June 2025

WESTPAC COAST-TO-COAST

Your quarterly report on Australia state economies.

WESTPAC COAST TO COAST – JUNE 2025

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

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Recovery struggling to gain traction

Matthew Hassan
Head of Australian Macro-Forecasting

Pat Bustamante
Senior Economist

The Australian economy had a weak Q1, barely growing 0.2%qtr and 1.3%yr. This is on par with the weakest reads since the early 1990s recession, excluding COVID. The recovery effectively stalled in annual terms with year-ended growth stuck at a soft 1.3%yr, tracking below population growth. We expect part of the weakness to be temporary – for instance, the adverse weather events in NSW and Qld that temporarily delayed mining exports. Additionally, business investment and consumer spending were likely impacted by the global uncertainty shock resulting from the evolving situation around US trade policy. This uncertainty effect could persist for a while, particularly given renewed conflict in the Middle East.

'Shaky handover'

Public demand is set to remain at an elevated level but its rate of growth is likely to slow from here. Over the past two years new public demand has accounted for more than 80% of total growth in the economy. That support now looks to be ebbing. The pipeline of public engineering construction projects has ticked lower for the better part of a year now. This is now flowing to public construction activity which declined a hefty 2.8%qtr in Q1. We are starting to see a slowing in public consumption as well, as programs reach maturity (e.g. increased childcare subsidies and, more tentatively, the NDIS) and as temporary measures expire (e.g. electricity rebates)

Meanwhile, the recovery in private demand remains modest with private business investment disappointing, consumer spending still subdued. Housing construction is about the only bright spot in the private sector economy. Consumer spending remains particularly soft, up 0.7%yr in the March quarter, a poor outcome given population growth of 1.7%yr and improving real incomes. The bulk of the gains from the 'stage 3' tax cuts, moderating inflation and more recently, interest rate cuts have been saved by consumers – Westpac data suggesting about 80% of the boost to date has been saved.

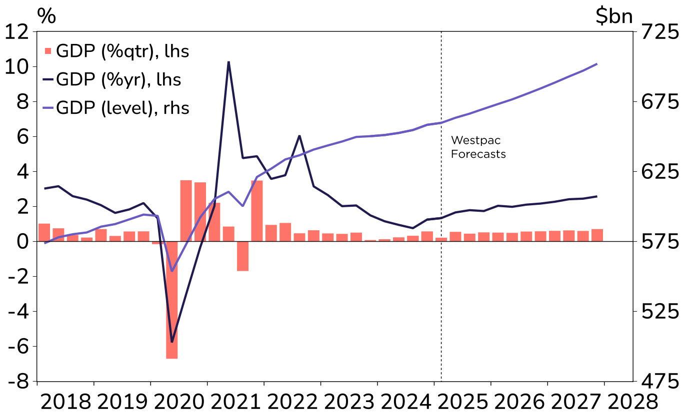
Recent downgrades to near term forecasts

We have made significant downward revisions since our last **Coast to Coast** report back in March, reflecting a variety of factors including: additional tariff-related headwinds externally; a more rapid slowing in population growth; and signs of a shakier handover from public to private drivers of economic growth. We now expect the economy to expand by a sluggish 1.7%yr in 2025 – around half a percentage point below our forecasts back in March.

The Q1 national accounts show the starting position is weaker. Growth in public demand looks to have peaked a few quarters earlier than previously expected and the private sector recovery is running behind schedule. This pattern is underscored in recent state and Federal budgets, which show the fiscal impulse is likely to be neutral in FY26 (see p5). Accordingly, our forecasts for growth in new public demand have been revised from 3.0%yr to 2.1%yr in 2025. Additionally, on the back of a subdued read on ABS capex expectations and other survey indicators, growth in private new business investment has also been downgraded from 3.0%yr to 2.7%yr in 2025 and from 5.2%yr to 4.7%yr in 2026.

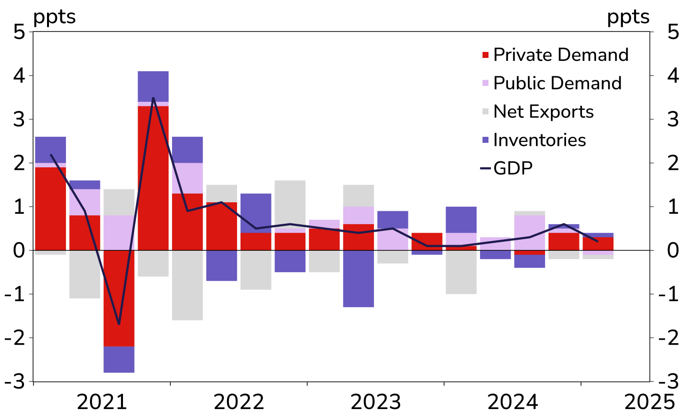
Beyond 2025 we still expect activity and private demand to pick up. The underlying growth impulse will gather momentum in 2026 and into 2027, supported by further interest rate cuts (the cash rate now expected to be at 2.85% by this time next year). The Federal budget also included two new rounds of small tax cuts which kick in from July 2026. Growth in 2026 is expected to be 2.2%yr, lifting to 2.6%yr in 2027.

Gradual recovery in economic growth anticipated



Source: ABS, Macrobond, Westpac Economics

Contributions to Quarterly GDP Growth



Source: ABS, Macrobond, Westpac Economics

Performances converge

Matthew Hassan
Head of Australian Macro-Forecasting

Pat Bustamante
Senior Economist

As always, national trends and themes are evident at the state level but to varying degrees.

WA and SA are leading the nation when it comes to growth in state final demand, driven by solid business investment in WA and a pickup in housing construction in SA. Qld is running a close third, with the weak investment outcome in Q4 2024 impacting overall momentum but partly offset by strong public demand. The consumer-led states of NSW and Vic continue to lag due to sluggish private household spending. Finally, Tas continues to struggle with private investment falling since the March quarter 2024. These performance gaps should narrow as the broader underlying growth impulse gathers momentum in the second half of 2026 and into 2027 as new investment projects come online (see next section).

State growth forecasts

It should be noted that the picture changes somewhat when we include trade flows – both international and interstate. Official estimates of Gross State Product (GSP, the state analogue of GDP) include these but are only available for financial years, and with a considerable lag (latest is FY24). Westpac Economics has developed more timely estimates based on the quarterly state demand and international trade flows, national figures on inventories, and assuming interstate trade patterns remain broadly unchanged.

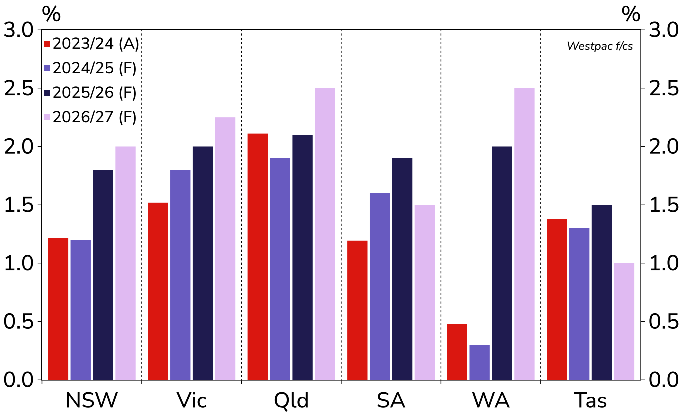
These show the combined trade effect has been a material drag on economic activity in Qld (especially due to weather effects in the most recent quarter) and WA. The latter needs to be interpreted carefully – as we set out in more detail in the WA section of this report, the massive 3.5ppt drag on WA's GSP over the last two financial years reflects mining-specific headwinds that are not spilling over to the rest of the state, which continues to show signs of solid growth (including for jobs, hours worked and incomes).

Looking ahead, state growth prospects differ according to relative exposures to recent quarterly disruptions, the slowdown in population growth, and the handover from public- to private-led expansion. Population growth will favour WA, Vic and Qld slightly and will continue to be much less supportive for Tas. However, activity is expected to track a slightly firmer path for NSW and SA, picking up significantly in Qld and WA in 2027.

In FY annual average terms, GDP growth nationally is forecast to from 1.3% in FY25 to 1.9% in FY26 and 2.2% in FY27. Over the forward years, Qld and WA are expected to outperform slightly with NSW and Vic underperfoming slightly due to slower population and per capita growth respectively. Growth is expected to undershoot the forecasts set out in recent state budgets. Much of this is due to Westpac Economics' less upbeat macro view (sitting below the 2.25% and 2.5% forecasts for FY26 and FY27 set out in the Federal budget). However, the differences are somewhat wider for Vic, WA, and to a lesser extent, Qld.

Overall, differences in underlying growth are expected to narrow, but the gap in labour productivity performances may persist for a little longer. Labour productivity in the mining states has gone backwards partly due to headwinds affecting mining investment and output, some of which are likely to continue. The consumer-led states (NSW and Vic) and SA have all seen sluggish growth in productivity due to the shift towards non-market sector activity and a fall in the capital-to-labour ratio, with productivity in the market sector holding up well. We would see some improvement as growth rotates back towards the market sector and the capital stock starts to lift, but this process could be slow.

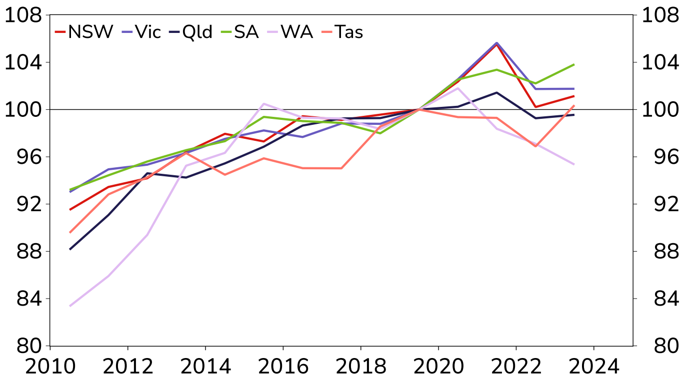
State GSP forecasts



Source: ABS, Macrobond, Westpac Economics

Labour productivity by state

Index: 100 = 2020FY



Source: ABS, Macrobond, Westpac Economics

Finances squeezed as interest costs start to lift

Pat Bustamante
Senior Economist

Budget season has come and gone for another year. Downgrades were the common theme, both to economic and fiscal outlooks.

Economy-wise, most state governments are still expecting a gradual growth recovery, although forecast paths were lowered consistent with the Federal budget which was released in latest March (before the 'Liberation day' tariff announcements and the disappointing March quarter national accounts).

On the fiscal front, the near-term outlook across the states has deteriorated. This reflects a mix of revenue downgrades (for example NSW and Qld), higher labour and other costs (NSW, SA and Qld), new government decisions (all states) and support for households and businesses impacted by recent natural disasters (NSW and Qld).

Fiscal support rolls off

The refreshed fiscal outlook suggests that states will be much less supportive for growth going forward. Recurrent expenses are forecast to grow by around 5% over the next two years with investment in infrastructure essentially flat in nominal terms over the same period.

At the same time, states are expecting revenues to grow more strongly as economic growth picks up. This combination reduces the combined state fiscal impulse to neutral in FY26 – down from an annual average of +0.5% of GDP impulse over the two years to FY25.

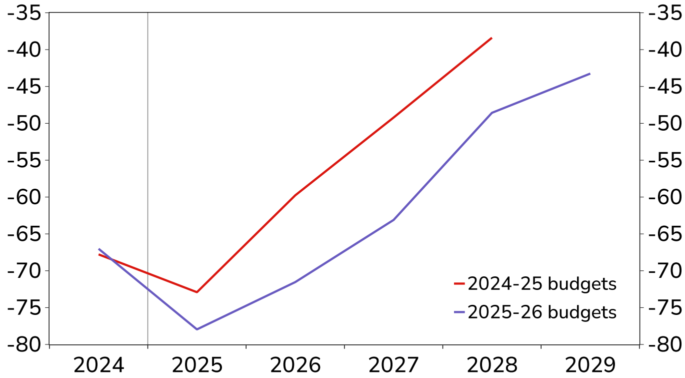
When it comes to measures, there has been a clear shift away from providing short-term cost of living relief. Only Vic and Qld are providing electricity rebates, and here it's to low-income households rather than across the board. Instead, states have focused on: increasing funding for critical public services; supporting first home buyers; and increasing the supply of housing by helping to shore-up funding for developers and setting up processes and bodies to fast-track large investment approvals.

