

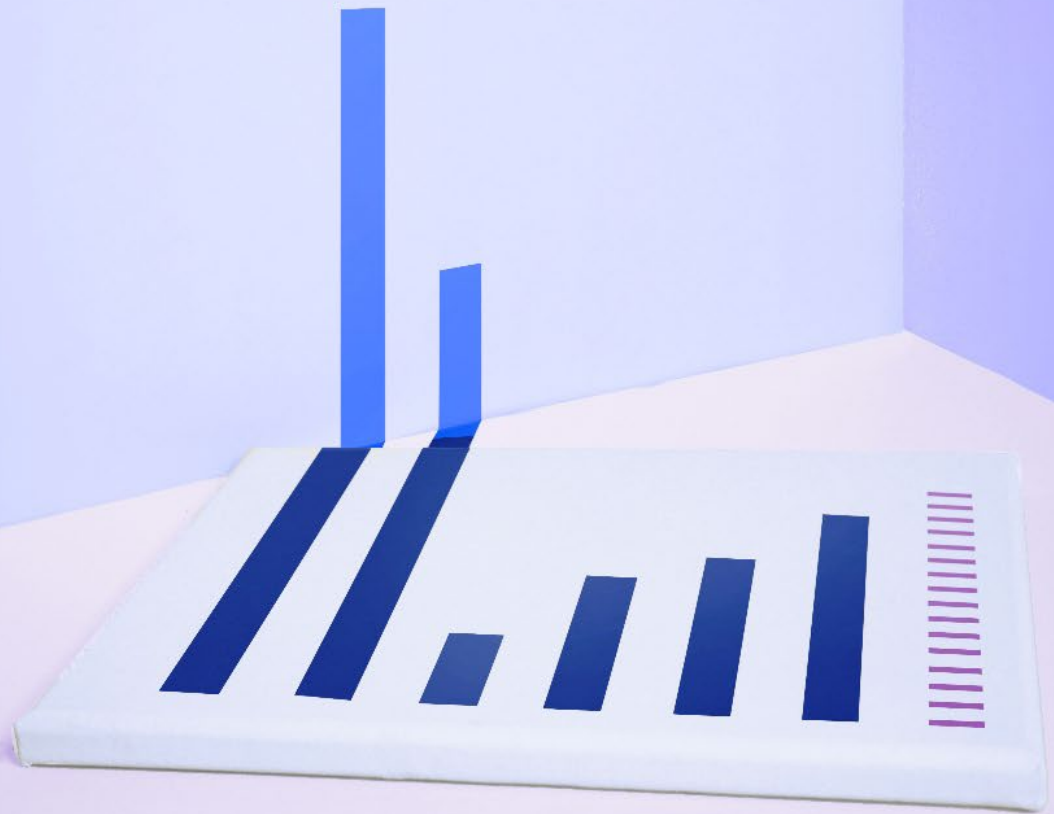


Australian inflation and cost dynamics

KPMG Australia

—

May 2026



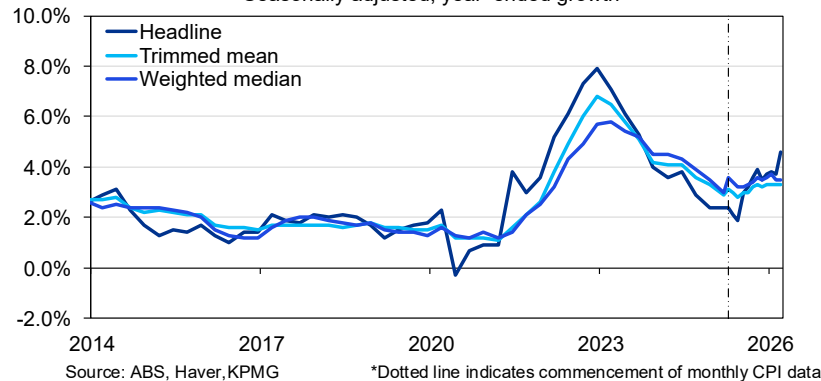
Executive summary

KPMG's biannual Australian Inflation and Cost Dynamics report provides timely insights and forecasts for inflation, alongside analysis of its key drivers across the Australian economy, including international prices, consumer prices, producer prices, and wages. In this edition, we introduce:

- our latest forecast of CPI and its components, alongside forecasts of WPI and PPI
- the latest KPMG Inflation Pressure Gauge, which distinguishes between demand- and supply-side drivers of inflation, providing a clearer view of underlying pressures
- special coverage of the conflict in Iran, as well as the latest developments in housing construction costs.

Consumer Price Index

Seasonally adjusted, year-ended growth



Headline inflation climbs further under dual strain from persistent domestic price pressures and the Iran conflict.

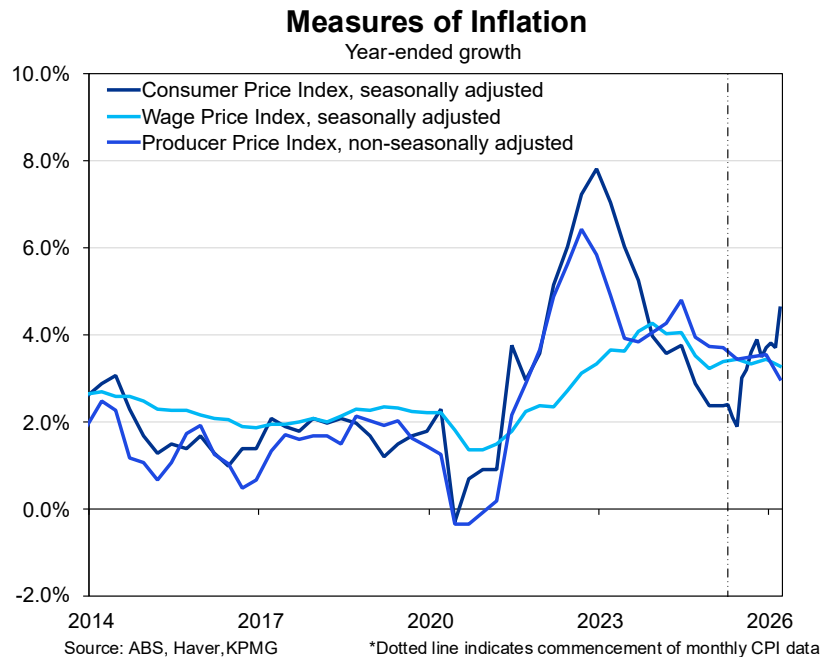
Headline consumer inflation surged to 4.6% in March 2026, its fastest pace since September 2023, from an already elevated 3.7% in February. This was below the market expectation of 4.8% but still captures some early impacts of the conflict in Iran.

Prices for *Transport* rose 8.9% through the year, with *Automotive fuel* up 24.2%, reflecting the recent surge in global oil prices. *Housing* also remains a major driver of inflation, up 6.5% through the year, although this was in part due to technical effects associated with the measurement of electricity subsidies.

Aside from the surge in fuel prices, price movements across most categories in the CPI basket showed easing or stable monthly momentum. This softened the initial blow to the headline figure in March but further pass-through of this latest shock is expected in upcoming data flows. Nevertheless, the recent shift by the ABS to produce a complete monthly CPI will support the monitoring of these trends.

Meanwhile, the trimmed mean – which is the RBA's preferred measure of underlying inflation – held steady at 3.3% in March, in line with the consensus forecast. Nevertheless, the combination of domestic inflationary pressures, a significant global supply shock, and the risk of rising inflation expectations, saw the RBA deliver three consecutive cash rate increases to start 2026.

Executive summary (cont.)



Producer price inflation slowed to 3.0% in the March quarter 2026. This was the slowest annual rise since the September quarter 2021, supported by the weakest pace of quarterly growth (+0.4%) in five years. This moderation in price growth was supported by a significant appreciation in the Australian dollar since mid-2025.

Overall, the rise in producer prices was led by construction and services industries, tied to strong demand for residential property. There was also sharp rise in prices for petroleum refining and petroleum fuel manufacturing, reflecting the impact of the Iran conflict towards the end of the March quarter 2026.

Looking towards the labour market, data from the Wage Price Index showed that the pace of wages growth held steady in the March quarter 2026. Quarterly growth came in at 0.8% for the third consecutive quarter, with an annual rise of 3.3%, slightly below the 3.4% seen in the previous quarter. Both results were also in line with market expectations.

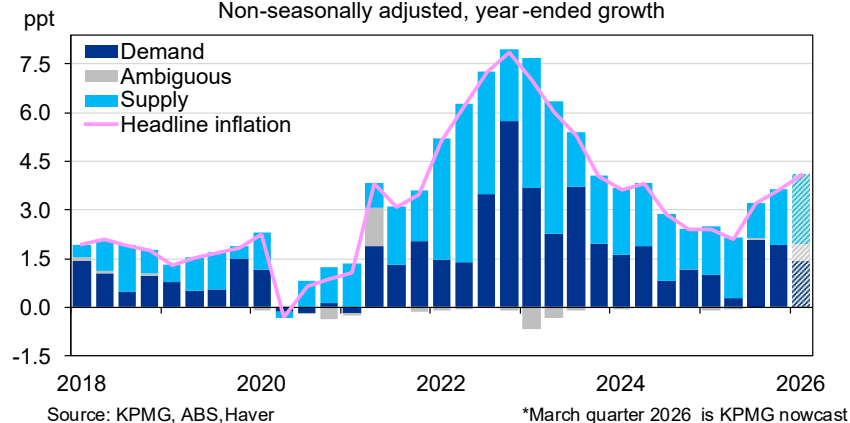
Demand-driven inflation rebounded in the second half of 2025 following three prior rate cuts, while supply factors eased. However, this momentum has now reversed following the Iran conflict.

With the full data available up to the December quarter 2025, we estimate that demand-driven factors accounted for 52% of the 3.6% headline inflation. This was significantly higher than the level seen in the first half of 2025 and is consistent with the effects of the three rate cuts delivered during the year, which supported household demand. Meanwhile, supply-side factors contributed the remaining 48% of headline inflation, a little higher than the average over the prior four quarters.

Executive summary (cont.)

Estimated Contribution to Headline Inflation

Non-seasonally adjusted, year-ended growth



Our nowcast for the latest March quarter suggests that this momentum has now reversed course. Supply-side pressures have escalated in response to the shock from the Iran conflict. Meanwhile, the initial cooling effects from rate rises in February (and to a lesser extent, March) have seen demand pressures ease somewhat.

We now expect headline inflation to peak just shy of 5%.

Looking ahead, we forecast headline inflation to peak at around 4.7%, with the full effects of the Iran conflict emerging in the data in the December quarter 2026. While *Transport* and *Housing* are expected to drive the near-term increase peaking around the June quarter in line with oil prices, these pressures should begin to ease thereafter. In contrast, *Food* inflation is likely to be more persistent, due to delayed supply responses and the gradual pass-through of higher fertiliser and input costs into production.

