



Department of Treasury and Finance
Government of Western Australia

Western Australian
E c o n o m i c
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CONTENTS

EXECUTIVE SUMMARY	2
1. THE ECONOMY	4
OVERVIEW.....	4
HOUSEHOLD CONSUMPTION.....	8
DWELLING INVESTMENT	13
BUSINESS INVESTMENT.....	22
EXTERNAL CONDITIONS.....	29
LABOUR MARKET	44
PRICES, INCOMES AND INTEREST RATES.....	54
INTERNATIONAL CONDITIONS	60
2. THE REVALUATION OF THE CHINESE YUAN.....	65
3. 2005-06 BUDGET	70
4. REFORMING PROCUREMENT IN THE WESTERN AUSTRALIAN PUBLIC SECTOR	76
APPENDIX 1 WESTERN AUSTRALIAN EXPORTS	
BY COMMODITY	86
APPENDIX 2 WESTERN AUSTRALIAN EXPORTS BY DESTINATION.....	87
GLOSSARY.....	88

EXECUTIVE SUMMARY

Western Australia continues to benefit from resources-based activity. This is particularly evident in high levels of business investment, a recent lift in exports growth, and tight labour market conditions. Reflecting this, Western Australia's domestic economy grew by 1.0% in the March quarter 2005, and by 6.0% over the year to March 2005.

Growth in household consumption has been resilient in the first half of 2005 despite expectations that debt consolidation and diminishing wealth effects as a result of a moderation in house price growth will dampen consumer spending. Household consumption rose in the March quarter and retail trade data suggest that it will continue to grow at a reasonable pace in the June quarter.

Dwelling investment levels remain healthy, with steady (but modest) growth in the State's housing market in contrast to markets in eastern states (mainly Melbourne and Sydney). Steady demand for new housing combined with household construction work still to be done is likely to support activity into the first part of 2005-06.

Business investment continues to reflect the favourable economic conditions in the State. High commodity prices and strong external demand for the State's key resources continue to provide the right conditions for construction starts on a large number of resource-related projects. The 'pipeline' of work on projects already committed to is expected to support continued high activity levels.

While the strong external demand for the State's export commodities has supported large increases in both export volume and values, imports have also continued to grow strongly, due to the continued strength of consumer demand, coupled with business investment demand for capital imports. Nominal trade data to June 2005 indicate that Western Australia's trade surplus increased by 18.9% to reach a record \$24.5 billion in 2004-05. This was underpinned by a strong increase in exports, which also reached a historic high of \$38.7 billion over the year.

Robust economic conditions are flowing through to the labour market. Even though the State's strong jobs market has attracted more people into the labour force (with a record participation rate of 68.0% recorded for the June quarter), strong employment growth (up 1.6% in the June quarter), has helped keep the unemployment rate at close to record lows – averaging 4.8% over the June quarter. Data on job advertisements, skilled vacancy rates, and business surveys suggest that demand for labour is likely to remain strong.

External conditions have been particularly favourable to Western Australia, with growth in China being a key driver of the recent strength in commodity prices. While China is expected to continue growing at a strong pace in the near term, the Government has been trying to engineer a modest easing in the pace of growth. There has been speculation that the recent revaluation of the Yuan and move to a more flexible exchange rate regime may have been an initiative to achieve slightly slower growth. The first feature article in this edition of the Summary considers some of the implications of the move to a more flexible exchange rate regime.

The second feature provides an outline of the State's fiscal outlook as presented in the 2005-06 Budget, which was delivered on the 26 May.

An important public sector reform that is currently being implemented, with implications for the State's fiscal position, is reform of Government procurement. The reform program is aimed at improving procurement and achieving significant cost savings. The third feature article in this edition of the Summary outlines the background to the reforms, and some of the achievements of the reform program to date.

1. THE ECONOMY

OVERVIEW

- *The Western Australian domestic economy grew by 1.0% in the March quarter 2005 and by a robust 6.0% over the year to March quarter 2005.*
- *Growth over the year to the March quarter 2005 was primarily supported by strong growth in consumer spending and public demand. Business and dwelling investment made more modest contributions, with activity in these areas consolidating at historically high levels over recent quarters.*
- *Nominal trade data point to a strong increase in the State's trade surplus (to a record \$24.5 billion in 2004-05). This reflects a strong lift in exports (up 19.7% to \$38.7 billion) more than offsetting a large increase in imports (up 32.3% to \$14.2 billion) over the year.*
- *Strong levels of economic activity are flowing through to the labour market, resulting in healthy employment, and an unemployment rate at close to 30-year lows.*
- *The Western Australian economy is estimated to have grown by 5.25% in 2004-05, well above the State's historical average growth of 4.1% per annum.*

Western Australia's domestic economy continued to expand in the March quarter 2005, with activity increasing by 1.0%. This follows growth of 0.6% in the December quarter. Over the year to March quarter 2005, the domestic economy grew by 6.0%, the third strongest rate of growth of all the States (see table).

State Final Demand

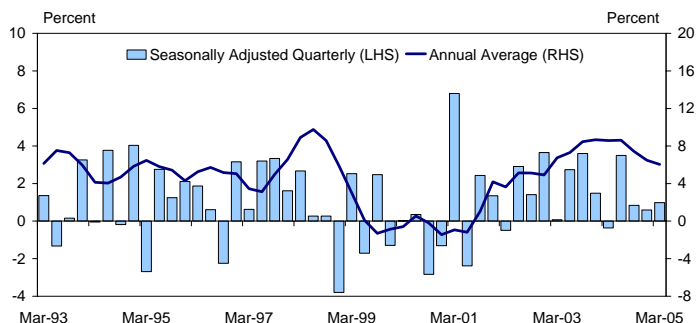
Real Growth (%)

March quarter 2005

	qtr*	yr
NSW	-0.1	3.4
Vic	-0.8	4.1
Qld	0.4	7.5
WA	1.0	6.0
SA	0.0	3.7
Tas	-0.2	6.3
Aust	-0.1	4.7

* In seasonally adjusted terms.

DOMESTIC DEMAND GROWTH Western Australia



The strong increase in the March quarter reflects growth across most components of domestic demand. In particular:

- household spending in the March quarter rose by 1.0% in trend terms, supported by increases in spending on vehicles, health, hotels, cafes and restaurants, and other goods;
- dwelling investment rose by 1.7% in trend terms, with increases in activity in both the new dwellings (new construction and alterations and additions) and established (ownership transfer costs) sectors;
- business investment expanded by 2.0% in trend terms, with growth supported by construction of the Ravensthorpe nickel mine, the Hamersley Iron upgrade of its Dampier port facilities and Yandicoogina iron ore mine and Burrup Fertilisers' ammonia plant.

Notwithstanding strong growth in the March quarter, growth in State final demand has moderated in annual average terms, with growth easing from a peak of 8.7% in calendar year 2003 to 6.0% in the year to the March quarter 2005. This easing primarily reflects that over the past year dwelling investment and business investment activity have consolidated at very high levels.

Partial indicators and business surveys point to household spending remaining resilient, and dwelling and business investment expected to remain at high levels in coming quarters.

Net exports grew by a moderate 1.8% in the March quarter, after increasing by 13.4% in the December quarter 2004. Over the March quarter:

- exports grew by 1.6%, following very strong growth of 6.5% in the December quarter. Growth in recent quarters has been boosted by an increase in iron ore exports as new production capacity comes on stream; and
- imports increased by 1.4%, after declining by 3.4% in the December quarter 2004. Growth in the quarter was underpinned by imports of plant, equipment and building materials and food and beverages.

Over the year to the March quarter 2005, net exports declined by 4.0%, reflecting that modest growth in exports (up 1.2%) was more than offset by a significant increase in imports (up 11.1%). The modest growth in exports over the year was due to a decline in exports in mid-2004, and reflects among other things the impact of the closure of BHP Billiton's hot briquetted iron plant and declining oil production at maturing oil fields. Despite this decline, Western Australia continues to have the highest trade surplus of the States.

More recent nominal trade data indicate that Western Australia's trade surplus strengthened substantially in the June quarter, with net exports in the June quarter 2005 27.9% higher than in the June quarter 2004. Over 2004-05, net exports increased by 18.9% to reach a record level of \$24.5 billion.

The improvement in the trade surplus reflects a significant rise in the nominal value of exports. Over the June quarter 2005, the volume of exports for Western Australia was 29.4% higher than in the same period a year earlier. The lift in exports was driven by strong increases in iron ore and petroleum product exports. The nominal value of exports rose to \$38.7 billion in 2004-05. Western Australia now accounts for 30.6% of Australia's total natural goods exports.

The increase in exports more than offset a substantial rise in imports (up 32.3% between June quarter 2004 and June quarter 2005) underpinned by increases in consumer and investment goods imports.

Reflecting the healthy conditions in the State's domestic economy, conditions in Western Australia's labour market remain tight. Employment grew by a strong 1.6% in the June quarter 2005. The average unemployment rate remained at a low 4.8% over this period. The combination of strong employment growth and steady unemployment rate, was achieved as a result of a 0.8 percentage point increase in the participation rate to 68.0% - its highest rate on record.

Outlook

The Western Australian economy (as measured by gross State product) is estimated to have grown by 5.25% in 2004-05, after growing by a record 7.5% in 2003-04. Like growth in 2003-04, growth in 2004-05 was underpinned by a strong (but moderating) domestic economy driven by household consumption with dwelling and business investment steady at record levels.

Growth is forecast to moderate further in 2005-06 to 4.5%. The external sector is expected to take over from the domestic economy as the main driver of growth, as extra productive capacity from recently completed resource-related projects comes online. Net exports are forecast to grow by 9.75%, following expected growth of 2.0% in 2004-05.

HOUSEHOLD CONSUMPTION

- Growth in household consumption strengthened to 1.0% in seasonally adjusted terms in the March quarter 2005, following modest growth of 0.6% in the December quarter 2004. The March quarter was the 15th consecutive quarter in which household consumption has increased.
- In trend terms, household consumption grew by 1.0% in the March quarter 2005.
- In annual average terms, private consumption remained strong, growing by 6.7% over the year to March 2005. Growth has been supported by wealth effects (flowing from increases in house prices and equities), historically high consumer sentiment levels and strong employment growth.
- Household consumption is estimated to have grown by 4.5% in 2004-05.

Recent Conditions

Consumer spending strengthened in the March quarter 2005, with household consumption rising by a seasonably adjusted 1.0% after growing by 0.6% in the previous quarter (revised up from 0.4%). In trend terms, household consumption rose by 1.0% in the March quarter.

In annual average terms, household consumption grew by a very strong 6.7% in year to the March quarter 2005, although this represents a slight moderation from the recent peak in growth of 7.7% in the year to the September quarter 2004.

Household Consumption

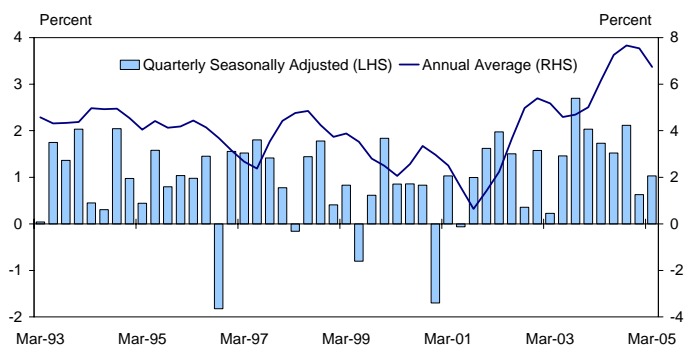
Real Growth (%)

March quarter 2005

	qtr*	yr
NSW	0.3	3.2
Vic	0.5	4.6
Qld	1.6	6.7
WA	1.0	6.7
SA	1.0	3.6
Tas	1.4	5.9
Aust	0.8	4.7

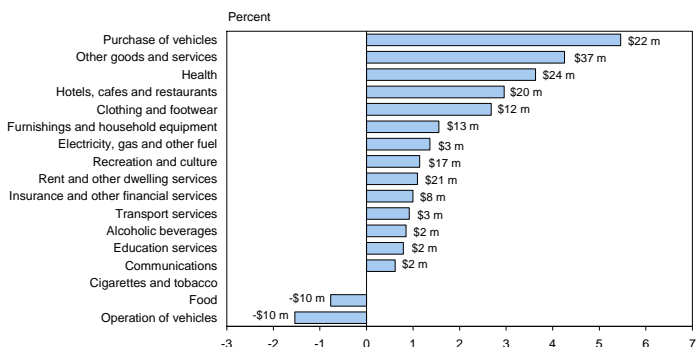
* In seasonally adjusted terms

HOUSEHOLD CONSUMPTION GROWTH
Western Australia

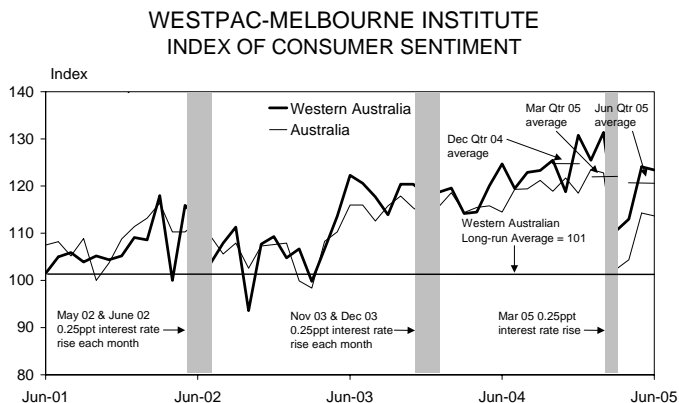


Growth in spending in the March quarter was strongest for purchase of vehicles (up 5.5%), other goods and services (including expenditures on personal care and insurance) (up 3.7%) and health (up 3.5%). Increases in these areas were partially offset by reduced spending on food (down 1.4%) and operations of vehicles (down 1.5%).

HOUSEHOLD EXPENDITURE BY TYPE
WESTERN AUSTRALIA, MARCH QUARTER 2005



The Westpac-Melbourne Institute’s index of consumer sentiment fell in the June quarter, following a decline in the March quarter. As shown in the chart below, consumer sentiment declined dramatically following the decision by the Reserve Bank of Australia to raise the cash rate from 5.25% to 5.5% on 2 March. Although consumer sentiment rebounded in April and May as concern about further interest rate increases moderated, the average level in the index for the June quarter was lower than the average for the March quarter. Notwithstanding the large decline in confidence in March, the consumer sentiment index remains significantly higher than the long-term trend.



The high level of consumer confidence in recent years has been supported by increases in household wealth (from rising house prices), the general strength of economic conditions, a buoyant sharemarket, consistently low inflation and low interest rates.

Retail Spending

Recent trends in partial indicators of private consumption (i.e. retail trade and new motor vehicle sales), suggest that the pace of consumer spending remained resilient in the June quarter 2005.

Retail trade, which accounts for around two-fifths of household consumption, rose by a strong 1.8% in real terms in the June quarter 2005, up from growth of 0.2% in the March quarter. In trend terms, retail trade increased by 0.6% in the June quarter, following growth of 0.5% in the March quarter.

Notwithstanding the lift in retail trade in the June quarter, growth in annual average terms is softening. Reflecting this, retail trade rose by 6.0% in 2004-05, down from a peak of 9.0% in calendar year 2004.

Retail Trade

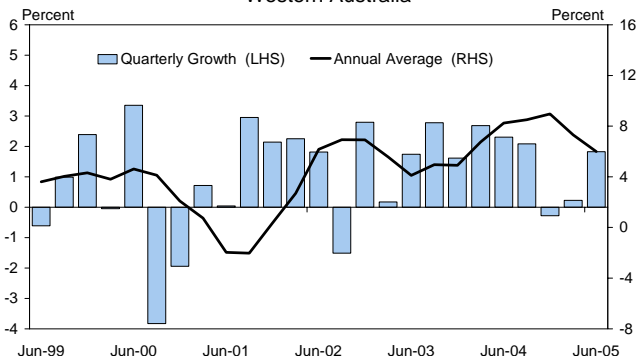
Real Growth (%)

June quarter 2005

	<i>qtr*</i>	<i>yr</i>
NSW	-0.5	2.4
Vic	1.8	4.2
Qld	-0.4	3.7
WA	1.8	6.0
SA	-2.1	2.5
Tas	-1.2	4.3
Aust	0.2	3.5

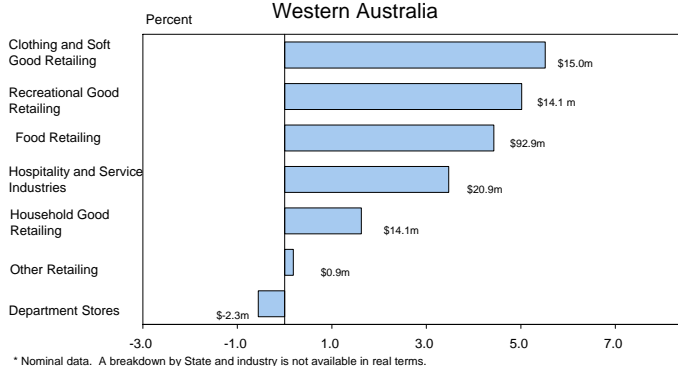
* In seasonally adjusted terms.

REAL RETAIL TURNOVER
Western Australia



Growth in spending was mixed across different segments of the retail industry in the June quarter 2005. Growth was strongest in clothing and soft good retailing, recreational goods retailing and food retailing. The only detractor from retail sales growth in the June quarter was department store retailing.

RETAIL SALES GROWTH BY INDUSTRY*
JUNE QUARTER 2005
Western Australia



* Nominal data. A breakdown by State and industry is not available in real terms.

New Motor Vehicle Sales

While new motor vehicle sales typically represent only around 3% to 3.5% of total household consumption expenditure, sales activity can be an important indicator of overall economic performance, as well as a broad indicator of consumer sentiment.

