

RATES INCOME 2009/10

October 2009

A survey of rates movements in 62 Local Governments, which collectively service 88% of the State's population, revealed that the population weighted average increase in residential property rates for 2009/10 was 5.46%. The small numbers of Local Governments reporting increases in property rates over 10% generally include waste and recycling costs in general rates and therefore these increases can largely be attributed to the increase in the State Government Landfill Levy, which for most Local Governments is itemised separately.

This increase in rates was in line with expectations outlined early in the year and would appear to reflect a responsible balance between minimising the taxation cost to the community and providing appropriate resources for sustainable service delivery given known and anticipated changes in costs.

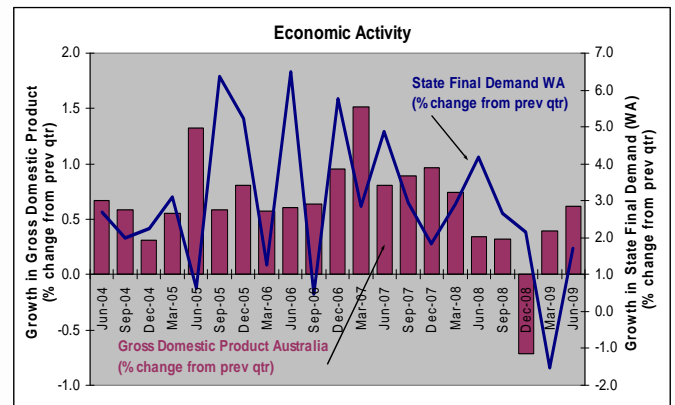
ECONOMIC GROWTH AND RECESSION

There is much speculation about the shape and timing of economic recovery. The jargon sounds like a veritable alphabet soup. Is the current global recession going to be "V-shaped" (short with a sharp recovery); "U-shaped" (slower and delayed recovery); "W-shaped" (return to recession before longer term recovery) or square-root shaped (short sharp recovery followed by an extended period of low growth)? Commentators have drawn comparisons with previous economic cycles to support their views. In part the different views are a result of some comparisons being focused on the decline and recovery in the stock market (which took around 6 years to recover to previous levels following downturns in 1973 and 1987) while others look at the overall economy which took just over one year to recover in 1973 and around two and a half years to recover to the previous peak following the 1987 downturn.

In reality future economic growth will depend largely on when individuals and businesses globally believe and act on their belief that demand for goods and services will grow and employment / income are secure.

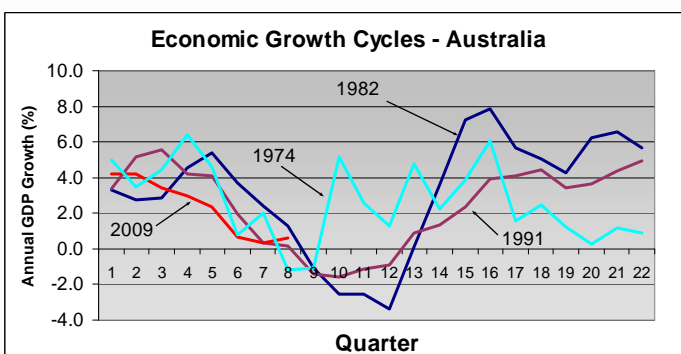
Although Australia had a quarter of negative growth in December 2008, on an annualised basis the economy has avoided a contraction so far, a very positive outcome for a heavily trade-exposed economy. The reduction in GDP in December 2008 was more than fully recovered by June 2009. However, the current rate of economic growth is too low to address the increasing level of unemployment.

The rate of growth (or contraction) in GDP is important in that individuals and businesses look to such data to form their views about future prospects. However, employment growth typically lags growth in GDP, and GDP needs to be growing at around 3% pa before there is a likely to be a reduction in the level of unemployment. Although potentially mired in the politics of the extent of government intervention in the economy, there is a strong case that any further economic stimulus should be focussed on achieving real and sustainable employment growth, rather than stimulating gross domestic product. Local Government is well placed to contribute to this outcome, provided the sector can demonstrate efficient, effective and timely delivery of projects.



Changes in economic activity in Australia and Western Australia.

Source ABS Cat No 5206.0 Australia's National Accounts



Growth in Gross Domestic Product commencing one year prior to the peak GDP level prior to each downturn.

Source: ABS Cat No 5206.0 Australia's National Accounts

Economic activity in Western Australia is historically more volatile than the nation as a whole, and is often out of phase. The decline in State Final Demand did not occur until the March quarter of this year, although growth in the June quarter recovered most of this reduction in Final Demand.

