Economics and Markets Research

Australian Forward View

national australia bank

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What goes up...

- **Activity has shown further signs of slowing over the past month, with the NAB Business Survey and Spend trend softening.**
- **We see below trend growth over each of the next two years, following growth of around 1.3% over 2026.**
- **This below trend growth will see the unemployment rate rise to around 5.5% by early 2028.**
- **We see 4.85% as the cash rate peak for this cycle.**

In early November we revised down our GDP forecast for 2027 to 1.0% (prev. 1.5%) and the expected peak in the unemployment rate up to 5.5% (by early 2028). With the RBA increasing rates further and the NAB Business Survey showing evidence of further slowing in activity amid elevated cost and margin pressure, we downgraded our outlook for growth. We see soft growth in household consumption, relatively weak business investment growth outside of data centre-related investment and a softer profile for dwelling investment.

We expect inflation to remain elevated in the near term, but for Q4 to be the peak. Cost pressure remains elevated but a slowing economy will continue to limit passthrough and as spare capacity begins to build in the economy we see inflation gradually moderating from here – and annualising at close to 2.5% by end 2027.

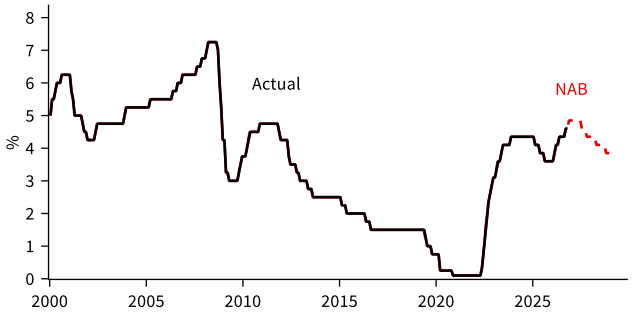
With rates now clearly in restrictive territory, and signs that activity is starting to soften more noticeably, we see the RBA on hold from here, before beginning to gradually normalise rates from mid 2027. That is contingent on evidence that inflation is moderating through early 2027. The RBA's concern about medium term inflation expectations, that labour market and domestic capacity pressures have been more material than earlier assessed, and the extent of cost pressures had left some residual risk of a hike. But recent data should make the RBA more attuned to downside risks on growth and unemployment, at least balancing those inflation concerns.

Overall, the picture remains one of below trend growth and building spare capacity in the economy over the next couple of years as inflation moderates. In the near term, pressure on both households' disposable income and margins in the business sector will be key dynamics, as will the trend in the labour market as activity slows.

Key Forecasts (%)	2024	2025	2026	2027	2028
Real GDP (b)	1.2	2.6	1.3	1.0	1.8
Employment (a)	2.3	1.4	1.4	0.5	1.0
Unemployment Rate (b)	4.0	4.2	4.9	5.4	5.4
Headline CPI (b)	2.4	3.6	4.3	2.8	2.5
Trimmed Mean CPI (b)	3.2	3.4	3.6	2.9	2.5
RBA Cash Rate Target (b)	4.35	3.60	4.85	4.35	3.85
3-year Yield (b)	3.82	4.15	4.75	4.35	3.90
10-year Yield (b)	4.37	4.74	5.10	4.90	4.60
$US per A$ (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



Source: RBA; National Australia Bank
Notes: Dotted line represents NAB forecast.

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

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Consumption

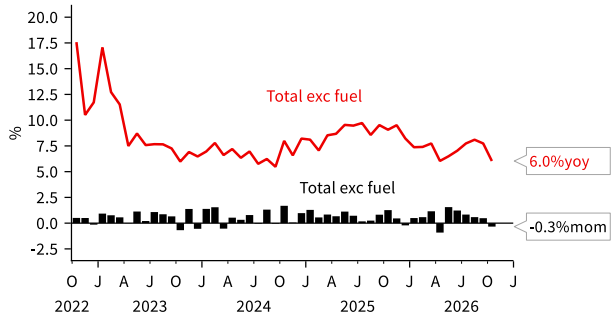
While household consumption has been relatively resilient, monthly momentum appears to have slowed.

