



Australian National Accounts

Economy losing momentum before the Middle East conflict

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From EY Australia Senior Economist, Paula Gadsby

The March quarter National Accounts show the Australian economy was already losing momentum at the start of 2026, ahead of the full effects of the Middle East conflict and recent rate hikes by the Reserve Bank. The quarterly growth rate of 0.3 per cent was weaker than market expectations and down from 0.9 per cent in December 2025.

Data centres helped power growth in the Australian economy for the third consecutive quarter, pushing investment in machinery and equipment up 16.3 per cent, faster than the mining investment boom peak in 2012. However, with the majority of data centre equipment imported, this offset the gains as net exports detracted 0.8 percentage points from GDP growth. Weaker shipments of iron ore and coal due to cyclone disruptions, along with falling education services exports, also weighed on the result.

Other areas of private demand point to a softer story. Business investment outside of data centres appears weak and households faced higher costs for essentials such as electricity as government rebates came to an end. Weaker discretionary spending and falling consumption goods imports suggests a weaker outlook for household consumption, in line with very low consumer sentiment.

The government sector made no contribution to GDP growth as the rise in spending on defence assets and state government transport and health projects was offset by the ending of state government energy bill relief.

The annual growth rate of 2.5 per cent was steady compared to last quarter and in line with Australia's long-run average growth rate. Inflationary pressures are likely to persist, with productivity growth continuing to lag and unit labour costs remaining elevated.

Today's result is unlikely to impact the Reserve Bank's deliberations at its June meeting and we expect the board will need to tighten monetary policy further in the second half of this year.

While the full effects of the Middle East conflict, higher interest rates and inflation are yet to be seen, the outlook for the Australian economy in 2026 does not look rosy. Cautious consumers, softer business sentiment and a potential cooling in the housing market could compound these impacts and weigh further on growth.

1. Annual GDP growth was unchanged in the March quarter and remains positive in per capita terms

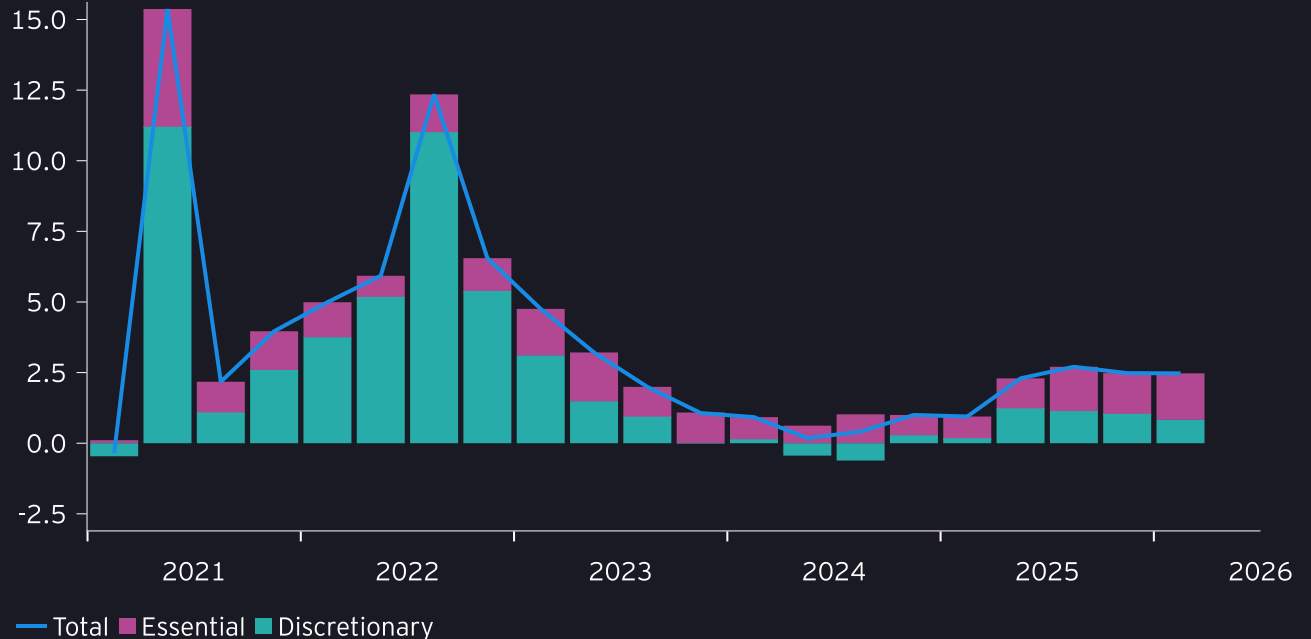
GDP and GDP per capita including RBA forecasts



