



March 2026

WESTPAC COAST-TO- COAST

Your quarterly report on Australia's state economies.

WESTPAC COAST TO COAST – MARCH 2026

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Westpac Coast to Coast is a quarterly publication produced by Westpac Economics.

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This issue was finalised on 24 March 2026.

Strong finish to 2025, but softer momentum ahead

Pat Bustamante, Senior Economist
Neha Sharma, Economist

The Australian economy ended 2025 on a strong note, growing by 0.8%qtr in Q4 and 2.6%yr. This was the fastest year-ended pace since the March quarter 2023, albeit still well below previous peaks and coming off two very weak years. The Q4 National Accounts reinforced the view that the economy is in a cyclical upswing that is broadening.

That said, there were some caveats. Consumer spending slowed in Q4 and over H2 2025, even as overall domestic demand strengthened. The slowdown was material, with six-month annualised growth easing from 3.2% in H1 2025 to just 1.7% in H2. Some of the softness in Q4 was due to changes in electricity rebates, abnormally mild weather and an unwinding pull-forward in vehicle spend, with our data also suggesting international spending by consumers may be under-estimated.

However, more recent partial indicators, including the [Westpac-DataX Card Tracker Index](#) and the [Westpac-DataX Consumer Panel](#) (link), suggest consumption growth has been slower in early 2026. [Westpac-Now](#) points to growth moderating to around 0.6%qtr in the March quarter 2026, even before the conflict in the Middle East or any of the recent rate rises had occurred.

More broadly, domestic demand grew 0.5% in Q4, or around 2% in annualised terms, implying overall demand is converging on the RBA's assumed near-term speed limit. We still view this estimate as overly conservative. Productivity growth has largely normalised, running at 1.0%yr across the economy and a very healthy 1.5%yr in the market sector where the majority of businesses operate. **This helped drive a sharp moderation in unit labour costs to around 3.2%yr in Q4, a pace last seen in 2019, when underlying inflation was below target.**

Implications for the outlook

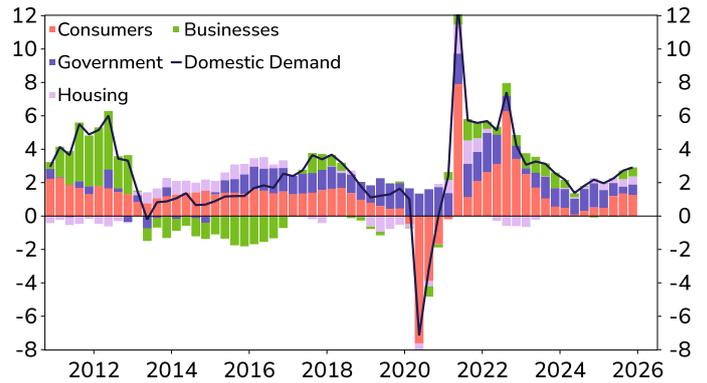
Looking ahead, the growth profile becomes more challenging. While much depends on how the crisis evolves in the Middle East, our central case assumptions see the RBA Board following its February and March hikes with another 25bp increase in May, taking the cash rate back to its cycle peak of 4.35%. This, combined with a large global supply-side shock centred on energy, will weigh heavily on domestic demand through 2026.

We have updated our forecasts to incorporate the Q4 National Accounts, the additional rate hike, and higher energy costs. Taken together, these developments point to a weaker growth impulse through 2026 alongside higher inflation. We now expect household consumption growth to slow to around 2.0%yr, with GDP growth also tracking at around 2.0%yr, down from 2.6%yr in 2025. Growth is then expected to lift back to around 2.3%yr in 2027 as the effects of the oil price shock fade (see our March Market Outlook for further detail).

Note that we do not expect the RBA to unwind recent interest rate hikes until late 2027 as it is likely to remain uneasy about inflation and pessimistic on Australia's potential growth rate.

Domestic demand growth

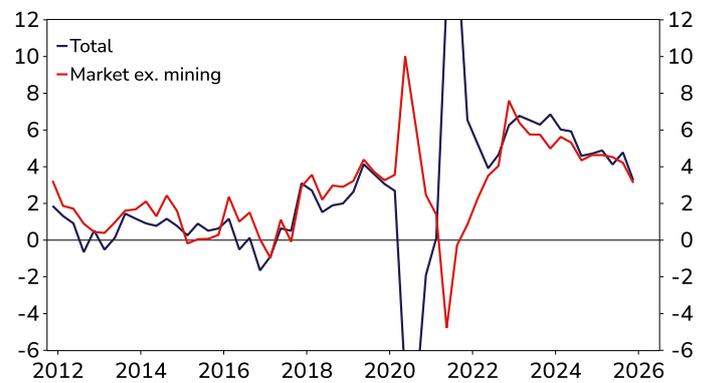
Contributions to year-ended growth



Source: ABS, Macrobond, Westpac Economics

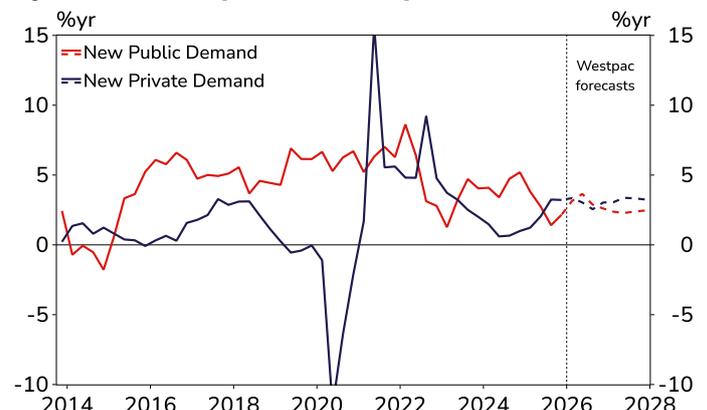
Unit labour costs by sector

Year-ended percentage change



Source: ABS, Macrobond, Westpac Economics

Cyclical upswing is broadening



Source: ABS, Macrobond, Westpac Economics

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Private sector led recovery across the states ...

Pat Bustamante
Senior Economist

Growth in state final demand (SFD) clearly stepped up over 2025 and became broader-based across the states. A year ago, growth in SFD ranged from 1.6%yr to 2.6%yr. Over 2025, the lower bound lifted to 2.6%yr, with the range extending to 5.0%yr.

South Australia (SA) was the standout, recording quarterly growth above 1% in three of the past four quarters, leading to a year-ended pace of 5.0%yr, a pace that this typically more slow-growing state has only seen a handful of times over the last 20 years (outside of COVID era disruptions). This was followed by WA (3.2%yr), Qld (3.0%yr), Tas (2.8%yr), Vic (2.7%yr) and NSW (2.6%yr).

The broadening in the growth impulse was driven by a recovery in private activity, which surprised on the upside through much of 2025. Indeed, SA was the only state where public demand made a larger contribution to growth in SFD over 2025, compared with 2024. Elsewhere, the public contribution to growth in SFD has clearly moderated over the past year.

In Qld and WA, the private sector accounted for more than 90% of growth in SFD, up sharply from a year ago when it contributed only 40% and 60%, respectively. This shift reflects both a pullback in public investment in both states, particularly in WA where public investment fell 20.8%yr, alongside a pickup in private sources of growth.

Elsewhere, private sector contributions also lifted in Vic and NSW, rising from around 40% and 50% a year ago, to around 80% and 70% in 2025, respectively. SA is the only state where a rebalancing toward private demand has not completed with private demand accounting for around 40% of SFD growth in 2024 and 50% in 2025. Tas has also seen a sharp turnaround, with private demand contributing around 50% of growth in 2025, compared with just 10% in the June quarter 2025.

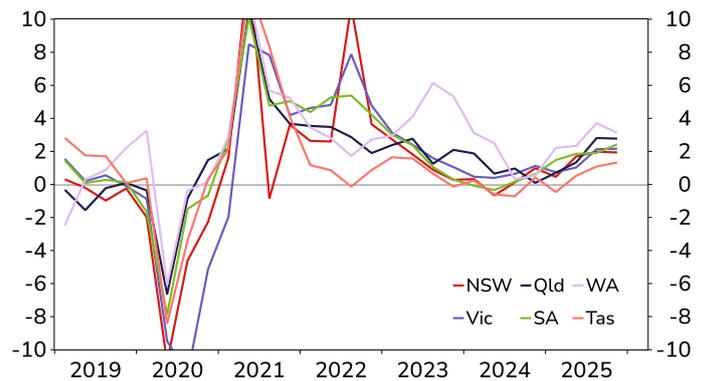
The composition of private demand is also shifting across most states. Consumption momentum softened notably in the December quarter in Vic, SA, Tas and WA, with WA becoming the first state in over a year to record a decline in consumption (albeit partly and indirect result of higher electricity rebates).

For these states, softer consumption was offset by strength in business investment and residential construction activity. New business investment ranged from 2.9%yr in Vic to 8.4%yr in WA, supported by activity in areas such as energy and digital infrastructure.

In contrast, NSW and Qld recorded quarterly declines in investment of 1.3% and 1.9% in Q4 2025, although investment still grew at a healthy 4.5%yr and 5.1%yr, respectively, and project pipelines are looking relatively positive.

Growth in state final demand firms

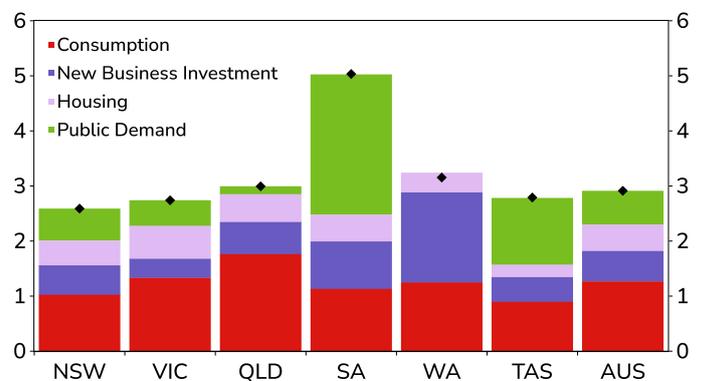
Year-ended percentage change



Source: ABS, Macrobond, Westpac Economics

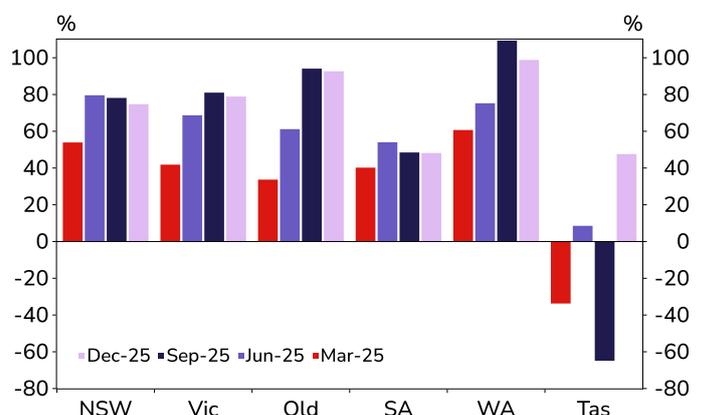
State Final Demand

Contributions to Q4 2025 Growth (ppts ann)



Source: ABS, Macrobond, Westpac Economics

Private share of state final demand

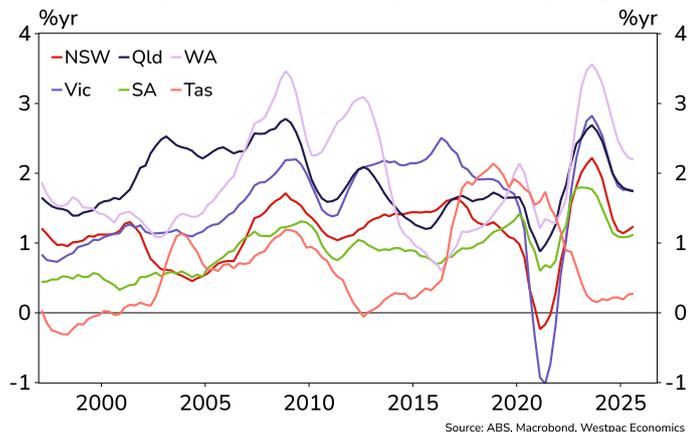


Source: ABS, Macrobond, Westpac Economics

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... but growing headwinds ...

Population growth normalising, to varying degrees



On the residential side, growth ranged from 3.8%yr in Vic to 9.4%yr in WA, with strong outcomes in SA and Qld, both recording growth of 8.5%yr. WA, Qld and SA are the states where population growth and house price growth have outperformed, and we are clearly seeing a housing supply response.

While 2025 was a strong year, the outlook for 2026 is more challenging. **Further policy tightening, combined with a large global supply side shock centred on energy, is expected to weigh on private sector activity, the key driver of the recovery seen over 2025.**

Growing headwinds temper the private recovery

At this stage, we expect the global energy shock to affect state economic prospects primarily through elevated fuel prices. With fuel intensity relatively similar across states, the near-term impact on household spending and business conditions should be broadly uniform. However, a broader energy shock, encompassing higher domestic gas and electricity prices, would see a significantly bigger shock and more uneven outcomes, with greater pressure on business conditions in more energy-intensive states such as SA, Tas and Qld.

