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## Australia's Stagnant Productivity Growth and Its Impact on the Housing Market

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Australia has seen sluggish labour productivity growth in recent years, averaging just 0.2% annually from 2017 to 2024, far below the historical norm. This weak productivity growth limits the economy's ability to expand supply, slowing income, wage, and consumer spending growth. Labour productivity measures how much gross domestic product (GDP) is produced per hour worked, a key economic indicator with far-reaching effects, especially in the housing sector.

AMP's chief economist, Shane Olive, emphasises that stronger productivity growth would ultimately benefit the housing market. Although higher productivity might push real interest rates upward, real interest rates are inflation-adjusted interest rates, crucial for mortgage

costs. Oliver notes that it could also lower inflation, potentially easing overall interest rates and mortgage repayments. Improved productivity should also speed up home construction timelines, which have lengthened significantly over the past decade, worsening Australia's chronic housing shortage.

Data from the Australian Bureau of Statistics (ABS), analysed by the Institute of Public Affairs (IPA), reveals that the average build time for a detached house rose from about 8.5 months in 2014 to nearly 12.7 months in 2024, a 50% increase. This trend spans all states, with Western Australia seeing an 85% jump, South Australia 74%, and other states similarly affected. Factors behind these delays include supply chain problems, stricter regulations, labour shortages, and skyrocketing material costs, which surged 53% during this period.

Oliver highlights that increased productivity could address these bottlenecks, facilitating faster construction and helping meet housing demand driven by population growth. Yet, despite ambitious goals set by the current government to build 1.2 million new homes by 2029, the housing supply remains far short of what's needed. In the March 2025 quarter, just 43,517 new homes were completed nationwide, a 4% decline from the previous quarter, while new housing starts, though up 14%, still fell well below the 60,000 homes per quarter target.

Industry experts argue that sluggish housing approvals and high development costs have contributed to this lag, with Australia now constructing homes at roughly half the rate seen 30 years ago. Matthew Kandelaars of the Property Council points out that with homebuilding taking over a year and apartment projects often exceeding three years, ongoing poor performance in approvals will only deepen the housing crisis for future buyers and renters.

The current government acknowledges productivity as a priority, with an Economic Reform Roundtable scheduled for August 19-21 to address the issue. Key figures like Commonwealth Bank CEO Matt Comyn and COSBOA Chair Matthew Addison will participate. Treasurer Jim Chalmers confirmed productivity is a "primary focus," but whether this translates into meaningful reform remains to be seen.