5 March 2025

AUSTRALIAN GDP Q4 BULLETIN

Slow recovery but productivity still a concern

Key points

- At 0.6%qtr, the Australian economy expanded at a two year high in the December quarter but overall, the pick-up was underwhelming.
- Departing from recent trends, both public and private demand helped to boost activity out of a per capita recession.
- New private demand was supported by the first rise in consumer spending in two quarters.
- Business investment results were mixed, with notable weakness coming from dwelling investment.
- The combined effect of a step-up in wages, and a decline in productivity, provided a meaningful bump to unit labour costs in the quarter.

GDP: December quarter 2024

	% qtr		% yr	
	Sep	Dec	Sep	Dec
Household consumption	–0.1	0.4	0.3	0.7
Dwelling investment	1.5	–0.4	–0.1	2.5
Business investment*	–0.4	0.5	1.6	0.3
Private final demand*	0.0	0.4	0.7	0.8
Public spending*	2.5	1.0	4.4	5.5
Domestic demand	0.7	0.5	1.7	2.1
Stocks – private non–farm #	–0.4	0.3	–0.8	0.4
Stocks – other #	0.1	–0.2	0.7	–0.2
GNE	0.4	0.6	1.6	2.3
Exports	0.2	0.7	–1.2	1.7
Imports	–0.2	0.1	2.7	5.8
Net exports #	0.1	0.2	–1.0	–0.9
Statistical discrepancy #	–0.2	–0.1	0.2	–0.1
Non–farm GDP	0.2	0.4	0.6	0.9
GDP, real	0.3	0.6	0.8	1.3
GDP, nominal	0.5	1.6	3.5	3.7
GDP deflator	0.2	1.1	2.7	2.4
Household deflator	0.8	0.7	3.7	3.5
Earnings per worker (non–farm)	0.4	1.0	2.7	3.1
Real household disp income	1.1	0.7	2.5	1.9

*adjusted for asset sales. # ppt contribution to growth
Source: ABS, Westpac Economics.

Q4 GDP: 0.6%qtr, 1.3%yr

Q4 New Private Demand: 0.4%qtr, 0.8%yr

Australian economy shining a little brighter

Westpac Economics

Matthew Hassan, Sian Fenner, Justin Smirk, Mantas Vanagas, Ryan Wells, Neha Sharma

Growth is looking a little more balanced across private and public demand. However, it is still slow and, across the private sector patchy. New private demand lifted 0.4%qtr (0.8%yr), supported by an increase in household consumption after two quarters of decline. Meanwhile, new public demand expanded by 1.0% in the December quarter (5.5%yr) and now represents 27.7% of total GDP, a new record.

The long per capita recession in Australia has finally ended. Growth in per capita GDP has stabilised, up 0.1%qtr, after falling for seven consecutive quarters – the longest run of consecutive declines on record.

In year-ended terms, the economy grew 1.3% in the December quarter, picking up from the 0.8%yr pace in the prior three months, which was the slowest since the early 1990s recession, excluding the pandemic period. The December quarter marked the first improvement in the annual rate in over a year. However, it is still not very strong. Even focusing on the last six months, the 1.8% annualised pace is well-below trend for Australia, especially when population is growing around 2.0%yr.

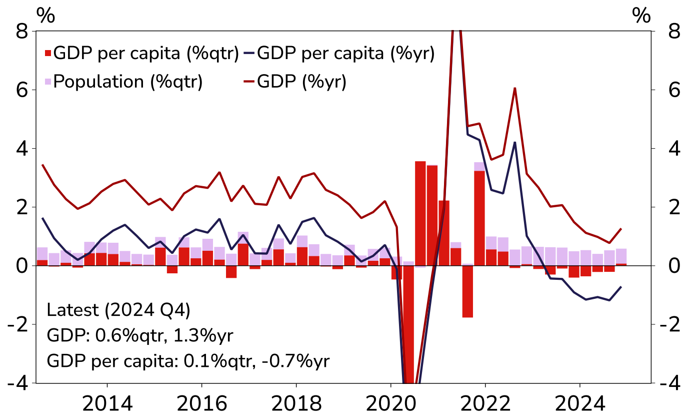
The December update revealed that the expected tentative recovery in private demand is underway but unfolding slowly. The pick-up in household consumption, supported by tax cuts and other cost-of-living measures is flowing through, but growth is still weak. The picture still shows that much of the income gains are being put towards savings.

