Economics and Markets Research

Australian Forward View

In this issue

Patience Required

- **We expect a small positive for Q2 GDP growth (released in early Sept). We expect the detail of the accounts to support the narrative of some slowing in growth in H1 but also to reflect the fact that the impact of the Middle East has been less than initially feared thus far.**
- **Our forecasts are largely unchanged; we expect a gradual moderation in inflation and unemployment to drift higher alongside a period of below trend growth.**
- **We continue to see the RBA on hold through 2026 and the next move in rates to be down, expecting a gradual normalisation in policy from mid 2027.**

The data flow over the past month has not shifted our assessment of the underlying trend in the economy. The July NAB monthly business survey continued to show weak confidence, but a stabilisation in conditions (and a rebound in capacity utilisation). The labour market data, while volatile, continue to show a very gradual cooling but not a significant deterioration in labour demand. Of note, however, is that the spending data partials of household consumption point to relatively robust growth in nominal terms.

On inflation, the Q2 trimmed-mean CPI surprised to the downside and survey-based measures of input costs have moderated, but both remain elevated. There is still a material cost shock flowing through the economy, and we expect trimmed mean inflation to remain uncomfortably elevated in H2 this year, before moderating as the cost shock fades and the imbalance between aggregate demand and supply resolves. The ability of businesses to pass on margin pressures will be an important factor over H2 in driving the balance between inflation risk or a more material slowing in activity and the labour market.

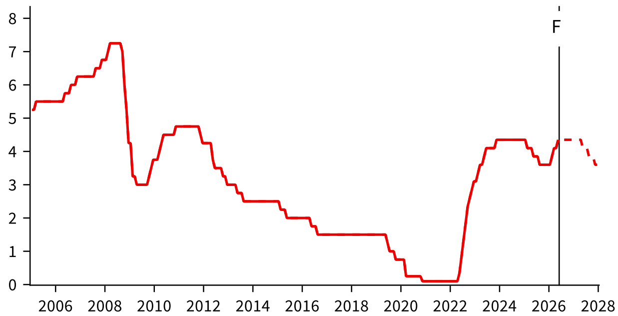
On the RBA, the new set of staff forecasts were little changed, notwithstanding an upward revision to the inflation track. In part this was driven by a higher starting point. Alongside an extended period of below trend growth, the RBA is now clearer on the need for a degree of spare capacity to open up in the economy for inflation to return to target.

Overall, our forecasts are little changed this month. We continue to see growth slowing to ~1.3% this year (from 2.5% over 2025), as higher interest rates, elevated inflation, and falling house prices flow through to softer activity, and the unemployment rate rising to 4.8% by end 2027. We continue to see the RBA remaining on hold, though there is little room for an upside surprise.

Key Forecasts	2024	2025	2026	2027
Real GDP (b)	1.2	2.5	1.3	1.8
Employment (a)	2.3	1.5	1.6	1.0
Unemployment Rate (b)	4.0	4.3	4.6	4.8
Headline CPI (b)	2.4	3.6	3.8	2.4
Trimmed Mean CPI (b)	3.2	3.3	3.4	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

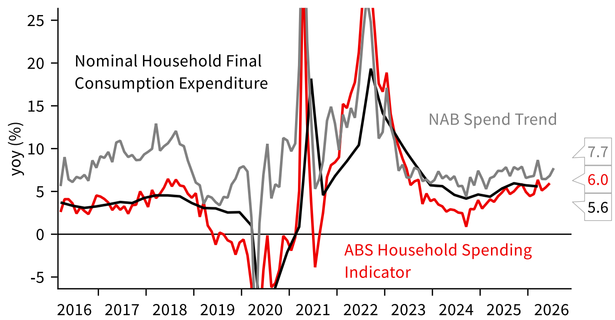
Partial indicators suggest that household spending was resilient in Q2.

Household spending does not appear to have materially slowed in the June quarter. The ABS household spending indicator rose by 0.7% qoq in volume terms, driven by discretionary categories. Spending on recreation & culture increased 1.7% qoq, contributing 0.3ppts to quarterly growth, while spending on hotels, cafes & restaurants and furnishings & household equipment rose 1.0% qoq and 1.8% qoq, respectively.

