



June 2026

WESTPAC COAST-TO- COAST

Your quarterly report on Australia's state economies.

WESTPAC COAST TO COAST – JUNE 2026

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Weak domestic pulse, capex-driven resilience

Pat Bustamante, Senior Economist

The national economy expanded just **0.3% in Q1 2026** and **2.5% over the year** – the softest quarterly growth since Q2 2024. This marked a clear step down from the 0.9%qtr recorded in Q4 2025, pointing to a loss of underlying momentum even before the Middle East conflict and rate hikes began to bite. Public demand, household spending and housing-related activity all eased, with business investment, led by data centres, carrying growth.

Looking ahead, consumer spending and housing-related activity is set to remain weak. The [Westpac-DataX Card Tracker](#) suggests non-fuel spending stalled in Q2. Households are again seeing a familiar squeeze from bracket creep, rising prices (particularly fuel) and higher interest rates. Housing-related activity is also becoming a drag. While it is a small component of GDP, 'ownership transfer costs', which reflects housing market turnover, softened in Q1 and looks set to decline sharply.

This slowdown is unfolding alongside a significant structural shift. While the public transport focused infrastructure boom is winding down, a new investment cycle is emerging around data centres and electricity. At the same time, a shifting global backdrop is seeing a stronger focus on uplifting Australia's security and defence capabilities.

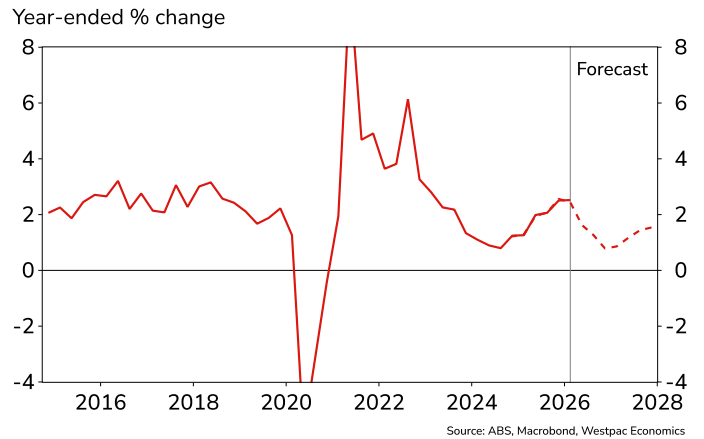
These trends are capital-intensive and mutually reinforcing, particularly the data and energy build, and are pursuing ambitious timelines. We estimate there is now around [\\$155bn in data centre](#) investment set to come through over the next decade, with economic impacts front-loaded. This is on top of an already large pipeline associated with the energy transition (around \$200bn), the Brisbane 2032 Olympics, and defence spending. This will add to capacity pressures in some parts of the economy and require resources to shift across sectors.

What does this mean for the outlook?

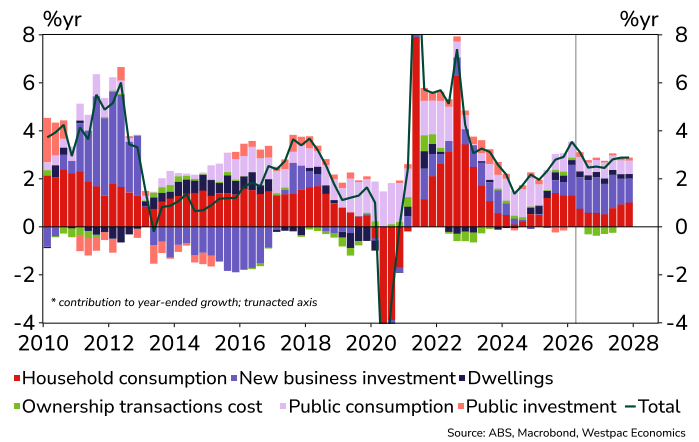
Overall, growth will once again resemble the sluggish pace seen through late 2024 and early 2025. While we had already incorporated a strong lift in structurally-driven investment, the data centre build-out now appears larger and more front-loaded. Against this, higher interest rates and tax changes are set to drive a sharper pull-back in housing – Westpac has already seen investor loan applications fall 20% since the May Budget with more weakening likely in the months ahead. But the real source of weakness will continue to be around the consumer, with incomes expected to remain under pressure well into next year.

As a result, GDP is now expected to grow just 0.7%yr in 2026, down from 1.0% previously. That would mark the weakest annual growth since 2020 and, outside of COVID, since the early 1990s recession. Beyond 2026, growth is expected to recover gradually to around 1.5%yr, lifting to 2.6% by 2028 as subsiding inflation allows the RBA to reduce rates.

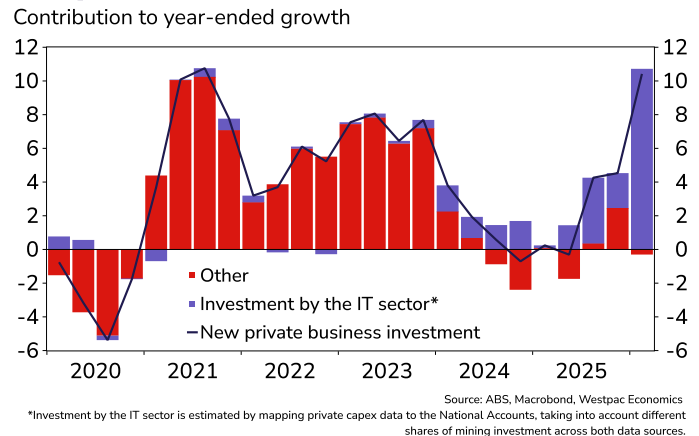
GDP Growth Forecasts



Domestic demand



New private business investment



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Investment surges...

Pat Bustamante, Senior Economist

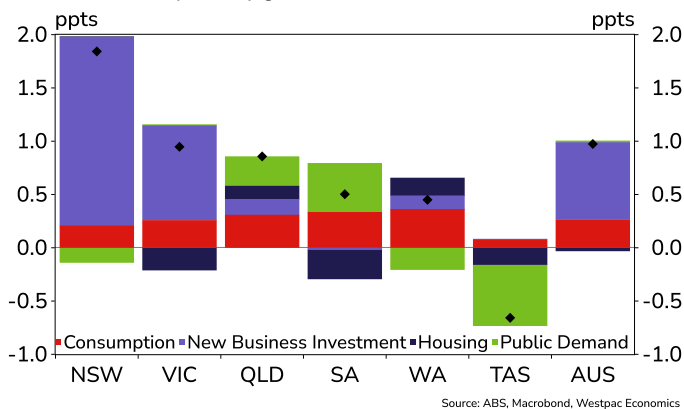
A ‘two-speed’ dynamic is becoming increasingly evident across and within states. States where investment in data centres has surged are recording materially stronger growth in state final demand. But outside of this, the demand impulse has softened, slowing most in the consumer-led states of NSW and Victoria, while holding up better in the mining states of WA and Queensland. Looking ahead, state performances are set to diverge again after a period of convergence through 2025.

NSW was the stand-out in Q1 2026, recording quarterly growth in state final demand (SFD) of 1.8%qtr and 4.6%yr. This was the largest quarterly increase in a decade, outside of the pandemic period. Business investment dominated, accounting for all of the quarterly gain and 2.4ppts of year-ended growth, the largest year-ended contribution on record. Indeed, **investment in new machinery grew by a record 35%qtr and 43%yr in Q1 2026** – larger than anything seen during the mining investment boom. This highlights both the scale of the data centre build-out and the very different state patterns (NSW largely missed out on the mining boom).

Much of this demand was met by imports which jumped 3.8%qtr for NSW. Our estimates suggest NSW GSP (the state analogue of GDP which excludes net trade and inventory changes) posted a more muted 0.3%qtr gain. Aside from this part of business investment demand was weak. Household consumption grew just 0.1%qtr in Q1, after excluding the impact of the electricity rebate roll-off, while new public demand declined 0.5%qtr.

State Final Demand

Contributions to quarterly growth



NSW was followed by Victoria and Queensland, where SFD grew a healthy 0.9%qtr in Q1 across both states, to be 3.5%yr and 3.1%yr higher, respectively. While the quarterly outcomes were similar, the drivers differed markedly – business investment contributed 1.6ppts to year-ended growth in Victoria, but only 0.2ppts in Queensland.

In Victoria, **investment in new machinery grew by a record 23%qtr and 42%yr in Q1** – again larger than anything seen during the mining investment boom. Like NSW, demand was soft outside of this. New public demand was flat, discretionary household consumption declined, while the construction sector continues to face headwinds, with new residential (-5.0%qtr), new buildings (-0.8%qtr) and infrastructure work (-3.2%qtr) all contracting in Q1.

In contrast, household consumption was resilient in Queensland (0.6%qtr and 3.1%yr), with activity also supported by pick-ups in new public demand (1.0%qtr and 2.5%yr) and housing construction (2.7%qtr and 9.7%yr).

Elsewhere, growth in SFD was more broadly based but modest. In WA (0.4%qtr and 2.8%yr), the 1.0%qtr fall in public consumption was offset by strong gains in new building (13.1%qtr) and new dwelling construction (6.4%qtr). In SA (0.5%qtr and 3.8%yr) the fall in total private investment (-1.7%qtr) was more than offset by solid gains in household consumption (0.6%qtr) and total public demand (4.9%qtr). Tasmania disappointed (down 0.7%qtr and up 2.1%yr), with falls in private and public investment, while household consumption was essentially flat (up just 0.1%qtr) over the quarter.

What does this mean for the outlook?

This is a sign of what’s to come – growth is likely to become more volatile given the lumpy nature of the investment surge, with state performance set to diverge again as national growth slows (see page 23 for our economic forecasts).

Headline SFD growth will be strong but volatile in states where the data centre build-out is accelerating and the renewables roll-out continues. The data centre pipeline is significant, with projects under construction concentrated in NSW and Victoria, alongside a growing number of proposals in smaller states, including WA, SA and Tasmania. In the near term, however, CAPEX expectations suggest growth will remain concentrated in NSW and Victoria (see pages 8-9). In addition, renewable energy projects (see page 10), largely along the eastern seaboard, will also support investment and SFD growth.

However, the underlying growth impulse will continue to soften, particularly in the consumer-led states of **NSW and Victoria**. This is consistent with patterns seen in previous tightening cycles. Per capita consumption in both states has largely moved sideways since 2019, underperforming gains seen elsewhere - a trend we expect to resume in 2026 and into 2027. The recently released state budgets show that the fiscal impulse in these two states will be only mildly supportive, with the infrastructure pipeline around its peak in NSW and past its peak in Victoria.

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... but consumers are being squeezed

By contrast, 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. In Queensland, momentum will be further reinforced by Olympics-related infrastructure investment and associated activity.

In WA, dwelling price growth is expected to remain firmer, as strong demand continues to run up against limited supply, supporting consumption through wealth effects (see our latest [Housing Pulse](#) for a full run down on conditions across Australia's states).

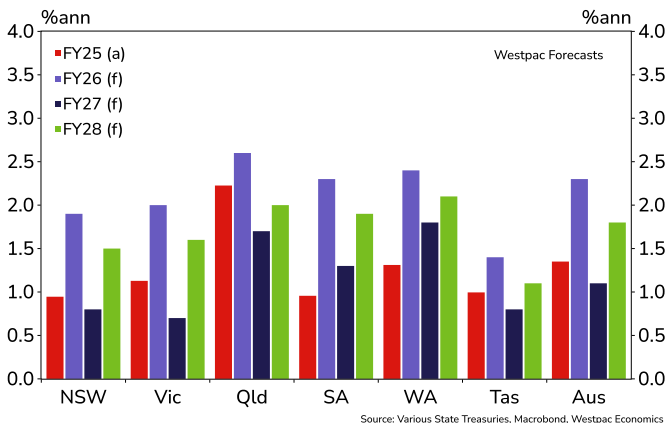
Interestingly, **SA**, often an underperformer, sits on the strong side of the growth divide. Its economy is firing on all cylinders. Both private and public activity have strengthened and is being supported by a substantial pipeline of infrastructure and defence-related spending, with the fiscal impulse from the state budget more supportive than in other states. 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, suggesting this sector will also be contributing positively to growth while the increase in dwelling supply should also help put the state's housing market on a more even keel.

Unfortunately, the same cannot be said for **Tasmania** which is set to continue lagging. Markedly slower population growth remains a key limiting factor for both momentum in housing construction and consumer demand, leaving the state more exposed to the broader slowdown.

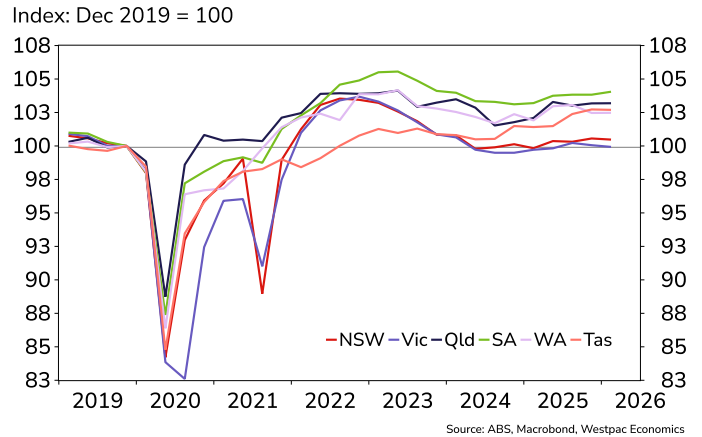
Beyond the near term, as inflation moderates back towards target and interest rates eventually begin to ease in 2028, household spending should recover with growth conditions across the states gradually converging once again.

Large revisions in recent state budgets (e.g. NSW) align official forecasts with our [existing outlook](#), with only minor updates in this quarter's publication.

