

Boom state steels itself for contraction

Overview

Andrew Burrell

Western Australia has forecast two consecutive years of negative economic growth as part of a gloomy state budget, potentially undermining federal Treasurer Wayne Swan's aim of returning the national economy to strong growth within three years.

Delivering the Barnett government's first budget yesterday, WA Treasurer Troy Buswell forecast the one-time boom state would contract by a worse-than-expected 1.25 per cent in 2009-10 and a further 0.5 per cent in 2011-12, after growing at an expected stellar rate of 8 per cent this year.

Mr Buswell unveiled a record infrastructure program of \$8.3 billion for next year but said deteriorating revenues would lead to a big rise in net debt from \$7 billion this year to \$19.1 billion by 2013, with the government's annual interest bill rising to \$1.74 billion within four years.

Last night, ratings agency Standard & Poor's said WA would retain its AAA credit rating based on the government's announcement in the budget that it had slashed its four-year capital works program by \$3 billion and recurrent spending in the public sector by \$1.1 billion.

Economists questioned whether the Australian economy could pull out of recession as quickly as forecast by Mr Swan. WA drove much of the national boom, based on its record levels of business investment and exports.

Professor of economic policy at Curtin University's Graduate School of Business Peter Kenyon said if the national recovery was to be driven by growth in China and commodities exports, there was unlikely to be such a big disparity between actual growth figures in WA and the rest of the nation.

"When China picks up again, WA will be first cab off the rank," Professor Kenyon said.

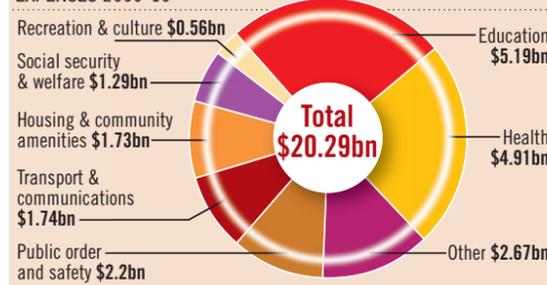
"WA will grow faster than the national economy, unless something

State of play

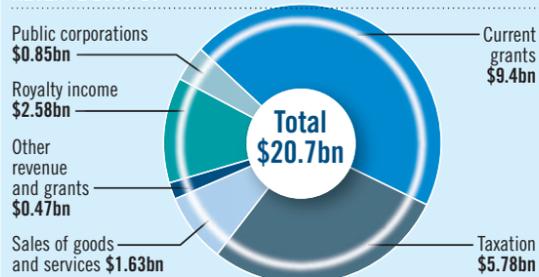
WEST AUSTRALIAN ECONOMIC PROJECTIONS

	2007-08 (%)	2008-09f (%)	2009-10f (%)
Gross state product	5.20	8.00	-1.25
Employment growth	3.60	3.25	-2.00
Unemployment rate	3.30	3.25	5.75
CPI growth	3.60	3.50	2.50
Wage Cost Index	5.80	4.50	3.00
Population growth	2.60	3.10	2.40

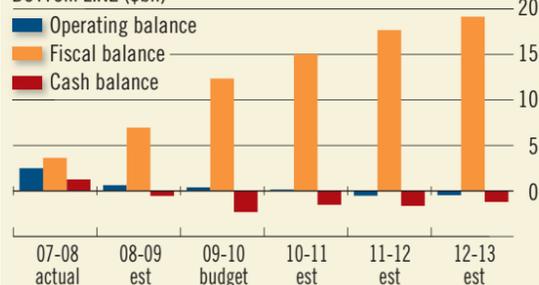
EXPENSES 2009-10



REVENUE 2009-10



BOTTOM LINE (\$bn)



SOURCE: BUDGET PAPERS

bizarre happens in the eastern states. It may well be argued that the stimulus package and the infrastructure program are primarily eastern states-based, and that the federal government is relying on a substantial pick-up in Victoria and NSW. But I can't see that [happening]."

Mr Swan has come under fire this week over supposedly optimistic forecasts in the federal budget that the Australian economy would grow by 2.25 per cent in 2010-11 and shift to above-trend rates of 4.5 per cent in the following two years.

WA is forecasting growth to be only 3.75 per cent in 2011-12 and 2012-12 — raising some extra doubt about the federal government's projections.

Mr Buswell yesterday defended the state's forecasts, suggesting it was possible that the national economy would grow more rapidly than WA. He said WA was entering the downturn later than the other states due to the intensity of the resources boom.

But Mr Buswell also admitted the forecasts may turn out to be better than expected based on the number of big private-sector developments in the pipeline in WA, including Chevron's planned \$50 billion Gorgon gas project in the Pilbara.

The budget forecast a surplus for 2009-10 of \$409 million, which is \$1.2 billion lower than forecast this time last year.

WA will retain its AAA rating because of the spending cuts announced.

Standard and Poor's

That will be followed by a projected surplus of just \$23 million in 2009-10, after which deficits of \$513 million and \$458 million are expected.

The key reason for the turnaround in WA's fiscal fortunes is a severe deterioration in revenues since the end of the commodities boom.

Since December, revenue expected from state taxes, commonwealth grants and royalty income — the state's three biggest sources of income — has been revised down by \$4 billion for the next three years.

Revenues are forecast to grow by 5.2 per cent next year, mainly due to a \$930 million temporary boost under the federal government's stimulus package. Without this boost, revenues would have grown by only 0.3 per cent next year.

Mining royalties will fall 3.7 per cent based on an expectation that iron-ore prices will fall 30 per cent in coming months.

But if the iron-ore price declines by 45 per cent, which some analysts believe is possible, WA would experience a further revenue loss of \$433 million in 2009-10 and \$1.2 billion over the four-year forward estimates.

The budget's big spending cuts were led by \$3 billion in the government's capital works program, a total of \$1.1 billion in savings in

recurrent spending and a further saving of \$546 million based on rising electricity prices.

In addition, the government's 3 per cent efficiency dividend is tipped to generate savings of \$1.3 billion over four years.

However, the budget includes record spending of \$8.3 billion on infrastructure in 2009-10: \$316 million on social housing, \$300 million to build and upgrade schools, \$654 million on road construction, \$572 million for health infrastructure and \$377 million for ports in Fremantle and Port Hedland.

Mr Buswell also unveiled a \$155 million jobs protection package aimed at small business.

Under the plan, the government will provide a one-off payroll tax rebate to small businesses to help them retain and employ staff. Almost 7000 businesses employing 68,000 workers will be eligible.

Standard & Poor's credit analyst Anna Hughes said WA would retain its AAA rating because of the spending cuts announced.

Ms Hughes said the government appeared "committed" to implementing the cuts and keeping its ratio of net financial liabilities to revenues below S&P's trigger level of 90 per cent. She looked forward to a further round later in the year.

Ms Hughes said unlike other Australian states, the broader economic downturn would not significantly affect WA's revenues until 2009-10. But the impact may last longer than in other states.

Labor's shadow treasurer Ben Wyatt said the debt levels were unsustainable and he questioned whether the state would be able to keep its ratio of net financial liabilities to below 90 per cent.

Mr Wyatt said interest costs of more than \$1 billion annually would eat up revenues that could be directed to key services.

Mr Buswell maintained that the interest bills were affordable, with net interest costs forecast to remain below 5 per cent of government revenues.

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VONK.

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