

3 June 2026

AUSTRALIAN GDP Q1 BULLETIN

Business investment powers ahead

Key points

- As we expected, the Australian economy expanded just 0.3% over Q1 2026 and 2.5% in year-ended terms – the softest quarterly growth rate since Q2 2024.
- The big story in the quarter was investment in data centres. We estimate that the net effect of this investment, including spillover effects, drove all the growth this quarter and around 0.8ppts of GDP growth in year-ended terms.
- The economy was clearly slowing even before the conflict in the Middle East and interest rate hikes started to impact. The headwinds from these developments will be more fully reflected in Q2 2026, with the possibility of a quarterly contraction, which would be the first quarterly decline since the GFC (excluding COVID).
- On the supply side, Q1 saw a 0.6%qtr fall in productivity but the cost impact was offset by softer wages growth. This meant annual growth in the economy's labour cost base ticked lower from 3.3%yr in Q4 to 3.2%yr in Q1, back near pre-pandemic rates.
- The RBA may view softer growth as a 'necessary evil' to bring demand and supply back into balance. However, it will remain focussed on upside risks to inflation and inflation expectations.

GDP: Q1 2026

	% qtr		% yr	
	Q4	Q1	Q4	Q1
Household consumption	0.4	0.5	2.5	2.5
Dwelling investment	0.6	0.7	5.1	3.5
Business investment*	0.6	5.7	4.5	10.4
Private final demand*	0.5	1.3	3.2	4.0
Public spending*	0.8	0.1	2.1	2.4
Domestic demand	0.6	1.0	2.9	3.5
Stocks – private non–farm #	0.2	0.2	-0.1	-0.1
Stocks – other #	0.2	-0.2	0.2	0.0
GNE	1.0	0.9	3.0	3.5
Exports	1.4	-1.1	5.2	3.7
Imports	1.4	2.1	6.7	7.8
Net exports #	0.0	-0.8	-0.3	-0.9
Statistical discrepancy #	-0.1	0.1	-0.2	0.0
Non–farm GDP	0.8	0.3	2.5	2.6
GDP, real	0.9	0.3	2.5	2.5
GDP, nominal	2.0	0.6	6.1	5.3
GDP deflator	1.2	0.3	3.4	2.7
Household deflator	0.9	0.6	3.2	3.1
Earnings per worker (non–farm)	0.8	0.7	4.8	4.4
Real household disposable income	1.2	-0.2	3.8	1.9

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

Q1 GDP: 0.3%qtr, 2.5%yr
Q1 New Business Investment:
5.7%qtr, 10.4%yr

Soft Growth, Sharp Trade-offs ...

Westpac Economics

Pat Bustamante, Matthew Hassan, Sian Fenner, Mantas Vanagas, Ryan Wells, Neha Sharma, Luka Belobrajdic

The conflict in the Middle East has made the RBA's task more challenging. Absent this shock, the RBA would likely have been comfortable with the March quarter national accounts, which showed a combination of slower growth and easing nominal unit labour costs. Indeed, it probably would have been enough for the Bank to end the tightening cycle that began back in February. But with the spike in fuel prices now threatening to drive an unwelcome lift in inflation expectations, the RBA is unlikely to be able to sit on the sidelines.

The March quarter National Accounts showed Australia's economy has slowed, growing just 0.3% over Q1 2026 and 2.5% in year-ended terms – the softest quarterly growth rate since Q2 2024. The quarterly outcome was in line with Westpac Economics' expectations, but a touch softer than the 0.4%qtr expected by the market. Upward revisions to previous quarters saw the year-ended outcome print at 2.5%, a touch stronger than the 2.4%yr expected by Westpac Economics.

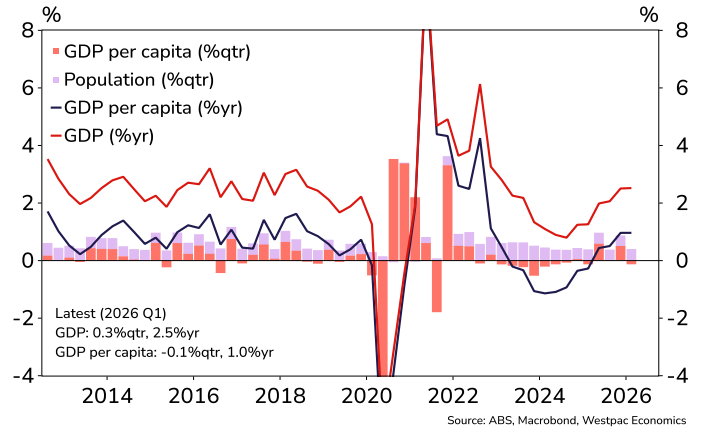
Economy slowing before the impacts of the conflict and rate rises have taken hold

Even though the backdrop has shifted significantly as a result of the conflict in the Middle East, the March quarter accounts were telling for a number of reasons. Firstly, they show that the economy was slowing even before the conflict in the Middle East and interest rate hikes had really started to impact. Outside of investment in data centres by the IT sector, growth in domestic demand was soft, at around 0.2%qtr – lagging well behind population growth of 0.5%qtr.

