

Australia's economic and labour market outlook

An employer's guide to 2025-26

Ai Group Research & Economics
September 2025



About the Australian Industry Group

The Australian Industry Group (Ai Group) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation, and in 2023 we celebrated our 150th year supporting Australian businesses.

Our vision is for *thriving industries and a prosperous community*. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders, we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance members need to run their businesses.

Our deep experience of industrial relations and workplace law, positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate. We provide solution-driven advice to address business opportunities and risks.

Australian Industry Group contacts for this report

Dr Jeffrey Wilson

Head of Research and Economics

<https://www.aigroup.com.au/resourcecentre/research-economics/economics@aigroup.com.au>

© The Australian Industry Group, 2025

The copyright in this work is owned by the publisher, The Australian Industry Group, 5/441 St Kilda Rd, Melbourne, VIC 3004. All rights reserved. No part of this work may be reproduced or copied in any form or by any means (graphic, electronic or mechanical) without the written permission of the publisher.

Australia's labour market in 2025

ECONOMIC CONTEXT

Post-pandemic slump – Australia's expected recovery is yet to materialise, with the economy struggling through its longest period of low growth since the 1990s

Inflation has eased – high interest rates and energy subsidies have finally tamed inflation. However the costs of the battle on the economy have been high.

But many industries continue to struggle – industrial and consumer sectors face very slow business conditions, with most growth occurring in government-supported sectors.

Financial performance is down – profits are rising mildly, but have not kept pace with surging costs. Margins have steadily declined, putting pressure on investment.

LABOUR MARKET DYNAMICS

No labour market rebalancing yet – despite poor economic conditions, the labour market has not rebalanced and remains at its tightest level on modern record.

Government-funded jobs boom – surging employment in government-funded sectors is holding the labour market tight and hiding weakness across the private sector.

Vacancies hangover – excess vacancies which emerged during the pandemic are yet to clear, preventing a proper rebalancing of the labour market for at least another year.

Regulation fuels wages growth – market-based wages have moderated with the weak economy, but awards and EBA surge ahead due to high recent FWC wage decisions.

IMPACTS FOR EMPLOYERS

Recruitment remains difficult – while recruitment challenges have eased for lower skilled occupations, they remain prohibitive for trades and professional roles

Skills shortages bite hard – shortages now affect one third of the workforce. Industrial and care sectors are the most impacted due to the barriers of occupational licensing.

Employment oncosts are surging – super, workers comp and payroll tax have all driven up oncosts since 2022. More pain to come with further oncost rises expected.

Job mobility is declining – due to population aging and reduced youth mobility. This magnifies skills shortages, recruitment difficulties and productivity performance.

Economic outlook for business

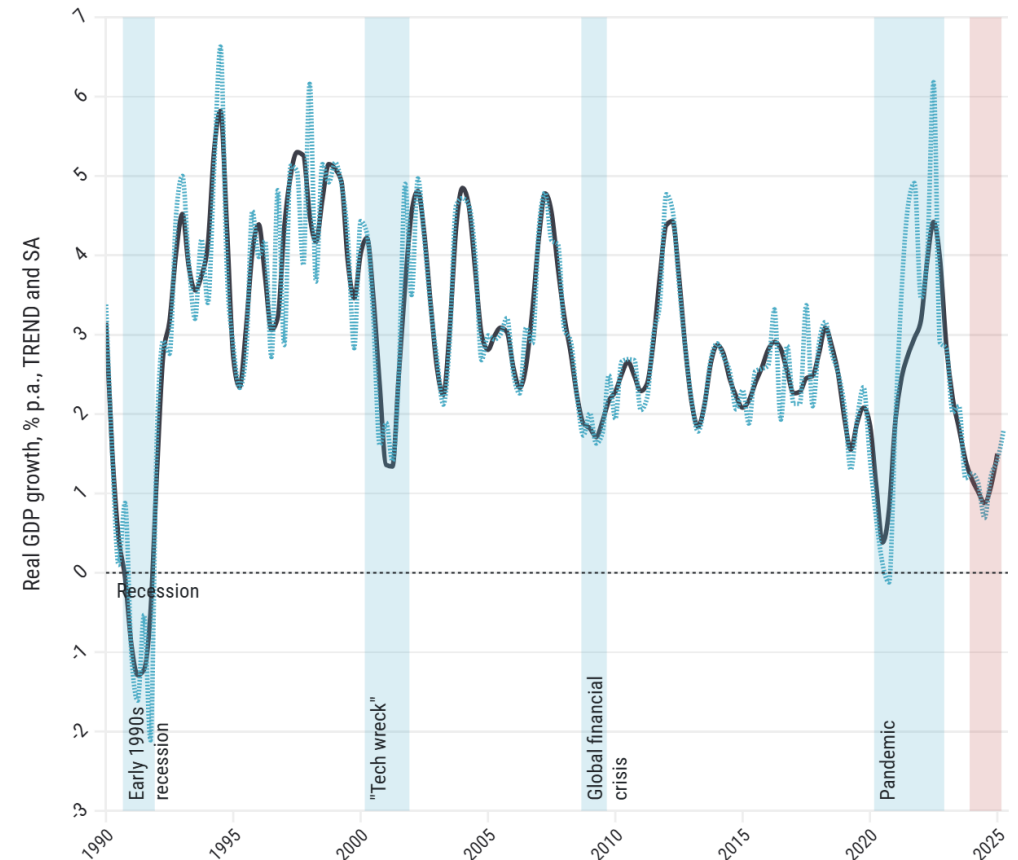


Economic outlook: Australia struggles through a post-pandemic slump

- The expected recovery in Australia's economy has been very limited in 2024-25
- After collapsing to 0.8% p.a. in early 2024, GDP growth has struggled back up to 1.2% over the 2024-25 financial year
- This marks the longest period of low growth since the early 90s recession
- Sustained weakness in household spending due to cost-of-living has stymied recovery.
- Significant government stimulus was required to eke out small improvements in early 2025.
- The outlook for the next two years is modest, with forecasters expecting growth to only return to 2.0% by the middle of 2026.

