Australia Economic Outlook Q2 2025

KPMG Australia

July 2025

Executive summary

The recent outbreak of hostilities between Israel and Iran highlights the ‘whack-a-mole’ nature of today’s geopolitical environment, where just as one source of tension begins to subside, another emerges.

The global economy is experiencing a geopolitical-driven slowdown. Despite a recent de-escalation in trade tensions, the outlook for global growth is still unsettled. Since our last report, the Middle East conflict re-emerged as a new source of risk, creating the potential to reignite global inflation through an oil price shock, which created a dilemma – albeit a fleeting one – with regards to how central banks were going to react to the dual problem of potentially escalating prices in a weakening global economy. Thankfully, the Israel–Iran–US conflict started and finished in short order, first and foremost minimising the cost of human life for all sides, but also only being felt as a short, sharp shock to global markets, meaning the need for a reactionary monetary policy response has (luckily) been negated.

On the domestic front, the strengthening of the economy seen in the final quarter of 2024 appears to have been short-lived, with real GDP only growing by 0.2% in the March quarter 2025 as private sector activity was not strong enough to offset the pullback in public sector spending. GDP growth for the quarter was substantially weaker than the 0.6% recorded in the December quarter and failed to meet market expectations of 0.4%.

The overall contribution of public demand to GDP growth was negative in the March quarter 2025, the first such drag since the June quarter 2018. This pullback in public demand is not just a statistical blip; it underscores a deeper vulnerability in the Australian economy. It highlights the outsized role the public sector has played in propping up demand in recent quarters; a role that many economists, including KPMG, have previously highlighted as being increasingly unsustainable.

The economy’s reliance on public spending has become a double-edged sword: while it supported growth in the short term, it now exposes the economy to greater risk as fiscal support begins to wane. With the private sector yet to fully regain its footing, contributing little to growth this quarter, any significant reduction in government expenditure risks derailing the broader recovery.

The labour market has experienced a prolonged period of resilience, but the recent uptick in the unemployment rate to 4.3% in June suggests that this period of strength is nearing its end. This shifts comes as employment growth in non-market sectors such as aged care, health care and public sector services slows down; while the private sector remains too weak to take up the jobs growth momentum.

The latest inflation figures show a continued pattern of disinflation across the Australian economy, both at a headline and a core inflation perspective. Headline inflation has dipped to 2.1% in the year to May, down from 2.4% in the March quarter, marking the lowest level since October 2024. Trimmed mean inflation also fell to 2.4% from 2.9% in the March quarter.

The inflation outlook is further complicated by the increasing geopolitical tensions, which could mean temporarily higher inflation. However, we believe that the Reserve Bank of Australia (RBA) will look through this and shift their focus to the slowing economy as the current stable inflationary environment should provide the needed comfort. KPMG continues to hold the view that the cash rate is likely to be at 3.1% by the end of the year.

Looking ahead, the transition from public-sector-led growth to private-sector-driven activity will take time. However, with further rate cuts expected, we anticipate that private sector momentum will gradually build. In the post-pandemic economy, persistent inflation, elevated interest rates, and housing affordability pressures have widened the financial divide between younger, cash-strapped consumers and older, wealthier Australians; therefore, resulting in a two-speed economy. A more accommodative cash rate, alongside stable inflation and a recovery in real wages, should help rebalance this divide, particularly supporting those who have been most financially constrained.

This quarter we also provide updated projections for a selection of key industries (see the Appendix).

KEY FORECASTS	2024 (a)	2025 (f)	2026 (f)
Real GDP			
Average annual growth	1.0%	1.6%	2.1%
Year ended growth	1.3%	1.8%	2.0%
Unemployment rate	4.0%	4.3%	4.4%
Inflation			
Headline CPI	2.4%	2.6%	2.5%
Core CPI	3.3%	2.7%	2.7%
RBA cash rate	4.35%	3.10%	2.85%
AUD/USD	0.65	0.65	0.66

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Global landscape

Global landscape

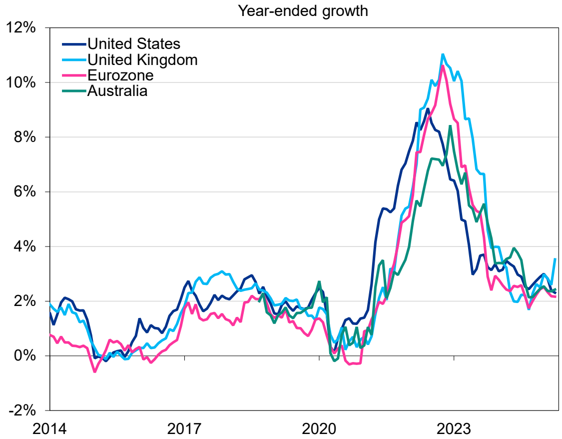
The global economy is experiencing a geopolitical-driven slowdown. Despite a recent de-escalation in trade tensions, the outlook for global growth is still unsettled. The Middle East conflict also re-emerged as a new source of risk, creating the potential to reignite global inflation through an oil price shock.

The global outlook has arrived at a key juncture, with the outcome critically dependent on the pathway of ongoing trade negotiations.

After a period of stabilisation, the global economy was tipped to continue its gradual recovery in 2025. However, this reprieve looks to be short-lived, with significant uncertainty surrounding US trade policy weighing down global growth prospects. Although the eventual position of the Trump administration is not yet fully established, a new set of challenges has emerged during the past couple of months.

Even without the substantial disruptions to international trade norms following the announcement of US tariffs, the global economic performance was not expected to reach the pre-pandemic trend, due to weakened supply chains and geopolitical tensions such as the continuing war in Ukraine. Additionally, advanced economies face structural obstacles like ageing populations, sluggish investment, and persistent low productivity growth, limiting their ability to return to previous long-term growth. These trade headwinds have only further complicated the global policy environment, with forecasts for global growth being revised downwards.

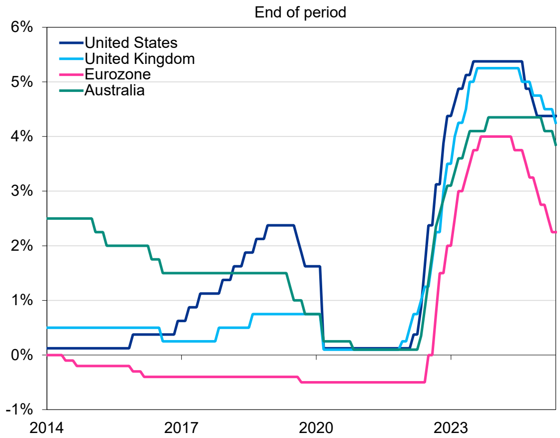
FIGURE 1
Inflation in Selected Advanced Economies



Source: BLS, ONS, Eurostat, ABS, Haver, KPMG

Global disinflation progress has stalled, or even reversed in some countries, further complicating the balancing act which must be achieved by policymakers. Although continuing to ease, services inflation remains at elevated levels, while goods inflation has seen a recent uptick. Some nations may require a further easing of monetary policy settings to support growth, in this context of weakening growth prospects.

FIGURE 2
Policy Rates in Selected Advanced Economies



Source: BoE, ECB, FRB, RBA, Haver, KPMG

However, other jurisdictions may be forced to prioritise new threats to inflation, driven by the impact of tariffs and supply chain disruptions. This could involve a slower easing process, or even an increase to interest rates.

Fiscal policy will reignite ongoing dilemmas, which will place pressure on existing fragilities within government balance sheets. This reversal of globalism may require short-term uplifts in fiscal support to support growth, alongside long-term commitments to increased defence spending. At the same time, government budgets are under pressure, with rising debt to GDP ratios elevating discussions about the sustainability of national debt.

This has been particularly evident in long-term bond yields, driven by concerns surrounding trade policy, future inflation and growth prospects, as well as debt management. This will only further raise finance costs and interest repayments. Box A examines these trends in bond markets further.

Despite these gloomy developments, it is important to note that a variety of pathways are possible. On the upside, if ongoing dialogue can successfully ease tensions, the disruption to global trade links could be far less than what is implied by the recently announced reciprocal tariffs and retaliatory measures. The announcement of a 90-day pause to most US tariffs, as well as a mutual de-escalation in retaliatory tariffs with China, have been welcome developments which signal that a less disruptive outcome can be achieved.

Box A: **Yield curves steepened across the globe as a result of significant trade uncertainty and pressure on government balance sheets.**

A sell-off across global bond markets has seen long-term bond prices fall, and hence, yields rise as they have an inverse relationship with bond prices. Looking at the US, the 10-year treasury bond yields have fluctuated around the psychological threshold of 4.5%, with similar trends seen in other parts of the world.

Bond yields are typically determined by:

- stance of monetary policy
- market expectations
- macroeconomic conditions
- perceived credit risk.

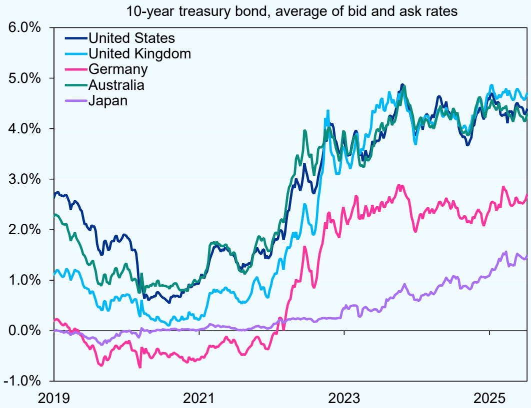
Bond yields rose following the US tariff announcements as they reflect the concern about the implications of trade policy uncertainty on future growth and inflation. Credit risk is also being re-evaluated, with fiscal sustainability in the US further strained by tax cuts and spending measures from the so-called ‘One Big Beautiful Bill’. A shift away from globalisation has also seen governments lift defence spending, particularly in Europe, further adding to upward pressure on yields.

Notably, this period of policy turmoil has also partially eroded the perception of US bonds as a safe asset, with the rise in long-term yields mainly attributed to higher risk premiums. Expectations surrounding future policy rates, which would be driven by shifting views on future US growth and inflation, have had comparatively less influence on these recent movements of US bonds.

Concerns about fiscal sustainability and the impact of tariffs have also extended to Japan, where long-term bond yields have already been rising notably. For years, yields in Japan have been extremely low, owing to the nation’s unconventional negative interest rate policy. This served as a floor for yields across other advanced economies. However, the normalisation of monetary policy in Japan has seen this benchmark rise, placing upward pressure on yields worldwide.

Ultimately, this rise in long-term yields will make the cost of servicing debt more expensive for governments. This only adds to the complexity in managing fiscal balance sheets, in an environment where there are increasing demands for policy responses.