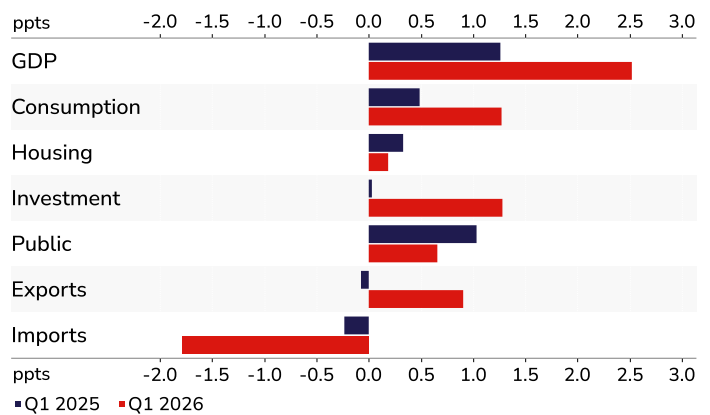
Household consumption did tick higher in Q1 2026. However, the detail shows most of this relates to the effects of electricity rebates – which boosted consumption by 0.2ppts in Q1. Spending on essential goods and services excluding electricity increased by just 0.4% in Q1, while discretionary spending increased by just 0.1%. The squeeze from higher inflation, interest rates and bracket creep is again weighing on disposable incomes, and this is expected to show through more clearly in Q2 2026 and beyond.

Rebate changes only affect how much electricity spending shows up in consumer or public demand. Hence the technical boost to household spending is a negative for public consumption. This is part of the reason why total public consumption fell in the quarter for the first time since Q2 2022. However, there was also broader weakness in state government consumption, also consistent with the lower average wages coming out of the non-market sector.

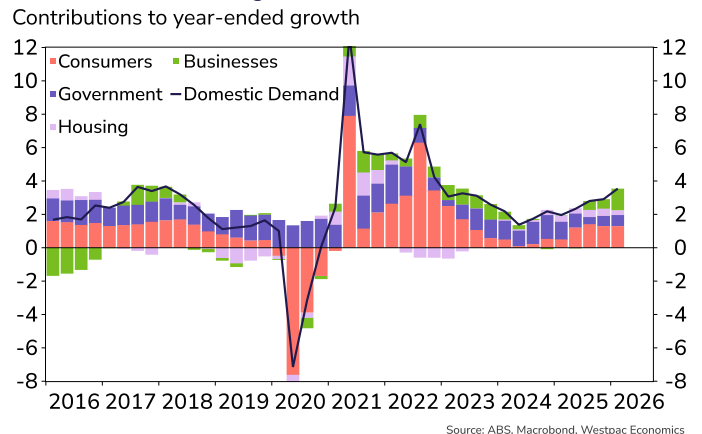
Real GDP growth: total and per capita



GDP: year-end contributions



Domestic demand growth



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... for the RBA

While government demand is likely to add to activity next quarter and beyond – given the ongoing need for energy, defence and other infrastructure – we are likely past the big expansion coming out of COVID, meaning the public contribution will be slower. This is something we have been highlighting for some time.

Dwelling investment momentum also looks to be slowing. While activity rose in the quarter, this was all due to renovations as new dwelling construction fell. 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 the effects from the conflict in the Middle East flow through and the established housing market slowdown impacts.

Investment in data centres provides an offset

While the domestic demand impulse has slowed, investment by the IT sector in data centres has accelerated. CAPEX showed that investment in this sector almost doubled in Q1 2026. While we know that a lot of this equipment is imported, there are clear positive spillover impacts – equipment needs to be transported, installed, fitted and connected. Indeed, we estimate that investment by the IT sector, driven by data centres, contributed all of the growth this quarter. CAPEX expectations suggest further growth in FY2027, rivalling what we have already seen this year. However, the investment path is likely to be lumpy, with potentially large swings quarter to quarter.

Productivity matched by wages slowdown

We did see an important and disappointing outcome when it comes to productivity. After recovering to grow by 1%yr in 2025, it slipped to 0.3%yr. Digging a little deeper, we estimate that productivity in the market (ex-mining) sector grew a still solid 0.9%yr in Q1 (estimates will be finalised after Friday's Labour Accounts).

Importantly, despite a weaker aggregate productivity print in the quarter, growth in the economy's labour cost base still managed to tick slightly lower, from 3.3%yr to 3.2%yr, back near pre-pandemic rates. We estimate that a pull-back in non-market unit labour costs – which have been running much higher than in the market sector – was the main driver this quarter.

Productivity and data centres - a lag not a sag

More broadly, data centres are likely having some impact when it comes to growth in labour productivity. As we have previously noted, during the investment phase of the data centre 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 goes 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.

If not for the war, the RBA would have been reasonably happy

The March quarter update would have been of great comfort for an RBA that was, up until a few months ago, mainly battling with a domestically-driven resurgence in inflation pressures. Indeed, the combination of slowing demand and moderating unit labour cost growth would probably have been enough for it to end the 'mini retightening' that began in February.

However, the conflict in the Middle East has shifted the focus for the Bank. The main threat now is that the high starting point for inflation and conflict-related surge in global energy prices may drive a problematic lift in inflation expectations. The RBA's battle with domestic inflation issues may be ending, but it still has some way to go in the expectations war, and will likely need to raise rates further to ensure a sustained return to the 2-3% target range.

