



Australia Economic Outlook

Q1 2026



April 2026

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KPMG Australia

Executive summary

The world has been plunged into another economic crisis with the escalation of conflict in the Middle East that has shut the strait of Hormuz, effectively reducing global oil supply by about 20%.

Fundamentally, the challenge with this current crisis relates to how long will the conflict with Iran last, and how quickly will oil markets return to “normal”. The oil futures market has been grappling with this question for more than 9 weeks now, and while the near term price has fluctuated significantly during that time, the forward price curve has consistently suggested oil prices will start recede sooner rather than later - meaning the conflict is not anticipated to be protracted - but prices will take several years to return to near long-run marginal cost of production levels, and even then the long-run marginal cost is likely to be higher than what the market had priced it to be prior to the start of this conflict.

The implications of this oil price spike will also take some time to play out. Inflation is expected to surge globally as oil is a ubiquitous input across virtually every sector within an economy; with food prices likely to feel the impact first followed by other goods and services later in the year. The real challenge for central banks globally will be how do they respond to this inflation pulse; do they ‘look through’ the oil shock and keep policy rates steady or will they respond to higher inflation by lifting policy rates even though for many economies this is a Terms of Trade shock outside their capacity to influence? The likely answer to this will be “it depends on the individual economy”, meaning those economies with limited spare supply-side capacity are likely to need to respond by lifting their policy rate so as to maintain inflation expectations within the domestic population, probably at the expense of employment; whereas those economies operating below potential may be able to whether the inflation spike without needing to lift policy rates by much (or at all). Despite the global focus the Iranian conflict is engendering, other significant economic events and activities have also occurred since our last QEO publication, including renewed trade policy uncertainty following the US Supreme Court (SCOTUS) ruling overturning baseline tariffs.

Domestically, Australia’s economy outperformed expectations in the December quarter, with real GDP rising 0.8% and annual growth lifting to 2.6%, its fastest pace since early 2023. However, the underlying composition points to a less encouraging picture. Much of the quarterly strength was driven by inventories and public demand, while private demand contributed only modestly. Household consumption per capita fell slightly in the quarter, and productivity remained subdued. Overall, the headline GDP result suggests a fragile expansion.

Inflation pressures have re-emerged since late 2025. While part of the recent pick-up reflects the statistical effect of the unwinding of electricity rebates, underlying inflation remains too high given capacity pressures in the economy, supported by a still-low unemployment rate and renewed momentum in private-sector demand. As a result, the RBA raised the cash rate at its first two meetings of 2026.

Government spending remains elevated and is adding to demand-side pressures. Public consumption and investment grew faster than the broader economy in the December quarter, pushing the government’s share of GDP back toward its record highs. Strong spending across health, education, social benefits, rebates, and infrastructure continues to support activity but also risks adding to inflation at a time when price pressures are already proving difficult to contain.

Following the two cash rate increases in 2026, we assess the current stance of monetary policy as broadly neutral based on our read of overall financial conditions. That said, higher borrowing costs and a deterioration in risk sentiment are already evident across business financial indicators. While household financial conditions remain expansionary for now, they are expected to moderate over the year ahead as higher interest rates, elevated inflation, and rising cost pressures weigh on real incomes.

KEY FORECASTS	2025 (a)	2026 (f)	2027 (f)
Real GDP			
Average annual growth	2.0%	2.0%	1.8%
Year ended growth	2.6%	1.4%	2.0%
Unemployment rate	4.2%	4.5%	4.5%
Inflation			
Headline CPI	3.7%	4.7%	2.6%
Core CPI	3.4%	4.3%	2.8%
RBA cash rate	3.60%	4.60%	4.35%
AUD/USD	0.66	0.71	0.71

Executive summary (con't)

The outlook for inflation has become more challenging. Oil prices now appear likely to remain elevated for longer than previously assumed, increasing the risk that higher energy costs begin to feed into inflation expectations and wage-setting behaviour. In this environment, the RBA is likely to place greater weight on preventing inflation expectations from becoming entrenched, even at the cost of weaker activity, raising the risk of a further increase in the cash rate.

Importantly, while additional tightening would be aimed at reinforcing the disinflation process, it would come from a starting point where monetary policy is already assessed to be neutral. As a result, any further increase in the cash rate would push policy into restrictive territory, materially raising the likelihood of softer economic growth and a more pronounced cooling in labour market conditions through 2026.

This is a key consideration for the policy outlook. The March rate increase was a close call, reflecting internal disagreement within the RBA around the extent of remaining spare capacity in the economy. With inflation risks now skewed to the upside and growth expected to slow, the RBA may find it increasingly difficult to continue walking a narrow path that delivers both low inflation and low unemployment. The margin for error has narrowed, and future policy decisions are likely to involve a sharper trade-off between inflation control and economic momentum.

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01

Global landscape



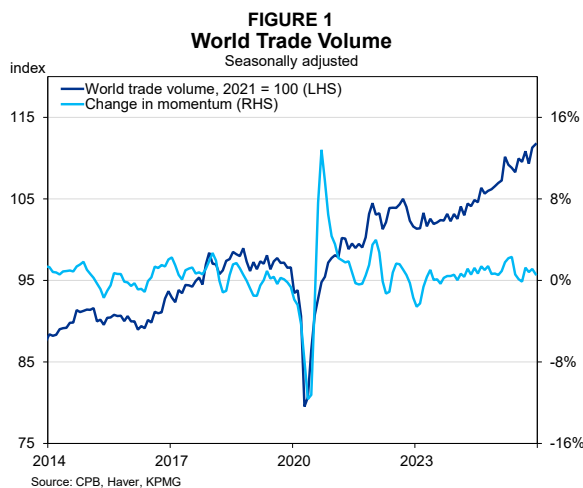
Global conditions

Uncertainty continues to define global conditions. Economies are navigating renewed trade policy uncertainty, spillover impacts from major conflicts, and a changing world order no longer defined by international norms or a rules-based order.

The global economy ended 2025 on a positive note despite disruption and uncertainty in trade policy. Growth exceeded expectations, as the impact of tariffs proved to be less severe than initially feared.

Alongside this, growing AI optimism has fuelled investment in digital capabilities (such as data centres) globally, while also providing a concentrated surge in external demand for key exporters of semiconductors and electronics components. Supportive fiscal policies and favourable financial conditions also contributed to growth prospects.

Overall, despite rising geopolitical fragmentation, global trade volumes rose 0.8% in the December quarter 2025, to be up 4.3% through the year, according to the World Trade Monitor. While the desire for supply chain independence is growing amid a turbulent external environment, this rise of AI as a driver of growth has seen global economies become more dependent on a small number of key producers (i.e. Taiwan).



Furthermore, this volatility has only further incentivised nations to expand their partnerships and diversify their global relationships. Notably, India reached a landmark agreement with the EU, following two decades of trade talks, which would see the nation eliminate or reduce tariffs on 96.6% of European exports.

These moves, alongside the surprising strength in activity over 2025, have placed the global economy on a more robust footing to weather further challenges than would otherwise have been the case.

Renewed uncertainty surrounding US tariffs, alongside escalating conflicts, will again test the resilience of global economies.

The state of global policy was again thrown into disarray after the US Supreme Court (SCOTUS) ruled in February to strike down the baseline tariffs the US had imposed on its trading partners.

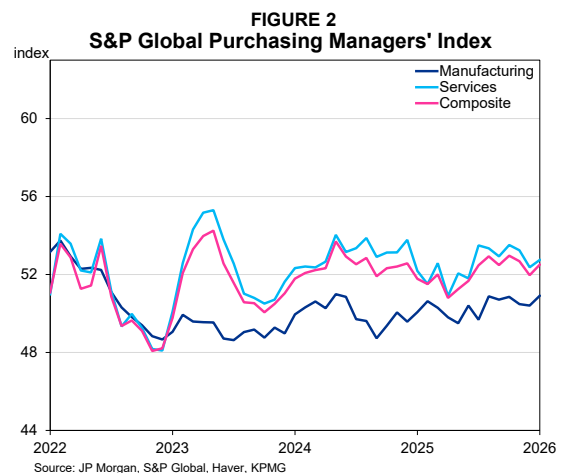
US President Donald Trump responded to this decision by announcing temporary tariffs on all countries under Section 122 of the Trade Act (1974). These are currently set at 10% and limited to 150 days. While the president later indicated that the rate would be 15%, this was not yet reflected in official documents.

The Center for Strategic and International Studies reports that the decision could reduce the leverage that the US can use in negotiations with other countries. Furthermore, countries that have already signed Agreements on Reciprocal Trade (ARTs) may now reflect on whether they got a fair deal.

This uncertainty has now been overshadowed by the US-Israeli campaign against Iran

Aside from the loss of life, this latest conflict in Iran, which has spilled over across the Middle East region threatens global oil supplies alongside trade through the region more generally.

Markets reacted strongly, pushing Brent crude oil above US\$100/barrel, back to the level last seen during the Russia-Ukraine conflict in 2022. Should the Strait of Hormuz remain blocked for an extended period, this could remove as much as 15 million barrels per day from the world oil market, representing roughly 15% of global supply. This would also place direct upward pressure on global inflation through energy prices, with further indirect effects (i.e. through higher transportation costs) should this disruption persist.

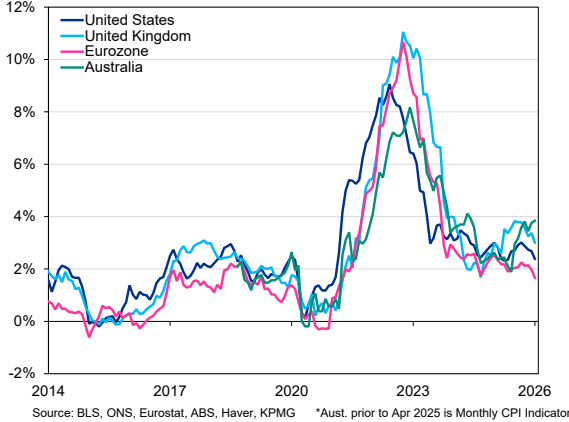


There continues to be divergence in inflation dynamics across regions.

