

Energy shock squeezes margins

29 October 2026

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*This edition includes refinements to the seasonal adjustment process, which has led to revisions to history, so figures for earlier quarters differ from those previously published.



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The Westpac Business Signal uses a large-scale transaction dataset that provides a timely and detailed picture of Australian business conditions. This dataset was developed by Westpac Economics and DataX, Westpac's data analytics team, and uses business customer transaction data to track revenues, expenses and cashflow across different industries, regions and business sizes. All data is de-identified and aggregated to ensure privacy.

The resulting sample of more than 350,000 businesses provides a representative view of conditions across the Australian business landscape allowing us to track changes in business activity and cost pressures in real time. The methodology can be viewed [here](#).



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Key points: Businesses feel the squeeze

- Business conditions weakened in Q3 as expenses outpaced revenue, and a rising share of businesses were finding conditions more challenging. The Westpac Business Performance Gauge (the ratio of operating revenues to operating expenses) fell 1.3%qtr and was 2.3% lower than a year ago.¹
- Operating expenses rose 1.8%qtr against revenue growth of 0.5%. Fuel recorded the largest increase as the Middle East conflict, and the end of the government's fuel excise tax cut, saw prices rise over the quarter. The wage bill also rose, with the minimum wage/award increase and Payday Super likely contributing, particularly among SMEs. Revenue growth eased, with external and business-to-business revenue offsetting softer government-related activity, and household spending momentum faded through the quarter.
- The Cashflow Gauge, which includes debt servicing net of taxes, fell by more, 1.7%qtr, and was 2.8% lower than a year ago. Debt-servicing costs rose 5.7%qtr and were 12.7% higher than a year ago as the RBA's recent tightening unwound all of the 2025 rate cuts.
- Around one in four businesses were constrained, the highest since Q3 2023, while the share improving was the lowest since early 2023.
- SME conditions weakened for a third consecutive quarter and remain weaker than those of Commercial (see chart).

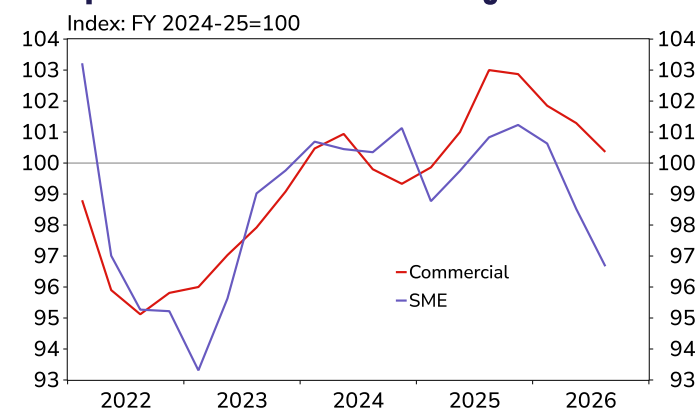
The softness is also becoming more broad based, with the Commercial and Large Corporate gauges falling in Q3, although for Large Corporates the weakness was concentrated in a few industries.

- The Industry Performance Gauge, which covers 15 industries, rose 0.3%qtr but was 1.6% lower than a year ago. The gain was concentrated in a few services industries, partly reflecting a step-up in revenue among a small number of large businesses
- Consumer-facing industries rose 1.7%qtr, but the gain came from lower expenses rather than stronger revenues as businesses looked to manage costs. Construction was supported by a strong pipeline of work, including data centres, but expenses rose faster than revenue and margins came under pressure.
- Agriculture was the stand out among the industries most exposed to fuel, supported by stronger commodity prices and external demand. Expenses also fell back, although the relief is unlikely to last with diesel prices rising again. Fuel cost recovery arrangements continued to protect Transport margins.
- Conditions weakened in most states, with the sharpest falls in SA and TAS. NSW fell to its weakest level since mid-2022, with volatility in ICT the main driver. VIC was the outlier, rising 1.5%qtr on data centre investment and business services, but the gains are yet to generate broader momentum.

- Higher input costs, inflation and interest rates are expected to weigh further on domestic demand slowing economic growth to around 1.5%yr by end-2026. Against this backdrop, business conditions are likely to remain uneven, with weakness concentrated in consumer demand and housing, while investment in data centres, IT software, renewables and defence supports business services and construction.
- With inflation still [well above target in Q3](#), we expect the RBA to raise the cash rate by 25bp to 4.85% in November.² Further increases are not our baseline, but with Q4 inflation likely to be strong, [the risk of another rise](#), most likely in February, has increased. We expect cuts to start in Q3 2027, but remain elevated.

- Conditions should improve from the second half of 2027 as fuel prices ease and house prices stabilise, with fuel-intensive industries and housing-related activity likely to benefit first, although the recovery is expected to be gradual and margins are likely to remain under pressure for most of next year.
- The Middle East conflict remains a key risk. In an [adverse scenario](#), energy prices would stay higher for longer peaking at around US\$150/bbl, with broader spillovers to other prices, adding to the risk of further rate rises. The RBA would face a difficult trade-off between inflation and weaker household spending and investment, and energy-intensive industries would be hit hardest.

Westpac Business Performance Gauge



Source: , Macrobond, Westpac Economics

¹The Westpac Business Performance Gauge (BPG) is the ratio of operating revenues to operating expenses, excluding tax flows and debt-servicing. The Westpac Cashflow Gauge (CFG) is the ratio of operating revenues to operating expenses plus debt-servicing net of tax. Both gauges are seasonally adjusted and indexed to 100 at FY2024-25.

²All forecasts referred to in this publication are from Westpac Economics' [Market Outlook 2026](#), published 15th October 2026 and can be found in Appendix.

Cashflow insights: Business conditions under renewed pressure

Business conditions weakened in Q3 as another solid increase in expenses outpaced slower revenue growth. After holding up in the first half of the year, supported by larger businesses and the non-market sector, Westpac's Business Performance Gauge (the ratio of operating revenues to operating expenses) fell 1.3%qtr in Q3 and was 2.3% lower than a year ago. Spillovers from the Middle East conflict continue to push up input costs, while higher inflation, a slowing housing market and RBA interest rate hikes are weighing on domestic demand.

Mining and Financial & Insurance Services accounted for most of the fall in the quarter, in both cases driven by stronger growth in expenses. Mining spending tends to be lumpy from quarter to quarter. Still, looking across our selected industries, conditions also weakened compared to a year ago (see Industry page 4).

