March 2025

WESTPAC COAST-TO-COAST

Your quarterly report on Australia and the global economy.

WESTPAC COAST TO COAST – MARCH 2025

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Westpac Coast to Coast is a quarterly publication produced by Westpac Economics.

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Tracking broadly as expected ...

Matthew Hassan
Head of Australian Macro-Forecasting
Neha Sharma
Economist

The Australian economy expanded 0.6% in the December quarter, lifting annual growth to 1.3%yr with gains becoming more evenly balanced across the private and public sectors. While improving, the economy's performance remains well below long-term trends. Meanwhile there continue to be challenges around weak productivity growth and uneven private sector investment.

A tentative recovery begins

The December quarter national accounts largely met expectations, marking the end of the longest 'per capita recession' in Australia's history. While the economy may not have contracted, these years have been challenging for individual Australians.

New private demand rose 0.4%qtr – the strongest increase in six quarters, having stagnated through Q2 and Q3. Household consumption lifted as improving real disposable incomes provided a slight boost to spending. Despite this, spending still declined in per capita terms. New business investment showed promise, but details were uneven.

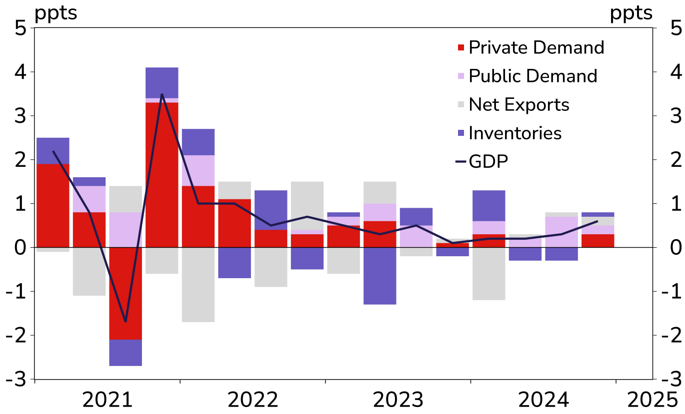
New public demand continued to outpace private demand, expanding 1%qtr and 5.5%yr – the fastest pace since the pandemic. Its share of the economy hit a new record high of 27.7%. That said, when adjusting for relative size, private and public demand made roughly equal contributions to GDP growth, a shift from the previous two quarters when public demand accounted for over 90% of the gains. This aligns with our view that a gradual recovery in private demand will see a 'handover' from a public to private sector led expansion.

There were a few surprises in the quarter. First, consumption was softer-than-anticipated as households remained cautious and continued to prioritise savings. That said, it was still an improvement from the negatives in Q2 and Q3. Second, new dwelling investment fell 0.4%qtr, raising questions about whether capacity constraints have eased. However, this fall looked to be driven by some weakness in WA and annual trends remain positive. Finally, labour productivity declined for a third consecutive quarter, reversing the positive trend seen in the second half of 2023 and early 2024. Labour Account details revealed this weakness was again concentrated in the non-market and minings sectors. However, there was also some easing in productivity growth of the non-mining market sector.

Outlook broadly unchanged, uncertainty high

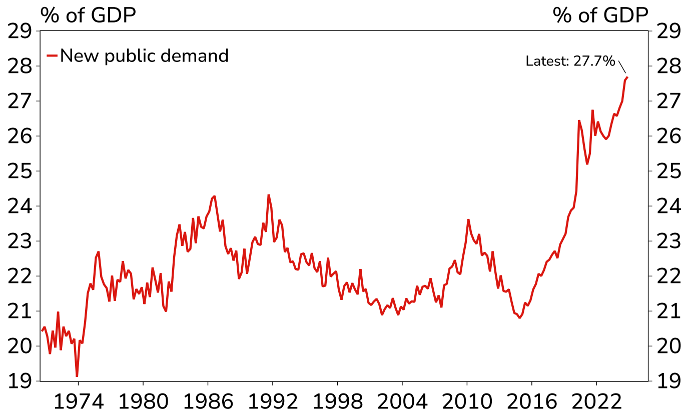
With the last quarter of 2024 unfolding largely as anticipated, our base case for the outlook is broadly unchanged. Our year-ended GDP growth forecasts for 2025 and 2026 are unchanged at 2.2% but with some slight tweaks to the detail.

Contributions to quarterly GDP growth



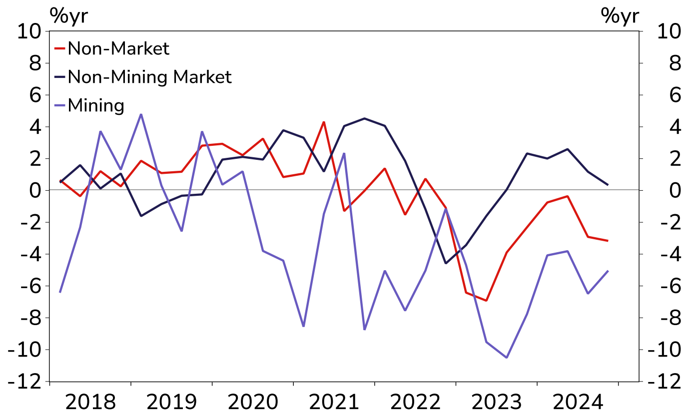
Source: ABS, Macrobond, Westpac Economics

New public demand: fresh record high



Source: ABS, Macrobond, Westpac Economics

Productivity: broad sectors



Source: ABS, Macrobond, Westpac Economics

... but state trends divergent

Since mid-2024, Australian households have largely directed the gains in real incomes toward savings and rebuilding financial buffers rather than increasing spending. As a result, we now expect the flow through of these gains to consumption to take a little longer. Accordingly, we have nudged down our 2025 consumption forecast by 0.1ppt, while our outlook for 2026 remains unchanged. Risks are finely balanced on either side.

On the private investment front, we have upgraded our dwelling investment forecast for 2025 by 0.9ppts with the rest of the profile unchanged. We remain of the view that operational supply constraints have now largely been resolved, despite the blip in the latest quarter. This is allowing backlogged projects to clear faster and suggests growth in dwelling investment should re-converge with growth in the pipeline of dwellings under construction. Notably, new dwelling approvals are also showing a gradual lift.

Our public sector growth forecasts remain unchanged in the near-term, but risks are tilted to the upside. The 2025-26 federal and state budgets are likely to see additional policy measures, particularly around cost-of-living relief, which along with some costs associated with Cyclone Alfred will add some lift to government demand.

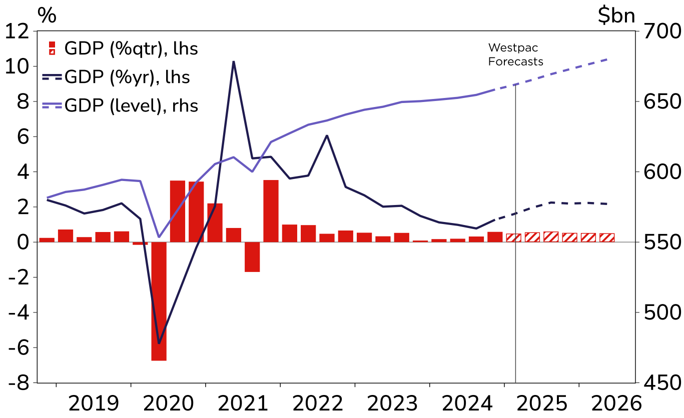
We have also adjusted our external sector forecasts in response to slightly softer consumer demand as well as ongoing global trade disputes. As a result, we have lowered our forecasts for both export and import growth in 2025.

The states

National trends are mirrored at the state level but to varying degrees. At one end, Tas and WA are leading the nation, driven by strong public sector contributions and relatively stable household consumption. Qld and SA both saw solid performances through 2024, but notable slowdowns in the December quarter, sharp declines in new business investment producing the weakest quarterly growth performances across the states. Then we have NSW and Vic, the two largest states, that faced similar challenges at the height of the pandemic and cost-of-living crisis. More recent growth trends however have been uneven, with public sector spending playing a major role in the divergence.

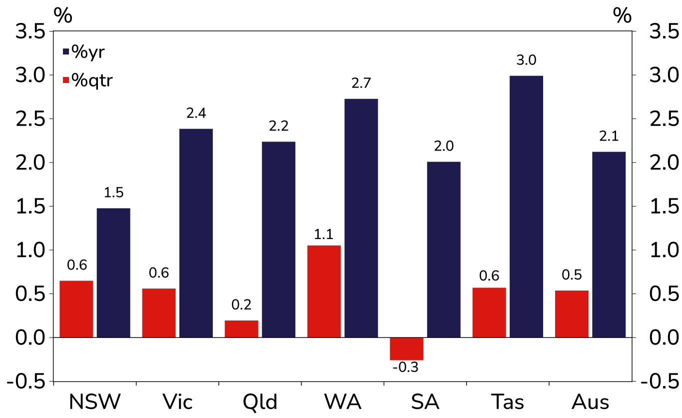
Population dynamics are also significantly influencing economic growth across the states. In NSW, Qld and WA, activity has lagged population growth over the past year, shrinking on a per capita basis. As policy easing, and housing market and population growth rebalancing take shape, these gaps should start to narrow. Key uncertainties are centred around how quickly and to what extent households increase spending in each state, and how much additional support each state government will offer going forward.

Gradual recovery in economic growth anticipated



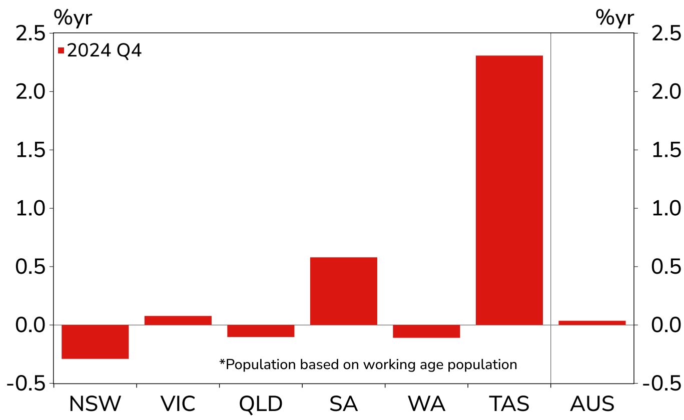
Source: ABS, Macrobond, Westpac Economics

State final demand: Q4 2024



Source: ABS, Macrobond, Westpac Economics

State Final Demand per Capita*



Source: ABS, Macrobond, Westpac Economics

Savings buffers and tariff threats ...

Neha Sharma
Economist

State trends have increasingly diverged in recent years, with stark differences between household consumption sector, public sector support and housing market dynamics. This state overview explores how household savings patterns have evolved post-pandemic, providing insight into financial resilience. We then turn to the impact of US tariffs, examining which state are most exposed and where the risks lie.

State savings balances

Since the pandemic, we have witnessed various divergences in economic conditions across the states. One of the more elusive changes is the way household savings are unfolding regionally. While we can track the flow of savings annually, this data is not timely and does not provide a full picture of the stock of savings – the accumulated buffer that ultimately determines a household's financial resilience, and, in turn, influences their spending decisions.

