3 December 2025

AUSTRALIAN GDP Q3 BULLETIN

Productivity: Total +0.8%yr, Market (Non-Mining): 1.4%yr

Key points

- The Australian economy grew by 0.4%qtr in the September quarter. This increase and revisions to previous activity estimates left year-ended growth at 2.1% – the strongest since the September quarter 2023.
- The headline growth masked a solid 1.2%qtr increase in domestic demand, which was offset by volatile inventories, net exports and statistical discrepancy. While consumer spending growth normalised after a bumper June quarter result, it was new business investment that outperformed. But here too there are caveats: engineering construction declined, new building grew from low base, while the outsized gains in machinery were narrowly driven by data centres fit outs and aircrafts.
- As we predicted, the supply side of the economy is normalising with productivity growing 0.8%yr across the economy and 1.4%yr in the market (non-mining) sector. If the demand impulse eases while supply is normalising, domestic inflation pressures might be less than some fear. It is worth noting the pick-up in aggregate unit labour costs partly reflects the timing of school holidays boosted leave-taking, so hours paid exceeded hours worked by more than usual.

GDP: September Quarter 2025

	% qtr		% yr	
	Jun	Sep	Jun	Sep
Household consumption	0.9	0.5	2.1	2.5
Dwelling investment	0.4	1.8	5.6	6.5
Business investment*	-0.4	3.4	-0.6	3.8
Private final demand*	0.7	1.2	1.9	3.1
Public spending*	0.1	1.1	2.9	1.3
Domestic demand	0.5	1.2	2.1	2.6
Stocks – private non–farm #	-0.3	-0.3	-0.2	-0.2
Stocks – other #	0.3	-0.2	0.2	-0.2
GNE	0.5	0.6	2.1	2.1
Exports	2.3	1.0	2.7	3.6
Imports	2.3	1.5	2.5	4.2
Net exports #	0.0	-0.1	0.1	-0.1
Statistical discrepancy #	0.2	-0.1	-0.2	0.0
Non–farm GDP	0.8	0.5	1.7	1.9
GDP, real	0.7	0.4	2.0	2.1
GDP, nominal	0.7	1.7	3.9	5.4
GDP deflator	0.0	1.4	1.9	3.3
Household deflator	0.7	0.9	2.9	3.0
Earnings per worker (non–farm)	0.8	1.8	3.9	5.3
Real household disposable income	-0.1	0.9	4.9	3.8

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

Q3 GDP: 0.4%qtr, 2.1%yr
Q3 Domestic Demand: 1.2%qtr, 2.6%yr

Meeting demand through stockpiles today ...

Westpac Economics
Luci Ellis, Pat Bustamante, Sian Fenner, Justin Smirk, Mantas Vanagas, Ryan Wells, Neha Sharma

The September quarter National Accounts show growth slowed to 0.4%qtr – this was softer than both the 0.8%qtr expected by Westpac Economics and the 0.7%qtr expected by the market. Despite this, upward revisions to previous activity saw the year-ended outcome accelerate to 2.1%yr – close to the Westpac Economics forecast of 2.3%yr.

Domestic demand was strong with a few cavets

Growth in domestic demand was strong at 1.2%qtr and 2.6% in year-ended terms, accelerating as Australia's economic upswing broadened to include business investment and the construction sector. There was no need for a 'handover' with both the private and public sectors contributing strongly to the pick-up in domestic demand.

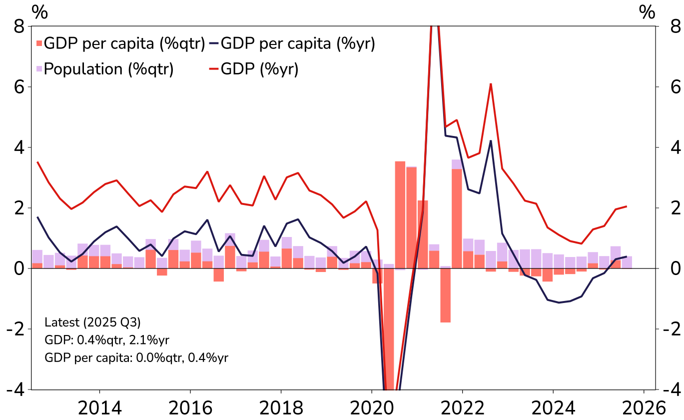
New private demand grew a very brisk 1.2%qtr and 3.1% in year-ended terms – also the fastest quarterly pace since the March quarter 2012 (outside the pandemic). Today's outcome confirmed that the firmer consumer impulse seen in the last few quarters was starting to spill over into the business sector. However, it remains to be seen whether the impulse is firm enough to entice further investment growth in the period ahead.

New business investment grew 3.4%qtr and 3.8%yr with investment increasing across most of the asset classes, including machinery (7.5%qtr and 6.2%yr); investment in intangibles such as computer software (2.4%qtr and 7.2%yr); and new buildings (2.0%qtr and 2.1%yr). And while data centre fit outs and the purchase of civil aircrafts were the main contributors to the boost in machinery, capex data showed that the lift was slightly broader to also include some consumer facing industries (such as accommodation and food services) and some business facing industries (such as administrative and support services).

Despite the lift, there are a few caveats. Firstly, engineering construction (EC), which is the second largest component, disappointed (–0.7%qtr and 1.1%yr). A sharp fall of 8.0%qtr and 17%yr was recorded in Victoria as mega scale projects come to completion.

