Economics and Markets Research
Data React

Q2 2026 GDP – Less Speed, Little Slack

Key points

- Q2 GDP rose 0.4% qoq and 2.1% yoy.
- Household consumption rose 0.4%, led by discretionary spending.
- For the RBA, today's data confirm that growth has slowed a little from H2 2025 but also suggests that growth has tracked around its trend rate over the past year.
- NAB continues to the see the RBA lifting interest rates to 4.6% in September.

Summary & Implications

GDP rose 0.4% qoq and 2.1% yoy (NAB: 0.2% qoq and 1.8% yoy). Household consumption, dwelling investment, non-dwelling construction and public consumption supported growth across the expenditure components.

At the component level the data continues to be impacted by a raft of factors – highlighted by the fall in international travel and the sharp increase in EV purchases due to higher oil prices and travel disruptions given the conflict in the Middle East – as well as lumpy investment flows for data centre equipment. That said, overall, the annual growth rate in GDP is tracking close to its trend rate and although household consumption has slowed, it appears to have been relatively resilient despite very weak consumer confidence.

The CPI measure of inflation remains key for the RBA, but the price data and commentary from the ABS in today's release confirm not just the activity impacts from the war in the Middle East but also that cost pressures are broad-based and are flowing through a number of sectors of the economy.

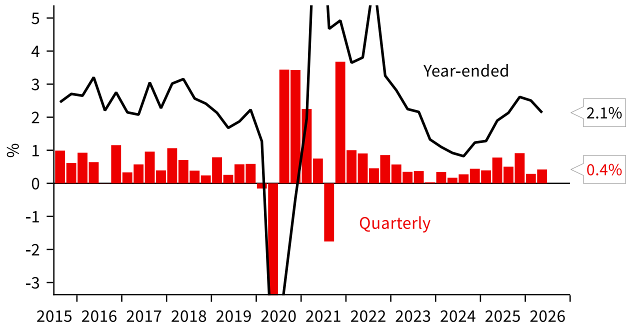
Looking forward, we expect growth to remain below trend on a quarterly basis. This should see annual growth of ~1.5% over 2026 and continued below trend growth into 2027. The RBA had expected a slowing in growth through H1 and forecast below trend growth over the next two years – but the key dynamic will be whether this slower growth is enough to see enough spare capacity build in the economy to see some easing in price pressures. With the starting point for core inflation from Q3 2026 higher than expected, some additional slowing in aggregate demand is likely to be required.

GDP Expenditure Components

	% qoq		% yoy	Contribution (qoq)
	Mar-26	**Jun-26**	**Jun-26**	**Jun-26**
Household Consumption	0.4	0.4	1.8	0.2
Dwelling Investment	1.5	1.6	5.8	0.1
New Business Investment^	6.2	-0.5	10.5	-0.1
Machinery & equipment	15.4	-5.6	16.2	-0.3
Non-dwelling construction	0.5	3.5	7.3	0.2
New building	4.0	3.1	14.2	0.1
New engineering	-2.6	3.9	1.5	0.1
Public Final Demand	-0.5	0.2	2.1	0.1
Domestic Demand	**0.9**	**0.3**	**3.1**	**0.3**
Stocks (a)	-0.1	-0.1	-0.2	-0.1
GNE	**0.8**	**0.2**	**2.9**	**0.2**
Net exports (a)	**-0.7**	**0.1**	**-0.8**	**0.1**
Exports	-1.1	0.8	2.9	0.2
Imports	2.0	0.5	6.7	-0.1
GDP	**0.3**	**0.4**	**2.1**	**0.4**

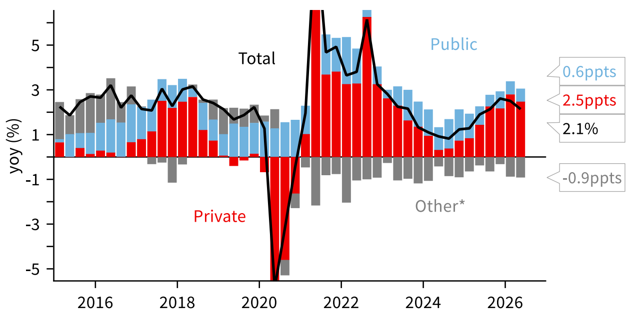
(a) Contribution to GDP growth ^ Excluding transfers between the private and public sector
Source: National Australia Bank, Australian Bureau of Statistics

Real GDP Growth



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Real GDP Growth



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond
Notes: * Net exports, change in inventories and the statistical discrepancy.

