



September 2025

WESTPAC COAST-TO- COAST

Your quarterly report on Australia state economies.

WESTPAC COAST TO COAST – SEPTEMBER 2025

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This issue was finalised on 19 September 2025.

Australian economy accelerates on consumer spend

Pat Bustamante
Senior Economist

The Australian economy grew a solid 0.6%qtr in the June quarter 2025 and 1.8% in year-ended terms. This was the first time since the March quarter 2023 that GDP per capita increased in year-ended terms. Stronger than expected consumer spending underpinned the upside surprise to growth across the economy. Household consumption grew an impressive 0.9%qtr.

While consumers had a tentative start to the year, this turned in the June quarter, a shift that coincides with improving consumer sentiment. It's becoming more apparent that households are increasingly spending their improving incomes, which rose 4.1%yr over the year to the June quarter – the strongest pace since 2011 outside of the COVID period. Tax relief and interest rate cuts are now supporting growth in disposable income, while disinflation means price rises are not eroding purchasing power the way they were in 2022 and 2023.

That said, there were some unusual features in the quarter: retailers discounting more heavily, inventories run down but profits also falling (despite the lift in sales volumes), and the one-off unwinding of state-based electricity rebates. This may explain why spending on goods (clothing, cars, sporting equipment, electricity) grew 1.0%qtr – the strongest quarter since June quarter 2018 outside of COVID – slightly outpacing the 0.8%qtr growth in services.

Despite growing a touch slower than goods, at 0.8%qtr demand for services was also solid. The proximity of Easter to Anzac Day meant an unusually high number of households took holidays over that period, boosting spending on discretionary services.

The unusually high number of individuals taking holidays may also explain some other areas of softness. The June quarter saw a smaller than expected lift in housing construction (+0.4%qtr, 4.8%yr) despite a still elevated project pipeline.

While the consumer looks to have awakened, some other key expenditure components remain subdued. New business investment declined in the quarter with capex intentions suggesting the softness will continue in the near term. 'Intangibles' (intellectual property products covering software, R&D, the creation of copyrighted material and mineral exploration) was the only major private investment segment to record a lift in Q2.

Meanwhile we have now clearly passed the peak in terms of the contribution public spending will make to economic growth. Public investment has fallen around 7.0% over the

past three quarters. This is having a negative impact on downstream industries such as professional construction services and the rental, real estate and hiring industries.

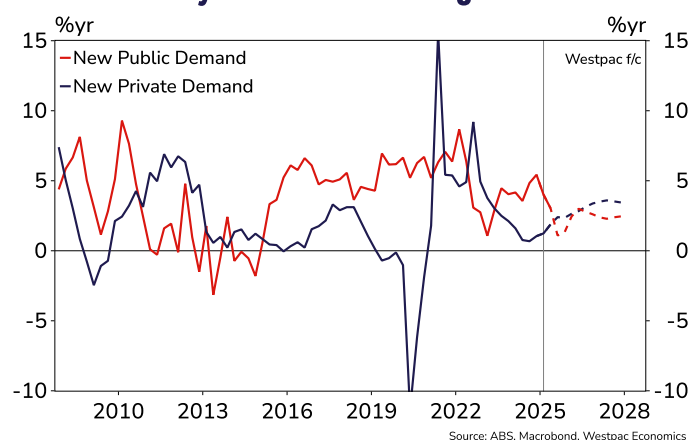
Slightly faster recovery, risks more balanced

As a result of the firmer outlook for the consumer, we have revised our GDP forecasts 0.2ppts higher in 2025 and 2026 to 1.9%yr and 2.4%yr, respectively. Forecasts for 2027 remain unchanged at 2.6%yr.

We have also revised our Gross State Product (GSP) forecasts to reflect the firmer consumer outlook. Near-term prospects differ according to relative population growth and the pace of the handover from public- to private-led drivers. However, all states are expected to see growth in GSP accelerate over the forecast period, with growth in the 2027FY expected to more closely converge across the states (see **Page 20**).

Notably, there are now some upside risks to the outlook. Growth could accelerate more quickly if consumer spending continues to power ahead, perhaps supported by stronger than expected population growth, and if businesses in consumer-facing sectors respond more quickly with increases in investment and employment. On the other hand, a further slowdown in public demand which spills over into the labour market could see the recovery in household spending stall, further delaying the expected recovery in private business investment.

Risk of a 'shaky handover' receding



Shifting state fortunes ...

Pat Bustamante
Senior Economist

The June quarter National Accounts showed Australia's economic recovery is on a slightly firmer footing. While headline growth surprised to the upside, a key take out was confirmation of a shift in growth drivers, from public to private demand. There remain risks to the outlook, but we now see these as more balanced, as opposed to skewed to the downside. State performances shed even more light on this transition and some of the risks involved, particularly around jobs growth.

In aggregate, conditions across the states are becoming more closely aligned. Compared to last year, growth in state final demand (SFD) has accelerated across NSW (flat to 1.8%yr), SA (1.8%yr to 3.3%yr) and Vic (1.4%yr to 1.7%yr). WA and Qld have eased slightly but remain robust overall, with SFD currently up 2.9%yr and 2.4%yr, respectively. Meanwhile in Tas, SFD growth is positive but volatile, driven by lumpiness in public investment.

The composition of demand growth is also shifting across most states. Over the past year, the private sector has gone from contributing around half of the growth in NSW's to almost 80%. There are similar trends in WA (from 10% to 70%), SA (from 10% to 40%), Qld (from 30% to 60%) and more muted shift in Vic (from 40% to 60%). Tasmania has been more volatile with no clear trend emerging.

Given new private demand accounts for a touch under 70% of total real GDP nationally, this rebalancing still has a little way to go in SA, Qld and Vic.

Note that extending SFD measures to include international trade flows changes the picture for some states. Our estimates suggest that, on an annual average basis, growth in Gross State Product (GSP, the state analogue of GDP) is slightly stronger in Qld but markedly weaker in WA where a range of factors have contributed to a large decline in mining exports over the last two years (albeit with few negative spill-over effects on the rest of the state economy).

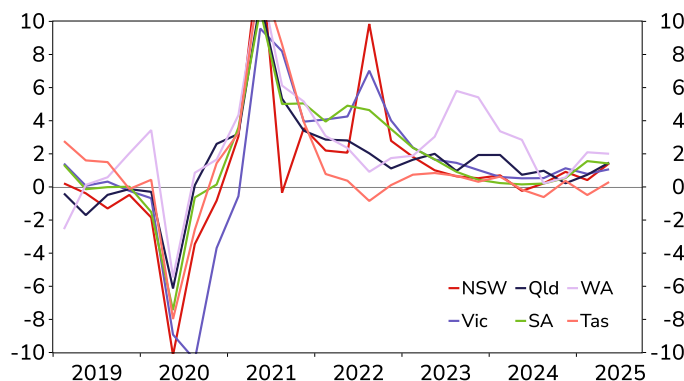
Nationally, growth in new public demand has clearly passed its peak, with public investment in particular falling around 7% over the last three quarters. This is helping to free up resources for housing and other non-housing construction, but the impact has been uneven across the states.

NSW, SA, WA and Tas have seen public infrastructure activity pull back significantly, with the pipeline of work started but not yet complete suggesting some further near-term weakness.

In contrast, the infrastructure pipelines have continued to grow in Qld (much of which is tied to the Olympics) and, to a lesser extent, Vic (where this looks to be due more to delays).

Growth in state final demand firms

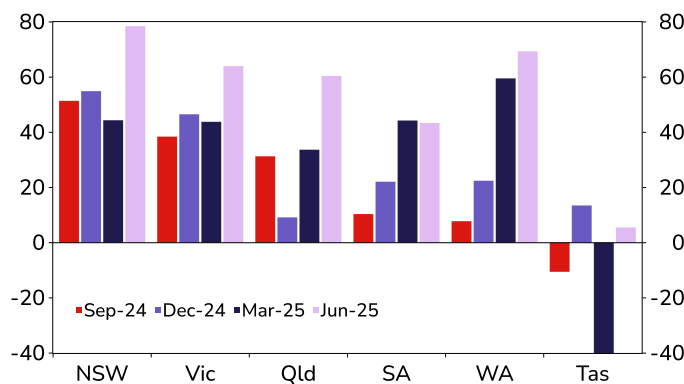
Year-ended percentage change



Source: ABS, Macrobond, Westpac Economics

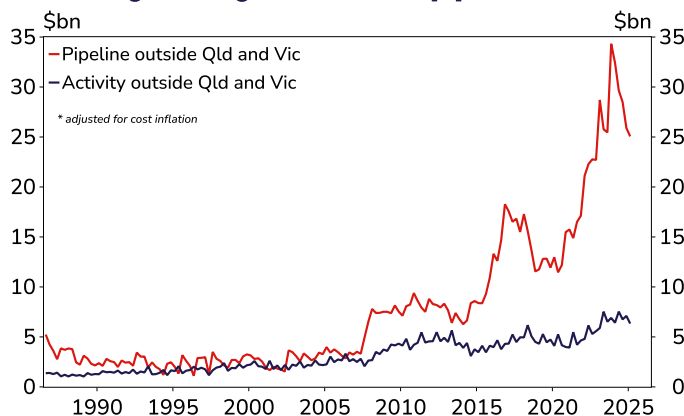
Contributions from private sector are lifting

Share of growth in state final demand attributable to private demand



Source: ABS, Macrobond, Westpac Economics

Public engineering construction pipeline



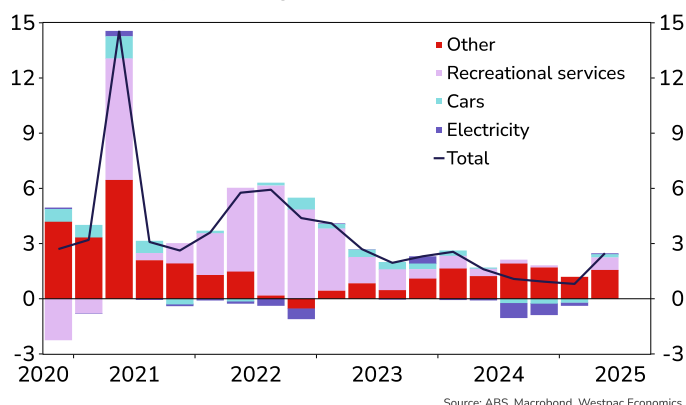
Source: ABS, Macrobond, Westpac Economics

... a prelude ...

Without a pickup in private activity, the fall in public infrastructure would have led to a further slowdown in the underlying growth impulse. Not only has there been a pickup in private demand, but this pickup has also been concentrated in those states where public construction activity has pulled back the most. This looks more like good fortune than good planning but underscores the 'soft landing' being achieved nationally is playing out in states that are most at risk of a 'shaky handover' demand.

Qld remains resilient outside one offs

Contribution to year-ended growth in household consumption



One-offs at play, but underlying impulse firmer

Most of the pickup in private demand was driven by the consumer in the June quarter. Household consumption grew an impressive 0.9%qtr – the strongest increase since the Q4 2022. Further, it was the first time in two years that consumption per person grew on a year-ended basis. Quarterly consumption growth was particularly strong in Qld (1.7%qtr) and WA (1.6%qtr), with annual growth running at a healthy pace in the other states including NSW (1.8%yr), Vic (1.7%yr) and SA (1.5%yr).

Note that some of the quarterly strength in Qld appears to be 'payback' following adverse weather events earlier in the year. The quarter saw particularly big rises in spending on recreational services, dining out and travel services (+3.0%qtr), after a modest 0.2%qtr gain in Q1 and flat growth over the year to Q1. There was also a big lift in the vehicle purchases, up almost 5.0%qtr, likely reflecting the payout from insurance claims earlier in the year. Finally, the big drop in electricity spends when the State government rolled out \$1,000 electricity rebates a year ago seems to have fully unwound.

Taken together, these components contributed around 1ppt to year-ended growth in household consumption in Qld, flipping from a detraction of around 0.4ppts in Q1. Some of these impacts are likely to be one offs – the rebound in recreational spending and the unwind of electricity rebates – however, there has been a material pick up in year-ended consumption growth outside these categories.

