Australian Economic Update

GDP Q3 2025 – Speed limiter engaged?

NAB Group Economics

Key points:

- Q3 GDP was softer than expected at 0.4% qoq (NAB: 0.7%, Consensus: 0.7%).
- But domestic and private demand were strong in the quarter.
- GDP growth is at trend, with private sector growth having picked up.

Overview & Implications:

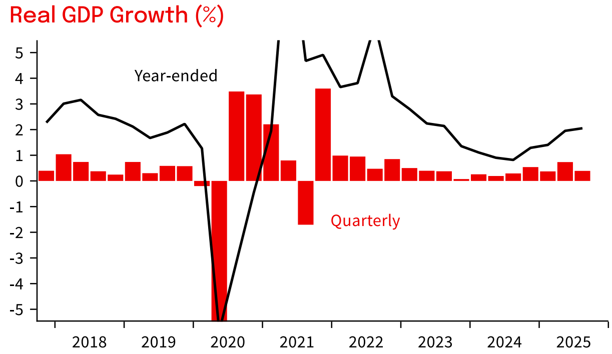
GDP rose 0.4% qoq (2.1% yoy) in Q3. Domestic demand painted a stronger picture in the quarter, rising by 1.2% qoq, with growth in both private and public activity. While there are a few moving parts in this release and looking through the quarterly volatility, the key takeaway is that growth has risen back to its trend rate as the private sector has recovered over the past year.

While consumption growth slowed in the quarter, the data continue to be impacted by changes in seasonality and comes off a very strong Q2 outcome. The underlying pace of consumption growth remains solid, supported by an improvement in real income growth. Savings rates (which were revised higher in the quarter) have returned to pre-covid levels. Business and dwelling investment components show that growth has broadened across the private sector over the past year, although these can be volatile.

Despite some improvement in measured productivity over the past year, unit labour costs growth remains elevated at over 5% yoy, with average hourly earnings growth near 6% yoy. The household consumption and domestic final demand deflators rose 3.0% yoy, reflecting still elevated inflation.

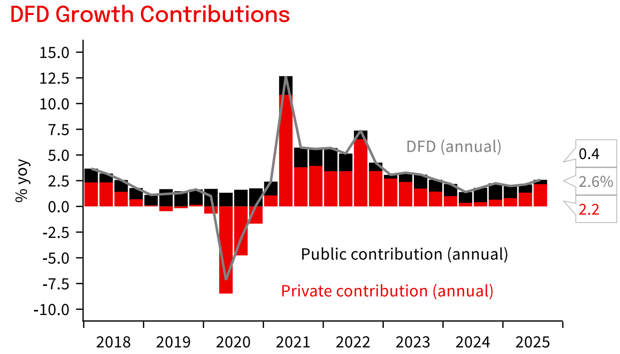
Today's release doesn't change our expectations for growth in the near term. Following a strong Q2, household spending growth remains robust, while dwelling and business investment growth have also supported overall activity. While the support from business investment may soften in coming quarters, GDP now looks to be growing broadly around its trend. For the RBA, growth is around its "speed limit". Consumption growth has outpaced their forecasts, and the broader set of cost and price measures support their concern inflationary pressures in the economy remain stronger than is consistent with their inflation target. We continue to see the RBA on hold at 3.6% for the foreseeable future, though note the risk that the RBA may need to recalibrate policy modestly tighter to lean more firmly against inflation risks.

Chart 1: Growth is past its trough



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

Chart 2: Domestic Final Demand



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

3 December 2025 | Authors: Gareth Spence, Taylor Nugent, Jessie Cameron, Michael Hayes,

Detail:

Q3 GDP growth of 0.4% qoq was the net of very strong and broad-based gains in final demand, a large drag from inventories and a small drag from trade. Domestic final demand rose 1.2% qoq, its strongest gain since Q2 2012 outside of the covid-era volatility.

