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Economic Briefing September 2025

Overview

The Western Australian economy is growing faster than the national average, driven increasingly by the private sector as public sector investment stabilises at a high level. Population growth remains strong, however housing supply is struggling to meet demand, leading to rising prices and rents. Inflation has returned to the Reserve Bank of Australia's target range, supported by recent interest rate cuts, though inflation in WA remains slightly higher due to the strong domestic economy.

The labour market is gradually easing with steady employment growth and sustained wage increases, particularly in the public sector. Local government costs have risen, mainly due to public sector wage growth and construction costs, with ongoing risks from global trade tensions.

The **Western Australian economy** continues to outperform the rest of the nation.

Inflation has fallen into the RBA's target band with three **interest rate** cuts recorded so far in 2025.

Wages continue to grow as the tight **labour market** shows signs of easing.

Western Australia's **population** growth is the highest in the nation, but the supply of **housing** is insufficient to meet demand.

Local Government costs increased 3.7% over the year, driven by strong public sector wages growth.

Note

The significant challenges of forecasting in the current economic environment, mean the **Local Government Cost Index (LGCI) should be used with caution**. The LGCI is subject to ongoing revisions as changing economic conditions and geopolitical shocks flow through to the domestic economy.

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 involving cost increases in coming years.

Domestic Economy

Key points

- **The Western Australian economy continues to grow faster than the rest of the nation**
- **As growth in the public sector slows, the private sector is taking over as the driver of economic growth**
- **Global risks remain elevated with restrictions on global trade likely to lead to subdued growth**

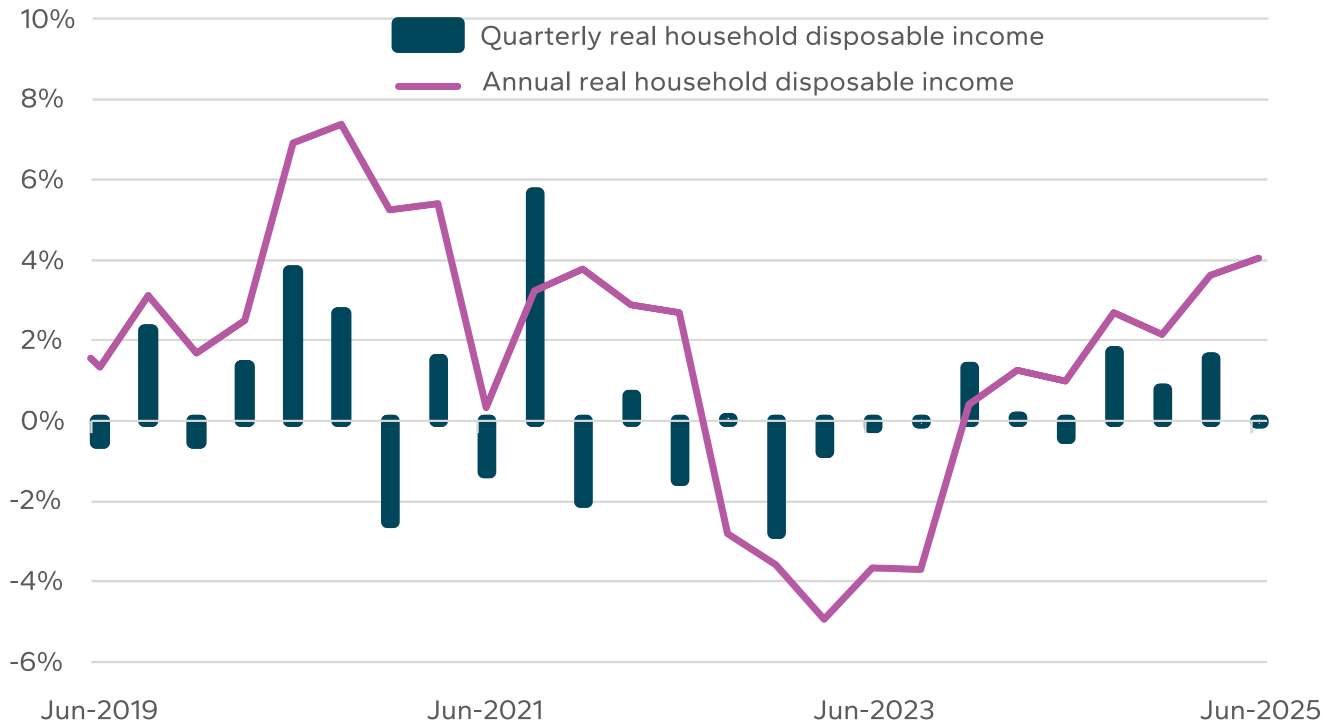
The Western Australian domestic economy, measured by State Final Demand, increased 2.9% over the year to June, continuing to outpace national growth rates. After a period of record Government Investment, growth in Public Demand has fallen to its lowest level since September 2023. Treasury has forecast Government Investment to fall 5.5% in 2025-26 after rapid growth of 16.6% in 2023-24 and 15.0% in 2024-25. Government Consumption is also forecast to slow after a period of elevated levels.

