



Economic Briefing March 2025

Overview

The March Federal Budget presented an Australian economy that is achieving a soft landing – where inflation returns to the target band without stalling the economy. Inflation has fallen faster than previously forecast, leading to the Reserve Bank of Australia's recent interest rate cut. However, the Budget has fallen back into deficit with no prospect of a surplus in the coming years.

The WA economy continues to outperform the nation, with a strong labour market, high population growth and a buoyant construction sector. However, global trade tensions and the threat of increased tariffs are a risk to exports and to the domestic economy.



The **Western Australian economy** is strong, the challenge in coming years is to transition from a public sector led recovery to private sector led economic growth. Global trade tensions and rising tariffs are a major risk to global economic growth and therefore the Australian economy.



The RBA reduced interest rates as **inflation** is judged to be moving sustainably towards its target range.



WA's **labour market** is the strongest in the nation with low unemployment, solid jobs growth and high labour force participation. Wages growth is slightly above the national average, with the private sector growing faster than the public sector over the last year.



The rate of growth in **construction costs** has slowed as prices settle at a new, higher level after a period of rapid rises. The global factors and capacity constraints driving this growth have eased however a strong construction pipeline will keep demand high for materials and labour.



Local Government costs increased 3.2% over the last 12 months. Price rises have moderated on average across the board; however a tight labour market and strong domestic economy may see some price pressures resurface.

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.



Domestic Economy and Federal Budget

Key points

- **The Federal Budget is back in deficit for the foreseeable future although economic conditions continue to improve**
- **The WA domestic economy is strong, the challenge in coming years is to transition from a public sector led recovery to private sector led economic growth**
- **Global trade tensions and rising tariffs are a major risk to global economic growth and therefore the Australian economy**

With a Federal Election due by May, the Australian Government took a cautious approach to the 2025-26 Budget. The Labor Government's fourth budget was framed to demonstrate its fiscal management credentials and responsiveness to voter priorities - cost of living, healthcare, education and housing (see WALGA's Federal Budget analysis [here](#)).

The Treasurer reported a \$27.6 billion deficit for the 2024-25 financial year equating to about 1% of GDP. This is a notable reversal from the \$15.8 billion surplus in the previous year, as the revenue generated by high commodity prices of recent years reduces. The deficit is forecast to increase to \$42.1 billion by 2025-26, with ongoing deficits throughout the forward estimates. Gross debt is projected to surpass \$1 trillion during 2025-26, adding pressure on subsequent Budgets to manage rising interest payments.

Although the Government was unable to sustain the surpluses achieved in the previous two years, the overall financial position is stronger than projected in the Pre-Election Financial Outlook. This improvement is due to \$94.1 billion in savings and reallocated spending, including reforms to the National Disability Insurance Scheme (NDIS), adjustments to the infrastructure investment program, and improved tax enforcement measures.

The Budget paints a picture of an Australian economy that is achieving the Government and the Reserve Bank's soft landing – where inflation returns to the target band without stalling the economy. Economic growth is forecast to increase from 1.5% in 2024-25, to 2.25% in 2025-26 and 2.5% in 2026-27. The relative contribution of public sector expenditure and investment to economic growth is forecast to fall over this period as the private sector recovers off the back of increased household consumption, dwelling investment, and business investment.

Inflation has fallen faster than previously forecast, reflected by the Reserve Bank of Australia's recent interest rate cut. Headline inflation, which sits at 2.4% for the 12 months to December 2024, is forecast to remain within the RBA's target band of 2-3% throughout the forward estimates even after a spike as the electricity credits are unwound (see Inflation and Interest Rates section).

The labour market is expected to remain strong with the unemployment rate peaking at 4.25% through the forward estimates. Employment growth is expected to ease from its recent high levels as wages growth tracks above inflation leading to an improvement in living standards and an easing of cost-of-living pressures (See Labour Market and Wages section).



Western Australian Economic Update

The WA domestic economy, measured by State Final Demand, remains strong despite economic headwinds, forecast to end 2024-25 up 3.75%. This is driven by continued elevated levels of Government Consumption (+5.5%) and Government Investment (+13.5%). Household Consumption in WA continues to grow faster than the national average, driven by growth in population, employment, and wages, and is forecast to end the year up 2.5%. Dwelling Investment has rapidly increased in recent quarters as commencements and completions rise, projected to increase 11.25% in 2024-25 and continue that momentum in the coming years. Business Investment has moderated after an increase of 12.7% in 2023-24 and is projected to end the year up 1.0%. Net exports are forecast to fall 0.25% in 2024-25, due to downward revisions for iron ore volumes and grain Exports.

Like the national economy, it is forecast that, as growth in Government Consumption and Investment eases, the private sector will become the growth engine for the economy, with Business Investment rising, a buoyant housing construction sector and continued strength in household spending.

