

Senate Estimates Opening Remarks – October 2025

I would like to thank the Committee for the opportunity to make this opening statement.

International economic conditions

The uncertainty that has characterised the global economy throughout 2025 continues. Trade patterns have changed quite markedly. Late last year and early this year, imports into the United States surged as firms tried to get ahead of increases in tariffs. Trade between the US and China has since contracted significantly. China is finding alternative markets for its exports, and US imports are shifting towards other countries in East Asia and to a lesser extent Europe.

On 31 July, the Trump Administration unveiled updated tariffs on goods imported into the United States, including those coming from Australia. But negotiations with the US' three largest trading partners — Canada, Mexico and China — are ongoing. According to one estimate, the effective tariff rate on US imports has increased from just over 2 per cent at the start of the year to around 16 per cent now. The impact of higher tariffs is now becoming evident in the prices of imported goods in the United States.

The tariffs are expected to weigh on global growth. The IMF, the World Bank, and the OECD have all downgraded their outlook for global growth since the beginning of the year. The most significant adjustment has been to the outlook for the United States. The IMF recently downgraded its outlook for growth in the US economy to 1.9 per cent in 2025, from its forecast of 2.7 per cent in January this year. Consumer and business confidence in the US has fallen, and employment growth has eased sharply. This likely reflects both the effects of the tariffs and other policies such as the mass deportation of immigrants. On the other hand, a strong pipeline of artificial intelligence-related investments is supporting growth, and consumer spending remains strong. While the Federal Reserve cut its policy rate by 25 basis points in September, it is facing a difficult trade-off given that inflation remains persistently above target while the labour market is looking weak.

Notwithstanding trade tensions, the Chinese economy is on track to grow by around 5 per cent this year. However, there are signs that economic conditions are easing. This is in part due to weaker consumer demand and a slowing in investment, which has been weighed down by falling real estate investment and softer infrastructure and manufacturing investment. Chinese exports slowed in August, with exports to the United States falling by around a third since the beginning of the year. While Chinese exporters have so far been able to redirect their products to alternative markets, recent trade data points to the risk of a broader slowdown in exports later this year.

The global outlook remains uncertain, and the most significant effects of the Trump Administration's embrace of tariffs and other policy shifts are likely still ahead of us. The legality of the tariffs is still being disputed with the United States Supreme Court hearing arguments in November. Uncertainty over trade policy is adding to a more complex and uncertain global environment facing Australia.

Financial market functioning

Against this backdrop of elevated policy and geopolitical uncertainty, we are likely to see more bouts of financial market volatility and disruptions. Earlier this year, there was a sharp rise in global long-term bond yields and a short-term decline in market liquidity, as investors rapidly unwound leveraged positions in some overseas government bond markets.

Compounding this uncertainty are concerns about the sustainability of fiscal positions for some economies. There have been instances in a few jurisdictions where bond issuance has experienced soft demand or elevated yields.

While bond yields in Australia have experienced similar volatility to those overseas, our bond market continues to function well and there have been no disruptions to the issuance of Australian Government Bonds. Australia's resilience in these times is the result of a deep and liquid market for Australian Government Bonds, a highly diversified global investor base, and a strong credit profile. Prudent fiscal management remains important to ensure Australia is well placed to navigate future periods of disruption and volatility.

Gold prices have increased to record highs. Gold is considered as a safe-haven asset, and the uncertainty regarding global trade policy, falling interest rates, geopolitical tensions and the weaker US dollar have lifted demand for gold. Central banks have also increased their purchases of gold as a means of diversifying away from US dollar assets and to hedge some geopolitical risk.

Domestic economic conditions

On the domestic front, growth in the Australian economy has increased over the past year. The economy grew by 0.6 per cent in the June quarter and by 1.3 per cent in 2024–25. Private final demand has driven growth in domestic demand for the past three quarters. This reflects higher growth in household spending, including on discretionary services, which is being supported by growth in real disposable incomes and falling interest rates.

