



# Australia Economic Outlook Q3 2025

September 2025

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KPMG Australia



# Executive summary

Successful trade deals and moderation in trade restrictions have provided much-needed relief for the global economy and have helped temper some of the earlier pessimistic forecasts. Nevertheless, the global economy continues to face headwinds, and the overall outlook remains subdued.

Australia's economic activity rebounded in the June quarter, growing by 0.6%, up from 0.3% in the March quarter when activity was heavily impacted by weather events. On an annual basis, this translated into a 1.8% rise, delivering the highest annual growth rate since the September quarter 2023, and exceeding the consensus forecast of a 1.6% increase. Nevertheless, through the year, GDP per capita has only risen by 0.2%, reflecting the fact that the performance of the economy remains underwhelming once population growth is considered.

The private sector has stepped up to be the driver of growth, primarily driven by a strong result for household spending. During the June quarter, real household final consumption expenditure rose by 0.9%, following a 0.4% rise last quarter. This was the fastest pace of growth since the December quarter 2022. Real household consumption per capita increased by 0.6% this quarter, also marking the highest quarterly growth rate since the June quarter 2022.

The strong pace of consumption growth and the transition from public sector driven activity to private sector led growth has happened much faster than what we had anticipated in our previous report. Overall, it appears that improved sentiment in response to lower interest rates and the Stage 3 tax cuts has finally translated into more bullish consumption activity. The question, however, is how sustainable is this pick-up in growth?

With interest rates now at a more accommodative level, inflation remaining stable and real wage growth continuing, we think consumption growth will continue over the upcoming quarters, but a touch lower than the June quarter figure as it was by a rebound from a lower base and a catch-up in demand following disruptions caused by extreme weather events.

While the recent acceleration in economic activity is encouraging, it is too early to celebrate. Growth remains below trend, and the recovery is still uneven. Lower interest rates are supporting private investment, particularly in housing. However, non-housing business investment remains subdued in recent quarters, so if recent sentiment does not translate into stronger activity, then it could pose a risk to further acceleration in the economy.

The economy may require a further boost from the cash rate beyond the current level to reach its potential level. The latest inflation read shows that headline inflation has started ticking up due to the scale-back of government electricity rebates. Looking ahead, we maintain the view that the RBA will look through this temporary pick-up in inflation and remain focused on fine-tuning the path of the economy. KPMG now expects one more interest rate cut this year; to be followed by one more rate cut in the first half of 2026, bringing the cash rate to a neutral level of 3.1%.

However, we cannot rely on lower interest rates alone to improve the economic prosperity of our nation. The renewed focus on a productivity reform agenda is a welcome development, as productivity growth is the key to sustainable improvements in economic welfare. Ultimately, strengthening business investment, encouraging skills development necessary for future jobs, as well as redesigning our tax environment so it incentivises and encourages businesses and workers, are the blueprint for reforms KPMG considers fundamental for the future prosperity of Australia.

The labour market continues to show resilience, with the unemployment holding steady in the low-4% range. We forecast unemployment to stabilise at around 4.3% over the coming years. This resilience is partly underpinned by a cost advantage of labour, which has encouraged firms to overinvest in labour relative to capital. Government spending pulled back in the first half of 2025 but is expected to pick up in the new financial year. While the scale of this spending has not been large enough to drive job growth on its own in recent years, the pick-up in private sector activity should help support and balance employment momentum.

KEY FORECASTS	2024 (a)	2025 (f)	2026 (f)	2027 (f)
<b>Real GDP</b>				
Average annual growth	1.0%	1.8%	2.2%	2.1%
Year ended growth	1.3%	1.9%	2.1%	2.2%
<b>Unemployment rate</b>	4.0%	4.3%	4.3%	4.3%
<b>Inflation</b>				
Headline CPI	2.4%	2.7%	2.7%	2.5%
Core CPI	3.2%	2.8%	2.7%	2.6%
<b>RBA cash rate</b>	4.35%	3.35%	3.10%	3.10%
<b>AUD/USD</b>	0.65	0.66	0.66	0.66

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# 01

## Global landscape



# Global conditions

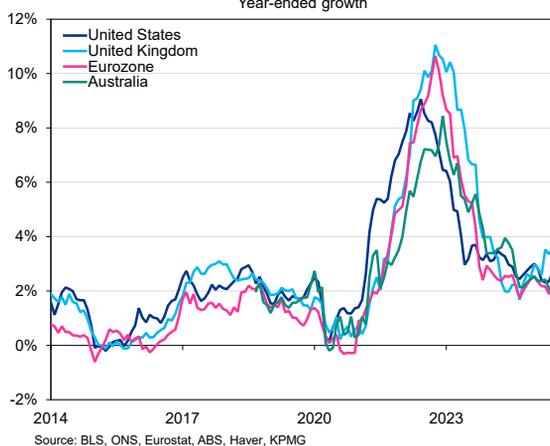
Following a period marked by geopolitical instability and uncertainty around trade policy, recent developments suggest that the tariff measures implemented so far have been less severe than those initially announced. This moderation in trade restrictions has provided short-term relief for the global economy and helped temper some of the earlier pessimistic forecasts.

Expectations for global growth were revised downwards earlier in the year, with the injection of significant trade policy uncertainty by the US administration from April and beyond threatening to disrupt the international economic climate. With the passage of time, it appears the tariff measures implemented have been less severe than initially announced in April (see Box A).

It also appears that the impact on global economies has been slower to materialise, supported by a front-loading of goods, the use of mitigation strategies such as bonded warehouses, a series of pauses to tariffs, the redirection of trade to other partners, as well as the inherent lag between policy announcements and their real impact on economies.

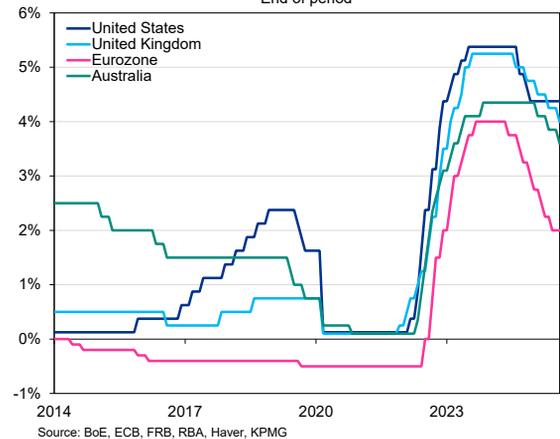
However, trade policy continues to evolve at a rapid pace. Amidst threats of further escalation, the US Court of Appeals has reaffirmed the decision of the Court of International Trade, which found that President Trump's imposition of tariffs was not permitted under the International Emergency Economic Powers Act (IEEPA). Nevertheless, with an inevitable appeal to the US Supreme Court, the tariffs have been allowed to stay in place until October 14. Should the Supreme Court further uphold this decision, it is likely that alternative legislative means could be used to impose similar tariffs. However, this would further exacerbate existing policy uncertainty across the globe.

**FIGURE 1**  
Inflation in Selected Advanced Economies  
Year-ended growth



Beyond these continued trade headwinds, the start of this year was also marred by the (re)emergence of key geopolitical tensions, including conflict between India and Pakistan, as well as Israel and Iran. Thankfully, these tensions have since cooled, most importantly minimising the human cost of war.

**FIGURE 2**  
Policy Rates in Selected Advanced Economies  
End of period

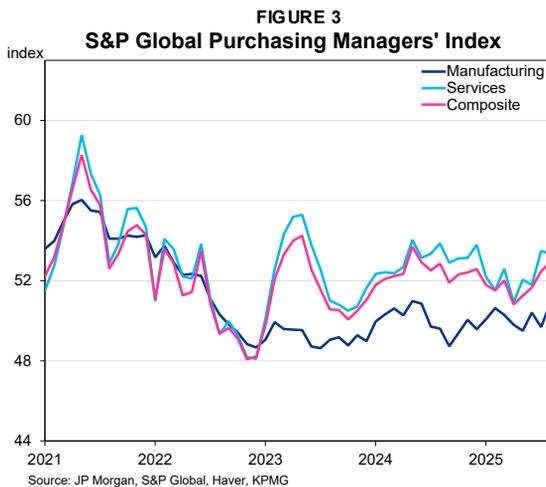


As a secondary consequence, this moderation has also limited lasting economic damage which was threatened by such regional conflicts, with escalating oil prices being a key concern at the time.

Nevertheless, the tragic cost of war remains a focal point in international diplomatic circles, with discussions of peace between Ukraine and Russia so far not producing meaningful progress, as too with discussions surrounding the ongoing war in Gaza.

When viewed against this gloomy backdrop, particularly given the disruptions to international trade, global growth has demonstrated a degree of resilience over the first half of the year. This has provided some relief to governments and consumers alike, who are still dealing with post-pandemic budgetary pressures. Although private consumption has been sluggish to recover, international trade and investment was able to support economic activity. However, it remains to be seen if this momentum can be maintained, particularly with risks firmly tilted to the downside.

Meanwhile, disinflation across the globe is also showing mixed signs, reflecting a range of local conditions. In the US, inflation has been stubbornly above the Fed's 2% target despite coming off significantly from its pandemic peak. Recently, it has been edging higher, and the flowthrough of tariffs will likely push it higher into 2026. Inflation has also rebounded in the UK, driven by elevated services inflation and ongoing strength in wages growth. Elsewhere across the globe, inflation is expected to continue along its path of moderate easing, supported by falling energy prices and excess industrial production capacity in China.



Particular attention has been paid to the monetary policy pathway in the US, where the Federal Reserve has resumed its easing cycle amidst increased political pressure, cutting rates by 25bps in September. This was in line with market expectations and follows weaker-than-expected data on job openings, which showed that the US economy added approximately 900,000 fewer jobs than initial estimates in the year through March.

The Fed's policy response is however complicated by mixed signals, with this labour market weakening accompanied by above-target inflation. Nevertheless, it appears that the Fed is placing more weight on the downside risks of employment, with a slowdown in the supply of workers (due to immigration policies) outweighed by falling labour demand. By contrast, Fed chair Jerome Powell noted that a 'reasonable base case is that the effects [of tariffs] on inflation will be relatively short-lived, [as] a one-time shift in the price level'. However, there remains uncertainty as to how best to approach these challenges, with a significant dispersion in the interest rate projections of individual Fed officials reflecting a divided long-term outlook.

From a fiscal policy perspective, global conditions are broadly unchanged from the previous edition. Near-term stimulus measures are continuing to support growth, while over a longer horizon, governments face complex structural challenges. Crucially, balance sheets are under pressure, and the cost of debt is rising, particularly with high long-term bond yields (see Box B).

### **Equity markets have soared to record highs, with investors shrugging off the fears which flowed through markets earlier this year.**

The turmoil which engulfed share markets in April has proved to be nothing more than a blip, with equities across the globe posting strong gains. In the US, the S&P 500 rallied to record highs, to be up 10.1% over the year to date to the end of August. Markets around the world have followed, with the FTSE 100 and ASX 200 also reaching new peaks during August.

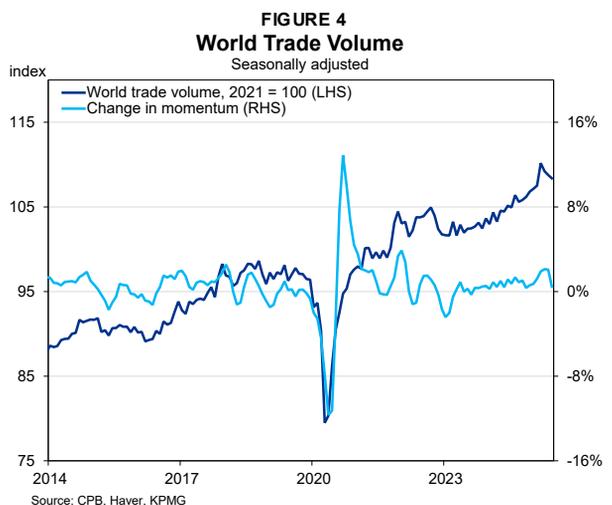
This has occurred despite both the Trade Policy Uncertainty Index and Global Economic Policy Uncertainty Index both at elevated levels, sitting at 554.9pts and 377.1pts respectively in July. While this reflects a significant easing since their peaks in April, both indices are well above their long-run averages. While this uncertainty has been felt in bond markets and exchange rates, the performance of equities has not been damped by similar fears so far.

