



# AUSTRALIA'S DANGEROUS ECONOMIC DICHOTOMY

Tom Devitt, HIA Senior Economist  
February 2026



80  
Years

# The drags on inflation and interest rates

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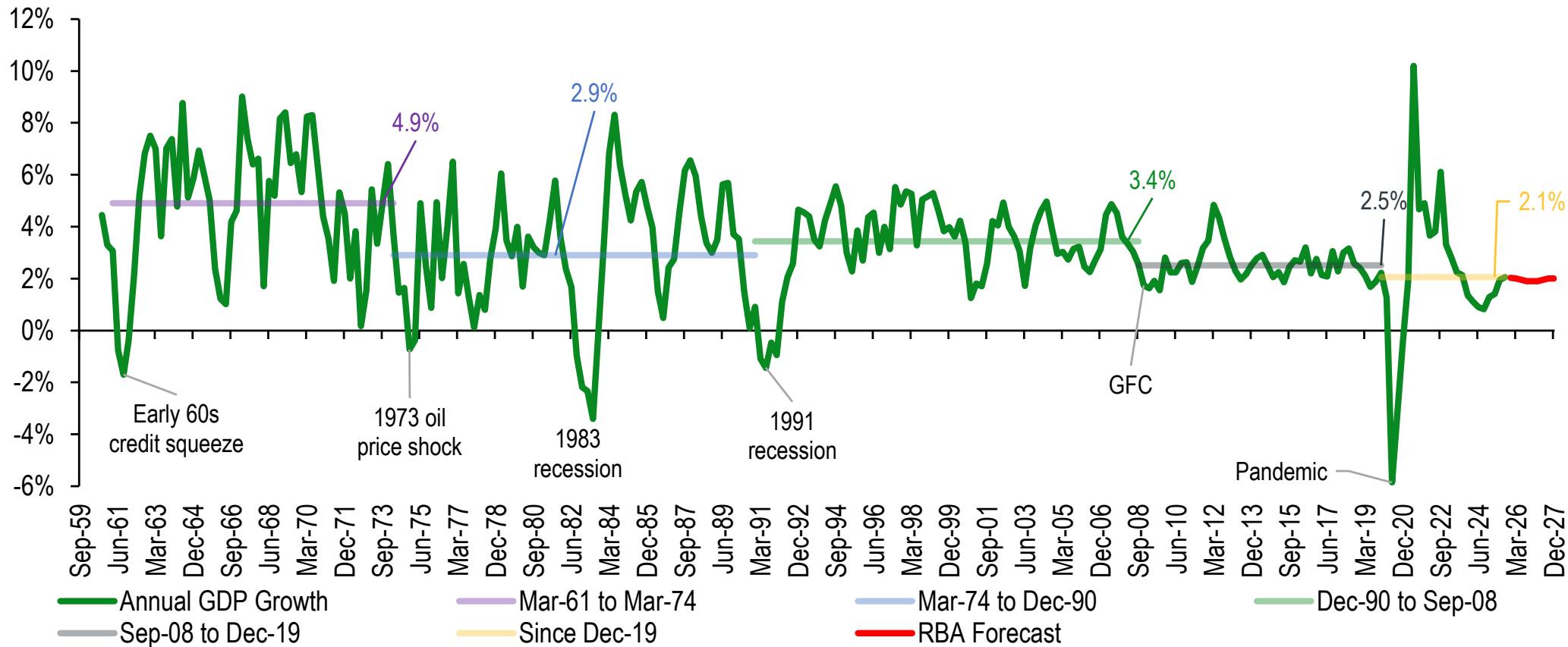
# Economy slower than any period since 1960s

## GDP, Annual Growth Rate

Source: ABS

Note: each period starts and finishes at the peak immediately before a shock so each shock is incorporated into the average rate of the subsequent period

- The economy slowed markedly after the GFC and hasn't even returned to that modest pace
- Even the RBA doesn't expect it to get back to pre-pandemic speeds any time soon

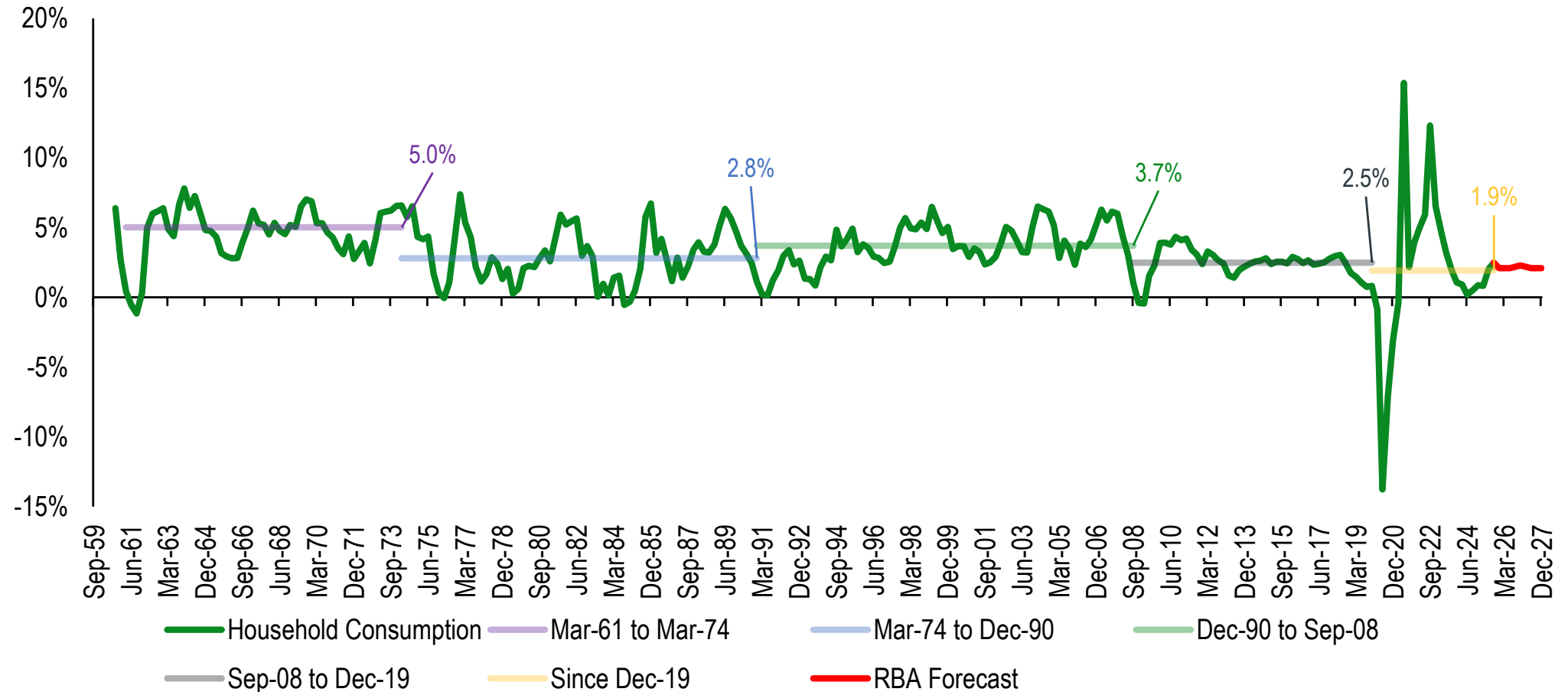


# Dragged by weak household spending

- This has been driven by the weakness of the Australian consumer
- Household consumption is set to remain slower than all previous periods
- And these are the aggregate figures, supported by post-pandemic bounce back in population

