Australia Economic Outlook Q1 2025

KPMG Australia

April 2025

Executive summary

After flirting with recession in the June and September quarters, the Australian economy began to dance again towards the end of 2024, achieving its strongest quarterly growth rate in two years.

Economic activity picked up in the final quarter of the year, with GDP growing by 0.6% in real terms, surpassing market expectations of 0.5% and marking the strongest performance since December 2022. The annual growth rate of 1.3% also slightly exceeded the consensus forecast of 1.2%. In another positive sign, Australia emerged from a per capita recession, with GDP per capita rising by 0.1% during the quarter, the first increase after seven consecutive declines.

Additionally, for the first time since March 2018, all components of the economy contributed positively to GDP growth, with notable contributions from private demand, unlike the previous quarter, which relied solely on public sector demand.

Nevertheless, the latest Budget suggests a continued increase in public sector spending and an elevated role of the government sector. Growth in government spending continues to be strong, outpacing aggregate GDP growth, resulting in public sector spending as a proportion of GDP peaking at 28.5% next financial year, up from 24.1% in 2018–19. This occurs despite the Treasurer having successfully planned a reduction in projected deficits by $1.2 billion and $5.9 billion for the underlying cash balance and the headline cash balance respectively.

Labour market conditions remain tight but are moving towards a more balanced level, with the seasonally adjusted unemployment rate edged up slightly to 4.1% in the first two months of 2025. Wage pressures have also eased significantly. Through the year, the WPI increased by 3.2%, which was the lowest annual increase since the September quarter 2022.

The RBA lowered the cash rate by 25 basis points to 4.10% in February 2025, a line-ball decision given its frequent references to ‘continuing risk’ and ‘uncertainties’ in its statement. Recent monthly inflation figures in the new year showed that headline inflation has moved in the right direction to be sustainably within the midpoint of the 2–3% target range. However, trimmed mean inflation remains stubbornly towards the upper end of the RBA’s target range and a range of risks continue to lurk. There also remains concerns around the tightness of the labour market, geopolitical risks and trade barriers; which naturally means the RBA will remain cautious on further easing of the cash rate.

Nevertheless, the mood has brightened following the first rate cut, especially for the private sector, which had been limiting spending towards the non-discretionary for a long time. We expect the private side will start to gear up and expand its activities, which will contribute to a stronger economy.

This quarter we introduce a special feature that presents a selection of industry projections (see Appendix A).

Looking ahead, both the global and domestic economy face a complex set of challenges. Important to note, our analysis (finalised in early April) is constrained by timing; as the recent economic data reflects a period marked by significant uncertainty. Trump has announced a series of tariffs on imports into the US since taking office in January 2025, with a minimum 10% tariff on all trading partners being the most recent one. In response, the US has received retaliatory tariffs from its trading partners. The heightened uncertainty surrounding trade policies and the risk of new restrictions are expected to weigh on the outlook for economic growth and inflation.

KEY FORECASTS	2024 (a)	2025 (f)	2026 (f)
Real GDP			
Average annual growth	1.0%	2.0%	1.8%
Year ended growth	1.3%	2.0%	1.8%
Unemployment rate	4.0%	4.3%	4.5%
Inflation			
Headline CPI	2.4%	2.9%	2.6%
Core CPI	3.2%	2.9%	2.5%
RBA cash rate	4.35%	3.60%	3.35%
AUD/USD	0.64	0.60	0.61

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Global landscape

Global landscape

Global growth is projected to maintain a steady, yet below-average pace in 2025, with diverging performances across economies and a substantial increase in global uncertainty.

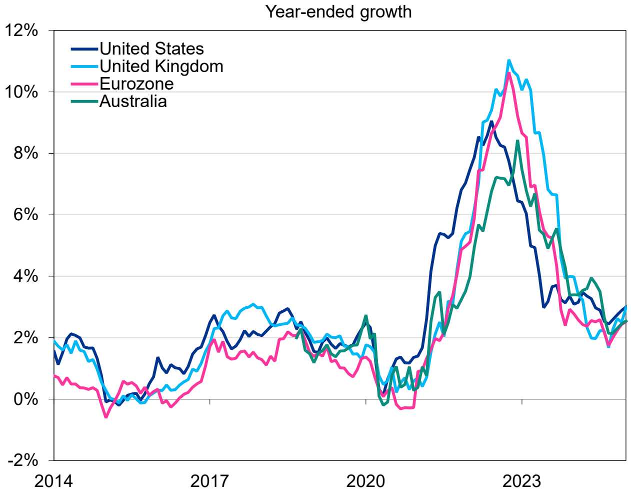
The global economic outlook is highly uncertain, affected by the ongoing trade war.

Through the year to the end of 2024, the global economic environment has shown modest improvement, emerging from a prolonged phase characterised by overlapping negative shocks. The growth outlook is increasingly uncertain with the new Trump administration engaging in substantial policy shifts. Global economic growth is forecast to slow to 2.9% in 2025 and 2.8% in 2026.

Further progress in global disinflation is broadly anticipated. Gradual labour market cooling is likely to moderate demand-driven inflation pressures. Coupled with anticipated normalisation in energy costs, overall inflation rates should trend closer to central bank targets.

FIGURE 1

Inflation in Selected Advanced Economies



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

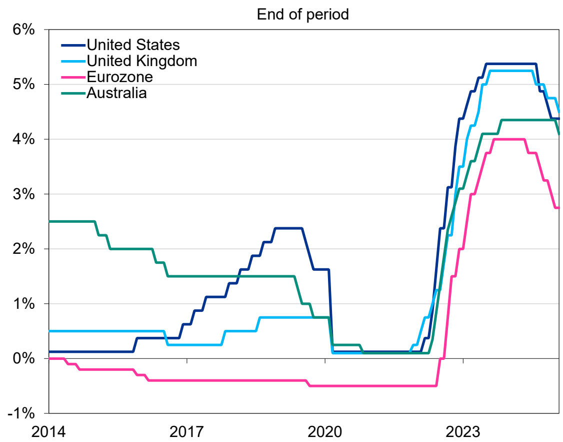
However, the disinflation progress appears to be uneven across countries and has therefore resulted in recent divergence in global monetary policy. Inflation has been more persistent in certain nations, with some central banks choosing to slow down their easing cycle, while others have decided to increase rates.

The fiscal policy stance is expected to tighten during 2025–26 in most advanced economies, and to a lesser extent in emerging market and developing economies. Debt servicing expenses have risen notably since 2021, reflecting currently higher interest rate environments relative to when existing debts were issued.

Notably, US Treasury yields have climbed despite continued rate cuts from the Federal Reserve, driven by elevated political uncertainty and concern about the rising federal debt-to-GDP ratio. The new administration could be looking to maintain a high deficit fiscal policy, indicating that the cost of borrowing is unlikely to be contained, adding challenges for fiscal management.

FIGURE 2

Policy Rates in Advanced Economies



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

In the final quarter of 2024, and heading into the new year, global equities markets rallied in anticipation of more business-friendly policies being implemented by then president-elect Trump. This was led by equity valuations in the US, which were at record highs, reflecting expectations of deregulation and tax cuts which could strengthen the US growth outlook.

However, there has been more turbulence in recent times with increasing policy uncertainty dampening performance expectations, particularly for the US economy. The Global Economic Policy Uncertainty Index rose sharply to a monthly record of 460 in January 2025, reflecting concerns about proposed tariffs by the Trump administration, as well as elevated tensions regarding the war in Ukraine and in the Middle East. The World Trade Uncertainty Index also lifted to 66.3 in the March quarter 2024, its highest level since the March quarter 2020.

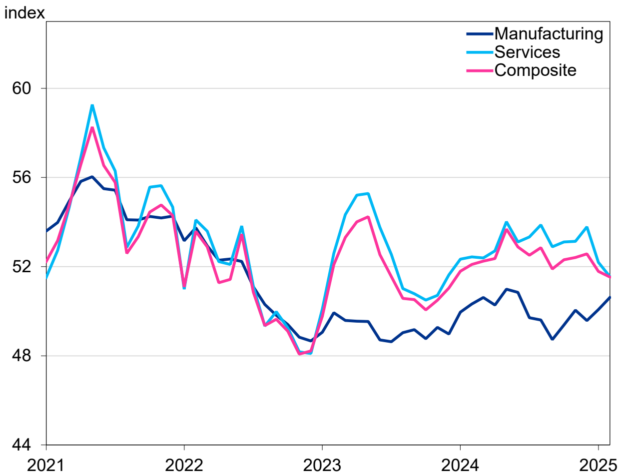
These fears, particularly around trade, prompted a significant sell-off in the stock exchange in March. This volatility in the US has also spilled over to other equity markets across the globe. The sell-off accelerated in the first week of April as the tariffs announced on Liberation Day were worse than expected.

Beyond economic policy risks, heightened geopolitical tensions present a significant threat to economic stability.

Escalations in conflicts in the Middle East and Ukraine could further disrupt global trade routes, increase volatility in energy and food markets, and disproportionately impact commodity-importing nations.

The latest Global Purchasing Managers' Index (PMI) indicated that the pace of global economic activity has been steady, with the index recording a value of 51.5 in February 2025, down from 52.6 recorded in December 2024. The service sector's business activity continues to outperform manufacturing. Among the major developed economies, the US registered the strongest rate of expansion; while India and China led growth among the emerging economies.