### **Global trade has proven to be remarkably robust so far, although it remains to be seen whether this can be sustained.**

Data from the World Trade Monitor showed that global trade volumes fell 0.3% in the month of June. However, volumes were still up 0.5% over the quarter and 3.1% through the year. It is still too early to fully evaluate the long-term impacts of US tariffs, with activity earlier in the year supported by a 'front-loading' trade.

Some targeted trade flows appear to have been successfully redirected to alternative markets, helping to absorb part of the potential disruption. Notably, while import volumes into the US declined over the last quarter following a period of front-loading, countries like China managed to reroute exports elsewhere. Over the past three months, China's export volumes to the rest of the world rose by 2.3%, bringing annual growth to 3.7%.

Looking ahead, the global composite Purchasing Managers' Index (PMI) – which acts as a timelier indicator of economic activity – showed that activity accelerated for the fourth consecutive month in August, rising to 52.9pts. This was despite the survey reporting deteriorating business optimism, with business confidence falling to one of its lowest levels since the pandemic. The services sector continues to outperform manufacturing, with the pace of growth in activity remaining close to the seven-month high which was recorded last month. There was a rebound in the manufacturing sector, with production and new order volumes both returning to growth in August.



### Box A: The global tariff environment has entered a new phase.

As of early September, the current US average tariff rate is currently at 17.4%, somewhat lower than the originally threatened level, after several trade deals between the US and its trading partners were successfully agreed.

Based on the latest tariff settings, the relative advantage has shifted across key economies. Australia has preserved its position, facing a 10% tariff – leaving it among the least exposed.

Similarly, the United Kingdom has maintained a 10% baseline tariff, supported by exemptions for key sectors such as aerospace and autos. While the United States has doubled its import tariffs on steel and aluminium to 50%, the UK has been granted a temporary exemption, facing only a 25% levy on these products. This selective relief has helped preserve the UK’s relatively favourable trade position.

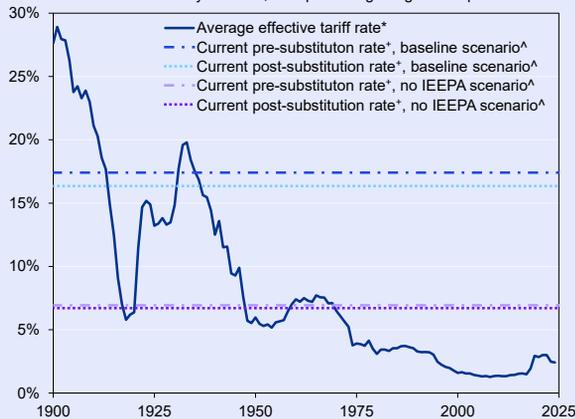
The European Union has secured partial relief through the August framework, with most exports capped at 15%, though steel and aluminium remain heavily penalised, facing a 50% duty. Brazil and India face one of the highest US tariff rates, with a 50% rate applied to most goods.

China’s position has eased temporarily, with the US government extending its pause on higher tariffs for Chinese goods until early November.

Across Asia, Japan and South Korea improved from initial rates above 20% to 15% under investment-linked deals. Other regional peers such as Indonesia, Vietnam, Malaysia, Thailand and Taiwan also saw rates trimmed into the 19–20% range.

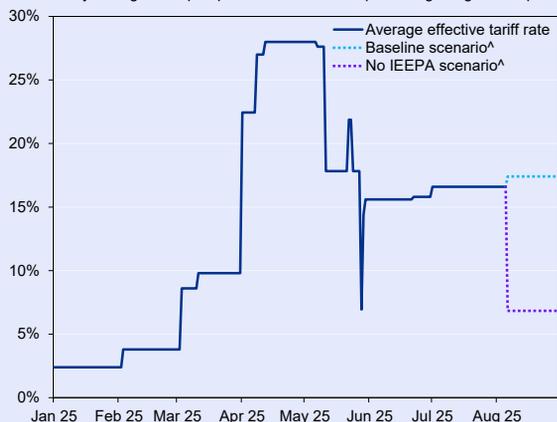
According to modelling by [The Budget Lab at Yale](#), in a purely illustrative scenario where 71% of the 2025 tariffs imposed to date are removed, consumers would face an average effective tariff rate of 6.8%, compared to 17.4% as mentioned earlier. This outcome assumes that the International Emergency Economic Powers Act (IEEPA) tariffs are invalidated by the Supreme Court in June 2026 and not replaced by alternative tariff authorities (see Figures A1 and A2).

**FIGURE A1**  
**US Average Effective Tariff Rate**  
Customs duty revenue, as a percentage of goods imports



Source: Historical Statistics of the United States, BEA, The Budget Lab, KPMG.

**FIGURE A2**  
**US Average Effective Tariff Rate, since Jan 2025**  
Policy through to Sep 3, pre-substitution, as a percentage of goods imports



Source: The Budget Lab, KPMG.

\*The effective tariff rate implied by policy has fluctuated significantly throughout the year, beginning at 2.4% in early January and peaking at 28% following the announcements on April 9 and 13. The figure currently reflects updates to the effective tariff rate only up to 2024, pending further announcements expected by the end of 2025.

\*Pre-substitution metrics assume no change in import shares across countries. Post-substitution metrics reflect shifts in imports in response to tariffs.

^The Baseline scenario assumes current tariff policy stays in place in perpetuity. The 'no IEEPA' scenario assumes that International Emergency Economic Powers Act (IEEPA) tariffs are invalidated by the Supreme Court in June 2026 and not replaced with alternative tariff authorities.

REGION	Current Tariffs (Aug 2025)	Initial Tariffs (Apr 2025)
Australia	10%	10%
UK	10%	10%
European Union	15%	20%
Canada	35%	10%
Mexico	25%	10%
Brazil	50%	10%
China	30%	34%
Japan	15%	24%
South Korea	15%	25%
Singapore	10%	10%
New Zealand	10%	10%
Philippines	19%	17%
Indonesia	19%	32%
Vietnam	20%	46%
Malaysia	19%	24%
Thailand	19%	36%
Taiwan	20%	32%

## Box B: The rise in long-term bond yields has seen yield curves steepen, driven by a mix of longstanding and newly emerged factors.

Rising long-term yields and the steepening of the yield curve have emerged as some of the most defining features of the current market, as documented in our last publication.

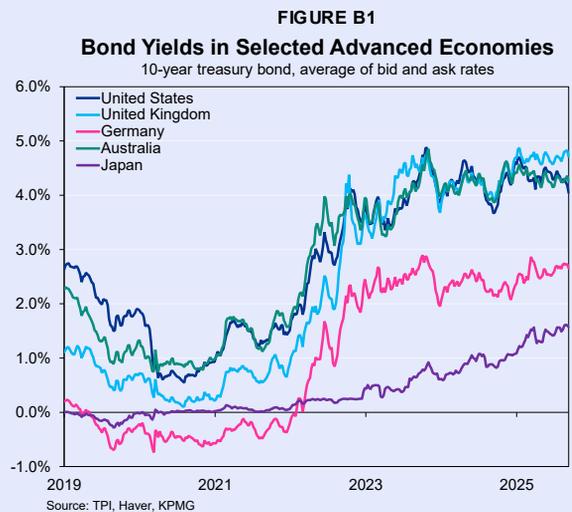
More recently, long-term bond yields have continued to rise for most countries, except for the US where the 10-year bond yield in mid-September has fallen by around 35bps compared to three months ago due to market expectations of ongoing rate cuts. Fiscal challenges also continue to act as an important driving force, resisting further downward pressure on yields from policy rates, as central banks around the world continue to loosen monetary policy settings.

Overall, these developments are not just cyclical behaviour but reflect deeper structural shifts. First, bonds have lost some of their diversifying properties, as bond–equity correlations turned positive after Covid and have been unstable since. This means the market demands higher term premium because of the erosion of diversification benefits from holding bonds. Second, the perception of long bonds as a safe-haven asset has been eroded somewhat, and there has been a shift to other assets such as gold.

### This has also been supported by other notable driving forces.

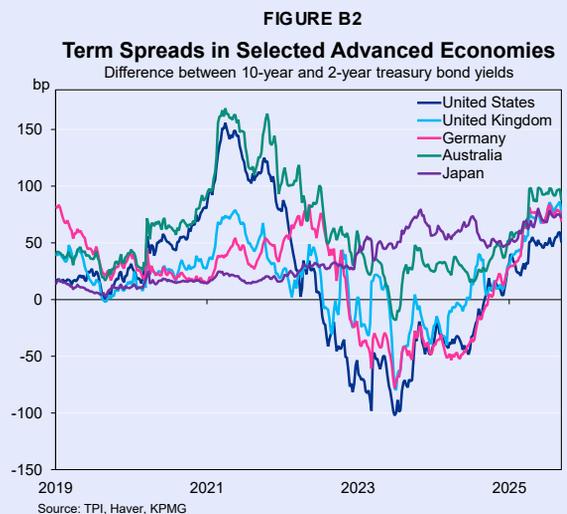
On the buyers' side, there has been reduced demand from 'price insensitive' buyers for long-dated securities:

- The Bank of Japan's end to its yield curve control program, which saw extremely low (negative) interest rates, has led to reduced demand for Japanese bonds. This is especially important as Japan has long been seen as a floor for yields more broadly. Likewise, other central banks across the globe have been shrinking their holdings of government bonds, as they unwind from Covid-era quantitative easing programs.
- Aside from these recent developments, an important structural factor is the ongoing shift by pension schemes from 'defined benefit' towards 'defined contribution' schemes. As 'defined benefit' schemes are exposed to more interest rate risk (because they receive payments now, but promise predetermined payouts in the future), they are a key purchaser of long-duration bonds.



On the supply side, government budgets are facing increasing demands and therefore this continues to put upward pressure on the long rates:

- The implications of an ageing population are well known and will drive increased expenditures on social benefits and healthcare.
- Funding climate action is proving to be more costly than anticipated, especially with resource pressures as nations around the world attempt to achieve an energy transition at the same time.
- Recent political developments have seen a partial reversal of globalism and deteriorated geopolitical outlook, which has consequently fuelled increased defence spending.



## Box C: Geopolitical development and outlook

Contributed by Jon Berry, Director, Geopolitics Hub  
KPMG Australia

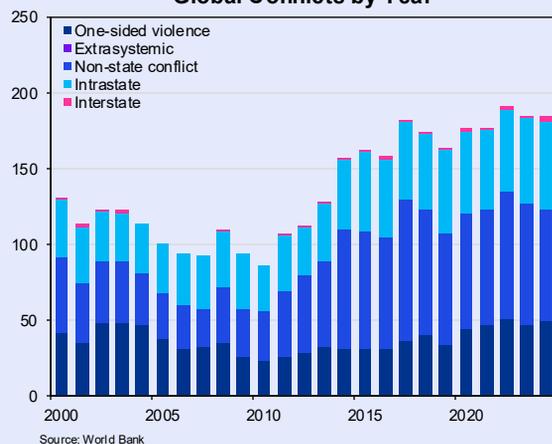
Geopolitical volatility remains high, and this presents both risks and opportunities for Australian companies. Regional tensions, shifting alliances, and changing global economic and security policies require careful analysis and strategic thinking. As Australian businesses navigate this complex landscape, they need to understand, monitor and respond to the geopolitical developments that matter to them. In this edition, we include updates on global conflict and civil unrest.