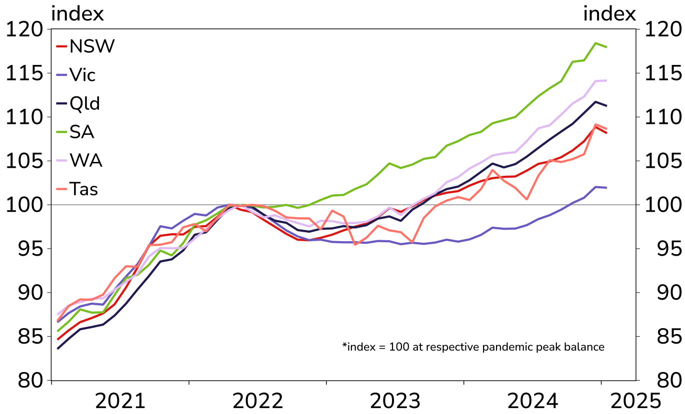
This is where the recently launched **Westpac-DataX Consumer Panel** helps. The panel tracks financial activity across around 1m Westpac customers and provides details about average savings balances and breakdowns by state. Information is available monthly up to January 2025.

At the state level we saw savings – covering both deposit and offset account balances – being drawn down from late-2022 through to early-2023. This has been followed by a period of rebuilding. As of January 2025, the average household savings balance ranges from $24.4k in Tas to $43.3k in NSW, with balances in each state higher than the peak seen during the pandemic. Compared to this peak, household savings are currently more than 10% higher in Qld, SA and WA, around 8-9% higher in NSW and Tas, while Vic is lagging a long behind with savings just 2% higher.

Growth in saving balances across the states shows very slight variations. In the year to January, balances have grown between 6-9% across the states, with Vic at the lower end and WA at the upper. The annual pace has also strengthened across all states over the past two years.

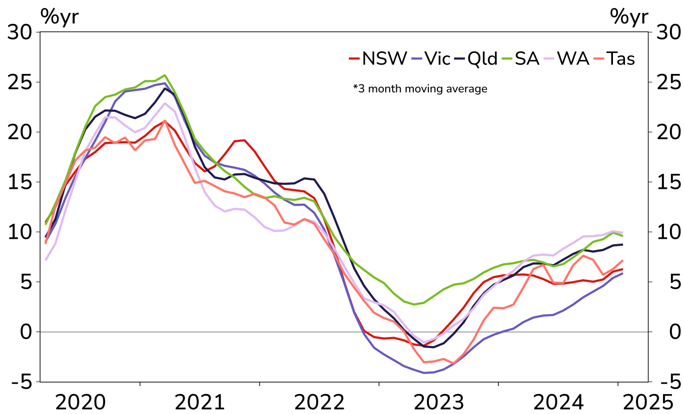
Despite rising savings balances, financial buffers remain well below their respective pandemic peaks. For mortgage-holding households, savings relative to mortgage payments are down 19-28ppts from their peak, with Vic seeing the biggest decline and WA the smallest. This may offer some explanation as to why WA has seen more robust household consumption trends over the past year. Overall though, mortgaged households in most states appear financially resilient, on average having

Household savings



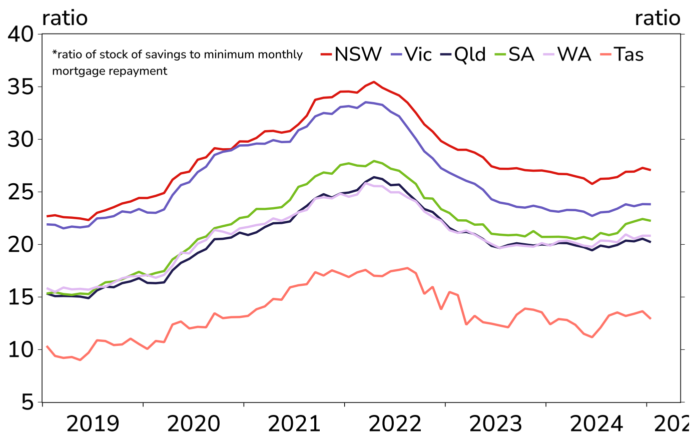
Source: , Macrobond, Westpac Economics

Growth in household savings



Source: , Macrobond, Westpac Economics

Household saving buffers



... vary greatly across states

over 20 months of buffers. That said, there are pockets of vulnerability across different income groups.

Our earlier analysis (see here) also highlighted that Australian households are saving 75 cents for every dollar gained from the 'stage 3' tax cuts. Updating this analysis to track the cumulative impact since its introduction, we observe quite similar trends across the states. In NSW, Vic and Qld households saved 75c for every dollar gained from the tax over the 7 months leading to January. Tas and SA saw a slightly lower rate at 72 cents and 73 cents respectively, while WA was on the higher end saving 76 cents on the dollar.

Tariff threats

State domestic demand tells one part of the story and our last **Coast to Coast** (see here) brought to light significant differences once the external sector was factored in. WA, in particular, saw gross state product (GSP) grow just 0.5% in 2023-24, with the weakness entirely driven by a hefty 3.8ppt drag from net exports as a result of lower commodity volumes.

External conditions pose a bigger risk currently with tariffs being increased in the US and elsewhere. So far only one US measure affects Australia directly – a 25% tariff on aluminium and steel products – but a wider 'universal' tariff is expected to come into effect from April. While the scope remains uncertain, and we still expect the *direct* impacts on Australia to be limited (see here), any effects will be unevenly felt evenly across states.

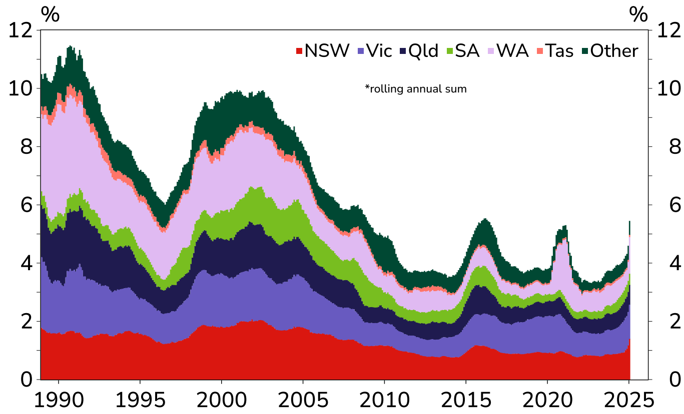
The 2023-24 State Accounts highlighted that WA and Qld are most exposed to a global slowdown. Exports make up a whopping 61% of WA's economy – the highest of any state – while Qld, though significantly lower, still sees nearly a third of its GSP tied to exports (32%). These states are also more commodities-based, focused on mining and agricultural exports. In contrast, exports accounted for just 12-18% of GSP across the other states, leaving them less vulnerable to global trade shifts.

Despite being the major trade players in Australia, WA and Qld have the smallest direct export exposure to the US of the states, at just 2.8% and 3.2%, respectively as at 2024. Elsewhere trade ties with the US were stronger ranging from 8-17%, though the nominal value of exports were much smaller. Notably, every state's US trade share was below its respective long run average over the past year, signalling a shift toward more diversified export markets.

Australian exports to the US surged in January as American importers rushed to front-load shipments ahead of looming tariff hikes. Looking at state trends, the spike was most pronounced in WA and NSW, with some impact in Vic and SA. In WA, 16.9% of goods exports were US-bound in January. This was up from just 3.6% in December and well above the 2024 monthly average of 1.4%, marking the highest monthly share since July 1990. NSW also saw a sharp jump, with exports to the US nearly doubling from December. At 23.7% of total exports, this was a record high share for any given month and compares to a typical monthly flow of 7.5% over 2024. Qld's January flow was a tad lower than the typical monthly flow observed over 2024.

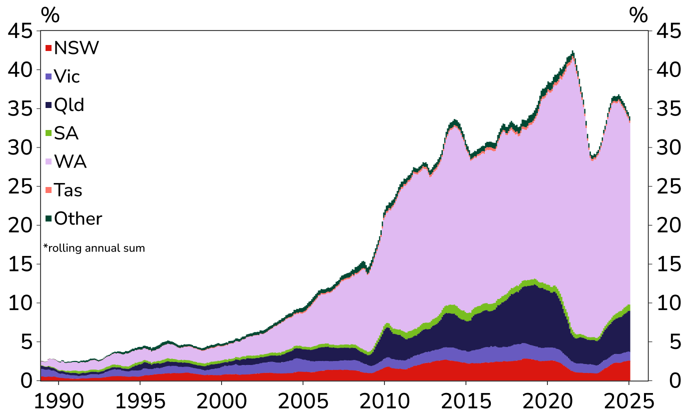
Overall states' trade exposure to the US is relatively low with the recent spike reflecting front-loading rather than a sustained uplift. This means direct impacts should be limited. The bigger risk stems from a broader global slowdown, especially in China, which remains a dominant export market for WA and Qld. Over the past 12 months, 52.8% of WA's exports and 24.3% of Qld's exports were bound for China.

Goods exports to US by state



Source: ABS, Macrobond, Westpac Economics

Goods exports to China by state



Source: ABS, Macrobond, Westpac Economics

Growth moves past its nadir …

Ryan Wells
Economist

NSW had a difficult 2024. As discussed in previous editions, growth in private demand was anaemic over the first half of the year and unlike many other states, the public sector provided little support during this period, state final demand growth troughing well below the nationwide average (0.1%yr vs. 1.5%yr). The result was a glimpse of the 'shaky handover' risk facing the wider economy – that is, a weak private sector that is unable to lift activity once public spending starts to slow. Fortunately, state final demand saw a partial recovery in the second half of the year, lifting to 1.5%yr, but the results were still mixed across sectors.

The turnaround has had little to do with public demand. This only managed to grow 2% over H2 2024, the weakest across all the states over the period. The underperformance was across both government consumption and total public investment, and across both Commonwealth and state/local levels. Overall, NSW's public demand impulse over 2024 fell well short of that seen in other states. While a solid pipeline of infrastructure projects will provide something of a floor under public demand, the state government's focus on fiscal consolidation will limit public demand growth near term. Infrastructure work will start to move into a sustained decline from 2026 as the Western Sydney Airport reaches completion but with work on the Sydney Metro running through to 2030.

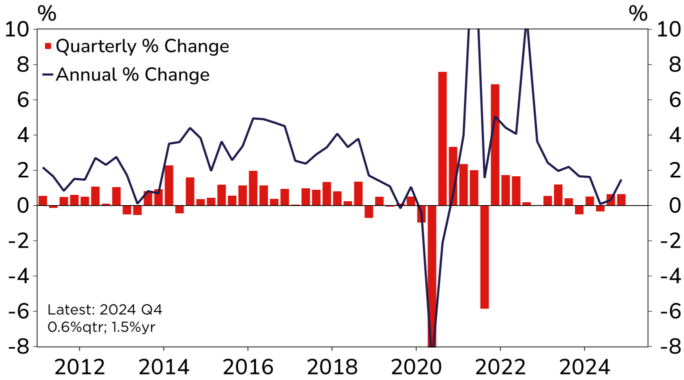
In contrast, private demand posted a more constructive rebound, swinging from the weakest state in Q2 (–0.2%yr) to the second strongest in Q4 (+1.0%yr), just behind Vic. Underlying this performance was an encouraging turnaround in household consumption, from –0.5%yr in Q2 to +0.4%yr in Q4, led by a pick-up in discretionary spending. Tax cuts and moderating inflation are helping but in terms of state-specific drivers, employment growth and hours worked were solid but not remarkable compared to other states over the period.