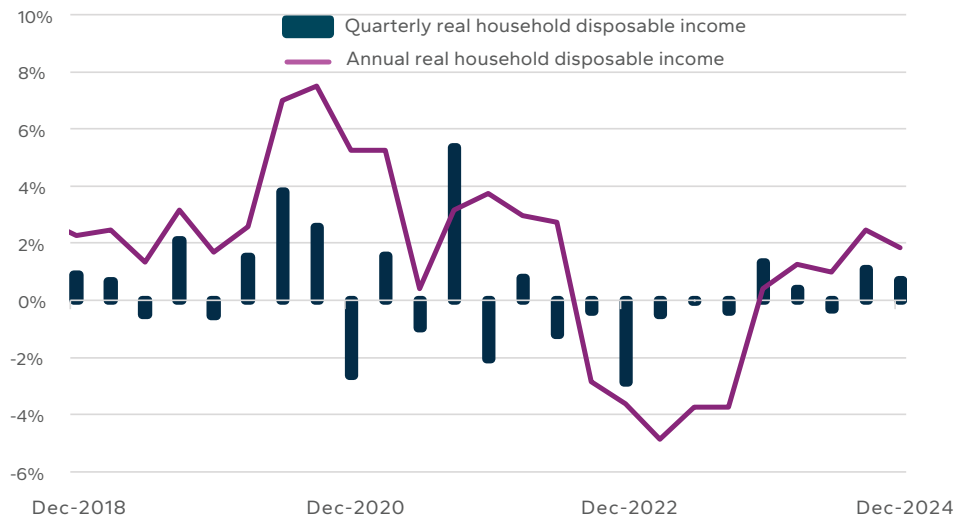
Significant downside risks to this forecast persist. Global trade tensions, protectionism and increasing tariffs are creating uncertainty for businesses and households, potentially impacting global growth. As an open economy, Australia, particularly Western Australia's export sector, may be significantly

affected by a slowing global economy. There is considerable uncertainty caused by the United States' approach to tariffs, targeting particular sectors and commodities, and this acts as a disincentive for business to invest. The impact of ongoing trade tensions on global economic growth could result in commodity prices falling faster than forecast, impacting State and Federal budget bottom-lines.

Despite increased export market diversification during the China trade ban period, the Western Australian economy remains closely linked to China which accounted for 57% of WA's goods exports last financial year. More than half of WA's exports in the year to November 2024 by value was iron ore and of this, 84% was exported to China. China is also WA's largest import market, accounting for 20% of goods imports. China's prime minister, Li Qiang, has announced an economic growth target of about 5% for 2025 and has declared a focus on stimulating domestic spending to drive economic growth and mitigate the potential impact of external economic pressures such as a decline in trade with the United States. A slowdown in China's economy or reduced demand for key commodities could negatively affect Australia's trade balance and economic growth.

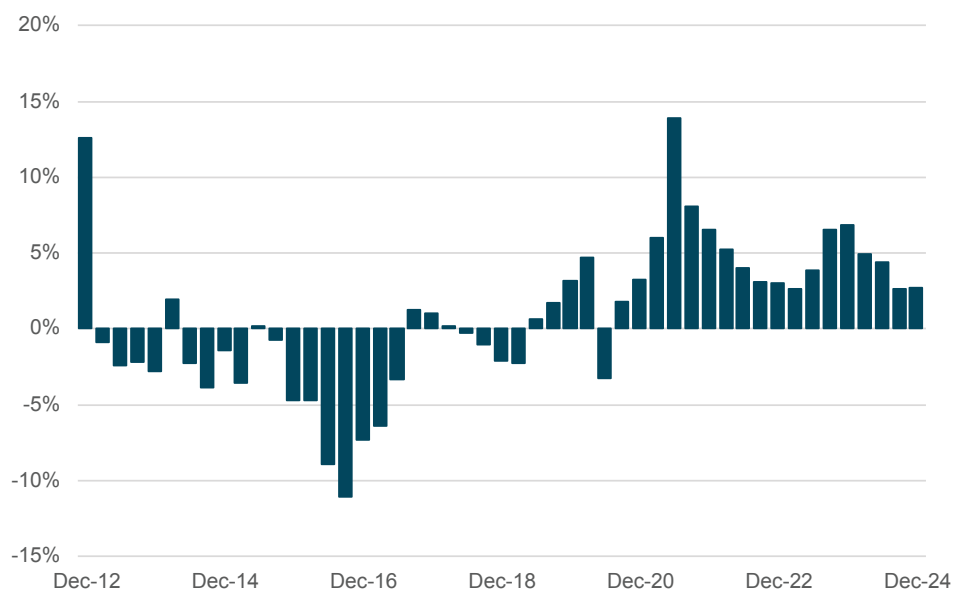
Real Household Disposable Income, Australia, Annual v Quarterly % Change