Household Consumption, Annual Growth Rate

Source: ABS

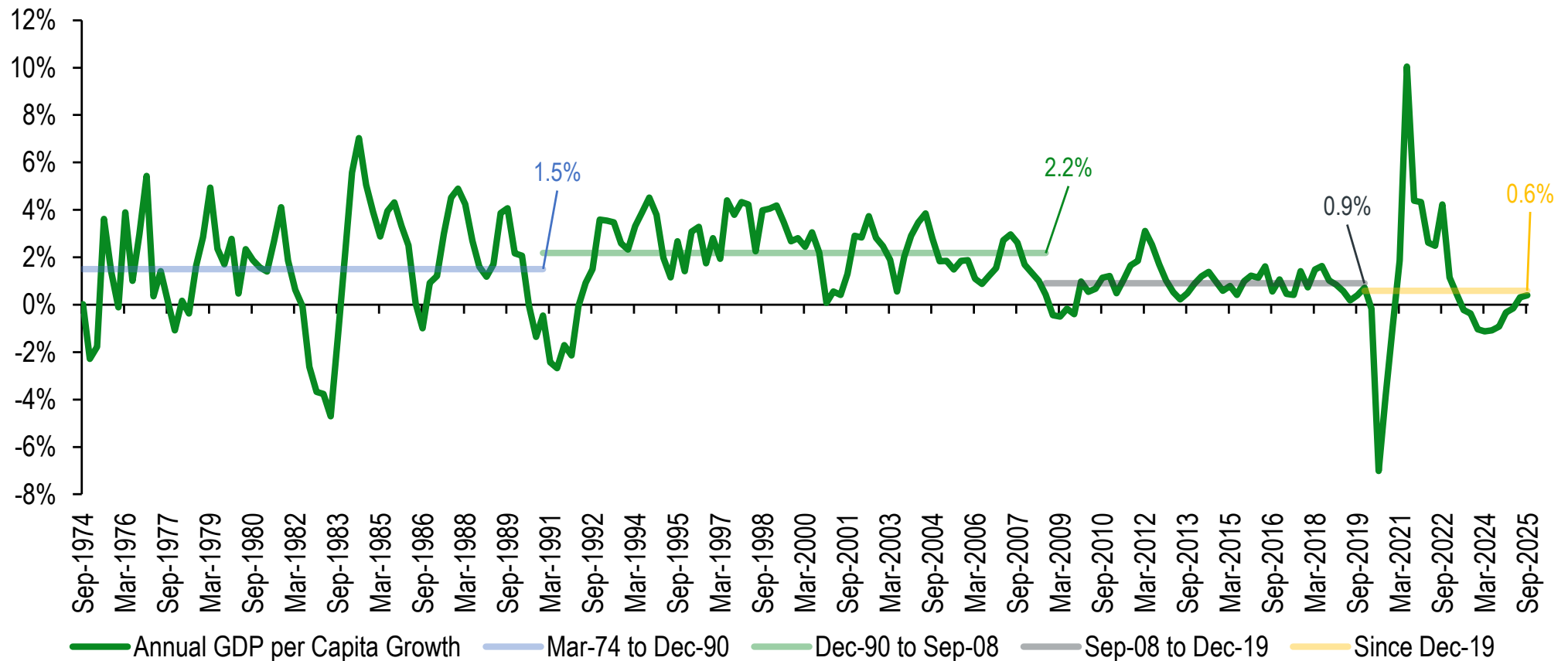


# Even worse on a per-capita basis

## GDP Per Capita, Annual Growth Rate

Source: ABS

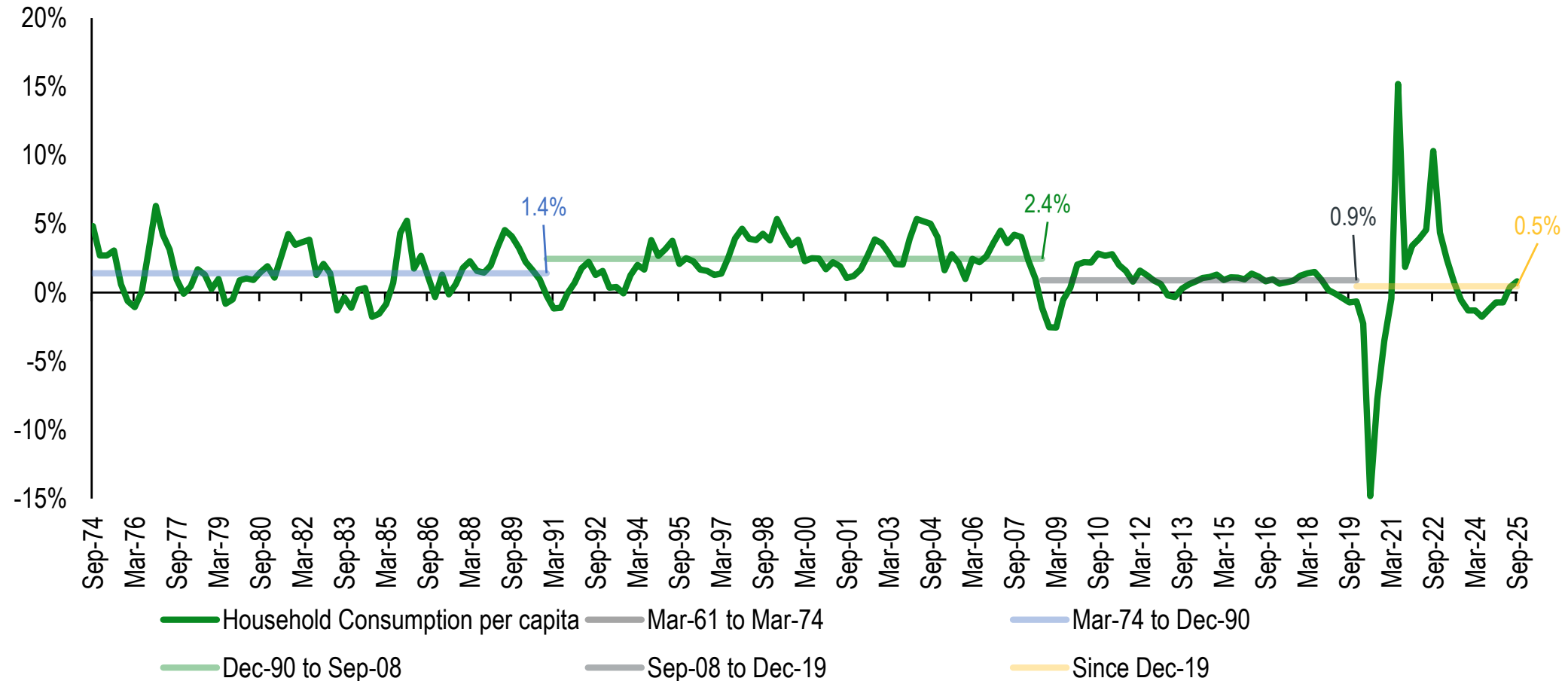
- The post-GFC slowdown in per-capita outcomes was even more dramatic
- Real per capita GDP has declined in 10 of the last 13 quarters – the worst performance on record, even more so than the 1983 recession



