4 June 2025

AUSTRALIAN GDP Q1 BULLETIN

Economic recovery stalls

Key points

- Economy is barely growing, +0.2% in Q1, annual growth stalling at 1.3%yr over the last two quarters.
- Aggregate productivity continues to fall but reflects expanding non-market sector and falling mining productivity. We estimate that productivity across the rest of the economy is tracking a 1.0%yr pace with unit costs up a more benign 3.8%yr.
- The March quarter data were unambiguously soft, even aside from some of the special factors and other ‘wrinkles’ in the detail. The RBA expected consumption to be weak in the quarter but will still be concerned by this ongoing sluggishness. The signs of softening public demand, if sustained, will no doubt also be unsettling.
- While ever productivity growth remains as slow as it is currently, though, the RBA will remain sensitive to domestic cost pressures. This means it will probably still want to see quarterly inflation updates to be confident to reduce monetary restrictiveness further.

GDP: March Quarter 2025

	% qtr		% yr	
	Dec	Mar	Dec	Mar
Household consumption	0.7	0.4	0.9	0.7
Dwelling investment	0.7	2.6	3.5	5.6
Business investment*	0.7	0.4	0.4	1.5
Private final demand*	0.7	0.5	1.0	1.3
Public spending*	0.7	-0.6	5.2	3.5
Domestic demand	0.7	0.2	2.2	1.9
Stocks – private non–farm #	0.3	0.2	0.4	-0.2
Stocks – other #	-0.2	-0.1	-0.3	-0.1
GNE	0.7	0.3	2.3	1.6
Exports	0.1	-0.8	1.3	-0.2
Imports	0.7	-0.4	6.4	0.4
Net exports #	-0.1	-0.1	-1.1	-0.2
Statistical discrepancy #	0.0	0.0	0.1	0.0
Non–farm GDP	0.4	0.1	0.8	0.9
GDP, real	0.6	0.2	1.3	1.3
GDP, nominal	1.5	1.4	3.7	3.7
GDP deflator	1.0	1.1	2.3	2.3
Household deflator	0.8	0.6	3.5	3.3
Earnings per worker (non-farm)	1.2	0.9	3.4	3.7
Real household disposable income	0.9	1.7	2.0	3.5

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

Q1 GDP: 0.2%qtr, 1.3%yr

Q1 Domestic Demand: 0.2%qtr, 1.9%yr

Economy is barely growing

Westpac Economics

Pat Bustamante, Matthew Hassan, Sian Fenner, Justin Smirk, Mantas Vanagas, Ryan Wells

The Australian economy slowed significantly in the March quarter, barely lifting 0.2%qtr and 1.3%yr (on par with the weakest reads since the early 1990s recession, excluding the COVID period). The recovery effectively stalled in annual terms with year-ended growth remaining at a soft 1.3%yr for the second consecutive quarter.

This outcome was actually a touch stronger than Westpac's expectation of 0.1%qtr but softer than the median market expectation of 0.4%qtr. Consumption was firmer than expected but the upside surprise was largely driven by a bigger than expected shift of electricity consumption to households and away from state government as rebates expired (particularly in Qld, Vic and SA).

In line with our expectations, new public demand fell, and the private sector struggled to pick up the slack. While one-off factors, mainly related to bad weather events in Qld and NSW, played a role, underlying momentum is undoubtedly weak.

We have spoken about the possibility of a period of sub-par economic growth if the handover from the public to the private sector is 'shaky'. This risk has been exacerbated by global uncertainties relating to US trade policy which has weighed on confidence and the willingness to invest and spend. Without a material pick-up in private demand the economy could see a more prolonged period of subdued growth.

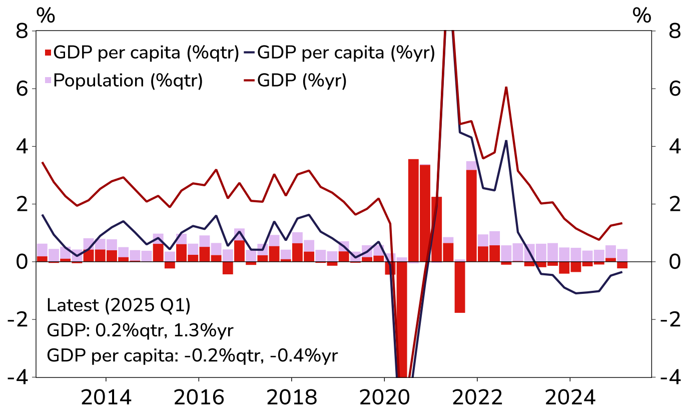
Today's Accounts also show that aggregate productivity continues to be weak, down 1.0%yr, and growth in the economy's cost base (or nominal unit labour costs) remains elevated at 6.1%yr.