This new inflation threat arrives during a period which has already seen mixed outcomes across various economies. Services inflation remains sticky, fuelled by robust labour markets and strong wages growth, while goods inflation has rebounded.

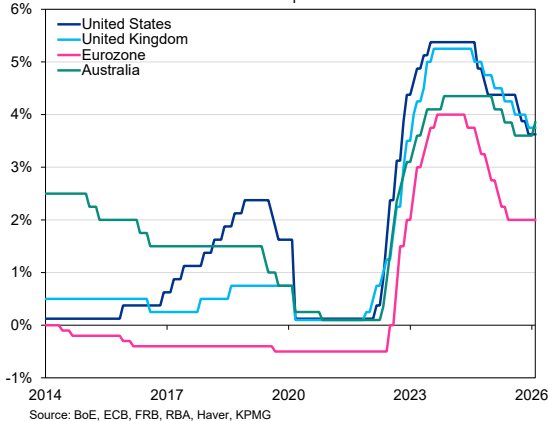
More economies are seeing positive inflation momentum: around half of the 156 countries tracked by the IMF recorded higher inflation in the December quarter compared with a year earlier, up from just 30% last year.

FIGURE 3
Inflation in Selected Advanced Economies
Year-ended growth



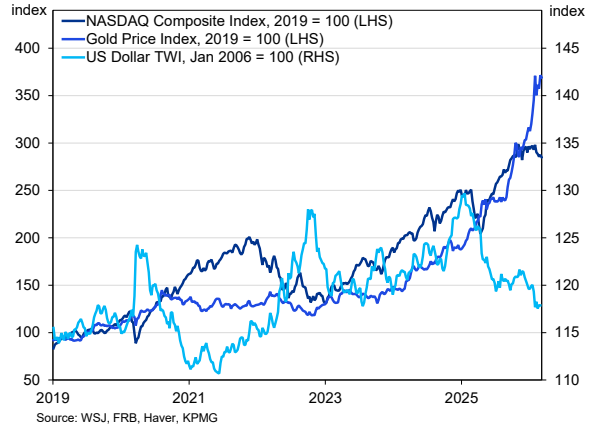
While central banks generally aim to look through short-term supply shocks, the impact of the war in Iran on global oil prices will nevertheless present a new policy challenge for central banks. In Australia, where inflation is already above target, RBA governor Michelle Bullock has remarked that it could be a ‘bit harder’ to look through the inflationary impacts, especially if the conflict becomes prolonged and has second-round effects, including rising inflation expectations and subsequent wage pressures.

FIGURE 4
Policy Rates in Selected Advanced Economies
End of period



In March 2026, both the Federal Reserve and European Central Bank hold their policy rates steady as they monitor geopolitical risks. Meanwhile, the Bank of Japan has also lifted rates further, in line with expectations.

FIGURE 5
Selected Financial Market Indicators



Solid risk appetite supported an easing in financial market conditions, but the conflict in Iran has now elevated investor uncertainty.

Equity markets have been supported by AI-related optimism despite elevated trade policy uncertainty. This has been linked to expectations of future gains from AI investment and adoption, particularly in the US; as well as surging production activity of semiconductors and associated electronics, for instance, in Taiwan.

However, markets more recently have been weighed down by the escalation of conflict in Iran. At the time of writing, the S&P 500 index had fallen by approximately 5% following the late February attack. A prolonged closure of the Strait of Hormuz, and the associated increase in energy costs, would be a serious global headwind. Aside from being a key route for oil, the strait is also a key transit route for other key commodities, including inputs to plastics and fertiliser.

Meanwhile, yields for long-term government bonds have moved upwards, steepening the yield curve. Aside from revised expectations for monetary policy, this also reflects expectations for higher government borrowing in response to the potential prolonged oil supply crisis.

Gold experienced a boom in 2025, recording a 70% rise in value as a result of increased hedging by investors against global uncertainty - this also reflects rising demand from central banks. Notwithstanding the ongoing war in Iran, the price of gold has recorded a slight correction and is trading lower than before the war began.

Looking ahead, uncertainty is expected to persist, with continuing trade policy uncertainty in the wake of the SCOTUS ruling and the war in Iran introducing unknown risks to the economic outlook.

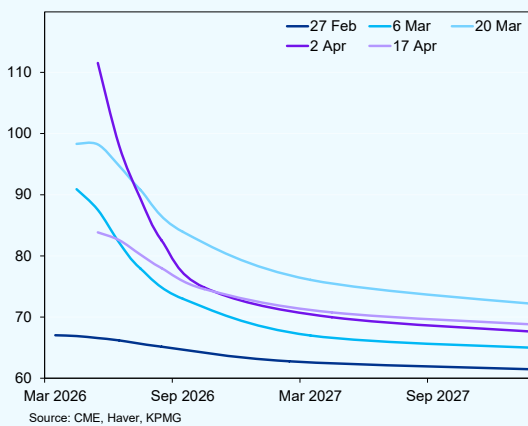
Box A: Geopolitical development and outlook

Contributed by Jon Berry, Geopolitics Lead, KPMG South ASPAC

Iran, energy shocks and the interconnectedness of global systems

The conflict in Iran that began in late February reveals the interconnectedness of global systems. For Australia, the Iran conflict is best understood not as a single geopolitical shock, but as a stress test of energy markets, trade routes and risk transmission mechanisms that sit beneath the global economy.

FIGURE A1
Oil Forward Curve



Energy markets

The most immediate economic impact of the conflict so far has been on energy markets. [Oil and natural gas prices](#) jumped sharply following the initial strikes and have remained elevated. Supply from the Persian Gulf has been significantly curtailed, while insurance costs and shipping disruptions through the Strait of Hormuz have effectively constrained exports even without a formal closure of the waterway.

This does not yet resemble a Ukraine-style structural energy shock. Analysts continue to expect elevated oil prices, but mitigating factors include weaker global demand, spare capacity outside the Gulf, and the likelihood that some disrupted supply returns over time. For Australia, this distinction matters. Energy price volatility feeds into inflation expectations, fuel costs and aviation, but does not automatically imply a permanent repricing of energy across the economy.

Risks to natural gas markets may end up being more acute. The halt to Qatari liquefied natural gas (LNG) production and exports affects Asian markets. Countries do not have the same ability to draw down strategic reserves as they do with oil, because gas is harder to store long term. Australian LNG exporters may be able to benefit from high spot prices in this environment, but it will depend on whether they have supply that is locked into long-term contracts.

General trade disruption

The impacts on shipping go well beyond oil and gas. Because vessels are stuck in the Persian Gulf, shipping companies are rerouting others, cancelling or suspending voyages, and incurring war risk insurance premiums that can double freight rates. This is making all freight less reliable and is adding to congestion in ports all over the world. The end result for people and businesses in Australia is that all goods that travel by sea could become more expensive, and harder to find, even after the end of the peak stage of the conflict.

This mirrors a broader shift in geopolitical risk. Rather than short, contained conflicts, businesses and policymakers are increasingly exposed to prolonged, ambiguous disruption. This can take the form of higher shipping rates, insurance costs, delayed deliveries, fragmented logistics and increased linkages between risks. For insurers, this has raised the likelihood of multi-line loss events, where energy shocks, trade disruption and financial stress occur simultaneously. For the wider economy, it reinforces how shocks in one domain – e.g. security – can rapidly affect inflation, investment and general financial conditions.

Australia's exposure: indirect, but material

Australia is geographically distant from the Iran conflict but economically connected. Around 80% of Gulf oil and LNG flows to Asia, meaning our regional partners bear the brunt of disruptions. Slower growth in Asia, higher input costs for manufacturers, and volatility in global financial markets all matter for Australian exporters, investors and policymakers.

At the same time, the conflict underlines a strategic paradox for Australia. As global trade becomes less reliable, countries are turning towards resilience, redundancy and domestic capacity. Yet Australia's prosperity remains deeply tied to open sea lanes, predictable rules and globally integrated markets.

Perhaps the most important lesson from the Iran conflict is that geopolitical risk is not just related to individual crises. The combination of great power competition, regional tension and economic interdependence means shocks are more frequent and can be more ambiguous and far-reaching. The key message for businesses is that scenario planning and risk mitigation are essential.

ASPAC outlook

Despite the challenging trade environment, many ASPAC economies outperformed market expectations throughout 2025, particularly in Taiwan. The seemingly insatiable demand for electronics and other AI-linked goods has supported external demand and growth. This is despite the fading effects from earlier front-loading in response to tariffs.

However, growth elsewhere in the region proved to be more challenging. December quarter growth in Japan, South Korea and the Philippines all missed expectations. With renewed trade policy uncertainty and escalating global conflicts, the outlook for 2026 is mixed.