SOURCE: RBA; WALGA



State Final Demand, WA, Annual % Change

SOURCE: ABS; WALGA



WA Treasury Economic Forecasts

Pre-election Financial Projections Statement 2024-25	2022/23 % Actual	2023/24 % Actual	2024/25 % Forecast	2025/26 % Forecast	2026/27 % Forecast	2027/28 % Forecast
Gross State Product	3.5	0.5	2.25	2.5	2.5	2.0
Household Consumption	3.5	3.1	2.5	3.0	3.0	2.75
Business Investment	4.5	12.7	1.0	3.25	5.5	3.5
Dwelling Investment	-2.7	4.1	11.25	9.75	5.5	1.5
Goods Exports	4.7	-3.7	0.5	1.5	0.5	0.75
Goods Imports	7.8	9.1	0.75	1.75	2.75	2.0
Employment Growth	3.1	3.8	2.5	1.75	1.5	1.5
Unemployment Rate	3.6	3.7	4.0	4.25	4.5	4.25
Wage Price Index	4.2	4.2	3.75	3.5	3.0	3.0
Population	3.2	2.8	1.9	1.8	1.8	1.7



Inflation and Interest Rates

Key points

- **The RBA reduced interest rates to 4.1%, the first change since November 2023**
- **Underlying inflation has fallen to 3.2% and is considered to be sustainably moving towards the RBA's target band of 2-3%**
- **The rising cost of new housing and rents continues to be a driver of inflation in WA**

The Reserve Bank of Australia lowered the cash rate target 25 basis points to 4.10% in February, the first movement since November 2023. The cut was justified by the RBA by the substantial fall in underlying inflation from its 2022 peak to 3.2% in the December quarter. This fall was faster than forecast by the RBA, suggesting that inflation was meeting their objective of moving sustainably towards their inflation target of 2-3%.

The RBA maintains that, even after this cut, the cash rate remains restrictive and continues to act as brake on the economy. This leaves the RBA room for future cuts to return the cash rate target to a neutral setting where it does not function as a brake or an accelerator for the Australian economy. However, the RBA cautions that easing the cash rate too quickly could lead to entrenched inflation above the midpoint of the target range.

The next monetary policy decision will be announced after the RBA Board meeting on April 1. However, the next release of quarterly inflation data, a major input in the RBA's decision making is

not due until April 30, leading Westpac, NAB and ANZ to predict that the next interest rate cut will occur in May, assuming the current trajectory of inflation continues.

Factors mitigating against another rate cut in the near term include a continued tight labour market, particularly in WA, and solid household spending which is forecast to pick up as incomes rise.

However, unemployment rising higher than forecast could see this recovery in household consumption stall. The geopolitical risks from increasing tariffs fuelling a trade war and increasing economic uncertainty could see a fall in business activity, particularly if the Chinese economy slows.

“The forecasts published today suggest that, if monetary policy is eased too much too soon, disinflation could stall, and inflation would settle above the midpoint of the target range. In removing a little of the policy restrictiveness in its decision today, the Board acknowledges that progress has been made but is cautious about the outlook.”

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

The Australian Trimmed Mean fell to 3.2% in the December quarter, the lowest level in three years. The Trimmed Mean is the RBA's preferred measure

of inflation as it reduces the impact of temporary price measures, such as the electricity credits, as well as avoiding distortions from large price rises and falls in some components of the Consumer Price Index (CPI).

The Headline CPI fell to 2.4%, the lowest level since March 2021. The difference between the Headline and Trimmed Mean CPI is due largely to the impact of State and Federal electricity credits. Although these credits reduce the CPI in the short term, when the credits are removed, the CPI will rise accordingly. The Australian Government has announced that these credits will continue into 2025-26 and the Opposition has confirmed that they will match this expenditure.

