Australian GDP Preview Q1 2025

A private sector improvement to support growth

NAB Economics

Key points:

- NAB expects a Q1 GDP print of 0.5% q/q (1.7% y/y).
- Consumption growth looks to have lost some momentum, but other private sector components will support growth in the quarter.
- This outcome would be broadly in line with the RBA's Q1 forecast in the May SoMP.
- Partials for inventories, trade and public spending will be released early next week which will further firm up the estimate ahead of the release.

Details:

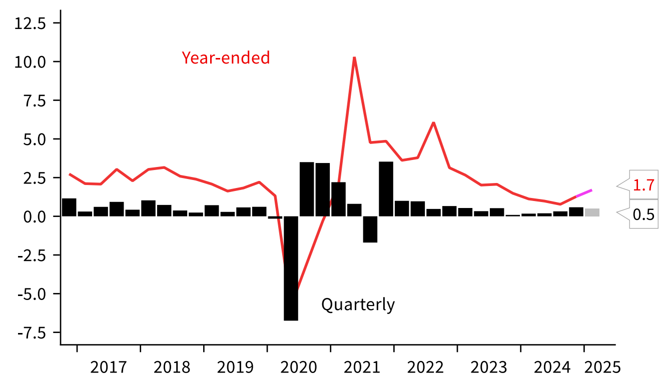
- We expect GDP to have risen 0.5% qoq (1.7% yoy) in Q1. Based on partial data to date, the private sector looks to have made a solid contribution to growth in the quarter.
- However, **partial indicators point to some loss in momentum for household consumption growth in Q1**, though the unwind of subsidies in the quarter may boost the headline number. Ex-cyclone Alfred may also drive some volatility in the QLD numbers.
- The **business and dwelling** investment partials point to **a positive contribution** to growth in the quarter despite a small fall in machinery & equipment spending (which is the largest component in business investment).
- We have pencilled in a **further increase in both public sector consumption** (including health and education) and public **investment** in coming quarters.

Table 1: Real GDP Growth Forecasts (%)

	qoq		yoy	Contribution to qoq
	Dec-24	Mar-25	Mar-25	Mar-25
Household Consumption	0.4	0.3	0.5	0.1
Dwelling Investment	-0.4	1.5	3.3	0.1
Underlying Business Investment (a)	-1.3	0.8	-1.6	0.1
Underlying Public Final Demand	1.0	1.0	5.5	0.3
Domestic Final Demand	**0.5**	**0.6**	**2.2**	**0.6**
Stocks (b)	0.1	0.1	0.1	0.1
GNE	**0.6**	**0.7**	**1.7**	**n.a.**
Net exports (b)	**0.2**	**-0.2**	**0.2**	**-0.2**
Real GDP	**0.6**	**0.5**	**1.7**	**n.a.**

(a) New machinery & equipment and non-dwelling construction
(b) Contribution to GDP growth

Chart 1: Real GDP Growth Forecasts (%)



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

- As always, the national accounts provide the most **comprehensive view of household income and saving dynamics, productivity growth** and a broader set of cost/price measures.
- With partial data pointing to a loss in momentum in underlying consumption growth, a clearer picture on **savings trends and real income drivers will provide additional context**, with improving real income remaining key to sustaining the recovery in consumption and activity more broadly.
- **For the RBA, growth of 0.5% qoq (1.7% yoy) is broadly in line with their May SoMP forecasts.** However, with inflation back within the target range and global growth risks tilted to the downside the focus from here will become more balanced between the inflation and labour market components of the RBA's mandate.

  The durability of the pick-up in consumption will be important, as will trends in private business

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and dwelling investment which will need to sustain the relatively healthy outcomes expected in the quarter in order for growth to return to trend as the RBA forecasts.

- Though volatile on a quarterly basis, the key **productivity measures as well as nominal unit labour costs growth (productivity adjusted wage growth) will continue to be important**. Productivity looks to have increased slightly in the quarter with output growth likely outpacing the growth in hours worked, though this trend will need to be sustained following weak outcomes over recent years.
- **Unit labour costs growth remains elevated** and will continue to form an important input into the RBA's assessment of tightness in the labour market and sustainability of the unemployment rate in the low 4% range.
- **Looking forward** we expect consumption growth to continue to recover, supported to by ongoing real incomes growth. However, the savings rate remains low relative to its pre-pandemic level and weak consumer confidence may see some restraint. In addition, population growth is slowing and will not be as significant a support as recent years. Elsewhere, an improvement in business investment growth and sustained growth in dwelling investment will be required for overall growth to return to trend.
- **Public sector spending (both state and federal) is also expected to remain a support** but growth is likely to ease from here as infrastructure pipelines continue to level off.
- **Overall, we see growth over 2025 remaining below trend despite the ongoing recovery before rising to around 2¼% over 2026.** We see the largest risks to growth this year coming from a weaker global backdrop, and in particular the risk that heightened global uncertainty leads to weaker business investment and employment outcomes and weighs on consumers despite the improving real income story.