GDP: the expenditure estimate

The GDP expenditure estimates, or GDP(E), confirmed that business investment in data centres by the IT sector propelled the economy forward at the start of the year. The growth impulse appears to have weakened across other major expenditure components, however. While consumer spending momentum held steady, this largely reflected a roll-off in electricity rebates. Excluding this effect, the data point to a slowing in spending growth amid rising energy prices and a re-emergence of cost-of-living pressures. The same effect contributed to weaker public demand, which looks to have stalled. Meanwhile, the external sector detracted materially from growth. Adverse weather weighed on commodities, education exports declined, and a surge in capital goods imports associated with data centre fit-outs further reduced net exports.

Domestic demand (spending by consumers, businesses, and governments) grew a solid 1.0%qtr in Q1, lifting the year-ended growth to 3.5%yr, the highest level since late 2022. Growth in Q1 was dominated by the private sector, with investment in data-centres the big story this quarter.

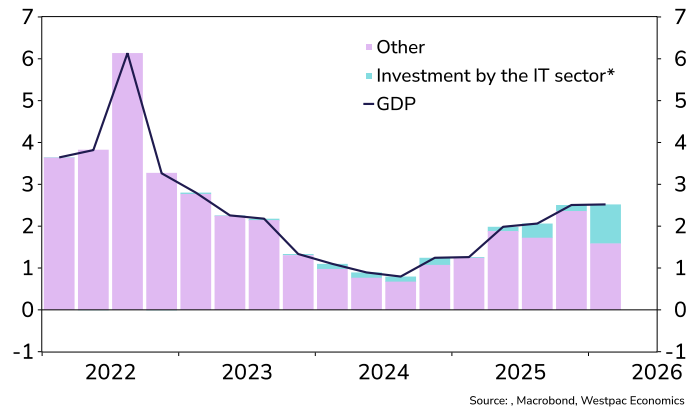
As anticipated, growth in **new business investment** accelerated to 5.7%qtr (10.4%yr) in Q1, the strongest quarterly outcome since Q3 2011 during the peak of the second wave of the mining investment boom. The increase was driven by machinery and equipment which rose 14.7%qtr, its largest gain since Q4 2002. Today's outcome was consistent with the robust capex result recorded last week, with data centre-related equipment underpinning the strength. Across other asset classes, new buildings increased 2.7%qtr, remaining elevated and supported by the ongoing data centre build-out. In contrast, new engineering construction detracted from the headline, falling -2.5%qtr. The outlook for investment remains positive, with a sizeable pipeline of datacentre projects expected to support activity. This is consistent with capex expectations, which point to further growth into financial year 2027.

While **household consumption** growth picked up slightly in the quarter, to 0.5%qtr from 0.4%qtr in Q4 2025, much of this reflected a pick-up in electricity spend following the roll-off rebates. Excluding electricity, consumption was running at its slowest pace since mid-2024. While there was not much impact from sharply higher fuel prices at this point, we expect a much bigger squeeze from higher inflation, interest rates, and bracket creep further ahead.

New public demand stalled at the start of 2026, holding almost flat in Q1 after gains of 0.9%qtr in Q4 and 1.3%qtr in Q3. The weakness was driven by public consumption, which fell 0.2%qtr as the Energy Bill Relief Fund ended on 31 December 2025. New public investment held to a solid trend, increasing 0.9%qtr with strength in national defence investment particularly pronounced, rising 6.8%qtr following a 7.5%qtr gain in the previous quarter. While total general government investment remained firm (1.8%qtr), investment

Real GDP growth

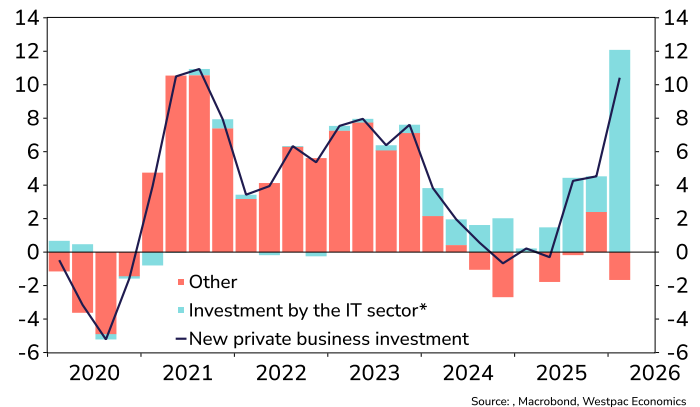
Contribution to year-ended growth



Source: Macrobond, Westpac Economics

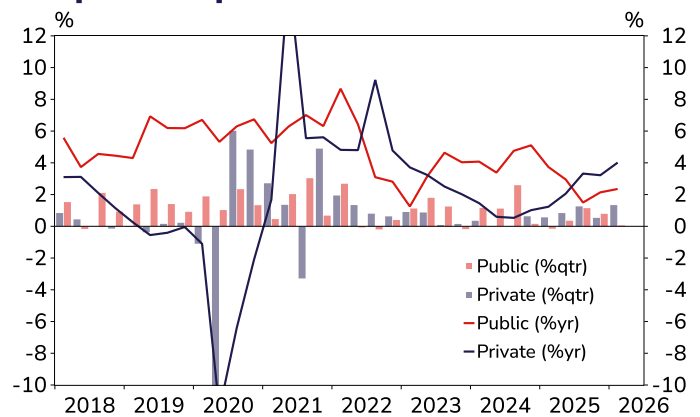
New private business investment

Contribution to year-ended growth



Source: Macrobond, Westpac Economics

New public and private demand



Source: ABS, Macrobond, Westpac Economics

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by public corporations declined (-1.2%), reflecting falls across both the Commonwealth and state and local governments.

