

Australian GDP Preview Q2 2025

Households a bright spot for growth

NAB Economics



Key points:

- NAB expects a Q2 GDP print of 0.3% qoq (1.4% yoy).
- Consumption growth looks to have gained some momentum, but the investment partials point to weakness elsewhere in the private sector.
- This outcome would be weaker than the RBA's Q2 forecast in the August SoMP, but productivity growth remains weak.
- Partial for inventories, trade and public spending will be released early next week which will further firm up the estimate ahead of the release.

Bottom Line:

- We expect GDP to have risen 0.3% qoq (1.3% yoy) in Q2. Based on partial data to date, outcomes look to be mixed across the key expenditure components.
- In the private sector, consumption growth looks to have strengthened in Q2 but business and dwelling investment will likely be weak.
- The data will continue to highlight that growth outcomes will be bumpy with population and public sector spending slowing, but the private sector yet to fully gain momentum.
- Our forecast would see year ended growth at 1.4%, softer than the RBA's August SoMP forecast of 1.6%.
- The weaker than earlier expected Q2 outcome see forecasts for growth over 2025 marked lower, to around 1.5%, remaining below trend.
- At a high level, the implications of growth for the labour market will remain key, particularly any flow through of slower public sector spending growth into non-market employment growth.
- Details on the durability of the consumption growth rebound, real income growth and savings rates, as well as unit labour costs growth and productivity will also be a focus as the RBA continues to grapple with the balance of both aggregate demand and supply in the economy.

Table 1: Real GDP Growth Forecasts (%)

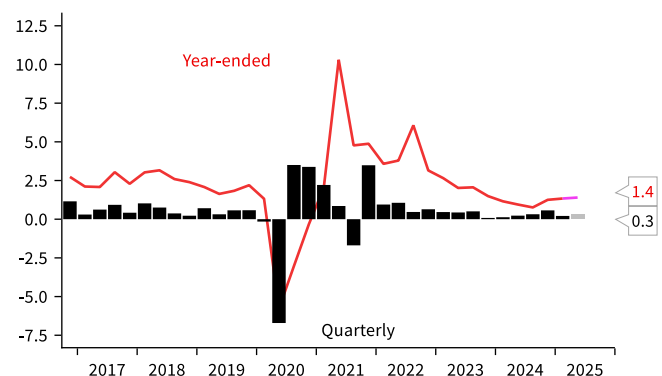
Table 1: Real GDP Forecasts (%)

	qoq		yoy	Contribution to qoq
	Mar-25	Jun-25	Jun-25	Jun-25
Household Consumption	0.4	0.5	1.5	0.2
Dwelling Investment	2.6	0.1	5.0	0.0
Underlying Business Investment (a)	0.3	-0.7	-1.1	-0.1
Underlying Public Final Demand	-0.6	0.5	3.2	0.1
Domestic Final Demand	0.2	0.4	2.0	0.4
Stocks (b)	0.1	0.0	-0.1	0.0
GNE	0.3	0.4	1.9	n.a.
Net exports (b)	-0.1	-0.1	-0.3	-0.1
Real GDP	0.2	0.3	1.4	n.a.

(a) New machinery & equipment and non-dwelling construction

(b) Contribution to GDP growth

Chart 1: Real GDP Growth Forecasts (%)



Details:

As always, the national accounts provide the most **comprehensive view of household income and saving dynamics, productivity growth** and a broader set of cost/price measures.

On growth, the key partials point to mixed outcomes. Household consumption growth looks to have rebounded in the quarter following a weaker than expected outcome in Q1. Business investment looks to have been weaker (particularly in the non-mining sector) based on the work done and capex releases. Dwelling investment is expected to remain relatively flat this quarter, losing some of the momentum gained over the past year.

For consumption, household spending indicators point to a solid outturn for household consumption growth in the quarter with the ABS' MHSI showing a 0.7% qoq increase in chain volumes terms. Our internal spending data also points to a solid gain in the quarter (2.1% in nominal terms). However, these are only partial indicators, and overall spending is likely to have grown slightly more slowly. **Assessing the underlying trend in consumption growth remains difficult.** Anecdotal evidence from the ABS points to increased discounting in the quarter as a driver. Whether this represents ongoing growth or a shift in spending (as we saw in Q4 2024) remains uncertain. Further, **the unwind of electricity subsidies will continue to boost measured consumption** growth as the spending shifts back from public consumption to the private sector. Overall, we have pencilled in 0.5% qoq for consumption growth and need this pace of growth to

be sustained for overall GDP growth to continue to improve through H2 2025.

An updated view of the trend in household income growth and the savings rate will also continue to shape expectations for consumption growth amid improving consumer sentiment. **Both income growth and the savings rate will likely tick down** in the quarter as insurance payments and government supports related to Qld weather in Q1 drop out. The net savings rate has risen from its post-pandemic lows but remains a little below its pre-COVID average. Household income growth looks to have tracked broadly around its pre-pandemic pace.

We have pencilled in a weak outcome for business investment. This is in contrast to the strength seen in the work done release and reflects conceptual differences between the two measures. Most of the boost to the engineering work done in the quarter will have been included in GDP previously (and offset with higher imports). Some residual investment may flow through to engineering in the quarter – though how much remains uncertain – but the aggregate impact of this will be offset on the imports side.

For our forecasts, the weaker than expected outcome in the quarter will likely see the annual rate of growth marked down. But the rise in household spending gives us some comfort in our forecast for household consumption to accelerate, on average, in H2 2025. Dwelling and business investment can be more volatile but both will need to sustain an improved trend if our overall forecasts of ~2¼% growth over 2026 are to be realised.

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