Taken at face value, this suggests some small upside risk to our real household consumption growth forecast of 0.4% qoq in Q2. However, the ABS' partial measure has historically mapped poorly to the national accounts measure of consumption.

Beyond Q2, our NAB Spend Trend suggests that household spending remained resilient in July, rising 1.1% mom to be 7.7% higher over the year (in nominal terms). Growth was broad-based across both discretionary and essential categories. Discretionary spending rose 1.2% mom, led by personal goods, hotels, travel & transport, and cafes & restaurants. Essential spending increased 0.8%, driven by a 4.9% rise in fuel spending alongside higher prices.

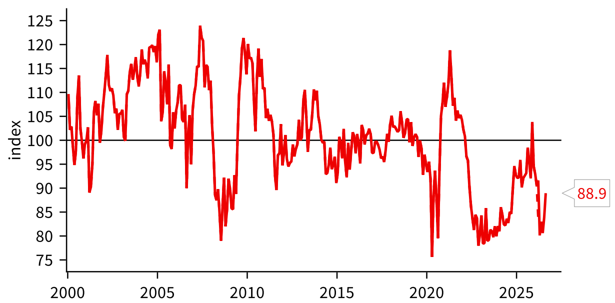
Household Spending Indicators and Consumption



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

This resilience in spending comes despite consumer sentiment remaining weak. Even after improving over the past two months, it remains around 10% lower than a year ago.

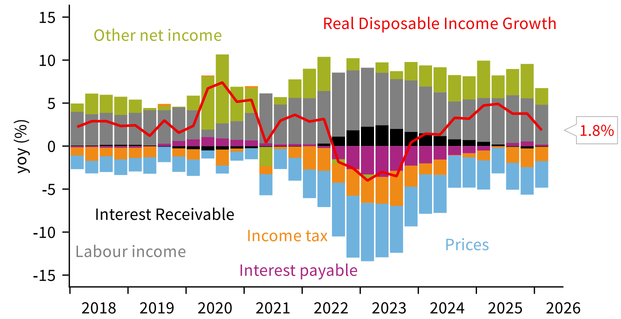
Consumer Sentiment



Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research, Macrobond

Looking ahead, we expect real household consumption growth to slow to 1.4% over 2026, a material moderation from the 2.5% pace recorded over 2025. This reflects the slowdown already underway in real household disposable income growth as interest rates have risen and earlier support from tax cuts has faded. Higher fuel prices are also weighing on household real incomes as the temporary fuel excise relief ended and global oil prices remain elevated. We also expect the housing market slowdown to weigh on consumption through both wealth effects and lower housing turnover. The magnitude of the housing downturn, and whether historical relationships will hold, is uncertain.

Real Disposable Income Growth



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

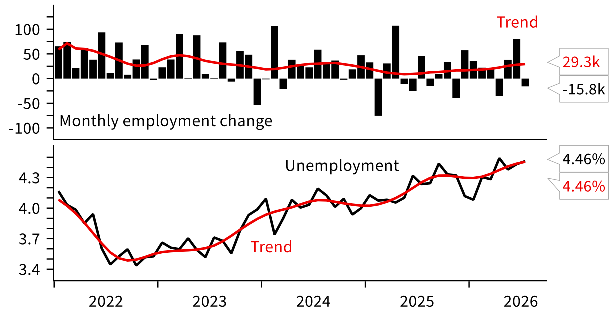
Labour Market

Unemployment is expected to continue to trend up.

Labour market data has been volatile, but through the noise the unemployment rate has trended gradually higher this year and reached 4.5% in July.

Despite a fall in employment in July trend employment growth remains robust around +30k. Some of the rise in underutilisation is the result of higher labour supply, with people seeking more hours and leaving the labour force at lower rates.

