



# Australia Economic Outlook Q4 2025

January 2026

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KPMG Australia



# Executive summary

The global economy demonstrated resilience throughout 2025 in the face of higher uncertainty brought about by changes to US trade policy, supported by front-loaded trade flows, strong AI-related investment, and accommodative fiscal and monetary settings. Global growth is expected to gradually recover in 2026 as the impact of tariff and trade policy uncertainty fades, and financial conditions remain favourable.

Domestically, Australia's economy has shifted into a higher gear, albeit continuing to operate below historical growth trends. Economic activity increased 0.4% q/q in the September quarter. Over the year, economic activity lifted by 2.1%.

The private sector remains the main driver of growth. Household spending remains strong, rising 0.5% in the September quarter following a 0.9% increase in the June quarter. Most of the increase was driven by essential spending, while households pulled back from discretionary spending following the strong take up of end of financial year sales in the previous quarter. Nevertheless, timelier indicators, such as consumer sentiment and credit card transactions are currently pointing to continued growth over the coming quarters.

Private investment grew 2.9% over the quarter, marking the highest rate of quarterly growth seen since March quarter 2021. As a result, it contributed 0.5ppt to GDP growth. This was driven by machinery and equipment investment to meet the expansions of data centres as well as investment in air transport. Unfortunately, much of this contribution via private investment has been offset through deductions in imports.

While the private sector is now the main driver of activity, the economy continues to rely heavily on government spending for support. Government spending pulled back in the first half of 2025 but has picked up again in the new financial year. Both government consumption and investment grew faster than real GDP over the September quarter, rising by 0.8% and 3.0%, respectively. Consequently, government consumption expenditure added 0.2ppt to GDP growth this quarter, with public investment also adding a further 0.2ppt. Public spending as a share of GDP rebounded to 28.5%, returning to levels similar to the record highs of 28.7% achieved in second half of 2024.

The federal government's Mid-Year Economic and Fiscal Outlook (MYEFO) revised the deficit forecast for 2025-26 down to \$37 billion, an improvement from the \$42 billion projected in the March 2025 budget. Much of this improvement reflects stronger tax receipts, driven by higher income tax collections and elevated global commodity prices.

Inflation has recorded a big jump in recent months; and is significantly above the RBA's target range. With a resilient labour market, the RBA would normally raise interest rates to cool price pressures. However, price pressures appear to be a combination of statistical gyrations associated with the wind-down of the electricity rebates offered by the Commonwealth and some state governments, and other supply-driven factors, meaning interest rate would have limited impact on these transitory cost spikes. KPMG believes the RBA should adopt a sit-and-wait approach to monetary policy, at least until these temporary factors unwind. In addition, government spending should indirectly ease pressure on monetary policy.

The labour market continues to display resilience, with unemployment holding steady in the low-4% range and real wages recording their eighth consecutive quarter of positive annual growth. While this supports household consumption, tight labour conditions are also pushing labour costs higher than productivity gains, as reflected in unit labour costs. Annual growth in non-farm nominal unit labour costs accelerated to 5.4% in the September quarter, its fastest pace since mid-2024; by contrast, labour productivity per hour worked rose by only 0.4% over the year, well below the long-run average.

Current lacklustre productivity performance places a "speed limit" on growth as RBA deputy governor Andrew Hauser recently noted that the economy risks becoming "boxed in by its own capacity constraints." Improving productivity growth is therefore critical to alleviating capacity constraints and sustaining economic expansion. Although there were no new policies in MYEFO to directly address the current productivity performance, it is hoped that reforms expected to follow the recent Economic Reform Roundtable and the Productivity Commission's five-pillar inquiry reports will help create the right environment for investment to lift productivity and maintain Australia's global competitiveness.

KEY FORECASTS	2024 (a)	2025 (f)	2026 (f)	2027 (f)
<b>Real GDP</b>				
Average annual growth	1.0%	1.9%	2.1%	2.0%
Year ended growth	1.3%	2.0%	2.0%	2.0%
<b>Unemployment rate</b>	4.0%	4.4%	4.4%	4.4%
<b>Inflation</b>				
Headline CPI	2.4%	3.3%	3.0%	2.6%
Core CPI	3.3%	3.2%	2.8%	2.6%
<b>RBA cash rate</b>	4.35%	3.60%	3.60%	3.60%
<b>AUD/USD</b>	0.65	0.67	0.66	0.66

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**01**

**Global  
landscape**



# Global conditions

The global economy showed resilience throughout 2025, though challenges remain as we move into 2026. Global growth is expected to weaken initially, with a gradual recovery later in 2026 and into 2027, supported by the fading impact of higher tariff rates and favourable financial conditions.

## Global growth has been surprisingly resilient.

The global economy has been more robust than expected in 2025. Activity has held up despite initial concerns about a sharper slowdown following higher trade barriers and elevated policy uncertainty. Front-loading of production and trade, strong AI-related investment, and supportive fiscal and monetary settings have helped sustain growth.

Front-loading had a transitory positive impact on outward trade flows to the United States and on production, which was scaled up to meet a temporary lift in demand for specific goods. While data from the World Trade Monitor show global trade volumes rose 2.1% over the September quarter and 5.3% over the year, the full impacts of higher tariffs have yet to be felt because of lags between announcements and implementation, inventory accumulation and margin compression.

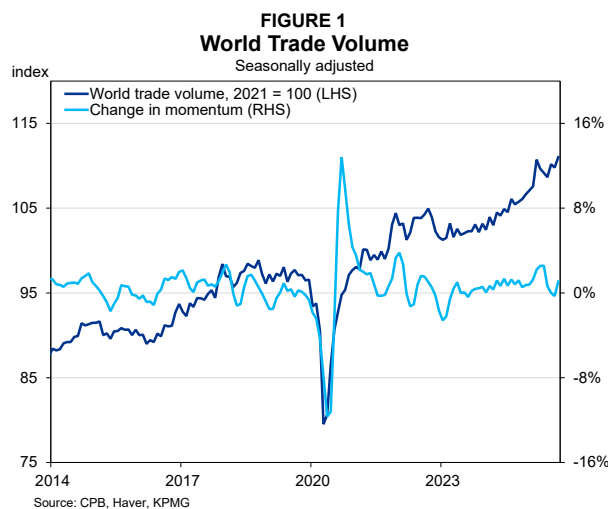
Moreover, economies with value chains linked to the United States remain particularly exposed. US tariffs have weakened cross-border production networks, increasing the likelihood of disruptions that will weigh on economic activity.

Strong growth in the tech sector has also supported global trade. Goods classified by the World Trade Organisation as 'AI-enabling' accounted for more than half of the growth in trade for selected G20 and Asian economies in the second quarter of 2025. Rising private investment in ICT equipment has coincided with strong tech-related industrial production in several countries.

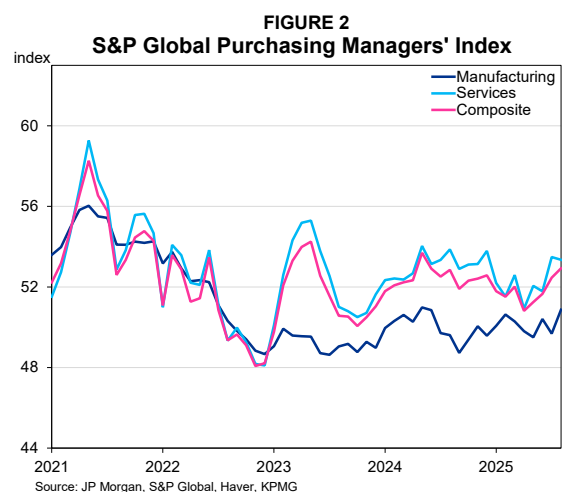
## Recent activity indicators are mixed.

Heightened volatility is still constraining growth as this uncertainty is delaying investment and hiring decisions as companies reassess supply chain configurations. As front-loaded spending unwinds, industrial production growth has moderated in major economies such as Germany and Japan. The slowdown has not been uniform, with activity in China and the United States continuing to expand, albeit at a moderating pace. Despite elevated uncertainty, textual analysis of earnings call transcripts from the top 50 listed US companies in October and November shows no clear sign of weaker investment intentions.

The global composite PMI eased to 52.7 in November from 53.0 in October, indicating continued but slightly slower growth. Both services and manufacturing PMIs remain stronger than six months ago, though momentum has moderated. The slowdown also occurred in both developed and emerging markets PMI, led by softer gains in the United States and India, although developed economies continue to outperform emerging markets.



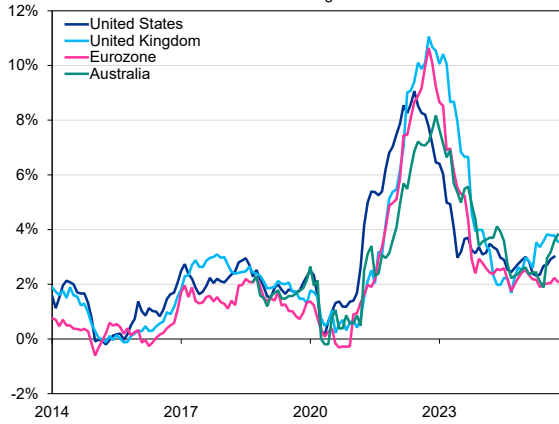
Meanwhile, changes in US tariff rates between those proposed in mid-May compared to those in place in mid-November due to the implementation of successful bilateral trade agreements have lowered the ex-ante effective tariff rate on US merchandise imports to an estimated 14.0%. Nevertheless, the overall impact of tariffs is expected to vary widely by country, reflecting goods that are exempt from tariffs, products subject to higher-than-average rates, and special categories of goods facing unique treatment.



**Inflation developments have recently diverged.**

Although patterns vary widely between countries, goods inflation has picked up after a period of moderation, while services inflation remains sticky in many markets.

