Economic Briefing June Quarter 2026

WALGA

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Overview

The Western Australian economy continues to expand but growth has moderated and is expected to continue to cool, dampened by global shocks. The war with Iran and closure of the Strait of Hormuz heavily disrupted the global supply chain, impacting fuel prices across WA, especially in regional WA, and with indirect impacts to other sectors of the economy. In response, the Reserve Bank of Australia increased the target cash rate which had a slight moderating effect on inflation.

The labour market remains tight but is also showing signs of easing as wage growth has slowed slightly. WA population growth is still the highest in Australia but has slowed in recent years. This, alongside continued increases in materials and labour costs, is maintaining pressure on housing prices, although the housing market has also seen some signs of easing due to government policy and the aforementioned interest rate hikes. Construction costs continue to increase and remain volatile due to external pressures to the market. The Local Government Cost Index (LGCI) has been revised upward due largely to higher construction costs.

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.

State Final Demand rose by 2.8% annually to March 2026.

The RBA held **the target cash rate** at 4.35%, reversing all decreases in 2025.

Fuel price movements continue to inject volatility into the economy.

The **housing** market has shown some signs of slowing but remains tight.

Construction costs have increased across WA.

Domestic Economy

Key points

- **The domestic economy continued to expand in the March quarter of 2026, though growth has moderated.**
- **Cost of living pressures, the completion of major projects and the end of key Government investment projects are expected to slow growth in the coming years.**
- **Key components of aggregate demand are reflecting a slight cooling in the market.**

The Western Australian domestic economy continued to expand in early 2026, although growth has moderated from the strong pace observed in recent years. State Final Demand rose by 0.5% in the March quarter 2026, bringing annual growth to 2.8%. This was the lowest rate of annual growth since December 2004 and means that growth is likely to come in below the Western Australian Treasury's forecast of 3.5% for the 2025-26 financial year. Growth was supported primarily by dwelling investment and household consumption, while business investment has begun to ease from recent highs.

National consumer sentiment has remained volatile and historically weak during the first half of 2026, with the Westpac-Melbourne Institute Consumer Sentiment Index dropping to 80.6 in June 2026, with levels in April, May and June the lowest in two years. Despite this, household consumption has shown resilience, with modest increases across both discretionary and essential spending. Consumption remains elevated relative to pre-pandemic levels, supported by strong population growth and accumulated savings. However, this resilience is expected to moderate over time as cost-of-living pressures persist. Household savings in WA also remain comparatively higher than the national average, providing some buffer to spending.

Dwelling investment has been a key driver of growth in the WA domestic economy in the first quarter of 2026, reflecting concerted efforts to boost the state's housing supply. Dwelling investment grew by 4.9% in the March quarter of 2026, and 12.3% compared to a year earlier. Dwelling investment has been accelerating over the past five quarters and grew at its strongest rate in annual terms since September 2023. These strong rates of growth in dwelling investment are expected to taper off in coming years as Government housing investment works through the economy. Dwelling investment is forecast to ease from 9.5% in 2025-26 to 1.5% by 2029-30.

Business investment remains elevated but is transitioning as major resource projects move beyond peak construction. While investment is expected to grow by 6.75% in 2025-26, this largely reflects strong momentum in 2025, with activity easing into 2026. The pipeline of new projects, including Rhodes Ridge, Perth Airport upgrades and data centre investment, is expected to partially offset this decline and support a more gradual slowdown.

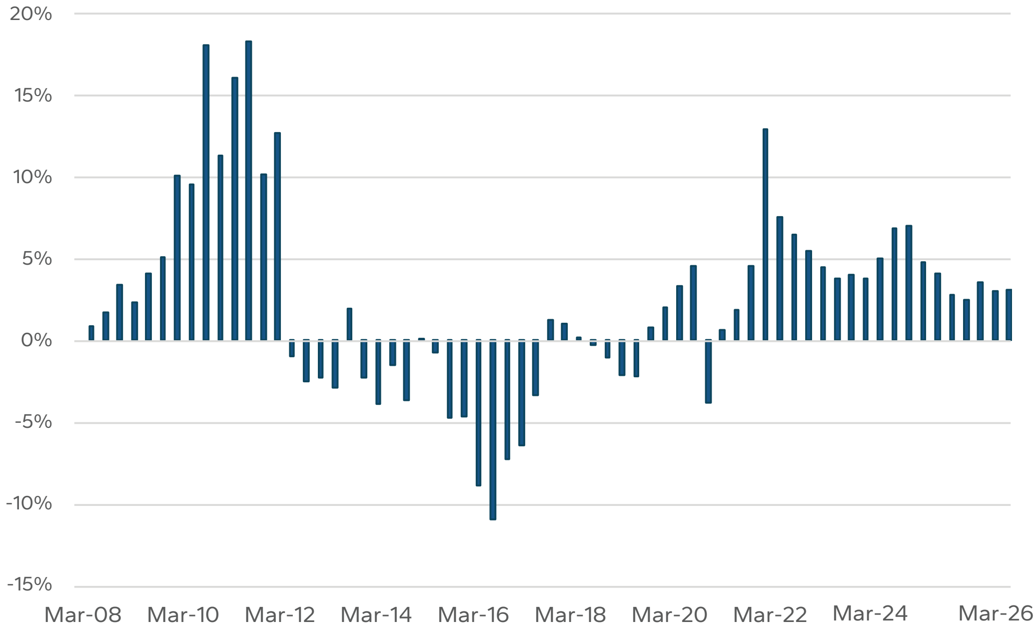
Government consumption has remained strong, increasing by 3.25% in 2025-26 in line with population growth and service demand. However, both consumption and public investment are expected to moderate as major infrastructure projects, including METRONET, approach completion.