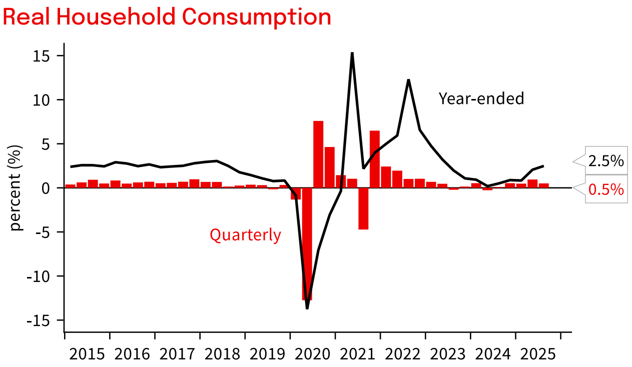
Table 1: GDP expenditure components

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Jun-25	Sep-25	Sep-25	Sep-25
Household Consumption	0.9	0.5	2.5	0.3
Dwelling Investment	0.4	1.8	6.5	0.1
Underlying Business Investment^	-0.3	3.4	3.8	0.4
Machinery & equipment	0.1	7.5	6.2	0.3
Non-dwelling construction	-1.7	0.5	0.4	0.0
New building	0.0	2.0	2.1	0.0
New engineering	-3.1	-0.7	-1.1	0.0
Public Final Demand	0.0	1.2	1.4	0.3
Domestic Demand	**0.5**	**1.2**	**2.6**	**1.1**
Stocks (a)	0.0	-0.5	-0.4	-0.5
GNE	**0.5**	**0.6**	**2.1**	**0.6**
Net exports (a)	**0.0**	**-0.1**	**-0.1**	**-0.1**
Exports	2.3	1.0	3.6	0.3
Imports	2.3	1.5	4.2	-0.3
GDP	**0.7**	**0.4**	**2.1**	**0.4**

(a) Contribution to GDP growth ^ Excluding transfers between the private and public sector

Household consumption grew by 0.5% qoq to be 2.5% yoy higher over the year (2.8% yoy excluding tobacco & cigarettes). This is a meaningful pick-up in growth compared to 2024 and confirms that the consumer is on a firmer footing, supported by an increase in real disposable incomes, while the savings rate has also now normalised.

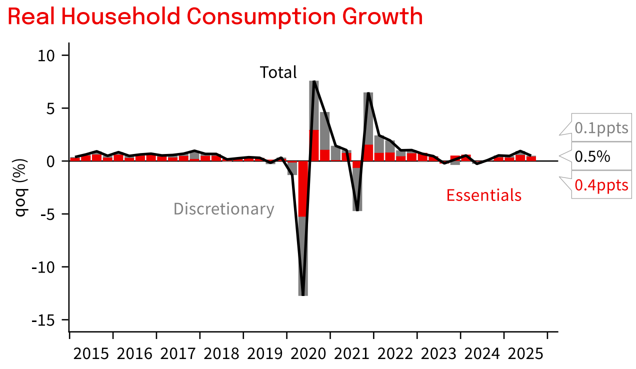
Chart 3: Consumption growth continues to rise



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

In the quarter, household consumption growth was supported by higher spending on essentials, led by insurance and other financial services (2.1% qoq), electricity, gas and other fuels (4.2% qoq), and rents and dwelling services (0.4% qoq). The ABS attributed the rise in insurance and financial services to higher superannuation contributions following the increase in the guarantee to 12%, while energy spending lifted as electricity subsidies continued to unwind. This added 0.1ppts to household consumption in Q3 (after 0.1ppt and 0.2ppt in Q1 and Q2).