Economic growth in coming years will be driven by the private sector in Western Australia. Household consumption has contributed meaningfully to economic activity, with spending increasing by 3.0% over the past year. Dwelling Investment is estimated to increase 5.0% in 2024-25 and 9.25% in 2025-26. Rising Business Investment is the final element to sustained economic growth. After increasing 13% in 2023-24 off the back of the acceleration of major resources projects, Business Investment is forecast to have fallen 1% over 2024-25. Treasury expects growth to return off the back of increasing decarbonisation expenditure and investment and renewal in the resources sector to sustain production output. Business Investment is forecast to rise 2.75% in 2025-26 and maintain a growth rate of 2.0% or higher in the following years.

Risks to the domestic economy from global issues are ongoing. To date, the impact of the US Tariffs on the global economy have been less than feared. As a result, the Organisation for Economic Co-operation and Development (OECD) has recently revised its projected global growth for 2025 upwards from 2.9% to 3.2%. The full implications of the trade tensions are still unclear, raising ongoing concerns. Any long-term restriction on global trade is likely to weigh on global economic growth. Ongoing wars in Europe and the Middle East and other geopolitical conflicts will continue to present a risk to the economy, however, concerns about these conflicts spreading, and potentially impacting oil distribution and prices have not been realised.

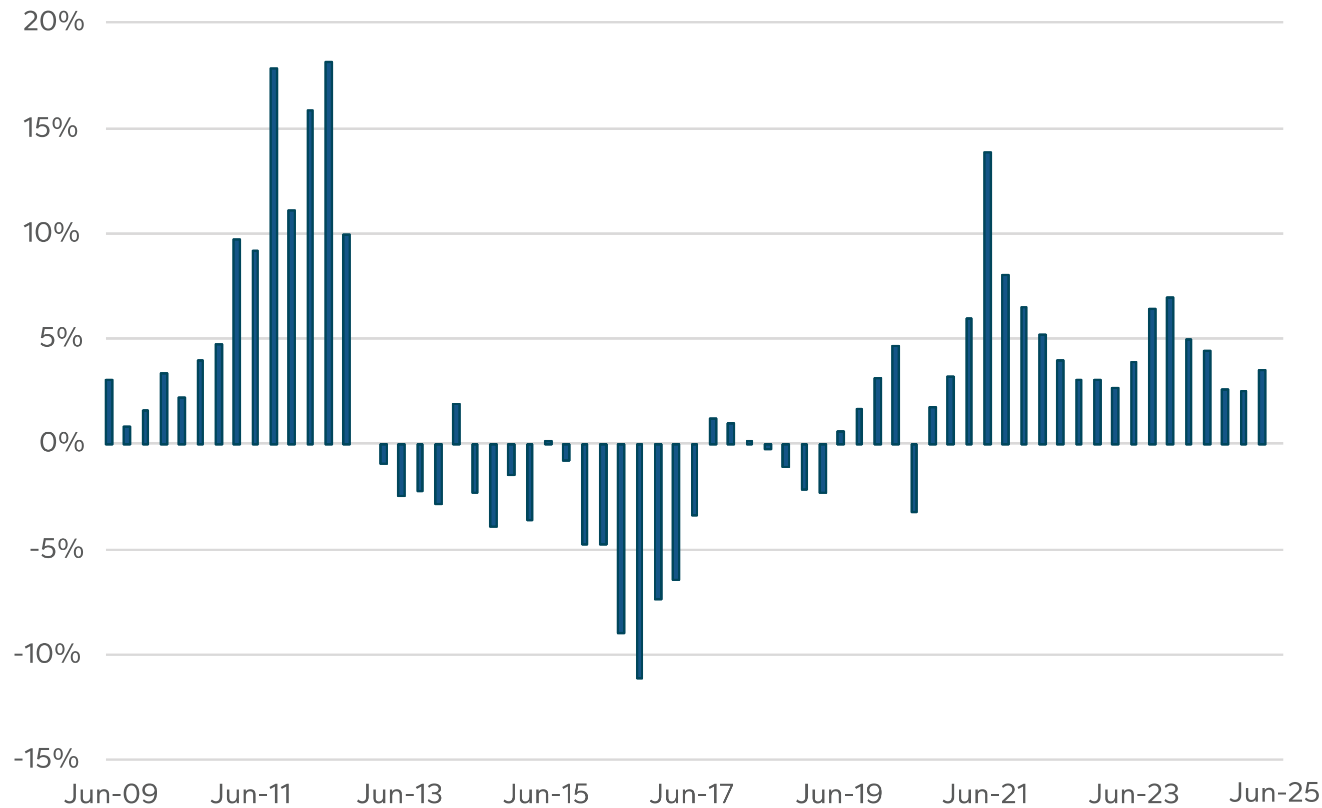
Real Household Disposable Income, Australia, Annual v Quarterly % Change

