

# AUSTRALIA'S ECONOMIC AND POLITICAL OUTLOOK

PRESENTATION TO THE ANGLICARE AUSTRALIA CEO FORUM

NOVOTEL MELBOURNE ON COLLINS HOTEL  
4<sup>TH</sup> JUNE 2026

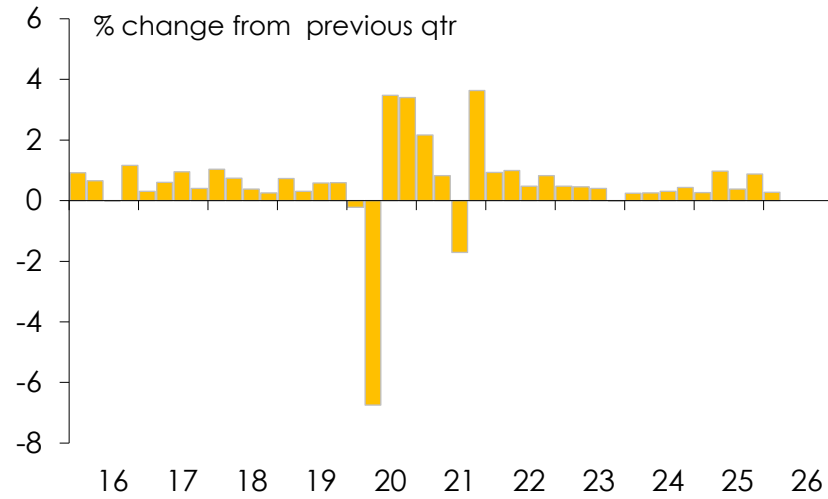
**SAUL ESLAKE**

CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

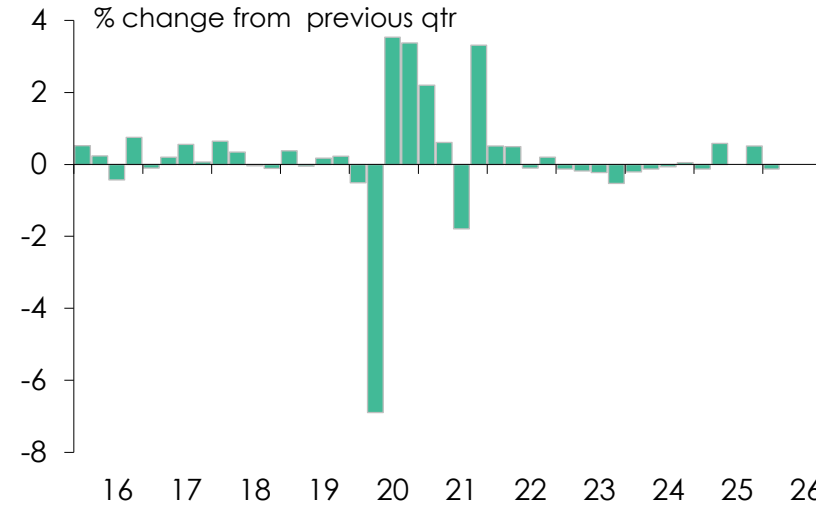
# The economic outlook

# After picking up through 2025, growth in Australia's economy has slowed in the early part of 2026

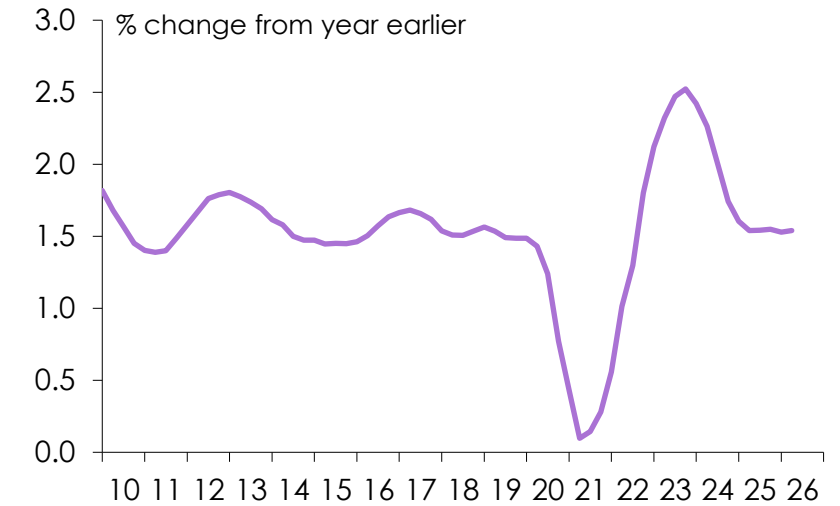
## Real GDP - quarterly



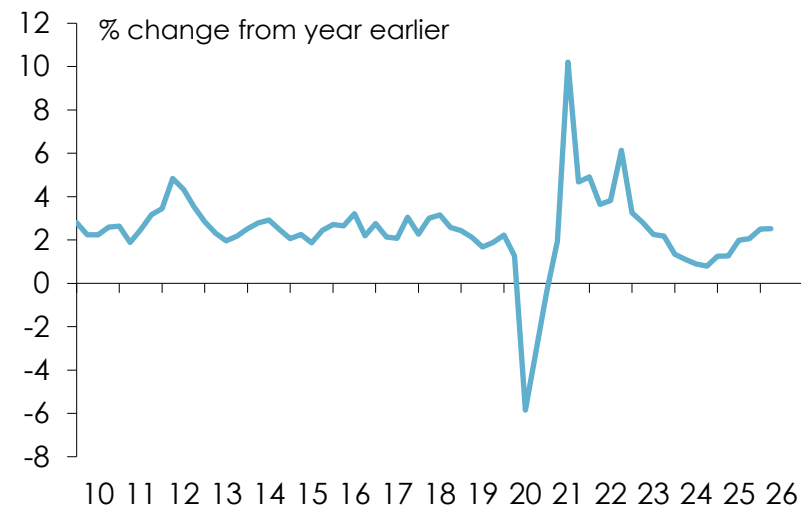
## Real per capita GDP - quarterly



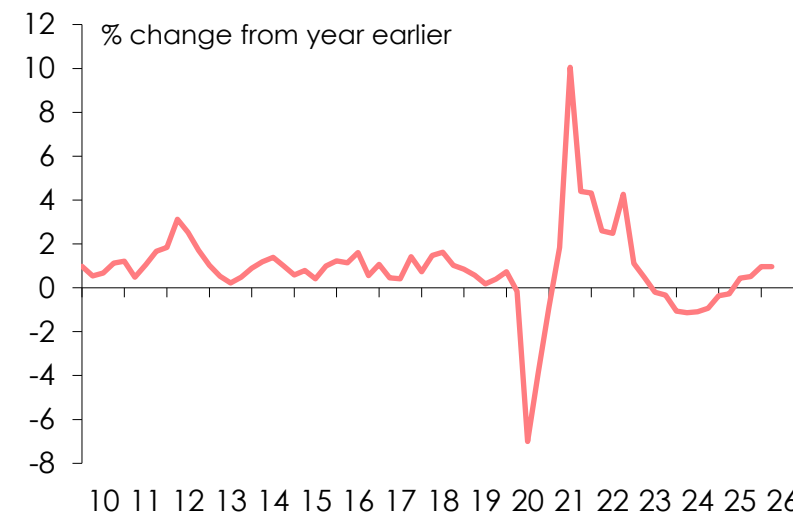
## Population



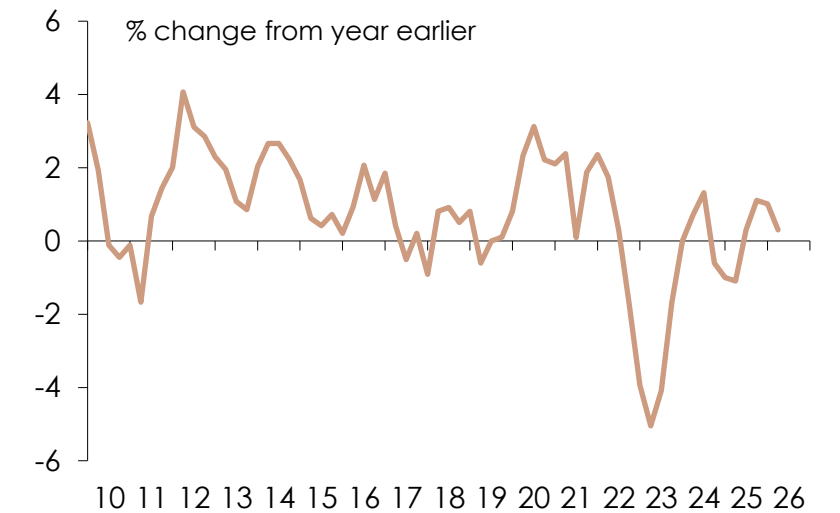
## Real GDP - annual



## Real per capita GDP - annual



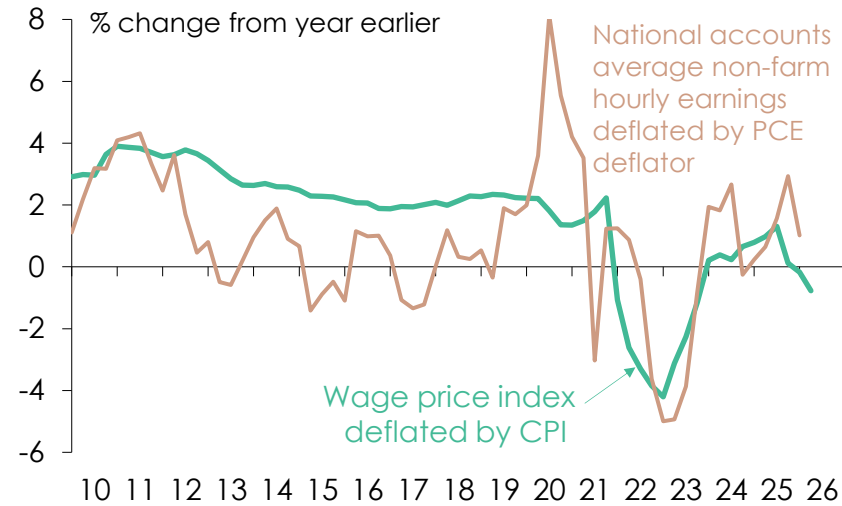
## Labour productivity



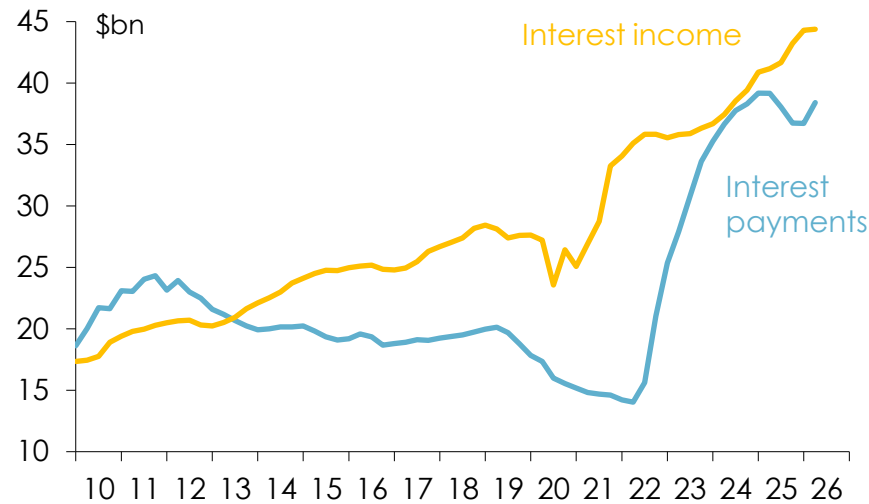
Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2026.

# The post-Covid squeeze on household finances started to ease from mid-2024 on, but has resumed with the onset of Gulf War III

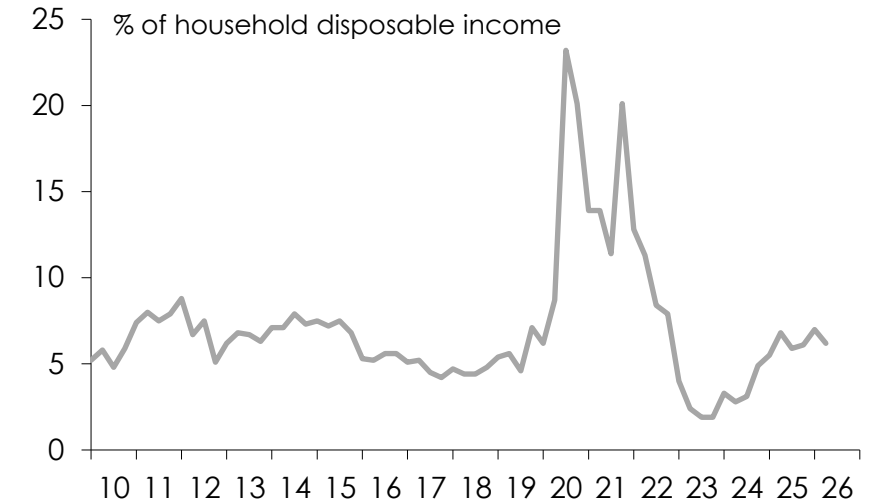
## Real wages



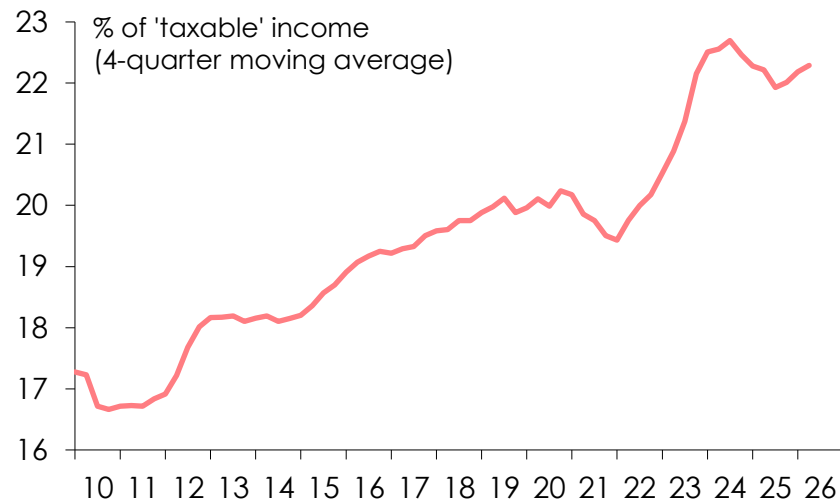
## Interest income and payments



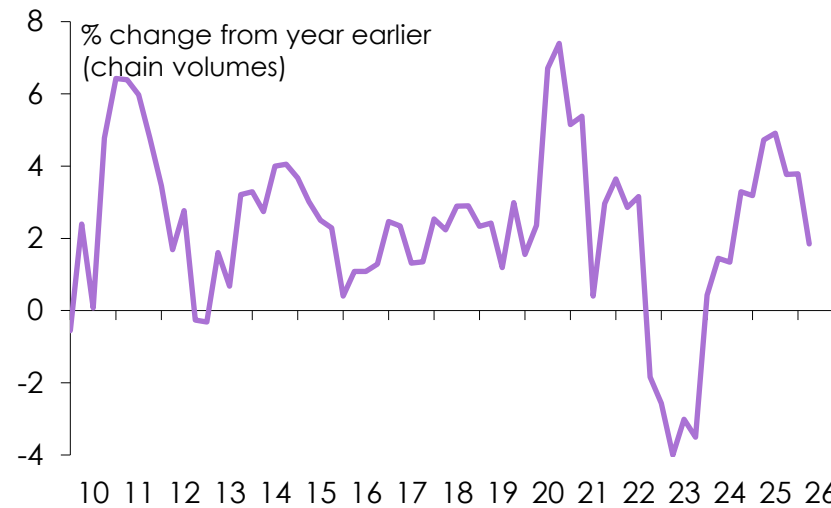
## Household saving



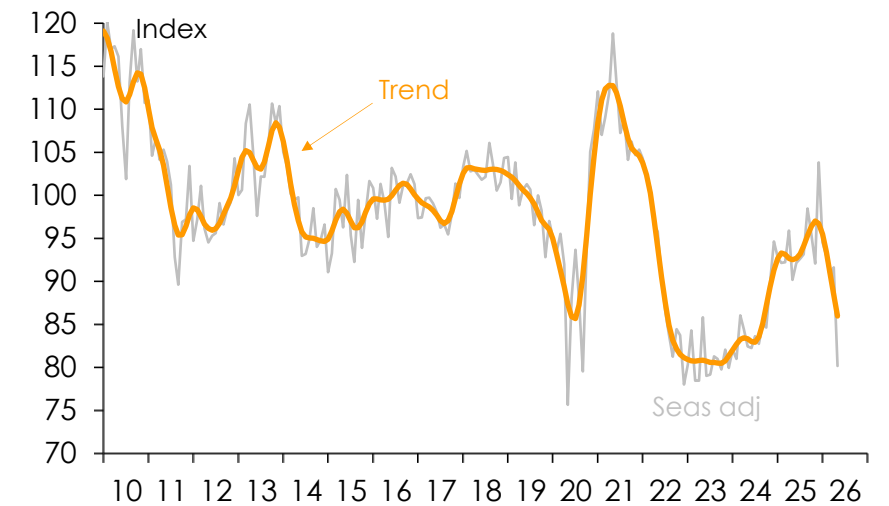
## Personal income tax payments



## Real household disposable income



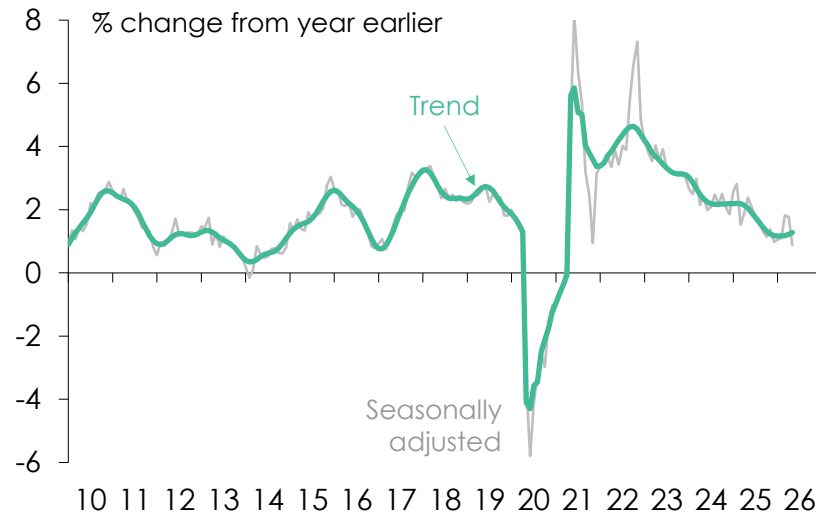
## Consumer confidence



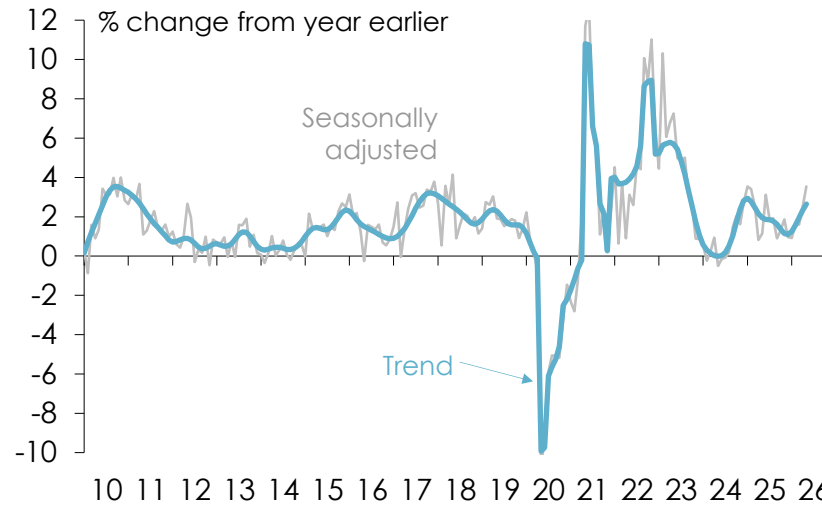
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2026; [Wage Price Index](#), March quarter 2026; [Consumer Price Index](#), March 2026; and Westpac, [Westpac-MI Consumer Sentiment](#), April 2026.

# Employment growth has slowed and unemployment has risen over the past two years, but the labour market is still 'tight' by historical standards

