

4 May 2026

FORECAST UPDATE: THE STATES

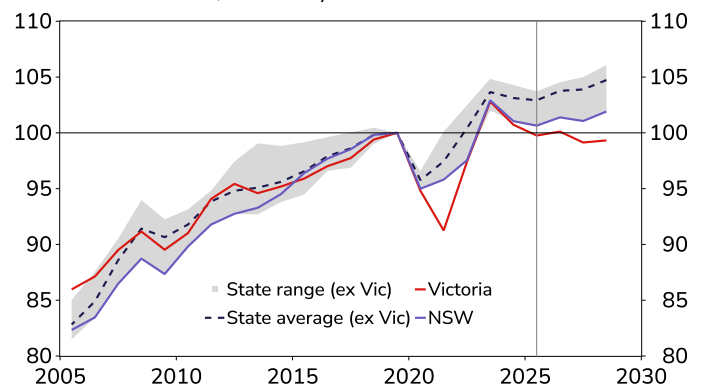
Mining resilient while consumer-led states under pressure

Key points

- After a relatively strong finish to 2025, our updated outlook points to an abrupt slowdown in the Australian economy through 2026 and into 2027 (see [here](#)). Here, we flow these aggregate changes through to the state level forecasts published in our March quarter Coast-to-Coast (see [here](#)), ahead of our June quarter Coast-to-Coast (due in late June).
- State performances are set to diverge again as national growth slows. Mining based states of Queensland and WA are expected to once again lead the pack, supported by elevated energy prices delivering sizeable income windfalls. SA is also relatively well positioned, underpinned by strength across both public and private activity.
- Consumption-led states set to slow sharply. NSW and Victoria are expected to underperform, with Victoria standing out as the only state where consumption per capita is expected to fall below FY2019 levels by FY2028.

Household consumption per capita

Index: FY2019 = 100, Financial years



Source: , Macrobond, Westpac Economics

- On our forecasts, consumption per capita in Victoria declines by around 3.5% cumulatively over the five years to FY2028, one of the largest and longest lasting contractions on record. However, Tasmania is expected to remain the laggard overall reflecting the state's much weaker population growth.

States to diverge as the household squeeze returns

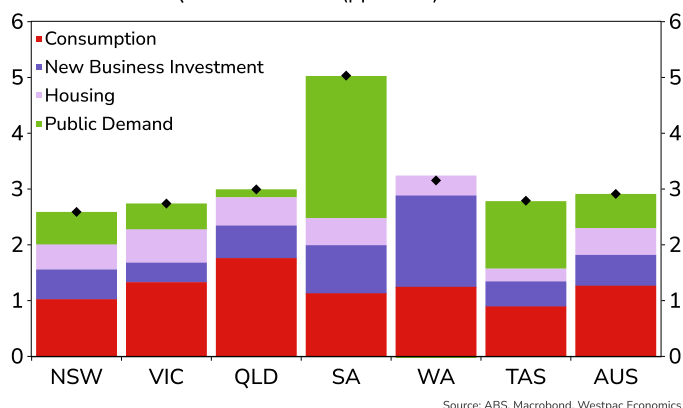
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The strong finish to 2025 was reflected in a broad based lift in activity across the states, as private demand rebounded more quickly than expected. The Australian economy is now heading into a sharp slowdown, as a re-tightening in monetary conditions over recent months collides with a large global supply shock centred on energy.

This shock now appears both larger and more persistent than initially anticipated, intensifying domestic inflationary pressures. As a result, we expect the RBA to deliver two additional 25bp rate hikes beyond the widely anticipated 25bp move in May, aimed at preventing a sustained lift in inflation expectations. Against this backdrop, GDP growth is forecast to slow to just 1%yr in 2026, pushing the unemployment rate towards 5%, with the trimmed mean inflation rate rising to around 4% by year end.

State Final Demand

Contributions to Q4 2025 Growth (ppts ann)



As national growth slows, state performances are set to diverge once again. Differences in industry structure, population dynamics and exposure to interest sensitive demand will reassert themselves through 2026 and into 2027.