Based on the current fiscal trajectory, net interest will surge to 1% of GDP by 2027-28 – the highest since at least the early 2000s and much higher than the pre pandemic average of 0.3% of GDP. By the end of the forward estimates, the states will be mainly borrowing to pay for interest expenses.

This also means there is less scope for state governments to respond to adverse economic shocks. As such, the Federal government, which is less fiscally constrained, may need to play a more prominent role. See our full report here for more details).

State fiscal balances deteriorated

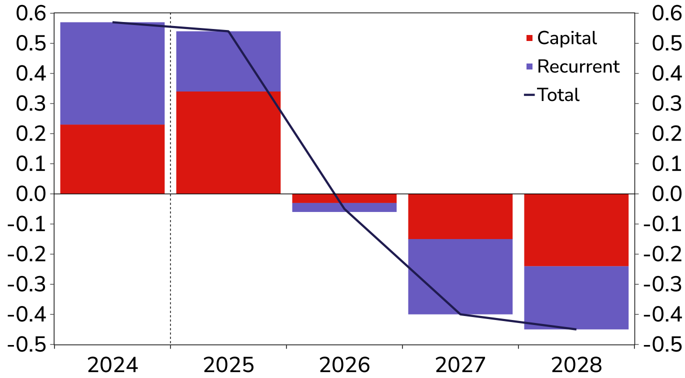
Combined fiscal balance, AUDbn



Source: State Budget Papers, Macrobond, Westpac Economics

State fiscal impulse

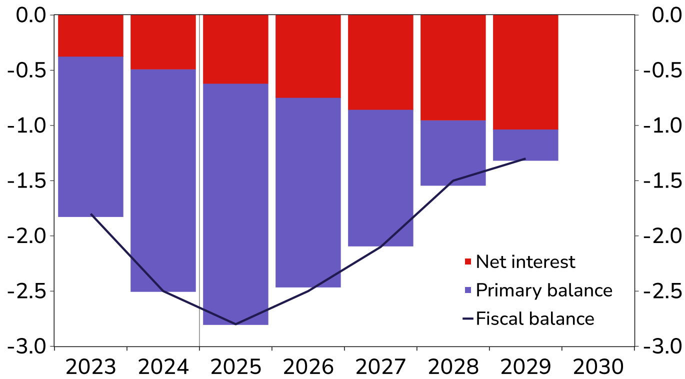
% of nominal GDP, financial years



Source: State Budget Papers, Macrobond, Westpac Economics

State fiscal balances by components

% of nominal GDP, financial years



Source: State Budget Papers, Macrobond, Westpac Economics

States along the east coast …

Pat Bustamante
Senior Economist

As with any economy, investment in Australia is crucial. By investing, governments and businesses can replace and upgrade obsolete capital and provide a growing population with the infrastructure and access to technology required to prosper. This topic takes a look at the investment state of play across states and one of the key medium term themes already starting to emerge: a focus on renewables.

Following a brief burst coming out of the pandemic, Australia's recent investment performance has been sub-par. New investment (business and public) grew around 17% over the two years to the end of calendar 2023 but has largely stalled since then, tracking sideways over the past year.

While the broad evolution of investment is similar across the states, there are subtle differences:

- In the mining-dominated states (WA and Qld), new investment continues to increase, albeit at a slower rate. Investment growth in these states continues to be led by the public sector.
- For our biggest two states located along the east coast (NSW and Vic) investment has largely stalled, with the resilience shown by new private investment offset by public investment, potentially reflecting shifting fiscal realities.
- The remaining states (SA and Tas) have underperformed but are slowly catching up on the back of increasing public investment, with new private investment going backwards in Tas since the March quarter of 2024.

'Structural' drivers led by renewables

Despite the sluggish aggregate perforance there are some industries that are investing heavily for the future and growing their capital stocks. The transition to net zero emissions and the adoption of new technologies (including AI) are both capital-intensive, boosting investment in the utilities, construction and IT industries.

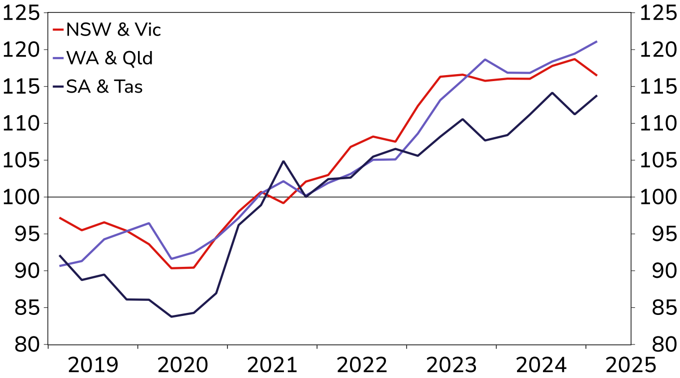
Investment in electricity generation and distribution has been particularly strong. Over the past year, investment in electricity generation has accounted for an outsized 80% of the growth in total engineering construction (EC) while accounting for less than 25% of total EC base.

Much of this investment has flowed to expanding Australia's capacity to generate, store and distribute renewable energy, including solar, hydro and wind projects, often involving a battery storage component.

An ABS pilot study shows investment in renewable energy generation increased by 120% over the two years to 2023-24.

New investment

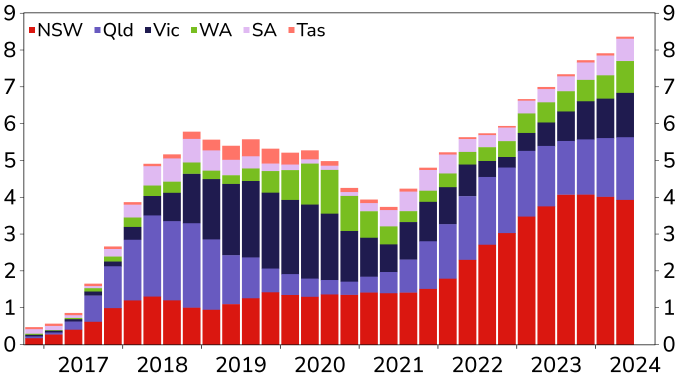
Private and public investment, index 2021 = 100



Source: ABS, Macrobond, Westpac Economics

Investment in renewable generation

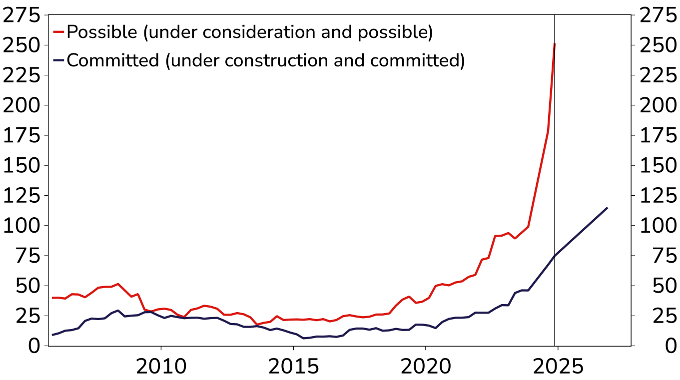
Rolling annual sum, AUDbn



Source: Deloitte Investment Monitor, Macrobond, Westpac Economics

Utilities investment pipeline

AUDbn



Source: Deloitte Investment Monitor, Macrobond, Westpac Economics

... to benefit from renewables boom ...

Importantly, this is an underestimate as it excludes investment in the transmission and distribution infrastructure required to link new renewable power sources to the broader electricity grid.

Except for Tas, all the states have seen growth in renewables over the past two years with Qld (+196%), NSW (+182%), WA (+77%), Vic (+60%) and SA (+37) all recording strong growth.

While a lot of the capital equipment used in renewables is imported (such as wind turbines, solar panels and batteries), research suggests that the investment activity generates significant ancillary activity in the form of transportation, installation, design and other professional services. In fact, local activity can account for up to 50% of the total investment value of a project.

Very large pipeline of potential projects

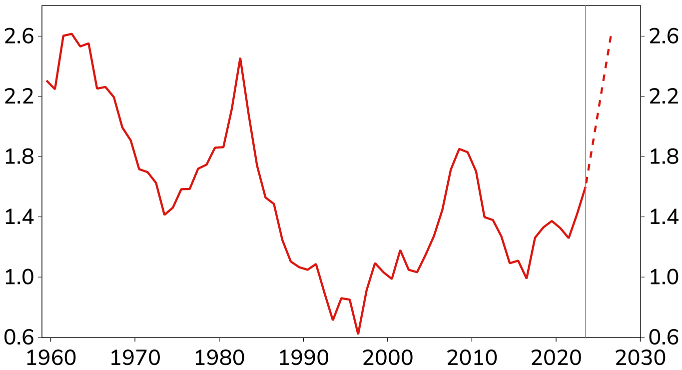
The key question for the economic outlook is whether investment in renewables will continue to grow? ABS pilot data shows that the number and value of new renewable projects commenced declined in the 2023-24 after growing strongly.

More importantly, looking at the combined value of committed renewable projects and projects that are currently being considered, suggests that this boom is only just getting started.

The potential pipeline (committed and potential projects) of utility (electricity, water and gas) investment projects has increased to be around $330bn in the March quarter 2025 – or around 12% of nominal GDP. This is the largest utilities investment pipeline on record and means, for the first time ever, utilities now has a larger project piepline than the mining sector and is second only to the transport and storage sector.

Investment in utilities

% of nominal GDP



Source: ABS, Macrobond, Westpac Economics

Of these utilities projects in the pipeline, around 170 are for renewables (with known costs) worth a total of $200bn in new investment. This is much higher than the renewables pipeline just one year ago which had around 100 renewable projects worth $55bn in capex. That compares to a renewables pipeline just prior to the pandemic that had around 80 projects worth $35bn.

As these projects proceed to the approval and finally to the construction phase, investment activity should increase significantly. Using simple realisation ratios, based on the list of projects under consideration, activity could increase to around 2¾% of GDP by the 2027FY – a record share of the nominal economy.

Non-metro areas of big eastern states dominate

The states that will benefit the most include NSW, Vic and Qld, which account for 33% (or $65bn), 13% ($25bn) and 16% ($30bn) of the renewables pipeline, respectively.

The vast majority of these – around 90% – are in regional areas (see map on p8). As such, the local economic effects for regional economies could be significantly larger. Roughly a third of Australia's GDP is generated outside the major capital cities. A simple back-of-the-envelope esimtate suggests renewables investment could lift to around 8% of regional GDP.

We will be exploring this dimension of the potential regional boost from renewables projects in more detail in future publications.

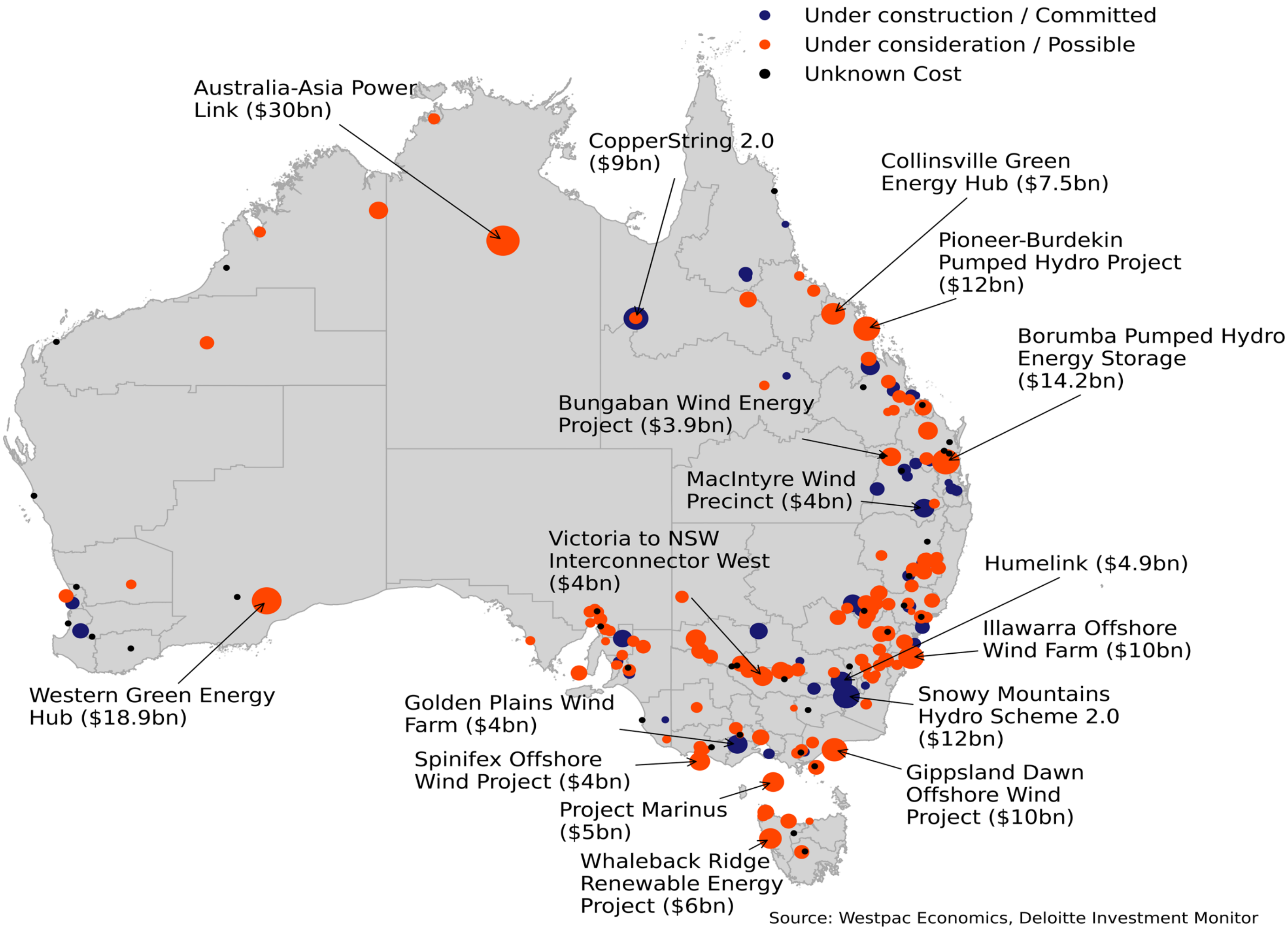
However, the lift in renewables investment will have other important implications for the economy as well. Specifically:

