

THE AUSTRALIAN ECONOMY AND HOUSING MARKETS IN 2025-26

PRESENTATION TO RESOLVE FINANCE CONFERENCE

CROWNE PLAZA HOBART

16TH OCTOBER 2025

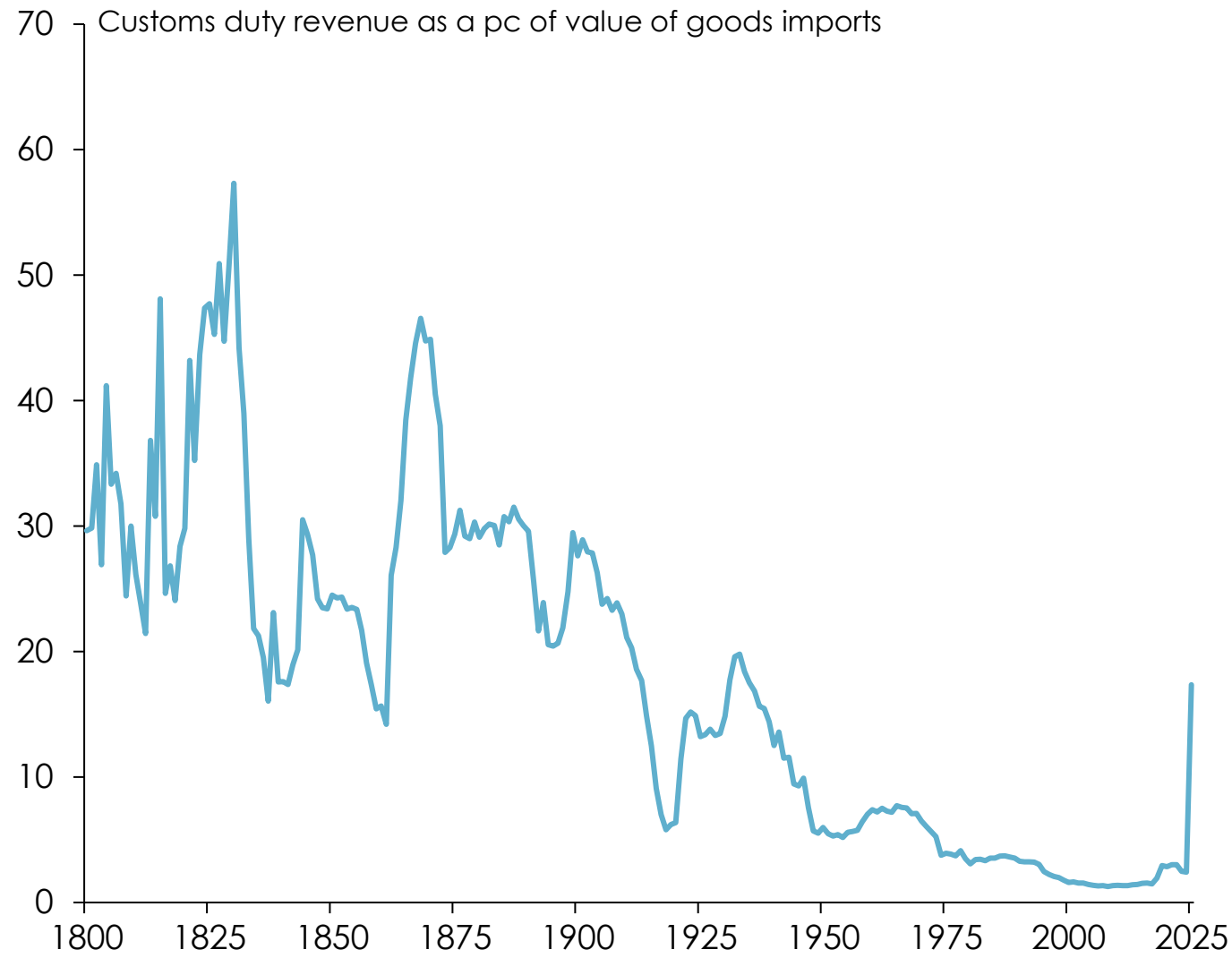
SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

The world economy

Trump's tariff proposals will raise the average level of US tariffs to their highest since 1934, with adverse consequences for growth and inflation

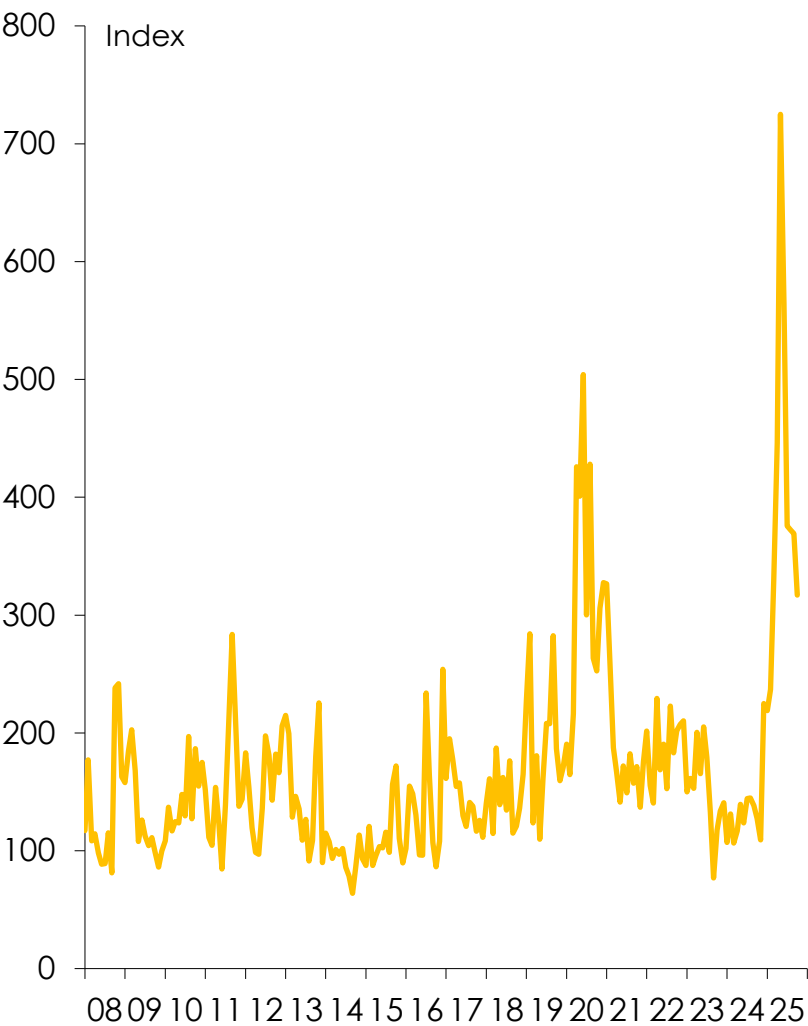
US tariffs



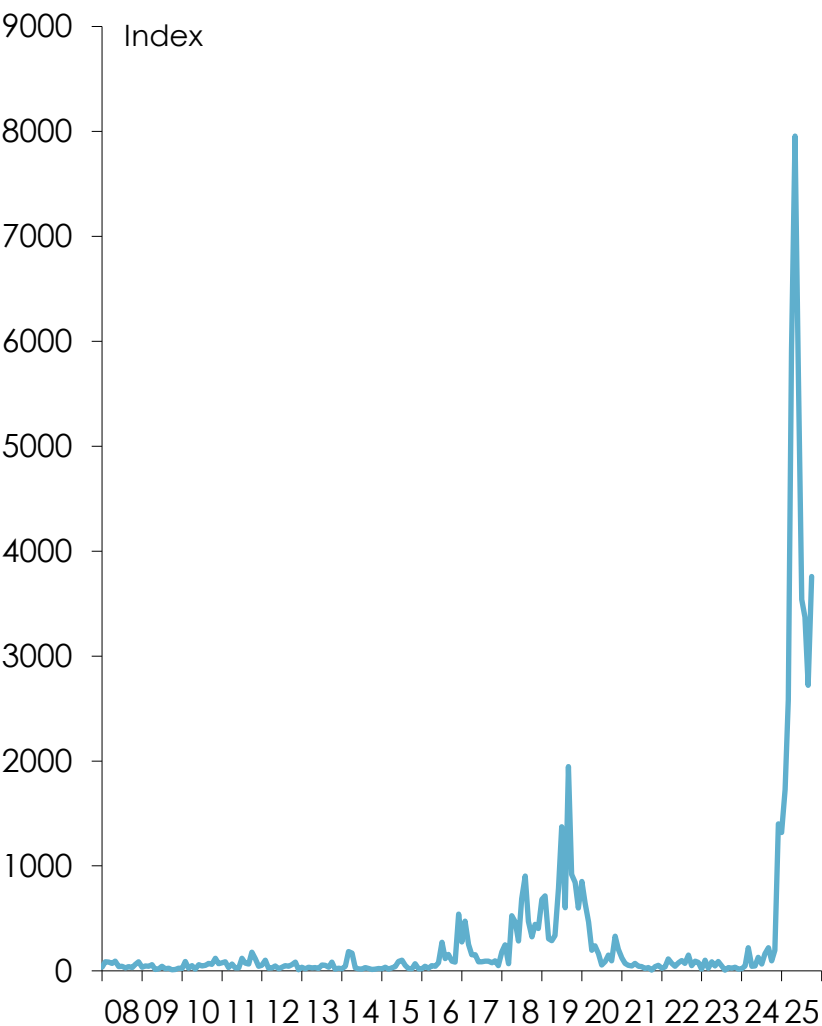
- ❑ As of 1st August 2025, the average level of tariffs on goods imported into the United States stands at 18.3%, up from 2.4% in 2024
 - that's a little less than the 22.2% implied by Trump's "Liberation Day" announcements of 2nd April
 - it's nonetheless the highest level of tariffs since 1934 (after the 'Smoot-Hawley' tariffs which helped put the 'Great' into the Great Depression)
- ❑ Tariff increases enacted and implemented this year will raise consumer prices by 1.8%
 - costing households an average \$2,400 each
- ❑ The tariff increases will reduce US real GDP by 0.5 pc pt in 2025 and by 0.4% pa in the long run
 - The unemployment rate will be 0.3 pc pt higher by end-2025 and 0.7 pc pt higher by end-2026
- ❑ The tariffs will raise about US\$2.7 trn over the 10 years to 2035
 - partly offset by revenue losses of \$0.5 trn over ten years due to weaker economic growth

Uncertainty about US economy policy is pervasive – and while a lot of that is about trade, it's not *all* about trade

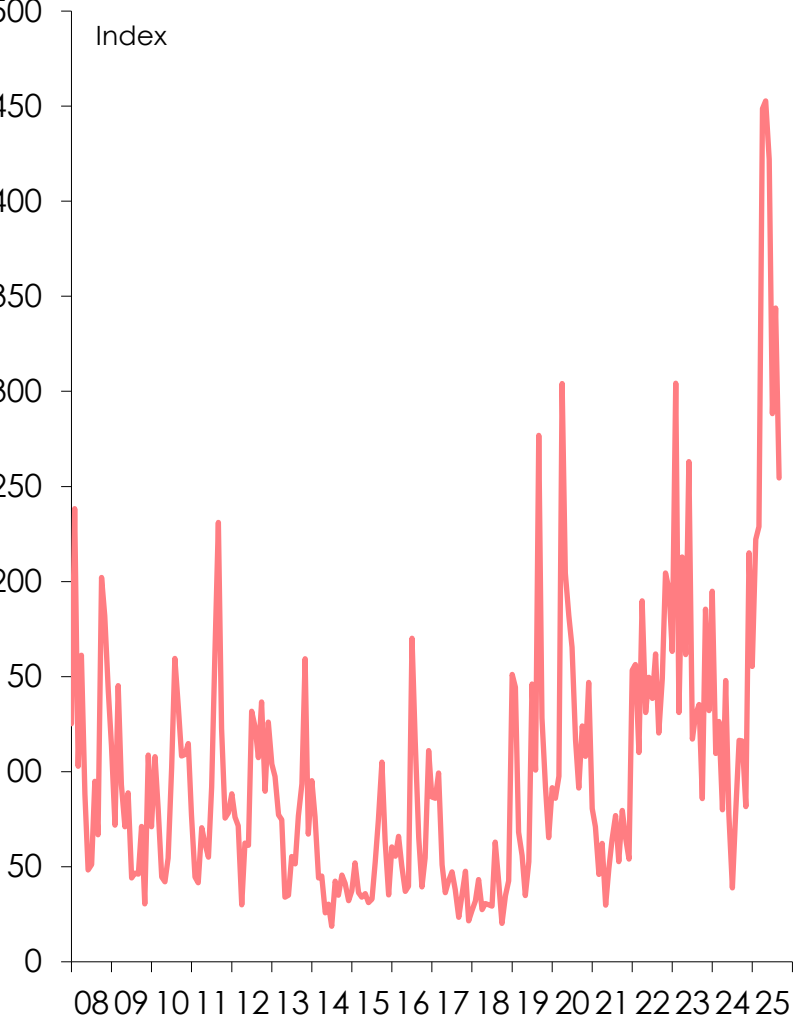
US economic policy uncertainty



US trade policy uncertainty



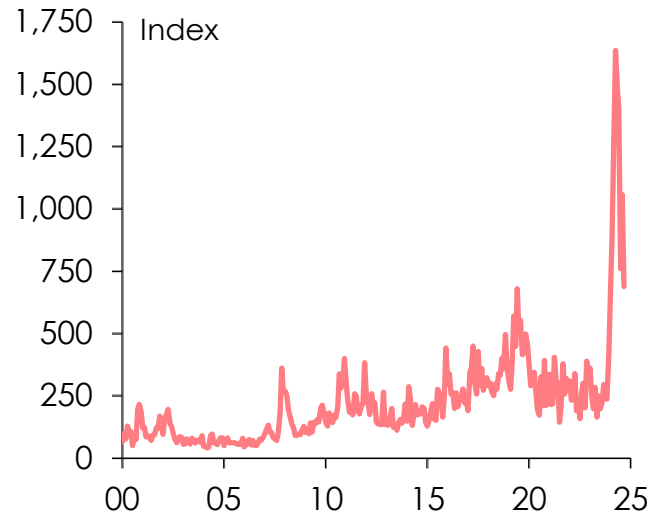
US monetary policy uncertainty



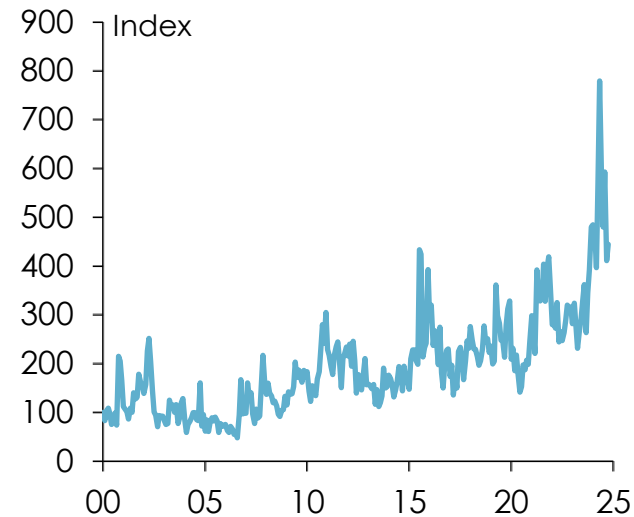
Note: The Economic Policy Uncertainty Index is an index of search results from 10 US large newspapers for articles search for articles containing the term 'uncertainty' or 'uncertain', the terms 'economic' or 'economy' and one or more of the following terms: 'congress', 'legislation', 'white house', 'regulation', 'federal reserve', or 'deficit'.
Sources: Dario Caldara and Matteo Iacoviello, [US Monthly Economic Policy Uncertainty Index](#). Latest data are for September 2025.

Uncertainty about US economic and trade policies – and reactions by other countries – is pervasive around the world

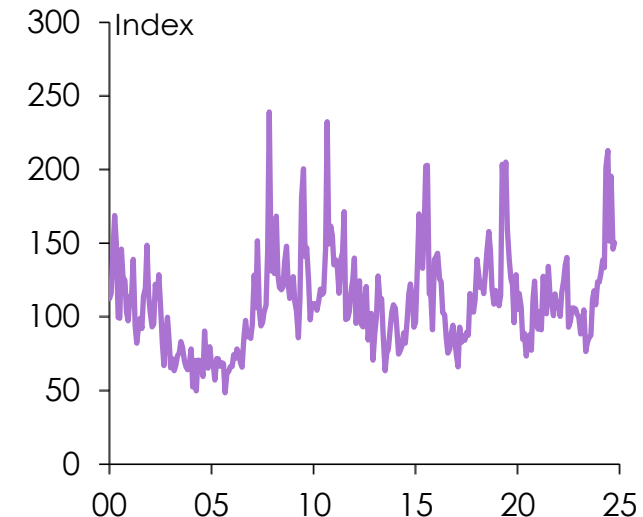
Canada



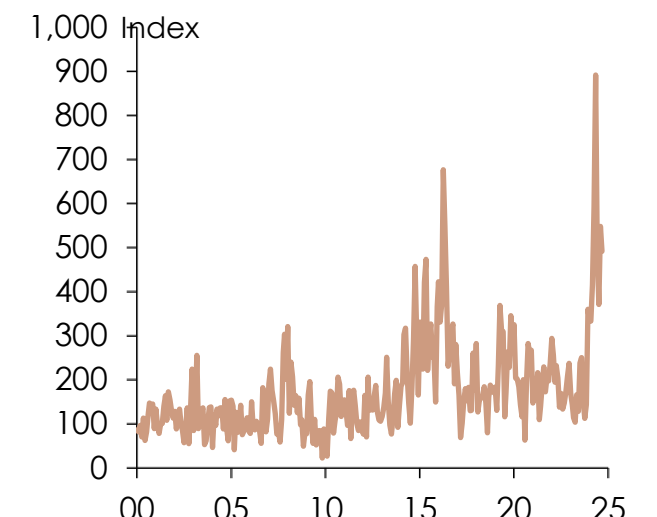
Europe



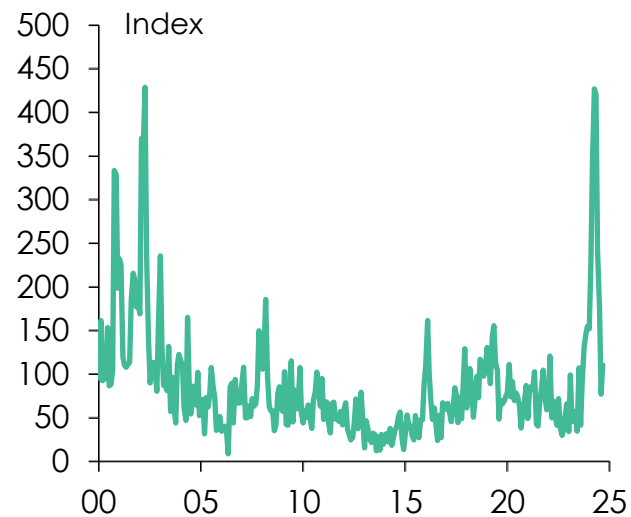
Japan



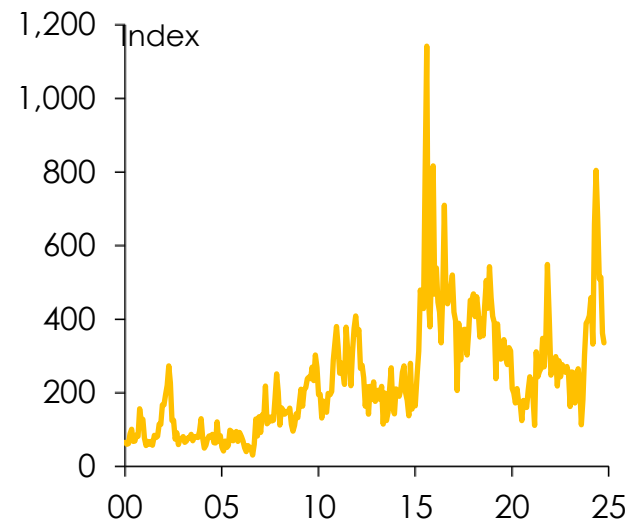
Brazil



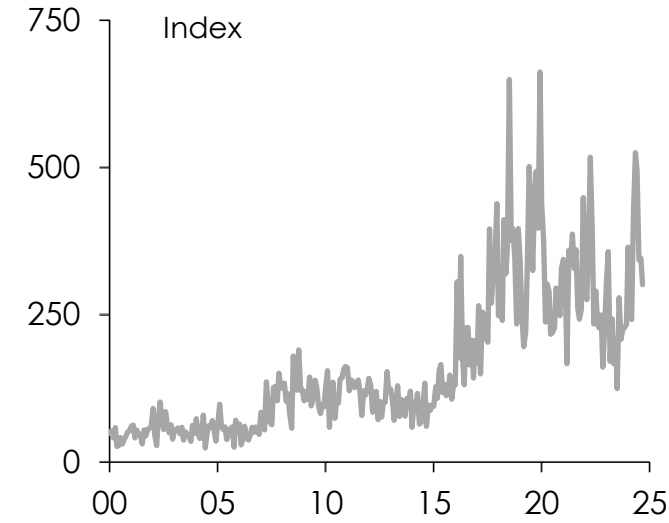
Mexico



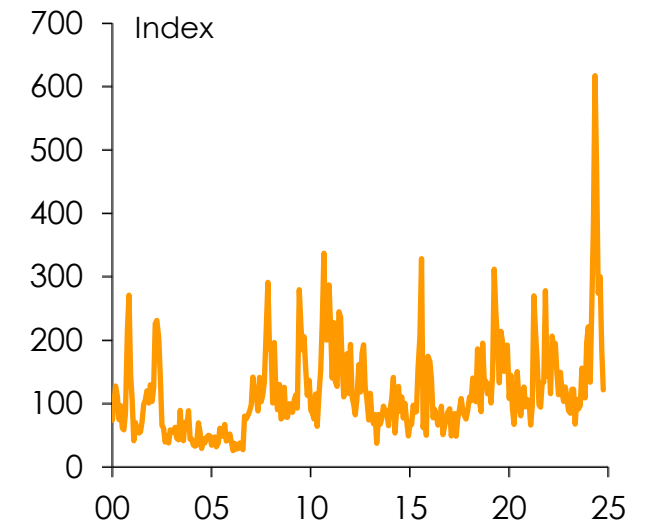
United Kingdom



China



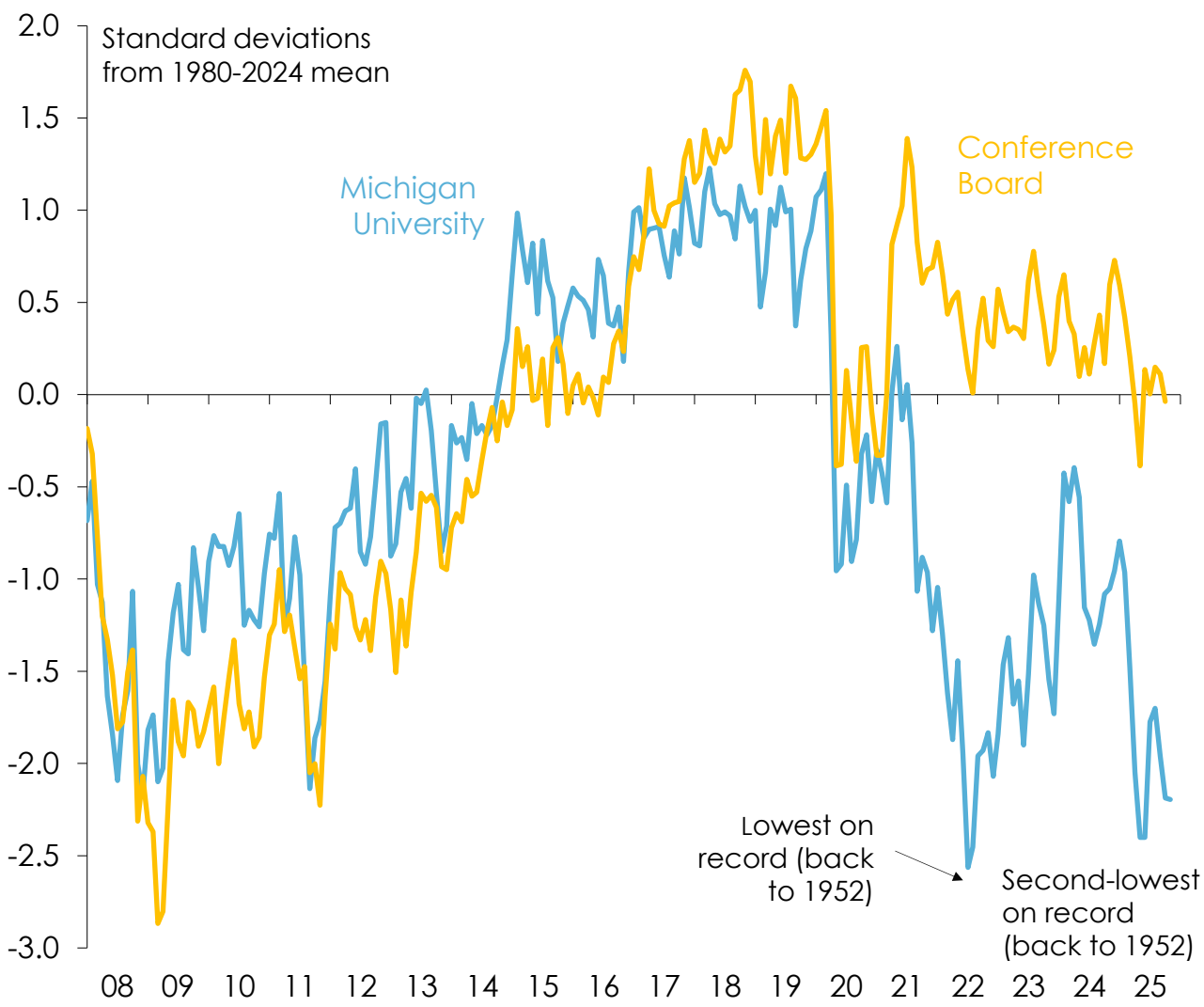
Australia



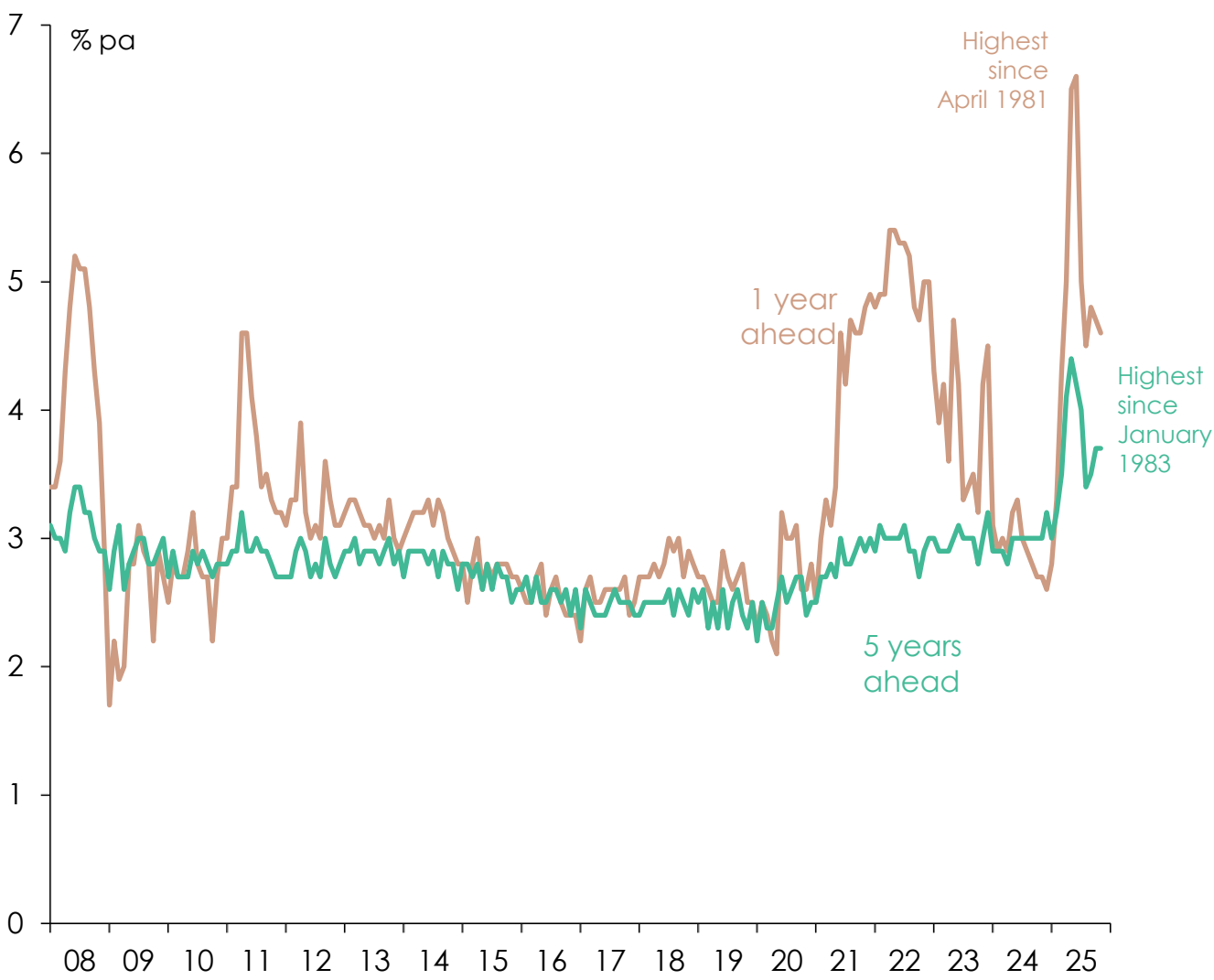
Source: Dario Caldara and Matteo Iacoviello, [Monthly Economic Policy Uncertainty Indices for 22 Countries](#). Latest data are for September 2025, except for Canada, China and Brazil which are August 2025

