

WESTERN AUSTRALIA A PRE-STATE ELECTION OVERVIEW

9TH MARCH 2021

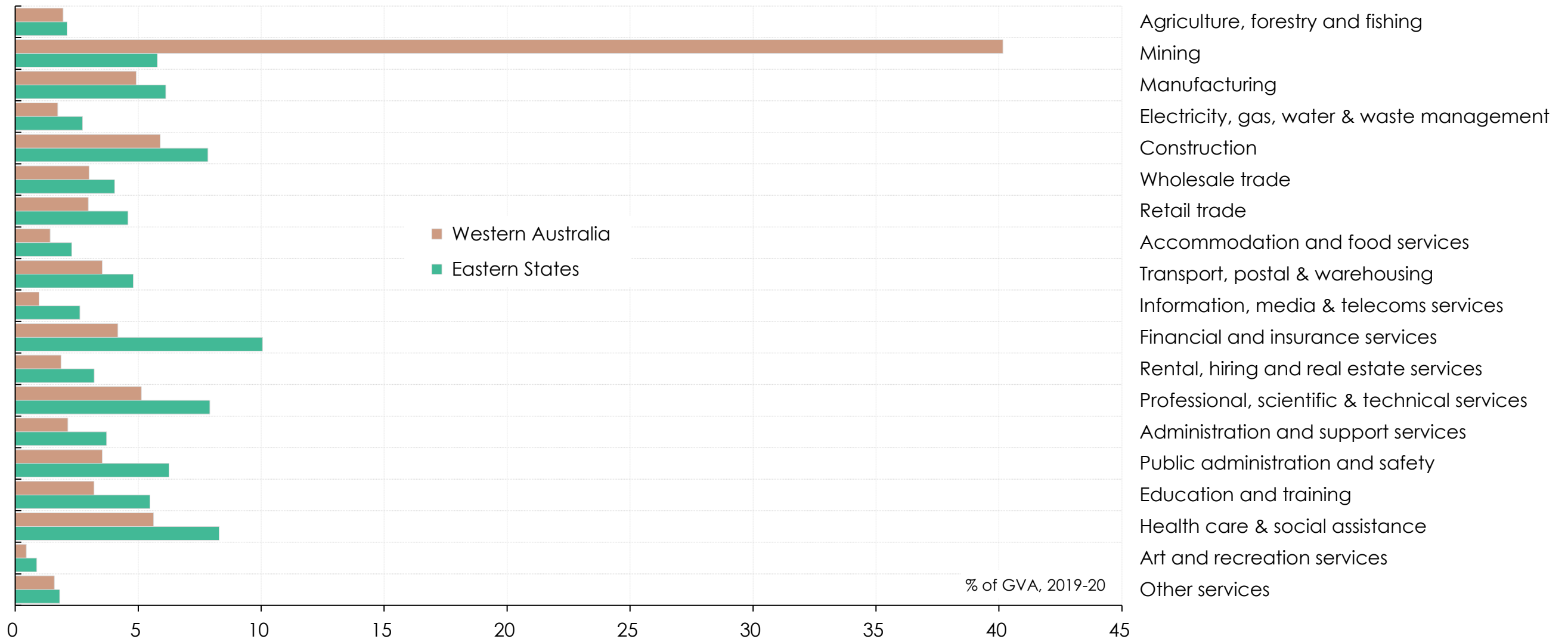
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

About Western Australia

- ❑ **Western Australia covers an enormous amount of land – 6,418 square kilometres (2,478 square miles) – the second-largest sub-national jurisdiction in the world (after Russia’s Sakha Republic), 71% larger than Alaska**
- ❑ **Western Australia’s population as at 30th June 2020 was 2.66mn – a bit less than Kansas, or Lithuania, a bit more than Namibia**
 - of whom just over 2mn (or 77%) live in metropolitan Perth
 - the next largest cities are Bunbury (75K), Busselton (40K), Geraldton (37K), Albany (34K) and Kalgoorlie (29K)
- ❑ **Mining (including oil and gas) accounts for 40% of Western Australia’s gross value added (up from 25% in 2005)**
 - iron ore accounts for 60% of the value of WA’s minerals and energy production, LNG 16%, gold 9%, crude oil & condensate 5%, bauxite & alumina 4%, nickel 2%, copper 1% and spodumene (lithium ore) 1%
- ❑ **Exports of goods and services account for 59% of WA’s gross state product (cf. 17½% for the rest of Australia) – WA contributes 45% of Australia’s total exports (by value)**
 - mineral products account for 56% of WA’s total exports, of which iron ore accounts for 52%, ‘confidential items’ (including LNG and alumina 21%), and gold 11%
 - 79% of WA’s mineral and energy exports (including 82% of iron ore exports) go to China
 - WA is also a significant grain producer, accounting for 71% of Australia’s total wheat exports in 2019-20
- ❑ **Western Australia has become Australia’s richest state (by most measures) as a result of the ‘boom’ induced by China’s appetite (and willingness to pay for) WA’s resources**
 - WA’s per capita gross product rose from 6% above the national average in the 1990s to 50% above the national average in 2010-15, falling back to 33% above the national average in the aftermath of the ‘boom’ but now back up to over 50% above the national average as iron ore prices have climbed back to their highest levels in 8 years
- ❑ **However WA squandered a good deal of this wealth – assuming that it would be ‘bailed out’ by changes to the system of sharing revenue from the GST among states and territories from which it had previously benefited when it wasn’t so rich**
 - in 2018 the federal government legislated changes which met most of WA’s demands for changes in the GST revenue-sharing system
 - these changes mean that WA will get to keep more of the increased revenue from mineral royalties it is now reaping as a result of the rebound in iron ore prices, putting its finances in much better shape than other states and territories

The Western Australian economy is heavily dependent on mining (including oil and gas extraction)

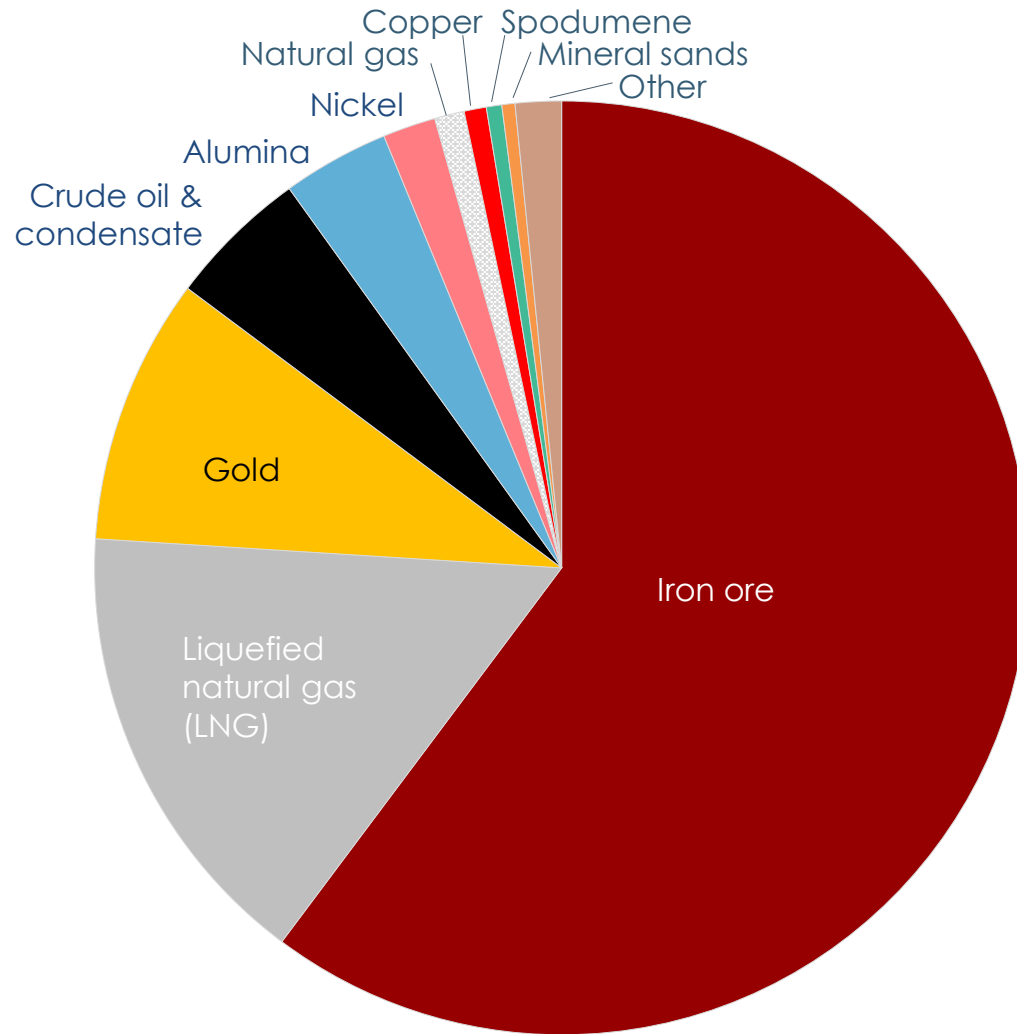
Industry composition of gross value added, Western Australia and the 'eastern states', 2019-20



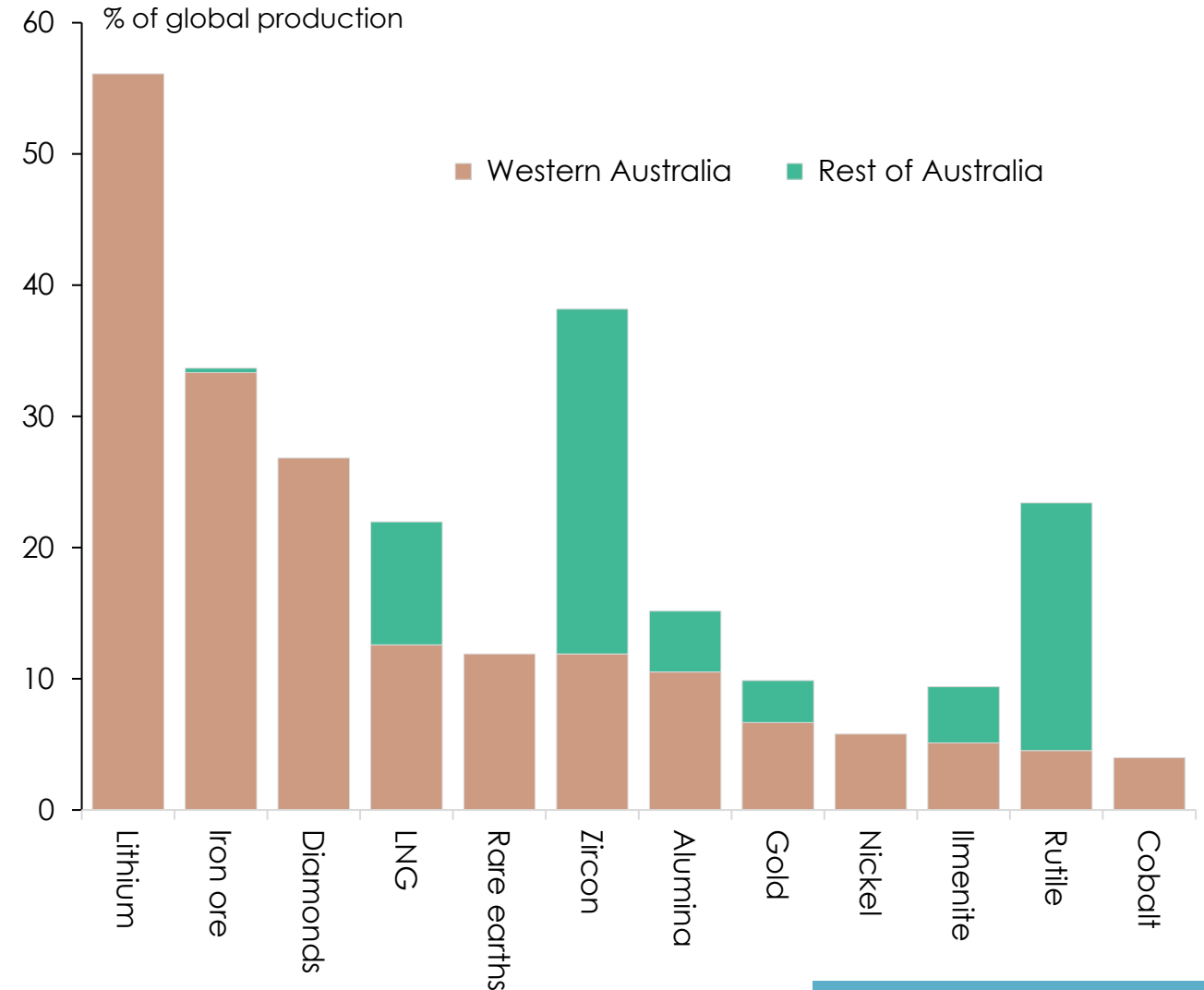
Note: 'Gross value added' is gross state product less net indirect taxes. Contributions to GVA from 'ownership of dwellings not shown.
Source: ABS, [Australian National Accounts: State Accounts](#), 2019-20.

