



Economic Briefing Q4 2025

Overview

As the Australian economy grows at its fastest pace for two years, inflation has re-emerged as an issue. The Reserve Bank of Australia (RBA) has maintained interest rates at 3.6%, cautious about the upside risks to inflation.

Western Australia stands out, with its economy expanding faster than the national average, increasingly fuelled by private sector activity as public demand eases. Strong population growth in WA is placing pressure on housing supply, resulting in higher prices and rents. WA's inflation remains above the national level due to robust domestic demand.

Labour market conditions are gradually easing, with steady employment gains and sustained wage growth, especially in the public sector. These wage increases, along with rising construction costs, have contributed to a 4.5% annual rise in Local Government expenses over the last 12 months. Risks from geopolitical conflicts and global trade tensions continue to pose challenges.



The **Australian economy** is improving with WA leading the way



Inflation concerns return as the RBA holds **interest rates** steady



The **labour market** remains tight as **wages** continue to grow



Housing supply is increasing but is still not able to meet demand as house prices and rents swiftly increase



Public sector wages growth drives **Local Government costs** to increase by 4.5% over the year

Note

The significant challenges of forecasting in the current economic environment, mean **the LGCI should be used with caution**. The LGCI will be subject to revisions in coming months, as the impact of major economic shocks such as COVID-19, wars in Ukraine and the Middle East, and the impact of recent rate rises become clearer. An increase in wage pressures may also see the index revised higher.

It is important that Local Governments take into account their own local issues and experiences when considering cost pressures. It would also be prudent for Local Governments to prepare for multiple scenarios for cost increases in coming years.

Global and Australian Economy

Key points

- **Global trade and geopolitical tensions are a risk to the Australian economy**
- **Forecasts for global economic growth have been revised downwards**
- **Productivity is the key to a return to increasing living standards**

In recent months, global trade concerns have intensified, largely due to the United States' imposition of higher tariffs and escalating geopolitical tensions in the Middle East. The extent of the impact from rising tariffs will depend on whether they are a lasting policy shift or a temporary negotiation tactic, how uncertainty affects business and consumer confidence, and the degree of disruption to global supply chains.

The primary consequence of the United States' unilateral tariff measures lies not in their direct effect on Australia, given that only 5% of Australian exports are directed to the United States, but rather in the broader implications such measures may have in triggering a global economic slowdown, which could significantly affect the Australian economy. Reflecting these risks, the World Bank revised its global growth forecast downward by nearly half a percentage point to 2.3% for 2025, citing rising trade tensions and growing policy uncertainty. Similarly, both the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) have downgraded their global economic outlooks. Western Australia, with its export-driven economy, remains particularly vulnerable to global shocks and trade disruptions.

China's response to U.S. tariffs is especially critical for WA. China accounts for roughly half of WA's total exports and 85% of its iron ore exports. In response to U.S. measures, China has implemented some retaliatory tariffs, while also loosening fiscal and monetary policy to support domestic growth. Although China has set a 5% growth target, the IMF has revised its forecast down to 4% for both 2025 and 2026.

Meanwhile, tensions in the Middle East have escalated following Israeli and U.S. strikes on Iran, raising fears of further instability. A key concern for the global economy is the potential for oil supply disruptions, which could drive up prices, reignite inflation, and further slow global growth. Within two weeks of Israel's initial strike, oil prices surged by 10%, adding approximately 14 cents per litre to Australian petrol prices, according to AMP Economics.

National Economic Strategy and Productivity Focus

At a national level, the Federal Treasurer has sought to shift his economic agenda away from inflation and towards productivity. Productivity is a key driver of sustainable economic growth. In Australia, productivity has remained low for over a decade, with a temporary spike during COVID. To address this, the Productivity Commission has been tasked with five key inquiries that will shape the Government's productivity agenda:

1. Creating a more dynamic and resilient economy
2. Building a skilled and adaptable workforce
3. Harnessing data and digital technology
4. Delivering quality care more efficiently
5. Investing in cheaper, cleaner energy and the net zero transformation.

This agenda represents a long-term strategy that will extend beyond the next federal election. Early signals suggest that comprehensive tax reform may be on the table, alongside workforce and regulatory reforms aimed at addressing structural budget challenges. Without meaningful improvements in productivity, Australia faces limited prospects for raising living standards in the long term, especially concerning given that GDP per capita has declined in nine of the past eleven quarters. In the short term, there has been a return to growth in real household disposable income with a 3.4% rise in the year to March as it approaches the previous peak from September 2021.



Domestic Economy

Key points

- **The Australian economy is growing at its fastest pace in two years, driven by population growth**
- **WA's domestic economy continues to lead the nation as private demand takes over as the driver of economic growth**
- **Global growth is forecast to ease with risks from geopolitical and trade conflicts**

The Australian economy grew 2.1% in the year to September, the fastest for two years. This economic growth has been driven largely by population growth, which grew 1.6% in the year to June. As a result, Gross Domestic Product (GDP) per capita, which measures the total size of the economy per person, increased just 0.4% over the last year. This indicates that while the economy is expanding, the gains are translating into only modest improvements in Australians' living standards.

After the economic hit of the pandemic, the economy rebounded through 2021 and 2022 with strong household consumption, public spending, and export conditions. Through 2023, economic growth slowed hitting a trough of 0.8% growth in annual terms in 2024. Household disposable income, an indicator of living standards, fell in real terms. In recent quarters private demand, including private investment and household consumption, has driven growth and disposable income has increased. Increasing private demand is critical as post-pandemic stimulus is withdrawn and public investment normalises.

