How do the 2025 Federal election commitments on cost-of-living measures stack up?

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Key insights

- Australia's consumer price index (CPI) has increased by 23.2 per cent since the start of the COVID-19 pandemic.
- Some of the highest price increases have been for essential commodities, including food and beverages (+24.7%), housing (27.1%) and transportation (+20%).
- Prices have grown at a faster rate than wages - close to 1.5 times faster in the last five years.
- More than a fifth (21%) of Australian families are showing signs of financial stress.
- Annual wages growth of at least 2.8% is needed over the next three years to reach the same purchasing power as before the pandemic.
- Most of the cost-of-living policies proposed by the two main parties are either temporary in nature or fail to deal directly with the long-term contraction of households' purchasing power.
- Structural changes are needed to provide long-term relief from cost-of-living pressures, and to protect consumers from uncompetitive markets with a concentrated of large retailers.
- Fostering the entry of new retail players and exerting tighter controls on companies in oligopolistic positions should be put in place, including price, margins and profit reporting.
- Neither of the two main parties' proposals addresses the adequacy of income support measures such as the Jobseeker.
- People on government payments can't fulfil their basic needs, especially with rental and interest rate hikes.
- The indexation of personal tax brackets and other income support payments are needed to protect support for those who need it most.

Cost-of-living pressures in Australia – the scale of the challenge

The cost of living has been front and centre in the Federal election campaign. Rising prices, the financial pressures created by persistently high consumer price inflation (CPI), and the failure of wages to keep pace with rising costs, have all featured among the priority election issues for most Australian families, providing a focus for some of more animated debates between parties – as well as a topic of (mis)information from the fringe campaign groups.

But what's the true picture of price inflation in Australia? How much has the cost-of-living pressures impacted on the financial wellbeing of families? And what are the main election protagonists offering by way of solutions to alleviate these pressures?

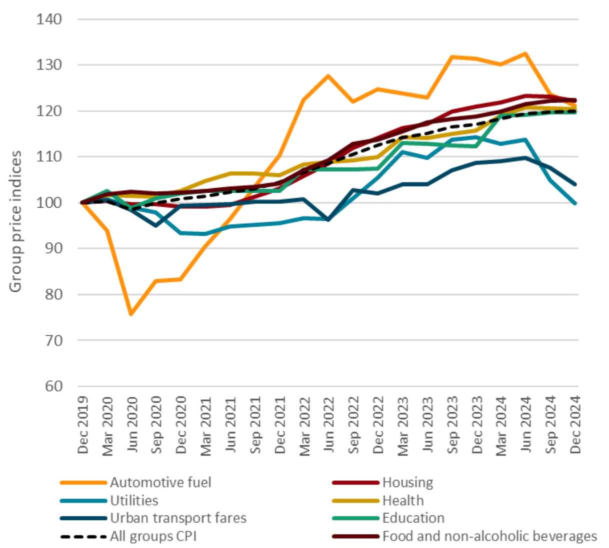
How has consumer price inflation evolved over the term of the last government?

Australia has experienced a significant rise in the cost of living since the election of the Labor Government in 2022.

The main context to consumer price changes over the Labor government's last term of office relates to the waning effects of the COVID-19 pandemic, coupled with emerging supply chain pressures through the attendant growth in global trade. Price increases have been largely driven by sharp increases in essential goods and services, putting considerable pressure on household budgets.

The headline inflation measure is given by the Consumer Price Index (CPI), which tracks price changes for a representative basket of goods and services purchased by households over time.

Figure 1: *Consumer price indices for non-discretionary expenditure groups: 2019-2024*



Source: Bankwest Curtin Economics Centre. Author's calculations based on ABS data, Cat 6401.

Price indices are also available for different categories of goods and services that contribute to the overall price index.

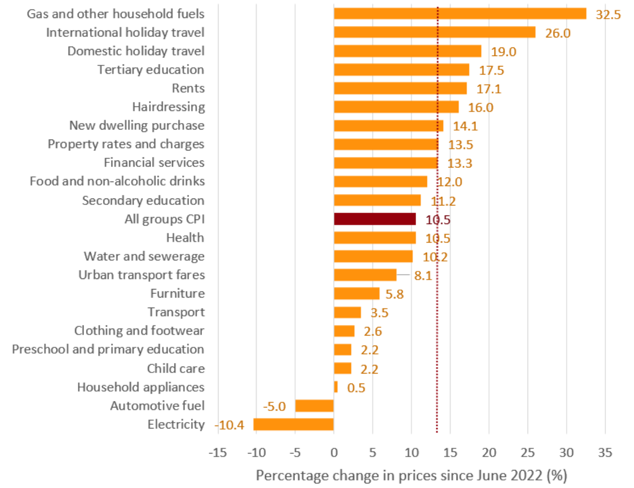
The headline CPI measure from the Australian Bureau of Statistics (ABS) has increased by 20 per cent since December 2019 (**Figure 1**), with much of the acceleration stemming from higher prices growth from late 2021 onwards.