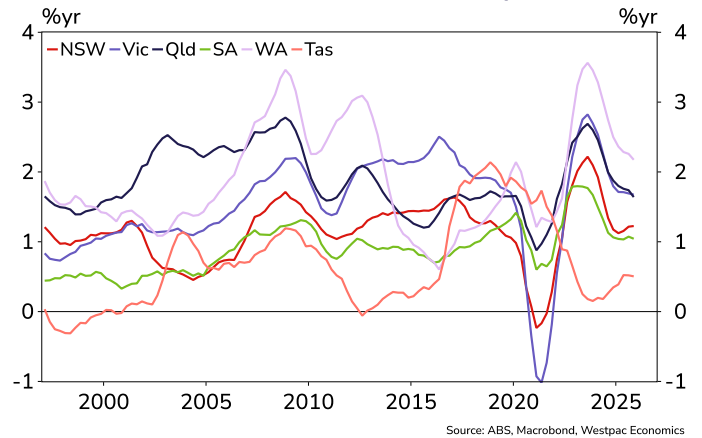
Gross State Product



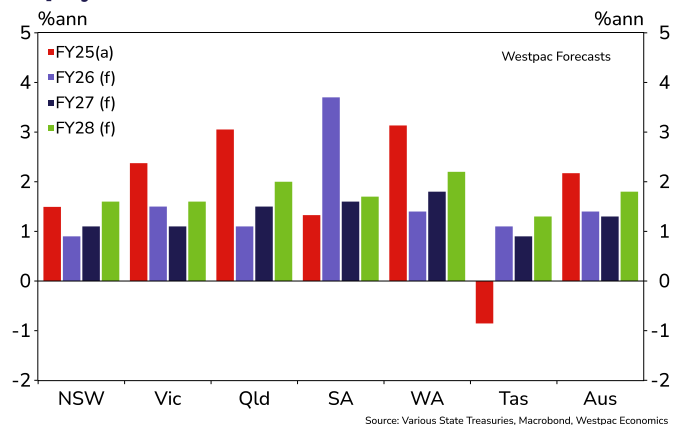
Consumption per working age population



Population growth normalising, to varying degrees



Employment



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State fiscal repair delayed...

Budget season has now come and gone for another year and, as expected, the combined state fiscal position has deteriorated with the fiscal recovery pushed out by another year. The combination of a softer economic backdrop and a downturn in housing is weighing on revenue, with Federal tax policy changes likely to see a material additional ongoing drag. At the same time, higher inflation and rising costs continue to push up state government expenditure.

This deterioration in the combined cash balance occurred even before the impact of new policy measures introduced in this year's state budgets. That said, the measures announced across states were relatively contained. While some cost-of-living support were added, most notably in NSW, Victoria and WA, much of the focus elsewhere was on extending or refining existing schemes, such as Queensland's 50¢ public transport fares. Where we did see a pick-up was in employee expenses and service delivery costs, as several states, including NSW and Victoria, put through significant pay deals with the health and education sectors.

In aggregate, we estimate a deterioration of around \$22bn across the forward estimates to FY2030, with the largest deterioration in NSW, but with slippage evident everywhere except the 'mining' based states. Increased spending was partially offset by revenue upgrades, including stronger GST distributions from the Commonwealth and support from other non-tax streams, particularly investment-related revenues in NSW, which have helped cushion the shock.

As a result, the fiscal repair task has been pushed out by at least another year. The deterioration has occurred across operating balances and capital budgets, reflecting the structural nature of spending pressures, including on capex.

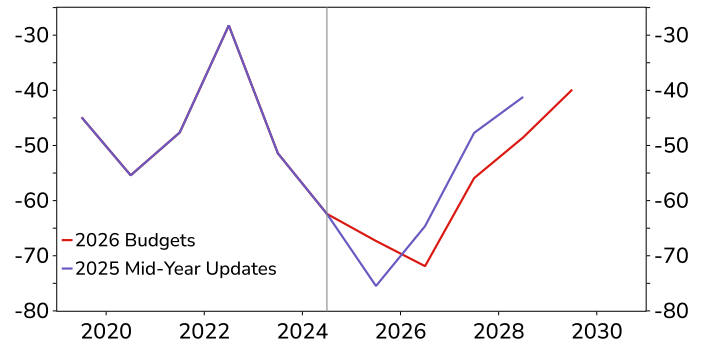
The **fiscal impulse remains** mildly supportive in some states but is a long way from the levels seen in recent years. The impulse in Qld, SA, NSW and Victoria continue to provide some support, while elsewhere the impulse is broadly neutral. It should be noted that state elections are due later this year in Victoria (in late November) and next year in NSW (March), which may add to this impulse.

Importantly, the **public infrastructure cycle** is now past its peak across most states. While project pipelines remain elevated in level terms, growth is slowing, particularly in NSW and Victoria. Queensland stands out as an exception, with infrastructure spending still ramping up, supported by preparations for the Brisbane 2032 Olympics.

Given the slippage, debt continues to accumulate. The combination of higher borrowing and elevated interest rates is driving a sharp increase in net interest payments, adding to fiscal pressures over the medium term and reducing budget flexibility.

Budget outlook across the states

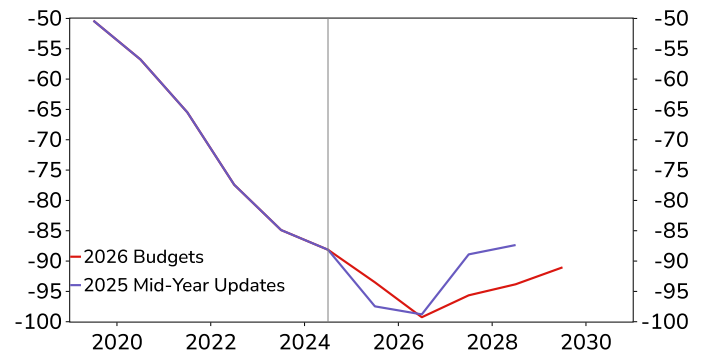
Non-financial public sector, cash balance, \$billions



Source: New South Wales Treasury, Victoria Department of Treasury & Finance, Government of Queensland, Government of Western Australia, Government of South Australia, Government of Tasmania, Government of Australian Capital Territory, Government of Northern Territory, Macrobond, Westpac Economics

Combined capex spending

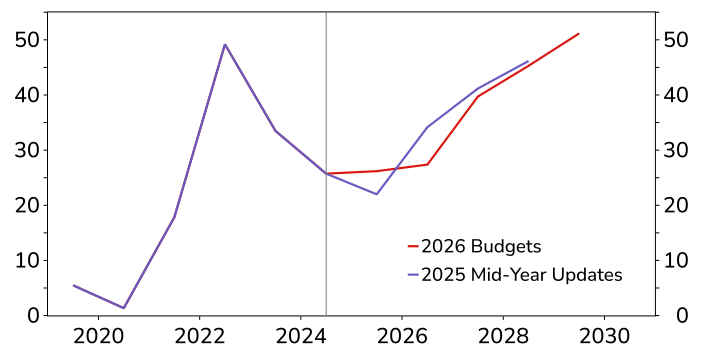
Non-financial public sector, cash balance, \$billions



Source: New South Wales Treasury, Victoria Department of Treasury & Finance, Government of Queensland, Government of Western Australia, Government of South Australia, Government of Tasmania, Government of Australian Capital Territory, Government of Northern Territory, Macrobond, Westpac Economics

Combined net operating balances

Non-financial public sector, cash balance, \$billions



Source: New South Wales Treasury, Victoria Department of Treasury & Finance, Government of Queensland, Government of Western Australia, Government of South Australia, Government of Tasmania, Government of Australian Capital Territory, Government of Northern Territory, Macrobond, Westpac Economics

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... as growth slows and costs bite

Overall, while states have avoided a more severe deterioration, the direction is clear – fiscal positions are weakening, consolidation is being delayed, and the capacity to respond to future shocks is becoming more constrained.

Long-term impacts of housing tax changes on state revenues

There are notable downside risks to state revenues, particularly around stamp duty. **While the focus has been on the cyclical signals in recent budgets, less attention has been paid to how housing tax changes will affect turnover on a permanent, structural basis.**

The now-legislated Federal tax changes are set to significantly curb investor activity, amplifying the interest rate-driven downturn in prices already underway. Westpac has already seen investor loan applications fall 20% since the May Budget, with further weakness likely ahead. This has major implications for stamp duty revenues, which are tied to the nominal value of transactions.

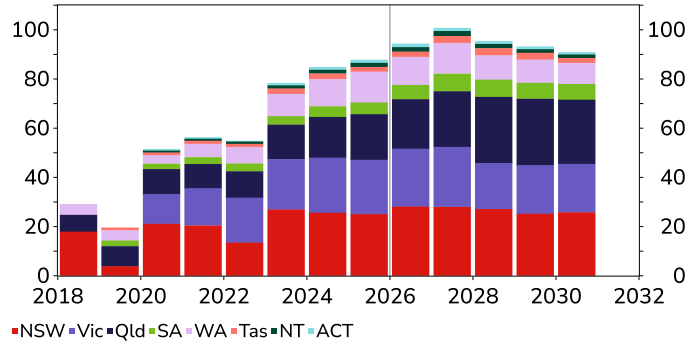
Our estimates, which also incorporate a further 50bp increase in interest rates, point to a 20% fall in turnover and decline in prices that leaves them flat across Australia over calendar 2026. **This in turn points to a decline in stamp duty revenues, with the fall across all states combined between FY2026 and FY2027 likely to be worth around \$6.5bn.**

While much of that is a cyclical swing that will reverse as an easing in interest rates comes through in 2028, the tax policy changes mean investor activity is likely to be permanently lower as well.

Over the past 25 years, stamp duty revenues have tracked an underlying growth rate of around 3.5% per year. Our estimates suggest this could be around 1ppt lower going forward as a result of weaker investor activity. At current levels, 1% equates to around \$400m a year - not material in any single year, but increasingly significant when compounded over the medium to longer term. **Over a standard 10-year horizon, this implies at least a \$4.5bn shortfall in stamp duty relative to current budget baseline**

Infrastructure pipeline across the states

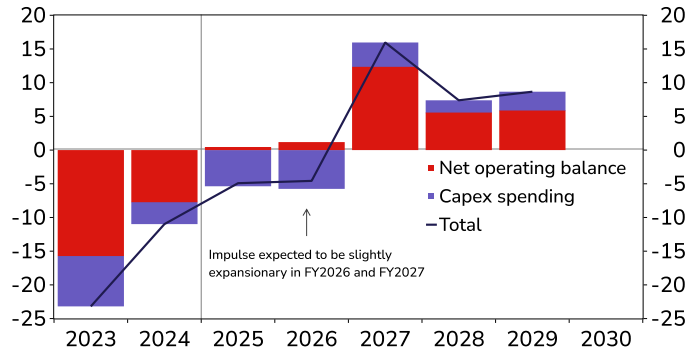
Non-financial public sector, cash balance, \$billions



Source: New South Wales Treasury, Victoria Department of Treasury & Finance, Government of Queensland, Government of South Australia, Government of Western Australia, Government of Tasmania, Government of Northern Territory, Government of Australian Capital Territory, Macrobond, Westpac Economics

Combined state fiscal impulse

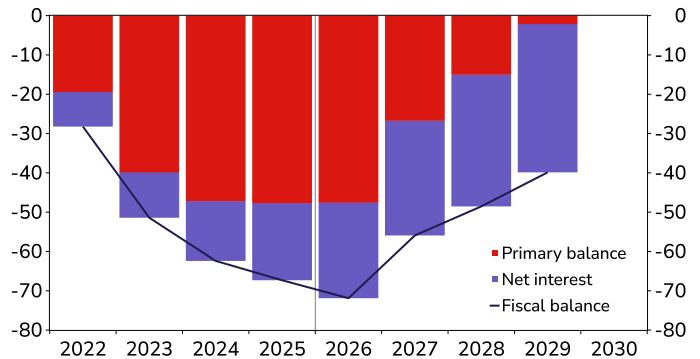
Non-financial public sector, \$billions



Source: New South Wales Treasury, Victoria Department of Treasury & Finance, Government of Queensland, Government of Western Australia, Government of South Australia, Government of Tasmania, Government of Australian Capital Territory, Government of Northern Territory, Macrobond, Westpac Economics

Fiscal outlook by component

Non-financial public sector, \$billions



Source: New South Wales Treasury, Victoria Department of Treasury & Finance, Government of Queensland, Government of Western Australia, Government of South Australia, Government of Tasmania, Government of Australian Capital Territory, Government of Northern Territory, Macrobond, Westpac Economics

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Data centre surge helps offset broader weakness

Australia is in the early stages of a significant data centre build-out, with investment accelerating rapidly and set to remain an important driver of growth over the coming years. As outlined in our recent work, we estimate a pipeline of around [\\$155bn in data centre investment](#) over the next decade, reflecting strong demand linked to AI, cloud computing and digital infrastructure.

Despite the heavy reliance on imported high-tech equipment, we estimate that the net boost to activity and employment during the investment phase will be significant. That's because data centres do not build themselves – there are meaningful spillovers across the domestic supply chain, concentrated in professional services, construction, wholesale trade, transport and administrative support. This surge in investment is also expected to temporarily support a substantial number of jobs.

Near-term activity is becoming increasingly geographically concentrated. NSW and Victoria are driving the bulk of current growth (See next page for a map), reflecting the ramp-up in large-scale projects already underway. Machinery and equipment investment across these two states has surged nearly 50%yr, versus just 2.0%yr elsewhere, alongside elevated non-dwelling construction. Notably, this exceeds the investment upswing seen during the mining boom.

Other commercial building work (n.e.c.), dominated by data centres, has surged in NSW and Victoria, rising by \$5bn and \$3bn over 2025, respectively.

Investment expectations suggest that machinery and equipment, as well as buildings and structures, will see strong growth in NSW and Victoria over FY2027, with more modest increases in other states, consistent with the concentrated nature of the investment pipeline.