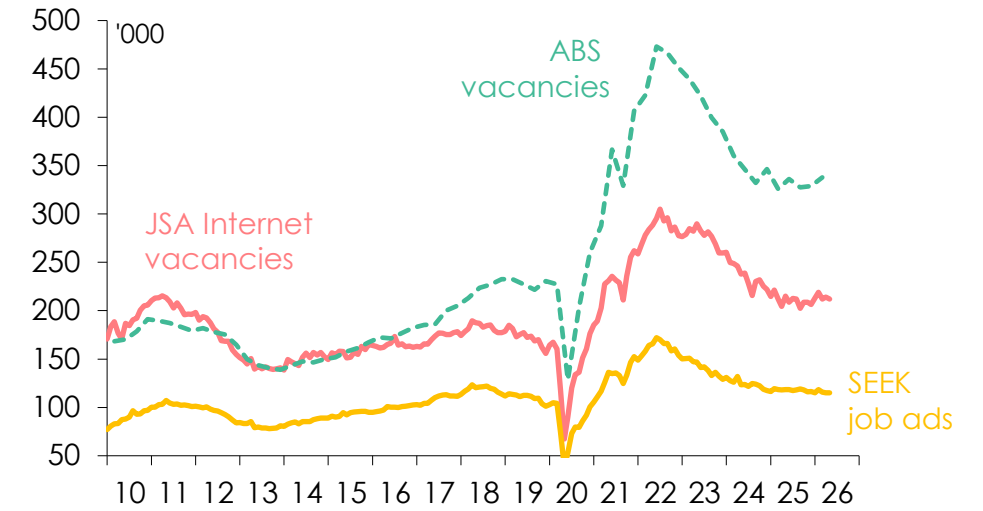
## Employment growth



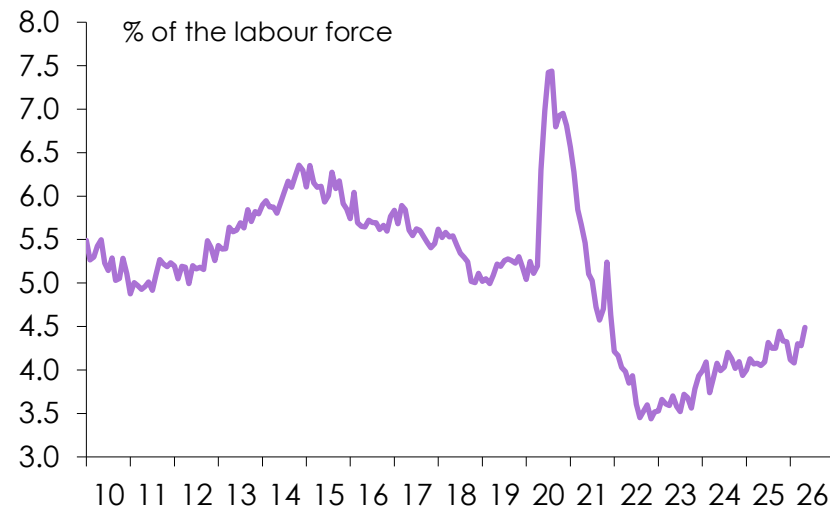
## Hours worked



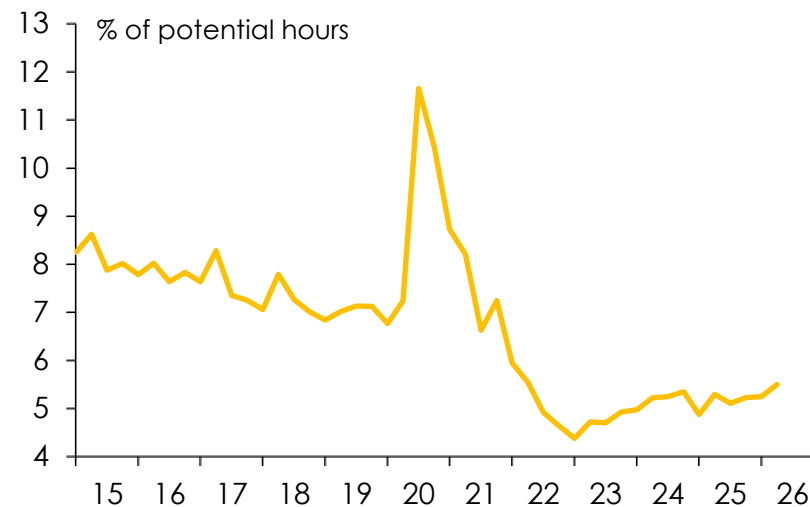
## Job vacancies



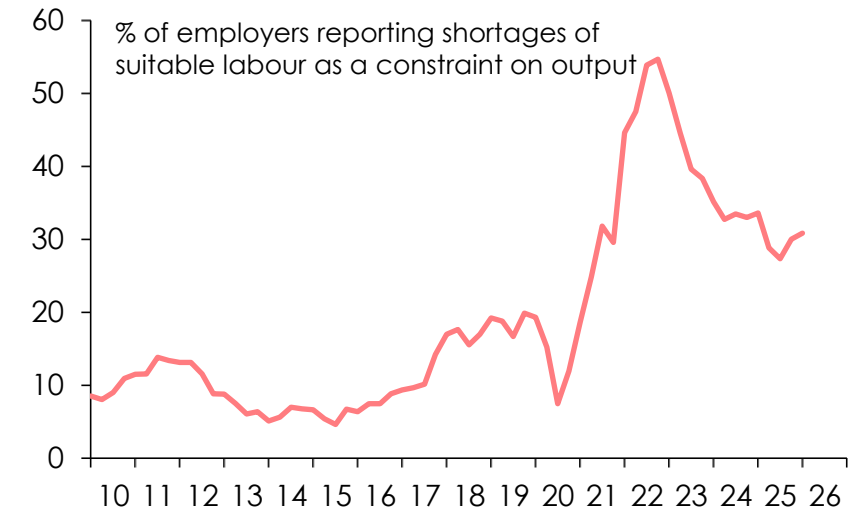
## Unemployment rate



## Labour force under-utilization



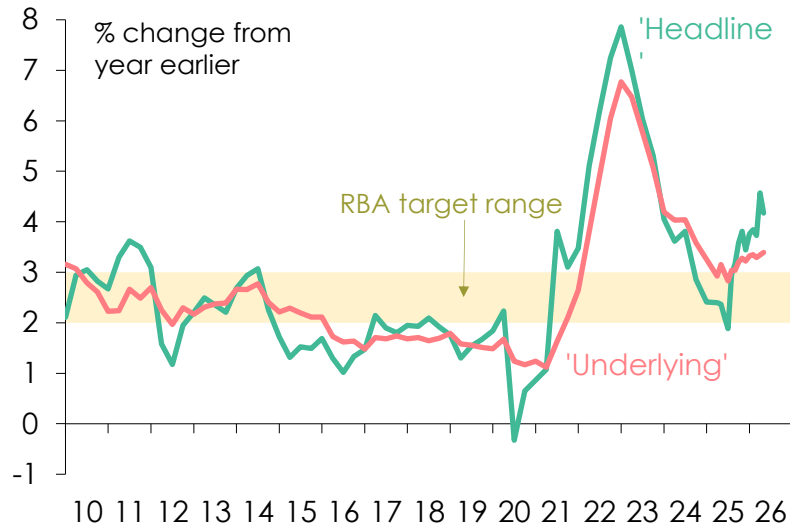
## Labour shortages



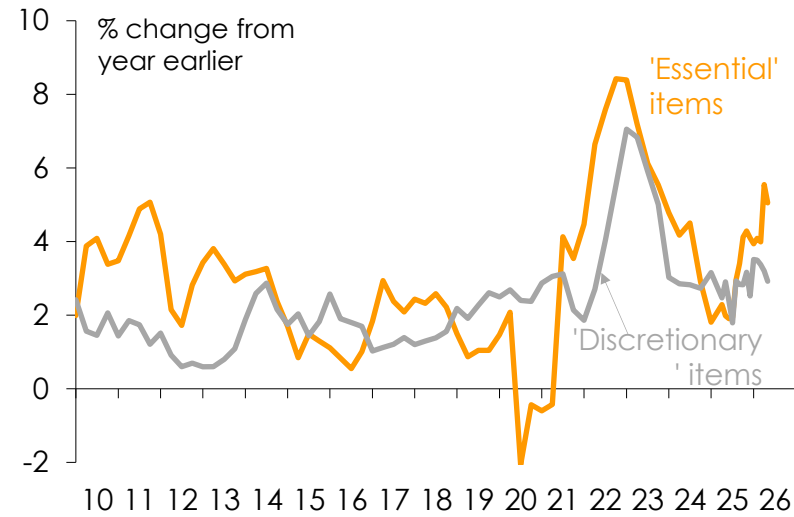
Note: 'labour force under-utilization' is a 'volume measure' of the hours which would have been worked by unemployed and under-employed people had those hours been offered. Sources: ABS, [Labour Force](#), April 2026, [Job Vacancies](#), February 2026 and [Labour Account, Australia](#), December quarter 2025; National Australia Bank, [Quarterly Business Survey](#), March quarter 2026; Jobs and Skills Australia, [Internet Vacancy Index](#); SEEK, [Employment & Salary data](#).

# Inflation rebounded in the second half of 2025, and remained high in the first four months of 2026, with price increases seemingly fairly broadly based

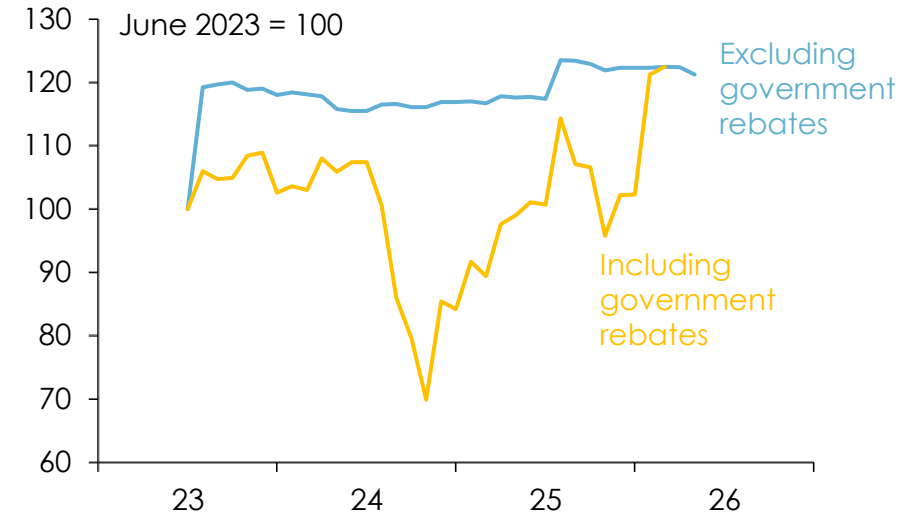
## Consumer prices



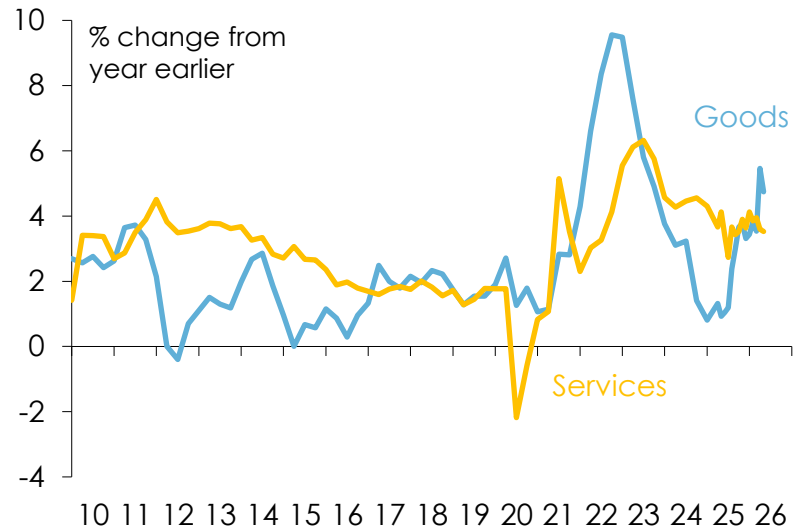
## 'Discretionary' vs 'essential' items



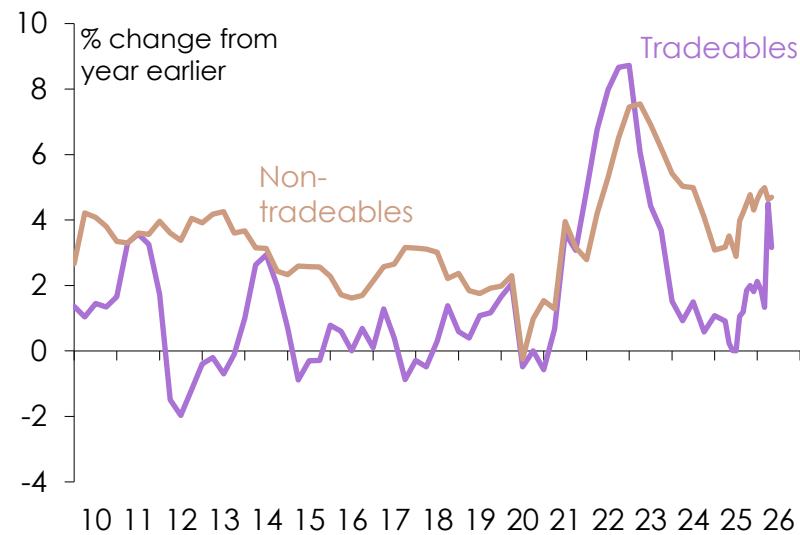
## Electricity prices



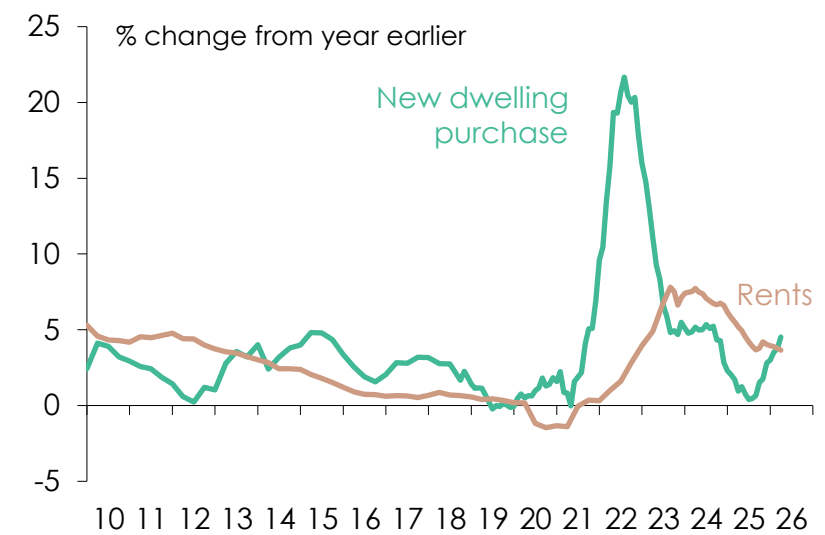
## Goods and services prices



## 'Tradable' vs 'non-tradable' items



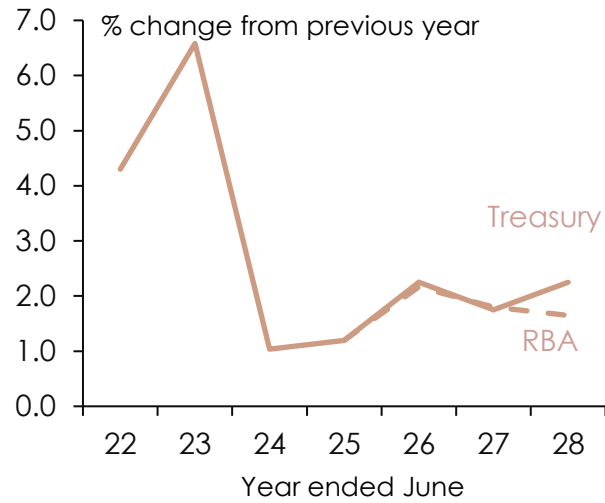
## Housing costs



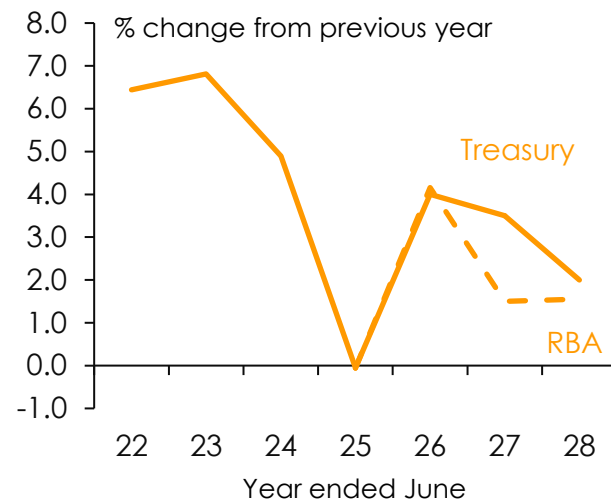
Note: 'Underlying' inflation is the 'trimmed mean' (derived from the middle 70% of price increases). 'Essential' items are housing, food, fuel & power, medical & health care, ground transport, communications and education services. Data are quarterly up to March 2025 and monthly thereafter. Source: ABS, [Consumer Price Index](#), April 2026.

# Both Treasury and the RBA expect economic growth to slow in 2026-27 but pick up in 2027-28, and for inflation to rise some more and then fall

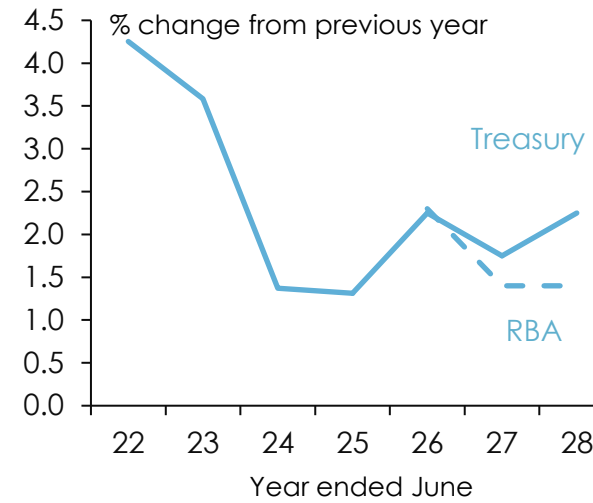
## Household consumption



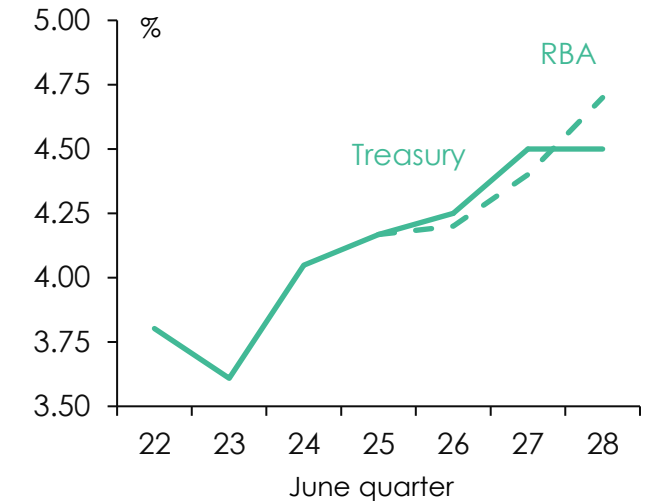
## Business investment



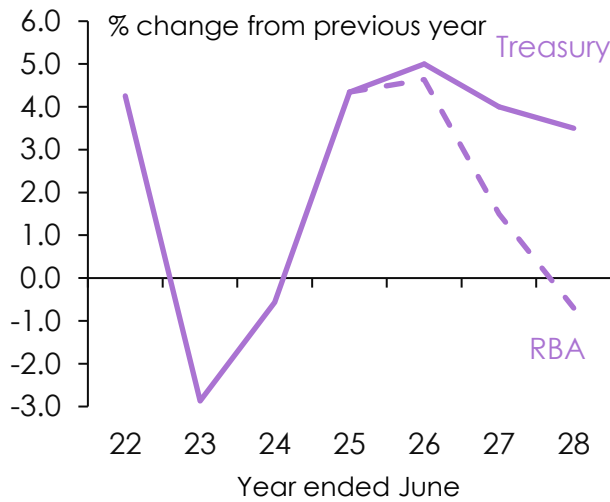
## Real GDP



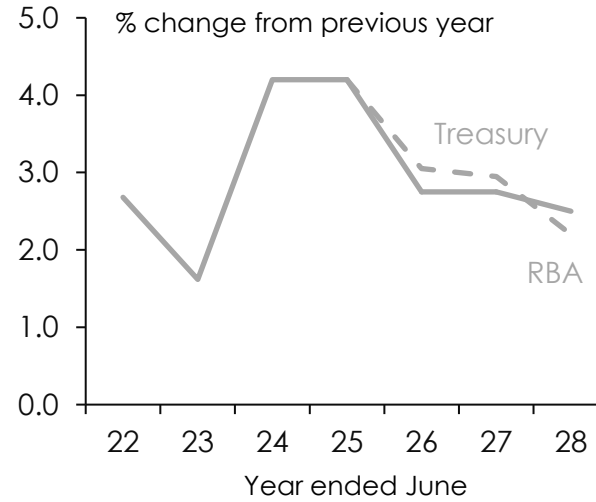
## Unemployment



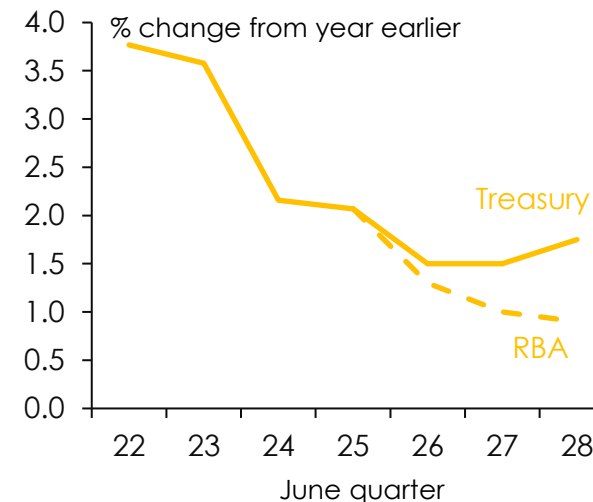
## Dwelling investment



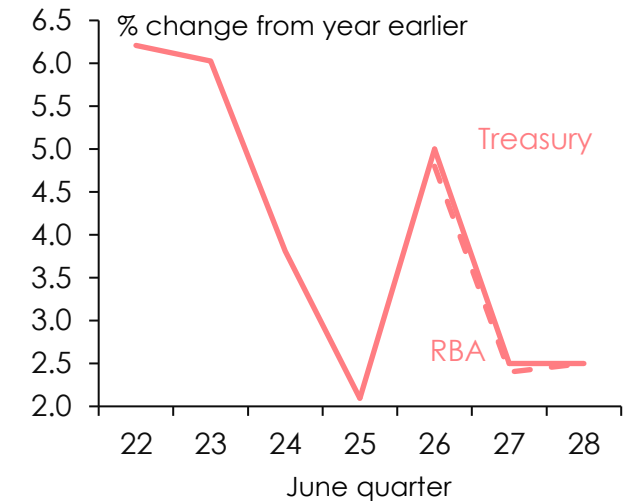
## Public spending



## Employment



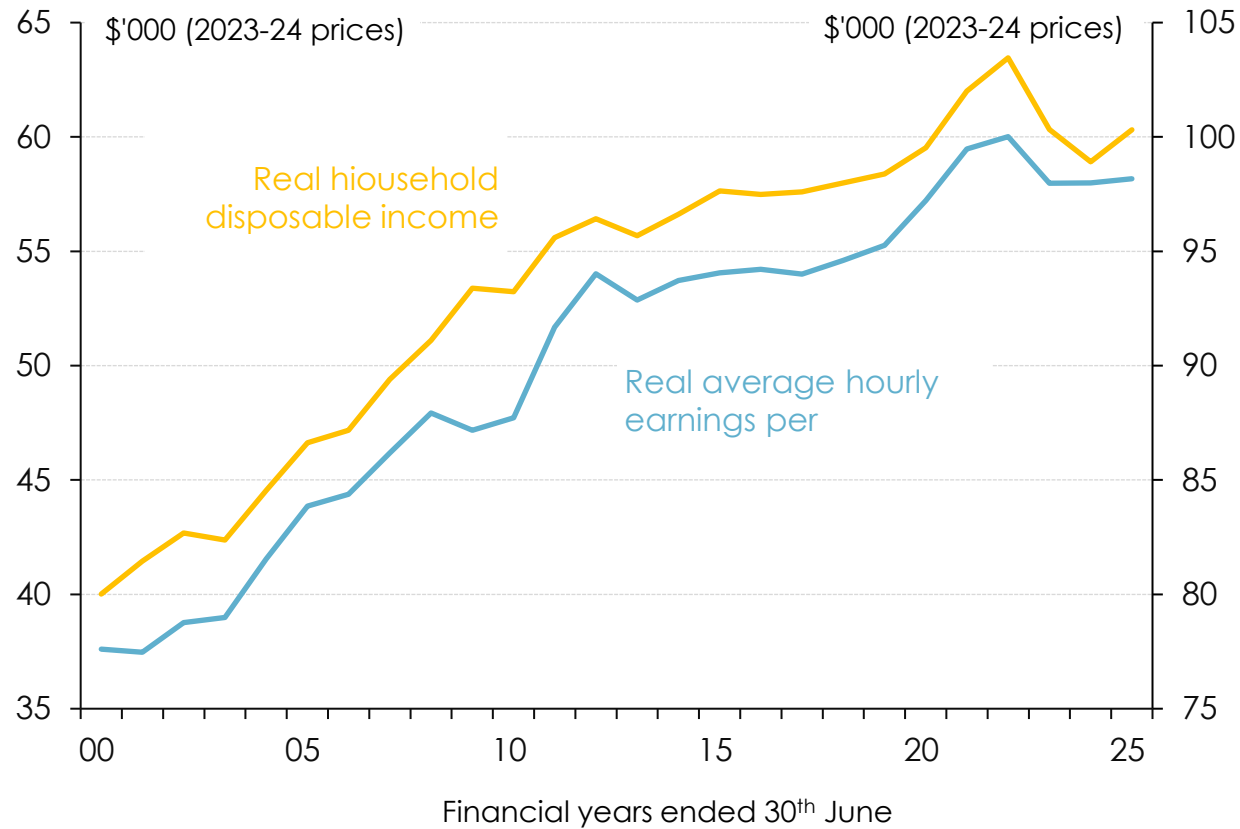
## 'Headline' inflation



Sources: Australian Government, [2026-27 Budget Paper No. 1, Statement 2: Economic Outlook](#), and Reserve Bank of Australia, [Statement on Monetary Policy - May 2026](#).