Chart 4: Consumption driven by essentials spending

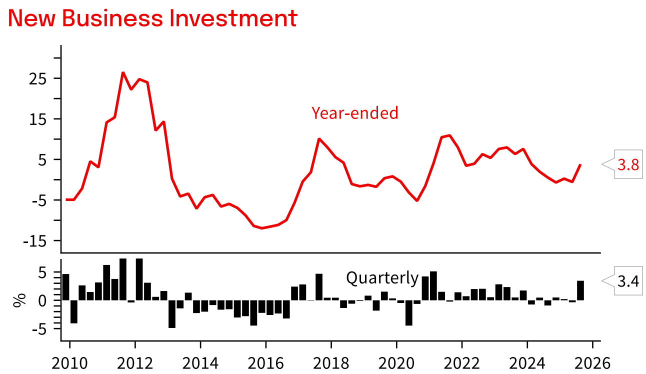


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Private dwelling investment rose 1.8% qoq, led by new dwellings (2.6% qoq). Alterations & additions also increased by 0.5% qoq. Despite being a notable pickup from Q2 (0.4% qoq), dwelling investment undershot our expected contribution to growth by ~0.1ppt.

Business investment growth increased by 3.4% qoq in underlying terms. This result is the strongest quarterly rise seen since 2017, excluding the covid period, and comes after 18-months at or below 0.5% qoq. Machinery & Equipment (M&E) drove growth, rising 7.5% qoq while non-dwelling construction was softer at 0.5% qoq. The strength in M&E was attributed to investment in data centres across NSW and Vic.

Chart 4: Business investment growth rises qoq



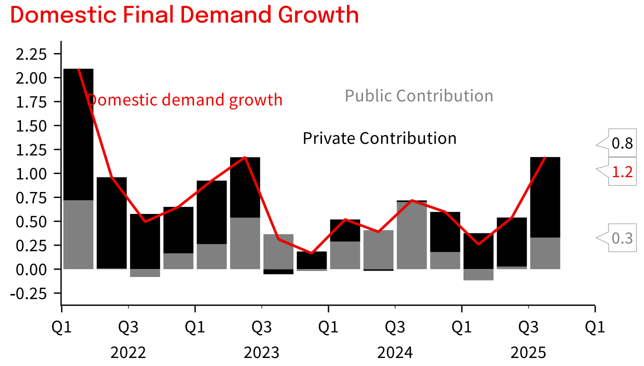
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Public consumption rose 0.8% qoq, contributing 0.2ppt to growth, after two consecutive quarterly falls. Growth was supported by health and education spending, on top of underlying support from social benefits spending.

Growth in public investment was 3.0% higher qoq following three quarters of declines, and contributed 0.2ppt to GDP. The rise was due renewable energy and water infrastructure projects from public corporations, with some additional support from road and rail projects.

Overall public final demand was 1.1% qoq higher and 1.5% higher over the year.

Chart 5: Domestic final demand growth

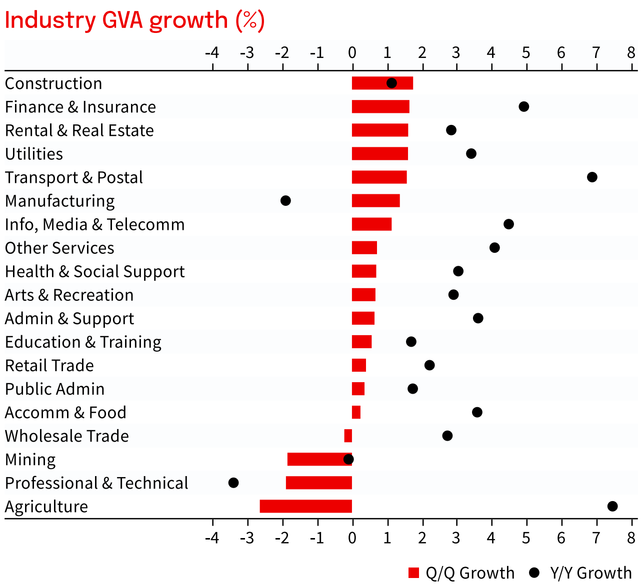


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

By industry, construction led broad based gains in **gross value added** (GVA) in Q3 with 15 of 19 industries in positive territory. Construction rose 1.8% qoq as residential construction activity retraced previous falls to be up 1.1% yoy. Information media & telecommunications rose 1.6% qoq, led by spending on data centres, which likely also spilled over into demand for electricity and gas supply that drove a 1.6% qoq rise in utilities.

