



4 March 2026

AUSTRALIAN GDP Q4 BULLETIN

Productivity: Total 1.0%yr, Market Sector 1.5%yr.

Key points

- The Australian economy grew by 0.8%qtr in the December quarter. This increase and revisions to previous quarters left year-ended growth at 2.6% – the strongest since the March quarter 2023.
- The Q4 national accounts reinforce the view that the economy is now in the upswing phase of the cycle, with momentum clearly accelerating in the second half of 2025. But there are caveats: consumer spending surprisingly slowed in Q4, even as overall domestic demand strengthened.
- As we predicted, the supply side of the economy is normalising with productivity growing 1.0%yr across the economy and 1.5%yr in the market sector. This has helped slow growth in the economy's cost base, with growth in unit labour cost easing to below 4%yr for the first time since the pandemic.
- Whether this improvement can be sustained remains uncertain. A further acceleration in demand and a retightening in labour market conditions could see wages growth and hours worked reaccelerate, placing renewed upward pressure on costs and risking a reversal of recent progress. This is not yet in evidence, though, and domestic inflation pressures could subside quickly if demand instead slows.

GDP: December Quarter 2025

	% qtr		% yr	
	Sep	Dec	Sep	Dec
Household consumption	0.5	0.3	2.6	2.4
Dwelling investment	2.0	0.6	6.3	5.5
Business investment*	3.8	0.5	4.2	4.4
Private final demand*	1.3	0.4	3.2	3.2
Public spending*	1.3	0.8	1.4	2.1
Domestic demand	1.3	0.5	2.7	2.9
Stocks – private non–farm #	-0.3	0.2	-0.2	-0.1
Stocks – other #	-0.2	0.1	-0.2	0.2
GNE	0.8	0.9	2.3	3.0
Exports	1.4	1.4	3.5	5.2
Imports	2.0	1.8	4.7	6.7
Net exports #	-0.1	-0.1	-0.2	-0.3
Statistical discrepancy #	-0.2	0.0	0.0	-0.2
Non–farm GDP	0.5	0.8	2.0	2.5
GDP, real	0.5	0.8	2.1	2.6
GDP, nominal	1.9	1.8	5.4	6.0
GDP deflator	1.5	1.0	3.3	3.3
Household deflator	1.0	0.9	3.1	3.2
Earnings per worker (non–farm)	1.8	0.7	5.4	4.8
Real household disposable income	0.8	1.0	3.8	3.7

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

Q4 GDP: 0.8%qtr, 2.6%yr
Q4 Domestic Demand:
0.5%qtr, 2.9%yr

A Strengthening Recovery, with Caveats

Westpac Economics

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

The December quarter National Accounts show Australia's recovery accelerated over the final quarter of 2025, with the economy expanding 0.8%qtr to be up 2.6%yr in year-ended terms.

The quarterly outcome was in line with the median market expectation but softer than Westpac Economics' final nowcast of 1.1%qtr. Our miss was fully explained by a surprise slowdown in consumer spending (1.0%qtr expected vs 0.3%qtr outcome). Revisions to previous quarters saw the year-ended outcome print at 2.6% over 2025, which was bang on Westpac Economics' nowcast, and stronger than the 2.3%yr expected by the market.

The Q4 national accounts reinforce the view that the economy is now in the upswing phase of the cycle, with momentum clearly accelerating in the second half of 2025. Growth in domestic demand stepped up materially, running at 3.8% in six-month annualised terms in H2, almost double the 2.1% pace recorded in the first half of the year. This acceleration points to a broadening recovery rather than a narrow, policy-driven rebound.

That said, the composition of growth matters. Consumer spending surprisingly slowed in Q4, even as overall domestic demand strengthened. This implies the cyclical lift is being carried more by business investment, public demand and housing construction, rather than a full re engagement of households.

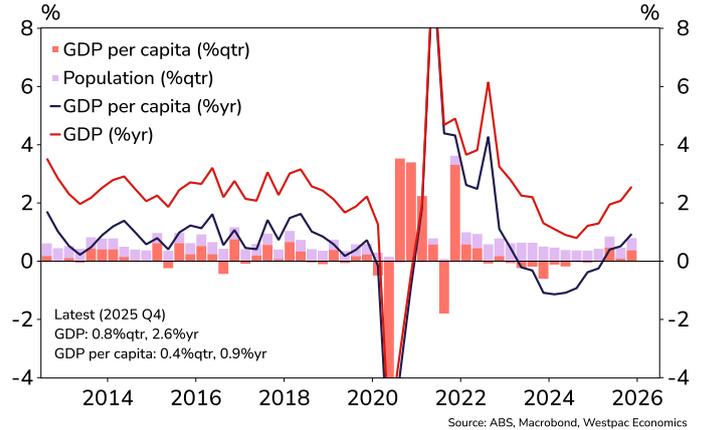
Strong growth in employee compensation (up 6.4%yr) and profits (private profits grew 3.3%yr and with gross mixed income up 8.5%yr – a 4.5-year high) through 2025 provides a solid foundation for further gains in spending, hiring and incomes. **Indeed, the picture as at late 2025 suggests the economy was well-placed to transition to a self-sustaining expansion in 2026.**

Of course, since then inflation and interest rate developments point to more significant headwinds domestically with the global backdrop also becoming more unsettled due to conflict in the Middle East. Both are likely to weigh on demand near term.

