

ECONOMIC PROSPECTS AND THE COST OF DOING BUSINESS IN THE PILBARA

AN EXECUTIVE UPDATE



FEBRUARY 2020



An Australian Government Initiative



Acknowledgements

The consultants would like to thank all those persons and organisations for their important contributions to this study, and in particular the staff of Regional Development Australia (RDA) Pilbara, Western Australian (WA) local and state government agencies, Pilbara-based Business Representative Associations, NGOs, SMEs and the resources industry for their support and assistance.

The Report and the information contained therein are expressly for the use of the Client. Written permission is required from the Client for any subsequent distribution or publication.

Disclaimer

Any statement or finding expressed or implied in this document is provided in good faith based on the information available to the consultants. No warranty expressed or implied is given for accuracy of the information provided by others. The authors accept no liability for any loss or damages arising from or relating to the use of the report by any other party.



Forward

Regional Development Australia (RDA) Pilbara has been reporting on the economic and business environment through annual Cost of Doing Business studies since 2013. This report provides an executive update on this theme.

The Pilbara contributes to the economic development of the State and Australia more than any other region in Australia. It now has a broader and deeper extractive industries sector and opportunities afforded by the abundance of renewable energy and marine resources are increasingly being recognised as providing enhanced prospects for a greater degree of diversification.

The focus is on understanding the drivers and constraints to economic development in the Pilbara. Policies that seek to alleviate the constraints and enhance further development need the ongoing attention of government agencies at all levels.

The findings of this research report will be used to:

- Inform businesses about the business environment, the prevailing cost structure and future costs, to improve planning and operations;
- Inform government agencies so that policy formulation can be adjusted to take the prevailing constraints into account.

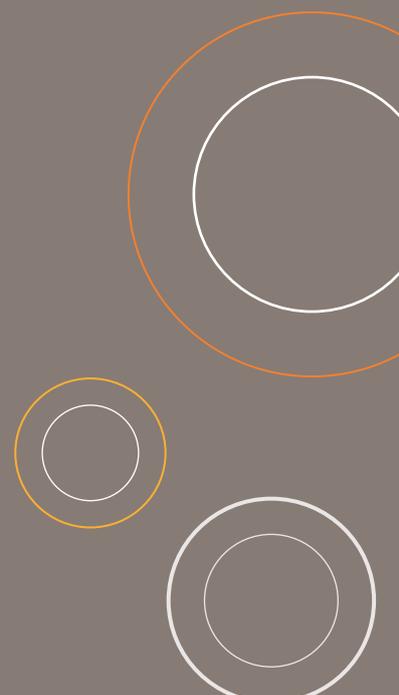
RDA Pilbara is a strong advocate of economic diversification and a supporter of the Small and Medium Enterprises (SME) and Non-Government Organisations (NGO) sectors as key pillars for the sustainable future of the Pilbara. Clearly it is in the best interests of all businesses that costs are controlled and the enabling environment for investment is sustained and enhanced.

The Pilbara is entering another exciting phase in its growth and development. It is imperative that joint action by the public and private sectors ensure that the benefits flow to the community.



CONTENTS

FORWARD	1
1. RECENT DEVELOPMENTS IN THE PILBARA ECONOMY	4
2. RECOMMENDATIONS	5
3. THE VALUE OF THE PILBARA ECONOMY	6
4. POPULATION AND EMPLOYMENT TRENDS IN THE PILBARA	8
5. CONSTRAINTS TO ECONOMIC DEVELOPMENT AND THE COST OF DOING BUSINESS IN THE PILBARA	10
5.1 International Risks	10
5.2 Cost of Living	10
5.3 Labour Costs in the Pilbara	11
5.4 Residential Availability and Accommodation Costs	15
5.5 Insurance Costs	17
5.6 Utility Costs	18
5.7 Transport Costs	19
6. CONCLUSIONS	20
REFERENCES	20



1. Recent Developments in the Pilbara Economy

The economy of the Pilbara has strengthened markedly and contributes significantly to the economic growth of Australia, and Western Australia in particular. This is the result of anticipated investments by the resources sector in the order of \$120 billion between 2019 and 2025. However, costs are rising for most goods and services and accommodation, and labour availability are becoming significant constraints to businesses, particularly for SMEs.

Key recent trends in the Pilbara economy that reflect both the opportunities and constraints are as follows:

- **Business Environment:** There are increased opportunities for SMEs with an improved business environment and a greater demand for a wide range of goods and services.
- **Labour Force:** The local labour force is too small to supply all of the skills and the number of workers required for business expansion, and the availability and cost of labour are emerging as major constraints to business.
- **Accommodation Costs:** The property market has improved significantly and rising purchase and rental costs are of concern, particularly in Karratha. SMEs cannot compete with large resource companies and lack of accommodation is a major constraint to business survival let alone expansion.
- **Diversification:** Although there has been increased diversification of the resources industry, which in turn can supply the raw materials for further diversification, such as natural gas to the proposed major fertiliser projects near Karratha, there are limitations for industries not related to the resources sector. This is primarily due to high operating costs, distance and access to markets.
- **Local Market:** Although the population has started to rise slightly following the recent downturn, it is relatively small and the limited local market is a constraint to the further development of the non-resource related sectors of the economy.





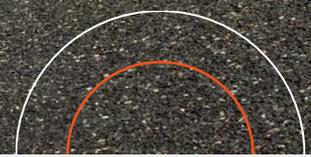
2. Recommendations

The remarkably high value of the economy of the Pilbara to the State and the nation needs to be supported by appropriate policies.

- **Labour:** Although avenues exist for businesses to employ workers from outside Australia in regional areas the high and still rising cost of labour requires enhanced flexibility in regulations related to employment of overseas workers. Enhanced skills development programmes are also required for the local labour force.
- **Accommodation:** A major constraint, particularly in Karratha, is the rapidly increasing cost of accommodation. The need to secure the investment of the private sector in construction activities is becoming urgent, as stock levels are very low. Increasingly, prospective employers and employees are simply unable to find affordable accommodation.
- **Markets for SMEs:** Increasing markets for SMEs in the non-resources sector is a priority. Both local and export opportunities need to be constantly appraised and more attention should be given to opening up markets and further stimulating innovation in a practical manner. In this regard fact-finding trade missions for small business need to be expanded, and the Enterprise Hubs in the Pilbara would benefit from deeper linkages with similar

organisations in other Australian States and overseas to foster innovation and to link enterprises using a value chain approach.

