

3 September 2025

AUSTRALIAN GDP Q2 BULLETIN

Key points

- The Australian economy grew a solid 0.6%qtr in the June quarter 2025. This was the first time since the March quarter 2023 that GDP per capita grew on an annual basis.
- The upside came on the back of stronger than expected consumer spending, which lifted 0.9%qtr. While some of this appears to be due to one-offs relating to holiday timing and sales discounts, underlying momentum looks firmer consistent with rising growth in household disposable incomes and improving consumer sentiment.
- Outside the consumer, new business investment declined, while we have now passed the peak in terms of the public demand contribution to growth.
- The key uncertainty is whether the pick-up in consumption will continue and how long it will take for investment to turn around. It is possible we could still get a shaky handover, but given today's outcome, this seems less likely.

GDP: June Quarter 2025

	% qtr		% yr	
	Mar	Jun	Mar	Jun
Household consumption	0.4	0.9	0.8	2.0
Dwelling investment	2.1	0.4	5.0	4.8
Business investment*	0.3	-0.4	1.3	0.3
Private final demand*	0.5	0.6	1.2	1.9
Public spending*	-0.3	0.2	4.0	3.0
Domestic demand	0.3	0.5	2.0	2.2
Stocks – private non-farm #	0.4	-0.4	0.0	-0.2
Stocks – other #	-0.1	0.2	-0.1	0.1
GNE	0.5	0.4	1.9	2.1
Exports	-0.7	1.7	-0.6	1.5
Imports	0.1	1.4	0.5	1.9
Net exports #	-0.2	0.1	-0.3	-0.1
Statistical discrepancy #	-0.1	0.1	-0.2	-0.1
Non-farm GDP	0.2	0.6	1.0	1.5
GDP, real	0.3	0.6	1.4	1.8
GDP, nominal	1.4	0.7	3.7	4.1
GDP deflator	1.2	0.1	2.4	2.2
Household deflator	0.7	0.6	3.3	2.8
Earnings per worker (non-farm)	1.1	0.6	3.8	3.8
Real household disposable income	1.6	0.6	3.6	4.8

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

Q2 GDP: 0.6%qtr, 1.8%yr
Q2 Domestic Demand:
0.5%qtr, 2.2%yr

The consumer awakens

Westpac Economics

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

The Australian economy grew a solid 0.6%qtr in the June quarter 2025 to increase 1.8% in annual terms. The outcome was stronger than Westpac's expectation of 0.4%qtr and the median market expectation of 0.5%qtr. This was the first time since the March quarter 2023 that GDP per capita increased in annual terms, up 0.2% in annual and quarterly terms. The upside came on the back of stronger than expected consumer spending, which lifted 0.9%qtr – the strongest increase since the December quarter 2022.

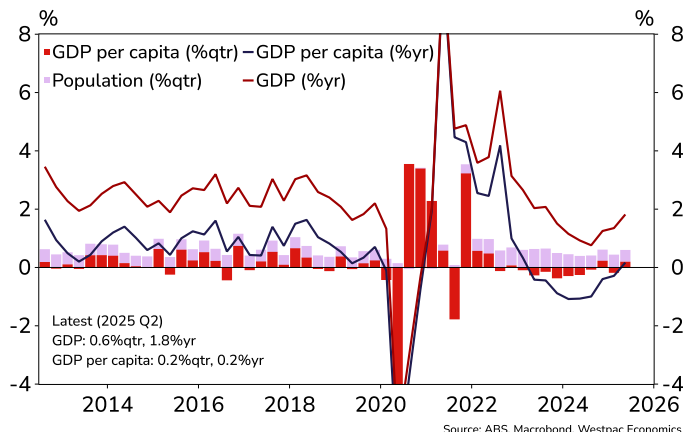
After experiencing the largest fall on record coming out of COVID, household incomes stabilised in 2023 and have been steadily recovering since then. The triple headwinds of bracket creep, surging prices and higher interest rates have subsided with tax and interest rate cuts now supporting disposable income growth. Indeed, annual household disposable income growth hit 4.1%yr this quarter, the strongest pace since 2011 outside of the COVID period. However, the consumer has been relatively cautious through much of this, looking to save and rebuild buffers rather than spend.

That changed this quarter, with consumers spending more and less focussed on savings. This is broadly consistent with the increase in consumer sentiment we have seen over the past six months that has seen a move from deep pessimism to around neutral levels. To be sure, some of the strength is likely to be due to one-offs relating to holiday timing and attractive sales discounts. This aspect will unwind in the September quarter. However, even with this today's data still points to a firmer household sector that's more confident and ready to spend.

