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# AUSTRALIAN GDP: A PREVIEW BULLETIN

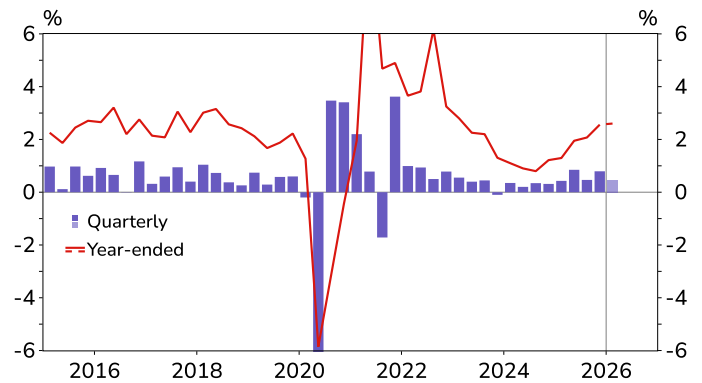
Growth moderates Q1 GDP f/c: 0.5%qtr, 2.6%yr  
Business investment surges 6.0%qtr and 10.3%yr

## Key points

- Growth likely moderated in Q1 2026, with the economy expanding 0.5% in Q1, down from 0.8%qtr in Q4 2025. Significant headwinds from the conflict in the Middle East will only partly be reflected in this quarter's Accounts. We expect these impacts to intensify in Q2 2026, with the possibility of a quarterly contraction which, if it were to occur, would be the first quarterly decline since the GFC (excluding COVID).
- The big story in this quarter's Accounts will instead be data centres. The Private capex survey showed investment in data centres almost doubled in Q1, with expectations pointing to a further acceleration in FY2027. This will see new business investment grow at its strongest rate since the mining investment boom of the 2000s. Some of this will be 'leaked' out via higher imports, but [as we show](#) it will still provide a significant support to activity in the Australian economy.

### Real GDP Growth

Axis truncated for covid.



- We are also likely to see labour productivity fall 0.3%qtr in Q1. This will concern the RBA but is not overly surprising given the temporary supply shock around energy and the productivity drag that typically comes during the initial stages of an investment surge (when resources are being put towards constructing projects that are not yet productive).

# Energy shocks & rate hikes collide with a data centre boom



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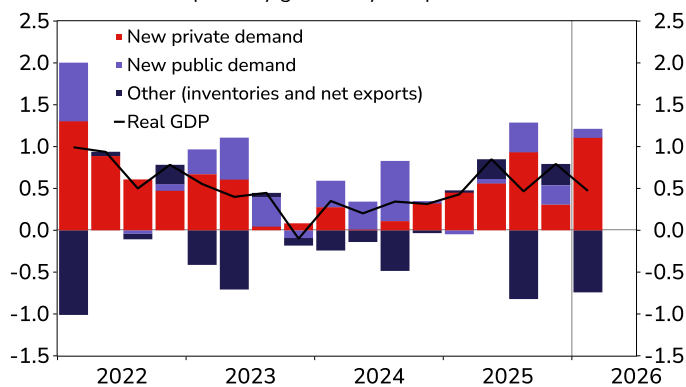
We expect the March quarter 2026 National Accounts to show that Australia's economy expanded 0.5% over Q1 and 2.6% in year-ended terms. Last year's upswing is running into significant headwinds from an RBA tightening and the conflict in the Middle East. Household incomes are being squeezed again by a familiar trio: elevated inflation, bracket creep and higher interest rates. However, the full effects are more likely to show through in Q2 and the second half of 2026.

Meanwhile, the Q1 update will feature another important emerging theme. As we noted in last week's "[Economic Weekly](#)" publication, investment in data centres will play a big role in this quarter's National Accounts. This investment has been ramping up since the pandemic. The build-out has now accelerated and is becoming more prominent at a time when other GDP components, which are more sensitive to interest rate increases, are slowing (household consumption) or going backwards (construction of new dwellings).

The National Accounts are likely to show that new business investment accelerated a whopping 6.0%qtr and 10.3%yr – the strongest quarterly growth since the start of 2012, when the second wave of the mining investment boom was topping out. Investment in machinery & equipment is likely to have grown by close to 13.0%qtr, the strongest rate since the December quarter 2009 when the government introduced temporary tax incentives in response to the GFC. The driver this time around is the ramp-up in data centre related equipment spend. As a result, we expect new private demand to grow a very strong 1.6%qtr and 4.2%yr in Q1, comfortably outpacing growth in new public demand (0.4%qtr and 2.7%yr).

