ECONOMIC INSIGHTS AND GLOBAL MEGATRENDS

PRESENTATION TO THE URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA
WA INDUSTRY LUNCHEON

CROWN PERTH

31ST OCTOBER 2025

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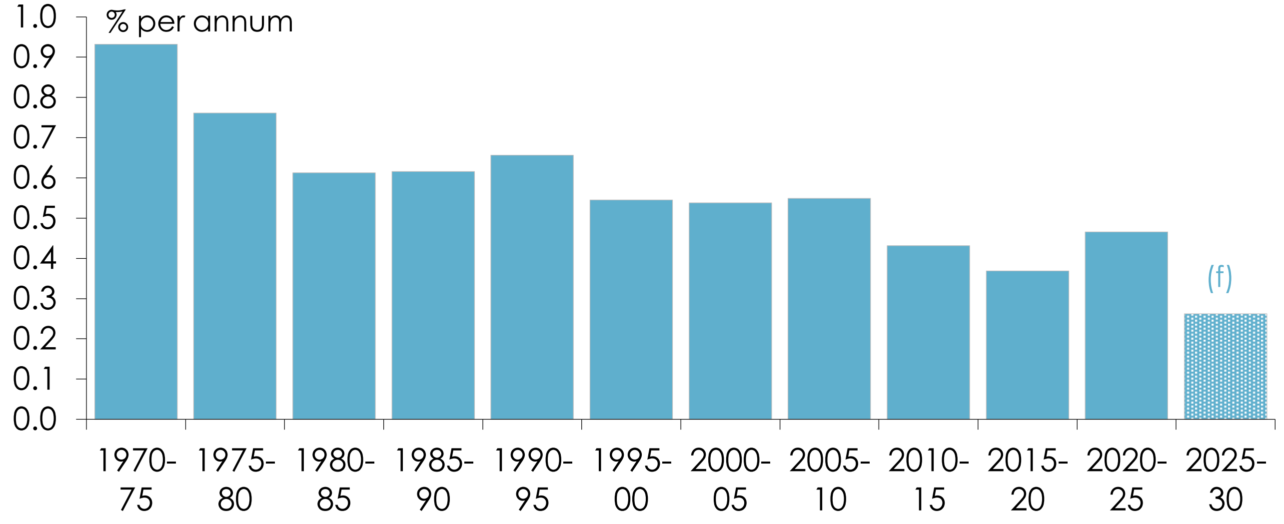
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

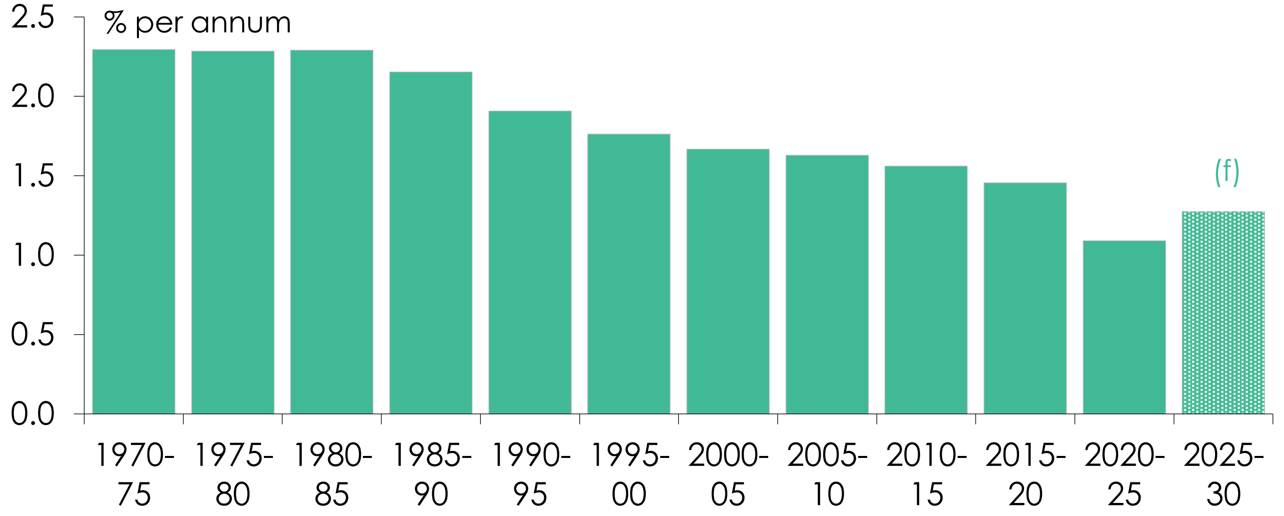
Global megatrends

Global megatrend #1 – demographic change

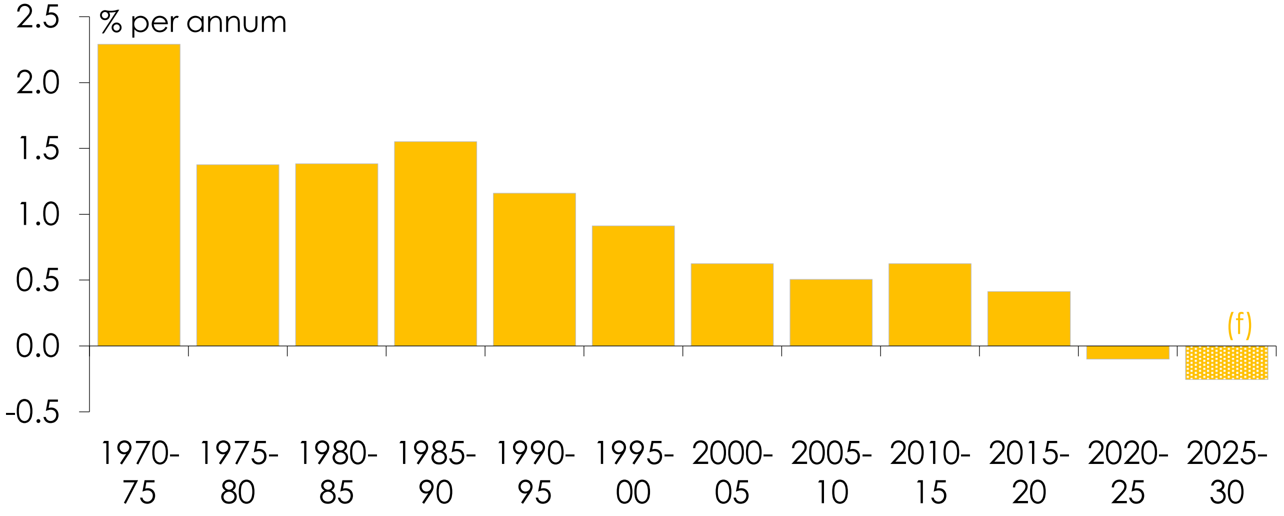
Population growth - ‘advanced’ economies



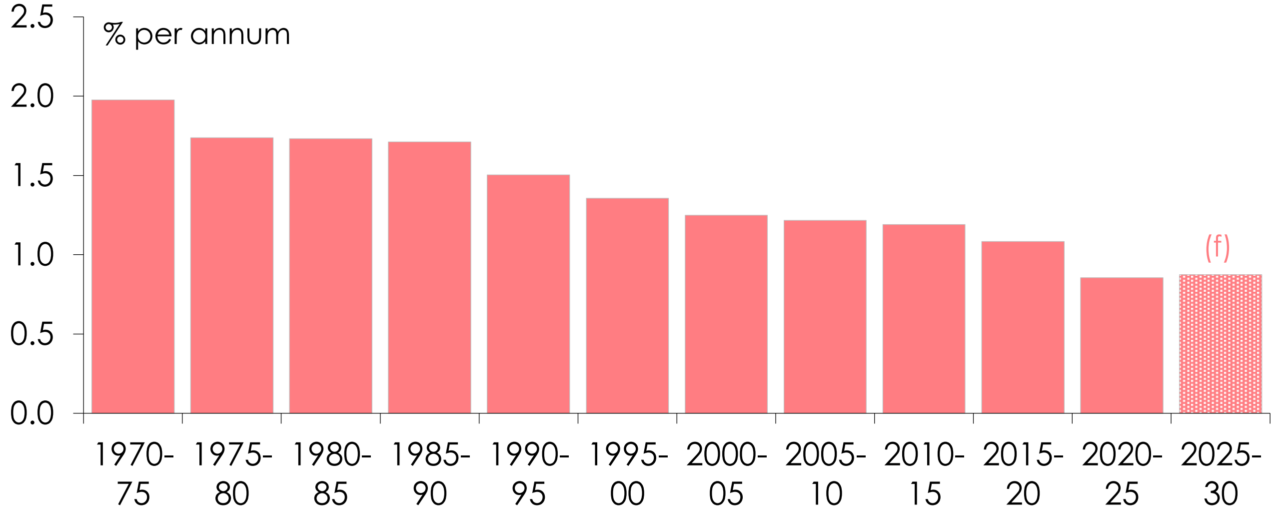
Population growth - other emerging & developing economies



Population growth - China



Population growth – world



Sources: The Conference Board, *Total Economy Database 2025*, September 2025; International Monetary Fund, *World Economic Outlook database*, October 2025.

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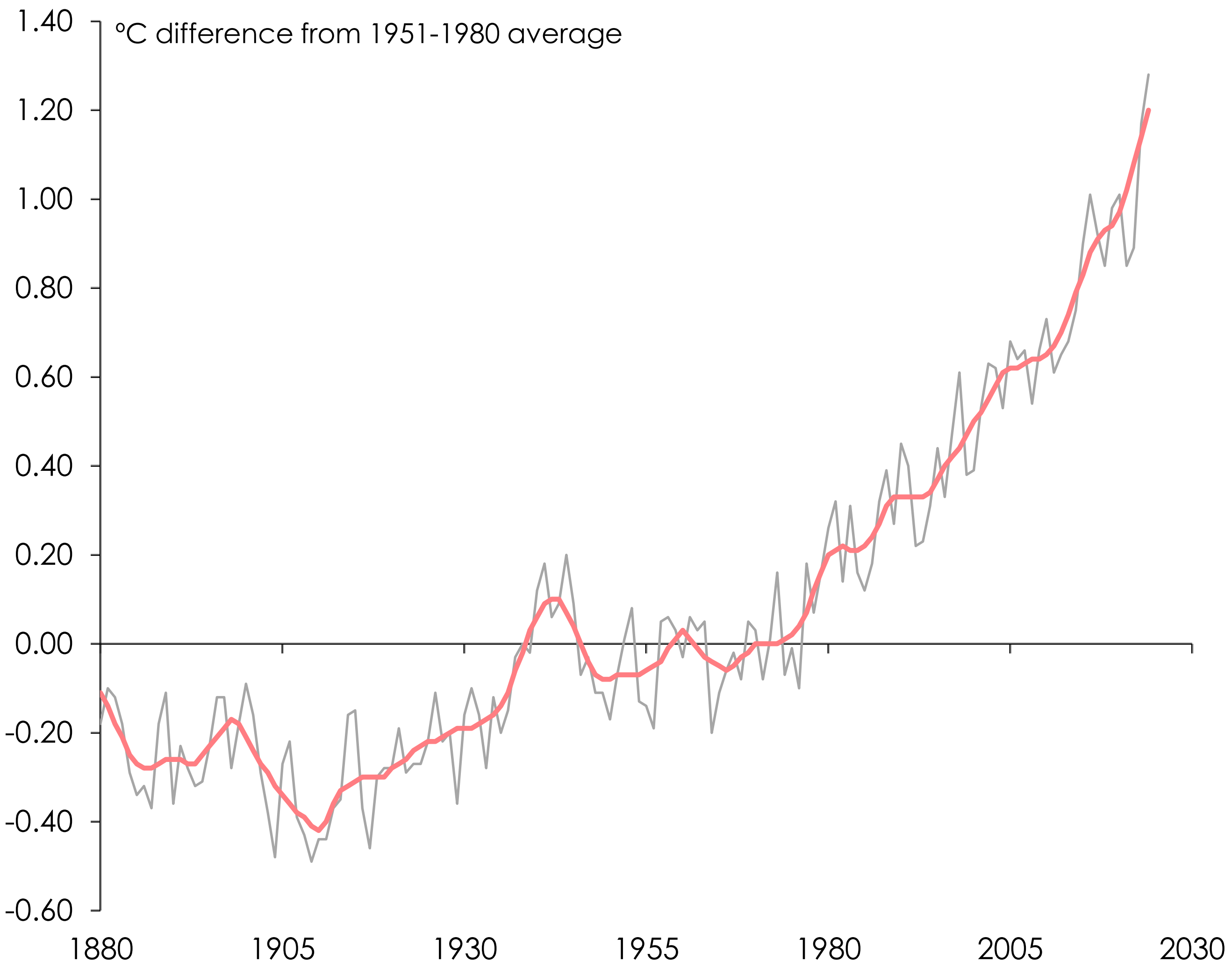
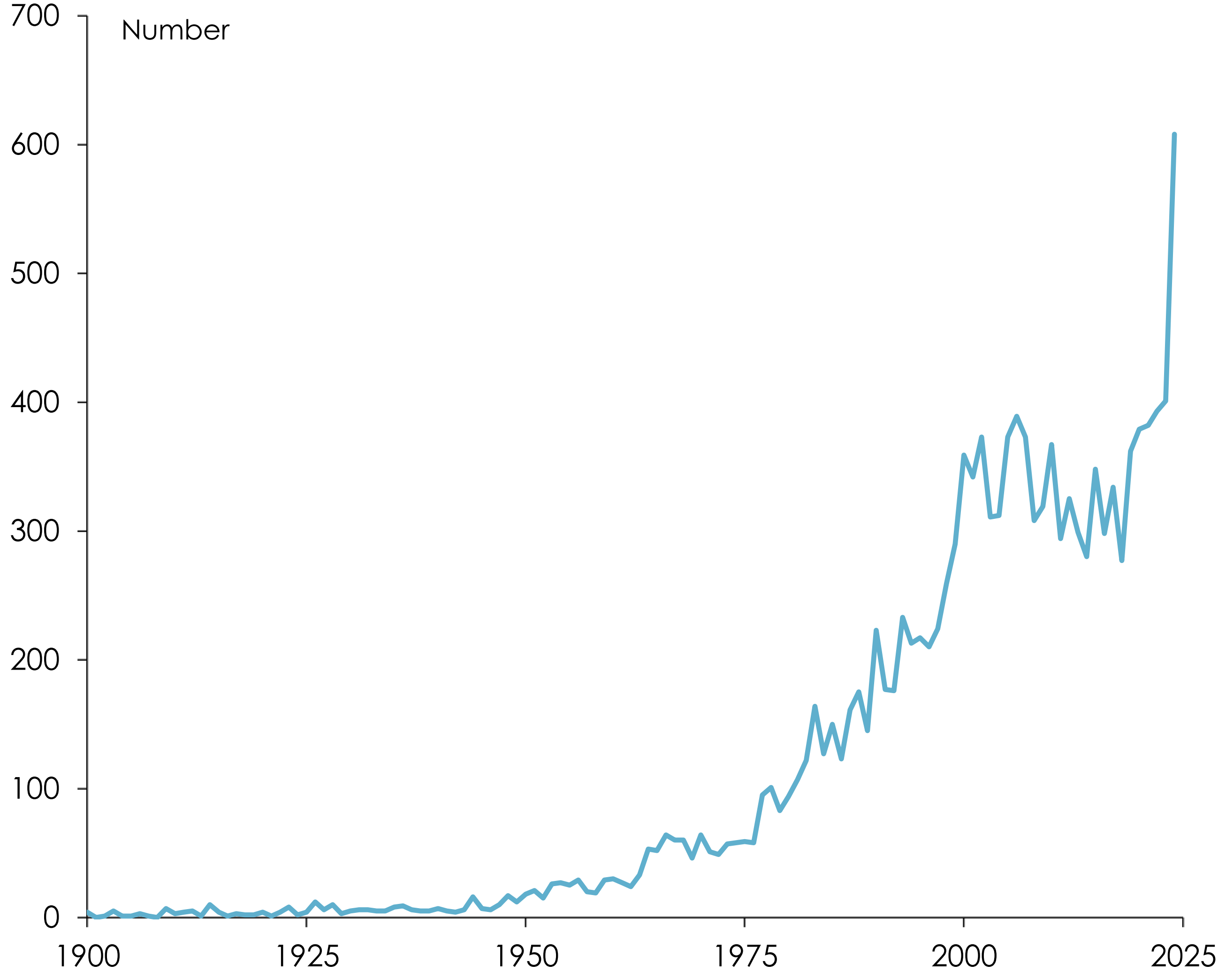
Global megatrend # 2: climate change

Global temperature anomalies



Number of climate-related natural disasters



Note: 'Climate-related' natural disasters are meteorological (storms and extreme temperatures), hydrological (floods and landslides), or climatological (droughts and wildfires). *Sources:* US National Aeronautics and Space Administration (NASA), Goddard Institute for Space Studies; University of Louvain Institute of Health and Safety, Centre for Research on the Epidemiology of Disasters, Emergency Events Database EM-DAT, October 2025

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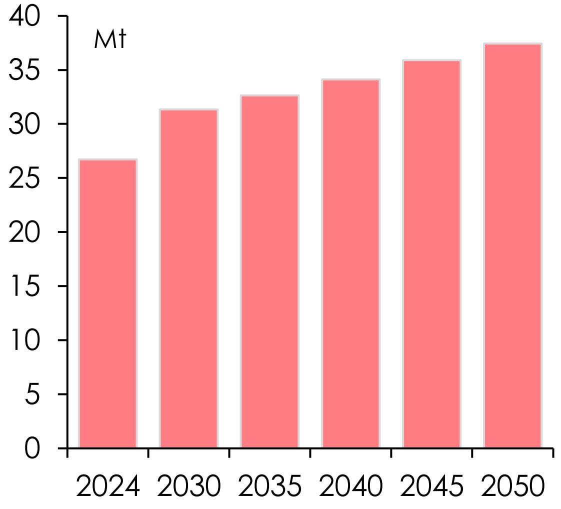
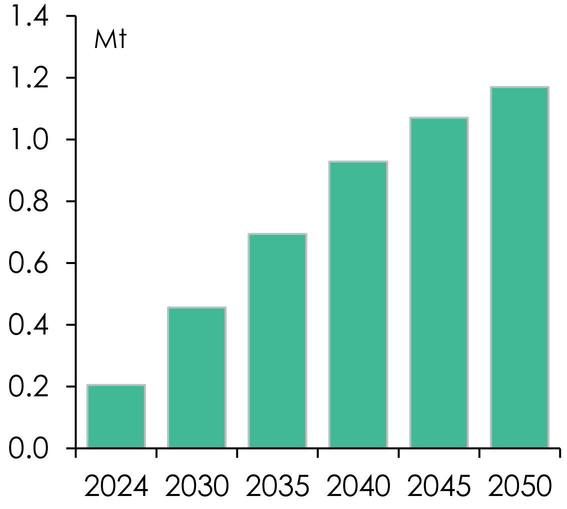
The ‘energy transition’ will result in substantial increases in demand for a range of ‘critical minerals’ over the next 25 years

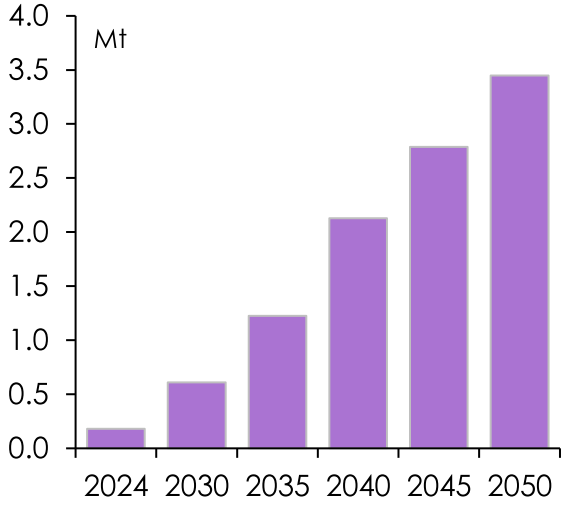
Copper (+41%)



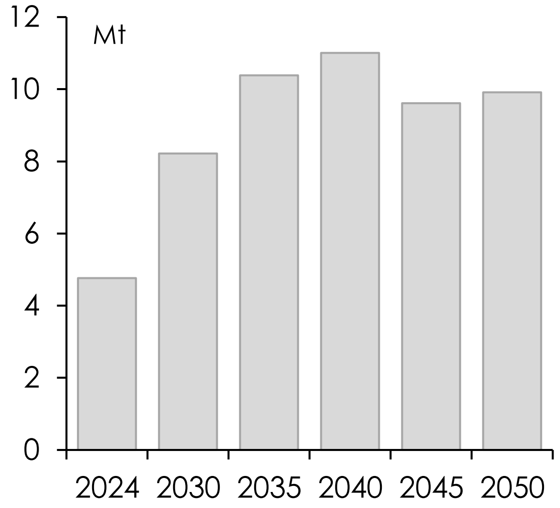
Lithium (+471%)



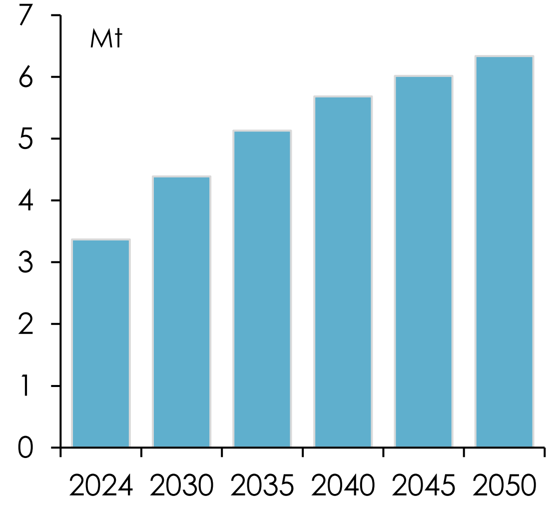
Manganese (+1805%)



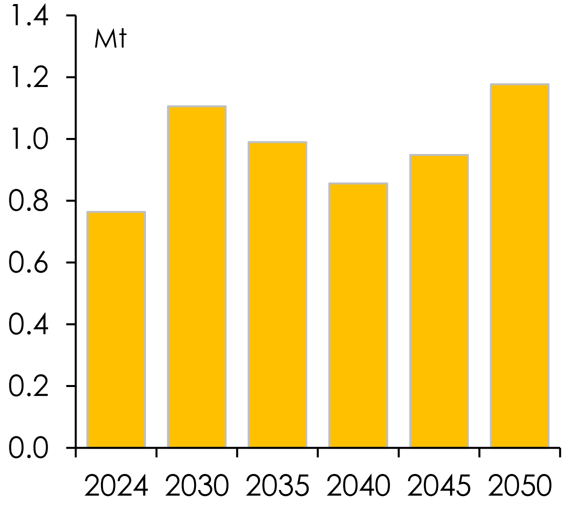
Graphite (+113%)



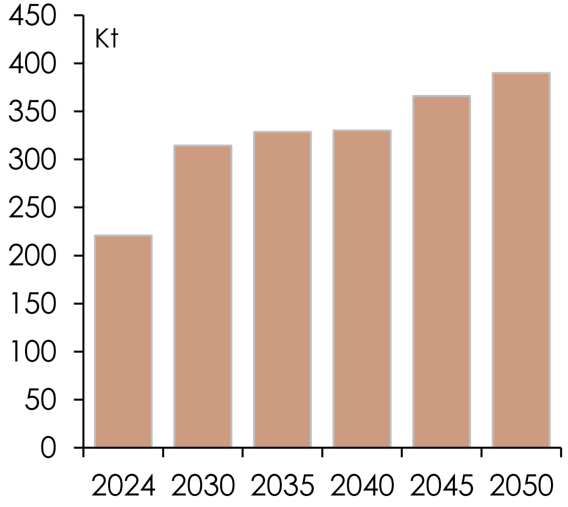
Nickel (+88%)



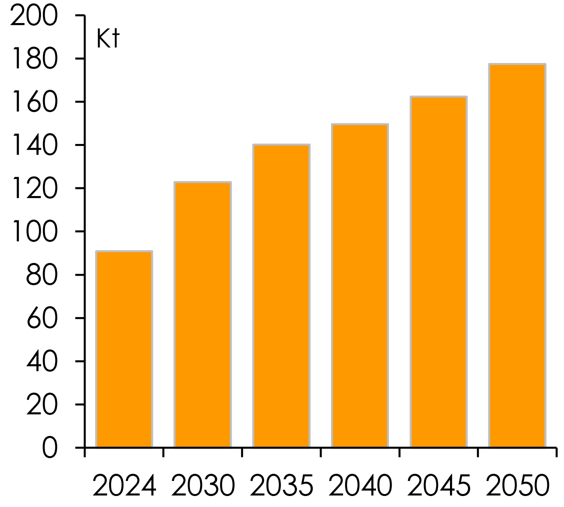
Zinc (+54%)



Cobalt (+76%)



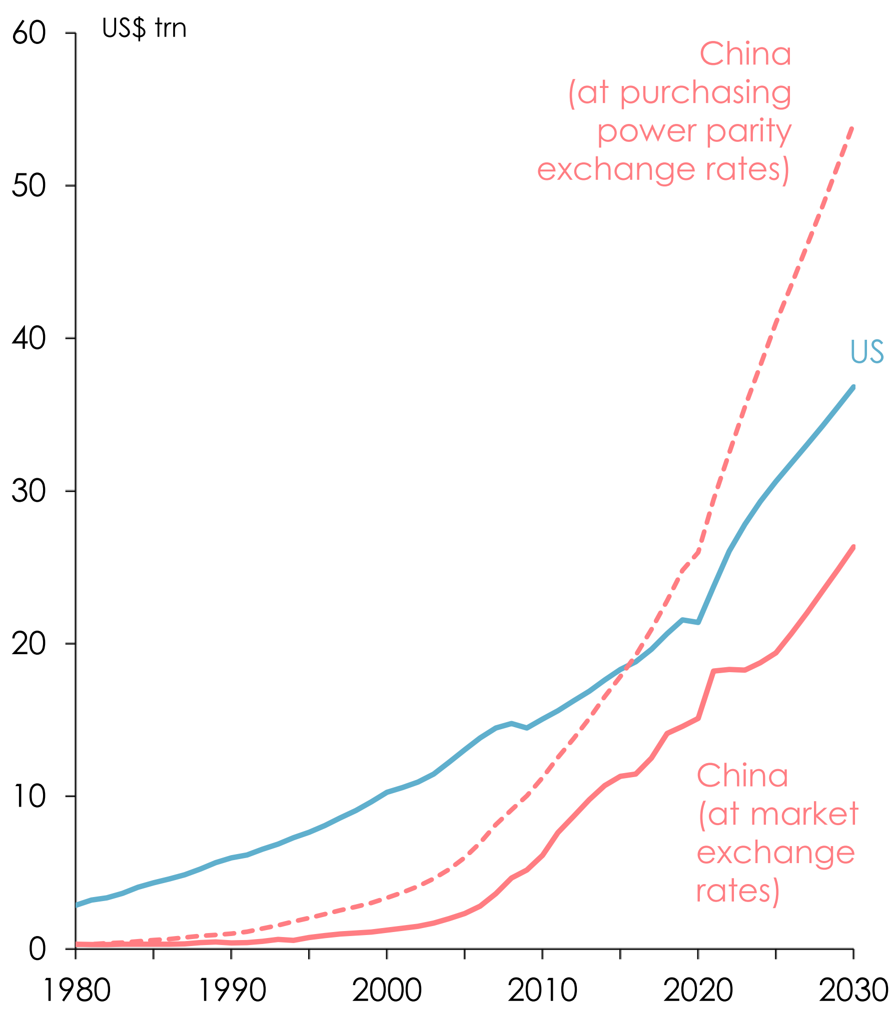
Rare earths (+95%)



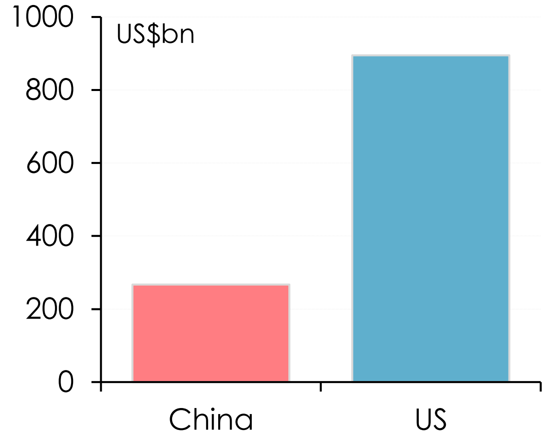
Note: Projections shown in these charts are based on currently Stated Policies of national governments. Percentage changes are from 2024 to 2050.
Source: International Energy Agency, *Global Critical Minerals Outlook 2025*.

Global megatrend #3: increasing 'great power' rivalry

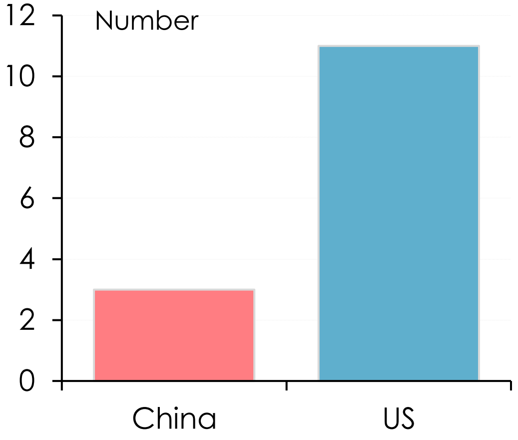
Relative size of US and Chinese GDP



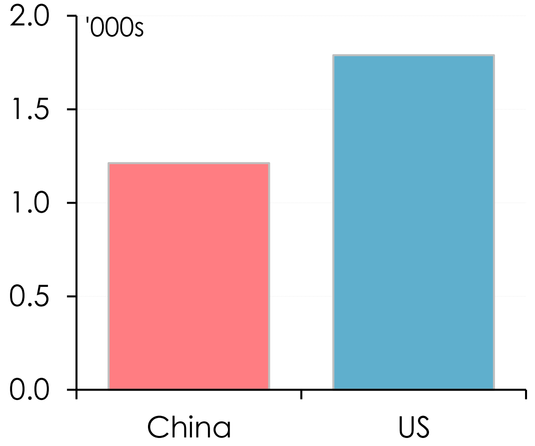
Defence spending



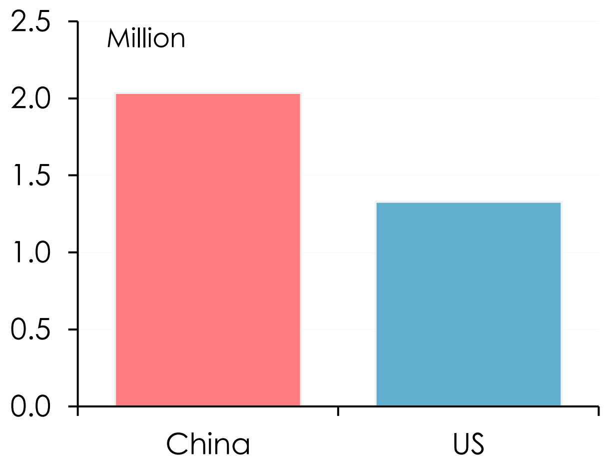
Aircraft carriers



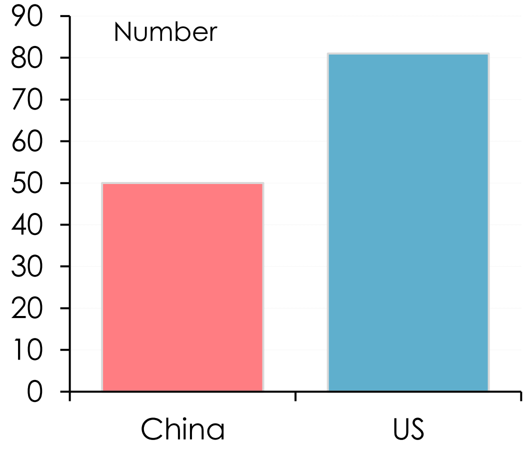
Fighter jets



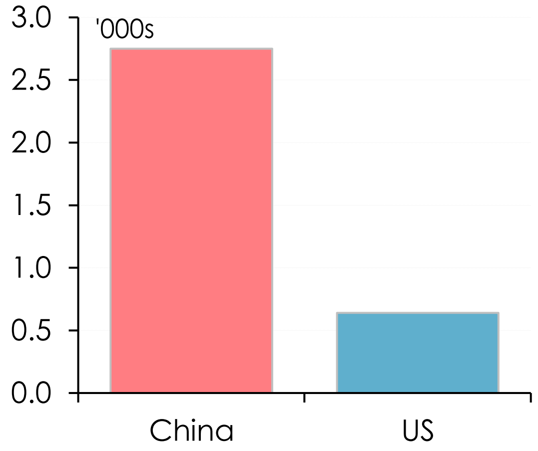
Active military personnel



Destroyers



Rocket projectors



Sources: International Monetary Fund, *World Economic Outlook database*, October 2025; Global Firepower, *Comparison of China and United States Military Strengths (2025)*.

