

The Forward View Australia: Nov 25

Goldilocks on hiatus

NAB Economics and Markets Research



Overview

- NAB Business survey data indicates that the economy has maintained or even gained further momentum in Q3
- The quarterly CPI confirmed materially stronger inflation in Q3 and October unemployment dipped back down to 4.3%
- We still expect a soft landing for the economy, though see the RBA on the sidelines with growth already at trend and little-to-no spare capacity in the economy

Overall, we continue to see a relatively soft landing for the economy, with only small tweaks to our 2026 growth forecast (slightly softer) and unemployment rate (slightly higher) forecast over the past month. Q3 inflation data was stronger than the RBA's expectations and confirmed a material and broad-based acceleration from its H1 2025 pace. We expect underlying inflation above 3% for the next couple of quarters, before easing back into the target band and moderating a little further to 2.5% over 2027.

With economic growth expected to sustain near trend, the unemployment rate to remain low, but a less benign inflation back drop, we see the RBA on hold at 3.6% for the foreseeable future. Abstracting from a negative global shock, the key risk for the RBA and the interest rate outlook is clearly that capacity constraints broaden or intensify.

Indeed, the latest NAB Business Survey for October show that business conditions increased further in the month, and that capacity utilisation remains well above its long-run average. Encouragingly, input cost growth, as well final product price inflation, are tracking around their long-run averages. Early evidence of margin expansion may pose some threat to this benign outcome.

Data over the next couple of months will be crucial in assessing how underlying trends in the economy are progressing on the demand side following the volatility in key data points over recent months.

Though dated, the Q3 national accounts (where we expect overall growth of 0.5% qoq) will provide an updated and complete picture of household sector dynamics including income growth, as well a broader perspective on growth—including dwelling and business investment. Fresh reads for the labour force survey and household spending will provide greater clarity around the ongoing (or otherwise) resilience and capacity of the labour market as the impact of private sector activity flows through, and the durability of the consumer recovery. The first full monthly CPI is released next week and will provide a more granular picture of recent inflation trends amid the spike in Q3.

Contents

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

Key Economic Forecasts

	2024	2025(f)	2026(f)	2027(f)
Domestic Demand (a)	2.0	2.0	2.1	2.2
Real GDP (annual ave)	1.0	1.7	2.1	2.1
Real GDP (year-ended)	1.3	1.8	2.1	2.1
Employment (a)	2.3	1.9	1.7	1.7
Unemployment Rate (b)	4.0	4.4	4.4	4.4
Headline CPI (b)	2.4	3.7	3.1	2.5
Trimmed-mean CPI (b)	3.3	3.2	2.7	2.5
RBA Cash Rate (b)	4.35	3.60	3.60	3.60
\$/US cents (b)	0.62	0.67	0.71	--

(a) annual average growth, (b) end-period

Chart 1: RBA Cash rate forecast

RBA Cash Rate Target and NAB Forecast

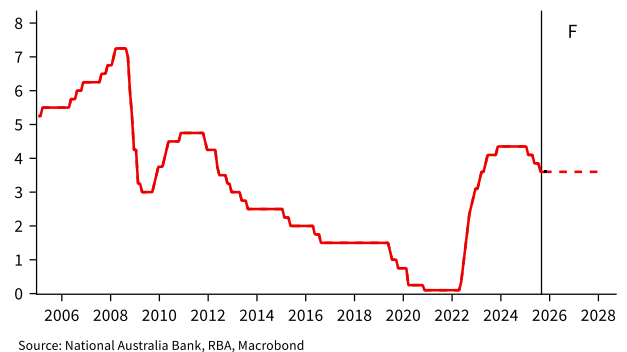
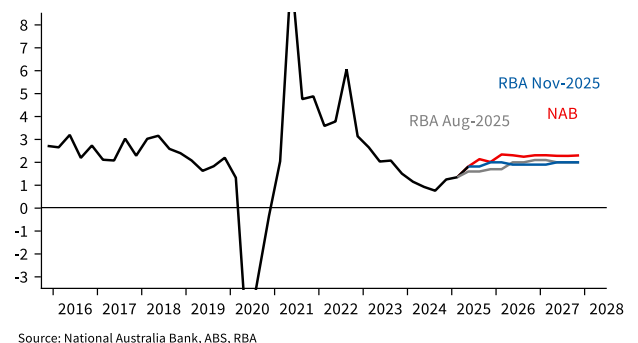


Chart 2: GDP forecasts

Australian Gross Domestic Product



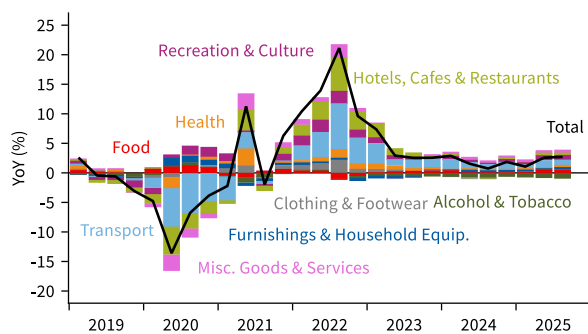
Consumption

Household consumption is expected to rise in Q3 but at a slower pace.

