



Australian National Accounts

Economy finds its footing just in time for a challenging 2025

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From the Chief Economist

The Australian economy breathed a little easier towards the end of 2025, with slightly happier households, strong government spending and a pick-up in exports. With Gross Domestic Product (GDP) rising to 1.3 per cent in year ended terms - from the woeful 0.8 per cent in the September quarter - there is reason for a little more optimism.

A mild turnaround in household consumption, including discretionary spending, is likely due to real wages growth, personal income tax cuts, government support and the promise of a rate cut (which came through in February). These factors should persist throughout 2025 and maybe even become a little more supportive. But business investment did little to boost the GDP numbers.

The immediate future is undoubtably uncertain for businesses, and especially exporters, given the trade war which has worsened substantially in recent days. The closely contested Australian election may also cause some hesitation in spending plans as businesses await the outcome.

Disappointingly, labour productivity was 1.2 per cent lower over the year, while real unit labour costs ticked up. Domestic prices growth was 3.5 per cent, although international prices offset this strength somewhat. Today's numbers suggest the Reserve Bank's cautious language about further near-term rate cuts is warranted, mainly due to uncertainty about how labour market tightness will play out.

The National Accounts casts a warning about the ongoing swelling in the government sector and how it may play out in an economy that is still somewhat capacity constrained. With government expenses related to the ageing and health care needs of the population, plus defence taking up a larger part of the budget, additional spending will only challenge the economy's resources and inflation.

The role of Government at this difficult time needs to be focused on lifting the capacity of the economy through productivity enhancements. Some reforms, such as those being developed on competition policy, are doing just that, but there is a need for reform beyond that, including importantly to the tax system. If taxes were collected more efficiently and less were taken from personal and business income, better conditions would be in place to encourage investment.