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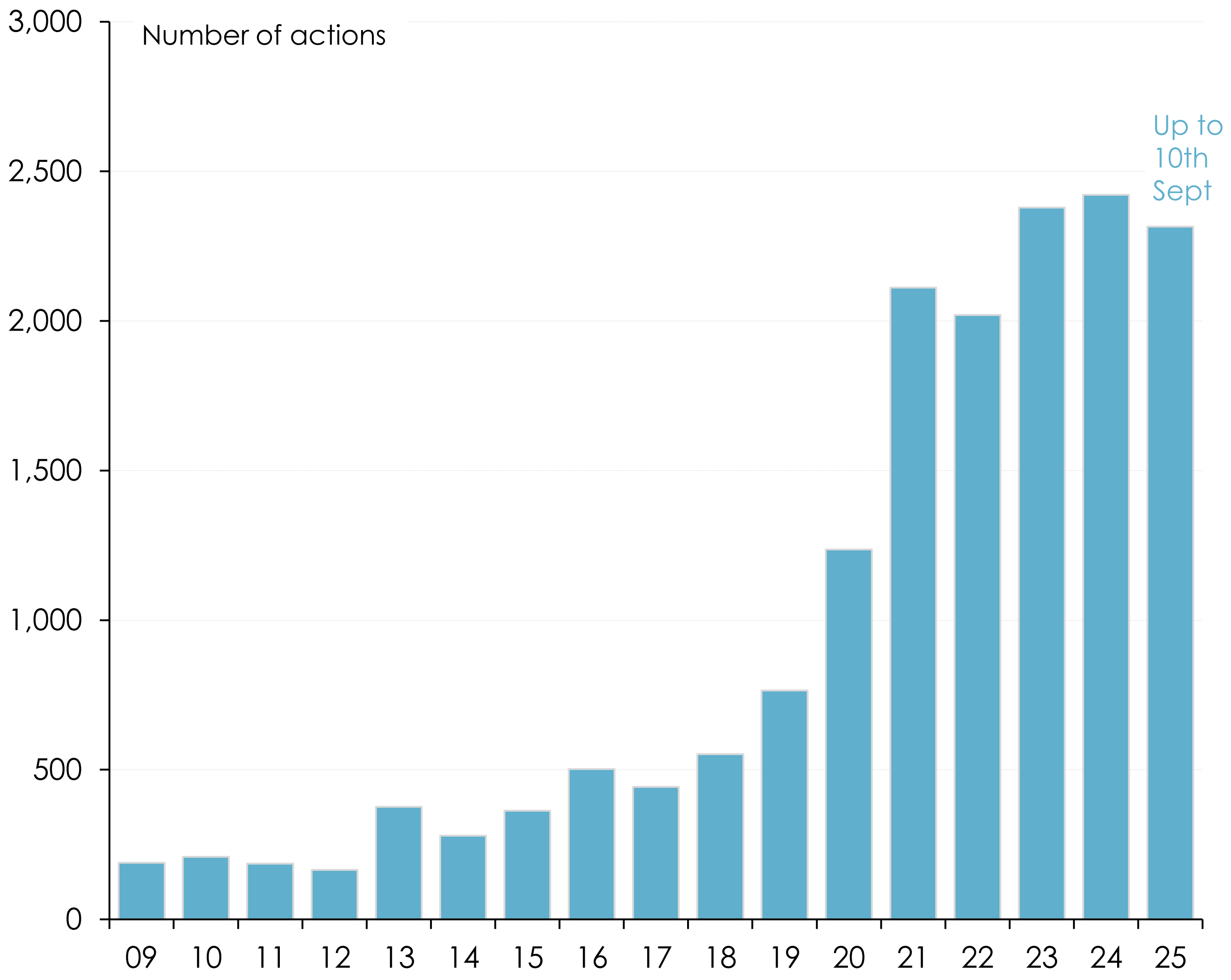
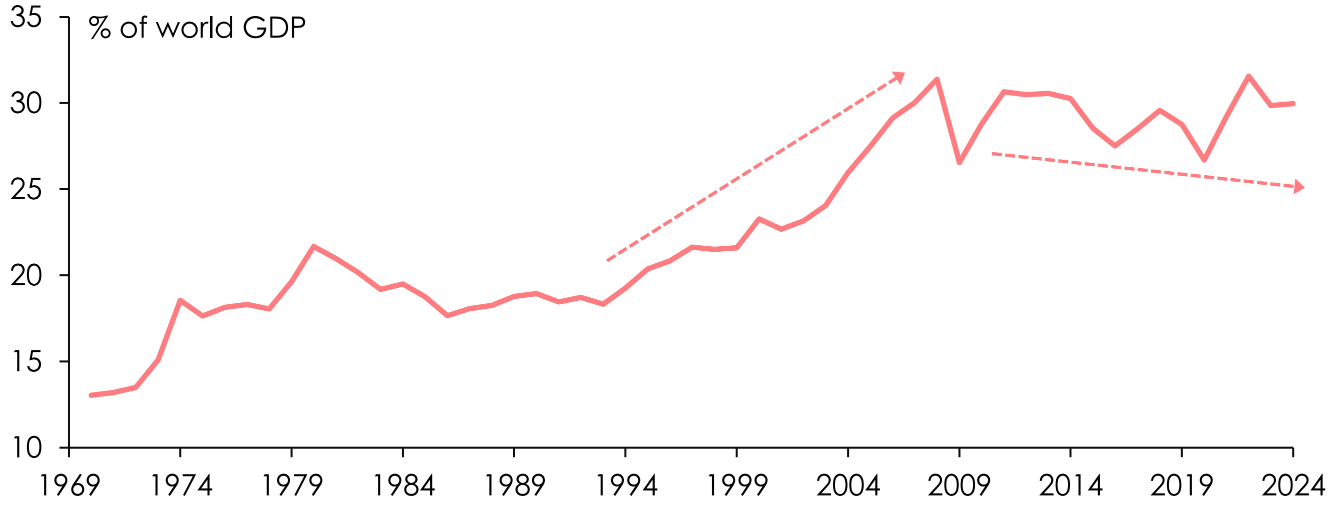
Global megatrend #4: the rising power of populists and autocrats

Global megatrend #5: the retreat from globalization

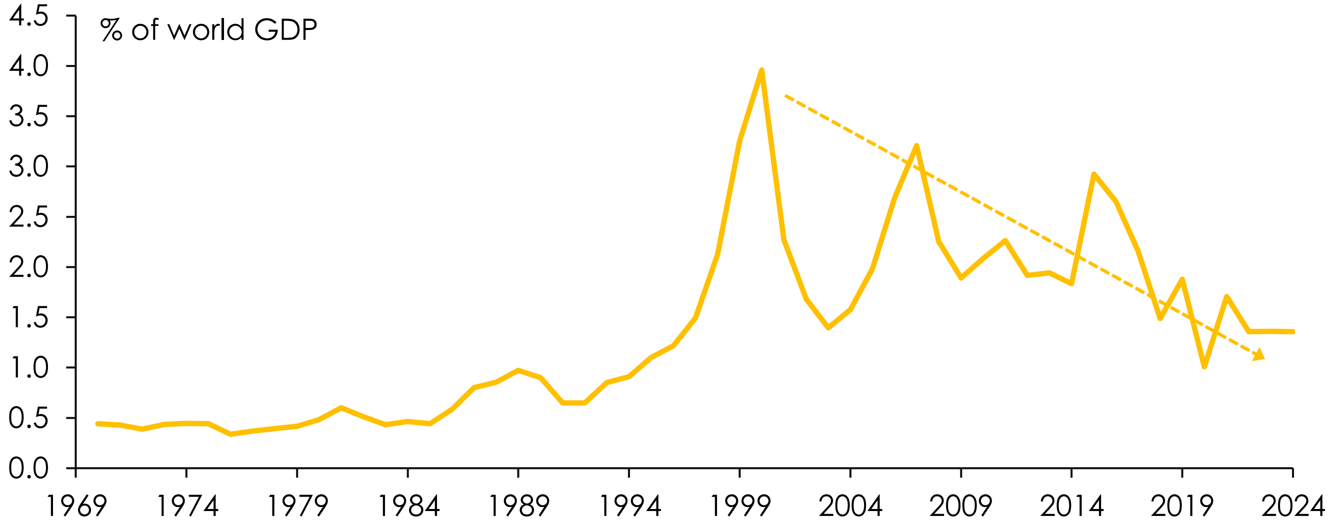
Number of trade-distorting policies introduced by governments around the world



Exports of goods & services as a pc of world GDP



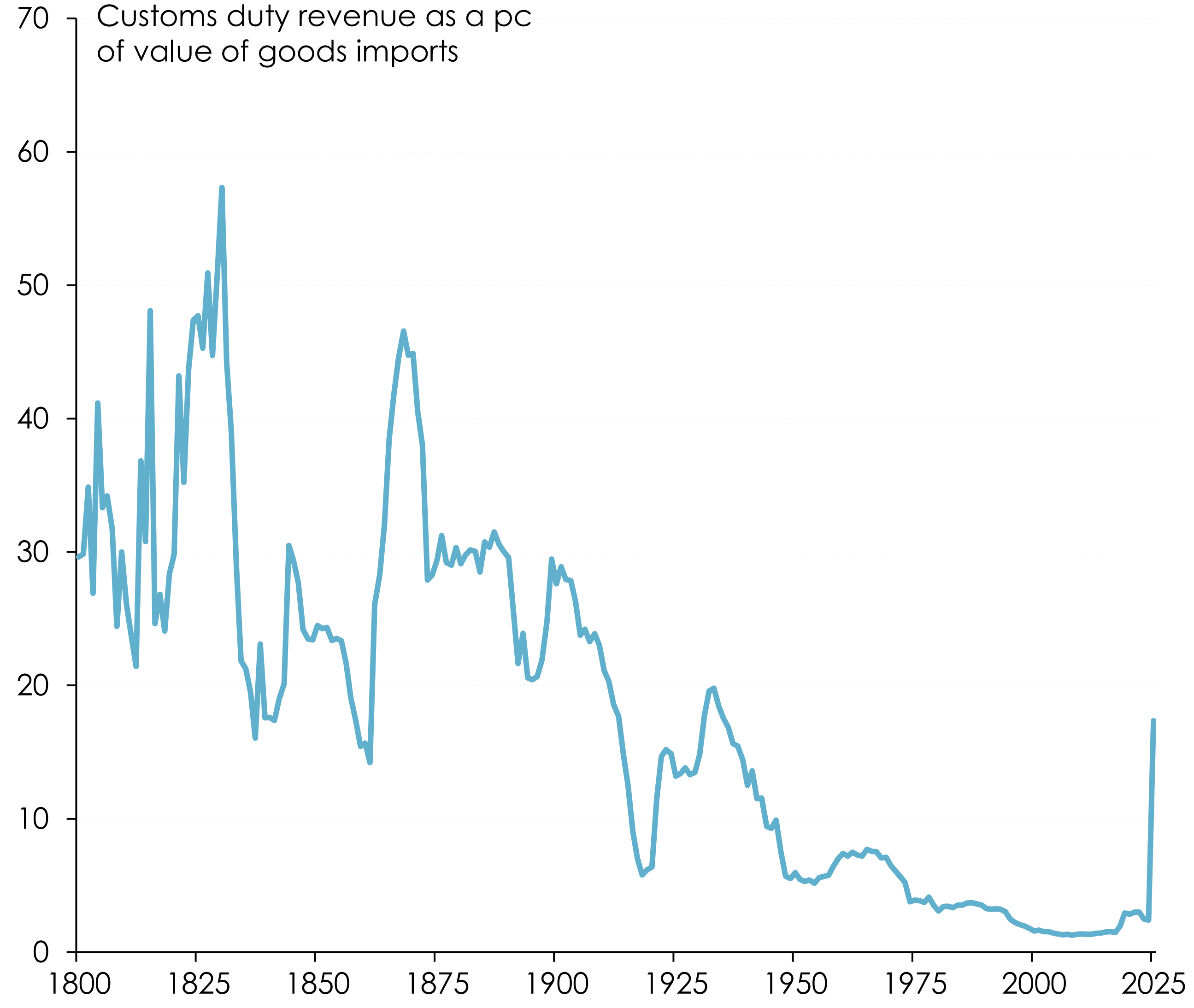
Foreign direct investment flows as a pc of world GDP



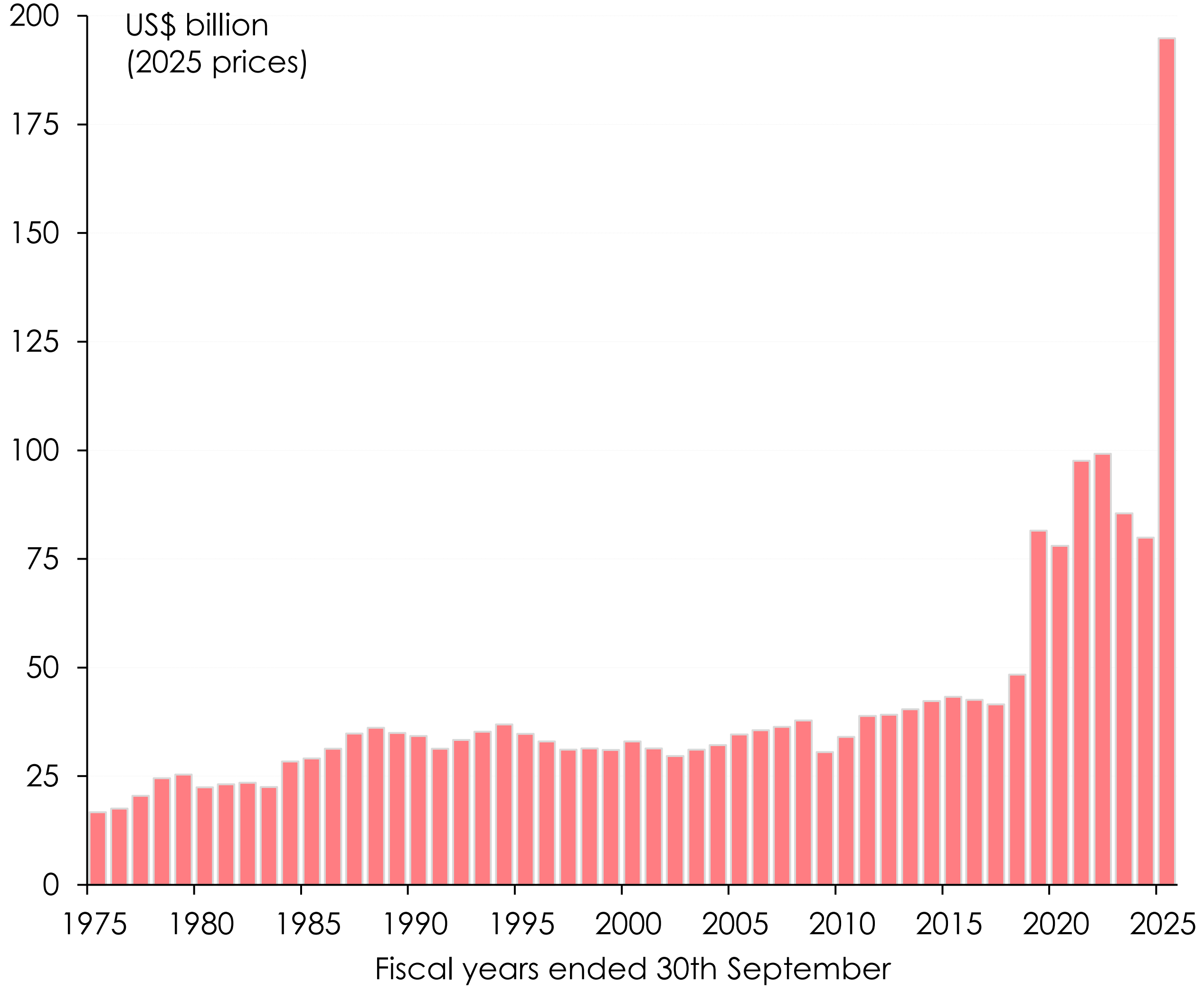
Sources: Productivity Commission, Guardrails for modern industry policy, 21st October 2025; World Trade Organization, WTO Stats; United Nations Conference on Trade and Development (UNCTAD), Foreign direct investment: inward and outward flows and stock, annual; International Monetary Fund (IMF), World Economic Outlook Database, October 2025.

The retreat from globalization didn't start with Trump, but he is dramatically accelerating it

US tariffs



US tariff revenue



Sources: US Census Bureau, *Historical Statistics of the United States*; Yale Budget Lab, *State of US Tariffs*, 1st August 2025; US Congressional Budget Office, Budget and Economic Data; US Treasury Bureau of the Fiscal Service, *Monthly Treasury Statement*, September 2025.

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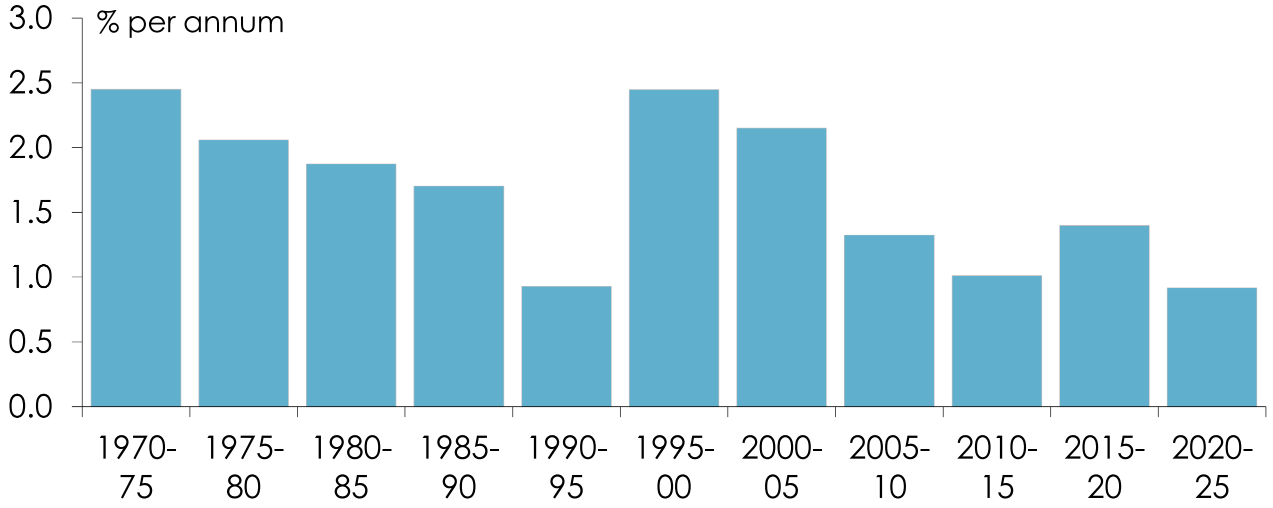
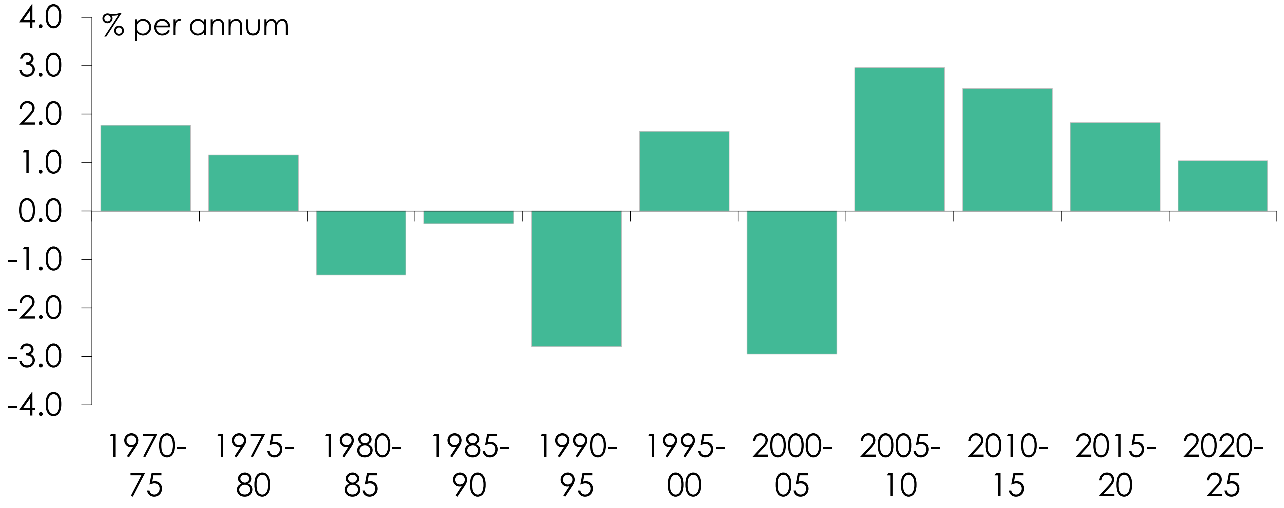
Global megatrend #6 – slowing productivity growth

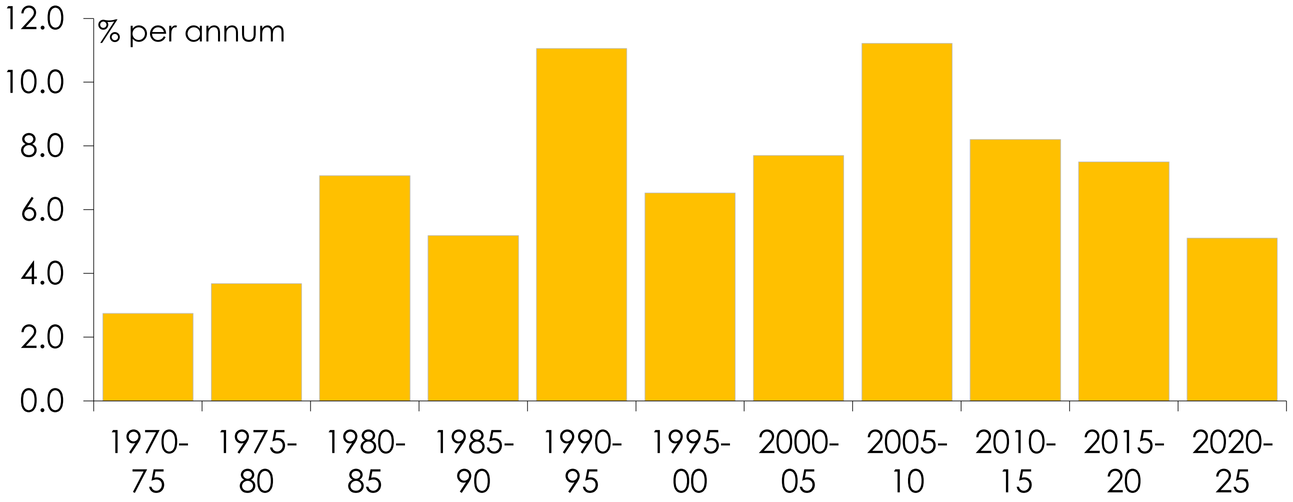
Labour productivity growth - 'advanced' economies



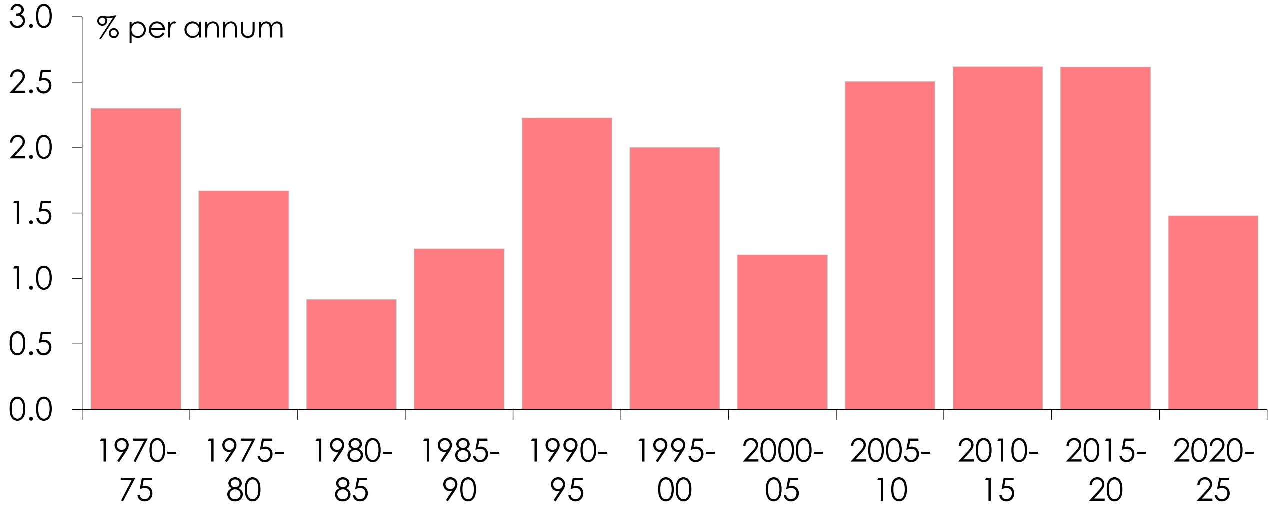
Labour productivity growth - other developing economies



Labour productivity growth - China



Labour productivity growth - world



Source: The Conference Board, *Total Economy Database 2025*, September 2025.

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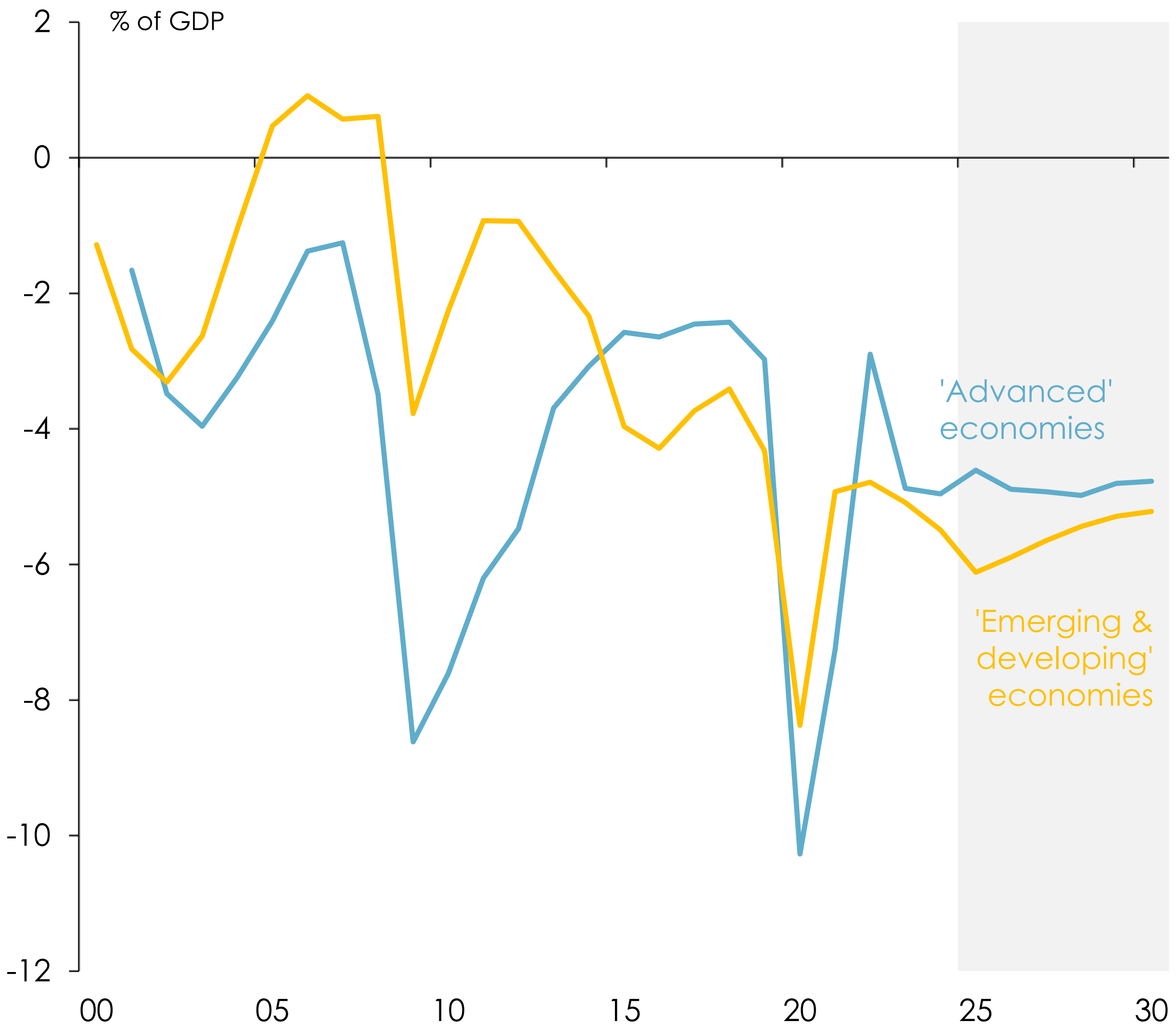
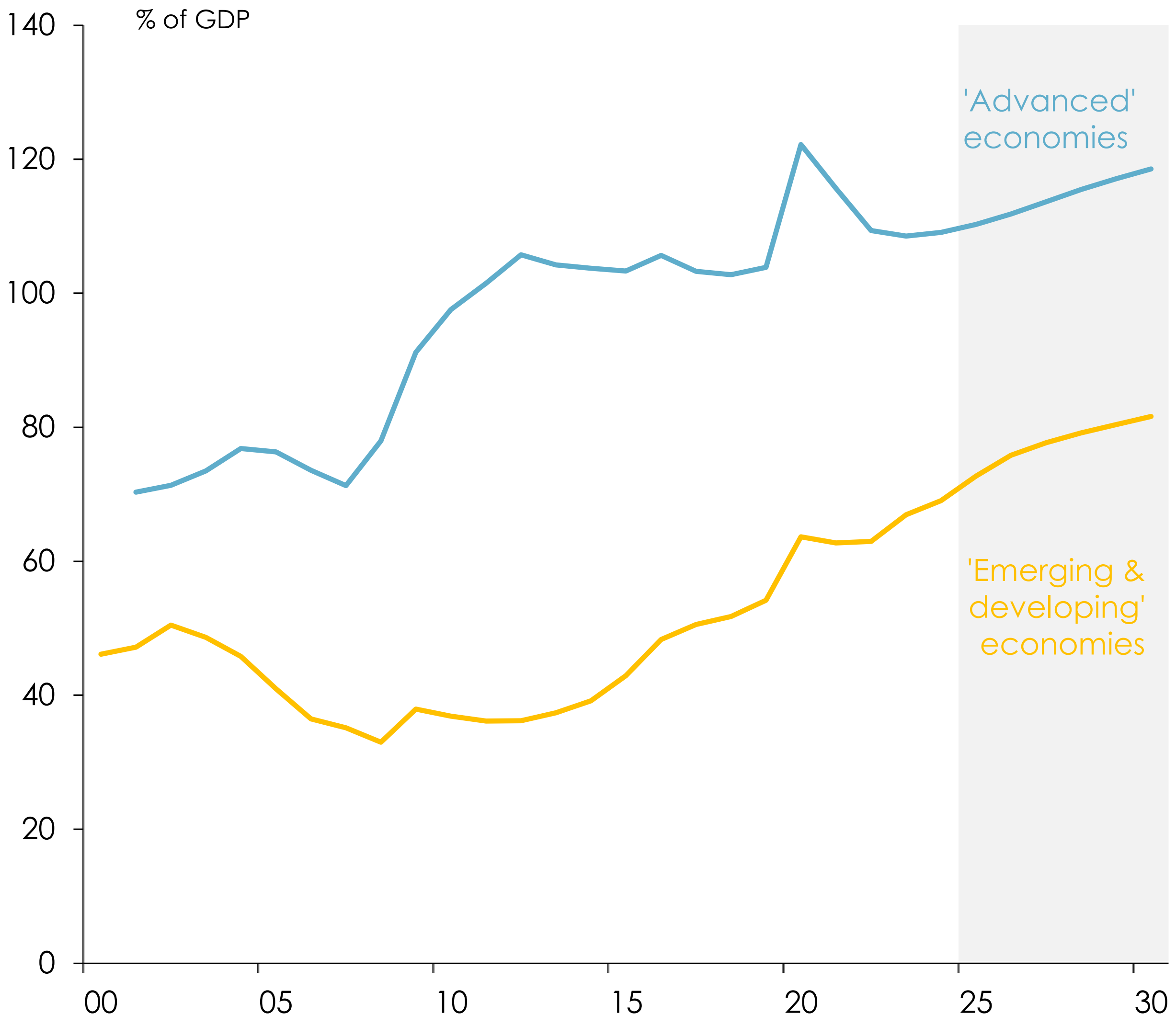
Global megatrend #7: the disappearance of fiscal discipline

Government net lending (+) / borrowing (-)



Government gross debt



Source: International Monetary Fund, *World Economic Outlook database*, October 2025.