While smaller projects are being proposed across other jurisdictions – including WA, SA and Tasmania – the near-term

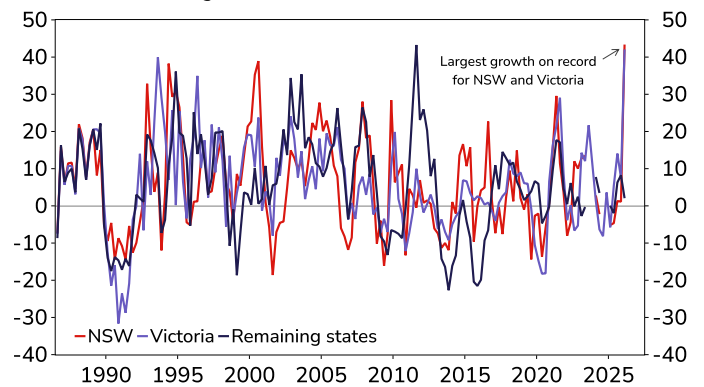
impulse remains heavily skewed towards the eastern seaboard. Outside the east coast, projects are generally at earlier stages of development or smaller in scale, suggesting a more gradual lift in activity relative to NSW and Victoria over time.

Even with strong investment, overall growth in NSW and Victoria is likely to remain modest, with the capex surge masking ongoing weakness in household demand and public activity. The reallocation of resources towards large-scale investment projects – facilitated in part by higher interest rates weighing on interest-sensitive sectors – reinforces the two-speed nature of the local economy.

Looking ahead, the key question is not whether the data centre pipeline will proceed, but how quickly capacity can be delivered and whether complementary infrastructure – particularly in energy – can keep pace. Alongside a potential \$200bn energy transition pipeline, Australia is undergoing a significant investment surge, with the combined pipeline approaching 13% of GDP.

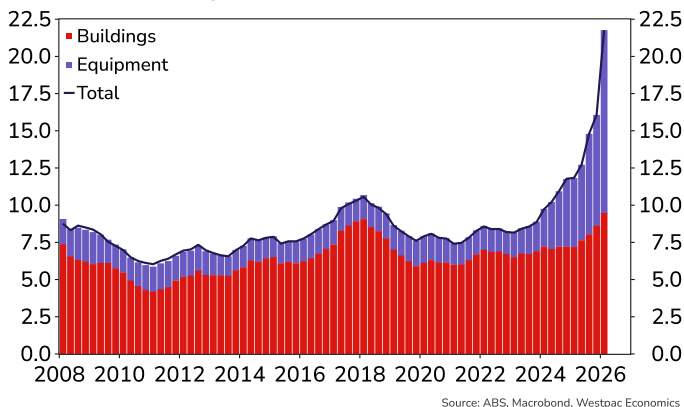
New machinery & equipment

Year-ended % change



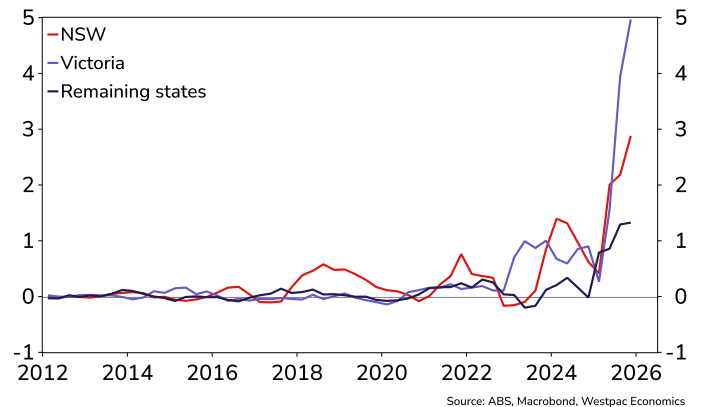
Information Media & Telecommunications CAPEX

\$bn, Volumes, Rolling annual sum.



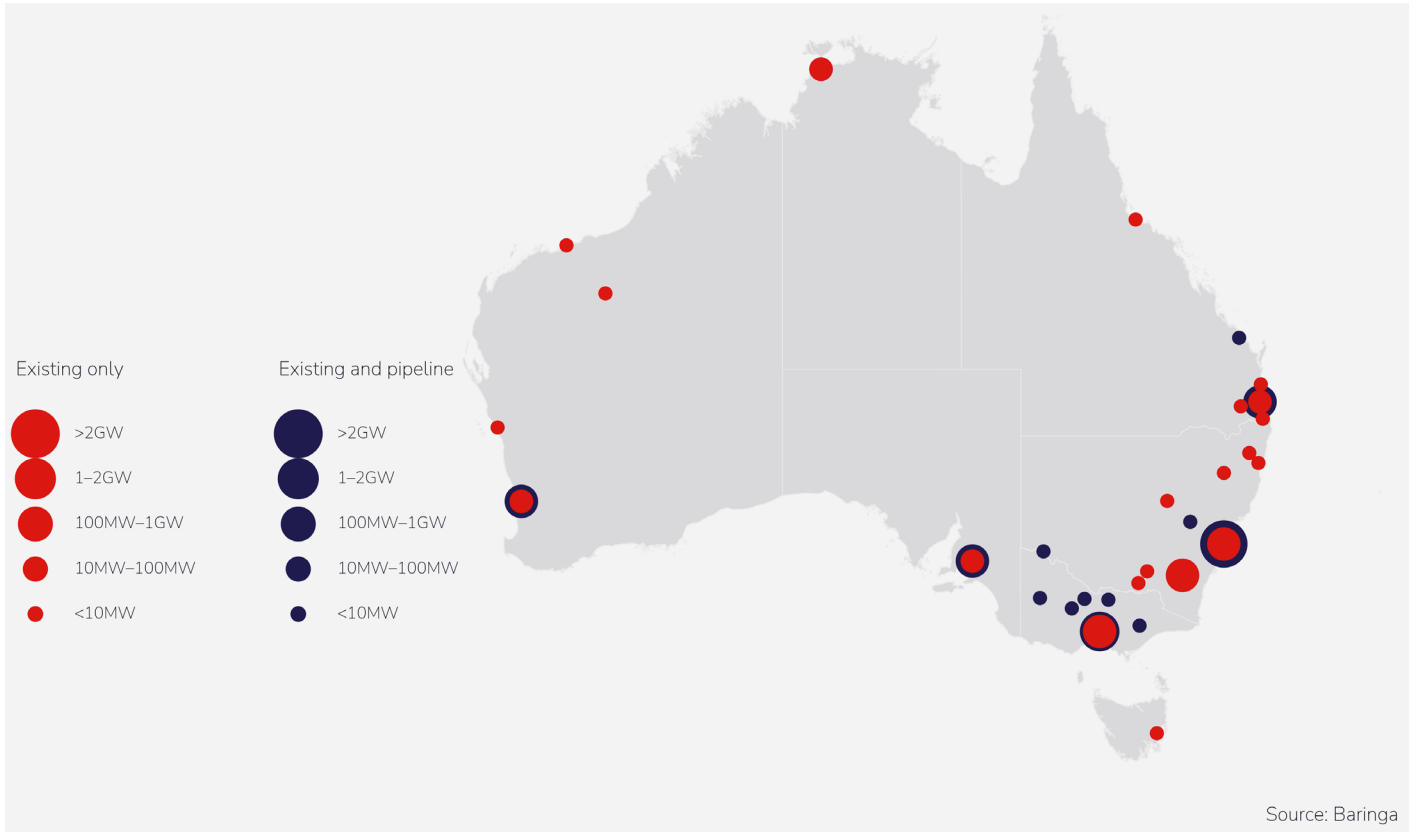
Other commercial buildings under construction

Rolling annual change in value, \$bn.



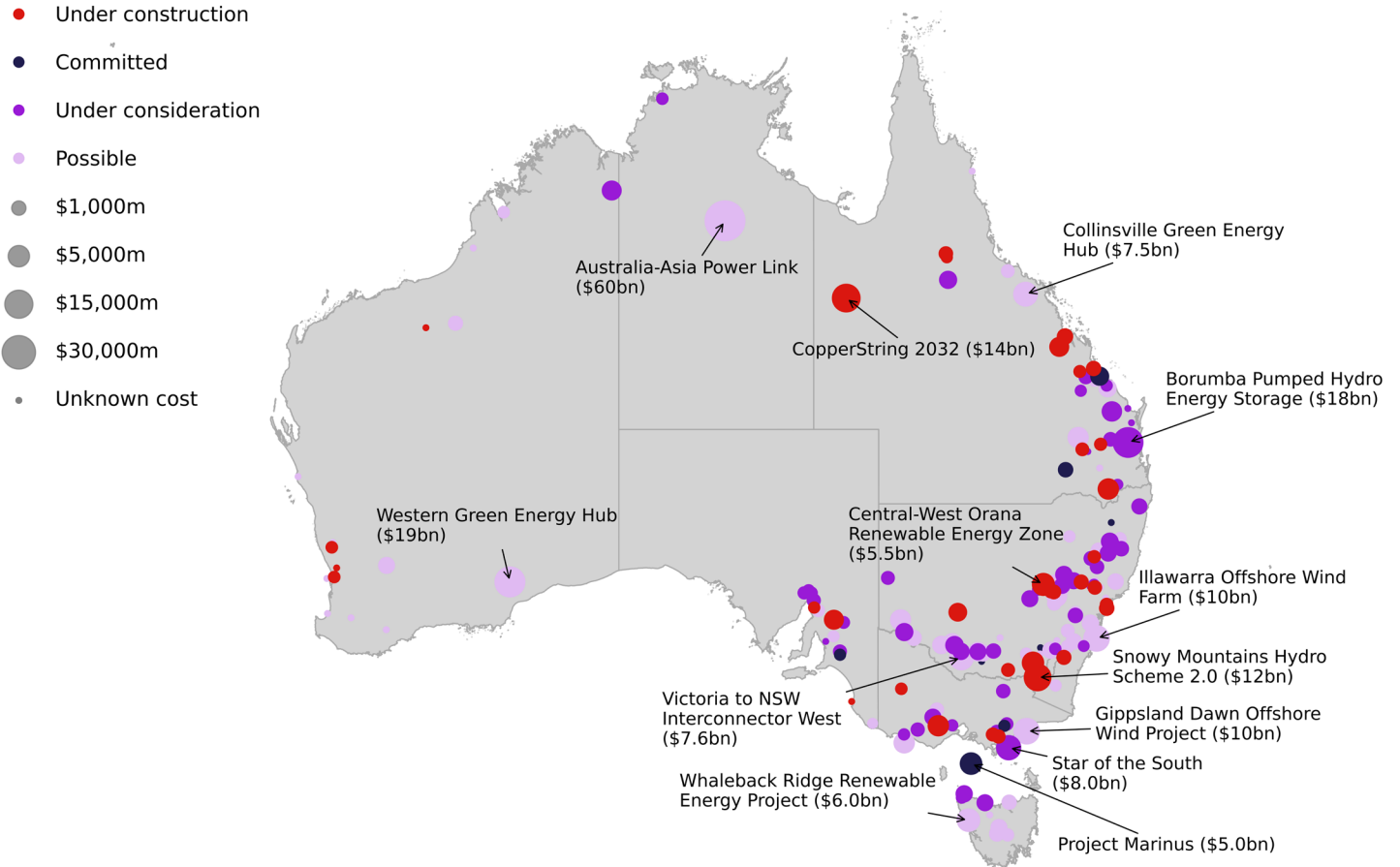
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Data centre investment ramps up



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Record high renewables pipeline across Australia



Source: Deloitte Investment Monitor, Westpac Economics

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Growth tops the nation ...

Neha Sharma
Economist

NSW is setting the pace nationally, underpinned by a broad-based investment cycle across equipment, construction and infrastructure. The challenge is translating this into stronger wages and household spending as higher interest rates and a softer housing market weigh on growth.

How has the state performed? Growth in state final demand accelerated sharply in Q1, rising 1.8%qtr and 4.6%yr. Per capita growth was 3.0%yr. Both are comfortably the strongest result nationally. Growth was overwhelmingly private-led, with new private demand rising 2.7%qtr and 5.5%yr. While new business investment did the heavy lifting, dwelling investment and household consumption provided more modest support. New public demand fell for the first time in a year, -0.5%qtr to 2.2%yr higher.

A key stat that tells the story: New business investment surged 14.8%qtr and 20.6%yr. The strength was centred on M&E investment, which surged 35.0%qtr in Q1, likely from a strong pick-up in data centre equipment. Meanwhile, non-residential construction increased 6.7%qtr and infrastructure activity up 0.3%qtr and 9.1%yr. NSW was the only state to see all three components expand in the quarter, highlighting a more broad-based investment cycle than elsewhere in the country and a stronger base for future activity.

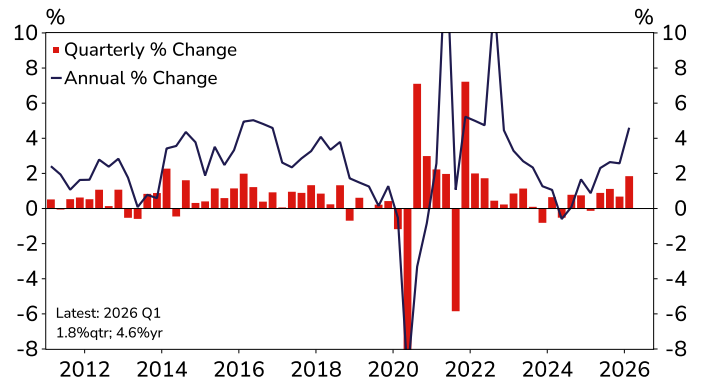
What has surprised? Despite leading the nation on overall growth, NSW has not seen a correspondingly strong labour market story. Nominal worker compensation growth lagged the national average since mid-2023 and has regularly been the weakest among the states since mid-2024. NSW's unemployment rate is also sitting the third highest nationally. This has flowed through to household demand, with consumption rising just 0.4%qtr and 2.2%yr, the softest growth of any mainland state.

How can things improve? NSW is at the forefront of investment in data centres, renewable energy and supporting infrastructure. The challenge now is ensuring this investment translates into stronger productivity growth, and higher wage outcomes and living standards over the longer term.

Where are we expecting? Given household consumption accounts for a larger share of the NSW economy (around 54%), the effects of higher interest rates and weaker housing price growth are likely to be more pronounced. As a result, we expect GSP growth to slow from 1.9%yr this FY to 0.8%yr in 2026/27. The softer housing backdrop is also likely to weigh on state finances, with declining turnover reducing stamp duty receipts. Reflecting this, the NSW Government has revised down transfer duty revenue by \$5.4bn over the four years to 2029/30 compared to six months ago. Offsetting these headwinds, the state's substantial renewable energy and data centre pipeline should help provide a floor under growth.