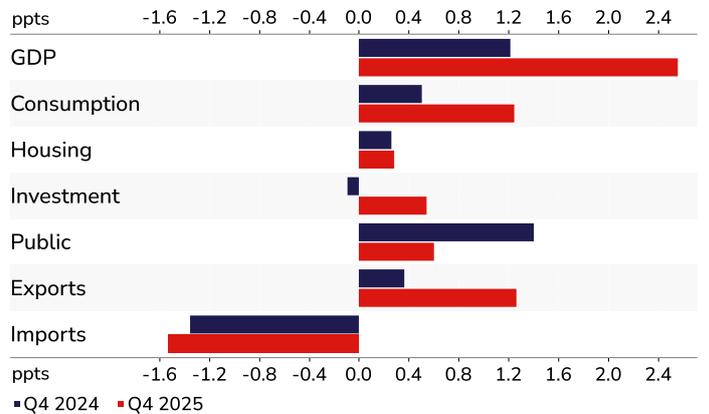
At the same time, the economy appears to have ended 2025 under less strain than might otherwise have been expected. Softer consumer spending, combined with a welcome lift in productivity, suggests demand may not be outpacing capacity by as much as feared. This has important implications for inflation dynamics.

For the RBA, the demand mix and improvement in productivity will offer some reassurance, particularly on the cost side of the economy. However, the overall pace of demand growth is still well above its assessments of potential and inflation risks have not disappeared. The economy appears to be in a cyclical upswing but requires careful calibration of policy to ensure that stronger growth does not add to inflation pressures.

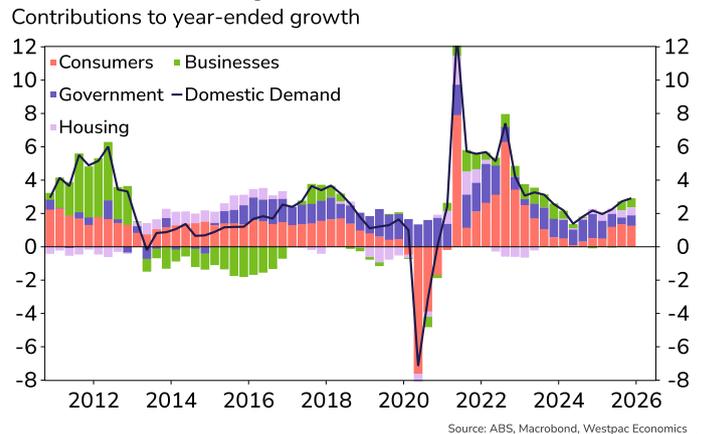
GDP growth accelerated into year-end



GDP: year-end contributions



Domestic demand growth continues to advance



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GDP: the expenditure estimate, ‘no need for a handover’

The national accounts expenditure estimates confirmed that growth was broad based across major categories. Consistent with the message from the partials received earlier this week, inventory build-up was a significant driver. Beyond that, growth in major domestic demand components was positive, but not as strong as we expected.

Domestic demand – spending by consumers, businesses, and government – grew by 0.5%qtr in the December quarter. This is a marked slowdown from the 1.3%qtr pace seen in the September quarter but broadly in line with the average over the last two years. On the year-ended basis, domestic demand momentum remained solid, at 2.9%yr, above our estimate of the economy’s potential growth rate of around 2¼%. Growth in Q4 was evenly shared between public and private demand, with both sectors contributing materially to the overall outcome.

New public demand supported the economic expansion, rising by 0.8%qtr. Growth was driven primarily by state and local government expenditure which increased by 1.0%qtr. The ABS attributed this strength to higher expenses across health, education and police services, alongside increased electricity rebates across New South Wales, Western Australia, and the ACT. Public consumption rose 0.9%qtr, easing from the 1.1%qtr increase recorded in the previous quarter. Meanwhile, new public investment growth moderated to 0.4%qtr after last quarter’s strong 2.2%qtr result. Commonwealth government investment grew 3.3% driven by higher defence-related investments.

New private demand grew 0.4%qtr and 3.2% in year-ended terms. The main surprise here was **consumer spending** which posted a subdued quarter, increasing just 0.3%qtr and 2.4%yr, following a 0.5%qtr in the September quarter. This was the softest read since the September quarter 2024. Gains were concentrated in discretionary spending while consumption of electricity, gas, and other fuels dampened the headline figure due to the increase in electricity rebates, which are recorded as government expenditure and a decline in the actual volume of electricity consumed. We estimate that electricity rebates on their own reduced consumer spending by around 0.2ppts in Q4.

