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## Tight Labour Market Offsets Weak Growth as Australia Eyes Modest Recovery

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Australia's economy has shown faint signs of recovery, with a resilient labour market and improved export prospects pushing growth forecasts slightly higher for 2025. Analysts have revised Australia's GDP (Gross Domestic Product) growth forecast to 1.7%, up from 1.5% in June, driven in part by China's near-term stability and steady demand for key commodities. However, the broader picture remains cautious, with consumer spending and business investment both lagging, keeping growth well below Australia's long-term potential of around 2.4% per year.

The jobs market continues to defy expectations, holding firm despite pressure from high borrowing costs and muted household confidence. Meanwhile, the Reserve Bank of Australia (RBA) is expected to resume interest rate cuts from August, following a pause in July. Further easing in the fourth quarter could bring the cash rate down to 3.35% by year's end. These rate cuts will offer much-needed relief to households, many of which have suffered a severe hit to real purchasing power after years of inflation outpacing wages. Household spending is forecast to lift in 2026, fuelling a modest acceleration in GDP growth to 2.2%.

Despite glimmers of consumer-led recovery on the horizon, business investment is expected to remain under pressure. Global uncertainty, including tariff disruptions and softer commodity prices, continues to weigh on Australian exporters. The mining sector, in particular, faces tight margins, prompting companies to delay new projects and capital spending. While these challenges persist, infrastructure programs at the state and territory level will provide a partial offset ensuring a minimum level of investment activity and job creation, even as private sector confidence remains shaky.



Australia's economic fundamentals remain sound, but serious questions linger about long-term productivity and competitiveness. The current federal government has been slow to tackle structural bottlenecks that limit business investment and suppress entrepreneurial growth. Instead, fiscal restraint and pro-business reform must take center stage if Australia is to regain momentum. Simply relying on temporary rate cuts and offshore demand is no substitute for policies that incentivize private sector innovation and reduce the tax and regulatory burden. For real recovery to take root, Australia must return to the kind of economic stewardship that rewards effort, encourages investment, and supports sustainable national growth.