- China:** GDP growth slowed to 4.5% over the year to the December quarter. Despite this fading momentum, full year growth for 2025 came in at 5.0%, reaching the government's target of 'around 5%'. Additionally, China managed to narrowly avoid deflation in 2025. The CPI rose 0.8% in the year to December, a 34-month high, bringing full year inflation to 0.0% for 2025. However, continued weakness in the domestic economy highlights that the current pace of growth will be difficult to sustain. The property sector remains a key drag, with property investment falling 17.2% in 2025, and continuing to weigh on confidence.
- Japan:** Growth in the December quarter fell well below expectations, increasing by an annualised 0.2%, compared the median forecast of a 1.6% rise. This follows the 2.6% contraction (revised larger) reported in the previous quarter. Consequently, year-ended growth in real GDP was 1.1% in 2025. This data comes as Prime Minister Sanae Takaichi was delivered a landslide win in February's election. A key policy pledge was to suspend the 8% tax on food for two years, alongside other stimulus measures aiming to 'pull Japan out of excessively tight fiscal policy and a lack of investment'.
- South Korea:** Following a strong September quarter, annual GDP growth slowed to 1.5% in the final quarter of the year, missing market expectations. Consequently, the full year growth of 1.0% in 2025 was the slowest since 2020 but is expected to pick up in 2026. Meanwhile, the Bank of Korea signalled that its current easing cycle has ended, prioritising foreign exchange stability amid a weak won.
- Singapore:** The Ministry of Trade and Industry upgraded their growth forecast for 2026 to 2–4%, as December quarter GDP was revised upwards from advance estimates. Singapore's economy grew by 6.9% over the year to the final quarter of 2025. This brought full year growth for 2025 to 5.0%. Prime Minister Lawrence Wong has also released the next budget, which expects a surplus equivalent to 1% of GDP. The budget included several measures to advance the role of AI, including the establishment of a National AI Council.
- Taiwan:** Unprecedented demand for semiconductors and other AI-related technologies saw the Taiwanese economy record annual growth of 12.7% in the December quarter. This was the fastest pace since 1987 and surpassed already lofty expectations. Consequently, full year growth for 2025 was 8.6%, the strongest performance in 15 years. Consequently, real exports grew by 38.7% over the year to the final quarter, while imports rose by 24.6%.
- Hong Kong:** GDP growth picked up to 3.8% over the year to the December quarter. Consequently, full year growth came in at 3.5%, beating the government forecast of 3.2%, and marking an acceleration from the 2.5% seen in 2024.
- New Zealand:** The pace of annual growth lifted to 1.3% in the December quarter, but fell short of market expectations, which had anticipated a 1.7% rise. Full year growth for 2025 was a modest 0.5%, as the economy continues to recover from an extended period of weakness.
- Indonesia:** Annual growth in the December quarter exceeded expectations, rising by 5.4%. This translated into full year growth of 5.1% in 2025, the strongest annual growth rate since 2022. However, this positive news was overshadowed by a sharp downturn in the stock market, after index compiler MSCI flagged a series of concerns around transparency. In the following days, ratings agency Moody's also cut the nation's credit rating outlook to negative from stable due to reduced predictability in policymaking and signs of weakening governance.
- Vietnam:** Full year growth for 2025 came in at 8.0%, supported by strong performances across all sectors. Annual growth accelerated further in the December quarter, rising to 8.5%.
- Philippines:** The economy disappointed in the December quarter, expanding 3.0% through the year, its slowest pace since the March quarter 2021. This was also below market expectations of a 4.0% rise. This result brought full year growth across 2025 to 4.4%, failing to meet the government's target of a 5.5–6.5% rise.
- Malaysia:** Annual growth in the December quarter jumped to 6.3%, exceeding both advance estimates and market forecasts. This follows a 5.4% rise during the previous quarter and was the fastest pace in 12 quarters. Consequently, full year growth for 2025 was 5.2%, the highest since 2022.
- Thailand:** GDP expanded by 2.5% over the year to the final quarter, exceeding market expectations and marking a significant improvement from the 1.2% growth recorded in the September quarter. Full year economic growth for 2025 reached 2.4%, outperforming earlier estimates.

02

Australia overview



Economic activity

Australia's economy beat forecasts in the December quarter, with per capita growth accelerating to its fastest pace in three years. While this is welcome news, unfortunately, a closer look suggests that this cannot be sustained.

The pace of growth exceeded expectations, with real GDP expanding by 0.8% in seasonally adjusted terms over the December quarter 2025. This compares to the consensus forecast of 0.6% and follows a 0.5% rise in the September quarter (revised up from 0.4%).

Consequently, annual growth accelerated for the fifth consecutive quarter, reaching 2.6%. This was the fastest pace of growth since the March quarter 2023, and surpassed expectations of a 2.2% rise. Additionally, GDP per capita rose 0.9% through the year, its fastest growth rate since the December quarter 2022.

At face value, this acceleration in activity is good news, as annual growth climbed closer to its historical trend. Unfortunately, a detailed inspection of the drivers behind this growth reveal a more fragile condition.

Looking at the contributors to quarterly GDP growth, we find that:

- Private demand was only responsible for 0.3ppt of growth, with only a muted rise in household spending (+0.14ppt) and private investment (+0.13ppt). Furthermore, part of this rise in investment was associated with ownership transfer costs, reflecting higher real estate turnover.
- Changes in inventories accounted for 0.4ppt of growth. While this was, in part, attributed to increased mining production, a future drawdown of inventories will subtract from growth. This figure was also boosted by public authorities importing more non-monetary gold – again, not a lasting source of activity.
- Public demand added a further 0.3ppt to growth, as government spending remained elevated. This demand was concentrated in public consumption (+0.21ppt), with only a modest contribution from public investment (+0.05ppt).

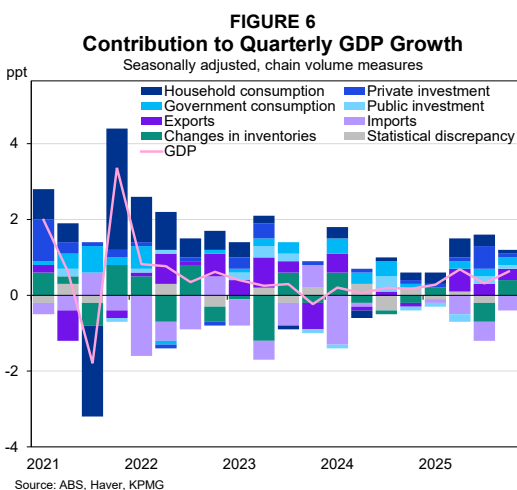
- Meanwhile, net trade subtracted 0.1ppt from quarterly growth, as the 1.4% rise in exports was more than offset by a 1.8% rise in imports.

Ultimately, these figures do not reflect an economy that is turning a corner from a standard of living perspective. Other performance indicators also justify this less rosy picture.

- While household consumption per capita is up 0.8% and is broadly in line with the historical average, the quarterly figure fell 0.1%, showing that the recent pick-up in activity is not yet sustainable.
- Productivity growth stalled, as real GDP per hour worked was flat over the quarter. Nonetheless, it has recorded a 1.0% rise through the year, driven by a 1.5% increase in the market sector.
- Government share of spending ticked up to 28.6% of GDP this quarter and is only 0.1ppt shy of its record high seen in the September quarter 2024. This elevated share of public demand continues to risk crowding out the business sector.

Focusing on the household sector, this latest data suggests that Australians continue to tread with a degree of caution:

- Household spending increased by a modest 0.3% during the quarter, following a 0.5% rise in the September quarter.
- Discretionary spending lifted by 0.4%, having received a tailwind from expanded Black Friday sales and major events. Essential spending rose 0.2%, driven by a 0.4% rise in essential services, partially offset by essential goods, which fell 0.5%.
- Meanwhile, the household saving ratio increased to 6.9% in the December quarter, its highest level since the September quarter 2022. Gross disposable income rose by 1.8%, while nominal household spending only increased by 1.1%.
- Interest paid on dwellings fell 0.1%, to be down 6.9% through the year, reflecting the three cash rate reductions which took place during 2025.



Compensation of employees (COE) rose 1.4% through the quarter, to be up 6.4% through the year. This reflected a slowing of the annual growth rate, after rising for four consecutive quarters to 7.0% in the September quarter. This movement supported the easing of nominal unit labour cost (NULC), despite lacklustre labour productivity outcomes.

Looking in more detail, through the quarter:

- Private sector COE increased by 1.4% during the quarter. Wage reforms in childcare and aged care drove a rise in *Health care and social assistance*. Meanwhile, increased activity supported growth in *Construction*, as well as *Professional, scientific and technical services*.
- Public sector COE also rose by 1.4%, with a variety of scheduled pay rises and enterprise bargaining agreements impacting Queensland, Victoria, South Australia and Western Australia.
- All states and territories saw a quarterly rise in COE, led by the Northern Territory (+3.1%), followed by Queensland (+2.1%).

Meanwhile, business profitability as measured by gross operating surplus (GOS) lifted by 1.9% through the quarter.

- Private non-financial corporations' GOS increased by 1.9%. Higher sales volumes and prices supported a rise in *Mining*. Higher GOS in *Transport, postal and warehousing*, alongside *Professional, scientific and technical services* also supported this growth.
- Other sectors' GOS rose by 6.3%, with rises for financial corporations, dwellings owned by persons, and public non-financial corporations.

Consequently, GOS was up 4.7% through the year, having accelerated for the third consecutive quarter, and recording the fastest pace since the March quarter 2023. However, it is still below the 5.3% average annual pace seen between 2010 and 2019.

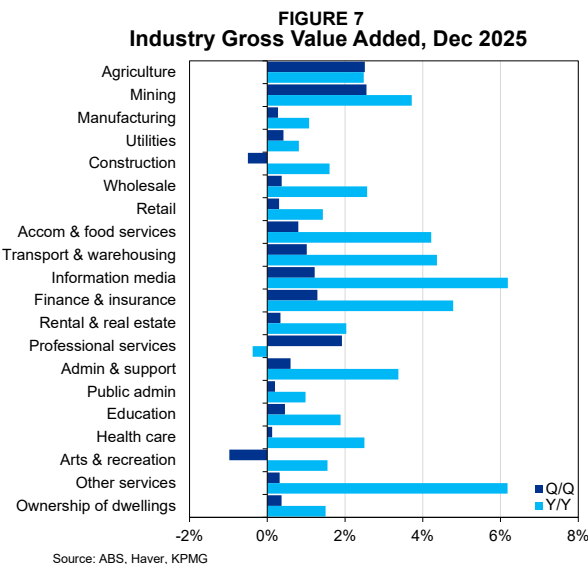
Overall, this latest read of the economy only reinforces the importance of the upcoming Commonwealth Budget in adopting reforms that will reset a course that produces improved outcomes for all Australians.

