2 September 2026

AUSTRALIAN GDP Q2 BULLETIN

Losing momentum

Key points

- The Australian economy expanded 0.4% in Q2 2026, with year-ended growth slowing to 2.1%. Today's data confirms the economy is losing momentum, with growth running at around 1.5% on a six-month annualised basis over the first half of 2026, down from around 2.8% in the second half of 2025.
- The Q2 national accounts detail shows it was a messy quarter. Key takeouts are: 1) demand growth is slowing but remains resilient and is far from falling off a cliff; 2) there is a complex mix of headwinds and tailwinds at work including interest rate rises, tax policy changes, a wind-down in public infrastructure work and a major ramp-up in data centre investment, with activity likely to be choppy going forward and underlying pulse harder to find, and 3) aggregate productivity growth remains soft with unit labour costs growth lifting marginally.
- Today's result suggests the economy is slowing but running a touch firmer than expected by the RBA (1.9%yr in their latest SoMP). This firmer outcome and a tick higher in unit labour costs will likely add to the Board's unease leading into its September meeting. With the second half likely to feature more noise from external disruptions and further shifts in various 'crosswinds', pinpointing the pace of underlying trends will remain challenging.

GDP: Q2 2026

	% qtr		% yr	
	Q1	Q2	Q1	Q2
Household consumption	0.4	0.4	2.4	1.8
Dwelling investment	1.5	1.6	4.2	5.8
Business investment*	6.2	-0.5	10.5	10.5
Private final demand*	1.4	0.3	4.0	3.6
Public spending*	-0.5	0.2	2.0	1.9
Domestic demand	0.9	0.3	3.4	3.1
Stocks – private non–farm #	0.2	-0.3	0.0	0.0
Stocks – other #	-0.3	0.2	0.0	-0.2
GNE	0.8	0.2	3.3	2.9
Exports	-1.1	0.8	3.5	2.9
Imports	2.0	0.5	8.1	6.7
Net exports #	-0.7	0.1	-1.0	-0.8
Statistical discrepancy #	0.2	0.2	0.2	0.1
Non–farm GDP	0.3	0.4	2.5	2.1
GDP, real	0.3	0.4	2.5	2.1
GDP, nominal	0.6	0.8	5.4	5.3
GDP deflator	0.3	0.4	2.8	3.1
Household deflator	0.7	0.6	3.1	3.1
Earnings per worker (non–farm)	0.9	1.1	4.5	4.6
Real household disposable income	-0.3	0.6	1.9	2.3

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

Q2 GDP: 0.4%qtr, 2.1%yr
Q2 Housing Construction: 1.6%qtr, 5.8%yr

Crosswinds complicate the growth story

Westpac Economics

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The Australian economy expanded 0.4% in Q2 2026, with year-ended growth slowing to 2.1% from 2.5% in Q1. The outcome was a touch stronger than the 0.3%qtr expected by Westpac Economics and the market and notably firmer than the flat result we were anticipating a couple of months ago. Despite this, the economy has still lost momentum, with growth slowing to a 1.5% annualised pace over the first half of 2026, down from around 2.8% in the second half of 2025. The key question for the RBA Board is whether this slowdown is sufficient and sustained enough to return inflation to target over an acceptable timeframe.

Domestic demand slowed sharply as momentum faded across both the private and public sectors. Household consumption and residential construction continued to contribute to growth, while business investment fell following the data centre-related surge in Q1. At the same time, government spending is slowing as the infrastructure pipeline moves well past its peak.

The Q2 national accounts detail shows it was a messy quarter. Headline GDP growth may be ticking over slowly but the Middle East conflict, interest rate rises, tax policy changes, a wind-down in public infrastructure work and a major ramp-up in data centre investment are creating a lot of volatility under the hood.

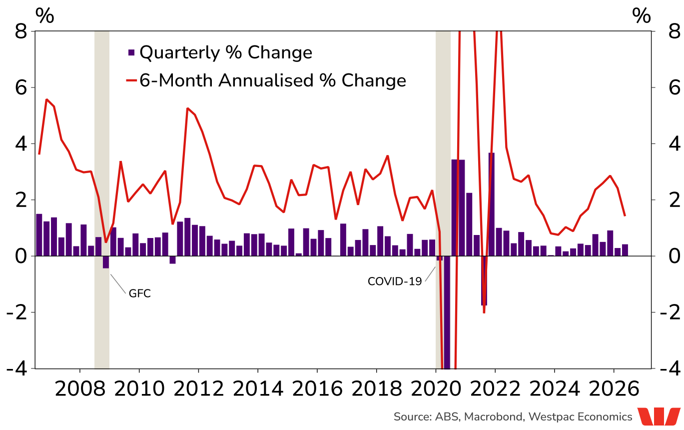
That said, there are several key takeaways from today's National Accounts:

Most importantly, demand growth is slowing, but it remains resilient and is far from falling off a cliff. That resilience appears likely to carry into Q3 2026. The ABS household spending indicator posted a solid rise in July, our Westpac Card Tracker suggesting this has carried into August, and surveyed business investment intentions have been marked up.