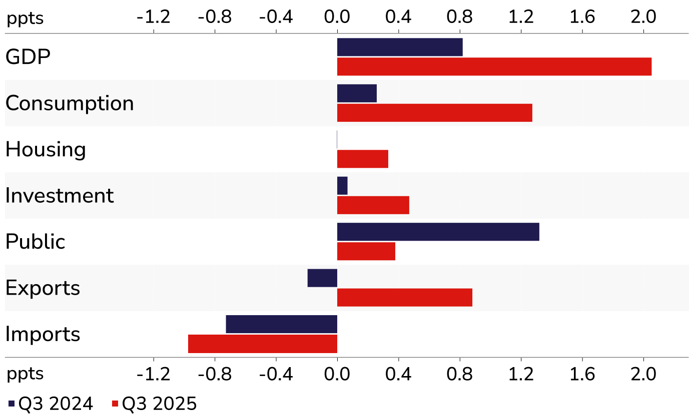
Business investment as a share of the economy remains low by historical standards and without a pick-up in EC, it is unlikely to rise meaningfully. Furthermore, the value of private EC work yet to be done has also declined over recent quarters, and, looking ahead, it remains unclear if the shift in demand from the labour-intensive non-market sector to more capital-intensive market sources of growth will be able to correct that trend. And while there is a large and growing pipeline of projects related to energy generation and distribution, they are yet to move into the implementation phase.

GDP per capita flat, but no longer declining



Source: ABS, Macrobond, Westpac Economics

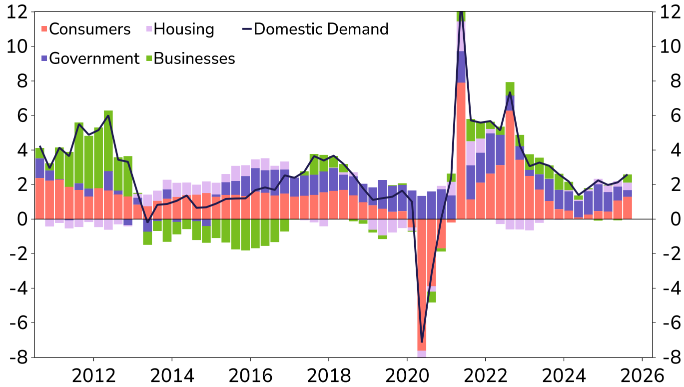
GDP: year-end contributions



Sources: ABS, Macrobond, Westpac Economics

Domestic demand growth continues to advance

Contributions to year-ended growth



Source: ABS, Macrobond, Westpac Economics

... and productivity tomorrow

On the more positive side, growth in **housing construction** also picked up, reaching 1.8%qtr and 6.5%yr, the fastest year-ended pace since the December quarter 2016. This shows there is capacity in the sector to support the economy more meaningfully. The September quarter outcome was driven by both the construction of new dwellings (2.6%qtr) and renovation activity (0.5%qtr). There remains a healthy pipeline of projects to work through, which should support housing construction activity going forward.

Consumer spending growth eased back to 0.5%qtr, after the effect of the one-off factors seen in the June quarter faded. Nevertheless, the pace remains firm in comparison to the post-pandemic norm, and so the annual growth rate climbed to 2.5%yr. The Aussie consumer continues to be supported by rising real incomes which grew 0.9%qtr and 3.8%yr. As noted below, though, this looks less impressive in per capita terms. .

Uncertainties remain going forward

A key uncertainty is whether this income boost will fade if interest rates were to remain on hold for longer and as the Stage 3 tax cuts are chewed away by bracket creep (we saw personal income tax increase as a share of household income this quarter). Without this boost, consumption could slow which would have implications for business investment and the labour market.

On the flip side, the upswing is likely to gain greater momentum the longer it runs, which increases the likelihood it will become self-sustaining, boosting incomes and supporting consumption going forward. The Westpac–DataX Card Tracker Index shows spending picked up in October, suggesting momentum is extending to the December quarter.

Demand was met by an inventory rundown with the statistical discrepancy also detracting

There was a large rundown in the stockpile of inventories over the quarter to help meet the higher demand. This rundown detracted around 0.5ppts from growth over Q3 growth, while net exports added a further 0.1ppt drag.

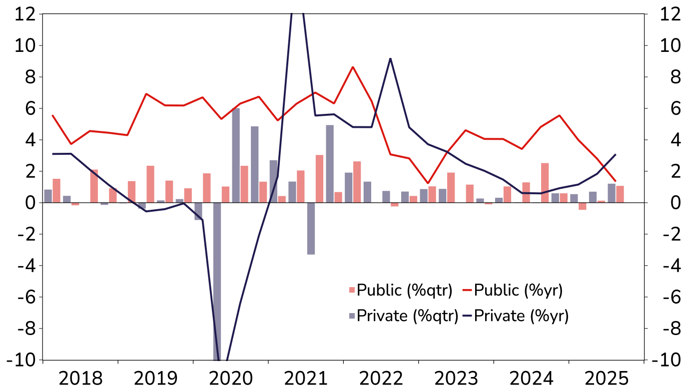
In addition, the statistical discrepancy detracted 0.1ppt from growth over the quarter, compared to a 0.2ppt contribution last quarter – this turnaround also saw aggregate growth slow, further masking the strong increase in domestic demand.