Commodity markets remain a key driver of the State's economic performance. Lithium prices have strengthened significantly since early 2026, reflecting growing global demand associated with battery production, particularly from China's electric vehicle sector. Iron ore prices have remained elevated but volatile, with a noticeable decline in June. This may be partially offset by continued strength in lithium exports.

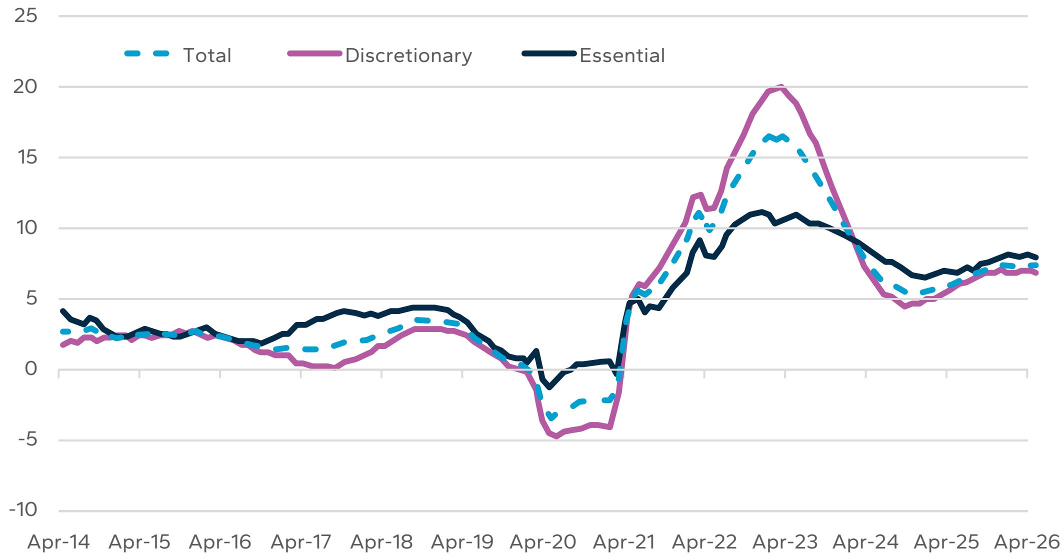
The State's fiscal position remains strong. The 2025-26 Budget projects an operating surplus of $3.5 billion, followed by a $2.4 billion surplus in 2026-27, with surpluses expected to continue across the forward estimates. The 2025–26 outcome is around $1 billion stronger than projected at the Mid-year Review, largely due to higher taxation and royalty revenue, partially offset by increased employee expenses.

Overall, WA's economy continues to grow, but at lower rates than in recent years. Key components of demand including household consumption, business investment, and government expenditure are expected to ease over the medium term. This reflects tighter financial conditions, the transition of major projects beyond peak construction, and a gradual slowing in population growth.

Western Australian State Final Demand, Annual % Change SOURCE: ABS; WALGA



Western Australian Household Spending Annual Growth Rate, 12 Month Rolling Average, Discretionary vs Essential, % SOURCE: ABS; WALGA



Fuel

Key points

- **Global oil prices have fallen from recent highs, as sentiment improves and government policies help ease supply pressures.**

- **Western Australian fuel prices have eased since the price surge in late March but risk rising as the fuel excise reduction decreases.**

- **Ongoing geopolitical risks and lagged cost impacts are expected to keep some upward pressure on prices, with the future of the Strait of Hormuz unresolved despite being opened for a 60-day period under the Memorandum of Understanding signed by the United States and Iran, offset by government fuel excise relief and drawing on strategic reserves.**

- **Local Governments should anticipate ongoing fuel price volatility in the medium term, which may see many key input costs for the sector remain elevated.**

Following the commencement of the Iran conflict in late February, including the closure of the Strait of Hormuz on 28 February, global oil markets experienced a significant supply shock. As approximately 20% of global supply travels through the Strait, global prices increased sharply through March, rising to around USD $112 per barrel from prices generally below USD $70 per barrel prior to the war. Prices have since fluctuated along with developments in the conflict and peace negotiations.

WA has not been immune from this global price shock, with higher fuel prices and localised shortages being experienced in recent months. WA wholesale fuel prices, measured by Perth Terminal Gate Prices, peaked in late March and early April at $247 and $324 for petrol and diesel respectively.

Fuel prices in WA have since steadily declined across the subsequent months, approaching pre-war levels as of late June. This is due to a combination of factors.

Firstly, following the initial shock to the global fuel supply chains, countries which ordinarily ship through the Strait have sought other methods of transport, including pipelines by Saudi Arabia, trucking by Iraq and the United Arab Emirates shipping directly into the Gulf of Oman, bypassing the Strait of Hormuz. While these alternative transport methods have taken some time to become fully functional, they have gradually restored supply, placing downward pressure on global oil prices.

Secondly, with the shock to oil prices, governments across the world, particularly in parts of Asia, have implemented measures to reduce fuel consumption, including fuel rationing and reduced working weeks, contributing to weaker demand. Australia has not participated in mandatory reductions in fuel consumption, limiting this to public messaging to limit consumption.

Thirdly, countries have begun drawing on strategic fuel reserves to offset the reduced supply from the Persian Gulf which has also placed downward pressure on oil prices. Australia has released 20% of its national fuel reserve and has adjusted fuel quality standards to allow more supply into the nation.

Finally, oil prices have been impacted by improved market sentiment, reflecting expectations of easing supply risks, including the potential reopening of key shipping routes such as the Strait.