Trends in private investment remain mixed. Gains in non-dwelling construction and intellectual property products were partly offset by weakness in machinery and equipment, and dwelling investment. CAPEX spending plans are being pared back, likely reflecting concerns around a lack of growth in private demand, and, to some extent uncertainty around both global and domestic policy.

The productivity result continues to disappoint and has now erased almost half of the progress made between early-2023 and mid-2024. That in-turn has resulted in an increase in unit labour cost inflation. We continue to judge that the aggregate measures have been skewed by the expansion of the care economy, which has a significantly lower level of 'measured' productivity, and the trend decline in mining productivity, while market sector (excl. mining) is holding up better.

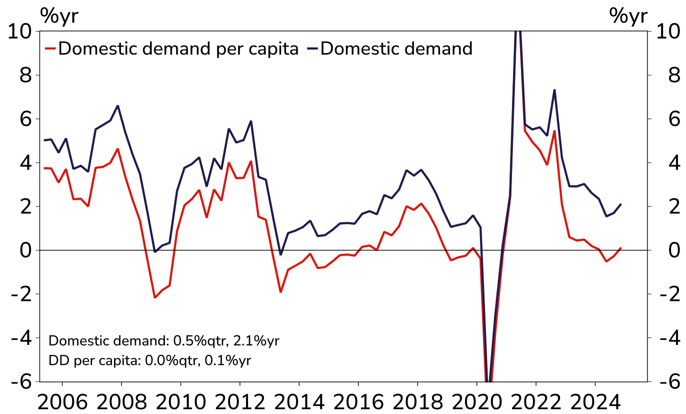
Looking ahead, the National Accounts were largely as expected and reinforce our view that the growth recovery will be slow and the consumer response to improving disposable incomes will be restrained – a view that seems more likely given the turbulent global backdrop.

GDP growth lifts, per capita up first time since Dec-22



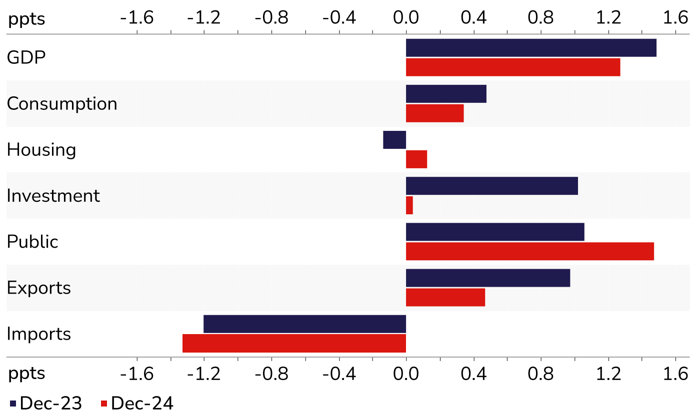
Source: ABS, Macrobond, Westpac Economics

Domestic demand starting to move past its nadir



Source: ABS, Macrobond, Westpac Economics

GDP: year-end contributions



Sources: ABS, Macrobond, Westpac Economics

However, the detail around productivity and unit labour cost was disappointing, suggesting this will continue to be a major consideration for the RBA with its policy decisions. The December quarter Labour Account, to be released on Friday, will shed more light on these issues.

GDP: the expenditure estimate

The expenditure breakdown points to a gradual rotation in drivers with private demand components gradually taking over from public demand, which has been the main engine of growth since the start of 2024.

New private demand rose 0.4%qtr, the best gain in six quarters, marking a notable improvement from the essentially flat results in Q2 and Q3. That was still a lot slower than the growth in new public demand, which came in at 1%qtr, annual growth lifting to 5.5%, the fastest pace since the pandemic. However, allowing for relative size, the GDP contribution from private and public demand was about even in the quarter compared to the previous two quarters, when over 90% of the gains came from public demand.

Household consumption was up 0.4%qtr, adding 0.2ppts to GDP growth – a better result following two consecutive quarters of falls (albeit with the latter mainly due to the effects of electricity subsidies). See below for more details.