With stronger productivity helping to meet demand in the future

If there is enough supply, stronger demand does not necessarily have to increase inflationary pressures. Consist with our nowcast, today's accounts suggests that the supply side of the economy is normalising. Labour productivity bounced to grow 0.8%yr.

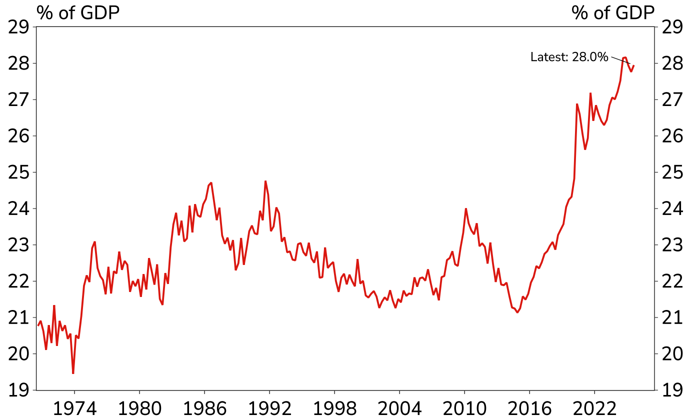
Both public and private demand grew solidly in Q3

New Public & Private Demand, Quarterly and Annual % Changes



Source: ABS, Macrobond, Westpac Economics

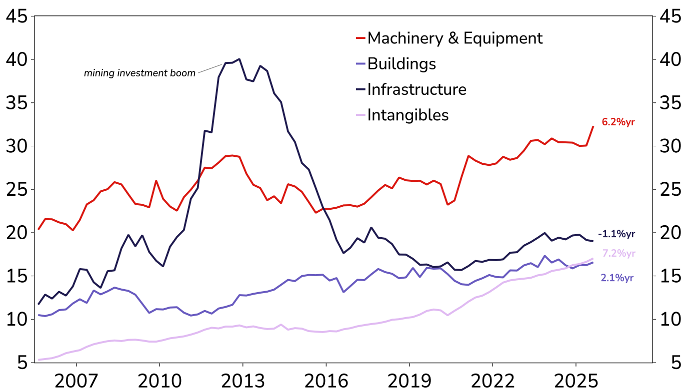
New public demand tapering off its peak



Source: ABS, Macrobond, Westpac Economics

Business investment picking up broadly

New Business Investment by Asset Type (AUDbn)



Source: ABS, Macrobond, Westpac Economics

Digging a little deeper, we estimate that productivity in the market (ex-mining) sector grew at around 1.4%yr in the September quarter, but we will not know for sure until Friday's release of the latest Labour Accounts). Alongside moderating growth in the sector's unit labour costs to around 3.3% in six-month annualised terms, this supports the view that whole-economy productivity growth will recover as the sector-specific factors in mining and the care economy wash out.

Going forward, higher productivity will be an important factor helping the economy to meet future demand, without adding to inflationary pressures.

GDP: the expenditure estimate

The national accounts expenditure estimates indicated that underlying growth momentum was stronger than the headline GDP growth suggested. Domestic demand displayed a robust growth impulse, which was offset by negative contributions from inventories, net exports and the statistical discrepancy.

Notably, this was the first time in over nineteen years that all three of these volatile categories contributed negatively to growth in a quarter. While firm consumer spending was the highlight of the June quarter national accounts, this quarter saw a sharp rise in business investment take centre stage. This increase reflected strong AI-related investment but also hinted at a broader trend of businesses becoming more confident about the economic outlook.

Domestic demand – spending by consumers, businesses, and governments – grew by 1.2%qtr in the September quarter. We saw an equivalent increase in the June quarter 2023, but after that domestic demand averaged only 0.4%qtr pace. Business investment was the main driver, with its 3.4%qtr increase being the steepest in eight years outside the pandemic period. Investment in machinery and equipment jumped 7.5%qtr, with the ABS noting the expansion of data centres – reflecting AI and cloud computing services – as a principal factor. Investment in intangible assets, such as software, increased by 2.4%qtr, continuing the strong upward trend. In contrast, non-dwelling construction remained weak, moving broadly sideways.

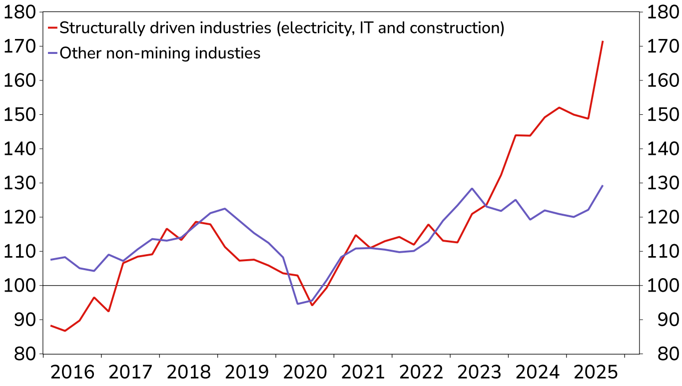
Consumer spending figures showed that growth returned to previous rate once the one-off effects seen in the June quarter faded. The growth rate fell from 0.9%qtr to 0.5%qtr, aligning with rates seen in the March and December quarters. With population growth at 0.4%qtr, per capita consumption edged up only 0.1%qtr, indicating that the recovery from the post-pandemic real income shock is progressing slowly, and less vigorously than prior quarter's per capita consumption growth of 0.5%qtr implied.

