

Wait, see... or hike?

In this issue

Consumption.....	2
Labour market.....	2
Businesses.....	3
Foreign exchange	4
Housing.....	4
Inflation	5
Monetary Policy.....	6
Key Forecasts	7

- We have tweaked our forecasts for inflation and the unemployment rate – both a little higher.
- Our outlook of a further two years of below trend growth remains unchanged.
- We see the RBA on hold from here, but the risk in the near-term is for a further increase.

Over the past month, activity data (the business survey and the labour market) have continued to show a slightly weaker trend, while the backdrop for inflation has remained challenging with oil prices staying elevated and the NAB Survey continuing to show elevated cost pressures. Despite weaker activity indicators in the business survey, capacity utilisation remains notably above average. This suggests that while activity has slowed somewhat from the above trend pace over H2 2025, we are yet to see any material build-up in spare capacity in the economy.

Given the higher starting point for the unemployment rate, we have nudged up our near term unemployment rate track to reach 5% by mid-2027. Amid stubbornly elevated oil and refined product prices we have nudged up our headline CPI forecast and now expect headline inflation to end the year at 4.3% (previously 4.2%). We continue to expect underlying inflation to end 2026 at 3.6%.

Recent RBA communications have highlighted that while the trade-off between bringing inflation down and keeping the economy close to potential has deteriorated – the strategy of attempting to minimise the cycle in unemployment remains intact. The near-term risk lies with a further rate increase, with cost pressures still significant and little spare capacity in the economy, but with rates now more clearly in restrictive territory and some signs that growth is slowing further we see the RBA staying on hold from here.

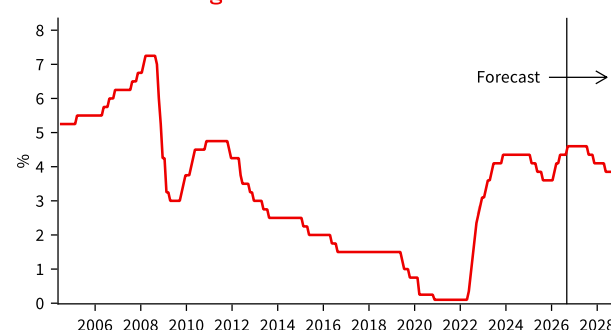
The key risks to our forecast are that growth will need to remain below trend, and the unemployment rate rise further in order to see inflation return to the mid-point of the target by early 2028. Over the next 6 months, whether cost pressures are readily passed on, or whether focus turns to slower hiring and investment amid margin pressure, will be the key dynamic. Similarly, how households respond to the ongoing real income squeeze amid weak consumer confidence will be a key driver of overall activity dynamics.

Key Forecasts (%)	2024	2025	2026	2027	2028
Real GDP (b)	1.2	2.6	1.4	1.6	1.8
Employment (a)	2.3	1.4	1.4	0.9	1.6
Unemployment Rate (b)	4.0	4.2	4.8	5.0	5.0
Headline CPI (b)	2.4	3.6	4.3	2.8	2.5
Trimmed Mean CPI (b)	3.2	3.3	3.6	2.9	2.5
RBA Cash Rate Target (b)	4.35	3.60	4.60	4.10	3.60
3-year Yield (b)	3.82	4.15	4.95	4.25	3.70
10-year Yield (b)	4.37	4.74	5.25	4.55	4.50
\$US per A\$ (b)	0.62	0.67	0.71	0.67	0.70

Source: ABS; RBA; National Australia Bank.

Notes: (a) annual average growth, (b) end-period, shaded area represents NAB forecasts.

RBA Cash Rate Target and NAB Forecast



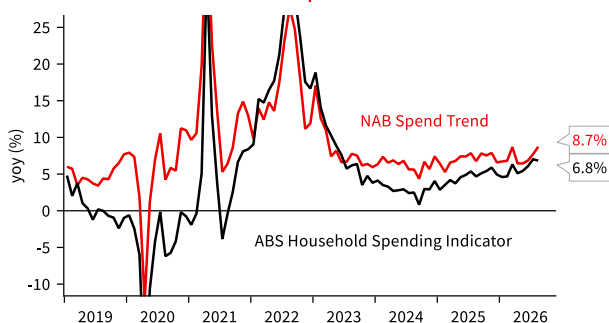
Source: National Australia Bank; RBA

Consumption

Household spending growth has been relatively resilient but partial data point to some further slowing.

