Australian Economic Update

GDP Q2 2025 – Consumers lead the way

NAB Group Economics

Key points:

- GDP surprised higher at 0.6% qoq and 1.8% yoy (Consensus and RBA 0.5%, NAB 0.3%)
- We had expected firming consumer momentum, but household consumption was stronger than we had pencilled in
- Consumption is being supported by the return to real income growth, and has more than offset softer public sector contributions to growth since late 2024
- NAB continues to expect the RBA to cut in November and February, but easing is not on autopilot

Overview & Implications:

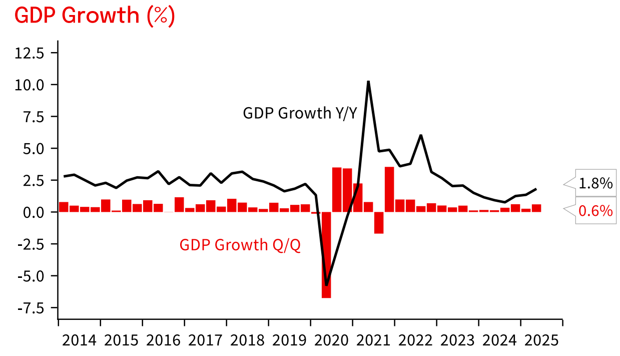
GDP rose 0.6% qoq (1.8% yoy) in Q2. Private demand drove growth in the quarter, with household consumption up 0.9% even as private investment contributed little to growth. Net exports were a small positive. A rise in public consumption, supported by health and election-related spending was offset by lower public investment to leave public final demand broadly flat.

Household consumption rose a surprisingly strong 0.9% qoq (NAB 0.5%). Households are now clearly responding to the improved real income picture and discretionary categories were the driver of strength in Q2. The ABS again highlighted periods of promotional activity as a driver, consistent with the pattern of strong Q4, weak Q1, strong Q2. The proximity of Easter and ANZAC day may also have supported hospitality spending and weighed on hours worked in the quarter. Looking through that quarter-to-quarter volatility, consumption growth has clearly picked up on an underlying basis and is expected to remain a support for growth. The definitional treatment of electricity subsidies overstate the extent of recent acceleration, but only at the margin.

The savings rate fell back to 4.2% from 5.2%. That is a combination of strength in household spending and a moderation in income growth in the quarter after a boost from insurance payouts in Q1 related to the severe weather in QLD and NSW.

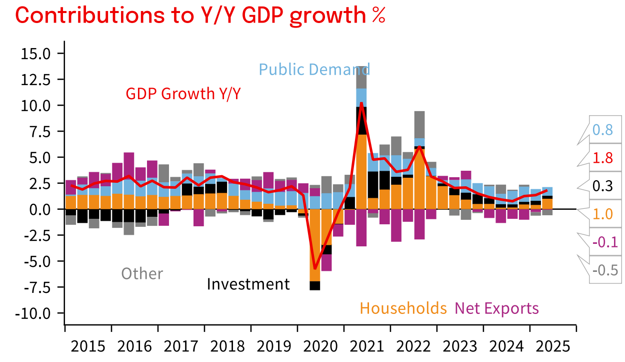
Looking forward, we expect growth to rise to around its trend level of 2¼ over 2026. NAB continues to expect the RBA to ease policy in November and February, as the RBA moves policy to a broadly neutral stance of 3.1%. Risks from the global backdrop remain elevated, but for now, our expectation is that these translate into an only modest headwind for Australian activity. The RBA's policy normalisation is now reasonably well progressed, and today's data will increase the RBA's confidence that consumption will be a support for growth. That leaves little urgency to adjust policy quickly while the labour market remains resilient given uncertainty about how restrictive policy remains, and amid some upside risks to inflation, namely from shelter categories.