Some categories have experienced sharper increases, putting extra strain on households. The costs of food and health services have risen faster than overall CPI rate, as have housing costs, reflecting ongoing pressures in rental costs and the property market, and rising interest rates.

The average costs of automotive fuel (petrol) have gone through something of a roller-coaster ride since the onset of the pandemic, amplified by supply disruptions from Russia's war on the Ukraine, but with some moderation in average fuel prices over the past year.

And looking across different goods and services, which prices have risen most since the Labor government came to power in May 2022?

Figure 2: *Percentage increase in prices by detailed commodity group since June 2022*



Source: Bankwest Curtin Economics Centre. Author's calculations based on ABS data, Cat 6401.

Gas and other household fuels (+32.5%), holiday travel (+26% for international and +19% for domestic), tertiary education (+17.5%), rental costs (+17%), new dwelling purchases (14.1%), and food (+12%) have all outstripped overall consumer price inflation since June 2022.

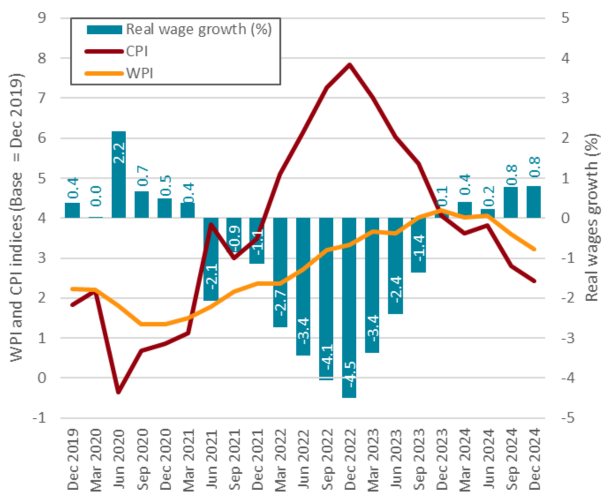
On the other hand, the costs of fuel and electricity have both fallen over the duration of the Labor government's term of office, the former because of easing supply, and the latter due to government supports through electricity credits.

Wages have failed to keep pace with cost-of-living increases

Wages have continued to rise over the past few years, but slowly, and have not kept up with the surging cost of living.

Inflation accelerated rapidly from the end of 2021, peaking at an annual rate of 7.8 per cent by the end of 2022. But wages growth has remained modest, with annual rates of between 2.5 per cent and 3.5 per cent between 2022 and mid-2023.

Figure 3: *Consumer Price Index (CPI) and Wage Price Index (WPI), Australia, 2019-2024*



Source: Bankwest Curtin Economics Centre. Author's calculations based on ABS data, Cat 6401.

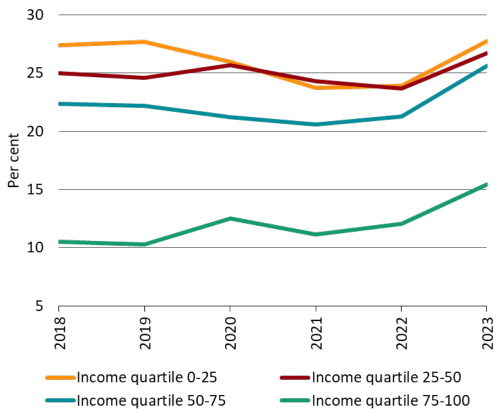
As a result, real wages growth (adjusted for inflation) was negative between June 2021 and September 2023. This shrinks the purchasing power of wages, with the result that Australians are now able to afford substantially less with their pay packets than they could just a few years ago.

Unless wage growth strengthens substantially, the financial pressure on households is likely to persist, regardless of any moderation in headline inflation figures.

This shows up pretty clearly when we look at the evolution of financial stress among Australian families over this period.

We look at a measure of financial stress that tracks the share of households who are experiencing one or more episodes of financial stress[1], differentiated across income quartiles.

Figure 4: *Indices of financial stress by income quartile: Australia, 2018-2023*



Source: Bankwest Curtin Economics Centre. Author's calculations based on the HILDA survey, Waves 1-23.