American households know that they'll be paying Trump's tariffs

Measures of US consumer sentiment



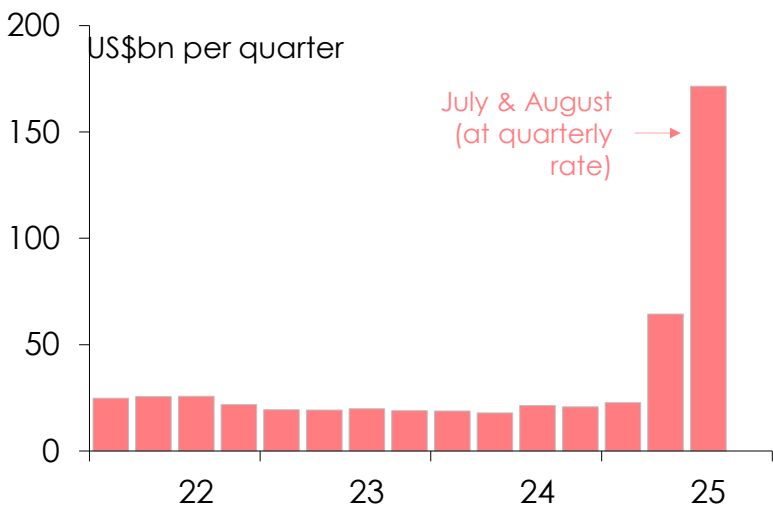
Household inflation expectations



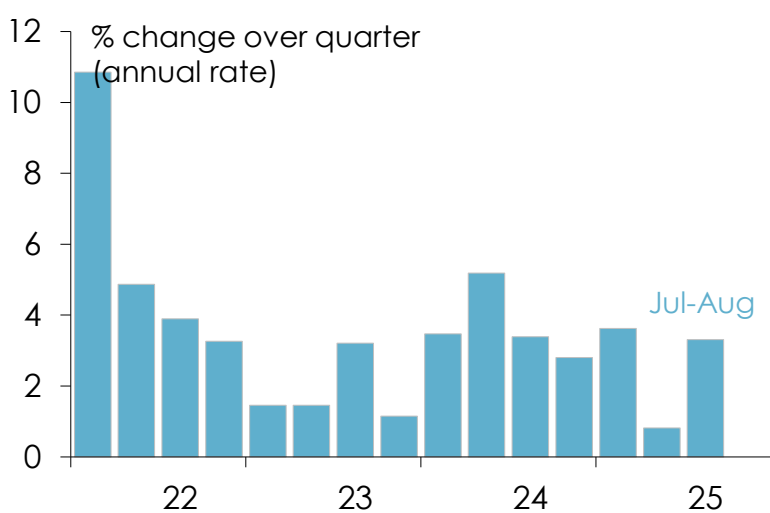
Note: The Conference Board measure gives much greater weight to consumer perceptions of labour market conditions, while the Michigan University measure gives greater weight to perceptions of inflation. Sources: The Conference Board, [US Consumer Confidence](#); University of Michigan, [Surveys of consumers](#).

Higher tariffs are now starting to show up in measures of inflation

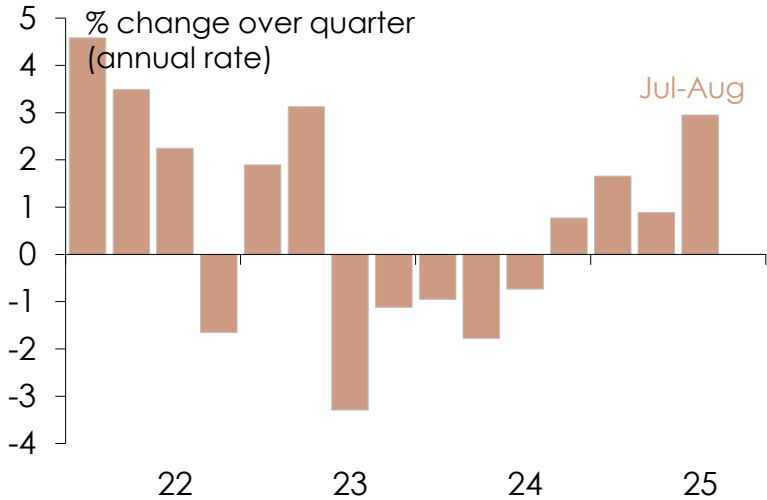
US government tariff revenue



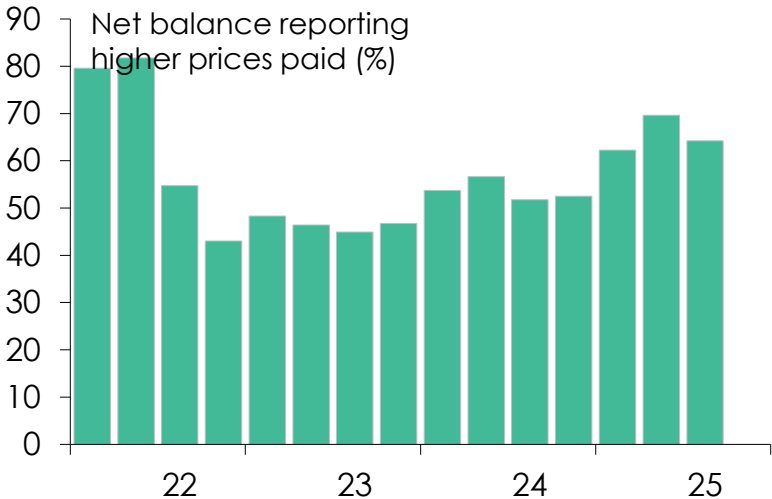
'Core' producer prices



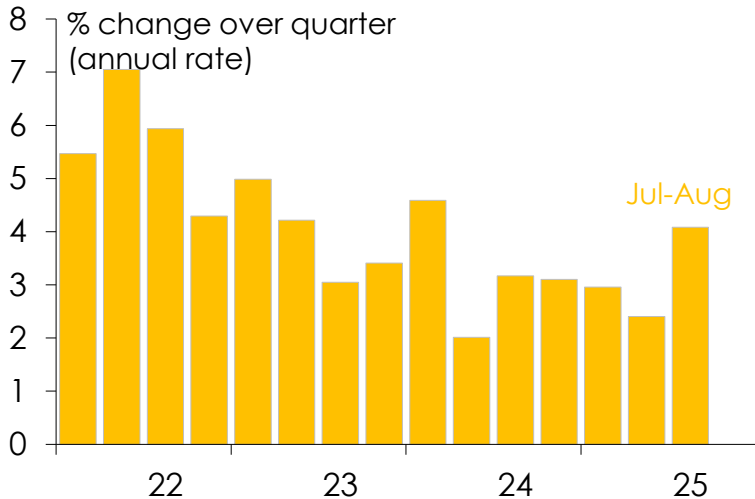
'Core' consumer goods prices



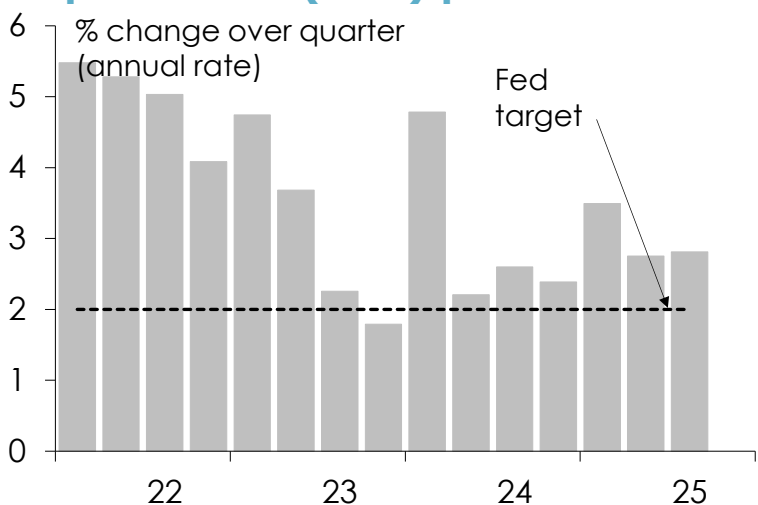
Manufacturers paying higher prices



'Core' consumer prices



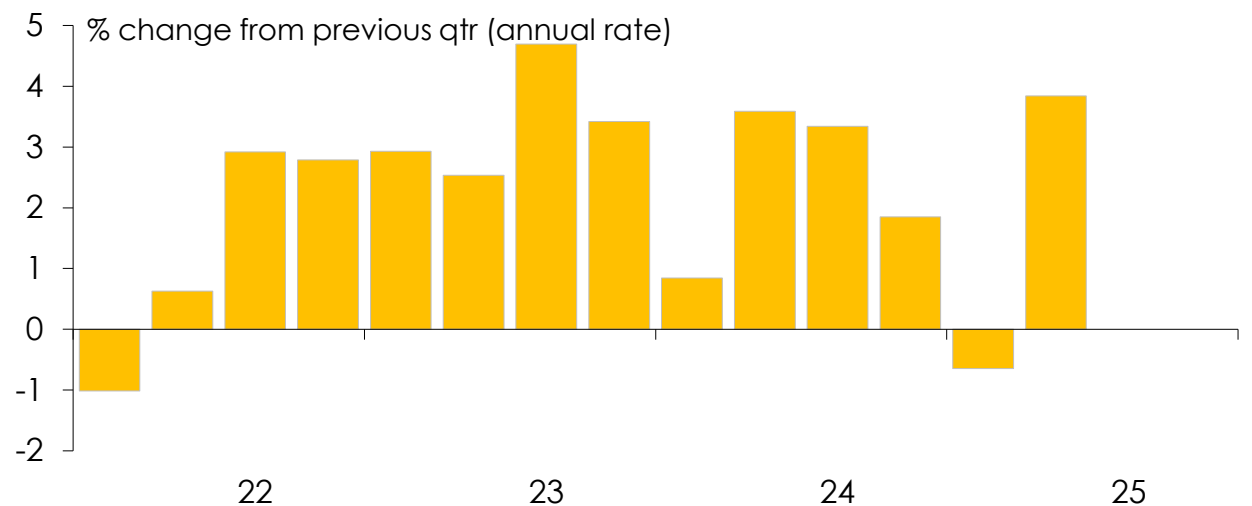
'Core' personal consumption expenditure (PCE) price deflator



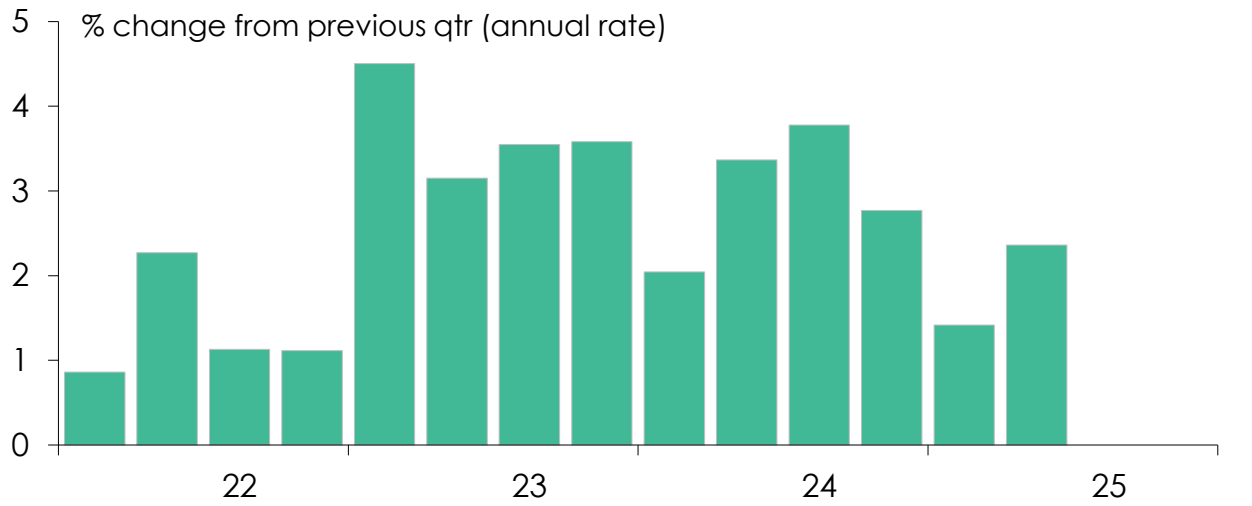
Note: 'Core' means excluding food and energy. Sources: [U.S. Treasury](#); [Institute for Supply Management \(ISM\)](#); [U.S. Bureau of Labor Statistics](#); [U.S. Bureau of Economic Analysis](#).

The uncertainty created by Trump's tariff announcements have clearly had an adverse impact on economic activity

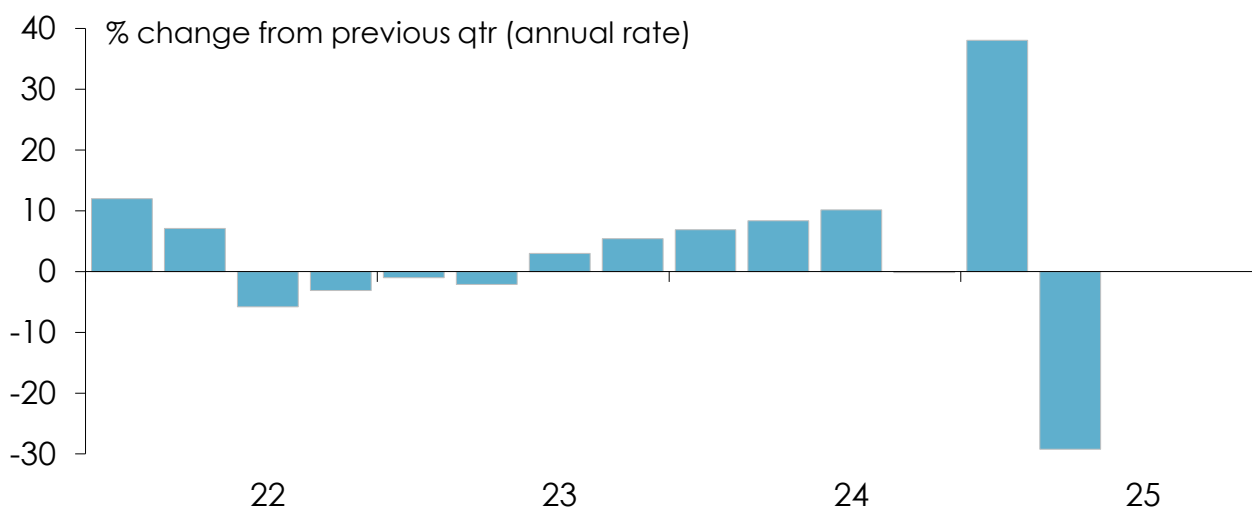
US quarterly real GDP growth



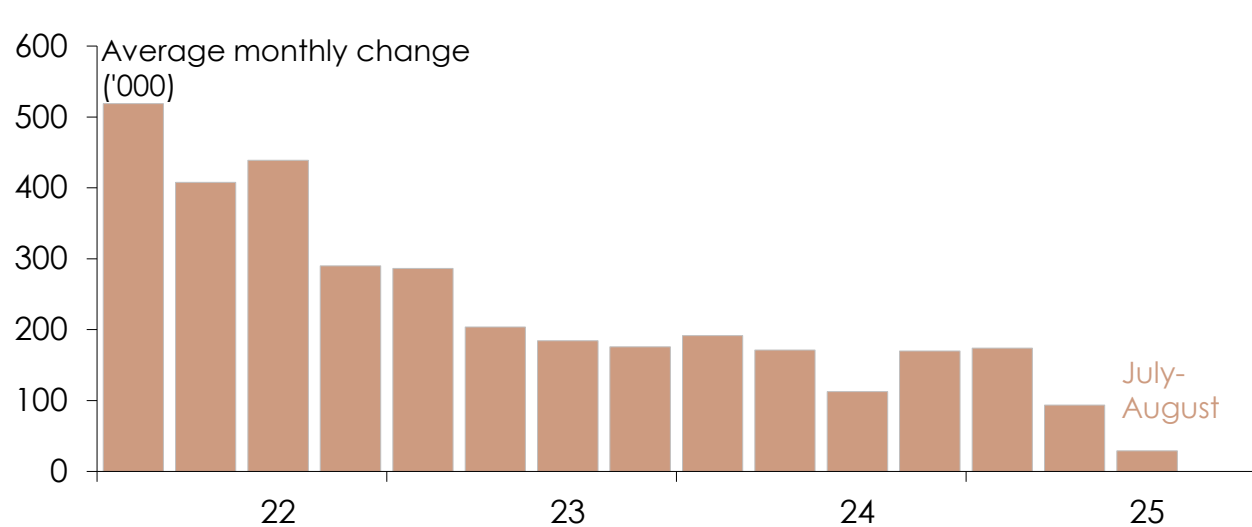
Quarterly changes in final domestic demand



Quarterly changes in imports



Average monthly changes in non-farm payroll employment



Trump has launched a barrage of personal attacks on the Chair of the Federal Reserve, Jay Powell – threatening its independence ...

Trump calls Jerome Powell 'numbskull,' says he may 'force something' on Fed

Alex Gangitano and The Hill

US stock markets fall again as Trump calls Fed chair 'a major loser'

Donald Trump blasts 'not good at his job' Jerome Powell again, claims to know more about interest rates — What he said

Trump blasts Fed Chair Powell, saying his 'termination cannot come fast enough'

By Bryan Mena, CNN

US stocks and dollar plunge as Trump attacks Fed chair Powell



Trump Calls Fed Chair Powell A 'Numbskull' In Latest Attack Over Interest Rate Cuts

Trump bashes Jerome Powell on interest rates: 'Like talking to a wall'

"Well the Bank of England cut, China cut, everybody's cutting but him," Trump said, referring to Powell bucking calls from him to lower borrowing costs. "We'll see what happens. It's a shame. I call him 'Too Late.'"

Trump blasts Fed Chair Powell, saying his 'termination cannot come fast enough'

By Bryan Mena, CNN

Trump Bashes 'Slow' Fed Chair Jerome Powell and Threatens His Job: 'If I Want Him Out, He'll Be Out of There Real Fast'

... and now he wants to 'stack' the Federal Reserve the same way he has 'stacked' the Supreme Court



In August, Trump nominated Stephen Miran to fill the vacancy on the Federal Reserve Board left by the resignation of Adriana Kugler, whose term was due to end in January 2026. He was confirmed by the Senate in September. Miran is the author of the 'Mar-a-Lago Plan' to weaken the US\$

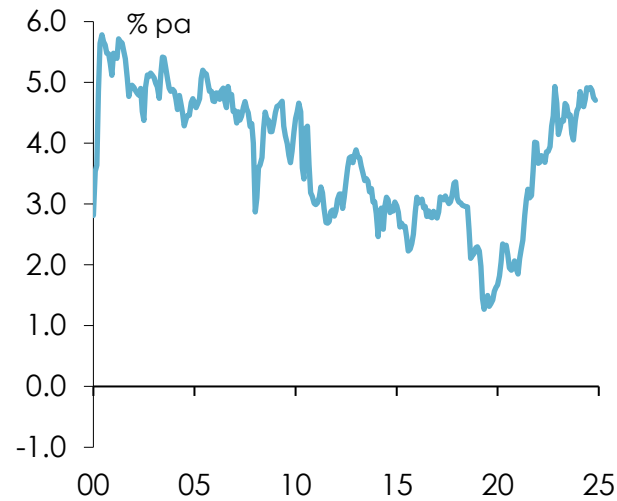


On 25th August, Trump announced that he had fired Lisa Cook "effective immediately" for alleged "mortgage fraud" (prior to her appointment) Her term was not due to end until January 2038 The legality of the attempt to fire Cook will be determined by the Supreme Court

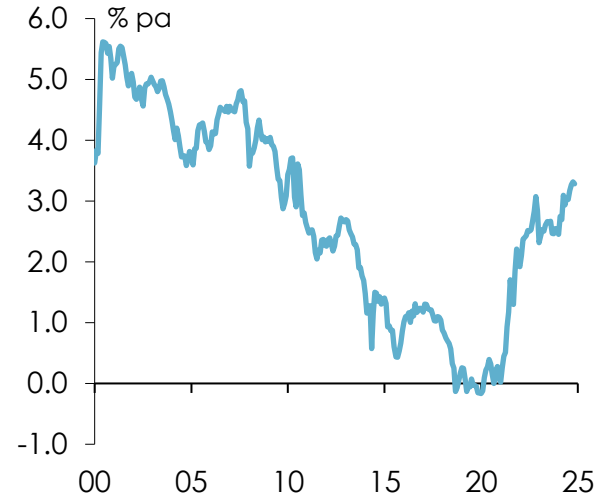
- ❑ **Monetary policy decisions (in particular, about the target for the Federal funds rate) are made by the Federal Open Market Committee**
 - which comprises the seven members of the Board of Governors of the Federal Reserve System (based in Washington DC)
 - the President of the Federal Reserve Bank of New York
 - and four of the eleven Presidents of the other regional Federal Reserve Banks (who serve for one year each, on a rotating basis)
- ❑ **Governors of the Board of the Fed are appointed by the President, subject to confirmation by the Senate, for 14-year terms**
 - the Chair and Vice-Chairs of the Fed are appointed by the President from among the Governors for 4-year terms (which can be renewed)
- ❑ **Regional Fed Presidents are appointed by the Boards of Directors of their respective Federal Reserve Banks, subject to confirmation by the Board of Governors of the Federal Reserve System**
 - terms for all of the regional Fed Presidents expire in February 2026
- ❑ **With three sympathizers already on the Board of Governors, Trump's plan appears to be to get a majority on the Fed Board so that it can in turn appoint sycophants as regional Fed Presidents and thus obtain a majority on the FOMC**
 - who would then fulfil his demand for lower interest rates

30-year bond yields are rising sharply around the world, even though short rates have been falling – but stock markets don't seem to have noticed