When it comes to electricity rebates, the unwind contributed almost half of the growth in consumer spending in WA over the June quarter, after detracting 0.2ppt in Q1. Electricity rebates are likely to detract from growth in consumer spending next quarter as the Federal government rolls out rebates for the final two quarters of 2025. In those states where public construction activity has pulled back the most. This looks more like good fortune than good planning but underscores the 'soft landing' that is being achieved nationally is even playing out in states that are most at risk of a 'shaky handover' from public to private demand.

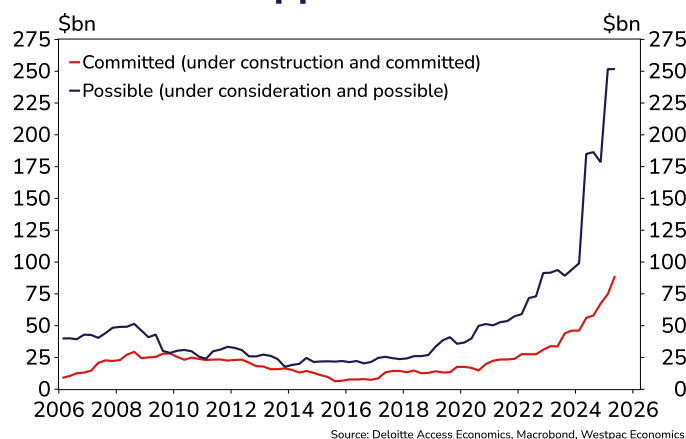
Renewables to support private investment activity medium-term, but risks remain

While the consumer looks to have awoken, businesses are taking longer to boost investment. New business investment declined 0.4%qtr in Q2 and ABS capex expectations suggest investment will remain subdued over the FY2026.

Despite the weak starting point, we expect to see a modest recovery over the next few years. Firstly, the more cyclical industries (such as retail and construction) are likely to boost investment on the back of the stronger consumer – invest in more equipment, floorspace and new products. The 'structurally-driven' industries of information media and telecommunications (i.e. data centres), and energy generation, storage and transmission are both starting to see new waves of investment projects come through.

The Federal government has reiterated its commitment to an 82% renewables energy target by 2030 and over the past few days has set a new emissions reduction target of 62-70% of 2005 levels by 2035 – which would require 90% of electricity to be generated by renewables. The journey to the ultimate 2050 net zero carbon emissions target will require an unprecedented level of investment in energy generation, storage and transmission, which will support private activity and a further rebalancing away from public toward private drivers of economic growth.

Utilities investment pipeline



... for the rest of the Nation?

In last quarter's Westpac Coast to Coast publication, we reported that the potential pipeline (committed and potential projects) of utility (electricity, water and gas) investment projects had increased to around \$330bn in the March quarter 2025. The pipeline of utilities projects, which is dominated by renewables, increased a further 4.4% in Q2 to around \$340 billion (or around 13% of nominal GDP). At the same time several projects have become more certain, moving from possible to committed and from committed to under construction, the latter including the CopperString project (\$13.9bn).

Of these utilities projects in the pipeline, around 190 are for renewable projects (including generation, storage and transmission) with known costs worth a total of \$240bn in new investment. This is much higher than the renewables pipeline just one year ago which had around 100 renewable projects worth \$55bn.

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 FY2027 – a record share of the nominal economy.

At this stage, the states that look most likely to benefit from this are: NSW, Qld, WA and Vic, which account for 31% (or \$75bn), 27% (\$68bn), 10% (\$26bn) and 10% (\$24bn) of the renewables pipeline respectively. As we have previously noted, most of these projects are in regional areas (see map on **Page 7**). As such, the local economic effects for regional economies could be significantly larger.

However, there are clearly major risks to this outlook. There have been significant delays to project approval processes (most recently with the Vic government pushing back the auction process for offshore wind companies in Gippsland). There has also been reduced support for renewable projects in some jurisdictions (e.g. the Queensland government cancelled projects like the Moonlight Ridge wind farm). Several businesses have also reconsidered renewables projects, with BHP announcing it will no longer go ahead with major solar and battery projects in Western Australia, and Fortescue cancelling two major green hydrogen projects.

Labour market starting to decouple?

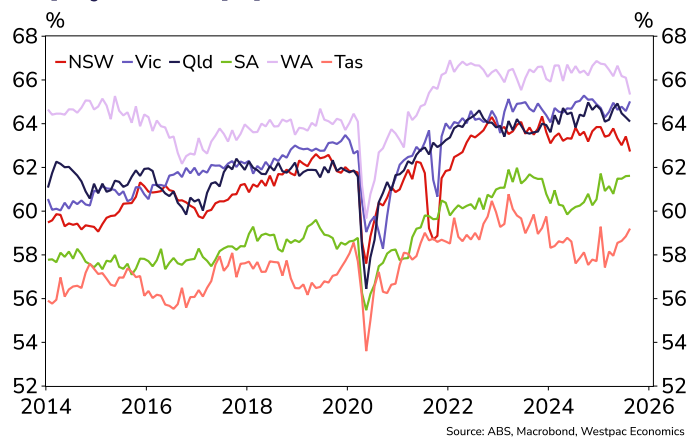
State performances shed some particularly important light on how the transition from public to private growth drivers is playing out for jobs.

Conditions in the labour market are softening. The August 2025 jobs report showed that employment growth had slowed to a three-month average pace of 1.8%yr, down from 2.5%yr six months ago. The states that are further along the journey of rebalancing from public to private demand have experienced the sharpest slowdowns in employment growth, including NSW, WA, Qld and Vic.

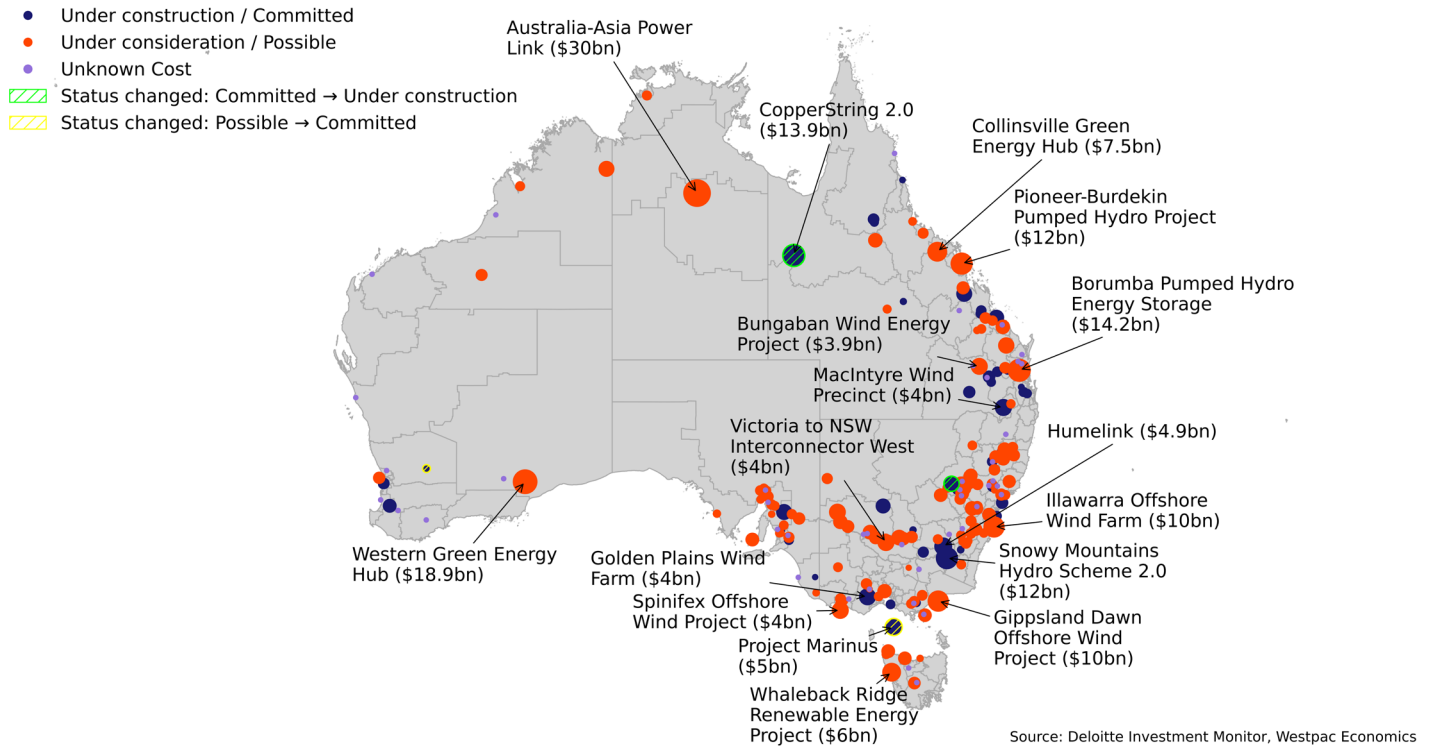
In NSW in particular, employment growth is running at 0.5%yr – the slowest rate since May 2017 outside of the COVID period. This is a risk we have previously flagged – public spending on social services programmes such as the NDIS is more 'job-rich' compared with private demand. This means the rebalancing of growth drivers is likely to come with some build-up of slack in the labour market.

Labour supply may provide a partial offset, though. In the states where employment growth has eased the most, so too have participation rates, masking some of the underlying softness. Case in point: the employment-to-population ratio, which looks through the participation rate effects, shows significant falls of more than 1ppt in NSW and WA over the past year. The extent to which labour supply adjusts to weaker labour demand will be a key dynamic to monitor over the period ahead.

Employment-to-population ratios



Record high renewables pipeline across Australia



Per capita growth turns positive ...

Neha Sharma
Economist

Despite being the nation's largest economy, the state now ranks as the second-weakest performer. However, a new economic rhythm is emerging as public demand softens. Business investment has shown surprising strength, and household consumption held up reasonably well over the quarter. While the lingering effects of Cyclone Alfred may be casting a shadow over the Q2 results, the broader environment continues to shift in favour of a steady recovery.

How has the state performed? Domestic final demand saw a modest rebound in the June quarter, rising 0.5%qtr to be 1.8%yr higher. More notably, the annual pace is just 0.1ppt below its pre-COVID average. Joining four other states, per capita growth turned positive for the first time since March 2023, rising 0.2%.

A key stat that tells the story. Population growth and public spending have been the twin pillars of growth, but both are now easing. New public demand fell for a second consecutive quarter (-1.0% H1 25), yet unlike last time, the private sector has begun to shoulder more of the load (0.7% H1 25). In addition to positive per capita economic growth, household consumption growth per capita is also rising, up a timid 0.1%yr. While softer than some other states, these measures suggest NSW is gradually adjusting to its new reality.

What has surprised? New business investment has proven resilient, recording the strongest annual growth of any state (1.3%qtr, 2.5%yr). Machinery and equipment investment rebounded 2.2%qtr, while investment in intangibles (e.g. software) has expanded for nine consecutive quarters. Yet challenges remain: business sentiment is subdued; and our **Westpac Quarterly Business Snapshot** [shows](#) rising expenses and liabilities are weighing on cashflow conditions in NSW. If sustained, this may constrain the investment outlook.

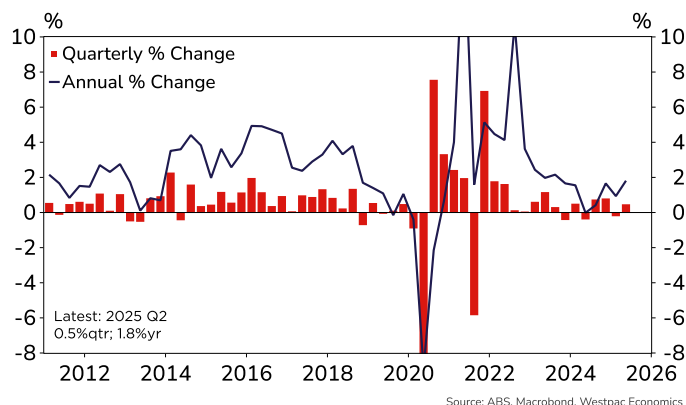
How can things improve? Sustaining growth will require consistent household consumption. The July ABS household spending data showed NSW as the only state to see a decline, highlighting that demand remains patchy. This comes despite NSW having the second lowest unemployment rate and inflation rate (Sydney) of the mainland states/cities.