## Real GDP Growth

% Contribution to quarterly growth by component



Source: ABS, Macrobond, Westpac Economics

However, in our [research piece](#) on the impact of investment in data centres on the economy, we show that this investment is import-intensive, particularly during the 'high-tech' equipment fit-out phase. As a result, we expect a large share of the capex spending on equipment to be 'leaked' through higher imports. Indeed, preliminary trade data for the quarter suggests capital import volumes grew a strong 8.0%qtr over Q1. Despite this leakage, we show that data centre investment still has significant broader 'spillover' impacts on GDP and employment as structures are built and equipment is transported, fitted and installed, and that this economic boost tends to be front-loaded.

Outside of investment, growth in demand looks to have slowed. Our [Westpac-Now Final Estimate](#) for Q1 2026 shows that last year's cyclical upswing started to fade even before the conflict in the Middle East, pointing to a moderation in growth over the March quarter (0.4%qtr in Q1 2026 from 0.8% in Q4 2025) and the potential of a negative quarter in Q2 2026, as household incomes continue to be squeezed.

## Data centres overshadow weaker partials

Partial indicators paint a mixed picture. The [construction work done](#) release showed new dwelling construction went backwards over Q1, falling 1.3%qtr. This fall will be offset by an increase in renovation activity in next week's Accounts. Public infrastructure activity also declined over the quarter, falling 3.2%qtr and almost 6.0%yr as transport and energy projects are completed.

This weakness was offset by investment in data centres. Construction of new buildings grew a healthy 2.5%qtr to be 11.2% higher in year-ended terms. This is likely driven by the construction of building and structures required to house data centres, given the large spike in data centre commencements we saw in the second half of 2025. These tend to be 'high-spec' builds with strict controls on temperature and humidity, requiring high volumes of energy and water supply, with a very low tolerance for outages.

Data centres dominated the [private capex release](#). Private capex increased 6.5%qtr and 14.6%yr in the March quarter 2026, the largest quarterly increase since the height of the mining boom in 2012. It was led by a 96.1%qtr surge in investment by the information and telecommunications industry in data centres equipment and structures. Importantly, this wasn't a one off – capex nominal expectations suggest investment growth in this industry will be stronger over FY2027 than in FY2026.

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

## Consumer spending: Resilience in Q1, rollover in Q2

Much of the softness in Q1 centres on the consumer, with last year's lift in momentum fading. Real incomes are again being squeezed by a combination of higher prices (+1.4%qtr), higher interest rates (25bp rate hikes in February, March and May) and bracket creep. That said, the impacts here are likely to show through more clearly in Q2.

The fuel price spike only began in the last month of Q1 with our data suggesting consumers drew down on savings initially to maintain spending (with a significant pull-forward in fuel demand as well). Similarly, interest rate rises typically impact consumer cash flows with a 1–2 month lag. On top of this, there is likely to be a significant technical boost to electricity spend in Q1 associated with the roll-off of government rebates, which produces a rise in 'out of pocket' spend by consumers.

On balance, we expect real consumption to post a 0.6%qtr rise in Q1 but to stall and be flat in Q2. Consumer sentiment fell heavily in April to deeply pessimistic levels. The high-frequency data point to a complex mix of forces at work (including, for instance, the significant decline in fuel prices in April following the temporary halving in fuel excise tax). The timeliest signals from our **Westpac–DataX Card Tracker** suggest spending momentum slowed more materially through Q2.

## GDP makeup

Domestic demand detail is expected to include: consumer spending +0.6%qtr and +2.5%yr, housing investment +0.6%qtr and +3.4%yr, new business investment +6.0%qtr and +10.3%yr, and new public demand +0.4%qtr and +2.7%yr.

Combined, the external sector and changes in the stock of inventories are expected to detract around 0.7ppts from growth in real GDP in the March quarter 2026 on a combined basis.

