

Cost-of-Living and the Climate Crisis

How climate change inaction drove up the cost-of-living

Cost-of-living and climate crises are deeply interconnected. Climate change and fossil fuel exports are causing the prices of basic human needs, such as shelter, warmth and food, to surge. Prices directly associated with climate change and fossil fuels accounted for at least a fifth of inflation since 2022 and the impact of climate change on the cost-of-living is only likely to grow.

Discussion paper

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Summary

Important components of the cost-of-living crisis are a direct result of the climate crisis. Failure by policy makers to factor in the impacts of climate change on the cost of living, will limit the government's ability to address it. Each year we fail to mitigate emissions is another year we bake in cost-of-living pressure in the future.

Key among these price impacts are the cost of insurance, food and energy. Collectively, food and insurance account for more than a fifth of the consumer price inflation Australia has experienced since 2022.

Insurance – As the climate has destabilised, the increase in natural disasters has led to an increase in payouts for insurance companies and an increase in premiums for homeowners.

One in 20 Australian households now pay more than seven weeks of gross income on home insurance. In other words, these households work from New Year's Day to late February, just to pay their home insurance.

Increases in insurance premiums have hit certain regional areas particularly hard, where average household incomes are lower than urban areas while premiums are higher.

The price of insurance in many areas of Australia have already become prohibitively expensive. As continued global heating and more frequent disasters make these problems worse, whole suburbs or towns will become uninsurable.

Food – Food prices have soared by about 20% since 2020. The planet's changed weather patterns have impacted food production and, in some areas, permanently affected a region's ability to grow particular crops. Climate impacts mean that even if Coles and Woolworths stop price gouging, food prices will keep rising.

Energy – Australia's energy system is complex. Underinvestment in the transition to renewables and tying ourselves to international pricing mechanisms by exporting fossil fuels has resulted in high local electricity prices for Australian households. Even if we were to decouple ourselves from this, energy prices would continue to be impacted as more climate disasters damage vital public infrastructure.

Introduction

The 2022 Federal election was dubbed as the ‘climate election’. The previous Coalition Government had held onto power for nearly a decade and in this time had failed to make any significant progress on climate policy, taking several backwards steps such as the repeal of Australia’s carbon price. The Labor Party won a small majority promising more ambitious climate action and previously safe Coalition seats were lost to independents promising bold climate action.

Despite this hopeful start, Australia’s climate action has made little progress since the 2022 election. Australia’s actual emissions, excluding controversial land use, land use change, and forestry (LULUCF), have barely changed since 2005.¹ Meanwhile Australia remains the world’s third largest fossil fuel exporter, subsidises fossil fuels (to the tune of \$14.5 billion in 2023-24) and is currently committed to 20 projects for new and expanded coal, oil, and gas extraction, valued at over \$41 billion.²

Despite this repeated failure to deliver on a key theme of the 2022 election, climate change does not seem to be a major issue of the 2025 election. Instead, this election is likely to revolve around the cost-of-living – voters’ minds are focused on high prices, high interest rates, and wages that have failed to keep up.

While the cost-of-living appears to be taking attention away from climate change, in fact these two crises are strongly linked. The world’s failure to mitigate emissions have made a substantial contribution to the cost-of-living crisis. Australia shares responsibility for this failure to mitigate emissions, due to Australia’s fossil fuel exports and Australia’s slow progress on renewable energy and other aspects of climate adaptation. This paper explores some of the main examples of climate and energy policy failure contributing to increased cost of living in Australia, namely the cost of insurance, energy, and food.