# Again, driven by consumer weakness

## Household Consumption Per Capita, Annual Growth Rate

Source: ABS



- Household consumption per capita has only just returned to positive territory

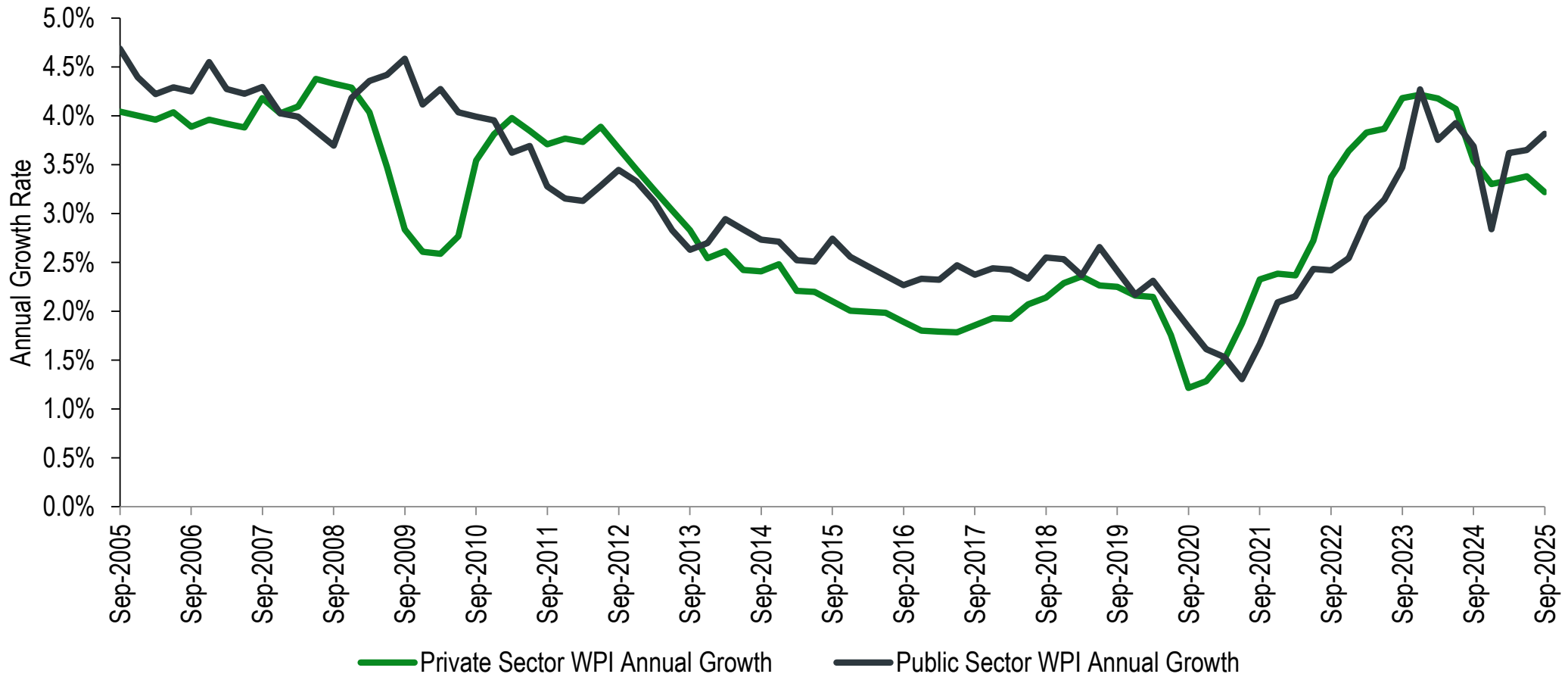
- And it's still weaker than pre-pandemic

# Hardly the RBA's dreaded 'wage price spiral'

- Wage growth, despite accelerating following the pandemic, was recovering from frustratingly weak levels pre-pandemic
- Private sector wages, in particular, were weaker than consumer inflation last year and weaker than pretty much everything before last decade's mining downturn

Wage Price Index, Private vs Public, Australia

Source: ABS



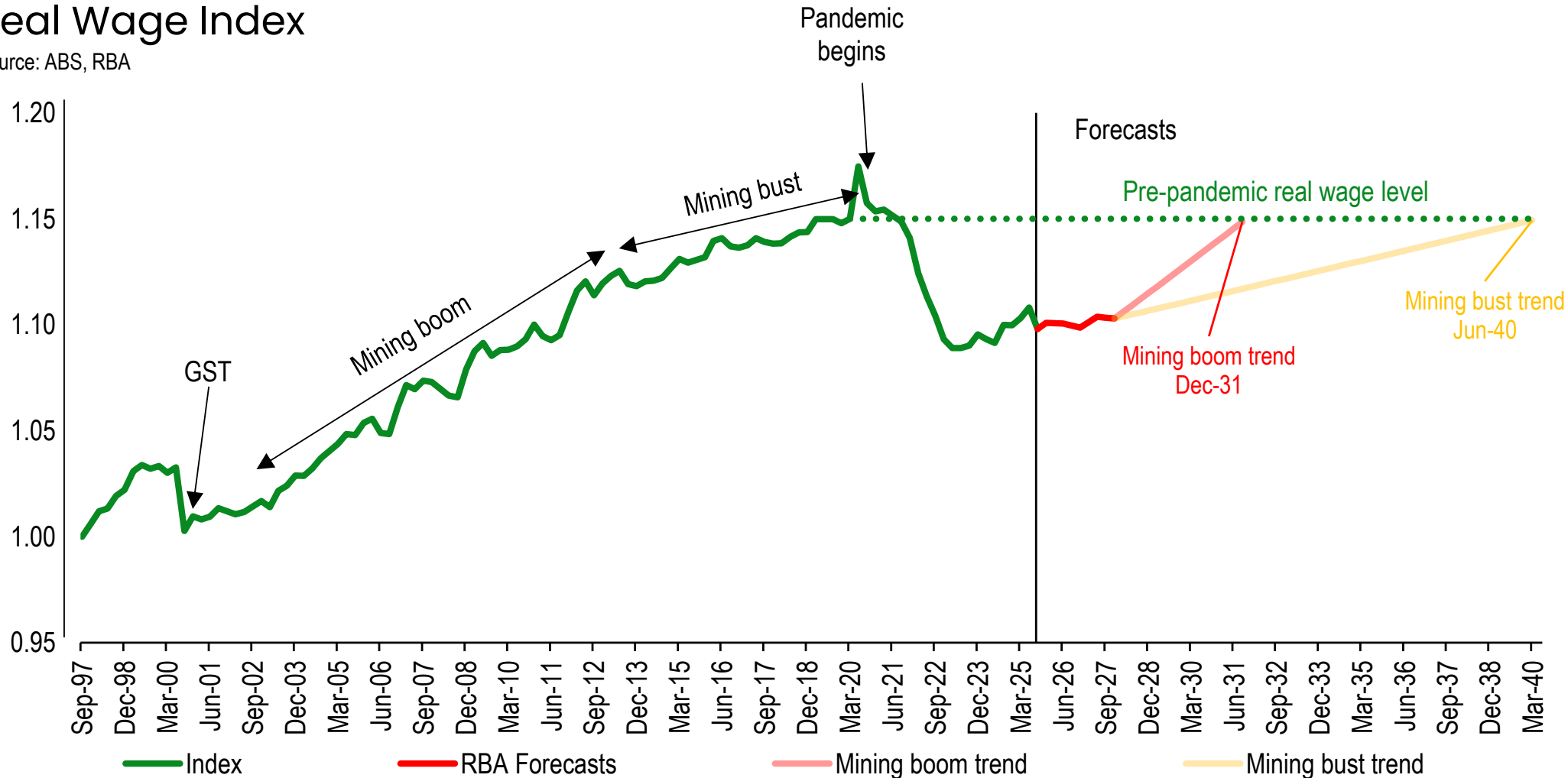


# Over a decade of real wage gains evaporated

- Real wages plummeted during the pandemic with inflation out-pacing wages
- Still around 2011 levels
- And even the most ambitious of forecasts don't have these losses being clawed back until the 2030s
- So Australian workers have been hit even harder than broader GDP numbers suggest