SOURCE: ABS; WALGA



State Final Demand, WA, Annual % Change

SOURCE: ABS; WALGA



Closer to home, China's economy continues to grow off the back of ongoing stimulus measures and despite the impact of US tariffs and the falling property market. China's annual economic growth target of 5% remains in sight, however it may require further stimulus if global trade slows. Western Australia's commodities exports are reliant on global trade and a strong Chinese economy. Recent reports of a dispute over iron ore trade between China and BHP highlights the importance of a robust trading relationship between Australia and its most important customer.

The Australian Government's Economic Reform Roundtable was held in August with a focus on five productivity pillars:

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.

Key areas of discussion included reform to the National Construction Code to reduce complexity and boost housing supply; speeding up reform of the Environment Protection and Biodiversity Conservation Act; accelerating work on a national AI plan; and reducing duplication and red tape for the private sector when dealing with the Government. How the Government responds to the productivity challenge will be critical to the success of the national economy.

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

- **The RBA has cut rates three times this year**
- **Underlying inflation remains inside the RBA's target band**
- **Inflation has been slower to fall in Western Australia as the strong domestic economy and population growth keeps demand relatively high**

On 30 September, the Reserve Bank of Australia (RBA) held the cash rate target at 3.60%. This continues the pattern throughout 2025 of a cut every second meeting off the back of the quarterly Consumer Price Index (CPI) data. In 2025, the cash rate was reduced by 25 basis points in February, May, and August.

In September's Monetary Policy Decision, the RBA highlighted that the fall in inflation has slowed, with the economy moving closer to a balance between supply and demand. In particular, household consumption has improved faster than expected off the back of rising real incomes. Whilst this may slightly reduce the chances of a rate cut, it is good news for the economy, with early indications that private demand is on the rise as growth in Government consumption and investment slows.

In the year to June, Australian CPI increased 2.1%, the lowest level since March 2021. It is expected to rise in the coming quarters as the impact of electricity credits flows through the data. More relevant is the Trimmed Mean, which fell to 2.7% in June, down from 2.9% in March, and is now comfortably inside the RBA's 2% to 3% target band. The Trimmed Mean is preferred by the RBA as it filters out extreme price changes and provides a clearer view of underlying inflation.

The August monthly CPI came in higher than expected, increasing to 3.0% from 2.8% in July, which has dampened the market's confidence in a further rate cut in November. Not all components of CPI are updated monthly, which tends to make it more susceptible to short-term fluctuations. The RBA gives more consideration to the quarterly CPI figure, in particular the Trimmed Mean, which is due to be released ahead of the next meeting of the Board in November.