When looking past this supply shock to broader inflation momentum, we expect core inflation to ease from a peak of 3.6% from the next quarter onwards.

Key Inflation Forecasts

	Q/Q 2026			Y/Y 2026			2027	
	Mar	Jun	Sep	Mar	Jun	Dec	Jun	Dec
Consumer Price Index (SA)								
Headline	1.2%	1.4%	1.0%	4.0%	4.7%	4.7%	3.6%	3.2%
Core	0.8%	0.8%	0.7%	3.5%	3.6%	3.0%	2.8%	2.7%
Wage Price Index (SA)	0.8%	0.8%	0.9%	3.3%	3.2%	3.3%	3.4%	3.4%
Producer Price Index (NSA)	0.4%	1.1%	1.2%	3.0%	3.4%	3.2%	2.6%	2.4%

Source: KPMG

*Shaded cells indicate actual data

Executive summary (cont.)

Consumer Inflation Forecasts

	Q/Q 2026 Mar			Y/Y 2026 Mar			2027 Jun	
		Jun	Sep		Jun	Dec		Dec
Headline (NSA)								
Food	1.0%	2.1%	2.5%	3.1%	4.3%	7.2%	6.4%	3.5%
Alcohol & tobacco	1.3%	0.8%	1.1%	4.5%	4.7%	4.6%	3.9%	3.5%
Clothing	2.3%	2.1%	-0.2%	5.4%	4.9%	4.8%	1.7%	1.5%
Housing	2.9%	1.4%	1.6%	7.1%	7.3%	6.4%	4.7%	4.5%
Household items	-0.3%	1.7%	0.6%	1.8%	2.5%	2.2%	1.8%	2.1%
Health	2.2%	1.1%	0.3%	3.2%	2.8%	3.9%	4.5%	4.6%
Transport	2.0%	2.8%	-0.4%	3.2%	6.8%	4.5%	0.3%	1.0%
Communication	0.0%	-0.1%	1.1%	1.7%	1.4%	0.9%	0.1%	0.0%
Recreation	-1.3%	0.0%	0.5%	3.6%	3.2%	0.9%	0.8%	0.8%
Education	3.0%	-0.8%	-0.3%	3.2%	2.4%	1.7%	4.1%	4.4%
Financial	1.0%	1.6%	1.1%	2.9%	4.0%	4.8%	4.2%	3.7%
Housing (NSA)								
Rents	0.9%	1.2%	1.2%	3.8%	3.9%	3.7%	3.9%	3.9%
House purchase	0.9%	1.3%	1.2%	3.9%	4.8%	4.2%	3.8%	3.7%
Other housing	0.2%	0.3%	2.5%	6.2%	6.1%	3.9%	3.8%	3.8%
Utilities	12.1%	2.9%	2.4%	19.9%	18.8%	17.5%	8.9%	7.9%

Source: KPMG

*Shaded cells indicate actual data



©2026 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Contents

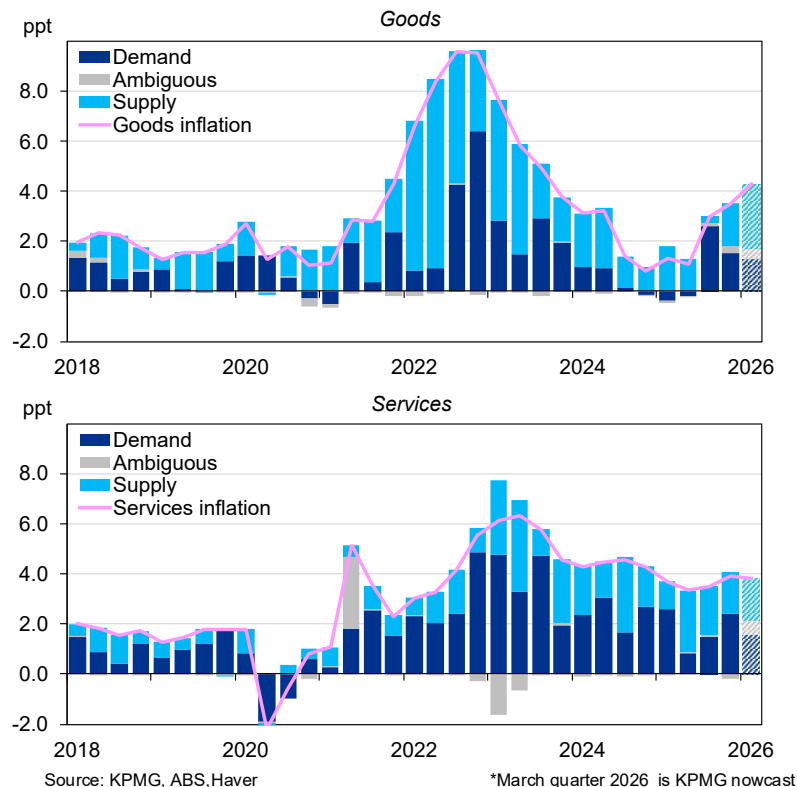
01	Inflation pressure	7
02	International trends	9
03	Domestic trends	16
04	Appendix	30

01

KPMG Inflation Pressure Gauge

KPMG Inflation Pressure Gauge

Estimated Contribution to Goods and Services Inflation



A significant supply shock stemming from the Iran conflict, alongside the three consecutive interest rate rises have changed the dynamic for inflationary pressures in Australia.

Even prior to the Iran conflict, annual goods inflation had been accelerating, rising from 1.1% in the June quarter 2025 to 3.5% in the December quarter. This reflected a stronger contribution from demand-side factors, consistent with the three rate cuts delivered during the year.

The pace of goods inflation accelerated further in the March quarter 2026, pushed upwards by the sharp rise in *Automotive fuel* prices towards the end of the quarter. Consequently, our nowcast points to a sharp rise in supply-driven inflationary pressures, partly offset by a modest decline in demand factors, potentially reflecting early impacts from recent interest rate hikes.

Meanwhile, services inflation was relatively stable in recent quarters, however, our decomposition points to a shift in driving forces. Demand factors increased to be responsible for 2.4ppt of services inflation in the December quarter 2025, offset by an easing in supply pressures to 1.7ppts.

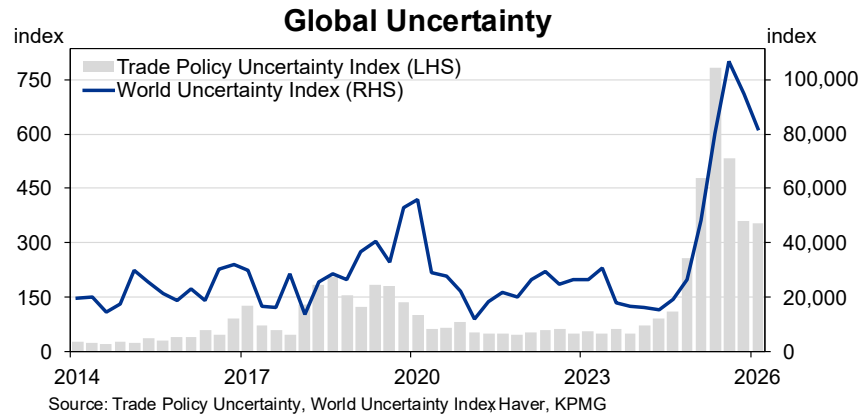
Our nowcast for the March quarter 2026 suggests that supply factors were generally unchanged, while demand pressures may have cooled slightly. We expect a more marked easing of demand pressures through the year, as the full impact of the three recent rate hikes flows through to households.

¹ For further details, refer to Appendix A.

02

International trends

Trade and policy uncertainty



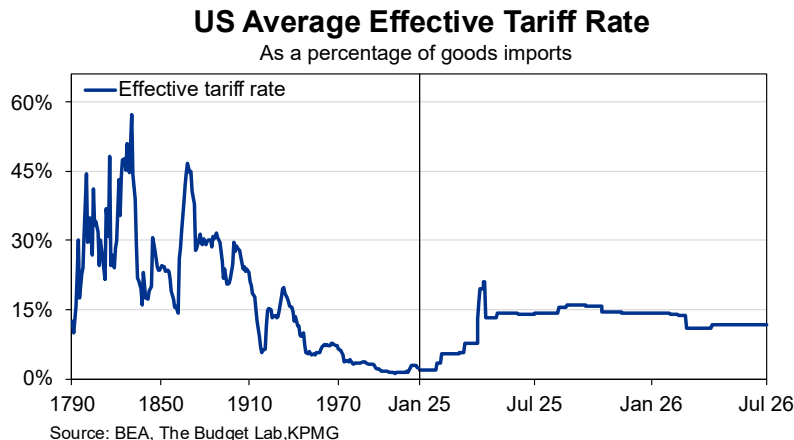
Global uncertainty was easing as US trade policy stabilised, but the Iran conflict has clearly shifted the outlook for the remainder of 2026.

The Trade Policy Uncertainty Index eased to an average of 354.6pts in the March quarter 2026, well below the peak of 782.3pts seen in the June quarter 2025. Nevertheless, it continues to be elevated compared to historical norms, reflecting higher US tariffs as well as ongoing developments.

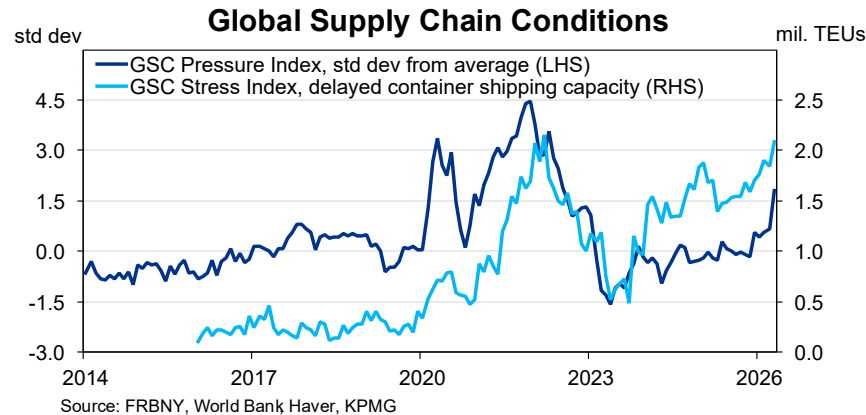
Most notably, in February, the US Supreme Court struck down the basis for the 'baseline' tariffs that the US had imposed on trading partners. In response, US President Donald Trump announced temporary tariffs on all countries under Section 122 of the Trade Act (1974). These are currently set at 10%.

Several product-specific tariffs have also been applied under Section 232, including a 100% tariff on patented pharmaceuticals. This would go into effect from September 2026.

Consequently, the current average effective tariff rate is 11.8%, the highest level since the early 1940s, excluding 2025. This would fall slightly to 9.7% if the Section 122 tariffs expire and pharmaceutical tariffs go into effect.