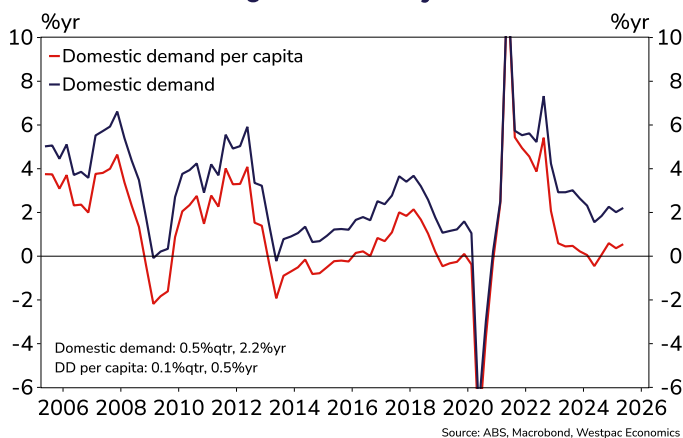
While the consumer seems to have awakened, some other key expenditure components remain subdued. New business investment declined in the quarter with capex intentions suggesting the softness will continue. Only investment in intangibles saw a lift in Q2. Meanwhile we have now clearly passed the peak in terms of the contribution public spending will make to economic growth. Public investment has fallen around 7.0% over the past 3 quarters. This is having an impact on downstream industries such as professional services and the rental, real estate and hiring industries. Public consumption picked up at the Federal level – likely lifted by indexation adjustments put through in late March and continued strength in demand-driven programs such as the NDIS – but went backwards at the state level. Indeed, the net effect has seen growth slow over the first half of 2025 – tracking a 1.7% pace in six-month annualised terms down from the 1.9% pace recorded in the second half of 2024.

The key uncertainty going forwards is whether the pick-up in consumption will continue and how long it will take for investment to turn around. It is possible we could still get a shaky handover, which spills over into the labour market, but given today's outcome this seems less likely.

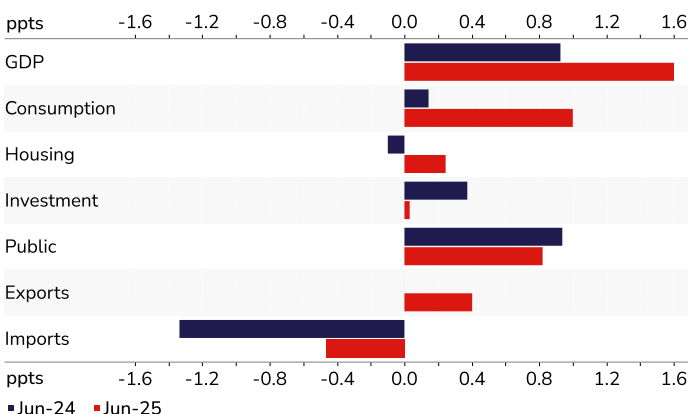
GDP per capita no longer declining year-on-year



Domestic demand growth steady but more varied



GDP: year-end contributions



GDP: the expenditure estimate

The national accounts expenditure estimate revealed a nuanced picture of the Australian economy, with public demand growth continuing to ease and private demand showing signs of firmer momentum. Household consumption emerged as a principal driver, but some of its strength seems to be linked to one-off factors, casting doubt on the extent of underlying momentum. While growth is on a somewhat firmer footing, there are still clearly risks around the potential 'shaky handover' from public to private sector driven expansion..

Domestic demand (spending by consumers, businesses, and governments) grew 0.5%qtr in the June quarter, and its private subcomponent was up 0.6%qtr, a similar result to 0.5%qtr and 0.7%qtr increases reported in the prior two quarters, explaining 0.4ppts of the 0.6%qtr GDP increase. While the consumer looks stronger, the overall growth impulse is being weighed down by a lack of **business investment**, which will take time to respond to improving demand. Indeed, new business investment fell 0.4%qtr in the June quarter to be just 0.3%yr higher in annual terms – weak by historical standards and soft in an economy where the population is growing by around 1.7%yr. Investment in intangibles (such as software) was the only component that grew over the quarter.

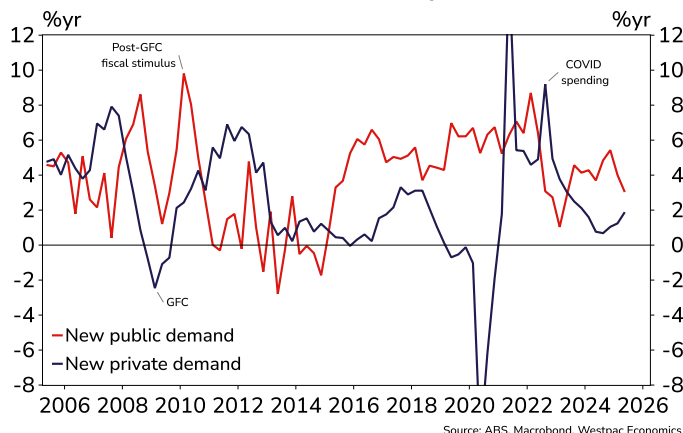
Consumer spending was robust in the June quarter, a continued improvement in real incomes combining with a holiday-related boost to discretionary services spend. Household consumption grew 0.9%qtr and 2.0%yr. With population growth running at 1.7%yr, this implies consumption per capita has started to post small increases. A key uncertainty is the extent to which this will continue. Some of the strong quarterly gains looks to be consumers responding to discounting and taking longer than usual holidays around the Easter and ANZAC day period. The **Westpac-DataX Card Tracker Index** shows a slowdown since mid-year, suggesting some of the lift in momentum may have faded.