However, as we have been saying, this has been skewed by the decline in mining sector investment and the expansion of the non-market sector.

Our preliminary estimate is that productivity across the rest of the economy is tracking a 1.0% annual pace with unit costs rising at more benign 3.8%yr – equivalent to the growth rate recorded in 2019 before the pandemic. This is consistent with some of the soft inflation reads recently observed.

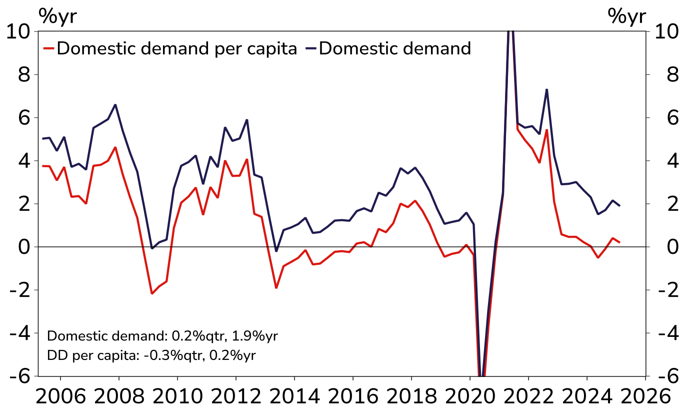
GDP per person resumed its fall, down 0.2%qtr and 0.4%yr after briefly stabilising in Q4 last year. However, real disposable income per capita grew strongly on the back of continued gains in labour income and one-off boosts from insurance payouts and social assistance.

GDP growth remains weak, another per capita decline



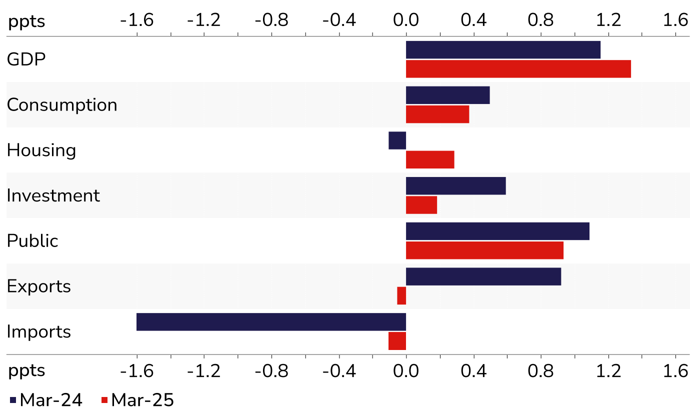
Source: ABS, Macrobond, Westpac Economics

Domestic demand still in a soft spot



Source: ABS, Macrobond, Westpac Economics

GDP: year-end contributions



Sources: ABS, Macrobond, Westpac Economics.

GDP: the expenditure estimate

The expenditure breakdown was consistent with the 'shaky handover' narrative we have been emphasising for a while – the GDP recovery is following a slow, bumpy path as growth in the private sector struggles fully offset retreating public demand.

December quarter new private and public demand figures were revised in opposite directions, leaving their growth rates both at 0.7%qtr. Today's figures showed that new private demand growth eased to 0.5%qtr in the March quarter, with growth driven by household consumption and the shift from private to public consumption of electricity as state electricity rebates roll off.

New public demand fell 0.6%qtr, the weakest result in almost eleven years. In terms of contributions, new private demand added 0.34ppts to the headline GDP growth, offset by -0.16ppts from public demand.

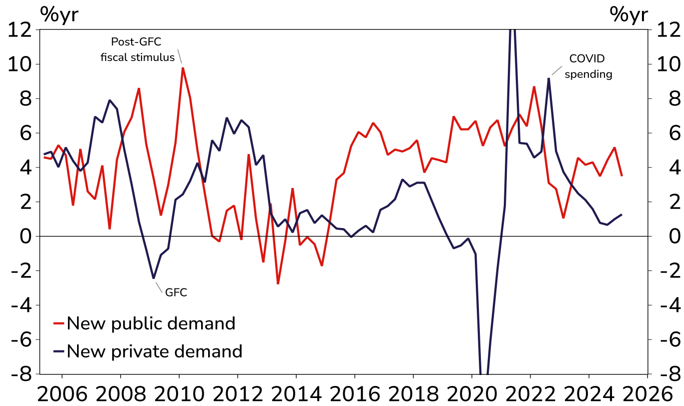
Household consumption rose 0.4%qtr, which represented a loss of momentum after an upwardly revised 0.7%qtr rise in the December quarter, but still a decent result in comparison to an average quarterly pace of 0.2%qtr in the last two years. However, around a half of that quarterly gain came from higher spending on electricity to cover for the withdrawal of government support measures, previously counted as government spending (see below for more details).