Total operating revenue growth eased to 0.5%qtr. Solid growth in externally based revenue, in large part due to higher global commodity prices and demand with in business-to-business (B2B) revenue offsetting softer growth across other items, including government-related activity and consumer-facing revenue.

Total operating expenses rose a much stronger 1.8%qtr and were 5.7% higher than a year ago. Fuel recorded the largest increase, up 10.4%qtr, following a 17.5% rise in Q2 as the ongoing conflict in the Middle East and disruptions to Russia's refineries continued to push up prices and the government's fuel excise tax cut was fully unwound by August.

Meanwhile, the total wage bill rose 2.2%qtr, with hours worked still growing at a solid pace despite somewhat softer employment growth. The 4.75% increase in Award/Minimum Wage rates from 1 July

is likely to have contributed, although we estimate it directly affects around 21% of the workforce. The move to Payday Super from 1 July may have temporarily lifted expenses in Q3 for some businesses that previously paid super quarterly in arrears.

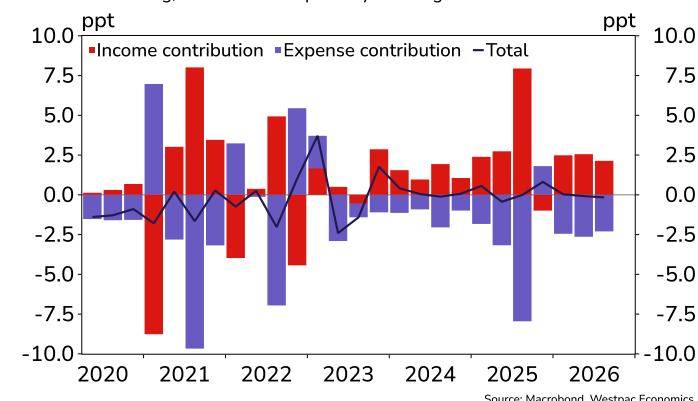
Beneath the headline, a rising share of businesses are finding operating conditions more challenging. These measures are based on the number of businesses, so are dominated by SMEs. Still, the share of constrained businesses rose to 25.8% in Q3, the highest since Q3 2023 and up from 19.9% a year ago, though well short of the 2022 peak of around 35%.³ Meanwhile, the share improving fell to 36.4%, from 57.6% a year ago, the lowest since early 2023 and well below its average of around 48%.

Westpac's Cashflow Gauge, which also captures debt servicing and net taxes, fell a sharper 1.7%qtr in Q3 and is 2.8% lower than a year ago. Debt-servicing costs rose 5.7% in the quarter as the RBA's recent tightening unwound much of the easing delivered through 2025, leaving them 12.7% higher than a year ago.

Trimmed Mean inflation was 3.7%yr in Q3, above the midpoint of the RBA's target band, and RBA communication remains hawkish. We expect the RBA to follow September's rate rise with a further 25bp increase in November, taking the cash rate to 4.85%, its highest since late 2008. Further increases are not our baseline, but with Q4 inflation likely to be strong, the risk of another rise, most likely in February, has increased. A further rise would add to debt-servicing costs, which are already elevated.

Westpac Business Performance Gauge

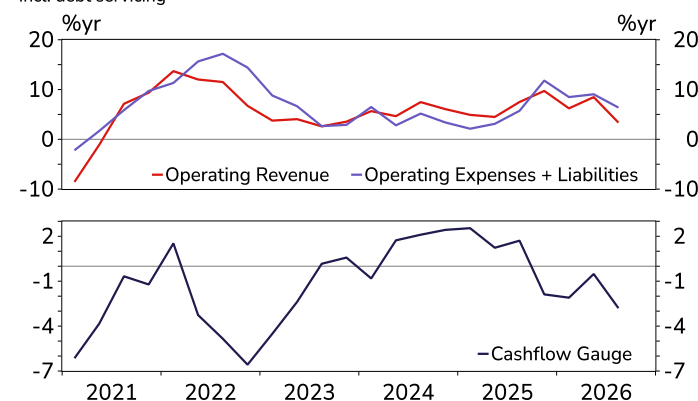
Excl. debt servicing, contribution to quarterly % change



Source: Macrobond, Westpac Economics

Westpac Cashflow Gauge

Incl. debt servicing



³ Share of customers, weighted by industry GVA and seasonally adjusted. Constrained: operating expenses exceed operating revenue. Improving: a rise in the ratio of operating revenue to operating expense

Industry insights: Conditions improve, but gains remain narrow

Westpac's Industry Performance Gauge rose 0.3% in Q3 but was 1.6% lower than a year ago.¹ Conditions improved in 8 of the 15 industries, up from 4 in Q2, although the lift in the gauge came largely from three services industries, two of them rebounding from falls in Q2, and partly reflected a step-up in revenue among a small number of large businesses. Outside of these, conditions were broadly flat in the quarter. Over the year, expenses across the 15 industries have risen 5.9%, ahead of revenue growth of 4.3%.

Services recorded the strongest gains in the quarter. Indeed, Business Service industries have been a key driver of economic growth in recent quarters, supported by demand for engineering design, and digital services alongside the build-out in data centres and higher defence spending. ICT rose 3% in Q3, although it has been volatile from quarter to quarter given the lumpy nature of data centre investment.

Consumer-facing industries rose 1.7%qtr, with improvement recorded across retail, hospitality and recreational services. However, the gain came from lower costs rather than stronger revenue, with businesses appearing to manage costs.

Operating conditions in the Construction industry fell 0.4%qtr and were 2.2% lower than a year ago. Revenue rose 3.2%qtr, supported by a strong pipeline of work including data centres, but expenses were 13.3% higher than a year ago, with trade-material suppliers announcing further above-average price increases through the quarter. Businesses have passed on some of these costs, as evident in the 5.2%yr increase in new dwelling costs in the Q3 CPI, but margins are being squeezed. Falling established home prices, down 3.7%qtr, along with lower turnover are weighing on operating conditions in Rental, Hiring and Real Estate.

Among the industries most exposed to higher fuel costs from the Middle East conflict, Agriculture was the stand out. Operating conditions rose 2.0%qtr,

reflecting stronger prices, with the Westpac Agriculture Commodity Price Index up 3.9%qtr, and lower expenses as urea fertiliser prices and diesel prices fell in the quarter. However, the relief won't last given the increase in diesel prices since.