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

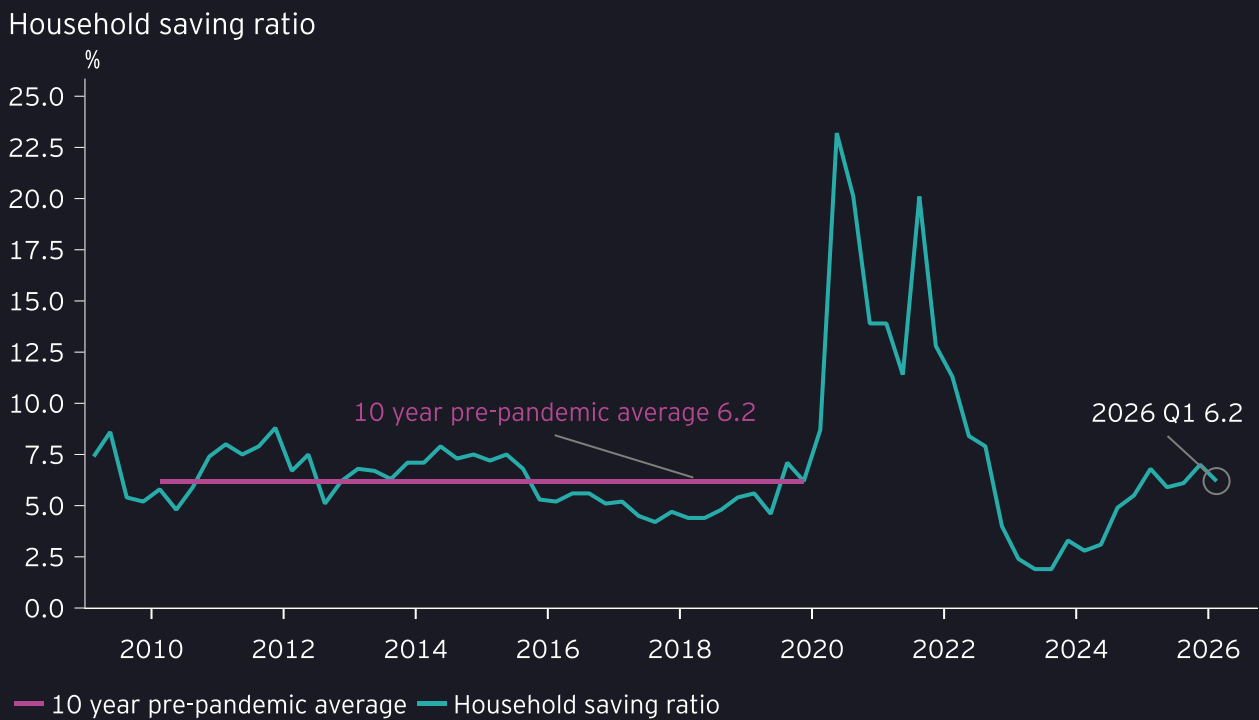
2. Household consumption growth increased in the quarter, driven by higher spending on essentials

