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AUSTRALIAN GDP: A PREVIEW BULLETIN

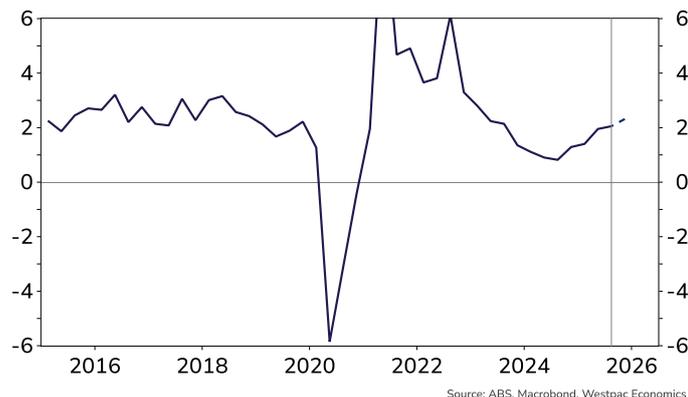
Economy posts strong finish to 2025
Q4 GDP f/c: 0.8%qtr, 2.3%yr

Key points

- Australia’s recovery continued over the final quarter of 2025 with the economy expanding an estimated 0.8%qtr to be up 2.3%yr in year-ended terms. The out-performance in the quarter was driven by an acceleration in consumer spending, with some support from businesses and construction.
- Abstracting from the volatility, we think the economy is currently growing around its long-run potential, with the handover in the drivers of growth from public to private demand now largely complete.

Real GDP Growth

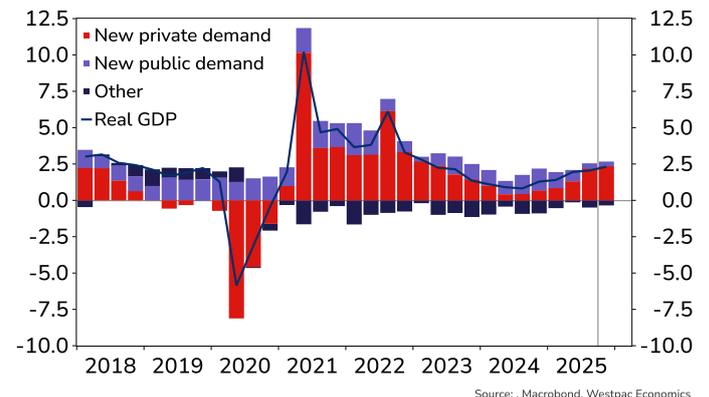
Year-ended % growth. Axis truncated for covid.



- The key question is whether this near-term growth profile is consistent with inflation returning sustainably to target.
- While productivity growth is expected to come in at around 1.0%yr, the increase in earnings per hour is likely to see nominal unit labour costs (ULC) still rising at a brisk 1.2%qtr, with growth accelerating through the second half of 2025 across both the economy and the market sector. This is likely to keep the RBA alert to upside inflation risks.

Real GDP Growth by components

Cont. to year-ended growth



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Trend growth restored, inflation risks remain



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We expect the December quarter National Accounts to show that Australia's economy expanded 0.8% over Q4 and 2.3% in year-ended terms. This would mark the first time in three years that growth has been near trend and outstripped population gains. A year-ended outcome of 2.3% is broadly consistent with Westpac Economics' estimate of long-run potential growth.

The National Accounts are likely to show that the acceleration in consumer spending drove the outperformance in Q4. Growth was also supported by a further pick-up in business investment – including data centre construction and renewable energy investment – as well as housing construction. In contrast, public infrastructure activity is expected to record a sizeable decline as major transport and public renewable projects continue to reach completion. As a result, we expect **new private demand** to grow a very strong 0.8%qtr and 3.3%yr in Q4, comfortably outpacing growth in **new public demand** (0.4%qtr and 1.1%yr).

The handover from public to private demand drivers now appears largely complete, with the private sector set to have made a larger contribution to growth in 2025. Consistent with this, preliminary labour force data suggests the pick-up in hours worked over the quarter was driven by the market sector, with growth outpacing the non-market sector for the first time in more than two years.

