THE AUSTRALIAN ECONOMY IN 2025-26

PRESENTATION TO COMVIEW 2025

HOSTED BY THE VICTORIAN COMMERCIAL TEACHERS' ASSOCIATION

MELBOURNE UNIVERSITY

24TH NOVEMBER 2025

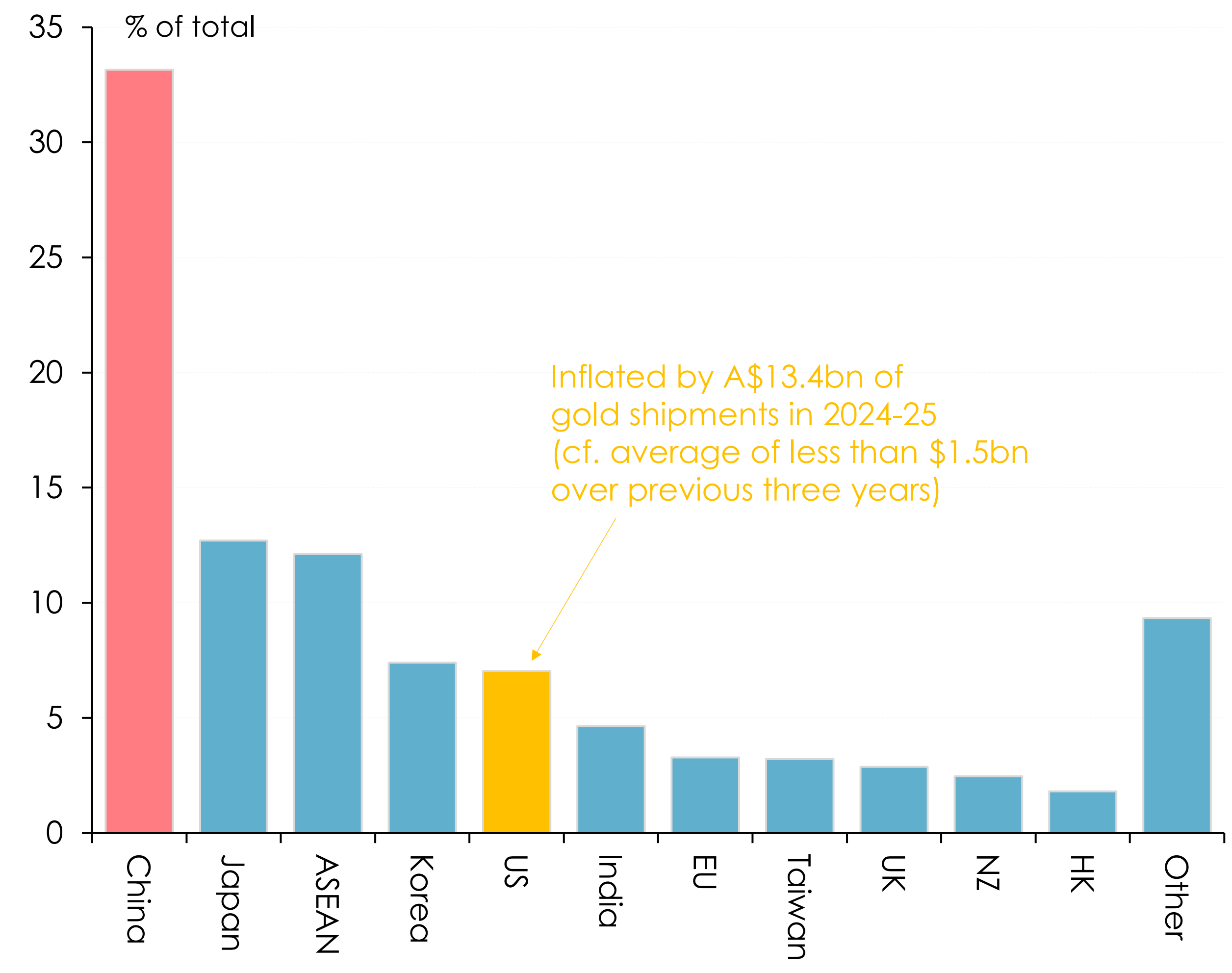
SAUL ESLAKE

CORINNA ECONOMIC ADVISORY

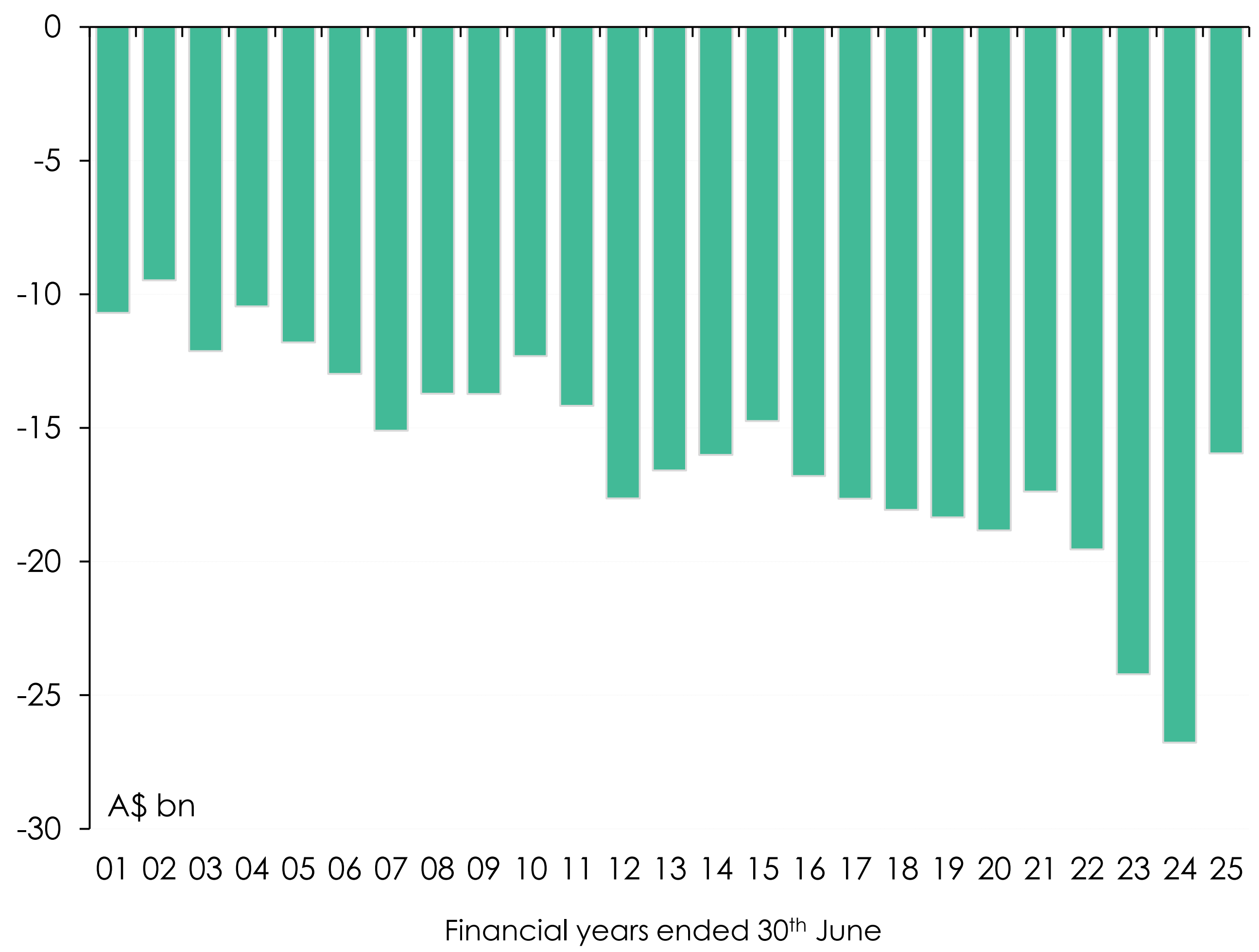
INDEPENDENT ECONOMICS

Only 7% of Australia's goods exports are to the US – and Australia is one of very few countries that runs a trade deficit with the US

Direction of Australia's merchandise exports, 2024-25



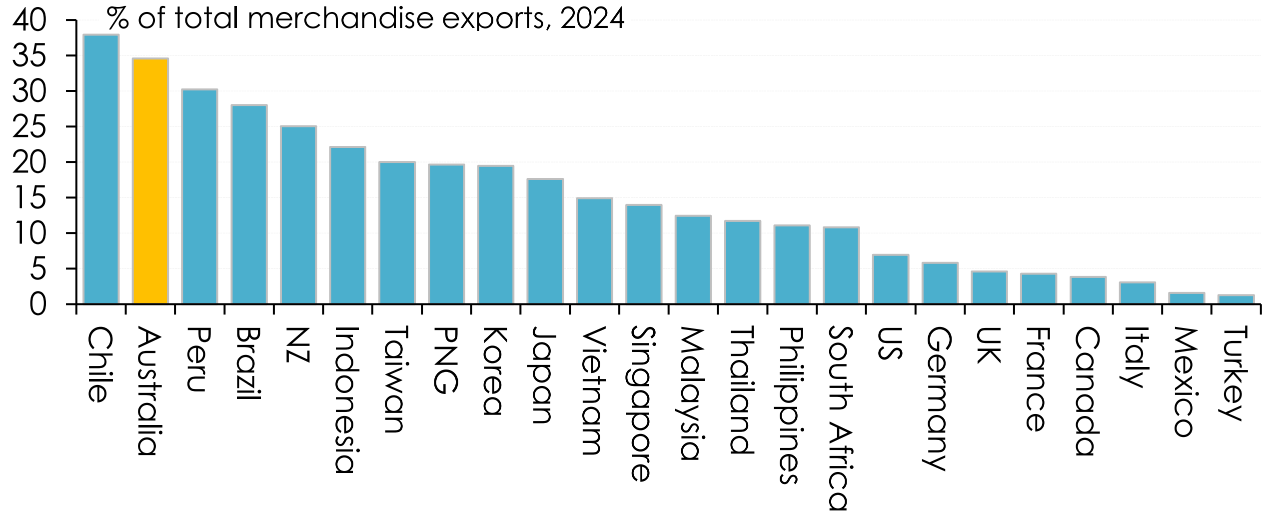
Australia's merchandise trade balance with the United States



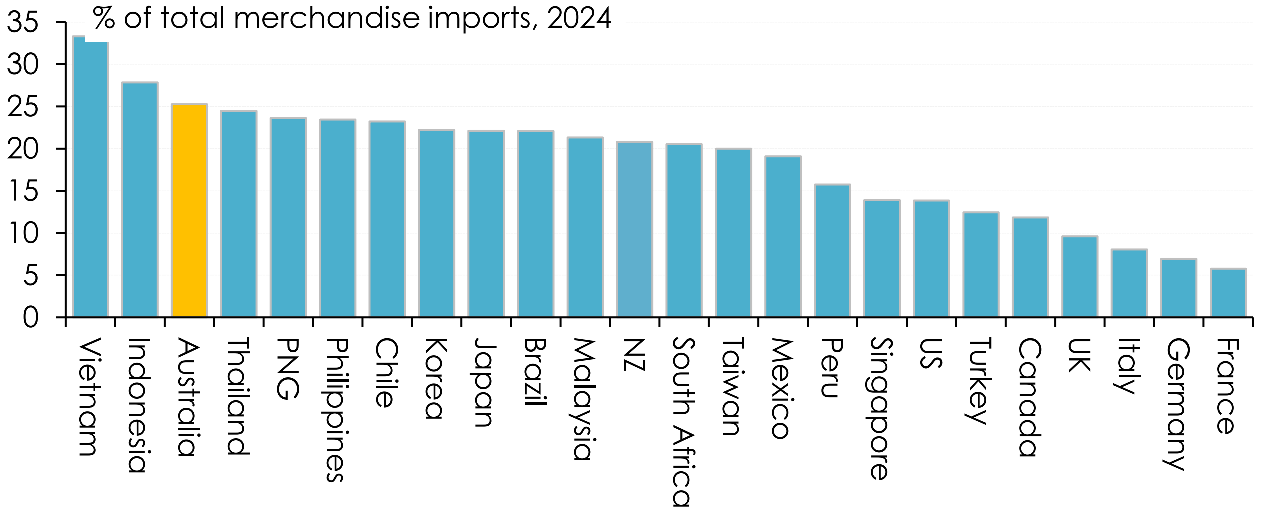
Source: ABS, *International trade in goods*, September 2025; Department of Foreign Affairs & Trade, *Trade Statistical Pivot Tables - Monthly Series*, August 2025.

Australia is more exposed to a protracted slowdown in China's economy – or to trade sanctions against China – than any other 'advanced' economy

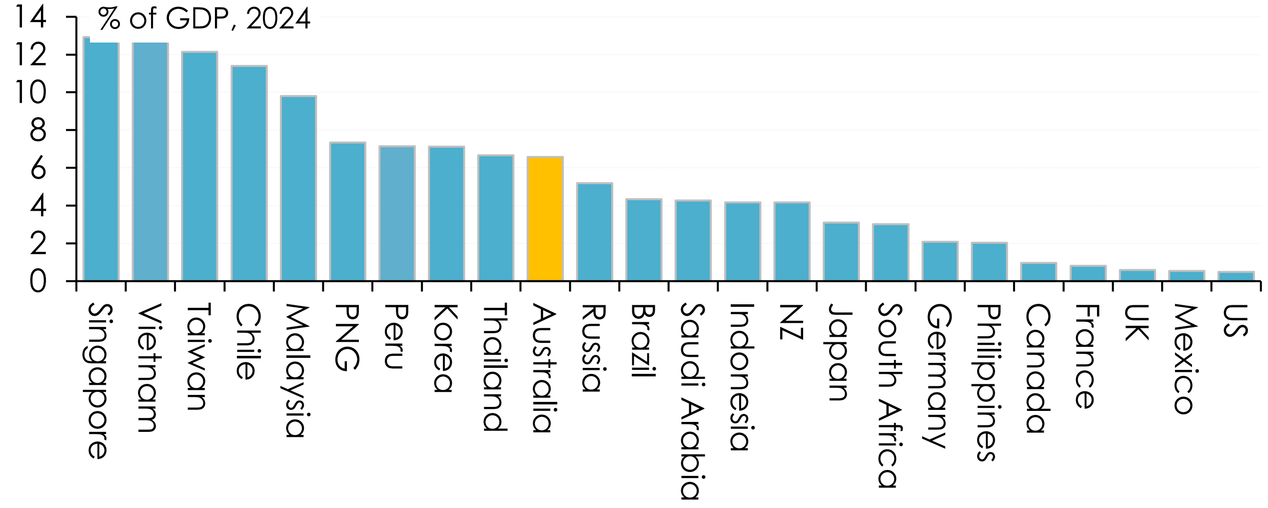
Exports to China as a pc of total exports



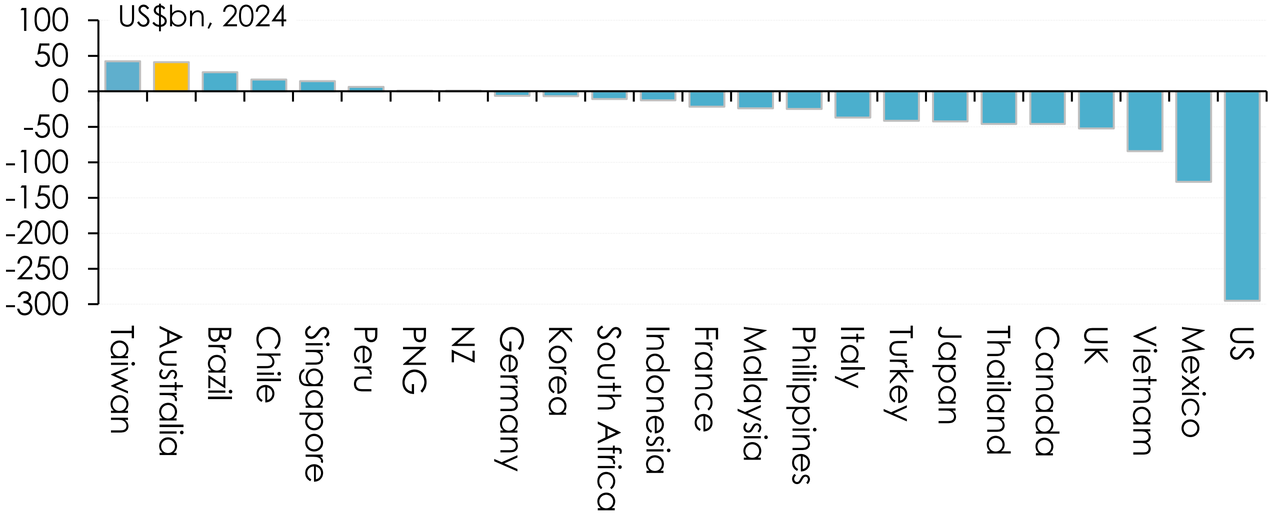
Imports from China as a pc of total imports



Exports to China as a pc of GDP



Bilateral merchandise trade balances with China

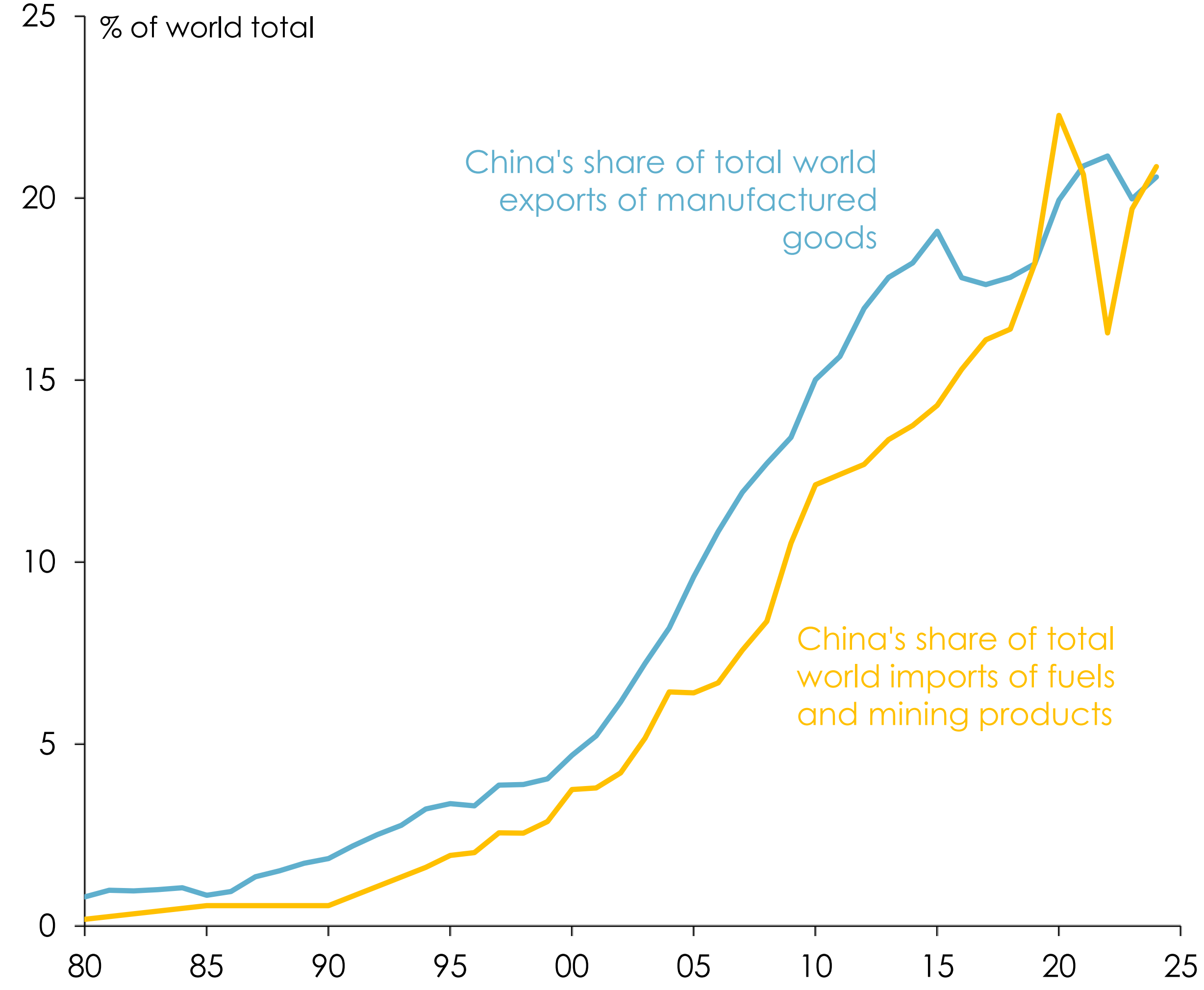


Sources: IMF, International Trade in Goods and LSEG Datastream.

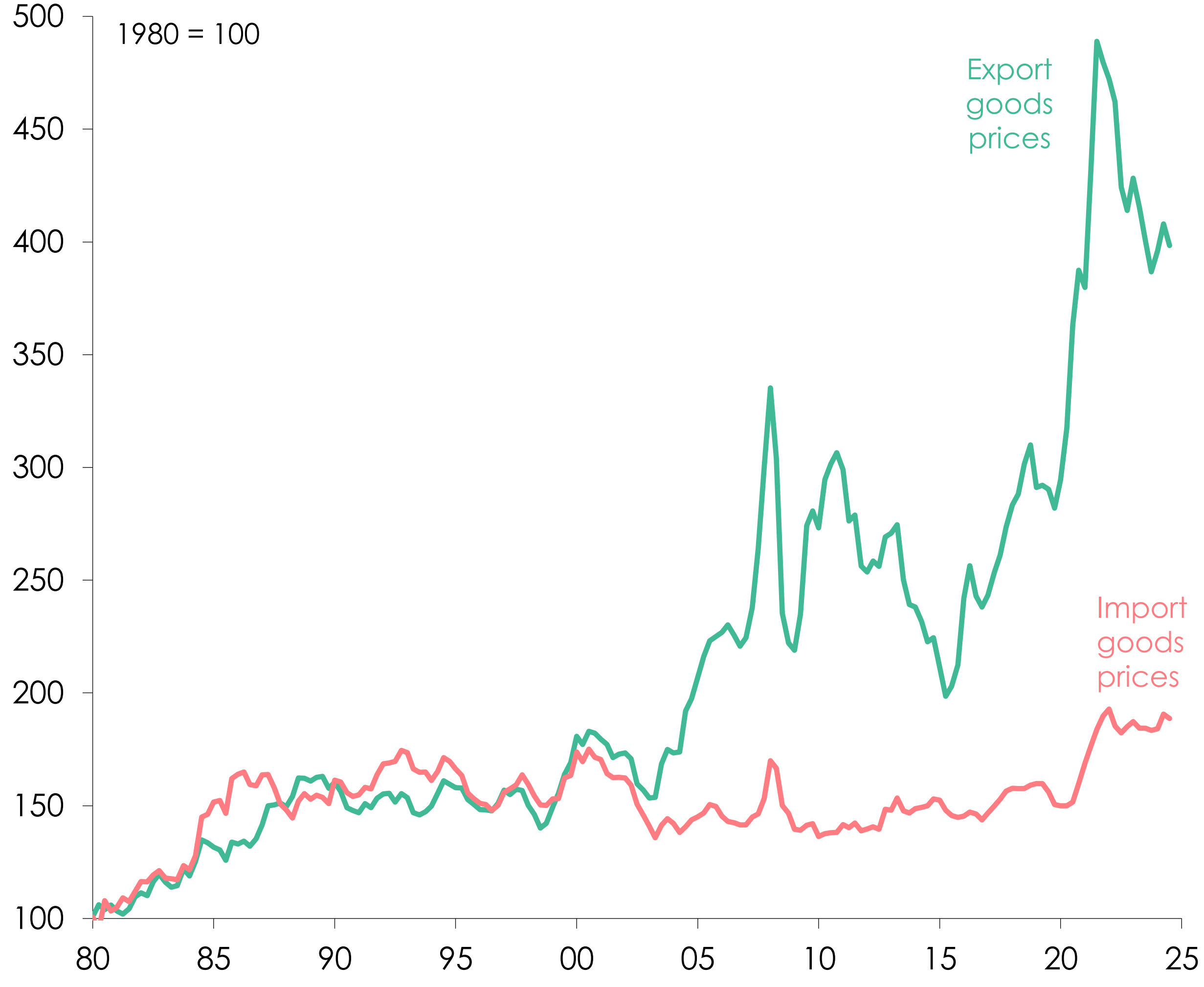
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

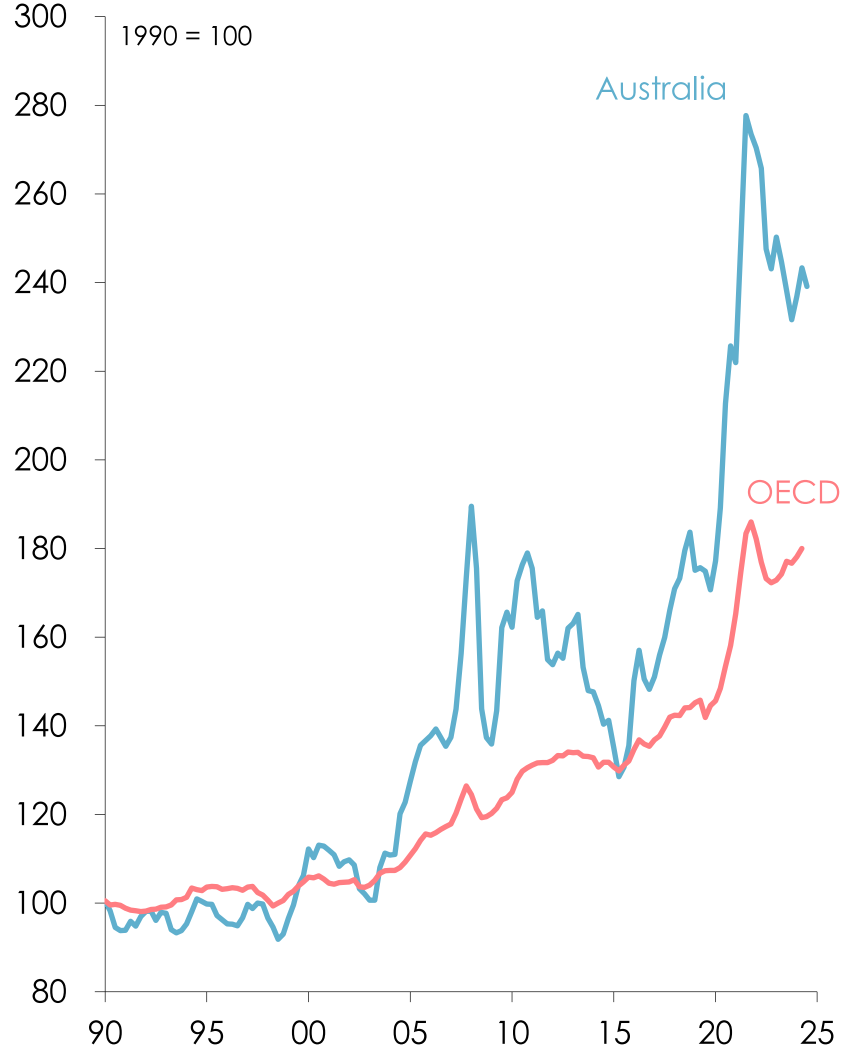


Sources: World Trade Organization, WTO Stats; ABS, Balance of Payments and International Investment Position, Australia, June quarter 2025.

