

A man and a woman are in a workshop or factory setting, looking at a tablet together. The man is wearing a blue denim shirt, and the woman is wearing a grey sweater. They are standing in front of some industrial equipment. The background is slightly blurred, showing shelves with various items.

Australian National Accounts

An economy in need of a kickstart

March 2025 | 4 June 2025

EY

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From the Chief Economist

There was nothing to be happy about in the national accounts numbers today. The economy has little energy and entered the second quarter sub-optimally as new threats from geopolitical fractiousness and higher tariffs brought new headwinds.

A 0.2 per cent growth rate in March quarter GDP, and a 0.2 per cent fall in GDP per capita showed that the economy is effectively flatlining. Over the previous four quarters, the Australian economy managed to eke out just 1.3 per cent GDP growth. Some of the weakness can be blamed on temporary weather events interrupting export growth and hurting tourism and localised spending, but more worrying is the malaise that has set in across the business sector and amongst households. Productivity growth was flat in the quarter and down over the year, with no evidence that Australia is making any progress in shifting the problem which worsened in the immediate aftermath of the pandemic.

It is a warning sign that changed policy conditions are needed to boost the economy's capacity and ability to cope with new challenges.

Household consumption rose only 1.0 per cent in the quarter in nominal terms even though there was a well-flagged interest rate cut in February and higher income support from government, helping gross disposable income rise 2.4 per cent. Households chose to save a bit more of their extra income, taking the household saving rate up to a nearly 3 year high of 5.2 per cent. Australia's social benefits increased by a very strong 6.0 per cent in the March quarter and 10.8 per cent through the year, demonstrating how much of a role government support has played in propping up households recently.

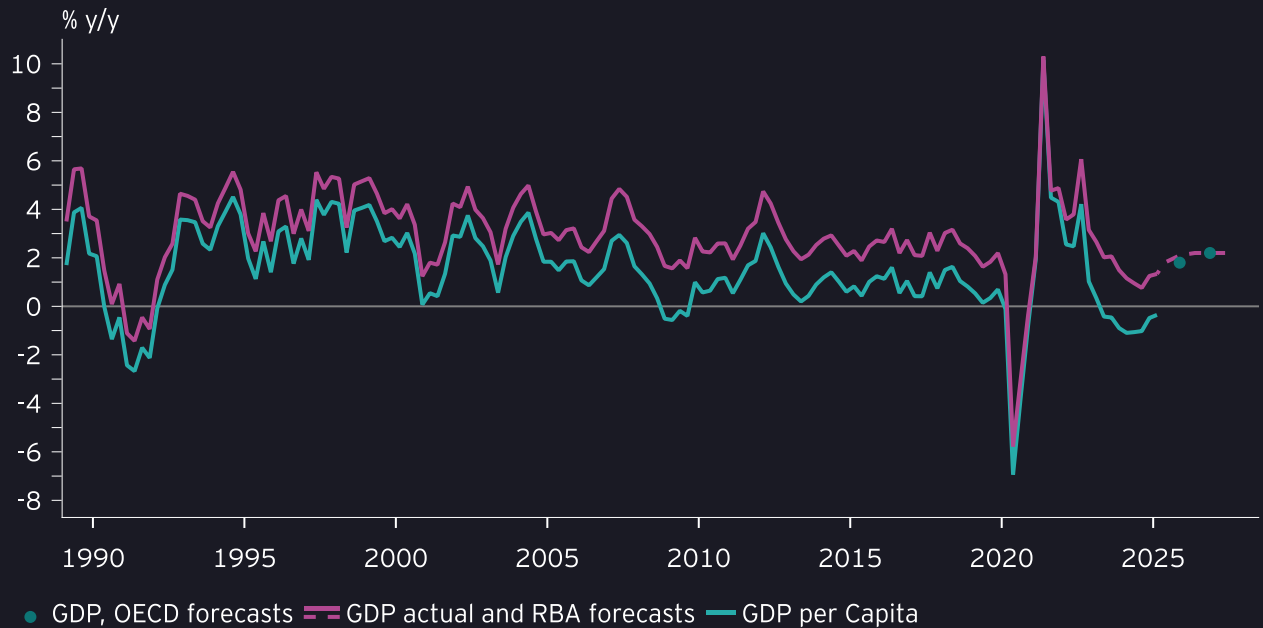
The economy needs much more monetary easing, especially now the threat of inflation is easing and the Trump Administration's initial policy impact on the global economy has not even fully shown up in the economic data. Had the Reserve Bank been able to observe the softness of the economy and the fall in inflation in the March quarter, it is likely the interest rate cutting cycle would have started sooner.