FIGURE 3
IHS Markit Global Purchasing Managers' Index™



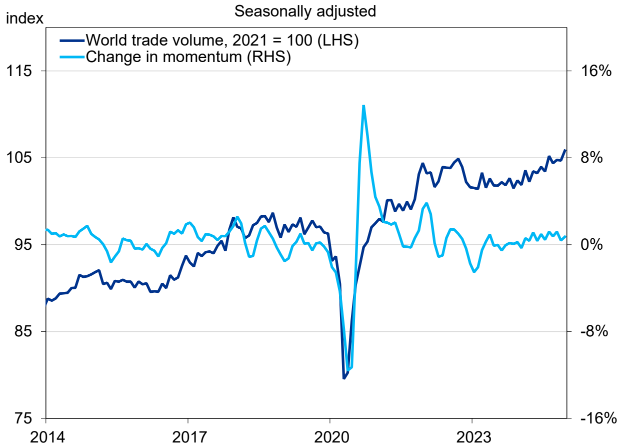
Source: JP Morgan, S&P Global, Haver, KPMG

Global trade volume continued to recover steadily through 2024, bolstered by stronger US goods consumption. In December 2024, world trade volume showed strong annual growth of about 2.3% despite persistent geopolitical challenges, significantly higher than the 1.1% average growth rate in the first half of 2024. The year-to-date growth rate is now approximately 1.5%, a notable improvement from the 1.3% decline in 2023. The front loading of imports to beat anticipated US tariffs provided a short-term boost to international trade.

Export volume growth also increased in China, Hong Kong, Malaysia, the Philippines, Singapore, Taipei, Thailand and Vietnam due to strong demand for technology-related products. Services trade has remained fairly robust in 2024, with notable growth in business services and tourism.

The Global Supply Chain Pressure Index (GSCPI), which integrates transportation cost data and manufacturing indicators to assess global supply chain conditions, rose to -0.07 in February 2025 from -0.19 in January. This is a significant increase from the record low of -1.56 in May 2023, and signifies that supply chain conditions have been gradually tightening and moving towards the average experienced historically.

FIGURE 4
World Trade Volume



Source: CPB, Haver, KPMG

Box A: **Tariffs announced by the second Trump Administration to date**

On 2 April, Trump announced a minimum 10% tariff on all trading partners, as well as reciprocal actions on dozens of other countries that the Trump administration determined have treated the US unfairly.

Australian exports to the US will be subject to a 10% tariff, except for products like aluminium and steel, which has faced a 25% tariff since March. Despite this, Australia will not impose reciprocal tariffs according to Prime Minister Anthony Albanese.

China will see its tariff rate rise to 54% after an additional 34% in reciprocal tariffs is being added on top of the current 20% tariffs. Cambodia and Vietnam are also subject to steep tariffs, at 49% and 46% respectively.

Canada and Mexico were missing from the list of countries to which a minimum 10% tariff applied. But that does not mean they are immune from the trade actions. The existing fentanyl/migration International Emergency Economic Powers Act orders remain in effect and are unaffected by the new tariff announcement on 2 April. This means United States–Mexico–Canada Agreement (USMCA) compliant goods will continue to see a 0% tariff, non-USMCA compliant goods will see a 25% tariff, and non-USMCA compliant energy and potash will see a 10% tariff.

Regional outlook

North American growth is expected to slow.

- *United States:* The US is expected to maintain its economic lead due to resilient consumer spending, robust labour markets, and sustained investment growth. However, this outlook is highly uncertain due to the trade war. As of early March 2025, financial markets expect the federal fund rate to decrease to 3.50–3.75% from the current target range of 4.25–4.50% by the end of 2025. This aligns with inflation returning to the target, although the imposition of import tariffs could drive inflation upward.
- *Canada:* A rebound in business investment is set to drive economic recovery. The Bank of Canada is expected to maintain a gradual easing cycle, with policy rate reductions extending into mid-2025, ensuring inflation remains anchored within the 1–3% target range. However, the escalation of reciprocal tariffs and volatile trade negotiations with the US are currently presenting significant unknowns.

After a prolonged period of stagnation, the EU economy is recovering, supported by Germany's plans to boost spending on defence and infrastructure.

- Growth in the euro area is projected to pick up, though it remains weighed down by geopolitical risks and policy uncertainty.
- In March 2025, Germany launched a large fiscal stimulus as an attempt to revive its stagnant economy after many years of applying the 'debt-brake'. The scale of this fiscal boost, which could increase by around a cumulative 20% of GDP over the coming decade, will look to provide an uplift to the growth outlook, not just to Germany but also for Europe more broadly.
- However, other core European markets, including the UK, France and Italy, are likely to underperform compared with other advanced economies and the world economy.
- A ceasefire between Ukraine and Russia could also offer a slight economic uplift to the Eurozone, driven by increased military expenditures due to security concerns and reduced gas prices.

Conflict in the region continues to weigh on growth in the Middle East and Central Asia.

- *Saudi Arabia:* Saudi Arabia is likely to see weaker than expected growth in 2025, reflecting a substantial decline in oil prices, linked to a weakened outlook for trade and global growth. This could be exacerbated by planned production increases by OPEC+ commencing in April, which would be the first rise in output since 2022.
- Economic growth in the region is expected to improve, though at a slower pace than previously anticipated.

Growth in Asia and the Pacific remained robust.

- *China:* Economic expansion is projected to slow. Weak domestic consumption remains a key challenge, with a sluggish property market continuing to dampen confidence and spending. Increases to the budget deficit, alongside more accommodative monetary policy, will provide support to the economy and help offset the impact of US tariffs. Policies targeting business investment growth continue, though this may further exacerbate overcapacity in production.
- *Japan:* Japan's economy is expected to rebound sharply in 2025 driven by rising real wages, robust corporate earnings, and fiscal stimulus measures. By 2026, growth is forecast to slow to low-1%, aligning with the country's estimated potential output.
- *South Korea:* Industrial output fell 4.1% in January 2025 relative to 12 months ago. A slowdown in industrial production is driven by several factors, including a drop in global demand for semiconductors, supply chain issues linked to geopolitical tensions, protectionist trade policies by the US, as well as worsening diplomatic relations with China, South Korea's largest trading partner.
- *India:* Economic activity in India is set to remain strong, growing by mid-6% in line with potential output. Public infrastructure investment and sustained private consumption are expected to underpin this growth.

Economic growth in Latin America and the Caribbean is expected to be 4.2% in 2025 and 2026, despite higher rates to combat inflation.

- *Mexico:* The Mexican economy only grew 0.9% in the year to the December quarter 2024, with this slowdown due to lower investment and slowing consumption. Ongoing concerns regarding weaker levels of job creation, fiscal consolidation, and proposed tariffs are expected to further weaken the growth outlook in 2025.
- *Brazil:* Brazil's government lowered its economic growth forecast for 2025 due to concerns about elevated inflation and ongoing monetary tightening. Inflation was 4.8% in 2024 and is forecast to continue to deviate from its target of 3% over the next two years.

02

Australia overview

Economic activity

After flirting with recession in the June and September quarters, the Australian economy displayed signs of recovery towards the end of 2024, achieving its strongest quarterly growth rate in two years.

Economic activity picked up in the final quarter of the year, with GDP growing by 0.6% in real terms over the December quarter 2024. This was slightly better than market expectations of 0.5% and represents the strongest performance since the December quarter 2022. The annual growth rate of 1.3% was also slightly above the consensus forecast of 1.2%.

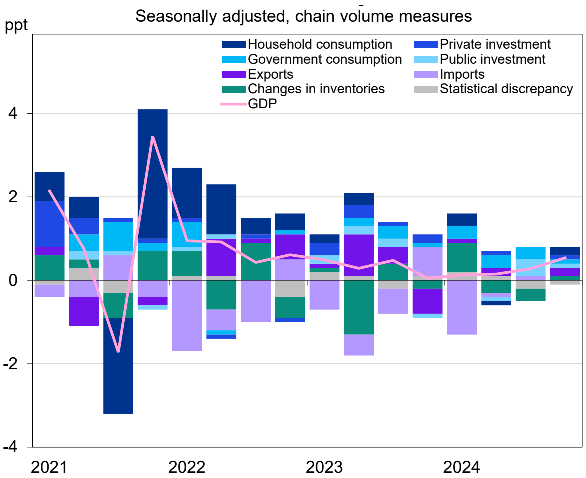
In another positive sign, Australia crawled out of per capita recession, with GDP per capita rising by 0.1% during the quarter. This was its first rise following seven consecutive declines, although this measure of living standards remains 0.7% lower across the year.

This also marked the first time since the March quarter 2018 that all components of the economy contributed positively to GDP growth. Unlike the previous September quarter results, which relied solely on public sector demand to drive growth, private demand was able to make a notable contribution to growth. Specifically:

- Private demand contributed to GDP growth, through both household consumption (+0.2 ppt) and private investment (+0.1 ppt). This contrasts with the September quarter, where both channels were weak and did not contribute to GDP growth.
- Public demand continued to support growth, comprising government expenditure (+0.1 ppt) and public investment (+0.1 ppt). Nevertheless, this is much less significant than the previous quarter, where they added 0.3 ppt and 0.4 ppt (revised) respectively to growth.

FIGURE 5

Contribution to Quarterly GDP Growth



Source: ABS, Haver, KPMG

- Net trade contributed 0.2 ppt to GDP growth, driven by increased exports (+0.7%) but slightly offset by a modest increase in imports (+0.1%).
- Changes in inventories accounted for 0.1 ppt of GDP growth, with mining inventories growing as production exceeded exports. Retail trade also saw a build-up as more electric and hybrid vehicles were imported, while wholesale trade inventories lifted due to strong crop yields amid favourable weather.

Looking at household consumption and saving over the December quarter 2024:

- Household spending rebounded, lifting by 0.4% after recording zero growth in the September quarter. This was driven by a mix of discretionary and essential spending, contributing 0.1 ppt each to GDP growth.
- Growth in essential spending was led by *Rent and other dwelling services* (+0.4%) and *Health* (+1.5%). In terms of discretionary spending, retail sales events saw rises in *Furnishings and household equipment* (+1.9%) and *Clothing and footwear* (+1.2%), while music and sporting events supported spending on *Hotels, cafes and restaurants* (+1.5%).
- The household saving ratio lifted to 3.8% compared to 3.6% in the prior quarter, reaching its highest level since the September quarter 2022. Gross disposable income rose by 1.4%, outpacing the 1.2% rise in nominal final consumption expenditure which was driven by both increased consumption volumes and prices.
- Notable contributors to the rise in disposable incomes included compensation of employees (+2.0%), interest received on savings (+3.5%) and dwelling gross operating surplus (+2.1%). This was partially offset by greater payments for interest on dwellings (+1.4%) and income tax payable (+1.6%).