Supply chain conditions

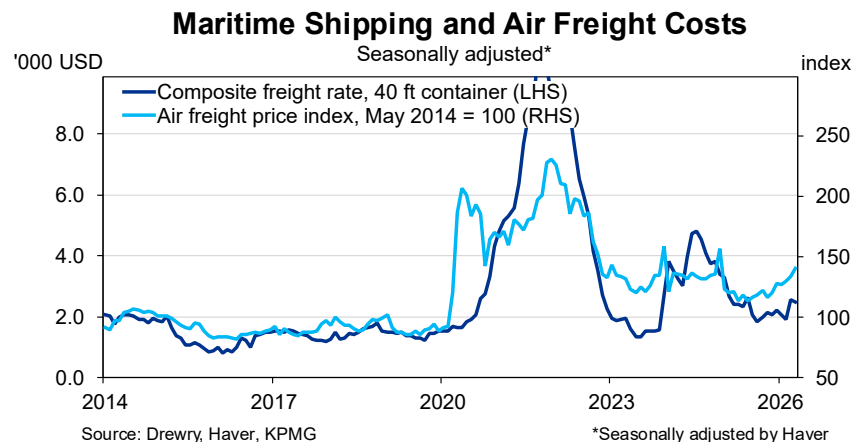


Several measures of supply chain risk responded immediately to the Iran conflict, providing an early indication of further inflationary impacts which will flow from this latest supply shock.

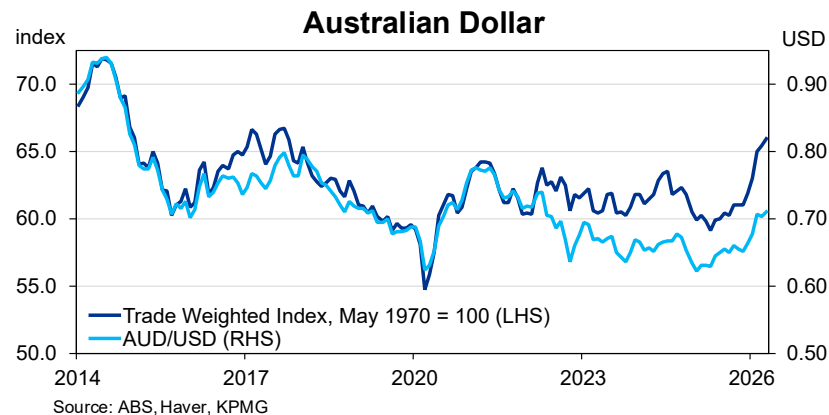
The Global Supply Chain Pressure Index (GSCPI), which integrates transportation costs and manufacturing indicators to assess global supply chain conditions, remained little changed throughout 2025, despite the shifts in US trade policy. However, it has reacted sharply to recent developments in Iran, rising from 0.55pts in February to 1.82pts in April.

Meanwhile, maritime shipping faced a gradual rise in delays throughout the second half of 2025, as global trade flows were redirected in response to US tariffs. The World Bank's Global Supply Chain Stress Index (GSCSI), which measures delayed container shipping capacity due to port congestion and closures, rose from a low of 1.4 million twenty-foot equivalent units (TEUs) in April 2025 – a standard measure of container capacity and port traffic – to 1.7 million TEUs by December. It has since lifted to 2.1 million TEUs by April 2026.

Most recently, shipping costs have also jumped in response to the conflict in Iran. The Drewry Container Index Composite Freight Rate was 28.8% higher in April compared to February. Meanwhile, air freight rates – as measured by the Drewry East-West Airfreight Price Index – were up 7.9% in April compared to March.



Exchange rates and commodities



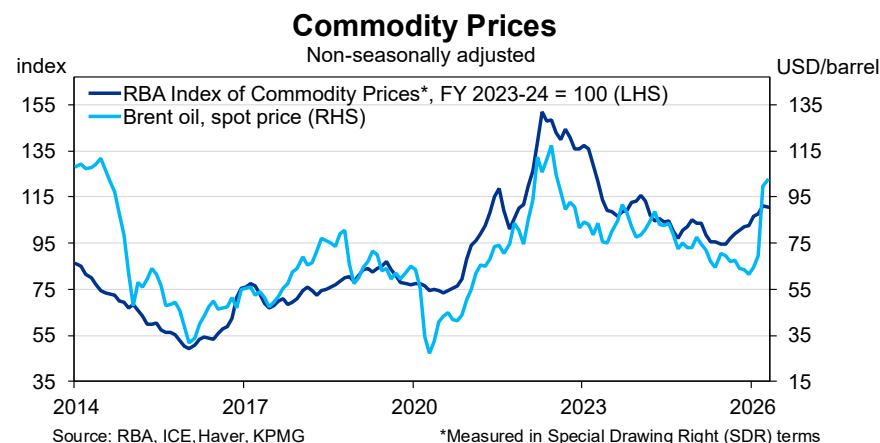
The Australian dollar has appreciated markedly since mid-2025.

Exchange rates:

The value of the Australian dollar has appreciated from its recent low of US\$0.628 in April 2025 to an average of US\$0.709 in April 2026, as the interest rate differential widened. When measured on a trade-weighted basis, this appreciation was even more significant, particularly between November 2025 and February 2026.

Commodity prices:

The RBA Index of Commodity Prices fell 0.5% in April 2026 but was up 15.7% through the year (when measured in SDR terms). Higher prices for rural commodities and base metals drove this annual movement, which was partially offset by lower prices for LNG and alumina.



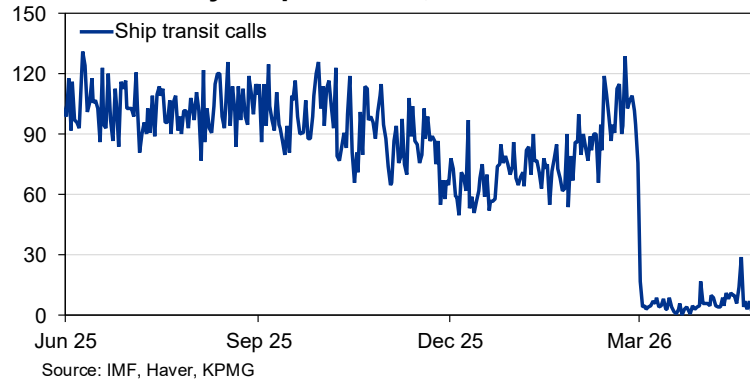
Oil prices:

Global oil prices had been on a sustained downward trend prior to the conflict in Iran. The Brent oil spot price fell from 77.8 USD/barrel in January 2025 to an average of US\$61.6/barrel in December. During this period, there were expectations of a supply surplus in 2026.

However, the closure of the Strait of Hormuz has seen a significant shock to the supply of oil, which saw the average spot price climb to US\$102.5/barrel in April 2026. Box A provides a more comprehensive discussion of the impact of the Iran conflict.

Exchange rates and commodities (cont.)

Daily Ship Transits, Strait of Hormuz



Box A: The conflict in Iran had an immediate impact on global supply chains and prices, but the full extent of the shock is yet to come.

Following the beginning of hostilities in Iran, the closure of the Strait of Hormuz to shipping has triggered a sharp shock to global oil prices (and other crucial commodities such as urea, which is widely used in fertilisers), while also disrupting crucial energy flows.

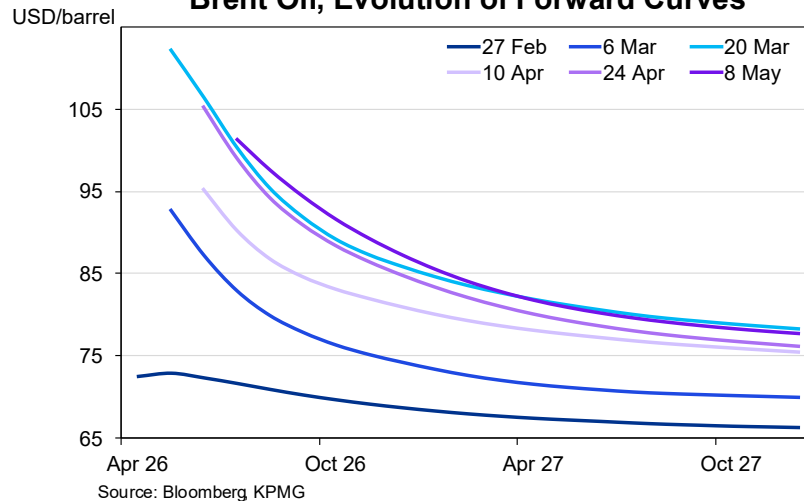
There continues to be uncertainty in how the conflict will evolve, including the timeline for potential peace agreements and the reopening of this crucial shipping route. This has translated into volatile near-term prices, albeit decisively higher compared to February, prior to the war.

It is clear, however, that medium- to long-term risks have shifted permanently higher, as reflected in the tail end of forward curves. This reflects a repricing of risk which now sees oil flows through the Strait of Hormuz more vulnerable to disruption, even if the current conflict fades.

The Asia-Pacific region is particularly exposed to the conflict, with 40% of the region's energy imports coming from the Middle East. Specifically, around 90% of the oil which transits through the Strait of Hormuz is destined for the region. This highlights that aside from the substantial price impacts, Asia-Pacific nations also face greater risk to supply shortages and disruptions.

For Australia, the most significant risk is our exposure to imports of refined fuel. Although the nation is a net energy exporter (through LNG and coal), around 80% of Australian refined oil products (such as petrol and diesel) is met via imports, predominantly from Asia-Pacific producers.

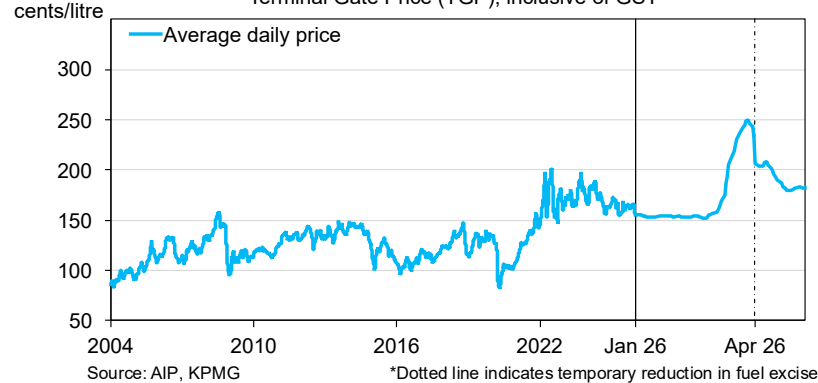
Brent Oil, Evolution of Forward Curves



Exchange rates and commodities (cont.)

