Australian Economic Update

GDP Q1 2025 – A soggy start to 2025

NAB Group Economics

Key points:

- GDP rose 0.2% qoq and 1.3% yoy (NAB 0.2%, Consensus 0.4%, RBA 0.4%) supported by private demand
- Today's numbers are impacted by a raft of temporary factors but our assessment remains that growth has not picked up as quickly as expected 6 months ago
- Household consumption excluding electricity rebates rose by just 0.2% qoq and will need to strengthen further for overall growth to return to trend

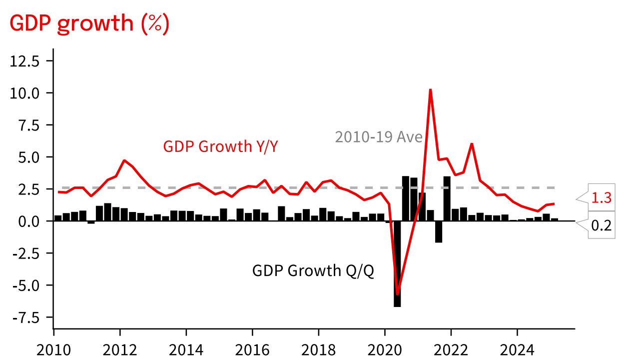
Overview & Implications:

GDP rose 0.2% qoq (1.3% yoy). Private demand drove growth in the quarter, with household consumption rising 0.4% as well as positive contributions from business and dwelling investment. Exports were weaker in the quarter with weather disruptions to both coal and LNG exports, and public demand subtracted from growth. The savings rate rose notably, with disposable income growth boosted by insurance and government disaster payments related to the severe weather in QLD and NSW. The ABS notes the impact of weather disruptions was particularly evident in 'mining, tourism and shipping'.

While headline growth and a number of components were impacted by a raft of temporary factors, underlying growth remains soft. Particularly household consumption growth which was boosted by the unwinding of electricity subsidies in the quarter. While we estimate only a small slowing in underlying momentum, growth has not picked up as quickly as the RBA had earlier expected. Further, while disposable income growth and the savings rate rose sharply in the quarter, this will unwind next quarter (though NSW flooding may drive ongoing impacts to the data). This suggests the backdrop for household balance sheets and incomes, while having improved, is not overly strong. Household consumption per capita declined in the quarter, with declines in 8 of the last 9 quarters.

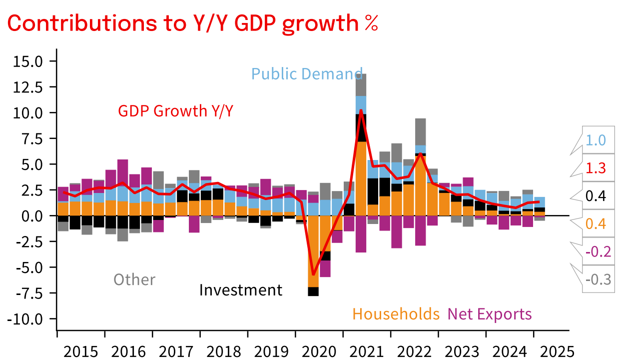
Looking forward, we continue to expect growth below 2% over 2025, marking another year of below trend growth. That is softer than we (and the RBA) had expected 6 months ago and for growth to match the RBA's SoMP forecasts for June 2025, Q2 GDP growth would need rise 0.7% qoq. While both public demand and exports will rebound in coming quarter, we would need to see a sustained improvement across the private sector components in order for overall GDP growth to return to trend. NAB continues to expect the RBA to ease further in July, August and November, taking the cash rate to a broadly neutral stance of 3.1%. With inflation expected to settle around the mid-point of the target band, growth picking up more slowly than expected, and downside risks to the global outlook, a restrictive policy stance is no longer appropriate, and the RBA can afford focus on both activity and the labour market as well as inflation.

Chart 1: Growth is past its trough



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Chart 2: Consumption has picked up



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

4 June 2025 | Authors: Gareth Spence, Michelle Shi, Tony Kelly

Detail:

By expenditure component, growth was especially soft **on the public side.** Public demand detracted 0.1pt from overall growth, with flat government consumption and a decline in public investment. Household consumption contributed 0.2ppt to growth, though underlying consumption growth (which strips out the impact of electricity rebates) was softer. Private dwelling investment growth picked up over the quarter, contributing 0.1pt to growth.