**FIGURE 3**  
Inflation in Selected Advanced Economies  
Year-ended growth

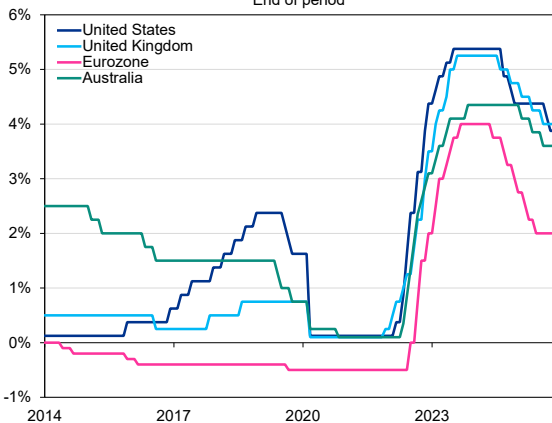


Source: BLS, ONS, Eurostat, ABS, Haver, KPMG \*Aust. prior to Apr 2025 is Monthly CPI Indicator

Major central banks are expected to take divergent policy paths as varying inflation dynamics shape their rate decisions. For instance, Japan is projected to continue tightening while the US Fed moves toward easing, and the ECB has done adjusting monetary policy.

Labour demand is showing early signs of weakening across major OECD economies, with job openings per unemployed worker falling below 2019 levels. Unemployment has edged up from 5.2% in early 2024 to 5.5% in late 2025, though this partly reflects rising labour participation rates across most age groups. Nominal wage growth in most OECD economies has continued to slow but remains high relative to its long-term average.

**FIGURE 4**  
Policy Rates in Selected Advanced Economies  
End of period



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

**Financial market condition have eased.**

Financial conditions have improved since April across advanced and emerging markets. Volatility and stress indicators remain low, equity returns have been strong and credit spreads compressed. Nevertheless, a shift in optimal allocations from USD assets has resulted in a weaker USD and strong inflows into gold reflecting increased uncertainty about US administration’s policies.

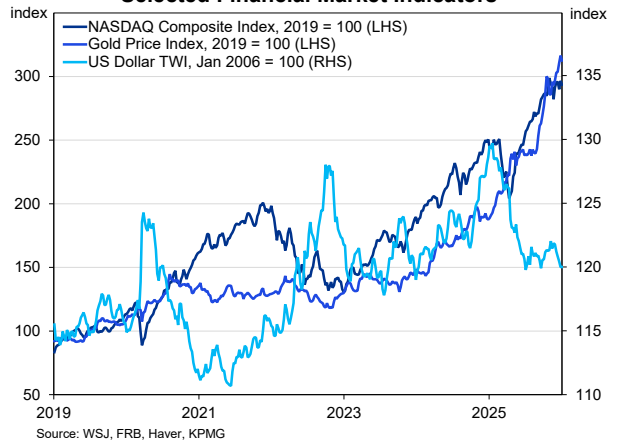
Despite policy uncertainty, equity markets have risen strongly, especially in the United States, where price-earnings ratios are nearing levels last seen at the peak of the dotcom bubble. Equity risk premia have fallen to levels last observed in 2005–06 before the global financial crisis.

Market optimism around AI has been the primary driver of gains as investors anticipate productivity benefits from AI and stronger future earnings. Domestically focused US companies reliant on imported inputs face higher costs and have posted more modest gains. Japanese equities have also performed strongly on solid earnings prospects, while gains in Europe have been slower due to softer expected earnings. Equity performance remains weaker for companies with significant exposure to US tariffs.

Spreads on high-yield corporate bonds remain near historical lows despite a recent uptick, while investment-grade yields have declined. Low credit risk premia and robust portfolio inflows into the United States, despite uncertainty surrounding trade policy and political risks, alongside steady inflows into the Euro area have supported strong corporate bond and leveraged loan issuance through the first three quarters of 2025.

Gold prices in 2025 have increased by over 70%, marking the strongest performance since 1979. This performance appears to reflect geopolitical tensions and threat of sanctions, driven by increased central banks’ activities in emerging markets. Furthermore, heightened macro-economic uncertainty has increased investor demand for gold as a hedge, alongside speculative demand that amplified the rally.

**FIGURE 5**  
Selected Financial Market Indicators



Source: WSJ, FRB, Haver, KPMG

## Box A: Geopolitical development and outlook

Contributed by Jon Berry, Geopolitics Lead, KPMG South ASPAC

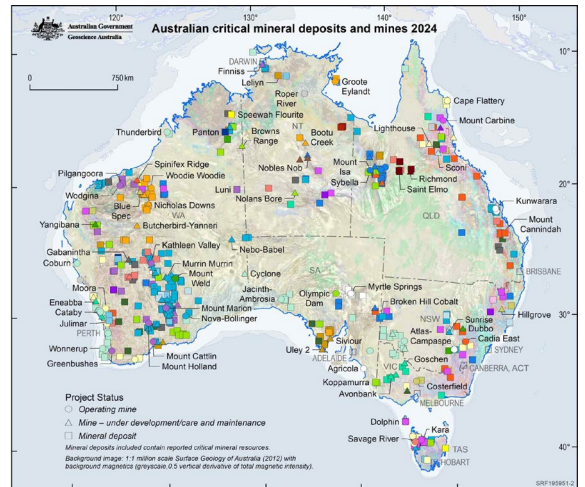
### Critical minerals: global efforts to diversify supply put Australia in the spotlight

Critical minerals are essential inputs to [renewable energy](#), [defence](#) and [advanced tech industries](#). Because of the importance of these three sectors to overall national security, access to critical minerals is not just an economic issue, it is an existential one for governments.

### Almost all critical minerals are processed in China

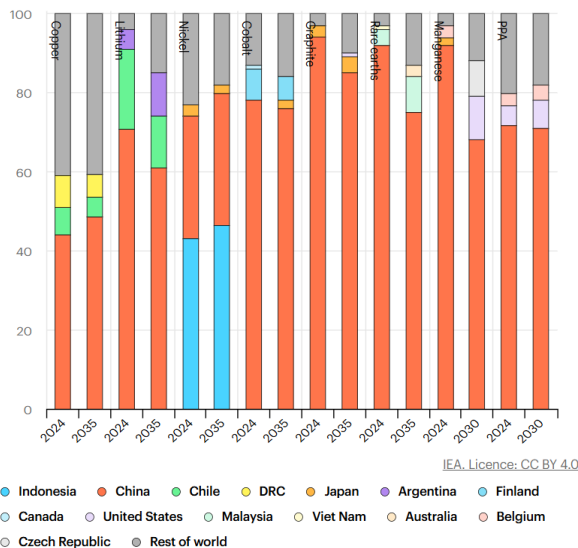
Deng Xiaoping [stated](#) in 1992 that ‘The Middle East has oil; China has rare earths.’ After [decades of strategic policy](#), China has become the indispensable player in value chains for just about all critical minerals. Even critical minerals that are largely extracted in raw form elsewhere in the world – such as lithium and cobalt – are [largely processed in China](#).

FIGURE A2  
Australian Critical Mineral Deposits and Mines, 2024



Source: Commonwealth of Australia – Geosciences Australia

FIGURE A1  
Geographical Distribution of Refined Material Production for Key Minerals



Source: International Energy Agency, 2025

Figure A1 above depicts which countries host processing capacity for a range of critical minerals, and how this distribution is forecast to change between 2024 and 2035. China is the leading processor of six of the eight commodities covered.

In recent years, some other governments have begun to view this concentration of processing capacity as a source of potential [vulnerability](#). There have been efforts to diversify supply sources, resulting in international agreements, including Australia’s [critical minerals partnerships](#) with Canada, the UK, South Korea, Japan, France and Germany.

The [most recent Australian agreement](#) was signed between Prime Minister Anthony Albanese and US President Donald Trump in October 2025. These accords aim to diversify the global supply of processed critical minerals, to reduce supply risks for the defence, technology and renewable energy ambitions of governments.

### Critical minerals represent both risks and opportunities for Australia

Until now, Australia’s critical minerals processing capacity has been limited. The international agreements referred to above demonstrate the appetite in partner countries for processing capabilities. This is an economic opportunity, and also a potential source of geopolitical influence. Processing critical minerals could make Australia more important to its international partners.

However, there are also risks. Despite growing global demand, prices for many critical minerals have been volatile, due to [changing supply dynamics](#). This has contributed to a tough business environment for operators. Another challenge is that it may be difficult to build up the technical capabilities to establish advanced processing capabilities, as the international movement of expertise is becoming [more restricted](#). Australia’s critical minerals strategy could help build alliances with some partners, while increasing tensions with others.

Australia’s critical minerals story is no longer just about what lies beneath the ground, it’s about what role the nation chooses to play. Australia could become a strategic hub or remain a supplier of raw materials. In a world where minerals underpin energy security, advanced technology, and defence capability, Australia’s next moves will shape not only its economic future, but also its geopolitical influence.

# ASPAC outlook

The Asia-Pacific region's economic outlook through the year has been much brighter than initially feared, supported by front-loading trade activities and an AI-related electronics boom. However, this boost will look to fade as trade patterns settle into a new post-tariff environment, adding to pressures from domestic challenges.

During the second half of 2025, corruption scandals in Indonesia, the Philippines, and Malaysia have shaken confidence. Severe tropical storms and monsoon rains have also caused devastation across the region, leaving hundreds dead, and displacing many more. These events will also disrupt domestic activity, which faces a mixed outlook across the region.

Consequently, despite the respectable performance of most Asia-Pacific economies over the first three quarters of the year, this resilience cannot be taken for granted.