Following three months of strong growth, the ABS's monthly household spending indicator was flat in August (in nominal terms). Discretionary spending fell 0.3% mom and fell across most sub-components. Spending on hotels, cafes & restaurants and new vehicle sales were the exceptions, with strength in the latter continuing the trend seen in the Q2 National Accounts. Non-discretionary spending rose 0.6% in August, led by higher fuel spending.

Nominal Household Consumption Indicators

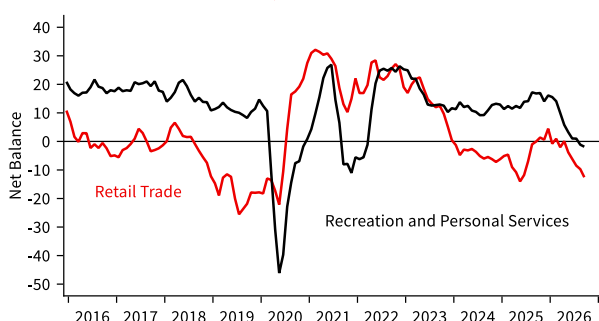


The [NAB Spend Trend](#) suggests a stronger outcome in September, rising 1.1% mom. Strength in the month was driven by higher fuel prices as well as recreation & personal services which were supported by pre-purchases related to major events where consumption will occur in the future.

Overall, our read is that household consumption growth has likely seen some further slowing in early H2 2026 after slowing to an annualised pace of 1.7% in H1 2026 (from around 2.5% in H2 2025).

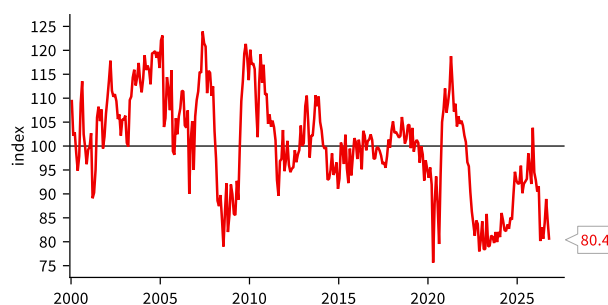
The [NAB Business Survey](#) points to ongoing weakness in consumer facing industries. Conditions in retail and recreation & personal services have declined by more than 20pts since the start of the year, with retail conditions back around the lows seen in mid-2025.

NAB Business Conditions, Trend



Further, while consumer sentiment has mapped poorly to actual spending outcomes, it fell around 5% in October. It is now back around levels seen in April and 20% below its long-run average.

Consumer Sentiment



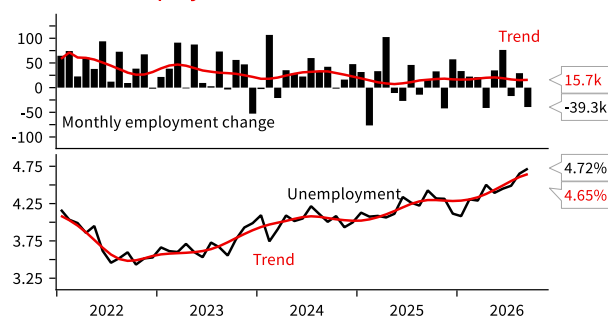
We expect real household consumption growth to slow to 1.5% over 2026 and 1.1% over 2027. This reflects moderation in real household disposable income growth because of elevated inflation, higher interest rates, and softer labour income growth. The slowdown in the housing market is also likely to weigh on consumption at the margin. That said, household balance sheets remain in good shape, and the saving rate is a little higher than pre-pandemic levels, providing households with the ability to smooth their consumption.

