

Australian National Accounts

A December-quarter demand pick up the economy can't absorb

December 2025 | 4 March 2026



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From the Chief Economist

Australia was powered at the end of 2025 by investment in data centres, while beef exports surged and the AC/DC, Metallica and Oasis concerts plus the Ashes tour boosted hospitality and transport.

Other strong contributors to GDP growth were high levels of investment in aircraft while apartment building picked up and state and Federal governments continued to spend on infrastructure and defence.

Volatility in inventory levels likely added some growth in December which was mostly a reversal of the September quarter's weakness, but overall domestic sources of demand were solid. High commodity prices, including the record gold price boosted mining profits, contributing to the income measure of activity.

The annual GDP growth rate of 2.6 per cent is akin to that which Australia experienced in the decade before the pandemic. But the problem this time, is that it has come with high inflation.

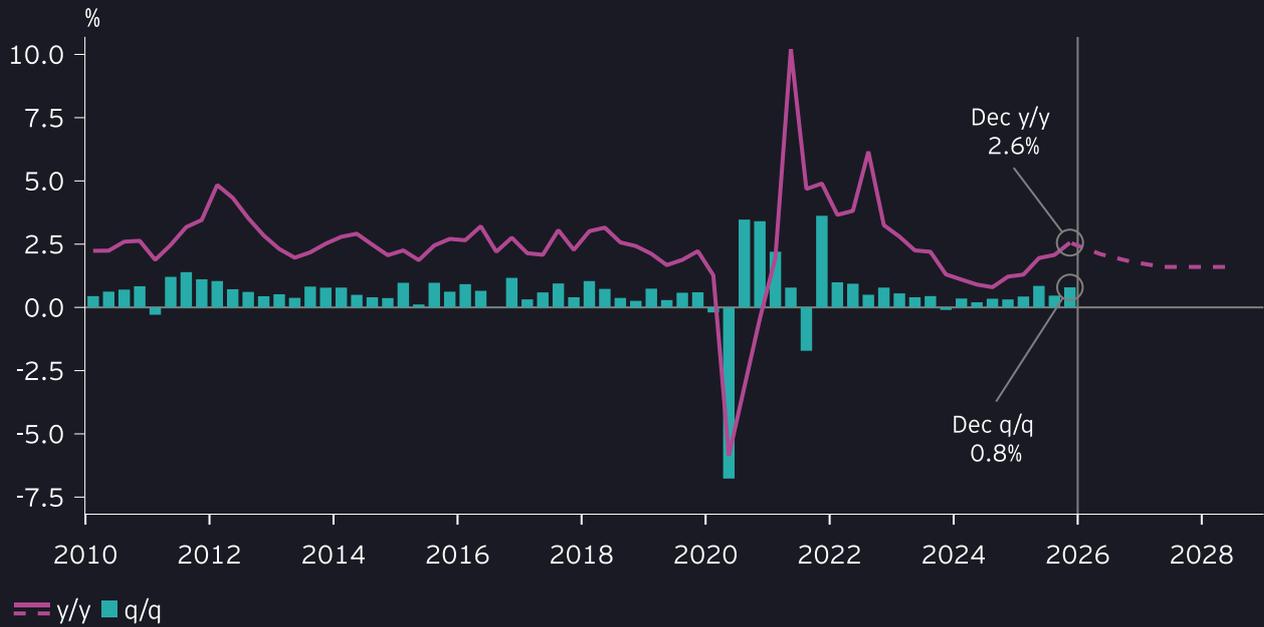
As 2026 has rolled around, the Reserve Bank has already had to put the brakes on and will continue to slow things down until demand growth falls enough to meet the economy's constrained supply potential. In recent days, the problem has been complicated by Middle East conflict lifting oil and likely domestic petrol and transport prices, bringing a new source of inflation, albeit possibly temporary.

The economy's lack of capacity is proving to be a dampener on consumers who had been enjoying recovering income and higher discretionary spending growth. The only way to fix the current predicament is with a pick up in investment and a lift in productivity.

While there are signs of this, including more optimistic capital expenditure expectations, more encouragement from improved policy is needed. The national accounts highlight the need for the Government to move forward with productivity enhancing reforms in the 2026-27 Budget.