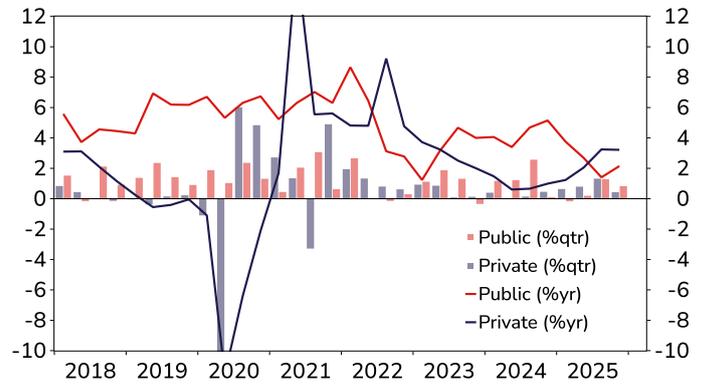
Despite this, with population growth projections running at 1.6%yr, consumption per capita has started to post sizable increases (around 0.8%yr). These gains have been supported by rising real incomes which grew 1.0%qtr and 3.7%yr in Q4, a marked step up from where we were just a year ago (3.1%yr in Q4 2024).

Dwelling investment growth slowed from 2.0%qtr in Q3 to 0.6%qtr in Q4. The outcome was broadly in line with our expectations based on partials data; new dwelling construction rose 1.4%qtr, while renovations dragged, declining 0.2%qtr. The healthy pipeline of projects should support housing construction activity going forward.

Growth in new **business investment** softened considerably after last quarter’s strong 3.8%qtr outcome, but remained elevated, increasing by 0.5%qtr and 4.4%yr. The Q4 result was

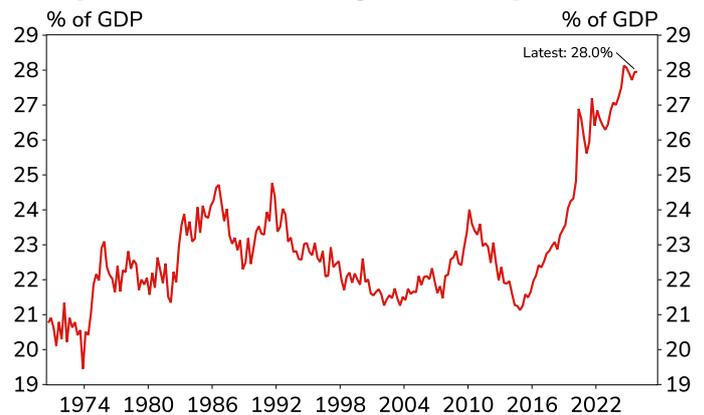
Both public and private demand grew solidly in Q4

New Public & Private Demand, Quarterly and Annual % Changes



Source: ABS, Macrobond, Westpac Economics

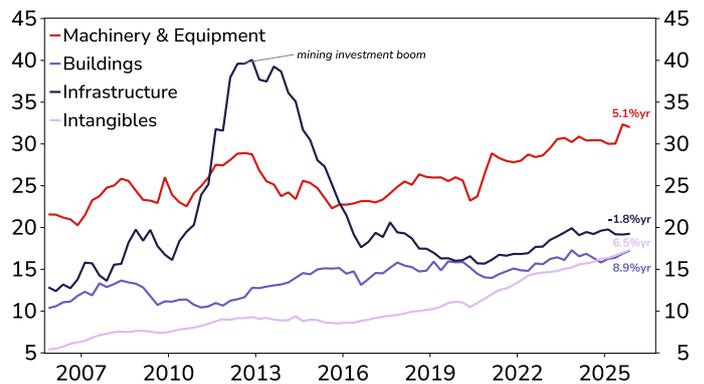
New public demand holding around its peak



Source: ABS, Macrobond, Westpac Economics

Business investment picking up broadly

New Business Investment by Asset Type (AUDbn)



Source: ABS, Macrobond, Westpac Economics

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nonetheless stronger than expected, with increases recorded across most of the asset classes. New private non-dwelling construction led the increase, rising 1.2%qtr, with the ABS highlighting data centre investment across Victoria and New South Wales as a key driver. In contrast, new investment in machinery and equipment fell 1.1%qtr, partly unwinding last quarter's sharp 7.7%qtr rise associated with the data-centre build-out. Going forward, investment in structurally-driven industries, including energy generation and AI/data centres) should support investment levels. This is consistent with capex expectations which point to further growth over the next 18 months or so.

Trade figures were consistent with yesterday's Balance of Payments data showing that **net exports** detracted 0.1ppt from quarterly GDP growth, marking the sixth negative result in the past two years and continuing the post-pandemic trend where the external sector has generally weighed on activity. Imports increased by 1.8%qtr, with robust domestic demand and inventory accumulation driving higher goods inflows. Exports grew by 1.4%qtr, lagging behind the pace of imports.

Inventories met expectations, contributing 0.36ppts to growth and partially reversing the -0.5ppt drag recorded in the September quarter. Both public and private inventories added 0.2ppts each, supporting overall GDP performance.

Household sector

The consumer provided the main surprise in the December quarter. Household consumption rose just 0.3%qtr, well below our expectation of a 1% gain. Annual growth slowed slightly to 2.4%yr (+0.8%yr in per capita terms). Incomes were broadly as expected in nominal terms but a more muted than expected rise in the consumption deflator (which is tracking slightly below trimmed mean inflation measures) meant real income growth was firmer. The mix saw the household savings ratio rise to 6.9%, a 3½ year high.