The mining based states of **Queensland** and **WA** are expected to once again lead the pack, benefiting from elevated energy prices delivering sizeable income windfalls alongside still solid population growth. Dwelling price growth is also expected to remain firm, as strong demand continues to run up against limited supply, supporting consumption through wealth effects. **SA** is also relatively well positioned, supported by strength across both public and private activity, including public infrastructure investment and defence related spending.

By contrast, the consumer led states of **NSW** and **Victoria** are set to slow sharply, consistent with patterns seen in previous tightening cycles. This is already becoming evident, with housing market conditions deteriorating in both states, which

will weigh on household spending via negative wealth effects. Over the quarter to April 2026, house prices fell by 1.5% in Melbourne and 0.9% in NSW, compared with a national average increase of 1.6%. By contrast, strength continues in Brisbane, Adelaide and Perth, which should help support consumption through positive wealth effects (see [here](#)).

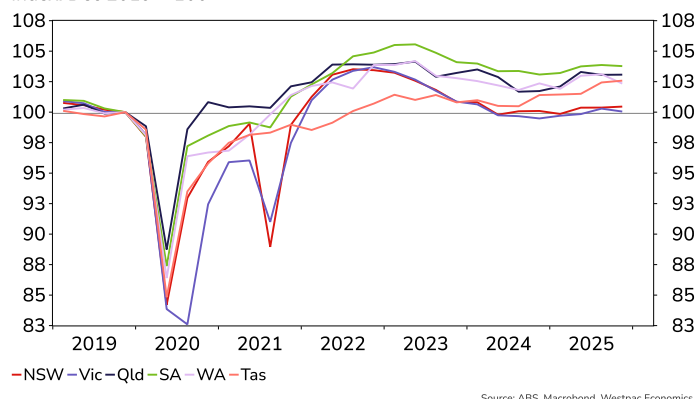
Per capita consumption in both states has largely moved sideways since 2019, underperforming the rises seen elsewhere. In stark contrast to the mining based states, population growth in NSW and Victoria is expected to outstrip gains in both GSP and consumption. On our forecasts, **consumption per capita in Victoria is set to record a cumulative decline of around 3.5% over the five years to FY2028**. The post COVID cost of living squeeze, now compounded by the recent spike in global energy prices, is delivering one of the largest and most prolonged contractions on record, extending back to the early 1990s.

Victoria stands out as the only state where consumption per capita is expected to fall below FY2019 levels by FY2028, underscoring the depth and persistence of the adjustment now underway.

However, **Tasmania** remains the laggard overall. Softer population growth is constraining momentum in housing construction and consumer demand, leaving the state more exposed to the broader slowdown.

Household consumption per working age population

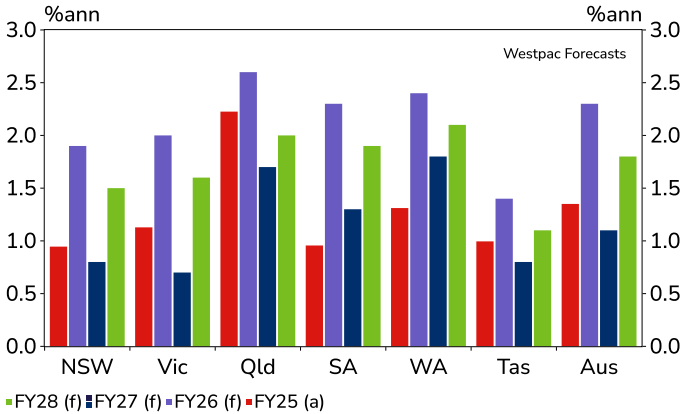
Index: Dec 2019 = 100



Further ahead, as inflation moderates back towards target and interest rates eventually begin to ease in 2028, household spending should recover and growth conditions gradually converge. However, this adjustment will take time, and downside risks increase the longer global supply disruptions and geopolitical tensions persist.