Dwelling investment grew 0.4%qtr after a significant lift in the March quarter, to be 4.8% higher in annual terms. There remains a healthy pipeline of projects to work through, supporting housing activity going forward, particularly as weakness in other parts of the construction sector (such as non-residential buildings) frees up resources to be used for the construction of new dwellings and housing renovations.

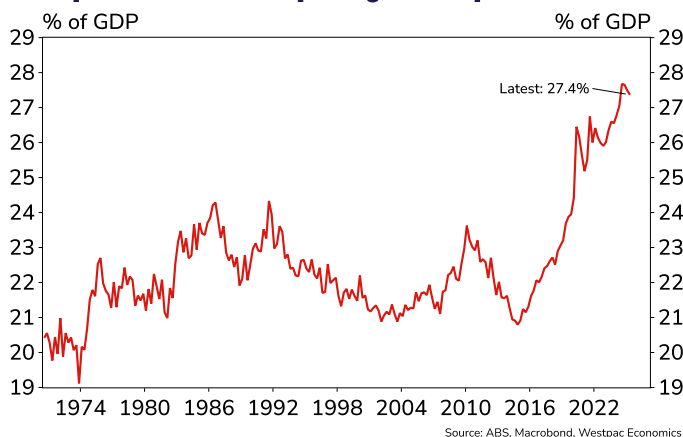
New public final demand grew 0.2%qtr to be 3.0% higher in annual terms (this is almost one percentage point lower than the RBA's latest forecast), which represented a notable slowdown from the 5.4%yr peak in the December 2024 quarter. As we predicted in our preview, growth has declined as we pass the peak in construction activity related to large infrastructure projects. Indeed, public investment continued falling for a third consecutive quarter, in total shrinking by almost 7% over that period.

Meanwhile, **public consumption** grew 1.0%qtr, mainly due to notably higher national government spending (2.4%qtr), relating to social benefits programs and healthcare, amid rising bulk-billing expenditure and worse-than-usual flu season. But there has also been a pull-back in state and local government consumption as temporary cost of living support has been wound back.

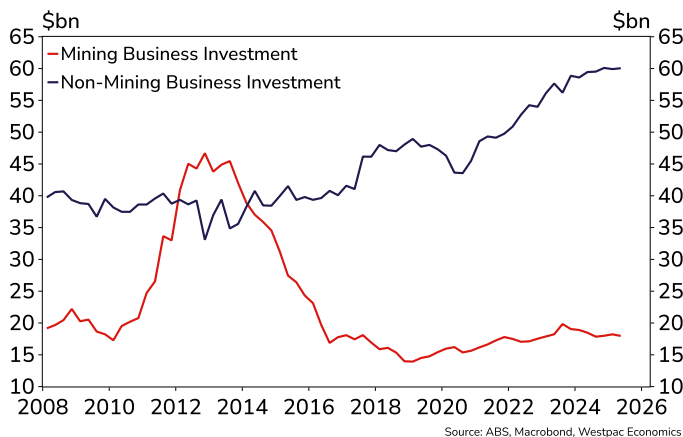
Public demand unwinding sharply



New public demand tapering off its peak



Business investment slows



Net exports and inventories were broadly as expected. Net exports contributed +0.1 ppts to growth in GDP in Q2 on the back of stronger mining exports. This was offset by a deduction of -0.1ppts from the rundown in inventories, particularly in the consumer-facing sectors. The updated demand-side picture suggests some of the latter may have been due to firmer than expected consumer demand.

Household sector

Consumers were the big surprise in the June quarter, the 0.9%qtr gain in spending coming in well ahead of expectations. This marks the strongest quarterly rise since late 2022 and the strongest per capita increase since the first half of 2022, when spending was in the midst of a post-COVID reopening boom. The gain also came despite an array of mostly so-so partial indicators.

As noted, there may be some one-off positives at work. The close timing of Easter and ANZAC Day public holidays likely encouraged longer holiday breaks this year that boosted discretionary services spend. There may also have been a bigger than usual response to End of Financial Year sales promotions this year. This has been a clear pattern from our **Westpac-DataX Card Tracker**, which has seen bigger than usual lifts around peak sales periods followed by sharper post-sale drop-offs, the pattern evident around Black Friday, Boxing Day sales and End of Financial Year sales – all consistent with cost-conscious consumers looking to make budgets stretch further. There may also be some other, smaller one-off factors at play – e.g. insurance-funded replacement spending associated with Cyclone Alfred may have given some added boost to vehicle sales.