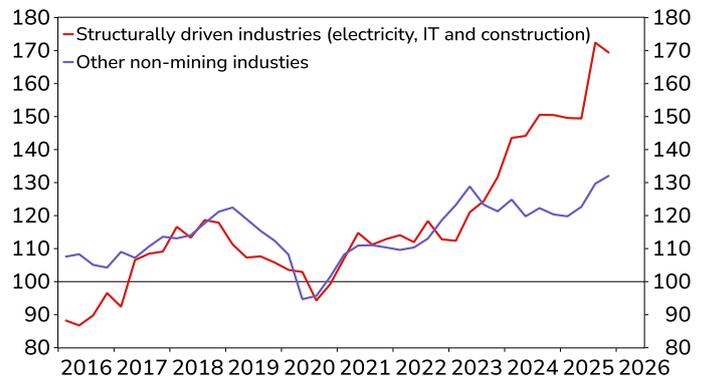
While the annual growth pace eased slightly, the picture is more like a steadying rather than a slowing once a bigger-than-expected effect from increased state electricity rebates is excluded (an effect that will more than reverse as rebates resume rolling off in coming quarters). We are also wary that the ABS may be under-estimating some spending components, particularly international payments.

The early signals for Q4 had been much stronger. The ABS household spending indicator posted a robust 0.9% rise in Q4 in real terms to be up 2.4%yr. Our **Westpac-DataX Card Tracker** (which has more expanded coverage) pointed to an even stronger gain in nominal terms, with much of that strength coming from 'international' transactions which are not covered in the household spending indicator but are in-scope for the national accounts measures.

The detail shows the biggest single drag came from a 9.5%qtr decline in utilities (i.e. electricity, gas and water). The ABS noted that 6.2ppts of this was due to increased government rebates (the measure captures 'out-of-pocket' spend net of rebates). This effect is set to reverse in coming quarters as all rebates expire.

CAPEX by sector

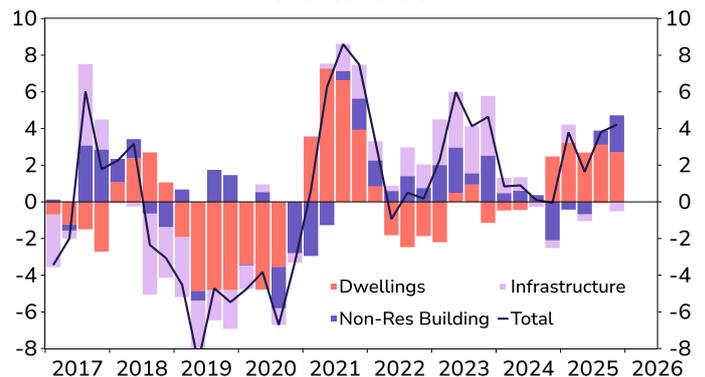
Index 2020 = 100, Chain volume measures



Source: ABS, Macrobond, Westpac Economics

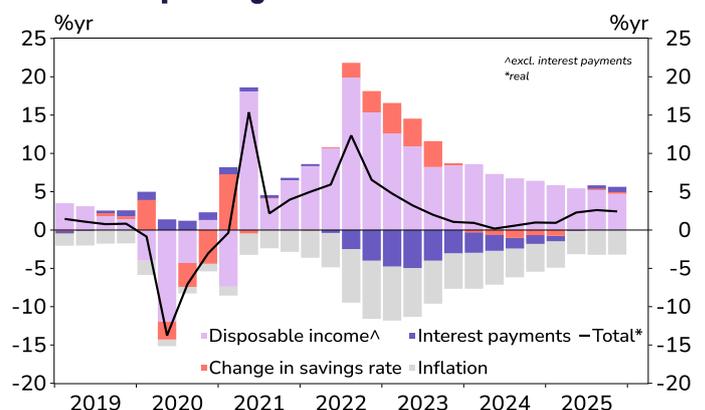
Infrastructure disappoints, housing solid

Private Construction Activity by Type (%yr)



Source: ABS, Macrobond, Westpac Economics

Consumer spending: drivers and headwinds



Source: ABS, Macrobond, Westpac Economics

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Motor vehicle purchases also surprised significantly to the downside, recording a 4.6%qtr drop, the largest since supply chain disruptions hit in mid 2022. The result was despite industry figures that suggested total industry sales (including to businesses and government) of passenger vehicles and SUVs were about flat in the quarter. The gap likely reflects sectoral differences (i.e. a fall in consumer purchases more than offset by gains elsewhere).

The continued collapse in tobacco sales also had some effect at the margin – with an 11.3%qtr drop in the quarter taking 0.1ppts off headline growth. Spend is down 28%yr and has halved over the last 2½ years. This almost certainly relates to rising illegal tobacco sales which is likely seeing demand either missed altogether by official statistics or being captured (e.g. in transaction data) but with incorrect prices applied based on legal products, resulting in exaggerated volume declines.

Across other categories, the quarter saw relatively strong gains for household goods (+2.1%qtr), cafes & restaurants (+1.4%qtr), health (+1.3%qtr), and clothing & footwear (+1.3%qtr) contributed +0.4ppts to the gain overall. Recreation & culture (+0.8%qtr), insurance & finance (+0.8%qtr) and transport services (+0.9%qtr) added another 0.2ppts.