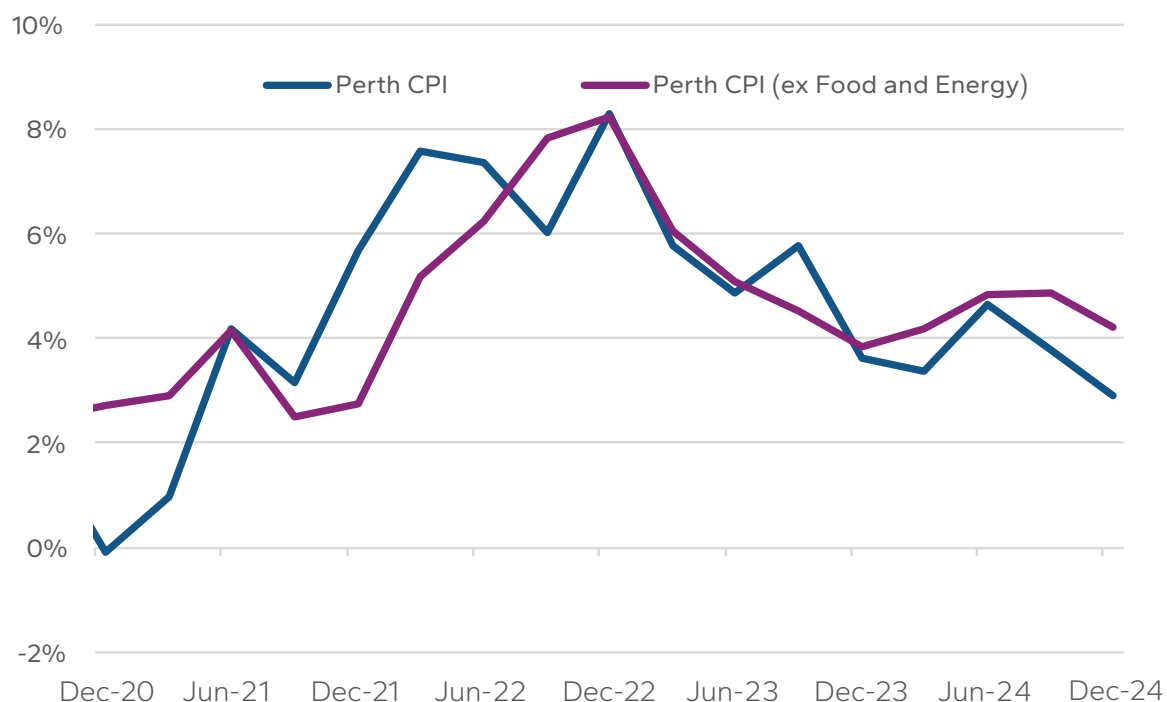
There continues to be a divergence in price rises between Goods and Services. Goods inflation was just 0.8% over the 12 months to December off the back of large falls in electricity prices due to the electricity credits and in fuel prices due to lower global oil prices. Annual Services inflation was

much higher at 4.3%, moderating slightly from 4.6% in the September quarter, with key drivers including rents, medical and hospital services, and insurance.

The Perth CPI increased to 2.9% in the 12 months to December 2024, the highest of the capital cities, largely due to the increase in electricity prices after the WA State government rebate was exhausted in the previous quarter. The ABS produces a measure of the Perth CPI excluding Food and Energy which looks through the impact of the electricity credits. In December, this measure saw prices increasing 4.2% over the last 12 months, down from the peak of 8.2% in December 2022, but considerably above the headline figure. Rising housing costs in WA continue to be a major driver of inflation, with rents up 10.1% in the last year and the cost of new dwellings up 13.6%. Over the last four years, rents have increased 40% and the cost of new dwellings is up 65%. The cost of housing is an ongoing issue for WA and the rest of the country with a significant impact on the cost of living.

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

SOURCE: ABS; WALGA





Labour Market and Wages

Key points

- **WA's labour market is the strongest in the nation with low unemployment, solid jobs growth and high labour force participation**
- **Wages growth is slightly above the national average, with the private sector growing faster than the public sector over the last year**
- **WA's population growth is still the fastest in the country, however it is easing as the growth in Net Overseas Migration slows**

More than 64,000 jobs were created in WA in 2024, with employment up 4.1% in the year to December. The unemployment rate remains low at 3.4% in February. Unemployment has bounced around between 3.1 and 4.2% for the last three years with job creation keeping pace with the high levels of population growth. Low unemployment continues to defy predictions, with Treasury's February Pre-election Financial Projections Statement forecasting the unemployment rate for 2024-25 to be 3.5%, a downwards revision of 0.5% since its December Mid-Year Review. Looking ahead, the unemployment rate is projected to increase 0.25% each year, reaching 4.25% in 2027-28.

With a participation rate of 69.1% in February, the highest among the states, WA's labour market has very little extra capacity. Although job vacancies are on the decline, they remain significantly higher than pre-pandemic levels and there is no evidence of an excess of job seekers over vacant positions. The ongoing shortage of housing and essential services, such as education and childcare, continues to impede growth, particularly in regional areas.

