September 2026

WESTPAC COAST-TO-COAST

Your quarterly report on Australia's state economies.

WESTPAC COAST TO COAST – SEPTEMBER 2026

Overview

States

Forecasts

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The economy shifts to business-led growth

Pat Bustamante, Senior Economist

The June quarter National Accounts showed Australia's economy expanded 0.4% in Q2 and 2.1% in year-ended terms. It was the first full quarter that households and businesses had to deal with the global energy shock flowing from the conflict in the Middle East and higher domestic interest rates. With a strong ramp up in data centre investment also coming off a massive surge in Q1, the result was a noisy quarter. Looking through this, the Accounts point to growth stabilising at a slower pace. The household sector has been resilient with solid income growth providing support, partly reflecting the upswing in business investment, which still has further to run.

The data centre and renewables investment upswing continues to gather momentum. Consistent with the upward revision to surveyed capex intentions, we now expect new business investment to grow by almost 13% in 2026 (up from 11.7%yr previously) and a further 10% in 2027 (up from 7.5%yr). The upswing also appears to be generating larger spillovers to related industries, including construction and professional services, supporting incomes. The **Westpac–DataX Card Tracker** suggests spending momentum strengthened through Q2 and into Q3, with household consumption likely to rise by 0.8%qtr in Q3 and 2.0%yr in 2026 (up from 1.7%yr previously).

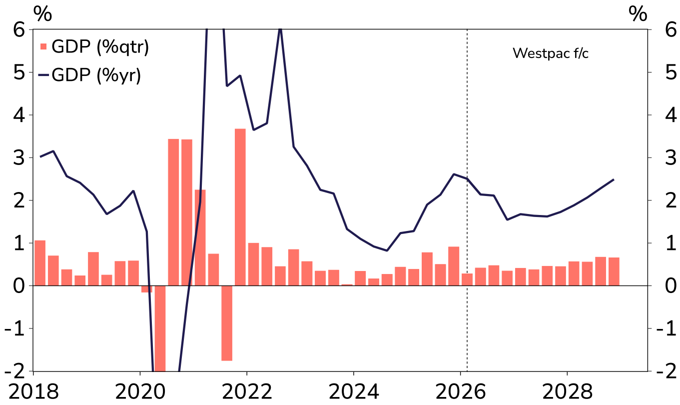
Construction has also strengthened and the outlook remains positive. Beyond the data centre and renewable energy build-out, non-residential building is being supported by the need to accommodate a growing population, while residential construction continues to benefit from a range of state and federal government initiatives. This is offsetting the wind-down in public infrastructure spending. We expect construction activity to remain resilient despite the headwinds from higher interest rates, higher energy costs associated with the Middle East conflict, rising labour costs and falling established house prices.

What does this mean for the aggregate outlook?

Aggregate economic conditions have firmed. Business-led activity, which appears insensitive to interest rates, is providing the economy with a tailwind strong enough to support broader areas of the economy that are not directly tied to the data centre/renewables build-out.

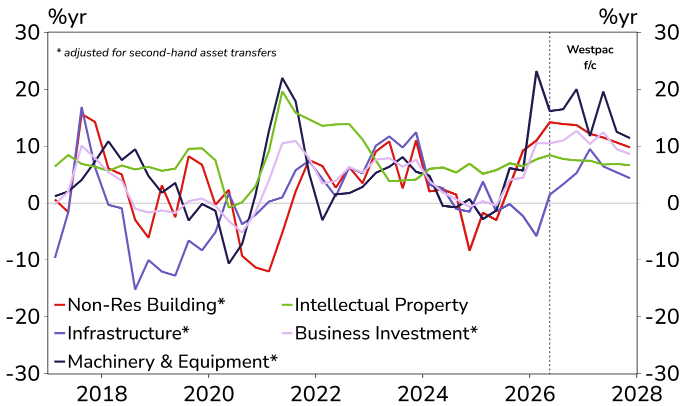
As a result, we have upgraded our near-term outlook to 1.5%yr in 2026, up from 1.0%yr expected prior to the Q2 National Accounts. The outlook beyond 2026 is largely unchanged, although the risks are tilted to the upside given the size of the potential increase in renewable investment. We expect growth to accelerate to 1.7%yr in 2027 and 2.5%yr in 2028 as the RBA eases rates in the second half of 2027 in response to emerging spare capacity.

GDP forecasts



Source: ABS, Macrobond, Westpac Economics

New business investment components



Source: ABS, Macrobond, Westpac Economics

Reflecting the firmer near-term outlook, we have revised our forecast peak in the unemployment rate down slightly from 4.9% (in Q1 2027) to 4.8% (in Q2 2027), where it is expected to hold around this level throughout 2027. The slightly tighter labour market, combined with stronger global inflationary pressures associated with the AI investment boom, points to a firm near-term inflation pulse of 3.3%yr in 2026 before easing to 2.7%yr in 2027 and 2.3%yr in 2028 as spare capacity emerges and productivity gradually improves. We now expect the RBA Board to hike in September 2026, with the cash rate peaking at 4.6% before policy is cautiously eased in the second half of 2027.

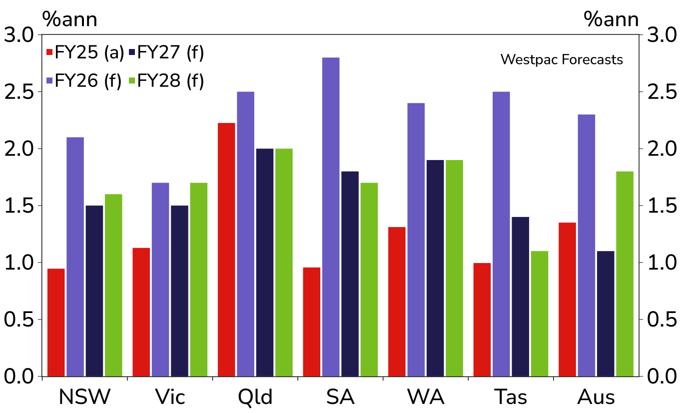
Growth holds up better than expected ...

Pat Bustamante, Senior Economist

State economic growth regained momentum in annual average terms with per capita activity returning to positive growth in FY2026 and the resource-rich states leading the recovery. However, the second half of the fiscal year offered a glimpse of what lies ahead. Higher interest rates, elevated fuel prices and ongoing Middle East tensions weighed on the consumer-led states, with household spending slowing across NSW, Vic and Tas.

Growth in Gross State Product (GSP) strengthened across all states in FY2026, with GSP per capita also rebounding after the declines recorded in FY2025. On our estimates, SA (2.8%yr, year-average) led the pack, followed by the mining states of Qld (2.5%yr) and WA (2.4%yr). Tas (2.5%yr) also posted a strong result, while NSW (2.1%yr) and Vic (1.7%) saw growth pick up, by more than we previously expected. Note that Tasmania's rebound largely reflects the importation of two Spirit of Tasmania ferries in FY2025 which dropped out of the trade flow numbers in FY2026.

Gross State Product



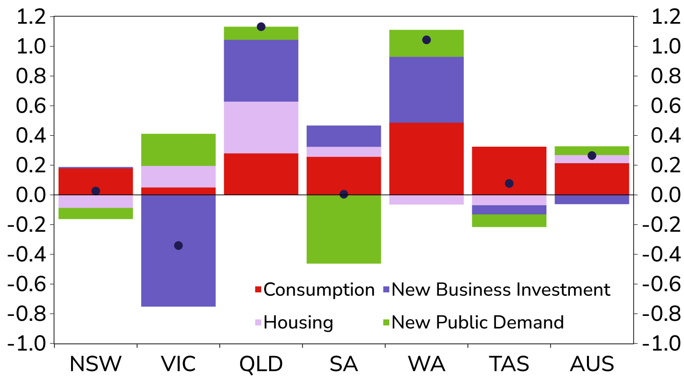
Source: Various State Treasuries, Macrobond, Westpac Economics

Despite the solid outcome over FY2026, the underlying growth pulse in the consumer-led states is losing momentum. **Household spending** was weak, rising just 0.3%qtr in NSW and 0.1%qtr in Victoria in Q2. In NSW, six-month annualised growth in consumer spending slowed to 1.2%yr in H1 2026 from around 2.0%yr in H2 2025. The slowdown was even more pronounced in Vic and Tas, where growth halved from 2.1%yr to 1.0%yr and from 2.8%yr to 1.4%yr, respectively.

The mining states and SA remained the clear outperformers. Household spending momentum strengthened in WA, with six-month annualised growth accelerating to 3.3%yr in H1 2026 from 1.5%yr in H2 2025. Qld (1.8%yr to 2.1%yr) and SA (1.5%yr to 2.2%yr) also recorded solid gains over H1 2026. However, with higher interest rates and elevated fuel prices increasingly squeezing household budgets, this resilience is unlikely to persist, with consumption growth expected to moderate over the year ahead.

State Final Demand

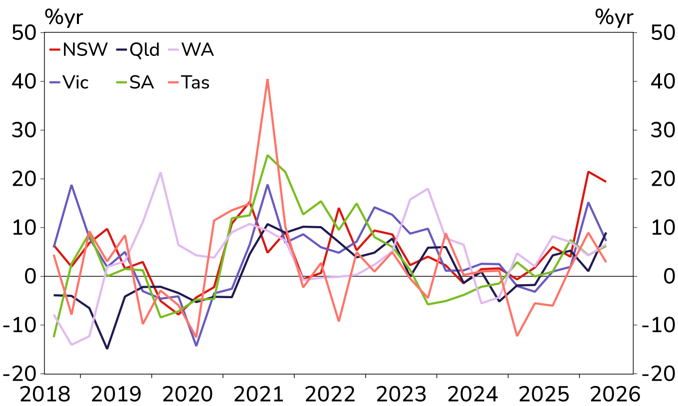
Contributions to quarterly growth (ppt)



Source: ABS, Macrobond, Westpac Economics

While the consumer is mixed, **business investment** remains strong across the board. In NSW, business investment is almost 20% higher than a year ago, despite the large fall in equipment investment over Q2 (-6.2%qtr). In Vic, business investment is growing a healthy 7.3%yr, notwithstanding a 6.0%qtr fall in Q2. More generally, business investment remains resilient across the mining states and SA – growing at 9.0%yr in Qld, 6.6%yr in WA and 6.2%yr in SA, while Tas remains the laggard at 2.9%yr.

Business investment across states



Source: ABS, Macrobond, Westpac Economics

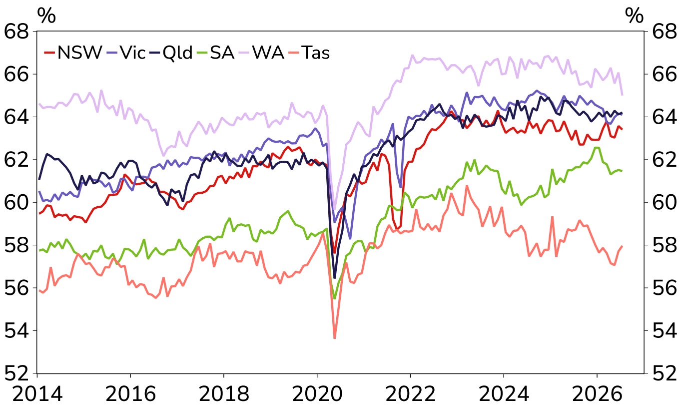
Residential construction is also showing encouraging signs. Dwelling investment grew strongly in Qld (6.2%qtr), SA (2.4%qtr) and Vic (3.1%qtr), with outcomes across the remaining states mixed. In contrast, **public investment** declined across all the states in Q2 (except SA where public consumption declined) as the infrastructure pipeline moves beyond its peak. Qld recorded a particularly sharp 3.0%qtr decline in Q2, driven largely by a pullback in investment by public corporations.

... business investment softens the slowdown

On the back of firmer activity, **labour market conditions** also appear to be stabilising. Employment-to-population ratios have edged higher in NSW and Qld in recent months, while conditions in Vic, SA and Tas have stabilised and improved modestly. In WA, the employment-to-population ratio continues to track sideways, albeit from historically elevated levels.

This strengthening in **labour market conditions** has been accompanied by a modest acceleration in underlying inflation across the states (see page 8). While inflation rates vary across the states, the divergence is largely a housing story. Outside housing, inflation is remarkably similar across jurisdictions, suggesting differences in income growth and demand are being accommodated without generating materially different underlying inflation pressures. This points to relatively elastic supply across states that balances out these differences in demand. Housing of course is famously inelastic in terms of supply, explaining the more persistent differences in inflation across states.

Employment-to-population ratios



Source: ABS, Macrobond, Westpac Economics

What does this mean for the economic outlook across the states?

Reflecting the stronger-than-expected outcome in FY2026, we have revised up our near-term forecasts for growth and inflation, while labour market conditions are also expected to be slightly firmer through 2026. We still expect the underlying growth impulse to moderate compared to 2025, particularly in the consumer-led economies of **NSW and Vic**. However, the consumer slowdown is now likely to be shallower than previously anticipated with a more substantial boost coming from the ongoing business investment upswing.