As expected, dwelling investment was a bright spot in the national accounts. Dissipating capacity constraints and strong demand reflected by recent increases in approvals were the main contributors to a 2.6%qtr rise, the steepest since the pandemic. New home building and renovation, two major subcomponents, were almost equally strong, at 2.3%qtr and 2.9%qtr respectively.

New business investment rose 0.4%qtr, a step down from the 0.7%qtr gain in the December quarter, but in line with the average gain over the previous four quarters. Non-dwelling investment was up 1.3%qtr, with investment in mining and manufacturing sectors driving growth alongside the ongoing expansion of electricity generation and distribution projects. Investment in intellectual property products – mainly software – made further gains, but the 0.9%qtr gain was the softest since the pandemic. As foreshadowed by the capex spending data released last week, new machinery and equipment investment was disappointing, falling 1.4%qtr to the lowest level in two years.

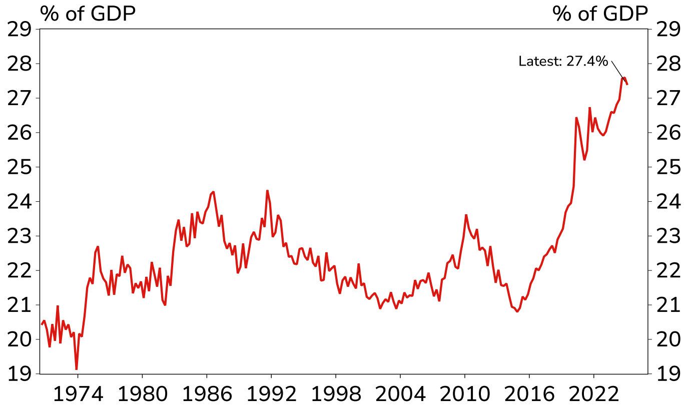
Public spending remains elevated, but as we predicted in our preview, growth has declined as we pass the peak in construction activity related to large infrastructure projects. There was also a pull back in state and local government consumption as temporary cost of living support, particularly electricity rebates, has been wound back. Instead, this showed up in household consumption and drove half of consumption gain over the quarter.

Private demand struggles to pick up the slack



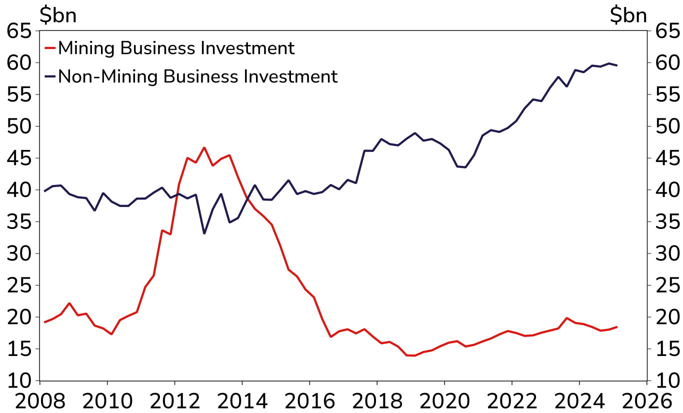
Source: ABS, Macrobond, Westpac Economics

New public demand near its record high



Source: ABS, Macrobond, Westpac Economics

Mining and electricity generation investment lifts



Source: ABS, Macrobond, Westpac Economics

As reported yesterday, net exports subtracted 0.1ppt from GDP growth, which was an unchanged contribution from the December quarter. The weakness is explained mainly by lower coal and LNG exports, as their production and shipping were impacted by severe weather.

Inventories added 0.1ppts to growth, with the private sector increasing its stock of inventories (mainly in the mining sector).

Household sector

Australian consumers continue to see a gradual improvement in incomes, boosted by one-off factors in the quarter. However, most of this is being directed towards savings with spending growth weak and the 'recovery' still far from convincing.