Labour Market

The unemployment rate has gradually risen to 4.7%, while trend employment growth has softened.

Up until July, the unemployment rate had largely moved sideways this year, between 4.3 – 4.5%. However, since the September Forward View the unemployment rate has surprised higher, rising 0.2ppts to 4.7%. Initially the rise appeared to be a labour supply response to cost of living pressure, but in the latest data the participation rate fell, and trend employment growth is now notably softer – implying that labour demand may be beginning to weaken. While the last two prints have suggested the labour market is loosening, a caveat is that the ABS has indicated that their Labour Force Modernisation project may have had some ‘residual influence’ on the seasonally adjusted outcomes.

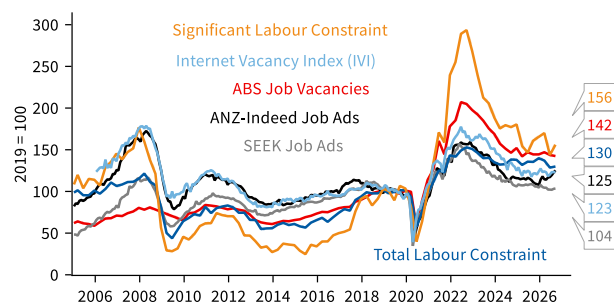
Australian Employment



While the trend in employment growth has softened, leading indicators of labour demand have remained relatively healthy. This suggests that a rapid further cooling of labour demand is unlikely. However, despite most

leading indicators having edged up in the past few months the results from the NAB business survey have weakened with the employment indicator in September declining to its weakest level in five years. This has on balance muddled the signal on labour demand.

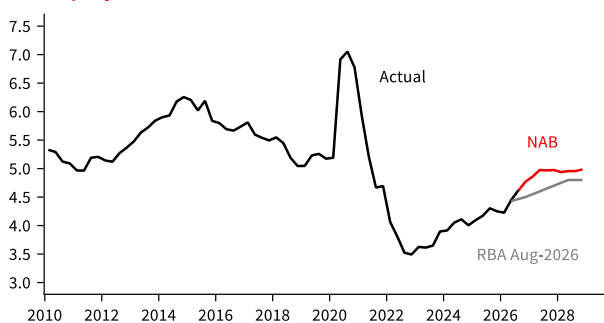
Measures of labour demand



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

Despite these mixed signals, with growth set to remain below trend, we see the labour market continuing to gradually cool and expect the unemployment rate to rise to around 5% by mid-2027 before steadying.

Unemployment Rate Forecasts



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

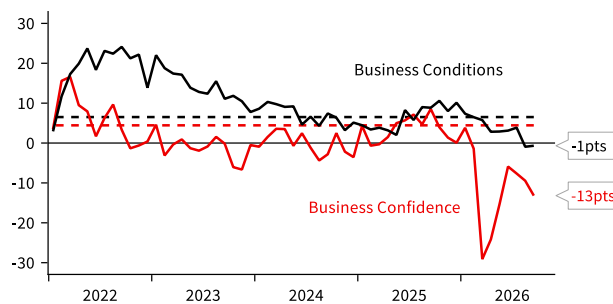
Businesses

Business confidence and conditions remain weak as costs stay high and activity slows.

The September [NAB Business Survey](#) showed that persistent domestic and international challenges have continued to weigh on business confidence. Both business confidence and conditions are materially weaker than they were a year ago and are sitting well below their long-run averages. In part this has been driven by input costs remaining elevated in the survey.

Despite most activity measures weakening in the survey, trend capacity utilisation remains above its long-run average in 5 of 8 industries. This implies that despite the economy slowing there remains little spare capacity. These results suggest that the economy will likely continue to slow further in H2 2026.