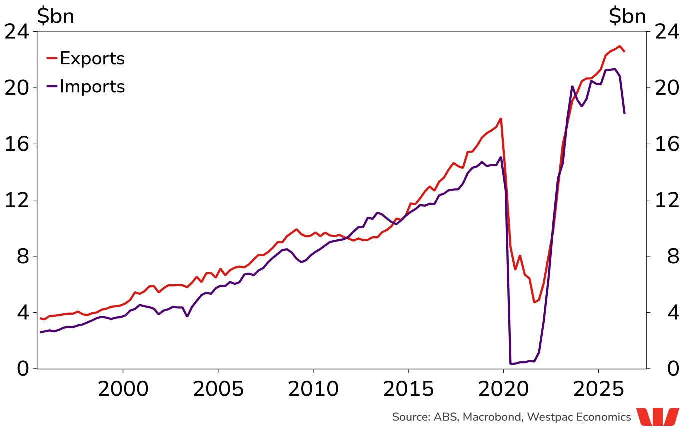
There is a complex mix of headwinds and tailwinds. Looking through the volatile elements, there are clear headwinds coming from higher interest rates, persistently high inflation, slowing public investment and starting to emerge around housing (albeit so far confined to the direct effects from lower housing turnover). However, these are being offset by tailwinds driving business investment, particularly in data centres, energy and related infrastructure. Notably, the net effect of these looks to be leaving the overall construction pipeline little changed.

Aggregate productivity growth remains soft, with weakness evident across both the market and non-market sectors of the economy. This will be a concern for the RBA, particularly when combined with stronger-than-expected average earnings growth. Together, these factors saw growth in unit

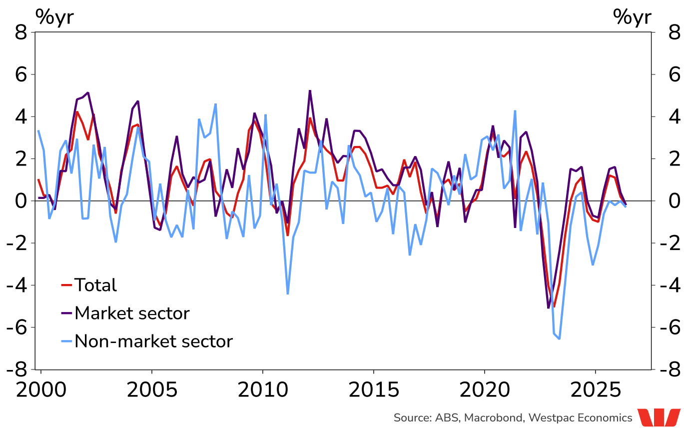
Australian GDP Growth



Tourism spending



Productivity by sector



labour costs – a broad measure of the economy's cost base – accelerate marginally in Q2. Some of these pressures are likely to intensify next quarter as the Fair Work Commission's award wage increase (4.75% vs last year's 3.5%) is fully implemented. For the record, we remain more positive on Australia's productivity growth outlook than the RBA. But the longer productivity growth remains subdued and unit labour costs rise at this pace the more uneasy the RBA will be about the inflation outlook.

With the second half likely to feature more noise from external disruptions and further shifts in various 'crosswinds', pinpointing the pace of underlying trends will remain challenging.

GDP: Expenditure Estimate

The expenditure breakdown was a mix of relatively stable components and others that exhibited particularly sharp swings in the latest quarter. While consumer spending and dwelling investment clearly fell into the former category, the data centre investment story provided a notable contrast, with business investment reversing sharply after a surge in the March quarter. Together with disruptions stemming from the war in the Middle East, this contributed to volatility in the contribution made by the external sector to growth in Q2.

Growth in **domestic demand** (spending by consumers, businesses and governments) slowed, rising just 0.3%qtr in Q2 after a 0.9%qtr jump in Q1. This was the softest quarterly increase since the December quarter of 2023. Thanks to steeper increases in previous quarters, this left the year-ended pace easing only slightly to 3.1%yr.

New private demand grew 0.3%qtr, supported by household consumption and dwelling investment, which more than offset declines in business investment and housing ownership transfer costs associated with softer housing turnover. Year-ended growth of 3.6%yr remained among the firmest outcomes of recent years, despite easing from 4.0%yr in the March quarter.

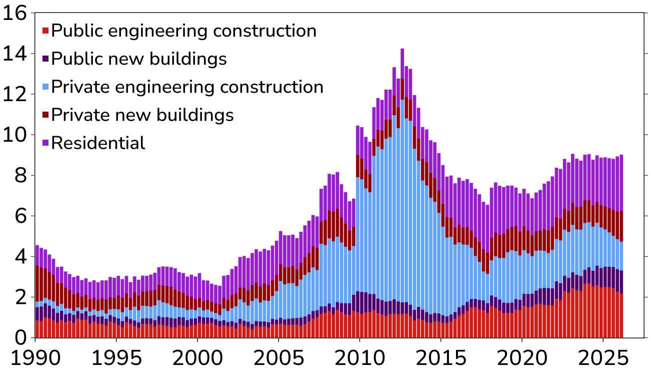
Consumer spending rose 0.4%qtr and 1.8%yr, in line with our expectations. The big surprise was a 0.6%qtr increase in real disposable income over the quarter, much stronger than the fall of 0.3%qtr we had previously pencilled in. This saw the household savings ratio lift higher, despite the higher spending.

It appears that stronger disposable income growth gave households some breathing space. Discretionary consumption rose 1.4%qtr, the second steepest since 2022, although about half of this was from a surge in vehicle spend with other segments subdued. Meanwhile, essential consumption items posted the first decrease in almost three years, falling by 0.3%qtr. Strong vehicle purchases skewed the mix of consumption growth towards goods (0.7%qtr), which far exceeded services consumption growth of 0.2%qtr.