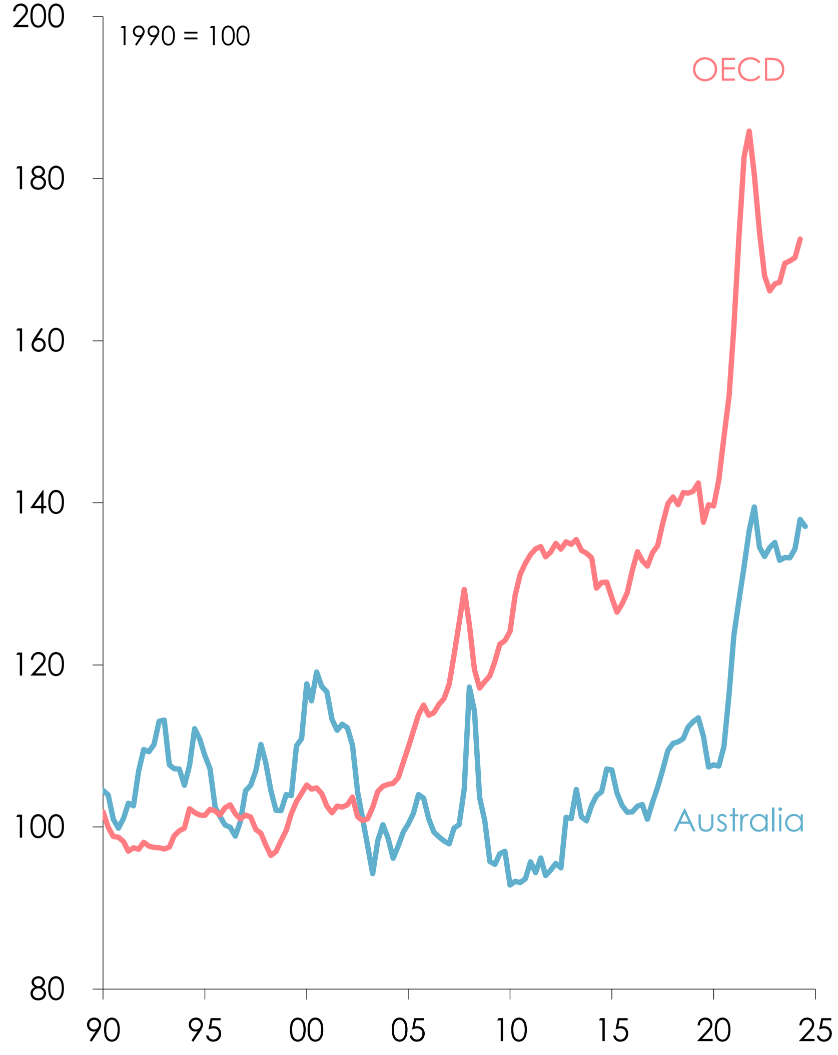
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

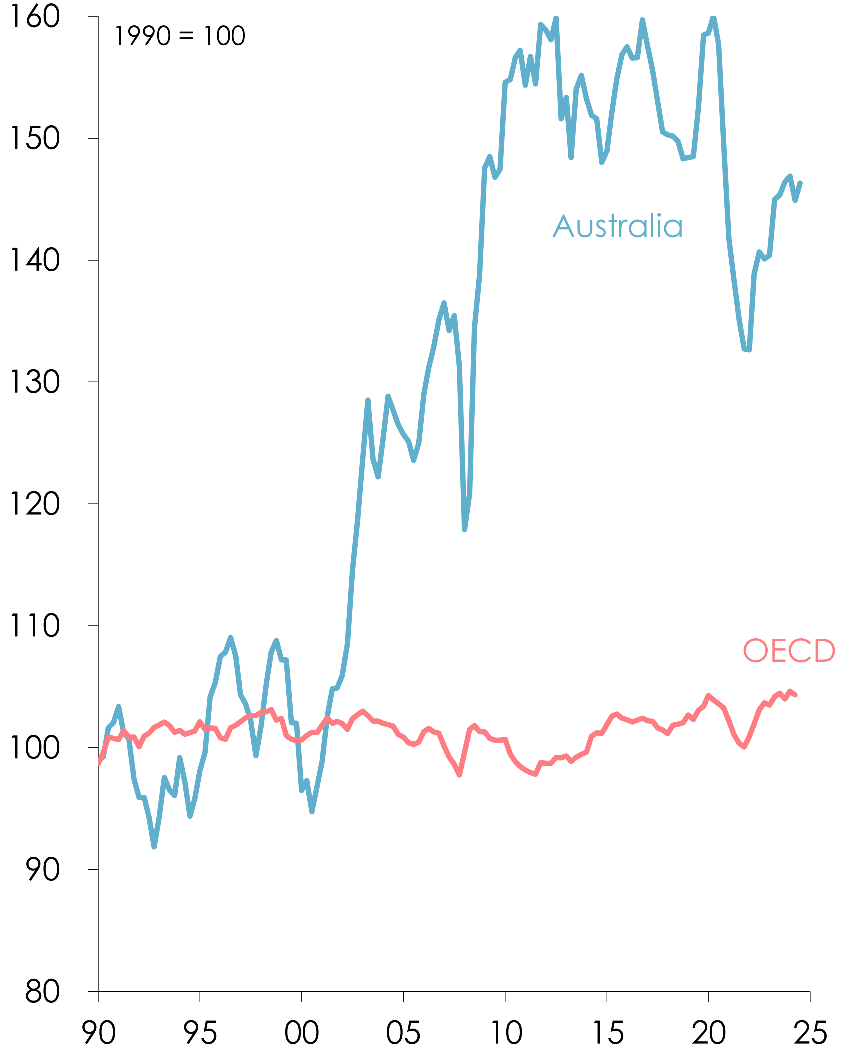
Export prices



Import prices



'Terms of trade'

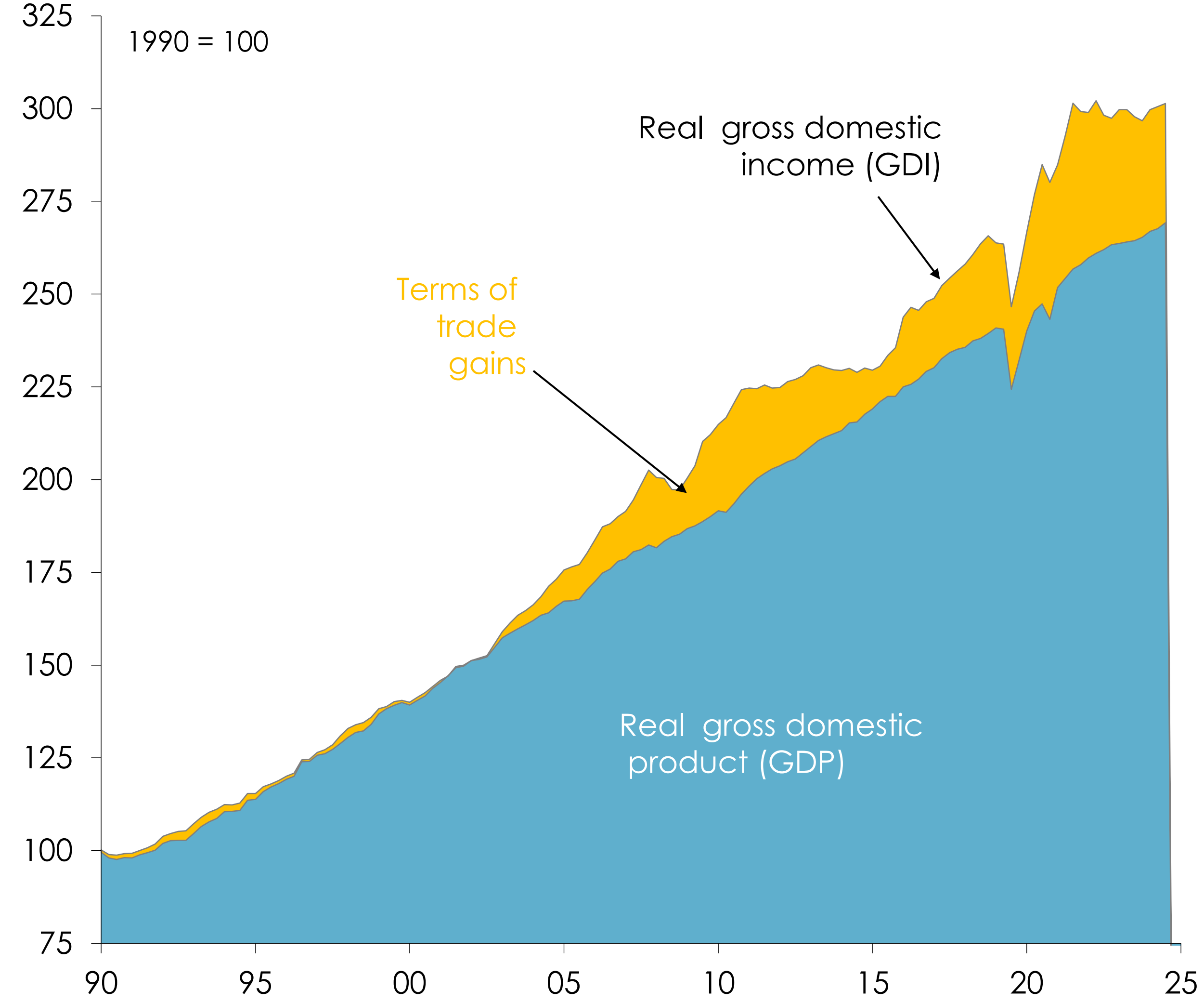


Note: The OECD (Organization for Economic Co-operation and Development) comprises 38 (mostly 'advanced') economies. The 'terms of trade' is the ratio of the implicit price deflator of exports of goods and services to the implicit price deflator of imports of goods and services.
Sources: ABS, *Balance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

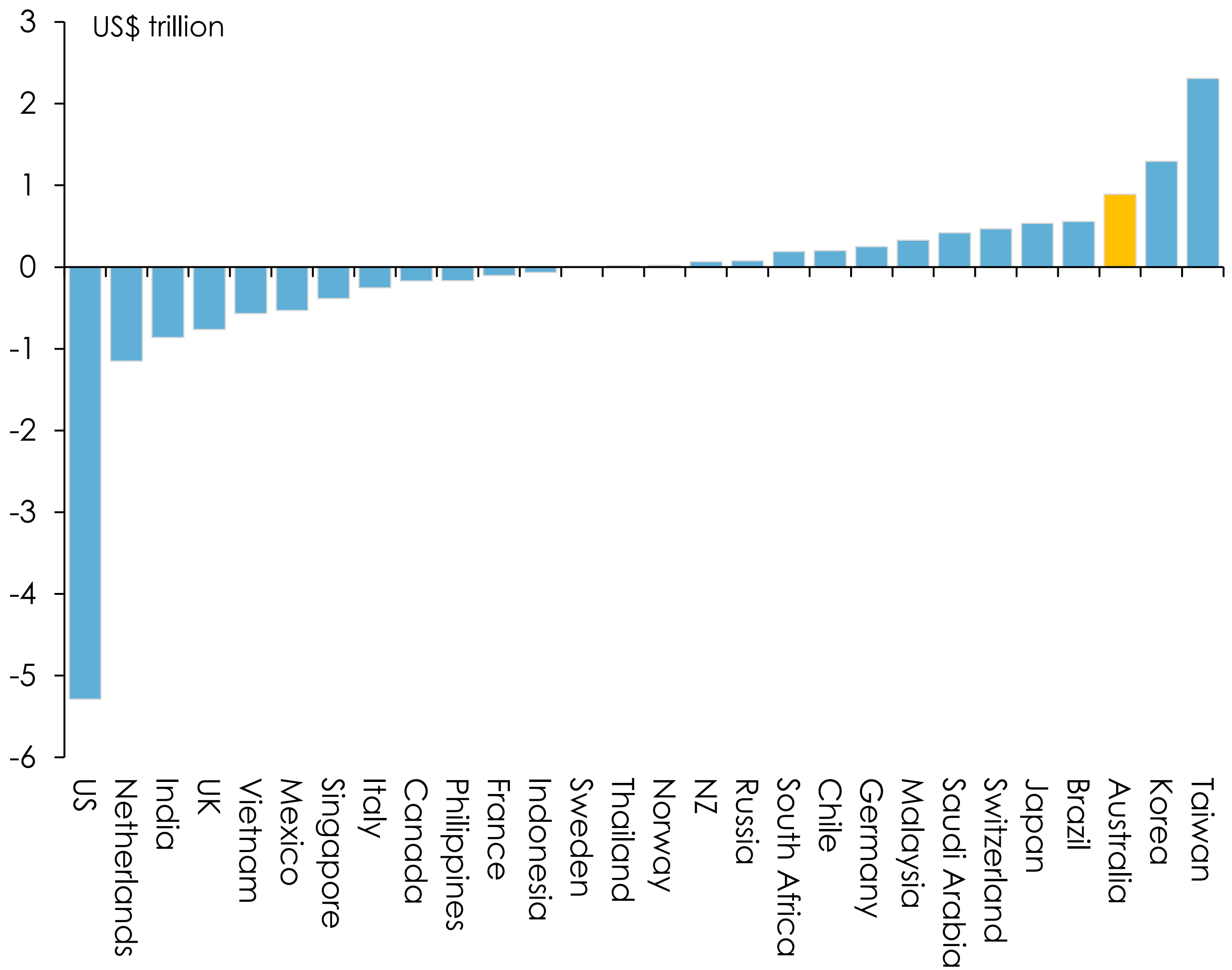
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

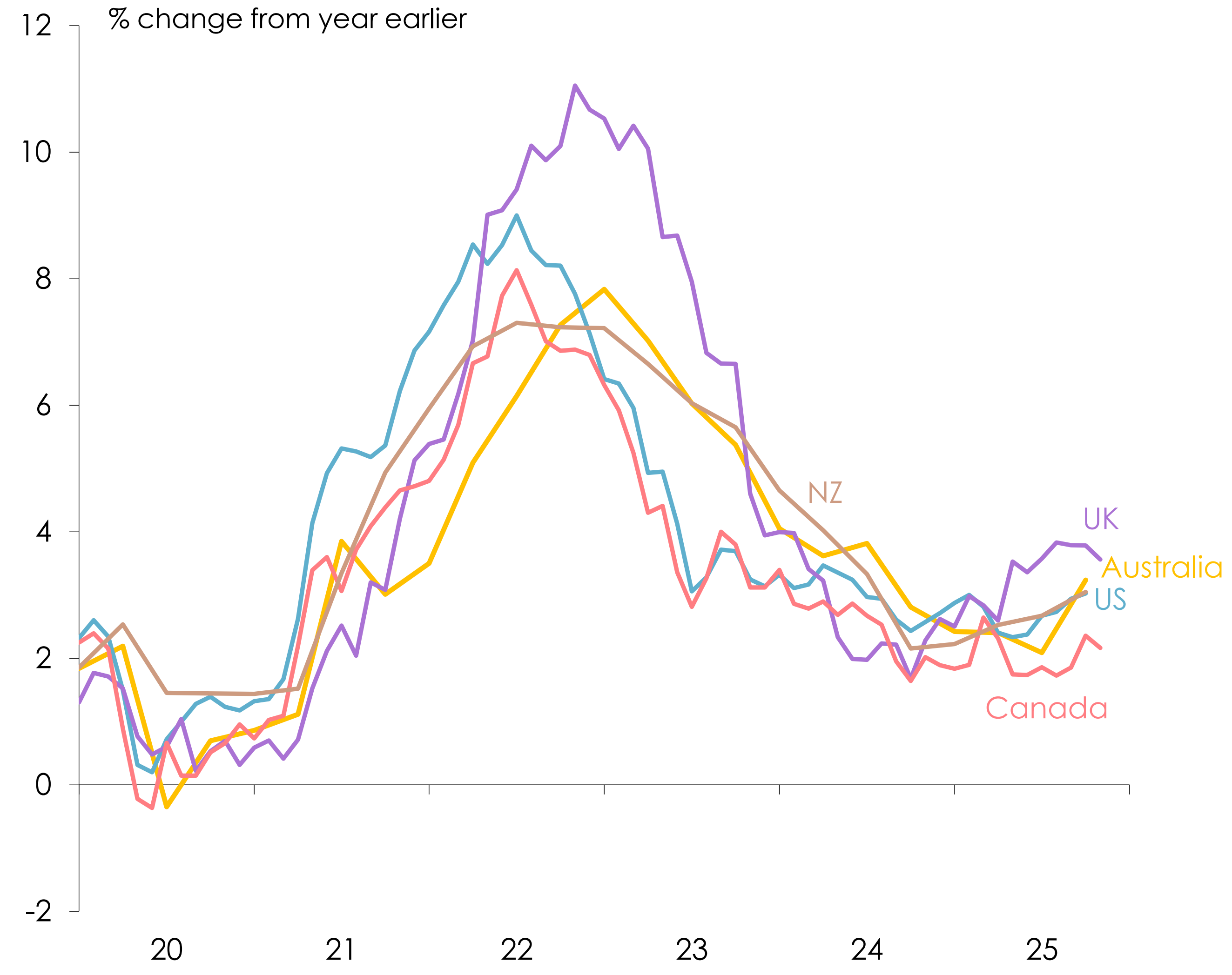


Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2025; International Monetary Fund (IMF), *International Trade in Goods*.

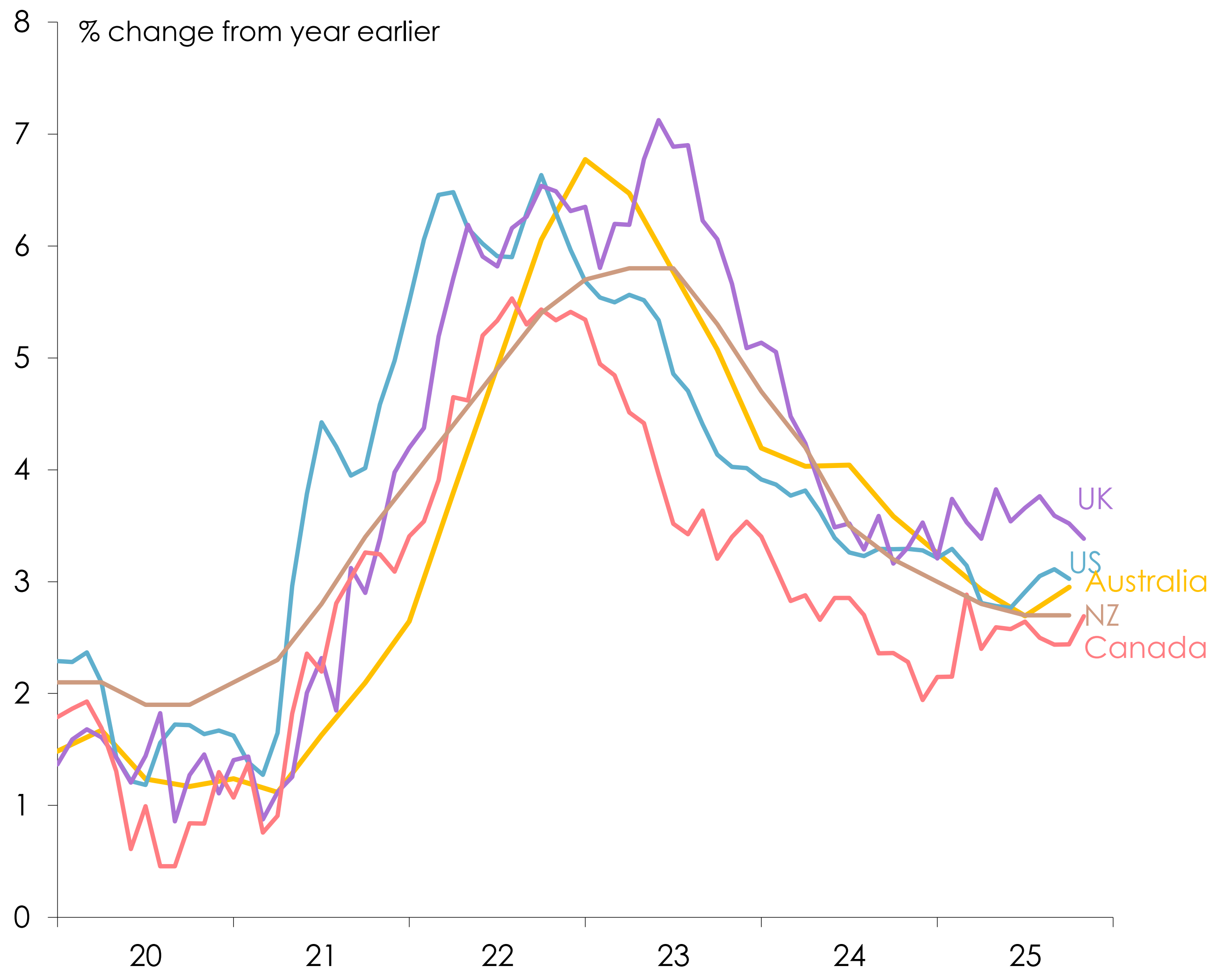
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

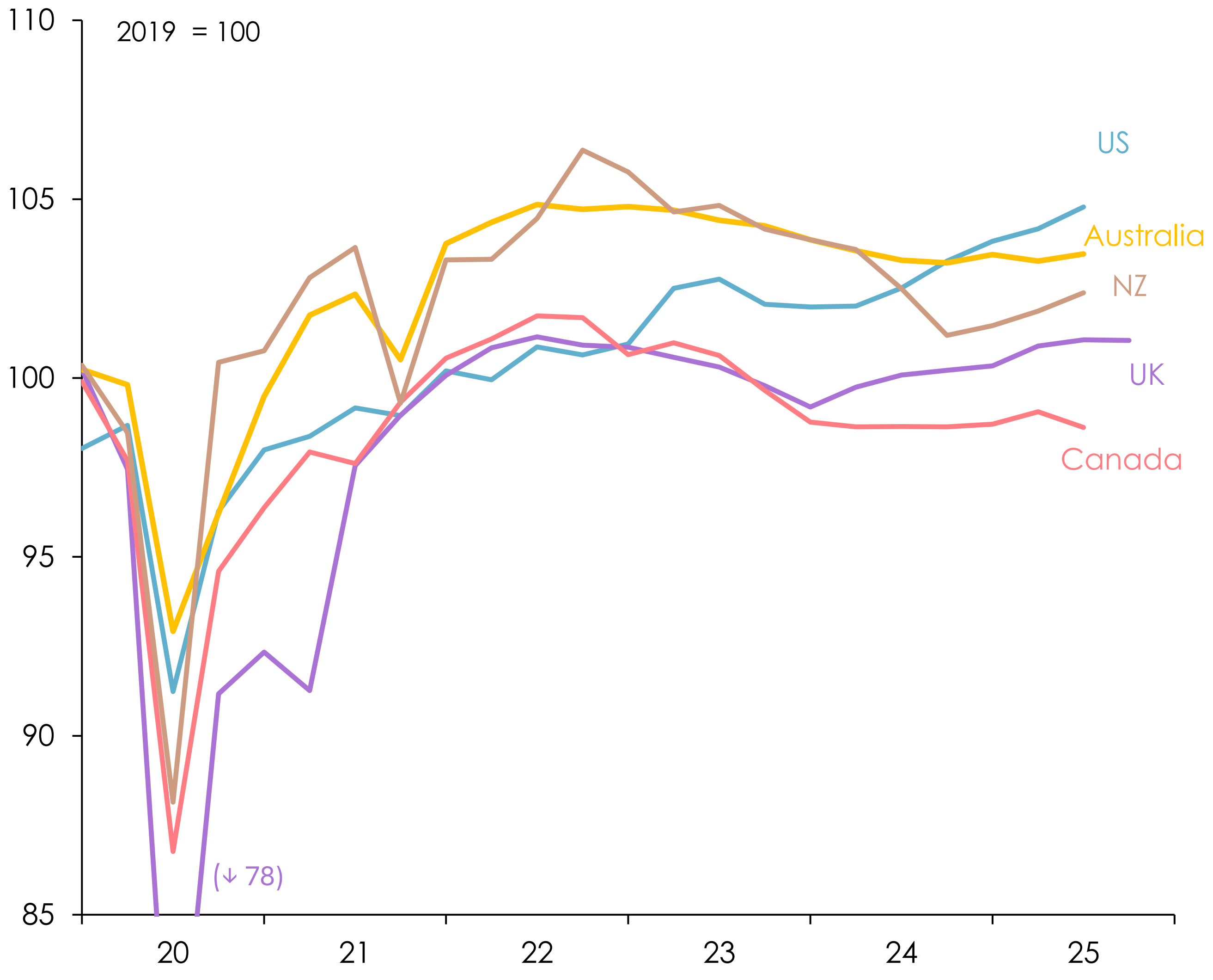


Note: 'Core' inflation in the US, UK and Canada is the annual change in the CPI excluding food & energy; 'underlying' inflation in Australia is the 'trimmed mean' and in NZ is derived from a statistical model. *Sources:* US Bureau of Labor Statistics; Statistics Canada; UK Office for National Statistics;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

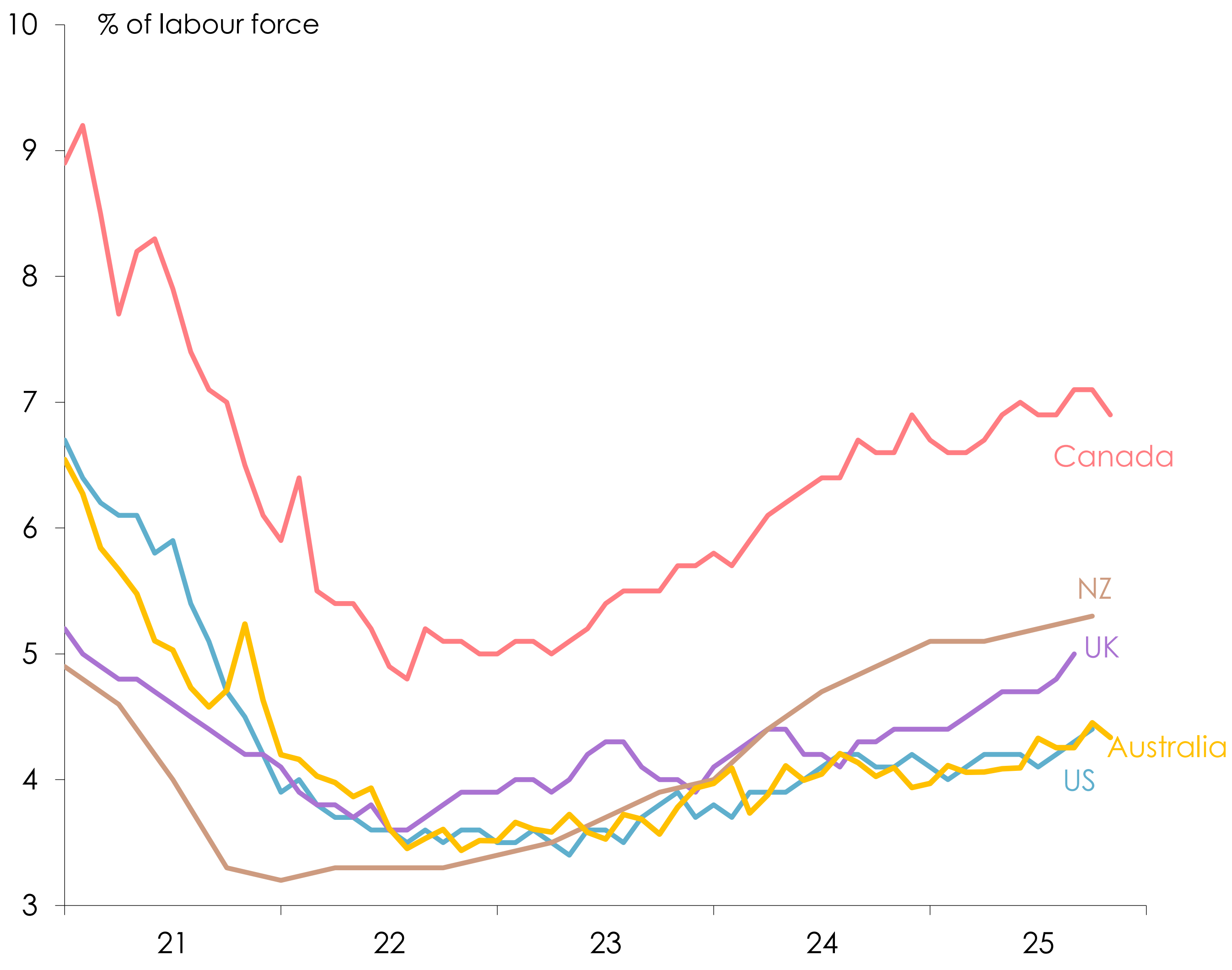
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

… at less cost in terms of economic activity and unemployment

Real per capita gross domestic product



Unemployment rates

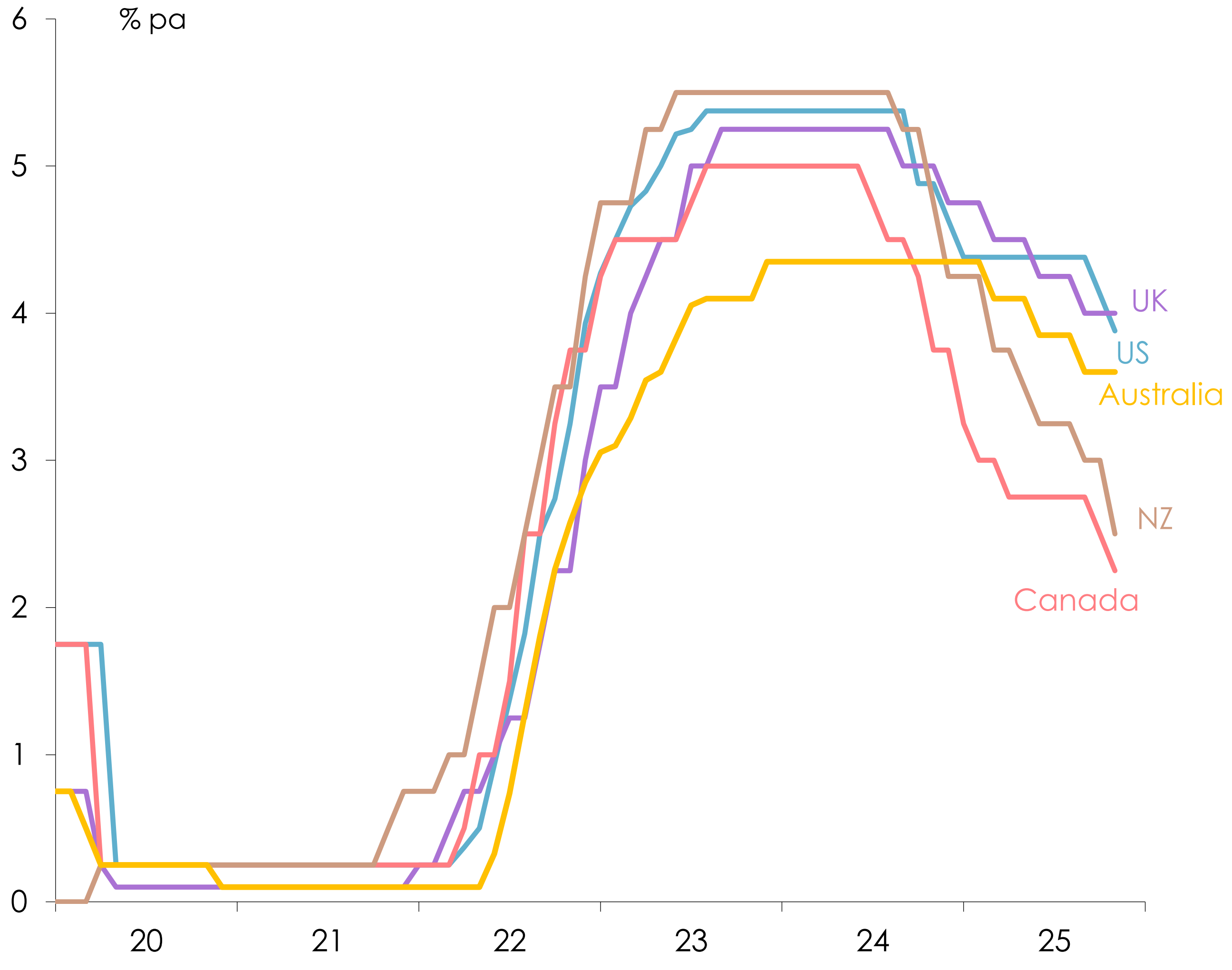


Sources: US Bureau of Economic Analysis; UK Office for National Statistics; Statistics Canada; Australian Bureau of Statistics; Statistics NZ; US Bureau of Labor Statistics.

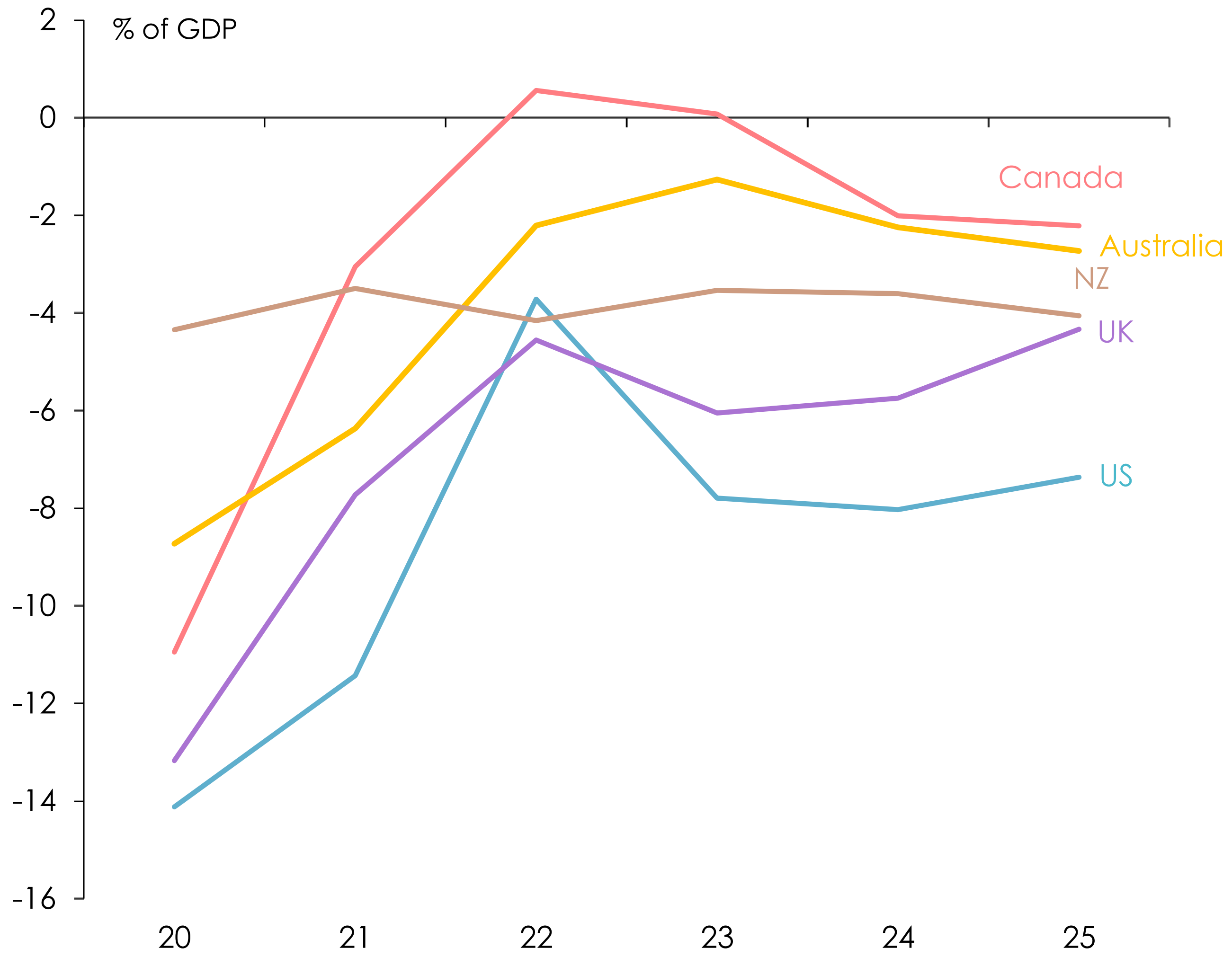
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

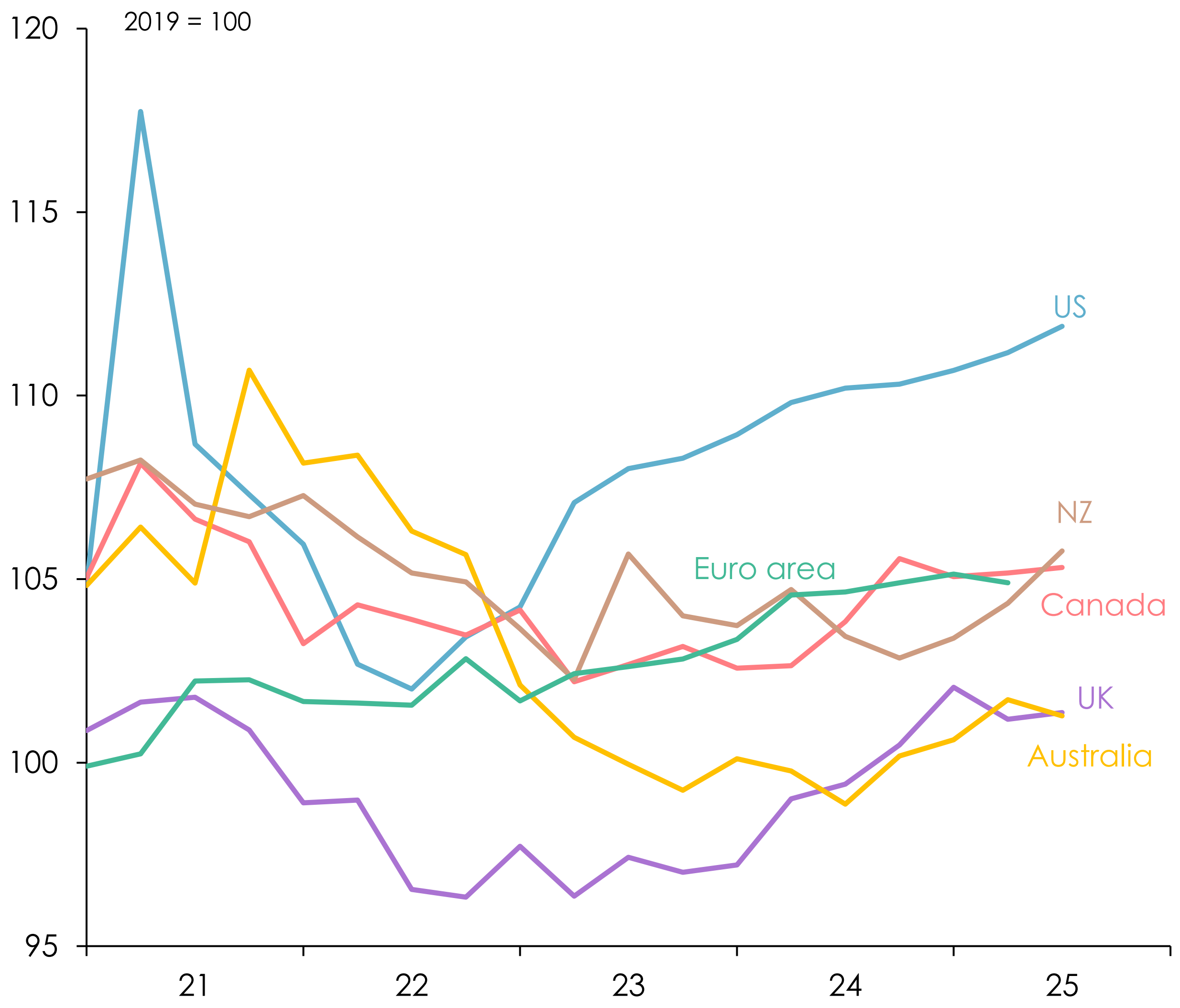


Sources: US Federal Reserve; Bank of Canada; European Central Bank; Bank of England; Reserve Bank of Australia; Reserve Bank of New Zealand; International Monetary Fund, *Fiscal Monitor*, October 2025. *Note:* 'government budget deficits' include state and local governments.