Australian economic growth 1990-2025

Longest period of low growth since early '90s recession



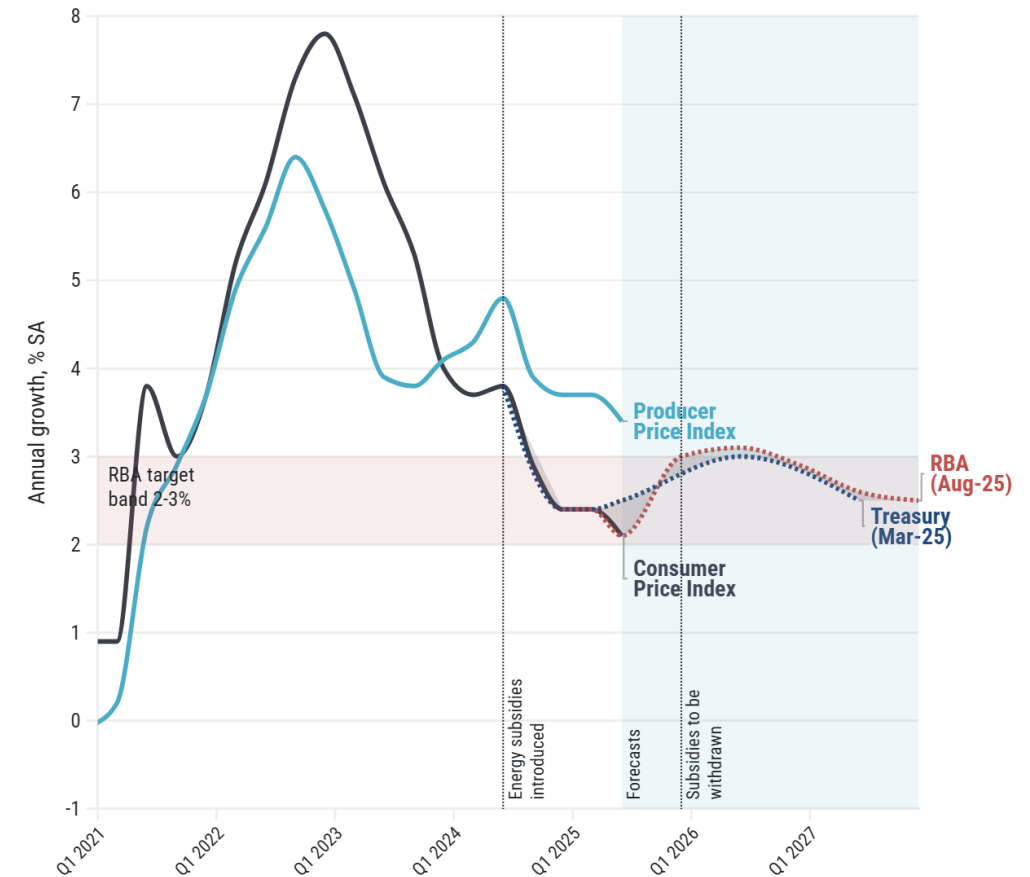
Source: ABS National Accounts • Ai Group Research & Economics

Inflation: Back under control after 3 years of high rates and energy subsidies

- Inflation has been a major source of economic woes, but is now finally under control
- Consumer (CPI) inflation has been brought back into the target range, but at significant cost:
 - Three years of high interest rates, exacerbating financial pressure on households
 - Temporary household energy subsidies, at a cost of \$5 billion to the federal budget
- When energy subsidies are withdrawn at the end of 2025, inflation is expected to spring back
- For businesses, industrial price inflation (PPI) remains higher than normal
- As the RBA slowly eases rates, the burden on the economy will lessen over the next year

Australian inflation outlook to 2027

Inflation is back under control with an energy subsidies blip coming



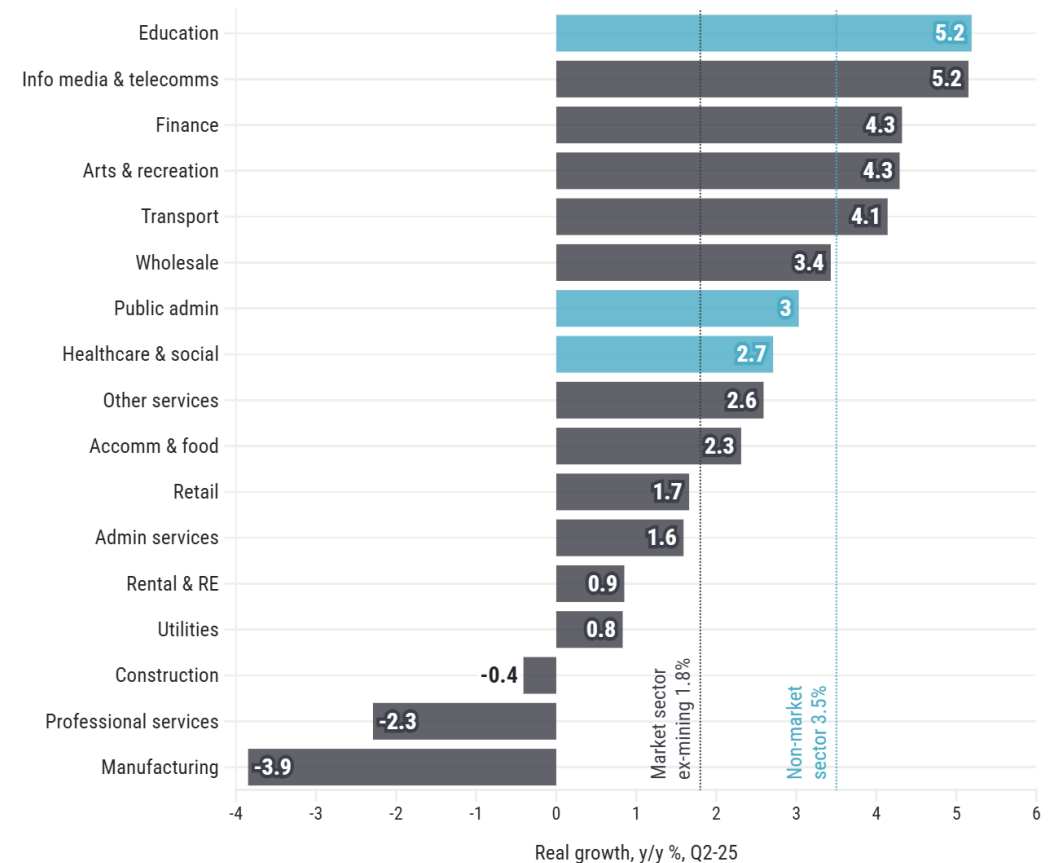
Source: ABS CPI, ABS PPI • Ai Group Research & Economics