Housing construction increased 1.6%qtr, broadly in line with our forecast and at a similar pace to the previous quarter. Growth was driven by new dwelling construction, which rose 1.7%qtr. The year-ended pace of 6.3%yr was the strongest

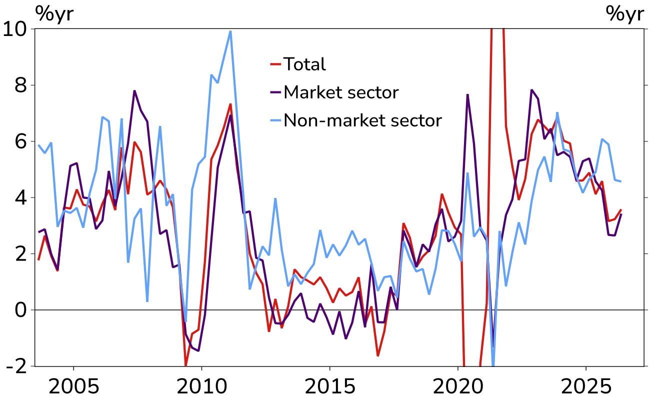
Construction pipeline remains stable

Work yet to be done, % of GDP



Source: ABS, Macrobond, Westpac Economics

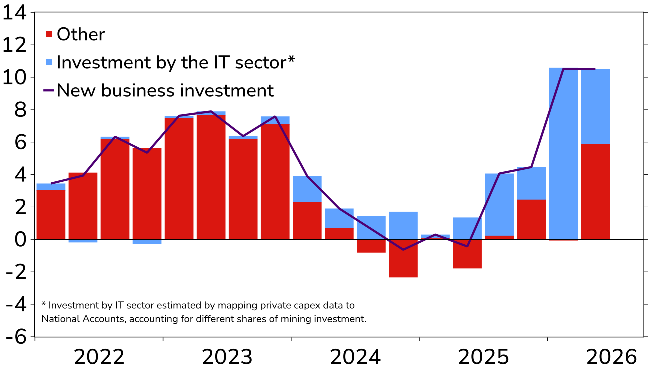
Nominal unit labour costs



Source: ABS, Macrobond, Westpac Economics

New business investment

Contribution to year-ended growth



Source: , Macrobond, Westpac Economics

in three years, suggesting momentum in housing supply is continuing to firm. Renovation activity also increased, by 1.4%qtr. Looking ahead, a substantial pipeline of work yet to be completed should continue to support residential construction activity over coming quarters.

Housing ownership transfer costs, which encompass activity by real estate agents as well as related legal, financial, accounting and removalist services, declined 1.9%qtr in line with softer housing turnover in recent months. The category has fallen almost 6.0% over the first half of 2026 and, with the housing market correction accelerating it likely to remain under more pressure in the September quarter.

New business investment was slightly softer than expected, falling 0.5%qtr but represents a minor retracement after a strong Q1. Recall that investment surged 6.2%qtr last quarter, lifting year-ended growth to a strong 10.5%yr. While machinery and equipment investment declined sharply in Q2 (-5.6%qtr), strength elsewhere offset most of this weakness. Non-residential building construction, for example, increased 4.1%qtr, with most of that growth likely reflecting data centre construction and renewable energy projects. Q2 looks like a pause in the upswing rather than a peak.

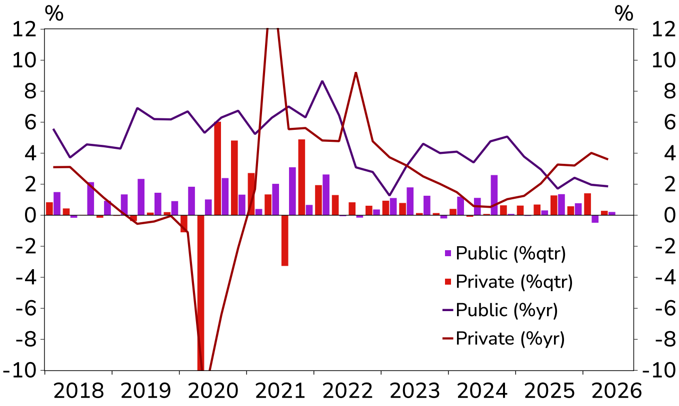
Public demand grew just 0.2%qtr and 1.9%yr. Combined with the 0.5%qtr decline in the March quarter, this left public demand down 0.6% in six-month annualised terms. As temporary rebates and cost-of-living support measures unwind, public consumption is moderating. At the same time, the infrastructure pipeline, particularly in NSW and Victoria, continues to roll over as major projects are completed. While investment in defence and other public assets is increasing, it remains lumpy and has not fully offset the decline in infrastructure spending. Overall, this points to a subdued outlook for public demand and suggests private demand will increasingly need to pick up the slack.

Net exports contributed 0.1ppt, confirming yesterday's Balance of Payments data. Goods exports rose 1.4%qtr, driven by a recovery in commodity revenues and stronger manufacturing exports. Despite a correction in ADP equipment imports of more than a-quarter, overall goods imports still increased 2.4%qtr. Major drivers included motor vehicle imports (37.6%) and fuel imports (5.7%qtr).

An improvement in the **services trade balance** helped offset the negative contribution from goods trade, although this was largely driven by a 4.9%qtr decline in services imports. Excluding the height of the pandemic in 2020, this was the steepest decline in almost thirteen years. Tourism spending appears to have been a key driver, likely reflecting disruptions to travel plans associated with the war in the Middle East, as well as a substitution effect whereby travellers chose cheaper or closer destinations. While the corresponding category on the exports side (tourism spending in Australia) also declined sharply, it proved comparatively more resilient. As a result, services exports fell by only 1.5%qtr.