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

3 September 2025 | Authors: Taylor Nugent, Michael Hayes, Gerard Burg, Tony Kelly

Detail:

By **expenditure component,** growth in the quarter was driven by household consumption (0.4ppt contribution). Business investment was weak although residential investment and ownership transfer costs rose. While government consumption also grew strongly, this was offset by another fall in public fixed investment. Overall, the recent shift towards private demand growth (evident since Q4 2024), and less reliance on public demand, remained in place.

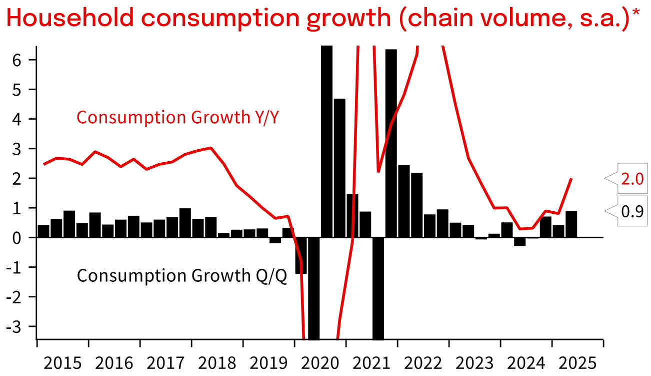
Table 1: GDP expenditure components

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Mar-25	Jun-25	Jun-25	Jun-25
Household Consumption	0.4	0.9	2.0	0.4
Dwelling Investment	2.1	0.4	4.8	0.0
Underlying Business Investment^	0.3	-0.4	0.2	0.0
Machinery & equipment	-1.4	-0.1	-0.6	0.0
Non-dwelling construction	1.4	-1.7	-1.9	-0.1
New building	2.1	-0.9	-4.9	0.0
New engineering	0.9	-2.4	0.6	-0.1
Public Final Demand	-0.2	0.0	3.0	0.0
Domestic Demand	0.3	0.5	2.2	0.5
Stocks (a)	0.3	-0.1	-0.1	-0.1
GNE	0.5	0.4	2.1	0.3
Net exports (a)	-0.2	0.1	-0.1	0.1
Exports	-0.7	1.7	1.5	0.5
Imports	0.1	1.4	1.9	-0.3
GDP	0.3	0.6	1.8	0.6

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

Household consumption grew by 0.9% qoq (2.0% yoy). Discretionary spending led the way (1.4% qoq). The ABS attributes the growth to households capitalising on end-of-year sales, goods damaged from extreme weather events being replaced, a bad flu season (increasing demand for medical services) and the close of proximity of ANZAC day and Easter leading to more time off work and higher tourism related expenditure (although when discussing seasonal factors they appear to downplay the significance of the latter).

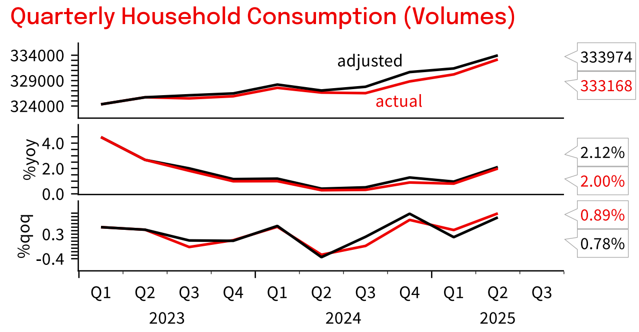
Chart 3: Consumption growth lifting



*Covid extremes truncated
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

An unwinding of electricity subsidies (shifting electricity spending from public to private) added 0.1ppt to household consumption in Q2 and 0.2ppt in Q1, after the expansion weighed in H2 2024.