Household consumption rose 0.4% in the quarter, coming in above some of the weaker signals from partial indicators but with about half of that relating to a bigger than expected switching effect from lower electricity rebates. December quarter's 0.4% gain was marked up slightly to 0.6%, helping keep annual growth at 0.8%yr. The annualised pace over the last two quarters has been 2.1% but is closer to 1.1% excluding utilities.

The detail had several surprises. As noted, the tapering of rebates produced a bigger than expected 10.2%qtr jump in utilities spend. Vehicle purchases also showed a surprise 2.5%qtr rise – sales measures had suggested volumes were instead down. That was partially offset by a weaker result for fuel, down 1.9%qtr. Retail segments were flat in line with available indicators. However, services spend excluding utilities was on the soft side (+0.4%qtr).

The picture on household incomes was quite positive although some of this reflected one-off factors and households opted to save most of the gains.

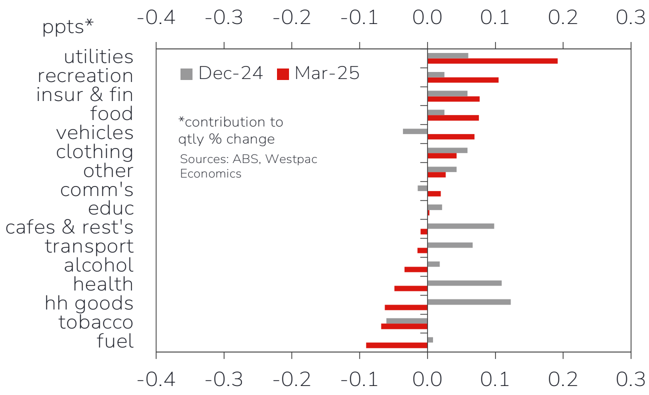
Total wage income posted a 1.5% rise, lifting annual growth to 6.5%yr. Employment growth moderated a touch to 0.4%qtr, with more of the gain coming from higher average earnings (+1%qtr, 3.7%yr).

Other sources of income were a significant positive in the March quarter. Extreme weather events saw a notable rise in non-life insurance claim payouts (+12.8%) and was likely behind a solid 5.1% rise in social assistance. Other secondary income in general added 0.7ppts to total nominal household disposable income in the quarter.

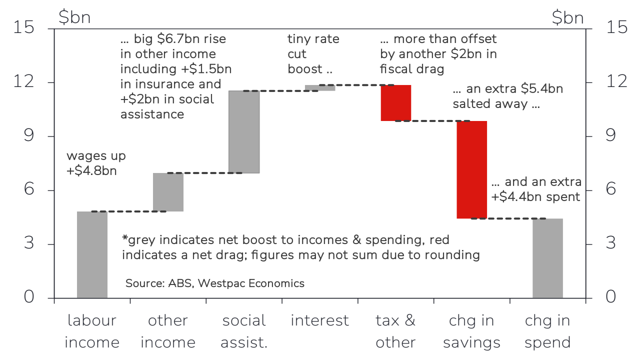
The RBA's February rate cut also provided a tiny lift to disposable incomes but this was swamped by another solid 1.8% rise in income tax payments. Remarkably, tax payments are up 4.8%yr despite the 'stage 3' tax cuts in July last year (and are set to rise above their pre-tax cut peak next quarter).

Overall, nominal disposable income posted a strong 2.4%qtr gain to be up 6.9%yr, although excluding the aforementioned one-off factors this is likely closer to +1.7%qtr (matching Q4). Real inflation-adjusted disposable income posted a 1.7%qtr gain to be up 3.5%yr. Real disposable income is now just 1.6% below its 2021 peak.

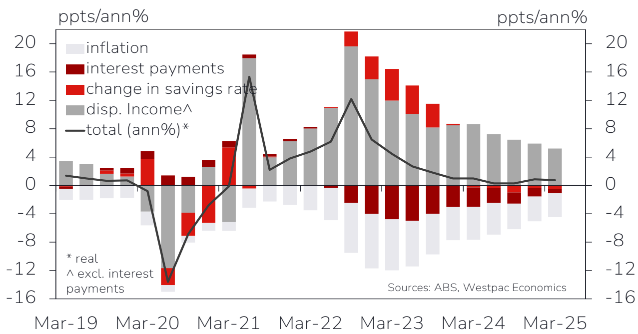
Consumer spending by category



Household income flows: change, Q4 to Q1



Consumer spending: drivers and headwinds



Clearly growth in income is running well ahead of growth in spending, with households putting the difference towards savings. The aggregate household savings ratio rose from 3.9% in the December quarter to 5.2% in the March quarter and an average of 2.6% over the previous eight quarters. Note that some of the latest quarterly rise will relate to timing effects – insurance payouts for example typically take time to be spent. However, even allowing for this, consumers are clearly taking a very cautious approach to their finances.