Beyond highlighting a need for monetary assistance, the national accounts also show longer term structural issues in the economy. Weak business investment which has been stuck between 11 and 15 per cent of GDP over the last decade suggests tax and regulatory settings are holding back innovation and also probably foreigners' interest in investing in Australia. The Productivity Commission's current work on how to boost productivity growth through "creating a dynamic and resilient economy" (as well as through other pillars) needs to be adopted with enthusiasm by the Albanese Government.

Cherelle Murphy | EY Regional Chief Economist, Oceania

1. GDP growth was soft in the March quarter, and remains in a per capita recession

GDP and GDP per capita
including RBA forecasts



Source: ABS, RBA (May-25 SMP), OECD (June-25 EO), Macrobond, EY

2. The composite PMI, a forward indicator of the economy, suggests only a modest pick-up in GDP growth ahead

GDP growth and composite PMI

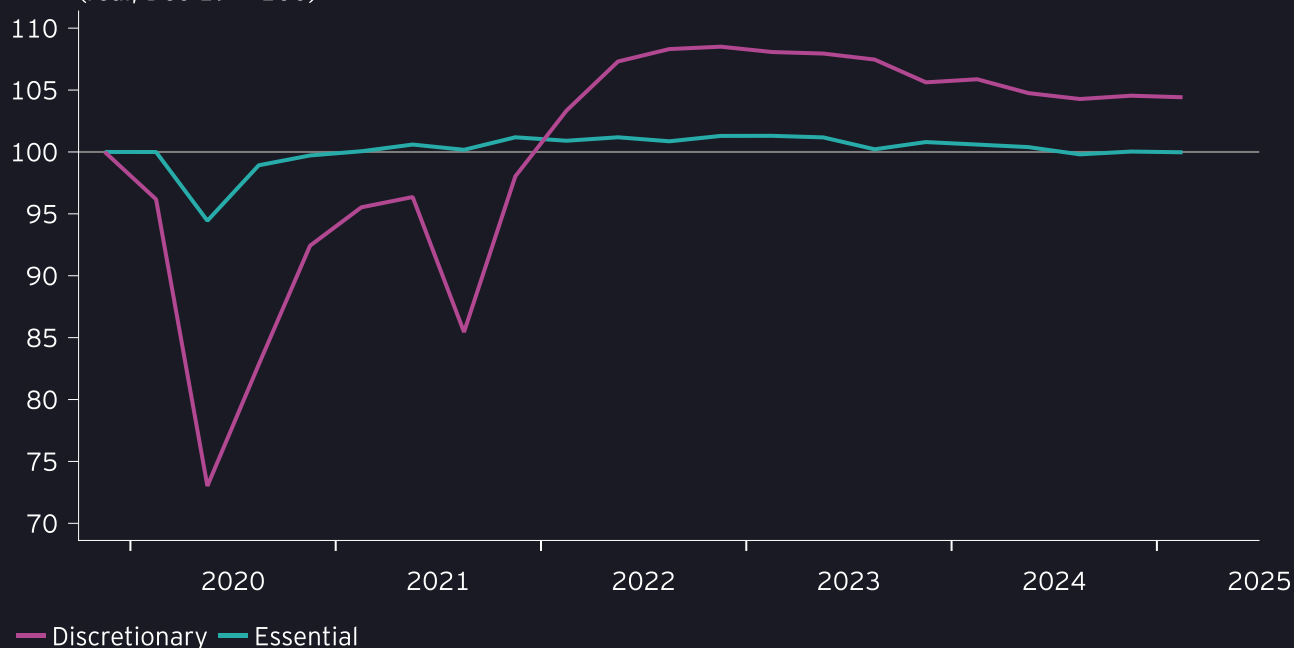


Source: S&P Global, ABS, Ai Group, Macrobond, EY

*S&P Global PMI from April 2022 onwards, with prior period backcast using Ai Group PMI