1. Economic growth continued to pick up but higher inflation and so, interest rates, are expected to limit future growth

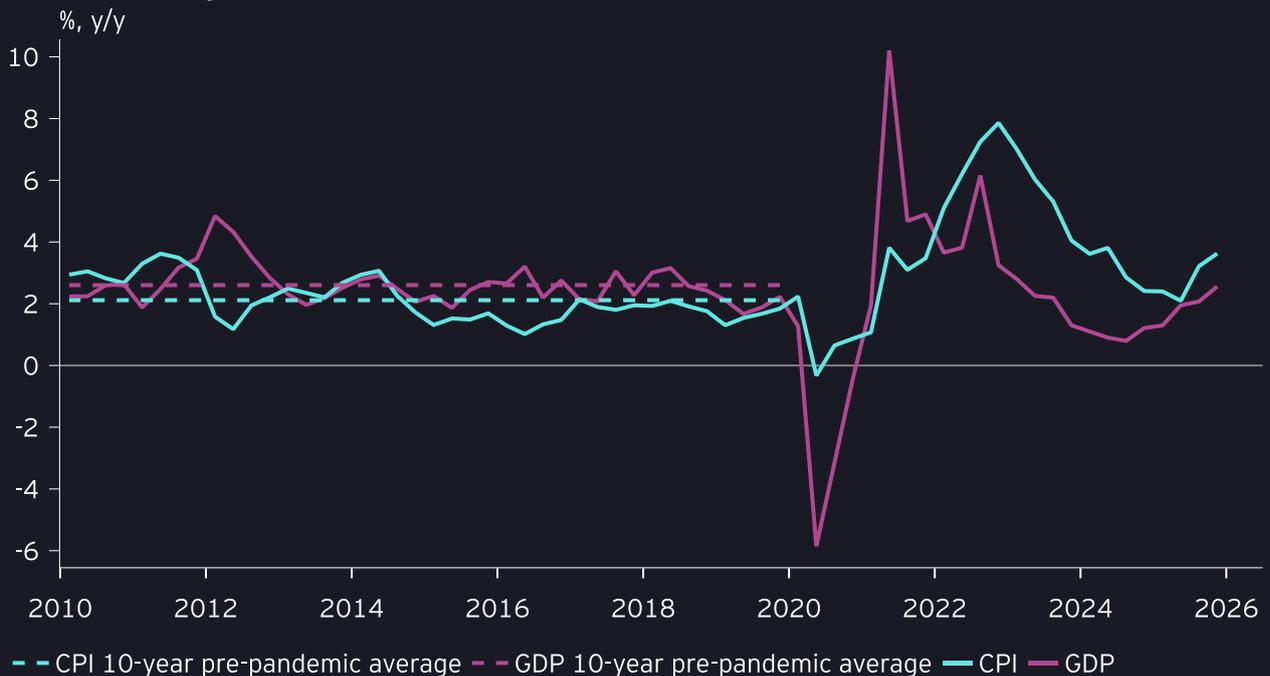
Gross domestic product, Australia
Including RBA forecasts



Source: ABS, RBA (Feb-26 SMP), Macrobond, EY

2. The acceleration in inflation proves the economy has breached its potential growth rate, which is probably around 2 per cent.