The data centre and renewable energy investment boom is providing a powerful tailwind to the economy, supporting activity well beyond the projects themselves. While construction remains heavily concentrated in NSW and Vic, a growing pipeline of projects is emerging across Qld, WA, SA and Tas (see pages 8 and 9). For now, Capex expectations suggest the investment upswing will remain centred on NSW and Vic. The scale of the pipeline, together with larger-than-expected spillovers to the broader economy, underpins our upward revisions to GSP growth in both states in FY2027.

Qld and WA are still expected to lead the pack. Elevated commodity prices are delivering sizeable income windfalls, while solid population growth continues to support domestic demand. In Qld, momentum will be reinforced by Olympics-related infrastructure spending and associated activity. In WA, strong population growth and constrained housing supply should keep dwelling price growth firmer than elsewhere, supporting household spending through wealth effects. The resilience of the WA consumer was evident in the first half of 2026, with spending rising 1.0%qtr in Q2 following a 0.7%qtr gain in Q1.

SA remains the standout surprise. Traditionally a relative underperformer, the state's economy is currently firing on multiple cylinders. Private-sector activity has strengthened, infrastructure and defence spending pipelines remain substantial, and fiscal policy is providing more support than in most other states. Housing approvals are also strong on a per capita basis, suggesting residential construction should contribute positively to growth while helping to ease housing supply pressures over time.

Tas remains the exception. Slower population growth continues to constrain both housing construction and consumer demand, leaving the state more exposed to the broader economic slowdown and limiting its capacity to benefit from the investment upswing seen elsewhere. That said, the picture is more encouraging in per capita terms, with activity strengthening over the past year despite subdued aggregate growth.

Looking further ahead, as inflation returns to target and interest rates begin to ease from late 2027, household spending should gradually recover. As consumer demand strengthens, growth differentials across the states are likely to narrow, with economic performance beginning to converge once again.

Employment

Source: Various State Treasuries, Macrobond, Westpac Economics

Beyond housing, underlying inflation ...

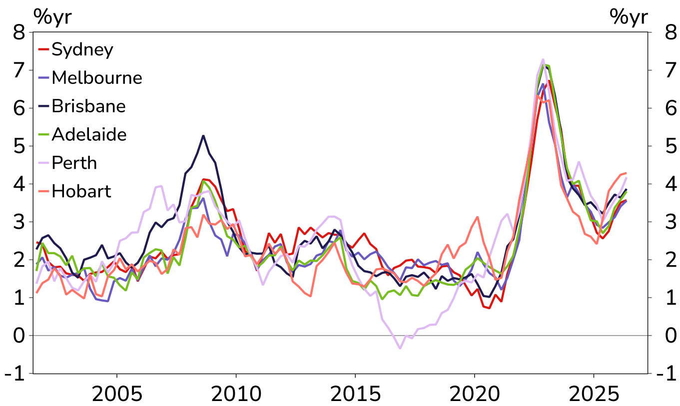
Pat Bustamante, Senior Economist
Neha Sharma, Economist

As our Coast to Coast report has highlighted over the years, economic conditions can vary significantly across states. However, many of these differences narrow over time, partly as associated price and wage differences encourage individuals and businesses to adjust. That process can differ depending on the exact nature of imbalances across states. Here we take a closer look at how inflation has behaved across states, where gaps have emerged in the past and where they have tended to be more material and persistent. This, in turn, may provide some clues about the drivers of cycles in underlying inflation nationally.

A difficulty with this comparison is that headline inflation measures are heavily distorted by state specific government policy. Cost-of-living measures, including energy rebates and housing-related interventions, have had a significant influence on CPI outcomes in recent years. To look through these effects, we construct state-level measures of underlying inflation, including a housing-adjusted trimmed mean that excludes new dwelling purchase costs, rents and property rates.

The chart below shows our estimates of **trimmed mean inflation** across the capital cities (which we use as proxies for states). They reveal significant differences in underlying inflation over time. The clearest sustained differences are around the surge in inflation in WA and Qld in the initial stages of the mining boom of the mid-2000s, and the subsequent period of markedly lower inflation (including a brief period of deflation) in WA during the mid-2010s. However, divergences have generally been short-lived, with state inflation outcomes eventually converging towards the national pulse.

Trimmed mean inflation



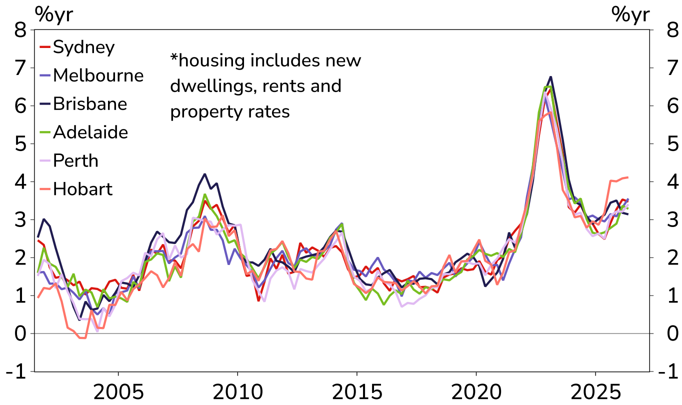
Source: ABS, Macrobond, Westpac Economics

For the most recent periods, the trimmed mean measures effectively strip out the noise coming from cost-of-living measures (as per the national measure). The state TMs show underlying inflation has accelerated across all jurisdictions. But there are some significant variations with Vic recording the lowest rate of underlying inflation (3.6%yr) in Q2 and Tas the highest (4.3%yr).

Much of this remaining variation comes from housing-related components (new dwellings, rents and property rates). Indeed, we estimate that these components account for around 50% of the underlying inflation gap between states since 2000, and over 60% of the gap during the mining boom.

We can see this visually by stripping out housing components from our TM measures. As the chart below shows, the difference across states largely disappears when we look at underlying inflation (ex-housing).

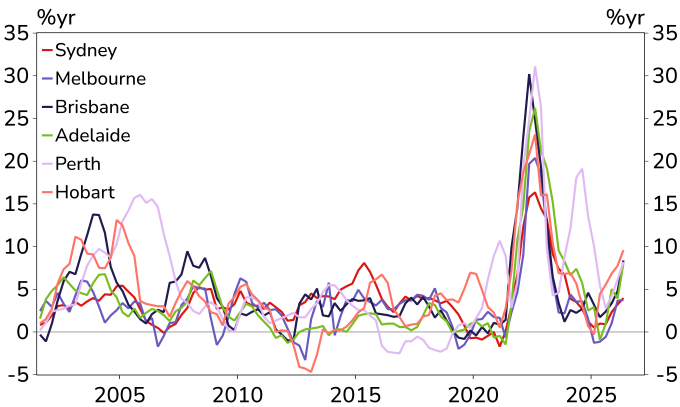
Trimmed mean inflation ex housing*



Source: ABS, Macrobond, Westpac Economics

Importantly, these results provide valuable clues about the drivers of inflation, both today and into the future. Despite substantial variation in economic conditions, income growth and labour market outcomes across states, underlying inflation excluding housing has remained remarkably similar across state. This suggests that, outside the housing sector, supply is generally able to adjust to variations in demand across states relatively quickly, 'equalising' the impact on price inflation.

New dwelling purchase inflation



Source: ABS, Macrobond, Westpac Economics

... is remarkably similar

Clues from the mining investment cycle?

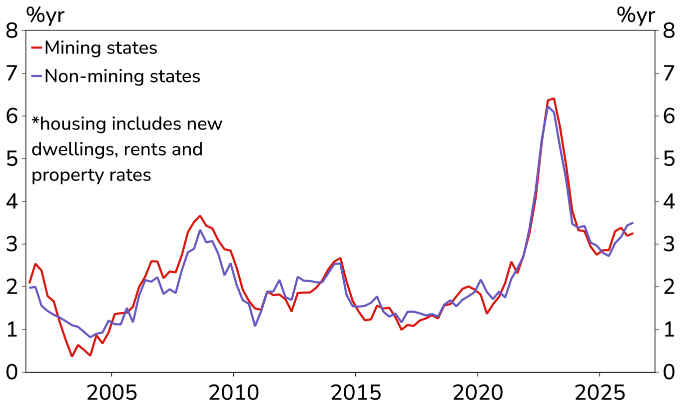
Why would state variations in housing costs be more persistent? The mining investment cycle may offer some insights here.

The boom phase of the mining investment cycle saw dramatic rises in commodity prices in its early stages with windfall gains for miners, some of which passed on to household and government incomes (including via share holdings). As the surge in investment mobilised, supply constraints started to emerge, particularly in the construction sector. Notably, differences in wage inflation (and unit labour costs) between the mining and non-mining states are somewhat starker and more sustained than for broader inflation. The stronger employment and wage gains added to the state wedge in household income growth. However, it also drew a supply response. Surging international and inter-state migration flows saw population growth hit 3.5%yr in WA with labour supply also significantly augmented by the use of 'fly-in-fly-out' workers travelling inter-state.

For housing, the situation is more difficult. Supply responses are slow at the best of times but faced intense competition for inputs from mining-related activity, particularly labour but also some locally-sourced material inputs. Meanwhile the population shift was pumping up housing demand. Perth's rental vacancy rate, which was around 4% coming into the boom, dropped to just 1.4% by 2007. With incomes also rising, the combination saw both the city's rents and established dwelling prices surge at a strong double-digit growth rate that lasted the best part of five years.

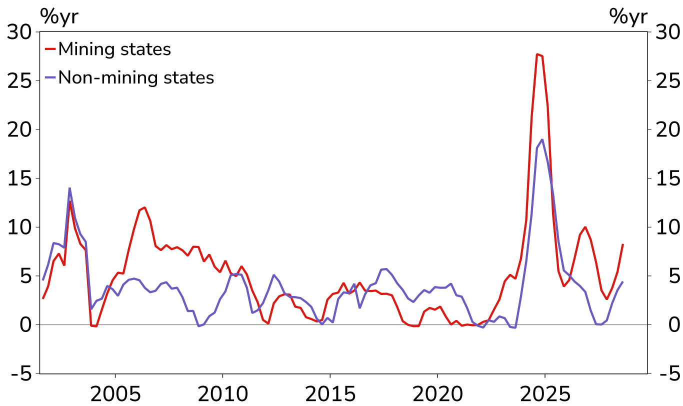
These dynamics reverse during the downturn phase of the cycle. And again, the effects can be more lasting for housing-related costs, as the turnaround in migration flows and a lagged rise in housing supply amplifies the income effects from the investment wind down.

Mining vs non-mining: TM inflation ex housing*



Source: ABS, Macrobond, Westpac Economics

Mining vs non-mining: new dwelling inflation



Source: ABS, Macrobond, Westpac Economics

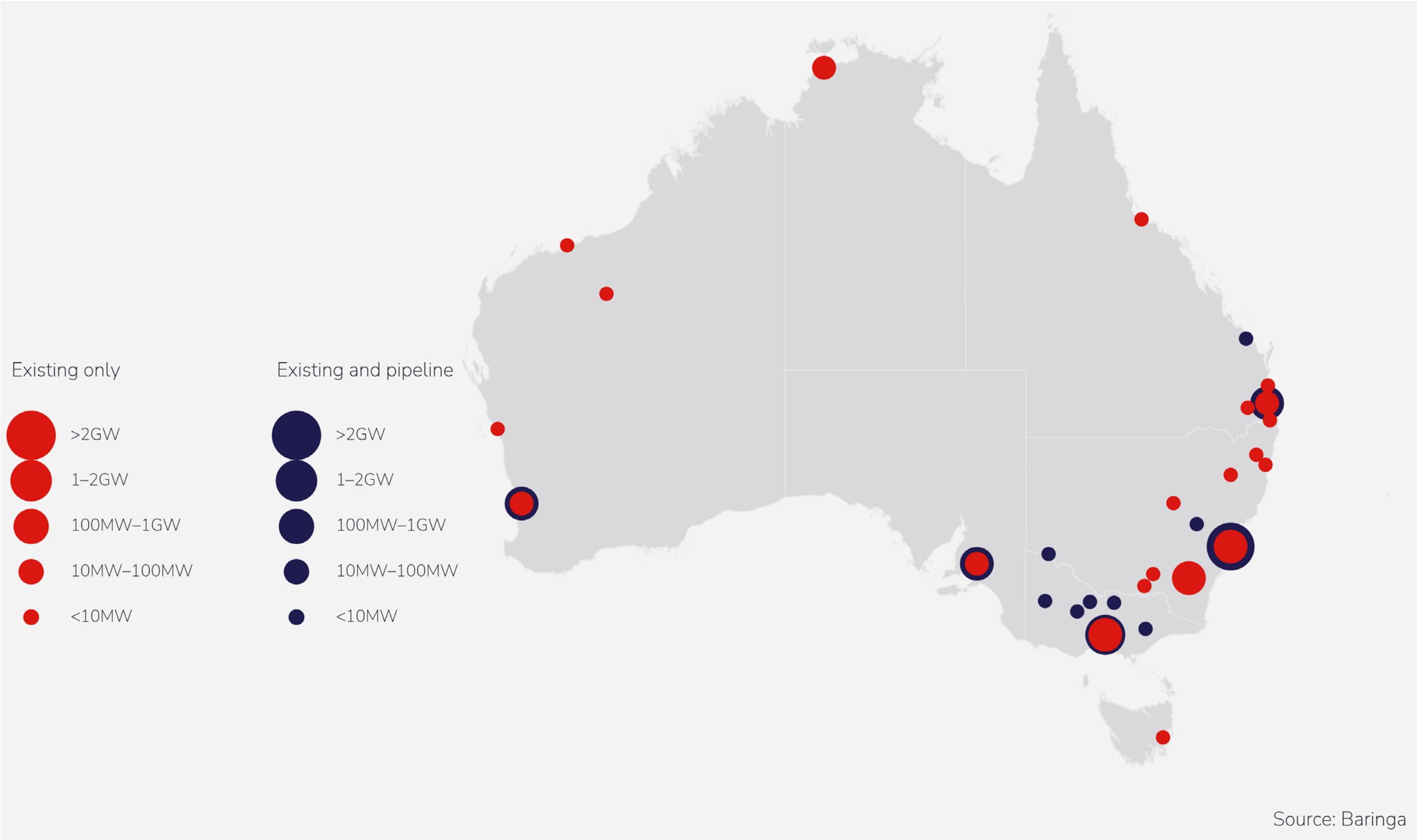
Fast forward to today

As data centre and renewable energy investment accelerates, the key inflation risk may not be stronger demand itself but the extent to which it spills over to the construction side of the housing sector. The data centre and renewables boom has a very different geographic pattern that suggests population shifts are unlikely to present the same challenges they did during the mining boom. It is also unlikely to draw in international migrants in the way the mining boom did either.

