## Economic outlook

The economic parameters used to prepare the 2025 PEFO are unchanged from those presented at the 2025–26 Budget. The increase in tariffs announced over the past few days have been more significant than expected. The potential magnitude and persistence of the economic effects of these announcements has resulted in greater‑than‑usual uncertainty around the outlook.

On 3 April 2025, the United States administration announced across‑the‑board tariffs on goods imports into the United States, ranging from 10 to 50 per cent. In response, China announced a range of countermeasures, including imposing a 34 per cent tariff on all goods imports from the United States. These tariffs, and other retaliatory responses, will weigh on international trade, investment and growth, and disrupt supply chains. This will have direct and indirect effects on the Australian economy. For further discussion about the risks, see 2025–26 Budget Statement 2: Economic Outlook, Box 2.1: Risks of an escalation in global trade tensions*.*

The direct impact from Australia’s bilateral trade with the United States is expected, in aggregate, to be limited given the United States accounted for 4.6 per cent of Australia’s goods exports in 2024. However, particular sectors will be more affected than others. The indirect effects on Australian exports through our other major trading partners, particularly China, will be larger. Ongoing uncertainty in relation to trade hostilities and associated volatility in financial markets will weaken consumer and business confidence, which will have implications for consumption and business investment, including in Australia.

Global growth is expected to remain subdued. The Federal Reserve recently downgraded its growth forecasts for the United States for the next three years and are a little below the forecasts presented in the 2025–26 Budget. In contrast, prior to recent tariff announcements, China’s near‑term outlook had improved on the back of fiscal support in both late 2024 and early 2025. In Europe, the incoming German government has introduced fiscal reforms to boost infrastructure and defence spending, which should support growth in Europe’s largest economy.

Growth in the Australian economy is expected to gradually pick up over 2025–26. The gains in employment made over the past few years have, to date, been preserved as inflation has moderated and returned to the Reserve Bank of Australia’s (RBA) target band. Wages are expected to grow over the forecast period, as is employment, which will support growth in household incomes and household consumption.

Public final demand growth is expected to moderate but will remain a significant driver of activity in the near‑term.

Business investment is expected to remain elevated, but growth will moderate as the pipeline of non‑dwelling construction projects is worked through. Growth in dwelling investment is expected to increase from 2025–26 in response to the gradual easing of supply side constraints, reduction in financing costs, and continued strength in housing demand.

Growth in exports is expected to remain weak. Non‑rural commodity exports are likely to remain subdued due to ongoing weaker conditions in the Chinese property sector and the effect of trade hostilities. Import growth is expected to slow in 2024–25 as households moderate their expenditure on overseas travel, while goods imports are expected to be supported by strength in infrastructure projects.

The unemployment rate has been broadly stable around 4 per cent over the past year and is expected to rise to 4¼ per cent by mid‑2025. Employment growth over the past two years has been driven primarily by employment in the non‑market sector. As economic activity picks up, market sector employment growth is expected to gradually recover while non‑market sector employment growth moderates.

The most recent Labour Force Survey data indicates potential downside risks to the outlook for both employment growth and labour force participation. However, further data is required to assess the likelihood of these risks materialising.

Growth in the Wage Price Index (WPI) has eased from its peak, alongside moderating inflation and labour market conditions, to be 3.2 per cent over the year to the December quarter 2024. Nominal wages are expected to grow by 3 per cent through the year to June 2025 and 3¼ per cent to June 2026.

Real wages, as measured by annual growth in WPI relative to the annual growth in CPI, grew by 0.8 per cent in the year to the December quarter 2024. Real wages are forecast to grow by ½ per cent in 2024–25 and ¼ per cent in 2025–26.

If productivity growth does not pick up as expected, this would pose a downside risk to wage growth.

Inflation has moderated, in both headline and underlying terms, since its peak in 2022. Growth in goods prices normalised rapidly in 2023 and 2024, and more persistent components of inflation, such as housing and insurance, showed signs of moderation in late 2024. As Commonwealth and state energy rebates expire, headline inflation will be temporarily higher in the near term. Abstracting from temporary factors, inflation is expected to sustainably return to the target band around the middle of 2025.

Nominal GDP is expected to grow by 4¼ per cent in 2024–25. Nominal GDP growth is then expected to slow to 3¼ per cent in 2025–26 as a pickup in economic growth is offset by a moderation in domestic inflation and sharp fall in the terms of trade.

Net overseas migration (NOM) has continued to decline from its peak in 2022–23, which largely reflects lower migrant arrivals. NOM is forecast to ease further over the forward estimates. Arrivals are expected to continue to decline in 2024–25 before stabilising in 2025‍–‍26. Departures are expected to pick up from recent sustained lows as the visas of those people who arrived after the pandemic approach their expiry dates. However, low departure rates pose the main risk to NOM forecasts going forward.

Given the increase in tariffs announced last week was larger than expected, there is now more uncertainty around the outlook for economic activity, commodity prices and inflation. Over the past few days, there have been significant falls in oil prices and a depreciation of the Australian dollar. Both developments would have implications for activity and inflation if they were to persist.

In addition, there have been significant falls in other commodity prices in recent days. If these lower commodity prices were to persist, this would have implications for nominal GDP and revenue. The impact of commodity price movements on nominal GDP and revenue forecasts is detailed in 2025–26 Budget Statement 7: Forecasting Performance and Sensitivity Analysis*.*

Table 2 presents the major economic parameters used in preparing the 2025 PEFO. These are unchanged from those presented at the 2025–26 Budget.

Table 2: Major economic parameters(a)

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|   | Outcome | Forecasts |
|  | 2023‑24 | 2024‑25 | 2025‑26 | 2026‑27 | 2027‑28 | 2028‑29 |
| Real GDP | 1.4 | 1 1/2 | 2 1/4 | 2 1/2 | 2 3/4 | 2 3/4 |
| Employment | 2.2 | 2 3/4 | 1 | 1 1/4 | 1 1/2 | 1 1/2 |
| Unemployment rate | 4.0 | 4 1/4 | 4 1/4 | 4 1/4 | 4 1/4 | 4 1/4 |
| Consumer price index | 3.8 | 2 1/2 | 3 | 2 1/2 | 2 1/2 | 2 1/2 |
| Wage price index | 4.1 | 3 | 3 1/4 | 3 1/4 | 3 1/2 | 3 3/4 |
| Nominal GDP | 4.1 | 4 1/4 | 3 1/4 | 4 | 5 1/4 | 5 1/2 |

1. Real GDP and Nominal GDP are percentage change on preceding year. Employment, the consumer price index and the wage price index are through‑the‑year growth to the June quarter. The unemployment rate is the rate for the June quarter. The labour market forecasts do not incorporate the February 2025 release of the ABS Labour Force.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.