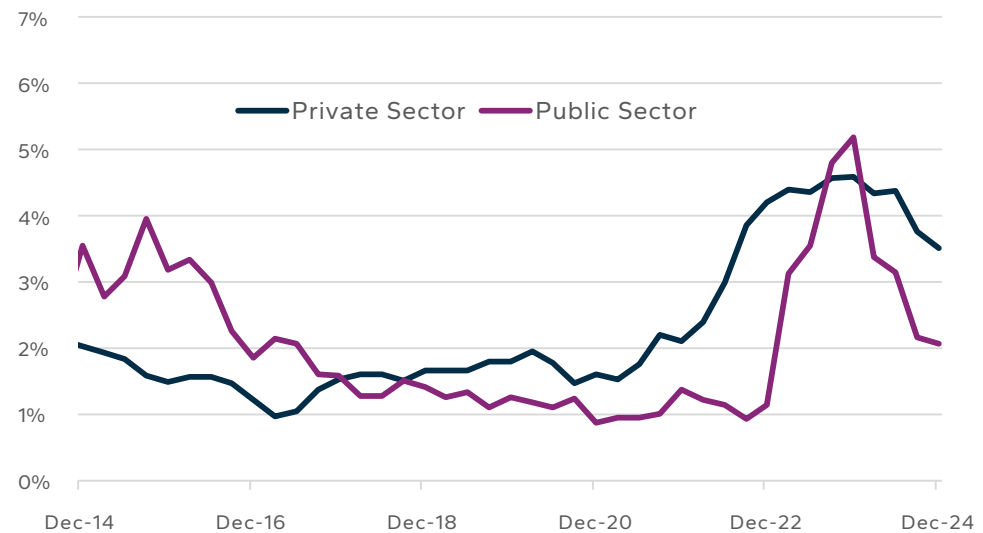
Despite WA's labour market being the strongest of the States, wages remain contained, growing 3.3% in the year to December, only slightly above the national average of 3.2%. The easing of wages growth in the public sector is notable, increasing 2.1% in 2024 (2.9% in Australia), compared to 5.2% in 2023 (4.3% in Australia). Private sector wages growth in WA has been more resilient, up 3.5% in 2024, although it too is declining after an increase of 4.6% in 2023. Looking forward, wages growth is forecast by Treasury to remain strong, averaging 3.5% in 2025-26 before falling to 3.0% in the following two years.

WA has the fastest growing population in the country, increasing 2.5% in the year to September, 0.7% above the national figure. However, population growth is slowing across the country with annual population growth in WA peaking at 3.4% and nationally at 2.5% both in September 2023. The driver of this population growth easing has been the fall in annual Net Overseas Migration from a high of 555,798 in the year to September 2023 to 379,829 in the year to September 2024. Pre-COVID, the average annual increase in Net Overseas Migration was 248,000 so overseas arrivals are still tracking ahead of the longer-term average. The spike in Net Overseas Migration has now offset the COVID-era slump due to the closed borders. Looking ahead it is expected that overseas arrivals will continue their return to their long-term average. Treasury forecasts WA population growth to slow to 1.8% in 2025-26 and 2026-27.

On average, employee expenses account for one-third of Local Government costs in the State. The Economic Briefing will keep tracking labour market trends and their effects on wages.

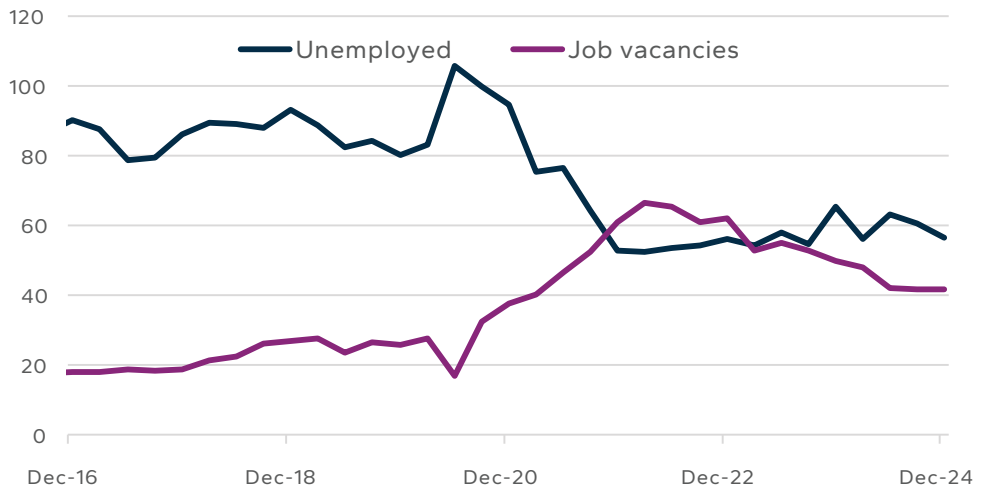
Wage Price Index
Private vs Public, WA,
Annual % Change