Australian Employment

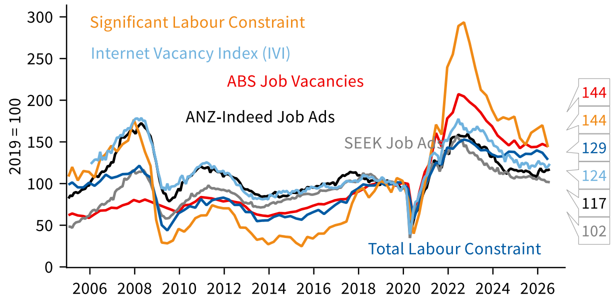


Source: National Australia Bank, ABS

Leading indicators for labour demand have largely trended sideways or edged down over recent months. The Internet Vacancy Index and SEEK job ads measures have edged lower although the ANZ-Indeed measure has shown more resilience.

Looking forward, we continue to expect employment growth to slow alongside cooler activity growth. We expect the unemployment rate to rise over coming quarters, but only gradually. We see unemployment at 4.6% at the end of the year and around 4¾% by late 2027.

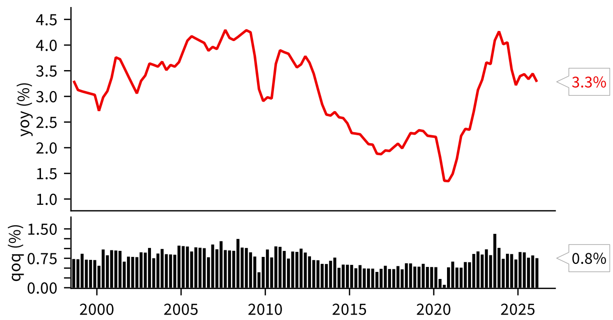
Measures of labour demand



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

The wage price index rose 3.2% in Q2, in line with the market and our expectation. Since the post-pandemic lows in the unemployment rate the labour market has cooled unevenly across sectors. Wages growth will be supported in H2 2026 by the award wage decision and as recent large pay outcomes in some public sector agreements, including NSW nurses and Victorian teachers, take effect. That will keep WPI a little elevated relative to the degree of tightness in the broader labour market and relative to pay growth among jobs where pay is set by individual agreements.

Wage Price Index Growth



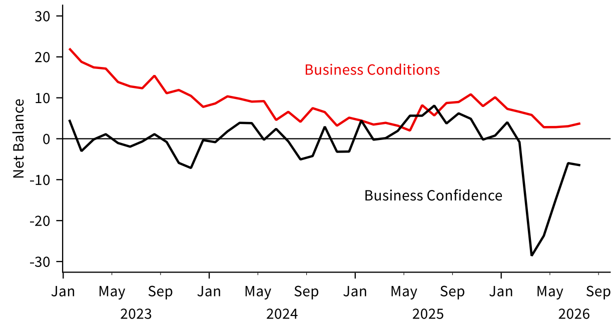
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Businesses

The outlook for business investment is soft while business conditions and confidence were broadly flat.

The July NAB Business Survey saw confidence broadly unchanged (and well below average) after rebounding over the past two months. Conditions have been more resilient than the headline confidence measure, but remain below the solid, late-2025/early 2026 levels and are a little below average. Capacity utilisation spiked in July after having eased to around average through H1 2026.

Business Confidence & Conditions



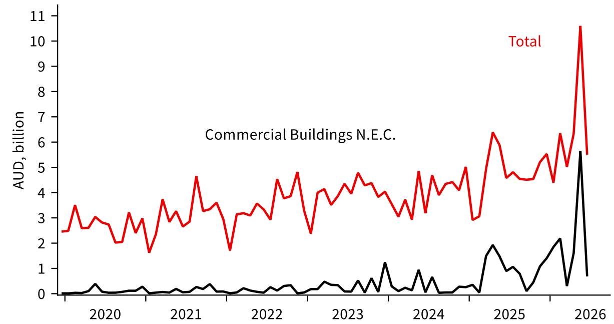
Source: National Australia Bank, National Australia Bank, Macrobond

The outlook for business investment remains subdued outside of data centre-related investment. The ABS capex survey shows that investment will be mainly supported by growth in data centres over the next 18 months but for other sectors to generally see weaker outcomes. An update on capex intentions with estimate 3 for FY26/27 will be published by the ABS next week.