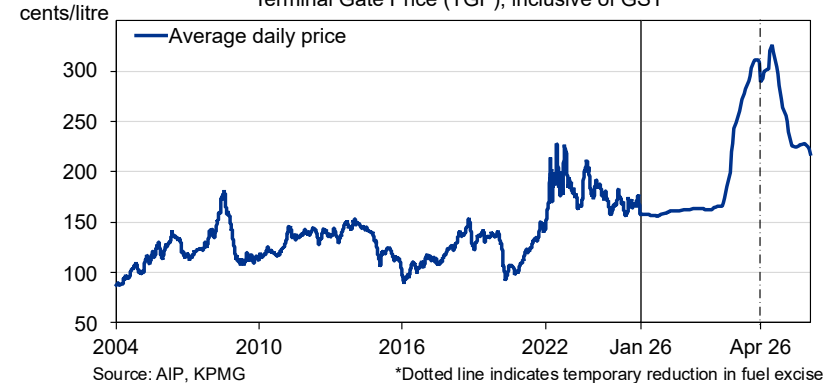
Retail Unleaded Prices

Terminal Gate Price (TGP), inclusive of GST

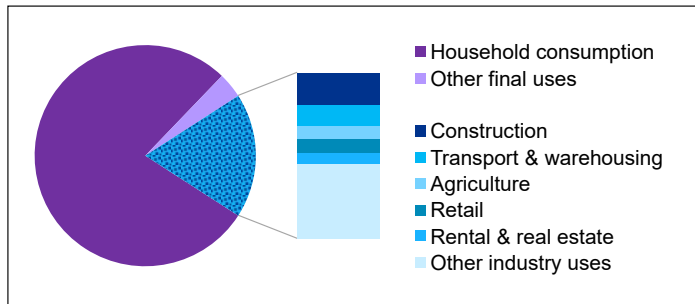


Retail Diesel Prices

Terminal Gate Price (TGP), inclusive of GST

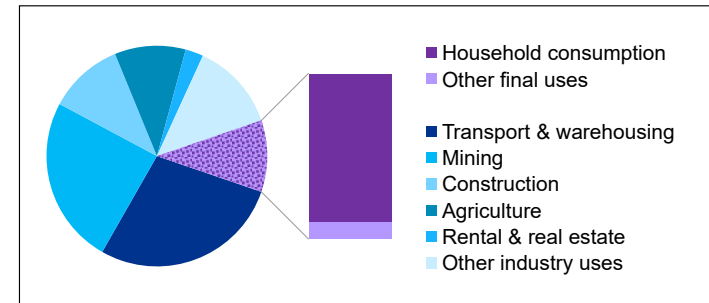


Uses of Automotive Petrol



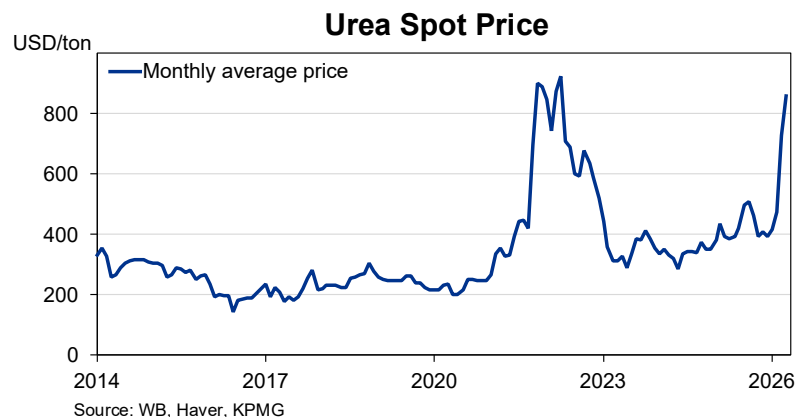
Source: ABS, KPMG

Uses of Diesel



Source: ABS, KPMG

Exchange rates and commodities (cont.)



The retail price of petrol in Australia peaked at 249.4 cents/litre in late-March, prior to the halving of the excise duty for three months, which began in April. Overall, the average price in April was 26.2% higher than in February. Petrol is predominantly used by households, who represent 78.1% of total consumption, while the *Construction* sector is the largest industry user, although this is only a modest 3.6% of all consumption.

Meanwhile, diesel prices have seen a more significant rise, reaching a high of 310.9 cents/litre in late March. The average price in April was 66.7% higher than in February and reflects that the diesel supply chain has been affected more significantly by the crisis.

Most diesel in Australia is used by industry, which accounts for 89.5% of all use. This primary users are *Transport, postal and warehousing* (28.0%), followed by *Mining* (24.6%), *Construction* (11.0%) and *Agriculture, forestry and fishing* (10.4%). In addition to the temporary fuel excise reduction, the road user charge for heavy vehicles was suspended for three months.

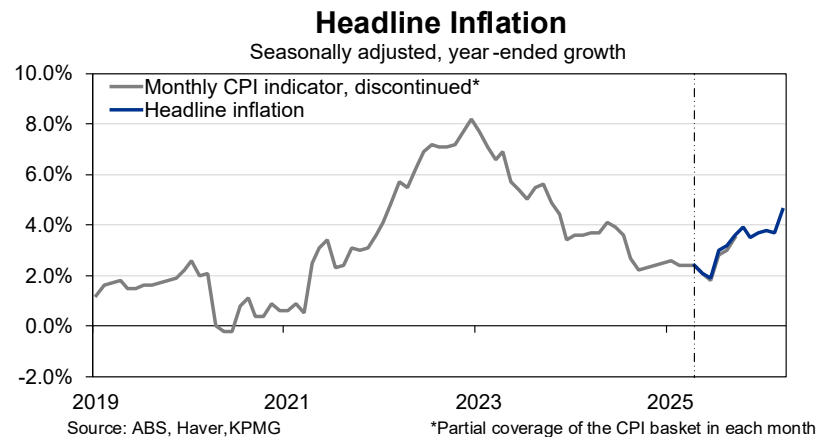
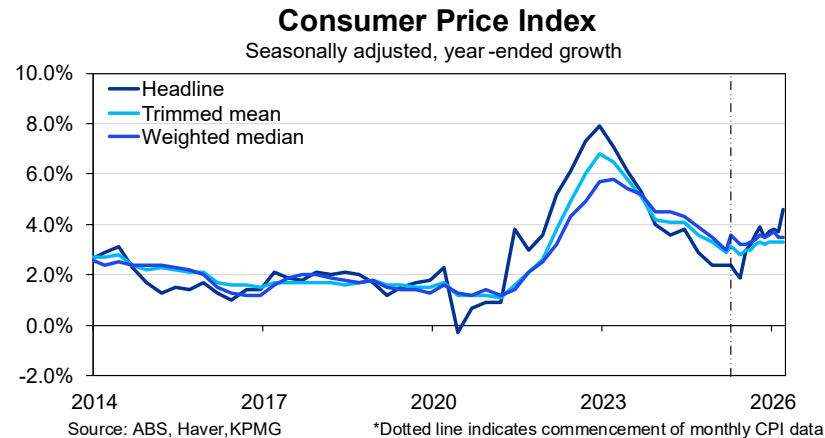
This rise in fuel costs is already having a direct effect on Australian inflation, through higher prices for *Automotive fuel* in the CPI. However, second round effects will also flow through the data in coming months, as higher fuel costs (and other material costs) are likely to be passed through to consumers.

For the RBA and other central banks, the key risk is that the conflict lifts inflation expectations. If expectations become unanchored, wage pressures could remain elevated even after the initial shock fades, risking more persistent inflation.

03

Domestic trends

Consumer prices: overview



Headline inflation in March jumped following the outbreak of conflict in Iran, although by less than markets feared. However, this is cold comfort as the full impact of this next global supply shock has yet to be revealed.

Growth in consumer prices² accelerated sharply to 4.6% in March 2026, from an already elevated 3.7% in February, as measured by seasonally adjusted annual headline inflation. This was below the consensus expectation of 4.8%, but still the fastest pace since September 2023.

Meanwhile, the trimmed mean measure remained unchanged at 3.3% in March and was in line with the consensus expectation. This figure excludes extreme price movements, such as the sudden spike in oil prices, providing a clearer view of underlying inflation.

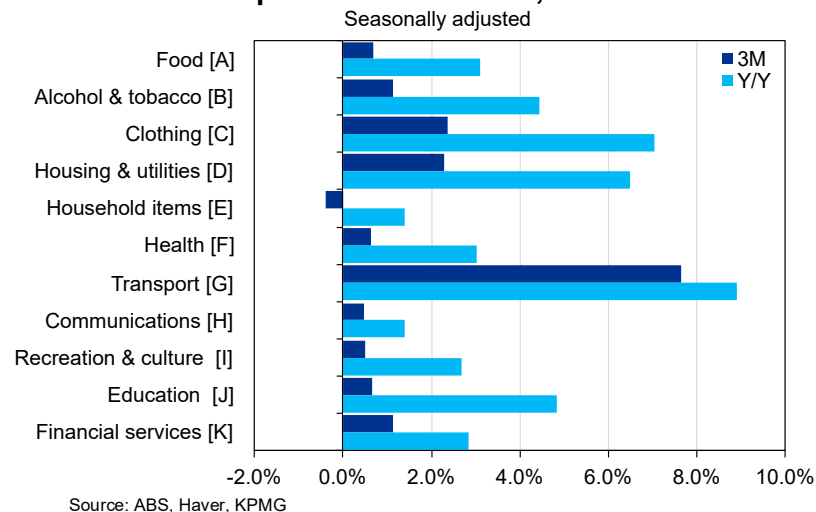
Outside of the impact from the Iran conflict, this latest read was otherwise benign, with easing momentum across a range of items, which helped soften the blow to the headline figure. The underlying inflationary trends have also been complicated by the impact of government electricity subsidies to households, which are now rolling out of the data.

These rebates artificially lowered measured inflation, which reached a low of 1.9% in June 2025. However, the cessation of these subsidies was partly responsible for the sharp acceleration of reported headline inflation to 3.9% in October 2025, where it stabilised just shy of 4% until the outbreak of war.

² Appendix B describes key measures of inflation in further detail.

Consumer prices: detail

Components of Inflation, Mar 2026



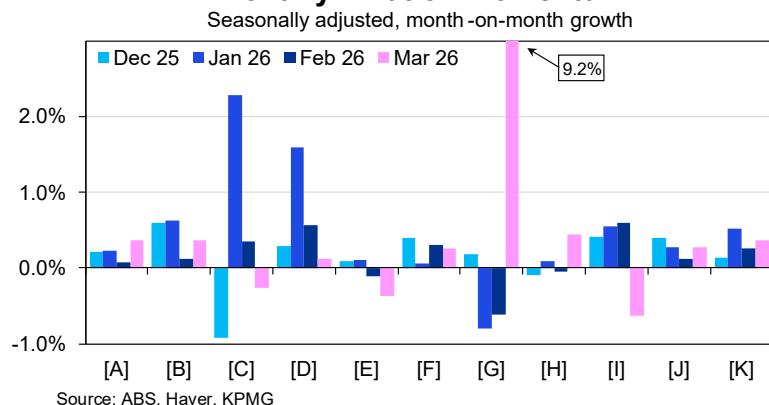
If not for the latest oil crisis, KPMG had anticipated that, with time, this period of elevated headline inflation would naturally ease as the impact of subsidies left the data. Clearly, this outlook has changed following the disruption to oil flows in the Strait of Hormuz. Nonetheless, when stripping out the impacts of the electricity rebates, KPMG calculates that headline inflation would have been 4.1% in March, as opposed to the 4.6% figure which was measured.