However, the competition for labour and locally-sourced construction materials will be the key factor. And construction capacity, labour and housing supply are all coming into this cycle from a tighter starting point than in the early 2000s, suggesting even modest increases in demand for construction services could generate a significant inflationary impulse.

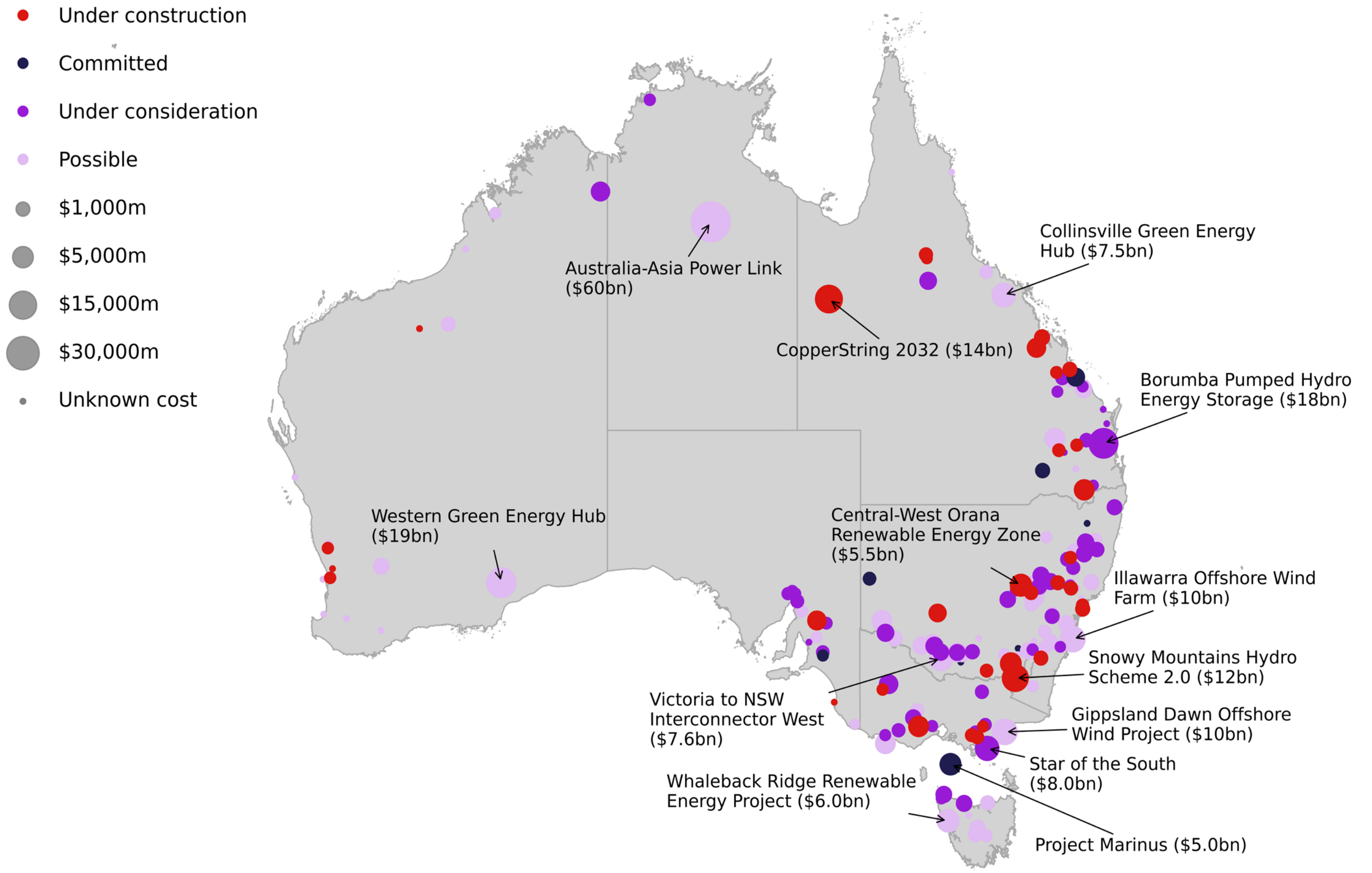
While that leaves some open questions, the general takeaway from this analysis of state inflation trends is that housing-related components of the CPI are the ones to keep an eye on when assessing how these developments may be influencing underlying inflation trends.

Data centre investment ramps up



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

Record high renewables pipeline across Australia



Source: Deloitte Investment Monitor, Westpac Economics

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

Business investment boom helps offset ...

Neha Sharma
Economist

How has the state performed? NSW's strong start to the year lost momentum in Q2, with state final demand flat over the quarter. Even so, annual growth remains solid at 3.5%, narrowly trailing Qld and WA. On a per capita basis, NSW led the nation, with demand up 2.0% over the year. Growth remains heavily skewed towards the private sector. New private demand rose 0.1%qtr and 4.6%yr, accounting for over 90% of total state final demand. Both the pace of annual growth and private demand's share of the economy are the strongest nationally. In contrast, new public demand fell for a second straight quarter, down 0.3%qtr, leaving annual growth at just 0.6%yr, the weakest of the mainland states.

A key stat that tells the story. Household consumption rose just 0.3%qtr and 1.6%yr, the second slowest pace nationally behind Vic. While a warmer winter weighed on spending, with electricity expenditure down 6.1%qtr, the broader story is that higher interest rates are hitting one of the most interest rate sensitive states. Reflecting this, NSW consumers have recorded the sharpest deterioration in assessments of current family finances over the past year. Yet confidence about the future remains surprisingly resilient, being the only state where consumers remain outright optimistic about family finances over the year ahead. That optimism may reflect a relatively strong labour market, with unemployment up only modestly this year and employment growth the strongest in the nation and continuing to trend higher.

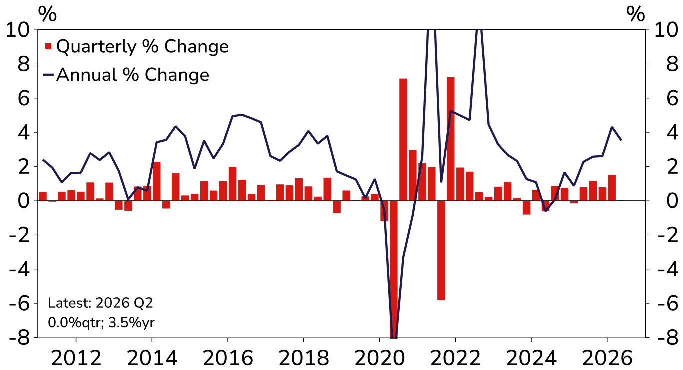
What has surprised? For NSW, there was a risk that business investment would falter after the data centre-related surge in Q1. Instead, investment held its ground, recording a small 0.1%qtr rise to be up 19%yr. While new M&E investment eased as expected, this was offset by solid gains in infrastructure and non-residential construction activity. Annual growth across all three components remains in double digits, underscoring the breadth of investment momentum across the state.

How can things improve? The challenge remains converting the investment boom into stronger productivity growth and, ultimately, higher wages and living standards. Unlike the mining boom, the productivity gains from AI-related investment could emerge more quickly. But realising those gains will depend on how effectively businesses embed these technologies into their operations and workflows.

What are we expecting? We have upgraded our GSP growth forecast for FY26 to 2.1% (+0.2ppts) and to 1.5% (+0.6ppts) for FY27. The upward revision reflects greater resilience of the consumers and the state economy in light of higher interest rates and a more pronounced downturn in its housing market, as well as the solid pipeline of AI and energy infrastructure works which totals around $30bn, with an additional $60bn of projects under consideration. However, this boom is also likely to place some near-term pressure on inflation.

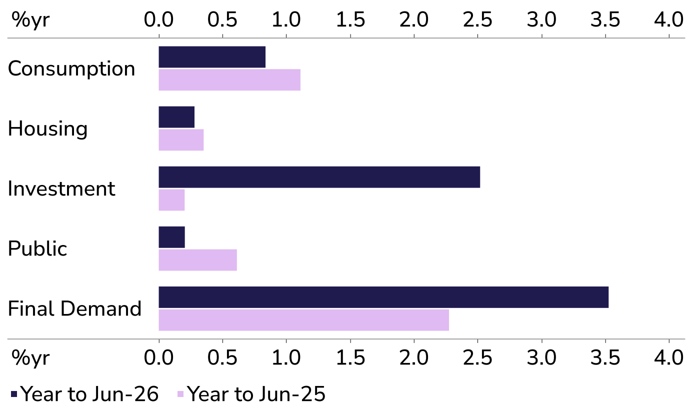
NSW State Final Demand

Chain Volume Measures



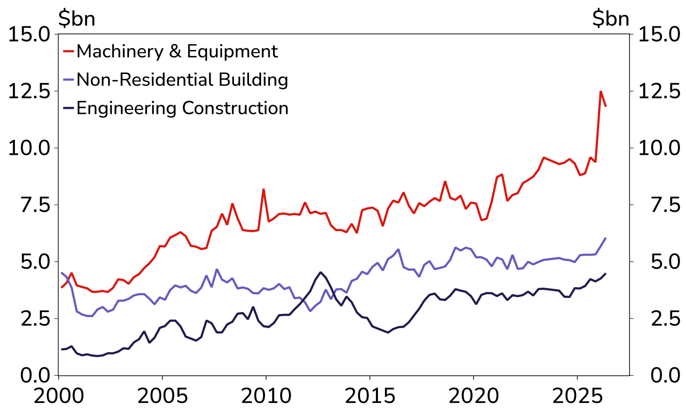
Source: ABS, Macrobond, Westpac Economics

NSW: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

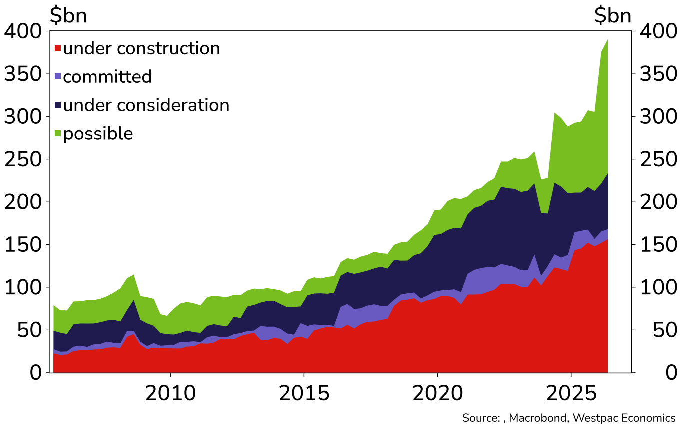
Level of investment remains solid



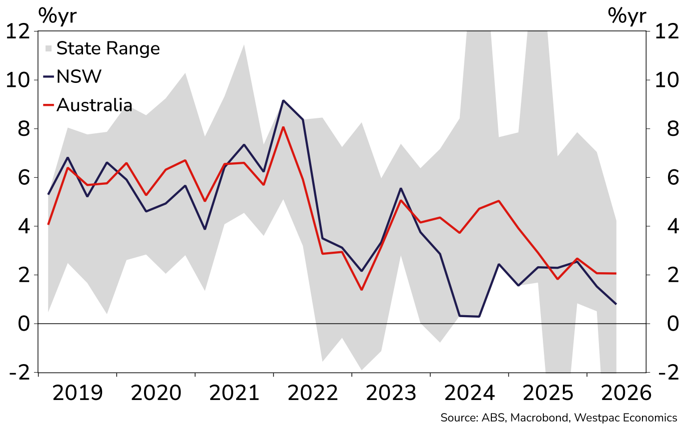
Source: ABS, Macrobond, Westpac Economics

