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AUSTRALIAN GDP: A PREVIEW BULLETIN

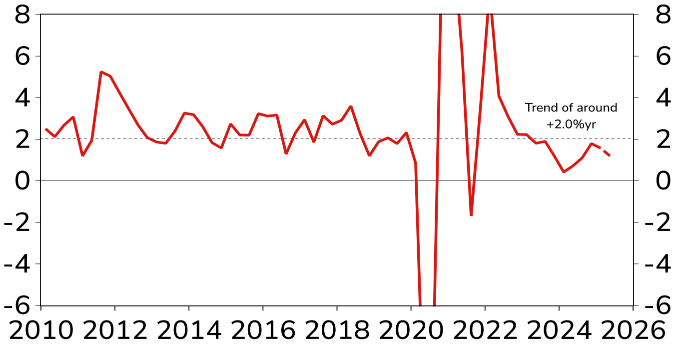
Recovery stalls over H1 2025
Q2 GDP f/c: 0.4%qtr, 1.3%yr (6-month annualised)

Key points

- Australia's recovery stalled over the first six months of 2025, with the economy expected to have grown 0.4%qtr in Q2 and just 1.3%yr in six-month annualised terms – way below the RBA's updated trend estimate of +2.0%yr.
- The extent of the pull back in public demand has surprised on the downside, while it's become clearer that it will take time for investment and construction activity to pick up. This increases the chances of a 'shaky handover', and buildup of unnecessary slack in the labour market, in the near term.
- Productivity in the market (ex-mining) sector is expected to have grown 1.0%yr in Q2. As well as moderating growth in the sector's unit labour costs to around 3.5%yr, this supports the view that whole-economy productivity growth will recover as the sector-specific factors in mining and the care economy wash out.

Real GDP Growth

Six-month annualised terms



Source: ABS, Macrobond, Westpac Economics

Domestic demand: 0.5%qtr, 1.4%yr (6-month annualised)

Stalling Recovery

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We expect the June quarter National Accounts to show Australia's recovery stalled over the first six months of 2025, with the economy expanding 0.4% over the June quarter and just 1.3%yr in six-month annualised terms. This is a step down from the 1.8%yr pace recorded in the second half of 2024 and well below the RBA's new estimate of trend economic growth of around +2.0%yr (based on their updated productivity assumption). While ever the recovery continues to be fragile and unconvincing, labour market conditions will loosen, and unnecessary slack will build up. The rebalancing of growth from labour-intensive public demand to more capital-intensive private sources of growth will exacerbate these risks.

For some time now we have identified the risk of a 'shaky handover' where the gradual recovery in private demand is unable to fully offset the slack left by slowing growth in public demand. That is exactly what we have seen over the first half of 2025 , which suggests the recovery is likely to be delayed. While we thought the pickup in in private demand would be slow, it's the extent of the pull back in public demand which has surprised.

Public construction activity has now fallen by 5.1% over the first two quarters of 2025, with public infrastructure down more than 7.0% over the first half of 2025. That has combined with an expected slowdown in public consumption as government programs mature, Federal and state cost of living support winds down and recently announced savings policies are implemented (such as the increase to deeming rates and changes to NDIS eligibility). The combined effect could see the expected slowdown in public demand become a pullback, leaving the private sector unable to pick up the slack.

Construction work and Capex weaker than expected

Partial economic indicators released thus far have come in weaker than expected.

The headline construction work done was actually stronger than expected (3.0%qtr v 1.0%qtr). However, this was due to a spike in mining investment associated with the final stage installation of a large LNG project. This will not feed through to Wednesday's National Accounts as the accounts treat installation costs as something that occurs over the life of a project rather than a one-off lump at completion. Notably, the capex survey, which also spreads these costs out into progress payments, shows mining capex declined 1.4%qtr in Q2.

Outside of this, housing construction looks to have gone sideways over the quarter, with tricky trading conditions also evident in falling construction capex. Private non-residential construction also looks to have weakened further over the quarter, with non-residential building construction falling 2.6%qtr in Q2.

Private capex failed to recover as we had expected, with machinery and equipment only partly retracing last quarter's fall, to remain 1.4% lower compared with the level recorded in the December quarter 2024. Importantly, outside structurally-driven industries (energy, information technology and communications) private capex has fallen by 5% over the past two years, with capex plans suggesting this will continue over the year ahead, delaying the recovery.

Even though consumer spending firmed a touch over the quarter, these numbers suggest it will take time for improving demand to flow through to private investment and construction activity. With public construction falling away, the timing mismatch also increases the chances of a 'shaky handover'.