The most significant contributors to annual inflation in March were:

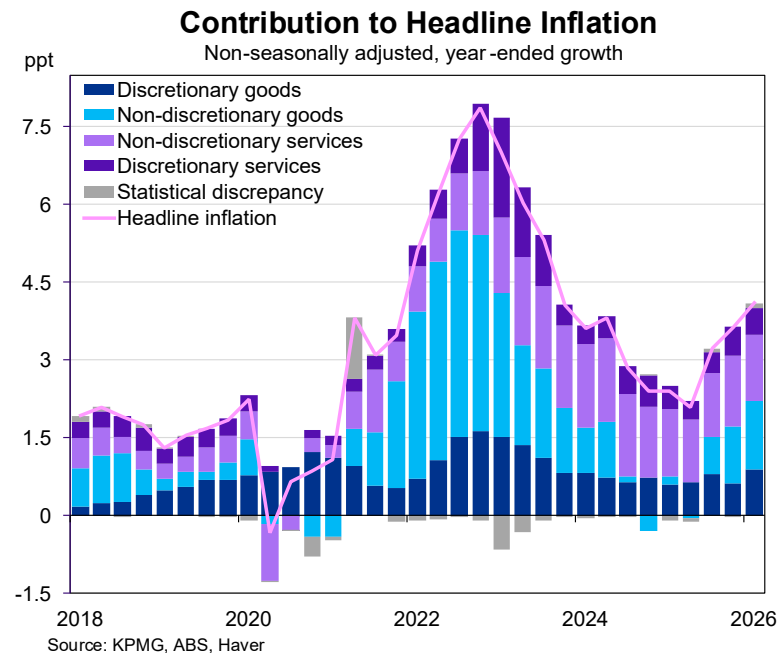
- **Housing**, which was responsible for 1.4ppt. This was due to a 6.5% rise through the year. The large price increase in the *Housing* group was due to *Electricity*, which saw a 25.4% rise through the year as households used up their government rebates. When excluding the impact of these rebates, the ABS reports that prices rose 3.9%, reflecting annual price reviews. Price rises for *New dwellings* (+4.5%) were also elevated, as builders passed through higher materials and labour costs. Low vacancy rates and a tight rental market also drove robust 3.7% growth in *Rents*.
- **Transport**, which added 1.0ppt to headline inflation. The 8.9% annual rise was mainly due to *Automotive fuel*, which rose 24.2% compared to a year ago. This does not include the offsetting impact of the temporary reduction in the fuel excise, which has commenced from April.

Looking at the distribution of monthly price growth, momentum in inflation was easing across most categories, with *Transport* being the notable exception. This sharp monthly fall for *Recreation & culture* reflected a 2.2% fall in prices for *Domestic holiday travel & accommodation*, following peak demand in summer. The rise for *Communications* in March reflected a 3.6% monthly rise in prices for *Postal services*, as parcel delivery fees were increased to cover higher fuel costs.

Monthly Inflation Momentum



Consumer prices: detail (cont.)



Goods and services inflation:

Annual goods inflation lifted sharply in March to 5.5%, from 3.5% in February. This movement mainly reflects the sharp rise in *Automotive fuel*, which had been an offsetting factor in prior months. After falling 7.2% in the year to February, prices for *Automotive fuel* are now up 24.4% compared to March 2025.

Meanwhile, annual services inflation eased to 3.6%, from 3.9% in February. The main drivers of services inflation were *Rents* (+3.7%) and *Medical and hospital services* (+3.8%).

Tradables and non-tradeables inflation:

Prior to March, inflationary pressures were being driven by domestic factors. Annual tradables inflation had fallen to 1.3% in February and was well below the 5.0% pace of non-tradeables inflation.

This gap has all but closed, with tradeables inflation surging to 4.5% in March, reflecting the higher cost of oil. On the other hand, non-tradeables inflation eased to 4.6%, but remains elevated.

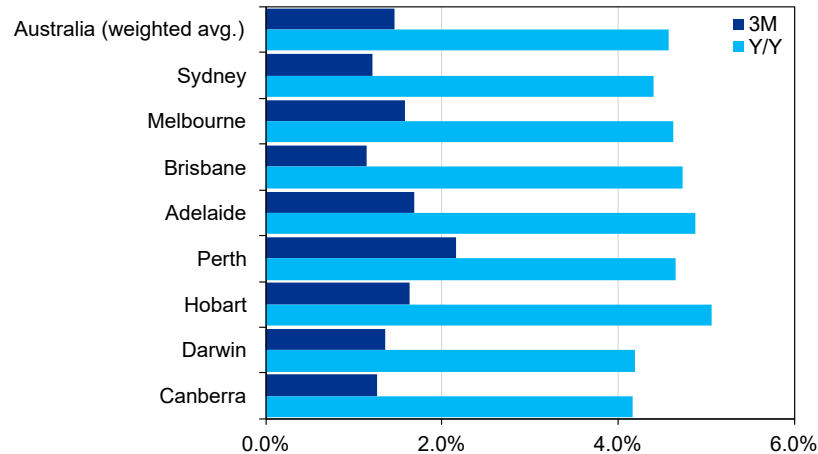
Discretionary and non-discretionary inflation:

Inflation for discretionary purchases was 3.2% in March, compared to 5.5% for non-discretionary (essential) purchases. This strength in non-discretionary inflation reflects the ongoing cost-of-living pressures being felt by Australians, particularly through housing and fuel costs.

Consumer prices: states and territories

Headline Inflation in Capital Cities, Mar 2026

Non-seasonally adjusted



Source: ABS, Haver, KPMG

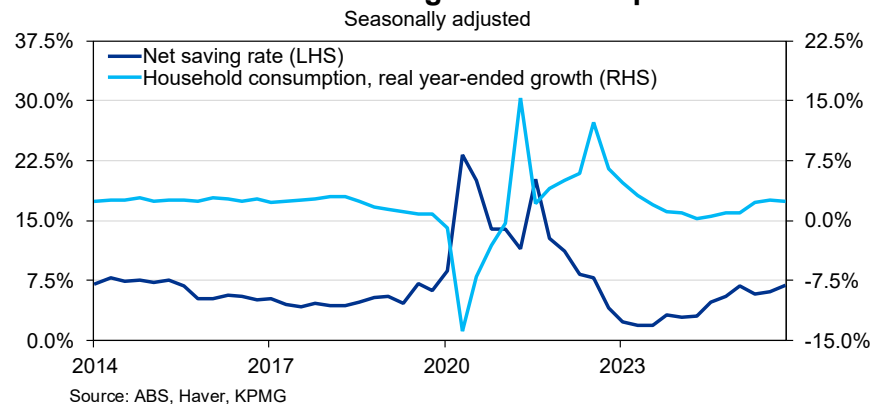
Across the states and territories, the fastest pace of annual inflation was seen in Hobart (5.1%), followed by Adelaide (4.9%).

- Hobart saw the largest annual rise in prices for *Food & non-alcoholic beverages*, which is a significant part of the CPI basket, with a 4.3% annual rise. This was well above the capital city average of 3.1% for this category.
- Adelaide recorded the largest annual price rise for *Transport*, up 10.9%. The average across the capital cities was 8.9%.

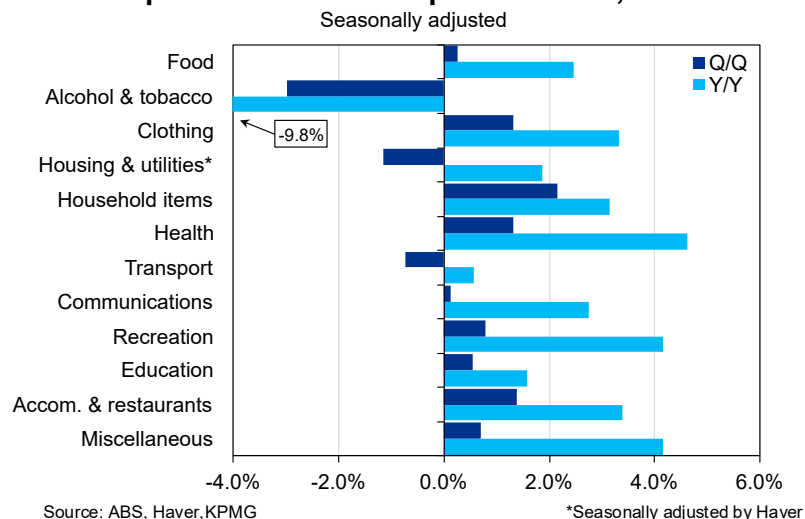
Meanwhile, the slowest pace was seen in Darwin and Canberra (both 4.2%), followed by Sydney (4.4%).

Household consumption

Household Saving and Consumption



Components of Consumption Growth, Dec 2025



Momentum in household spending growth cooled in the final quarter of 2025. The outlook for household spending has now weakened, following three consecutive rate rises and a resurgence in economic pressures.

Consumer demand:

Over the December quarter 2025, real Household Final Consumption Expenditure rose by a modest 0.3%, following a 0.5% rise in the previous quarter. This movement was driven by a 0.4% rise in discretionary spending, alongside a 0.2% rise in essential spending.

- Domestic travel activity was supported by major sporting events, concerts and school holidays. This drove increased spending on *Hotels, cafes & restaurants* (+1.4%), as well as *Recreation & culture* (+0.8%).
- Furnishings and household equipment* (+2.1%) and *Clothing and footwear* (+1.3%) benefited from Black Friday and Boxing Day.
- Health (+1.3%) continued to be boosted by attendance at medical services associated with the flu season.

More timely data from the Monthly Household Spending Indicator showed that household spending volumes rose 0.7% in the March quarter 2026. This quarterly result was driven by essential spending, including *Health* (+1.5%) and *Food* (+0.8%).

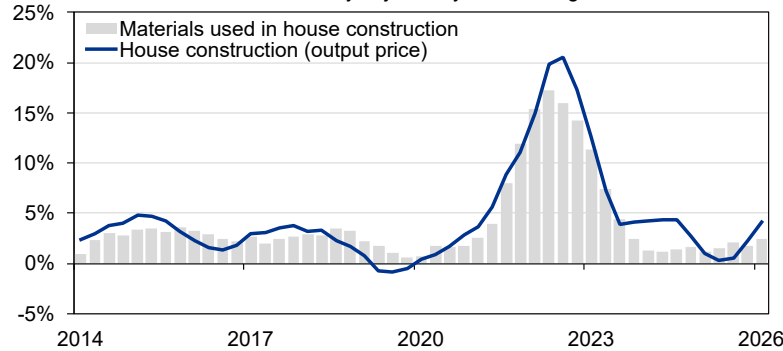
Household saving:

Gross disposable income grew faster than nominal household spending in the December quarter, which saw the household saving ratio increase to 6.9%, its highest level since the September quarter 2022. A fall in interest paid on dwellings supported this rise in disposable incomes, but the three cash rate reductions which took place during 2025 have now been unwound.

