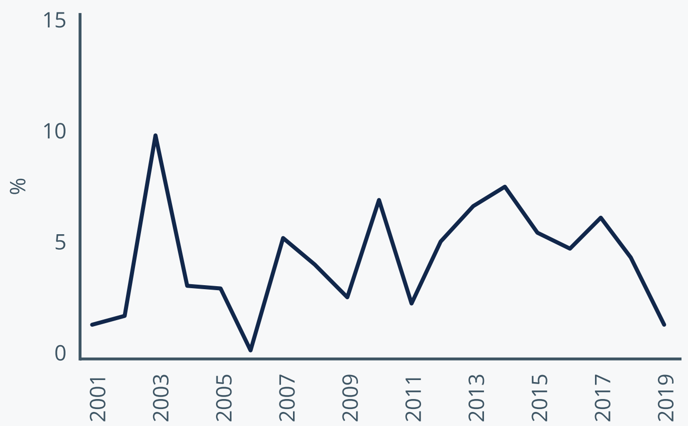
High iron ore prices directly increase the value of exports. Yet despite average iron ore prices being 29 per cent higher in 2018-19, the volume of WA's exports grew by just 1.4 per cent. This highlights the constraints on resources companies increasing output to respond to price increases. Based on Port Hedland iron ore throughput to November 2019, iron ore exports are only expected to increase 1.4 per cent in 2019-20.

Issues affecting international education in WA and slow growth in tourism have also reduced WA's exports. However, the prospects now appear brighter, with a recent improvement in tourism numbers and changes to Designated Migration Area Agreements.

The trade dispute between the USA and China has disrupted trade patterns and increased risk and uncertainty. While it appears the dispute has cooled for the time being, the risks are still weighted to the downside, and there is increased risk of unrest in the Middle East and Asia. This has placed upward pressure on gold prices, and some forecasts are indicating that 2019-20 will be a significant year for the volume of WA's gold exports.

On the import-side, the overall volume of WA imports has been falling since 2015. Lower discretionary spending and a lower Australian dollar is driving a fall in spending on imported cars.

Chart 6: Exports of Goods and Services, Chain Volume, Annual Growth (%)



Source: ABS, CCIWA

Unemployment

	Economic Activity
Forecasts	**Unemployment**
2018-19 Actual	6.1%
2019-20 Forecast	5.8%
2020-21 Forecast	5.7%
2021-22 Forecast	5.6%

The unemployment rate is expected to edge down slowly over the forecast period.

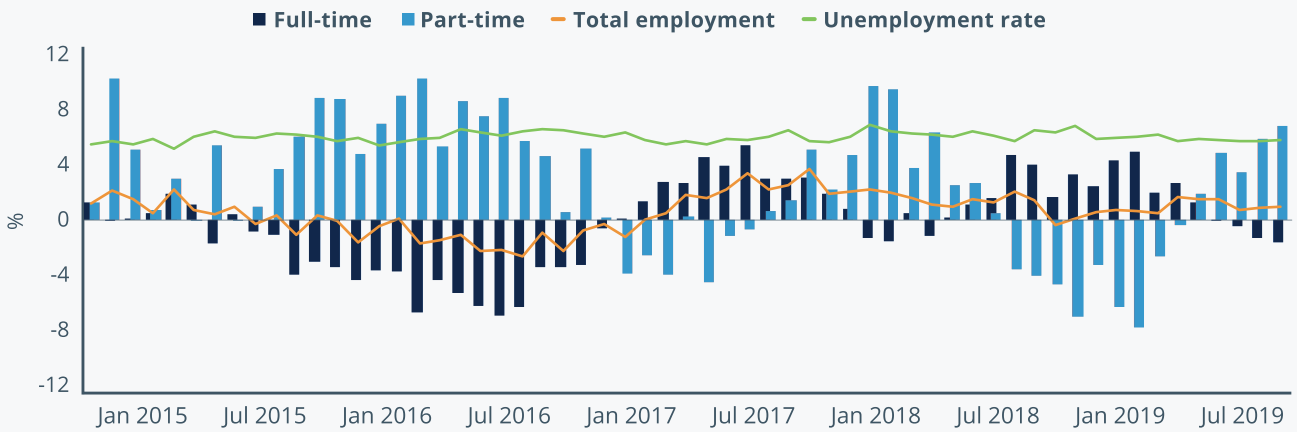
Increased resources investment is stimulating full-time employment in related industries, which is currently reflected in a high number of job advertisements for mining-related trade qualifications.

