Economics and Markets Research

Australian Forward View

In this issue

Less of a spike, more of a grind

- **We continue to forecast below trend growth this year and next and a gradual rise in the unemployment rate.**
- **The squeeze on households from high fuel prices is less acute than earlier feared, which may mean near term spending is a bit more resilient**
- **But slower real income growth and the headwind from the housing market mean we continue to expect consumption growth of just 1.4% over 2026 and 2027.**
- **Fuel prices fell steadily through Q2 but have reversed higher in recent weeks. The Middle East conflict still points to elevated uncertainty, higher inflation, and slower growth, but now looks less like an acute spike and more like a rolling grind.**

Recent data have not shifted our assessment that the economy lost some momentum through H1 2026. The June NAB Business Survey showed business conditions steady at +3, below the long run average and consistent with a slowing in activity growth. The survey also suggests that the impact of the Middle East conflict in terms of both activity and price pressures has been less severe than feared.

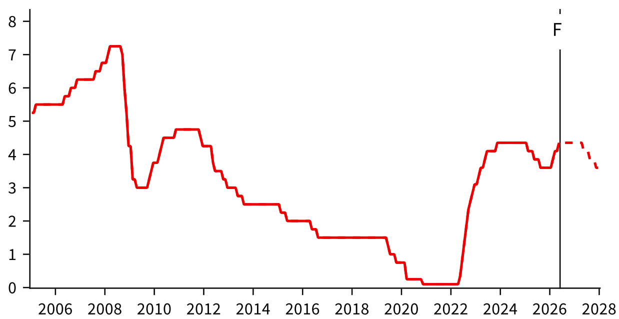
May CPI data showed evidence of broader passthrough of input cost pressures to end consumer prices and trimmed mean inflation still tracking well above the mid-point of the RBA's target band. The cycle in refined oil product prices highlights that inflation risks remain elevated. Although underlying inflation had been improving prior to the conflict, this trend will take time to reassert. We continue to forecast trimmed mean CPI of 3.5% over 2026, before slowing sharply to 2.6% over 2027 as imported pressures give way to cooler domestic demand.

Overall, our forecasts are little changed this month. We continue to see growth slowing to 1.5% this year (from 2.5% over 2025) as higher interest rates, more elevated inflation, and falling house prices flow through to softer activity. In that context, the unemployment rate is seen rising steadily to 4.8% late next year. While inflation risks are elevated, we think that the slowing activity backdrop is enough for the RBA to hold rates steady this year. Looking further ahead, fading inflation risks and a domestic environment that is less capacity and labour constrained provides the space for gradual policy normalisation from mid next year.

Key Forecasts	2024	2025	2026	2027
Real GDP (b)	1.2	2.5	1.5	1.9
Employment (a)	2.3	1.5	1.6	1.1
Unemployment Rate (b)	4.0	4.3	4.6	4.8
Headline CPI (b)	2.4	3.6	3.9	2.4
Trimmed Mean CPI (b)	3.3	3.4	3.5	2.7
RBA Cash Rate Target (b)	4.35	3.60	4.35	3.60
3-year Yield (b)	3.8	4.1	4.5	4.0
$US per A$ (b)	0.62	0.67	0.70	0.67

Source: National Australia Bank, Account in-house, Macrobond
Notes: (a) annual average growth, (b) end-period, shaded area represents NAB forecasts.

RBA Cash Rate Target and NAB Forecast



Source: National Australia Bank, RBA, Macrobond

Authors: Gareth Spence, Taylor Nugent, Jessie Cameron, Michael Hayes, Sally Auld

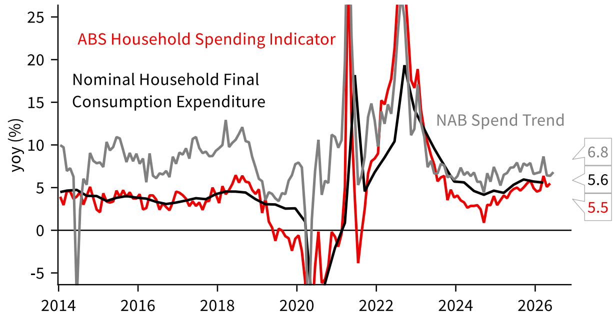
Consumption

Household spending appears to have been more resilient in Q2

Partial indicators have been difficult to read, with conflict in the Middle East adding volatility to fuel and travel-related spending categories. This was evident in the ABS Monthly Household Spending Indicator, which rose 1.3% in May and reversed April's decline as fuel prices eased and refund effects faded. Outside these volatile components, discretionary spending appeared particularly resilient.