### Conflicts continue, with no end in sight

Global conflict has risen in recent years, as the chart below demonstrates. In Ukraine, [experts report](#) that there are few signs that the two sides are moving towards a lasting peace, as both demand conditions that the other is not willing to grant. The fighting continues, with Russia's recent [incursions](#) into Polish, Estonian and Romanian air space risking broader escalation. In the Middle East, escalation is also a growing risk, with analysts reporting [little prospect of an end to the conflict](#). Sudan is in a state of [civil war](#), while neighbouring North African countries including [Niger and Mali](#) also face civil conflict and extremism. Inter-state and domestic tensions are also high in other regions, including [India-Pakistan](#), and [Thailand-Cambodia](#).

All of these conflicts and tensions have their own specific drivers, but there is a common factor that is important to understand. Experts [note](#) that as international norms of behaviour weaken, countries and non-state groups can feel emboldened to press their claims. Eurasia Group describes this situation as “G-Zero” (as opposed to G-7 or G-20 etc.) a vacuum at the top of the international security order, because no single country or group of countries is both willing and able to take the role of global peacekeeper. As we navigate this G-Zero era, conflict risk will be a material issue for more and more organisations.

FIGURE C1  
Global Conflicts by Year



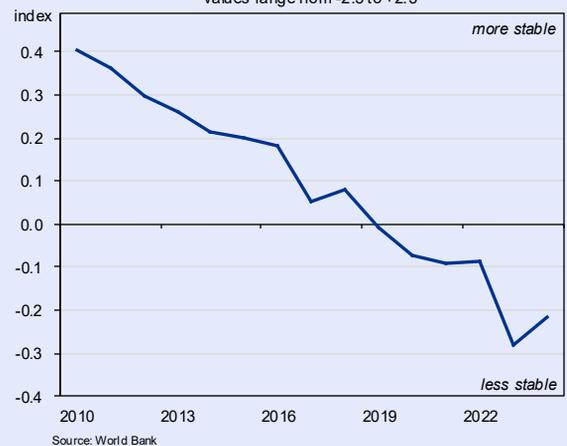
### Distant wars can trigger unrest at home

These distant wars can have impacts at home, as has been demonstrated by the civil unrest all over the world sparked by polarised opinion over the Middle East conflict. The chart below shows an average global rating of political stability and the absence of political violence by year. The downward trend is concerning, as it suggests less stability and more risk of violence. Analysts report that public opinion over the Middle East conflict is divided, and this polarisation is stoked by siloed social media information environments. [Experts believe](#) that as more and more people get their news from algorithmic sources that reward outrage, they are less able to take a nuanced view of complex topics. Instead, they can view the opposing side as not just wrong, but evil.

These polarised public opinions create a range of risks for companies, including threats to staff cohesion, stakeholder relations and public reputation. Leading firms are moving to mitigate these risks in a number of ways, including through sentiment monitoring, investing in staff cohesion and inclusivity, and ensuring public communications are grounded in empathy and clarity. The volatile global outlook and siloed information environment seem likely to be with us for the foreseeable future, so these issues are expected to remain challenging.

FIGURE C2

### Global Political Stability and Absence of Violence Index



# ASPAC outlook

The Asia-Pacific region's economic outlook worsened following Liberation Day, as rising trade uncertainty weighed on growth prospects. Subsequent trade deals and lower-than-expected tariffs have helped ease some of the earlier concerns. Nevertheless, the region continues to face headwinds, and the overall outlook remains subdued.

- China:** Despite stronger-than-expected growth in the first half of the year, the latest data shows signs of cooling economic momentum due to persistently weak domestic demand and a struggling property market. Retail sales growth moderated and overcapacity in the supply side of the economy persists, with producer prices contracting further in July. The manufacturing PMI has shrunk for five consecutive months through August. Without an additional stimulus package, achieving this target will be increasingly difficult.
- Japan:** Japan's economy expanded 0.3% in the second quarter of 2025, higher than the 0.1% growth seen in the first quarter. Nevertheless, on an annual basis, Japan's GDP expanded 1.2% in the second quarter, falling short of the first quarter's 1.8% growth. Japan's economic growth is expected to moderate. This outlook reflects the impact of trade policies, which are slowing economic conditions among Japan's trading partners, and contributing to a decline in domestic corporate profits. Japan's Prime Minister Shigeru Ishiba announced his resignation in September, adding to this uncertainty. The manufacturing sector is vulnerable to tariffs and is likely to act as a drag on overall activity. Meanwhile, the services sector, which accounts for 80% of jobs in Japan, is expected to remain resilient and support overall activity.
- South Korea:** South Korea's GDP edged up 0.5% over the year to the June quarter, rebounding from a 0.3% fall recorded last quarter, driven by global demand for semiconductors and AI-related goods. However, the Korean economy remains under pressure as weak domestic demand and a sharp construction downturn contributed to a 4.3% annual decline in investment. South Korea's Ministry of Economy and Finance has halved its economic growth forecast for 2025, now expecting the economy to expand by just 0.9% this year.
- Singapore:** Singapore recorded annual GDP growth of 4.4% in the June quarter, a modest acceleration from the 4.1% growth seen in the March quarter. This was driven by the wholesale trade, manufacturing, as well as transportation and storage sectors. These results prompted the Ministry of Trade and Industry to upgrade Singapore's GDP growth forecast for the year to a range of 1.5% to 2.5%, though the ministry noted that risks remain 'tilted to the downside'.
- Taiwan:** Taiwan's GDP expanded by 8.0% in the year to the June quarter, up from 5.5% in the March quarter, driven by strong private consumption and an upturn in the global tech cycle. On the back of stronger-than-expected demand for high-end chips and AI servers, authorities raised the 2025 growth forecast to 4.45%, up from 3.10% predicted in May.
- New Zealand:** The economy remains under pressure from high inflation, slow growth and rising unemployment. Uncertainty around global trade has weighed on spending by households and businesses. In response, the Reserve Bank of New Zealand resumed monetary easing, cutting rates from 4.25% in January 2025 to 3.25% by August.
- Indonesia:** Annual GDP growth was 5.1% in the June quarter. Despite a challenging political climate where protests over rising living costs, lawmakers' pay and police violence have spread across the country, investors remain broadly optimistic about the long term, with confidence reflected in rising stock markets and a stronger Rupiah.
- Vietnam:** The Vietnamese government is optimistic about its growth prospects, driven by the launch of its most ambitious structural reforms since Doi Moi in 1980s. This confidence is reflected in strong economic performance so far, with GDP growing 7.5% in the first half of 2025. Public investment has emerged as a key growth driver, while foreign direct investment has surged to its highest level since 2009. In response, the government has raised its annual growth target to between 8.3% and 8.5%.
- Philippines:** GDP grew 5.5% through the year to June, supported by a rebound in agriculture and resilient consumption. In August, the central bank cut its policy rate by 25bps as inflation continues to ease. The move reflects growing concern over the country's growth outlook, especially after the Department of Budget and Management trimmed its 2025 GDP target from 6.5–7.5% to 6%.
- Malaysia:** GDP grew 2.1% in the June quarter, lifting annual growth to 4.3%. The Ringgit has appreciated against the USD, signalling improved confidence. Targeted growth of 4.0% to 4.8% in 2025 will be supported by the 13th Malaysia Plan and increased investment from government-linked companies.
- Thailand:** Thailand's GDP grew at an average rate of 3.0% in the first half of 2025, driven by exports and private investment. However, momentum in private consumption, government spending, and services exports has slowed, and the economy is expected to weaken in the second half of the year. Political instability remains a concern, with the country electing its third prime minister in two years. These political strains may delay next year's budget, limiting the scope for fiscal policy to support growth.

02

# Australia overview

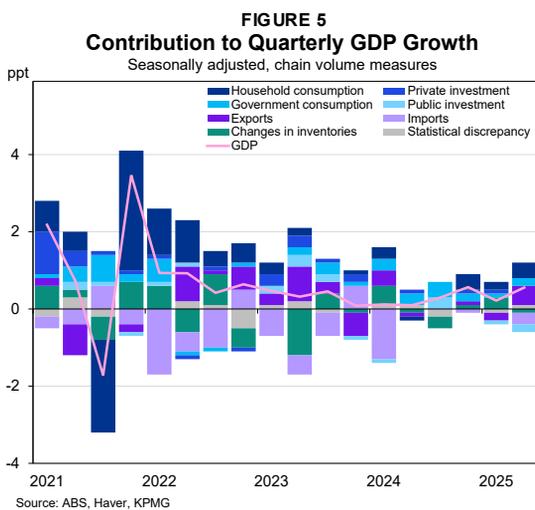


# Economic activity

Growth in the Australian economy surprised to the upside during the June quarter, supported by an acceleration in private sector activity.

Economic growth rebounded in the June quarter from the lower base of growth in the March quarter, which was heavily impacted by weather events. Real GDP lifted by 0.6% in seasonally adjusted terms, slightly above the market expectation of a 0.5% increase. This follows a 0.3% rise in the March quarter (revised up from 0.2%).

On an annual basis, this translated into a 1.8% rise, delivering the highest annual growth rate since the September quarter 2023, and exceeding the consensus forecast of a 1.6% rise. Nevertheless, through the year, GDP per capita has only risen by 0.2%, reflecting that the overall performance of the economy remains underwhelming once population growth is considered.



The private sector continues to accelerate and is returning as a key driver of growth. Real household consumption per capita increased by 0.6% this quarter, rising for just the second time out of the past 10 quarters. This was also the highest quarterly growth rate since the June quarter 2022. However, it remains to be seen whether this can be sustained, or if it was a result of a catch-up in delayed demand caused by extreme weather events last quarter.

Despite the two rate cuts in the first half of the year, business investment remains very weak reflecting challenging domestic and international operating conditions. By contrast, housing investment picked up, rising by 0.5% over the quarter.

Looking at contributors to quarterly GDP growth:

- Private demand was the primary driver of growth, driven by a strong quarter for household consumption, which added 0.4ppt to quarterly GDP growth. A modest rise in private investment made no contribution to growth this quarter (+0.0ppt).
- Public demand made no net contribution to growth. Increased government consumption made a positive contribution (+0.2ppt), which was offset by a fall in public investment (-0.2ppt).
- Net trade added to GDP growth (+0.1ppt), with exports rising faster than imports.
- Meanwhile, changes in inventories detracted from growth (-0.1ppt). Wholesale trade saw a drawdown in inventories as previously harvested grains were exported.

Although they were not immediate, signs are now emerging that the impact of multiple rate cuts – with the cash rate now at 3.60% – alongside Stage 3 tax cuts and improved consumer sentiment, have finally started to flow through to household consumption and saving behaviour:

- Household spending lifted by 0.9% in the June quarter, following a 0.4% rise in the March quarter.
- Discretionary spending (+1.4%) this quarter was supported by end of financial year sales, new product releases, and the proximity of Easter to Anzac Day which encouraged longer holiday breaks. Essential spending (+0.5%) was led by health, as flu season saw more households requiring medical services.
- This spending was supported by a fall in the household saving ratio, which decreased to 4.2% in the June quarter, from 5.2% in the March quarter. Although gross disposable income rose by 0.6%, this was outpaced by a 1.5% rise in nominal household spending.
- The rise in gross disposable income was modest, as income receivable from insurance claims and social assistance benefits normalised following the impact of ex-Tropical Cyclone Alfred last quarter.
- Meanwhile, interest paid on dwellings fell for a second consecutive quarter, in line with decreases to the cash rate.

Despite the handover from the public sector to the private sector as driver of growth, the public sector remains critical in providing funding to deliver essential non-market services such as aged care and childcare.