SOURCE: ABS; WALGA



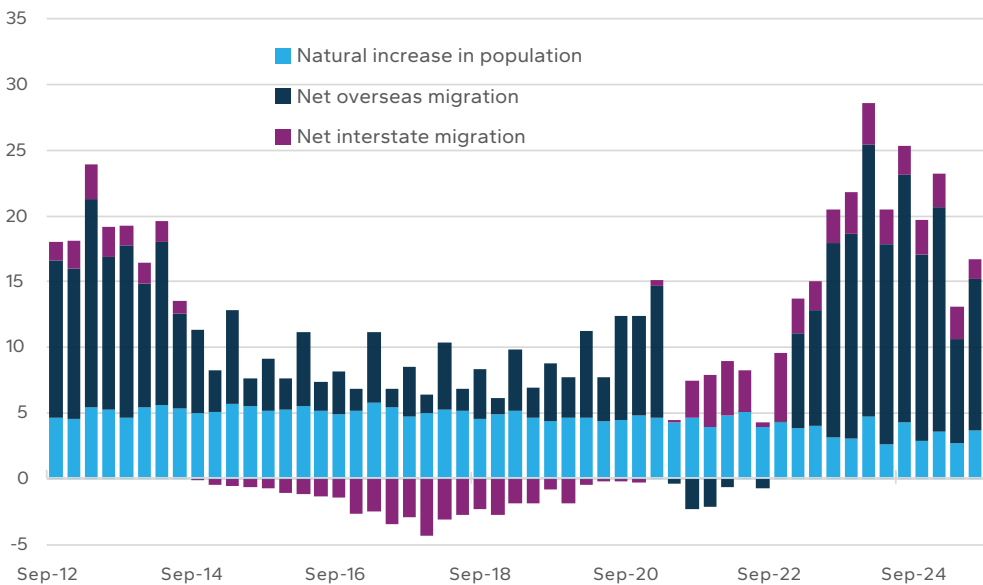
Job Vacancies vs
Unemployed Persons,
WA, '000s

SOURCE: ABS; WALGA



Components of
Population Change,
WA, '000s

SOURCE: ABS; WALGA



Construction

Key points

- **The rate of growth in construction costs has slowed as prices settle at a new, higher level after a period of rapid rises**
- **The global factors and capacity constraints driving this growth have eased however a strong construction pipeline will keep demand high for materials and labour**
- **Different components of construction costs are growing at different rates depending on local demand and supply factors**

Construction cost inflation in WA peaked at double-digit rates during 2022, driven by rapid growth in building and construction activity, capacity constraints in the Australian building, construction, and materials industries, high commodity prices, materials supply shortages, high shipping costs, and labour shortages resulting from employment growth and low immigration. After a period of rapid increases in construction costs post-COVID, the rate of growth has eased, returning to more normal levels across different cost components.

There are multiple contributing factors to the deceleration of construction cost inflation. A continued decline in commodity prices since 2022, particularly steel and oil, has led to price declines for many construction inputs. There has been an improvement in supply chains and logistics, a relative improvement in capacity constraints, including stronger labour supply growth as migration flows return to Australia.

These downward influences are being offset by ongoing constraints in the domestic construction materials sector and the broader building industry, due to a lack of new capital investment, construction-specific labour shortages, and an abundance of building business insolvencies. Additionally, a rebound in residential building work and strong construction activity in WA over the last three years, a weakening Australian Dollar, and potential impacts of proposed tariff policies in USA and elsewhere could drive up import prices for Australia. A recent Productivity Commission report highlighted that half as many homes are being completed per hour of work as in 1995, and that labour productivity in housing construction has fallen by 12% in the same period.

Steel product costs have dropped significantly but have not fully reversed the sharp increases of 2021 and 2022. Reinforcing steel prices declined by 4.7% in the 12 months to December 2024, following a 6.4% decrease in 2023. Similarly, falls in global crude oil prices have translated into reduced prices for diesel fuel and bitumen, and a deceleration in cost growth for asphalt and road freight. However, a return to more standard rates of cost growth is expected from 2025.

Bitumen prices in WA dropped by around 14% between December 2022 and September 2023. Although there was a brief uptick in late 2023, the downward trend resumed in the first half of 2024, with prices falling by 10% between December 2023 and April 2024. Recently, the market has reaccelerated, with prices increasing by 8% over the last six months.

While some construction costs have gone down, others are still seeing above-average year-on-year inflation. For instance, concrete costs are rising significantly. Prices for concrete, cement, and sand went up by 10% in 2023 and another 5% in 2024. High demand for concrete, combined with limited capacity in the concrete manufacturing sector, means prices are likely to keep rising. Macromonitor reports that the uncertain market outlook is making new investments less attractive for concrete manufacturers, which supports further price increases.

Equipment costs also surged during 2022 and 2023 due to strong demand and a weaker Australian dollar, as much of the equipment is imported. Although this rapid growth slowed down in 2023-24, it has picked up again recently. By December 2024, the cost of mining construction equipment rose by 10%. Forecasts suggest a 4.5% rise by June 2025, followed by a gradual return to more normal levels from 2025-26 onwards.