… weakness elsewhere

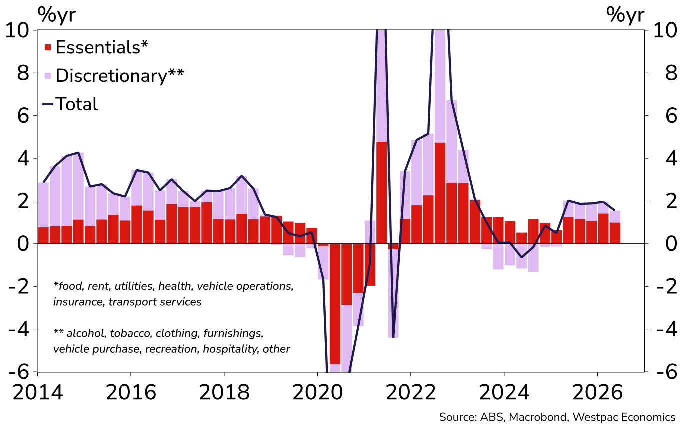
NSW: project pipeline



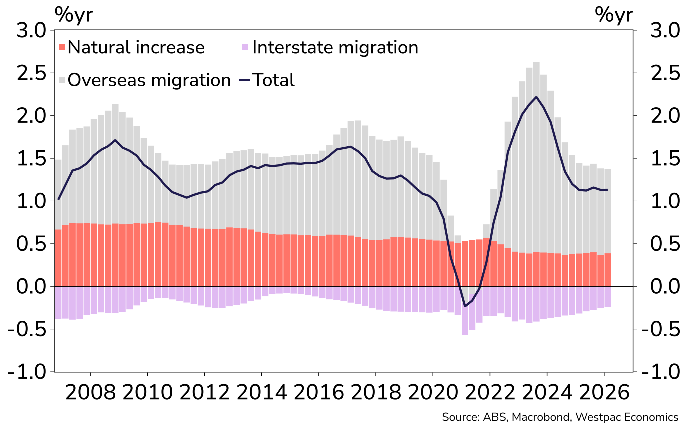
Public demand continues to slow



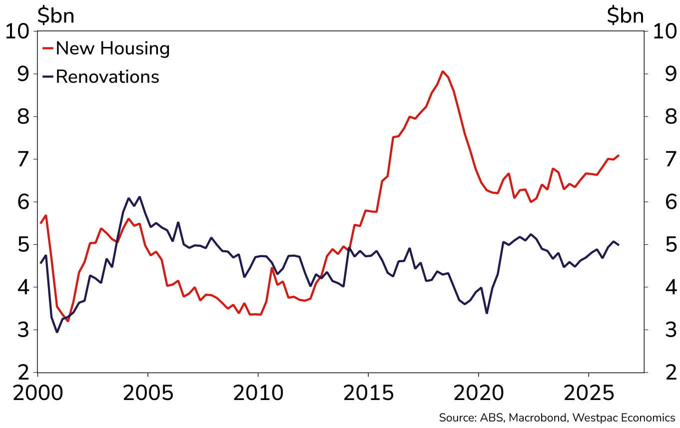
Household consumption



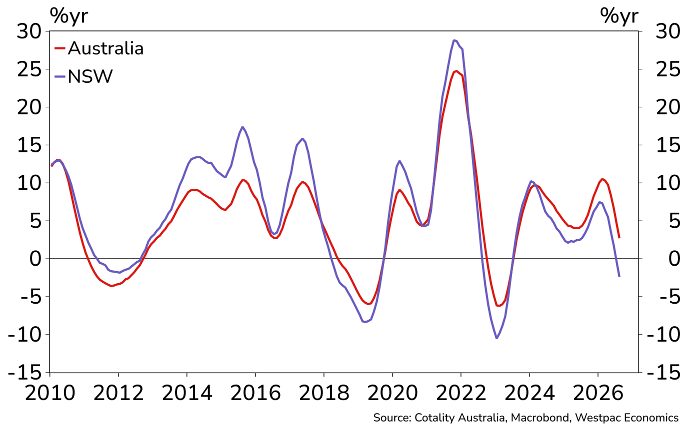
Population growth stabilising



New housing investment picking-up



Dwelling price downturn underway



Extended period of stagnation ...

Matt Hassan
Head of Australian Macro-forecasting

How has the state performed? The Vic economy has been notably weaker than other states over the last year, particularly when viewed against the state's slightly stronger population growth. GSP growth looks to have been basically flat in per capita terms over 2025-26 compared to the 0.8%yr GDP growth seen nationally. State final demand contracted 0.3% in Q2, slowing annual growth to 2.9%yr, also below the national average. Consumption stalled about flat in the quarter while business investment unwound a big data-centre-driven surge in Q1. Vic's housing sector has also been a persistent underperformer, the latest correction means Melbourne prices have now seen no net change since early 2021. Public demand has been mixed, growth still positive overall but slowing with a gradual roll-off in major transport infrastructure projects continuing and set to be multi-year drag through to at least the end of the decade. Notably, the state elections on November 28 could see some change with the Coalition opposition currently leading in polls but a minority or hung parliament result looking likely.

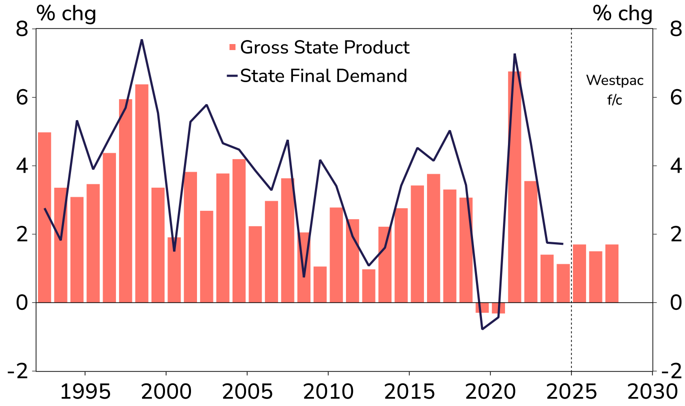
A key stat that tells the story. At 5.1%, Vic's unemployment rate is about 1ppt higher than the other major states – a wedge that has been in place for over two years now. Notably, unemployment in Vic is now higher than it was just prior to the pandemic. This is in stark contrast to the rest of the nation where unemployment rates are still more 0.5ppt or more below pre-pandemic levels.

What has surprised? Part of Vic's recent underperformance is due to international trade with the state's export volumes declining 1.6% over the year to June compared to a 3.5% gain over the rest of Aus. Service exports, which include both tourism and education, have been particularly weak, down 8.1%yr. Data on foreign student numbers show total enrolments in Vic down 7-8%yr led by a 20% drop in non higher education (higher education enrolments up 14% over the same period).

How can things improve? The main near term opportunity for Vic continues to be around capitalising on the strong upturn in business investment . The rise has yet to translate into stronger gains across the wider state economy. Further out, Vic's housing sector is a little better placed insofar as affordability is less stretched than in other states. That could see a base and recovery form a little more quickly although for now momentum remains firmly negative.

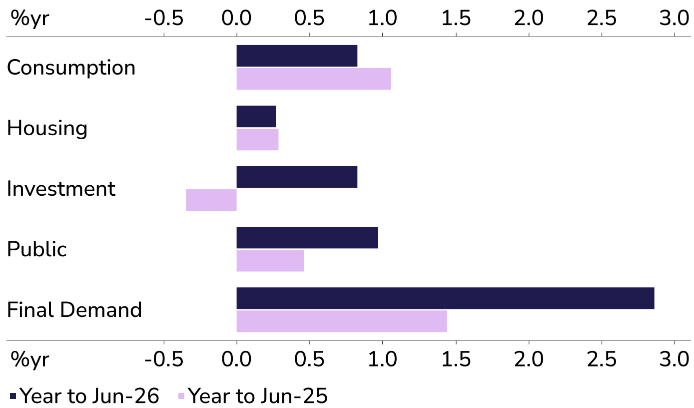
What are we expecting? We expect GSP growth to come in at 1.7%yr in 2025/26, a slight downgrade on the 2%yr estimate in our last report. Growth is still expected to slow in 2026/27 but to a milder 1.5%yr pace compared to previous forecast of just 0.9%yr. That still means essentially flat growth in per capita terms.

Vic Gross State Product & Final Demand



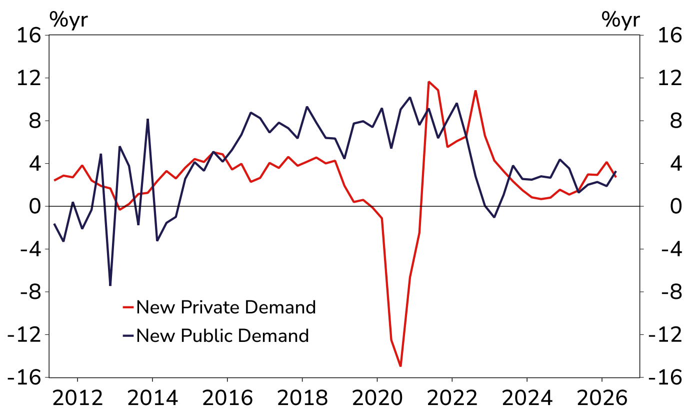
Source: ABS, Macrobond, Westpac Economics

Vic: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

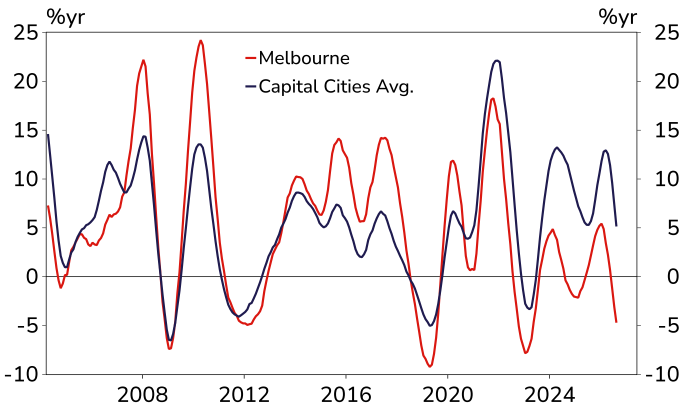
Vic public and private demand



Source: ABS, Macrobond, Westpac Economics

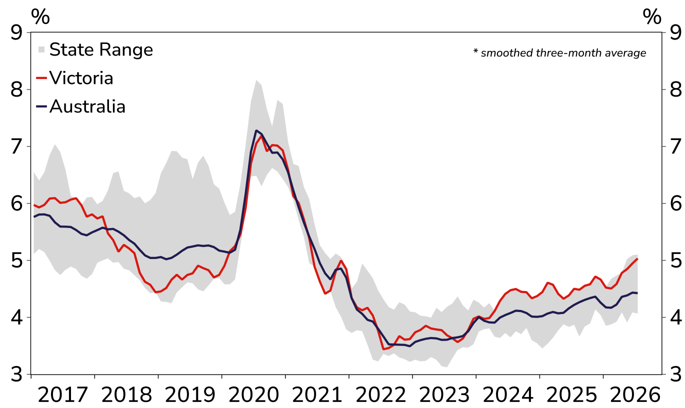
... but with business investment a positive

House prices gapping lower in Melbourne



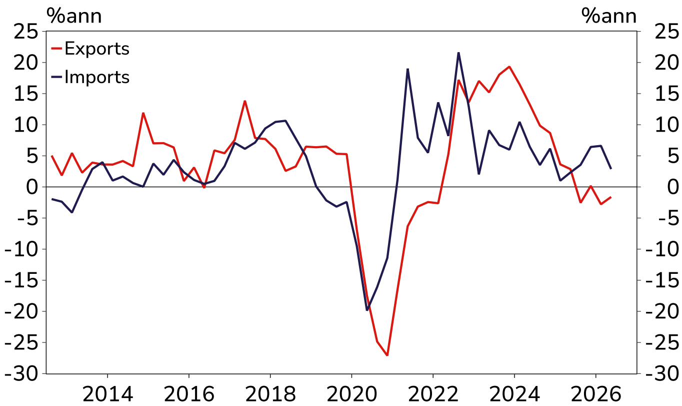
Source: Cotality Australia, Macrobond, Westpac Economics