Additional resources investment will continue to support employment growth, particularly in trades and skills exposed to mining investment (which are typically full-time positions). At the same time employment growth will be held back by low consumption growth, dwelling investment and investment by small businesses (which account for around 40 per cent of employment in WA).

Ultimately, the relatively high unemployment rate will limit increases in wages and inflation (see next section).

> Employment growth will be held back by low consumption growth, dwelling investment and investment by small businesses

Chart 7: Growth in Full Time and Part Time Employment and the Unemployment Rate, WA, 2015-2019



Source: ABS, CCIWA

> Wage growth is partly being driven by increased resources investment and competition for skilled workers

Wages and Inflation

	Economic Activity	
Forecasts	**Inflation**	**Wages**
2018-19 Actual	1.3%	1.6%
2019-20 Forecast	1.5%	1.7%
2020-21 Forecast	1.7%	1.9%
2021-22 Forecast	1.9%	2.0%

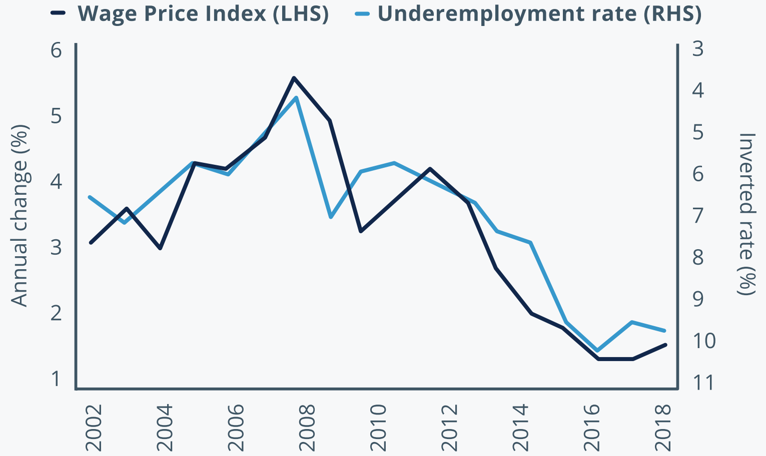
The Wage Price Index increased by 1.6 per cent in 2018-19. Wage growth is partly being driven by increased resources investment and competition for skilled workers. However, these projects, and the employment opportunities they generate, represent a small fraction of total employment, limiting their ability to grow wages across the entire WA economy in the short term.

Overall, the relatively high rates of unemployment and underemployment will restrain wage growth.

Turning to inflation, consumer prices increased by 1.3 per cent in 2018-19. As discussed in **the special feature section**, some issues that have placed upward pressure on inflation include the cost of property rates, charges and utilities and the cost of services (including health and childcare). Areas where prices have been falling include rents, retail goods (e.g. technology products) and communication.

Overall inflation will remain low in line with weak wages growth. Retailers will need to discount to compete and this will continue to place downward pressure on inflation. For example, in an effort to get ahead of their bricks-and-mortar rivals, online retailers advertised reduced prices for a week in advance of "Black Friday". This would have, in turn, put pressure on bricks-and-mortar businesses to heavily discount prices to retain market share.

Chart 8: Underemployment Rate (%) and Wage Price Index (%)



Source: ABS, CCIWA

Special feature: The cost burden on WA businesses and households

Businesses in WA are being pinched by the two-fold pressure of low demand and rising costs — the most cited factors impacting business confidence. Cost of living remains the largest dampener on consumer confidence, with almost two out of three consumers identifying living costs as having a negative influence on their confidence.

This section examines how disposable income and revenue have been changing over time, provides some analysis of cost issues that are affecting the WA economy, and provides analysis of the impacts of these costs on households and businesses.