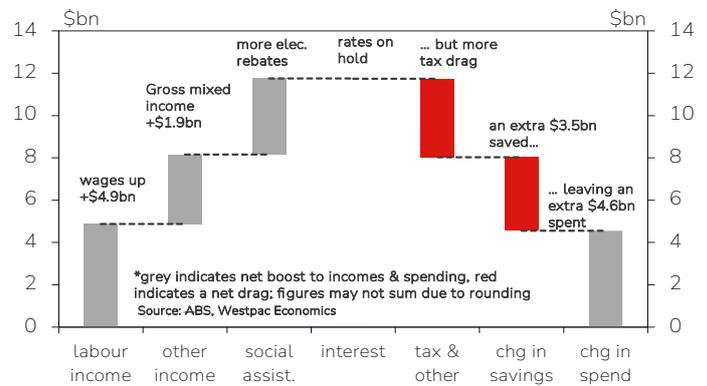
Around incomes, the picture was relatively solid. Total wage income rose 1.4%qtr, down a touch on the 1.6%qtr average over the previous three quarters, with annual growth moderating to 6.5%yr. Other income sources posted robust gains in the quarter: gross mixed income (covering farms and small businesses) up 3.9%qtr to be up 8.5%yr, property income tracking more slowly, up 0.8%qtr, 2.7%yr. Total gross income rose 1.9%qtr holding annual growth at 6.6%yr.

Interest payments were essentially unchanged in the quarter – the RBA leaving rates on hold – but tax payments posted another robust 3.4%qtr gain to be up 10.4%yr.

Overall, nominal disposable income rose 1.8%qtr, with annual growth moderating slightly to 6.9%yr but still well above the pre-COVID decade average of 4.3%yr. Real (inflation-adjusted) disposable income increased 1%qtr, annual growth running at 3.7%yr. Notably, the inflation drag moderated slightly in the quarter; the consumption deflator was up 0.8%qtr vs 1%qtr in Q3.

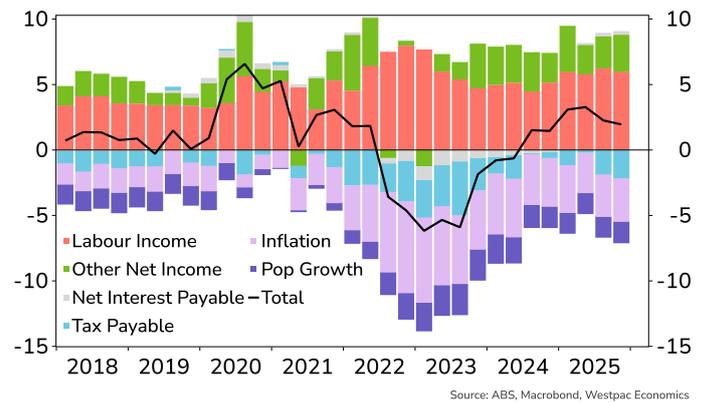
With disposable incomes outpacing nominal consumption (+1.1%qtr), the household savings ratio rose again, hitting 6.9%, up from 6.1% in Q3 and 5.8% in Q2. This is the highest ratio since mid-2022. Overall, the mix suggests households are in relatively good shape financially with scope for lower savings to cushion against future shocks to disposable income, e.g. from higher interest payments.

Household income flows: change, Q3 to Q4

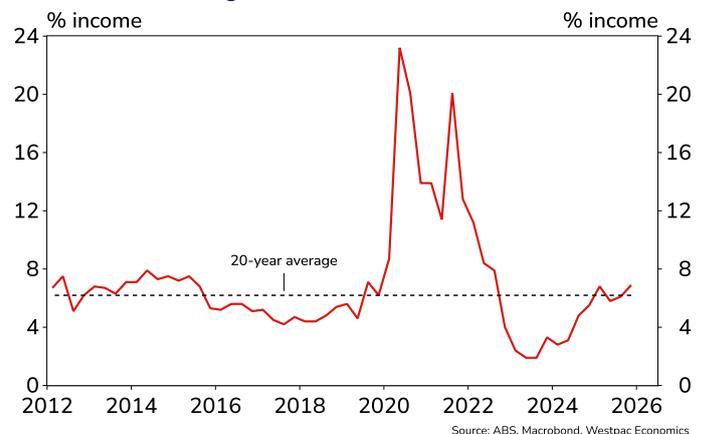


Household incomes are recovering

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



Household savings ratio



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The states

New South Wales held onto recent momentum, state final demand advancing 0.6% in Q4 to be up 2.6%yr, slightly under the national average. Public investment is starting to lift after having declined earlier and more sharply compared to other states. After excluding the impact of energy rebates – which mechanically reduced household consumption across many states – spending appears to be stable in NSW. The sustained pick-up in new housing construction (+4.9%yr) is certainly welcome, but signs of a broader cyclical upturn in new business investment is limited, with new machinery and equipment spending broadly flat over 2025.