On 17 December, the Federal Government released its Mid-Year Economic and Fiscal Outlook. Stronger commodity prices boosted tax receipts, but rising spending erased most of the benefit, leading to only a marginal reduction in forecast deficits since March. Looking ahead, the economy is forecast to grow 2.25% in 2025-26. Inflation expectations have been revised upward to 3.75% for this financial year, compared to 3.0% in March. With wages growth projected at 3.25%, real wages are set to decline, extending cost-of-living pressures for households.

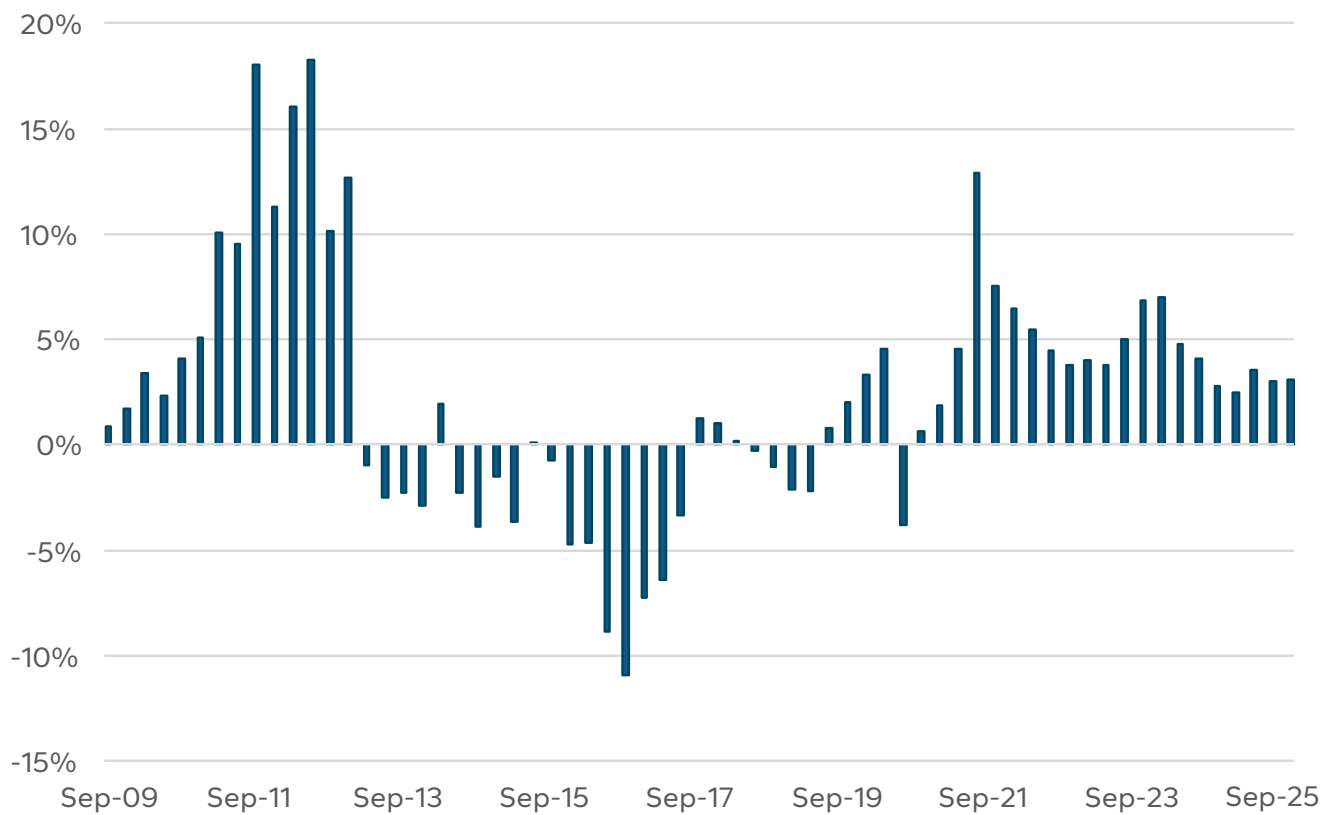
The Australian Bureau of Statistics (ABS) has identified a shift in which sectors are seeing investment, with data centre investment, major renewable energy projects, and water projects by governments driving investment in the September quarter. Deloitte reports \$155 billion of projects have been added to the renewable energy investment pipeline in the last two years across Australia.

Western Australia's domestic economy, measured by State Final Demand, continues to outpace the national average, growing 3.1% in the year to September. Public investment has decreased following a period of elevated post-pandemic spending, falling 9% over the same period. Public consumption has moderated, increasing by only 1.3% over the past year following several years of robust growth.

In the private sector, household consumption increased 3.6% in the year to September, the highest growth in two years. Business investment also increased, up 7.3% over the last 12 months, the highest level of growth since March 2024.