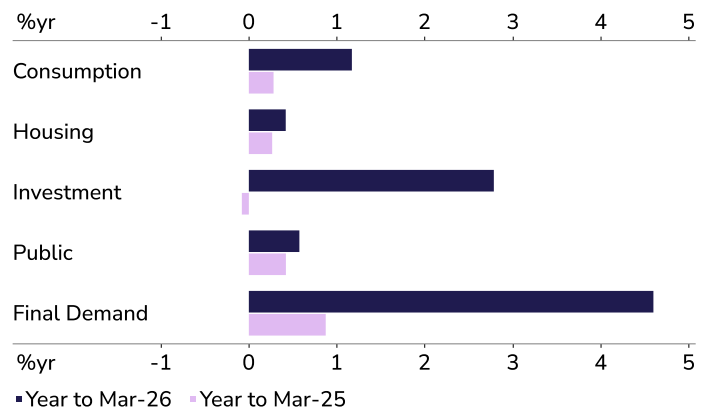
NSW State Final Demand

Chain Volume Measures



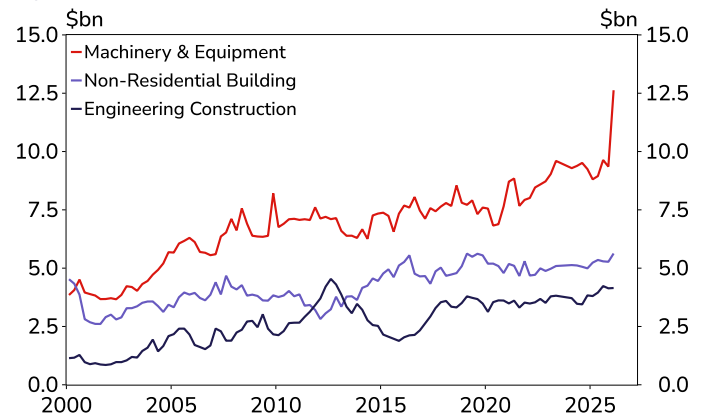
Source: ABS, Macrobond, Westpac Economics

NSW: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Cyclical upturn in business investment in full force

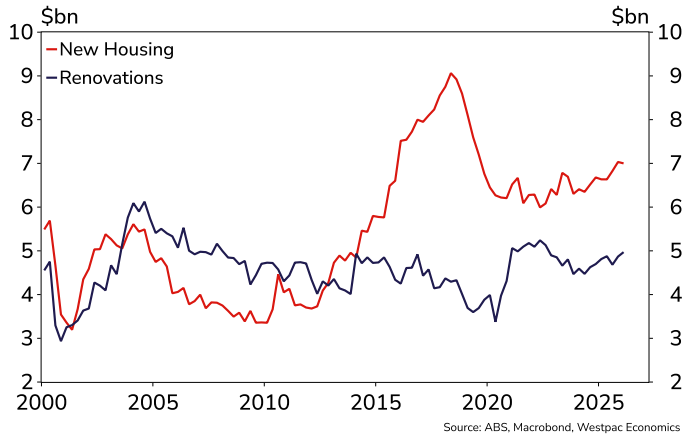


Source: ABS, Macrobond, Westpac Economics

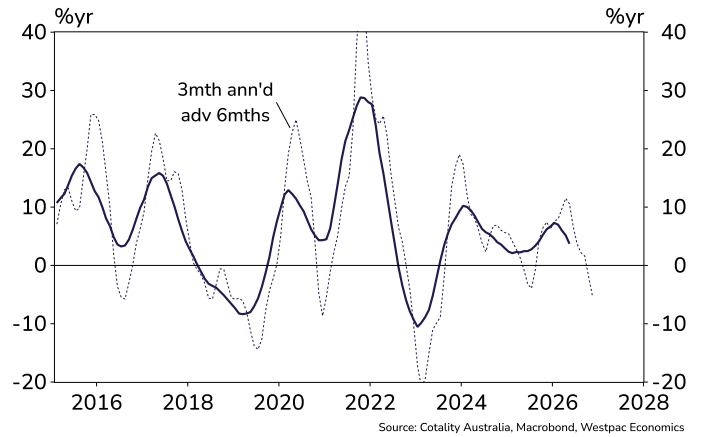
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... households largely absent

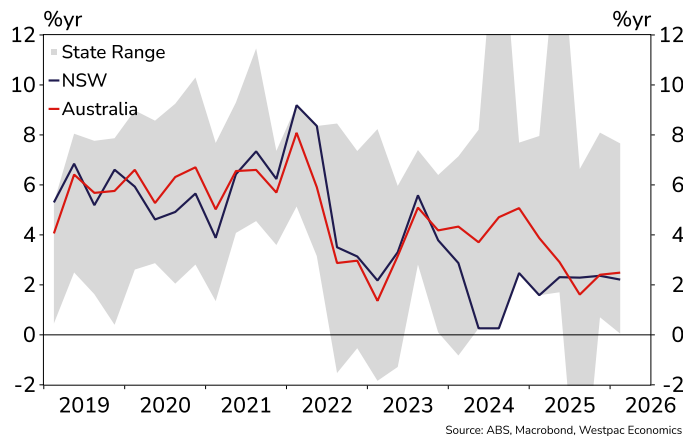
New housing falls



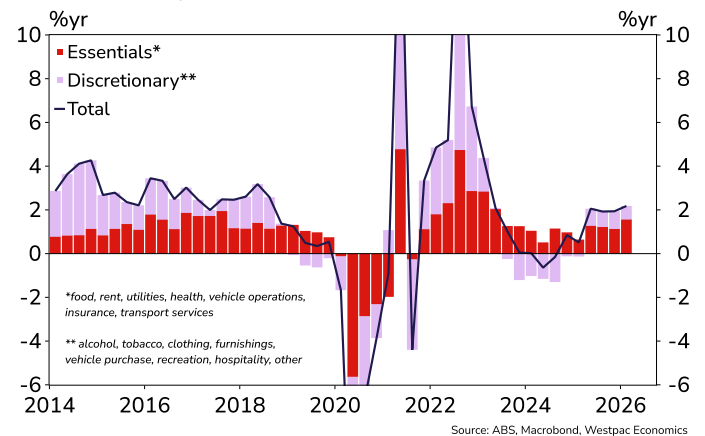
NSW price momentum weakening dramatically



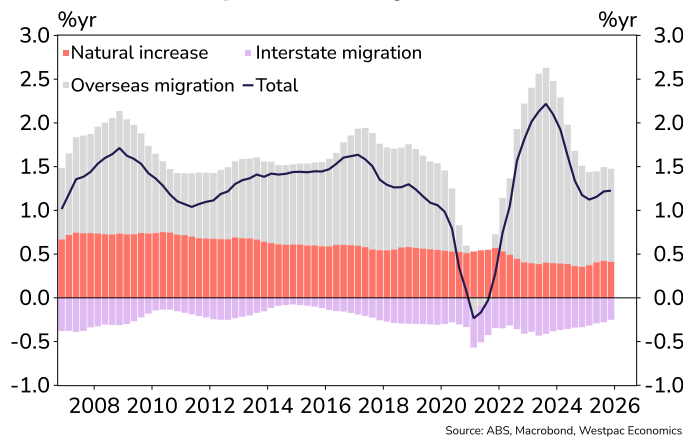
Public demand slowdown has stabilised



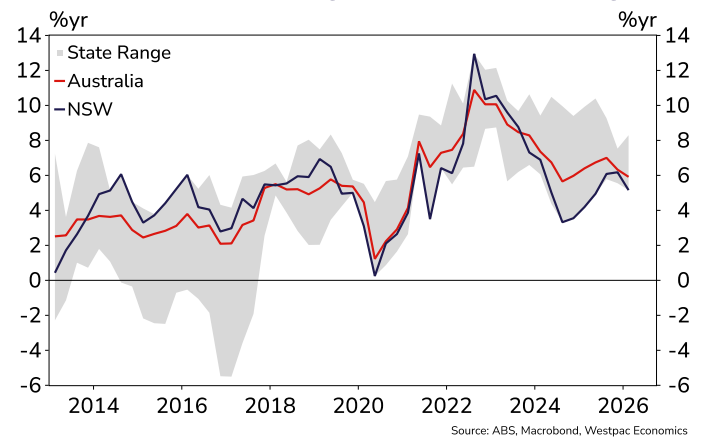
Discretionary spending slowing



NSW population growth steady



NSW nominal worker wages bottom of the range



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Investment powers ahead ...

Neha Sharma
Economist

Strong business investment has propelled Victoria's economy, but growth remains uneven. Weak housing consumption, falling residential construction and deteriorating labour market conditions suggest the benefits of the investment boom are yet to be broadly felt.

How has the state performed? Vic delivered a solid, albeit uneven, result over the year to March 2026. State final demand rose 0.8%qtr in Q1, the second strongest nationally, lifting annual growth to 3.4%yr. Taking into account population growth, state final demand was closer to the national average. Growth was primarily private-led, with new private demand rising 1.8%qtr and 4.1%yr, supported by strong business investment. The contribution from public demand continued to ease, with a flat read in the quarter and 2.0%yr.

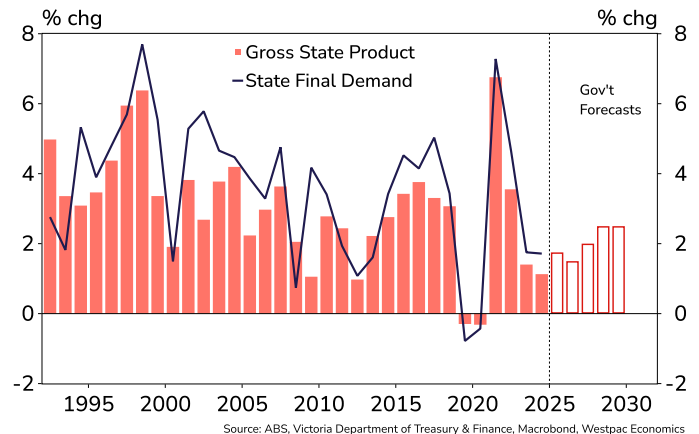
A key stat that tells the story: Vic recorded the second strongest business investment growth in the quarter and the strongest on an annual basis. The strength was wholly driven by new M&E investment, which surged 22.8%qtr and 42.1%yr, owing to a strong data centre pipeline. This strength contrasts with weak construction activity, with non-residential (-0.8%qtr), infrastructure (-3.2%qtr) and new dwellings (-5.0%qtr) all falling in the quarter, despite relatively slower, though still elevated, growth in construction costs.

What has surprised? The strength in business investment comes despite a weak consumer backdrop. Household consumption rose a modest 0.5%qtr and 2.2%yr, and after taking into account population growth, consumption increased just 0.2%yr – the weakest nationally. The state continues to grapple with weak labour market outcomes, seeing the highest unemployment rate nationally. The employment-to-population ratio has been trending lower since mid-2025 and has fallen below Qld, to be the third highest nationally.

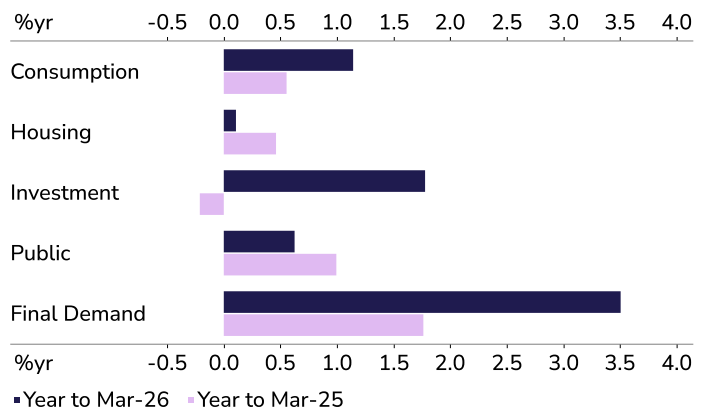
How can things improve? Similar to NSW, the key challenge is converting strong business investment into stronger economy-wide outcomes. While firms are investing heavily in new equipment and capacity, this has yet to translate into stronger productivity, employment and household spending. Part of the latter may also stem from housing. Price growth turned negative just 11 months after turning positive, with cumulative gains just -2% since 2022, compared to 20% nationally.

Where are we expecting? Like NSW, strong investment in areas such as data centres should help cushion the slowdown from consumers (around 53% of the economy) and the public sector. The state's residential building pipeline also remains softer than the national trend and is likely to weigh on growth, coinciding with pressures from elevated construction costs and subdued housing turnover. We expect GSP growth of 2.0%yr in 2025/26 before slowing to 0.9%yr in 2026/27. Even then, population growth will be doing much of the heavy lifting, with GSP per capita projected to decline by -0.8%yr.