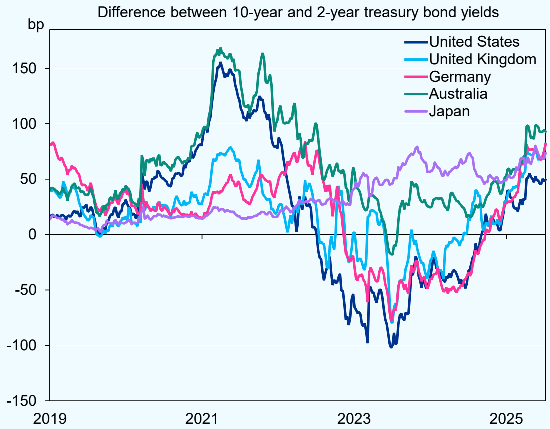
FIGURE A1
Bond Yields in Selected Advanced Economies



Source: TPI, Haver, KPMG

This recent sell-off of long-term bonds has seen yield curves become steeper across many advanced economies. This reflects the fact that long-term yields have increased relative to short-term yields. These trends are illustrated in Figure A2, which plots the evolution of term spreads, as measured by difference between 10-year and 2-year bond yields. The yield curve was inverted in late 2022 and most of 2023, as illustrated by the negative values recorded in late 2022 and most of 2023. Short-term yields were higher as it reflected investors’ expectation of lower interest rates.

FIGURE A2
Term Spreads in Selected Advanced Economies



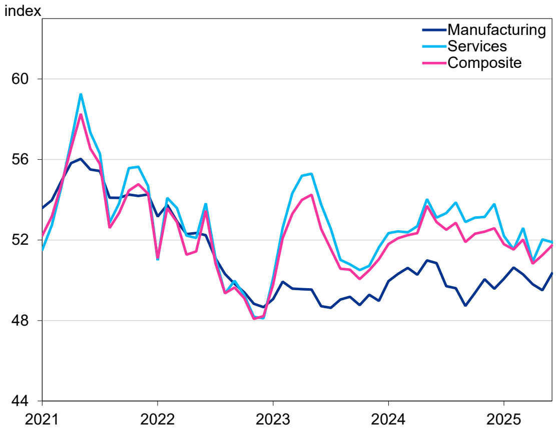
Source: TPI, Haver, KPMG

Volatility in equity markets reflect elevated uncertainty, but valuations have rebounded as fears of a worst-case scenario have eased.

Following the Trump administration’s announcement of sweeping new tariffs in early April, global stock markets, led by the US, experienced a sharp sell-off with the S&P 500 falling 12.1% from peak to trough. However, the global market quickly rebounded, fully recovering these losses by early May. Nevertheless, this turbulence reflects the fragile investor sentiment amid rising trade-related uncertainty.

This can be seen in the Trade Policy Uncertainty Index, which soared to a record high in April 2025, reaching 1,151pts, before cooling somewhat to 723pts in May. Although this was the first decline in the index after three consecutive rises, it still reflects the second highest value on record. Likewise, the Global Economic Policy Uncertainty Index reached a new record of 563pts in April 2025, surpassing the previous peak seen in May 2020. This latest movement extends the sharp rise which has been seen since late 2024.

FIGURE 3
IHS Markit Global Purchasing Managers' Index™



Source: JP Morgan, S&P Global, Haver, KPMG

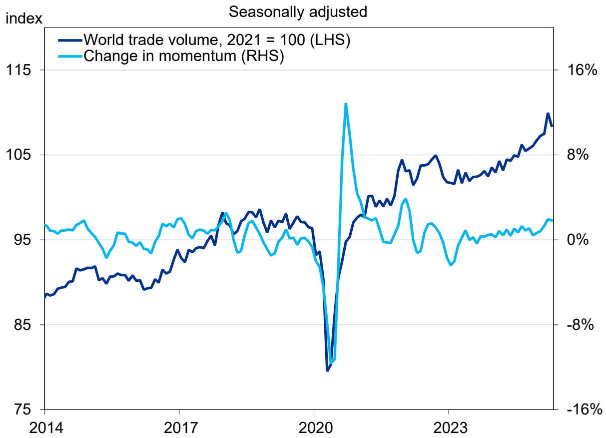
Although trade volumes received a temporary boost from a rush to beat potential tariffs, the lasting effects of trade uncertainty will elevate risks to global growth.

After recording a 17-month low in April, the headline Global Composite Purchasing Managers' Index (PMI) has recovered some ground to reach 51.7pts by June. This latest movement was driven by a convergence between the manufacturing and services PMIs. While the services PMI ticked down slightly, this was offset by a notable bounce back in the manufacturing output PMI.

Although this currently reflects a level which would be consistent with above trend 2.6% global GDP growth, a slowdown is expected as US tariffs take effect, especially as front-loaded production has provided an additional boost in the near term.

This front-loading of activity was evident in global trade volumes, which has increased by 2.3% in the month to March 2025 to be 6.6% higher than the same period a year ago. However, this was followed by a 1.4% monthly fall in April. Crucially, import volumes to the US surged in the first three months of the year, to be 30.3% higher than a year ago by March. This was followed by a sharp 20.0% fall in April, to now only be 2.4% higher through the year.

FIGURE 4
World Trade Volume



Source: CPB, Haver, KPMG

At a more wholistic level, the Global Supply Chain Pressure Index (GSCPI), which integrates transportation cost data and manufacturing indicators to assess global supply chain conditions, eased to 0.00pts in June 2025 from 0.30pts in May. While a surge in activity to beat tariffs has the potential to impose some immediate pressure, this has been offset by more depressed medium-term prospects, with a reluctance to make commitments in the face of unresolved trade policies.

Imports into the US surged in the first three months of 2025, driven in large by pharmaceutical goods and significant stockpiling of gold.

Focusing on the US, the value of imported goods passing through all ports in March surged to US$344.6 billion, the highest monthly total on record. In particular, the value of imports to the US from many key trading partners reached record highs in March, including Mexico (US$46.0 billion), South Korea (US$11.9 billion), and the European Union (US$81.5 billion).

A significant driver of this is the surge in imports of pharmaceutical goods, which have been targeted in a national security review, particularly from Ireland. There has also been significant stockpiling of gold, including from Australia. Buyers in the US have been building up physical inventories of gold bars, spurred by fears of incoming tariffs, as well as volatility in futures markets. This trend was not as pronounced for other manufactured goods, with the compressed time frame to act restricting available inventory and production capacity.

This stockpiling has also placed pressure on 'bonded warehouses', which allow businesses to store imported goods without immediate payment of customs duties (including tariffs). These fees are only paid when goods leave the warehouse, providing increased flexibility. Many of these warehouses have reached capacity, and the price premium of such facilities over standard warehouses has surged in response to this demand.

By April, the level of imports had cooled significantly, falling by 19.9% to US$275.9 billion, the largest monthly fall since January 1969. This follows the announcement of sweeping tariffs on 2 April, dubbed 'Liberation Day', which injected significant uncertainty into the trade environment.

ASPAC outlook

The Asia-Pacific region, which accounted for nearly 60% of global growth in 2024, is facing a challenging landscape in 2025 due to significant geopolitical and economic shifts. The new US administration has injected uncertainty, particularly around trade policies, which could substantially impact regional economic stability.

Interest rates in Asia-Pacific are generally expected to trend lower in 2025, except for Japan where interest rates are going up. Overall, the pace of monetary easing in the region is likely to be cautious as central banks will need to balance supporting economic growth with managing inflationary risks stemming from protectionist US policies.

- *China*: China's economy grew 5.3% y/y in the first half of 2025, demonstrating resilience driven by export front-loading since late 2024, alongside strong infrastructure investment and robust domestic demand supported by government initiatives. Although the outlook for the second half is more cautious, due to fading momentum in exports and the growing impact of US tariffs, China is still expected to meet the government's full-year growth target of around 5%, largely due to anticipated additional policy support aimed at sustaining economic momentum amid external challenges.
- *Japan*: The Japanese economy stands out in the region, with a modest acceleration in GDP growth expected in 2025, up from the minimal 0.1% increase in 2024. This improvement will be likely driven by robust wage growth and supportive business investment, despite subdued external demand due to trade policy uncertainty. Core inflation has risen notably, prompting expectations of further monetary tightening. The Bank of Japan has ended its negative interest rate policy, with the policy rate sitting at 0.5% in June 2025. This has contributed to rising long-term bond yields, with the 30-year yield managing to break past 3%. Japan has recently signed a trade deal with the US, which includes a $550 billion Japanese investment in the US, while its exports face a 15% US tariff.
- *South Korea*: GDP growth is expected to slow in 2025 compared to the 2.1% increase recorded in 2024. Strengthening real incomes and improving labour market conditions will eventually support household spending recovery. Since last October, The Bank of Korea has cut rates by a total of 100 bps to a current 2.5% in July 2025.
- *Singapore:* Singapore's economy is set to grow moderately in 2025 and 2026 following a 4.4% growth in 2024. Manufacturing remains a key driver, as the Johor-Singapore Special Economic Zone offers growth opportunities. Inflation has eased to a four-year low of 0.9%, while a better-than-expected fiscal surplus allows room for additional support to tackle living costs and jobs in 2025.
- *New Zealand:* After contracting 0.1% in 2024, the economy is set to recover in 2025 and 2026, aided by falling interest. However, trade restrictions and policy uncertainty will weigh on external demand and confidence. New Zealand's annual inflation rate accelerated to 2.5% in the March quarter 2025, the first increase since March 2022. Unemployment, which sits at 5.1% as of March quarter 2025, is forecast to peak later in 2025.
- *India*: The Indian economy continues to perform strongly and is projected to expand in 2025 and 2026. India appears relatively less affected by the direct impact of US tariffs compared to other Asian peers. Rural consumption remains a primary growth driver, supported by targeted fiscal policies.
- *Indonesia*: GDP growth is forecasted to slow from 5.0% achieved in 2024. Private consumption and investment are encouraged by low inflation and easing financial conditions, although the recent currency depreciation may gradually push domestic prices upward. Monetary policy is expected to ease while fiscal policy will remain broadly neutral in 2025. Recently, Indonesia has recently agreed to eliminate tariffs on over 99% of U.S. goods, while Indonesian exports to the U.S. will face a reduced reciprocal tariff of 19%, down from the previously threatened rate of 32%.
- *Vietnam*: GDP growth is forecasted to moderate slightly in 2025 and 2026 after the country achieved an impressive growth rate of 7.1%. Vietnam, which is heavily dependent on exports to the US, has recently reached a trade agreement of 20% tariff, a substantial drop from the original 46%. Despite buoyant domestic consumption supported by rising real wages, global policy uncertainties pose significant risks to foreign investment and exports. Monetary policy remains accommodative and fiscal policy is expected to support growth in 2025.
- *Philippines*: Following a strong 5.7% GDP growth in 2024, robust economic growth is projected to continue in 2025, with potential for further acceleration in 2026. Strength in the labour market, modest inflation, and infrastructure investments underpin growth prospects. Monetary easing will continue cautiously, and fiscal consolidation is planned to gradually reduce deficits from 5.7% of GDP in 2024 to lower levels by 2026. The U.S. and the Philippines have reached a new trade deal: U.S. imports from the Philippines will face a 19% tariff, while U.S. exports to the Philippines will receive zero or significantly reduced tariffs.
- *Malaysia*: GDP growth is projected to decline from 5.1% in 2024 to slower rates in 2025 and 2026. As the US is a major trading partner, the reciprocal tariffs of 25% are expected to hit some of Malaysia's biggest industries. Domestic demand will be the main driver of growth. Investment is expected to benefit from opportunities in technology-intensive sectors.
- *Thailand*: Output growth in 2025 and 2026 is expected to be slightly lower than in 2024, where the economy grew by 2.5%. Export growth will be adversely impacted by US tariffs, influencing investment and consumption negatively.