Compensation of Employees (COE) rose by 1.1% in the March quarter, driven by:

- Private sector COE lifted by 0.8%, with wage reforms related to aged care and childcare services supporting growth in *Health care and social assistance*. A larger headcount, alongside bonus payments in line with increased sales due to extended holidays and favourable weather conditions, supported the rise in *Accommodation and food services*.
- Public sector COE rose by 2.1%. For the Commonwealth government, growth was supported by increased activity from the federal election and a higher number of military exercises. Enterprise agreements delivered pay rises for employees in state and local governments.
- All states and territories saw a rise in COE. The largest rises were seen in the Australian Capital Territory (+2.6%) and South Australia (+2.2%).

Business profitability, as measured by Gross Operating Surplus (GOS), lifted by 0.3%:

- Private non-financial corporations' GOS fell by 0.1%, with lower commodity prices driving a fall in *Mining* despite a rebound in production. A decline in *Manufacturing* was associated with metal products and basic chemicals, while a rise in expenses and labour costs also weighed down *Retail trade*.
- Other sectors' GOS rose 0.8%, with rises in dwellings owned by persons and financial corporations partly offset by a fall in public non-financial corporations.

Labour productivity improved this quarter, with GDP per hour worked rising by 0.3%, following a flat result in the March quarter. This translates into a 0.2% rise through the year, reflecting that productivity growth remains lacklustre. Looking in more detail, sectoral labour productivity (GVA per hour worked) rose by 0.6% in the market sector during the June quarter, while lifting by 0.4% in the non-market sectors.

Furthermore, real unit labour costs deteriorated, rising by 0.7% in the quarter, following a modest improvement in the March quarter. Real unit labour costs have now risen by 2.1% through the year.

# Production

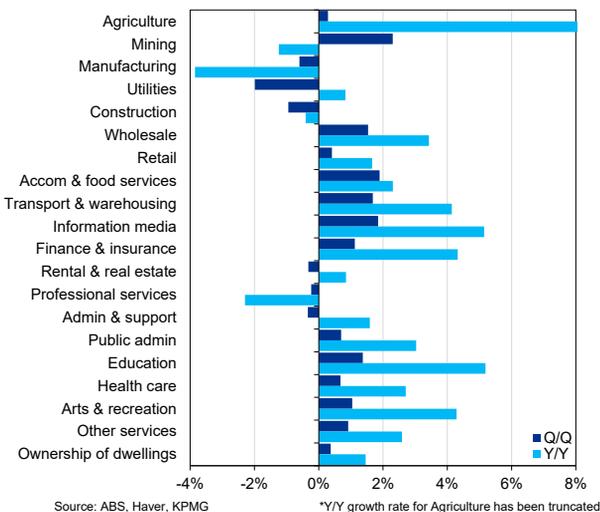
Gross Value Added (GVA) increased by 0.7% in the June quarter, with 13 out of the 19 industries seeing growth. This was led by:

- *Mining* saw a rebound from significant weather-related impacts in the last quarter, with GVA rising by 2.3%, with production increases seen for coal, iron ore, as well as oil and gas.
- This more favourable weather also supported domestic tourism, which was also buoyed by the proximity of Anzac Day to Easter this year. This saw rises in *Accommodation and food services* (+1.9%) and *Transport, postal and warehousing* (+1.7%).
- *Public administration and safety* saw a rise (+0.7%) associated with the Federal Election, as well as an increased number of defence exercises. Elsewhere in the non-market sector, *Health care and social Assistance* rose (+0.7%) amid a stronger-than-usual flu season.

These gains were partially offset by:

- *Construction* (-0.9%) due to decreased activity on major infrastructure projects.
- Warmer than average temperatures also contributed to a fall in *Electricity, gas, water and waste services* (-2.0%).

**FIGURE 6**  
Industry Gross Value Added, Jun 2025



Meanwhile, during the June quarter, producer prices (as measured by final demand) increased by 0.7%, to be up 3.4% through the year. This was the lowest annual growth rate since the September quarter 2021, reflecting ongoing easing in price pressures, as viewed from the seller's perspective.

This result was driven by:

- *Property operators* saw a rise (+1.1%), reflecting increased prices for residential rents. Nevertheless, the pace of growth has slowed over the past year.
- A large increase was seen in *Other food product manufacturing* (+8.4%), due to strong international demand for coffee and meat products, alongside ongoing supply challenges.
- This was partially offset by a fall in *Petroleum refining* (-9.0%), in line with recent falls in global crude oil prices.

**FIGURE 7**  
Business Sentiment



Business confidence, as measured on a three-month moving average basis, reached its highest level since September 2022, according to data from the NAB Monthly Business Survey. This measure now sits at 5.7pts in August, having climbed from its recent low in April, where it had dipped to -1.1pts. Business conditions have also been improving, averaging 6.6pts in the three months to August, compared to 3.6pts in the first three months of the year.

Moving forward, the Australian Bureau of Agricultural and Resource Economics and Sciences anticipates the gross value of agricultural production to rise by 1% to \$94.7 billion in FY25–26. A rise in livestock and livestock product values will be supported by robust global demand, partially offset by crop production values as lower prices outweigh an increase in volume.

Looking at the resources sector, the Department of Industry, Science and Resources forecasts the nominal value of resource and energy exports to fall by 4% to \$369 billion in FY25–26. Although gold exports will continue to support, this will be outweighed by the impact of weak prices for iron ore and LNG.

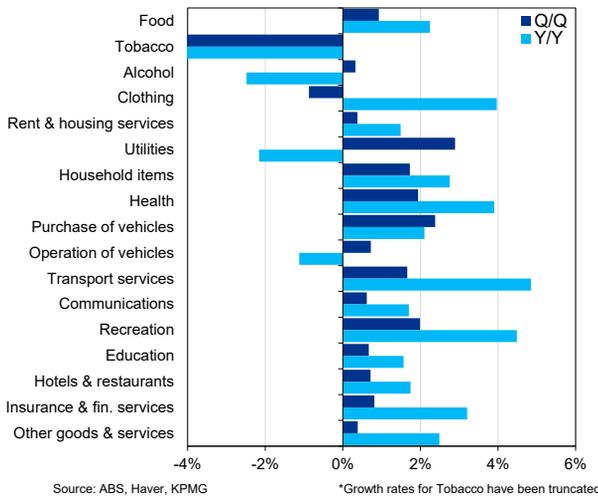
# Household consumption

During the June quarter, real Household Final Consumption Expenditure (HFCE) rose by 0.9%, following a 0.4% rise last quarter. This was the fastest pace of growth since the December quarter 2022, driven by a 1.4% rise in discretionary spending and 0.5% rise in essential spending.

While this is certainly a positive sign, there were several temporary factors which supported this outcome:

- The proximity of Easter to the Anzac Day public holiday incentivised increased tourism activity, with rises across *Recreation and culture* (+2.0%), *Transport services* (+1.7%), as well as *Hotels, cafes, and restaurants* (+0.7%).
- Spending in response to end-of-financial year sales also reflected opportunistic spending, contributing to a rise in *Furnishings and household equipment* (+1.7%). This was also boosted by households in Queensland and New South Wales replacing items damaged by recent extreme weather events.
- A stronger-than-usual flu season also resulted in increased attendance at medical services, adding to spending on *Health* (+1.9%).

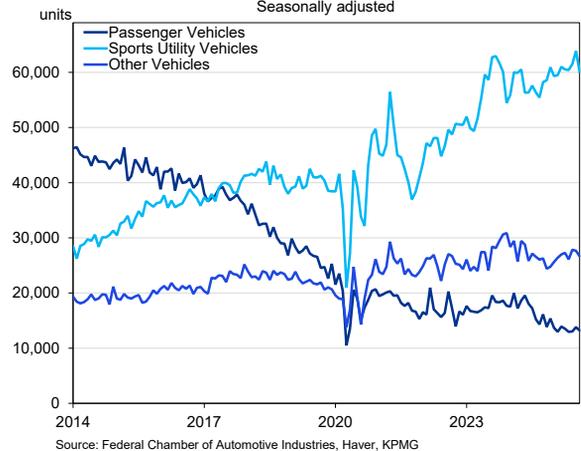
**FIGURE 8**  
Household Final Consumption Expenditure, Jun 2025



Overall, improved sentiment in response to lower interest rates and the Stage 3 tax cuts has finally translated into higher consumption activity.

Speaking after the release of the latest data, RBA governor Michelle Bullock noted that the bank 'had been expecting this' rebound in consumer activity, given that real disposable incomes had been rising for about a year already.

**FIGURE 9**  
Passenger Vehicles and SUV Sales  
Seasonally adjusted



Crucially, this June quarter data was stronger than the RBA thought it would be, with the governor noting that this could mean that there 'may not be many interest rate declines left to come' if this trend is sustained.

Measurement of HFCE has also been complicated by some factors, including the government subsidies for electricity, and the rising prevalence of illicit tobacco.

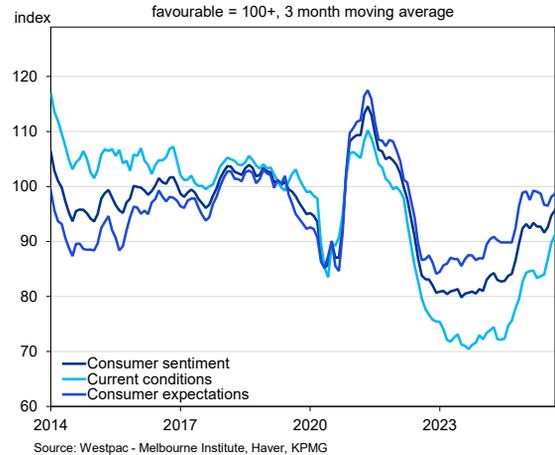
- Increased spending on *Electricity, gas and other fuel* (+2.9%) was also a notable driver of the rise in essential spending this quarter. This was due to reduced payments of electricity rebates, which are treated as a shift in expenditure from government to households.
- Consumption of *Cigarettes and tobacco* (-8.2%) continued to decline rapidly, however, this only reflects purchases from legal sources. Based on the average over the year to the June quarter, consumption of cigarettes has fallen 48.8% compared to 2020, according to the HFCE data. However, survey data from Roy Morgan suggests that the proportion of Australian adults who smoked cigarettes fell by just 10.4% between those periods, from 13.5% in 2020 to 12.1% over the past 12 months. Of these smokers, 8.9% reported using illicit tobacco in 2020, with this incidence more than quadrupling to 39.7% over the past year. As this information is self-reported, it is likely that the true proportion is even higher.

By way of comparison, real HFCE rose by 2.0% over the year to the June quarter. When excluding *Electricity, gas and other fuel* as well as *Cigarettes and tobacco*, real HFCE increased by 2.3% through the year. This compares to annual rises of 0.8% and 1.1% respectively in the previous March quarter. Broadly, the impact of electricity subsidies and the shift towards illicit tobacco may have contributed to a small understatement to the true growth in household spending.

Looking ahead, it remains to be seen whether the momentum which appears to have been built in the June quarter can be sustained. However, there are positive signs:

- More timely data from the Monthly Household Spending Indicator showed that nominal household spending rose 0.5% over the month to July. This was driven by a 1.6% rise in spending on services, with households spending more on health services, hotel accommodation, air travel, and dining out. By contrast, spending on goods fell 0.3%, although this follows a healthy 0.9% rise in June which was supported by mid-year sales. Through the year, nominal household spending has grown by 5.1%, the highest annual growth rate seen since November 2023.
- During the first two months of the September quarter (July and August), there were 205,500 new vehicles sold (measured in seasonally adjusted terms). This is 2.8% higher compared to the corresponding period of 2024, reflecting a strong period of sales. However, sales over the calendar year to August are down 2.4% compared to the same period last year. Notably, there has been a sharp rise in the sale of vehicles manufactured in China, with sales in the month of August now 67% higher compared to a year ago (measured in non-seasonally adjusted terms).
- After stalling earlier in the year, the recovery in consumer sentiment has continued, according to the Westpac–Melbourne Institute Consumer Sentiment Index. On a three-month moving average basis, consumer sentiment has climbed to 95.7pts in September, its highest reading since April 2022. Notably, perceptions of current conditions have improved sharply over the past few months, climbing from 83.3pts in April to 91.2pts by September.