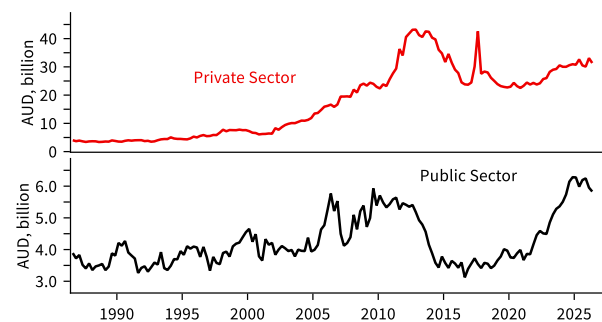
NAB Monthly Business Survey*



Source: National Australia Bank, National Australia Bank, Macrobond
* Dashed lines are the long-run average of the series.

While construction activity has broadly remained high, there may be some easing in capacity pressures from major public sector projects rolling off. The latest engineering activity data shows that the public sector work done has continued to decline as the pipeline begins to contract.

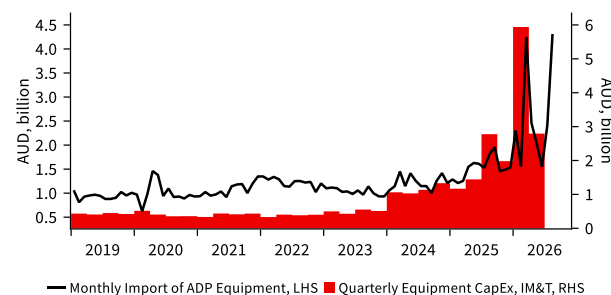
Engineering Construction Work Done



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

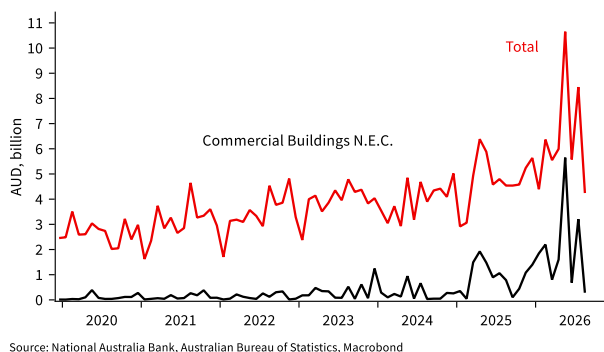
On the data centre buildout, higher frequency indicators such as the import of goods and building approvals have shown purchases of equipment used in the fit out of data centres strengthening, but new building approvals softening. ADP equipment imports, which captures the import of chips and data centre equipment, was back around its highs in August, implying Q3 will see a rebound in data centre related equipment investment. Meanwhile, approvals of new data centre buildings fell in August and are back around their pre-AI boom levels, suggesting the expansion of the pipeline is beginning to slow.

Import of ADP Equipment & Equipment Capex from Information Media & Telecommunication



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

Private Non-Residential Building Approvals



We expect business investment growth to slow. While investment will be supported by data centre and renewable build out, ABS Capex expectations point to weak outcomes across other sectors. We see new business investment slowing to ~3% yoy by 2027 and remaining around that level through the forecast horizon. We expect the quarterly pace to remain volatile but to trend softer as the economy slows more broadly.

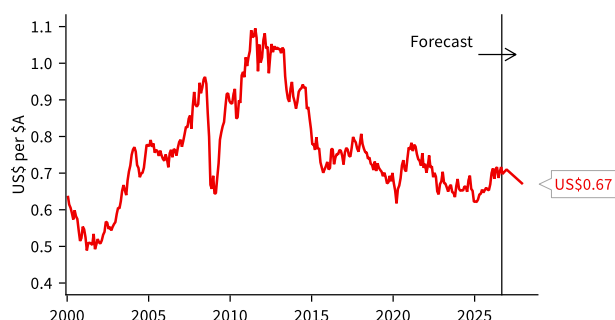
Foreign Exchange

The Australian dollar remains higher than early January, despite depreciating over the past month.

The AUD/USD and AUD TWI have appreciated by 4.7% and 4.3% over the year to date, respectively. The AUD has been primarily supported by RBA policy tightening and the associated widening in interest rate differentials. Higher commodity prices and continued depreciation in USD/CNY have also provided modest support. However, AUD/USD has fallen 1.6% over the past month as markets have pared expectations for further RBA rate hikes.