Production

Gross value added (GVA) rose 0.8% in the December quarter. Notably, growth was particularly broad-based, with 17 out of 19 industries recording an increase in GVA. This was led by:

- *Mining* saw a 2.6% quarterly rise, as production rebounded from planned maintenance and weather-related disruptions during the September quarter.
- Favourable growing conditions, as well as strong demand for meat exports, saw *Agriculture, forestry and fishing* rise 2.5%.
- *Professional, scientific and technical services* grew by 1.9%, boosted by demand for engineering design and IT consultancy.
- *Financial and insurance services* benefited from increased activity in property and share markets, expanding 1.3% through the quarter.
- Strong sales during Black Friday supported *Wholesale trade* (+0.4%) and *Retail trade* (+0.3%).

Both *Accommodation and food services* (+0.8%) and *Transport, postal and warehousing* (+1.0%) benefited from increased domestic travel and attendance at major events.



Meanwhile, the only sectors which recorded a fall were:

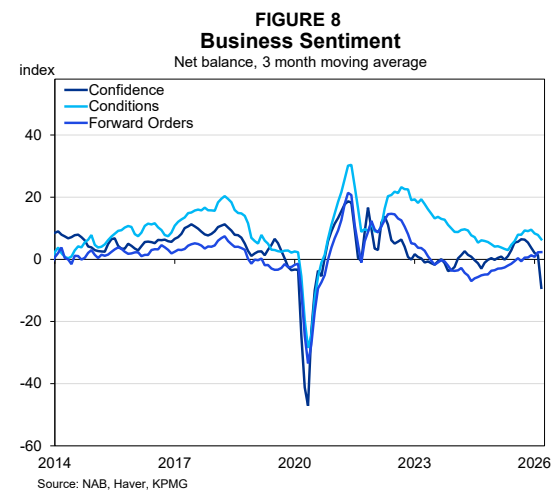
- *Construction* fell 0.5%, driven by site and land preparation services, as well as public infrastructure projects.
- *Arts and recreation services* decreased by 1.0%, due to gambling activities.

During this December quarter, producer prices (as measured by final demand) increased 0.8% through the quarter, after rising 1.0% in the September quarter. On an annual basis, the measure of price growth from the seller's perspective held steady at 3.5%.

This quarterly result was driven by:

- *Property operators*, which rose 0.9%, associated with ongoing high demand and rising rents for housing.
- *Residential building construction*, which saw an increase in demand, rising 1.3%.

Looking ahead, business confidence (as measured on a three-month moving average basis) has slipped sharply, dropping from 1.4pts in February to -9.2pts in March. The economic challenges stemming from the Iran conflict have exacerbated a longer-term trend of weakening confidence, which has seen the index deteriorate for the sixth consecutive month, re-entering negative territory for the first time since April 2025.



Turning to commodities, the Australian Bureau of Agricultural and Resource Economics and Sciences anticipates the gross value of agricultural production will fall 6% to \$95 billion in FY2026–27, after reaching a peak of \$101 billion in FY2025–26. The value of crop production is expected to fall 5%, reflecting decreased production volumes, while the value of livestock and livestock products will fall 8%, due to both lower prices and volumes.

Additionally, the Department of Industry, Science and Resources forecasts the nominal value of resource and energy exports fall 2.3% to \$374 billion in FY2026–27, from an anticipated \$383 billion in FY2025–26. This reflects an upward revision, due to a surge in gold prices and resilience in the price of iron ore.

This rising demand for gold is expected to drive the volume of gold exports to 309 tonnes in FY2026–27. Together with high prices, gold is set to become the nation's second most valuable resource export, behind iron ore.

Following the significant shock to commodity markets due to the conflict in the Middle East, it is likely that these forecasts will experience material revisions.

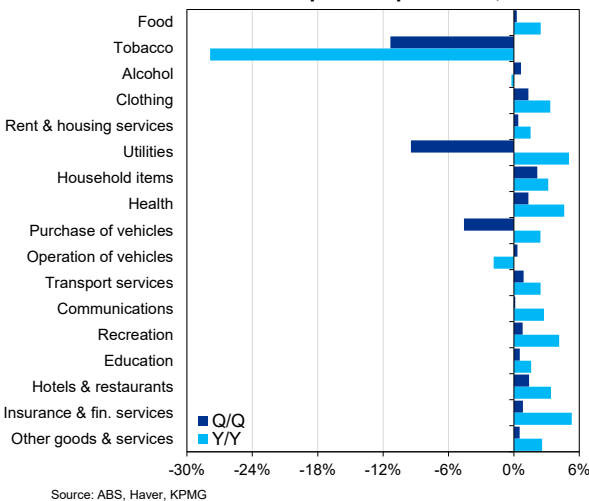
Household consumption

Over the December quarter, real household final consumption expenditure (HFCE) rose by a modest 0.3%, following a 0.5% rise in the September quarter. This movement was driven by a 0.4% rise in discretionary spending, alongside a 0.2% rise in essential spending.

The main drivers of this growth were:

- Major sporting events, concerts and school holidays, which supported domestic travel activity, and drove increased spending on *Hotels, cafes and restaurants* (+1.4%), as well as *Recreation and culture* (+0.8%).
- Both *Furnishings and household equipment* (+2.1%) and *Clothing and footwear* (+1.3%) benefited from Black Friday and Boxing Day sales.
- *Health* (+1.3%) continued to be boosted by the flu season, linked to attendance at medical services.

FIGURE 9
Household Final Consumption Expenditure, Dec 2025

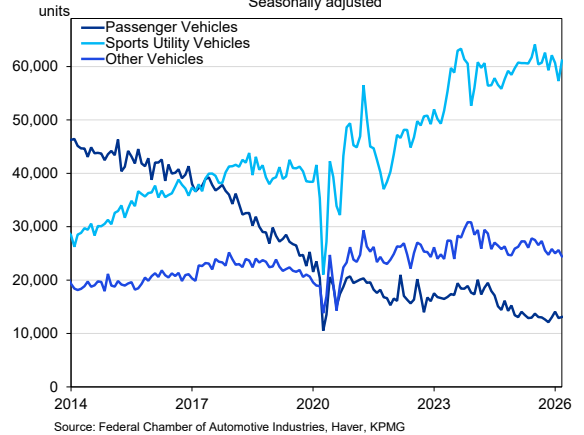


This growth was partially offset by:

- *Electricity, gas and other fuels*, which saw a decline of 9.5%. This was associated with an increase in electricity rebates, which are accounted for as government expenditure, as well as a reduction in usage.
- *Cigarettes and tobacco* recorded a fall 11.3%, as the dominance of illicit sources continues to pose a challenge to measuring consumption.
- *Purchase of vehicles*, which fell 4.6%.

On an annual basis, HFCE rose by 2.4%, reflecting a period of falling interest rates and improved consumer confidence across through the year. While this has supported household consumption, circumstances have turned less favourable in the first few months of 2026, which may dampen spending growth in upcoming quarters.

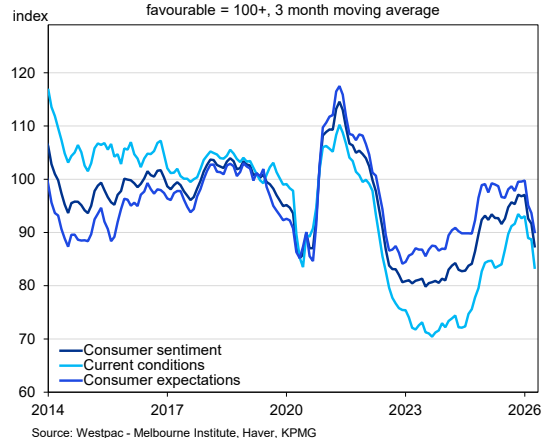
FIGURE 10
Passenger Vehicles and SUV Sales
Seasonally adjusted



Looking ahead, other data reflects this greater degree of caution:

- More timely data from the Monthly Household Spending Indicator showed that nominal household spending rose 0.3% in February, to be up 4.6% through the year.
- The number of new vehicles sold has steadied, with 99,200 sales (measured in seasonally adjusted terms) during March. This was slightly lower than the monthly average of 100,900 seen in the second half of 2025.
- Consumer sentiment, as measured by the Westpac-Melbourne Institute monthly survey, has deteriorated sharply. On a three-month moving average basis, it has dropped from 97.1pts in January to 87.4pts by April. This follows the 25bps interest rate rise in February, with increasing expectations for further rises. The escalation of hostilities in the Middle East has also weighed on sentiment, dampening expectations for the outlook.

FIGURE 11
Consumer Sentiment
favourable = 100+, 3 month moving average



Investment

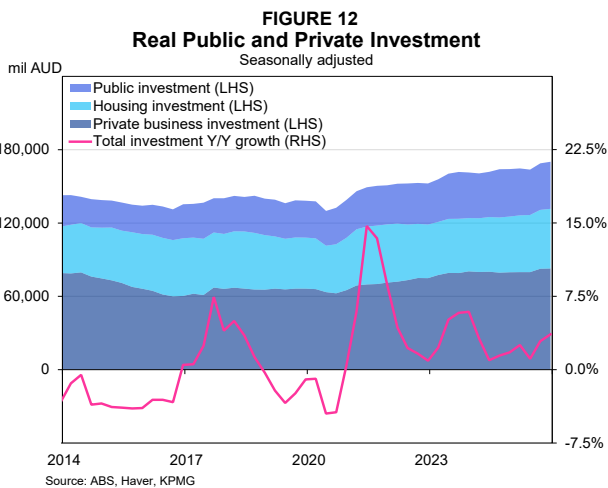
Investment activity, as measured by Gross Fixed Capital Formation (GFCF), rose by 0.7% in the December quarter, following a sharp 3.2% rise during the September quarter. Private and public investment each contributed around 0.1 ppt to quarterly GDP growth. Through the year, investment has grown 3.6%, its fastest pace since the December quarter 2023.