Producer prices: construction

Input and Output Prices for House Construction

Non-seasonally adjusted, year-ended growth



Source: ABS, Haver, KPMG

Construction price growth has rebounded in recent quarters, driven by sustained demand and rising labour costs.

Prices for building materials used in residential house construction rose 0.6% in the March quarter, to be up 2.5% through the year. This was the fastest pace since the September quarter 2023, but within the historical range. There were notable price rises for some metal products, due to costs increases for aluminium and copper. The higher copper price also lifted the cost of electrical cable and conduit.

This rise in input costs was outpaced by the output price for *House construction*, which saw a 1.1% rise through the quarter. This was due to ongoing demand, which has seen higher base prices across the nation. There was also upward pressure in costs for key trades, including bricklayers, carpenters and concreters. Over the last year, *House construction* prices have risen 4.1%.

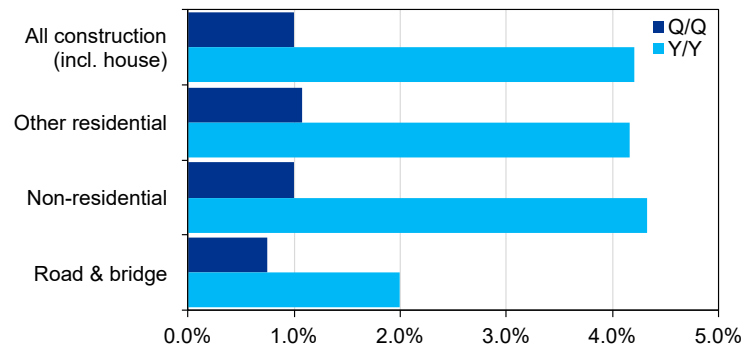
Further analysis of trends in housing construction costs is presented in Box B.

Turning to the rest of the construction sector:

- *Other residential building construction* also saw a 1.1% rise in the quarter, to be up 4.2% in a year. The operating environment continues to be challenging to navigate, with strong demand, but ongoing labour shortages and relatively high rates of insolvency.
- *Non-residential construction* prices rose 1.0%, to be up 4.3% on an annual basis. Public infrastructure and defence projects have supported demand, but like other segments of the industry, labour shortages and insolvencies are a challenge. The ABS reports that this has extended the timeline for projects, which lifts uncertainty, and flows through to costs.

Output Prices for Other Construction, Mar 2026

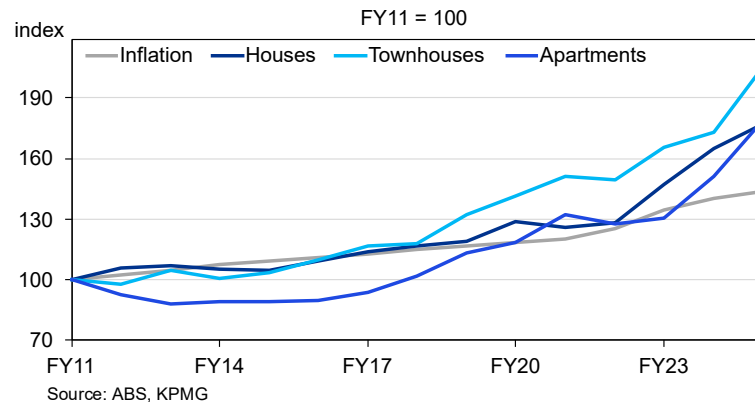
Non-seasonally adjusted



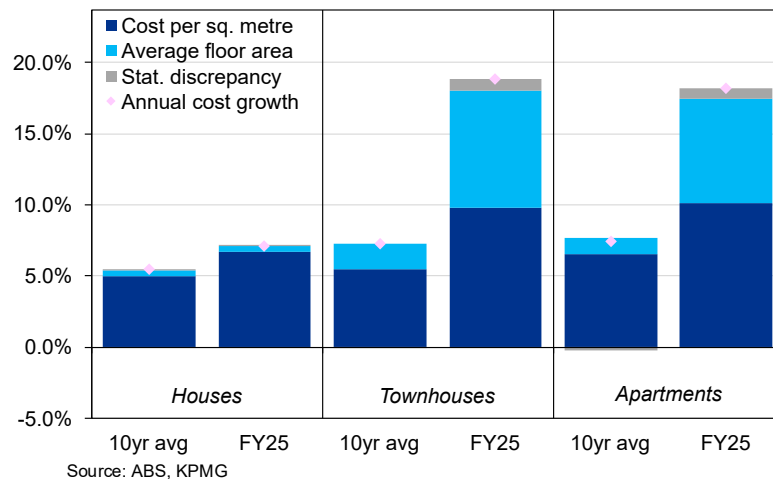
Source: ABS, Haver, KPMG

Producer prices: construction (cont.)

Relative Construction Cost Growth



Sources of Construction Cost Growth



Box B: The average construction cost of new dwellings continues to rise, well above the pace of inflation.

The average cost of building a new house increased by 7.1% in FY25 and is now 48.3% higher than in FY19. This was well above the pace of headline inflation, with prices in the CPI basket up 22.9% between FY19 and FY25.

More concerning for housing affordability, the average cost of building a new townhouse rose 18.8% in FY25, while apartments saw a 18.2% rise. Consequently, compared to FY19, prices are now up 55.5% for townhouses and 58.0% for apartments.

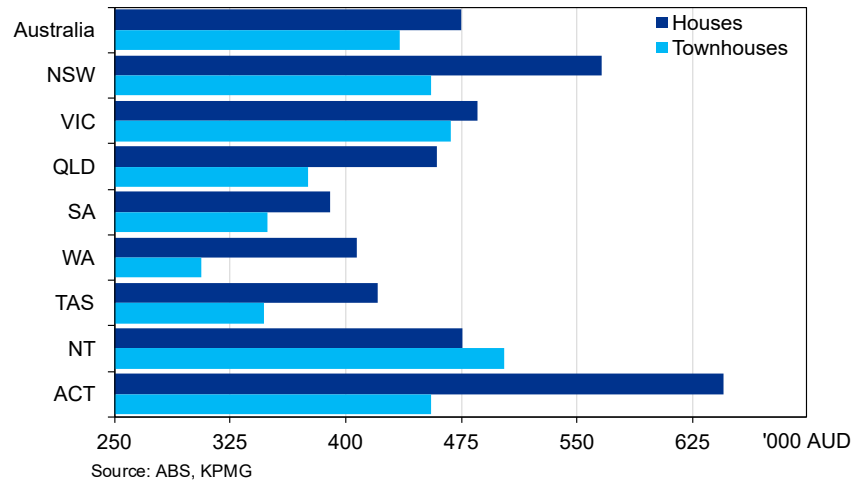
For houses, the FY25 increase was largely driven by higher costs per square metre (up 6.7%), with average floor areas broadly stable (+0.4%). In contrast, the rise in townhouse and apartment costs reflects both higher costs per square metre (up 9.8% and 10.1%, respectively) and larger dwelling sizes (up 8.2% and 7.4%).

Overall, the data suggest a shift across all dwelling types toward higher-end segments of the market. The increase in average floor areas – particularly for townhouses and apartments – indicates that developers are building larger, more premium dwellings. This may reflect both stronger demand from higher-capacity buyers and affordability constraints in the detached housing market, pushing households toward larger higher-density options. At the same time, rising costs per square metre likely reflect not only input price pressures but also improvements in quality.

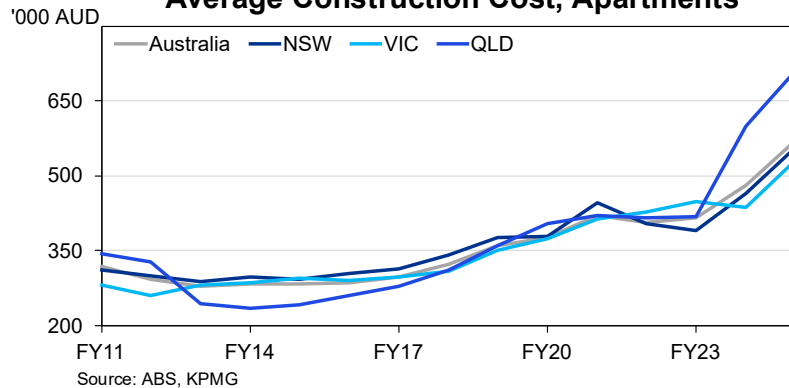
Importantly, this trend highlights the challenge of accelerating improvements in housing affordability in an environment of persistently elevated construction costs.

Producer prices: construction (cont.)

Average Construction Cost, FY25



Average Construction Cost, Apartments



Consequently, in nominal terms, looking at construction costs:

- The average cost in FY25 for houses was \$475,000, compared to \$320,200 in FY19.
- A new townhouse in FY25 cost an average of \$435,100 to build, versus \$279,900 in FY19.
- For apartments, the average cost was \$567,900 in FY25, from \$359,500 in FY19. There was a particularly sharp rise in Queensland, where the average cost increased 69.3% between FY23 and FY25, from \$418,600 to \$708,700.

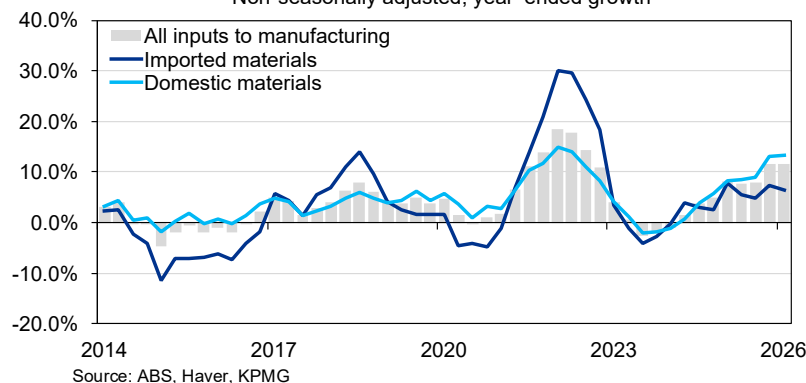
Looking ahead, the outbreak of war in Iran will add further pressure to the costs of housing construction, which have already been under pressure from skills shortages and elevated demand in the broader construction sector. Aside from the impact of higher fuel costs, prices for building materials (such as plastics or bitumen) will also pose a challenge.

These pressures will temper the ability of other market forms to boost supply, such as more relaxed zoning policies. While this may ease other factors (such as the cost of acquiring land), the reality of construction costs will continue to weigh on feasibility and the capacity of the market to deliver housing.