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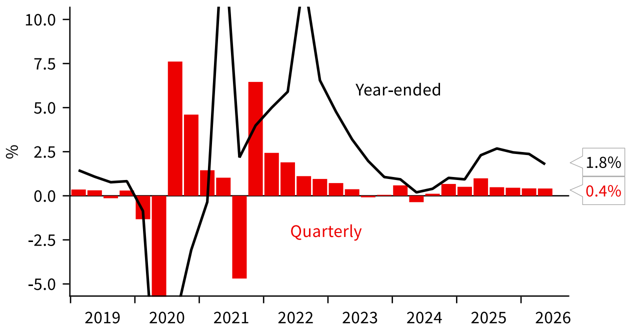
Households

Consumption

Household consumption rose 0.4% qoq to be 1.8% higher over the year, contributing 0.2ppts to GDP growth. This follows a slight downward revision to Q1 to 0.4% qoq (prev. 0.5% qoq). The Q2 growth was driven by a 1.4% qoq increase in discretionary spending, which more than offset a 0.3% qoq fall in essential spending.

Real Household Consumption Growth

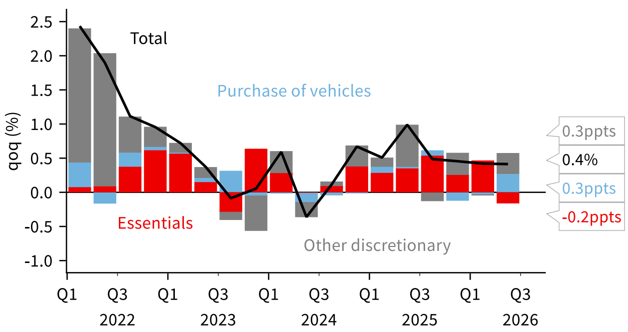


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The rise in discretionary spending was led by a 10.3% qoq increase in vehicle purchases, contributing 0.3ppts to consumption growth. The ABS attributed the strength to higher electric vehicle purchases. While some of this may prove temporary, reflecting higher fuel prices and fewer Australians travelling overseas, motor vehicle wholesalers and retailers continued to build inventories in anticipation of sustained demand. Outside of purchase of vehicles, discretionary spending growth was broad based. Spending on hotels, cafes & restaurants, recreation & culture, furnishings & household equipment, and clothing & footwear all rose between 0.3% and 0.5% qoq.

In contrast, essential spending declined by 0.3% qoq. This was led by a 6.0% qoq fall in electricity, gas & other fuels consumption, which the ABS attributed to milder weather conditions. Spending on the operation of vehicles also fell by 0.6% qoq, reflecting higher fuel prices and free public transport initiatives introduced by some state governments, according to the ABS. Partly offsetting this weakness, insurance & other financial services rose 1.4% qoq and contributed 0.1ppts to consumption growth.

Contributions to Real Household Consumption Growth

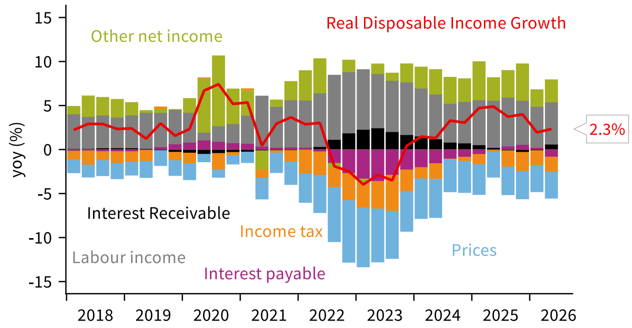


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Household Income and Savings

Real disposable income growth was resilient, increasing 0.6% qoq to be 2.3% higher over the year. Growth was supported by a 1.5% rise in compensation of employees, with the ABS citing continued competition for skilled labour, higher wages, bonuses and redundancy payments made during the quarter. Interest income and payments also rose, reflecting the higher interest rates for both deposits and loans.