The ABS's household spending indicator suggests volumes rose 0.7% qoq in Q3. This was driven by a 1.6% rebound in transport spending following a softer Q2 outcome because the conflict in the Middle East limited air travel. At face value, this points to some upside risk to our 0.4% qoq forecast of real household spending in the national accounts. However, there are differences in coverage and timing, and the partial indicator has been running above the National Accounts measure in recent quarters.

If our Q3 forecast is realised, real household consumption will have grown at a relatively steady pace of around 0.4% qoq over the first three quarters of the year, annualising at around 1.6%. This is a material slowing from growth of around 2.5% over 2025.

But monthly spending data points to sequential cooling through the quarter, and looking to Q4, our NAB Spend Trend showed nominal household spending declined 0.2% mom in October. This was the first monthly decline since April 2026. This weakness was driven by a 0.5% fall in services spending alongside weaker outlays on discretionary goods, with household and personal goods falling 1.3% mom and 0.3% mom, respectively.

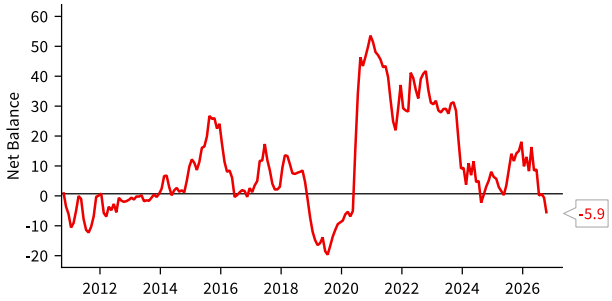
NAB Spend Trend



Source: National Australia Bank

It is unclear how much of this weakness in discretionary goods reflects softer underlying demand, including from the housing market slowdown, or delayed purchases ahead of Black Friday sales. Last year, earlier discounting brought spending forward into October, which was less evident in our spending data this year. This may partly reflect higher costs and weaker cash flow limiting retailers' capacity to discount early. Indeed, retail cash flow in the NAB Business Survey has fallen to -5.9pts, its lowest level since April 2020. We will be looking at the November spending data to see if it reflects a shift in timing around the sales period or softer underlying demand in discretionary goods categories.

Cash Flow in the Retail Industry, Trend

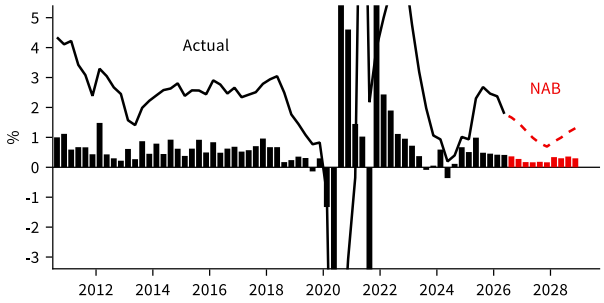


Source: National Australia Bank, Account in-house
Notes: 3-month moving average

Sentiment fell 2.7% mom in November, its third consecutive monthly decline, to be around 22% below its long-run average. The monthly fall was led by a 10.2% decline in expectations for the economy over the next 12 months.

Looking ahead, we expect real household consumption growth to slow to 0.7% over 2027 before rising to 1.3% y/y over 2028. This is well below its pre-pandemic average of around 2.5-3% and would be the slowest annual pace since mid-2013, excluding the pandemic period. The expected moderation in consumption growth reflects slower real household disposable income growth and, at the margin, an additional drag of housing market weakness. However, the savings rate is around pre-pandemic levels so there is some scope for households to smooth consumption. The Q3 National Accounts released on 2 December will provide an update on these dynamics.

Real Household Consumption Forecast



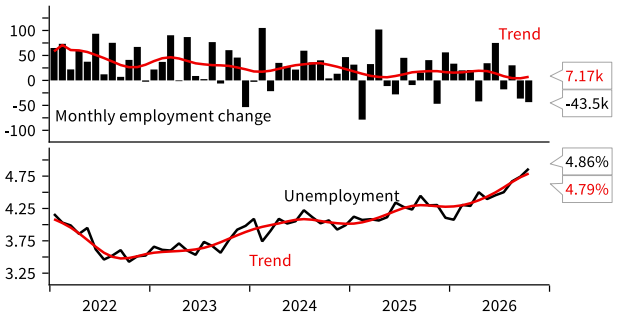
Source: National Australia Bank, Australian Bureau of Statistics, Account in-house, Macrobond
Notes: Red bars and dotted line represents NAB forecasts.