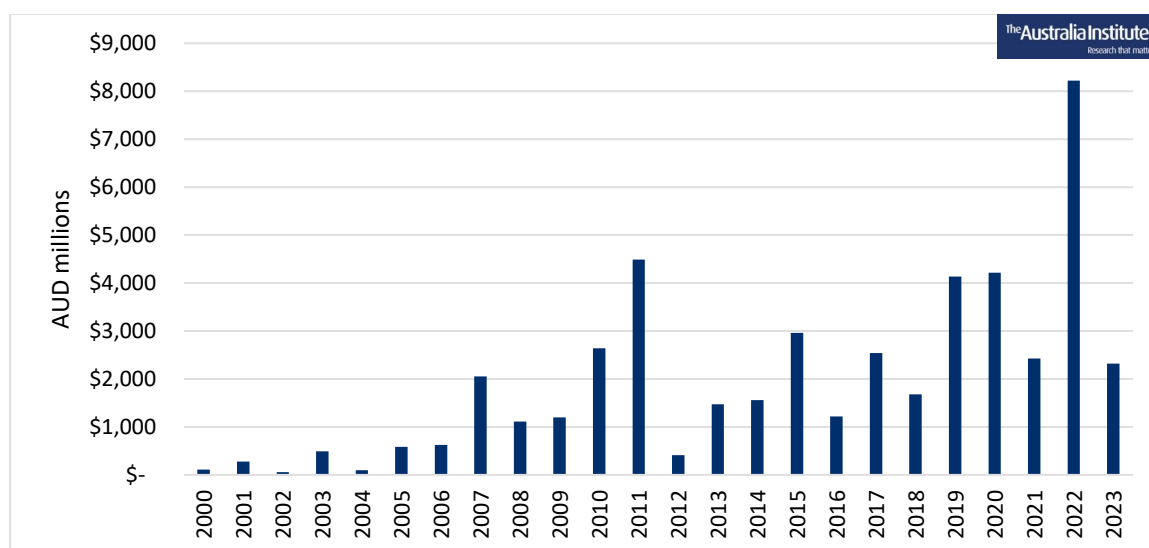
¹ Hemming (2023) *The Government needs to stop using dodgy “land use” accounting to suggest emissions are falling*, <https://australiainstitute.org.au/post/the-government-needs-to-stop-using-dodgy-land-use-accounting-to-suggest-emissions-are-falling/>

² Grant and Hare (2024) *Australia's global fossil fuel carbon footprint*, <https://climateanalytics.org/publications/australias-global-fossil-fuel-carbon-footprint>; Campbell et al (2024) *Fossil fuel subsidies in Australia 2024*, <https://australiainstitute.org.au/report/fossil-fuel-subsidies-in-australia-2024/>; The Australia Institute (2024) *\$41 billion of new fossil fuel projects are gobbling up construction supply chain*, <https://australiainstitute.org.au/post/24363/>; Department of Industry, Science and Resources (2024) *Resources and energy major projects: 2024*, <https://www.industry.gov.au/publications/resources-and-energy-major-projects-2024>

Insurance

Between 2022 and 2023, the average home insurance premium rose by 14%, the biggest rise in a decade.³ The increase in insurance prices is driven by the increasing cost to insurers of floods, storm damage, fires and other catastrophic events. Figure 1 below shows industry-wide insurance payouts over recent years, reaching a record \$8 billion in 2022.

Figure 1: Estimated insurance payouts from catastrophes



Source: Insurance Council of Australia (2024) ICA Historical Catastrophe List

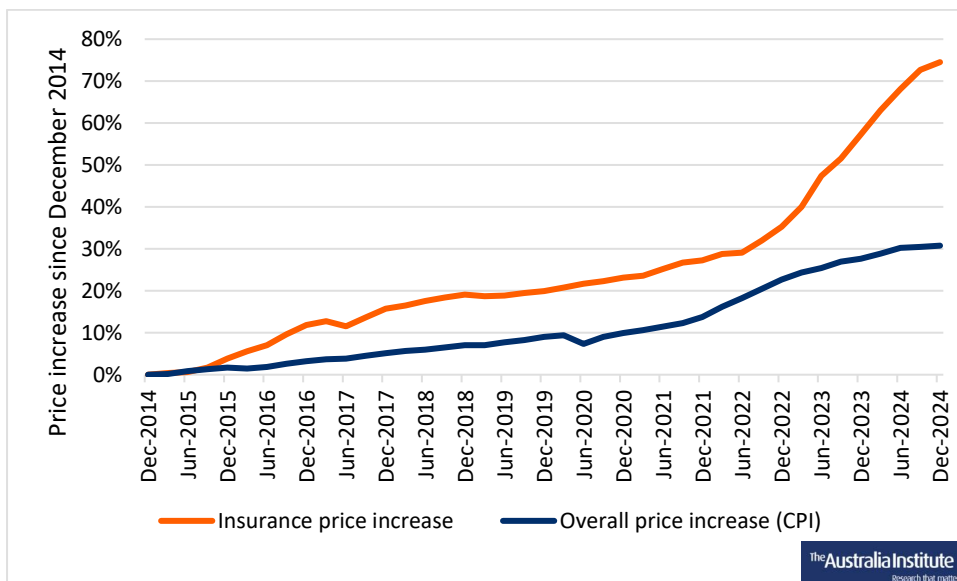
Figure 1 shows that since 2013, each year’s insured losses have consistently exceeded the combined losses of the first five years of the century. Meanwhile, other weather events that are not classified as a ‘catastrophe’, such as hailstorms and localised floods, have also increased in frequency.⁴