- **Insurance:** Rapid implementation by policymakers of the Australian Competition and Consumer Commission (ACCC) recommendations from their report on Northern Australia Insurance Inquiry¹ aimed at reducing the cost of insurance, across the community as a whole, and for business in particular.
- **Higher Value-added Enterprises:** Encouraging higher value-added enterprises to locate to the Pilbara, particularly with regard to supplying digital and additive technologies to the resource industry needs to be supported.
- **Air Links:** The need for establishing more cost competitive air links is a priority. In particular the flight costs from Perth to the Pilbara are prohibitive when compared to flights from Perth to the East Coast of Australia.
- **Liveability:** Further investments in making the Pilbara an attractive place to live are required, particularly in Newman and Port Hedland. There is a need for a continuing effort to reduce the fly-in-fly-out (FIFO) component of the workforce through encouraging local residency by appropriate urban renewal and housing programmes.

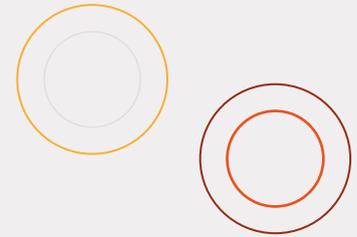


3. The Value of the Pilbara Economy

The Pilbara economy has continued to strengthen in 2019 and into 2020 and its already high value has increased markedly. The prices of most commodities remained favourable, with the exception of lithium and liquefied natural gas (LNG), however, over the medium-term prices for these two commodities are also expected to improve.

The value of the Pilbara economy to Western Australia and the Nation as a whole is shown by:

- **Value of Pilbara Economy:** Mining, construction and exports dominate the Pilbara's economy. The region is the state's mining powerhouse and makes a significant contribution to the national wealth. Its iron ore and LNG industries are valued at over \$70 billion, representing more than 70% of mineral and energy production in Western Australia. In addition to attracting tourists through its unique and internationally recognised natural features, the high number of visitors to the region is also linked to mining, construction and travel for business. The Pilbara region supports 63,850 jobs and had an annual economic output of \$61.3 billion in 2019.
- **Capital Investment in the Pilbara:** The current wave of investment in the Pilbara is driven by the iron ore and LNG sectors, as was the case with the last investment cycle. The iron ore industry has \$17 billion worth of new projects under construction and an additional \$33 billion under consideration to replace mines closing. The LNG industry is constructing \$5 billion worth of projects and considering projects worth a further \$39 billion. In addition to backfilling existing capacity, LNG companies are looking at developing new LNG trains at Pluto, Gorgon and Wheatstone. There are also several projects under construction or consideration in emerging industries, such as mineral processing, petrochemicals, renewables and hydrogen. Critical investment decisions are anticipated in 2020 and 2021 for LNG, fertiliser and iron ore. In this regard, the future prospects for the economy of the Pilbara are increasingly linked to further investments in LNG and renewables, as well as the continuing key role of iron ore.
- **Exploration Expenditure:** Exploration spending for all commodities grew by 19% in 2019 to reach \$897 million in the September quarter in WA, much of which is in the Pilbara.
- **Karratha Investments:** In the Karratha region Woodside's Scarborough and Pluto Train 2 development, and the Browse to North West Shelf project are both in the pipeline, as is the renewable energy hub at the Yara Pilbara ammonia plant. With more than \$65 billion in investment over the next three to five years and anticipated population growth, Karratha is poised for further major expansion.
- **Contribution of Resources Sector to Improved Federal and State Budgets:** As pointed out by the West Australian newspaper "the budgets of both the Federal and State WA" coffers are swelling more than expected. The WA Government's Mid-Year Economic and Fiscal Outlook indicated an increased 2019/20 budget surplus from \$1.2 billion to \$2.6 billion, due partly to higher iron ore royalties resulting from elevated iron ore prices." A survey of 41 WA Chamber of Minerals and Energy (CME) members revealed that in 2017/18 their total direct economic contribution to WA was \$38 billion, which included salaries and wages, payments to government, business purchases and community contributions.
- **Mining Royalties:** Royalties received from the mineral resources sector in 2018/19 totalled \$6.2 billion, of which 87% was from iron ore. Mining royalties accounted for 20% of WA State Government revenue.
- **Australian Export Earnings:** Federal data shows that Australia's resource and energy export earnings are forecast to hit a record \$281 billion in 2019/20, up from \$279 billion in 2018/19. The mining sector accounted for a very high proportion of the country's GDP in the year to the September quarter (9.5%), with the Pilbara making the largest contribution of any region. Western Australia accounted for 43% of Australia's merchandise exports in 2018/19.
- **WA Sales Value of Minerals and Petroleum:** Western Australia's mineral and petroleum industry recorded record sales of \$145 billion over the 2018/19 financial year. Much of this economic value comes from the Pilbara. The bulk of the \$30 billion increase on the 2017/2018 period was the result of improved iron ore prices and increasing LNG volumes as projects continued to move towards full capacity in the Pilbara.
- **Value of Iron Ore:** Iron ore is currently the State's most valuable commodity at \$61 billion. Petroleum products follow at \$26 billion, with gold third at \$11 billion. Iron ore and petroleum products saw an increase in value of 39% and 5% respectively compared to the previous financial year.
- **LNG Exports:** Australia is now the world's largest LNG exporter by overtaking Qatar, with a record 77.5 million tonnes shipped in 2019, earning an estimated \$49 billion, according to consultancy EnergyQuestⁱⁱⁱ. Western Australia continued as the dominant export region, accounting for 57% of shipments, with the Woodside Petroleum-managed North West Shelf venture the country's single biggest exporter, followed by Chevron's Gorgon and Wheatstone plants.
- **Resource Sector Workers in WA:** The CME has estimated that the number of workers employed in WA's resources sector rose by 12,000 last financial year to a record 124,000. This figure is a significant increase and brings employment levels to above those in 2013 when the last boom came to an end. The proportion of WA's workforce employed in the resources sector is 6.7%, compared to the national average of less than 2%.



• **Pilbara Contribution to Future Workforce:** The future contribution of the Pilbara to the WA workforce is large. Together, projects already under construction in the Pilbara are expected to create 13,000 construction jobs and directly employ 4,000 workers during their operations. If all projects under consideration were to proceed, the total number of jobs created would reach more than 50,000 in construction, and 15,000 in operations. Reaching this level of job creation however is less certain as some of the projects under consideration may not proceed in the medium term because of market conditions, finances, skills shortages and technology development. These new projects are expected to require many FIFO workers, albeit less than during the previous investment cycle, because the construction phase will be less labour intensive, and a larger share of the workforce will locally reside.