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Gross State Product



Source: ABS, Macrobond, Westpac Economics

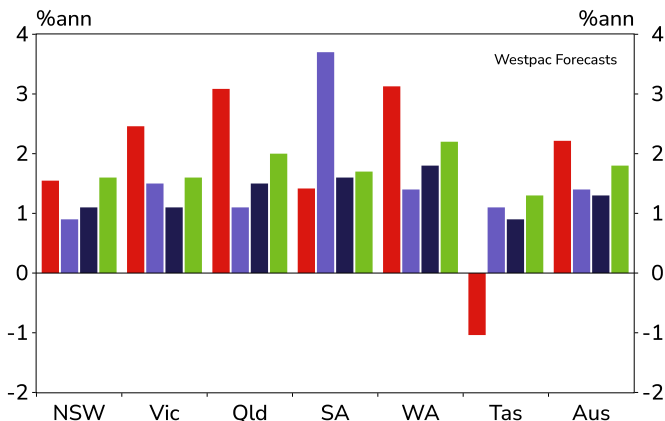
Commodity windfalls will see the mining states outperform

Mining exposure remains a clear positive, particularly as energy-related investment and exports benefit from higher global prices stemming from the conflict in the Middle East. These income windfalls should help cushion households against tighter financial conditions, keeping overall activity relatively resilient through the slowdown.

Queensland is expected to remain one of the stronger performers. GSP growth is forecast to slow from a year-average pace of 2.6%yr in FY2026 to 1.8%yr in FY2027, before picking up again to around 2.0%yr in FY2028. Consumption growth is expected to remain solid, easing only modestly from 2.5%yr in FY2026 to 2.1%yr in FY2027, before rebounding to 2.6%yr in FY2028. Momentum will be further reinforced by Olympics-related infrastructure investment and associated activity. Employment growth is forecast to average around 1.5% in FY2027 and 2.0% in FY2028.

WA is also expected to perform relatively strongly. GSP growth is forecast to moderate from around 2.4%yr in FY2026 to 1.8%yr in FY2027, before re-accelerating to 2.4%yr in FY2028. Consumption growth should remain resilient, easing from 2.8%yr in FY2026 to around 2.1%yr in FY2027, before lifting back to 2.6%yr in FY2028. As in Queensland, higher dwelling prices are expected to support demand near term through wealth effects. On this basis, employment growth is forecast at around 1.8% in FY2027 and 2.2% in FY2028.

Employment



Consumption led states to slow sharply

By contrast, the consumer-led states of NSW and Victoria are set to underperform as higher interest rates and cost of living pressures weigh directly on households.

In NSW GSP growth is forecast to slow from around 1.9% to just 0.8% in FY2027, as tighter financial conditions and elevated inflation dampen demand. The downturn is consumer led, with household consumption growth expected to fall to below 1% in FY2027 from around 2.0% in FY2026. Private investment should provide a partial offset, particularly in structural growth areas such as renewables and data centres. Higher costs will continue to place pressure on the state budget, though policy settings are likely to remain largely unchanged heading into the election early next year.

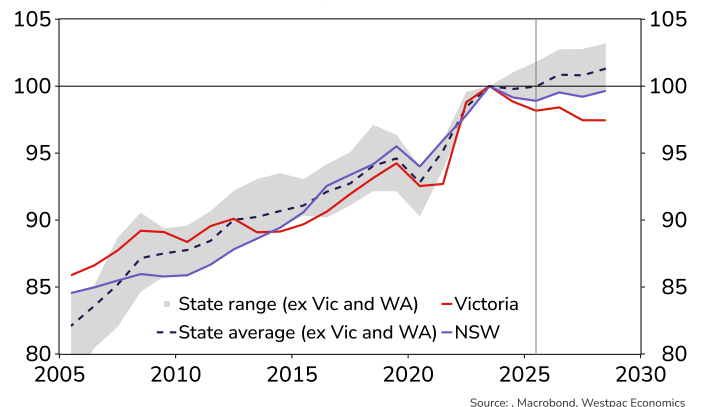
This slowdown is expected to weigh materially on labour demand. Coming off a weak base of 0.6% in FY2026, employment growth is forecast to recover only modestly, rising to 1.1% in FY2027 and 1.6% in FY2028—below the national average in each year.