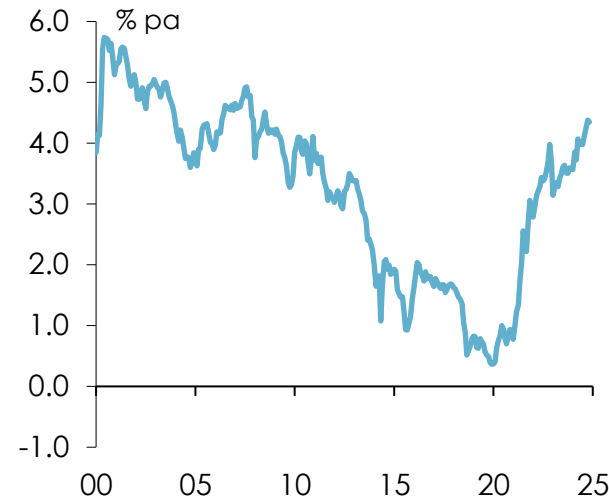
US



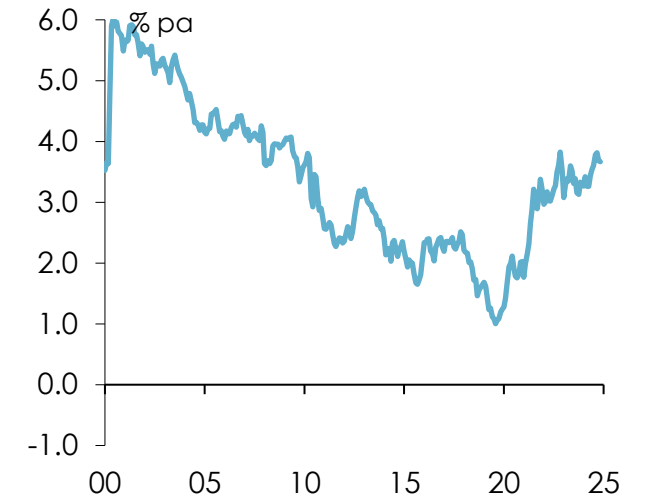
Germany



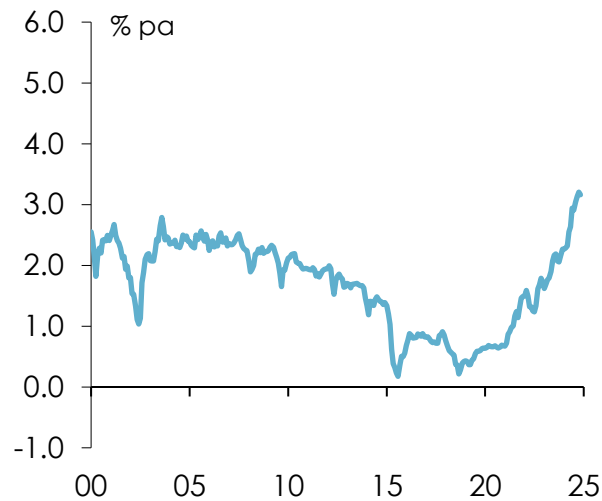
France



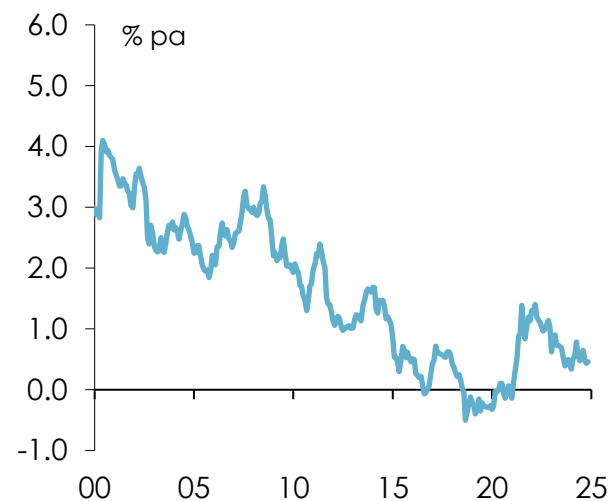
Canada



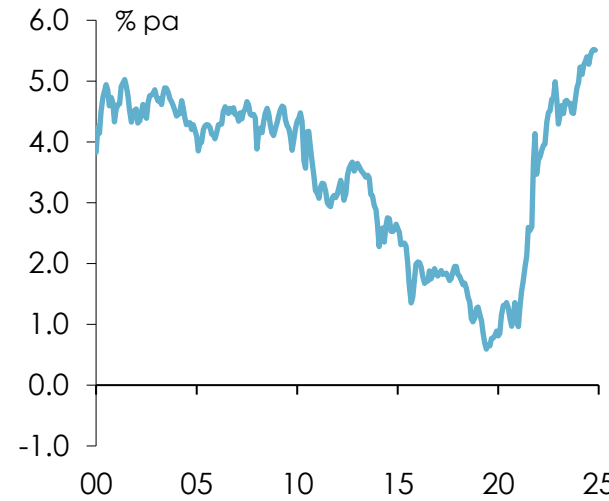
Japan



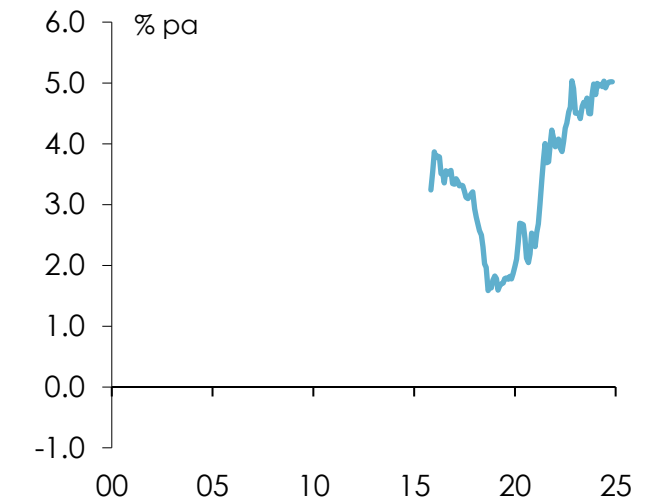
Switzerland



UK



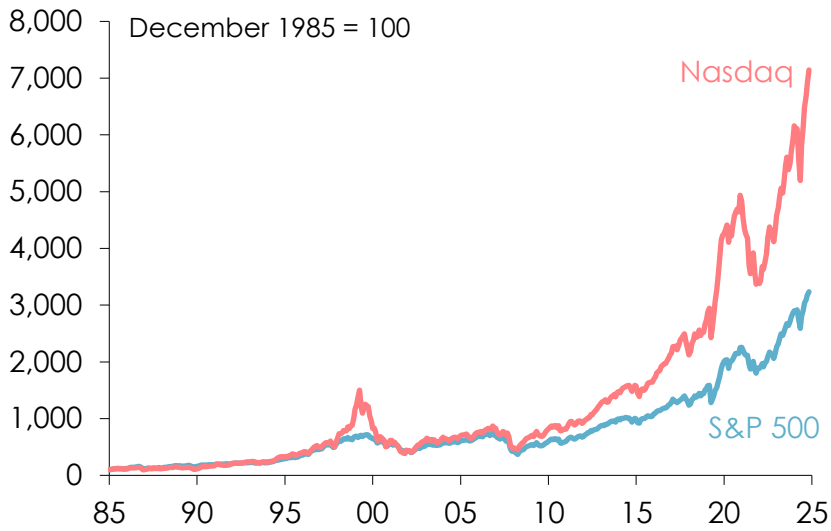
Australia



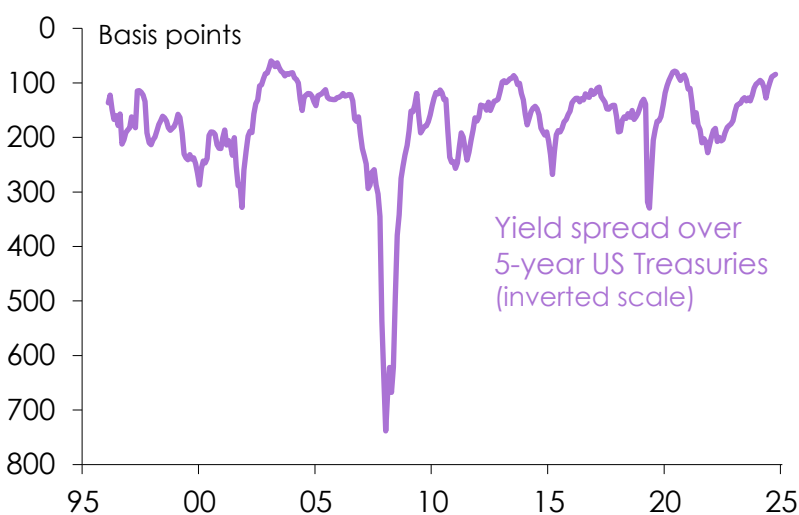
Note: Data are monthly averages of daily rates, up to 3rd October. Australia did not begin issuing 30-year bonds until October 2016. Source: LSEG Datastream.

A lot of markets are looking very 'bubbly'

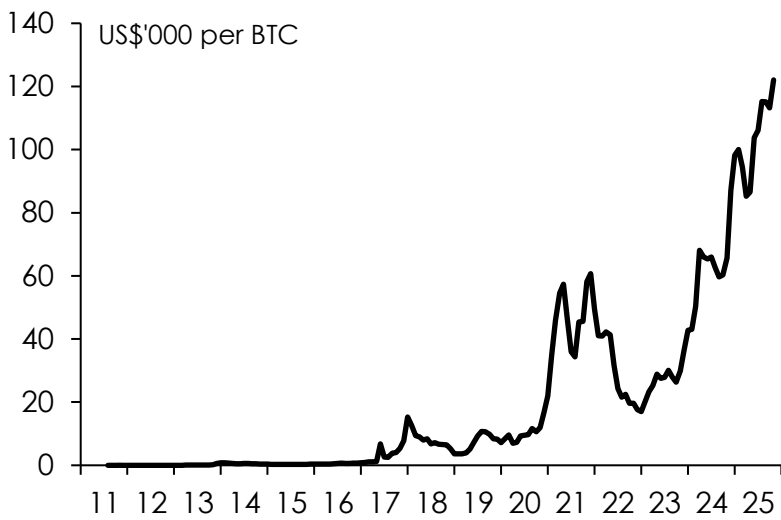
US stock market



US BBB corporate bond yields



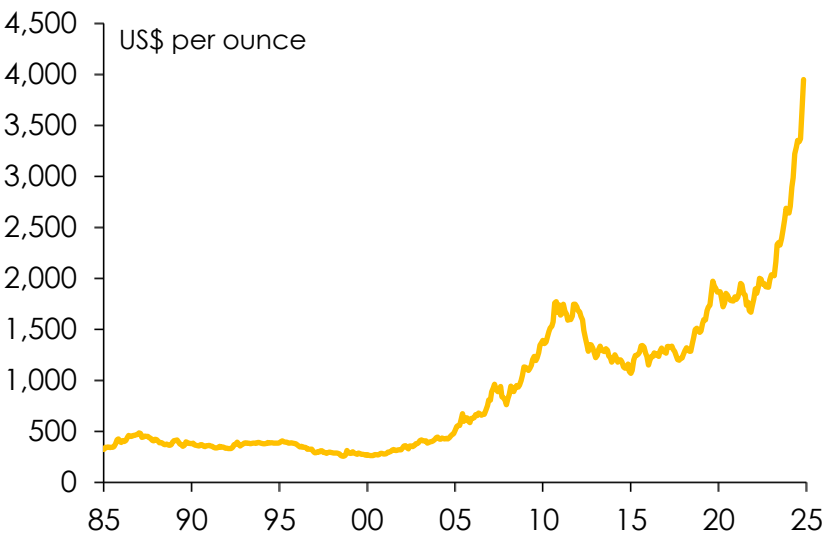
Bitcoin



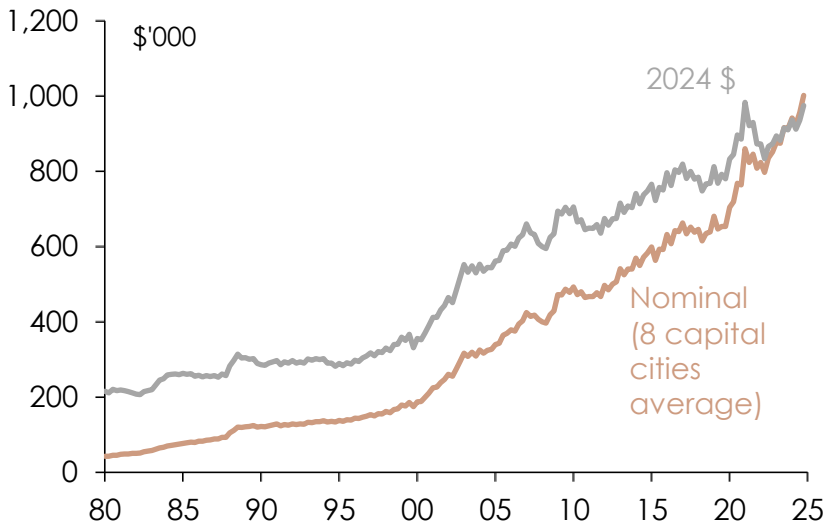
US S&P 500 cyclically-adjusted P/E



Gold



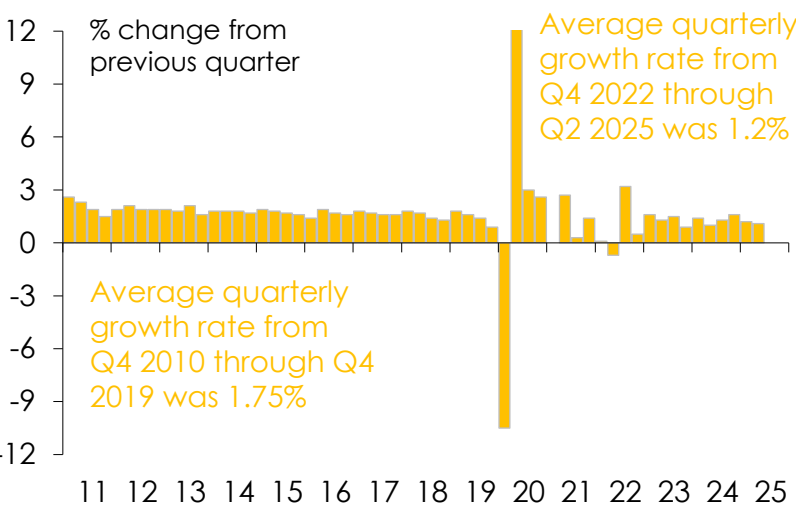
Australian residential property



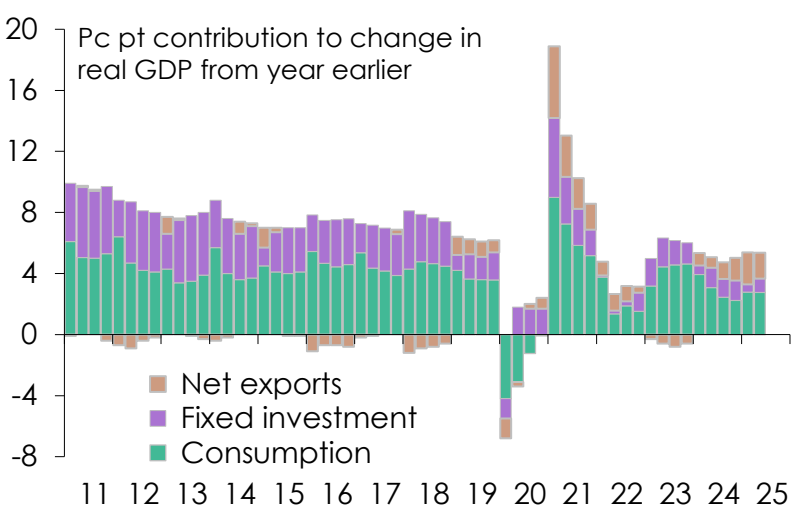
Sources: LSEG Datastream; Federal Reserve Bank of St Louis; Cotality.

China's post-Covid recovery has been very modest

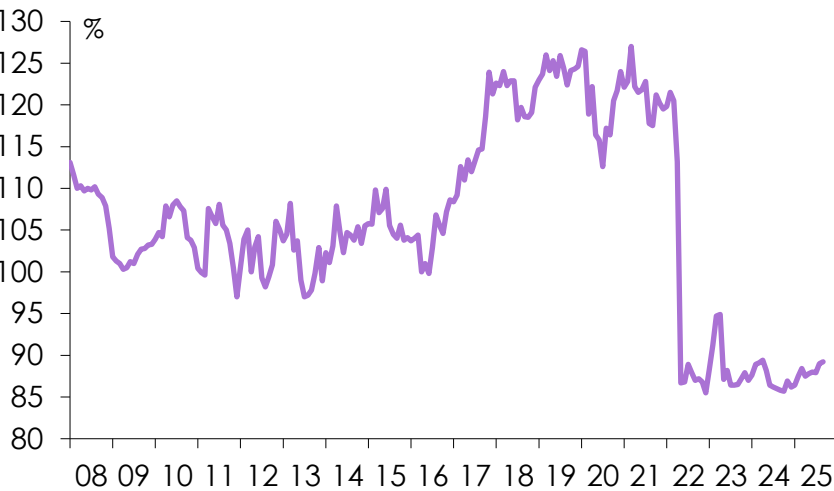
Quarterly real GDP growth



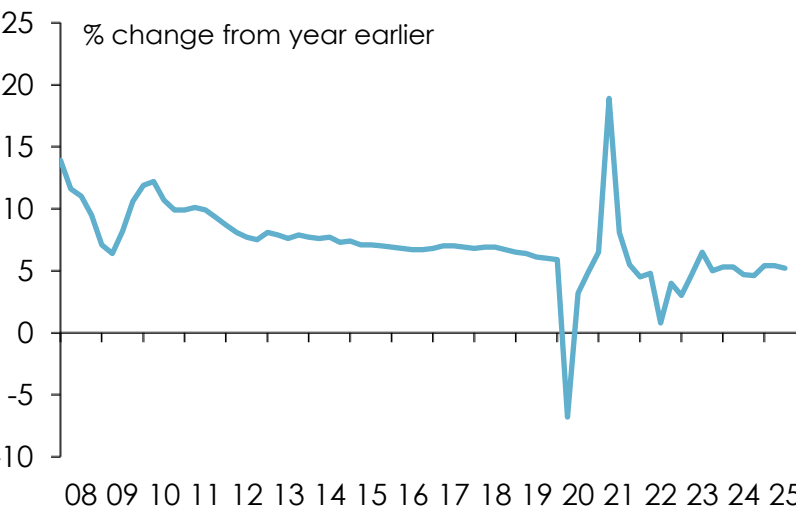
Contributions to GDP growth



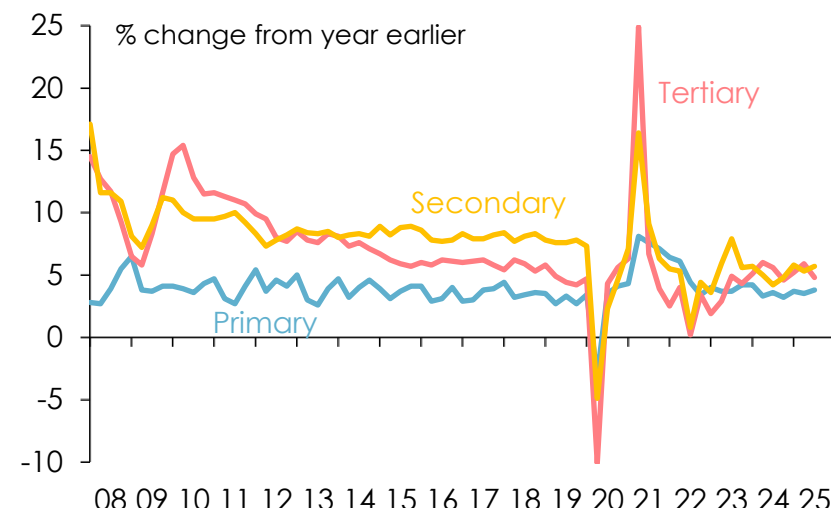
Consumer sentiment



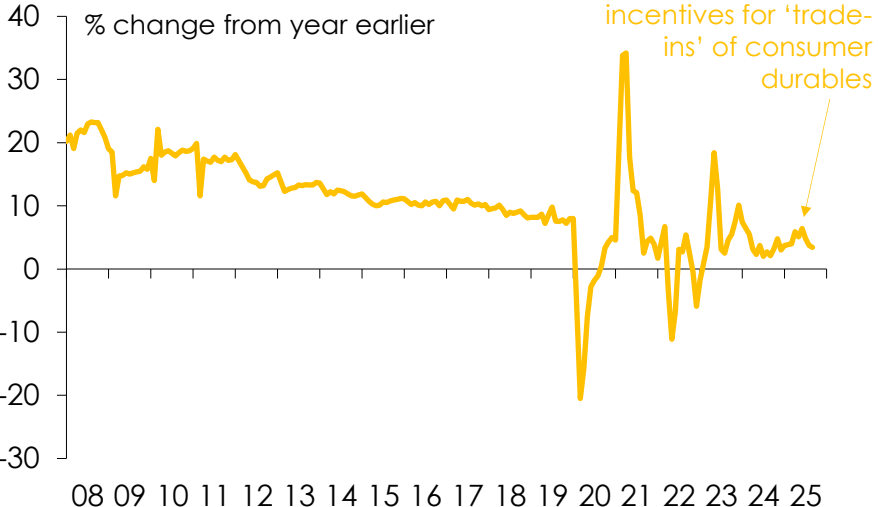
Annual real GDP growth



Annual real GDP growth, by sector



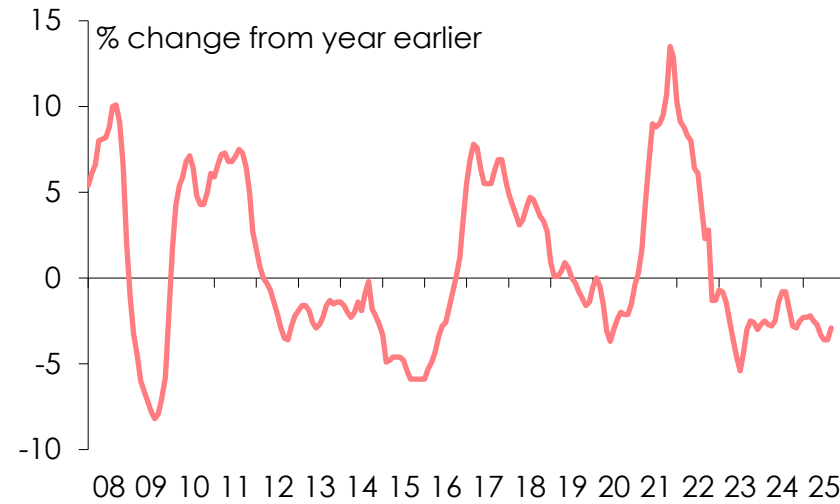
Retail sales



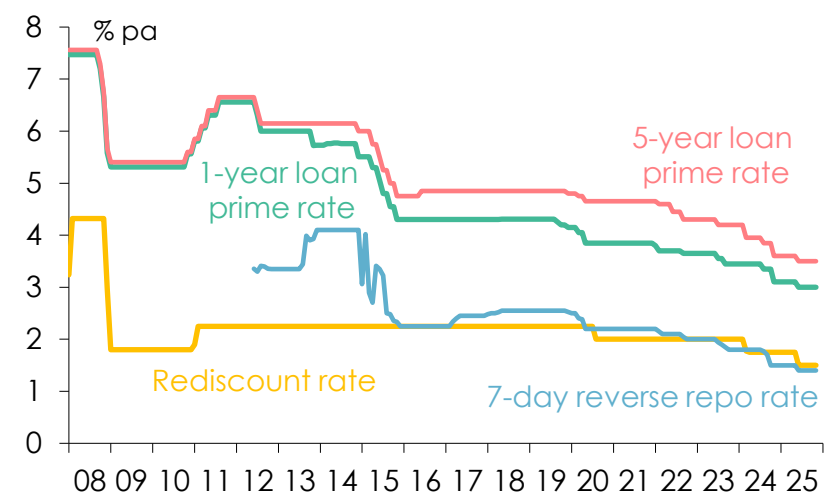
Sources: [National Bureau of Statistics of China](#);

Inflation has remained very low (or negative) – but until this past month the ‘Chinese authorities’ have been reluctant to take any bold policy actions

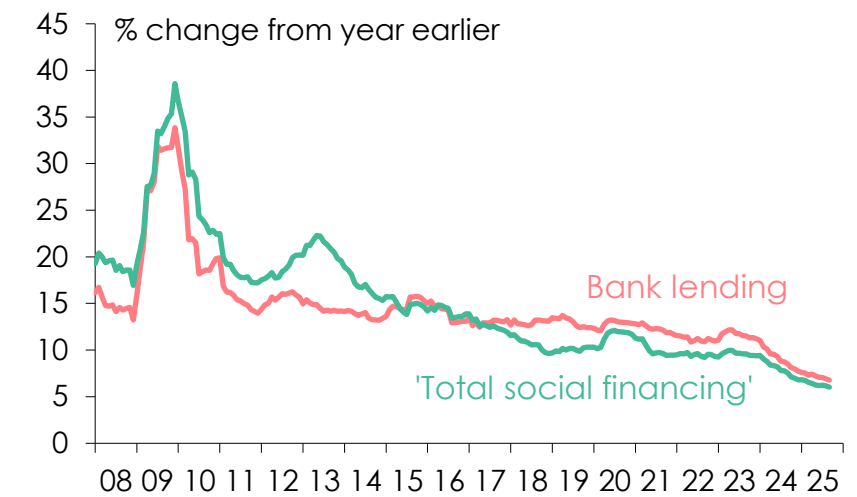
Producer prices



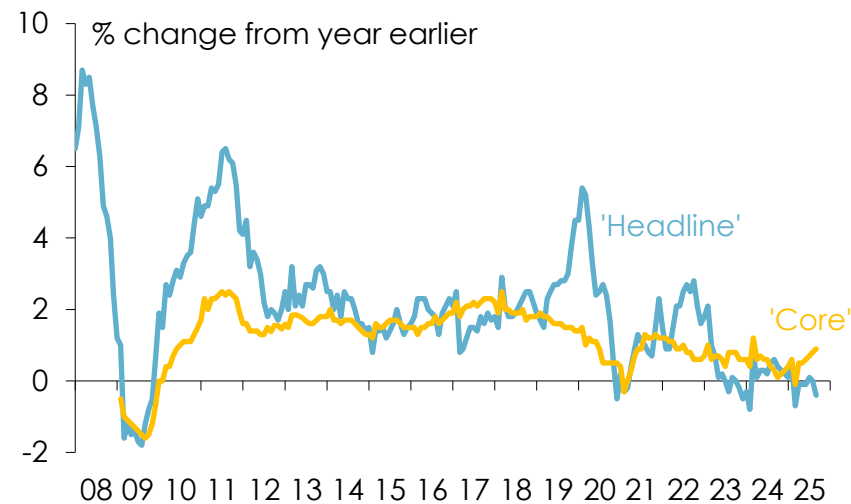
PBoC policy interest rates



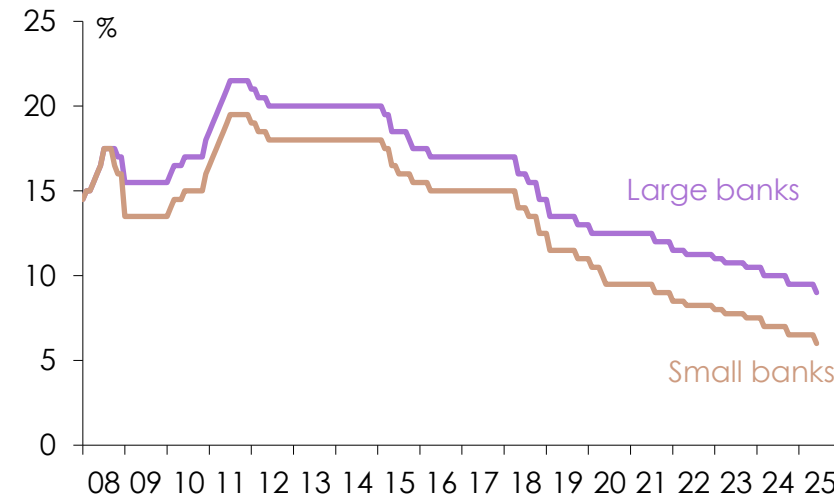
Credit growth



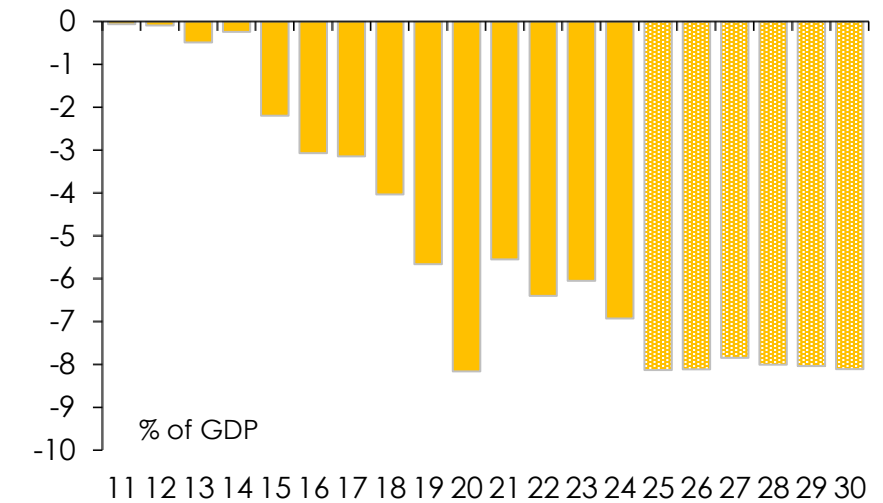
Consumer prices



Bank reserve requirement ratios

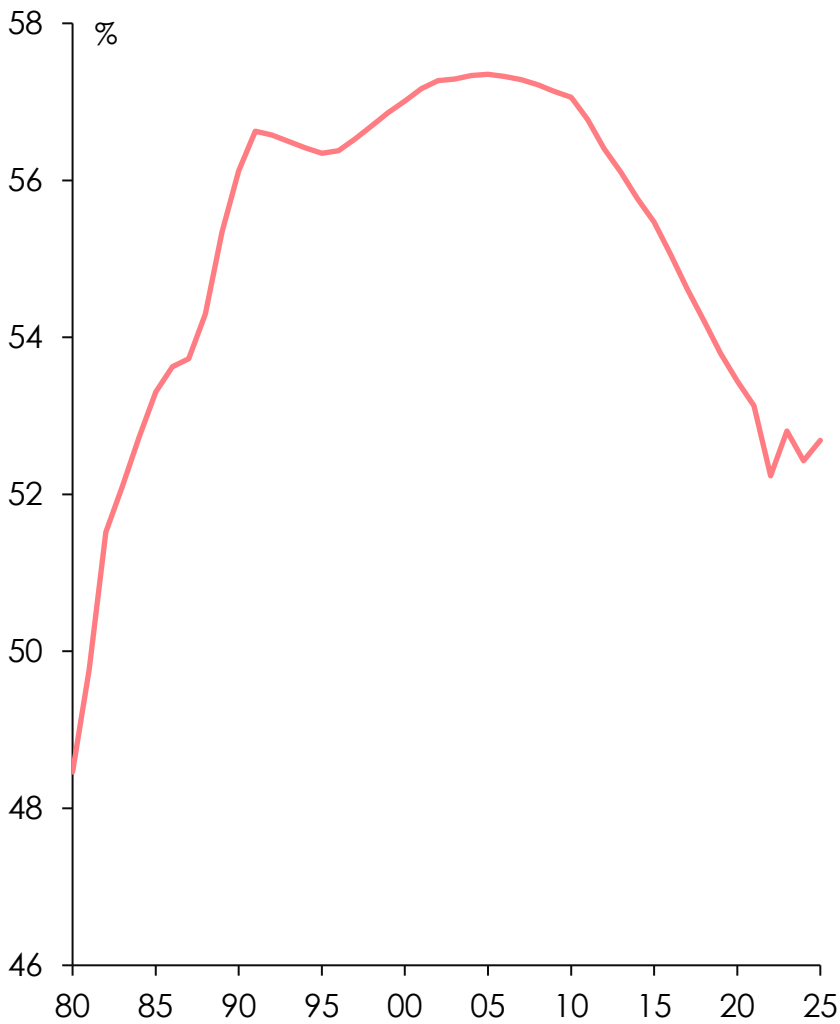


Government budget structural balance

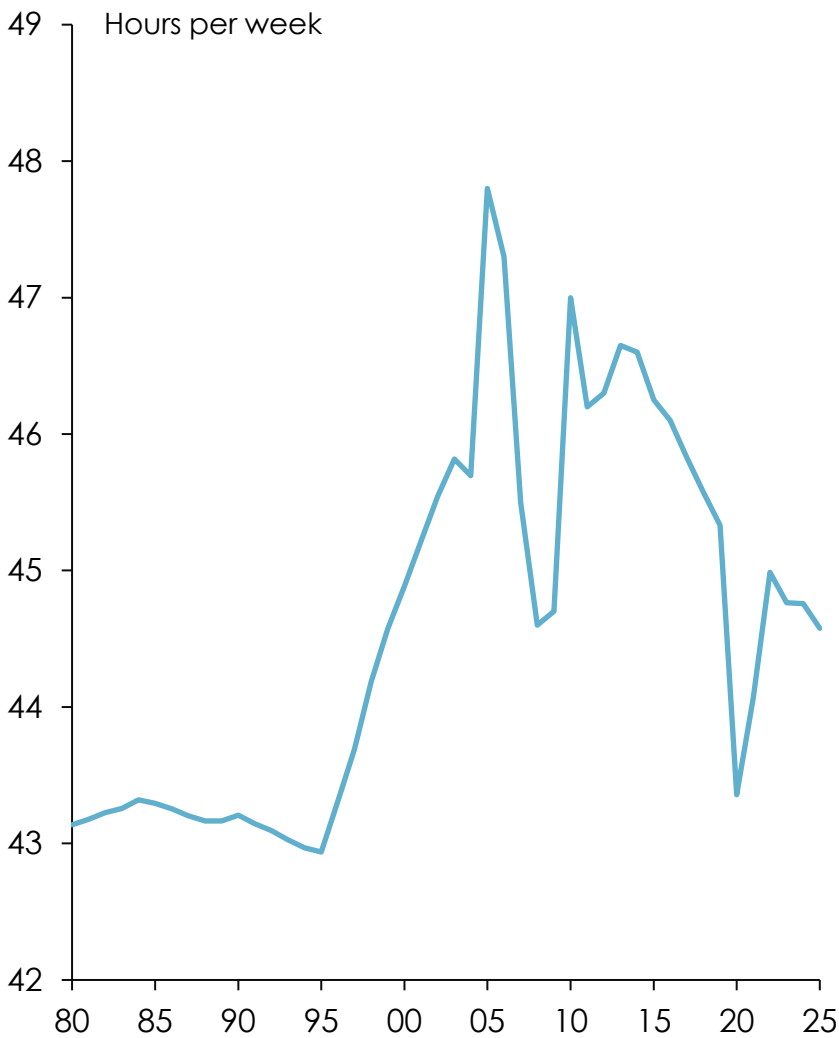


China's economic slowdown is structural, not cyclical

Employment as a pc of population



Average hours worked



Output per hour worked (aka labour productivity)