WA retail fuel prices have also been moderated by the Federal Government's temporary reduction in fuel excise of 32 cents per litre for petrol and diesel (excluding GST) and reduced the heavy vehicle road user charge from 32.4 cents per litre to zero for three months. Relief has been extended with the heavy vehicle road user charge being amended to 16 cents per litre from 1 July to 2 August 2026 and the fuel excise being continued at a 16 cents per litre reduction for the same period. This has kept downward pressure on fuel prices.

The United States and Iran signed a Memorandum of Understanding on 17 June to cease hostilities and reopen the Strait of Hormuz, providing a pathway to a potential agreement within 60 days. If achieved, this would place downward pressure on fuel prices as shipping through the Strait recommences, although this may be partly offset by countries returning to pre-war consumption levels. However, fuel prices could rise again if peace negotiations deteriorate or supply disruptions persist. The use of strategic oil reserves and expansion of alternative supply routes are expected to limit any return to the peak price levels observed in March.

In the event of a resolution to the conflict, prices are likely to remain elevated in the short term as supply chains normalise and strategic reserves are replenished.

High oil prices primarily affect WA through increased transport costs, as transport is the most directly exposed industry. Higher fuel costs raise the cost of moving goods, services and labour across the State, which is particularly significant given WA's geographic scale and reliance on long-distance freight. This has flow-on effects for Local Government operations, including waste collection, fleet operations and road maintenance.

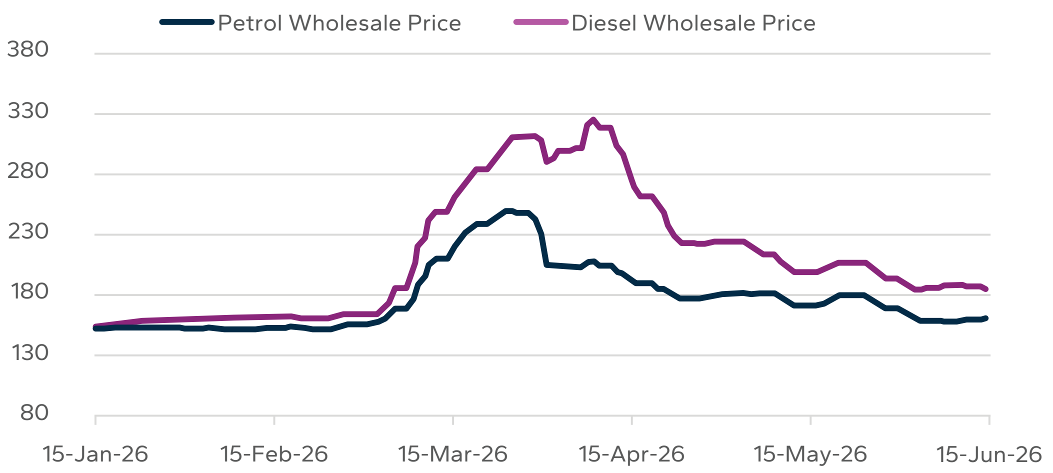
Beyond transport, WA is exposed to oil prices through key inputs such as bitumen for roads and fertiliser. Rising costs for these inputs lift infrastructure and service delivery expenses, particularly in regional areas.

These impacts extend indirectly through supply chains, contributing to higher input costs across sectors. However, these secondary effects typically emerge with a lag, as businesses gradually pass through higher transport and petroleum-related costs to industries such as construction, food production and logistics.

Fuel prices remain sensitive to shocks, particularly for the harvesting season in WA when fuel demand is elevated, similar to the higher demand for planting season. According to data from a survey by WALGA, regional Local Governments are disproportionately impacted by price increases.

While immediate price pressures have eased, ongoing geopolitical uncertainty and indirect impacts are expected to drive price volatility through the medium term. Local Governments should remain prepared for flow-on impacts through higher CPI and construction costs, which are likely to contribute to increases in the September Local Government Cost Index.

Fuel Terminal Gate Price for Petrol and Diesel, cents per litre SOURCE: FUELWATCH; WALGA



Inflation and Interest Rates

Key points

- **National headline inflation as measured by the CPI has fallen to 4.2% over the year to April 2026, while underlying inflation has risen to 3.4%, above the Reserve Bank of Australia's (RBA's) target band of 2-3%.**

- **Perth CPI has increased marginally, with the largest increases being recorded in the sub categories of Transport and Housing.**

- **Local Governments can expect the RBA may further raise the cash rate target if underlying inflation remains outside of its target band of 2 to 3 per cent.**

National CPI annual inflation growth rose from 3.67% in the December 2025 quarter to 4.05% in the March 2026 quarter. On a monthly frequency, over the year to April 2026, CPI annual inflation fell from 4.6% to 4.2%, indicating a moderation in headline price pressures. However, underlying inflation, as measured by the Trimmed Mean, rose to 3.4 per cent, up from 3.3 per cent in the 12 months to March 2026. This remains above the RBA's target band of 2-3%. The rise in trimmed mean coinciding with CPI falling indicates inflation pressures broadening beyond volatile items such as fuel and becoming more persistent. This is likely to reinforce the RBA's focus on maintain a dampening monetary policy stance to ensure inflation does not become embedded.

At its May 2026 meeting, the Board of the RBA increased the cash rate target by 25 basis points to 4.35%. This decision was made in response to higher inflation in the second half of 2025 and additional price pressures from the conflict in the Middle East, specifically for higher prices in areas such as fuel and commodities. As the Board assessed that inflation was likely to remain above target, it judged it appropriate to increase the cash rate target.