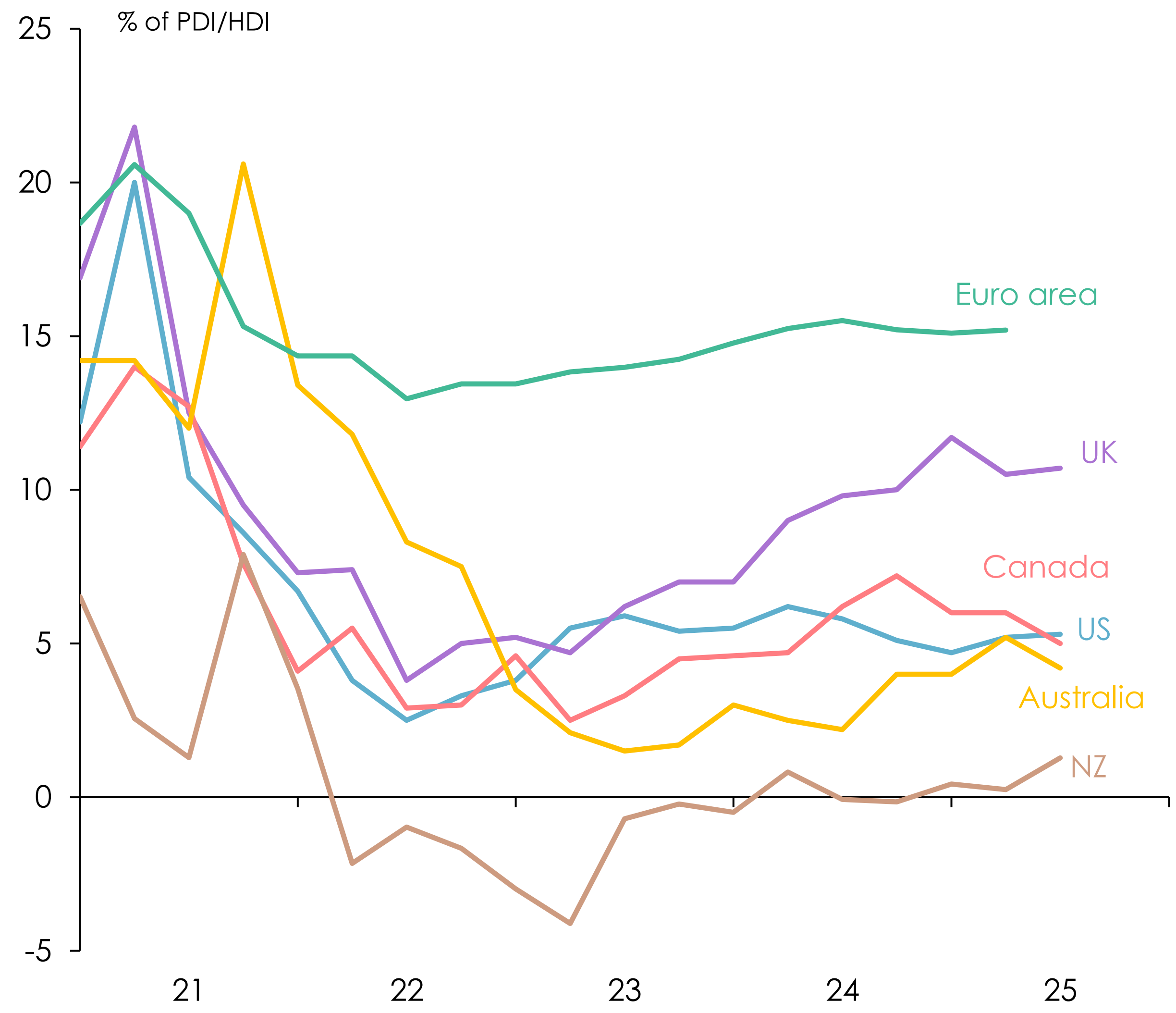
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

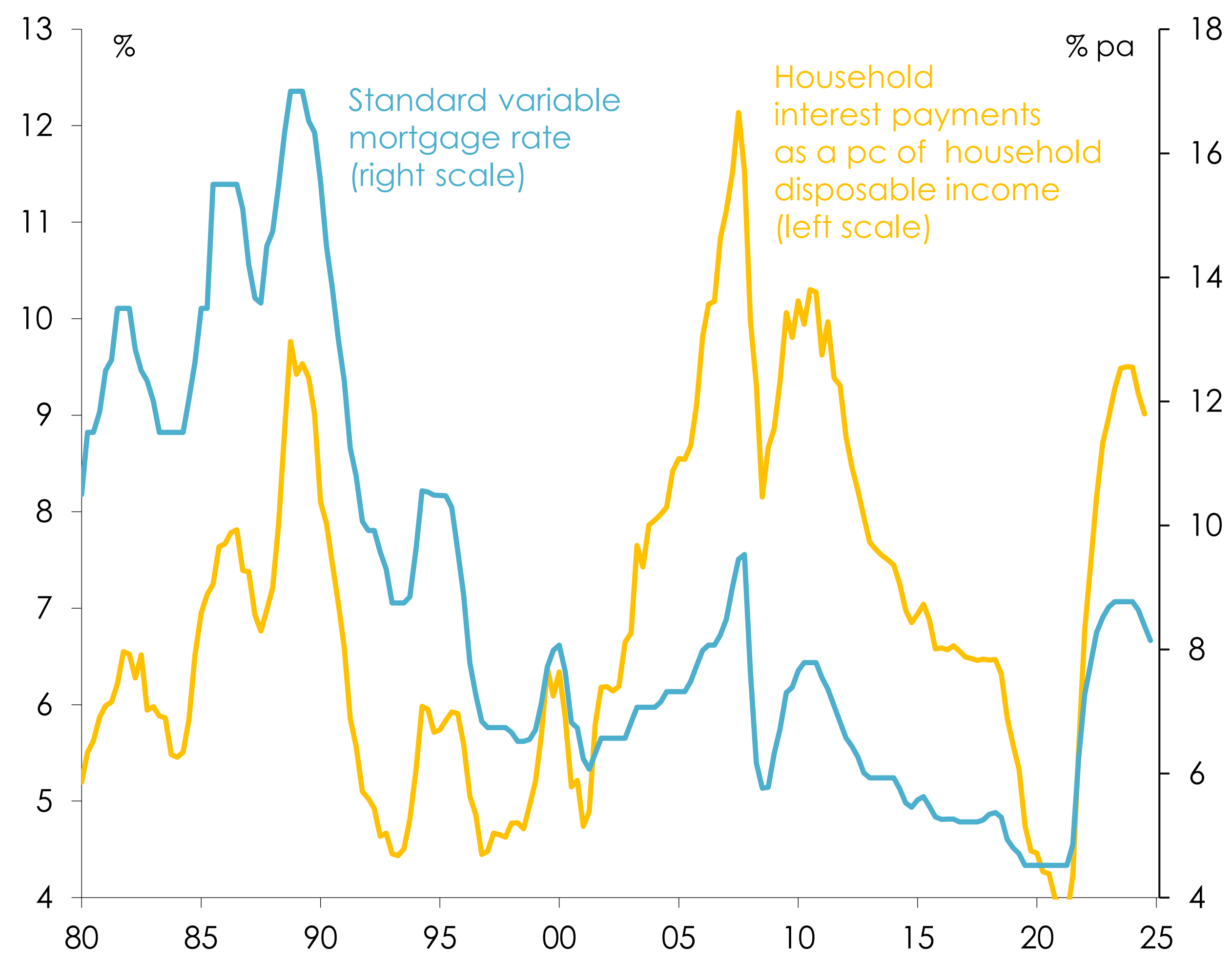


Sources: US Bureau of Economic Analysis; UK Office for National Statistics; Statistics Canada; Australian Bureau of Statistics; Statistics NZ.

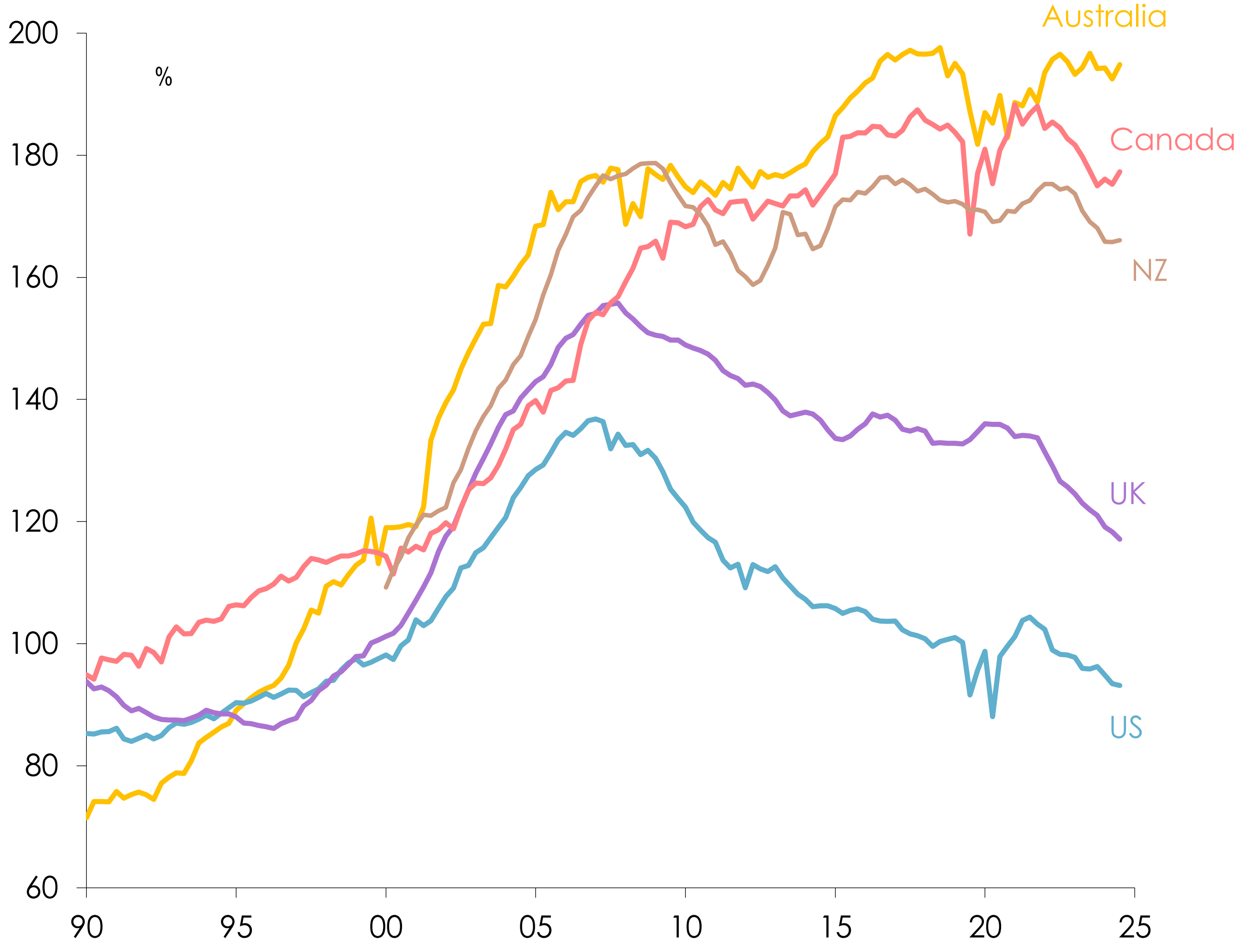
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

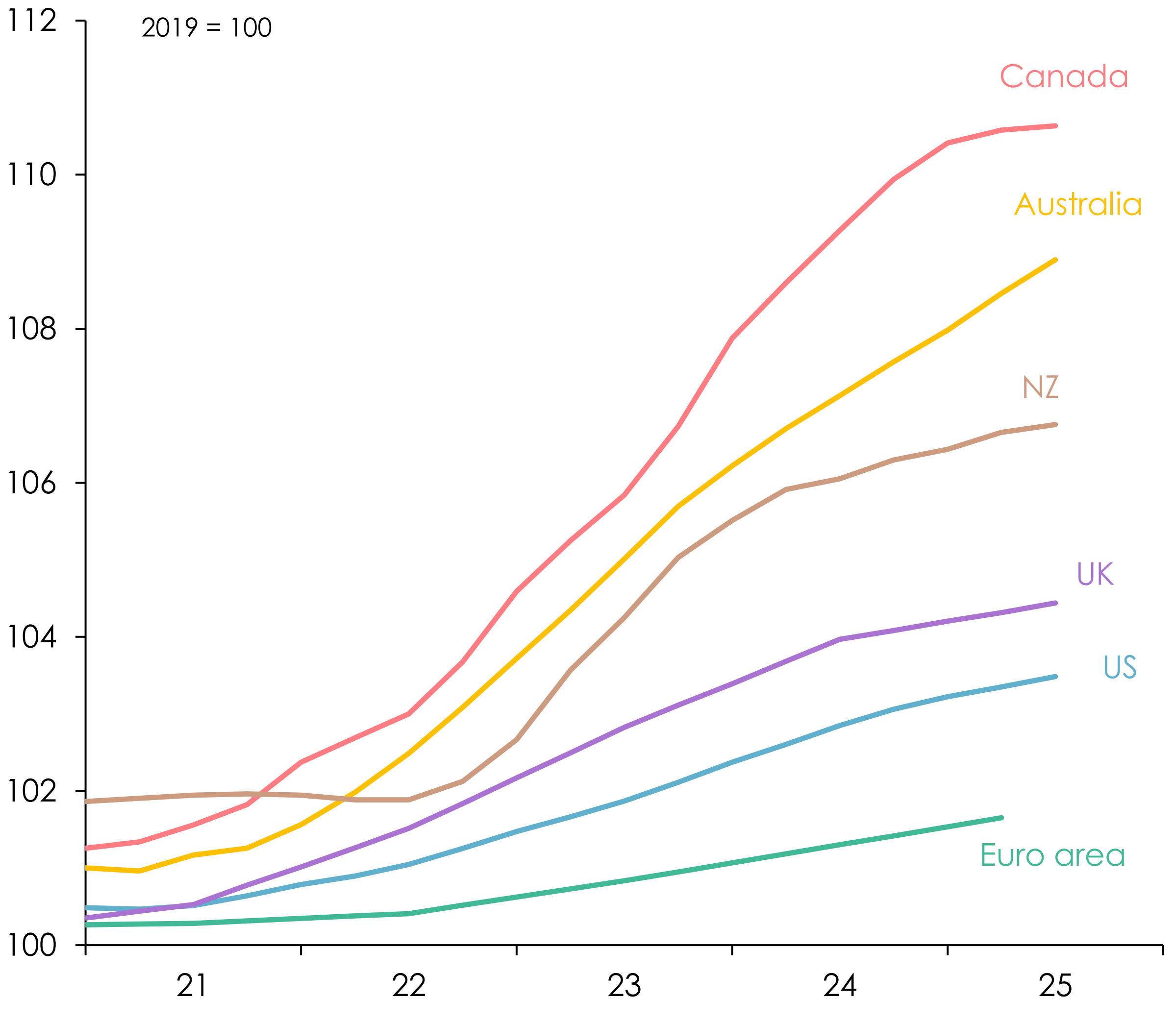


Sources: Reserve Bank of Australia, Household Finances - Selected Ratios and Housing Lending Rates; US Federal Reserve, Financial Accounts of the United States - Z.1; UK Office for National Statistics, Quarterly sector accounts; Statistics Canada, Debt service indicators of households; Statistics NZ,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

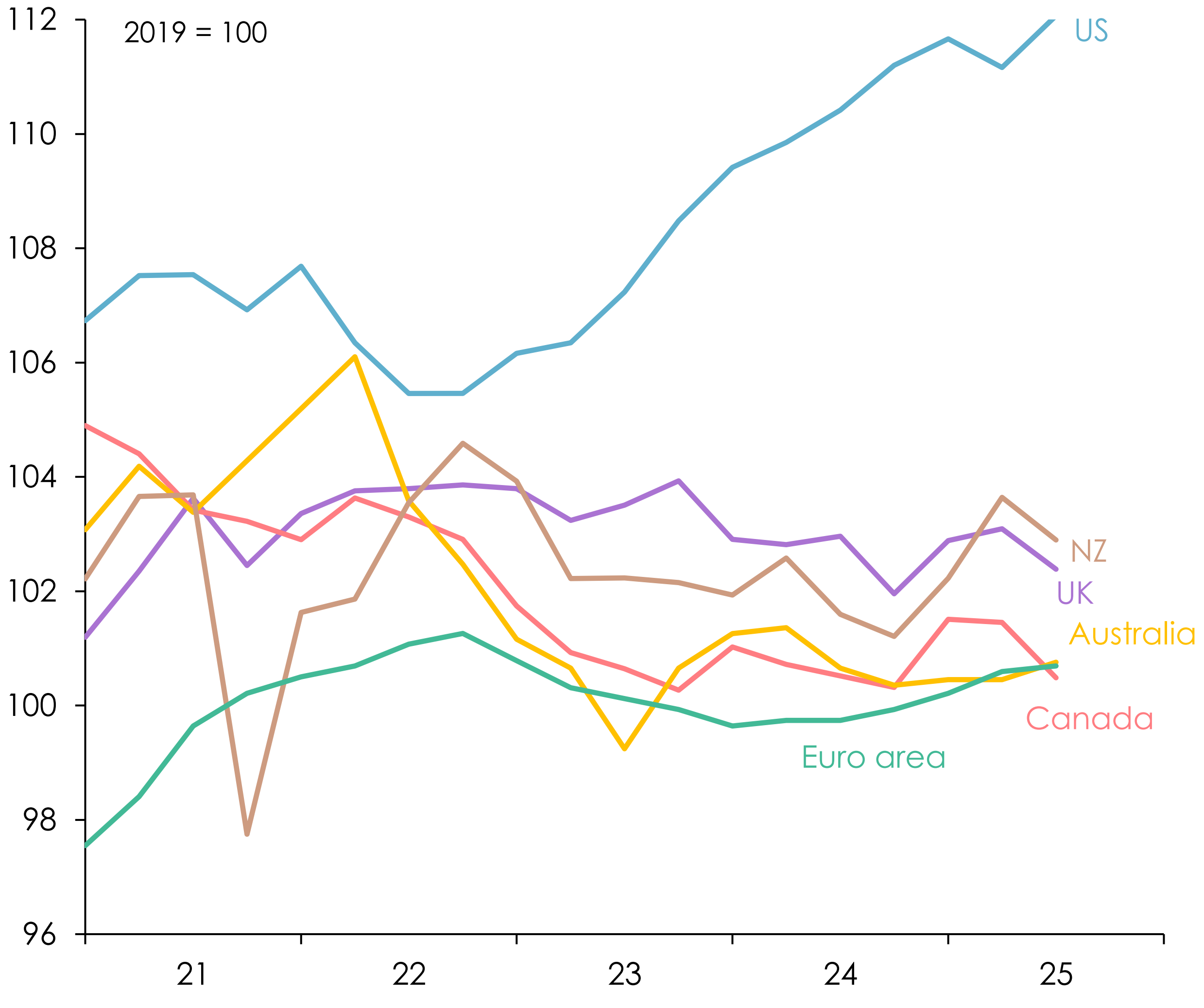
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Australia has experienced a surge in population (though not as big as Canada) – but a slump in productivity (in contrast to the US)

Population



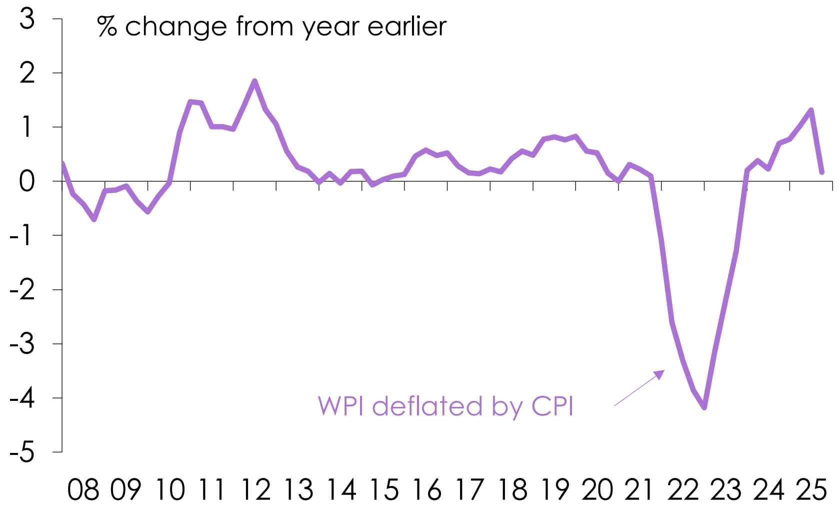
Labour productivity



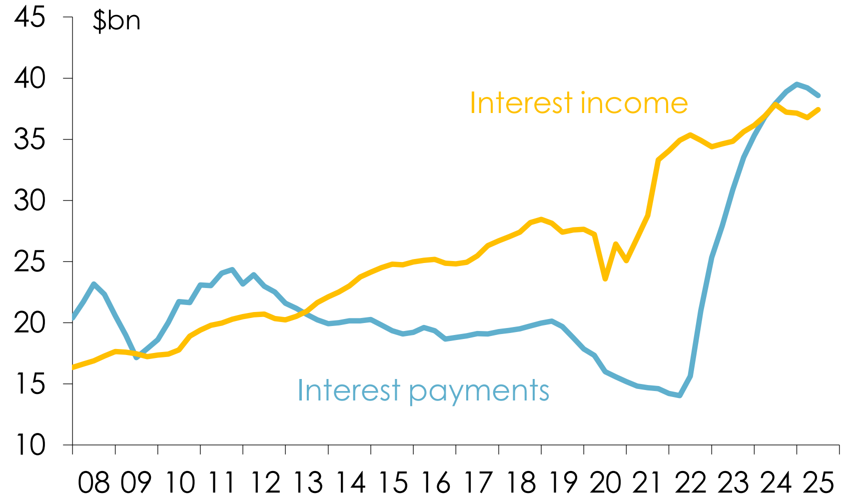
Note: Productivity data for the US are for the 'non-farm business sector': others are 'whole-economy' figures. *Sources:* US Bureau of Economic Analysis; Eurostat; UK Office for National Statistics; Statistics Canada; Australian Bureau of Statistics; Statistics NZ; US Bureau of Labor Statistics.

The squeeze on household finances is starting to ease

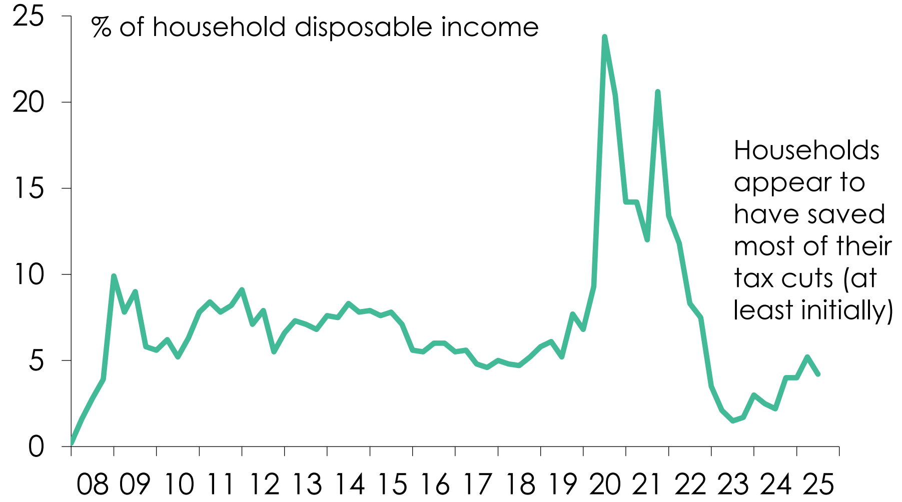
Real wages



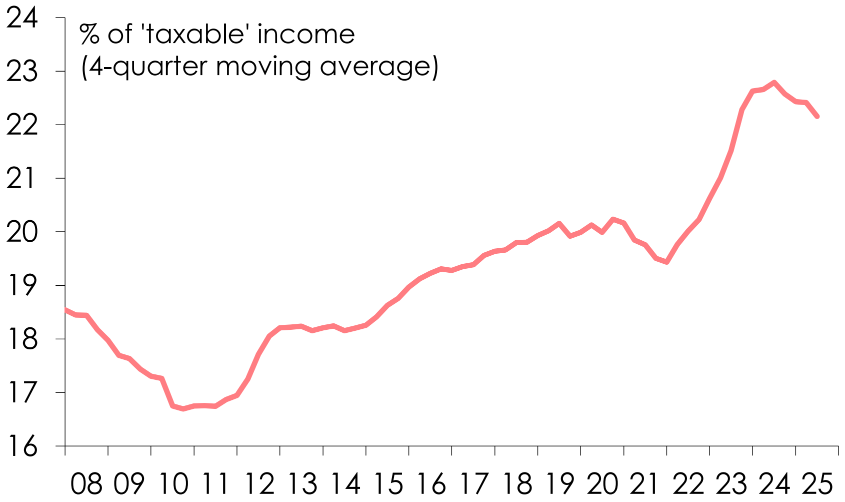
Interest income and payments



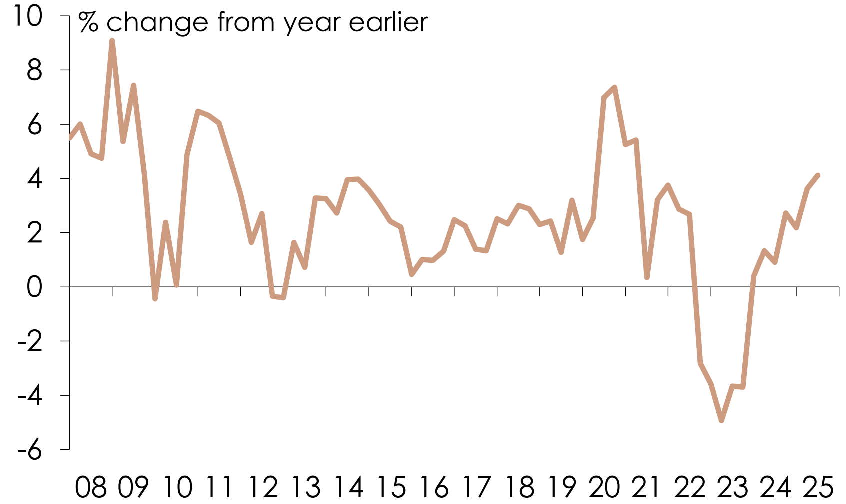
Household saving



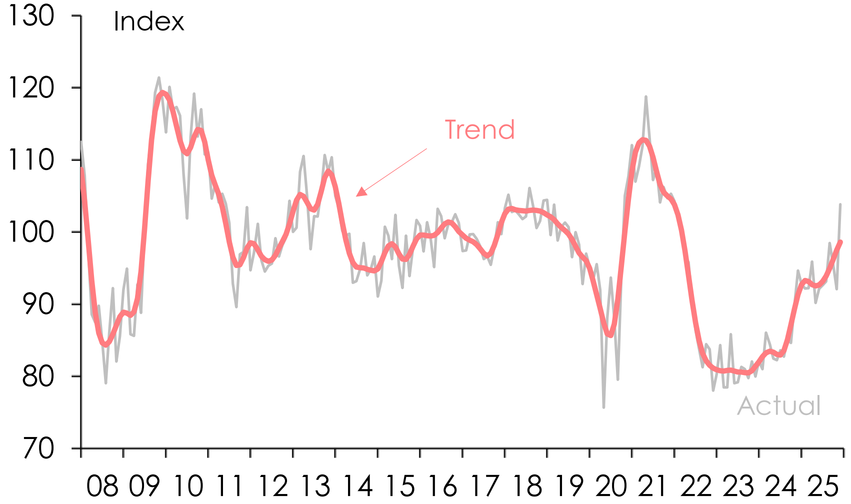
Personal income tax payments



Real household disposable income



Consumer confidence

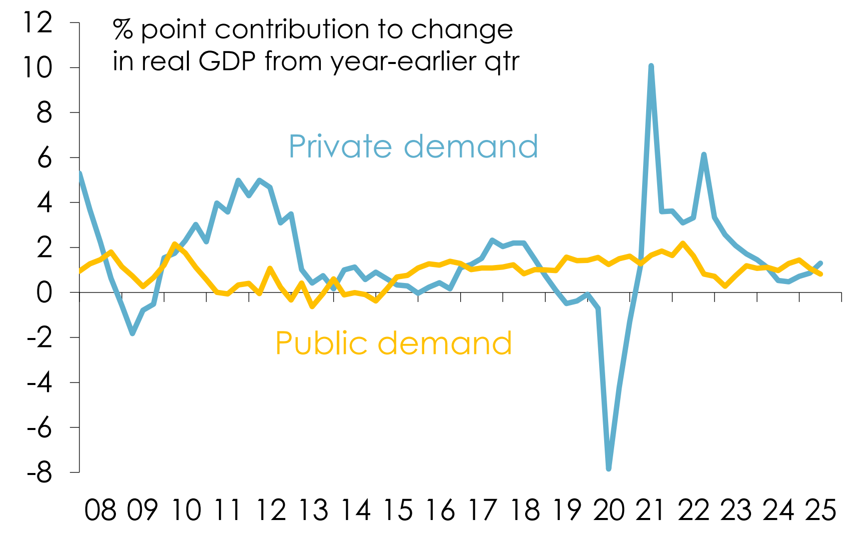


Sources: ABS, Wage Price Index, September quarter 2025, Consumer Price Index, June quarter 2025 and Australian National Accounts: National Income, Expenditure and Product, June quarter 2025; Westpac, Westpac-MI Consumer Sentiment, November 2025.