Australia GDP growth and headline inflation



Source: ABS, Macrobond, EY

3. Essential and discretionary consumption have both increased, but price rises have eaten up purchasing power

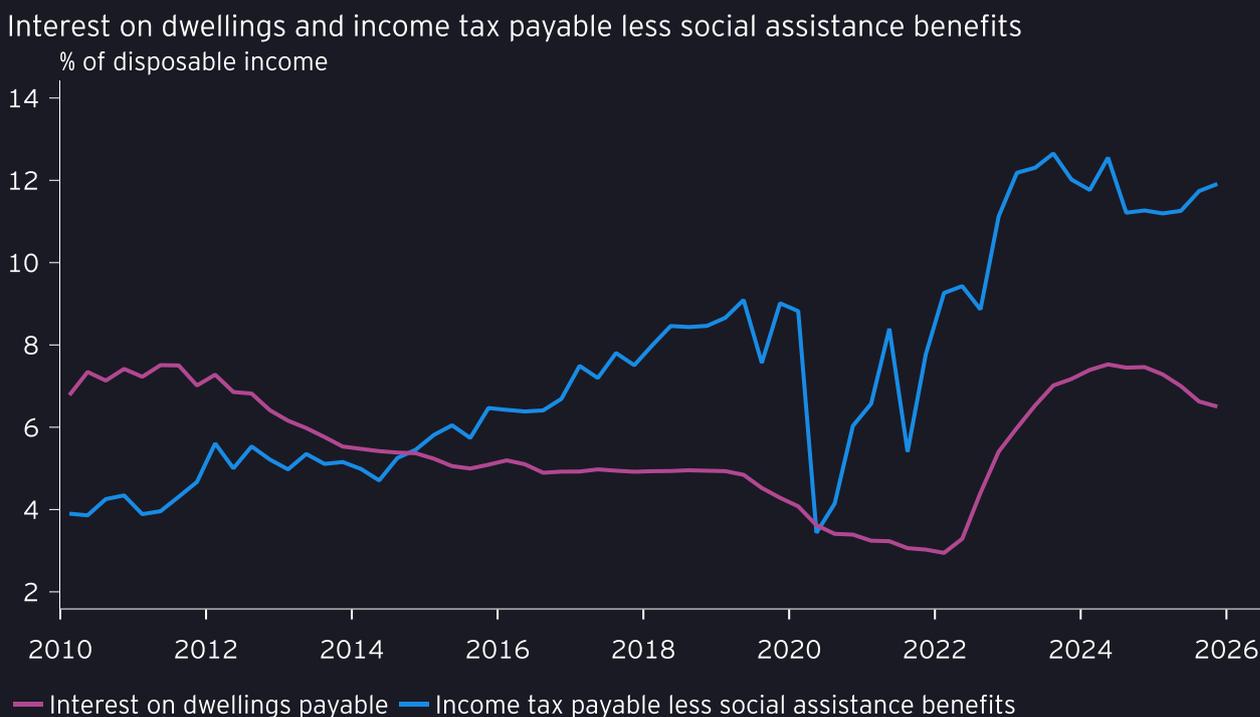


Source: ABS, Macrobond, EY



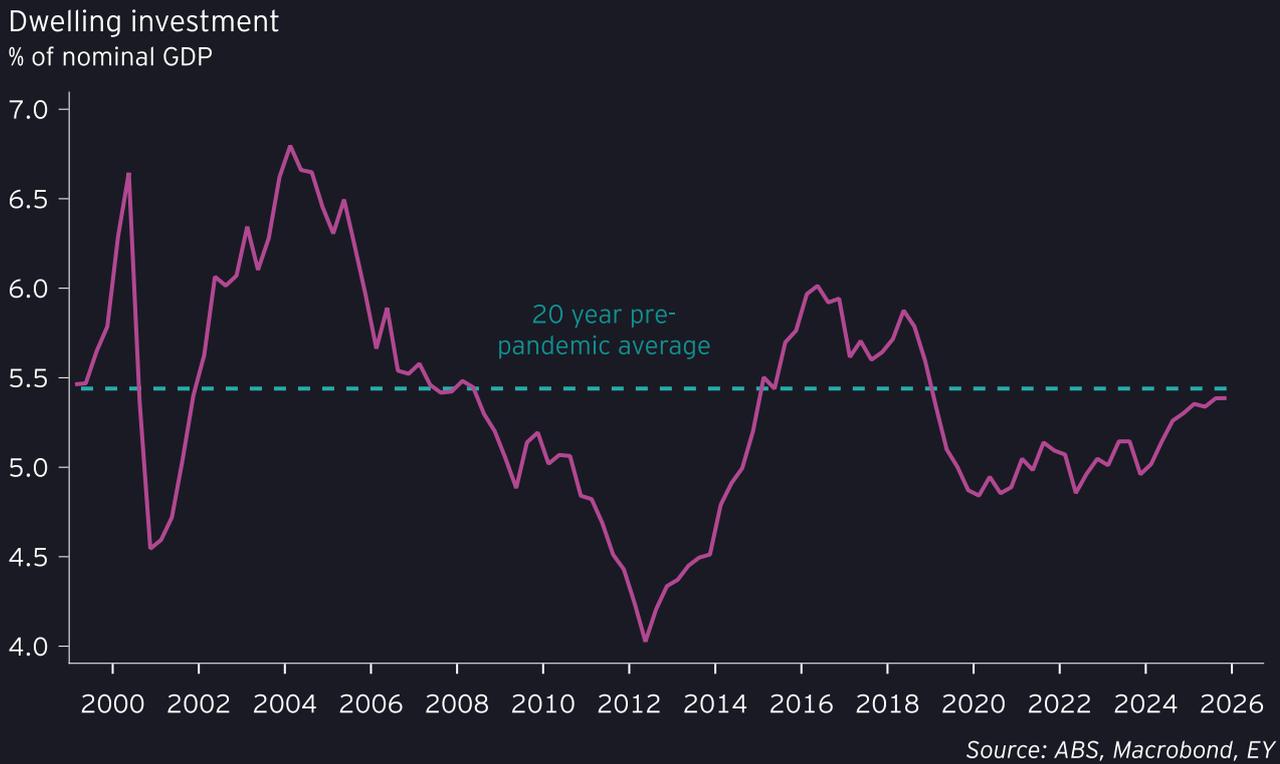
Source: ABS, Macrobond, EY

4. The tax burden on households rose while interest repayments on dwellings fell relative to income. This could reverse in 2026