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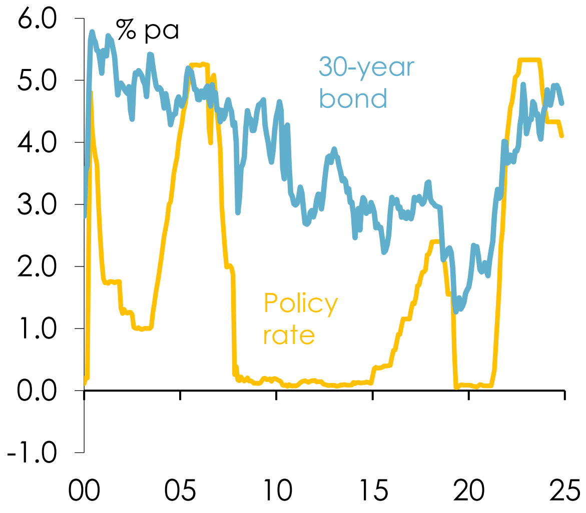
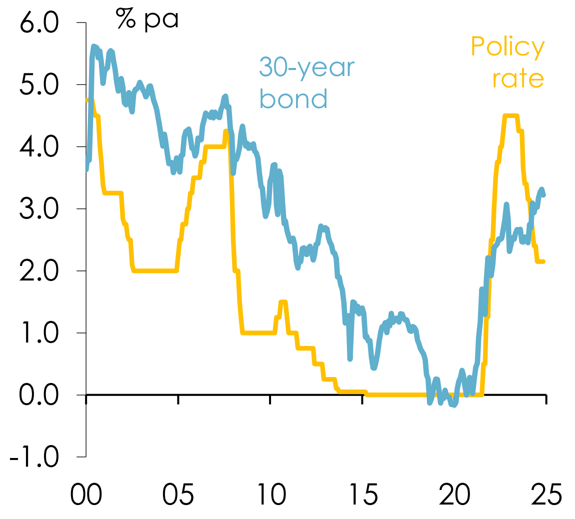
Long-term bond yields are rising, even as monetary policy interest rates decline (in most countries)

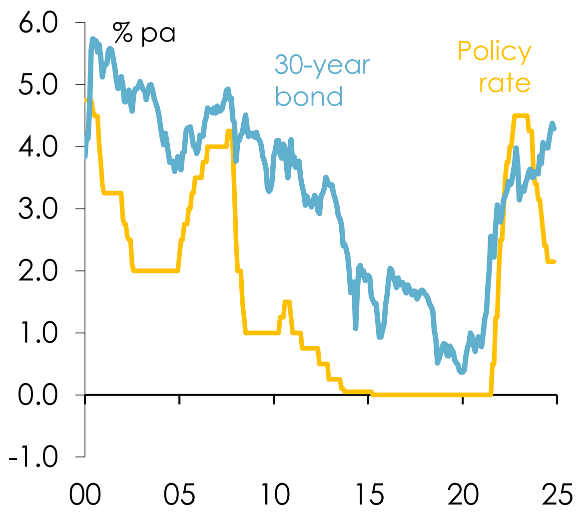
United States



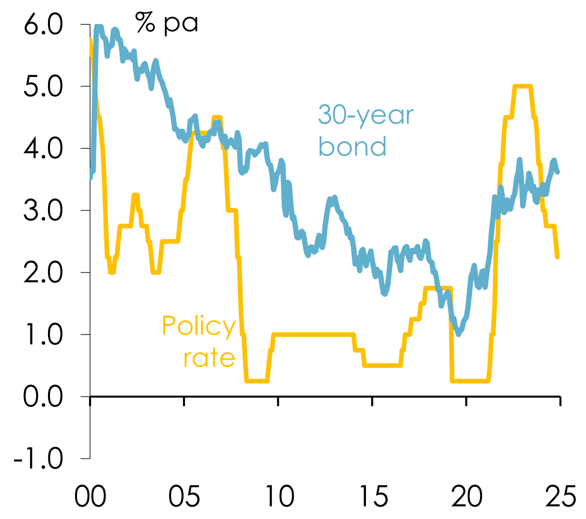
Germany



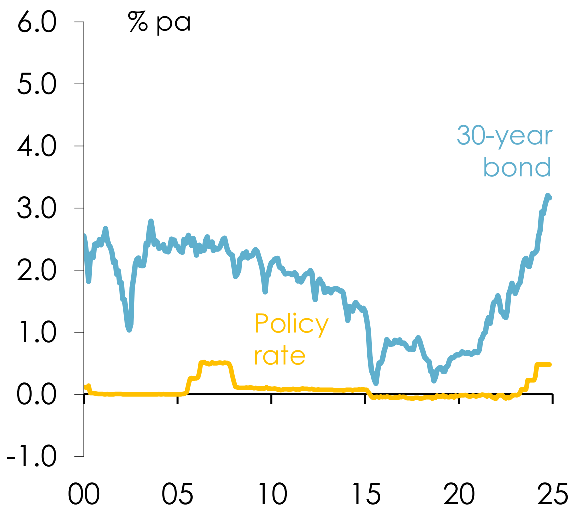
France



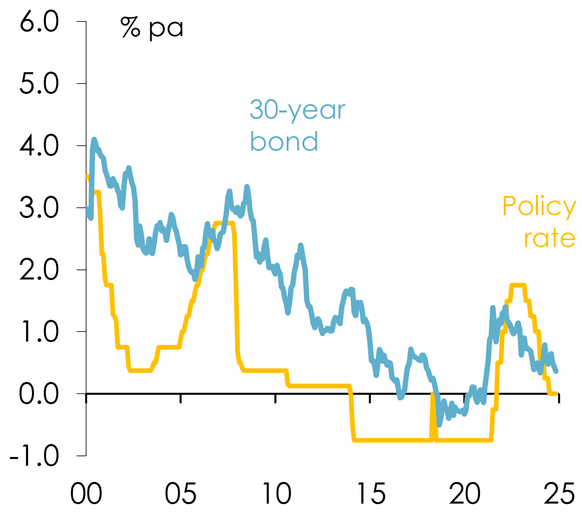
Canada



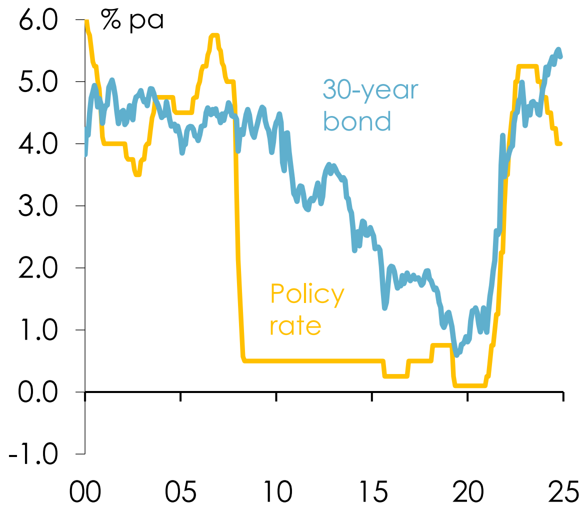
Japan



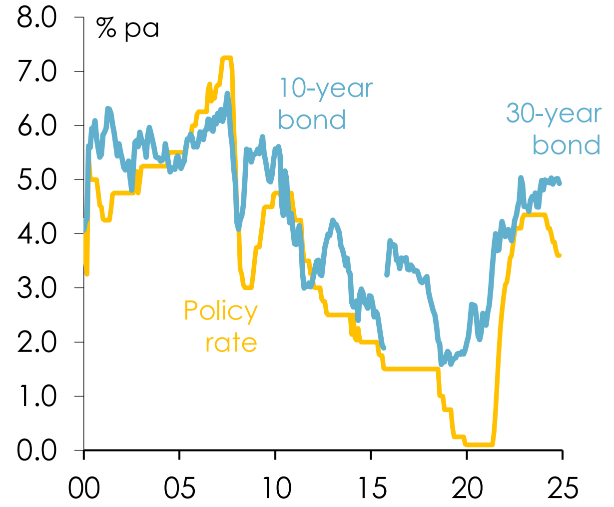
Switzerland



United Kingdom



Australia



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

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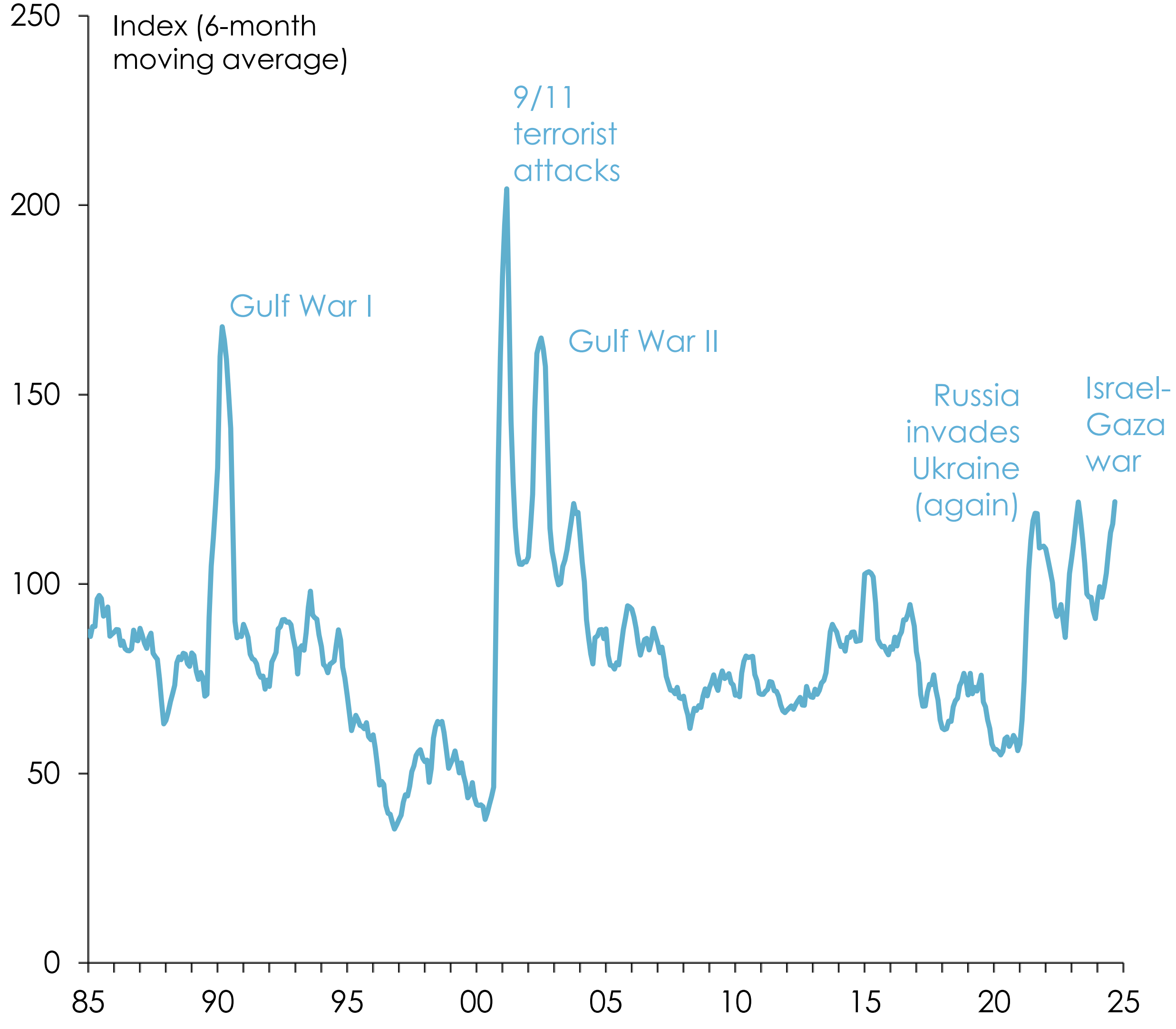
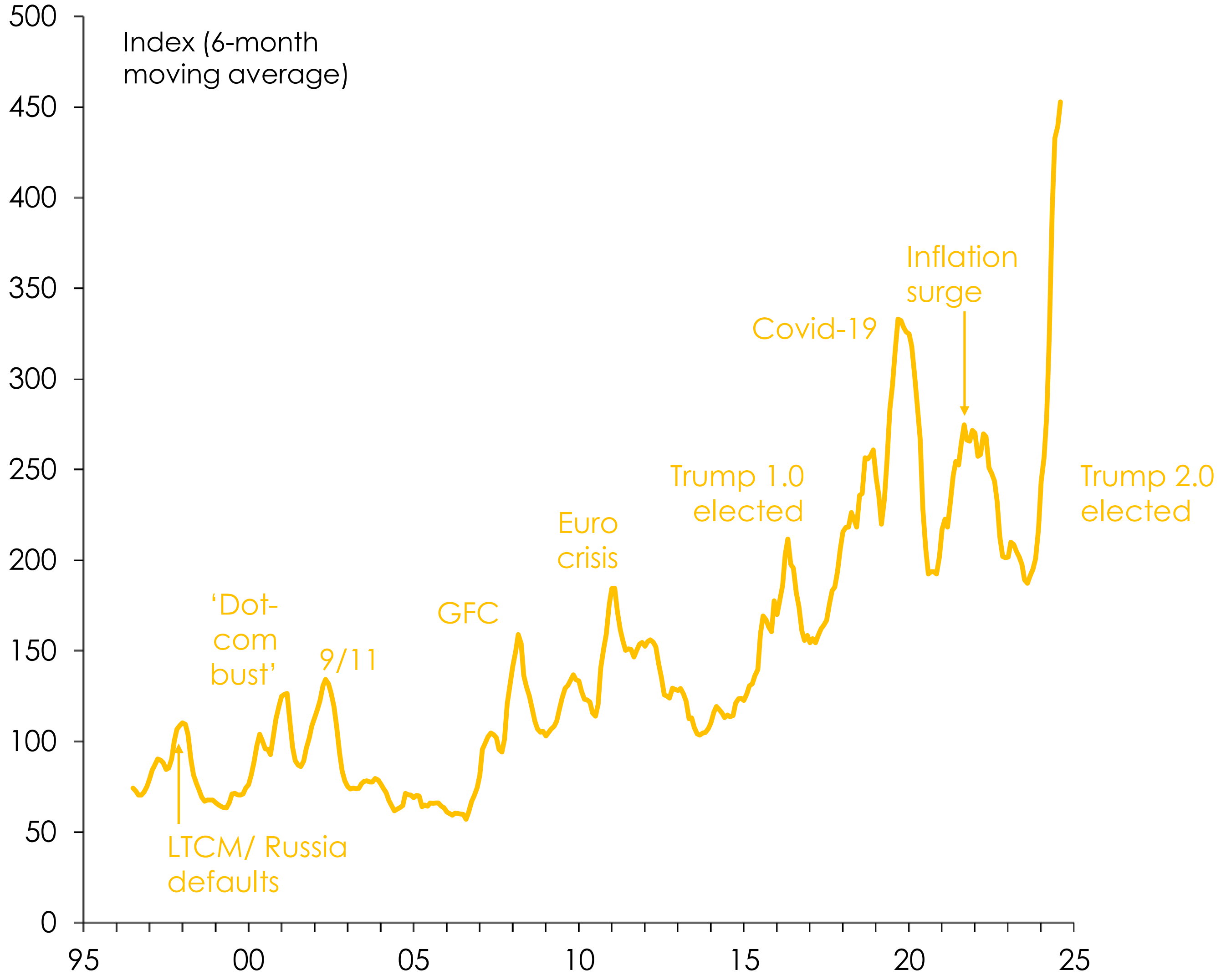
Global megatrend #8: mounting uncertainty

Geo-political risk index



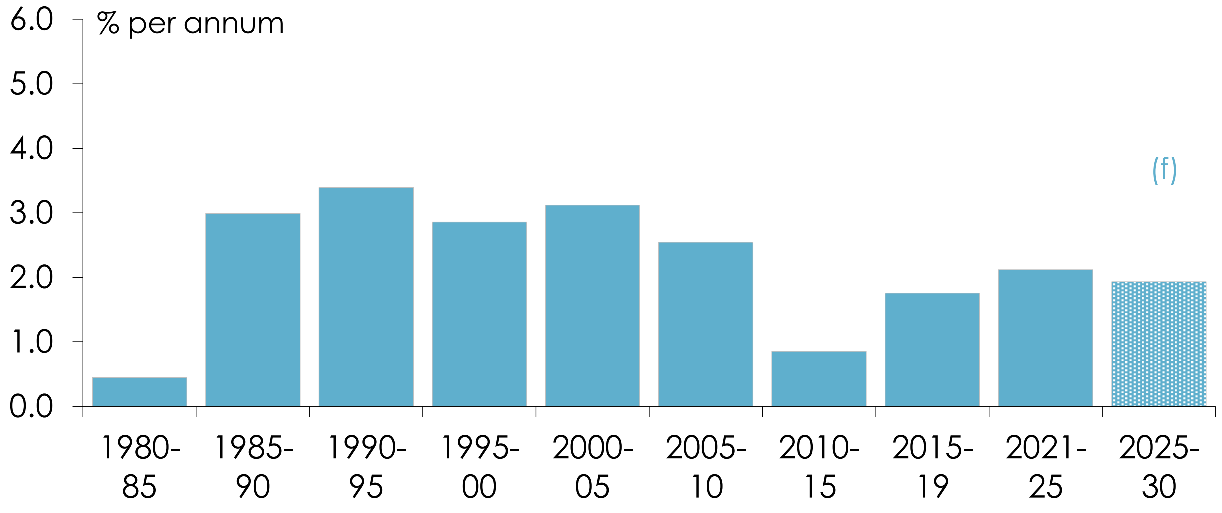
Economic policy uncertainty index



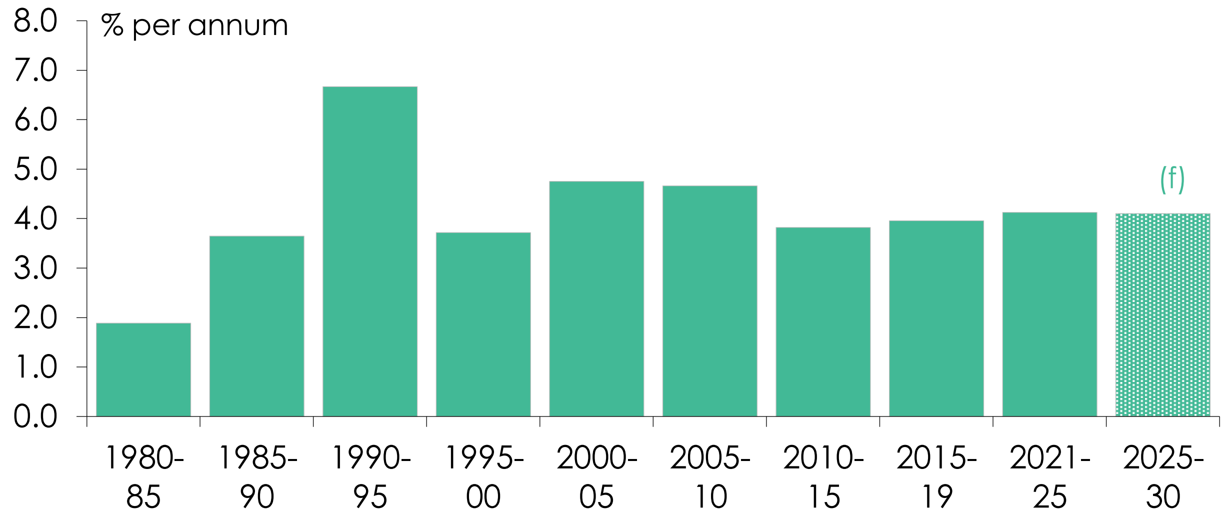
Note: The Geopolitical Risk Index is derived from text-search results of the electronic archives of ten (English-language) newspapers for mentions of eight different categories of adverse geo-political events. The Economic Policy Uncertainty Index is a GDP-weighted average of indices for 21 countries derived from newspaper articles mentioning the economy, policy and uncertainty. *Sources:* Dario Caldara and Matteo Iacoviello, Geopolitical Risk Index and Global Economic Policy Uncertainty Index. (Note latest data is, August 2025).

Global megatrend #9 – slowing economic growth

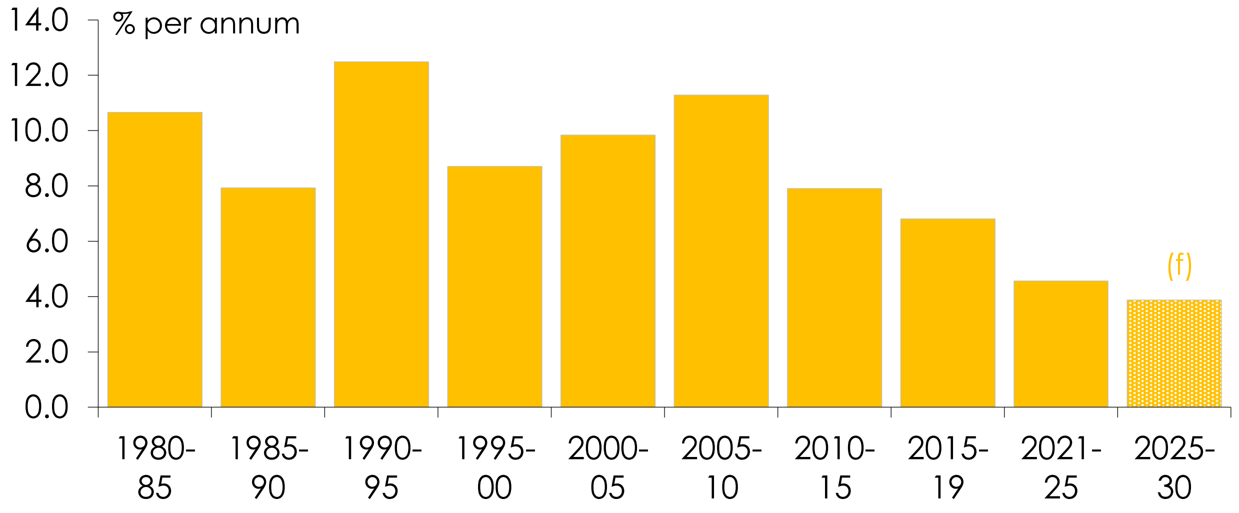
Real GDP growth - 'advanced' economies



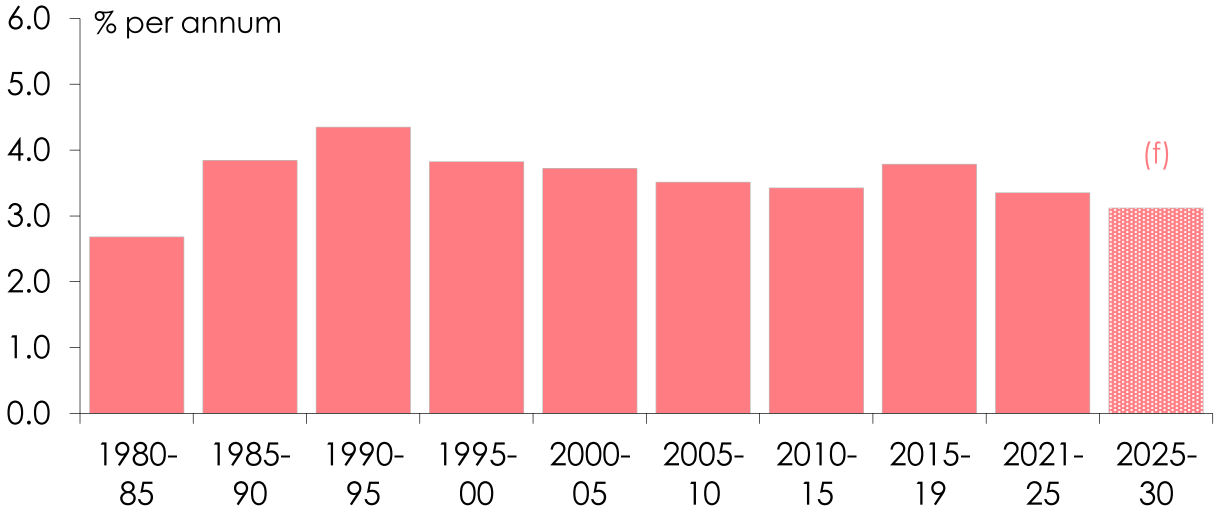
Real GDP growth - other emerging & developing economies



Real GDP growth - China



Real GDP growth - world



Source: International Monetary Fund, World Economic Outlook database, October 2025.

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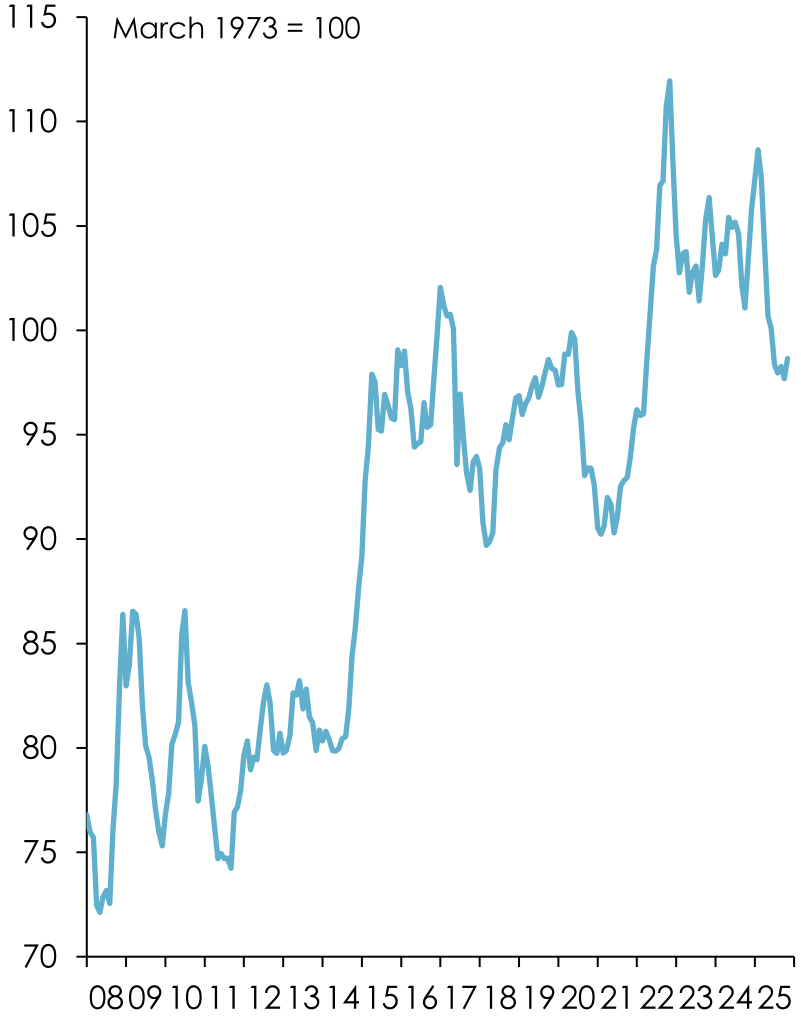
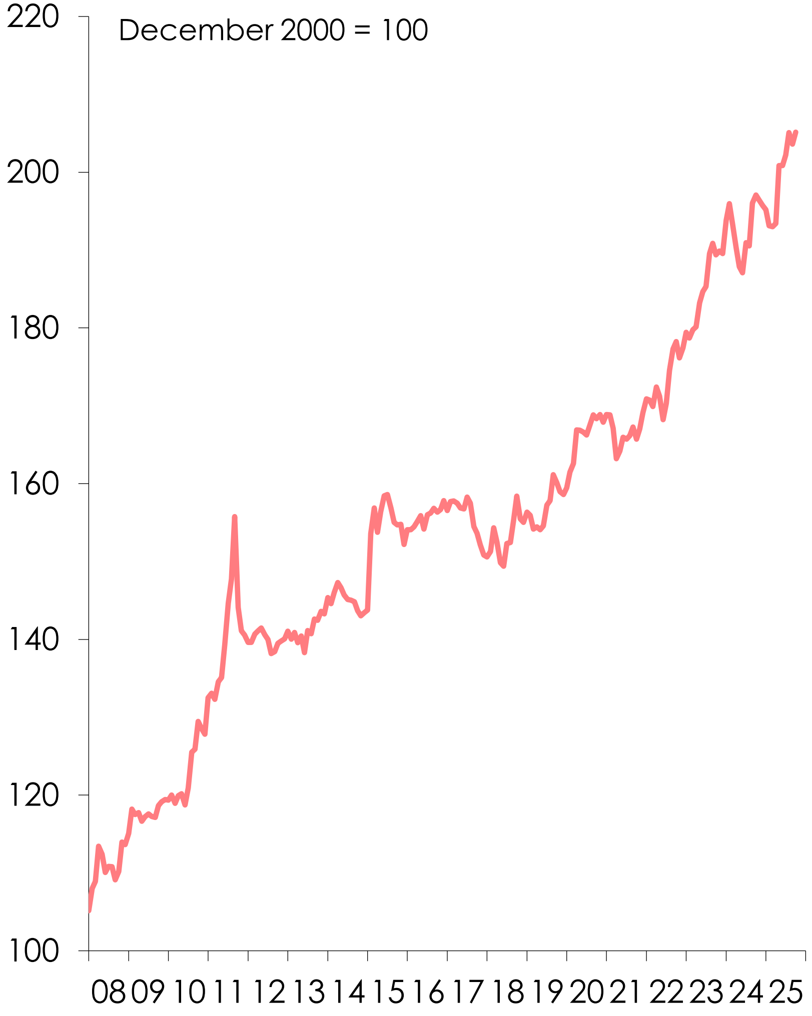
Global megatrend #10 – the trashing of America's "brand"

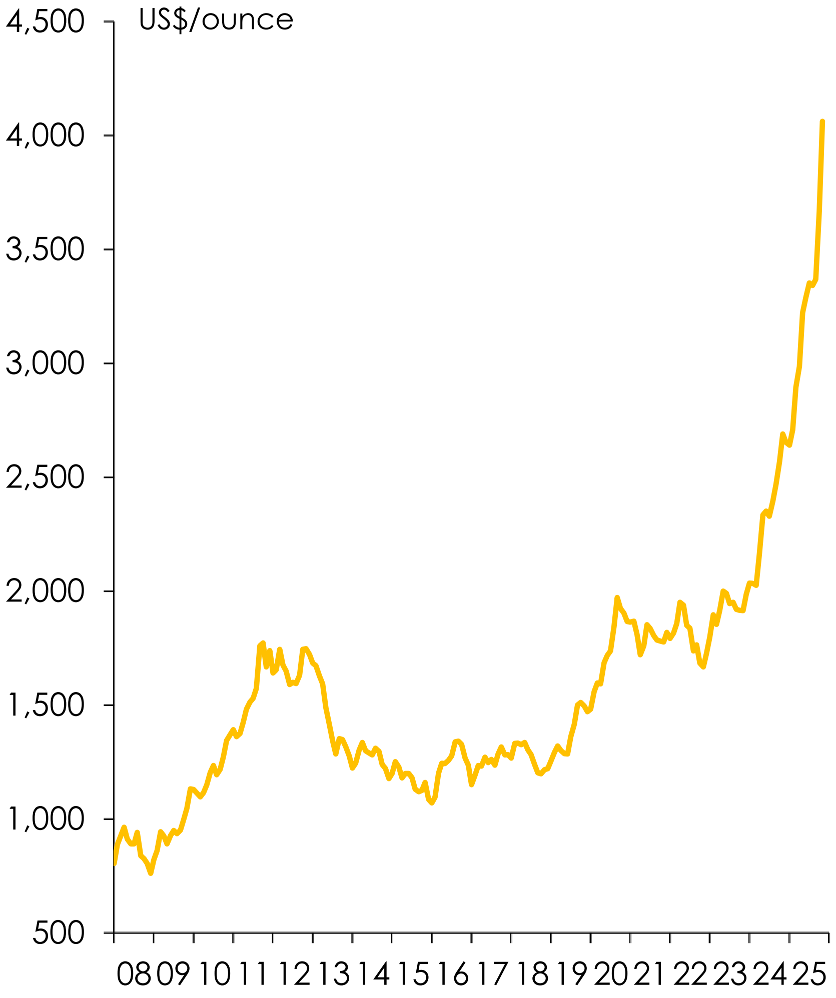
Index of the US dollar against other major currencies



Index of the Swiss franc against other major currencies



Gold price



Source: LSEG Datastream.

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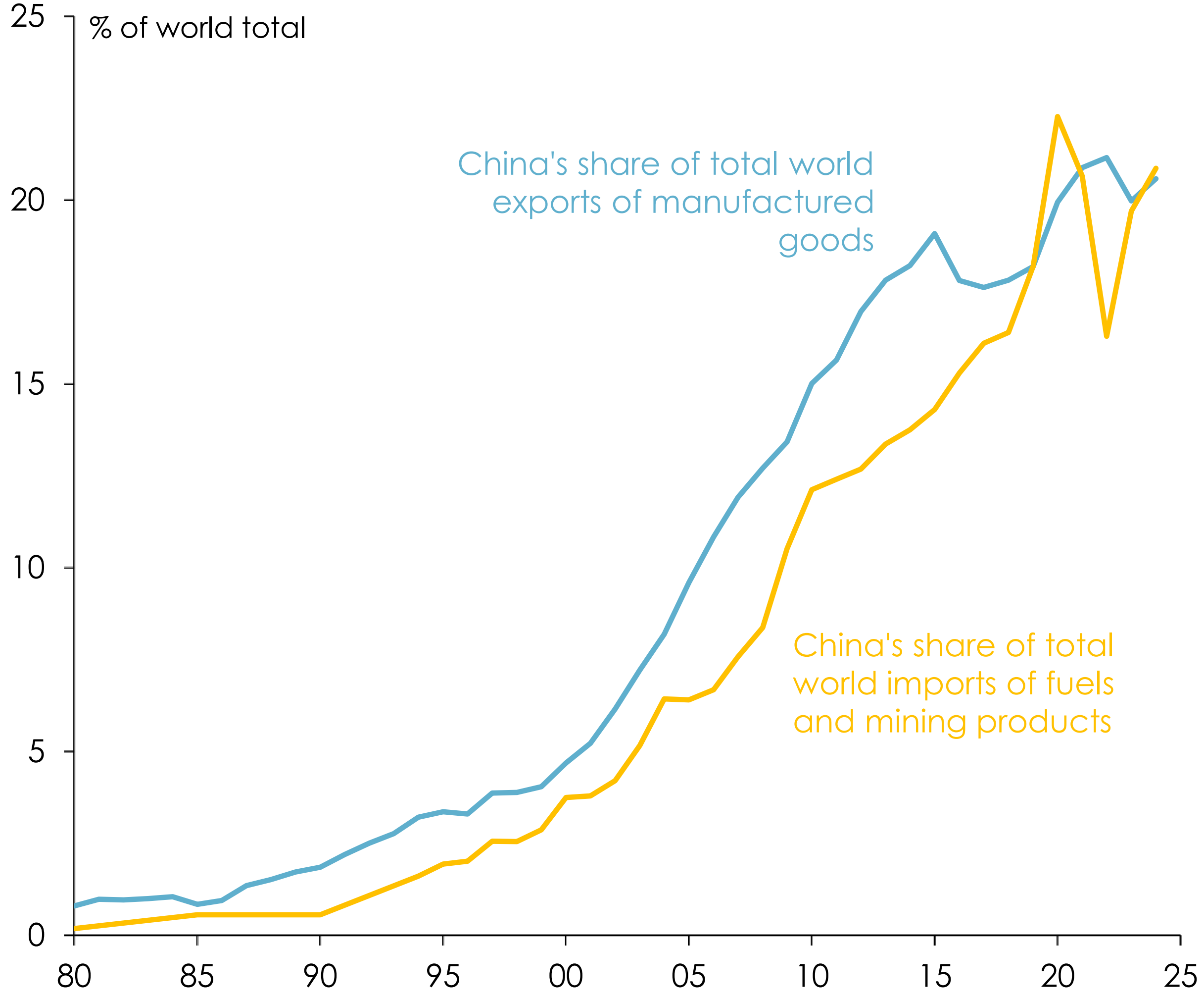
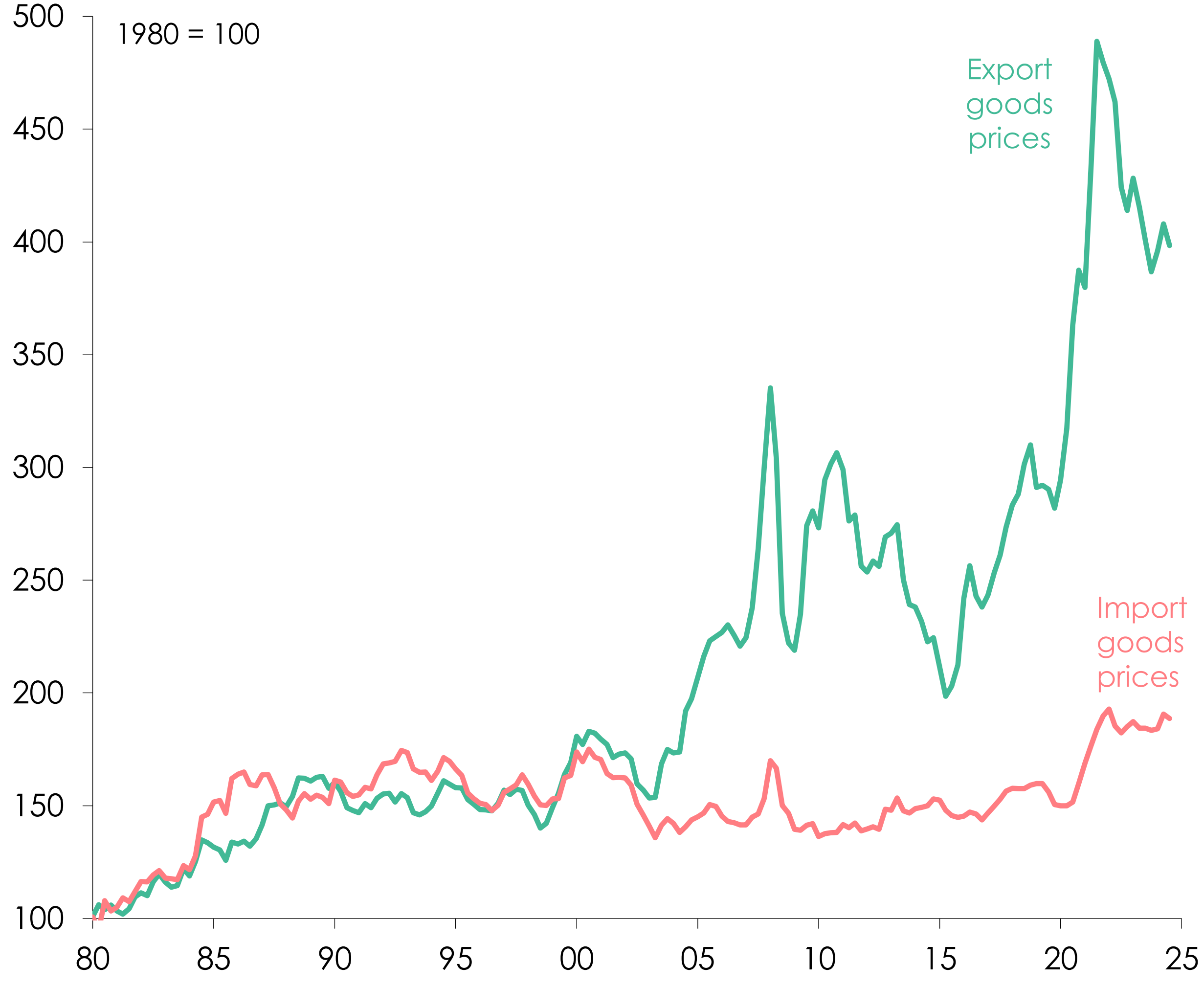
The Australian economy

Australia has been one of the biggest beneficiaries of China's emergence as the world's biggest importer of minerals and exporter of manufactures

China's share of world imports of minerals & energy, and of world exports of manufactures



Price indexes of Australia's exports and imports of goods



Sources: World Trade Organization, WTO Stats; ABS, *Balance of Payments and International Investment Position, Australia*, June quarter 2025.