Higher frequency data show that private non-residential building approvals fell 48% mom in June but remain 20% higher over the year, driven by a surge in data centre approvals in May. The lift in approvals will add to the pipeline of work for data centre building (other commercial) which has risen sharply over the past year, reaching $14bn in Q1. While the pipeline has grown rapidly, work done (i.e. the contribution to GDP growth) is still small.

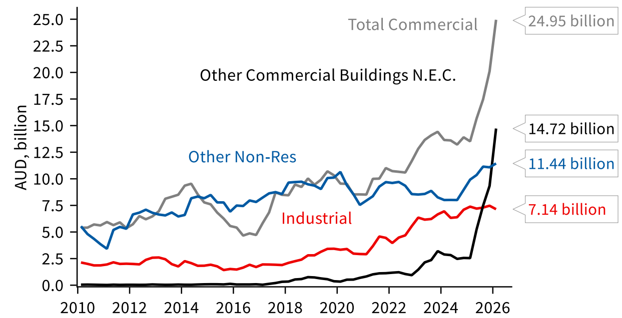
Using adjusted business expectations from the ABS capex survey, we see building activity growth remaining positive over the next 18-months supported by further growth in the data centre build out, but we expect the pace will slow.

Private Non-Residential Building Approvals



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

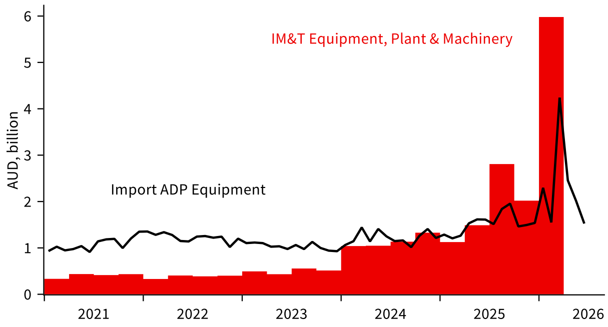
Private Building Acitivity Pipeline



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

We will receive business investment partials next week which will firm up our view for Q2. Machinery & Equipment (M&E) investment will likely record a sharp decline following a data centre-related spike in Q2. The impact of this will be muted by an offsetting decline in imports in the accounts, with Q2 data for imports showing a large decline in the ADP equipment category.

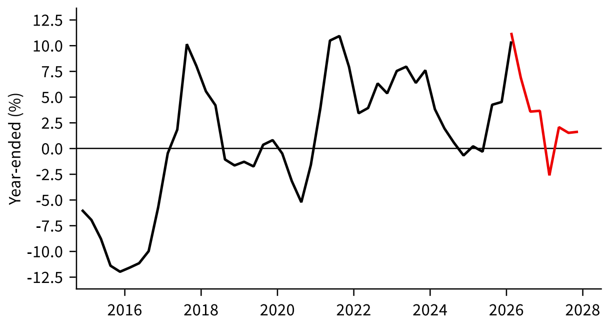
Data Centre Equipment Investment and ADP Imports



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

We see underlying business investment growth slowing to 3.7% yoy by the end of 2026 and then to 1.6% yoy by end 2027.

Underlying Business Investment Forecast



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

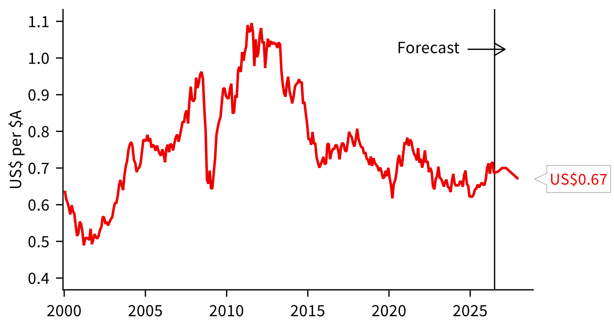
Foreign Exchange

AUD/USD has appreciated back to early June levels.