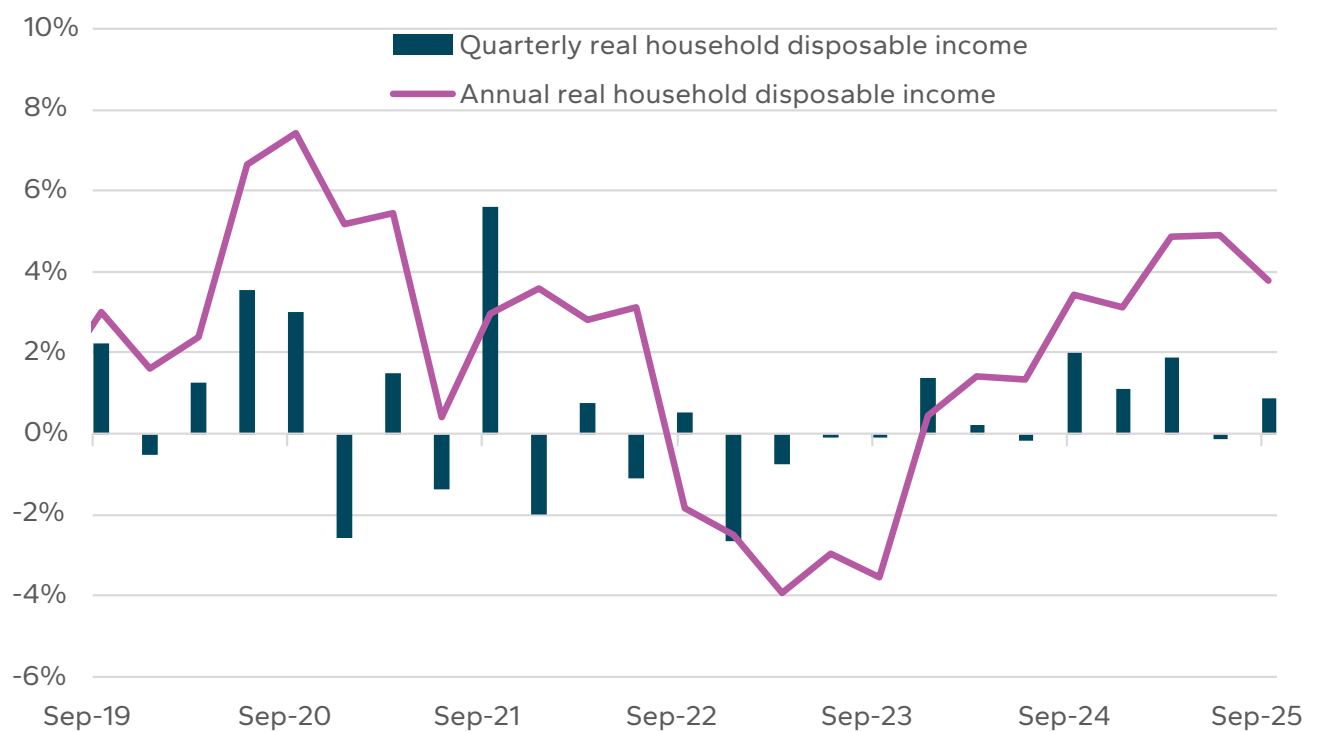
State Final Demand, WA, Annual % Change

SOURCE: ABS; WALGA



Real Household Disposable Income, Australia, Annual v Quarterly % Change

SOURCE: ABS; WALGA



Spending in the residential construction sector has reached its highest level since 2018. The reduction in public demand presents potential risks to economic momentum; however, this is being mitigated by renewed strength in private sector activity, which continues to support overall growth. As the private sector strengthens, reliance on government investment diminishes, supporting long-term job creation.

The International Monetary Fund (IMF) forecasts global growth to slow from 3.3% in 2024 to 3.1% by 2026, with inflation expected to ease as economic activity cools. Key risks to forecasts include ongoing

geopolitical conflict, rising tariffs, and trade tensions leading to a reduction in global trade.

The Chinese economy continues to track towards its economic growth target of 5% despite trade tensions with the United States. China is offsetting falling exports to the USA with rising exports to the European Union, Asia, and Africa. However, structural challenges persist, with subdued domestic demand, a fragile property sector, and demographic headwinds continuing to weigh on growth. In response, the Chinese Government has signalled its willingness to deploy targeted stimulus measures to ensure its growth objectives are met.

WA Treasury Economic Forecasts

| Budget 2025-26 | 2023-24 % Actual | 2024-25 % Forecast | 2025-26 % Forecast | 2026-27 % Forecast | 2027-28 % Forecast | 2028-29 % Forecast |
|-----------------------|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Gross State Product | 0.5 | 0.5 | 2.5 | 3.0 | 2.5 | 2.0 |
| Household Consumption | 3.0 | 2.0 | 2.75 | 3.0 | 2.75 | 2.75 |
| Business Investment | 12.7 | -1.0 | 2.75 | 2.0 | 2.25 | 2.25 |
| Dwelling Investment | 4.2 | 5.0 | 9.25 | 2.75 | 3.5 | 3.0 |
| Goods Exports | -3.7 | -2.25 | 2.0 | 3.5 | 1.75 | 1.0 |
| Goods Imports | 9.1 | 1.25 | 1.5 | 1.75 | 1.5 | 1.5 |
| Employment Growth | 3.8 | 3.0 | 1.75 | 1.5 | 1.5 | 1.5 |
| Unemployment Rate | 3.7 | 3.75 | 3.75 | 4.0 | 4.25 | 4.25 |
| Wage Price Index | 4.2 | 3.75 | 3.5 | 3.0 | 3.0 | 3.0 |
| Population | 2.8 | 1.9 | 1.8 | 1.7 | 1.7 | 1.6 |



Inflation and Interest Rates

Key points

- The RBA held interest rates steady in December as inflation returns
- Perth CPI is tracking above the national average, with housing a key driver of inflation in WA
- The forecast for inflation is uncertain, with future interest rate decisions set to hinge on upcoming data releases

On 9 December, the Reserve Bank of Australia (RBA) held the cash rate target at 3.6% for the third consecutive meeting. The RBA flagged their concern that inflation may rise as private demand, including household consumption, recovers. Looking ahead, the Bank will closely monitor inflation trends alongside developments in global markets and domestic economic conditions.