02

Australia overview

Economic activity

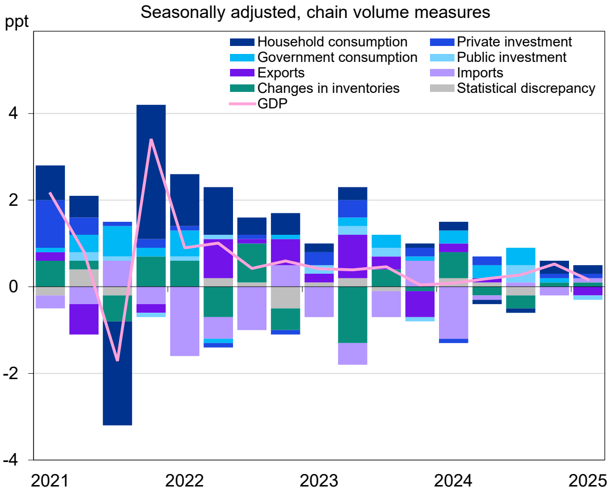
After some positive signs towards the end of 2024, the latest data for the March quarter shows that the recovery of the Australian economy remains fragile, with growth falling short of already modest expectations.

The strengthening of the economy seen in the final quarter of 2024 appears to have been short-lived, with real GDP only growing by 0.2% in the March quarter 2025. This was substantially weaker than the 0.6% recorded in the December quarter and failed to meet market expectations of 0.4%.

Looking at the contributors to quarterly GDP growth:

- Private demand was the primary driver of growth, through both household consumption (+0.2 ppt) and private investment (+0.1 ppt). While positive, these growth outcomes fall short of the stronger contribution seen in the past.
- Meanwhile, the overall contribution of public demand was negative, with government consumption making zero contribution, and public investment subtracting 0.1 ppt from quarterly activity. This was the first negative contribution to growth by the public sector since the June quarter 2018.
- Net trade also detracted from GDP growth (-0.1 ppt), with exports (-0.8%) decreasing by more than imports (-0.4%).
- Changes in inventories (+0.1 ppt) added to quarterly growth, with the mining sector seeing a build-up due to reduced export demand and port closures associated with severe weather.

FIGURE 5
Contribution to Quarterly GDP Growth



Source: ABS, Haver, KPMG

The recent decline in public demand underscores a deeper vulnerability in the Australian economy. The fall in the March quarter marked its sharpest drop since the September quarter of 2017, though it remains at elevated levels. This contraction highlights the outsized role the public sector has played in propping up demand in recent quarters; a role that many economists, including KPMG, have previously highlighted as being increasingly unsustainable.

Government expenditure surged to a record 28.1% of GDP in the September and December quarters of 2024, surpassing even the levels seen during the height of the pandemic, when extraordinary fiscal support was necessary to stabilise a shuttered economy. Although this ratio eased slightly to 27.9% in the March quarter, it still reflects an economy heavily reliant on government spending to maintain momentum.

Extreme weather this quarter, including ex-Tropical Cyclone Alfred, was also a drag on growth this quarter, reducing domestic demand and disrupting some exports. Consequently, on an annual basis, the pace of economic growth held steady at 1.3%, though this was still less than the consensus forecast of 1.5%.

Ultimately, this weak quarterly result saw living standards start to decline again. After rising for the first time in two years at the end of 2024, GDP per capita fell by 0.2% over the March quarter. This follows a 0.1% rise in the December quarter, to be down 0.4% through the year.

Looking at the details of household consumption and saving in the March quarter:

- Household spending rose by 0.4% in the March quarter, with spending on essentials such as electricity contributing to this growth. The increase in household spending was relatively muted in most categories, though this follows a strong December quarter which was boosted by sales events, in which household spending lifted by 0.7% (revised up from 0.4%).
- The household saving to income ratio rose to 5.2% in March 2025, up from 3.9% in December, with gross disposable income rising faster than nominal spending.
- Gross disposable income rose by 2.4%, driven by increases in compensation of employees, alongside social assistance and insurance claims following cyclone and flood events. Households also benefited from lower interest payments following the February rate cut, with interest paid on dwellings falling by 0.6%.
- Nominal household consumption increased by 1.0%, with higher prices and volumes partially offsetting the rise in disposable income.

Compensation of employees (COE) lifted by 1.5% in the March quarter, led by a rise in the private sector:

- Private sector COE increased by 1.7%, boosted by administrative adjustments associated with the Stage 3 Aged Care Work Value Case, and the Early Childhood Education and Care Worker Retention Payment.
- New enterprise agreements in various jurisdictions, including payrises to police, nurses and midwives, as well as public school teachers, saw public sector COE rise by 1.0%.
- Overall, all states and territories saw a rise in COE except for the Australian Capital Territory (-0.2%). The strongest rises were seen in New South Wales (+2.0%) and Victoria (+1.9%).

Business profitability improved for a second consecutive quarter, with the gross operating surplus (GOS) rising by 1.1%, driven by:

- Private non-financial corporations GOS increased by 0.6%, supported by a rise in *Manufacturing* due to higher prices for fertiliser and gold, as well as increased global demand for beef. There was also increased activity in the *Construction* sector, with input costs falling.
- Other sectors' GOS lifted by 1.7%, led by a 1.9% rise in financial corporations. The GOS for dwellings owned by persons increased by 1.6%, while public non-financial corporations rose by 0.7%.

Overall, these recent growth figures show that it was right for the RBA to deliver a second rate cut in May, bringing the cash rate to 3.85%. There is now increased pressure on the RBA to continue this downward trajectory in the cash rate more aggressively as the upside risks to inflation appear less problematic for the economy compared to the downside risks associated with persistent below-trend growth, particularly from the private side of the economy.

In particular, the ongoing state of productivity in the Australian economy is troubling. Despite some upward revisions to GDP per hour worked, productivity growth remains lacklustre and has failed to keep up with wages growth, which has been robust.

Labour productivity remained unchanged, with GDP per hour worked holding steady over the quarter. This lack of productivity growth was in line with the December quarter result, where GDP per hour worked also remained flat (revised up from a 0.1% decline). This March result translates into a 1.0% decline through the year.

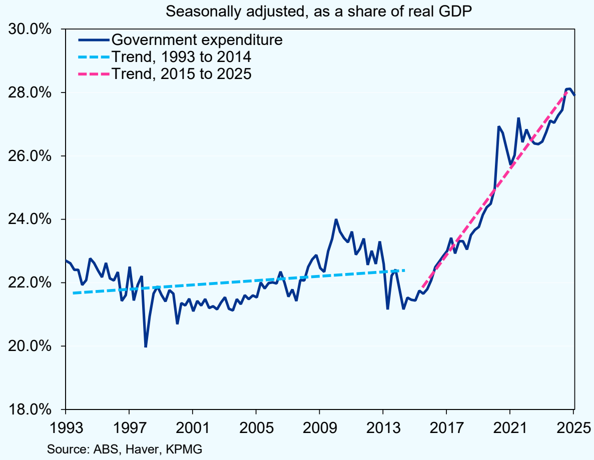
Meanwhile, in some marginally more positive news, real unit labour costs improved for the first time in a year, falling by 0.3%. This follows a 0.6% rise in the December quarter. Nevertheless, real unit labour costs have still increased by 2.6% through the year.

Box B: **Over the past decade, the role of the public sector within the economy has been on an upward trajectory.**

Between 1993 (when the RBA first began inflation targeting) and 2014, government consumption and investment represented an average of 22.0% of GDP, as measured in seasonally adjusted real terms.

Since then, we have experienced a significant structural change in the economy which has seen the role of the public sector expand. Government expenditure as a share of real GDP has climbed from 21.4% during the March quarter 2015 to 27.9% a decade later, according to the latest data.

FIGURE B1
Government Expenditure



In part, this trend reflects the increased role of the *Health care and social assistance* sector, associated with an ageing population and the establishment of the NDIS. The significant growth in associated employment has also complicated the productivity puzzle, with the sector acting as a drag on measured productivity.

While acknowledging that it is difficult to measure the output of many public services, including the care sector, the labour-intensive nature of the work alongside the relative lack of suitability for technological innovation have contributed to productivity struggles in recent times.

Looking ahead, KPMG still expects productivity growth to improve and labour market pressures to ease, as the old economic idiom 'you can have employment growth or you can have wages growth, but you can't have both without productivity growth' hits reality.

Further, with the ongoing uncertainty surrounding US tariffs affecting global growth, KPMG expects that external demand is likely to be unreliable. Likewise, the level of public expenditure which has been supporting the economy in recent times cannot be relied upon to continue. Hence, it will be important for domestic private demand to continue contributing positively to growth, following a muted performance through much of 2024.

Production

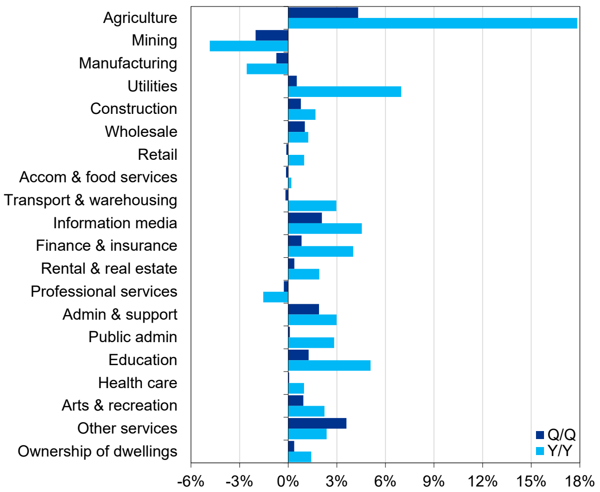
Gross Value Added (GVA) grew by 0.2% over the March quarter, with 13 out of the 19 industries recording growth. This was led by:

- Strong export demand continued to benefit *Agriculture, forestry and fishing* (+4.3%), including livestock exports to the US.
- Increased private investment contributed to strength in *Construction* (+0.8%), with increased activity in both residential and non-residential construction.
- *Information media and telecommunications* (+2.1%) was boosted by broadcasting, advertising and other digital services.
- Elevated activity across tourism, travel and recruitment agencies supported *Administrative and support services* (+1.9%).

These gains were partially offset by:

- *Mining* (-2.0%) was negatively impacted by adverse weather disrupting activity in Queensland and Western Australia, with production of commodities including coal, iron ore, as well as oil and gas falling.
- Disruptions to oil refineries, as well as a decline in transport equipment manufacturing, contributed to a slowdown in *Manufacturing* (-0.7%).

FIGURE 6
Industry Gross Value Added, Mar 2025



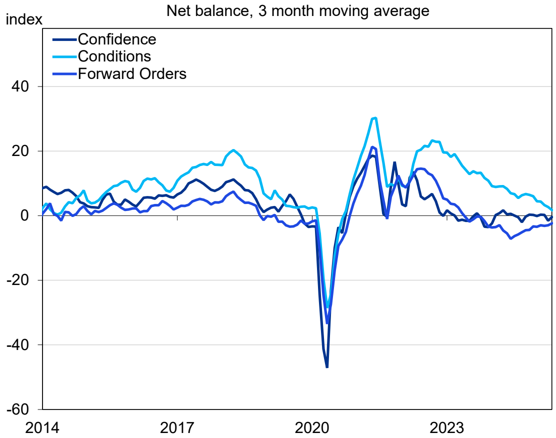
Source: ABS, Haver, KPMG

Looking at price pressures for businesses, growth in producer prices (as measured by final demand) was steady, rising by 3.7% through the year to the March quarter, maintaining its lowest rate of growth in three years. Price growth for goods and services produced in most industries was less than the same time last year. *Manufacturing* was a notable exception, due to higher prices for imported goods, following a depreciation of the Australian dollar in the previous December quarter.

