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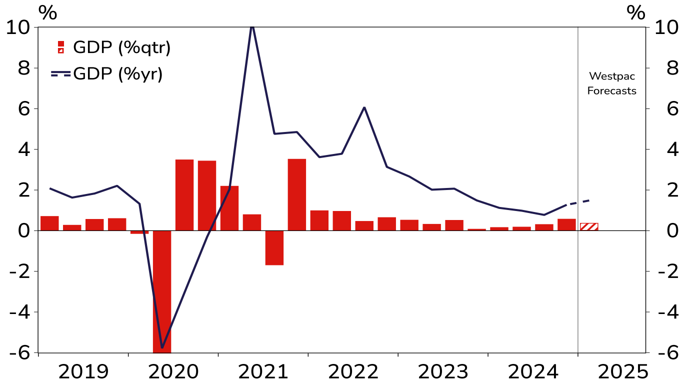
AUSTRALIAN GDP: A PREVIEW BULLETIN

Growth expected to slow in Q1 2025
Q1 GDP f/c: 0.4%qtr, 1.5%yr.

Key points

- Domestic demand is expected to have slowed, lifting only 0.3%qtr in Q1. As growth in new public demand moderates, private demand remains patchy and at this stage, unable to pick up the slack left by the public sector.
- The impacts of the natural disasters which occurred in the quarter were partially offset by a bring forward of external demand. This suggests the Accounts will provide a reasonable gauge on the underlying growth impulse.
- As lower interest rates add to the support already coming from cost-of-living measures, tax cuts and moderating inflation, private demand is expected to gradually improve. However, as the run of recent data shows, there are significant downside risks which the evolving global backdrop is only amplifying.

Q1 GDP forecast: 0.4%qtr, 1.5%yr



Source: ABS, Macrobond, Westpac Economics

Domestic demand: 0.3%qtr, 1.8%yr.

Shaky handover?

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A key risk to the outlook we have discussed for some time is the possibility of a 'shaky handover' as the driver of growth shifts from the public to the private sector. We expect the March quarter 2025 National Accounts to provide a glimpse of what that could look like. One shaky quarter does not mean this risk has fully materialised, but it will sharpen some of the thinking around downside risks to growth going forward.

The National Accounts, to be released on Wednesday 4 June, are likely to show that economic growth slowed over the three months to the end of March, to +0.4%qtr, from the +0.6%qtr recorded in the December quarter 2024. We expect growth in domestic demand moderated over the quarter as new public spending slowed, with private demand unable to pick up the slack.

While domestic demand was likely impacted by the natural disasters which occurred late in the quarter, this was partially offset by a bring forward of external demand as businesses looked to fill orders before 'liberation day'. In other words, the National Accounts will be a reasonable reflection of underlying growth impulse in the Australian economy. On these numbers, growth in per capita GDP is likely to have ticked lower over the quarter, after stabilising in the December quarter 2024.

Looking at the major components, public investment is expected to have declined over the quarter as some large-scale infrastructure projects come to an end. While this will be offset by a further rise in public consumption (which includes social security and health programmes etc) we expect new public demand to make a flat contribution to economic growth. This is a large step down from the average quarterly contribution of 0.4ppt over the past year.

Is the private sector ready to pick up the slack? While there are some green shoots, private demand remains patchy at best and at this stage, unable to pick up the slack left by the public sector.

The consumer remains cautious. Incomes are improving but our Westpac Consumer Panel and Westpac Card Tracker show households are clearly still prioritising saving. The windfalls from the Stage 3 tax cuts have mainly been used to rebuild financial buffers rather than boost consumption. That pattern appears to have carried into the first half of 2025.

Persistent weakness in the consumer has spilled over into the business sector. Capex outside the industries where investment is driven by structural changes (electricity generation, IT and construction) has fallen over the past seven quarters. Capex expectations suggest this will continue going forward, with additional uncertainties around trade, tariffs and global growth also factoring. We expect new private business investment to make a small positive contribution to economic growth this quarter as the stabilisation in non-residential construction offsets the expected fall in machinery and equipment (which the capex survey shows has now fallen for two consecutive quarters, see here).