Wedge between Vic and Aus unemployment rates



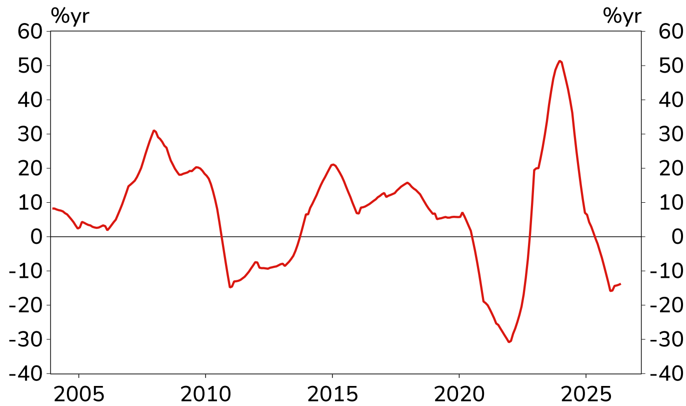
Source: ABS, Macrobond, Westpac Economics

Victoria's international trade



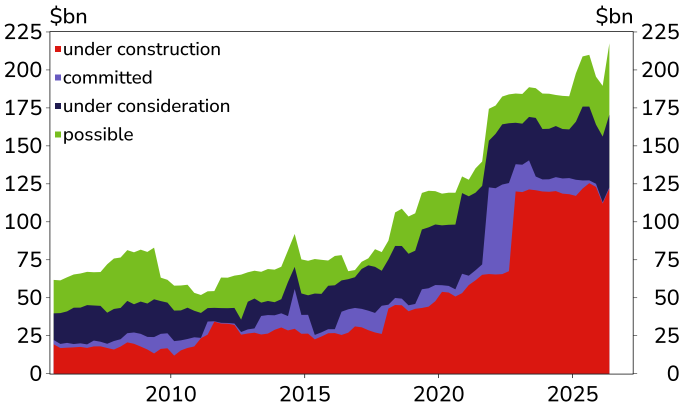
Source: ABS, Macrobond, Westpac Economics

Vic international student commencements



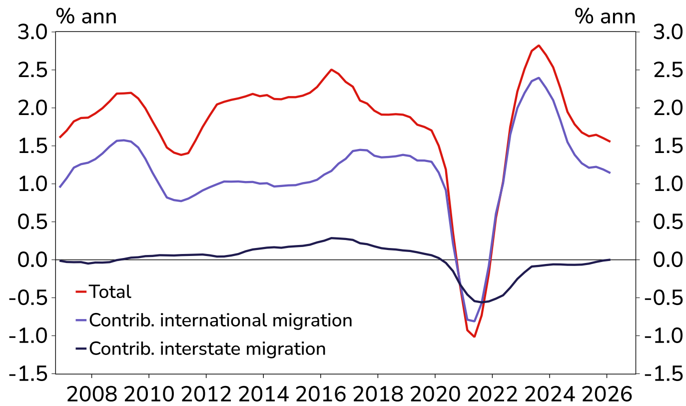
Source: Australian Department of Education, Macrobond, Westpac Economics

Vic: project pipeline



Source: , Macrobond, Westpac Economics

Population growth



Source: ABS, Macrobond, Westpac Economics

Private investment jumps ...

Ryan Wells
Economist

How has the state performed? Qld built on its solid start to the year with a bumper 1.1% lift in state final demand, pulling annual growth up to 3.8%yr, the fastest pace across the states and back around its own historic average (3.9%yr).

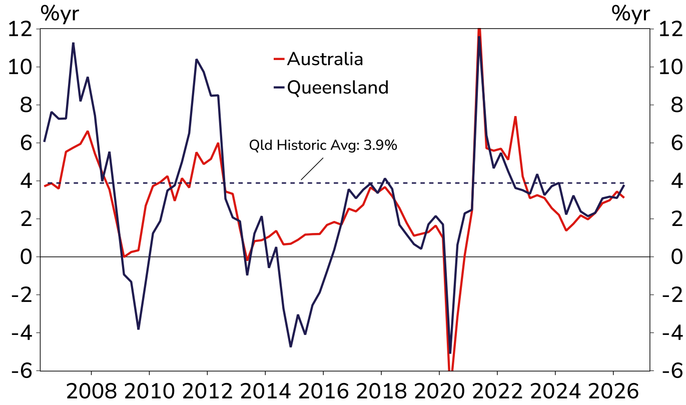
A key stat that tells the story. At 11.7%yr, growth in private investment is running at a very strong pace, well above the national average (9.1%yr) and second only to NSW, which was at the epicentre of the surge in data centre related investment earlier in the year. The scale and breadth of Qld's investment pulse is a clear sign that the handover of growth from the public to private sector has occurred without major hiccups.

What has surprised? One of the key parts of the investment story in Qld is housing, where the upswing has advanced to a 17%yr pace, nearly three times the national average pace. This outperformance has lasted for a number of quarters, buoyed by a robust pipeline of residential projects. The surprising feature is that this strength has managed to kick into a higher gear despite higher interest rates, elevated costs and ongoing local capacity constraints associated with the 2032 Olympics and Queensland's sizeable infrastructure pipeline.

How can things improve? Recently, Qld's unemployment rate has fallen to the lowest across the states, while the national unemployment rate has continued to tick higher. Qld also has the second-highest vacancy-to-unemployment rate across the country (behind WA), highlighting the tightness in Qld's labour market at present. This has occurred against a backdrop of weaker labour supply – the participation rate fell sharply over the second half of last year, and it has only recovered some of that decline so far this year. An improvement in labour supply would go some way to alleviating the state's capacity constraints.

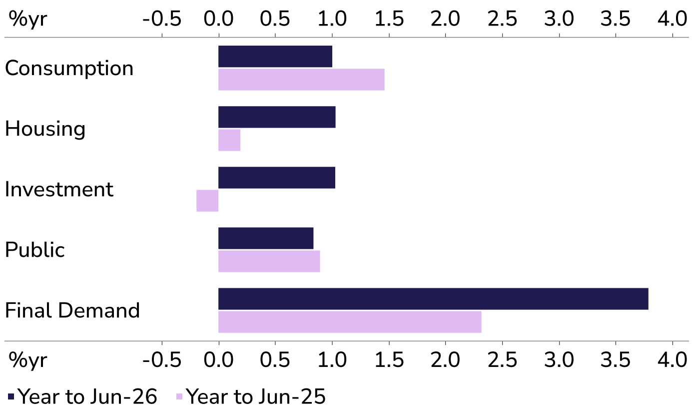
What are we expecting? We remain positive on Qld's growth prospects. GSP is forecast to lift 2.0% in FY27 and hold at this level in FY28, underscored by solid population growth and a robust labour market, with employment expected to grow by 1.3% in FY27 and 2.1% in FY28. However, it is important emphasise the role of population growth, with GSP on a per capita basis expected to rise slightly in FY27 (0.3%) and increase further in FY28 (0.7%). The current investment-led pulse is an encouraging development, and given Qld's state budget earlier this year earmarked further significant spending on critical infrastructure, this will only add to the large number of infrastructure/dwelling projects already in the pipeline, including Olympics-related spending. This bodes well for growth over the medium-term, but a key risk still lies in the ability to deliver on these ambitious programs amid capacity constraints and elevated costs in the construction sector. The upshot could be above-average localised inflation pressures.

State final demand: Qld vs Australia



Source: ABS, Macrobond, Westpac Economics

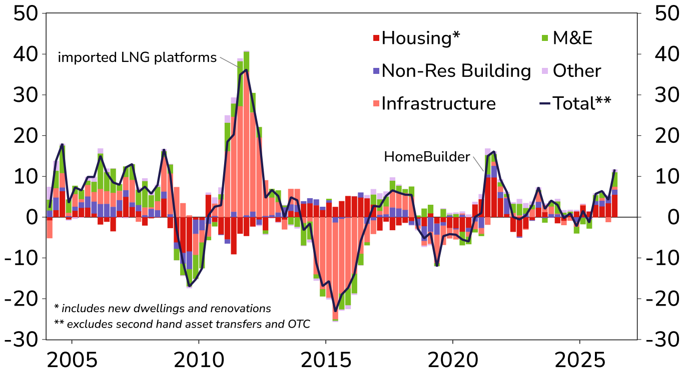
Qld: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Qld private investment

Contributions to year-ended growth (%)

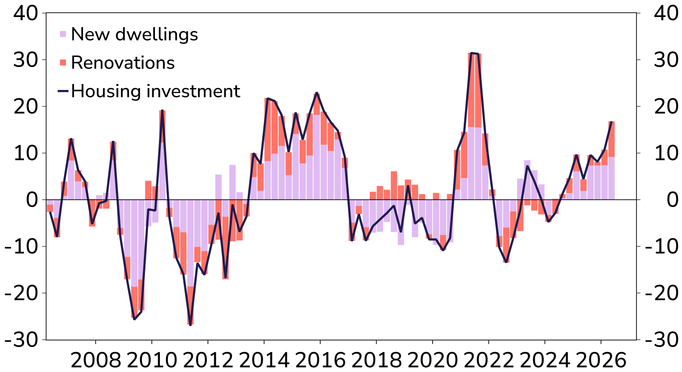


Source: ABS, Macrobond, Westpac Economics

… as labour market tightens

Qld renovation activity adds to new dwelling pulse

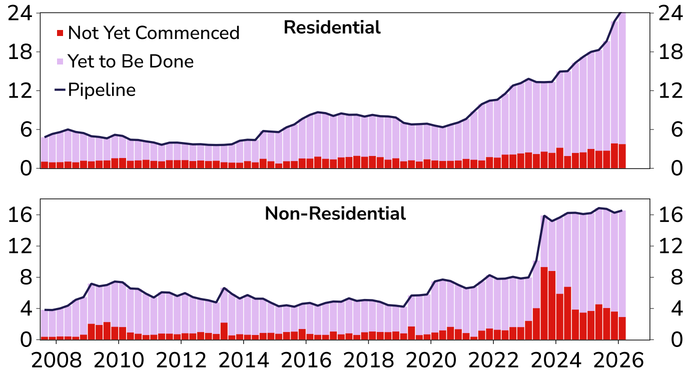
Contributions to year-ended growth (%)



Source: ABS, Macrobond, Westpac Economics

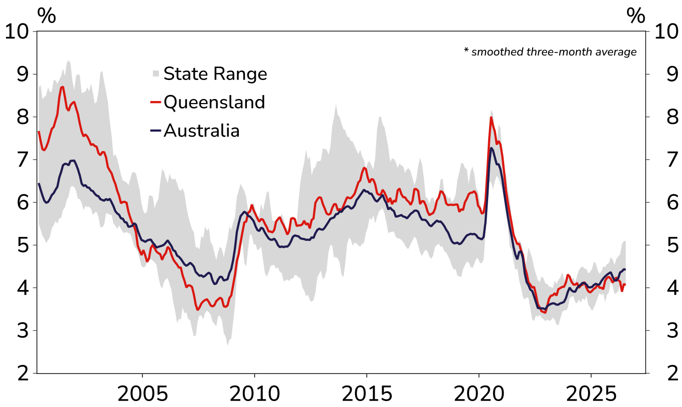
Healthy pipeline will lend support

Building work in pipeline, AUDbn



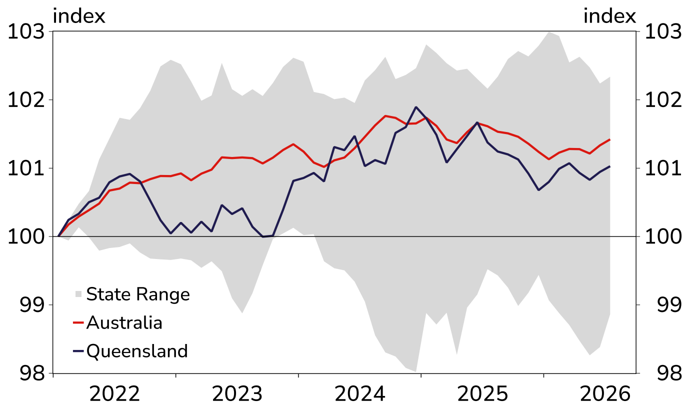
Source: ABS, Macrobond, Westpac Economics

Qld's unemployment rate lowest among states …



Source: ABS, Macrobond, Westpac Economics

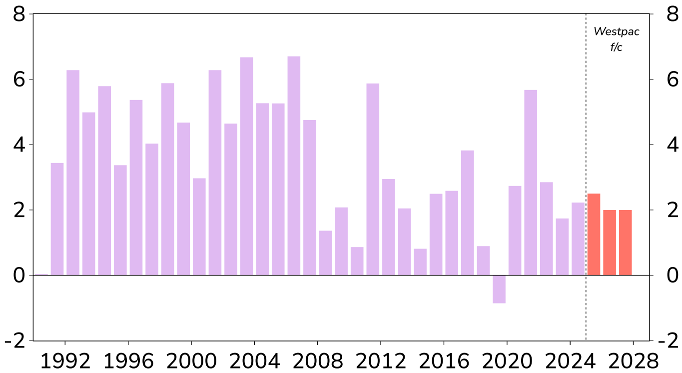
… but participation has been softer post-COVID



Source: ABS, Macrobond, Westpac Economics

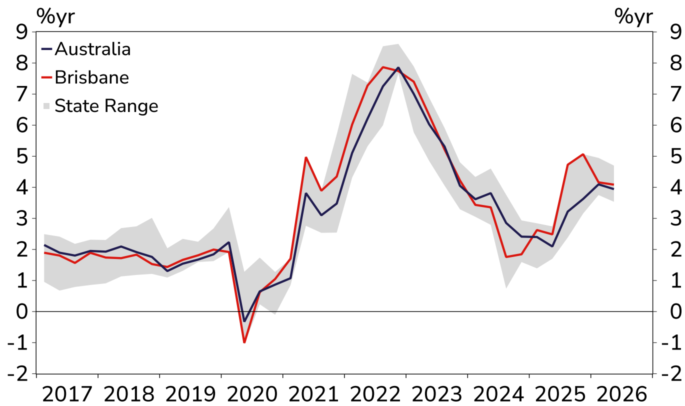
Qld economic outlook

Growth in Gross State Product (GSP), financial years



Source: ABS, Macrobond, Westpac Economics

A sustained lift in inflation could be a headwind



Source: ABS, Macrobond, Westpac Economics

Resilient domestic economy underpins activity ...