Income and Revenue

As outlined in the household consumption section, weak household consumption has been driven by a 60 per cent fall in business investment. Since 2012, total hours worked in the WA economy have been flat, there has been little growth in average total weekly earnings, and real gross disposable household income per capita is no higher than it was in 2012.

These issues reflect difficult business conditions in many industries. WA businesses have been experiencing tougher conditions than the national average, as seen in data on the construction, retail and accommodation industries. Businesses in construction and retail industries have experienced falling revenue, while revenue has been flat for accommodation and food services.

Table 2: 2013-2019 Construction, retail and accommodation and food services industry performance in cumulative average growth rates (average annual per cent growth per year)

	Construction	Retail	Accommodation and food services
Total revenue (Total Factor Revenue)	-7.0%	-1.0%	0.4%
Employment	-2.7%	-0.5%	0.1%

Source: ABS, CCIWA

Costs

For the most part prices in the WA economy have adjusted to the post boom reality. Rents for example have fallen by 22 per cent since 2014, reflecting the reduced demand for residential property. The cost of consumable goods has also fallen significantly in response to the falling cost of technology, retail competition and discounting. Many categories where prices have fallen significantly are exposed to online competition.

The largest price increases have been in the following areas:

- The cost of property charges and utilities (including electricity, water and sewerage, utilities and property rates and charges);

Since 2014, electricity prices have increased by 31 per cent, water by 24 per cent and property rates and charges by 20 per cent

- Services categories including health services, insurance, child care and educational services; and
- The price of meat, alcohol and tobacco.

Case study – Property sector

Rents peaked in Perth in 2014 and have since fallen by 22 per cent. This is good news for renters, but also reduces income for those who invested in property prior to 2014.

While property income has fallen significantly, property costs have continued to rise. Since 2014, electricity prices have increased by 31 per cent, water and sewerage have increased by 24 per cent and property rates and charges have increased by 20 per cent on average.

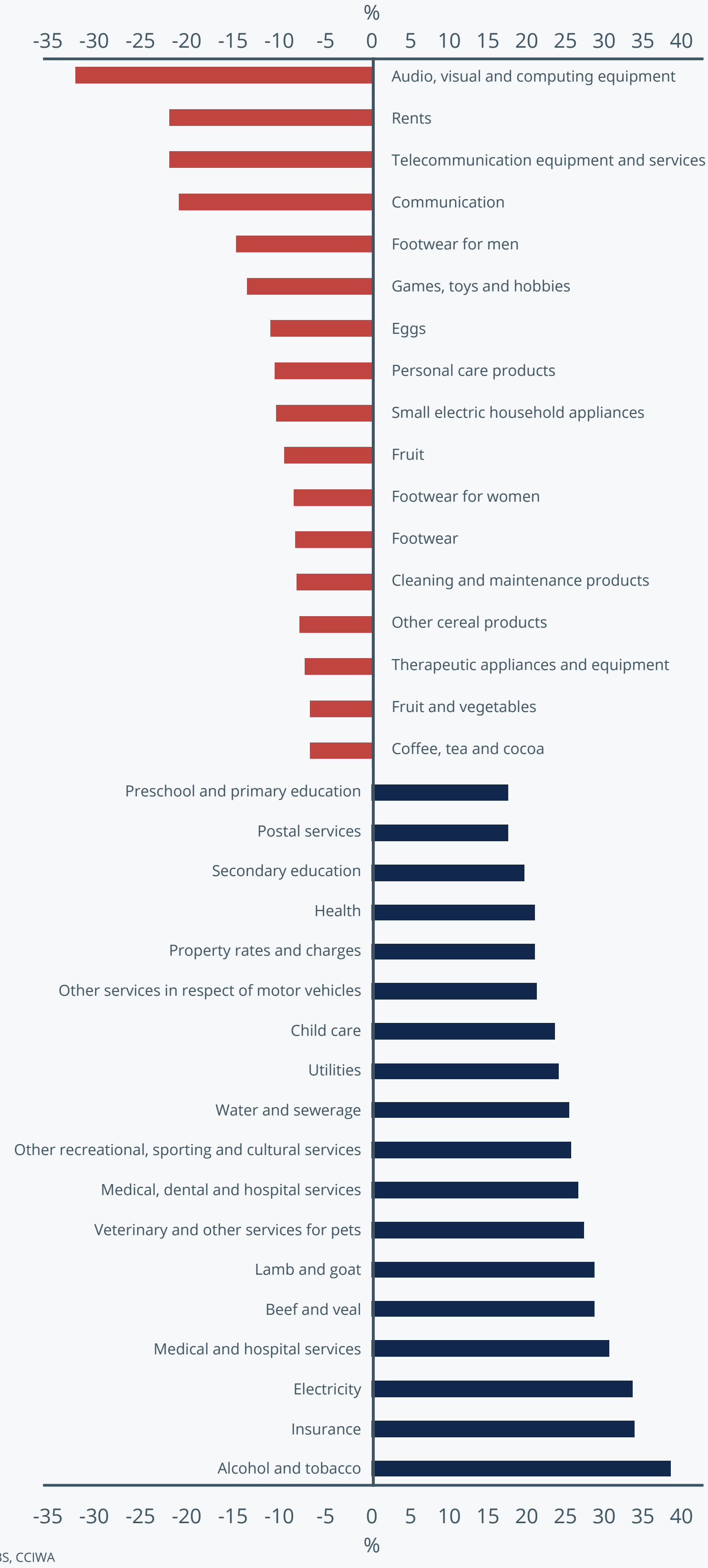
In addition, property prices have fallen around 30 per cent on average across WA, driving down wealth levels and consumption spending.