That resilience seems to have carried into June, with the NAB Spend Trend rising 1.2%. Growth was led by discretionary spending, in particular hotels, travel & transport. Household goods were also supported by vehicle and appliance purchases during EOFY sales.

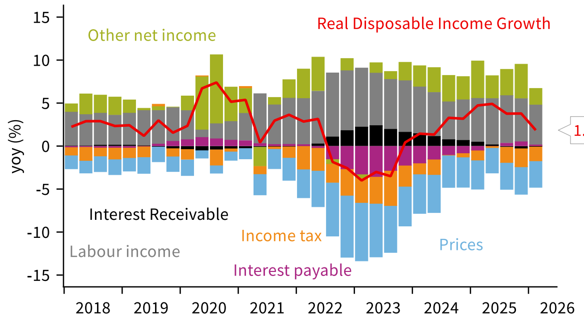
Household Spending Indicators and Consumption



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Account in-house

Taken together, these indicators suggest consumer spending may be a little more resilient in the near term than earlier expected, although we have not shifted our Q2 real consumption forecast of 0.4% qoq.

Real Disposable Income Growth

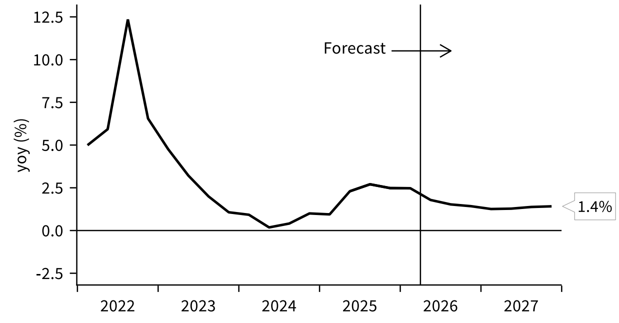


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Household spending is sensitive to swings in fuel prices, and declining prices through the past 3 months have eased pressure on household incomes, supporting spending relative to the pullback we might have seen under persistently higher prices. But while the squeeze on household incomes in Q2 has been less acute, fuel prices are rising again and the slowdown in the housing market is likely to weigh on spending through both wealth effects and weaker turnover-related spending.

As a result, it is a shift in timing rather than direction, and we continue to forecast consumption of 1.4% in 2026. This is a material slowing from the 2.5% pace seen over 2025.

Real Household Consumption



Source: ABS; NAB

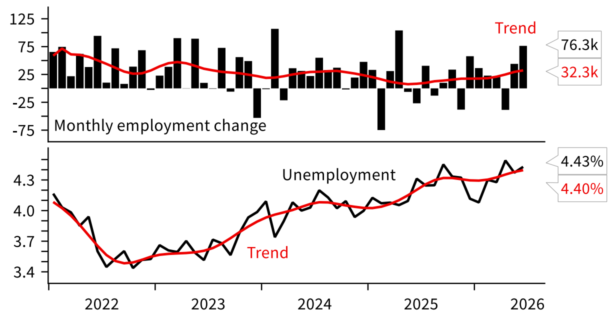
Labour Market

Unemployment is expected to trend up slowly as labour demand softens

Since our June Forward View, we have seen two employment prints. May showed the expected payback after residual seasonality drove April weakness, but June's surprise surge in employment means trend employment growth has strengthened.