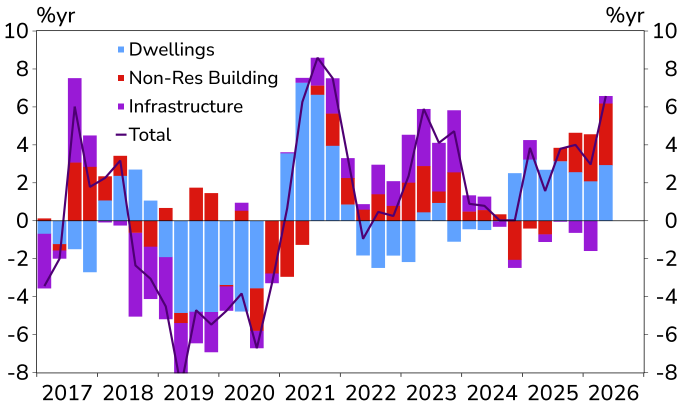
Inventories detracted 0.1ppt as the mining sector ran down stockpiles that had been rebuilt in Q1. The move was offset by a rise in public inventories.

New public and private demand



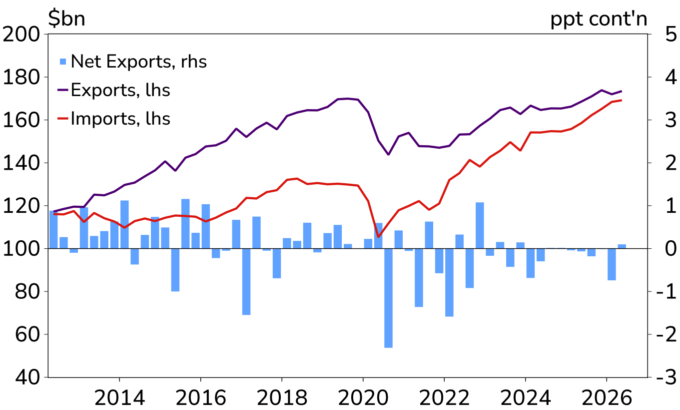
Source: ABS, Macrobond, Westpac Economics

Private construction activity by type



Source: ABS, Macrobond, Westpac Economics

Net exports



Source: ABS, Macrobond, Westpac Economics

Household sector

On households, the spending picture was largely as expected on the day (albeit firmer than we envisaged a couple of months ago) while incomes came in on the strong side.

In real terms, household consumption rose 0.4%qtr, annual growth slowing to 1.8%yr, down from a peak of 2.7%yr in Q3 last year. Growth has slowed but spending has been relatively resilient given interest rate rises and fuel price shocks. Indeed, the latter appears to have had quite a complex impact in Q2 with the expenditure detail showing declines in fuel spend and transport services (including air travel) more than offset by a surge in vehicle sales led by a big rise in EVs and hybrids. There was also a notable decline in electricity spend which the ABS attributed to mild weather conditions but which may also reflect the take-up of rooftop solar and battery systems (note that the purchase of these systems is captured in residential investment but the energy cost savings once they are operational show up in consumption). To the extent that households have used savings and/or borrowing to finance these vehicle and home energy system purchases can be thought of as using balance sheet transactions to cushion against day to day cost pressures.

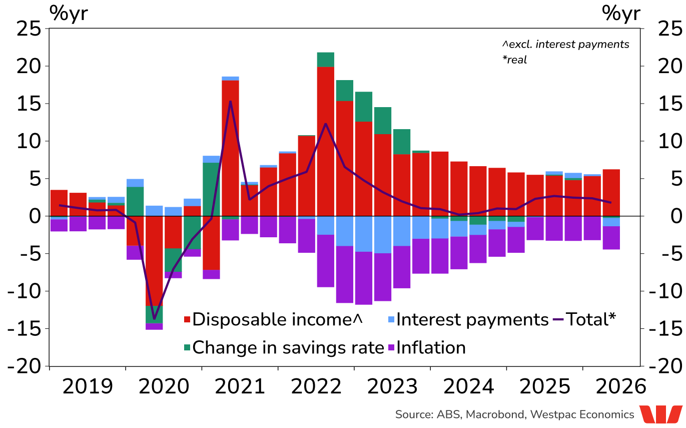
In terms of the detailed spending numbers, the 10.3%qtr surge in vehicle purchases was the biggest positive, contributing 0.27ppts to the 0.4% gain in total spend. The main drags were from a 6% decline in electricity, gas and water, a 2.6% fall in transport services (reflecting flight disruptions from the war) and a 0.6%qtr dip in fuel – the combined drag from these components took –0.53ppts of quarterly consumption growth.

It should be noted that consumption estimates include spending by Australians abroad. Outbound tourism spend dropped 12.9%qtr in Q2 due to disruptions from the conflict in the Middle East. This drag, worth about 0.7% of total consumption, would have been spread across a range of tourism-related expenditure categories. Aside from transport, the drag likely accounts for some of the sluggish growth in sectors like recreation, cafes & restaurants and clothing.

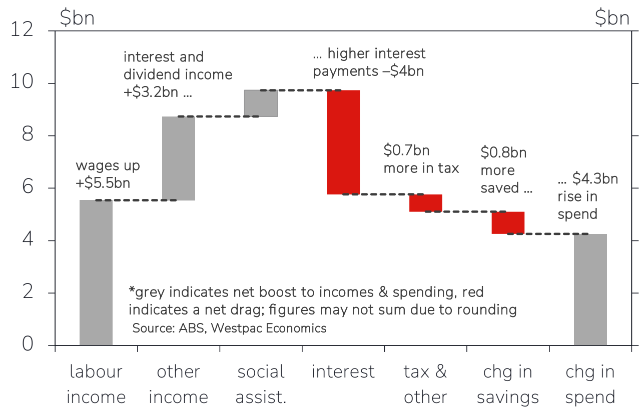
As noted, incomes came in stronger than expected in Q2. This was mainly due to a robust 1.6%qtr rise in labour incomes which were up 6.2%yr. The gain was despite slower growth in both employment (+0.3%qtr) and total hours worked (+0.4%qtr). The robust 1.1%qtr rise in average compensation per employee is also despite relatively steady 0.8%qtr gain in the wage cost index. Some of the strength may reflect compositional shifts and redundancy payments although these typically have small impacts on aggregate measures quarter to quarter (with nothing to suggest retrenchments are that prevalent at the moment either).