The AUD/USD and AUD TWI are around 6% higher compared to the start of the year, with AUD/USD currently trading near US$0.71c. A widening in short-dated Australia-US yield differentials has supported the AUD, as the RBA has maintained a relatively hawkish stance while expectations for further Fed tightening have eased.

Our NAB FX Strategy team expects AUD/USD to mostly trade within a 0.6850 to 0.72c range over the remainder of 2026, ending the year close to the 70c mark. Over the course of 2027, NAB sees the AUD/USD shifting down towards a 0.70 to 0.65 range, primarily driven by our expectations of subdued domestic economic growth and our call of three RBA rate cuts. Our end of 2027 AUD/USD point forecast is 0.67c.

AUD/USD



Source: Bloomberg; National Australia Bank

Housing

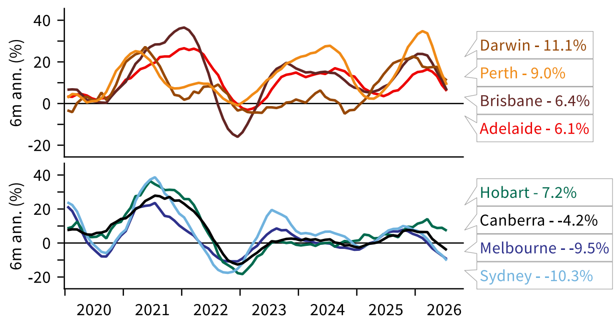
The housing market slowdown has broadened.

Dwelling prices across the combined capitals declined by 0.9% in July, which was the largest monthly fall since September 2022. Prices have now fallen for four consecutive months and are 2.8% below their March peak, though they remain around 3.9% higher than a year ago.

Sydney and Melbourne continue to lead the downturn, with dwelling prices falling 1.4% and 1.2% respectively in July. Prices in both cities are now around 5% below their levels at the start of the year. In contrast, the mid-sized capitals had until recently experienced a slowing in price growth rather than outright declines.

However, the slowdown has broadened, with Brisbane and Adelaide recording falls of 0.6% mom and 0.2% mom respectively in July. June outcomes for both cities were also revised lower and now show outright price declines. Perth prices have also fallen over the past 3 months.

Dwelling Prices Growth - Greater Capital Cities



Source: National Australia Bank, Cotality Australia, Macrobond

In response to weaker-than-expected outcomes in Sydney and Melbourne, and the faster slowing (and outright declines in the mid-sized capitals), we have revised down our forecasts for combined capital city dwelling prices. We now expect prices to fall by 5% over 2026, compared with our previous forecast for a 2% decline. Sydney and Melbourne are still expected to lead the correction, with prices forecast to fall by around 10% over 2026.

Looking ahead, we expect dwelling prices to stabilise in early 2027 before returning to modest growth in the second half of the year, consistent with our expectation that the RBA will commence an easing cycle.

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

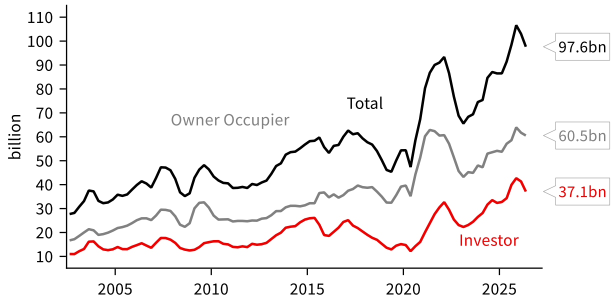
Source: Cotality (Hedonic Value Index)
Notes: Year-ended growth; forecast observations shown for December; Shaded area represents NAB forecasts.

Rental market conditions remain tight. Capital city vacancy rates are still extremely low at around 1.7%, while advertised rents are increasing at a 5.6% annualised pace over the past six months. Rental growth remains uneven across capitals, with the strongest increases in Hobart, Perth and Adelaide, while growth has slowed in Sydney and Melbourne.

Declines in dwelling prices reflect the combined impact of higher interest rates, a deterioration in affordability following an extended period of strong price growth, and weaker sentiment and investor demand following the Federal Budget's tax reforms.