Part of the hesitation may be stemming from housing affordability pressures. While three more rate cuts will help, as will greater housing supply. NSW has the strongest housing pipeline, with approvals up 14.5%yr, but new dwelling investment has grown the least of any mainland state this year (-0.4%) putting pressure on supply. Turning approvals into construction would provide a double dividend, directly through stronger housing investment, and indirectly by limiting the extent to which affordability deteriorates, which could support a more durable pick-up in consumption.

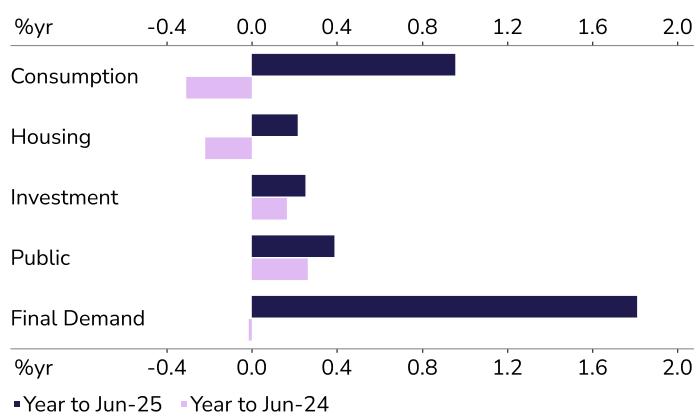
What are we expecting? We have revised up our GSP forecast for NSW to 1.9% for 2025/26 (+0.1ppt) and 2.2% for 2026/27.

NSW State Final Demand

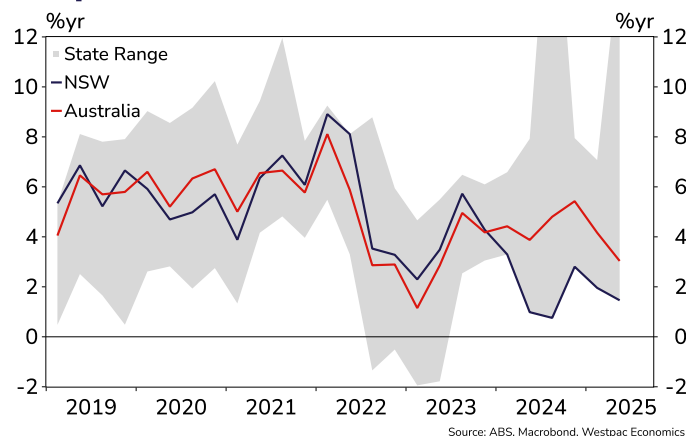
Chain Volume Measures



NSW: contributions to state final demand

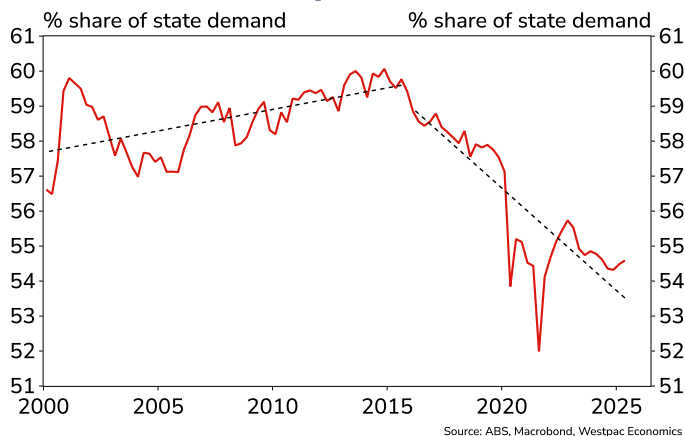


NSW public demand falls short of other states

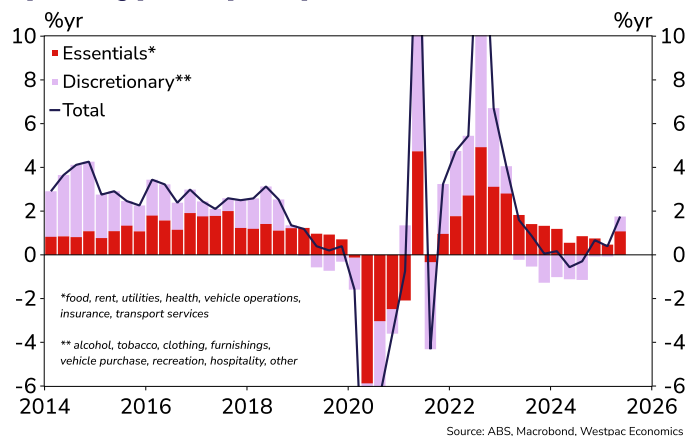


... as NSW adjusts to a new economic reality

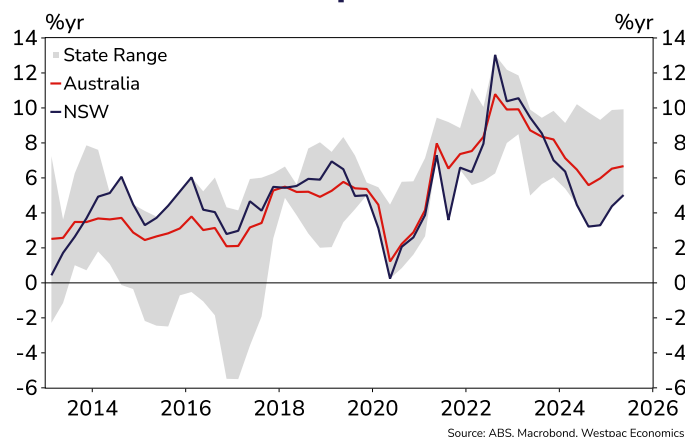
NSW Household Consumption



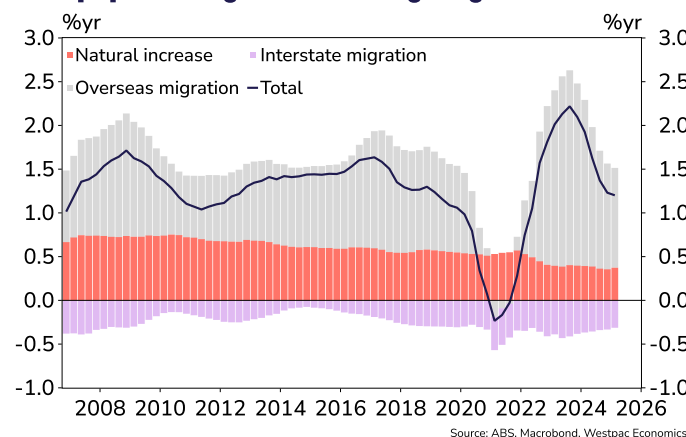
Spending picks up the pace



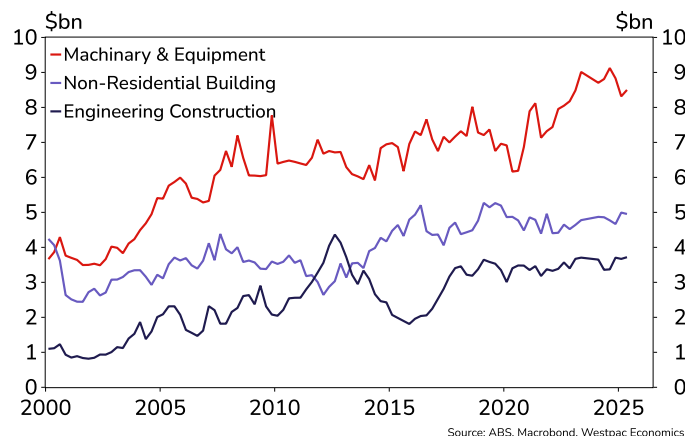
NSW nominal worker compensation tracks lower



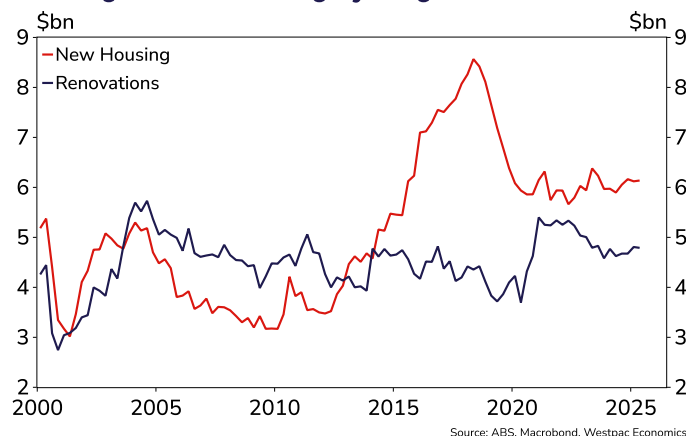
NSW population growth nearing long-run levels



NSW New Business Investment



Housing investment largely stagnant



Middling and still susceptible ...

Matthew Hassan

Head of Australian Macro-Forecasting

The Vic state economy continues to see middling, sub-par growth in line with the pace nationally but disappointing given firmer population growth. Domestically, the state's consumer recovery is proceeding more slowly as is the transition from public to private demand drivers, recent developments also casting more doubt over medium term prospects for renewables investment. The strong tailwind from rebounding service exports in 2022-24 has also dissipated.

How has the state performed? Despite a stronger showing in Q2, state final demand still looks brittle with growth in the quarter (0.4%) and over the year (1.7%) the weakest across the major states. Indeed, demand is still contracting slightly in per capita terms in Vic, in contrast to the slight gains now being seen nationally.

Growth in new public demand is slowing markedly with a sharp unwind in new public investment (-8.5% in H1 2025) and moderating growth in public consumption. The picture for business investment is mixed with a sharp pull-back in non-res building (-16.5%/yr) and a flattening in infrastructure work but solid increases in machinery and equipment (+6.2%/yr) and a continued strong up-trend in 'intangibles' (+8.3%/yr, now the second biggest category of investment). A recent kick-up in non-res building approvals suggests the tone here will improve. The state's pipeline of major projects also showed a big lift in 'possible' work although its unclear how many of these will convert to live projects and over what time frame, particularly following recently-announced delays to the approval process for some renewables projects.

Consumer spending continues to track a sluggish recovery despite firm growth in real wage incomes. A softer housing market may be a contributing factor with Melbourne dwelling prices moving through a shallow correction in 2024. Prices are now lifting again, with dwelling construction also a positive, although recent approvals suggest the upturn here is still patchy. Notably the state govt has taken some planning power away from local councils in an effort to fast track rezoning.

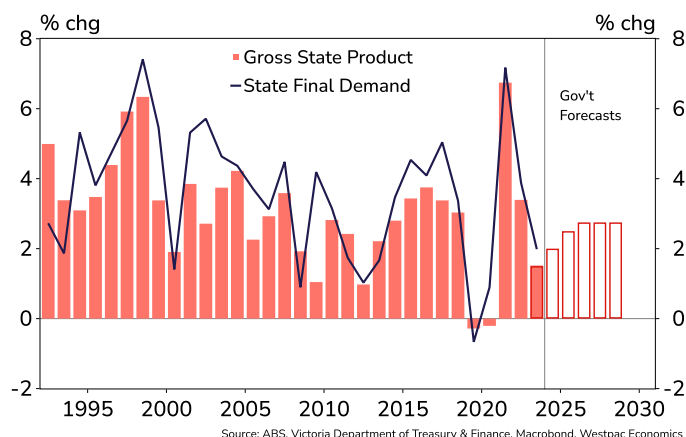
A key stat that tells the story: Nearly 40% of Vic state demand growth is still coming from public demand, down only marginally from around 60% a year ago.

