



Where will Western Australian business growth come from in 2018?

Business growth is hard to come by, many people we know are planning, working (and fretting) about where their growth is going to come from in 2018. Costs go up relentlessly, topline revenue growth is required from every business to maintain business sustainability.

The West Australian Economics Editor, Shane Wright published an article “Where is WA’s economic growth going to come from?” in late 2017. Following on from that piece, we thought its worth looking at where growth for business in Western Australia will come from with the intent that that’s where business owners and managers can focus.

We’ll break this down into 4 parts;

Part 1 - Western Australian macroeconomic environment

Part 2 - Big trends that we believe will impact Western Australian business

Part 3 - Longer-term growth drivers for Western Australian business

Part 4 - Short term growth drivers that business can implement in 2018



Part 1 - Where will Western Australian business growth come from in 2018?

We look at 5 macroeconomic indicators to paint the picture of the WA economy and we've added a few more that additional insight.

Gross Domestic Product (GDP)

We all know Australia has had a record-breaking run of consecutive growth in GDP but what about WA? Unfortunately, there is no breakdown by state by the Australian Bureau of Statistics (ABS), the good news is there is an ex-ABS statistician who does.

The picture of GDP in Perth is not pretty. As you can see from figure 1 (below), technically WA is in a recession. 3 straight years of GDP per capita decline with the principle contributor being the end of the mining boom.



Source: Australian National Accounts: State Accounts, Cat. No. 5220.0 and SGS Economics & Planning

figure 1: Perth and Regional WA GDP per capita growth - volume.

Credit: SGS Economics and Planning - December 2017



Looking forward, we can expect public administration spending to be negative as the State Government grapples with WA's debt burden. This will also impact in wider areas due to reduced government spending.

Our view is that the sharp declines are over, however overall GDP growth will continue to be negative. Household and business consumption will be the key to a return to positives, right now these two areas do not have any shining lights.

Inflation

Everyone agrees, inflation will remain low. Finish!

It's worth talking about wages growth though. Wages growth can be a big contributor to input costs that drives many business's internal inflation. Wages growth does not appear to be a risk given the last 5 years of low growth, in fact, wages growth may be a negative contributor to business growth as household spending is reined in in a low wages growth environment.

It is the negative impact of low wages growth that is concerning for the WA economy. As mentioned earlier, increased household consumption is something we need, and the source of income for households is wages. 5 years of low growth appears to be now impacting household spending levels especially those with high household (mortgage) debt. Low wages growth is great for business profit margins but now is a drag on growth.

Interest Rates

After 7 years without a rate increase, the chances of interest rate increases has risen with two banks (ANZ, NAB) forecasting an increase.

Interest rates are dependent on many factors, the one worth mentioning is the property markets of Sydney and Melbourne. Anecdotally, these markets are showing signs of their growth receding which is good for WA business as it reduces the risk of rate rises.

Our view is that if there is a rate rise, 0.25 % is the probable size and would probably be mid-year. Overall, we think it's unlikely.

Given the state of household spend and debt right now, any interest rate rise would be very unwelcome for the WA economy and will have a negative impact.



Australian Dollar

The performance of the Australian dollar can drive costs for many businesses in WA. Strengthening of the Aussie dollar will mean cost of goods increases for many, either directly or indirectly as input costs go up, and vice versa.

Right now, the forecasts have some pundits saying 'strengthening' (e.g. CBA) and others saying 'weakening' (e.g. NAB, WBC).

In absence of any direction of the dollar, we've had to assume 'no change' and hope we are correct. What is clear from our research is there is no consensus agreement.

Unemployment

WA unemployment is sitting at 6.6% (November 2017, seasonally adjusted). The trend was running pretty nicely down in 2017 only to reverse course somewhat late in the year.

It's important for business growth as it will go to household spend levels, rising unemployment will impact doubly, firstly the households who are unemployed and, secondly, overall households 'consumer confidence' will drop. Consumer confidence by households is currently neither confident or not-confident with concerns over the household finances as the key issue...not a big surprise.

What troubles us is that, nationally, unemployment is at 5.4% and trending down. The Federal Government is not likely to do too much for just WA, the big states are in good shape. If unemployment continues to drop Australia-wide, the Fed's policy setting may hurt us here!

There is an upside, low unemployment (normally) boosts wages growth. Hmmm, but probably not in WA.

We're thinking unemployment will increase but not dramatically. Our real concern is a recovery in household spend, we're not bullish on that at all.



Our Summary

So, what does all this mean?

We've looked at 5 macroeconomic indicators for WA in this article. Our view is that Western Australian businesses should not plan for growth to come from the WA economy, in other words, 'natural growth'. We can see no indicator that gives us confidence.

Western Australian businesses are going to have work extra hard to grow their businesses in 2018, there are no 'tailwinds'. Conversely, we believe the 'headwinds' will lessen but not disappear. It's not 'gloom' but it's also not 'boom'.

So, go back to your 2018 business plan. Check your economic assumptions, if they're bullish, maybe you need to rethink them.

2018 business growth is going to have to come from;

- Being on trend (Part 2)
- Activating growth drivers (Parts 3 & 4)

We'll publish those articles shortly. If you want us to send to you directly, please sign up on our website to our newsletter and we'll email you.

Final Word

Some segments of the WA economy are doing well like;

- Financial and Insurance
- Education and Training
- Healthcare and Social Assistance

If your business is involved in these segments, make sure you are planning for 'over & above' growth. These segments have 'tailwinds' we expect to continue in 2018 so don't miss the opportunity.

References

1. Economic Performance of Australia's Cities and Regions - SGS Economics & Planning, December 2017. www.sgsep.com.au
2. West Australian Newspaper - Where is WA's economic growth going to come from? Shane Wright, Economics Editor, 11th December 2017
3. Australian Bureau of Statistics - Labour Force, Australia, Nov 2017. Catalogue Number 6202.0, released 14th December 2017
4. Photo - Hay Street, Perth. Photo by Wilf Luck on [Unsplash](https://unsplash.com/photos/Wilf-Luck)