Australian Economic Update

GDP Q4 2024 – Past the trough

NAB Group Economics

Key points:

- Q4 GDP growth was 0.6% q/q and 1.3% y/y (NAB 1.4%, Consensus 1.3%, RBA 1.1%) with both public and private demand contributing to growth
- While a little above the RBA's expectation, we don't see anything narrative shifting in today's data
- Household consumption rose 0.4% q/q – better than recent quarters but not strong yet
- Public demand remained a support for growth, with quarterly growth 0.9% q/q and 5.7% y/y.

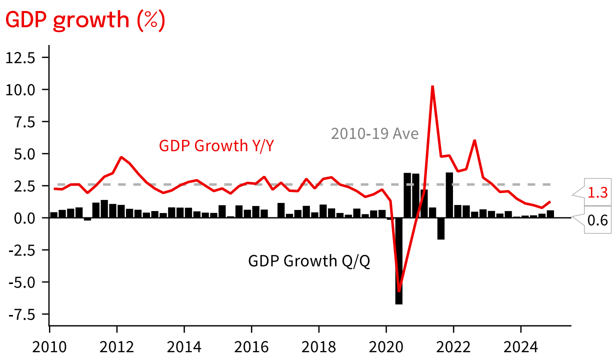
Overview & Implications:

GDP growth was 1.3% over 2024 (NAB 1.4%, Consensus 1.3%, RBA 1.1%). Despite the small upside surprise to the RBA's recent forecast, we do not see this as narrative shifting. Consumption growth was in line with the RBA's forecast at 0.4% q/q and 0.7% y/y. Today's data is consistent with the assessment that growth is past its trough and should pick up further helped by an improvement in real household income. Real household income growth was 1.8% over 2024, near its pre-pandemic average of 2.0% y/y, after a period of declines alongside elevated inflation. The net savings rate was 3.8%, below the 5-6% that prevailed prior to the pandemic, but up from its low of 2.4%.

GDP per capita rose 0.1% q/q, its first rise in seven quarters, as growth drivers rebalance with population growth past its peak and per capita spending picking up. Domestic final demand growth was 0.5% q/q, with a positive contribution from net trade in the quarter but remains stronger than GDP growth in year-ended terms at 2.1%. Public and private demand both contributed positively to growth in the quarter.

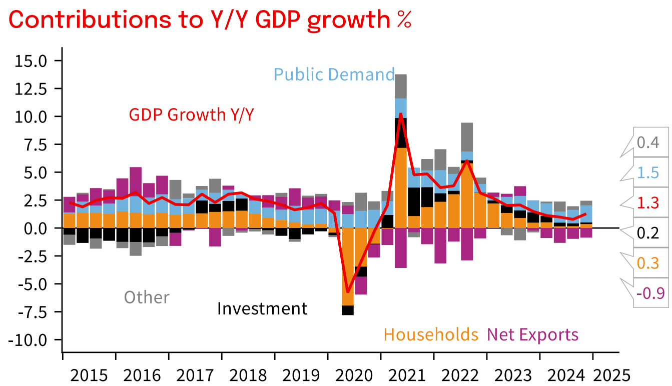
Looking forward, we continue to expect growth of 2¼% over 2025. That would reflect a return to trend after a period of rebalancing that has moved the economy to better balance and so is not necessarily threatening to the inflation outlook. NAB's view is that the RBA's inflation outlook remains a little too cautious, and that will be enough to support gradual policy normalisation as the RBA seeks to support a healthy labour market and avoid unnecessarily leaning against growth outcomes. We expect the next cut in May and a terminal policy rate of 3.1% in 2026. Signs of retightening in the labour market or less benign inflation would delay easing, and while the focus will remain on CPI data, it is worth noting that productivity growth remains weak and unit labour cost measures remain elevated in today's data, which support the RBA caution that disinflation could stall.

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

5 March 2025 | Authors: Taylor Nugent, Tony Kelly, Gerard Burg, Michelle Shi

Detail:

On an **expenditure basis there was relatively broad-based growth.** The drivers of GDP growth in the quarter were public demand, household consumption, net exports, and to a lesser extent business investment and stocks. The exception was dwelling investment which saw a small fall.