Cherelle Murphy | EY Regional Chief Economist, Oceania

1. GDP growth picked up in the December quarter, but remains in a per capita recession

GDP and GDP per capita
including RBA forecasts



Source: ABS, RBA (Feb-25 SMP), Macrobond, EY

2. Government spending remains a record-high share of the economy, and upcoming elections present upside risks

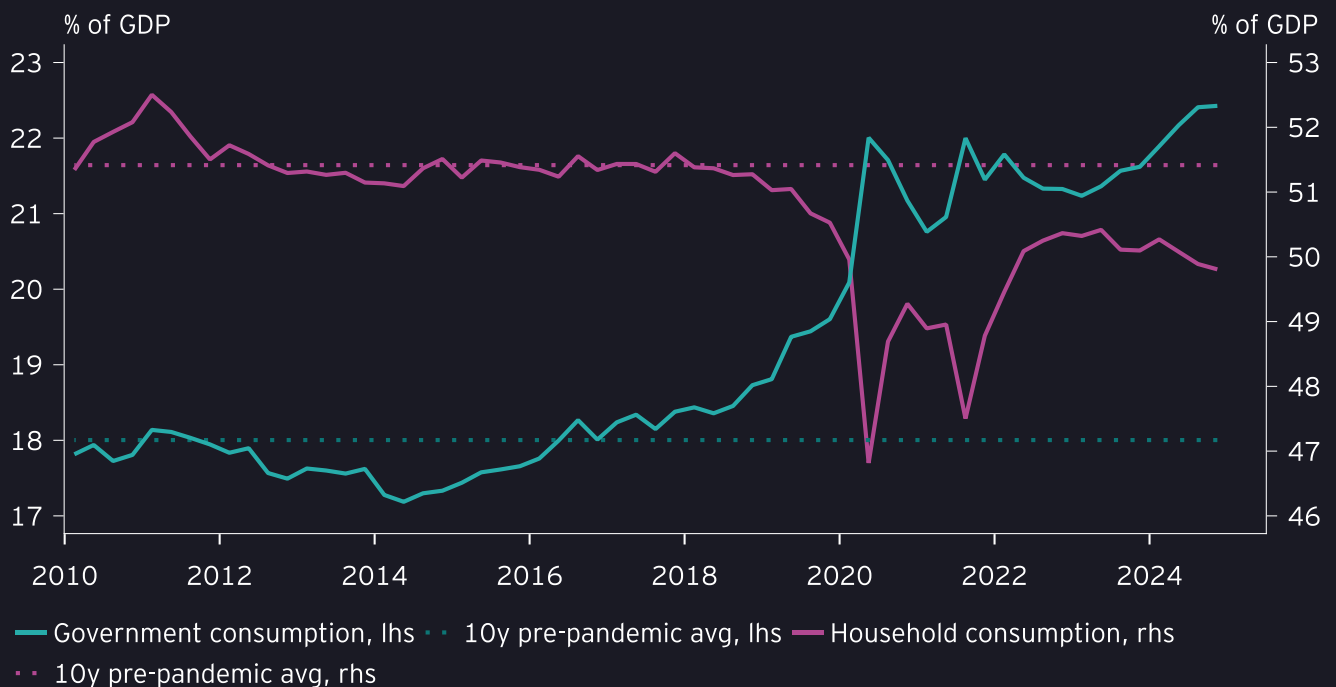
Public demand
% of GDP



Source: ABS, Macrobond, EY

3. Meanwhile, household consumption as a share of the economy remains far below long run average levels

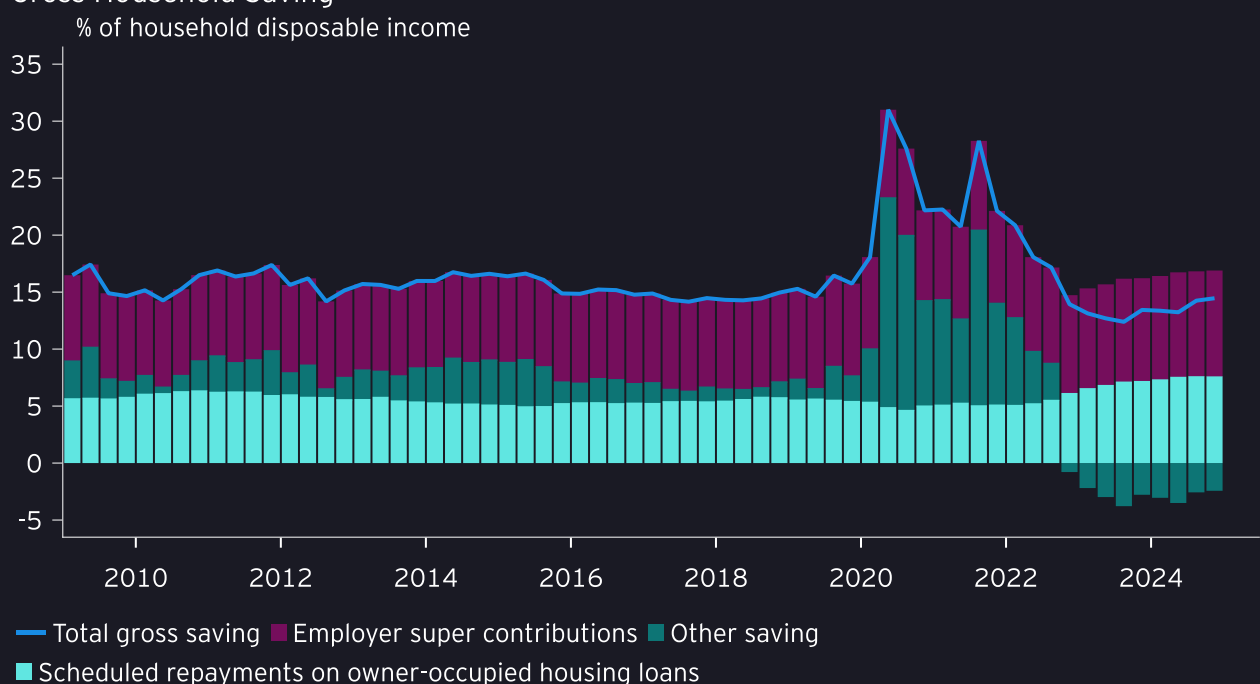