Importantly, stronger employment growth has been met by labour supply, meaning the unemployment rate remained at 4.4% in June, as expected. A theme of the past couple of years has been a labour supply response to cost-of-living pressures. People joined or stayed in the workforce, and those working part time sought more hours, when real income pressure was most acute. It is too early to be conclusive, but there are signs those themes could be re-emerging. Fewer people left employment, unemployment rose, and more people were seeking additional hours.

Australian Employment

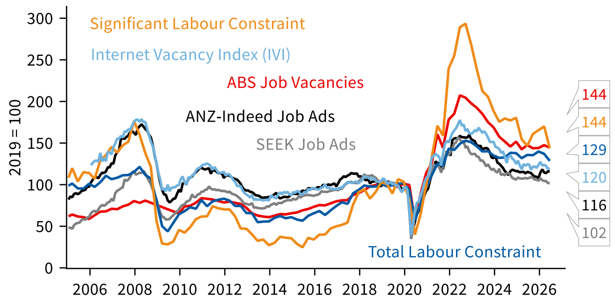


Source: National Australia Bank, ABS

Meanwhile, leading indicators for labour demand are mixed but have broadly softened in recent months. Seek Job ads, Internet vacancies, and the NAB Business Survey employment indicator data have all weakened in their latest releases. Although ANZ-Indeed job ads are an exception.

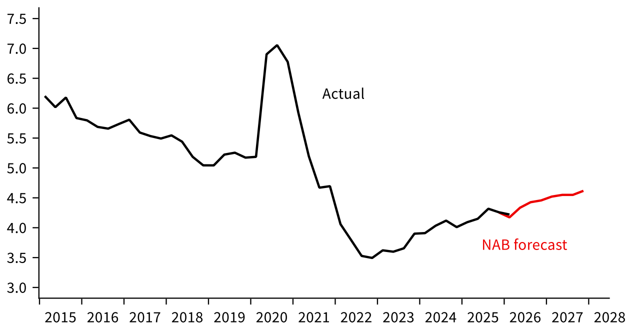
We see employment growth slowing looking forward and continue to think the unemployment rate will rise a little further over coming quarters, ending the year at 4.6% and rising gradually to around 4¾% by late 2027.

Measures of labour demand



Source: National Australia Bank, Australian Bureau of Statistics, ANZ-Indeed, SEEK Australia, National Australia Bank, Jobs & Skills Australia, Macrobond

Unemployment Rate Forecasts



Source: National Australia Bank, RBA

While the unemployment rate has trended higher from its post pandemic trough, cooling has been uneven. Unemployment has risen more among those previously employed in white collar work than those in blue collar roles, and labour as a constraint on output for firms remains more common in the construction industry than elsewhere in the economy.

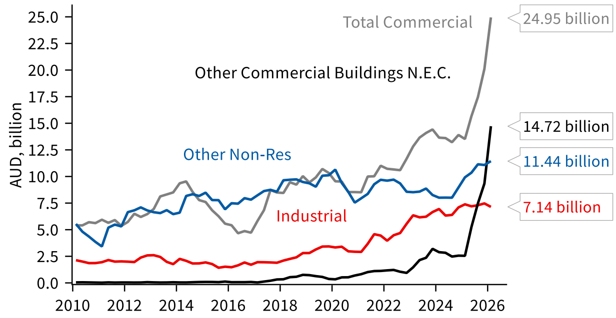
That unevenness has also been reflected in wage outcomes. Those on individual agreements, where wage growth is more sensitive more quickly to labour market conditions, have seen wages growth cool. Collective agreements tend to be inertial, and there is a risk they remain elevated due to claims that seek to catch up from earlier real wage declines. Meanwhile, Fair Work Commission decisions continue to support overall wage growth, but through award wage outcomes running above broader wage growth and through a work program that seeks to correct for historical undervaluation of work in female-dominated industries.

Businesses

Business confidence has mostly recovered the initial shock from the Middle East conflict

Building activity data showed the pipeline of work related to data centres continued to swell in Q1. The value of private non-residential building work yet to be done rose 12.6% qoq, driven by data centres (commercial buildings not elsewhere classified); see Chart below. The pipeline of data centres under construction surged to now be more than twice the value of the pipeline for total industrial buildings. Over the year, data centres as a share of the commercial pipeline have grown from around 19% up to almost 60%.