Table 1: GDP expenditure components

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Sep-24	Dec-24	Dec-24	Dec-24
Household Consumption	-0.1	0.4	0.7	0.2
Dwelling Investment	1.5	-0.4	2.5	0.0
Underlying Business Investment^	-0.4	0.5	0.3	0.1
Machinery & equipment	0.6	-0.1	0.8	0.0
Non-dwelling construction	-2.0	0.1	-4.5	0.0
New building	-3.9	-4.0	-9.7	-0.1
New engineering	-0.5	3.5	0.0	0.1
Public Final Demand	2.7	0.9	5.7	0.3
Domestic Demand	**0.7**	**0.5**	**2.1**	**0.5**
Stocks (a)	-0.3	0.1	0.2	0.1
GNE	**0.4**	**0.6**	**2.3**	**0.6**
Net exports (a)	**0.1**	**0.2**	**-0.9**	**0.2**
Exports	0.2	0.7	1.7	0.2
Imports	-0.2	0.1	5.8	0.0
GDP	**0.3**	**0.6**	**1.3**	**0.6**

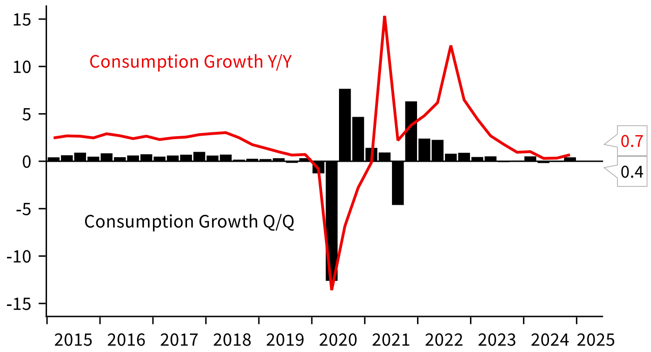
(a) Contribution to GDP growth ^ Excluding transfers between the private and public sector

While the strongest quarterly GDP growth for two years, domestic demand growth of 0.5% q/q was similar to that seen between Q1 to Q3.

Household consumption grew by 0.4%, after a small fall in Q3, with growth in discretionary and essential spending similar (0.4% and 0.5% q/q respectively). Excluding electricity consumption (to account for the impact of energy subsidies on measured consumption), the pickup is more modest but, consistent with the improvement in household income, consumption does now appear to be on a firmer footing.

Chart 3: Consumption growth showing improvement

Household consumption growth (chain volumes, s.a.)

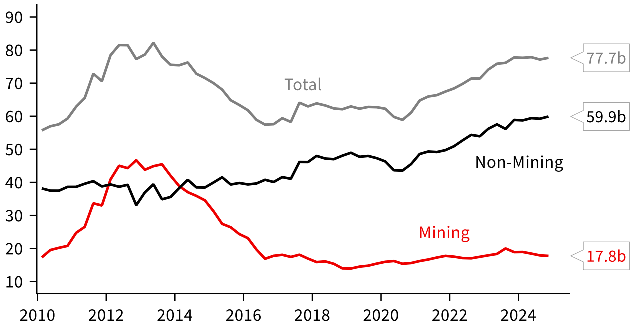


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Business investment was mixed across the major categories but was up overall due to a lift in engineering construction, and continued robust growth in intellectual property, investment. New building investment was the main drag, down 4.0%. The non-mining sector remains the main driver – and while investment growth has moderated from the rapid rates seen over 2021-2023 – it remains positive.

Chart 4: Business still rising outside mining sector

Business investment (chain volumes, $b)

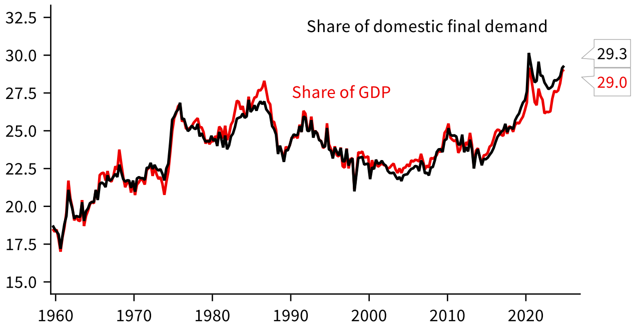


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Public demand growth remained robust – up 0.9% q/q and 5.7% for the year (although the classification of electricity subsidies exaggerates the year-ended growth rate). While growth in public investment is showing signs of flattening out, the uptrend in consumption remains in place. Overall, as a share of nominal GDP, public demand is close to the highs seen in the pandemic.