This, together with the sharper slowdown in wages growth, suggests the improvement in real disposable incomes over H2 2024 may have been more modest in NSW. Add to that the fading tailwind from population growth (from a peak of 2.2%yr in 2023 to 1.4%yr as at Sep 2024) and the absence of wealth effects (Sydney dwelling prices down –1% over the six months to Feb), and the turnaround in household spending looks to be precariously placed in NSW.

A nascent pick-up in private investment has also been an encouraging development given the tough backdrop. Machinery and equipment investment was an important driver over 2024 (+7.1%yr), offsetting the weakness in non-dwelling construction (–6.9%yr). Growth in new dwelling construction also provided some support (1.6%yr), with a rise in approvals suggesting there are more gains to come. However, even with this, the state will continue to face dwelling supply and affordability problems.

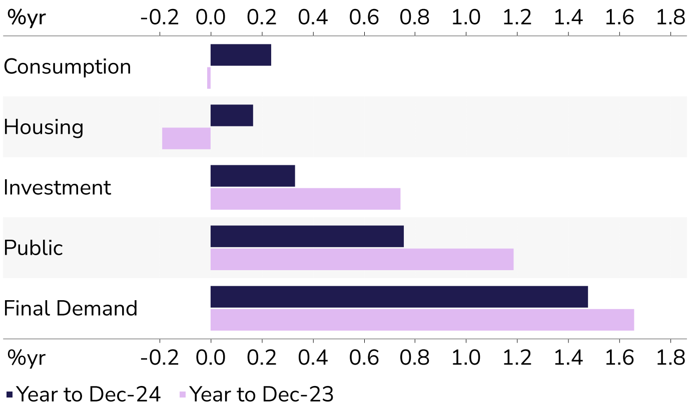
NSW State Final Demand

Chain Volume Measures



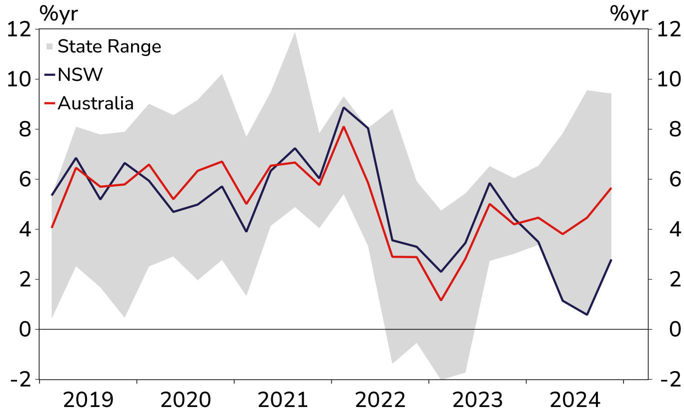
Source: ABS, Macrobond, Westpac Economics

NSW: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

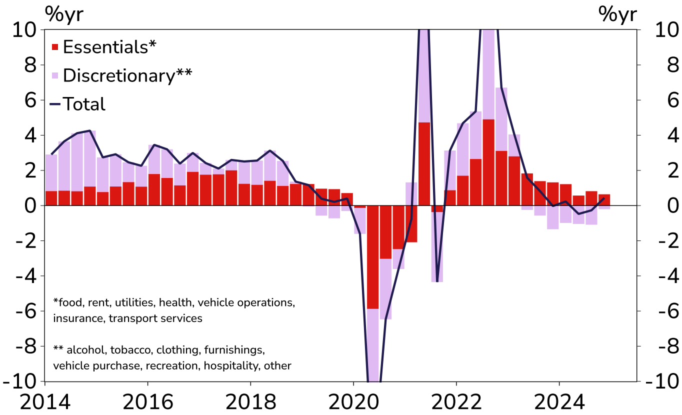
NSW public demand falls short of other states



Source: ABS, Macrobond, Westpac Economics

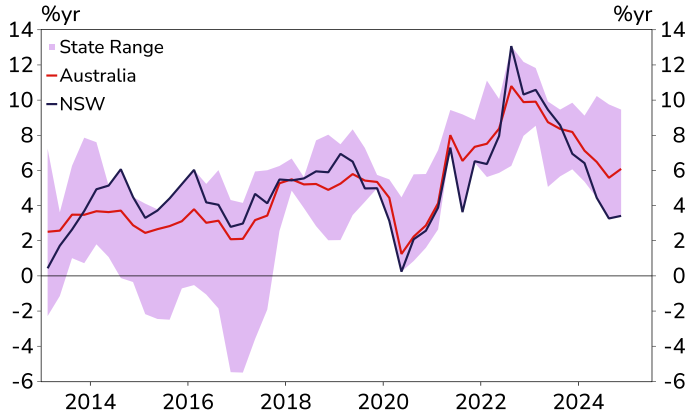
... but recovery remains precariously placed

NSW household spending slowly starting to lift



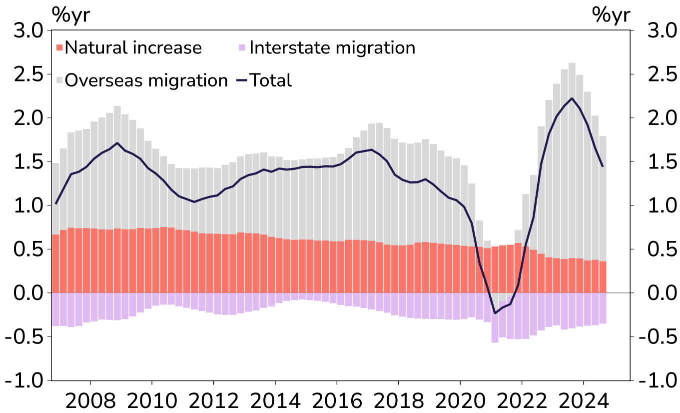
Source: ABS, Macrobond, Westpac Economics

NSW nominal worker compensation tracks lower



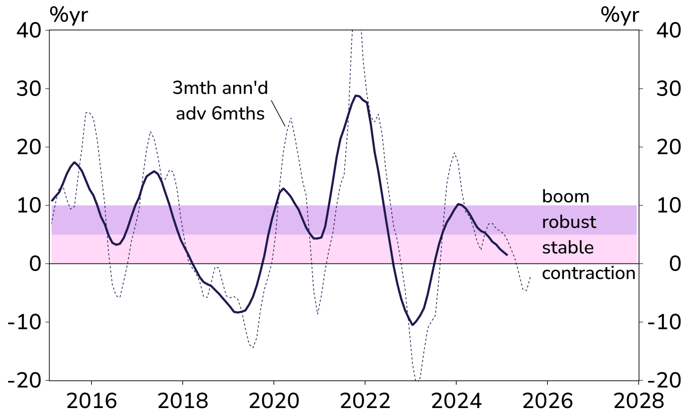
Source: ABS, Macrobond, Westpac Economics

NSW population growth coming off its peak



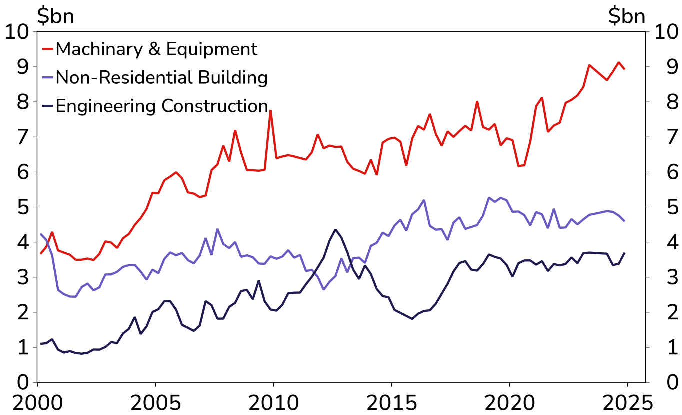
Source: ABS, Macrobond, Westpac Economics

NSW house prices swung into contraction



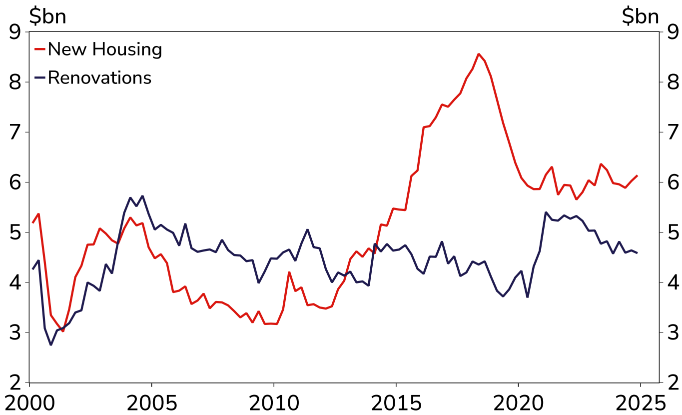
Source: CoreLogic Australia, Macrobond, Westpac Economics

NSW New Business Investment



Source: ABS, Macrobond, Westpac Economics

NSW New Housing vs Renovations



Source: ABS, Macrobond, Westpac Economics

Tentative recovery forming …

Matthew Hassan
Head of Australian Macro-Forecasting

The Victorian state economy has been noticeably softer than the other major states over the last two years. GSP growth and demand have both underperformed slightly compared to peers despite slightly stronger population growth. The state's unemployment rate has also seen a more pronounced rise, albeit still broadly consistent with the 'soft landing' seen nationally. The latest data is looking a little more positive, tax cuts and lower interest rates providing a welcome boost for Victorian household finances, the latter also contributing to a more positive tone in the housing sector. That said, Victoria still looks more susceptible to a 'shaky handover' from public to private demand drivers over the next years.

Victoria's state final demand growth was fairly steady over 2024, tracking around +0.5-0.6% a quarter to be up 2.4%yr, slightly ahead of the 2.1%yr gain nationally.