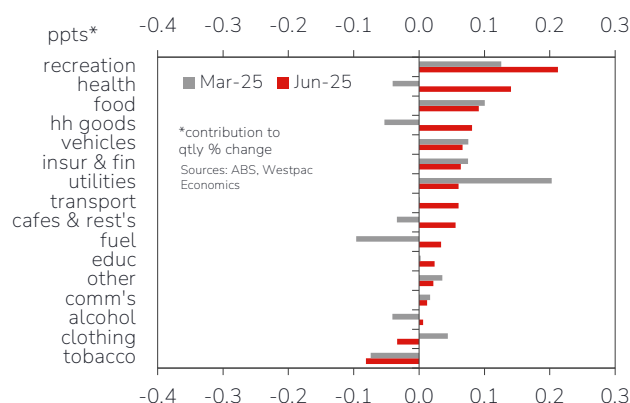
The extent of these influences will only become apparent once the September quarter data rolls in. If they do prove to be large, we could well see some combination of a softer September quarter spend and downward revisions to the June quarter.

But even allowing for this, the June quarter update suggests the consumer recovery is on a firmer footing. Annual spending growth has seen a steady lift from a low of 0.3%yr a year ago to 2%yr currently, tipping into positive in per capita terms for the first time in two and a half years.

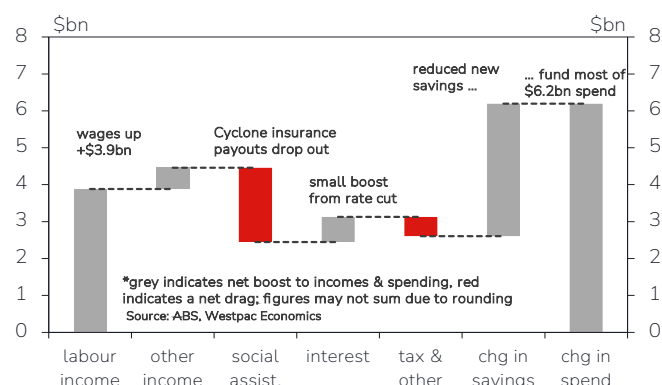
In terms of the spending detail, the main upside surprises were around discretionary services and vehicle spend. Retail components posted a 0.4%qtr gain broadly in line with the retail survey result. Vehicle purchases rose 2.4%qtr despite sales figures that looked to have been about flat (the difference potentially relating to insurance-funded replacement purchases). Fuel spend was up 0.7%qtr, broadly consistent with monthly estimates. However, services spend excluding utilities recorded a much stronger than expected 1.4%qtr rise. The detail here showed a particularly strong rise for recreation & culture (+2%qtr, the biggest gain in three years). Together, recreation, vehicles, hotels, cafes & restaurants, and transport services accounted for 0.4ppts of the 0.9%qtr rise in total spending.

The picture on household incomes was a little more mixed although again a 'steady recovery' theme was evident.

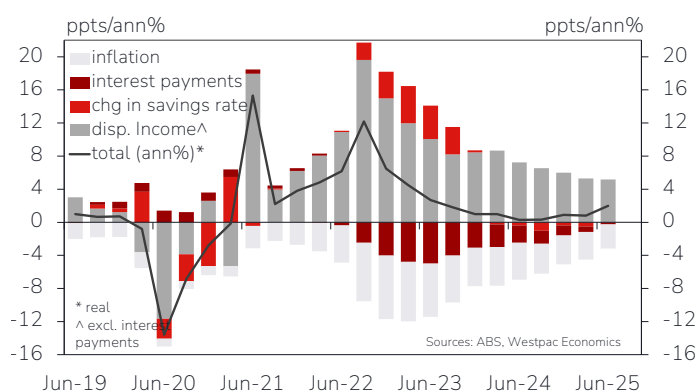
Consumer spending by category



Household income flows: change, Q1 to Q2



Consumer spending: drivers and headwinds



Total wage income posted a 1.2% rise, a more subdued gain than the previous three quarters but still lifting annual growth slightly to 6.7%yr. Employment growth was again solid, tracking 0.6%qtr but growth in average earnings moderated, up 0.5%qtr vs average gains of 1.3%qtr over Q4 and Q1.

Other sources of income were more mixed in the June quarter. The March quarter boost from weather-related non-life insurance claim payouts unwound in June (this component falling back 8%). Gross mixed income (mainly covering farms and small businesses) also dipped 0.9%qtr. Total gross income (before tax and interest) posted a fairly slow 0.4%qtr gain overall.

Around outgoings, rate cuts lowered interest bills by around \$680m in the quarter while tax payments were about steady (a relatively weak outcome for this component, which has been rising strongly in recent years, outside of tax cut periods).

Overall, nominal disposable income posted a relatively modest 0.6%qtr rise, holding annual growth at 7.1%yr (bearing in mind that the strength here mainly reflects last year's 'stage 3' tax cuts). Real inflation-adjusted disposable income basically held flat, previous strong gains lifting annual growth up to 4.1%yr. Real disposable income is still 1.6% below its 2021 peak.