The recent strength of public sector wages growth relative to the private sector was also reflected in the December quarter compensation of employees (COE):

- Overall COE rose by 2.0% over the period, with the strongest rise in Western Australia (+4.6%) and weakest in New South Wales (+0.8%). Through the year, COE is up 6.1% nationally, lead by the Australian Capital Territory (+14.8%).

- Public sector COE lifted by 2.4%, with wage rises, bonus payments, and increased employment for public service agencies due to new enterprise agreements lifting employee expenses by State and Local governments.
- By contrast, private sector COE rose by 1.9%, mainly driven by *the Professional, Scientific and Technical Services; Transport, Postal and Warehousing;* and *Construction* sectors.

Business profitability has picked up, with gross operating surplus (GOS) rising by 1.1%, after two consecutive quarters of decline:

- Private non-financial corporations saw a 0.6% rise in GOS. An increase in export prices for iron ore, LNG and non-monetary gold lifted GOS in the *Mining* sector, while favourable weather conditions lifted *Wholesale Trade* due to strong crop yields.
- Other sectors' GOS rose 1.8%, led by a 2.1% rise in dwellings owned by persons due to rent increases from population growth and low vacancy rates. Financial corporations' GOS grew by 1.8%, while public non-financial corporations fell 2.5%.

While many of the recent figures suggest that the Australian economy is on an upswing, some headwinds remain. Much of the recent growth has been driven by the government sector, which has expanded in size to support economic activity. Government spending now represents 28.2% of GDP, well above the pre-pandemic average of 22.8% recorded between 2010 and 2019. This level of spending is not sustainable with current tax settings and is eroding the underlying cash balance.

Additionally, productivity deteriorated for the third consecutive quarter, with GDP per hour worked falling by 0.1% through the December quarter and 1.2% through the year, following a 0.7% and 0.5% decline in the June and September quarter 2024, respectively.

This is also reflected by a continued deterioration in real unit labour costs, which grew by 0.6% in the December quarter 2024 after a 0.7% rise in the September quarter. This measure, which combines productivity with the cost of labour, is now up 2.3% over the year.

When viewed against strong wages growth, with COE rising by 6.1% on an annual basis and the Wage Price Index (WPI) up 3.2% over the same period, this deterioration of productivity has presented a challenge.

However, KPMG expects productivity growth to pick up alongside a continued normalisation of labour market conditions. This should ensure a return to a more sustainable path. Another positive sign is the shift from public to private demand in supporting GDP growth during the December quarter, provided it can be sustained going forward. However, heightened global uncertainty could pose a risk, with the US adopting protectionist trade policies which also impact Australia.

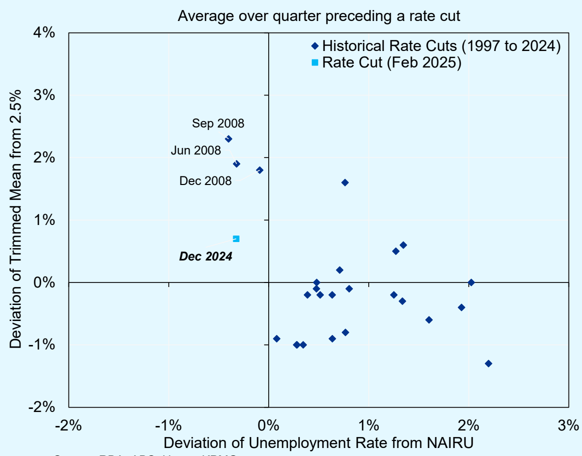
Box B: **The February 2025 rate cut appears to be an unusual decision**

The RBA lowered the cash rate by 25 basis points to 4.10% in February 2025. Details from the published meeting minutes reveal that RBA board members considered softer than expected inflation and wages growth as the 'strongest reason to lower the cash rate'. Moreover, members also judged that underlying inflation was easing at a faster pace than anticipated, in an economy where downside risks outweighed the potential for positive surprises to economic growth.

On the other hand, the RBA acknowledged that ongoing tightness in the labour market was 'the strongest reason to leave the cash rate unchanged', noting that the easing of labour market conditions had 'at least stalled' and may have 'reversed a little' by the end of 2024.

These concerns are illustrated in Figure B1, which presents the deviation of trimmed mean inflation from the centre of the RBA's target band (2.5%) against the unemployment gap for all quarters which immediately precede a rate cut. The unemployment gap is calculated as the difference between the unemployment rate and KPMG's estimate of NAIRU.

FIGURE B1
Deviation of Unemployment and Inflation Rates



Source: RBA, ABS, Haver, KPMG

This chart illustrates that the RBA typically lowers the cash rate only when the unemployment rate exceeds the natural level, with the only exceptions being during the Global Financial Crisis (GFC) and the most recent rate cut in February 2025.

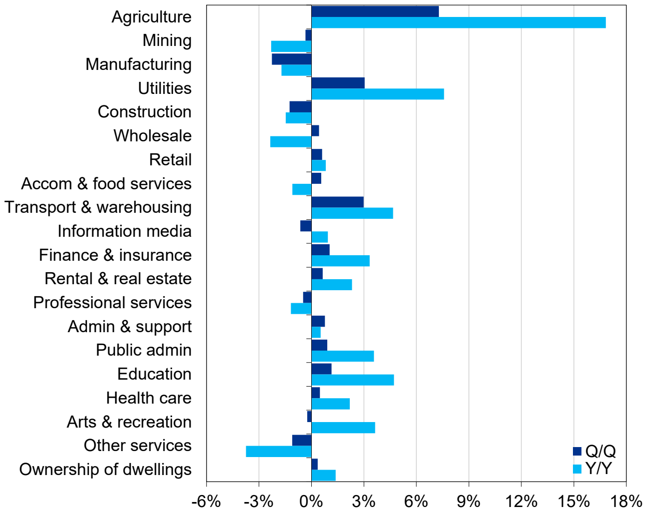
Unlike the GFC, where an unprecedented economic disruption was impacting global economies, it is less clear which economic conditions would justify this latest deviation from the norm. Indeed, the RBA board noted their own staff's judgement that 'the tightness in the labour market was not consistent with inflation being at the target' but were ultimately swayed by other factors.

Production

Gross Value Added (GVA) grew by 0.4% over the December quarter 2024, supported by a broad range of sectors. Overall, 12 out of the 19 industries recorded an increase in GVA. This rise was led by:

- *Agriculture, Forestry and Fishing* (+7.3%), which benefited from increased livestock production due to strong export demand, particularly from the US. At the same time, favourable growing conditions have supported grain production, with weather also allowing for an earlier start to the harvest.
- This strength in grain production also spilled over into the *Transport, Postal and Warehousing* (+3.0%) sector, due to the need to transport and store excess grains. Increased passenger demand supported air transport, coinciding with a period of music and sporting events, while Black Friday sales also helped to boost parcel volumes.

FIGURE 6
Industry Gross Value Added, Dec 2024



Source: ABS, Haver, KPMG

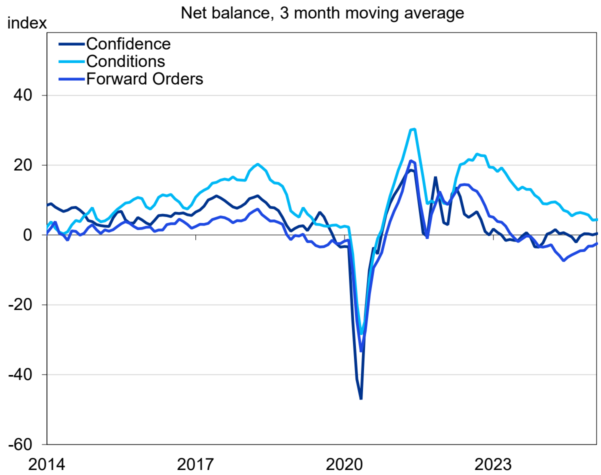
The most significant declines were seen in:

- *Manufacturing* (-2.3%) with metal production suffering as outages affected nickel and steel.
- Ongoing labour shortages and high costs continue to constrain the *Construction* (-1.3%) industry.

Looking more broadly at price pressures, the Producer Price Index (PPI) indicates that they have continued to ease. Producer prices lifted by 0.8% over the December quarter 2024, after rising 1.0% in the September quarter. Through the year, prices rose by 3.7%, the lowest level in three years. The main contributors to this quarterly movement in the PPI were:

- *Property operators* (+1.5%) with higher rental prices flowing through to greater property fees.
- *Accommodation* (+8.3%) had a strong quarter, driven by seasonal demand over the summer holidays.
- *Petroleum refining and petroleum fuel manufacturing* declined (-6.3%) with the continued easing of global oil prices supporting a fall in refined fuel prices.

FIGURE 7
Business Sentiment



Source: NAB, Haver, KPMG

Results from the NAB Monthly Business Survey were mixed in February 2025. Business conditions improved marginally by 0.3 pts to +3.6, with trading conditions increasing by 0.8 pts and profitability lifting by 0.4 pts. However, business confidence dropped by 6.1 pts to reach -4.6, reversing most of last month's gains.

Looking ahead, the Australian Bureau of Agricultural and Resource Economics and Sciences anticipates the nominal gross value of agricultural production to rise by 11% to $92 billion in 2024–25 in their March quarter 2025 forecasts. This was due to higher-than-expected crop yields amid favourable weather alongside strong global demand for livestock products. A return to neutral seasonal conditions is likely to lower crop production volumes in 2025–26, where the value of agricultural production is expected to fall by 1% to $91 billion.