What has surprised? Population growth is holding in a little better than expected. Notably foreign student uni enrolments are up 14%/yr but non-uni enrolments down 16%/yr.

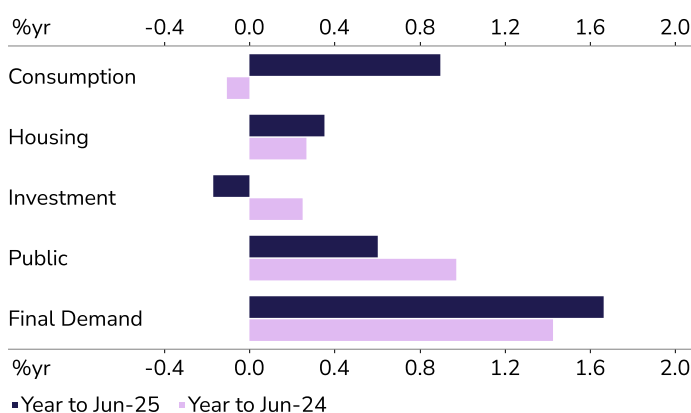
How can things improve? As the consumer recovery gains traction nationally, Vic's domestically-focussed sectors could start to see more positive growth from inter-state domestic demand.

Where are we expecting? A continued gradual lift, in line with the recovery nationally but slightly underdone in per capita terms.

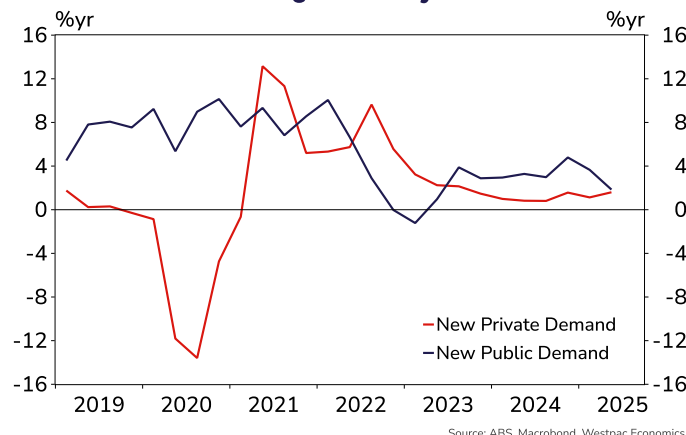
VIC Gross State Product & Final Demand



Vic: contributions to state final demand

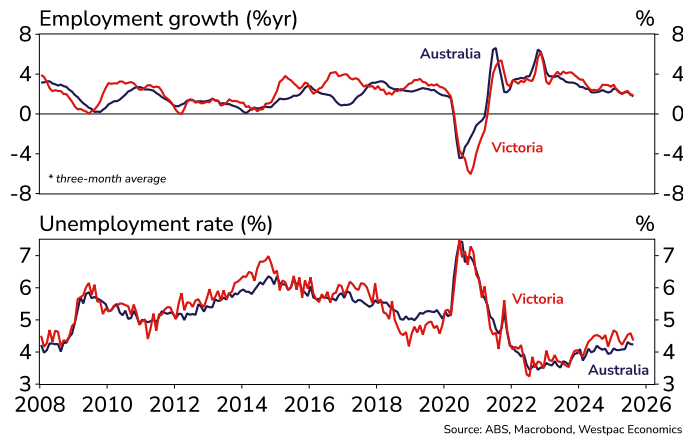


Public demand slowing markedly

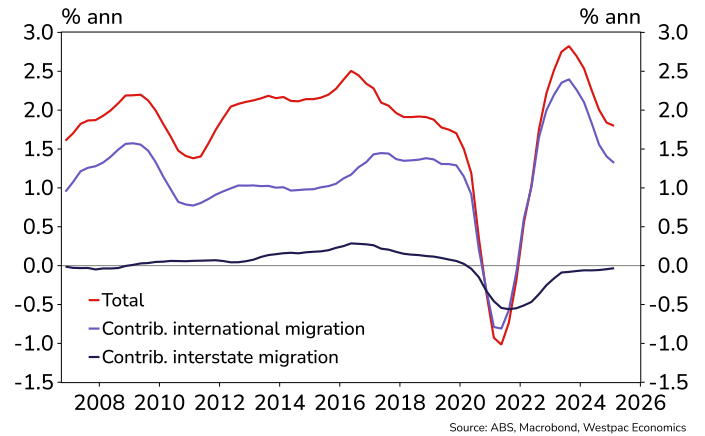


... as public demand drivers slower to wind back

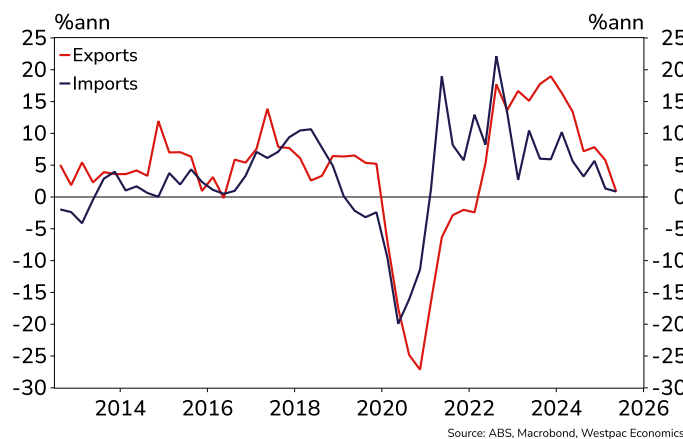
Labour market: Victoria vs. Australia



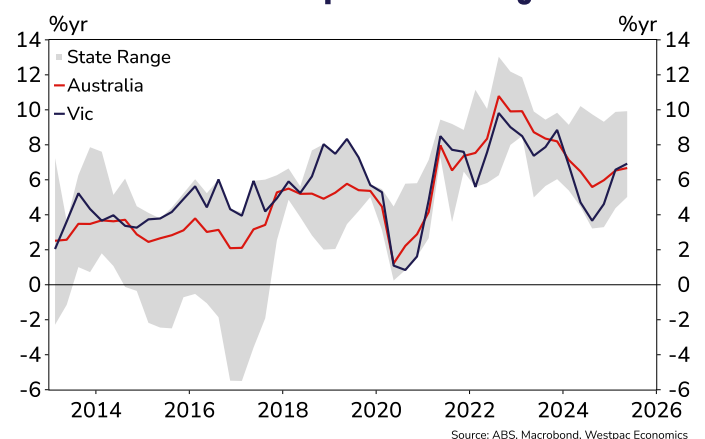
Vic's population growth: surge starting to slow



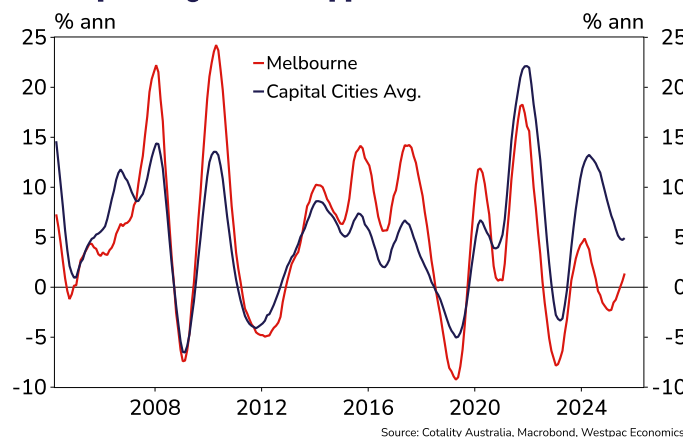
Victoria's international trade



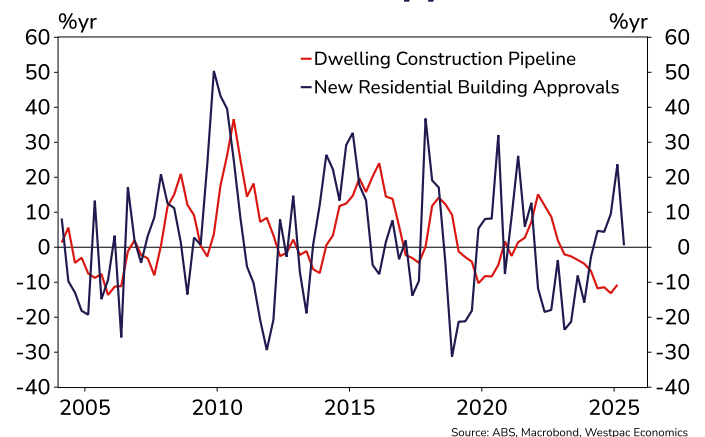
Vic nominal worker compensation rising



House prices growth reappears in Melbourne



Vic's residential construction pipeline



Private and public in near-perfect proportion ...

Ryan Wells
Economist

Qld's state economy remains remarkably consistent, with growth just slightly higher compared to a year ago. With the volatility associated with electricity rebates now largely washed out, it has become clear that the overall growth contributions of Qld's public and private sectors have not shifted materially either – an especially unique outcome compared to all other states that have started to see public demand contribute meaningfully less to growth and/or private demand start to pick up the baton. Looking deeper still, there have been some notable shifts around household consumption and business investment that raise important questions around near-term trends but overall, the state's medium-term prospects remain robust.

How has the state performed? State final demand continues to grow at a consistent and comfortable pace, with another 0.7% gain in Q2 seeing annual growth in state final demand hold around 2.4%yr, the highest out of the major eastern states and in line with the overall growth rate of domestic demand.

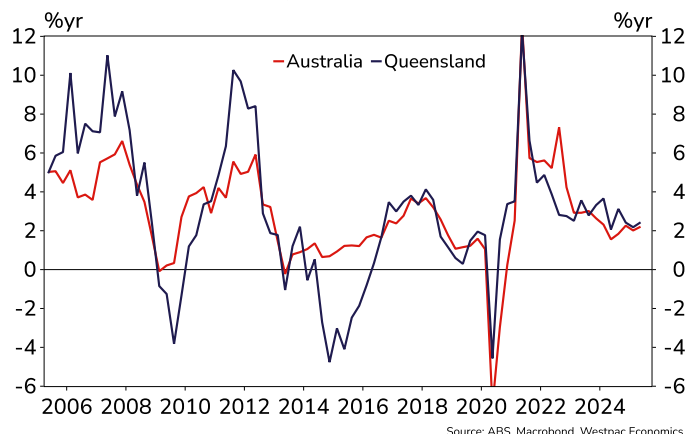
A key stat the tells the story. Qld's public and private sector growth contributions remain near perfectly even: adding 1.0ppt and 1.1ppts to growth in Jun-24 (for 2.1%yr) respectively; and adding 1.2ppts each to growth in Jun-25 (for 2.4%yr).

What has surprised? The ramp up in household consumption has been particularly eye-catching, posting gains of 0.8% in Q4, 0.7% in Q1 and 1.7% in Q2. While some of the recent lift captures some abnormal seasonality and a further boost in discretionary spending with end-of-financial-year-sales, there still looks to be genuine momentum building underneath these 'one-off' factors. Even if we were to see a more modest gain next quarter, annual growth is still poised to lift even higher as earlier declines on electricity spending, due to rebates, cycles out of the calculation.