## Real Wage Index

Source: ABS, RBA



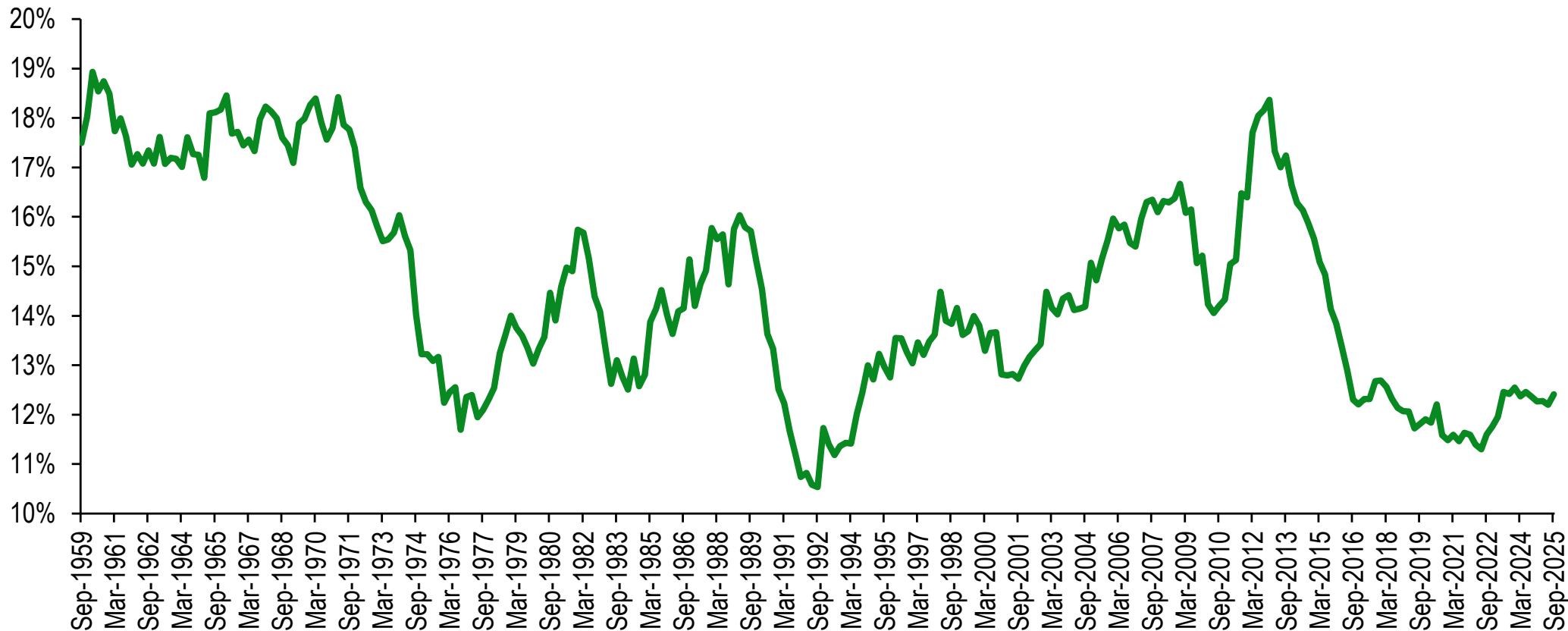


# Lack of private sector investment opportunities

## Private Business Investment as Share of Nominal GDP

Source: ABS

Note: adjusted for second hand asset transfers between private and other sectors

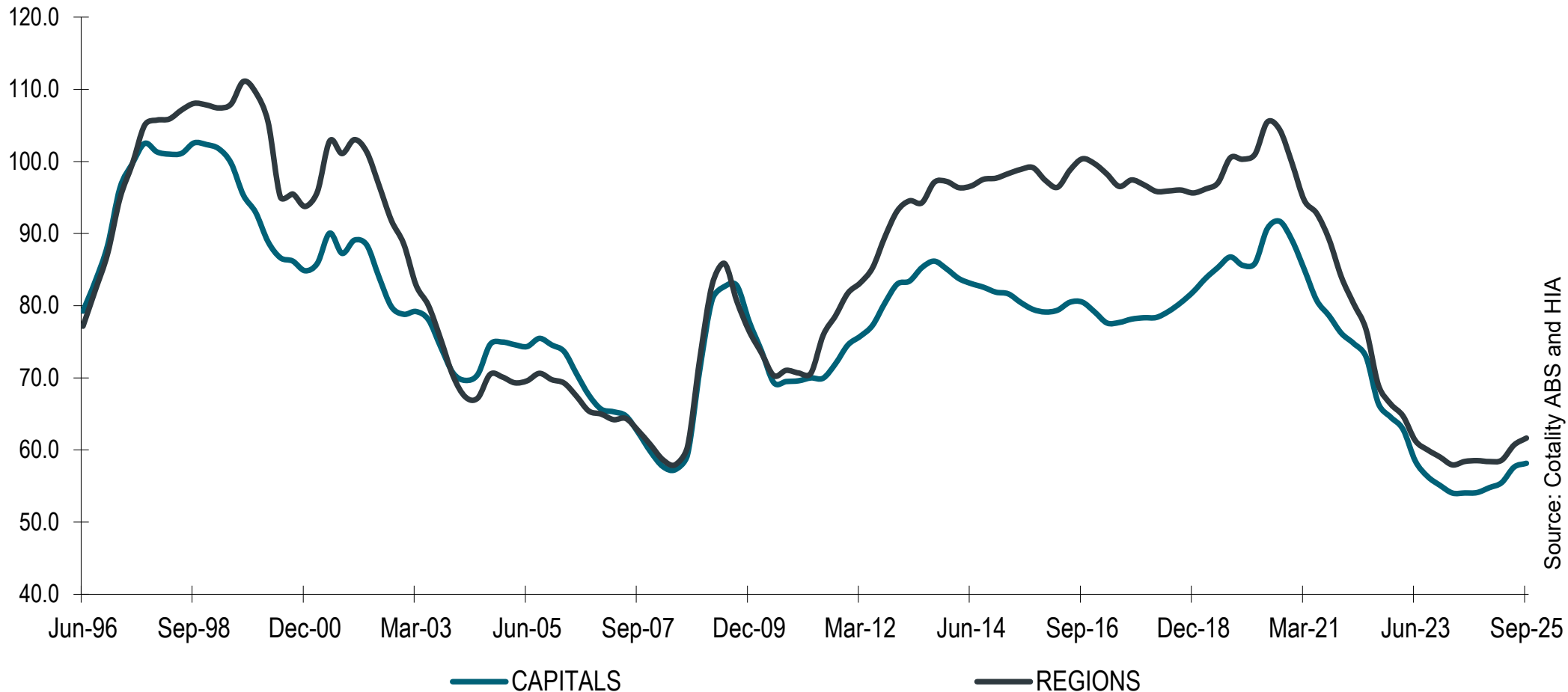


- Not unrelated to the private sector wage story, private sector business investment hasn't recovered from the mining downturn last decade
- As a share of nominal GDP, it's been around the levels following the 1973 oil price shock and the 1991 recession

# Compounding and adding to these cost-of-living pressures: housing & energy

- Dwelling prices, dramatically outpacing household incomes, have produced housing unaffordability levels as bad as we've seen in our records back to the 90s
- Continued strong population growth and low unemployment rates threaten to worsen the affordability situation even further