In the resources sector, the Department of Industry, Science and Resources expects a 10% decline in resource and energy export earnings to $372 billion in 2024–25, according to their December quarter 2024 forecasts. With relatively weak global growth, energy export earnings are likely to fall significantly, including LNG, metallurgical coal and thermal coal. The outlook for resource commodities is more mixed, with gold and alumina benefiting from higher prices, while iron ore and lithium face lower earnings. However, geopolitical tensions including the ongoing trade war, and potential for an escalation of conflict in the Middle East, pose risks to some commodity markets.

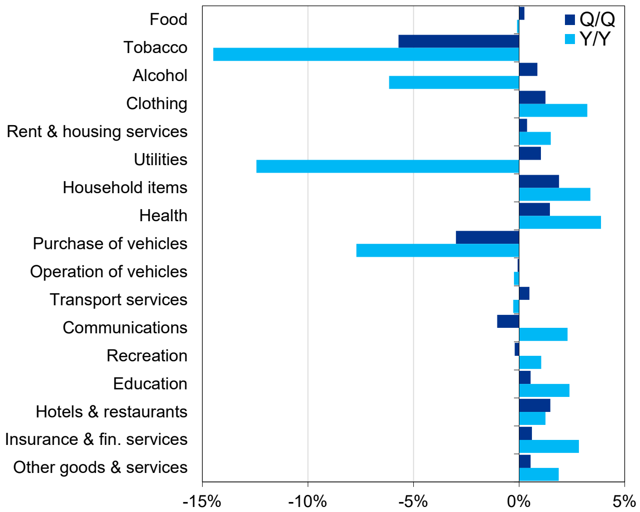
Household consumption

Household spending has rebounded, with Household Final Consumption Expenditure growing by 0.4% over the December quarter 2024, after recording zero growth in the prior period. This was driven by a mix of discretionary and essential spending, which contributed 0.1 ppt each to overall GDP growth. Overall, an increase in spending was recorded in 12 out of the 17 expenditure categories.

Over the quarter, the 0.4% rise in discretionary spending was driven by:

- *Hotels, cafes and restaurants* (+1.5%), which benefited from large music and sporting events, such as the Australia–India test series, boosting consumption.
- Strong promotional activity during Black Friday and Cyber Monday contributed to growth in *Furnishings and household equipment* (+1.9%) and *Clothing and footwear* (+1.2%).

FIGURE 8
Household Final Consumption Expenditure, Dec 2024



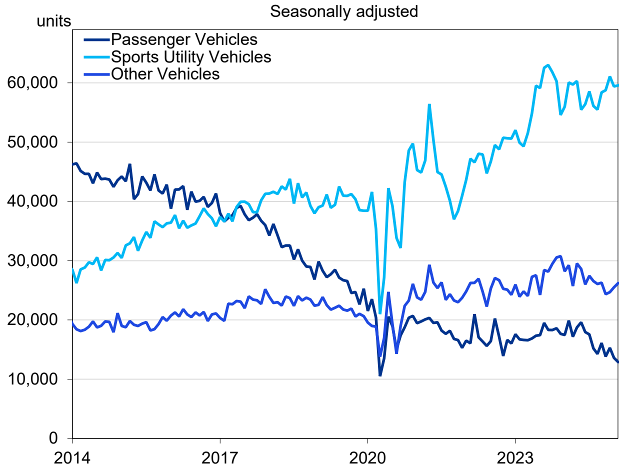
Source: ABS, Haver, KPMG

Essential spending lifted by 0.5% due to:

- Increased spending on health goods, such as over-the-counter medication, which lifted *Health* (+1.5%).
- Despite government rebates continuing to subsidise spending on *Electricity, gas and other fuels*, thereby transferring some household consumption to government expenditure, spending was still up 1.0%. This was partly because of warmer than average conditions, including heatwaves in New South Wales and Victoria.

The most notable decreases in spending were seen in *Purchase of vehicles* (-3.0%) and *Cigarettes and tobacco* (-5.7%).

FIGURE 9
Passenger Vehicles and SUV Sales

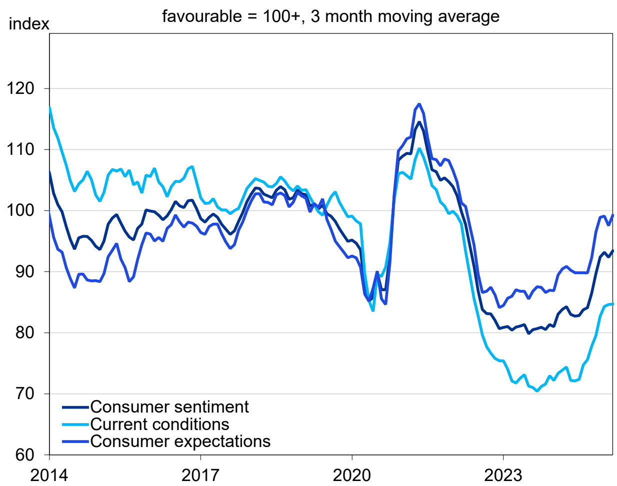


Source: Federal Chamber of Automotive Industries, Haver, KPMG

Weakness in new vehicle sales has continued, with seasonally adjusted sales rising to 299,100 in the December quarter 2024, up 1.0% compared to the September quarter. However, this is 7.3% lower than the corresponding period of 2023. More recent data for monthly sales in February 2025 also shows a 9.6% decline compared to the same month one year prior.

The March 2025 update of the Westpac–Melbourne Institute Consumer Sentiment Index shows continued improvement, rising to 95.9. This is the highest result since March 2022 and just a touch below the neutral level. The RBA's decision to cut rates in February, alongside steady improvements to cost-of-living pressures, have buoyed the consumer mood.

FIGURE 10
Consumer Sentiment



Source: Westpac - Melbourne Institute, Haver, KPMG

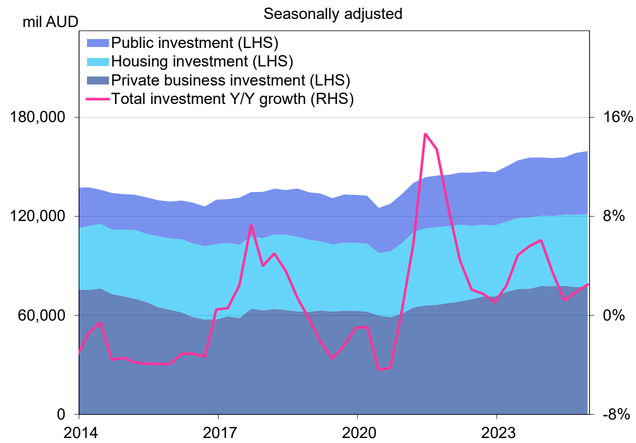
Investment

Investment activity, as measured by Gross Fixed Capital Formation (GFCF), increased by 0.7% in real terms over the December quarter 2024. Both private investment and public investment contributed 0.1 ppt each to overall GDP growth during this time.

Private investment growth picked up slightly, rising by 0.3% after experiencing zero growth in the September quarter (revised down from 0.1%). In terms of significant movements:

- This growth was led by a 2.6% rise in *Intellectual property products*, which added 0.1 ppt to overall GDP growth.
- Construction of electricity generation and distribution projects, and mining investment also helped to generate a 0.6% increase in *Non-dwelling construction*.
- Growth was partly offset by a 0.4% decrease in *Dwellings*, due to ongoing cost pressures and labour shortages, alongside a decline in new home commencements.

FIGURE 11
Real Public and Private Investment



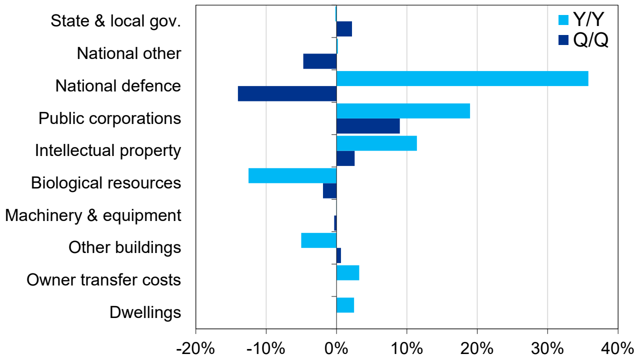
Source: ABS, Haver, KPMG

Growth in public investment moderated, rising by 1.5% over the December quarter. This was substantially less than the 8.0% recorded during the prior period (revised up from 6.3%), which was the highest rate since the September quarter 2018, in part due to large imports of defence equipment.

The overall movement was due to:

- *State and local public corporations*, which saw a 9.3% rise, while *State and local general government* also increased by 2.2%. This was due to increased activity on major transport, water and renewable projects.
- *Commonwealth public corporations* increased by 8.0%, due to more work being carried out on projects, including for telecommunications and power generation.
- A normalisation of defence spending after a strong September quarter saw a 14.0% decrease in *National defence*.