Abstracting from the volatility likely to characterise the December quarter, we assess that the economy is currently growing at around its long-run potential. The recent acceleration in consumer spending is likely to fade over coming quarters, particularly as higher interest rates weigh on household income and spending. At the same time, the underlying pick-up in business investment – reflected in recent capex outcomes and expectations – should become clearer as data centre related volatility over the past few quarters dissipates. Indeed, non-mining capex, outside of data centres and energy generation/transmission, increased a healthy 2.3%qtr and 7.8%yr in Q4, much higher than the 1.0%yr fall over the year to Q2 2025.

The key question is whether this growth profile is consistent with inflation returning sustainably to target. We think it is ([see here for further information](#)), though the process is likely to be slow and upside risks remain, particularly around labour costs, with growth in nominal unit labour costs likely to remain a point of concern for the RBA.

Consumption accelerates on improved incomes

Consumer spending appears to have accelerated in the December quarter, following two quarters of already solid growth. This points to a genuine cyclical upswing rather than a temporary pre-Christmas distortion. Recovering real incomes and positive wealth effects have supported the uplift, even as consumer sentiment and interest rate expectations have soured.

When it comes to the partials, the **Westpac–DataX Card Tracker** showed card spending rising a strong 2.3%qtr in nominal terms in the December quarter, the largest quarterly gain since March 2024. This was subsequently reinforced by the ABS household spending indicator, which rose 0.9%qtr in real terms, up from 0.1%qtr in Q3. The indicator has proven a reliable guide recently to the roughly two thirds of consumption it captures in the national accounts.

The **Westpac–DataX Consumer Panel** pointed to a slight moderation in spending growth on a per-customer basis but highlighted that gains are increasingly widespread across age and income cohorts, and across both mortgage and non-mortgage holders. This indicates the recent uplift is not solely a result of cash flow relief but supported by stronger fundamentals.

While some slowing is likely in the new year as the effects of RBA hike flows through, the strong starting point and a still firm labour market should help sustain some momentum.

Investment drivers shift

Recent partial data point to private demand holding up, offset by a sharp pull-back in public infrastructure work. Construction work done surprised on the downside, driven by a near-term fall in public infrastructure, while private capex was slightly stronger than expected.

The private capex survey ([see here](#)) showed investment remained resilient despite a pull-back in data centre related spending. Investment in buildings and structures rose 2.3%qtr, broad-based across non-mining industries, while machinery and equipment fell 1.7%qtr, largely reflecting volatile data centre investment. Excluding data centres, non-mining machinery and equipment investment rose a solid 3.0%qtr, supported by energy transition spending.

Public infrastructure work fell sharply (–4.0%qtr, –8.0%yr) ([see here](#)). Looking ahead, public infrastructure is likely to remain elevated in level terms but with growth moderating, freeing up labour and capacity for the private sector. Against this backdrop, private construction is well placed to drive activity, supported by a sizeable backlog – particularly in data centres – and a strengthening pipeline of private engineering construction tied to electricity generation and distribution. ▶

GDP makeup

Domestic demand detail is expected to include: consumer spending +1.0%qtr and +3.0%yr, housing investment +0.7%qtr and +5.4%yr, new business investment +0.2%qtr and +3.4%yr, and new public demand +0.4%qtr and +1.1%yr.

Combined, the external sector and changes in the stock of inventories are expected to contribute around 0.1ppts to growth in real GDP in the December quarter.

Household consumption (+1.0%qtr, +3.0%yr): Real disposable income per capita has broadly returned to its pre-pandemic trend, while wealth gains continue to accumulate. Together, these factors are supporting an upturn in consumer spending, despite still downbeat sentiment. We expect per capita consumption to show a clear increase in the December quarter.

Dwelling investment (+0.7%qtr, +5.4%yr): Home building activity lifted further in Q4 following a sharp rise in Q3 2025. Partials suggest new dwelling construction rose 1.4%qtr, partly offset by a 0.2%qtr decline in renovations.

New business investment (+0.2%qtr, +3.5%yr): Business investment is expected to edge higher following the data centre related spike in Q3. The capex survey points to improving momentum in consumer-facing industries, while partials suggest engineering construction and non residential building activity stabilised and expanded over the quarter respectively.