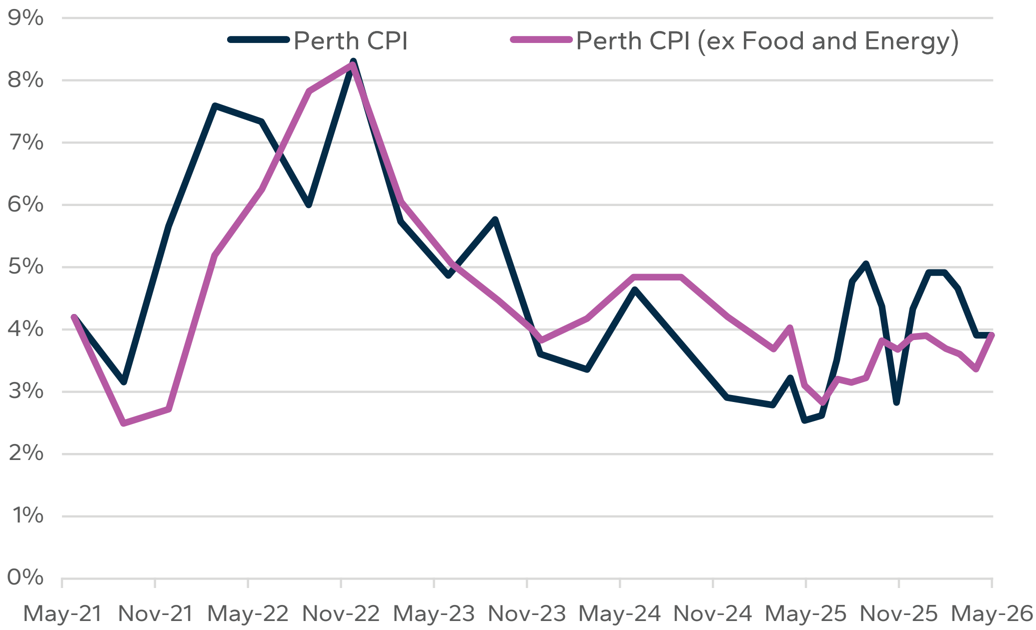
In its June 2026 meeting, the Board of the RBA decided unanimously to maintain the cash rate at 4.35%. The decision reflected a desire to monitor the impact of earlier rate increases amid signs that economic activity is beginning to slow. However, inflation remains high, partly due to ongoing disruptions in global oil supply. The Board will continue to assess the situation and is prepared to adjust its policy if required.

In Western Australia, the Perth CPI increased by 0.4% from the previous month which was in line with the weighted average of all Australian capital cities and equal second lowest behind Melbourne (0.0%). On a quarterly basis, Perth CPI increased by 1.5% in the March quarter, which compares with a 0.17% increase in the December 2025 quarter. In annual terms, Perth CPI increased by 3.9% which is below the national CPI of 4.2% and among the lowest across all Australian capital cities.

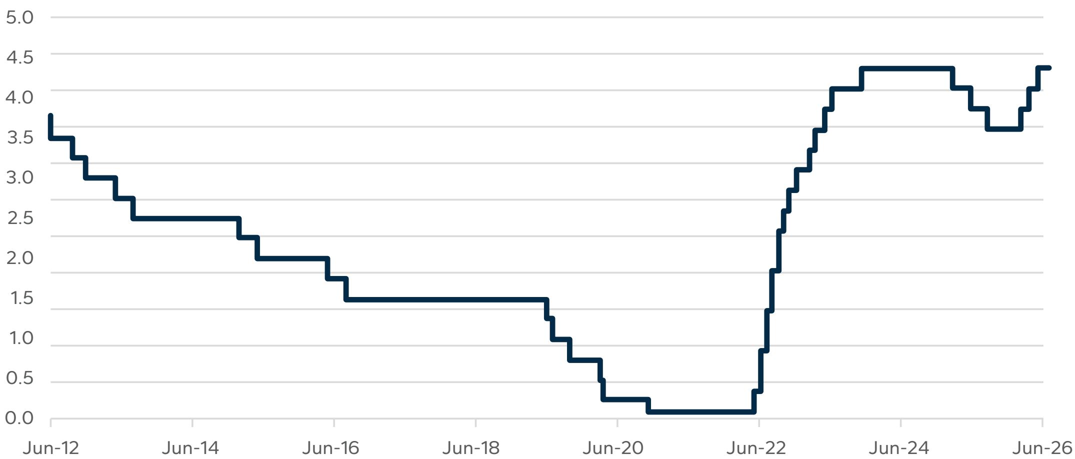
The fastest annual increases at an individual sub-category level in Perth were recorded in Transport (8.8%) and Housing (5.5%). Transport inflation remains above the national average, largely reflecting elevated fuel costs due to the conflict in the Middle East, while housing inflation is below the national rate of 6.3%. As mentioned in the fuel analysis in this briefing, high transport costs impact Local Governments in areas such as waste disposal and road infrastructure and maintenance and will be a key issue for the sector to monitor going forward.

Looking ahead, inflation is expected to decline only gradually, with risks remaining tilted to the upside due to global energy market uncertainty and persistent domestic cost pressures. As a result, the RBA will continue to prioritise the return of inflation to the target band which may see further rate rises in coming months.