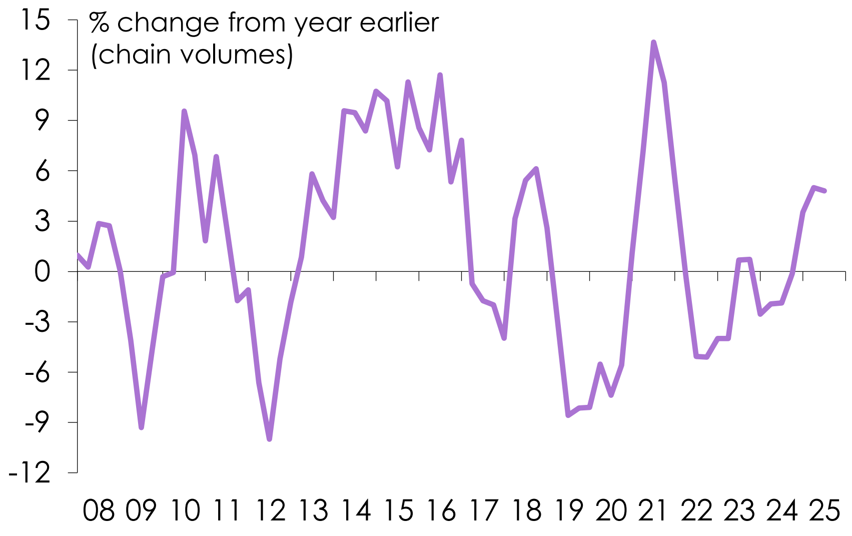
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

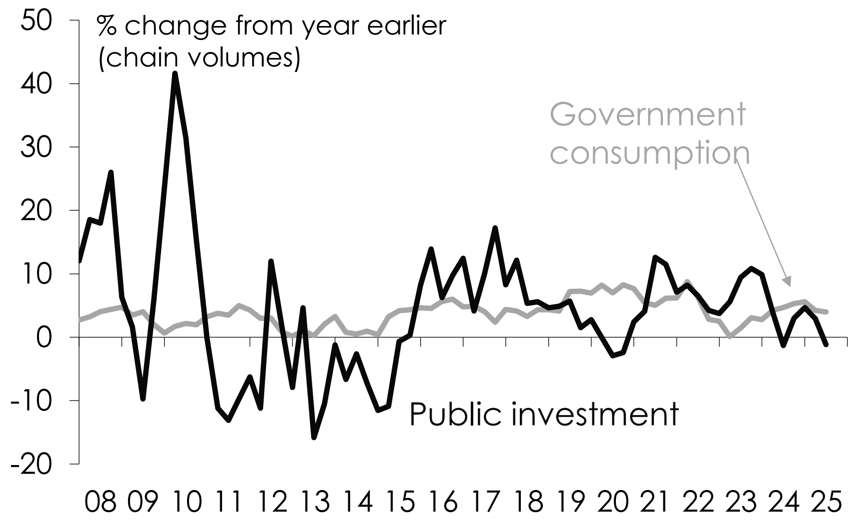
Private vs public sector spending



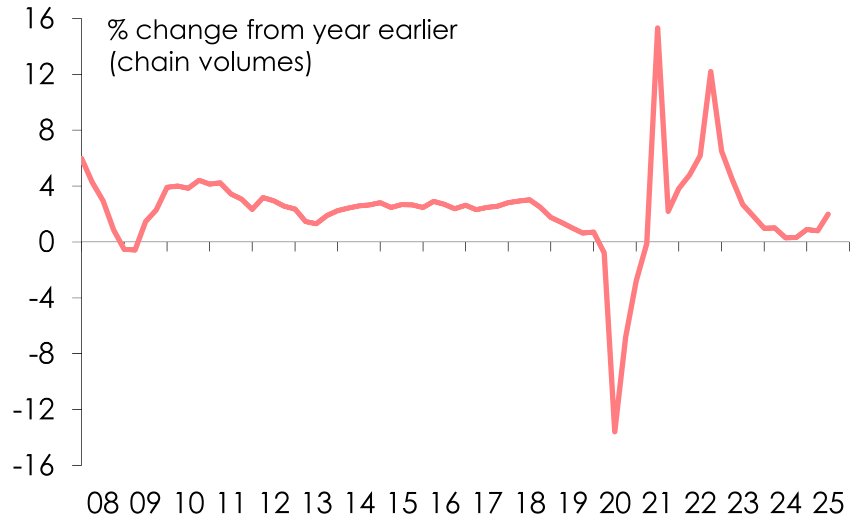
Dwelling investment



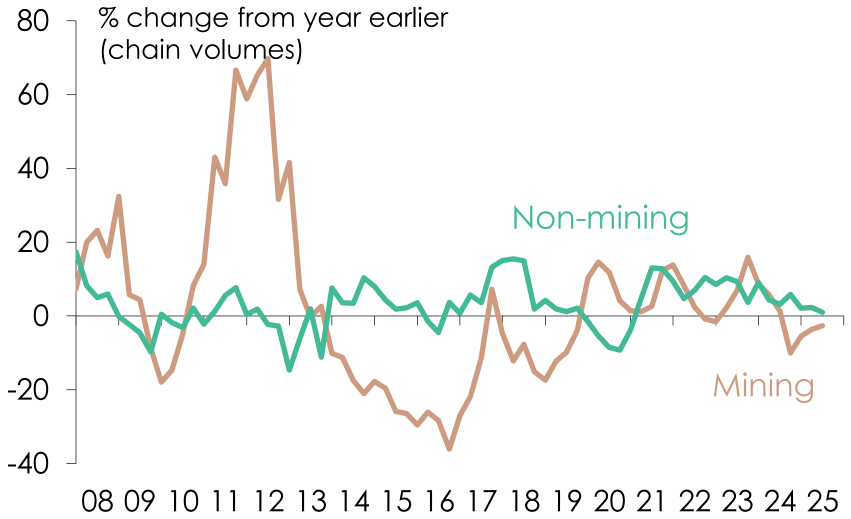
Public spending by type



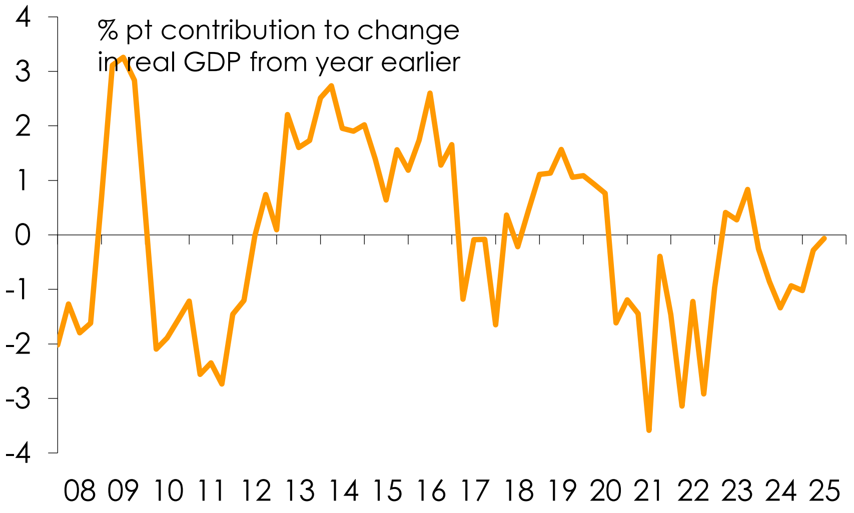
Household consumption



Business investment



Net exports

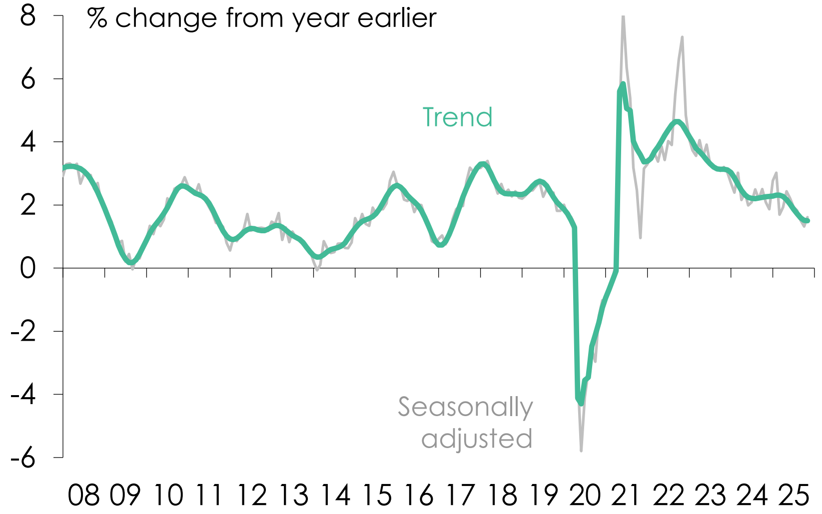


Source: ABS, Australian National Accounts: National Income, Expenditure and Product, June quarter 2025.

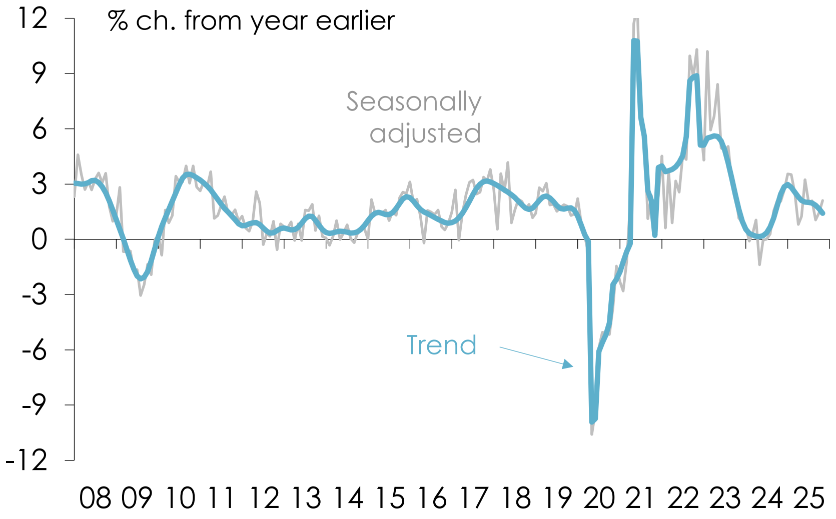
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

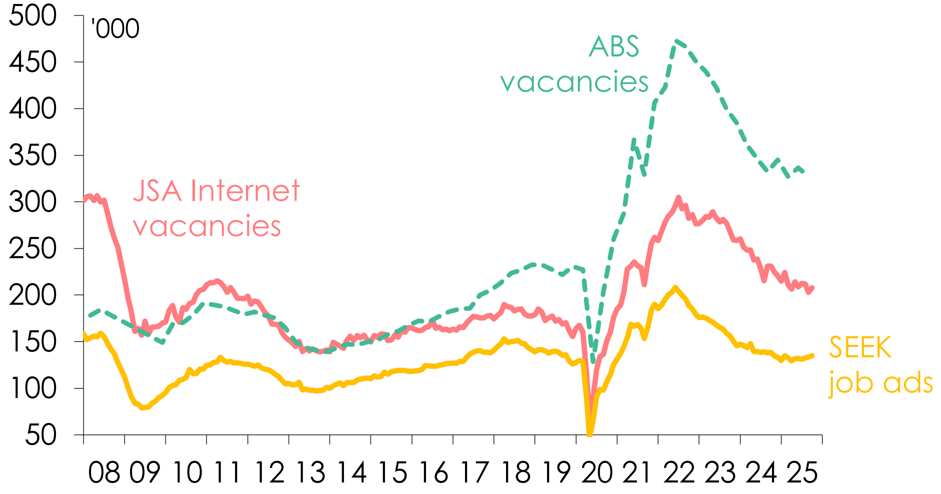
Employment growth



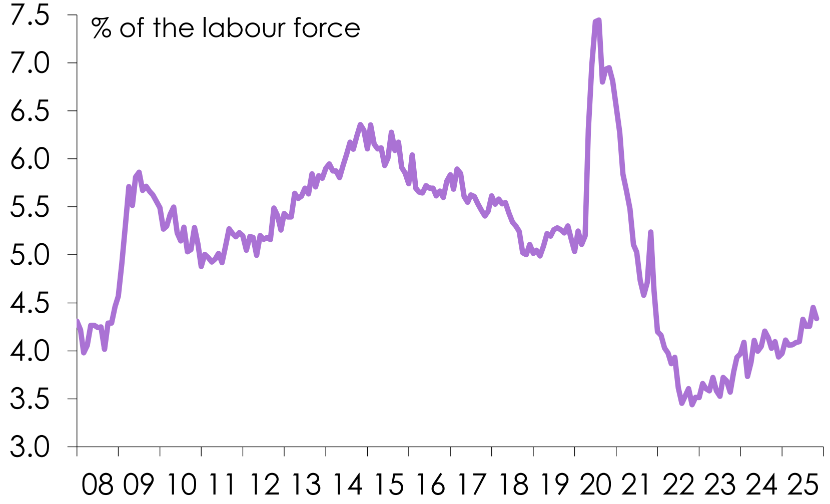
Growth in hours worked



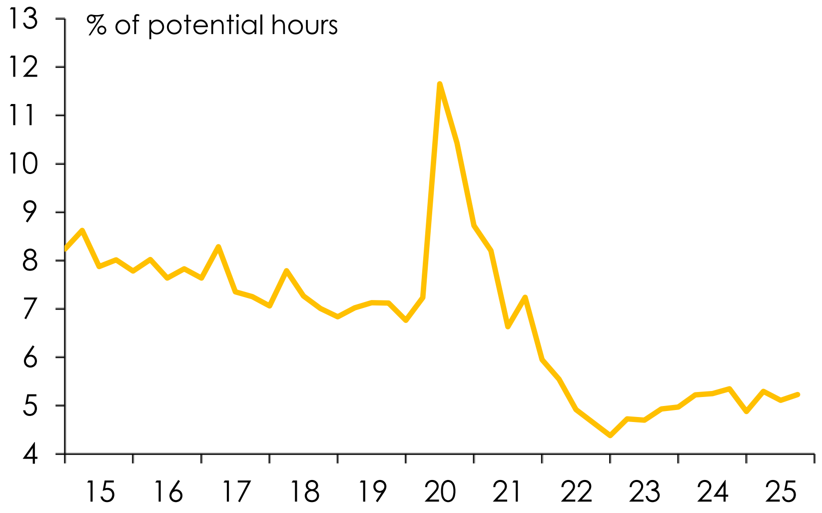
Job vacancies



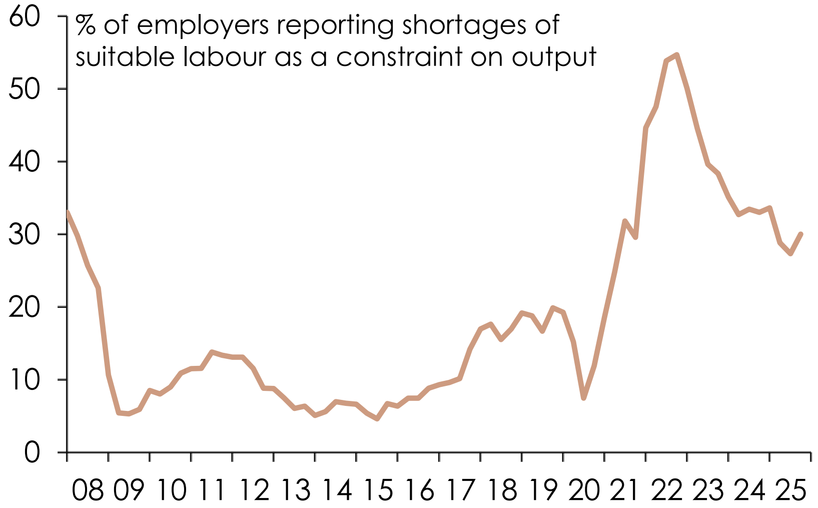
Unemployment rate



Labour force under-utilization



Labour shortages

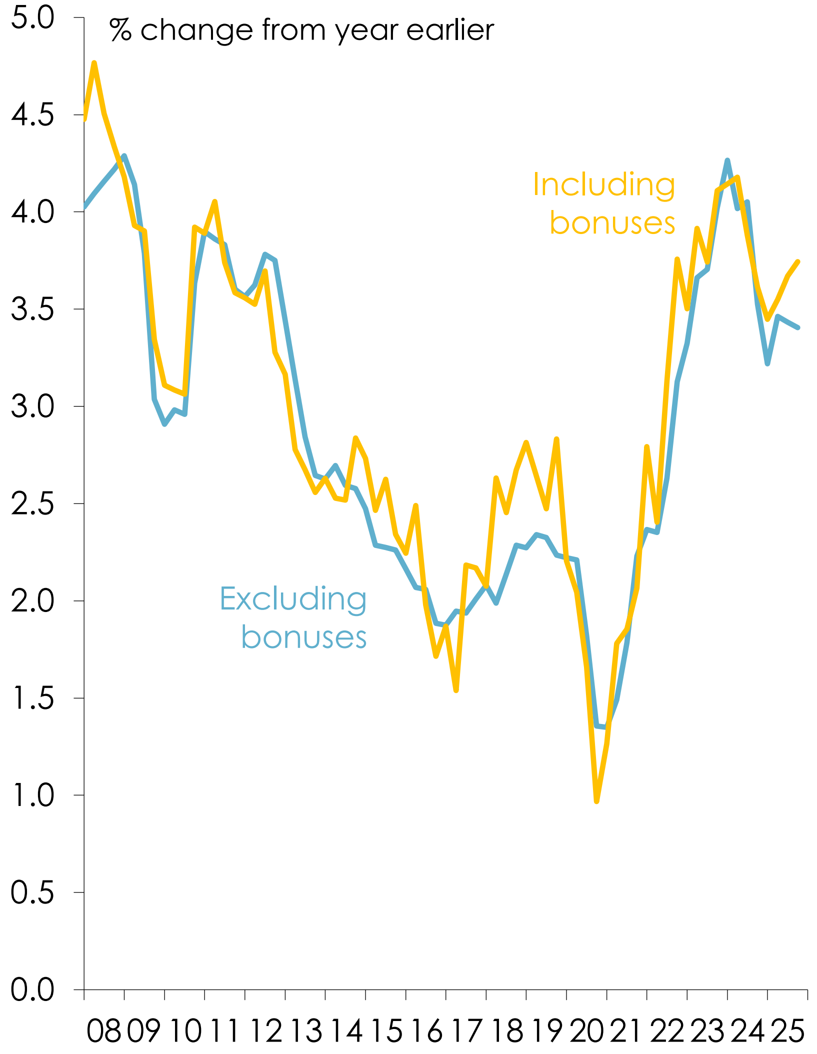


Note: 'labour force under-utilization' is a 'volume measure' of the hours which would have been worked by unemployed and under-employed people had those hours been offered. *Sources:* ABS, *Labour Force*, October 2025, *Job Vacancies*, August 2025 and *Labour Account, Australia*, June quarter 2025; National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

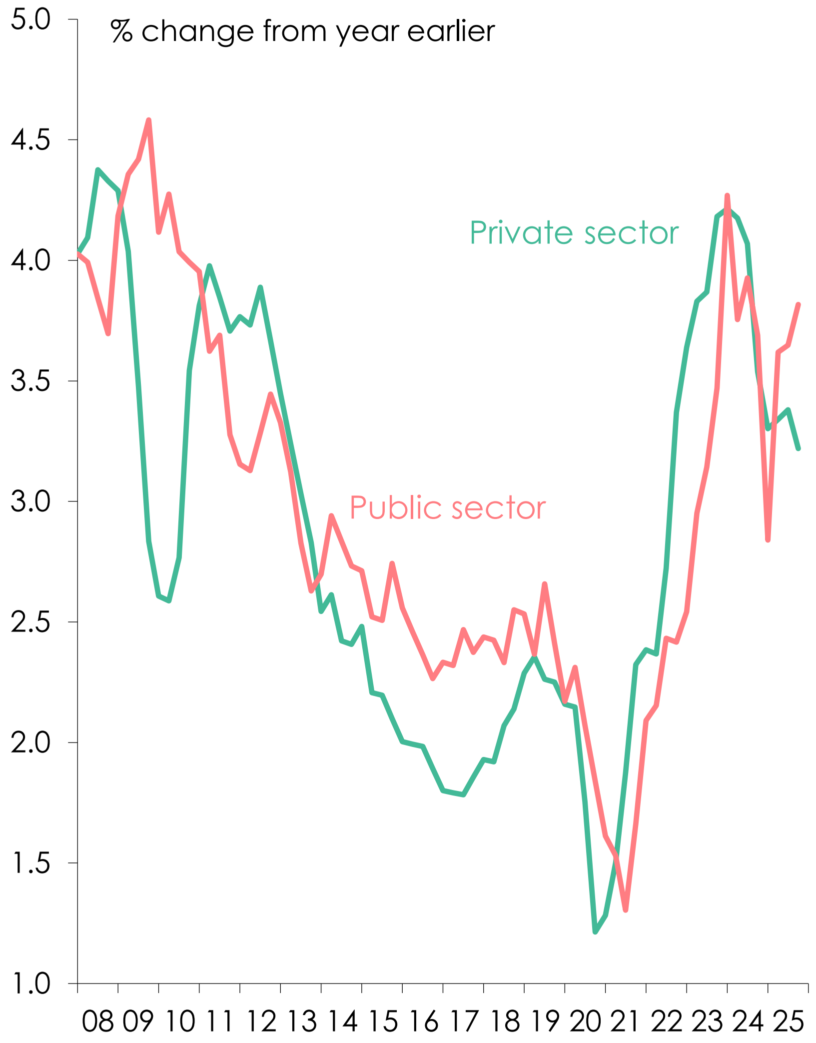
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Although the unemployment rate is still low by historical standards, it has risen enough for wages growth to have slowed significantly

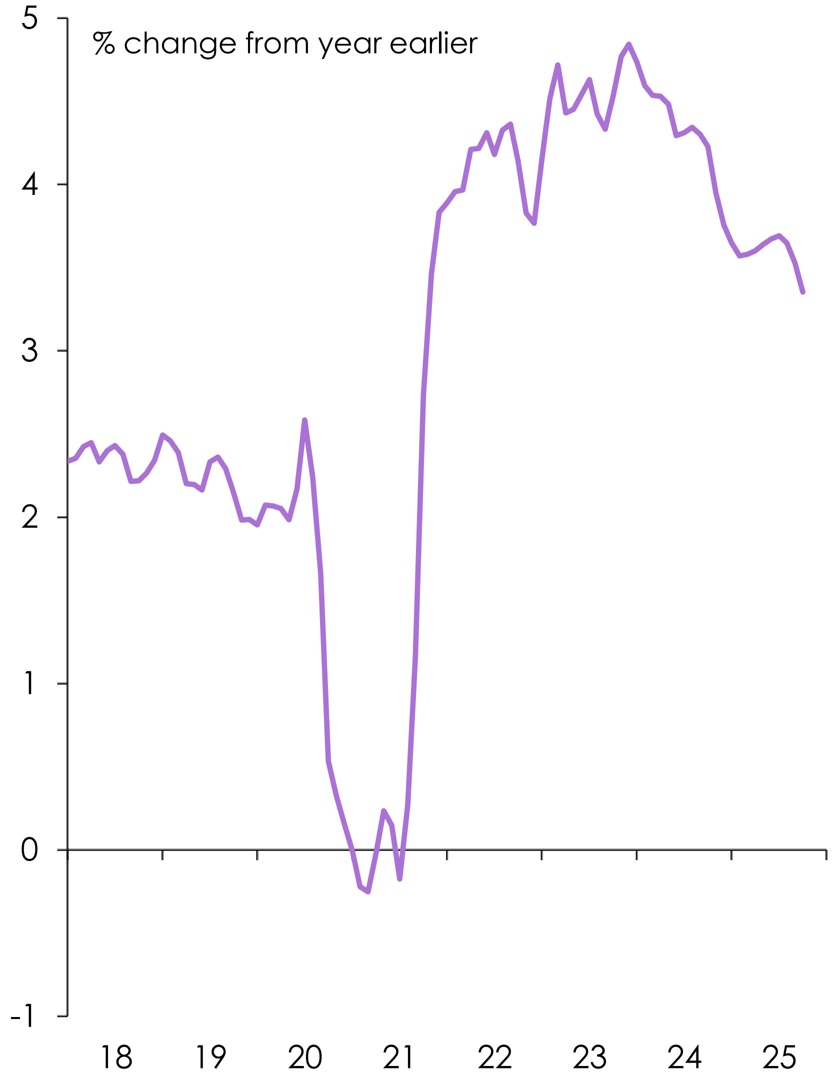
Wages growth



Wages growth by sector



Advertised salaries

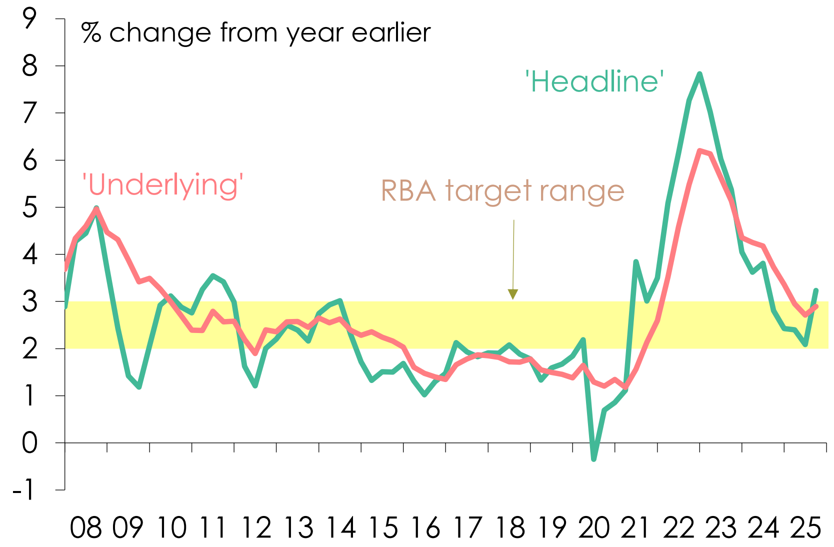


Sources: ABS, *Wage Price Index*, September quarter 2025; SEEK, *Advertised salary data*, September 2025.

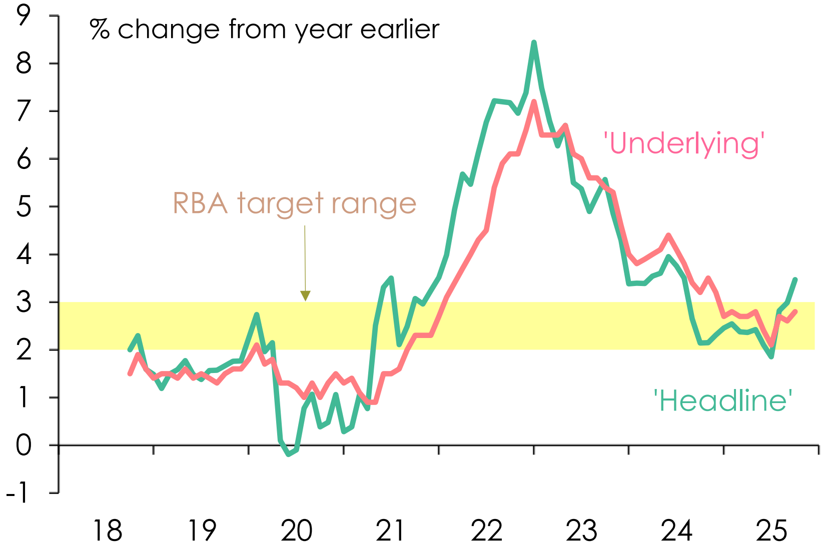
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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

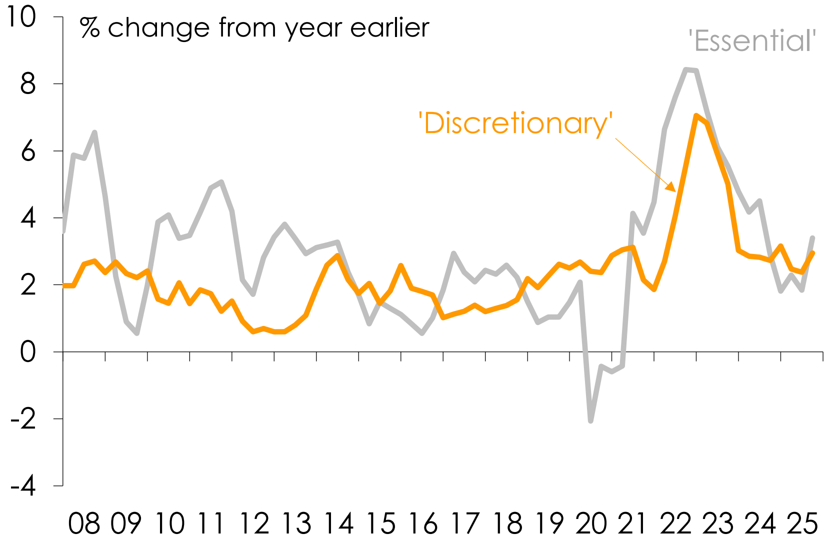
Consumer prices – annual change



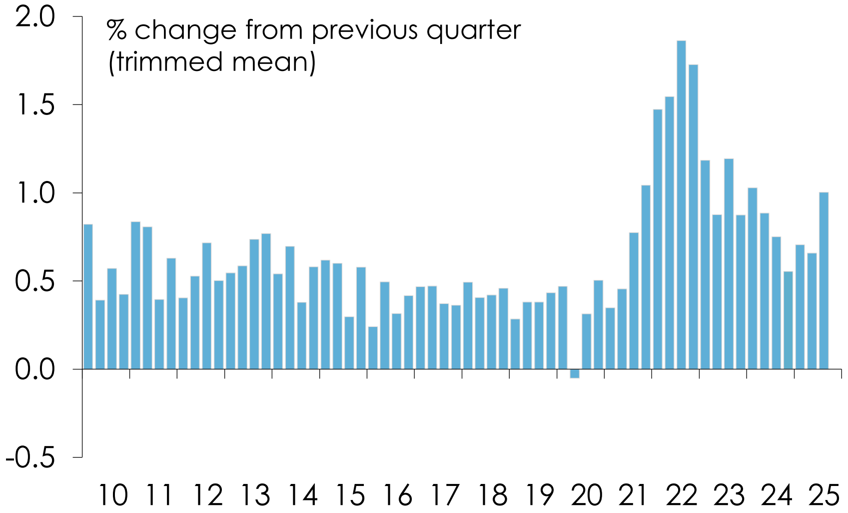
Monthly 'CPI indicator'