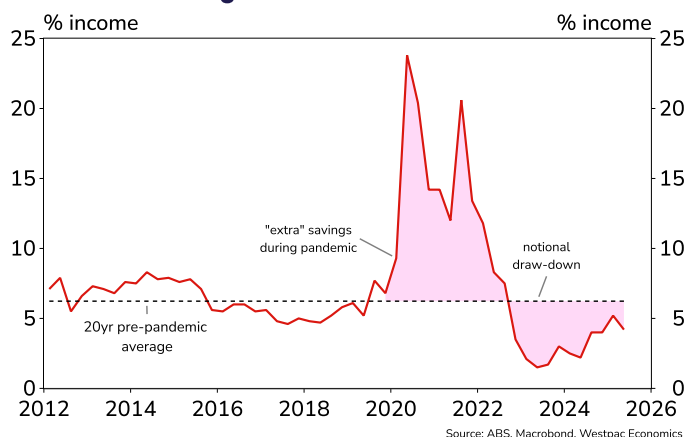
With real income flat, all of the growth in real spending came from a lower savings rate. The aggregate household savings ratio declined from 5.2% in the March quarter to 4.2% in the June quarter, bringing it back in line with the 4% rate over the second half of 2024. Much of the March quarter 'wrinkle' is due to insurance payouts, which typically boost incomes straight away but take longer to flow through to spending. However, the level does question the extent to which the underlying trend in savings rates may still be creeping higher.

The states

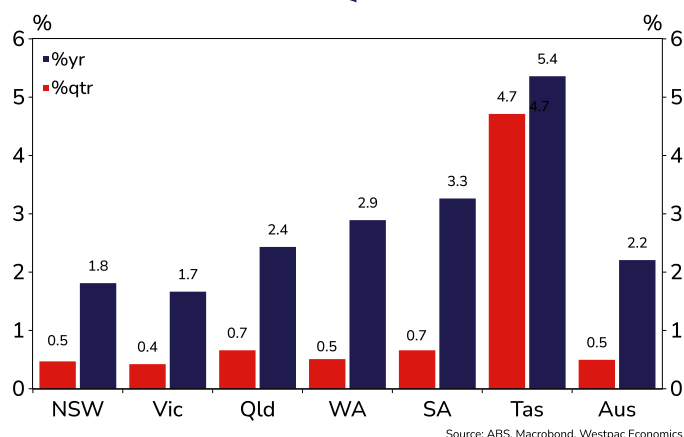
New South Wales snapped back from a weak start to the year, state final demand lifting 0.5% in Q2. At 1.8%yr, though, the annual pace remains weak compared to most. Compositionally, the story is little-changed from last quarter – epitomised by a contracting public sector, with new public demand falling –0.3% (1.3%yr). Earlier weakness in the private economy is cycling out, seeing new private demand lift to 2.0%yr, back in line with most other states. Besides the stronger showing from household consumption that was evident across the nation, NSW also looks to be one of the few states where businesses are undertaking new investment (+2.5%yr), though it is still against a backdrop of relatively fragile confidence.

Victoria shared a similar fate for headline state final demand – despite a stronger showing in Q2 (0.4%), the annual growth pace remains brittle, being the weakest across the nation at 1.7%yr. Vic has seen a rapid slowdown in the support offered by new public demand, marked by a sharp unwind in new public investment (–8.5% in H1 2025) and a more moderate pace of public consumption (+2.8%yr). The picture for business investment is mixed – pull-backs in new infrastructure (–16.5%yr) is being offset by solid increases in new machinery and equipment investment (+6.2%yr). The latter may reflect a more encouraging response to the gradual recovery in household consumption (+1.7%yr) off the back of rising disposable incomes.

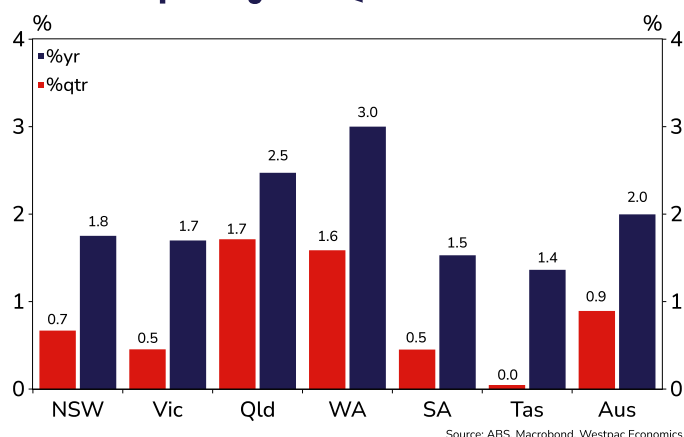
Household savings ratio



State final demand: 2025 Q2



Consumer spending: 2025 Q2



Queensland continues to grow at a consistent pace – back-to-back gains of 0.7% in state final demand seeing the annual growth pace hold broadly steady at 2.4%yr. The sunshine state is also subject to the nationwide trend of moderating new public demand, particularly in the investment sphere, though it is still coming off a relatively high base (+4.2%yr). The extent to which the recovery in the private economy can offset this remains a key question. For example, while household consumption had its strongest showing in years, up 1.7% in Q2, it also coincided with significant discounting events and public holidays. Meanwhile, businesses are still look to be holding off on new investment (–1.4%yr).