Western Australia is a globally significant producer of a range of mineral and energy commodities

Value of Western Australian minerals and energy production, by commodity, 2019-20



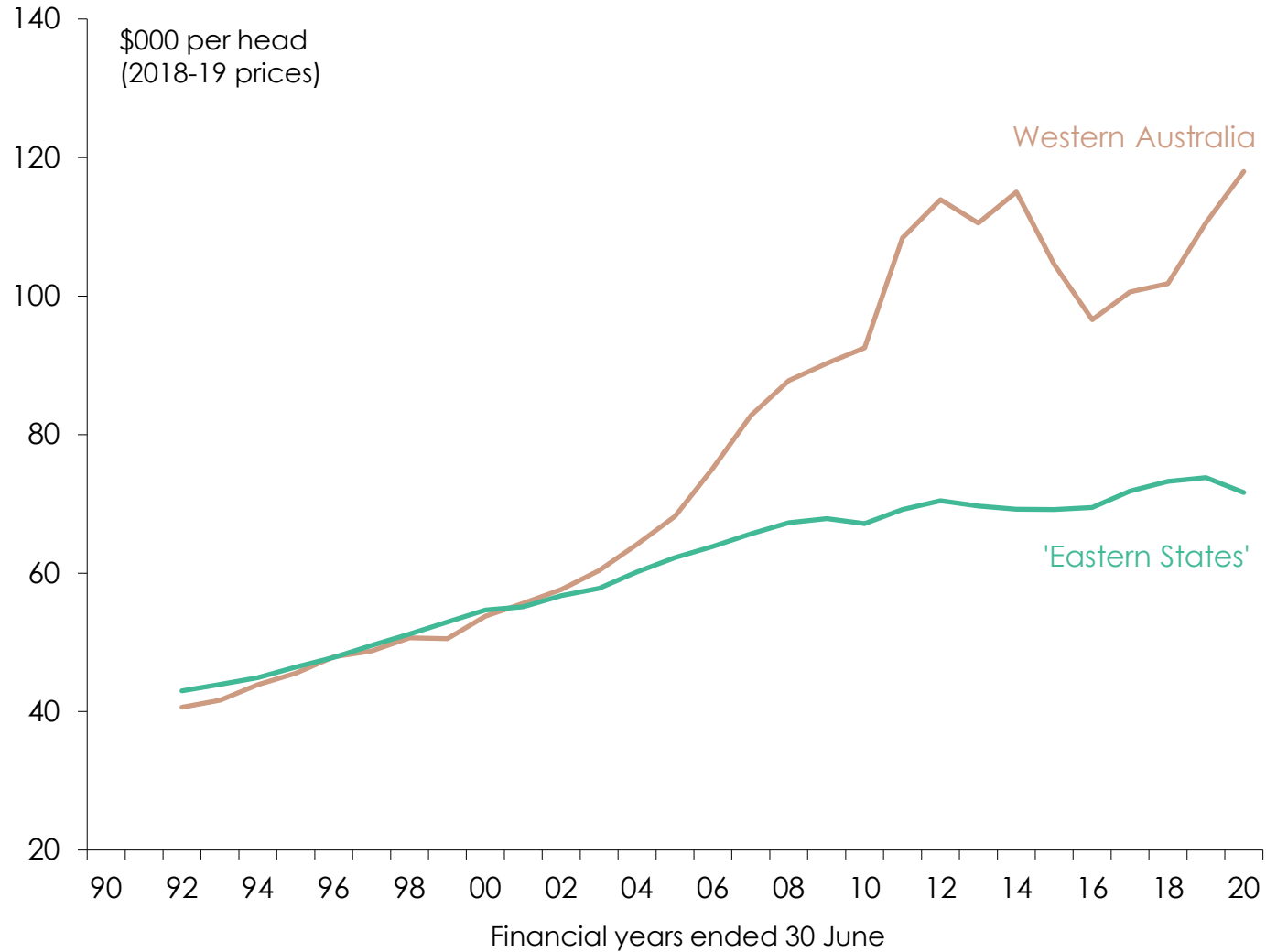
WA mineral production as a pc of world totals, 2019



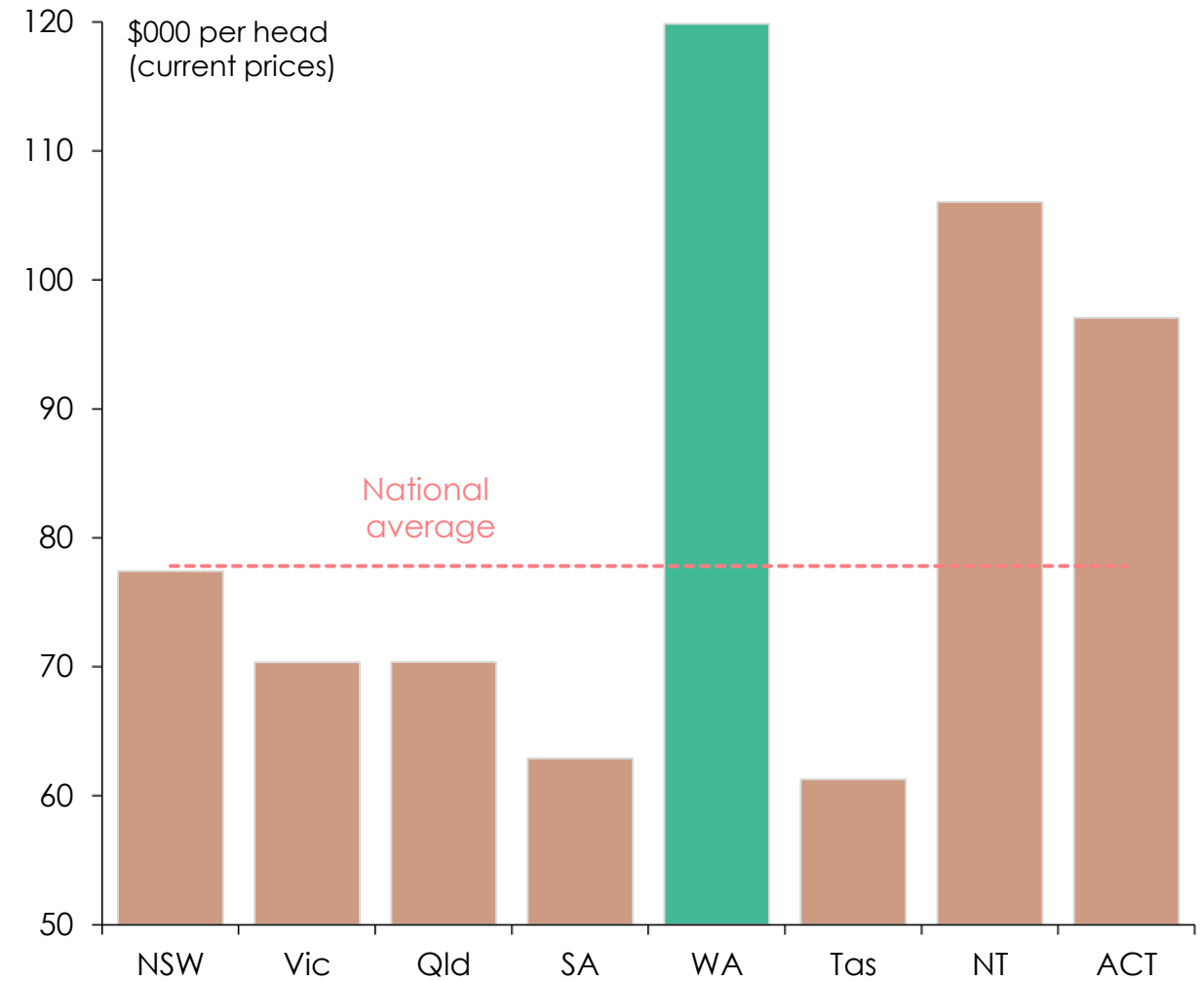
Note: Spodumene is an ore of lithium. 'Mineral sands' includes zircon, ilmenite and rutile.
 Source: Western Australian Department of Mines, Industry Regulation & Safety, [Latest Statistics Release](#).

Western Australia has become the richest state in the nation, thanks to the iron ore boom (driven by demand from China)

Real gross state income per head, Western Australia and the 'Eastern States', 1991-92 to 2019-20



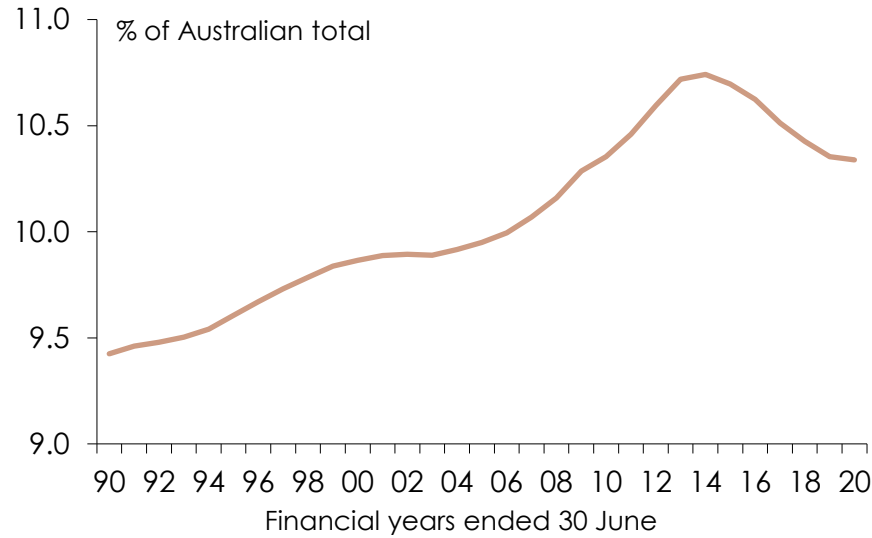
Gross state product per head, states and territories, 2019-20



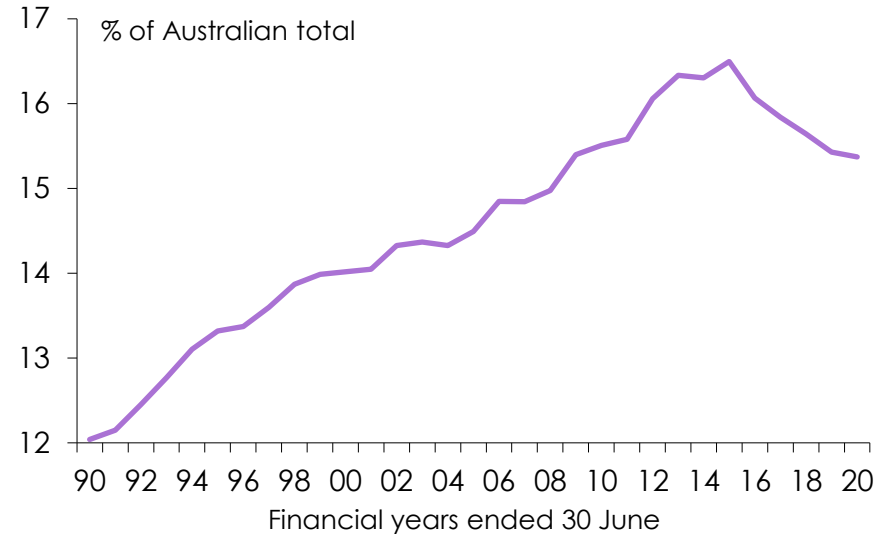
Source: ABS, [Australian National Accounts: State Accounts](#), 2019-20.

