ECONOMIC INDICATORS

EDITION 15

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> ***"It is very hard for an economy to support real wages growth in the longer run without productivity growth."***
>
> ***~ Michael Plumb, Head of Economic Analysis Department, Reserve Bank of Australia ~***

ECONOMIC INDICATORS

In this edition of our Economic Indicators publication, we explore key Australian and global economic signals, with a focus on the rapid rise in debt over the past decade. Also included is a spotlight on less visible economic trends and how they may affect superannuation outcomes. As always, we encourage readers to review, consider, and form their own perspective

AUSTRALIAN INDICATORS

Indicator	Value	Effective Date
Cash Rate Target[1]	3.85%	Jul 2025
Inflation CPI (Annual Change)[2]	2.4%	Mar 2025
Unemployment Rate (Seasonally Adjusted)[3]	4.1%	May 2025
GDP (Annual Growth)[4]	1.3%	Mar 2025
GDP Per Capita (Annual Change)[4]	-0.4%	Mar 2025
GDP Per Hour Worked (Annual Figure)[4]	-1.0%	Mar 2025
Terms of Trade (Annual Change)[4]	-4.1%	Mar 2025
Household Debt as a Share of Income[5]	182%	Dec 2024
Forecast National Net Debt[6]	$881.9 billion	2024-25
Forecast National Net Debt to GPD Ratio[6]	32.0%	2024-25

Key Insights

- GDP per capita has declined by -0.4%, and GDP per hour worked has fallen by -1.0%, indicating falling productivity and living standards despite headline GDP growth. This suggests that the economy is growing largely through population growth, not improved output or efficiency.

- The Terms of Trade have declined -4.1%, indicating that Australia is earning less for its exports relative to what it pays for imports, a drag on national income and a potential headwind for public revenue.

- Inflation (CPI) remains at 2.4%, within the RBA's target band but still impacting household budgets, especially when coupled with stagnant real wages and falling productivity.

- Household debt remains elevated at 182% of income, keeping households vulnerable to interest rate changes and limiting spending capacity.

- The unemployment rate has increased to 4.1%, suggesting a cooling labour market, though still historically low.

- The Forecast National Net Debt stands at $881.9 billion, or 32.0% of GDP, reinforcing the need for disciplined fiscal policy amid rising debt servicing costs.

- The RBA cash rate is steady at 3.85%. With productivity weakening and growth slowing, pressure may grow for future monetary easing, if inflation remains contained.

Rising Share of Government Spending in GDP

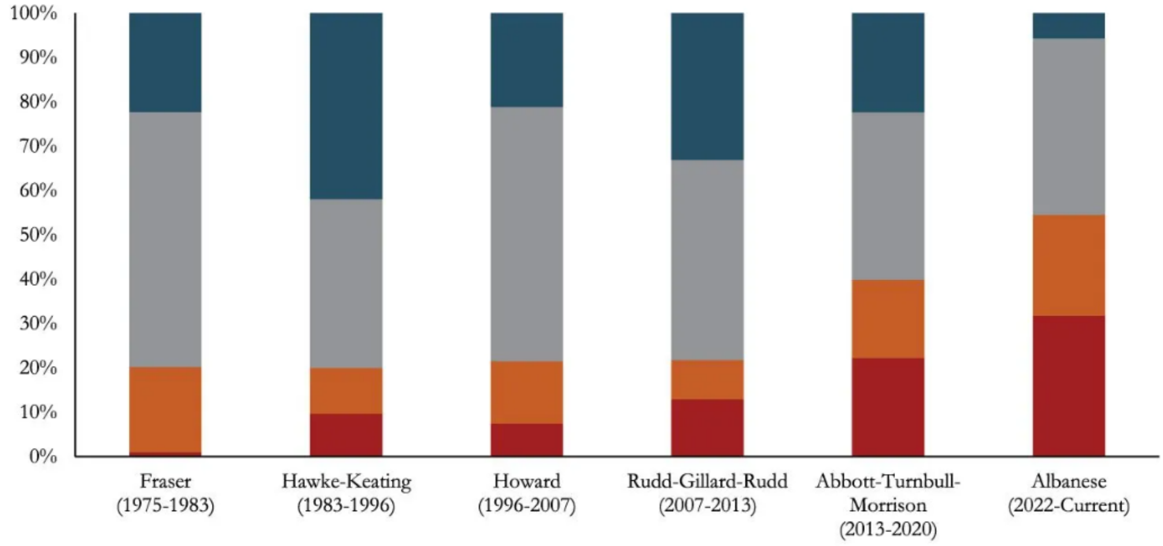
Research released by the Institute of Public Affairs highlights that government spending across federal, state, and local levels now accounts for a record 28% of Australia's GDP in FY2023–24, up from 21% a decade earlier. This increase represents an additional $129 billion in annual government expenditure.[7]