Producer prices: manufacturing

Input Prices for Manufacturing

Non-seasonally adjusted, year-ended growth



Growth in input costs to manufacturing has accelerated.

During the March quarter, input costs to manufacturing rose 3.9%, to now be up 11.6% through the year. Aside from supply disruptions to global energy flows, strong demand has lifted a range of commodity prices. The main drivers of the quarterly cost rise were:

- *Metal ore mining* (+11.2%), led by demand for gold, as well as price rises for silver, lead, and zinc.
- *Agriculture to manufacturing* (+2.5%), with robust export demand leading growth in cattle prices.
- *Oil and gas extraction to manufacturing* (+3.9%), with the disruption to oil supply predominantly impacting Australian petroleum refiners, as well as other energy-intensive industries.

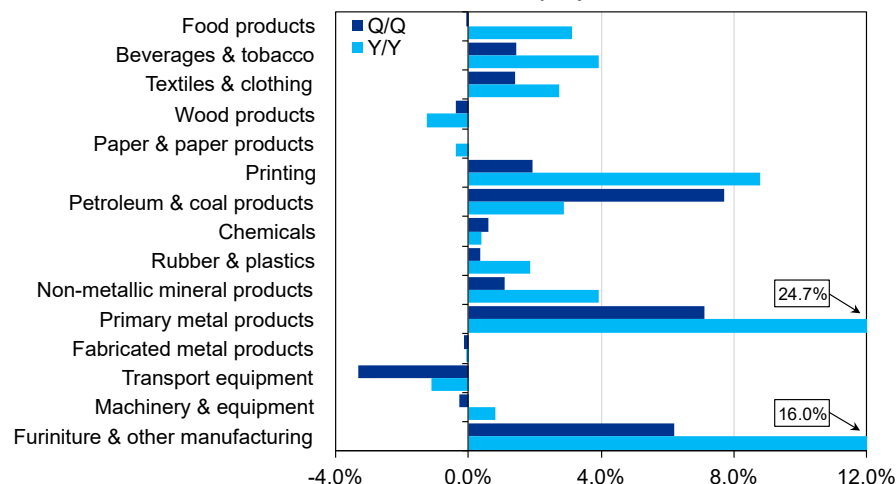
These movements were partly offset by the appreciation of the Australian dollar, which reduced the cost of imported inputs.

Consequently, output prices for products produced by manufacturing rose 2.1% in the quarter, contributing to a 6.6% annual rise. This was attributed to:

- *Basic non-ferrous metal manufacturing* (+8.1%), supported by demand for gold, continues to be a main contributor, even despite the appreciation of the Australian dollar.
- *Petroleum and coal product manufacturing* (+7.7%), reflecting the impact to refined fuel markets in March, following the conflict in Iran.
- *Meat and meat product manufacturing* (+1.6%), attributed to export demand for beef, as well as higher consumer demand for poultry.

Output Prices of Manufacturing, Mar 2026

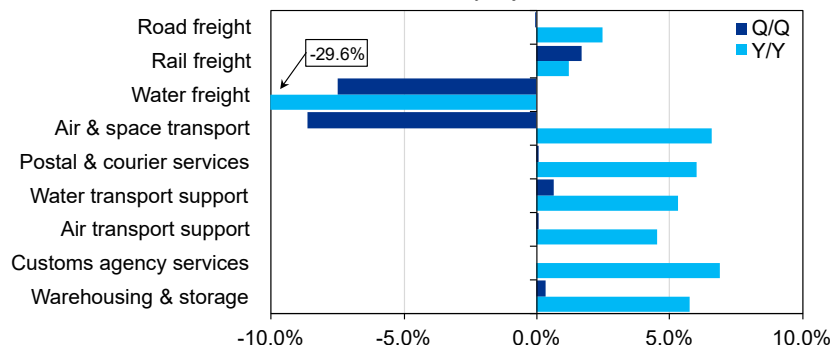
Non-seasonally adjusted



Producer prices: transport and business services

Output Prices for Transport Services, Mar 2026

Non-seasonally adjusted



Source: ABS, Haver, KPMG

Prices in the transport sector generally fell during the March quarter, notwithstanding the impact of the conflict in Iran.

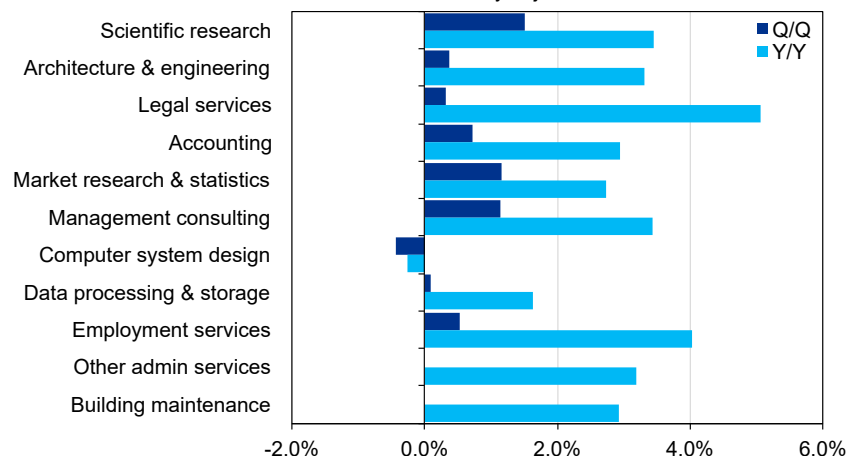
Looking at the logistics sector, output prices eased across multiple areas in the March quarter. However, this data is yet to reflect the impact of the conflict in Iran (i.e. through higher fuel costs), as the ABS notes that the collection of these prices occurred prior to the beginning of hostilities. Nonetheless, it places the sector in a more favourable position to manage these shocks than otherwise.

Following the end of the summer holiday period, prices for *Air and space transport* fell 8.6% in the quarter, due to air passenger transport services.

Competitive factors and increased equipment availability drove a further 7.5% quarterly fall in *Water freight transport*, which is down 29.6% through the year.

Output Prices for Business Services, Mar 2026

Non-seasonally adjusted



Source: ABS, Haver, KPMG

Price growth has eased across some business services.

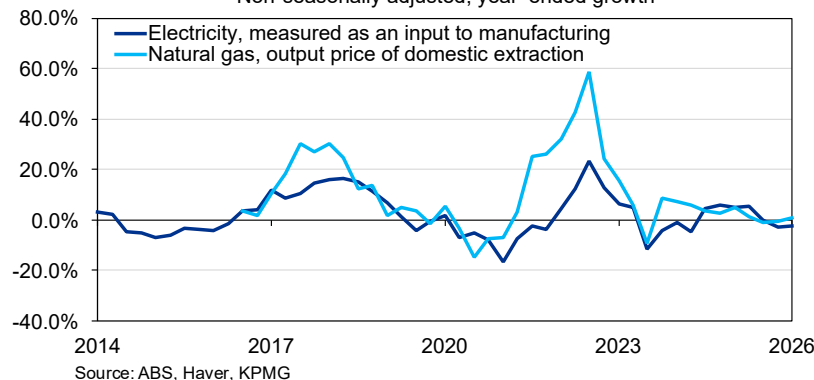
Looking across the various business services, the largest quarterly price rises were seen in *Scientific research services* (+1.5%), followed by *Market research & statistical services* (+1.2%)

Computer system design and related services saw a fall (-0.4%), while *Other administrative services* and *Building cleaning, pest control & gardening services* were both flat.

Energy prices

Natural Gas and Electricity Prices

Non-seasonally adjusted, year-ended growth



The impact on other energy sources in Australia is likely to be contained despite the significant shocks to oil.

Electricity:

Looking beyond retail electricity prices, where inflation trends have been dominated by subsidies, prices for electricity (measured as an input to manufacturing) rose 1.0% in the March quarter but were still down 2.6% through the year.

Even despite the latest shock to energy prices, the near-term outlook for electricity prices remains benign. This also extends to the retail market, where draft price determinations are suggestive of lower prices in the year ahead.

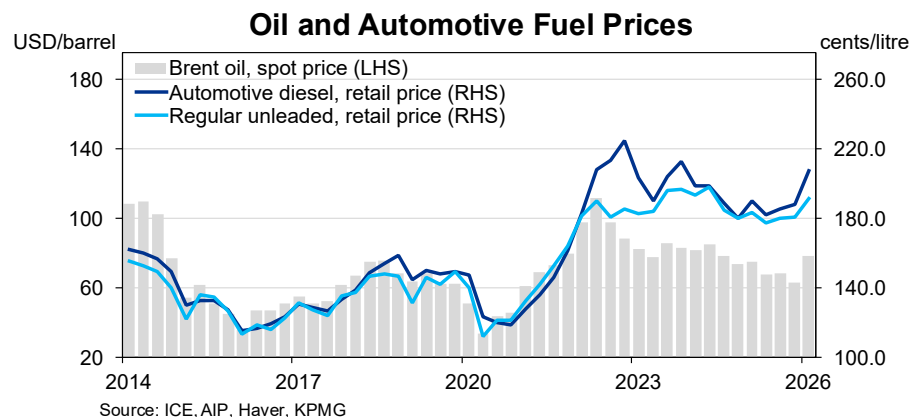
Natural gas:

Prices received for natural gas (extracted for domestic use) rose 4.7% in the March quarter, with higher prices following contract renewals and indexation adjustments. There was a 5.7% rise in the east coast market, but a 0.1% fall in the west coast market. Through the year, domestic gas prices were up a modest 0.8%.

Looking ahead, through their liaison program, the RBA reports that their energy market contacts do not expect higher global prices to affect domestic markets materially, with the east coast market well supplied and demand gradually softening.

Oil and automotive fuel:

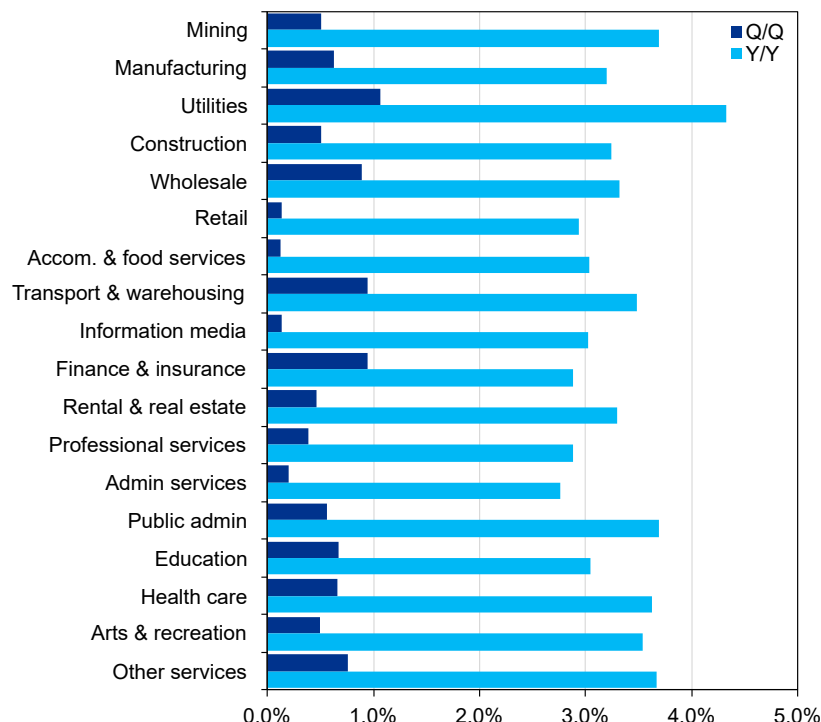
Prior to the conflict in Iran, global oil prices have sustained a prolonged downward trend. The Brent oil spot price averaged US\$63 /barrel in the December quarter 2025, the lowest level since the March quarter 2021. The spike in prices during March 2026 saw the average price in the latest quarter climb to US\$78/barrel.