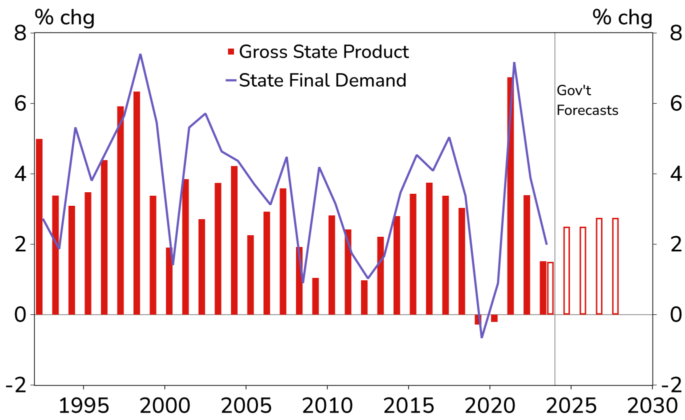
Around half of that growth is coming from a 4.7% rise public demand. As noted previously, this strength is likely to give way in coming years with state government projections showing public infrastructure activity is declining 2%yr in 2024-25 and then by 12%yr over the following three years as the current round of major projects roll off. Some fiscal consolidation is likely over and above this as well with state government finances facing significant challenges. Notably, the next state election is likely to be held towards the end of 2026.

Private demand is starting to show a little more momentum. Consumption growth lifted from -0.2%yr in mid-2024 to +0.6%yr by year-end, tracking a 0.8% pace in the second half. However, that still implies per capita declines with population growth running at 2.1%yr. Around housing, dwelling investment rose 4.9%yr but was about flat over the second half. The forward view is becoming a little more promising with new approvals showing some modest positive traction. Prices also look to have stabilised after posting a 3% decline over the last year.

Private sector business investment is more mixed. Non residential building declined 5.7% in 2024, contracting sharply over the second half, approvals suggesting there is more weakness to come. Other components posted solid rises though, up 7.5%yr on a combined basis.

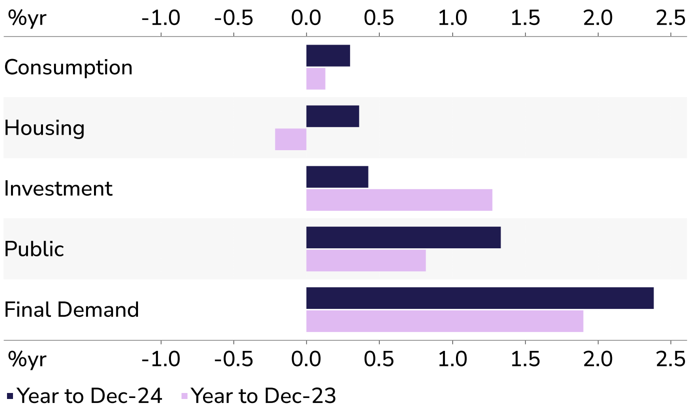
Victoria's labour market has also been mixed over the last few months. Annual employment growth lifted back up to 3.2% in December but has slowed sharply since then to 1.7%yr as at February. The state unemployment rate has risen to 4.7%, up materially on 3.5% low in late 2023. The state government's mid-year update had employment growth at 2.5% for 2024-25 and a slightly lower unemployment rate of 4.25%.

VIC Gross State Product & Final Demand



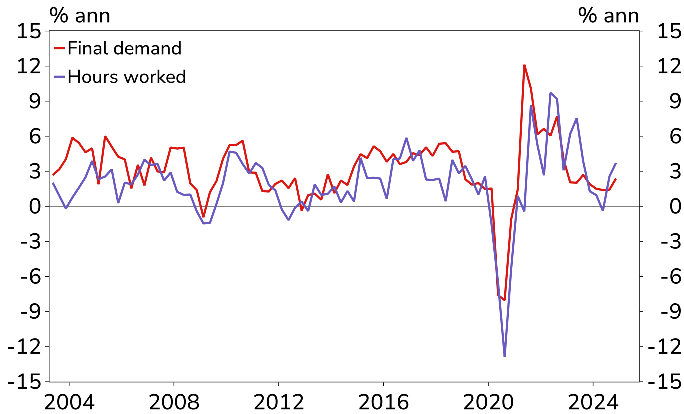
Source: ABS, Victoria Department of Treasury & Finance, Macrobond, Westpac Economics

Vic: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

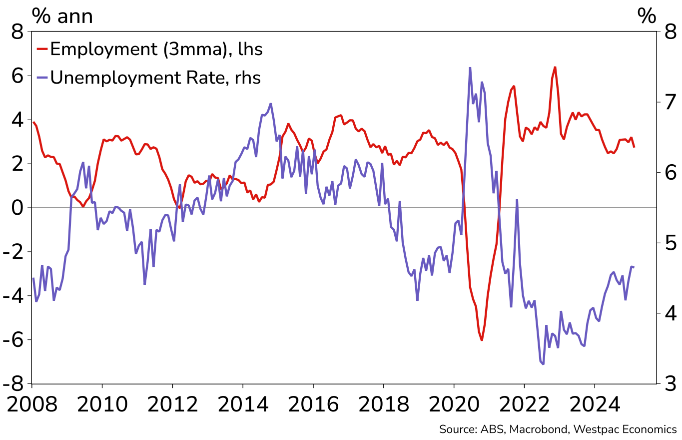
VIC State Final Demand vs Hours Worked



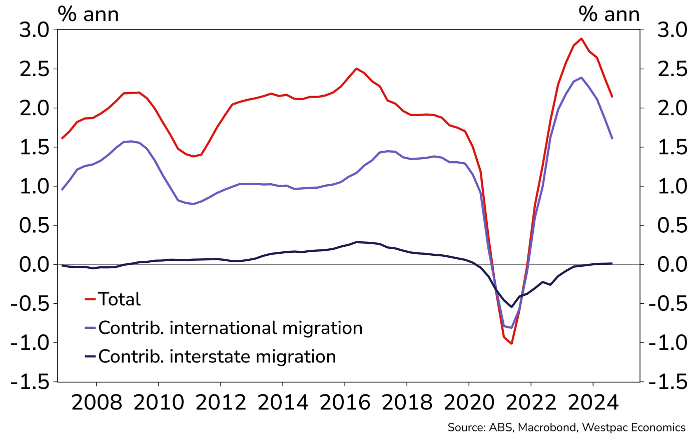
Source: ABS, Macrobond, Westpac Economics

… but demand susceptible to 'shaky handover'

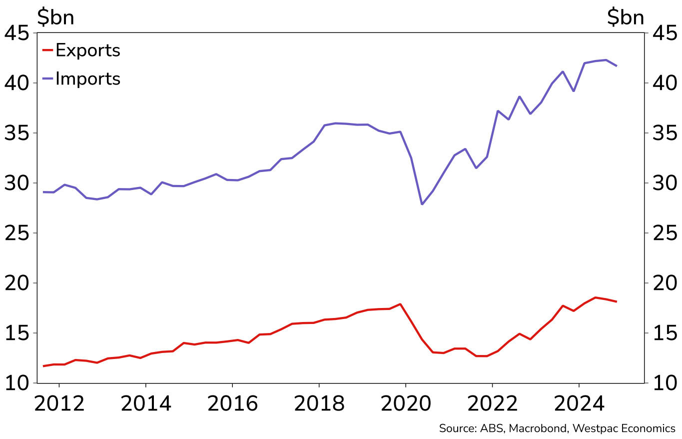
Victoria: jobs growth and unemployment



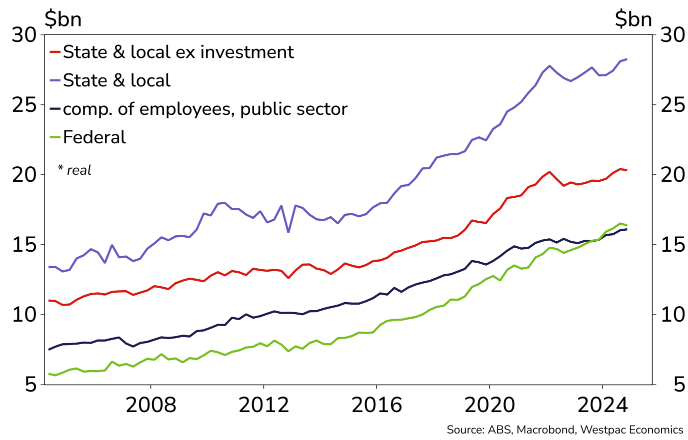
Vic's population growth: surge starting to slow



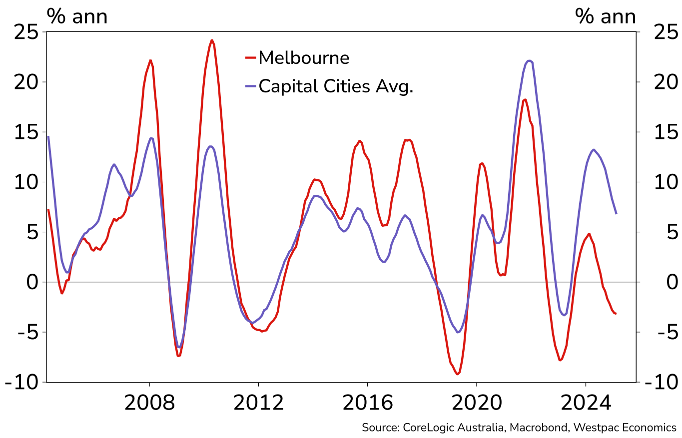
Victoria's international trade



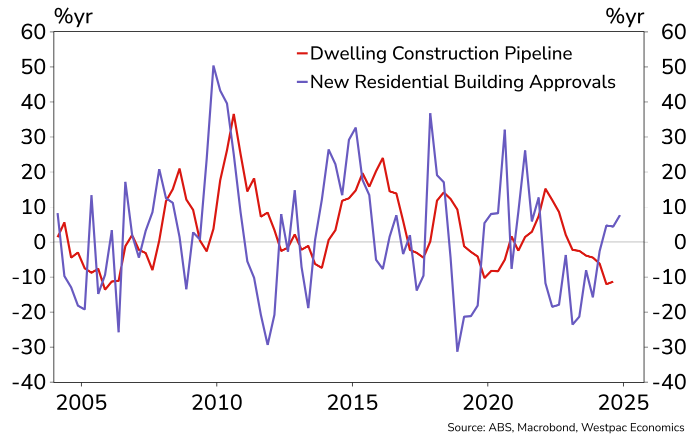
Government demand & wage spend



House prices are falling in Melbourne



Vic's residential construction pipeline



Weak growth and mounting debt ...

Neha Sharma
Economist

Qld's economy grew 0.2% in Q4, slowing from 0.7% previously, the second weakest result across the nation, behind SA. Annual growth eased to 2.2%, while per capita demand continue to go backwards, falling -0.1%yr. With population growth and public sector support fading, the state's next growth driver remains unclear.

New private demand remained under pressure slipping for a second straight quarter. After a 1.0%qtr drop previously, it edged down another 0.3%qtr in Q4 and was the only state to post an annual decline (-0.1%yr).

New business investment was the biggest drag, marking its third consecutive fall. A broad-based retreat saw investment fall 3.8%qtr to be 5%yr lower – the weakest of the lot. Intellectual property products were the lone bright spot. Non-residential building took the hardest hit in the quarter (-8.3%qtr) despite a slight decline in construction costs, which dipped 0.8%qtr, the first fall in four years. On a more positive note there is a large round of potential projects currently under consideration – with an estimated $180bn of possible or under consideration work vs the $90bn now underway.