These factors have also weighed on new housing loan commitments. In Q2, total commitments fell 5.2% qoq, led by a 10.2% drop in investor lending, while owner-occupier commitments declined a more modest 1.9%.

Value of New Housing Loan Commitments



Source: National Australia Bank, Australian Bureau of Statistics
Notes: Excludes refinancing.

Inflation

Higher costs are still flowing through.

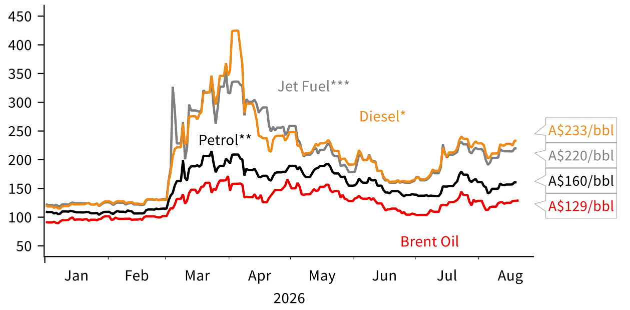
Q2 CPI showed headline inflation was sharply lower than what the RBA had forecast in May due to the sharp fall in fuel prices and softer than anticipated travel prices. Low quarterly outcomes for those volatile components also flattered the quarterly trimmed mean, but the quarterly trimmed mean outcomes was still encouraging.

The downtrend in quarterly underlying inflation has stalled, but this looks to be a narrow consequence of cost push dynamics as the effects of the Middle East conflict ripple through, rather than a reflection of domestic conditions. Even so, the starting point was already above target inflation, and cost dynamics have continued to evolve unfavourably recently.

We continue to base our forecasts on the assumption that Brent oil prices are around $80 in early 2027 and refined product spreads return to nearer historical averages. There are clear risks to that path.

Our near-term forecasts are for 0.9% qoq trimmed mean and 1.1% qoq headline inflation in Q3, implying the risk sits to the high side of the RBA's August forecasts at the margin.

Oil Prices and Singapore refined benchmarks



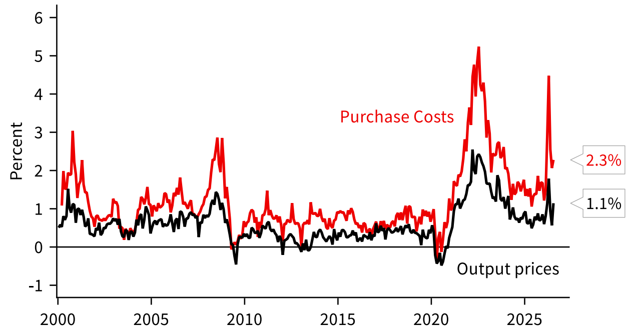
*Gasoil 10ppm, **Mogas 95, ***Jet Kerosene
Source: National Australia Bank, Bloomberg

Fuel prices are higher and, unless benchmark prices reverse quickly, are set for a quarter average gain in Q3. That directly adds to inflation, but also echoes through broader consumer prices via production and distribution costs, with elevated diesel prices particularly relevant.

The NAB Business Survey had shown cost pressures receding alongside the earlier fallback in fuel prices, but the July survey showed some reacceleration. Swings in prices measures have been driven by the transport & utilities industry, underscoring the sensitivity to fuel prices.

We expect some of this elevated cost pressure to be passed through to consumer prices. The ability of businesses to pass on margin pressures will be an important factor for inflation over H2.

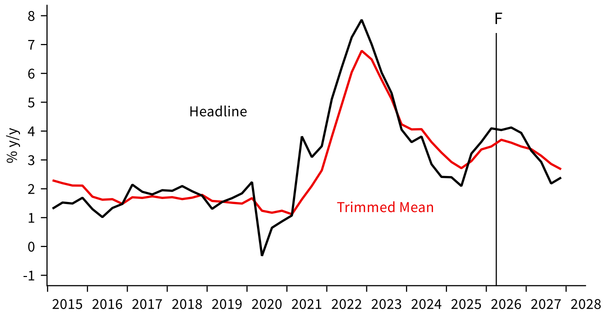
NAB Survey Prices



Source: National Australia Bank

Our forecasts anticipate the unfavourable cost environment to drive elevated near-term underlying inflation outcomes, However, cooler domestic demand, and a modest further easing in the labour market, should ease domestic capacity pressures looking forward. As the cost shock fades, we expect trimmed mean inflation to cool to levels consistent with the mid-point of the RBA's target late next year.