Household consumption growth contributions, % y/y



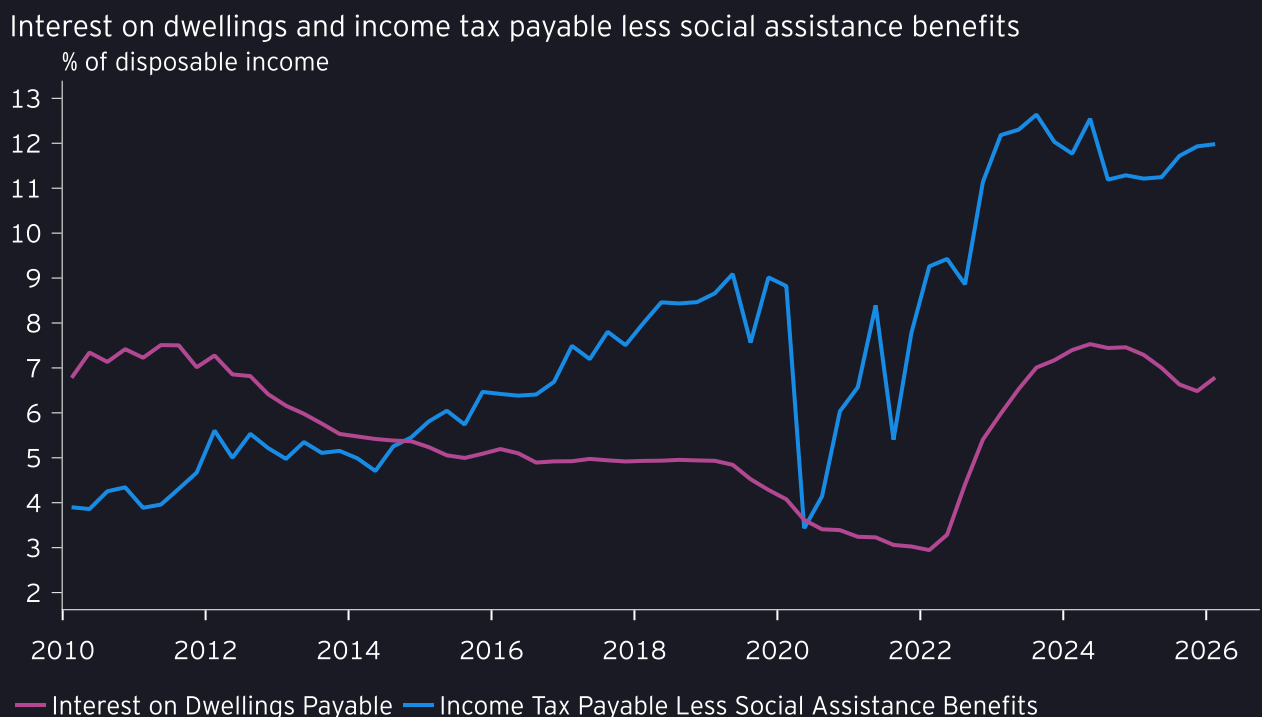
Source: ABS, Macrobond, EY

3. The household saving ratio fell to 6.2 per cent, in line with its 10-year pre-pandemic average



Source: ABS, Macrobond, EY

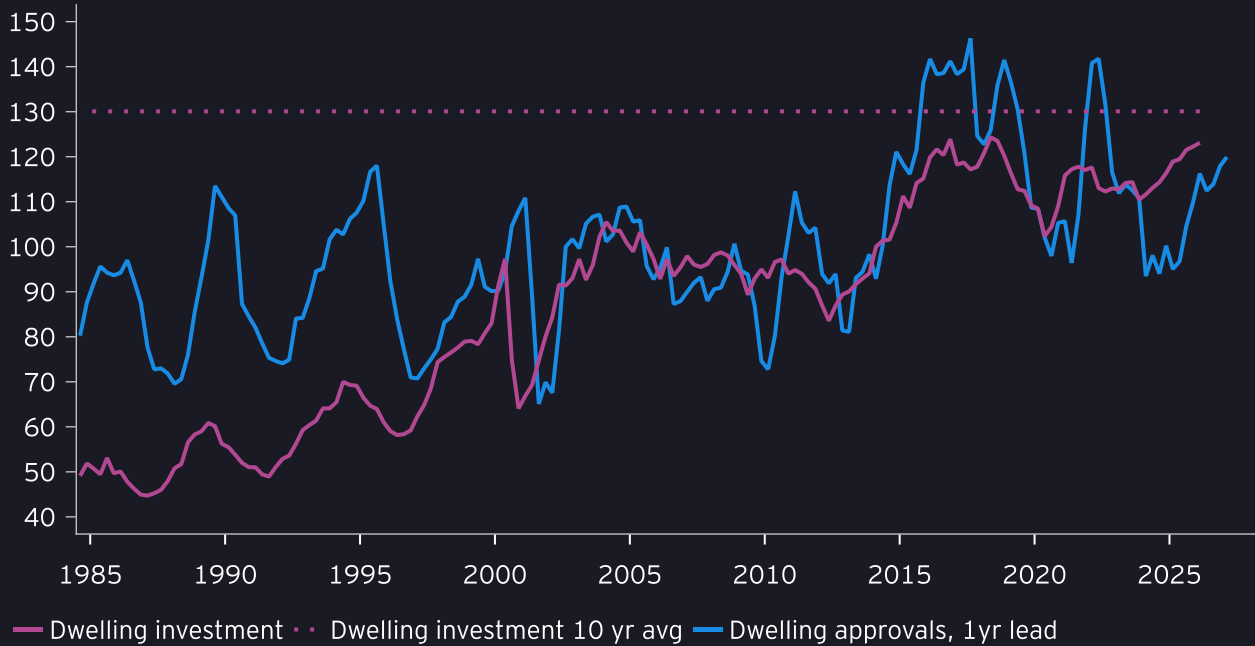
4. Reserve Bank rate hikes have raised interest costs marginally and personal income taxes remain elevated