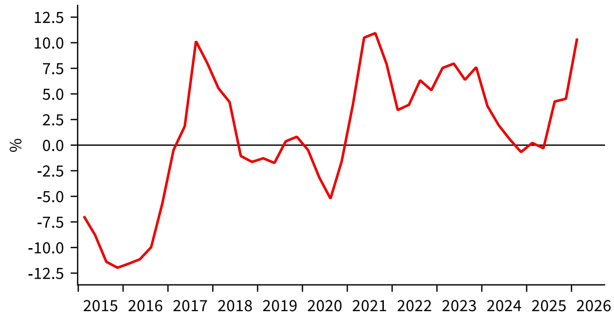
Private Building Acitivity Pipeline



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Outside of building activity, engineering construction work done rose 7.1% qoq in Q1, but strength was due to a narrow ~$3.5b jump in Western Australia that we expect to unwind in Q2. Across other regions, the Q1 results were broadly flat or down and trend work done fell 0.3% qoq in Q1.

Private New Business Investment, Year-ended



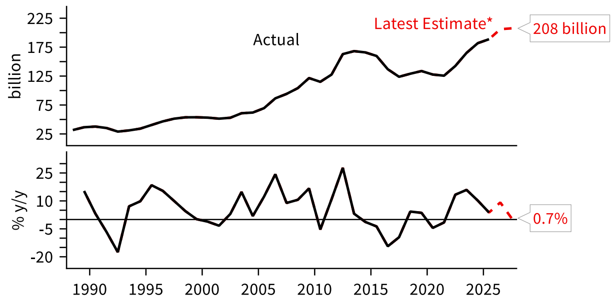
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

More broadly, recent strength in business investment has been driven by data centre activity. Most of the associated equipment, plant and machinery investment is imported and can be lumpy. Trade and capex expectations data point to a fall in the imported component in Q2, but for the level of investment to remain elevated.

Going forward, data centres will continue to drive business investment growth, but we expect a handover from equipment plant and machinery-led growth to something more balanced as associated buildings and construction activity picks up further.

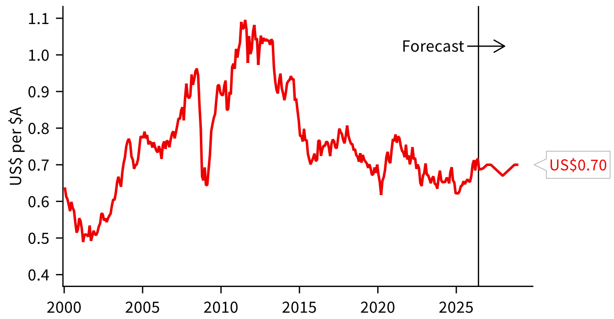
Beyond data centres, we see new business investment weakening as increased uncertainty and slowing economic activity weigh on investment decisions; see Chart below. To gain insight on businesses' intentions we can use the ABS' capex expectations data to understand plans for business investment across industries, for further information see our recent note which addresses the capex outlook beyond data centres.

Nominal Capital Expenditure Actuals & Expected (FY)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond
* Latest estimates are adjusted using their long-run realisation ratio.

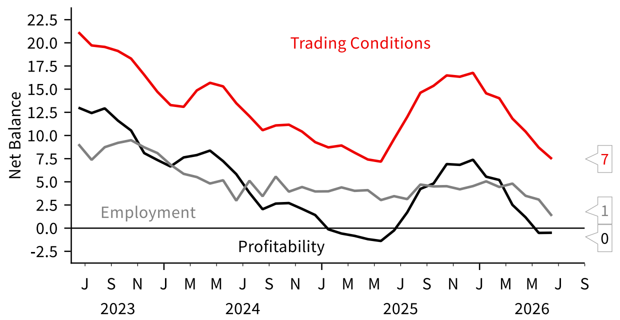
AUD/USD



Source: Bloomberg; National Australia Bank

The NAB Business Survey shows confidence has now recovered most of its March fall but remains at a low level. Conditions have been more resilient, but are below levels in late 2025 and a little below their long run average. As the Chart below illustrates, both Trading Conditions and Profitability have unwound the gains of 2H 2025, while the Employment index is now lower than it was through 2025.