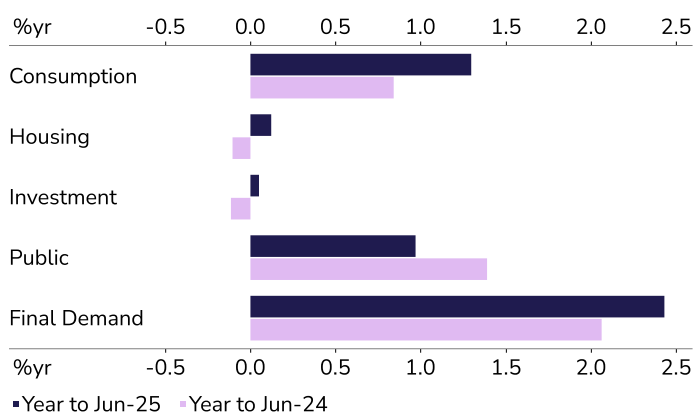
What can improve? The business investment performance remains quite patchy and lacklustre overall. Investment in new machinery and equipment – a key indicator of businesses' outlook for demand – has posted four declines over the past five quarters, leaving the annual growth pace at a multiple below the current national average (–7.3%yr vs. –0.6%yr). This is despite the fact that Qld continues to lead the nation according to businesses' own assessment of current conditions. We expect this disconnect to fade as the economic recovery unfolds, which should see businesses look to invest and expand capacity with a greater degree of confidence.

What are we expecting? Our forecasts for Qld have been marked up since our last edition, with GSP now expected to grow by 2.4% in 2025/26 and 2.6% in 2026/27, largely as a result of a more robust starting point. With ongoing investment in renewable energy and major infrastructure projects ahead of the Olympics, the state's growth prospects remain enviable.

State final demand: Qld vs Australia

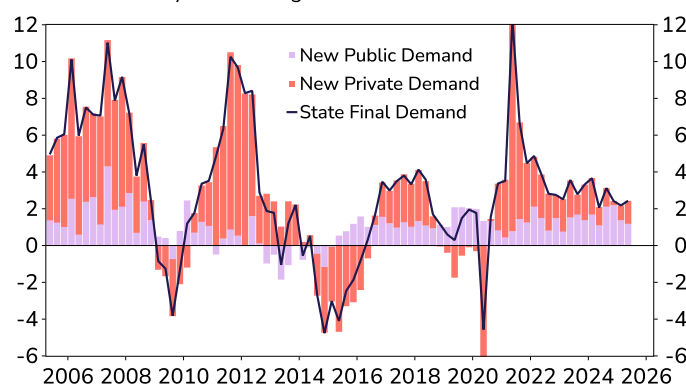


Qld: contributions to state final demand



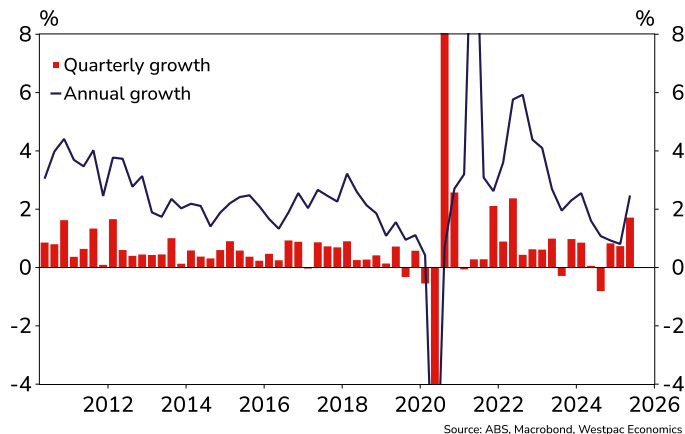
Both public and private adding evenly to growth

Contributions to year-ended growth

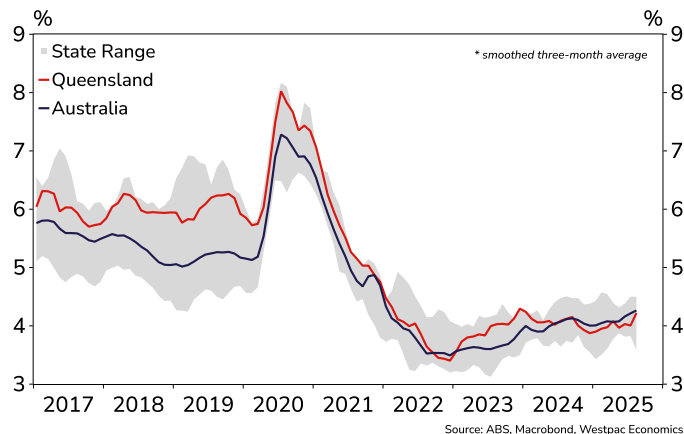


... provides a firm base for future prospects

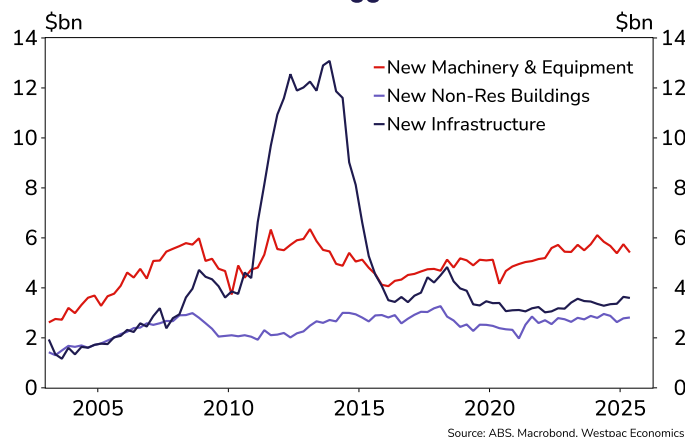
Momentum building in household consumption



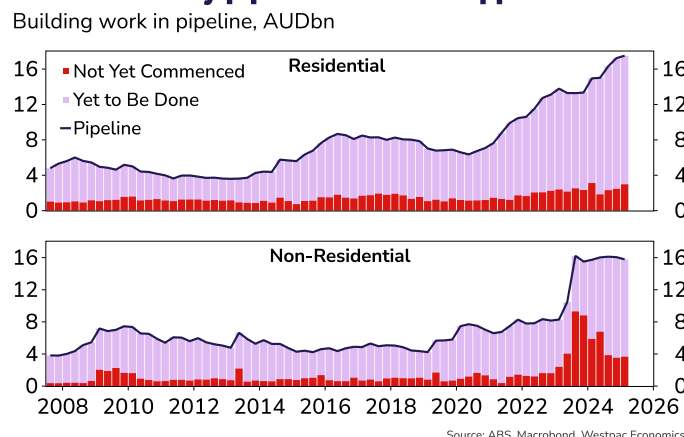
Qld's unemployment rate remains relatively low



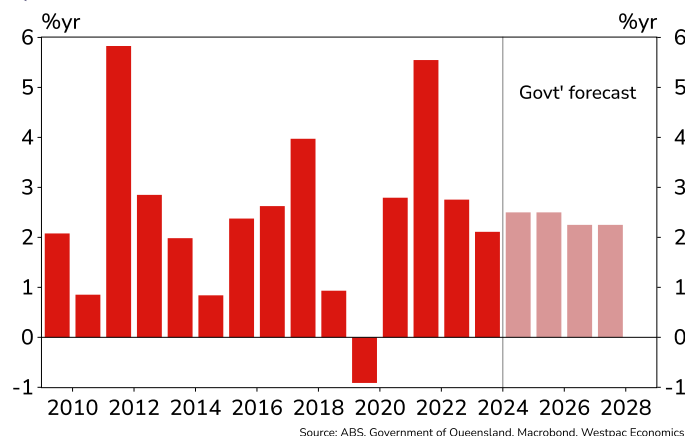
Business investment is sluggish ...



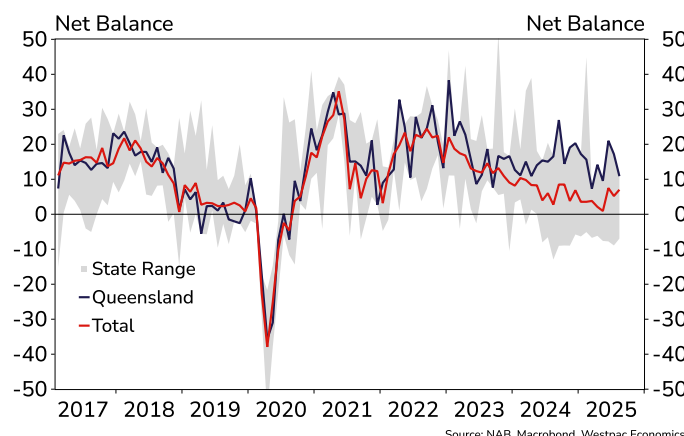
... but a healthy pipeline will lend support



Qld State Government GSP Forecasts



Business conditions



Quintessential mining state going strongly ...

Matthew Hassan

Head of Australian Macro-Forecasting

The economic recovery is in full swing in WA with demand, employment and labour income all posting strong growth. As noted in previous reports, the measures of GSP (the state analogue of GDP) have been very weak over the last two years due to falling mining and agricultural exports. This is due to a mix of factors, most of which do not look to be 'fundamental' in nature and with none of this weakness spilling over to drivers of domestic demand. That said, the state's mining sector is exposed to the unsettled global backdrop, which looks to be inhibiting significant 'greenfields' investment.

How has the state performed? State demand posted a 0.5%qtr gain in Q2, with annual growth dipping to 2.9%yr. WA has seen the sharpest fall away in new public demand over the past six months (-1.4% in H1 2025), primarily driven by the completion of infrastructure projects. Despite this, a lift in private demand is largely offsetting the drag. Consumption is posting robust growth, up 1.6%qtr, +3.0%yr in Q2 (albeit with the wind back in electricity rebates a major indirect contributor in the latest quarter). Business investment is seeing a gradual rise(+2%yr) led by equipment and intangibles, and new dwelling investment has been on a strong up-trend (+11%yr).

As noted in previous reports, WA's GSP growth has been weak over the last two years, our latest estimates pointing to an outright contraction of 0.8%yr in 2024-25. The weakness centres on a large decline in exports, down 12.6% since late 2023, led by mining, where weather disruptions, structural changes and maintenance shut downs have impacted, and ag, which was coming off bumper harvests. Every other indicator speaks to much stronger conditions, including: employment (+3.1%yr) and hours worked (3.8%yr). Indeed, with real labour income growth at nearly 6%yr, a 12½yr high, this looks more like a boom economy than one in the midst of some sort of recession.

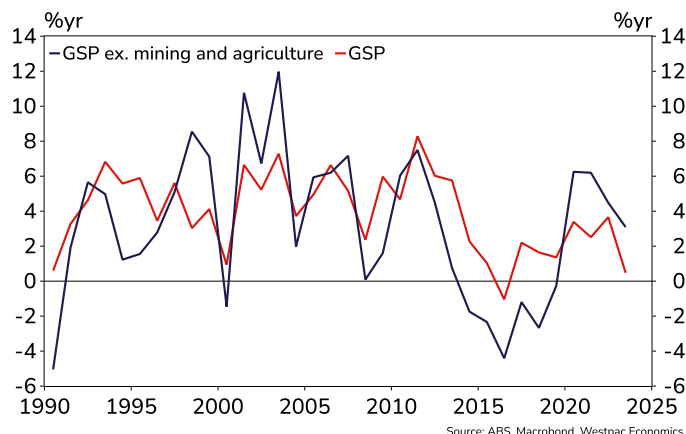
Other forward-looking indicators are a little mixed. Approvals point to some further momentum to dwelling investment and a step up in non-res buildings. However, the infrastructure pipeline has thinned out while there has been no change in major projects committed or under consideration despite a lift in the 'possible' proposals. Finally, commodity prices are holding up well.

A key stat that tells the story: WA's population growth is running at 2.4%yr, 1ppt above the pace nationally with 1.4ppts of the gain coming from net international migration.

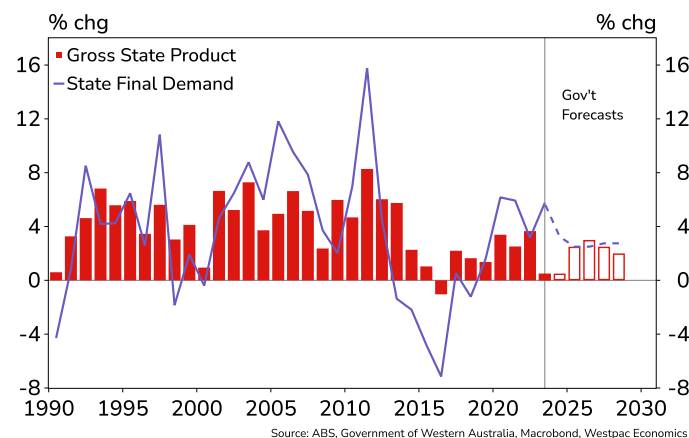
What has surprised? WA wage growth has cooled to 3.7%yr vs 4%+ through 2023 and first half of 2024.