FIGURE 12
Investment Growth, Dec 2024



Source: ABS, Haver, KPMG

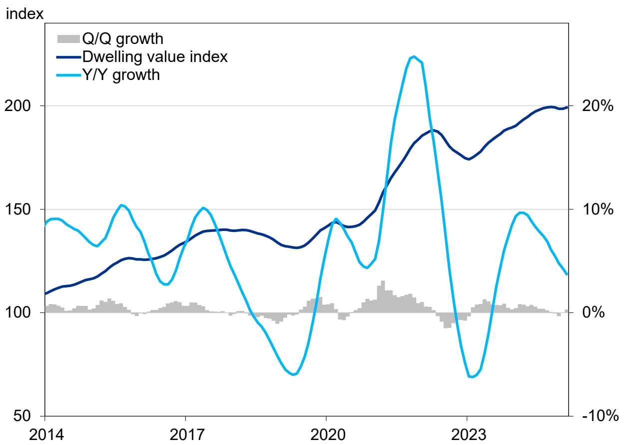
Private new capital expenditure (capex) fell by 0.2% in the December quarter 2024, reversing some of the 1.6% growth experienced in the prior quarter. This translates into a 0.6% rise over the year. The quarterly movement was due to a 0.6% fall in the mining industry and a 0.1% decline in non-mining sectors. Considering asset types:

- *Equipment, plant and machinery* fell by 0.8%. This was led by the *Construction* sector, where equipment and machinery capex was down by 8.1% due to reduced investment on light trucks, utes and machinery. This was partially offset by the *Information media and telecommunications* industry, which saw a 22.3% rise associated with investment in data centres.
- *Buildings and structures* increased by 0.2%. Rising investment on electricity transmission and generation, alongside spending on renewable projects, saw an 8.9% rise in the *Electricity, gas, water and waste services* sector. This was offset by the *Mining* industry, with reduced spending by lithium miners contributing to a 1.1% fall.

These December quarter figures also show that businesses have revised up their expected capex spend for the 2024–25 financial year. In nominal terms, it is 3.2% higher compared to the prior quarter, with the estimate for *Buildings and structures* now 2.1% higher, while *Equipment and machinery* is now 4.6% higher. Looking ahead, the initial expectation by businesses for capital expenditure in 2025–26 is $148 billion. This is 1.8% higher than the initial estimate which was provided for the current financial year.

The residential property market appears to be picking up, with the CoreLogic Home Value Index rising by 0.3% in February 2025, following three consecutive monthly declines.

FIGURE 13
Home Value Index



Source: CoreLogic, KPMG

Sydney recorded a 0.3% increase, while Melbourne broke 10 months of consecutive falls to increase by 0.4% in February. These gains were led by the premium side of the market, with monthly gains strongest in the upper quartile of house values. Nevertheless, Sydney and Melbourne still recorded a quarterly decline, falling by 0.9% and 1.1%, respectively.

Adelaide led the increase in house prices over the past three months with a 1.2% rise, followed by Brisbane (+0.9%) and Darwin (+0.7%). The strength seen in Perth's market diminished substantially, with only a 0.3% rise over the quarter. Some capital cities still saw declines, with Canberra down by 0.8% and Hobart slightly down by 0.1%.

In the January 2025 edition of the *KPMG Residential Property Market Outlook*, we forecast national house prices to grow by 3.3% over 2025 and 6.0% in 2026. KPMG believes that the effect of further rate cuts in the latter part of 2025 will support the acceleration of growth, which will initially be more modest. With ongoing affordability challenges, we expect unit prices to rise more strongly in the near term as they offer a more achievable point of entry, growing by 4.6% in 2025 and 5.5% in 2026.

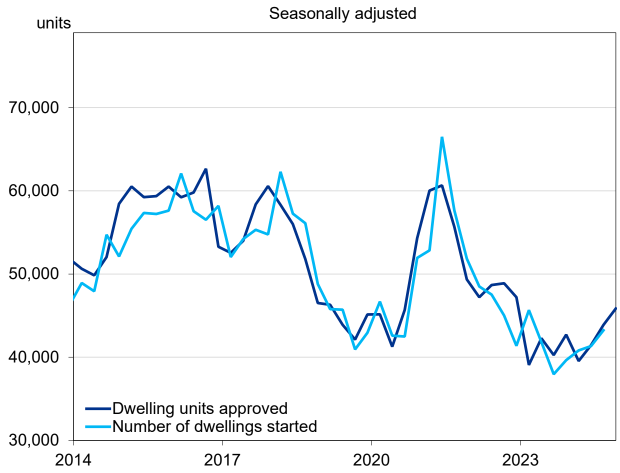
Looking at the supply side, the number of dwellings approved in January 2025 rose 6.3% over the month, following a 1.7% increase in December.

- This was driven by a significant number of apartment building approvals in New South Wales, with *Private sector dwellings excluding houses* up 12.7% in January, following a 17.4% increase the month prior as well. Overall, this is 41.6% higher than a year ago.
- *Private sector houses* were up 1.1% in January, after falling 2.8% in December, to be 8.9% higher over the year.

The latest available data for building activity also shows that the total number of dwelling units commenced rose by 4.6% across the September quarter 2024, translating into a 13.9% uplift compared to the same time in 2023.

- This was led by a 5.2% increase in *New private sector houses*, with 27,700 commencements in the quarter. This is 20.5% higher compared to a year ago, with commencements picking up substantially from the trough of 22,900 recorded in the September quarter 2023.
- *New private sector other residential* also recorded a 3.8% uplift to achieve 14,700 commencements. This represents only a modest uplift compared to the 14,100 commencements for the corresponding quarter of 2023, reflecting a slower recovery in this part of the sector.

FIGURE 14
Dwellings Approved and Commenced



Source: ABS, KPMG

Overall, both approvals and commencements are moving in the right direction to alleviate supply shortages, in part driven by robust population growth in the aftermath of the pandemic. The beginning of the RBA's easing cycle will support housing demand but will also provide confidence for further investment into new housing.

However, the industry remains constrained by higher material costs and skilled labour shortages. These challenges, alongside the inherent time lag between approvals, commencements and completions, mean that pressures within the housing market will remain. Nevertheless, these constraints are likely to continue easing, supporting further growth in supply and contributing to economic activity in the building sector.

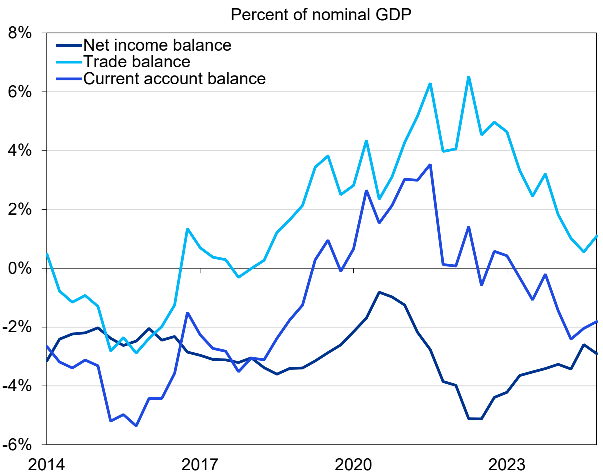
Net exports

Net trade added 0.2 ppt to GDP growth, the largest growth contribution from the external sector in six quarters, with exports up 0.7% while imports only rose modestly by 0.1%.

The increase in exports was driven by exports of services, increasing by 3.4%, primarily led by intellectual property services for pharmaceuticals and software. Exports of goods only rose by 0.1%, as the growth in rural goods and non-monetary gold was offset by falls in metal ores and minerals, driven by iron ore exports.

FIGURE 15

Current Account Balance



Source: ABS, Haver, KPMG

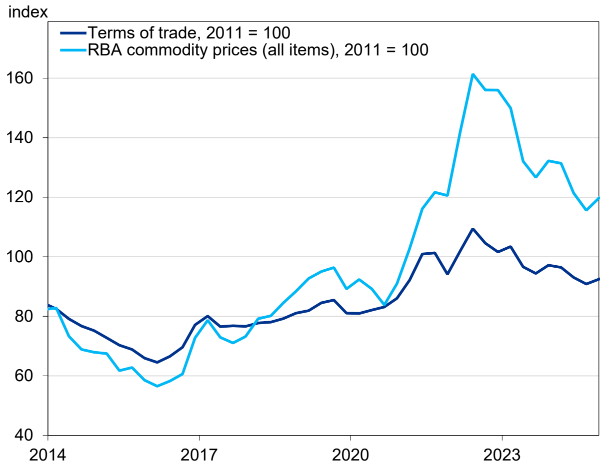
In the December quarter 2024, Australia posted a current account deficit for the seventh consecutive quarter, with a deficit of $12.5 billion as measured in seasonally adjusted nominal terms. This deficit exceeded the forecast of $11.9 billion but was $1.3 billion less than the upwardly revised deficit of $13.9 billion in the September quarter.

The rise in Australia's current account was driven by the surplus on trade in goods and services, which increased by $3.7 billion to $7.5 billion.

This was partly offset by the net primary income deficit, which widened by $2.3 billion to $19.8 billion. The annual account deficit for the 2024 calendar year reached $52.4 billion, the largest deficit since 2016.

FIGURE 16

Terms of Trade and Commodity Prices



Source: ABS, Haver, KPMG

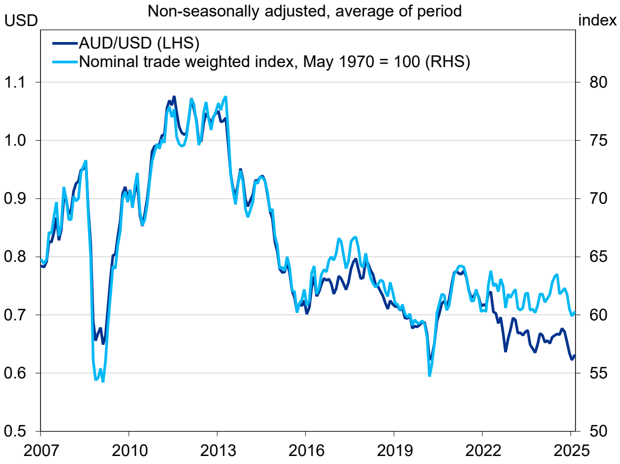
Australia's terms of trade improved in the December quarter 2024, rising by 1.8% to 91.0 from 89.4 in September. However, this figure is still 4.8% lower than a year ago. Despite the annual decline, the increase was driven by higher export prices for iron ore and gold earlier in the quarter, marking the first rise in the terms of trade since December 2023.