Public demand (+0.4%qtr, +1.1%yr): Public infrastructure investment fell sharply (-4.0%qtr, -8.0%yr) as major projects were completed, though the remaining pipeline should keep activity elevated in level terms. Public consumption is expected to continue expanding, supported by programs such as the NDIS.

Net exports (flat qtr, 0.5ppts yr): Net exports are expected to have been neutral in Q4, with stronger exports offset by rising imports. Goods exports likely rose around 3.0%qtr, led by iron ore, LNG and manufacturing, partly offset by softer coal and gold exports. Services exports are expected to detract from growth, reflecting easing education exports amid tighter visa settings. Strong domestic demand likely supported imports, particularly consumer and intermediate goods, while weaker machinery and equipment investment points to softer capital goods imports. Gold import volumes appear to have risen sharply.

Inventories (+0.1ppts qtr, -0.1ppts yr): Inventories are expected to make a small positive contribution following a large run-down last quarter.

Is there enough capacity?

Stronger demand does not automatically translate into higher inflation if there is sufficient supply capacity. Our forecasts point to some improvement on the supply side in the December quarter National Accounts, though not enough to see labour cost pressures subside.

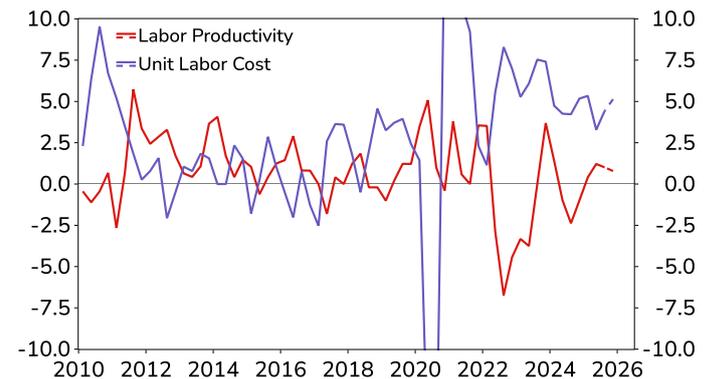
Real GDP Growth Forecasts (%qtr)

	Q1 qoq	Q2 qoq	Q3 qoq	Q4 qoq	Q4
	pre partials				
Consumption	0.5	0.9	0.5	1.0	1.0
Dwellings	2.4	0.4	1.8	1.2	0.7
Business investment	0.2	-0.4	3.4	0.6	0.2
Private demand (new)	0.5	0.7	1.2	0.9	0.8
Public demand (new)	-0.5	0.1	1.1	0.7	0.4
Domestic demand	0.3	0.5	1.2	0.9	0.7
Inventories *	0.3	0.0	-0.5	0.1	0.1
Imports	0.1	2.3	1.5	0.8	0.6
Exports	-0.2	2.3	1.0	0.3	0.4
Net exports *	-0.1	0.0	-0.1	-0.1	0.0
GDP	0.4	0.7	0.4	0.9	0.8

*Cont. to quarterly growth in GDP

Productivity and costs

Axis truncated for covid. % change in six-month annualised terms.



Source: ABS, Macrobond, Westpac Economics

If the economy expanded 0.8%qtr (2.3%yr) as expected in Q4 and hours worked rose 0.6%qtr (1.3%yr), labour productivity would increase by around 0.2%qtr and 1.0%yr. At the same time, we estimate earnings per hour rose by around 1.5%qtr (5.2%yr), broadly in line with the pace seen in Q3 2025.

Taken together, this implies nominal unit labour costs (ULCs) increased by around 1.2%qtr and 4.5%yr in Q4. On a six month annualised basis, ULC growth is likely to have accelerated from around 3.8% in Q2 2025 to around 5.1% in Q4 2025. A similar acceleration is expected in the market sector, from around 2.9% to around 5.0% over the same period, though it should be emphasised that short-term volatility in ULCs does not translate one-for-one into inflation measures.

Encouragingly, the labour force survey suggests that hours worked in the market sector grew slightly faster than in the non market sector for the first time in more than two years (since Q3 2023). We will know more on this front when the Labour Account is released later next week.



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