• **Throughput of Pilbara Ports:** Data from the Pilbara Ports Authority^{vi} further illustrates the value of the region to the State and the country. A massive 697 million tonnes (Mt) passed through its three ports in 2018/19, reaffirming its status as the world's largest bulk export port authority. The Port of Port Hedland recorded a total throughput of 513 Mt and at the Port of Dampier total throughput was 173 Mt. Total iron ore exports across the two ports totalled 648 Mt, comprising 507 Mt at the Port of Port Hedland and 141 Mt at the Port of Dampier. The Pilbara Ports Authority has continued to progress efforts to support future trade growth at existing and new ports and has also made progress on the new greenfield ports of Balla Balla, Cape Preston West, Cape Preston East and Anketell.



4. Population and Employment Trends in the Pilbara

POPULATION TRENDS

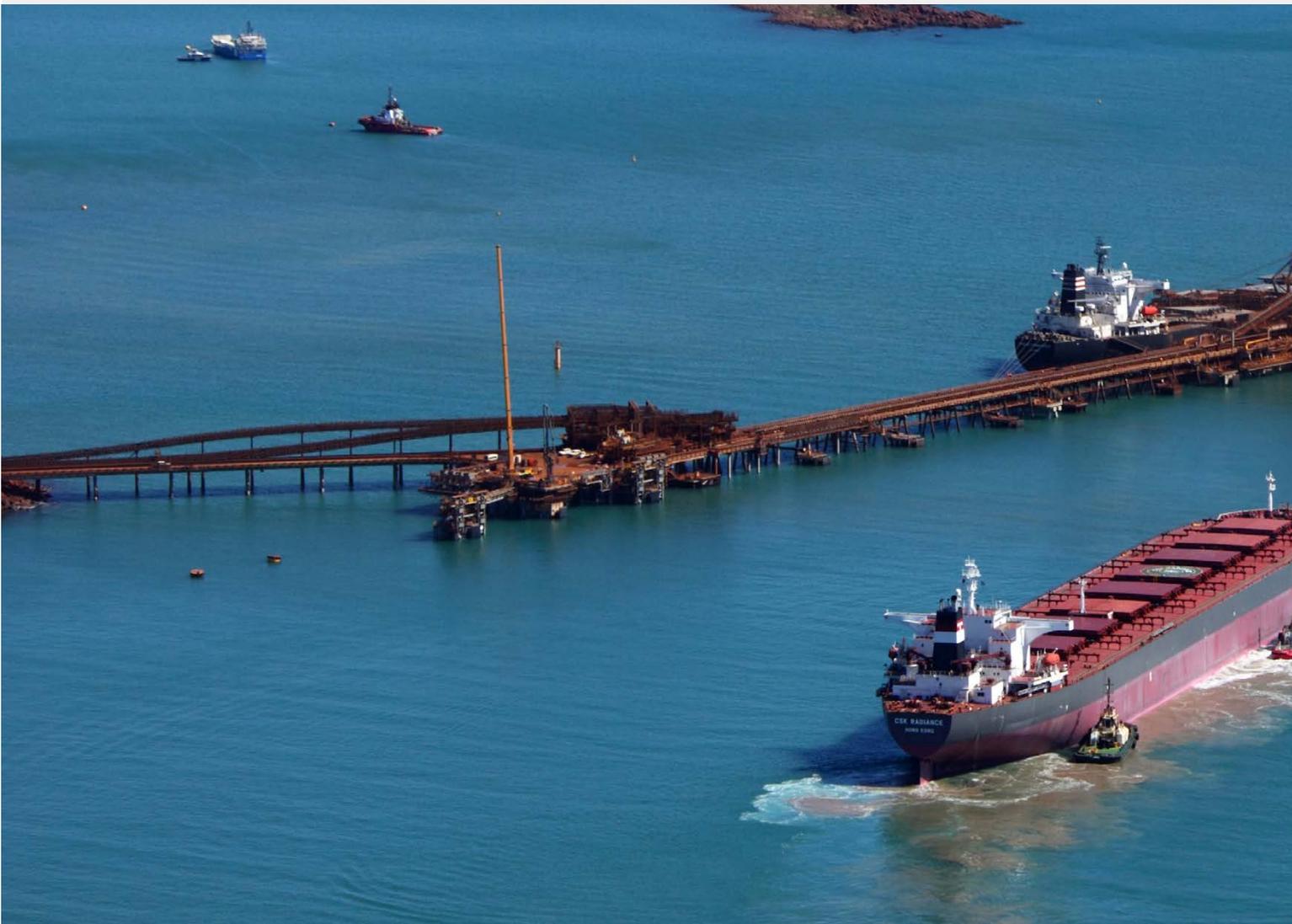
Population forecasts for the Pilbara have been appreciably modified over the last five years, and recent projections show more conservative approaches have been taken, with lessons learnt from the end of the last boom.

As predicted in previous RDA Pilbara reports, the resident population of the Pilbara decreased as the economy slowed down after 2013. The total population of the Pilbara was about 61,400 in 2016^{vii}, compared to 64,000 between 2012 and 2014. A smaller population decreases the amount of local labour available and increases pressure on employers when the economy once again starts to expand. A smaller population also means a smaller local market.

In 2018, the population of the Pilbara gradually increased after three years of small declines and further increases are expected, due to the large-scale resource industry investments taking place, or planned, in the medium term.

In this regard the current REMPLAN forecast for the City of Karratha indicates about 1% growth per year from 2019 to 2028. It is worth noting that the City's population increased by 30% from 2006 to 2016. The projected population is about 25,500 in 2028^{viii}.

For Port Hedland it is a similar trend but with probably slightly lower average increases in population over the next ten years. Recent analysis projects a growth rate of just below 1% per year through to 2028, to reach about 16,000 people.



However, due to the short-term impacts of multiple resource industry projects happening at the same time there can be rapid peaks and troughs in population in these centres. This trend is manifesting itself again as evidenced by the rapid upswing in housing and rental prices in major Pilbara towns.

Pilbara Population 2006 to 2018

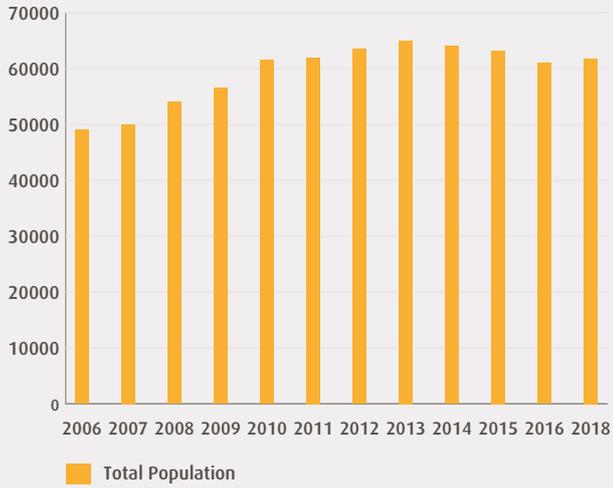


Figure 1: Population of the Pilbara^{ix}

EMPLOYMENT TRENDS IN THE PILBARA

The total number of jobs in the Pilbara region is 63,850 with mining contributing the most, followed by construction, which together make up over 60% of all employment. This illustrates that the health of these sectors underpins the economy of the region.