Latest data show that growth in new motor vehicle sales in Western Australia moderated in the June quarter 2005, increasing by 0.5% after rising by 4.7% in the March quarter. Growth over the June quarter 2005 was underpinned by growth in 'other vehicles' (includes utilities, panel vans, cab chassis, etc.), which increased by 24.0%. Sales of passenger vehicles and sports utility vehicles rose by 4.9% and 2.3% in the June quarter.

New Motor Vehicle Sales

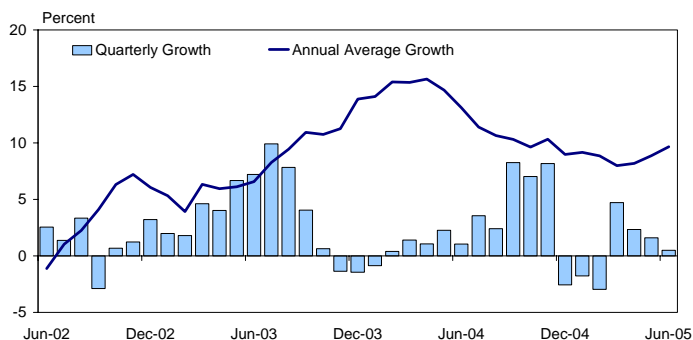
Nominal Growth (%)

June quarter 2005

	qtr*	yr
NSW	-5.4	0.1
Vic	-1.5	3.7
Qld	3.0	9.9
WA	0.5	9.7
SA	-2.5	1.5
Tas	-4.7	9.7
Aust	-1.9	4.3

* In seasonally adjusted terms.

NEW MOTOR VEHICLE SALES
Western Australia



In annual average terms, growth in new motor vehicle sales has moderated, increasing by 9.7% over 2004-05, after growing by 13.1% in 2003-04.

Outlook

Growth in household consumption is estimated to have moderated to a nevertheless strong 4.5% in 2004-05, down from record growth of 6.8% in 2003-04. This moderation in growth reflects a softening in consumer sentiment following the increase in interest rates in March 2005, and the prospect of further rate increases.

Notwithstanding the healthy labour market and prospect of strong economic conditions generally over 2005-06, growth in household consumption is forecast to moderate further (to 2.75%) as households seek to consolidate debts after an extended period of capital growth.

DWELLING INVESTMENT

- Dwelling investment in Western Australia increased by a strong 1.7% in the March quarter 2005, but continues to grow at a modest rate in annual average terms (up 2.5% over the year to the March quarter 2005).
- Partial indicators suggest that activity will remain at a high level into the near future, with steady demand for new housing, and construction on work currently in the pipeline, underpinning activity.
- Dwelling investment is expected to consolidate at a high level in 2005-06, with a slight fall of 1.0% forecast.

Recent Conditions

Dwelling investment increased by 1.7% in trend terms in the March quarter 2005. This follows similar growth in the previous three quarters. In annual average terms, dwelling investment grew by 2.5% over the year to the March quarter 2005.

Dwelling Investment

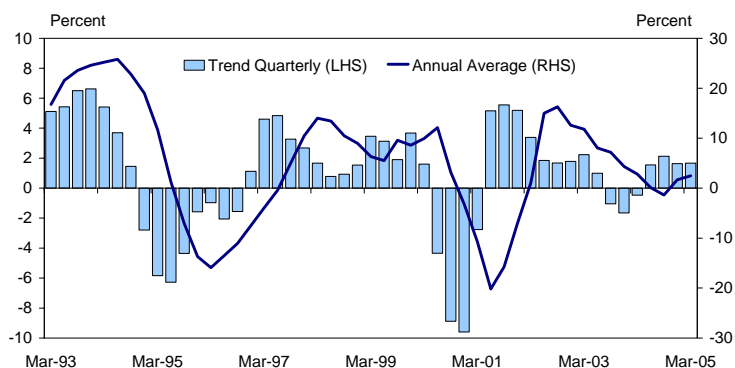
Real Growth (%)

Period to March 2005

	qtr*	yr
NSW	-4.6	-8.7
Vic	-3.7	-0.7
Qld	0.7	3.0
WA	1.7	2.5
SA	1.2	2.6
Tas	-1.7	1.1
Aust	-2.0	-2.0

* In trend terms.

DWELLING INVESTMENT Western Australia



The increase in dwelling investment in Western Australia in the March quarter 2005 occurred as a result of growth in all components of dwelling investment. In particular, new dwelling construction grew by 1.5%, alterations and additions by 1.5%, and ownership transfer costs by 2.2%.

The growth in new dwelling construction investment (which represents around 45% of the total value of dwelling investment) follows five consecutive quarters of growth. This underpinned strong annual growth of 5.2% over the year to the March quarter 2005.

Similarly, alterations and additions (which represents around 30% of the total value of dwelling investment) rose for the fourth consecutive quarter, resulting in a turnaround in annual average growth in alterations and additions (up 3.2% over the year to the March quarter 2005). This was the first increase in annual average terms since December 2003.

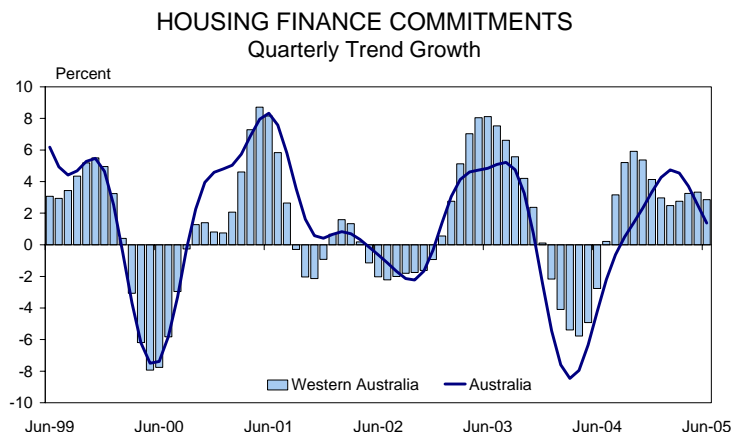
Ownership transfer costs¹, which represents around 25% of the total value of dwelling investment, have been growing at a solid pace over the past three quarters but declined by 3.6% over the year to the March quarter 2005.

Partial Indicators

Leading indicators of dwelling investment point to continued high levels of activity in both the residential construction and established dwelling markets in Western Australia.

Housing finance data show that the rate of growth in total housing finance commitments increased in trend terms in the June quarter 2005 to reach their highest level (23,107) on record.

¹ Ownership transfer costs relate to costs such as legal/conveyancing fees, real estate agent/ auctioneer fees, and government taxes/charges (such as stamp duty), and are inclusive of such costs for both new and established housing (but also include similar such costs relating to non-residential assets).

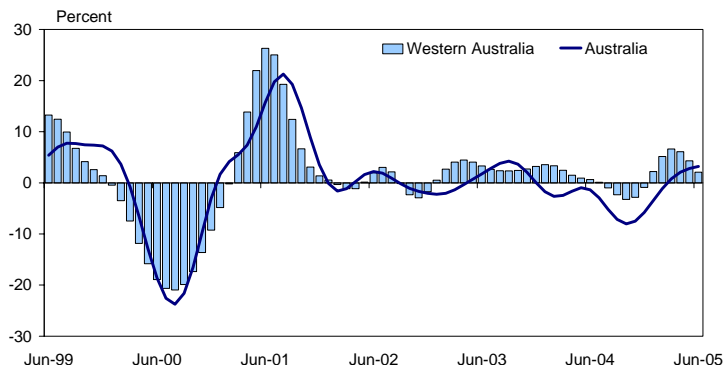


New Construction

The dwelling construction market in Western Australia continues to operate at high levels. Both building approvals and housing finance commitments for the construction of new dwellings continue to grow, albeit at a modest pace. Although the number of dwelling commencements has declined in recent quarters, commencements remain at high levels. Other data indicate that there is a substantial amount of new residential work still to be done. It is expected that this will continue to support activity in the short to medium term.

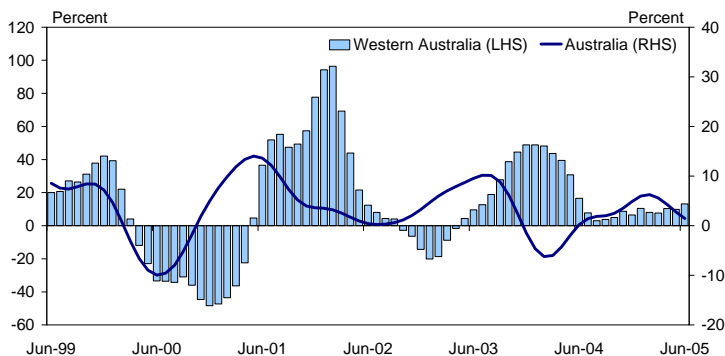
Building approvals rose by 2.1% in trend terms in the June quarter 2005. This follows an increase of 6.6% over the previous quarter. The number of building approvals (6,320) in trend terms in the June quarter is at its highest level since the three months to October 1994.

RESIDENTIAL BUILDING APPROVALS Quarterly Trend Growth

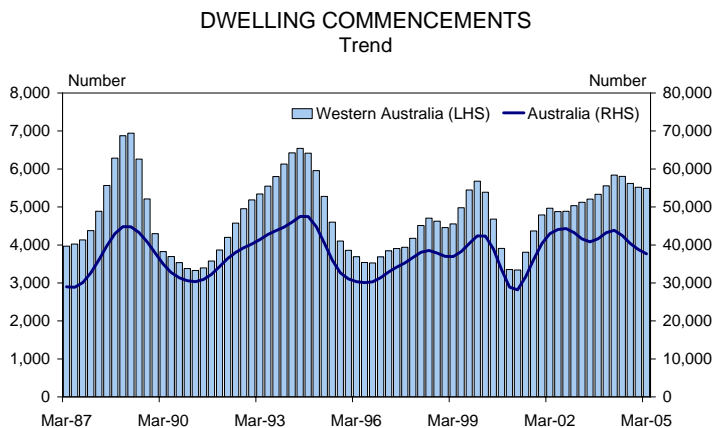


The value of finance commitments by owner-occupiers for the construction of dwellings in Western Australia (which represents around 15% of the total value of housing finance commitments by owner-occupiers) was 13.1% higher in the June quarter 2005 than the corresponding period of the previous year.

CONSTRUCTION COMMITMENTS VALUE Owner Occupier, Quarterly Nominal Year on Year growth



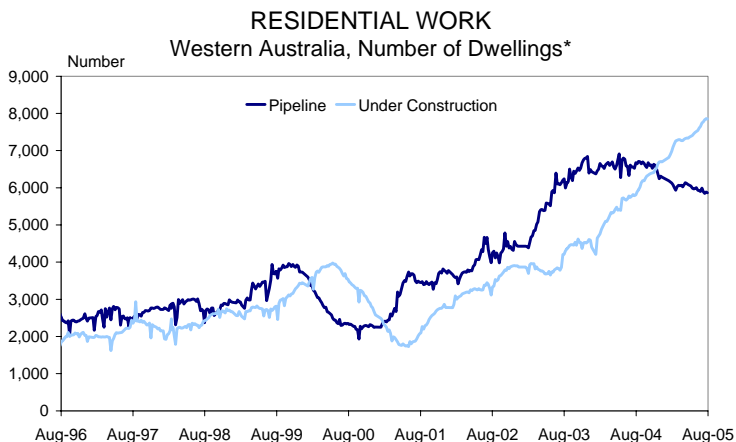
Dwelling commencements fell by 0.6% in trend terms over the March quarter 2005, and have been falling since the March quarter 2004. Nevertheless, the level of commencements remains relatively high by historical standards. In annual average terms, dwelling commencements grew by 2.9% over the year to the March quarter 2005.



Anecdotal evidence suggests that growth in dwelling investment has continued to be constrained by materials and labour shortages in recent years, which would have contributed to the build up in work yet to be done over the period.

According to the Australian Bureau of Statistics (ABS), the value of residential work approved but not commenced was equal to \$532.3 million over the March quarter 2005, compared with \$417.2 million over the March quarter 2004.

This is broadly consistent with the picture presented by data from the Housing Industry Association (HIA) on the number of dwellings on builders' books that are still to be commenced (i.e. the 'pipeline'). This more up-to-date data source also suggests that the pipeline of residential work has moderated in more recent periods.



Source: HIA

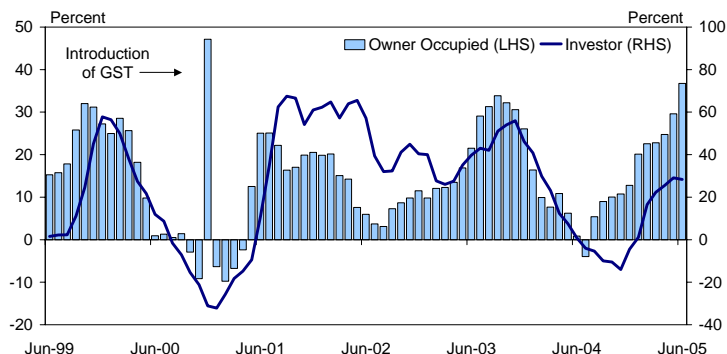
* Adjusted to remove reduced levels of activity in December 2002 and December 2003.

Established Dwellings

Activity in the established market remains strong, with continued growth in the value of housing finance commitments for, and the prices of, established houses. Data for both the owner-occupier and investor components of finance commitments for established dwellings demonstrate sustained quarterly growth, when compared to the corresponding periods of previous years, much of which likely reflects the effect of house price increases.

The value of owner-occupier housing finance commitments for established dwellings (which represents approximately 85% of the total value of owner-occupier commitments) was 36.8% higher in the June quarter 2005 than the corresponding period of the previous year.

ESTABLISHED COMMITMENTS VALUE
Western Australia, Quarterly Nominal Year on Year growth

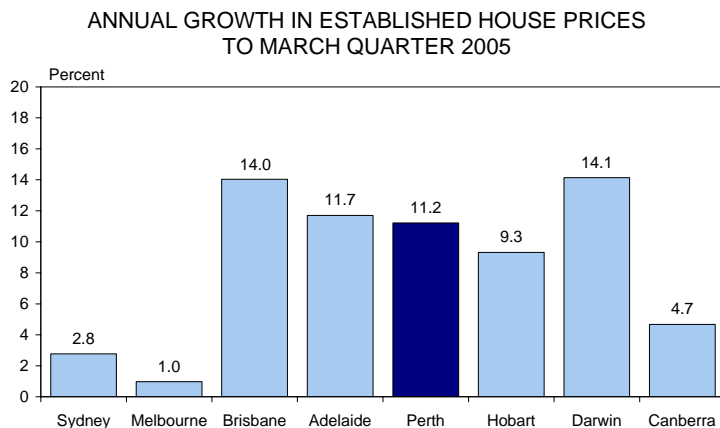


The value of investor finance for established houses² continued to rebound strongly (up 31.8% in the June quarter 2005 when compared with the same period a year earlier), after consolidating earlier in 2004.

Strong demand for housing has resulted in strong growth in house prices in Western Australia than in most other States in recent quarters. According to the ABS established house price index, Perth house prices rose by 2.1% over the March quarter 2005 after growing by 2.4% in the December quarter 2004. By comparison, the average price index for the eight capital cities rose by 0.2%, following an increase of 0.6% in the December quarter.

In annual average terms, the established house price index for Perth rose by 11.2% over the year to the March quarter 2005, after increasing by 11.7% and 19.1% over the same period in 2003 and 2004. The growth of Perth house prices over the year compares with the average house price for the eight capital cities of 5.8%.

² The value of investor finance for established homes represents approximately 95% of the total value of investor finance commitments for dwellings, and also represents approximately 30% of the total value of housing finance commitments for established homes.



To put this into some context, Perth house prices have risen by a similar amount (60.6%) over the past four years when compared with the growth in the weighted average house prices of the eight capital cities (63.9%) over the same period. Prior to 2003, Perth house prices had not increased to the extent of the other capital cities. However, prices in Perth have subsequently grown at a stronger pace. Overall, prices in Perth have lagged price trends in other capital cities.

Preliminary data published by the Real Estate Institute of Australia (REIA) indicate that the median price of established houses sold in Perth rose by 3.5% in the March quarter 2005 to \$284,500, and by 13.8% between the March quarter 2004 to the March quarter 2005. By comparison, the REIA weighted average median house price of Australian capital cities declined by 1.0% in the March quarter 2005 to \$378,600, but rose by 9.3% between the March quarter 2004 and the March quarter 2005.

Overall, Perth house prices remain comparatively cheaper than the house prices in the capital cities of most other States. Furthermore, the latest AMP Banking/REIA home loan affordability data³ reveal that home loans in Western Australia are the most affordable of all the States.

³ The AMP Banking/REIA Home Loan Affordability Indicator measures the ratio of median family income to average loan repayments for each of the States and Territories.

Outlook

Housing activity continues to grow at a moderate pace, albeit at record high levels. Leading indicators and anecdotal evidence suggest that activity will remain at a high level in the near future.

Consistent with these indicators, forecasts contained in the 2005-06 Budget are for dwelling investment to have grown by 3.5% in 2004-05. Dwelling investment is forecast to contract slightly (by 1.0%) in 2005-06, reflecting steady demand for new dwellings and a gradual unwinding of work currently in the construction pipeline.

BUSINESS INVESTMENT

- *Business investment in Western Australia continues to benefit from resource-related activity and healthy business conditions.*
- *Latest data shows that business investment recorded an annual average growth rate of 2.6% in the year to the March quarter 2005, while in trend terms, business investment grew by 2.0% over the March quarter 2005.*
- *With work on a number of large resource-related projects being completed over the course of 2004 (including the fourth LNG train for the North West Shelf), growth in business investment in annual average terms has moderated from the double-digit growth experienced over 2003-04.*
- *Despite this, activity related to the construction phases of other new and continuing mining projects, together with business investment across a broad range of other industries, has helped maintain activity at historically high levels.*
- *The short-term outlook is for business conditions in Western Australia to remain broadly positive, albeit with business investment growing at a more sustainable rate.*

Recent Conditions

Latest data shows that business investment grew by 2.0% in trend terms in the March quarter 2005, following (revised) trend growth of 3.5% in the previous quarter. Increases in the later quarters of 2004 followed modest declines in the March and June quarters of 2004 (see following chart). In annual average terms, business investment grew by 2.6% over the year to the March quarter 2005.