This led to strongest growth in final demand producer prices for *Manufacturing* since the September quarter 2022. Over the quarter, producer prices were up 0.9%. This was primarily because of:

- *Property operators* (+1.1%) saw a notable rise, with ongoing high demand and rising rents for residential properties. However, this has been easing.
- Increased prices in *Other transport equipment manufacturing* (+7.3%) reflect a depreciated Australian dollar and higher labour costs.
- Annual price increases saw a rise in *Tertiary education* (+3.5%), which is typically timed in the first quarter of the year.

FIGURE 7
Business Sentiment



Source: NAB, Haver, KPMG

The NAB Monthly Business Survey continued to present mixed results in May. Despite the ongoing uncertainty surrounding international conditions due to US tariffs, business confidence lifted by 3pts to reach an index of +2pts, following a 1pts rise in April. Confidence remains weakest in the Retail and Wholesale sectors. Meanwhile, business conditions fell by 1pts to arrive at an index of +0pts. This movement was primarily driven by a fall in the employment subindex.

Looking ahead, the Australian Bureau of Agricultural and Resource Economics and Sciences anticipates the gross value of agricultural production to fall by 3% to $90.7 billion in 2025–26. Nevertheless, this would still be the third highest result on record. This expectation is based on anticipated falls in crop production volumes.

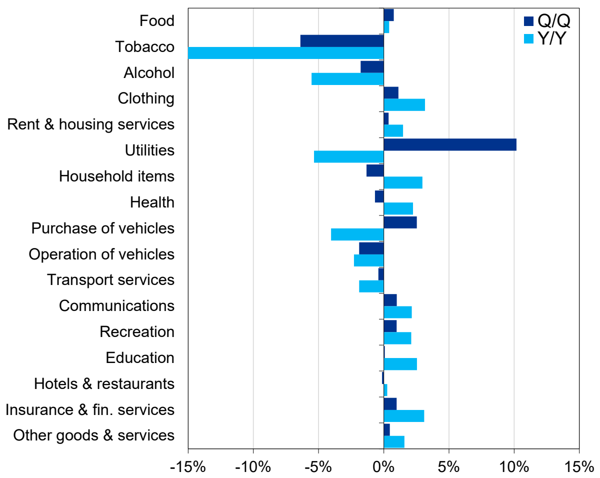
In the resources sector, the Department of Industry, Science and Resources forecasts the nominal value of resource and energy exports to fall by 6% to $387 billion in 2024–25, reflecting lower global commodity prices and a further normalisation of exports after a period of strength.

Household consumption

Household demand continues to grow, but at a slower pace compared to the December quarter. During the March quarter, real Household Final Consumption Expenditure (HFCE) rose by 0.4%, following a 0.7% (revised up from 0.4%) increase in the period prior. In particular, the rise in discretionary (optional) spending was somewhat muted. This was not unexpected, as it follows a period of strong discounting and promotional activity in the December quarter. Overall, there was a rise in 10 out of the 17 expenditure categories.

FIGURE 8

Household Final Consumption Expenditure, Mar 2025



Source: ABS, Haver, KPMG

Over the quarter, non-discretionary (essential) spending rose by 0.4%, following a 0.7% rise in the December quarter, driven by:

- There was a sharp rise in *Electricity, gas, and other fuel* (+10.2%), with warmer than average weather in summer and reduced government energy bill relief payments. These rebates shift spending on electricity from households to government expenditure.
- Spending on *Food* (+0.8%) lifted, with households in Queensland stockpiling essentials in preparation for ex-Tropical Cyclone Alfred, alongside fewer disruptions in supply to supermarkets.

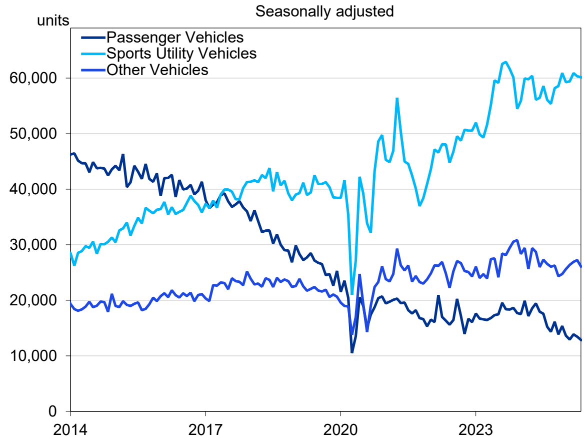
Meanwhile, discretionary (optional) spending lifted by 0.3%, compared to 0.7% last quarter, led by:

- There was a rebound in *Purchase of vehicles* (+2.5%), although this follows five consecutive quarters of decline.
- *Recreation and culture* (+1.0%) benefited from strong attendance at large-scale sporting and music events.

Some quarterly declines were seen elsewhere, including *Cigarettes and tobacco* (-6.4%), as well as *Operation of vehicles* (-1.9%) owing to lower fuel prices, in line with a decrease in global crude oil prices.

FIGURE 9

Passenger Vehicles and SUV Sales



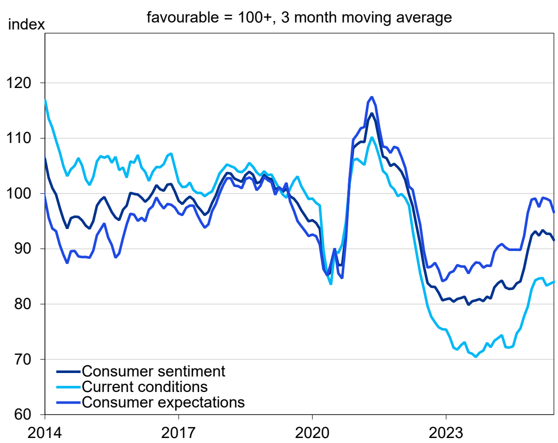
Source: Federal Chamber of Automotive Industries, Haver, KPMG

Overall, the quantity of new vehicles sold held steady, with 298,700 seasonally adjusted sales in the March quarter, marginally more than in the December quarter 2024. This was 4.7% lower than the same period a year ago. The latest monthly data reaffirms this trend, with sales in May 5.2% less than the corresponding month in 2024.

Consumer sentiment continues to bounce back in June, according to the Westpac–Melbourne Institute Consumer Sentiment Index, rising by 0.5% to 92.6pts. This continues the 2.2% recovery in May, after a sharp fall in April, where there was unease following the announcement of US tariffs. The proportion of survey respondents who can recall news on ‘overseas’ topics has reached an almost three-year high, at 20.6%. From a domestic perspective, the timing of the May rate cut provided a boost to confidence in the most recent survey period. Nevertheless, the index was still 3.4% below its March level and remains in pessimistic territory.

FIGURE 10

Consumer Sentiment



Source: Westpac - Melbourne Institute, Haver, KPMG

Investment

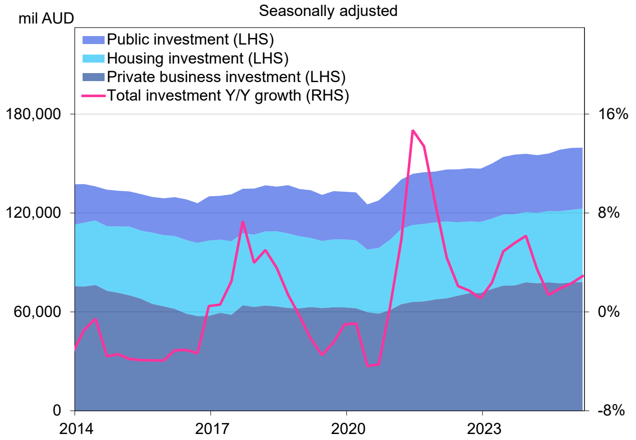
Investment activity, as measured by Gross Fixed Capital Formation (GFCF), increased by 0.1% in real terms during the March quarter. This was driven by private investment, which added approximately 0.1ppt to GDP growth and partly offset by public investment, which took away approximately 0.1ppt to GDP growth. On an annual basis, total investment has grown by 2.9%.

The pace of private investment growth was steady at 0.7%. This was the same as the December quarter (revised up from 0.3%), to be up 2.3% through the year. This was driven by:

- Expenditure on new houses, as well as alterations and additions, supported investment in *Dwellings* (+2.6%), following recent increases in building approvals.
- *Non-dwelling construction* (+1.3%) was boosted by mining and electricity projects.
- Growth was partly offset by a fall in *Machinery and equipment* (-1.7%), mainly associated with weaker expenditure on IT equipment.

FIGURE 11

Real Public and Private Investment



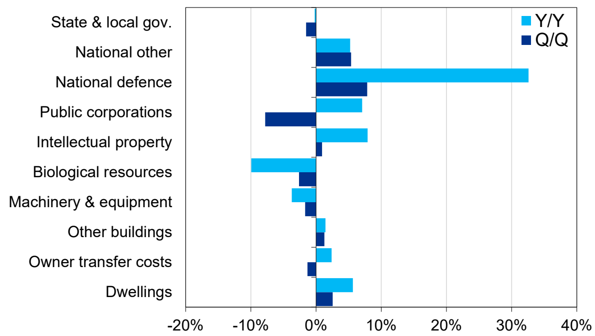
Source: ABS, Haver, KPMG

By contrast, public investment fell by 2.0% over the March quarter, following a 0.8% rise in December (revised down from 1.5%). Through the year, public investment was still up 5.1%, supported by a strong September quarter result (with a 6.8% rise, revised down from 8.0%) which was boosted by one-off defence equipment imports. In terms of significant movements:

- *State and local public corporations* (-8.9%), as well as *State and local general government* (-1.5%), fell sharply. This was because several major projects either approached completion or experienced delays, across the energy, road, rail, health and education portfolios.
- Investment from *Commonwealth public corporations* (-4.3%) also declined.
- These falls were partially offset by *National defence* (+7.8%) and *National non-defence* (+5.4%).

FIGURE 12

Investment Growth, Mar 2025



Source: ABS, Haver, KPMG

Private new capital expenditure (capex) fell by 0.1% in the March quarter, following a 0.2% rise in the prior quarter (revised up from a 0.2% decline). This translates into a 0.5% decline through the year. Mining investment drove this result, with a 1.9% increase during the quarter, while non-mining investment fell by 0.9%.

In terms of asset classes, investment in equipment, plant and machinery fell 1.3%, with a 2.0% fall in non-mining equipment partially offset by a 2.4% rise in mining equipment. Within this movement, the *Information media and telecommunications* sector was the primary driver, with associated investment dropping by 17.9% as spending eases from record levels. The most recent result follows a sharp 19.8% rise in the December quarter, which still translates into a 5.2% annual increase. Meanwhile, new capex for buildings and structures lifted by 0.9%, with increases for mining (+1.7%) and non-mining (+0.4%) investment.