Dwelling investment expanded by 3.3 per cent in the 2024–25 financial year, driven by a rise in new medium- to high-density construction. Increases in building approvals over the last year are translating into strong commencements, particularly for apartment buildings. Easing inflation in construction costs, more accommodative financial

conditions, and continued strong demand are expected to support dwelling investment in the near term.

Business investment grew by 0.9 per cent in 2024-25, following three years of strong growth, and is expected to remain around recent decade highs. New non-mining business investment expanded by 2.9 per cent over 2024-25, supported by strength in business balance sheets and elevated capacity utilisation. Much of this investment has been in renewable energy projects, building data centres and spending on computer software. Large mining investments have reached completion, and a weaker outlook for the demand for bulk commodities has resulted in a contraction in mining investment of 5.5 per cent in 2024-25.

Growth in public demand in 2024-25 was driven by spending on demand-driven programs such as Medicare and the Pharmaceutical Benefits Scheme, in addition to spending on cost-of-living relief and infrastructure projects by Commonwealth and state governments. In more recent quarters, growth has eased as a number of major infrastructure projects have neared completion.

While momentum in the economy has gradually increased, underlying inflation has eased to a rate that appears to be sustainably within the Reserve Bank's target band. Contributing to the decline in underlying inflation over the past year has been a moderation in the growth of prices in rents, insurance, and new dwelling purchases by owner occupiers. A pickup in headline inflation is expected over the coming quarters, as foreshadowed in the 2025-26 Budget, following the expiry of Commonwealth and state government electricity rebate schemes.

At the same time, Australia has been able to maintain a robust labour market. The unemployment rate is currently 4.2 per cent and has remained in the low 4s for over a year. Unlike previous episodes when inflation has been reduced, the unemployment rate has increased by only $\frac{3}{4}$ of a percentage point from its trough in October 2022, while inflation fell by $5\frac{3}{4}$ percentage points over the same period. In previous episodes, namely in the early 1980s and 1990s, a significant increase in unemployment occurred alongside the reduction in inflation.

Over the past 12 months, demand for labour has gradually slowed, largely reflecting declining job vacancies, rather than a significant easing in employment growth. This differs from the experience of many other advanced economies around the world, where easing labour market conditions have led to larger declines in employment-to-population ratios, and larger increases in unemployment rates.

Over the year to the June quarter 2025, GDP per hour worked grew by 0.2 per cent. This masks differences in sectoral productivity. Labour productivity in the market sector grew by 0.3 per cent over the past year and is now $3\frac{1}{2}$ per cent higher than its level in the December quarter 2019. In contrast, in the non-market sector measured labour

productivity fell by 0.1 per cent over the past year, and is 5.3 per cent lower than its level in December quarter 2019. Weakness in productivity growth has been a longstanding challenge in Australia. Most other advanced economies, with the exception of the United States, have experienced a similar decline in labour productivity growth over the past decade, including France, Canada, and the United Kingdom.

Economic Reform Roundtable

Against this backdrop, Treasury supported the Treasurer to deliver the Economic Reform Roundtable, which brought together leaders from business, unions, civil society and government to discuss how Australia could boost its economic resilience and productivity growth, and ensure budget sustainability.

The forward work plan announced by the Treasurer following the Roundtable spans most portfolios across the Commonwealth and includes a focus on how regulators can better consider the growth impacts of how they operate. Many initiatives are being taken forward by the responsible ministers. For example, the Minister for Environment and Water is leading the reforms to the *Environment Protection and Biodiversity Conservation Act 1999* and addressing the backlog of environmental approvals for new homes.

Treasury is supporting the Housing Minister to deliver improvements in housing construction productivity. This includes working with our state and territory counterparts to pause and streamline the National Construction Code to help reduce the time and cost of building new homes, and encouraging further uptake of modern methods of construction, such as the use of prefabricated housing. There is significant effort across most jurisdictions to reform planning and zoning systems to reduce approval timeframes. All of these efforts are aimed at increasing the supply of housing.