Chart 5: Public demand remains strong

Public demand (nominal % shares)



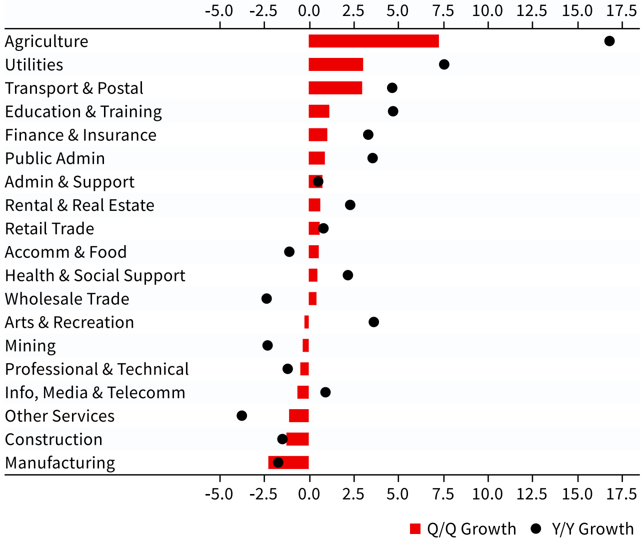
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

By industry, agriculture recorded the strongest growth in **gross value added** (GVA) in Q4 – increasing by 7.3% q/q – as improved seasonal conditions supported a strong grains harvest and increased production of livestock. Grain storage and transport contributed to the 3.0% q/q increase in the Transport, Postal and Warehousing sector as well. Financial and Insurance Services (up by 1.0% q/q) and Electricity, Gas, Water and Waste Services (3.0% q/q) also provided a sizeable contribution to GVA growth in Q4.

In contrast, manufacturing contracted by 2.3% q/q and construction by 1.3% q/q (reflecting weaker activity in construction services and non-residential building construction). Mining GVA also modestly contracted – down by 0.3% q/q – with weaker output of natural gas and iron ore largely related to short term disruptions and maintenance activity.

Chart 6: Agriculture & transport led industry growth

Industry GVA growth (%)

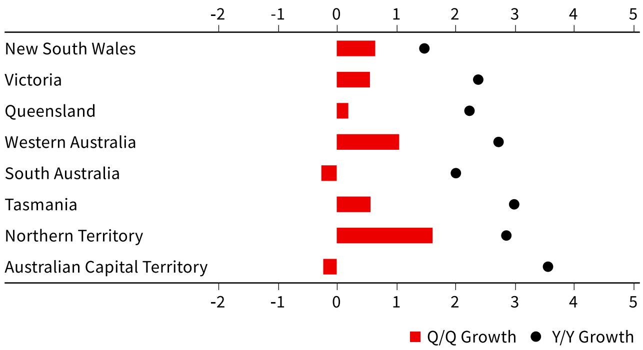


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Growth in **state final demand** (SFD) was mixed in Q4 – with strong expansions in NT (1.6% q/q) and WA (1.1% q/q) contrasting with a decline in SA (-0.3% q/q). Private sector investment was a major contributor to the growth in NT and WA in Q4 (primarily related to mining), while it was a sizeable drag on both QLD and SA (down by 2.5% q/q and 2.3% q/q respectively). Household consumption grew strongly in TAS (1.0% q/q), WA (0.7% q/q) and QLD (0.6% q/q) while it contracted slightly in ACT and saw no change in SA. There were sizeable differences in spending on utilities between states – with differing energy subsidy measures impacting the aggregate spending data.

Chart 7: Strong growth in WA & NT, with SA lagging

State final demand growth (%)

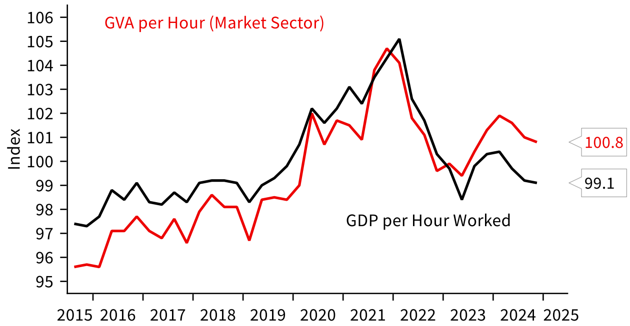


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Productivity outcomes were again weak. For the third quarter in a row, both GDP per hour worked (-0.1% q/q), as well as market GVA per hour worked (-0.2% q/q), declined. The overall trend for the market sector measure remains healthier but both measures were lower than a year ago.