- China:** During the September quarter, annual growth slowed to 4.8%, though it still exceeded market expectations. External demand continued to hold up, with export growth rebounding to 8.3%, and industrial production growth also lifting to 6.5%. However, domestic conditions remain more challenging, with continued weakness in consumption and fixed asset investment growth. By September, new home prices were down 11.4% from their peak, while used home prices were 19.8% lower than their peak. Despite this fading momentum, the 'around 5%' growth target for 2025 remains within reach.
- Japan:** The Japanese economy contracted by an annualised 2.3% in the September quarter, faster than the initial estimate of a 1.8% decline. Both domestic and external demand detracted from growth in the quarter, though the economy is expected to return to growth by the following period. Nonetheless, the normalisation of monetary policy is expected to continue, with the Bank of Japan remaining on its gradual tightening path.
- South Korea:** Strength in exports, alongside improved private consumption, saw annual growth accelerate to 1.8% in the September quarter. This was the fastest pace of expansion since the December quarter 2021. This latest result marks a sharp rebound from the economic contraction earlier this year, following former President Yoon Suk Yeol's martial law declaration and US tariff announcements.
- Singapore:** Annual growth in the September quarter was revised up by more than expected, to 4.2%. This compares to the advance estimate initially released of 2.9%. There were upgrades to all sectors, with annual growth of 5.0% for manufacturing, 3.6% for construction, and 3.9% for services. Consequently, the Ministry of Trade and Industry has increased their full year growth forecast for 2025, from 1.5%–2.5% to 'around 4%'.
- Taiwan:** Ongoing AI-related demand continues to boost the Taiwanese economy, which grew 8.2% over the year to the September quarter. Exports were up 32.0%, supported by semiconductors and other electronics, while imports rose 26.1%. This result saw official forecasts for GDP growth in 2025 revised upwards to 7.4%.
- New Zealand:** The New Zealand economy returned to growth in the September quarter, with GDP rising 1.3% over the year to September. This compares to an annual contraction of 1.1% for the June quarter. Meanwhile the unemployment rate climbed to 5.3% in the September quarter, its highest level since late 2016. Inflation has also rebounded to 3.0% y/y. Consequently, the Reserve Bank of New Zealand has cut rates by 300bps from their peak but has more recently indicated that further cuts are unlikely.
- Indonesia:** The Indonesian economy grew by 5.0% in the year to the September quarter, just shy of the 5.1% seen in June. This is despite significant civil unrest protesting allowances for lawmakers, alongside general economic frustrations. These events also saw the installation of a new finance minister and ongoing concerns about fiscal sustainability.
- Vietnam:** Annual growth accelerated to 8.2% in the September quarter, its fastest pace in three years. Despite US tariffs, trade was resilient, with exports increasing 18.4% and imports rising by 20.2%. The Vietnamese Government is targeting growth of 8.3%–8.5% for 2025.
- Philippines:** Confidence in the Philippines has been shaken by a corruption scandal involving government infrastructure projects. This contributed to GDP growth falling short of expectations in the September quarter, at only 4.0% compared to 5.2% in the June quarter. Notably, public spending increased by 5.8%, its slowest pace in a year. Government spending on infrastructure fell 26.2%, as stricter measures have been implemented in response to the alleged misuse of previous funds.
- Malaysia:** GDP growth accelerated to 5.2% in the September quarter. Domestic demand was resilient, rising by 5.8%, while net exports rebounded to be up 17.7%. This places the economy on track to reach the upper range of the central bank's growth forecasts for 2025, which stand at 4.0%–4.8%.
- Thailand:** Over the September quarter, annual growth recorded its slowest pace in four years, rising by just 1.2%. These figures saw the government reduce its 2025 growth forecast from 1.8%–2.3% to 2.0%. There has also been considerable volatility, with the nation seeing its third prime minister since August 2023, and a severe border dispute with Cambodia.

**02**

**Australia  
overview**



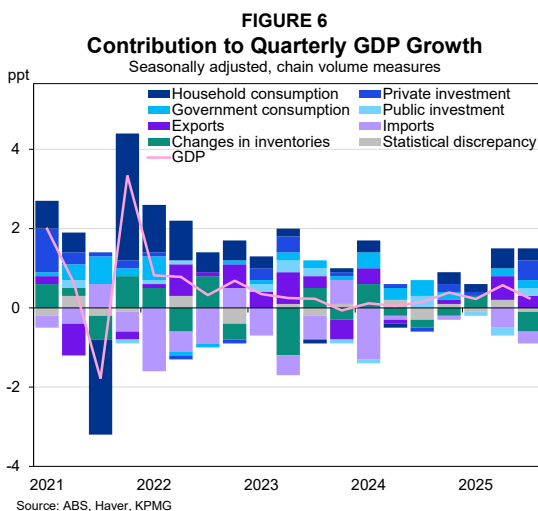
# Economic activity

The domestic economy has shifted from second to third gear but is still well off the pace of historical growth patterns. While the private sector is now the main driver of activity, the economy continues to rely heavily on government spending for support.

Economic growth fell short of expectations during the September quarter 2025, with real GDP rising by 0.4%, compared to the consensus expectation of 0.7%. This follows a 0.7% rise in the June quarter (revised up from 0.6%).

On an annual basis, seasonally adjusted real GDP lifted by 2.1%, which was slightly below the consensus forecast of 2.2%. This compares with the 2.0% annual rate recorded in the June quarter, revised up from 1.8%, and marks the fourth consecutive quarter of accelerating annual growth.

GDP per capita was flat over the quarter after a 0.3% rise in the June quarter. Through the year, GDP per capita is up 0.4%. GDP per capita, a measure of living standards, appears to have stopped falling, not because the economy is accelerating, but because population growth has slowed compared with the 2022–2024 period.



Signs of an expanding private sector are emerging with growth in private business investment and household consumption increasing well above overall GDP growth rates. While investment spending, especially on machinery and equipment has rebounded strongly in the quarterly, unfortunately much of this benefit has been offset through deductions in imports given Australia doesn't make high-tech equipment driving much of the spend, including data centre IT and Regular Public Transport (RPT) airplanes.

While household consumption as a proportion of GDP has stabilised near pre-Covid levels of economic contribution, government consumption continues to rise. The September quarter data represent the highest recurrent spending level since September 1959, the beginning of the ABS national accounts dataset.

Looking at contributors to quarterly GDP growth:

- Private demand led the contributions to growth through private investment (+0.5ppt) and household consumption (+0.3ppt).
- Public demand added support through government spending and investment (each +0.2ppt).
- Net trade took away 0.1ppt from GDP growth, as the rise in imports of goods and services (+1.5%) outpaced exports (+1.0%).
- Changes in inventories took away 0.5ppt from GDP growth. Mining inventories were drawn down to meet stronger coal export demand, while production eased following earlier strength. Retailers reduced stock as discounting extended into the September quarter. Public authorities also ran down inventories following June build-ups, reflecting ongoing demand for non-monetary gold.

The shift towards more consistent spending growth has been driven by improvements in income and wealth as was highlighted in September National Accounts data. Real household disposable income growth has recovered its falls from 2022–2023 and is now back up to its previous trend, allowing households to both spend and save throughout this calendar year.

- Household spending lifted by 0.5% in the September quarter, following a 0.9% rise in the June quarter. Overall, household consumption contributed 0.3ppt to GDP growth.
- The rise in essential spending (+1.0%) was associated with payments for banking and superannuation services, electricity and health. Discretionary spending was slightly weaker this quarter (-0.2%), although this follows a boost in the June quarter associated with an extended Easter break and end of financial year (EOFY) sales, and it remains strong on an annual basis (+2.3%).
- The saving ratio is now fluctuating around its long-term average, suggesting households have largely normalised their saving behaviour following the pandemic. Australia's household saving ratio increased slightly from 6.2% in the June quarter to 6.4% in the September quarter. This was driven by a 1.7% increase in gross disposable income, which more than offset the 1.4% increase in nominal household spending.
- Meanwhile, interest paid on dwellings fell for a third consecutive quarter, in line with further lowering of interest rates.

Despite the handover from the public sector to the private sector as the driver of growth, the public sector remains critical in providing funding to deliver essential non-market services across healthcare and social assistance, education and police employees.

Non-market sector filled jobs grew by 1.6% in the year to the September quarter. While this represents a significant slowdown compared to the 6.8% a year ago, it nonetheless outpaced the market sector for the twelfth consecutive quarter. Market sector filled jobs lifted by 1.0% through the year, having picked up pace from the 0.6% annual growth seen a year ago.

Within the quarter, *Health care and social assistance* accounted for 46% of the increase in non-market sector jobs, as demand for healthcare increased. A prolonged flu season saw expenditure on *Health* rise 1.0%.

Compensation of Employees (COE) rose by 1.7% in the September quarter, driven by:

- Private sector COE lifted by 1.6%. Growth in *Financial and insurance services* reflected redundancies, bonus payments, and higher activity among brokers and fund managers. *Construction* wages rose with increased project demand and skilled labour shortages, while *Administrative and support services* were boosted by minimum wage increase and strong demand for labour hire services.
- Public sector COE rose by 2.2% due to a rise in employee expenses by state and local governments. The increase in employee expenses was primarily driven by enterprise agreements implemented across New South Wales, Victoria, and Western Australia, with wage rises concentrated in health care, social assistance, education, and police employees.
- All states and territories saw a rise in COE. The largest rises were seen in Tasmania (+3.5%), South Australia (2.4%) and Victoria (+2.3%).

Business profitability, as measured by Gross Operating Surplus (GOS), lifted by 1.4%:

- Private non-financial corporations GOS rose 1.0%, led by *Mining* due to increased prices and higher exports of iron ore and thermal coal. This was partly offset by a fall in LNG profits due to weaker prices from global oversupply and soft demand, partly offsetting the rise. Non-mining industries including *Professional, scientific and technical services*, *Manufacturing* and *Retail trade* partly offset the rise, with higher operating expenses.
- Other sectors' GOS rose by 1.9%, driven by a 2.6% rise in financial corporations, a 1.2% rise in dwellings owned by persons, and a 6.1% rise in public non-financial corporations GOS.

Labour productivity improved this quarter, with GDP per hour worked rising by 0.2% over the quarter, following a 0.4% rise in the June quarter. This translates into a 0.8% rise through the year. Real unit labour costs also eased marginally, falling by 0.1% in the quarter, following a 0.9% increase in the June quarter; although, it is up 1.5% over the year.

# Production

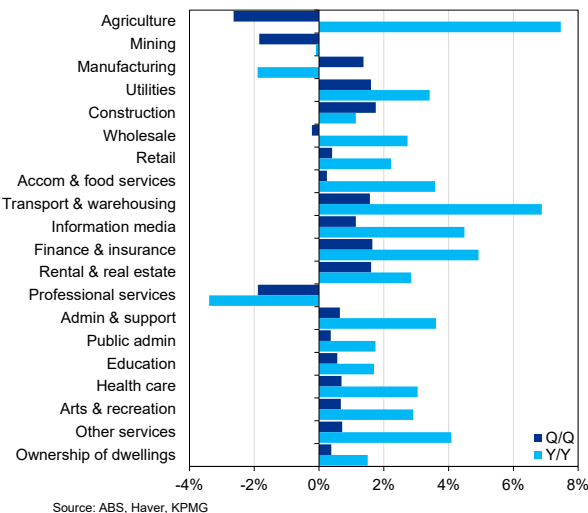
Industry growth remains mixed, with low (or negative) growth occurring within some of our most important industries. Gross Value Added (GVA) increased by 0.3% in the September quarter, with 15 out of the 19 industries seeing growth.

