
# Economic Briefing June 2025

WALGA

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# Overview

**Global trade tensions and downgraded global growth forecasts pose risks to Australia's economy, particularly for export-reliant Western Australia. Productivity remains essential for improving living standards. The recent State Budget prioritised spending on election commitments, housing, health, and economic infrastructure. As public sector spending slows, household consumption and dwelling investment are expected to support growth.**

The RBA cut interest rates in May for the second time this year, with inflation returning to target for the first time since 2021. Further rate cuts are possible, though global uncertainty may temper action. WA leads the nation in population growth, with strong job creation and wages growth.

Global trade tensions and downgraded global growth forecasts pose risks to **Australia's economy**. Increasing productivity is key to improving living standards.

**Western Australia's** State Budget showed an economy that was in a strong position but with risks to a global economic slowdown due to its trade exposed economy. The Budget focused on delivering election commitments, particularly around housing, health, and economic infrastructure.

The RBA cut interest rates for the second time this year as underlying **inflation** fell into the target band for the first time since 2021.

WA's **labour market** remains tight as jobs are created at a rate that meets the highest population growth in the nation. As a result, wages continue to grow strongly.

**Local Government costs** rose 3.6% in the last 12 months, off the back by a jump in public sector wages driven by increases in state-based agreements. Elsewhere construction costs continue to grow steadily.

## 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 fourteen 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.

# WA Economy and State Budget

## Key points

- **The State Budget was handed down with a focus on delivering election commitments, housing, health, and economic infrastructure**
- **As growth in public sector spending and investment slows, improved conditions for households and dwelling investment are expected to drive economic growth**
- **WA's export economy is exposed to a global economic slowdown**

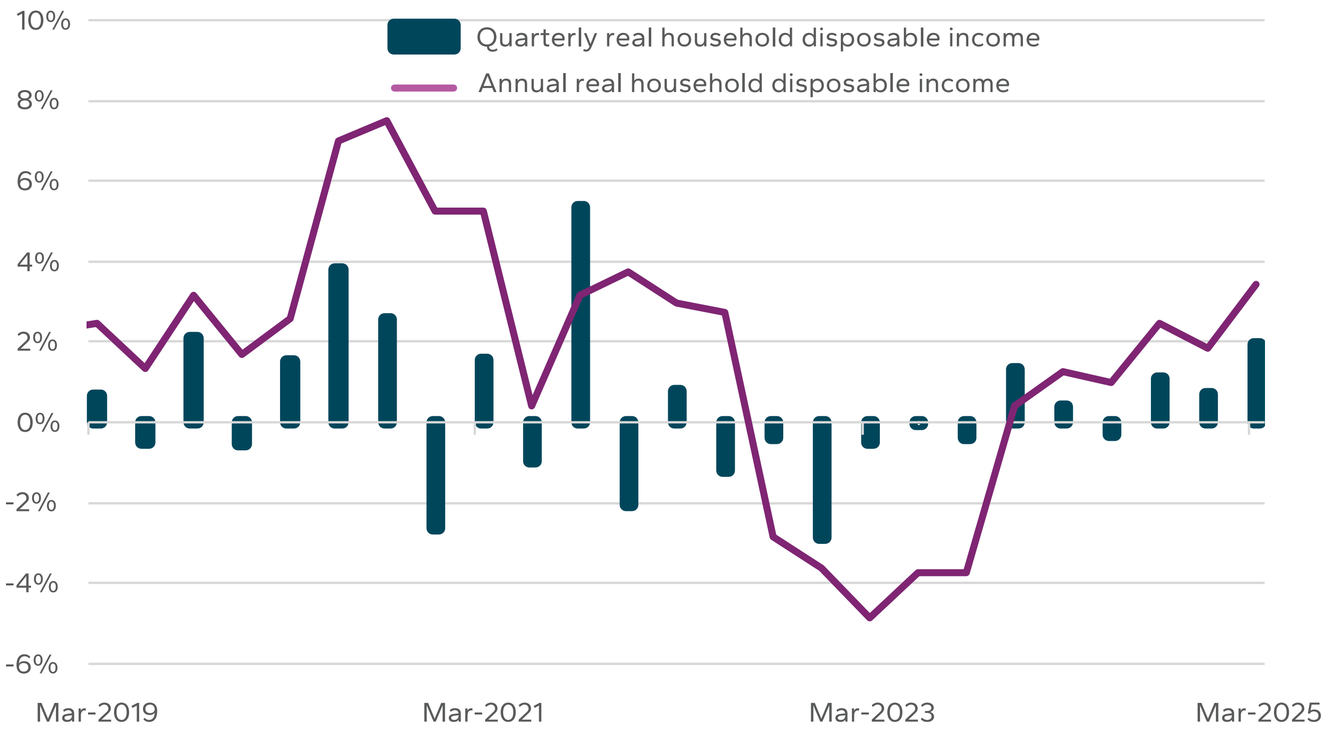
On 19 June, Treasurer Hon Rita Saffioti MLA handed down the 2025-26 State Budget, an earlier than usual release for an election year, highlighting the State Government's determination to act swiftly on its commitments. As anticipated, the Budget focused heavily on key election promises, with significant funding directed toward addressing immediate challenges such as cost-of-living relief, increasing housing availability and affordability, and strengthening health services. It also reaffirmed the Government's commitment to its Made in WA agenda and to building infrastructure that supports economic diversification and the transition to a low-carbon future.