"With signs that private demand is recovering, indications that inflation may be persistent in some areas and labour market conditions overall remaining stable, the Board decided that it was appropriate to maintain the cash rate at its current level at this meeting."

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

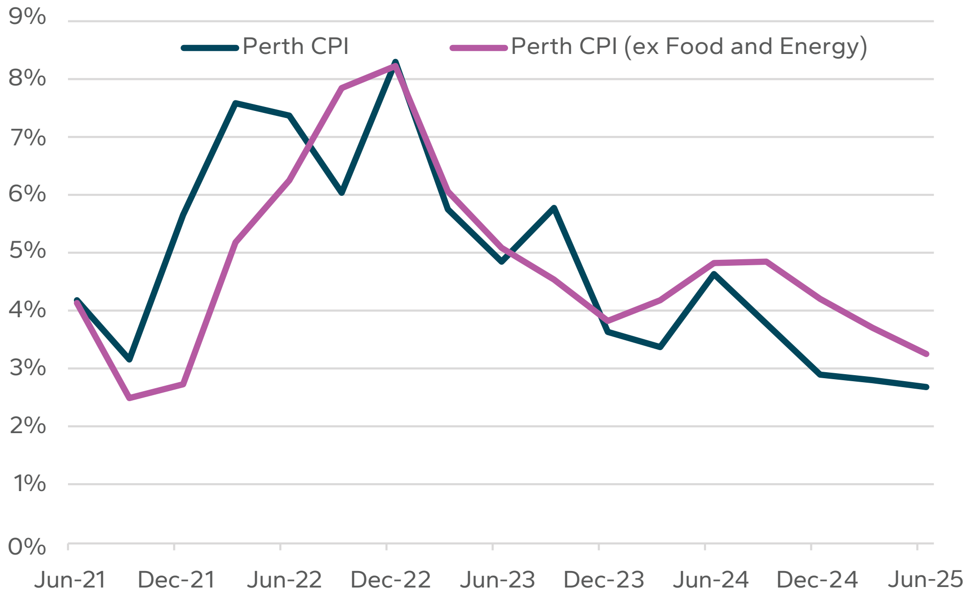
Promisingly, the major drivers of inflation in Australia in recent years, such as New Dwellings (+0.7%), Rents (+4.5%) and Insurance (+3.9%), have eased from very high levels. Services inflation, which has been stubbornly slow to drop, has now fallen to 3.3%, the lowest level in three years. Goods inflation remains low at 1.1%.

In Western Australia however, the easing of inflation has been slower, as the Perth CPI (+2.7%) continues to outpace the rest of the nation (+2.1%). Both Goods (+1.9%) and Services (+3.8%) prices have eased from recent highs but remain above the national figures. The increase in housing costs has also fallen at a slower rate than elsewhere in the country, with New Dwellings (+5.5%) and Rents (+7.6%) still growing faster than the target range.

The higher level of inflation in Western Australia is a product of the State's strong economic growth, with the highest levels of household consumption, jobs growth and population growth in the nation. This increases demand across the economy, and in markets where supply is constrained (such as housing and services), prices will rise. Promisingly, the rate of increase in prices is slowing in WA, even as the domestic economy continues to grow modestly. This is the "narrow path" that the RBA is seeking to follow, with their mandate made more complex by the variations in the different States' economies.

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

SOURCE: ABS; WALGA



Labour Market and Wages

Key points

- **Western Australia's tight labour market continues to ease**
- **As a result, wages continue to grow, particularly in the public sector**
- **Treasury expects this easing trend to continue over the short term**

The tightness in the Western Australian labour market continues to show slight signs of easing, with growth in employment slowing to 1.2% in the year to August, and the participation rate falling from recent highs. The unemployment rate reached its highest level since January 2024, sitting at 4.3% in September, narrowly below the national rate of 4.5%.

The number of people seeking employment in Western Australia has slowly increased since the recent trough in mid-2022, however growth in this pool of workers has ceased over the last 12 months. At the same time, job vacancies have stabilised after declining from their recent record highs. Encouragingly, job vacancies in the private sector are growing, reflecting a level of confidence in the State's economy. Public sector job vacancies continue to fall as public consumption and investment slow from their record highs. National figures show the opposite, with public job vacancies increasing in the year to September as private job vacancies continue to fall.