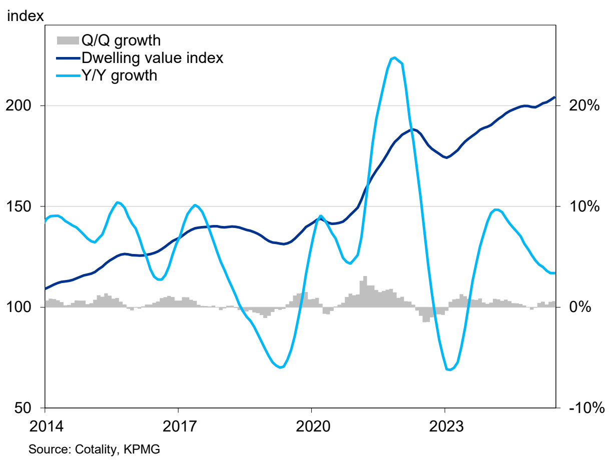
Across the states and territories, the largest rises were seen in South Australia (+11.1%) and Western Australia (+2.1%). The most significant decreases were measured in Victoria (-5.3%), the Northern Territory (-13.2%), and Queensland (-0.9%).

Looking ahead, these March quarter figures also show that businesses have revised up their capex spend for the 2024–25 financial year. In nominal terms, expected investment has increased by 2.2% to $187.6 billion. A 1.2% decrease in estimated investment for buildings and structures was offset by a 6.9% uplift in anticipated expenditure on equipment and machinery. Furthermore, expected capex spending for the upcoming 2025–26 financial year has also been revised up 5.6% compared to the previous release.

The residential property market continues to pick up momentum, with the Cotality (formerly CoreLogic) Home Value Index rising by 0.6% in June, its fifth consecutive month of growth. Through the year, national home values have increased by 3.4%. Notably, after a period of variable performance, these gains have been broad-based, with all capital cities and rest-of-state regions recording growth in June, except for Hobart.

Over the past three months, the fastest pace of price growth was seen in Darwin (+4.9%), followed by Perth (+2.1%) and Brisbane (+2.0%). The weakest growth was seen in Hobart (+0.9%) and Canberra (+1.3%).

FIGURE 13
Home Value Index



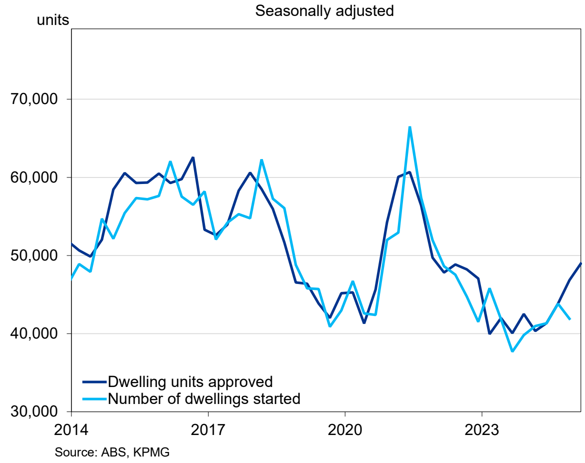
Looking at annual price growth to June, the strongest performances were seen in the mid-size capitals of Adelaide (+8.0%), Perth (+7.0%) and Brisbane (+7.0%). Weaker levels of growth were still seen in Darwin (+6.0%), Sydney (+1.3%), Hobart (+2.0%) and Canberra (+0.3%). Only Melbourne (-0.4%) recorded a modest price fall over the past year.

While the commencement of the RBA's interest rate easing cycle has boosted confidence and supported the upswing of the market, affordability remains a limiting factor to market performance. Advertised stock is 5.8% below the level seen for the corresponding period a year ago and is 16.7% below the pervious five-year average.

From a housing supply perspective, the uplift in building approvals seen through most of 2024 has stalled in recent months. The number of dwellings approved reached a three-year high in January 2025, with 16,721 seasonally adjusted monthly approvals. More recently, the number of approvals fell 5.7% in April, following a 7.1% decline in March, although it is still up 7.6% through the year.

- The main reason for this decline has been a cool down in *Private sector dwellings excluding houses*, where fewer apartment approvals drove a 19.0% fall in April and 14.4% decline in March. Nevertheless, this follows a period of strength for the sector, with approvals still up 14.3% through the year.

FIGURE 14
Dwellings Approved and Commenced



- Meanwhile, approvals of *Private sector houses* lifted by 3.1% through the month, after a 1.9% decline in March. Compared to the same period a year ago, approvals are up 4.6%.

Given the inherent lag between building approvals and the commencement of construction, the latest available data for building activity for the December quarter 2024 is yet to reflect the recent surge in approvals. Over the quarter, the total number of dwellings commenced fell 4.4% to 41,911 to nevertheless be 5.3% higher through the year.

- Commencements of *New private sector houses* fell 6.1% in the December quarter but are still 8.7% higher compared the corresponding period of 2023.
- *New private sector other residential* commencements also fell by 5.6% through the quarter and are 3.8% lower through the year.

Looking ahead, there is a robust foundation for building activity to accelerate to support the development of new housing. With a backlog of approvals which are ready for commencement, the easing of cost pressures and recent rate cuts are providing a more favourable operating environment. This should support the expansion of housing supply to relieve the demand pressures which the property market is facing.

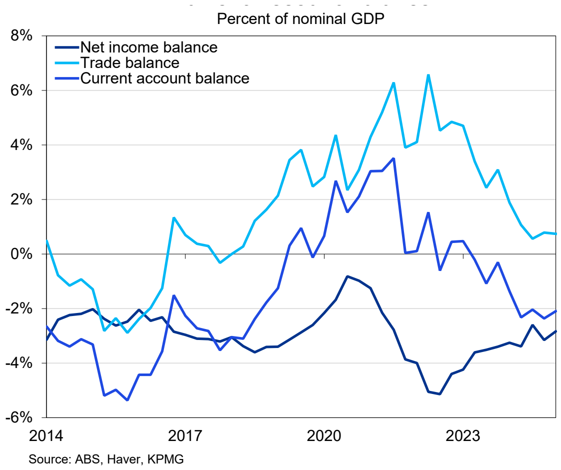
Net exports

Net trade continues to extend its weakness from the previous quarter, reducing GDP growth by 0.1ppt in the March quarter, with exports (-0.8%) declining more than imports (-0.4%).

The decrease in exports was driven by a 3.0% decline in services exports. Travel services underperformed, driven by below average international student arrivals and subdued spending per student. Goods exports declined by 0.3%, mainly due to weaker shipments of coal and LNG following weather-related production disruptions. Demand for coal remains soft amid high inventories in China and lower steel production in Japan. The overall contraction in goods exports was partially offset by a substantial increase in non-monetary gold exports. Refer to Box C for further details.

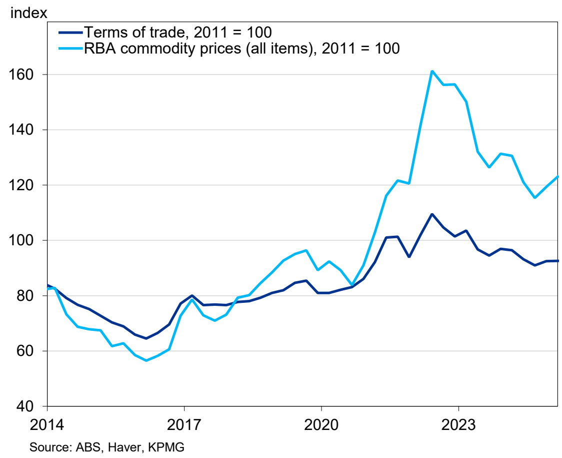
The fall in imports was broad-based, with goods imports and services imports decreasing by 0.3% and 0.8% respectively. Capital goods recorded the largest fall, reversing strong growth from previous quarters. Travel services also weakened with some Australians choosing to holiday closer to home instead.

FIGURE 15
Current Account Balance



In March 2025, Australia posted a current account deficit for the eighth consecutive quarter, with a deficit of $14.7 billion, narrowing from the revised $16.3 billion deficit in the December quarter. The improvement was largely due to a $2.2 billion reduction in the net primary income deficit, which fell to $19.4 billion. The trade surplus, however, narrowed by $0.2 billion to $5.2 billion, with net services remaining in deficit.

FIGURE 16
Terms of Trade and Commodity Prices



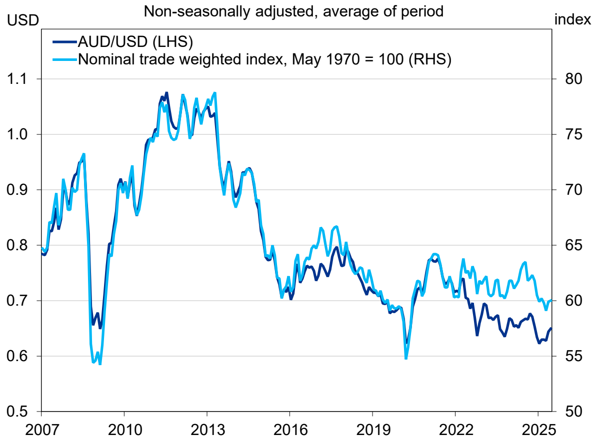
Terms of trade rose marginally by 0.1% to 91.1, from 91.0 in the December quarter, rising for the second consecutive quarter. The quarterly increase was driven by a 2.7% increase in export prices, narrowly outpacing a 2.6% rise in import prices. Despite the quarterly increases, it remains 4.0% lower than the same time last year. Export prices were supported by higher iron ore prices amid continued Chinese demand and weather-related supply disruptions. Non-monetary gold and rural goods prices also lifted, while coal prices declined further. Import prices rose following the depreciation of the Australian dollar in December quarter 2024. Capital and intermediate goods recorded higher prices, while prices for consumption goods were flat.

EXTERNAL DEMAND ASSUMPTIONS	Q3-25 (f)	Q4-25 (f)	Q1-26(f)	Q2-26(f)	Q3-26(f)
Exchange rate (AUD/USD)	0.65	0.65	0.65	0.66	0.66
Coal prices (USD/tonne)					
Thermal coal price – Newcastle	113	118	122	123	126
Semi-soft coking coal price	178	183	186	191	200
Gold price (USD/oz)	3,482	3,524	3,448	3,584	3,620
Dalian Iron Ore 62% Futures	93	92	91	90	90
Oil prices (USD/barrel)					
Brent Spot Average	73	70	69	69	68
West Texas Intermediate Spot Average	71	68	67	66	-

Consistent with the fall in annual terms of trade, the RBA Index of Commodity Prices (in AUD terms) dropped by 5.8% over the year to the March quarter, sitting 23.7% below its peak in the June quarter of 2022 due to sustained declines in coal and iron ore prices. According to World Bank, with weakening global demand, commodity prices are set to fall by 10% overall in 2025 and decline by another 6% in 2026.

The Australian dollar (AUD) began 2025 on a weaker footing, trading between 0.62 and 0.63 USD over the first four months, well below the 0.63 to 0.68 USD range seen throughout 2024. However, since April the Australian dollar strengthened further against the US dollar, as the US dollar weakened against other major currencies. This has put the Australian dollar on track to reach its fresh eight-month high of 0.66 in July 2025. Similarly, the Trade Weighted Index has moved to the lower end of its post-2022 range, reporting at 60.0 in June 2025, an increase from 59.9 in May 2025 but lower than 63.3 in June 2024.