Industries: Poor conditions with industrial and consumer sectors affected

- Industry output grew 1.7% p.a. in the second quarter of 2025, well below average of 2.4%.
- Multi-speed dynamics are at play, and industries can be classified into three groups:
 - Industrial sectors - manufacturing, construction, professional services and utilities – are struggling with surging wages and input costs
 - Consumer industries show middling performance, with a recent uptick due to rising household spending
 - Non-markets sectors are growing very quickly (3.5% p.a), protected by government spending
- Reflects the impact of government spending – protecting some but not all industries from weak business conditions

Australian industry growth rates June 2025

Industrial and consumer-oriented sectors remain weak



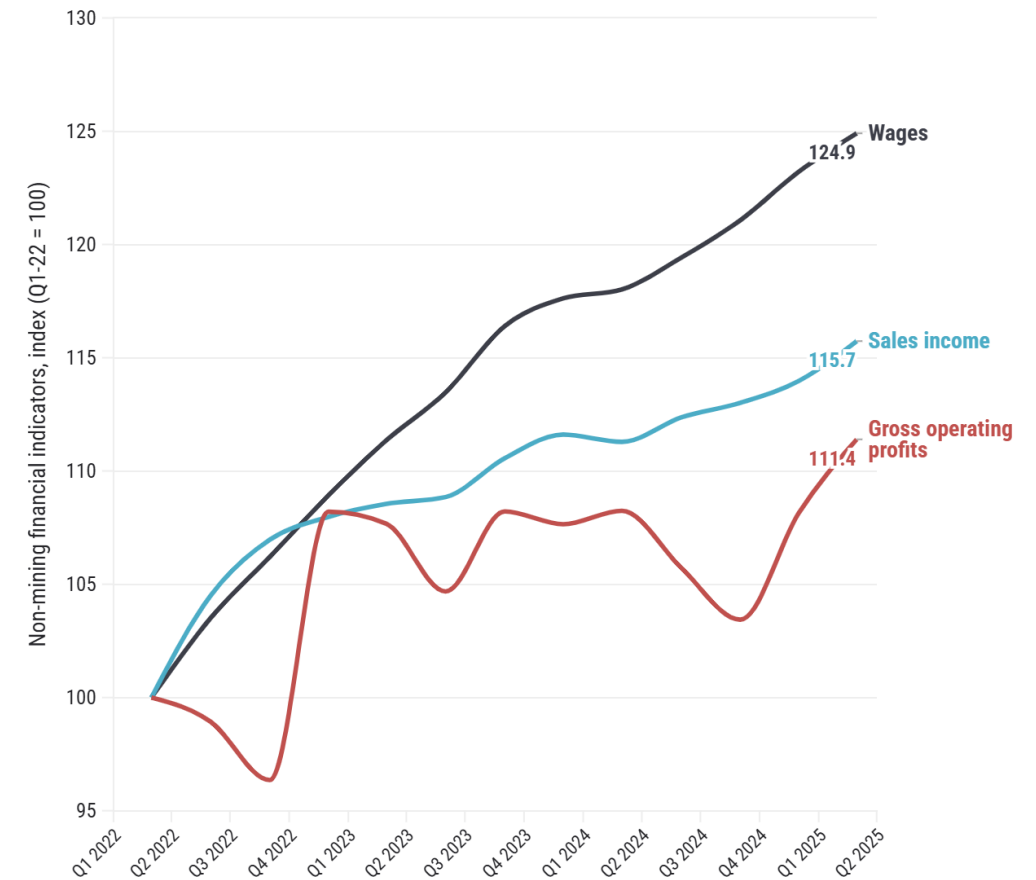
Source: ABS National Accounts • Ai Group Research & Economics

Financial performance: Mild profits growth leads to rising margin pressures

- Business profitability has declined materially since the pandemic
- Amongst non-mining industries, business gross operating profits have risen 11.4% since 2022
- Profits have failed to keep pace with either rising sales (15.7%) or wages (24.9%) during this time, leading to lower overall profitability
- Businesses have been unable to pass surging costs – for both wages and material inputs – fully onto consumers
- Non-mining operating margins declined from 12.1% to 10.9% over this time, with all industries except transport and finance reporting margin compression

