

GDP Q1 2025

Overview

Seasonally adjusted real GDP rose by 0.2% in Q1 2025, less than the 0.4% expected by the markets and 0.6% registered for Q4 2024. The annual growth rate was steady at 1.3% (mkt exp: +1.3%). Real GDP per capita resumed its decline (-0.2%) and was down 0.4% through the year.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	0.2	1.3
GDP (Expenditure, Real)	0.2	1.4
GDP (Production, Real)	0.2	1.2
GDP (Income, Nominal)	1.4	3.8
Real Gross Domestic Income	0.3	0.3
Nominal GDP	1.4	3.7
Terms of Trade	0.1	-4.0
GDP Deflator	1.2	2.3

Expenditure

Household final consumption expenditure rose 0.4%, adding 0.2ppts to growth in Q1. A 2.6% rise in dwelling investment added a further 0.1ppts, while inventory changes also added 0.1ppts. Private business fixed investment increased just 0.1% in the quarter, making no real contribution to GDP growth.

Public sector spending fell 0.4%, to shave 0.1ppts from growth, driven by a 2% decline in public investment and partly due to further unwinding of electricity rebates. [Net exports](#) cut another 0.1ppts from the headline.

Production

According to the production approach, the 0.2% rise in GDP was driven by increases in agriculture forestry and fishing, construction, finance and insurance, administrative support services, education and training, and the other services category. These were largely offset by a 4.8% plunge in mining production due to cyclone events in Queensland and Western Australia, which cut 0.3ppts from growth.

Income (Current Prices)

From the income approach, GDP rose by 1.4% in nominal terms, with a positive contribution from compensation of employees (+1.5%), gross operating surplus (+1.1%) and taxes less subsidies (+0.3%). Within gross operating surplus, mining profits fell by 6.0%, reflecting lower commodity prices, mainly of coal.

Hours Worked, Productivity and Unit Labour Costs

Hours worked rose by 0.3% in Q3, with a 0.1% uptick in the market sector.

As a result, productivity was flat if measured by GDP per hour worked (-1.0% YoY), but was up by 0.1% if measured by gross value added per hour worked in the market sector (0.6% YoY).

Real non-farm unit labour costs declined by 0.4% in Q1 to be up 3.0% YoY.

Real Income

Real net national disposable income per capita, an economic wellbeing measure that adjusts real gross domestic income for both income flows with the rest of the world and the consumption of fixed capital, rose by 0.1% in Q1, but was down 1.4% YoY.

GDP Price Deflator

The GDP price deflator, the broadest measure of inflation in the economy, rose by 1.2% in Q1, to be up 2.4% YoY. The terms of trade picked up by 0.1% in the quarter, but were down 4.1% over the year. Domestic prices also continued to climb, albeit slower than in Q4 2024, to be up 0.7% in the quarter and 3.3% YoY.

Real Domestic Final Demand

The final demand was mixed across states, with declines in New South Wales and Tasmania, flat outcome in Victoria, and gains in other states.

Western Australian state final demand rose by 0.2% in the quarter, to be up 3.6% through the year, the most of all the states. The gains were led by a 2.9% increase in private business fixed investment and 1.6% rise in dwelling construction.

Household consumption was flat in Q1, reflecting a decline in out-of-pocket expenses for electricity due to State energy bill relief measures.

Government consumption rose by 1.1%, driven by state government spending. Public sector investment fell 10.1% in Q1, after rising sharply in the previous two quarters, but was up 8.2% YoY.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	0.2	3.6
New South Wales	-0.1	1.0
Victoria	0.0	1.6
Queensland	0.7	2.1
South Australia	1.3	3.1
Tasmania	-0.9	1.0
Australia	0.2	1.9

Comment

As signalled by the GDP partials since last week, the Q1 GDP report undershot the market expectations and RBA forecasts. The downside surprise came from weaker investment in machinery and equipment, and negative contribution of net exports. Household spending also remained cautious, additionally weighed down by extreme weather events in Queensland.

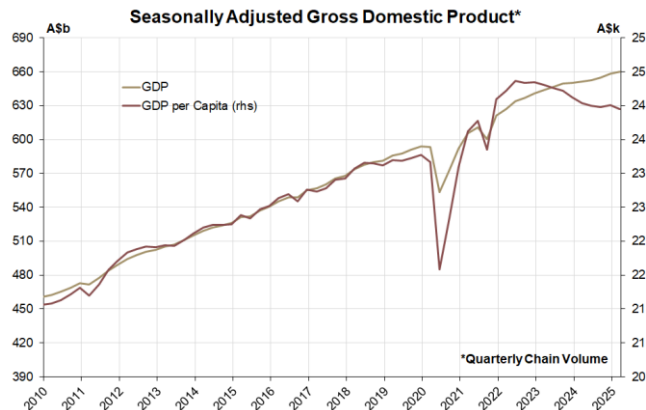
Following just one positive quarter, GDP per capita resumed its decline in Q1.