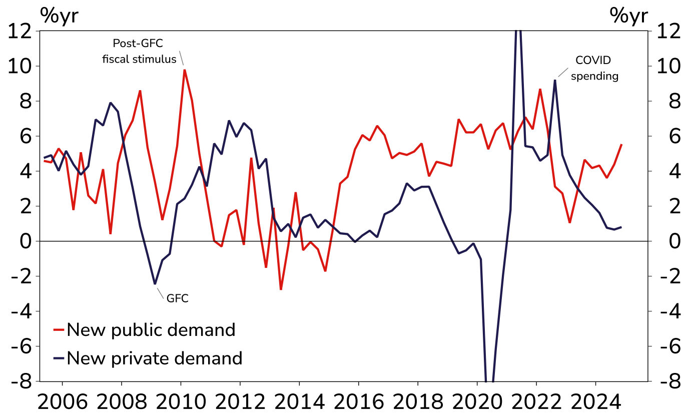
Dwelling investment saw a loss of momentum, declining 0.4%qtr having risen at a robust pace in the previous three quarters. Weakness centred on renovations (down 0.9%qtr) with new dwelling investment about flat. Despite the fall, annual growth turned positive, the 2.5%yr reading the first positive since September quarter 2023.

New business investment rose 0.5%qtr fully reversing a 0.4%qtr drop in the September quarter. Non-dwelling building was a weak spot, declining for a second consecutive quarter. Approvals have weakened over the second half of 2024 with previous steady results possibly flattered by rising costs. This drag was broadly offset by a robust 3.5% rise in new engineering construction, albeit leaving this component flat for the year. Much of the work here relates to large projects with long lead times. Many relate to the mining sector, where investment remains subdued, but others will be driven by the needs of a growing population and structural shifts such as the energy transition. Machinery and equipment investment, the largest sub-category, was about flat, annual growth nudging up to 0.8%yr. Investment in intellectual property products – mainly software – recorded a stronger 2.6%qtr rise, up 11.4%yr, a touch above the long run average of 9%yr.

With public spending outpacing the overall GDP growth, the public spending share of the economy rose to a new record high of 27.7%. Public consumption was up 0.7%qtr, about half of the pace seen in the previous three quarters which were lifted by significant cost-of-living support measures. New public investment growth was robust 2.2%qtr, led by state and local governments. New public demand contributed 0.3ppts to quarterly GDP growth.

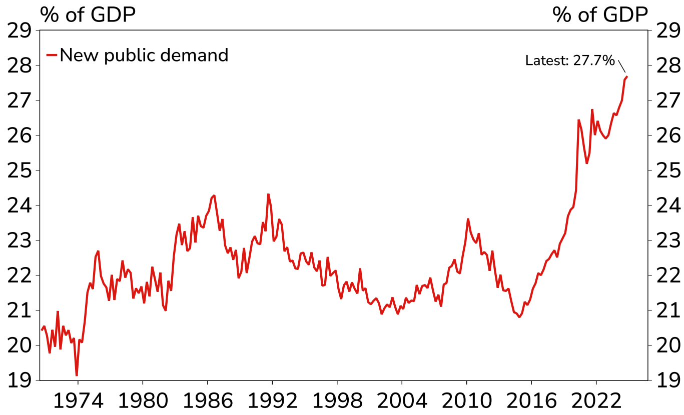
As reported in a separate release yesterday, net exports added 0.2ppts to GDP growth, the largest positive contribution since June quarter 2023, with services trade accounting for the positive contribution.

Private demand stabilising at lows



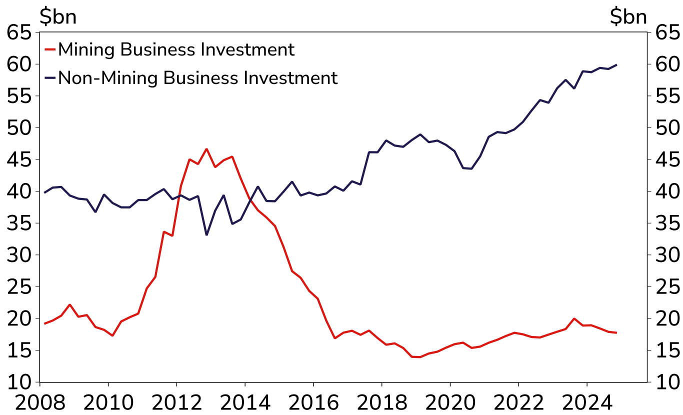
Source: ABS, Macrobond, Westpac Economics

New public demand: fresh record high



Source: ABS, Macrobond, Westpac Economics

Mining investment acting as a drag



Source: ABS, Macrobond, Westpac Economics

Household sector

Australian consumers continue to see a gradual improvement in both incomes and spending, but with the latter still tracking only slowly and from a weak starting point. Households have put much of the boost to income since mid-2024 towards saving and rebuilding financial buffers rather than spending.