Property rates and charges

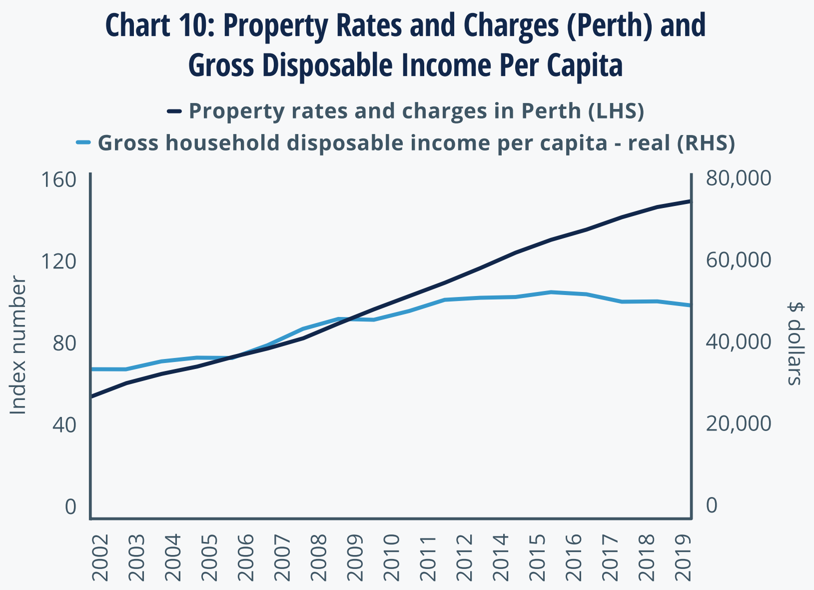
Property rates and charges have increased at a compound growth rate of 6 per cent per year on average since 2000. This means that on average, people and businesses are paying three times more in property rates and charges. Continued increases in these costs mean that each year, consumers have less disposable income for spending.

Property rates and charges have also increased above average growth in SME profits every year over the last 20 years. This means that, each year, businesses have higher overheads and reduced profits to invest or employ additional workers.