Inflation and NAB Forecast



Source: National Australia Bank, ABS, RBA

Monetary Policy

We continue to see the RBA on hold at 4.35% into 2027, with the next move in rates to be down, likely from Q2.

As was widely expected, the RBA kept rates on hold at the August meeting though the tone of the Governor's post meeting conference and the Board's statement remained hawkish.

The Staff forecasts saw relatively minor updates for GDP and inflation, though the unemployment rate track was revised a little higher on the back of the higher starting point (after surprising by 0.2ppts to the upside in Q2).

The RBA now sees GDP growth of 1.4% this year and 1.6% next year, followed by a third year of below trend growth in 2028 (1.8%). The unemployment rate is expected to end 2026 at 4.5%, before rising to around 4.8% in 2028. The staff forecasts continue to see trimmed-mean inflation returning to the top half of the target band in H2 2027, ending the year at 2.6%.

Overall, the forecasts embody an extended period (3 years) of below trend growth and the unemployment rising above the RBA's working assumption of the NAIRU. That is both necessary and sufficient to affect a gradual easing in inflation.

Of note, is that the RBA assumes 15bps of further tightening (not a significant amount) and that oil prices end 2026 at US$82bbl, before easing to $US72bbl by end 2027.

Overall, our forecasts broadly align with the RBA's outlook, envisaging a period of below trend growth and a gradual easing in labour market conditions. Monetary policy is now modestly restrictive, but the question remains around whether it will prove sufficiently restrictive given elevated inflation and ongoing capacity pressures.

The Monetary Policy Board's approach continues to leave them with little buffer for upside inflation surprises, but we think the RBA will remain on hold. The combination of modestly restrictive policy and tax changes in the housing market that are an effective exogenous tightening in financial conditions should give them enough comfort that growth will remain below trend. Given the RBA's emphasis on both sides of the mandate, we see the gradual rise in unemployment (and expected below trend growth) will be enough to keep the RBA on hold unless there are signs inflation is becoming more persistent.

The SoMP risk discussion highlights that the RBA staff see the risks to inflation as asymmetric. These risks stem from a variety of dynamics, including an escalation in the Middle East, greater passthrough to consumer prices from already elevated costs, as well as the potential for global investment in AI/data centres to support growth and pressure capacity constraints.

In terms of growth, the RBA highlights two downside risks. The first comes from the impact of the conflict in the Middle East on global demand, increased domestic costs and through weaker sentiment. The second comes from the risk of a greater than expected spillover from the slowing in the housing market to the broader economy. We would broadly agree with the central bank's risk assessment at present.

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	1.5	1.3
Dwelling Investment	0.7	-0.2	0.3	5.1	1.0	1.5
New Business Investment	6.9	-4.5	0.9	4.1	3.3	1.4
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**	**1.6**
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**	**1.3**	**1.7**
Exports	-1.1	0.9	0.4	5.2	0.6	1.6
Imports	2.1	-1.7	0.5	6.7	1.0	1.2
Net Export (Cont. to GDP)	-0.8	0.6	0.0	-0.2	-0.1	0.1
Real GDP	**0.3**	**0.3**	**0.4**	**2.5**	**1.4**	**1.8**
Nominal GDP	0.6	1.0	1.2	6.1	3.8	4.0
Labour Market						
Employment	0.6	0.3	0.3	1.1	1.6	1.1
Unemployment Rate (Q-Ave, End of Period)	4.2	4.4	4.5	4.3	4.5	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	0.6	1.4	3.6	3.8	2.4
Trimmed-mean CPI	0.8	0.8	0.9	3.3	3.4	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	4.73	5.10	4.76	5.00	4.80
$A/US cents (End of Period)	0.68	0.69	0.69	0.67	0.70	0.67

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

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