- Services industries including *Construction* and *Financial and insurance services* industries led the rise. *Construction* growth (+1.8%) was driven by residential building activity, with more work completed on new and used homes and increased commencements in apartment projects. *Financial and insurance services* (1.6%) saw strong demand for mortgage brokering and fund management in line with heightened activity in the property and share markets.
- All non-market industries contributed to GDP growth this quarter. The heightened demand for medical services from the severe flu season drove up gross value added by the *Health Care and Social Assistance* industry by 0.7%. Meanwhile, large-scale defence exercises carried out during the quarter drove gross value added by *Public Administration and Safety* up by 0.4%

These gains were partially offset by:

- *Mining* production (-1.8%) following the rebound in the June quarter. Falls were recorded in iron ore and oil and gas extraction due to planned maintenance and the continued recovery from earlier flooding.
- *Agriculture, forestry and fishing* (-2.6%) and *Professional, scientific and technical services* (-1.9%) also recorded a fall this quarter.

**FIGURE 7**  
Industry Gross Value Added, Sep 2025



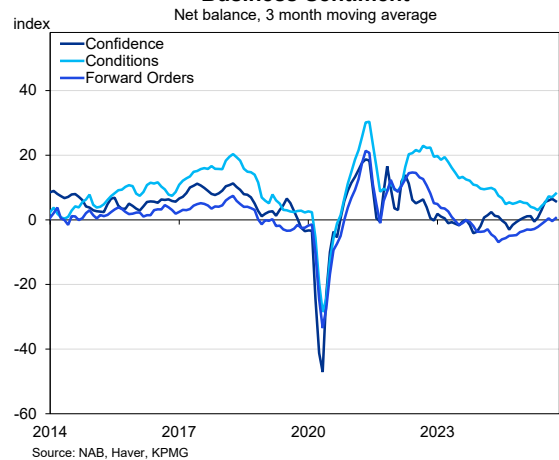
Meanwhile, during the September quarter, producer prices (as measured by final demand) increased 1.0%, up from 0.7% in the prior quarter.

Quarterly price gains were broad based, with no significant declines offsetting the increases. The main contributors to the quarterly growth in Final demand were:

- *Property operators* (+1.0%), due to high demand and rising rents for residential properties.
- *Residential building construction* (+1.2%), due to a slight uptick in demand and increased labour costs.

Over the year, Australia’s final demand PPI rose 3.5%, remaining broadly stable around the mid-3% range since the start of the year.

**FIGURE 8**  
Business Sentiment



Business confidence, as measured on a three-month moving average basis, retraced some of the gains made over the past six months according to data from the NAB Monthly Business Survey. This measure now sits at 5.0pts in November. Manufacturing was the only industry with business conditions in negative territory (in trend terms) while wholesale and mining were the only industries with negative confidence. Business conditions also fell slightly to a three-month average of 8.2pts, as falls in profitability and trading more than offset the minor gain in employment.

Moving forward, according to the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), Australia’s combined agriculture, fisheries and forestry production is on track to reach a record-breaking \$106.4 billion in 2025–26. These record production values are being driven by strong livestock markets and steady national crop value.

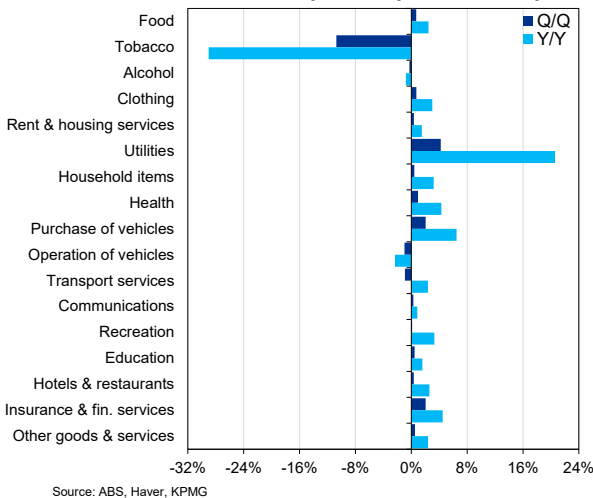
Looking at the resources sector, according to the Department of Industry, Science and Resources, from an estimated \$385 billion in 2024–25, resource and energy export earnings are now forecast to fall to \$369 billion in 2025–26, and to \$354 billion in 2026–27. Increases in gold export volumes and prices will only partly offset the drag from weaker than expected metallurgical coal and LNG exports in 2025–26 and 2026–27.

# Household consumption

Household consumption is stabilising near pre-Covid levels. During the September quarter, real Household Final Consumption Expenditure (HFCE) rose by 0.5%, following a 0.9% rise last quarter. Consumers are spending more on 'must-haves' and less on 'nice-to-haves' as energy costs return to their own budget. The overall rise in HFCE was driven by:

- A 1.0% rise in essential spending, as *Insurance and financial services* rose by 2.1%, driven by an increase in superannuation contributions with the rise in superannuation guarantee to 12%. *Electricity, gas and other fuel* grew 4.2%, reflecting reduced electricity rebates and stronger demand during an unusually cold winter. The prolonged and severe flu season further drove *Health* expenditure up by 1.0%.
- Discretionary spending (-0.2%) was slightly weaker this quarter, although this follows a boost in the June quarter associated with an extended Easter break and EOFY sales, and it remains strong on an annual basis (+2.3%).

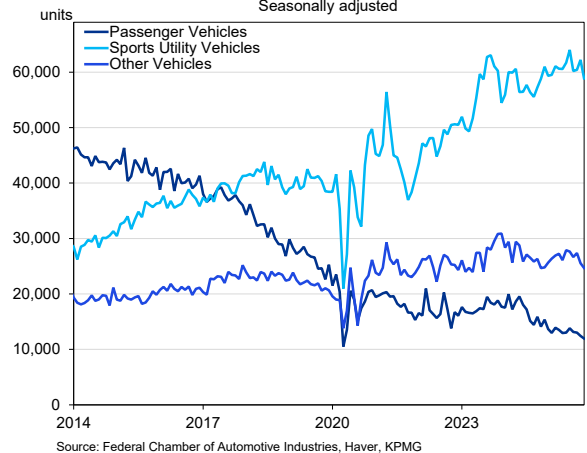
**FIGURE 9**  
Household Final Consumption Expenditure, Sep 2025



However, measurement of HFCE has also been complicated as the sales of illegal cigarettes have become so pronounced they are now distorting consumption statistics.

Consumption of *Cigarettes and tobacco* (-10.7%) continued to decline rapidly, however, this only reflects purchases from legal sources. The negative sales outcome for tobacco is primarily influenced by the growing dominance of illegal sales channels.

**FIGURE 10**  
Passenger Vehicles and SUV Sales  
Seasonally adjusted



With tobacco excise tripling over the past decade, many smokers have turned to illicit channels for cheaper alternatives, causing legal sales to collapse. In fact, the Australian Bureau of Statistics (ABS) recently acknowledged that official figures may underestimate actual consumption because they exclude illicit products such as unlicensed cigarettes and vapes. The ABS now plans to develop methods to capture this hidden trade, which is projected to account for 80% of the tobacco market next year.

By way of comparison, real HFCE rose by 0.5% over the September quarter. When excluding *Electricity, gas and other fuel* as well as *Cigarettes and tobacco*, real HFCE increased by 0.6% through the quarter. This compares to the quarterly rises of 0.9% and 1.0% respectively in the previous June quarter. Broadly, the shift towards illicit tobacco may have contributed to a small understatement to the true growth in household spending.

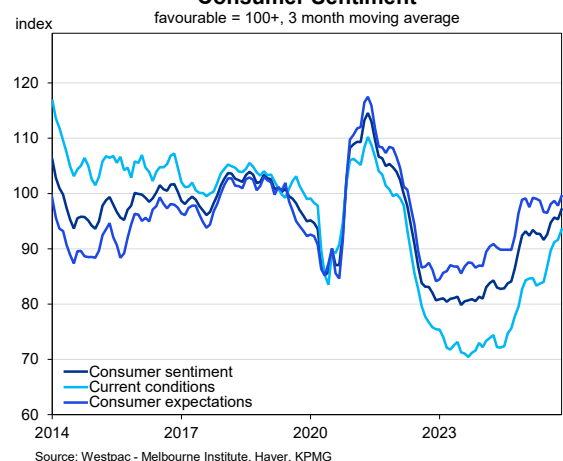
Looking at the Monthly Household Spending Indicator, in volume terms, household spending rose 0.2% for September quarter, marking the fifth consecutive quarter of growth but was significantly lower than the growth rate last quarter (0.9%). In annual terms, household spending volumes increased by 2.7%, the strongest annual growth since the March quarter 2024.

Six out of nine spending categories recorded quarterly growth in volumes, led by *Health* (+1.8%), *Miscellaneous goods and services* (+1.2%), and *Food* (+1.1%). Meanwhile, declines occurred in *Alcoholic beverages and tobacco* (-6.8%), *Recreation and culture* (-0.5%), and *Hotels, cafes, and restaurants* (0.3%).

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

- More timely data from the Monthly Household Spending Indicator showed that household spending rose by 1.3% in October, following a 0.3% rise in September (revised from 0.2%), marking the largest monthly increase since January 2024. Over the year, household spending has risen by 5.6%, reflecting the highest annual growth rate since October 2023, with services spending up 6.4% and goods spending up 4.9%. *Miscellaneous goods and services* (+9.4%) and *Health* (+7.5%) recorded the largest growth rates in the 12 months to October.
- Consumer confidence, as measured by the Westpac–Melbourne Institute, has entered the favourable zone for the first time in nearly four years. The latest November reading of the Westpac–Melbourne Institute Consumer Sentiment Index shows sentiment increasing to its first above-100 reading since early 2022, with a value above 100 indicating overall optimism. The index increased by 12.8% in November, climbing to 103.8 from 92.1 in October. It signifies a notable shift away from the extended period of consumer pessimism driven by the cost-of-living pressures and high interest rates.
- According to CommBank Household Spending Insights November 2025, the CommBank Household Spending Insights (HSI) index recorded another month of positive gains (+0.5%) in November, following a 0.6% lift in October, as consumers continue to record stronger spending in 2025 compared to previous years. A combination of sporting events, music concerts and Black Friday all added to growth in the month with spending on recreation leading the charge.
- Online sales remain robust, driven by value-conscious consumers, major promotions, and expanding product availability, supporting a broader structural shift in retail consumption. According to the Australia Post eCommerce September quarter 2025 report, online spending remains strong into the new financial year, driven by value-conscious shopping and major sales events. A record 8.1 million households shopped online during the quarter, marking an increase of 2.7% from the previous year.
- The CommBank iQ September 2025 report reveals that online spend in each month of the September quarter experienced solid year-on-year growth, with July showing the highest increase at 16%, largely supported by events like ‘Amazon Prime Day’. With average monthly online spending at \$6.9 billion, the total online spending for the quarter reached \$20.7 billion. This represents an increase of 6.2% from the previous quarter and 15% year-on-year. This growth was driven by higher purchase frequency, as average basket sizes remained consistent.