HIA Housing Affordability index, Australia

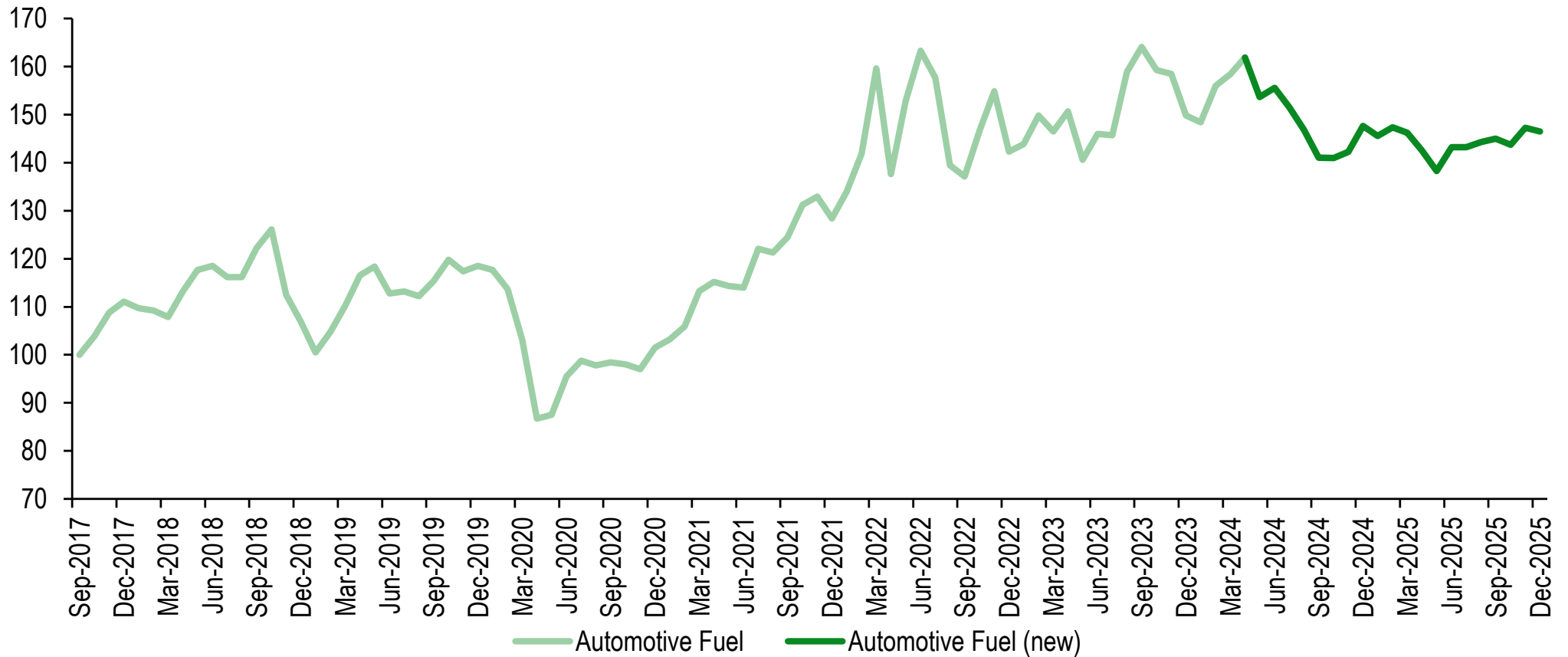


# Fuel prices elevated

## Automotive Fuel Index

Source: ABS

Change of ABS index from quarterly to monthly noted



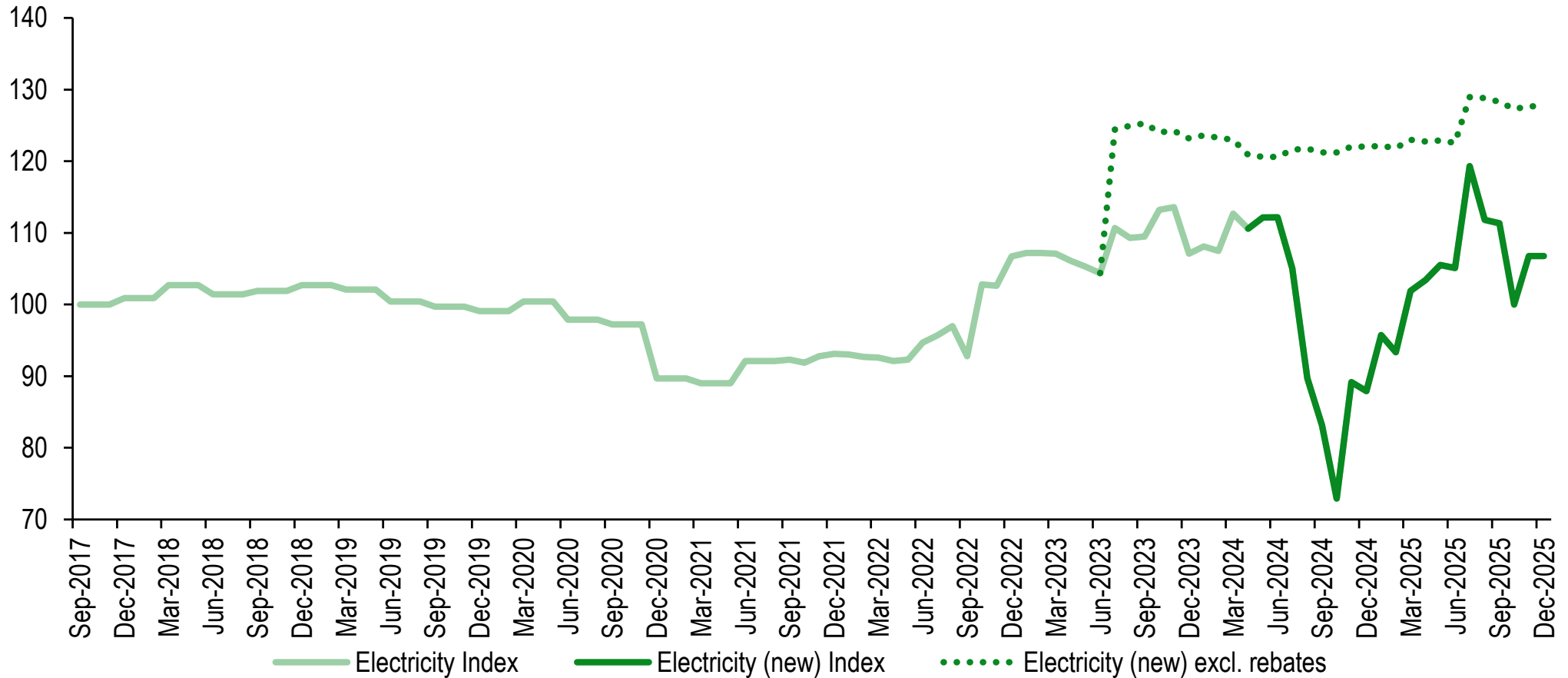
- Fuel prices are still very elevated compared to pre-pandemic levels

# Rebates (temporarily) containing power bills

- Electricity prices have bounced back after the unwinding of some rebates
- Yet remaining rebates are still suppressing prices
- But the uncertainty of how long this relief will last does not facilitate good long term planning for households or investment decisions for businesses