Higher fuel prices weigh on consumer incomes

Higher fuel prices, and the resulting lift in headline inflation, are expected to lower real household disposable income growth by around 0.75ppts over the year to June 2026 and 0.5ppts over calendar 2026, before real income growth gradually returns to its baseline pace of 2–2½%yr in 2027 as the shock fades.

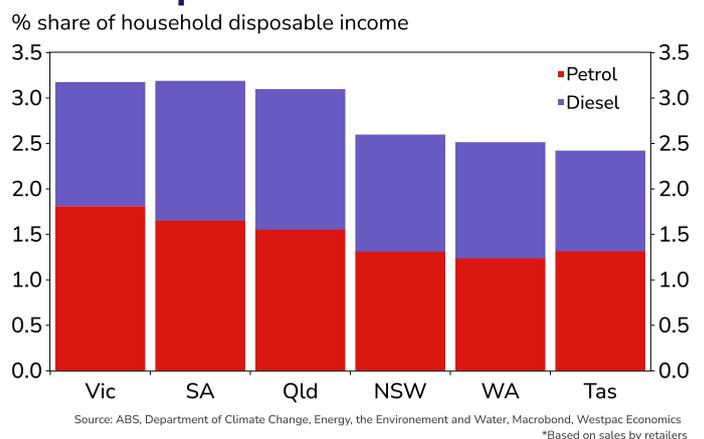
Across the states, household exposure to fuel is broadly similar, with fuel spending as a share of disposable income ranging from 2½ to 3%. Vic, SA and Qld stand out as the most fuel-intensive states, whether measured on a per capita basis or as a share of disposable income. This reflects a combination of geography, travel distances and consumption preferences.

By contrast, NSW, WA and Tas have more moderate fuel exposure.

Savings will cushion part of this adjustment, but not fully. We expect the household saving ratio to fall to around 6% in 2026, stabilising in 2027, providing households with some scope to smooth consumption. At the state level, Westpac-DataX Consumer Panel data shows real savings balances have recovered across most states, with Vic the clear exception, where savings remain around 5% below pre-pandemic levels. Elsewhere, savings sit roughly 1–10% above prior peaks, with WA leading the way.

Apart from Vic, households generally appear well-placed to absorb this shock. However, given its higher fuel exposure and weaker savings buffer, consumption in Vic is likely to be the most affected.

Annual fuel spend*



For businesses, fuel vs. energy matters

On the business side, fuel exposure is relatively similar across states. Once both direct fuel use and fuel embedded through supply chains are included, fuel intensity sits in a narrow range of around 4 to 5 cents of fuel required per dollar of output (or gross value added). As a result, a 30% fuel price shock is expected to lift business costs by a similar 1¼–1½% nationally, with only modest state-level variation.

Where meaningful differences do emerge is in total energy exposure, once electricity and gas are included. A broader 30% energy price shock would increase costs by 9–17%, implying larger impacts and a wider range. Energy intensity is highest in SA and Tas, followed by Qld, reflecting more energy-intensive production structures. By contrast, WA has materially lower total energy exposure, insulating much of the non-resource part of the economy from broader energy price shocks. The net impact will depend on where exactly the shock materialises across the energy complex. SA, for example, has a higher share of renewable energy consumption, whereas WA is far more exposed to gas.

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... will temper the private sector recovery

Higher commodity prices buffer mining states

The mining-intensive states of WA and Qld are set to benefit from higher commodity prices, including petroleum, coal and LNG export prices. Higher export prices will lift incomes, profits and government revenues, helping to buffer the negative effects of elevated energy costs. Indeed, we expect the overall near-term growth impact of the fuel price shock to be positive in WA and broadly balanced in Qld.

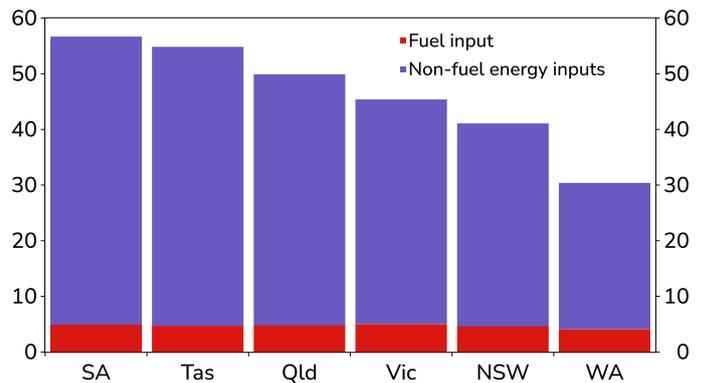
Updated state forecasts

The private sector led recovery should largely sustain despite these intense near-term headwinds. While the contribution from public demand is set to fade, private demand should continue to track an underlying trend strengthening, underpinned by further gains in both residential (particularly in WA and Qld) and business investment (particularly in NSW where the investment pipeline is growing), alongside ongoing growth in household consumption (led by Qld, WA and SA).

At this stage, we see higher interest rates and the fuel price shock as leaning into the upturn, slowing momentum rather than derailing it altogether. That said, risks are elevated. The longer the conflict persists, the greater the chance we see more damaging spillover effects from higher energy prices on confidence, at which point the downside risks to activity would materialise.

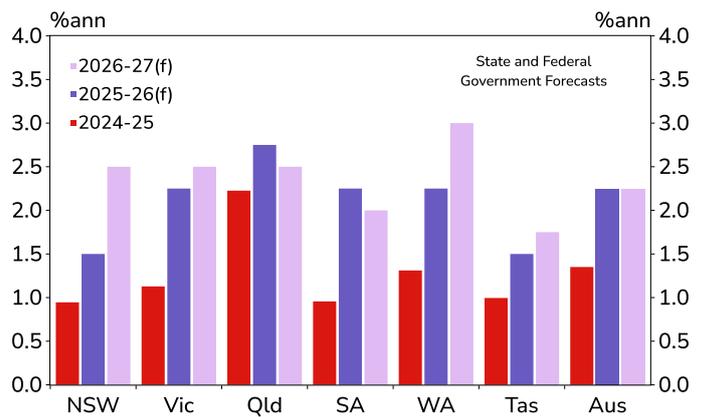
Energy intensity by state

Energy usage per dollar of gross value added in cents



Source: ABS, Macrobond, Westpac Economics

Gross State Product



Source: Various State Treasuries, Macrobond, Westpac Economics

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Calm 2025 but prices still high and energy rising

Matthew Hassan
Head of Australian Macro-Forecasting

Construction is a focal point for inflation risks in Australia with both domestic and external factors influencing price pressures in the sector. This section puts a spotlight on recent cost trends and variations across states. It expands on a similar note from our latest **Housing Pulse** report (see [here](#)), adding commentary on non-residential building, engineering construction and the sector as a whole.

Costs coming off a more benign year

The ABS produces a wide range of construction and related price measures. The chart right shows producer price index (PPI) measures of key outputs and selected inputs.

Across the sector as a whole, output (i.e. sales) prices rose 2.7% in 2025, annual growth quickening from a low of 2.1% mid year but still down from the 3.6% gain in 2024 and 4.3% gain in 2023. More pointedly, prices have risen by nearly a third since 2019, over two and a half times the rise seen over the previous six years. While annual inflation currently looks benign, the high price level clearly remains a big challenge.

Across sub-sectors, the modest pick-up in 2025 has been led by residential building, which has also seen a bigger cumulative rise of 42% since 2019. Non residential building saw slightly firmer growth in 2025, tracking at 4.1%/yr, but a milder cumulative rise of 34% since 2019. Interestingly, engineering construction, which covers non-building works such as road, rail and port infrastructure as well as mining projects, is seeing more subdued annual price growth of 1.8%/yr and a much less pronounced 25% cumulative increase since 2019. That may seem a little surprising given the dominance of large public infrastructure projects in recent years, many of which have seen significant cost escalation problems.

These variations likely reflect a range of factors including variations in input cost pressures, productivity and profitability issues for different sub-sectors.

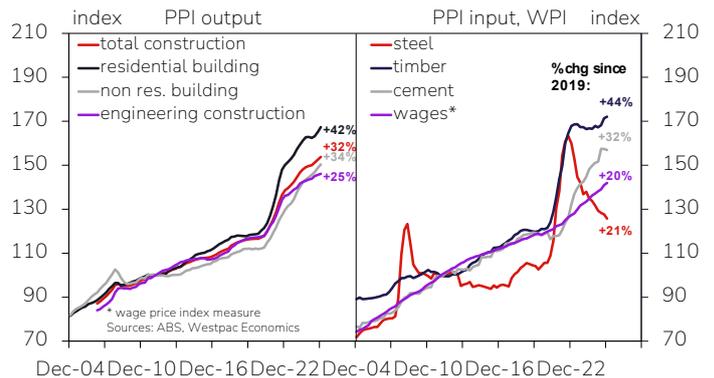
Timber-steel differential a key theme

Around inputs, the right panel of the chart top right shows selected PPI input (i.e. cost) measures for the production of detached houses and the Wage Price Index (WPI) measure of wages across the wider construction sector (which excludes productivity effects).

It shows some notable contrasts.

Steel prices spiked 50% when global supply chains locked up in 2022 but have since unwound much of that to be up 21% vs 2019. Timber costs however have surged and stayed high to be up 44% since 2019. Cement, plaster and concrete prices showed a more gradual lift during the supply-chain disruptions but are also up a relatively strong 32% and tracked a firmer 3.8% rise in 2025. Meanwhile, wages in the sector rose 3.5% in 2025 to be up 20% since 2019.

Construction costs



The timber-steel differential likely accounts for much of the difference between, timber-intensive residential building (which is most pronounced for detached houses) and the more steel-based non residential building and engineering construction sub-sectors since 2019.

Oil shock to centre on freight and by-products

Of course, all of this pre-dates the Middle East crisis which is set to have a major impact on many construction input prices in 2026. Freight costs alone have risen by around a third since the crisis began (a large rise, albeit a world away from the 6-fold spike during the post-COVID supply chain disruptions).

On top of this, plastics and polymers such as PVC, asphalt, bitumen and many insulation products are all oil-based products or by-products that will clearly see a rise. A significant portion of global aluminium supply has also been affected.

The high heat required to produce glass and concrete also makes these products exposed to the wider increase in energy costs, although domestic energy costs will be more of a factor here. As noted [here](#) the construction sector has relatively low direct fuel requirements but relatively high indirect total energy requirements (i.e. including the electricity and other non-fuel energy used in upstream production processes).

The good news here is that, so far, domestic energy costs look unlikely to spike like they did following the last energy crisis when Russia invaded Ukraine in 2022. Indeed, the recently announced draft ruling from the Australia Energy Regulator suggests benchmark electricity prices are likely to instead fall in 2026-27. Meanwhile, other factors, including caps on domestic gas prices and capacity limitations on Australia's export supply, suggest domestic gas prices are rising the way they did in 2022-23 either.

Steel and timber prices also look likely to be less affected by the latest round of energy disruptions. Indeed, coking coal, iron ore and lumber prices have all shown relatively muted gains in the crisis to date (<10%). See [here](#) for a full discussion of the outlook for Australia's main export commodity prices.

All up, the main source of potential crisis-related cost escalation for construction materials looks likely to be from direct fuel requirements and freight, with a more extended disruption seeing more effects start to come via oil-based products.

Starting point a touch firmer for Qld, WA, SA

Broadly speaking, this suggests construction sub-sectors will be similarly affected. However, both sub-sectors and states are coming into this energy-related cost pressure from different starting points.

The chart right shows total construction output costs across the major states. As with most things at the moment, annual growth is tracking faster in Qld (+3.4%), SA (3.2%) and WA (2.8%) and at a more moderate pace in NSW and Vic (both 2.5%). Similarly, the cost escalation since 2019 has been more pronounced in Qld (+35%) and WA (+37%) but slightly milder in Vic (+30%).

As we highlighted in our original **Housing Pulse** note, much of the difference reflects stronger price growth in the residential building space in these states, especially for detached houses. This partly reflects the high timber content for these builds. However, productivity problems (i.e. longer build times) and shifts in margins also appear to be contributing factors. On the latter, the shifts in margins may be due both to shifts in demand and a working out of the profit 'crunch' associated with the large volume of work contracted in 2021 on fixed price terms. Taking productivity effects into account, the state patterns suggest that, since 2019, output prices since 2019 have been associated with a significant margin expansion in Qld and WA and a likely margin compression in Vic.

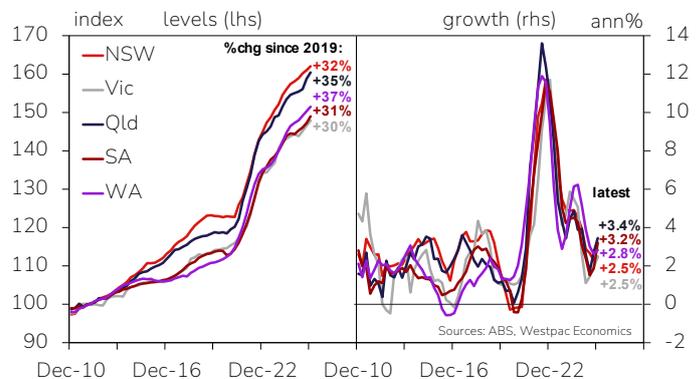
Non residential costs and wages uneven

The ABS price data gives no input detail to non residential building and limited state detail on engineering construction output prices (only 'road & bridge' price measures are available). The data show non residential building costs rising at a much stronger clip in Qld last year (+6.2%yr), having also seen a more pronounced rise since 2019 than across other states. For 'road & bridge' works, costs rose a little faster in Vic (+4.4%yr), dipping slightly in NSW (-0.4%yr).