**FIGURE 11**  
**Consumer Sentiment**



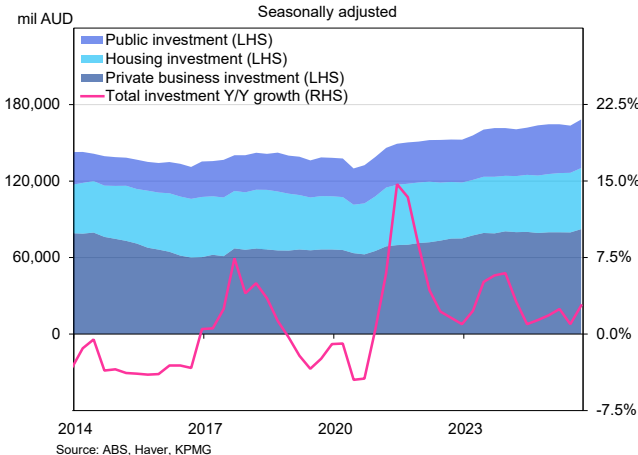
# Investment

Investment activity, as measured by Gross Fixed Capital Formation (GFCF), kicked up substantially, rising by 3.0% in the September quarter, following a 0.7% fall in the June quarter. Investment added 0.7 ppt to quarterly GDP growth, with private investment adding 0.5ppt and public investment contributing 0.2ppt. On an annual basis, total investment has grown by 2.8%.

Private investment grew 2.9%, contributing 0.5ppt to GDP growth, to be up 3.7% through the year. This is the highest rate of quarterly growth seen since the March quarter 2021.

- Business investment in *Machinery and equipment* (+7.6%) led the rise, with strength attributed to major data centre investment across New South Wales and Victoria.
- Investment in *Dwellings* grew 1.8%, with strength from new and used dwellings (+2.6%), reflecting the rise in private house construction in the eastern states.
- *Ownership transfer costs* recorded strong growth (+5.0%), reflecting increased activity in the property market. There was a significant increase in buyers looking for investment properties. Lending indicators showed both the number and the value of new investment loans reached record highs in September 2025.

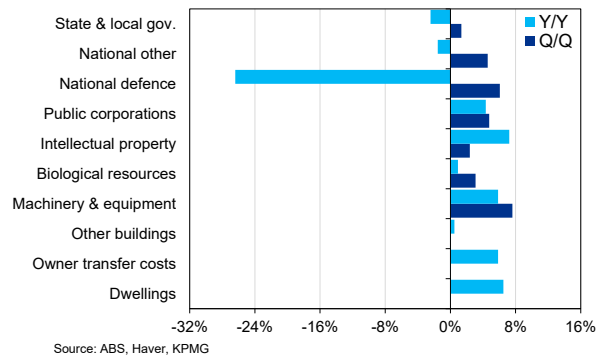
**FIGURE 12**  
Real Public and Private Investment  
Seasonally adjusted



Meanwhile, public investment grew 3.0%, contributing 0.2ppt to GDP growth, following three consecutive falls. In annual terms, public investment fell by 3.1% over the year to the September quarter but remains elevated as a share of nominal GDP compared to the pre-pandemic 10-year average.

- *State and local public non-financial corporations* (+5.1%) drove the rise with increased investment in various renewable energy and water infrastructure projects.
- *State and local government* (+1.4%) also contributed to the rise with continued work on road and rail projects.
- *Defence* investment (+6.1%) rebounded from a fall in the June quarter with increased investment in domestically produced defence weapon platforms.

**FIGURE 13**  
Investment Growth, Sep 2025



Looking more closely at the private sector, investment by businesses, as measured by real private new capital expenditure (capex), rose by 6.4% in the September quarter to be up 6.9% higher through the year. The result this quarter was driven by a large rise in spending on data centres, and investment in air transport. The rise is the largest increase since the March quarter 2021.

Business investment rose 8.6% in the non-mining industries, while the mining industry rose 0.9%.

Capex on new equipment and machinery increased by 11.5%, with a 13.0% rise in non-mining equipment and a 4.5% rise in mining equipment.

- Investment in data centres reached new highs, driving the strong rise in equipment and machinery capex for the information media and telecommunications industry, which went up 91.5%.
- *Transport, postal and warehousing* also contributed strongly to the rise in equipment and machinery, up 40.7%, with more investment in air transport.

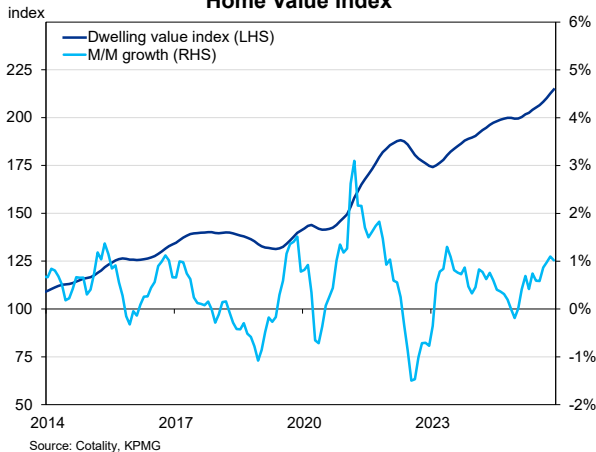
Meanwhile, capex was up 2.1% for buildings and structures, with non-mining industries up 3.6%.

Moving forward, these September quarter figures also show that businesses have revised up their expected nominal capex spend for FY25–26 to \$191.3 billion. Compared to the previous release, this represents a 9.4% increase, driven by a 4.4% uplift in anticipated investment for buildings and structures, alongside a 16.7% 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 December 2025, the Cotality (formerly CoreLogic) Home Value Index rose by 2.9%. Through the year, national home values have increased by 8.6%.

Price growth in mid-sized capitals is once again outpacing that of the larger cities, echoing trends seen in late 2023 and 2024. This shift is most pronounced in Perth, where listings remain significantly below average. Over the past three months, Perth was also the city with the fastest pace of price growth, with prices up 7.6%. This was followed by Brisbane (+5.6%), Darwin (+5.4%) and Adelaide (+5.1%). Hobart (3.6%), Canberra (2.2%), Sydney (+0.8%), and Melbourne (+0.8%) saw more modest rises.

**FIGURE 14**  
Home Value Index

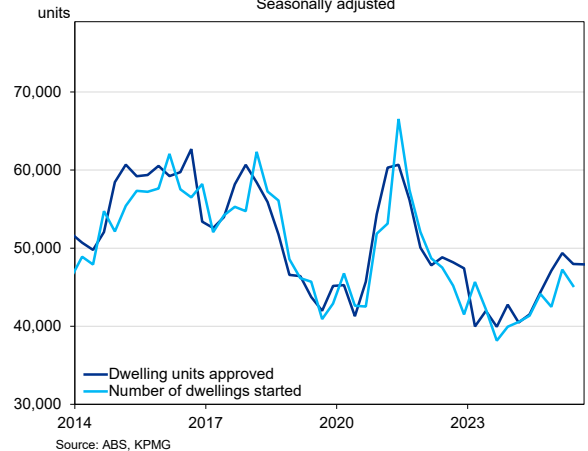


Looking at annual price growth over the year to August, Darwin saw the fastest rise at 17.0%, with the region benefiting from its relative affordability. Darwin has the lowest median price of all capital cities, at \$578,871 as of November.

Strong price gains through the year were also seen in Perth (+13.1%), Brisbane (+12.8%) and Adelaide (+8.2%). Prices in Hobart were still up 4.7% over the last 12 months, despite some recent falls. Sydney saw house prices rise 5.1% over the past year, bringing the median value to \$1,269,659. Meanwhile, Canberra (4.2%) and Melbourne (4.2%) saw the lowest annual growth among all states.

APRA's recent policy announcement to cap high debt-to-income (DTI) ratio loans at 20% of new lending is expected to have only a limited impact. Most recent mortgage originations are significantly below a DTI of six or more, and with the policy not taking effect until February, any influence on borrowing activity is likely to remain marginal.

**FIGURE 15**  
Dwellings Approved and Commenced  
Seasonally adjusted



From a housing supply perspective, the upward momentum in monthly new dwelling approvals observed in the previous quarter appears to be slowing. Approvals in the three months to October were -0.2% lower compared to the three months to July, although they are 6.5% 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 October 3.6% higher compared to the previous quarter, and only 0.2% more compared to the same period a year ago.
- Meanwhile, the more volatile number of *Other dwellings* approved is 5.4% lower in the three months to October compared to the previous quarter but is 17.4% 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 1.2% to 45,320 during the June quarter. This contributed to a 9.2% rise through the year, due to:

- Commencements of *New private sector houses* rose 2.2% through the quarter but are now 1.0% lower over the year.
- The latest June quarter data also showed a surge in commencements for *New private other residential dwellings*, rising by 0.5% to be up 27.9% through the year.

Australia's housing supply remains constrained by elevated construction costs, labour shortages, and inflationary pressures. While approvals have rebounded from previous lows, they remain well below levels required to ease shortages or meet government targets.

# Net exports

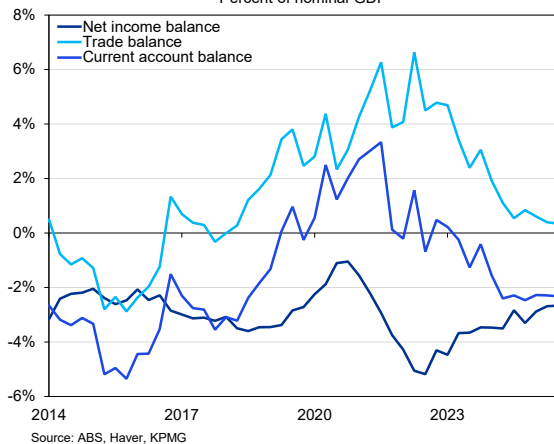
Exports rose by 1.0% in the September quarter, a result which was more than offset by a 1.5% rise in imports. This saw net exports take away 0.1ppt from growth.