Private investment rose 0.7% through the quarter, following a 3.2% spike in the September quarter. Through the year, private investment was up 5.0%, its highest growth rate since the December quarter 2021.

Overall, the quarterly movement was driven by:

- *Non-dwelling construction* grew 1.3%, linked to data centre investments in Victoria and New South Wales.
- Machinery and equipment dropped 2.0% this quarter after a strong September quarter boosted by data centre equipment and passenger aircraft. Nevertheless, it remains elevated.

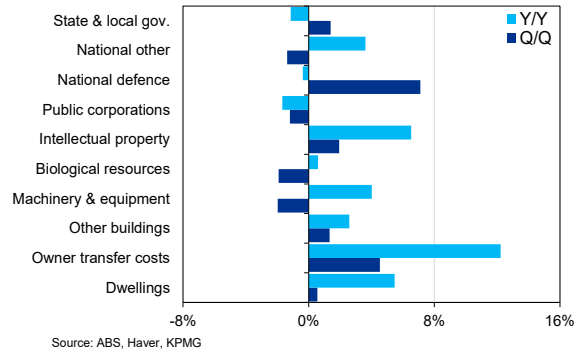
Dwellings rose 0.6%, with more approvals, commencements, and work done on apartments. Increased activity in the property market during the quarter saw *Ownership transfer costs* rise 4.5%.



Meanwhile, public investment rose 0.9%, following a 3.0% increase last quarter. Through the year, it is down 0.9%. The rise over the December quarter was associated with:

- *State and local general government*, rising 1.4%, due to increased investment in transport and health infrastructure.
- *National defence* also rose 7.1%, as domestic production of equipment continued, alongside imports of weapons platforms.

FIGURE 13
Investment Growth, Dec 2025



Looking more closely at the private sector, investment by businesses, as measured by real private new capital expenditure (capex), rose 0.4% in the December quarter, to be up 7.8% through the year. The quarterly movement was driven by a 0.8% rise in non-mining industries, partially offset by a 0.8% fall in the mining sector.

Businesses reported that investment in new machinery and equipment fell 1.7% during the quarter, but this mainly reflected base effects, after a sharp rise in the previous September quarter. Through the year, it is up 9.4%.

During the quarter, this fall was primarily due to *Information media and telecommunications*, which was down 30.1%, as data centre investment eased compared to the prior quarter. However, it is still 49.6% higher than the same time last year, reflecting the ongoing strength in the data centre sector.

Turning to buildings and structures, capex was up 2.3% due to a 3.7% rise by non-mining industries. There was growth in spending on large projects across multiple sectors, including *Electricity, gas, water and waste; Rental, hiring and real estate*; as well as *Information media and telecommunications*. Capex for building and structures in mining was down 0.2%.

Despite lower investment in data centre equipment, construction of new facilities remained robust. The ABS also reported that investment in battery energy storage systems was a notable driver of spending, alongside wind and solar developments.

Across the states and territories, quarterly capex growth was strongest in South Australia (+4.8%), followed by Western Australia (+3.9%) and Victoria (+2.0%).

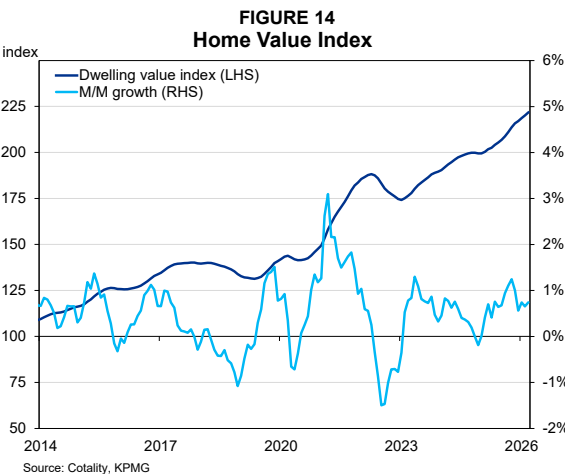
Moving forward, these December quarter figures also show that businesses have revised up their expected nominal capex spend for FY2025-26 to \$199.3 billion, up 4.3% compared to the last survey. Additionally, initial estimates for FY2026-27 are for \$158.4 billion of capex spending. This is 7.3% higher than the initial estimate which was provided for FY2025-26.

Turning to the residential property sector, momentum built toward a two-year high in late 2025, with activity boosted by the impact of three rate cuts, and the expansion of the first home buyer deposit scheme. This saw rolling quarterly house price growth peak at 3.4% in November, its highest level since January 2022.

However, momentum has clearly faded in the new year, with quarterly growth slowing to the low-2% range by March 2026, from around-3% in late 2025. This comes as the RBA has lifted the cash rate by 50bps in 2026, following a rebound in inflation.

There continued to be a clear divergence across the capital cities, with the highest growth over the three months to March seen in the mid-sized capitals of Perth (+7.3%), Brisbane (+5.1%) and Adelaide (+3.6%).

More modest growth was also seen in Darwin (+3.4%), Hobart (+2.5%) and Canberra (+1.4%). Meanwhile, both Melbourne (-0.6%) and Sydney (-0.2%) saw modest declines.



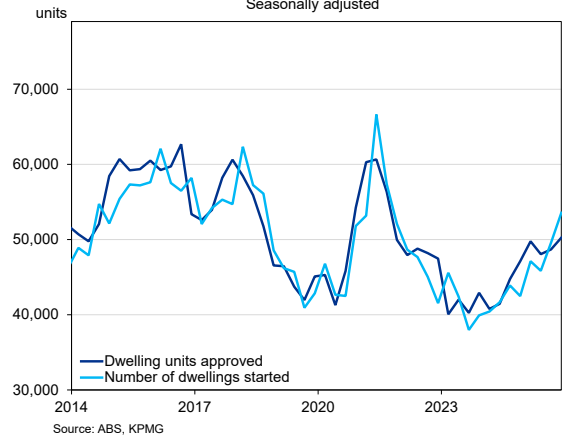
On an annual basis, house price growth through the year nonetheless accelerated to 9.9% by February, the fastest pace since June 2022, with this growth rate maintained in March.

All capital cities saw annual growth, with the extremely strong growth seen in Perth (+24.2%), Darwin (+19.7%) and Brisbane (+19.0%). Adelaide (+11.4%) also recorded double digit growth.

Elsewhere, growth was still robust in Hobart (+7.8%), Canberra (+6.1%) and Sydney (+4.8%). Melbourne (+3.4%) recorded the slowest annual pace of growth.

Nevertheless, housing affordability remains a challenge across the nation. The 24.2% annual rise in Perth brings the city's median house price to \$1.02 million, surpassing the \$1 million psychological threshold. This implies a \$198,300 increase in only 12 months. Even in Melbourne, the 3.4% annual growth rate would have added \$27,200 to the median house price, bringing it to \$828,200 by March 2026.

FIGURE 15
Dwellings Approved and Commenced
Seasonally adjusted



In more positive news, momentum in new housing supply is continuing to build, albeit with some period-to-period volatility. The number of new dwelling units approved has rebounded to 50,800 for the December quarter, to be up 5.9% through the year. Consequently, on a rolling basis, this was the highest number of annual approvals since the June quarter 2022.

In terms of the composition of approvals:

- *Houses* rose 3.7% through the year to 29,300 in total during the December quarter.
- Meanwhile, *Other dwellings* lifted by 9.1% through the year to 21,500 in the December quarter.

This momentum in approvals has also translated into growing building activity, with the total number of dwelling units commenced rising 8.0% to 53,600 in the December quarter. This was 26.1% higher than a year ago. The rise in activity was due to:

- *New private sector houses* rose 1.6% in the quarter to 28,500, an annual increase of 5.2%.
- *New private sector other residential* commencements rose 9.9% in the December quarter to 22,400. This extends a sharp pick-up earlier in the year, which sees annual growth of 43.1%.

While this expansion of supply will be welcome news to home buyers, housing affordability continues to be a complex challenge and remains a key pressure for Australians.

Net exports

Net trade took away 0.1ppt from quarterly GDP growth as the rise in imports of goods and services (+1.8%) outpaced exports (+1.4%).

The 1.4% increase in exports of goods was driven by non-rural goods with iron ore demand from China remaining resilient despite softer steel production. Rural goods also lifted, supported by favourable conditions, leading to strong harvests for chickpeas, lentils, cotton and canola.

Exports of services rose 1.1% this quarter, driven by an increase in other personal services that coincided with major sporting and entertainment events. Education related travel services partly offset, with a decrease in tertiary vocational students this quarter.

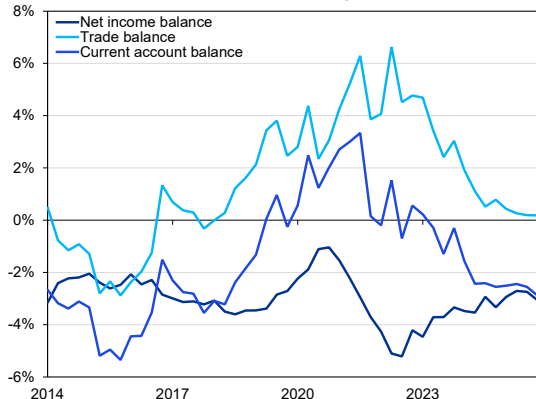
Imports of goods rose 2.7%, driven by intermediate goods, reflecting higher demand for lithium-ion batteries, following the rollout of the 'Cheaper Home Batteries' program during the September quarter 2025. Non-monetary gold imports rose strongly as global demand for gold continues and prices reach record highs. Capital goods also contributed to the rise, driven by the high demand for new smartphone models.