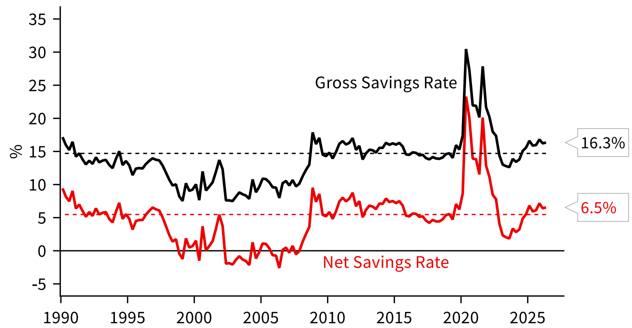
Real Disposable Income Growth



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The household saving ratio rose marginally to 6.5% from 6.4%, with growth in nominal disposable income slightly outpacing growth in nominal household spending. The saving rate remains a little above pre-pandemic levels and has broadly tracked sideways, suggesting households have largely maintained their savings buffers rather than drawing them down to support consumption.

Household Saving Rate (% disposable income)

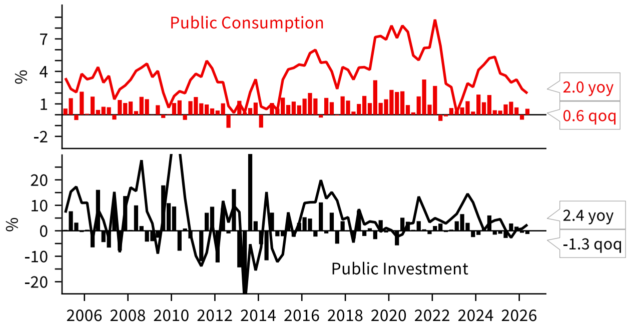


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Public Demand

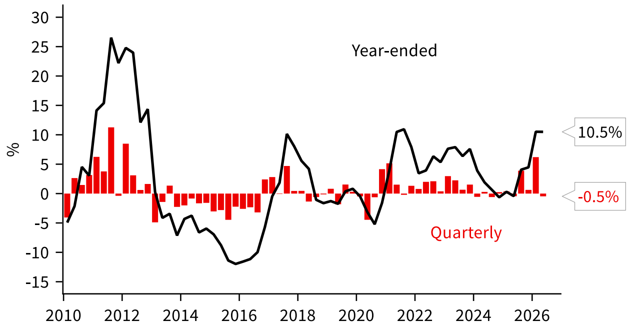
Public demand rose 0.2% qoq to be 2.1% higher over the year, contributing 0.1ppts to Q2 GDP growth. This was driven by a rise in 0.6% qoq increase in government consumption, which more than offset a 1.3% qoq fall in government investment.

Public Demand



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

New Business Investment

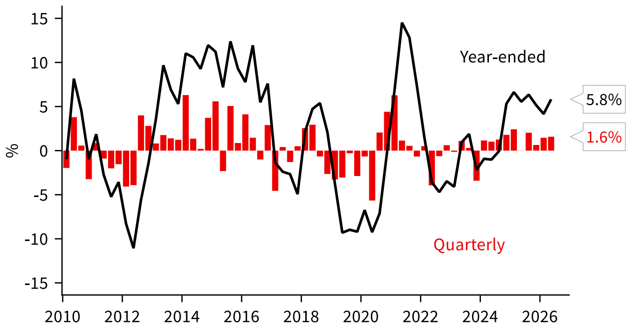


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Account in-house

Investment

Dwelling investment rose 1.6% qoq and was 5.8% higher over the year. This was in line with expectations and contributed 0.1ppt to GDP growth. The rise in dwelling investment was driven by increases in both new dwellings and alts & ads, which rose 1.7% qoq and 1.4% qoq, respectively. Dwelling investment was supported by flow from the pipeline of work underway as well as new projects. Of note, ownership transfer costs declined 1.9% qoq, reflecting the slowdown in the housing market. Going forward, these will likely be a larger drag on GDP growth.