How can things improve? The state's mining sector (45% of GSP) may start to ramp up investment, especially sectors such as gold.

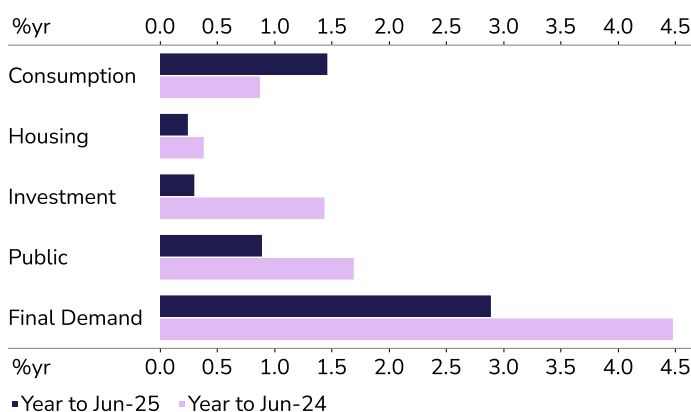
WA Gross State Product



WA Gross State Product & Final Demand

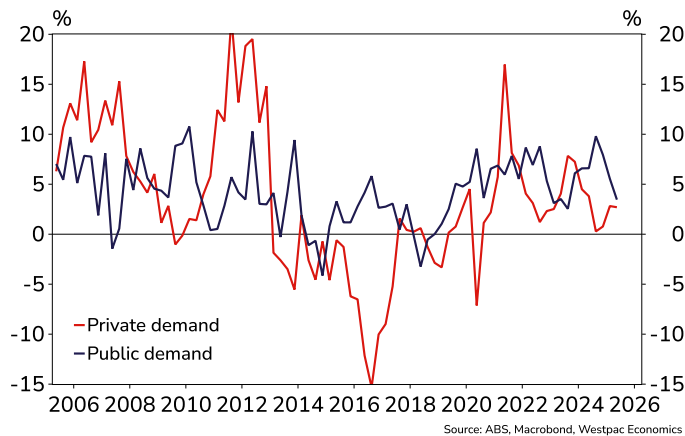


WA: contributions to state final demand

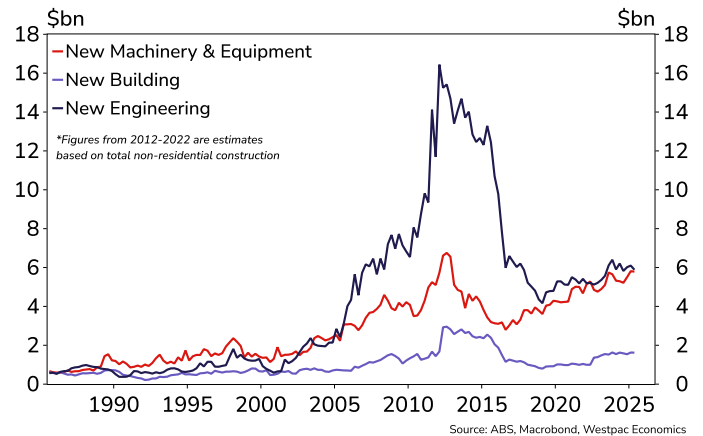


... but highlighting some of the sector's dilemmas

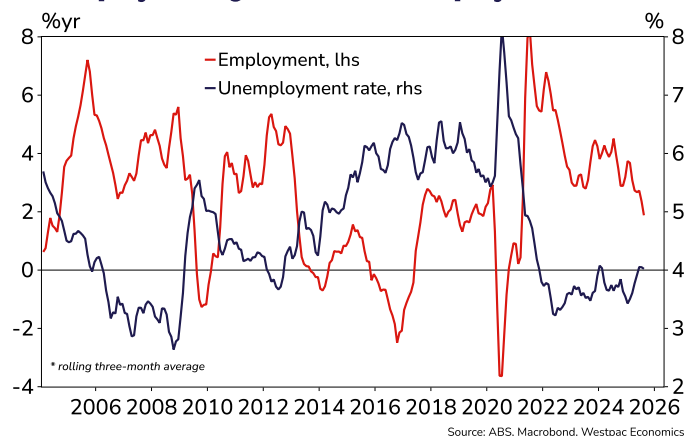
Public demand pulls back as projects wind up



WA business investment by type

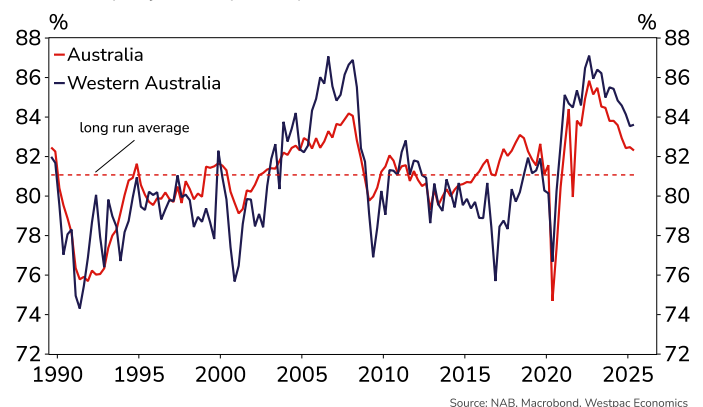


WA employment growth and unemployment rate

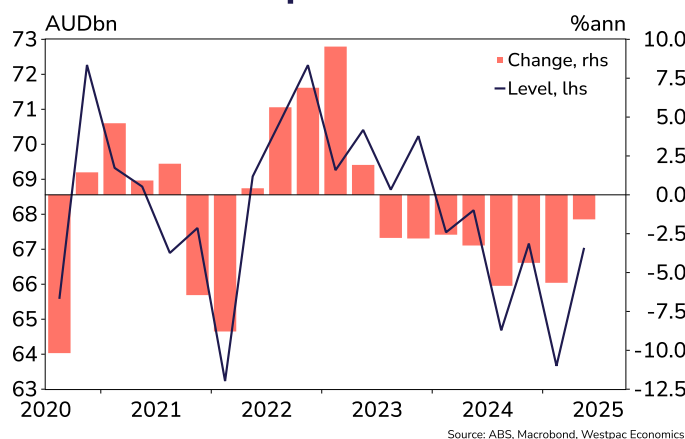


Capacity utilisation

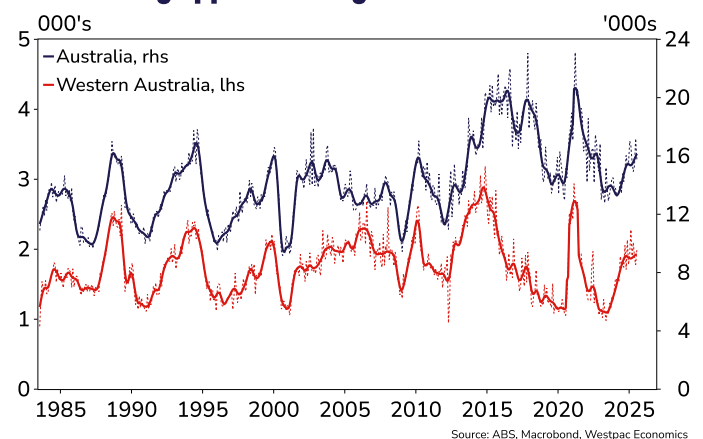
Seasonally adjusted by Westpac



WA's international exports



WA dwelling approvals surge



Poster child for a smooth recovery ...

Ryan Wells
Economist

SA remains a clear beacon of relative strength, a state where the 'handover' of growth between the public and private sectors is perhaps most stable. The former is not immune to the broader easing trend sweeping the nation, particularly in the investment sphere. But by coming off a higher base and maintaining solid consumption, the public sector is giving enough breathing room for the private sector to start finding its feet again. This is also evident in SA's labour market, which is recovering well from a large correction last year.

How has the state performed? SA continues to grow at an enviable pace, outperforming once again in Q2 with a 0.7% lift in state final demand. Combined with a particularly strong start to the year, annual growth at 3.3%yr is the highest across the mainland states and well above the national pace of domestic demand (2.2%yr).

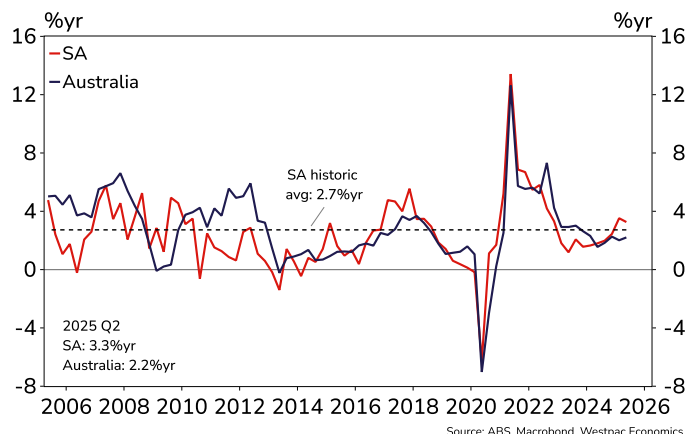
A key stat the tells the story. At 6.6%yr, new public demand continues to put a floor under activity, running at more than double the national average pace. The public sector's enduring contribution – responsible for the lion's share of growth in state final demand over the past year (56%) even with a much stronger pick-up in private demand – stands in contrast to most other states.

What has surprised? SA's dwelling construction cycle has exhibited incredibly good stamina – not only front-running most states in 2024 with a 7.0% lift, but also materially extending that momentum since, with the year-to-date gain of 9.4% being over four times the national average. The renovation boom has also been very impressive: up +23%yr in SA compared to a more tepid 5%yr nationally. Given the backdrop of a healthy pipeline of existing dwelling projects and the strong uptrend in approvals bolstering the 'front-end', SA's housing investment cycle will likely remain a strong point in the recovery for the time being.

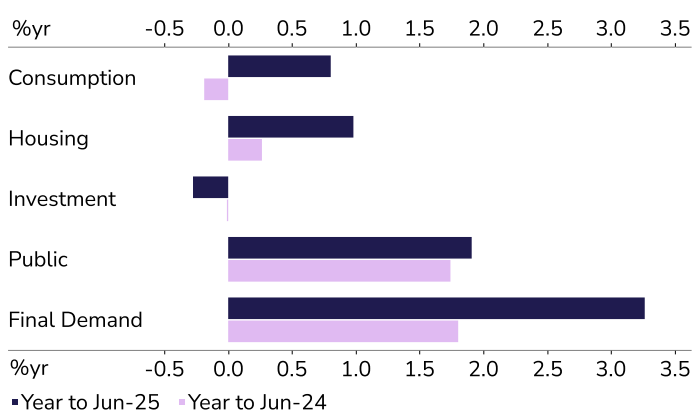
What can improve? Most states are lacking a clear 'spark' within business investment, given the context of a building economic recovery, rate cuts and stronger business credit. This is especially the case in SA, where new business investment has consistently struggled to grow, currently at -2.1%yr. More recently, this weakness has been driven by new machinery and equipment (-8.6%yr), which in large part reflects a cooling from last year's outperformance. Given the rest of the state economy's relatively sound fundamentals, a sustainable pick-up in new business investment is probably not far off though.

What are we expecting? Our forecasts for SA have been marked up since our last edition, with GSP now expected to grow by 2.2% in 2025/26 and 2.0% in 2026/27.

