

Mines dig State out of a hole

EXCLUSIVE PETER LAW

WA's economy is forecast to only shrink slightly due to COVID-19 this financial year, thanks largely to the State's resilient mining sector and enormous levels of fiscal stimulus.

That's according to the Chamber of Commerce and Industry WA's biannual economic forecast, which defies a State Treasury prediction that the economy would contract 3.1 per cent in 2020-21 — the worst on record.

The report warns the current financial year was expected to be "extremely difficult" but a growth in exports and a significant decline imports should see WA's gross State product drop just 0.2 per cent.

CCIWA chief economist Aaron Morey said he had expected the economic shock would be worse, but mining investment and WA's huge export base had held the State in good stead in the pandemic. He said WA had benefited from high iron ore prices due to strong demand from China and supply difficulties in Brazil, which was first hit by the Vale disaster and then suffered badly with coronavirus.

The Australian and WA economies were being propped up by an unprecedented amount of government fiscal support, with retail spending by many measures actually higher than it was at the same time last year.

But Mr Morey said the health of the overall economy was only part of the story, with the winding back of JobSeeker and JobKeeper posing the greatest risk to service-based sectors like retail and hospitality.

Unemployment in WA was forecast to reach 11 per cent, feeding a cycle of falling consumption (-3 per cent) and busi-

ness investment (-4.5 per cent), as well as population growth plummeting to the lowest levels since 1916.

Lower population growth and the building of additional homes, fuelled by the Federal and State Government's incentive schemes, may see house prices fall further, with resulting fallout of reduced household wealth and spending.

All of this comes at a time when the WA economy has been "struggling to find its feet", particularly outside the mining sector, where investment has contracted in six of the past seven years, the report states.

Mr Morey said Western Australians were likely to face more than a year of uncertainty and low appetite for spending, with fewer hours being worked and more people out of jobs. Unemployment could remain at 9 per cent into 2021-22, he said.

"We're in the eye of the storm. Massive fiscal support is propping up the economy at present and we haven't seen the full weakness in the global economy play out," he said.

The peak business lobby group said promoting business investment and confidence would be critical to WA's recovery. Even a 1per cent increase in business investment in each year would make the WA economy \$1.5 billion larger.

"We don't have to accept our economic fate. If we stimulate investment we can avoid much worse conditions. So it's really up to our policy makers to not be content to resigning our economy to another decade of incrementalism when it comes to reform — be ambitious," Mr Morey said.