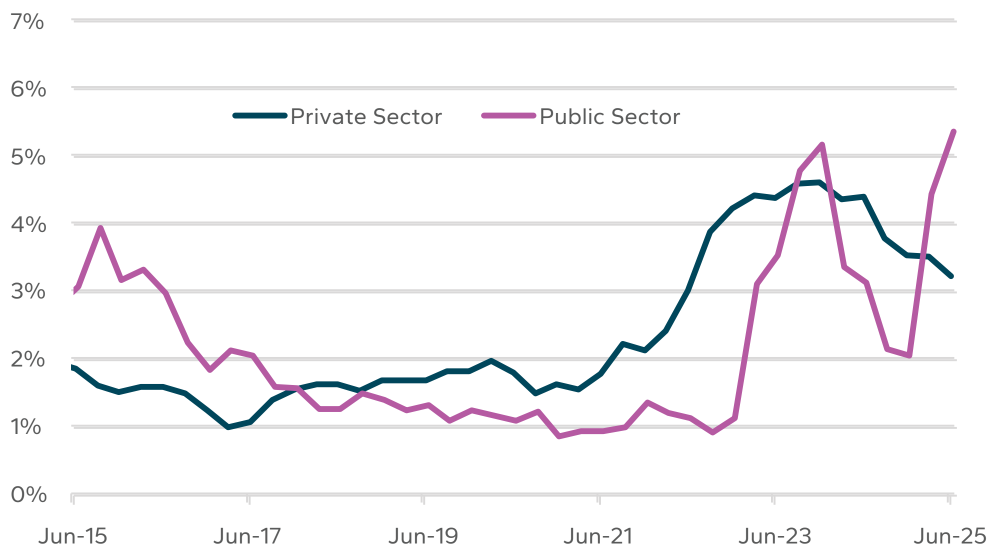
Zooming out, what we are seeing is a reduction in the volatility of the labour market after a period of high jobs growth and low unemployment. The WA Treasury expects this slow easing of the labour market to continue with jobs growth forecast at 1.75% in the current financial year and a steady 1.5% in the following years. The unemployment rate is forecast to be 3.75% in 2025-26, increasing to 4.0% and then 4.25% in the next two years. Recent increases in the unemployment rate, may see this figure revised upwards in the Mid-Year Budget Review. With the rate of population growth also expected to ease, there is a prediction of equilibrium to return to the labour market. As demonstrated in recent years, maintaining this equilibrium can be a challenging task.

Wages continue to grow above inflation, which is good news for households who saw their purchasing power fall during the period of high inflation. The Wage Price Index in WA grew at the fastest pace in the nation, up 3.7% in the year to June, above the national figure of 3.4%. For the past three years, wages growth has sat above 3%. This is the most sustained period of wages growth since the mining boom. It is the same story when looking at private sector wages with three years of sustained wages growth. The public sector has seen more volatility in wages growth in recent years, with wages initially slow to respond to the market conditions and now playing catch-up as EBAs are renegotiated. Public sector wages in WA increased 5.4% in the year to June.

As the heat comes out of the labour market, it is expected that wages growth will continue to ease with the WA Treasury forecasting a fall from 3.5% in 2025-26 to 3.0% in 2026-27.