Imports of services fell 0.4% as higher prices in international airfares across destinations affected the demand.

Australia's current account deficit widened in the December quarter 2025. The deterioration was driven by a larger net primary income deficit, while the goods and services surplus held steady. On a seasonally adjusted basis, the current account balance fell by \$2.8 billion to a deficit of \$21.1 billion. As a share of nominal GDP, the current account balance declined to -2.9%, after hovering in the mid -2.5% range since the June quarter 2024.

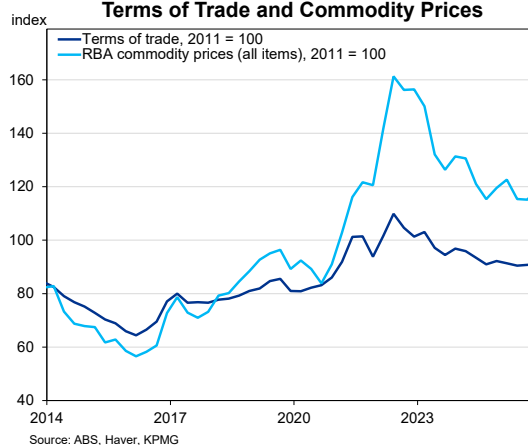
The widening in the primary income deficit reflected a \$1.6 billion increase in income paid to overseas investors, supported by stronger dividend payments from Australian companies. Although still sizeable, the goods and services surplus has eased from its peak of \$41.3 billion in the June quarter 2022 and no longer provides the same offset to the primary income deficit.

FIGURE 16
Current Account Balance
Percent of nominal GDP



Source: ABS, Haver, KPMG

FIGURE 17
Terms of Trade and Commodity Prices



Source: ABS, Haver, KPMG

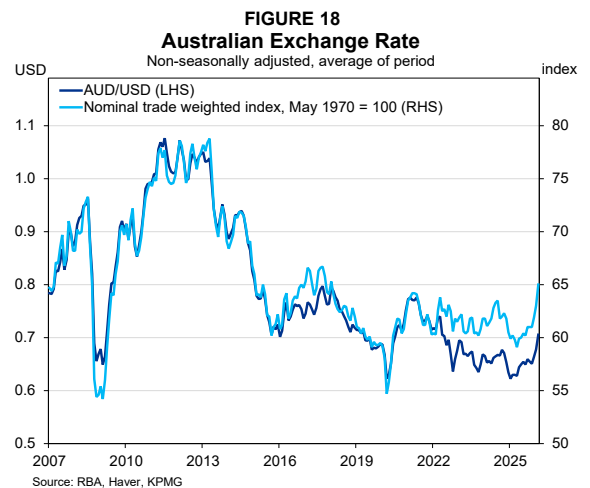
EXTERNAL DEMAND ASSUMPTIONS	Q1-26 (a)	Q2-26 (f)	Q3-26 (f)	Q4-26 (f)	Q1-27 (f)
Exchange rate (AUD/USD)	0.70	0.71	0.71	0.71	0.71
Coal prices (USD/tonne)					
Thermal coal price – Newcastle	135	150	150	151	149
Semi-soft coking coal price	222	242	244	250	257
Gold price (USD/oz)	4,570	4,524	4,664	4,652	4,768
Dalian Iron Ore 62% Futures	106	105	104	102	102
Oil prices (USD/barrel)	112	100	95	87	82

The terms of trade rose in the quarter, as export prices increased more quickly than import prices, although the broader level has remained broadly steady over the past year.

Export prices were up 1.8%, driven mainly by rural goods. Meat prices recorded a strong rise, supported by continued international demand for Australian beef and tighter supply of lamb and mutton due to below-average seasonal conditions across key regions in South Australia, Victoria and southern New South Wales. Lower cereal grain prices partly offset this rise, reflecting strong global wheat production. Non-rural export prices fell 0.7%, led by a sharp decline in other mineral fuels but was partly offset by higher iron ore prices, with demand from China holding up.

Import prices increased 1.4%, with broad-based rises across consumption and intermediate goods. Higher airfares pushed travel-related import prices higher, while capital goods prices declined, influenced by the appreciation of the Australian dollar against the US dollar.

Supported by the recent RBA cash rate increase and strong commodity prices, the AUD has strengthened to USD 0.70 in March up from USD 0.62 at the end of 2025. Over the same period, the TWI has risen to 65pts, from 62pts.



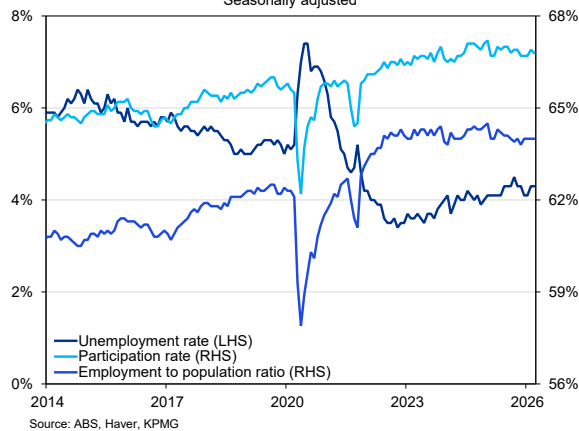
Labour market

Looking at the headline figures, conditions in the Australian labour market did not ease materially over 2025 as was widely expected. Instead, the unemployment rate ended the year more or less where it started, despite weakening employment growth.

After lifting to a peak of 4.5% in September 2025, the unemployment rate ended the year at a seven-month low, dropping back to 4.1% in December 2025. After holding steady in January, it saw a modest uplift to 4.3% by March 2026.

This has been supported by a gradual fall in the participation rate, which has cooled from its peak of 67.2% in January 2025 to 66.8% by March 2026. However, it continues to be elevated relative to pre-pandemic levels. Similarly, the employment-to-population ratio has eased to 64.0% but also remains high.

FIGURE 19
Unemployment and Participation Rates
Seasonally adjusted



While this is still reflective of a labour market with limited spare capacity, other labour market indicators paint a more benign picture.

Annual growth in employment slowed to 1.1% by the end of 2025, below the average of 2.3% observed through 2019, prior to the pandemic. This weakness extended into the new year, with employment rising 1.8% by March 2026.

Hours worked ended 2025 with an annual growth rate of 0.9%, broadly in line with employment growth. However, growth picked up to 2.5% in March, outpacing the rise in employment. In part, this reflects that annual growth in full time employment was stronger than part time employment, rising 1.9% and 1.5%, respectively.

Overall, in March 2026, there were 258,800 more employed people compared to a year ago, but 42,700 more unemployed people. The underemployment rate was steady through the year, at 5.9%.

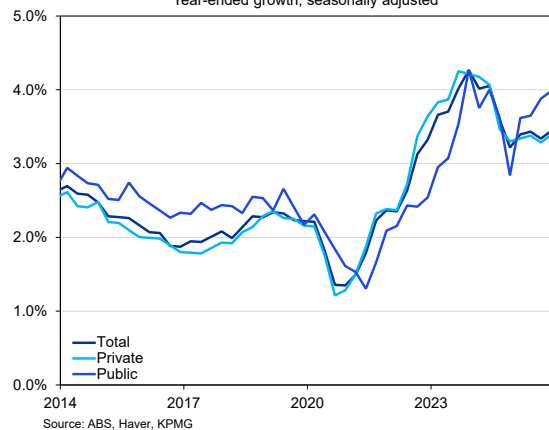
Looking at the more detailed quarterly data, the number of filled jobs in the market sector rose 0.4% in the December quarter, to be up 1.2% through the year. Meanwhile, non-market sector filled jobs also increased 0.4% during the quarter and was up 1.5% on an annual basis. Although it continues to outpace the market sector, employment growth in the non-market sector has cooled sharply, after a period of significant expansion over the last two years.

Looking ahead, the SEEK Employment Report for February 2026 showed that job ad volumes decreased 1.5% through the quarter, to be down 2.6% over the year.

The strongest annual growth was seen in *Construction* (+11.5%) and *Manufacturing, transport & logistics* (+6.1%). Meanwhile, the most significant falls were in *Consulting & strategy* (-15.5%), *Banking & financial services* (-14.3%) and *Information & communication technology* (-13.6%).

Only Western Australia saw annual growth in job ads (+1.4%). The report also noted that the number of applications per job ad fell 0.6% in January, continuing its decline.

FIGURE 20
Wage Price Index by Sector
Year-ended growth, seasonally adjusted



Wages growth remained robust in the December quarter, in line with market expectations. Quarterly growth in the Wage Price Index (WPI) held steady, at 0.8%, lifting annual growth to 3.4%. With headline inflation accelerating to 3.6% during the quarter, this saw growth in real wages turn negative.

The annual pace of wages growth in the private sector accelerated slightly to 3.4%, from 3.3% last quarter. This was also marginally above the 3.3% seen in the December quarter 2024.

Meanwhile, in the public sector, wage growth ticked up to 4.0%, compared to 3.9% in the September quarter. This was significantly higher than the trough of 2.8% recorded a year ago and reflects the fourth consecutive quarter where wages growth in the public sector outpaced the private sector.

Out of all the jobs which recorded a wage change over the previous 12 months, 23% recorded an annualised wage change greater than 4%, compared to 28% of jobs during the corresponding period a year prior. This was the lowest share since the June quarter 2022.

Across the industries, annual wage growth was strongest in *Health care and social assistance* (+4.4%). The strongest quarterly growth was seen in *Information, media and telecommunications* (+1.2%).