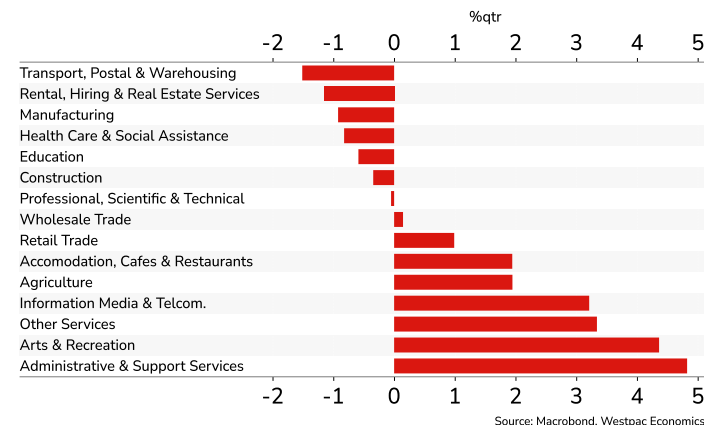
Transport fell 1.5%qtr on the back of a fall in revenues. This likely reflects, in part, a pull-back after a lift in Q2 from the recovery in mining and a surge in fuel imports as the Federal Government moved to secure domestic supply. Trade data to August show imports of intermediate goods, which include fuel, lower after the Q2 surge. Fuel cost recovery arrangements continued to protect margins.

Manufacturing fell 0.9%qtr, easing from a 4.5% fall in Q2, and was 3.8% lower than a year ago. Revenue was down 7.6% over the year as softer consumer demand, parts of the construction sector and cautious business investment weighed on orders. Indeed, the [Q3 ACCI-Westpac Survey of Industrial Trends](#) showed new orders falling, with a net 48% of manufacturers reporting higher unit costs against 24% reporting higher selling prices.

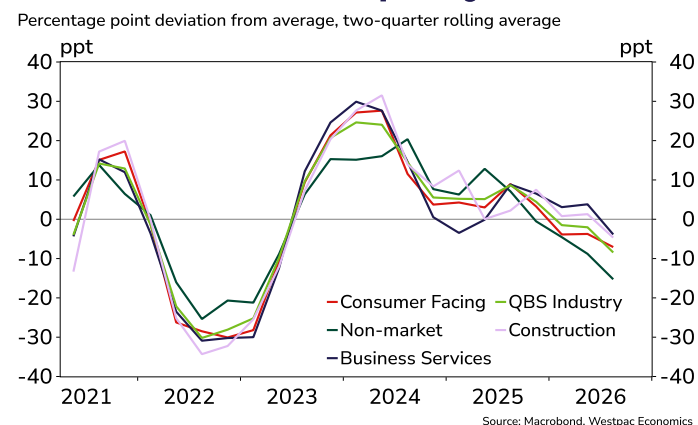
After a solid H1, non-market industries fell 1.1%qtr, with Health Care the largest drag as costs rose faster than revenue. With much of the sector's pricing set through government funding, providers have limited scope to pass on higher costs, and Federal Budget projections show NDIS spending growth slowing from around 11% to around 2% a year over the next 4 years.

Across the industry groups, fewer businesses showed improving operating conditions. Business Services still had the highest share improving, at 40.2%. However, the share constrained rose to 27.1%, the highest since mid-2023. Consumer-facing industries were close behind, with 39.5% improving, down from 45.7% in Q2. In non-market industries, the share improving fell to 31.8%, the lowest since early 2023, and in Construction to 32.2% from 47.9% in Q2.

Westpac Industry Performance Gauge



Share of businesses with improving cashflow



SME insights: Rising costs deepen the squeeze on SMEs

SME operating and cashflow conditions weakened further in Q3, falling 1.9%qtr and 2.0%qtr respectively. The SME Business Performance Gauge has now declined for three consecutive quarters and is 4.1% lower than a year ago. The Cashflow Gauge, which includes debt servicing costs, was down 4.3% on the year, marking the largest annual decline since Q1 2023, with RBA rate hikes adding to debt servicing costs.

Operating expenses continue to run well ahead of revenue. Operating revenue rose 2.3%qtr, while expenses increased by a much stronger 4.3%qtr, which is placing further pressure on margins. Over the year, expenses are up 8.5%

Across expenses, SMEs recorded the largest increase in fuel expenses, rising 19.8%qtr, following a 4.0% increase in Q2. Meanwhile, the SME wage bill rose 4.9%qtr, stronger than that recorded across commercial and large corporates. The 4.75% increase in Award/Minimum Wage rates of pay from 1 July will have added to costs in labour-intensive industries such as Accommodation & Food Services and Retail. The move to Payday Super from 1 July may also have temporarily lifted costs in the quarter, with smaller employers that previously paid superannuation quarterly making both June-quarter and September-quarter contributions within Q3.

Across industries, the SME Industry Gauge fell 1.5%qtr, with 12 of the 15 industries declining, up from 6 in Q2, and cost pressures evident across most. Manufacturing fell 0.9%qtr and Wholesale Trade 2.8%, reflecting their exposure to higher energy and freight costs.

Transport held up better despite its high exposure to fuel prices. Conditions were broadly unchanged in Q3, with fuel-cost recovery arrangements giving operators greater scope to pass on higher diesel costs through freight charges.

Construction fell 1.5%qtr as input costs continued

to rise, despite a strong pipeline of work, with trade-material suppliers announcing above-average price increases through Q3 and anecdotes of fuel levies being reimposed. At the same time, the weaker housing market is limiting builders' ability to fully pass on these higher costs through prices. Rental, Hiring and Real Estate revenue fell 5.0%qtr against a backdrop of falling dwelling prices and lower turnover.

Health Care fell 3.3%qtr, with expenses up 5.1% against revenue growth of 1.7%. The tightening in NDIS settings is likely to add to the pressure, with the impact expected to fall more heavily on smaller disability services providers.