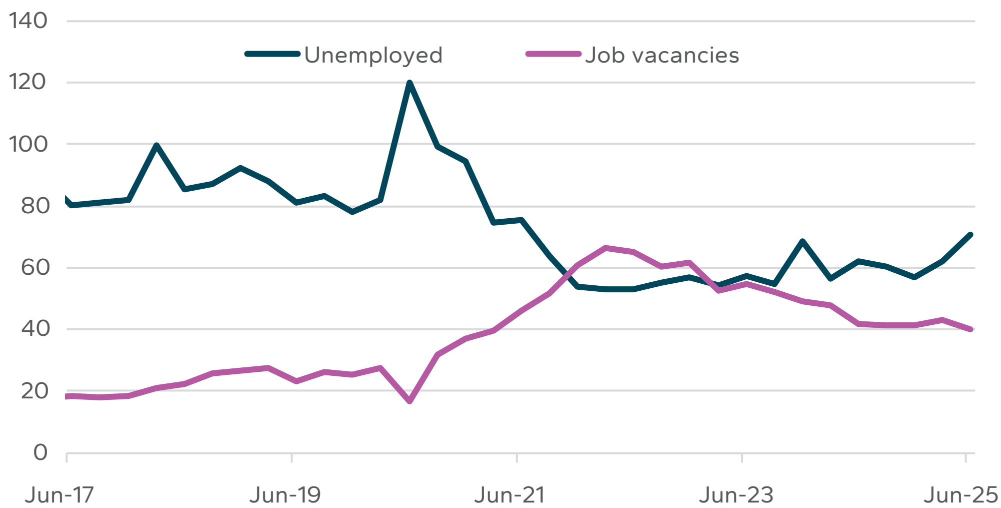
Wage Price Index Private vs Public, WA, Annual % Change

SOURCE: ABS; WALGA



Job Vacancies vs Unemployed Persons, WA, ’000s

SOURCE: ABS; WALGA



Population and Housing

Key points

- **Western Australia's population growth rate continues to ease, although, WA remains the fastest growing State**
- **Whilst slowing, Net Overseas Migration continues to drive population growth**
- **WA housing completions and building approvals have increased but remain below the level required to meet the National Housing Accord target**

Australia's population growth is driven by migration policy and measured by Net Overseas Migration – the difference between inbound and outbound overseas migration. In the three years before COVID (2017-2019), Net Overseas Migration averaged around 250,000 per annum. Across the COVID years of 2020 and 2021, Net Overseas Migration was effectively zero with increased restrictions in the movement of people across borders. In the following years, Net Overseas Migration rocketed, reaching a peak of 555,000 in the year to September 2023. Since then, migration levels have fallen for six consecutive quarters, most recently recording 315,000 in the year to March. The slowdown in Net Overseas Migration is driven by a combination of the end of the catch-up period from the COVID lockdowns and the change in Australian Government policy. The Australian Budget is forecasting the slowdown to continue, falling to 260,000 in 2025-26.

Western Australia's population is continuing to grow faster than the rest of the nation, up 2.3% in the year to March compared with the Australian average of 1.6%. Whilst high, the rate of growth has slowed for six consecutive quarters after reaching a peak of 3.6% in the year to September 2023. The easing in population growth rates is echoed across the nation.

Western Australia's natural increase in population (total births minus deaths) is reflective of the economic cycle. During the boom years, total births increased rapidly. In recent years, the cost-of-living crisis contributed to the lowest levels of natural population increase since the early years of this century. As household budgets recover with real income growth, there are early signs that confidence is returning, with March 2025 recording the highest natural population increase since March 2021.

As the population grows, the demand for housing continues to grow. The construction of homes in WA has reached its highest level since 2017 with more than 21,000 homes completed in the year to March. This growth needs to continue to meet the National Housing Accord target of 26,000 dwellings completed per year. Workforce constraints, the economic viability of apartments, and the cost of materials continue to be a concern.

With the exception of a short spike post-COVID, building approvals have reached their highest level since 2016, with more than 23,000 dwellings approved in the year to August. However the period of rapid growth in approvals has slowed in recent quarters. This level of Building Approvals is insufficient for the State to meet its housing target with the Property Council WA estimating a shortfall of 129,000 homes over the target period to 2029.

With supply still not meeting demand for housing, house prices are expected to continue to rise. In Perth, Cotality reports that house prices have accelerated throughout 2025, up 1.6% in the month of September, and 7.5% for the year. The Real Estate Institute of WA (REIWA) is reporting that houses in Perth sell in a median of just eight days as of September 2025, reflecting the low levels of available stock. In July, REIWA forecast the Perth median house price to grow around 10% in 2025 while units were forecast to increase by 15%. In the regions, 2025 house price growth is forecast to exceed 20% in Albany and Geraldton, 15% in Bunbury, Busselton, and Karratha, and 2-5% in Broome, Esperance, and Kalgoorlie.