Business financial performance since the pandemic

Mild profits growth has failed to keep pace with sales or wages



Source: ABS Business Indicators • Ai Group Research & Economics

Labour market dynamics

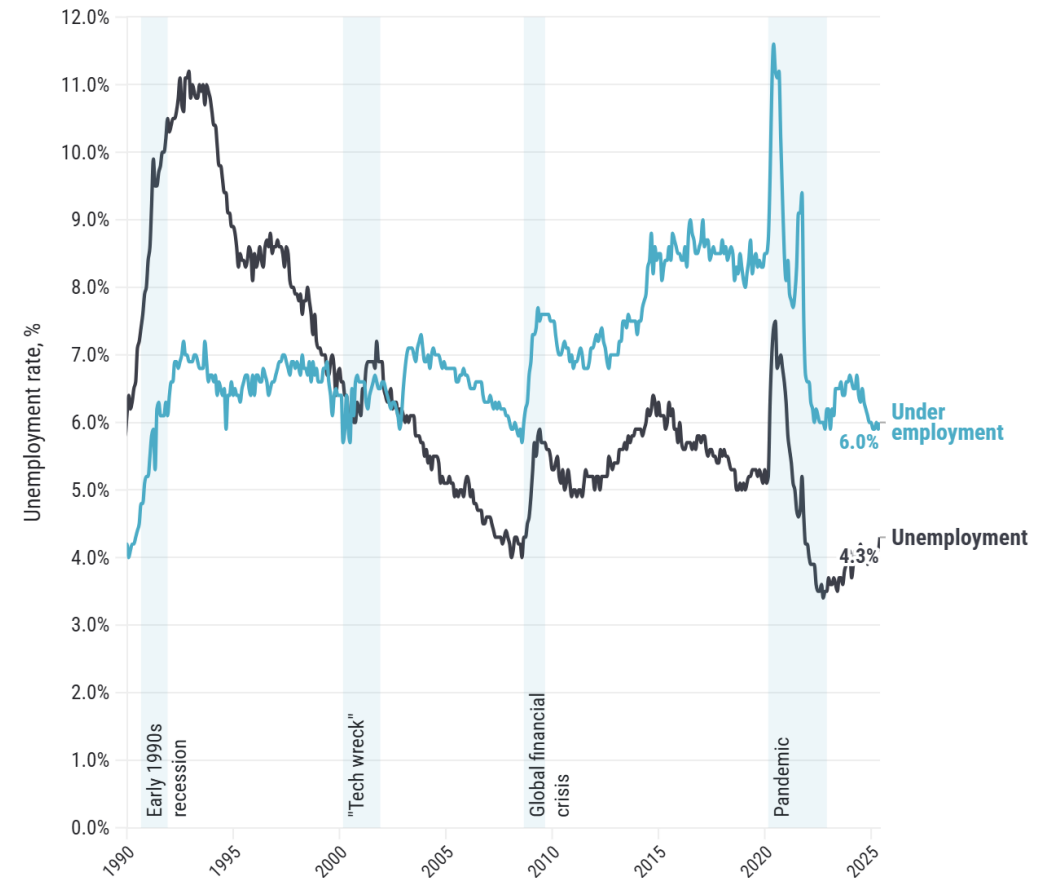


Labour market: Stays hot even as the rest of the economy cools

- The labour market has yet to adjust in response to weak economic conditions
 - Unemployment fell to 3.5% during the post-pandemic boom, and remains around 4.0% - the lowest sustained rate since 1970s
 - Underemployment has also held around 6.5%, its lowest sustained rate since the 1980s
 - The labour market has sustained near “full employment” for the last three years – an unprecedented outcome
- Normally, the labour market weakens when the economy performs poorly – but not this time.
- Why do we have the strongest labour market in decades at the same time as the weakest economy in decades?

Australian unemployment rates 1990-2025

Since 2022 tightest labour market on modern record



Source: ABS LFS • Ai Group Research & Economics

Sectoral dynamics: Government spending counterbalances an ailing private sector

- Government spending has artificially propped up the labour market since the pandemic
- Government-supported industries usually account for a third of job creation in Australia.
- But a boom in these industries saw them add 670,000 new jobs since 2022 – 82% of the total
- This jobs boom has included a mix of public service and care economy (health and education) roles
- By contrast, private sector job creation has collapsed, falling to only a quarter normal levels
- The private sector labour market *has* weakened materially with the economy, but government-funded jobs have surged to conceal the problem

Australian net job creation by sector

Four in five jobs created since 2022 were in government supported sectors



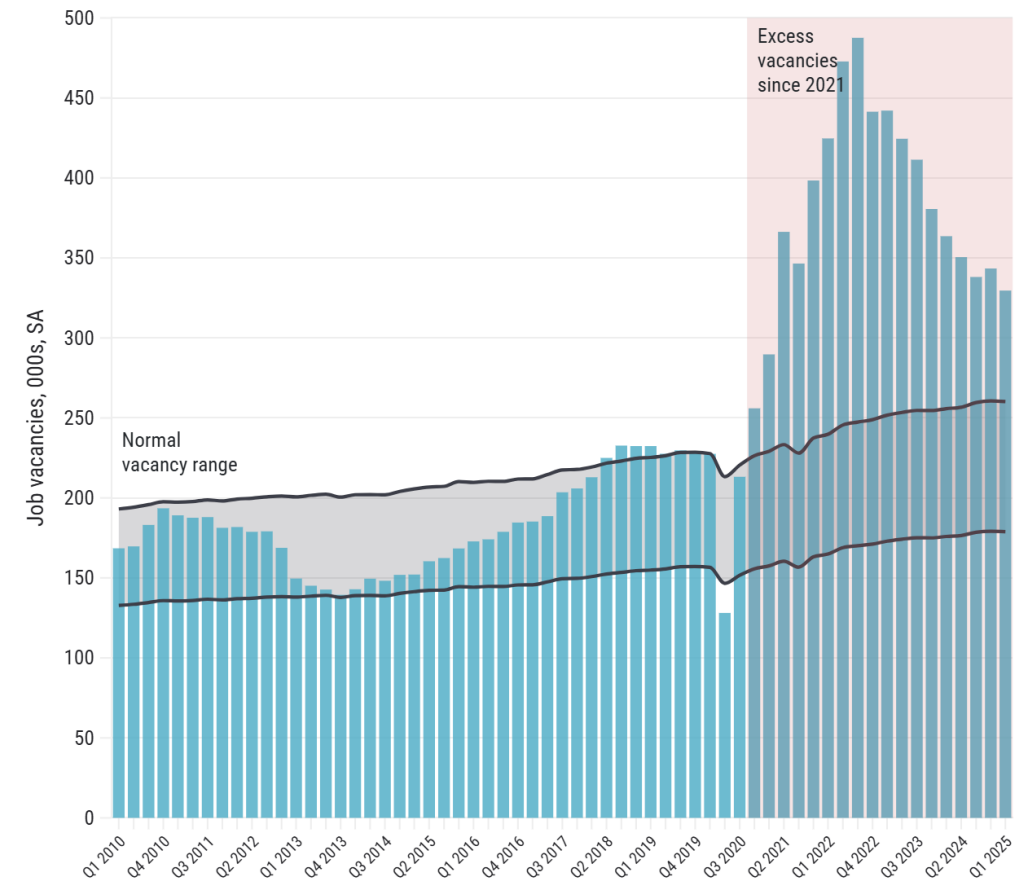
Source: ABS Labour Account • Ai Group Research & Economics