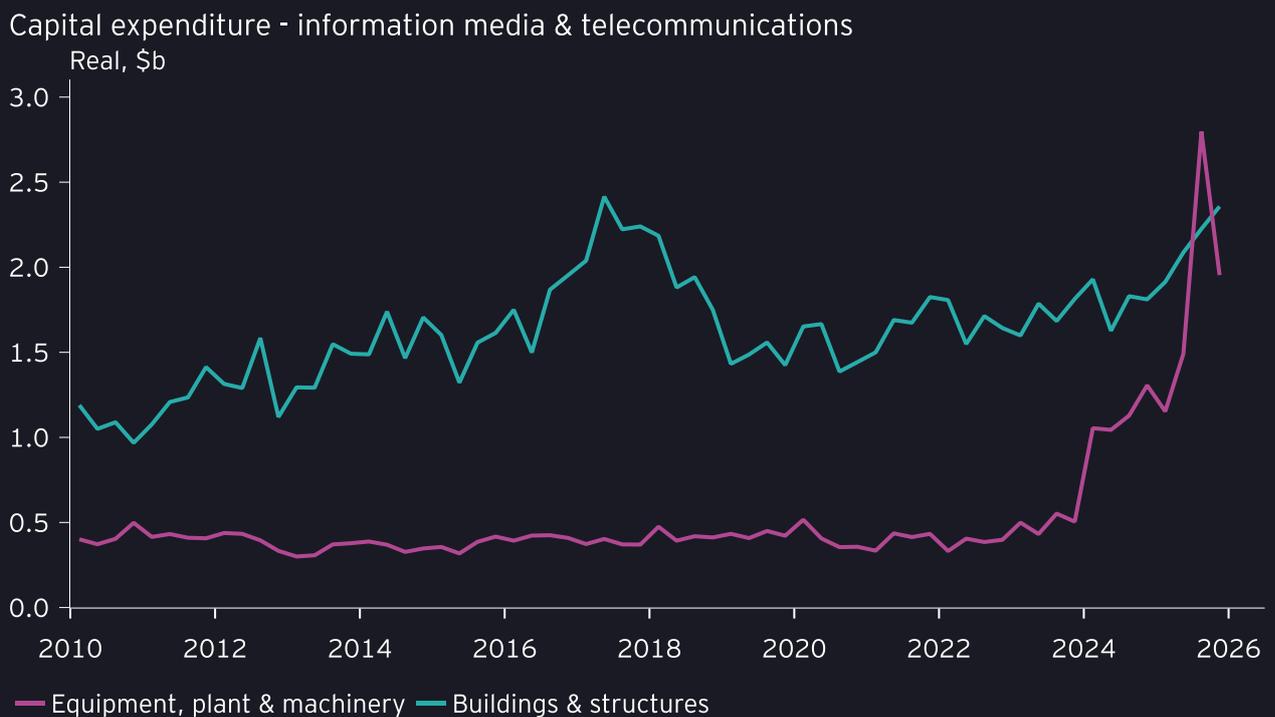


Source: ABS, Macrobond, EY

5. Dwelling investment growth has increased and remains close to the 20-year pre-pandemic average share of nominal GDP



6. Investment in new data centres has held capital expenditure at a high level