The impact of a housing shortages is reflected in the rental property market as well, with Cotality reporting a massive five-year increase in Perth house rentals of 65%, and 72% for units. This is the highest rent increase of all the capital city markets and well above the national average of 43% for houses and 46% for units. Perth's median rent is now $729, second only to Sydney with vacancy rates at 1.1%, down from 1.4% in the previous year. Perth's rents have increased 5.6% in the last year. Across the nation, rents in the regions (+5.9%) have grown faster in the last year than in the capitals (+3.7%). Given the housing pressures in WA, it is expected that many regions would be seeing rental increases far beyond that level.

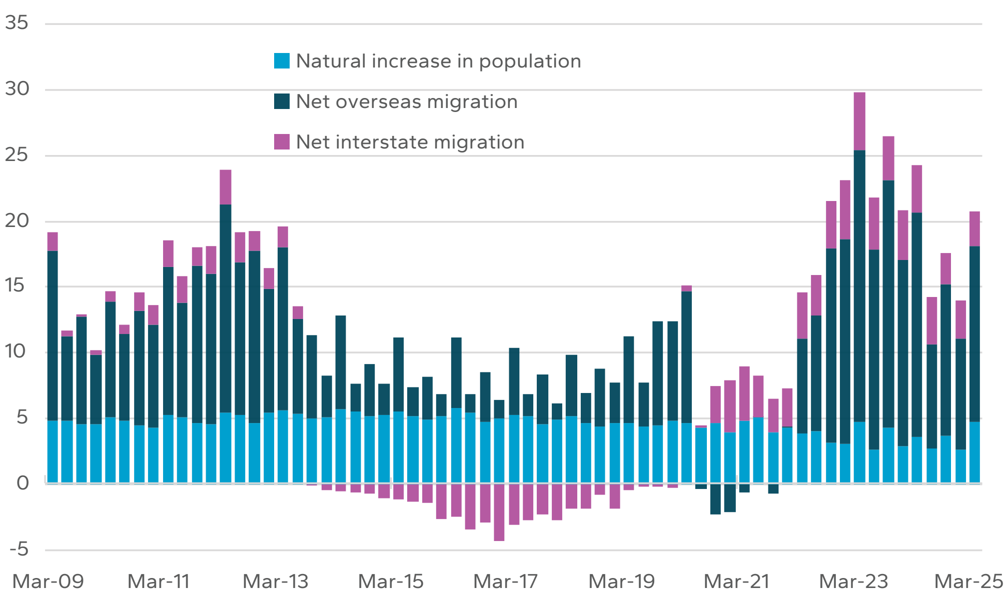
With ongoing pressure on the demand side from increasing population, further support is needed from the Federal and State Governments on the supply side to reach the ambitious national target. The main limitations of the constrained construction workforce and the high cost of construction are difficult challenges to address in the short term. Consequently, housing pressures are expected to persist until supply sufficiently expands to meet underlying demand.

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

SOURCE: ABS; WALGA

Components of Population Change, WA, '000s

SOURCE: ABS; WALGA



Local Government Cost Index

Key points

- **Local Government costs increased 3.7% in the year to June**
- **Public sector wages are increasing faster than the private sector**
- **Ongoing risk of rising construction costs with strong competition for labour and wages**

The Local Government Cost Index (LGCI) increased 1.1% in the June quarter to take the annual figure to 3.7%, up from 3.6% in the March quarter.

For the second quarter in a row, this increase was driven by rising public sector wages which increased 1.1% over the three months to June after increasing 2.7% in the December quarter. This sharp increase was driven by new state-based enterprise agreements. After a period of low public sector wages growth pre-COVID and a tight labour market, public sector wages are now growing faster than the private sector. It is expected that wages growth will continue in the September quarter as increases in minimum wages and annual wage rises are effective from July 1.

The rapid growth in construction costs during the recovery from COVID peaked at annual rates of over 12% in 2022, drastically impacting Local Government budgets. A period of relative stability followed as prices settled at higher levels and returned to modest growth rates.

In recent quarters, the cost of Non-Residential Building has increased above expectations as competition with a revived residential sector for workers and materials has forced prices upwards. In the year to June, costs for Non-Residential Building have increased 4.9% after peaking at 5.4% in the previous two quarters. Looking forward, it is expected that these price pressures will ease, however the risk remains on the upside as ongoing stimulus and housing supply policy decisions continue to underpin residential construction.