Luka Belobrajdic
Economist

How has the state performed? State final demand grew a solid 1.0%qtr in Q2, lifting annual growth to 3.6%yr. Growth was broad-based, with household consumption rising 1.0%qtr, the strongest result among the states, although annual growth eased to 2.4%yr. Momentum in private investment moderated to 1.1%qtr, as a lift in new business investment (+2.2%qtr) was partly offset by a decline in dwelling investment (–1.0%qtr). Even so, dwelling investment remained firmly positive in year-ended terms (+7.4%yr). New public demand recovered last quarter's decline, up 0.7%qtr, led by government consumption (+1.6%qtr), while new public investment fell –3.4%qtr.

A key stat that tells the story: The resilience of WA's domestic economy can largely be attributed to the strength of its labour market. Despite population growth of 2.2%yr, the fastest in the country, WA's employment-to-population ratio remains the highest nationally at 65.0%, while the unemployment rate on a three-month average basis remains marginally below the national average at 4.4%. The state's ability to absorb a rapidly expanding population without a material loosening in labour market conditions highlights the strength of labour demand across the economy and has supported wage growth (3.3%yr in Q2), household consumption and housing demand.

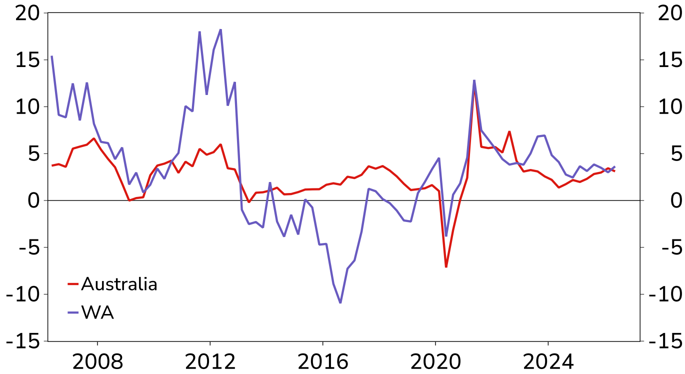
What has surprised? Despite the resilience of the WA economy, headline inflation eased to 4.0%yr in Q2, just 0.1ppt above the national rate and well below the 0.8ppt premium recorded in Q1. While encouraging, trimmed mean inflation remains elevated at 4.2%yr, suggesting underlying price pressures remain stronger than the headline measure implies.

How can things improve? While business investment remains solid, growing 4.5%yr, WA has attracted comparatively less of the data-centre and related digital infrastructure investment that has supported activity elsewhere. Leveraging the state's abundant energy resources and expanding renewables base to attract a greater share of these projects would broaden the private investment mix beyond mining and housing, and provide an additional source of productivity-enhancing investment.

Where are we expecting? We estimate GSP to have grown 2.4%yr in FY26. The result reflects broad-based strength across the domestic economy and the re-emergence of mining as a key growth driver. Elevated commodity prices through the first half of 2026 supported both investment and exports, particularly for gold and LNG, while a recovery in iron ore export volumes in Q2 following earlier weather disruptions provided an additional boost to activity. Growth is forecast to slow to 1.9%yr in FY27, and maintain at this level into FY28 as commodity-price tailwinds fade and elevated interest rates continue to weigh on activity. Even so, a resilient household sector should continue to support domestic demand, underpinned by solid average wage growth of 3.7%yr since 2022, a robust labour market and strong population growth. The trade-off is that rapid population growth is likely to see aggregate growth outpace gains on a per capita basis.

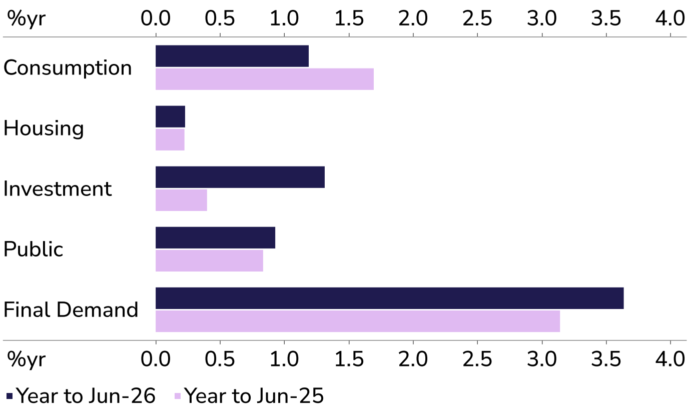
State Final Demand

Annual % Change



Source: ABS, Macrobond, Westpac Economics

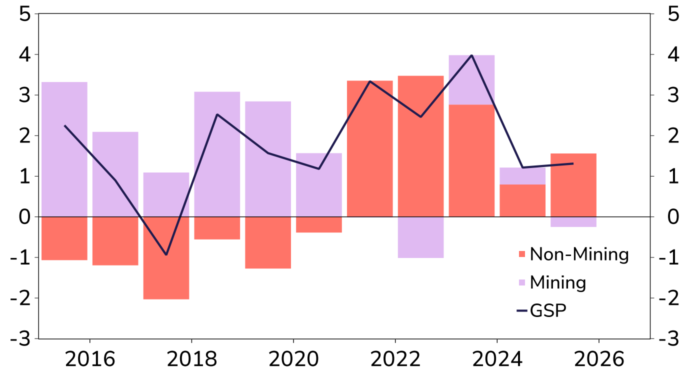
WA: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

WA Gross State Product

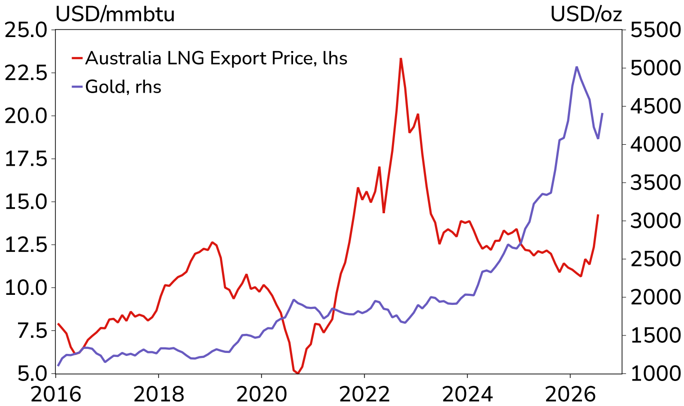
Contribution to Annual Growth



Source: ABS, Macrobond, Westpac Economics

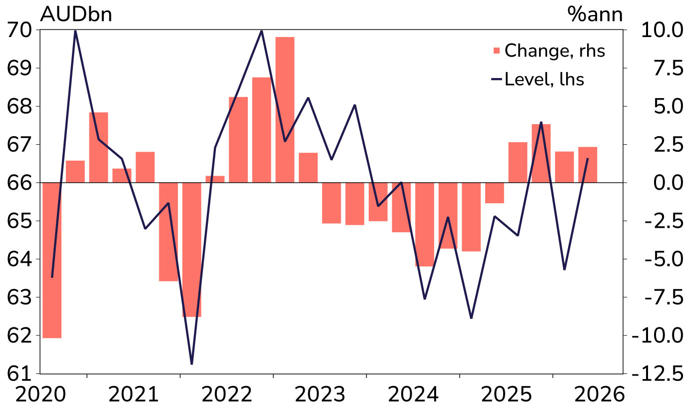
… while mining adds further momentum

Key commodity prices have risen over FY26…



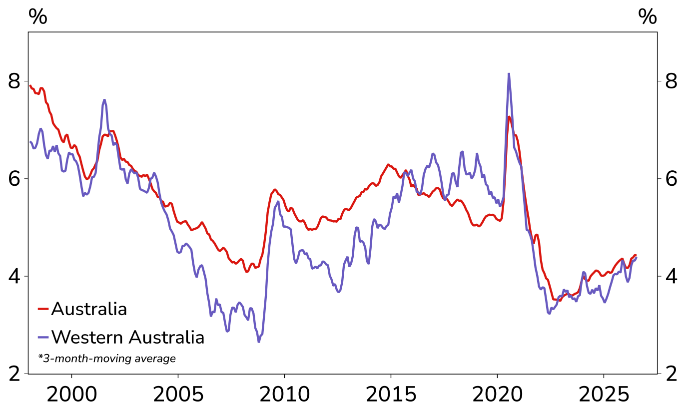
Source: ABS, Macrobond, Westpac Economics

…supporting export growth



Source: ABS, Macrobond, Westpac Economics

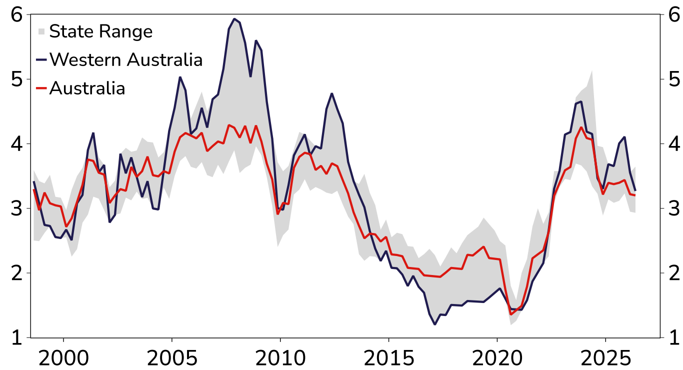
Unemployment remains below the national average



Source: ABS, Macrobond, Westpac Economics

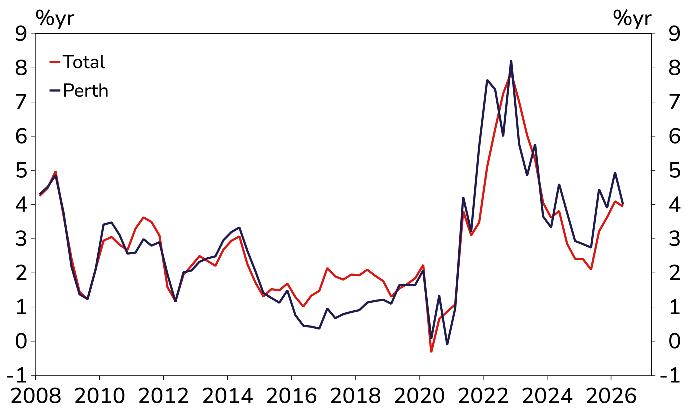
Wage growth remains solid

Wage Price Index, Annual Change (%)



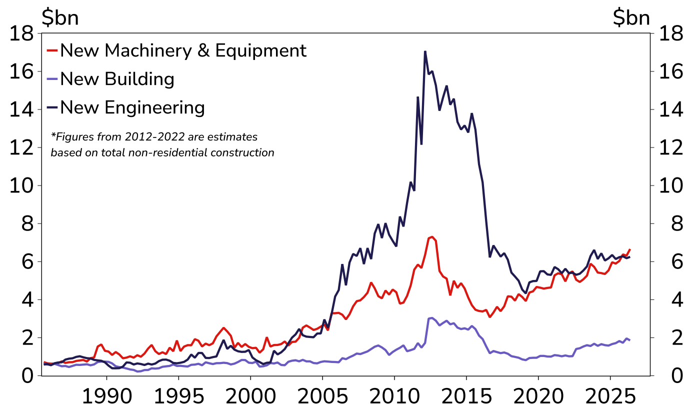
Source: ABS, Macrobond, Westpac Economics

Perth headline inflation has softened



Source: ABS, Macrobond, Westpac Economics

New M&E drive business investment growth



Source: ABS, Macrobond, Westpac Economics

Growth hiccups ...

Ryan Wells
Economist

How has the state performed? South Australia's slowing in growth momentum at the start of the year has extended into Q2, with state final demand holding flat, pulling the annual growth rate down from 3.6%yr to 2.8%yr, now in line with the state's historic average. This follows an extended period of outperformance relative to other states over recent years, suggesting momentum is normalising.