Since the Albanese government took office, 55% of total economic growth has been driven by increased government spending, more than double the share seen under previous governments, including Howard, Rudd-Gillard, and Hawke-Keating.[7]

Notably, federal government spending alone now accounts for nearly one-third of GDP growth, approaching levels seen during the COVID-19 response. These figures signal a growing reliance on public sector activity to sustain economic growth.[7]

According to Dr Kevin You, Senior Fellow at the Institute of Public Affairs, "There has been a profound shift in the foundations of the Australian economy. Today there is an unprecedented over-reliance on the taxpayer and debt funded government spending, which is now the largest share of the economy and the biggest contributor to economic growth,".[7]

Contribution of Sectors to GDP Growth
(Percentage)



Contribution of sectors to GDP Growth (Source: ABS/IPA*Note: Covid-era (2020-2022) has been excluded)*

Despite record government spending, Australia has experienced six consecutive quarters of negative per capita GDP growth since 2022, the highest number recorded for any government since 1970.[7]

Private investment and net exports now contribute just 6% of total economic growth, while the economy has remained afloat largely due to record migration levels and debt-fuelled public expenditure. Analysts warn this pattern is unsustainable and call for a renewed focus on productivity and fiscal discipline to ensure long-term prosperity.[7]

Proportion of GDP Attributable to Government Spending
(Percentage)

Proportion of GDP attributable to government spending (Source: ABS/IPA)

> ***We cannot simply spend our way to long-term, sustained economic prosperity. Unprecedented debt levels will have to be serviced and paid-off by future generations and it weakens the nation's ability to deliver infrastructure and the basic services the community expects.***
>
> *~ Dr Kevin You - Senior Fellow at the Institute of Public Affairs ~*

GLOBAL INDICATORS

Indicator	Value	Effective Date
Global Public Debt (% of GDP)[8]	95.1% (projected)	2025
Global Private Debt (% of GDP)[9]	143.0%	2023
Global Debt (Total)[10]	$324 trillion	Q1 2025
Global GDP Growth (Projected)[11]	2.8%	2025
US National Debt[12]	$36.13 trillion	Jul 2025
US National Debt (% of GDP)[18]	120.8%	Q1 2025
US Household Debt[13]	$18.2 trillion	Q1 2025
China Real Estate Investment (YoY)[14]	-9.9%	Mar 2025
UK Public Sector Net Debt (% of GDP)[15]	96.4%	May 2025

Key Insights

- Global debt remains historically high, with total debt reaching $324 trillion in Q1 2025. Public debt now sits at 95.1% of global GDP (projected for 2025), while private debt accounts for 143% of GDP - highlighting continued reliance on credit across sectors and regions.

- Global economic growth is expected to remain modest at 2.8% in 2025, while debt accumulation outpaces output in many economies - raising sustainability concerns.

- The United States' national debt has now exceeded $36.13 trillion (Jul 2025), while household debt stands at $18.2 trillion (Q1 2025) - both near record highs, reflecting rising public and private sector leverage.

- China’s real estate investment fell 9.9% year-on-year to March 2025, signalling continued weakness in a critical pillar of its domestic economy.

- The United Kingdom’s public sector net debt reached 96.4% of GDP in May 2025, reflecting ongoing fiscal pressure post-COVID and amid slower growth.

Global Public Debt

Reuters reports that global debt rose by around $7.5 trillion in the first three months of 2025 to hit a record high of over $324 trillion. This is more than quadruple the average quarterly increase since the end of 2022. [10]

As interest payments consume a larger share of government budgets, many nations face reduced capacity to invest in essential services and infrastructure. High debt levels also limit governments' ability to respond to future economic shocks, and can lead to rising borrowing costs and market volatility.[16]

For emerging economies, the risk of sovereign debt distress is growing, while the close links between public debt and financial institutions heighten systemic vulnerability. If not addressed, excessive debt may hinder long-term growth, increase intergenerational burdens, and leave economies more exposed to future crises.[16]

Global Private Debt

- Elevated private debt can create systemic risk, especially in tightening interest rate environments.
- Heavily leveraged households and companies are more vulnerable to economic shocks, defaults, and reduced spending, all of which can trigger broader downturns.
- Both the IMF and Institute of International Finance (IIF) consistently flag high private debt levels as a central risk in their debt and stability reports.