Labour Market

The unemployment rate has risen to 4.9%, while trend employment growth has softened.

Labour force data released yesterday saw the unemployment rate rise to 4.9%. Our forecasts anticipate the unemployment rate will continue to rise. The increase in unemployment over the past three months has been driven by a notable softening in employment growth. Trend employment growth has slowed from around +30k in June to closer to +7k currently. Trend employment growth at this pace, if the participation rate remains broadly stable, will place further upward pressure on the unemployment rate.

Australian Employment

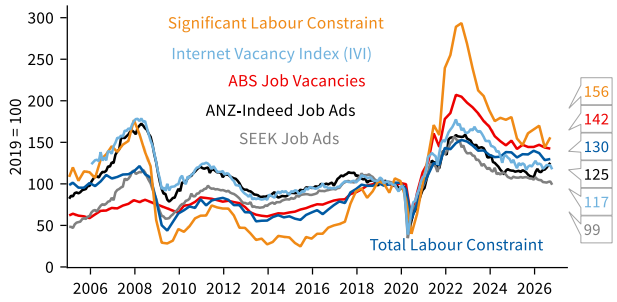


Source: National Australia Bank, ABS

Leading indicators of labour demand have been mixed over recent months. Notably, the employment index in the October NAB monthly business survey rose back above its long-run average. Most leading labour demand indicators have broadly tracked sideways or softened, with October job advertising noticeably weak in SEEK data. ANZ-Indeed has been an exception, showing rising advertising. We remain sceptical of the signal in these data, and note that the October release was delayed.

Given the weaker outlook for activity, we expect a period of subdued labour demand.

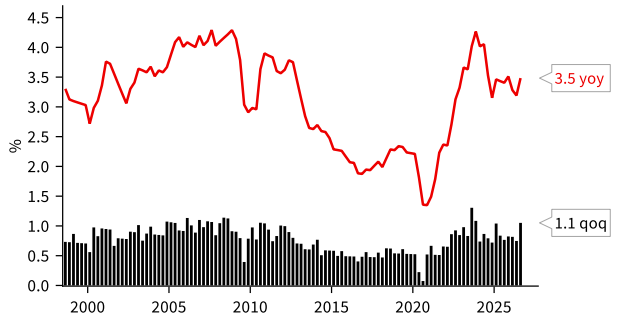
Measures of labour demand



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

The Q3 WPI data showed that wage growth reaccelerated in the three months to August. The strength was primarily driven by higher award wage increases and large public sector wage agreements, notably for NSW Nurses. While there is a risk elevated inflation has supported private sector wage demands, as flagged in the RBA's liaison program, this pressure is unlikely to persist if labour market conditions continue to cool.

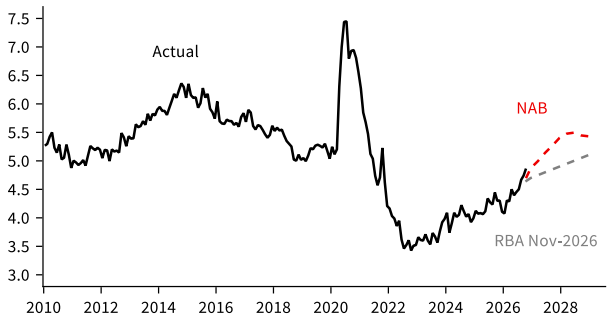
Wage Price Index Growth



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

We expect the trend rise in the unemployment rate and slow employment growth to continue, driven by a broader slowing in activity. We see the unemployment rate rising to 5.4% by the end of 2027, before peaking at 5.5% in early 2028. Meanwhile, the RBA's latest forecasts see the unemployment rate rising more gradually, reflecting their expectation that labour demand will remain solid in the near-term, taking signal from some of the job ads data.