Perth CPI vs Perth CPI excluding Food and Energy, % SOURCE: ABS; WALGA



Reserve Bank of Australia, Target Cash Rate, Australia, % SOURCE: RBA; WALGA



Labour Market and Wages

Key points

- **The Western Australian labour market remains tight, although conditions are expected to ease going forward.**
- **Wage growth has remained elevated in early 2026, although it has also recently begun to ease.**
- **The Western Australian Industrial Relations Commission increased State Minimum Wage by 4.75% from 1 July 2026 and commensurate award rate increases.**
- **Despite easing conditions, the labour availability remains tight and Local Governments may continue to face challenges in recruitment and retention as the market is transitioning.**

The WA labour market remains tight, although has eased from the extremely tight conditions experienced in recent years as broader economic conditions moderate.

In an environment where labour shortages persist and inflation has been high, wage growth has remained elevated in early 2026. The Western Australian Wage Price Index (WPI) increased by 3.6% over the year to March, above the national rate of 3.3%. This represented the second highest growth among all states and territories, behind only the Australian Capital Territory. However, momentum has slowed, with quarterly growth of 0.4% in the March quarter, the lowest of all states and territories, suggesting wage pressures are beginning to ease from recent peaks.

Public sector wages in WA increased by 0.7% in the March quarter, contributing to annual growth of 5%. While this remains elevated, the moderation in quarterly growth suggests that wage pressures are beginning to stabilise. In contrast, private sector wage growth has eased further, with quarterly growth of 0.4% in the March quarter and annual growth of 3.3%.

The Western Australian Industrial Relations Commission's 2026 State Wage Case decision may also add to wage pressures in some sectors going forward. The Commission increased the State Minimum Wage by 4.75% to $998.30 per week from 1 July 2026, along with a 4.75% increase in award rates from that time. This is in line with the Federal Minimum Wage decision of 4.75%. This is expected to place upward pressure on wages in both public and private sectors through the September quarter, particularly in lower-paid occupations. These changes to award-level wages impact some Local Governments more directly.

Despite nominal wage growth, real wages fall as inflation continues to exceed wage increases. This is likely to constrain household purchasing power and consumer demand in the short term.

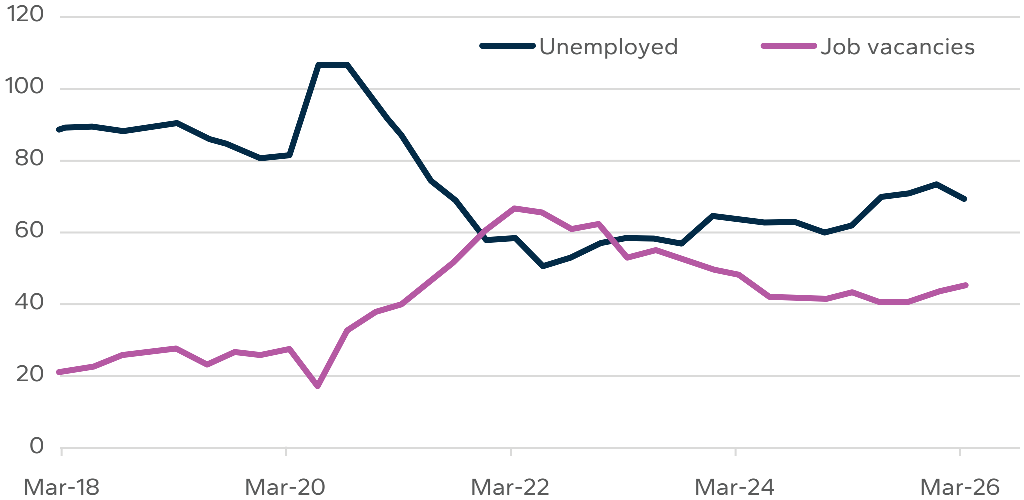
In terms of labour market conditions, as at April 2026, the WA labour market remains buoyant. The participation rate remains strong at 69.2%, the highest among all states and territories and above the long-run average. This was underscored by a participation rate monthly change of 0.3 points, also the highest of all states and territories.

The unemployment rate remains the lowest in the country at 4.1%, indicating ongoing tight labour market conditions in WA. Tight supply of labour is expected to keep wages high, though this is expected to moderate due to population growth.

Overall, indicators suggest the labour market is transitioning to more balanced conditions.

Despite easing conditions, the labour availability remains tight and Local Governments may continue to face challenges in recruitment and retention as the market is transitioning. Local Governments should continue careful budget planning with mind for the competition for skilled workers and the elevated public sector wage outcomes.

Job Vacancies vs Unemployed, Western Australia, Number SOURCE: ABS; WALGA



Population and Housing

Key points

- **Population growth in Western Australia remains strong, however has eased in recent months in line with a slowdown in international migration following the COVID-19 pandemic.**

- **The housing market remains tight but there are early signs that conditions may be starting to improve.**

- **Continued supply responses and policy reforms are expected to support a moderation of the housing market over the medium term, however the pace of new housing supply may continue to be constrained by rising construction costs and labour shortages.**

WA continues to record the strongest population growth of all states and territories, with the total resident population increasing by 2.2% in the year to December 2025, ahead of the next fastest rate of population growth at 1.7% in Queensland. While growth remains elevated, it has moderated from its June 2023 peak and is now at its slowest quarterly rate since December 2021, indicating a gradual easing from post-COVID highs.

Net overseas migration remains the primary driver of WA's population growth, although it has slowed from historically high post-pandemic levels. Over the year to December 2025, net overseas migration added 40,422 people to the population. In contrast, natural increase has slowed significantly, with a historic low of 2,528 added to the population in the December quarter.

Sustained population growth in recent years has continued to place significant pressure on the housing market, although some early signs of relief from the extremely tight conditions are emerging.