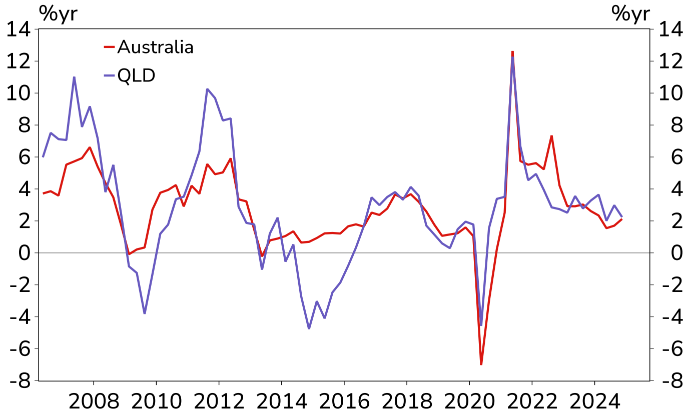
On the housing front, dwelling investment softened, down 0.7%qtr but has been more resilient over the year. The outlook is holding firm, approvals climbing by 8.1% over the last year.

Household consumption helped pick up some of the slack, rising 0.6%qtr, a partial bounce-back from the 0.9% fall in Q3, albeit with electricity rebates accounting for much of the swing. Excluding this component, consumption would have been up 0.2%qtr. This effect will continue in coming quarters.

New public demand continued to climb, rising 1.3%qtr – second to only NSW. While a step down from the hefty 5% jump in Q3, it capped off a strong second half of 2024, with demand growing 5.9%, compared to just 1.9% in the first half. Public consumption posted a modest rise over the quarter but the annual pace picked up to 7.3%, boosted by major cost-of-living relief measures. While some of this will unwind, the cyclone Alfred recovery efforts will see some increased spend.

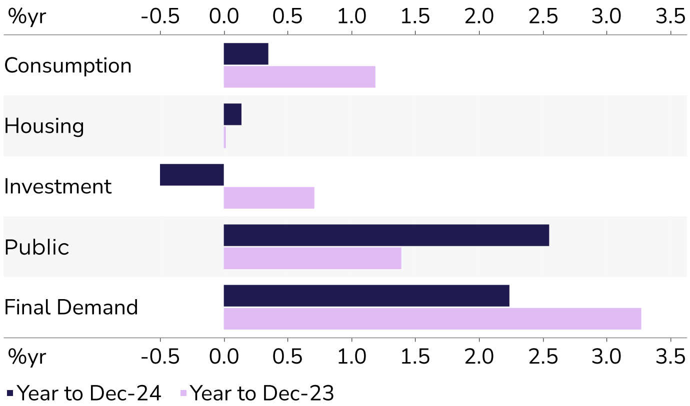
The Qld state government's 2024-25 mid-year budget update revealed a $20b deterioration in the budget balance to 2027-28. The budget deficit is now expected to total $30.2b over the forward estimates, with much of the downgrade tied to legacy underfunding issues. Revenues have been revised slightly lower, balancing out stronger payrolls and duty collections against weaker mining royalties as commodity prices continue to normalise. Meanwhile, net debt is on track to reach 16.3% of gross state product by FY28, up from 1.1% in FY24.

State final demand: Qld vs Australia



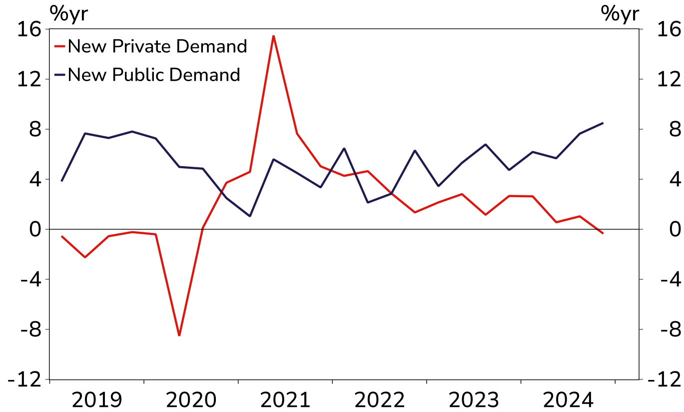
Source: ABS, Macrobond, Westpac Economics

Qld: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

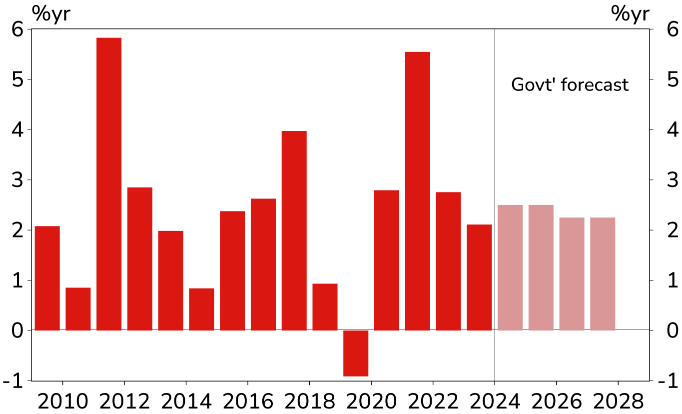
Public and private demand diverging



Source: ABS, Macrobond, Westpac Economics

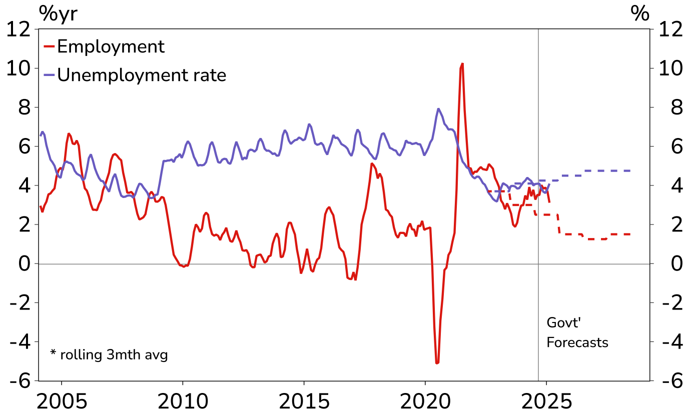
... marks an unclear horizon

Gross state product forecast downgraded



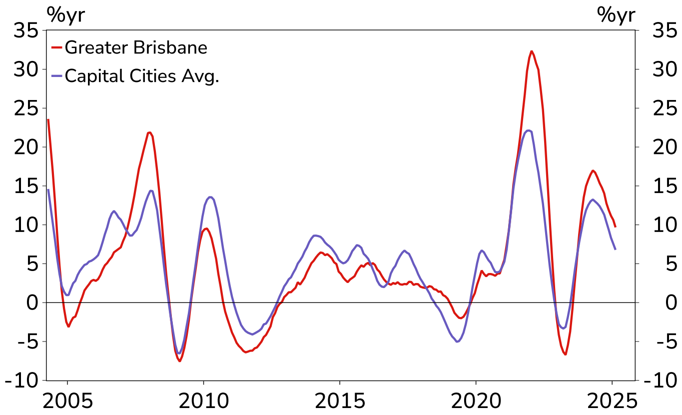
Source: ABS, Government of Queensland, Macrobond, Westpac Economics

Labour market forecasts ugraded



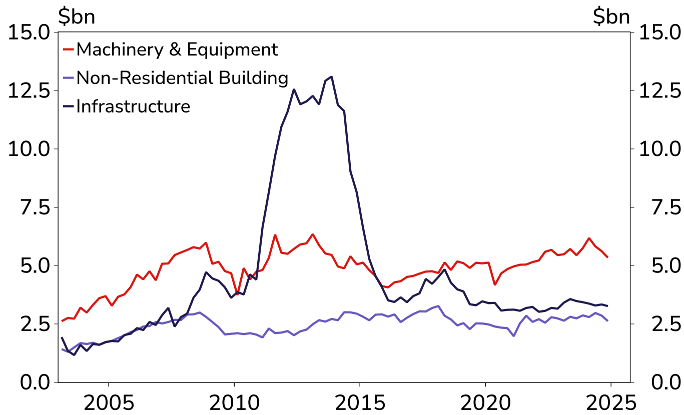
Source: ABS, Government of Queensland, Macrobond, Westpac Economics

Brisbane's housing price growth slowing



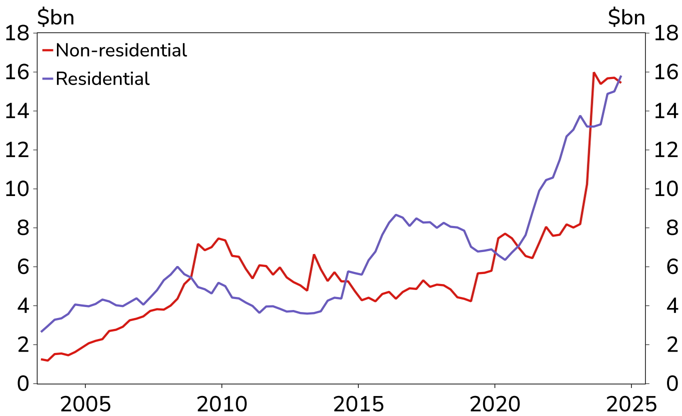
Source: CoreLogic Australia, Macrobond, Westpac Economics

Business investment slowing



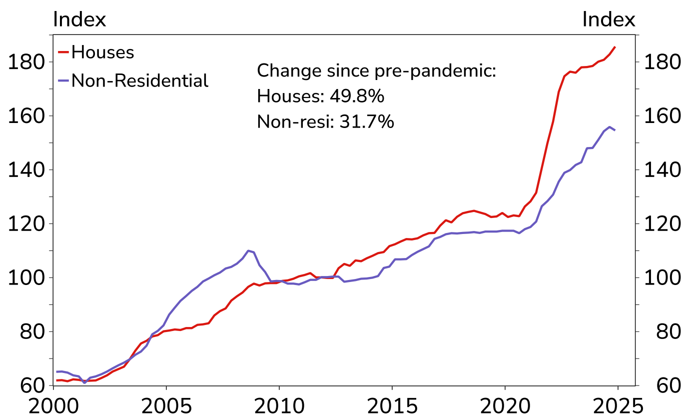
Source: ABS, Macrobond, Westpac Economics

Construction pipeline remains solid



Source: ABS, Macrobond, Westpac Economics

Non-resi construction costs decline



Source: ABS, Macrobond, Westpac Economics

Activity picking up again ...

Matthew Hassan
Head of Australian Macro-Forecasting

As noted in our last report, the WA economy presented something of a puzzle last year with strong domestic demand but a surprisingly weak export performance that saw overall GSP (the state analogue of GDP) rise just 0.5% in 2023-24. That weakness centred on the mining and agricultural sectors where the causes appear to have been mainly temporary in nature. GSP across the rest of the state economy posted a robust 3.1% gain with more recent indicators suggesting activity has accelerated heading into 2025. While there are clear risks gathering externally and some signs that the boom in Perth's housing market is cooling, capacity constraints look set to pose the main challenges in the next two years.