In the September quarter, Australia's Consumer Price Index (CPI) rose sharply, climbing from 2.1% to 3.2% year-on-year with a quarterly increase of 1.3%. This represents the most significant rise in headline CPI since inflation peaked at 7.8% in December 2022, following a prolonged period of moderation. Underlying inflation, as measured by the Trimmed Mean, rose from 2.7% in June to 3.0% in September which is a concerning upward shift. The RBA highlights that some of this recent increase in CPI is from temporary factors, however there is uncertainty over how much of this increase is reflecting a broader surge in inflation across the economy.

“The recent data suggest the risks to inflation have tilted to the upside, but it will take a little longer to assess the persistence of inflationary pressures. Private demand is recovering. Labour market conditions still appear a little tight but further modest easing is expected. The Board therefore judged that it was appropriate to remain cautious, updating its view of the outlook as the data evolve.”

Statement by the Reserve Bank Board: Monetary Policy Decision, December 2025

Since June 2023, inflation on services like rents, insurance, and travel has been slower to fall than on goods. In the September quarter, services inflation increased from 3.3% to 3.5%. However, the large jump in September was driven by reignited growth in goods prices which leapt from 1.1% in June to 3.0% in September. Leading this was the cost of electricity (+24%) as electricity credits continue to be unwound.

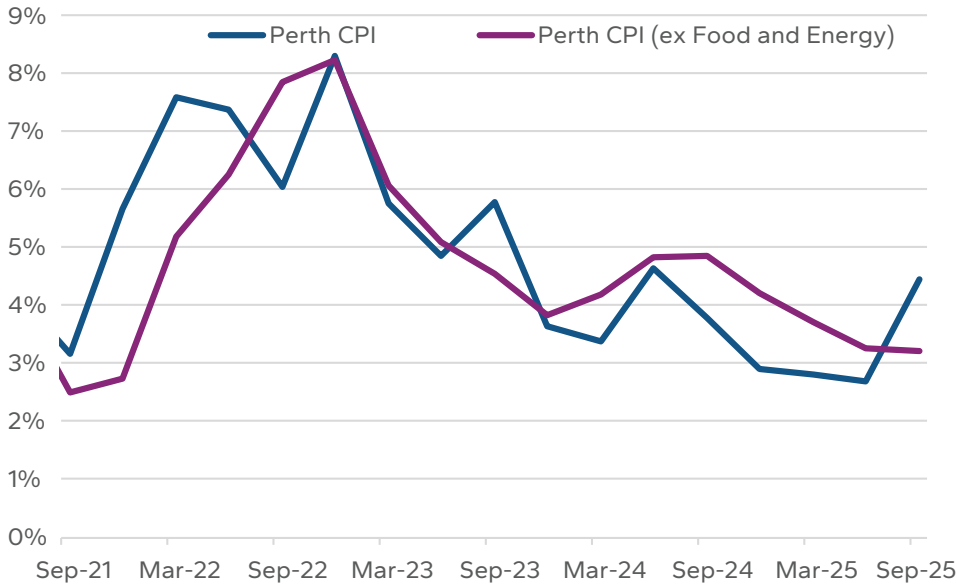
In Western Australia, the Perth CPI jumped 1.3% for the quarter, on par with the national figure. However in annual terms, Perth CPI, at 4.5%, is the highest of the capital cities and well above the national figure of 3.2%. Of the eleven sub-categories of CPI, Perth exceeds the national figure in seven, most notably in Housing. Here, the recent increases in new dwelling costs have eased from the big increases in 2024, rising 2.8% in the year to September. Rental rises have been slower to ease, increasing 6.4% over the last 12 months, down from a peak of 10.1% in the year to December 2024.

The primary factor behind the gap between Perth and national CPI remains the unwinding of electricity credits. Excluding food and energy, Perth's CPI sits at 3.2%, still above the Australian CPI (excluding food and energy) at 2.9%. These distortions from electricity credits are among the “temporary factors” referenced by the RBA when assessing the recent spike in headline inflation. It is important to understand the underlying drivers of inflation which is why the RBA remains cautious about their monetary policy intentions as they evaluate how widespread price increases are across the economy.



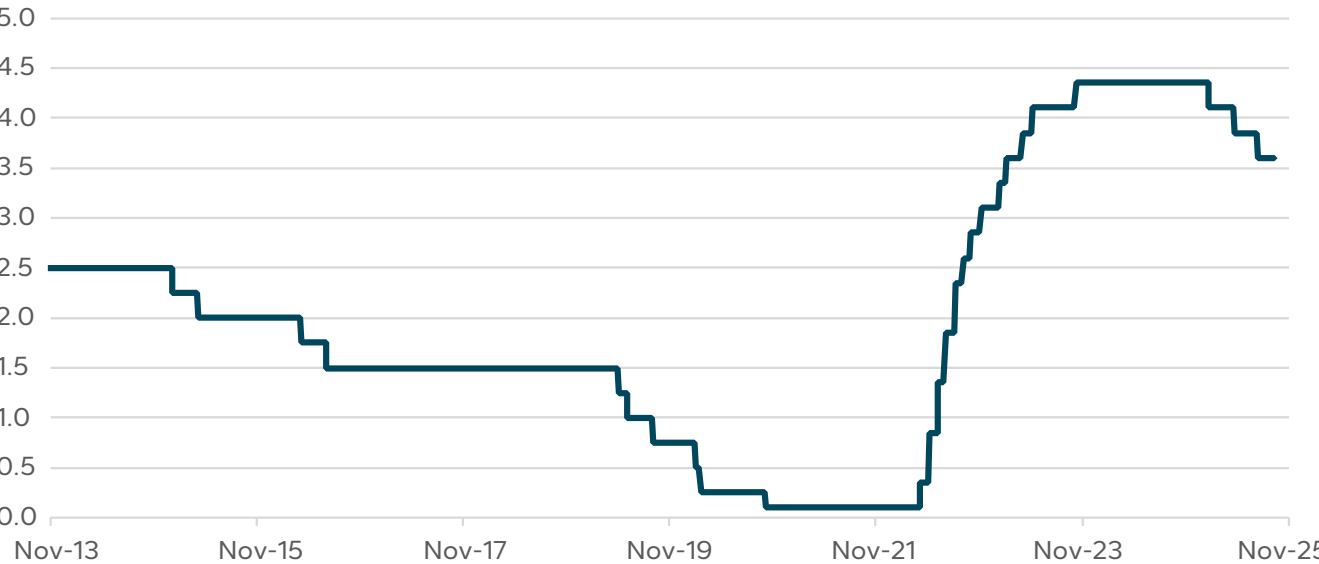
Perth CPI vs Perth CPI (ex Food and Energy), Annual % Change