Dwelling investment growth remained subdued in Q1, rising 0.7%qtr. The outcome was broadly in line with expectations based on partials data; new dwelling construction contracted -0.8%qtr, marking the first decline since Q4 2023, while renovations provided an offset, increasing 3.2%qtr. Capacity constraints across the industry, alongside elevated input costs, are likely to weigh on activity as the effects of the conflict in the Middle East flow through.

As foreshadowed in yesterday's partials, **net trade** was a key detractor from GDP growth in Q1, subtracting 0.8ppt from the quarterly pace. Bad weather disrupted major commodity exports, and with lower education services, the overall decline was 1.1%qtr for exports. Imports increased 2.1%qtr, as capital goods imports related to data-centre investment surged.

Inventories met expectations, contributing nothing to growth after a 0.4ppt contribution in the Q4. A build-up in private sector inventories, led by mining was offset by declines across non-mining inventories and the public sector.

Household sector

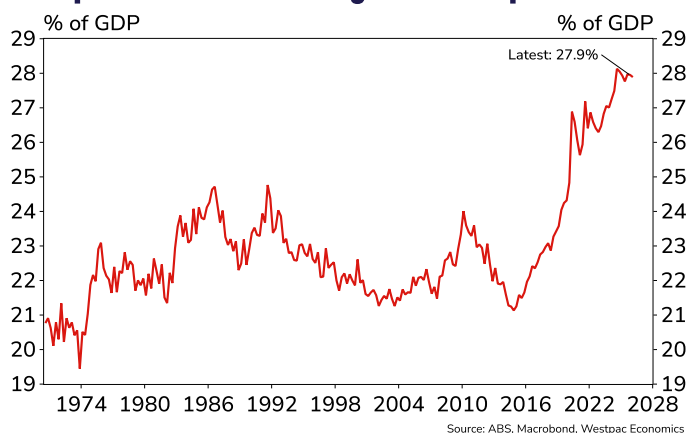
On households, the picture was largely as expected for spending in real terms but both incomes and price effects surprised to the downside.

In real terms, household consumption rose 0.5%qtr, 2.5%yr, the headlines and details almost bang on our expectations. While the quarter was a slight step-up on the 0.4% gain in Q4 this is entirely due to changes in electricity rebates, an increase reducing out-of-pocket expenses and dampening consumption growth in Q4 with the final roll-off working the other way to flatter growth in Q1. Spend excluding electricity rose just 0.3% in Q1 following a gain of 0.6% in Q4 and 0.4% in Q3 - Q1 marking the slowest growth ex electricity since Q2 2024.

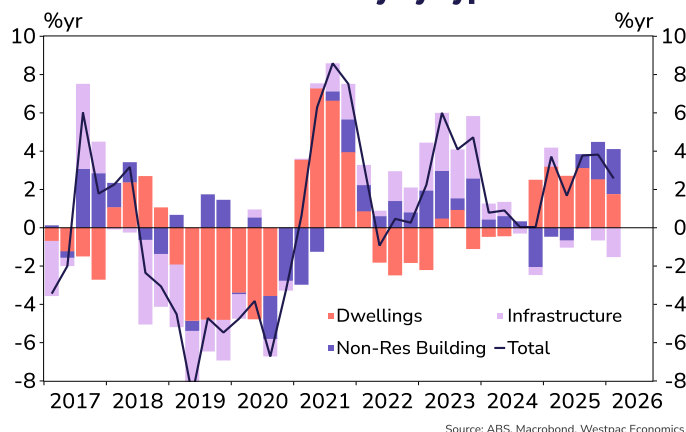
In terms of the detail, the 11.7% surge in electricity expenses accounted for just over half of the 0.5% gain in total spend. Elsewhere, spending gains were concentrated in essentials (up 0.4%qtr excl. electricity) with discretionary barely up 0.1%qtr. The biggest positive contributions came from the large 'basic food' category (+0.8%qtr) with a notable rise in fuel despite the price spike in the March month (+0.6%qtr) that likely captured some 'stockpiling' purchases. Health, finance and insurance, transport and communications all recorded muted gains (+0.4%qtr together). In discretionary categories, recreation posted a decent 0.7%qtr gain but cafes & restaurants stalled flat while vehicles (-1.5%qtr), household goods (-0.5%qtr) and alcohol & tobacco all posted sizeable falls. Note that spending on illicit tobacco is not captured by ABS measures but is estimated to have had only a minor 0.1ppt effect on annual growth in total consumption in recent years (see [here](#)).