Insurance costs are a key driver of the cost-of-living crisis for many Australians. Insurance prices have increased by 40% since 2021, significantly outpacing overall inflation, as shown in Figure 2 below:

³ Australian Prudential Regulation Authority (2023) *Quarterly general insurance performance statistics, August 2023*, <https://www.apra.gov.au/quarterly-general-insurance-statistics>

⁴ Richardson, Long and Campbell (2024) *Premium price: The impact of climate change on insurance costs*, <https://australiainstitute.org.au/report/premium-price-the-impact-of-climate-change-on-insurance-costs/>

Figure 2: Price increases since December 2014, insurance and overall prices



Source: ABS (2025) Consumer Price Index, Australia, December Quarter 2024

Figure 2 shows that insurance prices have been increasing faster than general prices since 2015 and that this gap has increased significantly since 2022 in the wake of major flooding in eastern Australia. Research from the Actuaries Institute shows that nearly one in eight households – 1.25 million – suffer home insurance affordability stress and pay more than four weeks gross income on home insurance premiums.⁵ One in 20 households pay more than seven weeks of gross income on home insurance. Those facing the most extreme affordability stress pay almost nine weeks of their income on home insurance. The Actuaries Institute explains:

Areas suffering extreme home insurance affordability pressures are concentrated in Northern QLD, the Northern Rivers region of NSW and Northern WA. In these areas, half of the population pay more than a month of gross household income for their annual home insurance premium. The affordability pressures faced in these regions are driven by their high perils risk (cyclone for QLD and WA and flood for NSW) and may also reflect insurer actions to recoup high losses in recent years from natural peril events in these regions.

Another way of looking at households facing extreme home insurance stress is that they effectively work from New Year's Day to the end of February, simply to pay their home insurance.

⁵ Actuaries Institute (2023) *Home Insurance Affordability Update, August 2023*, https://actuaries.asn.au/docs/thought-leadership-reports/home-insurance-affordability-update.pdf?sfvrsn=7737bcf4_4

Soaring insurance costs linked to climate change are a global phenomenon. Since 2019, the price of property insurance has been rising worldwide, responding to extreme weather events and heightened perceptions of the risks of climate change.⁶ These trends impact Australia as the Australian insurance market is connected to the global reinsurance market. This means increases in climate risks and climate impacts abroad, notably including the devastating impact of the 2025 Los Angeles fires, may cause Australian insurance premiums to rise.

Home and contents insurance costs are not spread equally across the country. In areas that are more exposed to cyclones and flooding, such as much of northern Australia, insurance is much more expensive. While in the southern two-thirds of the country, home and contents insurance costs on average \$1,779 per year, the average cost is \$2,918 in north Queensland, \$2,922 in the Northern Territory, and as high as \$4,395 in northern Western Australia.⁷

Magnifying this inequality, people living in areas heavily exposed to the risks of climate-fuelled extreme weather events tend to have lower incomes than most Australians. For example, the median personal income in Lismore (devastated by the 2022 floods) is \$44,970 per year, compared with \$52,338 across Australia.⁸