Western Australia recorded a 0.5% gain in state final demand in Q2 2025, seeing the annual pace fall slightly to 2.9%yr. WA has seen the sharpest fallaway in new public demand over the past six months (–1.4% in H1 2025), primarily driven by the wind-up of various infrastructure projects. Despite this, the state’s private economy is running hard to offset this trend. This includes continued solid growth in household consumption (+3.0%yr) that was buffeted by a large 1.6% gain in Q2, the state’s businesses still investing with some degree of confidence (+2.0%yr) and a continued expansion of the state’s dwelling stock (+11%yr). Given the broad base underlying this growth, the state’s recovery looks well positioned.

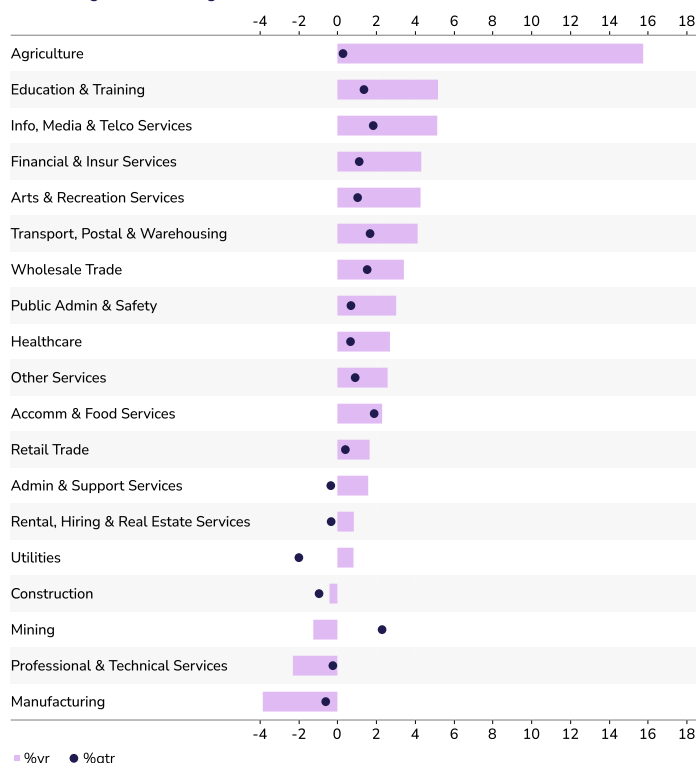
South Australia once again outperformed, state final demand growing 0.7% in Q2 to be up 3.3%yr, the highest across the mainland states. SA’s public sector continues to contribute strongly to growth; at 6.6%yr, new public demand is running at more than double the national average pace. This is helping put a floor under activity while the private sector stages a gradual and uneven recovery. Case in point, : although household consumption is moving steadily higher (1.5%yr), businesses are pulling back significantly on new investment spending (–2.1%yr). At the same time, investment in new dwelling stock is running at a lightning pace, nearly four-times the national average (+13%yr).

Tasmania remains a mixed bag, oscillating between extreme gains and declines in state final demand. This time, a 4.7% gain in Q2 shot the annual pace up to 5.4%yr. This was driven by a +15% lift in new public demand in the quarter – clearly, there remains a great degree of volatility associated with when certain projects are included as part of public infrastructure spending. Meanwhile, the island state’s private investment backdrop remains fragile, both across new business investment (–4.9%yr) and dwelling investment (0.4%yr). Household consumption meanwhile held flat in Q2, and at 1.4%yr, it is the weakest across the rest of the states.

Production income

At the industry level, GDP (P) rose 0.6% in the quarter to be 1.8% higher than a year ago. The market sector was the largest contributor to growth in the June quarter, outpacing the non-market sector for the first time since Q1 2024. Growth was led by a recovery in mining activity, which rebounded by 2.3% qtr following earlier weather and maintenance disruptions. However, after falling for a year, production was still down 1.2% year.

GVA by industry



Sources: ABS, Macrobond, Westpac Economics

Excluding mining, growth was more uneven. Consistent with the pick-up in household spending, consumer-dependent industries recorded stronger momentum in the quarter. In particular, the Accommodation & Hospitality industry rose 1.9%qtr, the strongest quarterly outcome since late 2022, aided by increased domestic and international tourism. This also supported solid growth in the Transportation sector.

Meanwhile, as expected following nearly a year of exceptional growth, momentum in the agriculture sector slowed (0.3%), although livestock production remained very strong, consistent with ongoing external demand for meat.