When factoring in the size of each industry, *Health care and social assistance* was the most significant contributor to wages growth in both the private and public sector during the December quarter. The ABS noted that Commonwealth funded initiatives in aged care and childcare saw rises in the private side of the sector, while enterprise agreement rises to health workers in New South Wales drove growth on the public side.

Looking at the states and territories, the fastest pace of annual wages growth was seen in Western Australia (+4.1% y/y), while the slowest growth was recorded in the Northern Territory (+2.2%).

Alongside the WPI, which considers a fixed composition of costs, it is also useful to consider nominal unit labour costs (NULC), which measures the cost associated with the employment of labour, adjusted for labour productivity. As a result, there will be no change in NULC if there is an increase in average labour costs and a corresponding increase in labour productivity.

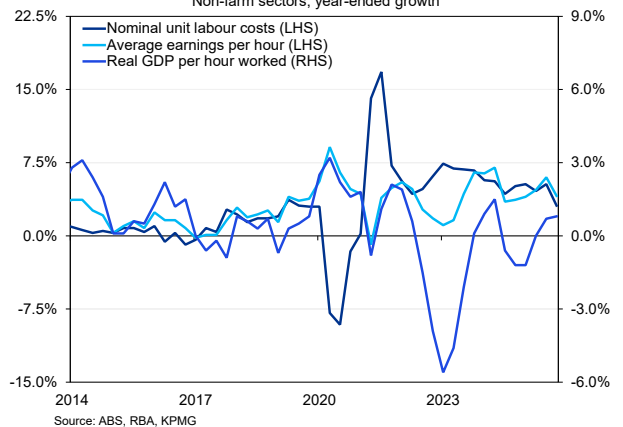
In the December quarter, NULC rose 0.5% in the quarter, to be up 3.3% through the year. This was its slowest annual rise since the March quarter 2021. This result was because the compensation of employees per hour worked grew more slowly in the quarter, while labour productivity was flat.

Turning to real unit labour costs (RULC), which adjusts for the increase in prices to better reflect the cost pressure on firms, there was only a marginal improvement through the year, having fallen 0.1%.

In the December quarter, RULC improved, falling by 0.6% following a 0.2% fall in the September quarter. While this will support employment, the result was due to employee costs per hour increasing by less than the GDP implicit price deflator, consistent with a fall in real wages. Labour productivity was flat during the quarter, making no contribution to this result.

This is reflective of an economy which continues to suffer from lacklustre productivity, where the strength in the labour market (as measured by the unemployment rate) in the December quarter 2025 has been supported by downward pressure on real wages (through higher inflation), rather than improved productivity.

FIGURE 21
Productivity and Earnings
Non-farm sectors, year-ended growth

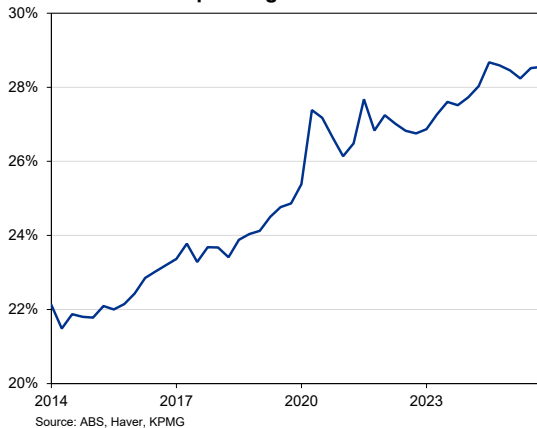


Government

Public spending increased its share of GDP again in the December quarter, rising to 26.6%. This reverses the modest decline seen in the first half of 2025, to be only 0.1ppt lower than the record high seen in the September quarter 2024.

Both government consumption and investment grew faster than real GDP over the quarter, each rising by 0.9%. When factoring the size of each component, they added 0.21ppt and 0.05ppt to GDP growth, respectively.

FIGURE 22
Public Spending as a Share of GDP



The quarterly rise in government consumption was linked to:

- *State and local government* (+1.0%), due to higher expenses for health, education and policing. An increase in electricity rebates paid to households in New South Wales, Western Australia and the Australian Capital Territory also supported growth.
- This was alongside the typical expansion of *National non-defence* (+0.6%) on social benefits, including Medicare and the NDIS.
- *National defence* (+2.1%) increased due to strong recruitment over the year.

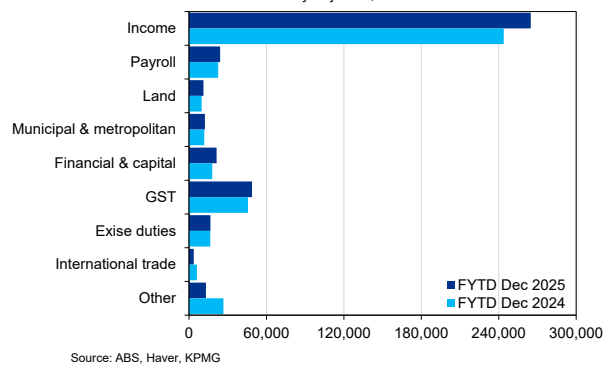
Meanwhile, increased public investment was associated with:

- *State and local general government* (+1.4%) expenditure on transport and health infrastructure.
- *National defence* (+7.1%), with ongoing domestic production of military equipment, alongside imports of weapons platforms.

All non-market sectors contributed to GDP growth in the quarter. *Public administration and safety* expanded 0.2% in the December quarter, with *Education and training* increasing by 0.5%. *Health care and social assistance* also saw a modest 0.1% rise in real GVA.

During the December quarter, the general government net operating balance rose \$33.4 billion to record a deficit of \$0.4 billion. Total revenue in the quarter was 8.6% higher than the corresponding period the year prior, including an 8.4% rise in taxation revenue. Meanwhile, total expenses were up 7.5% compared to the December quarter 2024.

FIGURE 23
Australian Government Tax Receipts by Type
Seasonally adjusted, mil AUD



Taxes less subsidies on production and imports increased by 2.3% over the quarter, as:

- Taxes on production and imports rose 1.5%. This comes as taxes on financial and capital transactions increased, linked to stamp duty payments, particularly in New South Wales and Queensland. GST collections also rose, in line with increased household spending on discretionary items.
- This was partially offset by a 2.7% rise in subsidies on production. There was a rise at the state and local general government, associated with payments in Victoria on green projects, and in Western Australia for infrastructure in remote Indigenous communities. Meanwhile, subsidy payments for early childhood education drove the rise at the national level.

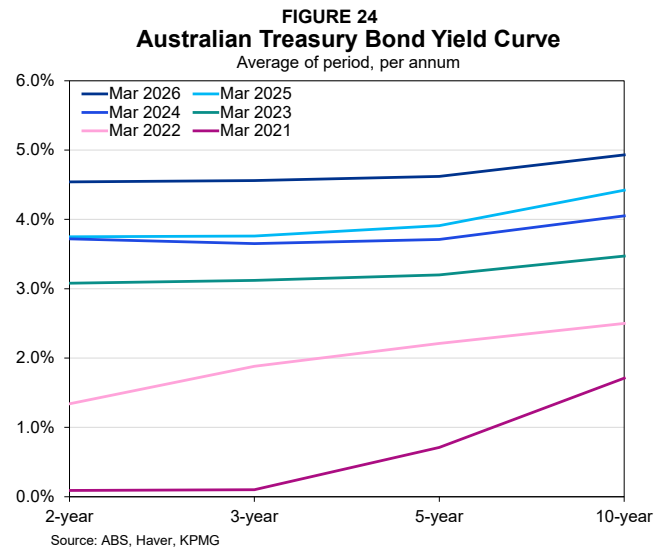
Looking ahead, the Treasurer will reveal the FY2026–27 federal budget in May. The Mid-Year Economic and Fiscal Outlook, released in December, anticipates an improvement in the deficit forecast for FY2025–26.

It estimated a \$37 billion deficit for 2025–26, down from a \$42 billion deficit forecast in the March 2025 Federal Budget and the Pre-election Economic and Fiscal Outlook (PEFO) issued before the May election. Much of the improvement is due to higher tax receipts, driven by increased income tax collections and stronger global commodity prices.

After holding mostly steady through the majority of 2025, yields on long-term Australian government bonds have lifted in recent months, with the 10-year yield rising from 4.72% in December 2025 to an average of 4.93% by March 2026. This was the highest average yield in a calendar month since July 2011 and reflects updated market expectations about monetary policy.

Meanwhile, short-term yields have also climbed, with the 3-year yield averaging 4.54% in March, compared to 4.09% in December. This has left the yield curve flatter, with the spread between 10-year and 3-year yields tightening further to 37bps in March, compared to the 90bps generally seen through the middle part of 2025.

The financial account recorded its eighth consecutive quarterly surplus. This was due to net inflows of debt, partially offset by net outflows of equity. Overseas investors continued to generate strong demand for Australian debt, acquiring \$45.6 billion of Australian issued debt securities.



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

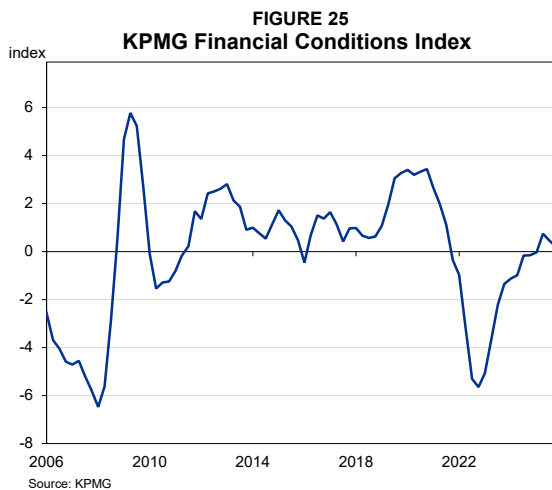


Source: ABS, RBA, S&P, KPMG

Australia's financial conditions are broadly neutral

The *KPMG Financial Conditions Index* (FCI) weakened through the end of 2025. The FCI fell to 0.21 in the December quarter, down from 0.46 in the September quarter. Nevertheless, conditions are still significantly stronger than the subdued levels recorded in late 2024.