The states

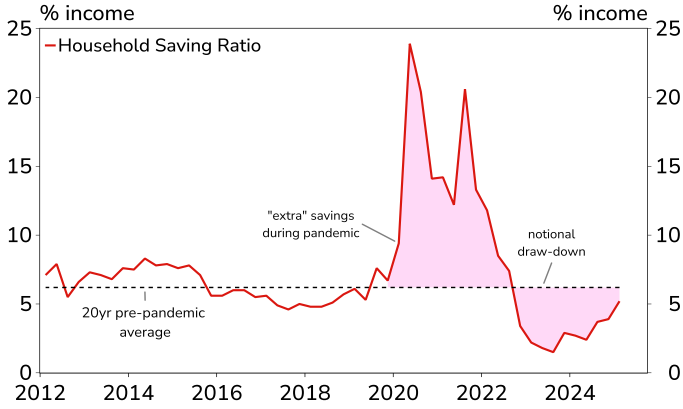
New South Wales state final demand nudged –0.1% lower in Q1 to be up just 1.0%yr – the lowest across the mainland states and equal-weakest with Tasmania. As has been the case for some time, the public sector continues to offer relatively less support to growth versus other states, with new public demand falling –0.7% to be up only 1.3%yr, the weakest across the nation. The recovery in the private sector also took a step back, new private demand lifting just 0.1% in Q1, mostly on a lift in housing construction (+2.0%), while the modest gain in household consumption (0.1%) was more than offset by a pull-back in new business investment (–0.4%).

Victoria also started the year on weaker footing, with state final demand holding flat to be up 1.6% over the year to March. Waning support from the public sector was an important factor, with new public demand contracting –0.3% (2.8%yr) as a result of a large pull-back in new investment at the state/local level. This, combined with the sharp and broad-based decline in new business investment (–3.1%), adds to the foreboding signs for the state's prospects. The roll-off of electricity rebates saw consumers pick-up the bill, with total household spending up 0.6% in Q1; excluding electricity, consumption grew just 0.2% in the quarter.

Queensland put in a solid innings over the first few months of the year, state final demand rising 0.7% to be up 2.1%yr, broadly in line with the national average. The impact of state rebates is also worth highlighting here – the 0.6% gain in household consumption falling to just 0.1% once electricity spending is excluded. With the rebate roll-off effectively reallocating electricity spend from the government to households, new public demand moved a noticeable leg lower (–1.1%). The state's private investment backdrop was constructive, with gains across housing construction (1.6%) and new business investment (5.7%) contributing positively.

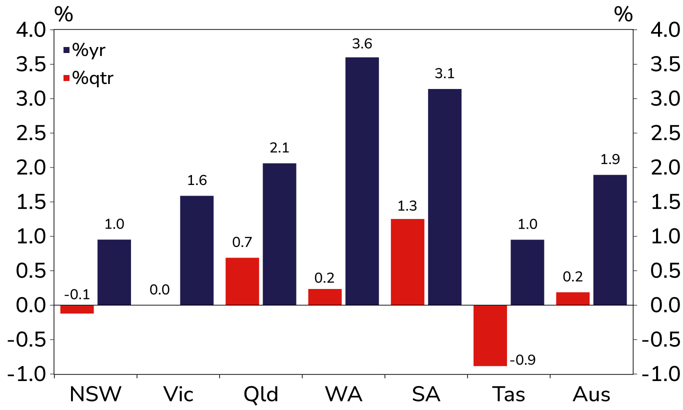
Western Australia had an interesting batch of results. State final demand rose 0.2% in Q1 2025, but with a weak print from Q1 2024 cycling out, annual growth shot up from 2.8%yr to 3.6%yr, nearly double the pace of nationwide domestic demand. Both new private and new public demand are still running at nation-leading paces on an annual basis. It was notable that new public investment collapsed –11% and household consumption held flat in Q1, although part of these extreme moves will likely prove temporary given the state's solid underlying fundamentals.