Job vacancies: Excess vacancies are proving stubbornly difficult to clear

- An overhang of excess vacancies is contributing to the artificially tight labour market
- Job vacancies surged following the pandemic, peaking at 485,000 in mid-2022. As the economy has slowed, employers have removed about 150,000 of these vacancies.
- However, there remains 50k to 100k excess vacancies than warranted by the normal operation of the labour market
- While the overhang remains the labour market will not materially weaken. Employers can shed vacancies before shedding staff; job-seekers can find new work relatively easily.
- It is likely to take another year for the overhang to clear, blocking labour market adjustment

Australian job vacancies and normal trend range

Despite recent easing around 100,000 excess vacancies remain



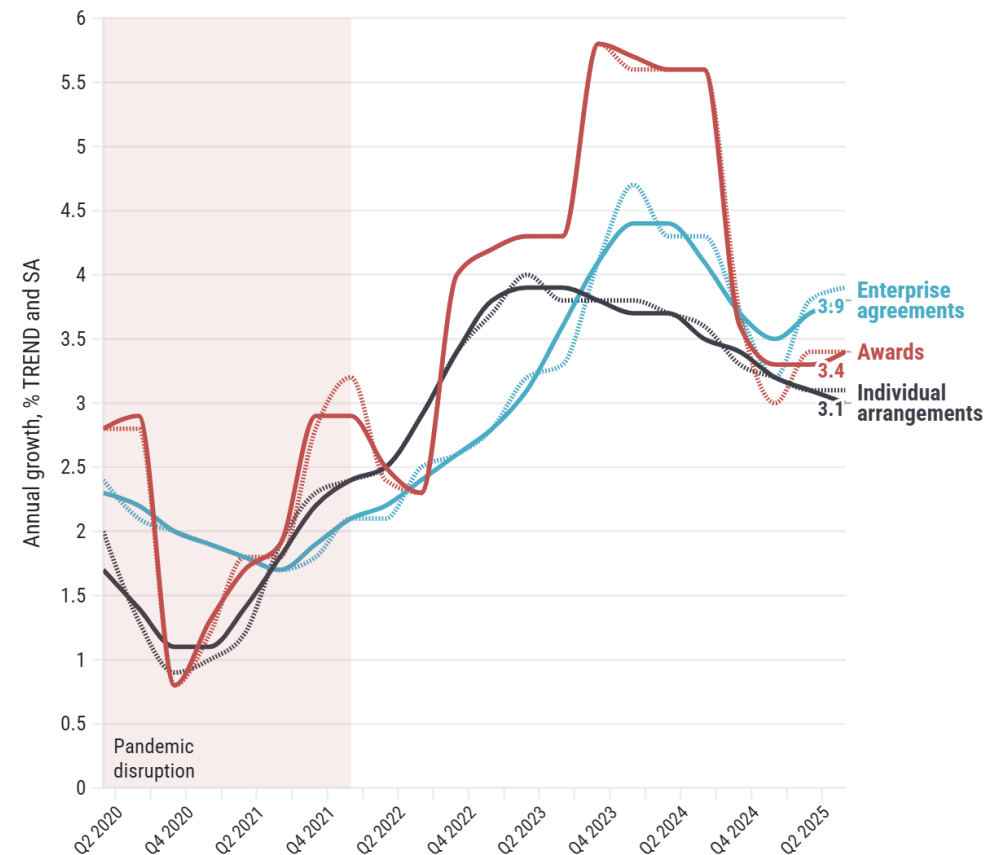
Source: ABS Labour Account • Ai Group Research & Economics

Wages: Awards and bargaining continue to lead market wages

- Wages growth averaged 3.4% over the last year, well above 2.1% CPI inflation. However:
 - Award wages have run much faster due to high FWC decisions in last three years
 - EBAs have followed awards higher with a lag, due to transmission of FWC decisions
 - Individual arrangement wages have been slowly declining since 2022 due to weak private sector labour market
- Market wages growth *has* adjusted down with economic conditions, but FWC decisions are forcing regulated wages above that level
- This pattern is likely to continue for the next year as a result of the 3.5% AWR decision for 2025-26

Wages growth by method of setting pay

Award and EBA growth well above market wages since 2023



Source: ABS WPI • Ai Group Research & Economics
Solid line is trend series, dashed is seasonally adjusted.

