

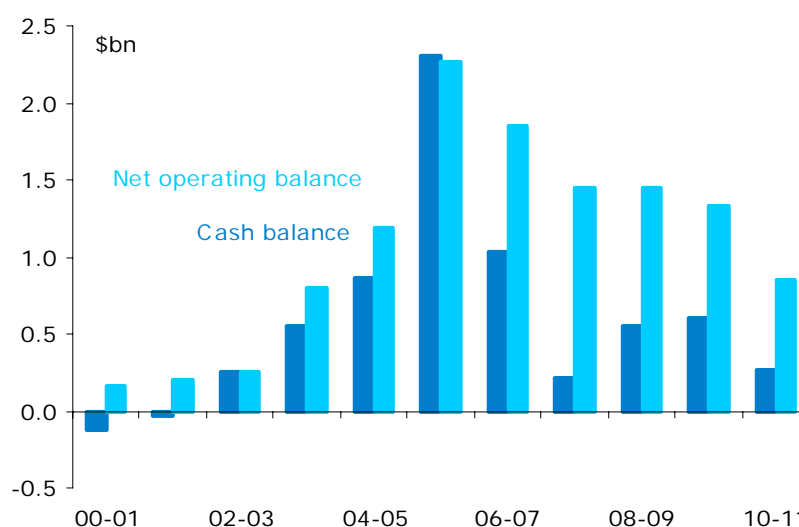
# Western Australian State Budget 2007-08

## Big spending budget

10 May 2007

What would you do if you won the lottery? That's the situation West Australian Treasurer Eric Ripper finds himself in, with the State's booming economy delivering sizeable revenues to the Government. In the 2007-08 State Budget, he has decided to fund rising recurrent costs and to lower taxes (particularly for first home-owners) while maintaining a considerable 'operating surplus'.

**Booming economy delivers massive surpluses**



Then comes the most striking feature of the Budget - a massive capital works program worth \$21.6bn over four years. With this program, Eric Ripper faces a difficult balancing act. On the one hand, investment in infrastructure is needed to meet the capacity demands of the State's economy. On the other hand, such a program runs the risk of crowding out private investment and placing further pressure on costs at a time when labour and materials are already in short supply.

This is a risk clearly acknowledged by the Government, which notes that "the 2007-08 Budget primarily focuses on meeting increased costs associated with capacity constraints in the construction industry as well as increased consumer demand for infrastructure". In the same vein, the Government has also released its capital program review with the result that several projects will be delayed by 6 to 12 months because of labour shortages.

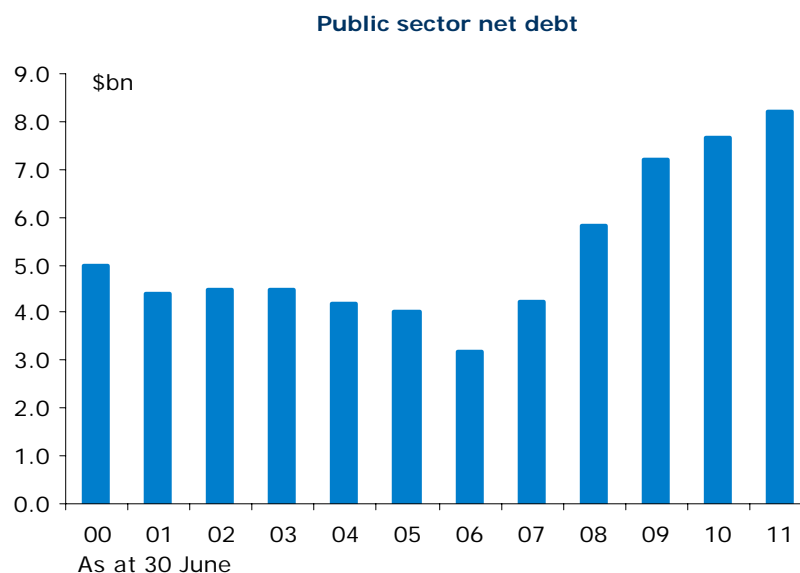
The investment is so large that public sector net debt increases uniformly throughout the forecast period, notwithstanding the considerable revenues flowing into Government's coffers from the State's booming economy. Nevertheless, the borrowing does not threaten the State's credit rating.

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With increasing public service wage bills and other recurrent expenditure, there's a question about the sustainability of the Budget's direction beyond the commodities boom.

#### Details of Key Budget Measures

The Budget provides **tax relief** worth \$2.1bn over the next four years.