Household and government consumption



Source: ABS, Macrobond, EY

4. Household saving remains below pre-COVID levels as mortgage repayments remain high

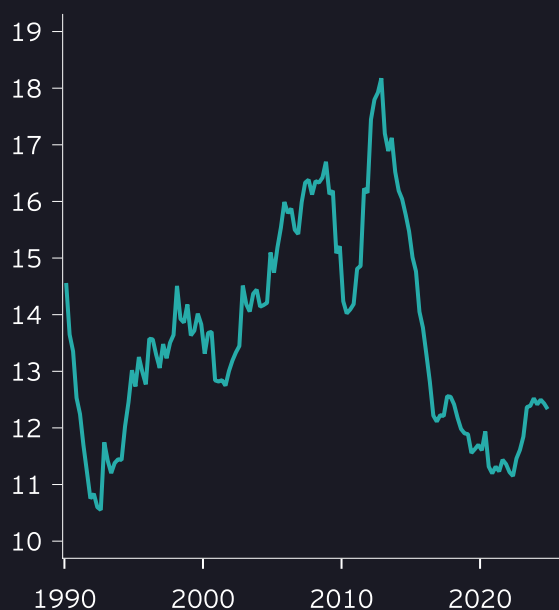
Gross Household Saving



Source: RBA, ABS, Macrobond, EY

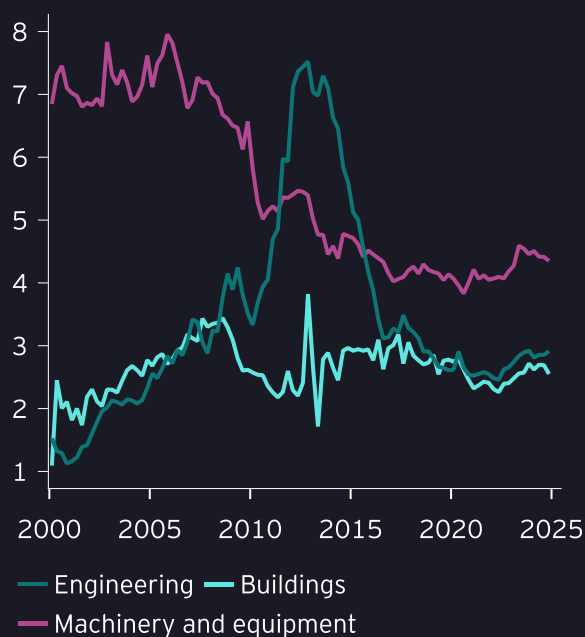
5. Business investment has flatlined but remains above pre-COVID levels

Business investment
% of nominal GDP



Source: ABS, Macrobond, EY
*adjusted for second hand transfers

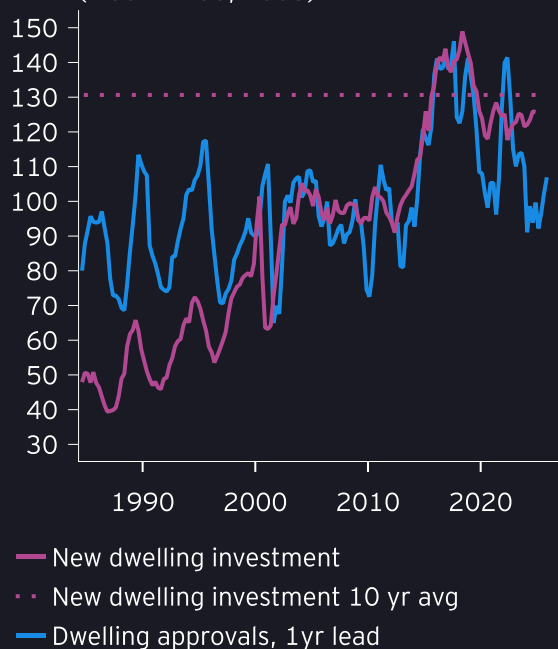
Type of Business Investment
% of nominal GDP