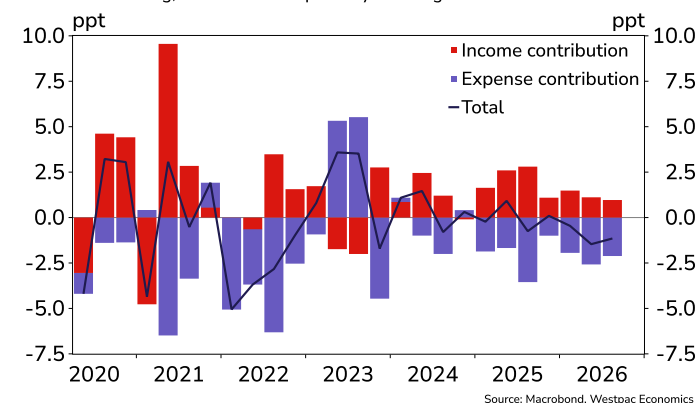
Agriculture was the main area of strength, rising 3.7%qtr. Revenue was supported by firmer commodity prices and continued strength in livestock demand, while lower urea and diesel prices provided some relief on costs. Consumer-facing industries were more mixed. Retail was broadly unchanged, while Accommodation and Food Services fell 2.8% as higher expenses weighed.

SME conditions remain weaker than those of Commercial and Large Corporate businesses, with smaller firms having less scope to manage or pass on costs, squeezing margins. While conditions have improved from the lows of the 2022 downturn, the recovery has been slower and more uneven than for larger businesses.

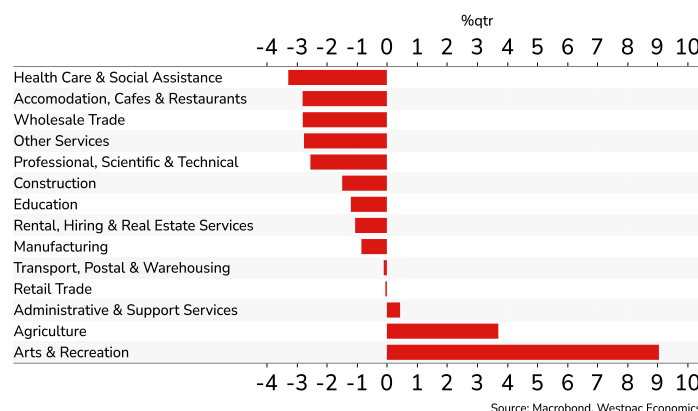
The share of constrained SMEs was 27.4% in Q3, above its average since 2020 of around 25%. Meanwhile, the share improving fell to 38.5%, to be its lowest since early 2023. Recent quarters point to smaller firms finding it harder to absorb rising input costs and higher interest rates.

SME Business Performance Gauge

Excl. debt servicing, contribution to quarterly % change



SME Industry Performance Gauge



SME businesses are those with annual aggregated turnover of less than \$5m.

Commercial insights: Commercial conditions weaken more broadly

Commercial operating and cashflow conditions deteriorated again in Q3, after a smaller fall in Q2. The respective gauges fell 0.9%qtr and 0.7%qtr, to be 2.6% and 2.3% lower than a year ago. Mining was the largest drag on operating conditions, reflecting lower revenue in the quarter after a solid rise in the previous quarter.

Looking across the Commercial Industry Gauge, which excludes Mining, conditions were also weaker, falling 0.8%qtr to be 1.1% lower than a year ago. Revenue continued to grow, rising 0.7% in Q3, but expenses recorded a sharper rise, up 1.5% in the quarter, pointing to further pressure on margins. Other business surveys also showed purchase costs continuing to rise ahead of final prices, consistent with firms absorbing a larger share of higher input costs.

The Commercial wage bill increased 2.1%qtr, while wholesale and materials costs rose 3.1%qtr. Fuel expenses, which reflect both volumes and prices, were broadly unchanged in Q3 but remained 26.5% higher than a year ago.

Conditions declined in 11 of the 15 industries, up slightly from 10 in the previous quarter. Rental, Hiring & Real Estate Services recorded the largest fall, down 5.5%qtr, reversing the gains recorded earlier in the year. Higher interest rates and the Federal Government's housing tax changes have weighed on house prices and turnover.

Operating conditions in the Construction industry also weakened as input cost pressures continued to build. Operating expenses rose 3%qtr and were 17.6% higher than a year ago. Trade-material suppliers continued to announce above-average price increases through the quarter as higher energy and transport costs added to the cost of energy-intensive materials. Meanwhile, businesses appear to be only partly passing on these higher input and labour costs, placing further pressure on margins.

Transport fell 3.8%qtr, primarily driven by weaker revenue following a solid performance in Q2. Revenue nevertheless remained higher than a year ago, pointing to a loss of momentum rather than a sustained decline.

Consumer-facing industries held up relatively well despite higher inflation and interest rates and the sharp deterioration in consumer sentiment. Indeed, the Westpac-DataX Card Tracker showed household spending rising 1.7%qtr in Q3, around 0.7% in real terms, although momentum faded through the quarter. Across the consumer facing sectors, Retail Trade rose 0.8%qtr, while Accommodation and Food Services was broadly unchanged.

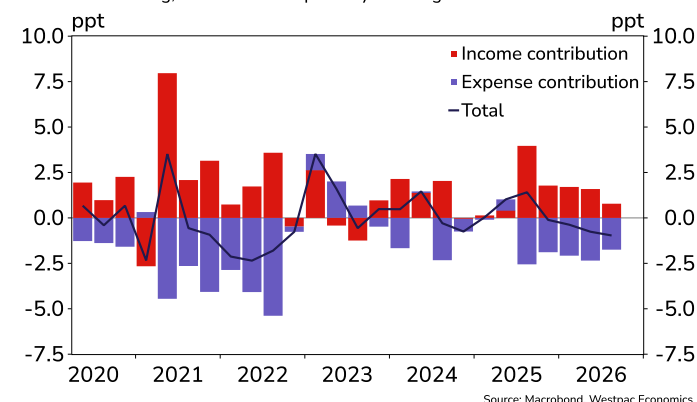
Non-market industries gave back some ground in Q3, with Education and Health Care among the larger drags on the Commercial Industry Gauge. Further out, the broader tightening in NDIS settings outlined in the May Federal Budget is expected to weigh on parts of the care sector, although the impact is likely to be felt more among smaller disability-services providers.