Unemployment Rate Forecasts



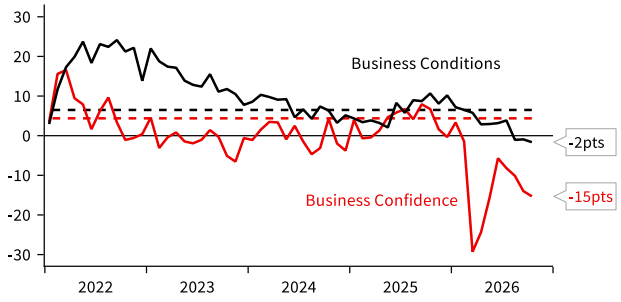
Source: National Australia Bank, RBA

Businesses

Business confidence and conditions are weak as activity softens, while investment is expected to be resilient.

Both confidence and conditions fell a further 1pt in the October NAB Business Survey. Trading activity and profitability subcomponents continue to lead the decline. The trend softening suggests that activity is continuing to slow and that businesses are unable to fully pass on costs, which continue to remain elevated. Despite demand easing, capacity utilisation remains above its long-run average, as supply constraints remain binding even in a lower-activity environment.

NAB Monthly Business Survey*

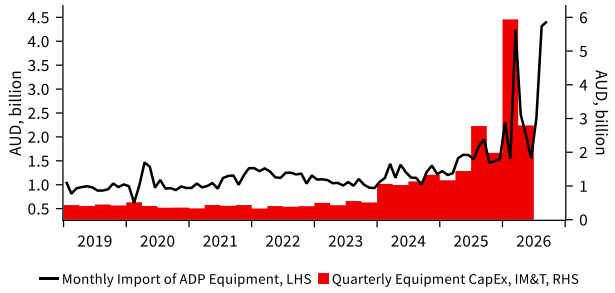


Source: National Australia Bank, National Australia Bank, Macrobond
* Dashed lines are the long-run average of the series.

Despite the weaker outlook in the Business Survey, Q3 business investment is expected to be supported by strong data centre related spending. Imports of ADP equipment, which captures the equipment component of data centre spending, were particularly strong in August and September. Over the quarter, the import of ADP equipment grew at a similar pace to Q1, when data centres were a key driver of the 15.4% qoq rise in machinery and equipment investment. Given the strong and volatile growth seen in business investment recently alongside the signal in the

timelier data, we expect that Q3 business investment will be strong.

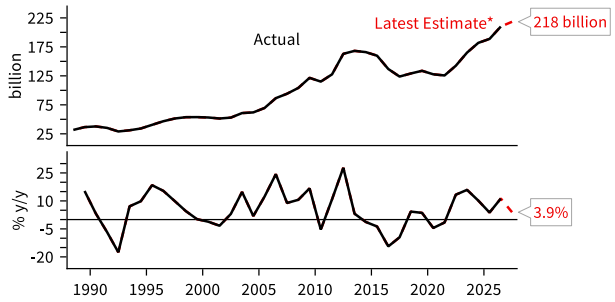
Import of ADP Equipment & Equipment Capex from Information Media & Telecommunication



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

Outside of data centres, we expect the trend in business investment growth to weaken. The Q2 Capex data included businesses' expectations for new investment, which implied slower growth over FY26/27. Across industries, the slower growth was expected by businesses outside of data centre and renewable related industries, which still had relatively optimistic outlooks. Next week we will get an update to these data, giving more insight into whether investment is slowing more broadly and how business sentiment has developed.

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.

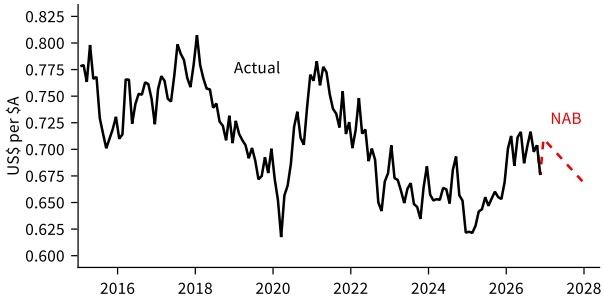
Foreign Exchange

The Australian dollar has depreciated notably since the start of the month.

The AUD/USD and AUD TWI have depreciated by 5.3% and 4.6% month to date. AUD/USD is currently around US$0.666, which is the lowest level since December. The move lower has largely reflected a narrowing in the interest rate differential between Australia and the US. Markets have increasingly priced the RBA's next move as being down, while expectations for further tightening by the US Federal Reserve have risen.