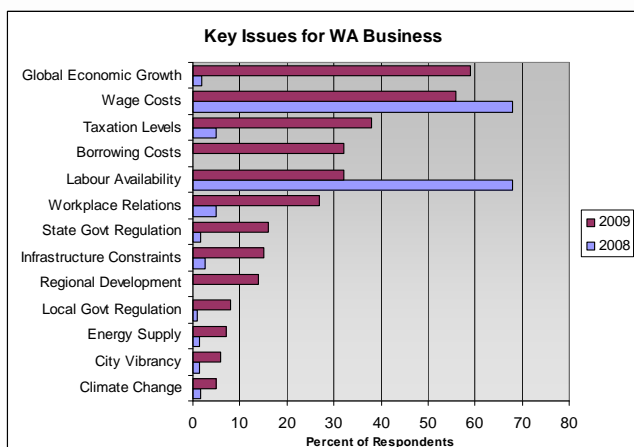
BUSINESS

All Local Governments are acutely aware of the role of commercial and industrial activity within their jurisdiction in providing employment, services and revenue. Across the State, 20- 25% of rates revenue is derived from Commercial and Industrial properties. For some Local Governments it is

much higher percentage and seen as an area for further attention.

Many Local Governments are keen to attract business and so need to understand and respond to their concerns. Recent survey results indicate that although the economic environment has changed markedly in the past year (it is now one year since the collapse of Lehman Bros), remarkably many things stay the same. Although Global Economic Growth has moved from number 6 to number 1 as a priority for WA Business, labour availability, wages, workplace relations and taxation levels continue to dominate the top six issues for business.

Local Government regulation has become an important priority for an increasing percentage of businesses responding to this survey, although still ranks well down the list of issues for attention for the majority of WA businesses surveyed.

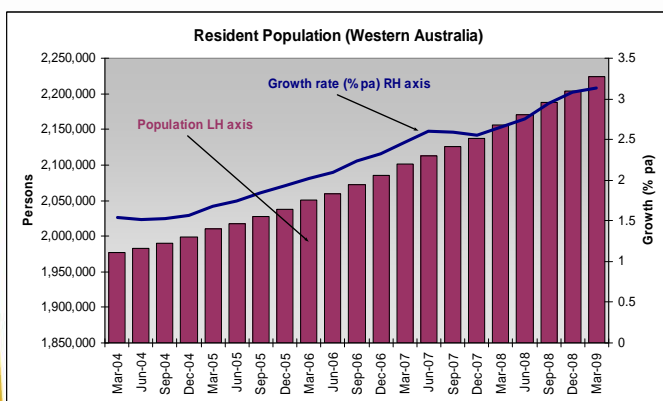


Priority issues for WA Business

Source: Commonwealth Bank – CCI Survey of Business Expectations

GROWING AT A GROWING RATE

The most recent population estimates show that the Western Australian population grew 3.1% in the year to March 2009, the highest rate of any State or Territory and well above the national average of 2.1%. Importantly the rate of growth is continuing to climb.



Population Growth in Western Australia

Source: ABS Cat No 3101.0 Australian Demographic Statistics

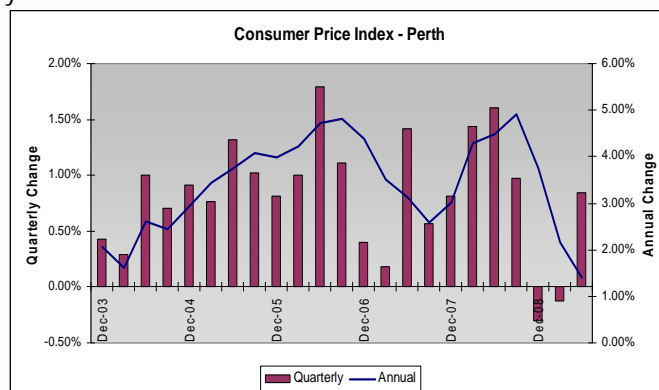
Net overseas migration provided over 64% of the population growth in Western Australia, creating particular demands for community services and facilities. High levels of population growth are an important consideration for Local Governments in planning and in negotiating agreements where demand and costs are strongly related to population.

INFLATION

Following two quarters of negative movements (ie falling prices) the Perth Consumer Price Index (CPI) increased 0.84% in the June quarter with an increase of 1.4% in the year to June 2009. If the quarterly inflation rate for the June quarter were to continue through 2009/10, it would result in an inflation rate of 3.4% over the year.

The Melbourne Institute reported during August that inflation expectations were 3.5% over the coming 12 months, which has trended upward since May 2009.

However, following release of the CPI data for the June Quarter, the Reserve Bank predicted CPI movements of 1.7% over the year to December 2009 and 2.4% over the year to December 2010.



Movements in the Consumer Price Index, Perth (All Groups)

Source: ABS Cat No 6401.0

The difference between headline inflation and the underlying measures is larger than it has been for nearly 25 years. The reasons for this are:

1. a 21% decline in fuel prices over the year to June 2009 has subtracted 1% point from the CPI result; and
2. an 18% fall in (ABS measured) Deposit and Loan facility costs subtracted nearly a further percentage point from the CPI.

The Reserve Bank notes that price pressures for non-tradables have been significant and broad-based over an extended period and only moderated recently. The highly volatile Australian dollar against the US currency adds a further degree of difficulty in forecasting the likely movements in the consumer price index.

Our current view is that the CPI movement over the year to June 2010 is likely to be in the range of 3 – 3.5%.

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