Dwelling investment growth accelerated from 0.4%qtr in Q2 to 1.8%qtr in Q3. The outcome was softer than the partials made available ahead of today's data led us to believe, nevertheless, it was still the second strongest reading after the pandemic. Construction of new dwellings rose 2.6%qtr, but the renovation activity, up 0.5%qtr, also added to growth.

While one of the major themes in the Australian economy recently has been focusing on the public and private demand and how the momentum is shifting from the former to the

CAPEX by sector

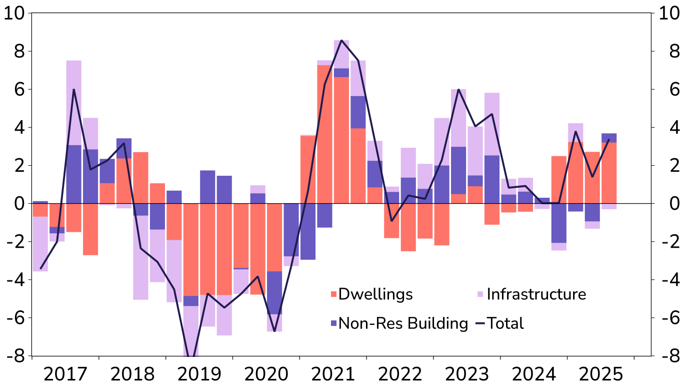
Index 2020 = 100, Chain volume measures



Source: ABS, Macrobond, Westpac Economics

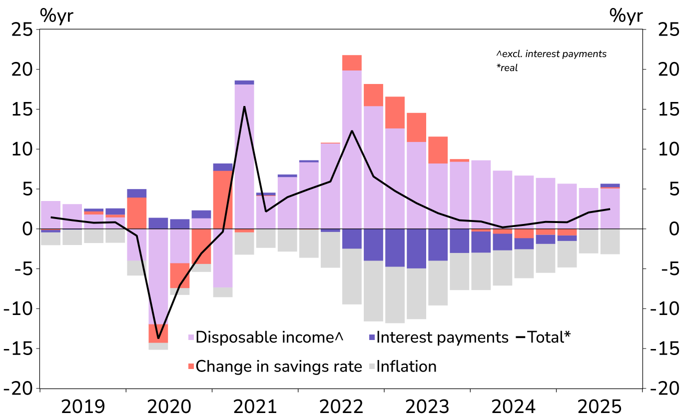
Infrastructure disappoints, housing solid

Private Construction Activity by Type (%yr)



Source: ABS, Macrobond, Westpac Economics

Consumer spending: drivers and headwinds



Source: ABS, Macrobond, Westpac Economics

latter, in the September quarter national accounts both provided strong support to GDP growth. Indeed, **new public final demand** rose 1.1%qtr, the steepest in four quarters. **Public consumption** rose 0.8%qtr, similar to 0.9%qtr reported in the June quarter which matches the average growth in the last three years. Meanwhile, new public investment rose 2.4%qtr after falling by 6.0%qtr in the prior three quarters, with growth widespread across state & local, and central government defence and non-defence categories.

Net exports and inventories brought no surprises and were consistent with partial data received prior to today's release. Net exports subtracted 0.1ppt from GDP growth, mainly due to strong capital goods imports. This outcome aligned with recent trends – key Australian commodity exports are facing persistent headwinds, and while there are areas of strength, such as select agricultural products and software licencing exports, the external sector has generally weighed on GDP growth throughout the post-pandemic period. Both public and private inventories were negative, reducing GDP growth by 0.3ppt and 0.2ppt respectively.

Household sector

The consumer upswing remained intact in the September quarter. Household consumption rose 0.5%qtr, in line with our expectations. This lifted the annual rate to 2.5%yr, the highest rate in two years. Growth was broadly in line with its pre-pandemic decade average of 0.6%qtr/2.6%yr. This also marked the fourth consecutive rise in consumption per capita (+0.1%qtr), bringing its year-ended growth rate to 0.8%yr.

September was a moderation on June's 0.9%qtr rise. As noted previously, last quarter's strong lift was influenced by several one-off factors including: the close timing of Easter and ANZAC Day boosting discretionary services; a stronger-than-usual response to EOFY sales; and insurance-funded spending after Cyclone Alfred. This raised doubts about whether the surge was a genuine upswing or just temporary anomalies.

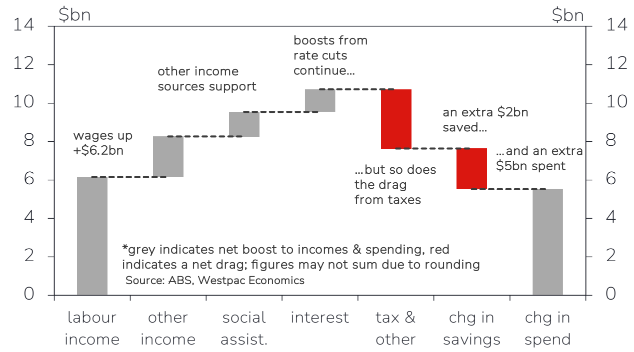
Early signals for Q3 were equally mixed. The ABS household spending indicator suggested that while consumer momentum continued, it was advancing at a much slower pace than in Q2. In contrast, our internal Westpac-DataX Card Tracker (which has more expanded coverage) pointed to the opposite – that Q2's strength may not have been an outlier after all.