Our [NAB FX Strategy](#) team expect AUD/USD to end the year at US\$0.71c, before moving into a US\$0.65-0.70 range over 2027. This reflects expectations that the RBA will begin easing ahead of other major central banks.

AUD/USD



Housing

We now expect a larger decline in dwelling prices.

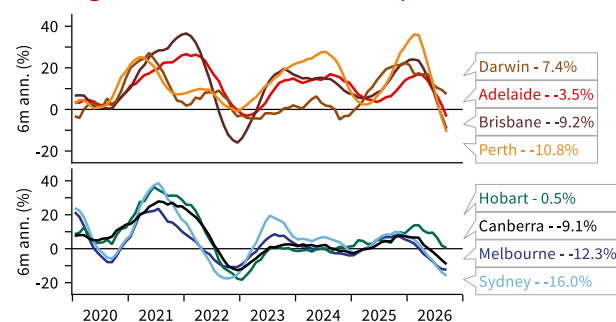
Dwelling prices across the combined capitals fell by 1.2% mom in September, marking the sixth consecutive monthly decline. Prices are now 6.4% below their March 2026 peak.

This reflects the combined effects of higher interest rates, deteriorating affordability and weaker sentiment and investor demand following the Federal Budget's tax reforms.

Sydney and Melbourne have recorded the largest peak-to-trough declines, at 8.6% and 7.2%, respectively. The pace of decline in Sydney was sustained in September, with prices falling a further 1.4% mom, Melbourne saw a smaller decline than last month – down 0.7%.

The downturn has also broadened across dwelling types and to the mid-sized capitals. Unit prices fell 0.8% in September, while dwelling prices in Brisbane, Perth and Adelaide each declined by around 1–1.5%. Prices are now 5.4% below their recent peak in Brisbane, 6.0% lower in Perth and 2.9% lower in Adelaide.

Dwelling Prices Growth - Greater Capital Cities



Source: National Australia Bank, Cotality Australia, Macrobond

Given the sharper slowdown across the mid-sized capitals, we have lowered our dwelling price forecasts. We now expect prices across the eight capitals to fall 8% over 2026 (previously -6%), with a peak-to-trough decline of around 11% before prices find a floor in Q2 2027. Sydney is expected to record the largest peak-to-trough decline at around 14%, followed by falls of around 11% in Melbourne, Brisbane and Perth, and 9% in Adelaide.

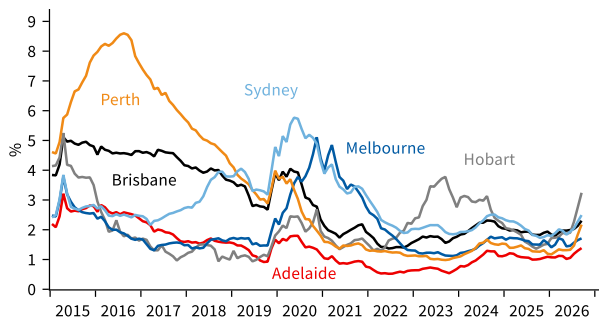
Dwelling Price Forecasts (%)	Peak Date	From Peak	Peak to Trough
Sydney	Feb-26	-8.6	-14
Melbourne	Nov-25	-7.2	-11
Brisbane	May-26	-5.4	-11
Perth	Apr-26	-6.0	-11
Adelaide	May-26	-2.9	-9
Hobart	Jun-26	-1.2	-2
Combined Capitals	Mar-26	-6.4	-11

Source: Cotality (Hedonic Value Index)

Notes: Shaded area represents NAB forecasts; Peak-to-trough decline from the highest value since January 2025.

In the rental market, vacancy rates have increased since mid-2026 and are now around levels last seen in late 2024, with the easing most evident in WA. Advertised rent growth remains elevated, although the pace has slowed to an annualised 5.0% over the past six months, led by Sydney.