As noted, the detail on incomes and prices surprised to the downside. Total wage income rose 1.2%qtr, well below the 1.6%qtr average through 2025, the shift mainly reflecting a moderation in employment growth. Other income sources were on the soft side as well: gross mixed income (covering

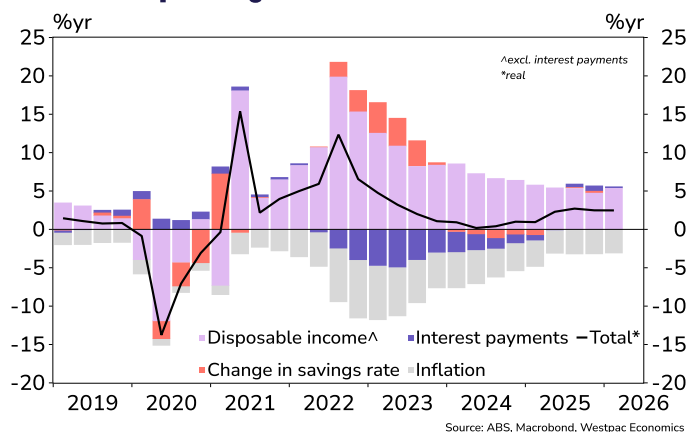
New public demand holding around its peak



Private construction activity by type



Consumer spending: drivers and headwinds



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farms and small businesses) declining 0.6%qtr, annual growth slowing abruptly to 3.5%yr; but property income up 1.9%qtr, 4.8%yr (buoyed in part by higher interest rates on deposits). Total gross income rose 0.7%qtr in nominal terms, annual growth slowing back to 5%yr.

The RBA's February and March rate rises saw interest payments up 4.5%qtr, with a larger increase set to come through as the full effects roll through in the June quarter. Tax payments rose a 0.7%qtr, a muted gain compared to the second half of 2025 but still leaving total tax payments up an eye-catching 8%yr.

Overall, nominal disposable income rose just 0.4%qtr, annual growth slowing quite abruptly from 7.1%yr to 5%yr. This muted gain would have been more of a concern had it not been for a surprisingly muted rise in prices in the quarter. The consumption deflator rose just 0.6%qtr, annual growth moderating to 3%yr, the second slowest annual pace since 2021. While there are significant conceptual and coverages differences between the national accounts deflators and measures like the CPI, the absence of a meaningful rise in price inflation in a quarter when average fuel prices were 5% higher is somewhat puzzling. We will be digging into this more deeply in future analysis.

As it stands though, the muted price result meant real (inflation-adjusted) disposable incomes 0.2%qtr, in line with our expectations but with a different mix of nominals and prices. Annual growth slowed from 3.8%yr to 1.9%yr.

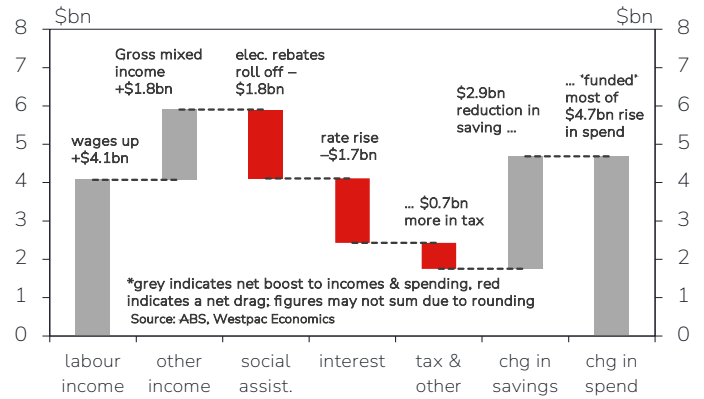
With nominal consumption rising +1.1%qtr, the gap between incomes and spending was 'funded' by a decline in the share of income being put towards saving, the household savings ratio dropping back from 7% in Q4 to 6.2% in Q1, in line with the rates seen through Q2 and Q3 last year. Overall, the mix suggests households absorbed most of the income squeeze through reduced savings in Q1. However, there are likely to be limits on how much more can be absorbed with a significantly larger squeeze set to come in Q2.

The states

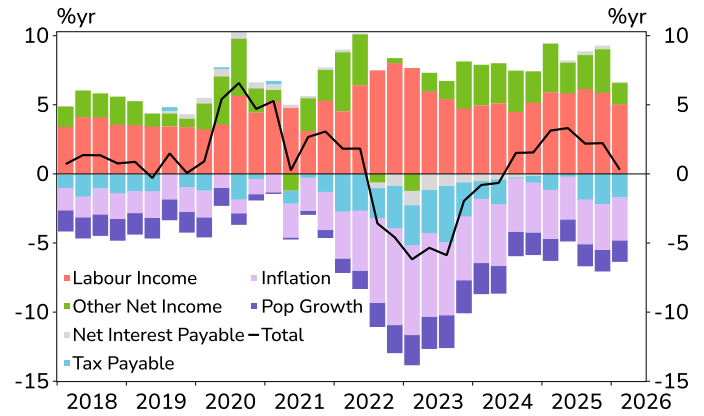
New South Wales was the front-runner at the start of the year, state final demand advancing a whopping 1.8% in Q1, the largest quarterly increase in a decade (outside of the pandemic). Business investment was in the spotlight, with a surge in new machinery and equipment investment (+35%qtr) owing to the data centre build-out. Outside of this, growth was more benign. Household consumption edged only 0.1% higher in Q1 after excluding the impact of the electricity rebate roll-off and new public demand pulled back -0.5%. Some momentum in housing construction and other parts of business investment provide somewhat of an offset, but the global energy shock and recent interest rate rises will be a significant test for consumer-led states such as NSW.