3. Household spending on essentials has been flat for nearly five years on a per capita basis

Household spending per capita
(real, Dec-19 = 100)



Source: ABS, Macrobond, EY

4. Reserve Bank rate cuts have eased interest costs marginally and personal income taxes remain elevated despite tax cuts

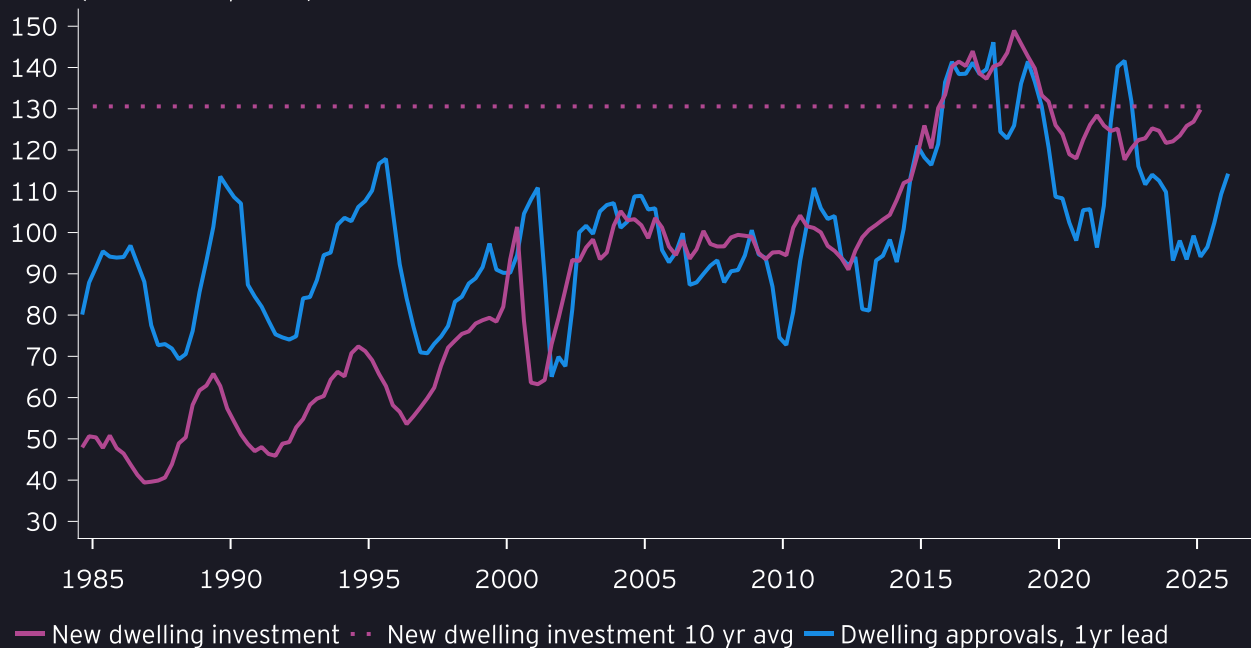
Interest on dwellings and income tax payable less social assistance benefits
% of disposable income



