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Australian Economic Growth Improves but...

Our weekly view on asset allocation.

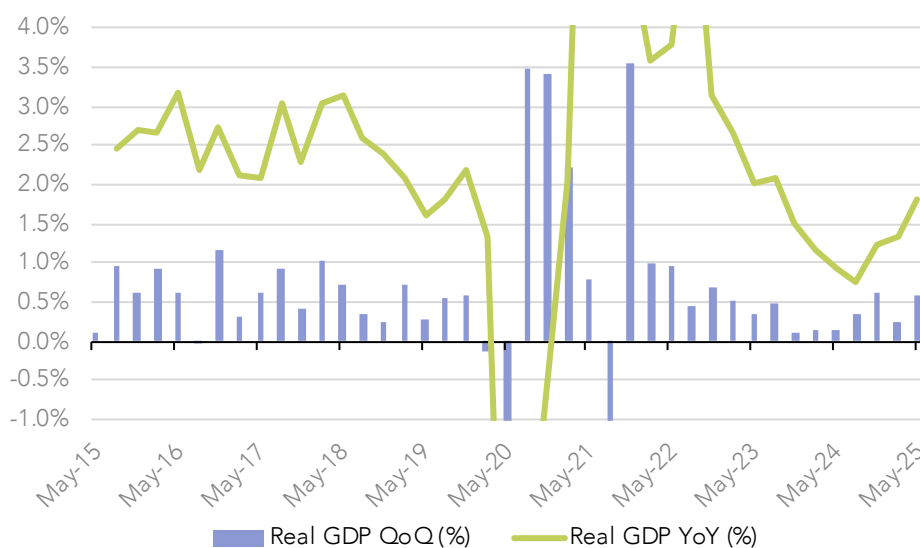
8 September 2025

From a Walk to a Jog

Australia's real gross domestic product (GDP) grew by 0.6% in the June quarter and 1.8% year-on-year, according to the latest figures released by the Australian Bureau of Statistics (ABS) on Wednesday, 3 September.

The figures surprised moderately to the upside, beating consensus expectations of ~0.4% - 0.5% growth for the quarter. The June quarter marked a rebound from a soft (weather impacted) Q1 result and returns to the growth rate delivered in the final quarter of 2024.

Figure 1: Australian GDP growth is improving but remains subdued



Source: Refinitiv, Wilsons Advisory.

Australian Consumer Emerging From Hibernation

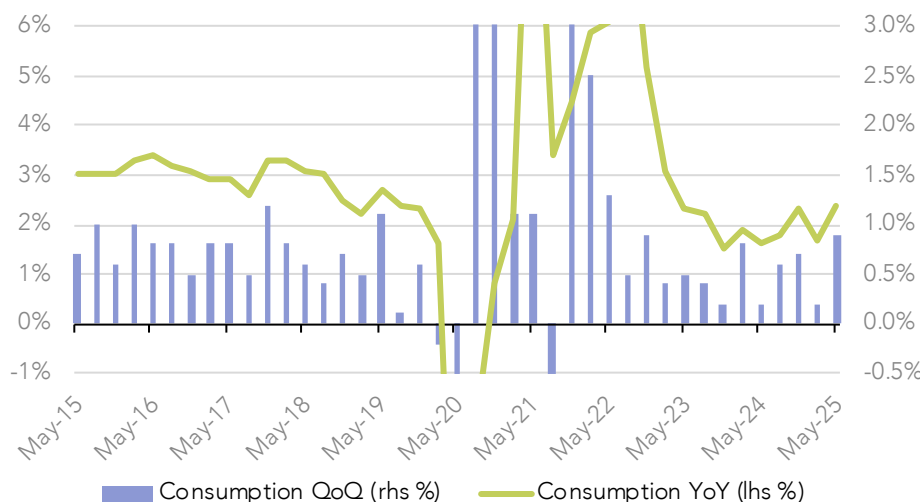
Most notably private demand improved in the quarter led by the household sector, with household consumption experiencing solid growth. This is consistent with trends seen in the recent Australian reporting season.

[Read Australian Earnings Season – A Top-Down View](#)

Household spending rose 0.9% in the June quarter, picking up from a 0.4% increase in March, driven largely by stronger discretionary spending. Discretionary categories were up 1.4%, compared to a 0.5% rise in essential spending.

The consumption growth improvement was supported by end of financial year sales and the proximity of Anzac Day to Easter, which boosted discretionary holiday spending. Consumption growth was also facilitated by strong disposable income growth and a decline in the savings ratio.

Figure 2: Australian consumption is leading the recent pickup



Source: Refinitiv, Wilsons Advisory.

A day after the national accounts, the relatively new ABS nominal "Household Spending Indicator" (HSI) rose further to 5.1% y/y in July. This was slightly above consensus expectations (5.0% y/y), and the fastest since Nov-23.

The trend of the monthly HSI is consistent with a continued improvement in household consumption into the third quarter.