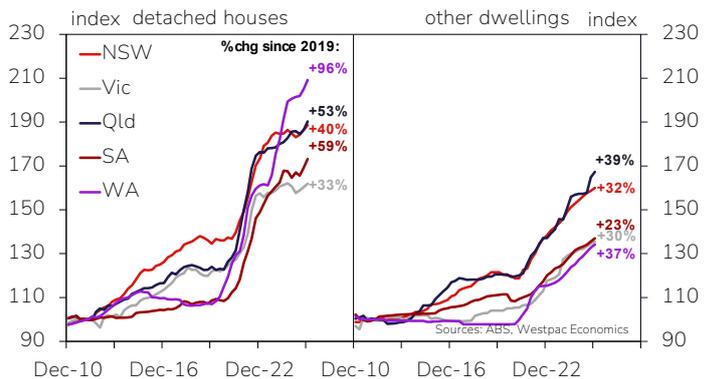
The limited detail likely reflects the more 'heterogenous' nature of work in these segments, especially for large, multi-year public infrastructure projects. But pulling it all together, the main common theme here is of building construction costs that are coming into the latest energy-related shock running at a faster 4-5%yr pace in Qld, WA and SA compared to a somewhat more sedate pace in NSW (+3.2%) and Vic (+2.4%).

Lastly, we should note that the state picture on wage inflation across the construction sector is somewhat different. Here, Vic stands out as tracking quite a strong pace (+4.7%yr), while SA (+3.5%yr) and Qld (+3.3%yr) are running at a moderate pace, and WA (+2.9%) and NSW (2.7%yr) are looking quite sedate.

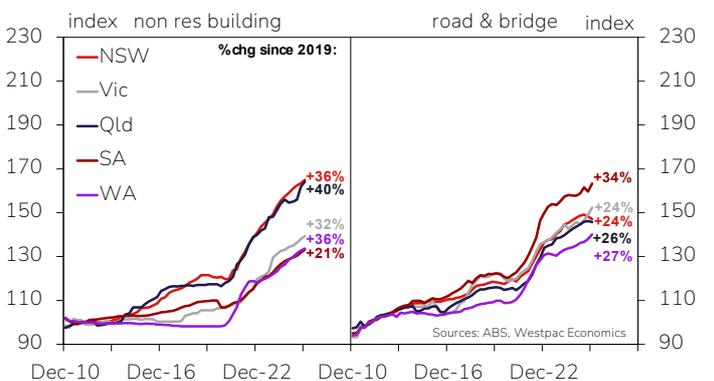
Construction costs: by state



Residential building costs: by state



Non residential construction costs: by state



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Recovery running into headwinds ...

Matthew Hassan
Head of Australian Macro-Forecasting

NSW posted a reasonably solid finish to 2025, growth basically tracking in line the national economy and both the mix and main themes similar as well. That said, the state's labour market points to some notable shifts, employment and hours worked showing a more pronounced slowdown over the year but also implying a more material lift in productivity than that seen nationally. NSW is slightly more exposed to both higher interest rates and the negative effects of energy market disruptions.

How has the state performed? State demand rose 0.6% in Q4 to be up 2.6%yr, coming in slightly under the 2.9%yr gain nationally. Public investment lifted again after having declined earlier and more sharply compared to other states, reflecting the lumpy path of major transport infrastructure projects, some of which are nearing completion. Consumption has been relatively firm, tracking at just over 2%yr after excluding the impact of higher energy rebates in Q4, which took 10% off electricity spend. Other components of private demand are mixed. A pick-up in dwelling construction is forming but approvals suggest this will continue to track a slow path. On business investment there are limited signs of a broader cyclical upturn, new machinery and equipment spend flat over 2025.

A key stat that tells the story: total hours worked rose just 0.5%yr in 2025, a marked slowdown from the 2.8%yr gain in 2024. While this suggests momentum has faded a little, with growth becoming less 'job-rich', it also implies a more material lift in labour productivity of around 1.4%yr on an annual average basis compared to the 0.2%yr gain nationally. Further gains seem likely, particularly as newly built infrastructure, including Sydney's second airport, come online.

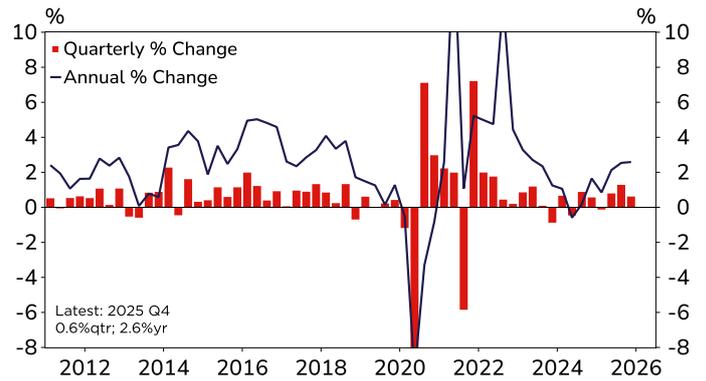
What has surprised? Despite relatively moderate growth and a mixed aggregate picture on business investment, NSW is seeing a significant rise in the pipeline of major projects. A significant portion of this is coming from the roll-out of data centres. Australia was the second largest destination for global capital flows into this segment in 2024, attracting \$6.7bn worth of investment (noting that the bulk of the data centre investment is coming from local capital in the US).

How can things improve? The resolution of external disruptions and domestic inflation threats are key for NSW near term. Beyond that, accommodating what looks set to be a significant lift in renewables and data centre investment while also fostering a sustained lift in dwelling investment will be critical.

Where are we expecting and how will Middle East disruptions impact? A stronger 2025 largely offsets the effect of higher interest rates and energy shocks near term but weigh more heavily on GSP growth in FY27, which now seen at 2% vs a previous expected lift to 2.5%. NSW is more exposed to external energy shocks with coal rather than oil and gas being the state's main energy export.

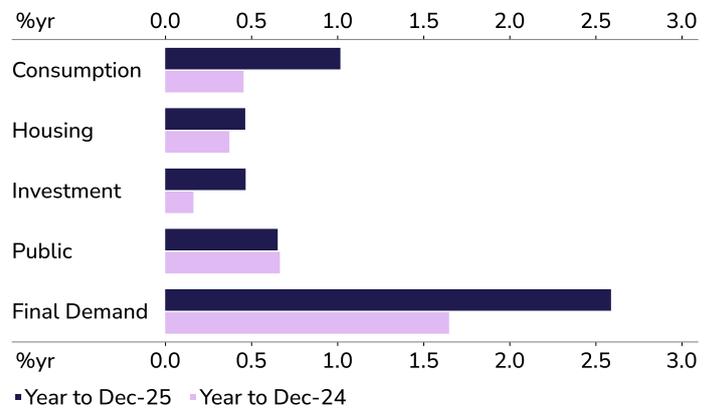
NSW State Final Demand

Chain Volume Measures



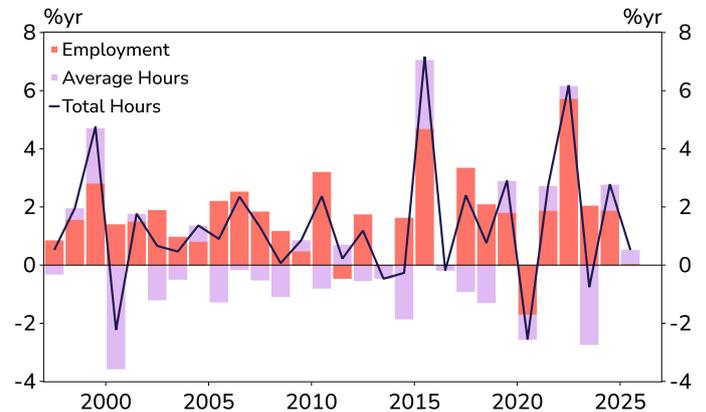
Source: ABS, Macrobond, Westpac Economics

NSW: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Growth in NSW hours worked slowed in 2025

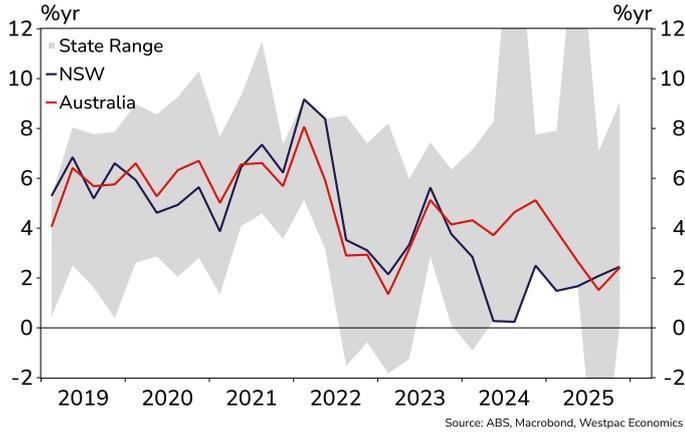


Source: ABS, Macrobond, Westpac Economics

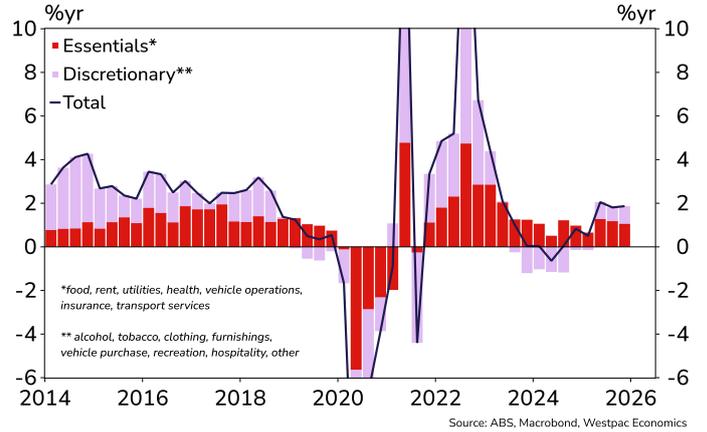
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... productivity lift, data centre projects of note

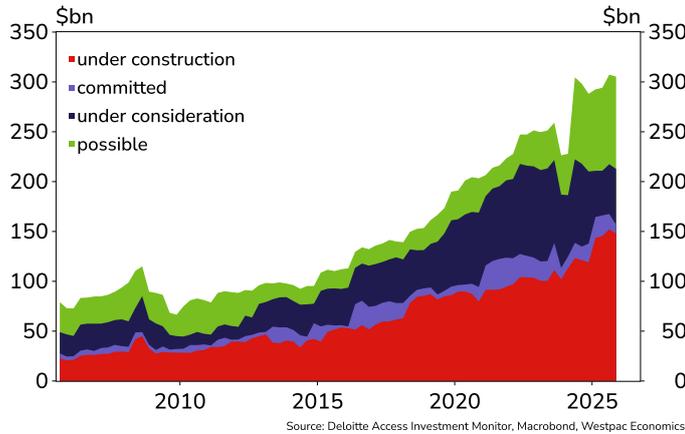
Public demand slowdown looks to have stabilised



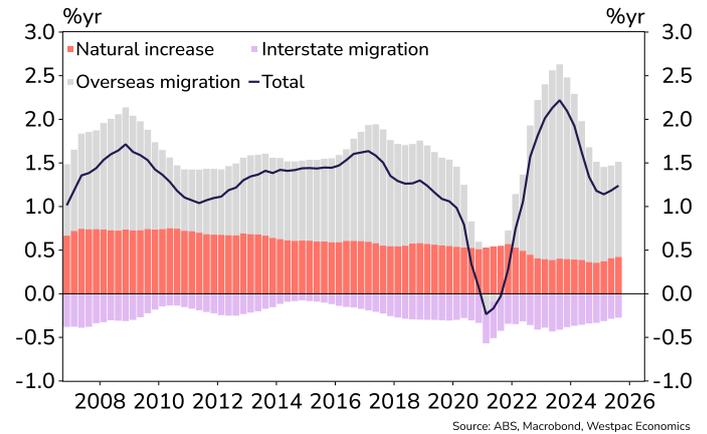
Discretionary spending making a come back



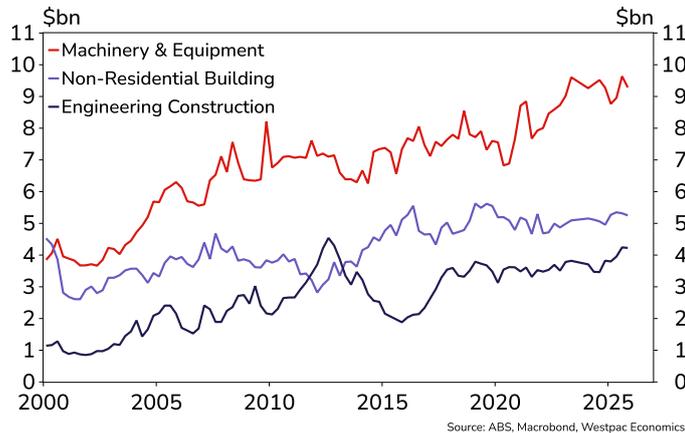
NSW: project pipeline



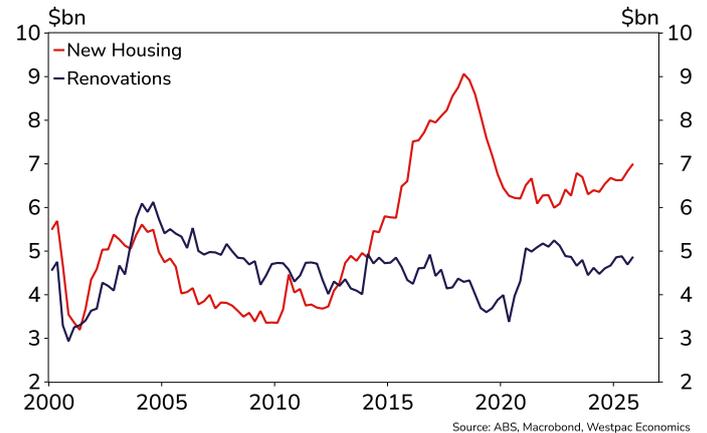
NSW population growth nearing long-run levels



Cyclical upturn in business investment yet to come



New housing investment picking-up



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Wobbly start to 2026 ...