- With most of the projects to be undertaken by the private sector (around 80% of total), it will help with the handover from public to private sources of growth.
- The pipeline is significant enough to rebalance growth from a two-speed economy where mining states have outperformed, to a one where the consumer-driven centres along the east coast drive more of the growth, perhaps even setting the pace of investment.
- The productivity payoff from investment in renewables generation, transmission and distribution is likely to occur with a lag, given it takes time for the new sources of electricity generation to come online and for demand to increase toward capacity.

It is still early days, and there are many risk factors involved with the renewables investment pipeline but the early signs are that this will be a key factor shaping Australia's medium term investment and growth performance.

... especially regional areas

Record high renewables pipeline by location across Australia



Source: Westpac Economics, Deloitte Investment Monitor

Persistent economic weakness ...

Jameson Coombs
Economist

How has the state performed? NSW is a clear underperformer on the national stage. Domestic final demand expanded just 1.0% over the year to the March quarter and went backwards at a rate of knots in per-capita terms (–0.7%).

The pull-back in public investment revealed a crack in the resilience of public demand – which has so far been the backbone of economic growth in NSW.

A key stat that tells the story. Stagnant private demand lies at the heart of NSW's lacklustre performance. Private demand expanded just 0.7% over the year to the March quarter, well below that averaged during the 10-year's preceding the pandemic (2.6%). The NSW consumer remains on life support after the cost-of-living shock, and the extended consumer malaise is starting to spill over to businesses as well, seeing investment growth has slow accordingly.

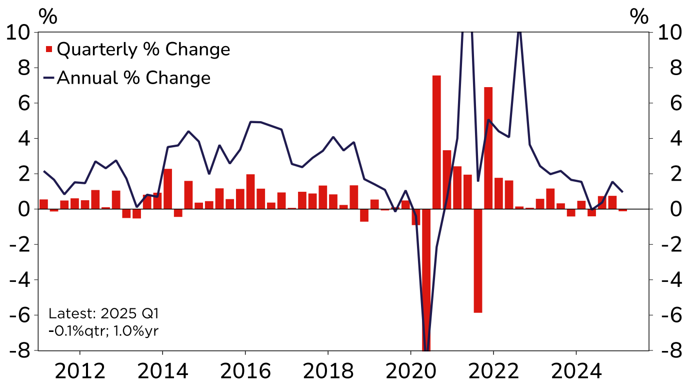
What has surprised? A rebound in housing investment in NSW was the silver lining of the latest accounts. Housing investment jumped 3.1% over the year to the March quarter, the largest annual rise since late 2021. The lift has been underpinned by new dwelling construction, suggesting the severe capacity constraints plaguing the homebuilding sector may be starting to ease. That said, it is still a long road ahead. This week's state budget noted the average lag time from approval to completion is still two years for a house and three years for apartments.

How can things improve? Kickstarting the consumer is key to unlocking NSW's growth potential. The headwinds facing the consumer have been subsiding for several months now and real incomes are growing again, but the translation to a pick-up in demand has lagged. It is likely only a matter of time before this disconnect heals, but there is a risk the recovery remains gradual and elongated.

What are we expecting? The NSW growth outlook remains modest, though we do anticipate a gradual improvement in activity over the next couple of years. Slowing public demand and easing population growth are a key headwind, reversing the trend of recent years. The consumer is expected to find its feet as real incomes continue to rebound. Perhaps most significant is the huge pipeline of renewable energy investment slated in the state, which presents as a potential boost to private investment, so long as capacity can expand to meet the demand.

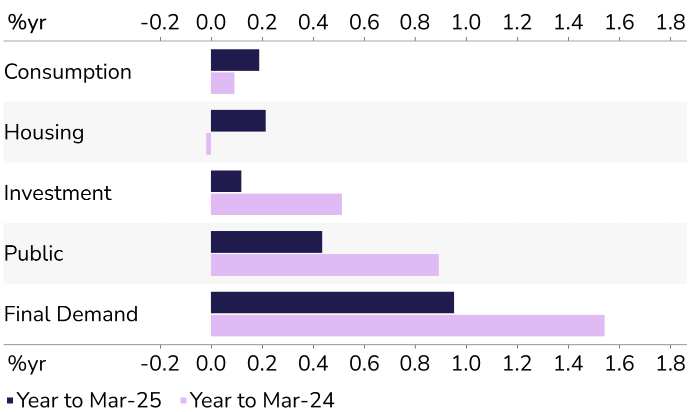
NSW State Final Demand

Chain Volume Measures



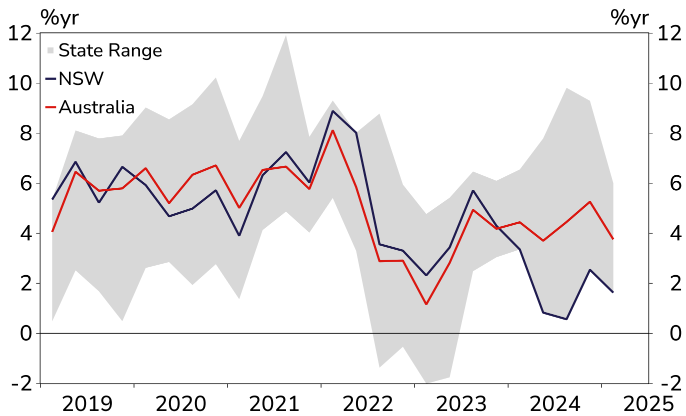
Source: ABS, Macrobond, Westpac Economics

NSW: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

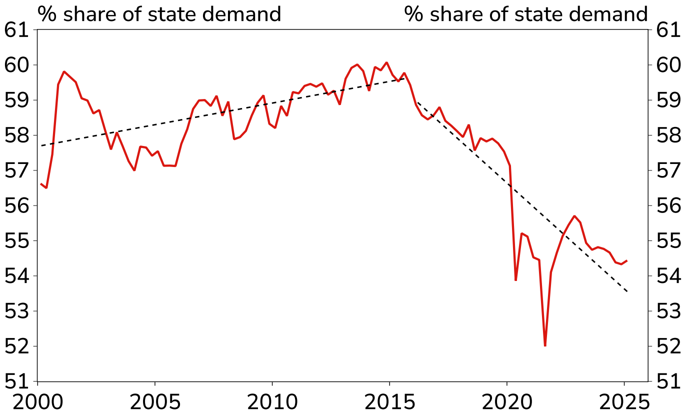
NSW public demand falls short of other states



Source: ABS, Macrobond, Westpac Economics

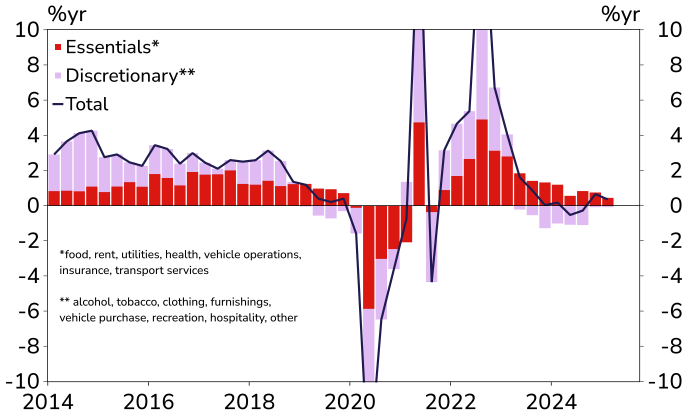
... may remain slow to budge

NSW Household Consumption



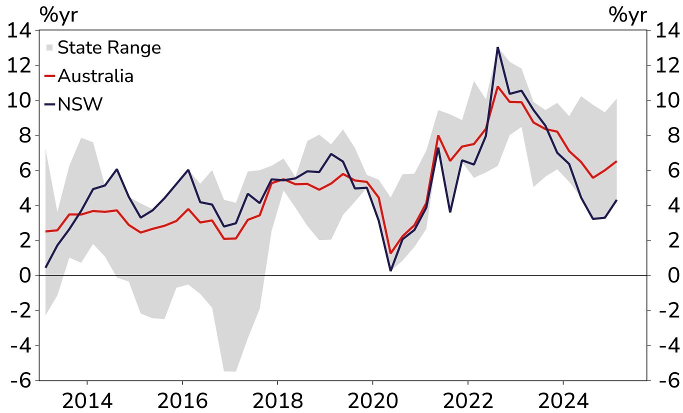
Source: ABS, Macrobond, Westpac Economics

NSW household spending struggling to expand



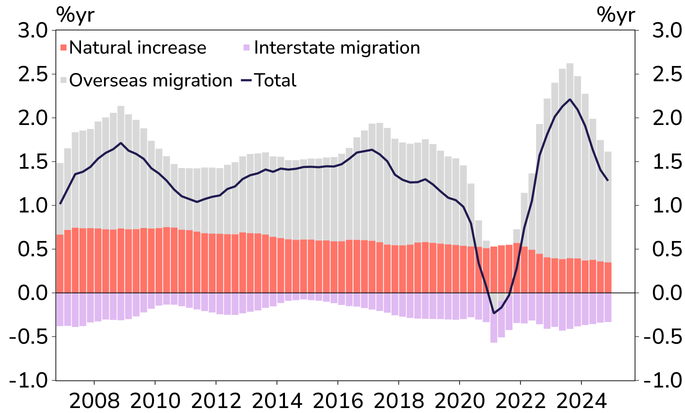
Source: ABS, Macrobond, Westpac Economics

NSW nominal worker compensation tracks lower



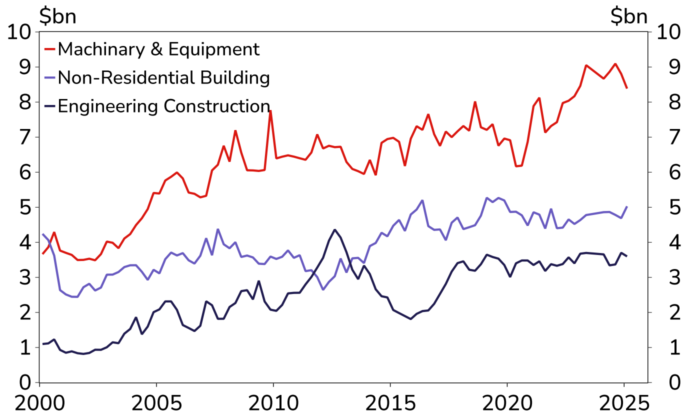
Source: ABS, Macrobond, Westpac Economics

NSW population growth coming off its peak



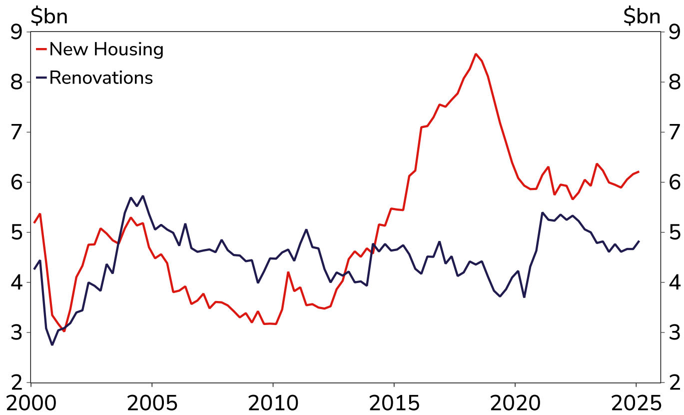
Source: ABS, Macrobond, Westpac Economics

NSW New Business Investment



Source: ABS, Macrobond, Westpac Economics

NSW New Housing vs Renovations



Source: ABS, Macrobond, Westpac Economics

Bellwether state for domestic demand ...