Meanwhile, the volatile agriculture, forestry and fishing was the weakest industry falling 2.6% qoq. Mining fell 1.9% qoq due to strong iron ore production in Q2 and planned maintenance, with export volumes sustained by inventory drawdown in the quarter. Professional, scientific & technical services fell 1.9% driven by lower demand for IT consulting.

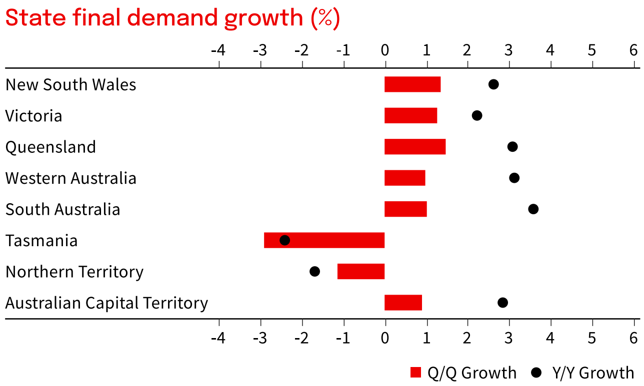
Chart 6: GVA broadly stronger across industries in Q2



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

State final demand (SFD) growth was positive across most states and up 2 to 3% over the year, supported by stronger consumption and investment. The exceptions were Tasmania and the Northern Territory, where declines in investment outweighed an increase in consumption. Public investment in Tasmania fell 34.2% qoq, while the Northern Territory saw the Q2 jump in private investment, unwind.

Chart 7: SFD up in most states, except for Tas and NT

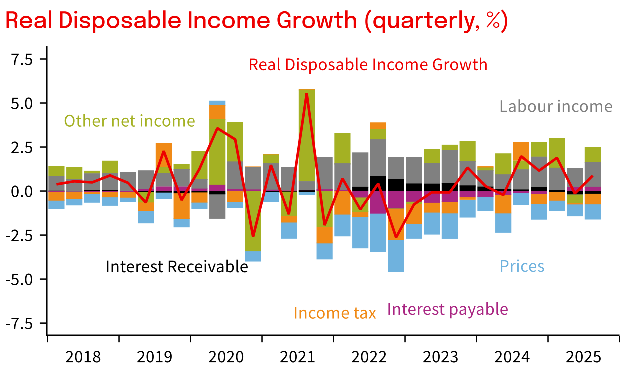


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Real disposable income rose 0.9% qoq and 3.8% yoy. A 1.7% qoq rise in compensation of employees was a key support and other net income returned to growth. Non-life insurance claims and social benefits fell in Q2 after a temporary boost from ex-tropical cyclone Alfred in the first quarter. Weighing on disposable income growth was a rise in income tax payable.

Upward revisions to prior data show stronger real disposable income growth over the past couple of years. The level of disposable income in Q2 was revised 2.2% higher, driven by higher imputed interest and dividend income.

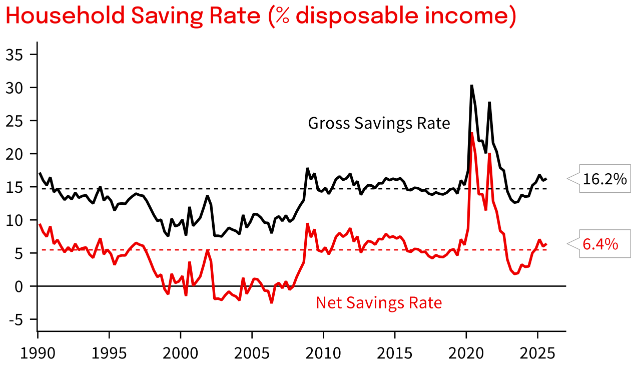
Chart 8: Labour income supports Q3 income growth



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

The stronger disposable income backdrop over the past couple of years helps explain the robustness of the recovery in consumption. Despite the stronger consumption outcomes over the past year, the saving rate has risen to 6.4%, above its 5yr pre-covid average.