Western Australia's share of many dimensions of the Australian economy has increased significantly over the past thirty years

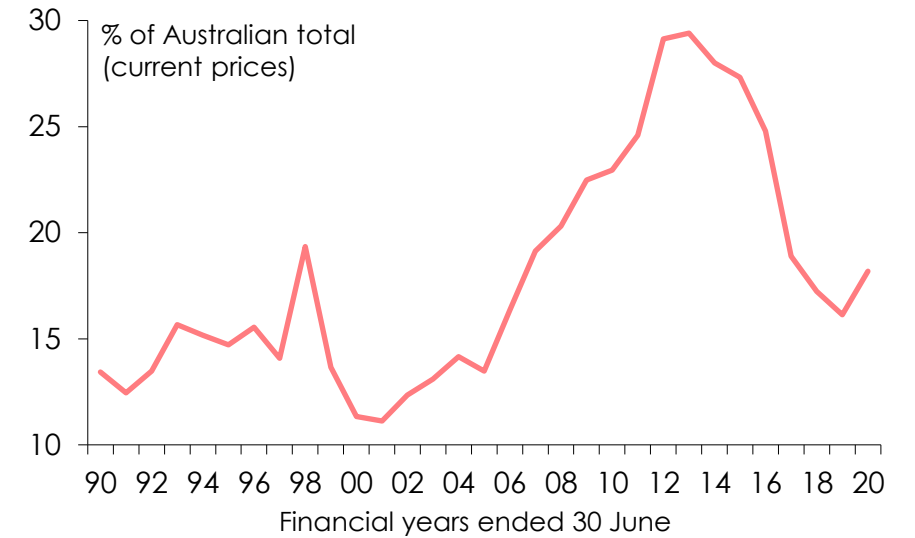
Population



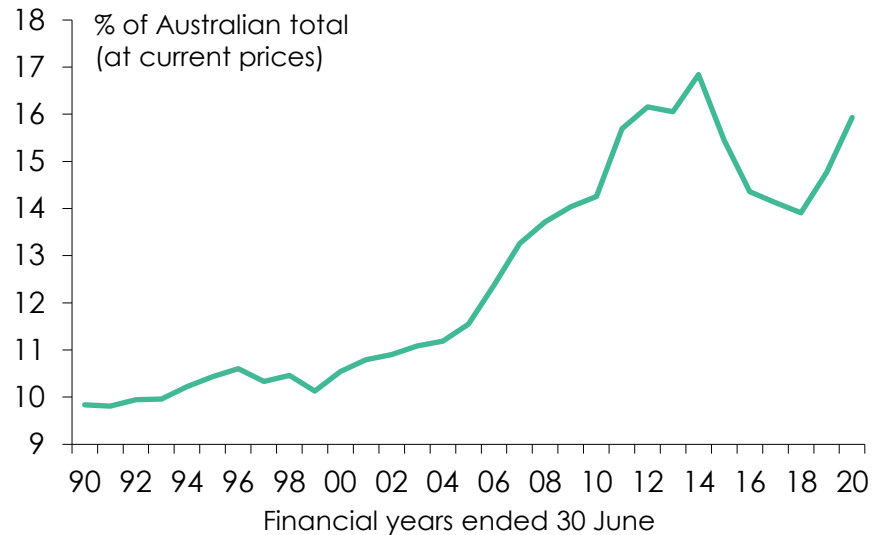
Employment



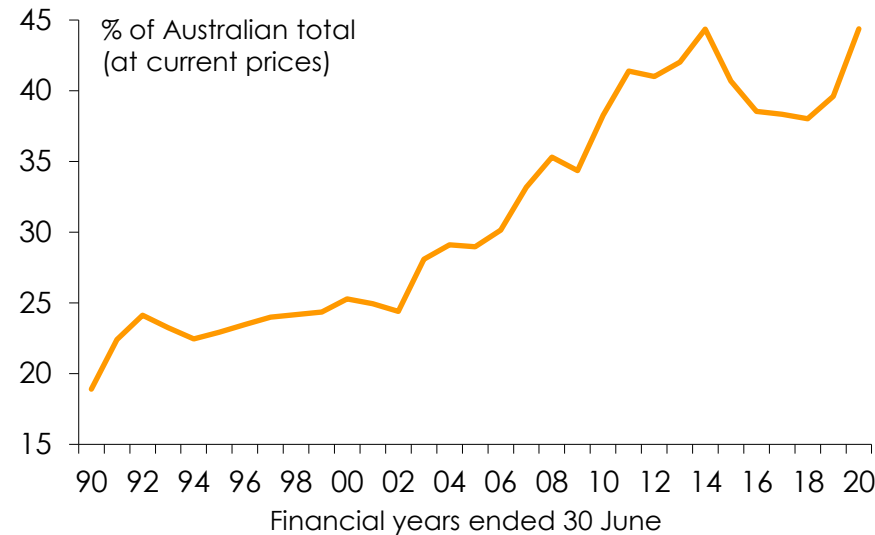
Business investment



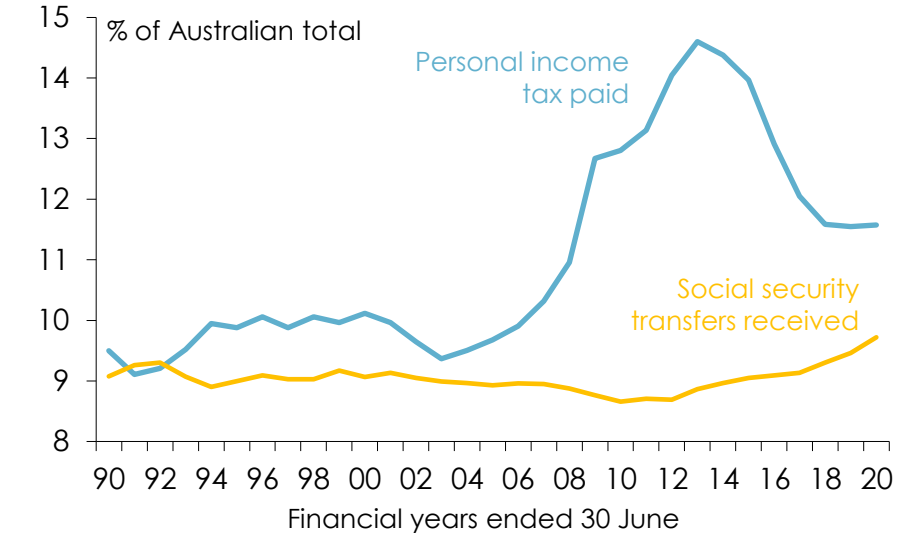
Gross product



Exports of goods and services

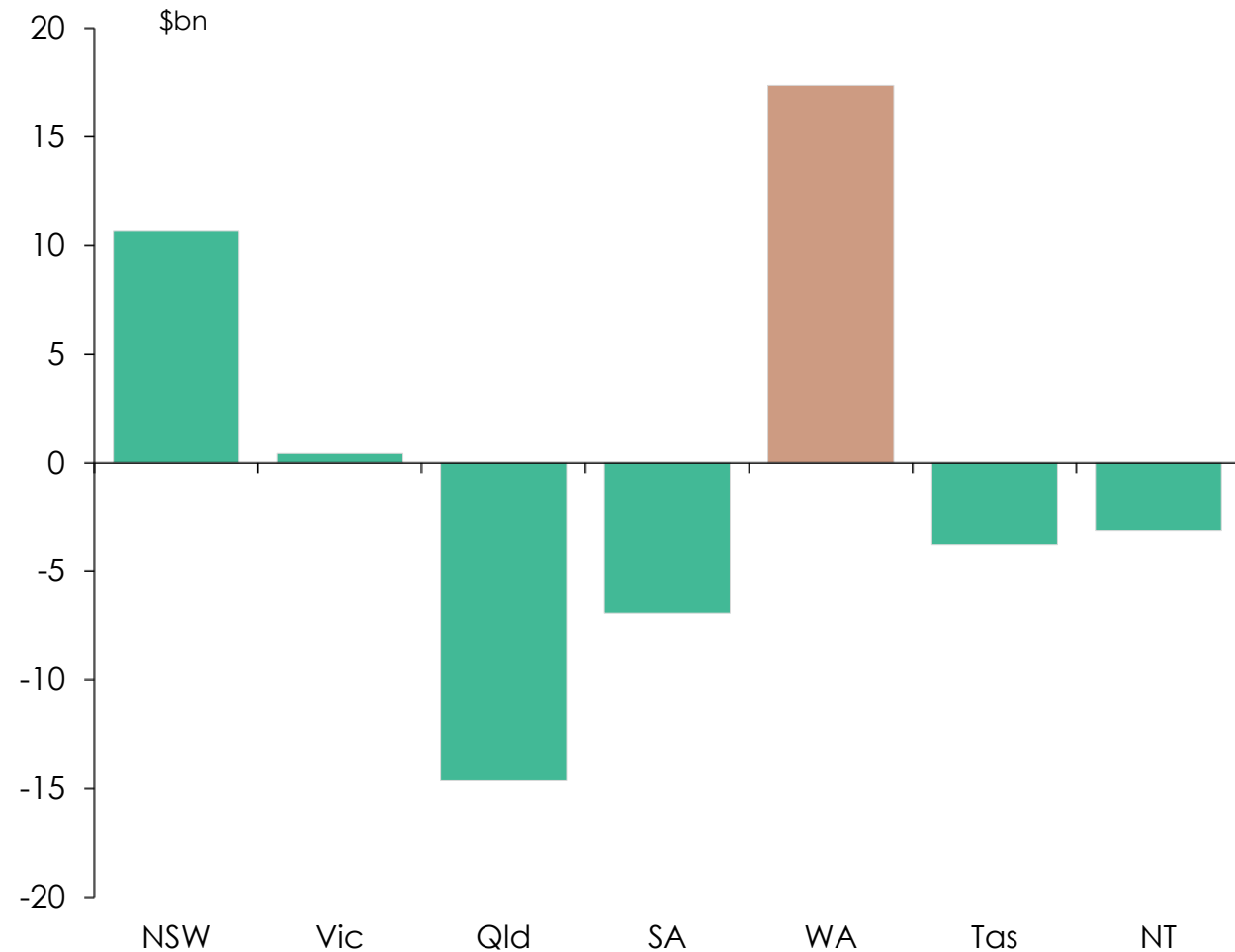


Income tax paid & benefits received

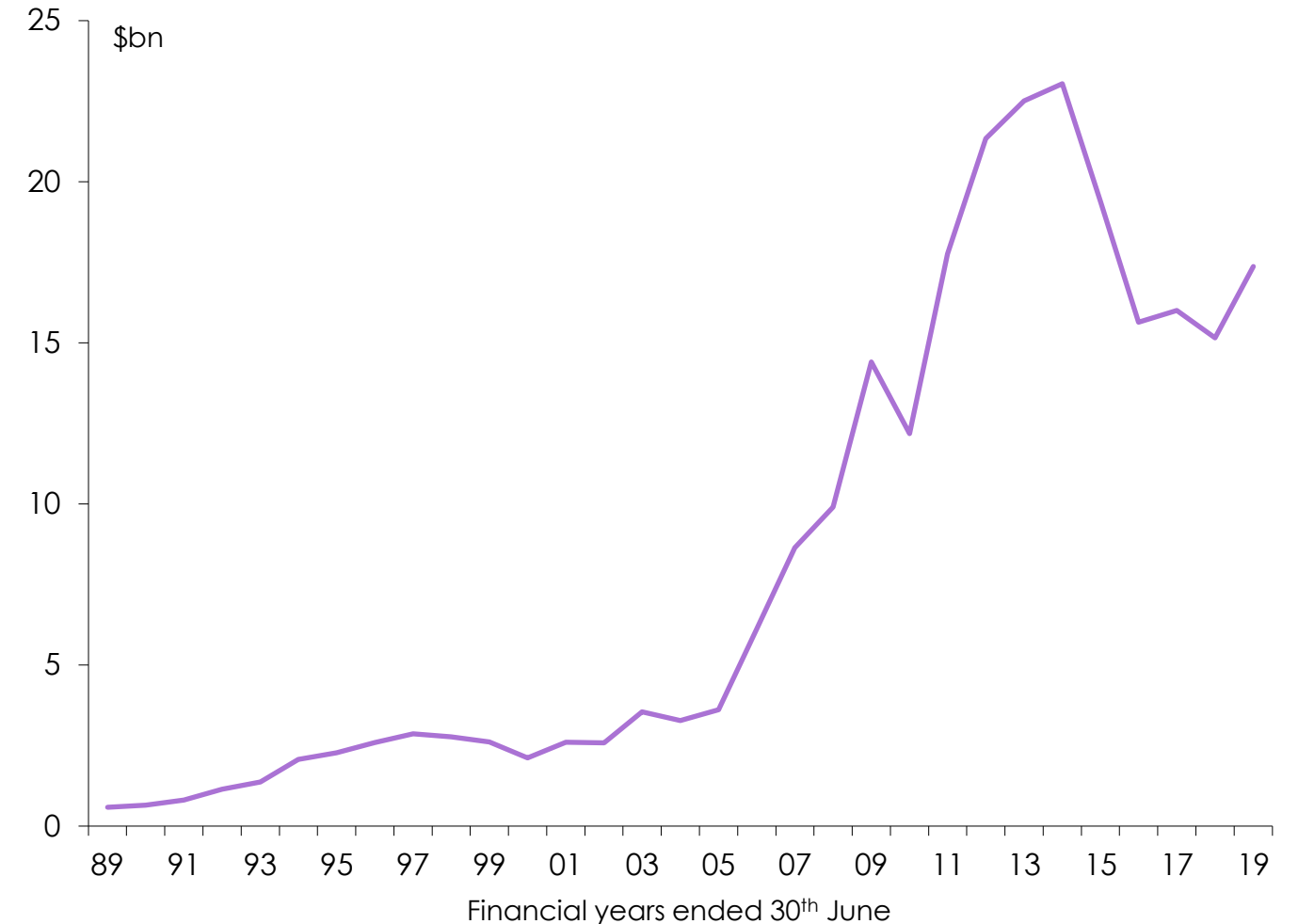


Western Australia's Treasury argues every year that WA puts a lot more into the Australian federation than it gets out of it

'Net contribution' of each state to the Australian federation as estimated by WA Treasury, 2018-19



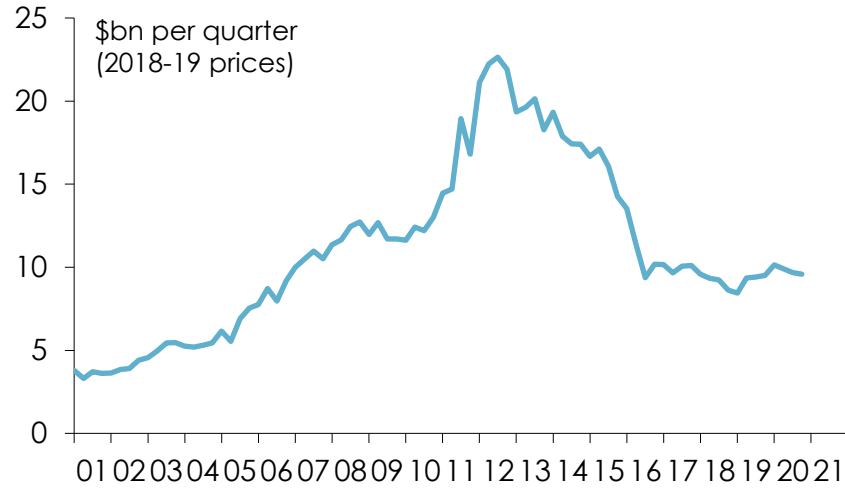
Western Australia's estimated 'net contribution' to the Australian federation since 1988-89



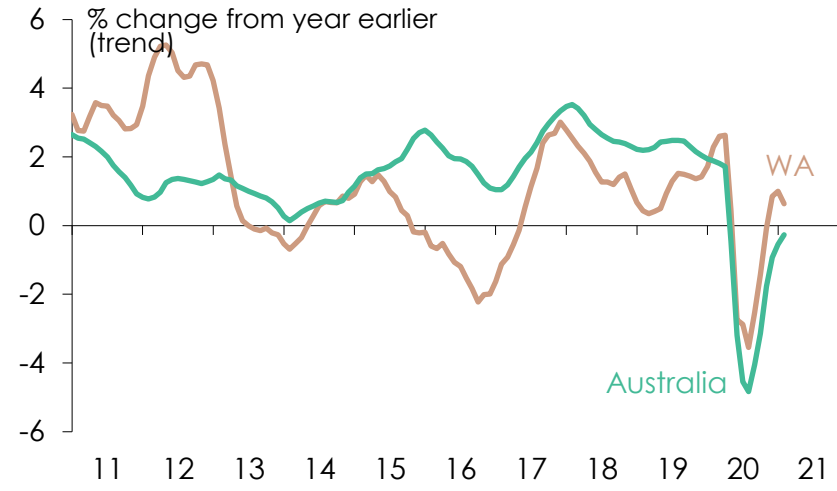
Note: Estimates of each state's 'contribution' to the federation are based on payments of personal and company income tax, fuel excise, and taxes and royalties on mineral extraction collected by the Federal Government from residents and businesses in each state, less Federal Government expenditures, personal benefit payments and grants to residents, businesses, universities and state and local governments in each state, plus the net impact of GST revenue-sharing. The ACT is excluded (and Federal revenues and outlays relating to the ACT distributed to other states on a per capita basis, on the basis that "the ACT would be unlikely to exist as a separate entity if the federation dissolved"). Source: Government of Western Australia, 2020-21 [Budget Paper No. 3: Economic and Fiscal Outlook](#) (October 2020), Appendix 10.

WA fell into a recession after the peak of the mining investment boom, with people leaving and house prices falling – but that’s over now