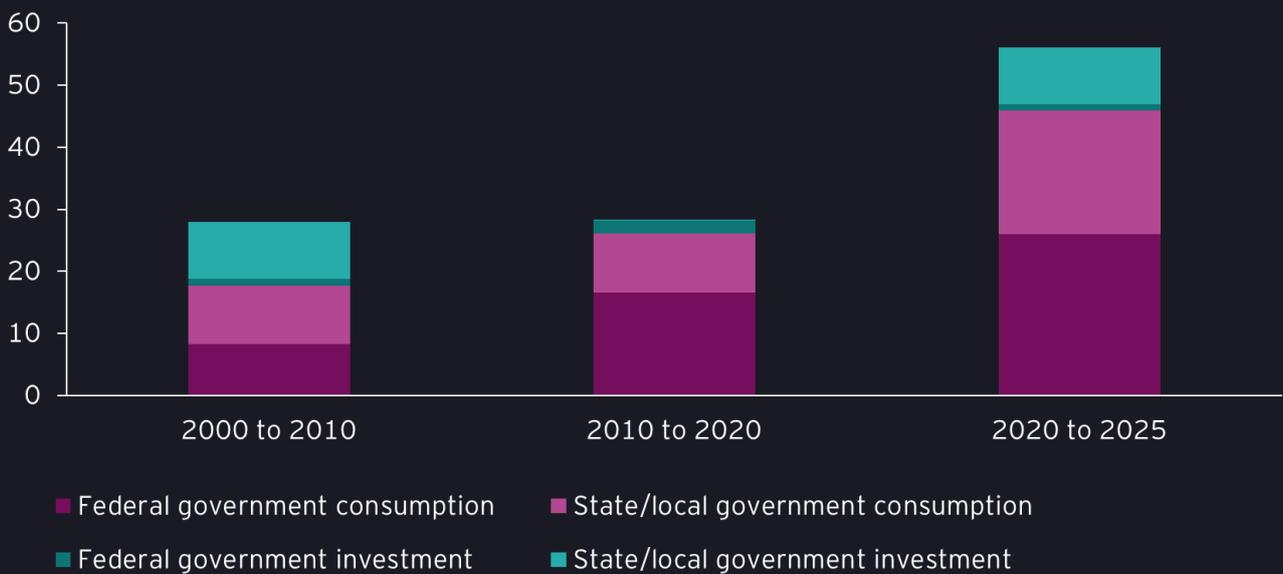
7. Computer software investment continues to pick up



Source: ABS, Macrobond, EY

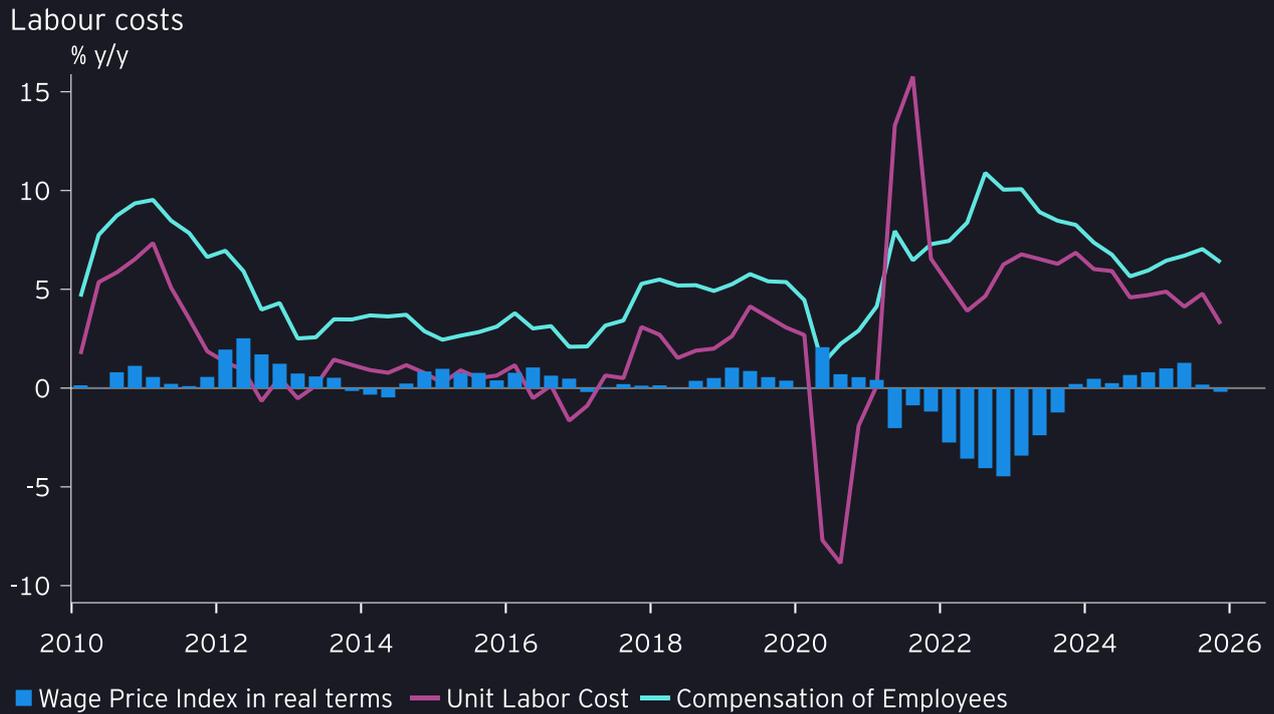
8. Spending across governments on everything from defence to the PBS have significantly driven growth, post-pandemic