Matthew Hassan
Head of Australian Macro-Forecasting

How has the state performed? Vic's economic performance has slightly improved since mid-2024, albeit mainly due to its low exposure to the weather and trade shocks that have impacted in early 2025. Indeed, the state is something of a bellwether for domestic demand with the gradual consumer recovery, 'shaky' handover from public to private demand and slowing population growth more prominent themes.

The latest data shows annual state final demand growth holding flat at 1.6%yr in Q1. There has been a clear shift in the mix, from public to private drivers – while rising public demand still accounts for about half of growth over the last year, it has flat-lined over the last six months. A wind-back of state cost-of-living support measures has combined with a softening in public investment. The latter is likely to see more material declines as major road and rail infrastructure projects reach completion although the roll-off is set to be gradual, multi-year phase down. Notably, the latest Vic budget has government infrastructure investment declining 10-15%yr over the next three years. The budget strategy is still broadly one of gradual fiscal consolidation with a projected return to surplus and stabilisation in net debt in 2026-27. The path offers little scope for new public works.

Meanwhile private demand remains sluggish and patchy. Vic consumers are seeing a decent lift in incomes but, as elsewhere, spending has been very restrained, declining in per capita terms. Slowing population growth has added to this at the margin although it remains firmer in Vic than nationally. New dwelling construction has seen some positive traction but approvals have pulled back again in recent months. Business investment has been patchier still, with a broad-based decline in Q1 taking annual growth into slight negative. Net exports have been a slight positive for Vic's growth over the last year.

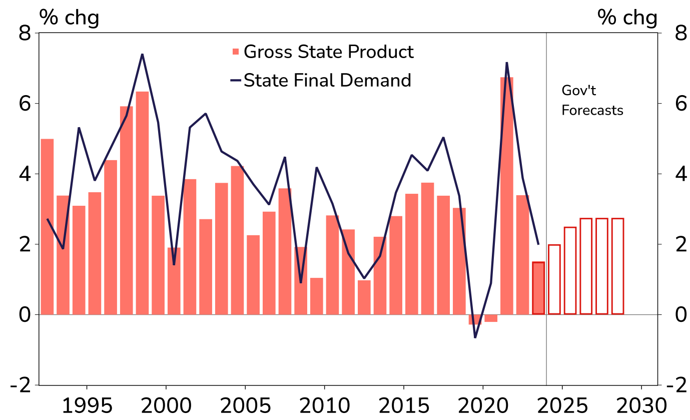
A key stat that tells the story: State and local government demand has flat-lined over the last three years in real terms after rising at an average 8%yr over the previous six years.

What has surprised? Vic's unemployment rate has dipped back to 4.3% from just over 4.5% late last year. The state government had been expecting it to push up towards 4.75%.

How can things improve? Confidence looks to be a key missing ingredient. Reads across both consumers and businesses have been about 4ppts lower in the state than elsewhere. That may feel marginal but is the difference between a 'glass half full' and a 'glass half empty' attitude.

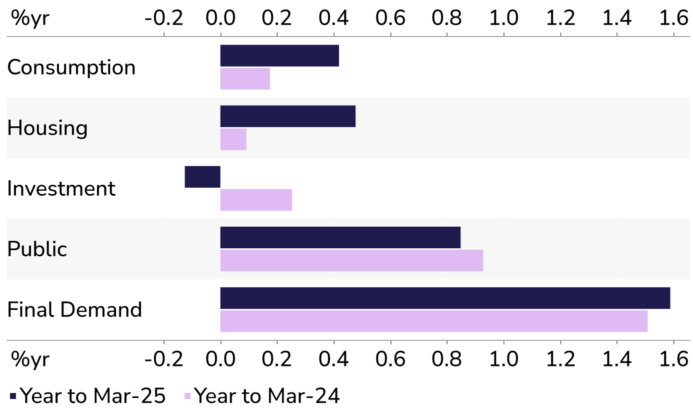
What are we expecting? A continued gradual lift, outperforming slightly. Activity will mostly track the recovery in domestic demand with lower exposure to key external risks but a more sustained medium term drag from public demand.

VIC Gross State Product & Final Demand



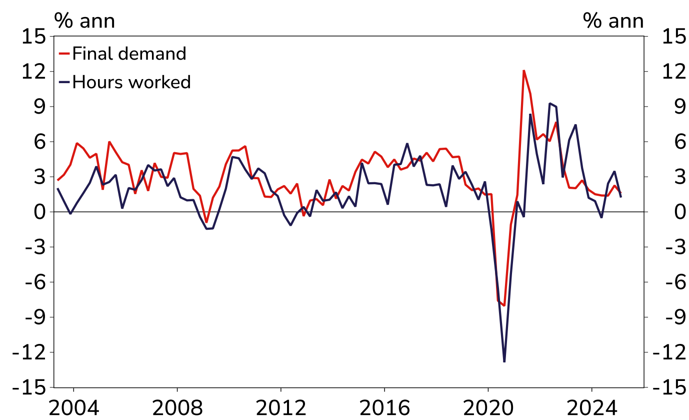
Source: ABS, Victoria Department of Treasury & Finance, Macrobond, Westpac Economics

Vic: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

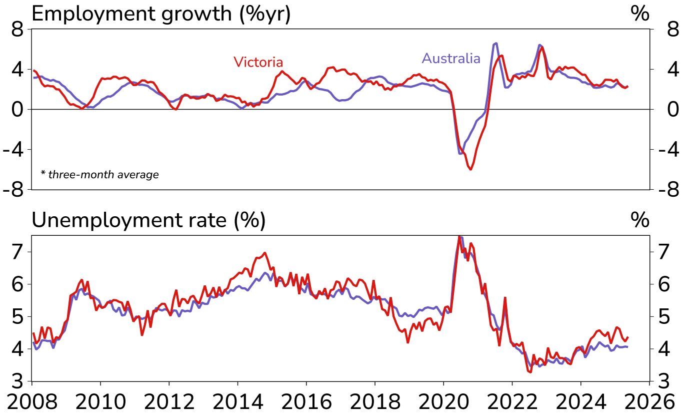
VIC State Final Demand vs Hours Worked



Source: ABS, Macrobond, Westpac Economics

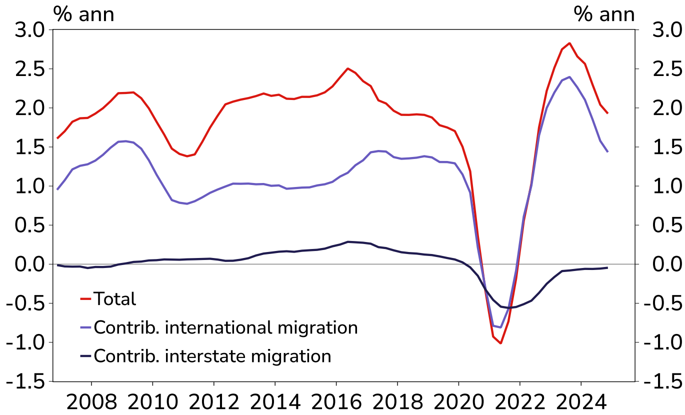
... in need of a confidence boost

Labour Market: Victoria and Australia



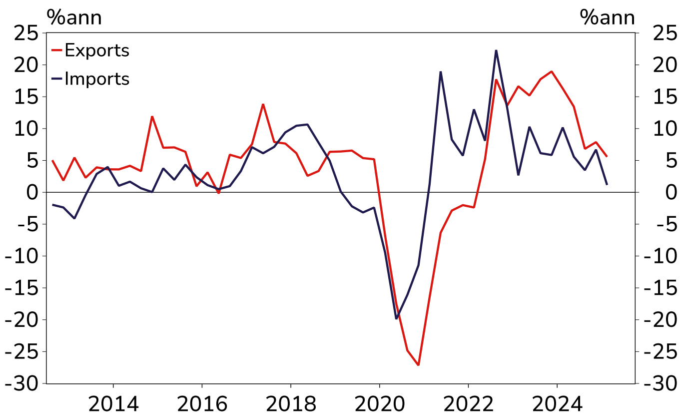
Source: ABS, Macrobond, Westpac Economics

Vic's population growth: surge starting to slow



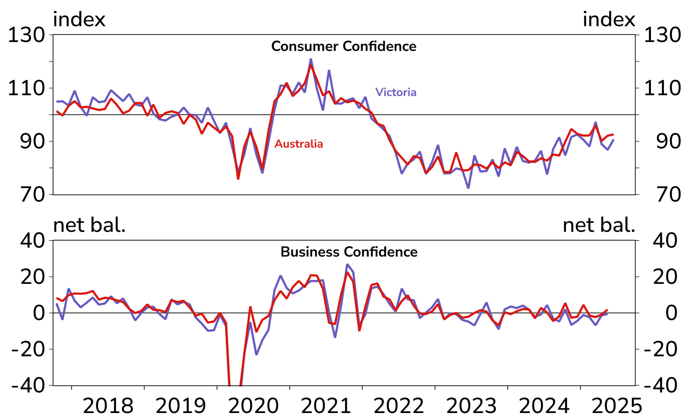
Source: ABS, Macrobond, Westpac Economics

Victoria's international trade



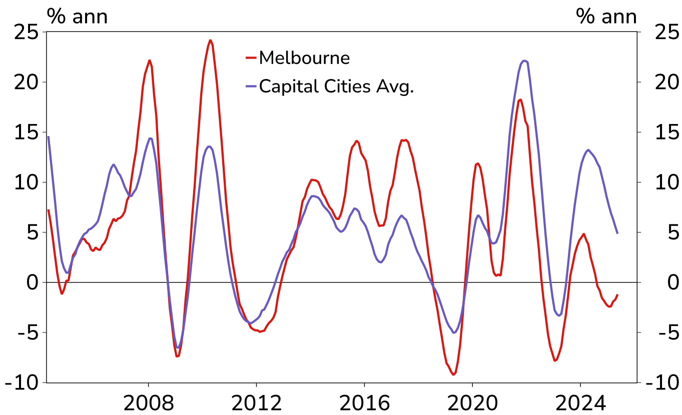
Source: ABS, Macrobond, Westpac Economics

Consumer and Business Confidence: Vic vs. Aust



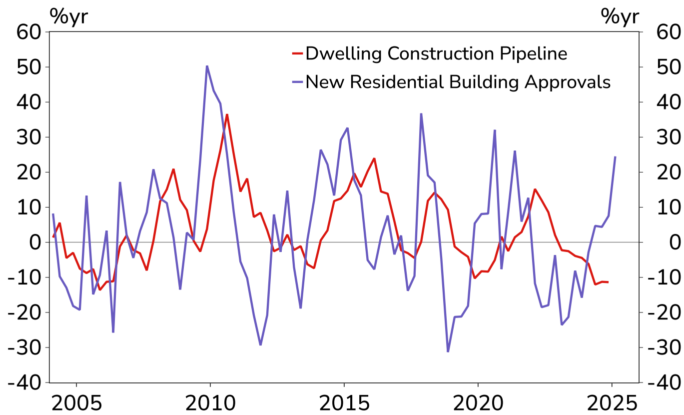
Source: NAB, Melbourne Institute of Applied Economic & Social Research, Macrobond, Westpac Economics

House prices are falling in Melbourne



Source: CoreLogic Australia, Macrobond, Westpac Economics

Vic's residential construction pipeline



Source: ABS, Macrobond, Westpac Economics

Sunshine state outperforms peers ...