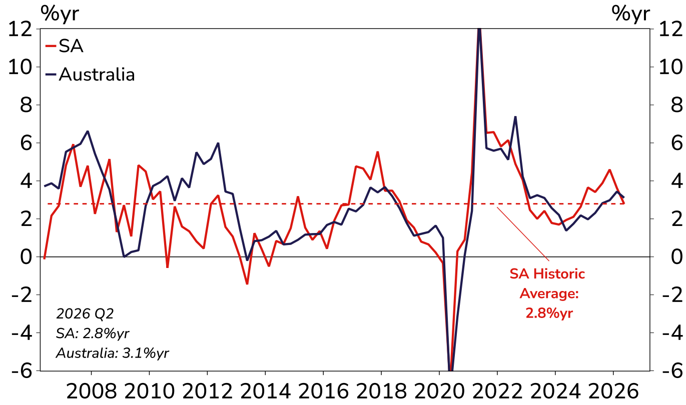
A key stat that tells the story. One of the main drivers of recent softness was a –1.6% fall in new public demand in Q2, a sharp and somewhat sudden decline, and the first fall in this segment in nearly four years. While we have long emphasised the slowdown in public demand nationally, SA had bucked this wider trend to date. However, the detail is not yet fully convincing that this will give way to a sustained downtrend. This is because the recent pull-back in new public demand in SA was centred on a one-off decline in public consumption, whereas new public investment – which has been at epicentre of the slowdown nationally – is running at a 17%yr, putting SA in a league of its own relative to the national average (1.3%yr).

What has surprised? On the surface, the recent pull-back in SA's employment growth gives the impression of a weaker labour market. This is a surprise given the labour market lags the broader economy, and SA's economy has been resoundingly strong over recent years. However, this may be explained by nuances in the data – while *employment* growth has indeed dropped from around 4%yr to 1%yr so far this year, *jobs* growth has actually edged higher. Strength in multiple job holdings and differences in scope may explain this contrast, and to the extent that SA's unemployment rate remains below the national average, the slowdown in headline employment growth may not be a significant concern at this stage, but it should be closely watched.

How can things improve? The main expenditure segment in SA that is lagging is new business investment. This is not to say it isn't robust – at 6.9%yr, it is running at a solid clip, and while it is understandably slower than in NSW and Vic (which are benefiting more from data centres at present), it still falls a bit short of Qld and WA.

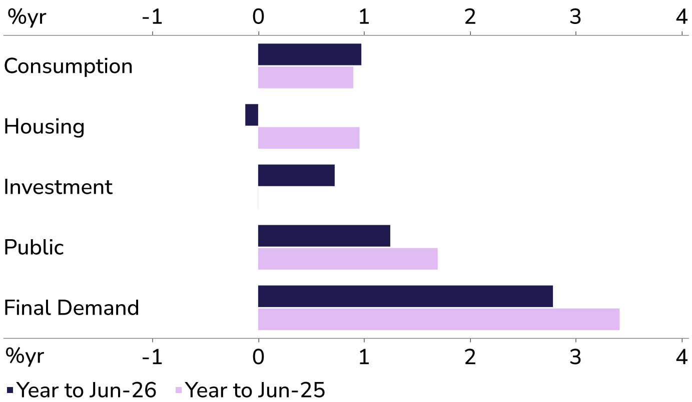
What are we expecting? Growth is expected to follow a similar contour to the national picture but from a stronger starting point, with GSP forecast to expand by 1.8% in FY27 and 1.7% in FY28, consistent with outperformance on a per capita basis. Despite recent resilience, some cooling in the *growth rate* of new public investment is to be expected, while large existing projects maintain a solid *level* of investment. At the same time, the private sector will continue to feel the squeeze from high inflation and higher interest rates near-term. Looking further ahead, the SA's robust renewable energy infrastructure positions the state well to benefit from a strong pipeline of possible data centre investments in due course.

State final demand: SA vs Australia



Source: ABS, Macrobond, Westpac Economics

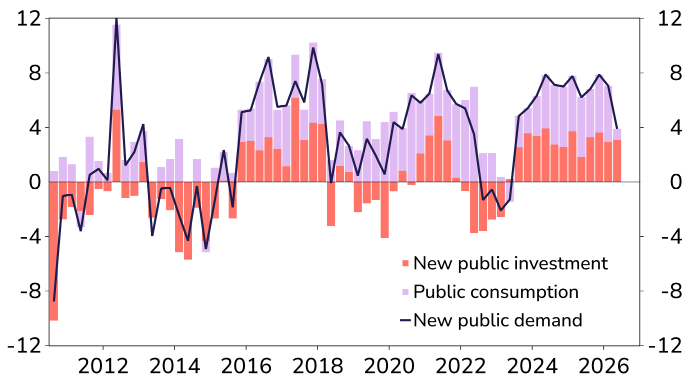
SA: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

Public consumption falls, public investment stable

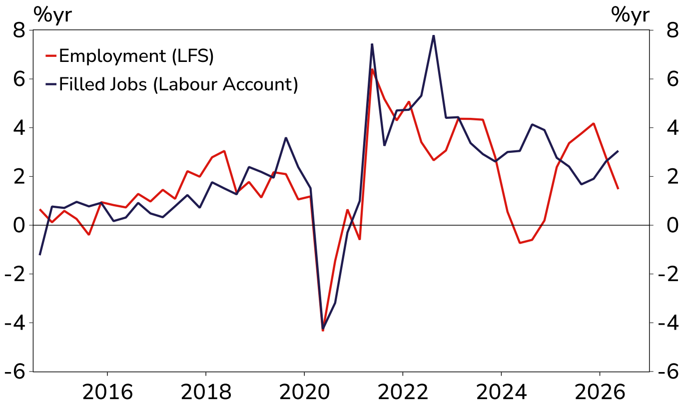
Contributions to year-ended growth (%)



Source: ABS, Macrobond, Westpac Economics

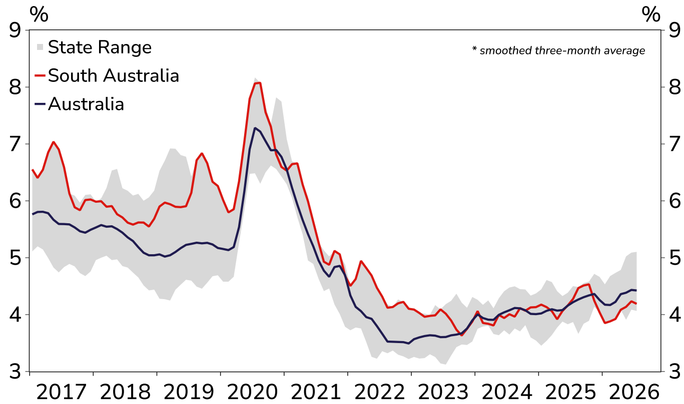
... raise questions

Contrasting signals on employment vs jobs ...



Source: ABS, Macrobond, Westpac Economics

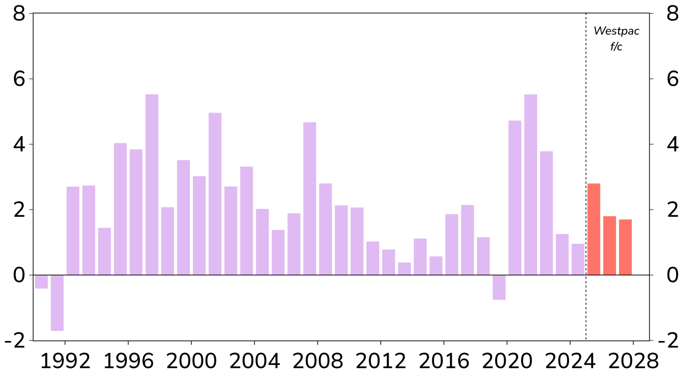
... but unemployment rate is still very low



Source: ABS, Macrobond, Westpac Economics

Economic outlook promising, despite challenges

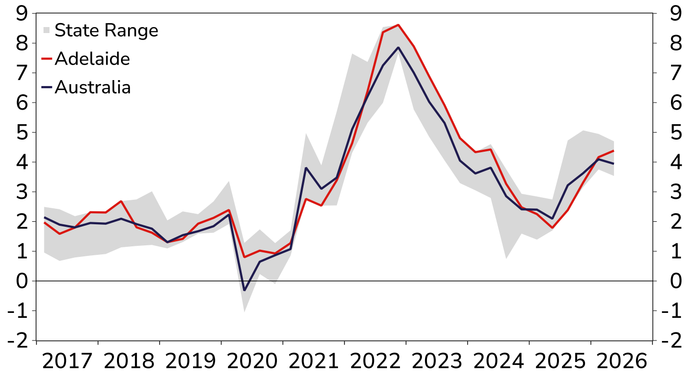
Growth in Gross State Product (GSP), financial years



Source: ABS, Macrobond, Westpac Economics

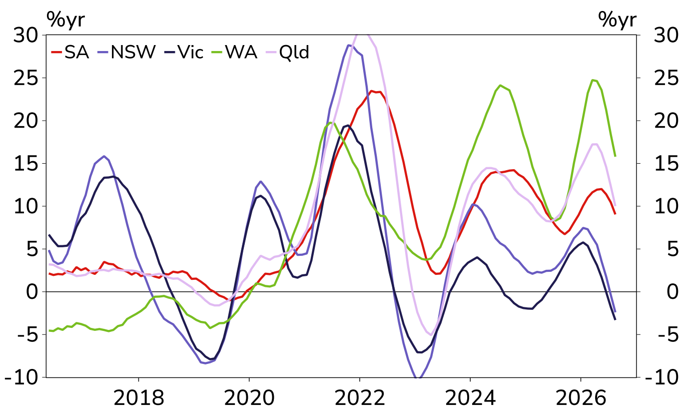
Inflation pressures closely watched

Year-ended growth in headline inflation (quarterly)



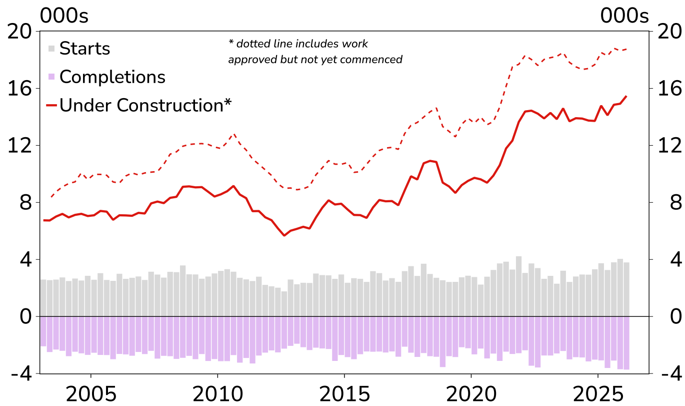
Source: ABS, Macrobond, Westpac Economics

Capital city house prices



Source: Cotality Australia, Macrobond, Westpac Economics

Dwellings moving through pipeline more quickly



Source: ABS, Macrobond, Westpac Economics

Consumers outperform expectations ...

Luka Belobrajdic
Economist

How has the state performed? State final demand grew 0.1%qtr in Q2, a lacklustre return to growth following last quarter's –0.9%qtr decline. Even so, annual growth slowed to –3.2%yr, the weakest result since the pandemic, as base effects associated with the Spirit of Tasmania project continued to unwind. Household consumption provided the only meaningful support, rising 0.6%qtr, while investment remained the key drag. Private investment fell 1.2%qtr, driven primarily by dwellings (–3.5%qtr), while new business investment also detracted from growth (–0.7%qtr). New public demand continued to soften, falling 0.3%qtr, with a modest rise in government consumption (0.1%qtr) offset by a decline in new public investment (–1.7%qtr).

A key stat that tells the story. Tasmania's employment-to-population ratio remains the lowest in the nation, at 58.0% in July. The unemployment rate is also elevated at 5.1% on a three-month average basis, while wage growth is the weakest among the states at 2.9%yr in Q2. Combined with population growth of just 0.5%yr, these conditions provide little scope for a strong household demand impulse.

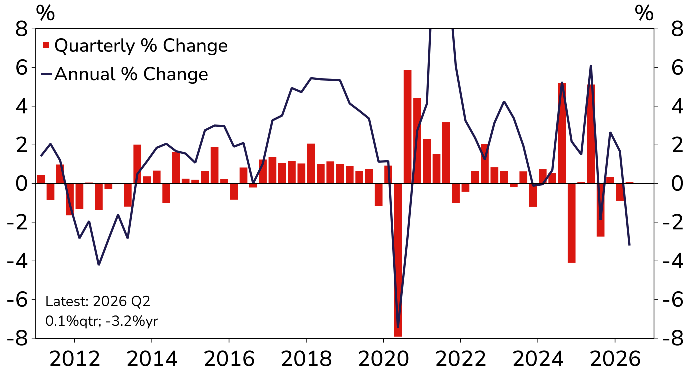
What has surprised? The resilience in household consumption has been somewhat surprising. Spending rose 0.6%qtr, outpacing the national result despite a soft labour market and Hobart inflation running 0.8ppts above the national average.

How can things improve? While Tasmania's participation in the national renewables and data-centre boom has been modest to date, interest is rising. The proposed Firmus developments at Bell Bay highlight the state's potential for energy-intensive digital infrastructure, though electricity availability is a key consideration, with Hydro Tasmania assessing future energy needs and system impacts. Over time, projects such as Marinus Link could support additional renewable generation, strengthen energy security and expand opportunities for electricity exports and energy-intensive industries.