Chart 4: Consumption adjusted for electricity

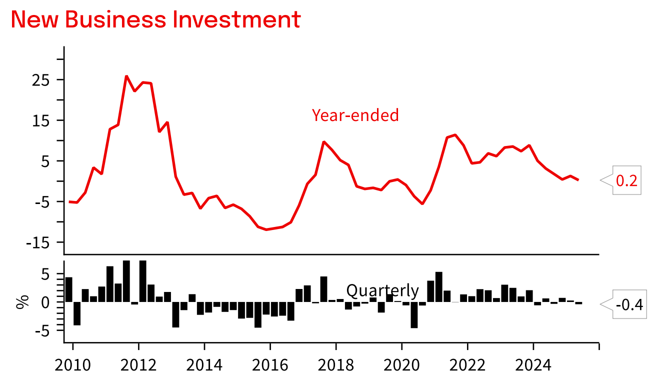


*adjusted consumption treats electricity paid for by government rebates as household consumption rather that government consumption
Source: National Australia Bank, ABS

Private dwelling investment was up 0.4% qoq, with similar increases across both new dwellings and alterations & additions. While a step down from growth in Q1 (2.1%) in annual growth terms there was little change (~5% yoy).

Business investment growth fell 0.4% qoq in underlying terms, extending the recent soft patch. Compared to a year ago, it only grew 0.2%, the weakest annual growth rate since 2020. Machinery & equipment and non-dwelling construction both fell, partly offset by ongoing growth in intellectual property investment (including ongoing strong growth in software). By sector, non-mining investment was up 0.2% qoq (but this did not fully reverse the Q1 decline) while mining investment declined (and has fallen 2.7% yoy).

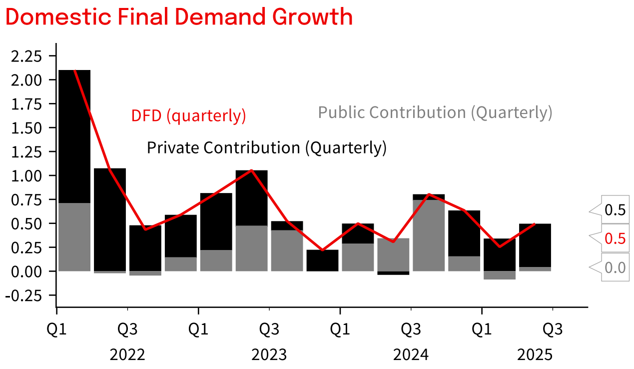
Chart 4: Business investment growth slows



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

Public demand was flat, with an increase in federal government consumption (2.4% qoq) offset by falls in state & local consumption (-0.3% qoq) and public fixed investment (-3.9% qoq). State & local government consumption was held back by the further unwinding of electricity subsidies but federal consumption was supported by Medicare and PBS spending, a bad flu season and federal election expenses. The fall in public fixed investment was the third consecutive quarterly decline; the annual growth rate of -0.8% yoy is the weakest since 2020, driven by a decrease in state government expenditure on transport and health infrastructure.