Public Spending Boom Eases a Little

Public demand was relatively soft overall, as a strong contribution from government spending (e.g. social payments to households) was offset by a decline in public sector investment (lower spend on health and transport projects). The 3.0% y/y public demand growth rate was the slowest in two years, but is still running well ahead of GDP growth in year-on-year terms.

Private sector investment still lacklustre

Business investment remains relatively disappointing, falling -0.4% q/q, while the y/y pace slowed to 0.4%, the weakest since COVID. By industry, mining retraced (-1.3% q/q, -2.7% y/y); while non-mining was also weak (0.2% q/q, 1.0% y/y). Real dwelling investment slowed in the quarter, but is still rising solidly (0.4% q/q; 4.8% y/y), near the fastest annual growth since 2021.

Productivity up a touch but still stuck in a rut

Productivity (i.e. GDP per hour worked) improved, but remains weak (0.3% q/q, 0.1% y/y) and is still basically flat since 2016! GDP per-capita also finally edged up 0.2% q/q, but is still up only 0.2% y/y, after contracting since Q2-22, representing the longest 'per capita recession' in history.

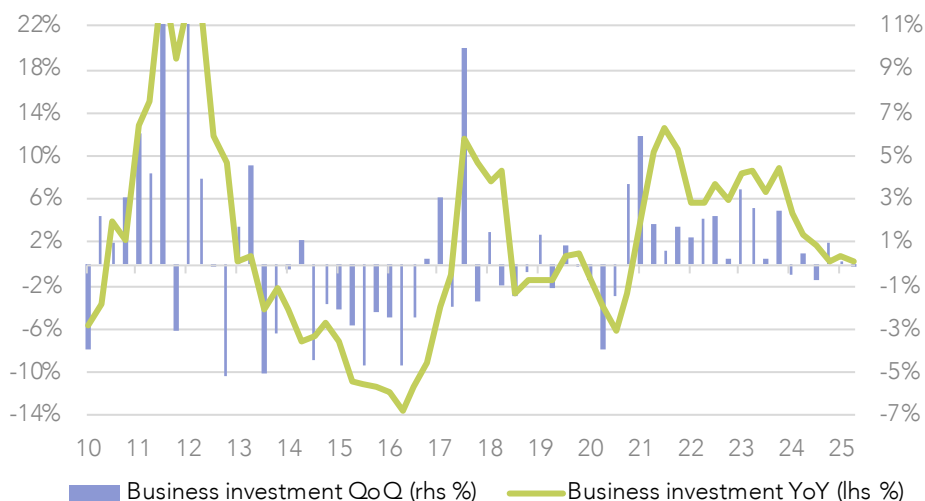
Economy Improving but Not Firing on All Cylinders

Overall, real GDP in Q2-25 supported our view that a modest recovery is underway. Importantly, the drivers of growth are changing, with RBA rate cuts supporting a 'handover' to private demand. Looking ahead, we expect GDP to remain supported by 1) the cashflow boost from RBA easing, & 2) rising household wealth, which is supporting consumption.

Good news is bad news for stocks and bonds?

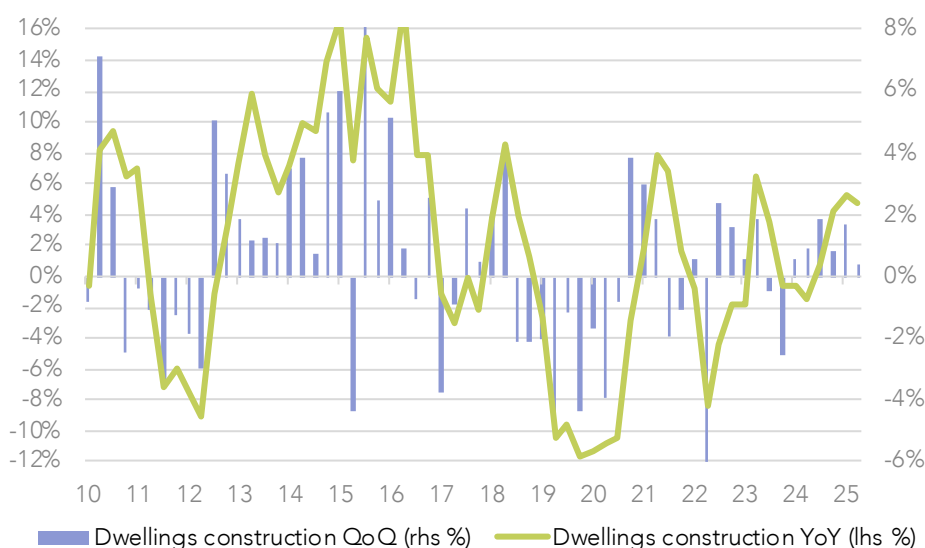
We still expect the RBA to hold rates at their September meeting; but cut -25bps in early November-25. Our base case remains for a final cut around February/March 2026, taking the cash rate to a trough of 3.1%, although this cut is looking a bit less certain.

Figure 3: Business investment remains very subdued



Source: Refinitiv, Wilsons Advisory.