Source: ABS, Macrobond, EY

5. Dwelling investment continued to rise in the March quarter alongside higher approvals

Dwelling investment and approvals
(Index = 100, 2005)



Source: ABS, Macrobond, EY

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

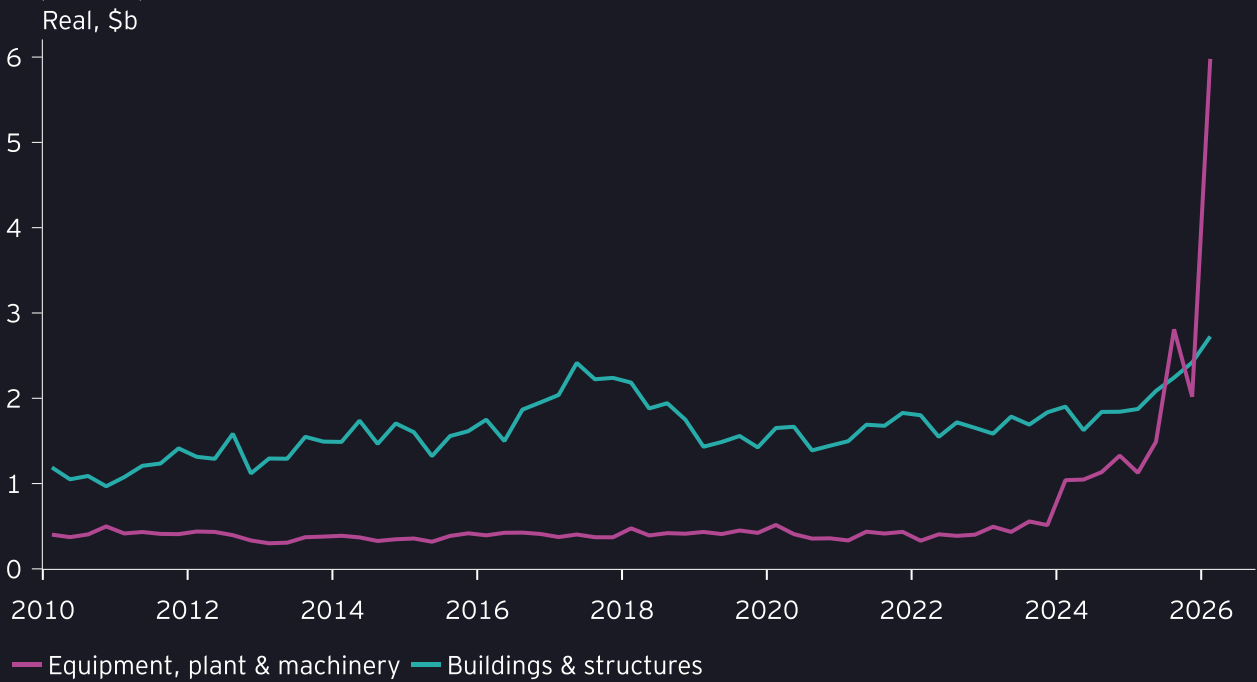
Labour productivity (GDP per hour worked)