Global Financial Stability: Rising Risks Ahead

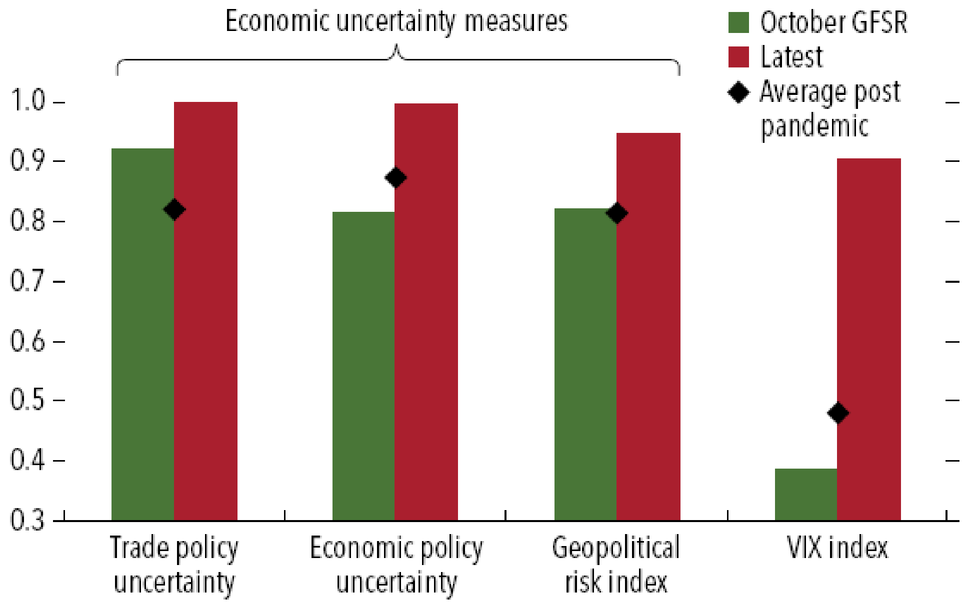
According to the IMF, global financial risks have increased due to higher interest rates and ongoing uncertainty around trade and economic policies. Three key concerns stand out:

- **Expensive Markets:** Even after recent market swings, shares and corporate bonds in some areas remain expensive. If the global outlook worsens, these prices could fall, putting pressure on investors and economies — especially in emerging markets.
- **High Leverage Outside Banks:** Investment firms like hedge funds and asset managers are now borrowing more and are more connected to the banking system. In unstable markets, they may need to sell assets quickly, which could cause wider disruptions.

- **Rising Government Debt:** Countries with large government debts may face trouble if investors lose confidence. This could lead to more ups and downs in bond markets. For many emerging economies, borrowing is already the most expensive it has been in a decade.

The IMF warns that these risks could feed off each other. A problem in one area, like debt or market volatility, could trigger issues elsewhere in the financial system.[17]

Economic Uncertainty and Financial Volatility
(Percentile)



Sources: Bloomberg Finance L.P.; Baker, Bloom, and Davis 2016; Caldara and Iacoviello 2022; and IMF staff calculations.
VIX – Chicago Board Options Exchange Volatility Index

SUPER SPOTLIGHT

Economic indicators can have a direct impact on superannuation outcomes.

- Rising global and national debt levels may lead to higher interest rates and tighter financial conditions, which can place downward pressure on investment returns.
- Persistent inflation erodes the purchasing power of future retirement income, meaning your super will need to stretch further in real terms.
- Additionally, some super funds hold a significant proportion of illiquid assets, such as property and infrastructure, which can delay the fund's ability to respond swiftly during periods of market stress.

These factors highlight the importance of staying informed and ensuring your super strategy aligns with both current conditions and your long-term goals.

LOOKING AHEAD

As central banks pivot from tightening to easing, the interplay between interest rates, inflation, and debt servicing will shape the next economic phase. Australia's fundamentals remain resilient, but household leverage, subdued productivity, and global financial instability signal the need for caution and proactive financial management.

GOT QUESTIONS?

As super specialists, we have a keen awareness of key economic indicators and have been assisting individuals with growing and protecting their super for over 25 years.

Got questions about the economic impacts on your super?

Give us a call on **1800 467 467** or email **yoursuper@superwiser.com.au**

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