Victoria was the next cab off the rank after NSW but by a much wider margin, state final demand increasing 0.9% to be up 3.5%yr, in line with the national average. Vic was also home to the data centre investment splurge, new machinery and equipment investment jumping 23%qtr. However, Vic's construction sector continues to face headwinds, as new residential (-5.0%), non-res (-0.8%) and infrastructure works

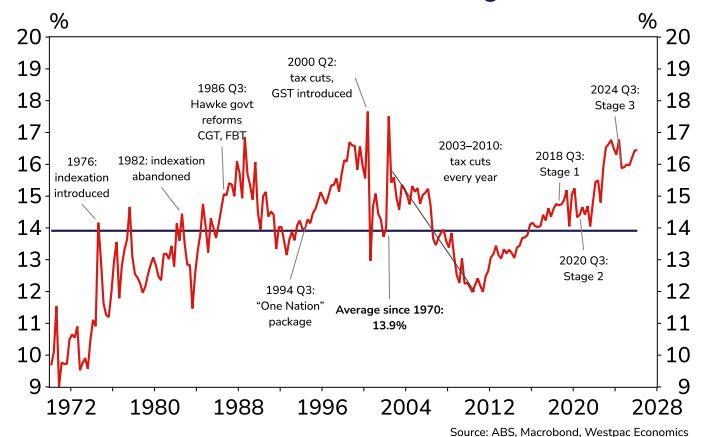
Household income flows: change, Q4 to Q1



Household real disposable income per capita



Personal income tax share of h'hold gross income



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(-3.2%) all declined in Q1. Add in a decline in discretionary household consumption and flat new public demand, and the underlying health of the Victorian economy appears questionable even before recent headwinds have started to fully materialise.

Queensland performed similarly to Vic, state final demand also rising 0.9% in Q1, but smaller gains in recent quarters leaves the annual pace at a softer 3.1%yr. While Qld didn't benefit from the data centre investment pulse, resilience across other sectors was clearly on display. At 3.1%yr, household consumption is running at a nation-leading pace, and a pick-up in new public investment also contributed to growth. More impressive is the pace of new dwelling construction at circa 11%yr, well above most other states. While disruptions to coal exports from Cyclone Koji were also in the mix, commodity price windfalls from the Middle East conflict will provide support near-term while Olympics-related infrastructure will help put a floor under investment activity further out.

Western Australia had a mixed quarter, state final demand lifting just 0.4% in Q1, seeing the annual pace trend lower to 2.8%yr, the second lowest across the nation. Underscoring this move were two main dynamics: flatlining new public demand (-0.3%yr) and easing (but still firm) momentum in new business investment (4.6%yr). While outside of the scope of state final demand, Cyclone Mitchell also caused disruptions to iron ore exports in Q1. But there are still plenty of signs of strength: at 14%yr, the pace of new dwelling construction is enviable, and with household spending running at 3.1%yr, consumers appear to be in decent health. WA is also staged to benefit from commodity price windfalls from the global energy shock, which buffer against other headwinds near-term.

South Australia had a softer start to the year, with state final demand rising 0.5% in Q1, and while the annual pace eased back to 3.8%yr, SA is still in the #2 spot. As has been the case for some time, the public sector continues to offer immense support to growth, with new public demand up 1.6% (7.6%yr), well above all other states. This helped offset a near-flat print for new private demand, driven by the state's recent boom in new dwelling construction coming to a screeching halt (0.2%yr) and a softer pace for new business investment (3.6%yr). Momentum in household consumption remains positive, but not as firm as other states.

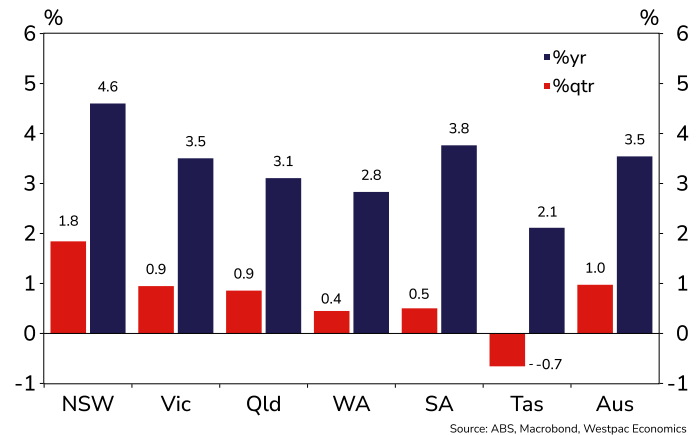
Tasmania remains a bit of a wildcard, with state final demand declining -0.7% to be 2.1% higher over the year, the weakest across the nation. Weakness was broad-based but there remains significant volatility. Household spending and new business investment were virtually flat, while new public demand and housing investment declined.

GDP(P)

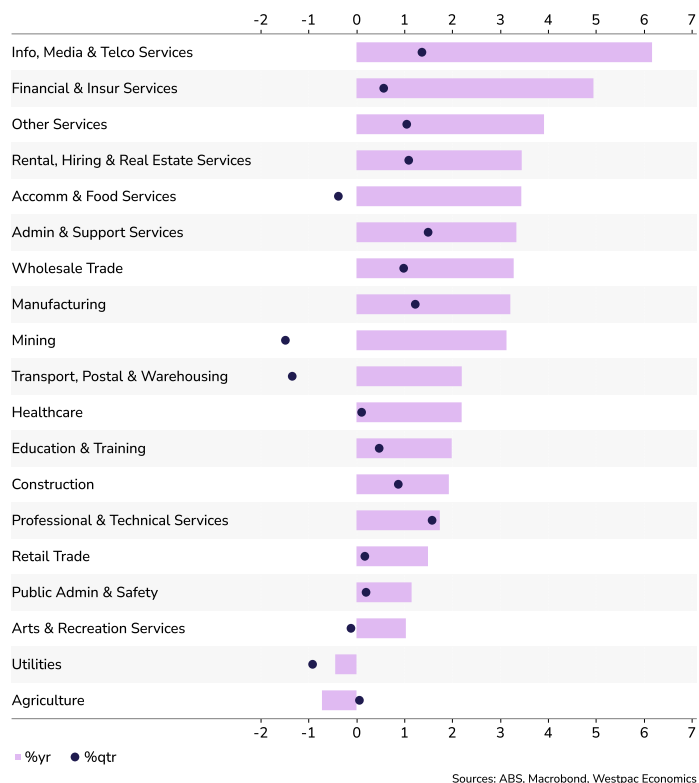
At the industry level, GDP(P) rose 0.3%qtr, from 0.9% in the previous quarter, with annual growth holding steady at 2.5%.