Agriculture was the clear outperformer, rising 8.7%qtr. Revenue rose 8.5%qtr, supported by firmer agricultural commodity prices, including elevated beef and wheat prices, and continued strength in external demand. Meanwhile, expenses eased from elevated Q2 levels alongside some moderation in input pressures, including lower urea prices. However, cost pressures remain high, with Agriculture expenses 11.5% higher than a year ago and diesel prices rising again.

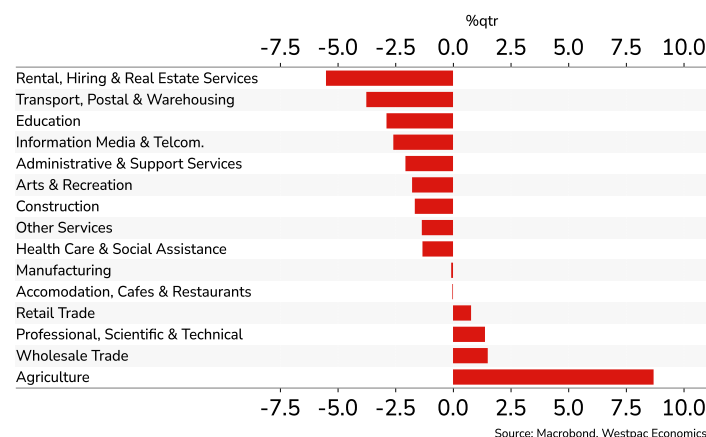
The share of constrained Commercial businesses rose to 17.3% in Q3, from 12.0% in Q2, the highest since late 2024. The bigger shift was in the share improving, which fell to 23.4% from 56.8% in Q2, the lowest since late 2022 and well below its average of around 49%.

Commercial Business Performance Gauge

Excl. debt servicing, contribution to quarterly % change



Commercial Industry Performance Gauge



Commercial businesses are those with annual aggregated turnover between \$5m and \$150m.

Large Corporates insights: Conditions soften, pressures remain contained

Large Corporate operating and cashflow conditions deteriorated in Q3 following two consecutive quarters of growth. The gauges fell 1.8%qtr and 2.2%qtr respectively, to be 1.3% and 2.1% lower than a year ago. Financial and Insurance Services was the largest drag. This was followed by Mining, although the latter came after a 15% rise in the previous quarter, after activity recovered from earlier weather disruptions.

Looking through these two volatile industries, the Large Corporate Industry Gauge fell 0.2%qtr and is 0.1% lower than a year ago. The pace of decline eased considerably from the 2.1% fall in Q2, with conditions declining in 7 of the 15 industries, compared with 11 in Q2, pointing to a less broad-based deterioration.

Expenses continued to outpace revenue, rising 1.8%qtr against a 1.6% increase in revenue, so margins remain under pressure, although less so than for Commercial and SMEs. The wage bill fell 0.2%qtr and remains a notable offset over the year, while fuel spending jumped 14.3%qtr. Wholesale and materials costs, alongside utilities, were the largest sources of expense growth.

Construction was a key source of weakness, with operating conditions falling 5.8%qtr, the second consecutive decline, leaving the gauge just 0.6%yr higher. Elevated input costs remained a significant headwind, driving operating expenses 10.9% higher in the quarter, while revenue rose a more moderate 4.4%qtr amid softer housing demand. Nevertheless, the build-out of renewable energy and data centres is likely providing some support to activity.

Transport also weakened, with conditions falling 3.3%qtr, although they remained 1.4%yr higher. Operating expenses rose 1.3%qtr, the strongest increase since late 2025, while revenue declined 2.1%. Total nominal imports fell 0.3% in the three months to August, with lower imports of intermediate goods, which include fuel, likely weighing on freight demand, while imports of consumer goods continued to grow.

Freight costs also rose through the quarter amid further intensification in the Middle East conflict.

Strength was concentrated in Agriculture, Administrative & Support Services and Other Services, with the latter two rebounding from earlier weakness. Revenue growth outpaced expenses in Administrative & Support Services and Other Services, while in Agriculture, expenses declined by more than revenue, supporting overall conditions.

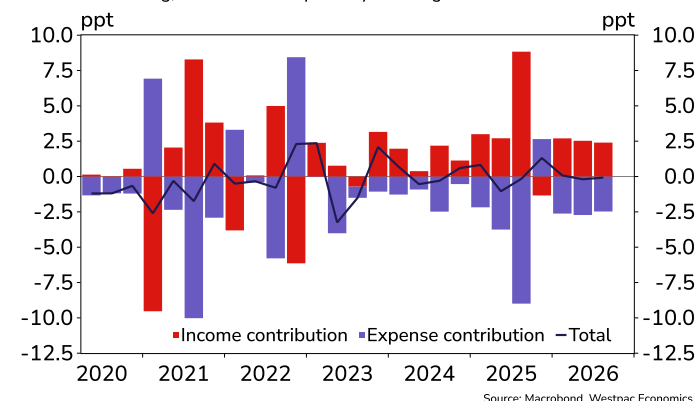
Consumer-facing industries were also a bright spot, with the operating gauge rebounding 2.8%qtr to be 1.9%yr higher. Expenses fell 3.6%qtr, outpacing a 1.0% decline in revenue. Accommodation & Food Services led the improvement, rising 4.8%qtr and 10.9%yr, followed by Arts & Recreation and Retail Trade, although the latter two remained 3.3%yr and 2.6%yr lower respectively.

Business Services provided some support, with conditions rising 1.3%qtr, although they remained 2.8%yr lower. The improvement reflected a larger decline in operating expenses (-1.8%qtr) than revenue (-0.5%qtr).

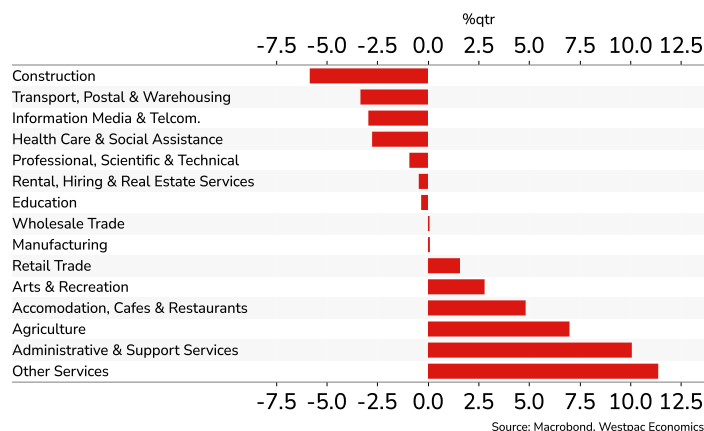
Non-market industries weakened, with the gauge falling 1.8%qtr but remaining 1.5%yr higher. Both expenses (+7.8%qtr) and revenue (+5.8%qtr) recorded their strongest quarterly increases in a year. Health Care drove much of the weakness, with conditions falling 2.8%qtr as a 16.2% rise in expenses exceeded the 13.0% increase in revenue. Conditions also softened in Public Administration and Education industries.