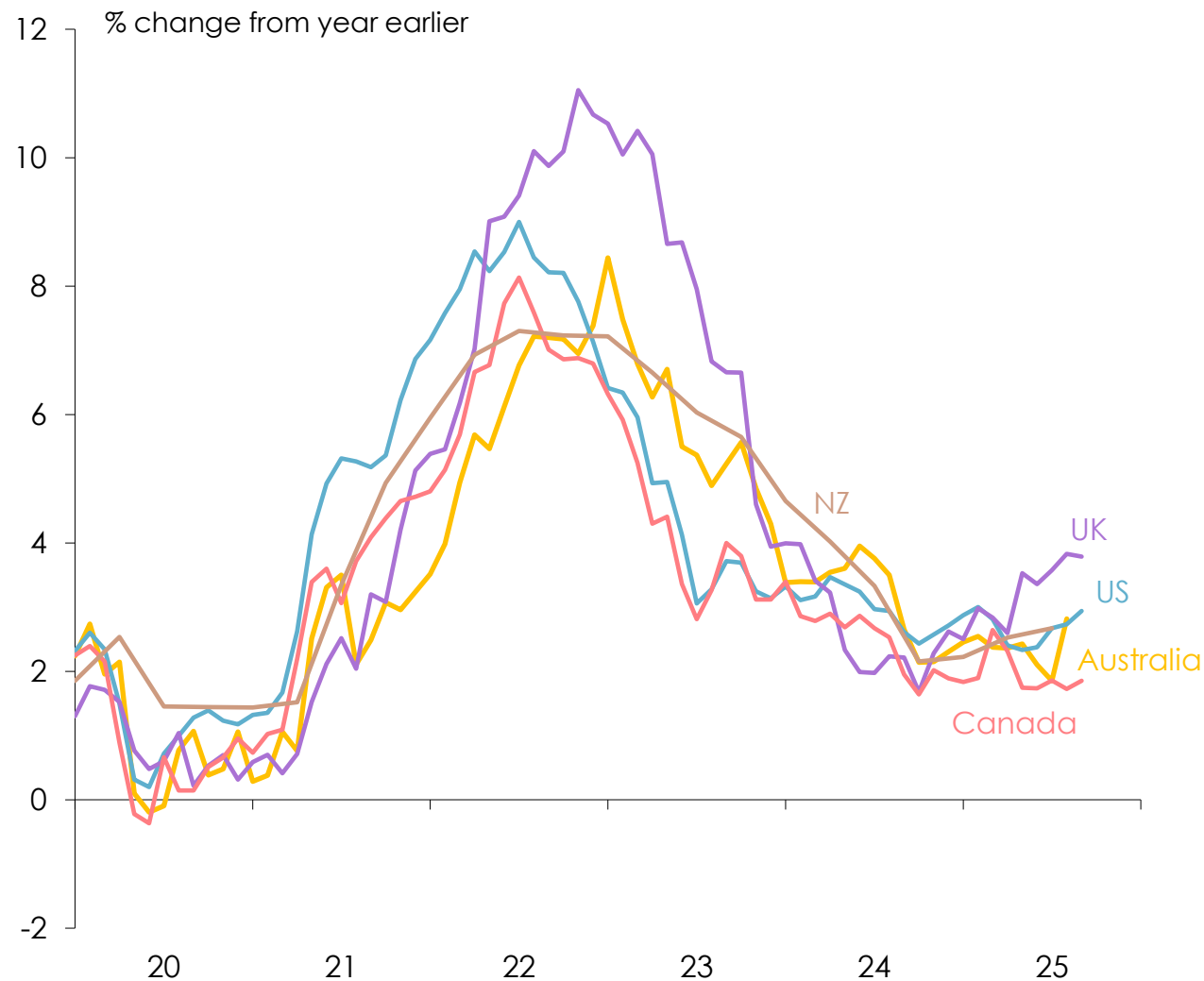


Source: The Conference Board, [Total Economy Database](#), May 2025.

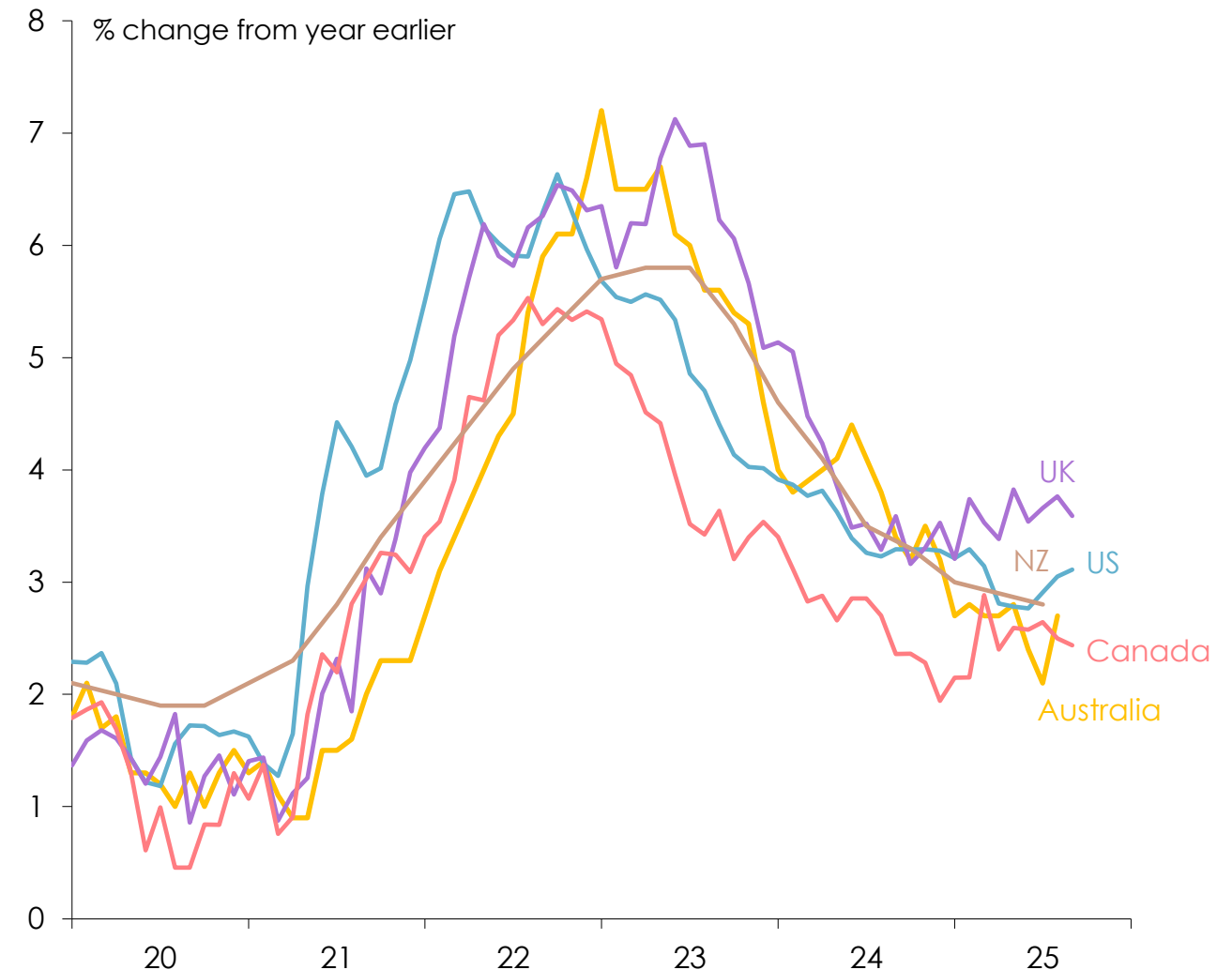
The Australian economy

Australia has managed to get inflation down more successfully than most of our peers (in the US, UK, Canada and New Zealand) ...

'Headline' inflation



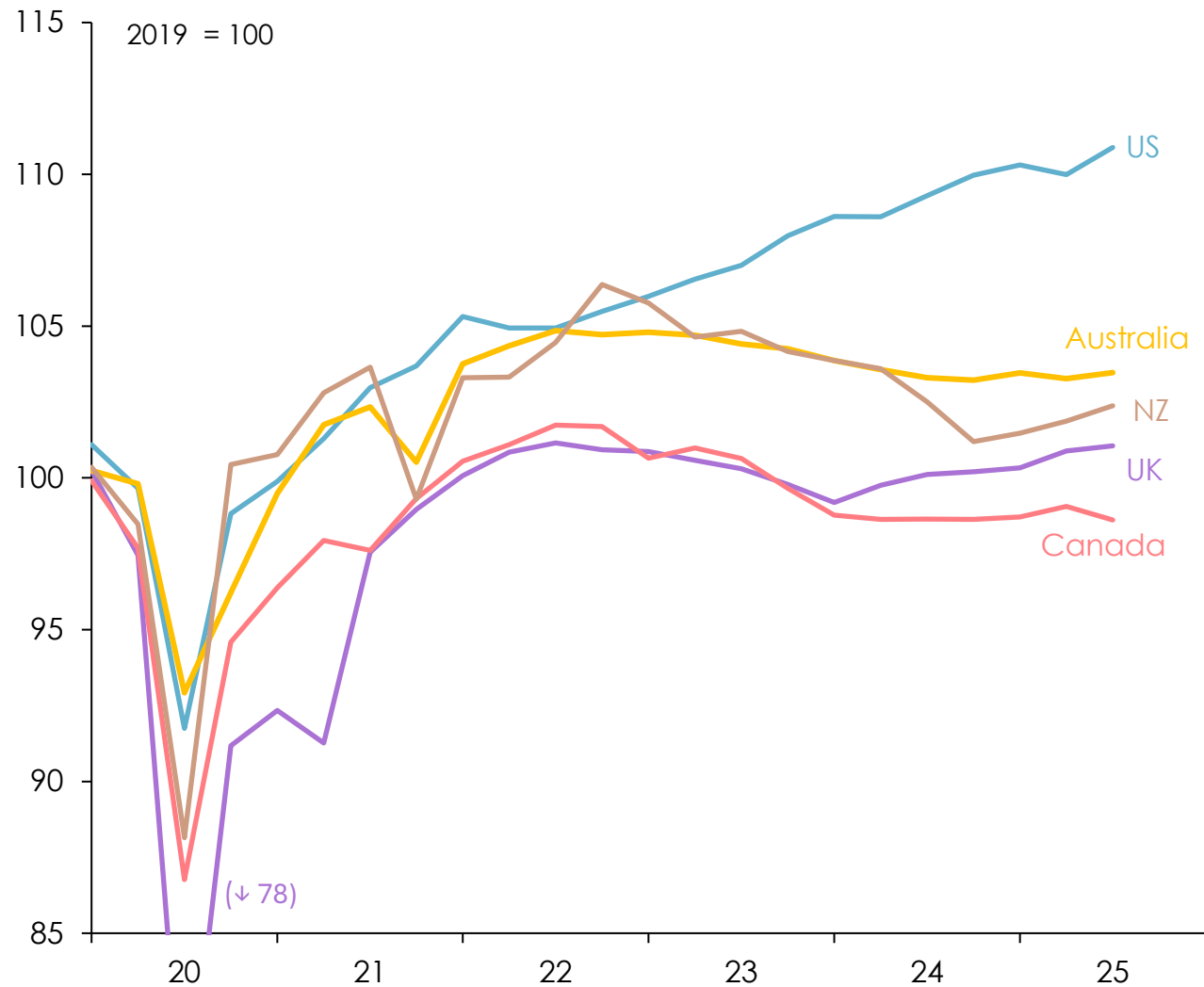
'Core' or 'underlying' inflation



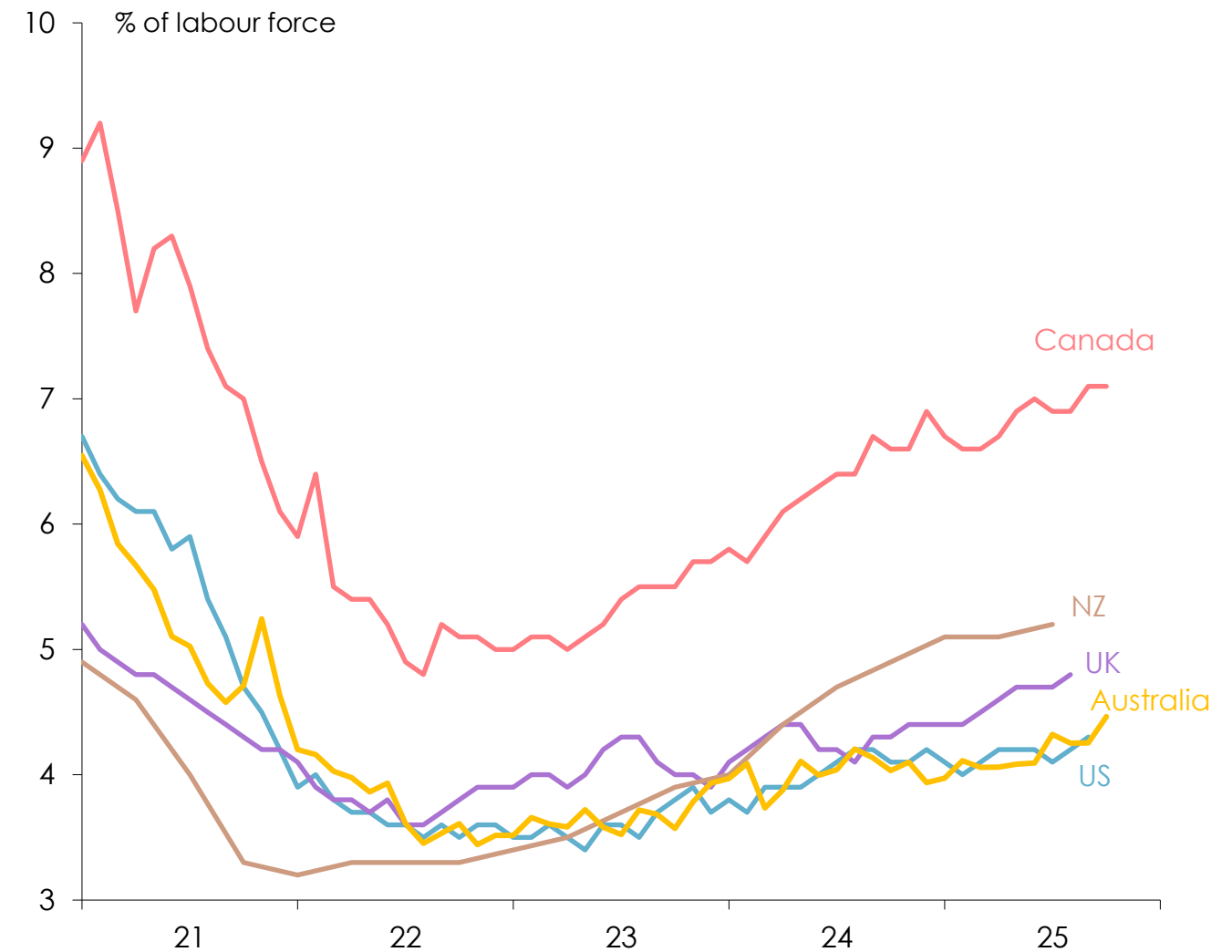
Note: 'Core' inflation in the US, UK and Canada is the annual change in the CPI excluding food & energy; 'underlying' inflation in Australia is the 'trimmed mean' and in NZ is derived from a statistical model. Sources: US [Bureau of Labor Statistics](#); [Statistics Canada](#); UK [Office for National Statistics](#); [ABS](#); [StatsNZ](#); [RBNZ](#).

... at less cost in terms of economic activity and unemployment

Real per capita gross domestic product

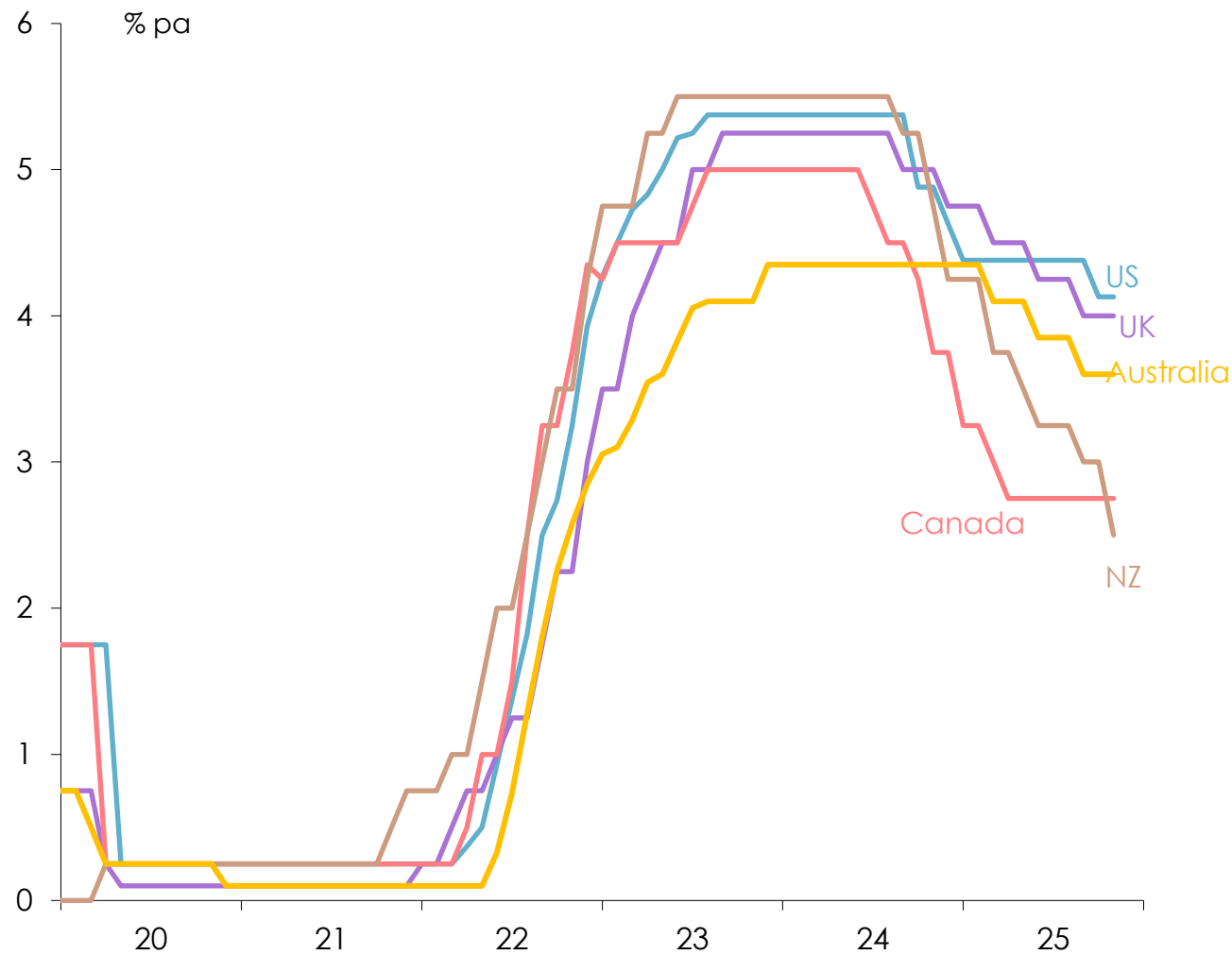


Unemployment rates

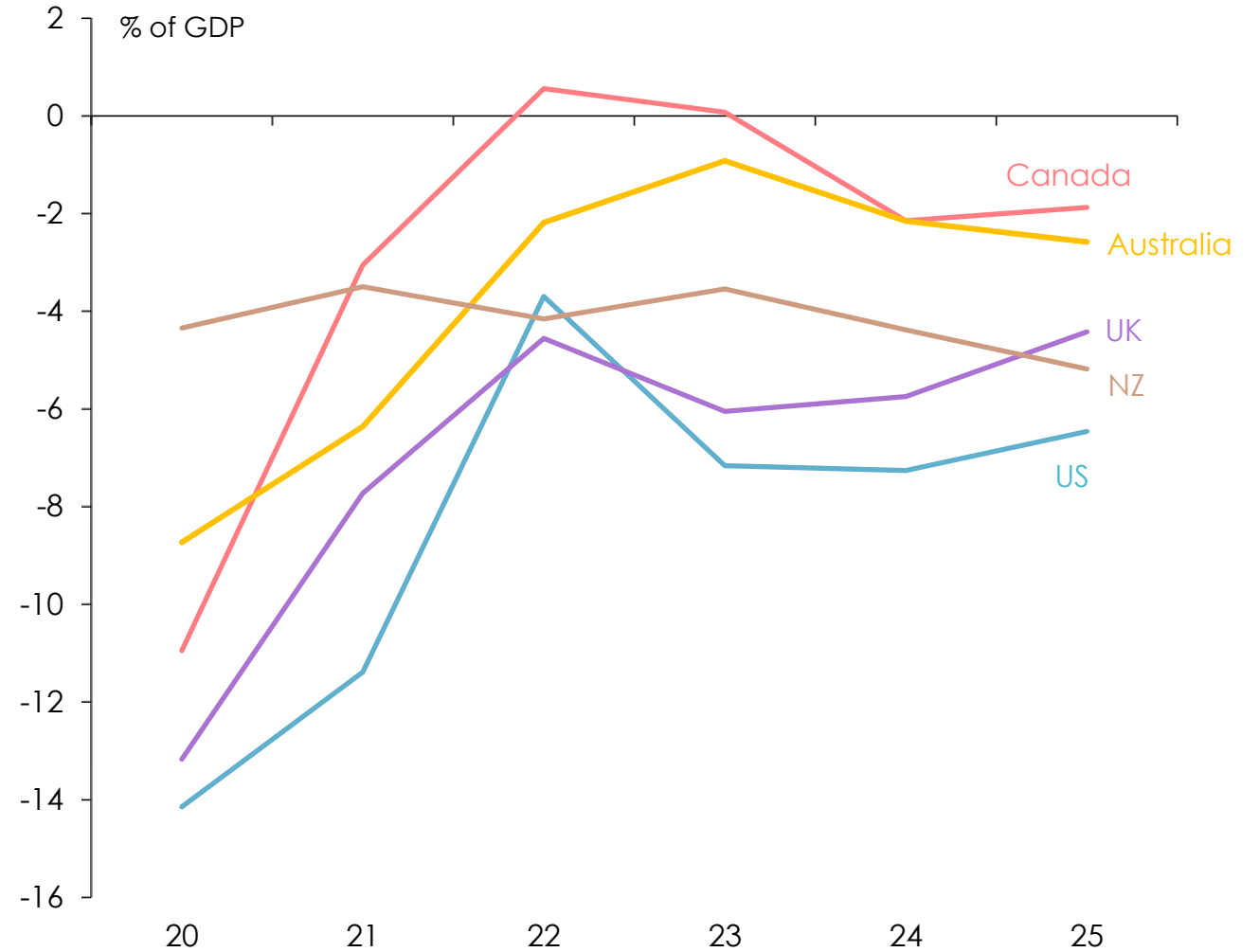


The RBA raised interest rates by less than its peers in the US, UK, Canada and NZ – and the Government didn't run big budget deficits like the US