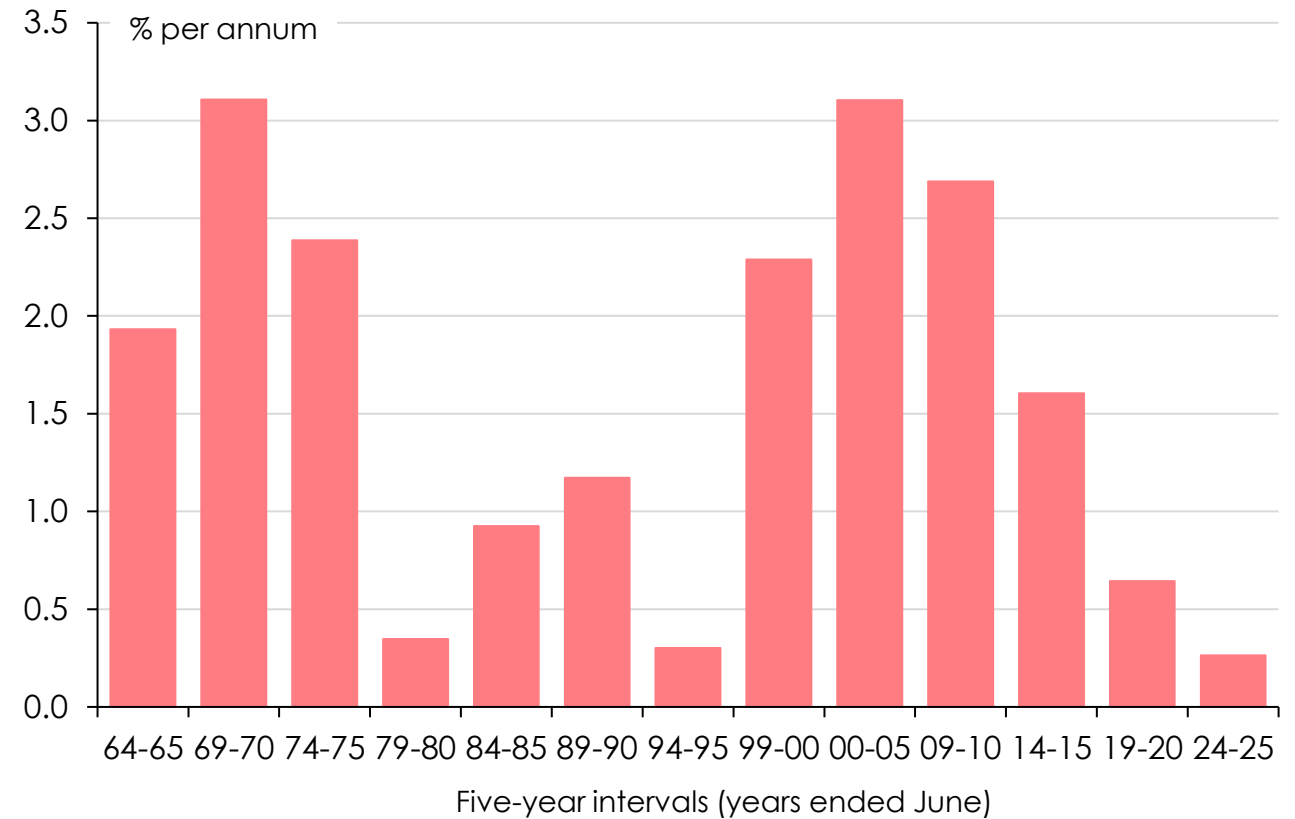
# Stagnant real income growth is probably the biggest single reason for the growing disaffection with the major political parties

## Real average hourly earnings and real household disposable income per capita



**Adjusted for inflation, average hourly earnings and per capita household disposable income are both lower than they were three years ago**

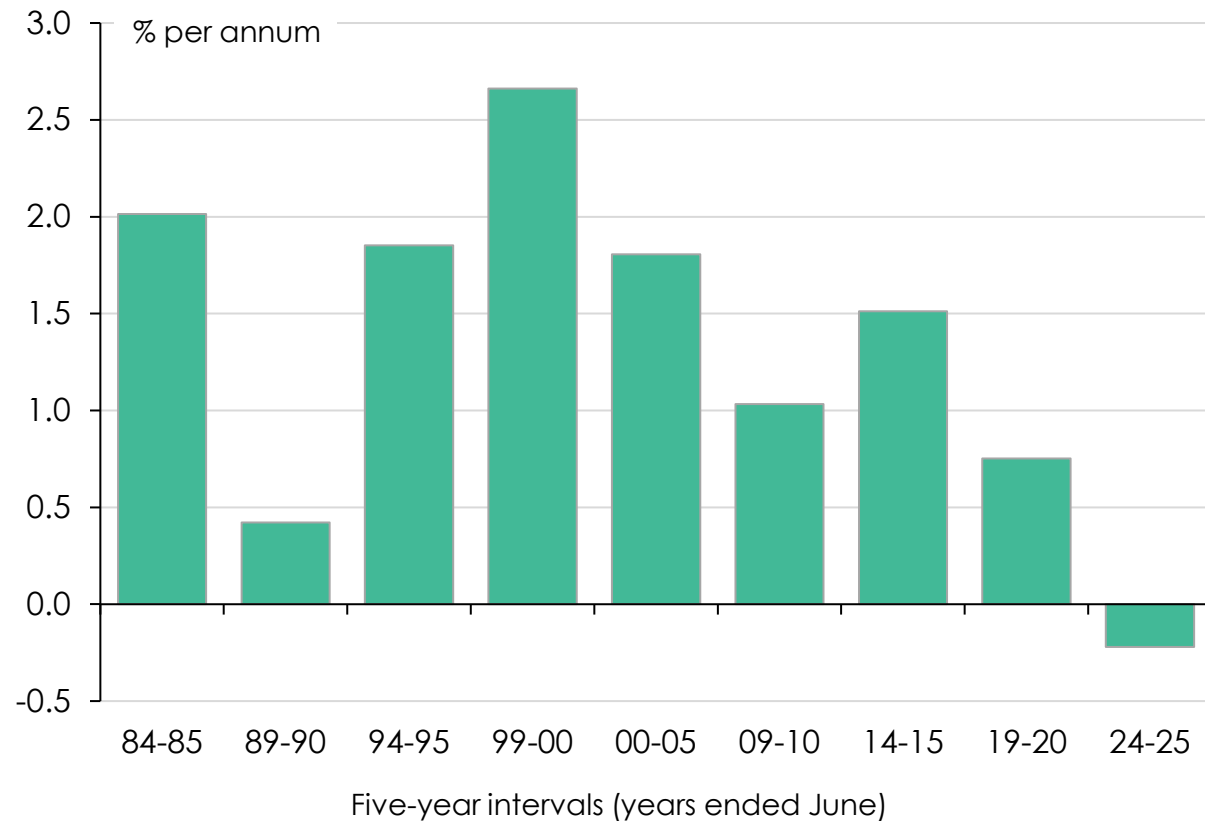
## Average annual growth in real household disposable income per capita over five-year intervals



**Real per capita household disposable income has grown more slowly over the past five years than over any other five-year period during the past sixty years**

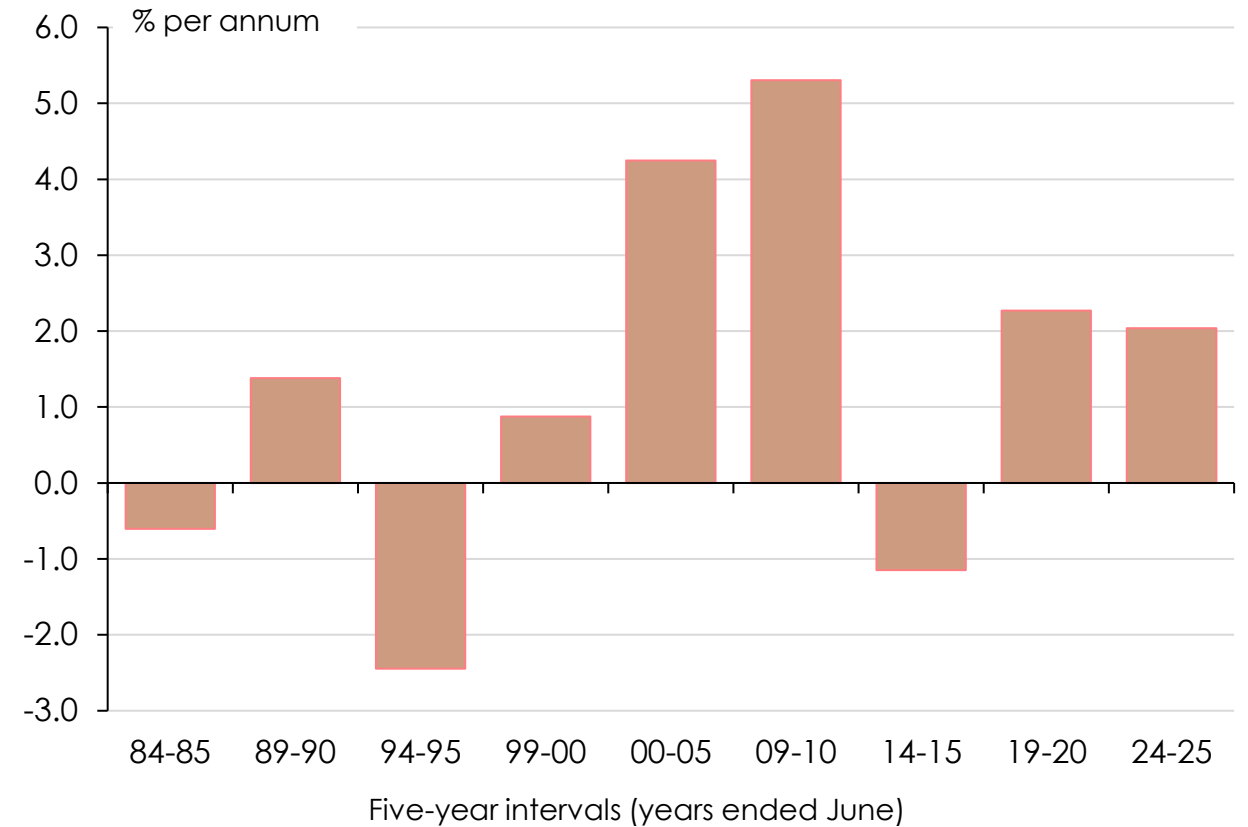
# The main reason for the sluggish growth in real incomes over the past five years has been the decline in labour productivity

Average annual growth in real GDP per hour worked (aka 'productivity') over five-year intervals



Labour productivity growth over the past five years has been weaker than over any five-year period in at least forty years

Average annual changes in Australia's 'terms of trade' (ratio of export to import prices) over five-year intervals

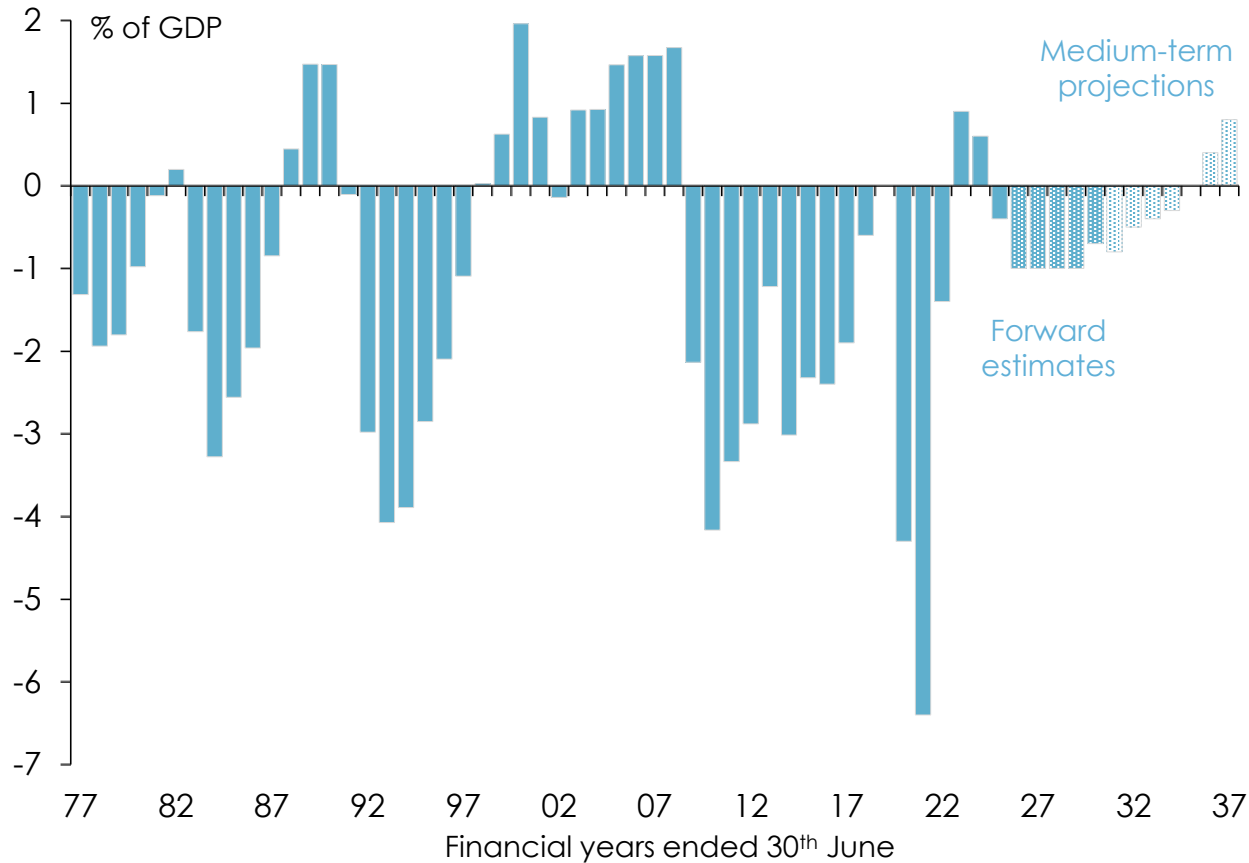


The consequences of poor productivity growth have been only partly offset by high commodity export prices

# The 2026-27 Federal Budget

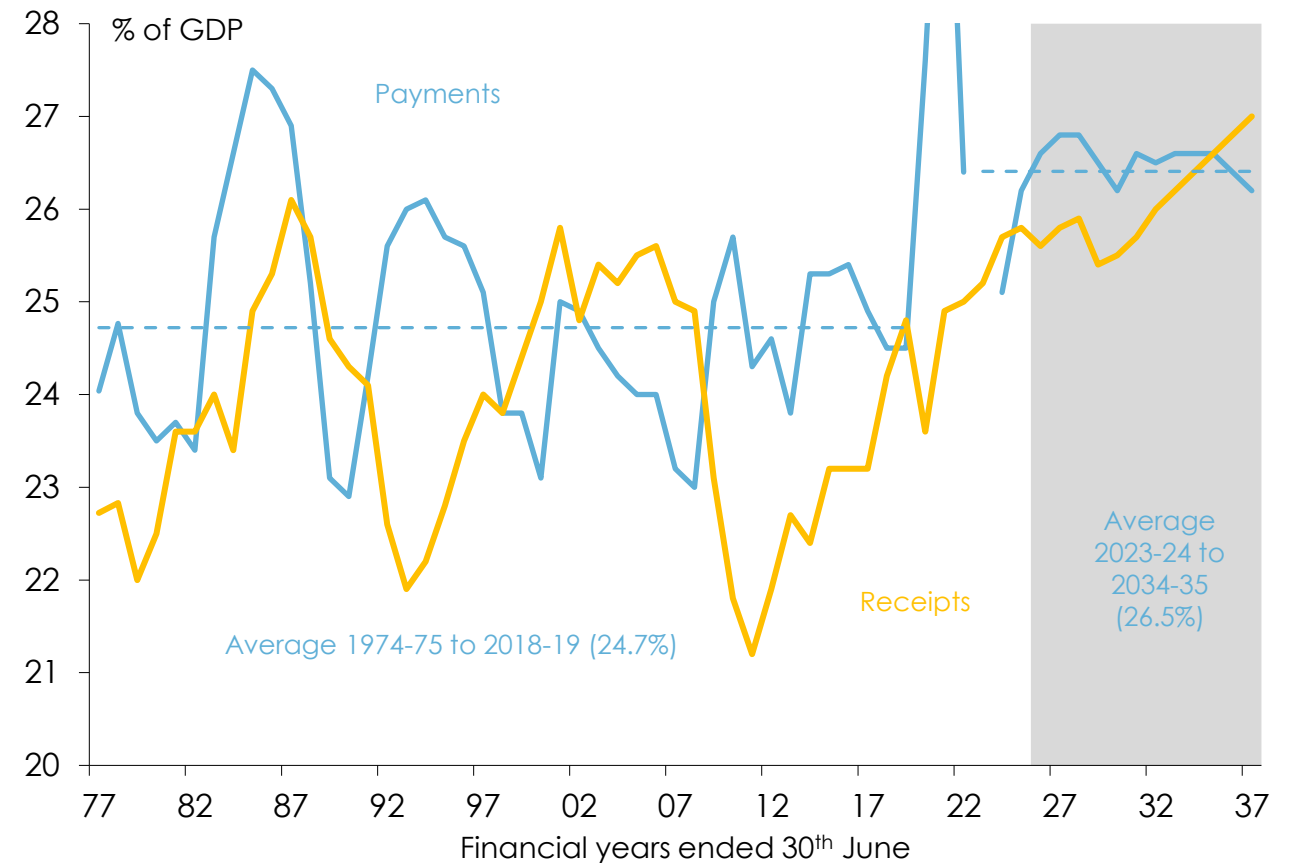
# The 2026-27 Budget projects a 'return to surplus' by 2035-36 – but only if there are no further tax cuts over that interval (how likely is that?)

Long-term actuals, forward estimates and 'projections' of the 'underlying' cash balance



**The Budget is now projected to return to 'underlying' surplus by 2035-36 – the first time a Budget has projected a surplus over the 'medium term' since that of 2019-20**

Long-term actuals, forward estimates and 'projections' of cash receipts and payments



**The 'return to surplus' is largely predicated on the mooted NDIS savings, increased revenue from tax changes in the Budget and retention of 'bracket creep'**

Note: The 'underlying' cash balance is the difference between receipts and 'underlying' payments, which exclude 'net investment in financial assets for policy purposes' (see next slide). Source: Australian Government, [2026-27 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and [Statement 11: Historical Australian Government Data](#).

# Tax changes were the biggest feature of the Budget

## Tax increases

- ❑ **‘Negative gearing’ will be limited to ‘new builds’ from 1 July 2027**
  - properties acquired prior to this announcement will be ‘grandfathered’ (ie will continue to be eligible for negative gearing tax concessions)
  - investments in other assets (eg shares) will still be able to be negatively geared for tax purposes
- ❑ **The 50% capital gains tax discount will be replaced by cost-base indexation from 1 July 2027**
  - this change applies to all assets (not just housing)
  - including pre-1985 assets (previously exempt)
  - and there will be a minimum 30% tax on net capital gains
  - but these changes will only apply to capital gains accruing after 1 July 2027
  - and investors in new housing will be able to choose between the 50% discount and cost base indexation
- ❑ **A 30% minimum tax rate will apply to discretionary trusts from 1 July 2028**
  - beneficiaries will get a credit for tax paid by the trustee
- ❑ **A \$10 increase (to \$80) in the ‘departure tax’**

## Tax reductions

- ❑ **A ‘Working Australians Tax Offset’ (WATO) of up to \$250 for income from wages & salaries**
  - which in effect amounts to an increase in the tax-free threshold of almost \$1,800 (from 2027-28)
  - this is likely to be the vehicle through which any future income tax cuts are delivered
- ❑ **A \$1,000 ‘instant tax deduction’ (in effect replacing claims for work-related expenses, without requiring receipts)**
  - worth an average of \$205 per annum
- ❑ **A permanent two-year loss carry-back for companies with annual turnover of less than \$1 bn**
  - allowing companies with a tax loss to receive a refund of tax paid in prior years
- ❑ **The \$20,000 ‘instant asset write-off’ for businesses with annual turnover of less than \$10 million will be made permanent**

# Macchiavelli's *The Prince* wasn't about tax reform in Australia – but he might well have been



“There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things – for the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order”

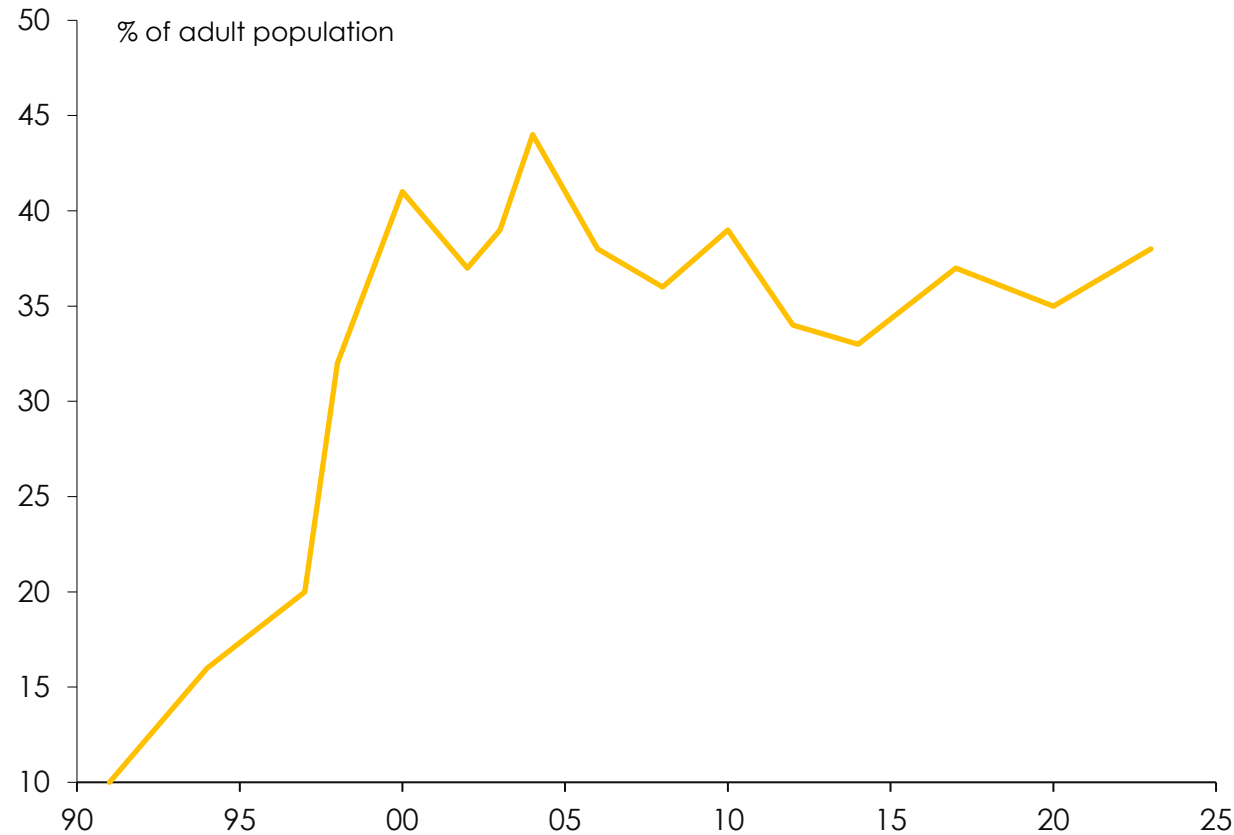
– Niccolò Machiavelli, *The Prince*, 1532, p. 21

# The tax changes in the Budget raise, and respond to, some very fundamental questions about how our tax system should operate

- ❑ The tax changes proposed in the 2026-27 Budget address a fundamental question: why should people earning the same income in a given year, but in different ways, pay different amounts of tax on that same income?
  - in particular, why should someone who earns (say) \$100,000 in wages or salaries (or interest) pay more tax on that income than someone who earns \$100,000 in capital gains, rent, trust distributions or business income?
- ❑ There are some reasons why, in some circumstances, some people earning a given amount of income in a particular year *should* pay less tax on that income than others ...
  - as a capital-importing nation we cannot completely ignore how other nations tax different types of income
  - there may be legitimate reasons for the tax system to encourage some kinds of economic behaviour and discourage others (as we do with, for example, taxes on alcohol and tobacco consumption)
  - some people's incomes fluctuate markedly from year to year
- ❑ ... but that doesn't mean that the judgements implicit in differential tax treatment of different types of income should never change from time to time
  - nor that considerations of equity – fairness as between different individuals in both different and similar circumstances – and revenue requirements shouldn't be considered in making such judgements
- ❑ For the most part, the tax changes proposed in the Budget get the answers to these questions right
  - although there have been some legitimate issues raised in public debate to which the Government should give due consideration

# The 50% CGT discount was supposed to turn Australia into a nation of shareholders and entrepreneurs: it didn't

## Direct shareholders as a percentage of the adult population



**The proportion of the adult population who own shares directly has fallen from a peak of 44% in 2004 to 38% in 2024**

## Owner-managers of businesses as a percentage of the employed population

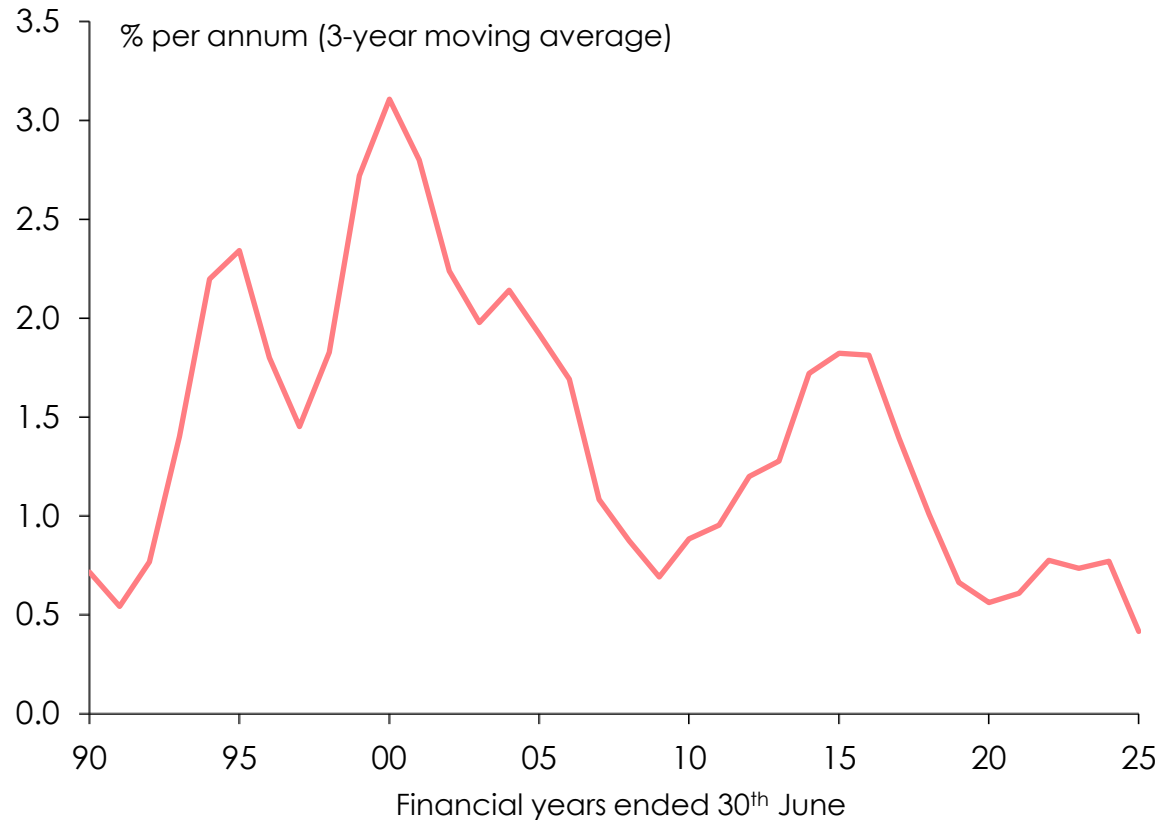


**The proportion of the employed population who are employers or owner-managers of businesses has fallen from a peak of 20% in 2002 to less than 15% in 2026**

Sources: ASX, [Australian Investor Study 2023](#); and ABS, [Labour Force, Australia, Detailed](#), March 2026.