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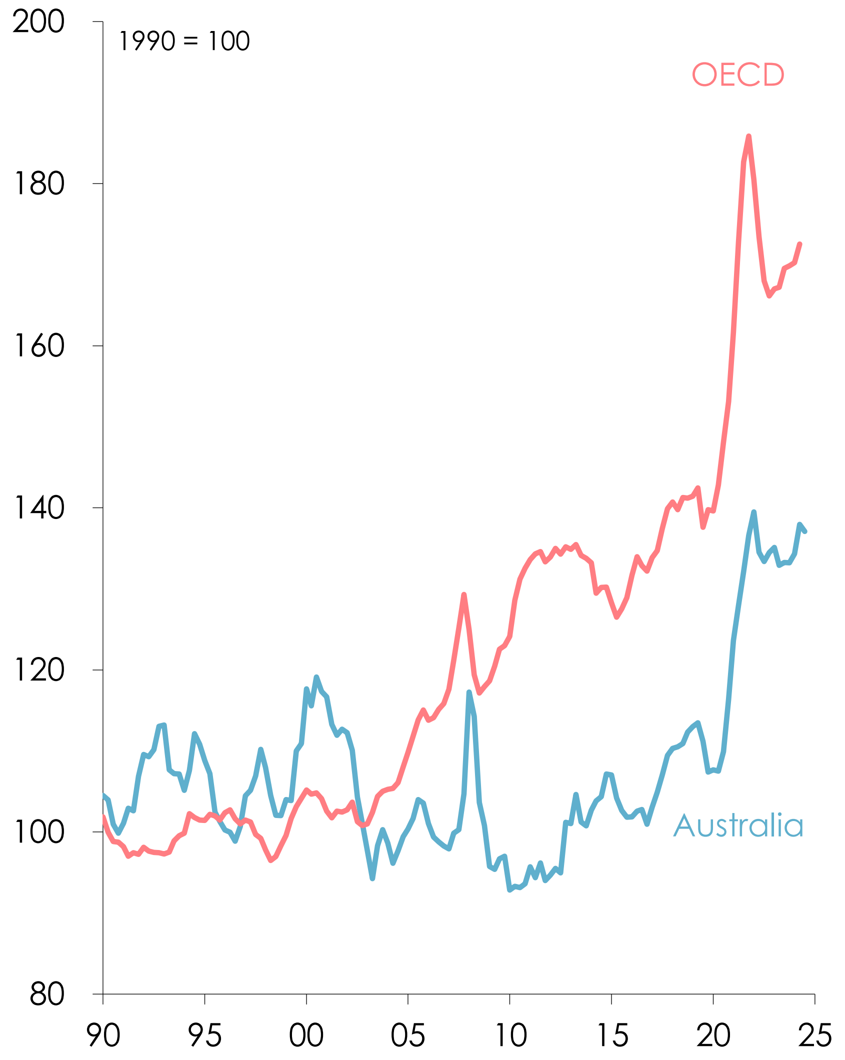
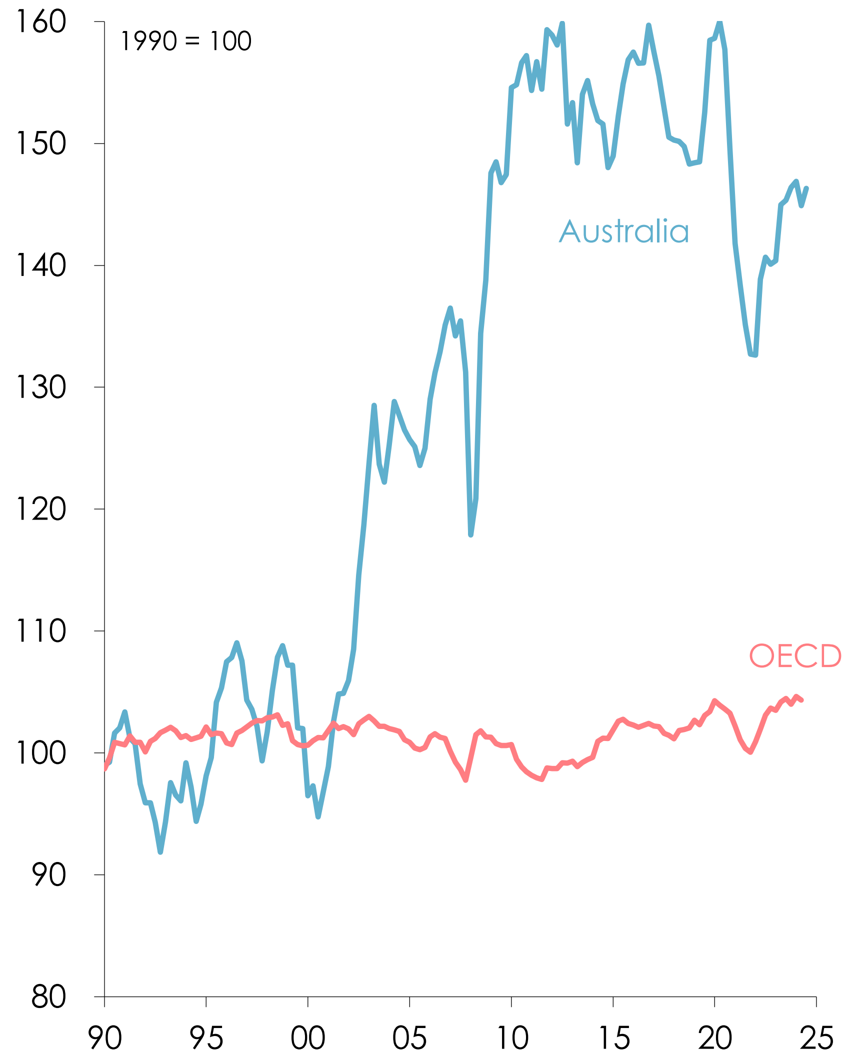
Australia's experience of China's rapid growth and industrialization has been very different from that of most other 'advanced' economies

Export prices

Import prices



'Terms of trade'



Note: The OECD (Organization for Economic Co-operation and Development) comprises 38 (mostly 'advanced') economies. The 'terms of trade' is the ratio of the implicit price deflator of exports of goods and services to the implicit price deflator of imports of goods and services.
Sources: ABS, *Balance of Payments and International Investment Position, Australia*, June quarter 2025; OECD, *Data Explorer: Quarterly GDP and components*.

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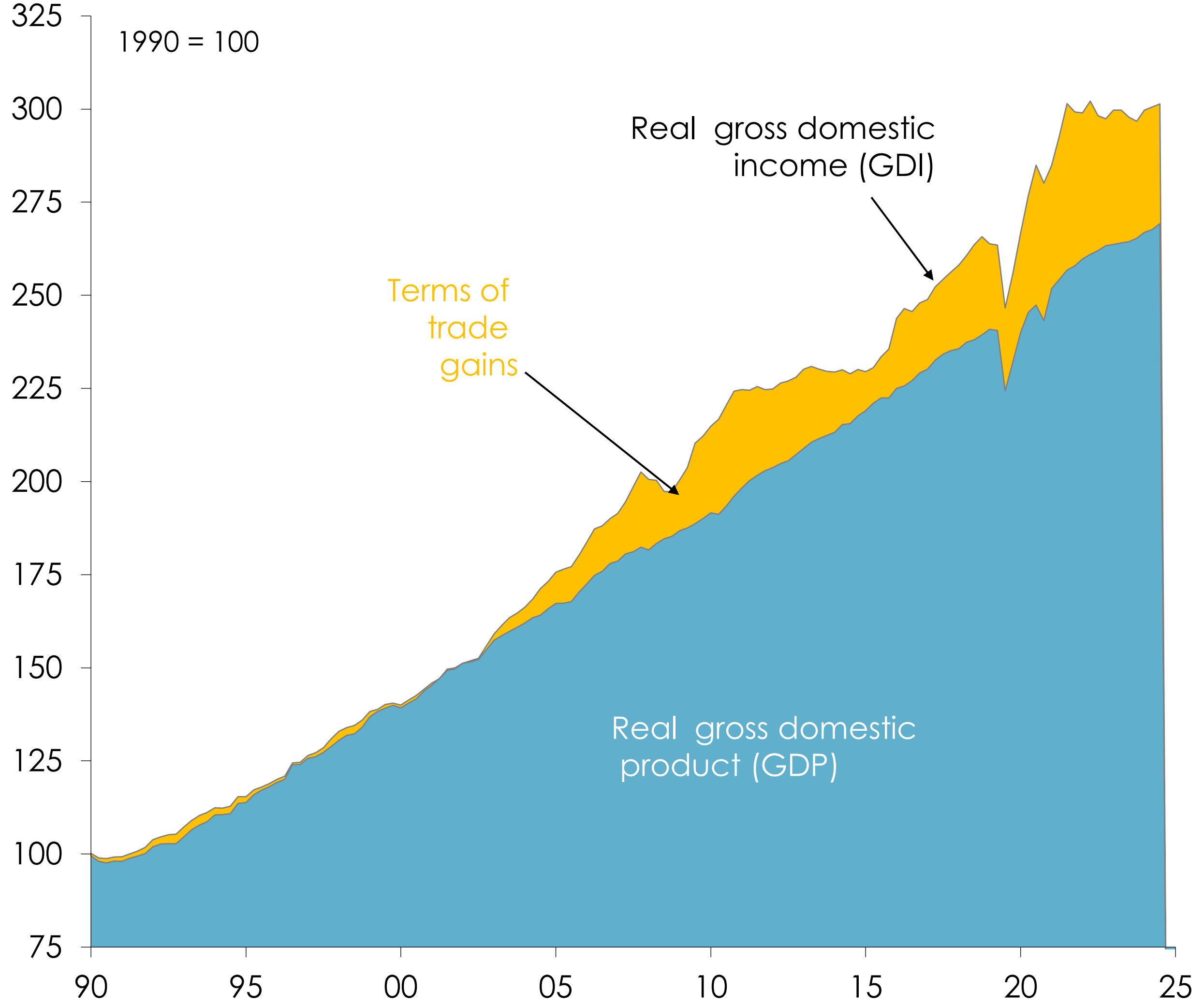
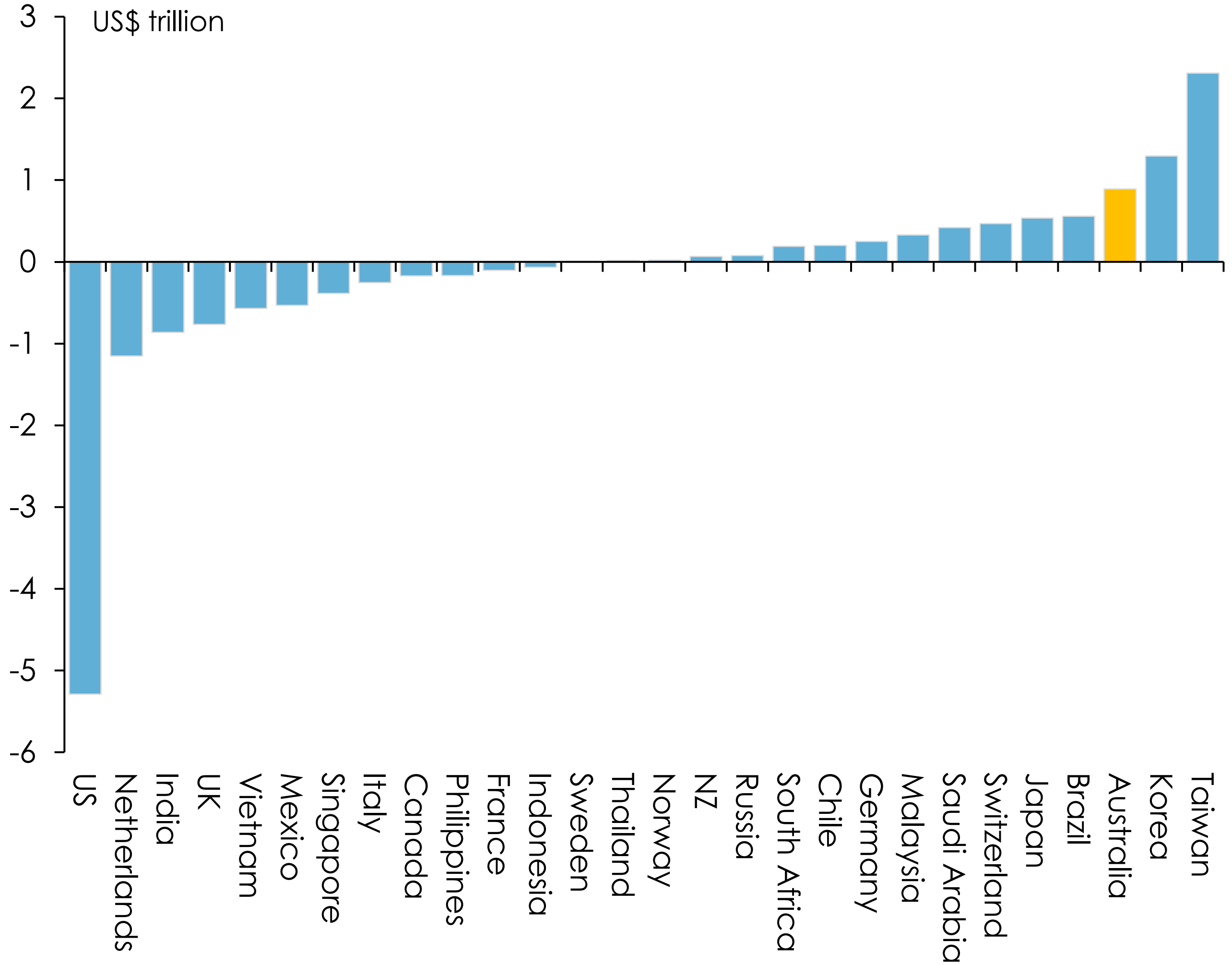
China-induced terms of trade gains have boosted Australia's income by about 18% this century, and Australia has run trade surpluses with China

Australia's real gross domestic income (GDI) and gross domestic product (GDP)



Cumulative bilateral goods trade balances with China, 2020-2024



Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2025; International Monetary Fund (IMF), *International Trade in Goods*.

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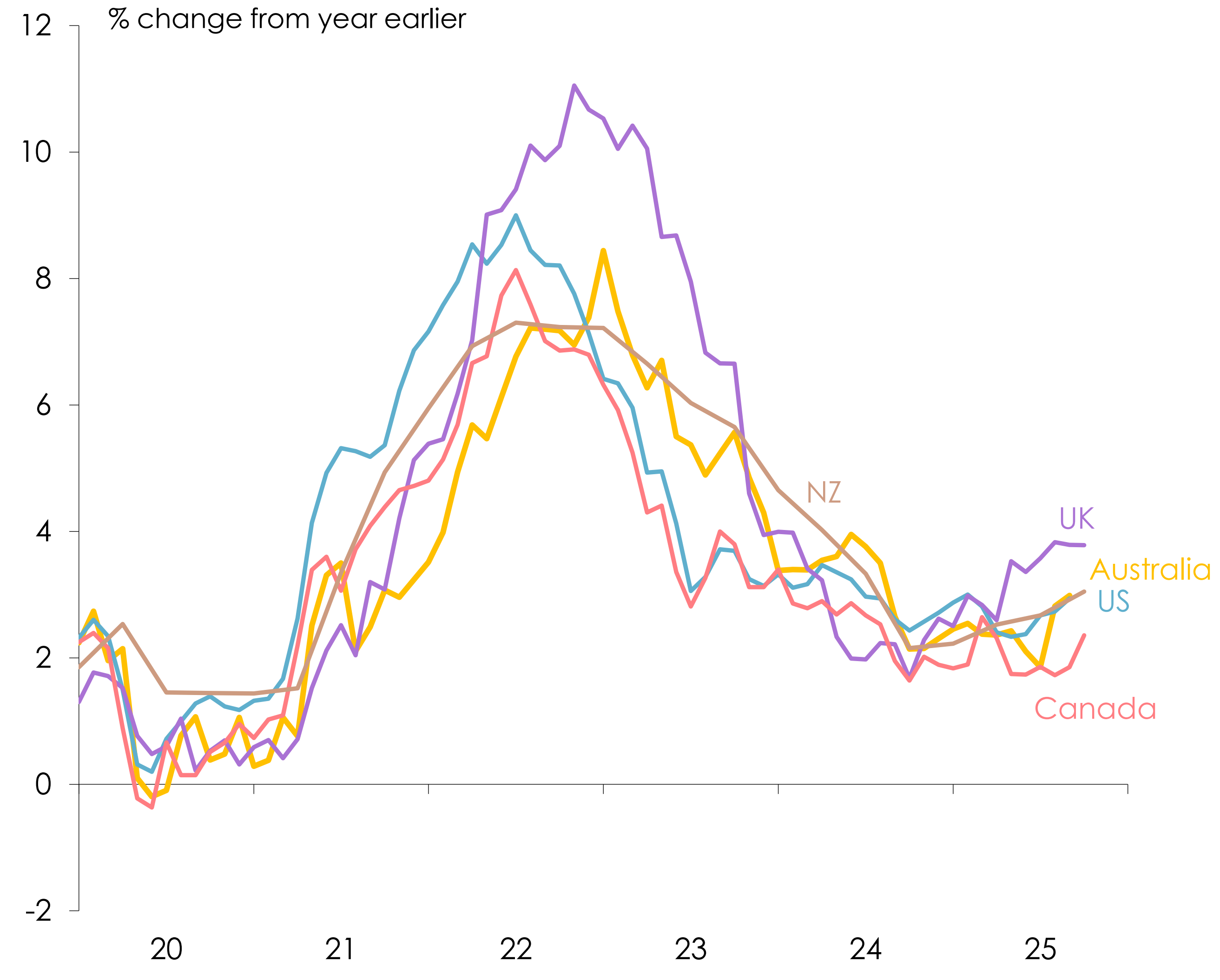
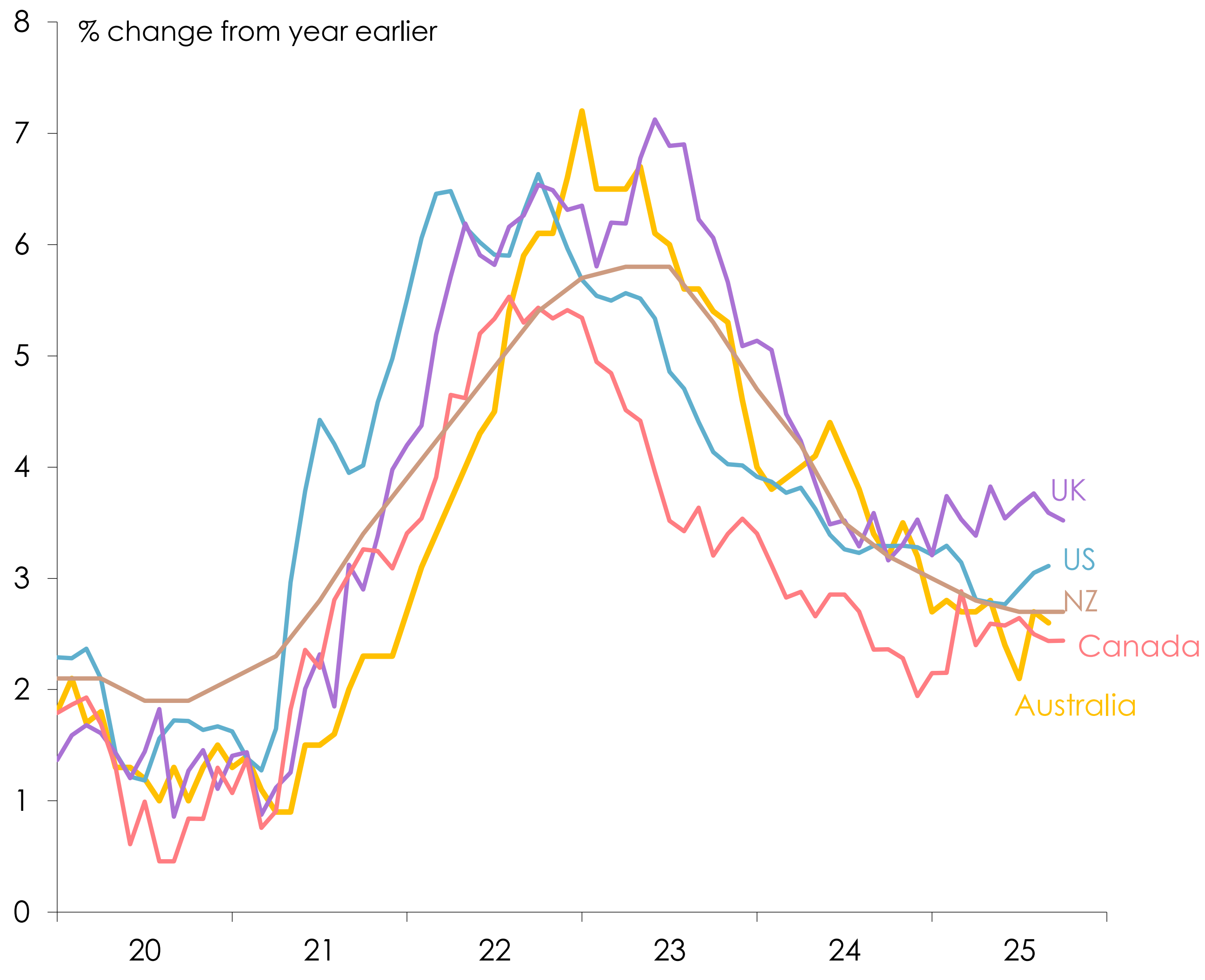
Australia has managed to get inflation down more successfully than most of our peers (in the US, UK, Canada and New Zealand) …

'Headline' inflation



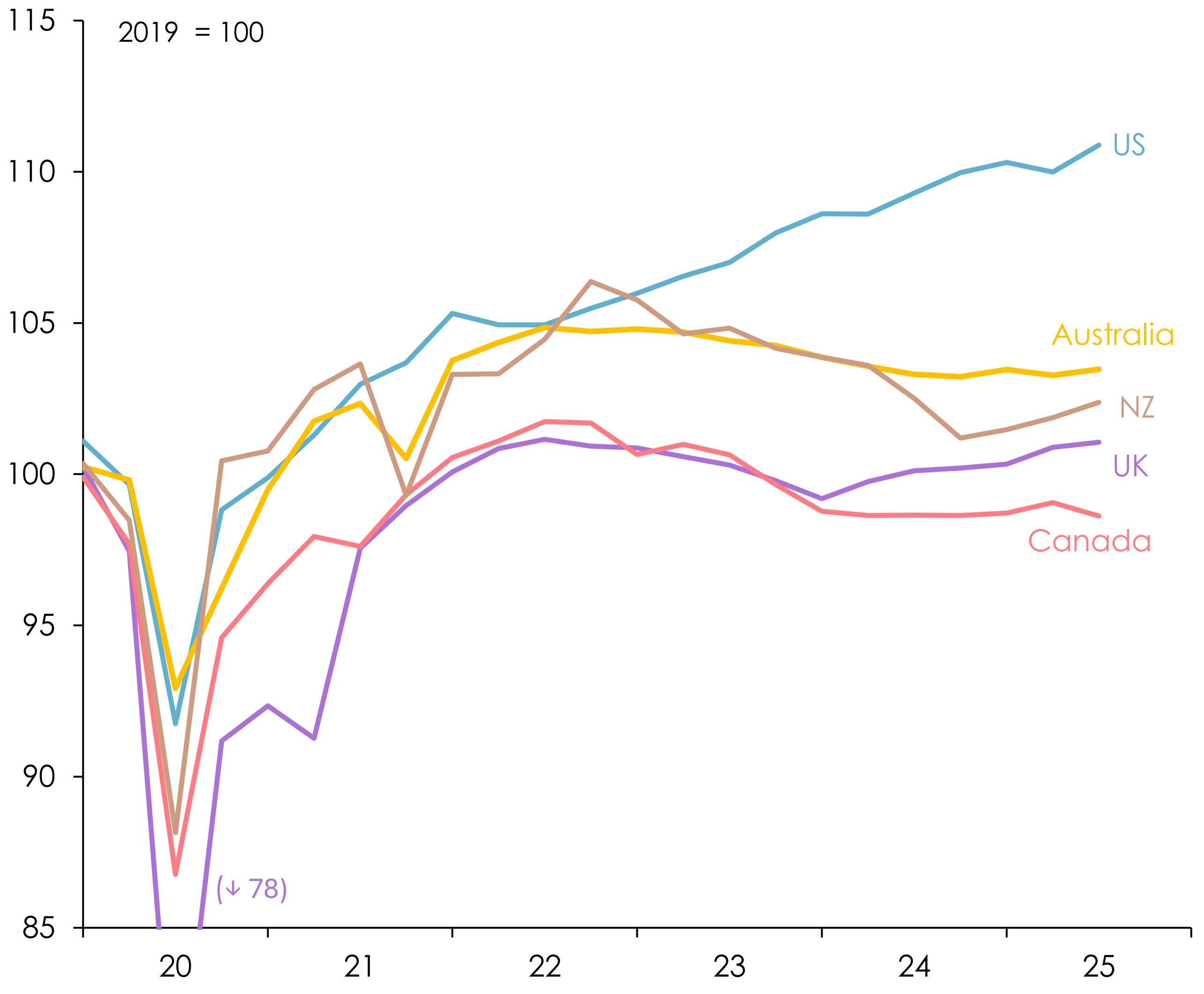
'Core' or 'underlying' inflation



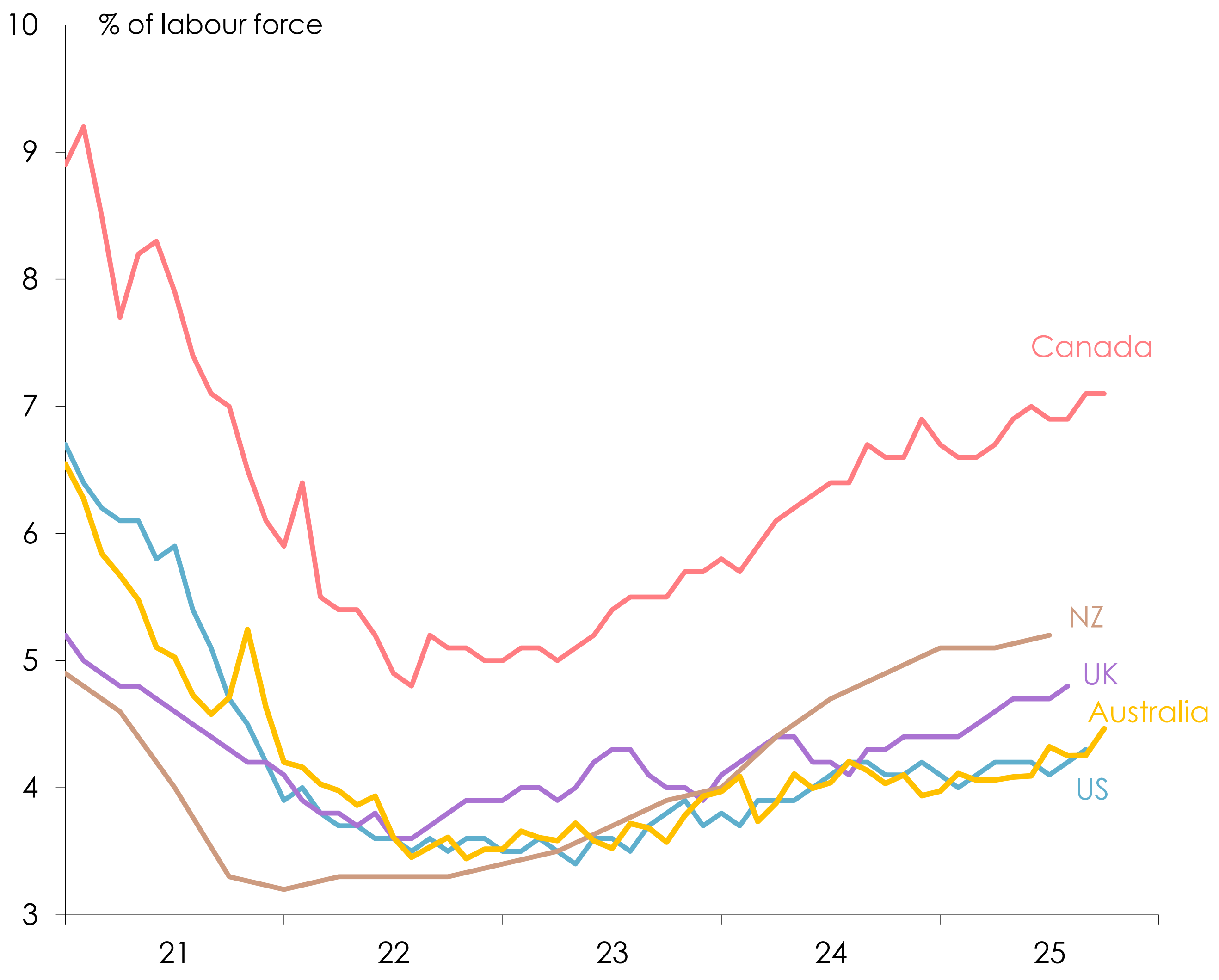
Note: 'Core' inflation in the US, UK and Canada is the annual change in the CPI excluding food & energy; 'underlying' inflation in Australia is the 'trimmed mean' and in NZ is derived from a statistical model. *Sources:* US Bureau of Labor Statistics; Statistics Canada; UK Office for National Statistics;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

… at less cost in terms of economic activity and unemployment

Real per capita gross domestic product



Unemployment rates



Sources: US Bureau of Economic Analysis; UK Office for National Statistics; Statistics Canada; Australian Bureau of Statistics; Statistics NZ; US Bureau of Labor Statistics.

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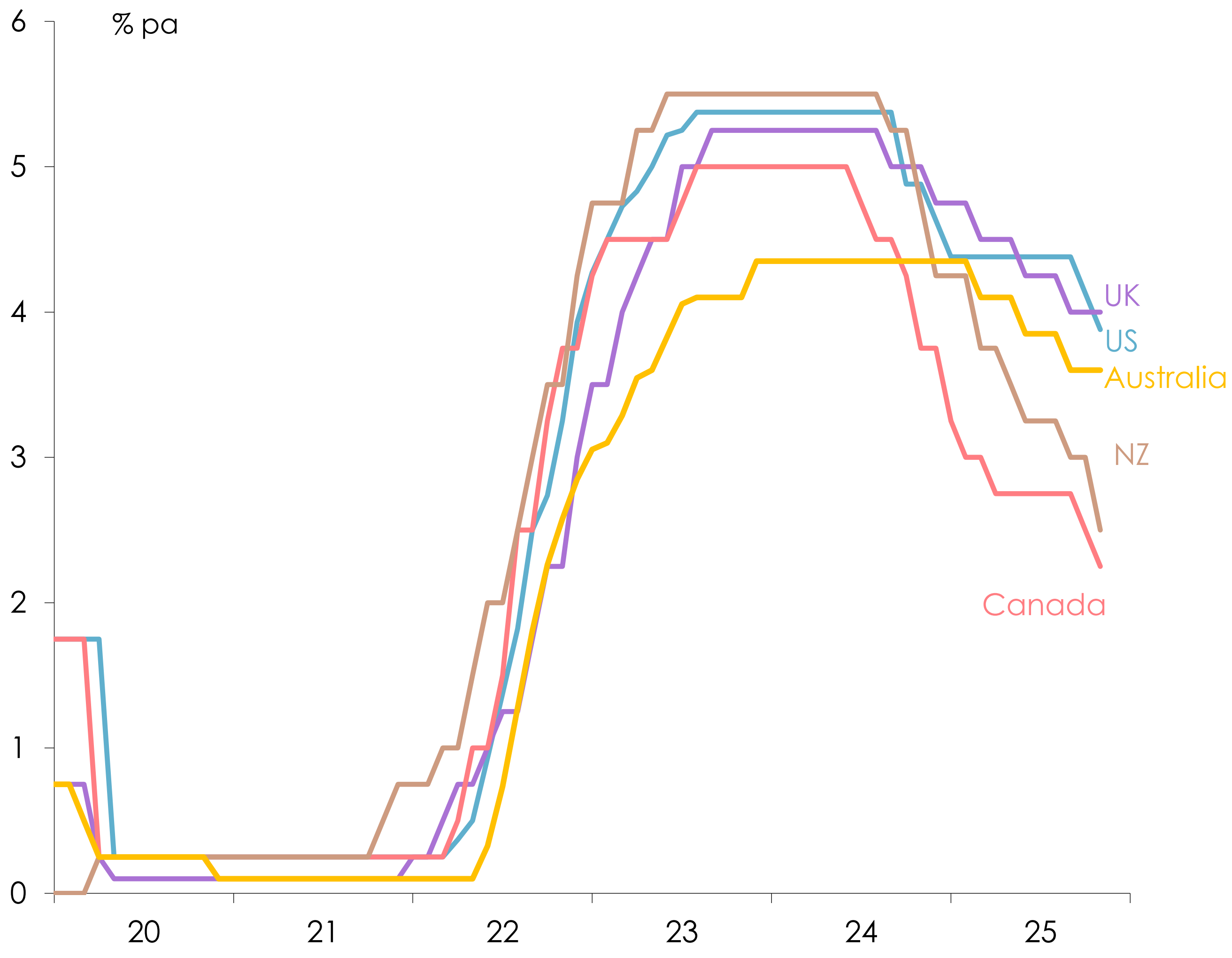
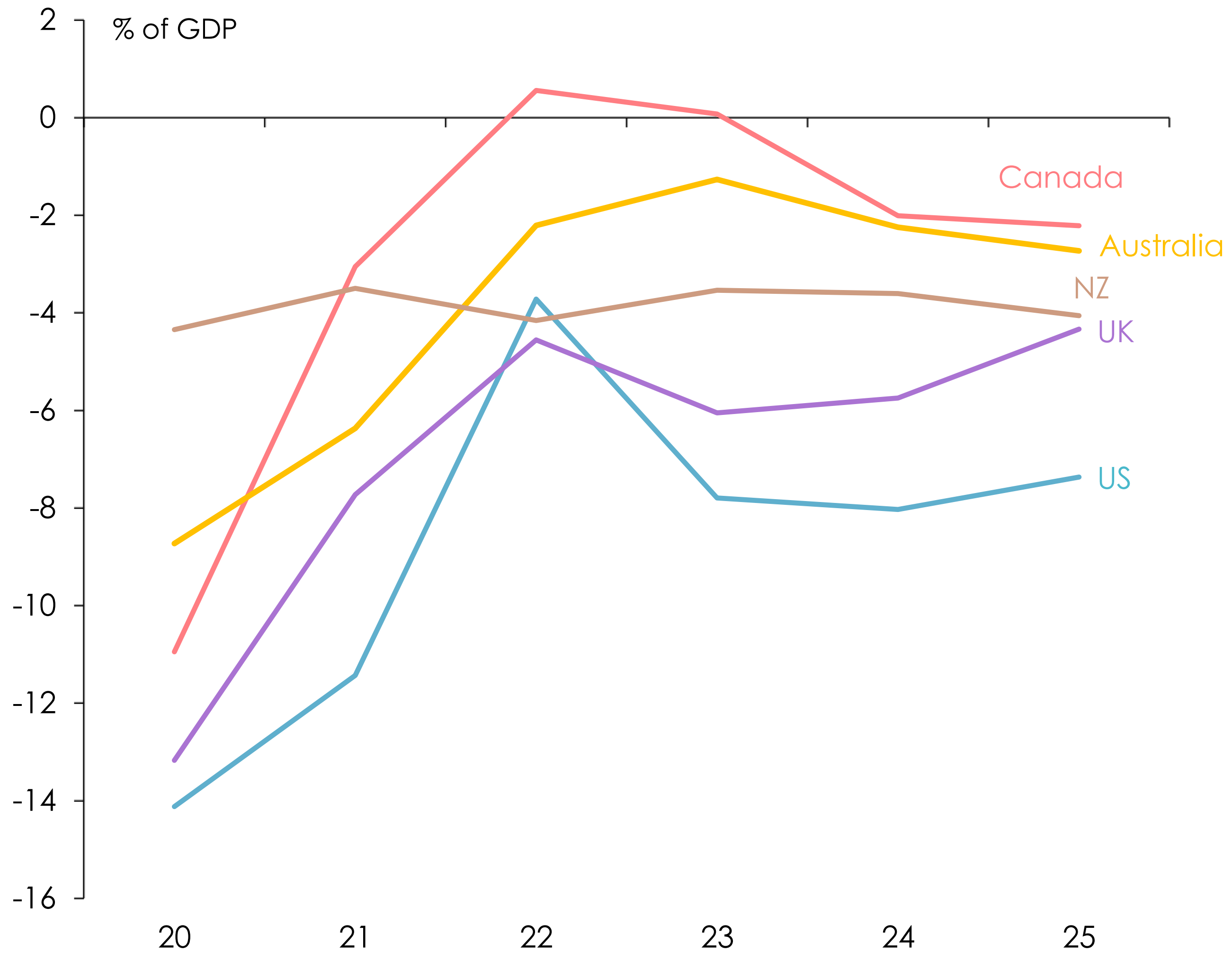
The RBA raised interest rates by less than its peers in the US, UK, Canada and NZ – and the Government didn't run big budget deficits like the US

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*, October 2025. *Note:* 'government budget deficits' include state and local governments.

