March 31, 2016
Macroplan Dimasi

Western Australia – adjusting expectations

Categories: Press Room

A long time ago in a career far far away, I was working on ways to improve customer satisfaction in the finance and airline industries. Both sectors had similar issues – how to keep customers happy in a wide range of situations but to also achieve the operational requirements of the business.

The challenge was to address the disparity between what customers expected and what they got (aka cognitive dissonance). The obvious answer was to lift performance and improve the standard of service, but that was expensive and subject to diminishing returns. The less obvious answer was to manage (lower) the customers' expectations so that people were getting pretty much what they had expected or getting slightly more than they expected, but not too much more (aka 'under promise and over deliver', but don't over deliver so much that it sets a new higher level of expectation for the next time).

So, is managing (lowering) expectations may now be the most appropriate response to Western Australia's current economic situation?

Over the past decade, WA has tied its economy even more strongly to the health of international economic conditions – China in particular. Just like a roller coaster or a margin loan, that is great on the upside, but scary on the way down.

So how low do we set the new expectations? Firstly, a look at the current situation: Western Australia is doing it tough at the moment – its population growth has flattened out at 1.3 per cent per annum (same as Australia's population), the economy is growing at a measly 3.5 per cent and its workers are only getting paid 114 per cent of the national average wage. In the year to December 2015, it only attracted 36.7 per cent of Australia's total private capital investment (marginally more than NSW and Victoria combined) and the value of the WA's exports have plunged to just $100 billion per annum (just 43 per cent of national commodity exports). If you're looking for work, the news is bad too as there are only 17,300 job vacancies in the State (just 10.2 per cent of the national vacancies).

Actually, none of those statistics look bad at all. It is just that everyone thought everything was going to be so much better. This wasn't at all what we expected.

Unfortunately some also *banked* on it being so much better. That includes the overextended investor in residential property; the mining services business geared up to service the continued resource projects, and the government treasuries at both state and national level.

House prices in WA tend to follow the direction of global resource prices… it's a confidence thing. Confidence (or lack of) is more important than the relatively high labour force participation rates or high wages.

Confidence is affected by the media. The latest reporting season has been tough on the mining sector, with losses and write downs across the sector. However, it needs to be put in the context that in the decade to the end of 2015, Australia's mining companies made a cumulative net profit of $505 billion.

Headlines on the WA economy regularly have a message of 'lowest in a decade'. This variously refers to population growth, capital investment, migration (overseas and interstate), economic growth…. However, given the boom in resource projects started in 2004 and accelerated following the 2008 GFC (as it responded to the stimulus packages in China), then almost every economic statistic is going to be the 'lowest in a decade', regardless of whether it is still 'good' or not.

The current situation is much like a hangover after a long party (at least a hangover for those people that could afford $14-$20 a pint of beer at popular watering holes in Perth CBD).

Coffee prices also boomed in the past decade. Perth still has the dearest coffee in Australia according to the latest Cappuccino Price Index (in 2015, a 235ml cup of coffee was 'only' 15 per cent dearer in Perth than in Sydney).[1]
The resource sector knew the dip was coming, but not quite so fast and so low. The end of the iron ore project investment was readily foreseeable (and foreseen), but most had planned to transition across onto LNG projects that were in the pipeline. The fall in the global oil price (also due to overproduction) has left those projects in limbo probably until at least the next decade.

The State Government ramped up infrastructure investment at a time that certainly helped the economy and acted as a cushion against the iron ore down cycle, but it also banked on windfall iron ore revenues to pay for it. It is now adjusting to the new 'normal'.

The property industry is also adjusting. The canny investors know that now is the time to buy at the right price and finally, civil and construction costs have become competitive, making it a good time to build. Perth office vacancies are high, but that means new tenants can now afford to move in (including a reported 40 per cent increase in education service providers in the CBD).

Sot the challenge comes back to managing the gap between what we expected and what we’ve got.

One of the actions by the finance and airline industry sectors was to give their customers something else to do while they were inevitably waiting – be it the bank customer having something to read/watch while they waited to be served or giving the airline customer better flight lounges and something better to buy, eat and/or drink while waiting for their flight.

For the airlines and banks, it wasn’t really about lowering expectations after all. It was about giving the customer another experience. It was about turning a negative experience into a new positive.

Western Australia is in that phase of looking for the new opportunities. A highly skilled workforce is one; another is the strong growth of the service sector (health, education, aged care). Affordable office space, affordable housing, affordable transport – all relative advantages.

Now if WA can just do something about the price of a coffee and a pint of beer.

[1] http://www.coffee-prices.com/

MacroPlan’s experienced and qualified economists align their understanding of macro-economic forces with micro-economic variables such as geographic and industrial characteristics, demographics, labour market shifts, resource demand and commercial realities. Contact Stuart McKnight, General Manager – Western Australia, today to discuss your property research requirements.