# Nor did the 50% CGT discount trigger a wave of increased productivity growth or higher business investment

## Labour productivity growth



**Labour productivity growth has averaged 1.0% pa since the 50% CGT discount was introduced, compared with 1.6% pa over the previous 15 years when the CPI indexation regime for capital gains was in place**

## Business investment

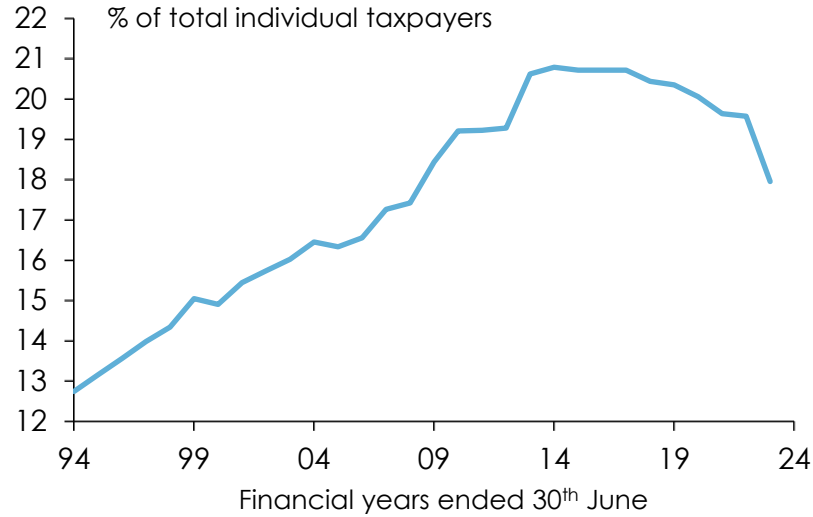


**Non-mining business investment has averaged 3.9% of GDP since the change to the CGT regime in 1999, not appreciably above the 3.1% over the preceding 12 years – despite much lower interest rates during the past 25 years**

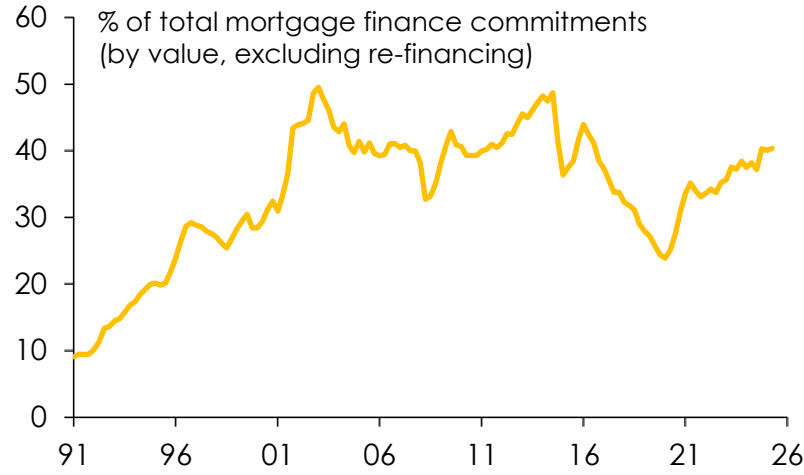
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2025, and [Private New Capital Expenditure and Expected Expenditure](#), March quarter 2026.

# Instead, it helped turn Australia into even more of a nation of property speculators than we already were

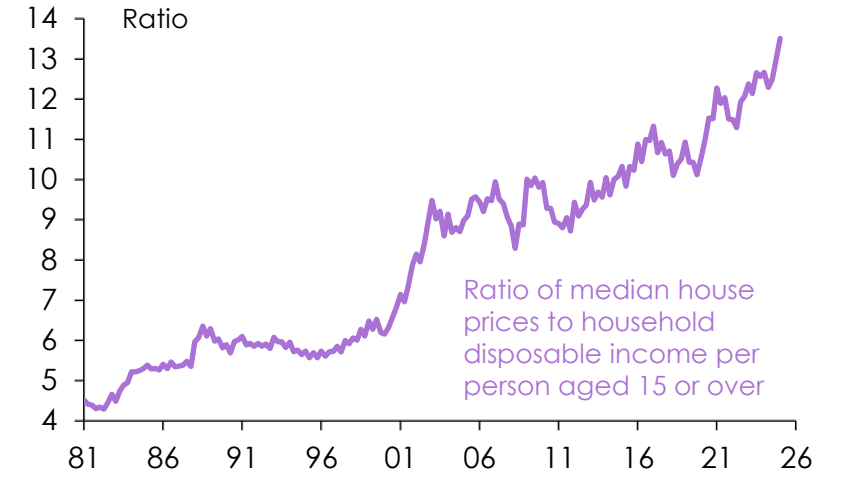
## Taxpayers with rental income



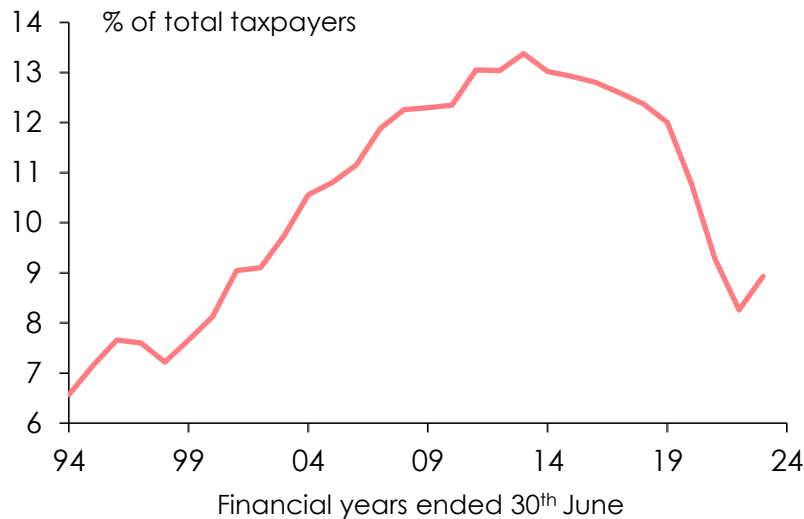
## Investor share of housing finance



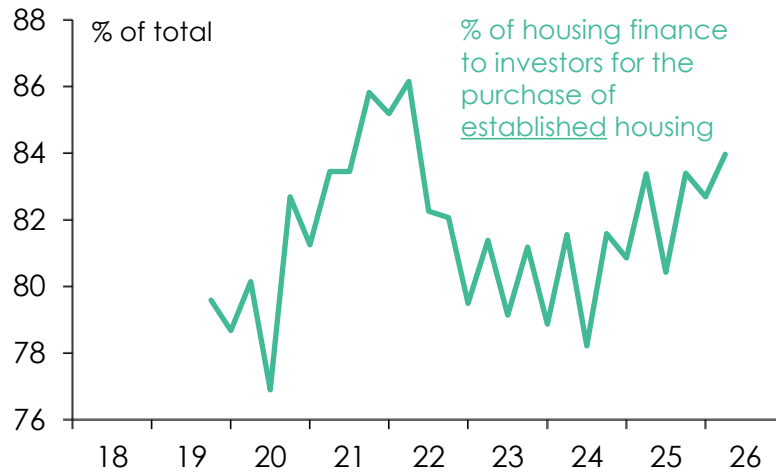
## House price to income ratio



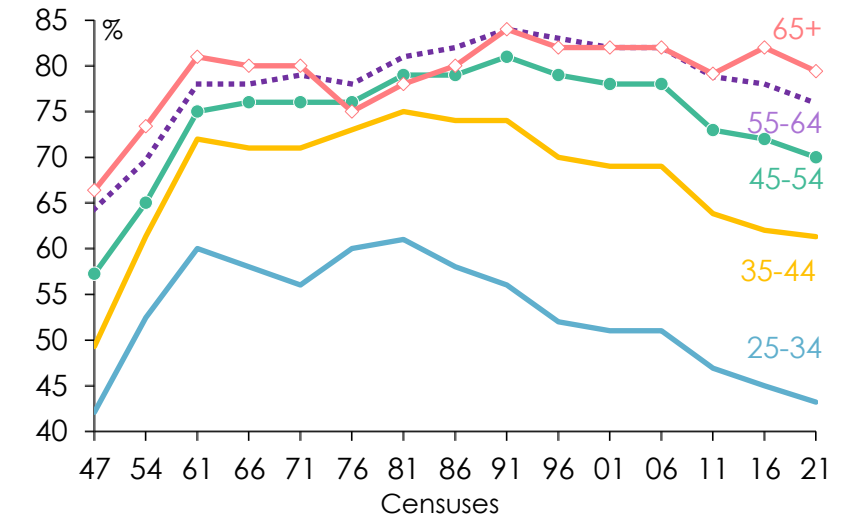
## Taxpayers with rental income losses



## Investor housing finance by purpose

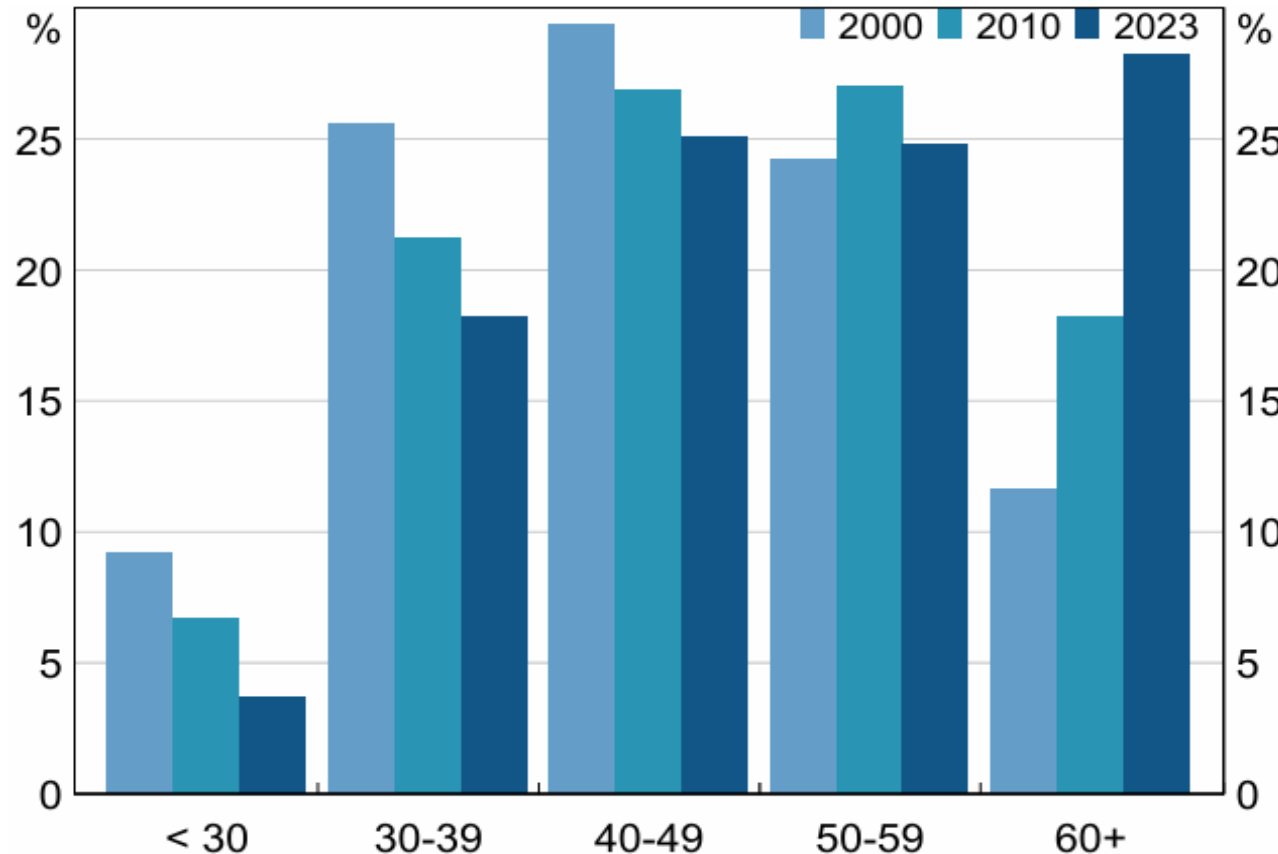


## Home ownership rates by age



# Recently-published RBA research shows that property investors are increasingly likely to be older, and richer, than other Australians

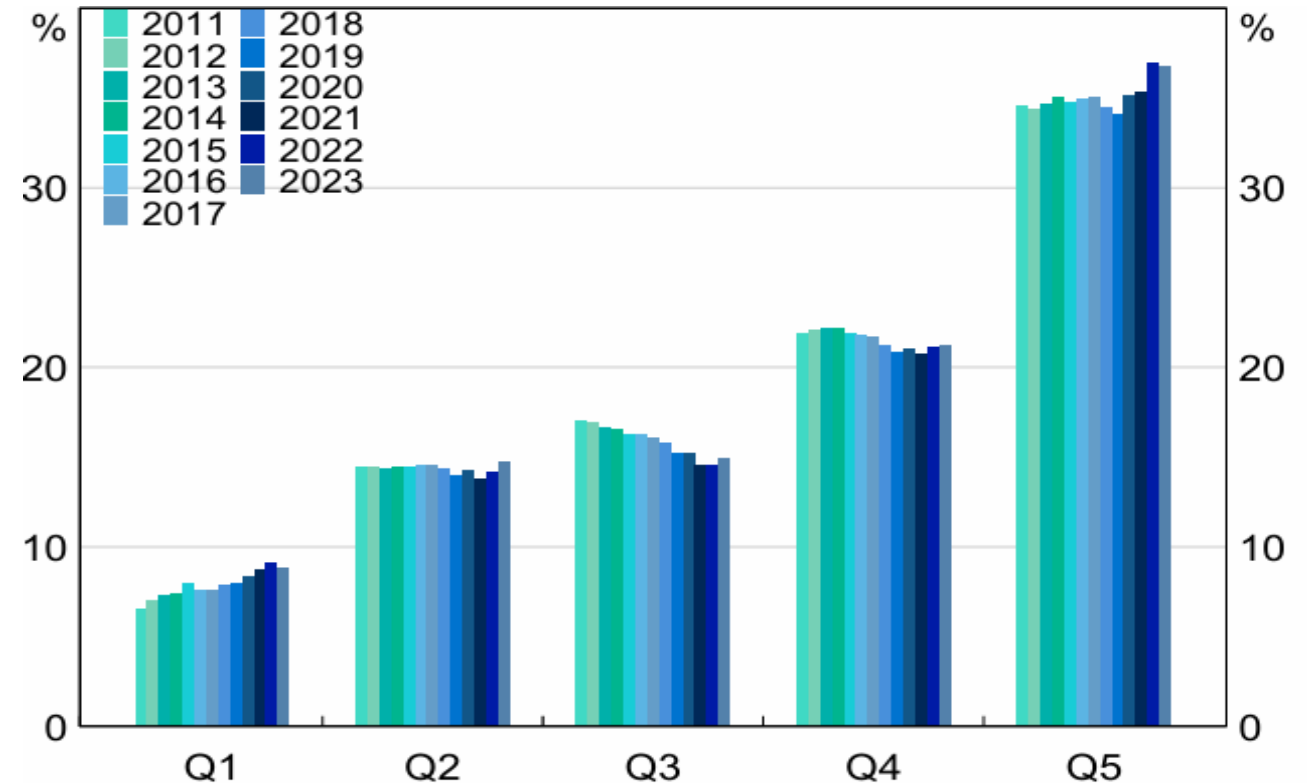
## Housing investors by age group



\* Data prior to 2006 may be subject to a small amount of bias due to demographic data availability.

**People aged 60 and over now account for over 50% of property investors, up from 12% in 1999-2000, while the investor share of younger age cohorts has declined**

## Housing investors by income quintile

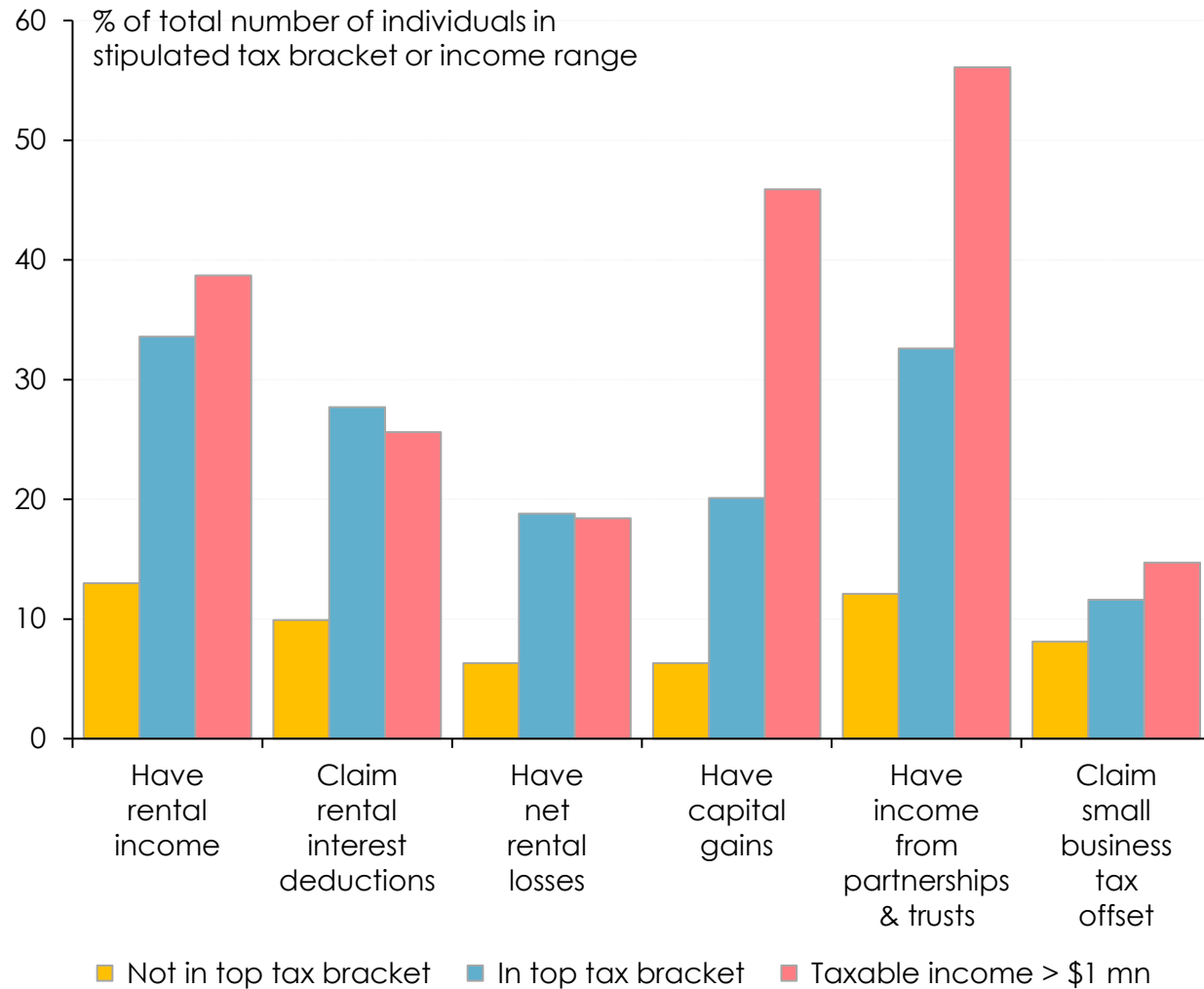


\* Income quintiles are calculated on the full distribution of income tax data (not exclusively investors) and is recalculated each year. Investors with NA or negative income account for a very small share of the population and are not presented on the graph.

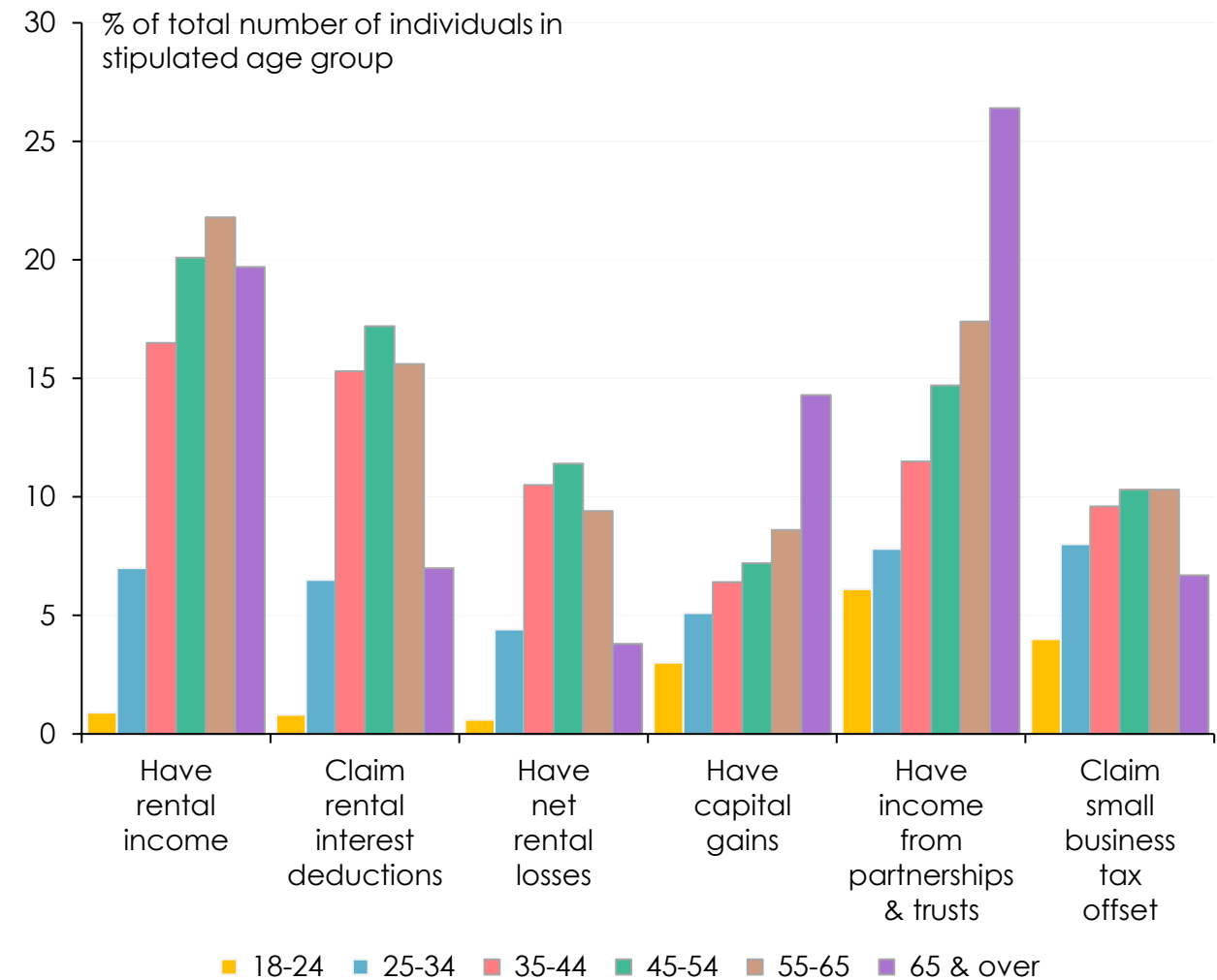
**People in the highest income quintile account for almost 40% of all residential property investors – a share which has increased since 1999-2000**

# The categories of income affected by the tax changes in the Budget disproportionately benefit wealthier and older individuals

## Selected features of individual income tax returns by taxable income, 2022-23



## Selected features of individual income tax returns by age group, 2022-23

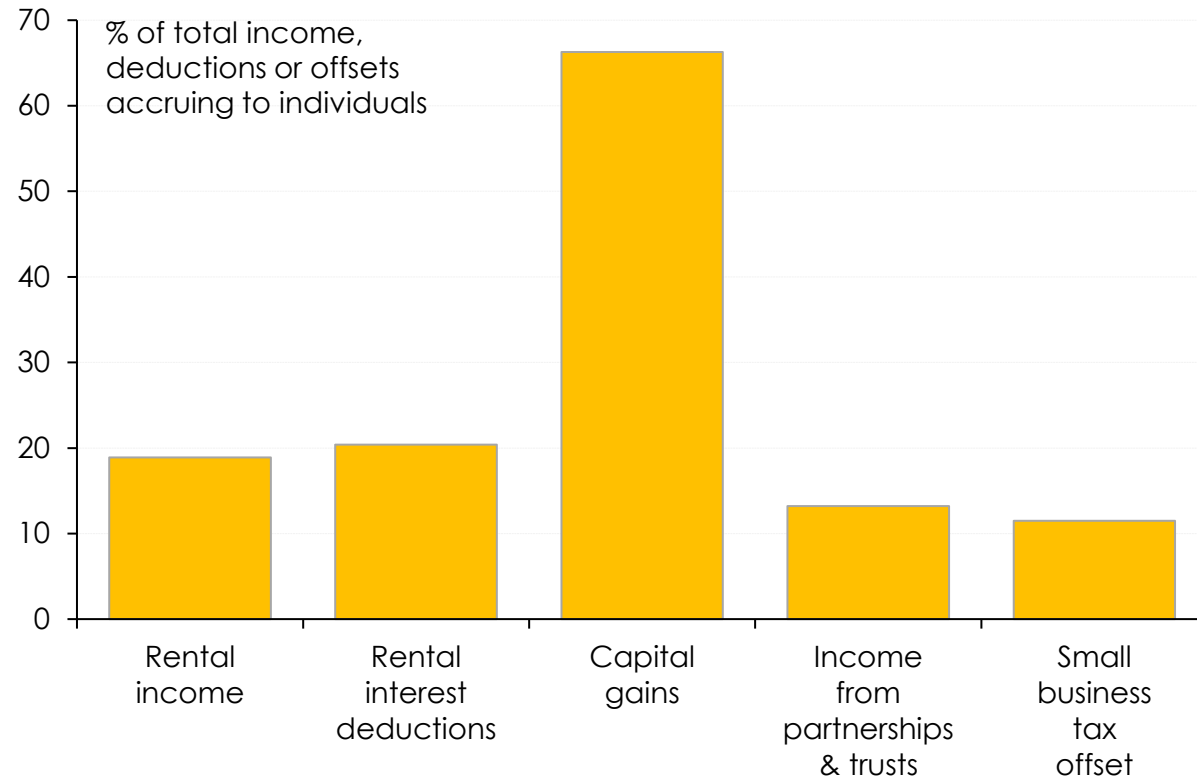


Note: The top tax threshold in 2022-23 was \$180,000. Distributions from partnerships and trusts excludes primary production trusts.