Offsetting these positives, utilities fell 2.0% in the quarter, due to unseasonably warm weather. Soft business investment and some unwinding of earlier front-loading of pharmaceuticals both weighed on activity in Manufacturing (–0.6%).

Construction activity also fell back (–0.9%), fully reversing the previous quarter’s gain. A sharp fall in infrastructure activity – notably the completion of large public transport projects – more than offset a modest increase in residential construction.

Across the public sector, education continued to post above-average growth, despite informal caps on international students. Health and government administration activity also picked up, partly due to the temporary impact from the 2025 Federal Election.

GDP (I)

Real GDP(I) rose 0.6% in the June quarter and 1.8% over the year. In nominal terms, growth slowed to 0.7% over the quarter, while the annual pace lifted slightly to 4.1% (all figures below are also nominal).

Growth in compensation of employees eased for a second straight quarter, rising 1.1%. Annual growth nudged up to 6.7% though remains softer than the long-term average of 8.4%. Gains were once again led by health care and social assistance, which was boosted by wage reforms. Accommodation and food services also recorded solid growth, supported by headcount and bonus payments, following weather and holiday disruptions in March.

Gross operating surplus for private non-financial companies (i.e. corporate profits) dipped -0.1% in the quarter. Mining was the main drag as weaker commodity prices and global demand reduced earnings. Manufacturing was also impacted by lower prices and sales, while retail trade faced higher costs. Offsetting this were gains in professional services and transport, postal & warehousing.

Gross mixed income, covering the unincorporated sector such as sole traders and partnerships, saw profits fall at their strongest pace in two years, down -0.9% in the quarter. This pulled annual growth back to 4.2%.

Wages, labour costs and productivity

Prices

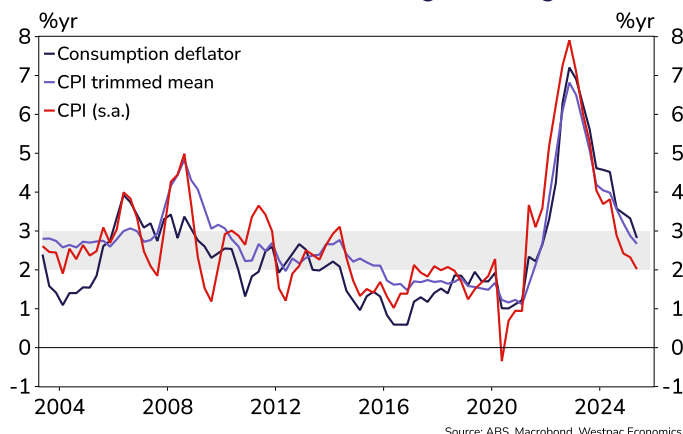
The headline price measure in the National Accounts, the GDP Implicit Price Deflator (IPD) was almost flat in the June quarter gaining just 0.1% following a 1.2% increase in the March quarter, a 0.9% increase in the December quarter and near flat prints in the June and September quarters (0.1% and 0.2% respectively). The gain in the IPD reflected a robust rise in the domestic demand deflator of 0.7% mostly offset by a -1.1% fall in the terms of trade.

In the year to the June quarter the IPD has gained 2.2%yr, a moderation from the 2.4%yr pace in March and the slowest pace of growth since September 2023.

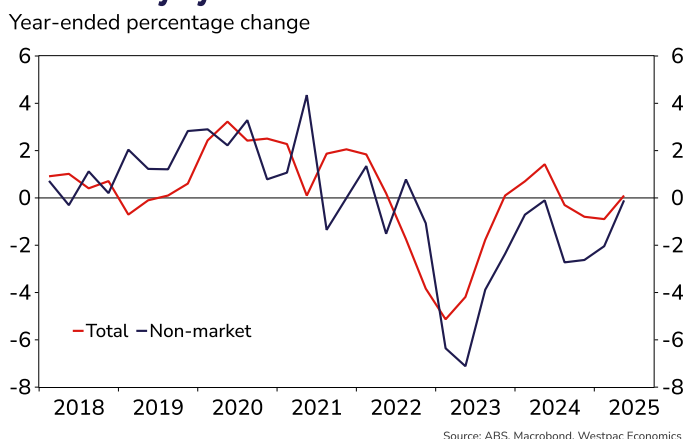
The ABS noted that the June rise in the domestic final demand deflator reflected an increase in labour costs flowing through to higher prices for private and public capital and government consumption. The ABS also noted that consumer prices for food and electricity increased while inflation softened for rents (reflecting higher vacancy rates) and auto fuel (prices down in the quarter).

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 June quarter to be up 2.8% in the year; the seasonally adjusted CPI lifted 0.6% in the June quarter to be up 2.0% in the year. Overall, we note that the Household Consumption deflator continues to track closer to the Trimmed Mean measure of core inflation, which rose 0.6%qtr/2.7%yr in the June quarter.