Momentum slowed across both the market and non-market sectors in the March quarter. Growth in the non-market sector continued to decelerate, led by Health, which recorded its smallest quarterly increase since Q2 2024, consistent with our view that the sector has matured.

State final demand: 2026 Q1



GVA by industry



Across the market industries, 9 out of the 16 industries expanded in the quarter, up from 8 previously. However, growth was uneven, with mining contracting 1.5%qtr, weighing on the aggregate. Excluding mining, the market sector grew a solid 0.6% in the quarter.

The sharp fall in mining in the quarter reflected broad based weather disruptions, which saw a sharp fall in coal production and broader weakness across the industry and lower export volumes. This had negative spillovers to the transportation

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sector, where activity was also hindered by weather related disruptions.

While these weather effects are temporary, higher energy costs due to the Middle East conflict alongside freight cost adjustments are set to weigh on these industries in the coming quarters.

Positively, business services, which includes Professional services and the Information Media and Telecommunications, grew a solid 1.2%qtr, and was up 3.6% higher than a year ago, supported by increased data centre activity and IT consultancy.

Manufacturing and Construction also recorded solid growth in the quarter. Manufacturing rose 1.2%qtr, marking the third consecutive quarterly rise, although levels remain below Q2 2024, after the contraction through much of 2024. Construction rose 0.9%qtr, led by stronger residential building and data centre fit outs.

Consistent with the slowdown in household spending, growth eased across consumer facing industries with the Accommodation & Hospitality and Arts & Recreation industry both contracting, reflecting lower spending on eating out and a decrease in gambling. For the Accommodation & Hospitality industry, this was the first quarterly decline since Q2 2024, with evidence from our internal data signalling that the sharp pull back in consumer spending on discretionary goods has extended into the current quarter.

GDP(I)

Real GDP(I) rose 0.53%qtr (2.45%yr) in Q1, a slowdown from the 0.79%qtr pace in the previous quarter. In nominal terms, growth eased a notable 1.4ppts to 0.6%qtr, while annual growth softened from an elevated base to 5.3%yr (all figures below are also nominal).

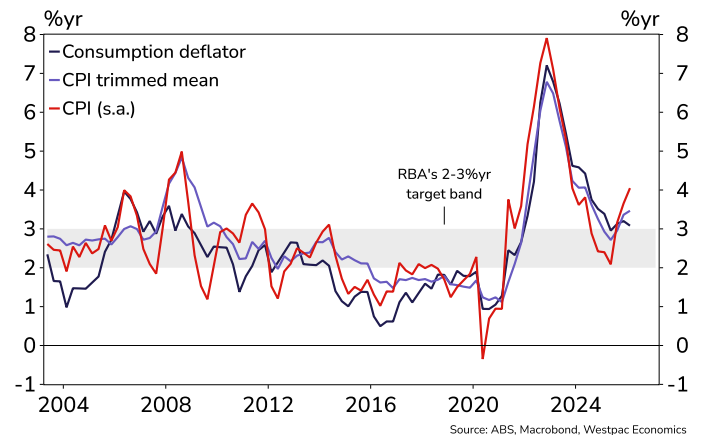
Compensation of employees eased slightly to 1.2%qtr (5.9%yr), with the public sector leading the weakness, holding flat over the quarter given softness across Queensland and New South Wales stemming from base effects. Private sector compensation of employees posted a robust 1.5%qtr growth, driven by professional, scientific and technical services, with gains in both headcount and activity contributing.

Gross operating surplus held flat over the quarter (4.2%yr), softening materially from the 2.0%qtr rise in the previous quarter. Gross operating surplus for private non-financial companies fell -1.1%qtr, driven lower by mining (-9.9%) as weak sales and prices for metal ores, alongside weather disruption, weighed on the sector. Accommodation and food services also contributed to the weakness (-7.0%qtr), reflecting rising operating expenses and base effects from a strong holiday-related outcome in the previous quarter. Offsetting this, Information Media & Telecommunications grew 8.2%qtr. Financial corporations recorded a 2.4%qtr rise, matching the result of the previous quarter.

Gross mixed income, covering unincorporated businesses such as sole traders and partnerships, fell -0.6%qtr, taking annual growth to 3.5%yr.

Prices

Various measures of consumer inflation



After recording 1%qtr+ gains over the past two quarters, the GDP implicit price deflator (IPD) softened to just 0.3%qtr in Q1, underpinned by a 0.5%qtr increase in the domestic final demand deflator – the softest since December 2020 – and a 1.1%qtr lift in the terms of trade.