Despite the disappointing GDP figures, cash rate cut expectations intensified only a little, but the probability of a 25bps cut in July is above 80%, with three such moves fully priced in for the remainder of 2025. We continue to expect the next rate cut in August, but see an increasing risk of a move in July.

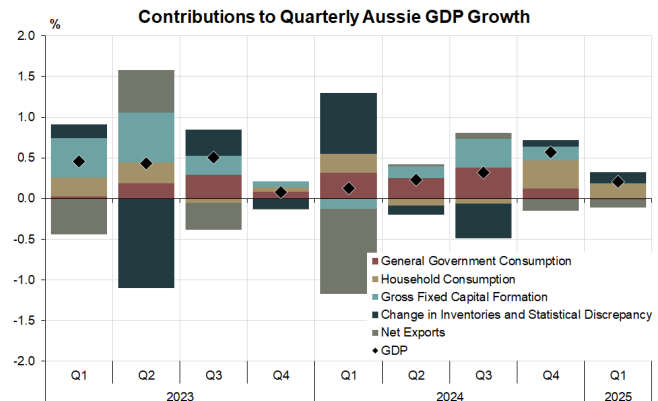
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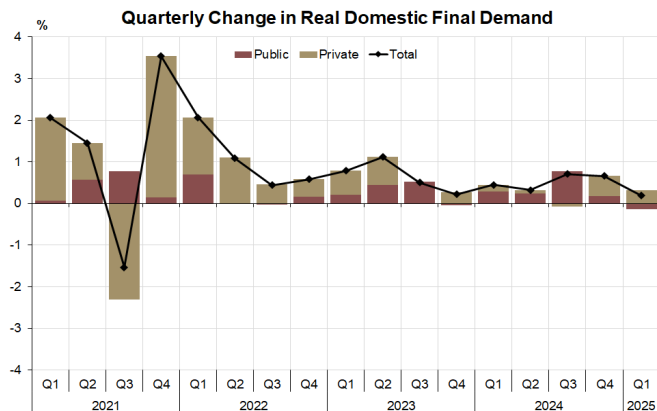
Real GDP continues to climb in absolute terms, but resumed to decline in per capita terms.



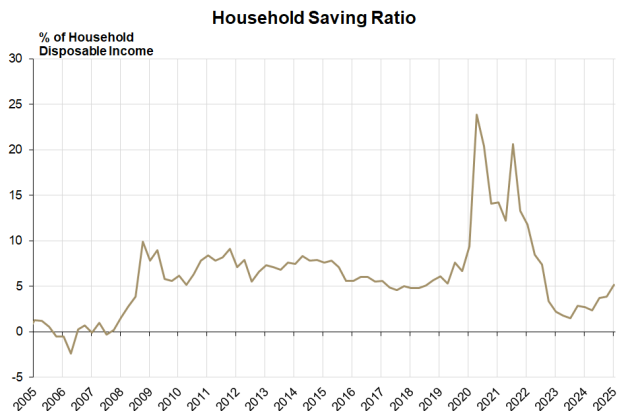
Q1 GDP growth was dragged down by net exports, while supported by inventories and household consumption.



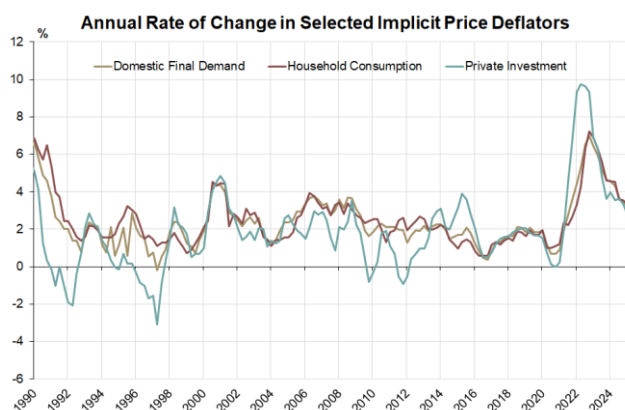
Public sector spending detracted from growth for the first time in over a year, due to a decline in investment.



Despite a boost from lower taxes and interest rates as well as cost-of-living measures, households remain cautious.



Domestic price pressures continue to ease but are still stronger than before COVID-19 hit.



Following the post-lockdown bounce, productivity eased back to around 2020 levels and has been largely flat since.