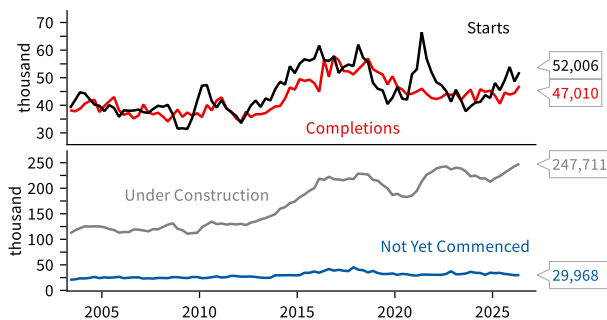
Rental Vacancy Rates



Source: National Australia Bank, Cotality Australia, Macrobond, Account in-house

In terms of construction, dwelling starts have risen 31% since late 2023, led by apartments, and are still running ahead of completions which are just 3% higher over the same period. As a result, the stock under construction remains elevated at around 250k, about 40% above the 2010-2019 average.

Residential Construction Pipeline



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

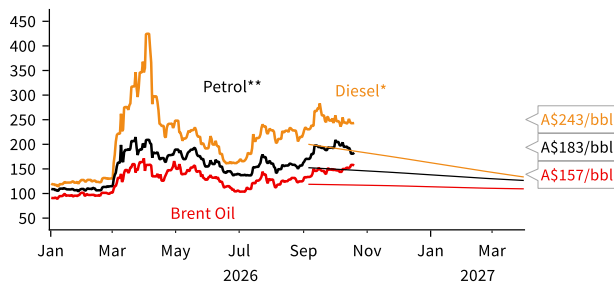
Inflation

Cost increases are driving ongoing high inflation.

We expect Q3 quarterly CPI data next week to confirm inflation continuing to run well above 3% on an annual basis. We see quarterly trimmed mean inflation at 3.6% yoy and headline inflation at 3.9%. (See [CPI Preview](#))

Since our last Forward View, refined oil product prices have remained elevated, and we have revised up our near-term headline CPI forecast a little further in response, now seeing headline inflation of 4.3% over 2026 (previously 4.2%). Headline CPI is most sensitive to petrol prices, which dominate consumer purchases, while business costs are driven more by diesel prices.

Oil and refined products with RBA assumption



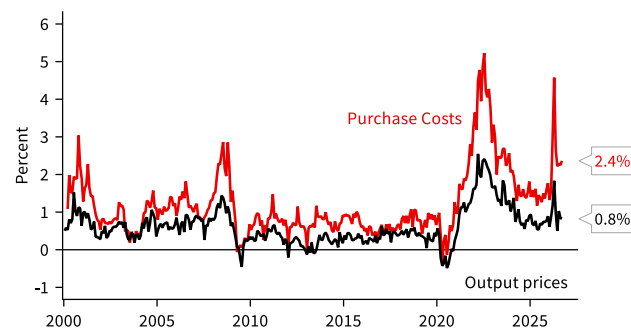
thin line is RBA August SoMP forecast assumption in AUD

*Gasoil 10ppm, **Mogas 95, *** Jet Kerosene

Source: National Australia Bank, Bloomberg

Indeed, the NAB Business Survey shows cost pressures remain elevated for firms. Some of this is being passed on, but much of it has been reflected in weaker margins and declining profitability. There remains considerable uncertainty about the extent and timing of passthrough which will depend on the ability of business to pass costs on to end users in a slowing demand environment.

NAB Survey Prices



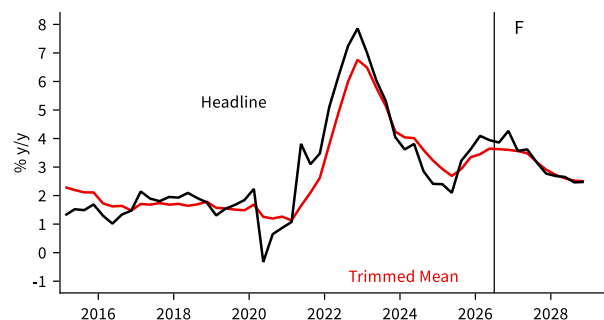
Source: National Australia Bank

Headline inflation will fall back as the sharp increases in energy prices flowing through this year fall out of the year-ended calculations. Energy costs do not need to fall for inflation (the *change* in prices) to moderate over time. Our forecasts are based on an assumption that Brent oil prices, and refined products in particular, remain elevated but do fall gradually from current levels. We assume \$80-\$90/bbl late next year, although uncertainty here remains high.