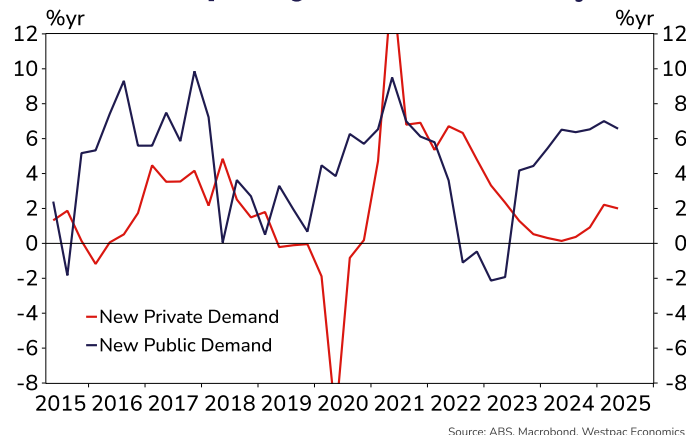
State final demand: SA vs Australia



SA: contributions to state final demand



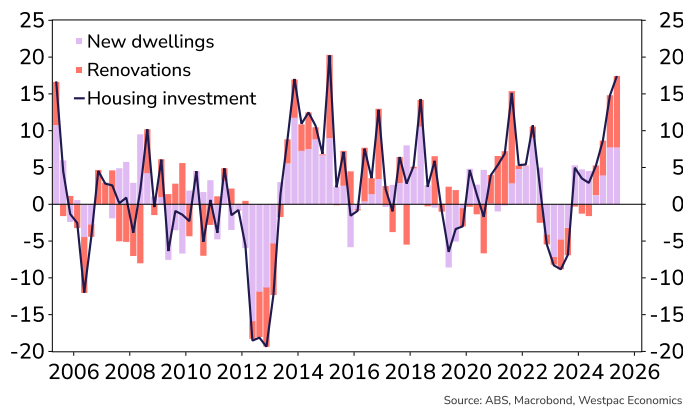
Public demand putting a floor under activity



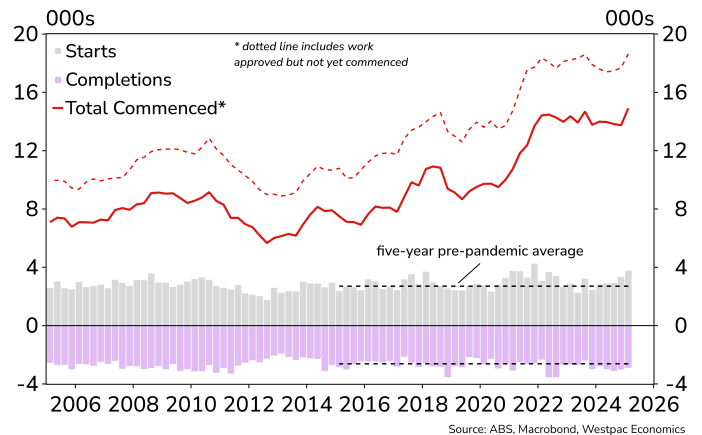
... poised to be sustained

Housing investment turning sharply higher ...

Contributions to year-ended growth in housing investment

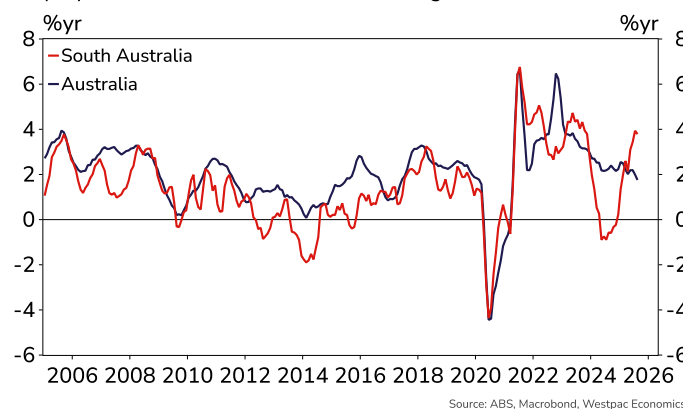


... with lots of dwellings under construction

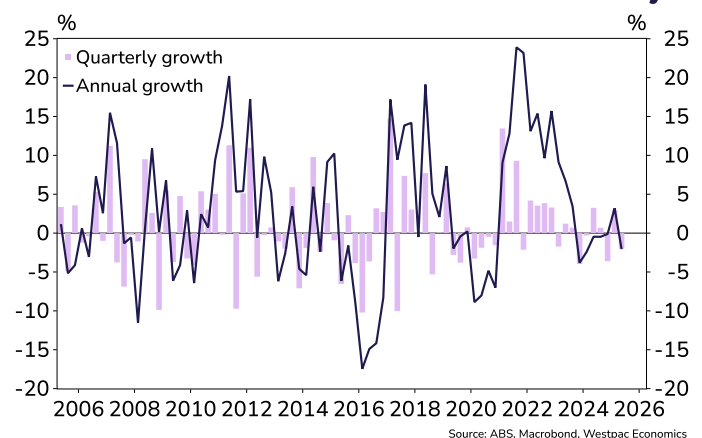


SA employment growth recovering

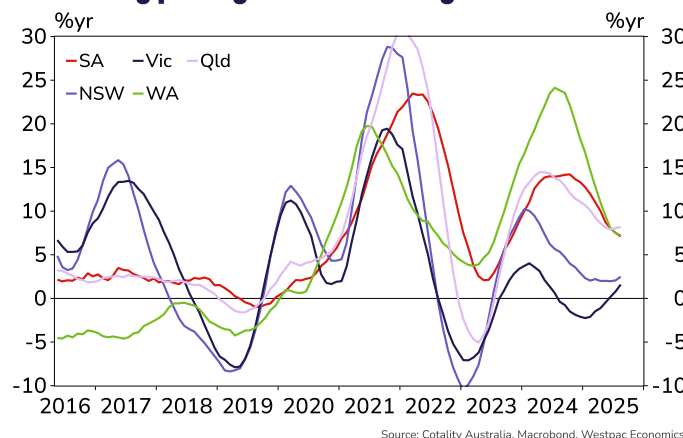
Employment, smoothed three-month average



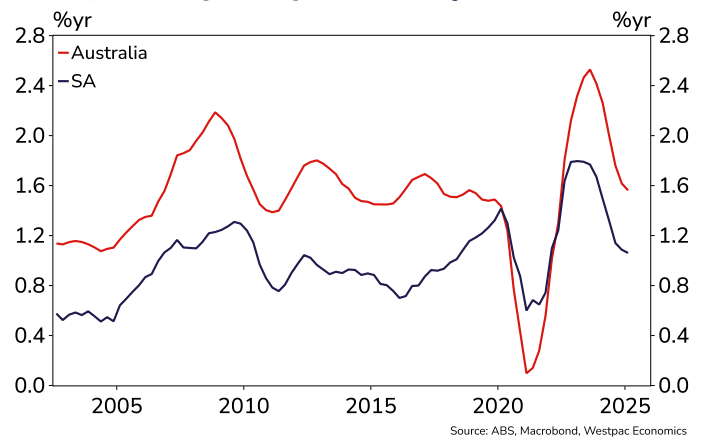
New business investment has cooled considerably



SA housing price growth is cooling



SA population growing more slowly



Two ships, an outsized wake ...

Sian Fenner

Head of Business and Industry Economics

Tassie's economy outpaced peers recently due to a temporary surge in public investment but private activity remains weak. Growth is forecast to ease to 1.3% in FY26 due to soft housing market activity and agriculture production before lifting to 1.5% in FY27 as port upgrades and the stadium lifts momentum.

How has the state performed? Domestic final demand accelerated 4.7% in the quarter to be 5.4% higher than a year ago, comfortably outpacing other jurisdictions. Much of this reflects a one-off lift from public investment tied to the acquisition of the Spirit of Tasmania ships. Encouragingly private investment also turned positive after several quarters of weakness, rising 2% in the quarter, with growth led by non-dwelling construction. Meanwhile, despite a recent pullback, the recovery in per-capita spending has been much stronger than in other states. In Q2, household spending per capita rose 0.9% on the year, significantly above the national average of just 0.1%.

A key stat that tells the story. The stand-out is the 63.5% surge in public investment in the quarter. This single component accounts for the majority of strength in domestic final demand in the June quarter. But the accounting treatment of the Spirit of Tasmania, and retrospective treatment in Q3 2024, means it will wash out and for Gross State Product (GSP) the effect will be neutral, as the import of the vessels directly offsets the investment.

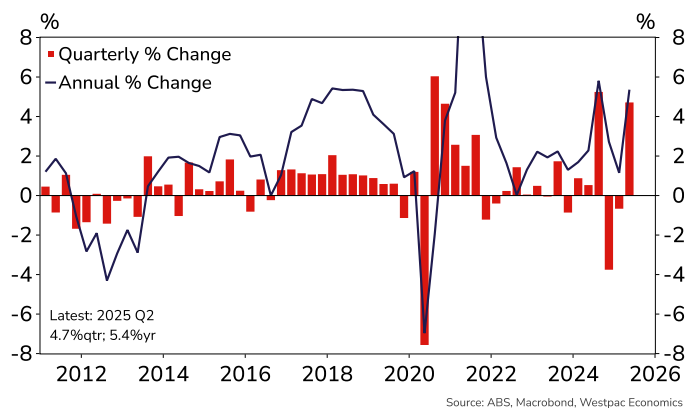
How can things improve? Private investment remains the missing piece in Tasmania's recovery, which remains heavily dependent on public demand (36.4% of the state economy). While there was a modest 2% rise in the June quarter, it still sits well below year-earlier levels and has underperformed across much of the past two years. The weakness has been most evident outside non-dwelling construction, particularly for Machinery & Equipment investment. The resolution of political uncertainty following the state election may help rebuild sentiment and see the strong growth in non-dwelling building approvals over the past year translate to stronger investment momentum.

What are we expecting. We have lowered our FY26 growth forecast for the economy to 1.3% from 1.5% previously, reflecting a softer recovery in the housing sector, weaker agriculture output due to ongoing challenging climate conditions, and lower population forecasts. Dwelling approvals have trended lower since pandemic incentives were unwound, and the state continues to underperform the national recovery.

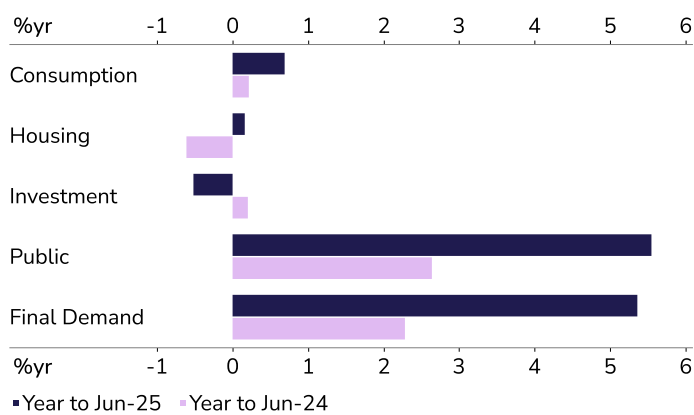
Household spending is expected to gradually improve over the forecast period amid a return to positive employment growth and further cuts in the RBA policy rate. Further out the completion of the upgrades to the Devonport port will boost freight and tourism capacity, while the proposed stadium is expected to provide a lift in inter-state visitors. Together, these projects are expected to deliver positive downstream spillovers to transport, logistic and consumer facing industries and the broader economy. We expect economic growth to pick up to 1.5% in FY27.