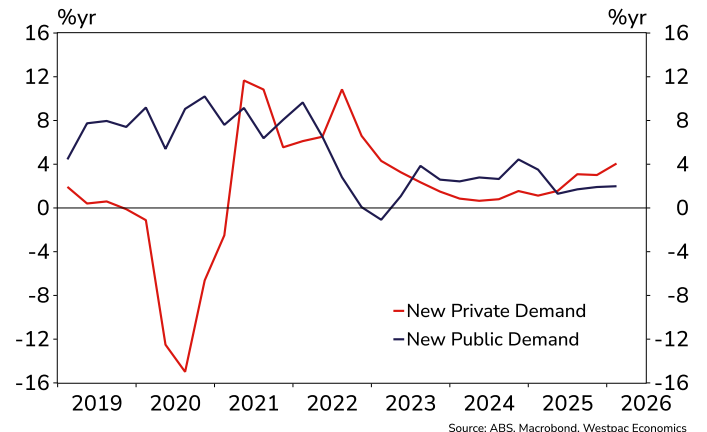
Vic Gross State Product & Final Demand



Vic: contributions to state final demand



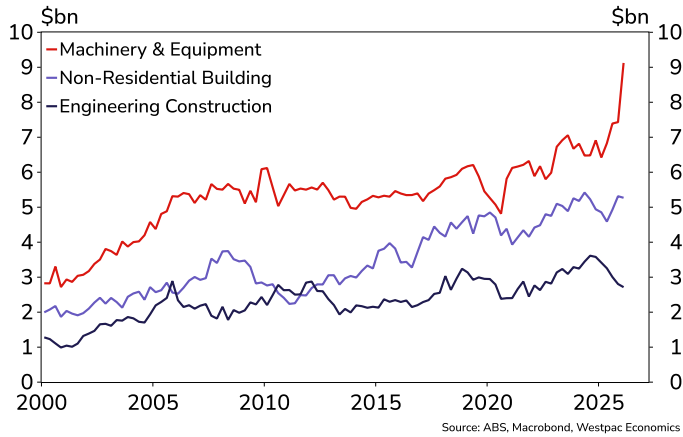
Victoria private demand strengthening



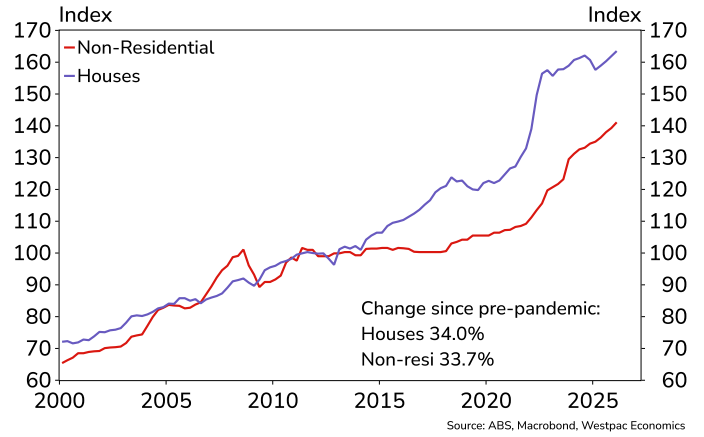
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... consumers fall behind

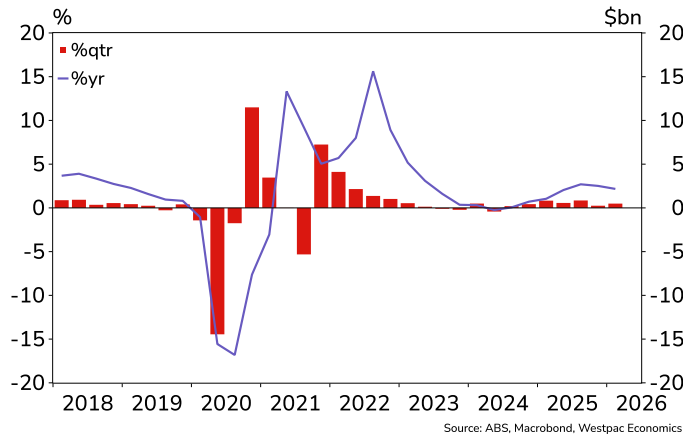
Business investment centred on data centres



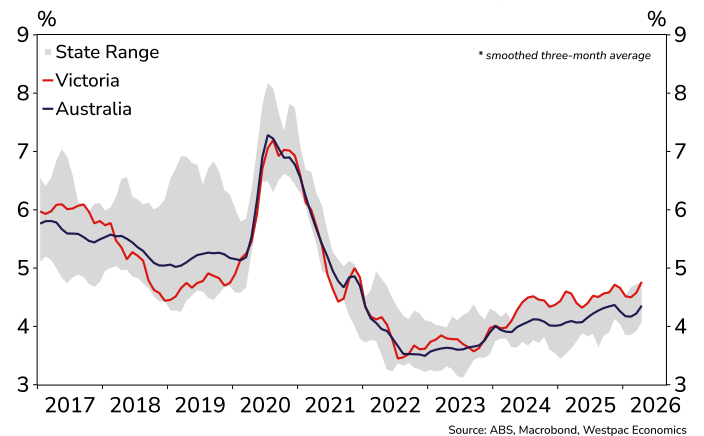
Victoria Construction Costs



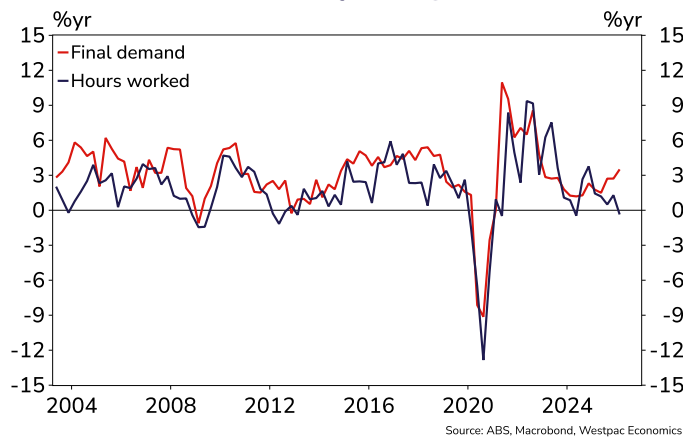
Household consumption slowing



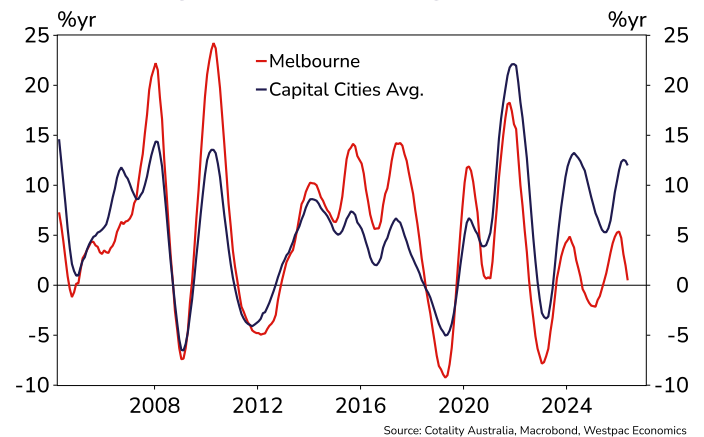
Wedge between Vic and Aus unemployment rates



Hours worked and activity diverge



House price growth disappearing in Melbourne



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Resilience ...

Ryan Wells
Economist

Queensland's growth prospects remain favourable. However, success will depend critically on how Qld navigates near-term inflation pressures and capacity constraints.

How has the state performed? Qld had another solid start to the year, state final demand rising 0.9% in Q1, leaving the annual pace steady at 3.1%yr, slightly below the national pace (3.5%yr) and Qld's own historic average (3.9%yr).

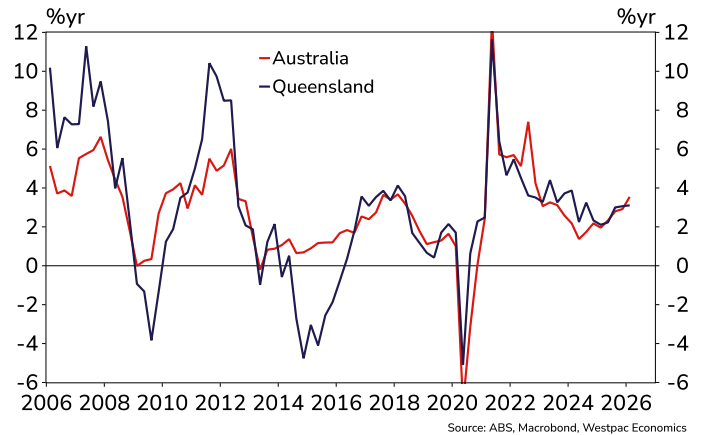
A key stat that tells the story. At 3.1%yr, household consumption continues to run at a robust pace, still at a nation-leading pace even after excluding some of the recent volatility stemming from the roll-off of electricity rebates. This largely speaks to resilience in discretionary spending that was evident before the headwinds associated with high inflation and higher interest rates have started to weigh on consumption.

What has surprised? While outside of the purview of the local state final demand, disruptions to coal exports from Cyclone Koji would have represented a temporary shock to production, shipping and royalty revenue in Q1. However, exports look to have already rebounded in the partial data available so far for Q2.

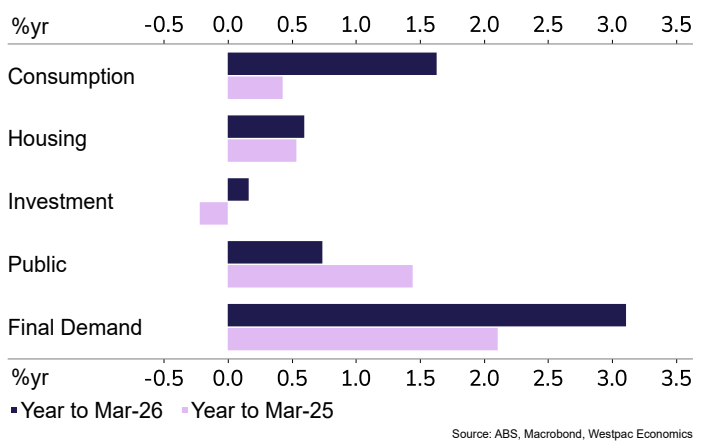
How can things improve? Acute supply shortages remains a significant factor in Qld's housing market story. While price growth is starting to show signs of cooling more recently, it is coming from a very hot starting point, with annual growth at 17%yr, the fastest since mid-2022. Qld has held onto a relatively robust pace of new dwelling construction over recent quarters, currently holding at circa 11%yr, well above most other states. This will need to persist for some time to for extreme supply tightness to ease and affordability to improve.

What are we expecting? We remain optimistic on Qld's growth prospects, with GSP forecast to lift 2.6% in FY26, before slowing to 1.5% in FY27 and picking back up 2.0% in FY28. We expect Qld will remain a front-runner over this horizon, while trailing SA only marginally on a per capita basis. We expect a greater degree of resilience in household spending will underscore this outperformance. Unlike the consumer-led states of NSW and Vic, Qld is benefitting from elevated energy prices delivering sizeable income windfalls, which together with strong population growth and a robust labour market – the unemployment still being below the national average – will add to state incomes. Indeed, the 2026/27 Qld Budget continued to deliver significant cost-of-living relief, totalling \$9.3bn in FY27, to support households amid current pressures. The Budget also earmarked an expansive \$119bn package across road, rail and other critical infrastructure over the next four years, which will add to the large number of infrastructure/dwelling projects already in the pipeline, including Olympics-related spending. While this bodes well for growth, the key risk lies in the ability to deliver on these ambitious programs given capacity constraints and elevated costs in the construction sector, the upshot could be above-average localised inflation pressures.

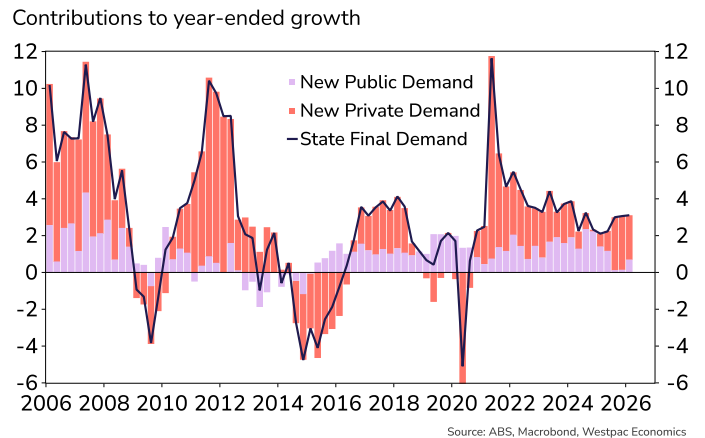
State final demand: Qld vs Australia



Qld: contributions to state final demand



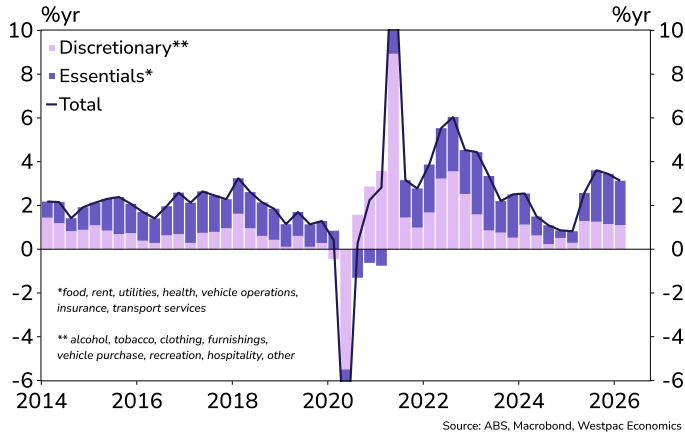
Private demand solid



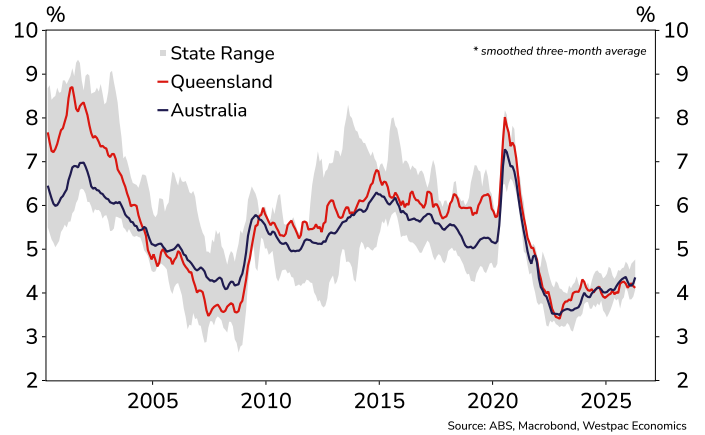
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... amid pressure

