

## THE AUSTRALIAN

## WA budget 2016: Colin Barnett's horror outlook gets worse

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The state election in Western Australia in March will take place amid a backdrop of the worst economic conditions in decades, with modelling by Treasury warning of rising unemployment, another sharp drop in business investment, falling revenue and a ballooning deficit.

Yesterday's horror budget revealed that the state would suffer an "unprecedented" third consecutive year of declining revenue in 2016-17 as it continues to grapple with the impact of lower commodity prices and a meagre allocation of the GST.

The state's deficit is now expected to rise to \$3.9 billion in 2016-17, with the budget not expected to return to surplus until 2020. The figures show a worsening employment outlook, with Treasury modelling projecting a rise in the rate to 6.75 per cent. That is up from 5.4 per cent in the 2015 financial year, and is a level not seen in the state since 2002.

Treasurer Mike Nahan said the cool commodity prices, falling business investment, low GST allocation and a drop in taxes would cumulatively lead to an 18 per cent drop in revenue for the state. That scale of fall had not been seen anywhere at state or federal level in recent memory.

"During the GFC, the commonwealth government was not hit that significantly, particularly for that sort of period of time, and more importantly no other state — and I've watched budgets for a long time — has been hit by that much. It's phenomenal," he said.

While the fall in commodity prices has been responsible for much of the budget pain, Dr Nahan noted that prices for commodities such as iron ore and gold were starting to stabilise or even rise.

But the benefits of any increase are being counterbalanced by an ongoing sharp decline in business investment, as a series of major new mining and liquefied natural gas projects around the state are completed. The Treasury modelling forecasts a 19 per cent drop in business investment next financial year, after falls of 12.7 per cent and 17.5 per cent in the past two years.

Dr Nahan also tempered expectations about the sustainability of the recent rise in iron ore prices, which has delivered an extra \$233 million in revenue to the government since December.

The state government expects iron ore to average \$US47.70 a tonne next year, putting it significantly below the levels forecast by its Canberra counterparts in the recent federal budget. The state estimate will add to a weight of opinion that Canberra may have over-egged its expectations for the nation's most important export.

Western Australia's \$US47.70 figure is well below the current market price of about \$US55 a tonne and substantially below the federal budget assumption for iron ore to average about \$US60 per tonne, including freight costs.

The state government's forecast is more in line with those of independent analysts. Data recently collated by FocusEconomics from 17 different banks and analysts shows a clear expectation that iron ore will average between \$US45 and \$US47 a tonne this year and next. Only two analysts predicted a \$US55 a tonne average next year.

Should the state Treasury expectations prove accurate, the federal government is staring at a \$6bn shortfall in nominal GDP and \$1.4bn in lost tax receipts.