Matthew Hassan
Head of Australian Macro-Forecasting

Victoria has lifted out of a weak patch but underlying momentum still looks fragile. Previous gains have been partly population-driven with growth only just inching into positive in per capita terms in the second half of 2025. Meanwhile, investment remains uneven while public demand has seen a more pronounced slowing than in other states.

How has the state performed? Final demand rose 0.7% in Q4 to be up 2.7%yr, marking the first sustained per capita gains since 2022. Even with this, annual average growth in GSP per capita (including net exports and interstate trade) is likely still in slight negative. Compared to the national economy, Victoria's growth composition shows some clear differences. On the positive side, the state is benefiting from a relatively firm pick-up in consumption, partly reflecting the state's stronger population growth and with weather anomalies understating gains slightly in Q4. However, the picture around investment is much more mixed. While there are some signs of a cyclical upturn forming around new machinery and equipment (+6.6%yr) this is being offset by a major wind-down in engineering construction that looks to have further to run. With public investment also contracting (-3.5%yr) and new dwelling investment (+3.5%yr) tracking a slower upturn than elsewhere, momentum looks fragile.

Adding to this, dwelling prices have faltered again in early 2026 suggesting recent rate rises are having a heavier impact. Prices are still below their 2022 peak, having barely kept pace with inflation since 2019.

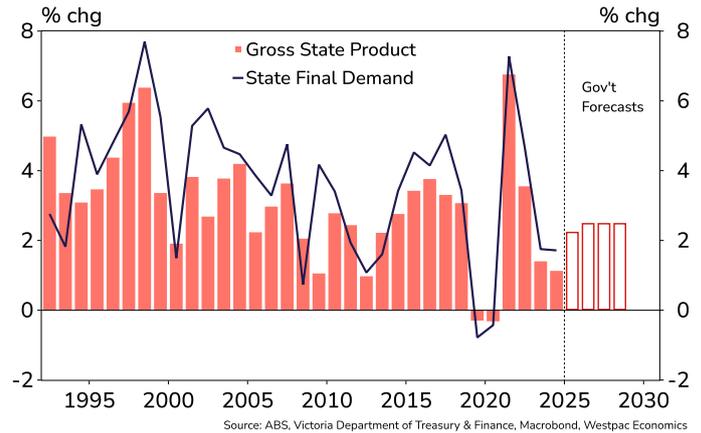
A key stat that tells the story: At 4.5%, Victoria's unemployment rate is noticeably higher than the 4.1% rate nationally, a consistent wedge that has opened up since the start of 2024. Interestingly, this is despite a labour participation rate and employment-to-population ratio that has been about 0.5ppt higher. The more ample supply accounts for the more subdued 3.2%yr growth in wages.

What has surprised? Private engineering construction continues to surprise to the downside, dropping a further 5.9% in Q4 to be down -21.5%yr – over a fifth. There looks to be more to come with the pipeline of work yet to be done shrinking and commencements suggesting the contraction still has some way to run.

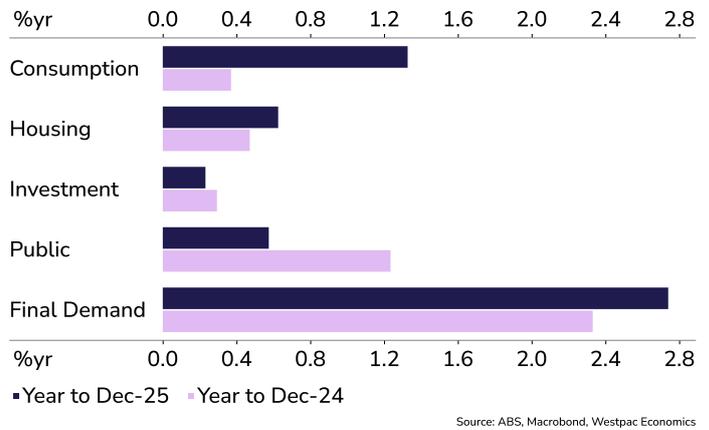
How can things improve? While there are clear weaknesses on the investment side, there are some positives around data centres and renewables that could provide some traction.

Where are we expecting and how will Middle East disruptions impact? GSP growth is now expected to stall out at around 2% in FY27 with downside risks. Vic has some gas exports but these are limited compared to the big mining states. Meanwhile the state is clearly more exposed to interest rate hikes.

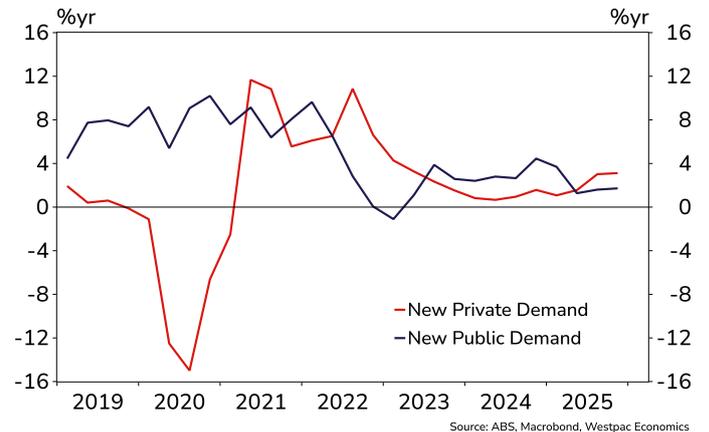
Vic Gross State Product & Final Demand



Vic: contributions to state final demand



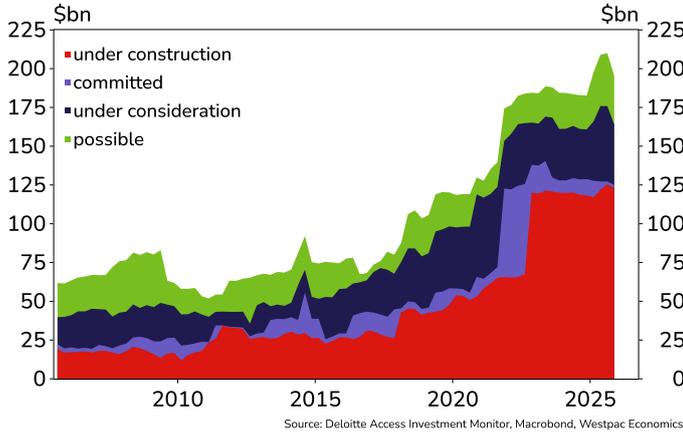
Victoria private demand picking up



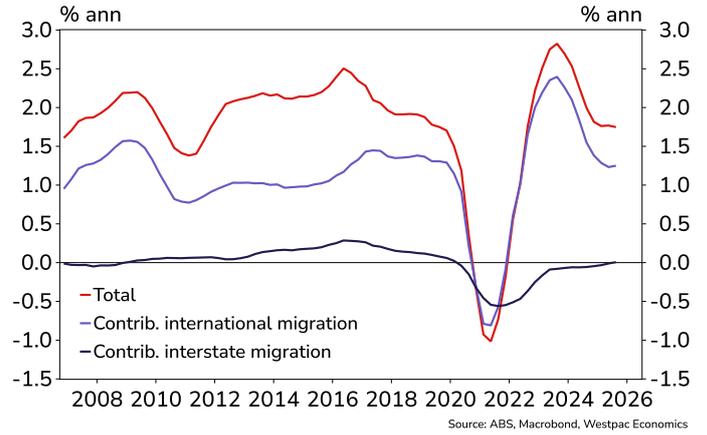
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... balanced growth still looking a long way off

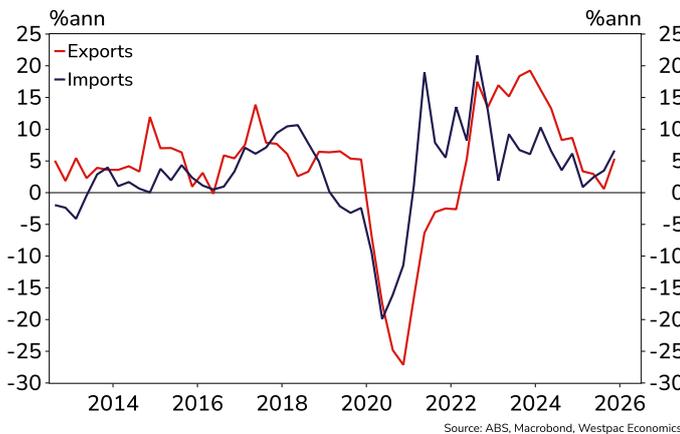
Vic: project pipeline



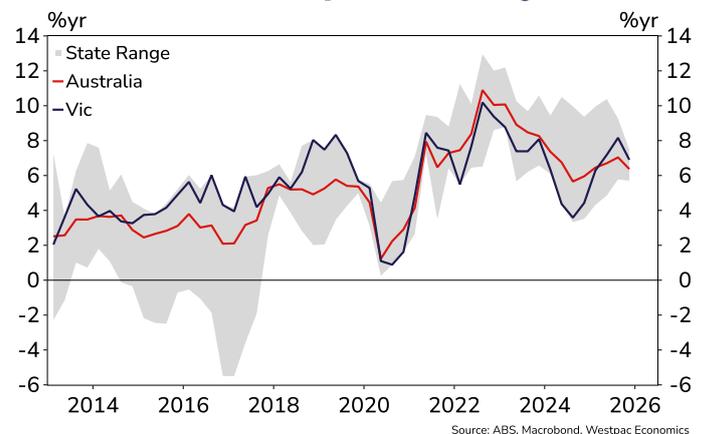
Population growth



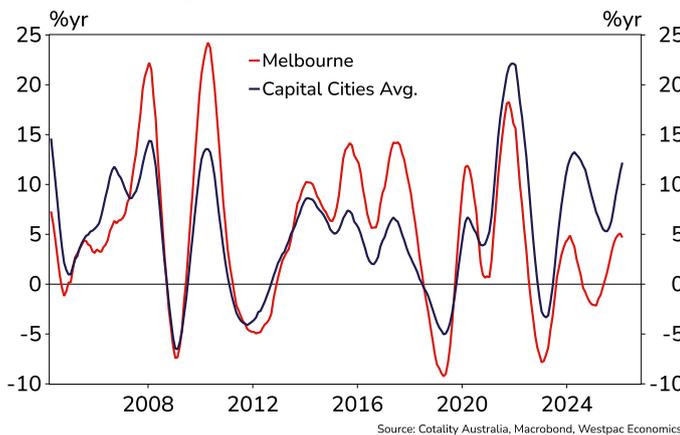
Victoria's international trade



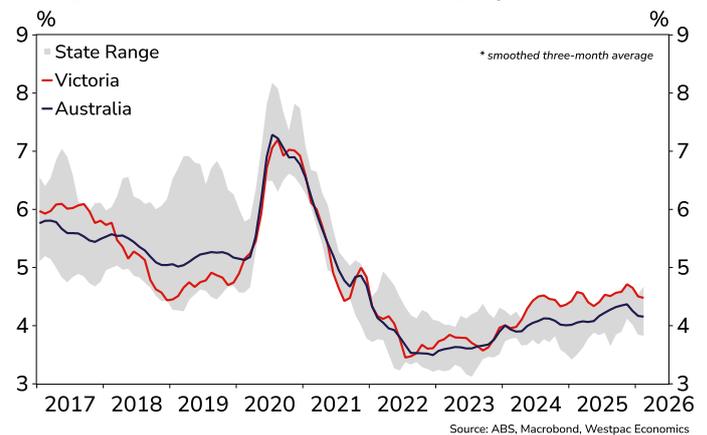
Vic nominal worker compensation rising



House prices growth reappears in Melbourne



Wedge between Vic and Aus unemployment rates



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Soft finish to a solid year ...