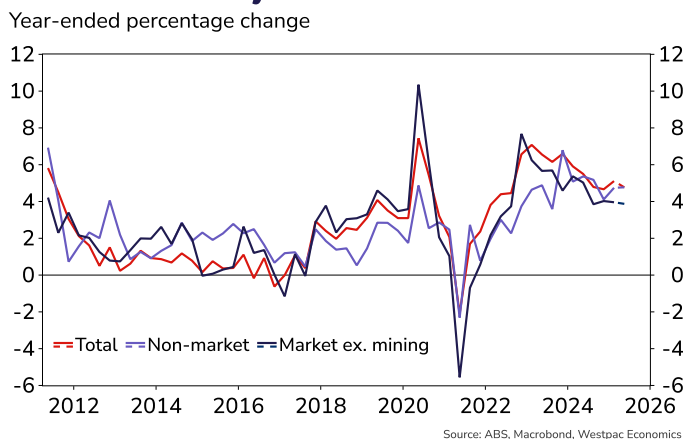
'Core' consumer inflation moving into target band



Productivity by sector



Unit labour costs by sector



Wages

Total compensation of employees (COE), which is a total wage bill measure, rose 1.1% in June taking the annual pace to 6.7%yr from 6.5%yr in March and a recent low of 5.6%yr in September 2024. As 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 with the ABS noting that hours worked rose a modest 0.3% in June, partly reflecting longer holidays taken due to the proximity of Easter and ANZAC day breaks.

Private COE gained 0.8% reflecting an increase in headcounts and wages particularly in health care & social assistance, accommodation & food services and transport, postal & warehousing. Public COE also made a solid contribution lifting 2.1% in the quarter with alignment of salary increases from enterprise agreements across Commonwealth agencies.

Compensation per hour worked gives a somewhat better sense of shifts in wage inflation. Non-farm compensation per hour worked gained 1.3% in June, a lift from the 0.8% in March with the annual pace accelerating to 4.9%yr from 4.3%yr in March and a recent low of 3.9%yr in September 2024.

Note that compensation per hour is not directly comparable to the Wage Prices Index, with measurement and composition differences resulting in much greater volatility in the National Accounts measure.

Labour costs and productivity

The ABS continues to report robust wages growth with only a modest improvement in productivity resulting in unit labour costs continuing to trend higher even as the pace of growth slows.

Labour productivity, measured as GDP per hour worked, lifted 0.5% in June following a 0.8% gain in March taking the annual pace to 2.2%yr from 0.9%yr in March and just 0.2%yr last December. As output per hour is still being outpaced by COE per hour, unit labour costs (ULCs) gained 0.7% in June, the slowest quarterly gain since December 2021 but still enough to lift the annual pace to 4.4%yr. We believe this improvement (slower rate of growth) in ULCs will continue from here with the annual pace of growth expected to be back down around 2%yr by late 2026.

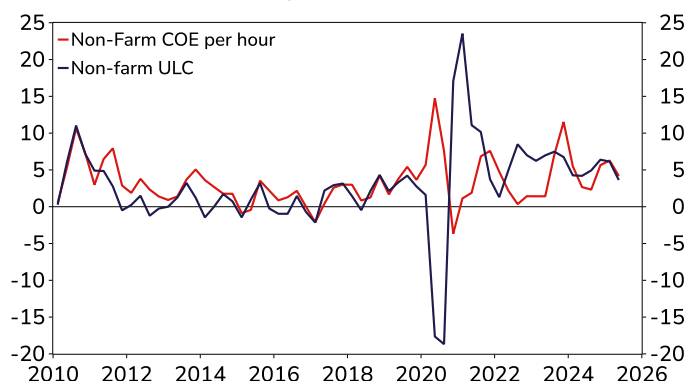
This poor productivity performance of late relates to the incredible ramp-up of the care economy. As our Chief Economist Luci Ellis noted earlier in the year, the non-market sector (health & social care, education and public administration & defence) accounted for about 85% of all the jobs growth over 2023 and 2024 despite this sector accounting for just 27% of total hours worked.

The market sector reported a 0.2%qtr/0.9%yr rise in hours worked in June and while GDP per hour worked market sector lifted 0.5% in the quarter to be up 0.3% in the year. This modest lift in productivity should help to ease some of the RBA's fear for a bounce-back in inflation in late 2025 or early 2026.

GDP per hour worked in the non-market sector rose 0.4% in June with the annual pace improving from -2.6%yr in December

Measures of costs pressures

6-month annualised % change



Source: ABS, Macrobond, Westpac Economics

and -2.0%yr in March to be almost flat in the year to June (-0.1%yr). This sector, which has been a significant drag on productivity since 2021 (the low point was -7.1%yr in June 2023) is becoming a far less significant overall drag. If this trend continues it could even make a positive, if somewhat modest, contribution to aggregate productivity.

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 ULCs soften. The six-month annualised pace of total this cost measure is now down to 3.5%yr from 5.4%yr in March, a promising sign that domestic inflationary pressures are easing.



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