**FIGURE 10**  
**Consumer Sentiment**

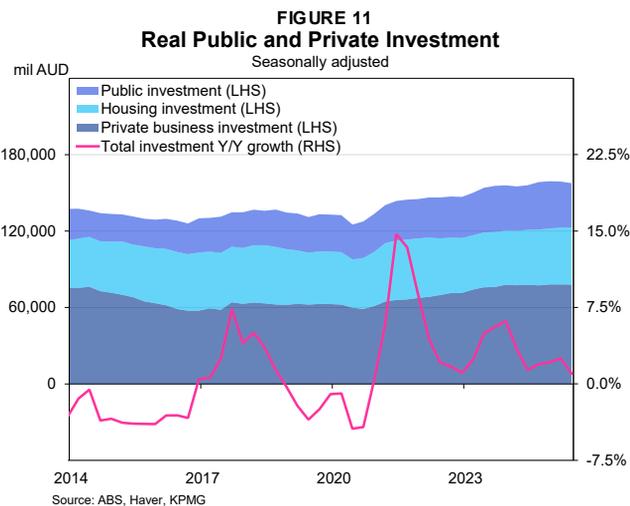


# Investment

Investment activity, as measured by Gross Fixed Capital Formation (GFCF), fell by 0.8% in the June quarter, following a 0.1% fall in the March quarter (revised down from a 0.1% increase). A marginal rise in private investment was more than offset by a contraction in public investment, with investment reducing quarterly GDP growth by 0.2ppt overall. On an annual basis, total investment has grown by only 1.0%, the lowest rate since the December quarter 2020.

Private investment growth slowed to 0.1% through the quarter, following a 0.6% rise last quarter, to be up 1.5% through the year. This was driven by:

- Investment in *Dwellings* (+0.3%) saw muted growth, following strength last quarter. Increased activity in the property market saw a rise in *Ownership transfer costs* (+1.1%).
- *Intellectual property products* (+1.6%) rose due to computer software and investment in research and development.
- This was partially offset by *Other buildings and structures* (-1.2%), with some energy and mining projects nearing completion.

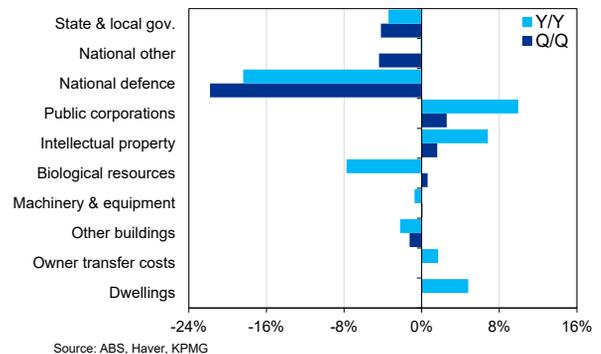


Meanwhile, public investment fell by 3.9%, following a 2.4% fall in the March quarter (revised from a 2.0% fall), to be down 0.8% through the year. Overall, public investment has fallen 6.8% compared to the peak seen three quarters ago, although that historical result was boosted by one-off defence equipment imports. In terms of notable movements:

- Investment by both *State and local government* (-4.2%) and *National government non-defence* (-0.1%) fell, as projects in roads, rail and health approached completion across various states and territories.

- Investment in *National defence* (-18.4%) declined dramatically this quarter, however, this reflects a normalisation following a surge in investment throughout the 2024 calendar year which can be partly attributed to the timing of some large one-off transactions.

**FIGURE 12**  
Investment Growth, Jun 2025



Looking more closely at the private sector, investment by businesses, as measured by real private new capital expenditure (capex), rose by 0.2% in the June quarter to be up 1.7% higher through the year. The result this quarter was driven by a 0.9% rise in non-mining businesses, partly offset by a 1.4% in the mining sector.

Capex on new equipment and machinery increased by 0.3%, with a 0.5% rise in non-mining equipment and a 0.8% fall in mining equipment:

- This movement was supported by strength in *Information media and telecommunications* (+22.8%), fuelled by a return to strength in data centre investment, alongside *Retail trade* (+18.9%) which invested in more supply chain automation.
- This was offset by *Construction* (-21.7%) due to challenging trading conditions, as well as *Transport, postal & warehousing* (-8.6%).

Meanwhile, capex on buildings and structures lifted by 0.2%. Again, a 1.4% rise in non-mining industries was partially offset by a 1.6% fall in mining.

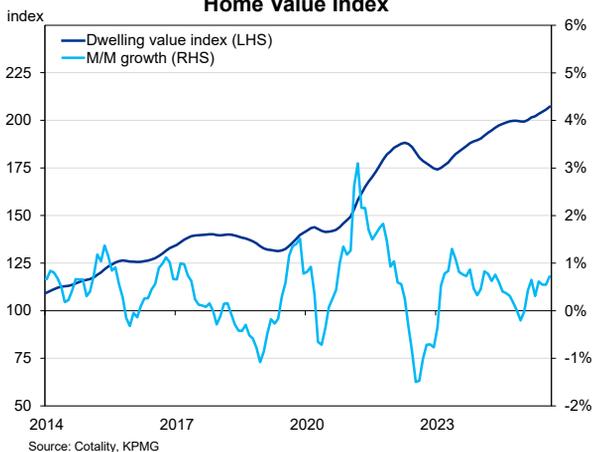
Across the states and territories, the largest rises were seen in Victoria (+7.0%) and New South Wales (+2.4%). The largest falls were seen in Queensland (-4.8%) and South Australia (-3.5%).

Moving forward, these June quarter figures also show that businesses have revised up their expected nominal capex spend for FY25–26 to \$174.8 billion. Compared to the previous release, this represents a 12.0% increase, driven by a 8.4% uplift in anticipated investment for buildings and structures, alongside a 17.8% rise in expected investment on equipment and machinery.

Returning to the residential property sector, momentum in house price growth has continued to build. Over the three months to August, the Cotality (formerly CoreLogic) Home Value Index rose by 1.8%, with values in the capital cities rising by 1.8%, and regional areas increasing by 1.6%. Through the year, national home values have increased by 4.1%.

Over the past three months, the fastest pace of price growth was in Darwin, with prices up 5.0%. This was followed by the mid-sized capitals of Perth (+3.1%), Brisbane (+3.0%) and Adelaide (+2.1%). Sydney (+1.7%), Canberra (+1.5%), and Melbourne (+1.0%) saw more modest rises, while Hobart has seen prices fall by 0.6% compared to three months ago.

**FIGURE 13**  
Home Value Index



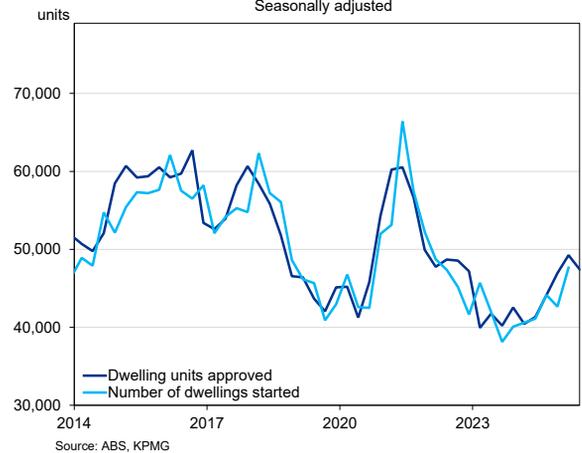
Looking at annual price growth over the year to August, Darwin saw the fastest rise at 10.2%, with the region benefiting from its relative affordability. Darwin has the lowest median price of all capital cities, at \$553,000 as of August.

Strong price gains through the year were also seen in Brisbane (+7.9%), Perth (+6.6%) and Adelaide (+6.5%). Prices in Hobart were still up 2.6% over the last 12 months, despite some recent falls, while Canberra saw annual growth of 1.6%.

Looking at the major capital cities, Sydney saw house prices rise 2.1% over the past year, bringing the median value to \$1,224,000. Meanwhile, growth in Melbourne continues to be the most subdued across the capitals, rising 1.4% over the past year.

With advertised supply levels around 20% lower than average for this time of year, and auction clearance rates hitting their highest levels since February 2024, this upward trajectory for prices is likely to continue. This may be further boosted by increased demand from first home buyers, as support measures announced in the Federal Budget take effect.

**FIGURE 14**  
Dwellings Approved and Commenced



From a housing supply perspective, the number of new dwellings each month has broadly moved sideways over the year to date, looking through the period-to-period volatility. Approvals in the three months to July were 2.0% lower compared to the first three months of the year, although they are 13.5% higher compared to the corresponding period of 2024. In terms of the composition of approvals:

- The number of *Houses* approved each month has been little changed, with approvals in the three months to July 1.6% higher compared to the first quarter of the year, and only 1.6% more compared to the same period a year ago.
- Meanwhile, the more volatile number of *Other dwellings* approved is 6.6% lower in the three months to July compared to the start of the year but is 35.9% higher compared to the corresponding months of 2024.

The rising number of approvals which was seen in 2024 looks to be translating into elevated levels of building activity, with the total number of dwelling units commenced rising by 11.7% to 47,645 during the March quarter. This contributed to a 17.3% rise through the year, due to:

- Commencements of *New private sector houses* rose 6.3% through the quarter and are now 10.1% higher over the year.
- The latest March quarter data also showed a surge in commencements for *New private other residential dwellings*, rising by 21.8% to be up 24.9% through the year.

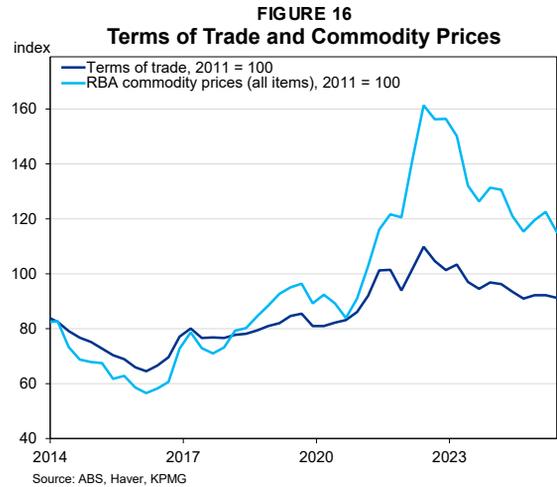
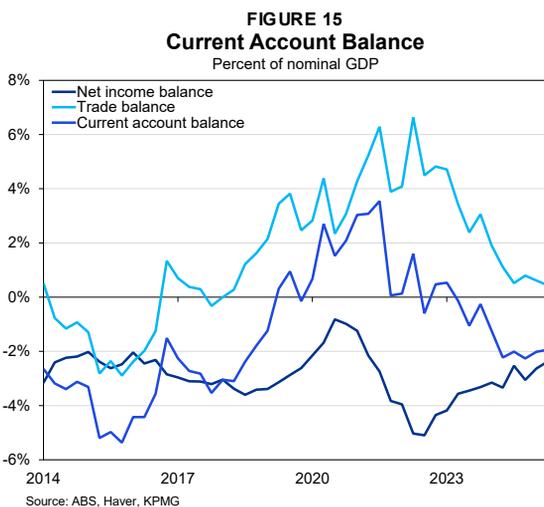
These uplifts in the supply side of the market will be crucial in ameliorating the ongoing housing affordability pressures that Australians face, particularly as easing interest rates support price growth in the housing market.