Treasury is forecasting a budget surplus of $2.5 billion in 2024-25 and $2.4 billion in 2025-26 with the next three years also seeing budget surpluses above $2 billion. Net debt is forecast to rise to $42.5 billion, reaching 9.2% of Gross State Product. There are considerable risks to this forecast on the revenue side, in particular the volatility of the iron ore price and the reliance on China, which imports almost 75% of global iron ore. The Government is continuing to conservatively estimate the iron ore price in the Budget, a strategy that has consistently yielded revenue upgrades in previous years.

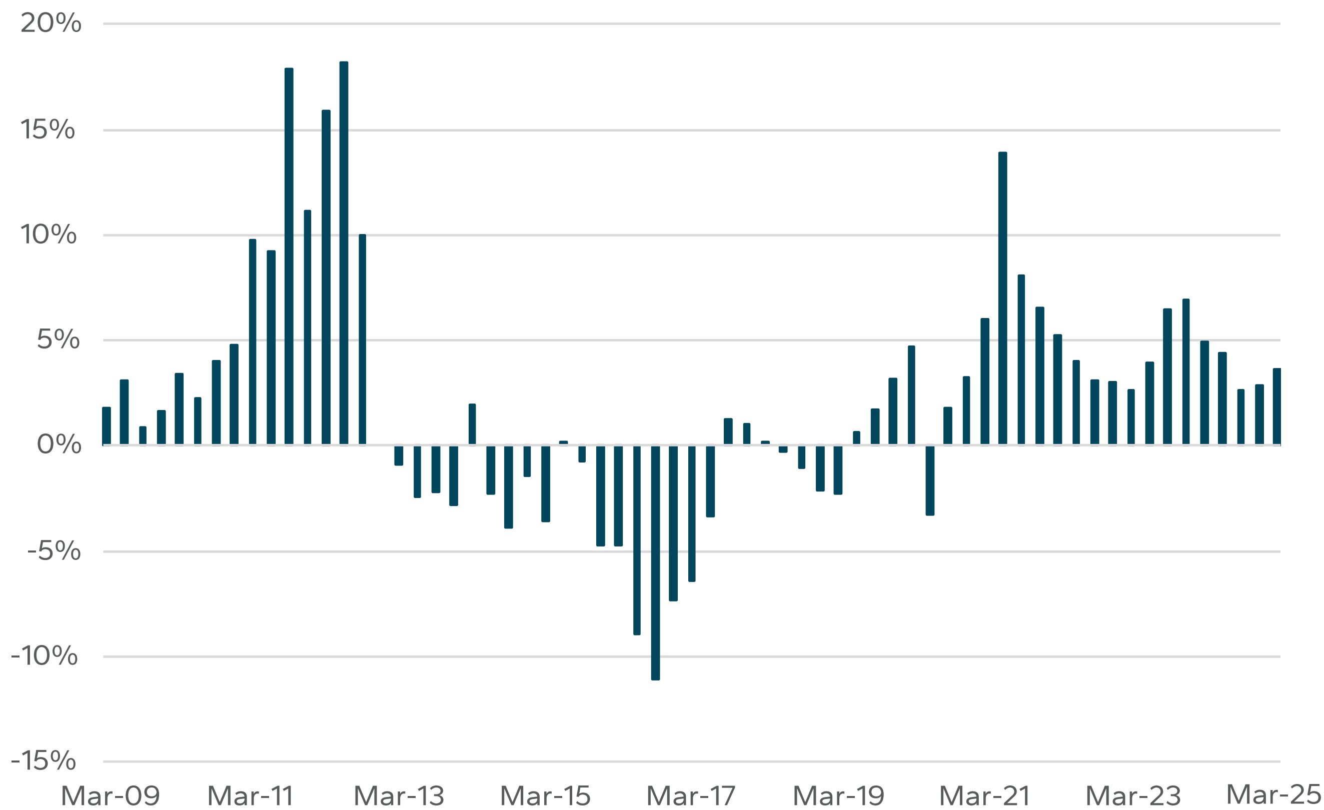
Household consumption in WA has softened in recent years, weighed down by high interest rates and persistent cost-of-living pressures. While travel-related spending initially provided a boost, this has since normalised. WA's household spending has outpaced other states, growing by 1.8% in the year to March 2025. Looking ahead, consumption is expected to strengthen, rising to 2.75% in 2025-26 and 3.0% in 2026-27, supported by falling interest rates, stabilising inflation, and population growth. Per capita consumption, which dipped slightly in early 2025, is forecast to recover as real disposable incomes improve, employment remains strong, and elevated house prices support household wealth.

