

# Weekly Economic Update

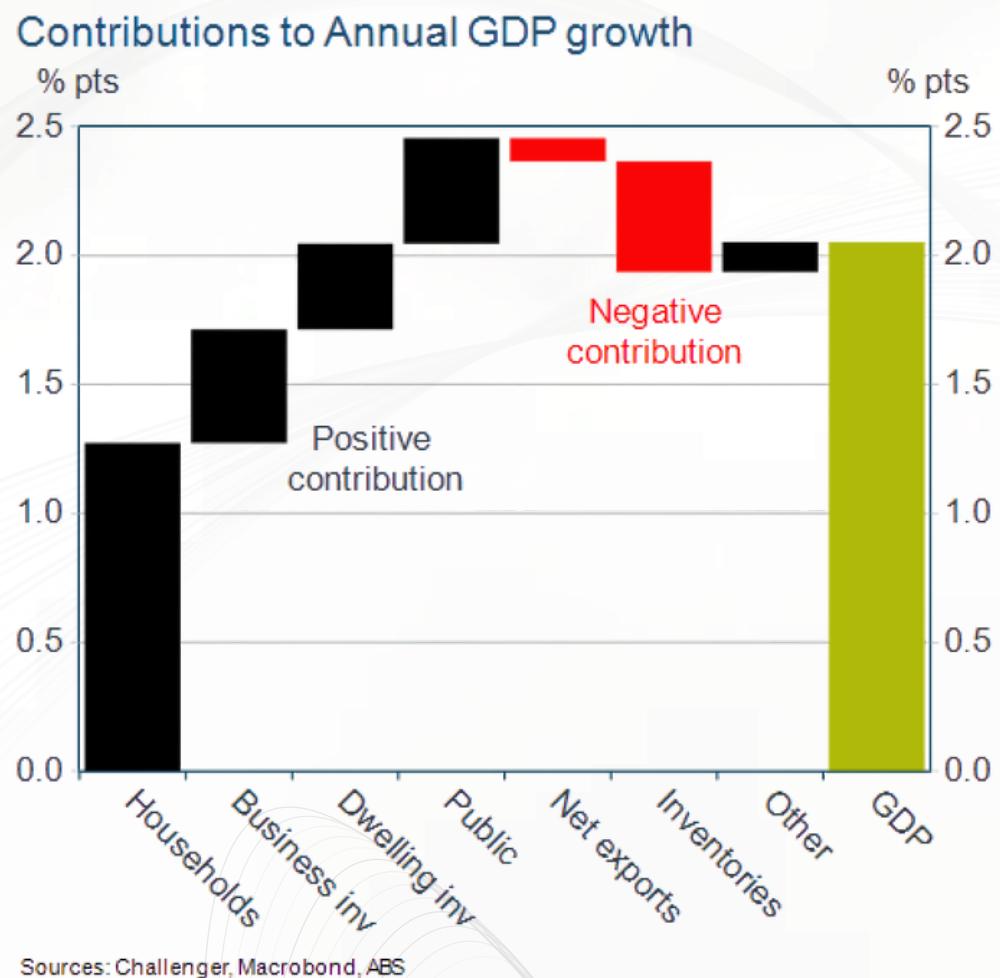


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ECONOMICS

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The main event this week was the release of the September quarter National Accounts on Wednesday. Amid the avalanche of statistics was news that Australia's rate of economic growth disappointed expectations last quarter.

**The economy expanded only 0.4%q/q and by 2.1% over the year.** Still, this is up slightly on growth in the year to June and the fastest pace in two years. *See Graph*



And the details were more constructive than the headlines. **The private sector continues to take ground from government as the main drivers of GDP growth.** Household consumption, home building and, belatedly, business investment, all increased (see waterfall chart below from Challenger).

The latter grew at the fastest pace in more than a decade, thanks partly to the boom in data centre construction in NSW. This is better-balanced growth, although the rise in GDP per capita was ... zero.

Another caveat is that this moderate rate of GDP growth this year is faster than the pace at which the economy can deliver goods and services, meaning inflation. **Potential growth, our effective speed limit, is driven largely by productivity, which increased last quarter and grew nearly 1% over the year.** That's a big improvement on the economy's supply side, although there is a heap of catching up to do - productivity barely grew over the last decade.

Separately, the **October house price data revealed the 10th straight lift in national home prices**, albeit with a slightly smaller gain (1%) than before. The house price gains in smaller cities again outpaced lesser gains for Sydney (0.5%) and Melbourne (0.3%). Over the year, prices in regional areas outpaced gains for capital cities. This is unusual, reflecting affordability challenges in the bigger cities.

Late last week, regulator **APRA announced restrictions from next February on home loans of 80% or more of a home's value for borrowers wanting a mortgage at or more six times income**. This small cohort is perceived to exhibit riskier borrowing behaviour but includes most first home buyers. The move signals that APRA is getting anxious that such lending is growing too quickly in the wake of the RBA's three interest rates cuts this year.

Also late last week, the government released public finance outcomes to the end of October. **The Commonwealth Government's deficit ballooned to nearly \$33 billion from \$10 billion in the fiscal year to June**. That result is better than Treasury had forecast, but such a marked deterioration in a short period of time highlights the urgent need for spending to be brought under control.

Finally, what does all this mean for interest rates? Some economists argue that APRA stepping on the lending brakes provides room for the RBA to lower interest rates. Maybe. But this economist thinks the next move in the cash rate is up. RBA Governor Michele Bullock conceded this possibility in Senate testimony this week, if inflation persists. For now, there is **no chance of interest rates going down** after next week's Board meeting.



**Stephen Walters**  
**Chief Economist,**  
**Optimal Economics**

**Call us:**  
+61 2 0499 976 196

**Email:**  
stephenwalters@optimaleconomics.com.au

**Website:**  
<https://optimaleconomics.com.au/>