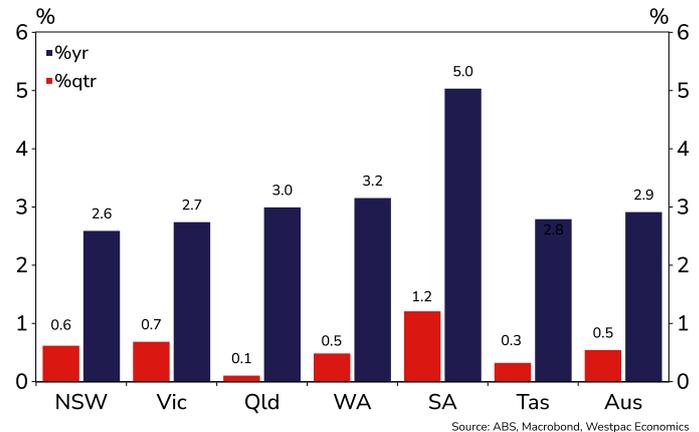
Victoria performed similarly to NSW, state final demand up 0.7% (2.7%yr) in Q4. However, the growth composition has some clear differences. Most notably, Victoria is benefitting from a relatively stronger pick-up in household consumption (+2.5%yr), in line with stronger population growth. There are also signs of a cyclical upturn in business investment, with new machinery and equipment up 6.6%yr. However, the sheer decline in momentum in engineering construction is acting as a clear drag on growth – especially at a time where new public investment is no longer filling in the gap.

Queensland's state final demand barely eked out a gain of 0.1% in Q4, although the annual pace is still in line with the national average at 3.0% given solid growth in previous quarters. The broader theme of a soft finish to a solid year was evident in new dwelling construction and business investment. After excluding electricity rebates, household consumption rose by a similar amount to other states in Q4 and is up solidly over the year. Growth in public consumption has pulled back markedly over 2025, but ongoing investment in renewable energy and major infrastructure projects ahead of the Olympics suggests some upside is yet to come.

Western Australia continues to expand at an above-average pace, state final demand growing by 0.5% (3.2%yr). The more eye-catching development over recent quarters has been the sharp pull-back in new public demand over 2025 (-0.3%yr) after an extended period of strength. But unlike Queensland, this is being driven almost entirely by an unwind in new public investment (-21%yr). This has given way for new business investment to fire on all cylinders (+8.4%yr), as growth in new machinery and equipment spending is coupled with an upturn across both dwelling and non-dwelling construction. Together with the characteristically persistent strength in household consumption, WA remains the clear posterchild for a self-sustaining upturn.

South Australia beat all other states in Q4 and over 2025 as state final demand rose 1.2%qtr and 5.0%yr. This relative outperformance was driven by the public sector – most notably, new public investment is rising at an incredible pace of +25%yr, versus the national average of a -2.7%yr decline. Outside of this, the private sector also remains on a solid footing, with new business investment (+7.4%yr) and housing investment (+8.5%yr) both above-average. These results are making up for a relatively slower recovery in household consumption, even after accounting for the noise with electricity rebates.

State final demand: 2025 Q4



Tasmania has been a mixed bag over 2025, oscillating between extreme gains and declines in state final demand. Now that much of the noise associated with the acquisition of the Spirit of Tasmania ships has been worked through, the island state finished the year with a 0.3% lift, bringing annual growth back up toward the national average. While new public demand is providing support (3.7%yr), the private sector is showing a slower upturn in household consumption (1.7%yr), falling housing construction (-2.0%yr) and a narrow base for business investment.

GDP(P)

At the industry level, GDP(P) rose by 0.8%qtr, from 0.5% in the previous quarter, lifting annual growth to 2.6%. The agriculture and mining sectors together accounted for around half of the quarterly increase. Both industries recorded a solid rebound in activity, driven by a recovery in iron ore and coal production, alongside higher grain and livestock output following declines in the previous quarter.

Excluding agriculture and mining, growth across the remainder of the market sector was a healthy 0.7%qtr, only slightly slower than the 0.8% recorded in the previous quarter. This outcome reflected broadly based but more moderate growth across most industries, with only two sectors contracting over the quarter – Construction and Arts & Recreation Services.

Construction output declined by 0.5%qtr, representing a relatively modest pullback following the strong 2.0% rise in the September quarter. The fall was largely driven by weaker construction services activity, particularly site preparation. This softness is likely to be temporary given the sizeable pipeline of residential and non-residential building work ahead, including data centres, with positive flow on effects already evident in related industries such as Information, Media and Telecommunications.

The decline in Arts & Recreation Services was more unexpected. However, the details indicate that the 1.0% quarterly fall was driven by lower gambling activity. More broadly, while aggregate household spending was slower

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than expected, momentum in both Accommodation & Food Services and Retail Trade picked up, supported by international arrivals for events such as the Ashes and still healthy household spending. Domestic and international travel also underpinned strong growth in Transport, Postal and Warehousing.

In contrast, activity across the non-market sectors was more subdued. Education continued to post above-average growth, while health activity slowed further. As a result, overall non-market sector output rose by just 0.2%qtr, the weakest outcome in a year.