Bricks and tiles have also seen sharp price increases since the March quarter of 2022. Prices grew rapidly by 32% in 2021-22 and 29% in 2022-23, followed by an 8% rise in 2023-24. Continued robust growth is expected, with a 20.5% rise forecasted by June 2025, followed by an easing of this growth in future years.

Labour costs are another area where prices continue to rise at above-average rates nationwide.



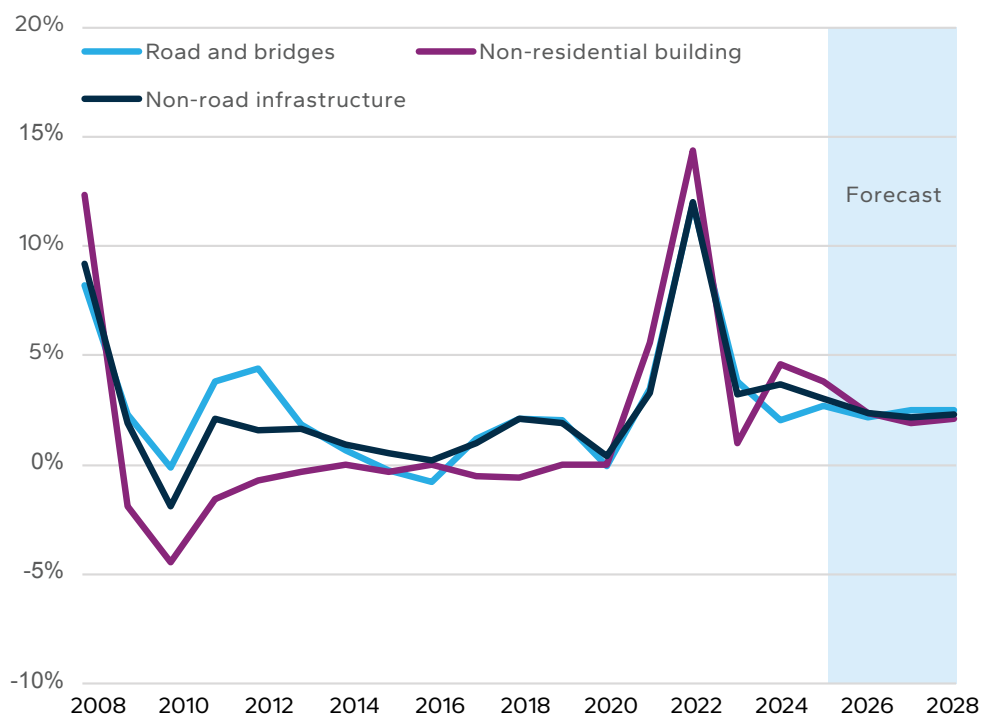
Although the pace of increases has slowed compared to previous quarters, ongoing shortages of skilled tradespeople are still driving up prices, especially in concrete and electrical trades. In WA, wage inflation in the construction sector has slowed, with an annual growth rate of 3.1% by December 2024, down from a 5% rise in 2022-23. Wages growth in the construction sector is expected to stay around this level over the next 12 months to December 2025. As the nation enters an upturn

in residential and utilities construction without an adequate supply of workers, construction wages are likely to remain above average for some time.

Despite declines in some cost items, a full reversal of previous increases is not expected. Instead, costs are likely to increase at a more moderate rate, but from the current, elevated level. According to forecasts, we can expect cost inflation rates to return to around 2-3% from 2025-26 onwards.

Construction Cost Indexes, WA, Annual % Change

SOURCE: ABS, MACROMONITOR, WALGA





Local Government Cost Index

Key points

- **Local Government costs increased 3.2% over the last 12 months**
- **Growth in construction costs has moderated, however the strong construction pipeline may see price rises in some regions**
- **Employee costs continue to grow solidly, with private sector wages increasing fast than those in the public sector**

WALGA's Local Government Cost Index (LGCI) increased by 0.7% in the December quarter, down from 0.8% in the previous quarter. In annual terms the LGCI increased by 3.2%, falling from 3.3% in the September quarter.

After a period of high increases in construction costs, followed by elevated wages growth, Local Government costs are starting to return to a more moderate level of growth across the board.

Wages, which account for a third of Local Government costs in WA, are now growing at their slowest rate since September 2022, increasing 3.3% in the year to December 2024. Notably, growth in public sector wages have been increasing at a slower rate of just 2.1% in 2024 after recording an increase of 5.2% in the year prior. Wages are expected to continue to grow as the WA labour market is the tightest in the nation and economic activity is forecast to support ongoing employment growth (see Labour Market and Wages section).