Large Corporates Business Performance Gauge

Excl. debt servicing, contribution to quarterly % change



Large Corporates Industry Performance Gauge



Large Corporates are those with annual aggregated turnover over \$150m

State by State: Business conditions weaken across most states

State-based Business Performance Gauges (BPG) deteriorated across most states in Q3, with the sharpest falls seen in SA and TAS.

VIC was the outlier, with the BPG rising 1.5% in the quarter. However, this followed a sharp 7.0% fall in Q2, leaving the gauge only 1.7%yr higher. Business Services led the improvement, followed by non-market industries, while consumer-facing industries remained the weakest nationally. The state continues to benefit from the upswing in business investment, particularly data centres. However, these gains are yet to generate broader economic momentum. Alongside comparatively weak labour and housing market conditions, this suggests consumer-facing industries are likely to remain an area of underperformance.

Commodity states, QLD and WA, both saw a fall with their BPGs declining 0.4%qtr (+2.4%yr) and 1.2%qtr (-9.3%yr) respectively. In QLD, consumer-facing and non-market industries were led by Public Administration & Safety, Accommodation & Food Services and Arts & Recreation, while Wholesale Trade and Transport were notable drags. That said, the medium-term outlook is supported by substantial infrastructure and dwelling investment in the pipeline, although capacity constraints and elevated construction costs remain key risks.

In WA, Wholesale Trade and Agriculture were the strongest-performing industries, with the latter supported by lower diesel costs in Q3 and higher agriculture prices. Meanwhile, there was a broadbased improvement in consumer-facing industries, partly reflecting still solid population growth.

NSW's gauge fell 2.2%qtr and 5.4%yr to its weakest level since mid-2022. The decline was driven by business services, entirely due to ICT, which has been particularly volatile since mid-2025. Manufacturing and Construction were also weak amid elevated input costs. Consumer-facing industries provided a modest offset,

supported by robust employment growth and a near nation-low unemployment rate.

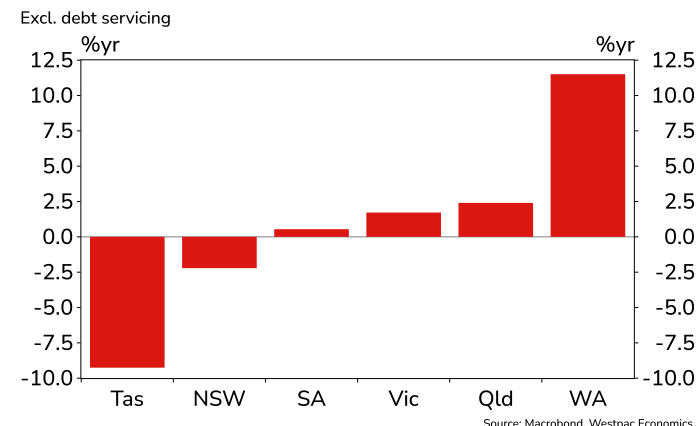
SA's gauge fell 3.8%qtr, leaving it just 0.5%yr higher, with weakness concentrated in non-market industries and business services. Some moderation in new public investment growth is expected, although the large stock of existing projects should continue to support activity. Consumer-facing industries provided a modest offset, while IMT, Wholesale Trade, Transport, Postal & Warehousing were key areas of weakness.

TAS recorded the weakest quarterly performance, with the gauge falling 3.6% after four consecutive quarterly gains. Even so, it remains 11.5%yr higher, the strongest nationally. Weakness was concentrated in Rental, Hiring & Real Estate Services and Mining, partly offset by non-market industries, particularly Education, and modest support from business services.

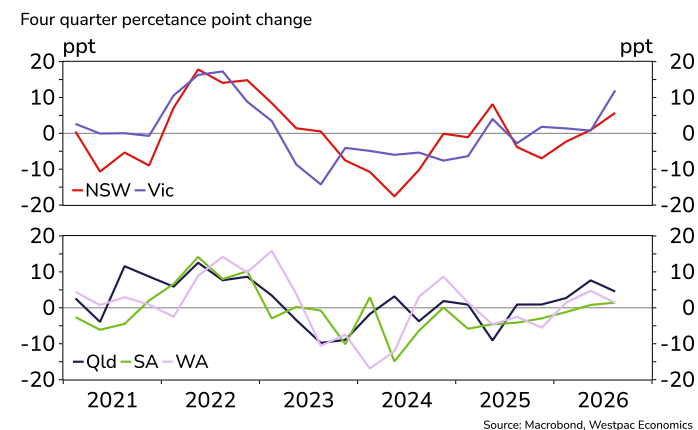
A greater share of businesses reported constrained operating conditions across all states compared with a year ago, except TAS (-2ppts). The deterioration was most pronounced in VIC (+12ppts), followed by NSW and QLD (+5-6ppts), while SA and WA recorded smaller increases (+1-2ppts). Similarly, all states recorded a lower share of businesses reporting improving conditions.

Overall, operating conditions were broadly softer across most states in Q3, despite pockets of strength from investment and surprising resilience in consumer-facing industries. VIC continues to benefit from data centre investment, while population growth and sizeable investment pipelines remain supportive in QLD and WA. Still, the resilience in consumer-facing activity is likely to be tested over the coming quarters as higher interest rates and still-elevated inflation increasingly weigh on household income and spending. Together with deteriorating cashflow conditions across most states, this points to a more challenging backdrop for businesses.

Business Performance Gauge by State



Share of cashflow constrained businesses



Outlook and risks: Cost pressures to persist as growth slows

Cost pressures to remain elevated...