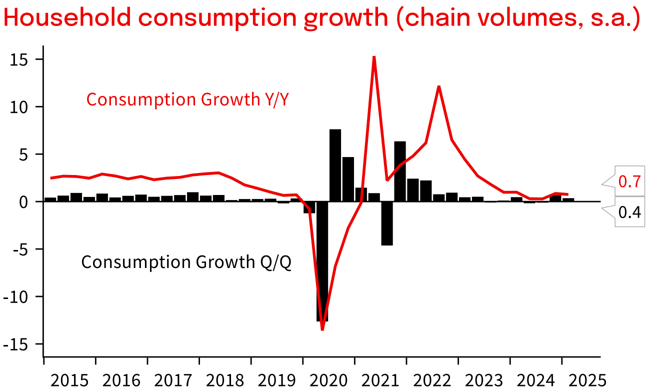
Table 1: GDP expenditure components

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Dec-24	Mar-25	Mar-25	Mar-25
Household Consumption	0.7	0.4	0.7	0.2
Dwelling Investment	0.7	2.6	5.6	0.1
Underlying Business Investment^	0.7	0.4	1.5	0.0
Machinery & equipment	0.1	-1.4	-2.6	-0.1
Non-dwelling construction	0.4	1.7	2.4	0.1
New building	-3.1	2.1	-1.6	0.0
New engineering	3.3	1.5	5.8	0.0
Public Final Demand	0.6	-0.4	3.8	-0.1
Domestic Demand	**0.7**	**0.2**	**1.9**	**0.2**
Stocks (a)	0.1	0.1	-0.3	0.1
GNE	**0.7**	**0.3**	**1.6**	**0.3**
Net exports (a)	**-0.1**	**-0.1**	**-0.2**	**-0.1**
Exports	0.1	-0.8	-0.2	-0.2
Imports	0.7	-0.4	0.4	0.1
GDP	**0.6**	**0.2**	**1.3**	**0.2**

(a) Contribution to GDP growth ^ Excluding transfers between the private and public sector

Household consumption grew by 0.4% qoq, after an upwardly revised 0.7% for Q4 (previously 0.4%). However, the unwinding of electricity rebates played a large role in Q1 consumption (as did warmer summer weather): electricity spending rose 10.2% in the quarter, with household consumption excluding electricity rebates up just 0.2%. Growth across most categories was weaker than Q4, which suggests that the strength in Q4 was influenced by price-sensitive consumers during a period of high discounting.

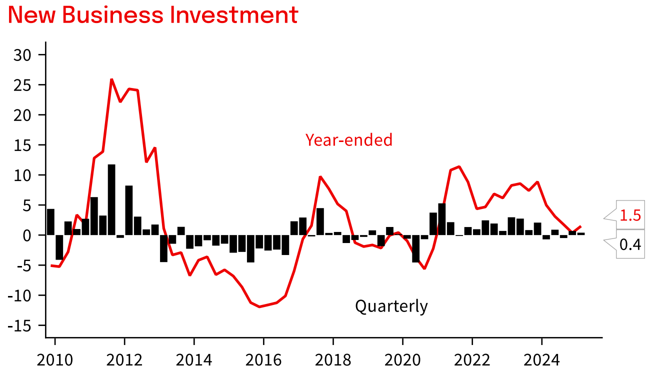
Chart 3: Consumption momentum soft



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Private dwelling investment was stronger than expected, up 2.5% qoq, with a significant pick-up across both houses and alterations & additions. Quarterly business investment growth slowed compared to Q4, driven by a fall in machinery & equipment (especially weaker IT equipment investment). However, this was balanced by stronger growth in non-dwelling construction (up 1.3% qoq), and new engineering construction which was up 1.5%. The mining sector accounted for the growth in overall investment, up 2.4% q/q whereas non-mining investment fell -0.5% q/q.