Household savings ratio



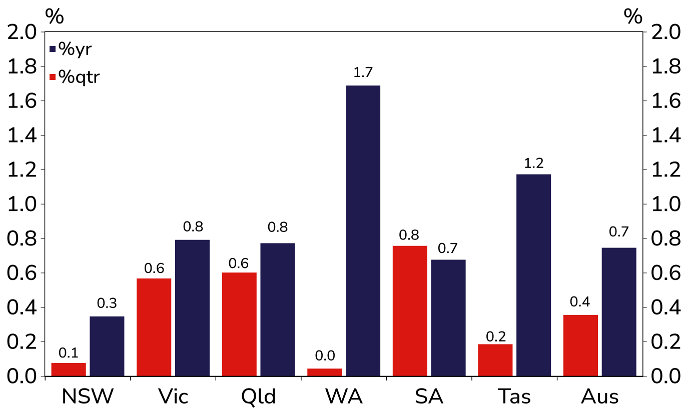
Source: ABS, Macrobond, Westpac Economics

State final demand: 2025 Q1



Source: ABS, Macrobond, Westpac Economics

Consumer spending: 2025 Q1



Source: ABS, Macrobond, Westpac Economics

South Australia was the front-runner, state final demand rising a stellar 1.3% (3.1%yr) in Q1. Despite also seeing a fall in government consumption due to the roll-off of electricity rebates, SA still managed to see an increase in new public demand, up 1.0% (5.9%yr). This was driven by a bumper gain in new public investment, up 8.2% (23%yr). At the same time, the picture around private demand was very encouraging – underlying household consumption (excl. electricity) rose strongly (0.5%), housing construction surged to a double-digit pace (14%yr), all while new business investment turned around from contraction to an above-average pace (3.8%yr).

Tasmania was the main laggard over the opening quarter of the year, state final demand contracting a whopping –0.9%, bringing the annual pace down from 2.7%yr to 1.0%yr. The main contractions in activity were driven by investment, with sharp declines across housing construction (–3.9%), new business investment (–3.5%) and new public investment (–9.8%). The small lift in household consumption (0.2%) and government spending (0.2%) was well short of covering the gap, leaving the island state on precarious footing.

Production

At the industry level, growth across the private sector continued to broaden with 10 out of the 16 market sector industries recording positive growth, up from nine previously. Indeed, excluding mining, market sector activity contributed 0.3ppts to quarterly growth compared to only a 0.1ppt contribution from the non-market sector.

Agriculture recorded another solid quarter (4.3%qtr) reflecting an increase in livestock production to meet strong external demand. That said, growth moderated as weather events disrupted Qld crop production. Strong activity in this sector contributed to a firm increase in wholesale trade.

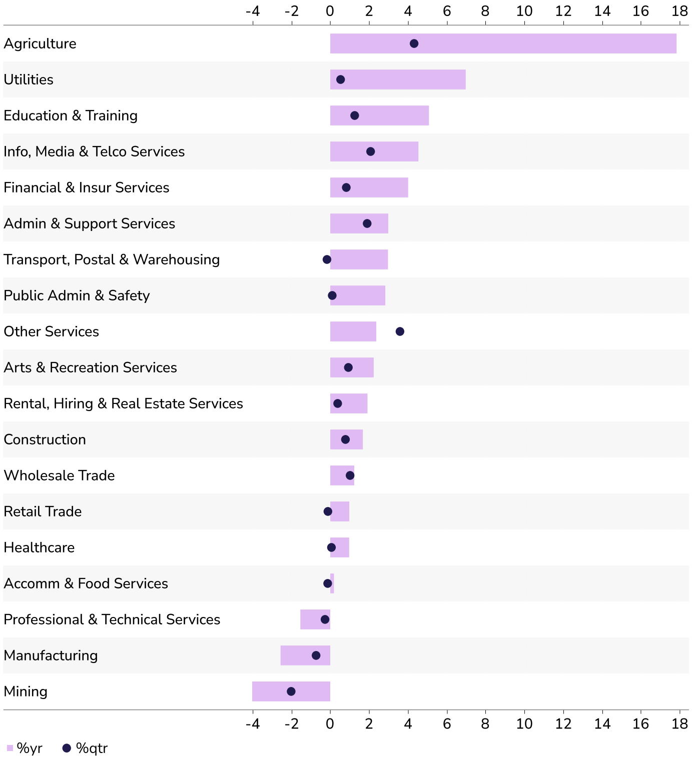
Consistent with the improvement in dwelling approvals since end 2024, construction activity rebounded in the quarter (0.8%qtr). This was despite a pull-back in civil engineering as several large government projects were completed or suffered delays.