Dwelling investment growth has remained robust, increasing by 4.6% in the year to March 2025, following 4.2% growth in 2023-24. Over 20,600 homes were completed in 2024, the highest since 2017. Despite a surge in new home commencements in mid-2024, the construction sector remains constrained by skills shortages. Dwelling investment is forecast to grow by 5.0% in 2024-25 and 9.25% in 2025-26, supported by ongoing work on recently started projects. The value of work done in the residential sector reached a new record high in September, exceeding the heights reached at the peak of the boom. This is expected to continue with a high level of work in the pipeline.

**Real Household Disposable Income, Australia, Annual v Quarterly % Change**
SOURCE: ABS; WALGA




**State Final Demand, WA, Annual % Change**
SOURCE: ABS; WALGA



While building approvals have risen, particularly for multi-residential dwellings, other indicators such as new home sales and finance commitments suggest a moderation in new activity. In Western Australia, the economic viability of apartment construction is increasingly constrained, with elevated building costs causing numerous projects to stall at the approvals stage. Over the longer term, dwelling investment is expected to grow at a more moderate pace of around 3% annually, aligned with gradual improvements in construction capacity and steady population growth.

Business investment is projected to decline slightly by 1% in 2024-25 after a strong 12.7% increase in 2023-24, the highest in over a decade. This decline reflects a pause in capital expenditure as major oil and gas projects, such as Scarborough/Pluto Train 2, pass their peak construction phases. Growth is expected to resume in 2025-26, with a 2.75% increase driven by decarbonisation efforts and sustaining capital works in the resources sector. Investment levels are anticipated to remain strong through to 2028-29, reaching around $65 billion, supported by a pipeline of projects in iron ore, gas, minerals, renewable energy, and infrastructure. However, growth estimates have been pared back due to global geopolitical uncertainties.

State Government consumption is forecast to grow by 6% in 2024-25 and 3% in 2025-26, driven by increased spending on health, education, and community services to support a growing population and provide cost-of-living relief. From 2026-27, growth is expected to stabilise at around 2.5% annually as temporary spending measures taper off. Government investment, which has averaged 14.4% annual growth over the past four years, is expected to decline by 5.5% in 2025-26 as major transport projects conclude. Thereafter, investment growth is projected to stabilise at around 1% annually.

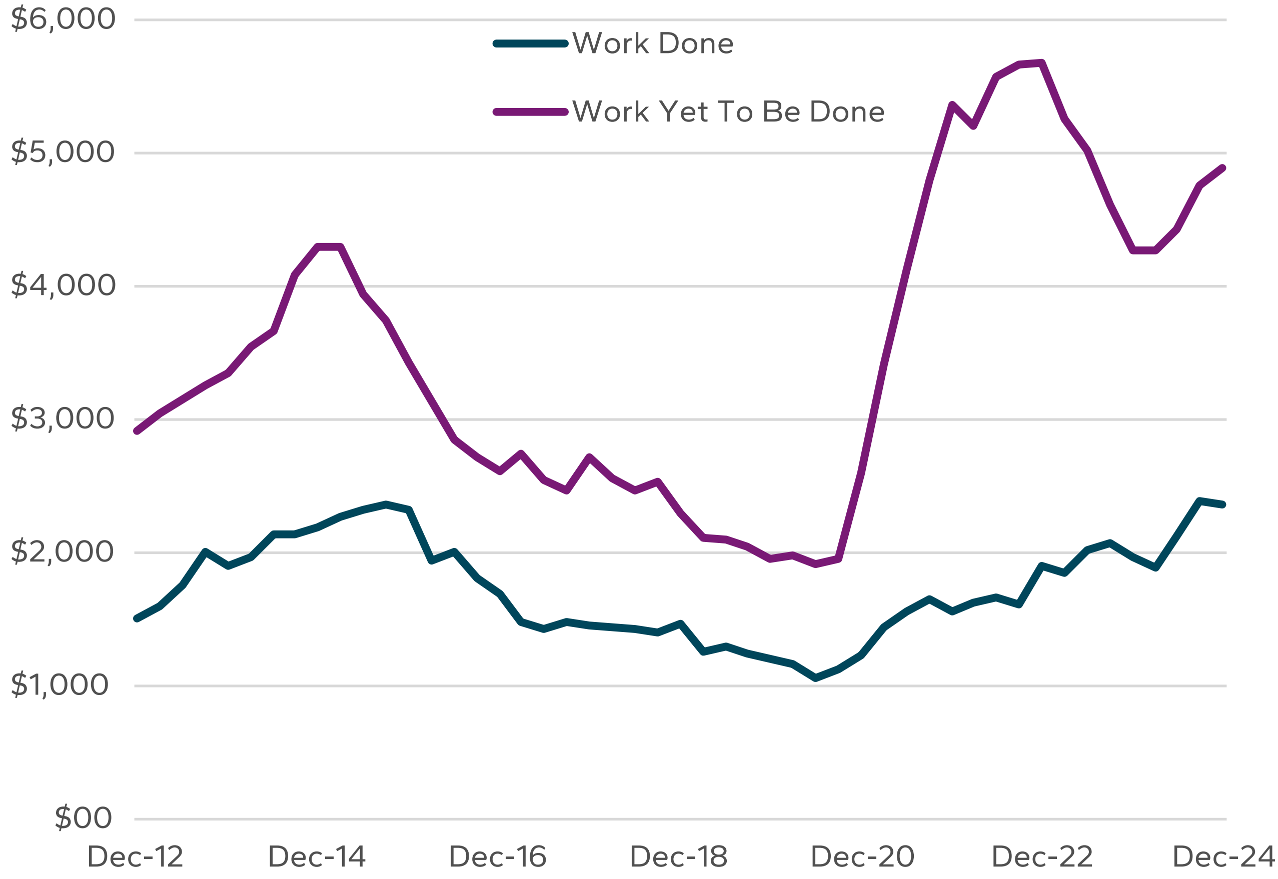
Goods exports fell by 3.7% in 2023-24 and are expected to decline by another 2.25% in 2024-25 due to reduced output in key commodities like LNG, nickel, and iron ore, partly due to cyclone disruptions. A recovery is forecast from 2025-26, with 2% growth supported by new production from iron ore and lithium projects. Growth will peak at 3.5% in 2026-27 with the start of the Scarborough/Pluto LNG project, then average 2% annually.