Chart 8: Productivity weak

Headline Productivity Measures

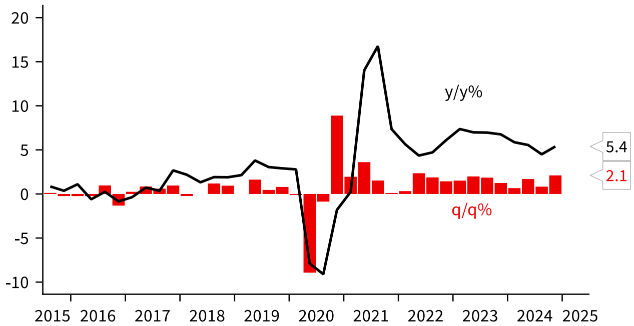


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Non-farm **nominal unit labour cost** growth accelerated in the quarter, rising 2.1% q/q (5.4% q/q). The data can be volatile on a quarterly basis and over 2024 there was step down from its growth over 2023. However, further improvement is need as labour costs remain high and are not at a level consistent with inflation of around 2.5%.

Chart 9: Labour costs remain elevated

Non-farm unit labour costs

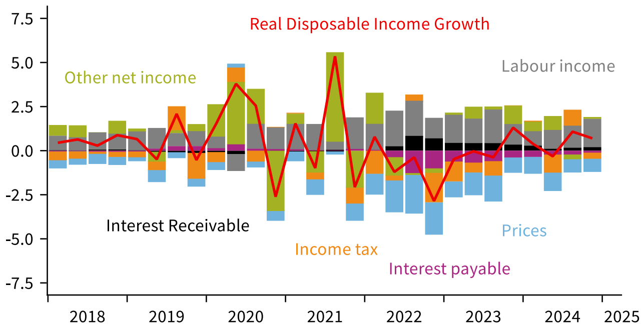


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Real disposable incomes rose in the quarter, supported by labour income. Real disposable income growth was 0.7% in quarterly terms, and 1.8% over 2024 – near its pre-pandemic average of 2.0% y/y.

Chart 10: Income growth supported primarily by labour income

Real Disposable Income Growth (quarterly, %)

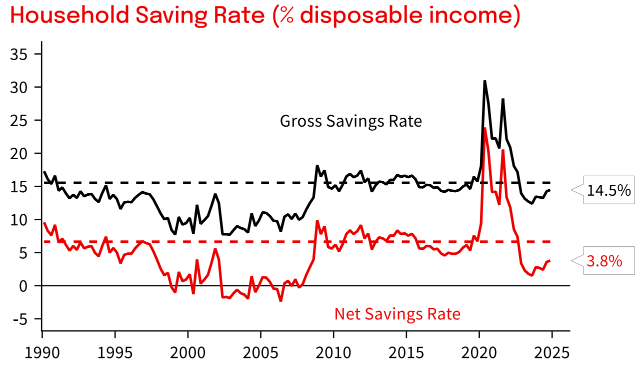


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Labour income continues to be the largest contributor to the improvement, reflecting ongoing resilience in the labour market. Compensation of employees was up 2.0% in Q4 (compared to 1.6% in Q3) and up 6.1% y/y. Public sector compensation (2.4% q/q) was higher than private sector compensation (1.9% q/q), which the ABS flagged reflected wage increases within the NSW and Vic public services due to new enterprise agreements, and increased employment during the Qld state election.

The net savings rate rose from 3.6% in Q3 (revised up from 3.2%) to now 3.8% in Q4. This was a fairly modest rise, but continues to move the net savings rate closer towards the pre-pandemic average of 5-6%. This was near the RBA's forecast of 3.9% in the February *Statement on Monetary Policy.*

Chart 11: Savings rate modestly higher at 3.8%



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

Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Executive Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+(61 0) 457 517 342

Australian Economics

Gareth Spence
Head of Australian Economics
+(61 0) 422 081 046

Michelle Shi
Senior Economist
+(61 0) 426 858 831

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

Thao Nguyen
Economist – Data & Analytics
+(61 0) 451 203 008

International Economics

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Skye Masters
Head of Research Corporate & Institutional Banking
+(61 2) 9295 1196