Source: Australian Taxation Office, [Taxation Statistics 2022-23](#), Tables 4 and 3A.

# The categories of income affected by the tax changes in the Budget – in particular capital gains – disproportionately benefit high income earners

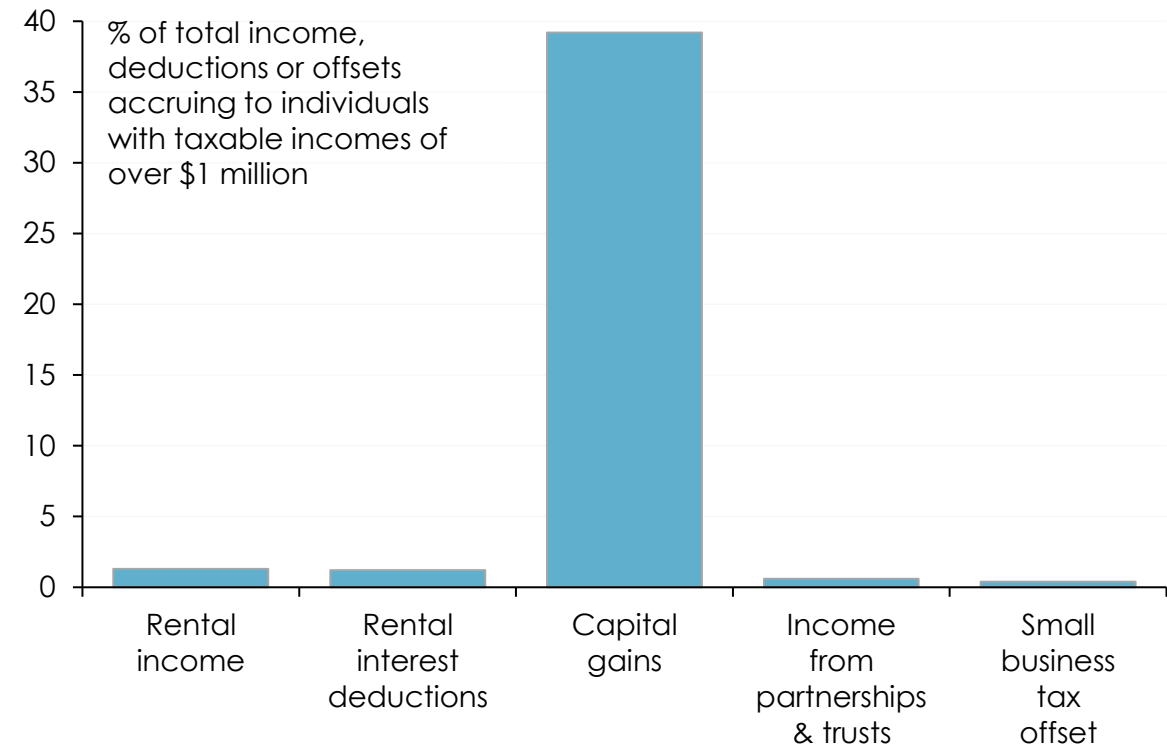
## Shares of selected categories of income, deductions and offsets accruing to individuals in the top tax bracket, 2022-23



**The 5.3% of individuals in the top tax bracket (in 2022-23) account for much larger shares of incomes that are favourably treated by the tax system (though they also pay 37% of total income tax)**

Note: The top tax threshold in 2022-23 was \$180,000. Distributions from partnerships and trusts excludes primary production trusts.  
Source: Australian Taxation Office, [Taxation Statistics 2022-23](#), Table 4.

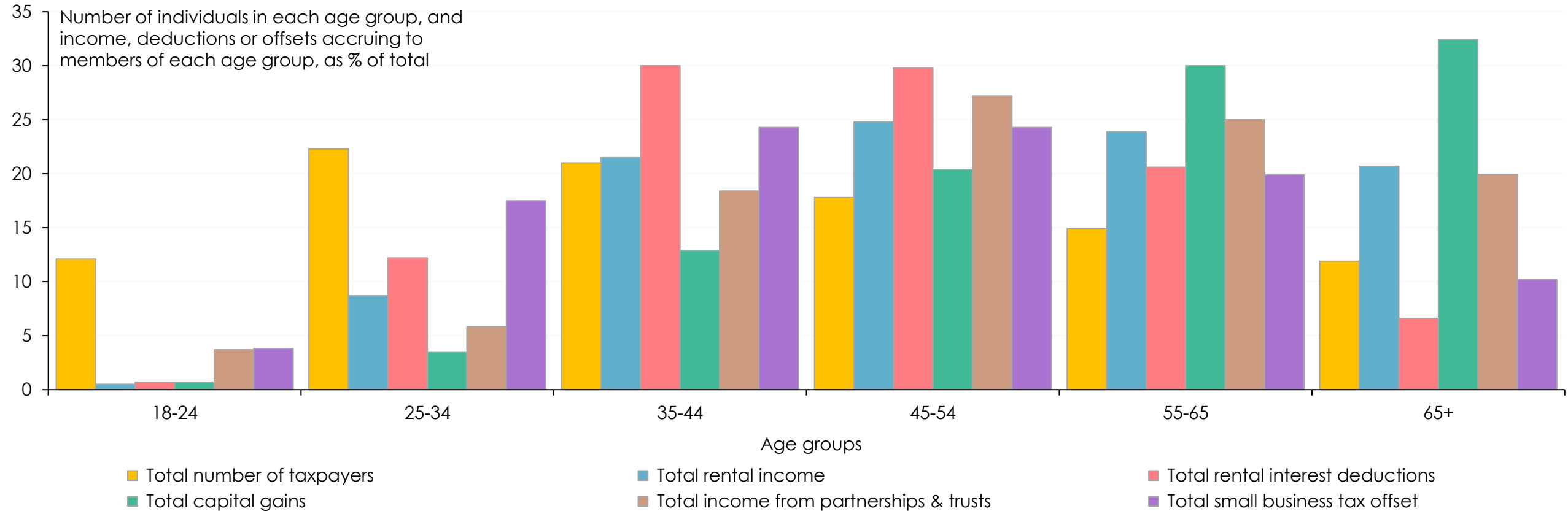
## Shares of selected categories of income, deductions and offsets accruing to individuals with incomes > \$1mn, 2022-23



**The 0.1% of individuals with taxable incomes of over \$1mn (in 2022-23) account for much larger shares of incomes that are favourably treated by the tax system (though they also pay 8.6% of total income tax)**

# The categories of income affected by the tax changes in the Budget – in particular capital gains – disproportionately benefit older taxpayers

Shares of different types of concessionally-taxed income accruing to individuals, by age group, compared with proportion of the total number of individuals in each age group, 2022-23

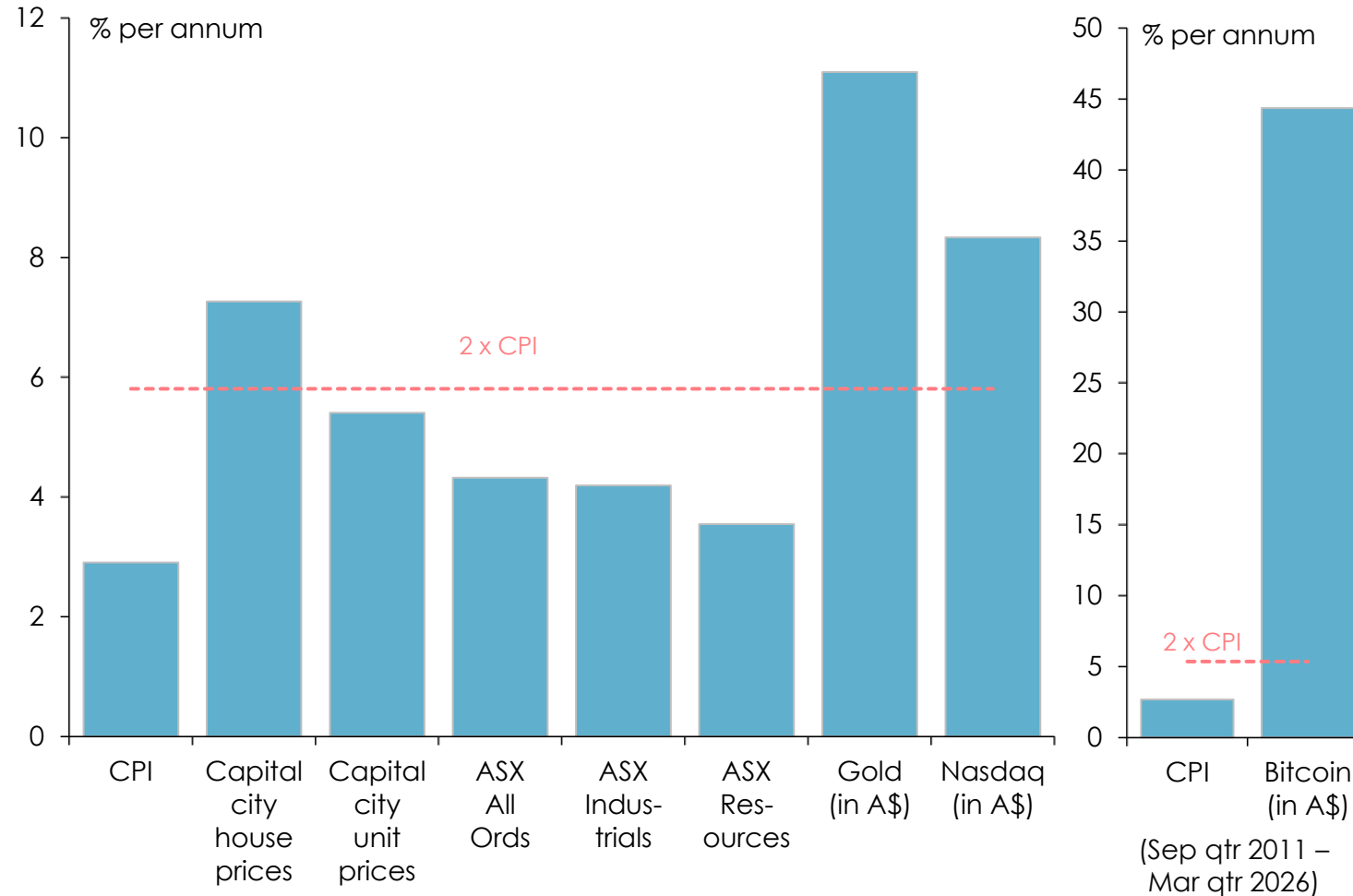


**34½% of individuals filing tax returns are aged 18-34, and they pay 21% of total income tax – but they account for much smaller proportions of the types of income affected by the tax changes proposed in the Budget – whereas people aged 55 and over account for 27% of individuals filing tax returns, but account for 30% of all small business offsets, 45% of total rental income and income from partnerships & trusts, and 62½% of total capital gains**

Note: Distributions from partnerships and trusts excludes primary production trusts. Source: Australian Taxation Office, [Taxation Statistics 2022-23](#), Table 3A.

# The proposed changes to the capital gains tax regime will not make all investors worse off, or 'dis-incentivize' risk-taking investment

## Average annual rate of increase in prices of selected assets, June qtr 1999 to March qtr 2026

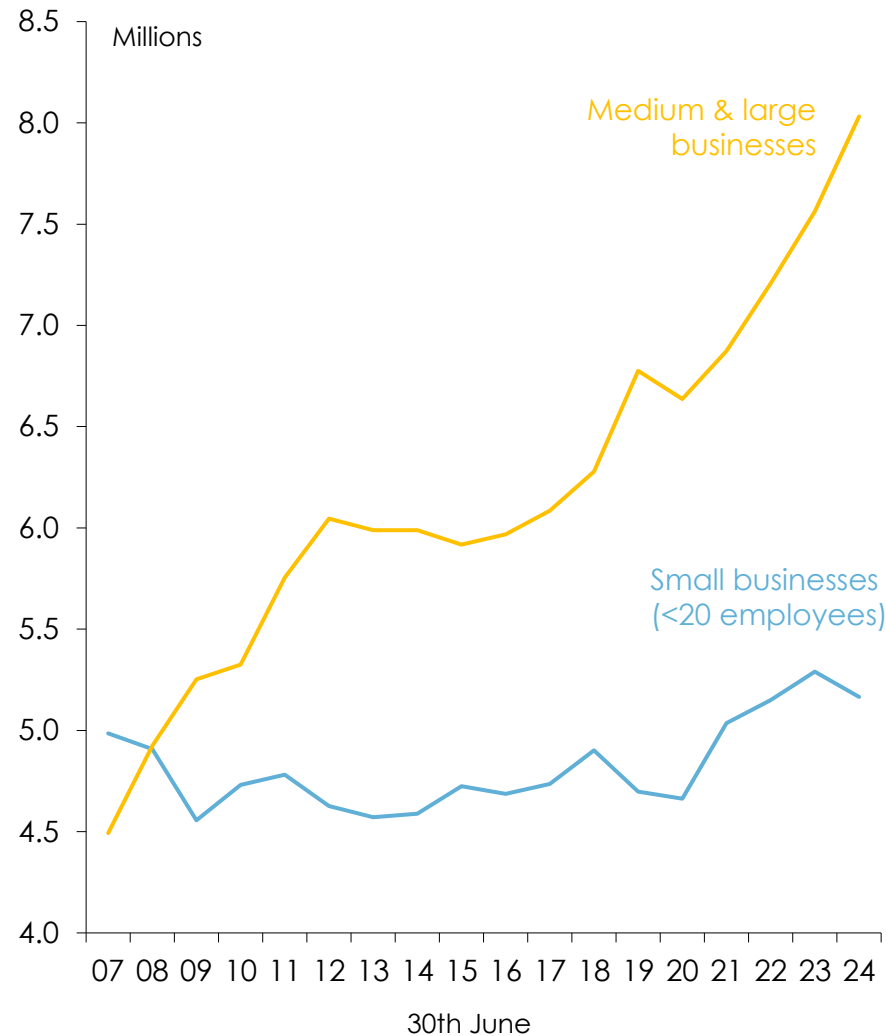


- ❑ The CGT regime which has applied since 1999-2000 (50% discount on tax on nominal gain) is 'more generous' to investors than the 1985-1999 regime (and the one proposed in the Budget) if the price of the asset on which the capital gain is realized has risen at more than twice the CPI inflation rate
  - which over the past 25 years has been the case for houses, gold, stocks listed on the US Nasdaq index and (since 2011) bitcoin
  - but not for units, or ASX-listed shares (in general)
- ❑ It's therefore not true that the proposed changes to the capital gains tax system will make all investors worse off (after tax)
- ❑ What public benefit is there from 'incentivizing' people to invest in established housing, gold, overseas shares, or cryptocurrency?

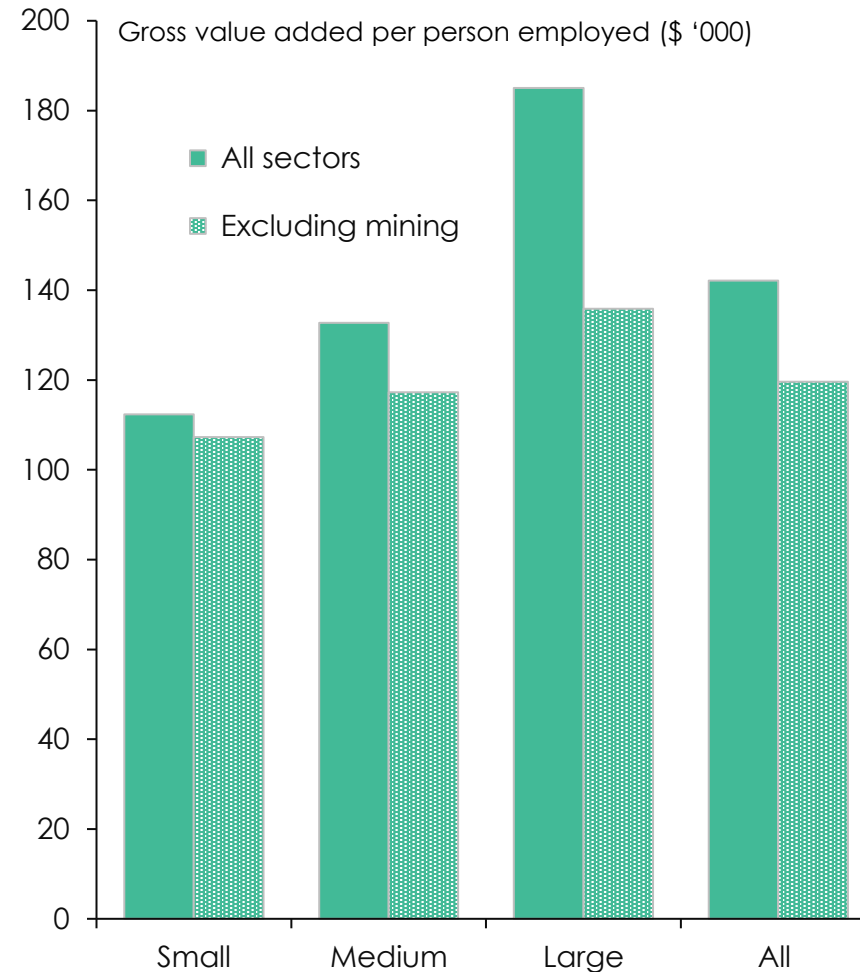
Sources: ABS, [Consumer price index](#), April 2026; Cotality, [CoreLogic indices](#), April 2026; LSEG Datastream.

# The plethora of tax preferences enjoyed by small business has done nothing to promote employment, productivity or innovation

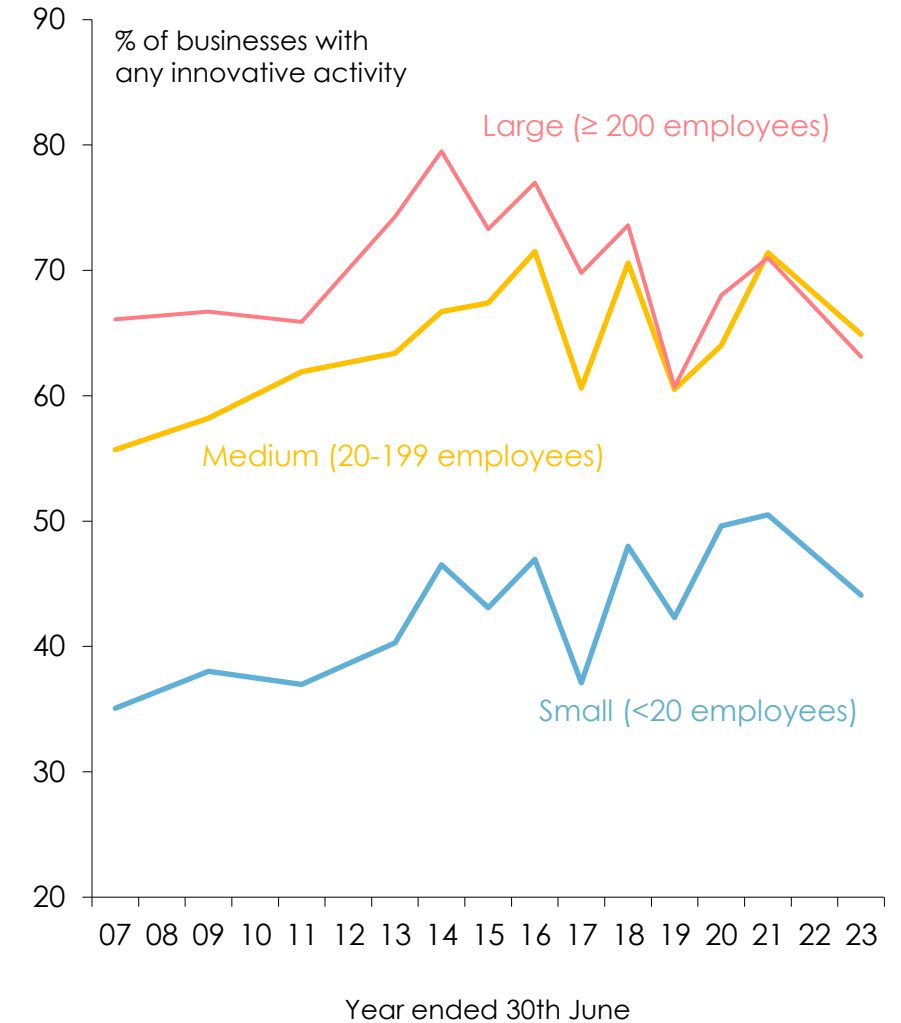
## Employment by business size



## Labour productivity by business size, 2023-24

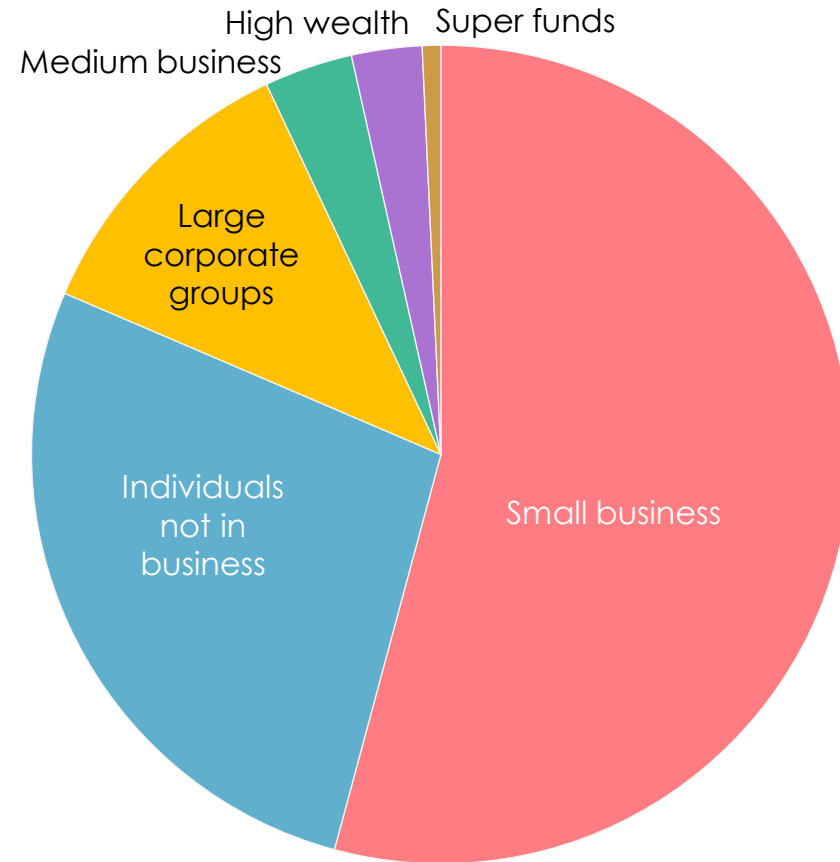


## Innovative activity by business size



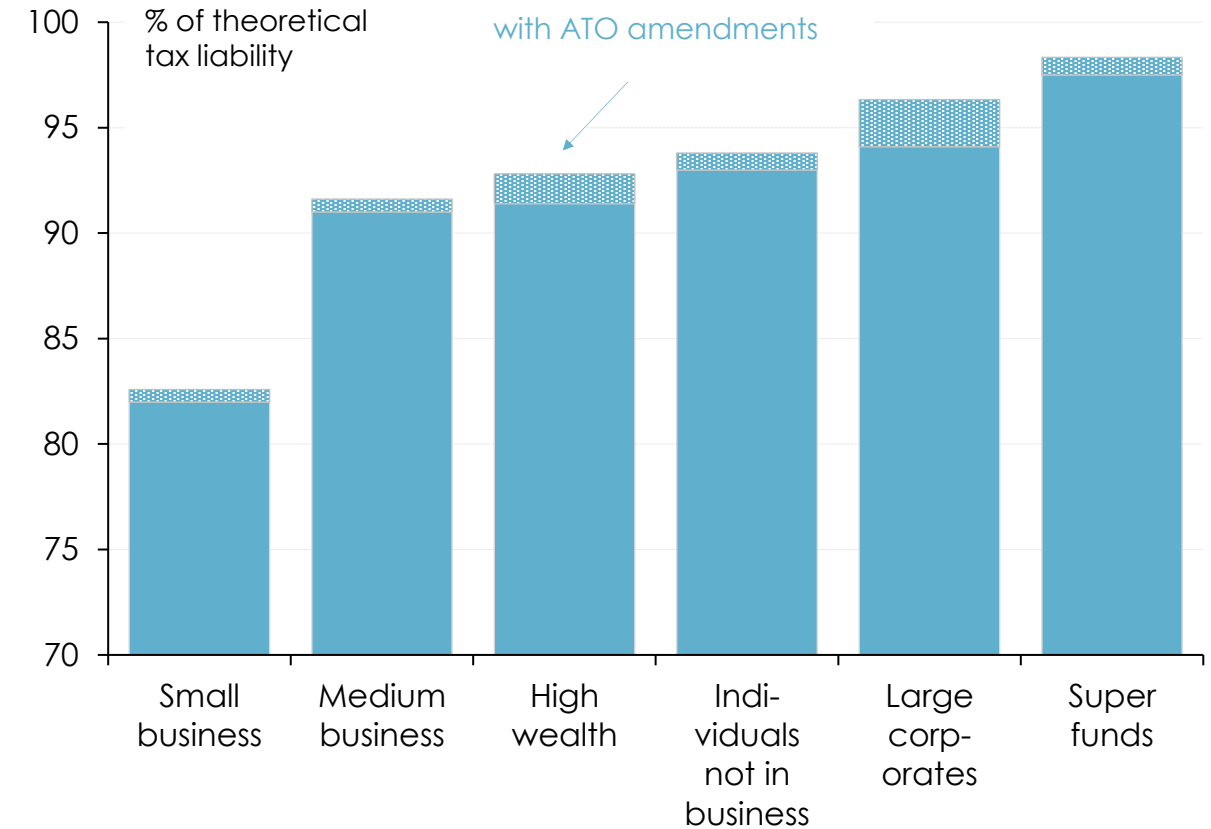
# One thing small business is very good at is not paying the tax which it should