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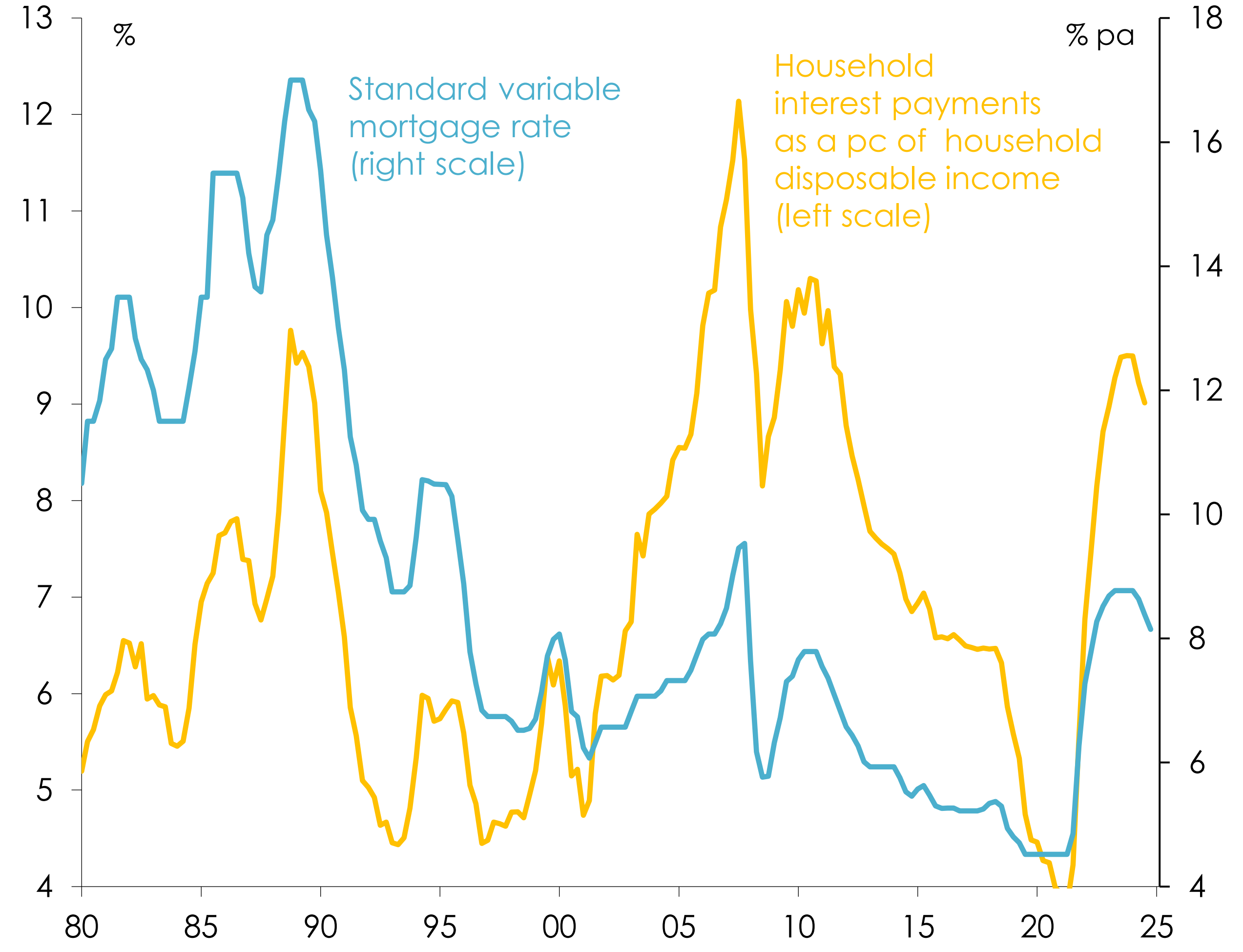
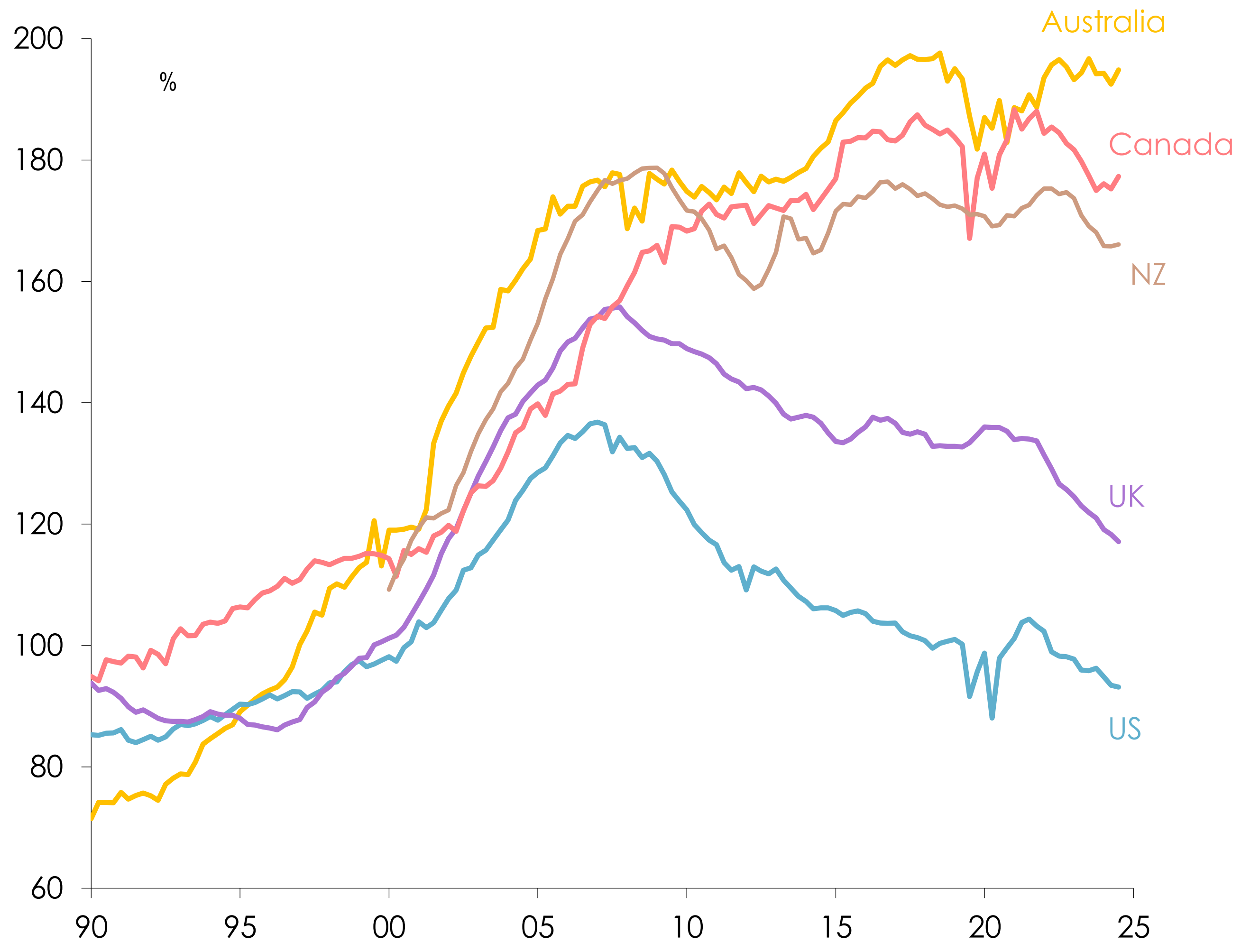
Australian households are very sensitive to movements in interest rates, because they have a lot of debt, and most mortgages are at floating rates

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).

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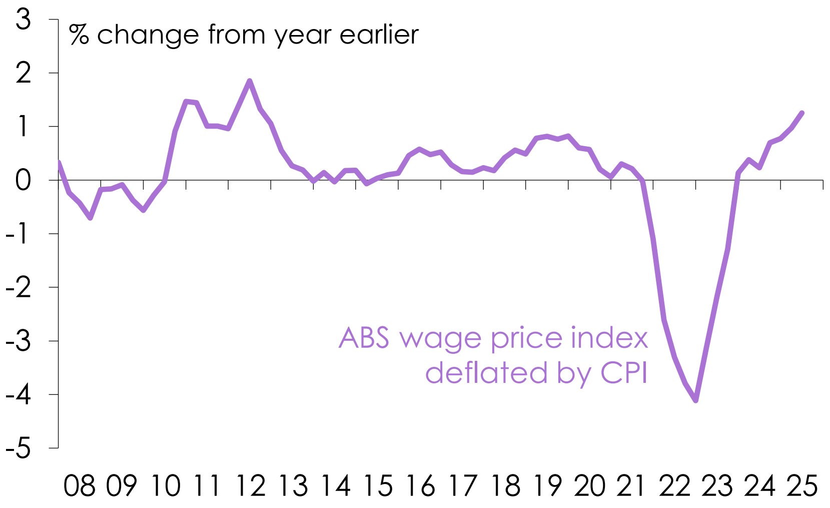
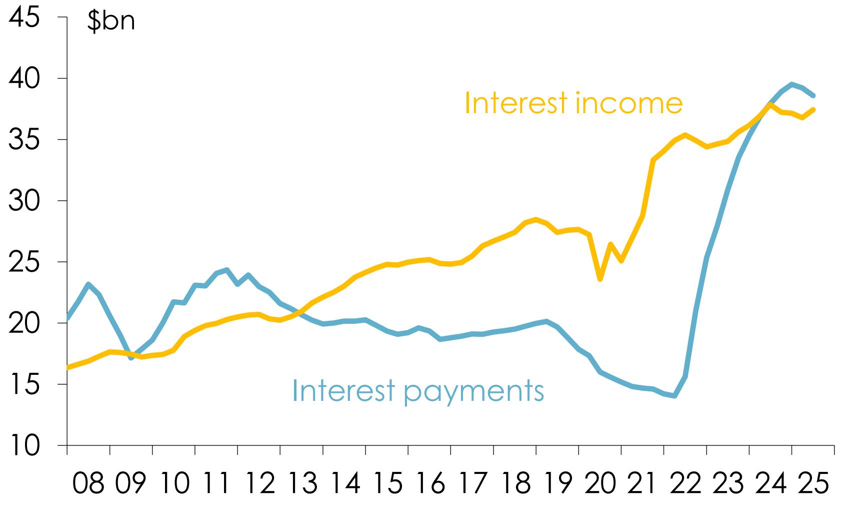
The squeeze on household finances is starting to ease

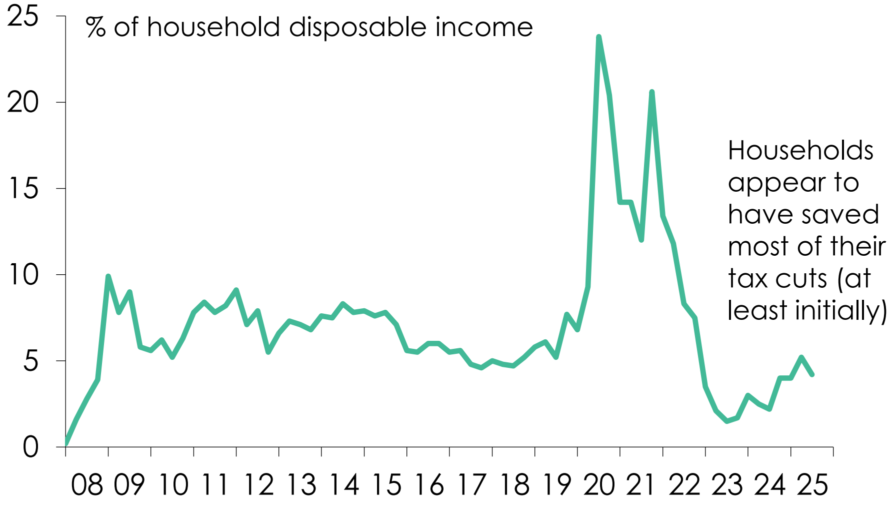
Real wages



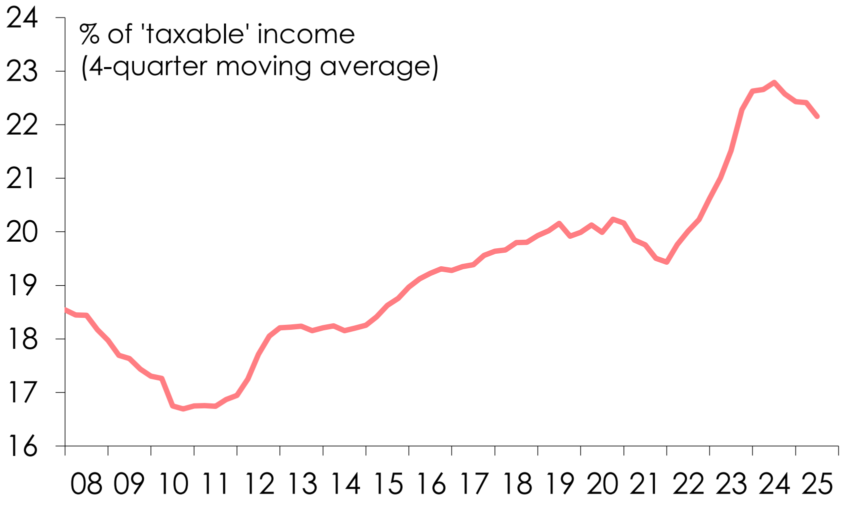
Interest income and payments



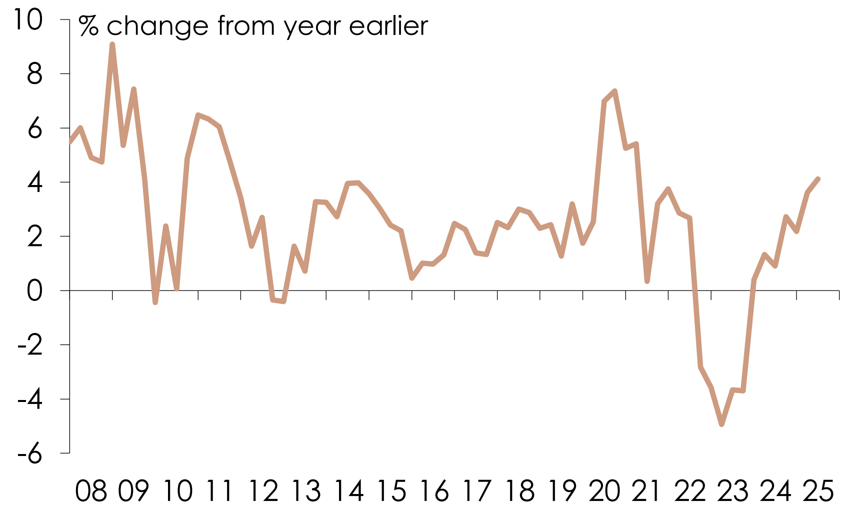
Household saving



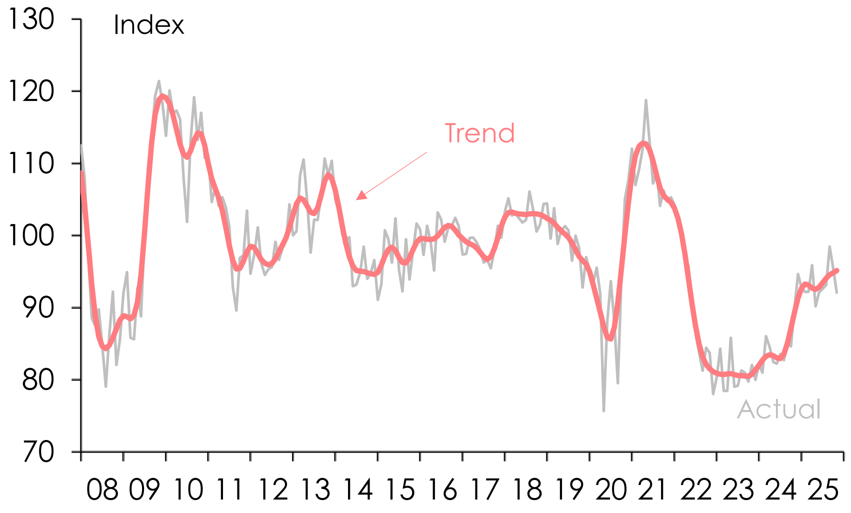
Personal income tax payments



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.

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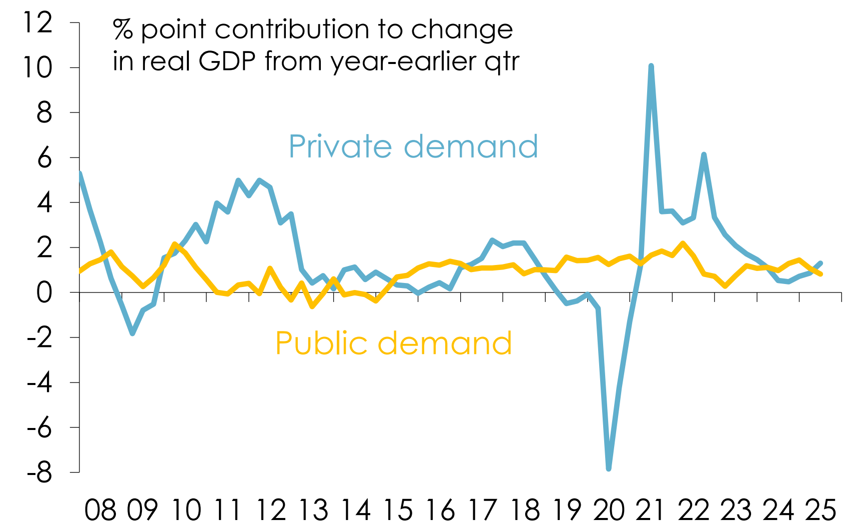
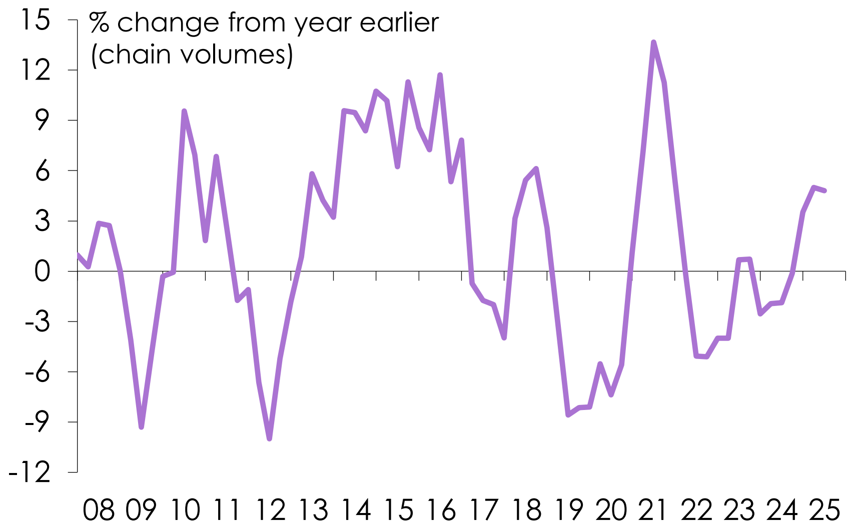
Private sector spending has picked up in the first half of the year, largely thanks to household consumption, while public spending growth is easing

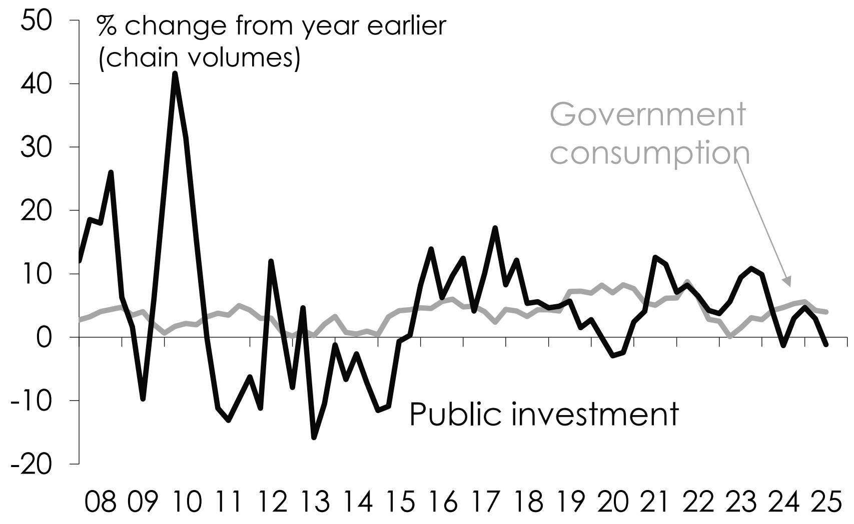
Private vs public sector spending



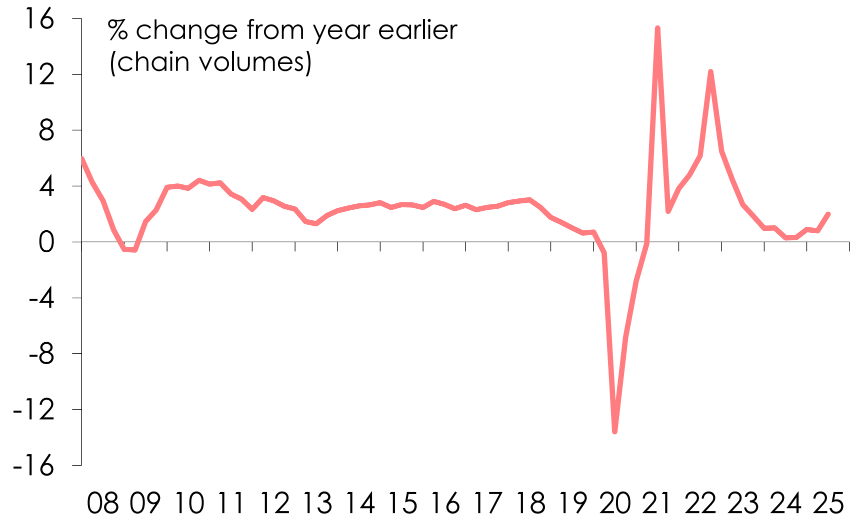
Dwelling investment



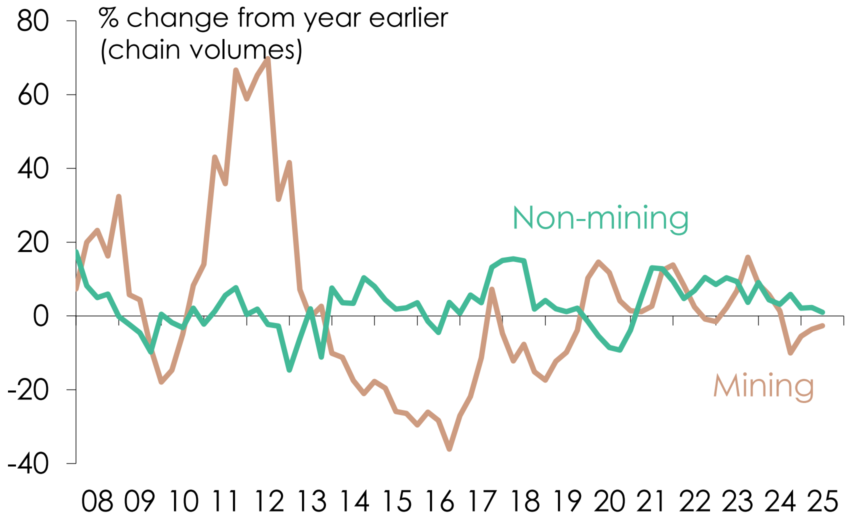
Public spending by type



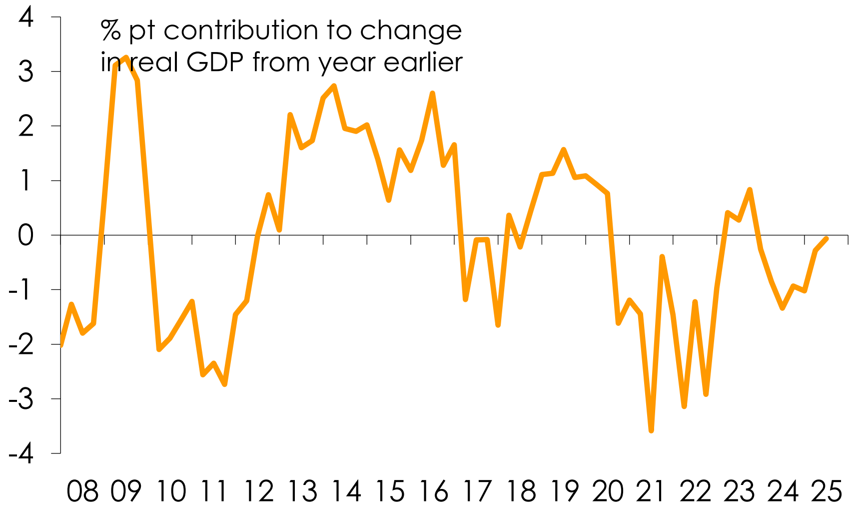
Household consumption



Business investment



Net exports



Source: ABS, Australian National Accounts: National Income, Expenditure and Product, June quarter 2025.

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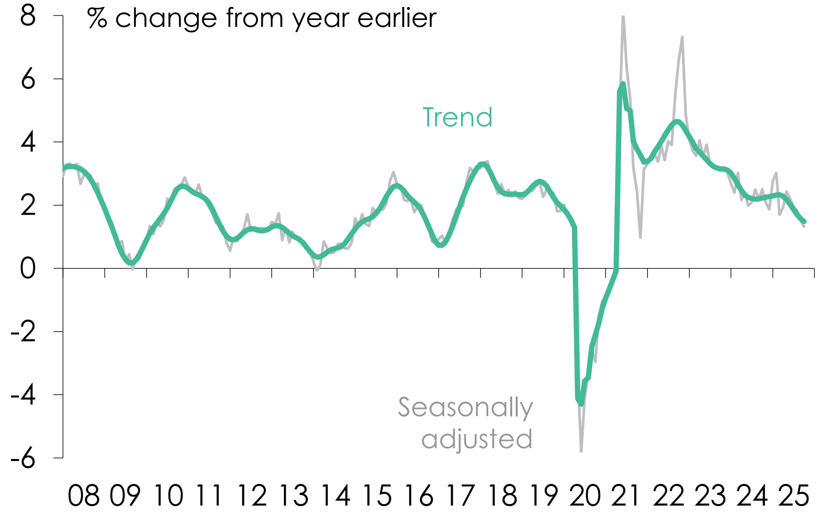
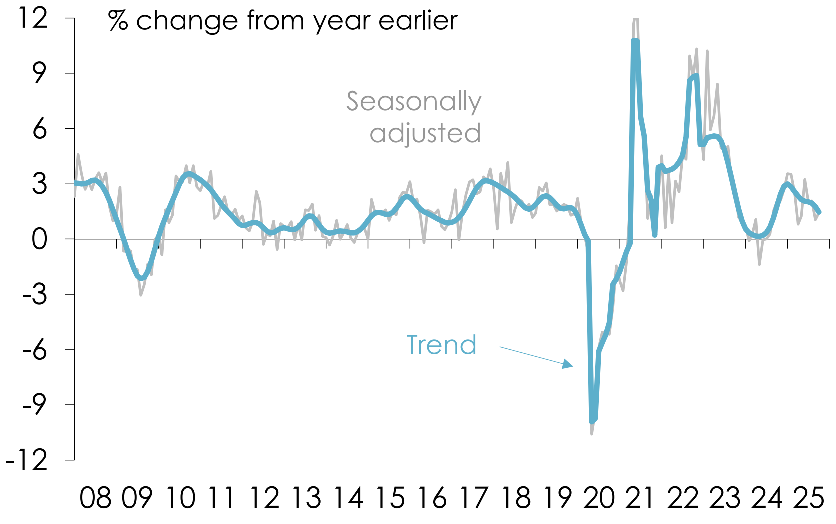
Growth in both employment ('heads') and hours worked has slowed this year, while unemployment has drifted up and vacancies have declined