Other income sources were much more mixed: gross mixed income (covering farms and small businesses) declining 1.5%qtr, annual growth dropping to 2.6%yr; but property income up 4.4%qtr, 8.8%yr (buoyed in part by higher interest rates on deposits). Total gross income rose 1.6%qtr in nominal terms, annual growth lifting to 6.2%yr.

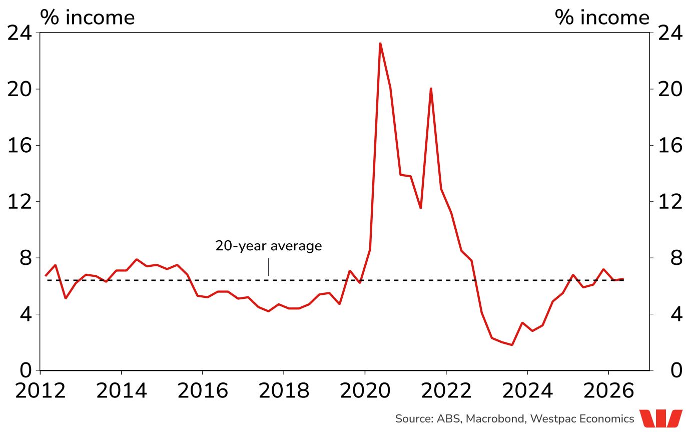
Consumer spending: drivers and headwinds



Household income flows: change, Q1 to Q2



Household savings ratio



The RBA's March and May rate rises saw interest payments surge 10.3%qtr to be up 10.7%yr. Even without further moves, total interest payments will still see a small rise in Q3 as the full effect of the May hike rolls through. Tax payments rose 0.4%qtr, another subdued quarterly gain but with payments still up an material 8.1%yr.

Overall, nominal disposable income rose 1.1%qtr, annual growth lifting from 5.1%yr to 5.5%yr. The consumption deflator rose just 0.6%qtr, in line with our estimates, with annual growth easing slightly to 3%yr. Note that there are significant conceptual and coverage differences between the CPI and the consumption deflator, particularly around the way rebates are incorporated and the relative weight of rents. Currently this is resulting in annual inflation prints that are around 0.5ppt lower.

The net effect meant real (inflation-adjusted) disposable incomes rose 0.6%qtr, a relatively resilient result given the ~0.5ppt drag in the quarter coming from higher interest rates and tax payments. Annual growth lifted from 1.9%yr to 2.3%yr.

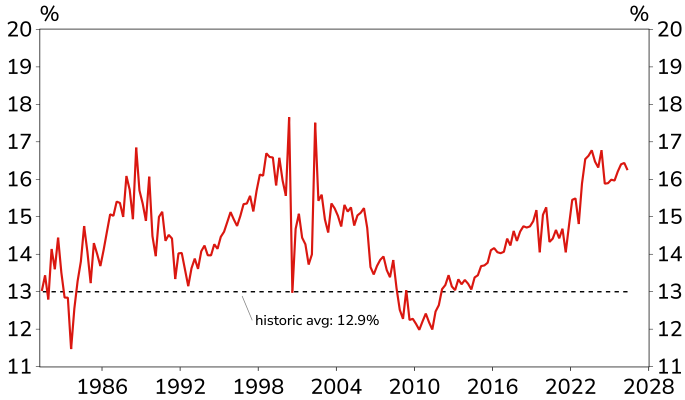
That resilience is particularly evident in the household savings ratio – the proportion of disposable income in the quarter that unspent. Ordinarily, rate rises and other shocks could be expected to see the savings rate decline. However, the robust income gain meant the savings rate instead nudged up slightly from 6.4% to 6.5%. There may be a few different factors behind this: cancelled or delayed travel plans may have seen some spending held back; and there may be a 'precautionary' element at play with households saving more actively in an effort to build up buffers. Some of this may reverse if delayed spend comes through and/or sentiment improves. Either way though it is the income side that is facilitating this behaviour. All up, the Q2 update points to a subdued but relatively resilient household sector.

The states

New South Wales fell flat in the run-up to mid-year, with state final demand neither expanding nor contracting, though annual growth remains solid at 3.5%yr following strong prints over late 2025 and early 2026. Consumer spending was relatively soft on the surface, at 0.3%qtr, but this is partly due to milder weather and the uptake of rooftop solar resulting in lower spending on electricity – a dynamic present across most states. For NSW, the main question was whether new business investment would cool in Q2 following the surge in data centre related investment earlier in the year. Impressively, the level of new business investment remained steady after the 15%qtr jump in Q1, helping put a floor under activity.