Monetary policy interest rates – Australia and comparable countries



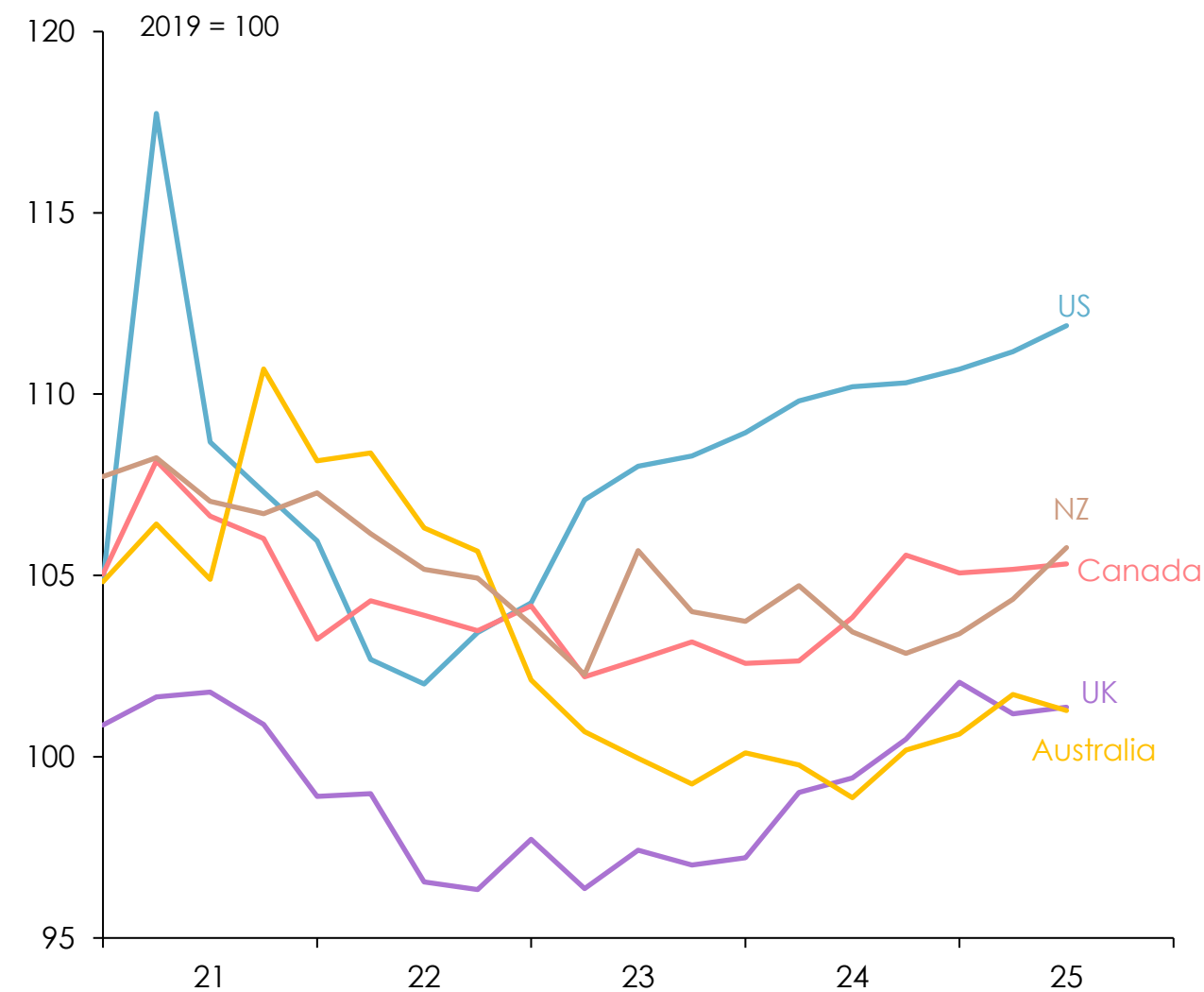
Government budget deficits (as pc of GDP) – Australia and comparable countries



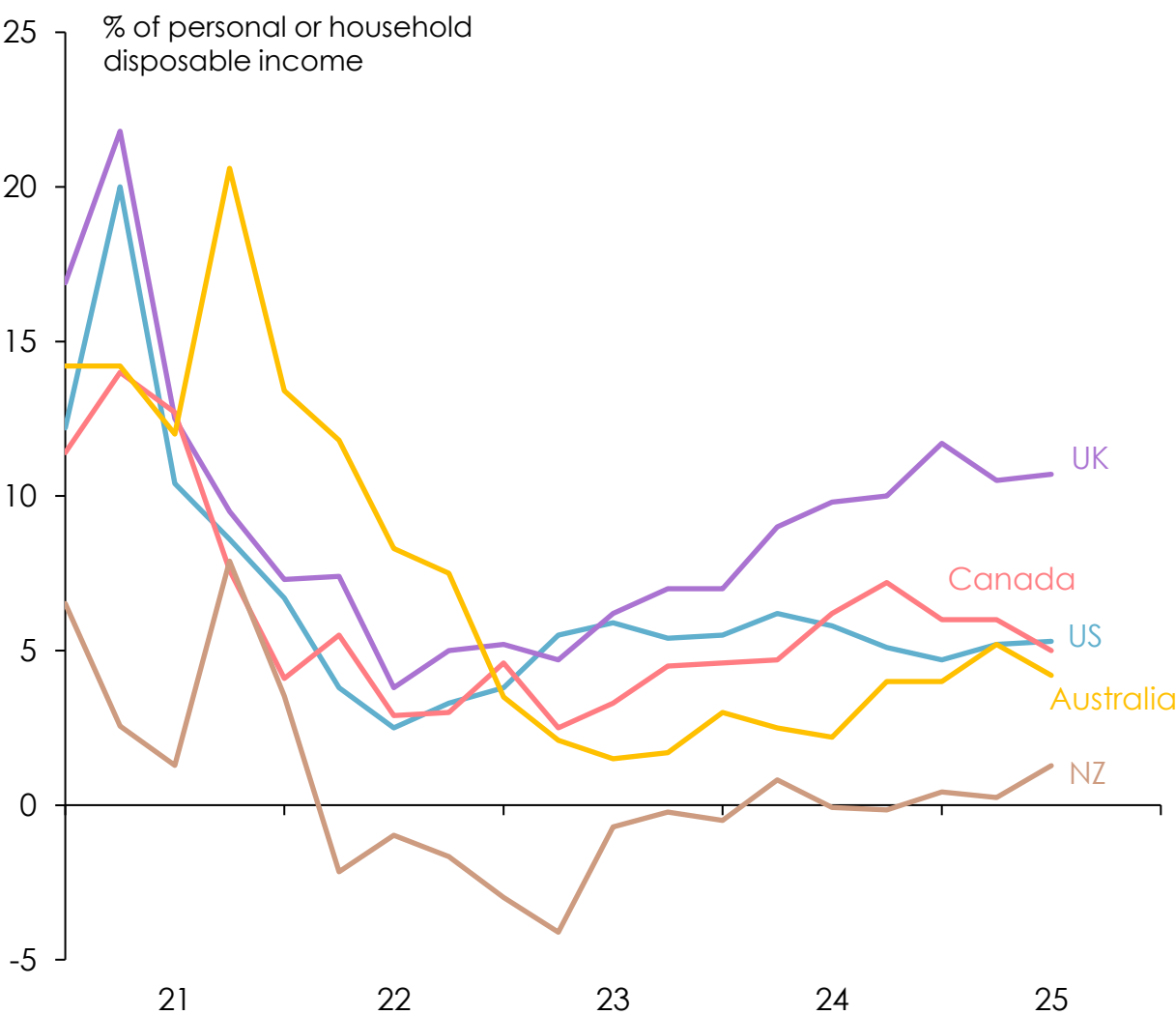
Sources: US [Federal Reserve](#); [Bank of Canada](#); [European Central Bank](#); [Bank of England](#); [Reserve Bank of Australia](#); [Reserve Bank of New Zealand](#); International Monetary Fund, [Fiscal Monitor](#), April 2025. Note: 'government budget deficits' include state and local governments.

Household finances have been squeezed more tightly in Australia than in other comparable countries (although that's now easing)

Real per capita household disposable income

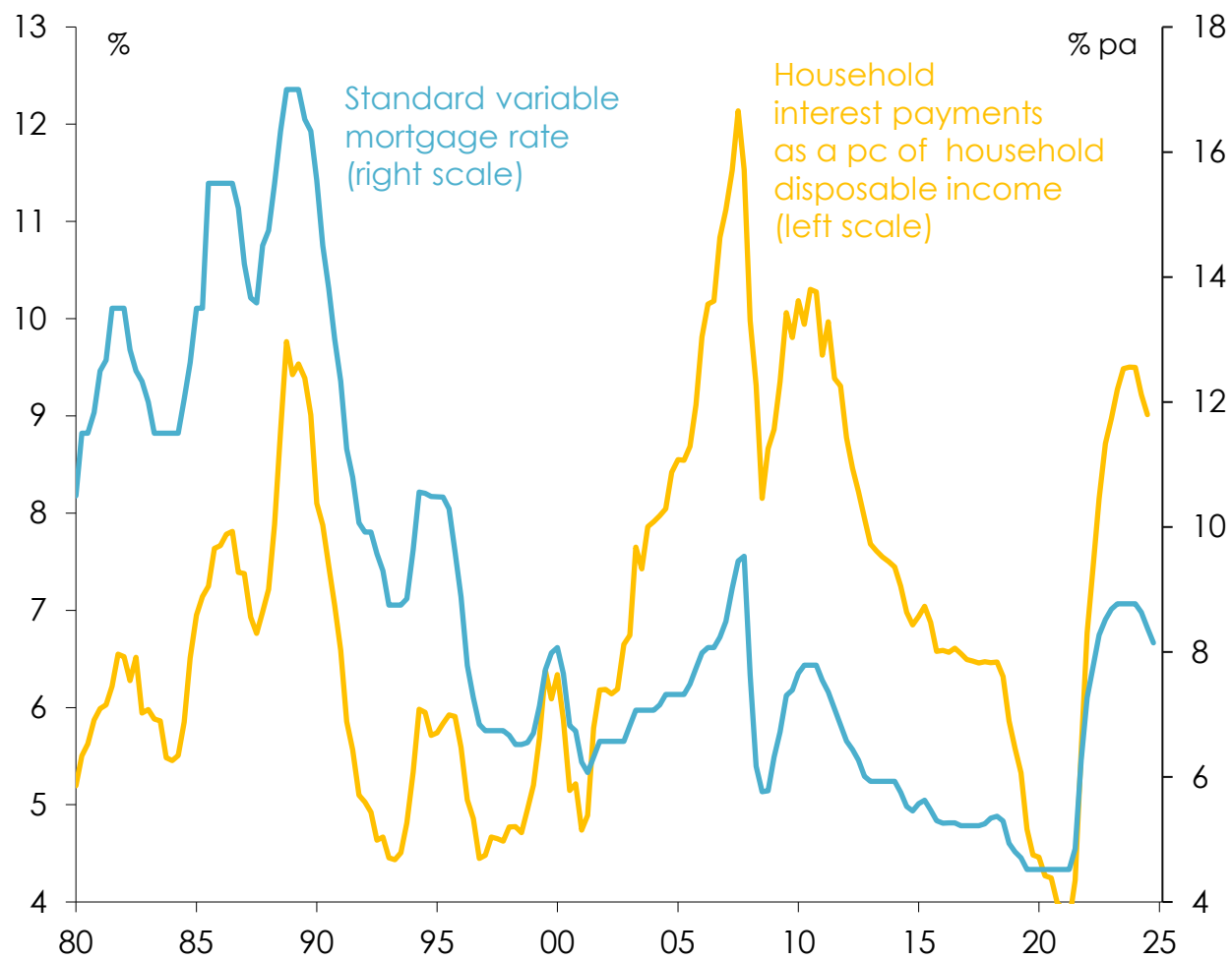


Household saving rates

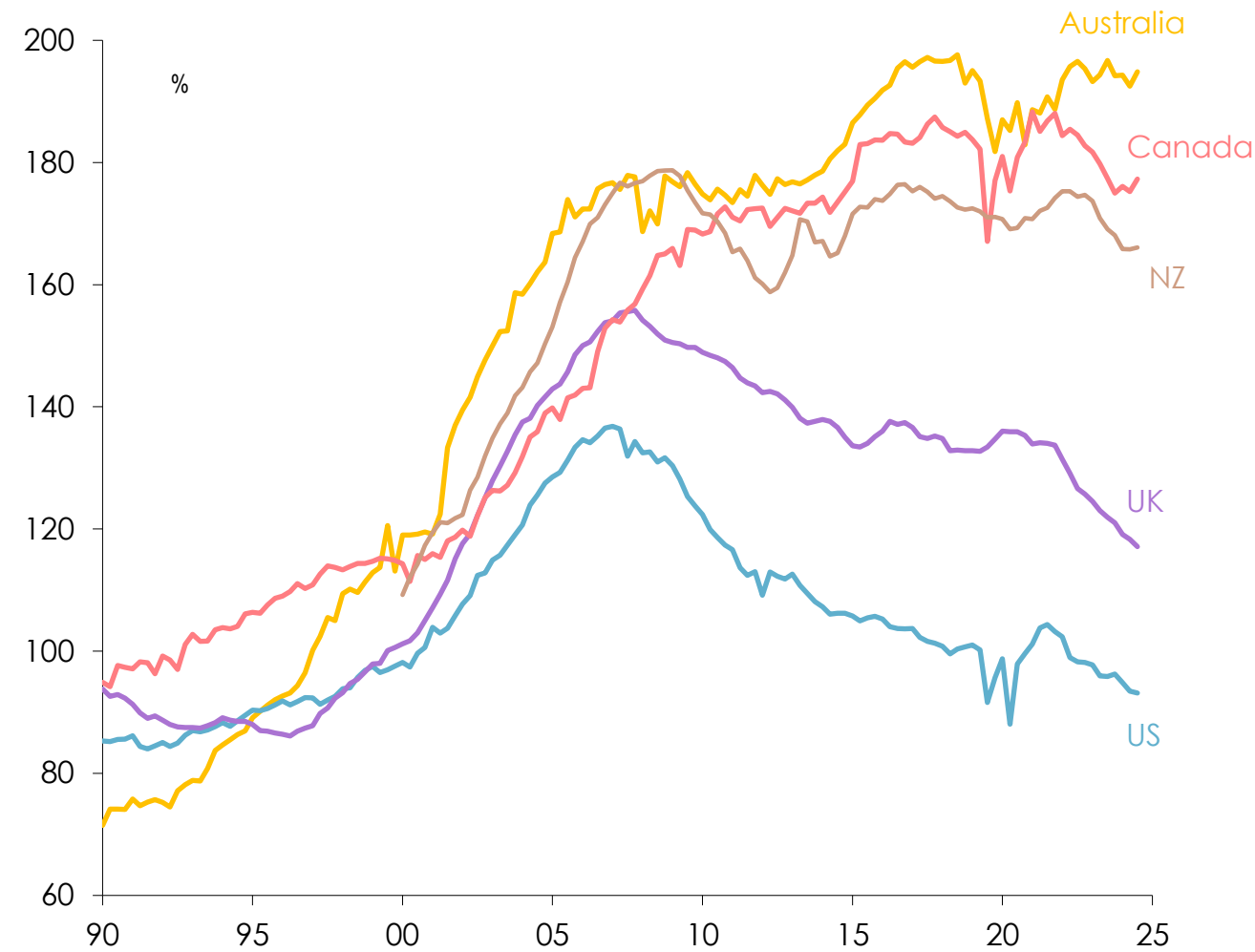


Australian households are very sensitive to movements in interest rates, because they have a lot of debt, and most mortgages are at floating rates

Mortgage interest rates and interest payments as a percentage of household disposable income



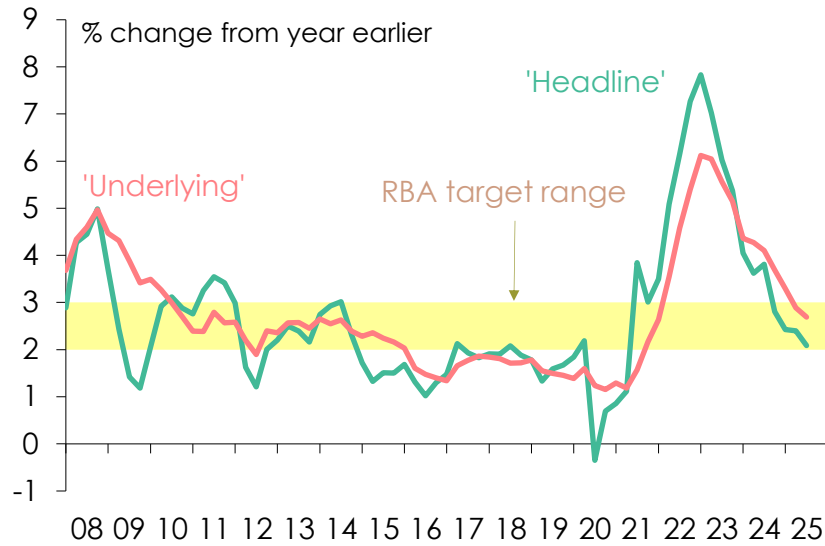
Household debt-to-income ratios, Australia and other comparable countries



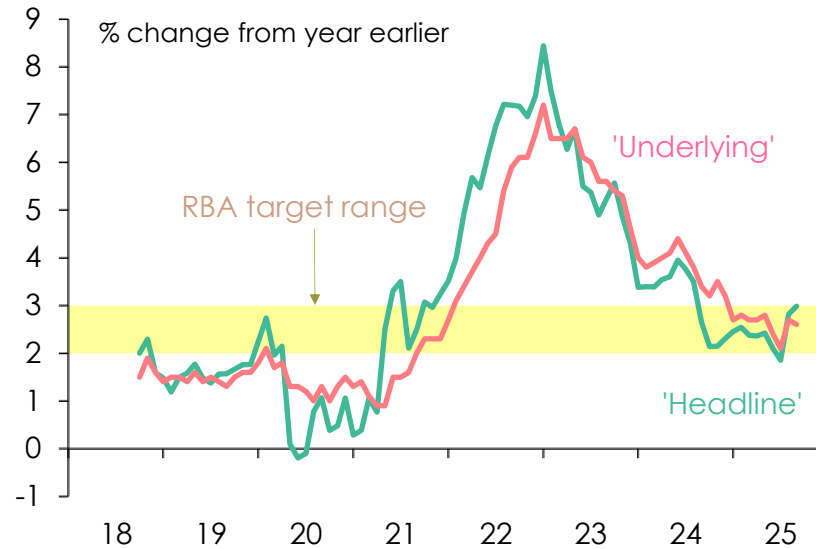
Sources: Reserve Bank of Australia, [Household Finances - Selected Ratios](#) and [Housing Lending Rates](#); US Federal Reserve, [Financial Accounts of the United States - Z.1](#); UK Office for National Statistics, [Quarterly sector accounts](#); Statistics Canada, [Debt service indicators of households](#); Statistics NZ, [National accounts \(income, saving, assets, and liabilities\)](#).

'Underlying' inflation is now back in the RBA's target range – although it still isn't at the mid-point of that range which is what the RBA wants to see

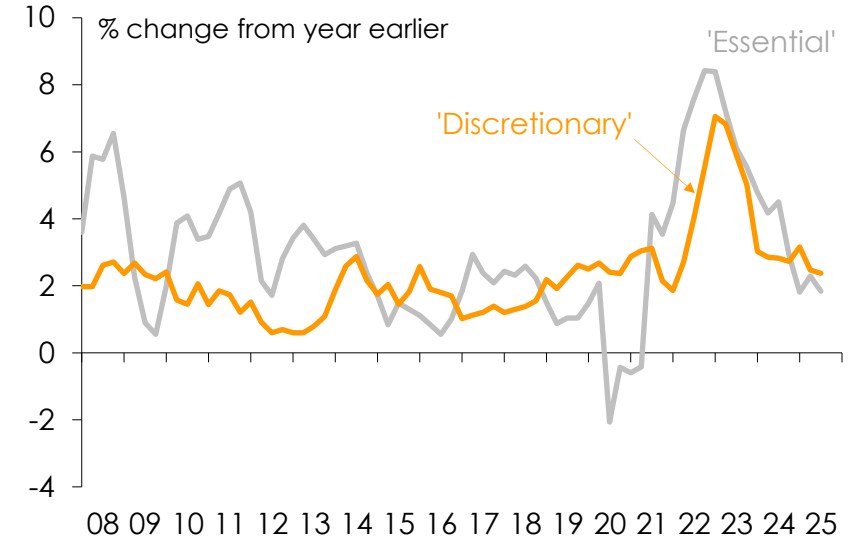
Consumer prices – annual change



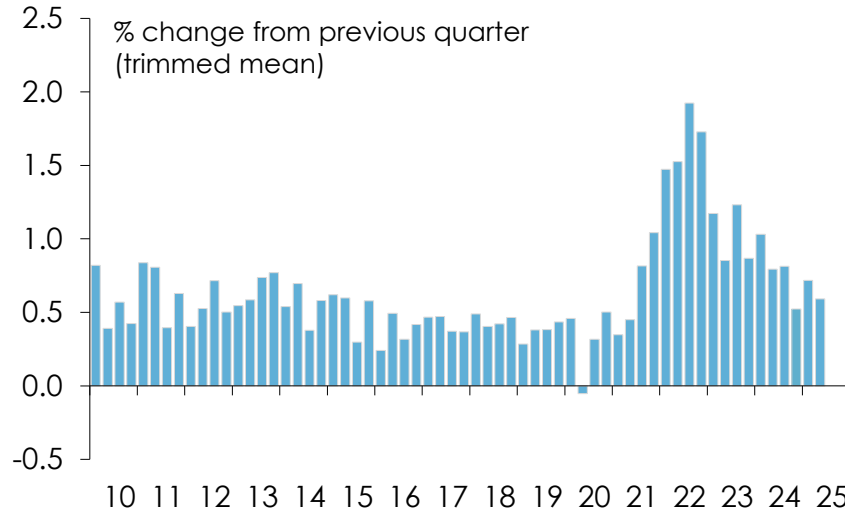
Monthly 'CPI indicator'



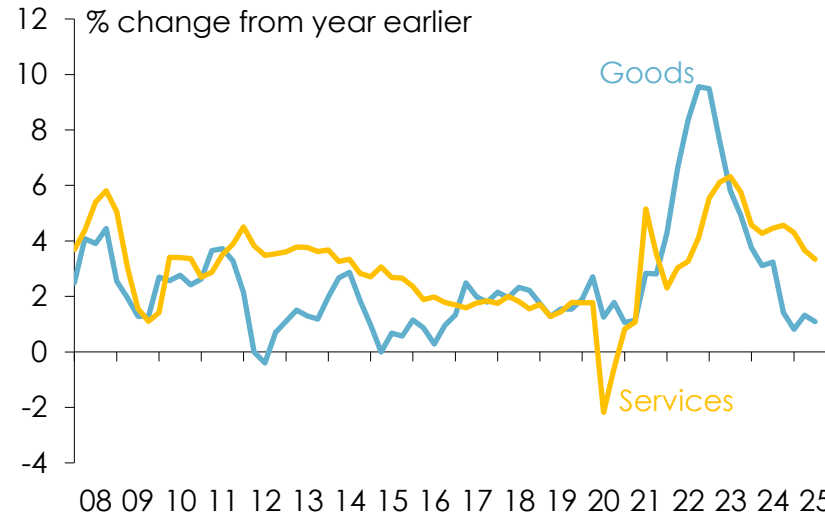
'Discretionary' vs 'essential' items



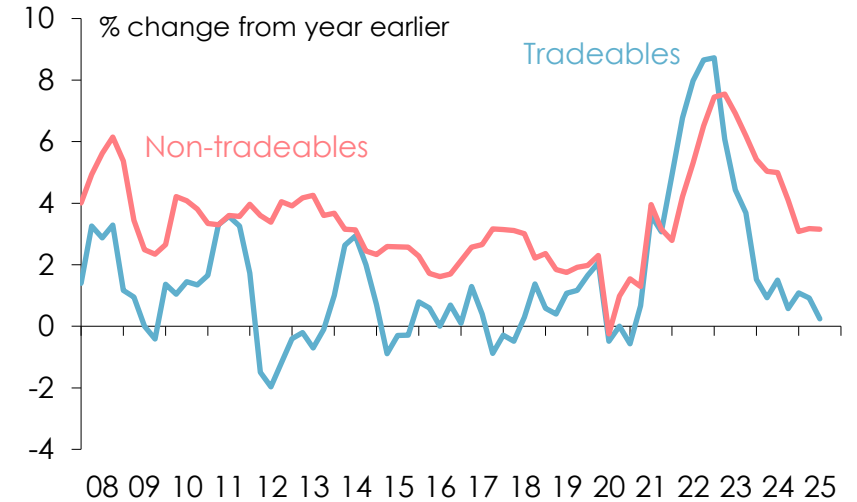
Quarterly 'underlying' inflation



Goods and services prices



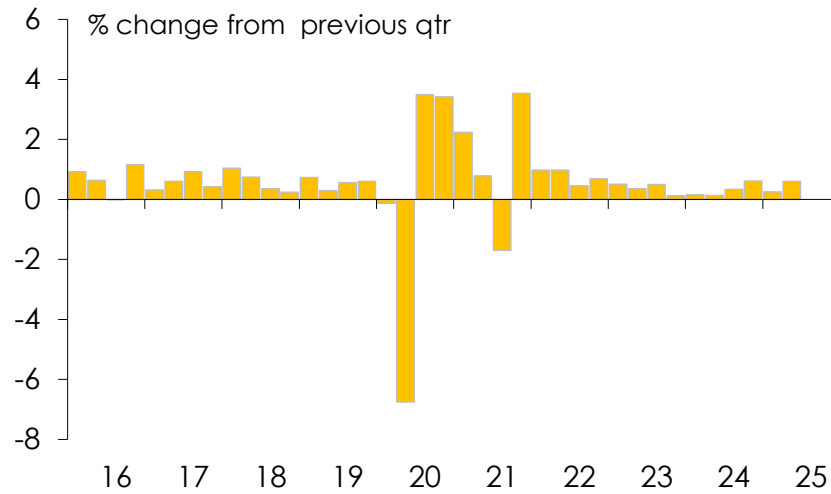
'Tradable' vs 'non-tradable' items



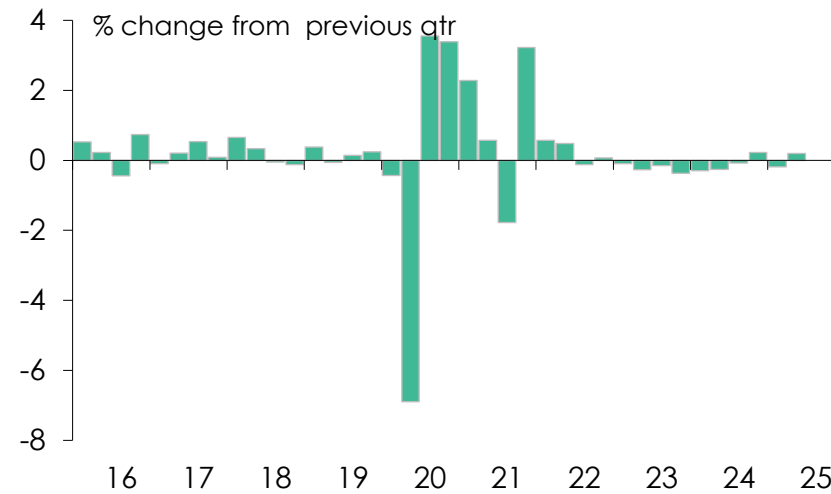
Note: 'Underlying' inflation is the 'trimmed mean' (derived from the middle 70% of price increases). 'Essential' items are housing, food, fuel & power, medical & health care, ground transport, communications and education services. Sources: ABS, [Consumer Price Index](#), June quarter 2025 and [Monthly Consumer Price Index Indicator](#), June 2025.