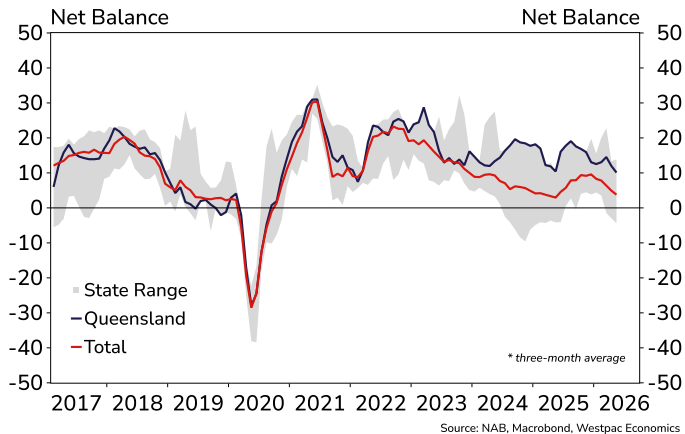
Discretionary spending resilient



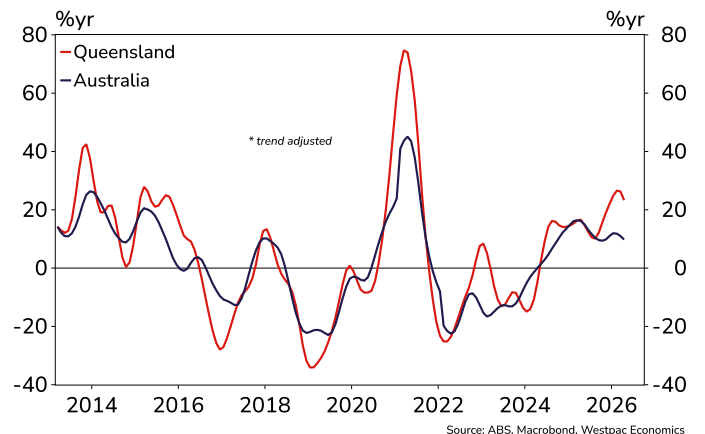
Qld's unemployment rate remains relatively low



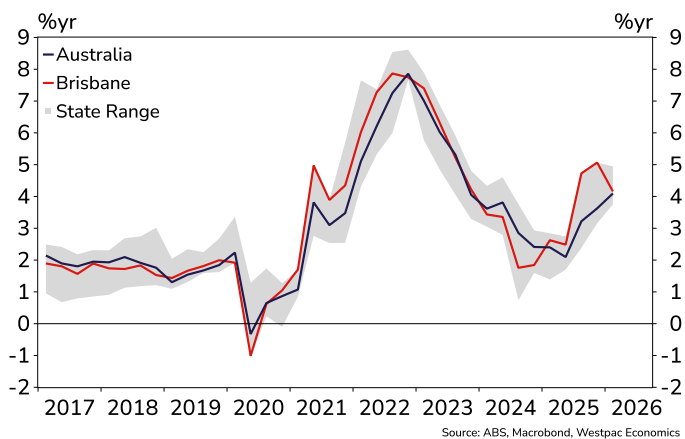
Qld business conditions outperforming



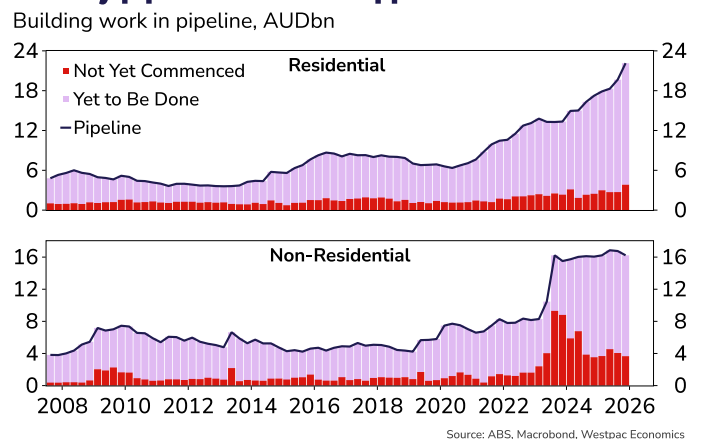
Qld dwelling approvals growing at pace



A sustained lift in inflation could be a headwind



Healthy pipeline will lend support



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The state remains well positioned for a recovery ...

Luka Belobrajdic
Economist

WA's economy remains well placed to recover from the recent inflationary period, with a stable household sector, alongside much needed investment in dwellings and higher commodity prices set to support mining investment and exports. GSP is forecast to rise to 2.4% in FY26, with growth expected to moderate to 1.4% in FY27 as high commodity prices unwind.

How has the state performed? State final demand rose 0.4%qtr in Q1 taking annual growth to 2.8%yr. The composition of growth shifted, with the state bucking the national trend as new business investment remained relatively subdued, rising just 0.6%qtr. This was offset by a solid lift in dwelling construction (+4.9%qtr), leaving private investment up 1.1%qtr overall. Household consumption returned to strength, increasing 0.7%qtr, while by contrast, public final demand edged lower (-0.8%qtr), as public investment managed a small gain (+0.3%qtr).

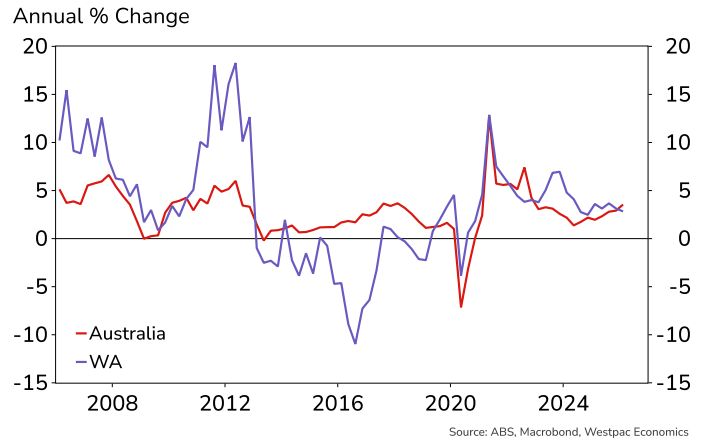
A key stat that tells the story: Perth house prices rose 25.8%yr in May, the strongest growth of any capital city. This reflects WA's rapid population growth (2.2%yr), well above the national average, a period of underinvestment in housing supply, and resilient household conditions, with strong income growth (6.4%yr across 2025) and a relatively low unemployment rate (4.2%) continuing to support demand.

What has surprised? The rotation within construction has been notable. New private engineering construction declined modestly in the quarter (-0.6%qtr, -1.0%yr), while activity has shifted decisively toward residential building. New dwelling investment rose 6.4%qtr (14.3%yr), while non dwelling building construction has also strengthened, rising 13.1%qtr (16.9%yr).

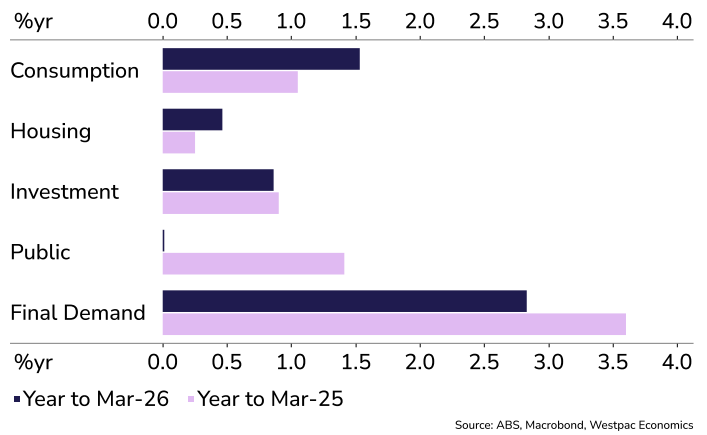
How can things improve? Inflation remains elevated, increasing at a 4.9%yr pace and running 0.8ppt above the national average in Q1. Housing costs continue to be a key driver of this outperformance. That said, the strong lift in dwelling construction may help ease housing inflation, which remained below the national average across the April and May data.

Where are we expecting? We expect GSP to return to strength in FY26, growing 2.4%yr. Mining is set to re emerge as a key growth engine, with elevated commodity prices in the first half of 2026 supporting both investment and exports - particularly for gold and LNG. While weather disruptions in Q1 are likely to have weighed on exports, a recovery in Q2 should provide support to growth as conditions normalise. The oil price shock presents some downside risk, but WA is relatively well placed. As a major gas exporter, and with domestic gas reservation policies in place, households are likely to be partially shielded from higher energy costs. Combined with strong real income growth, robust population gains and an unemployment rate well below pre pandemic levels, household spending is expected to remain better supported than in other states.

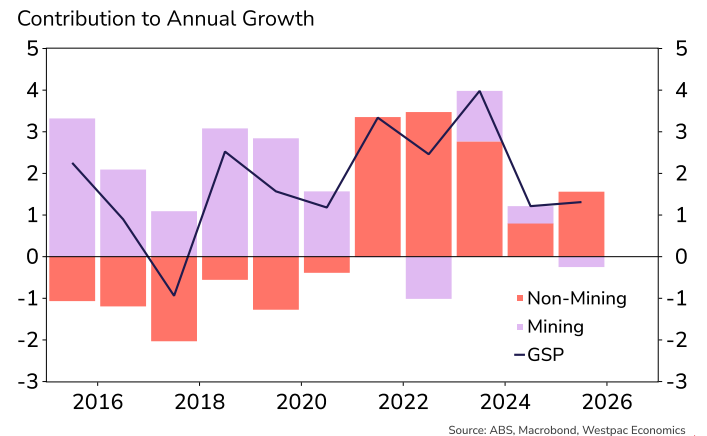
State Final Demand



WA: contributions to state final demand



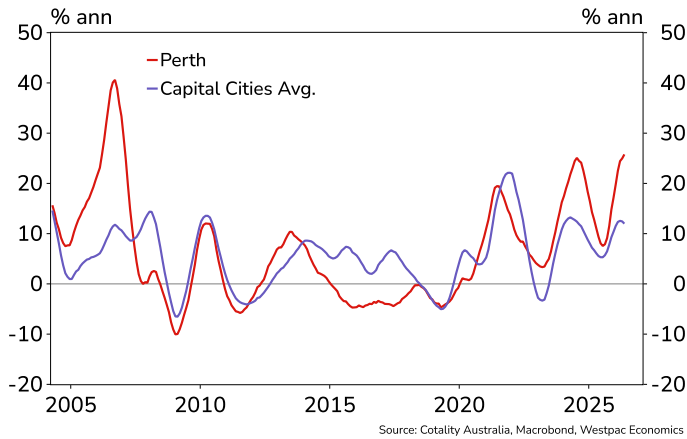
WA Gross State Product



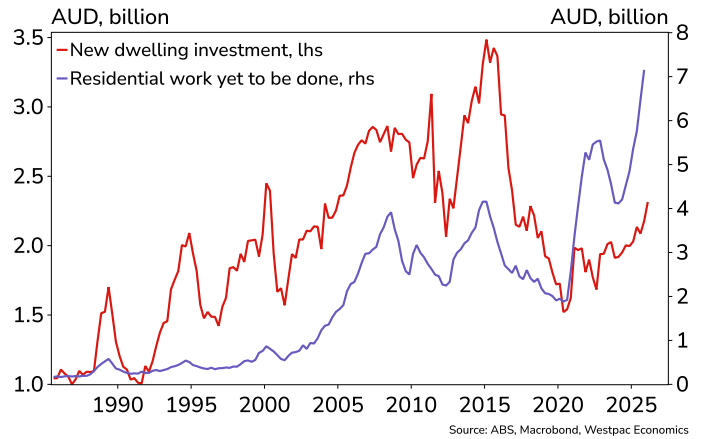
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... with mining set to provide additional support

Perth dwelling prices outperform national average



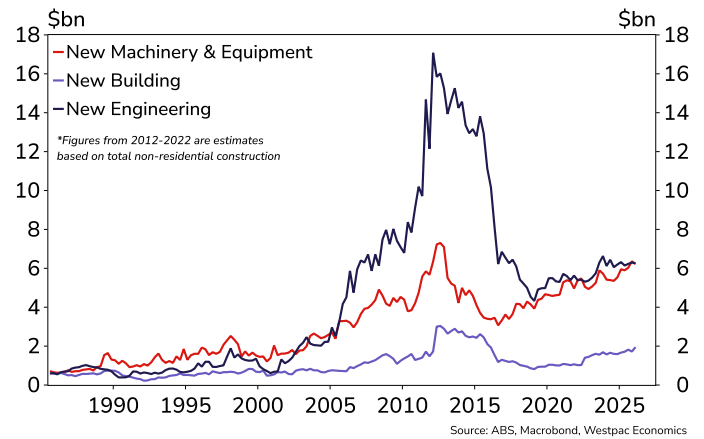
New dwelling investment powers ahead



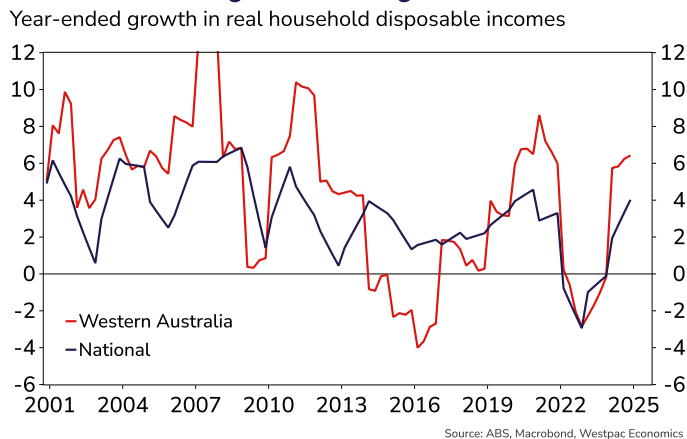
Perth headline inflation above national average



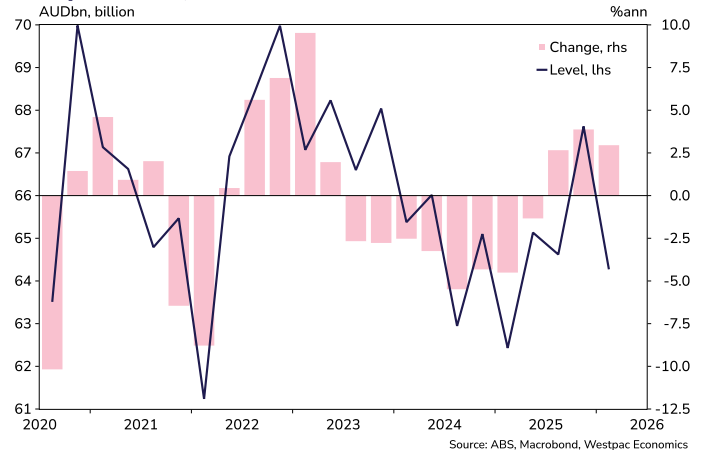
New buildings drive business investment growth



WAs real income growth stronger than the national



WA exports fall in Q1



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Still going strong ...