- **First home-owners** are the major winners and will no longer pay stamp duty when purchasing properties worth up to \$500,000 (previously \$250,000), with the exemption being phased out at \$600,000.
- The **land tax** exemption threshold will be increased to \$250,000 (up from \$150,000). The other thresholds will also be increased and three of the five marginal rates will be reduced. In addition, no Metropolitan Region Improvement Tax will be payable on the first \$250,000 of land value.
- **Motor vehicle stamp duty** scale thresholds will be increased by \$5,000 from 1 July 2007 and by a further \$5,000 from 1 January 2009.

Also included in the Budget is a **capital works** program costing \$5.8bn in 2007-08 (and \$21.6bn over four years). Included in the program in 2007-08 is \$897mn for **electricity** infrastructure; \$755mn for **water**, wastewater and drainage infrastructure; \$706mn for **roads**, including the new Perth-Bunbury Highway; \$324mn for **hospitals**; \$295mn on **schools**; and \$220mn on **prisons** and **police stations**.

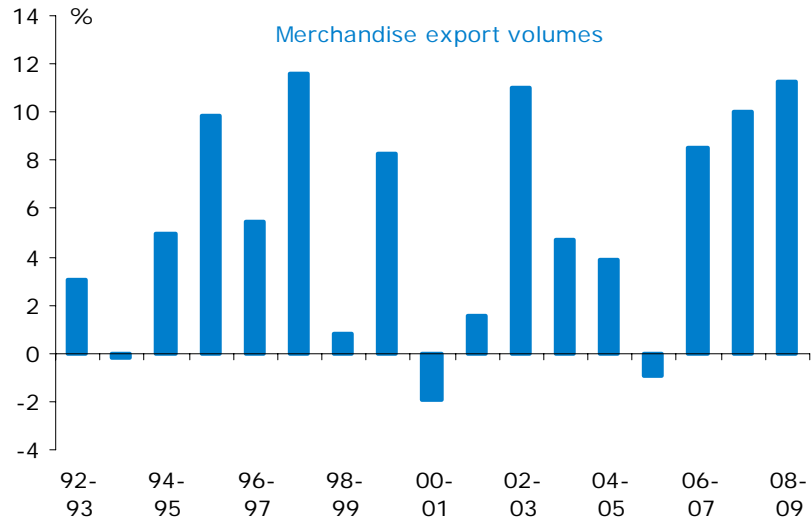
The Budget also provides \$417mn over four years for additional public and indigenous housing as well as funds for regular budgetary staples - health care, education, law and order. A climate change package also receives \$100mn over five years.

Taking a leaf from the Commonwealth's book, the State Government will set up a \$1.09bn future fund to pay for the new Fiona Stanley Hospital (to commence in 2008; expected completion 2012-13).

#### A continued strong outlook for WA's economy

Reflecting the continued impact of the mining boom, WA's **gross state product** is forecast to grow by a healthy 6.0% in 2006-07 and 4.5% in 2007-08. Underlying the forecasts is a significant shift in the components of gross state product. Growth in **business investment** is expected to slow from 37%pa in 2005-06 to 9%pa in 2006-07 and 3.5%pa in 2007-08. In contrast, **export volumes** are expected to turn around strongly in 2006-07.

## Export volumes to pick up strongly in 2006-07



There are risks around the size and timing of the projected upturn in exports. Although there has been record investment in the resources sector, the Commonwealth Treasury points out that the lags between investment, production and exports are greater in the current boom than they have historically been. Nevertheless, we agree with the general notion that the massive investment of recent years will eventually pay dividends through higher export volumes.

Turning to Treasury's other forecasts, **inflation** is expected to be 4.25% in 2006-07, above the national average of 2.75%, but is expected to ease to 3% in 2007-08. **Wages** are expected to increase by 4.5% in 2006-07, only slightly above the national average of 4.25%, and to ease to 4.25% in 2007-08, in line with the national average.

**Employment** growth is forecast to ease to 2.25% in 2006-07 and 2.0% in 2007-08, reflecting labour supply constraints.

Figure 1: Western Australian economic forecasts

	2005-06 Actual	2006-07 Forecast	2007-08 Forecast	2008-09 Forecast
Real gross state product	4.9	6.0	4.5	5.0
Employment	4.4	2.25	2.0	2.0
Unemployment rate	4.1	3.0	3.25	3.5
Consumer price index	4.3	4.25	3.0	2.75
Wage price index	4.5	4.5	4.25	4.0

Source: Australian Bureau of Statistics; WA Department of Treasury and Finance

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