Economic growth picked up again in the June quarter after slowing in the March quarter, with a turnaround in productivity as well

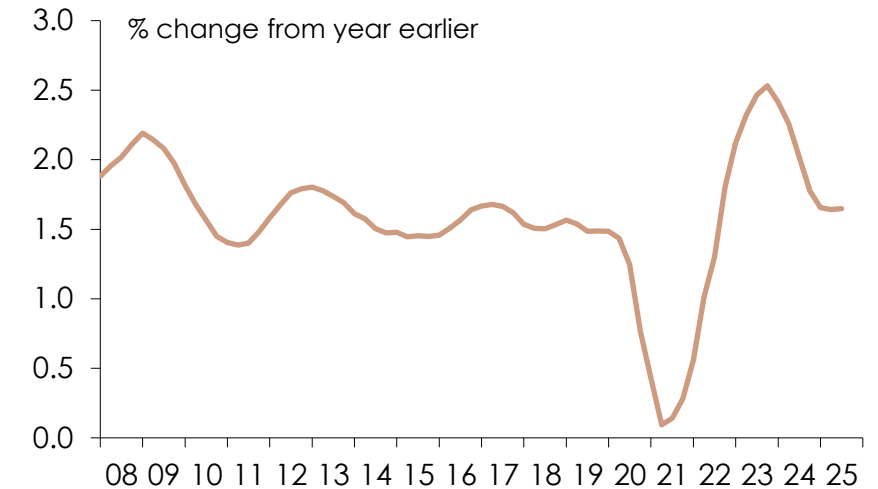
Real GDP - quarterly



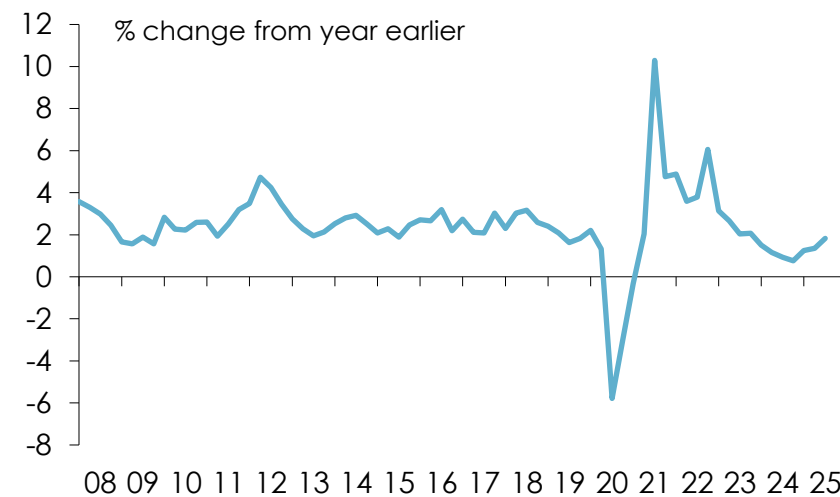
Real per capita GDP - quarterly



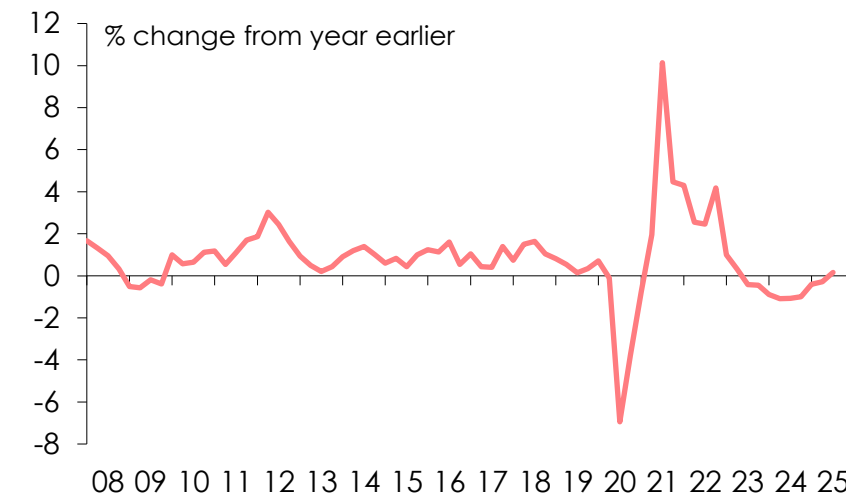
Population



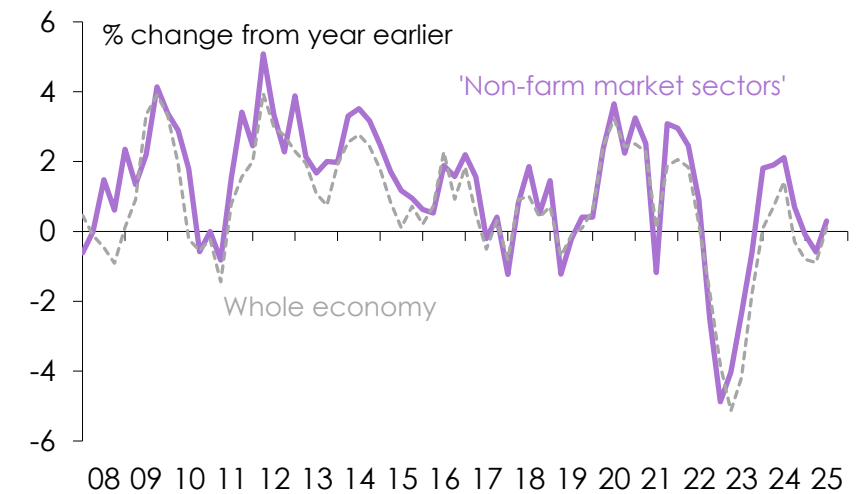
Real GDP - annual



Real per capita GDP - annual

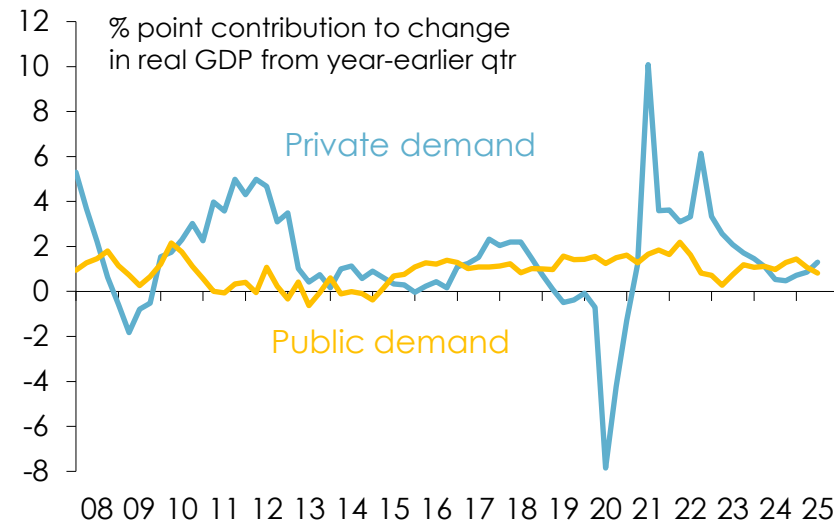


Labour productivity

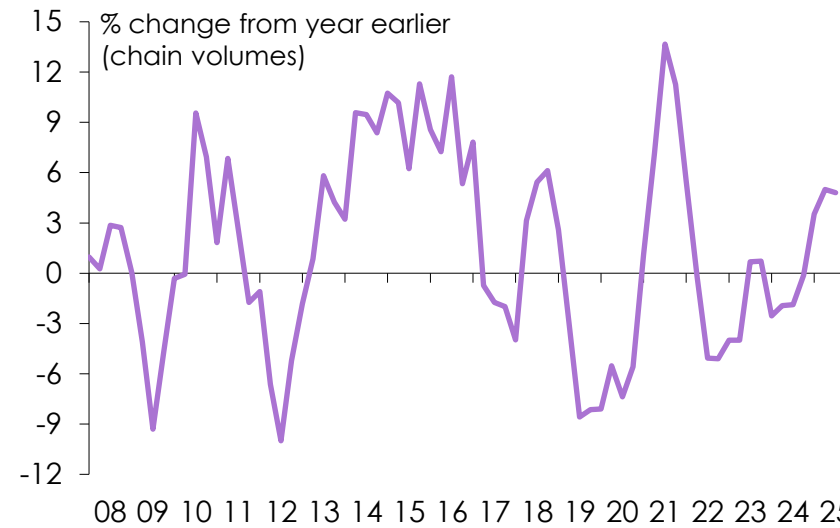


Private sector spending has picked up in the first half of the year, largely thanks to household consumption, while public spending growth is easing

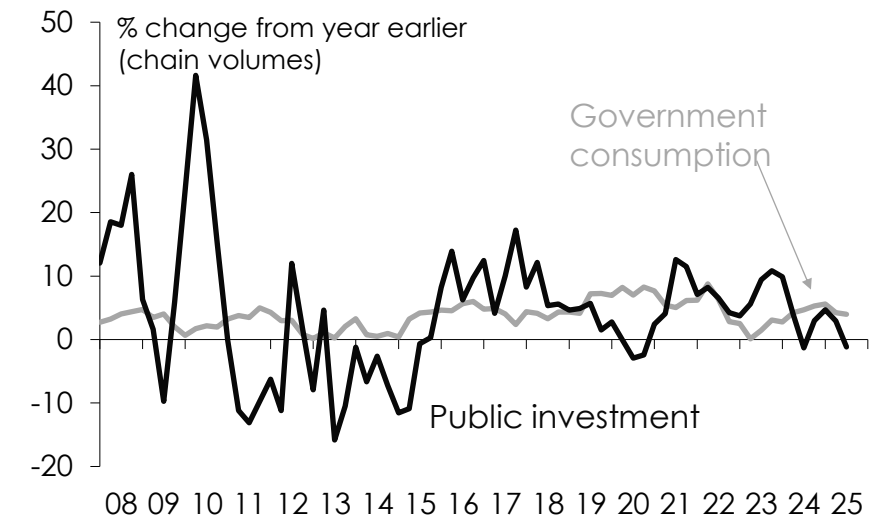
Private vs public sector spending



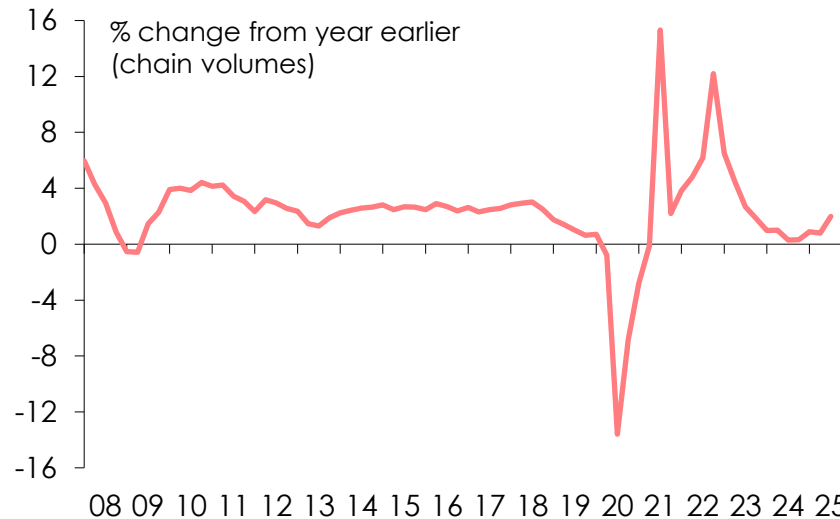
Dwelling investment



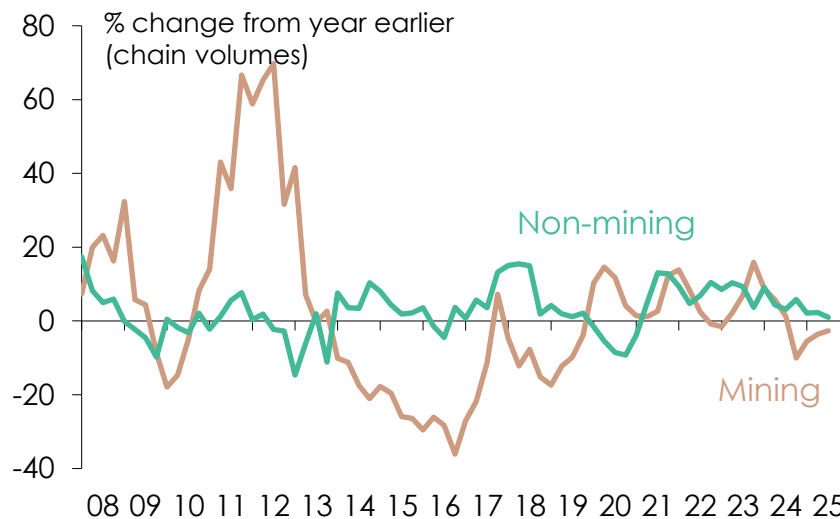
Public spending by type



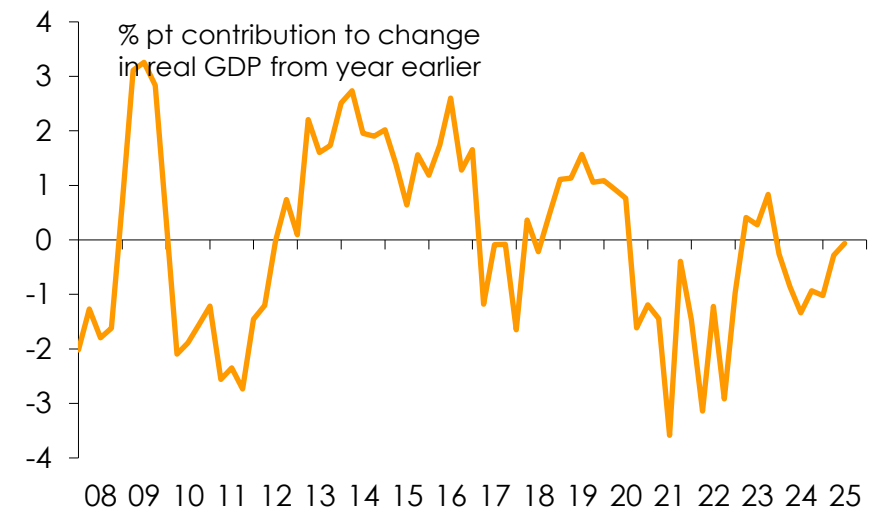
Household consumption



Business investment

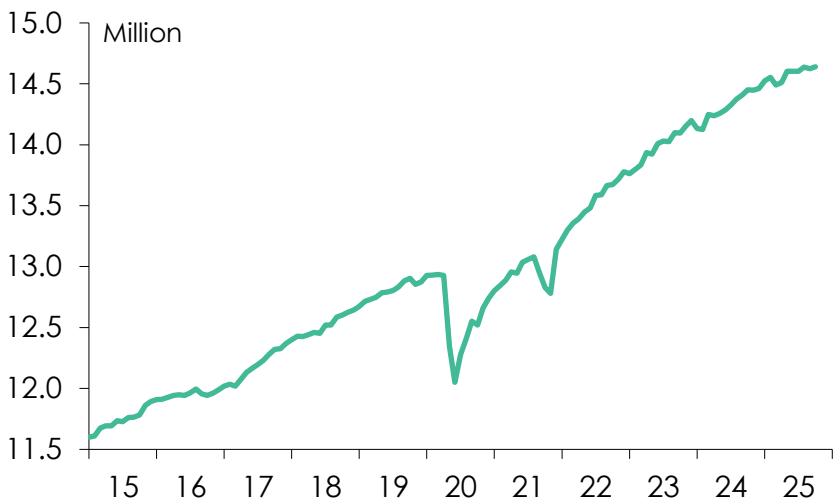


Net exports



The labour market remains very tight, but there are signs that the demand for labour has peaked

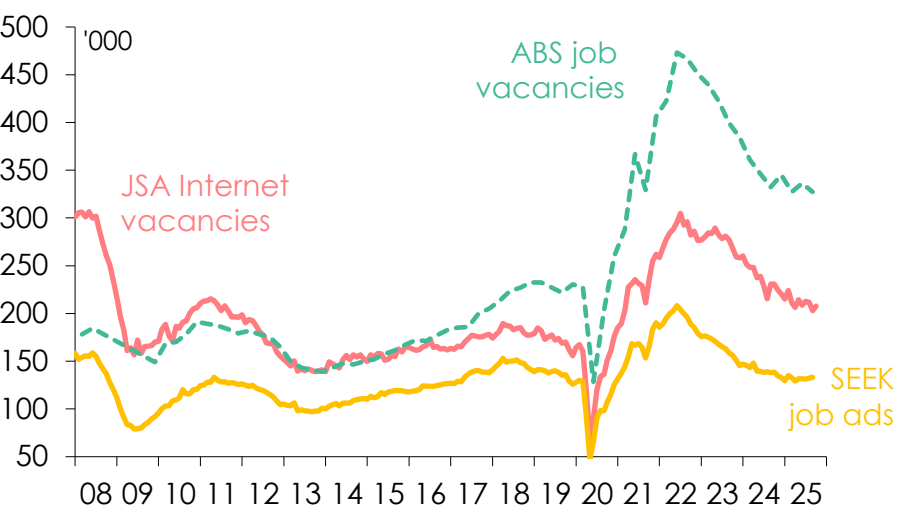
Level of employment



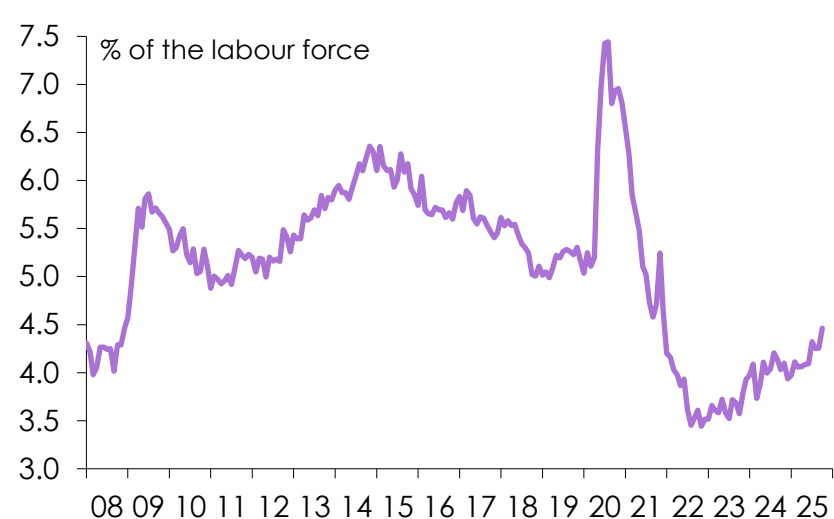
Hours worked



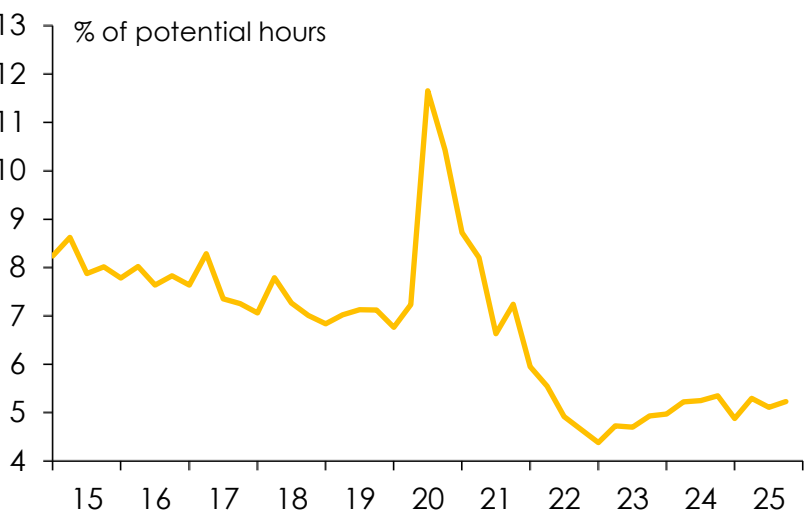
Job vacancies



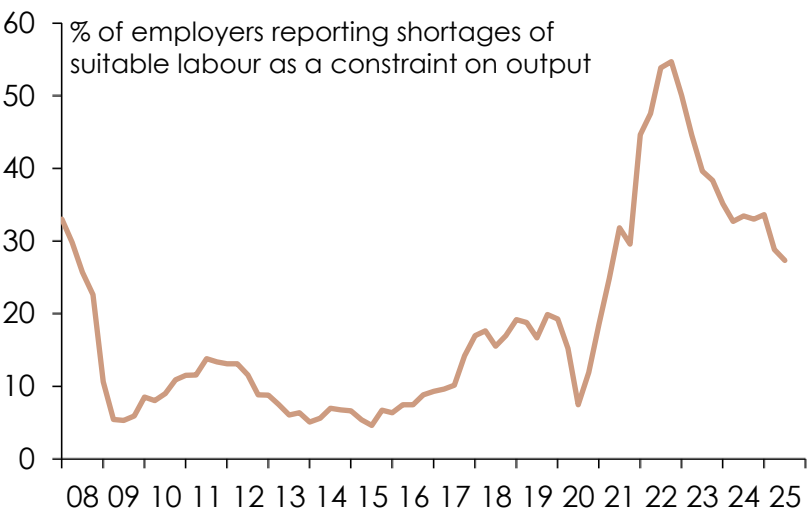
Unemployment rate



Labour force under-utilization



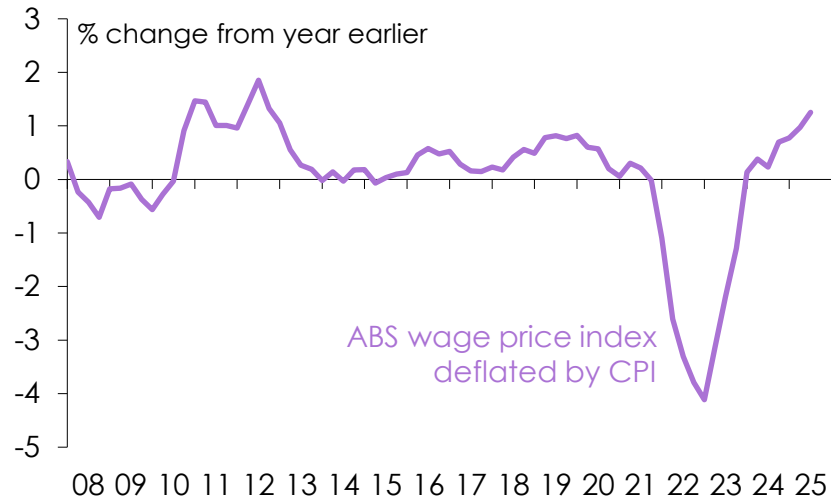
Labour shortages



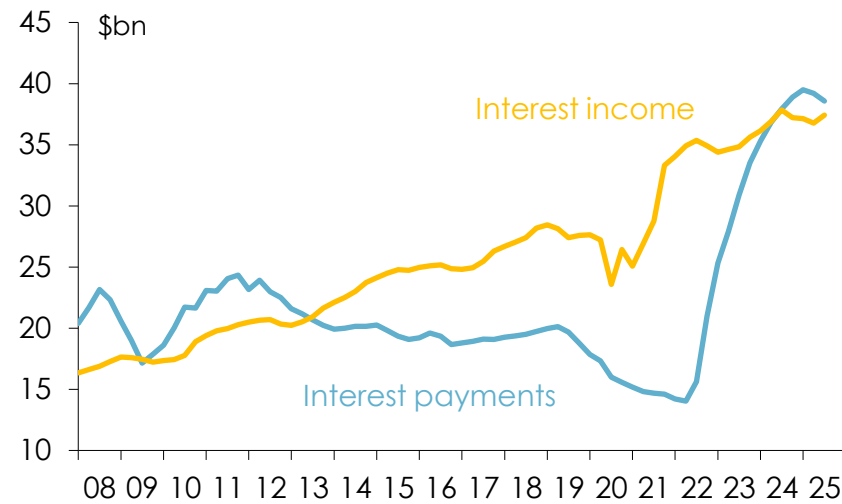
Note: 'labour force under-utilization' is a 'volume measure' of the hours which would have been worked by unemployed and under-employed people had those hours been offered. Sources: ABS, [Labour Force](#), September 2025, [Job Vacancies](#), August 2025 and [Labour Account, Australia](#), December quarter 2024; National Australia Bank, [Quarterly Business Survey](#), June quarter 2025; Jobs and Skills Australia, [Internet Vacancy Index](#); SEEK, [Employment & Salary data](#).