## Electricity Index

Source: ABS





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Years

# The drivers of inflation and interest rates

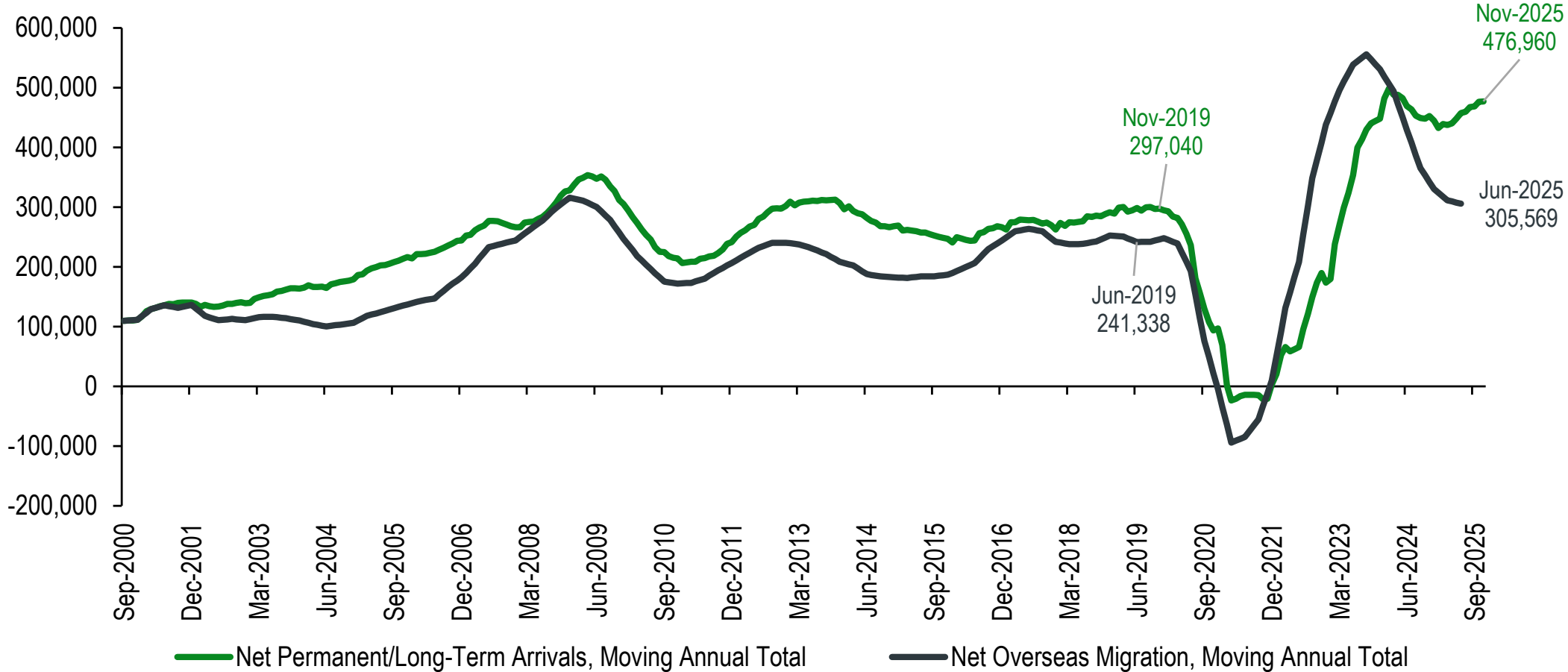
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# Population growth possibly remaining elevated

- Overseas arrivals bounced back from pandemic border closures
- Australia's population is now larger than we would have projected in 2019
- More people = more aggregate spending (even if worse per capita outcomes), and higher inflation and interest rates

## Permanent & Long Term Arrivals vs Net Overseas Migration

Source: ABS

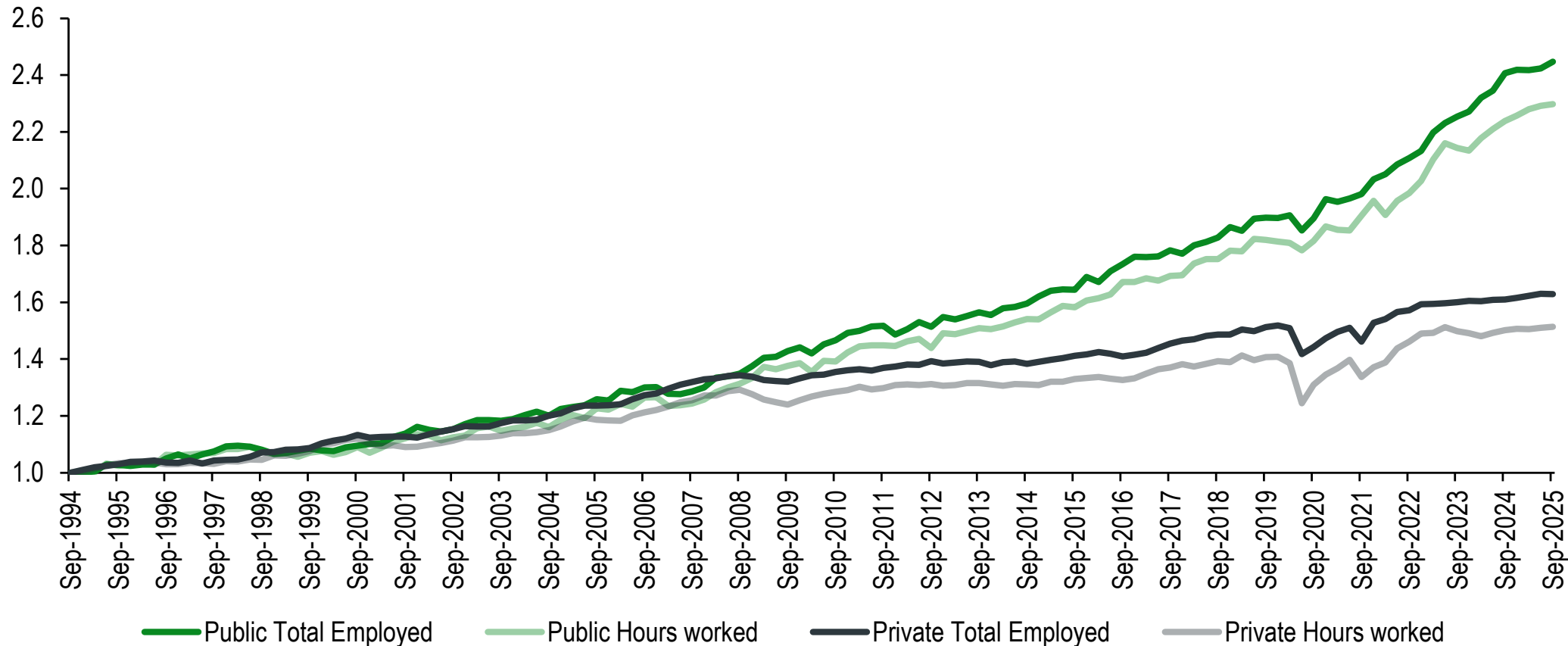


# Rapid government job creation

- Public sector job creation dramatically outpacing private sector – driven by health care & social assistance; public admin. & safety; education & training.
- And it's not just a (post) pandemic phenomenon.
- Since the GFC, public sector jobs and hours worked have been growing four times faster than private sector