Continued global heating and the attendant risk of more frequent disasters could make the price of insurance in many areas of Australia prohibitively expensive and whole suburbs or towns uninsurable. Insurance is based on the sharing of risk but as the climate worsens, major impacts for some areas will become not so much a risk, but a certainty. Insurance will be impossible to obtain in these areas.⁹ According to a recent analysis, the high annual risk of damage will make about one in 25 properties in Australia effectively uninsurable by the end of the decade.¹⁰ This will either mean families are completely vulnerable to climate disasters or leave these houses as stranded assets. Additionally, as insurance is often needed to secure a mortgage, this is likely to have far reaching consequences for home ownership in areas prone to climate disaster.

⁶ Morningstar Research (2022) *Escalating costs of climate change contributing to higher insurance premiums*, <https://dbrs.morningstar.com/research/402678/escalating-costs-of-climate-change-contributing-to-higher-insurance-premiums>

⁷ ACCC (2019) *High premiums leading to rise in uninsured homes in northern Australia*, December 2019, <https://www.accc.gov.au/media-release/high-premiums-leading-to-rise-in-uninsured-homes-in-northern-australia>

⁸ ABS (2020) *Region Summary: Lismore*, <https://dbr.abs.gov.au/region.html?lyr=sa2&rgn=112021248>

⁹ Richardson, Long and Campbell (2024) *Premium price: The impact of climate change on insurance costs*

¹⁰ Hutley et al (2022) *Uninsurable Nation: Australia's most climate-vulnerable places*, Climate Council, <https://www.climatecouncil.org.au/resources/uninsurable-nation-australias-most-climate-vulnerable-places/>

Food

Since 2020, food prices have increased by about 20%, largely in line with overall high inflation.¹¹ In simple terms, this means that if groceries cost a family \$200 per week in 2020, that same trolley of groceries would cost \$240 in 2024. That is more than \$2,000 extra a year.

These price increases have not affected all food types equally. The prices for staples such as bread, dairy, eggs, oils, and fats have seen particularly sharp price hikes. In 2019 a loaf of Tip Top white sandwich bread cost about \$3.50, today it costs \$4.50 – a 29% increase.¹² Similarly, Woolworths olive oil has more than doubled in price since 2021, from \$7 to \$18.¹³

Climate change related disasters across the world have impacted food output and driven up the cost of food. Droughts have struck Europe, North America, and East Africa, while South Asia, North America and South America experienced heatwaves.¹⁴ Closer to home, Australia's 2022 floods directly affected agriculture and related industries. The Australian Bureau of Statistics recorded:

Livestock output decreased as flood waters prevented the transportation of cattle and lambs to abattoirs. Waterlogged grains led to reduced production, delayed harvests and reduced grain quality in the New South Wales and Victorian growing regions.¹⁵

Natural disasters can often bring far greater temporary price spikes, as shown in Figure 3:

¹¹ Calculation based on Australian Bureau of Statistics (2025) *Consumer Price Index, Australia, December Quarter 2024*