This pattern of quarterly growth over the past year is partly a reflection of the completion of construction on a number of major investment projects over the first half of 2004, including the \$2.4 billion fourth LNG train of the North West Shelf Project⁴.

⁴ \$2.4 billion total inclusive of \$1.6 billion LNG plant and related \$800 million second gas trunk line.

Business Investment

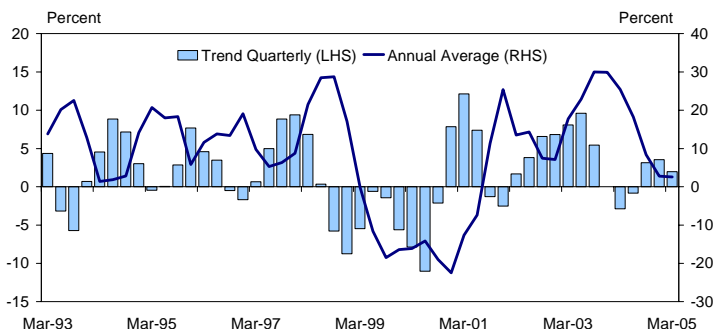
Real Growth (%)

March Qtr 2005

	<i>qtr*</i>	<i>yr</i>
NSW	2.0	14.0
Vic	2.5	9.1
Qld	-0.6	16.9
WA	2.0	2.6
SA	-1.7	5.3
Tas	0.6	28.6
Aust	1.8	10.4

* In trend terms.

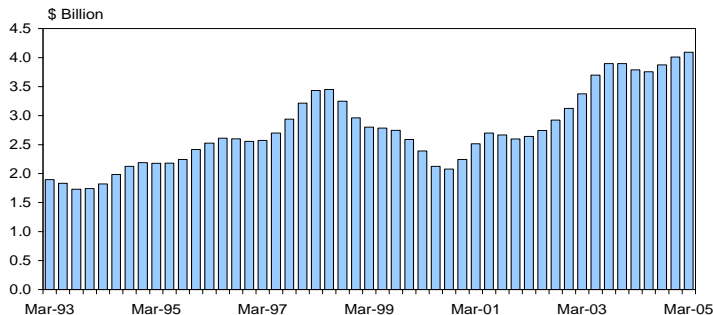
BUSINESS INVESTMENT GROWTH
Western Australia



Despite the Australian dollar remaining at close to historically high levels, the global resources boom has seen several of the State’s key commodities trade at record prices in Australian dollar terms, leading to increasing profitability. This in turn has resulted in a number of major new mineral and oil and gas projects proceeding, as well as expansions to existing mine sites (particularly capacity upgrades to several iron ore mines), and work on associated supporting infrastructure (e.g. port upgrades, rail lines and gas pipelines).

Work on such projects has helped maintain business investment levels in recent quarters. As shown by the following chart, while growth rates in business investment may have moderated more recently, in absolute terms, levels of business investment still remain at historical highs.

TREND BUSINESS INVESTMENT
WESTERN AUSTRALIA

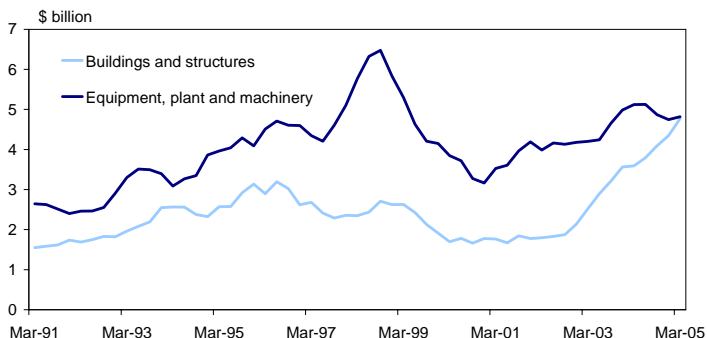


Some of the major projects in the State currently under construction (or expected to start construction soon) include:

- the \$2.0 billion 5th LNG train for the North West Shelf;
- BHP Billiton's \$1.6 billion Ravensthorpe nickel mine and associated infrastructure;
- Woodside's \$1.5 billion Enfield oil field project;
- Hamersley Iron's \$1.3 billion upgrade of its Dampier Port facilities and Yandicoogina iron ore mine;
- the \$750 million Mt Gibson iron ore mine;
- BHP Billiton's \$735 million Rapid Growth Project 2 for iron ore in the Pilbara region;
- Burrup Fertilisers' \$630 million ammonia plant;
- Alcoa's \$440 million Pinjarra alumina refinery expansion;
- Alinta, Alcoa and DUET's \$300 million expansion (stage 1) of the Dampier to Bunbury natural gas pipeline;
- Argyle Diamond \$290 million mine expansion; and
- BHP Billiton's \$266 million upgrade of capacity at the Worsley Alumina refinery.

Data on businesses' capital expenditure patterns by asset class (in current prices) shows that over the year to the March quarter 2005, expenditure on buildings and structures grew by a strong 32.7%. Over the same period, the 'equipment, plant and machinery' category recorded a fall of 5.9%.

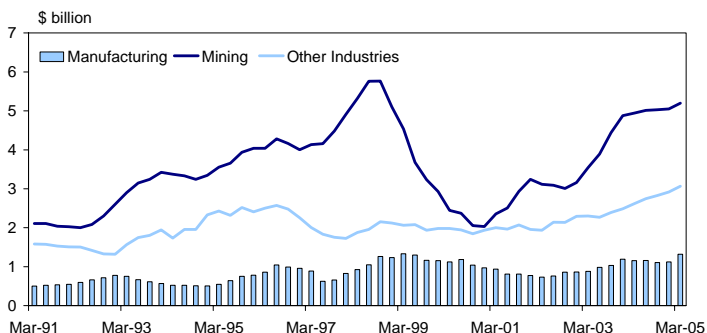
CAPITAL EXPENDITURE BY ASSET CLASS
 Moving Annual Total, Current prices



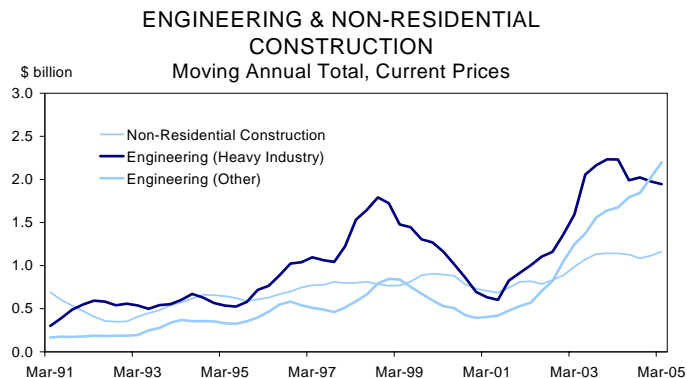
Notwithstanding this, aggregate annual levels of investment in both categories are quite strong (at about \$4.8 billion), with buildings and structures in particular at a historically high level (as shown by the preceding chart).

Data on capital expenditure (by industry) shows that investment in the mining industry has grown steadily over the past few years, and was 5.2% higher over the year to the March quarter 2005. However, investment in manufacturing and 'other industries' has increased at a faster pace (14.3% and 17.0% respectively) over the same period.

CAPITAL EXPENDITURE BY INDUSTRY
 Moving Annual Total, Current prices



The following chart shows the value of private sector work in engineering by the categories of 'heavy industry' and 'other' (which predominantly includes infrastructure items such as roads; highways; bridges; railways; water storage and supply; pipelines; sewerage and drainage; telecommunications; harbours; electricity generation and transmission; recreation; and other miscellaneous items).



The chart also shows the value of work in non-residential building. In particular, the chart demonstrates that the 'other' category of engineering work has grown quite strongly over the past few years (and was 31.1% higher over the year to the March quarter 2005). This data indicates that there has been significant investment in infrastructure, including engineering projects related to infrastructure such as port upgrades, rail-lines, pipelines, electricity-related projects, and the like in Western Australia in recent years.

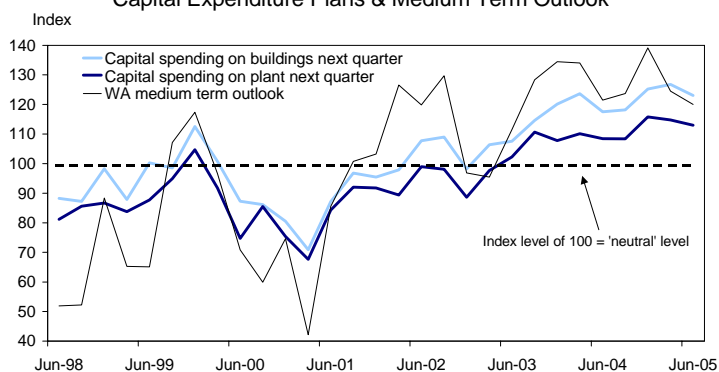
Outlook

Notwithstanding the recent completion of a number of major resource developments and the somewhat 'lumpy' (volatile) nature of business investment, the prospects for business investment in Western Australia over the near term remain solid. In particular, high commodity prices, strong corporate profits and healthy business balance sheets bode well for continued investment.

Most business surveys continue to report optimistic business sentiment. The National Australia Bank's (NAB) Quarterly Business Survey indicates that in Western Australia, business conditions in the June quarter 2005 were strong (exceeding conditions in all other States and nationally), with profitability and trading also higher than the national average. The survey also shows that Western Australian businesses' capital expenditure expectations for the year ahead are close to record highs, and are higher than all other States.

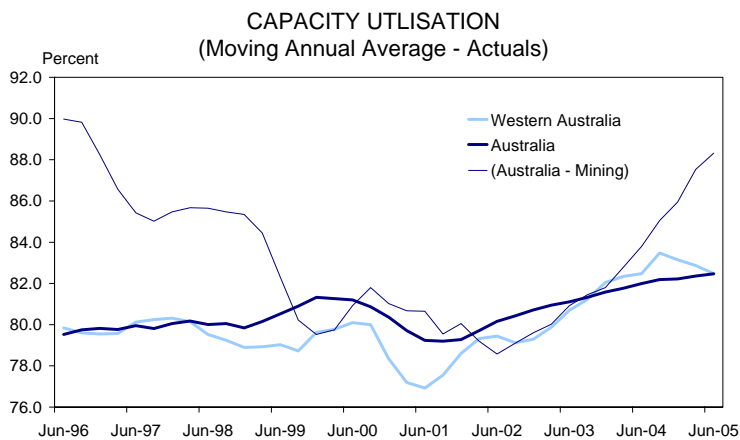
Similarly, the June quarter 2005 Chamber of Commerce and Industry of Western Australia-BankWest Survey of Business Expectations also indicates that Western Australian businesses' outlook on conditions remains positive, particularly in respect to businesses' short-term plans for investment. The survey's index for 'anticipated capital expenditure' for the June quarter 2005 was 2.1% higher than for the June quarter 2004, with the indices for the expected level of spending on buildings and plant both at very high levels in historical terms, as shown by the following chart (where an index level of 100 equates to 'neutral' conditions).

WESTERN AUSTRALIAN BUSINESS EXPECTATIONS
Capital Expenditure Plans & Medium Term Outlook



Data on the value of work yet to be done for both non-residential construction and engineering projects shows that as at the March quarter 2005, there was \$4.6 billion worth of work on projects currently under construction in Western Australia yet to be finished. This is 56.2% higher than at the March quarter 2004.

Trends in capacity utilisation provide an indication of how much 'spare' capacity business is operating with. Investment tends to grow when capacity utilisation is high, as business needs to expand capacity if it is to increase output. According to the NAB's Quarterly Business Survey, at a rate of 81.4% for the June quarter 2005, and at an average annual rate of 82.5% over the year to June 2005, Western Australia's capacity utilisation rate remains above its long term average (of just under 80%).



Notwithstanding the high levels, the preceding chart shows that there has been a decline in capacity utilisation in Western Australia as a whole over recent quarters. This most likely reflects additions to capacity from recently completed investment projects. Notwithstanding the recent decline, the level of capacity utilisation remains at close to its highest level in a decade. Moreover, as also shown by the chart, capacity in the mining industry nationally⁵ still remains tight.

The 2005-06 Budget forecast is for business investment to grow by 5.75% in 2004-05. This is expected to be followed by more moderate annual growth of 1.25% over 2005-06, with business investment likely to be sustained at high levels by the first full year of construction on projects such as the fifth LNG train, the Ravensthorpe nickel mine (and associated infrastructure) and the Enfield oil field development.

⁵ Data on capacity utilisation rates by State are unavailable.

EXTERNAL CONDITIONS

- *A key feature of the State's external sector has been robust demand from Western Australia's trading partners for the State's commodities and a strong domestic economy, resulting in both strong exports and imports growth over the past year.*
- *Real exports are forecast to increase by 6.0% in 2004-05, and strengthen further by 8.25% in 2005-06 as export capacity gradually comes on line.*
- *Real imports growth of 13.5% is expected for 2004-05 before moderating to 5.75% in 2005-06, in line with an anticipated cooling in the State's domestic economy.*
- *Nominal trade data indicate that Western Australia trade surplus grew significantly in the June quarter, (up 27.9% on the June quarter 2004) to reach a record \$24.5 billion in 2004-05. This lift in the trade surplus reflects very strong growth in exports (up 29.4% on the June quarter 2004) more than offsetting growth in imports.*
- *Consequently, net exports are expected to be a major contributor to economic growth in 2005-06. Net exports are forecast to grow by 9.75%, following an expected growth rate of 2.0% in 2004-05.*

Net Exports

Increasing export capacity in recent months has resulted in Western Australia's net merchandise trade surplus widening significantly. Over the June quarter 2005, the trade surplus increased by 27.9% (or \$1.5 billion) in nominal terms⁶ when compared to same period a year earlier. Nationally, the trade deficit improved by 23.3% (or by \$987 million) over the same period.

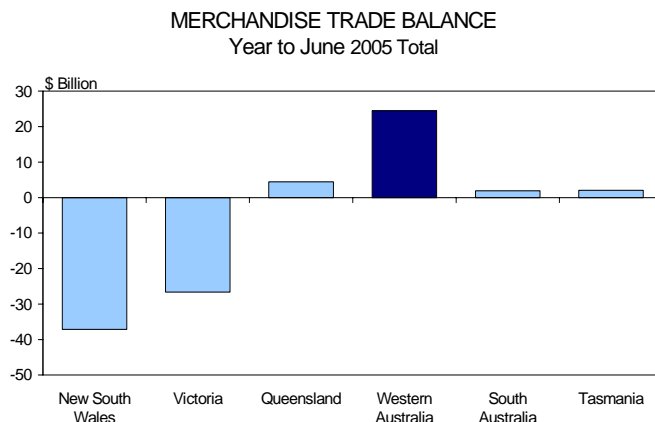
⁶ Trade data is based on two main sources, both from the ABS. Nominal data on trade values is not adjusted for price effects, although it provides a more timely indication of international trade patterns. Real data (based on ABS' National Accounts chain volume series) lags a few months behind nominal data (in terms of its availability) but provides a better indication of international trade patterns that are not affected by changes in the prices of traded goods.

In real terms, net exports increased by 1.8% over the March quarter 2005 (latest data available), following a strong 13.4% increase in the December quarter 2004. Despite these results, net exports were 4.0% lower over the year to March 2005 than over the year to March 2004 in annual average terms, as a result of declines in the trade surplus in the June and September quarters of 2004.

The 2005-06 Budget forecasts are for real net exports to make a modest contribution to economic growth in 2004-05, despite relatively strong growth in exports during the year. A large increase in imports is expected to more than offset this growth, with net exports anticipated to grow by 2.0% in 2004-05, before growing by a healthy 9.75% in 2005-06.

Trade Balance

Western Australia recorded a nominal merchandise trade surplus of \$24.5 billion (the State's largest on record) compared to a national deficit of \$23.0 billion over 2004-05.



Exports

Exports rose by 1.6% in real (volume) terms in the March quarter 2005, following a strong 6.5% increase over the previous quarter. Despite this, exports grew by a more modest 1.2% over the year to March 2005, largely reflecting declines in export volumes in the June and September quarters of 2004. The fall in exports during these quarters was due to the cessation of pig iron exports and sizeable fall in gold exports.

Exports

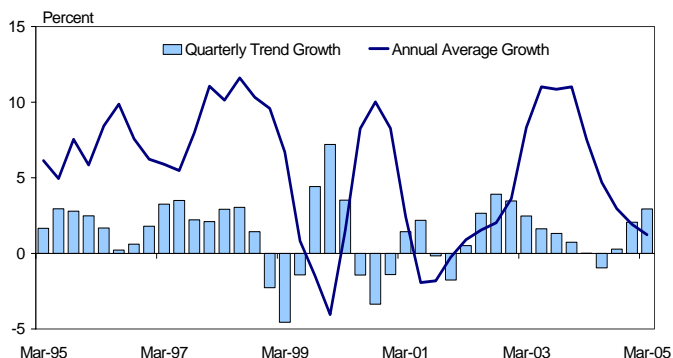
Real Growth (%)

Period to March 2005

	qtr*	yr
NSW	6.2	8.0
Vic	-8.5	5.8
Qld	0.4	5.3
WA	1.6	1.2
SA	5.1	5.0
Tas	-9.5	-3.2
Aust	1.0	4.2

* March quarter 2005 on December quarter 2004.

REAL MERCHANDISE EXPORTS
Western Australia



The nominal value of Western Australia's merchandise exports grew by 29.4% in the June quarter 2005 compared with the corresponding period a year earlier. This increase was driven by a healthy increase in \$A commodity prices over the year (see below) as well as higher volumes. Nationally, the nominal value of merchandise exports increased by 17.0%, with all States except Victoria (down 3.5%) and South Australia (down 6.2%) experiencing growth over the period.