Housing affordability in WA has continued to fall, with the proportion of average family income required to service mortgage repayments rising to 45.9% in the March quarter 2026. This exceeds the previous peak of 41.2% recorded in September 2008 and represents the least affordable conditions since records began in 1996. Mortgage repayments are widely considered to be unaffordable if they are more than 30% of household income.

Housing prices have increased strongly over recent years, with Perth median dwelling values rising by approximately 17% to 20% per annum over the past three years to $935,000. Strong population growth has driven demand for housing, while the supply response has lagged, with dwelling completions failing to keep pace. This has added to pressure on housing prices.

This imbalance has been reflected in historically low listings and reduced median selling times with listings reaching a low of 2,129 in January 2026, the lowest figure in a decade. However, listing volumes have begun to recover in the June quarter, reaching their highest level since September 2022.

Rental market conditions remain challenging, with median house rents in Perth increasing by 8.7% over the year to 2026. Since 2020, rental prices have risen steadily and are now approximately double pre pandemic levels. Conditions vary across regions, with some locations seeing very tight vacancy rates, notably in Karratha, Geraldton and Albany as of May 2026.

While the housing market remains tight, there are some tentative signs that the significant investment and initiatives to increase housing supply are beginning to bear fruit. Key housing initiatives in the 2026-27 State Budget include $1 billion for DevelopmentWA and the Department of Housing and Works to build 1,426 new social and affordable dwellings in partnership with the Commonwealth through the Housing Australia Future Fund, $452 million investment for the delivery of an additional 165 social homes and refurbishment of 215 homes and a $419 million investment in the Government Regional Officer Housing (GROH) program to deliver 500 homes for regional frontline workers.

Dwelling commencements have increased in response to strong demand and government incentives, with 6,307 commencements in the December 2025 quarter, the highest figure since June 2021, although it should be noted that they are yet to fully translate into dwelling completions. Elevated construction costs, reflecting earlier increases in material and transport costs alongside ongoing labour shortages, continue to constrain the pace of new housing supply.

Dwelling completions are expected to increase over the second half of 2026.

Negative Gearing and Capital Gains Tax

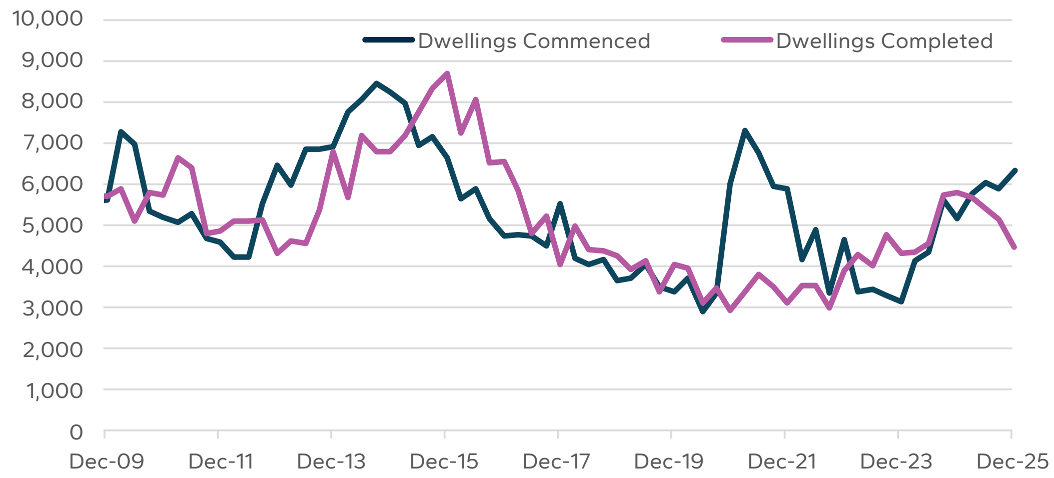
The Albanese Government announced a raft of tax changes in the 2026-27 Budget, to improve access to housing.

From 1 July 2027, negative gearing arrangements for newly acquired properties will be restricted to new properties that add to housing supply, with existing investments grandfathered under current rules. Losses on newly purchased established properties will be quarantined and can only be offset against future rental income or capital gains, reducing the attractiveness of investing in existing properties.

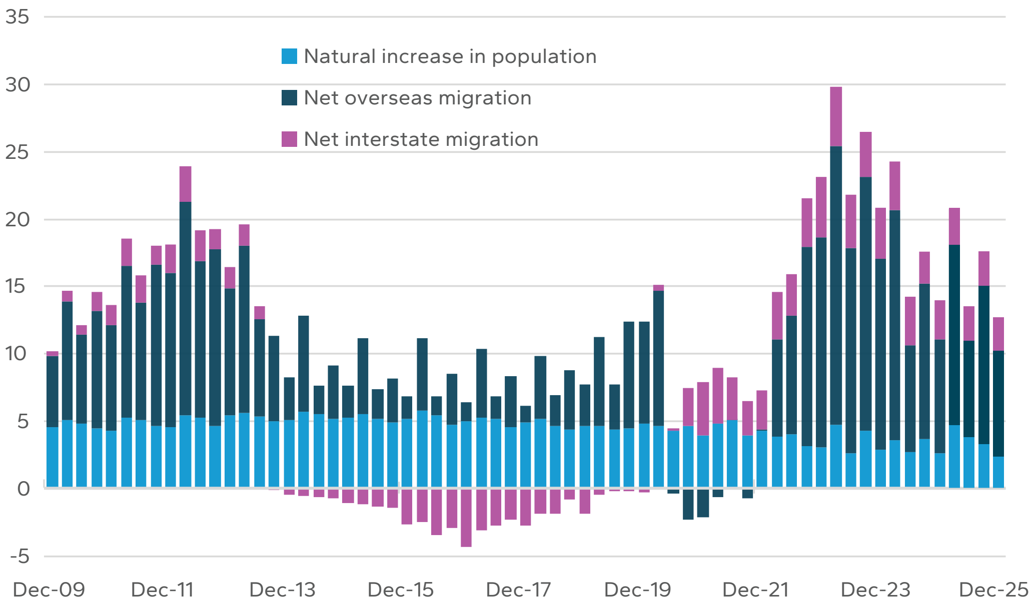
In addition, the current 50% capital gains tax (CGT) discount for assets held longer than 12 months will be replaced with a system that indexes the asset's cost base for inflation and applies a minimum effective tax rate of 30% on net capital gains. Investment in new builds can choose between the old discount and the new system.