SOURCE: ABS; WALGA



RBA Cash Rate Target, Australia, %

SOURCE: RBA; WALGA



Labour Market and Wages

Key points

- **WA wages growth is the highest in the nation**
- **Public sector wages are catching up to the private sector**
- **The WA labour market is easing slowly but competition for workers remains high**

Western Australia continues to lead the nation in wages growth, with the Wage Price Index (WPI) rising 4.0% in the year to September, compared to 3.4% nationally. Over the past quarter, WA's WPI increased by 1.5%, outpacing the national rise of 1.3%. For three consecutive years, WA wages have grown above 3%, reflecting sustained labour market strength. As inflationary pressures persist, maintaining real wages is critical to preserving workers' purchasing power.

Public sector wages in WA jumped a sizable 1.9% in the September quarter, with annual growth up 6.8%. This increase has been driven by state-based enterprise agreements that have been settled across 2025. As the labour market tightened after the pandemic, the private sector was quicker to react to market conditions and increase wages. Over the four years to September 2025, private sector wages in WA have increased 16%. With the wages growth over the last 12 months, the public sector has almost caught up, increasing 15% over the same period. Recent Local Government enterprise agreements in WA have delivered average pay increases of around 4.0% for 2025, followed by 3.5% in both 2026 and 2027.

The September quarter typically records the strongest wage growth, as many pay increases take effect at the start of the financial year, particularly those linked to awards or enterprise agreements. The Western Australian Industrial Relations Commission has raised the State Minimum Wage and award rates by 3.75%, effective 1 July 2025, citing cost-of-living pressures as a major concern and emphasising the need for a real wage increase that outpaces inflation. Nationwide, the National Minimum Wage and award wages increased by 3.5% at the start of the financial year.

The key driver of wages growth in Western Australia has been the tightness of the labour market. The unemployment rate was 4.1% in October, lower than the national level of 4.3%. The level of underemployment, which includes workers

who would like to work more hours, was 5.1% in WA, well below the national average (5.7%).

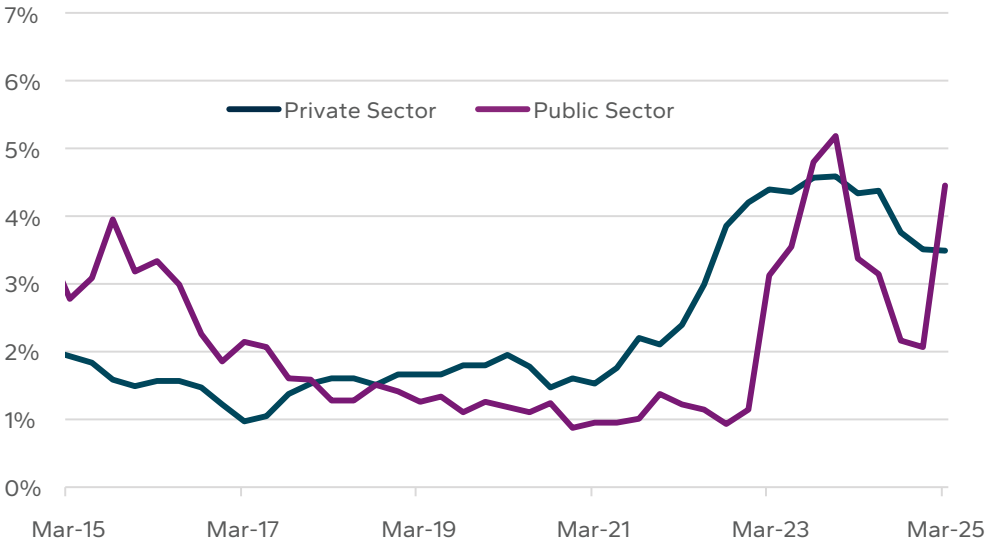
The pandemic contributed to an increase in the participation rate, which measures the proportion of the population that is employed, across the country. Western Australia has the highest participation rate of all states. With low unemployment and a high participation rate, there is only a small pool of workers available to fill jobs. Job vacancies remain significantly higher than pre-pandemic levels and are still above the peak of the mining boom. More than 40,000 job vacancies exist in Western Australia, which is 14,000 more than in the equivalent quarter of 2019. The level has held steady over the last 18 months. Seek reports stronger job vacancies in the industrial and construction sectors with a fall in advertised jobs across the professional services sector. Job vacancies are a strong leading indicator of business confidence and broader economic performance.

So far, expectations of a softening labour market in WA have not materialised. Jobs growth has kept pace with rapid population increases, while unemployment has edged up only marginally from the historically low levels seen after the pandemic. Looking ahead, a gradual rise in unemployment and moderation in wages growth are still anticipated as the labour market normalises. Updated forecasts from WA Treasury will be released in the Mid-Year Budget Review later this month.