Components of Business Conditions, Trend



Source: National Australia Bank, National Australia Bank, Macrobond

Foreign Exchange

AUD/USD appreciating trend runs out of steam

The AUD/USD and AUD TWI are around 5% higher compared to the start of the year, but earlier support from positive and widening interest rate differentials has been exhausted. Australia's cash rate is the highest within G10 pairs, this carry appeal along with resilient risk sentiment has helped the AUD sustain levels above $0.70c for most of the time this year, barring brief visits below 69c during the initial phase of the Middle East conflict and again late in June/early July on the back of broad US dollar strength fuelled by concerns the FOMC may need to lift rates over coming quarters.

The AUD is now back around 70c, and NAB FX Forecasts anticipate it will end the year around the same level. Our expectation for RBA cuts next year could see the AUD fall back towards 67c sometime in the second half of 2027. Key near-term risks centre on developments in the Middle East. The AUD is vulnerable to downside global growth risks and deterioration in risk sentiment. Domestically, weaker than expected growth outcomes may also drive some under-performance.

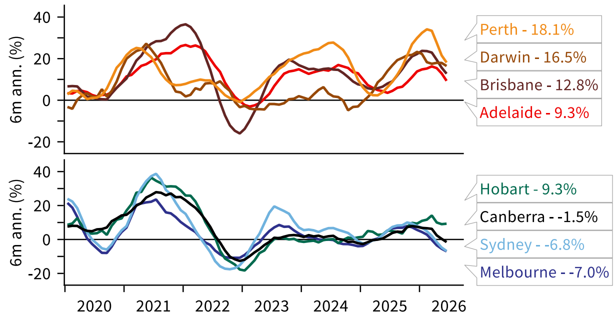
Housing

House price declines are broadening

Dwelling prices across the combined capitals fell for the third consecutive month, declining by 0.6% in June, which was the largest monthly decline since December 2022. Prices are now 1.3% lower over the past three months but remain 2.9% higher over the year. This reflects a combination of factors, including three interest rate increases this year, affordability constraints becoming more binding after an extended period of strong price growth, and softer sentiment and investor demand following the Federal Budget's tax reforms.

Prices in Sydney and Melbourne have been falling for a few months, but the timeliest data suggests price declines are becoming broader based, with Brisbane and Adelaide set to join Sydney and Melbourne to record a fall in prices in July. That would reflect a sharp shift in price momentum. Growth had slowed over the first half of the year, but the mid-sized capitals were still recording strong annualised growth.

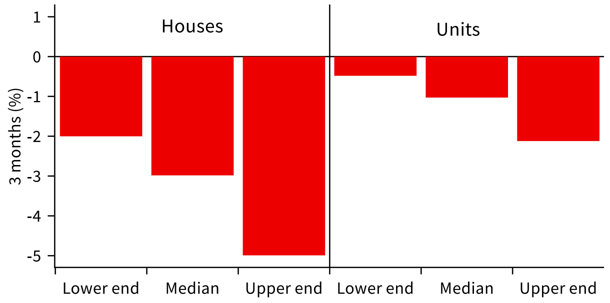
Dwelling Prices Growth - Greater Capital Cities



Source: National Australia Bank, Cotality Australia, Macrobond

The slowdown has been concentrated in higher-value properties and in houses rather than units. In Sydney, median house values have fallen by around 3% over the past three months. House prices at the 75th percentile are down by around 5%, compared with declines around 2% at the 25th percentile. Unit values have also been more resilient.

Sydney Dwelling Prices



Source: National Australia Bank, Cotality Australia, Macrobond
Notes: Upper end is the 75th percentile and lower end is the 25th percentile.