In the end, both indicators served as a relatively reliable guide. The strength in today's numbers came from spending on essentials like insurance & financial services (+2.1%qtr), electricity (+4.2%qtr), and rents (+0.4%qtr). Together these categories contributed 0.3ppts to quarterly consumption growth. While not captured in the ABS spending data, these categories are captured in our Card Tracker Index.

Overall essential spending was up 1.0%qtr, while discretionary spending fell –0.2%qtr – its first dip in five quarters. Our internal data indicates that discretionary spending is beginning to pick up, particularly in hospitality. This momentum could strengthen further if end-of-year sales turn out bigger-than-expected.

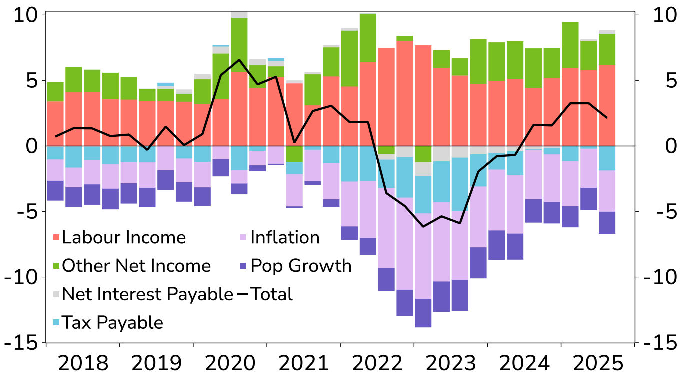
In terms of the other details, fuel spending declined –1.0%qtr, broadly in line with monthly estimates. Transport services

Household income flows: change, Q2 to Q3

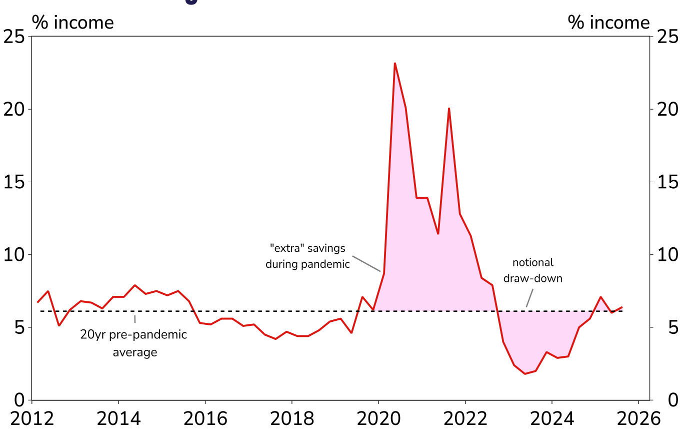


Household incomes are recovering

Contributions to Household Real Disposable Income Per Capita (%yr)



Household savings ratio



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

also recorded their first fall since mid-2024 (–0.9%qtr). Retail components rose 0.2%qtr, with spending on all categories, except tobacco and alcohol, rising. The increase was led by food and clothing & footwear, both up 0.7%qtr. Vehicle spending continued its strong momentum, posting a third consecutive quarterly rise of more than 2%qtr.

Today's release provides further conviction that the consumer is on a firmer footing. However, the current impulse has been driven primarily by households with mortgages. With the interest rate outlook now pushed further out, there is a risk that this momentum could fade quickly, especially as the impact of the stage 3 tax cuts also wanes.

Household income trends continued to support the recovery. Total wage income rose 1.8%qtr, a modest acceleration compared with the previous two quarters. This lifted annual growth to 7.2%yr, the strongest pace since end-2023. This occurred despite softer employment growth in the quarter (+0.2%qtr versus +0.6%qtr Q2). Average earnings lifted 1.8%qtr which is the firmest lift in two years.

Other income sources also posted solid gains in September: gross mixed income (covering farms and small businesses) rebounded 1.1%qtr after a –1.7%qtr fall in June, while property income rose 1.2%qtr following a –0.2%qtr decline previously. Total gross income rose 1.6%qtr to be 6.5%yr higher.

Turning to outgoings, recent rate cuts eased the interest burden. Overall property income payable fell –3.1%qtr, following declines of –2.9%qtr and –0.3%qtr previously. Interest payments dropped –3.2%qtr, leaving them –6.4% or $2.2bn lower than at end-2024. In contrast, tax payments rose 2.9%qtr, the largest increase in over a year. The annual rate surged to 9.0%yr, driven by base effects from the introduction of stage 3 tax cuts in the September quarter last year.