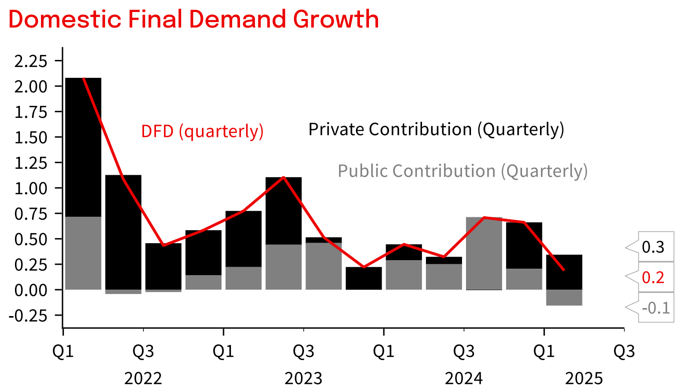
Chart 4: Business investment growth slows qoq



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Public demand detracted from quarterly DFD growth for the first time since mid-2022. Public investment fell 2.0% qoq as some major projects 'approached completion or experienced delays'. Public investment in level terms remains elevated and growth over the year was a still solid 5.1%. Government consumption was flat, after nine consecutive quarters of growth; this partly reflects the unwinding of rebates which shifted electricity spending back to households. Spending on other social benefits programs like Medicare and NDIS also fell over the quarter.

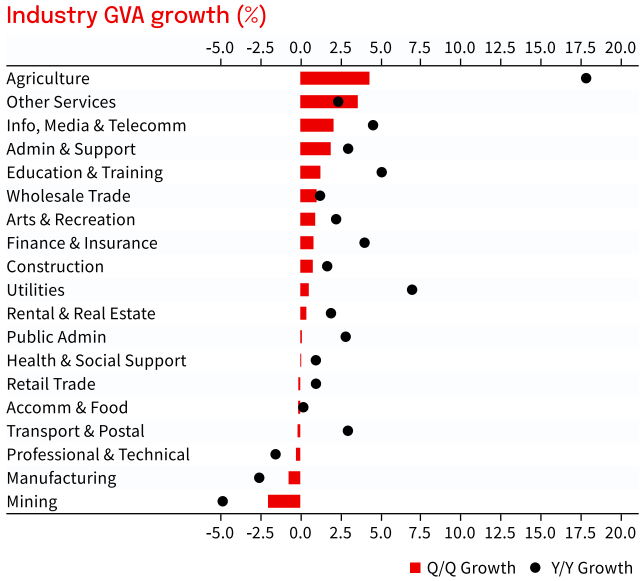
Chart 5: Public demand detracts from growth



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

By industry, agriculture recorded the strongest growth in **gross value added** (GVA) in Q1 – increasing by 4.3% q/q – driven by increased export demand for livestock production (especially to the US). Ex- Cyclone Alfred led to disruptions in some industries like Transport & Postal, Mining and parts of Agriculture (grain production was softer than usual). Construction GVA growth rose with 'increased private investment across both residential and non-residential construction'.

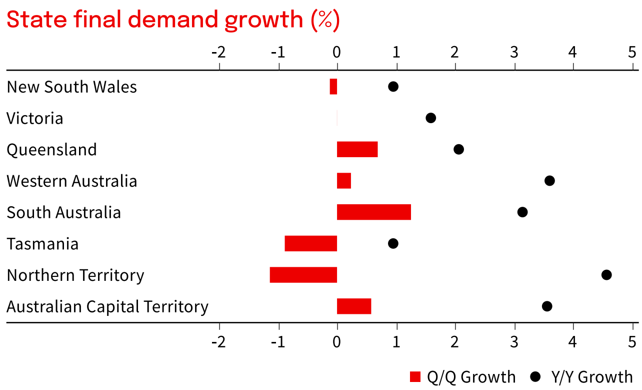
Chart 6: Agriculture led industry growth



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

State final demand (SFD) growth was mixed in Q1 – with strong expansions in Qld (0.7% qoq) and SA (1.3%), driven by household consumption and fixed investment (including business and dwelling). NSW saw a small decline (0.1% qoq) with private sector demand growth modest and a decline in public final demand. SFD was flat in in Vic (0.0% q/q) due to a pull pack in public and business investment offsetting solid consumption growth. All the mainland states saw an increase in dwelling investment. Over the last year, NSW has had the weakest SFD growth (matched by Tas) while the two territories have seen the strongest growth, with WA and SA also outperforming.