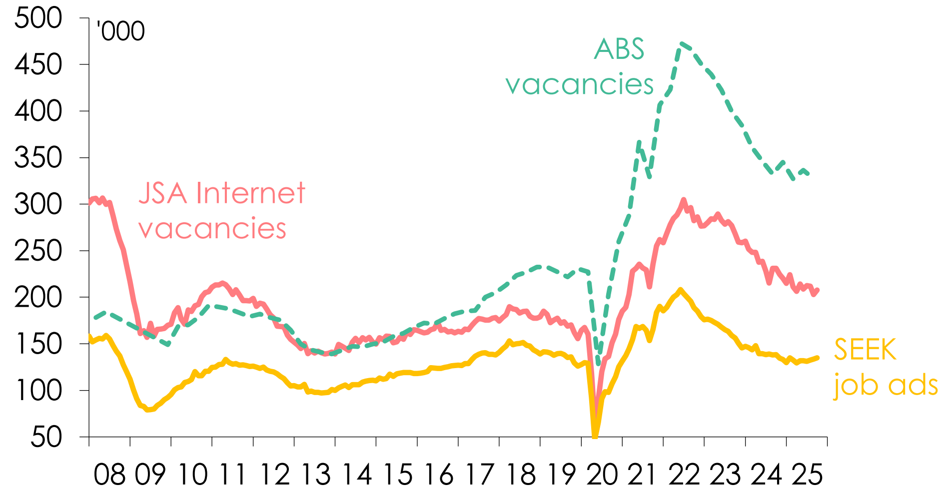
Employment growth



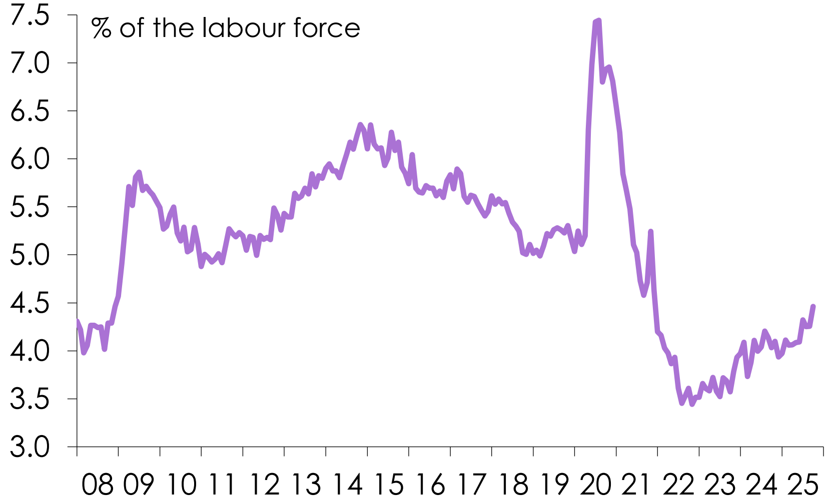
Growth in hours worked



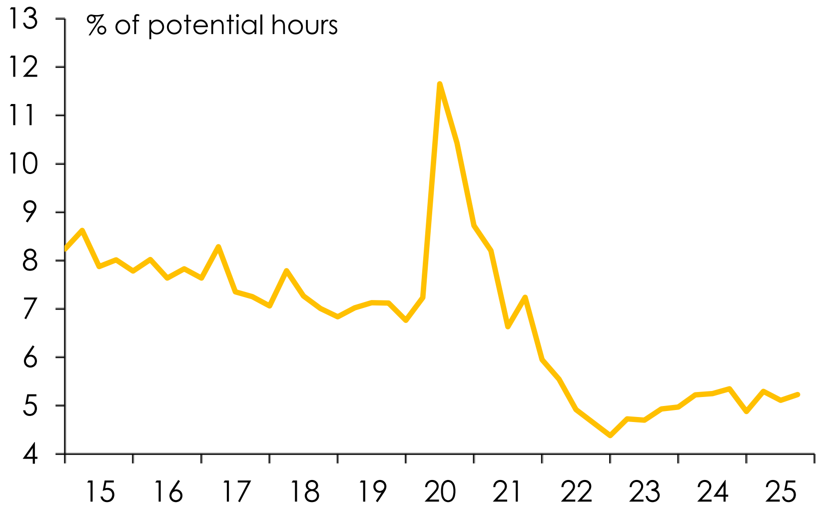
Job vacancies



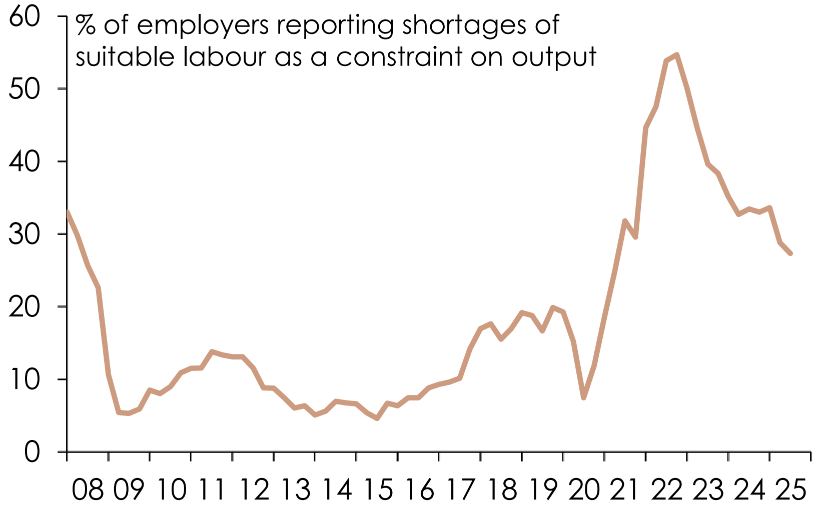
Unemployment rate



Labour force under-utilization



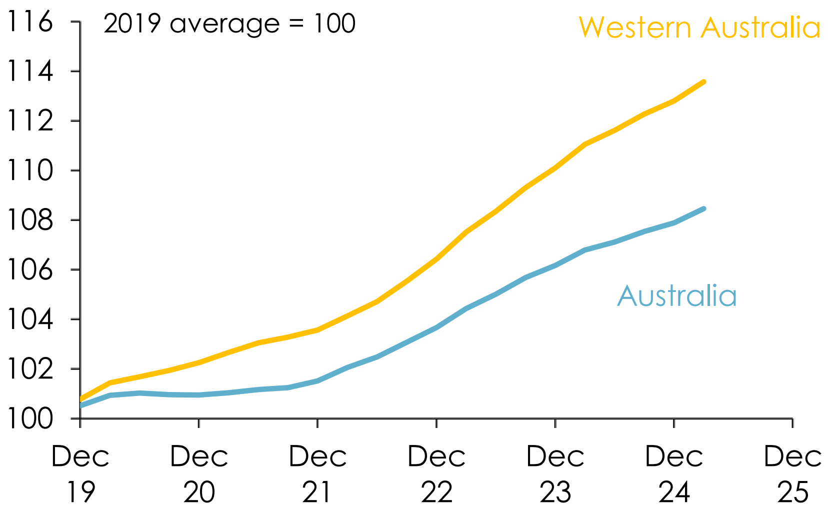
Labour shortages



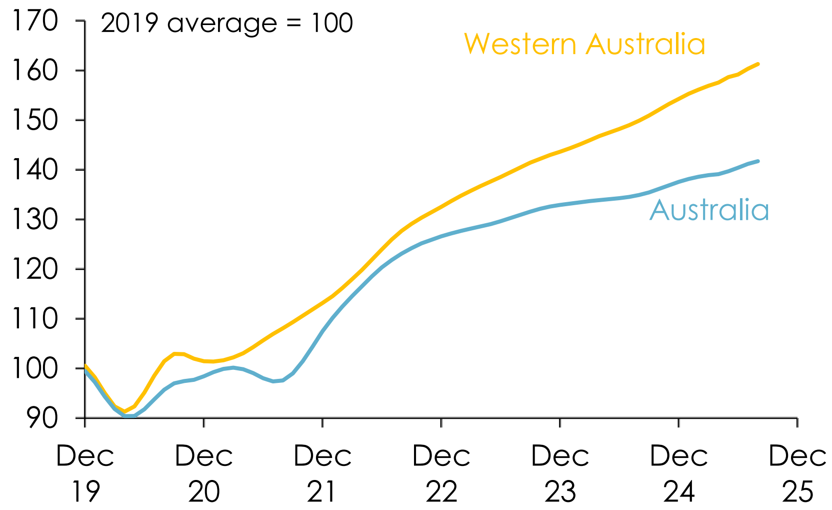
Note: 'labour force under-utilization' is a 'volume measure' of the hours which would have been worked by unemployed and under-employed people had those hours been offered. *Sources:* ABS, *Labour Force*, September 2025, *Job Vacancies*, August 2025 and *Labour Account, Australia*, June quarter 2025;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

Western Australia's economy is out-performing the national economy on most indicators

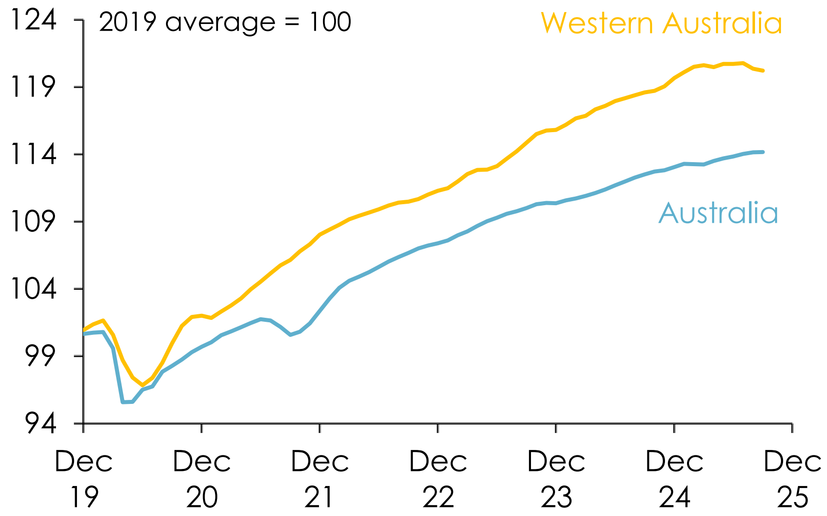
Population



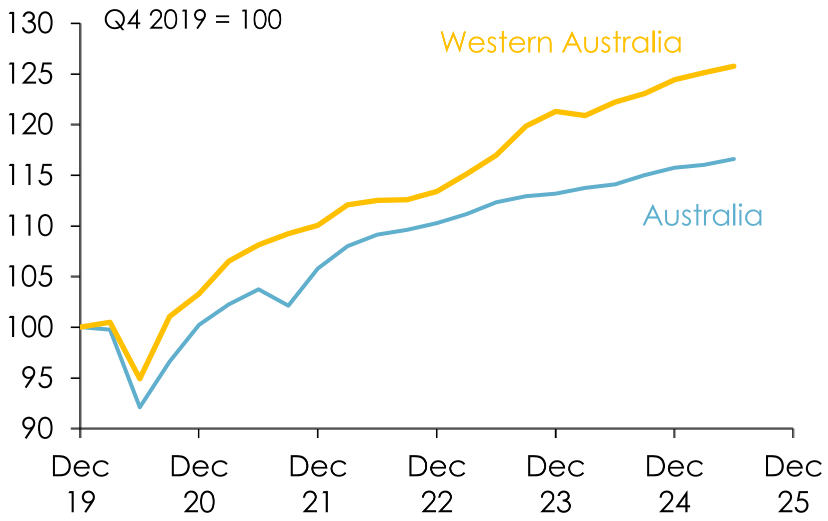
Household spending



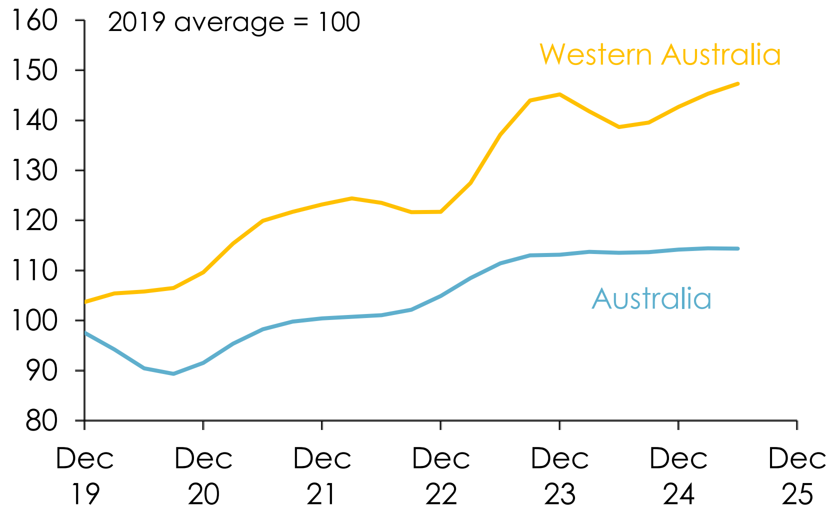
Employment



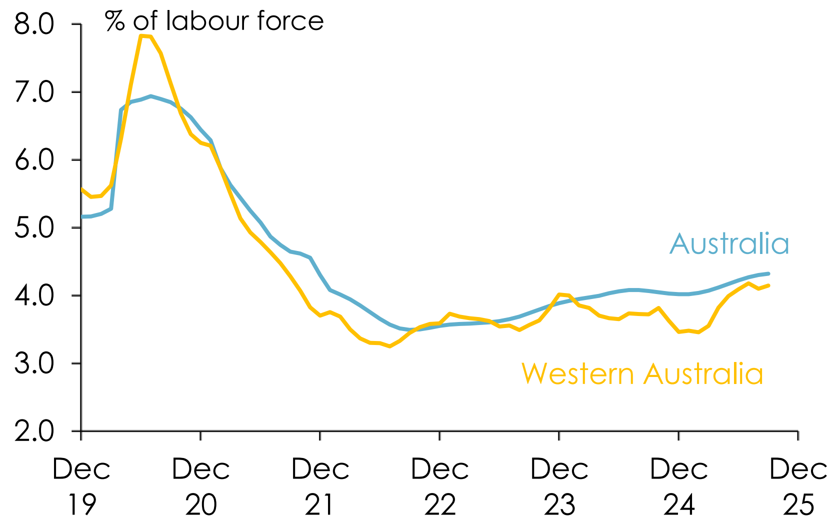
Final demand



Business investment



Unemployment



Sources: ABS, National, state and territory population, March quarter 2025; Monthly Household Spending Indicator, September quarter 2025; Private New Capital Expenditure and Expected Expenditure, September quarter 2025; and Labour Force, September 2025.

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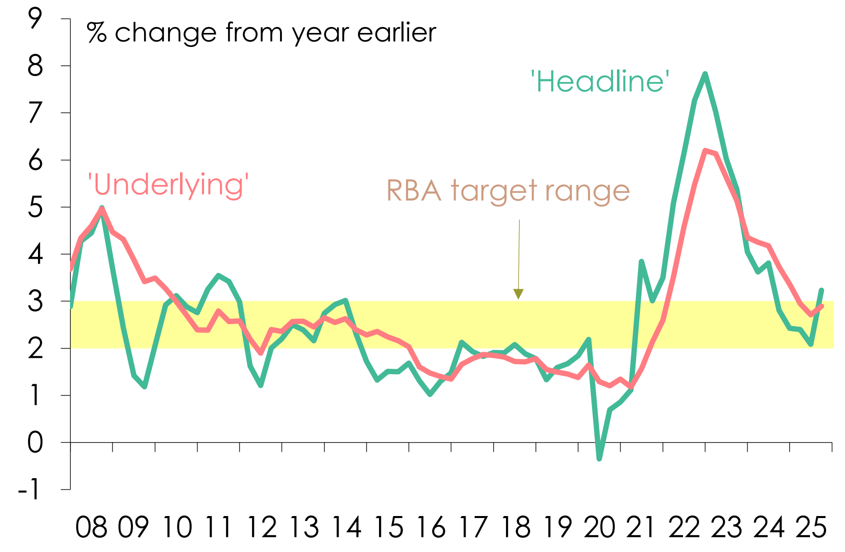
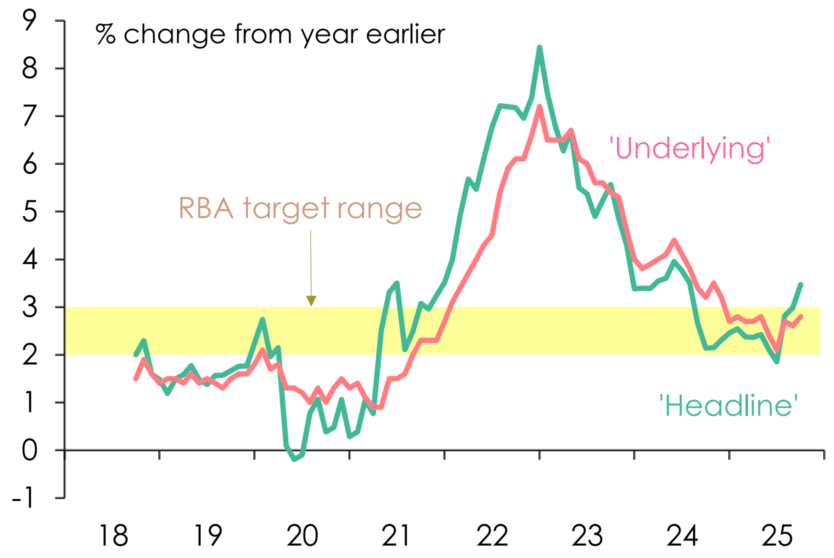
Inflation rebounded sharply in the September quarter, ruling out a 4th rate cut at the RBA's November Monetary Policy Board meeting

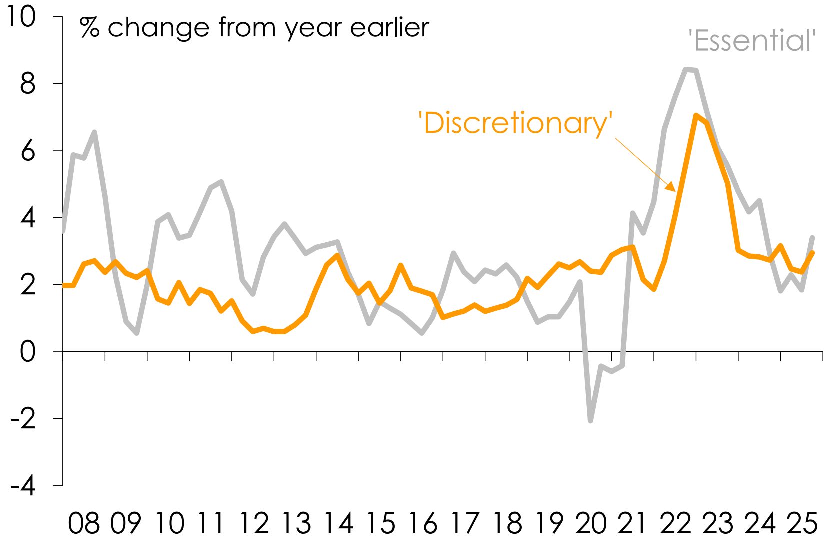
Consumer prices – annual change



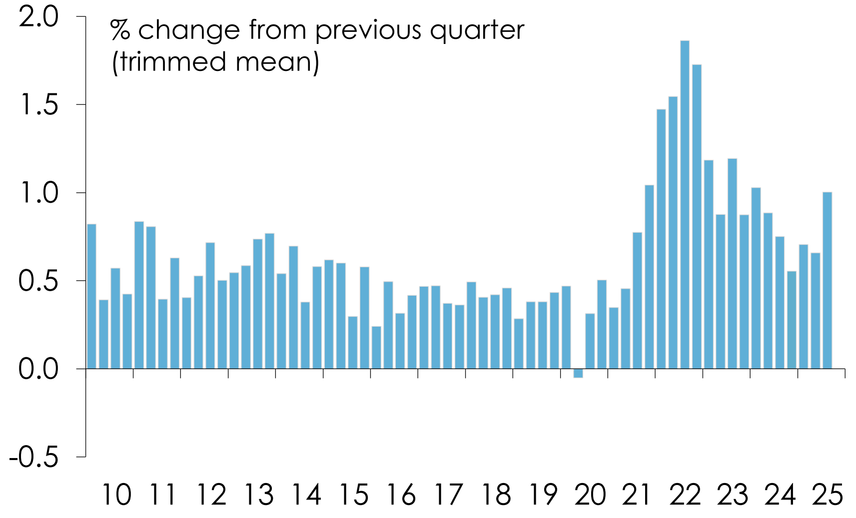
Monthly 'CPI indicator'



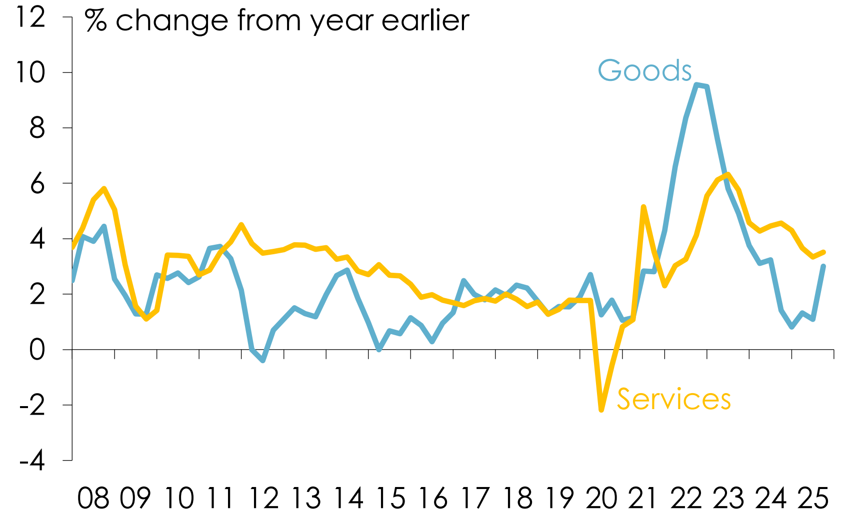
'Discretionary' vs 'essential' items



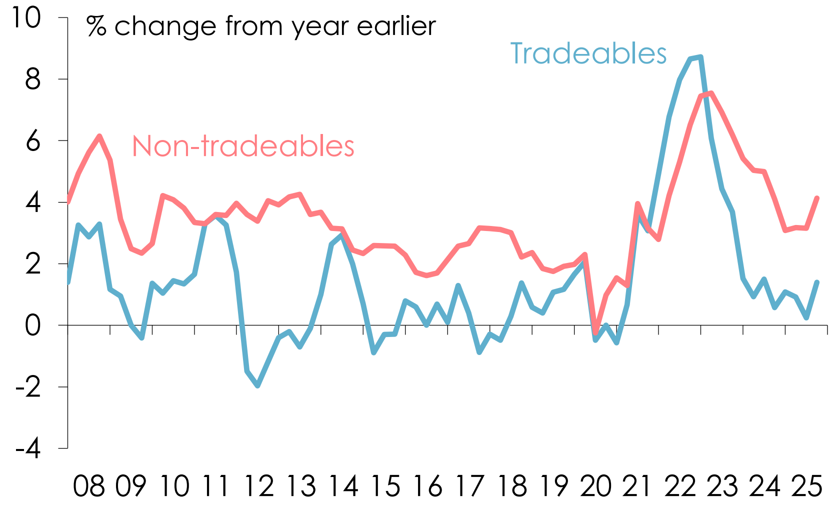
Quarterly 'underlying' inflation



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, September quarter 2025 and Monthly Consumer Price Index Indicator, September 2025.

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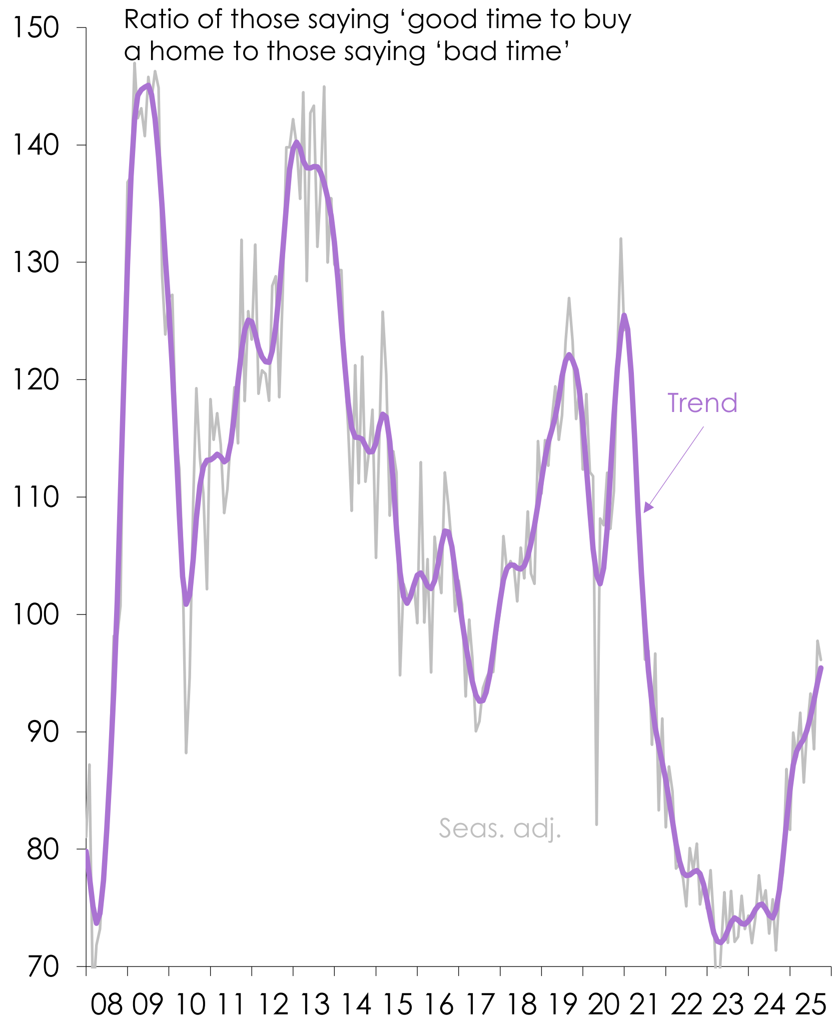
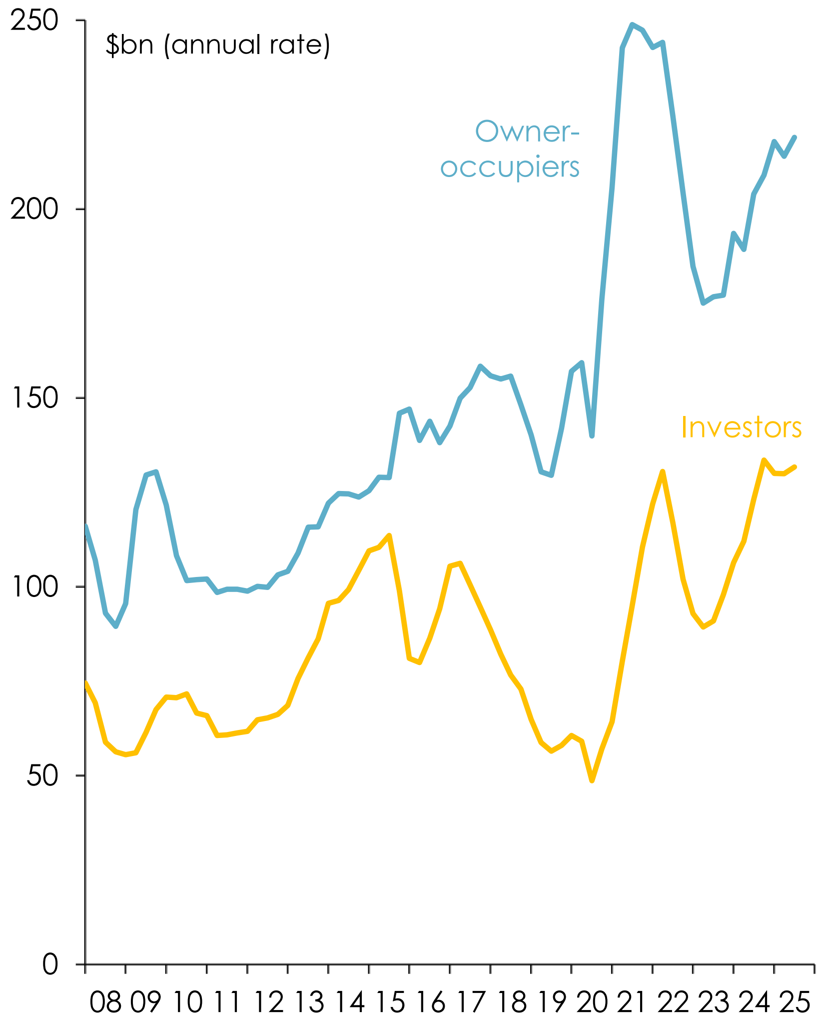
The housing market

‘Effective’ 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.

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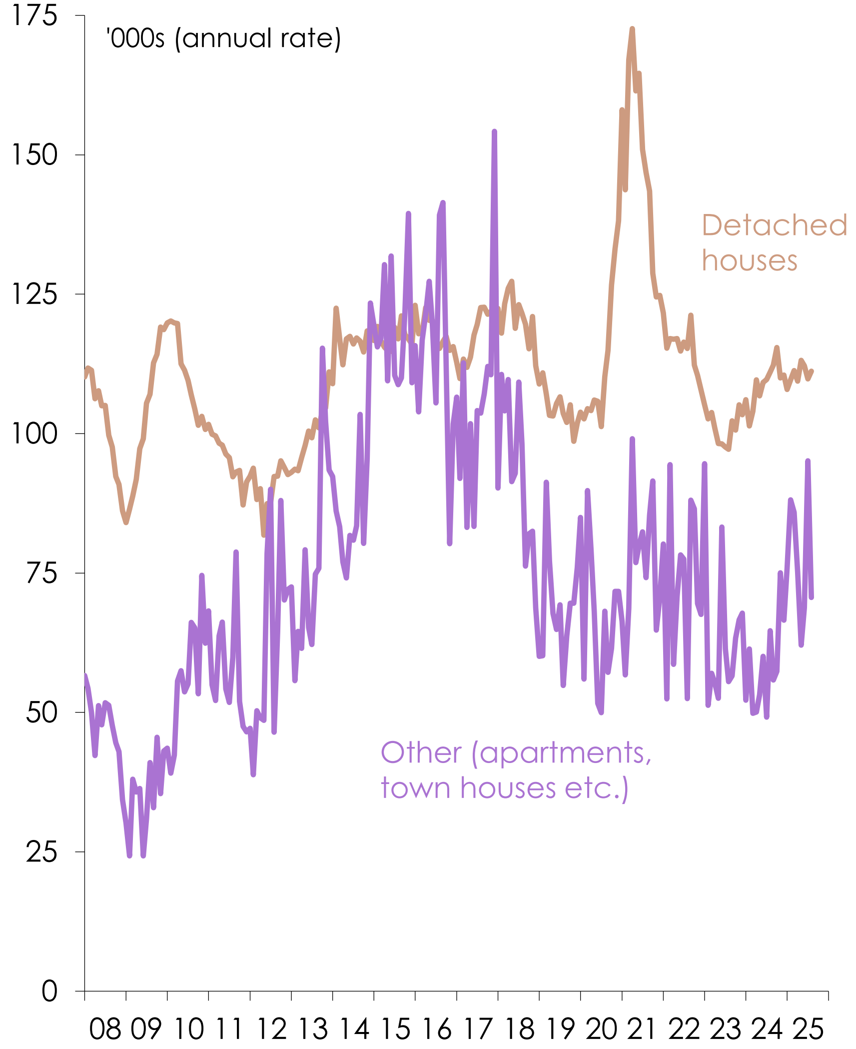
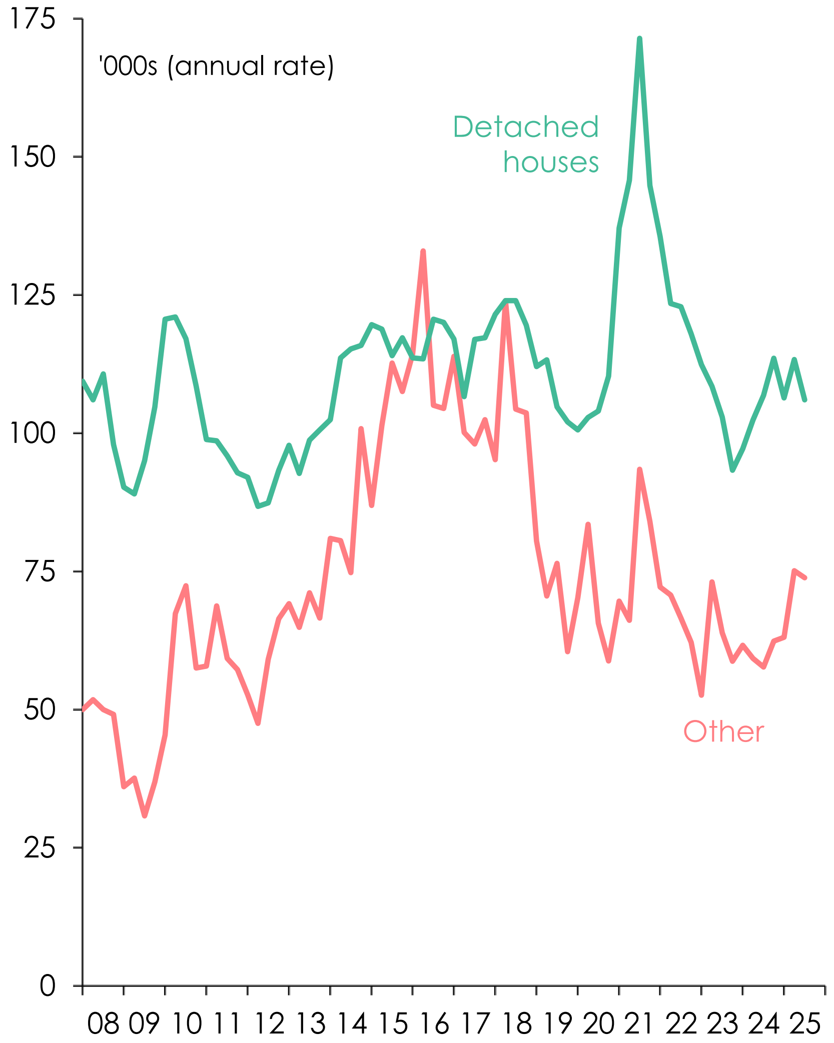
Inevitably, housing supply responds only slowly to increases in demand

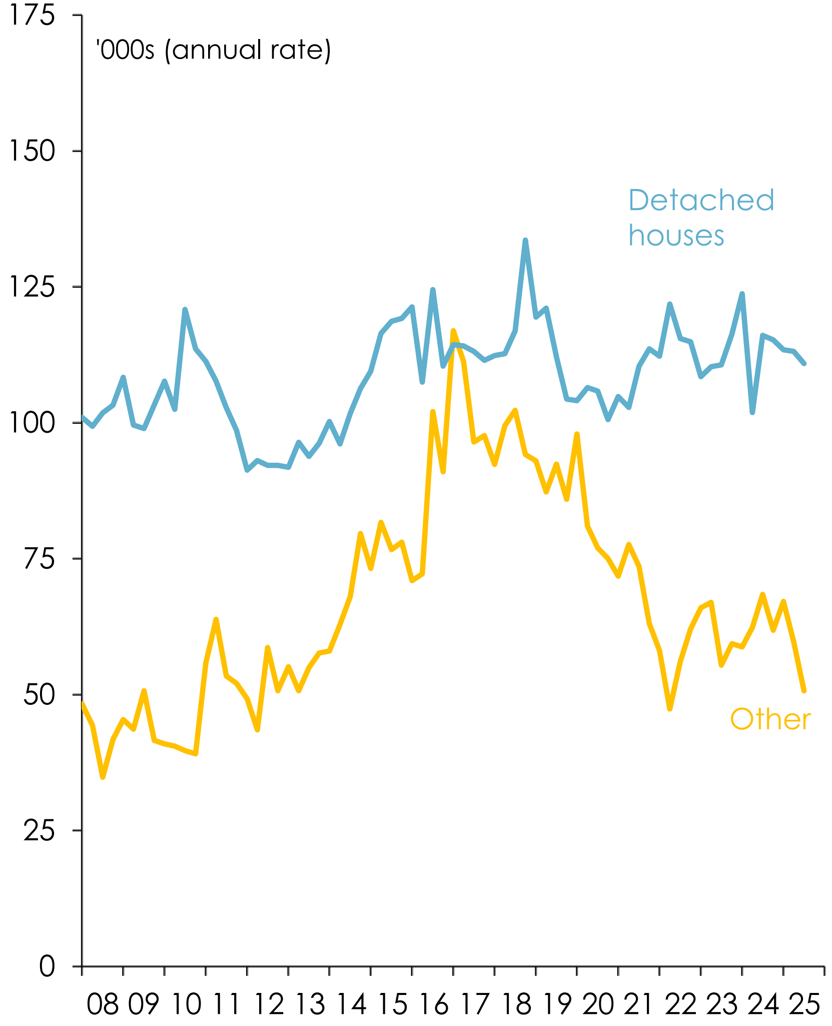
Residential building approvals



Residential building commencements



Residential building completions



Sources: ABS, Building Approvals, August 2025, and *Building Activity*, June quarter 2025.