Household consumption rose 0.4% in the quarter, broadly in line with expectations. Annual growth lifted to 0.7%yr, dragged down slightly by revisions.

Some of the December gain reflected a 'normalisation' of electricity spend as the effect of government subsidies drops out of the growth picture – this effectively removed what was a 0.4ppt drag on spending in Q3.

The main downside surprise in the detail was around vehicle purchases, which fell 3%qtr despite partial measures pointing to a small gain. Retail components posted a 0.7%qtr gain, slightly softer than the retail survey had suggested, while vehicle operations (mainly fuel consumption) were about flat and services spend excluding electricity was up about 0.5%qtr, the gain here led by cafes & restaurants and health. Note that estimates include some softening in Australian tourism spending abroad which will be spread across categories.

Around incomes, total wage income posted a robust 2% gain, lifting annual growth to 6.1%yr. This reflects roughly a 50:50 mix of robust employment growth and higher average earnings – average non-farm earnings per employee up 1%qtr, 3.1%yr. Other sources of income were a small positive as well.

While there was some slight drag from higher interest payments and income tax payments, nominal disposable income still finished up 1.4%qtr and 5.5%yr. Interestingly on tax, payments are up 1.9%yr despite the 'stage 3' tax cuts rolled out mid-year – 'fiscal drag' effects clearly remain intense.

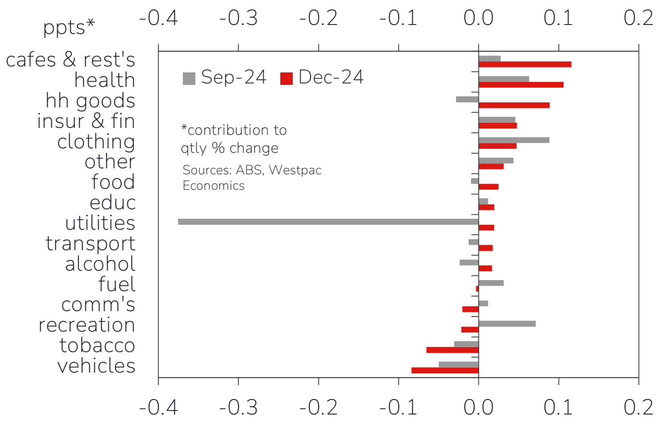
Real inflation-adjusted disposable income posted a milder 0.7%qtr gain to be up 1.9%yr. That compares to growth of just 0.9%yr prior to the tax cuts and a large 6.5% decline over the two years to September 2023. Real disposable income is still 3.5% below its 2021 peak.

The aggregate household savings ratio rose slightly from 3.6% in the September quarter to 3.8% in the December quarter. This compares to an average 2.5% over the first half of 2024. As this implies, consumers have held back some of the improvement in after tax income to replenish reserves. Our Westpac Consumer Panel indicates that consumers saved about 75% of the income boost from tax cuts over the second half of 2024.

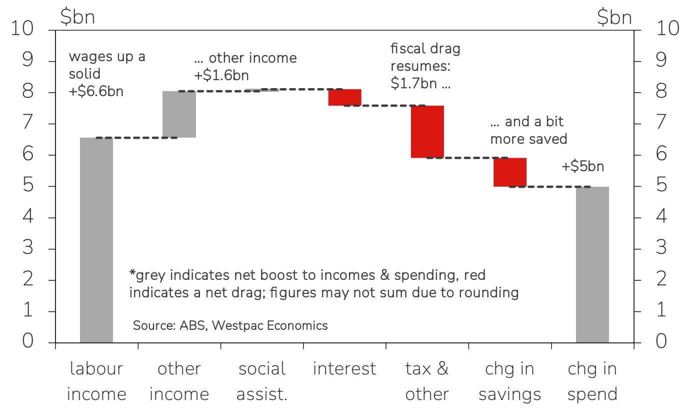
The states

New South Wales recorded a 0.6% rise in demand, annual growth rebounding to 1.5%yr from a deep low the quarter prior. That is still the slowest pace across the states. Where NSW continues to stand-out is with respect to public demand: which was flat over H1 2024 and only rose 2.8% higher over H2 2024, tracking well behind the rest of the nation. NSW household spending is also at the back of the pack, growing just 0.4% over 2024.