Goods imports are expected to slow to 1.25% in 2024-25 after a 9.1% surge in 2023-24, reflecting reduced capital and consumer goods imports. Growth will average 1.6% in the outyears. Services exports, which surged post-pandemic, are expected to decline by 1% in 2025-26 due to tighter student visa policies and slowing tourism. Services imports are also moderating and are projected to grow at 2.5% annually. Overall, net exports will decline by 3.5% in 2024-25 before recovering in 2025-26 and strengthening in 2026-27.

While WA's household sector has shown resilience, global uncertainty poses risks to consumer confidence and spending. Renewed inflationary pressures from trade tensions could delay interest rate cuts, while ongoing workforce shortages, particularly in construction, may constrain growth and exacerbate housing supply issues. WA's heavy reliance on the mining sector also leaves it exposed to fluctuations in global commodity prices and investment sentiment, with potential flow-on effects for employment and economic momentum.

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

SOURCE: ABS; WALGA




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 cut rates in May for the second time this year**
- **Underlying inflation dropped to the RBA's target band for the first time since 2021**
- **Additional rate cuts are forecast this year, although global factors may lead to caution from the central bank**

The Reserve Bank of Australia (RBA) reduced the cash rate target by twenty-five basis points to 3.85% in May, the second cut this year. Underlying inflation, measured by the Trimmed Mean, fell to 2.9% in the March quarter, the first time it has fallen into the RBA's 2% to 3% target band since 2021. The Trimmed Mean is the RBA's preferred measure of inflation because it reduces the impact of temporary price changes, such as electricity credits, and avoids distortions caused by large price fluctuations in certain components of the Consumer Price Index.

The RBA considers that the cash rate is still restrictive, meaning that it can reduce it further before it reaches a neutral setting and is no longer acting as a brake or as an accelerator to the economy. It is particularly concerned about rising uncertainty in the global economy from increasing tariffs and heightened geopolitical tensions. With inflation forecast to remain in the target band in the coming quarters, the RBA judged that it could act to support households in an environment of low domestic economic growth and a subdued global economy.

Major institutions and the market expect multiple additional cuts this year. The next RBA Monetary Policy decision will be on July 8, with major banks split on whether the next cut will come at this time, or whether the Board will wait for the next round of inflation data with a cut to follow in August. Worsening economic conditions and a slow rebound in household consumption will increase the likelihood of an earlier rate cut, while any sign of a surge in inflation will dampen the mood for further cuts.

**"Inflation is in the target band and upside risks appear to have diminished as international developments are expected to weigh on the economy. With inflation expected to remain around target, the Board therefore judged that an easing in monetary policy at this meeting was appropriate. The Board assesses that this move will make monetary policy somewhat less restrictive."**

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

Headline inflation in Australia remained at 2.4% in the March quarter, the third consecutive quarter inside the RBA's target band. In March's Federal Budget, the Australian Government announced a final $150 electricity credit for consumers in the second half of 2025. The unwinding of this cost-of-living measure, along with the removal of similar State measures, such as WA's cessation of the household electricity credit, is expected to lead to an increase in headline inflation in the short term. However, the RBA expects headline inflation to move close to the top of the band before settling around the midpoint.