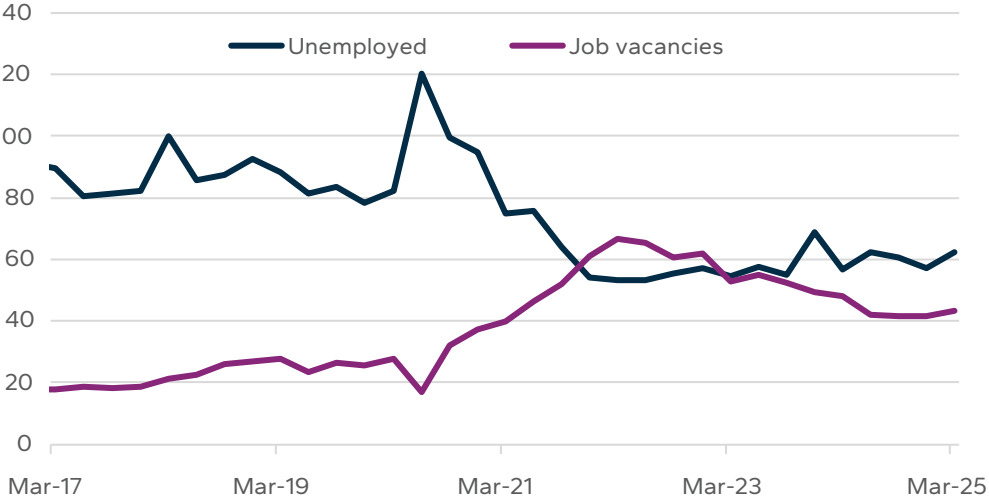
Wage Price Index
Private vs Public, WA,
Annual % Change

SOURCE: ABS; WALGA



Job Vacancies vs
Unemployed Persons,
WA, '000s

SOURCE: ABS; WALGA



Population and Housing

Key points

- **WA's population continues to grow, placing pressure on infrastructure and services**
- **House prices and rents continue to surge due to insufficient housing supply**
- **Dwelling completions are at their highest level since 2017, but still behind targets**

Over the past year, population growth in both WA and the rest of the country has outpaced expectations, driven by a surge in overseas migration following the reopening of borders. This surge is now moderating and is projected by Treasury to return to pre-pandemic levels in the coming years. While overseas migration remains the dominant contributor to WA's growth, the State continues to attract significant interstate migration, supported by its robust labour market and strong economy.

Rapid population growth will continue to place pressure on housing supply, infrastructure, and essential services across all tiers of government. Meeting these challenges will require coordinated planning and sustained investment.

The Perth housing market continues to accelerate with a 2.4% rise in November taking the annual increase in house prices to 13.1% according to Cotality. They report that the supply of housing available for purchase is 28% below the same time last year and 44% below the typical level. Rapid house price rises extend to the regions with Cotality's October data reporting annual house price increases of 23% in Albany, 10% in Bunbury, 11% in Busselton, 20% in Geraldton, and 9% in Kalgoorlie-Boulder.

Rental markets are equally constrained. Over the past five years, rents in these five regional cities have surged between 57% and 75%. And with rental vacancy rates in all five centres below 2% and as low as 0.9% in Busselton, there will continue to be upwards pressure on rental housing. The Perth market is comparable, with the five-year change in rental rates sitting at 65% and the vacancy rate just 1.1%. Perth rents are increasing at a slower rate than in recent years, but with 5.6% annual growth far exceeding wages growth, rental affordability is a growing concern.

Increasing housing supply in WA is a considerable challenge with issues around competition for finite materials and labour, rising costs, a building

industry that is still rebuilding its capacity, and bottlenecks in delivering enabling infrastructure. These challenges are particularly acute in regional areas, where housing shortages are impacting workforce attraction and retention.

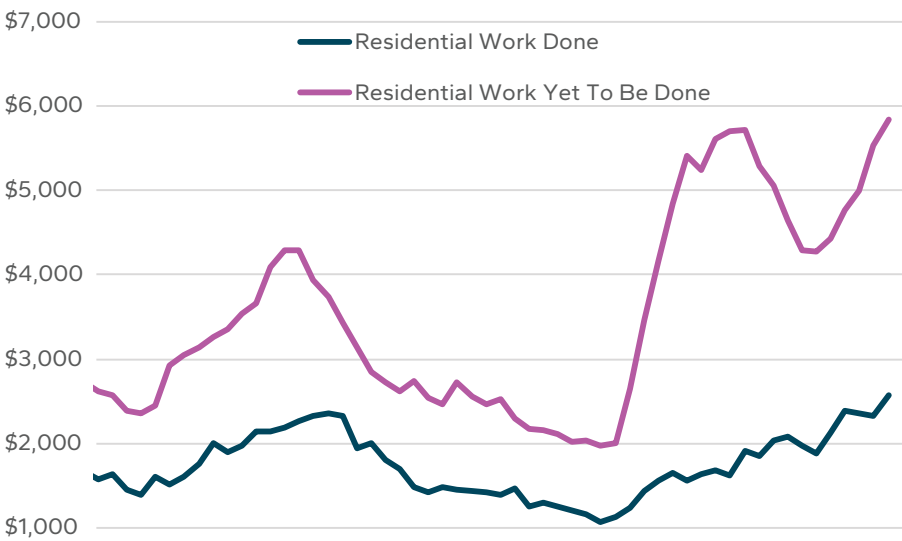
The State Government has sought to address these issues with multiple policies including:

- Housing Enabling Infrastructure Fund for power and water infrastructure
- Housing Innovation Fund to support initiatives that boost supply chain productivity
- Increasing support for social and affordable homes, shared equity loans, and build-to-rent developments
- Increasing the Government Regional Officer Housing Program
- Establishing a Regional Housing Support Fund
- Increasing subsidised trade apprenticeships and fee-free TAFE courses
- Offering visa assistance for migrants with a trade qualification
- Establishing various State development assessment pathways (Development Assessment Panels and Significant Development Pathway) which further erodes Local Government's role in providing a valuable community perspective on planning proposals
- Creation of ten station precincts around the metropolitan area where State improvement plans and schemes will be established that take precedence over local planning frameworks.