Ryan Wells
Economist

South Australia outpaced most other states for quite some time, underpinned by strong public demand and robust growth across the private sector. While momentum has slipped a bit in the latter, the state remains well positioned to weather the headwinds.

How has the state performed? SA had a softer start to the year, with state final demand rising 0.5% in Q1. While that saw annual growth throttle back, at 3.8%yr, SA is running at the second fastest growth pace across the states, around 1½ppt above its long-run average.

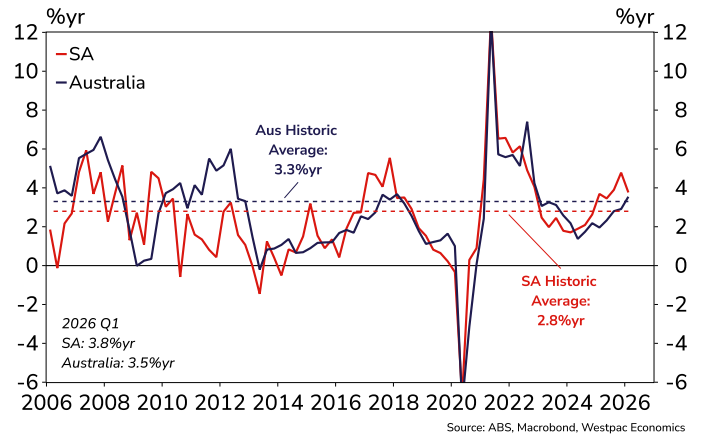
A key stat that tells the story. At 7.6%yr, growth in new public demand remains incredibly robust. Unlike other states that have seen public demand cool notably and stabilise at lower growth rates, SA's public sector continue to contribute significantly to demand. This is not only being driven by strong government consumption (5.2%yr), but also double-digit growth in new public investment (19%yr), a sharp contrast to the flat pace evident nationally.

What has surprised? Housing construction and renovation activity entered a significant over 2024 and 2025, buoyed by a vast pipeline of housing projects. However, that boom has come to a halt rather quickly, with construction activity taking a large step back in the quarter. While the size of the pipeline remains supportive, a slower rate of completions and growth in new approvals will weigh on the level of construction activity undertaken each quarter.

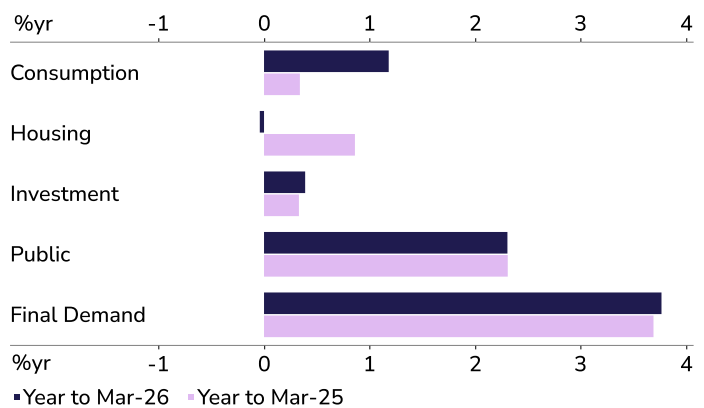
How can things improve? While the recent data centre investment 'surge' is mostly confined to NSW/Vic, SA has potential to capture more of the future pipeline given its abundant renewable energy and transmission capacity, growing government support and existing base of defence and national security-oriented industries.

What are we expecting? Growth is expected to follow a similar contour to the national picture but from a stronger starting point, with GSP forecast to expand by 2.3% in FY26, before slowing to 1.3% in FY27, and lifting to 1.9% in FY28. These figures still point to outperformance on a per capita basis. The near-term picture will remain one of contrast between public and private sectors. Large infrastructure projects like the \$15.4bn North-South Corridor will put a floor under public investment activity and add to the state's productive capacity over the longer-term. While the level of public infrastructure activity will likely remain elevated, growth should cool from here – the 2026/27 SA Budget did not include any major new infrastructure projects, and a few other transport projects are due to be completed this year. Meanwhile, the private sector will feel the squeeze from high inflation and higher interest rates near-term. A robust labour market should continue to provide support to incomes and prevent an even sharper slowdown in household spending.

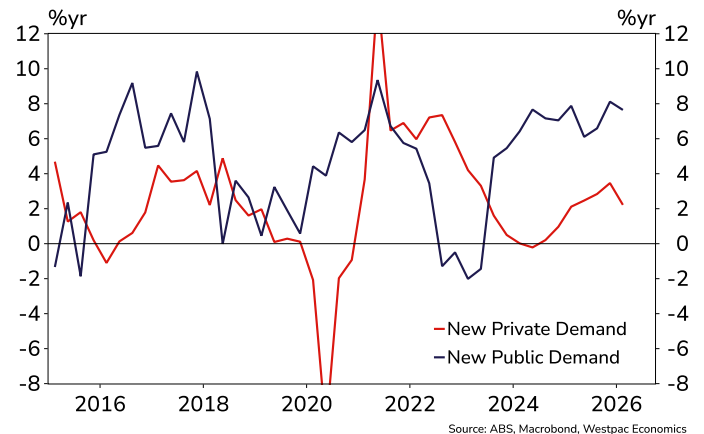
State final demand: SA vs Australia



SA: contributions to state final demand



Public demand continues to lead the charge

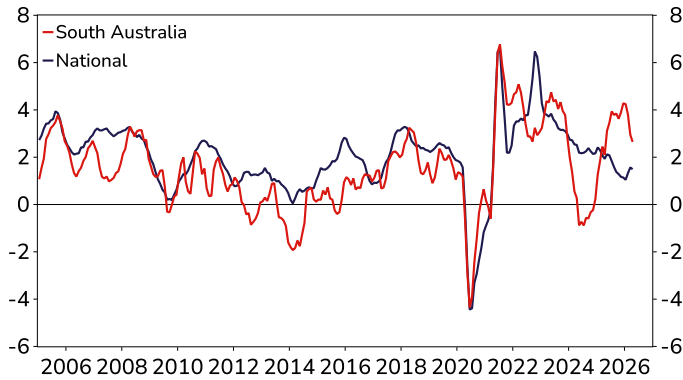


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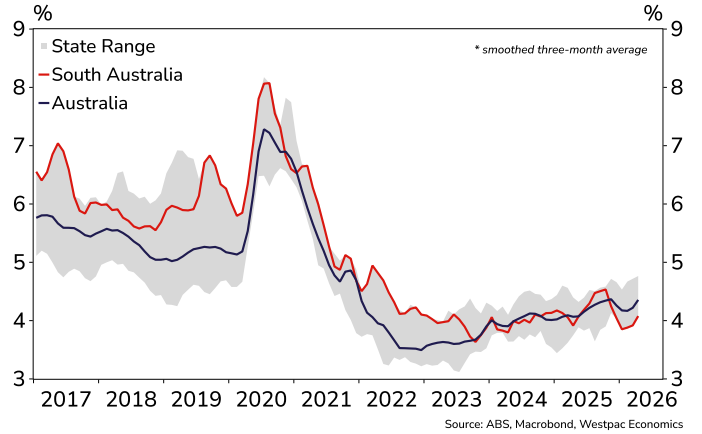
... but challenges lie ahead

Labour market in good health ...

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

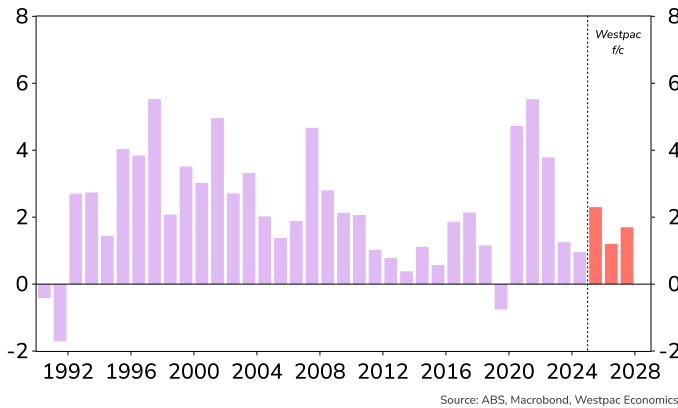


... and unemployment rate is very low



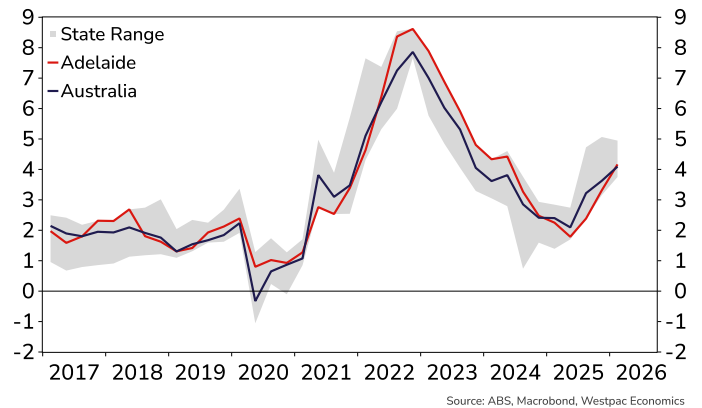
Economic outlook promising, despite challenges

Growth in Gross State Product (GSP), financial years



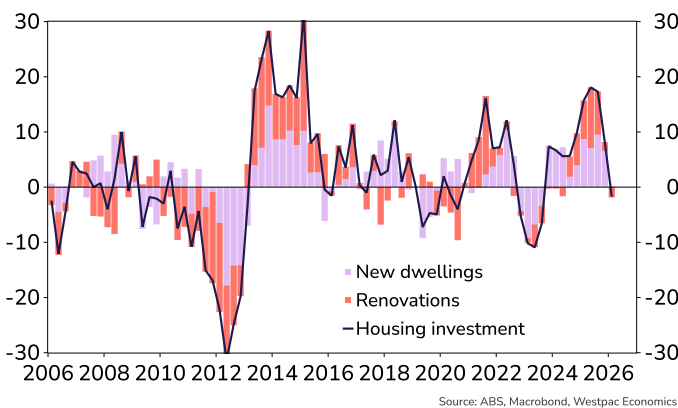
Inflation pressures closely watched

Year-ended growth in headline inflation (quarterly)

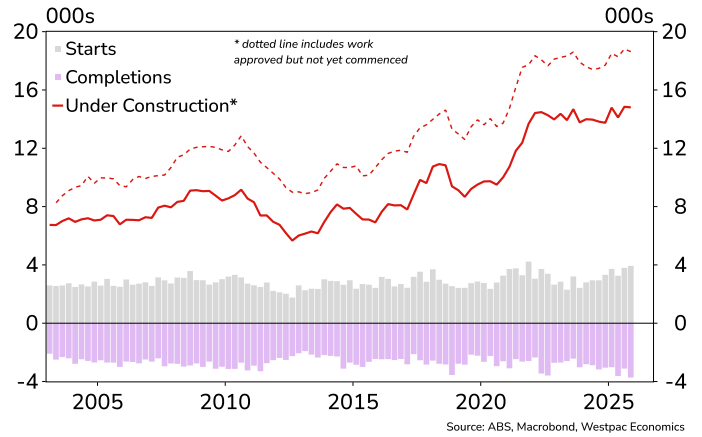


Housing construction boom has come to a halt

Contributions to year-ended growth in housing construction



Dwellings moving through pipeline more quickly



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Softness extends beyond the household sector ...

Luka Belobrajdic
Economist

Tasmania's economy remains relatively weak compared with national peers. A softer household sector is less well placed to absorb the latest energy price shock, while the public sector continues to normalise. Although new dwelling investment has shown some signs of improvement, broader private investment declined in the quarter. GSP is forecast to rise to 1.2% in FY26, with growth expected to slow to 0.7% in FY27.

How has the state performed? State final demand contracted in Q1, falling -0.7%qtr—the weakest result nationally—and moderating annual growth to 2.1%yr. Household consumption rose just 0.1%qtr while private investment declined -1.1%qtr, driven by a fall in total dwelling investment (-1.7%qtr), as new business investment recorded only a marginal gain (+0.1%qtr). Public demand also detracted, continuing to normalise from earlier highs, with public final demand down -1.7%qtr and public investment falling -4.3%qtr.

A key stat that tells the story: Inflation remains elevated despite weaker growth. Hobart CPI rose 4.3%yr in Q1, the second highest among capital cities. With a larger share of spending allocated to essential goods and services (~67% versus ~62% nationally), households are more exposed to elevated prices, contributing to the softness in consumption.

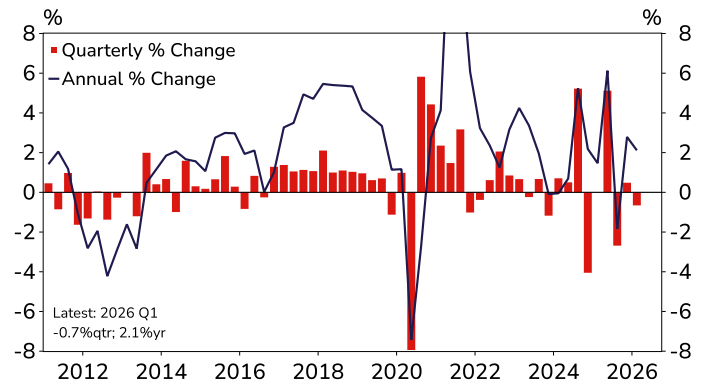
What has surprised? New dwelling construction returned to growth, rising 3.1%qtr and marking the first positive outcome since Q4 2024. While weaker population growth (0.5%yr in Q1) has weighed on demand, there are some signs of tightness in the housing market with housing inflation running at 9.8%yr, and dwelling prices rising 9.3%yr in May.

