28 August 2026

AUSTRALIAN GDP: A PREVIEW BULLETIN

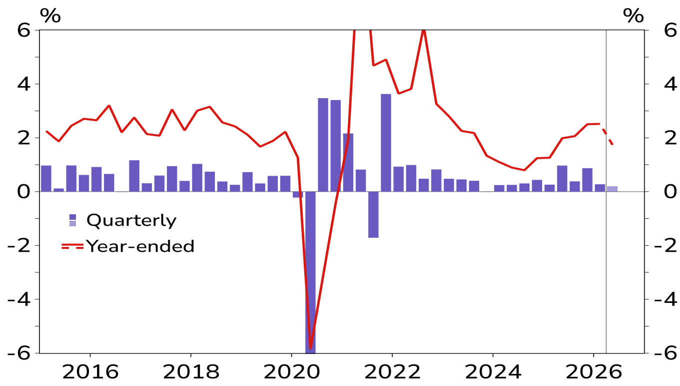
Q2 GDP f/c: 0.2%qtr, 1.7%yr
Domestic demand 0.5%qtr, 3.3%yr

Key points

- Growth remained stuck in the slow lane, with GDP expected to rise 0.2%qtr and 1.7%yr in Q2. Despite significant headwinds from higher interest rates and the conflict in the Middle East, the economy has proven to be a little more resilient than feared, with Westpac-Now showing activity firmed as the quarter progressed.
- Domestic demand growth is holding at an above above-trend pace over the first half of 2026, with a large share flowing into activities with high import content (including the purchase of EVs, data centre equipment and aircraft) resulting in a drag from net exports.
- As we have previously noted, the data centre and renewables investment surge is unlikely to be smooth, with the timing of large projects generating significant quarter-to-quarter volatility. While some of this volatility will be netted out through imports, the linkages to construction, logistics and professional services mean some of it will still be reflected in the GDP aggregates, much as occurred during the LNG investment boom in the early 2010s.
- We are also likely to see productivity growth fall 0.2%qtr in Q2. While this may be of some concern to the RBA it is not overly surprising given the presence of a temporary supply shock around energy and the productivity drag that typically comes during the initial stages of an investment surge. And, as in Q1, the moderation in wages growth we saw in the Q2 WPI is likely to limit any associated increase in the economy's cost base.

Real GDP Growth

Axis truncated for covid.



Source: ABS, Macrobond, Westpac Economics

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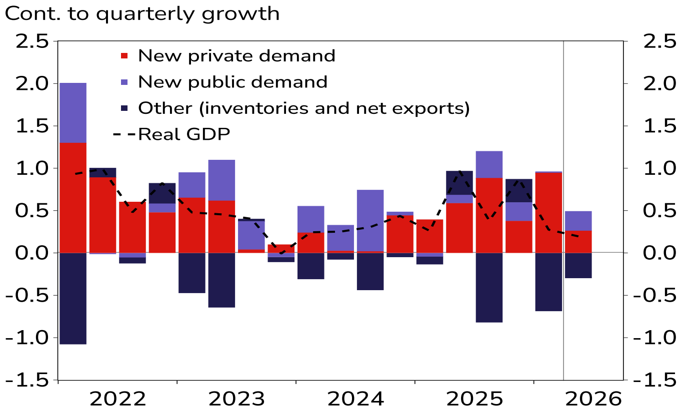
Growth in the slow lane

Pat Bustamante
Senior Economist, Westpac Group
P: +61 468 571 786
E: pat.bustamante@westpac.com.au

We expect the June quarter 2026 National Accounts to show that Australia's economy expanded just 0.2% in Q2 and 1.7% in year-ended terms. Given the impacts of the conflict in the Middle East (including higher fuel prices and greater uncertainty) and the ongoing effects of higher interest rates, Q2 was always going to be a challenging quarter. However, all things considered, the economy is showing some resilience, with notable structural support coming from rising investment in data centres, renewables and the construction required to house a growing population. Indeed, Westpac-Now showed activity stabilised while the probability of a contraction faded as the quarter progressed.

Partial indicators suggest this resilience has carried into Q3. Consumer spending looks to have firmed through July and early August, the Westpac Monthly Activity Index also picking up in July, and surveyed business investment intentions pointing to a further lift in the 2026/27 financial year. For now, growth remains stuck in the slow lane but the economy appears to be stabilising rather than weakening further.