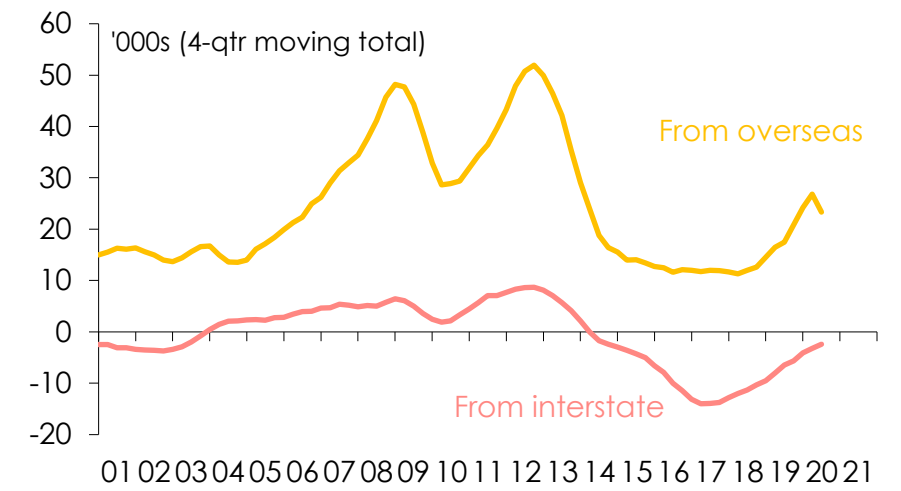
Business investment



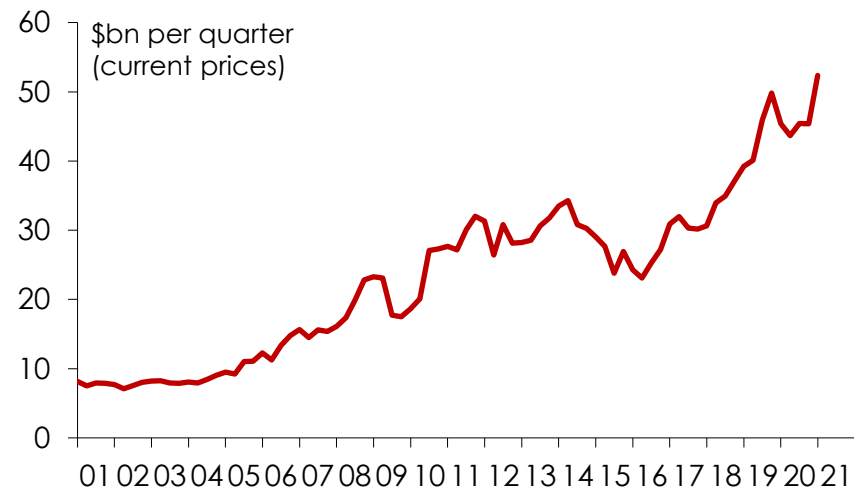
Employment



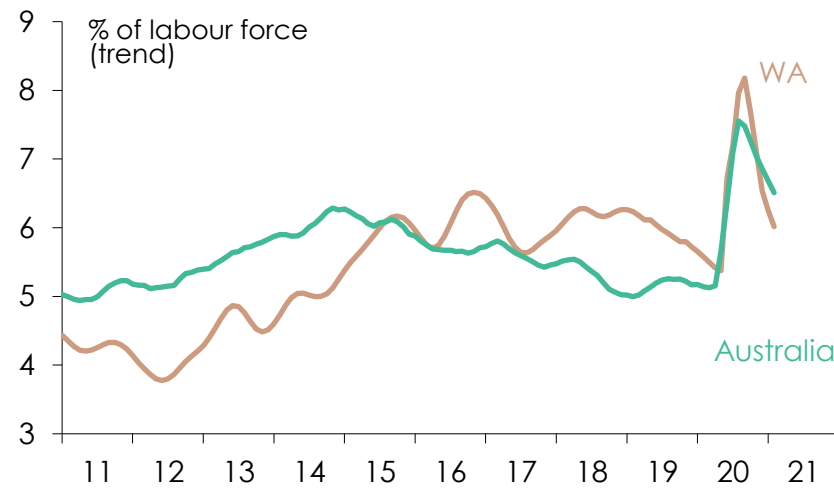
Net migration to WA



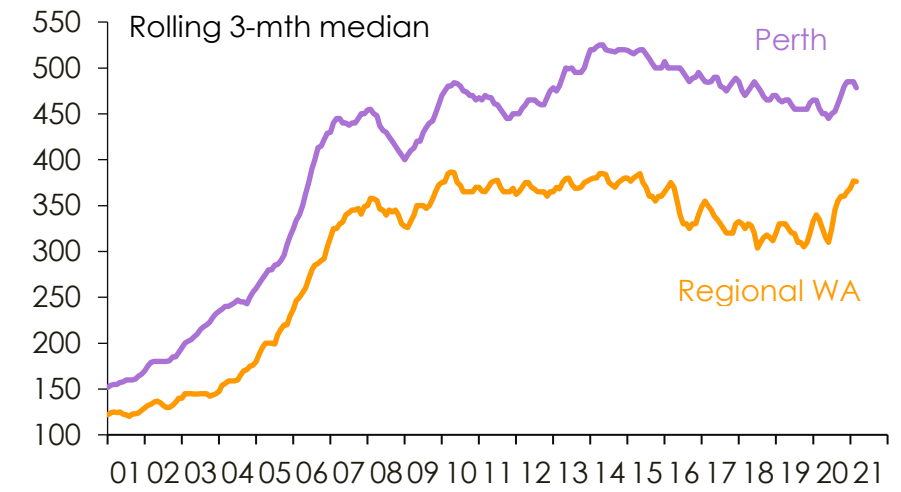
Exports



Unemployment



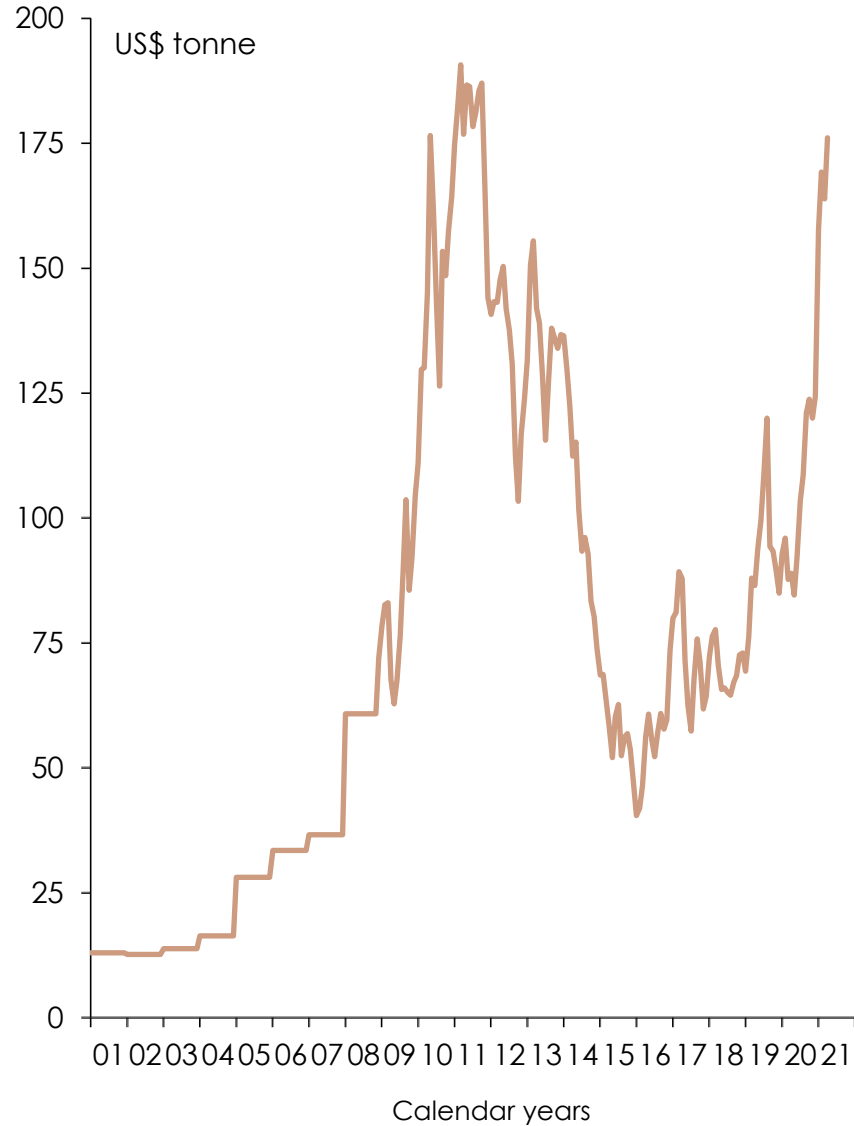
WA housing prices



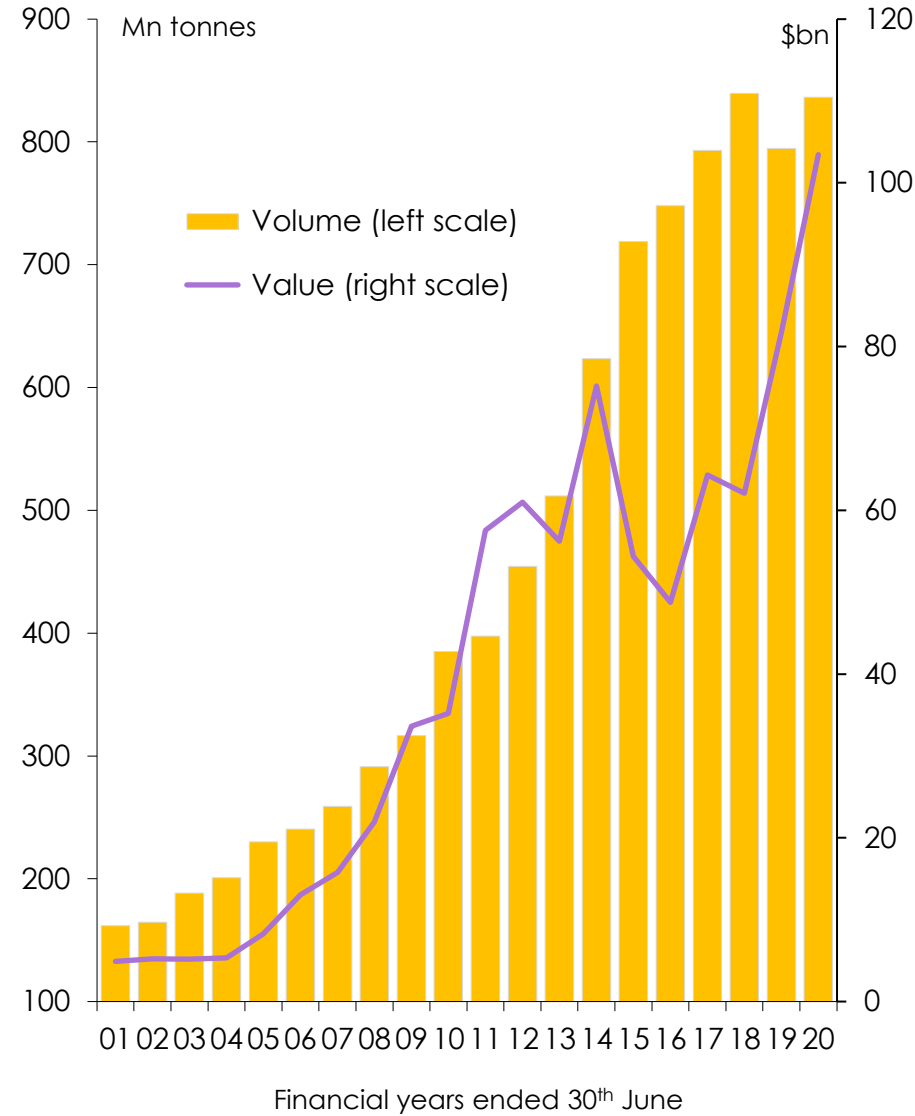
Sources: ABS; CoreLogic

Rising iron ore prices have produced a royalty revenue bonanza for WA – especially now that production volumes have more than doubled