As noted, the weak GSP growth in 2023-24 centred on a 2.1%yr decline in mining and a 6.6%yr decline in agriculture. For mining, operations at the giant Gorgon LNG facility were disrupted by mechanical faults while other sites were affected by maintenance closures. Output is also being affected by a gradual depletion of the North-West Shelf reserves and delays in bringing new reserves online. For agriculture, output was coming off an extremely high level in 2022-23, having risen by nearly a third in two years thanks to near-perfect growing conditions that resulted in record harvests. Some normalisation was clearly to be expected and unlikely to mark the start of a continued weakening.

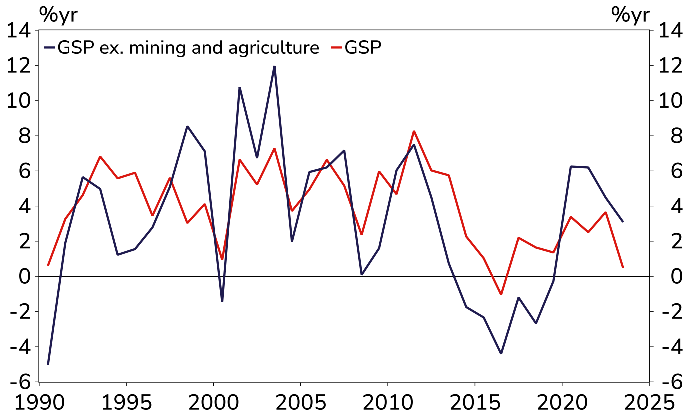
Meanwhile, state final demand has continued to grow at a firm, albeit choppy pace. The December quarter saw a 1.1% rise, taking annual growth to 2.7%yr. Choppiness has centred on business investment and stop-start public sector spending.

The picture around business investment remains unsure. Despite a 3.4% bounce in the December quarter, new business investment still finished down 3.3%yr with the pipeline of both non residential building and infrastructure work shrinking. There also continues to be little or no change in the major project pipeline likely reflecting a range of factors, including cost, uncertainties around demand and geopolitical issues more generally.

Housing investment is a clearer positive, albeit with capacity issues and backlogged work still issues. New dwelling investment dropped 4.8% in the December quarter but was still up 1.6%yr. A much bigger surge is on the way though with dwelling approvals in 2024 up 50% compared to 2023. On the price side, the boom has clearly cooled with Perth price growth down sharply from its double-digit pace.

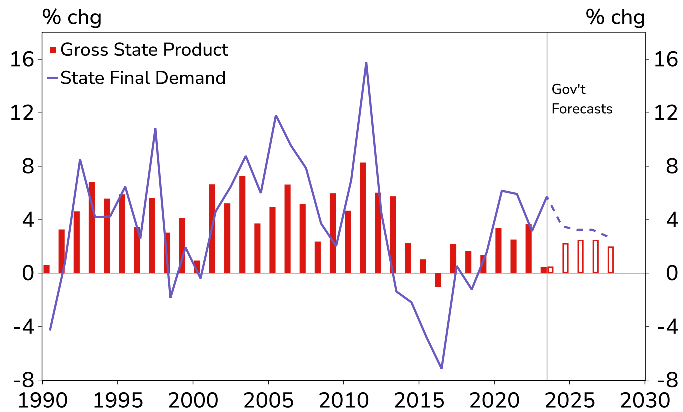
Labour markets provide probably the best pointer to the state economy. After lagging somewhat in late 2024, growth in both employment and hours worked have re-accelerated in 2025 with the state's unemployment dropping back to just 3.4%.

WA Gross State Product



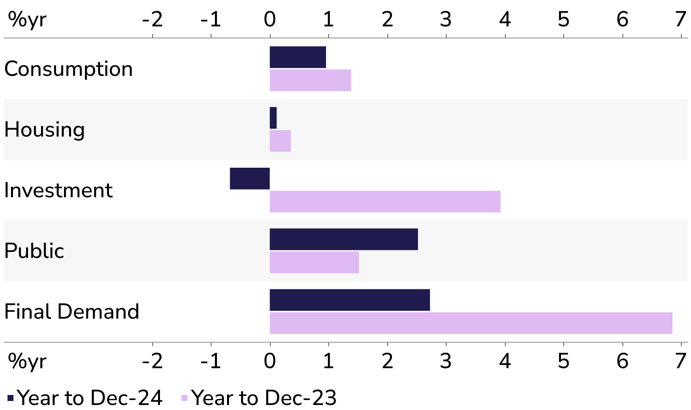
Source: ABS, Macrobond, Westpac Economics

WA Gross State Product & Final Demand



Source: ABS, Government of Western Australia, Macrobond, Westpac Economics

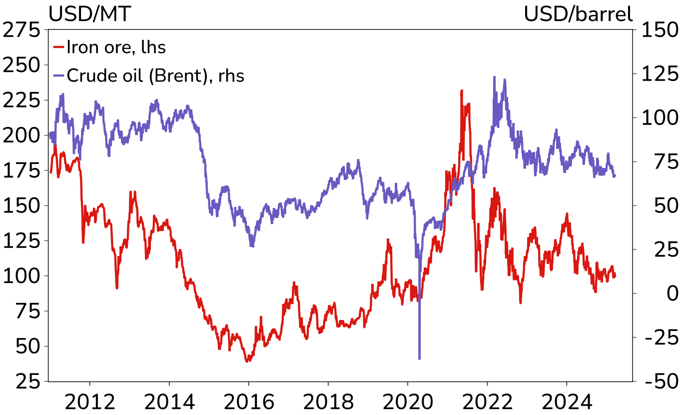
WA: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

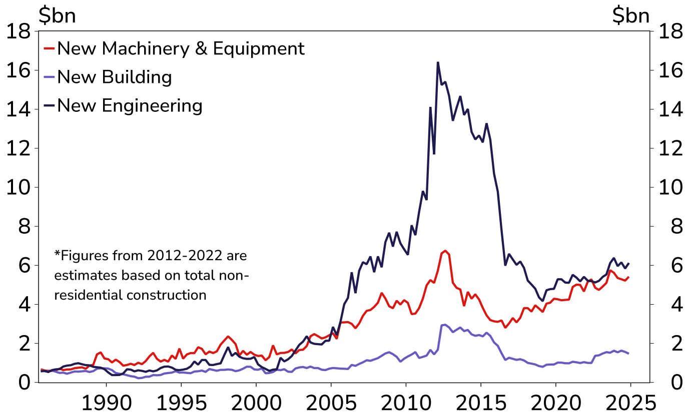
... capacity already looking tight

Commodity prices



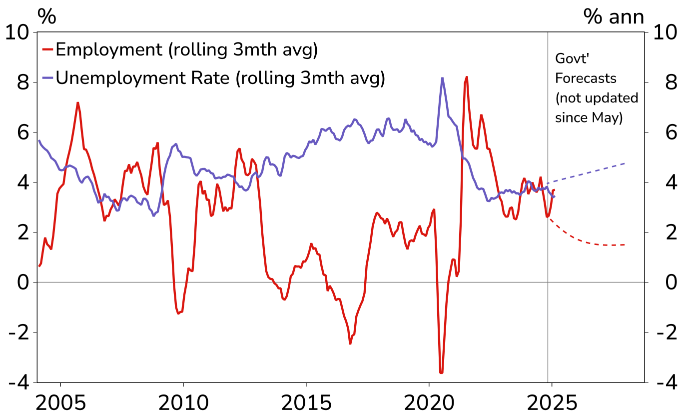
Source: CME Group, Macrobond, Westpac Economics

WA Business Investment by Type



Source: ABS, Macrobond, Westpac Economics

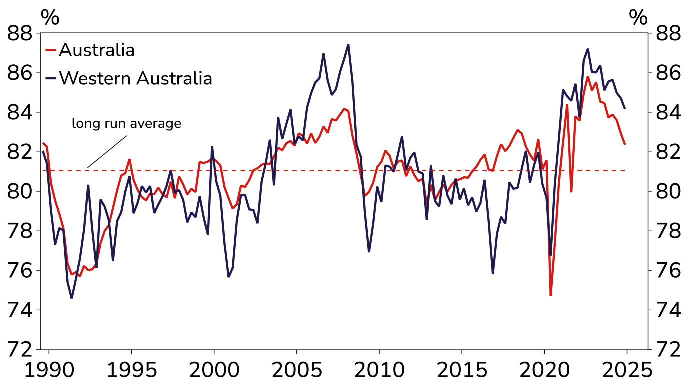
WA Employment and Unemployment



Source: ABS, Government of Western Australia, Macrobond, Westpac Economics

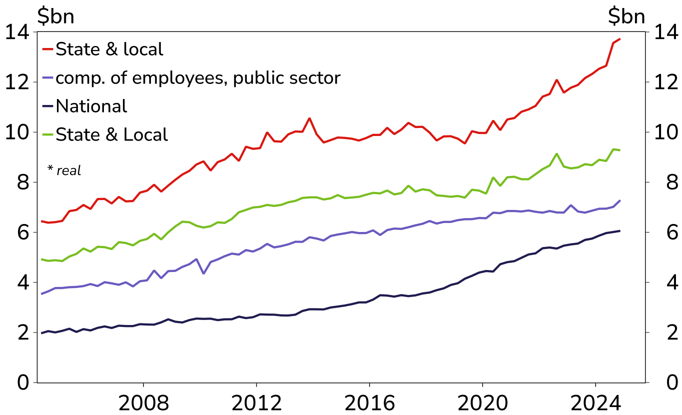
Capacity utilisation

Seasonally adjusted by Westpac



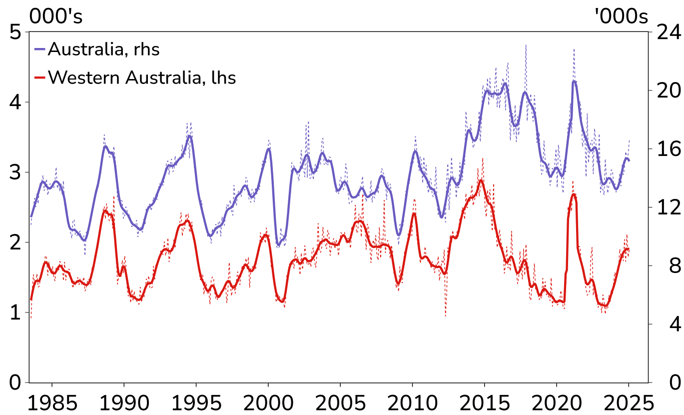
Source: NAB, Macrobond, Westpac Economics

Government demand & wage spend



Source: ABS, Macrobond, Westpac Economics

WA dwelling approvals surge



Source: ABS, Macrobond, Westpac Economics

Public and private investment tumble …

Neha Sharma
Economist

State final demand dipped 0.3% in SA in Q4, marking the only state in Australia to go backwards over the quarter. Over the year, demand edged up 2.0%, narrowly avoiding last place. Per capita trends tell a different story – SA seeing the second strongest annual growth rate on a per capita basis, offering a silver lining amid the broader slowdown.