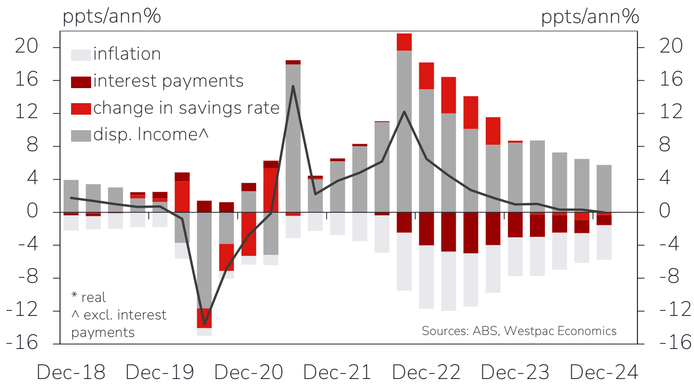
Consumer spending by category



Household income flows: change, Q3 to Q4



Consumer spending: drivers and headwinds



A nascent pick-up in total business investment (2.8%yr) and housing construction (1.6%yr) has been a critical support, leaving total private demand up 1.0% over the year, firmer than most other states.

Victoria's state final demand growth has been steady through the year, rising 0.5-0.6% a quarter to be up 2.4%yr, outpacing most states except WA and Tas. Much of that growth was driven by a 4.7% rise in new public demand. That said, Vic's private sector has been relatively resilient, driven by a turnaround in new dwelling construction (7.5%) and solid growth in new business investment (4.0%yr), well above the rest of the nation.

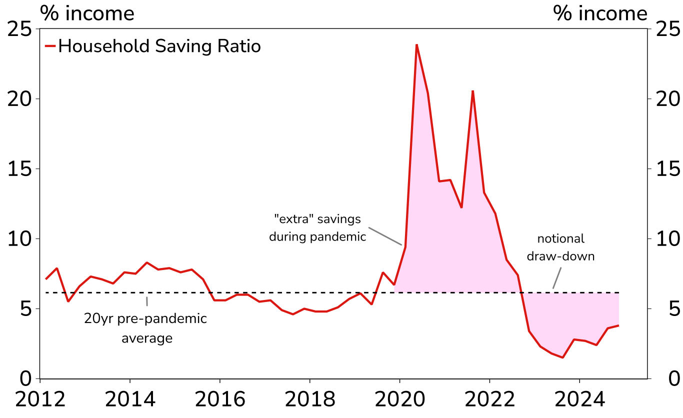
Queensland managed to eke out a 0.2% gain in Q4, seeing state final demand rise 2.2% over the year. Cost-of-living measures from the state government drove a widening divide between public and private demand over the past six months. With the public sector footing more of the electricity bill, new public demand rose from a six-month annualised pace of 3.7% in H1 to 13.1% in H2. This freed up a portion of household income for spending, although consumption excluding electricity has still been relatively subdued (1.3%yr). At the same time, businesses pulled back on new investment at an incredibly sharp pace (–4.8%yr vs. 0.3% national average), raising questions about where growth will land as public sector supports start to fade.

South Australia was the only state to record a decline, state demand down –0.3% in Q4. Despite the soft finish, state final demand still grew by 2.0% over 2024, in line with the national average. A sharp pull-back in new business investment was the chief culprit, falling –4.7% in Q4, with declines across equipment, buildings and infrastructure. There still lacks a clear pulse for household consumption too, having remained flat for two quarters and up only 0.1% for the year, the weakest across the nation. New public demand has provided something of a floor, but not to the same extent as in other states.

Western Australia's profile for state final demand has been a bit choppier recently, largely due to quarterly swings in business investment and varying pulses in public sector spending. The latest quarter saw a bounce in new business investment that reversed last quarter's decline (3.4%), but the longer-running backdrop of mining sector weakness has kept the annual pace well below the national average (–3.3%yr vs. 0.3%). New public demand also remains robust and a clear front-runner across the nation, up 1.1% (9.5%yr), led by public investment. Outside of this, household consumption remains a beacon of WA's strength, up 2.0% over the year (vs. 0.7% nationwide). Overall, this left state final demand up 1.1% in Q4 and 2.7% over 2024, a strong result given the broader backdrop.