However, the Reserve Bank of Australia's Index of Commodity Prices remains well below previous highs, recording an 8.9% decline in December 2024 compared to a year earlier. The index is now 25.8% below its June 2022 peak, primarily due to persistent declines in iron ore and coking coal prices over the 2024 calendar year. Looking ahead, the World Bank anticipates further commodity price declines of 4% in 2025 and 5% in 2026.

EXTERNAL DEMAND ASSUMPTIONS	Q2-25 (f)	Q3-25 (f)	Q4-25 (f)	Q1-26(f)	Q2-26(f)
Exchange rate (AUD/USD)	0.60	0.60	0.60	0.61	0.61
Coal prices (USD/tonne)					
Thermal coal price – Newcastle	109	115	120	123	127
Semi soft coking coal price	178	187	192	197	202
Gold price (USD/oz)	3,118	3,169	3,190	3,337	3,367
Dalian Iron Ore 62% Futures	102	99	98	96	95
Oil prices (USD/barrel)					
Brent Spot Average	73	71	70	69	68
West Texas Intermediate Spot Average	69	67	66	65	65

Rising trade tensions and the threat of new tariffs have bolstered demand for the US dollar, while simultaneously pressuring the Australian dollar. Due to its reliance on commodity exports and economic ties with China, the Australian dollar has depreciated to levels last seen during the pandemic and the GFC.

FIGURE 17
Australian Exchange Rate



Source: RBA, Haver, KPMG

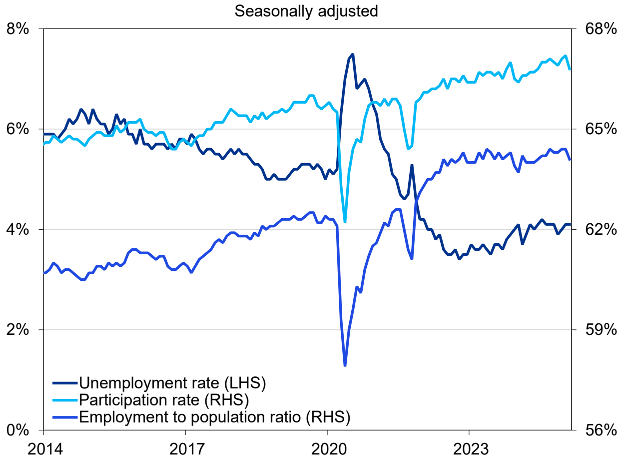
Over the first two months of 2025, the Australian dollar has fluctuated between US$0.620 and US$0.630, slipping below its 2024 trading range of US$0.636 to US$0.677. While this depreciation benefits Australian exports by making them cheaper for overseas buyers, it also increases cost pressures through higher imported prices. Looking at the Trade Weighted Index (TWI), the value of the Australian currency is now at the bottom of the range observed since 2022. The Australian dollar is forecast to remain weak in the near term, with the added pressures from weaker commodity prices and subdued demand from China unlikely to resolve quickly.

Labour market

Labour market conditions remain tight, but wage pressures have eased significantly.

The unemployment rate fluctuated around the 4% level throughout 2024, and this trend has continued into early 2025. The seasonally adjusted unemployment rate edged up slightly to 4.1% in the first two months 2025 but the labour market remains tight, with unemployment still much lower than pre-pandemic levels.

FIGURE 18
Unemployment and Participation Rates



Employment fell by 53,000 people in February off the back of a spike in older workers quitting the workforce, against expectations of 30,000 new jobs. Despite the large fall, looking through the monthly volatility, employment was 1.9% higher compared to 12 months ago, with the annual growth rate around the 20-year pre-pandemic average of 2%.

This significant decline in employment occurred alongside a reduction in labour force participation. The participation rate declined to 66.8% in February, down from an all-time high of 67.2% in January. The female participation rate fell to 62.8% in February, down from 63.3% in January, reversing the temporary spike seen at the start of the year. Examining the data beyond monthly fluctuations, the seasonally adjusted participation rate was 0.2 ppts higher than 12 months ago, and still 2.1 ppts above the 20-year pre-pandemic average of 64.7%, with female participation notably 4.8 ppts higher than the 20-year pre-pandemic average of 58%.

Despite the decline in employment, the employment-to-population ratio remains historically high at 64.1%, down from 64.4% in January and just 0.4 percentage points below its December 2024 peak.

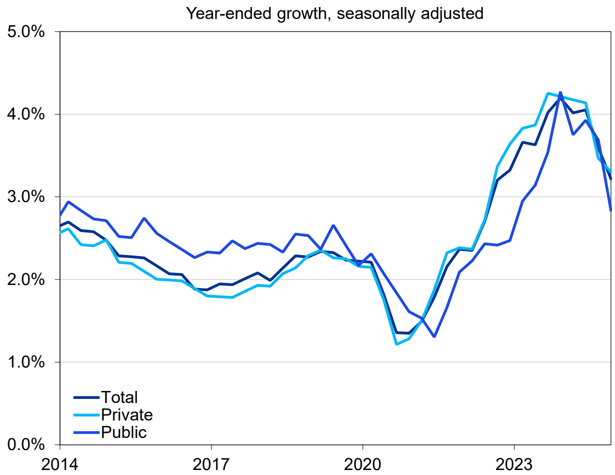
In February 2025, seasonally adjusted monthly hours worked fell by 0.4%, in line with the 0.4% decline in employment. Over the year, growth in hours worked still outpaced the rise in people employed, at 2.4% and 1.9%, respectively.

The Wage Price Index (WPI) rose by 0.7% over the December quarter 2024, the lowest quarterly growth since the March quarter 2022. Through the year, the WPI increased by 3.2%, which was the lowest annual increase since the September quarter 2022.

A key factor behind the moderation in wage growth has been a smaller increase in the minimum wage, which rose by 3.75% in 2023/24 – significantly below the 5.75% rise in 2022/23 and the 4.6% to 5.2% hike in 2021/22.

Both the public and private sectors recorded slower wage growth in the December quarter, though the deceleration was more pronounced in the public sector. Private sector wage growth slowed to 3.3% annually, the lowest rate since June 2022, while public sector wages grew by 2.8%, falling below 3% for the first time since mid-2023.

FIGURE 19
Wage Price Index by Sector



In line with the broader wage moderation, the share of jobs experiencing annual wage change declined significantly. Only 16% of jobs recorded a wage change during the December quarter 2024, compared to 21% in the corresponding quarter last year. Of these jobs which recorded a wage movement, the average hourly wage change was 3.6%, compared to 4.4% a year ago.

In the private sector, the share of jobs with wage adjustments fell to 14%, down from 16% in the December 2023 quarter, marking the lowest proportion recorded for a December quarter since 2019. In the public sector, only 23% of jobs recorded a wage change, compared to 38% a year earlier.

Through the year, wages growth in *Electricity, gas, water and waste services* continued to record the highest growth (+4.7%) while *Health care and social assistance and Professional, scientific and technical services* industries jointly recorded the lowest growth (+2.8%). By region, Tasmania led annual wage growth at 3.9%, followed by Queensland and the Australian Capital Territory at 3.7%.

The SEEK job ad index in January 2025 revealed that job ads rose 5.1% in January, the largest monthly rise since October 2021. This follows three months of declining ad volumes. Applications per job ad dropped by just 0.1% for the second consecutive month in January 2025. Levels remain elevated compared to the historical trend. The average applications per Ad Index doubled to low-200 in 2024 from around 110 in 2020–2023, indicating strong competition among candidates.

According to the latest *KPMG Australian Labour Market Update* published in February 2025, the unemployment rate has moved closer towards the natural level of unemployment, supported by improved labour market efficiency and an ongoing surge in skilled migration. This improvement in labour market pressure also coincided with an easing of nominal wages growth, which provides hope that much of the employment gains in recent years can be preserved.

Looking ahead, the unemployment rate is expected to rise modestly in 2025, leading to a further moderation of inflationary pressures within the economy from wages growth. This is particularly the case for the services sector, where labour costs are especially relevant, as this is where inflation has proven to be more persistent.

Despite the low unemployment rate, the productivity of the labour force remains a key concern, with real output per worker declining by 1.2% over the past year. This deterioration is also reflected in real unit labour costs, which have increased by 2.3% over the year. A lack of labour productivity growth presents risks to future real wage growth and the broader economy.

Government

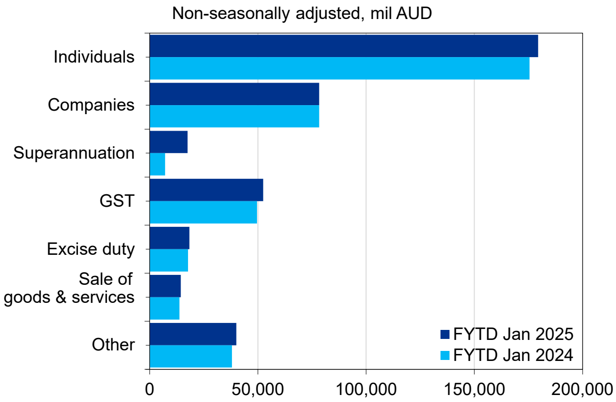
Public demand continued to support economic activity in the December quarter 2024, contributing 0.2 ppt to quarterly GDP growth, with government consumption and public investment accounting for 0.1 ppt each.

Growth in government spending moderated to 0.7% in the December quarter, following large rises in the September and June quarters, which recorded increases of 1.4% and 1.5%, respectively. State and local governments (+0.8%) were the largest contributor, with strength in hiring across health, education, policing, and environment agencies. Commonwealth government expenditure also rose, with increased expenses associated with defence exercises, the Pharmaceutical Benefits Scheme, and aged care.

Public investment showed moderate growth (1.8%), driven by state and local public corporations, with increased activity on major transport, water and renewable projects.