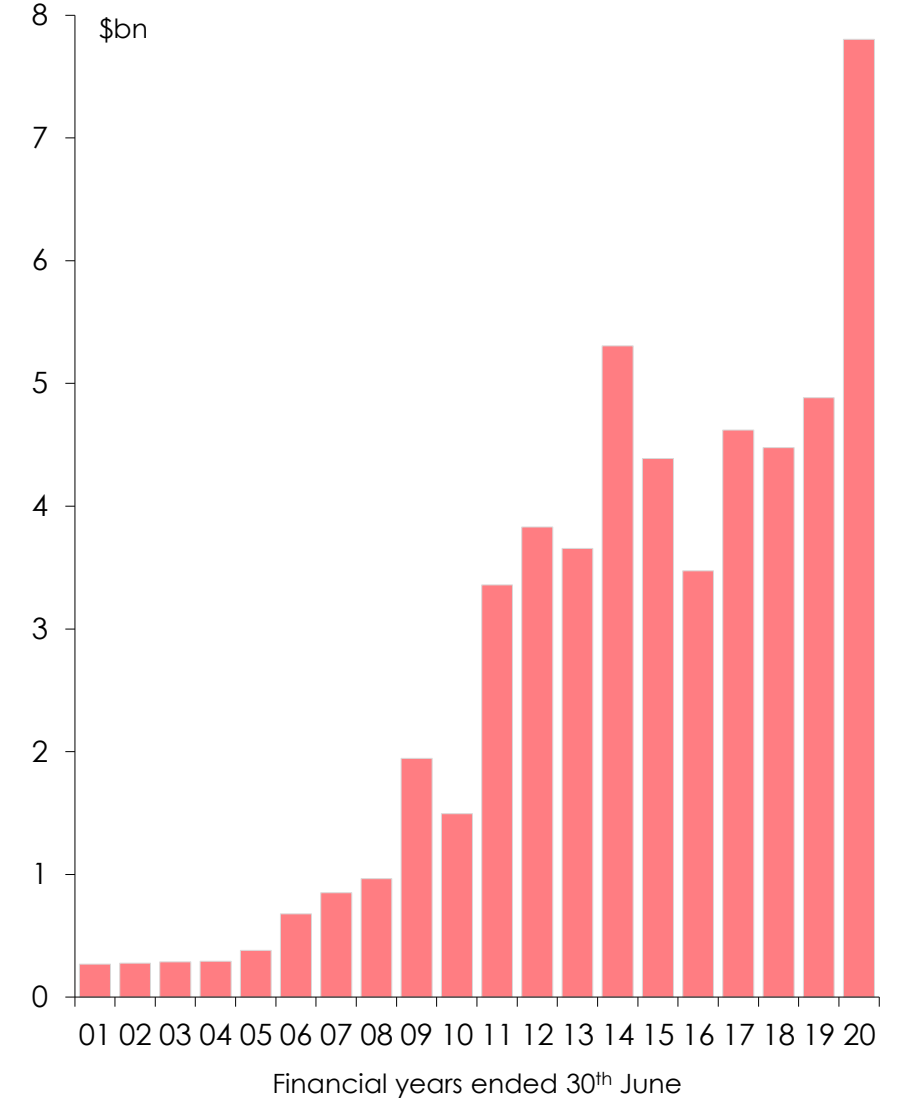
Iron ore prices



WA iron ore production



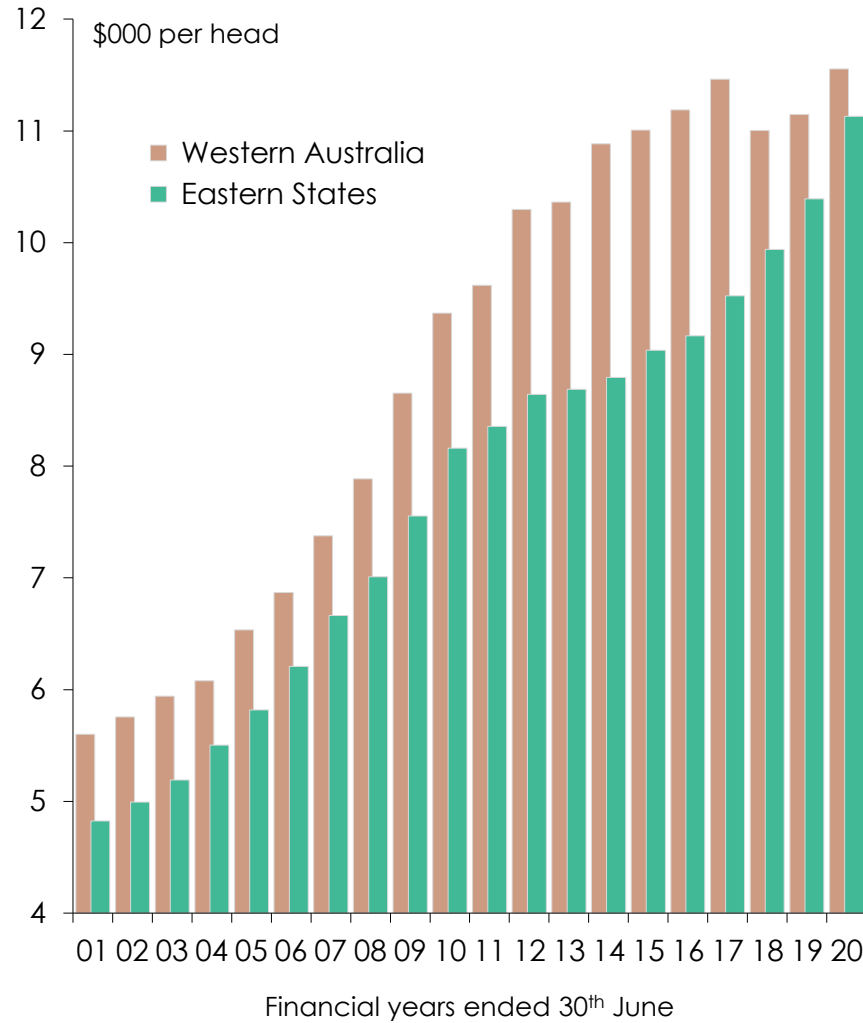
WA iron ore royalty revenue



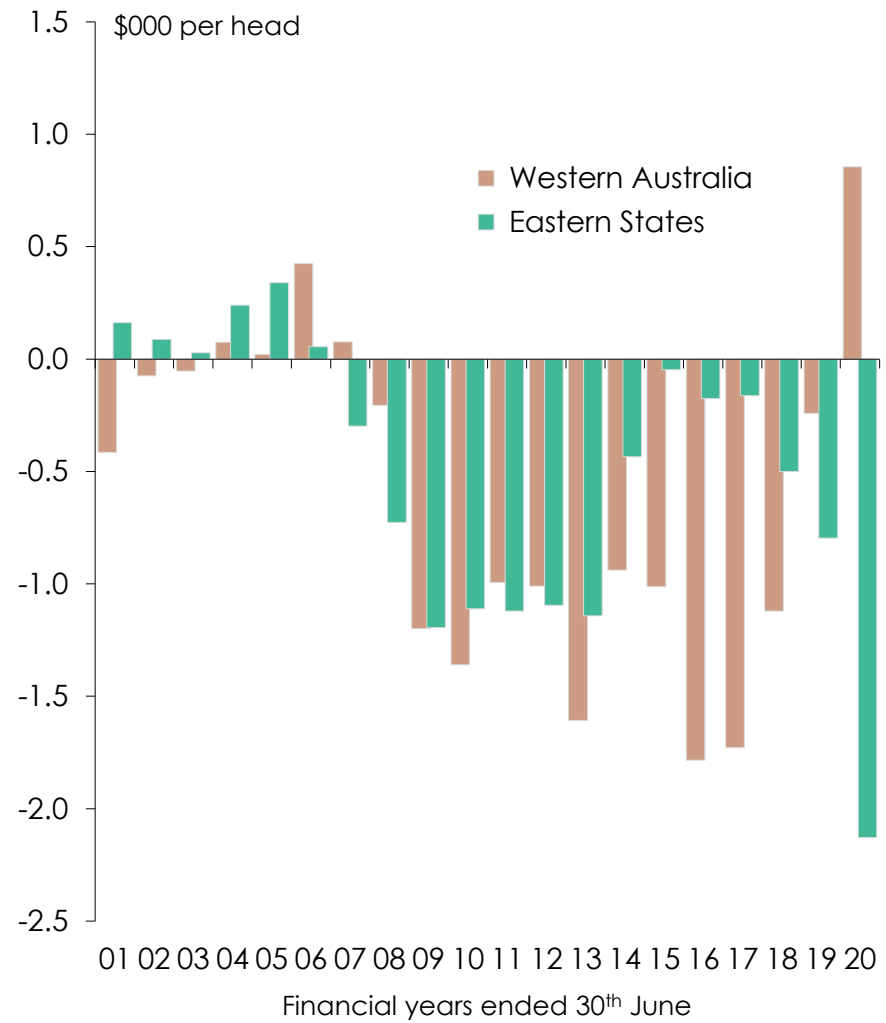
Sources: Refinitiv Datastream; Western Australian Department of Mines, Industry Regulation & Safety, [Economic Indicators Resources Data](#).

Western Australia largely squandered the benefits of the 2005-2015 mining boom – the current state government has had to be more frugal

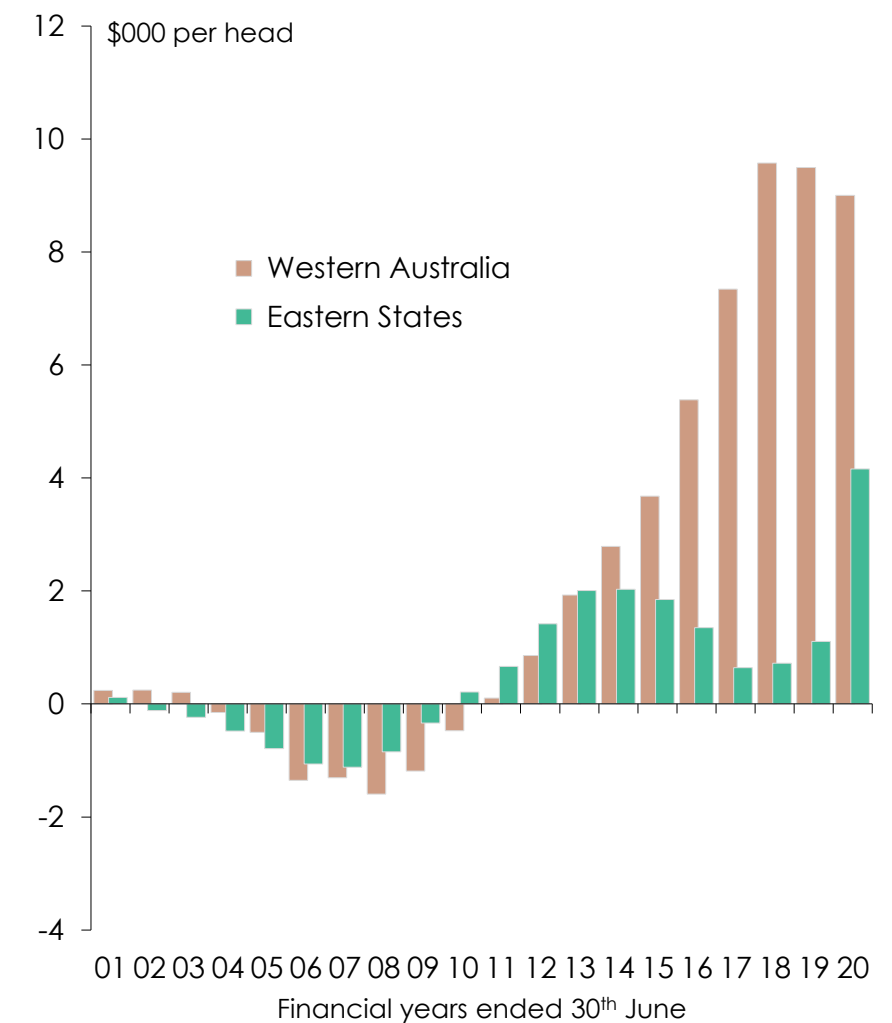
'General government' operating expenses per head of population



Non-financial public sector cash deficits per head of population



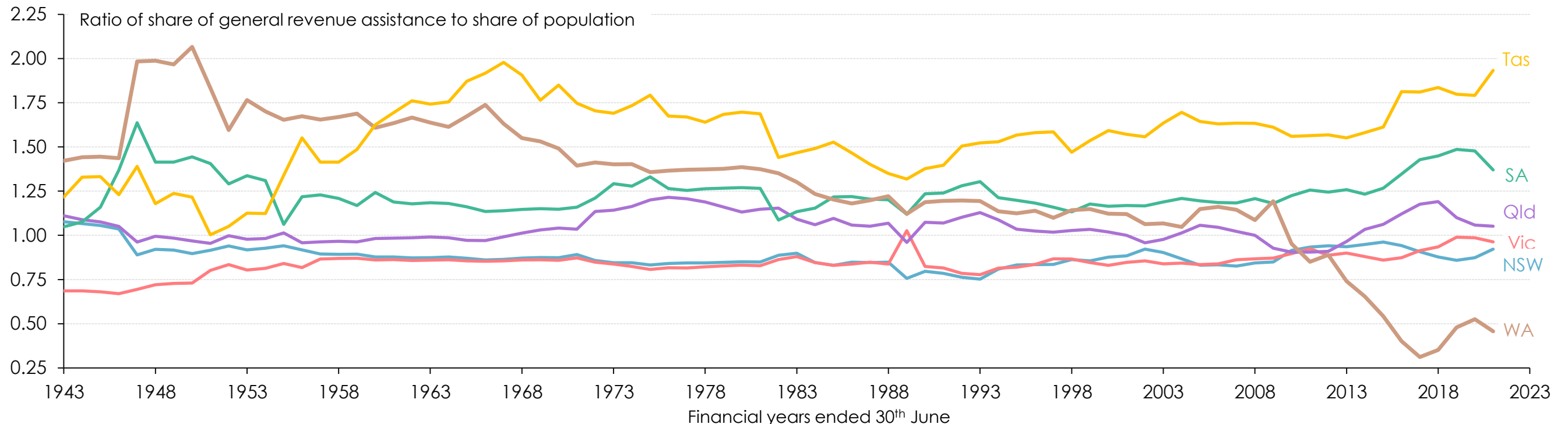
Non-financial public sector net debt per head of population



Note: 'Eastern states' includes the NT and ACT. 'General government' comprises departments and agencies whose operations are largely funded by taxation revenues or grants; the non-financial public sector includes government-owned trading (but not financial) enterprises. 'Operating expenses' excludes net purchases of non-financial assets. Aggregates are expressed per head of population rather than as percentages of gross state product in order to avoid the distortions to those percentages arising from the inflation of WA's (nominal) gross state product during the 'resources boom'. Sources: WA and other state & territory budget papers; ABS.