Source: ABS, Macrobond, EY

7. Investment in new data centre equipment drove the increase in capital expenditure

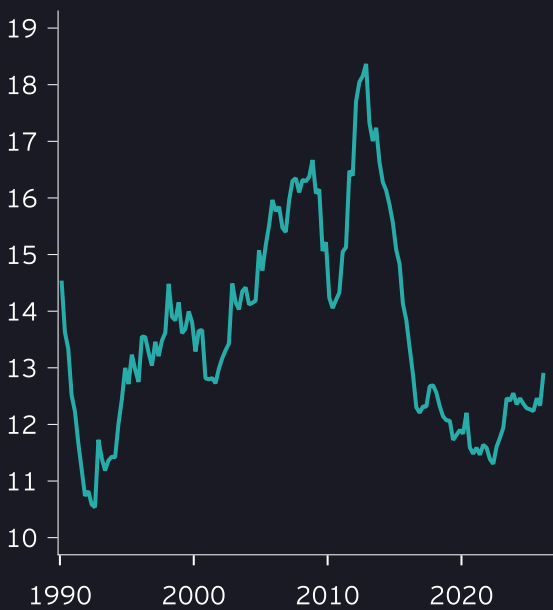
Capital expenditure - information media & telecommunications



Source: ABS, Macrobond, EY

8. Business investment picked up, but remains well above pre-COVID levels

Business investment
% of nominal GDP



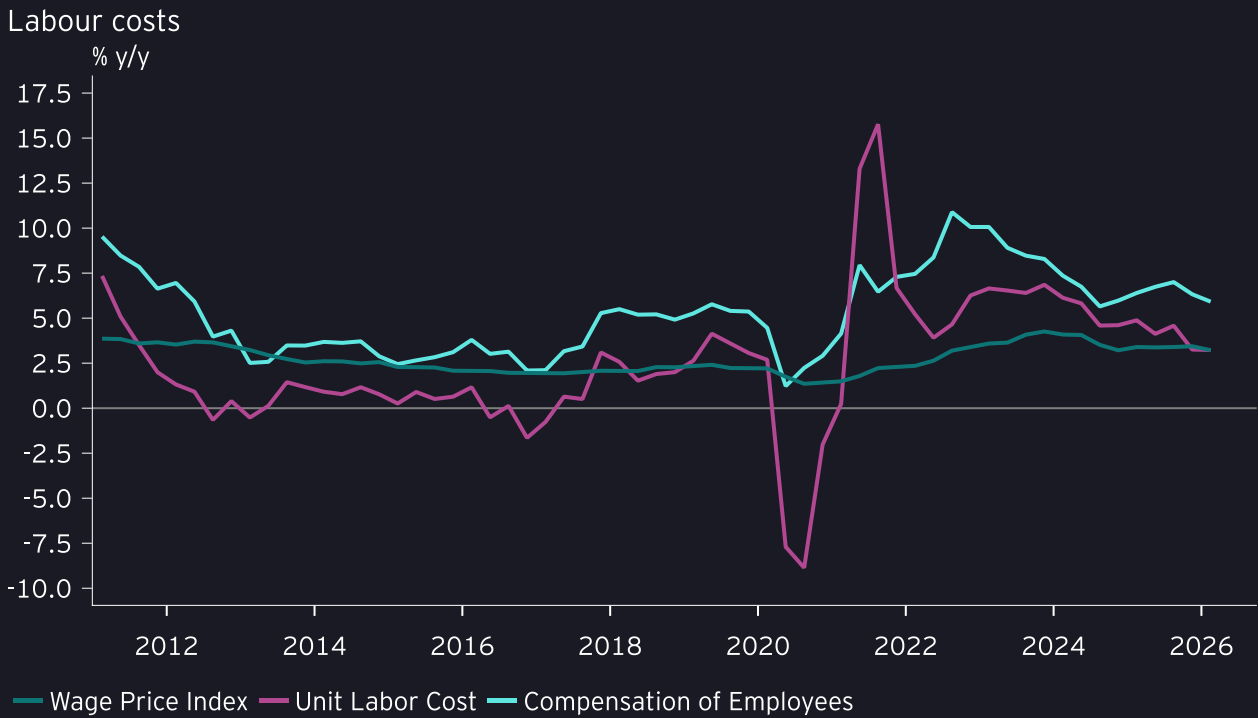
Source: ABS, Macrobond, EY
*adjusted for second hand transfers