Chart 5: Public demand growth remained soft

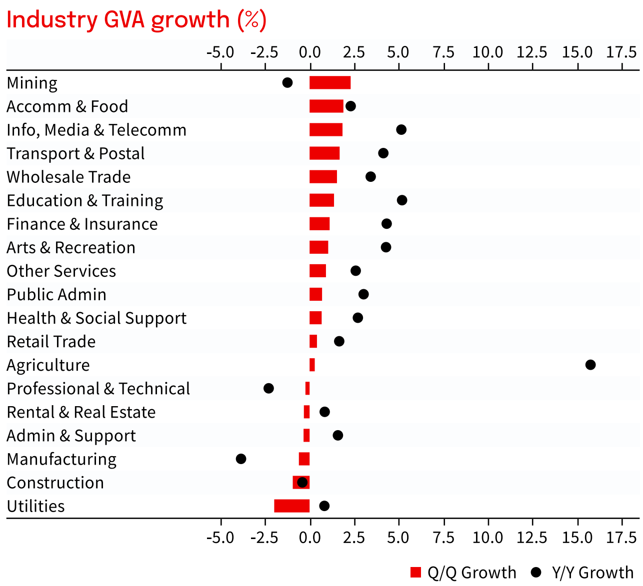


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

By industry, mining recorded the strongest growth in **gross value added** (GVA) in Q2, increasing by 2.3% qoq, as the sector recovered from weather and maintenance related disruptions in Q1, with iron ore output notably increasing. That said, overall mining output was lower in year-on-year terms. Accommodation & Food Services, Information Media and Telecommunications and Transport, Postal and Warehousing also recorded relatively strong growth in GVA. While agriculture only saw a modest qoq increase, it spiked almost 16% yoy.

In contrast, output in the utilities sector contracted by 2.0% qoq, while construction fell by 0.9% qoq as major infrastructure projects have started to wind down, despite an increase in residential construction.

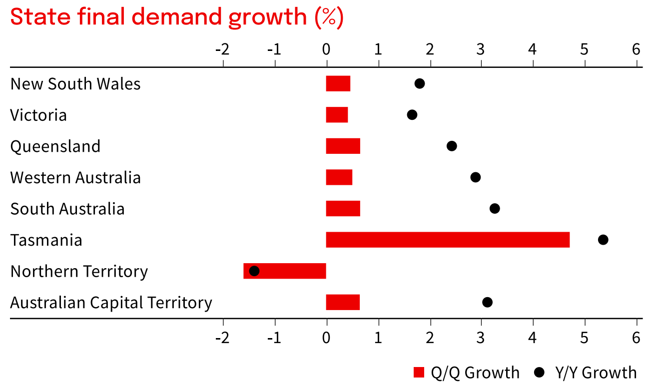
Chart 6: Mining stronger following Q1 disruptions



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

Growth in **state final demand** (SFD) was led by Tasmania, fuelled by a surge in public investment. Among mainland states, QLD and SA saw the fastest growth – at 0.7% qoq – with the former driven by household consumption (more than offsetting weak investment) and the latter by public consumption. VIC (0.4% qoq), NSW and WA (both 0.5% qoq) saw comparatively softer growth. The strong growth in QLD household consumption was driven by a range of sectors. In addition to electricity spending as state subsidies unwound, QLD saw larger pickups in hospitality, recreation and household furnishing spending as well as purchases of motor vehicles (when compared with other states).

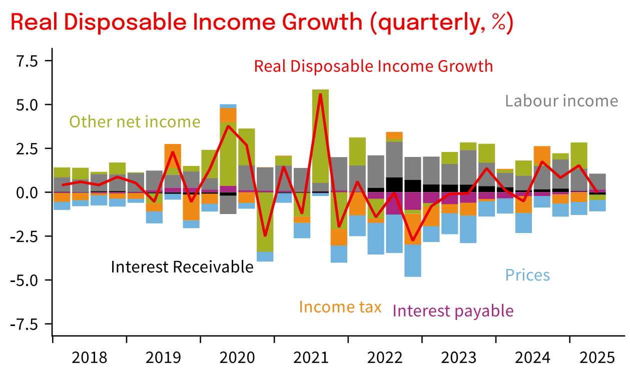
Chart 7: Outside TAS, QLD and SA recorded robust growth in Q2



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

Real disposable income growth was flat over the quarter as the expected unwind in other net income from Q1 was a drag. The fall in other net income was driven by the decline in non-life insurance claims and social benefits which previously grew strongly in response to ex-tropical cyclone Alfred.