In relation to other reforms, public consultation is underway to remove additional nuisance tariffs. Collaboration is continuing with the states and territories on road user charging and a range of reforms to move us towards a single national market. The financial regulators have committed to working together to reduce red tape and the compliance burden on the financial sector.

Final Budget Outcome

On the fiscal side, the Final Budget Outcome released on 29 September reported a lower-than-expected deficit of just under \$10 billion (0.4 per cent of GDP) for fiscal year 2024–25. This was \$17.9 billion smaller than the estimate in the 2025 Pre-election Economic and Fiscal Outlook (PEFO).

Payments were \$4.9 billion lower than expected in the 2025 PEFO. This reflected lower-than-expected payments across a range of programs, including \$3.1 billion in

lower payments across several National Partnership agreements, including those relating to natural disaster relief, climate change and housing.

Tax receipts were \$12.6 billion higher than estimated at the 2025 PEFO. This was mostly due to higher-than-expected receipts from company tax (\$5.3 billion), personal income tax (\$3.4 billion), and superannuation fund tax (\$2.9 billion).

Climate modelling

Treasury released modelling in September that informed the Government's Net Zero Plan, 2035 target and the six sector plans.

The purpose of this modelling is to illustrate the structural changes to the Australian economy that are likely to flow from Australia's net zero commitment alongside other countries' emissions commitments. It uses scenario analysis to examine the implications of the different pathways Australia can take to reach net zero.

The modelling uses the latest available estimates of abatement opportunities across sectors to determine potential emission reduction pathways and assumes these are generally sequenced from the easier- to harder-to-abate sectors.

It assumes a global commitment to an outcome of 'well below 2 degrees' — the Paris commitment — and acknowledges that additional commitments by many countries will be required to achieve this outcome. At this point, more than 80 per cent of global GDP is produced in countries committed to the Paris Agreement. The IEA expects that renewables, particularly solar and wind, will increasingly dominate electricity generation regardless of countries' net zero commitments, because they are assessed as offering the most cost-effective source of new generation capacity.

The modelling illustrates that Australia's net zero transition is a significant transition for the economy that involves a range of structural changes and investments in long-lived assets. As a consequence, it shows that an orderly transition, including credible intermediate targets, provides the most cost-effective pathway to net zero. This is because this pathway provides the certainty and confidence to the private sector to make the required adjustments and avoids wasted investments. A disorderly transition, in contrast, results in higher economic adjustment costs, because uncertainty leads to delayed investments and higher-cost energy production during the transition.

The modelling also illustrates the potential upside to the Australian economy from an increase in global demand for low-emissions energy-intensive manufactured goods, which we will likely have a comparative advantage in producing.

Changes at Treasury

Finally, a major outcome of the recent Administrative Arrangements Order was to centralise Commonwealth housing functions within the Treasury portfolio, with responsibility expanding to homelessness, construction, cities and planning functions. To ensure the Government's objectives are realised, Treasury formed a new Housing Group to bring together this expanded role. Functions relating to bankruptcy, personal property securities, and credit reporting were transferred into Treasury's existing Markets Group.

As part of these changes, Treasury formally welcomed 150 new staff from four other departments: the Attorney-General's Department; the Department of Industry, Science and Resources; the Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts; and the Department of Social Services.

I am pleased to advise that the staff under the Machinery of Government transfers relating to the Treasury portfolio have now been fully integrated in Treasury's ongoing work.

Since Treasury last appeared before this Committee, three new Deputy Secretaries have been appointed. Earlier this year, Dr Angelia Grant was appointed as Deputy Secretary for Macroeconomic Group. More recently, Mr Ben Rimmer was appointed Deputy Secretary for our new Housing Group, and Ms Katrina Di Marco was appointed as Deputy Secretary for the International and Foreign Investment Group.

Thank you for the opportunity to provide this opening statement. I welcome your questions.