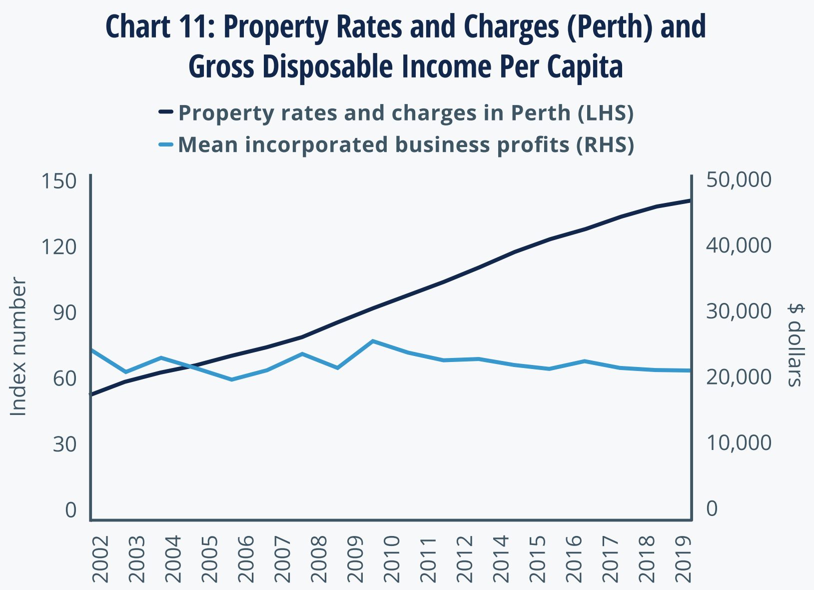
Chart 9: Total Price Changes in Selected Categories Since 2014



Source: ABS, CCIWA



Source: ABS, CCIWA



Source: ABS, CCIWA

The cost of starting new projects or businesses

CCIWA has been collecting information from businesses on red tape issues, following commitments from State and Federal governments to remove unnecessary regulatory burden. This information highlights issues that impose delays, costs and risk and uncertainty that make it harder to start new projects in WA and can deter investment.

Most regulation is implemented with the intent of achieving a public interest, such as safe food and a safe workplace. This is typically defined as objectives of an Act or regulations that provide for licensing or permitting. Businesses agree with these public interests and must meet regulated standards on an ongoing basis to operate.

Businesses define red tape as an unnecessary and excessive burden that is imposed on regulated parties by either the regulation itself or the way it is administered by public agencies, which does not achieve a public interest. For example, agencies can impose delays that are not necessary to achieve a public interest and impose significant costs on businesses. This directly harms investment, employment, productivity and the public interest in jobs and investment.

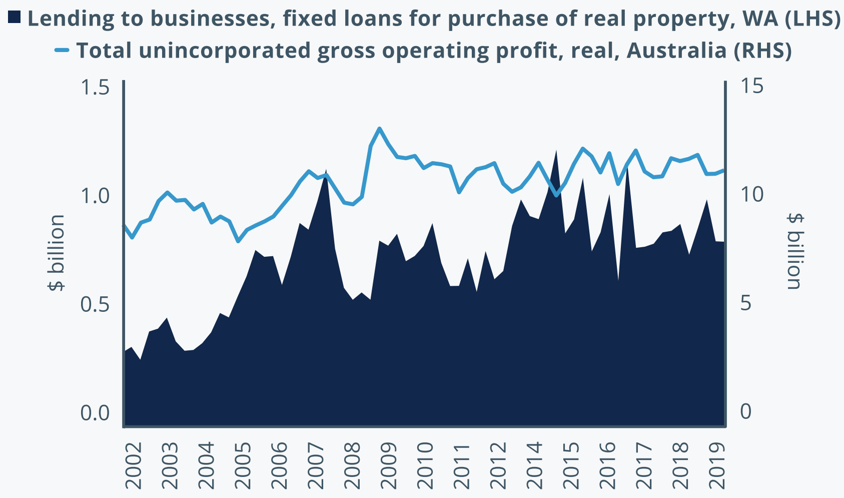
Businesses have highlighted many red tape issues that affect their ability to invest in new projects with CCIWA. These examples are often highly specific and involve very detailed experiences. However, there are four common problems that businesses encounter, summarised in the diagram below. Some businesses have encountered each of these issues as they have gone through a regulatory approval process.

Many examples show that entrepreneurs often encounter problems that they did not know about, or budget for at the outset of an investment decision. This can significantly increase the cumulative cost of starting a project.