Our dwelling price forecasts are unchanged. We expect the weighted capital-city index to fall by 2% over 2026 led by 6 to 7% in Sydney and Melbourne. However, risks are skewed to the downside, with the recent shift in momentum proving a bit sharper than anticipated in our current forecasts.

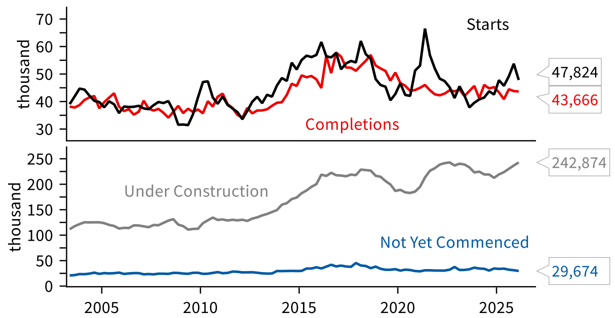
Dwelling Price Forecasts (%)	2023	2024	2025	2026	2027
Sydney	11	3	6	-6	1
Melbourne	4	-2	5	-7	2
Brisbane	14	11	15	9	3
Perth	16	18	17	14	3
Adelaide	9	14	8	7	4
Hobart	-2	1	7	7	2
Combined Capitals	**10**	**5**	**9**	**-2**	**2**

Source: Cotality (Hedonic Value Index)
Notes: Year-ended growth; forecast observations shown for December; Shaded area represents NAB forecasts.

Conditions in the rental market remain tight. The capital-city vacancy rate is still very low at around 1.7%, while advertised rents are rising by 5.8% on a six-month annualised basis. Rental momentum is uneven across capitals, with growth strongest in Hobart and Perth, and softer in Sydney and Melbourne.

On the supply side, residential dwelling starts fell by 11% in Q1, driven by apartments, but remain around 13% above their mid-2023 low. Dwelling completions have been broadly flat. Starts continue to exceed completions and the stock of dwellings under construction remains elevated at around 243k dwellings, with pipelines remaining most elevated outside of NSW and Victoria.

Residential Construction Pipeline



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

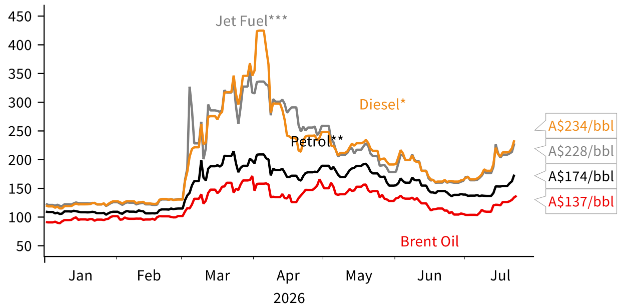
Inflation

Headline inflation to peak lower, but progress on trimmed mean will still take time to reassert

We expect Q2 CPI next week to confirm that headline inflation in the quarter will be well below the RBA's May forecast for 4.8% yoy (we expect 4.0% yoy). Quarterly trimmed mean inflation is unlikely to surprise the RBA's May forecast to the upside, but we forecast 0.9% qoq, which still represents strong passthrough of cost increases to final prices.

We continue to base our forecasts on the assumption that Brent oil prices are around $80 in early 2027. As a result, while our Q2 forecasts have tracked the rapid fallback in petrol and diesel prices lower, our longer-term forecasts are little changed.

Oil Prices and Singapore refined benchmarks



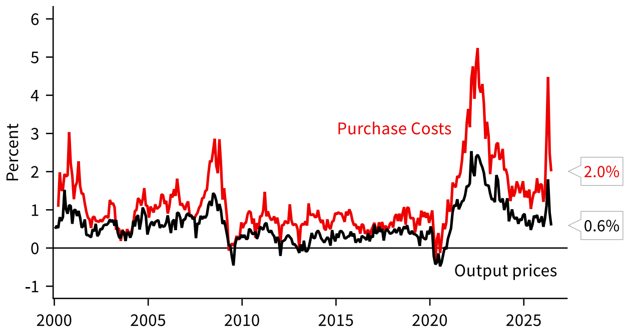
*Gasoil 10ppm, **Mogas 95, ***Jet Kerosene
Source: National Australia Bank, Bloomberg

Uncertainty around the path for the prices of refined fuel imports remains elevated, with implications for the evolution of business input cost pressures and headline inflation outcomes.