Over 2004-05, Western Australia's nominal exports increased by 19.7% to a record level of \$38.7 billion. As a result, Western Australia now accounts for a record 30.6% of Australia's merchandise exports.

Items Exported

Fuelled by sustained demand from China, iron ore exports strengthened further. Over the June quarter 2005, the nominal value of iron ore sales rose by \$1,373.0 million (or 92.6%) compared to the June quarter 2004. The increased earnings were largely a result of price increases, while the volume of iron ore exports rose by 21.6% over the period.

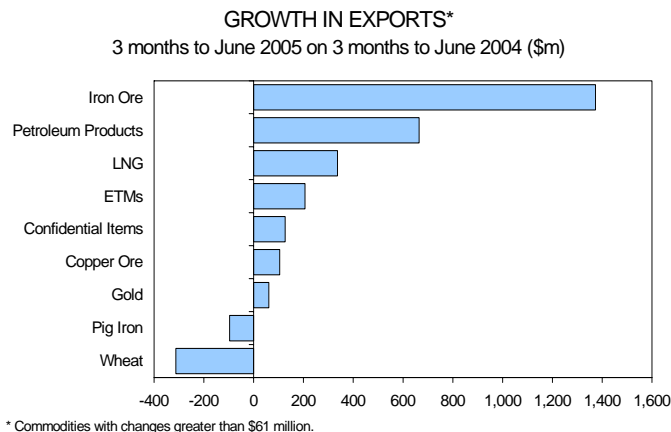
The increase in exports earnings largely reflects the latest contractual agreements with Japanese steel mills, which came into effect on 1 April this year for the Japanese financial year (1 April 2005 to 31 March 2006). For iron ore delivered to Japanese steel mills for this current Japanese financial year, prices are some 71.5% higher than the previous year's price (or around 58% higher for Australian producers, taking currency changes into account).

Strong underlying market fundamentals (including continuous growth in global crude oil consumption) have seen pressure on the oil price maintained. In addition, supply disruptions and a decline in spare production capacity have increased the risk premium placed on the global oil price. Largely reflecting the high price, the nominal value of Western Australia's petroleum exports increased by \$664.6 million (or 75.3%) between the June quarter 2004 and the June quarter 2005.

Stronger demand has also resulted in the volume of the State's petroleum exports increasing (by 35.2%) over the same period.

Over the near term, oil export volumes are expected to be supported by the commencement of production, from Santos' Mutineer/Exeter oil development (which began production in March 2005) and the Enfield oil field after completion of construction in 2006.

ABARE estimates that LNG production from the North West Shelf project fell by 9.5% in the March quarter 2005. This reflects that production in the December quarter 2004 was boosted by the commissioning of the fourth LNG train. However, production in the March quarter was lower as a result of the temporary closure of the fourth LNG train for routine maintenance. Nevertheless, nominal trade data shows that LNG was a major contributor to growth in exports in value terms over the June quarter 2005. Over the period, the value of LNG exports increased by \$336.6 million, (or by 64.6%) when compared to the June quarter 2004. This was largely due to an increase in LNG prices.



The value of elaborately transformed manufactures (ETMs), which includes goods with some degree of manufacturing value added (such as metals, chemicals and engineering products) increased over the June quarter 2005, buoyed by volume increases. The nominal value of ETMs exports was \$206.1 million (or 42.2%) higher over the quarter compared with the June quarter 2004. In volume terms, exports of ETMs were 47.0% higher over the same period.

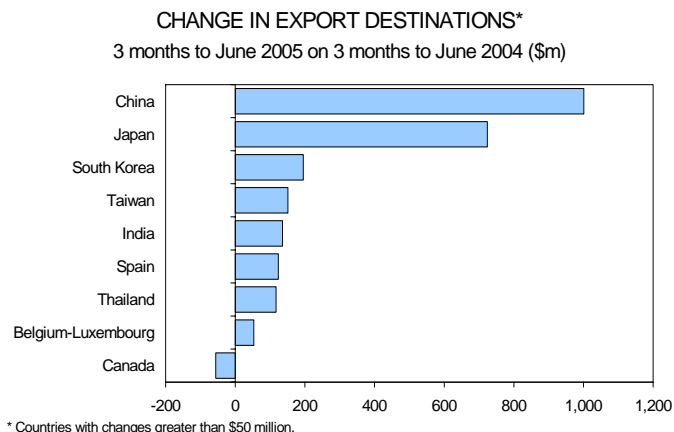
The value of confidential item exports (which includes alumina and a proportion of nickel exports) has risen substantially in recent months. Over the June quarter 2005, exports of confidential items increased by \$126.8 million (or by 7.2%) compared with the same period a year earlier. This increase was likely due to an increase in the volume of exports of alumina and nickel, as the growth in price of these commodities moderated over the period.

In contrast to most commodities, the value of wheat exports has declined in recent months. In the June quarter 2005, the export of wheat fell by \$312.5 million (or by 52.1%).

Overall, the real value of Western Australia's merchandise exports is forecast to increase by 6.0% in 2004-05. In 2005-06, growth in real merchandise exports is forecast to strengthen further to 8.25%, which would make exports the largest contributor to growth in the State's economy over this period.

Export Markets

Nominal data indicate that exports to China, Japan and South Korea expanded rapidly in mid 2005.

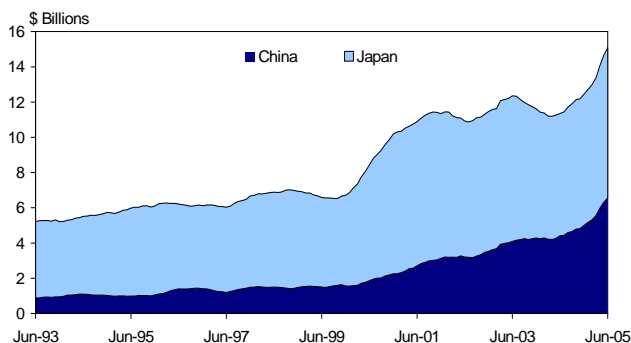


Demand for Western Australia's resources from China continues to grow strongly. Over the June quarter 2005, exports to China rose by a record \$1,001.0 million (or 82.2%) in nominal terms compared to the same period a year earlier.

The recently negotiated iron ore price increase which came into effect on 1 April, however, is partly responsible for some of this growth. Indeed, iron ore exports to China accounted for most of this increase (or \$893.8 million). In volume terms, iron ore exports increased by a very strong 68.9% over the period, as increasing production and incremental capacity from iron ore companies came on line to service Chinese (and other global) demand.

WESTERN AUSTRALIAN MERCHANDISE TRADE
EXPORTS

Annual value, current prices



Exports to Japan in nominal terms have made their largest contribution to overall exports growth since 2001. Exports to Japan increased by \$724.0 million (or 40.7%) in the June quarter 2005, when compared to the same period a year earlier. As with China, the value of iron ore exports rose strongly, up \$337.9 million (or 58.2%). Confidential items exported to Japan (which includes alumina and LNG) also posted a large increase in nominal value terms over this period, up \$185.2 million (or 23.1%).

Over the June quarter 2005, exports to South Korea rose by \$195.0 million (or 27.0%) when compared to the same period a year earlier. The main driver of this growth was petroleum (up \$168.4 million) and to a lesser extent iron ore.

In contrast, exports to Canada declined. Over the June quarter 2005, exports to Canada fell by \$56.2 million (or 21.4%). A fall in nickel exports was largely responsible for the decrease.

Imports

Real imports rose by 1.4% in the March quarter 2005, following a 3.4% fall over the December quarter. In annual average terms, imports increased by 11.1% over the year to March quarter 2005. As illustrated in the following chart, after initially peaking in mid-2003, growth in imports moderated in annual average terms. However, continued strength in the domestic economy, related to both the resource sector (higher imports of capital goods) and the household sector (higher imports of consumer goods) has resulted in growth in imports strengthening slightly in annual average terms, since late 2004.

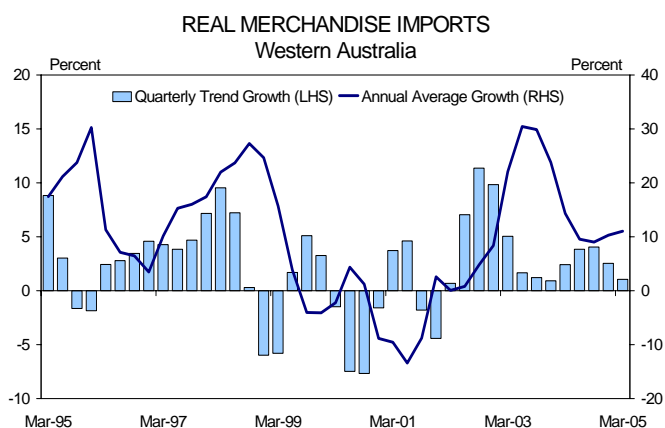
Imports

Real Growth (%)

Period to March 2005

	qtr*	yr
NSW	6.1	15.1
Vic	2.1	11.0
Qld	-5.7	18.1
WA	1.4	11.1
SA	-10.5	7.6
Tas	22.8	-13.5
Aust	2.0	13.1

* March quarter 2005 on December quarter 2004.



Nominal trade data indicates that merchandise imports continue to grow at a healthy pace. Over the June quarter 2005, the nominal value of merchandise imports into Western Australia increased by 32.3% (or by \$953.0 million) compared to the same period a year earlier.

Consumer goods made the largest contribution to growth, accounting for almost half (or 14.3 percentage points) of total imports growth of 32.3%. Almost all of this growth however, was driven by petroleum imports which alone contributed 12.3 percentage points to growth in imports over the period, buoyed by record oil prices which has resulted in a sharp increase in the price of refined petroleum.

Over the June quarter 2005, imports of consumer goods increased by 34.2% (or \$421.9 million), when compared to the June quarter 2004, while petroleum imports increased by 79.4% (or \$363.8 million). Over the same period, the volume of petroleum imports increased by 40.2% over the period.

Imports of investment goods (which includes building materials) also made a large contribution to growth. Over the June quarter 2005, investment goods imports were 29.7% (or \$337.7 million) higher than the same period a year earlier, and contributed 11.4 percentage points to the overall growth rate in imports of 32.3%.

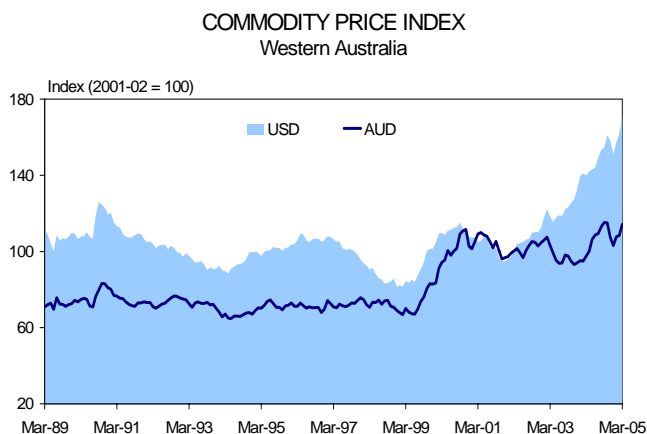
In terms of imports by type of commodity, imports of chemicals increased strongly over the June quarter 2005, up by \$45.8 million (or 24.9%) compared to a year earlier. Items classed as chemicals include various acids and nitrates, as well as fertilisers, plastics and sulphur. Various chemicals (for example sulphur) are important industrial raw materials utilised in fertiliser production and metallurgical processing.

The 2005-06 Budget forecast is for imports to grow by 13.5% in 2004-05 (in volume terms), up from 10.1% in 2003-04. However, in 2005-06 growth in imports is forecast to ease to 5.75%, in line with an anticipated moderation in growth in consumer spending and capital investment.

Commodity Price Index⁷

The fixed weight index of transaction prices of major minerals and energy commodities produced in Western Australia (in \$US terms) continues to remain at a historical high.

In the March quarter 2005, the Western Australian \$US commodity price index grew by 4.2%, to be 16.5% higher than the same period a year earlier. Not surprisingly, given the trend globally of increasing oil prices, oil was the major contributor to the rise in the index (accounting for 11.1 percentage points of the total 16.5% increase). Other resources to make a more modest, yet still solid contribution to the increase in the commodity price index were iron ore (2.8 percentage points) and alumina (1.4 percentage points).



In Australian dollar terms however, the index rose by only 1.5% in the March quarter 2005, but was still up by 14.8% on the same period a year earlier. The difference in growth between the index in \$US terms and \$A terms reflects a 2.6% appreciation of the \$A/\$US in the March quarter 2005 and a 1.5% appreciation between the March quarter 2005 and March quarter 2004.

⁷ The Western Australian commodity price index, which is compiled by the Department of Treasury and Finance, is based on a 'basket' of commodity exports, weighted according to the relative value of total commodity production in Western Australia.

GROWTH IN COMMODITY PRICES

March quarter 2005 on March quarter 2004

	\$US terms	\$A terms
Nickel	4.1%	2.6%
Petroleum	47.9%	45.6%
Alumina	11.8%	10.1%
Iron Ore	18.6%	16.9%
Wheat	-4.1%	-5.5%
Gold	4.6%	3.1%
LNG	-3.2%	-4.6%
Wool	-5.5%	-6.8%
Total	16.5%	14.8%

Resource Prices

The oil price is being maintained at a high level, driven by both strengthening demand and by what some economists have referred to as supply-side rigidity (mainly OPEC's controlled rate of production, non-OPEC supply weakness and limited global refining capacity). The tapis⁸ oil price averaged over \$US50 per barrel over the March quarter 2005. This was the first occasion on record that the average tapis oil price exceeded \$US50 per barrel over a three month period. This was 47.9% higher than the corresponding period a year earlier.

On the supply side, while oil production in Iraq is gradually increasing, growth in the supply of oil by non-OPEC countries is stagnating. Current estimates from the International Energy Agency suggest the total non-OPEC supply of oil was only 0.3 million barrels per day higher in the March quarter 2005 than the same period a year earlier. Given the strength of demand, this has resulted in a greater call on OPEC oil. In addition, geopolitical instability and concerns regarding the security of future supplies are still prevalent in many parts of the world, adding to the "risk premium" component of crude oil prices.

⁸ The Malaysian 'tapis' oil price is one of the major international benchmarks that typically applies to crude oil (with others being West Texas Intermediate, North Sea Brent and Mideast Dubai, for example). The Tapis oil price is commonly used to reference crude oil produced by Australia and other countries in the Asian region.

In the March quarter, factors that impacted on the oil price included stronger than expected demand in the United States for heating and transportation and a decision by OPEC not to increase production quotas.

While opinions are mixed regarding the current outlook for oil prices, it appears the general consensus is for prices to decline gradually over 2005 and 2006 as production increases and demand eases. ABARE expects that increasing oil stocks and lower global demand will alleviate concerns about supply disruptions and spare capacity, and hence reduce the risk premium on prices. Consequently, ABARE has forecast the West Texas Intermediate crude oil price to fall by 9.9% in 2006.

Over the longer term, there is a general expectation that world oil prices will rise as world oil reserves diminish. However, ABARE reports a number of organisations have argued that only around a quarter of world oil reserves have been used, with enough oil to support the world for the next seventy years. For this reason, the majority of market participants are forecasting prices in the long term to be in the range of \$US30-35 a barrel.

A combination of global supply constraints and heightened demand for iron ore, driven mainly from China, has translated into higher price settlements with Japanese steel mills. Iron ore price contracts for the 2005-06 Japanese financial year were settled at a price that is 71.5% higher (in \$US terms) than in 2004-05.

Major producers in Western Australia and other jurisdictions are responding to stronger demand and higher prices by investing in expanded capacity, which should result in a greater supply/demand balance. This is expected to result in a reduction in prices over the medium term⁹.

⁹ For more detail on the outlook for the iron ore market, see the Department of Treasury and Finance's Research Note "The Iron Ore Market in 2005" (see www.dtf.wa.gov.au).

China's iron ore imports are forecast to increase significantly over the rest of 2005 and 2006, driving an expected increase in the world's seaborne iron ore trade. Similarly, world iron ore exports are expected to increase, with Western Australia and Brazil expected to account for most of the increase. According to ABARE, increased volumes of iron ore and higher prices are expected to result in a 60% gain in export earnings from iron ore for Australia in 2005-06 (and hence Western Australia, given virtually all of the nation's iron ore is produced in the State).

The price of gold fell by 1.5% in the March quarter 2005, but remains 4.6% higher than the same period a year earlier. In Australian dollar terms, the gold price increased by a moderate 3.1% in the March quarter 2005, when compared to the same period a year earlier.

The gold price is expected to moderate in the short to medium term. For much of the March quarter 2005, the gold price hovered around the \$US430 an ounce level, some 47% higher than its price three years ago. ABARE is anticipating that an increase in mine production and larger sales of gold by central banks will result in falling world gold prices, and is forecasting that the price of gold will decline by around 5.0% in 2006.

Notwithstanding the anticipated fall in the gold price, ABARE expects the value of the nation's gold exports to remain largely unchanged as increases in volumes offset the impact of a lower price. Western Australian gold production is expected to grow strongly, with the commissioning of the Telfer Deeps gold mine and a number of other small operations.

Prices for nickel and alumina remain robust, supported by strong global demand. As with iron ore, the world production of alumina and nickel is expected to pick up as new refining capacity comes on line.

The \$US spot price for nickel was 4.1% higher in the March quarter 2005 than in the March quarter 2004, underpinned by strong demand from China. This appears to be driven by Chinese importers stock piling nickel. This is expected to result in weaker Chinese demand in coming quarters, as the stock pile of nickel is drawn down.

Reflecting this, ABARE is expecting an easing in prices over the remainder of 2005. In 2006, ABARE projects that nickel prices will decline by 8.0% as world nickel production expands. Nevertheless, the nickel price is still expected to remain well above the long term average.