Impacts on employers

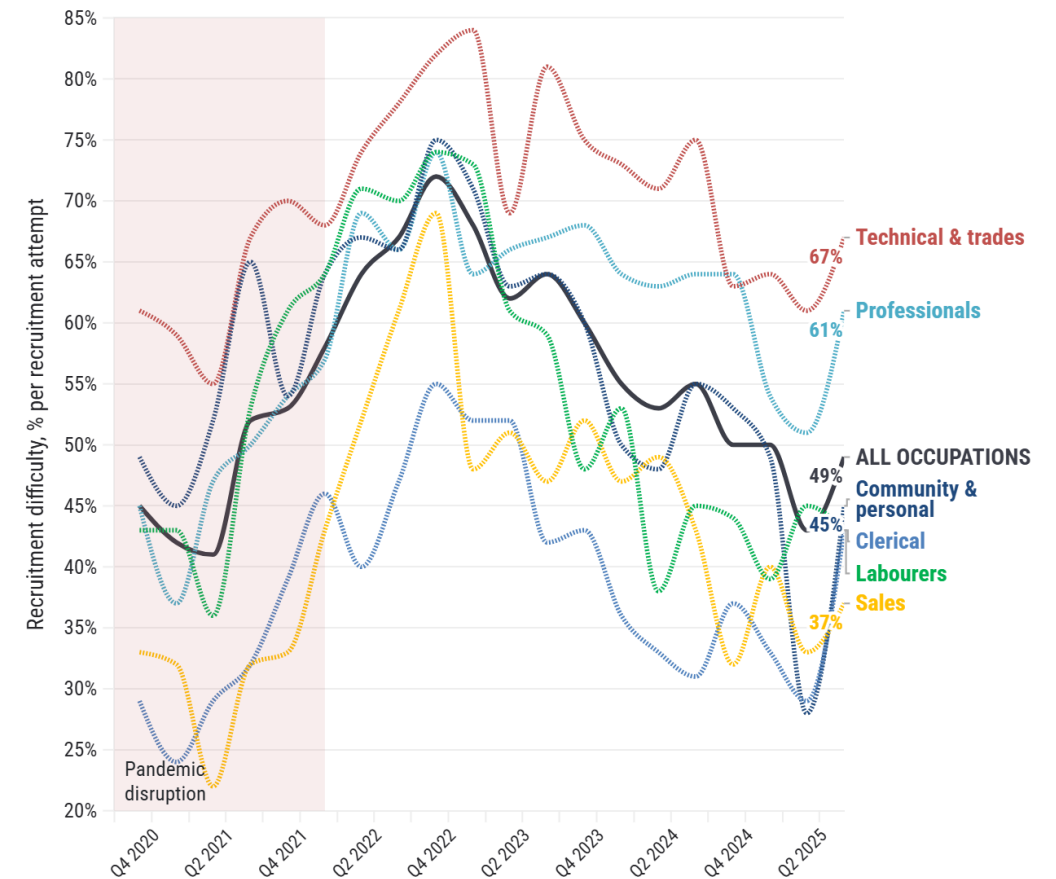


Recruitment: Persistent difficulties for technical and professional roles

- The record-tight labour market has exacerbated recruitment difficulties facing employers
- At the peak of the cycle in mid-2022, 75% of recruiting employers reported fill difficulties
- Higher skilled roles (professionals & trades) are consistently harder to fill due to job-fit factors and supply constraints
- As the economy has slowed the headline difficulty rate has eased back to 49%
- However, higher skilled roles remain hard to fill, with difficulty rates remaining in the mid-60s.
- Evidence of a split between a materially-easing market for lower skilled roles, while conditions remain very tight for higher-skilled positions

Recruitment difficulties by occupational group 2020-2025

Despite overall easing, remains difficult for trades and professionals



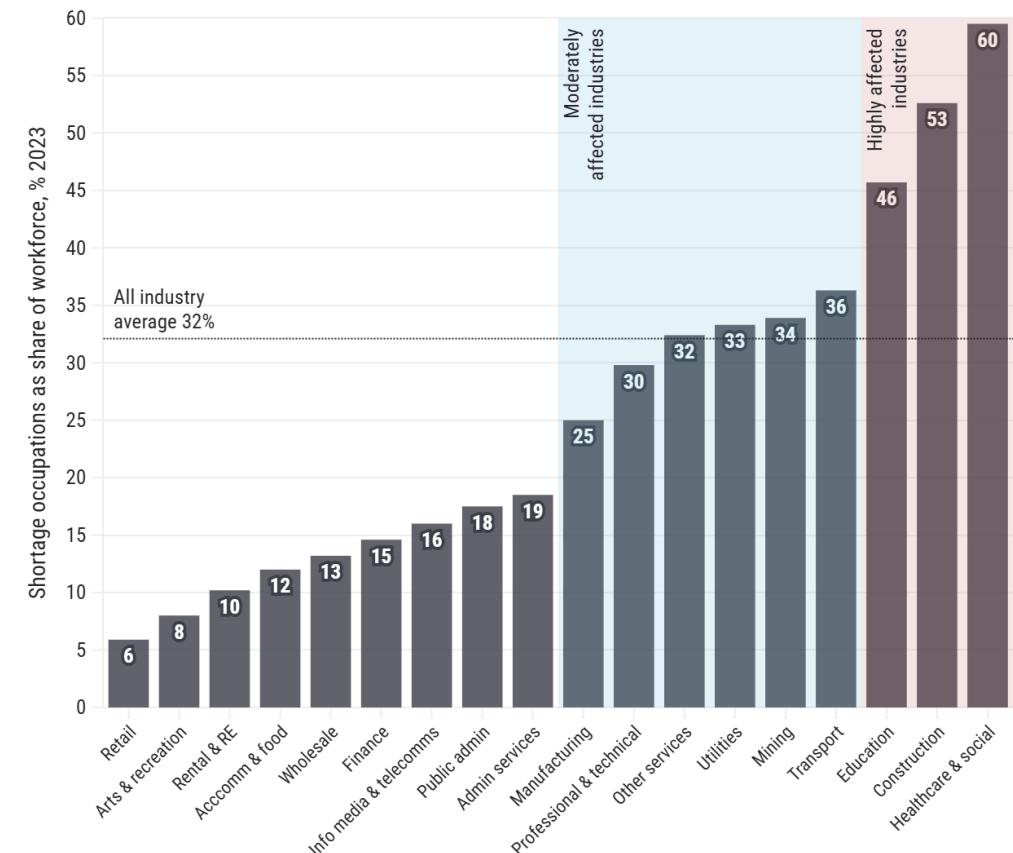
Source: JSA REOS • Ai Group Research & Economics

Skills shortages: Cover 1/3 of workforce, industrials and care highly impacted

- Highly asymmetric impacts of skills shortages due to industry-level factors
- Across the economy, 32% of the workforce are in roles classified as in national shortage.
 - Healthcare, construction and education have very high rates, due to reliance on workforces requiring occupational licensing
 - Other industrial sectors also have above-average shortage rates for similar reasons
 - Skills shortages are relatively milder in other industries, even those considered to have high skills needs (e.g. public admin, information & telecoms)
- Points to the role of occupational licensing schemes as a barrier to labour market mobility and driver of skills shortages