Growth across consumer related sectors was patchy, consistent with ongoing consumer caution. Retail trade and accommodation & hospitality services sectors recorded small declines. However, several events in the quarter boosted recreational services.

Several of the heavy industrial sectors continued to see activity fall. The mining sector declined for a fifth consecutive quarter with bad weather leading to disruptions to energy and iron ore production. Manufacturing activity also remained very weak amid soft investment in plant and equipment.

Across the non-market sector, activity was mixed. Health and public administration both slowed sharply and indeed momentum has slowed across these industries for the past two quarters. In contrast, education continued to post solid growth amid record international student enrolments. Nonetheless, the share of these sectors in the economy remained elevated at 20.4%, up more than 2ppts from its pre-COVID average.

GDP by industry



Sources: ABS, Macrobond, Westpac Economics

Income

Real GDP(I) rose 0.3%qtr, 0.3%yr. In nominal terms, growth moderated to 1.4%qtr, 3.7%yr (all figures below are also nominal).

Growth in compensation of employees moderated to 1.5%qtr, running at 6.5% in annual terms compared to a cycle peak of 10.8% in Q3 2022. Growth was underpinned by stronger wages in the health care and social assistance sectors in large part reflecting the planned Stage 3 Aged Care increase and retention payment to childcare workers. Against this, growth in earnings per hour picked up slightly, but still remains nearly 2.8ppt lower than that recorded at its post-pandemic peak in Q2 2024.

Gross operation surplus for private non-financial companies – ie corporate profits– rose 0.6%qtr its strongest quarterly rise in a year. Growth was primarily led by the non-mining sector with strong profits recorded across manufacturing and wholesale trade. Indeed, only the professional services sector recorded a contraction. In contrast, mining sector profits fell in part due to weather related supply disruptions but also lower commodity prices.

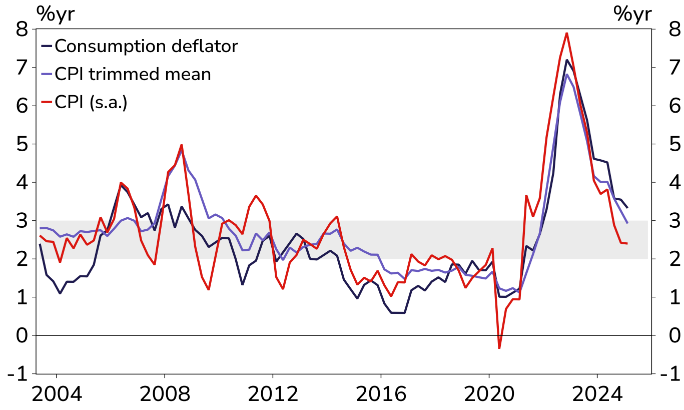
Gross mixed income – profits from the unincorporated sector, including sole traders and partnerships – rose for the second consecutive quarter, increasing a solid 3.2%qtr, lifting the annual growth to a solid 5.4%.

Prices

The headline price measure in the National Accounts, the GDP Implicit Price Deflator (IPD) jumped 1.1% in the March quarter following a 1.0% increase in December quarter which followed near-flat prints in the June and September quarters. However, it is interesting to note that base effects saw the annual pace hold flat at 2.3%yr.

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 Household Consumption deflator rose 0.6% in the March quarter to be up 3.4% in the year; the seasonally adjusted CPI lifted 0.9% in the March quarter to be up 2.4% in the year. The Household Consumption deflator is tracking closer to the Trimmed Mean measure of core inflation, which rose 0.7%qtr/2.9%yr in the March quarter.

'Core' consumer inflation moving into target band



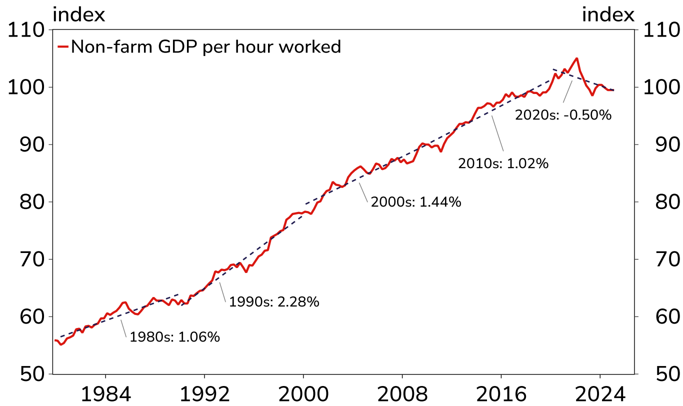
Source: ABS, Macrobond, Westpac Economics

Wages

The ABS continues to report robust wages growth without any improvement in productivity resulting in unit labour costs continuing to trend higher, a reversal of the trend moderation in the annual pace observed from June 2023 to September 2024. Total (non-farm) compensation of employees rose 1.5% in March taking the annual pace to 6.5%yr from 6.0%yr in December and a recent low of 5.6%yr in September. The recent peak in the annual pace of total employee compensation was 10.8%yr in September 2022. This is a total wage bill estimate so it is not just affected by changes in wage rates but also by the number of employees and the number of hours worked.

