

# Australia slides back into per capita recession

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Australia has again experienced a per capita recession as GDP grew by only 0.2 percent in the March quarter with the year-on-year growth coming in at just 1.3 percent, according to data released by the Australian Bureau of Statistics (ABS) earlier this week.

Output per head of population fell by 0.2 percent—the ninth per capita decline out of the past eleven quarters.

One of the main factors in the anaemic expansion was the fall in government spending. Releasing the data, ABS head of national accounts Katherine Keenan said: “Public spending recorded the largest detraction from growth since the September quarter 2017.”

She also pointed to extreme weather events which affected mining, tourism and shipping, but the main factor was lower private sector demand.

Labor Treasurer Jim Chalmers has said the private sector has to take over from spending in the expansion of the economy, but there is no evidence of that taking place and his response was to try to put the best face on a worsening situation.

Growth, he said, was subdued, but any growth in an uncertain world was a decent outcome.

“Public demand has played a role in keeping the economy from going backwards over the past two years, but we know strong and sustainable economic growth is driven by the private sector,” Chalmers stated.

But there is no sign of that taking place.

Commenting on the data to the Australian Broadcasting Corporation, the senior economist at the Westpac bank Pat Bustamante said the fall in public spending was in line with expectations, but the “private sector struggled to pick up the slack.”

There was the risk of a period of sub-par growth that “has been exacerbated by global uncertainties relating to US trade policy, which has weighed on confidence and the willingness to invest and spend.”

As an article in the *Australian Financial Review*

noted, business investment “edged up” just 0.1 percent in the March quarter with most of the gains in buildings and mining and energy projects.

“But investment in machinery and equipment, such as technology, fell 1.7 percent in the quarter and declined 3.7 percent in the past year. These are the very tools business needs to get into the hands of workers to make them more productive. It is not happening.”

And it does not look like happening any time in the future.

According to Diana Mousina, an economist at the financial firm AMP, “Forward-looking capital spending surveys suggest that sluggish business investment growth is likely in the next 12 months.”

This situation is not due to one-off factors but is part of a long-term trend. According to the firm’s chief economist Shane Oliver, business investment as a share of the economy was at its lowest level in 40 years.

In its report on the global economy issued earlier this week, the Organisation for Economic Cooperation and Development (OECD) found that business investment in Australia was 30 percent lower than it should be given its economic conditions. It said this was the third worst investment gap in major economies.

“Firms may hesitate to commit to long-term capital investment spending projects when the outlook for global demand, trade policy, or regulatory frameworks is unclear,” it said.

The OECD report noted that investment across the major economies had been lower since the global financial crisis of 2008 and that despite rising profits, firms had shied away from capital investment “in favour of accumulating financial assets and returning funds to shareholders.”

Pradeep Philip of Deloitte Access Economics pointed to this trend in Australia saying that businesses had increasingly been giving profits back to shareholders rather than investing.

The latest GDP numbers have blown apart forecasts by the Reserve Bank of Australia. In April it said that “the limited information available about activity in early 2025 suggested that the pick-up in GDP growth had been sustained.”

In May it said that GDP growth in the December quarter 2024 and year-end growth looked to have “picked up a little further in the March quarter.”

As *Guardian* economics columnist Greg Jericho, who drew attention to these RBA statements, ruefully noted: “Going from 1.3 percent [annual] growth in December to 1.3 percent in March is hardly ‘picked up.’”

The RBA has said it expects annual growth to be 1.8 percent by the June quarter which means that growth over the current quarter would have to be the highest in three years—a highly unlikely prospect given that the turbulence caused by the Trump tariff hikes is set to increase as they come into effect.

The biggest contribution to economic growth, such as it was, came from increased household spending. But this was not an indication of economic health but rather the reverse because one of the main reasons for the increase in consumption was rising spending on electricity, gas and fuel due to the end of some state government energy rebates. Increased rents were another factor.

The very sluggish GDP growth has prompted speculation that the RBA will continue to cut interest rates in an effort to boost the economy. But given the expected increase to inflation as a result of the trade war, the cuts are likely to be small.

The chief economist at the investment management firm Challenger, Jonathan Kearns, said that falling productivity and no cumulative growth in the past five years would “weaken the RBA’s confidence that inflation is slowing considerably” and “cutting cautiously still seems to be the order of the day.”

Any cuts will only make a marginal difference to home buyers who have been hit with increases in their mortgage payments of as much as \$1500 per month because of the rate rises since 2022. The mortgage rate is still 3 percentage points higher than it was three years ago and the rate for small business owners taking an overdraft loan is more than 4 percentage points higher.

Rising mortgage repayments have contributed 63 percent to the fall in living standards in that time.

But the spokesmen of the ruling class are demanding further attacks on the living standards of workers as the economy continues to weaken.

Responding to the decision by the Fair Work Commission to lift the minimum wage by 3.5 percent, which, although above the current inflation rate, it nowhere near compensates for past inflation, Australian Industry Group chief executive Innes Willox said the rise was “well beyond what current economic conditions can safely sustain.”

It would suppress investment further and “employment generation at a time our economy can least afford it.”

At the same time, finance capital is demanding further reductions in government spending which will hit health, education and other vital social services.

Articulating these demands, Deloitte’s Philip said: “The question governments need to focus on is... to think how to repair the [budget] balance sheet, because we know that crises will emerge again. Whether that’s in terms of natural disasters, whether that’s in terms of, pandemics, or indeed, financial crises.”



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