Occupational shortages by industry

Shortages afflict a third of the workforce, with some industries highly impacted



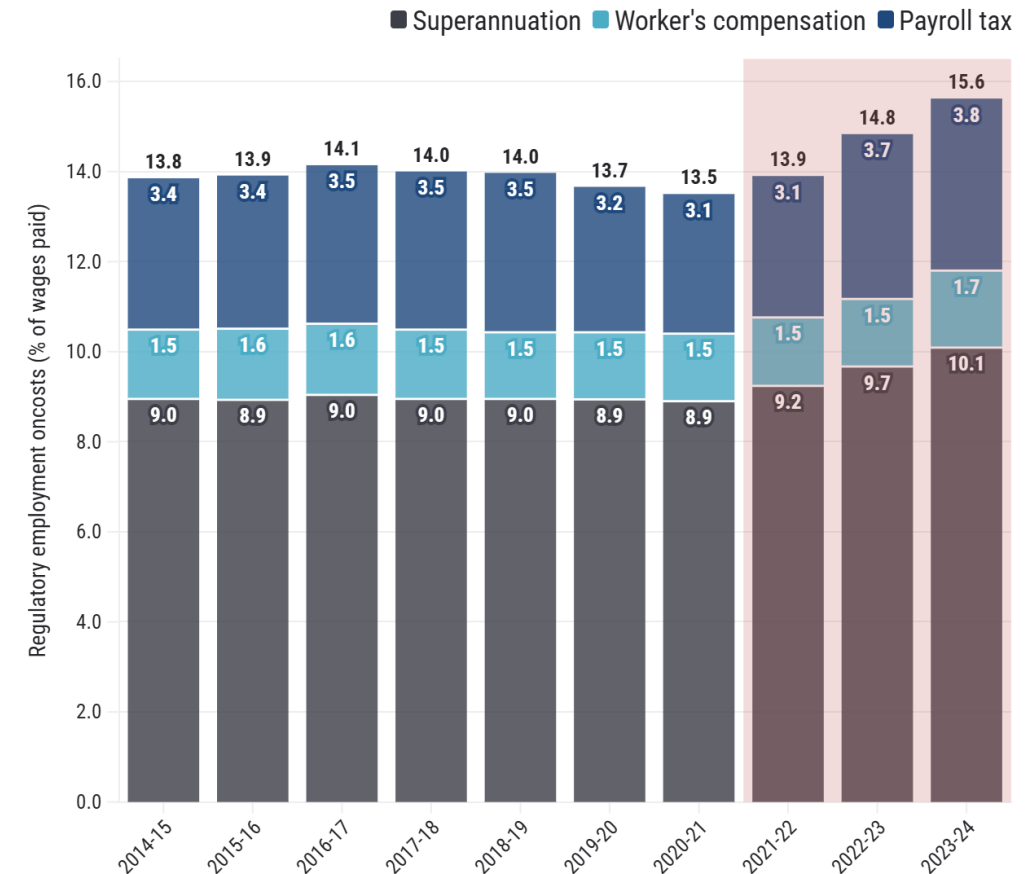
Source: ABS EEH microdata, JSA OSL 2024 • Ai Group Research & Economics
"Shortage occupations" are the 112 OSCA 4-digit occupations classified in national shortage in the 2024 OSL

Employment oncosts: Payroll tax, workers comp and super costs all surge

- Non-wage employment oncosts have surged since the pandemic.
- Regulatory oncosts were historically ~14% on but have spiked to 15.6% in the last two years. Contributing factors include:
 - Statutory increase in Superannuation Guarantee from 9.5% to 12.0% over five years
 - Increase in workers comp premiums due to rising psychosocial claims
 - Increasing payroll tax burden with changed eligibility rules in several states
- Together, these regulatory changes have added an extra 1.5% on top of wage rises
- A further 1.0% is still to come with legislated SG increases in '24-25 and '25-26

Employment oncosts in Australia

Regulatory oncosts have risen materially since the pandemic



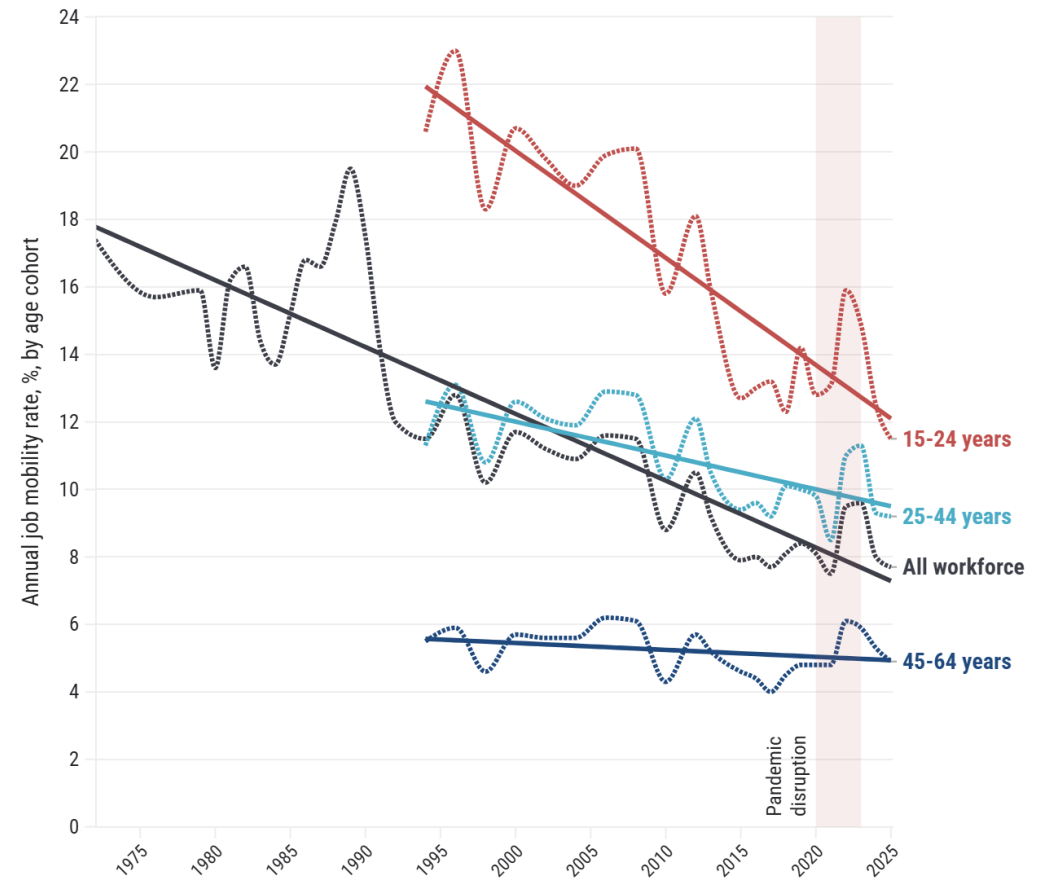
Source: ABS Australian Industry • Ai Group Research & Economics