Ryan Wells
Economist

Queensland is the posterchild for a smooth 'handover' of growth from the public to private sector. Looking forward, the key question is whether the strong prospects for growth can be met without capacity constraints becoming a limiting factor.

How has the state performed? Qld's state final demand barely eked out a gain of 0.1% in Q4, but solid growth earlier in the year kept the annual pace at 3.0%yr, in line with the national average but below Qld's historic average (3.9%yr).

A key stat that tells the story: At 3.4%yr, household consumption is firing on all cylinders, outperforming the national average (2.4%yr). Ignoring the impact from electricity rebates, discretionary consumption is also running well ahead of other states, highlighting the genuine strength of Qld households, bolstered by a stronger recovery in real household disposable incomes.

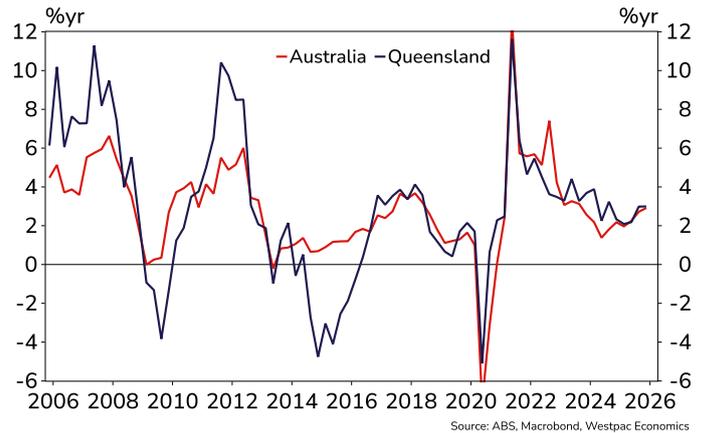
What has surprised? New public demand was expected to slow over 2025 as major projects and cost-of-living relief measures at both the federal and state level wound down. However, the scale of the unwind in Qld has been eye-catching – from a nation-leading pace of 8.0%yr in 2024 to a meagre 0.5%yr in 2025, now the second-weakest across the nation.

How can things improve? Where Qld has lagged for many quarters is in new machinery and equipment spending (2.9%yr vs. 5.1%yr). Given the firm backdrop for consumer spending and above-average business conditions and confidence, there is more room for growth over the coming quarters.

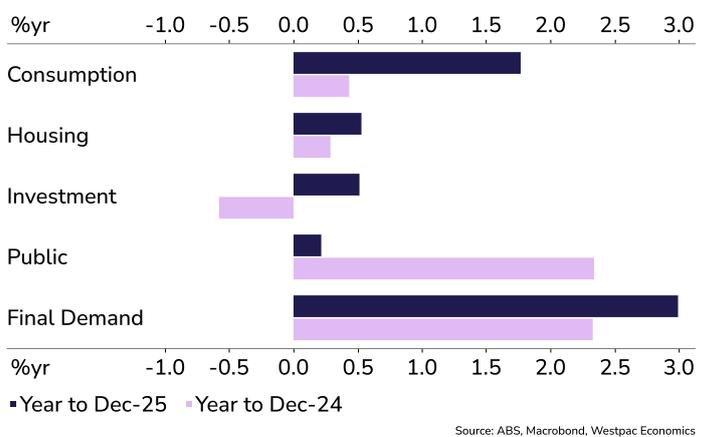
Where are we expecting? We remain optimistic on Qld's growth prospects, with GSP forecast to lift 2.8% in FY26 and 2.5% in FY27. A robust labour market and solid real incomes provide a strong posture for the consumer. There are some major projects starting this year – Borumba Pumped Hydro Storage (\$18.4bn), Logan-GC Rail (\$5.8bn), Sunshine Coast Rail (\$5.5bn) – in addition to the large number of infrastructure/dwelling projects already in the pipeline, including Olympics-related spending. While this bodes well for growth, the potential upshot is greater inflation pressures stemming from capacity constraints. Core inflation (ex. food and energy) is already at 4.1%yr in Brisbane, and if difficulties sourcing skilled labour and materials persist, above-average inflation could be a longer-running feature in Qld.

Risks from Middle East conflict? Our modelling suggests Qld does not face outsized risks to growth or inflation. From an inflation perspective, Brisbane has a similar weight for fuel as the national basket, so local inflation should not be much different than the national experience. The main concern is the high starting point for inflation, already 0.5ppt above the national average. Growth-wise, Qld's industry mix is moderately fuel-intensive but overall, risks are not skewed. Should a broader-based shock to gas prices materialise, Qld is slightly more exposed than NSW/Vic, but the extra impact on growth is smaller than that stemming from oil.

State final demand: Qld vs Australia

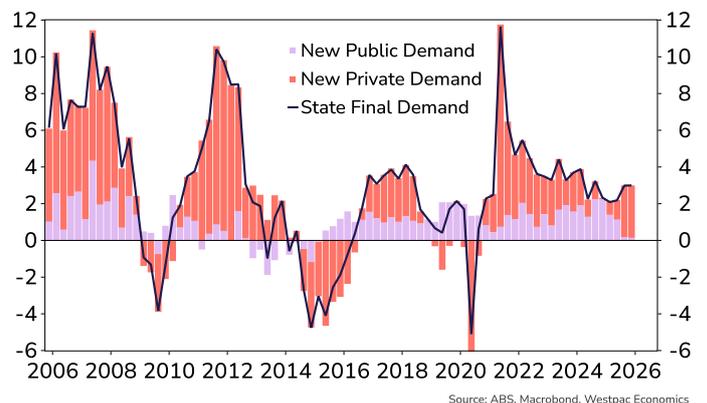


Qld: contributions to state final demand



Handover of growth from public to private

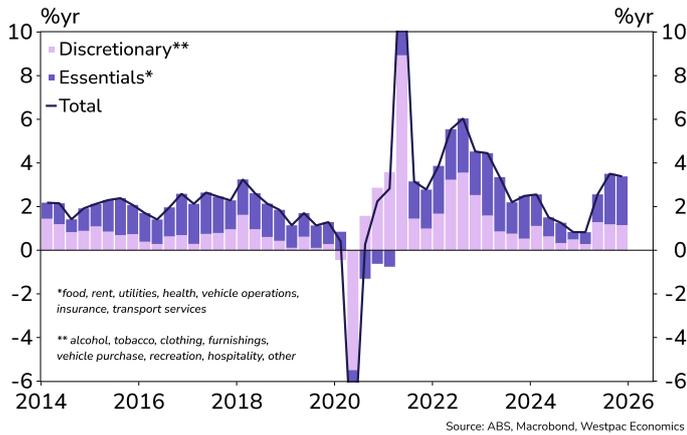
Contributions to year-ended growth



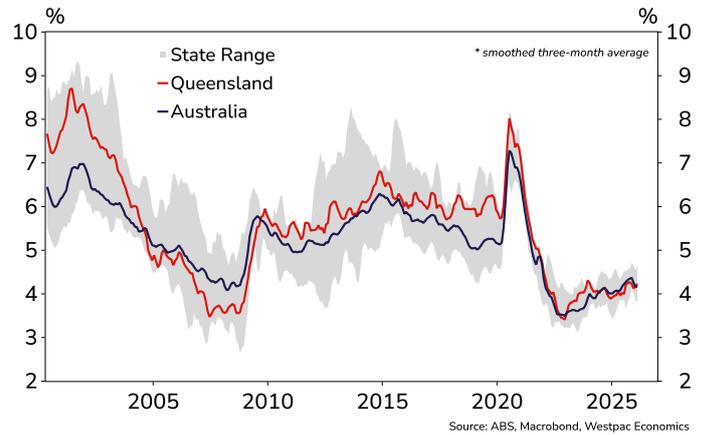
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... capacity constraints in focus

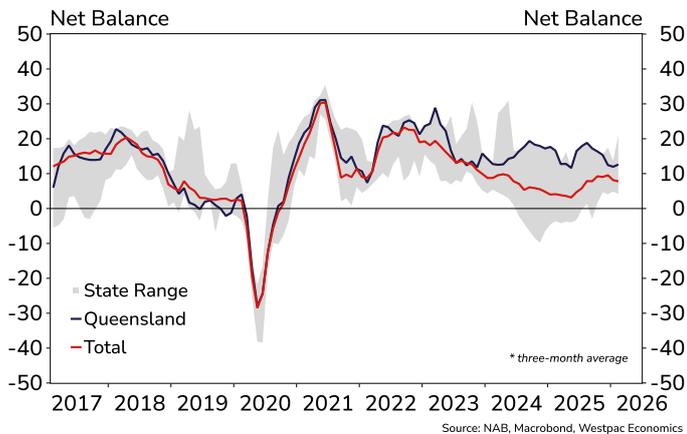
Discretionary spending recovering



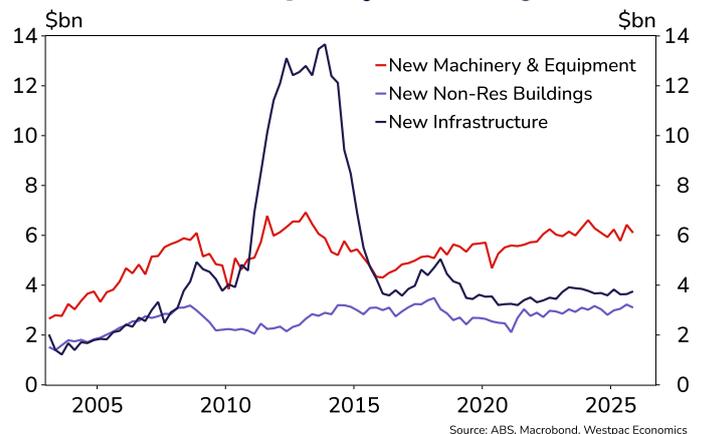
Qld's unemployment rate remains relatively low



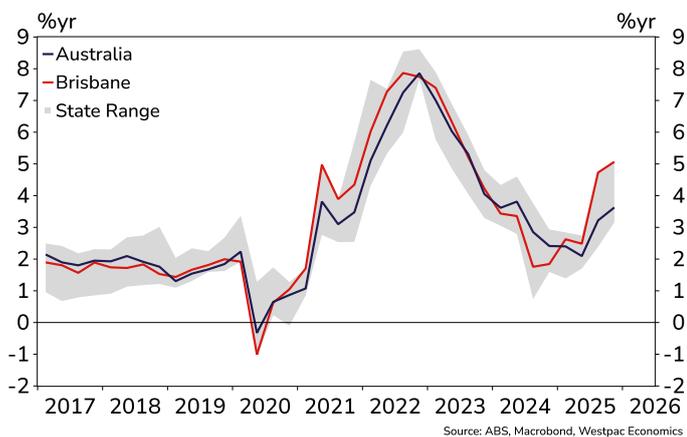
Qld business conditions outperforming



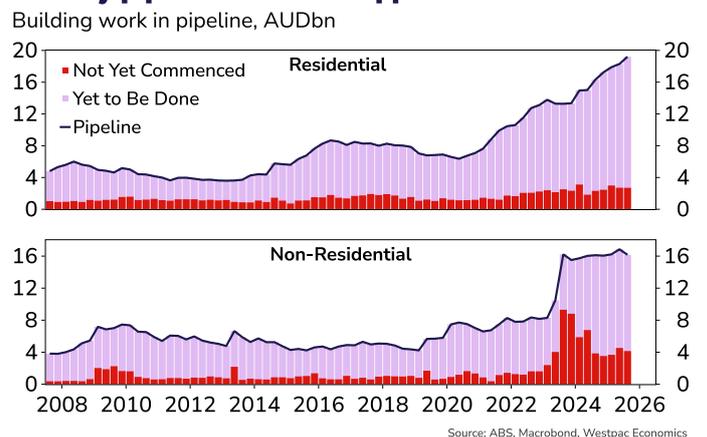
Business investment patchy, but some green shoots



A sustained lift in inflation could be a headwind



Healthy pipeline will lend support



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Domestic strength underpins growth ...

Luka Belobrajdic
Economist

WA's economy continues to outperform, supported by broad-based private-sector momentum. Growth is forecast to accelerate to 2.5% in FY26 as mining and exports recover, while households and businesses continue to underpin activity. We expect growth to maintain at 2.5% in FY27 as new mining and heavy industry projects get underway.

How has the state performed? State final demand rose a solid 0.5%qtr in Q4, taking annual growth to 3.2%yr. A 0.3%yr decline in new public demand, driven by a sharp pullback in new public investment (-21%yr), was more than offset by strength across private investment. New business investment has risen sharply, growing 8.4%yr, as new machinery and equipment purchases soared 15%yr. Dwelling investment also provided support, up 8.5%yr following an extended period of weakness. Household consumption remained resilient, growing 2.5%yr and supporting overall demand growth.

By contrast, headline GSP outcomes have been softer. Real GSP grew 1.3%yr in FY25, reflecting weaker mining-led exports due to weather disruptions, maintenance shutdowns and softer commodity prices.