Government contribution to GDP growth
Proportion of total growth, %



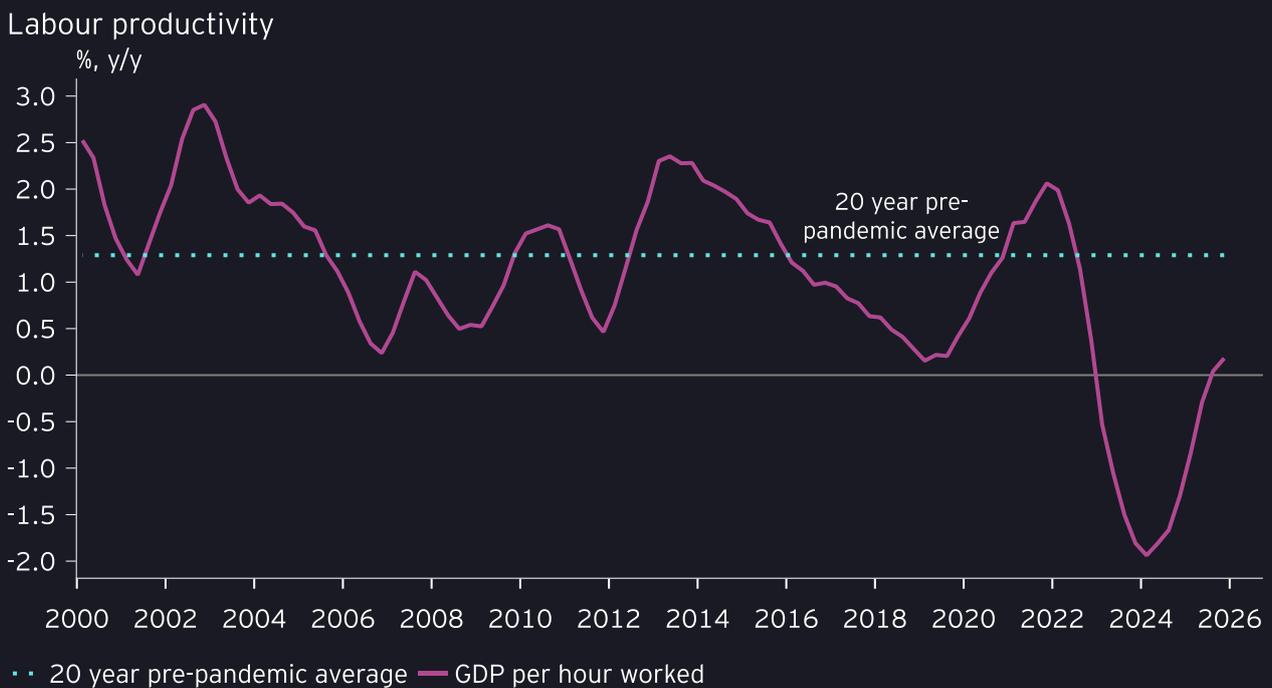
Source: ABS, Macrobond, EY

9. Real wages declined again in the December quarter given higher inflation. Unit labour costs growth for employers has tamed



Source: ABS, Macrobond, EY

10. After a long period of weakness, productivity growth is finally improving, although it remains far below the 20-year average



Source: ABS, Macrobond, EY
*2 year moving average

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