Alumina prices (on an export unit return basis), which have risen strongly over the past couple of years are beginning to moderate, growing by just 1.3% in the March quarter 2005. However, in annual terms, growth was a still robust 11.8% when compared to the same period a year earlier.

With the alumina spot price 50% higher in 2004 (when compared to the average over 2003) the commissioning of significant new global refining capacity should result in alumina prices easing in 2005.

The expansion of Worsely's and Alcoa's Alumina refineries which are currently underway are expected to result in a marked pick up in production for Western Australia towards the end of 2005 and into 2006. This should more than offset the anticipated easing in the alumina price.

Rural Prices

In the March quarter 2005, wheat prices were around 4.1% lower in \$US terms than a year earlier. Coupled with a slight appreciation of the \$A, the decline was slightly stronger (5.5%) in \$A terms over this period.

For the year ahead, ABARE is anticipating global wheat prices to increase slightly as a forecast decline in world production is more than offset by an expected easing in world wheat consumption. The return on Australian wheat is expected to be largely unchanged in \$A terms at around A\$200 a tonne.

The price of wool continues to decline, as wool supplies increase and wool demand wanes. In the March quarter 2005, the wool price fell by 5.5% in \$US terms and by a more substantial 6.8% in Australian dollar terms, compared to the same period a year earlier. In 2005-06, the Australian eastern market indicator (the benchmark for wool prices in Australia) is forecast by ABARE to fall by around 1.3%, with real wool prices projected to fall gradually over the next five years.

World wool markets have been experiencing falling demand over the past decade and this trend is expected to continue. Changing fashion preferences and improvements in the fabricated textiles and synthetics industry (in terms of both cost and functional properties, particularly in the case of products from China) is resulting in greater competition from these industries. Increasing substitution between synthetics and wool is anticipated to continue resulting in a further easing in wool demand (and hence price).

LABOUR MARKET

- *Conditions in Western Australia's labour market remain tight, with employment growing by a strong 1.6% in the June quarter 2005.*
- *Healthy economic conditions and a strong demand for labour have contributed to record high labour force participation levels (as reflected by the State's participation rate of 68.0% for the June quarter 2005).*
- *Despite the increased level of participation in the State's labour market, Western Australia's average unemployment rate has remained at a low 4.8% over the June quarter 2005.*
- *Continuing high levels of job vacancies coupled with positive business survey responses on hiring intentions indicate sound employment prospects in Western Australia.*

Employment

Employment in Western Australia grew by 1.6% in the June quarter 2005, after increasing by 1.9% in the March quarter 2005. The 1.6% growth rate recorded for Western Australia was the strongest three monthly growth rate of all the States.

In annual terms, employment in Western Australia grew by a robust 4.2% over 2004-05 – the State's strongest rate of growth for a twelve month period since 1995. Nationally, employment grew by 3.0% over 2004-05. Western Australia's annual employment growth rate of 4.2% translates to an estimated increase of nearly 41,000 additional persons employed in the State over the past year. The result exceeds the 2005-06 Budget forecasts for employment growth of 3.5% in 2004-05.

Employment

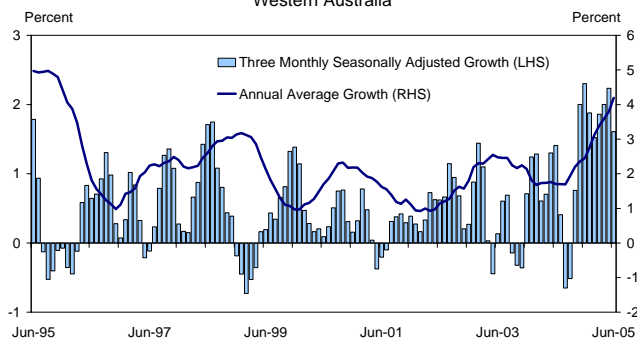
Growth (%)

Period to June 2005

	Qtr*	yr
NSW	0.7	1.3
Vic	0.9	3.3
Qld	0.6	5.6
WA	1.6	4.2
SA	0.9	1.9
Tas	0.2	2.9
Aust	0.8	3.0

* In seasonally adjusted terms

EMPLOYMENT GROWTH
Western Australia

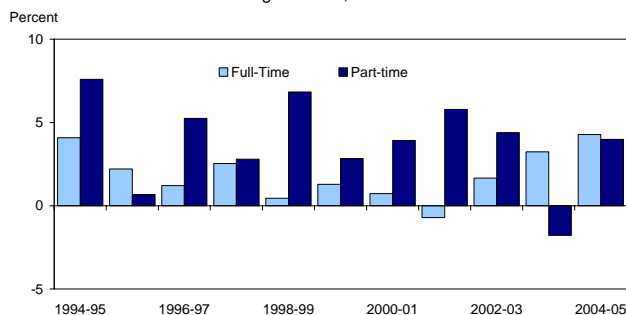


Employment by Type and by Industry

Strong growth in employment in 2004-05 was underpinned by growth in both full-time and part-time employment. Over the June quarter 2005, full-time employment increased by 1.1% (or by around 7,900 persons) and part-time employment grew by 2.9% (or around 8,600 persons).

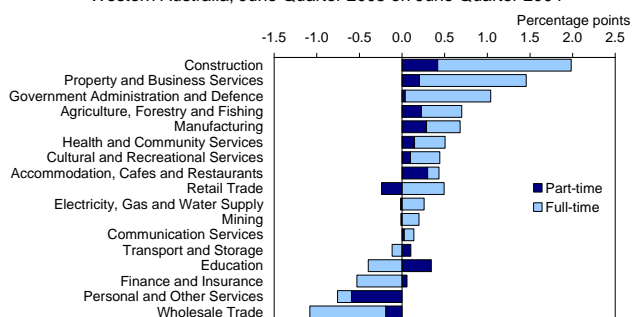
In annual average terms, full-time employment increased by 4.3% and part-time employment rose 4.0% over 2004-05. The growth of 4.3% in full-time employment is the strongest rate of growth in full-time employment over a financial year in almost twenty years.

EMPLOYMENT GROWTH BY TYPE
Annual Average Growth, Western Australia



On an industry basis, employment in the June quarter 2005 was 5.7% higher than in the June quarter 2004. The industries that contributed the most to employment growth were construction (up 24.4%) and property and business services (up 13.2%). The employment growth in these two industries, combined with increases in a number of other industries, was more than enough to offset the declines experienced in the wholesale trade and personal and other services industries amongst others, over the year (as illustrated in the following chart).

CONTRIBUTION TO EMPLOYMENT GROWTH
Western Australia, June Quarter 2005 on June Quarter 2004



In annual average terms, the strongest contributors to employment growth in 2004-05 were construction (up 10.5%) and manufacturing (up 6.7%). The industries in which employment declined over the same period were agriculture, forestry and fisheries (down 0.3%), finance and insurance (down 1.2%), wholesale trade (down 2.1%) and education (down 5.1%).

Unemployment Rate

Over the June quarter 2005, the average unemployment rate for Western Australia of 4.8% was the same as the average for the March quarter 2005. The national unemployment rate was also unchanged over both periods, remaining at an average of 5.1%.

Over 2004-05, the average annual rate of unemployment for Western Australia was 4.7%, down from a rate of 5.7% recorded for 2003-04. This was the lowest of all States, and lower than the national average of 5.3%. The 4.7% unemployment rate compares with the 2005-06 Budget forecast of an average unemployment rate of 4.75% over 2004-05.

Despite an increased supply of labour (as evidenced by the State's growing participation rate – see below), the corresponding demand for labour in the State has largely outstripped supply. As a result, the average number of unemployed persons in Western Australia over 2004-05 (estimated at around 50,000) was around 8,600 lower than the average for 2003-04.

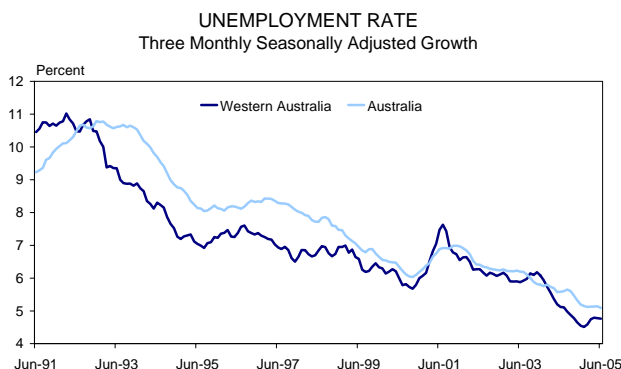
Unemployment Rate

Average rates (%)

Period to June 2005

	qtr*	yr
NSW	5.1	5.3
Vic	5.4	5.6
Qld	5.0	4.9
WA	4.8	4.7
SA	5.0	5.5
Tas	6.1	6.1
Aust	5.1	5.3

* In seasonally adjusted terms



Youth Unemployment Rate

Consistent with the State's robust employment market, Western Australia's youth unemployment rate¹⁰ fell by 5 percentage points to an average of 15.4% over 2004-05 (lower than the average rate of 20.4% recorded over 2003-04). Nationally, the youth unemployment rate for 2004-05 averaged 20.1%.

¹⁰ The youth unemployment rate is defined as persons aged 15 to 19 years, seeking full-time employment. Western Australia's youth unemployment rate, like the other Australian jurisdictions, is typically volatile and hence annual average rates are the preferred measure.

Participation Rate

The State's average participation rate over the June quarter 2005 increased by almost a full percentage point to 68.0% – the State's highest three monthly participation rate since monthly ABS Labour Force records began in 1978. The national participation rate also edged higher over the same period (up by 0.3 of a percentage point to 64.6%), but was still considerably lower than the average rate for Western Australia. In annual terms, the participation rate in Western Australia grew 0.7 of a percentage point over 2004-05 to 66.5%. Nationally, the participation rate increased by 0.6 percentage points to 64.0% over the same period.

Participation Rate

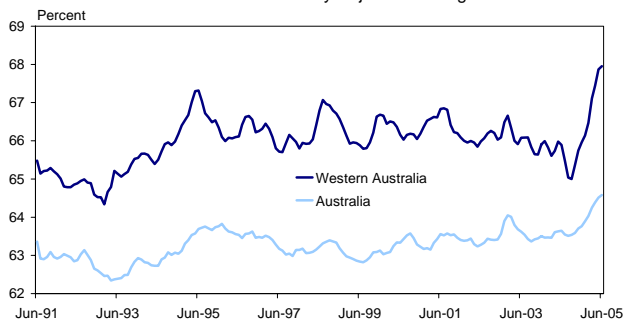
Average rates (%)

Period to June 2005

	qtr*	yr
NSW	62.9	62.5
Vic	64.7	64.2
Qld	66.5	65.8
WA	68.0	66.5
SA	62.1	61.7
Tas	59.7	59.3
Aust	64.6	64.0

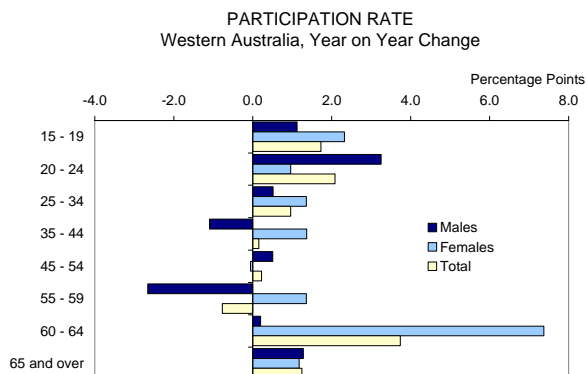
* In seasonally adjusted terms

PARTICIPATION RATE
Three Month Seasonally Adjusted Average



The strong increase in participation in 2004-05 was underpinned by particularly strong increases in participation in the 15-35 and the 60-64 year age brackets. The increase in participation by females in the 60-64 year age bracket was particularly strong (up 7.4 percentage points). Despite the strong increase in participation for this age group the contribution to the overall increase in participation was relatively small (approximately 0.1 of a percentage point), reflecting that the proportion of people in this age bracket in the labour force is relatively small.

Labour force participation in 2004-05 was strongest in the 45-54 age group (averaging 83.0%), followed by the 35-44 age group (averaging 82.0%) and the 20-24 age group (averaging 80.5%). The lowest participation rate was for those aged 65 and over with a participation rate averaging 8.8%.



The recent strengthening in participation rates (both for Western Australia, and nationally) is largely indicative of healthy economic conditions and the strong demand for labour encouraging those previously outside the labour force to enter it (e.g. actively seek employment). Furthermore, with the strong demand for labour in the State, a large proportion of those entering the State's labour market are finding employment.

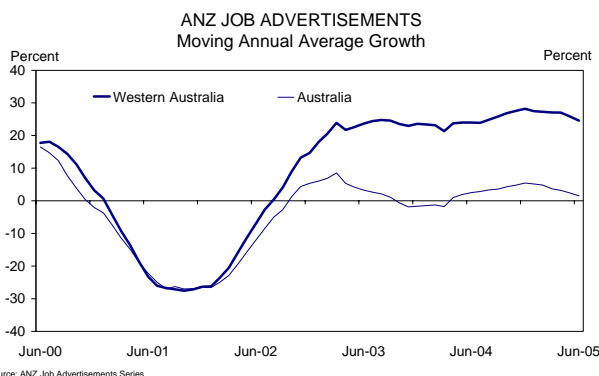
In annual average terms, the Western Australian labour force increased by 3.1% (or just over 32,000 persons) over 2004-05 to approximately 1,064,000 persons. Over the same period, nearly 41,000 additional persons were employed in the State whilst the number of unemployed persons fell by approximately 8,600 persons.

Short-term outlook

Recent data on job advertisements, skilled vacancies and business responses to surveys continue to suggest that demand for labour remains strong and that skilled labour shortages are persisting.

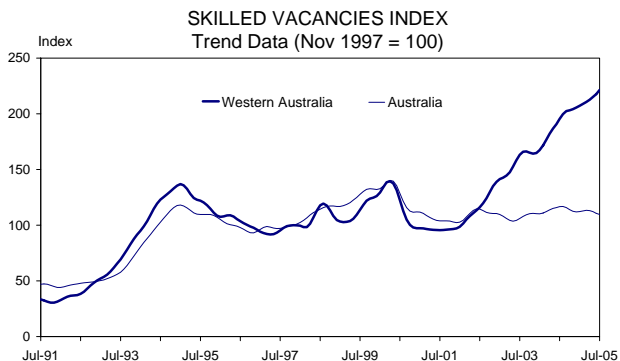
The ANZ Bank Newspaper Job Advertisement series has historically proved a reasonable indicator of employment growth in Western Australia. However, the ANZ bank has recently cautioned that it is starting to face difficulties in compiling the series¹¹. As a result the number of newspaper job advertisements is likely becoming a poorer indicator of labour demand than it has been in the past.

Despite these challenges, data from the series suggests that tight conditions are likely to persist in the State over the near term, with job advertisements remaining high. The series grew by 4.6% in the June quarter 2005, and by a very strong 24.6% over 2004-05. Nationally, the series grew by a more moderate 1.5% over the year.

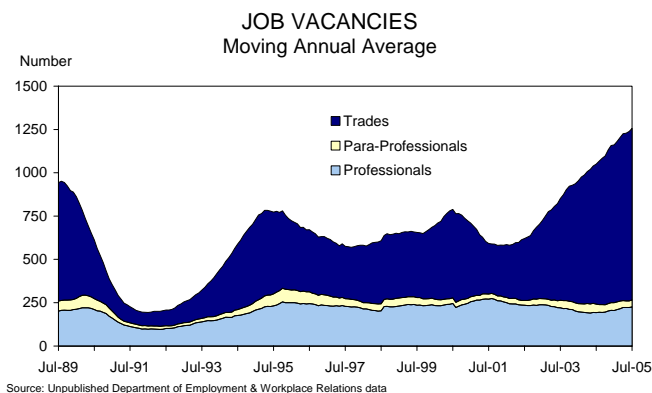


While employment prospects in Western Australia remain sound, firms are still facing difficulties in filling skilled positions. The number of skilled vacancies in Western Australia, as measured by the Department of Employment and Workplace Relations' (DEWR) Skilled Vacancies Index, continues to be near all-time highs (with the index now more than double the national index). The average index over the three months to July 2005 was 3.5% higher than the average of the three months to April 2005 and the index was 14.2% higher than for the three months to July 2004.

¹¹ These difficulties are: shifts away from full-time jobs to part-time and casual jobs (with the latter two categories less likely to be advertised in newspapers); shifts away from newspaper advertising to direct recruitment (such as through recruitment firms, who may not always advertise, or may advertise a number of positions in 'blocks' which are counted by the ANZ series as one position); and a shift towards internet advertising (even though the ANZ provides monthly estimates of internet job advertisements, State level data is not provided).

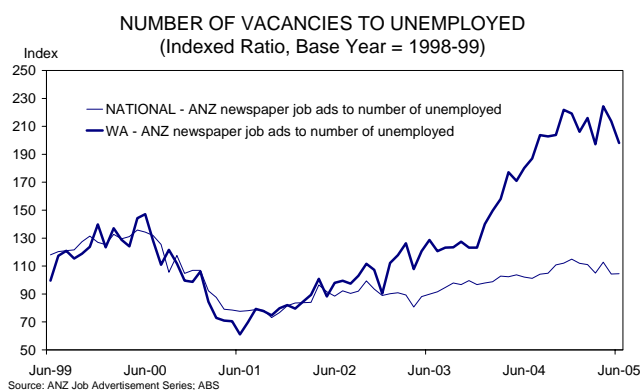


The high absolute level of the skilled vacancies for Western Australia (at 221.3 relative to 109.6 for Australia) is indicative of skill shortages, which have been particularly acute in the trades for some time. DEWR data on vacancies suggests that current demand is particularly strong in the metal trades and construction industries in Western Australia (as shown in the following chart).



Business surveys also indicate labour shortages, with businesses continuing to report a scarcity of available labour. The Chamber of Commerce and Industry Western Australia/BankWest Survey of Business Expectations in the June quarter 2005 reported that 62% of respondents considered labour availability to be 'scarce', up from 55% in the March quarter 2005.