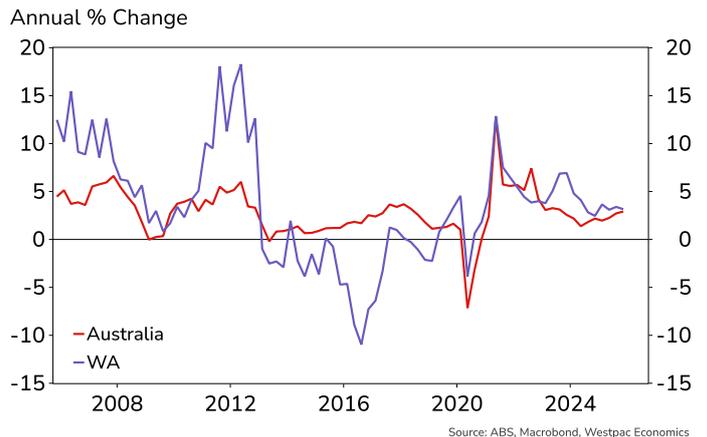
A key stat that tells the story: Dwelling construction appears to be in a sustained upswing. Trend-adjusted dwelling approvals rose 9.9% (and 24%yr) in Q4 2025. This lift is critical given population growth of 2.2%yr, but more broadly signals a potential further reallocation of investment towards the non-mining sector.

What has surprised? Despite a moderation in employment growth, labour market conditions remain tight. On a 3-month rolling average basis, WA's unemployment rate of 3.9% is similar to levels seen in May 2025 when employment growth was 2.6%yr, as opposed to 1.3%yr currently.

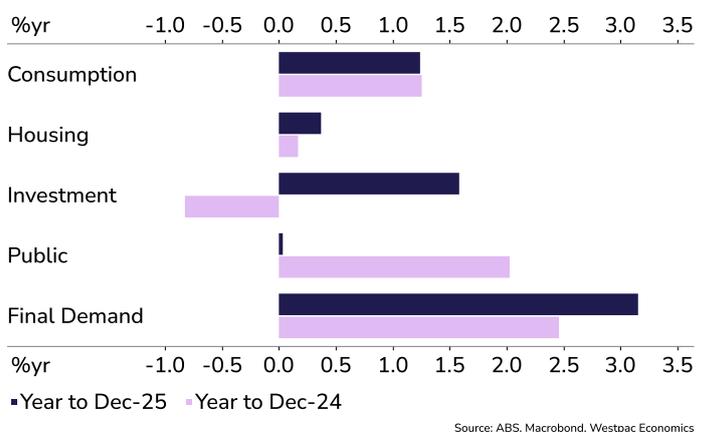
How can things improve? Labour supply remains a key capacity constraint. Tight labour market conditions are driving a solid recovery in nominal incomes, and Perth's headline CPI is running around 0.3ppt above the national average.

Where are we expecting things to go over 2026 and what's the expected impact of the oil price shock on the state? We expect GSP to return to strength in FY26, growing a respectable 2.5%yr. Mining is expected to re-emerge as a key growth engine, with elevated commodity prices in early 2026 stemming from the conflict in the Middle East supporting both investment and exports. While the oil price shock creates some downside risk, WA is relatively well placed as a major gas exporter, and the state's domestic gas reservation policy should help shield households from the full impact of higher energy costs. At the same time, strong population growth, a tight labour market and solid real income gains should continue to underpin household spending, while investment across both dwellings and businesses remains supportive and exports re-join the growth mix.

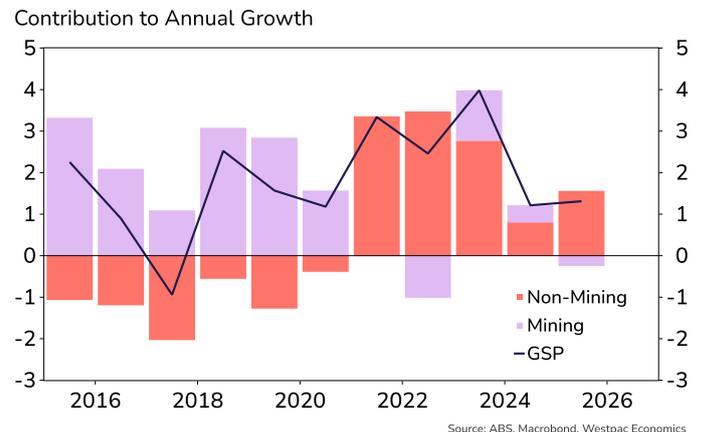
State Final Demand



WA: contributions to state final demand



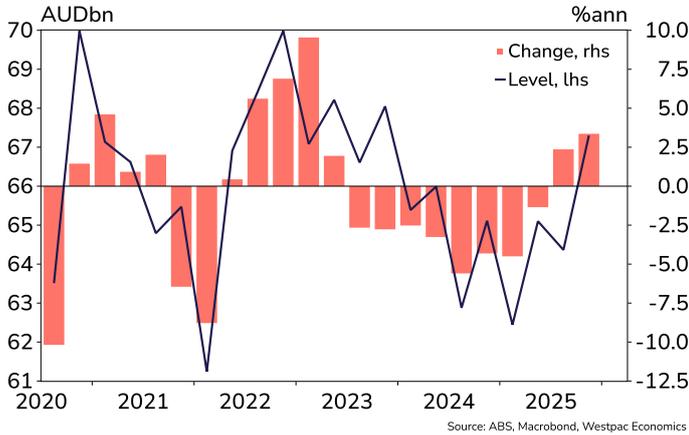
WA Gross State Product



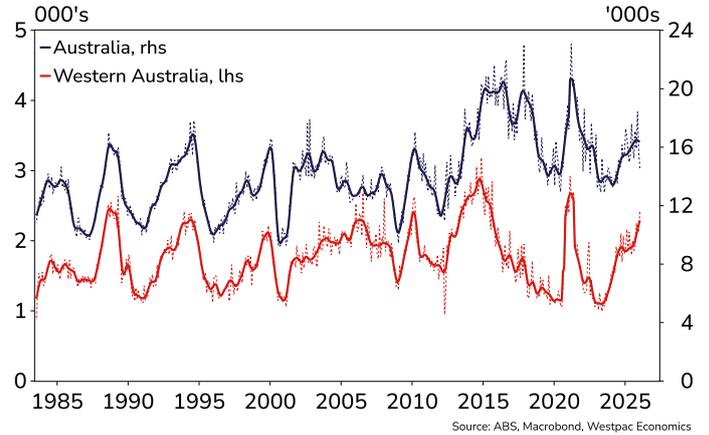
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... with mining set to add momentum

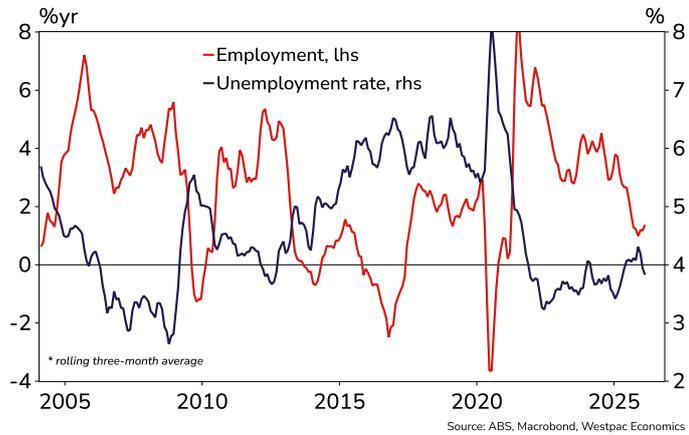
Exports have returned to growth



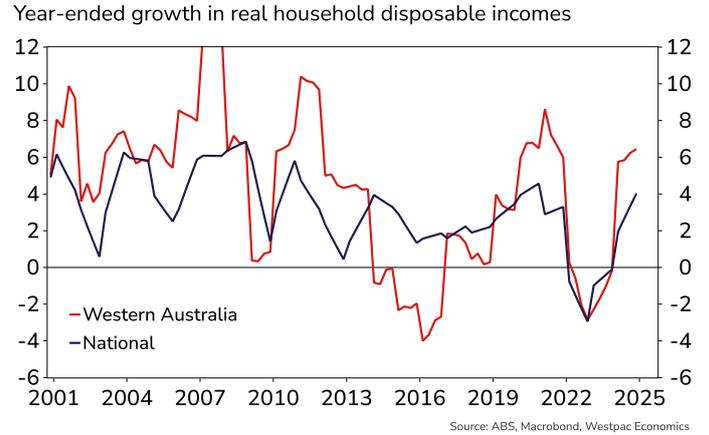
Dwelling approvals showing no signs of easing



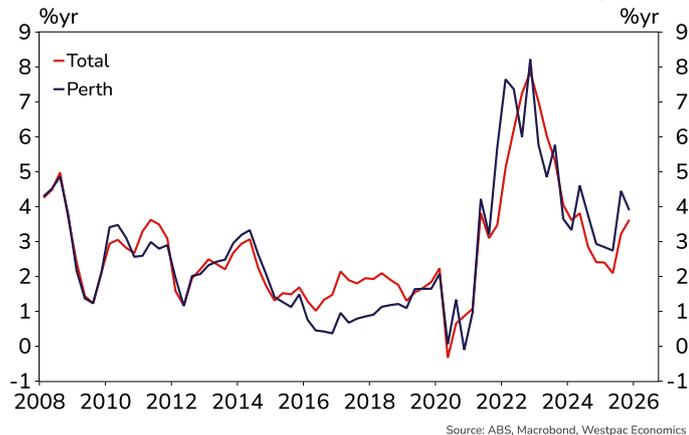
Tight labour market conditions ...



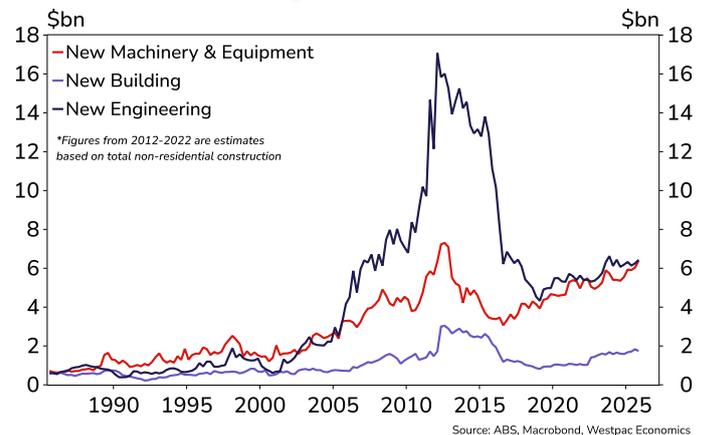
... are supporting real income growth



Perth headline inflation above national average



Business investment growth concentrated in M&E



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Hitting a sweet spot ...

Ryan Wells
Economist

South Australia has hit something of a sweet spot over the past year. Spending is accelerating and broadening, a strong labour market is securing households, and while inflation has ticked up, localised pressures are mostly absent.

How has the state performed? For a second year in a row, SA came first on growth as demand advanced 5.0% over 2025 – well above trend and a stark contrast to history: SA usually trailed domestic demand by ½ppt, but now it leads by over 3ppt.

A key stat that tells the story: At +25%yr, public investment remains in a league of its own in SA, unlike all other states that reported declines or no growth over 2025. Double-digit growth has been the norm for two-and-a-half years now, cementing the state’s commitment to expanding critical infrastructure such as the North-South Corridor, Goyder South renewables zone and Adelaide’s Women’s and Children’s Hospital.

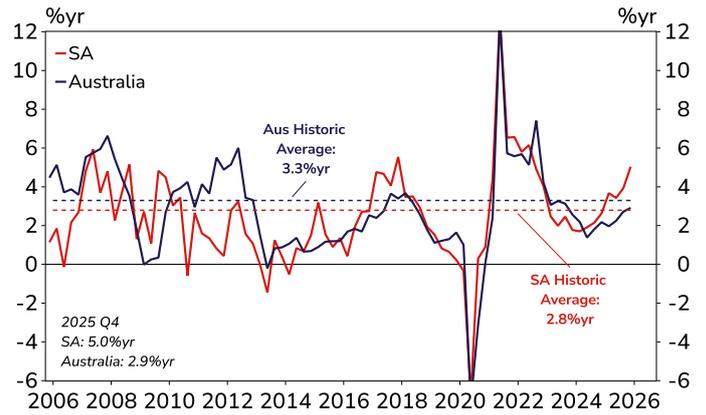
What has surprised? Stronger demand and slower population growth might lead some to expect local inflation pressures to build. That has not been the case. Adelaide’s headline and core (ex. food and energy) inflation is second-lowest across the capitals (lower only in Melbourne where growth has been below-trend), exemplifying the appeal of productivity-enhancing investment as a less inflationary driver of growth.

How can things improve? With hours worked growing 6%yr in 2025 and the lowest unemployment rate across the nation, labour incomes and consumer spending should continue to recover, and potentially outperform on a per capita basis.