Our NAB FX Strategy team note that their year-end AUD/USD forecast of US$0.71 now appears out of reach. Rather they see AUD/USD as currently establishing itself inside a US$0.65-0.70 range. For more detail, see: AUD/USD - thoughts on latest price action

AUD/USD Forecast



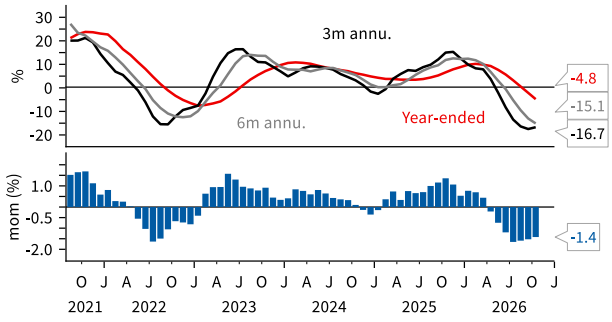
Source: Bloomberg; National Australia Bank
Notes: For incomplete months, the latest value is the last actual daily rate in that month.

Housing

We now expect a larger peak-to-trough decline in dwelling values, reflecting downward revisions to Brisbane and Perth.

Dwelling prices across the combined capitals have fallen for a seventh consecutive month, declining 1.4% mom in October to be 8.1% below their March 2026 peak. This has been driven by higher interest rates, the Federal Budget tax reforms, as well as affordability constraints.

Combined Capitals Dwelling Values

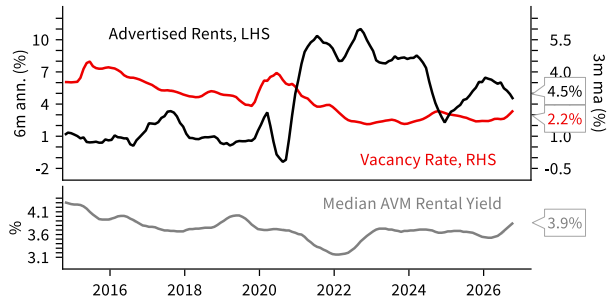


Source: National Australia Bank, Account in-house

Following downward revisions to Brisbane and Perth, we now expect a peak-to-trough decline across the combined capitals of 14% (prev. 11%), before finding a floor in mid-2027. Brisbane and Perth values declined 2.0% mom and 1.7% mom in October, taking their peak-to-trough declines to 8.3% and 8.9%, respectively. These declines are now broadly in line with Melbourne (7.8%) but remain smaller than in Sydney (10.1%).

While rental vacancy rates remain low, they have risen a little since the start of the year, particularly in WA, SA, and NSW. Advertised rents growth remains elevated, but the pace has moderated to 4.5% on a 6-month annualised basis, led by NSW and Vic.

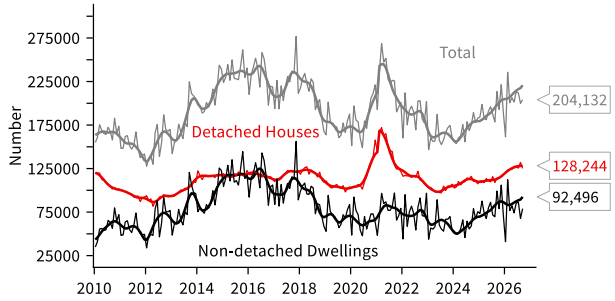
Advertised Rents and Vacancies



Source: National Australia Bank, Cotality Australia
Notes: Seasonally adjusted by NAB.

The value of new housing loan commitments declined by 15.5% in Q3, led by a 32.3% fall in investor lending, consistent with slowing demand for housing construction, but this has yet to flow through to dwelling approvals, which remain around 30% higher than early 2024. We expect the weakness in demand to weigh on dwelling approvals and housing starts over coming quarters. However, the elevated pipeline of dwellings under construction, which is around 250k, should continue to support dwelling investment in the near-term.

Private Dwelling Approvals



Source: National Australia Bank, Australian Bureau of Statistics
Note: Annualised, trend and seasonally adjusted values.

Inflation

Cost increases are driving ongoing high inflation.