Beyond the headline dynamics, we continue to expect that the combination of tighter monetary policy settings, real income pressures from elevated inflation, and housing market dynamics will together drive growth below trend and cause further gradual easing in the labour market. Over time, that flows through to cooling underlying inflation pressure and drives a gradual moderation in trimmed mean inflation over the next couple of years.

We expect headline inflation to be 4.3% over 2026 and 2.8% over 2027. We expect trimmed mean of 3.6% over 2026 and 2.9% over 2027, although we see it annualising near the RBA's 2.5% target in the second half of next year.

Inflation and NAB Forecast



Source: National Australia Bank, ABS, RBA

Monetary Policy

We expect the RBA to remain on hold from here, though the near-term risk remains that the RBA increases the policy rate further given the backdrop of elevated cost pressures and uncertainty around the path of global neutral rates.

We expect that the recent data flow will likely keep the RBA on hold in November. In particular, the softening in the activity measures in the NAB Business Survey, the continued gradual uptick in the unemployment rate, some signs that consumer spending is slowing and ongoing declines in house prices all reflect further moderation in the domestic growth story in Q3. Pausing in November allows a little time for the RBA to observe the impact of the 25bps increase in September and the ongoing cumulative impact of the three rate increases earlier this year.

Recent public communications continue to be hawkish, with both the Governor and Deputy Governor noting that the trade-off between inflation and the labour market has worsened and that a period of below trend growth will be required in order to bring inflation back to target with a degree of spare capacity building in the economy amid the oil price shock.

That said, while the Governor has noted the “narrow path” terminology has been retired, both the Governor and Deputy have also noted that the strategy continues to be one of “maintaining the gains” in the labour market subject to dealing with the inflation challenge. At face value, this strategy implies a more reactive response to inflation surprises, rather than one that is pre-emptive. Accordingly, it adds to the case for a pause in November at the margin.

However, comments from the Deputy Governor this week that the “outlook for inflation has materially deteriorated” on the back of higher ongoing oil prices should be noted, and suggest that the hurdle for a hike in November isn’t prohibitively high. The November meeting will occur alongside an updated set of staff forecasts and how this impacts the inflation track through late 2027 and early 2028 will be important. For example, if the updated forecasts show inflation above the top of the 2-3% target band until early 2028, then it is quite possible the RBA deliver a hike in November. Our forecasts currently assume sequential but

gradual cooling in core CPI, such that the annual rate of growth of trimmed mean inflation is back in the target band in Q4 2027.

In addition to inflation, the other key forecast revisions will likely centre on the unemployment rate. The August SoMP forecasts saw the unemployment rate averaging 4.5% in December quarter and only rising to 4.7% by December 2027. With the recent unemployment rate outcomes lifting the starting point it is likely the RBA will revise up the peak unemployment rate close to 5% (around 0.2ppts higher than previously forecast). One wild card in the updated forecasts could be a reassessment higher of NAIRU – should this be the case, then it will have hawkish implications for the policy rate outlook.

Growth forecasts will likely see little change but continue to show a further two years of below trend growth as some spare capacity builds in the economy and the labour market. Ultimately, the balance between higher oil prices, the supply capacity of the domestic economy and AI-related demand pressures versus a looser labour market will be the key factor in how quickly inflation returns to target in the new set of forecasts. A backdrop of tighter financial conditions will also likely remain a feature of the discussion.

Ultimately, the Monetary Policy Board has little room for further inflation surprises amid lurking anxiety around the path of inflation expectations. As such, upcoming meetings are “live”.