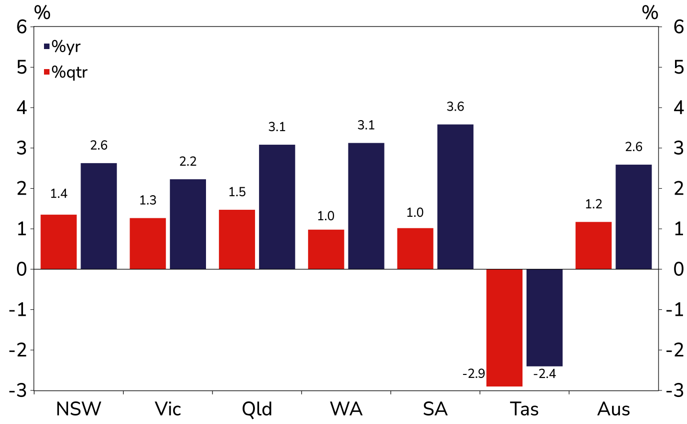
Overall, nominal disposable income rose 1.7%qtr, with annual growth moderating to 7.0%yr – still well above the pre-COVID decade average of 4.3%yr. Real (inflation-adjusted) disposable income increased 0.9%qtr, pushing it 1.6% above its 2021 peak (though still well below pre-pandemic trends). Annual growth eased to 3.8%yr, reflecting a larger drag from taxes and inflation. Notably, for the first time in 6 quarters, the inflation drag intensified.

With disposable incomes outpacing nominal consumption (+1.4%qtr), the household savings ratio rose to 6.4% from 6.0% in the June quarter to be broadly in line with its pre-COVID decade average of 6.2%.

The states

New South Wales continued to build on recent momentum, state final demand expanding 1.4% in Q3 to be up 2.6%yr, in line with the national average. New public demand bounced back 1.5% in Q3 after a flat read last quarter, while new private demand advanced 1.3% (2.9%yr). Household consumption posted a solid 0.6% lift, partly buoyed by electricity spend due to the delayed roll-out of the Commonwealth energy rebates, which saw more households in NSW foot the energy bill. There was a solid pick-up in new business investment, up 4.5% (6.6%yr) with lifts

State final demand: 2025 Q3



Source: ABS, Macrobond, Westpac Economics

across all major asset classes. Housing investment was the key disappointment though, holding flat in Q3 to be up just 3.5%yr, the weakest across the nation.

Victoria performed similarly to NSW in Q3, with state final demand advancing 1.3% (2.2%yr) on a relatively even split between new public and private demand, up 1.4% and 1.2% respectively. The main disappointment in Victoria was new private infrastructure works which posted its fourth consecutive (and largest) quarterly decline of –8.0% in Q3, leaving the annual pace down –17.4%yr. Growth in new machinery and equipment (+8.3%) and non-residential building (+6.8%) managed to provide a meaningful offset though. The sustained recovery in real incomes has left household consumption on a firmer footing, up 0.5% (2.1%yr).

Queensland was the front-runner in Q3, with state final demand lifting 1.5% (3.1%yr). This was driven by a more solid showing in new private demand, up 1.6% (4.1%yr). The underlying composition was lumpy, however: household consumption lifted by just 0.3% in Q3, but after an outsized 1.7% in Q2 (buoyed by one-off factors), the annual pace is still nation-leading (3.7%yr). Meanwhile, massive bounces in dwelling investment (+4.6%) and new business investment (+5.4%) played a key role, both of which outpaced all other states. With ongoing investment in renewable energy and major infrastructure projects ahead of the Olympics, the state's growth prospects remain enviable.

Western Australia continues to grow at a consistent pace, with the 1.0% expansion in state final demand seeing the annual pace hold broadly steady around 3.1%yr. This consistency is embedded in the private sector performance: a string of 1.0%+ gains in new private demand seeing the annual pace accelerate to a nation-leading 4.7%yr. Unlike Qld, this growth is relatively broad-based across household consumption (3.6%yr), new business investment (7.5%yr) and housing construction (7.1%yr), all running well above national averages. These trends are running hard to offset the easing in new public demand, which despite a 0.9% gain in Q3, is still in decline in an annual basis (–1.2%yr), unlike most other states.

South Australia remains on solid footing, with state final demand expanding by 1.0% to be up 3.6%yr, the strongest pace across the nation. The state's public sector continues to lend significant support, with new public demand up 2.4% (6.5%yr), well above the national average of 1.3%yr. Meanwhile, the state's private economy is slipping down the rankings, with new private demand up just 0.5% (2.5%yr). The recovery in household spending has been hard going, up just 0.3% (1.6%yr). The impetus for new business investment also remains somewhat lacking, up just 1.1% (0.2%yr). However, new dwelling construction remains in a league of its own, up 17.2%yr to be almost triple the national average pace.

Tasmania remains a mixed bag, oscillating between extreme gains and declines in state final demand. This time, a –2.9% decline in Q3 saw the annual pace swing from +5.5%yr to –2.4%yr. Much of this reflects recent volatility in new public investment, tied to the acquisition of the Spirit of Tasmania ships. Outside of this, the detail around household spending is looking more constructive, with a 0.7% lift in Q3. Still, the business investment backdrop remains a little shaky, as evinced by the lack of spending on machinery and equipment (–14.8%yr).

GDP(P)

At the industry level, GDP(P) rose 0.4%qtr in the quarter to be 2.1% higher than a year ago. Growth in the non-market and market excluding mining sectors both moderated in the quarter, although the ongoing transition from public to private led growth remained intact with growth in the market ex-mining sector up 2.1%yr, a little above the 1.9%yr rate seen in the June quarter.

Construction saw the largest increase in the quarter, up 1.8%qrt, the strongest quarterly rise since late 2021. Growth was driven by stronger residential activity and public investment in renewable energy as well as continued work on transportation projects.