Source: ABS, Macrobond, EY

5. Dwelling investment picked up a little in the March quarter with approvals pointing to further improvement ahead

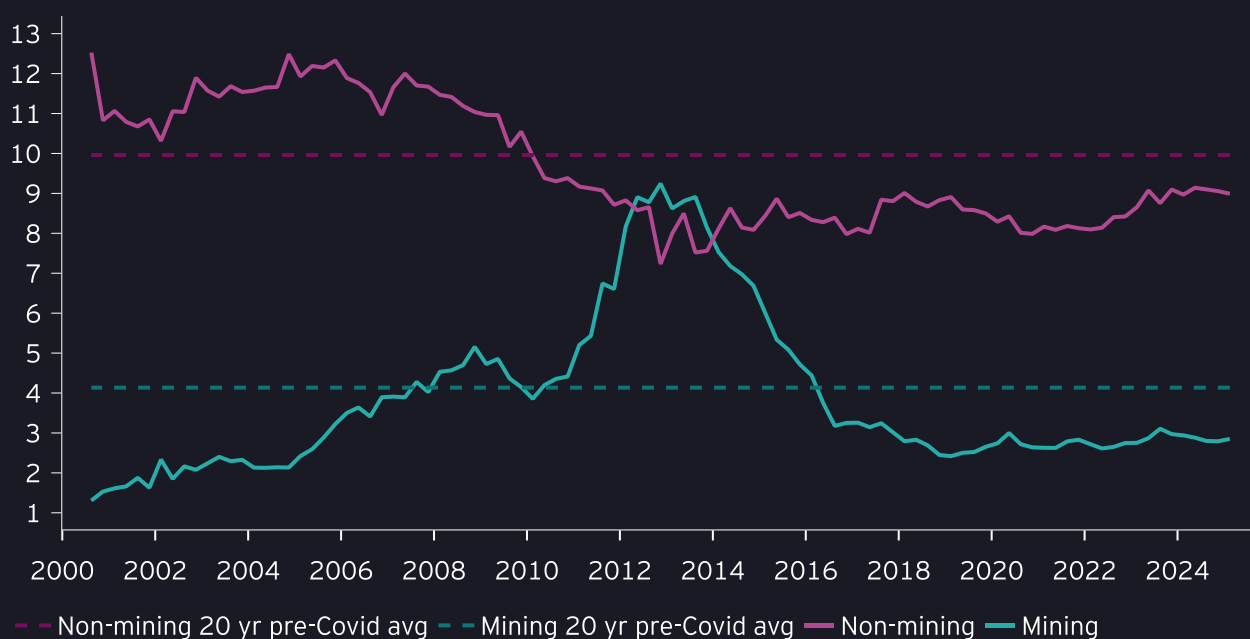
New dwelling investment and approvals
(Index = 100, 2005)



Source: ABS, Macrobond, EY

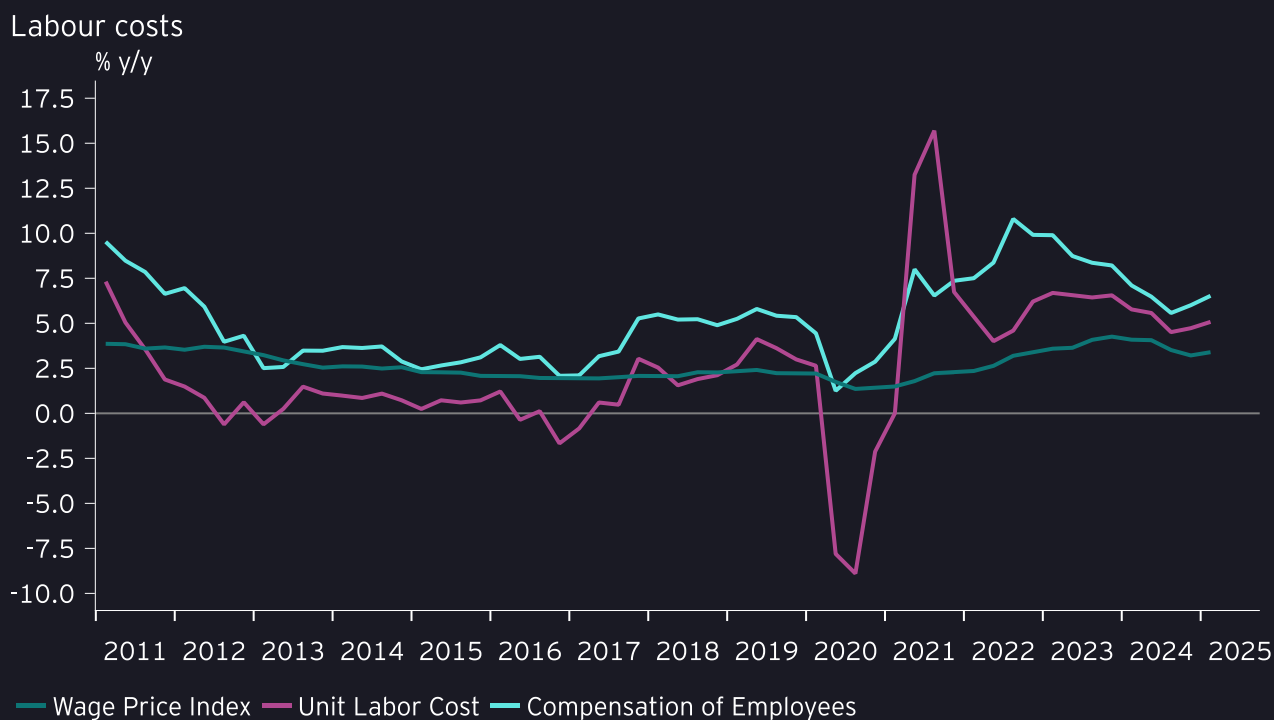
6. Non-mining investment has remained below its 20-year pre-pandemic average since 2010