Victoria had the weakest performance across the states in Q2, a fall in state final demand of 0.3%qtr bringing the annual growth pace down to 2.9%yr, below the national average. There were two main reasons for this relative weakness. Firstly, household consumption only managed to eke out a gain of 0.1%qtr in Q2, reflecting a combination of softer discretionary consumption and also a larger pull-back in electricity spend compared to other states. Discounted public transport also weighed on household consumption in

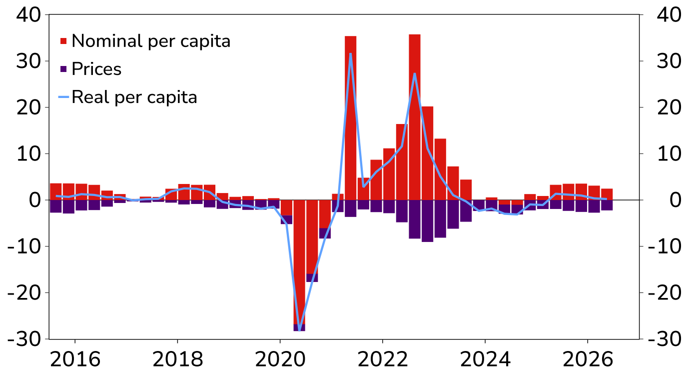
Tax share of income



Source: ABS, Macrobond, Westpac Economics

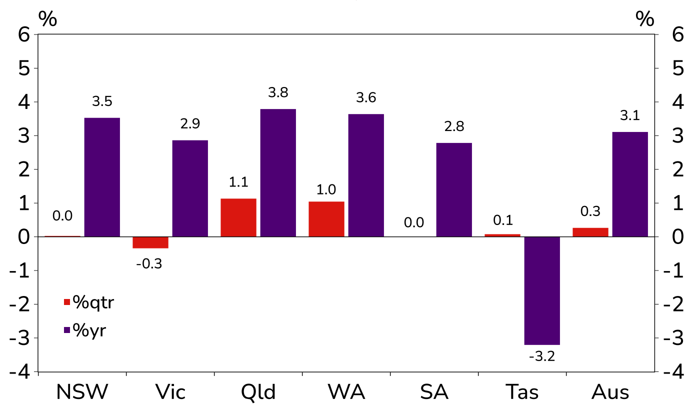
Discretionary consumption per capita

Contribution to Annual % Change



Source: ABS, Macrobond, Westpac Economics

State final demand: 2026 Q2



Source: ABS, Macrobond, Westpac Economics

the quarter. Secondly, growth in new business investment pulled back sharply after the data centre surge earlier in the year – new machinery and equipment spending fell 20%qtr in Q2 after a 22%qtr gain in Q1. Growth in dwelling investment (3.1%qtr) and new public demand (0.8%qtr) was able to provide some support.

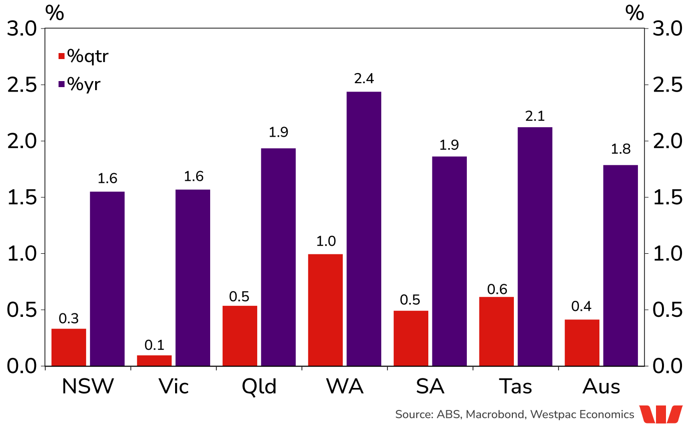
Queensland was the front-runner in Q2, with state final demand advancing 1.1%qtr, pulling the annual growth rate up to 3.8%yr, its fastest pace since Q1 2024. Encouragingly, strength appears to be centred on private investment, delivering on much-needed expansion of the state's economic capacity. Indeed, housing investment is running at a multiple of the national average at 17%yr and new business investment is growing at a solid clip of 9.2%yr. Consumer spending and new public demand also supported growth in the quarter, up 0.5%qtr and 0.3%qtr respectively. The normalisation of coal exports after Cyclone Koji in Q1 would have also added to growth.

Western Australia had a strong showing, with state final demand rising 1.0% in Q2 to be up 3.6%yr, with broader state economic growth (including net exports) even stronger as the mining sector rebounded following Cyclone Mitchell and the disruptions to iron ore exports earlier in the year. WA's strength in household consumption remains the envy of the rest of the nation – up 1.0% in Q2 and 2.4% over the year, well above other states. At the same time, the pulse for dwelling investment and new business investment are strong, both at 7.4%yr, helping offset the slowing in new public investment that has been in place for a year-and-a-half.