The NAB Business Survey showed cost pressures were receding alongside the fallback in fuel prices, but recent developments in the Middle East show that the cost shock looks set to be less of a one-off spike and instead something that proves more grinding and protracted. That speaks to two-sided risk around our outlook for trimmed mean inflation to end the year at 3.5%.

The extent and duration of input cost pressure remains uncertain, but the softening in profitability and weakening in margins in the Quarterly NAB Business Survey show that while passthrough is occurring, not all of the cost pressure is finding its way into end prices.

NAB Survey Prices

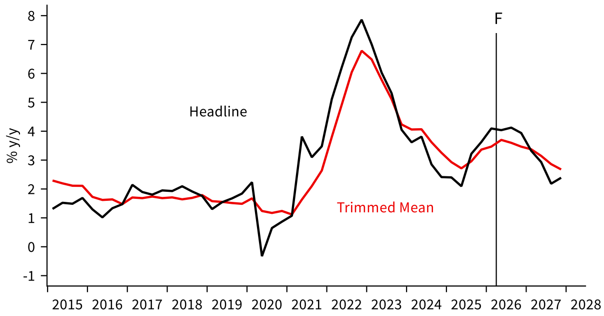


Source: National Australia Bank

Our forecasts anticipate higher costs will continue to be passed through, but we forecast ongoing below trend growth to limit the extent of passthrough.

Over time, the domestic drivers of inflation return as the dominant driver in our forecast, and we expect trimmed mean inflation consistent with the mid-point of the RBA's target late next year in response to ongoing gradual easing in capacity pressures and the labour market.

Inflation and NAB Forecast



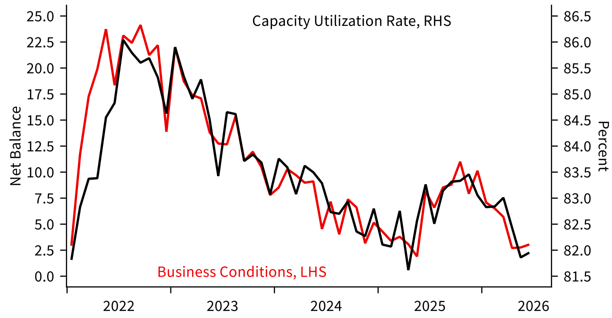
Source: National Australia Bank, ABS, RBA

Monetary Policy

We expect the RBA to remain on hold at 4.35% for the remainder of 2026, before beginning to cut rates from mid-2027.

Recent dataflow suggests that growth has eased through H1 2026 from the solid pace seen over 2025. Business conditions in the NAB business survey have eased in trend terms from around 10 index points (above average) in early 2026, to now be tracking a little below the long-run average. At the same time, capacity utilisation has eased and is now much closer to its long-run average. This suggests that capacity pressures are now less acute than was the case in early 2026.

The rise in business conditions and capacity utilisation in H2 2025 has been unwound in H1 2026



Source: National Australia Bank, Macrobond

Evidence of some slowing in momentum has been accumulating in the labour market too. The unemployment rate has broken to the topside of the 4.1%-4.3% range that held through Q4 2025 and Q1 2026, and a number of leading indicators of labour demand have softened in recent months. Near term inflation outcomes are likely to be a little more favourable than the RBA anticipated in May. So relative to the forecasts presented in the May *Statement on Monetary Policy* for Q2, inflation is a touch lower and the unemployment rate is a little higher.

