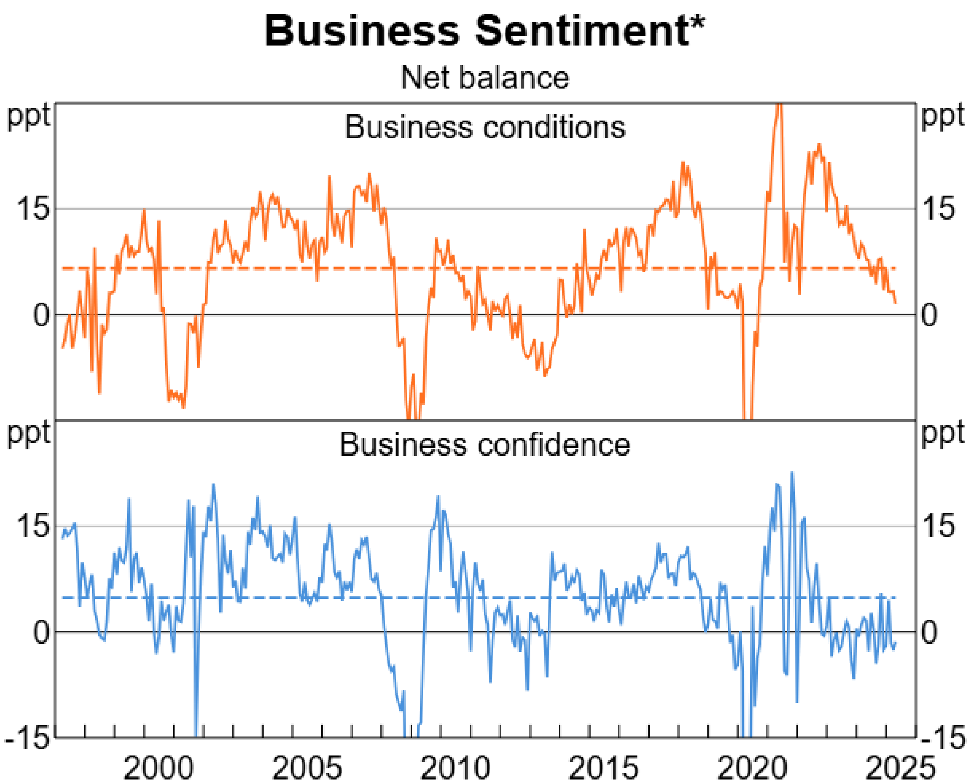
2025 Federal Election: economic and business impact

The 2025 Federal Election was the first in over 20 years that delivered a back-to-back victory for the incumbents, which looked unlikely a few months ago based on opinion polls, but in the end was a very clear victory for PM Anthony Albanese. The swing to the ALP of around 3% resulted in a 55/45% 'two-party preferred' outcome, so Australia avoided a hung parliament or the minority government that had been predicted several weeks ago. Instead Labour have a clear mandate to implement the policies and spending outlined in the recent Federal Budget.

That mandate for policy continuity appears even more clear given subsequent leadership changes (with Peter Dutton and Adam Bandt losing their seats, now replaced by Sussan Ley and Larissa Waters) and then with the Nationals announcing yesterday that they are exiting the coalition with the Liberal Party - so the opportunity for bolder policy and economic reform appears greater than has been the case for decades. The necessity for this reform has arguably never been higher, evidenced by Australia's falling productivity rate . ALP election commitments (including those outlined in the March budget) include further tax cuts in FY27, healthcare initiatives, student debt relief, the extension of energy bill rebates and plans to double the tax rate to 30% on super balances above $3 m. The increased mandate - and less resistance from the right and left in lieu of the demise of the coalition and the greens - suggests these commitments will be implemented readily and that fiscal policy will remain loose.