Type of Business Investment
% of nominal GDP



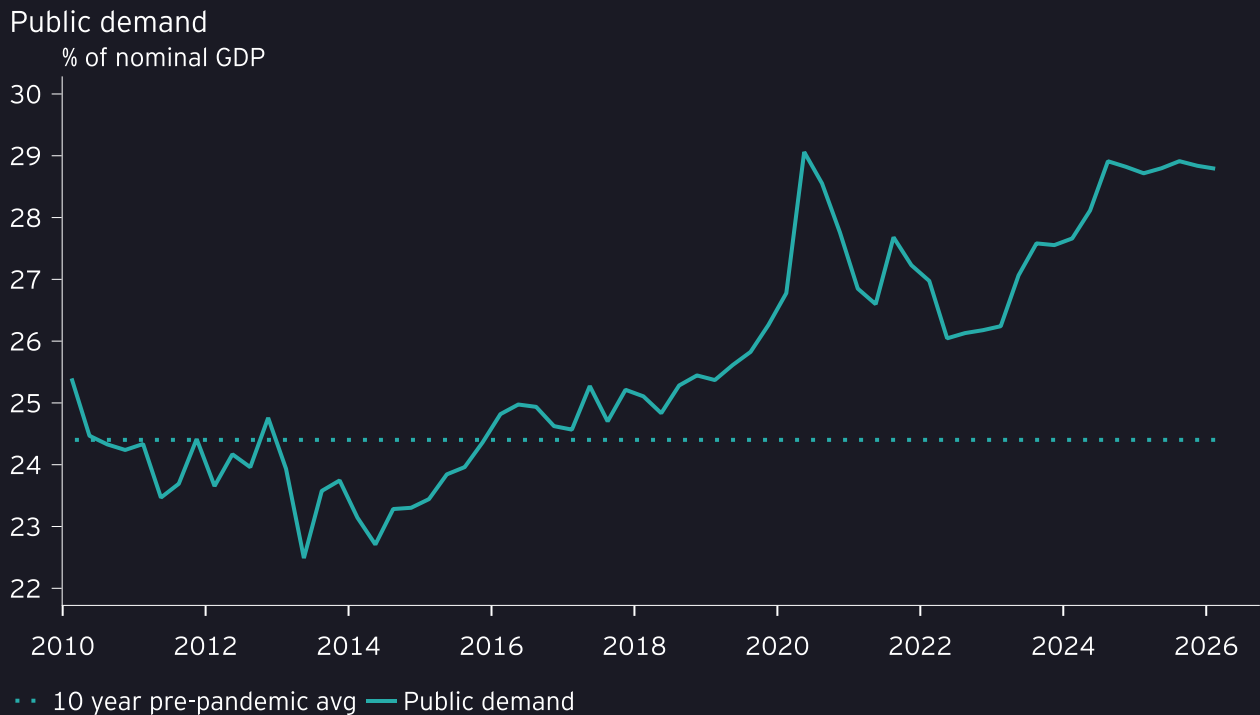
Source: ABS, Macrobond, EY

9. Unit labour costs were steady in the March quarter and remain elevated, adding upward pressure to inflation



Source: ABS, Macrobond, EY

10. Public demand remains well above the long run average share of GDP



Source: ABS, Macrobond, EY

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