Pilbara Population 2006 to 2018v

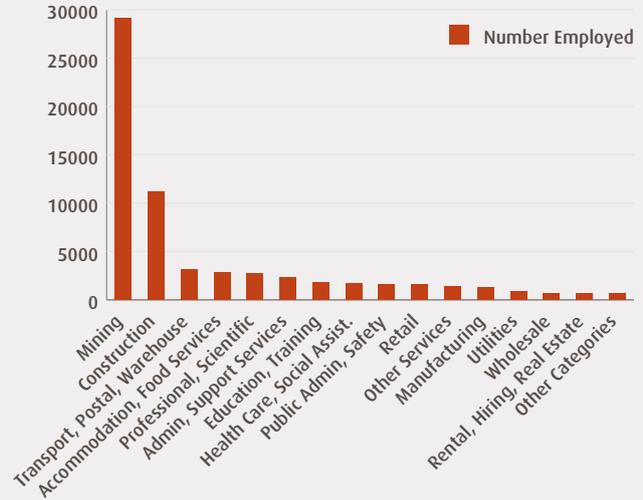


Figure 2: Employment by Sector in the Pilbara



5. Constraints to Economic Development and the Cost of Doing Business in the Pilbara

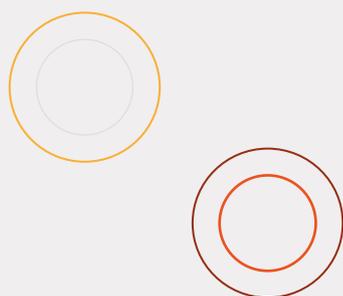
The key constraint to socio-economic development in the Pilbara is the high and increasing cost of doing business in the region. In this regard we focus on the high cost of living, labour and accommodation, which are of particular concern.

5.1 INTERNATIONAL RISKS

Downside risks have changed in the short term. The immediate risk is the onset of the coronavirus that originated in China. The impact on the Chinese economy is likely to be severe in the short term. Commodity prices have softened and even the global economy is at some risk. On the other hand, some progress between the USA and China concerning trade issues and stimulation measures taken by China in early January 2020 should underpin an improved economic outlook and consequently a more buoyant environment for WA's key mineral commodities.

Over the medium-term global growth estimates have been revised downwards by international agencies. The IMF is predicting the global economy will expand by 3.3% in 2020 and 3.4% in 2021, which are reductions of previous forecasts.

In terms of financial risks, the "Global Wave of Debt" is the largest and fastest in 50 years, according to the World Bank. Debt in emerging and developing economies climbed to a record US\$55 trillion in 2018, marking an eight-year surge that has been the most broad-based in nearly five decades. Policymakers have been urged "to act promptly to strengthen their economic policies and make them less vulnerable to financial shocks. It underscores why debt management and transparency need to be top priorities for policymakers". Australia's linkages into key emerging and developing markets can be of concern and reinforces the need for diversification and deepening of the economy.



5.2 COST OF LIVING

THE COST OF LIVING - REGIONAL PRICE INDICATORS (RPI)

- Between 2011 and 2017 the overall Regional Price Index (RPI)^{xiii} for the Pilbara, comparing prices with Perth, fell from 137 to 111. However, in 2019 the RPI shows that overall prices were highest in the Pilbara region of WA, with the indicator rising to 115.7, followed by the Kimberley and Gascoyne regions. In the Pilbara, all commodity groups were significantly higher than Perth prices, with housing and health and personal care exceptionally high. Costs were highest in Tom Price (new addition to the RPI) and Port Hedland.
- Given the high level of capital investment in the Pilbara in the medium term the absolute level of costs will probably rise further, particularly transport, construction, accommodation and wages.
- Persons working in higher paid professions may cope with the high costs of living and could be in a position to accumulate savings. However, for persons in lower paid categories, such as administration, retail and hospitality, this high cost structure is problematic.

Pilbara RPI

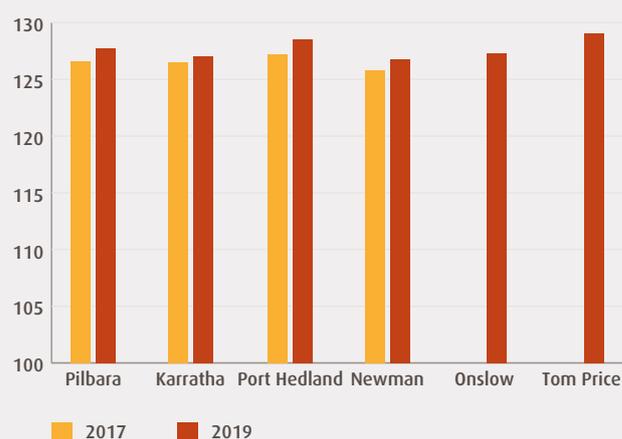


Figure 3: Pilbara Towns - RPI Indexes for 2017 and 2019 (compared to Perth)

5.3 LABOUR COSTS IN THE PILBARA

AUSTRALIAN BUREAU OF STATISTICS (ABS) DATA

The ABS 2011 and 2016 Census data provides baseline data on income changes in the Pilbara compared to Perth, Western Australia and Australia, showing the high level of wages in the Pilbara as reflected in the table and graph below. After the height of the resources boom in 2011, with the exception of Onslow, incomes declined slightly in 2016, but remained at an elevated level. The ABS census, due to be implemented in 2021, is likely to show that labour costs are at similar levels to 2011 and possibly higher.

Moreover, data in the Pilbara towns relative to those in Perth, WA, and Australia over the period between 2001 and 2016 show that the percentage increase in individual incomes was between 87% and 170% for the Pilbara, as opposed to an increase of 50% for Perth, 34% for WA and 76.5% for Australia.