In Victoria, GSP growth is expected to fall from around 2.0% in FY2026 to 0.7% in FY2027, broadly mirroring the slowdown in NSW. Consumption growth is also expected to ease sharply, from around 2.0% in FY2026 to just 0.7% in FY2027. Risks are more elevated in Victoria. Private investment has been noticeably weaker, particularly in dwelling construction, with forward indicators such as approvals lagging those in most other states (aside from Tasmania). While public demand should provide short term support ahead of the election, there is a risk that post election fiscal consolidation weighs on activity. We also expect some pause in private sector investment decisions as the November 2026 election approaches.

Employment outcomes are forecast to be like NSW in FY2027 and FY2028, though with greater downside risk, given employment growth had already begun to slow sharply even prior to the Middle East conflict.

Gross State Product per capita

Index: FY2023 = 100, Financial years



Source: , Macrobond, Westpac Economics

SA continues to punch above its weight

As highlighted in our March Coast to Coast report (see [here](#)), the SA economy is firing on all cylinders. Both private and public activity have firmed, supported by a substantial pipeline of

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infrastructure and defence related spending. In per capita terms, defence investment and employment are among the strongest in the country, delivering a durable lift to incomes. Housing approvals are also relatively strong on a per capita basis, pointing to ongoing demand growth. Expansion in strategic industries, particularly defence and advanced manufacturing, provides a solid medium term foundation for growth.

That said, some slowing in employment growth is expected. After an exceptionally strong 3.7% in FY2026, employment growth is forecast to ease to 1.6% in FY2027 and 1.7% in FY2028.

Tasmania to continue to be the laggard

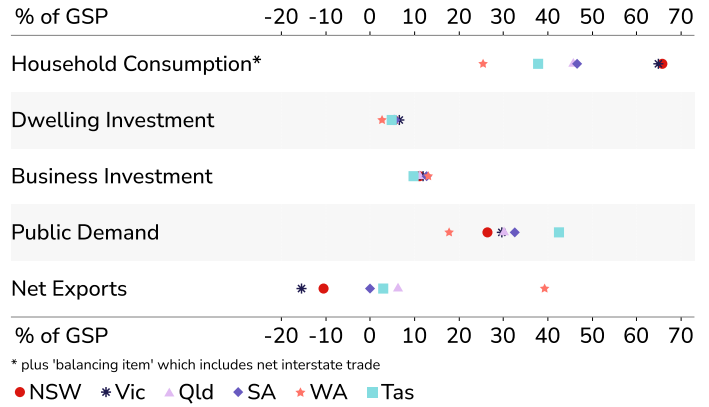
Tasmania continues to lag, with softer population growth limiting momentum in housing construction and consumer demand, leaving the state more exposed to the broader slowdown. The state also has the softest labour market and weakest consumer sentiment nationally, which is likely to weigh further on private demand. Employment growth is expected to remain subdued, easing from 1.1% in FY2026 to 0.9% in FY2027. Household consumption per working age population.

Bottom line

The period of state growth convergence seen in 2025 is over. As households are squeezed by higher rates and inflation, state outcomes will diverge sharply, led by the mining states and SA, and dragged by consumption heavy NSW and Vic. While rate cuts in 2028 should eventually stabilise conditions, the longer the global shock persists, the deeper and more uneven the adjustment across states is likely to be.

One liner: A slowing national economy, persistent inflation and higher interest rates will lead to state level divergences, with mining states resilient and the consumer-led states under pressure.