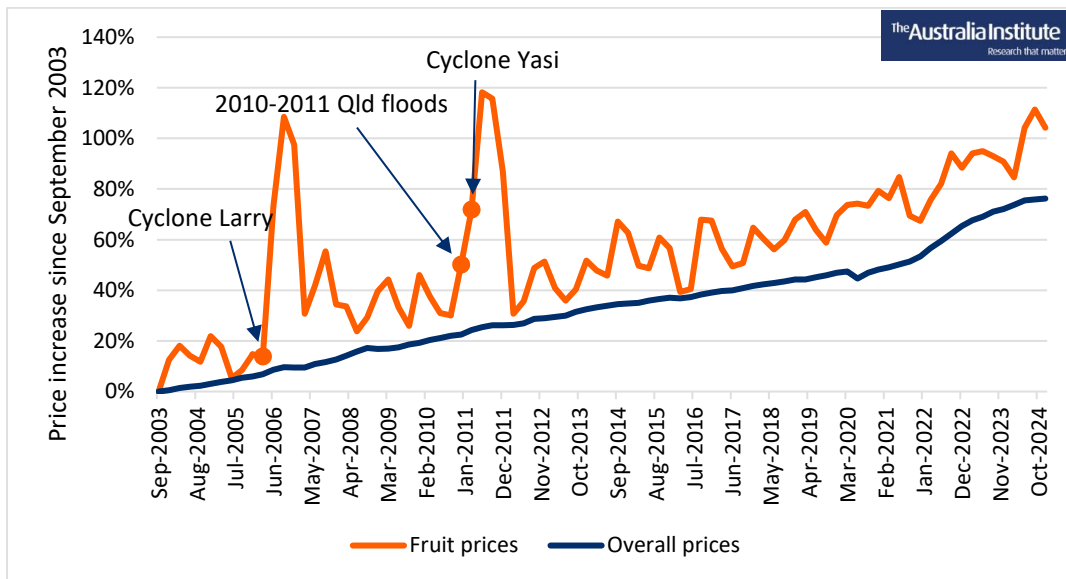
¹² Clemons (2019) *What's the best sliced white bread?*, <https://web.archive.org/web/20241101211650/https://www.choice.com.au/food-and-drink/bread-cereal-and-grains/bread/buying-guides/bread>; Woolworths (2024) *Tip Top The One White Sandwich Slice Bread Loaf Bakery 700g*, https://www.woolworths.com.au/shop/productdetails/713816/tip-top-the-one-white-sandwich-slice-bread-loaf-bakery?srsId=AfmBOoryJuu3iyGSeTBRONAs32wKtC7LOWl41dmrMRwHg8QWLOO_Q4Bu

¹³ Choice (2021) *Woolworths 100% Spanish Extra Virgin Olive Oil review*, <https://web.archive.org/web/20241120003744/https://www.choice.com.au/products/food-and-drink/nuts-and-oils/oils/woolworths-100-spanish-extra-virgin-olive-oil>; Woolworths (2024) *Woolworths Extra Virgin Spanish Olive Oil 1l*, https://www.woolworths.com.au/shop/productdetails/698868/woolworths-extra-virgin-spanish-olive-oil?srsId=AfmBOoo1_3vu2uMGMIRFbhnI-ybf2EWkZ7MVxjmtlI2unskBGqSqVUeF (accessed 20/11/2024); Choice (2024) *Sydney, you're paying 41% more for bread than pre-pandemic*, <https://www.choice.com.au/shopping/everyday-shopping/supermarkets/articles/supermarket-food-prices>

¹⁴ Global Network Against Food Crises and Food Security Information Network (2024) *2024 Global Report on Food Crises*

¹⁵ Australian Bureau of Statistics (2023) *Impacts of flooding in December quarter 2022*, <https://www.abs.gov.au/articles/impacts-flooding-december-quarter-2022>

Figure 3: Increase in the price of fruit, September 2003 to December 2024



Source: ABS (2025) Consumer Price Index, Australia, December Quarter 2024

Figure 3 shows that fruit prices are extremely sensitive to extreme weather events, particularly in the short term.

As climate change makes disasters more frequent, more severe or both in Australia and globally, agricultural output and supply chains will be increasingly impacted, causing more rises in food prices. Concurrent disasters around the world threaten a fragile global food system. A global study found that “extreme global prices may result either from climate anomalies in single key countries or from simultaneous events in many regions”.¹⁶