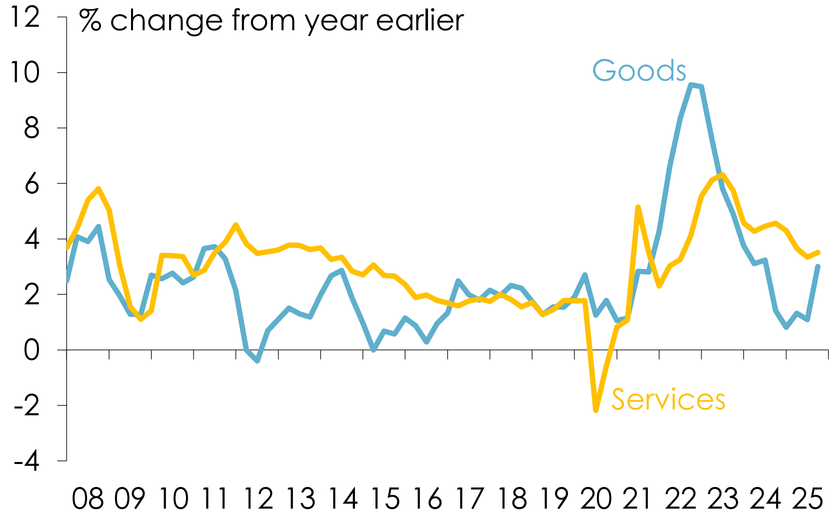
'Discretionary' vs 'essential' items



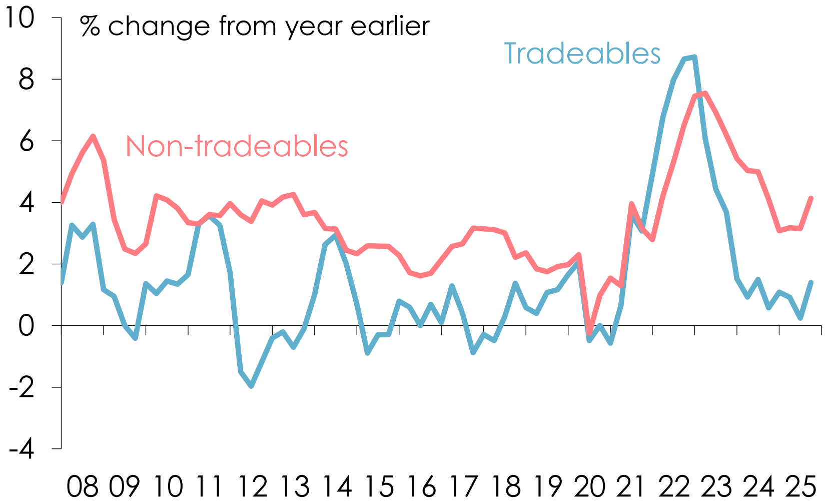
Quarterly 'underlying' inflation



Goods and services prices



'Tradable' vs 'non-tradable' items



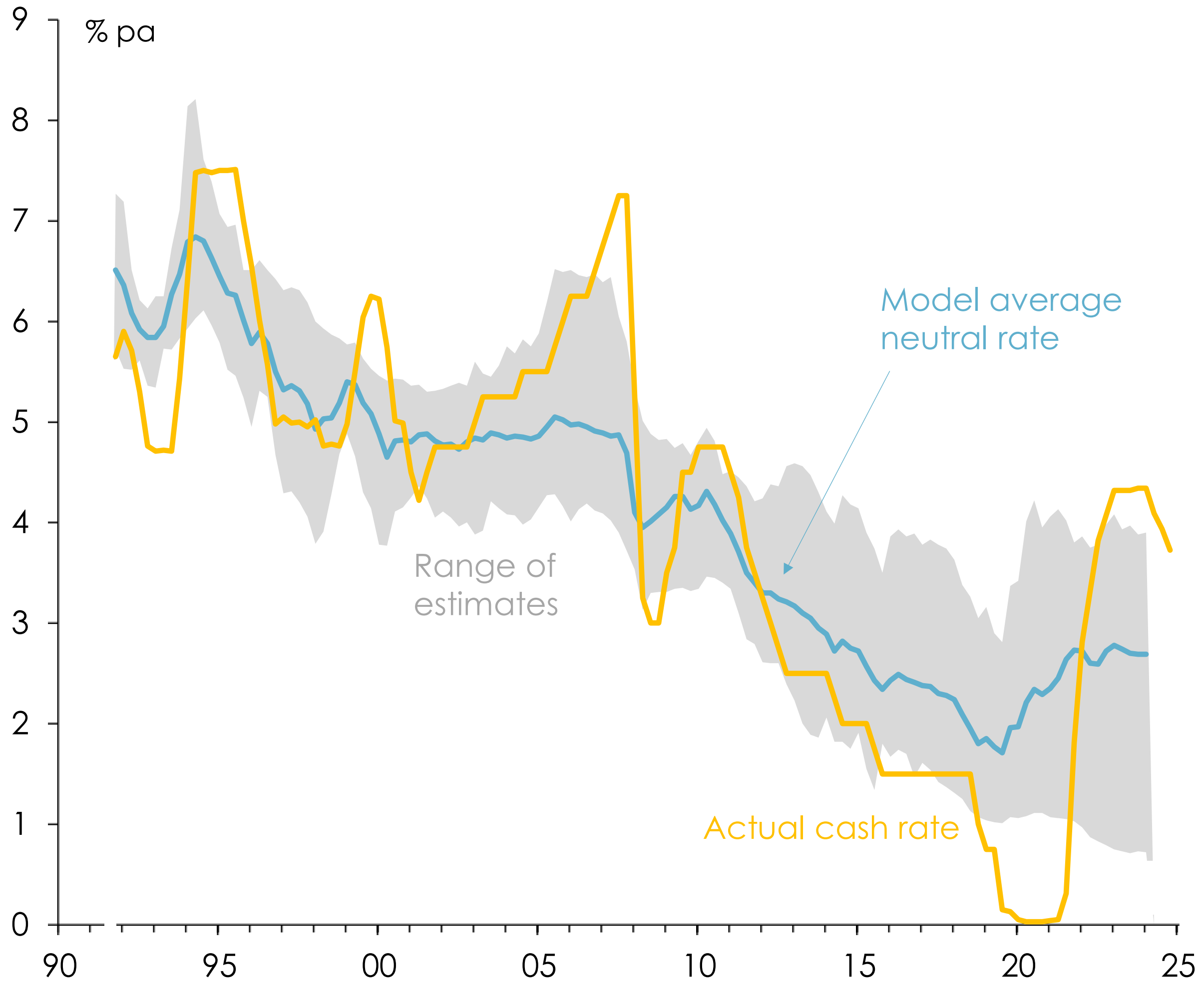
Note: 'Underlying' inflation is the 'trimmed mean' (derived from the middle 70% of price increases). 'Essential' items are housing, food, fuel & power, medical & health care, ground transport, communications and education services. *Sources:* ABS, Consumer Price Index, September quarter 2025 and Monthly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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

In setting monetary policy the RBA needs to be conscious of where its cash rate is relative to the so-called ‘neutral’ rate of interest

- **The ‘neutral’ rate of interest – sometimes called r* – is (conceptually) the interest rate at which monetary policy is neither stimulating nor restraining aggregate demand**
  - or, again conceptually, the interest rate consistent with inflation being stable at the central bank’s target rate, and the economy operating at ‘sustainable full employment’
- **In practice, the ‘neutral’ rate cannot be ‘observed’ but can only be estimated from models based on economic theory and historical data**
- **The ‘neutral’ rate is typically estimated in ‘real’ terms**
  - which means that in order to determine the nominal ‘neutral’ interest rate, the ‘real’ rate must be added to the expected inflation rate (which also cannot be observed but must be estimated or derived from surveys)
- **It’s also important to recognize that ‘the’ interest rate which matters is practice is the interest rate which borrowers actually pay**
  - no-one actually pays (or receives) the RBA’s cash rate
  - so another key consideration for the RBA in setting the cash rate is the difference or ‘spread’ between the cash rate and interest rates actually paid by borrowers

Actual RBA cash rate vs model-based estimates of the ‘neutral’ cash rate

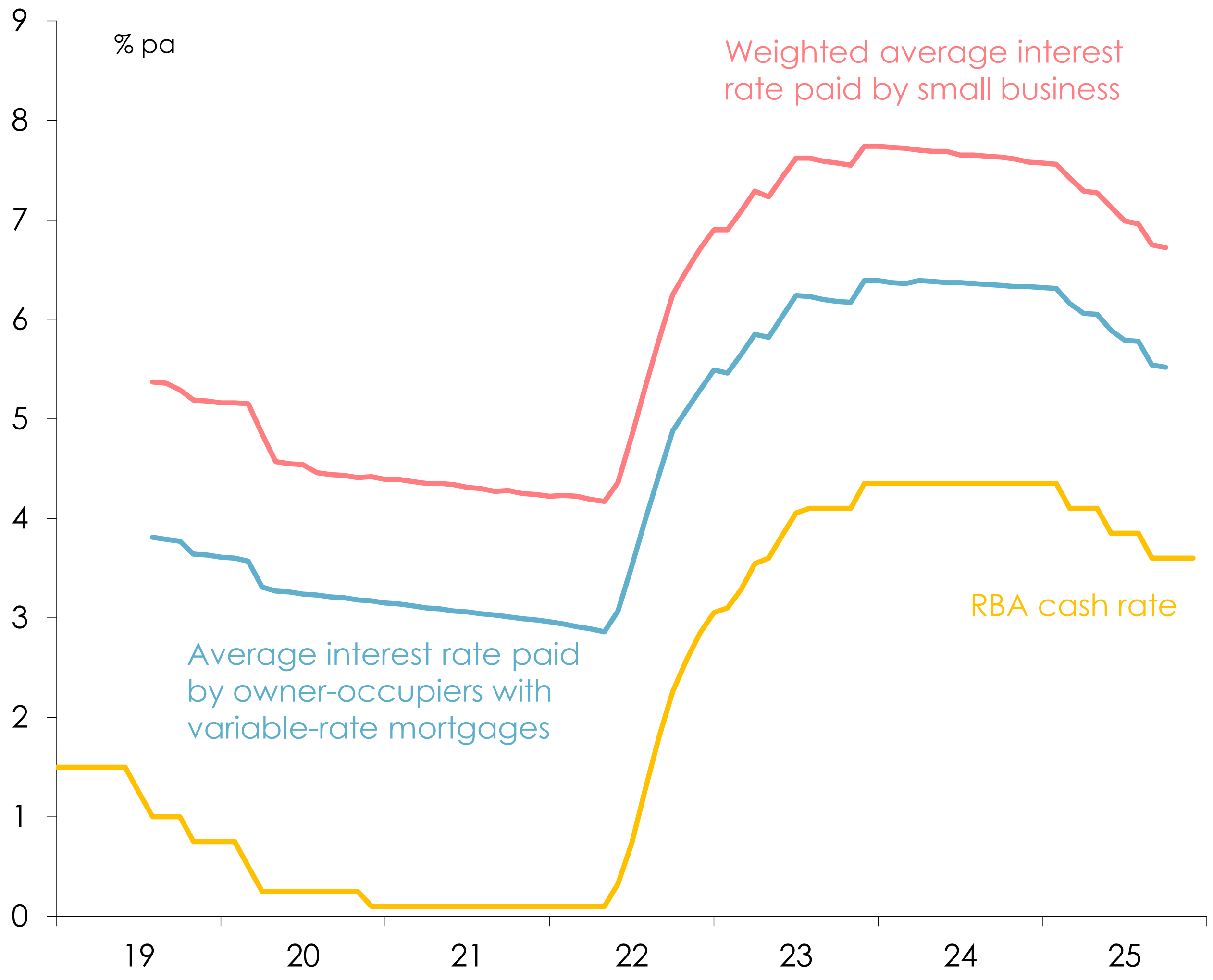


Sources: Reserve Bank of Australia, Statement on Monetary Policy, 29th August 2025; LSEG Datastream.

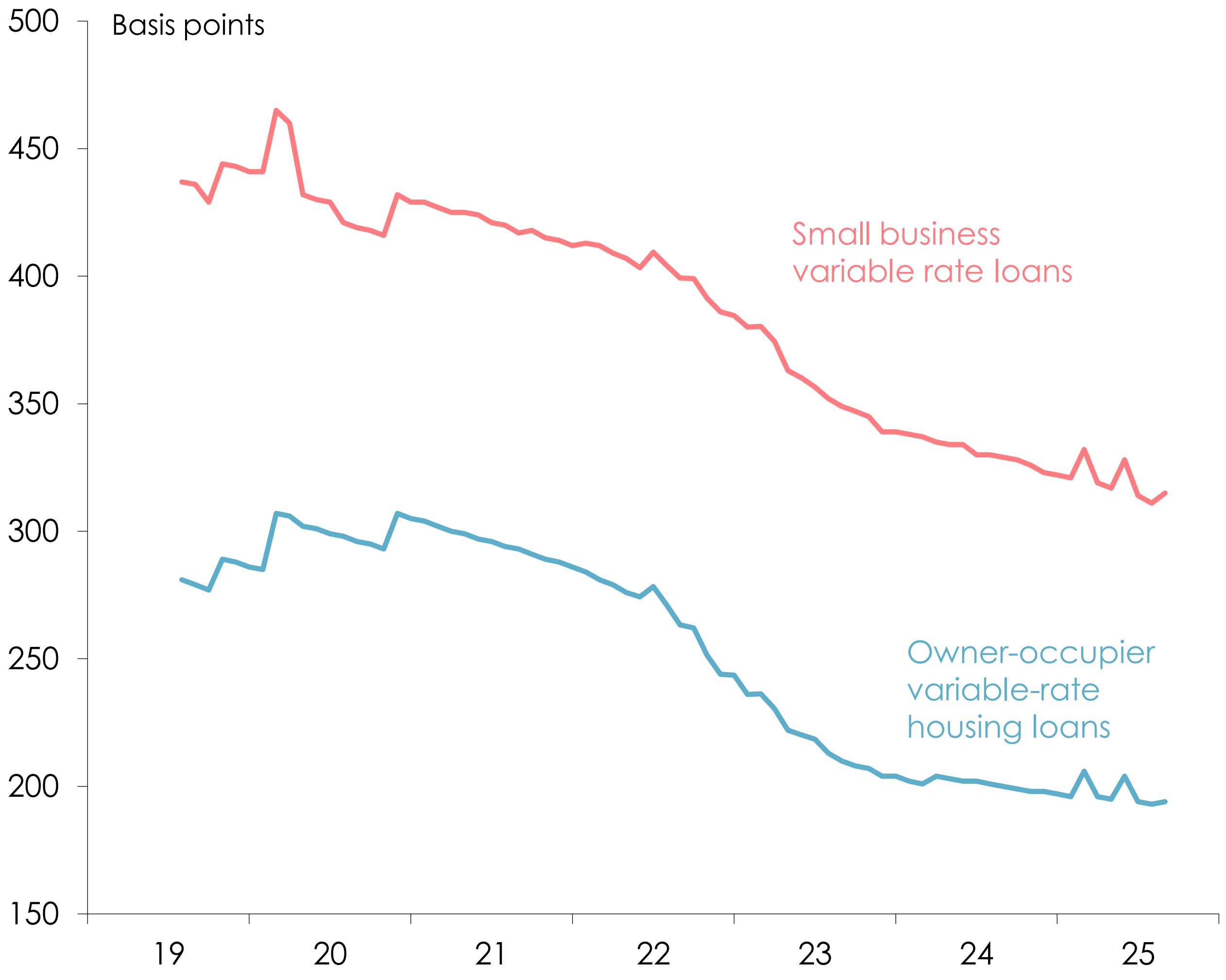
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Narrowing spreads between interest rates paid by borrowers and the RBA cash rate means the ‘neutral’ cash rate may have risen

RBA cash rate and interest rates paid by small business and home loan borrowers



Spread between interest rates actually paid by borrowers and the RBA cash rate

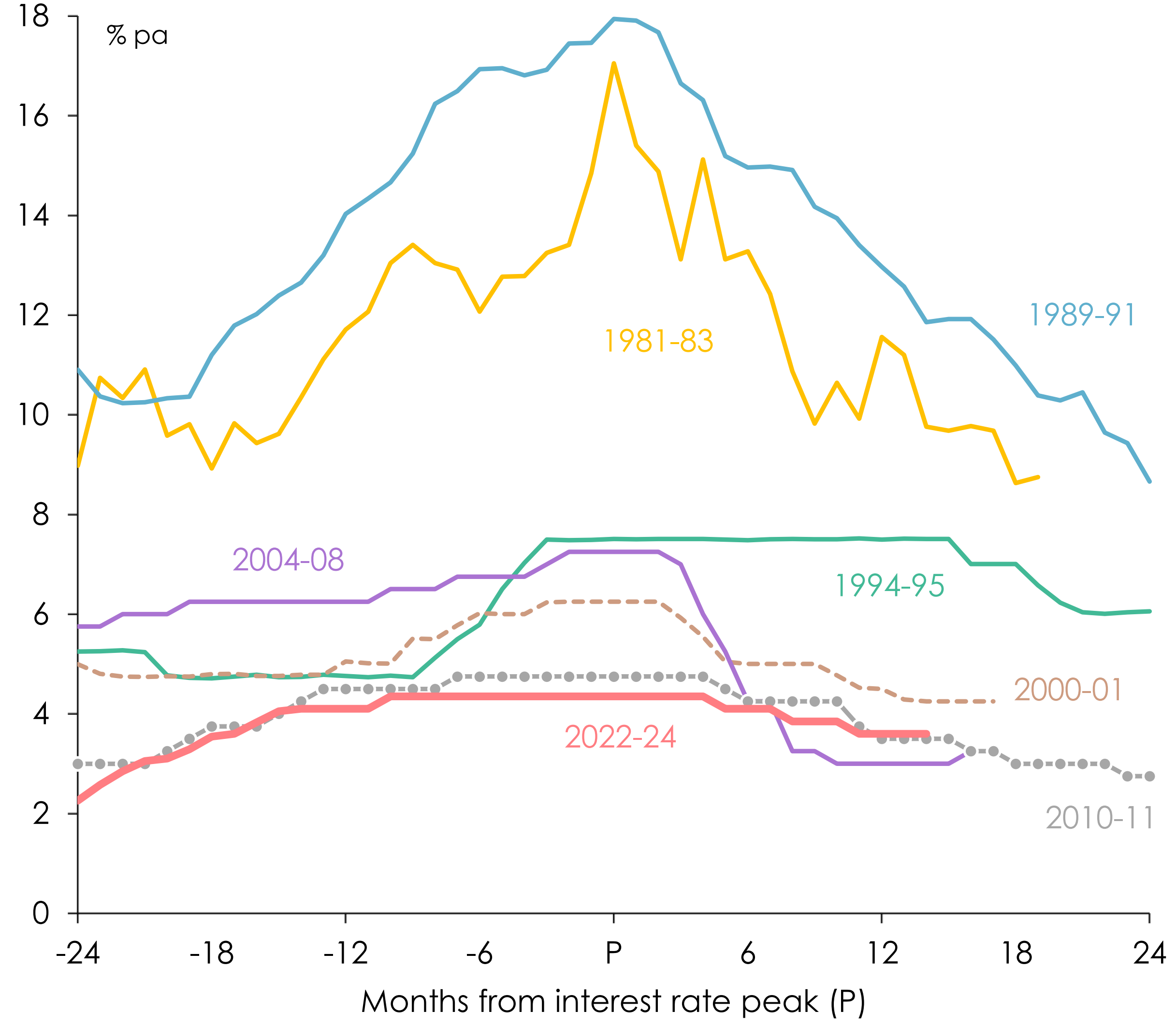


Sources: Reserve Bank of Australia, *Interest Rates and Yields - Money Market – Monthly*, Business lending rates and Housing lending rates.

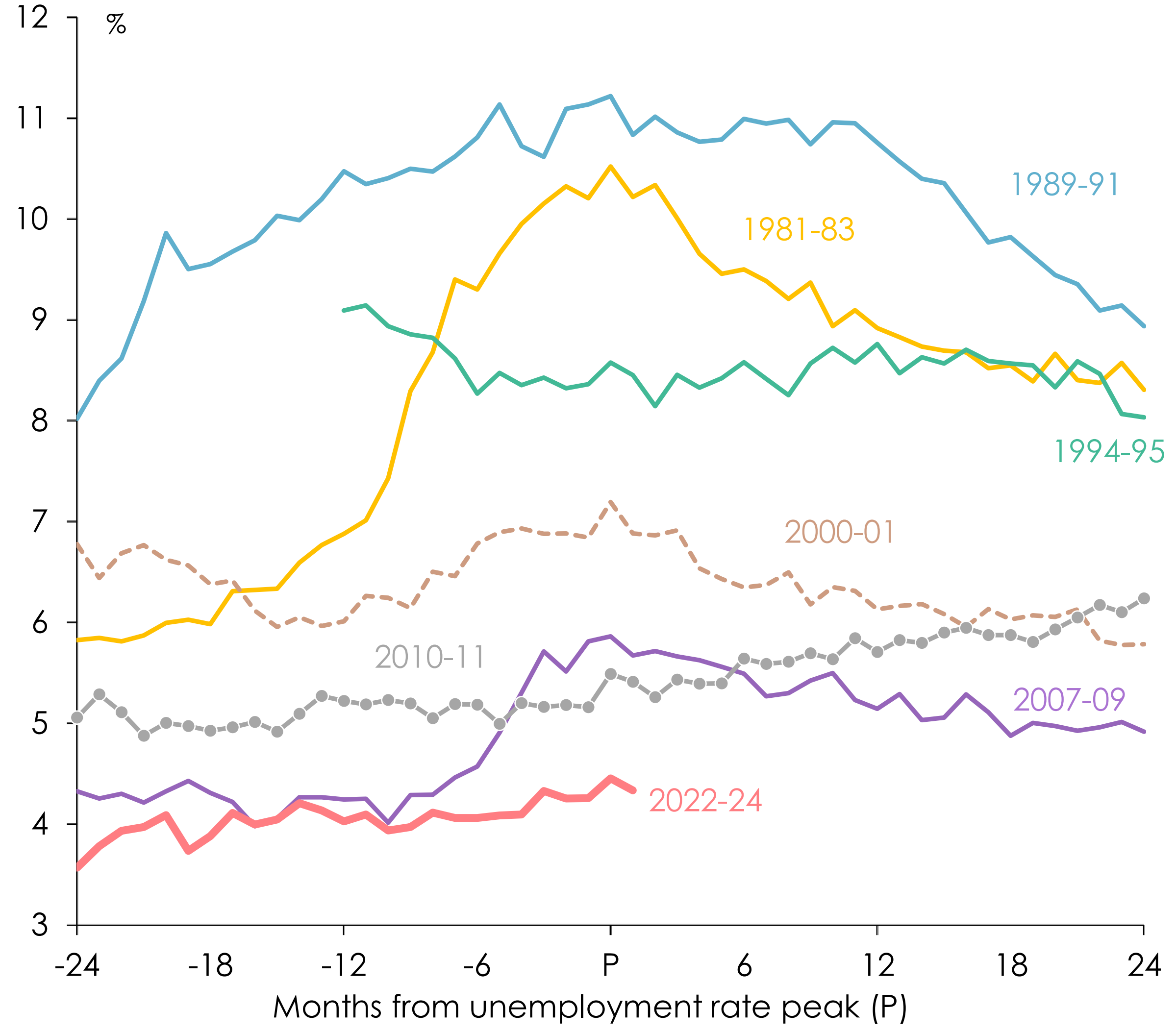
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

The current monetary policy easing cycle has begun with interest rates and unemployment both low by historical standards

RBA cash rate during interest rate cycles



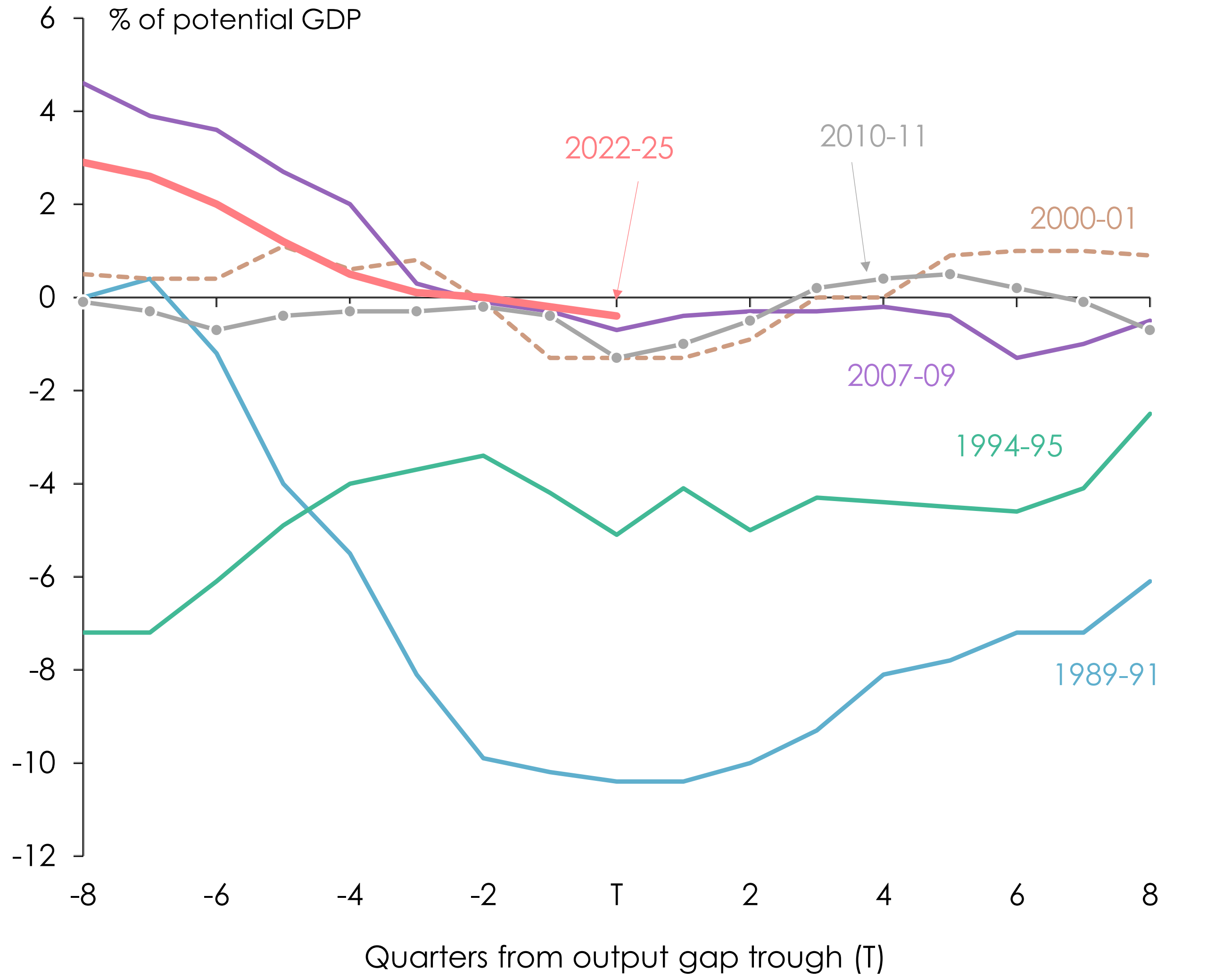
Unemployment rate during interest rate cycles



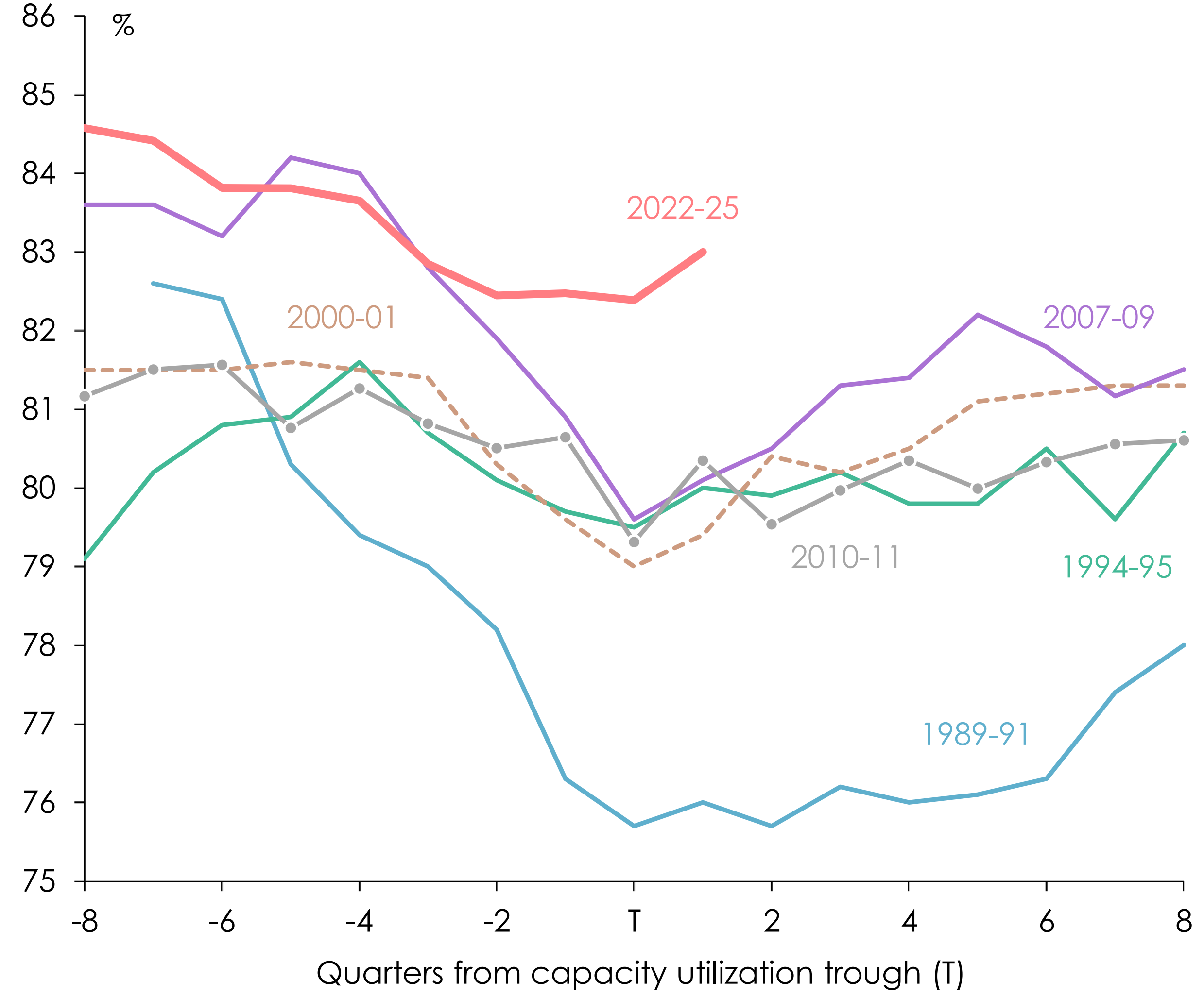
Note: Interest rate peaks were in March 1982, October 1989, April 1995, November 2000, June 2008, June 2011 and September 2024; unemployment peaks were in July 1983, July 1992, October 1995, October 2001, June 2009, September 2012 and September 2025. *Sources*: Reserve Bank of Australia, Interest Rates and Yields - Money Market - Monthly and ABS, Labour Force, October 2025.

The current monetary policy easing cycle has begun with a lot less ‘spare capacity’ in the economy than in previous cycles

The ‘output gap’ during interest rate cycles



Capacity utilization during interest rate cycles



Note: the ‘output gap’ is the difference between actual and potential GDP, the latter of which is unobservable and has to be estimated. Estimates shown here are the mid-point of models estimated by the RBA. *Sources*: Reserve Bank of Australia, *Statement on Monetary Policy: Assessment of spare capacity*, 4th November 2025; National Australia Bank, *Quarterly Business Survey*, Q3 2025.