What are we expecting? Growth is expected to slow but near-term prospects remain favourable, with GSP forecast to expand by 2.5% in FY26 and 2.0% in FY27, front-running on a per capita basis. A few wind farm projects set to commence this year, including Willogoleche, Palmer and Carmody’s Hill, all set to add 740MW of capacity. The level of infrastructure activity will remain elevated, but growth is likely to cool from here. A strong labour market and relative lack of localised inflation pressures will support real incomes and consumption, even with a revised interest rate outlook. Business investment is already responding positively to this. While dwelling approvals are stabilising, a healthy existing pipeline will also buoy housing construction activity herein.

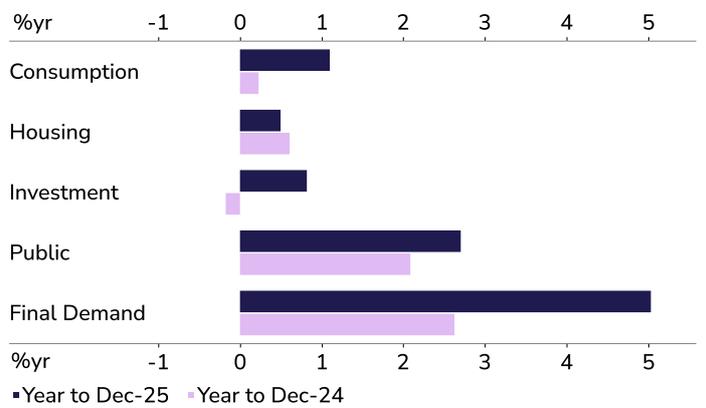
Risks from Middle East conflict? As fuel carries the same weight in both the Adelaide and national CPI baskets, fuel-related consumer inflation risks are not outsized in SA, particularly given that headline inflation is starting from a lower base. As such, the negative impact on growth is expected to be broadly in line with the national average. Looking ahead, the risks from a broader-based energy price shock, through spillovers into gas and coal prices, are likely to be more muted in SA, reflecting the state’s relatively high share of renewable-based energy production.

State final demand: SA vs Australia



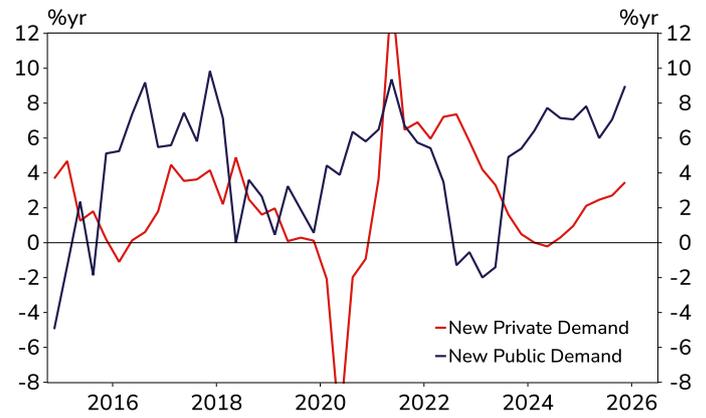
Source: ABS, Macrobond, Westpac Economics

SA: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Both public and private demand accelerating



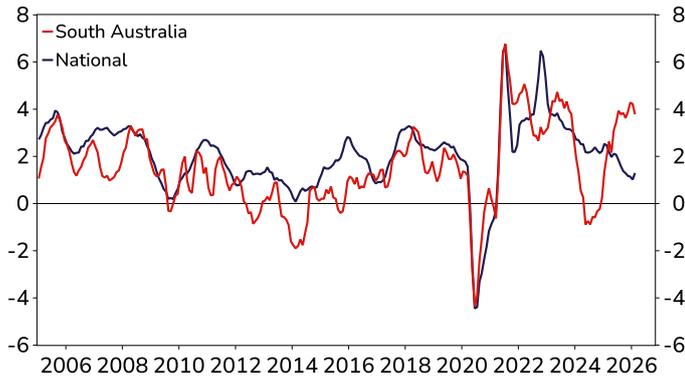
Source: ABS, Macrobond, Westpac Economics

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... of strong growth and relatively low inflation

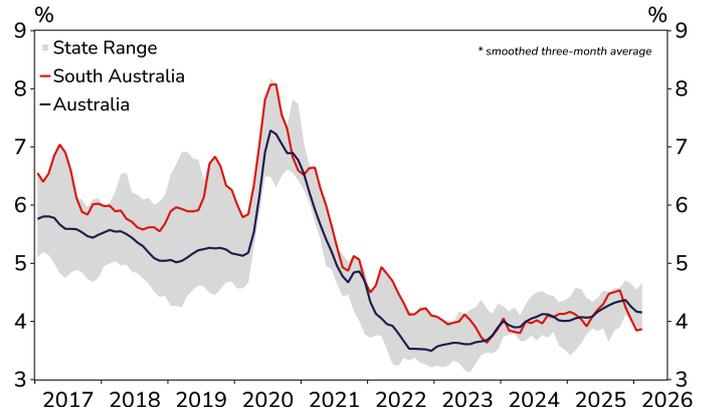
Labour market bouncing back after tough patch ...

Year-ended growth in employment, three-month average basis



Source: ABS, Macrobond, Westpac Economics

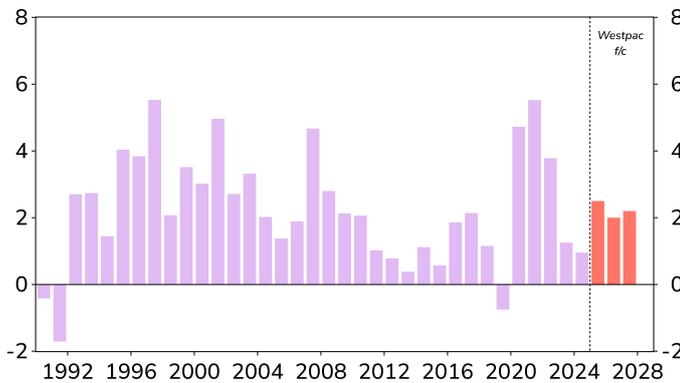
... and unemployment rate is very low



Source: ABS, Macrobond, Westpac Economics

Economic outlook is promising

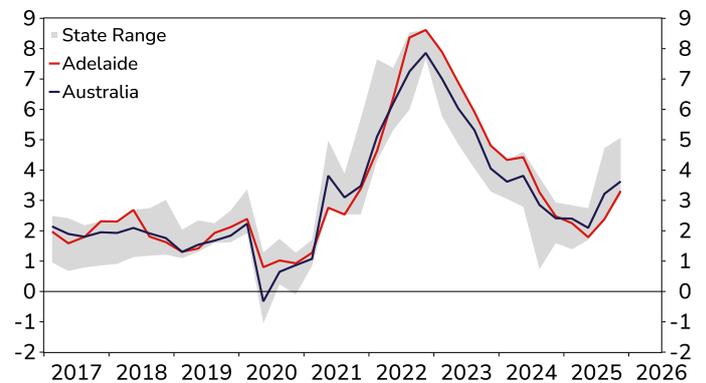
Growth in Gross State Product (GSP), financial years



Source: ABS, Macrobond, Westpac Economics

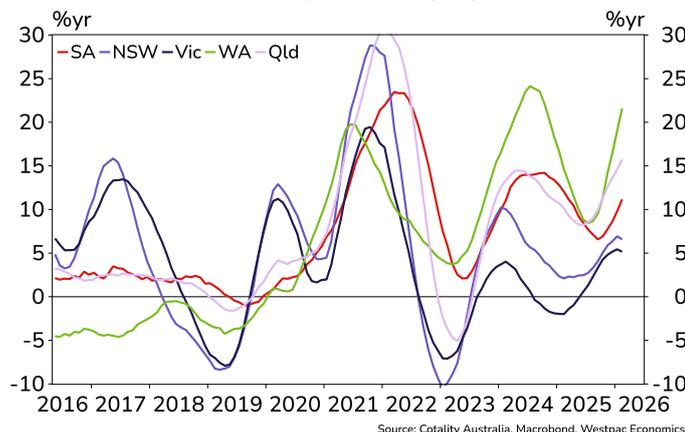
No clear signs of localised inflation pressures

Year-ended growth in headline inflation (quarterly)



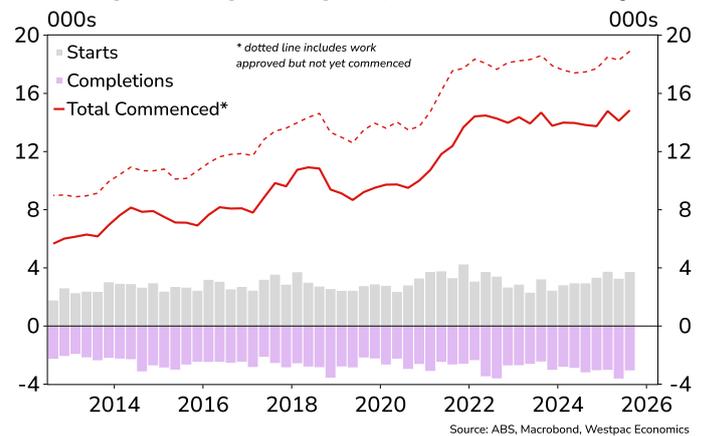
Source: ABS, Macrobond, Westpac Economics

SA house price upswing re-emerging



Source: Cotality Australia, Macrobond, Westpac Economics

Dwellings moving through pipeline more quickly



Source: ABS, Macrobond, Westpac Economics

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Private demand the sole driver of growth ...

Neha Sharma
Economist

With the Spirit of Tasmania effects largely washed out, the picture that remains is one of below-trend growth. Weak dwelling investment and public demand are the main drags, alongside softer population growth. There are bright spots, notably, business investment, with the consumer offering only modest support.

How has the state performed? State final demand rose by 0.3%qtr in Q4, around half its long-run average pace. Even so, lumpiness across earlier quarters and favourable base effects saw annual growth finish at an above-average 2.8%yr. While trends have been softer than in many other states, per-capita growth remains solid at 2.3%yr, second only to SA.

A key stat that tells the story: Growth was again solely private-led, with new private demand up 0.9%qtr as new public demand declined -0.8%qtr. New business investment was the standout, rising 4.1%qtr – the strongest result nationally – driven by rebounds in engineering construction and M&E, which rose 7.3%qtr and 6.2%qtr respectively, following four quarters of declines. In contrast, new public investment fell -8.5%qtr, the steepest drop among the states, only partly offset by a 1.2%qtr lift in public consumption.

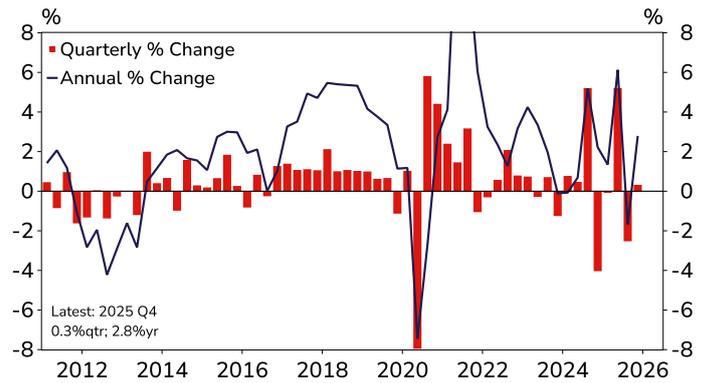
What has surprised? Tas has seen a marked upswing in dwelling prices, with gains of 1.0%+ over each of the past four months lifting annual growth to a 42 month high of 8.2%yr. New dwelling finance has also strengthened materially. Lending rose 7.7%qtr in Q4, driven by an 18.9%qtr surge in investor activity. By contrast, owner-occupier lending recorded the weakest increase nationally at 2.9%qtr though first home buyer (FHB) lending declined, being the only state to see a fall despite the expansion of the FHB guarantee scheme.

How can things improve? The consumer is key. Accounting for a little over 50% of Tas' economy, household consumption rose a modest 0.3%qtr and was the weakest nationally on an annual basis, at 1.7%yr. A softening labour market appears to be the key drag. Tas currently has the highest unemployment rate in the country at 4.7% (3mma) and is the only state where labour market conditions continue to ease, while other states have seen some recent tightening. This backdrop is also below average wages growth. Improving dwelling investment is another priority as it has now declined for four straight quarters and is down -2.0%yr, making it the only state to record an annual contraction.

Where are we expecting? We maintain our FY26 GSP growth forecast at 1.4%, but have downgraded FY27 to 1.0%. The outlook is held back by a lack of momentum in household spending, reflecting the softest labour market and consumer sentiment nationally. This fragility is partly offset by Tas' strong business sentiment – the highest in the country – though this support may prove short-lived given global uncertainties and businesses' relatively high exposure to energy inputs, at around 50c per dollar of output (or GVA).