On the domestic side, price pressures were most evident in consumption and construction. The standout in consumption was operation of vehicles, reflecting the surge in automotive fuel prices following the onset of the Middle East conflict. Construction costs also firmed, which the ABS attributed to persistent competition for scarce labour and materials.

All up, the household final consumption expenditure (HFCE) deflator rose 0.6%qtr – the softest in 5½ years – and 3.1%yr. This measure tends to track closer to trimmed mean inflation (0.8%qtr/3.5%yr in Q1), but that was not the case in Q1. There are some conceptual differences, such as purchases of new dwellings which are included in the CPI but not in the HFCE deflator, and varying weighting patterns between the CPI and the national accounts.

The terms of trade were boosted by a 1.3% fall in import prices. The ABS said this was largely driven by a stronger Australian dollar. Partly offsetting this was an increase in intermediate goods prices – particularly fuels and fertilisers – tied to the closure of the Strait of Hormuz. On the export side, prices edged down 0.2%qtr, weighed down by iron ore, though gains in lithium due to rising demand from battery and electric vehicle manufacturing supported.

Wages

Total compensation of employees (COE), a broad wage bill measure, rose 1.2%qtr/5.9%yr in the March quarter, driven by a 1.5%qtr lift in private COE while the public side held flat. The ABS noted that construction was a key contributor, consistent with increased activity in the sector.

With hours worked up 0.9%qtr, COE per hour worked rose just 0.2%qtr, pulling annual growth down to 3.4%yr from 4.4%yr in Q4 to be in line with its decade average.

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It is worth noting that compensation per hour is not directly comparable to the Wage Price Index (WPI). The WPI is effectively a CPI for hourly wage rates – it tracks price changes for a fixed basket of jobs – whereas COE captures the total wage bill, making it sensitive to shifts in workforce composition and hours. This gives COE much greater volatility. For reference, the WPI rose 0.8%qtr in the March quarter, with annual growth slowing to 3.3%yr.

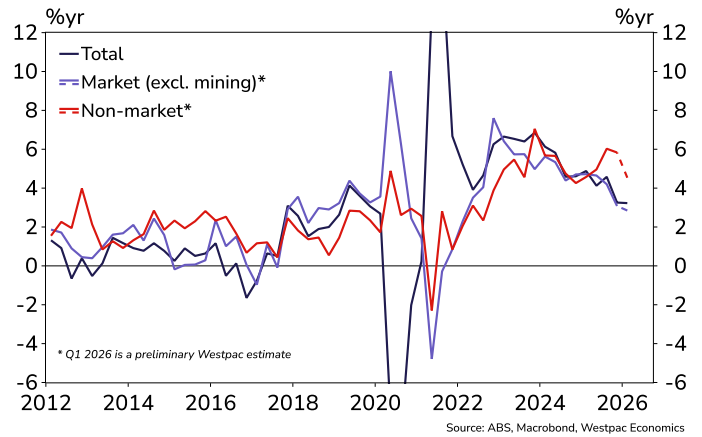
Labour costs and productivity

Labour productivity, as measured by GDP per hour worked, fell 0.6%qtr – its third consecutive quarter of easing – to be just 0.3% higher in year-ended terms. The weakness was broad-based, with market sector productivity down 0.7%qtr (+0.4%yr) and non-market sector productivity down 0.3%qtr (-0.1%yr). Given the lumpiness associated with mining, we estimate that productivity in the market sector excluding mining grew at around 0.9%yr in Q1 (estimate will be finalised after Friday’s Labour Account release).

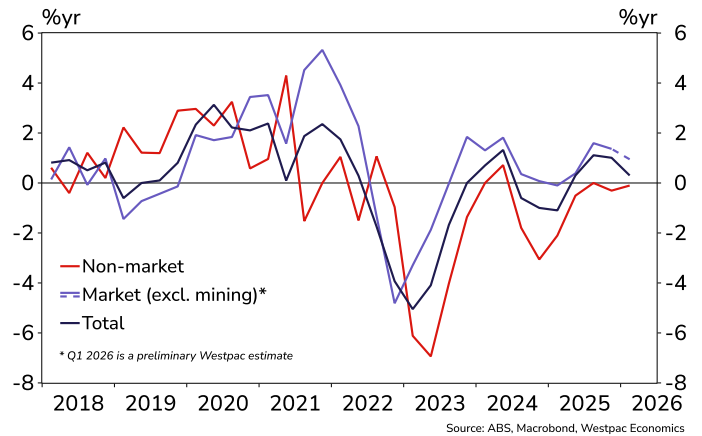
We have noted previously (see here) that productivity typically softens during the investment phase of a major build-out. A rising share of the economy’s resources goes towards enabling works for projects that are not yet operational – dragging on measured productivity until those assets come online. We have seen this during past investment cycles (e.g. mining boom, transport infrastructure in NSW and Vic). The current AI build-out should follow a similar pattern: productivity will remain subdued while the foundations are being laid, with the payoff coming once these technologies are fully embedded in business processes.

With COE per hour outpacing output per hour over the quarter, nominal unit labour costs (ULCs) picked up 0.8%qtr, a step up from the 0.5%qtr lift in Q4. However, the year-ended rate continued to moderate – at 3.2%yr, it is the softest since Q1 2021 and back near pre-pandemic levels. This is consistent with an easing in capacity pressures seen in survey measures

Unit labour costs by sector



Productivity by Sector



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