## Personal & company income tax revenue not collected due to non-compliance, 2022-23



**Small businesses account for more than half of the personal and company income tax which the ATO doesn't collect due to non-compliance with tax laws**

## 2022-23 'tax gaps' by category of taxpayer

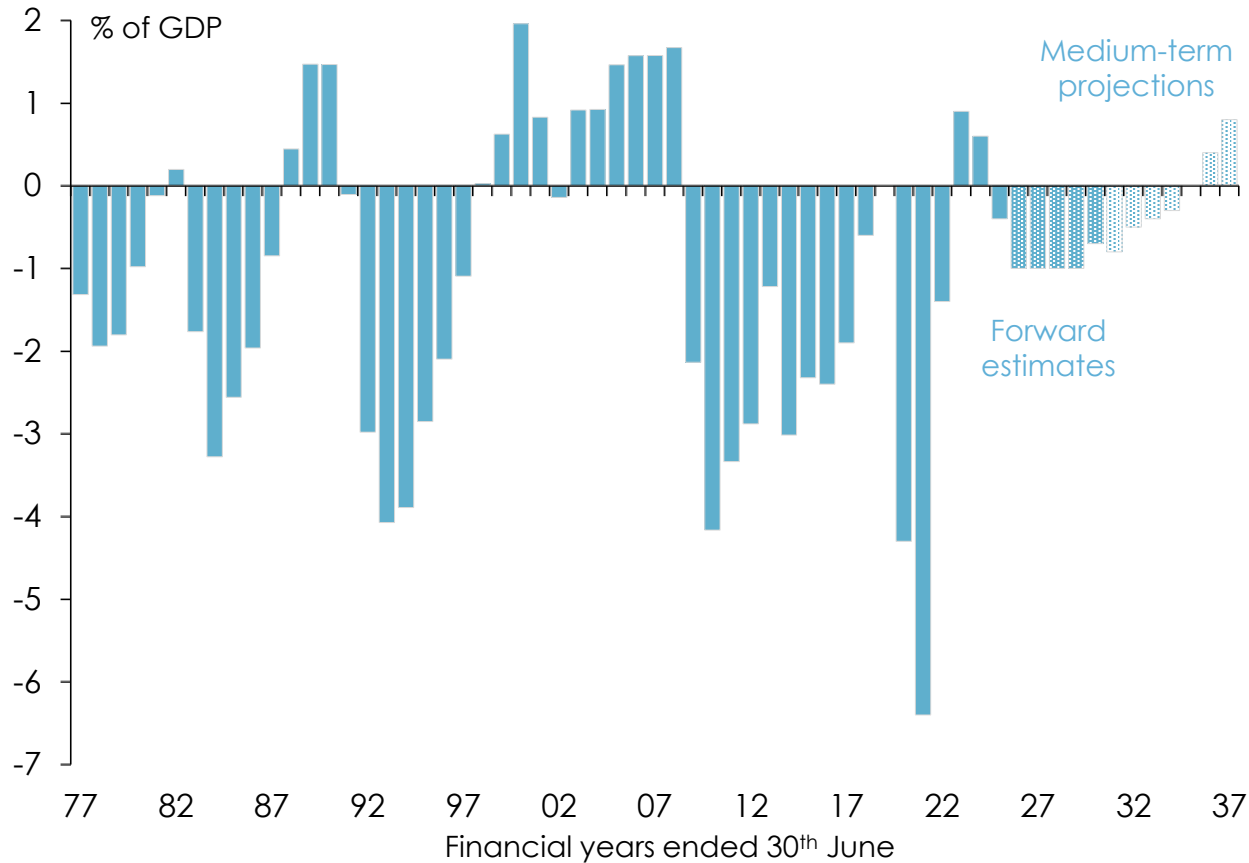


**Small businesses voluntarily pay only 82% of the tax which they would if they fully complied with the tax law – a much smaller percentage than other taxpayers**

# Future directions for tax reform and 'budget repair'

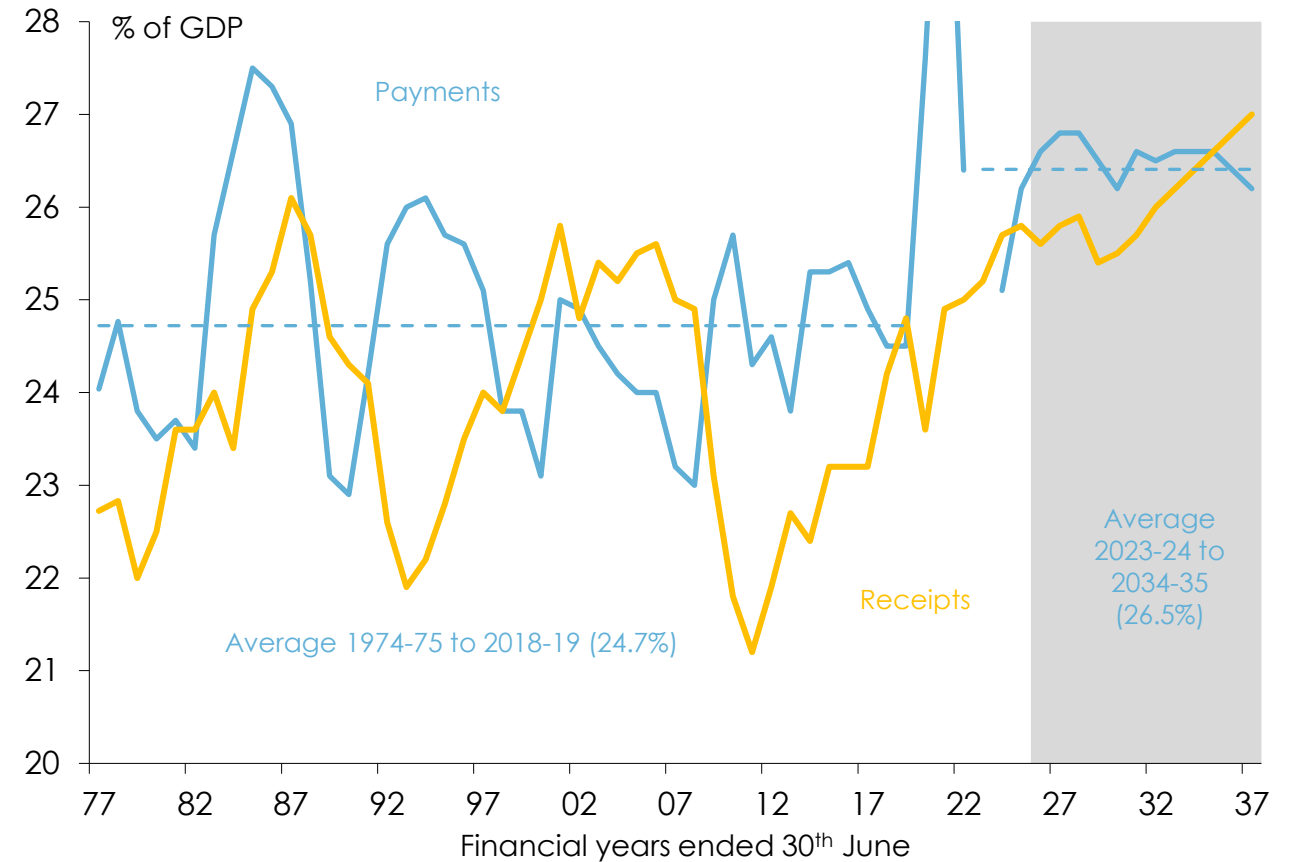
# The 2026-27 Budget projects a 'return to surplus' by 2035-36 – but only if there are no further tax cuts over that interval (how likely is that?)

Long-term actuals, forward estimates and 'projections' of the 'underlying' cash balance



**The Budget is now projected to return to 'underlying' surplus by 2035-36 – the first time a Budget has projected a surplus over the 'medium term' since that of 2019-20**

Long-term actuals, forward estimates and 'projections' of cash receipts and payments

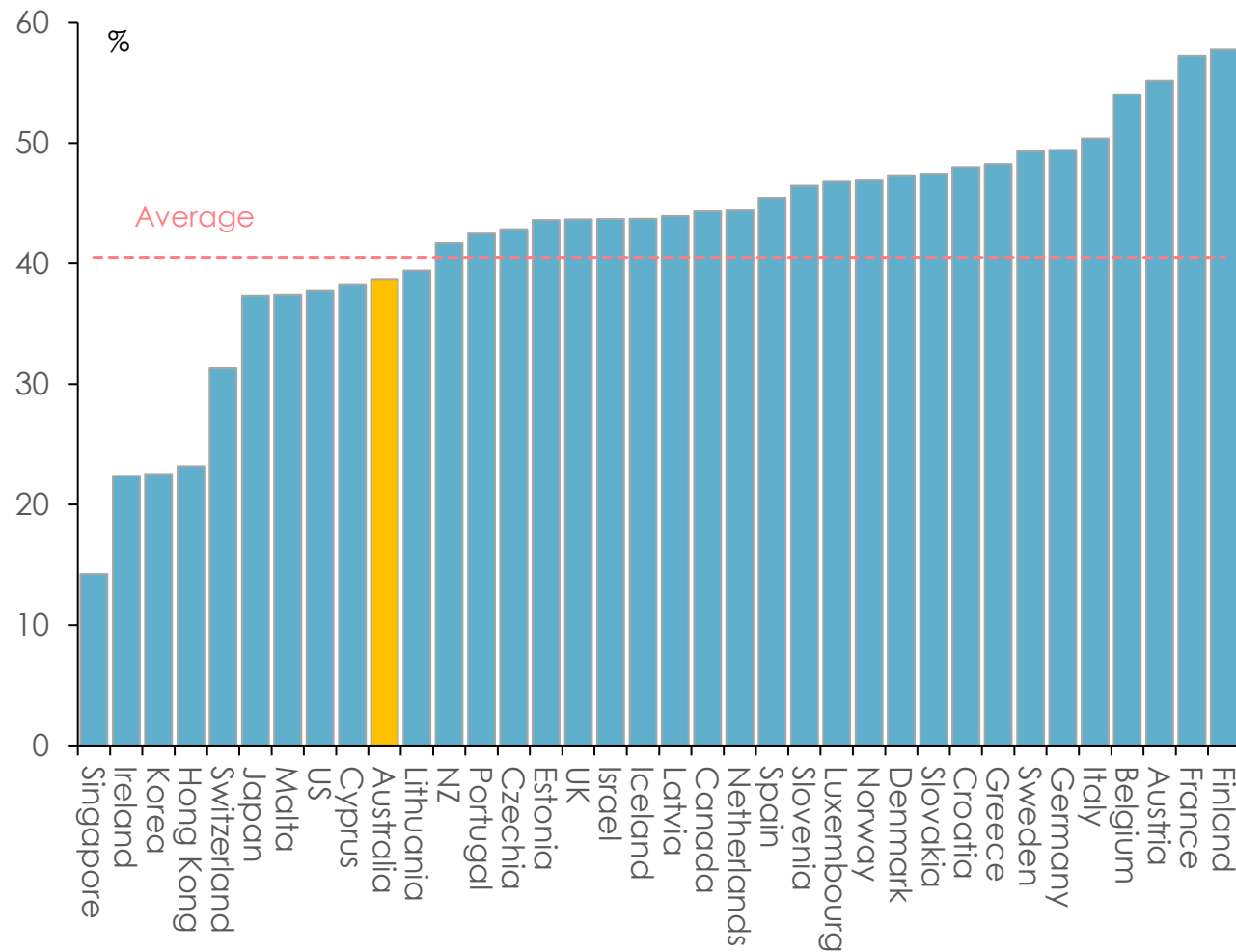


**The 'return to surplus' is largely predicated on the mooted NDIS savings, increased revenue from tax changes in the Budget and retention of 'bracket creep'**

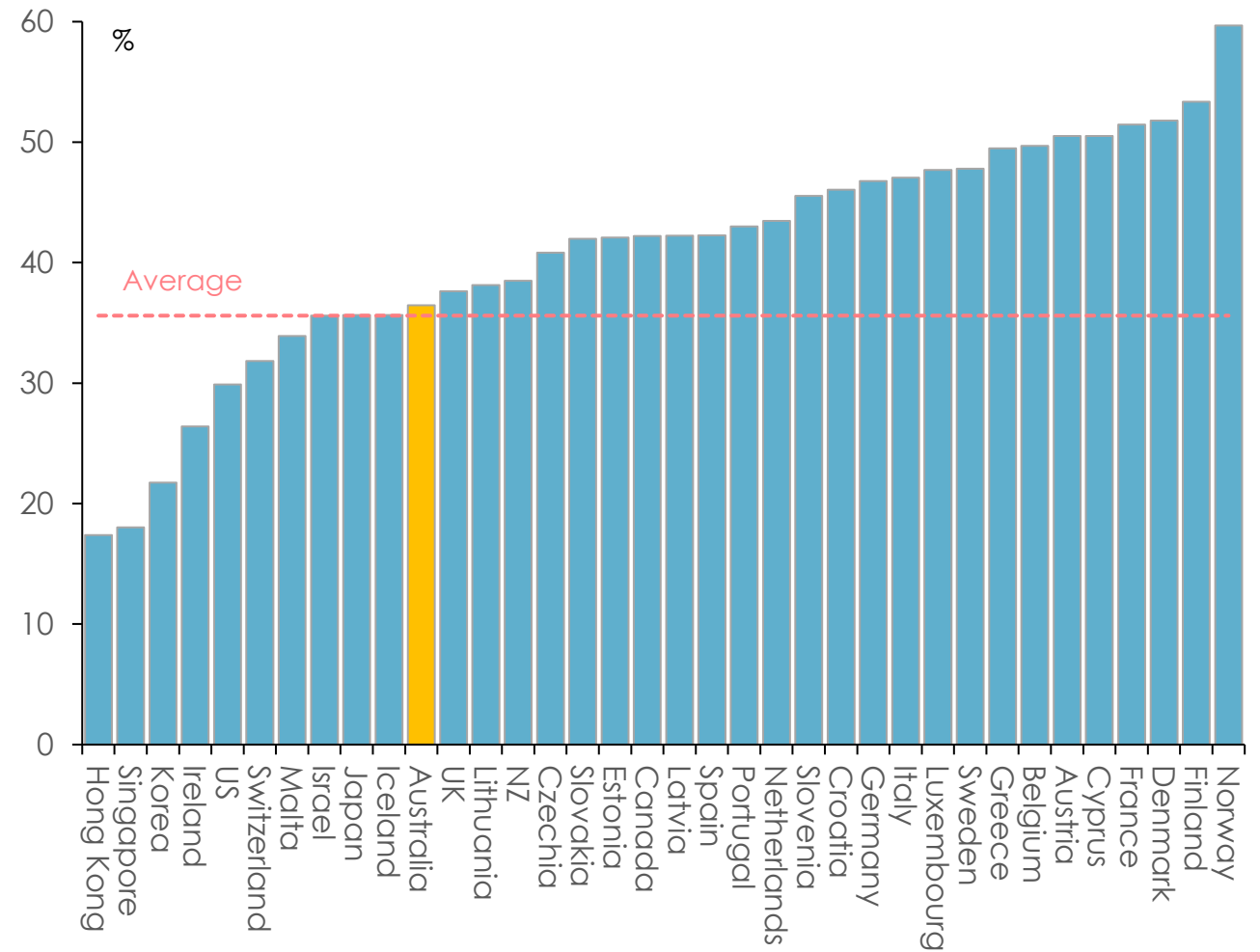
Note: The 'underlying' cash balance is the difference between receipts and 'underlying' payments, which exclude 'net investment in financial assets for policy purposes' (see next slide). Source: Australian Government, [2026-27 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and [Statement 11: Historical Australian Government Data](#).

# Australia is at the lower end of 'advanced' economies in terms of government spending and revenue as a share of GDP

Government expenditure as a percentage of GDP, 'advanced' economies, 2025



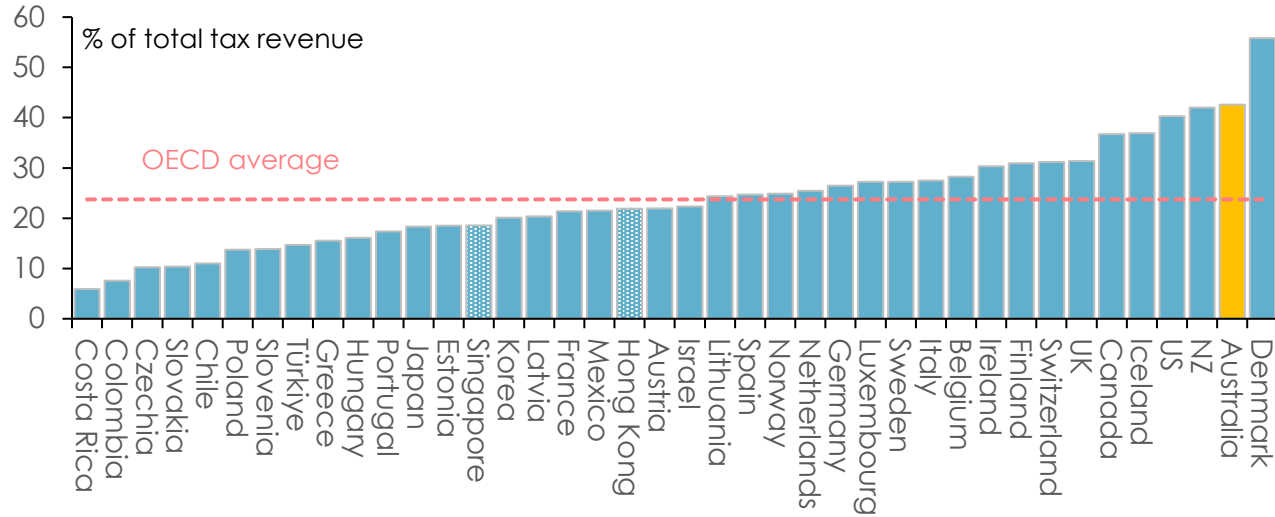
Government revenue as a percentage of GDP, 'advanced' economies, 2025



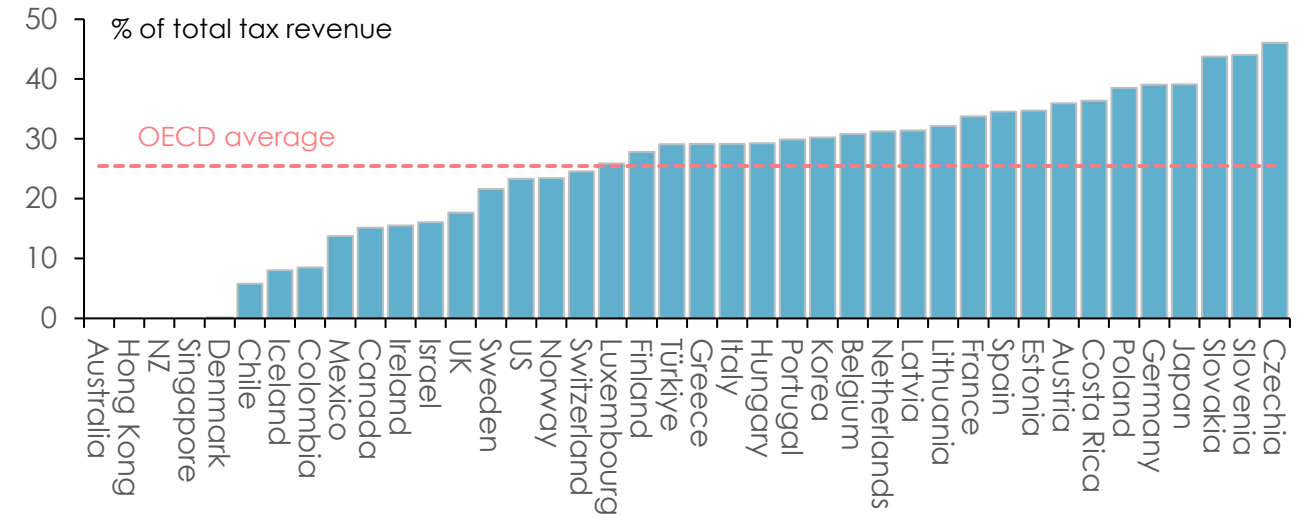
Note: Data is for the 'general government' sector, ie excluding public enterprises. Data excludes compulsory payments to non-government entities, including (for Australia) superannuation contributions and private health insurance premiums. Source: International Monetary Fund, [Fiscal Monitor database](#), April 2026.

# Australia stands out among 'developed' economies for its reliance on income tax, for not using social security taxes, and for low sales taxes

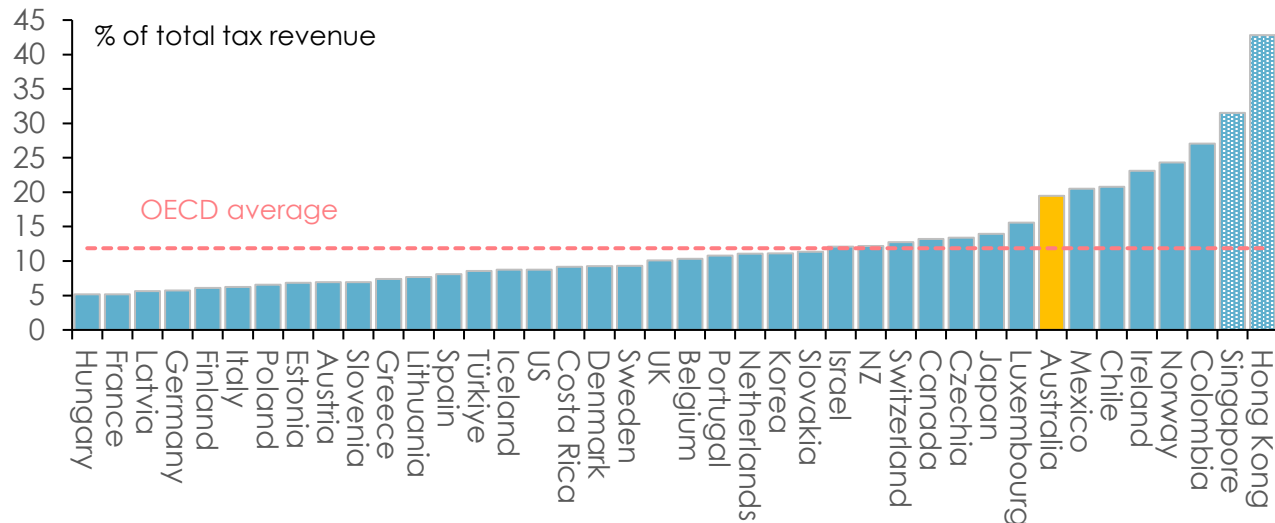
## Personal income tax revenues as a pc of total, 2024



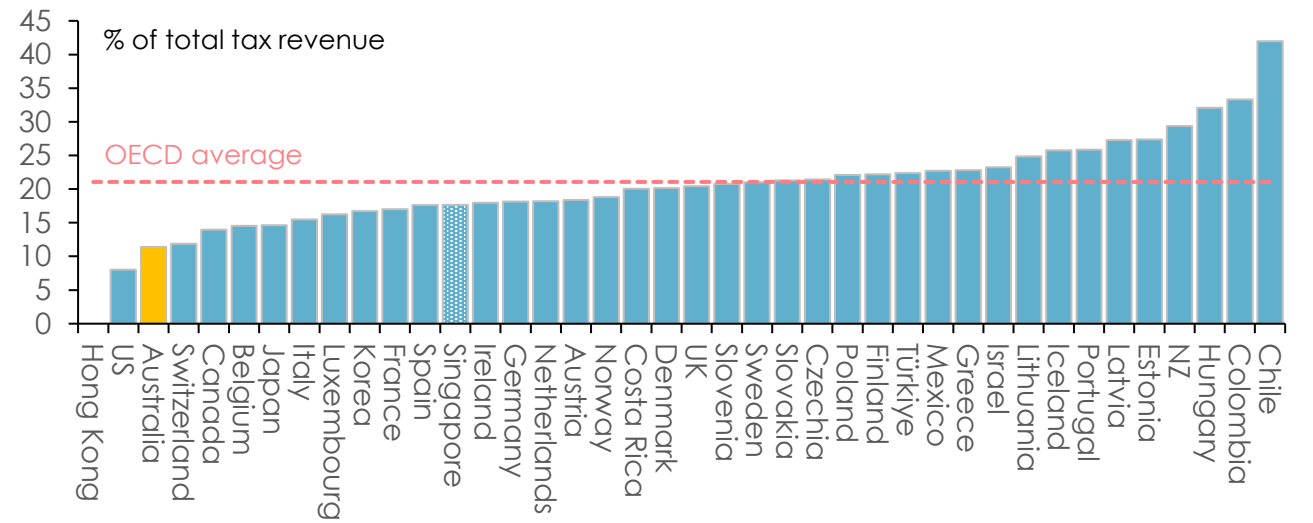
## Social security tax revenues as a pc of total, 2024