Industry and government efforts are accelerating housing supply. The value of residential construction work completed has doubled since 2019, surpassing levels seen at the peak of the mining boom. In the year to June alone, residential construction rose by more than 20%. The number of dwellings constructed in the 12 months to June are the highest since 2017, although this is still below the 26,000 target in the National Housing Accord. Meanwhile, the volume of residential work yet to be completed has climbed over 30% in the past 12 months, signalling a robust pipeline of future projects. This strong forward workload is boosting confidence among businesses and workers, reinforcing expectations of sustained activity in the housing sector.

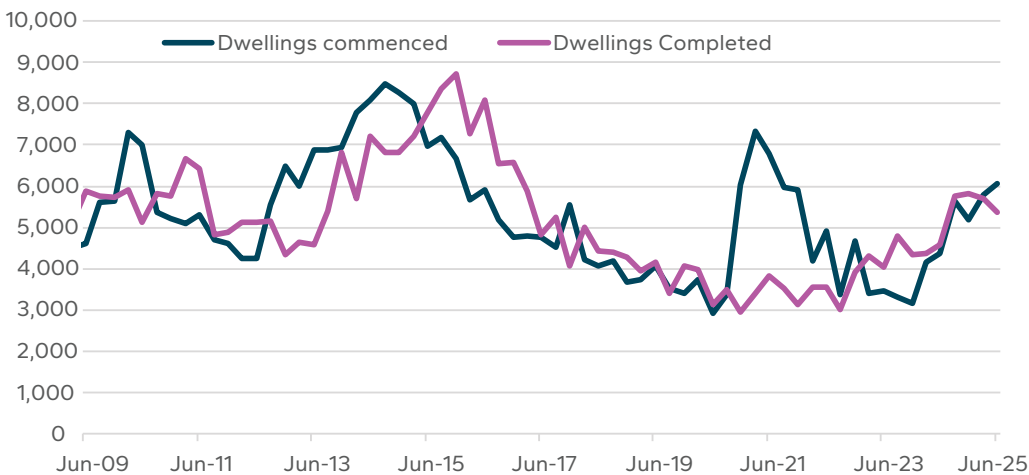
Residential Building, Work Done v Work Yet to be Done, WA, \$'000s

SOURCE: ABS; WALGA



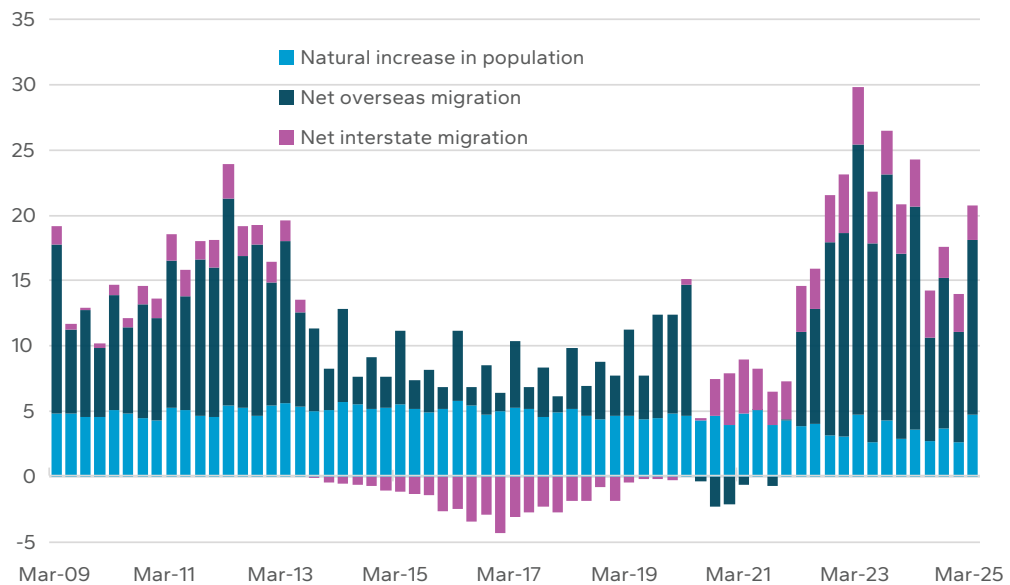
Residential Building, Dwellings Commenced vs Dwellings Completed, WA, Number

SOURCE: ABS; WALGA



Components of Population Change, WA, '000s

SOURCE: ABS; WALGA





Local Government Cost Index

Key points

- **Local Government costs increased 4.5% in the year to September**
- **Public sector wages have increased rapidly off the back of state-based enterprise agreements**
- **There is a risk of rising construction costs particularly in Non-Residential Building which competes with a resurgent residential sector for materials and labour**

The Local Government Cost Index (LGCI) increased to 4.5% in the year to September, up from 3.7% in the previous quarter. Local Government costs increased 1.2% over the September quarter. This uptick is primarily driven by rising public sector wages, which account for around one-third of WA Local Government costs. The September quarter typically records the largest wage increases as new financial year adjustments and enterprise agreements take effect.