How can things improve? Household consumption accounts for just over half of state final demand but has been persistently weak, rising by an average of 0.2%qtr over the past three years. Labour market conditions are a key constraint. Tasmania's unemployment rate is the second highest nationally on a three month moving average basis (4.8%), while wages growth is the lowest across the states at 2.9%qtr in Q1.

Where are we expecting? We expect GSP to grow in FY26, 1.2%yr. The public sector is likely to continue normalising following completion of the Spirit of Tasmania project, while the household sector may act as a drag, particularly given the outsized impact of the latest energy price shock given higher inflation, a relatively elevated unemployment rate and a structurally higher share of essential spending. As a result, we expect GSP to slow to 0.7%yr in FY27. That said, business investment is showing early signs of stabilisation, with strength emerging in private non dwelling building and engineering construction. Looking ahead, further investment in renewables and energy infrastructure should provide a more durable source of growth with this base also positioning Tasmania well to attract data centre investment over the medium term.

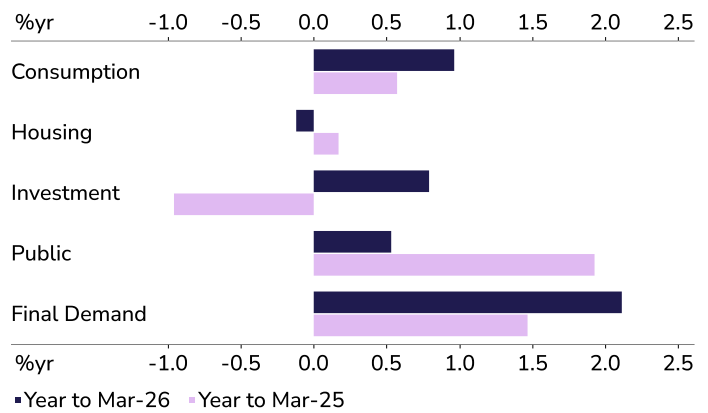
Tas State Final Demand

Chain Volume Measures



Source: ABS, Macrobond, Westpac Economics

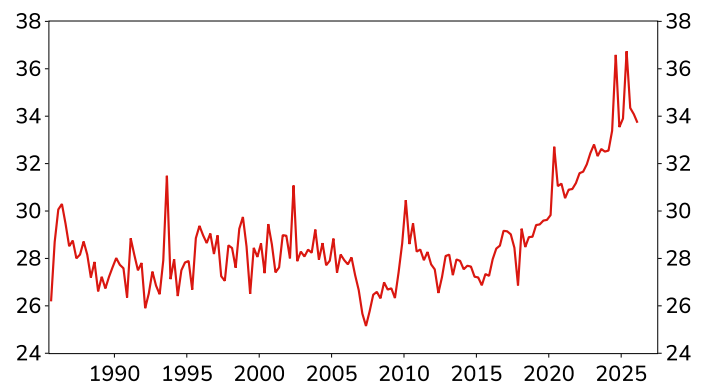
Tas: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Public sector contribution normalising

Public Demand % Share of SFD

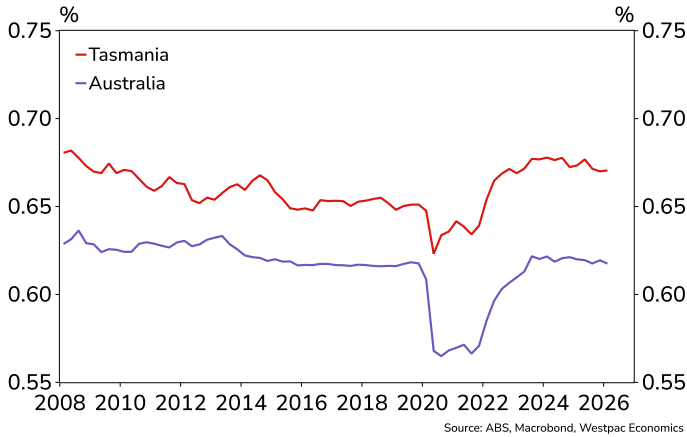


Source: ABS, Macrobond, Westpac Economics

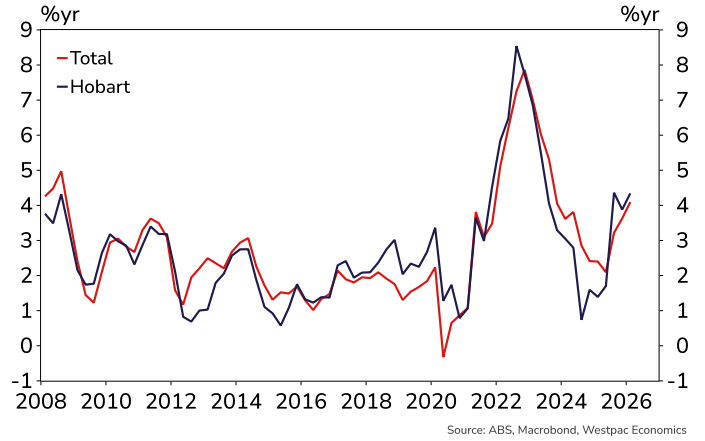
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...with near-term weakness likely to persist

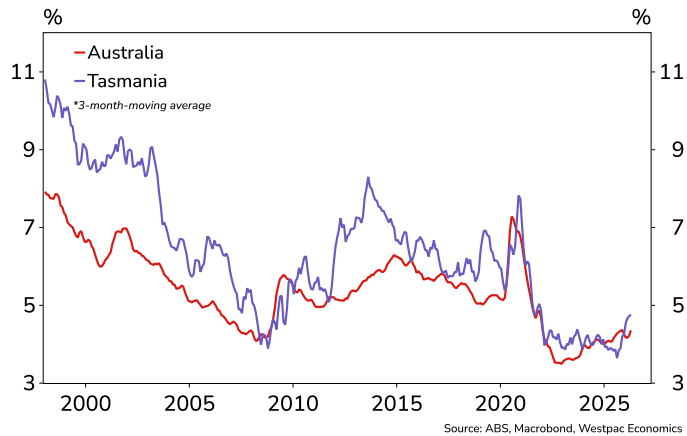
A higher share of essential spending...



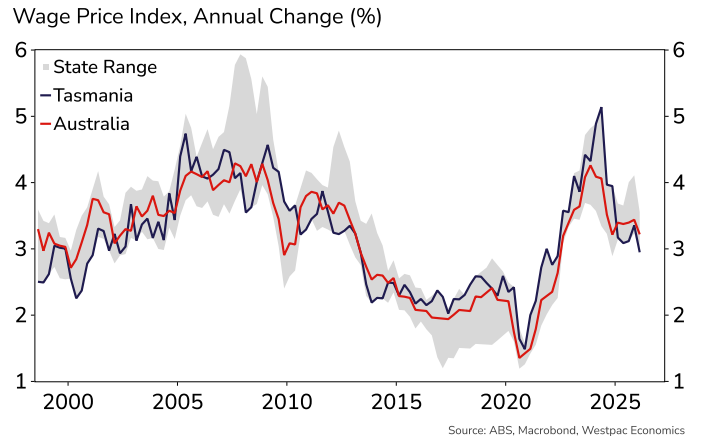
...means elevated inflation bites harder



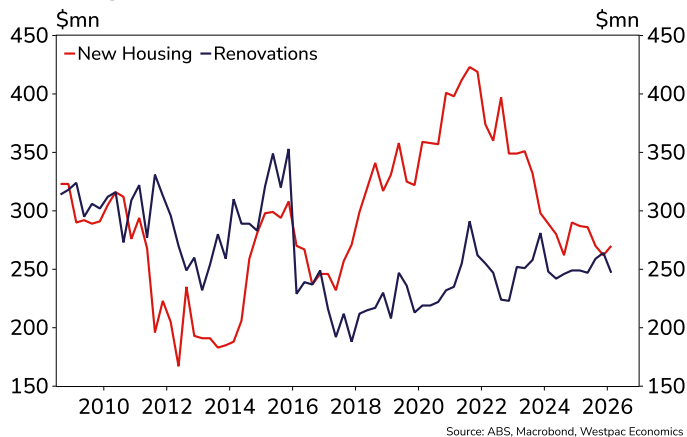
A higher unemployment rate...



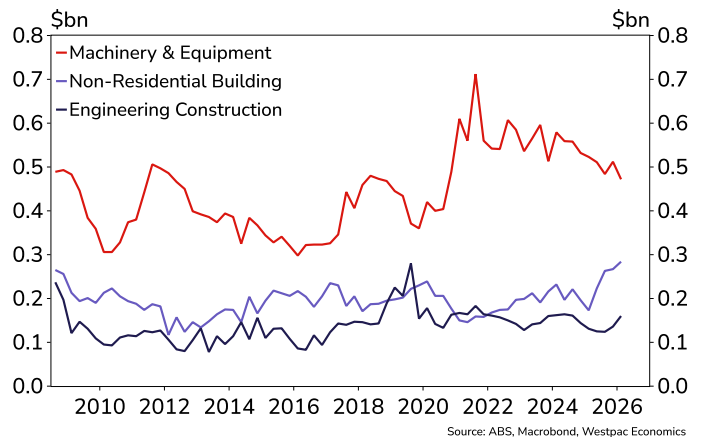
... is capping wages growth



Dwelling investment



New business investment



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Forecasts

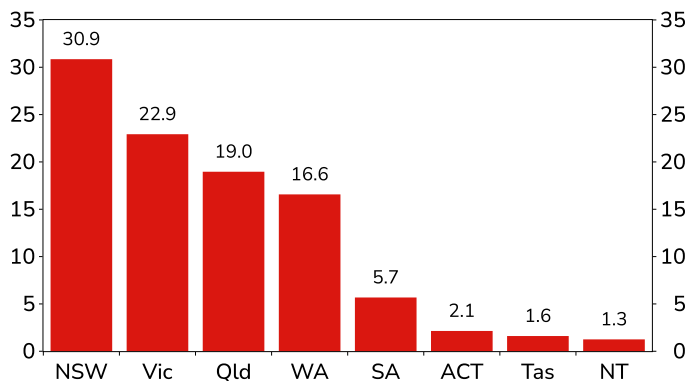
		2024/25	2025/26		2026/27		2027/28	
		Actual	Govt f/c	Westpac Est	Govt f/c	Westpac f/c	Govt f/c	Westpac f/c
Gross State Product year-average growth	Aust (GDP)	1.3	2¼	2.2	1¾	1.0	2¼	1.7
	NSW	0.9	1¾	1.9	1.0	0.8	1.0	1.5
	Vic	1.1	1¾	2.0	1½	0.9	2.0	1.6
	Qld	2.2	2½	2.6	1¾	1.5	2.0	2.0
	WA	1.3	3¼	2.4	2¼	1.4	2.0	1.9
	SA	1.0	2¼	2.3	1¾	1.2	2.0	1.7
	Tas	1.0	2¼	1.2	¾	0.7	2¼	1.1
Household Consumption year-average growth	Aust	1.2	2¼	2.2	1¾	1.2	2½	2.2
	NSW	0.8	–	2.0	–	0.8	–	1.9
	Vic	1.0	–	2.1	–	0.7	–	1.8
	Qld	1.3	–	2.5	–	2.1	–	2.6
	WA	2.5	–	2.8	–	2.2	–	2.5
	SA	0.7	–	1.9	–	1.5	–	2.2
	Tas	0.9	–	1.7	–	0.6	–	1.1
Employment year-average growth	Aust	2.2	1½	1.3	1½	1.4	1¾	1.8
	NSW	1.5	1.0	0.9	1¼	1.1	1.0	1.6
	Vic	2.4	1½	1.5	1¼	1.4	1½	1.7
	Qld [^]	3.0	1½	1.1	1¼	1.5	1¼	2.0
	WA	3.1	1½	1.4	1¾	1.8	1½	2.1
	SA	1.4	3¼	3.6	1.0	1.5	1.0	1.7
	Tas	-1.1	¾	1.0	-½	0.6	1¼	1.4
Population through-the-year growth	Aust [#]	1.5	1.3	1.5	1.2	1.4	1.2	1.3
	NSW	1.2	1.2	1.2	1.1	1.1	1.0	1.0
	Vic	1.7	1.7	1.7	1.7	1.7	1.7	1.7
	Qld	1.8	1¾	1.6	1½	1.6	1¼	1.5
	WA	2.3	1.8	1.9	1.6	1.7	1.5	1.6
	SA [#]	1.0	0.8	1.2	0.7	1.2	0.7	1.3
	Tas ^{##}	0.4	0.4	0.6	0.5	0.7	0.6	0.6

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

[#] Forecasts are from the Centre for Population. ^{##} Year-average terms. [^] Through-the-year growth.

Shares of GSP

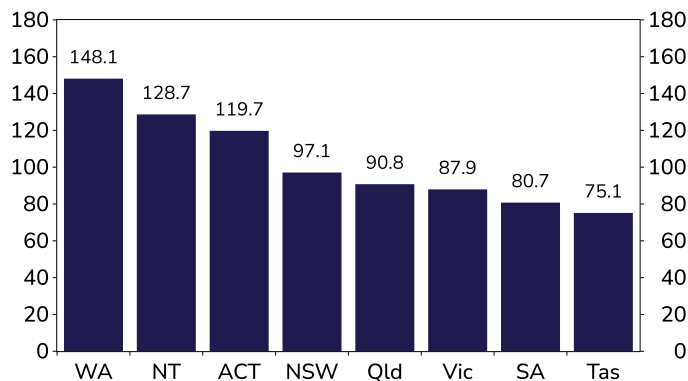
Real, Chain Volumes, 2024/25, Percentage



Source: ABS, Macrobond, Westpac Economics

GSP per capita

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



Source: ABS, Macrobond, Westpac Economics

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