Mining vs Non-mining investment
as a % of nominal GDP



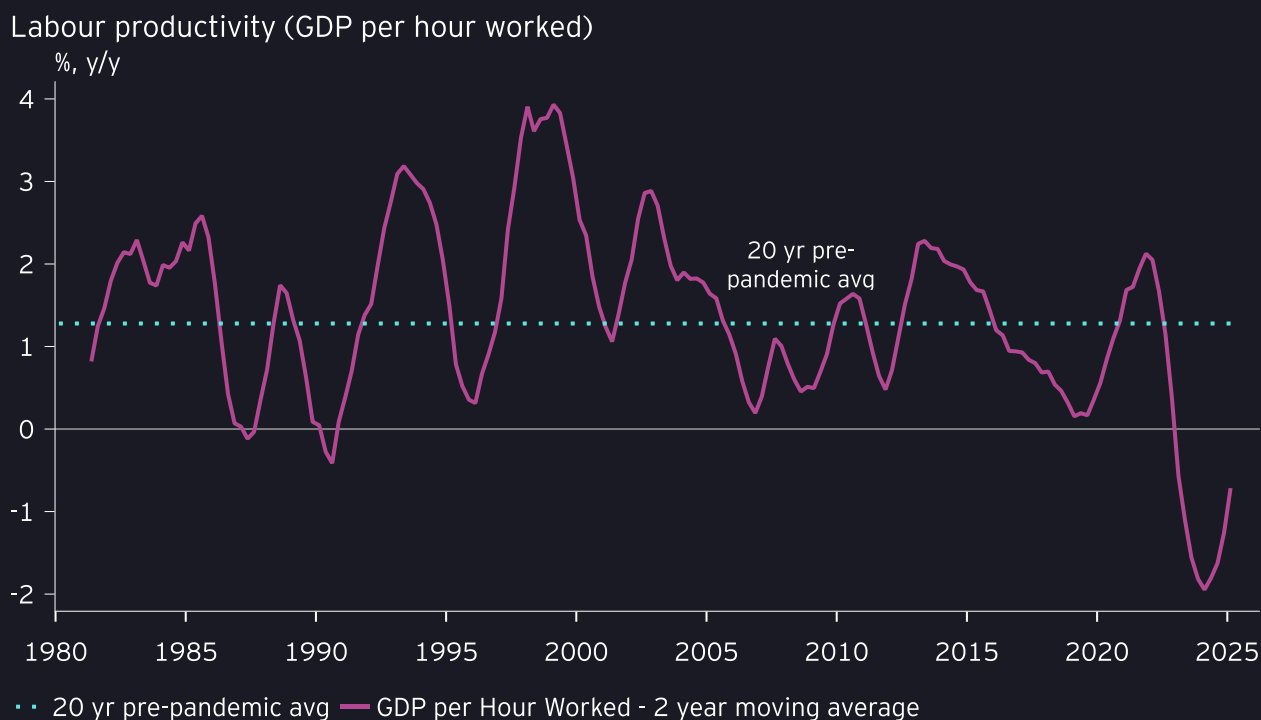
Source: ABS, Macrobond, EY

7. Unit labour costs remained elevated in the March quarter although don't appear to have added much to inflation



Source: ABS, Macrobond, EY

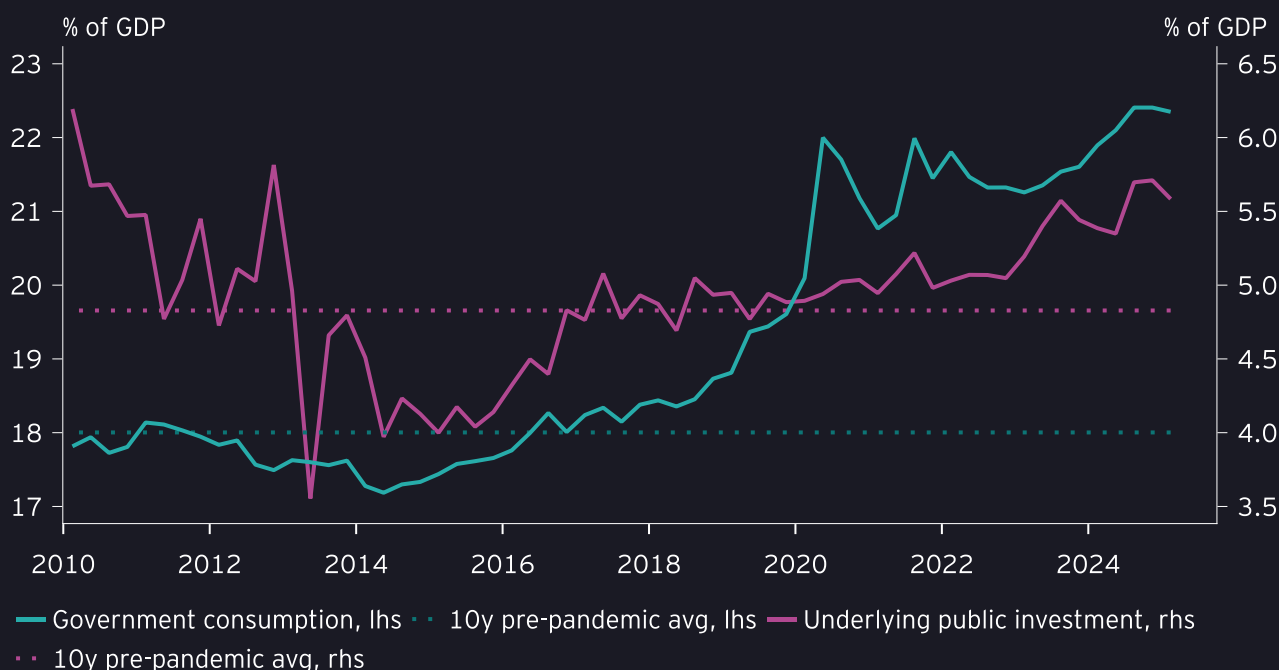
8. Productivity growth remains weak and well below the long run average rate



Source: ABS, Macrobond, EY

9. The public sector continues to make up an elevated share of the economy, although didn't add to growth in Q1 2025

Public Sector Size



Source: ABS, Macrobond, EY

10. The terms of trade increased slightly in Q1 2025. The high gold price reflects economic and policy uncertainty

Terms of Trade and Gold Price



Source: ABS, LBMA, Macrobond, EY

EY can help

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