While the overall impact on prices is expected to be gradual and moderate, there is potential for downward adjustment as investor demand for established properties declines.

Residential Building, Dwellings Commenced vs Dwellings Completed, WA, Number SOURCE: ABS; WALGA



Components of Population Change, WA, '000s SOURCE: ABS; WALGA



Construction

Key points

- **Construction costs continue to record solid growth, however official data may not yet reflect the full extent of the fuel price spike that occurred in March and April as a result of the conflict in the Middle East.**

- **Material cost volatility presents ongoing risk, with sharp increases reported in bitumen, electrical, gas and plumbing products in recent months.**

- **Labour shortages and strong housing demand are extending project timelines, pushing up construction wages and placing pressures on Local Government project delivery.**

Construction costs in Western Australia continue to record strong growth, and in recent months have started to reflect the impacts of the conflict in the Middle East which has driven up the price of oil. Fuel is a critical component of many Local Government activities such as road construction and maintenance.

Perth road and bridge construction costs increased by 0.9% in the March quarter, with annual growth of 3.7%.

While data is not available for the March quarter for the subcomponents of road and bridge construction, based on Macromonitor forecasts in February, growth this quarter is likely to reflect higher prices in concrete and pipes (forecast 7.4% annual growth in the year to March 2026) and ready-mixed concrete (forecast 5.4% annual growth in the year to March 2026). Quarry products are expected to increase by 3.3% over the year to March 2026 quarter.

Macromonitor further forecasts increases for road and bridge construction in the year to June 2026 of 1.3%, driven by increases in concrete pipes & culverts (5%) and ready-mixed concrete (4.4%) and partially offset by steel products (-8.8%) and bitumen (-5.1%). We note this data was prior to the commencement of the conflict in the Middle East and an updated breakdown will be provided with the September Quarter 2026 Economic Briefing.

The full extent of the impact of fuel prices is not yet likely to be reflected in the official data. Partial indicators suggest that prices for key inputs for road construction have increased sharply as a result of the fuel crisis. For example, bitumen prices have exhibited a significant increase in recent months, rising sharply by 39.6% in April 2026 following the closure of the Strait of Hormuz. This has contributed to annual growth of 26.2% to June 2026. As bitumen prices are closely linked to global oil markets and commonly incorporated into Rise and Fall contract provisions, these fluctuations can materially affect Local Government infrastructure costs.

While brent crude oil prices have since moderated to pre-conflict levels, there is potential for bitumen prices to moderate in the near term, typically with a lag of around one month.

Perth non-residential construction costs rose by 1.3% over the March 2026 quarter driving 4.2% annual growth, broadly in line with national trends.

The ABS Producer Price Index shows that inputs to housing construction costs in Perth remain elevated, increasing by 1.2% over the year to March 2026, despite moderating in recent quarters. While quarterly growth was relatively subdued through the December 2025 and March 2026 quarters, this follows a prolonged period of strong annual increases which saw the highest price increases nationally.

Cost pressures in the March quarter were primarily driven by price increases in key inputs, including

electrical equipment (4.9%), installed gas and electrical services (4%), plumbing products (3.1%), and other metal products (1.9%).

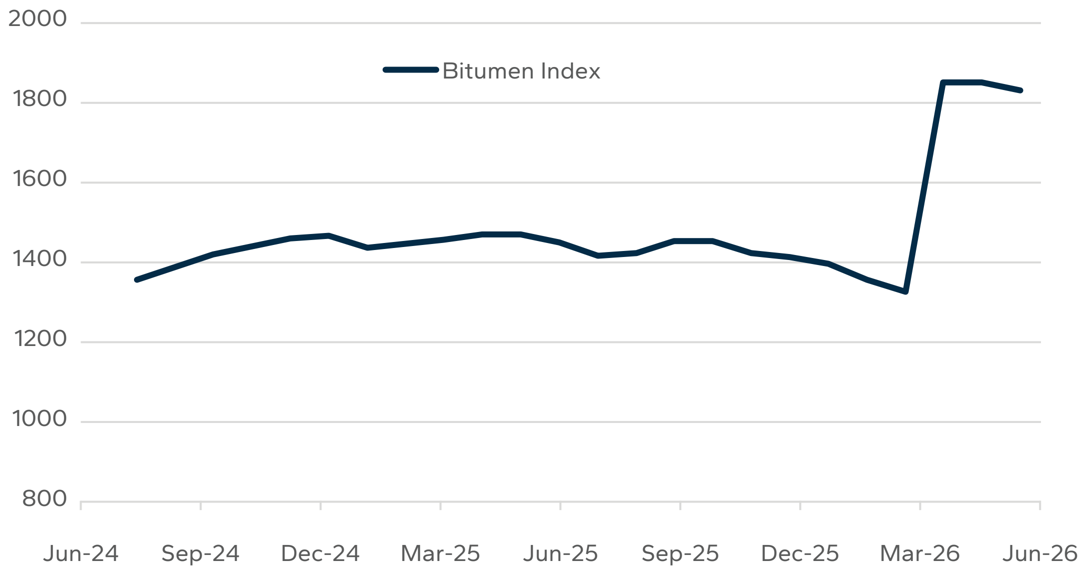
These increases were partially offset by declines in some materials. Cement products fell by 2.2% in the quarter, following a strong 9.0% increase in the December 2025 quarter, with annual growth remaining elevated at 8.1%. Steel product prices declined by 1.8%, continuing a downward trend from peaks observed in 2022, broadly consistent with national movements.