The Australian economy is projected to record below trend growth over the coming year, slowing to around 1.5%yr by the end of 2026, before recovering only gradually through 2027. Against this backdrop, business conditions are likely to remain uneven with weakness concentrated in household demand and housing. These forces will continue to weigh on consumer-facing and property-related industries. In contrast, the ramp up in investment in data centres, IT software, renewables and defence, which are less interest rate sensitive, will support industries such as business services and construction.

The Middle East conflict remains the key influence on business costs. Global inventories are low and shipping and insurance costs remain elevated. We expect Brent to average US\$101/bbl in Q4, before easing to around US\$77/bbl by Q4 2027 as supply recovers. Diesel is expected to average around 274c/L in Q4, 15% above Q3, and petrol 230c/L, up 16%. Prices should then ease through 2027. Fuel cost recovery surcharges are likely to stay in place through 2027, continuing to protect Transport margins, although this will mean higher expenses for industries such as Wholesale, with spillovers through the supply chain.

Agriculture will face elevated fuel and fertiliser costs for several more quarters, and with [rural commodity prices forecast](#) to ease by around 10% over 2027, margins are expected to be squeezed. That said, still solid external demand and better than expected weather have boosted prospects for production. Construction is also expected to see high costs for energy-intensive materials.

Against this backdrop, we expect Trimmed Mean inflation to hold around 3½%yr over the rest of the year, before easing towards 3% by the end of 2027. This should see the RBA follow September's increase

with a further 25bp in November, taking the cash rate to 4.85%, while the [risk of another rise](#), most likely in February, has increased.

Higher inflation and mortgage repayments will further squeeze household incomes, and we expect consumption growth to slow sharply in Q4. Higher interest rates and the Federal Government's housing tax changes are also weighing on housing turnover and prices. We expect national dwelling prices to fall around 8% in 2026 and just over 10% peak to trough, with Sydney and Melbourne recording sharper downturns. This will continue to dampen real estate and related activity, as well as State Government stamp duties, through much of next year.

Residential construction should be supported in the near term by a large pipeline of work and housing programs, although the ongoing fall in prices and higher costs could see building pull back later as profitability declines. Non-residential construction will

continue to benefit from the ramp-up in data centres and renewables, with other work also stepping up. However, capacity constraints and tight labour supply may limit how fast activity can lift.

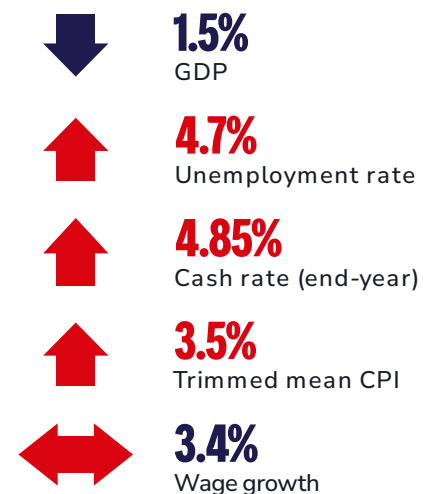
Conditions should begin to improve from the second half of 2027 as fuel prices ease and the RBA begins to lower rates, with a more visible lift in demand in 2028. Fuel-intensive industries such as Transport, Agriculture and Manufacturing, and housing-related activity, are likely to benefit most, with a more visible uplift in consumer-facing and property-related industries expected to follow.

Middle East conflict remains the key risk

In an adverse scenario, in which conflict between the US and Iran intensifies, Brent could rise to around US\$150/bbl in H1 2027 and stay above US\$100/bbl until mid-2028, with diesel and petrol still around 247c/L and 231c/L at the end of 2027, against 200c/L and 187c/L in our baseline. Headline inflation would remain above 4.5% for much of 2027, adding to the risk of further rate rises. However, the RBA would face a difficult trade-off between inflation and weaker household spending and investment. Agriculture, Manufacturing and other energy-intensive industries would be hit hardest.

Domestically, three risks could see growth weaker than we expect. Falling house prices could weigh on household wealth by more than we assume, weakening spending by older households, which has held up relatively better. Residential construction is supported by a large pipeline of work, but with builders already facing costs rising faster than revenue, weaker demand could see a sharper pull back in activity. A delay to data centres and energy projects, including power supply not being ready in time, would remove a key support for construction and business services.

Key 2026 (yr end) economic fcs



APPENDIX

Appendix 1: Major indicators by industry, annual % change

	Income				Expenses				Income to Expense Ratio			
	Current quarter	2025	2024	2023	Current quarter	2025	2024	2023	Current quarter	2025	2024	2023
By Industry												
Accommodation, Cafes & Restaurants	0.4	-0.3	3.8	-3.3	-1.5	-1.1	6.3	3.8	1.9	0.8	-2.3	-6.8
Agriculture	-0.2	12.2	-1.3	-0.3	-2.1	4.5	0.1	-0.6	1.9	7.4	-1.5	0.3
Business Services	-0.8	2.9	4.8	-1.3	-2.4	2.9	6.4	-1.1	1.7	0.0	-1.5	-0.3
Recreation Services	16.0	0.8	11.2	10.2	11.2	-3.0	15.8	0.5	4.4	3.9	-4.0	9.6
Education	1.6	9.8	-0.4	14.1	2.2	8.8	1.5	12.5	-0.6	1.0	-1.8	1.4
Healthcare	7.0	19.4	6.9	1.9	7.9	20.1	5.5	2.4	-0.8	-0.6	1.3	-0.4
Manufacturing	-2.3	0.5	2.5	4.6	-1.4	0.4	1.5	4.7	-0.9	0.1	0.9	-0.1
Personal Services	9.6	12.6	-1.4	14.0	6.1	8.9	0.0	13.3	3.3	3.4	-1.4	0.6
Retail Trade	-3.4	-0.1	5.6	9.4	-4.3	0.9	7.0	8.6	1.0	-1.0	-1.3	0.8
Transport & Storage	-1.7	9.7	23.4	2.1	-0.2	9.1	23.7	9.2	-1.5	0.5	-0.2	-6.4
Wholesale Trade	-6.9	3.5	2.1	2.5	-7.1	3.6	2.0	0.5	0.1	-0.1	0.1	2.0
Construction	3.3	11.4	6.5	6.2	3.6	7.4	2.6	6.1	-0.4	3.7	3.9	0.1
Property & Property Services	-3.8	-8.2	8.7	-1.1	-2.7	-9.9	5.5	0.7	-1.2	1.9	3.0	-1.8
By State												
NSW	-2.1	10.6	5.7	2.9	0.0	8.5	5.8	1.9	-2.0	1.9	-0.1	1.0
VIC	-0.3	5.8	3.1	-3.2	-1.5	5.2	2.7	-3.3	1.2	0.5	0.4	0.1
QLD	2.3	5.5	6.4	4.9	3.6	6.1	5.1	3.9	-1.3	-0.5	1.2	0.9
SA	-5.7	3.9	8.8	7.3	0.9	3.5	9.7	5.8	-6.5	0.4	-0.8	1.4
WA	-1.9	8.4	4.2	0.6	-3.0	10.5	2.6	1.1	1.2	-1.9	1.6	-0.5
TAS	10.7	3.4	1.9	12.4	11.3	3.5	1.6	14.1	-0.5	-0.1	0.3	-1.5

