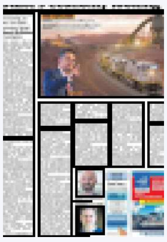

29 JUN, 2019
State's economy looking up
Weekend West, Perth

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Gold and iron ore are soaring, so why isn't WA's economy flying? **Stuart McKinnon** investigates

Wages growth is flat, house prices continue to drift lower and WA's unemployment rate is higher than what could be deemed tolerable.

The State's soft economic data seem to belie the five-year highs for the price of iron ore, a record Australian dollar gold price and healthy markets for key agricultural commodities.

Encouragingly, WA business leaders are predicting a bounce in the State's economy in the second half of the year as big investments in the resources sector and the higher commodity prices begin filtering through the economy.

But they caution that people should not expect a return to the heady days of the last mining boom and have tempered the excitement around prevailing high prices for iron ore and gold.

Multibillion-dollar replacement projects by the big three Pilbara iron ore miners are about to ramp up in the second half of the year along with major investments in the battery minerals sector.

The State Government predicts that over the next four years, WA will experience the strongest growth in gross state product and employment of any State, based on its recently released 2019-20 Budget.

But WA Chamber of Minerals and Energy chief executive Paul Everingham said people should not expect that the 2007-2013 mining boom would play out again.

He said the 10 per cent year-on-year economic growth of China during that period had changed the dynamic for a bunch of commodities for a period of time.

Now China has flat or declining growth, which is half of that experienced during its recent period of rapid modernisation.

Mr Everingham said the high iron ore price was driven by supply disruptions in Brazil rather than demand, while the surging gold price was a function of uncertainty about things such as a hard Brexit and trade wars between the world's two biggest economies.

The price of both commodities would have to remain high for a sustained period before marginal producers put on more supply, he said.

"I know our members are recruiting people but it's not every barista and short-order chef," he said. "They're recruiting diesel mechanics and fitters, specialist boilermakers, welders, technical engineers, process engineers, geologists, geophysicists."

Mr Everingham predicted "some wage inflation" in the third or fourth quarter of the year.

"I feel it, I'm starting to see it but it's not 2007," he said.

WA Department of Treasury figures show employment is up 39,600 since March 2017, including 22,600 full-time jobs.

Of note, the number of people employed on mine sites hit a record high in 2018 with the biggest increases from iron ore, gold and lithium.

Treasury says the unemployment rate has remained elevated because of more people entering the labour market, up 41,100 people since March 2017.

However, an improving labour market is expected to increasingly support wages growth over the next three years.

Association of Mining and Exploration Companies chief executive Warren Pearce said he also expected some economic flow-through in the second half of the year.

"When the commodity price goes up for an existing operation, the company does better, you get more royalties out of it but essentially it doesn't grow jobs because the operation and production numbers stay the same.

"It's the investment in the new projects and expansions that make the difference."

Mr Pearce said new mining projects would start to pump money into the wider economy because new jobs would be created and new money spent.

"And you should start to see that relatively quickly," he said.

He said the resources sector remained at two speeds with producers doing well from high commodity prices while explorers were still struggling to raise money for their projects.

"We're hopeful that when the new projects kick off, and it starts to supercharge the industry, you'll also then get a lot of people wanting to come back and invest in the industry and looking at opportunities at the junior end," Mr Pearce said.

Outgoing chief economist at the WA Chamber of Commerce and Industry Rick Newnham said investment decisions on resources projects had decades-long horizons and were not based on short-term commodity spikes.

However he said the State could expect to see an increase in

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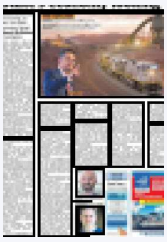

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exploration as a result of the higher commodity prices.

Mr Newnham said he was confident WA business investment, which had halved since its zenith in 2012, would rebound next year with a wide range of new investment and sustainment projects on the horizon, which would benefit jobseekers and households.

"One immediate way the WA Government can ensure the windfall of higher royalties is shared across the economy, particularly by jobseekers, is to reduce the small business tax on jobs — payroll tax," he said.

So how are the Government's finances going since Premier Mark McGowan declared in 2017 that they were in the worst shape since the Great Depression.

Mr Newnham noted that WA now kept every single additional iron ore royalty dollar that it raised thanks to the GST deal and the 70¢ floor.

"That means this windfall of iron royalties to the State Budget is unlike any other in our recent history," he said. "Previously, WA would keep just 10 per cent of any iron ore royalty windfall."

The State Government receives an extra $81 million over the year for every $US1/t the iron ore price stays above its predicted price.

If the prevailing iron ore remains steady at about $US110/t over the course of next financial year, the Government will reap an additional $3 billion in revenue given its predictions of an average iron ore price of $US73.50/t CFR over the period.

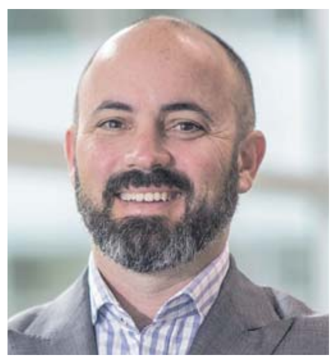
Treasurer Ben Wyatt said though WA was seeing some high commodity prices, they were unsustainable and the Government was not assuming they were a long-term reality.

"Importantly, the State economy is growing again, more people are returning to the jobs market and the increased commodity prices should have a positive impact on employment and the broader economy," he said.

"We also remain the only State with debt heading down, which should give us more ability to focus on job-creating projects."

On the property front, the State Government is predicting a modest recovery in house prices in 2019-20, with the housing market expected to continue to improve over the next four years.

A lift in infrastructure spending at Federal and State levels should also help support economic growth and employment levels.



Paul Everingham

Warren Pearce

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