Wage prices

Wages Growth by Industry, Mar 2026

Non-seasonally adjusted



Source: ABS, Haver, KPMG

The pace of wages growth has remained stable in recent quarters, although the sharp rise in consumer prices will see real purchasing power decline.

Quarterly WPI release – March quarter 2026:

Annual wages growth was 3.3% in the March quarter 2026, slightly below the 3.4% seen in the prior quarter, but in line with market expectations. Meanwhile, the quarterly pace was steady, coming in at 0.8% for the third consecutive quarter.

Private sector wages growth through the year eased to 3.2%, from 3.4% in the December quarter 2025. This was also marginally lower than the 3.3% recorded during the corresponding period a year ago.

Meanwhile, in the public sector, wage growth also cooled to 3.3%, after reaching a peak of 4.0% in the previous quarter. It was also less than the 3.6% annual growth seen over the corresponding period a year ago. Nevertheless, this was the fifth consecutive quarter where public sector wages growth outpaced the private sector, albeit only marginally so in this latest quarter.

Across the industries, annual wage growth was strongest in *Electricity, gas, water and waste services* (+4.3%). This sector also saw the strongest quarterly growth (+1.1%).

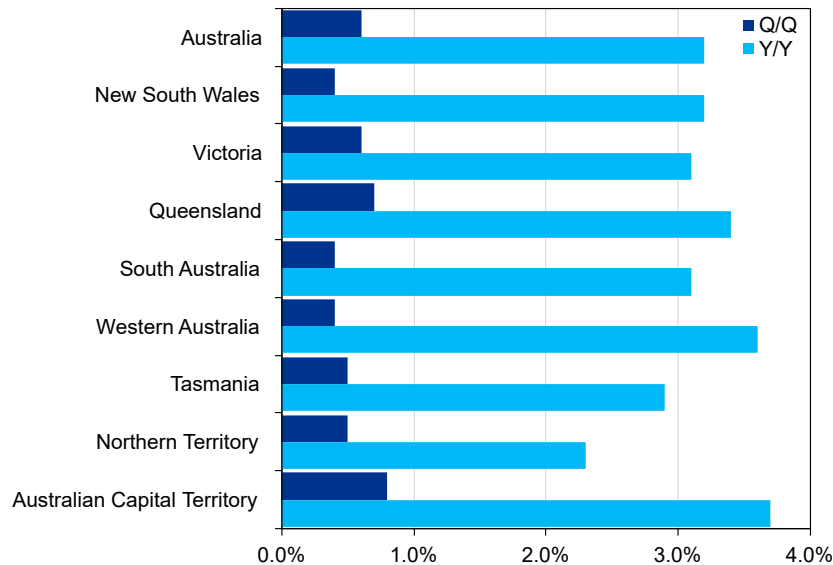
On the other hand, *Administrative and support services* saw the slowest annual growth (+2.8%), while quarterly growth was weakest in both the *Retail trade*; *Accommodation and food services*; and *Information, media and telecommunication industries* (each +0.1%).

When factoring in the size of each industry, *Health care and social assistance* was the most significant contributor to wages growth in the March quarter.

Wage prices (cont.)

Wages Growth by State and Territory, Mar 2026

Non-seasonally adjusted



Source: ABS, Haver, KPMG

Across the states and territories, the fastest pace of annual wages growth was seen in the Australian Capital Territory (+3.7%), followed by Western Australia (+3.6%). Meanwhile, the slowest growth was recorded in the Northern Territory (+2.3%), followed by Tasmania (+2.9%).

Real wages and productivity:

After accelerating to a peak of 1.3% in the June quarter 2025, the pace of annual real wages growth has since reversed. With inflation rebounding sharply, but nominal wages growth remaining stable, the March quarter saw real wages fall 0.7% through the year.

This fall cannot be fully attributed to the war in Iran, as there was still an annual decline of 0.2% in the December quarter 2025. While there remains some distortion from the impact of electricity subsidies on inflation, this lacklustre result highlights a key impact of the productivity stagnation the nation is experiencing. Ultimately, sustainable growth in incomes is driven by productivity gains.

The 2026–27 Federal Budget, delivered in mid-May, included several measures designed to support an improvement in productivity growth. This includes the implementation of national occupational licensing, plans to reduce regulatory burden by \$10.2 billion a year, and reintroducing loss carry-back for businesses (and introducing loss refundability for startups).

Rising adoption of AI-related technologies could also support productivity growth, although the gains may not be evenly distributed. Additionally, it is worth noting that the WPI measures wages growth for a fixed composition of employment, while productivity gains are usually obtained not just from workers becoming more efficient but also from the reallocation to higher-productivity jobs.

04

Appendix

Appendix A: KPMG Inflation Pressure Gauge

KPMG has developed a methodology to decompose headline inflation in Australia that allows us to identify how much of inflation is being driven by demand-side and supply-side factors.

Broadly, inflation can be categorised into two primary drivers. Demand-pull inflation occurs when aggregate demand in an economy exceeds its productive capacity, while cost-push inflation arises when production costs, such as labour or raw material prices, rise and are passed on to consumers in the form of higher prices.

Understanding these underlying forces serves as a useful guide for the conduct of monetary policy. When inflation is driven by excess demand, central banks can raise interest rates to reduce consumer spending, business investment, and borrowing, thereby cooling the economy and bringing inflation back to target. Conversely, when inflation is driven by supply-side factors, interest rate adjustments may have a more limited effect on controlling prices, since the underlying problem is not excessive demand but rather constrained supply.

This analysis is derived using Consumer Price Index data combined with information from the National Accounts, Construction Activity and Overseas Arrivals and Departures, and follows similar methodologies associated with decomposing the drivers of headline inflation undertaken by the San Francisco Federal Reserve, Reserve Bank of Australia, and Norges Bank.^{a,b,c}

The methodology is based on the idea that:

- Demand-driven categories are identified as those where unexpected changes in price move in the same direction as changes in quantity. Using a positive demand shock as an example, when consumers have increased willingness to make purchases, then *both* prices and quantities should now be higher than expectations.

- Supply-driven categories are identified as those where unexpected changes in price and quantity move in opposite directions. For instance, in a negative supply shock where producers experience constraints on their ability to supply, prices should be higher than expected while quantities should be less than expected.

The contributions to inflation can then be developed by extracting the unexpected component of the quarterly changes in price and quantity for each of the expenditure categories. However, it is also important to acknowledge some limitations of the classification methodology, which include:

- Both demand and supply shocks can be present at the same time, so this approach identifies which is more dominant (which depends the size of the shock and the sensitivity of demand and supply to price movements). Substitution between goods and services can also make it challenging to identify the root cause of inflation.^d
- It is challenging to identify global spillover effects. As an example, a surge in demand overseas may reduce supply to Australia and would therefore be classified as a supply shock.

^a See the original paper for further details. A. Shapiro, Federal Reserve Bank of San Francisco, [Decomposing Supply and Demand Driven Inflation](#), 13 February 2024.

^b Evaluates this approach in the Australian context. B. Beckers et al, Reserve Bank of Australia, [Estimating the Relative Contributions of Supply and Demand Drivers to Inflation in Australia](#), 15 June 2023

^c In line with Section 6, the data is demeaned before estimation. D. Bergholt et al, Norges Bank, [What drives the recent surge in inflation? The historical decomposition roller coaster](#), July 2024

^d For instance, suppose poor weather causes a decrease in the supply of apples – the price of apples would go up, and be recorded as supply pressure. If consumers substitute with pears, the price of pears will go up due to higher demand. Therefore, the substitution effect attributes some inflationary pressures to be demand-driven, but the root cause is a supply shock.

Appendix B: measures of inflation

Key inflationary measures in the economy include the Producer Price Index (PPI), the Consumer Price Index (CPI), and the Wage Price Index (WPI).

Producer prices:

The PPI is a measure of inflation from the perspective of producers. It measures prices as they enter (input costs) or exit (output costs) the production process.

A key output of the PPI is called *Final demand*, which measures the price changes of products consumed with no further processing. For example, sugar cane is a preliminary product and used as an input into the production of raw sugar (an intermediate good). In turn, raw sugar is then used to produce refined sugar, which is destined for final consumption.

As the PPI generally excludes distribution costs, taxes and subsidies, it can provide a better picture of the underlying costs of items. It also contains detailed input costs and output costs for specific industries, including construction, manufacturing, mining and services.

Overall, the PPI is seen as a good pre-indicator of inflationary pressures as it measures the costs of producing consumer goods, and commodity and food prices which tend to flow through to retail pricing.

Consumer prices:

The CPI focuses on a basket of goods and service consumers have bought in each of the capital cities. It tends to be the key inflationary indicator for the conduct of monetary policy in Australia as the Reserve Bank of Australia aims to keep consumer price inflation between 2% and 3%.

The CPI covers 87 'expenditure classes', which are a collection of like items. They are arranged into 11 broad categories as follows:

- *Food and non-alcoholic beverages;*
- *Alcohol and tobacco;*
- *Clothing and footwear;*
- *Housing;*
- *Furnishings, household equipment and services;*
- *Health;*
- *Transport;*
- *Communication;*
- *Recreation and culture;*
- *Education;* and
- *Insurance and financial services.*

Wage prices:

The WPI measures the changes in wages and salaries paid by employers for a unit of labour (i.e. one hour) over time that arise from market factors. Wage inflation affects the cost of labour for businesses, who can pass on these costs to consumers.



Key contacts



Dr Brendan Rynne
Chief Economist & Partner
T: +61 3 9288 5780
E: bjrynn@kpmg.com.au



Dr Brian Tran
Senior Economist
T: +61 3 9288 9592
E: btran7@kpmg.com.au

KPMG.com.au



©2026 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. AI may have been used to support the drafting of this document, however, any generated content will have undergone human review in accordance with KPMG's AI Policy and [Trusted AI Framework](#). Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

Liability limited by a scheme approved under Professional Standards Legislation.

Document Classification: KPMG Public