While these forecast misses are likely to be small in magnitude and well within typical forecast error bands, they nonetheless present policy makers with outcomes that are a little more dovish relative to prior expectations. This likely facilitates a reasonably straightforward decision for the Monetary Policy Board (MPB) in favour of stable policy in the near term. In addition, the ongoing softening in house prices and credit growth are a new dynamic for policy makers to incorporate into their thinking. At the margin, we think these developments also nudge the MPB in favour of stable monetary policy settings near term.

The RBA held rates in June, and the post-meeting statement acknowledged that growth had slowed and that this was necessary to bring inflation back towards target. However, the RBA Board is not willing to move to a more neutral footing; Governor Bullock said that if inflation doesn't respond how the Board expects "*we might have to do more... I'm just not ruling that out.*"

Against this backdrop, recent developments in the Middle East and Russia/Ukraine may, if sustained, complicate the policy outlook. The Monetary Policy Board clearly remains alert to the risk that inflation becomes more ingrained in wage and price setting behaviour. That risk becomes more acute if households and businesses face into an even longer period of elevated inflationary pressures. That said, we get the impression the Board would need a push from the data flow to deliver on further tightening, and our central forecast does not anticipate they will get that push. Against this backdrop, the evolution of activity data into year-end will be important.

In the minutes from the June meeting, it was noted that the MPB believed that "…*Australian financial conditions were now somewhat restrictive, although this remained uncertain*." While this isn't a high conviction statement, it does at least provide some sense that the MPB are more confident that they have executed a modest recalibration of monetary policy this year such that the current setting of policy now appears to be consistent with the outlook for a further slowing in economic growth. Assuming this to be the case, rates are firmly on hold for the remainder of 2026.

As noted above, risks to our view of policy stability for the remainder of the year likely stem from more challenging inflation outcomes, and / or no further slowing in activity data. Further ahead, our forecasts anticipate below trend growth and a gradual weakening in the labour market to allow the RBA to begin to gradually normalise policy from Q2 2027.

Key Forecasts

Australia forecasts

	% Growth q/q			% Growth y/y		
	Q1-26	**Q2-26 (f)**	**Q3-26 (f)**	**2025**	**2026 (f)**	**2027 (f)**
GDP and Components						
Private Consumption	0.5	0.4	0.2	2.5	1.4	1.4
Dwelling Investment	0.7	-0.2	0.3	5.1	1.0	1.5
New Business Investment	6.9	-4.2	0.9	4.1	3.7	1.6
Underlying Public Final Demand	0.0	0.4	0.4	2.4	1.3	1.6
Domestic Demand	**1.0**	**-0.1**	**0.4**	**2.9**	**1.7**	**1.8**
Stocks (Cont. to GDP)	0.2	-0.3	0.0	-0.1	-0.2	0.0
Gross National Expenditure	**0.9**	**-0.4**	**0.4**	**3.0**	**1.4**	**1.9**
Exports	-1.1	0.9	0.4	5.2	0.6	1.6
Imports	2.1	-1.7	0.5	6.7	1.1	1.6
Net Export (Cont. to GDP)	-0.8	0.6	0.0	-0.2	-0.1	0.0
Real GDP	**0.3**	**0.3**	**0.4**	**2.5**	**1.5**	**1.9**
Nominal GDP	0.6	1.1	1.2	6.1	4.0	4.0
Labour Market						
Employment	0.6	0.3	0.3	1.1	1.6	1.2
Unemployment Rate (Q-Ave, End of Period)	4.2	4.4	4.5	4.3	4.6	4.8
Wage Price Index (WPI)	0.8	0.8	0.8	3.4	3.2	3.2
Inflation and Rates						
Headline CPI	1.4	0.7	1.4	3.6	3.9	2.4
Trimmed-mean CPI	0.8	0.9	0.9	3.4	3.5	2.7
RBA Cash Rate (End of Period)	4.10	4.35	4.35	3.60	4.35	3.60
10 Year Govt. Bonds (End of Period)	4.97	5.10	5.10	4.76	5.00	4.80
$A/US cents (End of Period)	0.68	0.71	0.72	0.67	0.73	0.72

Data are percentage growth rates over the quarter or year as noted, except where specified otherwise.

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Commodity Strategy

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