Town/City	Year				Percentage Change on Base Year (2001)			
	2001	2006	2011	2016	2001-2006	2006-2011	2001-2011	2001-2016
Karratha	704	940	1,543	1,318	34%	64%	119%	87%
Newman	785	1,095	1,538	1,468	39%	40%	96%	87%
Port Hedland	689	862	1,368	1,361	25%	59%	99%	98%
Onslow	452	428	926	1,224	-5%	116%	105%	170%
Perth	484	513	669	728	6%	30%	38 %	50%
Western Australia	540	500	662	724	-7%	32%	23%	34%
Australia	375	466	577	662	24%	24%	54%	77%

Table 1: Median Individual Weekly Income for Pilbara City/Town, Perth, WA and Australia 2001 – 2016 (\$)





Median Individual Weekly Income

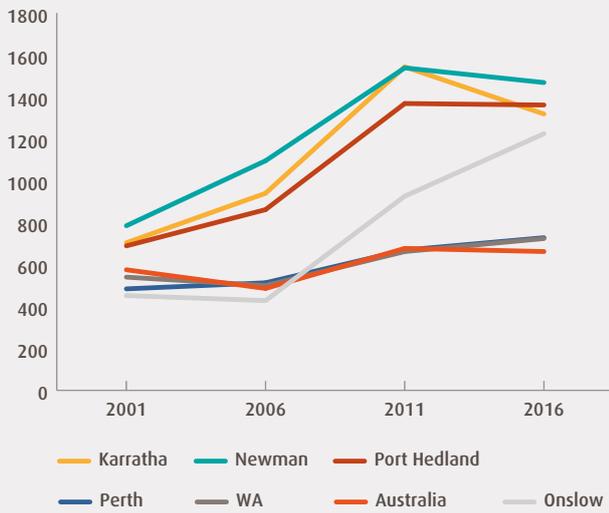
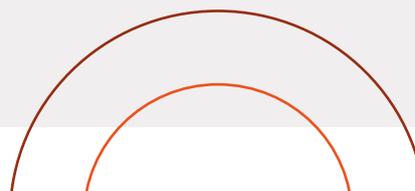


Figure 4: Median Individual Weekly Income Pilbara Towns, Perth, WA and Australia - 2001 to 2016 (\$)

Following a similar trend line, the Median Weekly Income for families and households also increased from 2001 to 2016. The most recent data from the 2016 ABS census shows that the Pilbara has the highest level of household income in Western Australia with a median of \$2,422 a week. The WA median is \$1,595.

Location	Family	Household
East Pilbara	2,536	2,353
West Pilbara	2,936	2,569
Karratha	2,536	2,353
Port Hedland	3,000	2,578
Ashburton	2,889	2,456

Table 2: Weekly Median Incomes Pilbara Regions and Towns in 2016 (\$)





LABOUR COST DATA FROM OTHER SOURCES

The increasing cost of labour is illustrated by the following:

- Data from the Pilbara Development Commission (PDC) indicates that over 26% of employees have weekly incomes of more than \$2,000 and that there are very wide differences in income levels. For example, more than 13% of workers have an income of \$800 per week or less and income disparities are unlikely to be reduced without further diversification in the economy.
- The wages and salaries paid by businesses and organisations in the Pilbara region are estimated at over \$8 billion. This is a very large amount in relation to the size of the population. In this regard, the Pilbara region represents 29% of the \$27.8 billion in wages & salaries paid by businesses and organisations in Regional WA, and 7.6% of the \$107 billion in wages & salaries paid by businesses and organisations in WA as a whole. The Shires of Ashburton, Port Hedland, Karratha and the East Pilbara have the highest median annual incomes in the country (\$76,000 to \$100,000)^{xiii}.
- Estimates of labour costs in previous RDA Pilbara Cost of Doing Business studies allowed for a comparison of data between 2013 and 2018 for SMEs. Between 2013 and early 2018 labour costs declined, with the low point reached in 2016/17, however, as activity in 2018 increased labour costs started to rise again. For example, costs for skilled labour increased by some 30% in 2018 compared to 2016.
- this trend has continued in 2019/20. Discussions with stakeholders in the Pilbara in early 2020 indicate difficulties in sourcing labour in almost every category, with accompanying high costs that includes remuneration, relocation and accommodation. For example, in Port Hedland skilled tradesmen are paid between \$60 and \$75 per hour (between \$10,000 and \$13,000 per month). Hospitality staff remuneration is up to \$35 per hour and managers receive wages of between \$12,000 and \$14,000 per month^{xiv}.
- Similarly, data sourced from stakeholders in Karratha show that labour costs are also very high, in a similar range to Port Hedland. For example, property administrators in the real estate sector are earning over \$110,000 per annum, whilst managers are earning up to \$170,000 per annum. Businesses are reporting that they are having problems in recruiting staff in most skill sets. For example, recruiting for staff at the TAFE in Karratha is becoming more difficult as higher wages are required and accommodation is difficult to find.

In a Study prepared by the PDC on the comparative costs of skilled labour in Karratha compared to the Kwinana Industrial area in Perth, which requires similar skill sets, it was pointed out that the cost of living in Karratha, specifically in relation to rental accommodation costs, erodes the wage premium for workers living in the Pilbara, making it less attractive and serving as a deterrent for people from taking up jobs and filling roles in the region. For a family of 4, living in a mid-range 4x2 property in Karratha on a single 'like for like' tradesperson income, they would be out of pocket \$23,500 living in Karratha. They would need an additional \$35,000 in after tax income (a salary of approximately \$200,000) to negate the increased cost of living in the Karratha region. For workers not 'directly' employed by the resource companies (who traditionally pay higher wages), this \$35,000 premium is not currently available. On average workers in Karratha are being offered approximately a \$11,500 after tax extra on a like for like basis. The situation is complicated by the fact that rental prices are increasing, and recent history has suggested that prices may go even higher. For workers not being offered housing or housing assistance it is a high-risk decision to move to the region. This puts pressure on smaller companies to invest in housing for their workers in an already tight property market.



IMPACT OF HIGH LABOUR COSTS

WA resources companies and SMEs need to be cost competitive to ensure sustainable operations. Resource companies need to be able to compete globally for capital and markets. Although the Pilbara has advantages in terms of product quality, proximity to Asia and a very high level of expertise the level of competition in the resources sector has increased significantly over the last few years.

Major Resource Companies Costs: Although the major players have been able to reduce costs substantially over the last few years (for example, the major iron ore producers have reduced costs significantly to about US\$15 per tonne, which are the lowest in the world)) labour costs have increased significantly during 2018 and 2019, due to the high level of investment in the short and medium term and the general recovery in the economy of the Pilbara.

SME Costs: High labour costs and skills shortages are now a major impediment to the economic viability of SMEs and a constraint to diversification. Although there have been reductions in benefits, such as housing subsidies/allowances over the last few years, businesses may have to start offering increased levels of accommodation support to retain or attract staff. Recruitment from the Eastern States and from overseas is starting to pick up, however there is also a high level of infrastructure investment taking place in the Eastern States, which is limiting the availability of skilled workers.

The implications of rising costs for labour and accommodation is starting to have a critical effect on the viability of the operations of SMEs. This is where the real problem lies. Incentives are required to retain staff and also staff turnover levels are very high in the main centres. The PDC sees the problem as local businesses struggling to attract workers with the required skills at a reasonable cost at a time that they are needing to meet growing demand^{xv}.