The squeeze on household finances is starting to ease

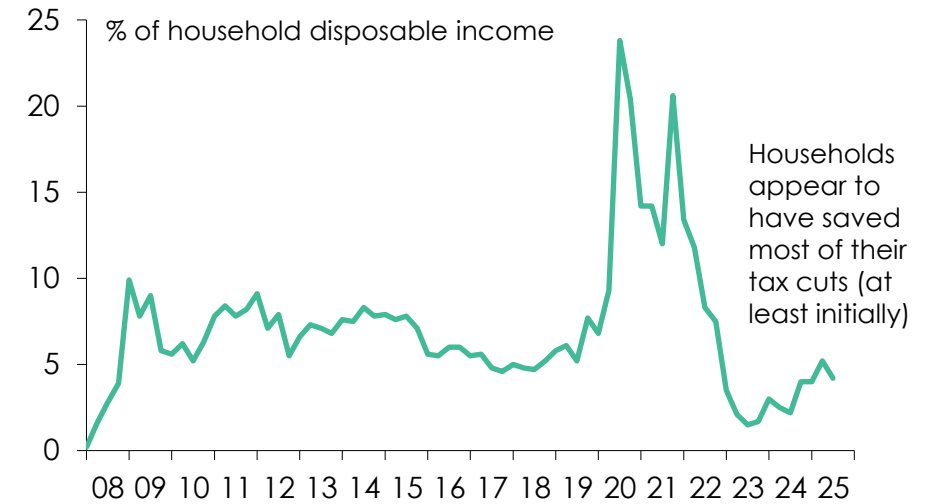
Real wages



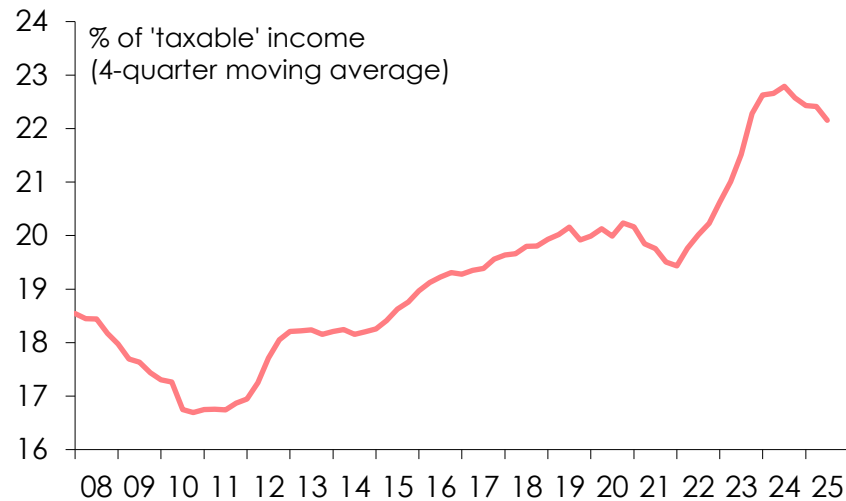
Interest income and payments



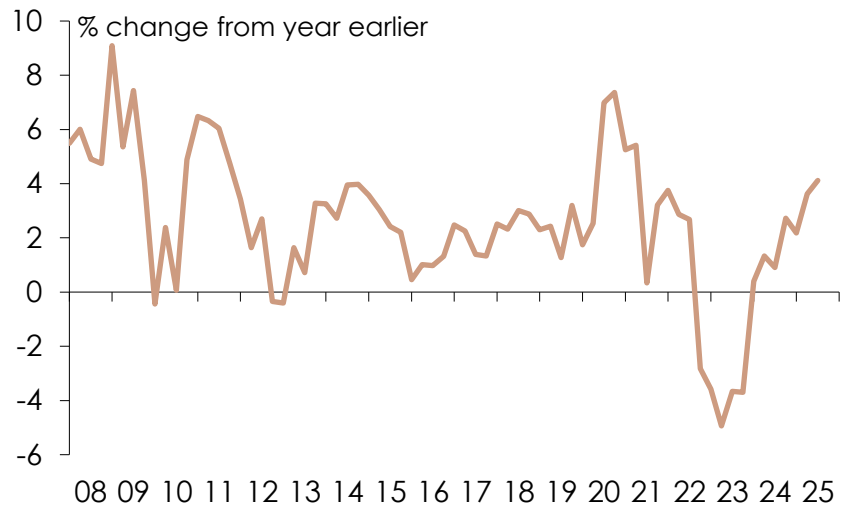
Household saving



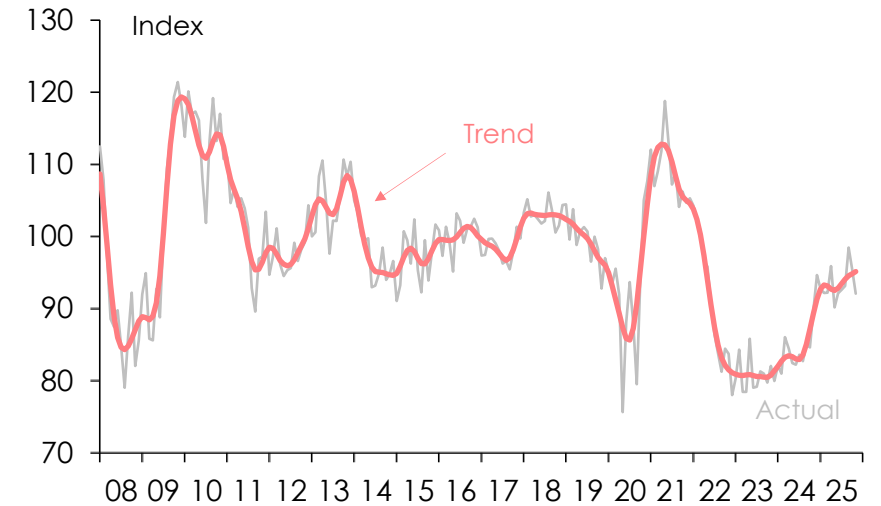
Personal income tax payments



Real household disposable income



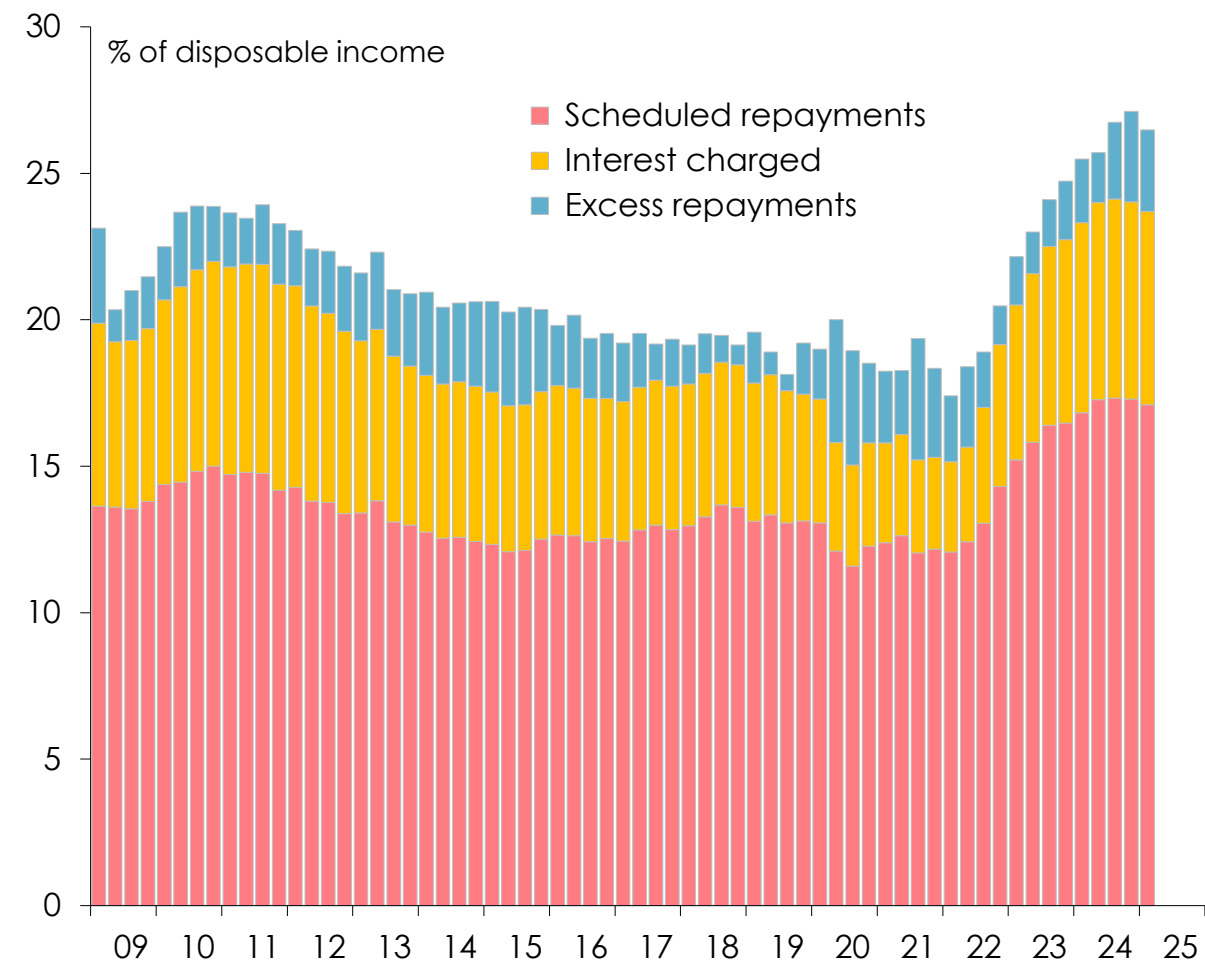
Consumer confidence



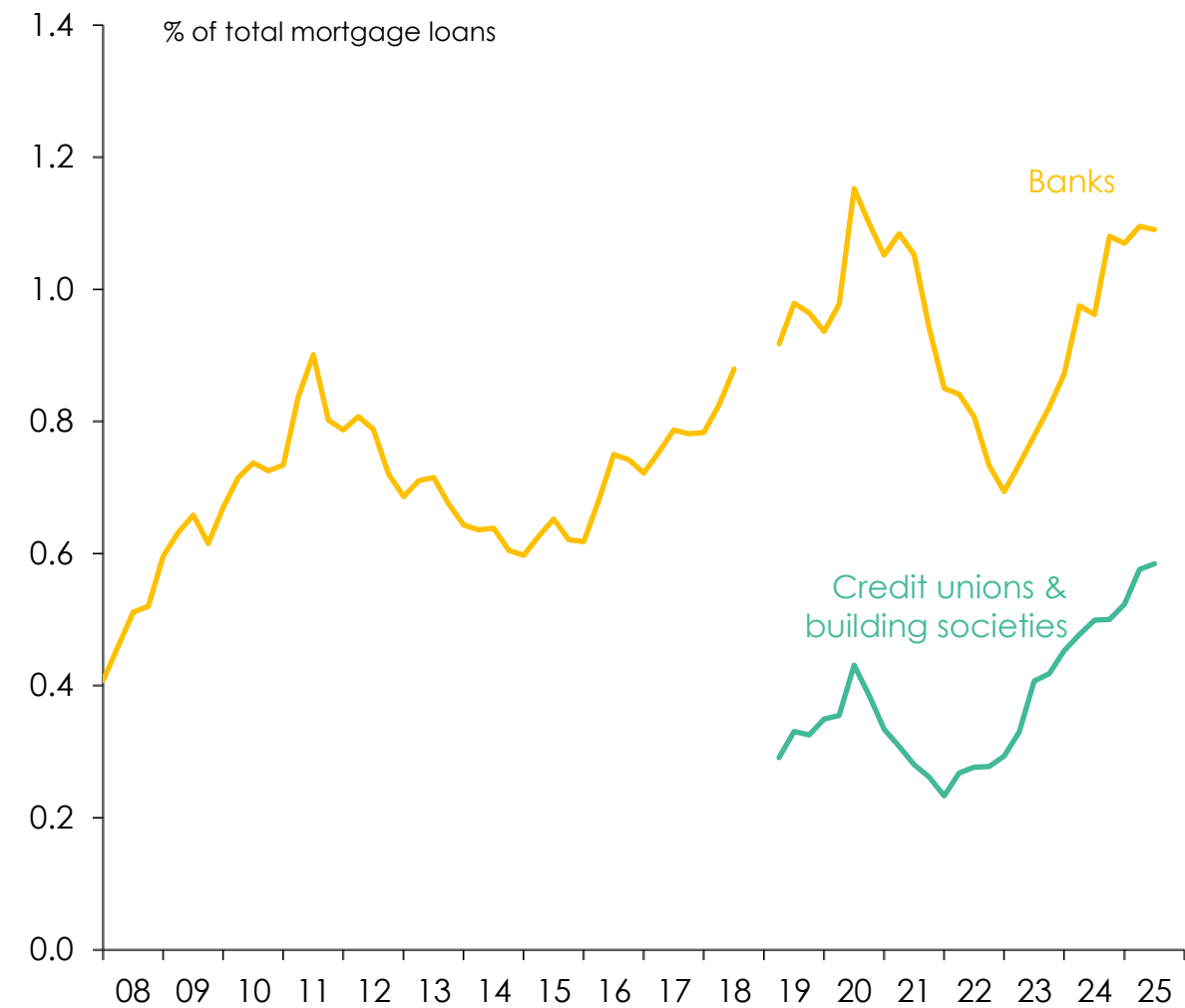
Sources: ABS, [Wage Price Index](#), June quarter 2025, [Consumer Price Index](#), June quarter 2025 and [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2025; Westpac, [Westpac-MI Consumer Sentiment](#), October 2025.

Mortgage-holders are (in aggregate) still making ‘excess repayments’ of principal, and delinquency rates though higher remain relatively low

Mortgage interest and principal repayments as a percentage of disposable income



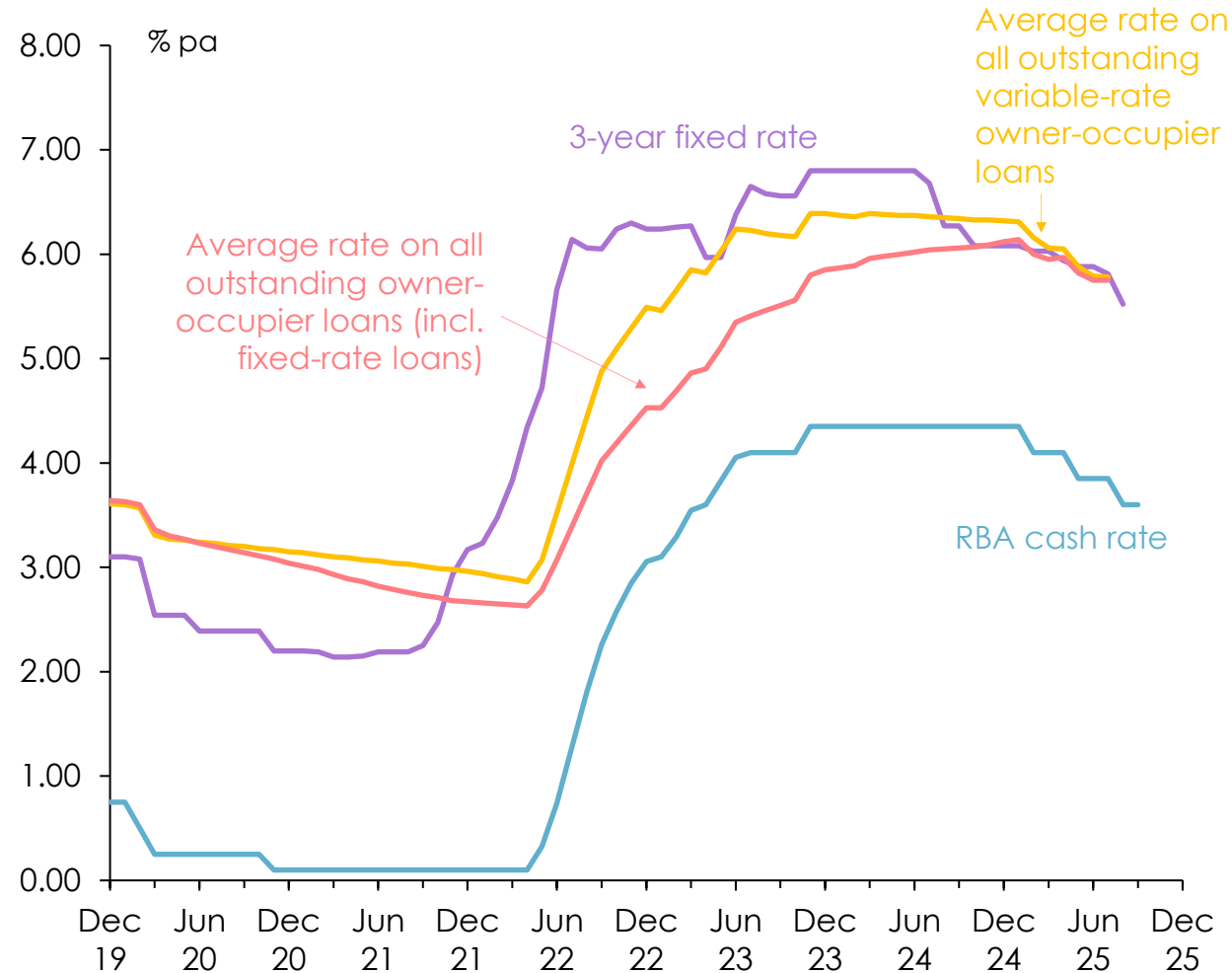
Mortgage lenders' non-performing loan ratios



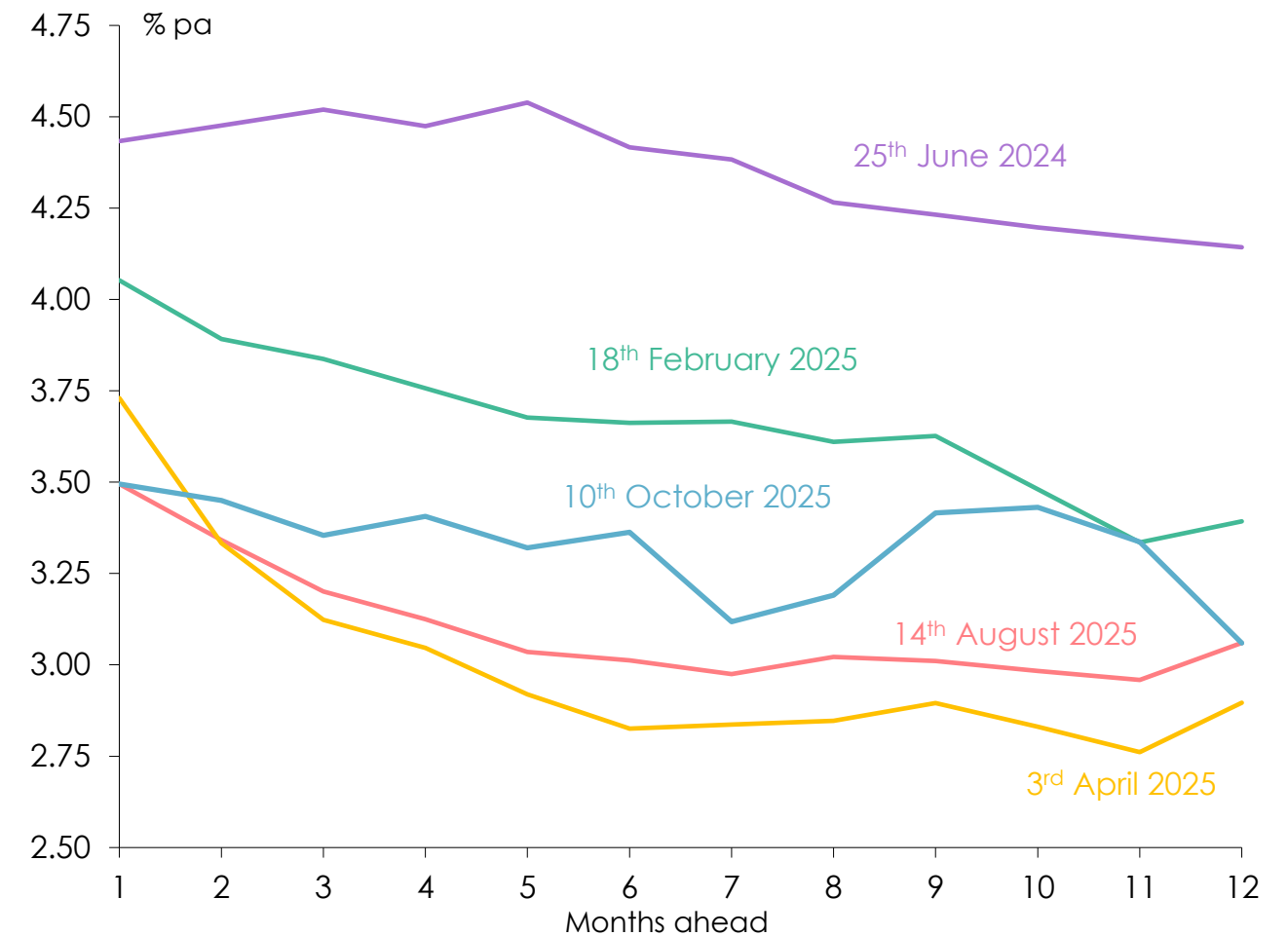
Note: Disposable income in this chart is gross disposable income from the national accounts plus interest payments on dwellings.
Sources: Reserve Bank of Australia, [Housing Loan Payments](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution property exposures statistics](#), September 2004 to March 2025.

Financial markets have become more sceptical about the prospects for further rate cuts over the past few weeks

RBA cash rate and interest rates on selected categories of housing loans



Financial market expectations of future movements in the RBA cash rate

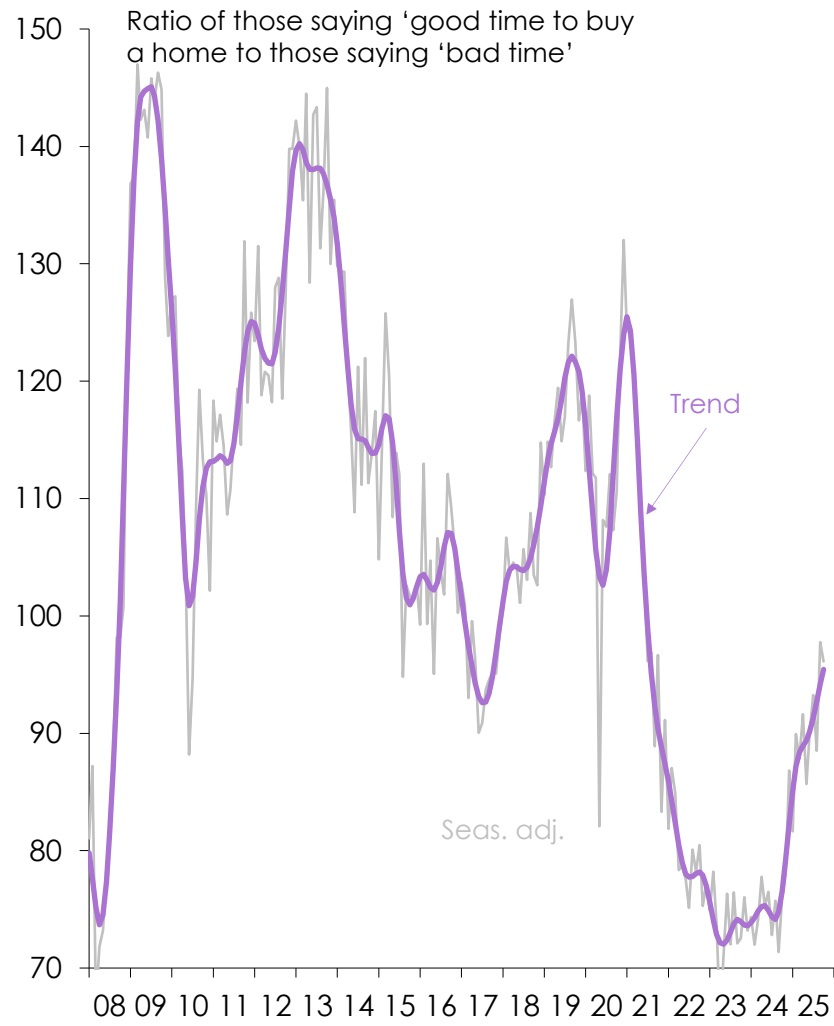


Sources: Reserve Bank of Australia, [Interest Rates and Yields - Money Market - Monthly](#) and [Housing Lending Rates](#); LSEG Datastream.

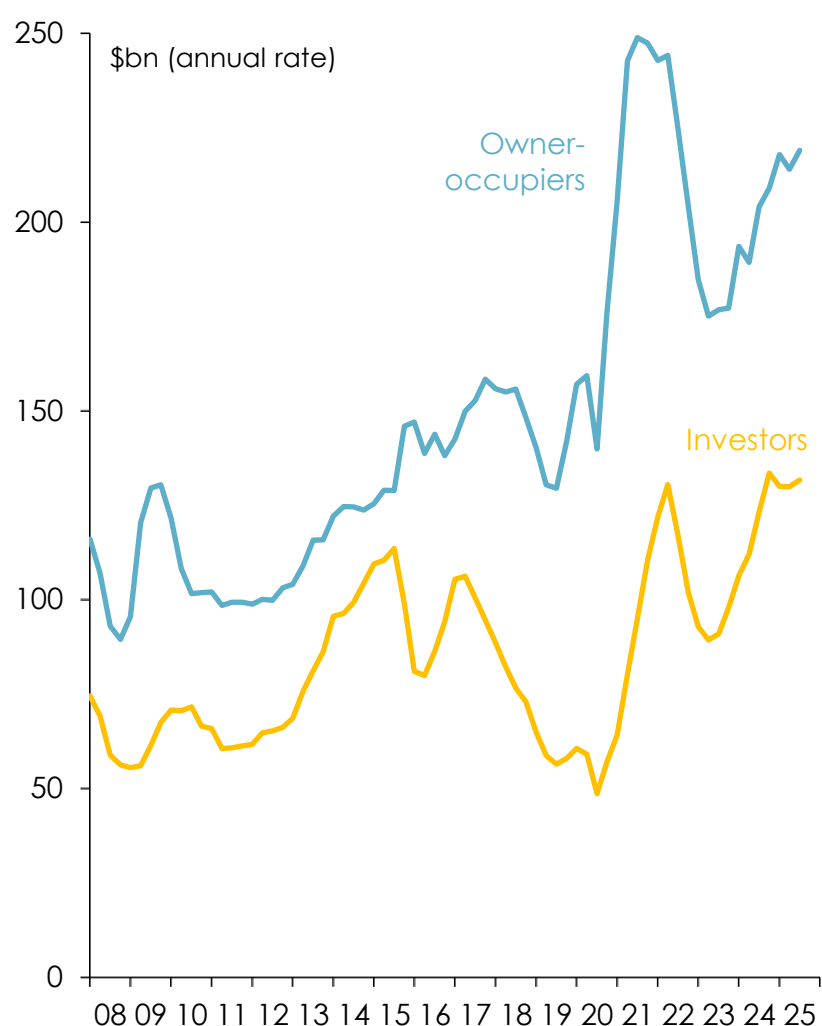
The housing market

Demand for housing is starting to pick up in response to the decline in interest rates

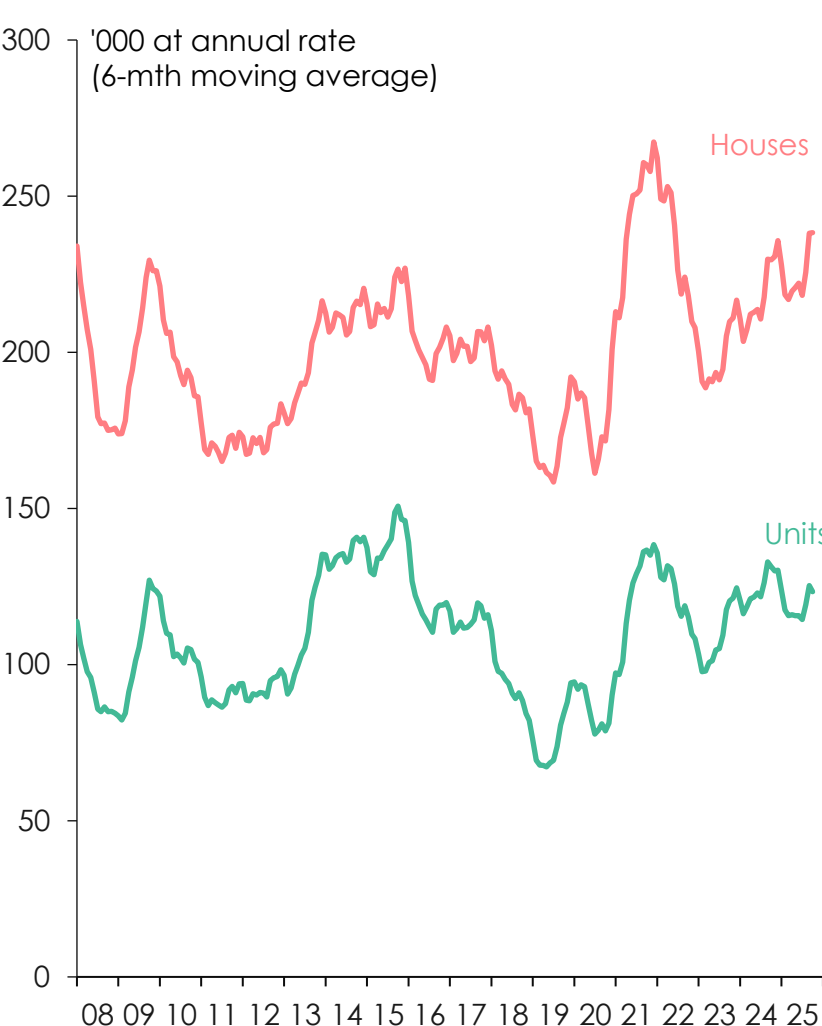
Consumer sentiment regarding buying a home



Housing finance commitments (ex-refi)



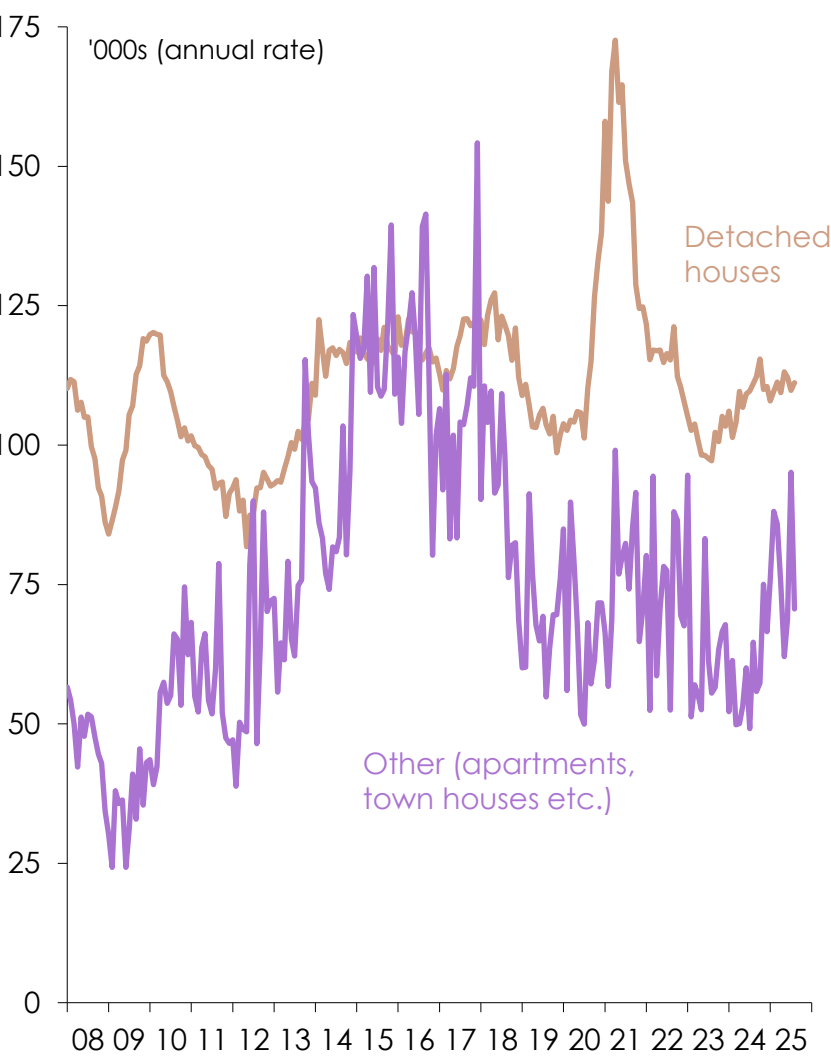
Sales volumes



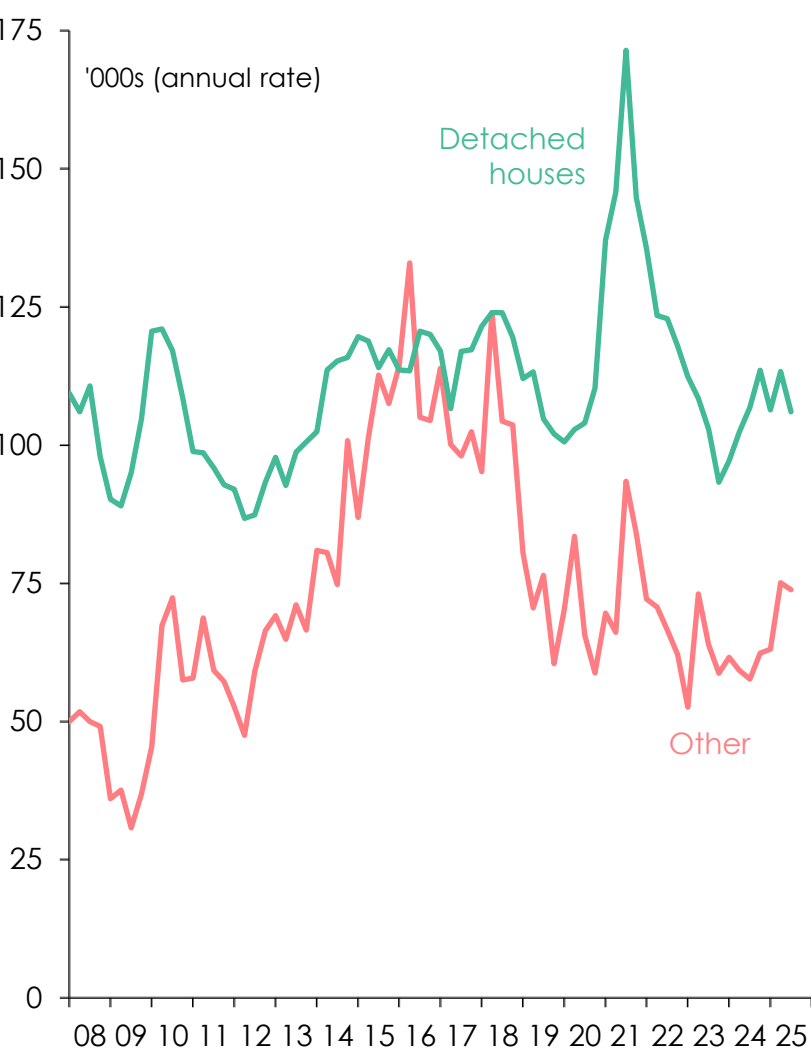
Sources: Westpac, [Westpac-MI Consumer Sentiment](#), October 2025; ABS, [Lending indicators](#), June quarter 2025; and Cotality, [CoreLogic indices](#), September 2025.