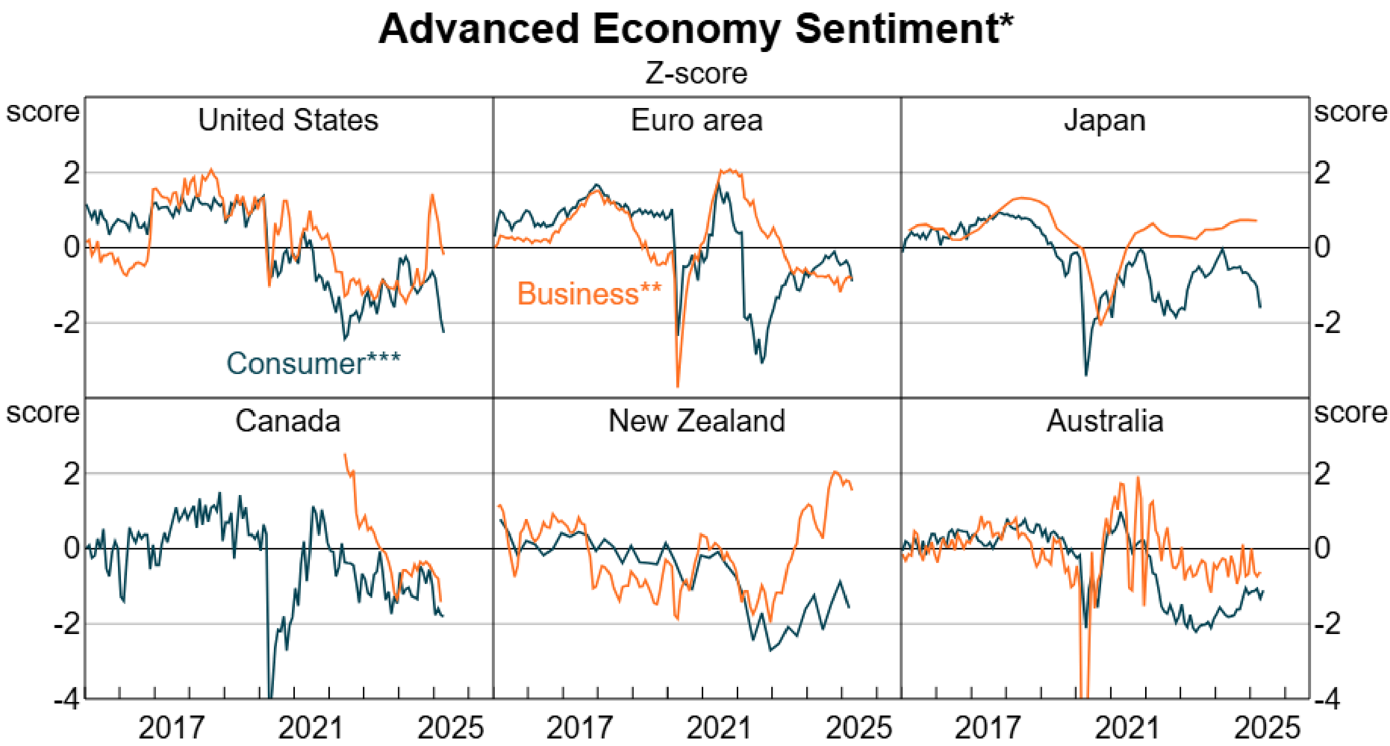
The impact of the election outcome on the economy may ultimately be dwarfed by the spectre of trade tensions and in particular US tariffs, however beyond global factors the election was focussed on cost-of-living pressures and housing affordability. Business conditions have been declining through the inflation shock that hit in 2022, and business confidence is also below trend. There are a few reasons why this should improve in FY26 (as consumer confidence improves) including simply removing the uncertainty of the election, as was evident with sentiment after the May '22 election and in 2013, 2016 and 2019 vintages (refer chart below).



* Dashed lines represent the long-term average of each series from 1997; outliers have been truncated.

Sources: NAB; RBA.

Consumer confidence is hoped to drive a recovery in business sentiment through FY26, helped by the moderation in inflationary pressures, policy support measures outlined in the election and ongoing RBA rate cuts. After yesterday's second rate cut to 3.85% we continue to expect at least two more RBA cuts down to a more neutral cash-rate level below 3.5%, the timing dependent on the extent of the global slowdown that is unfolding due to US tariffs. As the chart below shows, Australia's consumer sentiment has been very weak since 2022 like other peer economies, but has started to edge higher. Our lower exposure to tariffs than these peers should see outperformance over the next few years. The extent of government fiscal support ahead may limit the ability of the RBA to cut rates much below 'neutral', but the patient path the RBA has taken in embarking on the easing cycle sets us up well for sustainable moderate inflation ahead.



* Outliers during the COVID-19 pandemic have been truncated.

** US data are NFIB Small Business Optimism; euro area and Japan data are manufacturing sector firms only.

*** US data are University of Michigan; Australia data are the mean of Westpac–Melbourne Institute and ANZ–Roy Morgan surveys' deviations from average.

Sources: ANZ–Roy Morgan; Bank of Canada; CEIC Data; LSEG; RBA; Westpac–Melbourne Institute.

Housing affordability remains a key issue, with increasing supply the only effective solution, so the Government's commitments and programs to boost supply are welcome - but the ability to hit targets and streamline approvals via state and local government remains the primary challenge.

In summary, the pressing need for effective structural reform to lift Australia's productivity rate in the medium term remains, but in the short term the continuity of federal government policy leaves our forecasts below unchanged:

- GDP growth of around 2% over 2025 and 2026, driven increasingly by the private sector
- Unemployment marginally higher over the year ahead but remaining in the 4's for some time
- Improving consumer confidence and discretionary spending as detailed above to help with business conditions
- RBA rate cuts to around 3.25% by November as core inflation settles at 2.5%
- AUD / USD up to 68 c by year end, as US tariffs challenge the world but primarily undermine the US economy

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Things you should know

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