The rise in exports was due to a 1.3% increase in the exports of goods. This was linked to exports of non-rural goods, which increased by 1.3%. Following weather-related disruptions to shipping in the June quarter, coal exports increased, supported by demand from Japan, South Korea, and China. Exports of rural goods were supported by ongoing demand for Australian beef, as well as citrus fruit exports.

Services exports were flat, with a 0.6% fall in travel services, due to reduced expenditure by international students. Note that consumption by international students in Australia (such as spending on accommodation, food, etc.) is treated as a services export. Meanwhile, there was an increase from other personal travel, with increased arrivals of tourists from China, Japan, and South Korea.

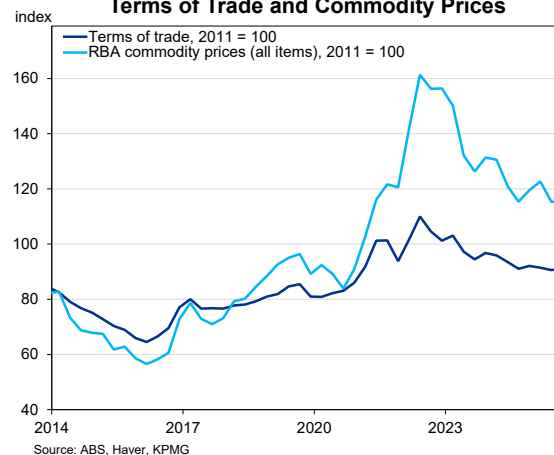
Imports of goods rose by 2.1%. There was a 4.2% rise in imports of fuels and lubricants. This was partly linked to increased imports of diesel to meet minimum stock holding obligations, timed with an easing of prices.

**FIGURE 16**  
**Current Account Balance**  
Percent of nominal GDP



There was also a sharp 6.7% rise in capital goods imports, coinciding with the increased investment in data centres, which require electronic and communications equipment. There was a 0.2% fall in imports of services, as fewer Australians flew on overseas airlines.

**FIGURE 17**  
**Terms of Trade and Commodity Prices**



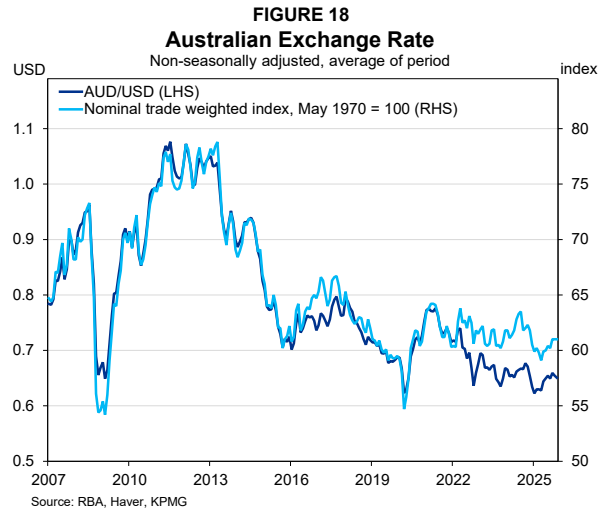
The current account deficit remains little changed in the September quarter, with the deficit growing slightly to \$16.6 billion. The net primary income deficit narrowed to \$18.7 billion. This was supported by higher profits received for Australian direct equity investment holdings, as well as strong returns on portfolio equity investment held overseas.

Meanwhile, the goods and services surplus fell for the third consecutive quarter to \$2.5 billion. This was despite Australia's terms of trade increasing 0.3% over the quarter, to be 0.2% lower than a year ago. This was because the 0.1% fall in export prices was more than offset by a 0.4% fall in import prices, as measured by the Implicit Price Deflator (IPD) on goods and services credits/debits.

EXTERNAL DEMAND ASSUMPTIONS	Q1-26 (f)	Q2-26 (f)	Q3-26 (f)	Q4-26 (f)	Q1-27 (f)
<b>Exchange rate (AUD/USD)</b>	0.67	0.66	0.66	0.66	0.66
<b>Coal prices (USD/tonne)</b>					
Thermal coal price – Newcastle	108	109	111	113	114
Semi-soft coking coal price	211	213	215	218	220
<b>Gold price (USD/oz)</b>	4,344	4,392	4,436	4,476	4,516
<b>Dalian Iron Ore 62% Futures</b>	100	98	96	96	94
<b>Oil prices (USD/barrel)</b>					
Brent Spot Average	61	61	61	61	61
West Texas Intermediate Spot Average	57	57	57	57	57

Looking at the International Trade Price Indexes, the Export Price Index fell 0.9% in the September quarter, to be up 0.1% through the year. The most significant contributor to the quarterly fall was a 5.2% decrease in prices for *Gas, natural and manufactured*. Contracts indexed to oil prices fell, in line with lower crude oil prices in the June quarter. This was partly offset by *Gold, non-monetary*, which was up 3.2% as demand for gold remains robust. Meanwhile, the Import Price Index fell 0.4% during the quarter, but was still up 2.3% through the year. This was supported by the appreciation of the Australian dollar.

Overall, the Australian dollar has traded within a narrow range over the second half of 2025. Looking at recent movements, the currency dipped from a peak of 0.669 USD in mid-September to a trough of 0.645 USD by late-November. However, by early December, it had lifted back to 0.662 USD, as a run of economic data pushed back expectations of further monetary policy easing. This growing divergence between rate expectations for Australia and other advanced economies (particularly the US) has supported the value of the Australian dollar.



# Labour market

Australia's job market has remained resilient. Since June, the unemployment rate has held steady at 4.3%, with only a brief rise to 4.4% in September (later revised down from 4.5%).

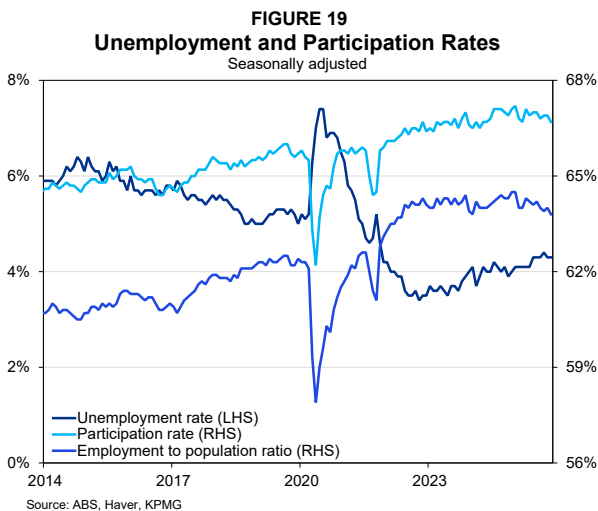
The participation rate also remains high, at 66.7% in November, though it has dipped from its peak of 67.2% in January 2025. Nonetheless, it is still only 0.2ppt lower than a year ago. The employment-to-population ratio has also fallen to 63.8% and is 0.5ppt lower than a year ago.

During November, employment fell by 21,300 people, which contrasted against expectations of a 20,000 person rise. However, this did follow a 41,100 person increase in October, reflecting that these month-to-month changes can be very volatile, and was partly offset by a decrease of 2,100 unemployed people. Furthermore, seasonally adjusted monthly hours worked held steady, despite employment falling by 0.1%.

Full-time employment was the driver of the overall decrease in employment. Seasonally adjusted full-time employment fell by 56,500, after rising by 53,600 last month. Meanwhile, part-time employment lifted by 35,200, after falling by 12,500 in October.

Looking through the monthly volatility, these headline figures remain robust. However, some fragility appears to be emerging, which reinforces expectations of a gradual easing of labour market conditions.

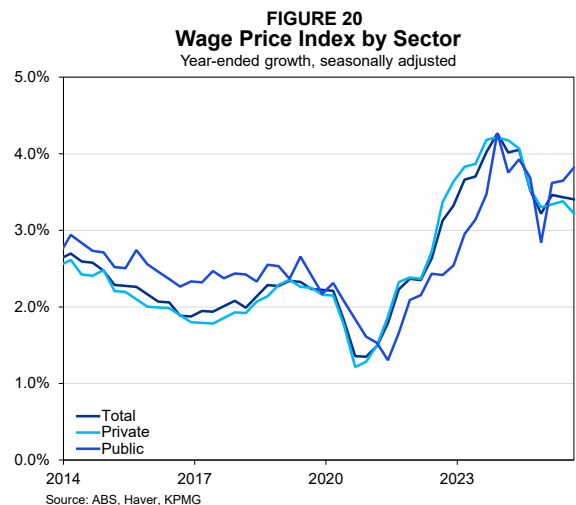
Over the medium term, employment growth has been slowing, with the monthly increase in employment averaging 10,700 people in the second half of 2025. This compares to 12,800 people on average in the first half of the year, and 32,100 in the second half of 2024.



Furthermore, the underemployment rate has also increased to its highest level since October 2024, although it remains low by historical standards. It currently sits at 6.2%, including a 0.4ppt rise in November.

Looking ahead, the SEEK Employment Report for October 2025 showed that job ad volumes fell 0.4% over the month, to be down 2.2% through the year. This follows a 0.3% monthly fall in September but is stronger than the 1.0% fall in volumes seen during the corresponding month of 2024.

These results also partly reflect a change in methodology, which sees the inclusion of company listings in the index, resulting in a downward revision to recent monthly growth rates. Meanwhile, applications per job ad rose by a further 1.3% in the month of September, according to the latest data.



Wages growth held firm in the September quarter, rising by 3.4% through the year, unchanged from the June quarter result. On a quarterly basis, the Wage Price Index (WPI) increased by 0.8%, also in line with the previous quarter.

Public sector wages rose 0.9% over the quarter and 3.8% through the year. This was the third consecutive quarter where public sector wages grew faster than the private sector (at both a quarterly and annual basis). Private sector wages grew by 0.7% for the quarter, to be up 3.2% through the year. Private sector wages remained the predominant driver of overall wage growth, in line with its larger share of employment and total wage expenditure.

Wages growth in the September quarter also reflected the impact of the Fair Work Commission Annual Wage Review, which was paid from the start of July. The seasonally adjusted 0.8% growth figure this quarter was the same as corresponding period of 2024. This is despite this year's minimum wage decision of a 3.5% rise, compared to 3.75% last year. Approximately one-fifth of the Australian workforce receive a wage linked to this decision.