Ryan Wells
Economist

How has the state performed? Queensland's state economy remains in reasonably good health, as evinced by state final demand expanding broadly in line with its decade average pace (2.1%yr) – a solid clip above its eastern peers and a touch higher than nationwide domestic demand (1.9%yr). While this gap has closed somewhat over first quarter of the year, prospects for Queensland's relative outperformance remain intact.

What has surprised? The hallmark of Queensland's sustained resilience has been the public sector, the public demand share of GSP rising a staggering 2.1ppts over the last two years to over 28%. Government consumption, particularly in the form of cost-of-living relief measures, played a crucial role in ensuring Queensland grew at an above-trend pace. At the same time, works on road, rail and electricity infrastructure buoyed public investment substantially.

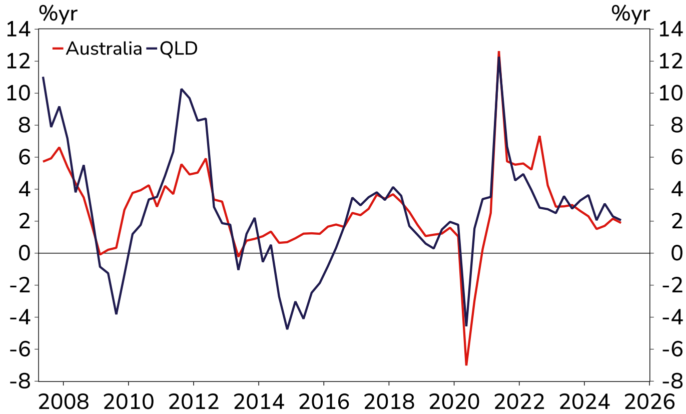
Given the roll-off of electricity rebates and completion of significant infrastructure projects, new public demand fell in Q1 2025 (–1.1%). This does not mark the 'beginning of the end' for public sector support though. Some parts of the Queensland Government's 2025/26 Budget took a step toward fiscal consolidation, namely the scrapping $1,000 electricity rebates in addition to the already-telegraphed reduction of funding for the Borumba Pumped Hydro Project. However, Queensland still clearly has a strong appetite for investment.

A key stat that tells the story: at $275bn, the state's project pipeline, including a large volume of work under consideration or labelled 'possible' is now significantly above its mining boom peak. This includes $18bn earmarked for public health and $4.7bn for the 2032 Olympics in the latest Budget. However, the upside potential mainly centres on a large volume of renewables projects (see p.7). This will put a floor under activity over the period ahead.

What can improve? The main segment of the economy which deserves more focus is new business investment, which rose 5.7% in Q1 2025. That still leaves a weak annual pace (–0.1%yr) well below the national average (1.5%yr). That earlier underperformance was despite decent gains in underlying household consumption, business conditions that were firmer than other mainland states, and a reasonable pipeline of both residential and non-residential projects.

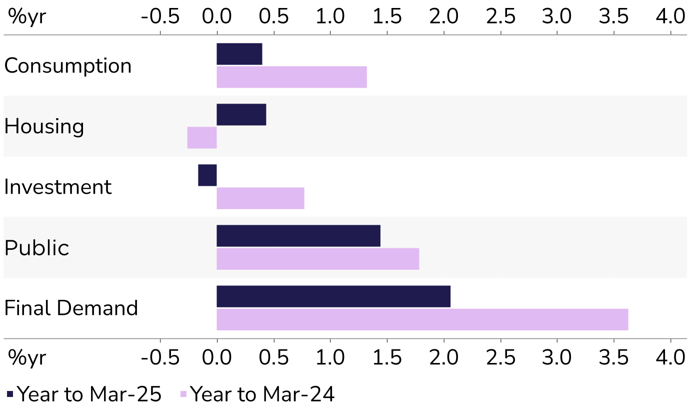
What are we expecting? The outlook is relatively constructive with further RBA rate cuts likely to provide a stronger impetus for business investment over time, supporting the state's recovery more broadly. But with significant investment taking place across both the public and private sector, capacity and competition for resources will be an important dynamic to monitor over the period ahead.

State final demand: Qld vs Australia



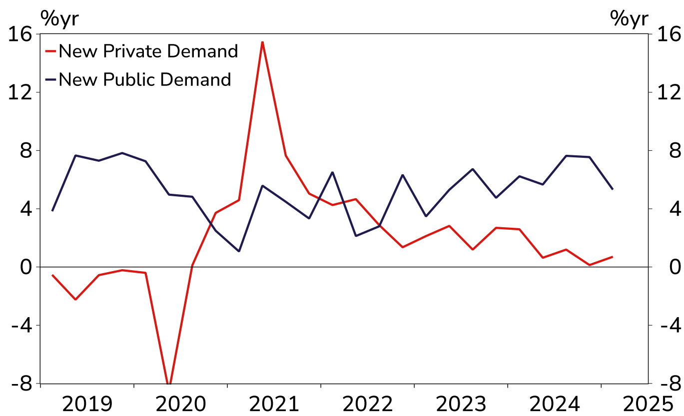
Source: ABS, Macrobond, Westpac Economics

Qld: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

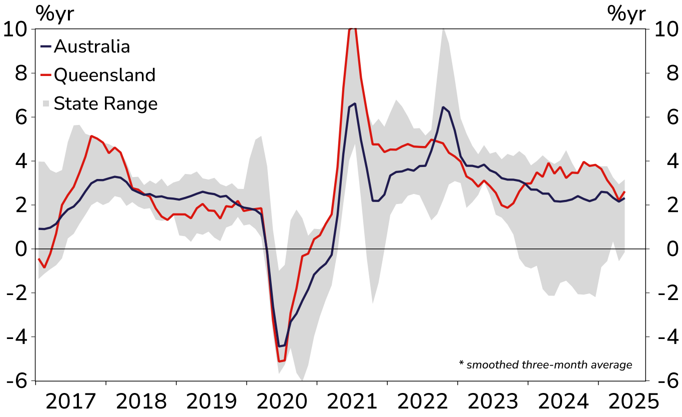
Public demand ticks lower



Source: ABS, Macrobond, Westpac Economics

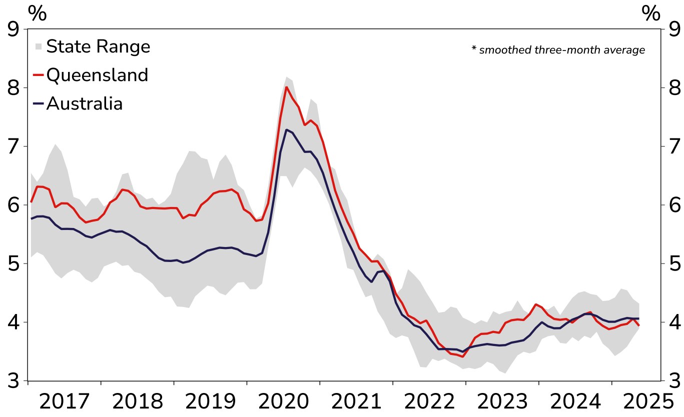
... public sector to remain a pillar of support

Qld employment growth slows from leading pace ...



Source: ABS, Macrobond, Westpac Economics

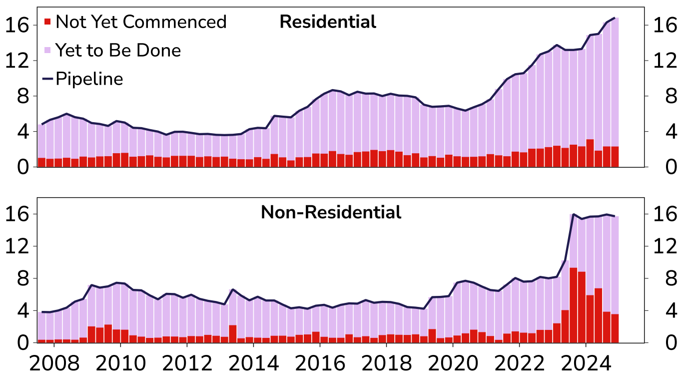
... but unemployment rate remains low versus peers



Source: ABS, Macrobond, Westpac Economics

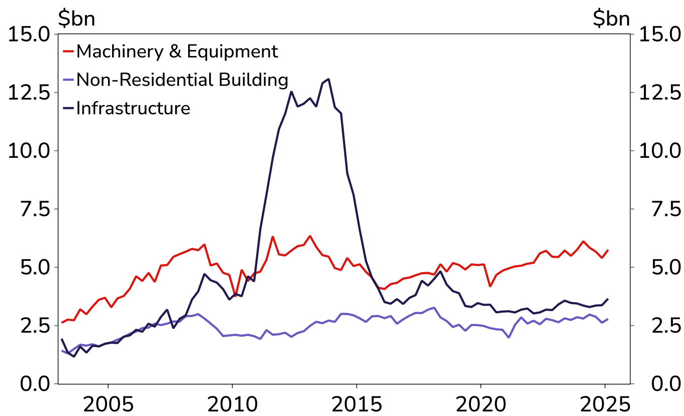
Queensland's building pipeline remains healthy

Building work in pipeline, AUDbn



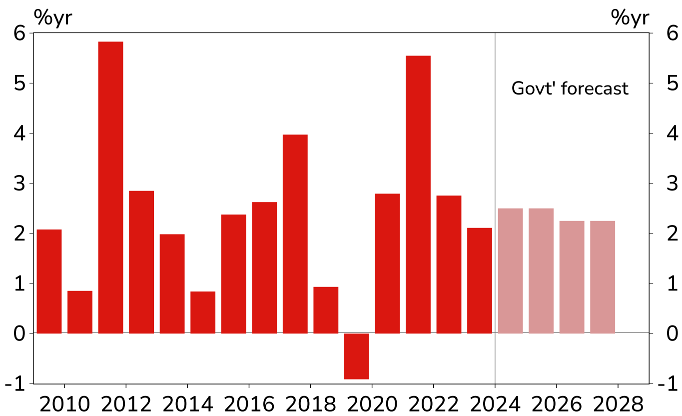
Source: ABS, Macrobond, Westpac Economics

Business investment is sluggish



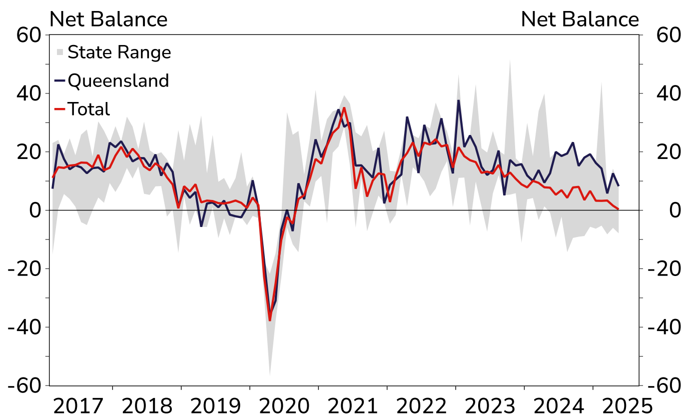
Source: ABS, Macrobond, Westpac Economics

Qld State Government GSP Forecasts



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

Business conditions firmer versus other states



Source: NAB, Macrobond, Westpac Economics

Demand sustaining solid gains ...

Matthew Hassan
Head of Australian Macro-Forecasting

How has the state performed? As noted in previous reports, the WA economy has presented something of a puzzle over the last year with state demand and employment growth chugging along at a robust pace but growth in GSP (the state analogue of GDP) stalling badly in 2023-24. That weakness centred on the mining and agri sectors and has carried into 2024-25. However, so far there continues to be no spillovers to the WA labour market or state final demand. This supports the notion that underlying momentum remains robust and wider measures of activity should rebound as temporary sectoral negatives subside. The main caveat to this is the high exposure of the state's mining sector to an unsettled global backdrop although the risks here run both ways.

It depends on which measures we use and how they are interpreted. As noted, GSP growth has been weak, running at just 0.5%yr in 2023-24 and tracking a similar pace in 2024-25 (our estimates suggesting it was slightly negative in Q1). That's comparable to the weak reads seen during the late 2010s mining bust. However, every other indicator speaks to much stronger conditions, including: state final demand (+3.6%yr); employment (+2.9%yr); and hours worked (4.6%yr). The missing link is sector-specific output contractions in mining (–2.1%yr in 2024-25, likely similar in 2025-26) and agriculture (–6.6%yr in 2024-25 after recording a phenomenal 70% surge over the previous three years). For mining, the weakness relates to a mix of weather-related disruptions, structural changes to both markets (nickel) and resource performance (depletion of gas reserves), and major maintenance shut-downs (LNG).