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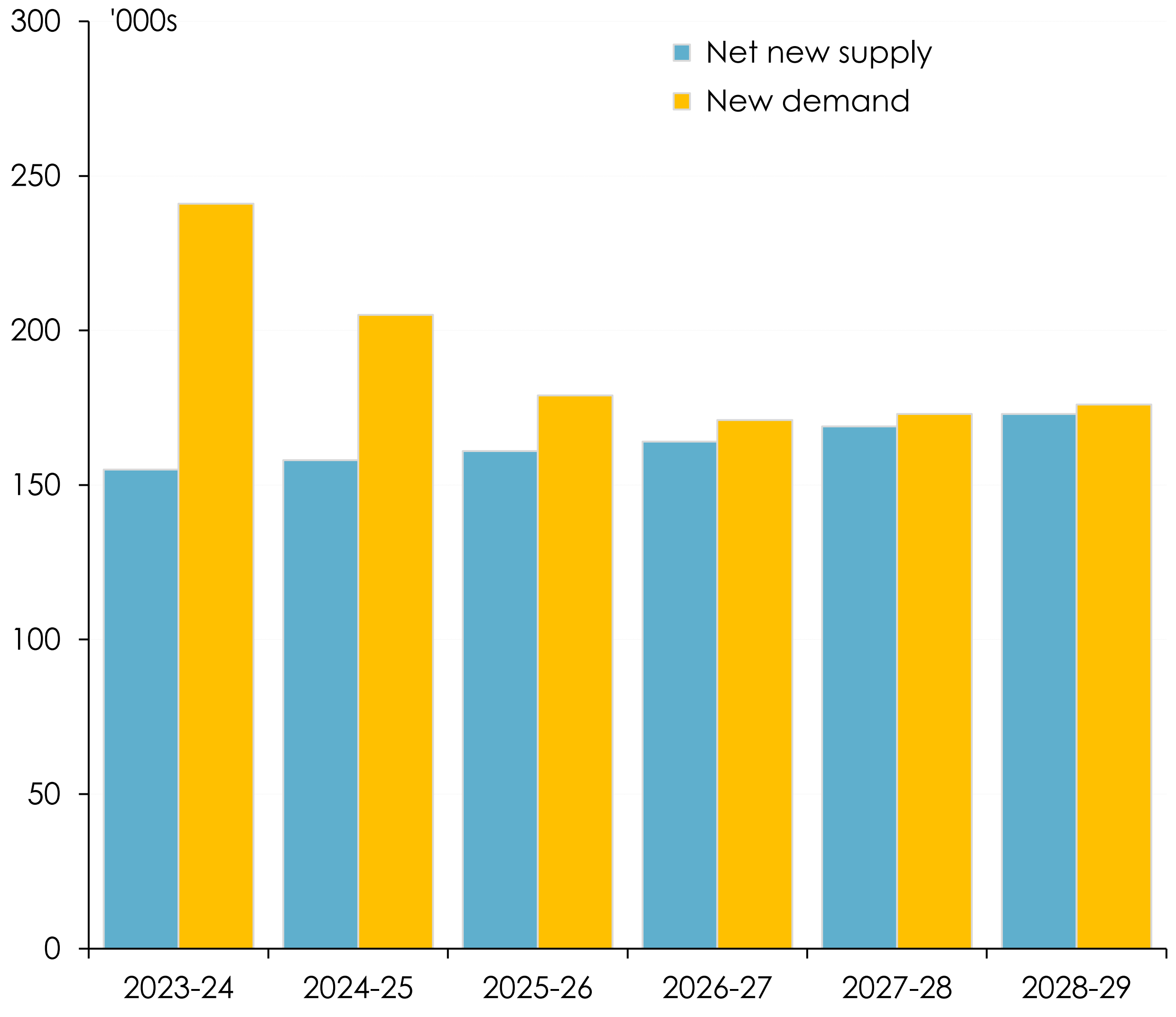
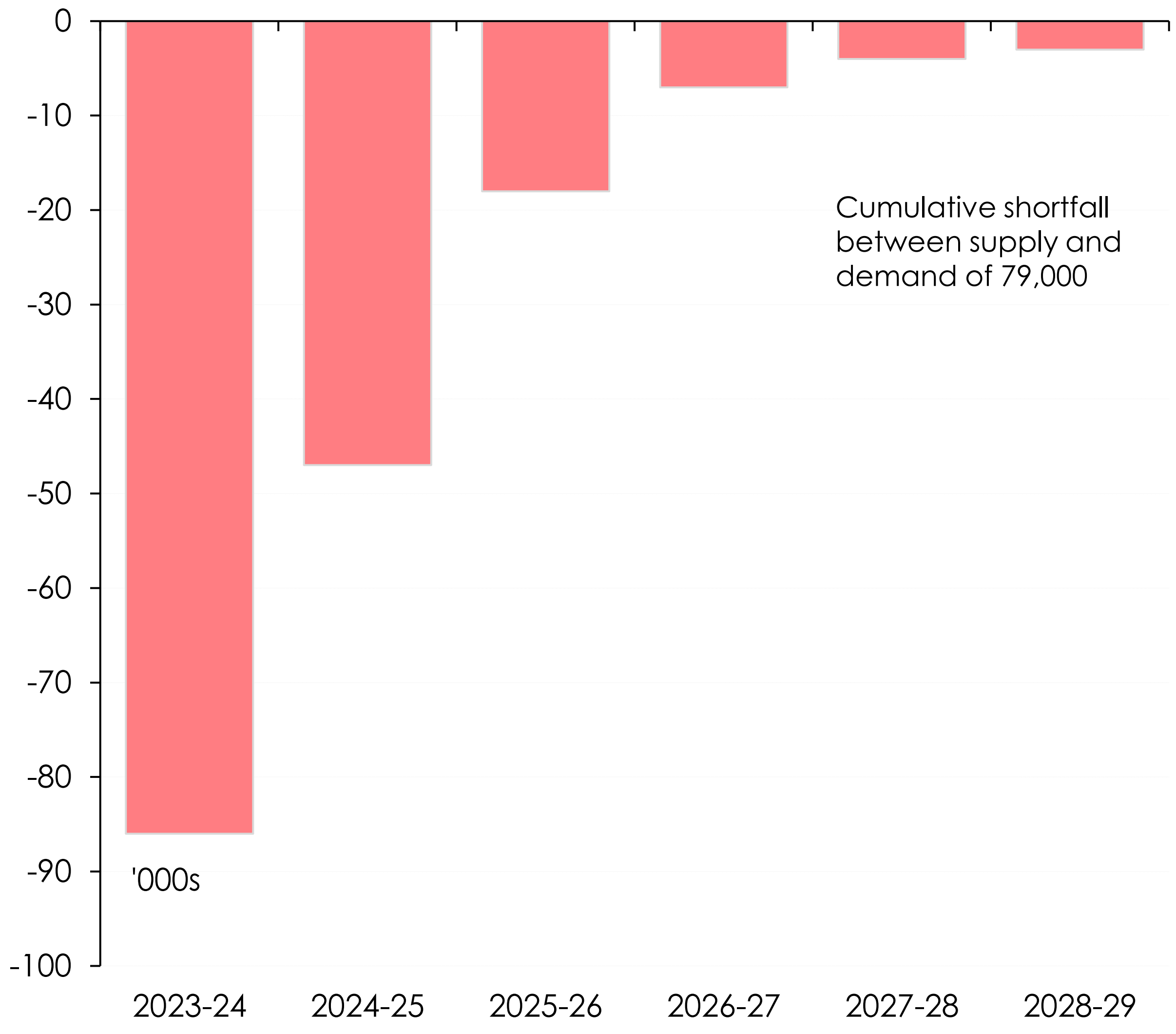
Net new housing supply is falling short of what's required to meet the Government's targets

Housing demand and supply



Cumulative housing supply shortfall



Source: National Housing Supply and Affordability Council, *State of the Housing System 2025*, 21st May 2025.

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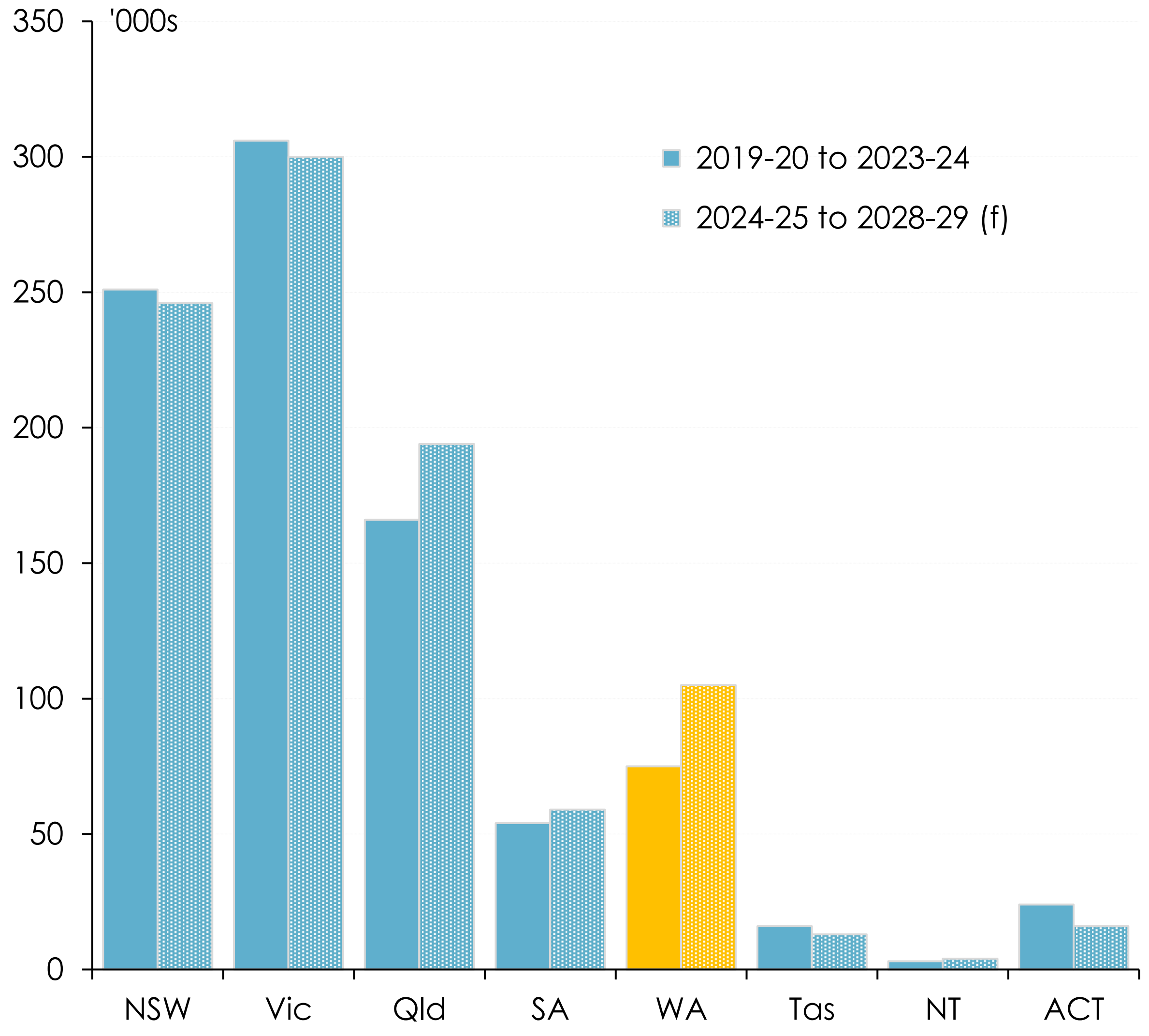
Western Australia is doing better than most other states and territories in meeting the Government's housing supply targets

Gross new housing supply by state and territory

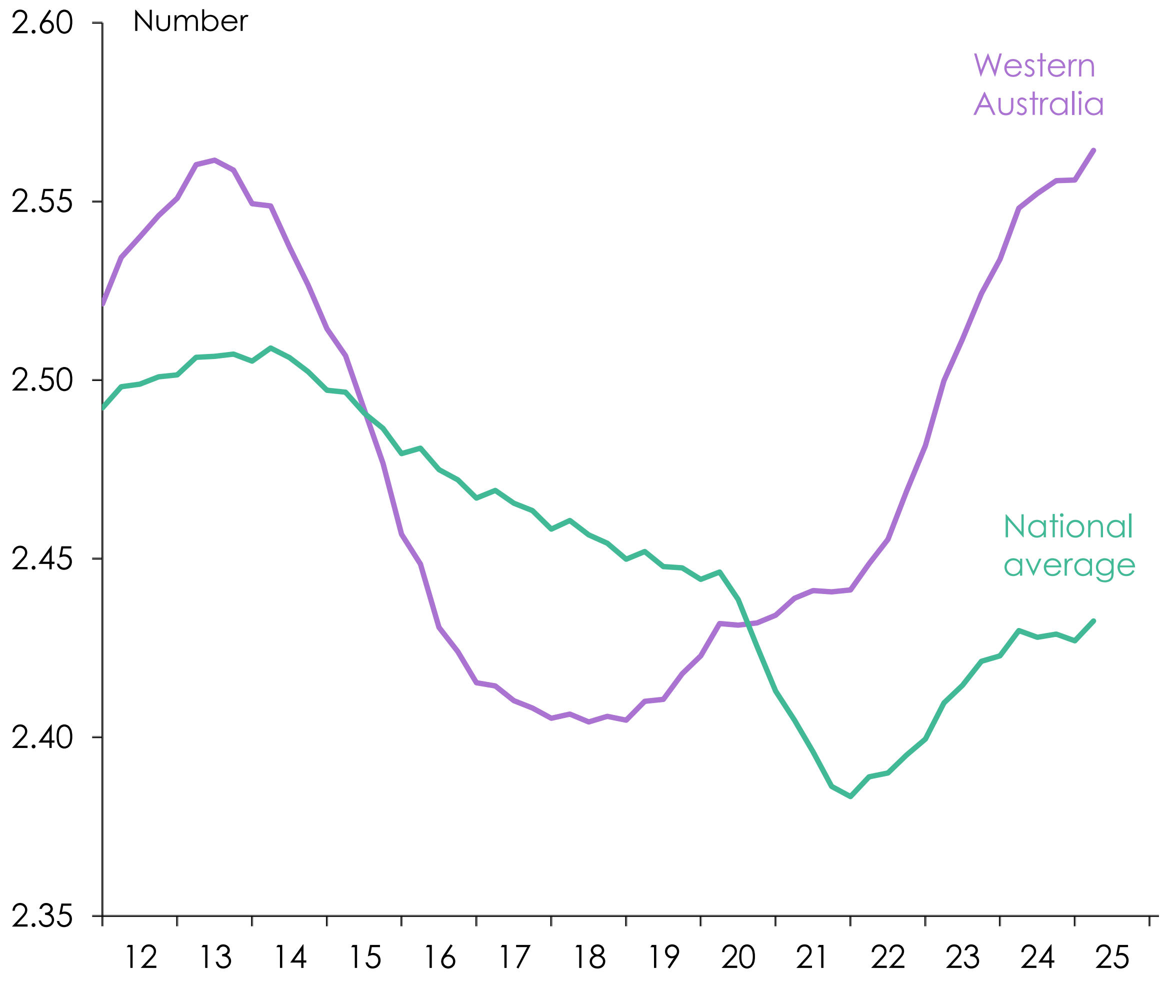


Gross new supply as a pc of Government target

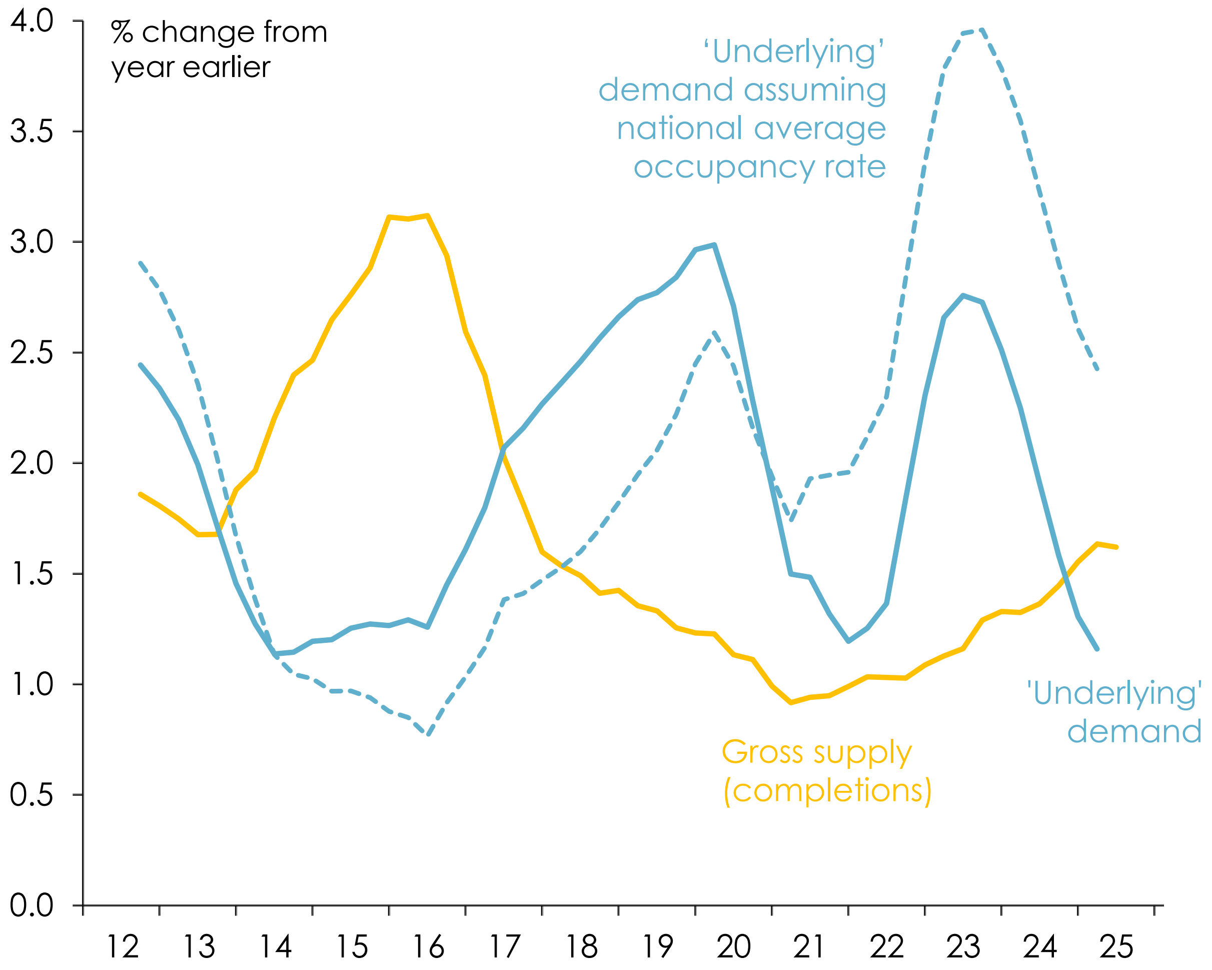
Source: National Housing Supply and Affordability Council, *State of the Housing System 2025*, 21st May 2025.

One factor which may have a big impact on the housing market balance in WA is whether average occupancy rates remain elevated

Average number of people per dwelling, Western Australia vs national average



Growth in 'underlying' demand for housing in WA based on alternative occupancy rates



Sources: ABS, *Total Value of Dwellings*, June quarter 2025; *National, state and territory population*, March quarter 2025; and *Building Activity*, June quarter 2025.

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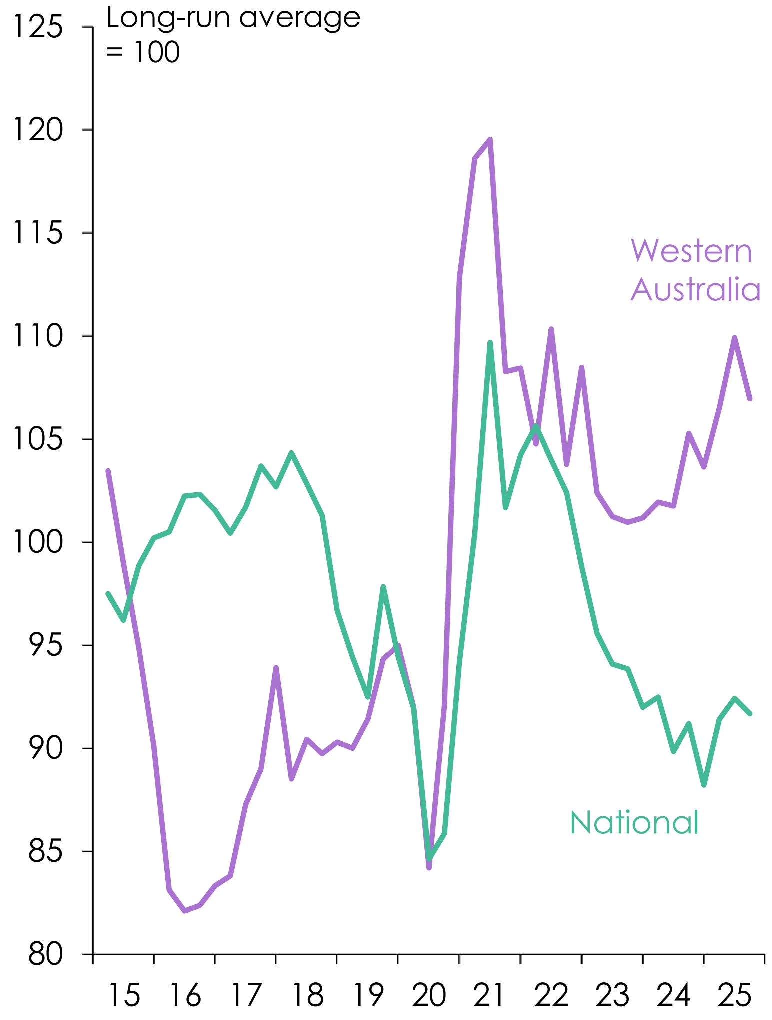
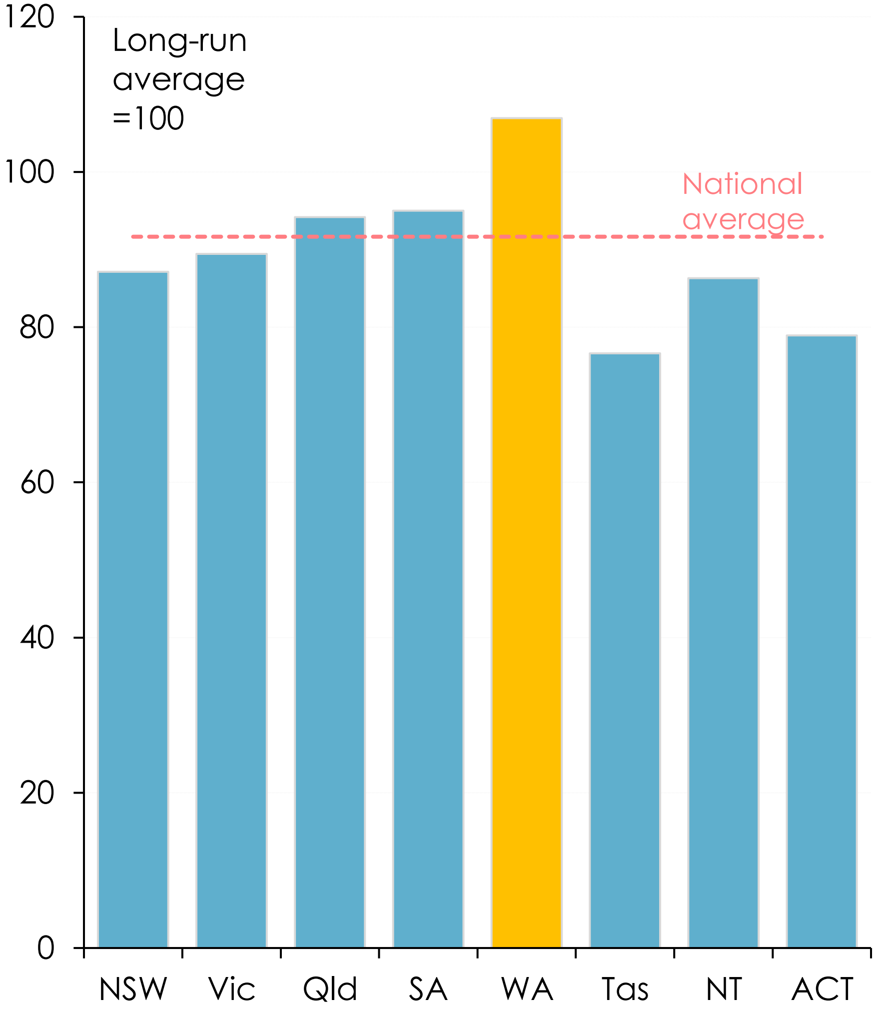
UDIA's own index suggests that Western Australia's market is in better balance than that of any other state

UDIA housing market index



Components of UDIA index

September quarter 2025 indexes by state & territory



Source: Urban Development Institute of Australia, Housing Index (UDI), September quarter 2025.

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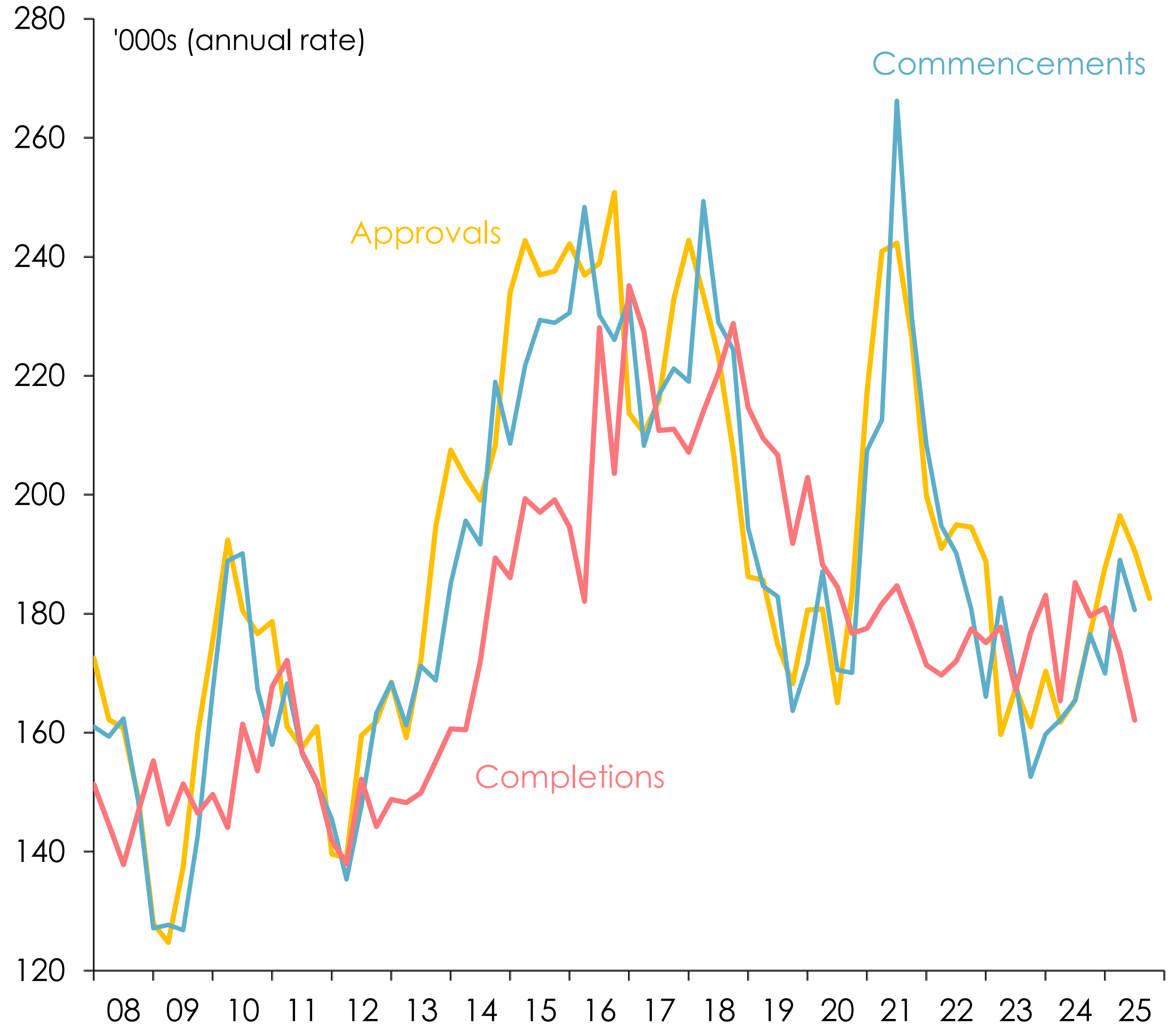
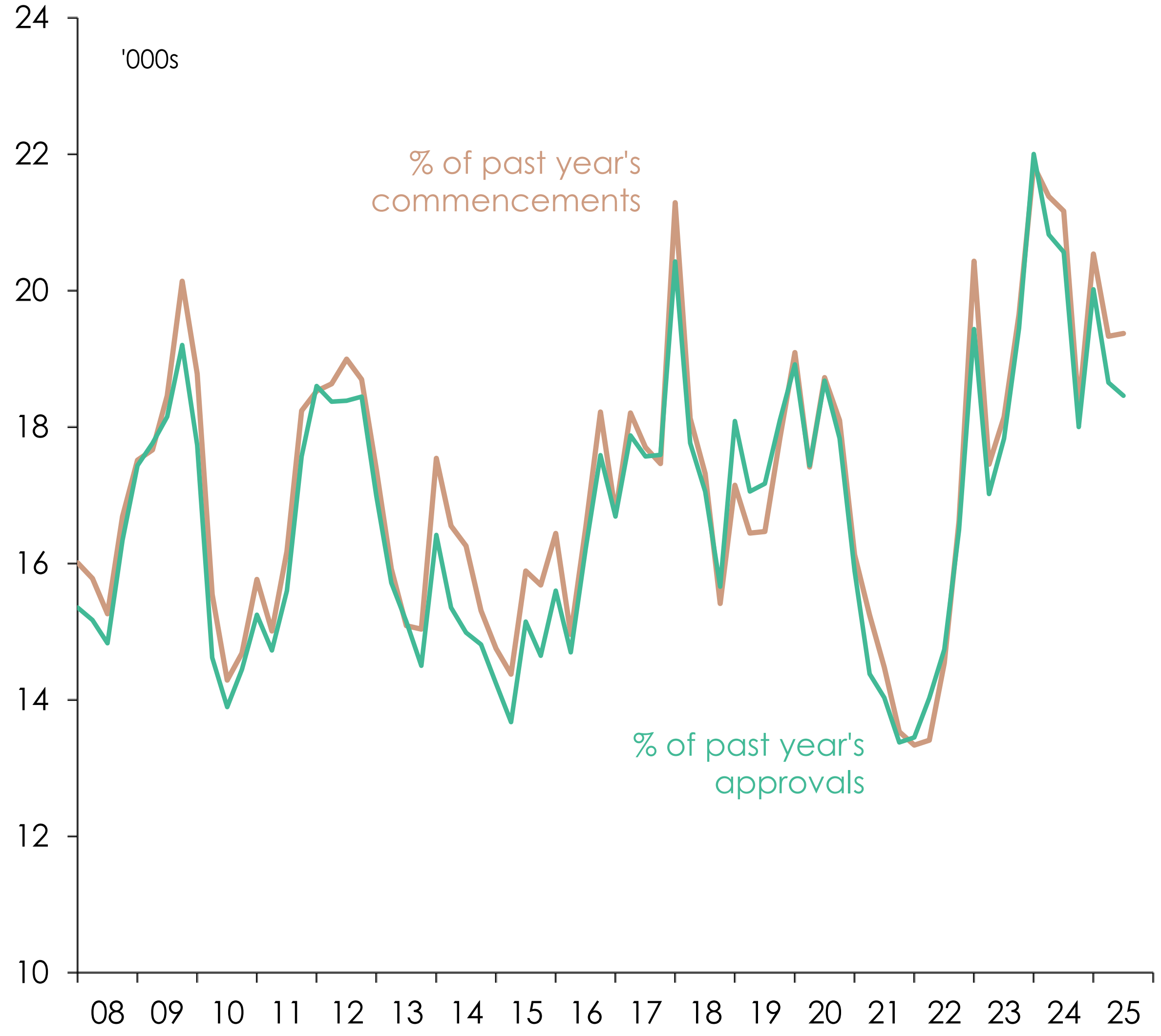
Delays in getting projects approved have lengthened – but so have delays in getting approved projects started, and completed

Residential building approvals, commencements and completions



Dwellings approved but not yet commenced, relative to levels of activity



Sources: ABS, Building Approvals, August 2025, and *Building Activity*, June quarter 2025.

