FINANCIAL REVIEW

Electricity bills to surge 47pc next year as government support ends

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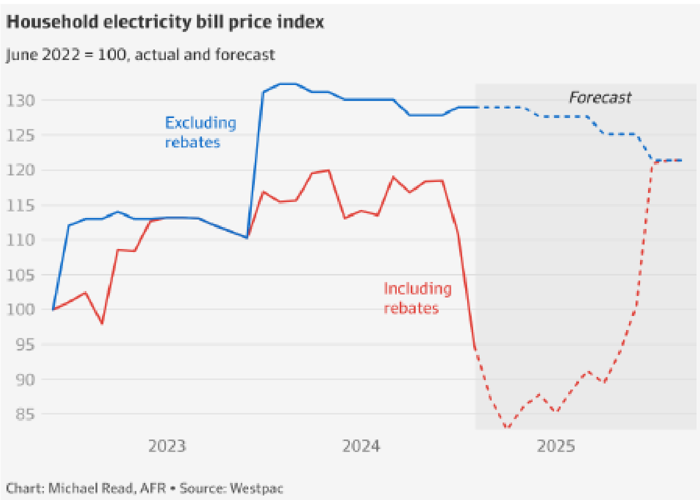
Households could be slugged with a record-breaking 47 per cent rise in out-of-pocket electricity costs next year unless the federal and state governments extend billions in energy subsidies, which economists have warned are doing little to solve the inflation problem.

Treasurer Jim Chalmers celebrated figures on Wednesday showing headline inflation had tumbled to a three-year low of 2.7 per cent in August from 3.5 per cent in July, falling back inside the Reserve Bank of Australia's 2 per cent to 3 per cent inflation target band for the first time since October 2021.

Inflation has fallen sharply over the past two months as households received their first quarterly instalment of a $300 federal government energy rebate, as well as generous state-level grants, including a one-off $1000 power bill discount in Queensland and $300 subsidy in Western Australia.



Dr Chalmers argued the inflation figures showed that Labor was helping to get cost-of-living pressures under control as the government tries to counter voter anger over its handling of the economy.

"There is nothing artificial about helping people with their power bills," Dr Chalmers said as he rebuffed criticism that household electricity subsidies were not addressing the root cause of inflation.

Out-of-pocket electricity costs would have increased by 29 per cent nationally since June 2022 without state and federal government intervention, according to the Australian Bureau of Statistics. Bills have instead declined by 5.3 per cent on average due to the rebates.

But out-of-pocket household electricity expenses could increase by 47 per cent on average nationally between October 2024 and September 2025 as state and federal government assistance expires, according to analysis by *The Australian Financial Review* of Westpac electricity price forecasts.

The Albanese government is aware of the electoral implications of not extending the $300 electricity bill subsidy, which expires in mid-2025. Both Dr Chalmers and Finance Minister Katy Gallagher have hinted that they will provide further household support in the lead-up to the next federal election, due by May 2025.

"It's a balance about how and when you make those decisions. But I think we've been clear since the budget that that's something that we've been paying a bit of attention to and giving some thought to," Senator Gallagher said earlier this month.

Shadow treasurer Angus Taylor warned on Wednesday there would be a surge in out-of-pocket costs next year when government support expired.

"What we need to see is sustained reductions in prices, not temporary," Mr Taylor said.

The potential surge in electricity costs will not be felt evenly across the country, since households outside of Queensland and Western Australia did not receive generous state government bill subsidies. In Queensland, households received a flat $1000 credit on July 1, and will not pay any electricity bills themselves until they have used up the entirety of the state government assistance.

Veteran budget watcher Chris Richardson said state and federal government bill subsidies were not well targeted. He said it would be difficult for governments not to extend them, since that would require voters to cop an increase in out-of-pocket costs.

"It took 13 years to unwind the Howard government's freeze on fuel excise, and even today fuel excise rates are much lower than they'd otherwise have been," Mr Richardson said.

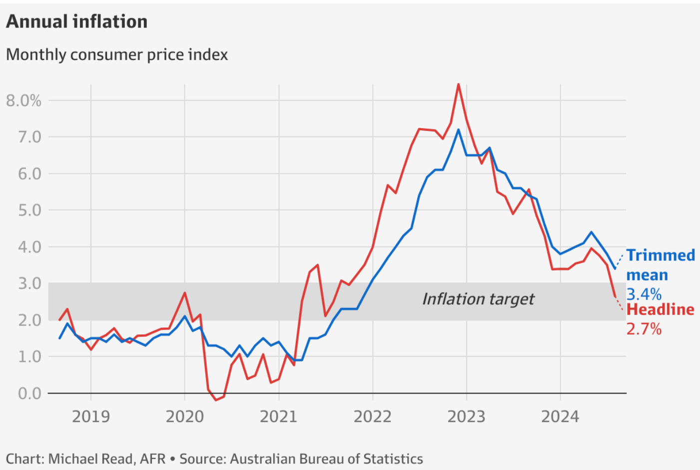
"Given that the politics of energy prices in Australia are now so fraught, it's going to take courage to unwind electricity rebates even once inflation in Australia has been conquered. Poor policy is always easier to apply than to remove."

Bullock to ignore inflation drop

RBA governor Michele Bullock on Tuesday warned the decline in inflation in August would only be short-lived and ruled out a near-term interest rate cut, despite bond markets pricing a four-in-five chance of a cash rate reduction by Christmas.

The RBA expects inflation to jump back to 3.7 per cent late next year if the federal and state government rebates end.

"We need to see that there's a consistent trend down to the [inflation target] band, and it's going to stay in the band, rather than dip in and out," Ms Bullock told reporters after announcing the cash rate had been left on hold at 4.35 per cent.



Most economists do not expect the RBA board to deliver a cash rate cut until February 2025, according to a Bloomberg survey.

Ms Bullock has in recent months emphasised the central bank's focus on measures of underlying inflation, which remove the large price rises and falls that affect the headline measure from month to month.

Trimmed mean inflation, the RBA's preferred measure of underlying inflation, was 3.4 per cent in 12 months to August, a two-and-a-half-year low, but well above the central bank's 2 per cent to 3 per cent inflation target band.

EY chief economist Cherelle Murphy said temporary rebates mechanically caused inflation to rise when they ended.

"Governments are probably hoping that other upward forces on inflation will fade by the time the subsidies end, making their extraction less obvious," she said.

"And this will be partly true as the economy responds to high interest rates. But how much underlying inflation fades is not clear. This approach does also not solve the core cause of inflation which is demand running faster than supply."