Growth in construction costs have normalised in recent years as global supply chain constraints have eased following the pandemic economic shock. The Road and Bridge Cost Index hit a peak of 12% growth in the year to June 2022. This slowed significantly to 3.8% by June 2023 and further to 2.1% by June 2024. There has been a recent slight

increase, with a 2.7% rise forecast for the year to June 2025. Looking ahead, forecasts suggest a 2.2% rise in 2025-26 and 2.5% in 2026-27 as prices settle at this new, higher level.

Similarly, the Non-Residential Building costs saw a big drop from 14.4% in 2021-22 to just 1% in 2022-23. Costs re-accelerated to 4.6% in 2023-24, but are forecast to ease to 3.8% in 2024-25, 2.4% in 2025-26 and 1.9% in 2026-27.

Non-road infrastructure has followed a similar trajectory with a 12.0% jump in 2021-22 followed by more moderate increases of 3.2% in 2022-23, and 3.7% in 2023-24. This easing is expected to continue falling to 3.0% growth in 2024-25 and below in the coming years.

The risk profile of the forecasts for construction costs is currently on the upside. Tight industry capacity and likely cost pressures in some components of construction raise the possibility of additional upward price pressures beyond current forecasts. Elevated levels of housing construction, encouraged by the State and Federal Governments, will increase demand for a limited supply of materials and labour.

Local Governments should prepare for multiple scenarios through their budgeting process and be ready to respond to changing economic conditions by incorporating flexibility into their projects and procurement processes. The LGCI is based on statewide data, and regional variances will impact each Local Government. Engaging with suppliers to understand local economic conditions and constraints will enable Local Governments to effectively plan the timing of their projects.

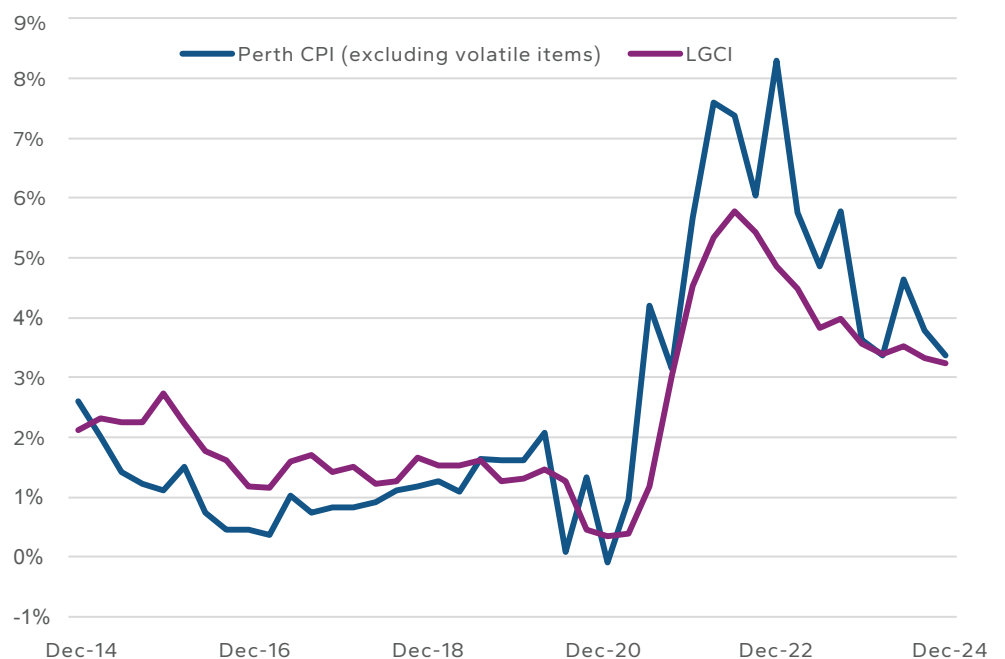


LGCI Table

Component	Weighting	2023-24 (actual)	2024-25 (forecast)	2025-26 (forecast)	2026-27 (forecast)	2027-28 (forecast)
Employee costs	35%	4.2	3.8	3.5	3.0	3.0
Materials and contracts	28%	3.2	4.0	3.8	3.5	3.3
Furniture	1%	4.7	3.7	3.5	3.2	2.0
Non-residential building	5%	4.6	3.5	3.0	2.3	2.1
Machinery and Equipment	5%	2.0	4.0	2.5	1.4	2.2
Non-road infrastructure	9%	3.2	2.8	2.7	2.6	2.3
Road and bridge construction	10%	2.1	2.8	2.7	2.8	2.5
Utilities	3%	2.5	3.0	3.0	3.0	3.0
Insurance	1%	13.1	8.6	6.0	4.0	6.0
Other	3%	4.6	3.5	3.0	2.8	2.5
LGCI	100%	3.6	3.6	3.3	3.0	2.9

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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