MEDIA RELEASE

Master Builders Association
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Inflation Remains Stubbornly High as Underlying Price Pressures Intensify

The latest Consumer Price Index (CPI) data confirms that inflationary pressures remain deeply entrenched across the Australian economy, with underlying inflation showing little sign of easing despite a modest decline in the headline rate. The ABS reported annual CPI of 3.5 per cent in July, down from 3.8 per cent in June, while the Reserve Bank's preferred measure of underlying inflation, the trimmed mean, remained unchanged at 3.6 per cent.

Mathew Pollock, CEO of Master Builders NSW, said the result should not be interpreted as evidence that inflation has been brought under control. The current trend is not our friend.

"The decline in the headline CPI figure is largely a statistical outcome driven by the unwinding of electricity rebates dropping out of the annual comparison, rather than a broad-based easing in price pressures across the economy," he said.

"Importantly, the result came in higher than many economists expected and confirms that underlying inflation remains stubbornly elevated," Mathew Pollock said.

“The most concerning aspect of the release was the persistence of underlying inflation. The trimmed mean remained at 3.6 per cent annually and recorded a strong monthly increase of 0.49 per cent in July, representing the largest monthly rise in underlying inflation in a year," he said.

"This is not the result households, businesses or financial markets were looking for," Matthew Pollock said.

"The fact that underlying inflation remains stuck at 3.6 per cent and accelerated strongly through July demonstrates that price pressures have not gone away. In fact, they appear to be strengthening," he said.

The implications for the construction industry are significant.

Construction businesses continue to face elevated labour, materials, financing and compliance costs, while persistent inflation increases the likelihood of further monetary policy tightening. Following the CPI release, several major banks have revised their expectations and are now pricing in at least one further rate increase before the end of the year.

"Higher-for-longer inflation means higher-for-longer interest rates, and that creates serious challenges for the building and construction sector," Matthew Pollock said.

"Inflation has become the number one factor affecting project feasibility across the industry. Every additional cost increase pushes more projects below the viability line and reduces the number of homes, apartments and commercial projects that can proceed," he said.

“Housing costs remain a major contributor to inflation, reflecting ongoing increases in new dwelling construction costs as builders continue to face higher labour and material expenses," Matthew Pollock said.

"The situation has been further exacerbated by recent Federal Government changes to capital gains tax arrangements, which have undermined investment confidence at a time when Australia urgently needs greater private sector investment in housing and construction," he said.

"At a time when we should be encouraging investment and boosting housing supply, policy settings are instead adding further pressure to an already challenging development environment," Matthew Pollock said.

"The industry is being squeezed from all directions. Elevated inflation, high interest rates, escalating construction costs and policies that discourage investment are combining to make many projects simply uneconomic," he said.

"Master Builders NSW urged governments at all levels to focus on measures that reduce the cost of delivering construction projects, support investment, and increase productivity across the building sector," Matthew Pollock said.

"Australia cannot solve its housing shortage or deliver the infrastructure pipeline needed to support a growing population while inflation remains this high," he said.

"Yesterday's CPI figures are a reminder that the inflation challenge is far from over, and for the construction industry, the consequences are becoming increasingly severe," Matthew Pollock said.

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