New private demand dipped 0.5% in Q4 to be up 0.6% over the year. Household consumption was at a standstill, posting a flat reading for the second quarter in a row, following a -0.1% fall in Q2. This left the annual growth rate languishing at a mere 0.1%, the weakest in the country. Electricity and purchase and operation of vehicles drove the weakness in the quarter. Even after stripping out electricity, which is being impacted by government subsidies, household spending remained sluggish, rising just 0.1%qtr.

Cost-of-living pressures are biting hard in SA, with real incomes under strain. Wages growth sits second to last at 3.1%yr. At the same time, Adelaide's inflation rate of 2.5%yr is running hotter than most capitals, second only to WA.

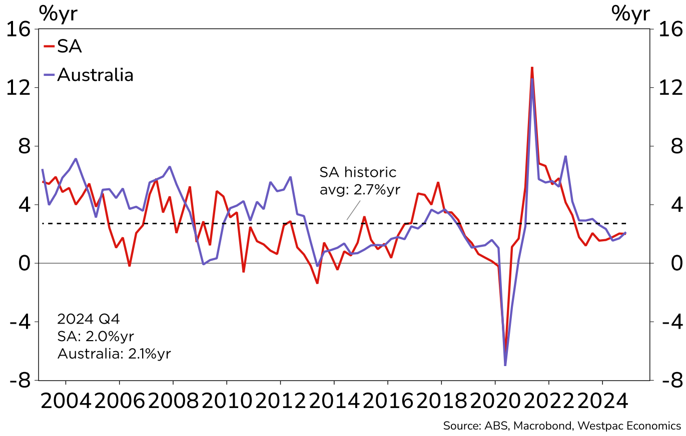
Providing some offsetting support to households, SA boasts one of the strongest housing markets with dwelling values still climbing 11.7%yr to February, tracking well above the national rate of 3.8%yr. The state also benefits from low unemployment, which is currently sitting at 3.7%. Both dwelling price growth and the unemployment rate are only second to WA.

New business investment remained the weak link, tumbling 4.7%qtr (0.5%yr). This was the steepest drop of any state and SA's biggest decline since Q3 2018. The downturn was centred on non-dwelling constriction and machinery and equipment, which were down -6.5%qtr and -5.5%qtr respectively. Departing from trends seen in other state, intellectual property investment was also down.

On the flip side, dwelling investment was solid in the quarter, up 5.2%. With a rising pipeline of residential projects in the works, this should help underpin activity in the medium term.

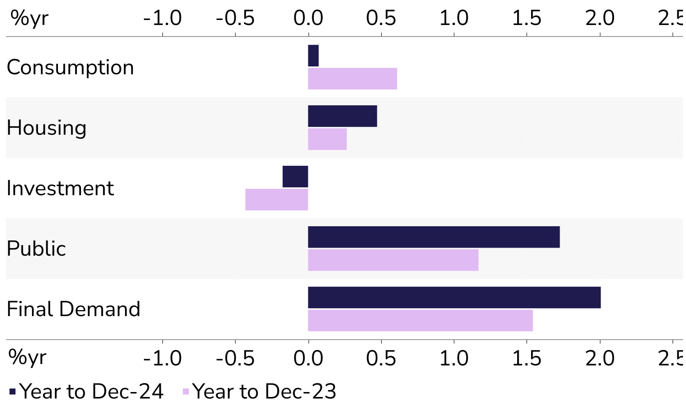
New public demand had a muted quarter, up 0.4% – the smallest gain of any states and the weakest result in nearly two years. Still it remained above the long-term averages of 0.1%qtr, with annual growth also solid at 5.7%. The softness came from a pull-back in public investment, which declined for the first time in two years. Meanwhile, public consumption held up better, rising 0.9%qtr and 4.4%yr.

State final demand: SA vs Australia



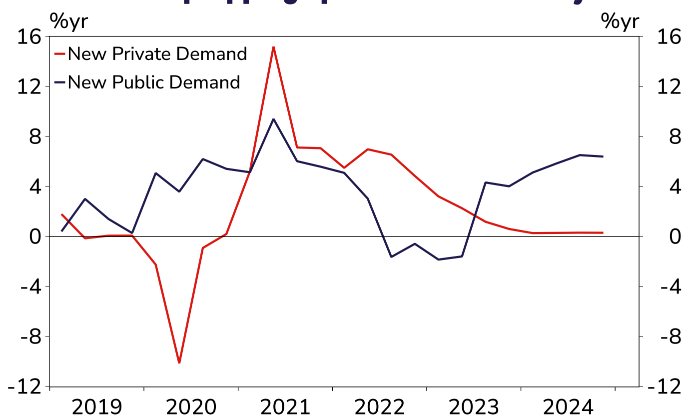
Source: ABS, Macrobond, Westpac Economics

SA: contributions to state final demand



Source: ABS, Macrobond, Westpac Economic

Public sector propping up the state economy

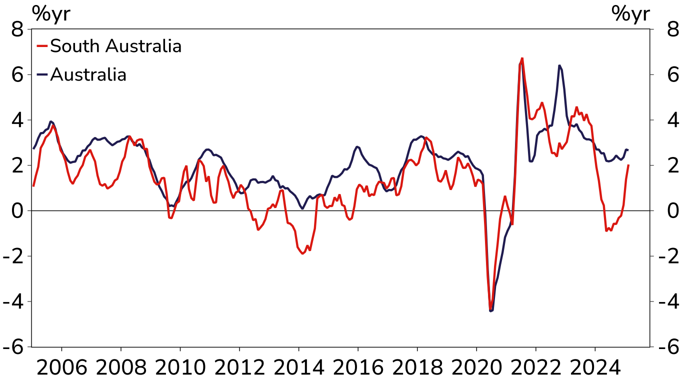


Source: ABS, Macrobond, Westpac Economics

… per capita growth bucks the trend

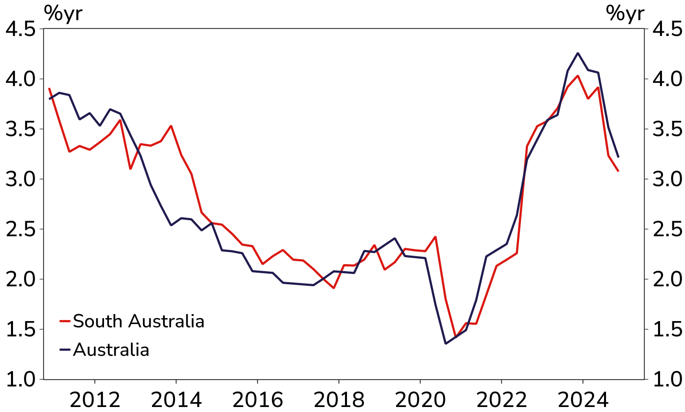
South Australia's labour market tipping over

Employment, smoothed three-month average



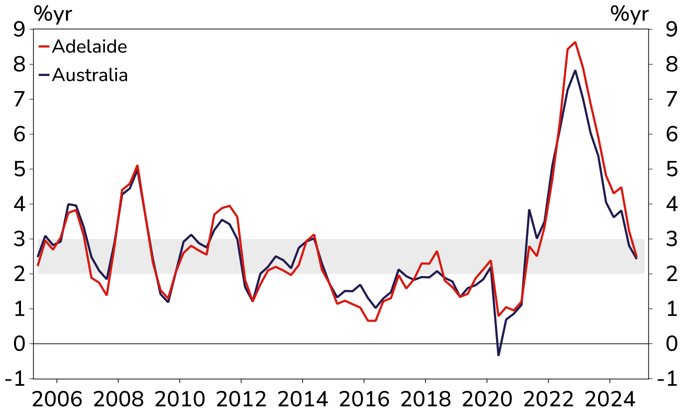
Source: ABS, Macrobond, Westpac Economics

Wages growth peaked lower, easing faster



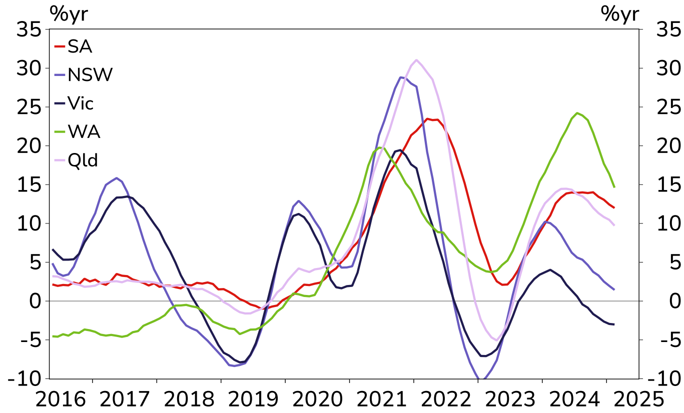
Source: ABS, Macrobond, Westpac Economics

Adelaidians have been squeezed by inflation



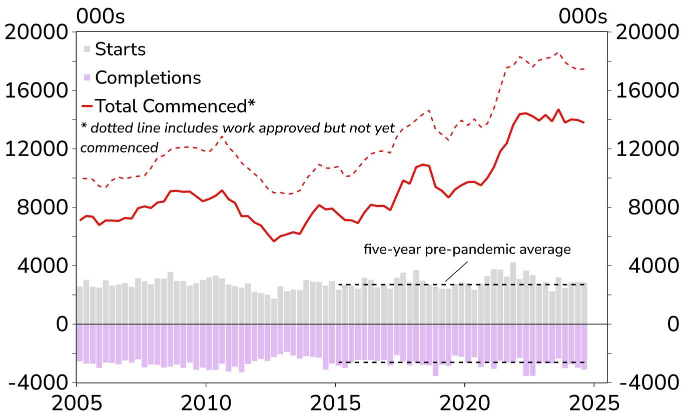
Source: ABS, Macrobond, Westpac Economics

SA housing market outperforms major states



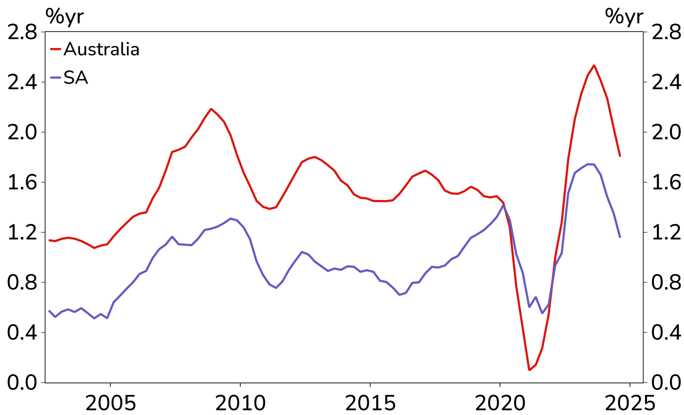
Source: CoreLogic Australia, Macrobond, Westpac Economics

Completions to rise as supply disruptions ease



Source: ABS, Macrobond, Westpac Economics

SA population growing more slowly



Source: ABS, Macrobond, Westpac Economics

Big finish to 2024 ...