While there is risk of a move in November and the monthly outcome for the CPI for September will provide the Board with a read on both monthly momentum in inflation and domestic capacity pressures, it’s likely that even if the Board deems further increases necessary, waiting for the December meeting could be an attractive option. This would allow an updated read on GDP and unit labour costs, further information on the labour market and additional reads on the activity measures in the NAB Business Survey and consumer spending data.

One issue troubling policymakers at present, aside from inflation, is uncertainty around the path of global neutral rates. This is a structural story that matters for the Board’s assessment of the stance of monetary policy. If global neutral rates are indeed higher, then the RBA needs to think about the extent to which the domestic neutral rate is moving and relatedly, the possible FX implications of structurally higher neutral rates elsewhere relative to Australia. With Assistant Governor Kent describing the AUD as a little above its long-run fair value earlier this week, this is unlikely to be a pressing near-term issue for the Monetary Policy Board. But it does caution that structural forces may yet add to the case for higher rates in this cycle.

With rates now back in restrictive territory (notwithstanding the risk of a further increase in the near term) and inflation expected to gradually cool, the RBA will eventually need to begin to normalise rates. In our forecasts, this process is still some way off – for now we continue to pencil in the start of an easing cycle in H2 2027.

Key Forecasts

Economic Forecasts (%)	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2025	2026	2027	2028
Activity										
Private Consumption	0.4	0.4	0.4	0.3	0.2	0.3	2.5	1.5	1.1	1.4
Dwelling Investment	1.5	1.6	1.6	1.5	1.2	0.9	5.2	6.3	3.2	2.6
Underlying Business Investment	7.5	-1.1	1.1	0.8	1.1	0.2	4.2	8.3	2.0	1.9
Public Final Demand	-0.5	0.2	0.4	0.4	0.4	0.4	2.7	0.5	1.6	1.6
Domestic Final Demand	0.9	0.3	0.6	0.5	0.5	0.4	3.0	2.2	1.7	1.9
<i>Inventories (cont.)</i>	-0.1	-0.1	0.0	0.0	0.1	0.0	0.1	-0.2	0.1	0.0
Gross National Expenditure	0.8	0.2	0.6	0.5	0.6	0.4	3.1	2.0	1.8	1.9
<i>Net Exports (cont.)</i>	-0.7	0.1	-0.1	0.0	-0.1	0.0	-0.3	-0.8	-0.1	-0.1
Real GDP	0.3	0.4	0.4	0.3	0.5	0.3	2.6	1.4	1.6	1.8
Nominal GDP	0.6	0.8	0.7	1.0	1.1	0.7	6.2	3.1	3.3	3.0
Labour Market										
Employment (a)	0.5	0.2	0.4	0.3	0.2	0.2	1.1	1.4	1.1	1.7
Unemployment Rate (a)	4.2	4.4	4.6	4.8	4.9	5.0	4.2	4.8	5.0	5.0
Wage Price Index	0.8	0.8	0.8	0.8	0.8	0.8	3.4	3.2	3.2	3.2
Inflation										
Trimmed Mean	0.8	0.8	1.0	0.9	0.8	0.7	3.3	3.6	2.9	2.5
Headline	1.4	0.6	1.2	1.0	0.7	0.6	3.6	4.3	2.8	2.5
Rates and Foreign Exchange										
RBA Cash Rate Target	4.10	4.35	4.60	4.60	4.60	4.60	3.60	4.60	4.10	3.60
3-year Yield	4.65	4.36	4.92	4.95	4.80	4.60	4.15	4.95	4.25	3.70
10-year Yield	4.97	4.73	5.34	5.25	5.10	4.90	4.74	5.25	4.55	4.50
\$US per A\$	0.68	0.69	0.70	0.71	0.70	0.69	0.67	0.71	0.67	0.70

Source: ABS; National Australia Bank

Notes: Data are percentage growth rates over the quarter or year, except where specified otherwise; Shaded area represents NAB forecasts; (a) quarter average.

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