## Public vs Private Employment and Hours Worked, Index

Source: ABS



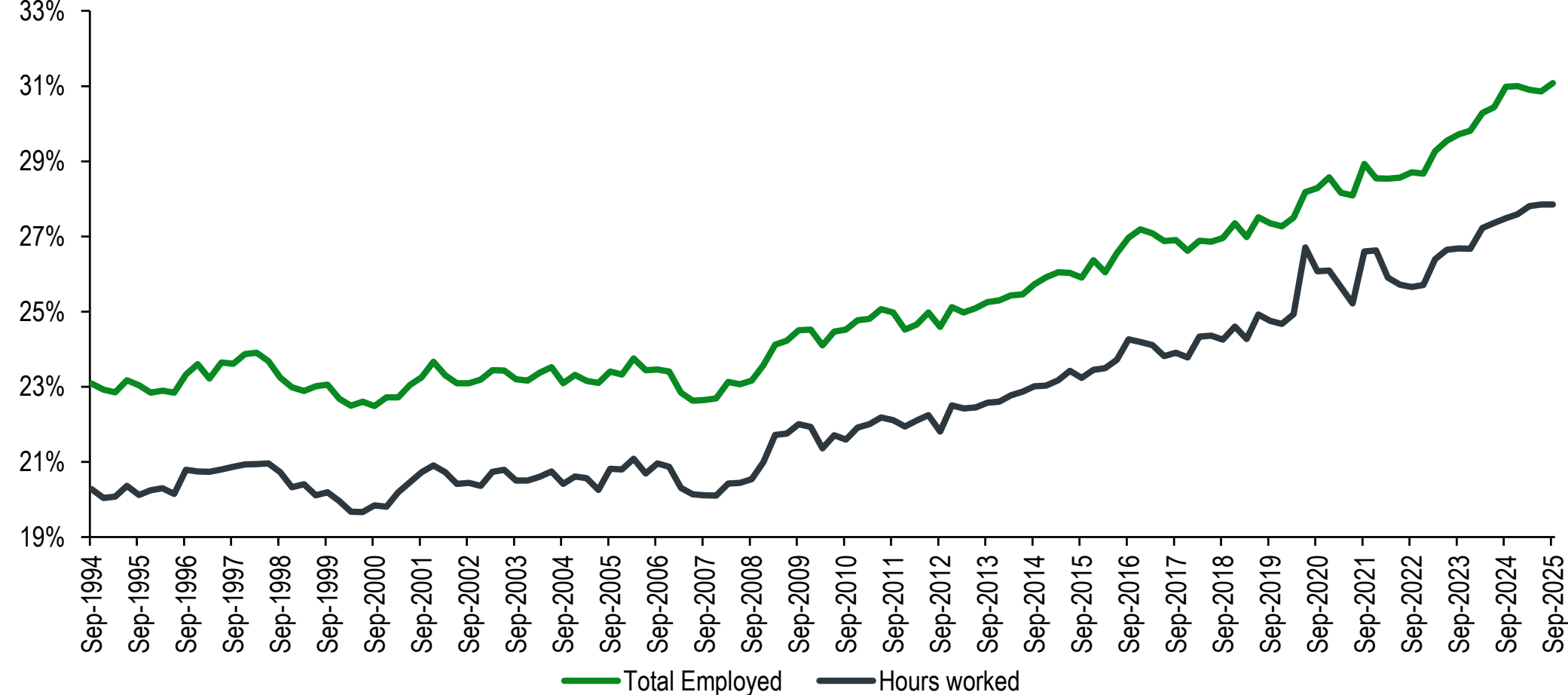


# Now almost one in three jobs are public sector

- An expanded govt presence can be good 'Keynesian economics' when supporting private sector correction and rebuilding during temporary economic downswings
- It's problematic when sustained for over a decade, absorbing private sector resources, crowding out private activity, keeping inflation and interest rates elevated

## Public Share of Employment and Hours Worked

Source: ABS



# Producing the tightest labour market on record

- Unemployment remains barely above 4%
- If public sector jobs growth had been as slow as private sector since 2022, the rate would be 7.5% and interest rates would likely be much lower
- As it is, a rapidly growing and well-employed population spends money, generating higher inflation and interest rates

## Unemployment Rate, AUS

Source: ABS

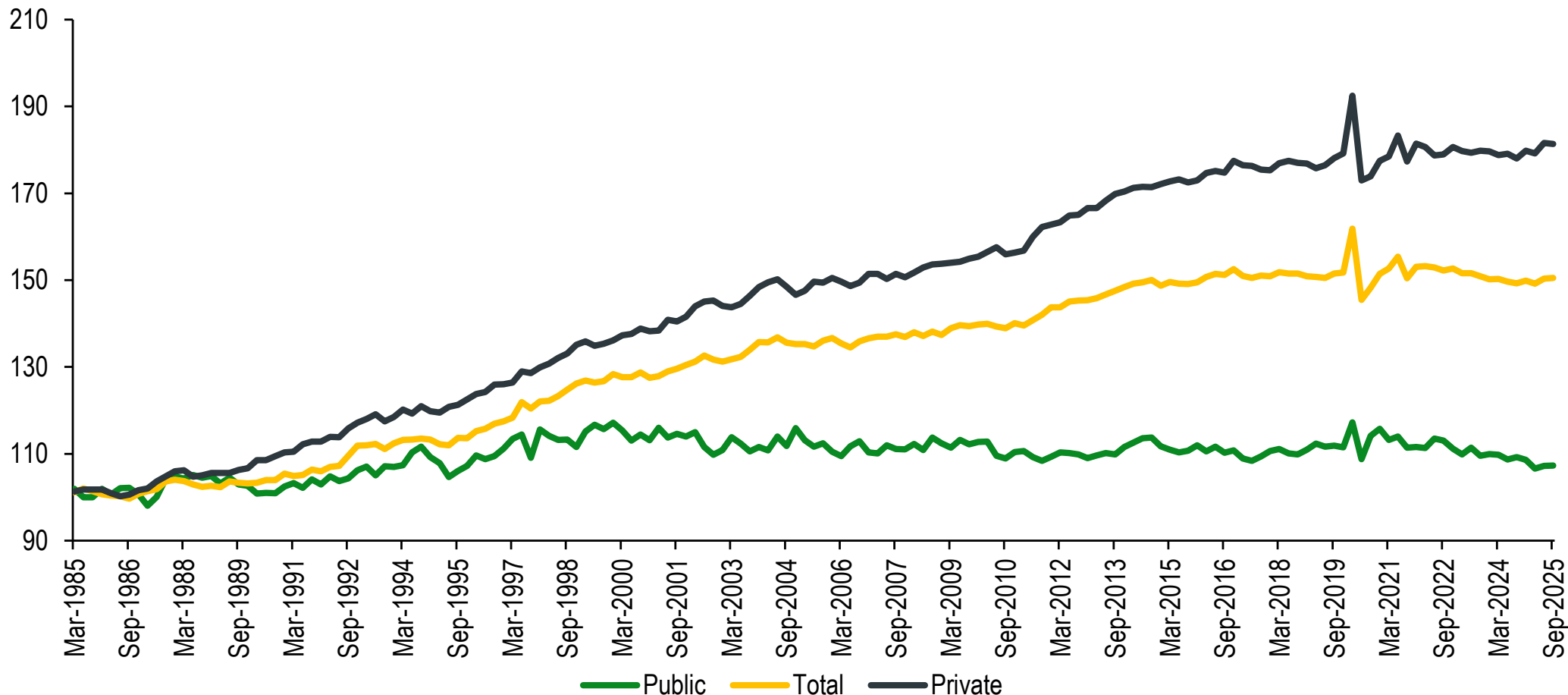


# This is also problematic for productivity

- Public sector productivity has been mostly unchanged since the early 90s, so for every extra resource consumed by the government, it is not expanding the productive capacity of the economy as much as the private sector would.
- This explains weak wage growth and higher inflation and interest rates