## Company income tax revenues as a pc of total, 2024

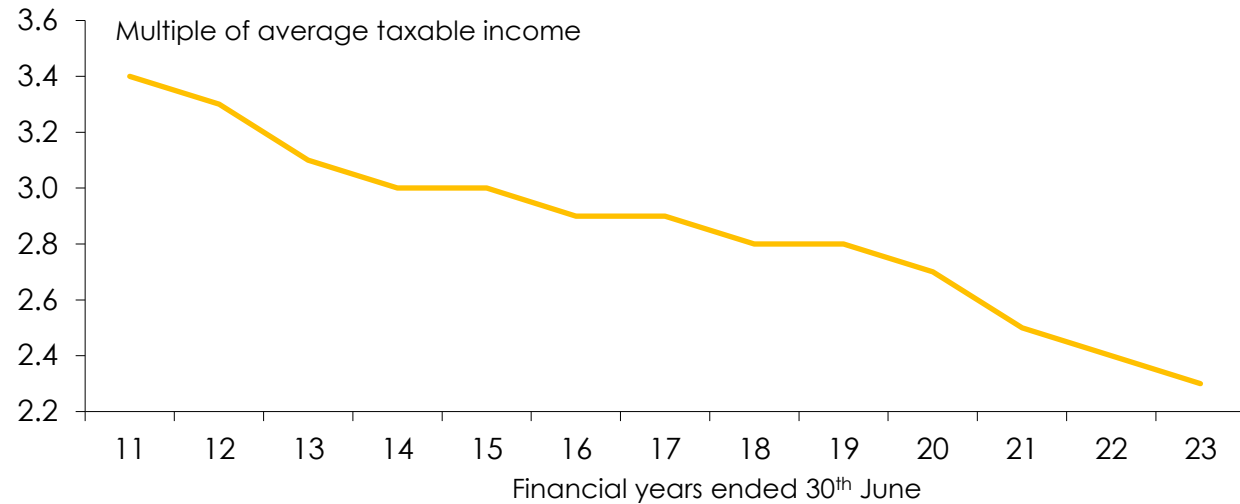


## Sales tax revenues as a pc of total, 2024

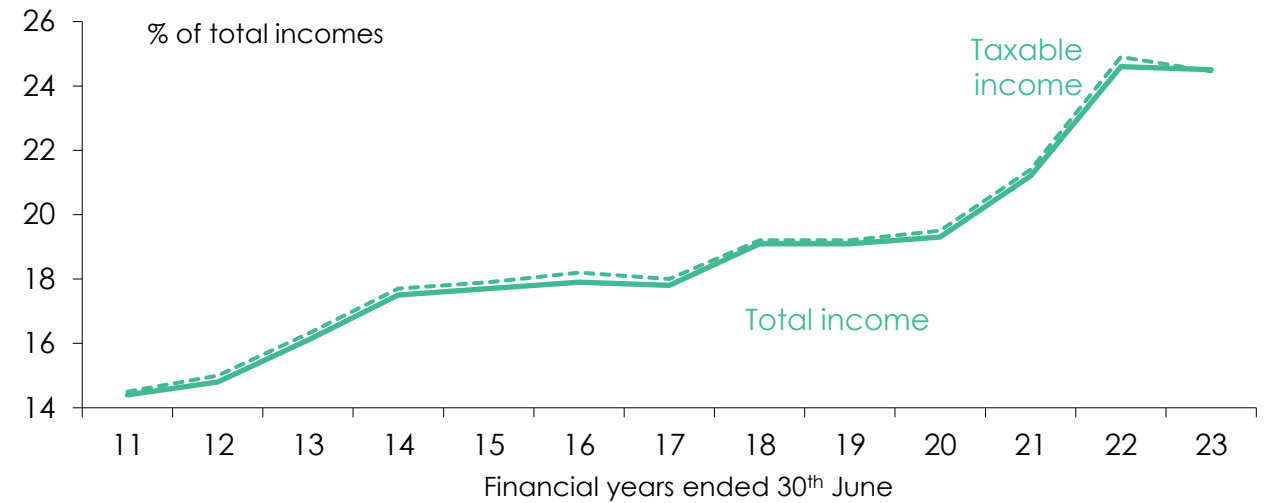


# Australia's personal income tax system is more 'progressive' than it is generally given credit for

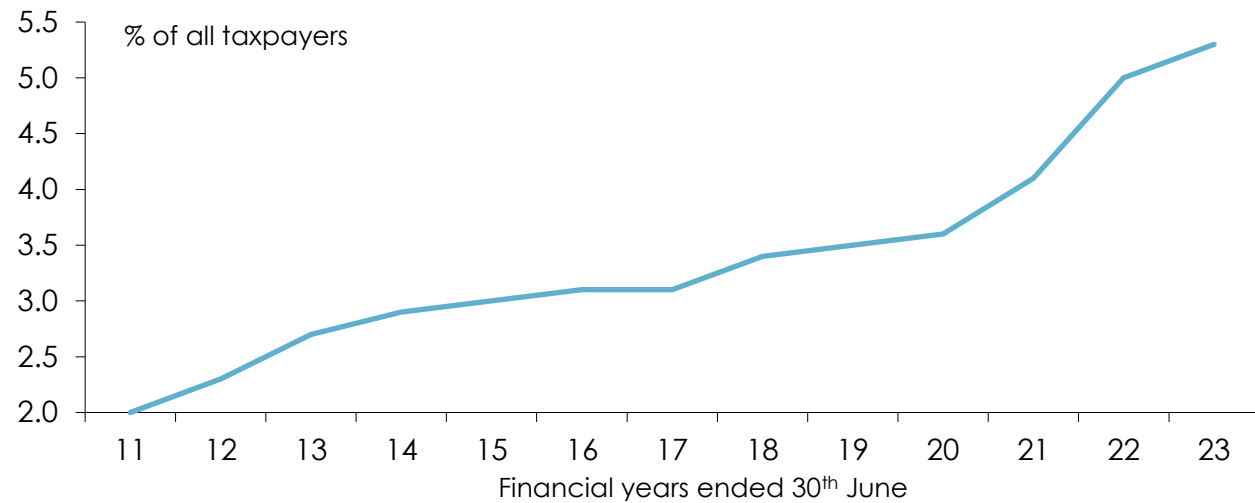
## Australia's top tax threshold



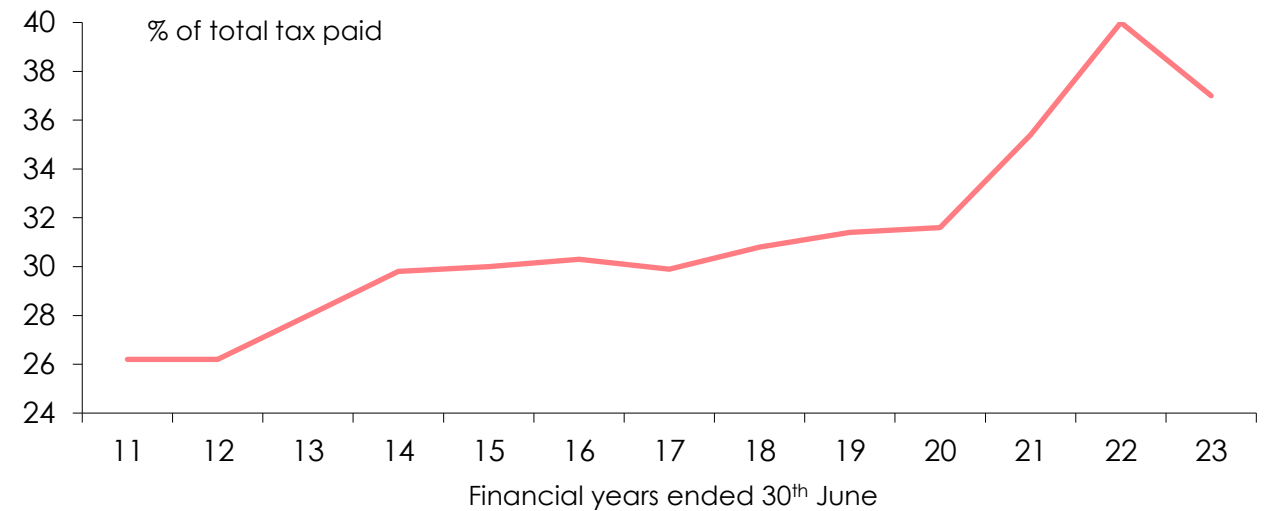
## Top rate taxpayers' incomes



## Top tax rate taxpayers

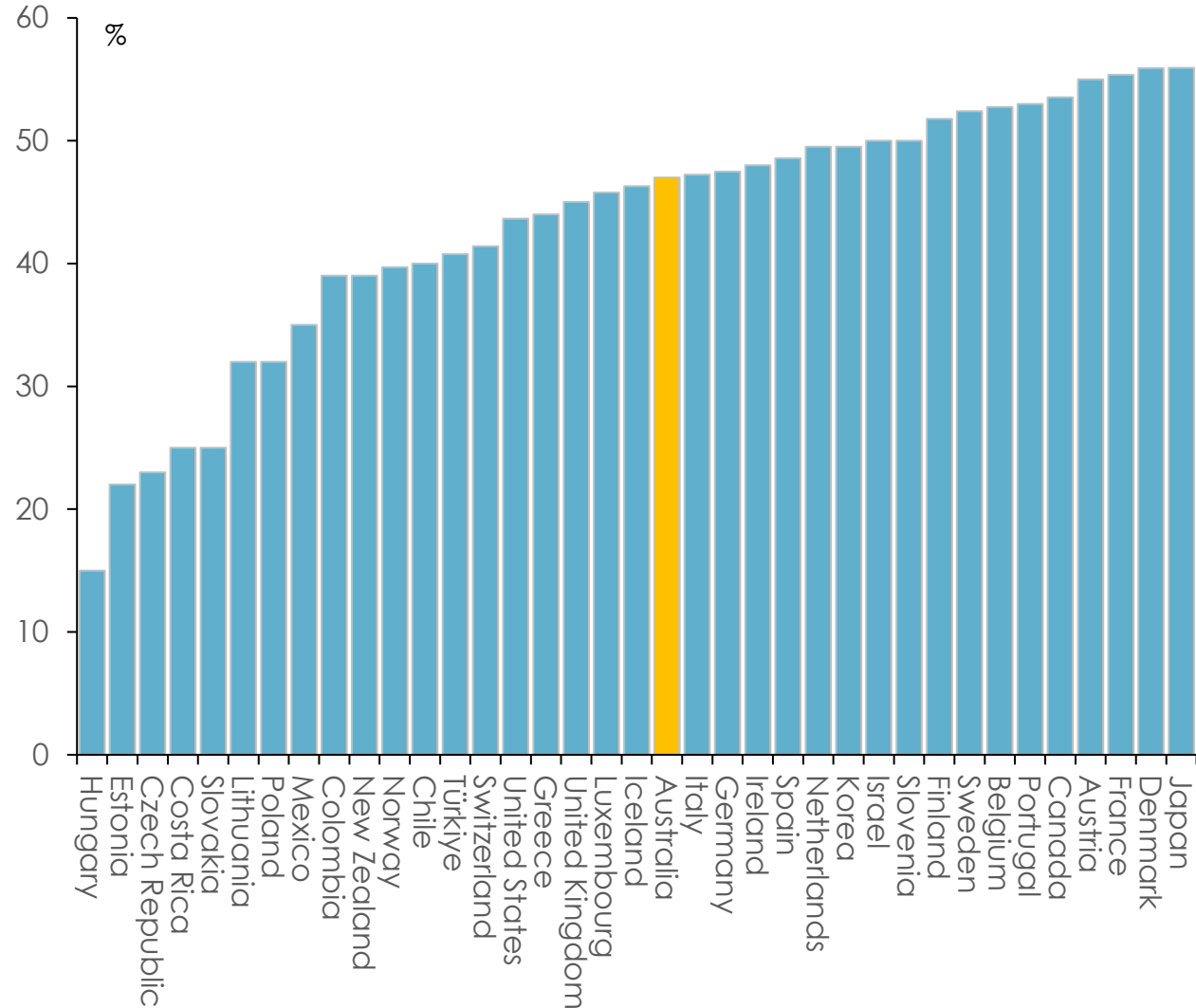


## Top rate taxpayers' tax paid

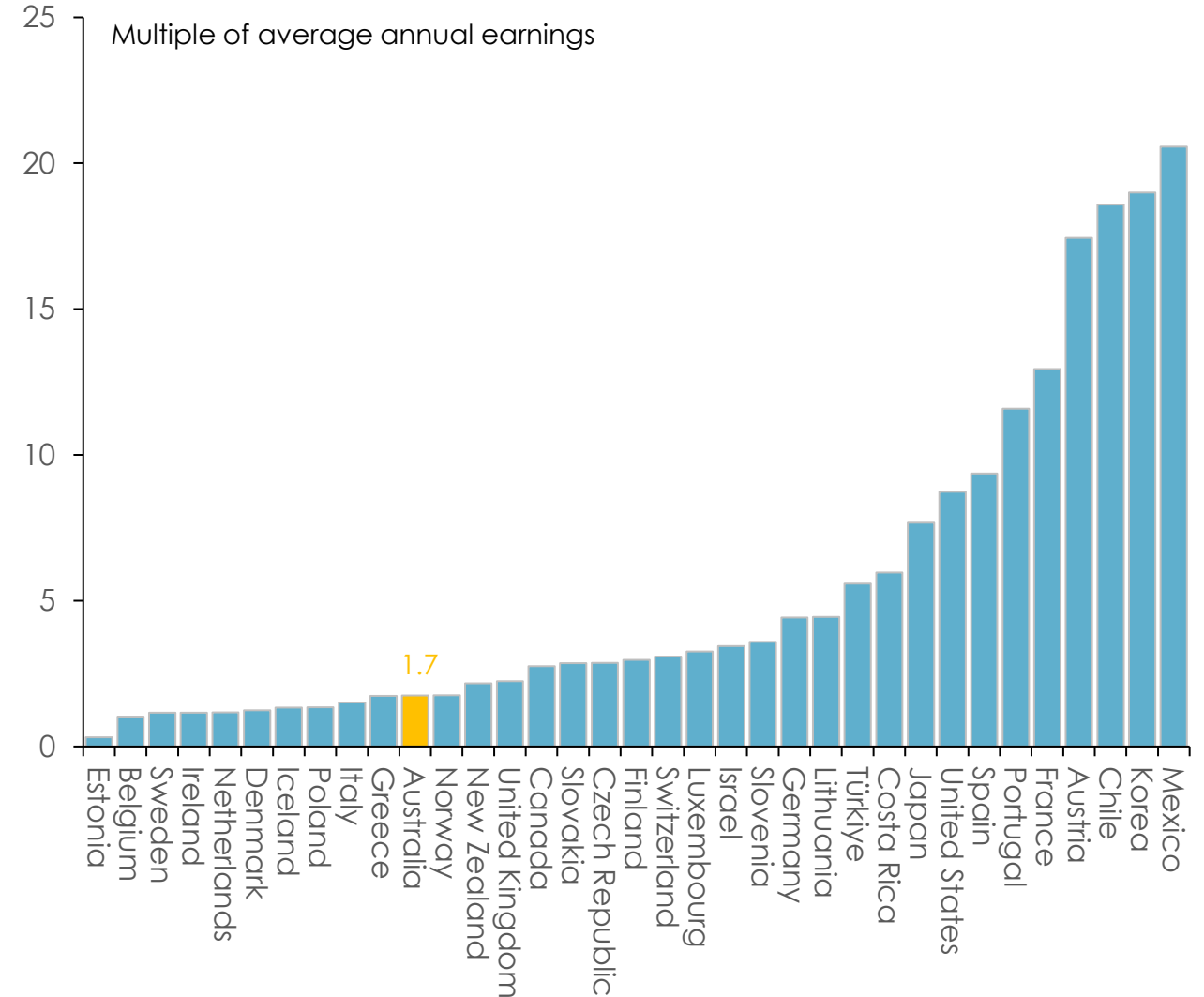


# Australia's top personal income tax rate is about 'middle-of-the-pack' – but it cuts in at a relatively low multiple of average earnings

Top personal income tax rate, OECD countries, 2025

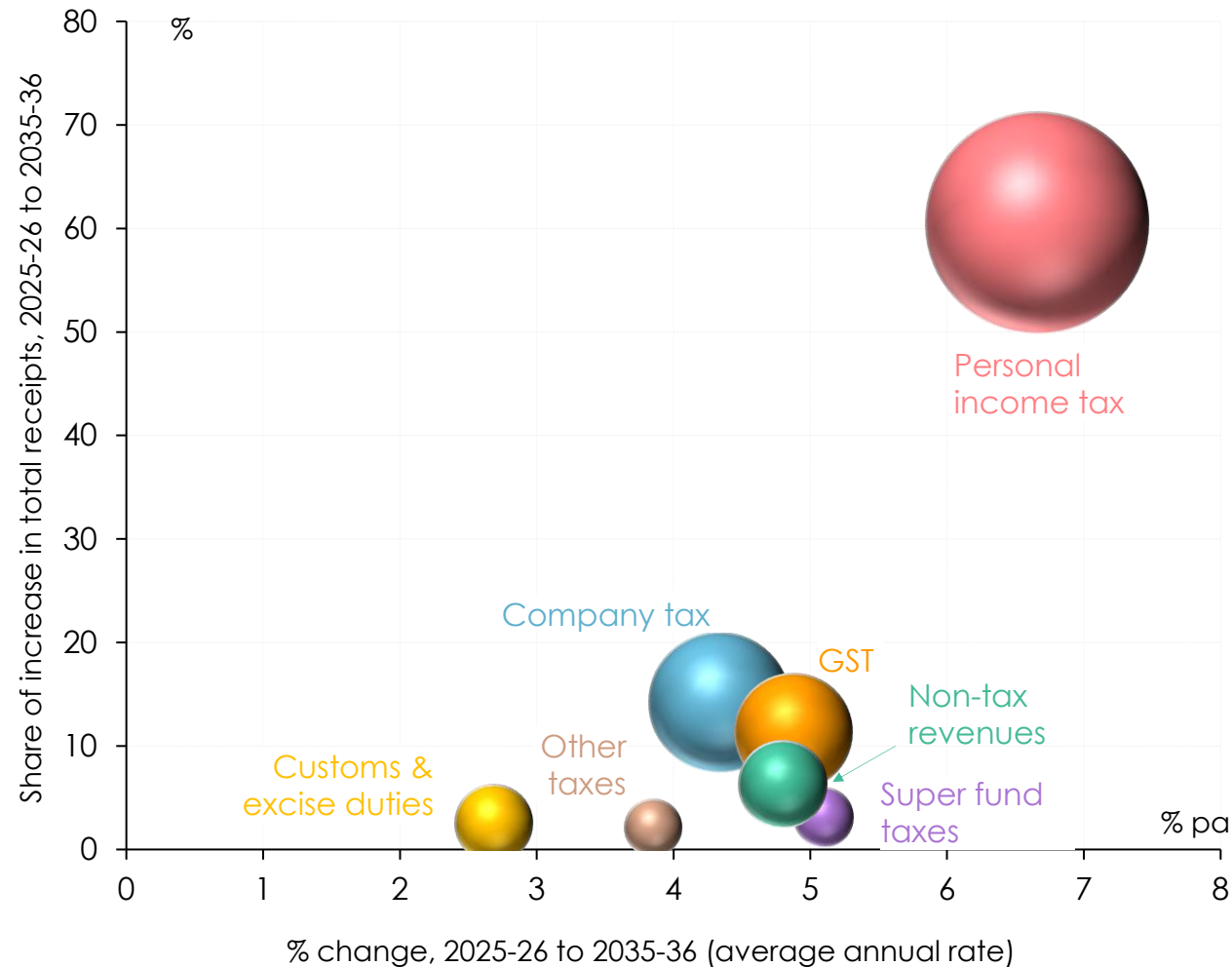


Top personal income tax rate threshold as multiple of average earnings, OECD countries, 2025

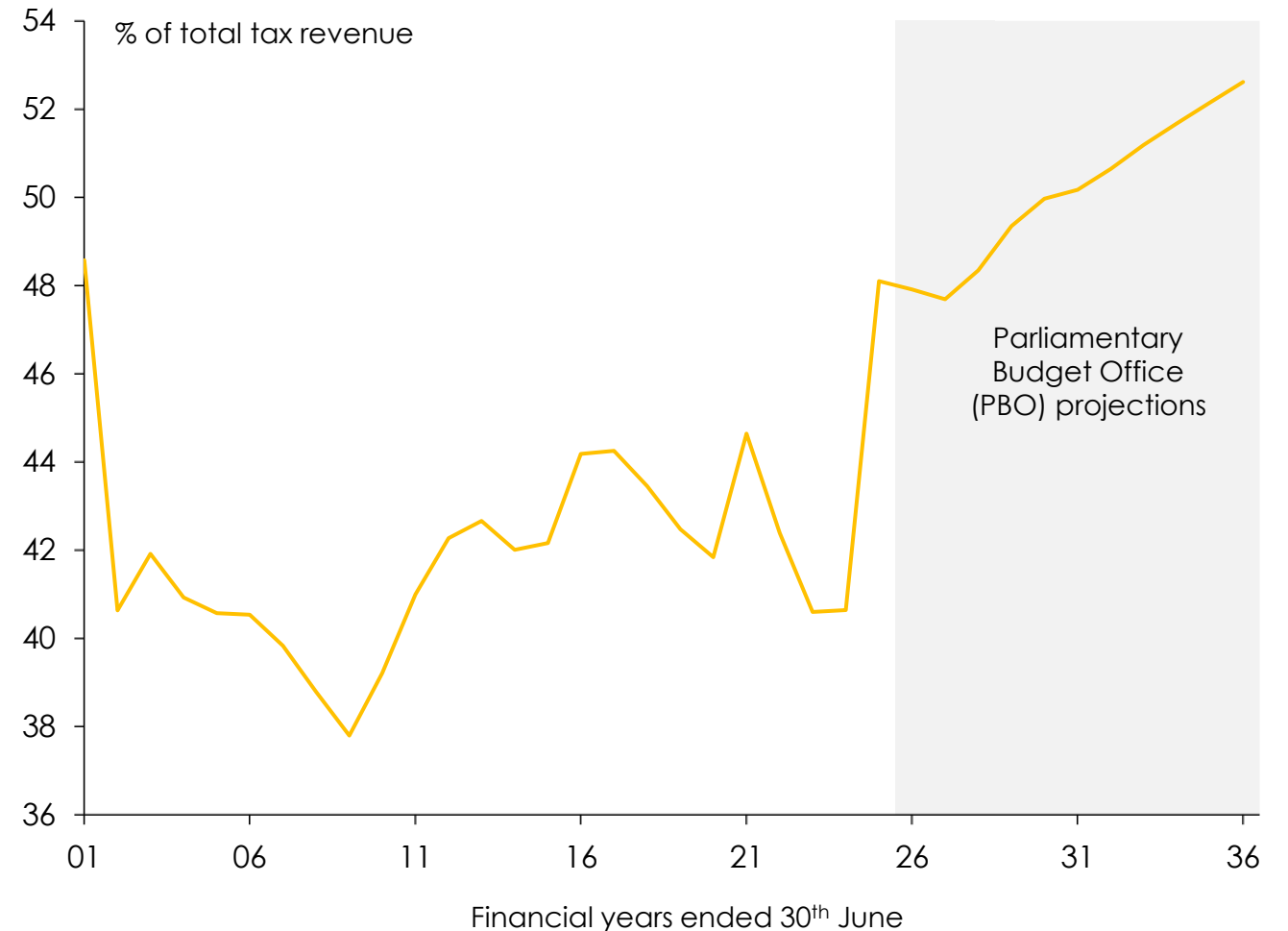


# In the absence of tax reform, more than 60% of the projected increase in revenue over the next decade will come from personal income tax