Comparing data on the number of job vacancies relative to the number of unemployed persons helps provide a very broad indication of the differences between Western Australia and nationally, in respect to the extent to which the current 'pool' of unemployed persons might be able to help satisfy labour demand. As shown in the chart below, the ratio of newspaper job advertisements to unemployed persons in Western Australia remained substantially higher than the national ratio. Accordingly, the extent to which the 'pool' of unemployed persons might be able to satisfy labour demand appears to be much lower in Western Australia than nationally¹².



Notwithstanding this, ABS data on part-time employed persons reveals that there is some degree of underemployment that could also potentially help satisfy labour demand. In annual average terms over the year to the June quarter 2005 (latest data), 7.6% of those employed part-time in Western Australia indicated that they were available and wanted to work more hours. Using data on the absolute number of part-time employed persons, this translates to 2.2% (or approximately 22,600 persons) of the total Western Australian workforce.

¹² NB: This is notwithstanding the potential for skills mismatches between positions vacant and the qualifications of unemployed persons. Indeed the chart below mainly shows relative differences between Western Australia and Australia.

Forecasts

The 2005-06 Budget forecast is for employment to grow by 2.0% over 2005-06 with a corresponding average unemployment rate of 4.75%. Employment growth is expected to moderate over 2005-06 in line with the anticipated easing in the pace of growth of the domestic economy. The anticipated easing in growth also reflects that growth in 2004-05 was particularly strong.

PRICES, INCOMES AND INTEREST RATES

- Perth consumer prices increased by 1.3% over the June quarter 2005, largely driven by price increases in housing, transportation, food and household furnishing, supplies and services.
- In annual average terms, the CPI for Perth grew by 3.2% in 2004-05, with rising housing costs the major contributor to price pressures.
- While all measures of wages pressure rose strongly in the March quarter 2005, growth in annual average terms remains within the bounds of growth rates recorded over the past few years.
- The Reserve Bank of Australia has left interest rates unchanged since it increased rates by 25 basis points to 5.50% in its March 2005 meeting.

Prices

Price pressures in Perth increased in the June quarter, with the consumer price index (CPI) increasing by 1.3%. This follows growth of 0.8% in the March quarter 2005.

Nationally, growth moderated, with the CPI rising by 0.6% in the June quarter, slightly lower than the 0.7% growth recorded in the March quarter 2005. The national inflation outcome for the June quarter was slightly below the median market forecast of 0.8%.

Consumer Price Index

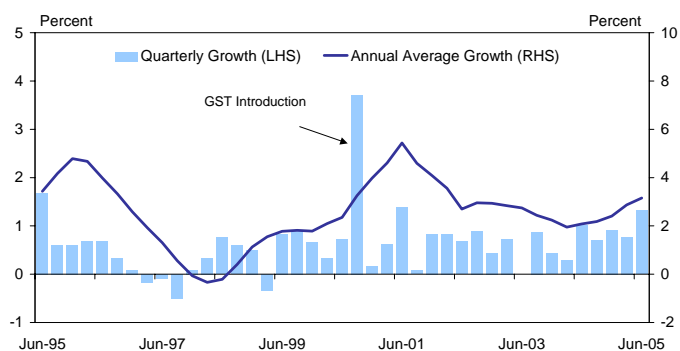
Growth (%)

June quarter 2005

	qtr	yr*
NSW	0.5	2.4
Vic	0.3	2.1
Qld	0.5	2.5
WA	1.3	3.8
SA	0.6	2.2
Tas	0.5	3.1
Aust	0.6	2.5

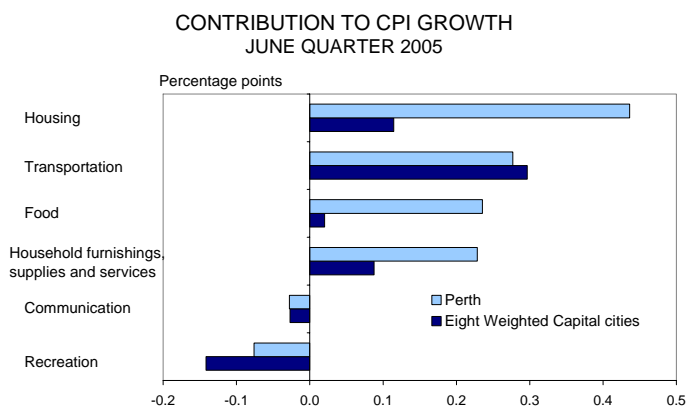
* Past quarter on same period a year earlier.

CONSUMER PRICE INDEX
Perth



The main contributors to CPI growth of 1.3% in Perth during the June quarter were price increases related to housing (0.44 percentage points), transport (0.28 percentage points), food (0.24 percentage points) and household furnishings, supplies and services (0.23 percentage points). The only categories in which prices fell over the quarter were recreation (detracting 0.08 percentage points from growth) and communication (0.03 percentage points).

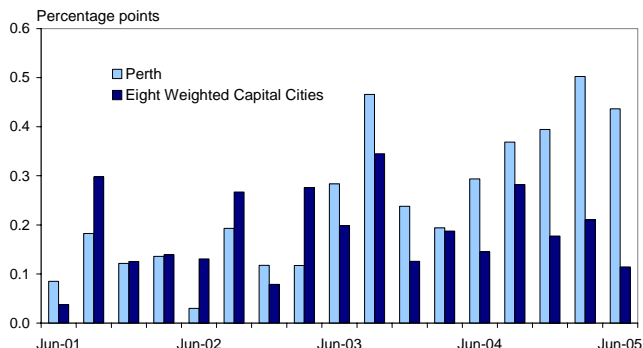
The main areas in which price growth in Perth over the quarter was stronger than price growth nationally were housing, food and household furnishings, supplies and services. Nationally, growth in transport prices (largely fuel costs) was the main contributor to growth in the CPI in the June quarter.



Costs associated with housing have consistently been the major contributor to Perth's CPI growth since the March quarter 2003¹³. In contrast, the major contribution to growth in the national CPI has alternated between housing, transportation (incorporating fuel costs), food, and more recently, health.

¹³ Housing includes rent, utilities and 'other' housing subgroups (including house purchases, property rates and charges and household repairs and maintenance).

CONTRIBUTION OF HOUSING TO CPI GROWTH



Over the year to June 2005, Perth inflation was 3.2% in annual average terms and 3.8% in year-on-year terms. National inflation remained within the Reserve Bank of Australia's 2-3% target range for inflation, increasing by 2.4% in annual average terms and by 2.5% in year-on-year terms. Hobart was the only other capital to experience prices growth that exceeded the 2-3% range, with prices growing by 3.1% in year-on-year terms.

Outlook

The rate of inflation in Western Australia is expected to ease over 2005-06, as growth in consumer spending moderates and other components of activity consolidate. Reflecting this, growth in the CPI is forecast to decline from 3.2% in 2004-05 to 2.5% in 2005-06.

Incomes

The various wages measures show wages pressures in Western Australia are strong (reflecting the strong domestic economy). All measures of wages growth (the Wage Price Index (WPI), average weekly earnings (AWE) and average weekly ordinary time earnings (AWOTE)), rose at a pace faster than their historical averages in the March quarter. Despite this, growth in annual average terms remains within historical bounds.

The WPI is the preferred measure of wages pressures as it is less susceptible to compositional change than the other two measures. This measure increased by 0.9% in Western Australia over the March quarter, after growing by 1.4% in the December quarter. The WPI grew by 1.1% nationally in March quarter. In annual terms the WPI increased by 3.8% in Western Australia and by 3.6% nationally over the year to March quarter 2005.

Wage Price Index

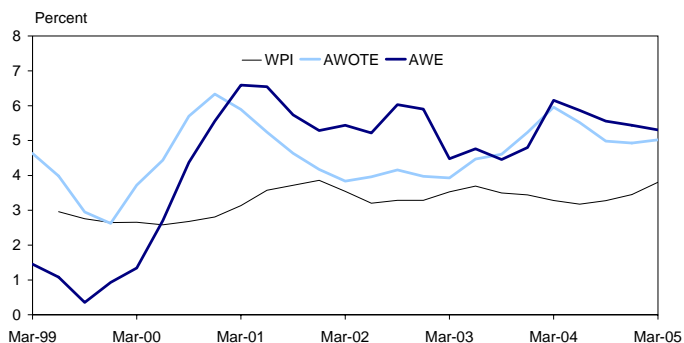
Growth (%)

March quarter 2005

	qtr	yr*
NSW	1.4	3.5
Vic	1.1	3.7
Qld	0.8	3.8
WA	0.9	3.8
SA	0.8	3.5
Tas	1.4	3.7
Aust	1.1	3.6

* Annual average growth.

WAGES GROWTH
Annual Average Growth, Western Australia



At a national level¹⁴, WPI growth by industry was mixed. Over the year to March quarter 2005, in annual average terms, the wages grew fastest in the construction sector (up by 5.0%). Wages growth in education and electricity, gas and water supply grew quickly too, up by 4.7% and 4.6% respectively. Sectors with the slowest growth were accommodation, cafes and restaurants and transport and storage.

AWOTE, which is subject to the influences of change in industry composition of the workforce, grew by a strong 2.3% in the March quarter in Western Australia, after growing by 2.8% in the December quarter. Nationally, this measure grew by 1.8% in the March quarter. Over the year to March 2005, AWOTE in Western Australia grew by 5.0% and nationally by 3.9%.

¹⁴ State based wage by industry data is not available.

AWE, which unlike AWOTE, includes overtime, bonuses and other such payments (but is also subject to the influences of changes in the industry and full-time and part-time composition of the workforce), also increased by 2.3% in the March quarter, following growth of 1.9% in the previous quarter. Over the year to March 2005, AWE grew by a robust 5.3%, likely reflecting in part healthy growth in full-time employment increasing the average wages of all employees.

Outlook

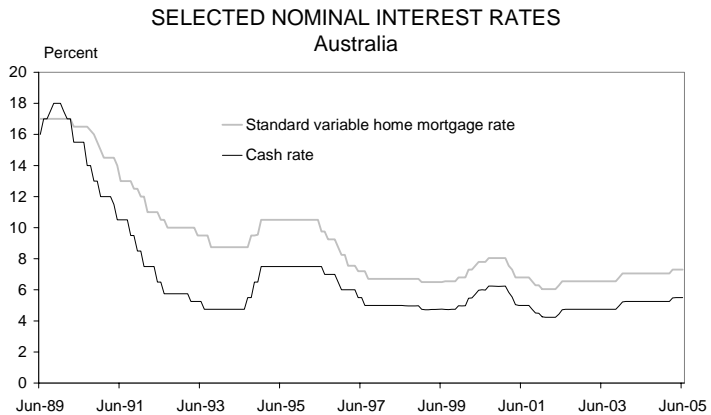
In 2004-05, the WPI is expected to grow by 4.25%. Wages growth is forecast to moderate in 2005-06 to 3.75%, reflecting steadier growth in the domestic economy and an easing in labour supply pressures.

Interest Rates

The cash rate has remained unchanged at 5.50% since the Reserve Bank of Australia (RBA) increased interest rates by 25 basis points in March 2005.

In its May *Statement of Monetary Policy*, the RBA forecast that national inflation is expected to increase to around 3% by the end of the year. Although this forecast is unchanged from its February *Statement*, the RBA notes that the 'upside risks to this forecast had receded, partly as a result of the March tightening'. Notwithstanding this, the RBA also notes that 'it would be surprising if interest rates did not have to increase further at some stage of the current expansion'.

Even with the March 2005 increase in the cash rate, interest rates in Australia remain relatively low by historical standards.



Source: Reserve Bank of Australia

INTERNATIONAL CONDITIONS

- *The United States and China continue to dominate the pace of global expansion. At the same time, there are signs that activity in Japan and South Korea are strengthening.*
- *Most forecasters expect the pace of global growth, and growth in many of Western Australia's trading partners, to remain strong in 2005, albeit at a slightly slower pace than in 2004.*

The strong expansion in the global economy evident in 2004 appears to have continued into the first half of 2005, with activity in the United States (US) and China continuing to grow solidly, dominating the pace of global expansion. At the same time, economic conditions in economies of other trading partners appear to be strengthening. Most notably conditions in Japan improved in the first half of 2005.

Consensus forecasts are for a slowing in growth in most of Western Australia's major trading partners in 2005 and 2006, relative to growth in 2004. Nevertheless, growth across most trading partners is expected to remain robust.

Forecasts for real GDP growth of major trading partners (and Australia)

	Year-average (%)		
	2004	2005	2006
United States	4.4	3.6	3.2
China	9.5	8.9	8.0
Japan	2.6	1.5	1.5
North East Asia*	7.7	6.6	6.4
South East Asia**	6.4	4.8	5.3
Australia	3.2	2.3	3.1
World	5.1	4.3	4.2

* North East Asia includes China, Hong Kong, South Korea and Taiwan

** South East Asia includes Indonesia, Malaysia, Singapore, Thailand and the Philippines

Source: Consensus Economics, Reserve Bank of Australia

The US economy continues to be a major driver of world growth. Real gross domestic product (GDP) growth in the United States remains solid, growing by 0.8% in the June quarter 2005, after growing by 0.9% in the March quarter. Over 2004-05, GDP grew by a strong 3.7% with domestic demand emerging to support growth for much of the first half of 2005. Net exports also contributed to growth in the June quarter – the first occasion that the external sector has contributed to growth since the September quarter 2003.

Consumer spending continues to expand at a solid pace (up 0.8% in the June quarter), reflecting high levels of consumer confidence buoyed by strong labour market conditions and the wealth effects of rising house prices. Dwelling investment and business investment both contributed to growth in the June quarter, with residential investment rising by 2.4% in the quarter, and non-residential investment increasing by 2.2%.

Strong economic growth is flowing through to the labour market, with employment increasing by 0.8% in the June quarter and by 0.3% in July. Reflecting this, the unemployment rate fell from 5.3% in the March quarter to 5.1% in the June quarter and 5.0% in July.

US interest rates, currently at 3.5%, were raised for the tenth time in a row, following the Federal Reserve's August meeting. The broad consensus is that the Federal Reserve will continue to raise the Federal Funds rate over the near future as spending strengthens and as labour market conditions continue to improve gradually and inflationary pressures stay 'elevated'.

Strong global growth and strength in domestic demand, particularly in business investment and household consumption, have brightened the outlook for the Japanese economy, Western Australia's largest export market. GDP grew by 1.3% in the March quarter and by 4.9% in the year to the March quarter (despite a third consecutive monthly decline in its trade surplus detracting from overall growth).

Manufacturing production, which remains a key driver of the Japanese recovery, rose 1.7% in the March quarter. Growth, however, is mixed across sectors. In particular, in the Information Technology and Communication sector some producers are reducing inventories and rationalising production as world demand for these products slows.

Healthy corporate profits and near-record low levels of corporate debt continue to provide encouraging conditions for business investment in Japan, although high oil and materials prices are likely to reduce corporate profit growth in the near term.

Household consumption has been somewhat erratic in Japan over the first half of 2005, despite a rise in average wages and relatively low unemployment rates (4.2% in June, the lowest rate of unemployment since July 1998). However, there is still an expectation by markets that consumer spending will eventually drive the Japanese economy to full recovery. Recent remarks by the Bank of Japan indicated that consumer spending (in addition to strong exports growth) had already begun to support a recovery in the Japanese economy.

Deflation has persisted for seven years in Japan, and is likely to continue for some time yet as the Japanese economy is still operating at well below capacity. The Bank of Japan continues to leave interest rates at essentially zero.

The Chinese economy, the world's fastest growing major economy, and Western Australia's second largest trading partner (accounting for around 17% of exports), expanded by 9.5% in 2004. In 2005, China's economy is forecast to expand by 8.5%, and then by 8.0% in 2006, with recent efforts by Chinese authorities to rebalance the contributions to growth from the different sectors of the Chinese economy improving the prospects for strong GDP growth to continue.

To this end, Chinese authorities are actively limiting growth in some areas of the economy in an effort to slow the recent rapid expansions experienced in some industries (to avoid an "overheating"). Major industries where investment has been restricted include the steel, cement and real estate industries.

In addition to rebalancing investment, Chinese authorities are actively encouraging an increase in consumption in a bid to increase imports (and eliminate a trade surplus with the US and Europe), and reduce a relatively high household savings rate. As a result of increased supply and price competition by local suppliers, prices have fallen for some goods, most notably in food, clothing, household appliances and telecommunications products.

Accordingly, price pressures in China are generally well contained, with consumer prices growing by 1.6% in 2004-05, well below the seven year high of 5.3% in the year to August 2004 and below the Chinese Government's target ceiling of 4% for 2005.

More recently, the Chinese central bank announced that it had moved from a fixed exchange rate (where the undervalued yuan was fixed against the \$US) to a managed floating exchange rate regime with the value of the yuan set against a basket of currencies. The 2.1% revaluation (from 8.28 yuan/\$USD to 8.11 yuan/\$USD) and the much-anticipated removal of the peg are seen by a number of commentators as the first steps in a gradual appreciation of the yuan in the future.

Growth in South Korea, Western Australia's third largest trading partner (accounting for around 8.4% of exports) and Asia's third largest economy, is expected to strengthen during the remainder of 2005 as tax cuts and record low interest rates encourage consumption. Notwithstanding this, the Bank of Korea concedes that a GDP growth target of 5% for 2005 is unlikely to be met.

The Bank of Korea now estimates GDP to grow by a more modest 4% in 2005 as an appreciating won and rising oil prices dampen export receipts. In a bid to spur South Korea's sluggish economy, the Bank of Korea left interest rates unchanged (at 3.25%) for the seventh consecutive month in its June meeting.

The British economy continues to recover, and is expected to grow by 2.6% in 2005. A fall in business confidence and the effects of higher oil prices continue to constrain the economy, while a bounceback in consumer spending looks increasingly unlikely as the housing market weakens further. The Bank of England left interest rates on hold at 4.75% in its June meeting for the tenth consecutive month.