The detail continues to point to positive momentum outside of these sectors with: real household labour income growth lifting to 5.5%yr; population growth is still tracking at 2.5%yr; dwelling construction is in the midst of a solid upturn; and the state government's finances awash with surpluses.

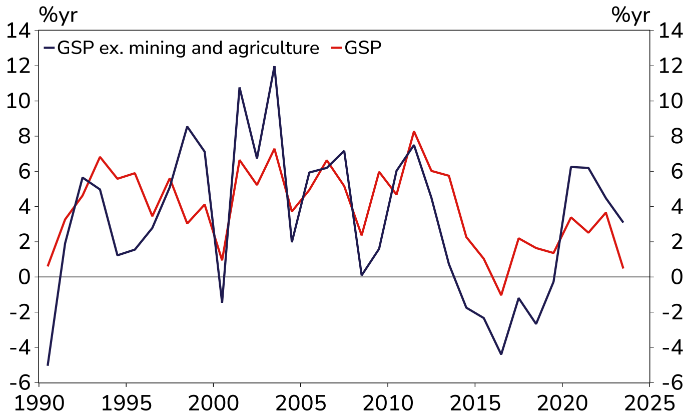
A key stat that tells the story: WA export volumes in Q1 were 11% below their 2022 peak, recording their second weakest quarter in over eight years.

What has surprised? WA's southern outback and 'wheat belt' includes five sub-regions that are in the top 25 of over 330 nationally in terms of annual dwelling price growth.

How can things improve? The state's mining sector – worth 45% of GSP – is a clear source of risk. Weakness to date has been limited but commodity prices have been softening outside of spikes in gold and crude oil. Easing trade tensions and/or confirmed solid growth in China would clearly be positives.

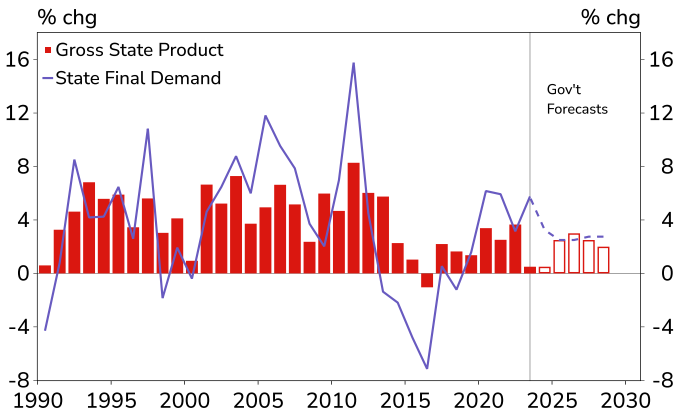
What are we expecting? GSP growth to 'normalise' back towards 2%yr but with mining headwinds persisting.

WA Gross State Product



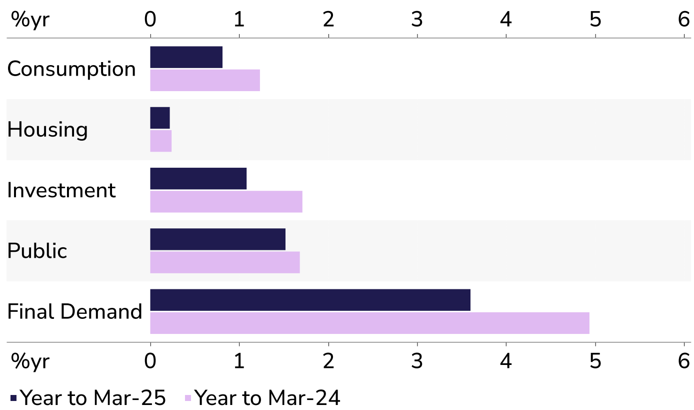
Source: ABS, Macrobond, Westpac Economics

WA Gross State Product & Final Demand



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

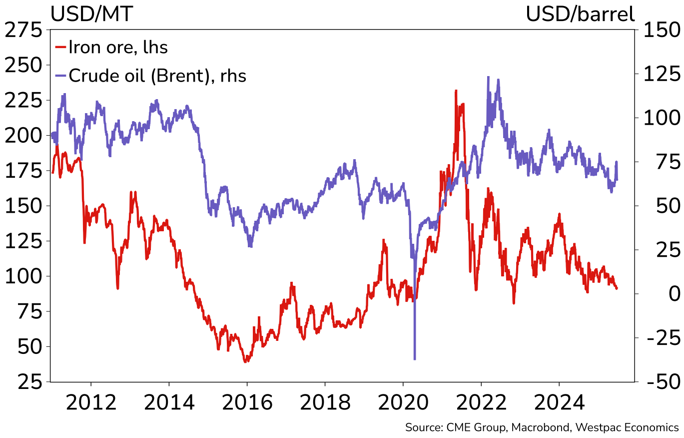
WA: contributions to state final demand



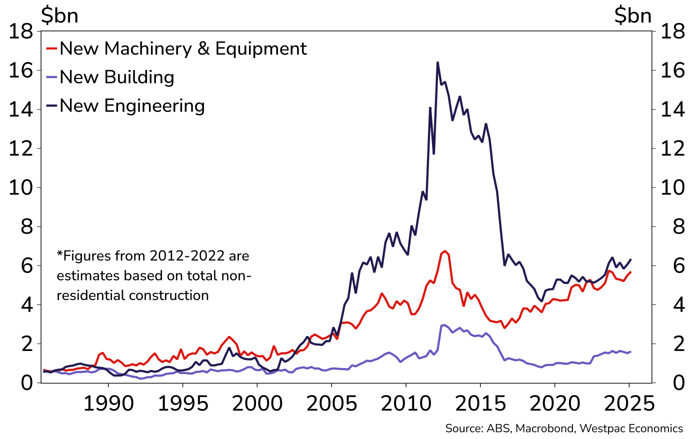
Source: ABS, Macrobond, Westpac Economics

... despite mining-related disruptions to output

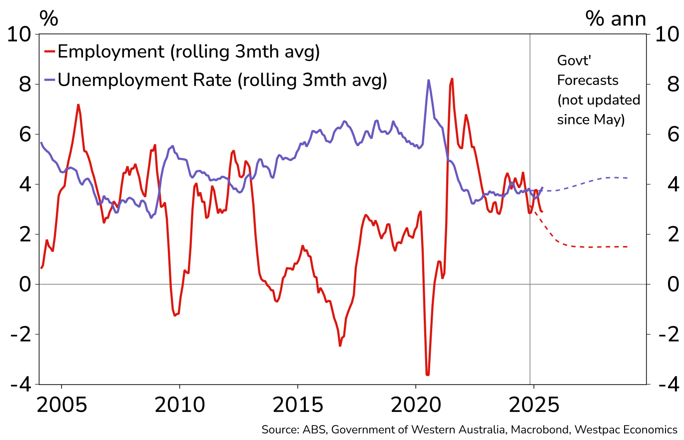
Commodity prices



WA Business Investment by Type

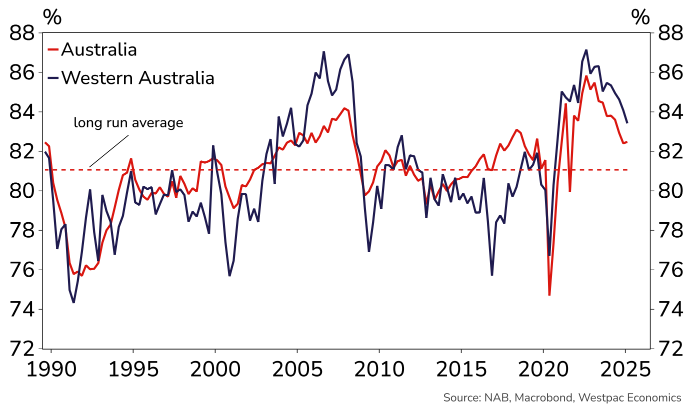


WA Employment and Unemployment

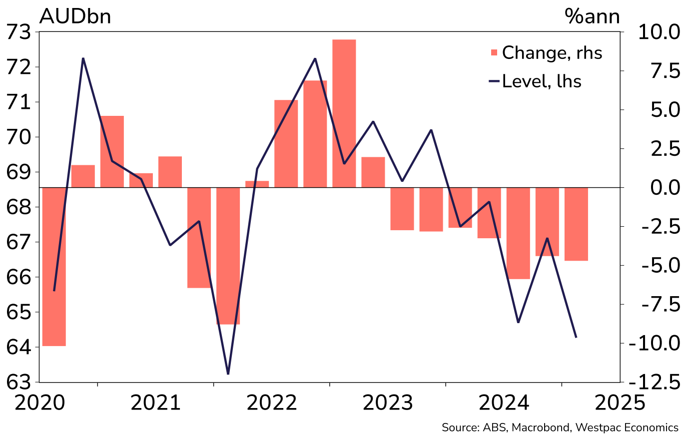


Capacity utilisation

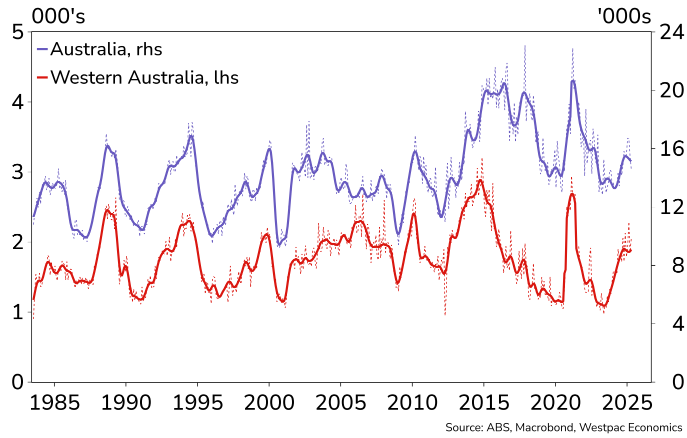
Seasonally adjusted by Westpac



WA's international exports



WA dwelling approvals surge



Strong start to the year ...

Ryan Wells
Economist

How has the state performed? SA, having spent most of last year in the centre of the pack, shot ahead during the opening quarter, with state final demand advancing 1.3% to be up 3.1% over the year to March, the second-highest annual pace across the nation.

What makes SA stand out is the resilience in new public demand. Unlike all other states, South Australia managed to post another gain in this segment in Q1 2025 – and a sizeable one at that – up 1%qtr (5.9%yr). This is despite a roll-off of electricity rebates that saw public consumption decline in the latest quarter (–0.4%).

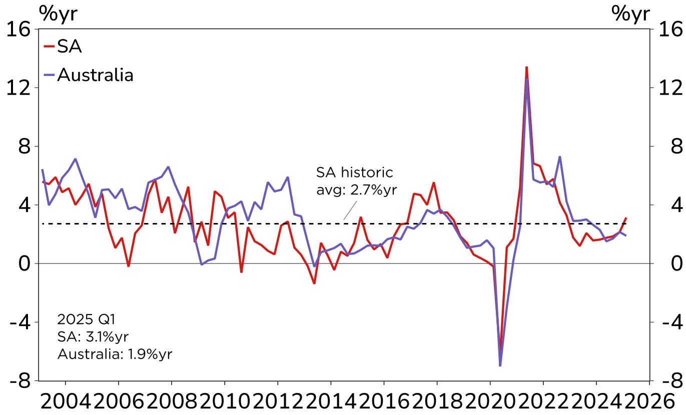
A key stat that tells the story: The rise in public demand centres on a staggering lift in new public investment, up a further 8.2% in Q1 to be up 23%yr – annual growth running at six times the national pace. That said, the latest 2025/26 State Budget has not added any major new projects to the pipeline, but rather focused on other areas including the Whyalla rescue package, supporting demand in the health system, and law and order. As such, we are likely to see the pace of new public investment ease from its rollicking pace as projects are completed.

How can things improve? The ramp-up of non-residential building and infrastructure works over recent years has contributed significantly to the state economy. Where the main focus lies for SA's economic recovery is on households. Adelaidians were hit by a relatively higher rate of inflation, a much weaker labour market and slower wages growth than other states, leaving households precariously placed over the past couple of years. A stronger rise in underlying consumption (excl. electricity) was a positive sign in the latest quarter, and with earlier headwinds starting to abate, prospects for a sustained recovery are improving.

What has surprised? Given the backdrop of a prospective slowing in public demand, it is encouraging to see South Australia's private economy start to stage a more convincing recovery. One of the more surprising facets of this trend has been the sustained nation-leading pace of housing investment (+14%yr), shared evenly across both new dwelling construction (+13%yr) and renovation activity (+15%yr). With a large number of dwelling projects still in the pipeline, housing construction will likely remain an important pillar of support over the period ahead.