Real GDP Growth by components



Source: ABS, Macrobond, Westpac Economics

Resilient demand, lumpy investment and volatile activity

The National Accounts are likely to show that domestic demand (spending by households, businesses and governments) remained resilient in Q2, growing by 0.5%qtr and 3.3% in year-ended terms. Household spending, dwelling construction and public demand all contributed to growth, more than offsetting the expected decline in business investment. This would see domestic demand growing at around 3.0% in six-month annualised terms over the first half of 2026, above the pre-pandemic decade average of 2.5%yr.

Household consumption is expected to see a 0.5%qtr gain, slowing annual growth to 1.9%yr but continuing the per capita recovery that began in early 2025. Further, the fall in business investment is expected to be entirely driven by machinery and equipment tied to the data centre build out. Yesterday's Q2 capex showed investment in machinery and equipment outside of data centres was solid, up by more than 2%qtr. In addition, construction work done released earlier in the week showed private non-residential building and engineering construction (tied to renewables and electricity generation) both posted solid gains over the quarter.

As we have previously noted, the data centre and renewables investment surge is unlikely to be smooth, with the timing of large projects generating volatility in the quarterly data while leaving the underlying trend firm. While some of this volatility will be offset by corresponding swings in imports, particularly of data centre-related equipment, the strong linkages between these projects and other industries means the effects are likely to be evident in the GDP aggregates. Construction, logistics, transport, installation and professional services all benefit from these investments, creating spillovers well beyond the initial spending. This is broadly consistent with the pattern observed during the LNG investment boom in the early 2010s, when a lumpy investment profile translated into periods of volatility in headline economic activity.

GDP makeup

Domestic demand detail is expected to include: consumer spending +0.5%qtr and +1.9%yr, housing investment +1.9%qtr and +5.0%yr, new business investment -0.4%qtr and +9.9%yr, and new public demand +0.8%qtr and +2.8%yr.

Combined, the external sector and changes in the stock of inventories are expected to detract around 0.3ppts from growth in real GDP in the June quarter 2026.

Productivity softens as the economy builds future capacity

Our nowcast suggests labour productivity growth went backwards in Q2. If the economy expanded by 0.2%qtr and hours worked increased by 0.4%qtr (in line with the Labour Force Survey result), labour productivity is likely to record a small decline of around 0.2%qtr. However, as we saw last quarter, weaker productivity growth does not necessarily imply rising cost pressures. Despite the fall in productivity, the moderation in wages growth meant the economy's cost base was broadly unchanged rather than increasing. A similar dynamic may emerge in Q2, with WPI growth surprising slightly to the downside.

In addition, the investment upswing underway in data centres, renewables and related industries is likely weighing on measured productivity. During the investment phase of these large-scale projects, productivity growth is often softer. This was evident during the mining investment boom of the 2000s and early 2010s and has likely also been a feature of the more recent transport infrastructure booms in NSW and Victoria.

During the build phase, an increasing share of the economy's labour and capital is devoted to constructing assets, undertaking fit-outs and connecting projects to networks that have yet to become operational. While this can temporarily weigh on productivity, it is also laying the foundations for stronger productivity growth in the future, particularly once AI, data centres and other advanced technologies move from the investment phase into productive use.

As occurred during the mining boom, productivity is likely to remain subdued until this wave of investment transitions from the construction phase to the production phase.

The detail

Household consumption (+0.5%qtr and +1.9%yr): Consumer spending remains surprisingly resilient given cost of living pressures. The drag on incomes from higher inflation, interest rates and bracket creep looks to have been largely cushioned by a reduction in new savings. This resilience appears to have extended into Q3, with the ABS Household Spending Indicator rising 1.1%mth in July and our Westpac Card Tracker suggesting momentum has carried into early August. Whether this momentum can be sustained remains an open question.

Real GDP Growth Forecasts (%qtr)

	Q4 2025	Q1 2026	Q2 2026** pre partials	Q2 2026** post partials
Consumption	0.4	0.5	0.0	0.5
Dwellings	0.6	0.7	1.3	1.9
Business investment	0.6	5.7	0.3	-0.4
Private demand (new)	**0.5**	**1.3**	**0.1**	**0.4**
Public demand (new)	**0.8**	**0.1**	**0.8**	**0.8**
Domestic demand	**0.6**	**1.0**	**0.3**	**0.5**
Inventories *	0.4	0.0	-0.1	0.0
Imports	1.4	2.1	1.2	1.9
Exports	1.4	-1.1	0.7	0.7
Net exports *	0.0	-0.8	-0.1	-0.3
GDP	**0.9**	**0.3**	**0.0**	**0.2**

*Contribution to quarterly growth in GDP

**Expected quarter ahead

Dwelling investment (+1.9%qtr and +5.0%yr): Home building activity rebounded strongly in Q2, with partial indicators suggesting that new dwelling construction rose 1.8%qtr and was 8.3% higher over the year. Renovation activity remained a key source of strength, increasing 2.1%qtr and 13.5%yr, comparable to the pace seen during the HomeBuilder driven boom. Despite ongoing capacity constraints and elevated input costs, the sector has managed to expand output, potentially benefiting from labour and resources freed up by the downturn in public infrastructure investment.