Non-Road Infrastructure has followed a similar pattern although cost increases have been lower, peaking at 3.7% in September 2024, and falling to 3.2% in the year to June. Looking forward, it is expected that growth in costs will return to stable, modest growth. Growth in the Road and Bridge Cost Index has been more modest over the last year, up 2.2% to June. This is expected to continue in the coming years.

There are ongoing risks to the cost of construction in WA. As well as the competition with the residential sector for workers and materials, the increase in global trade tensions could impact supply chains for imported materials and oil. Increasing tariffs may also impact costs indirectly as countries engage in retaliatory practices.

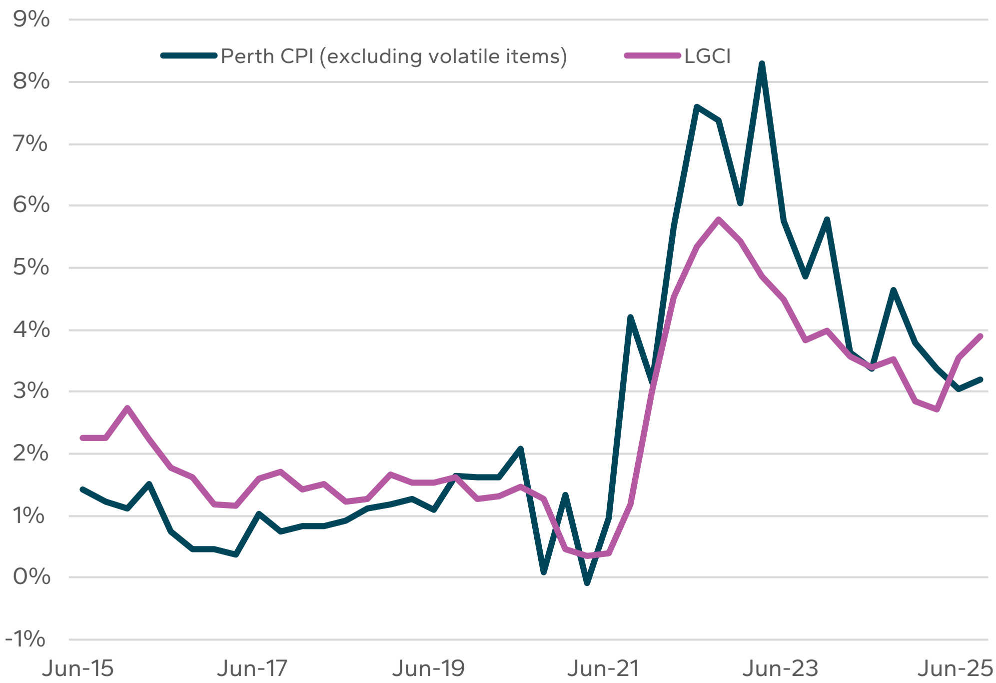
In response to current economic conditions, Local Governments are encouraged to be adaptable in their approach to budgeting. Building in contingencies and adopting flexible procurement methods can help absorb unexpected cost shifts. While the Local Government Cost Index offers a useful benchmark, it may not capture regional differences. To ensure project plans reflect local realities, Local Governments should actively consult with suppliers to understand market constraints and opportunities. This direct engagement fosters better-informed decisions around project timelines 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	3.5	3.0	3.0
Materials and contracts	28%	3.2	2.4	3.6	3.2	3.0
Furniture	1%	4.7	5.6	3.2	2.5	2.0
Non-residential building	5%	4.6	4.9	2.4	2.8	2.4
Machinery and equipment	5%	2.0	4.5	2.7	2.2	2.0
Non-road infrastructure	9%	3.7	3.2	1.9	2.9	2.6
Road and bridge construction	10%	2.1	2.2	1.7	3.1	2.9
Utilities	3%	2.5	3.0	3.0	3.0	3.0
Insurance	1%	13.1	3.9	6.0	5.0	4.0
Other	3%	4.6	3.0	2.8	2.5	2.5
LGCI	**100%**	**3.6**	**3.7**	**3.1**	**3.0**	**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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