Common problems highlighted in business feedback

1. Poor access to information on regulatory requirements in plain English *(increasing regulatory risk and uncertainty)*	**2. Unnecessary approvals for minor changes** which trigger lengthy & uncertain approval processes	**3. Repeated requests for information from different agencies** which can cause lengthy delays *(reducing business productivity)*	**4. Agencies impose unnecessary and costly requirements** *(reducing business productivity)*

Chart 12: Bank Lending to Businesses for Purchase of Real Property, WA and Real Unincorporated Gross Operating Profits, Quarterly



Source: ABS, CCIWA

There is also in general poor information on regulatory approvals. For example, there is no data on planning applications that reflects the actual range of time of approval processes from start to finish as experienced by a person or business.

Impacts on investment

There is a strong correlation between business profits and investment. An entrepreneur who is considering an investment in a new project must expect to earn profits to put savings and earnings at stake and face risk and uncertainty.

This relationship can be seen in Chart 12 that displays the best proxy for SME investment – total bank lending to businesses for property, and the best proxy for SME profits – total unincorporated profits.

This chart highlights that higher profits have been associated with higher investment levels. When costs increase, this results in lower profits and lower investment levels.

These issues directly reduce business productivity, at a time when Western Australia's productivity growth has fallen from over 5 per cent to 0.3 per cent.

Impacts on business counts

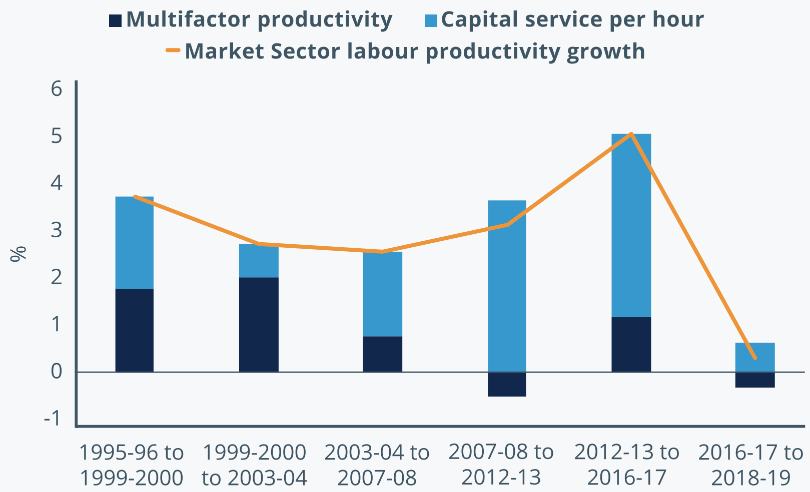
The combination of these factors – weak demand, rising costs, low investment and low profitability is linked to fewer businesses operating in WA with turnover over $2 million.

At an aggregate level, business numbers in WA have increased at 2 per cent per year on average since 2014.

In the latest available data, this shows that while business numbers increased by 1 per cent in 2017-18, there were fewer businesses with turnover over $2 million operating in Western Australia. This was driven by there being more exits of businesses with revenue above $2m (546 exits), compared with entries (443 entries).

These reductions in business numbers have occurred across many industries in WA.