## Real GDP Growth Forecasts (%qtr)

	Q3 2025	Q4 2025	Q1 2026	Q1 2026
	pre partials			
Consumption	0.5	0.3	0.6	0.6
Dwellings	2.0	0.6	1.4	0.6
Business investment	3.8	0.5	0.9	6.0
Private demand (new)	1.3	0.4	0.7	1.6
Public demand (new)	1.3	0.8	0.8	0.4
<b>Domestic demand</b>	<b>1.3</b>	<b>0.5</b>	<b>0.8</b>	<b>1.2</b>
Inventories *	-0.5	0.4	-0.2	-0.1
Imports	2.0	1.8	1.0	2.3
Exports	1.4	1.4	0.4	-0.4
Net exports *	-0.1	-0.1	-0.1	-0.6
<b>GDP</b>	<b>0.5</b>	<b>0.8</b>	<b>0.5</b>	<b>0.5</b>

\*Contribution to quarterly growth in GDP

## Productivity to soften during data centre investment phase

Our nowcast suggests labour productivity will go backwards this quarter, unwinding some of the gains made last year when productivity advanced 1.0%yr.

If the economy expanded 0.5%qtr in Q1 and hours worked increased 0.8%qtr (a touch softer than the Labour Force Survey result, consistent with recent variation between the two sources), labour productivity will likely print a fall of around 0.3%qtr but remain 0.6% higher in year-ended terms.

Here data centres will likely be having some impact. During the investment phase of the build-out, productivity is likely to be somewhat softer. This is something we observed during the mining investment boom of the 2000s–early 2010s and might have been a feature during the more recent transport infrastructure booms in NSW and Victoria.

During the build phase of these cycles, a rising share of the economy's resources is going towards building structures, fit-outs and linking to networks for projects that are not yet productive/operational. Importantly, the investment is laying the foundations for strong productivity growth in the future, in this case when AI and other advanced technologies are fully adopted by businesses and households.

But just as we saw during the mining investment boom, productivity will be soft until this investment rolls into its production phase.

## The detail

**Household consumption (+0.6%qtr, +2.5%yr):** While this is a pick-up on the soft 0.3%qtr recorded in Q4 2025, this mostly relates to the effects of electricity rebates. The squeeze from higher inflation, interest rates and bracket creep are again weighing on disposable incomes, and this is expected to show through more clearly in Q2 2026 and beyond.

**Dwelling investment (0.6%qtr, 3.4%yr):** Home building activity likely disappointed in Q1, with the partial showing that the construction of new dwellings declined 1.3%qtr after expanding 6.0%yr in 2025. Dwelling construction has been something of a bright spot over the last year. However, this expansion looks to be moderating as existing capacity constraints in the industry, combined with high input costs, weigh on activity. The cost issue is likely to become more pronounced as effects from the conflict in the Middle East flow through. Based on partials, we expect the construction of new dwellings to have fallen (-1.3%qtr) offset by a pick-up in renovations (+3.7%qtr) over Q1.

**New business investment (6.0%qtr, 10.3%yr):** New business investment is expected to have accelerated a whopping 6.0%qtr and 10.3%yr – the strongest quarterly growth since the March quarter 2012. Investment in machinery & equipment is likely to have grown by close to 13.0%qtr, the strongest rate since the December quarter 2009, driven by data centre related equipment. Partial also suggest that new engineering construction and the construction of new buildings (particularly related to data centres) expanded over

the quarter. This momentum is likely to continue given the record high new building construction pipeline and capex expectations, which point to an acceleration in capex growth.

**Public demand (0.4%qtr and 2.7%yr):** The partials show that public infrastructure work done declined 3.2%qtr and almost 6.0%yr, as transport and energy projects are completed. There is still a decent pipeline of projects to work through, which should see investment remain elevated, but no longer contribute to growth. We expect public consumption to continue expanding on the back of growing programs such as the NDIS and cost-of-living support rolled out by the Federal and State governments.

**Net exports (-0.6ppts qtr, -0.8ppts yr):** Net exports look to have detracted significantly from GDP growth in Q1; we expect a negative contribution of -0.6ppts. Weak goods exports are the main driver, despite expected increases in rural goods and gold exports. Iron ore and coal exports appear to have fallen significantly, largely due to severe weather disruptions to mining and trade, while other goods exports also look weak. Meanwhile, import volumes of ADP and other data centre related equipment appear to have doubled, driving a very sharp increase in overall capital goods inflows. So, despite expected small decreases in consumption and intermediate goods categories, overall goods imports look to have risen notably. Falling numbers of international student visa holders and a small decline in short-term visitor arrivals point to downside risks to services exports.

**Total inventories (-0.1ppts qtr, -0.2ppts yr):** We estimate imports of consumption goods declined over the quarter while consumption held steady, suggesting some of this demand was met by a run-down in inventories. There is also likely to be a run-down of public inventories, including vaccinations, as we approach flu season.



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