The Q3 CPI confirmed high and broad-based inflation. Trimmed mean was 1.0% qoq and 3.7% yoy. The share of items in the CPI basket where price rises annualised higher than 3.5% over the past 3 months was elevated at 59%.

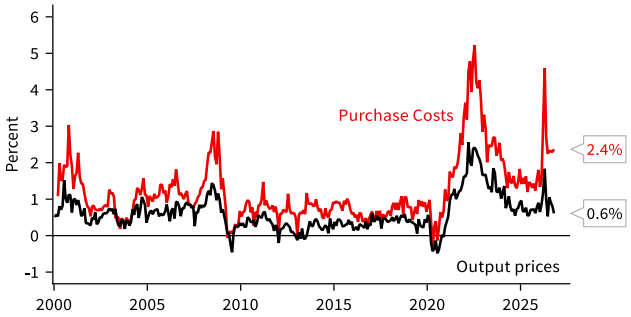
The strength driving the quarterly outcome was concentrated in the month of July, with the August and September months showing less elevated outcomes. Some of that pattern is likely to reflect residual seasonality.

We expect October CPI data due 25 November to show trimmed mean of 0.4% mom and 3.6% yoy. That is a strong outcome, reflecting some support from price changes alongside the end of card surcharging, and we expect November and December to be a little less elevated. That forecast would be consistent with a Q4 trimmed mean outcome of 0.9% qoq and 3.6% yoy. In line with the RBA's forecast (See Preview).

Headline inflation will remain supported in the near term by higher fuel prices and the earlier unwind of electricity subsidies. Together, these will add around 1.50ppts to year-ended headline CPI in October, when we forecast headline CPI will reach 4.7% yoy. We expect that to mark the peak in headline inflation.

The NAB Business Survey continues to show elevated cost pressures for firms, but the output prices indicator is much lower. While recent CPI outcomes show some cost pressure is finding its way to end prices, the NAB survey continues to suggest much of the cost pressure is being reflected in weaker margins and declining profitability.

NAB Survey Prices



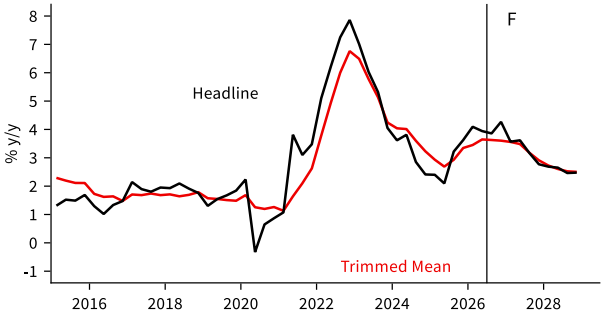
Source: National Australia Bank

Amid the conflicting pressures from a slowing economy but elevated costs, our forecasts for inflation are little changed. We anticipate input costs to continue to support elevated inflation outcomes into early next year, but for inflation to moderate as the cost shock fades and cooler domestic demand and labour market conditions put downward pressure on inflation outcomes.

The outlook for shelter CPI components is also consistent with some moderation in inflation looking forward. Advertised rents growth is slowing as rental vacancy rates have lifted off historical lows. Further, a weaker housing market and softer construction demand, as well as falling house prices, will likely limit the passthrough of cost pressures to new dwelling costs.

We continue to 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

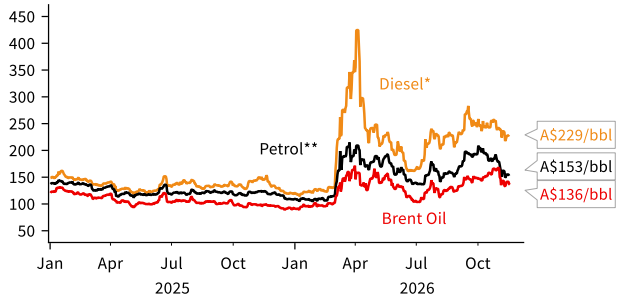


Source: National Australia Bank, ABS, RBA

Those forecasts anticipate a gradual decline in oil and refined product costs, consistent with brent oil a bit above $80 late next year.

Risks around that profile are balanced. If the recent fallback in petrol benchmark prices, in particular, sustains then we may be revising down our near-term headline inflation profile. But diesel prices, which drive business input cost pressures, have been more resilient, and are additive on an already broad-based cost challenge for firms. That could lead to more persistence than we factor in, although our forecasts anticipate easing capacity pressures and a soft demand environment to overcome those cost push factors over time.