Chart 13: Labour Productivity Growth Decomposition, WA Average Annual Growth



Source: ABS, CCIWA

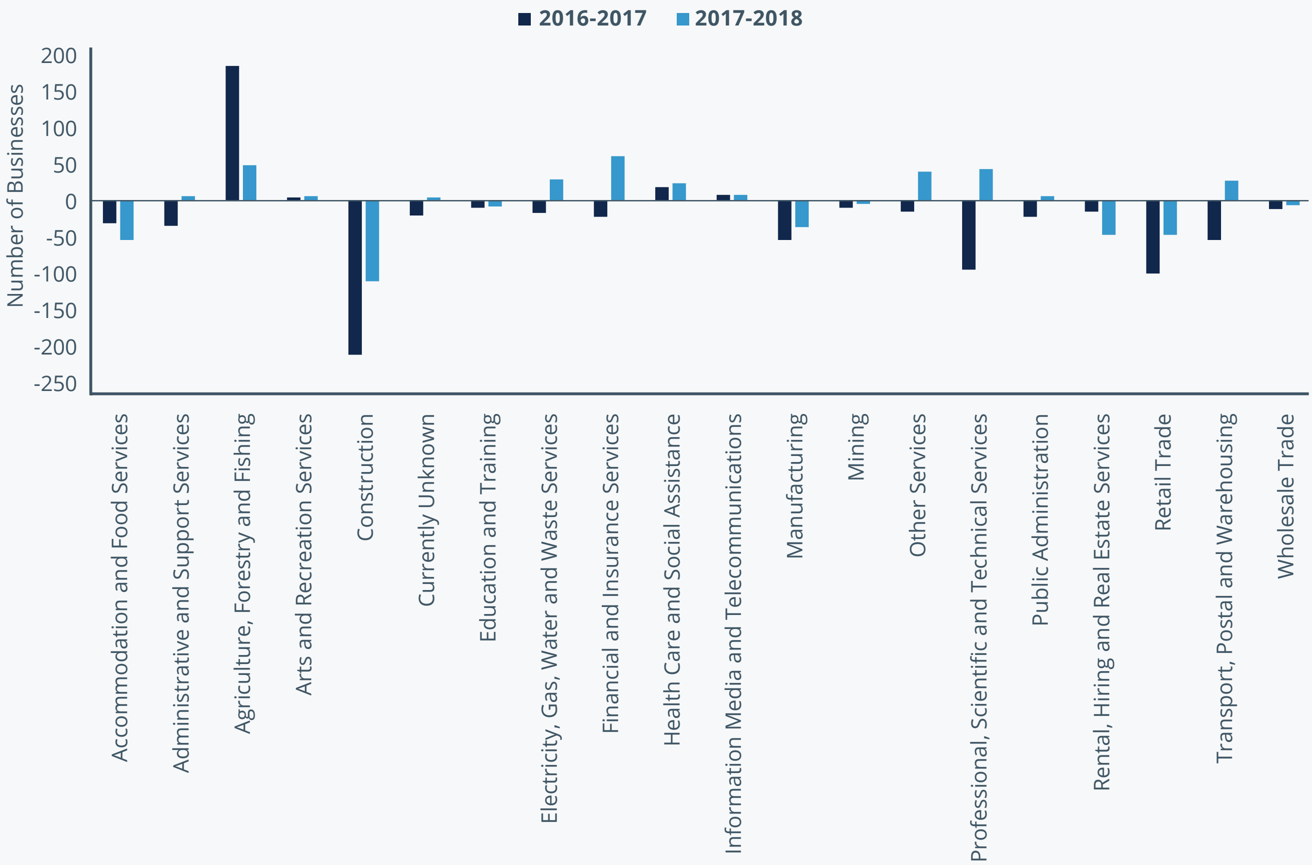
Number of businesses with revenue above $2 million

	2016	2017	2018	Net change
Greater Perth	12,136	11,685	11,589	- 547
Rural and Regional WA	4,646	4,808	4,858	212
Total	16,782	16,493	16,447	-335

Source: ABS, CCIWA

While business numbers increased by 1 per cent in 2016-17 and 2017-18, there were fewer businesses with turnover over $2 million operating in Western Australia

Chart 14: Net Change in Number of Businesses with Turnover > $2 Million, By Industry



Source: ABS, CCIWA

As highlighted in Outlook-July 2019, total business numbers in WA have been propped up by growth in the number of rideshare drivers. In FY 2017-18 in net terms:

1. 1,600 additional transport businesses started in WA in net terms in 'Other Transport Support Services n.e.c' and 'Taxi and Other Road Transport'. Rideshare drivers have driven growth in the ABS headline total business numbers, which have continued to increase at 1 per cent per year. These two categories alone accounted for the entire top 20 exits (in net terms)
2. WA business exits have been concentrated in construction and agriculture. The top 10 exit categories accounted for 1,100 businesses (in net terms).

Summary

Information from people and businesses highlights several areas where costs are growing in the economy. This includes significant costs in property rates and charges, and issues that increase the costs and risk and uncertainty of investing in new projects in WA. These issues negatively affect business investment and profitability and directly detract from business productivity, which is necessary for income and wage growth.

A focus on identifying these problems and actions that address their causes will help to improve productivity and employment in WA.

By keeping costs low, this will help entrepreneurs to use their knowledge to identify and invest in new profitable projects in WA. This will help to boost investment in various sectors of the WA economy and grow employment.

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