The share of households suffering from extreme financial stress declined from 2018 to 2020 (**Figure 4**) but has consistently risen ever since.

Around 19 per cent of households suffered from financial stress in 2018, rising to 21 per cent in 2024. For the most recent data, 11 per cent of households were unable to pay the bills, 7 per cent were unable to meet housing costs, and 5 per cent went without meals because of their financial situation.

The situation is far worse for households in the lowest income quantile. More than 28 per cent of these lower-income families suffered from financial stress.

CPI stabilisation and real wages catch-up

There tends to be a belief that the cost-of-living pressures on families will end once price inflation returns to the more regular band of between 2.5 and 3.5 per cent.

This simply isn't so.

The purchasing power of Australians has been substantially eroded by more than two years of heightened price inflation, and hence it will take a sustained period of real wages growth to fully compensate for these cost-of-living pressures.

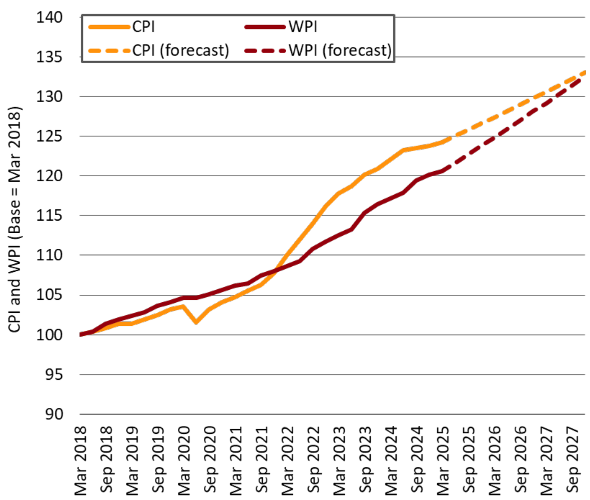
We project that making up this lost purchasing power will require wages to grow at a rate at least 1 percentage point above prices consistently until at least September 2027.

Specifically, annual wages growth of at least 2.8 per cent is required to catch up with accumulated CPI growth by the end of 2027 (**Figure 5**).

This is a meaningful benchmark.

Before the pandemic, WPI growth typically ranged between 1.4 and 2.3 per cent per year – far lower than what is now needed to recover lost ground.

Figure 5: *Forecasting Consumer Price Index (CPI) and Wage Price Index (WPI) growth: 2018-2027*



Source: Bankwest Curtin Economics Centre. Author's calculations based on ABS data, Cat 6401.

While wage growth has improved recently, these higher rates must be sustained, and not just temporarily, to close the gap between prices and earnings. However, sustained increases in wages can only be maintained without fuelling further inflation if they are supported by corresponding gains in productivity.

If wages rise faster than productivity, the result is often higher unit labour costs, which can feed back into inflationary pressures.

What relief measures have been proposed by the major parties?

So, what have been the responses of the main parties to help families navigate the price increases?

Almost all direct measures relate to short-term relief measures and do not address the cost of living in the long run. As shown in the previous section, we will need wage increases of 2.8 per cent per year in the next three years for Australians to be able to access the same living standards as before the pandemic, when price increases started to ramp up. Let's examine the main proposals of the major parties.

Taxation reform

If elected, both the Liberal and Labor parties have proposed future tax cuts.

- The Labor party proposed two years of consecutive tax cuts in addition to the tax cuts already in place for the 2024-25 financial year. For workers with median earnings (around $79,000 per year), tax cuts in the 2026-27 financial year will amount to $268, and the same tax cut will apply for the 2027-78 financial year.
- The Liberals are proposing a one-off $1,200 tax relief for people earning between $48,000 and $104,000 per year and partial rebates for people earning less than $144,000.

The Liberals' tax cuts will offer higher relief in the short run; however, Labor's proposal will provide permanent tax cuts that will structurally improve families' living standards on an ongoing basis.

But, make no mistake, Labor's tax cuts offer nothing more than a correction to bracket creep, a point made in an earlier BCEC Federal Election Policy briefing. Labor's proposal addresses bracket creep for a couple of years, but does nothing to correct for the issue in the long run.

Peter Dutton has talked about an 'aspiration' to index tax brackets to CPI late into the election campaign, but no firm commitment has yet come from the Liberal party.

Another party that proposes modifications to the income taxes is the One Nation party. Their policy is to allow couples with at least one dependent child to file a joint income tax return. The advantage of this policy is that families where one of the members of the couple earns significantly less than their partner will be better off, as the total income will be split into two parts, with the lower income earner counterbalancing the highest income earner.