Overall, 45% of jobs experienced a wage change in the September quarter, in line with the 44% recorded during the corresponding period a year ago. In the public sector, 30% of jobs reported a wage change, and in the private sector, 49% saw a change.

Among the industries, *Accommodation and food services* recorded the strongest quarterly growth, with an increase of 2.1%, and was up 2.9% through the year. In part, this reflects greater exposure to the minimum wage decision. Through the year, the strongest growth was seen in *Electricity, gas, water and waste services* and *Public administration and safety* sectors, which both saw annual growth of 4.3%.

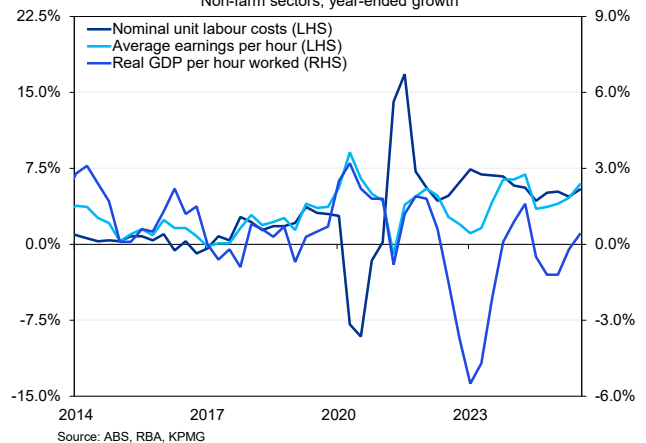
With headline inflation jumping to 3.2% (in part, due to volatility in electricity rebates), annual real wages growth slowed to 0.2% in the September quarter. Nonetheless, it was still the eighth consecutive quarter of positive annual growth.

In addition to the WPI, it is also useful to consider nominal unit labour costs, which measures the costs associated with the employment of labour, adjusted for labour productivity. As a result, there will be no change in ULC if there is an increase in average labour costs and a corresponding increase in labour productivity.

Annual growth in non-farm nominal unit labour costs accelerated to 5.4% in the September quarter, its fastest pace since the June quarter 2024. In part, this reflects ongoing weakness in labour productivity growth. Over the year to the September quarter, non-farm labour productivity per hour rose by only 0.4%. This was the first positive result in five quarters but remains well short of the long-run average.

In their latest Statement on Monetary Policy, the RBA noted that this elevated growth in unit labour costs is 'consistent with more upward pressure flowing through from labour market tightness to firms' labour costs than is signalled by the WPI alone.' Speaking last November, RBA deputy governor Andrew Hauser noted that this could see the economy 'boxed in by its own capacity constraints.' Lacklustre productivity growth continues to constrain the productive capacity of the economy, placing a 'speed limit' on the pace of economic growth which can be sustained.

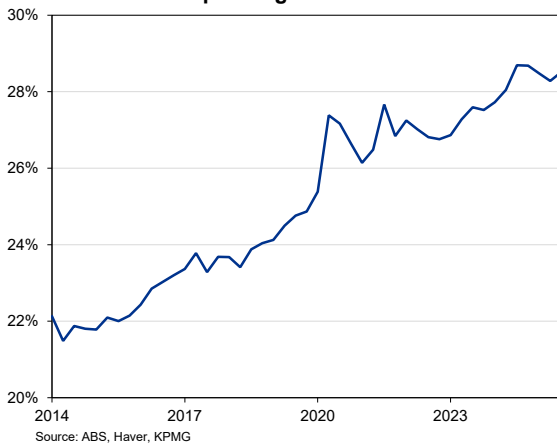
**FIGURE 21**  
**Productivity and Earnings**  
Non-farm sectors, year-ended growth



# Government

After falling for the previous two quarters, public spending as a share of GDP rebounded to 28.5%, returning to levels similar to the record highs of 28.7% in the September and December quarters of 2024. Both government consumption and investment grew faster than real GDP over the September quarter, rising by 0.8% and 3.0%, respectively. Consequently, government consumption expenditure added 0.2ppt to GDP growth this quarter, with public investment also adding a further 0.2ppt.

**FIGURE 22**  
Public Spending as a Share of GDP



The rise in public consumption expenditure was broad-based, with growth in *State and local government*, as well as *National non-defence* and *National defence* spending. Notably, expenditure by *State and local government* rose by 1.0%, following two consecutive falls. This was associated with spending on public hospitals and school systems. Greater spending on social benefits, especially the Medicare Benefits Scheme and the Pharmaceutical Benefits Scheme, contributed to the 0.6% rise for *National non-defence*. Meanwhile, there was also a 0.5% rise for *National defence* spending.

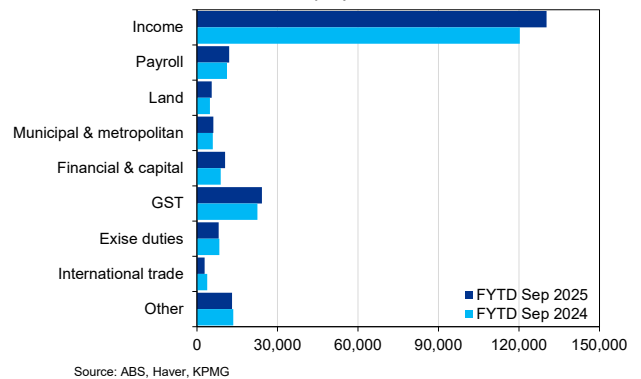
Public investment rebounded after falling for three consecutive quarters. *State and local public non-financial corporations* were the largest driver of growth this quarter, with the 5.1% rise associated with renewable energy and water infrastructure projects. Work on road and rail projects also saw spending by *State and local general government* rise 1.4%. There was also a recovery in *National defence* investment, with more spending on domestically produced weapons contributing to a 6.1% rise.

All non-market industries contributed to GDP growth this quarter. A severe flu season added demand for medical services, leading to a 0.7% rise for *Health care and social assistance*. Meanwhile large-scale defence exercises supported growth of 0.4% for *Public administration and safety*.

During the September quarter, the general government net operating balance fell by \$34.8 billion to record a deficit of \$32.2 billion. During this period, total revenue fell 9.6% to \$245.5 billion, including a 11.6% fall in taxation revenue. Total expenses increased 3.2% to \$277.7 billion.

Taxes less subsidies on production and imports increased by 3.6% over the quarter. Taxes on production and imports rose 3.6%, with an increase in property transactions supporting *Taxes on financial and capital transactions*. Stronger crude oil prices and sales volumes also supported *Excise duties*. This was partly offset by a 2.6% rise for subsidies on production. There was an increase in subsidies paid by *State and local general government*, driven by New South Wales, Victoria and Queensland. Meanwhile, *National general government* subsidies fell.

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



The federal government's mid-year budget update (Mid-Year Economic and Fiscal Outlook) shows an improvement in the deficit forecast in 2025–26. The update 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.

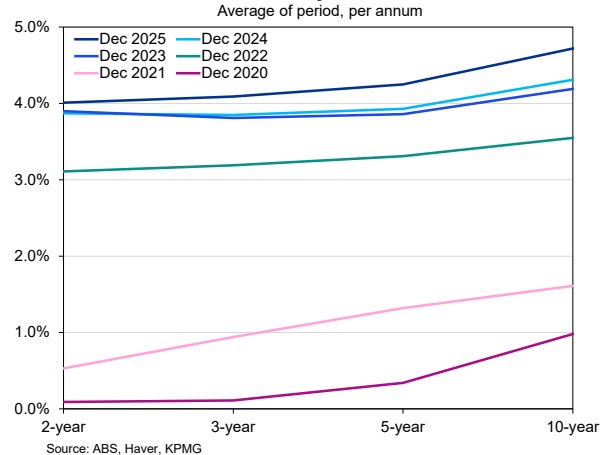
The mid-year update added \$31.3 billion in spending over the forward estimates compared to PEFO, but this was more than offset by a \$40 billion upward revision to revenue. Higher spending was driven by \$6.3 billion for natural disaster relief and nearly \$5 billion for the Cheaper Home Batteries program, with the remainder allocated to age pensions, NDIS, Defence Force superannuation, and veterans' entitlements. The cessation energy bill relief beyond this year helped contain costs, following \$6.8 billion already spent on the measure. Despite these adjustments, expenditure growth continues to outpace revenue growth. Over the four years to 2028–29, spending is projected to rise by an average of 5.0% per annum, compared to 4.3% for revenue.

For much of the year, long-term Australian government bond yields have been little changed, with the 10-year yield averaging 4.42% in November, compared to 4.35% six months earlier in May. However, more recent economic data reflects an economy which is still running hot, which has seen markets revise expectations for future monetary policy easing. This has seen the 10-year yield climb since early November, currently traded around 4.83% in early January, its highest level since late 2023.

Meanwhile, short-term yields have seen a more prolonged rise. The 3-year yield reached 4.19% by early January, driven by updated expectations for the cash rate. This has left the yield curve flatter, with the spread between 10-year and 3-year yields falling to around 65bps in early December, compared to 90bps around the middle of the year.

Demand for Australian government bonds has been strong, including from overseas investors. In October, the Commonwealth Bank reported that more than 65% of the bank's orders for recent Australian and New Zealand government bond deals were from offshore investors. This helped Australia record its largest financial account surplus on record, in part due to overseas investor demand for Australian debt and equity. This included the acquisition of \$66.6 billion of Australian issued debt securities, driven by Commonwealth government bonds.

**FIGURE 24**  
**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

**The relaxation of Australia's financial conditions stalled during the September quarter but remains marginally expansionary.**

The *KPMG Financial Conditions Index (FCI)* dipped to 0.5pts in the September quarter 2025, after reaching a fifteen-quarter high of 0.7pts in the prior June quarter. Nonetheless, it remains in modestly positive territory. 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.

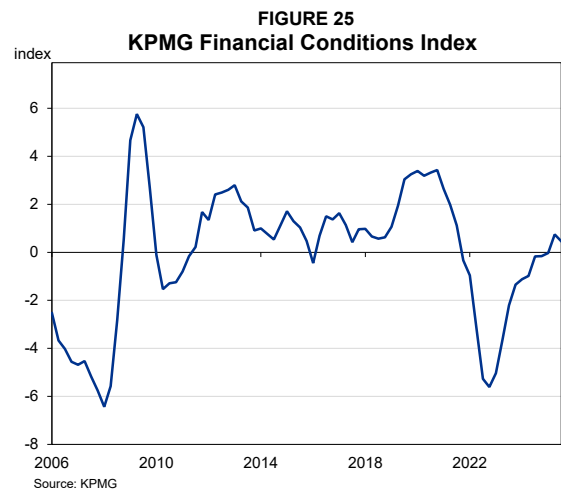
During the September quarter 2025, household financial conditions sustained their long-term easing trend. Meanwhile, the more volatile indicator of business financial conditions dipped somewhat. Crucially, both indicators continue to be mildly expansionary. This follows a further 25bps cash rate reduction in August, although expectations of further easing have been tempered by more recent economic data.