Source: ABS, Macrobond, EY

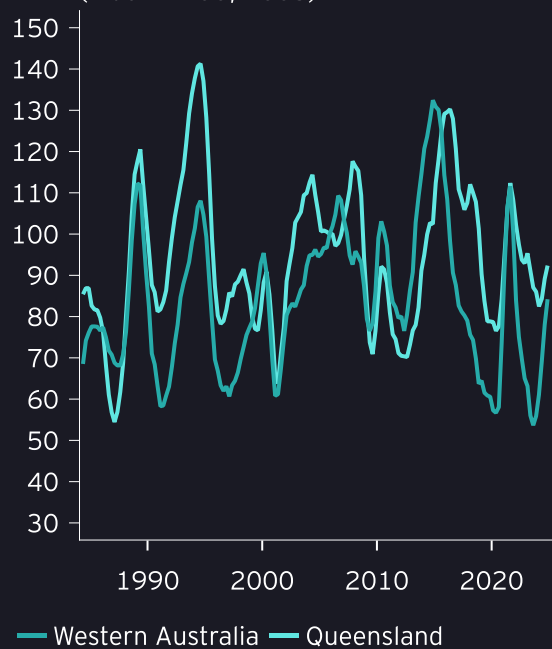
6. Dwelling investment increased modestly, while dwelling approvals have picked up led by WA and Queensland

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



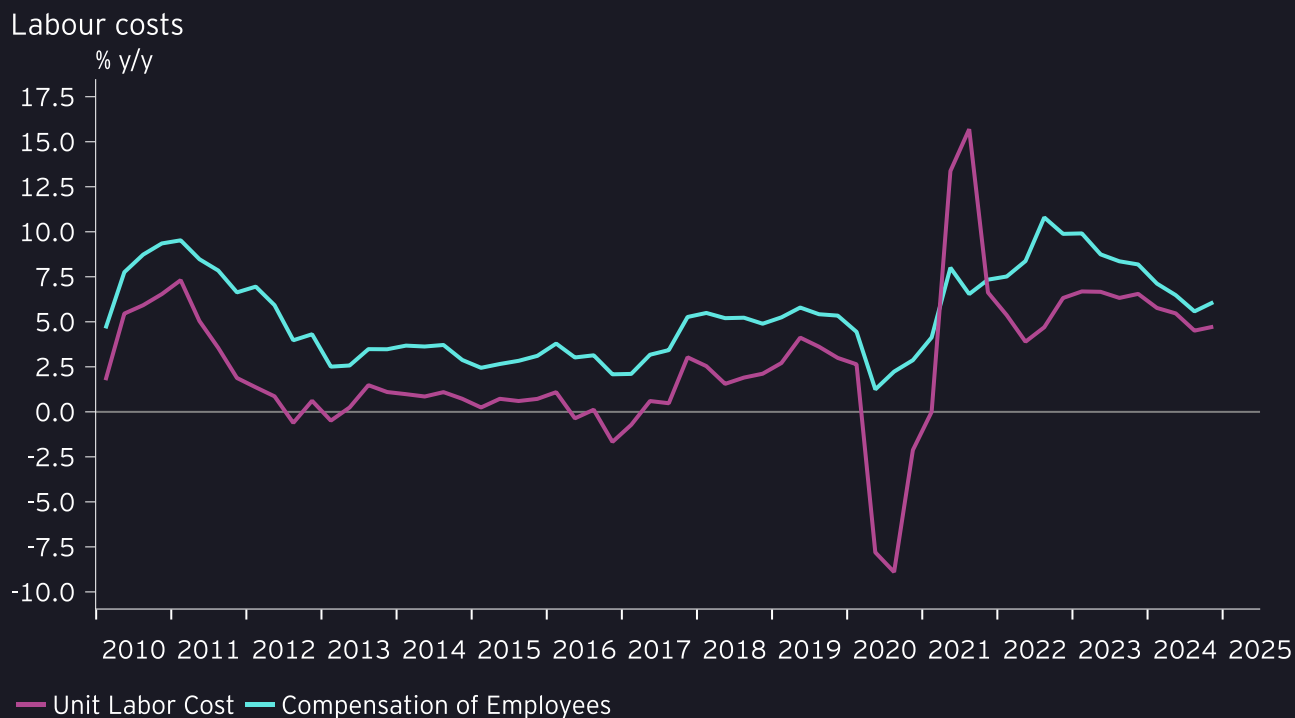
Source: ABS, Macrobond, EY

Dwelling approvals by state
(Index = 100, 2005)