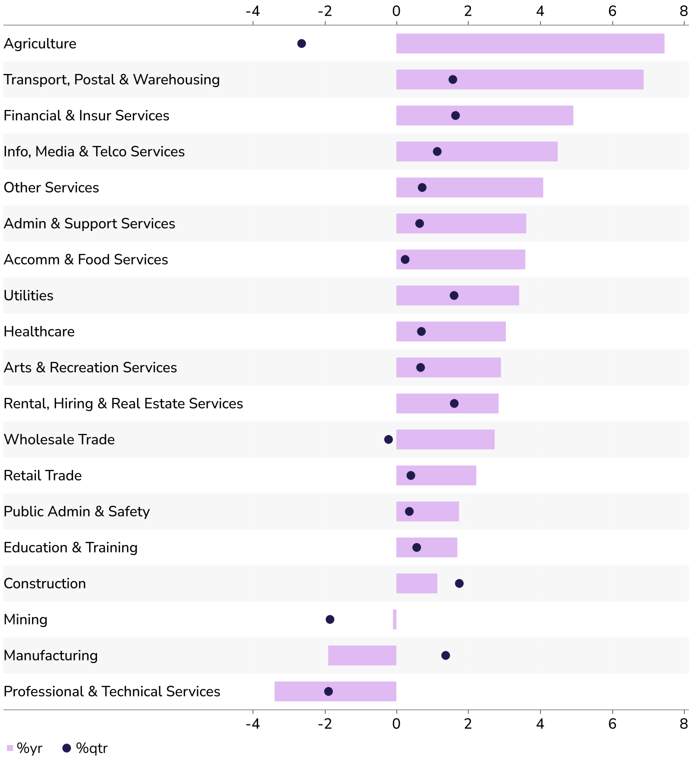
The cyclical upswing in household spending was evident across consumer-facing industries, including retail trade, accommodation and hospitality, recreation, and other services, which rose by a combined 0.4%qtr. As expected, this represents a pullback from the strong Q2 outcome, with growth in accommodation moderating after being boosted earlier by the timing of Easter and ANZAC Day public holidays.

The upswing in consumer and housing market was evident with comparatively stronger growth in real estate and financial and insurance services, which includes mortgage broking.

Still, there were some pockets of weakness. While commodity exports remained strong in the quarter, planned maintenance in the Oil & Gas extraction sector and lower livestock production saw both mining and agriculture industries record sizeable falls in the quarter.

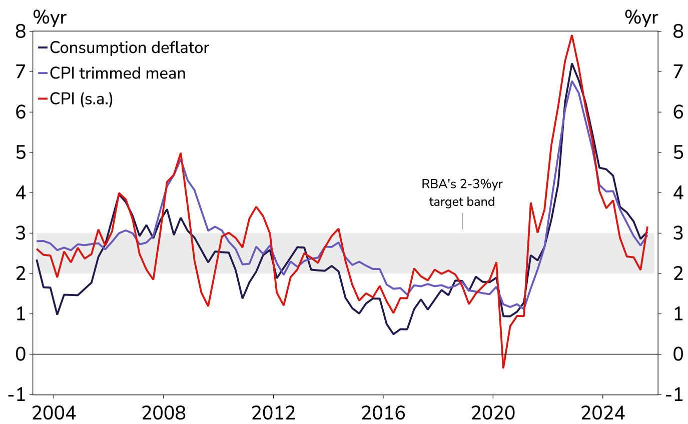
Across the non-market sectors, education continued to post above-average growth, despite informal caps on international students. Meanwhile, health grew at a slower pace despite a strong flu season.

GVA by industry



Sources: ABS, Macrobond, Westpac Economics

'Core' consumer inflation hovering near top of band



Source: ABS, Macrobond, Westpac Economics

GDP(I)

Real GDP(I) rose 0.3%qtr in September, a moderation on last quarter's 0.8%qtr increase, and 2.0%yr. In nominal terms, growth momentum lifted to 1.7%qtr from 0.7%qtr previously, while the annual pace rose to 5.4%yr (all figures below are also nominal).

Compensation of employees grew 1.7%qtr, with annual growth edging up to 7.1%yr, still below the long-term average of 8.4%. Private sector compensation rose 1.6%qtr, while the public sector recorded a stronger 2.2%qtr increase. Private sector gains were driven by financial & insurance services, construction – reflecting heightened project activity and demand for skilled labour – and administrative & support services. Public sector was boosted by state and local governments.

Gross operating surplus for private non-financial companies (i.e. corporate profits) lifted 1.0%qtr. Mining rose on stronger coal and iron ore demand after prior weather disruptions, partly offset by lower oil and gas output. Utilities gained on higher demand and lower costs. Transport surged with increased passenger travel, while falls in professional services, retail, and manufacturing tempered overall growth.

Gross mixed income, covering the unincorporated sector such as sole traders and partnerships, saw profits lift 1.1%qtr, not enough to offset the sharp –1.7%qtr fall in June. This lifted annual growth to 5.5%yr.

Prices, wages, labour costs and productivity

Prices

The headline price measure in the National Accounts, the GDP Implicit Price Deflator (IPD) jumped 1.4% in the September quarter following a flat print in June and a 0.9% increase in the March quarter. The gain in the IPD reflected a robust rise in the domestic final demand (DFD) deflator of 0.8% (following on from a 0.7% gain in each of the previous two quarters) boosted by a 0.3% gain in the terms of trade, the first gain since late 2024.