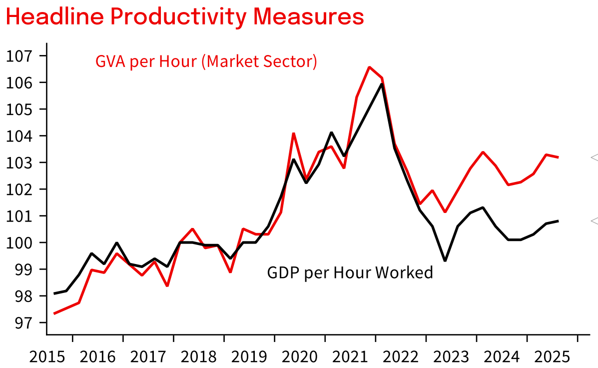
Chart 9: Savings rate rose to 6.4%



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

Productivity growth has improved a little after a period of very weak outcomes. Output per hour worked was 0.2% higher qoq to be 0.8% higher over the year. Market sector productivity was flat in the quarter but is 1.1% higher over the year. Weakness in the quarter, despite the strength evident in private domestic final demand, was due to weakness in mining GVA, where export volumes were supported by inventory drawdown, and by volatile farm sector output. We can say more about industry drivers after the labour account data on Friday, but outside of mining and agriculture market sector productivity growth looks to have been reasonably healthy.

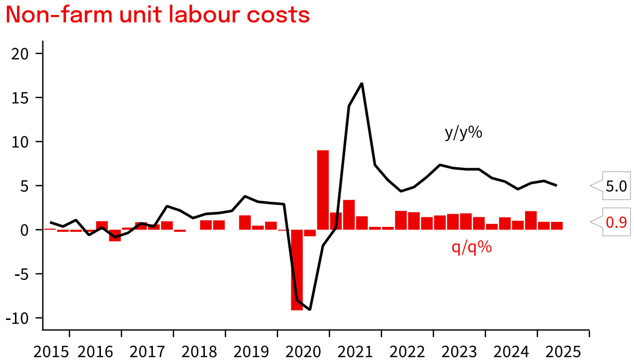
Chart 10: Productivity improves a little stronger over the year



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

Despite the modest improvement in productivity growth, nominal unit labour costs remain elevated alongside strong growth in compensation of employees.

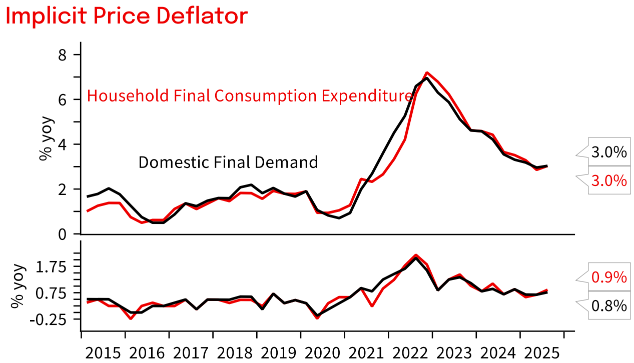
Chart 11: Labour costs remain elevated



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

Implicit price deflators from the national accounts have not shown as much of a cycle in quarterly growth as evident in CPI data. Conceptual difference play some role (electricity subsidies do not affect prices in the national accounts definitions and imputes rents are included instead of new dwelling purchase costs). Both the DFD and HFCE deflators show inflation remains somewhat elevated around 3% over the yare and annualising a little above that in Q3.

Chart 12: Deflators remain elevated



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

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