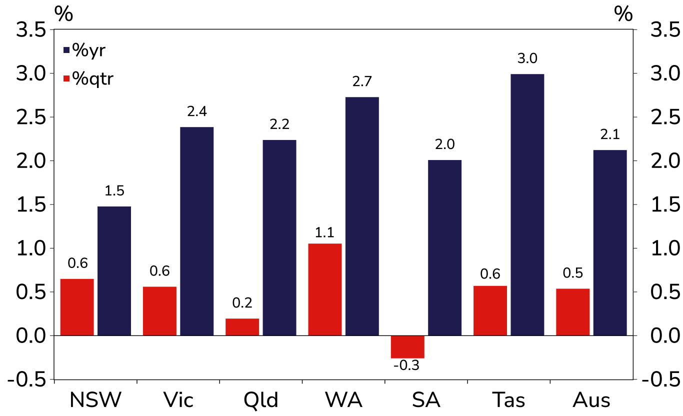
Tasmania delivered something of a surprise, shooting to the front of the pack with a 0.6% (3.0%yr) expansion in state final demand. The latest quarterly bounce centred on household consumption (1.0%) and a surge in housing construction (4.2%), the latter following a prolonged period of decline. The public sector remains a cornerstone for the state economy's growth, new public demand growing 8.8% over the year. New public investment continues to expand at a red-hot pace (13.6%yr).

Household savings ratio



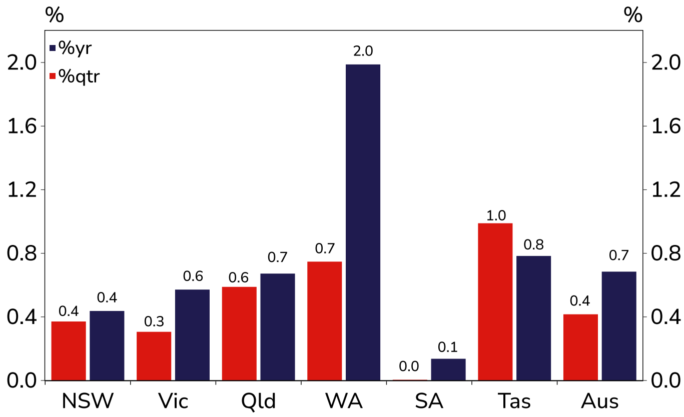
Source: ABS, Macrobond, Westpac Economics

State final demand: Q4 2024



Source: ABS, Macrobond, Westpac Economics

Consumer spending: Q4 2024



Source: ABS, Macrobond, Westpac Economics

Production

Real GDP(P) rose 0.3%qtr, 0.8%yr.

At the industry level, growth in the quarter was a little more broad-based across the public and non-public sectors than experienced for most of 2024. Outside of the public sectors, 9 out of the 16 industries rose in the quarter, up from 8 previously. Encouragingly, the pace of growth also accelerated across most of these industries.

Agriculture and the transport & logistics led the charge, with agriculture activity recording another very strong quarter (7.3%qtr) reflecting an increase in livestock production to meet strong external demand, and bumper grain harvests.

Consistent with the improvement in household spending, the retail trade and accommodation & hospitality services sectors were both up 0.6%qtr respectively, the latter recording its first quarterly rise since March quarter 2023.

Offsetting this, the mining sector declined for a fourth consecutive quarter. Construction activity also fell back (-1.3%qtr), nearly fully reversing the past two quarters of positive growth, amid weakness in private non-residential activity and a pull-back in renovations.

Across the public sector, education, health and administrative services, continued to post solid growth but with the pace easing back from Q3. Nonetheless, the share of the public sector in the economy remained elevated at 20.3%, up more than 2ppts from its pre-pandemic average.

Income

Real GDP(I) rose 0.5%qtr, 1.3%yr. Growth came in at 1.6%qtr, 3.7%yr in nominal terms (all figures below are in nominal).

Annual growth in compensation of employees edged higher for the first time since Q1 2023, running at 6.1% in annual terms compared to a cycle peak of 10.8% in Q3 2022. Rising hours worked accounts for just under half of the growth. Against this, growth in earnings per hour has eased for three consecutive quarters now.

After falling for two consecutive quarters, gross operating surplus for private non-financial companies - i.e. corporate profits – saw a muted 0.6%qtr rise but was still down 5.3% in annual terms. Higher commodity prices drove a solid outcome for the mining sector, with earnings across the wholesale trade, and transport, postal and warehousing sectors also up.