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

A useful way of thinking about what drives of economic growth

$$\text{GDP} = \text{population} \times \frac{\text{employment}}{\text{population}} \times \frac{\text{hours worked}}{\text{employment}} \times \frac{\text{GDP}}{\text{hours worked}}$$

$$= \text{population} \times \text{`employment rate'} \times \text{average hours worked} \times \text{labour productivity}$$

$$= \text{population} \times \left\{ \text{labour force participation rate*} \times (1 - \text{unemployment rate}) \right\} \times \text{average hours worked} \times \text{labour productivity}$$

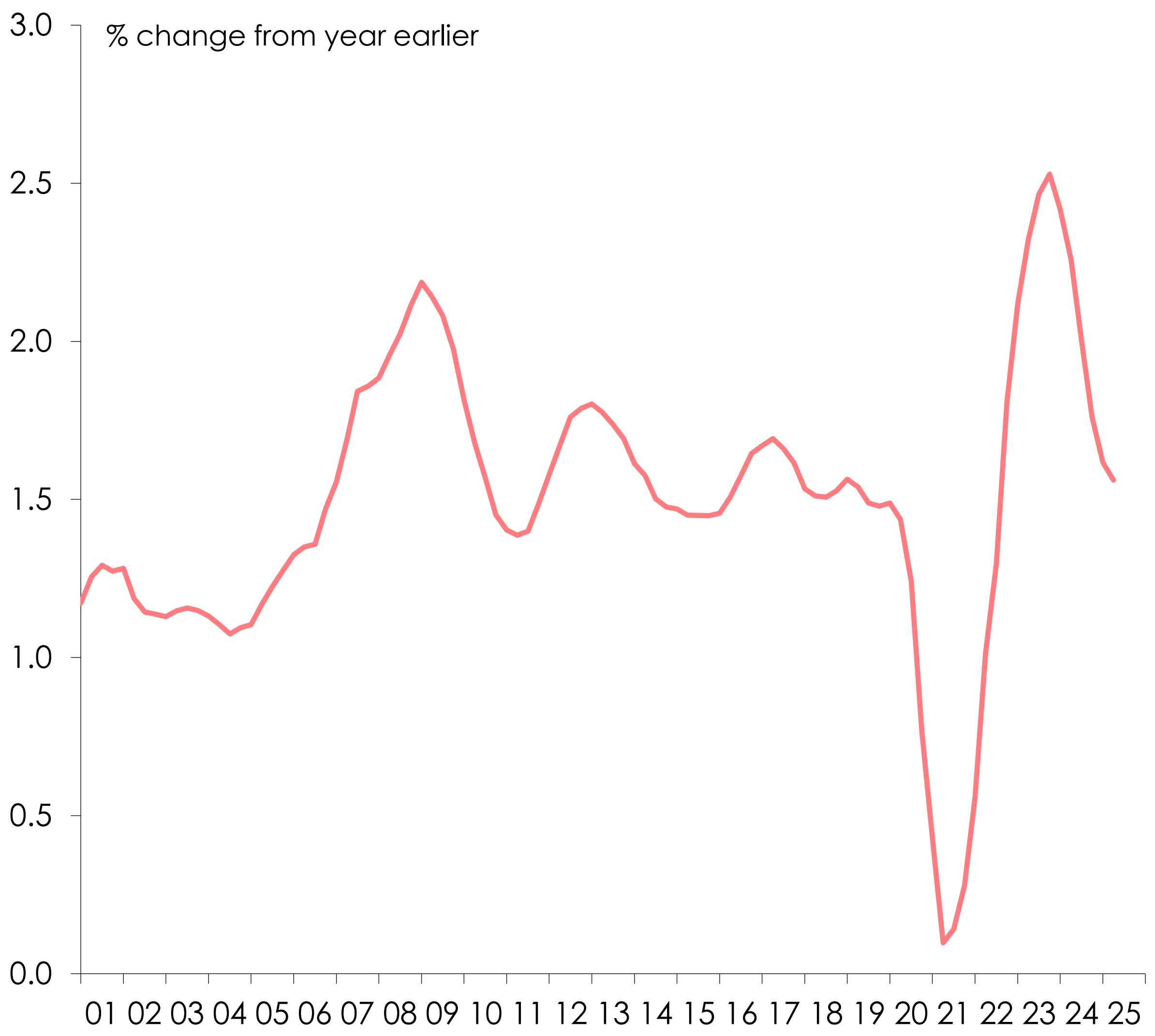
* where the participation rate is the labour force as a pc of the total population, not just those aged 15+

$$\Delta\textit{GDP} = \Delta\,\textit{population} \times \Delta\,\textit{`employment rate'} \times \Delta\,\textit{average hours worked} \times \Delta\,\textit{labour productivity}$$

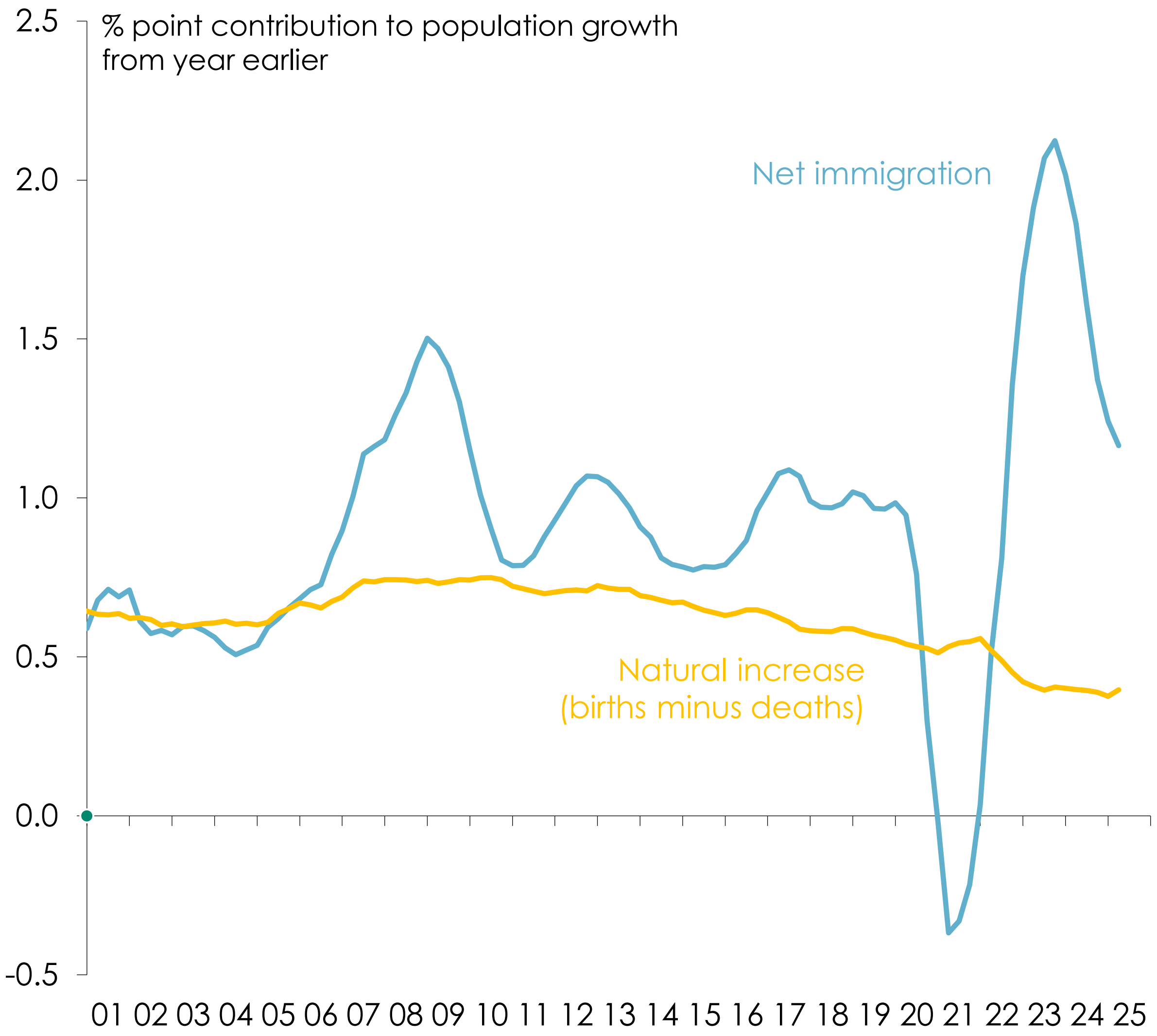
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Australia's population growth rate is now clearly slowing after the post-Covid surge (and will slow further if anti-immigration sentiment takes hold)

Population growth



Composition of population growth

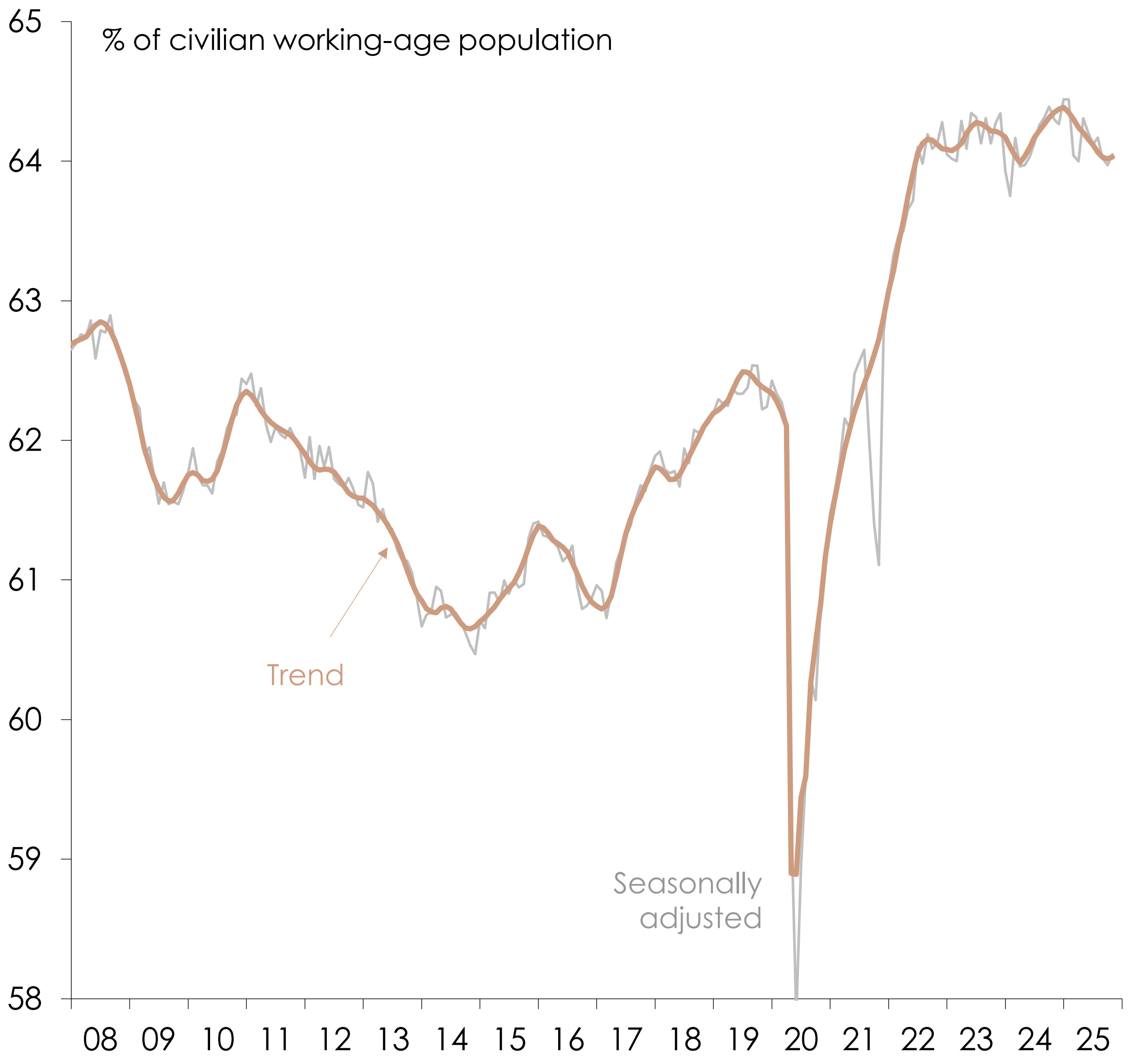


Source: ABS, *National, state and territory population*, March quarter 2025.

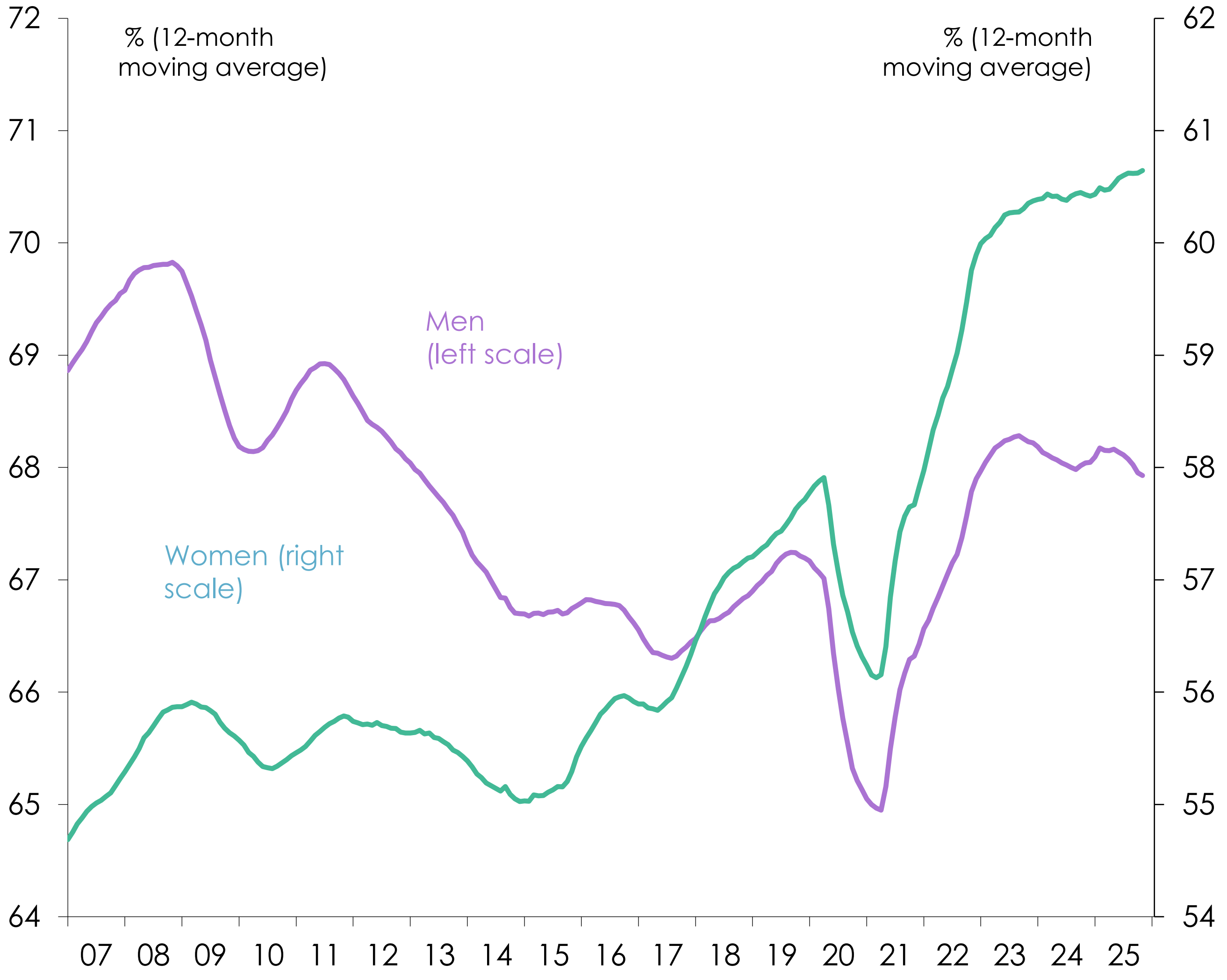
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

There may not be much scope, in practice, for further increases the proportion of Australia's population who are in employment

Employment-to-population ratio



Employment-to-population ratios by gender

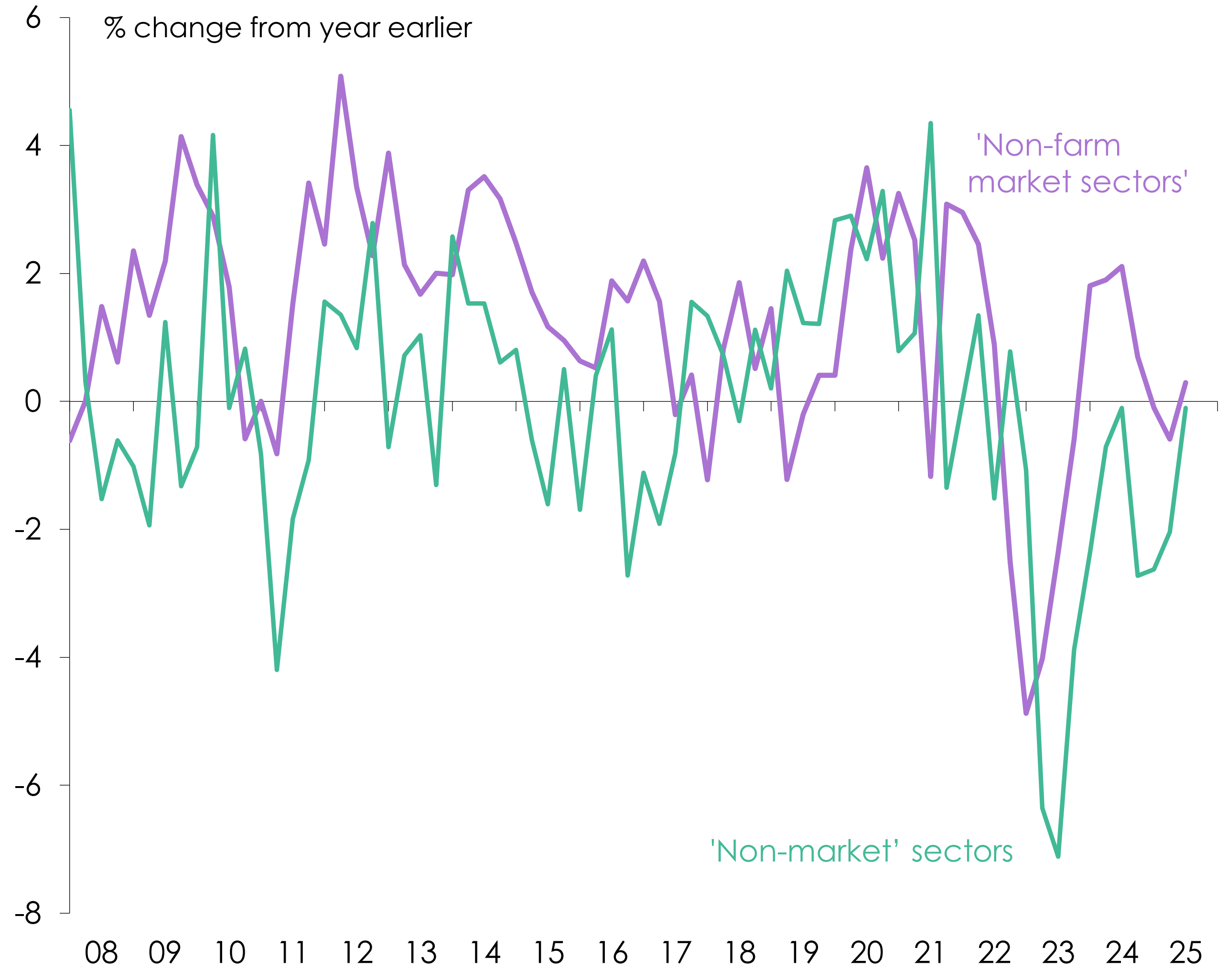


Sources: ABS, *Labour Force*, October 2025.

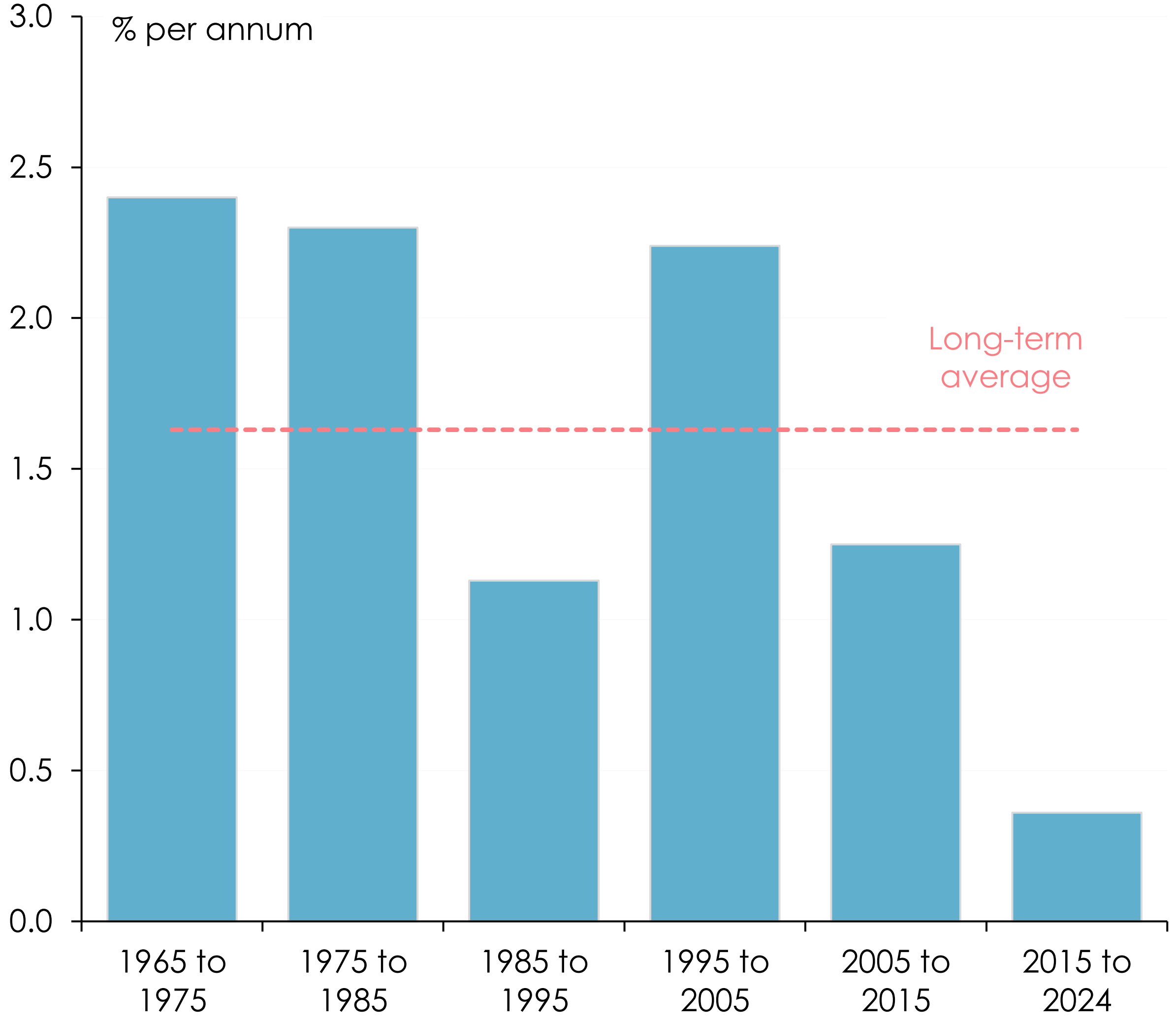
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Australia's productivity growth has slumped over the past decade

Labour productivity growth



Average annual labour productivity growth

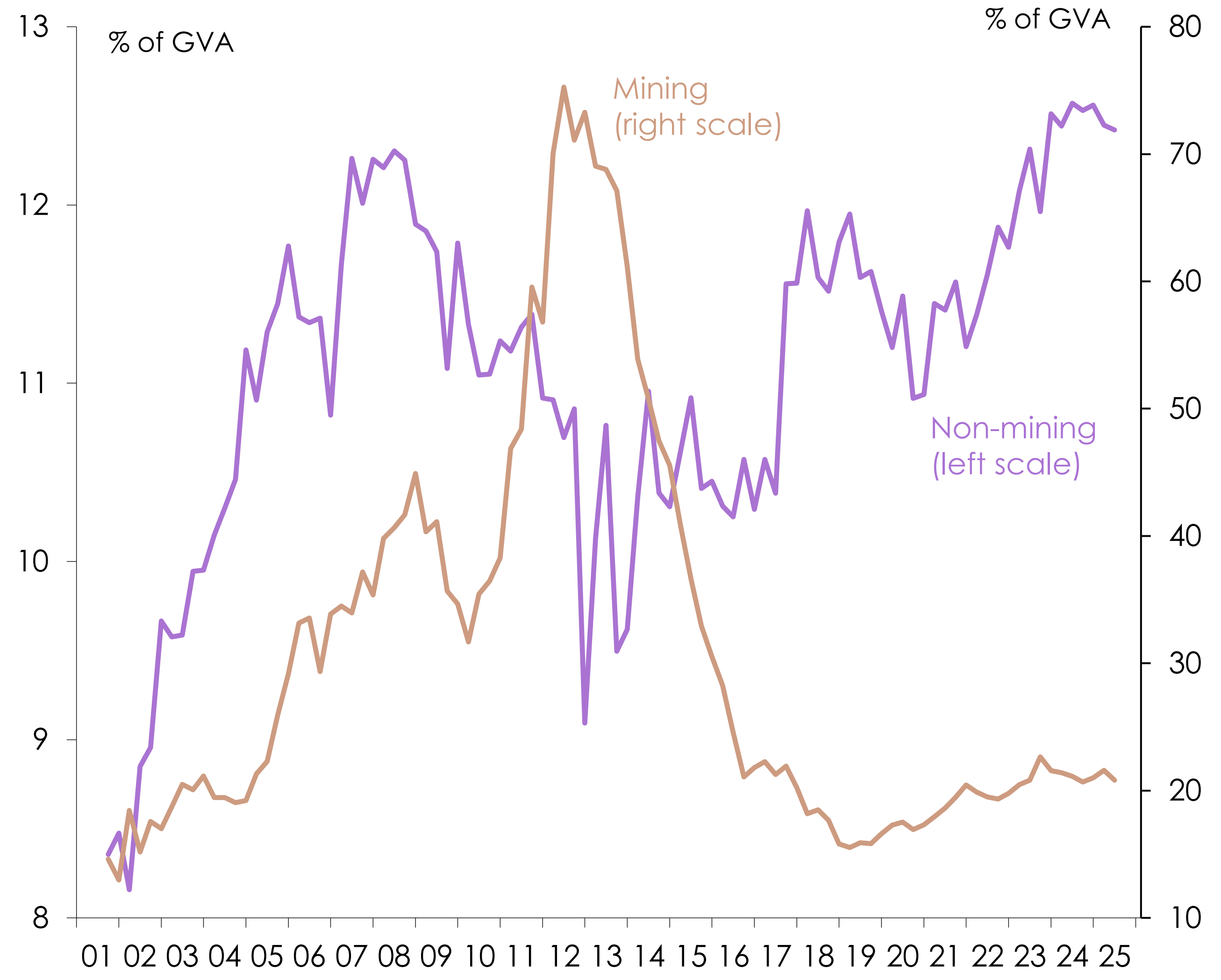


Sources: ABS Australian National Accounts: National Income, Expenditure and Product, June quarter 2025; Productivity Commission, Growth mindset: how to boost Australia's productivity, July 2025.

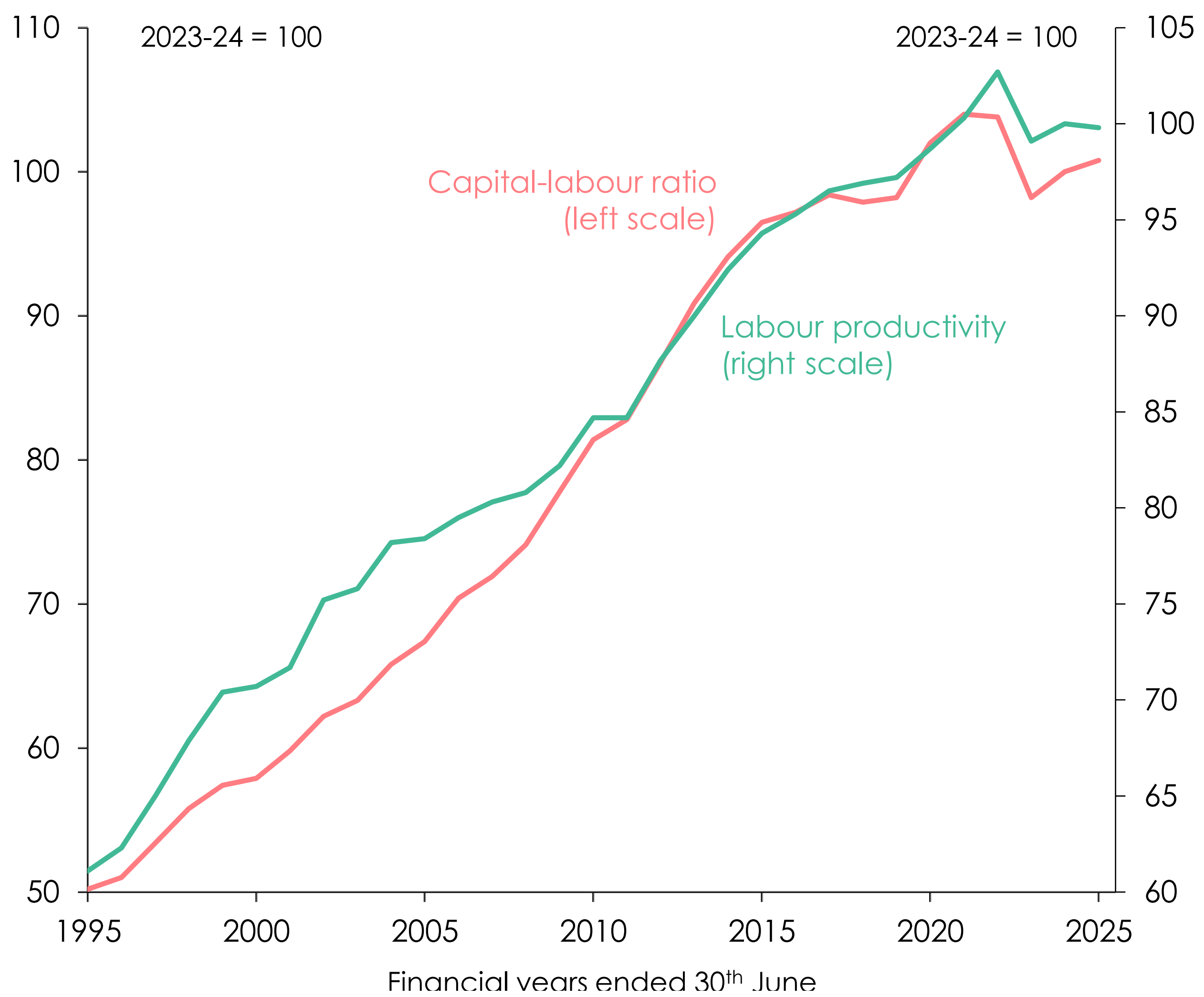
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

A decline in business investment after the GFC has almost certainly contributed to the slowdown in Australian productivity growth

Business investment



Capital-labour ratio and labour productivity

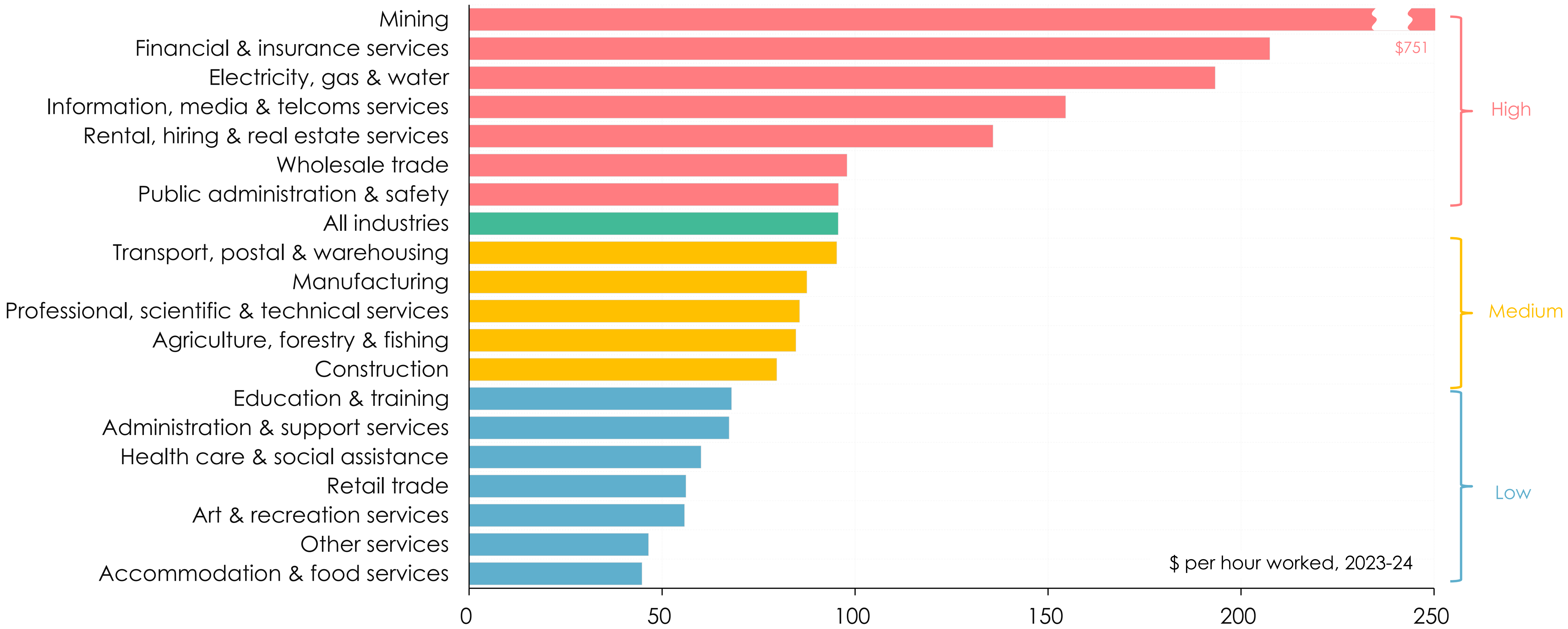


Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2025, and *Australian System of National Accounts*, 2024-25.