This moderation was driven by a reversal in business financial conditions, which have softened as borrowing costs increased and risk sentiment weakened. In contrast, household financial conditions have remained firmly expansionary, helping to offset some of the deterioration in the business side.



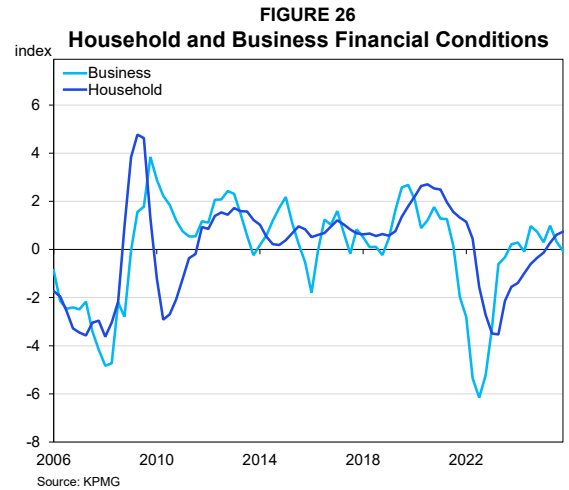
Household financial conditions remains expansionary but might not sustain given the economic outlook

Household financial conditions have continued to improve, remaining solidly in expansionary territory. The household FCI rose to 0.74 in the December quarter, up from 0.61 in September and well above the -0.13 recorded a year earlier.

This improvement reflects several factors including the impact of the 2025 rate cuts, which eased debt-servicing pressures and supported household cash flow.

At the same time, housing credit growth has picked up and is now close to its historical average. Stronger property market activity also played a role, with higher turnover and increased participation from first home buyers following the introduction of the new deposit scheme in October for first home buyers. Lenders have reported a noticeable rise in enquiries and approvals from first home buyers, lifting their share of new housing finance.

While these developments in 2025 have supported household balance sheets, the current expansionary conditions are unlikely to be sustained. The recent rate hike, combined with a weaker economic outlook for 2026 will place renewed pressure on households. A likely turning point in the labour market would further moderate household financial conditions in the year ahead.



Business financial conditions have continued to soften

The index slipped further from expansionary territory back into mildly negative territory, although the index remains very close to zero.

This pullback reflects a combination of rising borrowing costs and weaker risk sentiment, with the recent pick-up in market yields placing renewed pressure on firms' financing conditions.

Despite robust lease-finance commitments and steady business credit growth, the broader financial environment has become less supportive. Although firms continue to have access to funding, higher interest costs and elevated yields have contributed to the deterioration in business financial conditions.

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%	3.4%	2.7%	3.0%	5.3%	5.1%	5.0%	5.1%	4.5%	3.4%	4.8%	3.6%
Euro Area	0.9%	1.5%	0.7%	1.3%	6.5%	6.3%	6.3%	6.2%	2.4%	2.1%	3.6%	2.3%
US	2.8%	2.2%	1.8%	1.3%	3.6%	4.0%	4.3%	4.6%	3.0%	2.7%	4.7%	2.6%
China	5.0%	5.0%	4.8%	4.7%	5.1%	5.1%	5.2%	5.2%	0.2%	0.0%	0.8%	1.8%
Japan	-0.2%	1.1%	0.2%	0.3%	2.6%	2.6%	2.5%	2.5%	2.7%	3.2%	3.7%	2.3%
Indonesia	5.0%	5.1%	5.0%	4.6%	5.3%	4.9%	4.9%	4.9%	2.3%	1.9%	3.6%	3.0%
Malaysia	5.1%	5.2%	4.4%	3.9%	3.4%	3.2%	3.0%	2.9%	1.8%	1.4%	3.0%	1.9%
N. Zealand	-0.3%	0.7%	1.7%	2.7%	3.8%	4.8%	5.3%	5.1%	2.9%	2.8%	4.4%	1.8%
Philippines	5.7%	4.4%	4.7%	6.0%	4.4%	3.8%	4.2%	4.2%	3.2%	1.7%	4.0%	3.0%
Singapore	5.3%	5.0%	4.1%	1.2%	1.9%	2.0%	2.0%	2.1%	2.4%	0.9%	2.9%	2.4%
S. Korea	2.0%	1.0%	1.5%	1.5%	2.7%	2.8%	2.8%	3.3%	2.3%	2.1%	3.2%	1.5%
Taiwan	5.3%	8.7%	6.2%	3.1%	3.5%	3.4%	3.3%	3.4%	2.2%	1.7%	2.6%	2.0%
Thailand	2.9%	2.4%	0.9%	1.9%	1.0%	1.0%	0.8%	1.2%	0.4%	-0.1%	1.6%	1.5%
Vietnam	7.0%	8.0%	6.9%	6.2%	1.7%	1.6%	1.6%	1.6%	3.6%	3.3%	4.7%	3.8%

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		
	Q4-25 (a)	Q1-26 (f)	Q2-26 (f)	2025 (a)	2026 (f)	2027 (f)
GDP and Components						
Consumption	0.3%	0.3%	0.2%	2.4%	0.7%	2.5%
Business investment	0.2%	0.5%	0.2%	3.9%	1.0%	1.4%
Housing investment	1.5%	0.5%	0.1%	7.0%	0.9%	2.2%
Government	0.9%	0.6%	0.5%	2.4%	2.9%	2.4%
Exports	1.4%	0.6%	0.5%	5.2%	1.7%	1.3%
Imports	1.8%	0.6%	0.3%	6.7%	1.5%	2.7%
GDP	0.8%	0.4%	0.3%	2.6%	1.4%	2.0%
Inflation and Rates						
Headline CPI*	3.7%	4.4%	5.1%	3.7%	4.7%	2.6%
RBA cash rate*	3.60%	4.10%	4.35%	3.60%	4.60%	4.35%
10-year government bond*	4.5%	4.8%	4.8%	4.5%	4.8%	4.8%
AUD/USD*	0.66	0.70	0.70	0.66	0.71	0.71
Labour Market						
Employment	0.3%	0.2%	0.1%	1.2%	0.5%	0.9%
Unemployment rate*	4.2%	4.3%	4.3%	4.2%	4.5%	4.5%
WPI	0.8%	0.9%	0.8%	3.4%	3.5%	3.4%

*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.

Since publication of the previous Quarterly Economic Outlook published in early this year the ABS has revised down GVA for the Agriculture, forestry & fishing industry in FY2025. We offset this downgrade by revising our forecast for FY2026 by a comparable amount. The Agriculture, forestry & fishing industry will be pressured by the impacts of the Iran war, particularly if the conflict continues for an extended period and diesel and fertilizer costs remain higher for longer. The forecast for the Mining industry has been revised up in FY2026 and FY2027, this reflects strength in the last quarter of 2025 and the impact of the Iran war that, on balance, will benefit the industry.

INDUSTRY GVA	FY2024 (a)	FY2025 (a)	FY2026 (f)	FY2027 (f)
Agriculture, forestry & fishing	-4.0%	7.7%	4.1%	2.7%
Mining	0.3%	-1.0%	2.9%	4.1%
Manufacturing	-0.2%	-2.3%	-0.1%	-1.0%
Electricity, gas, water & waste services	2.0%	3.9%	2.4%	1.5%
Construction	1.2%	0.2%	2.0%	1.9%
Wholesale trade	0.2%	-0.1%	2.5%	1.5%
Retail trade	-0.7%	0.7%	2.5%	1.6%
Accommodation & food services	-3.1%	-0.5%	1.9%	0.1%
Transport, postal & warehousing	3.8%	2.9%	3.5%	1.7%
Information media & telecommunications	6.3%	3.1%	3.9%	1.8%
Financial & insurance services	2.0%	3.4%	3.8%	2.0%
Rental, hiring & real estate services	2.9%	1.7%	2.4%	1.3%
Ownership of dwellings	1.6%	1.5%	1.9%	1.4%
Professional, scientific & technical services	3.7%	-0.9%	0.1%	-0.3%
Administrative & support services	-0.4%	1.4%	2.4%	1.2%
Public administration & safety	4.8%	3.4%	3.7%	2.8%
Education & training	1.2%	0.8%	1.7%	0.4%
Health care & social assistance	4.1%	3.2%	2.9%	2.1%
Arts & recreation services	0.7%	3.6%	2.5%	1.3%
Other services	2.2%	-0.8%	2.2%	1.3%

*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*.

In contrast, conditions for the Manufacturing industry remain difficult. Higher input costs, elevated energy prices and a relatively strong Australian dollar environment continue to weigh on competitiveness. As a trade-exposed sector, manufacturing remains particularly vulnerable to global cost pressures and shifts in relative prices. Reflecting these challenges, we continue to project that manufacturing GVA will contract over the next two years and under-perform growth in the broader economy.

We continue to expect that industries exposed to government spending, including Public administration & safety and Health care & social assistance will record faster GVA growth than the economy as a whole. GVA growth in the Education & training industry is expected to recover modestly in FY2026 but to under-perform the economy as a whole over the forecast horizon.

GVA growth in the Retail trade industry has been very weak over the past two years. KPMG's forecast has GVA for the Retail trade industry recovering in line with the recovery in household consumption. GVA growth in the Accommodation & food services industry is also expected to rebound in FY2026 but, in contrast to the Retail trade industry, in FY2027 GVA growth is expected to be sluggish, reflecting its susceptibility to cost pressures that stifle discretionary consumption spending and hold back growth in tourism expenditures.



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