Consumer spending was a touch firmer

On a slightly brighter note, consumer spending looks to have been a touch firmer in the June quarter, on the back of a continued improvement in real incomes. The ABS Household Spending Indicator rose 0.7%qtr in real terms, up from 0.5%qtr in Q1. Our Westpac–DataX Consumer Panel also showed average customer spending rose 1.5%qtr in Q2 in nominal terms, up from 0.6%qtr in Q1. It remains to be seen whether the pick-up is a sign of things to come or another temporary flourish due to the larger than average 'End of Financial Year' sales in late June. The Westpac–DataX Card Tracker Index also showed a firmer Q2 result but has been more subdued since mid-year, suggesting some of the lift in momentum may have faded.

GDP makeup

Domestic demand detail is expected to include: consumer spending +0.5%qtr, housing investment +0.1%qtr, new business investment +0.3%qtr, and new public demand +0.4%qtr.

Combined, the external sector and changes in the stock of inventories are expected to make a flat contribution to growth in real GDP in the June quarter. Commodity export volumes increased strongly in Q2 driven by iron ore. This surge helped retrace some of last quarter's falls due to unfavourable weather events. The pickup in commodity exports is expected to be offset by a pickup in imports, particularly capital items, over the quarter.

Labour productivity and hours

Hours worked looks to have increased 0.4%qtr in the June quarter to be 2.3% higher in annual terms. Quarterly growth has been driven by the non-market sector (+1.5%qtr) with hours worked in the market sector down 0.1%qtr for the second consecutive quarter, consistent with the patchy nature of growth in private activity. Note that the June quarter Labour Account, due 5 September, 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 remain unchanged in Q2 and record a decline of around 0.8% 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 – we expect it is running at around +1.0%yr.

The June 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 have moderated in the quarter.

The detail

Household consumption (+0.5%qtr, +1.4%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, consumption looking a touch firmer in Q2. It remains to be seen whether the pick-up is a sign of things to come, or another temporary flourish. The Westpac–DataX Card Tracker Index suggests some of the lift in momentum may have faded over the first half of Q3. Based on our estimates, per capita household consumption would be flat in the June quarter.

Dwelling investment (0.1%qtr, 5.0%yr): Home building activity moved sideways in Q2 after a solid pickup in the March quarter. Dwelling construction has been something of a bright spot over the last year. However, the disappointing result this quarter, coupled with falling construction capex in Q2, suggests conditions remain challenging in the industry, and the expansion in construction may be more gradual than expected. Based on partials, we expect renovation activity to be a touch higher, with new home building remaining unchanged.

New business investment (0.3%qtr, 0.9%yr): Business investment is expected to have made a very modest gain in the quarter. Partials suggest that new engineering construction and the construction of new buildings (such as commercial and retail floorspace) declined over the quarter. This was partially offset by a small gain 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.

Public demand (0.4%qtr, 3.1%yr): Public investment is expected to have declined for a second consecutive quarter, as large-scale infrastructure projects (such as Western Sydney airport) came to an end. There is still a decent 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, but even here we are starting to see growth slow.

Net exports (+0.0ppts qtr, -0.2ppts yr): Net exports are expected to make no contribution to GDP growth in the June quarter. Commodity export volumes increased strongly in Q2 driven by iron ore. This surge helped retrace some of last quarter's falls due to unfavourable weather events. The pickup in commodity exports is expected to be offset by a pickup in imports, particularly capital items, over the quarter. In addition, 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 (0.0ppts qtr, -0.1ppts yr): The stock of inventories is expected to edge slightly higher, with the change too small to contribute to growth in GDP.

Real GDP Growth Forecasts (% change quarter)

	Q4 2024	Q1 2025	Q2 2025** (Pre partials)	Q2 2025**
Consumption	0.7	0.4	0.5	0.5
Dwellings	0.7	2.6	1.0	0.1
Business investment	0.7	0.4	0.7	0.3
Private demand (new)	0.7	0.5	0.6	0.5
Public demand (new)	0.7	-0.6	1.0	0.4
Domestic demand	**0.7**	**0.2**	**0.7**	**0.5**
Inventories*	0.1	0.1	0.0	0.0
Imports	0.7	-0.4	0.7	1.5
Exports	0.1	-0.8	0.5	1.2
Net exports*	-0.1	-0.1	0.0	0.0
GDP	**0.6**	**0.2**	**0.6**	**0.4**

*Contribution to quarterly growth in GDP

**Expected quarter ahead

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