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Some industries have much higher labour productivity than others

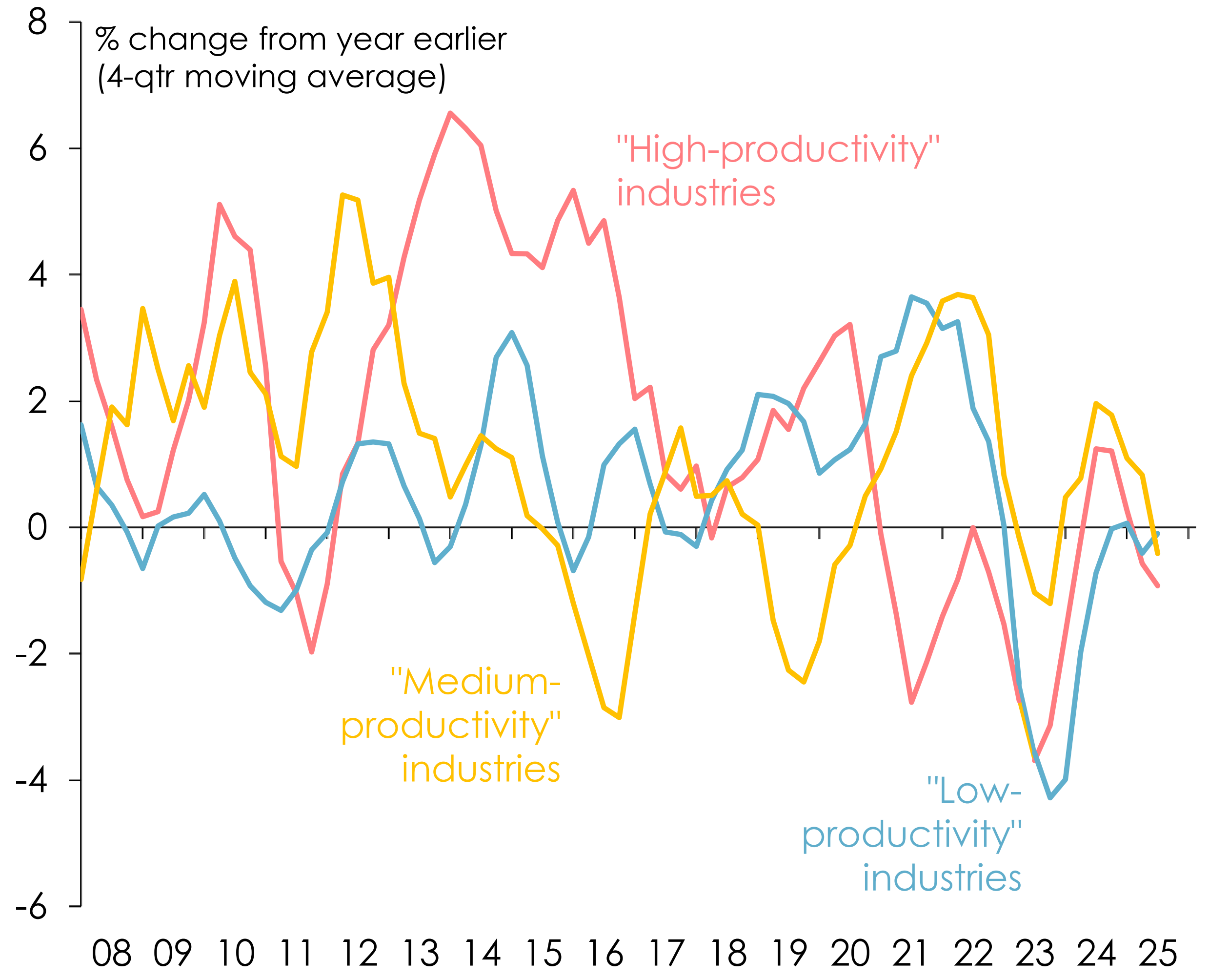
Australian labour productivity (gross value added per hour worked) by industry, 2023-24



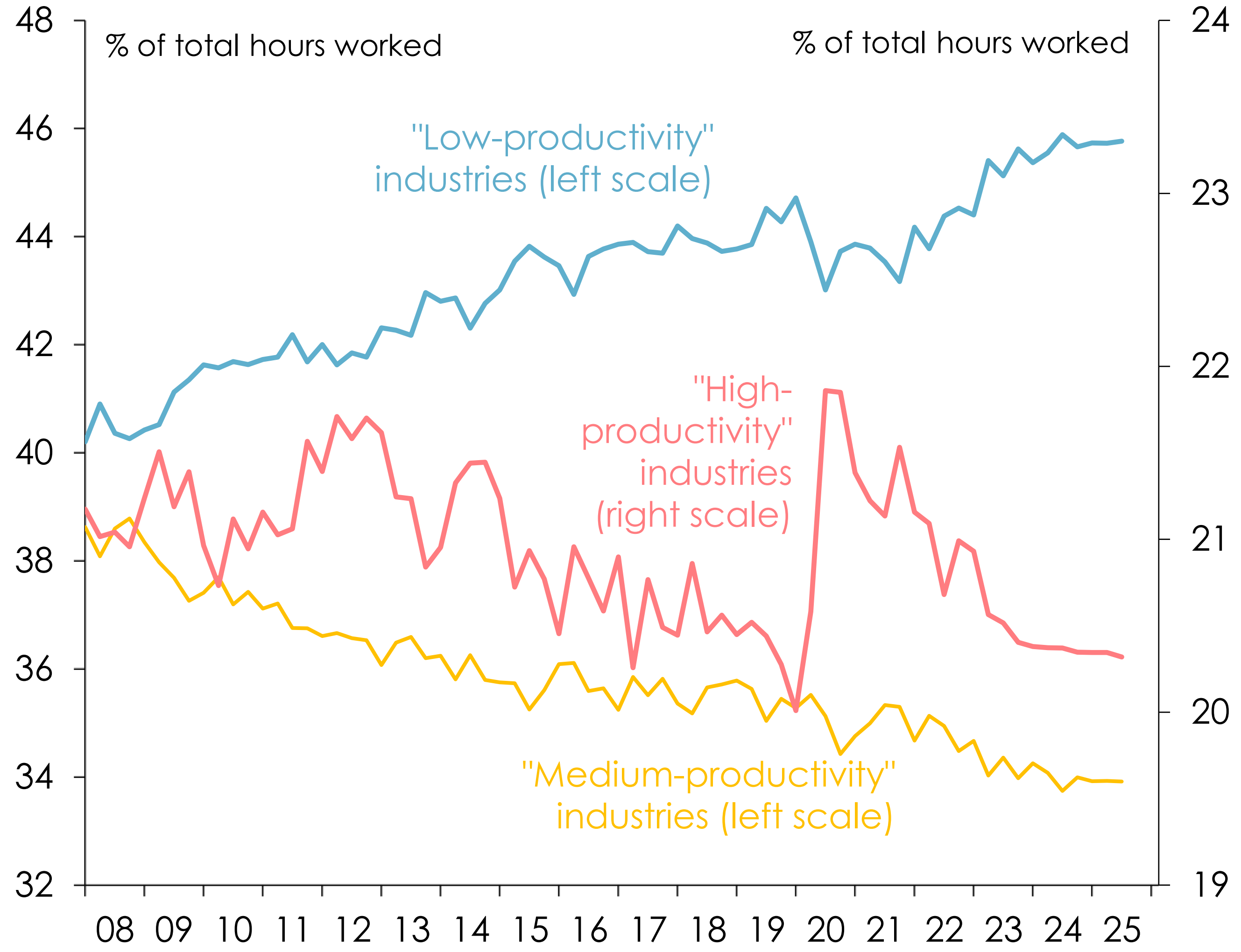
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2024, and *Labour Account, Australia*, December quarter 2024.

The slide in Australia's overall productivity growth rate is partly due to a shift towards intrinsically low labour productivity industries …

Labour productivity growth in "high-", "medium-" and "low-productivity" industries



Shares of total hours worked in "high-", "medium-" and "low-productivity" industries

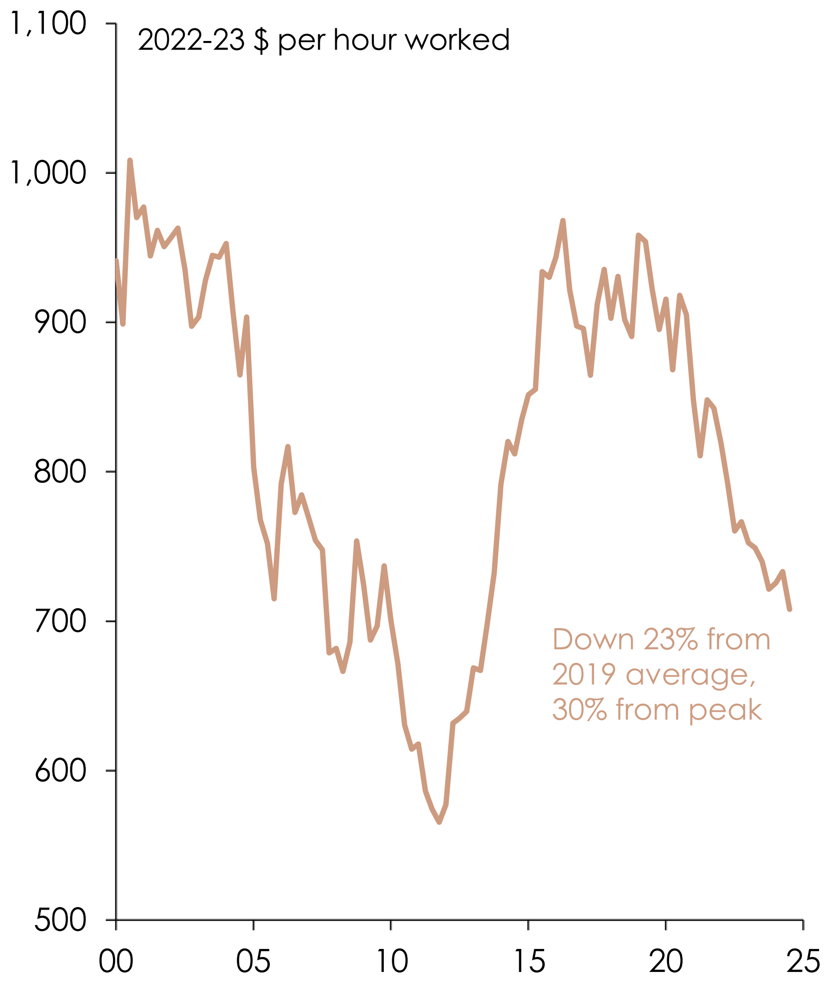


Note: "High-'", "medium-" and "low-productivity" industries are as classified in the previous slide.
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2025, and *Labour Account, Australia*, June quarter 2025.

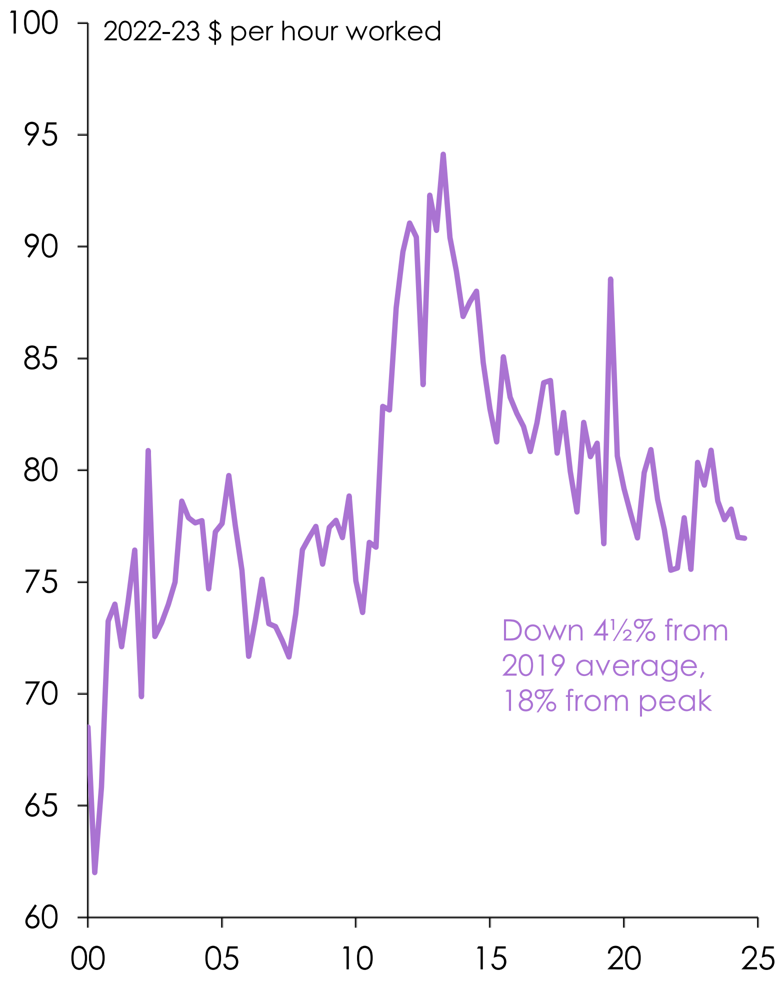
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

… but also because productivity growth in three of Australia's more important industries has actually been negative over long periods of time

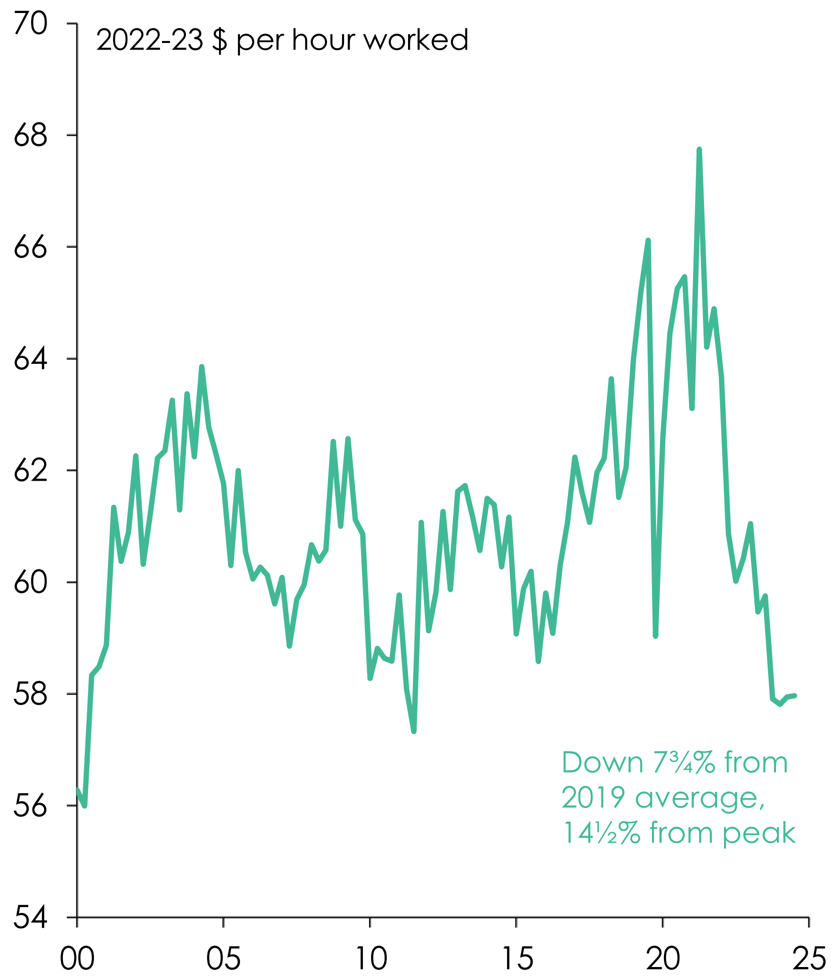
Labour productivity in mining



Labour productivity in construction



Labour productivity in health care and social assistance

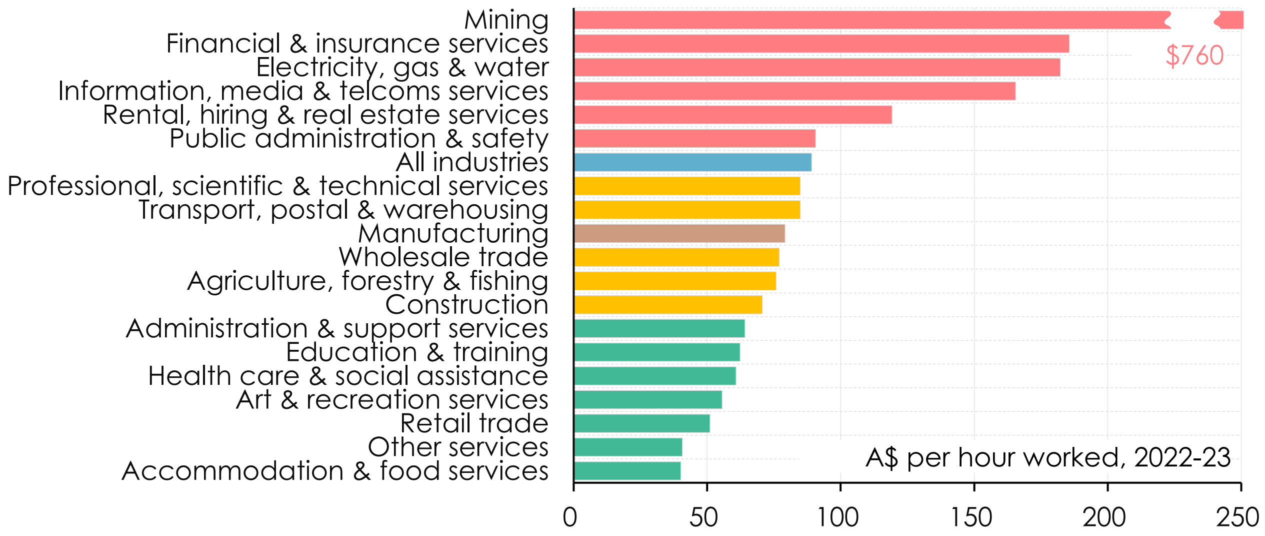


Sources: ABS, Australian National Accounts: National Income, Expenditure and Product, June quarter 2025, and Labour Account, Australia, June quarter 2025.

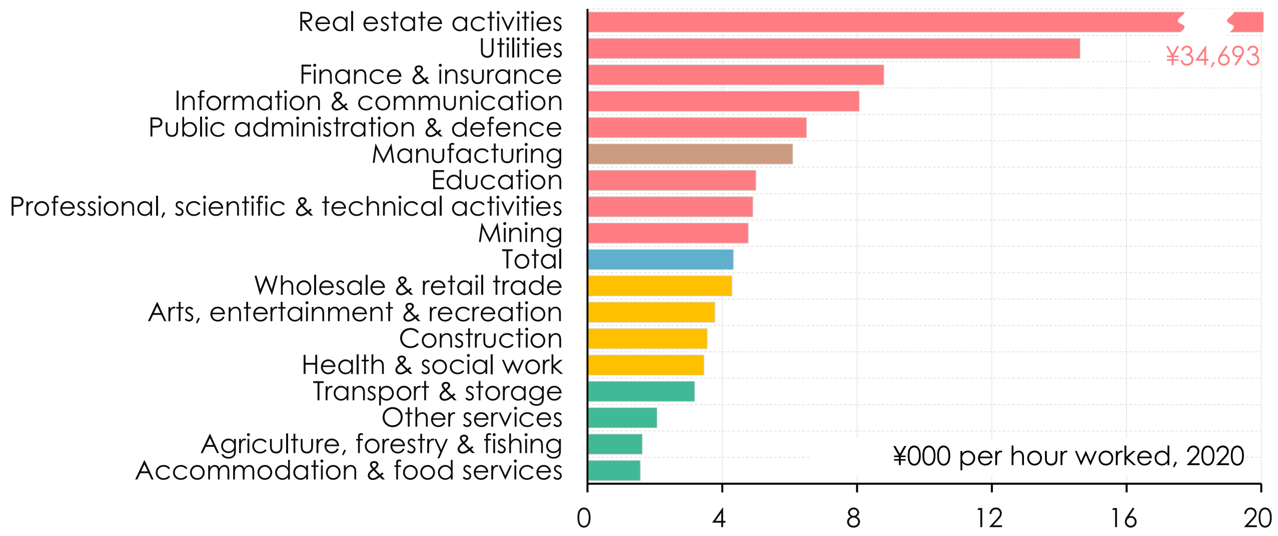
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

‘Manufacturing fetishism’ is bad for productivity in Australia, because in Australia manufacturing has below-average productivity

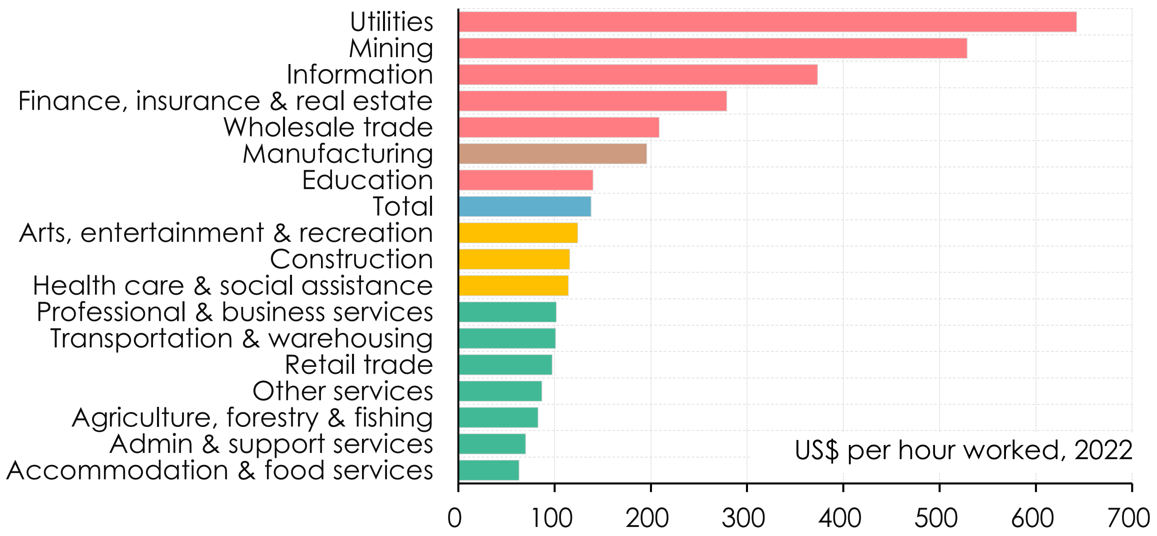
Labour productivity by industry - Australia



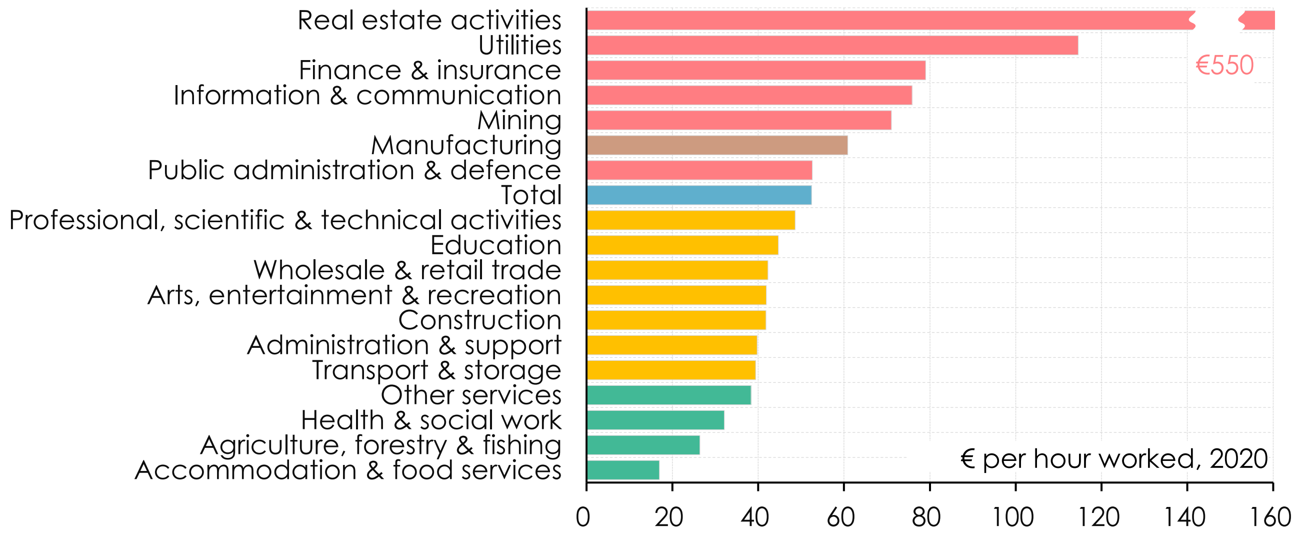
Labour productivity by industry - Japan



Labour productivity by industry – United States



Labour productivity by industry – Germany

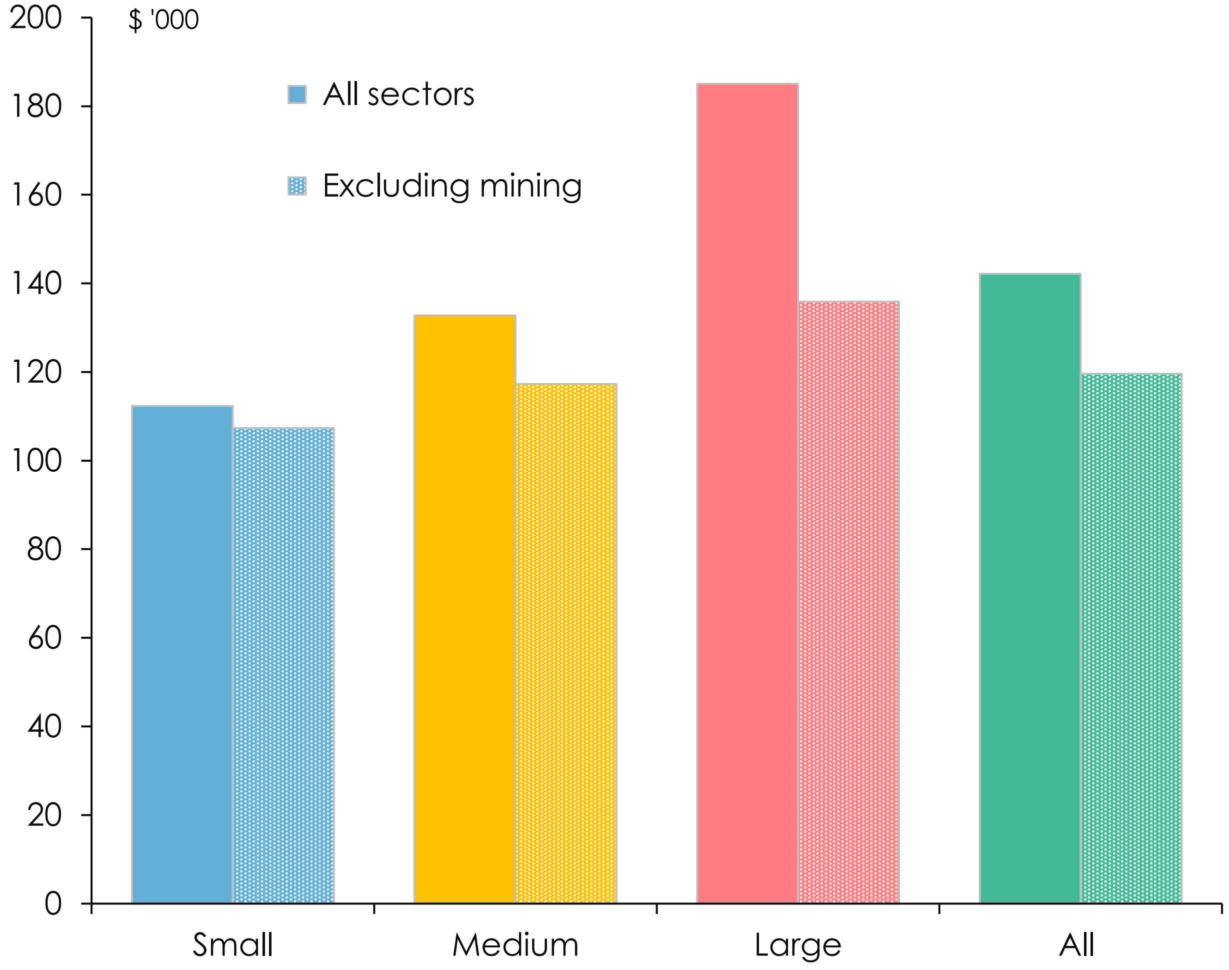


Sources: Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product and Labour Account, December 2023; US Bureau of Labor Statistics, Labor productivity and costs measures - Detailed industries, 2022; Luiss Lab of European Economics, EUKLEMS and Intanprod, 2020.