In the year to the September quarter the GDP IPD gained 3.3%yr, a bump up from the 1.9%yr pace in the June quarter and the fastest pace of growth since the 6.7%yr reported back in March 2023.

The ABS noted that the 0.8% September rise in the DFD deflator reflected a broad-based increase in consumer prices. Electricity and gas rose, reflecting annual price reviews, rents increased due to low vacancy rates and food price rises were seen in dairy, coffee and snacks. Travel related prices such as accommodation and domestic airfares also increased due to two sets of school holidays in the quarter. Labour costs continued to rise with ongoing shortages of skilled labour, particularly in the construction industry.

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, given this measure includes both household expenditure on electricity and the governments' contribution in the form of rebates. The Household Consumption (HC) deflator rose 0.9% in the September quarter to be up 3.0% in the year; the seasonally adjusted CPI lifted 1.2% in the September quarter to be up 3.2% in the year. In the past we have note that the HC deflator has tended to track closer to the Trimmed Mean (TM) measure of core inflation, and this continued in the September quarter with the TM posting a 1.0%qtr/3.0%yr pace.

Wages

The ABS reported that the total compensation of employees (COE), which is a total wage bill measure increased 1.7% in the quarter. We have seen labour market conditions soften as unemployment has drifted higher, averaging 4.3% over the September quarter which the RBA still described it as a little tight. Hours worked grew 0.2%, in line with growth in full time employment of 0.3%.

There was a significant lift in private COE, which has the largest share of employees and thus total wage bill, with a 1.6% on the back of an increases in redundancies and bonuses paid by the financial & insurance services and administrative & support services industries. In addition, the Fair Work Commission's 2025-26 decision to raise the minimum wage made a further contributed to wage growth. Public COE also made a healthy contribution via a 2.2% increase in the quarter with pay rises seen across multiple jurisdictions for healthcare, education and police employees.

Compenstion per hour worked gives a somewhat better sense of shifts in wage rate inflation. Non-farm compensation per hour worked gained 1.3% in September, following on from a 1.3% gain in June and a 0.8% lift in March. The annual pace has continued to accelerate lifting to 5.9%yr from 4.6%yr in June and from 3.9%yr in March and a recent low of 3.4%yr in September 2024.

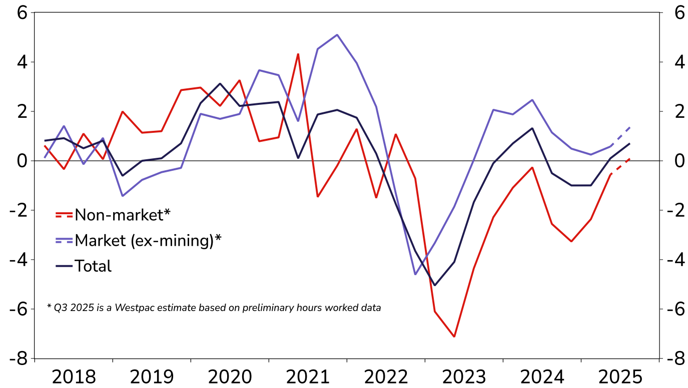
Note that compensation per hour is not directly comparable to the Wage Prices Index (WPI), with measurement and composition differences resulting in much greater volatility in the National Accounts measure. The WPI lifted 0.8%qtr in September for the annual pace to hold at 3.4%yr.

Labour costs and productivity

Labour productivity, measured as GDP per hour worked, lifted 0.2% in September following a 0.4% gain in June and a 0.2% lift in March taking the annual pace to 0.8%yr. This compares

Productivity by sector

Year-ended percentage change



Source: ABS, Macrobond, Westpac Economics

with a fall of 0.5%yr in Q3 2024 and is slightly above the RBA's estimate of trend.

Output per hour outpaced COE per hour over the quarter, which saw nominal unit labour costs (ULCs) lift 1.3%qtr in September. However, we believe that this result was distorted by the timing of school holidays leading to more leave-taking than usual. This meant that hours paid exceeded hours worked by more than usual. With earnings distributed across a reduced number of hours, ULCs increase mechanically. These seasonal distortions have been a feature of the post-pandemic hours data, and we are expecting to see an improvement (i.e. slower rate of growth) in ULCs from here with the annual pace of growth expected to be back down around 2%yr by late 2026.

More broadly, we see signs of the predicted turnaround in productivity growth after the period of weakness following the pandemic. This earlier softness had been driven by the ramp-up in the labour-intensive care economy (non-market sector), where output per hour is below the economy-wide average, as well as a large downswing in measured productivity in the mining sector.

Estimates of productivity growth disaggregated by sector for the September quarter are preliminary; we await final numbers on hours worked by sector in the Labour Account to be released on Friday. Based on our preliminary estimates, though, over the year to the September quarter, labour productivity growth was positive for the mining sector, the non-mining market sector and (barely) the non-market 'care economy' sector. This is the first time since early 2020 this has been the case for all three sectors simultaneously. (The ABS measure of non-market sector productivity growth still shows negative growth over the year, but uses an hours worked measure calculated on a slightly different basis.) Indeed, we estimate that productivity in the non-mining market sector grew around 1.4%yr in Q3. This is critical as this sector is the one that is most responsive to economic cycles and interest rates.

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