This policy has been implemented in many other countries; however, it has been shown to be detrimental to women's careers, which is why some countries are revising it. This is because women in heterosexual couples work fewer hours and earn less income than men. As a result, women are discouraged from working more hours or improving their professional situation, as the increase in taxation will be detrimental to the household resources.

Energy and transportation relief

The other popular measures to improve people's purchasing power concern energy and transportation reliefs.

One of the most publicised policies of the Liberal party is to cut the fuel excise by 25c per litre for a year. The One Nation party is also proposing a similar arrangement; however, their fuel excise will reach 26c per litre and will remain in place for the next three years. Cuts in the fuel excise have already been implemented during the Morrison's government as a response to the increase in fuel prices related to the war in Ukraine.

While this tax decline is not progressive, meaning that the cut in fuel excise applies equally to households regardless of their income, families with lower income have been shown to benefit most from this measure.

This is because lower-income families often live on the outskirts of suburban areas and travel longer distances between work and home. Since public transportation is less developed in these areas, people are more likely to use cars as a main mode of transportation and hence incur larger fuel costs.

However, decreasing the cost of fuel will have adverse consequences other than the loss of government revenue. Cheaper petrol will incentivise the use of cars to the detriment of public transportation, which will in turn become more inefficient. Increasing the use of cars will also densify traffic and will have a more pervasive effect of increasing our carbon emissions.

In the fight against climate change, the use of cars should be discouraged and not incentivised, as will be the result of this policy. Furthermore, people who have already purchased an electric car will not benefit from this policy, even though we would like to encourage more people to take the leap and buy electric cars.

Labor, on the other hand, proposes an additional energy bill relief of $150 on top of the $300 already delivered. This policy has been popular with state governments during this inflationary period, however, the main drawback of this policy is that it is not progressive. People with higher incomes who may not need a cost-of-living relief will get as much money as those who need it most. Therefore, this policy will not target families with higher cost of living pressures and will transfer taxpayers' money to wealthy households that do not need relief.

The Greens party also propose a permanent relief in transportation, but in this case, it targets the costs of public transportation. They propose to decrease the price of public transportation fares to 50c per trip.

This measure has already been put in place in Queensland since August 2024. It promises to public transport users to decrease the costs of transportation from home to work to $5 per week. This fare is a flat fare, which means that people living on the outskirts of cities will pay the same amount in public transportation as those wealthier households that live close to the CBD.

While this measure has the merit of incentivising the use of public transport, which is needed for a more efficient and low-carbon transportation system in Australia, it does not consider the fact that low-income households are more likely to live in places where public transportation is scarce. These families are unlikely to benefit from cheaper public transport if they are forced to take the car due to the lack of public transportation.

However, it is expected that in the long run, having a larger number of users in the system will increase the appeal to build the infrastructure needed to reach more remote suburbs. Australia's lack of densification is one of the main reasons why public transportation is more inefficient and expensive than in other countries.

Structural changes are needed

The main issue with most of the short-term cost of living relief policies is that they are just that, short-term relief. They do not offer sustainable and long-term help with the cost-of-living pressures, nor are they progressive or targeted measures. Hence, they are less likely to benefit those who need it most, low-income households. Furthermore, they do not address the structural and regulatory changes that are needed to control prices through a competitive market price approach.

Competition and regulatory changes

Structural changes in uncompetitive markets will take a bold and resolute government to put in place, but these measures are the most likely to have a sustainable and long-term impact on people's purchasing power.

Australia is one of the most concentrated markets in the developed world, with little competition in most retailers and industries. For instance, the grocery market is mostly controlled by two big groups (five, including ALDI, IGA and Metcash) this compares to 17 different supermarket chains in the UK, and more than 20 in France and Germany. Another example is the hardware retail, which is mostly controlled by one retailer in Australia, compared to 6 large retailers in the UK and 5 in Canada.

This concentration is partly due to Australia's geographic situation. Not only is Australia itself relatively isolated, but urban areas are quite sparse within the country and relatively low populated. This creates an entry barrier for companies to enter the Australian market, and it makes investments more onerous and riskier relative to other countries.

As a result, the existing players in the market possess a significant advantage and can more easily protect their current position. This is why a regulatory framework that would allow and encourage companies to settle and develop in Australia is more likely to benefit consumers. Tearing down entry barriers to retailers and keeping a tight check and balance of companies in oligopolistic positions are key to ensuring household purchasing power remains high.