Case study: olive oil

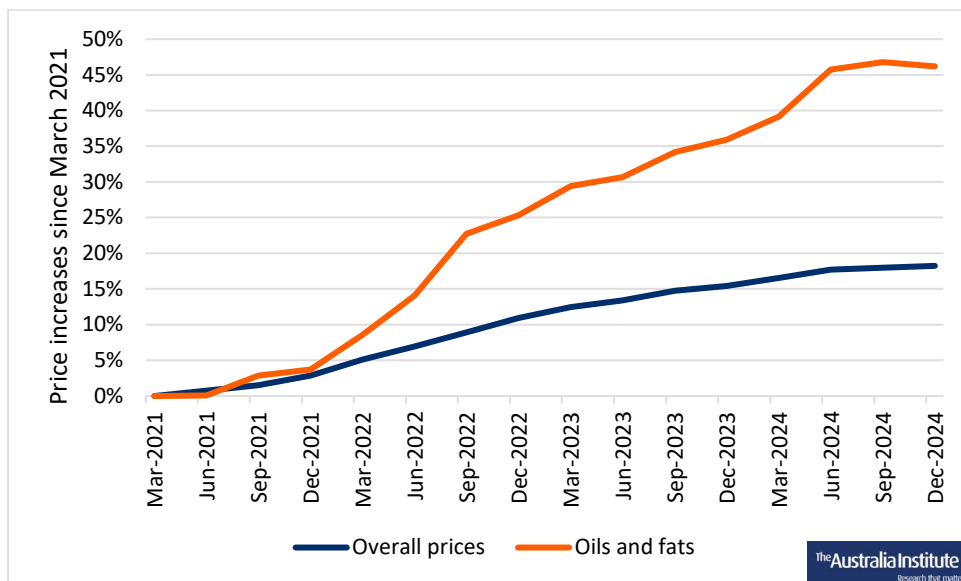
International olive oil prices have skyrocketed due to climate-linked droughts in Europe, particularly Spain – the world’s largest olive oil producer, responsible for nearly half of all olive oil production globally. An unusually long drought led to a significant reduction in Spain’s olive oil output over recent years.¹⁷

The problems facing Spanish olive growers also affect Australian households. Olive oil has been a primary factor behind the rise in food oil prices in Australia, measured as ‘oils and fats’ by the Australian Bureau of Statistics, as shown in Figure 4:

¹⁶ Chatzopoulos et al (2021) Potential impacts of concurrent and recurrent climate extremes on the global food system by 2030. *Environmental Research Letters*, 10.1088/1748-9326/ac343b

¹⁷ Reuters (2024) *EU olive oil supply to swell as Spanish crop recovers from drought*, <https://www.reuters.com/markets/commodities/eu-olive-oil-supply-swell-spanish-crop-recovers-drought-2024-10-08/>; Perrone (2023) *Olive Oil Prices Surge as Persistent Drought Ravages Mediterranean Groves*

Figure 4: Increase in the price of oils and fats, March 2021 to December 2024



Source: ABS (2025) Consumer Price Index, Australia, December Quarter 2024

Figure 4 shows that since 2021 ‘oils and fats’ have risen in price by nearly 50% - a bigger increase than any other component of inflation.¹⁸ While the price of olive oil is likely to moderate as Spain’s drought eases and olive oil production grows, higher average temperatures will reduce production over the long term, putting upwards pressure on prices.

The widely-held perception that Australia’s supermarket duopoly of Coles and Woolworths have used the current inflationary surge to increase their profits only partly explains the rising cost of food and groceries.¹⁹ Reduced global output of food, caused by climate disasters and rising global temperatures, will continue to make food prices higher even if governments successfully curtail the dominant market power of these corporations.

¹⁸ Australian Bureau of Statistics (2024) *Australian Dietary Guidelines Price Indexes*, <https://www.abs.gov.au/articles/australian-dietary-guidelines-price-indexes>

¹⁹ Grudnoff, Stanford and Richardson (2024) *Supermarkets or super mark-ups?*, <https://australiainstitute.org.au/report/supermarkets-or-super-mark-ups/>

Energy bills and other utilities

Australia's slow transition to renewable energy and largely unrestricted fossil fuel exports has tied the country's energy bills to international energy markets. One demonstration of this is the increase in Western Australian wholesale gas and electricity prices that have tripled since 2020.²⁰ Where gas companies have the option of selling into the international market as opposed to the domestic market, prices rise from the low prices Australian consumers have become accustomed to, to close to the international price. The same process occurred on the east coast of Australia following the beginning of gas exports from Gladstone in Queensland in 2014.²¹

Climate impacts also directly affect energy infrastructure. Transmission lines will be wrecked by stronger winds and storms or burned down by intense fires. Power stations and clean energy installations will be damaged or destroyed. Higher maintenance and reconstruction costs will lead to higher utility prices (such as for electricity, water, and sewerage) – through bigger bills for customers or higher taxes on the public.²² A 2016 analysis from Deloitte found that:

Between 2002-03 and 2010-11, more than \$450 million was spent each year by Australian governments to restore critical infrastructure after extreme weather events. This equates to about 1.6% of total public infrastructure spending. In addition, it is estimated that \$17 billion (in net present value terms) will be needed to directly replace critical infrastructure between 2015 and 2050 due to the impact of natural disasters.²³

Added to this is the cost of making critical infrastructure more resilient to climate-fueled disasters. Sydney Water recently announced a plan to raise water bills by 50 per cent to pay for infrastructure upgrades, including making its infrastructure more climate resilient.²⁴

²⁰ Ogge, Campbell and Verstegan (2024) *Why WA energy prices have tripled*, <https://australiainstitute.org.au/report/why-wa-energy-prices-have-tripled/>

²¹ Grudnoff (2013) *Cooking up a price rise*, <https://australiainstitute.org.au/report/cooking-up-a-price-rise/>

²² Ogge and Swann (2019) *The National Climate Disaster Fund*, <https://australiainstitute.org.au/report/the-national-climate-disaster-fund/>

²³ Deloitte (2016) *Building resilient infrastructure*, <https://apo.org.au/node/66206>

²⁴ Fernandez and James (2023) *Sydney Water hikes bills 50 per cent to pay for infrastructure overhaul, connect new housing*, <https://www.abc.net.au/news/2024-11-01/sydney-water-plan-to-increase-water-prices-by-50-per-cent/104549138>; Sydney Water (n.d.) *Our 2024-30 price proposal*, <https://www.sydneywater.com.au/accounts-billing/paying-your-bill/our-prices/price-proposal.html>

Contribution to inflation

In Australia, and across the world, people saw their living standards fall in recent years as consumer prices shot up and real wages declined. The resulting living standards crisis has caused hardship for many people. Price rises for food, insurance, and energy have been a major cause of the surge in inflation since 2022. Food was the second-largest contributor to this inflation, second only to housing. Meanwhile rising insurance costs contributed more to inflation than rises in prices for fruit and vegetables.²⁵ Collectively, food and insurance account for more than a fifth of the consumer price inflation Australia has experienced since 2022.

Rising prices for fossil fuels such as gas, petrol and diesel are another big contributor – directly causing nearly 5% of the inflation since 2022 and indirectly driving up prices across the economy.²⁶ Meanwhile, governments have only managed to keep electricity prices contained through expensive government subsidies.

These climate and energy related price rises are overwhelmingly ‘non-discretionary’ spending. In other words, they are not optional or luxury purchases, but things we require to meet basic needs.²⁷ Price rises for such essentials have hit vulnerable people and people on low incomes the hardest. For example, food, insurance, and energy make up over a third of household budgets for age pensioners.²⁸

²⁵ Calculation based on Australian Bureau of Statistics (2025) *Consumer Price Index, Australia, December Quarter 2024*

²⁶ Calculation based on Australian Bureau of Statistics (2025) *Consumer Price Index, Australia, December Quarter 2024*

²⁷ Australian Bureau of Statistics (2021) *Measuring Non-discretionary and Discretionary Inflation*, <https://www.abs.gov.au/articles/measuring-non-discretionary-and-discretionary-inflation>

²⁸ Australian Bureau of Statistics (2024) *Annual weight update of the CPI and Living Cost Indexes, December 2023*, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/annual-weight-update-cpi-and-living-cost-indexes/dec-2023>

Conclusion

Climate change is deeply intertwined with the current cost-of-living crisis. From skyrocketing home insurance premiums to the crop losses that drive up grocery prices, climate change has worsened pressures on household budgets. Decades of inadequate climate action has left Australia heavily reliant on fossil fuels for electricity, heating, and transportation. Fossil fuel exports have left us exposed to the fluctuations of the global market and impacts of conflicts abroad. Australia needs urgent action to redress these problems, but even with such action, further fallout from past policy failures is inevitable – and consumers will bear the burden.