FIGURE 17
Australian Exchange Rate

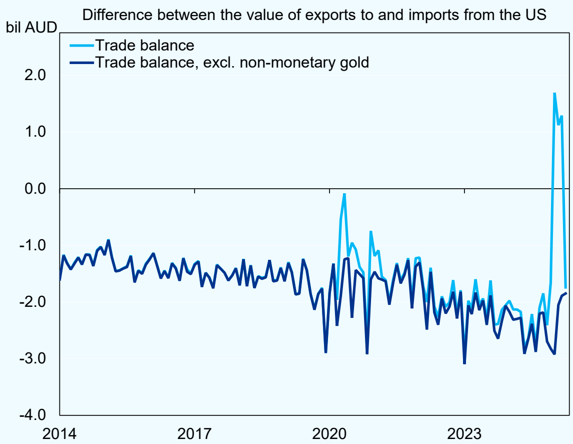


Source: RBA, Haver, KPMG

Box C: **Australia records an unexpected trade surplus with the US, driven by a surge in gold exports.**

Australia recorded its first-ever trade surplus with the US in the March quarter 2025 since the data series begun in 2000. This sudden reversal in the trade balance is illustrated in Figure C1 below.

FIGURE C1
Australia-US Trade Balance



Source: ABS, Haver, KPMG

This unprecedented surplus can be attributed to a rush in demand for gold. When excluding gold, the trade balance continued to record a deficit, in line with typical trends. Elevated levels of global uncertainty have seen investors flock to safe-haven assets such as gold. This has been exacerbated in the US, with buyers choosing to stockpile physical gold in the first three months of the year, out of fear that it will also face tariffs.

This saw an unusually large price gap between US markets and international benchmarks. While traders typically settle positions in cash, this price differential made it attractive to bring physical gold into the US instead. Australia is a key producer of gold, which is considered non-monetary gold when shipped as bars.

The surge in exports to the US has also been partly supported by ongoing demand for Australian livestock, which remains elevated due to drought conditions affecting local producers within the US.

By April, the trade balance had again returned to a deficit. The temporary surge reflects short-term anxiety rather than a structural shift in trade patterns. As market fears subside, demand for gold then normalises.

The normalisation of the trade balance with the US comes as the Australian Government attempts to negotiate a trade deal with the Trump administration. The fact that Australia's persistent trade deficit with the US has been a frequently cited argument to exempt Australia from tariffs, as it implies that it is unnecessary for the US to impose tariffs to 'restore' the trade balance.

Labour market

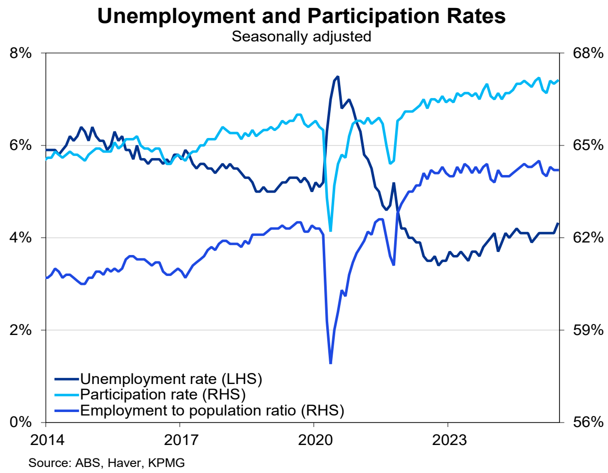
Labour market shows signs of cooling

Australia's unemployment rate rose to 4.3% in June, up from 4.1% in May, marking the first increase after five month of stability. Since the start of 2024, the unemployment rate has continued to hover around 4.0%, well below pre-pandemic norms.

Employment rose by 2,000 people in June, following a fall of 1,000 in May, and is now 2.0% higher compared to June 2024. This increase in June was driven by a sharp divergence between full-time and part-time employment: full-time employment fell by 38,000, while part-time employment rose by 40,000. This net gain of 2,000 jobs was insufficient to absorb the additional 34,000 people entering the labour market and actively seeking work. The average monthly employment growth in 2025 to date stands at 18,300 people, marking a decline of 14,800 relative to the 2024 average of 33,100.

The employment-to-population ratio remained steady at 64.2% in June. Meanwhile, the participation rate edged higher from 67.0% in May to 67.1% in June (seasonally adjusted). While modest, the participation rate is 0.1ppt shy of the record high 67.2% recorded in January 2025, and still 0.3ppt higher than the same time last year. From May to June, male participation rose from 70.7% to 71.0%, while female participation edged down from 63.3% to 63.2%.

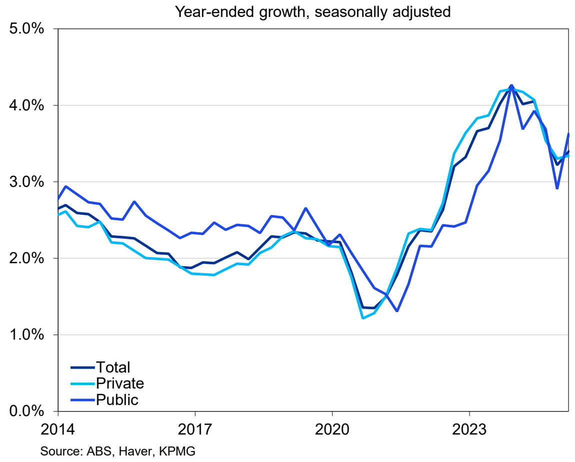
FIGURE 18
Unemployment and Participation Rates



The underemployment rate rose slightly to 6.0% (up 0.1ppt) but remains 0.4ppt lower than a year ago. Hours worked fell 0.9% in June, following a rise of 1.4% in May, with monthly hours worked in all jobs decreased slightly to 1,974 million hours in seasonally adjusted terms. Average hours worked on per full time work fell by 0.9% over the month to 162.1 hours, while average hours worked per part-time worker fell by only 0.1% to 75.3 hours.

According to the SEEK Employment Report, online job ad volumes in May declined 0.3% m/m seasonally adjusted but rose 0.3% based on trend. This is the second consecutive month where the trend data has risen, after three years of decline. Applications per job ad rose 1.2% m/m, and have grown 4.6% over the past quarter, demonstrating that while ad volumes are stabilising in their decline, candidate appetite for the roles available continues to grow to near-record levels.

FIGURE 19
Wage Price Index by Sector



Annual wages growth has also shown an uptick, contributing to rising real wages as headline inflation continues to fall. The Wage Price Index (WPI) rose by 0.9% in the March quarter, up from 0.7% in the December quarter. This lifted annual growth from 3.2% to 3.4%, though this is still below the 4.0% recorded a year earlier. The stronger-than-expected result was driven by a larger contribution from jobs covered by enterprise agreements, particularly in the public sector following the introduction of new state-based agreements. Notably, this is the first time since September 2020 that enterprise agreement covered jobs have accounted for over half of the overall quarterly wage growth.

Private sector wage growth, although slower than that of the public sector, remains the principal driver of overall wage growth because of its larger share of employment and total wage expenditure. Annual private sector wage growth held steady at 3.3%, influenced by various administrative adjustments, including the Stage 3 Aged Care Work Value Case and Early Childhood Education and Care Worker Retention Payment, alongside regular salary reviews in the March quarter. Public sector wages saw a more significant increase, growing by 3.6% through the year, up from 2.9% in the December quarter. This spike reflects the effects of newly implemented enterprise agreements, and to a lesser extent, wage increases in aged care.

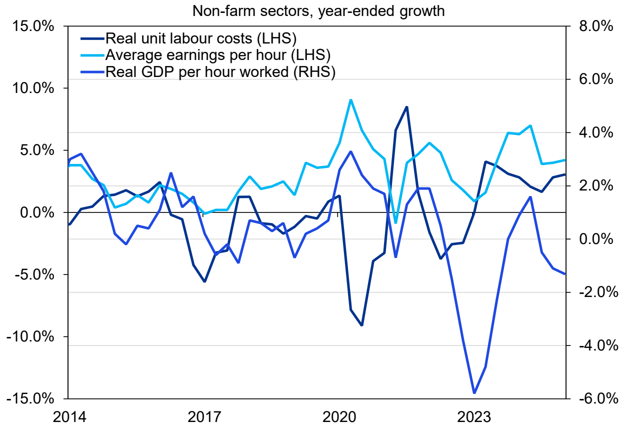
Among jobs which recorded a wage change over the past year, the proportion receiving an annualised increase above 3% edged higher to 64.4%, from 63.8% in the December quarter. Nevertheless, this is still below the 65.6% recorded in the corresponding period a year ago. In total, 21% of jobs experienced a wage change in the March quarter, compared to 14% during the same period last year. Within the public sector, 39% of jobs saw changes, compared to 15% in the private sector.

Among industries, the strongest annual wage growth was noted in *Electricity, gas, water, and waste services* (+4.4%), while the largest quarterly rise was observed in the *Health care and social assistance sector* (+1.4%).

With headline inflation at 2.4% for the March quarter, real wages have grown by 1.0% on an annual basis, offering positive news for households. However, this growth has not been supported by an improvement in productivity.

FIGURE 20

Productivity and Earnings



Source: ABS, RBA, KPMG

Over the past decade, productivity growth has stagnated in Australia. Since the end of 2016, there has been virtually no improvement in productivity. Labour productivity, measured as GDP per hour worked, declined by 1.0% over the past year to March 2025 and has landed back where it was in the five years leading up to the pandemic. This decline in labour productivity poses a structural risk to sustaining future real wage growth and Australia's long-term economic resilience.

Real non-farm unit labour costs rose 3.0% y/y in the March quarter 2025, up from 2.8% in December quarter 2024, driven by weaker labour productivity growth and the stronger-than-expected outcome for earnings growth. The steady increase in unit labour costs aligns with the assessment that labour market conditions remain relatively constrained.

Box D: **Upcoming changes to the minimum wage and superannuation in July.**

The Fair Work Commission has announced a 3.5% increase to the National Minimum Wage and minimum award wages, following the 2024–25 Annual Wage Review.

The National Minimum Wage will increase by:

- $0.85 to $24.95 per hour
- $32.10 to $948.00 per 38-hour week

While this significant above-inflation rise will provide a real wage increase to many crucial workers across the economy, it also elevates the importance of boosting productivity to achieve this rise sustainably.

It is important to note that this decision can have broad impacts on the labour market. Aside from directly influencing the size of wage increases paid to jobs covered under the modern award, it also affects other enterprise agreements which are linked to this decision. This change in labour market conditions can also indirectly affect the size and timing of increases paid to those under individual agreements, as employers undertake wage and salary reviews.

In addition, there is the scheduled increase to 12% for the superannuation guarantee for all workers, which applies from the first full pay period starting on or after 1 July 2025.

Government

Public demand took away 0.1ppt from GDP growth in the March quarter driven by a fall in public investment, while government expenditure made no contribution to growth. Notably, public spending (comprising of government consumption and investment), which has been propping up GDP growth in recent months, recorded the most significant fall (-0.5%) since the September quarter 2017.