WA was a long-term beneficiary of the way funds from Canberra were carved up among the states, until the onset of the 'resources boom'

States' shares of 'general revenue assistance' from the Commonwealth Government (or since 2000, shares of GST revenue) relative to their shares of Australia's population – 1943 to 2021

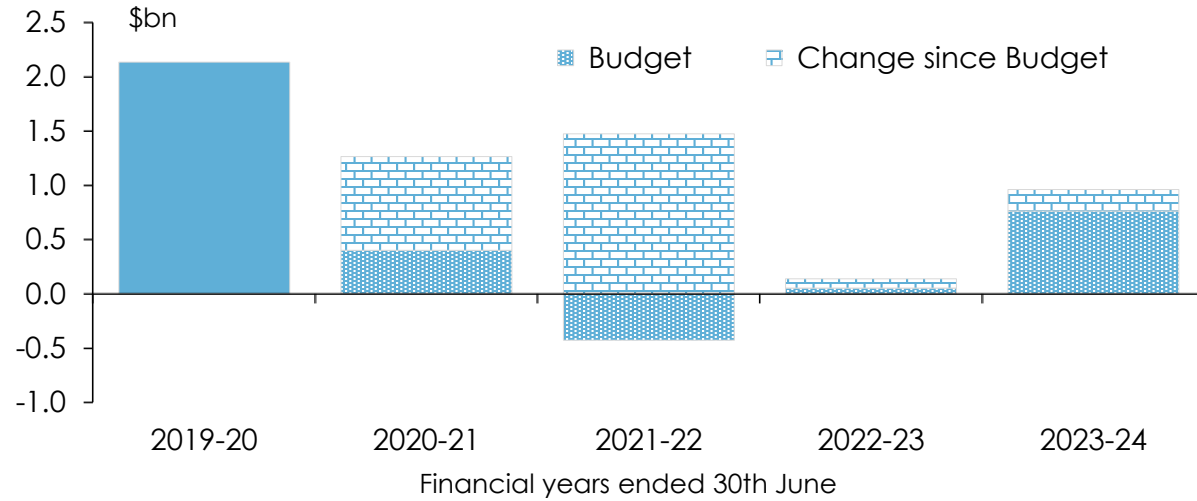


- ❑ The Commonwealth Grants Commission (which recommends how 'general revenue grants' (or, since 2000, GST revenue) should be distributed among the states and territories, was established in 1933 in response to that year's 'WAexit' referendum – and from then until 2008 WA was a consistent beneficiary of its recommendations
- ❑ When the 'resources boom' transformed WA into a 'donor state' (as NSW and Victoria had long styled themselves), WA wanted the 'rules' changed – and continued spending on the assumption that they would be – but that didn't happen until 2018, by which time both the WA and Federal Governments assumed the 'resources boom' was over

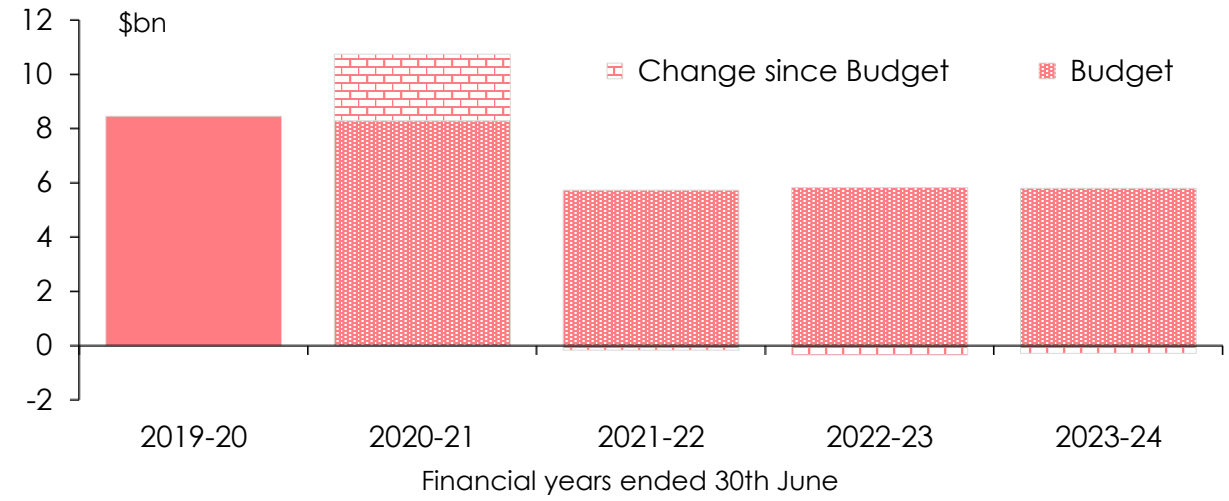
Source: Commonwealth Grants Commission, [Relativities used for distribution of general revenue payments to states](#); ABS, [Historical population](#), 2016, and [Australian National Accounts: State Accounts](#), 2019-20.

The rebound in iron ore prices means that WA is perhaps the only government in the world expecting budget surpluses

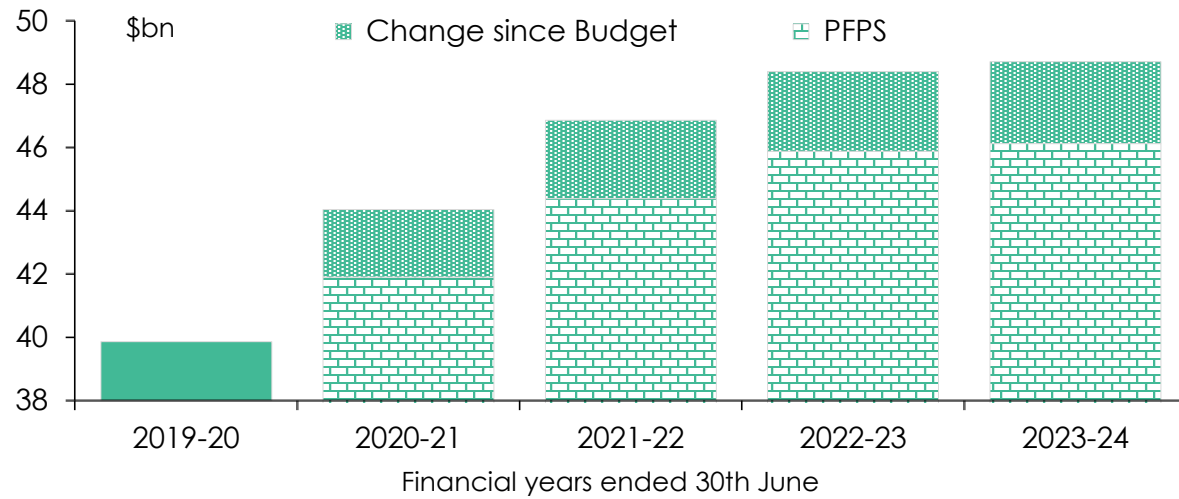
'General government' cash balance



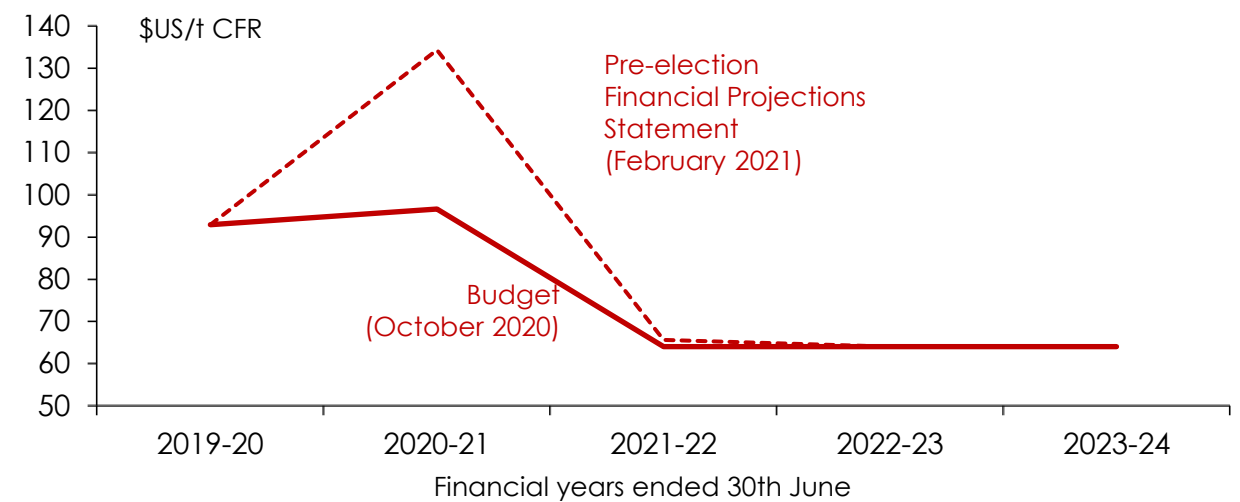
Mineral royalties revenue



Non-financial public sector net debt



Iron ore price assumption



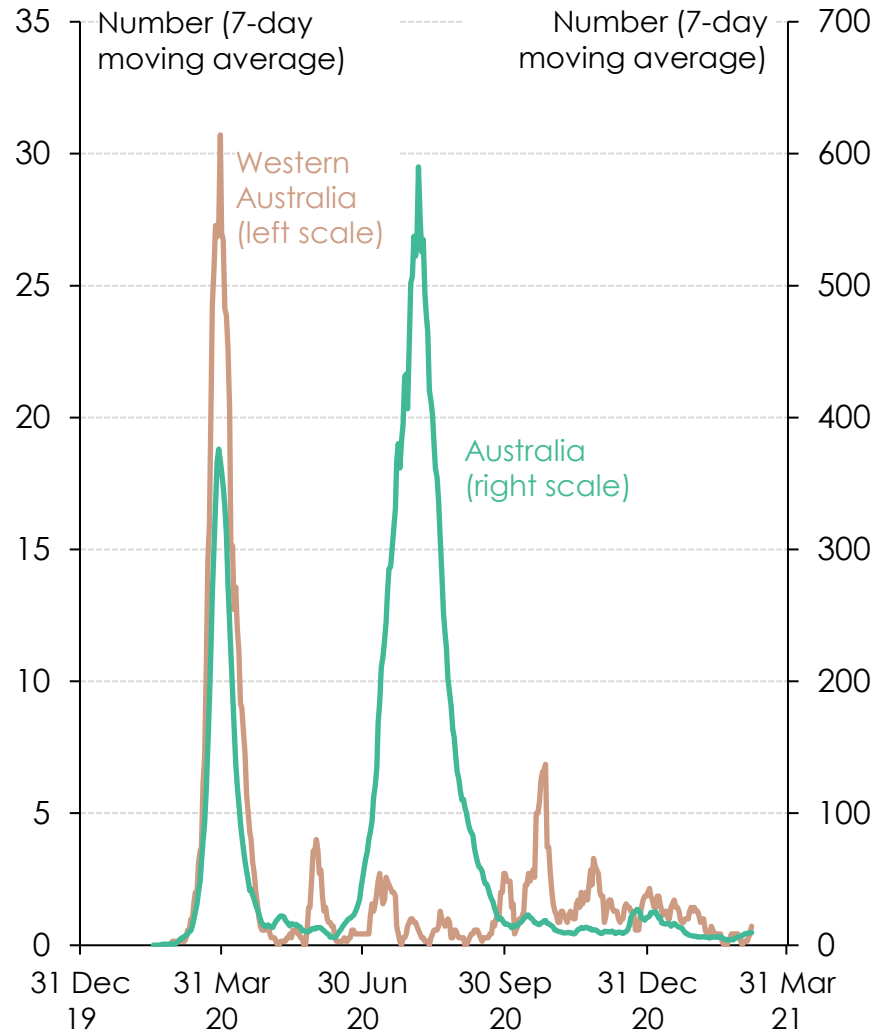
Note: 'CFR' means including freight costs. Sources: Government of Western Australia, 2020-21 [Budget Paper No. 3: Economic and Fiscal Outlook](#) (October 2020) and [Pre-election Financial Projections Statement \(PFPS\)](#) (February 2021).