The Local Government Cost Index uses the WA Public Sector Wage Price Index as the input for wages. In WA, public sector wages have surged in recent quarters following the finalisation of significant state-based enterprise agreements. Local Government enterprise agreements over the last six months have seen pay increases averaging around 4.0% in 2025, and 3.5% in 2026 and 2027. This is in line with the WA Wage Price Index of 4.0% in the year to September.

Strong labour market conditions continue to fuel wage growth, placing upward pressure on services costs and, to a lesser extent, goods.

Where demand for services remains high, contract costs for Local Governments are likely to rise.

After increasing 20% over three years, the growth in construction costs has slowed as prices settle at this higher level. However, in recent quarters the growth in Non-Residential Building costs accelerated, peaking at an annual rate of 5.4% in the March quarter and only slowing slightly since then. Non-Residential Building construction is competing with the resurgent residential sector for materials and labour, which has an upwards impact on prices. While price pressures are anticipated to moderate over time, the potential for upside risk remains, driven by housing supply policies that sustain residential construction activity.

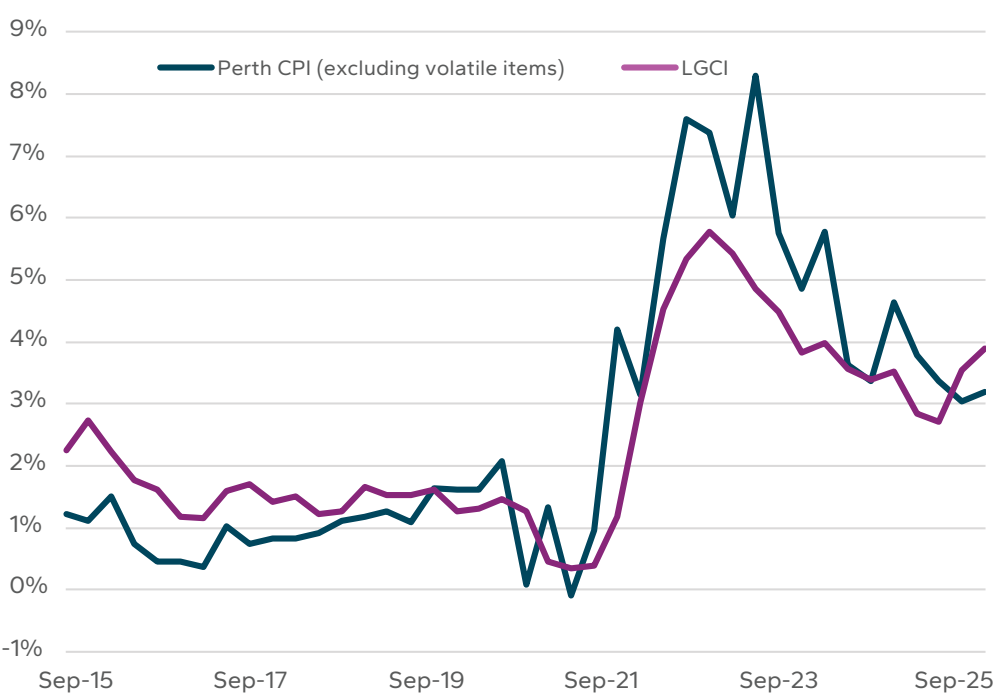
Non-Road Infrastructure and Road and Bridge construction costs have not seen the same acceleration in recent quarters, with costs growing at a modest pace. Ongoing risks to the cost of construction include continued global trade tensions and tariffs, spillover from geopolitical conflicts and a slowdown in the Chinese economy.

Given current conditions, Local Governments should adopt flexible budgeting strategies, incorporate contingencies, and use adaptive procurement approaches to manage volatility. Although the Local Government Cost Index provides a useful reference point, it does not make provision for regional variations. Local Governments are encouraged to engage directly with suppliers to understand market constraints to inform decision-making around timelines and cost management into local market conditions and constraints. This proactive engagement will support more accurate project timing and cost management.

LGCI Table

| Component | Weighting | 2023-24 (actual) | 2024-25 (forecast) | 2025-26 (forecast) | 2026-27 (forecast) | 2027-28 (forecast) |
|------------------------------|-----------|------------------|--------------------|--------------------|--------------------|--------------------|
| Employee Costs | 35% | 4.2 | 5.3 | 4.3 | 3.0 | 3.0 |
| Materials and Contracts | 28% | 3.2 | 2.4 | 3.4 | 3.0 | 2.8 |
| Furniture | 1% | 4.7 | 5.6 | 5.6 | 2.2 | 2.1 |
| Non-Residential Building | 5% | 4.6 | 4.9 | 5.7 | 3.3 | 3.1 |
| Machinery and Equipment | 5% | 2.0 | 4.5 | 1.5 | 1.4 | 1.4 |
| Non-Road Infrastructure | 9% | 3.7 | 3.2 | 3.2 | 2.9 | 2.6 |
| Road and Bridge Construction | 10% | 2.1 | 2.2 | 3.0 | 3.1 | 2.9 |
| Utilities | 3% | 2.5 | 2.5 | 3.0 | 3.0 | 3.0 |
| Insurance | 1% | 13.1 | 3.9 | 6.0 | 5.0 | 4.0 |
| Other | 3% | 4.6 | 3.5 | 3.3 | 3.0 | 3.0 |
| LGCI | 100% | 3.6 | 3.8 | 3.7 | 2.9 | 2.8 |

Perth CPI (ex volatile items) vs LGCI, Annual % Change
SOURCE: ABS; WALGA



Questions

If you have any questions on the contents of this report, please direct them to the WALGA Economics Team.



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