TAS State Final Demand

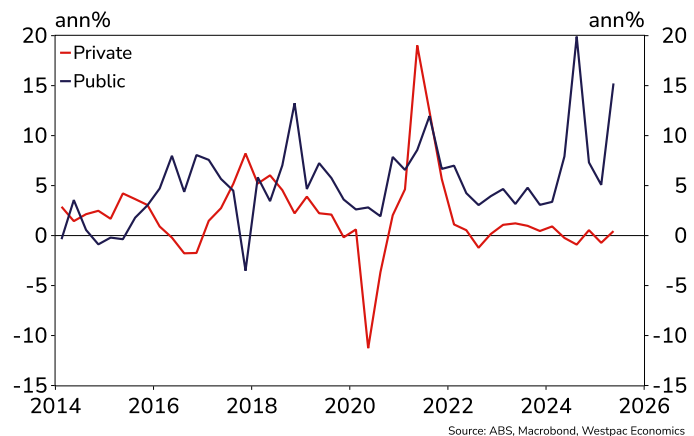
Chain Volume Measures



Tas: contributions to state final demand



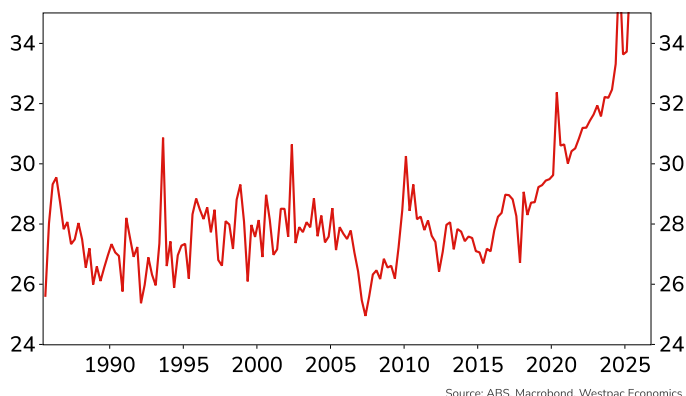
TAS Public vs Private Demand



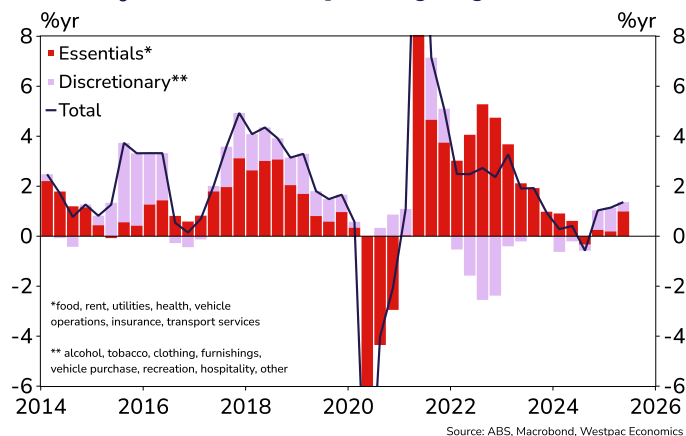
... but net impact is neutral

Tassie economy heavily dependent on public sector

Public Demand % Share of State Final Demand

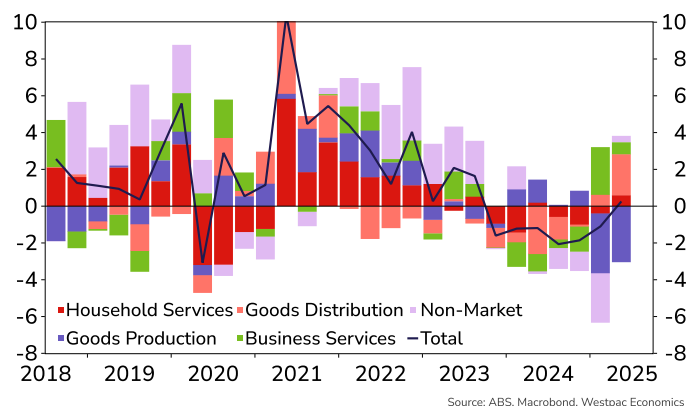


Recovery in household spending to grind ahead



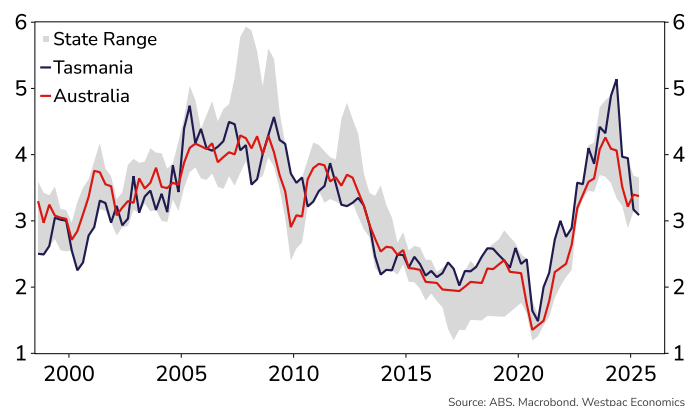
Employment growth starting to lift ...

Contribution to year-on-year percentage change

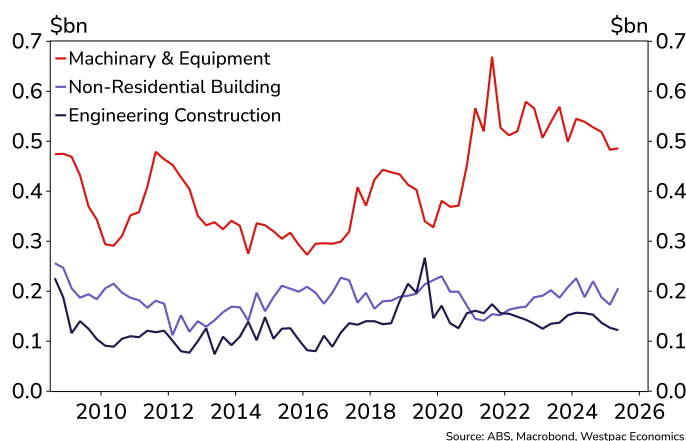


... as wages growth converges

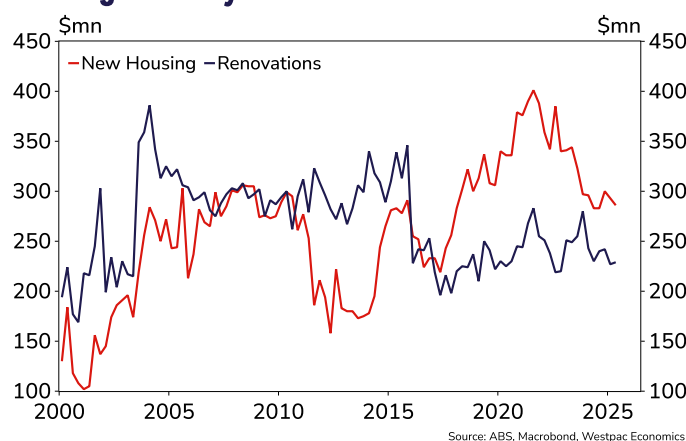
Wage Price Index, Annual Change (%)



New business investment weak outside of non-res



Housing recovery absent for now



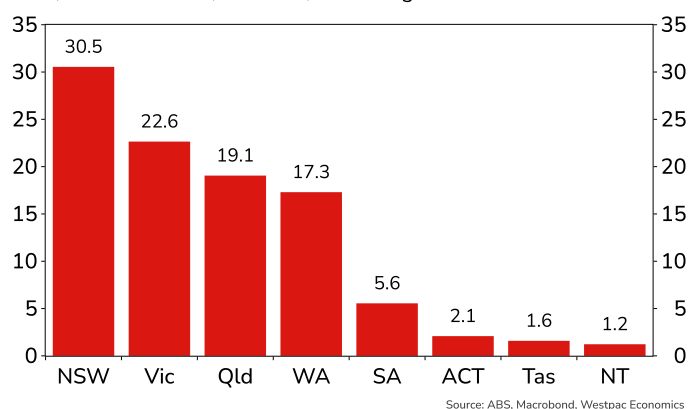
Forecasts: state activity and employment

		2023/24	2024/25		2025/26		2026/27	
		Actual	Govt f/c	Westpac Est [^]	Govt f/c	Westpac f/c	Govt f/c	Westpac f/c
Australia	GDP	1.4	1.50	1.3	2.25	2.1	2.50	2.4
	Employment	2.7	2.75	2.1	1.00	1.5	1.25	1.4
NSW	GSP	1.2	1.75	1.7	1.75	1.9	2.25	2.2
	Employment	2.0	2.00	1.6	1.00	1.3	1.25	1.3
Vic	GSP	1.5	2.00	1.8	2.50	2.0	2.75	2.4
	Employment	3.3	2.50	2.3	0.50	1.2	1.50	1.0
Qld	GSP	2.1	2.50	2.6	2.75	2.4	2.50	2.6
	Employment	3.0	3.00	2.8	1.50	1.6	1.50	1.8
WA	GSP	0.5	0.50	-0.8	2.50	2.0	3.00	2.6
	Employment	4.1	3.00	3.0	1.75	2.0	1.50	2.0
SA	GSP	1.2	1.25	1.9	1.75	2.2	2.00	2.0
	Employment	1.7	1.00	1.2	1.00	1.8	1.00	1.2
Tas	GSP	1.4	0.00	1.4	0.50	1.3	1.50	1.5
	Employment	-0.8	-1.00	-1.2	0.50	0.4	0.50	0.7

* 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.

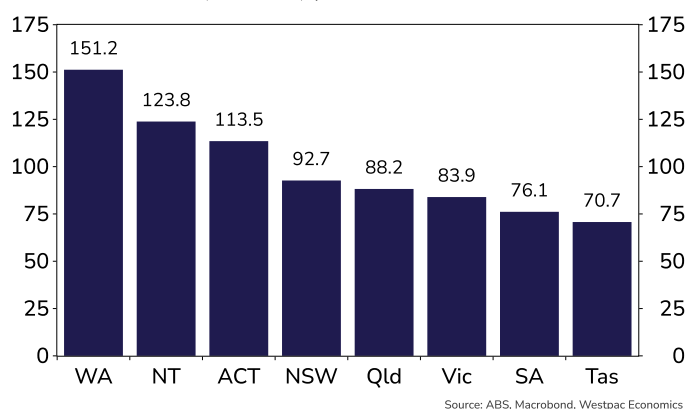
Shares of GSP

Real, Chain Volumes, 2023/24, Percentage

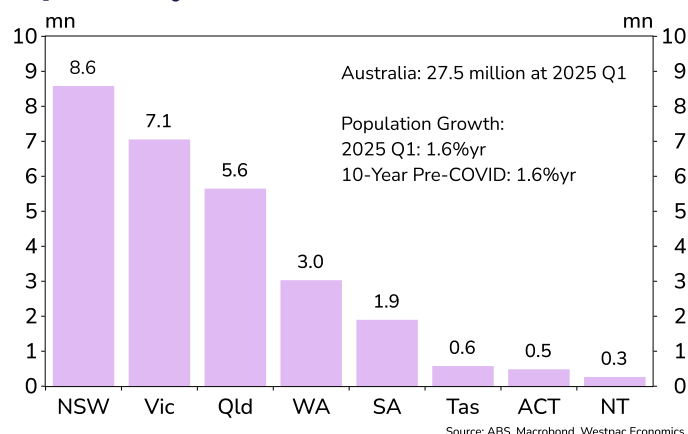


GSP per capita

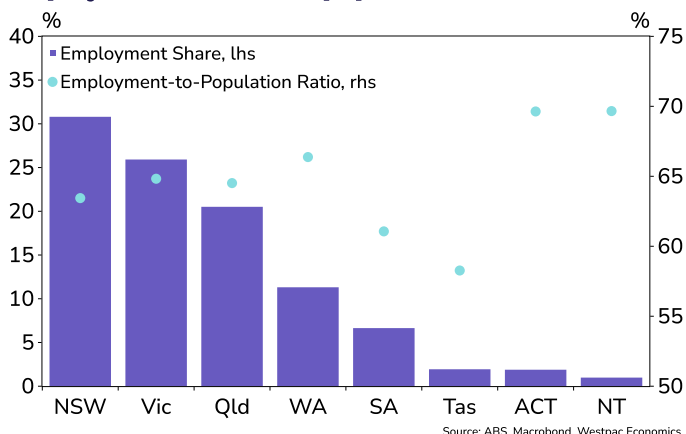
Real Chain Volumes, 2023/24, \$000s



Population by state



Employment shares and population ratios



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