This has several potential negative consequences including:

- Delaying key projects;
- Preventing economic diversification activities;
- Forcing companies to use interstate and overseas contractors; and
- Preventing government from meeting the 2024 Regional jobs target.

LABOUR COST OUTLOOK

The general consensus of opinion in the Pilbara is that wages will rise further over the short term and perhaps over the medium term as the upward trajectory of investments continues. Increases in costs have been flagged by the resources companies themselves in numerous forums of late. These pressures are evident in the resources sector for most categories of workers including for skilled and semi-skilled workers. Stakeholders in Karratha expressed the most concern regarding a looming shortage of skilled workers in industries providing services to the extractive industries.

5.4 RESIDENTIAL AVAILABILITY AND ACCOMMODATION COSTS

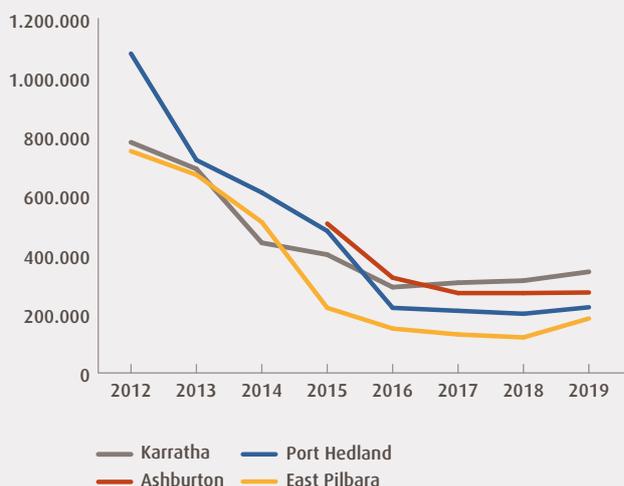
The rising cost of accommodation is a severe constraint to businesses in the Pilbara, in Karratha and Newman in particular.

The latest available Pilbara Housing and Land Snapshot (June 2019) produced by the PDC indicates a continuation of the strengthening of the overall property market in the Pilbara^{xvi}. The trends are clear. Since their report was produced, both house and rent prices have continued to strengthen. Examples of how the market is on a path towards higher prices, as indicated in the latest Snapshot by comparing data for the first six months of 2019 with first six months of 2018, are as follows:

- In the Pilbara as a whole the median sales price of \$289,500 was the highest since 2016.
- The median rent was more than 8% higher at \$400 per week.
- In Karratha house sale prices rose to \$342,500, an increase of more than 7%, whilst vacant land prices increased by 68% to over \$100,000.
- In Port Hedland median house prices rose by 1% to \$222,000, whilst the median price of units rose by 44% to \$175,550.
- In the Shire of East Pilbara median house prices rose to \$184,500, which is an increase of 22%.
- In the Shire of Ashburton median house prices rose to \$272,250, an increase of 13%.

Figure 5: Dwellings Sales Median Price (\$): Pilbara Centres

Pilbara Centres Median House Prices



Pilbara Median Rental Prices

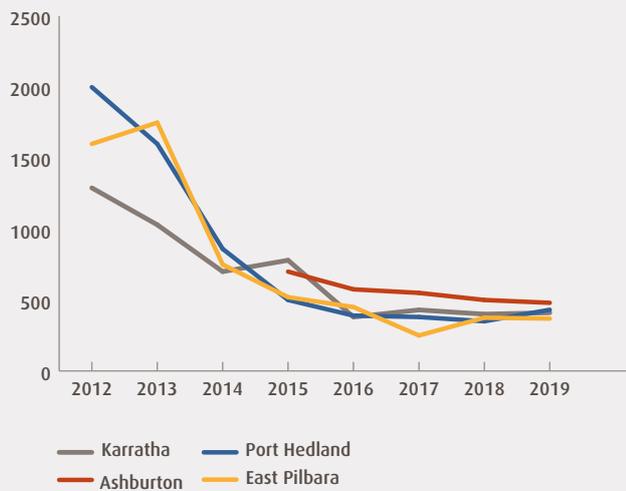


Figure 6: Dwellings Rental Median Price (\$): Pilbara Centres

Discussions with stakeholders in the Pilbara centres carried out in January 2020 indicates that they have increasing concerns regarding the availability and rising cost of accommodation over the last eight months. This is particularly the case in Karratha where shortages have reached critical proportions and is now a real impediment to small and medium size businesses.

The latest data from REIWA for January 2020 indicates that sharp increases in prices have occurred in some suburbs in Karratha and in Port Hedland. For example, prices year on year have risen in Port Hedland by 8.8% and in the suburbs of Pegs Creek and Millars Well in Karratha by 21% and 26% respectively. In Newman prices have risen by 36%, which is the strongest increase for many years.

Given the high levels of resource industry investment in the medium term it is likely that prices will continue to rise and there is now concern that the cost of accommodation will once again increase the overall cost of living significantly over the next few years.

- **Karratha:** Rents and house prices are continuing to rise and there is almost no stock left. It is clear that new construction is required. It is necessary to encourage developers to re-engage in the City. Built industrial sites are either full or heading towards a no vacancy situation.
- **Port Hedland:** There is an extreme shortage of executive housing and an overall shortage of properties on the market. Demand is increasing and there has been very little new construction. Industrial land is still available. In South Hedland there is still some stock available from properties built at the height of the boom. Overall prices are anticipated to rise strongly.
- **Newman:** There is a critical shortage of developed industrial sites. Rents and house prices are continuing to rise sharply. Housing stock has not been increased significantly.

A major issue in all centres is that although land is available for residential development the high cost of construction and land purchase is an impediment to such development. There has been very little new residential builds in the last three years, with only 33 residential building approvals in the Pilbara in 2018/19. The appetite for developers to take on risk in what are perceived as volatile markets is low.

The Rawlinson's Construction Cost Guide 2019 indexes for the Pilbara centres compared to Perth (Perth = 100) show that costs remain at elevated levels:

- Karratha: 155
- Port Hedland: 160
- Newman: 165
- Onslow (based on Exmouth data): 160

As an example, it is estimated that it costs up to \$750,000 to build a four by two house in Karratha^{xvii}, while at the same time mortgage finance is tight and the required deposits are increasing. To help in addressing the issue of shortages the City of Karratha intends to provide up to \$35 million in a partnership venture with private enterprise developers, which will alleviate the situation to a limited extent. In addition, two workers camps for Woodside (LNG expansion) and Perderman (fertiliser venture) are to be constructed to accommodate up to 4,500 workers during the construction phase of the projects. Once the operational phases start the possibility of retaining the infrastructure that is constructed for the camps is under discussion for future use for residential houses and apartments, which seems to be a positive strategy if followed through.