Gross mixed income – profits from the unincorporated sector, including sole traders and partnerships – rose 0.2% in the quarter, lifting annual growth slightly to 0.9%.

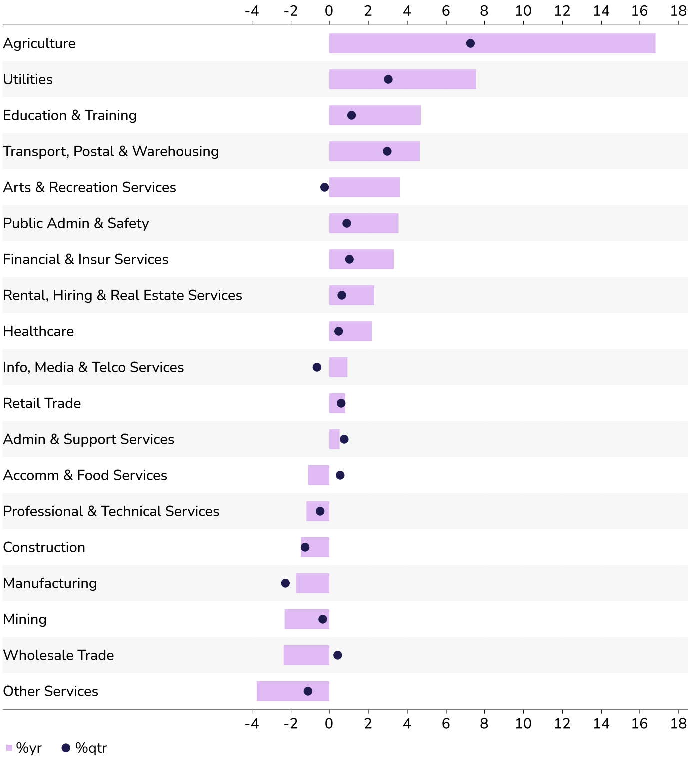
Inflation

Government cost-of-living rebates have had a significant impact on the headline CPI but their impact on the equivalent National Accounts measure has been less pronounced. The Consumption deflator rose 0.7% in the December quarter to be up 3.5% in the year, c.f. the seasonally adjusted CPI, which lifted 0.3% in the December quarter to be up 2.4% in the year. The deflator is tracking more in line with Trimmed Mean measure of core inflation, which rose 0.5%qtr/3.2%yr in the December quarter.

The headline price measure in the National Accounts, the GDP Implicit Price Deflator (IPD), jumped 1.1% in the December quarter following near-flat prints in the June and September quarters. However, base effects still saw the annual pace moderate from 2.7% in September to 2.4%yr.

Some of this reflects an improved terms of trade – the export price deflator up 2.6%qtr, outpacing a 0.8%qtr gain in the import price deflator. The Gross National Expenditure deflator, which is immune to these shifts, posted a smaller 0.6%qtr gain to be up 3.7%yr, quite a bit stronger than other measures of domestic inflation, although the definition here is much wider than just 'consumer' prices.

GDP by industry



Sources: ABS, Macrobond, Westpac Economics

Wages, labour costs and productivity

A combination of a step-up in wages, and a decline in productivity, resulted in a meaningful bump up in unit labour costs in the quarter and a reversal of the trend moderation in the annual pace that had been in place since June 2023. As noted, total (non-farm) compensation of employees rose 2.0% in December, a further step up from the 1.6% in September and 1.2% gain in June. As a result, it appears the annual pace found a base in September at 5.6%yr and lifted to 6.1%yr in December. The recent peak in the annual pace of total employee compensation was 11%yr in September 2022.

Compensation per hour worked gives some sense of shifts in wage inflation. Non-farm compensation per hour worked also rose 2.0% in December, a big lift from 0.2% in September and 1.0% in June. As a result, it appears the annual pace has found a base around 3½% printing 3.6 %yr in December, 3.5%yr in September and a recent peak of 7.0%yr in June. Note that this is not directly comparable to the Wage Prices Index, with measurement and composition differences usually seeing much more volatility in the National Accounts measure.

Labour productivity, measured as GDP per hour worked, fell –0.1% in December following a –0.5% in September and a –0.7% decline in June. This trend decline reversed a more positive trend seen through the second half of 2023 and early 2024 taking the annual pace down to –1.2%yr, i.e. growth in hours worked outpacing growth in GDP.