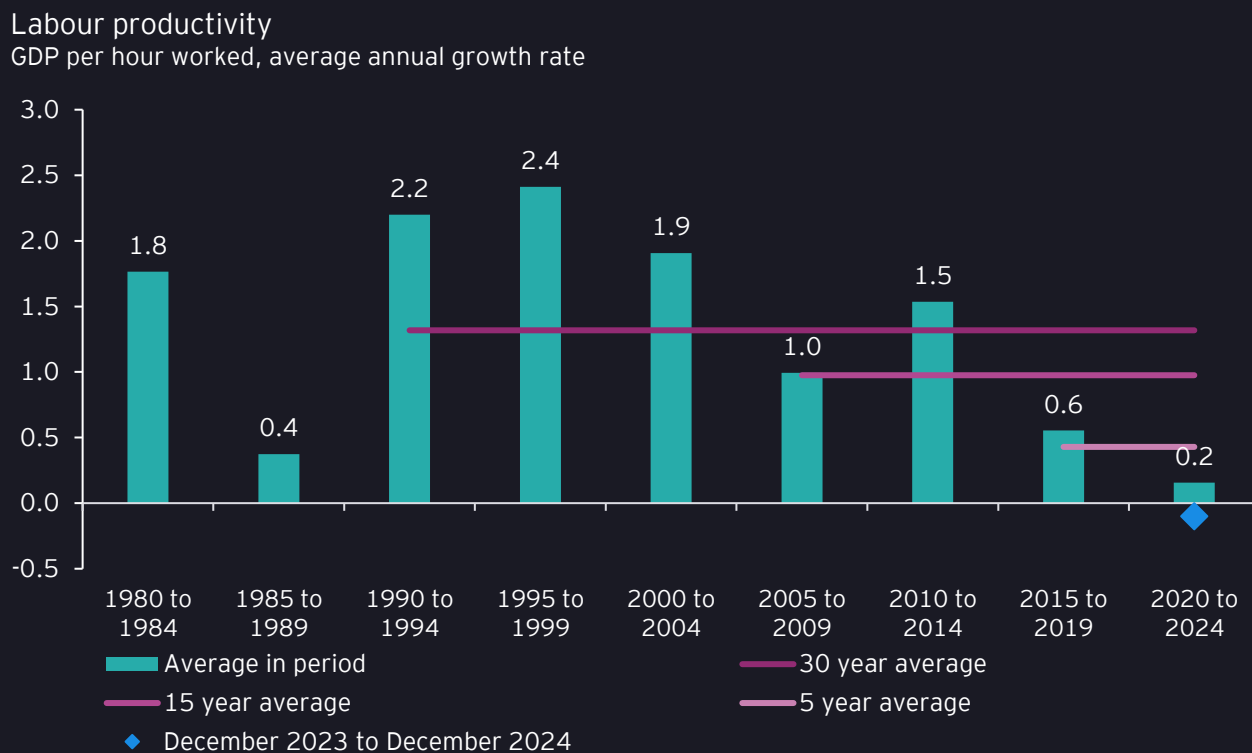
Source: ABS, Macrobond, EY

7. Labour costs have ticked up in the December quarter reflecting tightness in the labour market



Source: ABS, Macrobond, EY

8. Labour productivity growth remains far from its long run average



Source: ABS, EY

9. Price pressures in the Australian economy continue to be driven by domestic factors

Domestic vs International Prices



Source: ABS, Macrobond, EY

10. Fall in Australian dollar supports growth in exports

USD/AUD exchange rate and exports



Source: ABS, Macrobond, EY

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