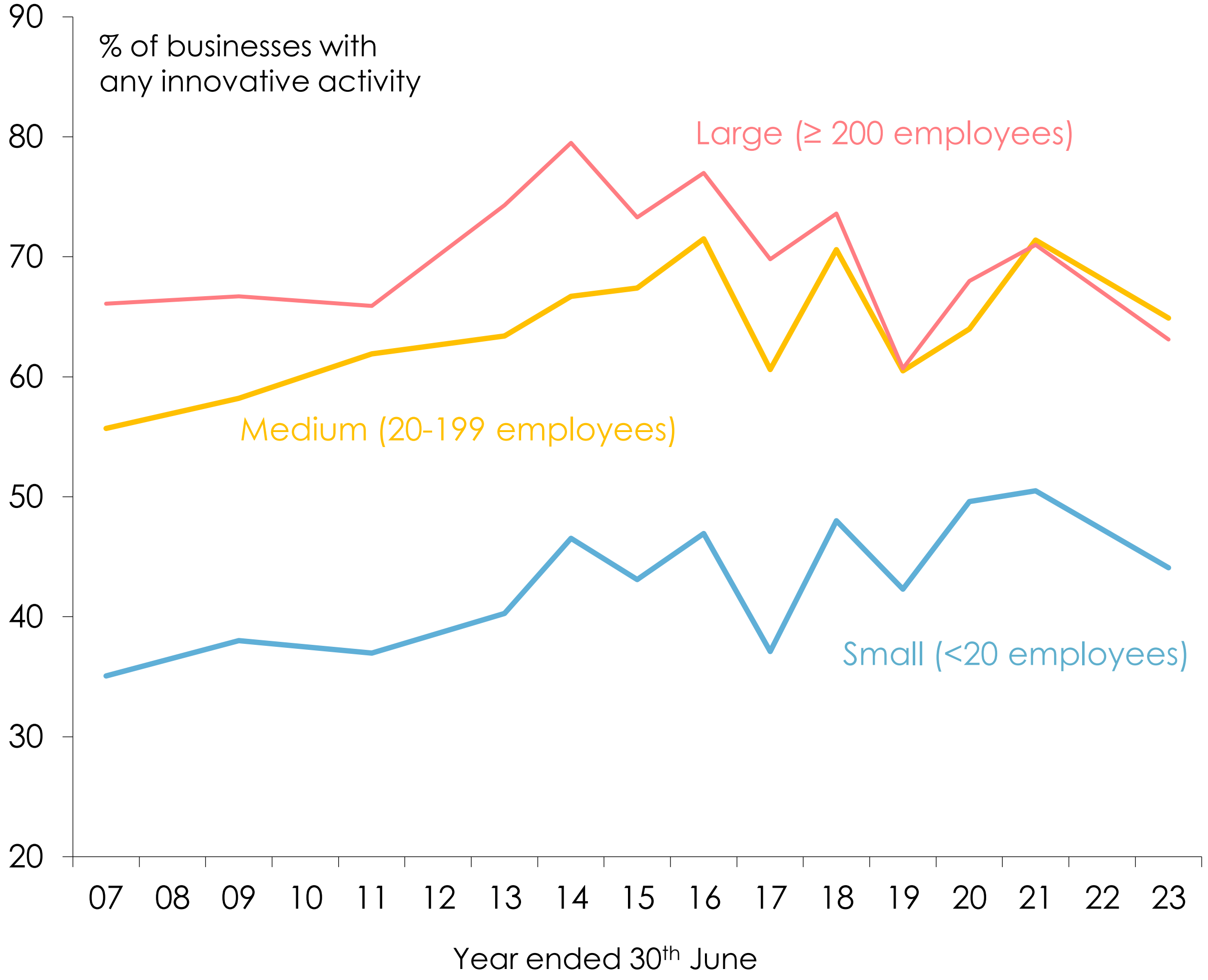
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

‘Small business fetishism’ is also bad for productivity, because productivity in small business is 10% below the average for all businesses

Gross value added per person employed, by business size, 2023-24



Business innovation, by business size, 2006-07 through 2022-23

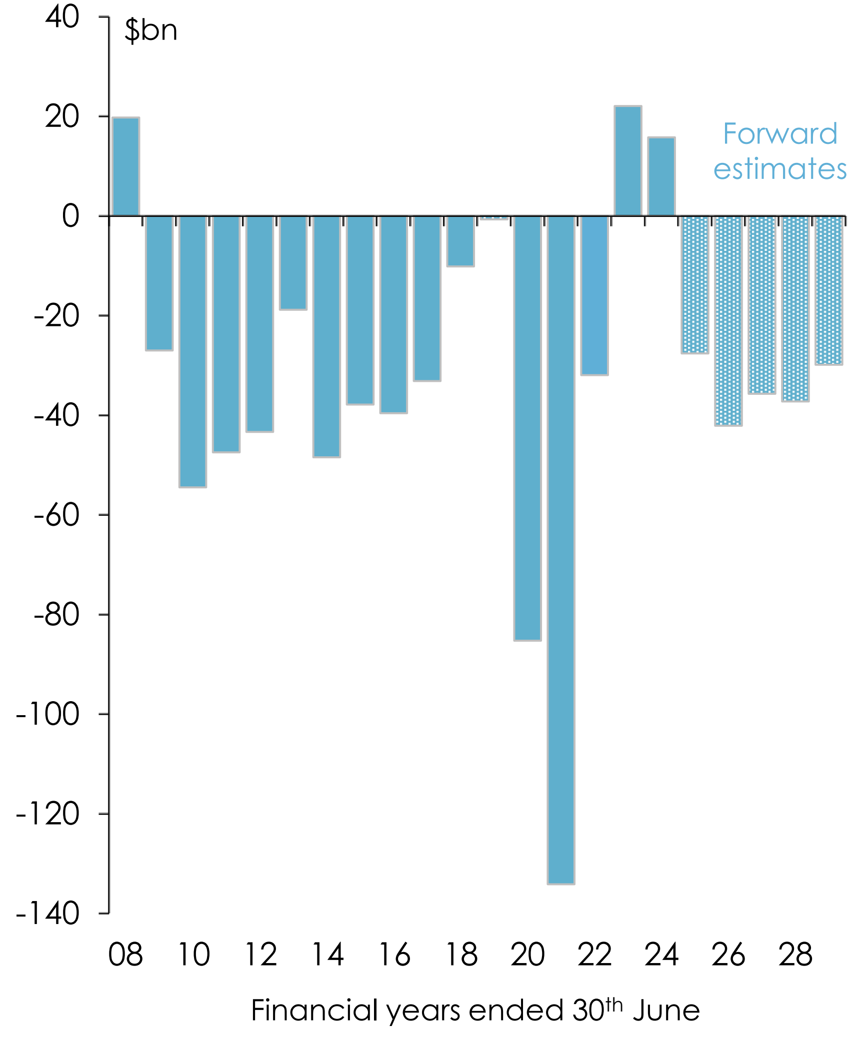


Sources: ABS, *Australian Industry*, 2023-24 financial year, and *Innovation in Australian Business*, 2022-23 financial year.

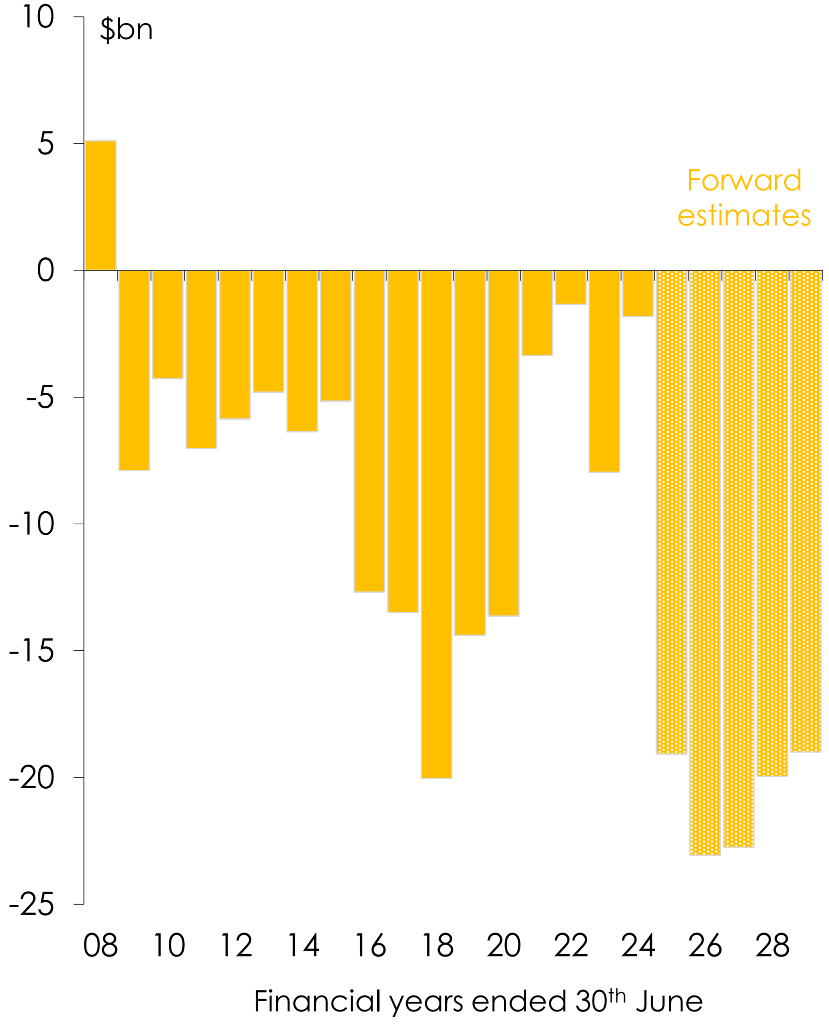
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

After two successive surpluses, the Federal budget is going back into deficit in 2024-25 – with a large contribution from 'off-budget' spending

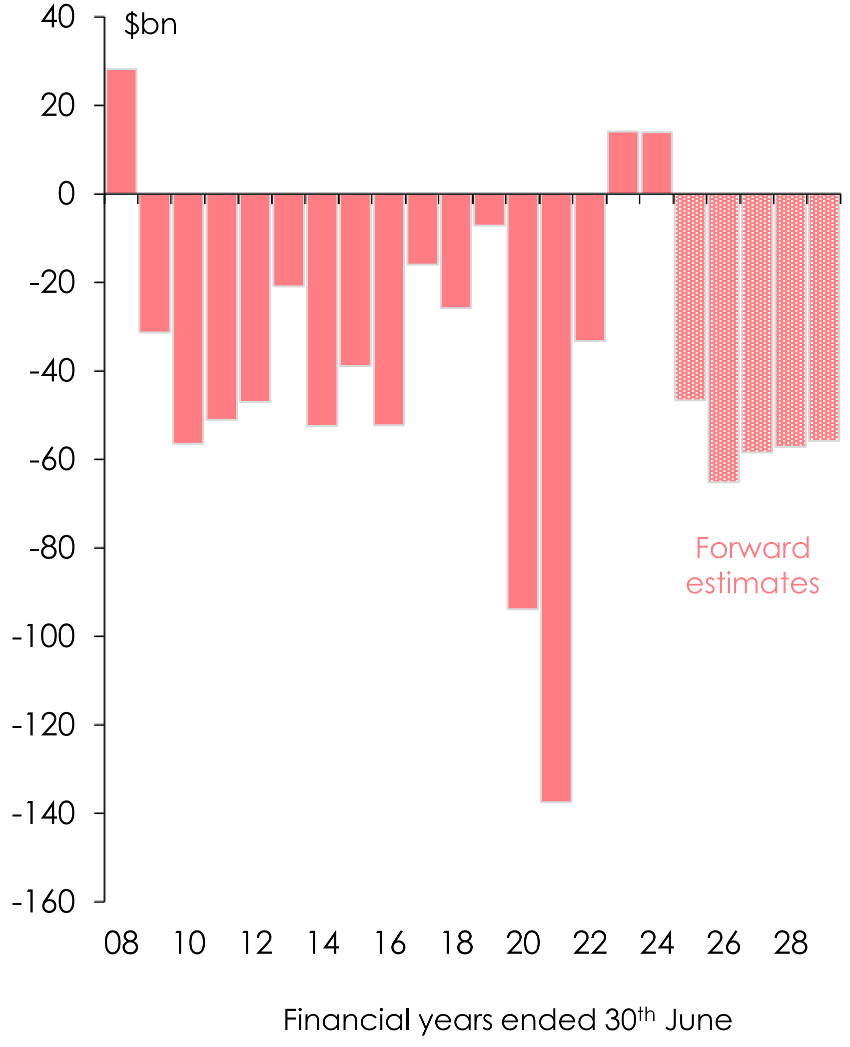
'Underlying' cash balance



'Net investments in financial assets for policy purposes'



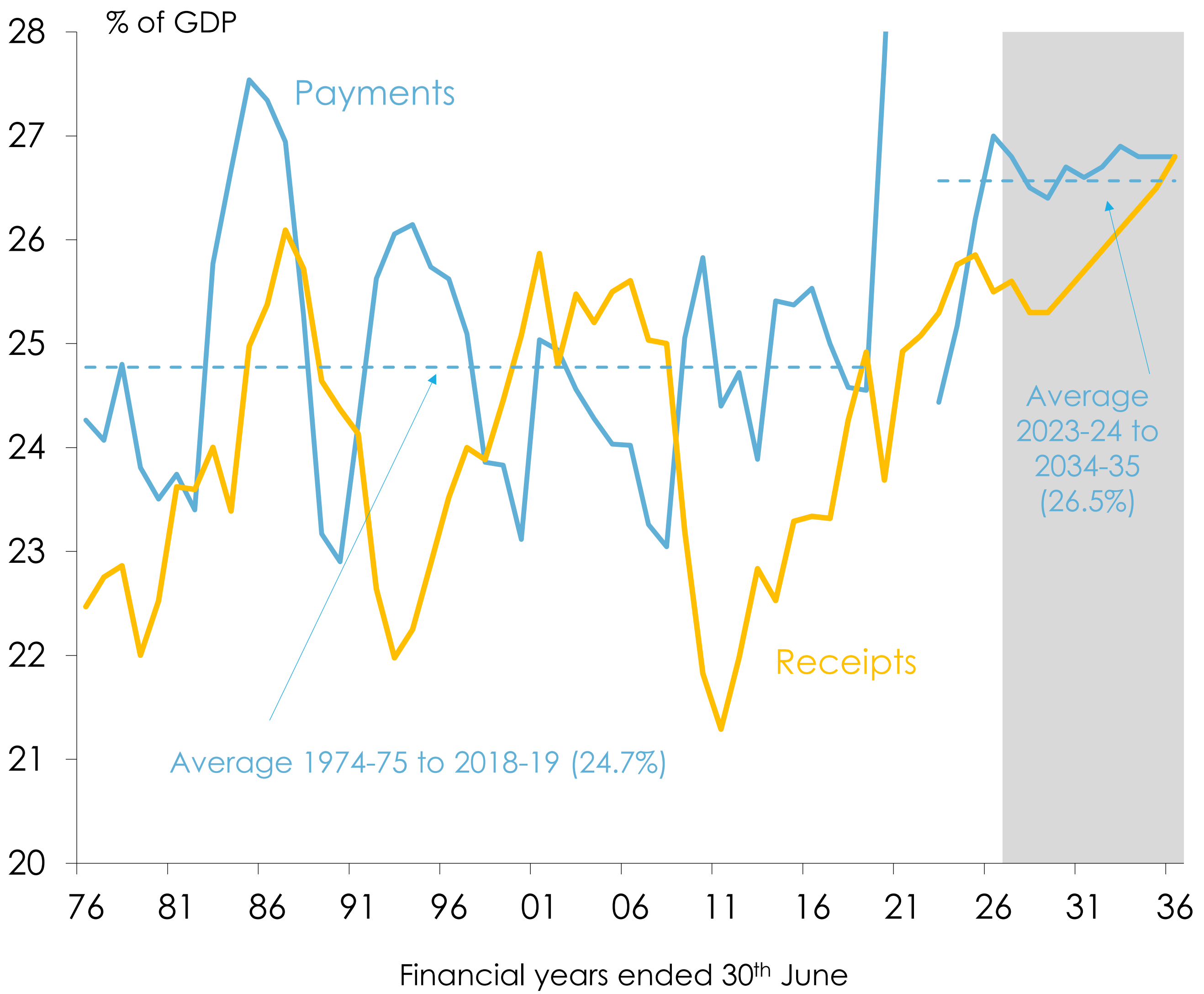
'Headline' cash balance



Sources: Australian Government, *2025-26 Budget Paper No. 1: Budget Strategy and Outlook*, March 2025.

Australia's long-term structural budget problem should prompt an 'adult conversation' about how to pay for additional spending – but it hasn't

'Underlying' cash payments and receipts

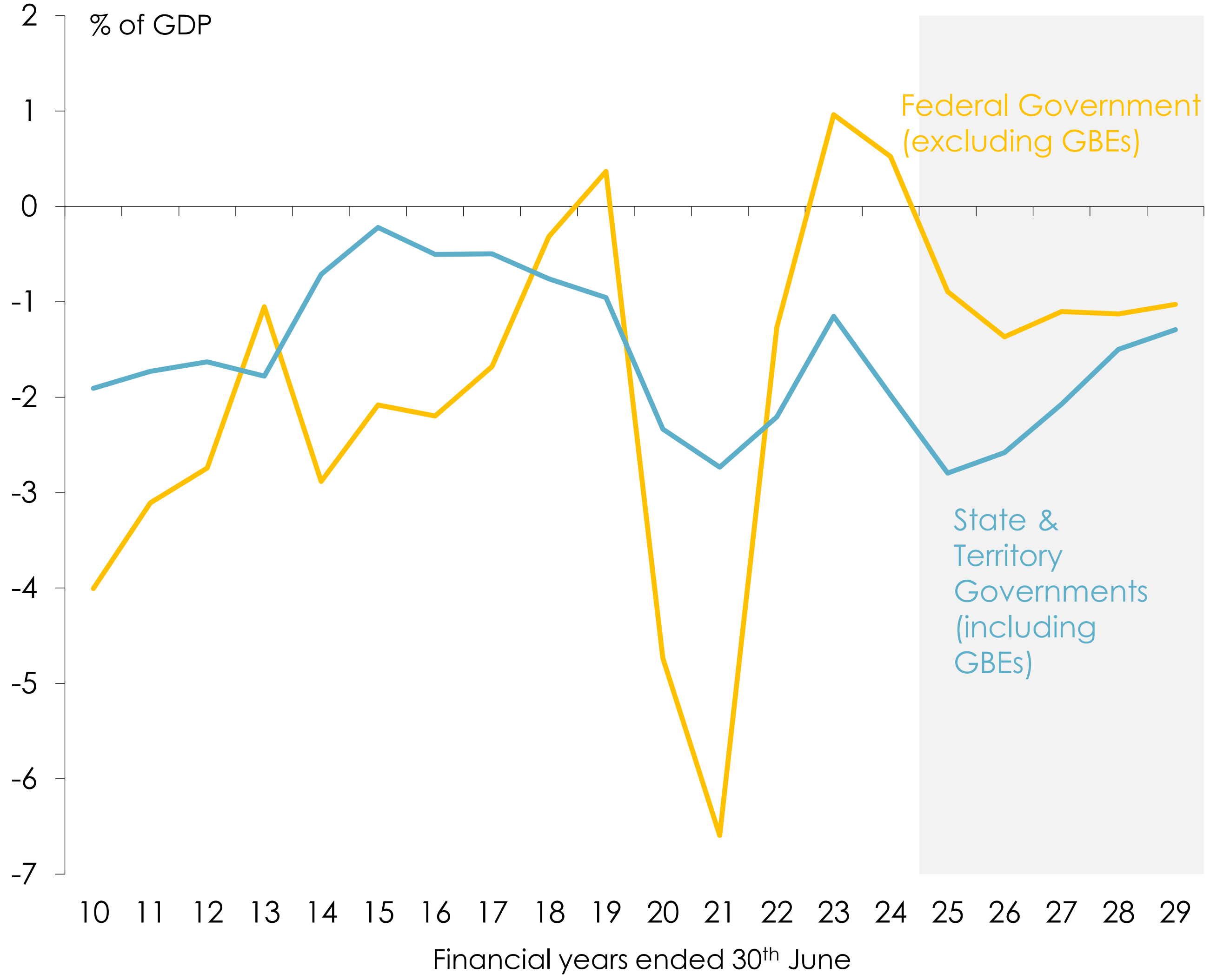


- ❑ **Federal government spending in the post-Covid era appears to have settled at about 1¾ pc points of GDP higher than the 1975-2019 average**
  - that reflects the Australian public's evident demand for more spending on health, aged, disability and child care …
  - … the consensus among the major political parties that Australia needs to spend more on defence (whether the public wants that or not)
  - and the inevitability of more spending on interest as a result of the $531bn increase in net debt since 2008
- ❑ **It's not at all clear that this additional spending can be offset by reductions in other areas of the Budget**
  - although scrapping the outrageous GST 'deal' done at the behest of Western Australia would be a good start
- ❑ **Neither side of politics appears willing to have an 'adult conversation' with the Australian public about how this additional spending should be paid for**
  - which leaves the 'default options' of on-going deficits, and 'bracket creep' pushing up personal income tax

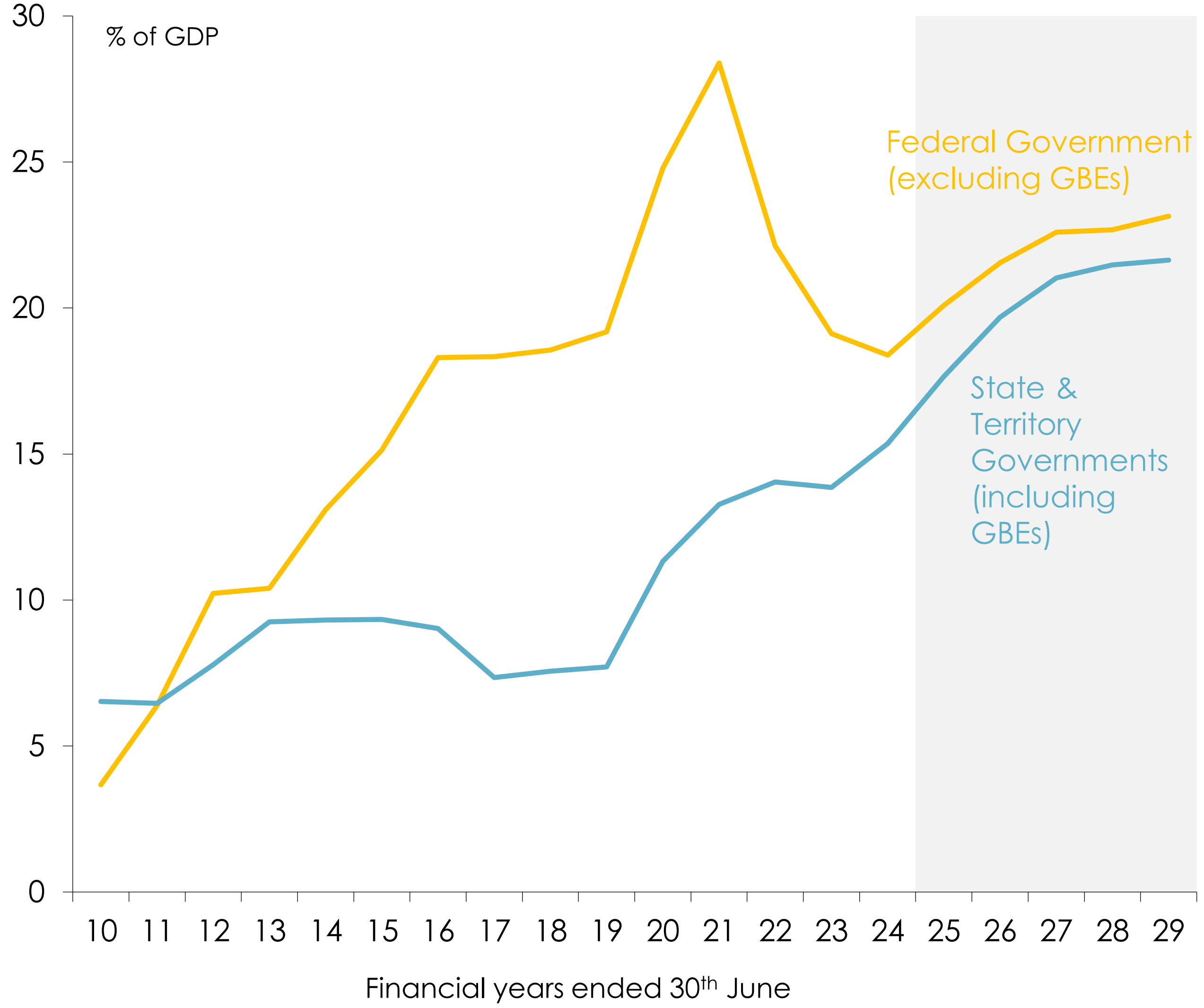
Source: Australian Government, *Final Budget Outcome 2024-25*; *2025-26 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook*; and *Statement 11: Historical Australian Government Data*; .

State and territory governments have been larger deficits in recent years than the Federal Government, and running up more debt

Cash surpluses or deficits



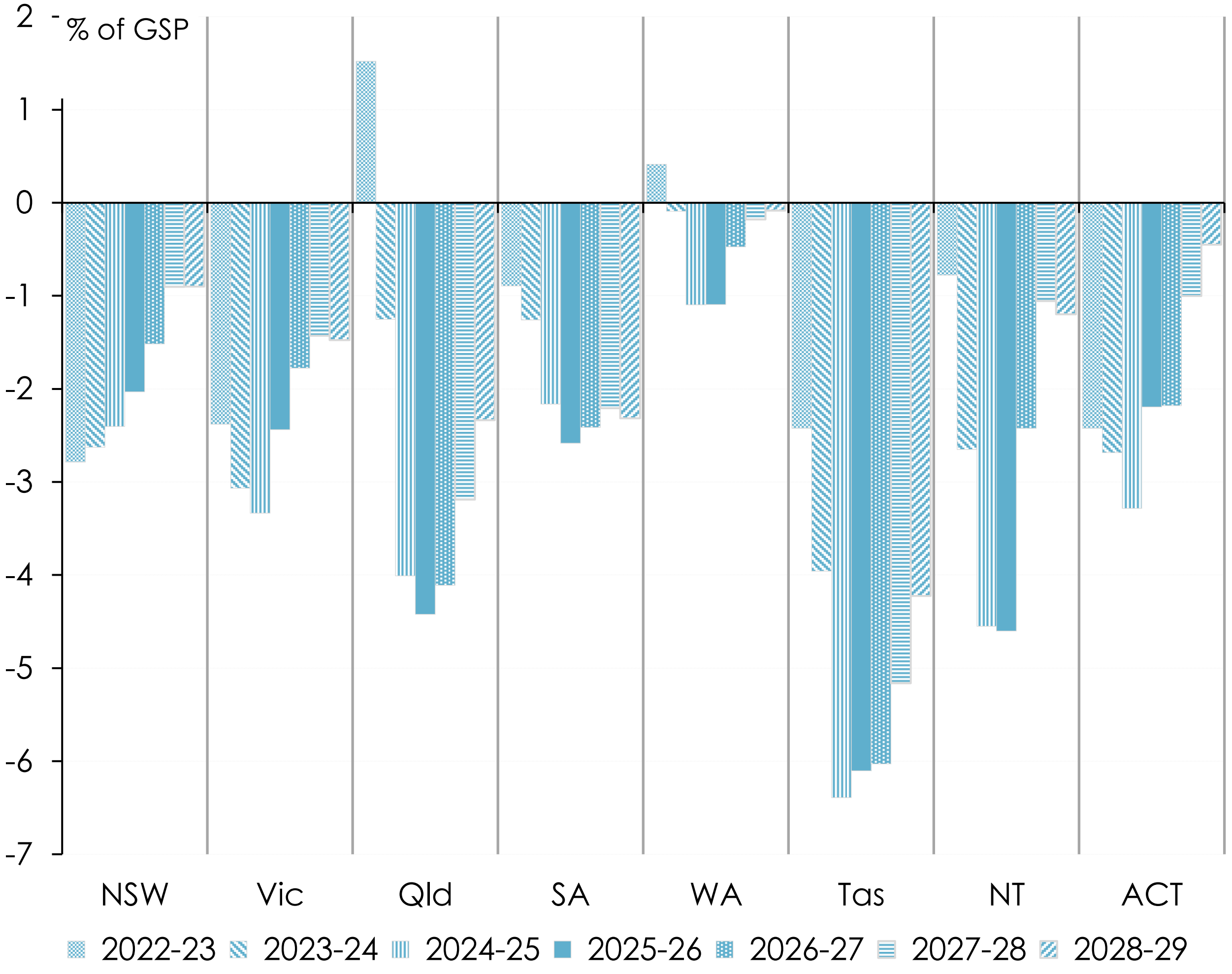
Net debt



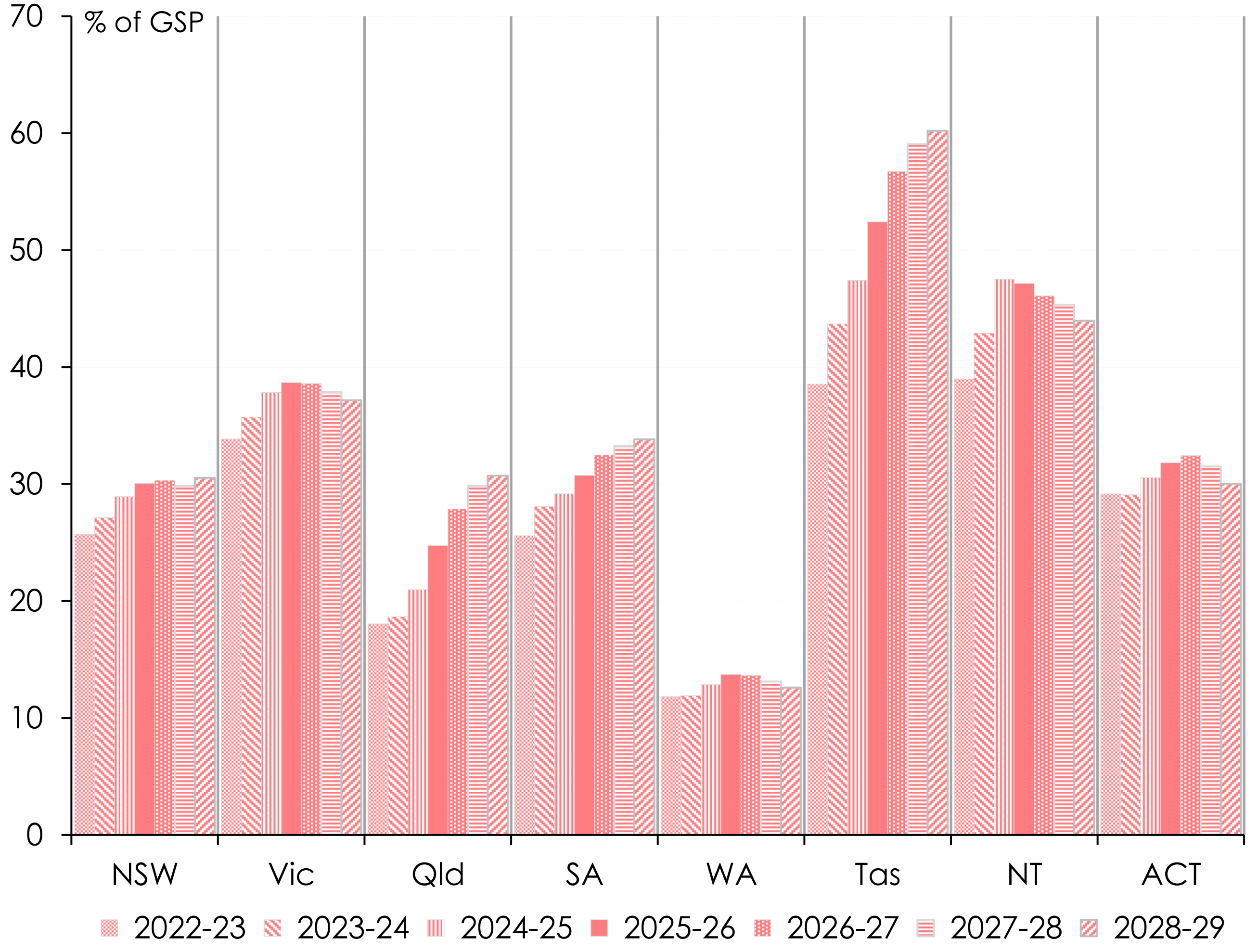
Sources: Australian Government, 2025-26 Budget Paper No. 1, and 2025-26 State Budget Papers for New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania, the Northern Territory and the Australian Capital Territory.

All states and territories except (mineral-rich and politically powerful) WA have been running large deficits and accumulating debt

State and territory non-financial public sector cash balances



State and territory non-financial public sector net financial liabilities



Note: net financial liabilities includes unfunded superannuation liabilities as well as debt. *Sources:* 2025-26 State Budget Papers for New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania, the Northern Territory and the Australian Capital Territory.

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.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. None of Saul Eslake, Corinna Economic Advisory Pty Ltd nor Independent Economics however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. Saul Eslake, and Corinna Economic Advisory Pty Ltd expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY

INDEPENDENT ECONOMICS