Chart 8: Unwind in the weather impacted lift in other net income



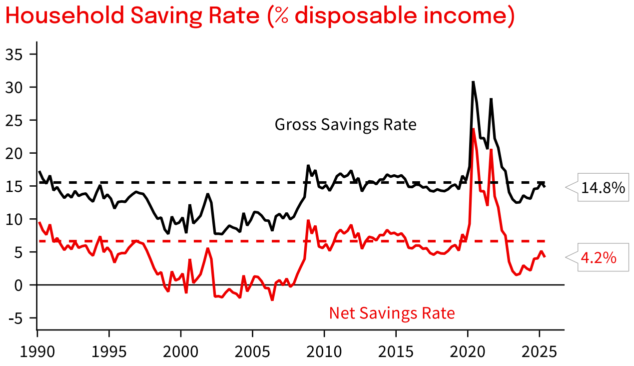
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Growth in compensation of employees (COE) was 1.1% qoq which was slightly softer than the two previous quarters. Growth in private COE slowed slightly to 0.8% qoq from 1.2% in Q1 but public COE grew strongly (2.1% qoq), driven by enterprise agreements and the federal election.

The net savings rate dropped to 4.2% (from 5.2% in Q1) due to the stronger-than-expect rise in consumption and the temporary boost to income in Q1 rolling off. The net savings rate remains a little below the 5-6%

pre-pandemic average but is well above its 2023 lows. The RBA in the August SoMP had forecast a household savings rate of 4.7% in Q2, before falling back to 4.4% by 2027.

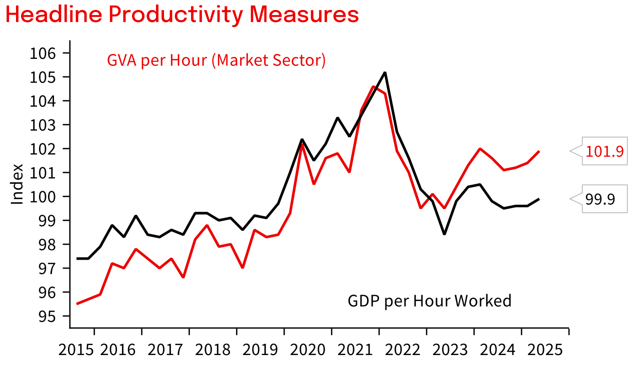
Chart 9: Savings rate falls by 1ppt in Q2



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

Productivity growth improved slightly in the quarter but trend remains slow. GDP per hour worked rose by 0.3% qoq, while market GVA per hour worked rose by 0.5% qoq, the strongest quarterly growth since Q1 2024. Both measures are up slightly in year-ended terms (0.2% and 0.3% respectively). The quarterly outcome will not allay concerns about weak underlying productivity growth and may have been supported by additional leave being taken around Easter and ANZAC day weighing on hours worked in the quarter.

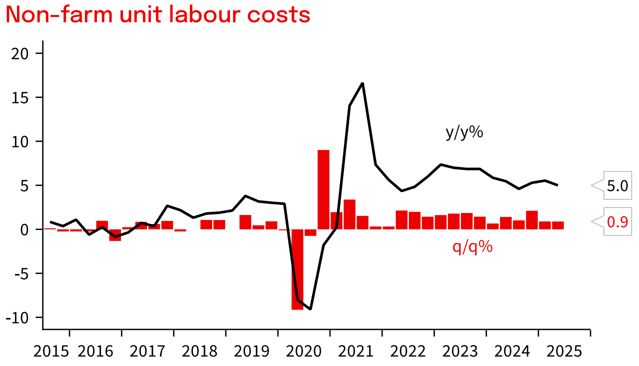
Chart 10: Productivity weak



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

Non-farm **nominal unit labour cost** growth was 0.9% qoq, in line with its Q1 pace, to be down in year-ended terms to 5.0% yoy (from 5.5% in Q1). This fall will have to be sustained over 2025 and 2026 to be consistent with the RBA's outlook in the August SoMP. The RBA expect unit labour costs to continue to ease to a rate of around 2.5%.

Chart 11: Labour costs remain elevated



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

Group Economics

Sally Auld
Group Chief Economist
+(61 0) 422 224 752

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

Michael Hayes
Economist
+(61 0) 411 186 777

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