The one bright spot has been housing construction which continues to lift as the capacity constraints that have dogged the sector since COVID finally look to be dissipating. In part, the easing constraints may indirectly reflect weakness in other parts of the construction sector (such as non-residential buildings) which is freeing up resources to be used for the construction of new dwellings and housing renovations.

Domestic demand detail is expected to include: consumer spending +0.1%qtr, housing investment +1.5%qtr, new business investment +0.5%qtr, and new public demand +0.2%qtr.

The external sector is expected to contribute around +0.4ppts to GDP in the March quarter. Exports to the US were particularly strong over the quarter as businesses looked to fill orders before 'liberation day' and the imposition of tariffs. Some of the pickup in exports is expected to have been met by a run down in inventories (particularly for non-monetary gold). Taken together, we expect a net contribution of +0.1ppts in the March quarter from inventories and net exports.

Labour productivity and hours

Hours worked looks to have increased 0.3%qtr in the March quarter to be 2.1% higher in annual terms. Quarterly growth looks to have been driven by the non-market sector (+0.9%qtr). The Labour force survey shows that hours worked in the market sector was flat over Q1, consistent with the patchy nature of growth in private activity. Note that the March quarter Labour Account, due 6 June, is the ABS's preferred benchmark for these measures and will provide a better gauge of sectoral trends.

Looking through the quarter-on-quarter volatility, labour productivity looks set to record a decline of around 0.6% in annual terms. However, as we have been saying, the fall in aggregate productivity has been skewed by the expansion of the non-market sector, which has a significantly lower level of 'measured' productivity, and the trend decline in mining productivity as the sector continues to run down its capital stock. Productivity in the market sector excluding mining is expected to have performed better. The March quarter National Accounts will also show the flow on effects to unit labour costs or the economy's underlying cost base, which is expected to moderate in the quarter.

The detail

Household consumption (+0.1%qtr, +0.3%yr): Household incomes have been squeezed by elevated inflation, higher rates and an increasing tax take. Household consumption is seeing a gradual recovery as these pressures ease. However, to date the pace of this recovery has disappointed with partials (including the ABS household spending indicator and retail trade volumes) suggesting that household consumption was broadly flat over the March quarter. Our **Westpac Consumer Panel** and **Westpac Card Tracker** shows households are more interested in saving and rebuilding balance sheets. Based on our estimates, per capita household consumption would have fallen by around 1¼%yr in the March quarter. Note that spending in the national accounts is net of electricity and other rebates, which accounts for some of the softness.

Dwelling investment (1.5%qtr, 3.3%yr): Home building activity grew after posting a fall in the December quarter. Dwelling construction is the one bright spot which continues to gather momentum as the capacity constraints faced by the sector look to be dissipating. Based on partials, we expect a solid pickup in both new home building and renovation activity. Backlogged work and a pickup in approvals and starts, particularly in WA, is now clearly flowing into higher activity.

New business investment (0.5%qtr, 1.0%yr): Business investment is expected to have made a modest gain in the quarter. Partials suggest that new engineering construction and the construction of new buildings (such as commercial and retail floorspace) advanced over the quarter. This was partially offset by a fall in new machinery and equipment. The capex survey showed that industries at the coalface of the consumer-led slowdown continued to pull back on investment, while those catering to the growing population, and at the forefront of the structural changes impacting the economy (such as investment in energy generation), continue to add to their capital stock but even here there may be headwinds emerging.

Public demand (0.2%qtr, 4.6%yr): Public investment is expected to have declined over the quarter for the first time since the June quarter 2024, as large scale infrastructure projects came to an end. There is still a healthy pipeline of projects to work through which should see investment remain elevated, but the extent of further growth in this component remains uncertain. The fall was offset by public consumption which continued to expand. As noted, given some of the boost to public consumption reflects rebates and subsidies for households, this is also reducing 'measured' household consumption.

Net exports (+0.4ppts qtr, +0.8ppts yr): Net exports are expected to contribute around +0.4ppts to GDP growth in the March quarter. This is being driven by the goods trade balance. Short term arrivals and departures data, combined with aggregate spending data, suggests that the services trade balance will be flat over the quarter.

Total inventories (-0.3ppts ppts cont'n qtr): Some of the pickup in exports is expected to have been met by a run down in inventories (particularly for mining goods), which will see non-farm business inventories decline.

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