Oil Prices and Singapore refined benchmarks



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

Monetary Policy

We expect that rates will remain on hold at 4.85% until August 2027, before the RBA begins to gradually normalise policy.

With policy having been tightened to 4.85%, rates are now clearly restrictive and timelier indicators point to some ongoing cyclical cooling in the economy. The balance between growth and inflation risks has shifted and we think the RBA is done hiking. Looking further ahead, more cooling in the labour market and a little softer GDP growth than the RBA's November forecasts anticipate should open up space to begin to normalise policy next year. We expect the first cut in August.

The Q4 CPI (released in late January) will be the next major test for the RBA, though at 0.9% qoq the outcome for trimmed mean inflation is already expected (by both us and the RBA) to be high. Therefore, the details will matter. The assessment of some gradual cooling from the strong July monthly outcome and some easing in oil prices since early November will likely be enough to keep the RBA in watch and see mode, with slowing economic activity and labour market conditions now more of a focus.

Our and the RBA's forecasts both embody a period of below trend growth building a degree of spare capacity in the economy in order for inflation to ease. Therefore, even though there are signs that activity is slowing further, the RBA MPB cannot completely dismiss inflation risks, with policy makers remaining in an uncomfortable position given the large cost-push inflation shock comes on top of a starting point of no spare capacity and above-target inflation.

The new set of Staff forecasts contained in the November SoMP saw slightly lower growth forecasts, a modestly higher unemployment track and a more gradual return to target for underlying inflation. In terms of GDP growth, these forecasts are slightly stronger in H2 2026 and over 2027 than our own (0.3ppts).

We also see a more significant loosening in the labour market. The upwardly revised staff forecasts see the unemployment rate peaking at 5.1% and employment growth of around 1.0% over 2027 (NAB 5.5% and 0.5%).

Underlying inflation is forecast to fall to 2.9% by end 2027, and ease to around the mid-point of the inflation target by mid 2028.

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	0.2	2.5	1.5	0.7	1.3
Dwelling Investment	1.5	1.6	0.3	0.6	-0.3	-0.3	5.2	4.0	-1.2	8.6
Underlying Business Investment	7.5	-1.1	0.8	0.7	0.3	0.1	4.2	7.9	0.5	2.1
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**	**0.4**	**0.4**	**0.3**	**0.2**	**3.0**	**2.0**	**0.9**	**2.0**
Inventories (cont.)	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.1	-0.3	0.0	0.1
Gross National Expenditure	**0.8**	**0.2**	**0.4**	**0.4**	**0.3**	**0.2**	**3.1**	**1.7**	**1.0**	**2.1**
Net Exports (cont.)	-0.7	0.1	-0.1	0.0	0.0	0.0	-0.3	-0.7	0.1	-0.2
Real GDP	**0.3**	**0.4**	**0.3**	**0.3**	**0.3**	**0.2**	**2.6**	**1.3**	**1.0**	**1.8**
Nominal GDP	**0.6**	**0.8**	**0.6**	**1.0**	**0.8**	**0.6**	**6.2**	**2.9**	**2.6**	**3.1**
Labour Market										
Employment (a)	0.5	0.2	0.3	0.1	0.1	0.1	1.1	1.2	0.5	1.4
Unemployment Rate (a)	4.2	4.5	4.6	4.9	5.0	5.1	4.2	4.9	5.4	5.4
Wage Price Index	0.8	0.7	1.1	0.5	0.8	0.8	3.5	3.2	3.2	3.2
Inflation										
Trimmed Mean	0.8	0.8	1.0	0.9	0.8	0.7	3.4	3.6	2.9	2.5
Headline	1.4	0.6	1.3	0.9	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	4.85	4.85	4.85	3.60	4.85	4.35	3.85
3-year Yield	4.65	4.36	4.92	4.75	4.65	4.55	4.15	4.75	4.35	3.90
10-year Yield	4.97	4.73	5.34	5.10	5.10	5.05	4.74	5.10	4.90	4.60
$US per A$	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; End-period; Shaded area represents NAB forecasts; (a) quarter average.

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