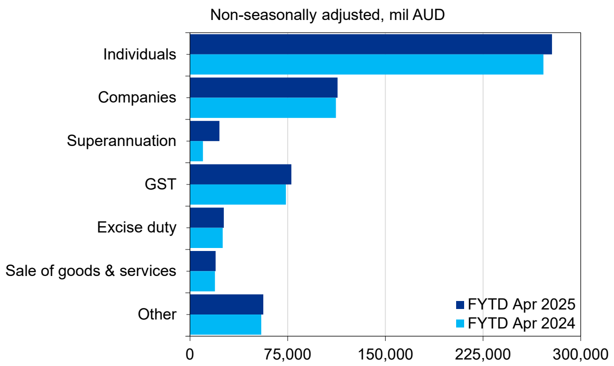
There was no growth in government consumption after nine consecutive quarters of expansion. State and local government consumption expenditure fell by -0.3%, partly as temporary cost of living assistance expired. The fall in State and local government expenditure was offset by a 0.3% increase in Commonwealth government, primarily driven by continued growth in defence spending.

Public investment was the primary drag in the quarter, falling by 2.0%. Both State and local public corporations and State and local general government contributed to the fall as several large-scale projects in energy, transport, health and education either experienced delays or reached completion.

Among the non-market industries, *Education and training* recorded strong quarterly growth of 1.3%, contributing 0.1ppt to GDP. *Public administration and safety* rose slightly by 0.1%, while *Health care and social assistance* also increased by 0.1%, reflecting steady public sector demand.

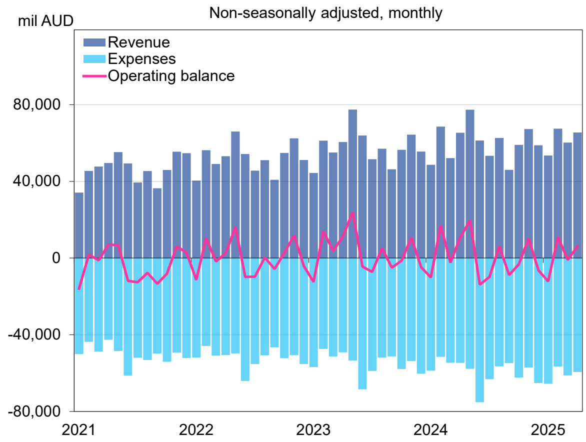
In the March quarter, the general government net operating balance rose by $2.9 billion to -$0.7 billion, compared to the December quarter 2024. During this period, total revenue declined by 0.8% to $250.1 billion, while total expense decreased further by 1.9% to $250.8 billion.

FIGURE 21
Australian Government Tax Receipts by Type



Source: AOFM, Haver, KPMG

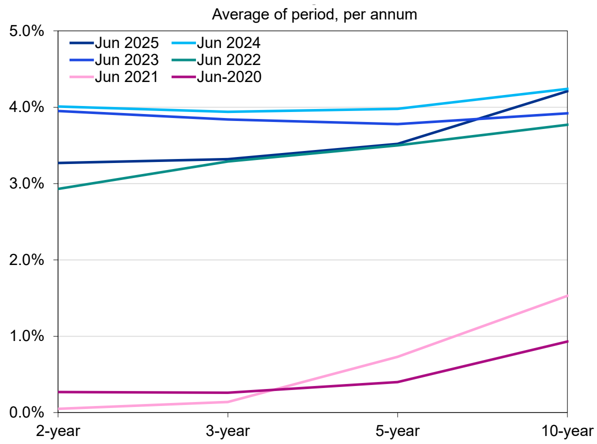
FIGURE 22
Central Government Operating Balance



Source: AOFM, Haver, KPMG

The underlying cash balance for the financial year to April 2025 recorded a deficit of $19.2 billion. This is an improvement compared to the budget profile for the corresponding period, which anticipated a $24.0 billion deficit. This was because total receipts were $3.9 billion higher than the budget profile, while total payments were $851 million lower than expected.

FIGURE 23
Australian Treasury Bond Yield Curve



Source: ABS, Haver, KPMG

After briefly dipping in the second half of last year, when markets were looking forward to a period of global economic recovery, long-term Australian bond yields have climbed back, returning to the levels seen around the same time last year. This mirrors trends in global long-term yields and reflects a more cautious outlook amid rising geopolitical tensions. In contrast, short-term Australian Government bond yields have declined since February 2025, aligning with market expectations for lower policy rates, as the Reserve Bank of Australia signals further easing with inflation now sustainably within its target range.

Box E: **Fiscal implications of the 2025 Federal Election.**

On 3 May, the Albanese Labor government was elected for a second term. Compared to the baseline 2025 Pre-election Economic and Fiscal Outlook (PEFO), the impact of new election commitments would see a modest $1.0 billion improvement to the underlying cash balance over the forward estimates. However, it must be noted that many key policies previously announced, for example during the 2025–26 Federal Budget, would have already been accounted for in the PEFO baseline.

The improvement in the underlying cash balance was due to a net decrease in payments, driven by:

- There was a further commitment to reduce spending on external labour, such as consultants. This sees a $0.8 billion reduction in expenditure during 2025–26, rising to $2.0 billion by 2028–29. Over the next four years, the policy is projected to reduce expenditure by $6.4 billion.
- Fees for student visas will be increased to $2,000 from 1 July. This would raise approximately $0.2 billion in each year of the forward estimates, totalling $0.8 billion.

This was mostly offset by other commitments, including:

- The introduction of a $1,000 instant tax deduction for work-related expenses from 1 July 2026, which would impact the budget from 2027–28 onwards. Over the forward estimates, this would cost $2.5 billion.
- An expansion of mental health funding would have a limited impact on expenditure in 2025–26 but would grow to $0.6 billion by 2028–29. Over the forward estimates, this policy would result in $1.1 billion of additional expenditure.
- A policy to invest in the construction of 100,000 new homes and expand the First Home Guarantee (which would allow all first home buyers to purchase homes with a 5% deposit) would have a limited impact on the underlying cash balance, compared to the headline cash balance. This is because the policy includes concessional loans to states and territories. Over the forward estimates, this would increase the underlying cash deficit by $0.6 billion.

Some other commitments, such as the expansion of Urgent Care Clinics, did not have a net impact on the Budget as they were funded by reallocating existing resources.

PROJECTED DEFICITS	2025-26	2026-27	2027-28	2028-29
Underlying Cash Balance ($b)				
2025 Pre-election Economic and Fiscal Outlook	-42.2	-35.4	-37.1	-37.0
Impact of election commitments	0.3	0.6	0.0^	0.0^
Post-election underlying cash balance	*-41.9*	*-34.7*	*-37.1*	*-37.0*

Source: Treasury, Parliamentary Budget Office, KPMG

^Not zero but rounded to zero.

Financial conditions

Understanding financial conditions requires analysis that goes beyond just the overall stance of monetary policy but rather needs to examine a broad set of indicators across various sectors and issues.

About the KPMG Financial Conditions Index

The *KPMG Financial Conditions Index* measures the state of financial conditions in Australia, not just for the overall economy but also for households and businesses. We assess financial conditions by examining a broad set of complementary indicators, as detailed in the table below. A significant deviation of an indicator from the average of the sample means that the financial conditions are more restrictive/expansionary.

An expansionary financial condition indicator (blue text) indicates that the greater that variable from its average, the more expansionary the financial conditions are. Conversely, a restrictive financial condition indicator (pink text) indicates that a larger deviation from the average corresponds to more restrictive conditions.

Blue dots show the latest readings, while pink dots show the average over the sample and the grey bars show the middle 50% of observations (the interquartile range).

Given the extensive data available, we assess financial conditions for households, businesses, and the overall economy by computing the first principal component for household finance variables, business finance variables, and all variables combined, respectively.

These indicators are transformed to annual growth terms (or annual changes for rate indicators such as interest rates or yields). All transformed series are then standardised to have a mean of zero and a standard deviation of one. Additionally, to ensure consistent interpretation, all restrictive variables are reversed.

Indicators of Financial Conditions, 2003 to 2025

		Min		*Max*
Household	Growth in new housing finance commitment (%, y/y)	-29.5	14.2	82.3
	Growth in new personal finance commitment (%, y/y)	-21.5	13.3	35.1
	Growth in housing credit (%, y/y)	3.0	5.7	21.9
	Growth in personal credit (%, y/y)	-12.9	2.2	16.1
	Discounted variable rates for owner-occupiers (%)	3.5	6.8	8.8
	Credit card standard rates (%)	16.0	21.0	21.0
	Growth in h/h income spent on interest on dwellings (%, y/y)	-25.5	6.4	108.2
	Growth in h/h income spent on consumer debt interest (%, y/y)	-24.4	3.3	34.9
Business	Growth in lease finance commitment (%, y/y)	-36.2	-3.9	42.6
	Growth in commercial lending (%, y/y)	-7.1	5.8	44.9
	Growth in business credit (%, y/y)	1.1	6.5	15.6
	Non-financial 3yr A-rated bond yields (%)	0.7	4.5	8.7
	Non-financial 10yr A-rated bond yields (%)	1.5	5.0	9.0
	Non-financial 3yr BBB-rated bond yields (%)	1.2	4.8	10.8
	Non-financial 10yr BBB-rated bond yields (%)	2.4	5.5	12.3
Other Macro	Growth in government lending (%, y/y)	-43.0	15.1	178.0
	Growth in bond issued as a percentage of GDP (%)	-8.2	-6.4	28.1
	Growth in real trade-weighted index (%, y/y)	-19.9	-1.3	29.3
	Growth in ASX200 share price index (%, y/y)	-40.9	7.9	37.0
	Official cash rate (%)	0.1	4.1	7.2
	10yr government bond yields (%)	0.8	4.4	6.4

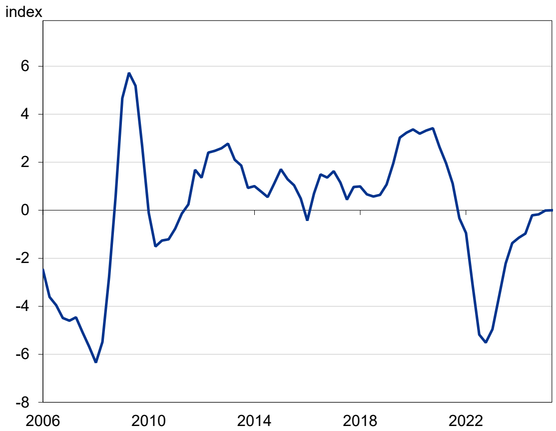
Source: ABS, RBA, Standard & Poor's, KPMG

Australia's financial conditions returned to a neutral level in the March quarter for the first time after four years.

Figure 24 illustrates the *KPMG Financial Conditions Index* (FCI) for the period from the March quarter 2006 to the March quarter 2025. A positive index value indicates generally expansionary financial conditions, while a negative value indicates restrictive financial conditions. After four years in the restrictive zone, the KPMG Financial Conditions Index finally approached neutral levels, at -0.01pts in the March quarter 2025.

FIGURE 24

KPMG Financial Conditions Index



Source: KPMG

Historically, financial conditions tightened sharply during the Global Financial Crisis (GFC). However, during the COVID-19 pandemic, conditions remained more accommodative due to ultra-low interest rates, rising asset values, and substantial fiscal intervention.