Dwelling Investment



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

New business investment made a small negative contribution of -0.1ppts to GDP growth. New business investment fell 0.5% qoq, after a strong 6.2% qoq rise in Q1, but remains 10.5% higher over the year. Due to lumpy investment in ADP equipment, machinery and equipment (M&E) investment fell 5.6% qoq, partially unwinding last quarters rise. M&E investment was not as weak as we expected as purchases of aircraft and industrial transport equipment moderated the fall. Elsewhere, non-dwelling new building investment rose 3.1% qoq, driven by the more stable construction element of the data centre build out. Both mining and renewable projects drove a 3.9% qoq rise in engineering construction.

Trade and Inventories

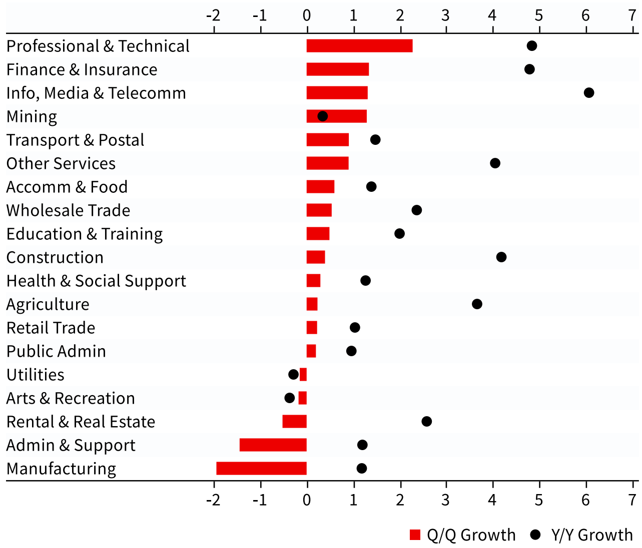
Net trade contributed 0.1ppts to GDP growth, as a 0.8% increase in export volumes more than offset a 0.5% increase in import volumes. Export growth was driven by a rebound in resource exports following weather disruptions in Q1. While goods imports rose 2.4% qoq, led by motor vehicles as well as fuels and fertiliser, services imports fell 4.9% as fewer Australians travelled overseas.

Inventories subtracted 0.1ppts from GDP growth. Mining inventories were run down, reflecting higher coal exports and the unwinding of Q1 shipment delays. This more than offset an increase in motor vehicle inventories in anticipation of ongoing demand for electric vehicles.

Production by Industry

Gross value added rose 0.5% qoq and was relatively broad-based, with rises in 14 of the 19 industries. The largest contributions to GDP were concentrated in three industries: professional, scientific & technical services (2.3% qoq), mining (1.3% qoq) and financial & insurance services (1.3% qoq). Together, these industries added 0.4ppts to GDP growth. Manufacturing was the biggest drag on GDP, subtracting 0.1ppts from growth after falling 1.9% qoq.

Industry GVA growth (%)



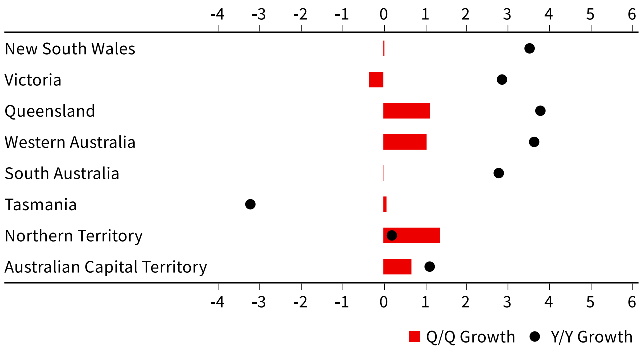
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Final Demand by State

Final demand growth was mixed across the states. Demand softened in Victoria, was broadly unchanged in New South Wales, South Australia and Tasmania, and rose elsewhere. Queensland and Western Australia recorded the strongest outcomes, rising by a solid 1.0% qoq and 1.1%, respectively.