GDP(I)

Real GDP(I) rose 0.8%qtr in December, accelerating from 0.3%qtr in the previous quarter, and 2.4%yr – the strongest pace since September 2018 (excl. COVID). In nominal terms, growth eased 0.1ppts to 1.8%qtr, while annual growth strengthened to 6.0%yr (all figures below are also nominal).

Compensation of employees moderated to 1.4%qtr, with private and public sector wages growing in tandem. Annual growth eased to 6.4%yr. Growth was supported by higher headcount, hours worked and wages. Private sector growth was led by Health Care & Social Assistance following childcare wage reforms, with Construction and Professional Services also contributing amid higher activity.

Gross operating surplus for private non-financial companies rose 1.9%qtr. Mining strengthened on higher demand for metal ores, gold and lithium, alongside firmer coal prices. Transport & Warehousing growth reflected stronger sales and lower costs for air travel, with warehousing supported by a strong grain harvest. Professional Services also rose, underpinned by renewables activity, partly offset by declines in administrative services and arts & recreation due to higher expenses. Financial corporations recorded a 2.3%qtr/8.9%yr lift – the strongest annual pace since June 2015 (excl. COVID).

Gross mixed income, covering unincorporated businesses such as sole traders and partnerships, rose 3.9%qtr, lifting annual growth to 8.5%yr – a 4.5 year high.

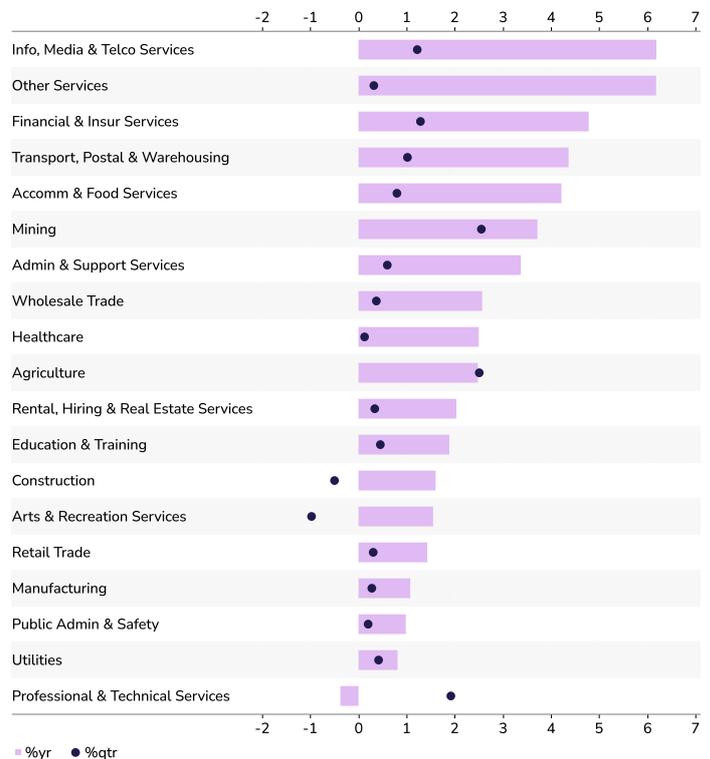
Prices, wages, labour costs and productivity

Prices

The headline price measure in the National Accounts, the GDP Implicit Price Deflator (IPD) lifted 1.0%qtr in the December quarter following a 1.4%qtr gain September, a small -0.1%qtr fall in June and a 1.0%qtr bump in March. The gain in the IPD reflected a robust rise in the Domestic Final Demand (DFD) deflator of 0.8%qtr boosted by a 0.4%qtr gain in the terms of trade, a second consecutive gain.

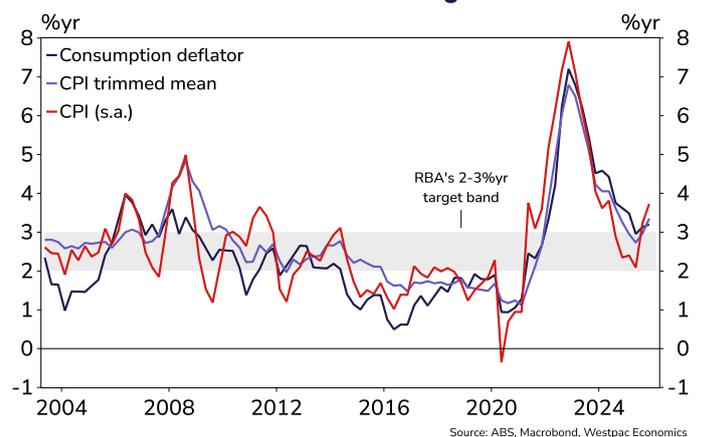
The terms of trade rose as export prices outpaced import prices. Export prices increased 1.8%qtr, driven by higher rural goods prices, with meat prices supported by strong global demand and tighter livestock supply. This was partly offset by lower cereal grain prices amid strong global wheat production. Non-rural export prices fell 0.7%qtr, reflecting weaker other

GVA by industry



Sources: ABS, Macrobond, Westpac Economics

'Core' consumer inflation hovering above the band



Source: ABS, Macrobond, Westpac Economics

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mineral fuels, partly offset by higher iron ore prices. Import prices rose 1.4%qtr, driven by consumption and intermediate goods and higher travel services prices, while capital goods prices fell, reflecting the stronger Australian dollar.