Inevitably, housing supply responds only slowly to increases in demand

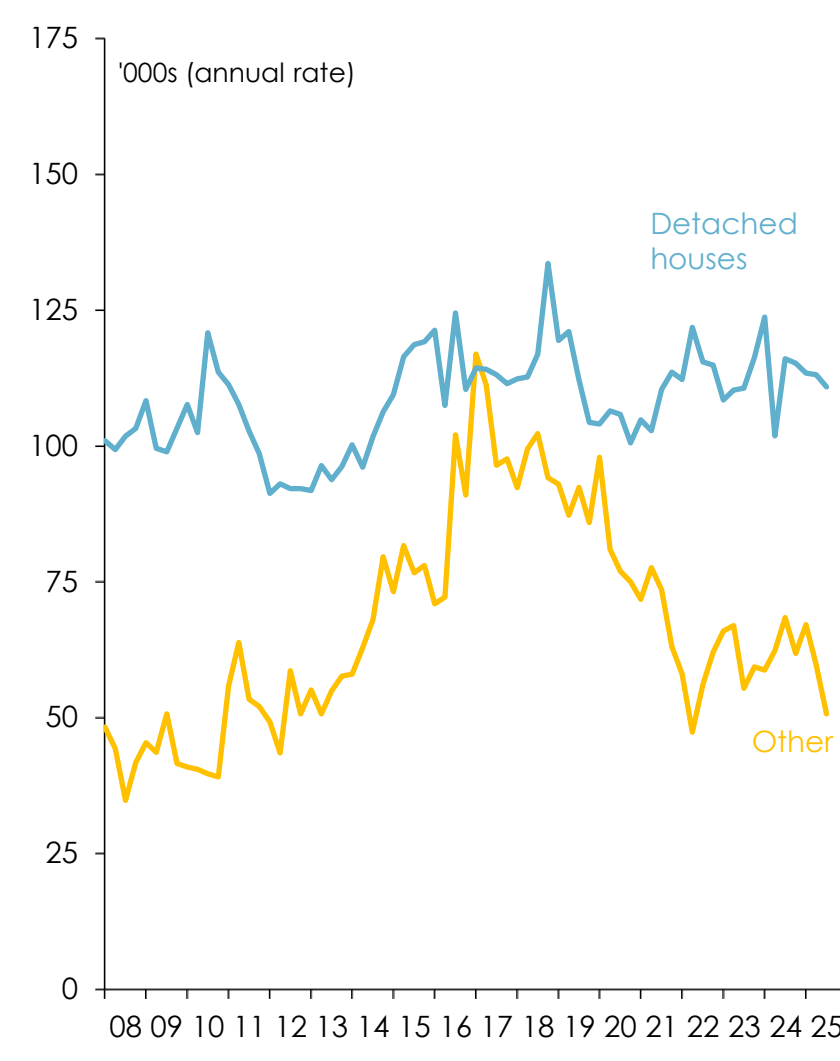
Residential building approvals



Residential building commencements



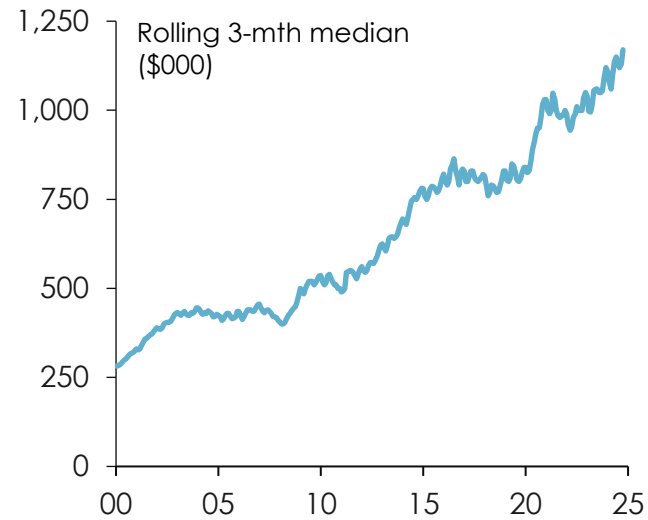
Residential building completions



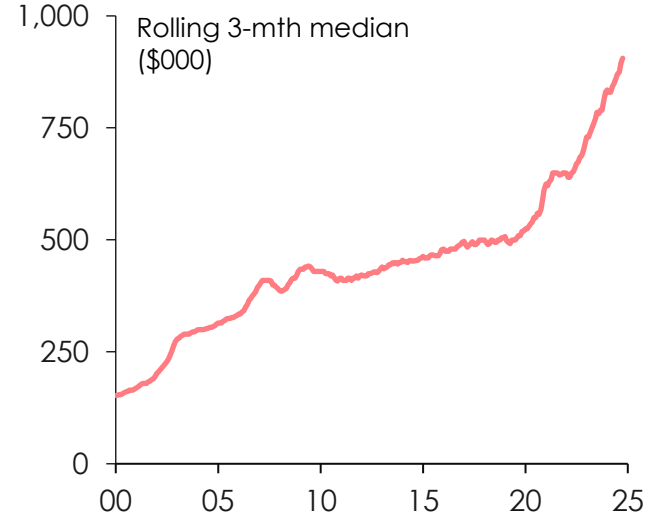
Sources: ABS, [Building Approvals](#), August 2025, and [Building Activity](#), June quarter 2025.

As interest rates have begun to fall, property prices have begun to pick up again – except in Melbourne, Hobart and Canberra

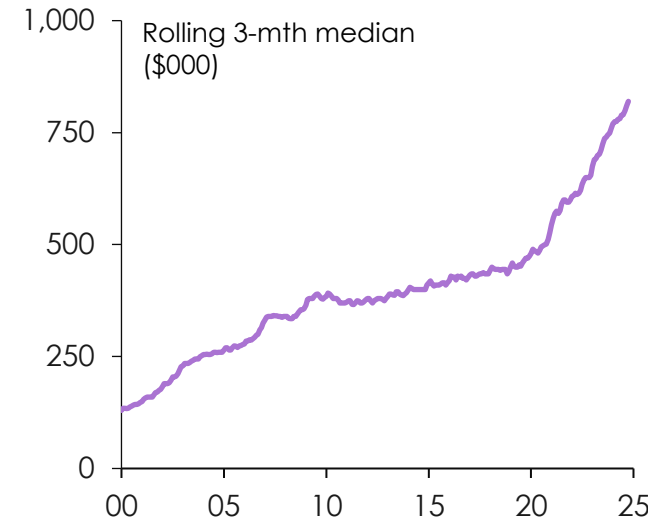
Sydney



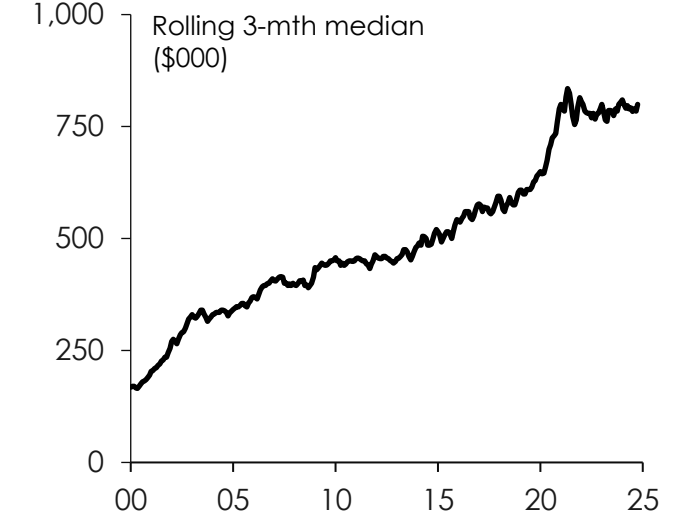
Brisbane



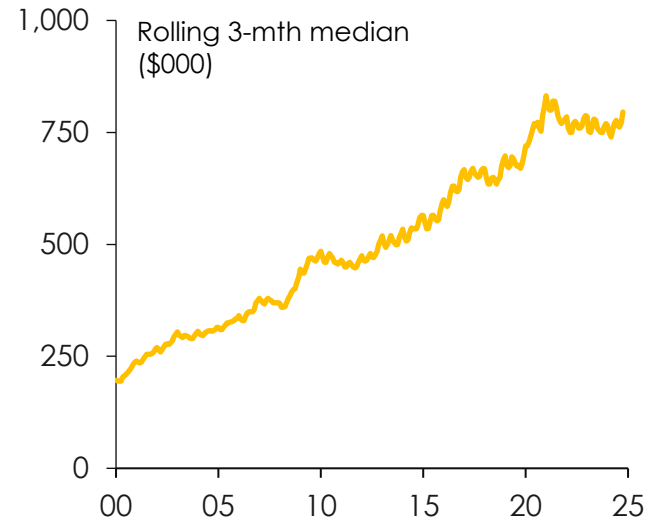
Adelaide



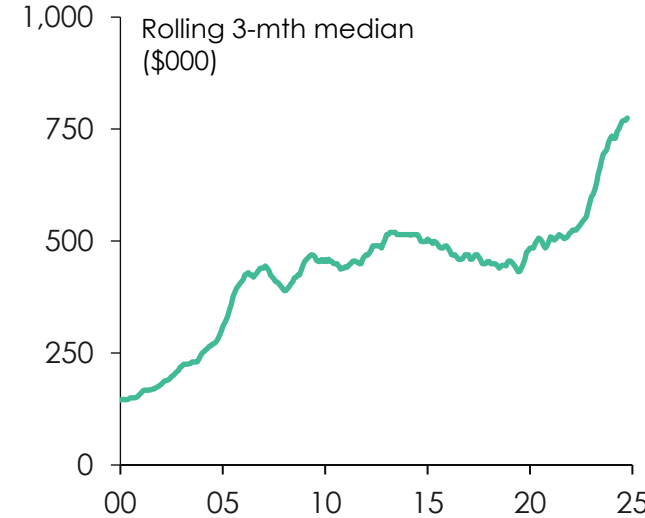
Canberra



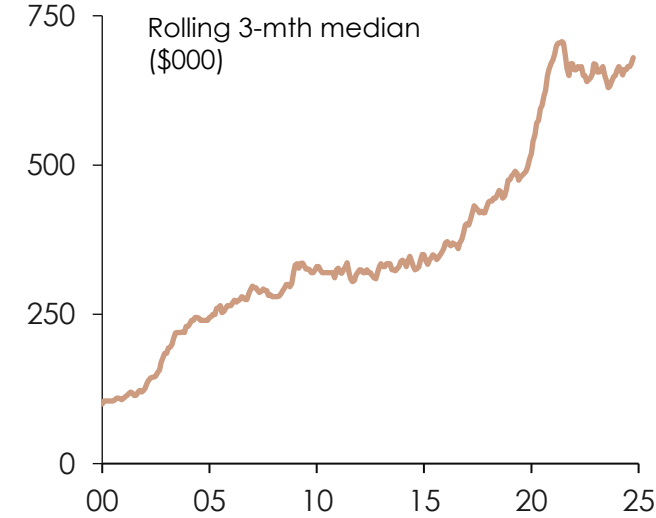
Melbourne



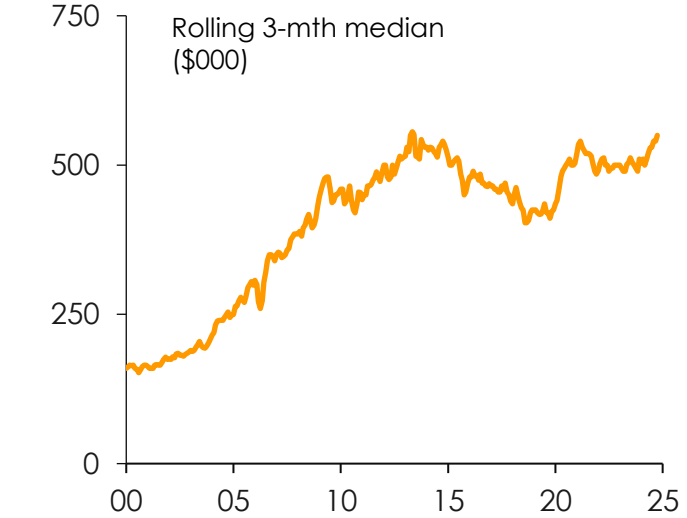
Perth



Hobart



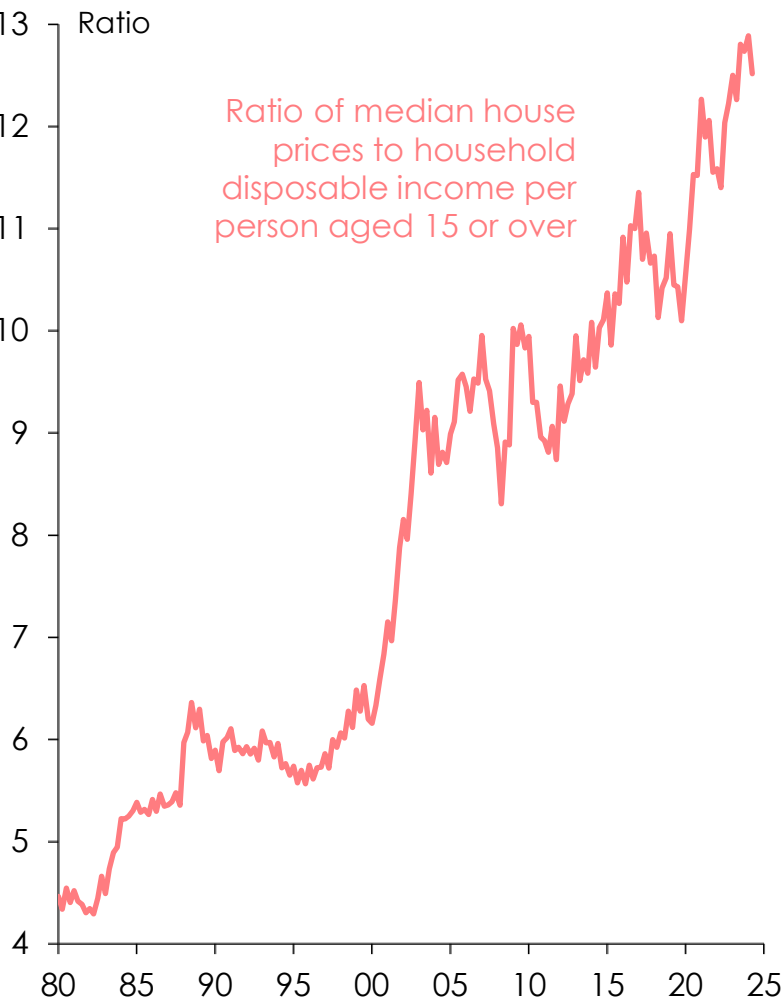
Darwin



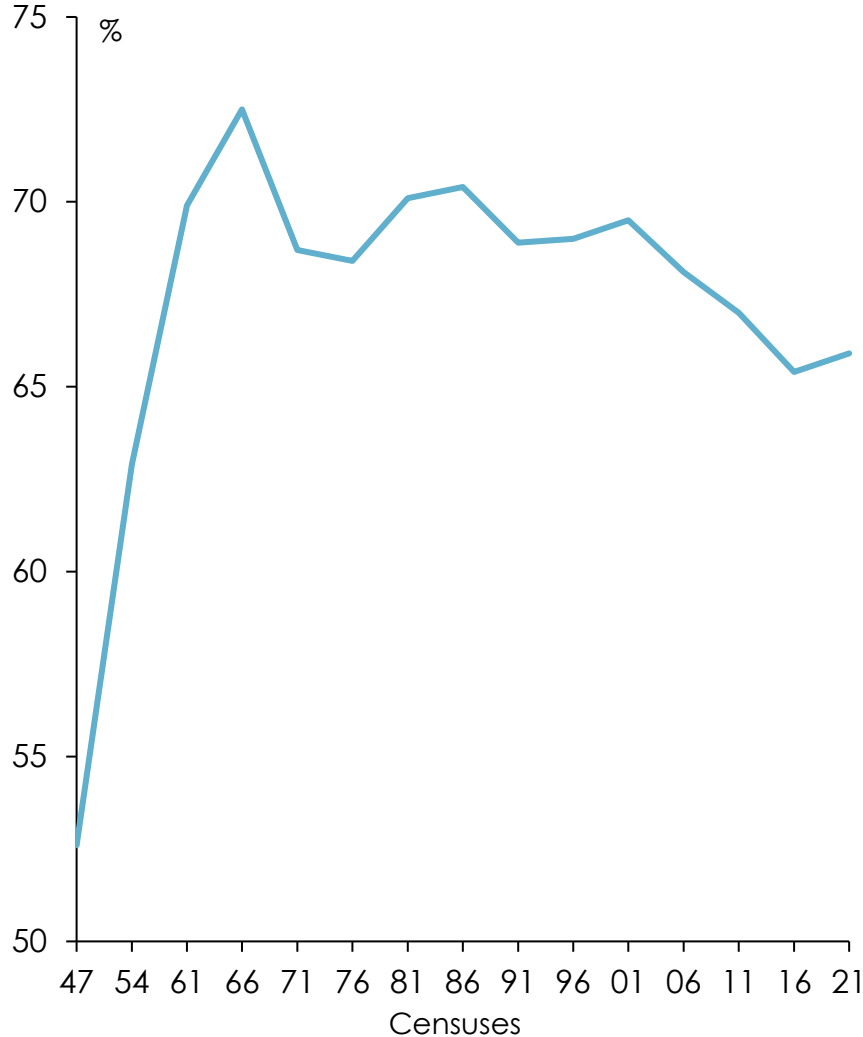
Note: Prices are of 'dwellings', ie weighted average of houses and units. Source: Cotality, [CoreLogic indices](#), September 2025.

The almost continuous increase in house prices relative to incomes is the main reason for the steady decline in home ownership rates

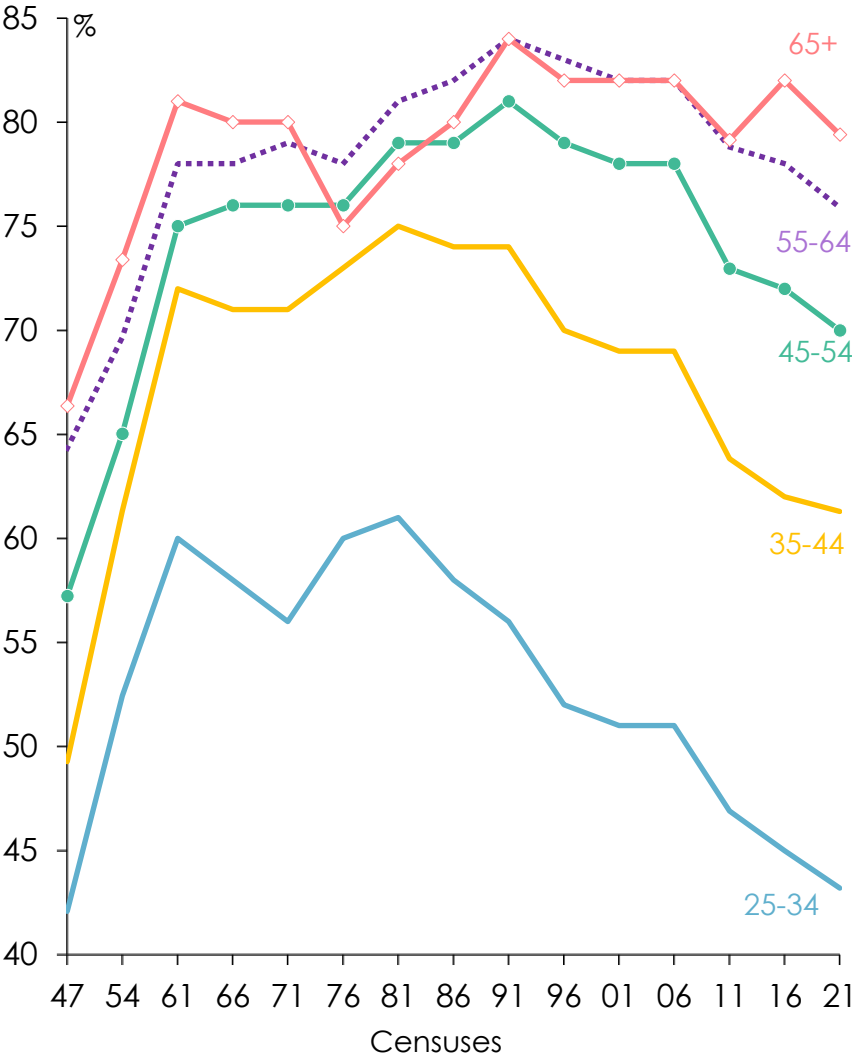
House prices as a multiple of disposable income



Overall home ownership rate



Home ownership rates by age groups



Sources: Cotality, [CoreLogic indices](#), September 2025; ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2025, and [Labour Force](#), August 2025; ABS, [Housing: Census](#), 2021 and [Historical Census data](#); Corinna.

Governments of all political persuasions, at all three levels, have done things over long periods of time which have made the problem worse

What have governments done in response to falling home ownership rates?

- ❑ First Home Owners' Grants
- ❑ Stamp duty concessions & exemptions
- ❑ More generous tax breaks for property investors
- ❑ Shared equity schemes
- ❑ Mortgage deposit guarantee schemes
- ❑ Pressure on the Reserve Bank to reduce (or not to lift) interest rates

➤ All of which have the effect of enabling people to spend more on housing than they would otherwise be able to - ie, inflating the demand for housing

What else have governments done in or to housing markets? Until recently ...

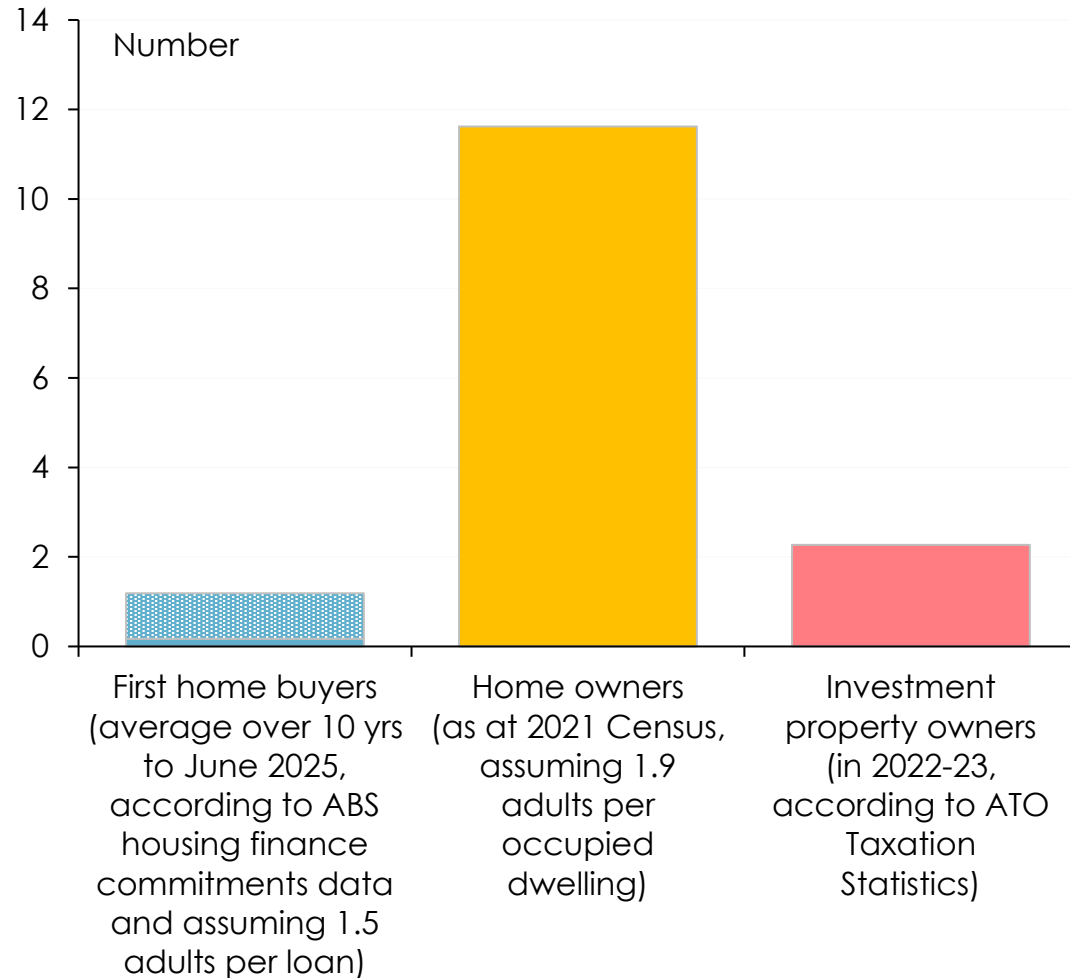
- ❑ Reducing spending on the construction and maintenance of 'social housing'
- ❑ Implementing more restrictive planning and zoning laws and regulations
- ❑ Recouping more of the costs of providing urban infrastructure through charges on builders and developers

➤ All of which have the effect of reducing the supply of housing

↑ demand + ↓ supply = ↑ higher housing prices = ↓ lower rates of home ownership

So why do governments keep doing things that don't solve the problem – but in fact make it worse?

First home buyers and existing property owners



- ❑ On average, there are about 170,000 people who succeed in becoming first home buyers each year
- ❑ Even if you assume that for every one who succeeds in becoming a first home buyer, there are five or six who don't – that's still only about 1 million votes for policies which would restrain the rate of house price inflation
- ❑ At any point in time, there are about 11.6 million Australians who own their own home (outright, or with a mortgage) ...
- ❑ ... and there are about 2.3 million Australians who own at least one investment property
- ❑ Even allowing for a large 'overlap' between these two groups, that implies up to 12 million votes against policies which would restrain the rate of house price inflation
 - or, alternatively, up to 12 million votes for policies which have the effect of keeping house prices rising, at a faster rate than inflation
- ❑ And even the dumbest politician can 'do that math'
 - and they do, at every election – and between every election

Sources: ABS, [Lending indicators](#), June quarter 2025 and [Housing: Census](#), 2021; Australian Taxation Office, [Taxation Statistics – Individuals](#), 2022-23.

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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