Promisingly, annual inflation for services continued to fall after a period of persistent high levels. At 3.7%, services inflation is at its lowest level since June 2022. Increasing rents and insurance continue to be major contributors to services inflation.

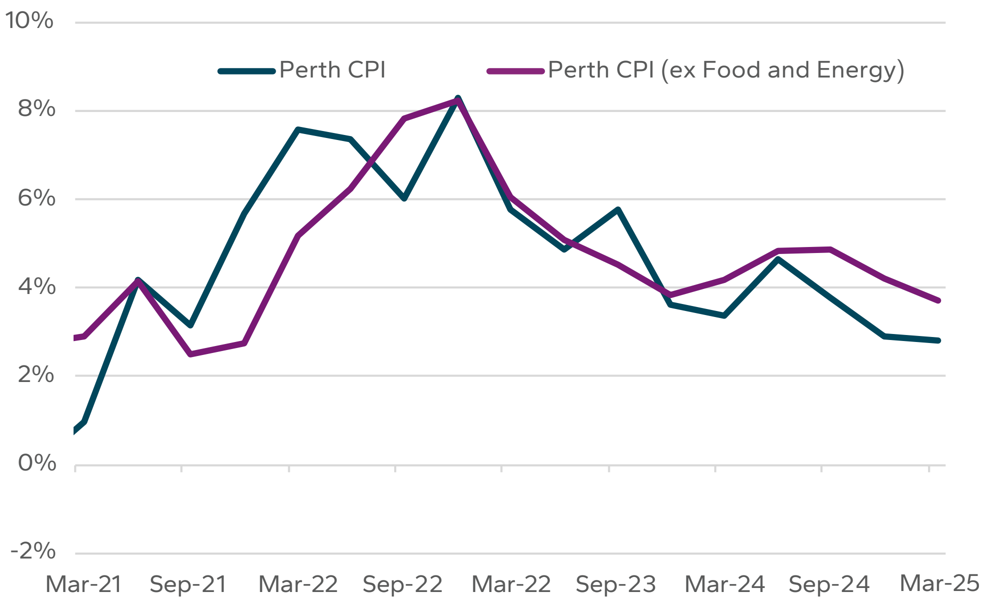
In contrast, goods inflation increased to 1.3% largely off the back of rising electricity prices, up 16% this quarter. It is expected that this will continue as the electricity credits are unwound and electricity bills have a greater impact on household budgets.

Perth CPI rose 2.8% in the year to March, the highest of the capital cities. Over the last three months, Perth CPI increased 0.5%, lessened by a fall in electricity prices due to the electricity credits. Other significant price rises included medical and hospital services (+3.0%), and secondary education (+6.4%) due to the annual increase at the start of the school year. Rents continue to show signs that the rate of growth has peaked, up 1.7% for the quarter, however this is after a 41% increase in just four years. The cost of new housing is showing a similar dynamic, increasing just 0.4% in the March quarter, little comfort for prospective home builders who have seen price rises of 61% in the last four years.

Looking beyond the impact of the electricity credits, the ABS measure of Perth CPI excluding Food and Energy has dropped to 3.7%, the lowest level since December 2021. As the electricity credits are phased out, it is expected that Perth CPI will rise in the short term and the gap between Perth CPI excluding Food and Energy and Perth CPI will narrow.

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

SOURCE: ABS; WALGA



# Labour Market, Population and Wages

## Key points

- **WA's population growth is the fastest in the nation**
- **The labour market remains tight with strong jobs growth absorbing the population boom and a low unemployment rate**
- **Public sector wages jumped this quarter due to increases from state-based enterprise agreements**

Australia's population growth rate continues to ease, down from a peak of 2.5% in the year to September 2023 to 1.7% in December 2024. This is approaching the levels in the decade pre-COVID where national population growth oscillated around 1.5%. Net Overseas Migration totalled 340,600 in 2024, down from the peak of 555,800 in September 2023, but yet to fall to the 2019 level of 247,600.

This return toward long-term averages reflects two key factors: the unwinding of the post-COVID migration surge, which followed a period of near-zero arrivals during the pandemic, and the impact of recent government policy measures aimed at moderating migration levels.

WA's population growth continues to lead the nation, up 2.4% in 2024, well above the next fastest growing states of Queensland (+1.9%) and Victoria (+1.9%). The largest component of population growth in all States and Territories, Net Overseas Migration, has increased by over 45,000 in WA in 2024. WA and Queensland are the only two states that have positive Interstate Migration, where more people move to a state than leave.

With WA also leading the nation in total fertility rate, a statistic that is correlated to the economic cycle, it is expected that WA's population growth will continue to outperform the nation provided employment opportunities remain strong. In the State Budget, population growth is forecast to ease to 1.8% in 2025-26 as overseas migration to Australia falls.