The three non-market industries all experienced strong growth in the December quarter. Of these three sectors, *Education and training* (+1.1%) experienced the highest growth rate. *Public administration and safety* (+0.9%) increased driven by increased activity in the public sector and defence activity. *Health care and social assistance* (+0.5%) rose in line with increased GP attendance and allied health services.

FIGURE 20
Australian Government Tax Receipts by Type

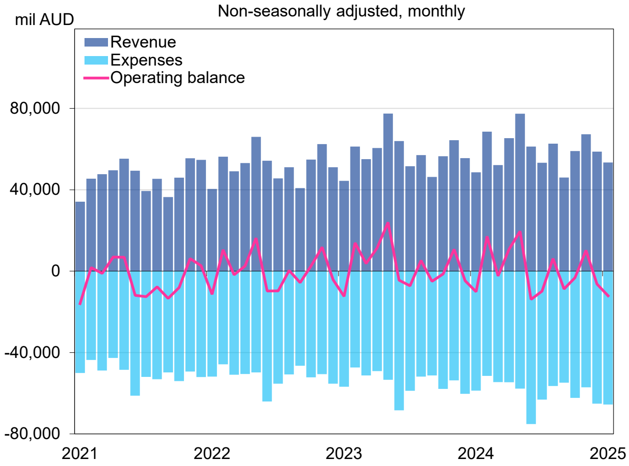


Source: AOFM, Haver, KPMG

In the December quarter 2024, the general government net operating balance improved by $15.4 billion compared to the previous quarter, to record a deficit of $3.5 billion. During this period, taxation revenue rose by 13.7% to $213.4 billion, while general government borrowing was $19.1 billion.

For the month of January 2025, the central government monthly deficit increased to $12.1 billion, the highest since June 2024. This decline was driven by a 9.2% fall in revenue to $53.4 billion and a 0.8% increase in expenses to $65.6 billion.

FIGURE 21
Central Government Operating Balance

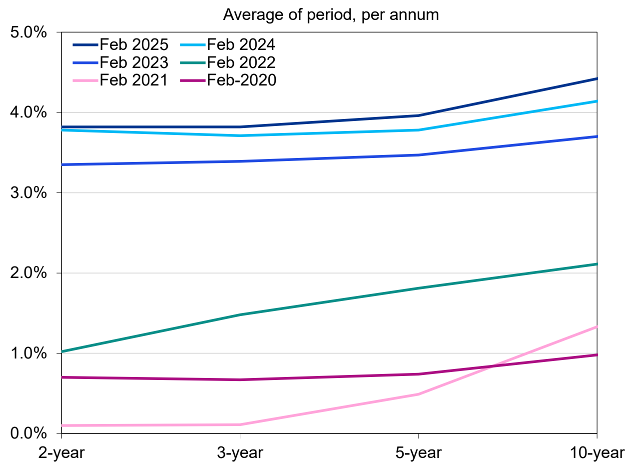


Source: AOFM, Haver, KPMG

Looking ahead, the 2024–25 National Fiscal Outlook anticipates most budget aggregates will improve as a share of GDP at a national level (Commonwealth and State combined) compared to the 2023–24 edition, except for public debt interest payments. The national net operating balance is forecast to return to a surplus of 0.3% of GDP ($9.6 billion) in 2027–28.

Australian government bond yields have risen slightly across the yield curve in February 2025 when compared to 12 months ago, mirroring the trend observed in other advanced economies. The 10-year Commonwealth bond yield in the first two months of 2025 averaged 4.45%, representing a 59-basis point premium over two-year tenor bonds.

FIGURE 22
Australian Treasury Bond Yield Curve



Source: ABS, Haver, KPMG

Box C: **The 2025–26 Federal Budget, released on Tuesday 25 March, delivers a modest improvement in the fiscal outlook compared to the 2024–25 Mid-Year Economic and Fiscal Outlook (MYEFO).**

The Treasurer has aligned this year's Budget deficit with the MYEFO estimate, setting the deficit at -$27.6 billion. The Treasurer also trimmed down the projected deficits, by $1.2 billion for underlying cash balance and $5.9 billion for headline cash balance.

Despite these improvements, the gains are not finding their way to the nation's balance sheet. Gross debt is still expected to reach $1.16 trillion by the end of 2027–28. Over the forward estimate period, net debt is expected to rise by more than $210 billion over the same period.

What is surprising in this year's Budget is the provision of tax cuts and broad-based cost-of-living relief to all taxpayers and households over the next few years. These initiatives are being funded by debt, not by windfall gains from surging Terms of Trade or above-average productivity. Nearly $85 billion in off-budget spending has also been committed over the forward estimates, contributing to cumulative Headline Cash Balance deficits of $236 billion through to 2028–29.

Government spending continues to outpace economic growth, with public sector expenditure projected to peak at 28.5% of GDP next financial year. This marks a significant rise from 24.1% in 2018–19, pushing the role of the government sector in the economy to its highest level since the World Wars.

PROJECTED DEFICITS	2024-25	2025-26	2026-27	2027-28	TOTAL
Headline Cash Balance ($b)					
2025–26 Australian Federal Budget	-46.7	-65.2	-58.5	-57.2	-227.6
MYFEO	-47.8	-70.3	-62.9	-52.5	-233.5
Gap					*5.9*
Underlying Cash Balance ($b)					
2025–26 Australian Federal Budget	-27.6	-42.1	-35.7	-37.2	-142.7
MYFEO	-26.9	-46.9	-38.4	-31.7	-143.9
Gap					*1.2*

Source: Treasury, KPMG

Financial conditions

We need to access financial conditions by examining a broad set of indicators – beyond just the overall stance of monetary policy.

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.

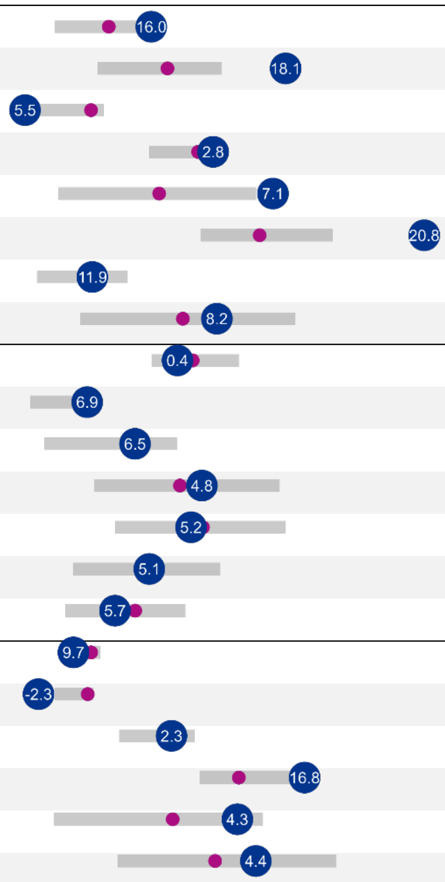
Blue dots show the latest readings, while pink dots show the average over the sample and the grey bars show the middle 50% of observations (the interquartile range).

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 2024

		Min	Latest	Max
Household	Growth in new housing finance commitment (%, y/y)	-29.6	16.0	82.3
	Growth in new personal finance commitment (%, y/y)	-21.5	18.1	35.1
	Growth in housing credit (%, y/y)	3.0	5.5	21.9
	Growth in personal credit (%, y/y)	-12.9	2.8	16.1
	Discounted variable rates for owner-occupiers (%)	3.5	7.1	8.8
	Credit card standard rates (%)	16.0	20.8	20.8
	Growth in h/h income spent on interest on dwellings (%, y/y)	-25.5	11.9	108.2
	Growth in h/h income spent on consumer debt interest (%, y/y)	-24.4	8.2	34.9
Business	Growth in lease finance commitment (%, y/y)	-36.2	0.4	42.6
	Growth in commercial lending (%, y/y)	-7.1	6.9	44.9
	Growth in business credit (%, y/y)	1.1	6.5	15.6
	Non-financial 3yr A-rated bond yields (%)	0.7	4.8	8.7
	Non-financial 10yr A-rated bond yields (%)	1.5	5.2	9.0
	Non-financial 3yr BBB-rated bond yields (%)	1.2	5.1	10.8
	Non-financial 10yr BBB-rated bond yields (%)	2.4	5.7	12.3
Other Macro	Growth in government lending (%, y/y)	-43.0	9.7	178.0
	Growth in bond issued as a percentage of GDP (%)	-8.2	-2.3	28.1
	Growth in real trade-weighted index (%, y/y)	-19.9	2.3	29.3
	Growth in ASX200 share price index (%, y/y)	-40.9	16.8	37.0
	Official cash rate (%)	0.1	4.3	7.2
	10yr government bond yields (%)	0.8	4.4	6.4

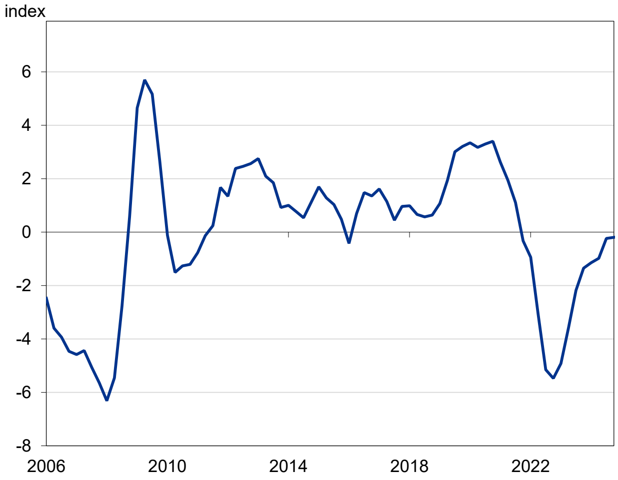


Source: ABS, RBA, Standard & Poor's, KPMG

Financial conditions in Australia remain broadly restrictive but have eased substantially over the past two years.