# Net exports

Exports rose by 1.7% in the June quarter, outpacing a 1.4% increase in imports. A recovery in mining commodity exports boosted net trade, which added a modest 0.1ppt to GDP growth.

The increase in exports was driven by a 1.4% rise in goods exports, with non-rural goods such as iron ore and LNG production recovering from weather-related disruptions in the previous quarter. Rural goods also contributed to the rise, with grain exports boosted by a strong 2024–25 harvest. Services exports (+3.3%) further contributed to the rise, driven by short-term visitor arrivals, particularly those travelling to visit family and friends in Australia.

Imports rose across both goods (+0.8%) and services (+3.0%). Consumption goods, particularly motor vehicles, drove the increase, reflecting stronger demand for electric vehicles and new models. Service imports, were the largest detractor to net trade. This was driven by travel services, with more travellers heading to long-haul destinations like the UK and Italy, while destinations like Indonesia also continued to be popular.



In the June quarter, Australia recorded its ninth consecutive current account deficit, with a deficit of \$13.7 billion, narrowing from the revised \$14.1 billion deficit in the March quarter. The improvement was primarily driven by a \$1.2 billion reduction in the net primary income deficit, which narrowed to its lowest level since September 2021 due to a smaller gap between inflows and outflows. This was supported by a \$1.1 billion increase in primary income credits (inflows), driven by higher profits from Australian direct investment holdings and sustained strong returns on Australian investments in overseas equities. However, this was partly offset by a \$1.2 billion decline in the goods and services surplus, driven by higher imports of non-monetary gold and travel services.

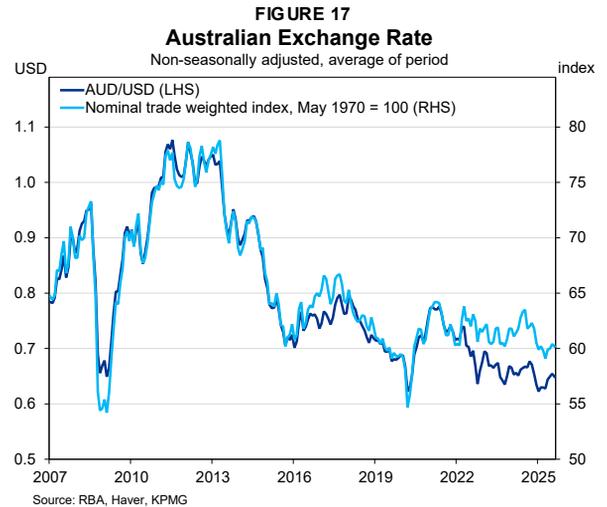
Australia's terms of trade decreased 1.1% to 89.8 to be 2.4% lower compared to a year ago. The quarterly decline in terms of trade reflects a 1.7% decrease in export prices, which outweighed a 0.6% decrease in import prices.

EXTERNAL DEMAND ASSUMPTIONS	Q4-25(f)	Q1-26(f)	Q2-26(f)	Q3-26(f)	Q4-26(f)
<b>Exchange rate (AUD/USD)</b>	0.66	0.66	0.66	0.66	0.66
<b>Coal prices (USD/tonne)</b>					
Thermal coal price – Newcastle	110	113	115	118	120
Semi-soft coking coal price	195	201	205	208	212
<b>Gold price (USD/oz)</b>	3,694	3,718	3,777	3,806	3,823
<b>Dalian Iron Ore 62% Futures</b>	93	92	91	90	90
<b>Oil prices (USD/barrel)</b>					
Brent Spot Average	66	65	65	65	65
West Texas Intermediate Spot Average	62	61	62	62	62

Export prices were weighed down by lower commodity prices, with the RBA Index of Commodity Prices (in AUD terms) falling 5.4% over the three months to June, recording its lowest level since October 2024. This fall was partially offset by higher meat prices, amid strong demand for Australian beef from the United States and China.

Import prices declined 0.6% over the quarter, with fuel prices falling as OPEC ramped up production and global demand softened. Within the import price index, capital goods prices eased by 0.2%, in response to the appreciation of the Australian dollar. By contrast, consumption goods prices increased by 0.4%, driven by food and motor vehicles.

Despite this weakness in export prices, the Australian dollar appreciated through the quarter, driven by broad US dollar weakness. The currency has traded in the 0.64 to 0.66 USD range since May and reached a fresh eight-month high of 0.66 in July 2025. However, on a trade-weighted basis, the AUD only edged slightly higher to 60.0 in June from 59.8 in March.



# Labour market

Australia's labour market remains resilient. After holding steady at 4.1% for the first five months of 2025, the seasonally adjusted unemployment rate rose to 4.3% in June, before settling at 4.2% in both July and August.

Employment decreased by 5,400 people in the month to August, falling for the first time since February, which contrasted against expectations of a 22,000 person increase. Overall, average monthly employment growth for the year to date stands at 13,000 people, significantly lower than the 2024 average of 33,000 people.

Nevertheless, this fall in employment was partly offset by a decrease of 900 unemployed people, following a decrease of 9,500 people in July.

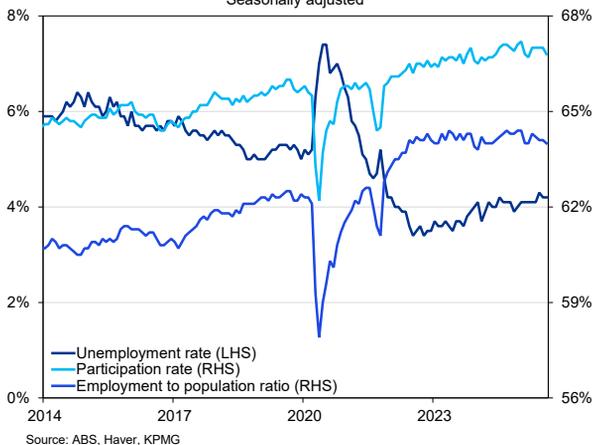
Consequently, the employment-to-population ratio fell to 64.0%, slightly lower than the 64.1% seen in both June and July and is 0.3ppt lower than it was a year ago.

Notably, full-time employment drove the overall decrease in employment in August. Seasonally adjusted full-time employment fell by 40,900 people, which was partially offset by an increase of 35,500 people in part-time employment. However, these month-to-month changes can be volatile; as in July, full-time employment had risen by 63,600 people while part-time employment fell by 37,100 people.

Female employment was the driver of the monthly fall in employment, decreasing by 11,400 people. This gain was partially offset by male employment, which rose by 6,000 people.

The seasonally adjusted participation rate fell by 0.1ppt to 66.8% in August. While slightly below the consensus expectation of 67.0%, it is 0.4ppt shy of the record high of 67.2% recorded in January 2025, and only 0.2ppt lower than the rate a year ago.

**FIGURE 18**  
Unemployment and Participation Rates  
Seasonally adjusted



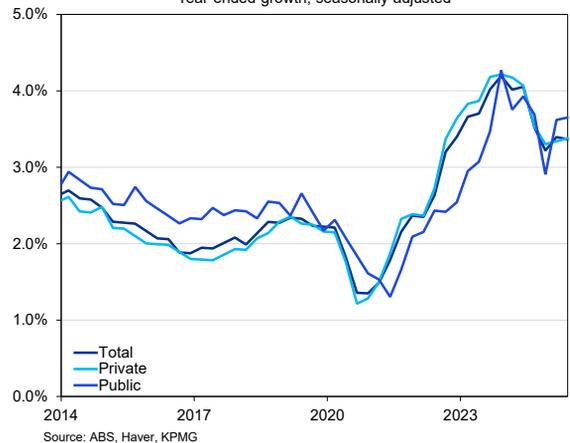
Female participation fell by 0.2ppt in August after reaching a new high of 63.4% in July, while male participation remains at 70.6%.

The underemployment rate dropped by 0.1ppt to 5.7% and is 0.8ppt lower than the same time last year. Male underemployment dipped to 4.9%, while female unemployment also decreased to 6.5%. Seasonally adjusted monthly hours worked fell by 0.4%, despite the relative stability in employment (-0.0%), as fewer people worked full-time hours in August.

August is traditionally the month where job ads peak in Australia, as businesses get into the swing of the new financial year and ramp up hiring activity. According to the SEEK Employment Report, even after adjusting for these seasonal shifts, for the first time since mid-2022, job ads have risen for four consecutive months, rising 0.8% during August, extending the trend of stability seen since the beginning of the year.

Applications per job ad rose 0.7% m/m and are now the highest on record. Competition among candidates remains extremely strong with many industries recording historically high levels.

**FIGURE 19**  
Wage Price Index by Sector  
Year-ended growth, seasonally adjusted



Annual wages growth held steady at 3.4% in the June quarter. On a quarterly basis, the Wage Price Index (WPI) increased by 0.8%, easing slightly from the 0.9% rise in the March quarter.

Public sector wages rose 1.0% in the quarter and 3.7% over the year. Private sector wage growth remained below that of the public sector, but continued to drive overall growth, given its larger share of employment and total wage expenditure. Private sector wages rose 0.8% in the quarter and 3.4% over the year to the June quarter. This is lower than the 4.1% annual increase seen in the corresponding quarter a year ago.

A key factor in the moderation of overall wage growths has been a smaller proportion of jobs experiencing high wage increases. The share of jobs reporting annualised wage increase of more than 4% has followed a consistent downward trend over the past year. This share fell to 25.1% in the June quarter, significantly lower than 46.1% in the same quarter last year.

Overall, 14% of jobs experienced a wage change in the June quarter, a decrease from 21% in the March quarter. In the public sector, 20% of jobs reported wage changes during the same period, compared to 12% in the private sector.

Among the industries, *Electricity, gas, water, and waste services* recorded the strongest growth, with an increase of 1.3% over the quarter, to be up 5.0% through the year.

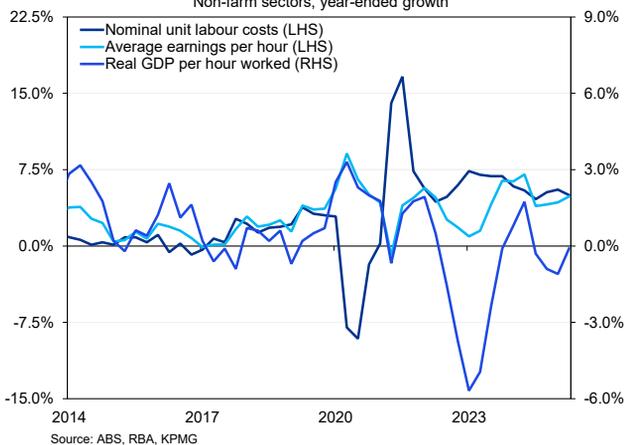
With headline inflation at 2.1% for the June quarter, real wages rose by 1.3% through the year, the seventh consecutive quarter of annual real wage gains. This improvement has occurred alongside a decline in headline inflation from its peak of 7.8% in the December quarter 2022. This sustained real wage growth is a welcome relief for households struggling with cost-of-living pressures. However, the current pace of growth may prove unsustainable if productivity gains do not keep pace.

Non-farm average earnings per hour worked grew by 4.9% through the year to the June quarter, up from 4.3% in the previous quarter. Non-farm nominal unit labour costs rose by 5.0% through the year to the June quarter, following a 5.5% rise in March.

Over the past decade, productivity growth has subdued in Australia. Since the end of 2016, there has been virtually no improvement in the level of productivity. Over the year to the June quarter, non-farm labour productivity, measured as GDP per hour worked, edged down by 0.1%. This followed a larger annual fall of 1.1% in the March quarter, but is a worse result compared to the rise of 1.7% in the same quarter last year.

The RBA's latest forecasts in August still incorporate a pick-up in productivity growth over the next couple of years, which would add to the economy's supply capacity and help alleviate cost pressures. However, the medium-term productivity growth assumption has been revised down to 0.7% by the end of the forecast period, from 1.0%, due to persistent structural factors, including declining business dynamism and competition, slower technological diffusion in the economy and lower growth in the amount of capital per worker.