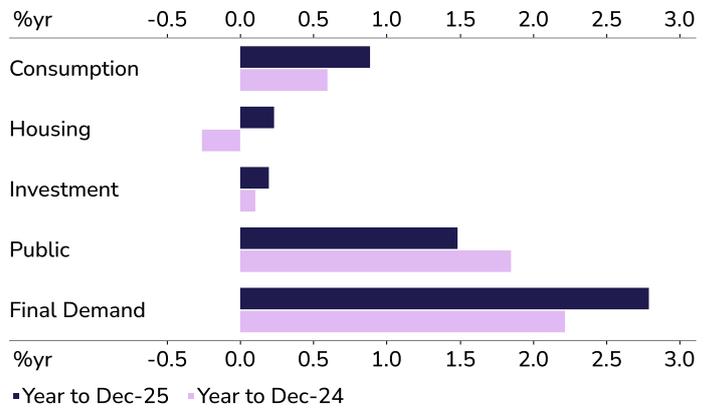
TAS State Final Demand

Chain Volume Measures



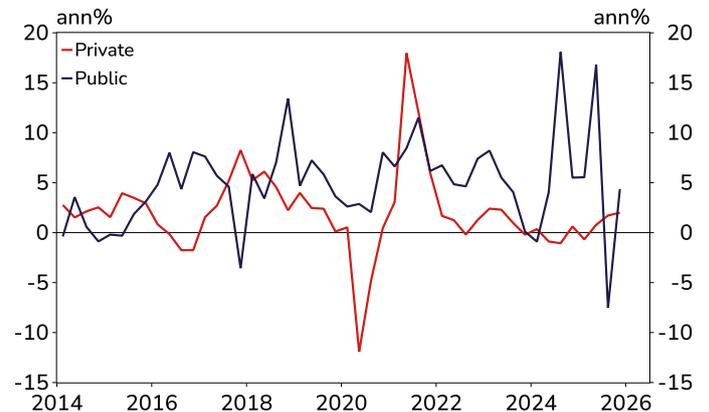
Source: ABS, Macrobond, Westpac Economics

Tas: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Tas Public vs Private Demand

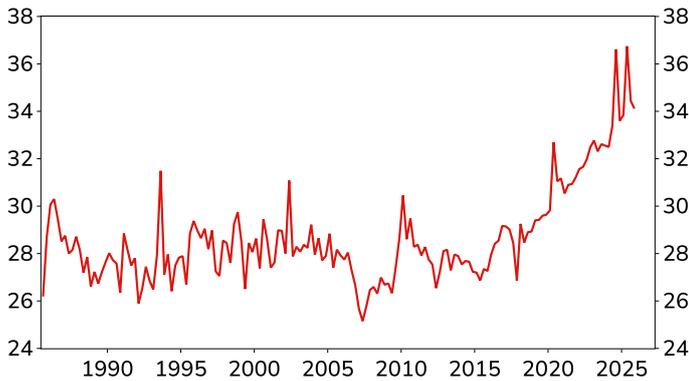


Source: ABS, Macrobond, Westpac Economics

... but within sector composition is skewed

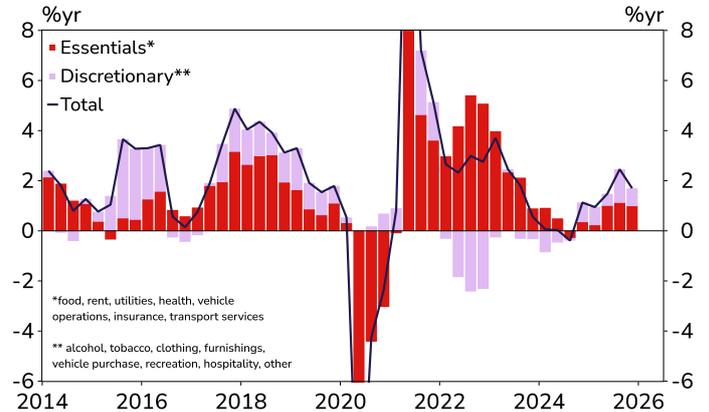
Public sector contribution normalising

Public Demand % Share of SFD



Source: ABS, Macrobond, Westpac Economics

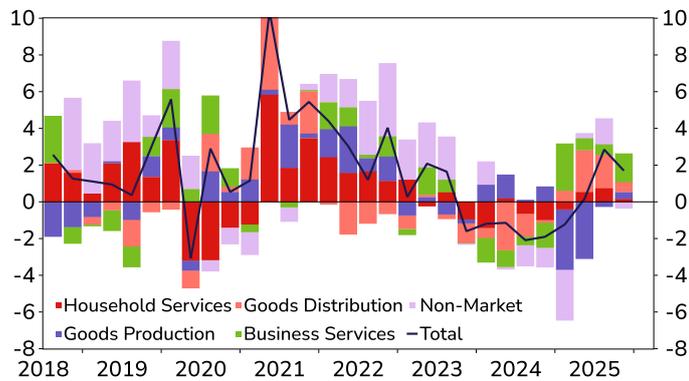
Household spending outlook less promising



Source: ABS, Macrobond, Westpac Economics

Have likely surpassed the peak in jobs growth ...

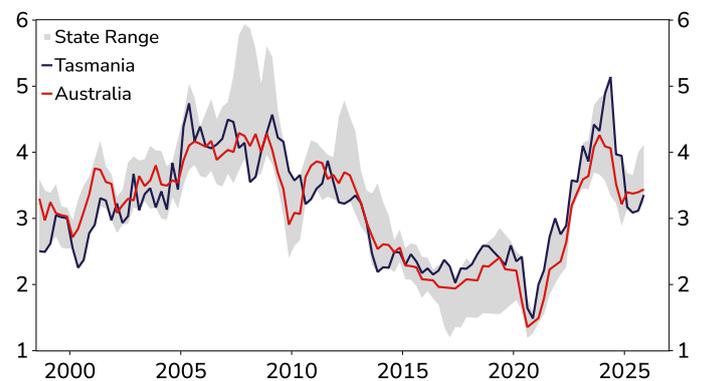
Contribution to year-on-year percentage change



Source: ABS, Macrobond, Westpac Economics

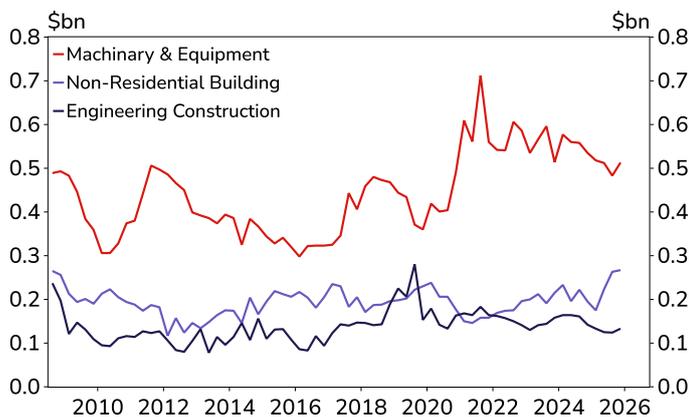
... as wages growth continues to converge

Wage Price Index, Annual Change (%)



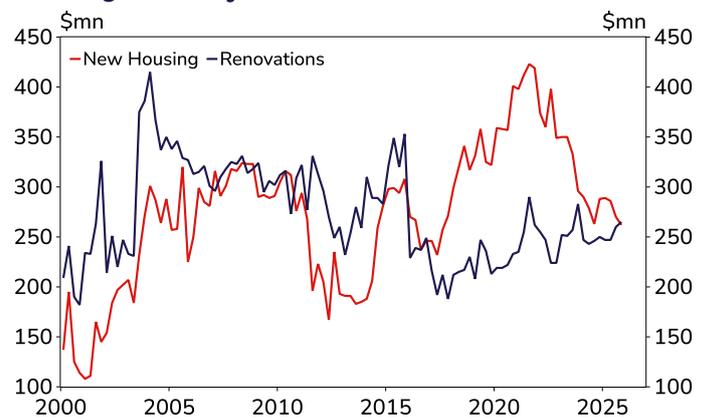
Source: ABS, Macrobond, Westpac Economics

New business investment



Source: ABS, Macrobond, Westpac Economics

Housing recovery absent for now



Source: ABS, Macrobond, Westpac Economics

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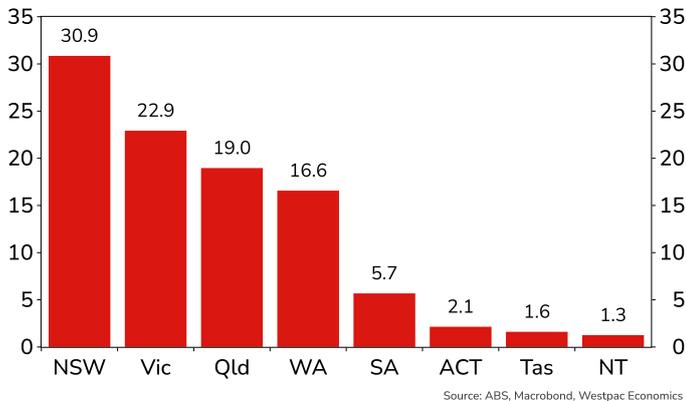
Forecasts: state activity and employment

		2024/25	2025/26		2026/27		2027/28	
		Actual	Govt f/c	Westpac Est ^a	Govt f/c	Westpac f/c	Govt f/c	Westpac f/c
Australia	GDP	1.3	2¼	2.3	2¼	2.2	2½	2.5
	Employment	2.2	1¾	1.4	1½	1.9	1¾	1.9
NSW	GSP	0.9	1½	1.9	2½	2.0	2¼	2.4
	Employment	1.5	¾	0.7	1¼	1.8	1¾	2.0
Vic	GSP	1.1	2¼	2.1	2½	2.0	2½	2.4
	Employment	2.5	1¼	1.9	1½	1.6	1¾	1.9
Qld	GSP	2.2	2¾	2.8	2½	2.5	–	2.7
	Employment	3.1	1½	0.8	1½	2.0	–	2.3
WA	GSP	1.3	2¼	2.5	3.0	2.5	2½	2.7
	Employment	3.1	1¼	1.2	1½	2.3	1½	2.1
SA	GSP	1.0	2¼	2.5	2.0	2.0	2.0	2.2
	Employment	1.4	2½	3.8	1.0	1.8	1.0	1.8
Tas	GSP	1.0	1½	1.4	1¾	1.0	2¼	1.2
	Employment	-1.0	1½	1.2	¾	1.0	1¼	1.4

* 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. ^a Westpac GSP estimate based on state final demand, state international trade flows and national figures on inventories.

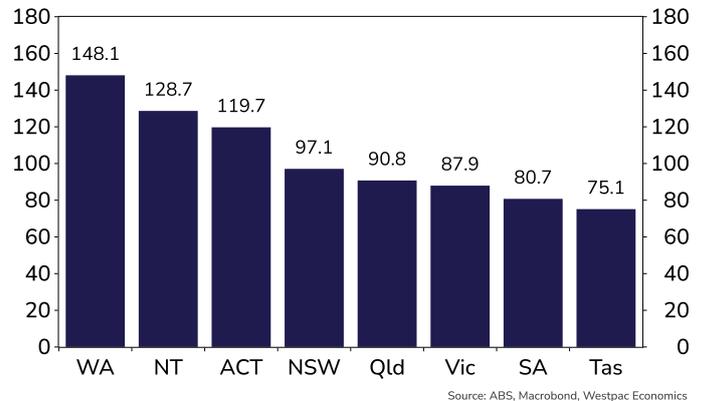
Shares of GSP

Real, Chain Volumes, 2024/25, Percentage

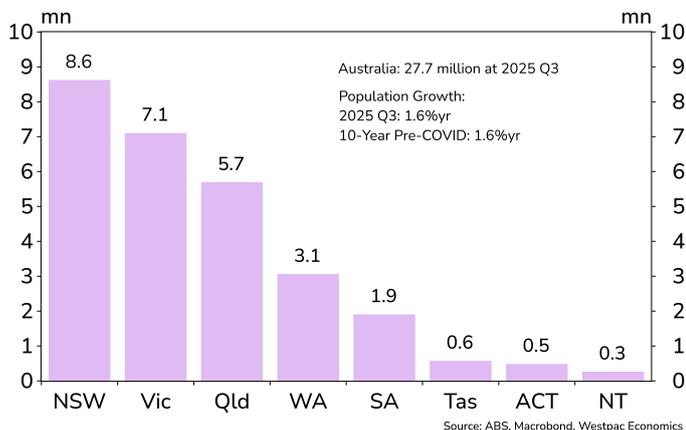


GSP per capita

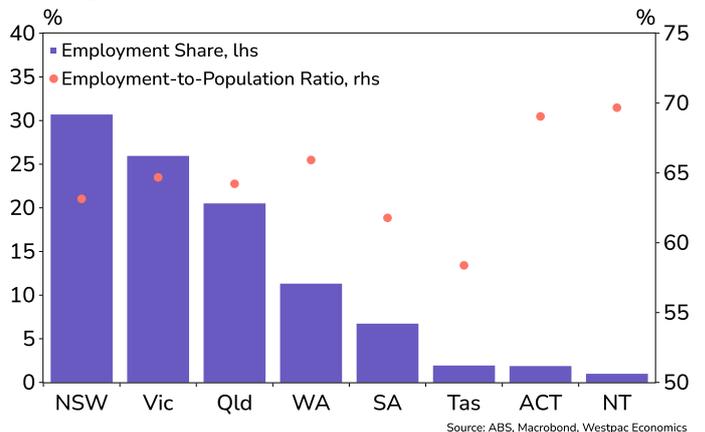
Real Chain Volumes, 2024/25, \$000s



Population by state



Employment shares and population ratios



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