In 2024, the FCI showed a substantial easing, reflecting the RBA's decision to pause rate hikes. Nonetheless, monetary tightening had already led to a significant rise in household debt repayments, a decline in saving rates, and a slowdown in household credit expansion from the highs of 2022.

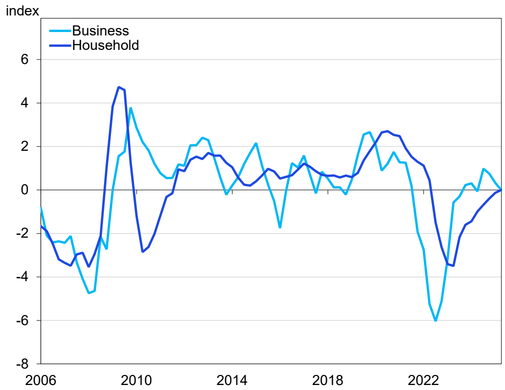
By early 2025, financial conditions in Australia have been mixed in response to escalating global tensions and evolving monetary policy expectations, amid renewed volatility in trade dynamics. Household credit growth was little changed over the March quarter, while business credit growth remained strong. Spreads in wholesale markets have widened. Australian equity prices experienced sharp volatility in April, with prices declining quickly amid a brief sell-off but have since rebounded.

Household financial conditions have returned to neutral territory.

Annual housing credit growth remained steady at 5.7% through the March quarter, around its post-2008 average. Despite this continued growth in housing credit, overall household credit (including personal credit) as a share of disposable income declined further over the quarter to December 2024.

FIGURE 25

Household and Business Financial Conditions



Source: KPMG

Mortgage rates fell following the rate cuts. The average discounted variable mortgage rate for an owner-occupier has declined from 7.1% to 6.8%, its lowest level since early 2023. Consequently, annual growth in household interest expenses fell from 11.9% in the December quarter 2024 to 6.4% in the March quarter, its slowest pace since the March quarter 2022.

The number of new loan commitments for dwellings in the March quarter remained 6.0% higher than the same period last year, with annual growth of 4.4% for owner-occupiers and 8.8% for investors. Commitments by owner-occupiers have risen across all states and territories. Similar trends were observed for investors, except in Western Australia and the Australian Capital Territory with 1.0% and 16.5% declines, respectively.

Business financial conditions have tightened amid volatile funding environments but remain marginally expansionary.

In the March quarter of 2025, the overall tightening of business financial conditions was primarily driven by the sharp 3.9% decline in lease finance commitments. This marked a significant deviation from the long-term trend of a 3% average annual increase since 2004 and followed a modest 0.4% rise in the previous quarter. Additionally, growth in commercial lending slowed to 5.8%, down from 6.9% in the December quarter.

Meanwhile, business credit growth remained steady at 6.5%, consistent with its 20-year average, supported by strong internal funding, low leverage, and robust investor demand. Business debt has increased slightly as a share of nominal GDP since mid-2023.

Corporate bond yields exhibited a downward trend in the March quarter of 2025, reversing the quarterly increases recorded in the previous quarter. Compared to the December quarter of 2024, yields for both A-rated and B-rated 3-year bond yields fell by approximately 27 basis points, while A-rated and B-rated 10-year bond yields dropped by around 12 and 20 basis points respectively. Notably, corporate bond yields moved in the opposite direction of government bond yields during this period. The narrowing corporate–government yield spread signals improving corporate confidence. However, this trend may reverse amid rising economic concerns.

03

Forecasts

Global and domestic forecasts

GLOBAL	GDP Growth			Unemployment Rate			Inflation		
	2024 (a)	2025 (f)	2026 (f)	2024 (a)	2025 (f)	2026 (f)	2024 (a)	2025 (f)	2026 (f)
World	2.8%	2.4%	2.5%	5.1%	5.1%	5.2%	4.5%	3.5%	3.1%
Euro Area	0.8%	0.9%	1.1%	6.4%	6.4%	6.4%	2.4%	1.9%	1.5%
UK	1.1%	1.2%	1.1%	4.3%	4.7%	4.8%	2.5%	3.3%	2.5%
US	2.8%	1.4%	1.6%	4.0%	4.3%	4.5%	3.0%	3.0%	3.0%
China	5.0%	5.0%	4.6%	5.1%	5.2%	5.1%	0.2%	0.1%	1.0%
India	6.7%	6.6%	6.7%	8.0%	7.8%	7.8%	4.9%	3.3%	4.4%
Indonesia	5.0%	4.8%	4.9%	4.9%	5.0%	4.8%	2.3%	1.9%	2.7%
Japan	0.2%	0.8%	0.5%	2.6%	2.4%	2.4%	2.7%	3.1%	1.7%
Singapore	4.4%	1.9%	0.7%	2.0%	2.1%	2.2%	2.4%	0.8%	1.1%
South Korea	2.0%	0.7%	1.8%	2.8%	2.8%	2.8%	2.3%	2.0%	1.7%
Taiwan	4.8%	3.0%	2.4%	3.4%	3.3%	3.4%	2.2%	1.7%	1.2%
Vietnam	7.1%	6.2%	6.4%	1.4%	1.5%	1.3%	3.6%	3.5%	3.5%
Australia	1.0%	1.6%	2.1%	4.0%	4.3%	4.4%	3.2%	2.4%	2.5%
New Zealand	-0.5%	1.4%	2.1%	4.8%	5.2%	5.0%	2.9%	2.0%	1.3%

Note: Average percent change from previous calendar year for GDP growth and inflation; average unemployment rate.

AUSTRALIA	Q/Q Growth			Y/Y Growth		
	Q1-25 (a)	Q2-25 (f)	Q3-25 (f)	2024 (a)	2025 (f)	2026 (f)
GDP and Components						
Consumption	0.4%	0.4%	0.5%	0.9%	1.9%	2.1%
Business investment	0.1%	0.4%	0.5%	0.0%	1.6%	1.6%
Housing investment	1.7%	0.1%	0.6%	3.3%	3.1%	2.4%
Government	-0.4%	0.3%	1.0%	5.3%	1.6%	2.8%
Exports	-0.8%	0.3%	0.4%	1.3%	0.6%	1.8%
Imports	-0.4%	0.5%	0.5%	6.4%	1.3%	2.8%
GDP	0.2%	0.3%	0.7%	1.3%	1.8%	2.0%
Inflation and Rates						
Headline CPI*	2.4%	2.3%	2.4%	2.4%	2.6%	2.5%
RBA cash rate*	4.10%	3.85%	3.60%	4.35%	3.10%	2.85%
10-year government bond*	4.44%	4.27%	4.06%	4.37%	3.89%	3.50%
AUD/USD*	0.63	0.65	0.65	0.65	0.65	0.66
Labour Market						
Employment	0.4%	0.3%	0.1%	2.4%	1.0%	0.6%
Unemployment rate*	4.1%	4.2%	4.2%	4.0%	4.3%	4.4%
WPI	0.9%	0.7%	0.9%	3.2%	3.1%	3.0%

* Values at end of period

Appendix A: Industry growth forecasts

The following industry gross value added (GVA) forecasts have been prepared using a combination of aggregate economic forecasts developed in KPMG's macro econometric model (and presented in the previous table on page 25); which are then applied to our KPMG-CGE model which disaggregates the national forecasts on a theoretically consistent basis into 20 industry sectors that match the ABS ANZSIC industry classifications.

The industry GVA forecasts have not changed materially since publication of the previous Quarterly Economic Outlook published in April this year. This reflects the fact that our macroeconomic projections have not changed significantly.

GVA in the *Agriculture, forestry & fishing* industry was expected to grow strongly in FY25 on the back of more favourable seasonal conditions, recovery in global growth and improved competitiveness. Recent data has been supportive of this projection and has led to a modest upgrade in the FY25 forecast. These positive drivers are projected to continue supporting the industry over the next two years, although to a lesser degree.

We continue to expect that industries exposed to government spending, including *Public administration & safety* and *Education & training* will record faster GVA growth than the economy as a whole. Even though we have revised government spending down marginally, we continue to expect government spending to outpace growth in the economy. While the *Health care & social assistance* industry is also heavily dependent on government spending, GVA is expected to grow less rapidly that the other government-dominated industries. In the post-Covid period, GVA in the *Health care & social assistance* industry grew rapidly, increasing its share of national GVA from 7% in FY19 to 8.2% in FY24. On average over the forecast period the *Health care & social assistance* industry is projected to grow slightly faster than the economy as a whole.

The *Mining* industry has recorded flat GVA growth over the last two years. While production volumes are projected to grow, higher costs and downward pressure on commodity prices underpin the reductions in GVA projected for FY25. We have downgraded our FY25 projection based on recent data and assumed that the recovery in GVA over the following couple of years will be slower.

INDUSTRY GVA	2023 (a)	2024(a)	2025 (f)	2026 (f)
Agriculture, forestry & fishing	4.6%	5.1%	14.9%	5.5%
Mining	0.3%	0.0%	-3.2%	0.2%
Manufacturing	0.2%	0.3%	-1.9%	0.2%
Electricity, gas, water & waste services	0.7%	1.0%	6.6%	4.7%
Construction	2.7%	1.7%	0.7%	2.0%
Wholesale trade	6.9%	-2.9%	-0.8%	0.8%
Retail trade	2.7%	-0.2%	1.0%	1.7%
Accommodation & food services	17.7%	-0.7%	-0.6%	0.7%
Transport, postal & warehousing	10.5%	5.1%	2.9%	2.7%
Information media & telecommunications	11.8%	2.3%	2.6%	2.6%
Financial & insurance services	0.4%	1.1%	3.4%	3.1%
Rental, hiring & real estate services	-0.5%	3.6%	2.0%	2.3%
Ownership of dwellings	2.6%	1.5%	1.4%	2.2%
Professional, scientific & technical services	6.1%	1.2%	-0.8%	0.8%
Administrative & support services	8.1%	0.5%	1.6%	2.0%
Public administration & safety	1.7%	3.4%	3.2%	3.3%
Education & training	2.0%	3.0%	4.0%	3.7%
Health care & social assistance	5.2%	4.4%	1.9%	2.4%
Arts & recreation services	11.2%	3.4%	3.3%	3.0%
Other services	8.3%	3.9%	-0.2%	1.2%

Appendix A: Industry growth forecasts (cont.)

The *Manufacturing* industry is projected to record negative GVA growth in FY25, which is a modest downgrade relative to our previous forecast. However, beyond FY25 we have upgraded the forecast to reflect weak, but positive, growth. As a trade-exposed industry, the prospects of the *Manufacturing* industry depend heavily on its competitiveness. Our forecasts assume a modest improvement in the competitiveness of the *Manufacturing* industry.

The projected rebound in household consumption has been delayed with growth in FY25 revised down moderately. GVA for the *Retail trade* industry recovers from negative growth in FY24, but this recovery is less pronounced than our previous projection. A similar pattern is reflected in the GVA growth profile of the *Accommodation & food services* industry, although we continue to project more modest growth for this industry as relative to the *Retail trade* industry as it is more susceptible to cost pressures that stifle discretionary consumption and to weak growth in tourism expenditures.

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