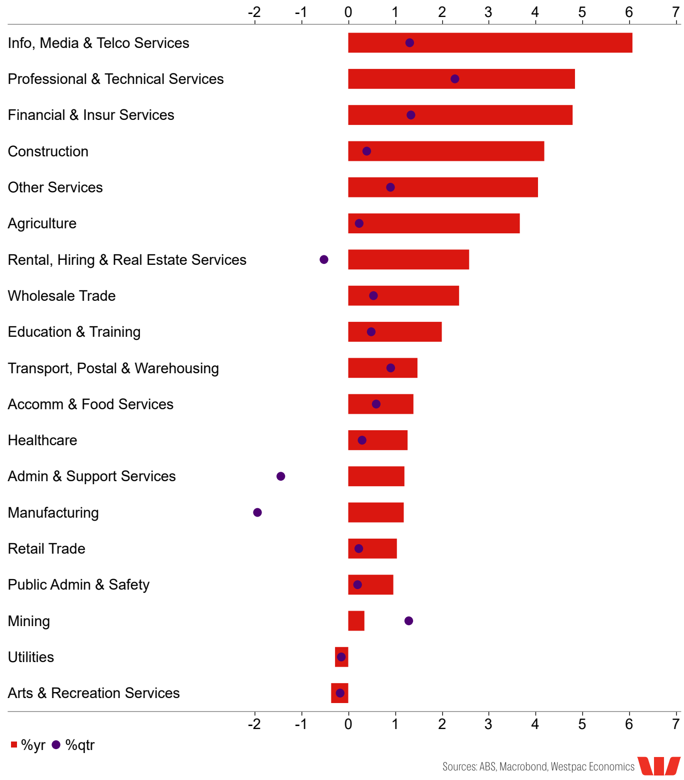
South Australia continued to see subdued trends with state final demand holding flat in the quarter – equal slowest with NSW – to be up 2.8%yr. The weakness is centred on new public demand which fell 1.6%qtr, its first decline since Q3 2022. New private demand picked up 0.7%qtr and 2.3%yr with broad-based gains. Household consumption rose 0.5%qtr to be 1.9%yr higher and was broadly in line with the national average. Meanwhile, new business investment lifted 1.2%qtr and 6.9%yr – still the softest annual read of the mainland states. Both residential (new) and non-residential building activity also bounced back in the quarter, up 5.3% and 9.6% respectively.

Tasmania recorded a fourth consecutive quarter of growth below the national average. State final demand rose a modest 0.1%qtr but was down 3.2%yr, reflecting base effects from the acquisition of the Spirit of Tasmania vessels in the June quarter 2025. Economic momentum remained centred, though unevenly, in the private sector, with new private demand increasing 0.3%qtr and 3.6%yr. Household consumption was resilient, rising 0.6%qtr and 2.1%yr despite a drag from free public transport in the quarter. Meanwhile, residential activity and business investment remained weak, with only new machinery and equipment investment seeing a lift in the quarter. New public demand was also a drag on activity, falling for a fourth consecutive quarter, down 0.3%qtr to be 12.3%yr lower.

Consumer spending: 2026 Q2



GVA by industry



GDP(P)

At the industry level, GDP(P) rose 0.5%qtr, up from 0.4% in the previous quarter, with annual growth at 2.3%.

Momentum picked up across both the market and non-market sectors in the June quarter. The non-market sector rose 0.3% in the quarter, led by a pickup in Health and steady growth in Education.

In comparison, growth in the market sector continued to outpace the non-market sector, with activity rising 0.6%qtr in Q2, up from 0.4% in the previous quarter. Across the market industries, 9 out of the 16 industries expanded in the quarter, unchanged from the previous quarter. However, growth was uneven. As expected, the mining sector rebounded, rising 1.3%qtr, after adverse weather saw temporary disruptions to production in the previous quarter. Still, production did not keep pace with strong export demand, resulting in a drawdown in inventories.

The recovery in mining and solid export demand had positive spillovers to the Transport, Postal and Warehousing sector. Indeed, while this sector was the most directly exposed to the higher fuel costs in Q2, the government's fuel cost recovery rules introduced in April have helped cushion the industry.

Business services, which includes Professional services and the Information Media and Telecommunications, remained a key source of growth. While the pace eased in the quarter, activity was still up a healthy 1.0%qtr, supported by ongoing demand for engineering design, management consultancy and digital and AI services.

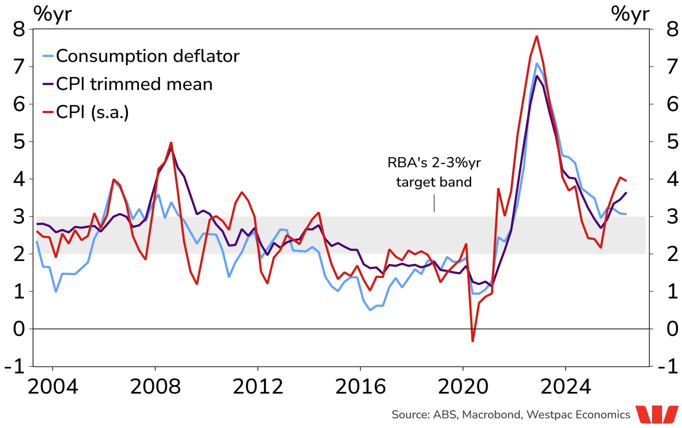
GDP(I)

Real GDP(I) rose 0.5%qtr/2.1%yr in Q2, strengthening from the 0.4%qtr pace recorded in the previous quarter. In nominal terms, growth lifted to 0.8%qtr, while annual growth continued to ease from the elevated levels seen at the end of 2025 to 5.3%yr (all figures below are also nominal).

Compensation of employees rose 1.5%qtr/6.0%yr, supported by still-tight labour market conditions, and 0.4%qtr growth in hours worked. The ABS also highlighted the contribution from bonuses and redundancies paid during the quarter, although the extent to which these payments influenced aggregate labour income growth is unclear. Further details are outlined in the wages section below.

Gross operating surplus rose a solid 1.9%qtr/5.7%yr, following the near-flat outcome in Q1. Gross operating surplus for private non-financial corporations increased 2.5%qtr, led by Mining, which rose 6.3%qtr on stronger sales and higher prices for coal, crude oil and lithium. Professional, Scientific and Technical Services also contributed to growth, rising 3.6%qtr amid ongoing demand for computer and engineering design services, while Construction increased 3.3%qtr, supported by work on large-scale engineering projects. Financial corporations recorded a 2.4%qtr rise, broadly in line with recent outcomes.