In the year to the December quarter the GDP IPD gained 3.3%yr holding the fastest annual pace since June 2024.

The ABS noted that the 1.0% gain in the DFD deflator reflected ongoing price gains in construction due to ongoing competition for limited resources, particularly labour and concrete. Consumption prices rose across all categories, except for clothing and footwear due to discounting for Black Friday sales. Travel related prices such as accommodation and airfares increased due to the school holiday period coinciding with major sporting and music events in the quarter.

Government cost-of-living rebates have resulted in significantly higher volatility in the headline CPI but their impact on the equivalent National Accounts measure has been less pronounced given the National Accounts measure includes both household expenditure on electricity and the governments' contribution in the form of rebates. The Household Final Consumption (HFC) deflator rose 0.9%qtr in the December quarter to be up 3.2% in the year; the seasonally adjusted CPI lifted 0.8% in the December quarter to be up 3.7% in the year.

Over time HFC deflator tends to track closer to the Trimmed Mean (TM) measure of core inflation, and this continued in the December quarter with the TM posting a 0.9%qtr/3.4%yr pace.

Wages

The ABS reported that the total compensation of employees (COE), which is a total wage bill measure, increased 1.8%qtr in the December quarter. The RBA describes the labour market as relatively tight with the unemployment rate averaging 4.2% in the December quarter compared to 4.3% over the September quarter.

Hours worked grew 0.7%qtr with most of the gains coming via part-time workers (0.7%qtr) while full-time employee's hours were almost flat (0.1%qtr).

Both private and public COE gained 1.4% in the quarter. The private sector has the largest share of employees and total wage bill and here we saw a moderation from the 1.6%qtr gain in September. The September result was boosted by redundancies and bonuses in Financial & Insurance Services and Administrative & Support Services industries. In addition, the September quarter saw the Fair Work Commission's 2025/26 decision to raise the minimum wage. In the December quarter, Construction, Health Care & Social Assistance, Professional, Scientific & Technical services, and Mining industries were the main drivers. Weakness was reported in Information Media & Telecommunications, and Financial & Insurance services as redundancies payments and bonuses boosted the September quarter result.

Compensation per hour worked gives a somewhat better sense of shifts in wage rate inflation. Total COE per hour worked lifted 0.5%qtr in December, a step down from 1.4%qtr in September and 1.5%qtr in June with the annual pace pulling

back to 4.4%yr from 5.8%yr in September, the softest pace since March 2025.

Note that compensation per hour is not directly comparable to the Wage Prices Index (WPI). The WPI is almost a CPI for hourly wage rates while the COE is a wage bill measure. There are significant measurement and composition differences between the two, with the COE having much greater volatility than the WPI. The WPI lifted 0.8%qtr in December quarter holding for an annual pace of 3.4%yr.

Labour costs and productivity

Labour productivity, measured as GDP per hour worked, was flat in the December quarter following a 0.2%qtr gain in September and a 0.6%qtr gain in June and a 0.2%qtr lift in March holding the annual pace at 1.0%yr, which is better than the RBA's 0.7%yr assumption for trend productivity.

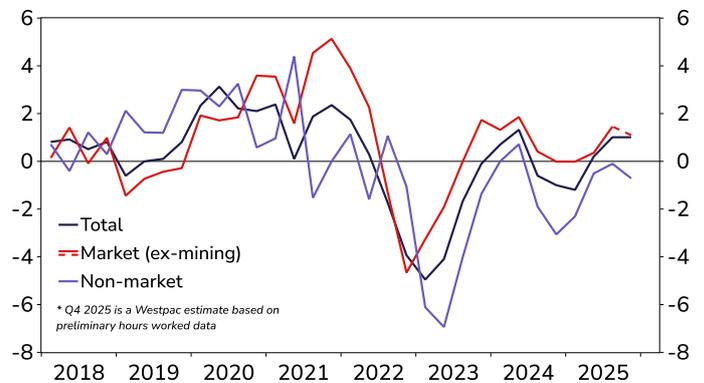
Output per hour outpaced COE per hour over the quarter, which saw nominal unit labour costs (ULCs) moderate to only lift 0.5%qtr. Overall growth in output costs has slowed with nominal unit labour cost lifting 3.3% in the year to December, a large step down from the 4.8%yr pace in September and 4.1%yr pace in June. In fact, it is the slowest pace of growth in nominal ULC since the first quarter of 2021.

More broadly, we continue to see signs of a 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, which turned around in the quarter.

Estimates of productivity growth disaggregated by sector for the December quarter are preliminary; we await final numbers on hours worked by sector in the Labour Account to be released on Friday.

Productivity by sector

Year-ended percentage change



Source: ABS, Macrobond, Westpac Economics

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Corporate Directory

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner

Head of Australian Economics & Industry
E: sian.fenner@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas

Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Neha Sharma

Economist
E: neha.sharma1@westpac.com.au

Luka Belobrajdic

Economist
E: luka.belobrajdic@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon

Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs

Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod

Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark

Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva

1 Thomson Street
Suva, Fiji

Shamal Chand

Senior Economist
E: shamal.chand@westpac.com.au



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