New business investment (-0.4%qtr and +9.9%yr): New business investment is expected to decline 0.4%qtr in Q2 following the strong 5.7%qtr increase recorded in Q1. Machinery and equipment investment is expected to fall 4.0%qtr after surging 14.7%qtr in Q1 2026, driven by lumpiness in the ongoing data centre build-out. Despite this, the GDP impact is likely to be muted, as the decline in investment will be accompanied by a corresponding fall in imports of data centre-related capital equipment. The weakness in machinery and equipment is also expected to be partially offset by strength in new building investment, reflecting the structures required to house AI infrastructure; engineering construction associated with the electricity sector; and continued growth in investment in software and other intangible assets.

Public demand (0.8%qtr and 2.8%yr): The partial indicators available to date show public infrastructure work done declined 1.9%qtr and 3.6%yr as a number of major transport and energy projects were completed. Despite this weakness, public investment in other areas, including defence and utilities owned by public corporations, continued to expand through Q2 2026. We expect public consumption to remain a source of growth, supported by growth in programs such as the NDIS and a range of cost-of-living measures rolled out by Federal and State governments, including free public transport initiatives introduced in response to higher fuel prices.

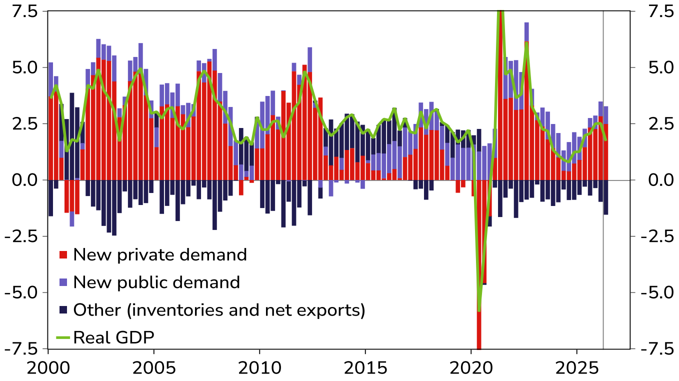
Net exports (-0.3ppts qtr, -1.2ppts yr): Net exports look set to detract from GDP growth again in Q2, following the 0.8ppt drag recorded in Q1. Major commodity exports, particularly iron ore and coal, appear to have rebounded sharply after declining in Q1, although strength in these categories is likely to be partly offset by weakness in other goods exports. On the imports side, vehicle imports are expected to be a key driver of consumer goods imports, reflecting the surge in EV sales during Q2. Fuel imports also appear to have increased despite higher prices. Consistent with the signal from the Q2 CAPEX data, which showed a pullback in data centre investment, imports of ADP equipment used in data centre fit-outs are likely to have declined notably. We also expect services trade to detract from growth, with education exports declining alongside lower student numbers and travel services exports weakened by softer visitor arrivals.

Total inventories (0.0ppts qtr, -0.2ppts yr): Imports of consumer goods grew strongly over the quarter (+5.5%qtr), with some of these imports likely adding to inventories, particularly motor vehicles. This build-up is likely to have been partly offset by a rundown in mining inventories, which follows the substantial increase recorded in Q1 when weather-related port closures prevented some production from being exported.

There is also likely to have been a decline in public inventories, reflecting the unwind of the build-up in non-monetary gold recorded in the previous quarters. The drawdown in mining and public inventories is likely to have broadly offset the accumulation in consumer related inventories, leaving total inventories broadly neutral for GDP growth in Q2.

Real GDP Growth by components

Cont. to year-ended growth. Axis truncated for covid.



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Corporate Directory

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

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

Matthew Hassan
Head of Australian Macro–Forecasting
E: mhassan@westpac.com.au

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

Sian Fenner
Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

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

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

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

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

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

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

Westpac Economics / New Zealand

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

E: economics@westpac.co.nz

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

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

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

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

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

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

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

IQ

westpaciq.com.au

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