Gross Value Add Per Worker, Index, Australia

Source: ABS

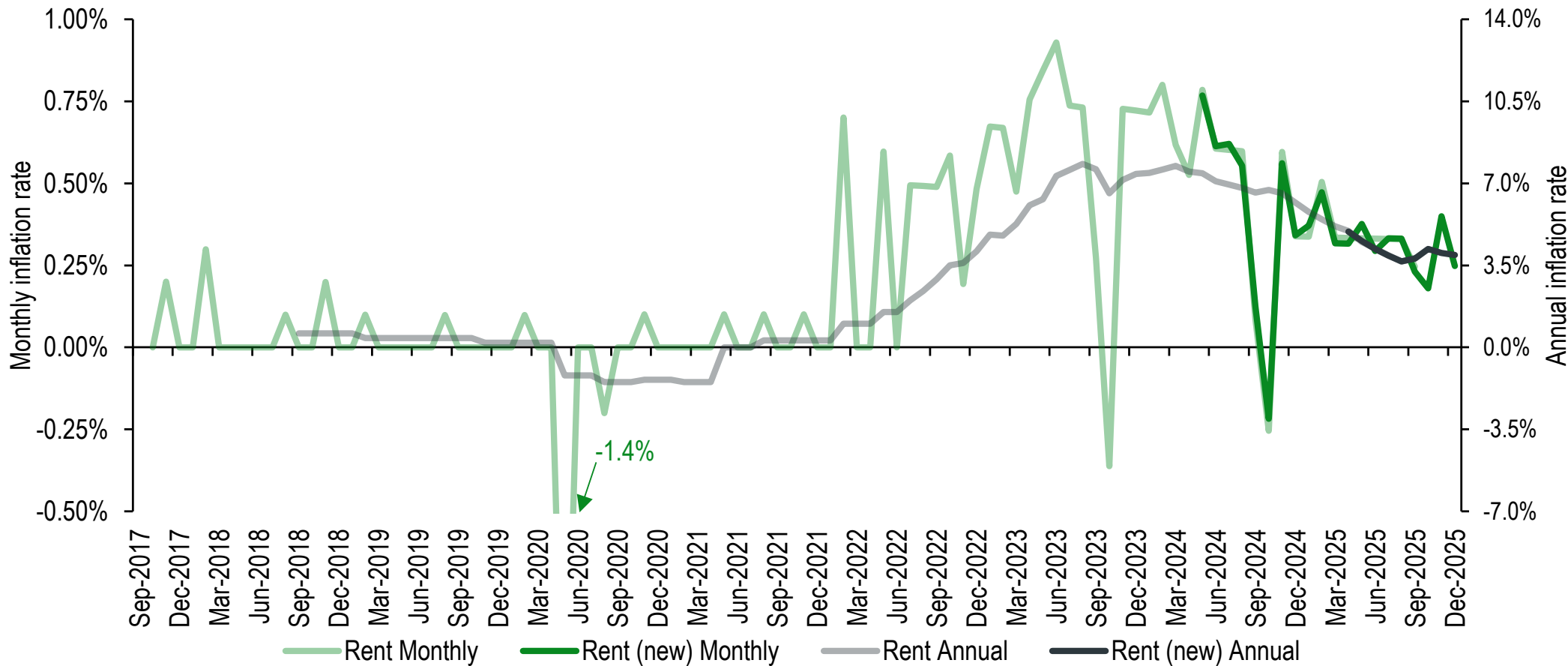


# Housing affordability crisis drives up rents

- Chronic housing undersupply vs population demands, worsened by effect of pandemic supply chain constraints on materials prices and skilled trades shortages on labour costs
- This sees housing costs surge
- Rents still increasing much faster than pre-pandemic, driving up Australia's inflation figures

## Rental Inflation

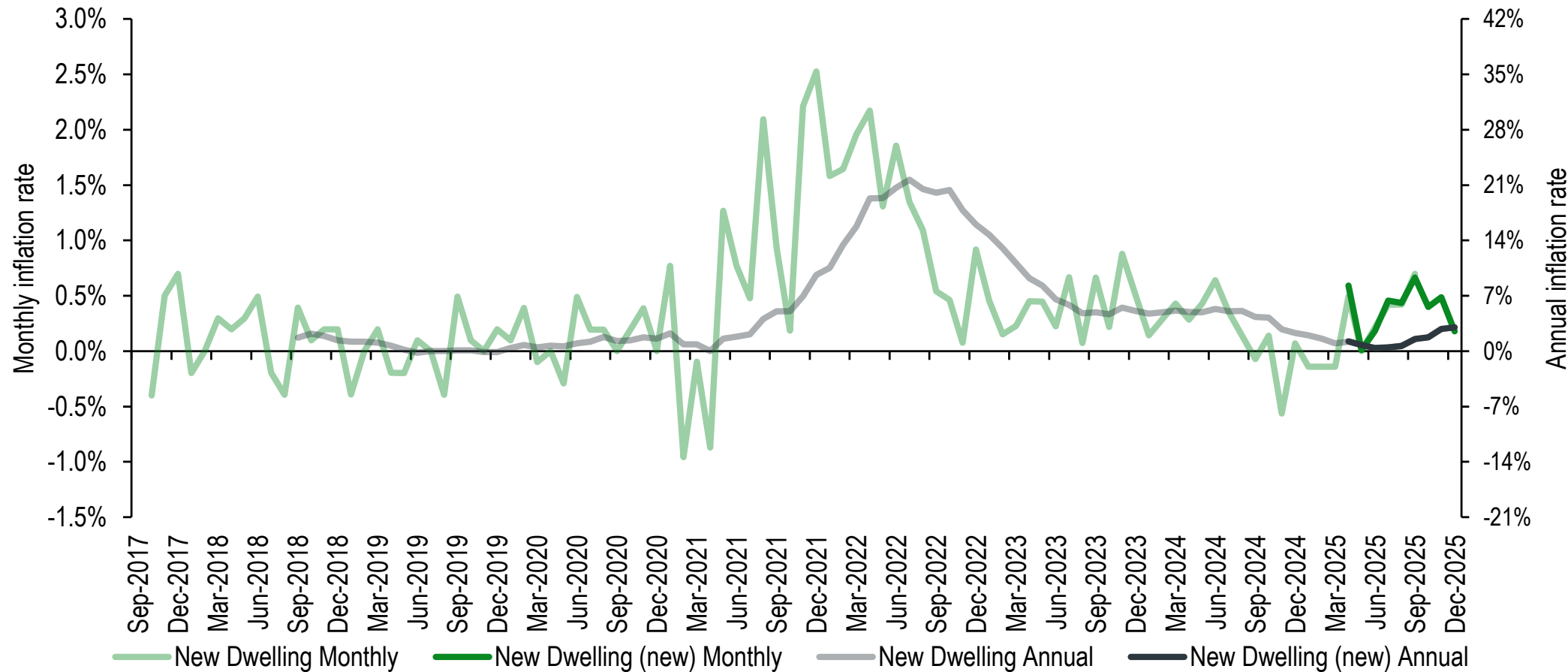
Source: ABS



# New dwelling prices too

## New Dwelling Inflation

Source: ABS



# And there are more inflation risks on the horizon

- **Artificial intelligence**, which can suppress inflation and interest rates by boosting productivity, but also drive other (energy-intensive) economic activity that may be more supply constrained and therefore, inflationary
- **Increasing green energy and climate change mitigation/response investments** globally
- **Disruptions to international trade** resulting in relocation of production facilities
- **Geopolitical instability** resulting in significant defence spending
- **Significant government budget deficits** across the world, especially the larger economies
- **Ongoing strong population growth and government job creation** could be another driver of higher inflation and interest rates



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