Record oil prices continue to threaten economic growth in the European Union (EU), adding pressure for the European Central Bank (ECB) to cut interest rates (which are already at historical lows). Consumer spending appears to have stagnated across the EU and high unemployment levels continue to act as a drag on growth. Competition for the region's exports continues to come from China, which is also luring away business investment opportunities.

Notwithstanding lack-lustre European economic growth, the ECB expects output in the EU to increase, albeit modestly, by 1.4% in 2005. For Western Australia, any direct impacts from slow growth in the EU are likely to be muted, given the relatively small share of State exports to the region.

The outlook for growth in most Association of South East Asian Nations (ASEAN) trading partners is anticipated to remain positive for the remainder of 2005, with growth in Singapore, Indonesia, Malaysia and Thailand in particular, expected to remain healthy, despite the expectation that high oil prices will moderate growth.

2. THE REVALUATION OF THE CHINESE YUAN

As a resource oriented State, Western Australia has significantly benefited from its proximity to booming Asian nations. In particular, a rapidly expanding Chinese economy has been accounting for an increasing share of the State's exports. China now accounts for 17% of Western Australia's total merchandise exports. As a result, the latest move by the People's Bank of China to adopt a new exchange rate regime may have implications for economic growth in Western Australia.

This article outlines the new exchange rate mechanism adopted by the Chinese central bank and reasons behind the move from a pegged exchange rate. The article concludes by examining the potential effects on Western Australia and the global economy in general.

After being pegged to a value of 8.28 against the United States (US) dollar for the past 11 years, on 21 July 2005, the People's Bank of China announced that it would revalue the Chinese Renminbi (frequently referred to by its base currency unit, the Yuan). The initial announcement revalued the Yuan by 2.1% to 8.11 against the US dollar.

As well as the revaluation, the People's Bank of China also announced a changed trading regime for the Yuan. As a result, instead of a direct (and static) peg against the US dollar, the Yuan is now also linked to a basket of currencies (with the listing kept confidential by the Chinese Government). Furthermore, the Yuan can now move within a daily +/- 0.3% band against the US dollar and by +/- 1.5% against this collection of foreign currencies every day. Even though the Yuan's daily movement is limited by these parameters, the officially announced¹⁵ closing price of the Yuan against the US dollar at the end of each day's trading will now become the mid-point of trading for the next day (thereby potentially allowing the Yuan to incrementally appreciate or depreciate).

¹⁵ As announced by the People's Bank of China.

While the initial move to revalue the Yuan was only small and not expected to have a significant impact on the Chinese economy, most commentators have noted the changes to the Yuan's trading regime were (in part) a response by Chinese officials to domestic imbalances. In this regard, the initial revaluation of the Yuan is thought to have occurred to assist in correcting domestic imbalances and to ensure a 'soft landing' for the fast-paced Chinese economy. In particular, fixed investment and industrial production in China has been consistently expanding (reportedly by around 30% per annum), which is not considered sustainable. Other commentators have suggested that the decision to revalue the Yuan was a political move in response to external pressure, including from the US and Europe, especially since the initial move was so incremental.

Much speculation has surrounded China's new currency system. Most market economists expect the Chinese Government to allow the Yuan to gradually appreciate (by around 5% to 10%) over the next year. However, with markets also expecting that the initial revaluation was just the first stage of a long upward move for the Yuan, the Chinese Government has been quick to manage such speculation. The country's official China Daily newspaper said the "expectation for a bigger appreciation of the Yuan's value was, and will be, unrealistic," and noted that officials will not revalue the Yuan again in the "foreseeable future." Nevertheless, the non-deliverable forward market for the Yuan implies that the market is expecting a further 4.5% appreciation against the US dollar over the next year¹⁶.

¹⁶ See the Reserve Bank of Australia's *Statement on Monetary Policy*, August 2005

Notwithstanding the Yuan's new trading regime, China has given itself the flexibility to make further ad hoc changes to the Yuan. Even though the initial revaluation appeared too small to completely satisfy its major trading partners¹⁷, most countries have recognised it as being an important first step. Australia's Trade Minister Mark Vaile has said "China is Australia's second largest export market and the revaluation of the Renminbi will make Australian exports cheaper, having a positive impact especially on resources and agricultural products."

Following China's revaluation, a number of Asian currencies appreciated. Malaysia also moved to a managed float of the ringgit only an hour after China announced its decision. In addition, the South Korean won, Japanese yen, Thai baht and Singapore dollar all immediately appreciated by around 2% against the US dollar. Since then however, these currencies have returned to pre-Yuan revaluation levels after an initial sell-off of US dollars.

Impact on Western Australia

The revaluation of the Chinese currency has increased Chinese purchasing power, meaning that Australian goods going into China have now become slightly cheaper for Chinese importers. However, it is also worth keeping in mind that other countries exporting into China will also similarly benefit. Western Australia's exports into China (typically from the resource sector, such as LNG, iron ore, nickel and the like) are likely to continue to benefit to the extent that any further appreciation of the Yuan likewise represents an improvement in Chinese purchasing power. However, an appreciating Yuan, to the extent that it makes China's exports less competitive, might also act to partially moderate the demand from China for Western Australia's resource commodity imports (where such commodities are primarily used as inputs for China's manufactured exports).

¹⁷ United States Government officials believed the Yuan was undervalued by up to 40%, and were calling for an initial revaluation of around 10% to 20%.

Even though much of the State's iron ore, nickel, natural gas and alumina is sold under contract in US dollar terms, the appreciation of the Yuan would (other things being equal) result in stronger demand which could be accommodated as contracts are renewed or new contracts signed. The revaluation is also expected to have a positive effect on the State's wool sector (which was the State's fourth largest export to China in 2004, accounting for more than 6% of the State's exports to China). The domestic tourism industry is also likely to benefit from a stronger Yuan, as the purchasing power of Chinese tourists travelling overseas increases.

Local retailers in Western Australia may be slightly worse off following the revaluation, with the price of cheap Chinese imports now marginally higher. However, such price hikes would apply only to costs priced using the Yuan. That is, with other cost overheads and profit margins forming part of the final retail price of goods, some commentators expect that a 2% increase in the Chinese currency should only lead to around a 1% increase in the price of Chinese made products sold locally (notwithstanding other factors, like competitive retail pressures)¹⁸. In this regard, the State's major direct imports from China¹⁹ are furniture, toys and sporting equipment, footwear and plastics.

The comparative advantage that China-based exporters have been enjoying in recent times (in part, brought about by the undervalued Yuan) has resulted in some global corporations relocating their production sites to China. Accordingly, the prospect of an appreciating Yuan brings with it a greater (albeit at this stage, slight) potential for companies to decide to invest in countries other than China, particularly if the cheap labour costs and an undervalued currency that once benefited Chinese export oriented businesses erode over time.

¹⁸ See "Yuan: the big winners – and losers," Chalmers, <http://www.finance.news.com.au/> 26 July 2005

¹⁹ It is also important to note that a significant portion of manufactured goods from China and other countries are sold in Western Australia after arriving via major interstate ports but do not show up in imports data for Western Australia

A stronger Yuan would also likely help boost Chinese direct foreign investment into Australia. Such investment is still quite small, with latest data (for 2003) from the Australian Bureau of Statistics showing that total direct investment by China (of around \$2.9 billion) represented only 0.3% of total foreign investment into Australia (data by state is unavailable).

Nevertheless, investment flows from China into Western Australia have the potential to play an increasingly important role in the further development of the State's mining industry - particular in the context of a more liberalised investment regime if the Australia-China Free Trade Agreement (currently being negotiated) goes ahead. Chinese corporations have already obtained equity shares in a number of Western Australian mining companies (particularly in iron ore, nickel and Liquefied Natural Gas), with these equity shares (often inclusive of off-take arrangements) used in part as a means for Chinese corporations to better secure future commodity supplies.

While the decision to revalue the Chinese Yuan is a significant first step, it is widely agreed that the size of the initial move was modest, and hence the impact of the revaluation is also expected to be modest. However, the new currency regime adopted provides for the gradual appreciation of the Yuan, and it is widely anticipated that the Chinese Government will let the Yuan gradually appreciate in the longer term.

3. 2005-06 BUDGET

This article summarises the major features and financial aggregates presented in the 2005-06 Budget. The budget 'bottom line', the net operating balance of the general government sector, the outlook for net debt and the Government's other financial targets that form the basis of its medium term financial strategy, are also discussed.

Fiscal Strategy

The Treasurer delivered the 2005-06 Budget on 26 May 2005. This was the fifth budget for the State's current Labor Government, and the first since the Government was re-elected in February 2005.

The theme for the budget was "Delivering Our Commitments" and focused on the implementation of election commitments, addressing other service initiatives identified during the budget process, and outlined the Government's significant infrastructure program.

The Government's financial strategy commits to sound financial management principles and maintains the same broad financial targets adopted upon coming to office (and as expressed in the Government's first budget in 2001-02)²⁰. The targets are to:

- maintain or increase real net worth of the total public sector;
- achieve an operating surplus for the general government sector;
- maintain Western Australia's tax competitiveness, as measured by maintaining tax revenue as a share of GSP below the other States' average; and
- retain Western Australia's triple-A credit rating, represented by the following two specific targets:
 - maintain the net debt to revenue ratio for the total non-financial public sector at or below 47%; and

²⁰ In the 2005-06 Budget, the targets were subject to minor technical amendments to make them more useful tools for measurement of government policy.

- ensure that real per capita own-purpose expenses for the general government sector do not increase²¹.

The 2005-06 Budget projections are consistent with achievement of each of these targets in 2005-06 and all forward estimate years.

With the exception of the real per capita general government expenses target, the targets are also expected to be met in 2004-05. In 2004-05, expenses are currently forecast to rise by 10.1%, a rate in excess of real per capita growth. This high rate of growth reflects a range of new policy initiatives implemented by the Government since the 2004-05 Budget, as well as parameter variations across the sector. This increase in spending is backed by expectations of higher than anticipated tax and Commonwealth grants outcomes in the year, and by rises in agencies own source revenue. Importantly, many of the expense items in 2004-05 are of a one-off nature and do not represent permanent increases in base spending.

Financial Projections

The key financial aggregates published in the 2005-06 Budget are summarised in the following table.

²¹ This target was amended in the 2005-06 Budget to focus on *own-purpose* expenses, by excluding Commonwealth specific purpose payments 'through' the State from the scope of the target. This ensures that the target appropriately focuses on expenses that are under the direct control of the State Government. Prior to this amendment, the target measure included Commonwealth funding through the State over which the State Government has no control but for which is fully compensated for through Commonwealth grants

KEY BUDGET AGGREGATES

Western Australia

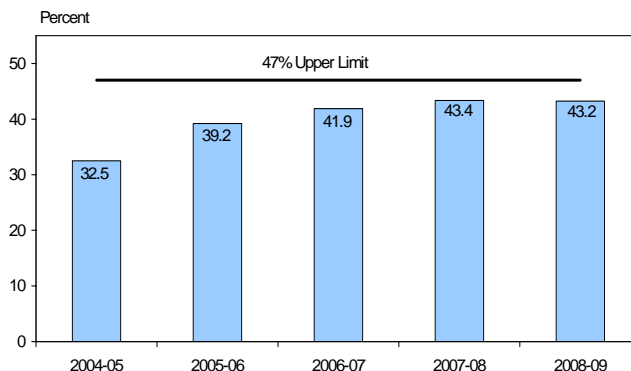
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
<u>GENERAL GOVERNMENT</u>						
Net Operating Balance (\$m)	799	631	521	435	192	295
Revenue (\$m)	12,753	13,789	14,218	14,520	14,861	15,268
Revenue Growth (%)	8.3	8.1	3.1	2.1	2.3	2.7
Expenses (\$m)	11,954	13,158	13,697	14,085	14,669	14,973
Expense Growth (%)	3.8	10.1	4.1	2.8	4.1	2.1
<u>TOTAL NON-FINANCIAL PUBLIC SECTOR</u>						
Net Debt to Revenue Ratio (%)	28.4	32.5	39.2	41.9	43.4	43.2
<u>TOTAL PUBLIC SECTOR</u>						
Net Debt at 30 June (\$m)	4,194	5,167	6,521	7,152	7,616	7,835
Net Worth	43,754	46,083	47,530	48,941	50,127	51,260

A general government operating surplus of \$521 million is projected for 2005-06. This follows an expected surplus of \$631 million in 2004-05 and a record surplus of \$799 million in 2003-04.

Surpluses are forecast to continue in the outyears, and play a critical role in containing net debt to sustainable and affordable levels, by providing an important source of non-debt funding for the State's Capital Works Program.

In this regard, the net debt to revenue ratio, which provides an important measure of the affordability of the State's net debt levels, is projected to peak at 43.4% in 2007-08, comfortably below the Government's 47% target limit.

NET DEBT AS A SHARE OF REVENUE
Total Non-Financial Public Sector



The forecast operating surplus of \$521 million for 2005-06 reflects forecast growth in general government revenue of \$430 million (or 3.1%) and projected expense growth of \$539 million (or 4.1%).

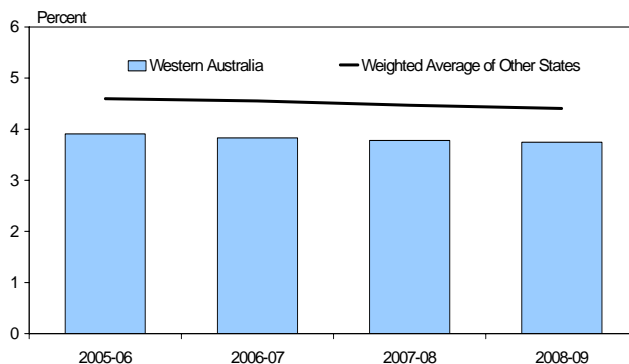
Most of the projected increase in general government revenue in 2005-06 is due to increased mining royalties, including North West Shelf petroleum royalties, which are up \$326 million on the 2004-05 estimated outturn. This primarily reflects a forecast increase in iron ore royalties of \$301 million due to the 71.5% price increase negotiated for 2005-06 by major producers, together with projected increases in production volumes.

GST revenue grants from the Commonwealth are also forecast to grow, increasing by \$181 million in the budget year. This reflects growth in national GST collections, which more than offsets the cut in Western Australia's share of GST collections recommended earlier this year by the Commonwealth Grants Commission.

Taxation revenue is expected to fall in 2005-06 by \$135 million relative to the 2004-05 estimated outturn. Tax relief measures introduced in the 2005-06 Budget, together with the full year impact of the measures announced in October 2004, an expected stabilisation of property market activity, and the abolition of debits tax from 1 July 2005 are expected to drive this decline.

The taxation relief measures assist in maintaining Western Australia's tax competitiveness in line with the Government's financial target. As illustrated in the following chart, Western Australia's taxation revenue as a share of gross State product is expected to remain comfortably below the average of the other States in each year of the forward estimates period.

TAX COMPETITIVENESS
General Government Taxation Revenue as a Share of GSP

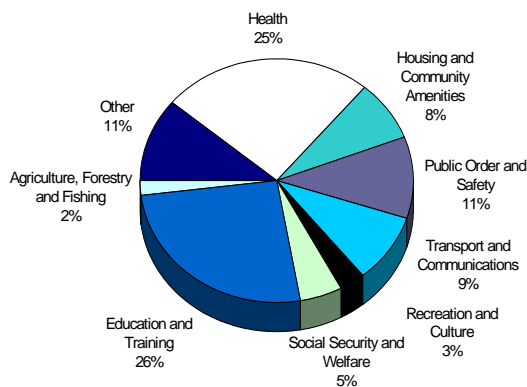


Expenses are forecast to total \$13.7 billion in 2005-06, representing growth of 4.1% compared with 2004-05. Across the outyears, expenses are projected to grow by an average of 3.3% per annum.

As noted earlier, these rates of growth incorporate a range of initiatives including the implementation of election commitments and other spending on key services.

Expenses in the areas of health, education and training and public order and safety are estimated to account for around 62% of total general government expenses in 2005-06.

2005-06 EXPENSES
General Government



Infrastructure Spending

The Government is continuing its significant infrastructure investment program, underlined by a record \$4.7 billion Capital Works Program for 2005-06.

Over 75% of this is spent directly on fixed assets by the public sector while the remainder is on-passed to others (e.g. local governments, non-government organisations, etc) supporting fixed asset acquisition.

Capital works projects are essential in supporting the State's growing population and the on-going strength of the nation's strongest exporting economy.

Notable capital projects provided for in the budget include:

- water-related infrastructure including the Perth Seawater Desalination project;
- electricity generation, transmission and distribution works by Western Power;
- the continuation of construction of the Southern Suburbs railway, including the provision of new railcars;
- port infrastructure at the State's port authorities; and
- hospitals, schools, police facilities and roads across the State.

Full details of the State's financial projections can be found in Budget Paper No. 3: *Economic and Fiscal Outlook*, together with further detailed supporting commentary. The Budget Papers are available online at www.ourstatebudget.wa.gov.au

4. REFORMING PROCUREMENT IN THE WESTERN AUSTRALIAN PUBLIC SECTOR

One of the key reforms being undertaken by the Western Australian Government is reform of public sector procurement. These reforms are aimed at improving procurement outcomes and achieving significant cost savings.

This article provides a brief outline of the background to the reform, the objectives of reform, details on the implementation of the reforms, and achievements to date.

Background

Procurement reforms currently being undertaken within the Western Australian public sector stem from the recommendations of the *Review into the Effective Delivery of Government Priorities* (Functional Review). The Review was established in June 2002 in order to examine each agency's programs, functions, activities and services in detail in order to determine their efficiency and effectiveness. It was to also identify areas of expenditure where a whole-of-government approach could produce a more cost effective outcome.

The Functional Review Taskforce reported to Cabinet in December 2002, making some 89 recommendations covering a wide range of proposed public sector reforms - from the delivery of 'back office' Corporate Services or the management of capital assets, to the procurement of goods and services by government agencies.