Both Victoria and New South Wales saw a reversal in the large increases in M&E investment owing to datacentres, which supported growth in Q1. Growth in Qld was supported by private business investment, while Western Australia was supported by both Government and household consumption. Public sector investment generally declined across all states, led by falls in Queensland, with declines of 0.9% – 1.3% qoq; South Australia was the exception rising 1.4% in the quarter.

State final demand growth (%)

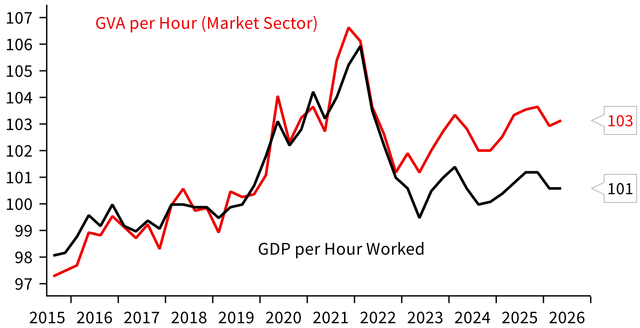


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Productivity and Prices

Output per hour worked rose 0.2% qoq but remains 0.1% lower over the year, while GDP per hour worked was flat (and down 0.2% yoy). Looking through the volatility over recent quarters, the overall picture for productivity growth remains very subdued.

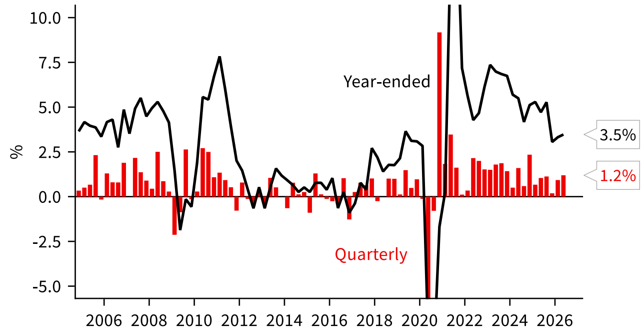
Headline Productivity Measures



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Earnings and prices data strengthened a little in Q2. Average earnings per hour worked rose 1.2% qoq to be 3.1% higher over the year, and nominal unit labour costs rose 1.2% qoq. In annual terms, nominal unit labour costs growth at 3.5% is now a little above its long-run average and looks to have reversed some of the easing though 2025.

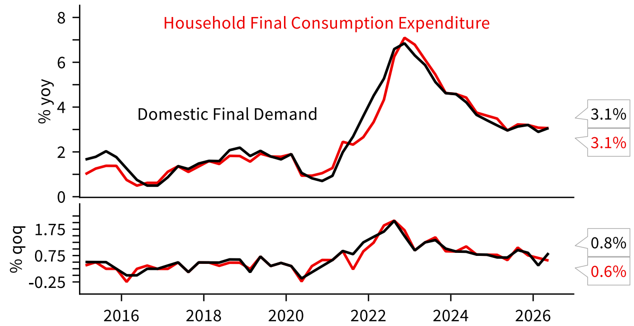
Non-farm Nominal Unit Labour Costs Growth (%)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The domestic final demand deflator re-accelerated in Q2 rising 0.8% qoq and is up 3.1% over the year. The household consumption deflator rose by a softer 0.6% qoq but is also up 3.1% over the year. The ABS noted that domestic price growth reflected rising input costs due to high oil prices, and that these pressures impacted energy and fuel intensive industries, including construction, mining, manufacturing and transport, most acutely. In addition, the ABS noted that construction continued to see price rises due to 'limited resources' for both labour and material inputs. On the consumer side, price increases were driven by food and rents, but offset by the cut to fuel excise and softer prices for accommodation services amid weaker travel demand. Overall, annual growth in these deflators is well below the peak seen in the post-Covid period but has shown little further easing over the past year or so.

Implicit Price Deflator



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

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