Western Australia's tight labour market showed some early signs of easing in the March quarter with a slowdown in jobs growth and an uptick in unemployment. It is too early to declare a momentum shift however, as the WA labour market has consistently defied predictions in the post-pandemic period.

There has been a rapid increase in jobs growth in WA in recent years, with the number of employed persons up 5.8% in 2021, 3.2% in 2022, 3.1% in 2023, and 4.1% in 2024. 240,000 jobs were added in these four years. However, jobs growth in the March quarter was just 0.3%, with annual growth falling to 2.5%. Looking ahead, the State Budget projects a further moderation, with employment growth expected to ease from 3.0% in 2024-25 to 1.75% in 2025-26.

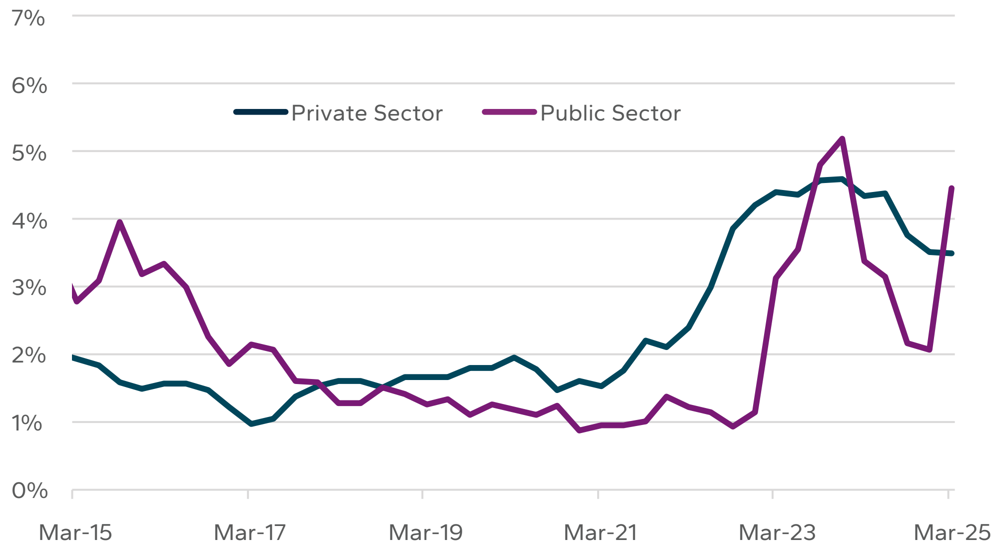
Although population growth has been strong, employment growth has outpaced it in recent years, resulting in a tight labour market where new migrants have helped fill job vacancies and unemployment has remained near historic lows. Looking ahead, Treasury expects population growth to slightly exceed employment growth, gradually easing labour market pressures. This shift is anticipated to bring the unemployment rate closer to levels consistent with a neutral labour market. As of May 2025, the unemployment rate stood at 3.8%, with Treasury forecasting it to remain around that level through 2025-26 before rising modestly to 4.0% in 2026-27.

WA wages jumped 1.0% in the March quarter, driven by state-based enterprise agreements in the public sector. Over the last 12 months, wages grew 3.7% in WA, up from 3.3% in the December quarter. Annual private sector wages growth remained at 3.5% for the second consecutive quarter. A hefty 2.7% jump in public sector wages in the three months to March took the annual growth in public sector wages to 4.5%, up from 2.1% in the previous quarter. There has been significant volatility in the public sector Wage Price Index in recent years as the public sector is slower to respond to the tight labour market and competition for talent than the private sector.

With labour market conditions remaining tight in the short term, wages in Western Australia are expected to continue rising at a solid pace. The 2025-26 State Budget forecasts wage growth of 3.5%, before easing slightly to 3.0% in subsequent years.

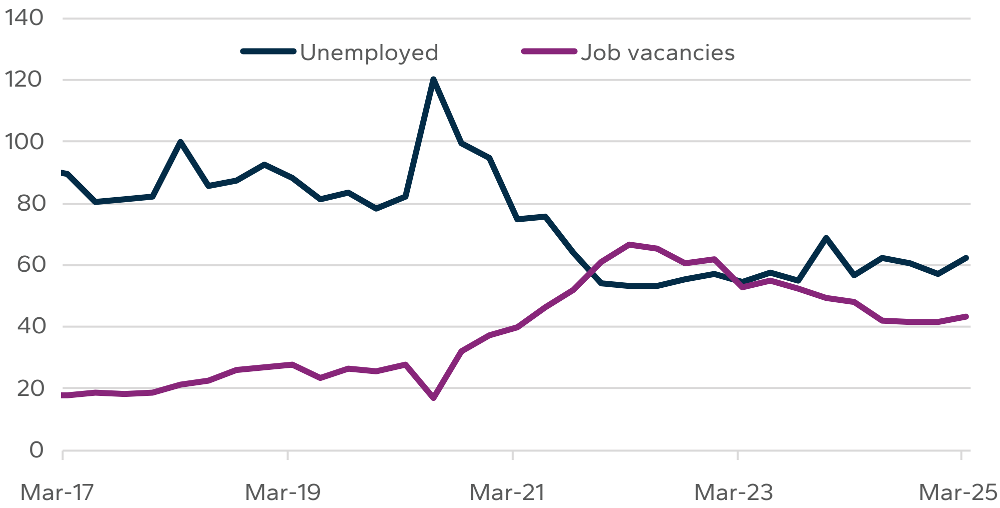
Wage Price Index Private vs Public, WA, Annual % Change