Ryan Wells
Economist

Tasmania finished last year on a relatively solid footing, state final demand expanding 0.6% in Q4. This follows robust gains over Q1 (0.5%), Q2 (0.7%) and Q3 (1.1%) which, together with a soft base period comparison in Q4 2023, saw the island state shoot to the front of the pack, with state final demand advancing at an annual pace of 3.0%yr.

New public demand was responsible for virtually all the growth in state demand over the course of the year, up 8.8% over 2024. The most impressive part of the mix has been the stellar increase in new public investment over the second half of last year (+22%). So far, this has been mostly concentrated at the state and local level, reflecting the significant pipeline of investment in infrastructure and essentials services that is likely to put a floor under public demand over the period ahead.

Government consumption also provided a significant support to growth over the year (7.5%). Part of this captures the impact of energy rebates which effectively reallocated electricity spending from households to the state government. This dynamic now looks to have largely unwound and, based on recent budget papers, government consumption growth is likely to taper off from here but remain positive overall.

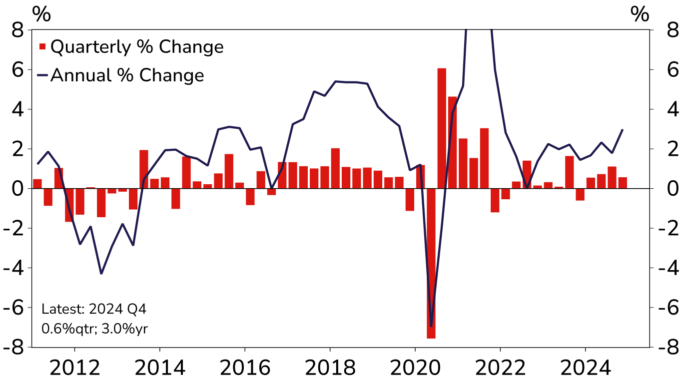
It was encouraging to see new private demand recover somewhat last year but having grown just 0.3% over 2024, the upturn is not particularly strong. The main driver of the improvement was a lift in household consumption (excluding electricity), up 0.7% over 2024. However, gauging the sustainability of this recovery is difficult. Unlike most other states, Tasmania experienced significant declines in employment and hours worked last year. But over the same period, Tasmania recorded the fastest pace of wages growth nationally (3.9%yr) with Hobart also reporting the slowest rate of headline inflation (1.5%yr). The net effect has been positive for real worker compensation so far but the extent to which this can persist will depend critically on whether the sharp weakening in the labour market starts to permeate more broadly.

While still positive, the pace of new business investment continues to decelerate on an annual basis, finishing the year 0.9% higher. The downtrend has been most consistent within infrastructure spending, but significant quarterly swings in non-residential building and machinery and equipment leaves some uncertainty around businesses appetite for capacity expansion.

Meanwhile, it was encouraging to see a bounce in new dwelling construction at year-end, up 3.6% in Q4. However, having followed persistent declines over previous quarters, growth still finished in the red for the year (3.0%yr). Physical drivers remain much weaker with Tasmania's population growth just 0.3%yr.

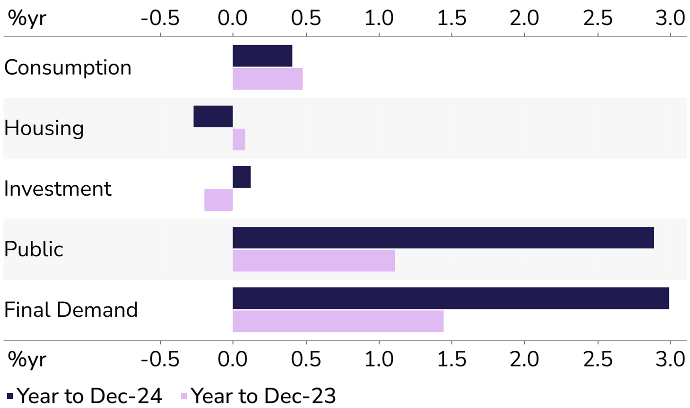
TAS State Final Demand

Chain Volume Measures



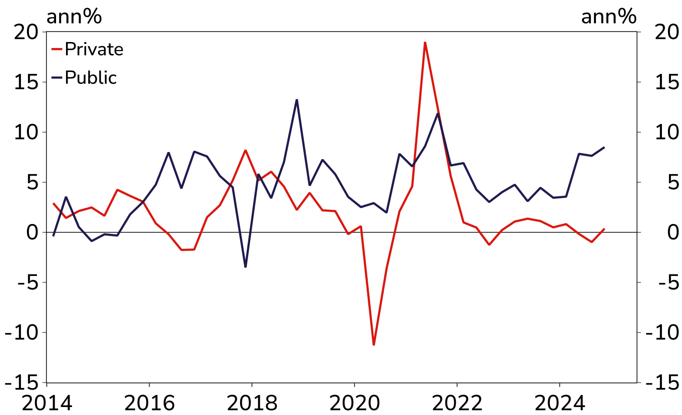
Source: ABS, Macrobond, Westpac Economics

Tas: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

TAS Public vs Private Demand

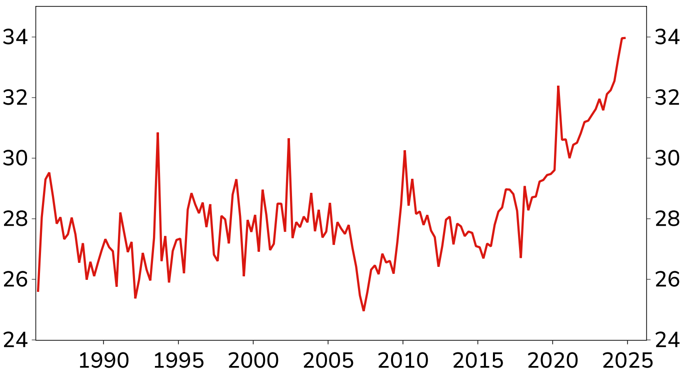


Source: ABS, Macrobond, Westpac Economics

... with underlying uncertainties

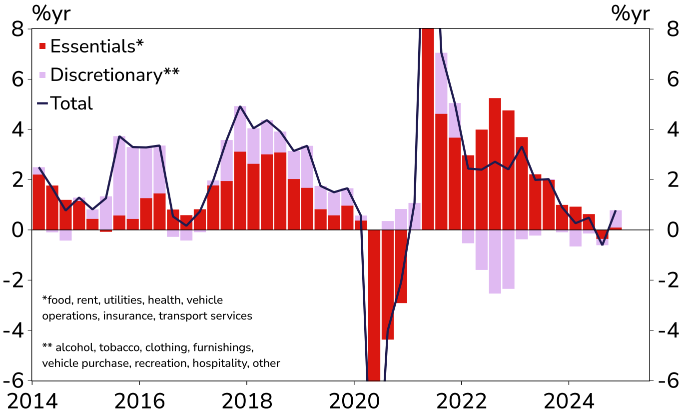
Tasmania's public sector is driving growth

Public Demand % Share of State Final Demand



Source: ABS, Macrobond, Westpac Economics

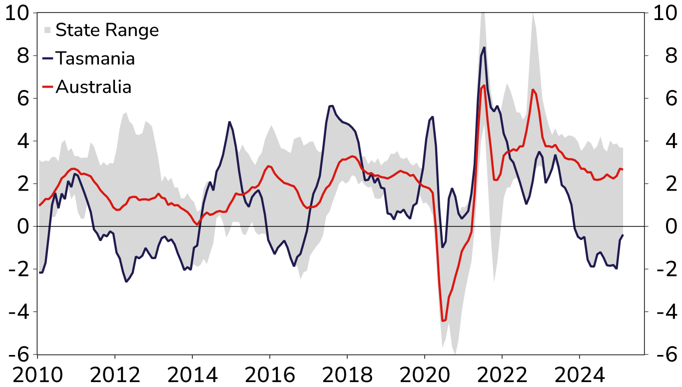
Tas household spending contributions



Source: ABS, Macrobond, Westpac Economics

Tasmania's labour market is very weak ...

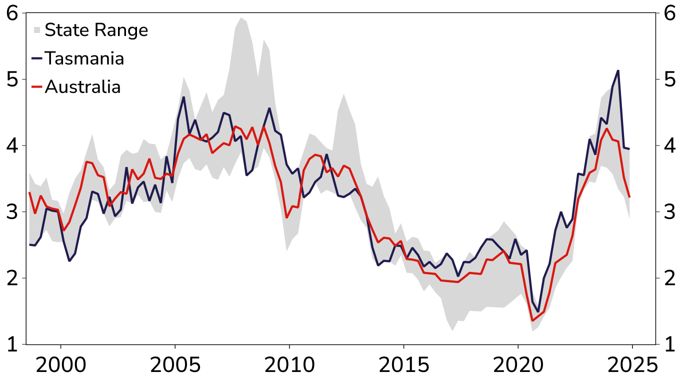
Employment Growth, Annual Change (%)



Source: ABS, Macrobond, Westpac Economics

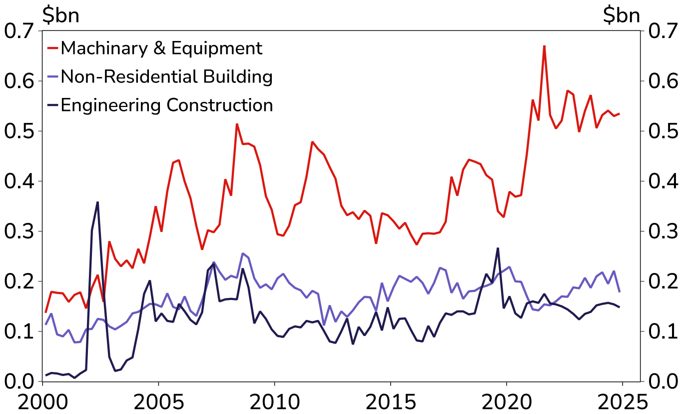
... despite still leading in wages growth

Wage Price Index, Annual Change (%)



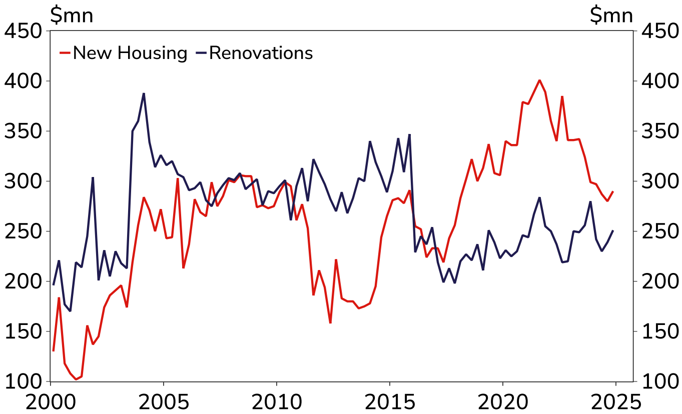
Source: ABS, Macrobond, Westpac Economics

TAS New Business Investment



Source: ABS, Macrobond, Westpac Economics

Tasmania's dwelling construction has eased notably



Source: ABS, Macrobond, Westpac Economics

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