**FIGURE 20**  
**Productivity and Earnings**  
Non-farm sectors, year-ended growth

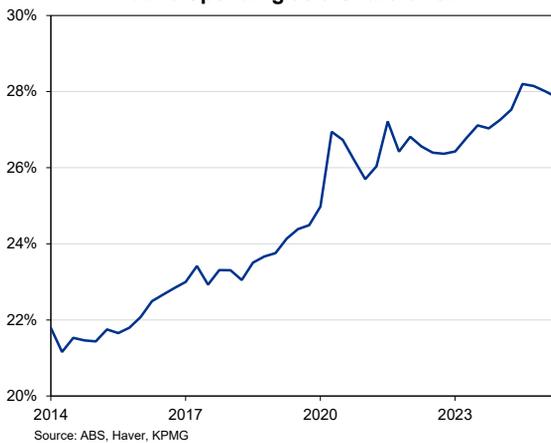


# Government

Public demand made no net contribution to GDP growth this quarter, as an increase in government consumption expenditure (+0.2ppt) was offset by a decline in public investment (-0.2ppt).

Public spending, which includes government consumption and investment, remains unchanged in the June quarter following a significant decline in the previous quarter. Public spending as a share of GDP stood at 27.9% in the June quarter, and has been on a gradual downward trend, declining by 0.1ppt each quarter since the September quarter 2024.

**FIGURE 21**  
Public Spending as a Share of GDP



Government consumption grew by 1.0% in the June quarter, rebounding from subdued growth (+0.3%) in the March quarter. Growth in national general government spending (+2.4%) was driven by increased non-defence expenditure, including higher spending on social benefit programs such as the Medicare Benefits Scheme and the Pharmaceutical Benefits Scheme, which rose due to higher instances of bulk-billing and a stronger-than-usual flu season. Additional support came from increased expenses by the Australian Electoral Commission to conduct the federal election. Meanwhile, national defence spending grew by 3.2%, reflecting increased expenditure on military exercises conducted during the quarter.

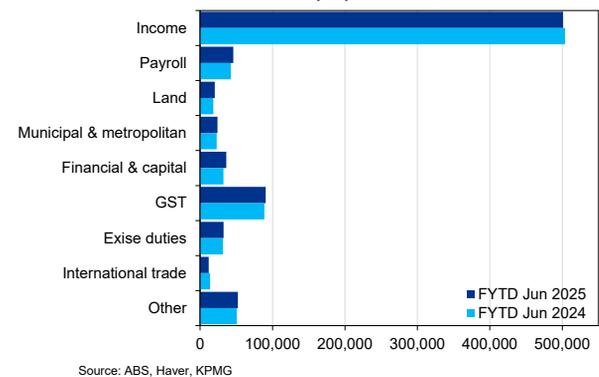
Public investment was the largest detractor from growth this quarter, declining by 3.9%. The decline was primarily driven by reduced investment from both national and state governments across road, rail and health infrastructure, as several major projects neared completion across various jurisdictions. Additionally, national defence investment contributed to the fall, although it remains at elevated levels.

All non-market industries contributed positively to GDP growth this quarter. *Public administration and safety* showed strength (+0.7%), supported by increased activities related to the federal election and several defence exercises conducted during the quarter. *Health care and social assistance* also grew (+0.7%), driven by higher demand for health services due to a stronger-than-usual flu season.

During the June quarter, the general government net operating balance rose by \$2.1 billion to \$1.8 billion. During this period, total revenue rose 8.1% to \$303.3 billion, while total expenses rose 7.9% to \$302.5 billion.

Taxes on production and imports increased by 0.3% this quarter. This growth was primarily driven by international trade, GST, and gambling taxes, but partly offset by excise taxes. The rise in taxes on international trade was largely due to higher taxes on alcohol and tobacco, while the drop in excise taxes reflected weak crude oil prices and lower sales volumes.

**FIGURE 22**  
Australian Government Tax Receipts by Type  
Seasonally adjusted, mil AUD



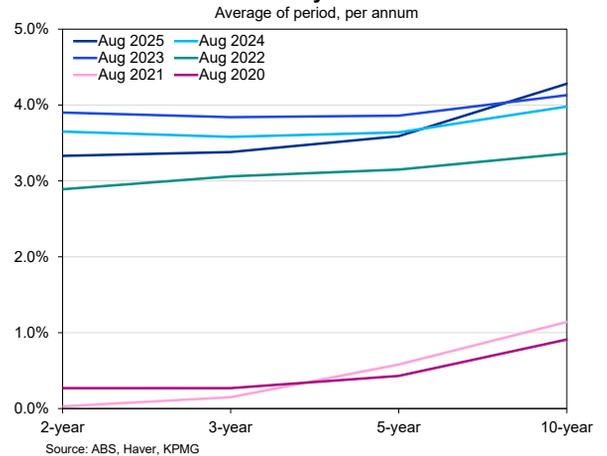
The Final Budget Outcome for FY24–25 is due to be published by the end of September. Based on monthly financial statements, over the financial year to May, the actual budget position appears to improve modestly compared to the revised budget profile, driven by lower-than-expected expenses and higher-than-expected tax revenue.

The underlying cash balance for the financial year to May recorded a deficit of \$5.5 billion, better than the \$20.2 billion deficit expected in the revised budget profile. The year-to-date fiscal balance was a surplus of \$4.4 billion in May, up from an expected deficit of \$15.1 billion.

Between 2010 and 2020, investors experienced a steady decline in long-term yields, as 10-year Australian government bond yields fell from a peak of 5.80% in April 2010 to a record low of 0.80% in October 2020. Between June and July 2023, the yield curve briefly inverted, with 2-year bonds trading above 10-year bonds, before returning to a normal upward slope in August.

Since then, 10-year yields have again increased to around 4.42% in the March quarter 2025, before easing slightly to 4.21% by the end of the June quarter. This softening was largely driven by a decline in real yields, with longer term inflation compensation remaining stable. Despite this decline, the yield curve steepened further, with the spread between the 10-year and 2-year yields widening to around 0.95bp in August (at the time of writing) from 0.67bp in March. This widening was largely driven by three cash rate cuts earlier in the year, which lowered short-term yields.

**FIGURE 23**  
**Australian Treasury Bond Yield Curve**



# 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.

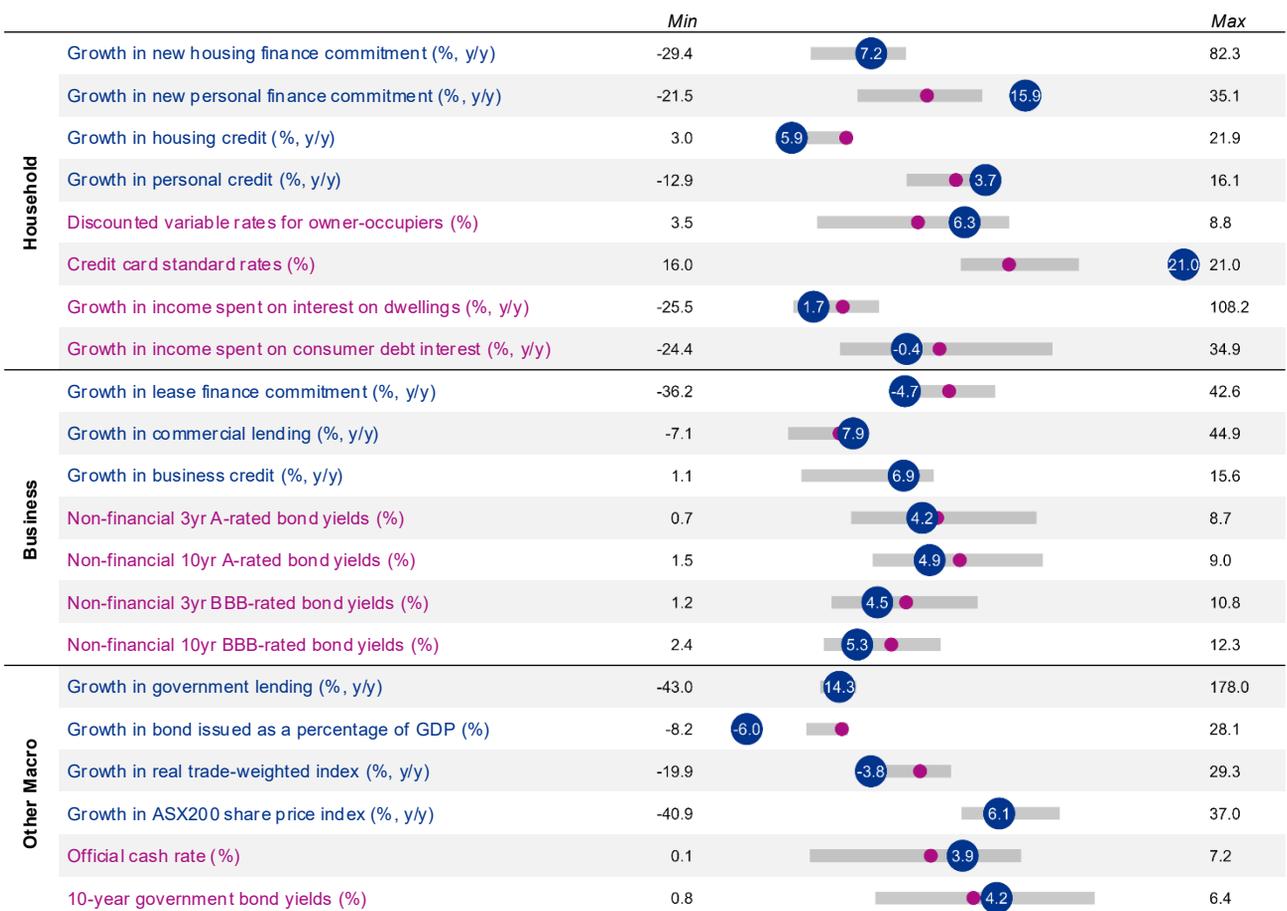
An expansionary financial condition indicator (blue text) indicates that the greater that variable from its average, the more expansionary the financial conditions are. Conversely, a restrictive financial condition indicator (pink text) indicates that a larger deviation from the average corresponds to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



Source: ABS, RBA, S&P, KPMG

### Australia's financial conditions turned marginally positive for the first time in four years.

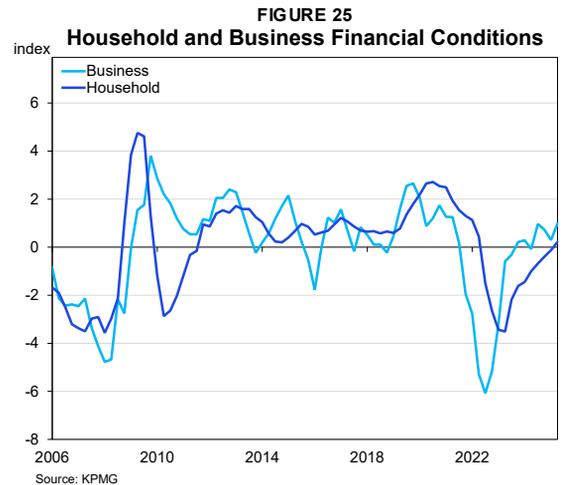
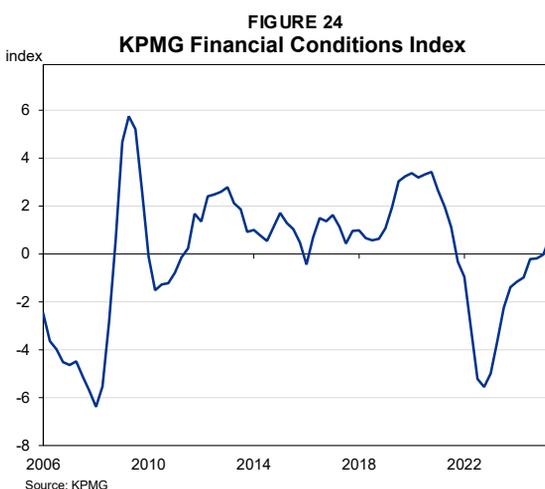
The *KPMG Financial Conditions Index (FCI)* returned to positive territory in the June quarter 2025, reaching 0.7pts, up from -0.03 in March. A positive index value reflects generally expansionary financial conditions, whereas a negative value signals tighter conditions.