Chart 23 illustrates the *KPMG Financial Conditions Index* (FCI) for the period from the March quarter 2006 to the December quarter 2024. A positive index value indicates generally expansionary financial conditions, while a negative index value indicates restrictive financial conditions.

FIGURE 23
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 Reserve Bank of Australia's (RBA) 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.

While financial conditions have remained restrictive, anticipation of an eventual cash rate reduction has contributed to recent improvements. Business and housing credit growth has picked up, wholesale funding conditions have stayed favourable, and equity market valuations remain elevated. However, the RBA has also highlighted that much of the observed credit expansion is nominal, with household credit declining relative to income and business leverage indicators remaining low.

Household financial conditions have become less restrictive.

Housing credit growth has moderated significantly compared to early 2022, but has shown a recent uptick, supported by a strong preference for home ownership amid tight rental conditions. National house prices increased by 5.1% in 2024. While growth in the December quarter 2024 was flat, marking the weakest quarterly outcome since March 2023, there are signs that prices have started to pick up again.

Despite the uptick, annual housing credit growth remained subdued at 5.5% in the last quarter of 2024, well below the long-term average of 8.2%. During this period, the average discounted variable mortgage rate was still elevated at 7.1%, only slightly below the recent peak of 7.3% recorded between December 2023 and March 2024.

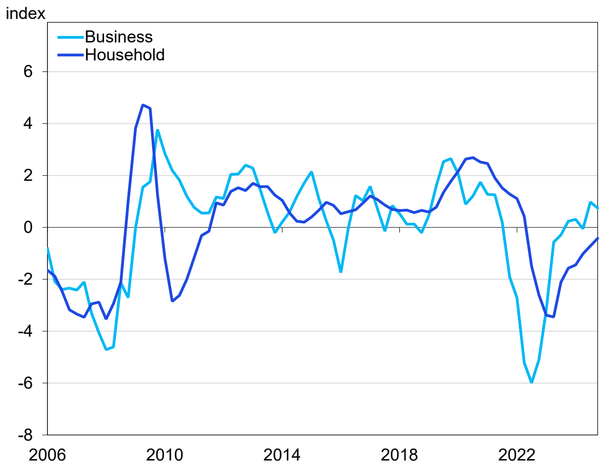
Mortgage stress has intensified, with household interest expenses rising 11.9% over the year to the December quarter, exceeding the long-term average growth rate of 10.3%. New housing loan commitments have surged 32.6% from their March 2023 trough, mirroring the broader recovery in national home prices. Loan commitments have risen across all states, with the sharpest increases observed among investors and first-time homebuyers.

Financial conditions for businesses have returned to expansionary territory.

Business credit growth remained steady at 6.5% in December 2024, in line with its 20-year average, supported by strong internal funding, low leverage, and investor demand for wholesale debt. Lending for equipment and vehicle purchases has also remained solid. Corporate bond issuance, a key funding source for larger businesses, remained strong throughout late 2024. Lease finance commitments recorded only a marginal increase of 0.4%, compared to a long-term average of 3.0%.

Corporate bond yields have continued to decline in 2024, moving in an opposite direction of government bonds. This narrowing of the corporate–government yield spread reflects improving confidence in the health of corporates. However, this trend is likely to be reversed amidst growing fear about the economic outlook. In the December quarter, A-rated 10-year bond yields saw a substantial year-on-year decline of 62 basis points, while, B-rated 10-year bond yields fell by an even sharper 95 basis points over the year.

FIGURE 24
Household and Business Financial Conditions



Source: KPMG

03

Forecasts

Global and domestic forecasts

GLOBAL[1]	Annual GDP Growth[2]			Unemployment Rate[3]			Average Annual Inflation[4]		
	2024 (a)	2025 (f)	2026 (f)	2024 (a)	2025 (f)	2026 (f)	2024 (a)	2025 (f)	2026 (f)
World	3.2	2.9	2.8	5.0	5.3	5.3	4.5	3.7	3.1
Euro Area	1.5	1.3	1.1	5.3	5.4	5.7	8.4	6.2	4.0
UK	1.1	0.8	0.8	4.4	4.5	4.7	2.5	3.2	2.3
US	2.8	0.5	0.2	4.2	4.6	6.2	3.0	3.7	3.8
Brazil	2.9	2.3	2.3	6.2	7.1	6.7	4.8	2.6	3.7
China	5.0	4.6	4.4	5.0	5.2	5.3	0.2	1.3	1.6
India	6.4	6.6	6.6	7.3	7.0	7.6	5.2	3.4	3.8
Indonesia	5.1	5.2	5.3	6.2	6.0	6.2	1.6	3.4	1.7
Japan	-0.2	1.2	1.1	2.5	2.3	2.3	2.1	2.3	1.6
Singapore	3.6	2.6	2.7	1.9	2.5	2.3	1.6	2.4	2.1
South Korea	2.2	2.1	2.4	2.7	3.1	3.1	1.6	2.5	1.8
Taiwan	4.3	2.7	2.9	3.4	3.4	3.4	1.7	2.7	1.8
Vietnam	12.5	4.4	3.5	1.1	4.0	3.8	2.8	2.7	2.3
Australia	1.0	2.0	1.8	4.0	4.3	4.5	3.5	2.9	2.6
New Zealand	-0.3	1.6	2.8	4.8	3.0	3.0	2.6	3.1	1.9

[1] Source: NIESR [2] GDP growth calculated as average annual growth [3] Estimated unemployment rate at end of year [4] Estimated average inflation though the year

AUSTRALIA	Q/Q Growth			Y/Y Growth		
	Q4-24 (a)	Q1-25 (f)	Q2-25 (f)	2024 (a)	2025 (f)	2026 (f)
GDP and Components						
Consumption	0.4%	0.7%	0.8%	0.7%	3.1%	2.0%
Business investment	0.7%	0.4%	0.6%	-0.1%	2.5%	3.3%
Housing investment	-0.3%	0.2%	0.7%	2.6%	2.4%	2.8%
Government	0.9%	0.7%	0.7%	5.7%	2.9%	3.0%
Exports	0.7%	0.4%	0.1%	1.7%	-0.3%	0.8%
Imports	0.1%	0.4%	0.9%	5.8%	3.1%	3.5%
GDP	0.6%	0.6%	0.5%	1.3%	2.0%	1.8%
Inflation and Rates						
Headline CPI*	2.4%	2.4%	2.4%	2.4%	2.9%	2.6%
RBA cash rate*	4.35%	4.10%	3.85%	4.35%	3.60%	3.35%
10-year government bond*	4.37%	4.51%	4.67%	4.37%	4.26%	3.81%
AUD/USD*	0.62	0.63	0.63	0.64	0.60	0.61
Terms of trade	1.8%	3.0%	1.0%	-4.8%	-2.0%	1.1%
Labour Market						
Employment	0.7%	0.1%	0.2%	2.7%	0.6%	0.6%
Unemployment rate*	4.0%	4.2%	4.2%	4.0%	4.3%	4.5%
WPI	0.7%	0.7%	0.7%	3.2%	2.9%	2.8%

* 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 macroeconometric model (and presented in the previous table on page 24); 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.

GVA in the *Agriculture, forestry & fishing* industry is expected to grow strongly in FY2025 on the back of more favourable seasonal conditions, recovery in global growth and improved competitiveness. These positive drivers are projected to continue supporting the industry over the next two years, although to a lesser degree.

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 small reduction in GVA projected for FY2025. GVA recovers over the following two years as these negative factors dissipate.

The *Manufacturing* industry is projected to record negative GVA growth over the forecast period. As a trade-exposed industry, the prospects of this industry depend heavily on its competitiveness.

Industries exposed to government spending, including *Public administration & safety* and *Education & training* are expected to record faster GVA growth than the economy as a whole. This reflects the expectation that government spending will continue 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 than 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 FY2019 to 8.2% in FY2024. 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 projected rebound in household consumption is reflected in the GVA profile of the *Retail trade* industry, which recovers from negative growth in FY2024.
The rebound in household consumption is also reflected in the GVA growth profile of the *Accommodation & food services* industry, although this is subdued by cost pressures that stifle discretionary consumption and by weak growth in tourism expenditures.

INDUSTRY GVA	2023 (a)	2024(a)	2025 (f)	2026 (f)
Agriculture, forestry & fishing	4.6%	4.6%	10.5%	5.8%
Mining	0.3%	0.0%	-1.0%	1.8%
Manufacturing	0.2%	0.3%	-1.1%	-0.2%
Electricity, gas, water & waste services	0.7%	1.1%	5.4%	4.7%
Construction	2.7%	1.7%	0.8%	2.3%
Wholesale trade	6.9%	-2.9%	-0.6%	1.7%
Retail trade	2.7%	-0.2%	1.3%	3.0%
Accommodation & food services	17.7%	-0.7%	-0.3%	0.9%
Transport, postal & warehousing	10.5%	5.1%	2.9%	2.9%
Information media & telecommunications	11.8%	2.3%	1.5%	2.2%
Financial & insurance services	0.4%	1.1%	2.7%	3.0%
Rental, hiring & real estate services	-0.5%	3.6%	1.8%	2.4%
Ownership of dwellings	2.6%	1.5%	-0.3%	0.9%
Professional, scientific & technical services	6.1%	1.2%	3.1%	3.8%
Administrative & support services	8.1%	0.5%	3.2%	3.6%
Public administration & safety	1.7%	3.4%	3.2%	3.6%
Education & training	2.0%	3.0%	1.8%	2.7%
Health care & social assistance	5.2%	4.4%	2.7%	3.1%
Arts & recreation services	11.2%	3.4%	-1.1%	0.8%
Other services	8.3%	3.9%	10.5%	5.8%

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