Various measures of consumer inflation



Gross mixed income, covering unincorporated businesses such as sole traders and partnerships, extended its decline from the previous quarter, falling 1.5%qtr and slowing annual growth to 2.6%yr.

Prices

There was a modest pick-up in momentum in the GDP implicit price deflator (IPD), rising to 0.4%qtr/3.1%yr from 0.3%qtr/2.8%yr in Q1. The strength came wholly from the domestic price deflator which rose 0.8%qtr/3.1%yr, partly offset by a steep decline in the terms of trade (–1.6%qtr/ –0.5%yr) - the weakest since December quarter 2024.

On the domestic side, the household consumption deflator held steady at 0.6%qtr and again fell short of the pick-up seen in the consumer price index. The ABS attributed the strength in the quarter to rent and food prices, which was tempered by price falls for accommodation due to weaker travel demand and an appreciation in the dollar.

Firmer construction costs also supported the domestic deflator driven by higher input costs from rising oil prices linked to conflict in the Middle East and ongoing shortages of labour and materials. The dwellings deflator rose 1.4%qtr, which was the strongest rise since Dember quarter 2022.

The Middle East impact also showed through in the terms of trade, with higher import prices for intermediate goods such as fuel, fertiliser and plastics. Air and sea freight costs also increased. In contrast, prices for imported consumption goods fell and capital goods prices were broadly unchanged, supported by the appreciation of the dollar. Overall import prices rose 3.5%qtr. Export prices rose 1.9%qtr, led by coal amid strong Asian demand.

Wages

Total compensation of employees (COE), a broad wage bill measure, rose 1.5%qtr/6.1%yr in the June quarter with the ABS noting this was due to continued competition for skilled labour, increased wages, as well as bonuses and redundancies paid in the quarter although the extent to which these payments influenced aggregate labour income growth is unclear. The lift the quarter was driven by a 1.4%qtr lift in private COE while the public side gained 1.8%qtr. The ABS noted that construction was again a key contributor, consistent with increased activity in this sector, supported by professional, scientific & technical services and finance & insurance services. Public sector COE growth was driven by health with scheduled pay rises for nurses and midwives in NSW, Victoria and Queensland while growth in South Australia, Tasmania and Northern Territory reflected new public service enterprise agreements.

With hours worked up 0.4% in the quarter with a similar rise across market and non-market sectors. COE per hour worked rose 1.2%qtr with annual growth easing to 3.1% yr from 3.3%yr in Q1, well down from the recent peak of 6.2%yr in September 2025 below and its decade average of 3.4%yr.

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 comparison, the WPI rose 0.8%qtr in the June quarter, with annual growth flat at 3.2%yr. The WPI has printed 0.8%qtr highlighting a higher degree of stability than expected. We will be closely watching to see what the larger than expected increase in the minimum wage/award rates of pay will have on the September quarter WPI.

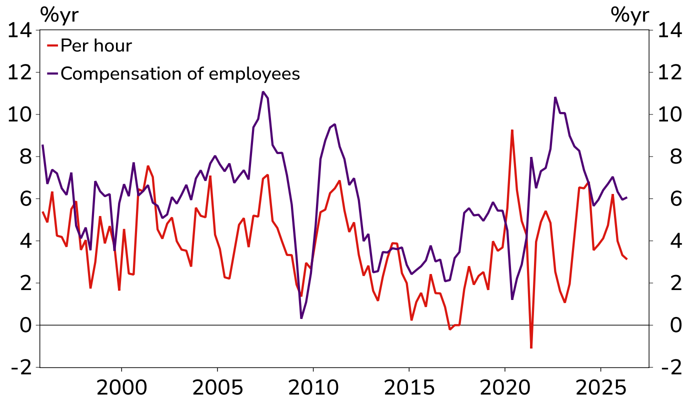
Labour costs and productivity

Labour productivity, as measured by GDP per hour worked was flat in the quarter, following a small decline in March, to be down 0.2% in year-ended terms. The weakness was focused in the non-market sector (–0.1%qtr/–0.3%yr) while the market sector did see an improvement in productivity lifting 0.2%qtr but this was still an underperformance with the annual pace dipping to –0.2%yr.

We have noted before 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 1.2% in the June quarter, a step up from the 0.5%qtr lift in Q4 and 0.8% in Q1. The year-ended rate held around a 3.2%yr for the previous two quarter only to step up to 3.6%yr in the June quarter with the six-month annualised pace lifting to 4.1%yr, the fastest pace since March 2025. The lift in ULCs inflation, and poor productivity from the market sector, does represent an upside risk to the near-term inflation outlook.

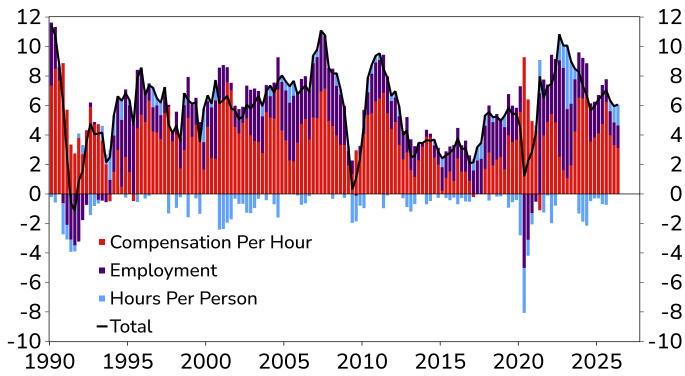
Non-farm compensation of employees



Source: ABS, Macrobond, Westpac Economics

Non-Farm Compensation of Employees

Annual % Change



Source: ABS, Macrobond, Westpac Economics

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