Historically, financial conditions tightened sharply during the Global Financial Crisis (GFC). More recently, the pandemic triggered a further tightening despite ultra-low interest rates, rising asset values and substantial fiscal intervention. Throughout 2024, the FCI exhibited a considerable easing, in line with the Reserve Bank of Australia's (RBA) pivot away from restrictive monetary policy. Nonetheless, the earlier monetary tightening cycle had already contributed to higher household debt repayments, declining saving rates, and a slowdown in household credit expansion from the highs of 2022.

By the June quarter 2025, both household and business financial conditions are in expansionary territory. The cash rate reduction in May has been passed through to deposit and lending rates, while market expectations of further policy easing have contributed to a broad repricing in rates. Also, equity risk premia have eased, spreads on corporate bonds have narrowed, and household credit growth has picked up over recent months. Furthermore, equity prices have reached record highs and corporate bond spreads have remained low.

### Household financial conditions are now comfortably in expansionary territory.

Household credit growth rose to 5.9%, above its post-GFC average and broadly aligned with the pace of growth in household disposable income. This pick-up in credit growth reflects greater borrower responsiveness to lower interest rates. The ratio of total household credit (including personal credit) to household disposable income appears to have stabilised in the June quarter. According to the RBA, net household indebtedness (which also accounts for growth in offset balances) is likely to continue to decline.



Scheduled mortgage payments have declined as cash rate reductions are passed through to lending rates. According to data from the Commonwealth Bank, 14% of eligible home loan customers opted to reduce their mortgage repayments in response to the rate cut in February 2025, and 10% after the rate cut in May. Total scheduled mortgage and consumer credit payments, measured as a share of household disposable income, fell by approximately 0.3ppt from their peak in late 2024. The average discounted variable mortgage rate for an owner-occupier has eased from 6.8% to 6.3%, its lowest level since early 2023. Consequently, annual growth in household interest expenses slowed from 6.5% in the March quarter to 1.7% in the June quarter, its slowest pace since the June quarter 2022.

### Business financial conditions reached their highest expansionary level since the June quarter 2021.

This was supported by a sharp 4.7% decline in lease finance commitments, which followed a 4.0% decline in the March quarter. These back-to-back quarterly declines marked a departure from the long-term average annual growth rate of 3% between 2004 and 2024.

Meanwhile, business credit growth increased to 6.9%, higher than its 20-year average of 6.2%. This reflected stronger competition among lenders and favourable wholesale funding markets conditions. Business debt growth accelerated to its fastest pace since 2008, returning to pre-pandemic levels as a share of GDP.

Corporate bond issuance remained broadly steady across industry. Issuance by non-financial corporations as a share of GDP was stronger than most of the prior decade. Yields on corporate bonds declined from March levels. Corporate bond yields have moved in the same direction of government bond yields, reflecting lower funding costs in an environment of falling long-term interest rates. During the June quarter, yields for both A-rated and B-rated 3-year bond yields fell by approximately 34bps, while A-rated and B-rated 10-year bond yields dropped by around 15bps.

# 03

## Forecasts



# Global and domestic forecasts

GLOBAL	GDP Growth				Unemployment Rate				Inflation			
	2024 (a)	2025 (f)	2026 (f)	2027 (f)	2024 (a)	2025 (f)	2026 (f)	2027 (f)	2024 (a)	2025 (f)	2026 (f)	2027 (f)
World*	3.3%	3.1%	3.2%	3.3%	5.3%	5.2%	5.0%	5.1%	4.5%	3.4%	3.0%	3.0%
Euro Area	0.8%	1.1%	1.0%	1.7%	6.6%	6.4%	6.3%	6.3%	2.4%	2.1%	1.6%	2.3%
UK	1.1%	1.3%	1.1%	1.4%	4.1%	4.3%	4.7%	4.9%	2.5%	3.5%	2.9%	2.6%
US	2.8%	1.8%	1.9%	1.5%	3.6%	4.0%	4.2%	4.5%	3.0%	2.7%	2.7%	2.6%
China	5.0%	5.0%	4.6%	4.6%	3.8%	3.6%	3.5%	3.2%	0.2%	0.0%	0.7%	1.2%
Japan	0.1%	1.1%	0.5%	0.6%	2.6%	2.6%	2.4%	2.4%	2.7%	3.2%	1.8%	1.9%
Indonesia	5.0%	4.9%	5.0%	4.9%	5.3%	4.9%	5.0%	4.8%	2.3%	1.9%	2.8%	2.8%
Malaysia	5.1%	4.3%	4.5%	4.6%	3.4%	3.2%	3.1%	3.3%	1.8%	1.5%	1.9%	2.0%
N. Zealand	-0.5%	1.4%	2.2%	2.3%	3.8%	4.8%	5.3%	5.3%	2.9%	2.6%	1.6%	2.0%
Philippines	5.7%	5.6%	5.8%	6.2%	4.4%	3.8%	4.0%	4.0%	3.2%	1.5%	2.4%	3.1%
Singapore	4.4%	2.1%	2.1%	2.4%	1.9%	2.0%	2.1%	2.1%	2.4%	0.7%	0.7%	1.2%
S. Korea	2.0%	0.8%	2.0%	2.0%	2.7%	2.8%	3.0%	3.1%	2.3%	2.0%	1.9%	2.0%
Taiwan	4.8%	4.8%	3.1%	2.5%	3.5%	3.4%	3.3%	3.3%	2.2%	1.7%	1.3%	1.5%
Thailand	2.5%	2.0%	1.4%	3.1%	1.0%	1.0%	1.0%	1.1%	0.4%	-0.1%	1.1%	2.1%
Vietnam	7.1%	7.0%	6.6%	6.6%	1.7%	1.4%	1.4%	1.3%	3.6%	3.5%	3.6%	3.6%

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

\*GDP based on Purchasing Power Parity

AUSTRALIA	Q/Q Growth			Y/Y Growth			
	Q2-25(a)	Q3-25(f)	Q4-25(f)	2024 (a)	2025 (f)	2026 (f)	2027 (f)
<b>GDP and Components</b>							
Consumption	0.9%	0.6%	0.7%	0.9%	2.7%	2.3%	2.0%
Business investment	-0.1%	0.4%	0.7%	0.2%	1.0%	2.5%	2.4%
Housing investment	0.5%	0.7%	0.7%	3.3%	3.4%	2.3%	2.0%
Government	0.0%	0.5%	0.5%	5.4%	0.8%	2.0%	2.0%
Exports	1.7%	0.2%	0.3%	1.4%	1.5%	2.1%	2.7%
Imports	1.4%	0.5%	0.5%	6.2%	2.5%	2.7%	2.2%
GDP	0.6%	0.5%	0.6%	1.3%	1.9%	2.1%	2.2%
<b>Inflation and Rates</b>							
Headline CPI*	2.0%	2.7%	2.7%	2.4%	2.7%	2.7%	2.5%
RBA cash rate*	3.85%	3.60%	3.35%	4.35%	3.35%	3.10%	3.10%
10-year government bond*	4.28%	4.19%	4.12%	4.37%	4.12%	4.07%	4.12%
AUD/USD*	0.64	0.66	0.66	0.65	0.66	0.66	0.66
<b>Labour Market</b>							
Employment	0.6%	0.1%	0.1%	2.3%	1.2%	0.8%	1.0%
Unemployment rate*	4.2%	4.2%	4.3%	4.0%	4.3%	4.3%	4.3%
WPI	0.8%	0.9%	0.8%	3.2%	3.4%	3.1%	3.0%

\*Values at end of period

# Industry growth forecasts

## About the KPMG-CGE model

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); 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 for 2025 published in the July edition of the *Quarterly Economic Outlook* are broadly consistent with the actual outcomes, with the exception of *Agriculture, forestry & fishing* and *Electricity, gas, water & waste services*, where we had anticipated stronger growth than what eventuated.

In this latest edition, our industry GVA forecasts for the next two years remain largely unchanged from the previous publication. This stability reflects the minimal revisions to our macroeconomic projections.

INDUSTRY GVA	2024 (a)	2025(a)	2026(f)	2027(f)
Agriculture, forestry & fishing	5.2%	12.2%	5.3%	3.2%
Mining	-0.1%	-2.5%	0.9%	2.2%
Manufacturing	0.3%	-2.2%	0.1%	0.3%
Electricity, gas, water & waste services	0.8%	3.2%	3.1%	2.5%
Construction	1.7%	0.1%	1.4%	2.0%
Wholesale trade	-2.9%	-0.5%	1.2%	1.6%
Retail trade	-0.2%	-0.1%	1.4%	1.8%
Accommodation & food services	-0.7%	-0.3%	1.2%	1.2%
Transport, postal & warehousing	5.1%	3.4%	3.1%	2.4%
Information media & telecommunications	2.3%	3.0%	2.9%	2.3%
Financial & insurance services	1.1%	3.5%	3.3%	2.6%
Rental, hiring & real estate services	3.6%	1.6%	2.2%	2.0%
Ownership of dwellings	1.5%	1.4%	2.2%	2.1%
Professional, scientific & technical services	1.2%	-1.0%	0.7%	1.1%
Administrative & support services	0.5%	1.3%	2.0%	1.8%
Public administration & safety	3.4%	3.3%	3.4%	3.0%
Education & training	3.0%	4.2%	4.1%	3.4%
Health care & social assistance	4.4%	2.3%	2.8%	2.3%
Arts & recreation services	3.4%	3.4%	3.3%	2.6%
Other services	3.9%	-0.1%	1.6%	1.8%

\*Note: Annual Growth in Real Gross Value Added, measured as the sum of the 4 quarters ended on June 30 of year *t* relative to the sum of the 4 quarters ended on June 30 of year *t-1*.

Notably, *Agriculture, forestry & fishing* was the standout performer in FY25, with output rising by over 12.2%, driven by favourable seasonal conditions that boosted livestock production. With the Government forecasting continued favourable climate conditions, agricultural output is expected to remain moderately strong in FY26.

We continue to expect industries that are closely tied to government spending such as *Public administration & safety* and *Education & training* to experience faster GVA growth than the broader economy. Although we have slightly revised down our government spending projections, spending is still expected to remain elevated. While *Health care & social assistance* is also heavily reliant on public funding, its GVA growth is projected to be slightly weaker compared to other government-dominated sectors.

The *Mining* industry recorded negative GVA growth over FY25 primarily due to weak demand from China and extreme weather events that led to mine closures and logistical disruptions. Given ongoing weak Chinese demand and increased competition in global iron ore markets, we continue to expect a slower recovery in mining GVA over the coming years.

The *Construction* industry posted flat growth in FY25 as elevated cost pressures and squeezed profit margins continue to weigh on activity. However, with signs of recovery in the housing market, improved homebuilding activity, and a substantial pipeline of government-funded infrastructure projects, we anticipate a gradual rebound in the sector, though likely slower than overall economic growth.

Despite a rebound in household consumption, *Retail Trade* GVA growth was flat in FY25, while *Accommodation & Food Services* recorded negative growth. Looking ahead, we forecast a more positive outlook for both sectors, supported by rising wages, improved consumer sentiment, and lower interest rates lifting private demand.



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