The Government subsequently established the Functional Review Implementation Team to undertake further investigation of particular areas targeted for reform and to oversee the implementation of the report's recommendations.

With respect to procurement, after nearly a year of research and benchmarking, a detailed planning document titled *Procurement Reform within the WA Government Sector: Business Solution and Implementation Plan*²², was endorsed by State Cabinet in December 2003. This established a blueprint for the implementation of significant procurement reform across the sector and identified some 60 separate reform projects.

The detailed study undertaken during 2003 confirmed that substantial savings could be achieved each year by introducing smarter buying practices, better leveraging the government's buying power, and by adopting a better planned, more strategic approach to sourcing. Better quality procurement outcomes were also expected to flow from enhancing the professionalism and skills of procurement officers and streamlining the processes and systems used.

An integral part of the procurement reform blueprint, was the establishment within the Department of Treasury and Finance (DTF) of a Program Management Office (PMO) to manage, support and monitor the implementation of the reform projects. Accordingly, the Procurement Reform PMO was established in January 2004 with a finite life of about two years. It will be wound down as projects are completed or reform initiatives are progressively operationalised.

WA Public Sector Procurement Patterns

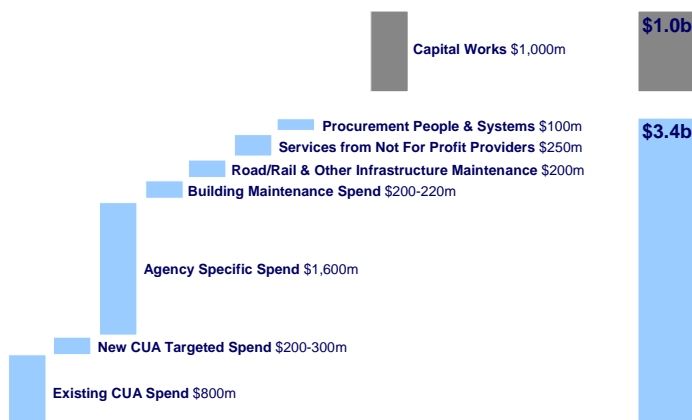
The procurement reform program is focussed on achieving savings in the State's general government sector. Procurement expenditure in this sector in 2005-06 that will be subject to reform is estimated to be in the order of \$4.4 billion.

²² <http://www.dtf.wa.gov.au> - see Procurement Reform/Publications; 2005

A break-up of forecast procurement expenditure in 2005-06 is provided in the following figure. It can be seen that around \$1 billion of the \$3.4 billion recurrent expenditure on goods and services will be spent through existing or new common use contracting arrangements (CUAs). These are whole of government common use contractual arrangements for commonly procured goods and services. These CUAs are available to all agencies and are centrally managed by DTF.

Figure 1

2005-06 Total Procurement Spend \$4.4b (excluding GTEs)



The \$1.6 billion labelled as ‘Agency Specific Spend’ relates to most other expenditure on goods and services planned by agencies – either through direct purchasing, one-off procurements or via existing agency specific contracts.

The variety of goods and services purchased each year by government agencies is immense, ranging from stationery items, rubber surgical gloves or computer hardware, to building maintenance services, high cost medical diagnostic equipment or printing services.

The purchasing profile of agencies also varies greatly. Western Australian hospitals and prisons for example, purchase huge quantities of food and sanitary products each year, while agencies such as the Fire and Emergency Services Authority and the Department of Agriculture are more likely to purchase four wheel drive vehicles and earth moving equipment.

While the extent of potential savings will vary from one spend category to the next, it is evident that process efficiencies and genuine cost savings are achievable across a broad spectrum of government procurement.

Functional Review Taskforce Procurement Findings

The Functional Review Taskforce identified a number of common problem areas at both the individual and whole of government levels. These included:

- a lack of procurement planning and coordinated buying;
- limited use of bulk purchasing possibilities;
- duplication of effort and inefficient use of resources;
- a lack of standardised processes, procurement documentation and associated information systems;
- inconsistent application of procurement policies and guidelines;
- limited knowledge sharing and pooling of expertise; and
- inadequate reporting on sector spend.

Reform Savings and Objectives

In broad terms, in addition to improving procurement outcomes and achieving process efficiencies, the procurement reform aims to achieve annual savings in excess of \$100 million per annum. A significant proportion of these savings are to be “harvested” from agencies in order to be redirected to the Government’s priority service delivery areas such as health, education and training, and law and order.

The following table summarises the total estimated savings targeted in each of the years from 2003-04 to 2007-08, as well as the amount earmarked for harvest. All the harvest amounts have now been included in agency budgets. The 2004-05 harvest target of \$29 million was achieved.

Procurement Savings Targets

Year	Initial Savings Target *	Actual Annual Harvest	Estimated Total Reform Savings **
2003-04	\$0	\$0	\$10-12m
2004-05	\$50m	\$29m	\$32-40m
2005-06	\$100m	\$114m	\$115-120m
2006-07	\$100m	\$114m	\$130-140m
2007-08	\$120m	\$119m	\$145-155m

* As contained in the 2003 Procurement Reform within the WA Government Sector: Business Solution and Implementation Plan.

** Recurrent savings only.

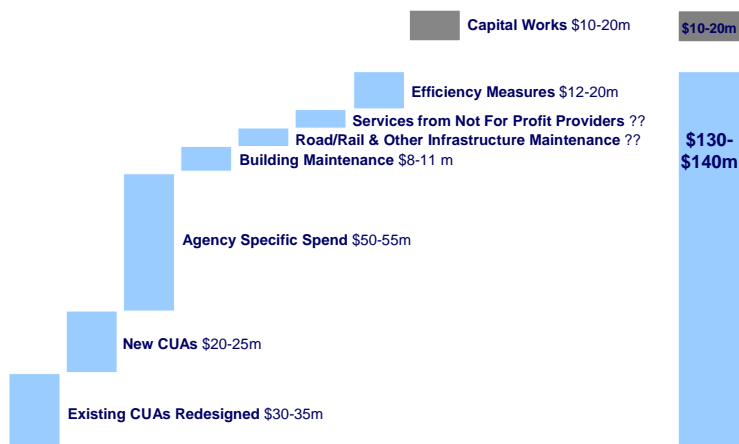
The harvest figure of \$29 million for the first full year of the procurement reform program was set at this lower level because most of the reform initiatives were only commenced in 2004 and will take some time to deliver full benefits. The savings harvest consequently rises quite sharply to \$114 million in 2005-06.

Of the \$29 million 2004-05 harvest, the great majority was derived from the redesign of existing CUAs, with a smaller contribution being generated by reforms in the areas of building maintenance and agency specific spending.

Going forward, the likely break-down of total targeted savings between the various spend categories is illustrated in the following figure.

Figure 2

Composition of Targeted Savings by July 2007



In order to directly address the Functional Review findings, the reform program has the operational objectives of:

- increasing the level of coordination and standardisation;
- optimising the use of resources devoted to procurement;
- replacing piece-meal buying with well structured flexible contracts;
- aligning procurement strategy to market characteristics;
- implementing simpler, clearer processes for both government buyers and sellers to government;
- standardising procurement related technologies and systems across government;
- improving risk management; and
- improving the quality of data and procurement reporting and hence accountability.

Procurement reforms are also expected to deliver a number of efficiency benefits for business. For example:

- consistent requirements in General Conditions of contract and simplified and standardised quoting and tendering documents will reduce the time and cost of contracting with government;
- mandatory CUAs will deliver more value and greater certainty for contracted suppliers;
- consolidating procurement officers provides a simplified and coordinated point of contact for suppliers; and
- technology changes, including greater use of online catalogues, will reduce paperwork for suppliers and save processing time.

Implementing the Reform

The various procurement reform projects identified in the *Procurement Reform within the WA Government Sector: Business Solution and Implementation Plan* have been grouped into a number of key dimensions. These project groupings or dimensions were subsequently adopted by the Procurement Reform PMO as a suitable project management and implementation model.

The key project dimensions are as follows:

Strategic Sourcing – this dimension focuses on redesigning existing CUAs to improve their efficiency and savings capacity; developing a number of new CUAs; improving the level of strategic planning through the implementation of Annual Forward Procurement Plans; and helping agencies to analyse their buying patterns and behaviours in order to identify potential savings.

Policy and Process – reviewing whole of government procurement policies and buying rules; introducing new purchasing thresholds and standardised procurement documentation across the sector; mapping best practice contracting processes; and establishing improved contracts records management procedures.

People - re-badging agency based procurement practitioners as DTF staff within a new Client Procurement Services division; developing a whole of government procurement education and training framework for buyers; arranging training programs and developing new career paths and formal accreditation options specifically for procurement practitioners.

Regional - strengthening the Buy Local policy and expanding regional procurement where it makes sense to do so, through careful planning of the CUAs, and the establishment of Regional Buying Centres to act as locally based Centres of Procurement Expertise.

Technology - removing duplication of procurement systems across the sector and replacing them with new whole of government applications covering contract development and management, cataloguing and e-procurement, expenses management, and information management.

Works and Building Maintenance - reviewing arrangements across the sector for building maintenance, minor works and breakdown repairs to identify potential savings and implement reform measures; and establishing a Works Centre of Expertise to improve communication and coordination between the various "works" agencies and to identify opportunities for process efficiencies and contract sharing.

Governance - creating a whole-of-government decision making and reporting framework covering the procurement of both capital works and goods and services; improving procurement data gathering and reporting; and facilitating better performance measurement and stakeholder feedback.

Summary of Achievements to Date

Implementation of the procurement reform program commenced formally in early 2004 with the establishment of the Program Management Office in DTF. In the 18 months since then, significant progress has been made across all of the above dimensions, although several individual projects are still at a project scoping or preparatory stage.

Some of the more notable achievements since the program formally commenced include:

- the awarding of 13, and tendering of another seven, new or redesigned CUAs, aimed at further improving buying efficiency and delivering greater savings to agencies;
- undertaking considerable research, stakeholder consultation and planning on the development of various new CUAs for tender in 2005-06. These new CUAs will cover the procurement of goods and services ranging from Household Electrical Appliances and Uniforms and Safety Wear, to Learning and Development Services or Network Service Equipment;
- implementation of an effective whole-of-government model to harvest procurement savings from government agencies;
- re-badging of 70 procurement positions across 20 government agencies to create the new Client Procurement Services division of DTF. This initiative is aimed at delivering consistent procurement services and policy application across the sector, as well as improving skills training and career development opportunities for procurement practitioners;
- reviewing and developing a new set of public sector procurement policies and purchasing thresholds, designed to streamline procurement processes, save time and effort, and improve risk management. The revised policy settings have been well received by both government agencies and suppliers to government, given the considerable efficiency savings involved;
- developing and launching a new General Conditions of Contract document, as well as new tender request documentation, that will establish a standardised approach across government for the procurement of most goods and services. The new standardised documentation applies to all relevant agency contracts developed from 1 July 2005;
- the review of Department of Housing and Works building maintenance and breakdown repairs contractual arrangements, and transportable building relocations, leading to substantial cost savings;

- extensive planning, staff recruitment, office set-up preparations and stakeholder consultation associated with the establishment of three Regional Buying Centres for the Mid West, South West and Goldfields/Esperance regions during 2005. The Mid West Regional Buying Centre located in Geraldton, commenced operations in July 2005;
- tendering for a new Contract Development and Management System for use across government and working on the development and procurement of new whole-of-government Corporate Services Business Systems that include e-procurement functionality; and
- developing and launching a comprehensive procurement education and training framework, and commencing a program of training courses targeting both procurement practitioners and agency staff at all levels who are involved in buying or making purchasing decisions.

Summary

While there are many dimensions to achieving an efficient and effective public sector, the program of procurement reform is an important initiative aimed at improving procurement outcomes, and achieving significant cost savings. Reforms are also expected to deliver efficiency savings to businesses contracting with government.

While there have already been a number of achievements in implementing the procurement reforms (as outlined in this article), the process is on-going and will continue to deliver benefits, including a more efficient use of taxpayers' money.

²³ <http://www.dtf.wa.gov.au> - see Procurement Reform/Publications; 2005

²⁴ Source: <http://www.ssc/publications.asp>, 2005.

APPENDIX 1.

WESTERN AUSTRALIAN EXPORTS BY COMMODITY

	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
	\$ Million											
Gold	506.0	358.7	506.3	448.7	503.8	536.4	533.2	443.8	365.0	431.0	651.0	340.8
Iron Ore	535.8	588.1	559.2	555.2	526.7	601.3	560.2	488.0	620.7	895.0	981.0	979.9
ETMs	158.4	143.4	172.2	188.5	176.3	154.9	128.7	144.8	165.3	285.9	198.6	210.6
Wheat	184.3	189.8	184.8	140.1	165.9	148.8	135.8	159.8	129.1	99.9	72.3	115.3
Petroleum	454.2	424.5	472.7	504.7	512.3	348.5	449.2	372.5	528.7	540.4	528.6	478.8
LNG	221.3	225.5	256.8	292.3	304.0	307.7	284.8	217.5	276.8	294.3	308.8	254.2
Nickel	47.0	141.1	84.9	116.1	133.3	96.1	110.6	87.9	125.5	120.6	58.2	82.6
Wool	36.2	33.9	47.1	47.1	40.6	44.4	19.8	40.2	47.8	40.2	54.7	38.6
Crustaceans	26.9	14.1	7.2	7.5	6.8	49.4	36.5	25.8	36.5	49.4	44.1	37.6
Live Animals	24.4	26.1	38.0	46.6	26.7	40.0	40.3	23.6	23.4	29.2	19.3	20.2
Confidential Items	623.7	576.8	564.8	574.2	528.9	653.4	559.5	712.4	615.7	659.8	615.1	584.2
All Commodities	2,987.0	2,943.0	3,127.0	3,141.0	3,110.0	3,257.0	3,074.0	2,942.0	3,177.0	3,725.0	3,816.0	3,365.0

Source: Australian Bureau of Statistics, unpublished data.

APPENDIX 2.

WESTERN AUSTRALIAN EXPORTS BY DESTINATION

	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
	\$ Million											
Singapore	44.0	100.0	149.0	94.0	101.0	107.0	97.0	123.0	138.0	95.0	171.0	135.0
Indonesia	95.9	100.6	107.1	109.4	40.8	75.4	142.2	88.1	114.3	76.4	119.4	138.0
Malaysia	40.3	40.5	27.0	34.3	22.2	26.7	62.3	12.1	26.1	21.1	19.8	40.7
Thailand	57.0	33.0	68.0	162.0	157.0	241.0	243.0	266.0	161.0	99.0	106.0	116.0
Philippines	2.1	10.2	5.3	10.3	10.4	4.6	4.5	9.0	5.2	9.2	5.5	5.5
South East Asia	239.3	283.3	349.9	407.6	340.9	454.7	549.1	498.3	444.6	300.7	421.7	435.2
South Korea	349.0	258.0	253.0	276.0	262.0	254.0	259.0	147.0	224.0	366.0	335.0	215.0
China	412.0	443.0	437.0	490.0	451.0	560.0	439.0	444.0	661.0	778.0	734.0	707.0
Taiwan	56.0	68.0	91.0	71.0	55.0	113.0	65.0	73.0	131.0	182.0	80.0	94.0
Hong Kong	13.0	40.0	18.0	38.0	12.0	18.0	27.0	18.0	22.0	14.0	17.0	13.0
North East Asia	830.0	778.0	778.0	949.0	886.0	1,073.0	968.0	875.0	1,068.0	1,257.0	1,192.0	1,051.0
Japan	693.0	709.0	728.0	627.0	591.0	685.0	677.0	612.0	704.0	837.0	871.0	796.0
United States	125.0	67.0	129.0	147.0	238.0	136.0	52.0	90.0	84.0	115.0	120.0	195.0
United Kingdom	341.0	199.0	212.0	236.0	118.0	64.0	36.0	68.0	64.0	81.0	67.0	27.0
Germany	8.0	9.0	18.0	10.0	6.0	7.0	7.0	6.0	8.0	6.0	10.0	3.0
Canada	18.6	89.8	93.1	29.6	113.0	79.0	34.5	91.1	79.2	80.9	33.9	91.6
France	9.0	12.3	7.1	19.4	25.7	12.3	20.2	15.9	5.1	25.9	19.0	21.2
Italy	15.4	6.6	28.3	18.3	15.6	9.5	20.7	31.9	12.8	17.7	30.2	17.5
Group of Seven	1,210.0	1,096.6	1,213.3	1,092.2	1,136.7	992.8	847.3	914.9	957.1	1,163.5	1,151.0	1,151.3
All Destinations	2,986.0	2,941.0	3,123.0	3,118.0	3,138.0	3,257.0	3,074.0	2,942.0	3,177.0	3,725.0	3,816.0	3,365.0

Source: Australian Bureau of Statistics, unpublished data.

GLOSSARY

Consumer Price Index: An index of the price of a basket of goods purchased by the average household for consumption. It is a subset of the GSP deflator.

Dwelling Investment: This consists of three components, which are new dwelling investment, alterations and additions and ownership transfer costs.

Gross State Product (GSP): The total output of an economy. It includes expenditure in Western Australia on State final demand plus net expenditures (i.e. exports less imports) from interstate and overseas.

GSP Deflator: An index of economy-wide prices. It is the broadest measure of prices in an economy.

Labour Force: The number of people of working age who are either employed or actively seeking a job.

Net Exports: The value of exports minus the value of imports.

Nominal Exports: The value of exports at current world prices and in Australian dollar terms. Changes in nominal exports are a measure of the change in value, which incorporates changes in both export prices and volumes.

Participation Rate: The ratio of the labour force to the total working age population.

Real Exports: The value of exports adjusted for movements in commodity prices and the exchange rate. As such, changes in real exports only measure changes in the volume of exports.

State Final Demand (SFD): The total value of expenditure in Western Australia on private consumption, housing (new housing and alterations and additions), business investment and public consumption and investment. State final demand does not include net expenditure in Western Australia from interstate or overseas.