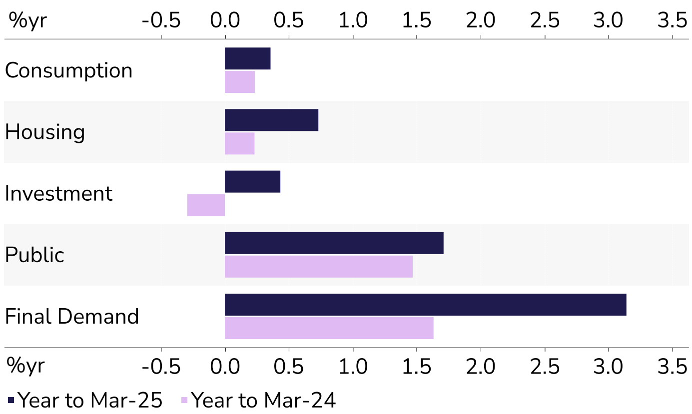
What are we expecting? In summary, the risks around a 'shaky handover' of growth between the public and private sector look somewhat more contained in South Australia, provided the inevitable slowdown public demand remains smooth and the recovery in household consumption and dwelling investment continues to take shape.

State final demand: SA vs Australia



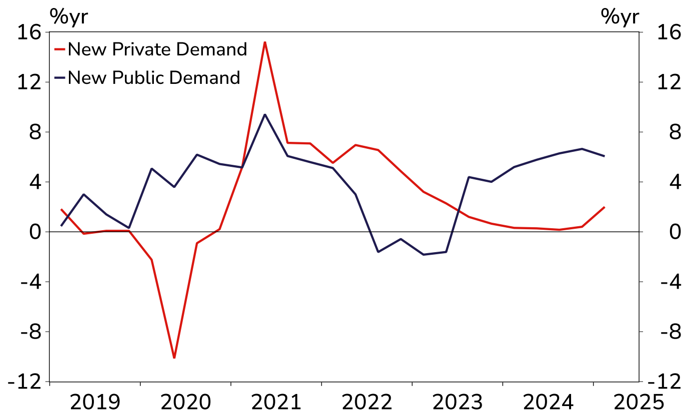
Source: ABS, Macrobond, Westpac Economics

SA: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Private demand lifts after sustained weakness

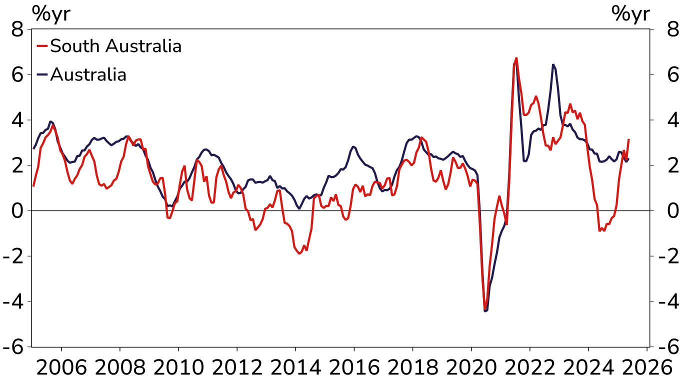


Source: ABS, Macrobond, Westpac Economics

… risks of a 'shaky handover' more contained

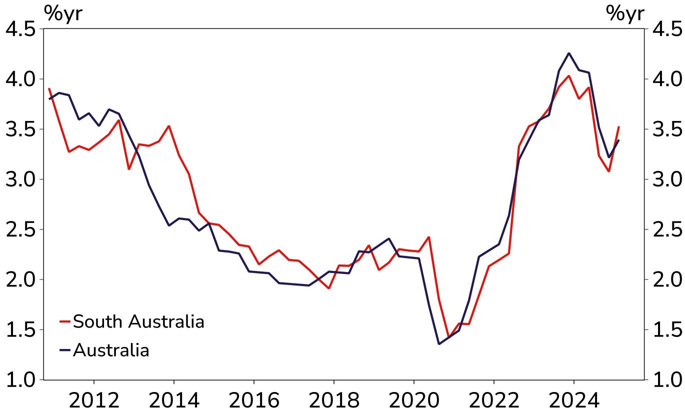
SA employment growth recovering

Employment, smoothed three-month average



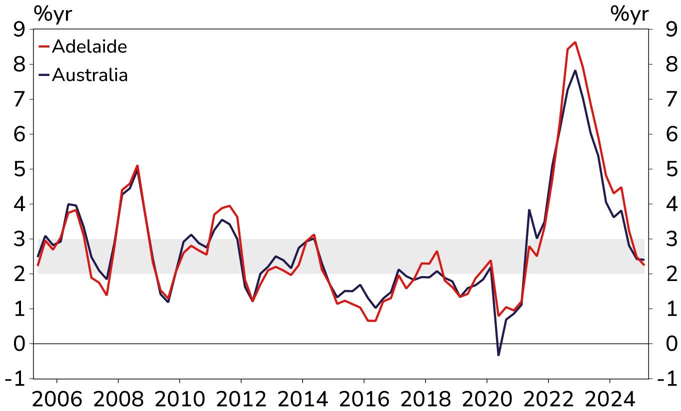
Source: ABS, Macrobond, Westpac Economics

Wages growth has ticked up in SA



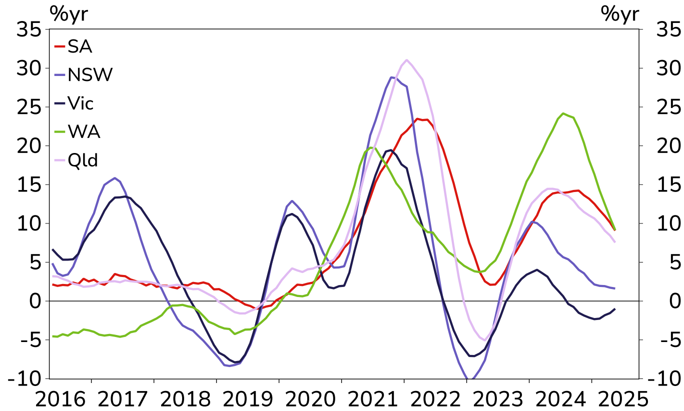
Source: ABS, Macrobond, Westpac Economics

Adelaidians have been squeezed by inflation



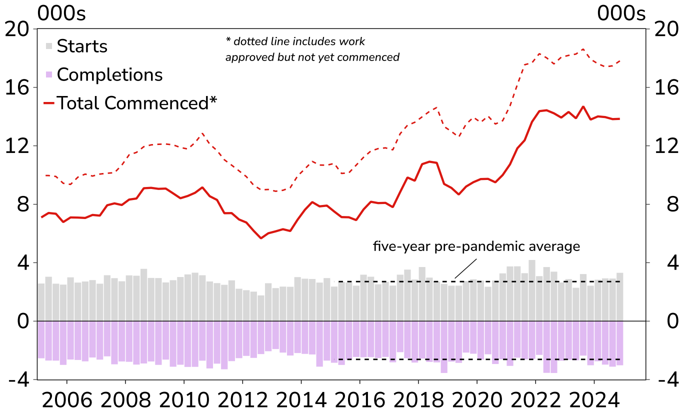
Source: ABS, Macrobond, Westpac Economics

SA housing market outperforms major states



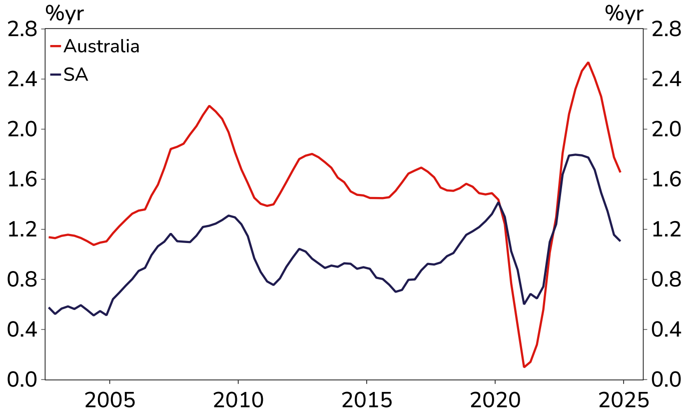
Source: CoreLogic Australia, Macrobond, Westpac Economics

Plenty of dwelling under construction



Source: ABS, Macrobond, Westpac Economics

SA population growing more slowly



Source: ABS, Macrobond, Westpac Economics

Consumption a bright spot …

Jameson Coombs
Economist

How has the state performed? Tasmania's growth in state demand was the weakest across the country in both quarterly (-0.9%) and annual terms (1.0%). But it would be unfair to conclude Tasmania is underperforming on that number alone given it's partly accounted for by a severe underperformance in population growth. In per-capita terms, annual demand growth of 0.4% is ranking in the top three, bested only by SA and WA.

A key stat that tells the story: A clear decline in economic confidence in the Tasmanian economy is laid bare by the collapse in business investment over the last two quarters. Private fixed capital formation has declined 9% over the past six months and is the weakest across the country on almost any measure. This is despite relatively resilient household consumption in the state, emphasising just how detrimental it is to have the population growing at 0.3% annually, versus 1.7% elsewhere.

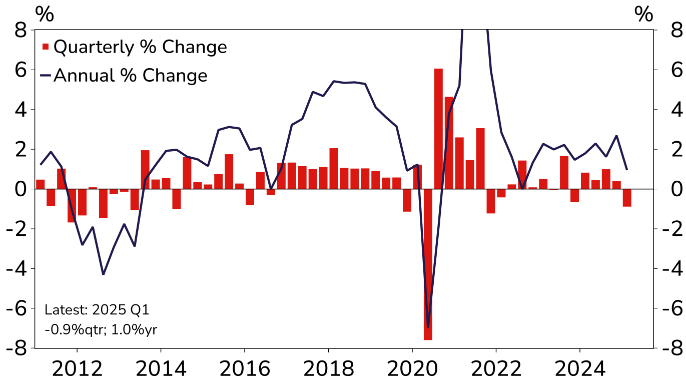
What has surprised? Relatively low unemployment in the island state is perhaps most surprising given it holds the mantle for the weakest employment growth across the nation (it's actually been going backwards). This is explained by a fall in labour supply which runs counter to the experience across the mainland. This is partly another feature of weak population growth but is more prominently explained by a sharp fall in the participation rate over the past couple of years. At 60.9% the participation rate in Tasmania is by far the lowest in the country, it's averaging 68.5% on the mainland according to the most recent numbers.

How can things improve? A turnaround will be predicated on a revival of private demand, in particular business investment. Encouragingly, there is plenty of capacity to expand. Most inflation measures for Hobart are undershooting the inflation target, including services inflation which is growing at 1.9% annually versus a simple average of 3.3% on the mainland. Without the capacity constraints, the focus should be on incentivising investment and boosting consumption.

What are we expecting? With population growth expected to remain soft, and public demand likely to slow, we expect growth in Tasmania to remain subdued. The biggest risk sits with a more abrupt slowing in public demand given it now accounts for 40% of Gross State Product.