However, keeping a tight rope in the retail market where only a few companies operate can be difficult to achieve. This is best illustrated by the result of the price gouging inquiry into the supermarket sector, which concluded that despite an increase in profits by supermarket retailers during the cost-of-living crisis, it was difficult to determine if the supermarket chains were indeed price gouging. This is because it is easy to 'informally' collude in a market with only two or three players, and making higher margins is not illegal, even if it is done at the expense of consumers and during a period where inflation is an easy target to blame.

This is why delivering a proper mechanism that can detect, alert and fine companies that engage in anti-competitive behaviour is paramount. Fuel Watch is an interesting example of how a data-driven service for consumers can increase competition in a sector where prices change significantly on a daily basis. Providing data on prices can guide consumers to better deals, even when this action can be limited by the number of retailers available to customers.

But this mechanism can provide government entities with the data they might need to make informed decisions about price gouging and anti-competitive behaviour.

Fostering the entry of new players in the retail sector should be one of the key priorities of the next government if they are committed to keeping cost of living pressures low. Whenever oligopolistic situations are unavoidable or present in the market, a tight control of companies within that sector should be put in place, including price, margins and profit reporting. Only then can the government make informed decisions on anti-competitive practices.

Indexation of government transfers and taxes

Finally, another important measure that would assure long-term household relief is the indexation and the rise of some of the government's income support measures and taxation thresholds.

Bracket creep provides the government with billions of dollars in additional revenue. Indexing the taxation thresholds to the CPI has been in the minds of economists for some time but has never gained traction. This is because of the missing revenue that governments would have to deal with if such a measure were put in place.

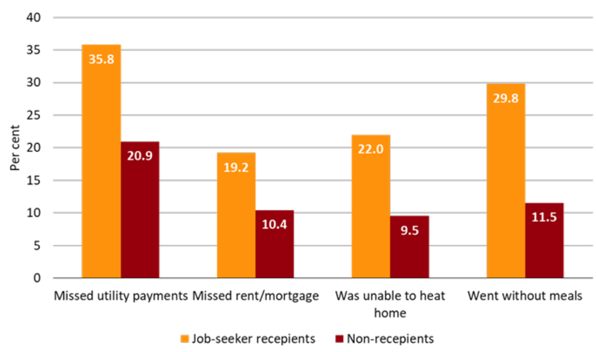
Peter Dutton's aspiration to index the tax thresholds is a good one, but without a firm commitment, there is not much we can expect.

In addition to indexation, some income support payments are insufficient and do not allow recipients to fulfil their basic needs. Jobseeker payments for a single person without children amount to $781.10 per fortnight.

It is impossible to imagine how someone in receipt of JobSeeker can possibly manage to pay the rent, household bills, and pay for food and transport. Compared to Age Pension payments for a single person ($1,149 per fortnight), Jobseeker payments are significantly lower. This is because the age pension is also indexed by taking into account the weekly average payments of workers, which usually grow faster than CPI.

Figure 6 illustrates the extent of financial stress of households with one or more government income support recipients. At least 60 per cent of families on income support suffered from one or more severe financial distress markers, with 29 per cent going without meals, 36 unable to pay for bills or utilities, and a further 19.2 per cent unable to pay the rent or mortgage. Targeted support directed towards this particular group of households is paramount, especially in this cost-of-living crisis.

***Figure 6:** Financial Stress Measures for Households with One or More Government Income Support Recipients, 2023*



Notes: Bankwest Curtin Economics Centre. Author's calculations based on the HILDA survey, Waves 1-23.

Changing the indexation of income support payments to match that of the Age Pension would make an important contribution to improving the purchasing power of people under income support in the long run. However, the rates of JobSeeker and related income support payments need to be raised substantially as a matter of urgency to allow recipients to meet even the basic costs of living.

Of all major parties, only the Greens propose structural changes to income support payments. Among their most relevant commitments is the raise in income support payments to $88 a day ($1,232 per fortnight), adjusting partner rates to 75 per cent of single rates, and indexing to CPI or WPI, whichever is higher during the revision period.

Giving a fair payment for government income support recipients will provide considerable relief from cost-of-living pressures for the most vulnerable Australian families. Government recipients are often among the bottom of the income earners and targeted income relief will fix not only the cost-of-living pressures of this inflationary period but will provide long-term structural relief for these families.

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Notes

[1] Financial stressors include: going without meals, being unable to pay the bills or utilities, being unable to pay rent or mortgage payments, being unable to heat the house, having asked the financial help of friends, family or community organisations or having pawned or sold something to cope with financial issues.