SOURCE: ABS; WALGA



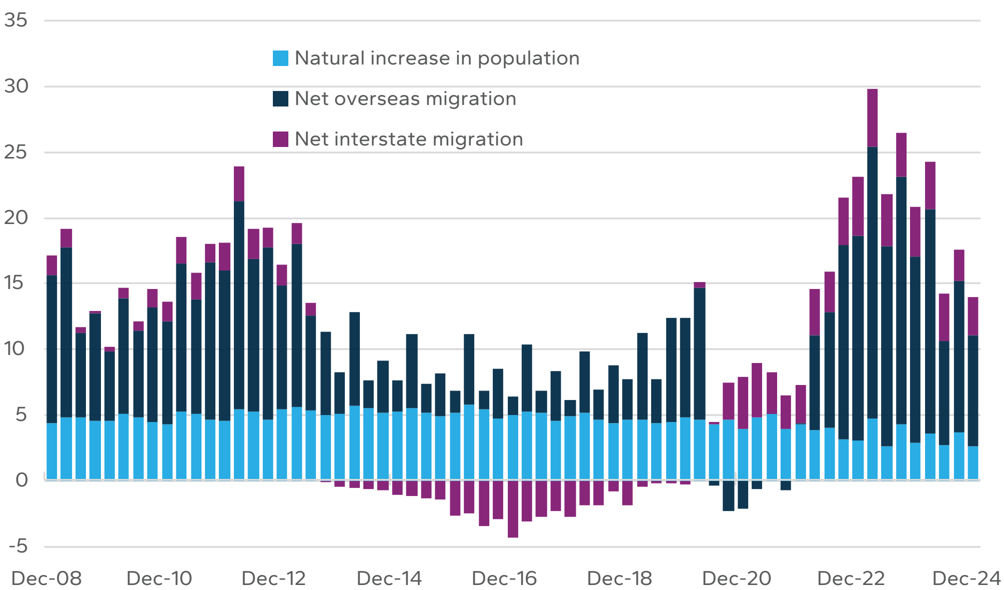

Job Vacancies vs Unemployed Persons, WA, '000s

SOURCE: ABS; WALGA




Components of Population Change, WA, '000s

SOURCE: ABS; WALGA



# Local Government Cost Index

## Key points

- **The LGCI increased from 3.2% to 3.6% in annual terms, rising 1.3% in the March quarter**
- **The key driver of this increase was the rise in public sector wages**
- **Construction costs continue to increase steadily**

The Local Government Cost Index (LGCI) increased 1.3% in the March quarter to take the annual figure to 3.6%, up from 3.2% in the December quarter.

The primary driver behind the LGCI increase was a sharp 2.7% increase in public sector wages during the March quarter, fuelled by new state-based enterprise agreements. This is the highest quarterly rise in public sector wages since records began in 1997. On an annual basis, public sector wage growth jumped from 2.1% in December to 4.5% in March. While the tight labour market continues to exert upward pressure on wages, this record-setting increase is not expected to be repeated in following quarters.

In May, the Fair Work Commission announced a 3.5% increase to the National Minimum Wage and minimum award wages. This was followed by the WA Industrial Relations Commission increasing the State minimum wage and pay rates by 3.75%. These outcomes represent a middle ground between the proposals put forward by business groups and unions. Both increases are effective from July 1 and will be reflected in the September quarter data. Employee costs make up around one-third of Local Government costs on average across the State.

Construction cost growth has returned to more typical levels in recent years, following the easing of global supply chain disruptions that emerged during the pandemic. Current geopolitical outbreaks and trade tensions increase the risk of another spike in construction costs, particularly if shipping is impacted or the oil price increases dramatically.

The Road and Bridge Cost Index, which peaked at 12% annual growth in June 2022, slowed significantly to 3.8% by June 2023 and further to 2.1% by June 2024. A modest uptick is expected, with a 2.7% increase forecast for the year to June 2025 as demand from infrastructure projects remains strong despite easing from the recent record highs.