Under the 'new rules' for sharing GST revenues, WA will get to keep more of its windfall gains from sky-high iron ore prices

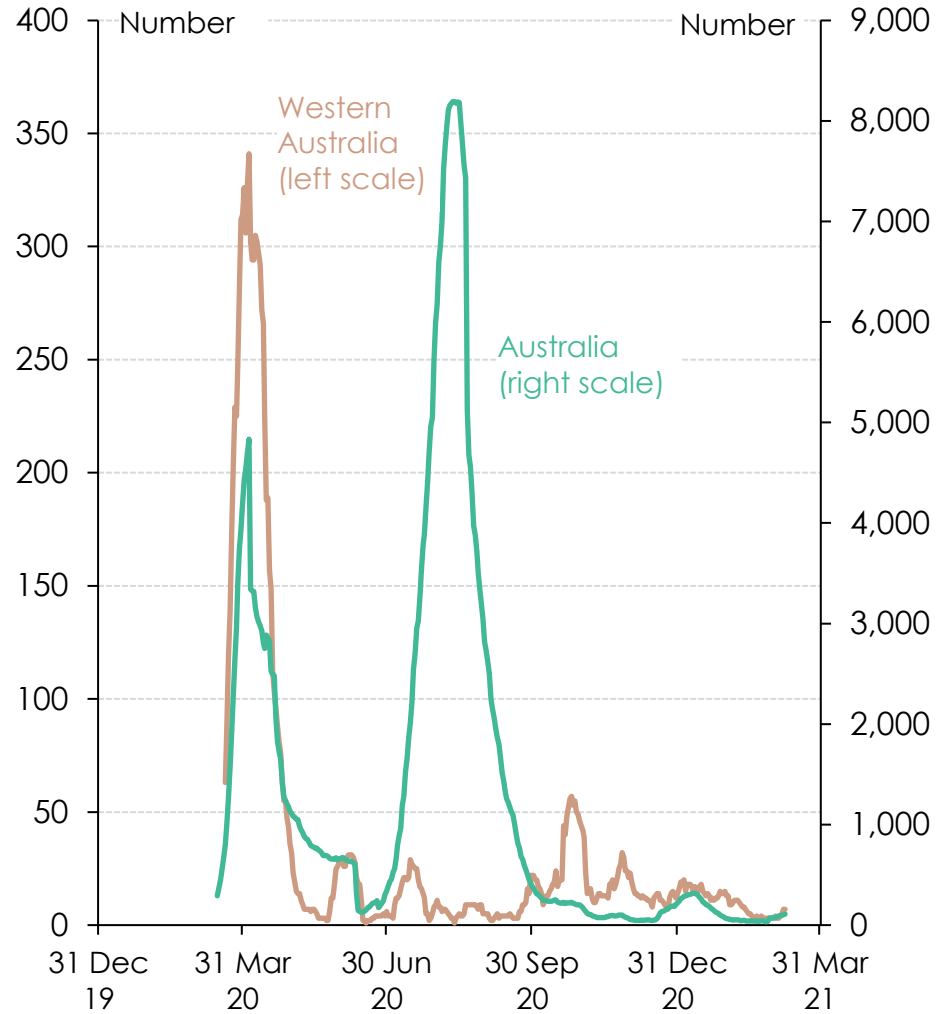
- ❑ As noted earlier, although Western Australia had been a beneficiary for almost 70 years of 'horizontal fiscal equalization' (HFE) as administered by the Commonwealth Grants Commission, once the 'resources boom' had transformed its finances to the point where it became a (significant) contributor to the 'pool' from which HFE is funded (since 2000, GST revenue) rather than a 'drawer' from it, WA started agitating vociferously for changes to the 'rules of the game'
- ❑ In particular, sought to have revenue from mineral royalties excluded from the Grants Commission's assessment of states' 'fiscal capacity', and for the inclusion of a binding minimum or 'floor' underneath the share of GST revenue which any state could receive as a proportion of its share of the national population
- ❑ After years of 'batting away' WA's demands (assuaging them instead by making a series of 'one-off' grants to WA outside of the GST revenue-sharing process), and following an inquiry by the Productivity Commission, in 2018 the Federal Government ordained changes to HFE which largely met WA's demands:
 - over the next five years, the ultimate objective of HFE will transition from lifting the 'fiscal capacity' of all states and territories to that of the 'fiscally strongest state' to lifting them to the stronger of NSW or Victoria; and
 - introduction from 2022-23 of a requirement that no state or territory receive less than 70% of what it would have obtained under an 'equal per capita' distribution of GST revenues, increasing to 75% in 2024-25 (even if this means that it is not possible to raise the fiscal capacity of weaker states or territories to the stronger of NSW or Victoria)
 - the changes were accompanied by a guarantee that up until 2026-27 no state or territory would be worse off than it would have been without these two changes (with the Federal Government providing the funding for any such guarantee if required)
- ❑ At the time these changes were made, it was widely assumed that the 'resources boom' was over, and that iron ore prices would average US\$55/t (fob) over the following four years
 - in which case, WA would have ceased to be the 'fiscally strongest' state (as it had been), and its share of GST revenues would have gradually returned to more than 70% of what it would have obtained under an equal per capita distribution
- ❑ But with iron ore prices much higher than assumed at that time, WA will get to keep a larger share of its windfall gains than it would have done under the old 'rules'
 - and the Federal Government may have to fork out more to fund the 'no-worse-off' guarantee to other states and territories

Western Australian voters have strongly approved of the McGowan Government's handling of Covid-19

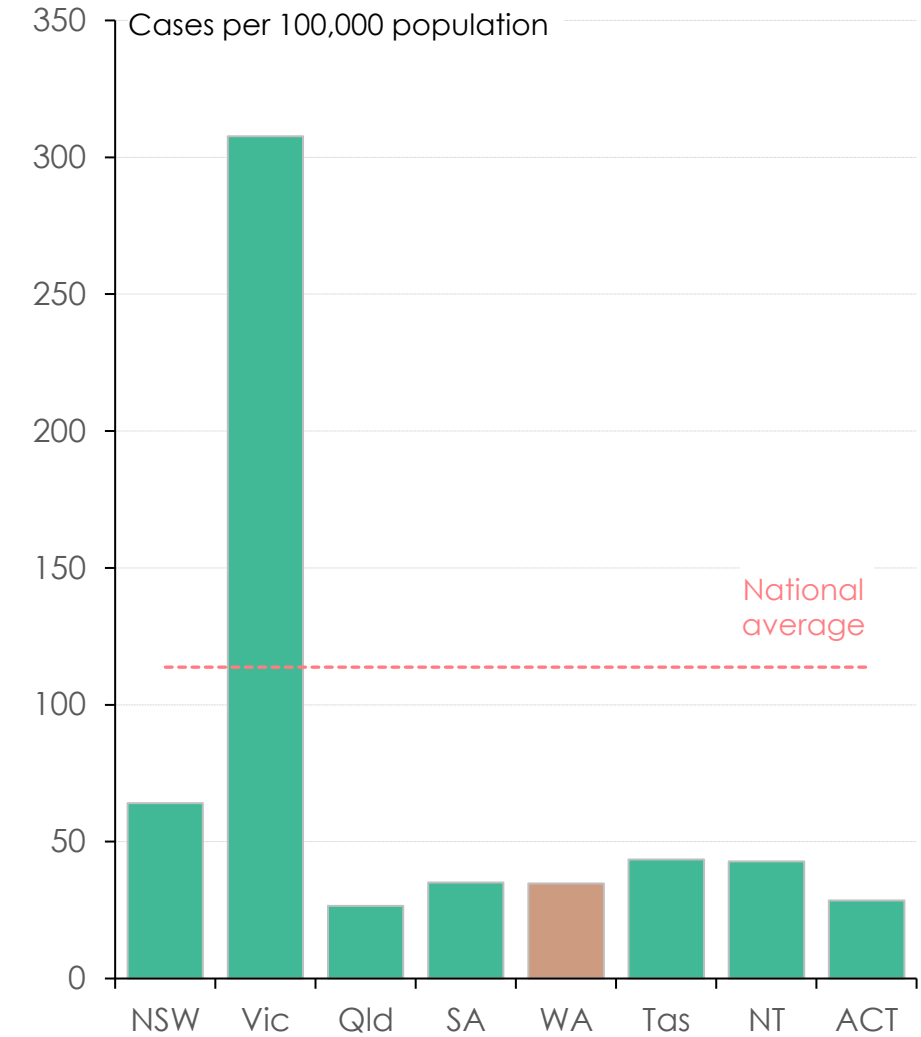
New Covid-19 cases, Western Australia vs national total



Active Covid-19 cases, Western Australia vs national total



Cumulative Covid-19 cases per 100,000 population



Note: Data up to 8th March 2021. Scale on the right axes of the first and second charts are respectively 20 and 22½ times those on the left axes, cf. Australia's population being about 9½ times as large as Western Australia's. Source: [Covid19data.com.au](https://covid19data.com.au).

Western Australia votes this coming Saturday (13th March)

- ❑ **Western Australia's voters (about 1.7 million of them) go to the polls this Saturday (13th March)**
- ❑ **Western Australia's parliament comprises the Legislative Assembly with 59 members (each elected from single-member constituencies) and the Legislative Council with 36 members (six each elected from six-member 'regions' using a proportional system)**
 - the Legislative Council regions are heavily weighted towards voters in non-metropolitan areas – with the three regions outside metropolitan Perth providing half the members of the Legislative Council but representing fewer than 25% of voters
- ❑ **At the federal level Western Australia has traditionally been a conservative stronghold**
 - the only federal elections in the past 50 years at which the Liberal Party hasn't won at least half of the seats from WA were in 1983, 1984, 1987 and 1990 when the Labor Party was led by Bob Hawke (who was born in WA and whose uncle had been a Premier of WA)
 - since 2004 the Liberals have never held less than two-thirds of WA's seats in the House of Representatives – including between 2007 and 2013 when Labor was in government federally – and at the last two elections they have won 11 of WA's 16 seats
- ❑ **At the state level however the contest has been more even**
 - over the past 50 years the Liberals have governed WA (sometimes in coalition with the National Party) for 25 years and 3 months while Labor has governed for 24 years and 8 months
- ❑ **At the last election, in March 2017, the Liberal-National Party Government of Premier Colin Barnett lost office and Labor formed a Government under Premier Mark McGowan**
 - Labor won 55.5% of the two-party-preferred vote giving it 41 of the 59 seats in the lower house, while the Liberals suffered a 13% swing against them losing 18 seats and holding just 13, their lowest-ever share, while the Nationals retained their 5 seats
 - since the last election the Liberals have had three leaders, with the current leader Zak Kirkup being installed in November last year
- ❑ **Opinion polls suggest that Labor is likely to be re-elected in a landslide, with the Liberals reduced to a handful of seats**
 - WA voters have strongly approved Premier McGowan's handling of the covid-19 epidemic – including aggressive border closures to the 'eastern states' – and resented efforts by Federal Liberals (and maverick tycoon-turned-political-wannabe Clive Palmer) to overturn them
 - Opposition Leader Kirkup last month conceded that the Liberals couldn't win, and seems at risk of losing his own seat

Important information

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