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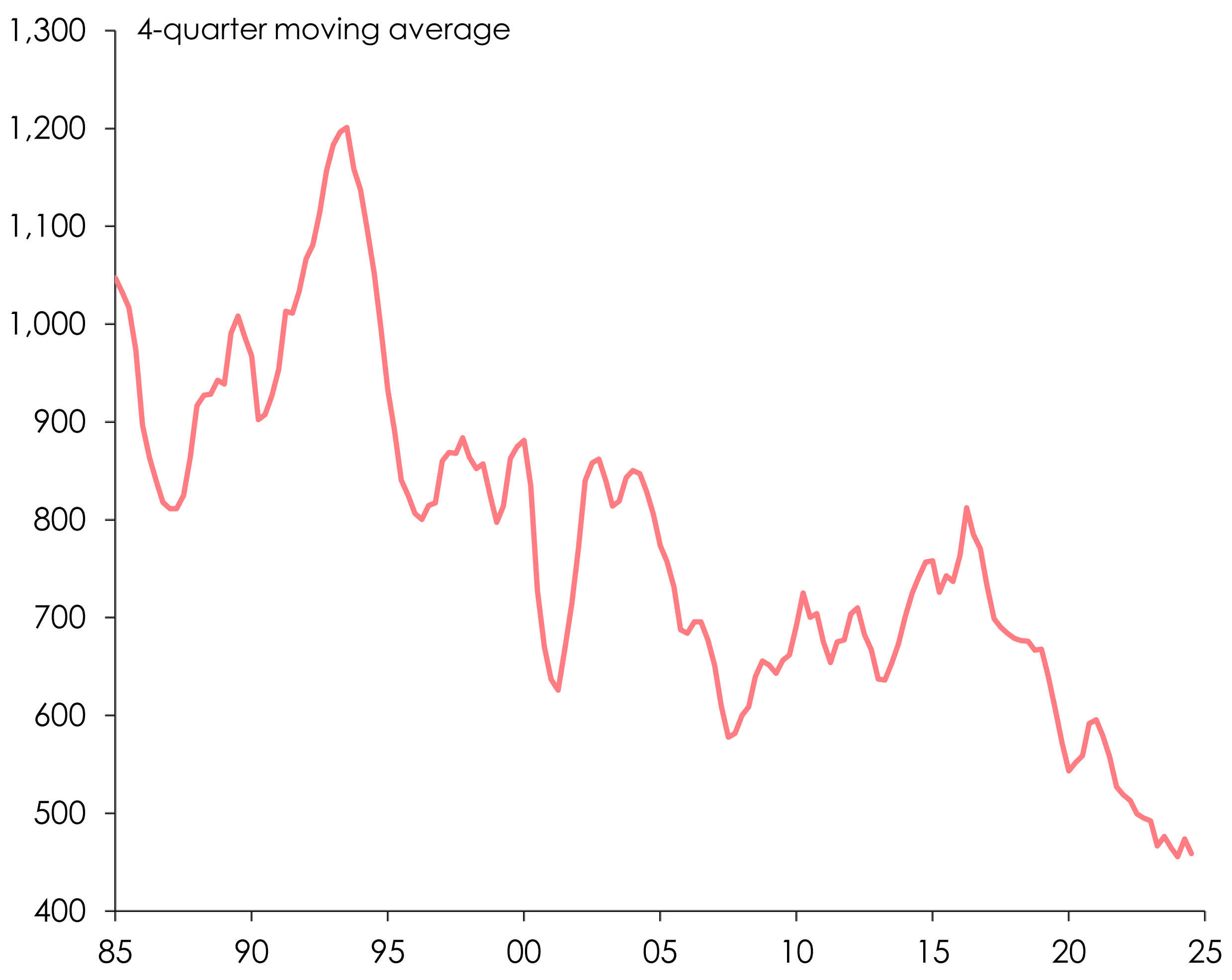
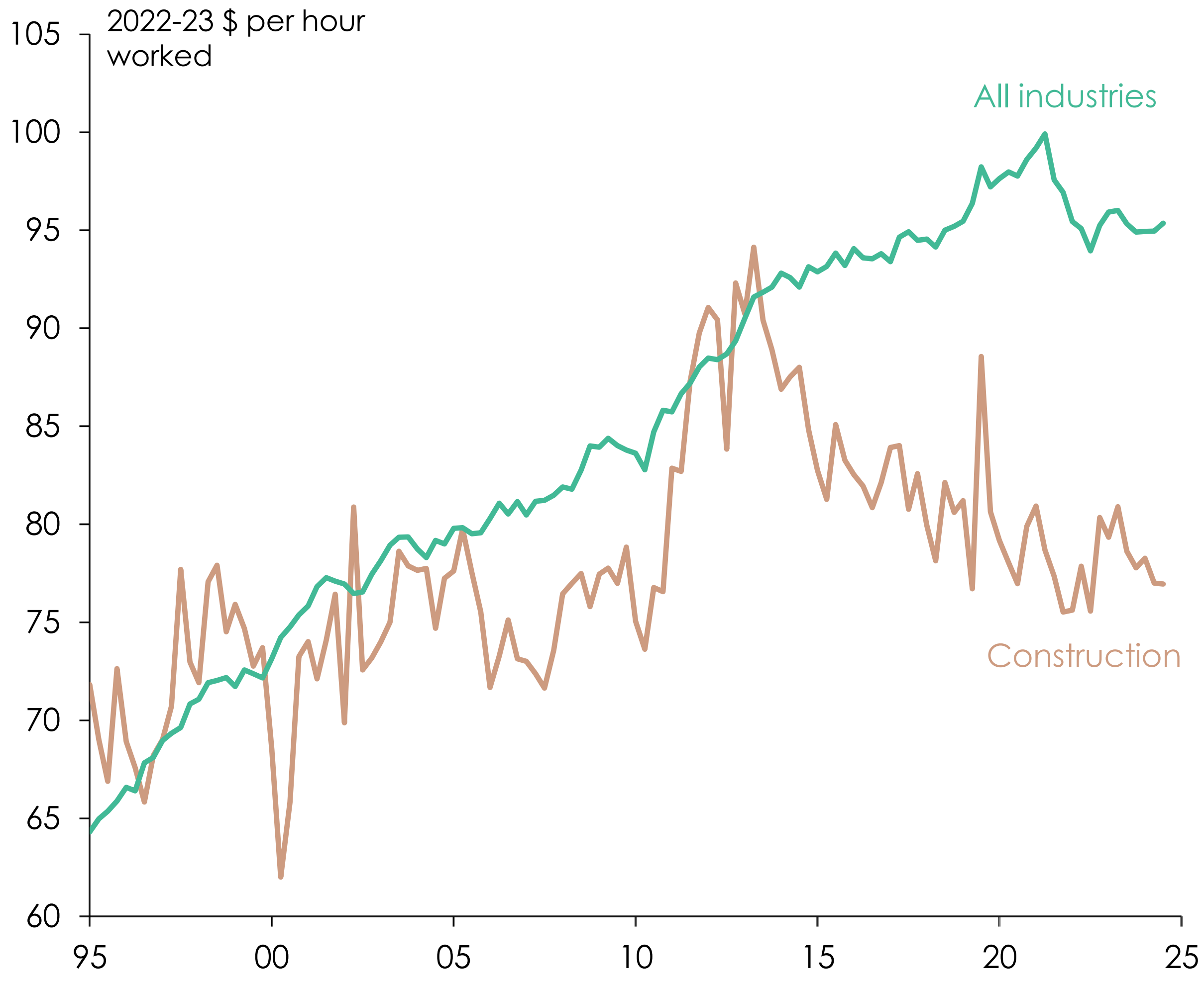
Productivity in construction has declined

Dwellings completed per 1,000 people employed in building



Real value of output per hour worked, construction and all industries



Note: 'building employment' includes non-residential as well as residential building; 'construction' includes engineering construction as well as building.
Sources: ABS, *Building Activity*, June quarter 2025; *Labour Force, Detailed*, September 2025; *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2025, and *Labour Account, Australia*, June quarter 2025.

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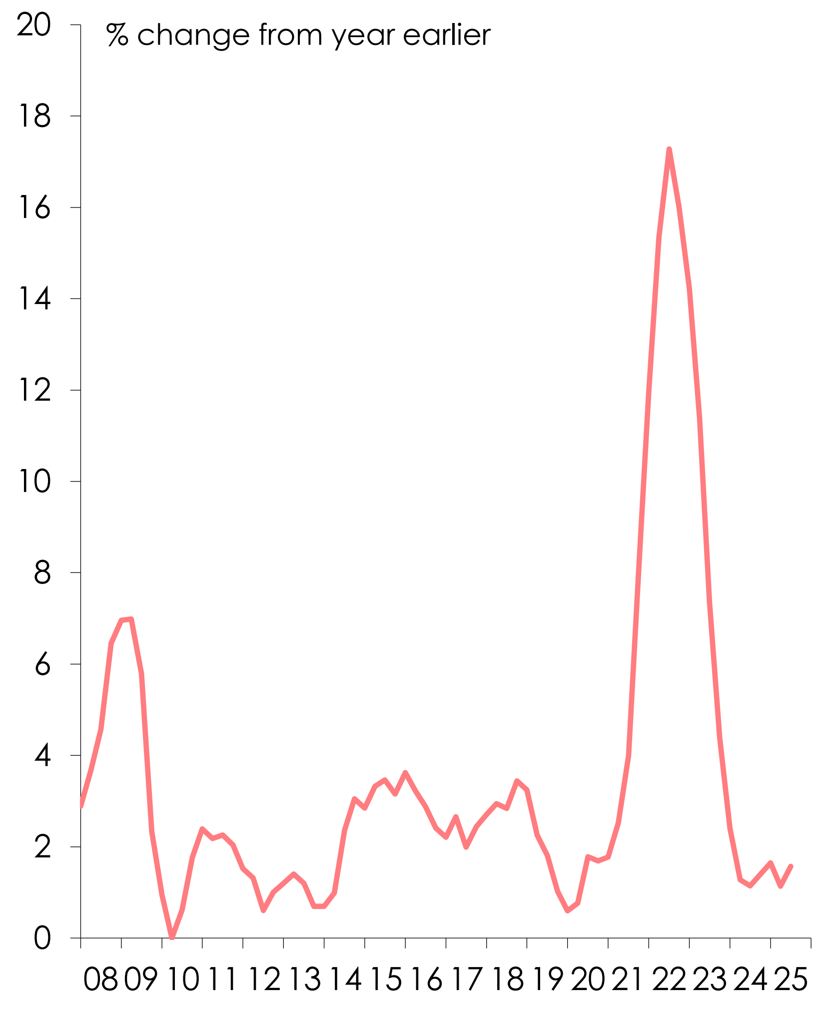
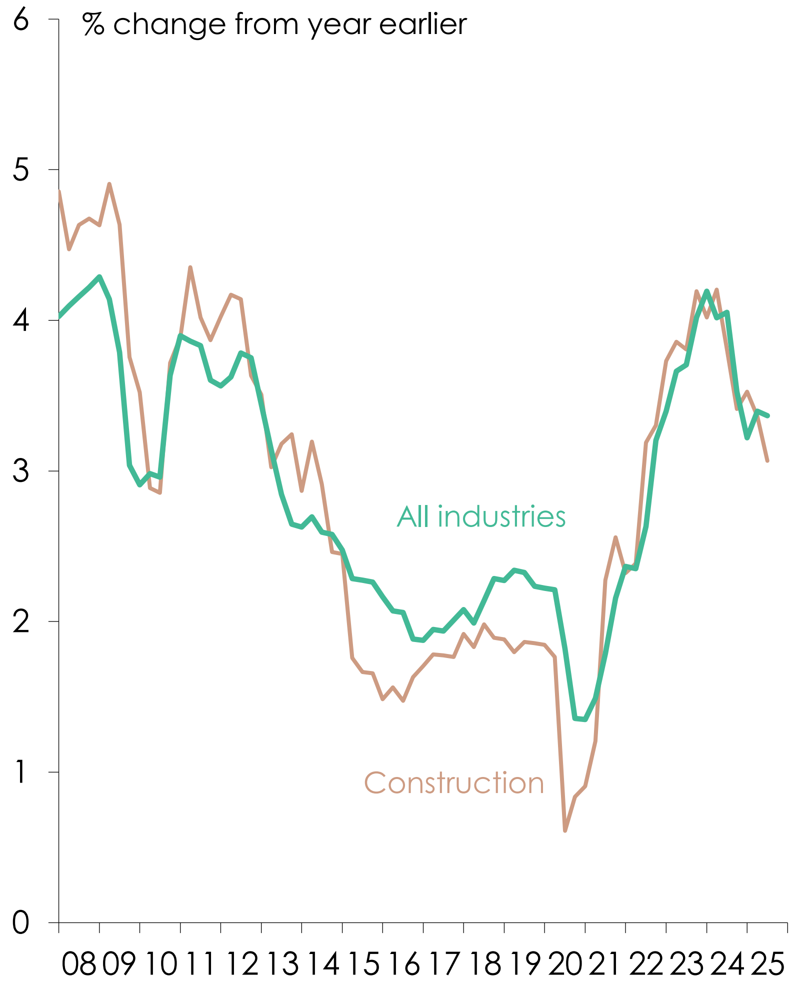
Building industry cost pressures have eased – although there are still some persistent pressures still for apartment construction

Producer price index of materials used in house-building



Producer price index of construction industry output

Construction industry wage price index



Sources: ABS, *Producer Price Indexes*, June quarter 2025; *Wage Price Index*, June quarter 2025.

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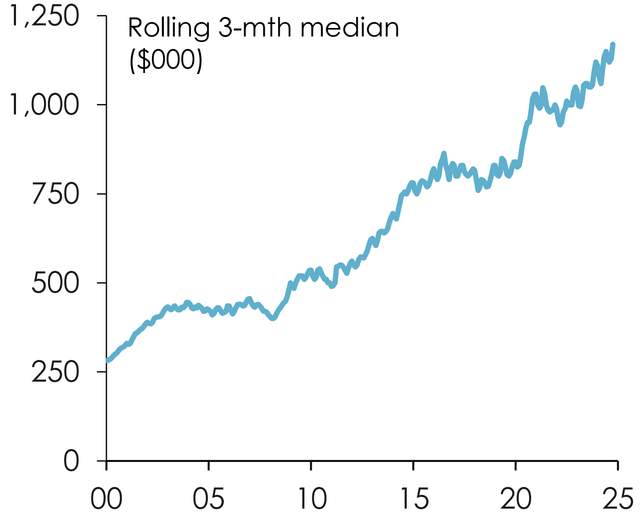
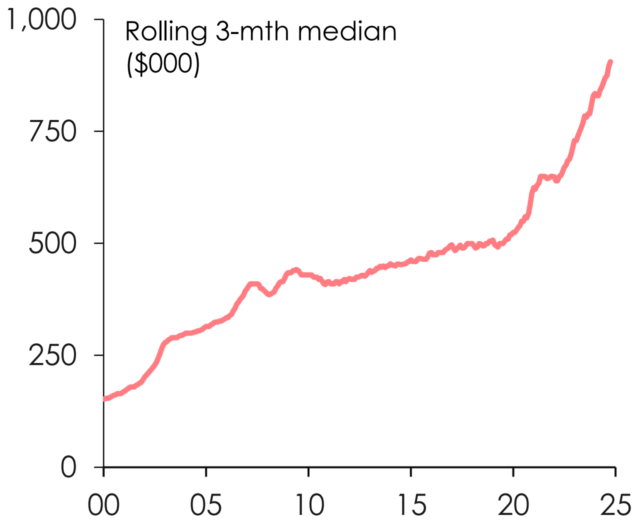
As interest rates have begun to fall, property prices have begun to pick up again – except in Melbourne, Hobart and Canberra

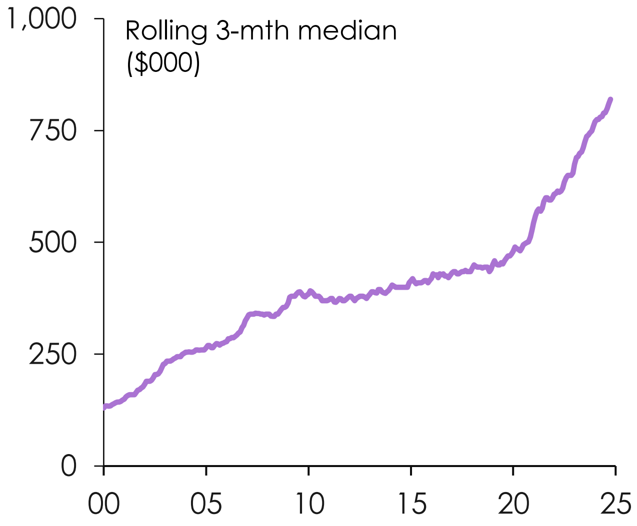
Sydney



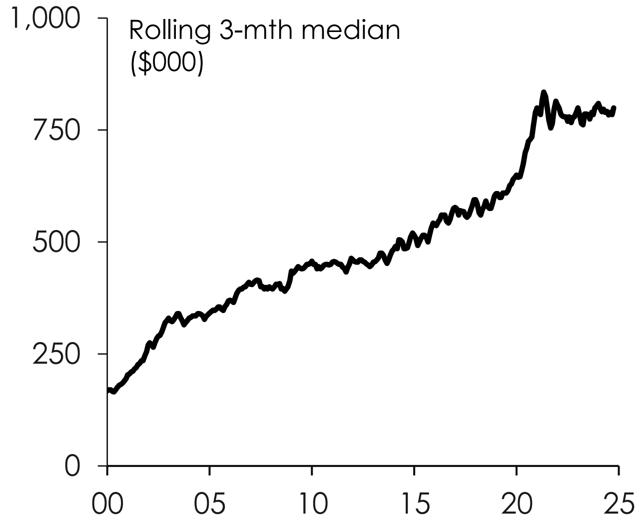
Brisbane



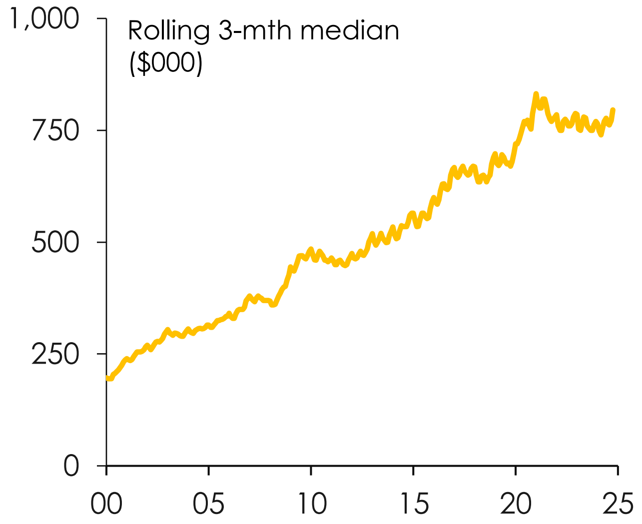
Adelaide



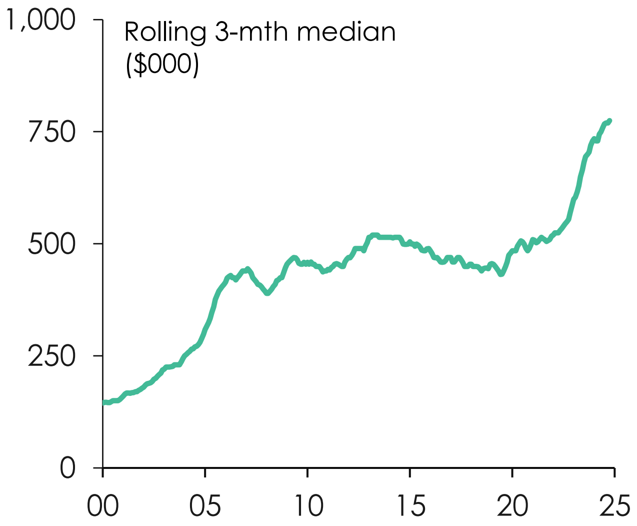
Canberra



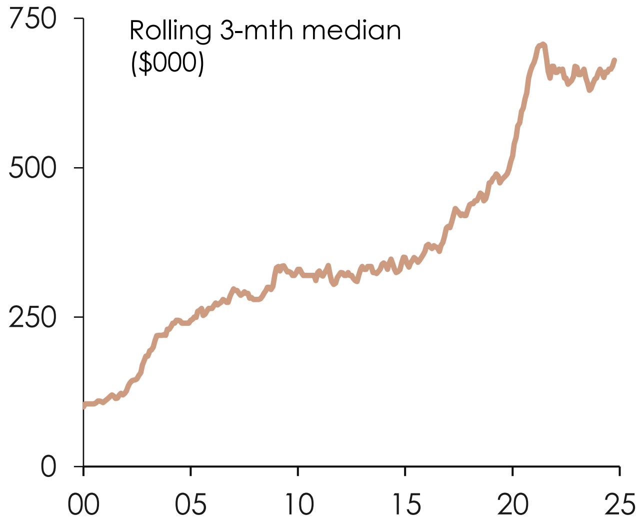
Melbourne



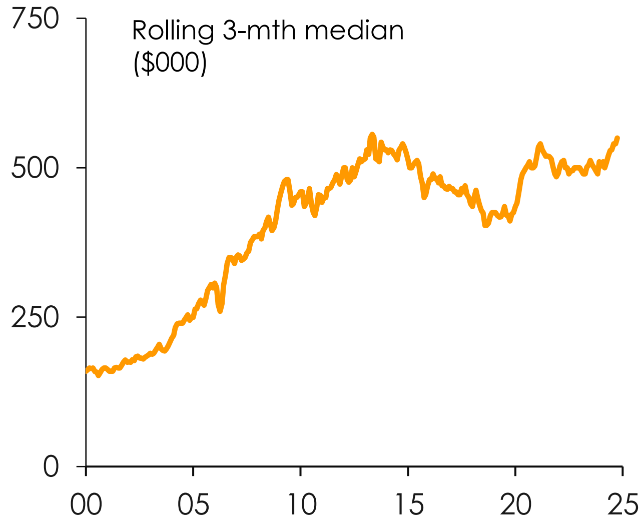
Perth



Hobart



Darwin



Note: Prices are of 'dwellings', ie weighted average of houses and units. *Source*: Cotality, CoreLogic indices, September 2025.

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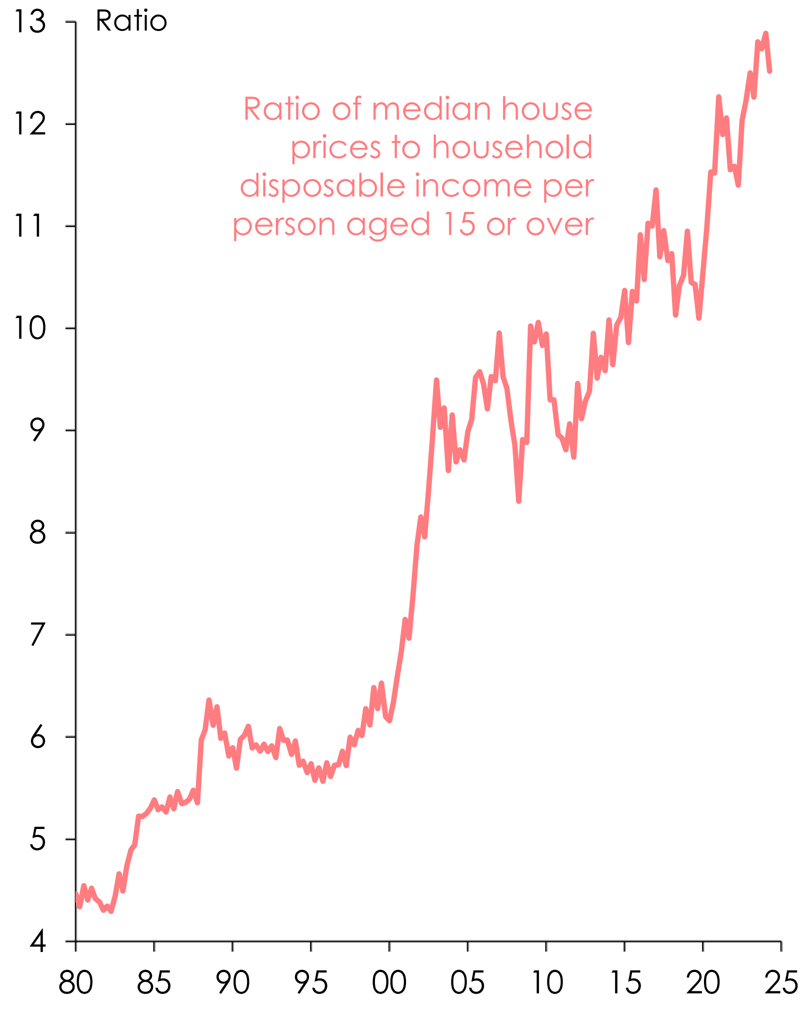
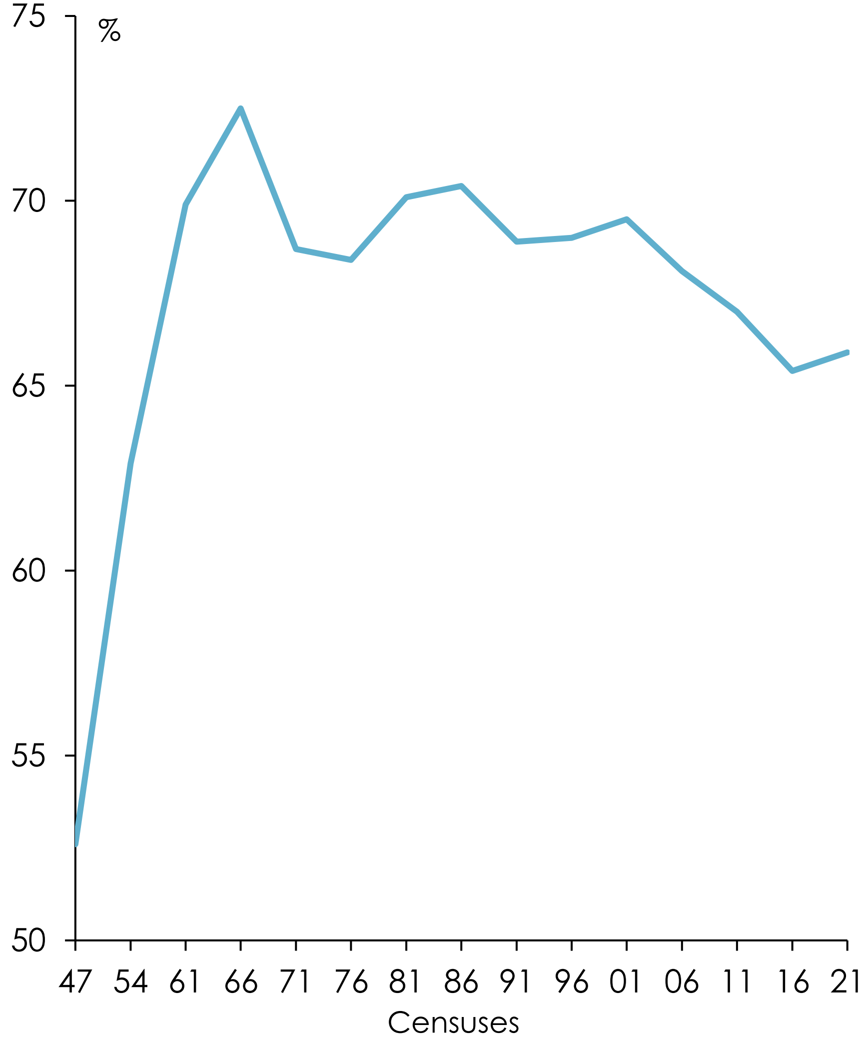
The almost continuous increase in house prices relative to incomes is the main reason for the steady decline in home ownership rates

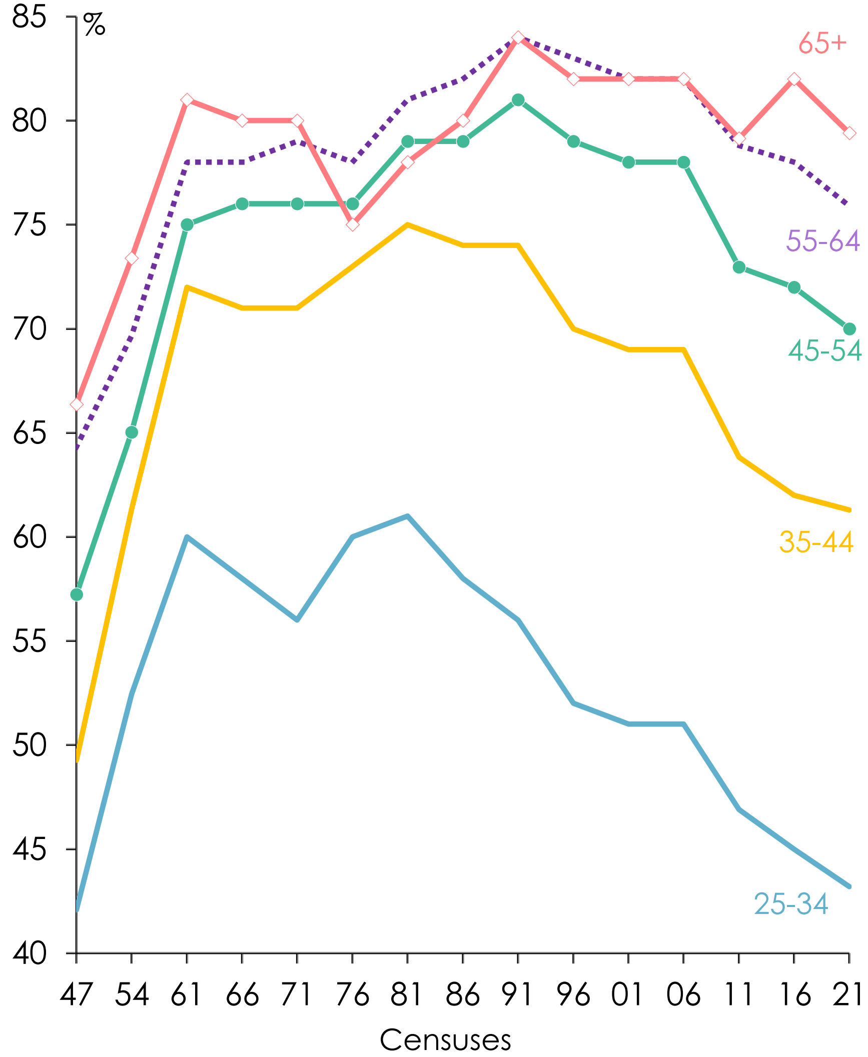
House prices as a multiple of disposable income



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.

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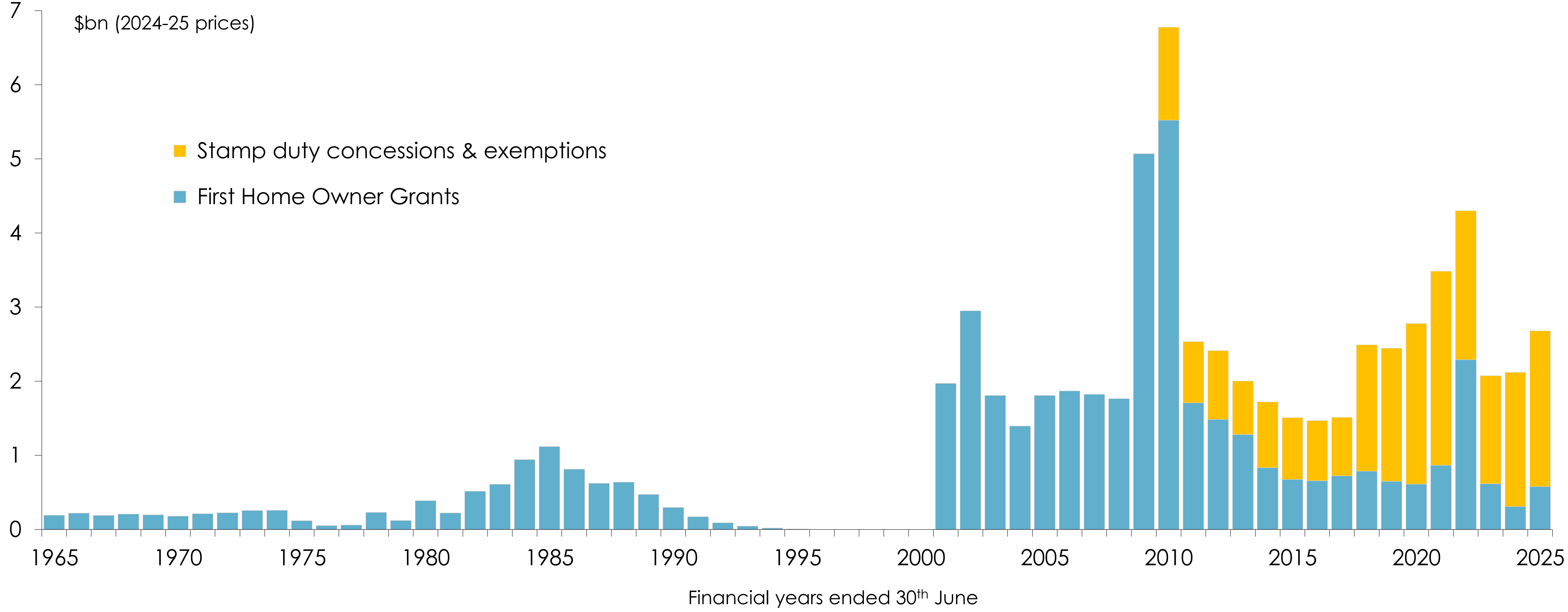
Governments of all political persuasions, at all three levels, have done things over long periods of time which have made the problem worse

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

- First Home Owners' Grants
- Stamp duty concessions & exemptions

Governments have spent $50 b on First Home Owner Grants over the past 60 years, and $23 bn on stamp duty concessions over the past 15 years

Federal, state and territory government expenditure on first home owner grants and revenue foregone through stamp duty concessions and exemptions for first home buyers



Sources: Federal, state and territory Budget Papers and Final Budget Outcome reports, including (for stamp duty concessions and exemptions) 'tax expenditure statements' (which were generally not available before 2009-100; Corinna.

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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

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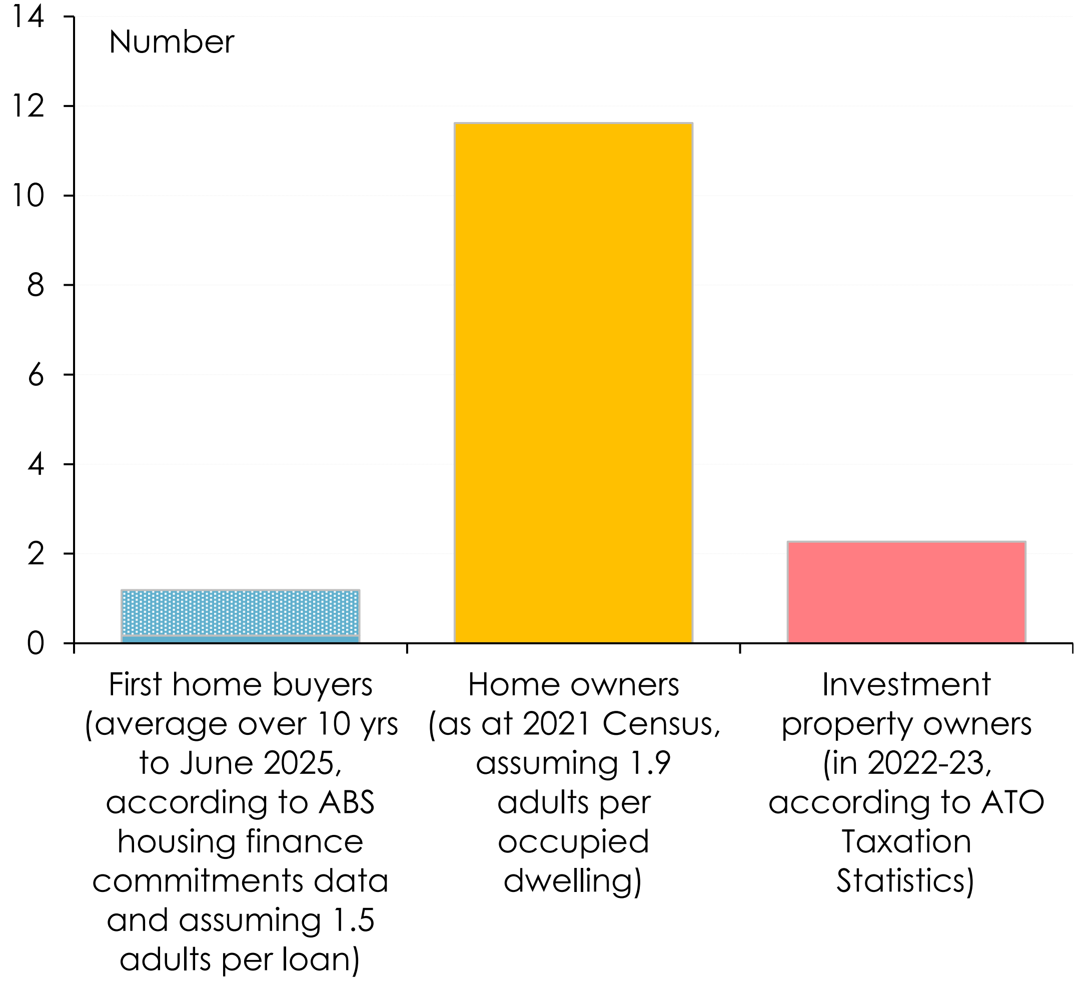
So why do governments keep doing things that don't solve the problem – but in fact make it worse?

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 <u>for</u> 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 <u>against</u> policies which would restrain the rate of house price inflation
  - or, alternatively, up to 12 million votes <u>for</u> 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.

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Important information

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