Western Australia's building and construction sector is likely to see increased activity in the medium term as the economy recovers, led by Perth, where transport infrastructure works are to be built at a cost of about \$8 billion over the next three years and other construction activity is also expected to pick up. As a result building costs are likely to rise.

High construction costs in the Pilbara are a result of:

- Distance - meaning high transport costs for most materials.
- High labour, accommodation and material costs, which are all rising.
- More rigorous standards to meet flooding and cyclone issues - this adds 30% to structural steel tonnages and significantly to concrete footing volumes.
- Site visits add 10-20% to costs.

Discussions with stakeholders in January 2020 also indicate that rents are rising quite quickly, after falling by up to 75% during the slump in economic activity that followed the last boom. It is expected that rents will continue to rise in the medium term and already have reached levels in Karratha of \$1,100 to \$1,300 per week at the upper end of the market. Clearly rents at these levels are problematic for a large proportion of the working population and small businesses cannot compete with the larger players in subsidising employee rent costs. As companies increase their staff levels in the main centres this situation will be exacerbated.

5.5 INSURANCE COSTS

Insurance costs in the North of WA remain very high and average premiums remain higher in the whole of northern Australia than the rest of Australia.^{xviii}

- Between 2007/08 and 2018/19 average premiums have risen in northern Australia by 178% for home insurance, 122% for combined home and contents insurance and 33% for contents insurance. Across all home and contents insurance products, the average premium increases in northern Australia are on average twice those in the rest of Australia.
- Of the three northern Australian regions, north Western Australia had the highest average premiums across all insurance products, markedly higher than north Queensland and the Northern Territory. Port Hedland stands out as the most expensive case study area, with half of all consumers paying over \$4,600 for combined home and contents insurance and one quarter paying over \$6,200.
- Average excess levels are also generally higher in northern Australia. Average excesses for combined home and contents insurance are generally much higher in north Queensland and north Western Australia (\$1,100 for buildings, \$690 for contents) compared with the Northern Territory and the rest of Australia (\$700 for buildings, and around \$550 for contents).
- In 2018/19 strata insurance premiums in northern Australia remained higher than in the rest of Australia. Average premiums were highest in north Western Australia, at \$13,400, which is more than four times the average for the rest of Australia of \$3,300.

Average Annual Premium \$

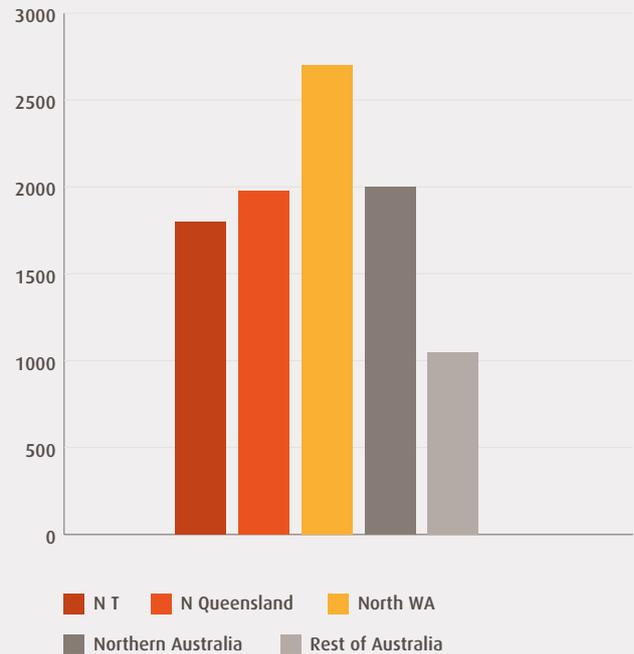


Figure 7: Average Annual Premiums for combined home and contents insurance (2016/17)



PORT HEDLAND INSURANCE CASE STUDY

- Non-insurance of residential homes has increased dramatically from 17% in 2011 to 45% in 2016/17 (latest available data). The rate in Perth was only 9%.
- In 2018/19 the median cost of home and contents insurance was \$4,638. This was 3.3 times higher than the average premium for the rest of Australia, which was about \$1,400.
- Port Hedland appears to be the most expensive region by far in all of Australia for insurance premiums.
- Affordability as measured by insurance as a percentage of household income is a major issue.
- Strata premiums have jumped over 75% in the last 10 years and there are examples of over a 30% increase in the last year.
- However, actual insurance claims have been modest and are well below the average for northern Australia and north Western Australia.

5.6 UTILITY COSTS

The amounts of electricity and water consumed per household and business in the Pilbara are higher than in Perth due to the climatic conditions and thus the impact on costs to businesses are also much higher.

WATER^{xix}

- Since 2014/15 there have been no price differences between Perth and the Pilbara centres for lower amounts of water consumed. However, water prices in the Pilbara towns have increased in 2019/20 compared to 2018/19.
- Water charges for larger amounts used in the Pilbara centres are now less expensive than in Perth, except for Onslow, where prices for large water users are very high.
- The resources sector in the Pilbara region abstracts the most water in WA at some 450GL per annum. Abstraction of water is expected to increase to 578GL per annum by 2024, an increase of 29.2%. The forecast for water abstraction in the Pilbara from 2015 to 2020 is:
 - Resources sector water abstraction is forecast to increase from 350GL in 2013 to 491GL in 2020, an increase of 141GL, or 40%.
 - Groundwater dewatering is expected to be 404GL in 2020, an increase of 122GL on 2013 levels, and will account for 82% of all water abstracted.
 - Water abstracted by the resources sector in 2020 will largely be either recycled (207GL) or used in mine operations (193GL).



City/ Town	0 - 150 (per kL)	151 - 500 (per kL)	500+ (per kL)	
Perth	1.827	2.434	4.553	
Pilbara Centres	0 - 350			
	351 - 500	501-750	750+	
Karratha	1.827	2.434	3.906	4.9224
Port Hedland	1.827	2.434	2.932	3.740
Newman	1.827	2.434	2.932	3.740
Onslow	1.827	2.434	5.402	9.289

Table 3: Cost of Water Pilbara Towns and Perth 2019/2020 (\$)

Pilbara Water Costs

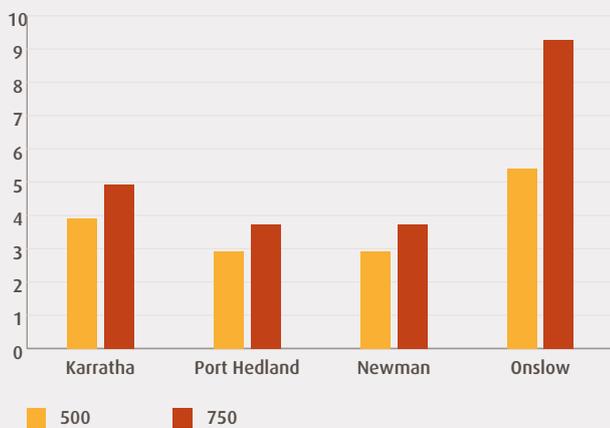


Figure 8: Comparative Water Costs Pilbara Centres 2019/20 (\$ per kL 500-750 and 750+ kL)