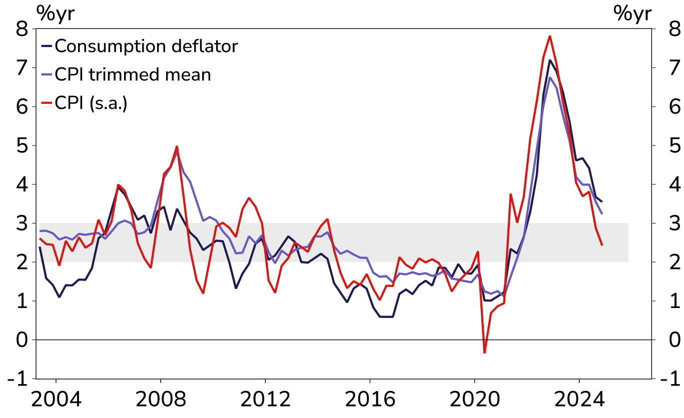
Much of this weakness relates to the incredible ramp-up of the care economy. As our Chief Economist Luci Ellis has noted, the non-market sector (health & social care, education and public administration & defence) accounted for about 85% of all the jobs growth over 2023 and 2024 despite this sector accounting for just 27% of total hours worked.

From the National Accounts, the market sector reported a 0.5% rise in hours worked but a –0.2% decline GDP per hour worked. Across this sector, growth in GDP per hour worked has dropped from 2.2% in the year to June to –0.5% in the year to December. It is this decline in productivity that has the RBA uneasy about the risk of a bounce-back in inflation. We will get more information on the sectoral patterns of productivity when the December quarter Labour Account is released on March 7.

Bringing this all together is nominal unit labour costs, which measures the labour cost to produce one unit of GDP. Across the non-farm sector, these rose 2.1% in the quarter, a bump up from 0.8% in September and even the 1.7% gain in June. As such the annual pace found a base of 4.5%yr in September and accelerated to 5.4%yr in December almost on par with the 5.6%yr pace in June.

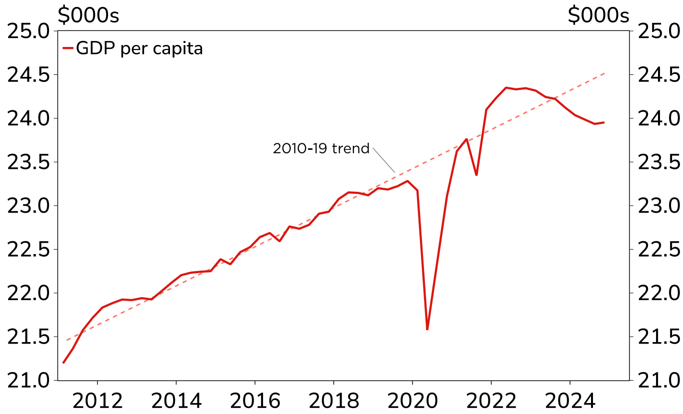
Westpac is expecting hours worked to soften from here which, along with an improvement in output and softer wages growth, should see nominal unit labour cost inflation soften. However, with the six-month annualised pace of total this cost measure tracking around 5%, we will need to see a marked step-down in the quarterly pace to get back below 4%yr.

'Core' consumer inflation slowly reaching target



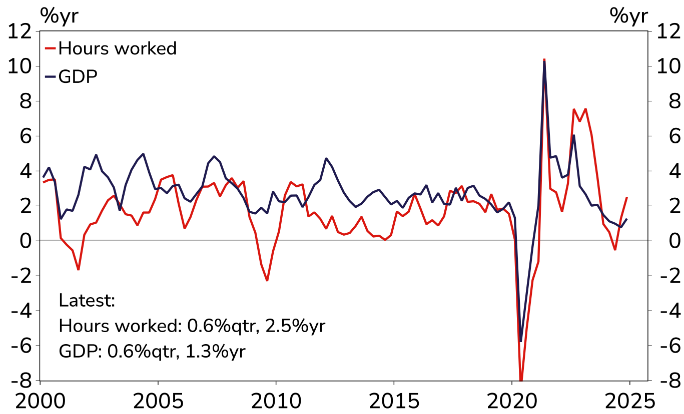
Source: ABS, Macrobond, Westpac Economics

GDP per capita



Source: ABS, Macrobond, Westpac Economics

GDP and hours worked



Source: ABS, Macrobond, Westpac Economics

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