Figure 4: Dwelling investment slowed in the quarter but looks to be recovering



Source: Refinitiv, Wilsons Advisory.

Figure 5: The economy still not showing any meaningful productivity growth



Source: Refinitiv, Wilsons Advisory.

This is not dissimilar to market pricing, though the somewhat stronger-than-expected GDP print and the recent higher than expected monthly CPI has seen the market move from fully pricing two more cuts to a less than fully priced second cut i.e. ~43 of 50bps. In short, two more cuts is still our central case, but the risk of just one more cut appears greater than the chance of three more cuts at this juncture.

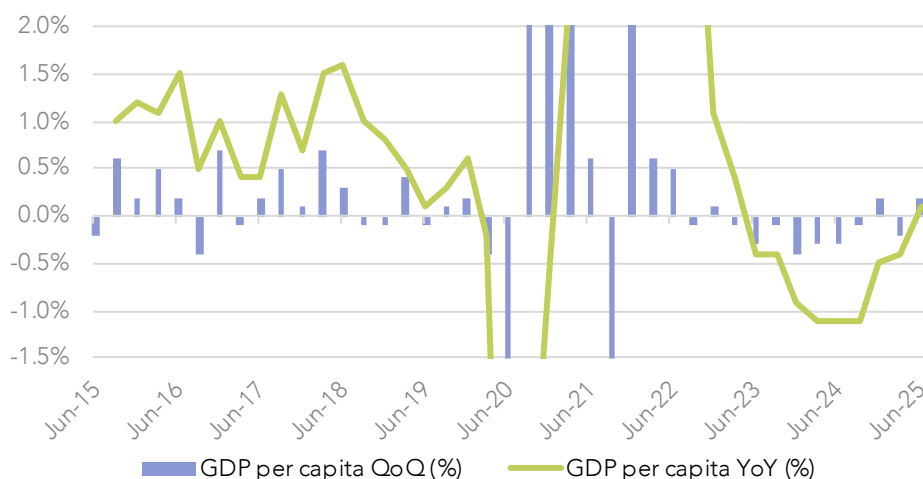
Long bond yields rose last week (and stocks fell), in part because of the stronger than expected GDP print, but also due to renewed global pressures on the long end of bond curves, as fiscal concerns bubbled up again. We see our own fiscal position as “relatively” benign and continue to see domestic fixed interest as relatively attractive, given the spread of longer-term maturities to the expected terminal cash rate. An improving economy aided by lower rates also supports the case for an ongoing tilt to small caps.

Economy responding to lower rates but what's beyond the sugar hit?

The growth transition from the public sector to the private sector appears underway, as consumption recovers with help from lower interest rates. However, the role of the business sector and productivity, as drivers of economic growth, is still underwhelming. These drivers need to kick into gear to reinvigorate GDP and private sector employment growth on a sustainable basis.

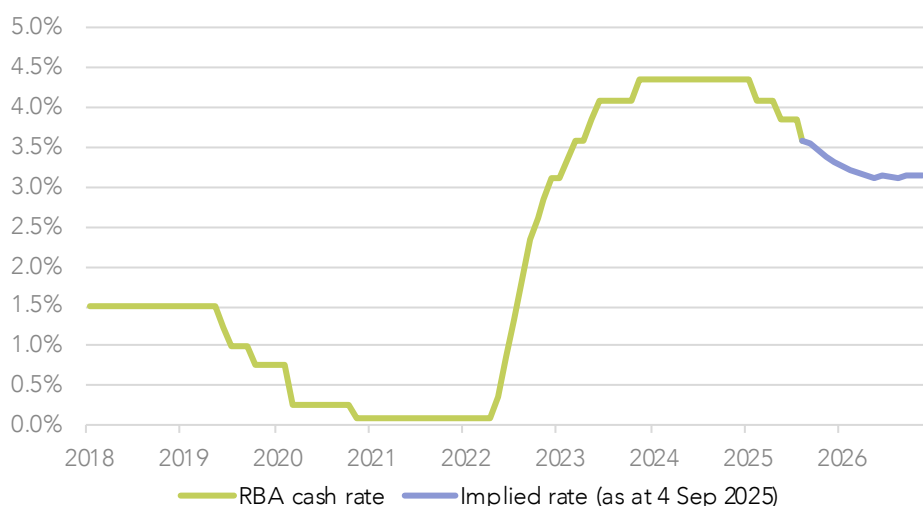
Outside of lower interest rates, there is clearly a role for the government to enact meaningful economic reform to drive productivity and reinvigorate private sector investment. However, this remains a somewhat vague aspiration at this juncture.

Figure 6: Some improvement in GDP per capita is evident



Source: Refinitiv, Wilsons Advisory.

Figure 7: The market still leans toward two more cuts but with less conviction



Source: Refinitiv, Wilsons Advisory.

Figure 8: Bond yields rose on the better than expected numbers but remain in a range



Source: Refinitiv, Wilsons Advisory.

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