ELECTRICITY

- The State Government sets the price of electricity (otherwise known as tariffs), which is charged to residents and businesses across the State, in both Perth and regional Western Australia. Electricity prices in all regions in WA, including the Pilbara, have been standardised and are now the same as prices in Perth^{xxi}.
- Most households pay a tariff that is much lower than the actual cost of purchasing or generating, distributing and retailing electricity. The difference between the tariff customers pay and the actual cost is subsidised by the State Government. The Government subsidy for FY2019/20 is \$300 million.
- The quantity of electricity used by households and businesses is very much higher in the Pilbara than in Perth. Estimates of the ratio vary between 2.5 to 3.5, depending on the extent of usage of air conditioners and other appliances. Therefore, in estimating the impact of energy costs on businesses in the Pilbara high usage rates need to be taken into account.
- In the Pilbara resource sector consumption is expected to increase by 2.4% per annum over the next decade from 10,030GWh in 2015/16 to 12,050GWh in 2027/28, which is an increase of 27%.

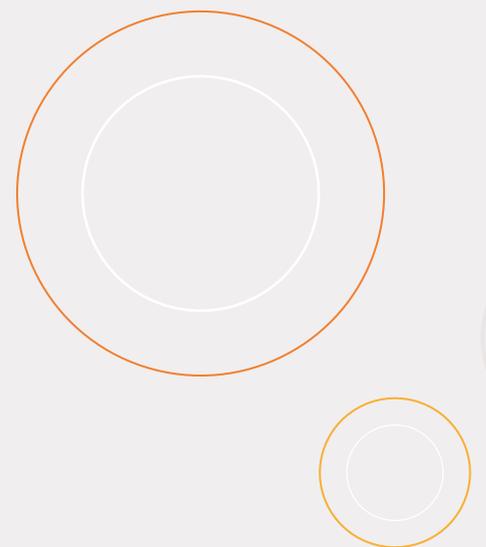
Fixed Charge:	\$1.7789 /day
0-1,650 kWh/day	27.6823 c/kWh
>1,650 kWh/day	31.2108 c/kWh

Table 4: Prices of Electricity in Pilbara Regional Centres 2019/20

5.7 TRANSPORT COSTS

Transport costs in the Pilbara are very high when compared to Perth. This directly impacts on nearly every aspect of running a business in the region.

- Overall transport costs in the Pilbara were about 7.2% higher in 2019 than in Perth, compared to just over 1% in 2017^{xxii}.
- Fuel costs (unleaded petrol) are up to 30% higher than in Perth^{xxiii} and car hire is about 15% higher^{xxiv}.
- The cost of flights from the main Pilbara centres to Perth (fluctuating around \$800 for return economy class) is more expensive than flights from Perth to Singapore or Sydney, despite much shorter flying times. This impacts tourism, business visitations, and residential affordability particularly if families have members living in Perth.
- One favourable development is the anticipated start of direct general cargo shipping into the Pilbara from other destinations, rather than routing via Perth. It is anticipated that shipping costs could be reduced by up to 50% because of this initiative.



6. Conclusions

The Pilbara is in a new phase of mining resource investment. However, most analysts do not envisage a full “boom” effect, which can be very disruptive. Due to the very significant infrastructure, housing and community investments that have taken place in all of the towns in the last 10 years, but particularly in Karratha, the region has been future-proofed to a degree. Nevertheless, there has been little increase in housing supply in the last three years and already sales and rental prices are moving upwards. This could have a significantly negative impact on the cost of living and will mostly affect small businesses, not for profits and the community services sector.

The availability and cost of labour are also of concern. A number of mining investments are entering the construction phase at the same time, and this has begun to affect costs for contractors and new hire costs. This will have a knock-on effect, some positive some negative. For those employed within the resources sector

they may see wage increases and more disposable income, which could benefit local businesses. On the negative side non-resource companies may struggle to retain staff or attract new staff, as they are unable to compete in the labour market

As demonstrated by the data, the overall cost of living and doing business in the Pilbara remains stubbornly high and this curtails economic diversification and discourages workers transitioning from FIFO to residential. The number of businesses operating in the Pilbara has remained static for the last three years.

Policy interventions that can tackle high labour, insurance, transport, and utility costs, combined with innovative de-risking of the housing market will go a long way in ensuring that the economic growth in the Pilbara will be sustainable, and will improve the livelihoods of those who reside in the region which is the powerhouse of Western Australia.

References

- i Northern Australia Insurance Inquiry: Second interim report. ACCC November 2019
- ii Source: Pilbara Development Commission: REMPLAN Economic Profile
- iii Financial Review January 2020
- iv Australian Mines and Metals Association: 2019
- v Karratha; Regional Land Supply Assessment: Department of Planning Lands and Heritage; 2020
- vi Pilbara Ports Authority 2018/19 Annual Report
- vii Australia Bureau of Statistics – 2016 Census
- viii Data supplied by City of Karratha, January 2020
- ix Pilbara Development Commission
- x Pilbara Development Commission: REMPLAN Economic Profile
- xi World Bank - December 19, 2019
- xii Department of Primary Industries and Regional Development; Regional Price Index 2019
- xiii ABS data
- xiv A working week of 40 hours has been used to convert hourly rates to full time equivalents
- xv Information supplied by PDC January 2020
- xvi The biannual Pilbara Housing and Land Snapshot produced by the Pilbara Development Commission
- xvii Discussions with Pilbara Estate Agents
- xviii ACCC report on Northern Australia Insurance Inquiry 2019 analysis based on data provided by Insurers
- xix Data sourced from Water Corporation
- xx 2015 to 2025 Resource Sector Outlook of the WA Chamber of Minerals and Energy
- xxi Source: Horizon Power
- xxii Data Source: The regional transport index produced by the Department of Primary Industries and Regional Development (DPIRD) gives an indication of the relative cost of transportation for businesses in regional areas throughout Western Australia.
- xxiii Data sources for fuel: Fuel Watch.
- xxiv Data sources car hire websites
- xxv Airline websites



Acknowledgements

RDA Pilbara would like to acknowledge Imani Development Austral Pty Ltd and thank them for the research and consultation involved in developing this Annex and the Cost of Doing Business in the Pilbara Reports and Turner Design for the layout design and presentation of the document.