APPENDIX

Appendix 2: Australian economic forecasts

Activity forecasts*

	2026				2027				Calendar years			
%qtr / %yr end	Q1	Q2(f)	Q3(f)	Q4(f)	Q1(f)	Q2(f)	Q3(f)	Q4(f)	2025	2026(f)	2027(f)	2028(f)
Household consumption	0.4	0.4	0.8	0.2	0.3	0.5	0.5	0.6	2.5	1.8	1.8	2.7
Dwelling investment	1.5	1.6	1.2	0.2	-0.1	0.5	0.6	0.7	5.2	4.5	1.8	5.1
Business investment *	6.2	-0.5	5.9	2.1	4.1	1.4	1.6	1.3	4.5	14.3	8.7	4.9
Private demand *	1.4	0.3	1.4	0.6	1.0	0.6	0.7	0.7	3.2	3.7	3.1	3.3
Public demand *	-0.5	0.2	0.7	0.7	0.6	0.6	0.6	0.6	2.4	1.1	2.5	2.6
Domestic demand	0.9	0.3	1.2	0.6	0.9	0.6	0.7	0.7	3.0	3.0	2.9	3.1
Stock contribution	-0.1	-0.1	-0.0	-0.1	0.0	0.0	-0.1	0.0	0.1	-0.2	-0.1	0.1
GNE	0.8	0.2	1.2	0.5	0.9	0.6	0.6	0.7	3.1	2.7	2.8	3.2
Exports	-1.1	0.8	0.5	0.8	0.4	0.7	0.7	0.6	5.2	1.1	2.4	2.4
Imports	2.0	0.5	3.2	2.0	2.5	1.8	1.3	1.5	6.8	7.8	7.3	5.5
Net exports contribution	-0.7	0.1	-0.7	-0.3	-0.5	-0.3	-0.2	-0.2	-0.3	-1.6	-1.2	-0.8
Real GDP %qtr / %yr avg	0.3	0.4	0.5	0.2	0.4	0.3	0.4	0.5	2.0	2.1	1.5	2.1
%yr end	2.5	2.1	2.2	1.5	1.6	1.5	1.4	1.6	2.6	1.5	1.6	2.4
Nominal GDP %qtr / %yr avg	0.6	0.8	2.1	1.0	0.4	0.6	0.8	0.8	4.8	5.2	3.5	4.1
%yr end	5.4	5.3	5.5	4.5	4.4	4.2	2.8	2.6	6.2	4.5	2.6	4.9
Real household disp. income	-0.3	0.6	1.5	-1.3	0.5	1.0	1.2	0.0	4.0	0.5	2.8	3.5

Other macroeconomic variables

	2026				2027				Calendar years			
% change	Q1	Q2(f)	Q3(f)	Q4(f)	Q1(f)	Q2(f)	Q3(f)	Q4(f)	2025	2026(f)	2027(f)	2028(f)
Employment %qtr **	0.5	0.2	0.6	0.3	0.4	0.4	0.4	0.4	-	-	-	-
%yr end **	1.5	1.1	1.5	1.7	1.5	1.7	1.6	1.7	1.1	1.7	1.7	2.2
Unemployment rate % **	4.2	4.4	4.6	4.7	4.7	4.8	4.8	4.7	4.3	4.7	4.7	4.5
Wages (WPI) (sa) %qtr	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8	-	-	-	-
%yr end	3.2	3.2	3.4	3.4	3.4	3.4	3.2	3.2	3.4	3.4	3.2	3.4
Headline CPI %qtr	1.4	0.6	1.3	1.3	0.4	0.5	1.0	0.5	-	-	-	-
%yr end	4.1	3.9	3.9	4.6	3.6	3.4	3.2	2.4	3.6	4.6	2.4	2.3
Trimmed Mean CPI %qtr	0.8	0.8	0.9	0.9	0.7	0.7	0.7	0.7	-	-	-	-
%yr end	3.5	3.6	3.5	3.5	3.3	3.3	3.1	2.9	3.3	3.5	2.9	2.4
Current account \$bn, qtr	-25.4	-27.2	-29.1	-33.8	-39.5	-42.0	-43.6	-43.7	-	-	-	-
% of GDP	-3.5	-3.7	-3.8	-4.4	-5.1	-5.4	-5.6	-5.6	-3.1	-4.4	-5.6	-5.2
Terms of trade %yr avg	-1.2	-0.6	-0.4	-0.3	-1.4	-1.9	-3.1	-3.7	-2.5	-0.3	-3.7	-1.2
Population %yr end	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.5	1.4	1.3	1.2

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Calendar year changes are annual through-the-year percentage changes unless otherwise specified.

* Business investment, private and public demand are adjusted to exclude the effect of private sector purchases of public sector assets. ** Quarter-averages.



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The quarterly business snapshot uses aggregated and de-identified data from our SME and Commercial business bank customers. Westpac Institutional Bank customers are not included in the scope of this report. This data provides a timely read on aggregate business conditions and the economic trends impacting small and medium businesses (including SME and Commercial businesses), providing our clients with insights to help them grow and prosper.

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SME businesses are those with annual turnover of less than \$5m. Commercial businesses are those with annual turnover between \$5m and \$50m.

Individual series are seasonally adjusted. All data is presented using rolling three month moving averages to smooth volatility related to the flows of income, expenses, debt-servicing costs and financial stocks. Given the limited length of the time series available and volatile economic landscape over the past few years, seasonal factors are subject to change – however, different robustness methods are used to help ensure that any changes going forward are small.

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