Job mobility: “Great resignation” short-lived, all cohorts changing jobs less

- Declining rates of job mobility have also impacted employers and labour market efficiency
- Job mobility rates are in secular decline, from ~17% p.a. in the mid 1970s to 7.5% today.
- Population aging accounts for some of the shift, with older workers changing jobs less frequently
- Mobility has also declined for youth and early middle-aged cohorts, pointing to an underlying tendency towards falling workforce mobility
- Complex sociological and labour market factors are involved in this shift
- Falling mobility increases recruitment difficulties, exacerbates skills shortages, and reduces productivity performance

Australian job mobility rates 1972-2025

Steadily falling, driven by demographics and lower youth mobility



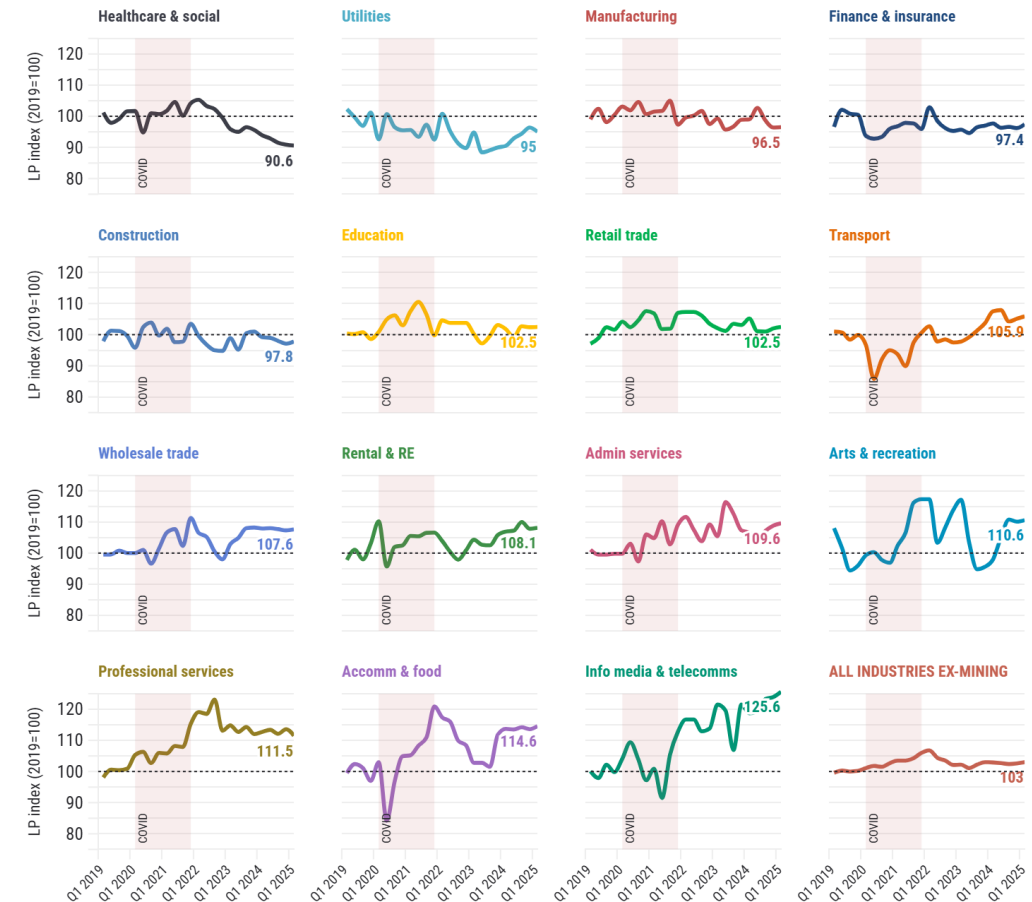
Source: ABS PJSM microdata • Ai Group Research & Economics

Productivity: Clear link between poor productivity and labour market problems

- Labour market difficulties have compounded our national productivity woes
- Australia's labour productivity has grown 0.6% p.a. since 2019, half the normal rate of 1.2% p.a.
- Industry-level performance is highly varied – healthcare productivity has declined by 9.4%, while information sector has risen by 25.6%
- Productivity is strongly correlated with labour markets – care and industrial sectors facing workforce difficulties have worst productivity, service and tech sectors without perform best
- Labour market problems inhibit productivity via shopfloor inefficiency, reduced flexibility and resource diversion

Industry labour productivity trends in Australia

Weak productivity is concentrated in industries with labour market challenges



Source: ABS National Accounts, ABS Labour Account • Ai Group Research & Economics

To download this report:

<https://www.aigroup.com.au/resourcecentre/research-economics/economic-labour-market-outlook-2025-26/>