Compensation per hour worked gives a somewhat better sense of shifts in wage inflation. Non-farm compensation per hour worked gained 0.8% in March, a moderation from the 2.1% surge in December but it was not enough to offset base effects that saw the annual pace lift 4.3%yr from 4.0%yr in December and a recent low of 3.9%yr in September. Note that compensation per hour is not directly comparable to the Wage Prices Index, with measurement and composition differences resulting in much more volatility in the National Accounts measure.

Australia: labour productivity



Source: ABS, Macrobond, Westpac Economics

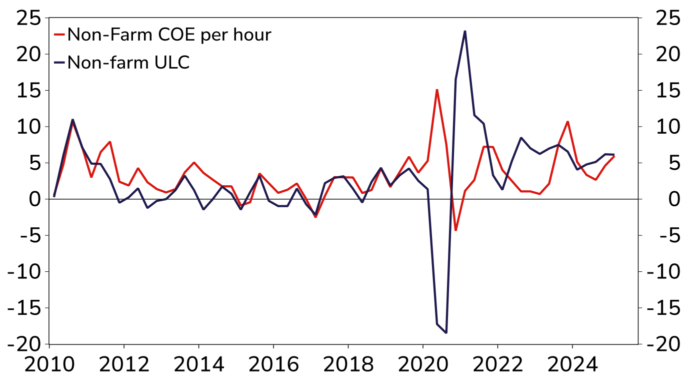
Labour costs and productivity

Labour productivity, measured as GDP per hour worked, was flat in March, as it was in December after falling in September (-0.4%) and June (-0.5%). This trend decline reversed a more positive trend seen through the second half of 2023 and early 2024 taking the annual pace down to -0.9%yr, i.e. growth in hours worked is outpacing growth in output.

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.

Measures of costs pressures

6-month annualised % change



Source: ABS, Macrobond, Westpac Economics

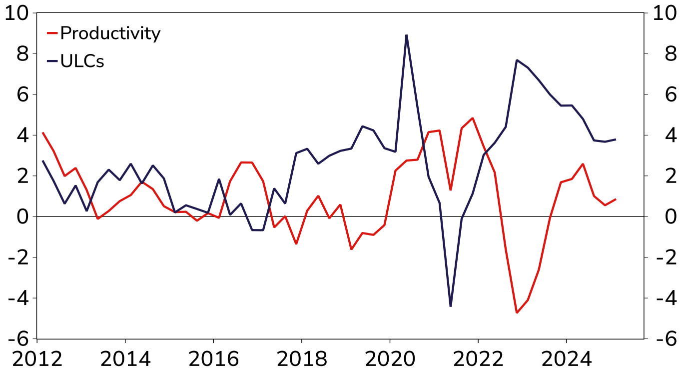
The market sector reported a 0.1%qtr/1.5%yr rise in hours worked in December and while Gross Value Added per hour worked lifted 0.1% in the quarter it was down -0.6% in the year. It is this trend decline in productivity that has the RBA uneasy about the risk of a bounce-back in inflation. We will get more information on the sectoral patterns of productivity when the March quarter Labour Accounts.

Bringing this all together is nominal unit labour costs (ULC), which measures the labour cost to produce one unit of GDP. Across the non-farm sector, ULC rose 0.8% in the quarter, a step down from the 2.2% surge in December but this was enough to hold the pace at 5.6%yr from 5.5%yr in December. The recent low point was 4.6% in September 2024 while the recent peak was 7.4%yr in March 2023.

Westpac is expecting hours worked to soften from here which, along with an improvement in output and softer wages growth, should see the annual pace of nominal ULC soften. However, with the six-month annualised pace of total this cost measure tracking just above 6%, we will need to see a marked step-down in the quarterly pace to get back below 4%yr.

Productivity and costs in market (ex mining) sector

Year-ended % change



Source: ABS, Macrobond, Westpac Economics

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