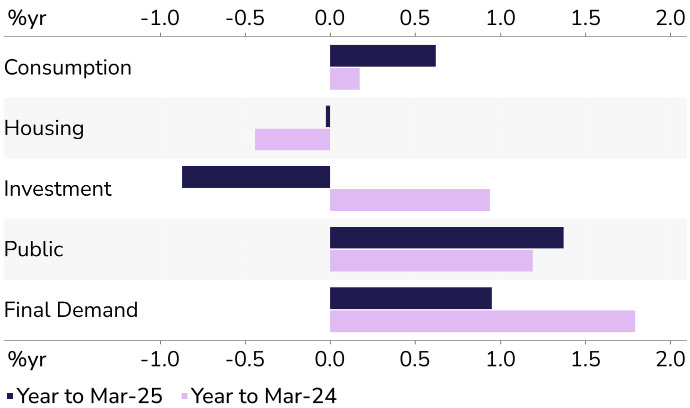
TAS State Final Demand

Chain Volume Measures



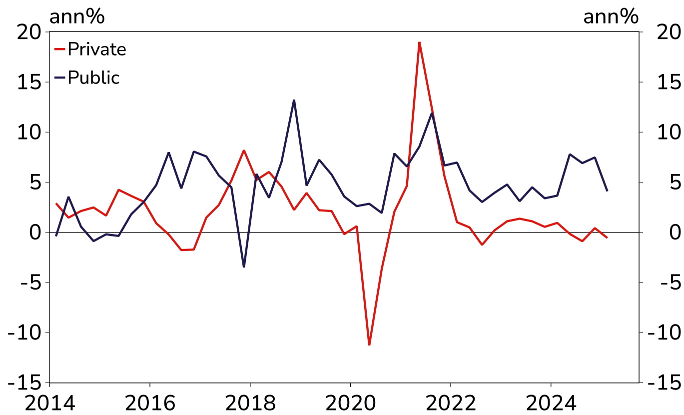
Source: ABS, Macrobond, Westpac Economics

Tas: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

TAS Public vs Private Demand

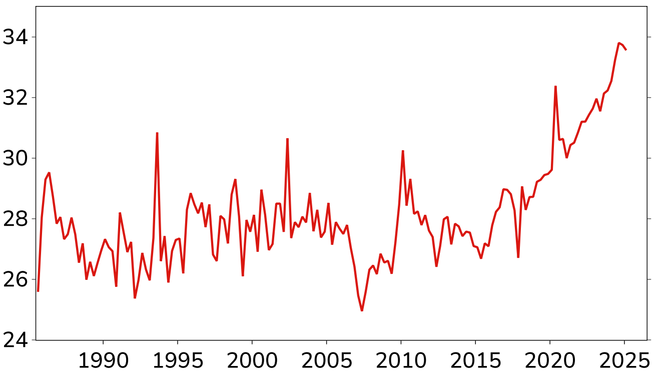


Source: ABS, Macrobond, Westpac Economics

... despite an otherwise unimpressive outlook

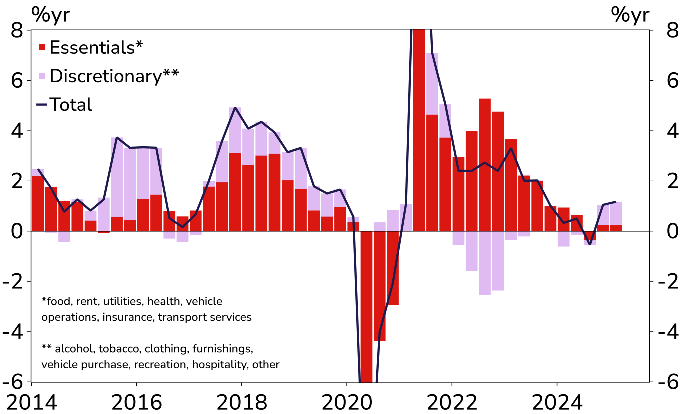
Tasmania's public sector is driving growth

Public Demand % Share of State Final Demand



Source: ABS, Macrobond, Westpac Economics

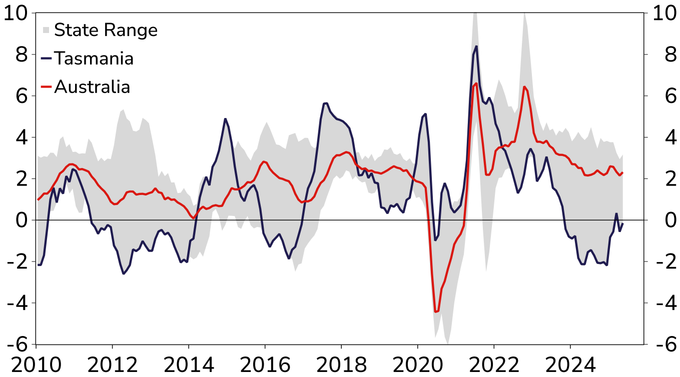
Tas household spending contributions



Source: ABS, Macrobond, Westpac Economics

Tasmania's labour market is very weak ...

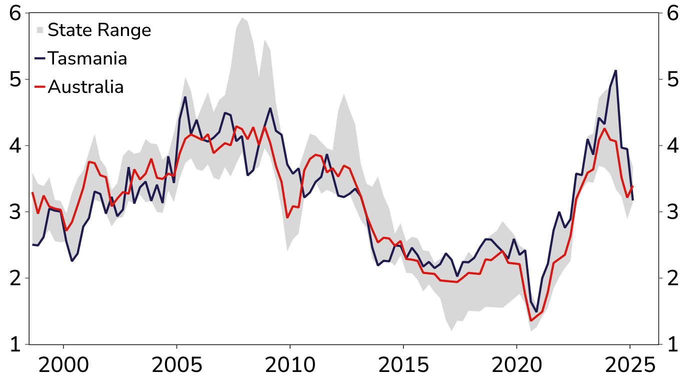
Employment Growth, Annual Change (%)



Source: ABS, Macrobond, Westpac Economics

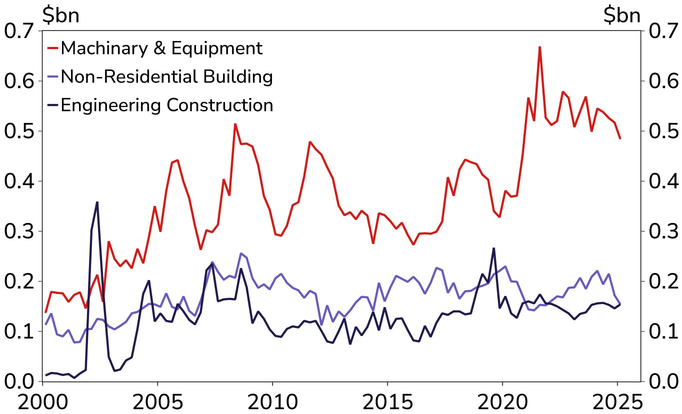
... despite much stronger wages growth

Wage Price Index, Annual Change (%)



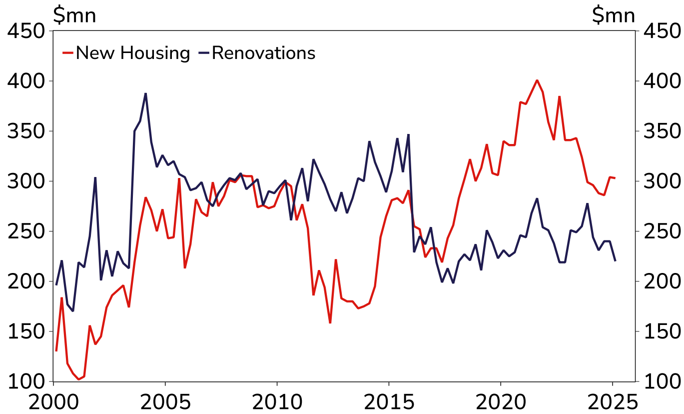
Source: ABS, Macrobond, Westpac Economics

TAS New Business Investment



Source: ABS, Macrobond, Westpac Economics

Tasmania's dwelling construction has eased notably



Source: ABS, Macrobond, Westpac Economics

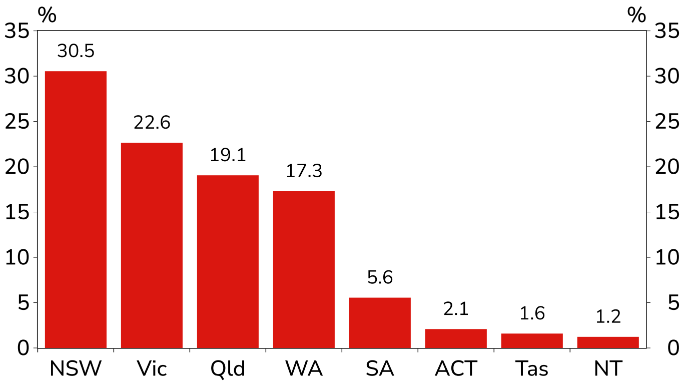
Forecasts: state activity and employment

		2023/24	Mar-25	2024/25		2025/26		2026/27	
		Actual	Estimate**	Govt f/c	Westpac f/c	Govt f/c	Westpac f/c	Govt f/c	Westpac f/c
Australia	GDP	1.4	1.1	1.50	1.30	2.25	1.90	2.50	2.20
	Employment	2.7	2.3	2.75	2.30	1.00	1.20	1.25	1.30
NSW	GSP	1.2	1.0	1.75	1.20	1.75	1.80	2.25	2.00
	Employment	2.0	1.5	2.00	1.80	1.00	1.20	1.25	1.20
Vic	GSP	1.5	1.8	2.00	1.80	2.50	2.00	2.75	2.25
	Employment	3.3	2.6	2.50	2.60	0.50	1.00	1.50	1.00
Qld	GSP	2.1	1.4	2.50	1.90	2.75	2.10	2.50	2.50
	Employment	3.0	3.4	3.00	2.90	1.50	1.60	1.50	1.70
WA	GSP	0.5	-0.5	1.25	0.30	1.75	2.00	2.00	2.50
	Employment	4.1	3.5	3.00	3.10	1.75	1.90	1.50	1.80
SA	GSP	1.2	1.8	0.50	1.60	2.50	1.90	3.00	1.50
	Employment	1.7	0.4	1.00	1.40	1.00	1.30	1.00	0.80
Tas	GSP	1.4	1.3	2.25	1.30	1.50	1.50	1.50	1.00
	Employment	-0.8	-1.4	-1.00	-0.80	0.50	0.50	0.50	0.70

* Government forecasts for Australia are a weighted average of the state government forecasts. State government forecasts are from the most recent state budget update. Westpac's state numbers are calculated to be consistent with the national forecasts. ** Westpac GSP estimate based on state final demand, state international trade flows and national figures on inventories.

Shares of GSP

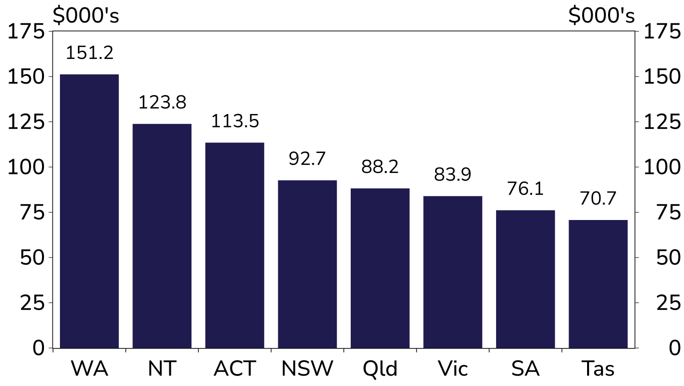
Real, Chain Volumes, 2023/24



Source: ABS, Macrobond, Westpac Economics

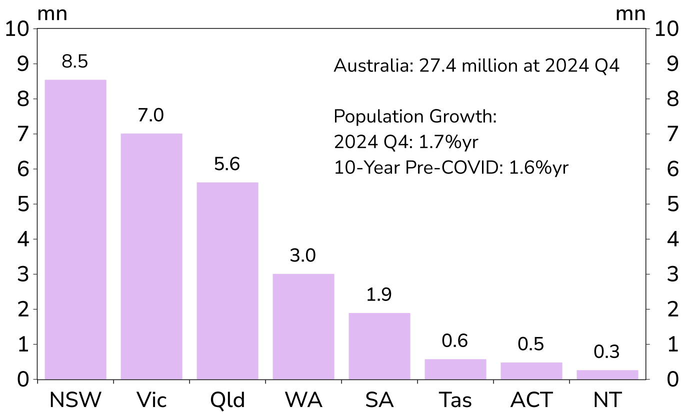
GSP per capita

Real, Chain Volumes, 2023/24



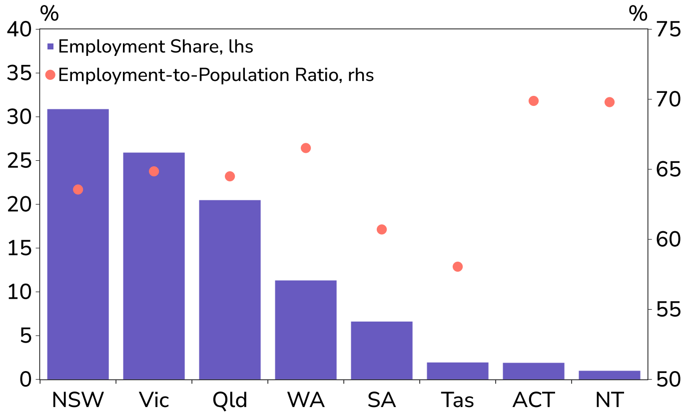
Source: ABS, Macrobond, Westpac Economics

Population by state



Source: ABS, Macrobond, Westpac Economics

Employment shares and population ratios



Source: ABS, Macrobond, Westpac Economics

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