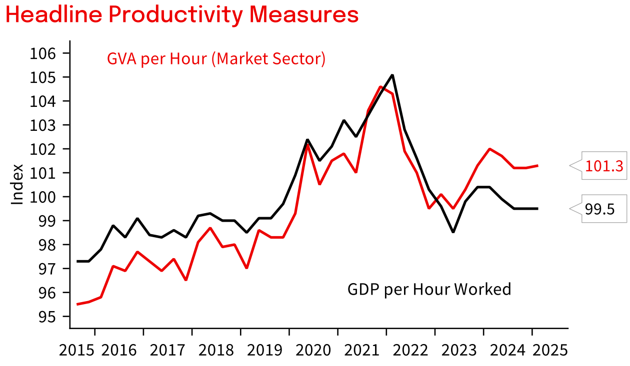
Chart 7: Strong growth in SA & QLD; NSW continues to lag



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Productivity growth remains noticeable by its absence. GDP per hour worked was unchanged (0.0% q/q), while market GVA per hour worked increased marginally (0.1% q/q) – the same outcome as in Q4 and both measures are down yoy (1.0 and -0.6% respectively). The weather impacts in Q1 may have temporarily depressed measured productivity but the subdued trend has been apparent for a while.

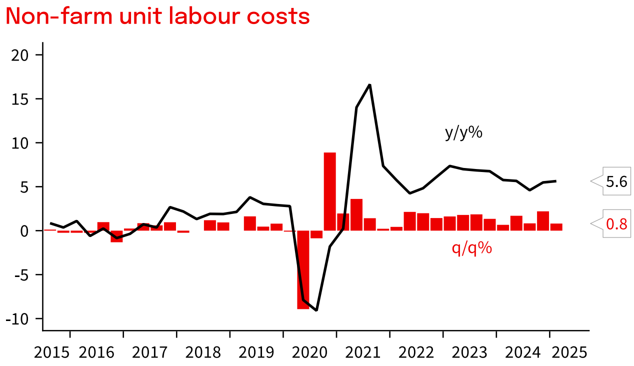
Chart 8: Productivity weak



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Non-farm **nominal unit labour cost** growth was well down on the previous quarter, at 0.8% qoq (2.2% in Q4). The data can be volatile, and the annual number picked up slightly to 5.6% (from 5.5%) which, if sustained, would still appear to be above the level consistent with inflation of around 2.5%.

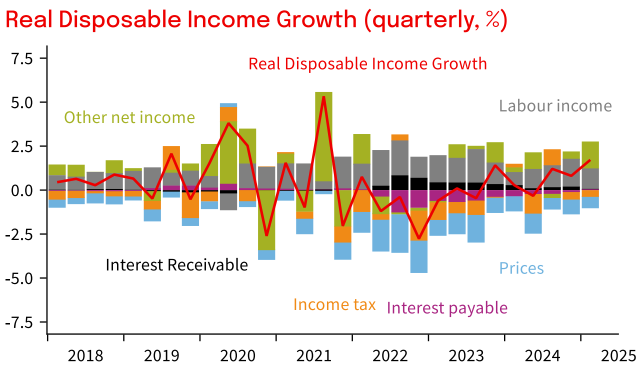
Chart 9: Labour costs remain elevated



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Real disposable income growth rose over the quarter, with a notable pick-up in other net income which reflects higher income support in Queensland and New South Wales, due to Ex-Cyclone Alfred (both from Government social assistance and non-life insurance claims). However, this is a temporary boost to income, which will unwind over coming quarters.

Chart 10: Weather impacted lift in other net income

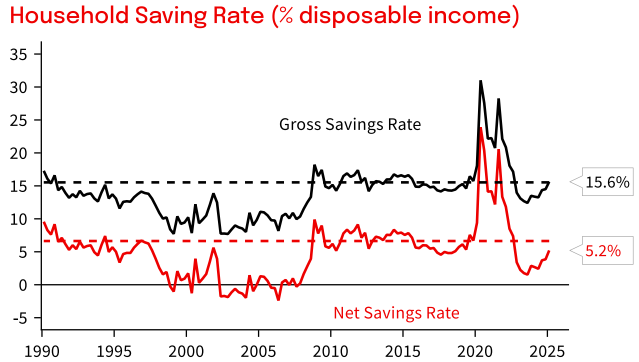


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Growth in compensation of employees (COE) was slightly softer (1.5% qoq, compared to 2.0% in Q4) which also reflects weather conditions in Qld which reduced hours worked via temporary business closures. Lower interest rates over the quarter also led to the first fall in dwelling interest payable since March 2022.

The boost to other net income also flowed through to the household savings ratio. The net savings rate rose from 3.9% in Q4 to 5.2% in Q1. This brings the net savings rate back to the 5-6% pre-pandemic average, though this should unwind in coming quarters. The RBA in the May SoMP had pencilled in the household savings rate of 4.4% in Q2 and a peak of 4.8% in Q4, before falling back to 4.3% across 2026.

Chart 11: Savings rate sharply higher at 5.2%



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

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