## Contributors to projected growth in cash receipts over the decade to 2035-36



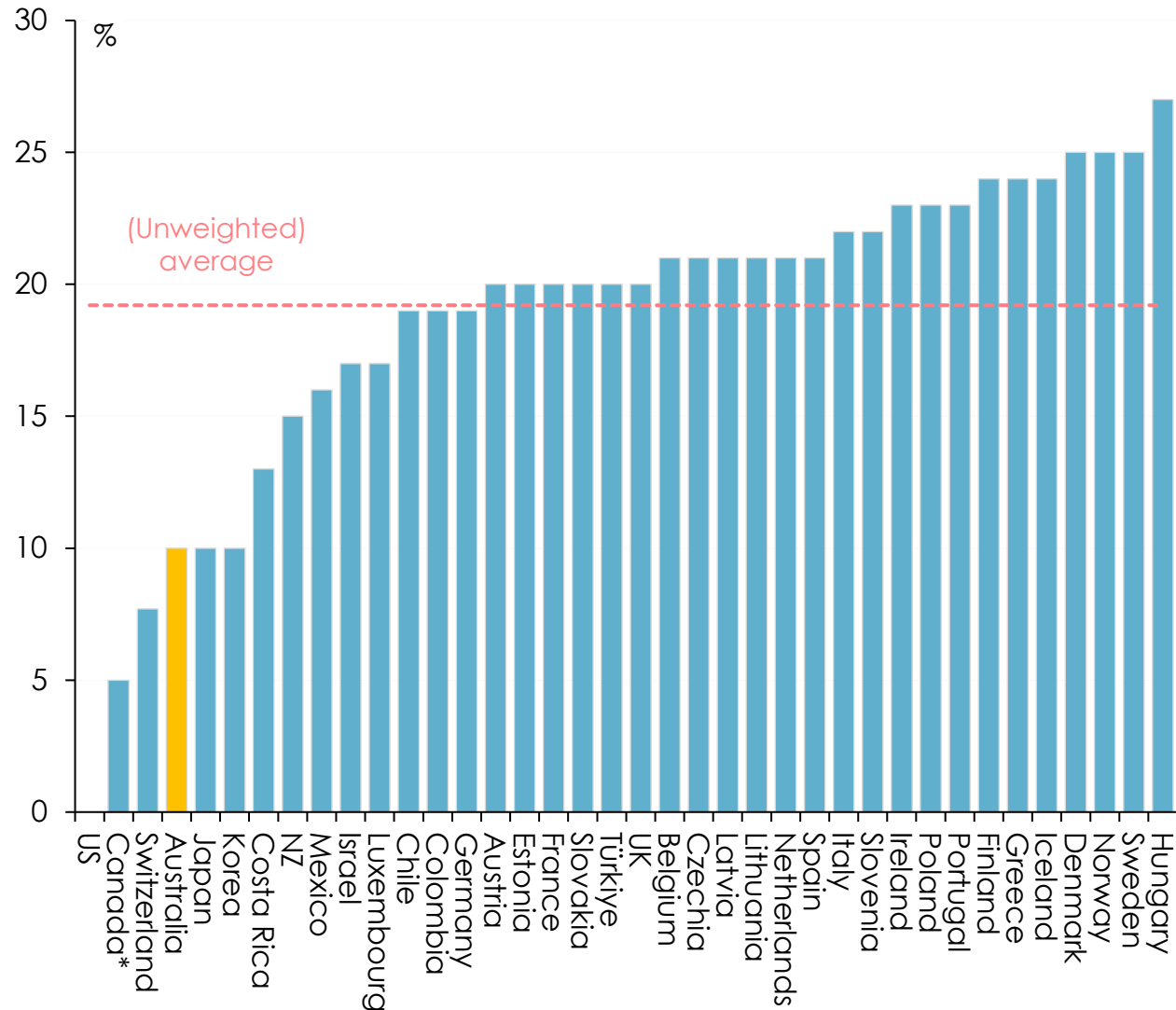
## Personal income tax as a share of total Federal cash receipts



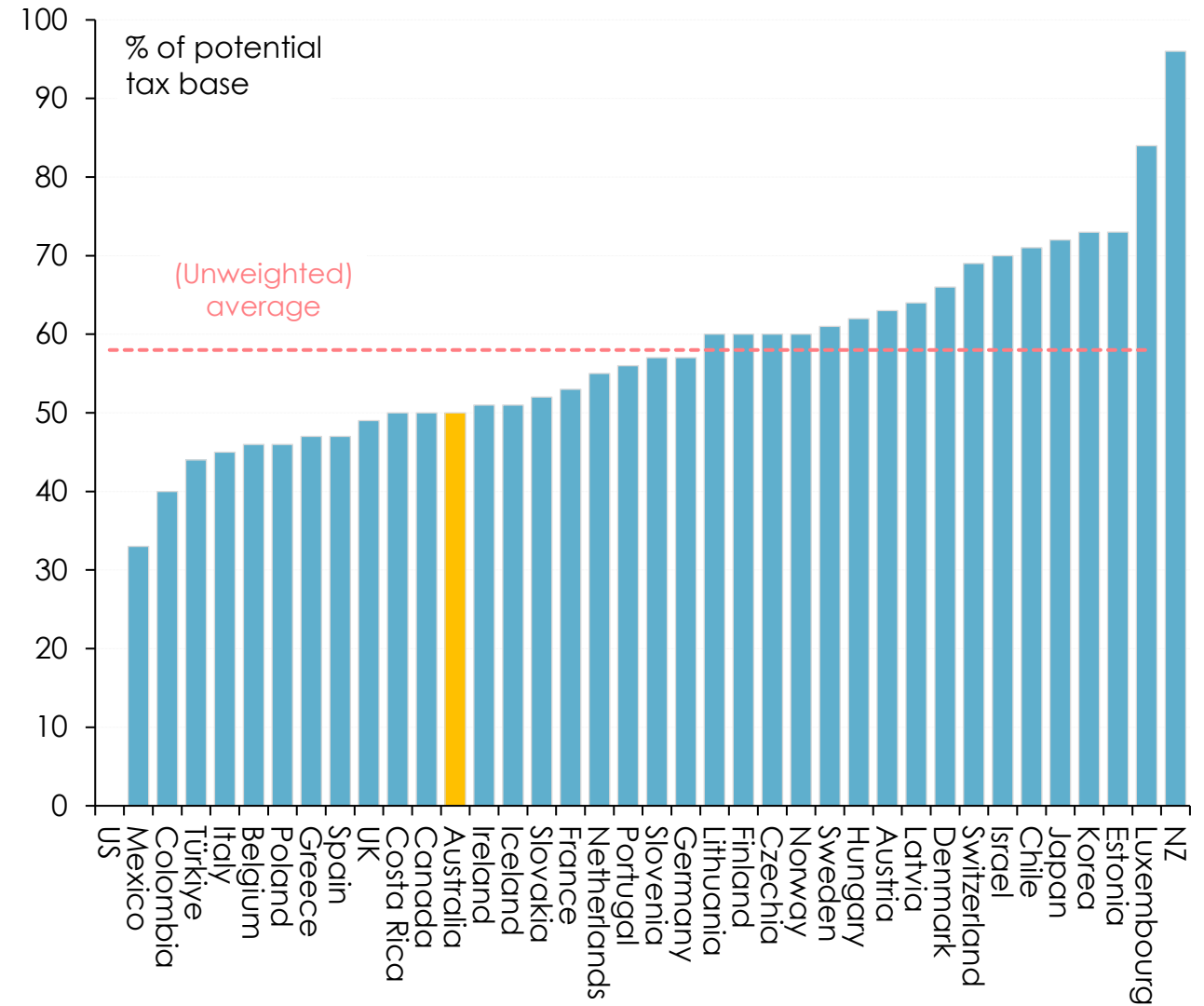
Note: The projections in this chart pre-date the 2026-27 Budget. Size of bubbles represents share of total cash receipts in 2025-26. Non-tax revenues includes interest income, dividends from public enterprises and other revenues. Source: Australian Parliamentary Budget Office, [2025-26 Medium-Term Budget Outlook: Beyond the Budget](#), 18<sup>th</sup> September 2025, Table B-1.

# Australia's GST is levied at a relatively low rate over a relatively narrow base, compared with most OECD countries

Standard rates of GST/VAT in OECD countries, 2023

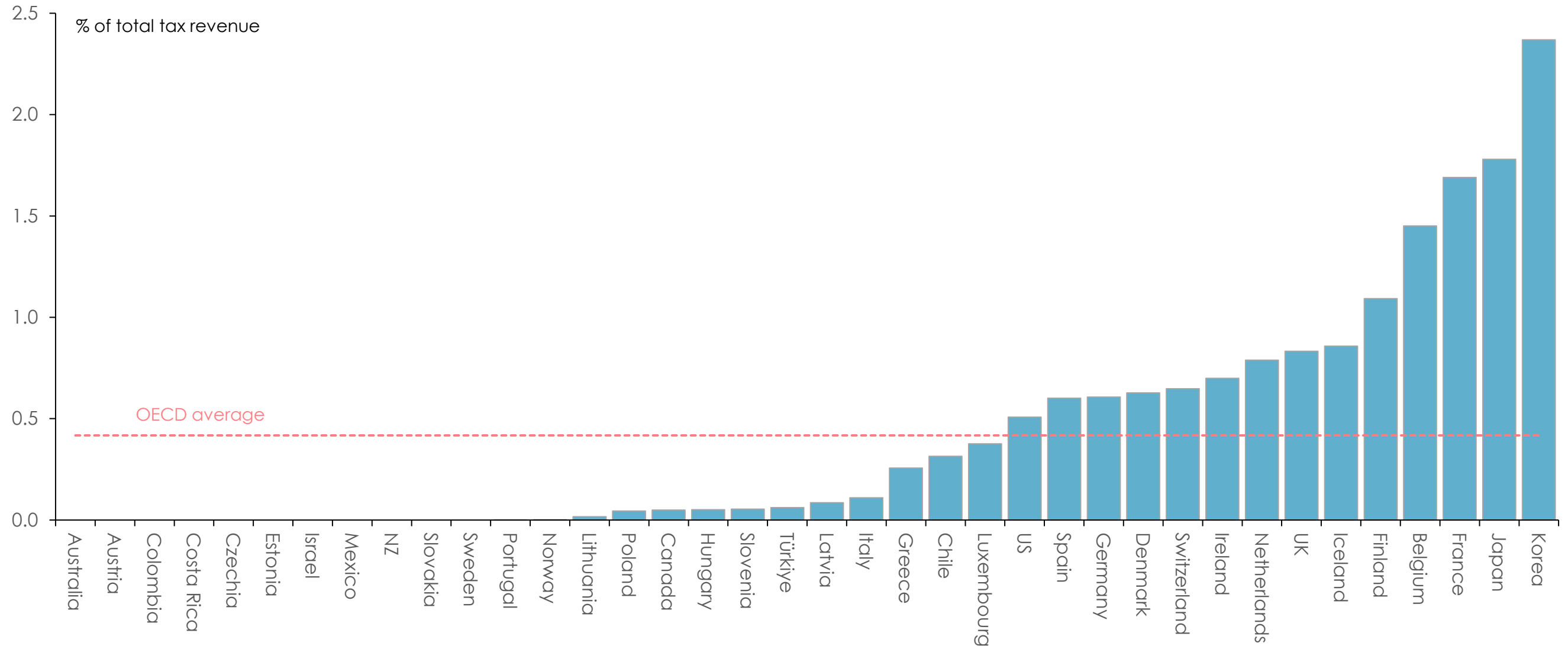


GST/VAT coverage of potential tax base, 2022



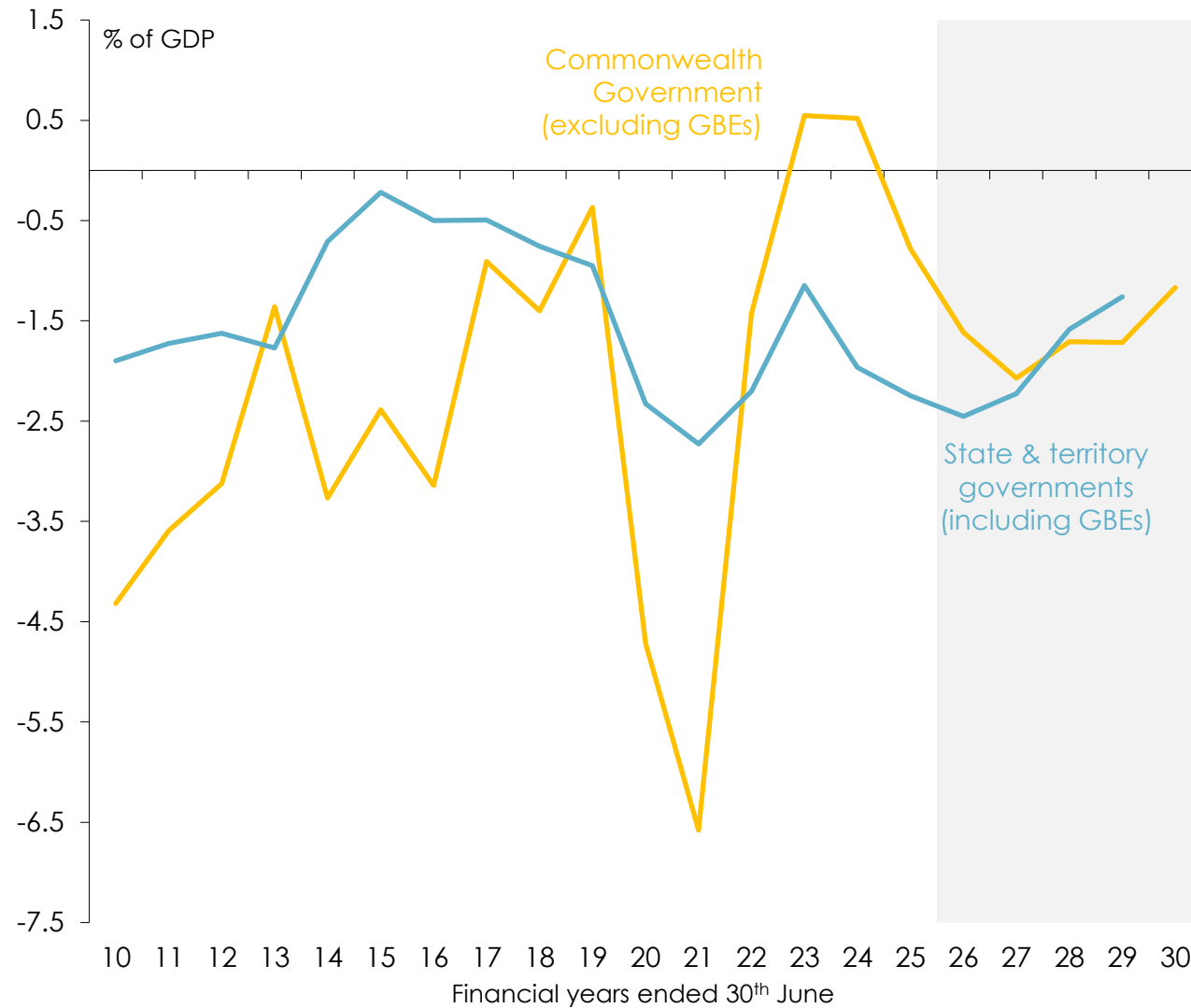
# 25 out of 38 OECD countries – including (significantly) the US and the UK – retain some form of inheritance tax – Australia is an ‘outlier’

## Revenue from estate, inheritance and gift taxes – OECD countries, 2024

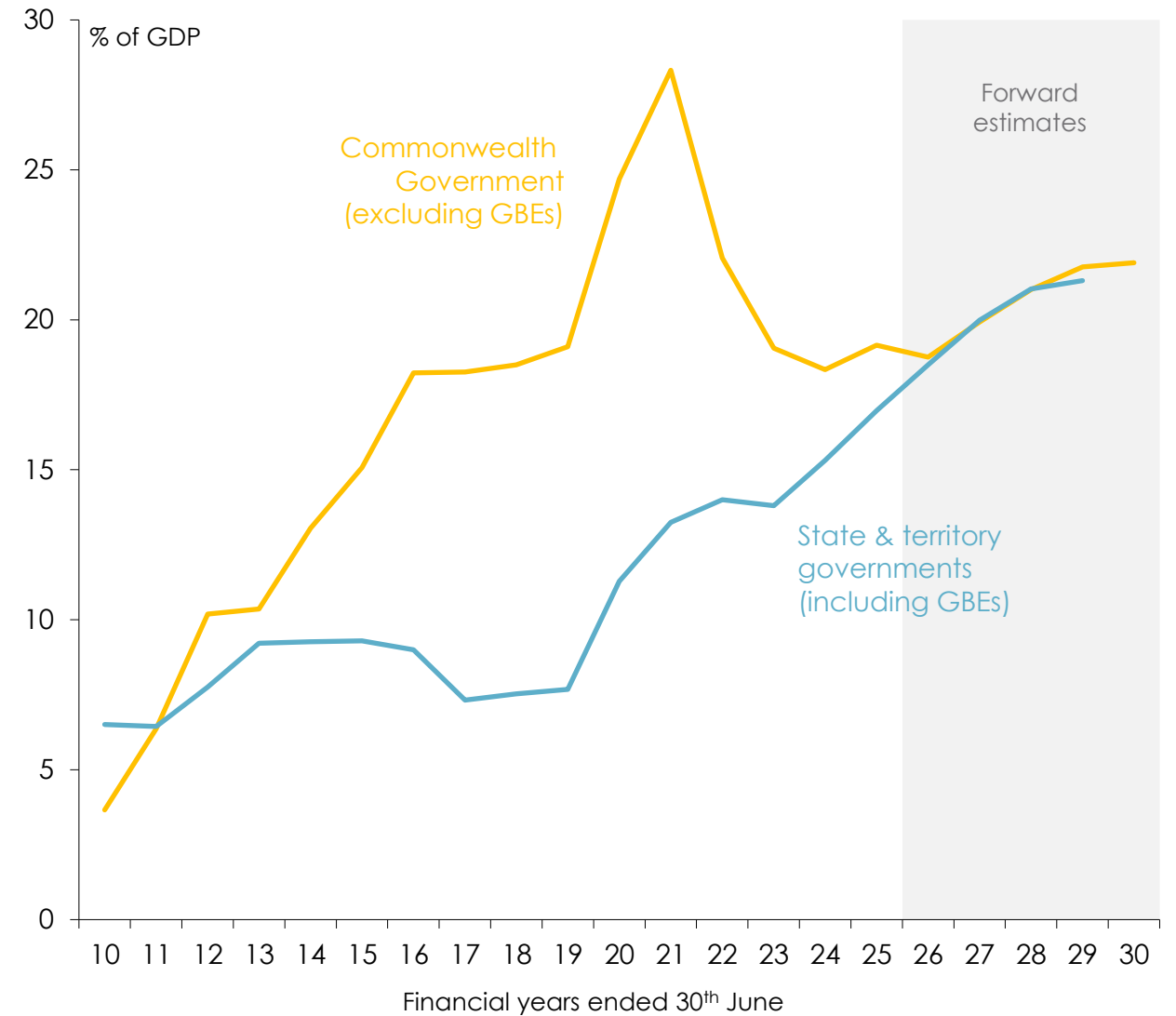


# We need to talk about states and territories too – not just the Federal Government and its Budget

## Cash surpluses or deficits



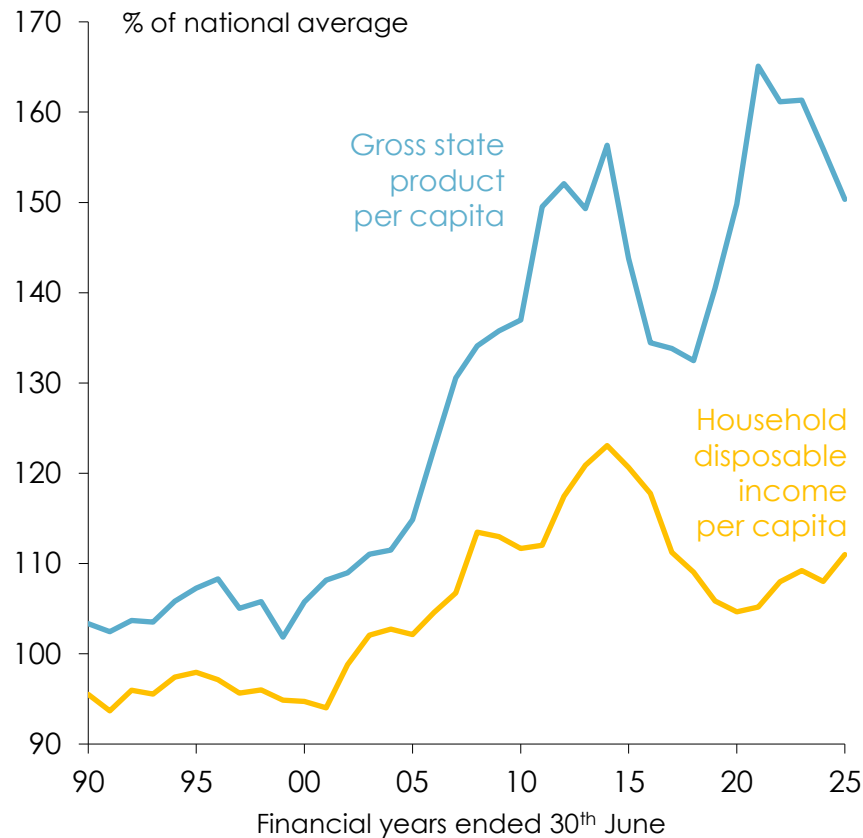
## Net debt



Note: Commonwealth Government Budget Papers only provide forecasts for public non-financial corporations (GBEs) and the non-financial public sector as a whole for one year ahead. Sources: Australian Government, [2026-27 Budget Paper No. 1](#); 2026-27 State Budget Papers for Victoria, Western Australia and the Northern Territory; and 2025-26 mid-year budget reviews for New South Wales, Queensland, South Australia, Tasmania and the ACT.

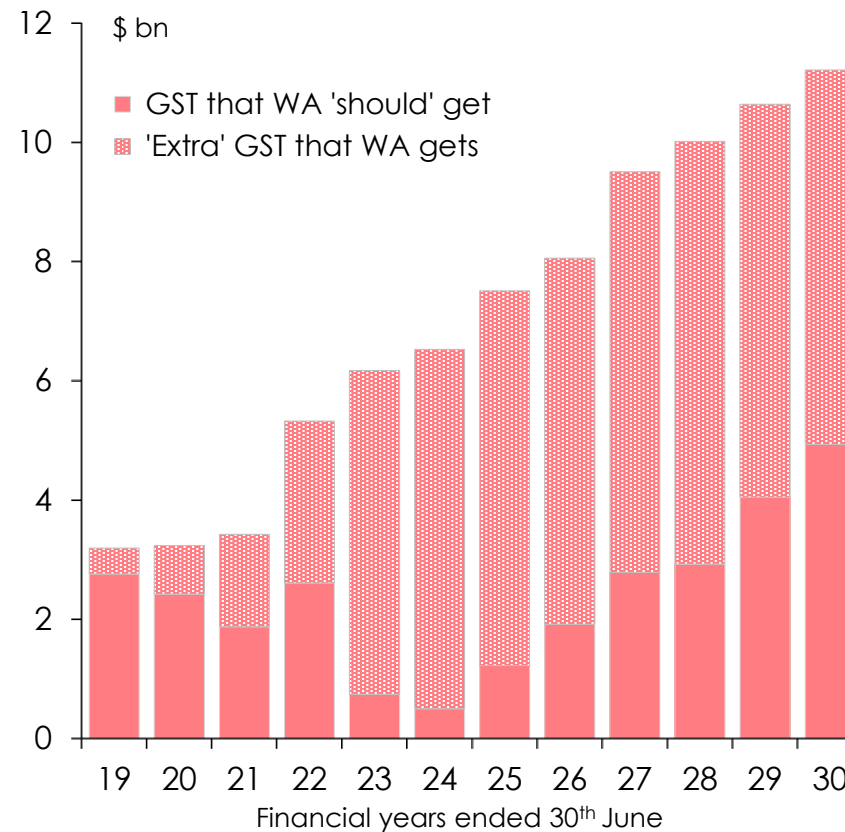
# How can anyone concerned with equity (or responsible budgeting) defend the Worst Public Policy Decision of the 21<sup>st</sup> Century Thus Far?

## Western Australia per capita gross product and household disposable income vs national averages



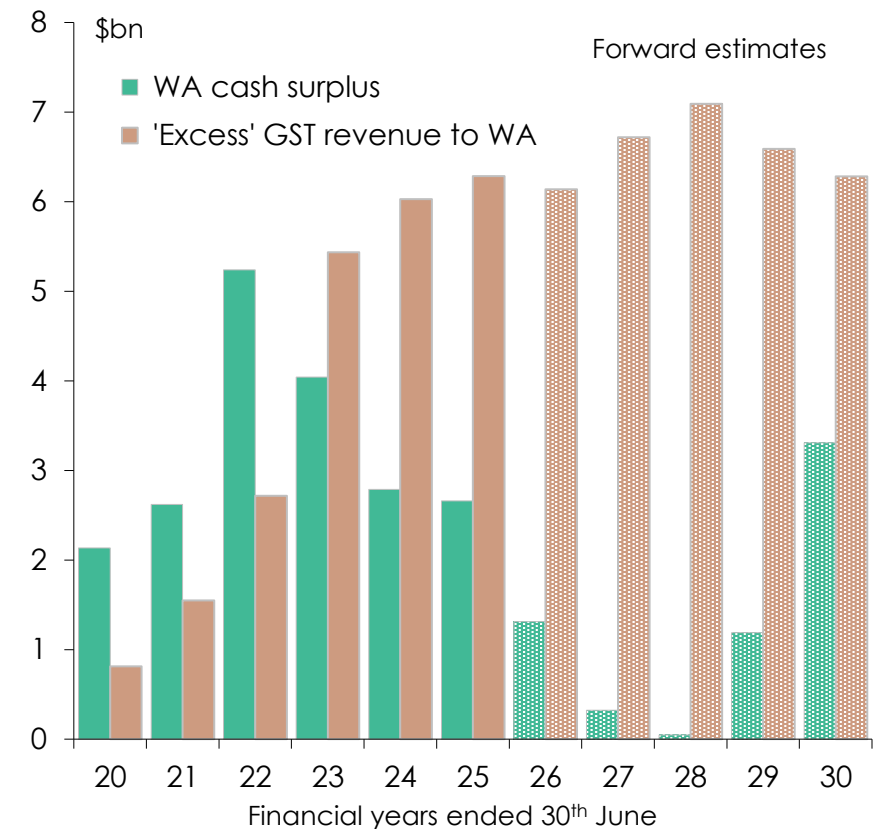
**WA is the richest state in the nation, by a bigger margin than any other state has ever been**

## What WA gets from the distribution of GST revenues, compared with what it 'needs'



**Over the 11 years to 2029-30, WA will get \$56bn more than it objectively 'needs' from GST distribution**

## WA's budget surpluses and its excess GST revenues



**These 'excess GST payments' are under-writing WA's surpluses while other governments are running deficits**

## 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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