What are we expecting? We estimate Tasmania's GSP to have grown a respectable 2.5%yr in FY26. Elevated zinc, aluminium and dairy prices through the first half of 2026 likely supported exports and provided a solid boost to activity. The result was also aided by favourable base effects following completion of the Spirit of Tasmania project in 2025, which weighed on growth through higher imports. Looking ahead, growth is expected to slow to 1.4%yr in FY27 and 1.1%yr in FY28 as elevated interest rates continue to weigh on activity, with private-sector momentum only partially offsetting a softer public sector. A weak labour market, elevated inflation and a structurally higher share of spending on essentials are likely to constrain household demand in this environment. Further out, investment in renewables and energy infrastructure should provide a more durable source of expansion, while also strengthening Tasmania's appeal as a destination for data-centre investment.

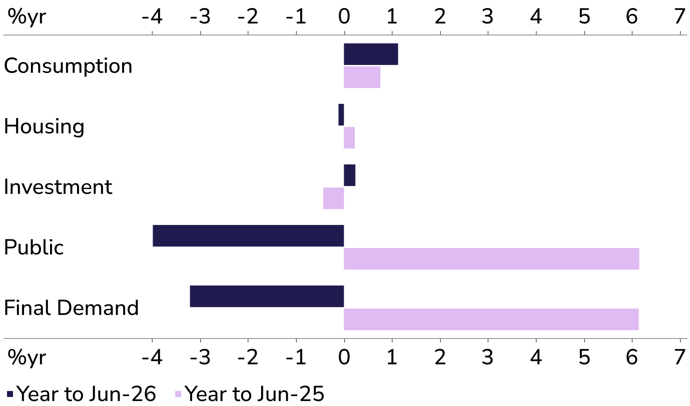
Tas State Final Demand

Chain Volume Measures



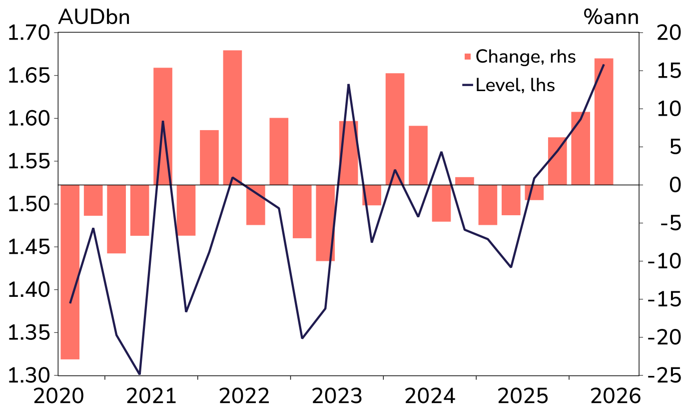
Source: ABS, Macrobond, Westpac Economics

Tas: contributions to state final demand



Source: ABS, Macrobond, Westpac Economics

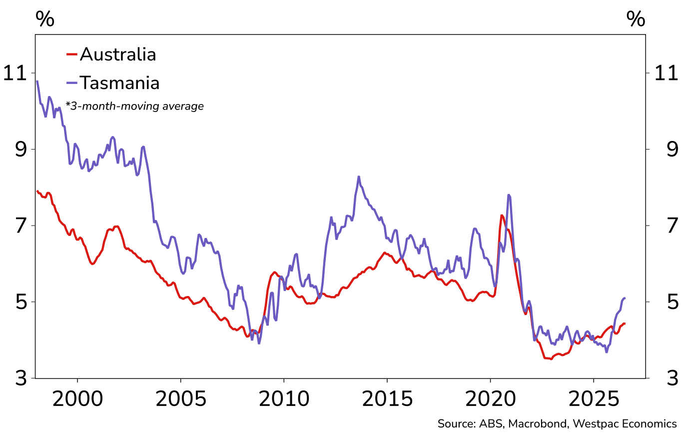
Exports have grown strongly in 2026



Source: ABS, Macrobond, Westpac Economics

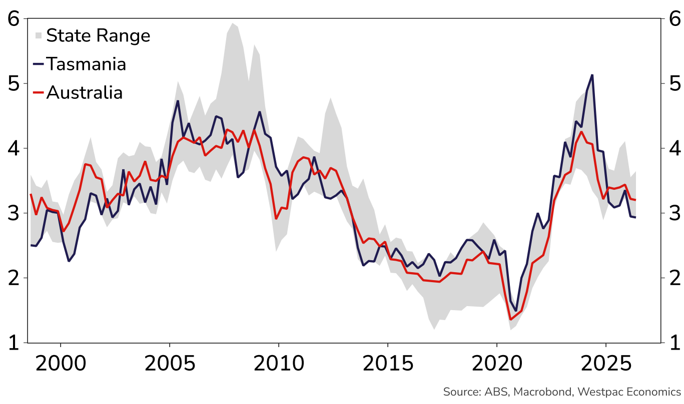
... but broader weakness persists

A higher unemployment rate...

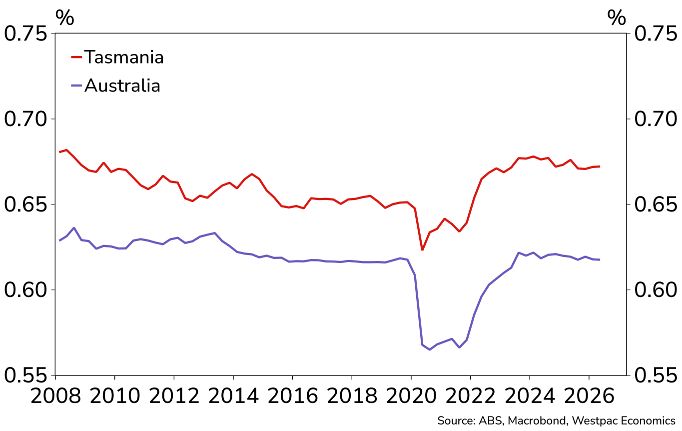


... is capping wages growth

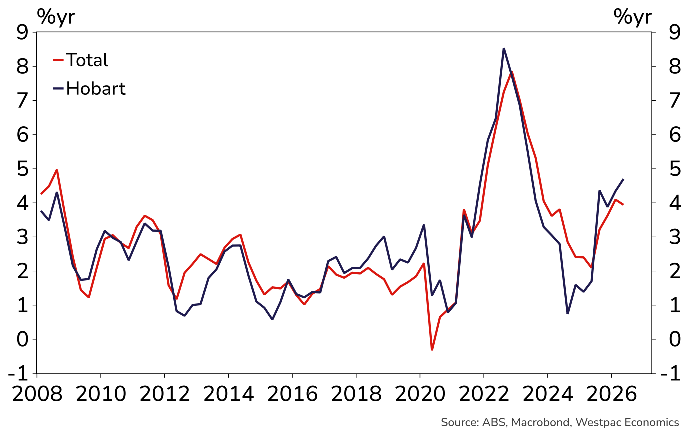
Wage Price Index, Annual Change (%)



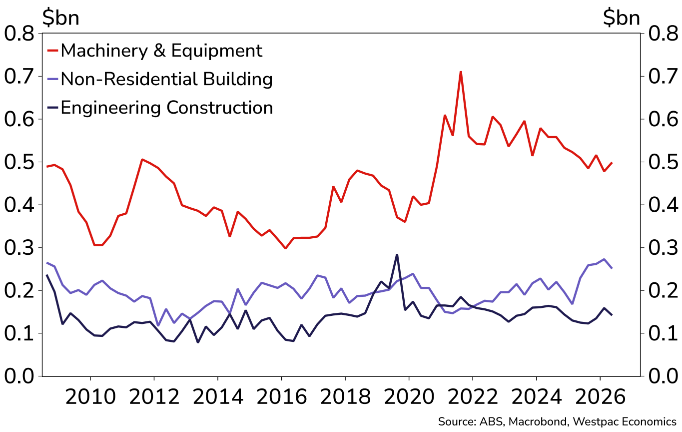
A higher share of essential spending...



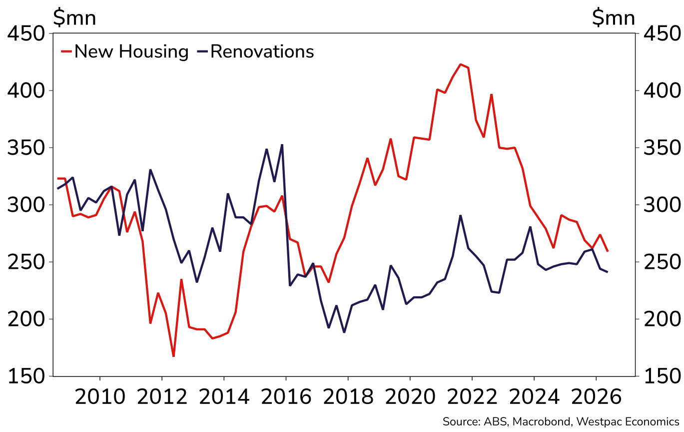
...means elevated inflation bites harder



New business investment



Dwelling investment



Forecasts

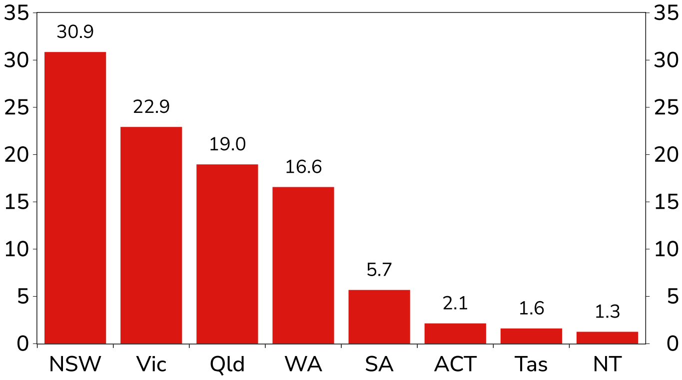
		2024/25	2025/26		2026/27		2027/28	
		Actual	Govt f/c	Westpac Est	Govt f/c	Westpac f/c	Govt f/c	Westpac f/c
Gross State Product (GSP)	**Aust (GDP)**	1.3	2¼	2.3	1¾	1.7	2¼	1.8
year-average growth	**NSW**	0.9	1¾	2.1	1.0	1.5	1.0	1.6
	Vic	1.1	1¾	1.7	1½	1.5	2.0	1.7
	Qld	2.2	2½	2.5	1¾	2.0	2.0	2.0
	WA	1.3	3¼	2.4	2¼	1.9	2.0	1.9
	SA	1.0	2¼	2.8	1¾	1.8	2.0	1.7
	Tas	1.0	2¼	2.5	¾	1.4	2¼	1.1
GSP per capita	**Aust**	–0.3	–	0.8	–	0.3	–	0.5
year-average growth	**NSW**	–0.3	–	1.0	–	0.3	–	0.6
	Vic	–0.6	–	0.1	–	–0.2	–	0.0
	Qld	0.4	–	0.8	–	0.3	–	0.7
	WA	–1.1	–	0.4	–	0.3	–	0.4
	SA	–0.1	–	1.9	–	1.0	–	0.9
	Tas	0.6	–	2.0	–	0.9	–	0.6
Employment	**Aust^**	2.2	1½	1.3	1½	1.7	1¾	1.9
year-average growth	**NSW**	1.5	1.0	0.9	1¼	1.6	1.0	1.4
	Vic	2.4	1½	1.1	1¼	1.8	1½	2.2
	Qld^	3.1	1½	1.4	1¼	1.3	1¼	2.1
	WA	3.1	1½	1.6	1¾	2.2	1½	2.2
	SA	1.3	3¼	3.0	1.0	2.1	1.0	2.1
	Tas	–0.9	¾	0.8	–½	0.9	1¼	1.3

* 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.

^ Through-the-year growth.

Shares of GSP

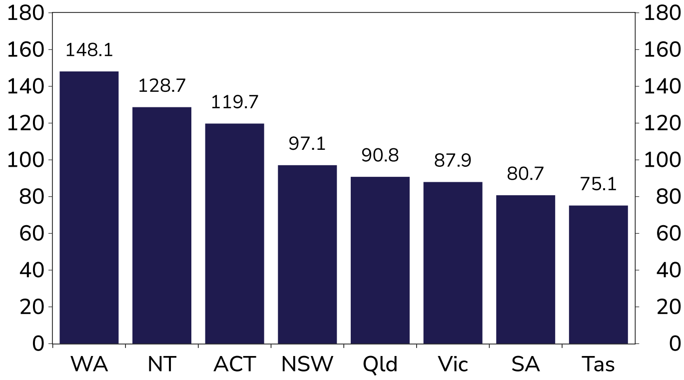
Real, Chain Volumes, 2024/25, Percentage



Source: ABS, Macrobond, Westpac Economics

GSP per capita

Real Chain Volumes, 2024/25, $000s



Source: ABS, Macrobond, Westpac Economics

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