Non-road infrastructure costs have followed a comparable trend. After a 12% surge in 2021-22, growth slowed to 3.2% in 2022-23 and 3.7% in 2023-24. This deceleration is expected to continue, with a projected increase of 3.0% in 2024–25 and further moderation in subsequent years.

Similarly, non-residential building costs experienced a sharp drop from 14.4% in 2021-22 to just 1% in 2022-23. However, costs picked up again, rising to 4.6% in 2023-24, due to the competition for labour and materials with a surging residential construction sector. These costs are expected to increase by 4.5% in 2024-25 before easing to 3.5% in 2025-26.

The current outlook for construction cost forecasts leans toward the upside. Ongoing capacity constraints within the industry and emerging cost pressures in specific construction components suggest that actual price increases could exceed

### LGCI Table

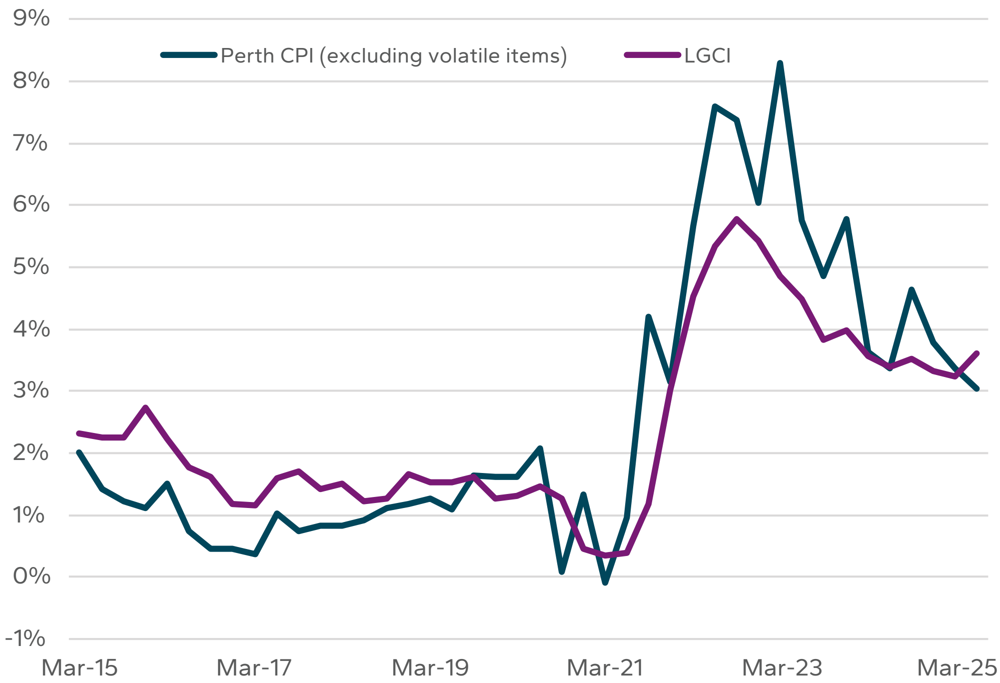
| Component | Weighting | 2023-24 (actual) | 2024-25 (forecast) | 2025-26 (forecast) | 2026-27 (forecast) | 2027-28 (forecast) |
|---|---|---|---|---|---|---|
| Employee costs | 35% | 4.2 | 3.8 | 3.5 | 3.0 | 3.0 |
| Materials and contracts | 28% | 3.2 | 3.5 | 3.7 | 3.2 | 3.2 |
| Furniture | 1% | 4.7 | 4.0 | 3.2 | 2.5 | 2.0 |
| Non-residential building | 5% | 4.6 | 4.5 | 3.5 | 1.9 | 2.1 |
| Machinery and Equipment | 5% | 2.0 | 3.9 | 2.7 | 2.2 | 2.0 |
| Non-road infrastructure | 9% | 3.7 | 3.0 | 2.4 | 2.2 | 2.3 |
| Road and bridge construction | 10% | 2.1 | 2.7 | 2.2 | 2.5 | 2.5 |
| Utilities | 3% | 2.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| Insurance | 1% | 13.1 | 8.6 | 7.0 | 6.0 | 6.0 |
| Other | 3% | 4.6 | 3.0 | 2.8 | 2.5 | 2.5 |
| LGCI | **100%** | **3.6** | **3.5** | **3.3** | **2.8** | **2.8** |

current projections. Additionally, elevated housing construction activity, driven by both State and Federal Government initiatives, is expected to further strain the limited supply of materials and skilled labour.

Given this environment, Local Governments should adopt a flexible and responsive approach to budgeting. Contingency planning and adaptable procurement strategies will help to manage potential cost fluctuations. It is also important to note that the Local Government Cost Index reflects statewide trends, which may not capture regional differences. To better align project planning with local realities, Local Governments are encouraged to engage directly with suppliers to gain insights into local market conditions and constraints. This proactive engagement will support more accurate project timing and cost management.

### 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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