Labour shortages remain a key constraint across the sector, contributing to extended project timelines and ongoing cost uncertainty. Concurrently, persistent price pressures for key inputs including concrete, aluminium, and copper continue to elevate overall construction costs, according to the ABS.

Competition for labour and materials remains strong across residential, non-residential, and road and bridge construction, with robust housing demand placing upward pressure across all indexes. National construction wages are rising broadly in line with overall wage growth with both growing 0.5% in the March 2026 quarter and 0.7% in the December 2025 quarter, however, strong dwelling commencements in Perth and sustained housing demand are expected to maintain upward pressure on construction wages relative to other industries. This is offset by softening in broader labour market conditions, as discussed in Labour Market and Wages.

Feedback from Local Governments indicates that ongoing construction cost pressures continue to constrain project delivery and place pressure on budgets.

Bitumen Index SOURCE: MAIN ROADS WA; WALGA



Local Government Cost Index

Key points

- **The Local Government Cost Index (LGCI) is forecast to increase by 3.5% in 2025-26, reflecting continued cost pressures, particularly from wage growth and construction costs.**
- **LGCI growth is then expected to moderate over the forecast outyears.**
- **Local Governments are reporting ongoing cost pressures.**

The Local Government Cost Index is forecast to increase by 3.5% across the 2025-26 financial year, reflecting an increase in costs during the financial year. The forecast for 2025-26 was revised upward from the 3.1% annual forecast in the March quarter of 2026.

The upward revision was driven by increases in building costs as we see construction pressures rising more than expected in 2026 on the back of the conflict in the Middle East, which has seen fuel prices spike and add to the cost of many key construction inputs such as bitumen. For more information on the inputs to construction, please see the Construction section of this briefing.

The upward revision to the LGCI also reflects higher employee costs, which have been revised upwards from 4% in March 2026 to 4.25%. The Labour Market and Wages section of this briefing has more information on wage movements.

These strong increases have offset a slight downward revision to materials and contracts costs from a forecast 2.8% to a forecast 2.3%. This downward revision is due to professional services (research, administrative, legal, accounting) not growing as strongly as expected.

While the forecast LGCI has been revised upwards in the last quarter, overall growth is still expected to moderate compared to the 2024-25 financial year, largely as a result of a fall in machinery and equipment costs (down from 4.5% to -1%), and a slight easing in the growth of employee costs from 5.4% in 2024-25 to 4.25% in 2025-26.

However, the sharp increase in fuel prices has meant that construction costs are adding pressure to the index, with road and bridge construction up from 2.2% in 2024-25 to 4.5% in 2025-26 and non-road infrastructure up from 3.3% in 2024-25 to 4% in 2025-26. As expenditure profiles vary across Local Governments, the impact of cost increases will differ depending on the relative weighting of labour and capital expenditure, with those with a higher proportion of spending on construction likely to see higher cost increases due to differently weighted inputs.

The 2025-26 LGCI is forecast at 3.5% before decreasing to 3.3% annual growth across 2026-27 to 2027-28. This has been revised upward from the previous forecast in March of 3.1% in 2025-26 and 2026-27 and 3.0% in 2027-28, reflecting the stickiness of inflation as a result of upward revisions to the construction costs. This remains above the Reserve Bank of Australia's target for CPI of 2-3% and is only forecast to reach 3% in 2028-29.

Local Government budgets and capital projects are likely to remain under pressure due to elevated construction costs, especially through impacts to budgets through infrastructure and wages. There continues to be a risk of upward revision to the LGCI due to second and third order impacts of fuel volatility, as discussed in the Fuel section of this briefing. WALGA will continue to monitor the economic data and update the LGCI as further data becomes available.

The LGCI uses statewide data, and regional variances will impact each Local Government. Liaising with suppliers to understand the local economic conditions and constraints will enable Local Governments to effectively plan the timing of their projects.

Local Government Cost Index Table

Component	Weighting	2024-25 (actual)	2025-26 (forecast)	2026-27 (forecast)	2027-28 (forecast)	2028-29 (forecast)
Employee Costs	35%	5.4	4.3	3.8	3.8	3.8
Materials and Contracts	28%	2.4	2.3	2.6	2.8	1.9
Furniture	1%	5.6	13.5	1.3	1.3	1.3
Non-Residential Building	5%	4.9	4.0	4.6	4.0	4.0
Machinery and Equipment	5%	4.5	-1.0	1.3	1.3	1.3
Non-Road Infrastructure	9%	3.3	4.0	4.4	3.9	3.9
Road and Bridge Construction	10%	2.2	4.5	2.7	3.5	3.0
Utilities	3%	3.2	3.3	3.3	3.3	3.3
Insurance	1%	4.1	1.2	1.0	1.0	1.0
Other	3%	2.9	6.0	4.3	3.3	3.0
LGCI	**100%**	**3.8**	**3.5**	**3.3**	**3.3**	**3.0**

Questions

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

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