GSP Expenditure Components by State



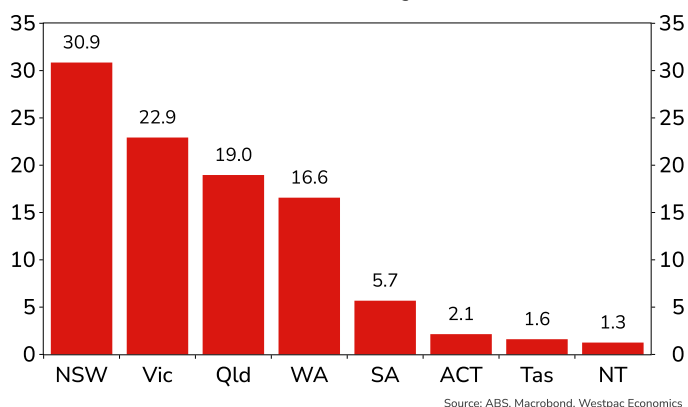
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Forecasts

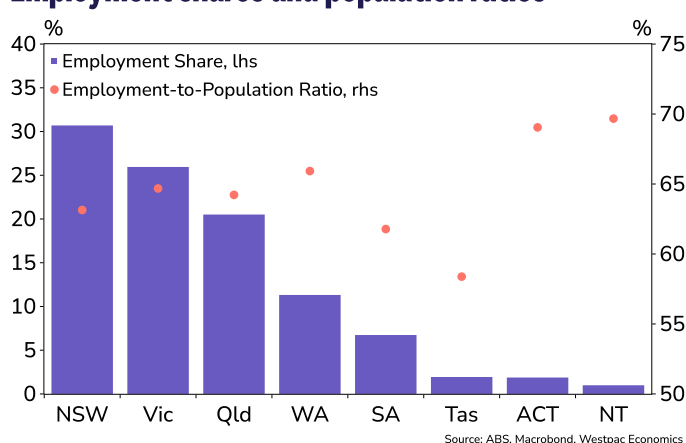
Variable	State	2024/25	2025/26	2026/27	2027/28
		Actual	Westpac f/c	Westpac f/c	Westpac f/c
GSP	Aust	1.4	2.3	1.1	1.8
year-average growth	NSW	0.9	1.9	0.8	1.5
	Vic	1.1	2.0	0.7	1.6
	Qld	2.2	2.6	1.7	2.0
	WA	1.3	2.4	1.8	2.1
	SA	1.0	2.3	1.3	1.9
	Tas	1.0	1.4	0.8	1.1
Household Consumption	Aust	1.1	2.2	1.3	2.3
year-average growth	NSW	0.8	2.0	0.8	1.9
	Vic	0.9	2.1	0.7	1.8
	Qld	1.3	2.5	2.1	2.6
	WA	2.4	2.8	2.2	2.5
	SA	0.7	1.9	1.5	2.2
	Tas	0.6	1.7	0.6	1.1
Employment	Aust	2.2	1.4	1.3	1.8
year-average growth	NSW	1.5	0.9	1.1	1.6
	Vic	2.5	1.5	1.1	1.6
	Qld	3.1	1.1	1.5	2.0
	WA	3.1	1.4	1.8	2.2
	SA	1.4	3.7	1.6	1.7
	Tas	-1.0	1.1	0.9	1.3
Population	Aust	1.6	1.5	1.4	1.4
year-average growth	NSW	1.2	1.3	1.1	1.0
	Vic	1.8	1.7	1.7	1.6
	Qld	1.9	1.7	1.6	1.6
	WA	2.4	2.1	1.8	1.7
	SA	1.1	1.2	1.3	1.2
	Tas	0.2	0.5	0.8	0.7
Dwelling Prices	Aust	8.6	3	3	-
through-the-year growth,	Sydney	6.2	1	2	-
calendar years	Melbourne	5.1	1	5	-
(2024/25 = Dec-25)	Brisbane	14.7	6	3	-
	Perth	16.7	8	5	-
	Adelaide	8.3	5	4	-
	Hobart	7.4	1	3	-

Shares of GSP

Real, Chain Volumes, 2024/25, Percentage



Employment shares and population ratios



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