However, the RBA noted in their November Statement on Monetary Policy that lower spreads on bank loans and corporate bonds mean 'financial conditions are less restrictive than they were pre-pandemic for a given level of the cash rate'. This would equate to a higher 'neutral' cash rate.

**Household financial conditions continued to improve to reach their most expansionary level since the March quarter 2022.**

Household credit growth accelerated further to 6.3%, above its post-GFC average. This has been led by investor credit growth, which has been more responsive to interest rate cuts. Owner-occupier credit growth has also picked up, but less so. The ratio of household credit to household disposable incomes has stabilised, but when excluding offset balances (which reduce interest payable), this measure of net indebtedness continued to fall.

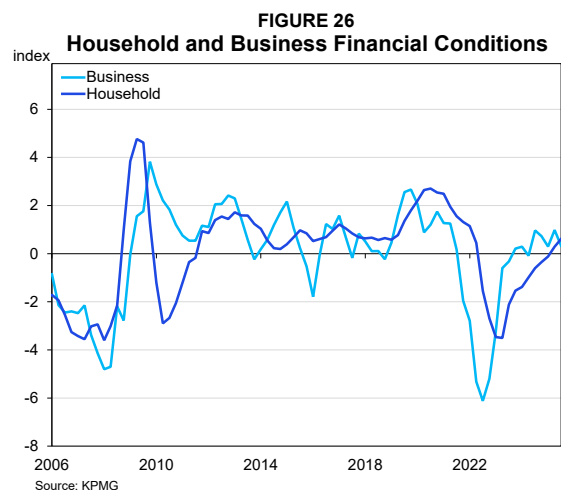
Scheduled mortgage payments fell to 9.8% of household disposable income in the September quarter but remain elevated compared to historical averages. Extra payments into offset and redraw accounts also remain above average. This comes as the average discounted variable mortgage rate for an owner-occupier has eased to 6.0%, from 6.3% in the June quarter.



**Business financial conditions continue to be moderately expansionary.**

Although the expansion of financial conditions has reversed slightly, the overall funding environment remains favourable, and business credit growth has been robust. There has been increased competition in the business lending market, particularly as banks have indicated a greater strategic focus in this area. This has seen credit become cheaper, with lending rates for small businesses falling by more than the cash rate through the year. Small and medium enterprises represent approximately half of all business credit.

The value of bonds issued has also been strong, as businesses take advantage of favourable conditions in wholesale markets. Yields on corporate bonds have generally continued to decline, and spreads over risk-free rates remain narrow. During the September quarter, yields for A-rated 3-year bonds were flat, while 10-year bonds saw a modest 4bps decline. There was a more significant fall for BBB-rated bonds, where the 3-year yield fell by 14bps and the 10-year yield by 18bps. However, the pace of the annual decline in yields has been slowing, which has seen our index of business financial conditions reverse slightly in the latest quarter, reflecting a medium-term momentum effect.



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%	3.2%	3.1%	5.3%	5.2%	5.0%	5.1%	4.5%	3.4%	3.0%	2.9%
Euro Area	0.8%	1.4%	1.0%	1.4%	6.6%	6.4%	6.4%	6.4%	2.4%	2.1%	1.6%	2.1%
UK	1.1%	1.4%	1.0%	1.3%	4.1%	4.3%	4.8%	5.0%	2.5%	3.4%	2.6%	2.5%
US	2.8%	2.1%	2.8%	1.8%	3.6%	4.0%	4.3%	4.5%	3.0%	2.7%	2.5%	2.6%
China	5.0%	4.8%	4.3%	4.0%	3.8%	3.6%	3.5%	3.4%	0.2%	-0.1%	0.4%	1.0%
Japan	-0.2%	1.3%	0.8%	0.7%	2.6%	2.6%	2.5%	2.4%	2.7%	3.1%	1.9%	1.8%
Indonesia	5.0%	5.0%	5.1%	5.0%	5.3%	4.9%	5.1%	4.9%	2.3%	1.9%	2.7%	2.5%
Malaysia	5.1%	4.8%	4.2%	4.6%	3.4%	3.2%	3.0%	3.1%	1.8%	1.4%	1.6%	1.7%
N. Zealand	-0.4%	0.7%	1.9%	2.8%	3.8%	4.8%	5.2%	5.2%	2.9%	2.8%	1.7%	1.9%
Philippines	5.7%	4.9%	5.7%	6.3%	4.4%	3.8%	4.1%	4.1%	3.2%	1.7%	2.4%	2.9%
Singapore	4.4%	4.4%	3.2%	1.9%	1.9%	2.0%	2.0%	2.1%	2.4%	0.9%	1.3%	1.3%
S. Korea	2.0%	1.1%	2.3%	1.8%	2.7%	2.8%	2.8%	3.1%	2.3%	2.0%	1.7%	1.9%
Taiwan	5.3%	7.3%	4.2%	1.9%	3.5%	3.4%	3.4%	3.3%	2.2%	1.7%	1.3%	1.3%
Thailand	2.5%	2.1%	1.7%	2.7%	1.0%	1.0%	0.9%	1.0%	0.4%	-0.1%	0.3%	1.5%
Vietnam	7.1%	7.9%	7.3%	7.3%	1.7%	1.4%	1.4%	1.5%	3.6%	3.4%	3.1%	3.5%

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			
	Q3-25 (a)	Q4-25 (f)	Q1-25 (f)	2024 (a)	2025 (f)	2026 (f)	2027 (f)
<b>GDP and Components</b>							
Consumption	0.5%	0.5%	0.5%	0.9%	2.5%	2.0%	2.0%
Business investment	3.2%	1.4%	1.0%	-0.8%	4.4%	3.7%	3.2%
Housing investment	2.5%	1.0%	0.7%	4.7%	6.0%	2.2%	2.0%
Government	1.2%	0.5%	0.5%	5.6%	1.4%	2.0%	2.0%
Exports	1.0%	1.0%	1.0%	1.7%	4.1%	2.9%	2.5%
Imports	1.5%	1.5%	1.1%	6.2%	5.5%	4.0%	3.2%
GDP	0.4%	0.5%	0.6%	1.3%	2.0%	2.0%	2.0%
<b>Inflation and Rates</b>							
Headline CPI*	3.2%	3.3%	3.4%	2.4%	3.3%	3.0%	2.6%
RBA cash rate*	3.60%	3.60%	3.60%	4.35%	3.60%	3.60%	3.60%
10-year government bond*	4.29%	4.46%	4.45%	4.37%	4.46%	4.42%	4.38%
AUD/USD*	0.65	0.67	0.67	0.65	0.67	0.66	0.66
<b>Labour Market</b>							
Employment	0.2%	0.2%	0.1%	2.2%	1.3%	0.8%	0.9%
Unemployment rate*	4.4%	4.4%	4.4%	4.0%	4.4%	4.4%	4.4%
WPI	0.9%	0.8%	0.8%	3.2%	3.5%	3.2%	3.1%

\*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.

INDUSTRY GVA	2024 (a)	2025(a)	2026 (f)	2027 (f)
Agriculture, forestry & fishing	5.1%	8.9%	3.0%	2.9%
Mining	0.0%	-1.0%	1.8%	3.8%
Manufacturing	0.3%	-2.3%	0.3%	-0.6%
Electricity, gas, water & waste services	1.0%	3.9%	2.3%	1.9%
Construction	1.7%	0.2%	2.0%	2.6%
Wholesale trade	-2.9%	-0.1%	2.5%	2.7%
Retail trade	-0.2%	0.7%	1.9%	2.5%
Accommodation & food services	-0.7%	-0.5%	1.6%	0.7%
Transport, postal & warehousing	5.1%	2.8%	3.4%	2.0%
Information media & telecommunications	2.3%	3.1%	3.5%	2.2%
Financial & insurance services	1.1%	3.6%	3.5%	2.4%
Rental, hiring & real estate services	3.6%	1.7%	2.5%	1.9%
Ownership of dwellings	1.5%	1.5%	1.9%	1.8%
Professional, scientific & technical services	1.2%	-0.9%	-0.7%	-0.1%
Administrative & support services	0.5%	1.4%	2.4%	1.7%
Public administration & safety	3.4%	3.4%	2.5%	2.1%
Education & training	3.0%	0.8%	1.5%	0.9%
Health care & social assistance	4.4%	3.2%	3.0%	2.3%
Arts & recreation services	3.4%	3.7%	3.0%	2.3%
Other services	3.9%	-0.8%	2.0%	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  $t-1$ .

Since publication of the previous Quarterly Economic Outlook published in October 2025 the ABS has made significant revisions to the industry GVA data, particularly for FY2024 and FY2025. For example, GVA for the *Agriculture, forestry & fishing* industry and the *Mining* industry has been revised down by 24% and 15% for FY2025. GVA for the *Electricity, gas, water & waste services* industry has been revised up by 21% for FY2025 and GVA for the *Construction, Wholesale trade, Retail trade, and Accommodation & food services* industries has been revised up by between 8% and 13%.

GVA growth in the *Agriculture, forestry & fishing* industry is expected to remain moderately robust in FY2026 supported by favourable seasonal conditions, recovery in global growth and improved competitiveness. These positive drivers are projected to continue supporting the industry over the next two years, although to a lesser degree.

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 broader economy over the forecast horizon.

The *Mining* industry recorded negative GVA growth in FY2025, following two years of almost flat growth. We continue to project a modest recovery in the *Mining* industry's GVA in FY2026 building up to solid growth by FY2028.

The *Manufacturing* industry recorded negative GVA growth in FY2025. We are projecting that the *Manufacturing* industry will continue to under-perform the economy as a whole. As a trade-exposed industry, the prospects of the *Manufacturing* industry depend heavily on its competitiveness. Our forecasts assume that the *Manufacturing* industry's competitiveness will deteriorate beyond FY2026.

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 and FY2028 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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