According to the ABS's household spending indicator (MHSI), spending rose by 0.2% qoq in Q3 (in volume terms). This growth was mainly driven by higher spending on food and health, which more than offset ongoing weakness in alcohol & tobacco as well as recreation and culture. Excluding alcohol & tobacco household spending rose 0.4% qoq. This outcome suggests there may be some downside risk to our prior Q3 real household consumption growth forecast of 0.6% qoq and accordingly we have downgraded our quarterly forecast to 0.4% qoq.

However, this follows the strong outcome in Q2 with the national accounts and the MHSI showing an increase of 0.9% qoq. Abstracting from the quarterly volatility, where the consumer appears to be sensitive to discounting and shifting seasonal patterns, consumption growth is tracking in the 2-2.5% range yoy, significantly above the pace of growth seen through 2024.

Contributions to Household Spending Volumes

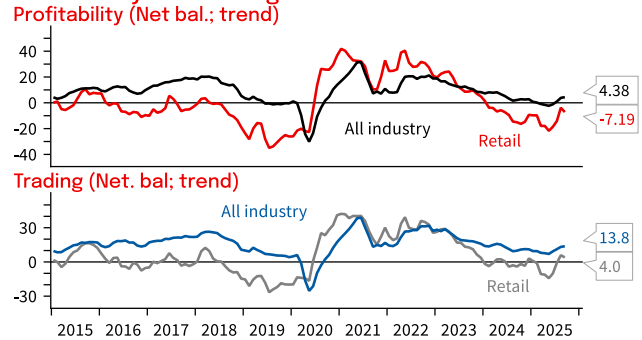


NAB transactions data (in nominal terms) for the month of October points to a 0.7% mom increase in overall spending. Growth was strongest in personal goods, rec & personal services and cafes & restaurants in the month pointing to ongoing resilience in discretionary spending.

The Westpac-MI consumer sentiment index also improved in November, rising by 12.8% mom, the second-largest monthly increase on record, and more than reversing two months of declines. While there is likely some volatility in this sharp increase, it allays fears of a reversal in sentiment and keeps the improving trend intact, with the first net positive reading since February 2019 (excluding the COVID period). The improvement was broad-based, with stronger expectations for economic conditions, major purchases, and perceptions of family finances.

Both the NAB transactions data and consumer sentiment point to the ongoing durability of the consumer recovery in Q4 and we continue to expect consumption growth of 2-2.25% yoy through 2026.

Profitability and Trading Conditions



A complete picture of consumption and household income dynamics will be available with the National Accounts release on 3 December. This data will be important, as the recovery in consumption has so far been supported by growth in real disposable income supported by tax and interest rate cuts as well as easing inflation over the past year, while income growth has remained healthy. These tailwinds are likely to subside somewhat from here, though the household savings rate appears to have stabilised at more normal levels after falling to low levels in recent years as households came under pressure.

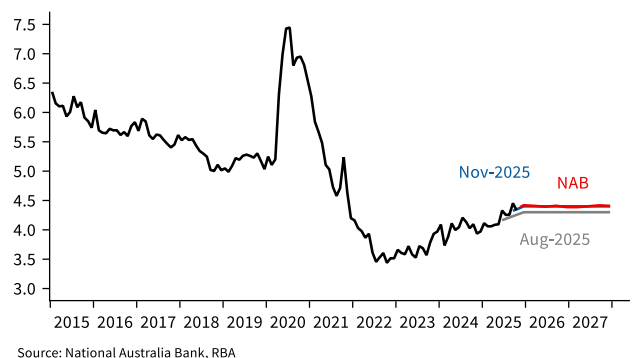
Labour market

The unemployment rate partially reversed the uptick in September and is expected to remain around 4.4%.

The unemployment rate fell to 4.3% in October, reversing half of September's rise to 4.5%. This highlights the volatility in monthly data and suggests September's increase was not indicative of material weakening in labour market conditions. The increase in employment of 42k was partly supported by sample rotation effects, with the eighth of the sample that exited this month having a lower employment-to-population ratio than the new participants (1.5ppts lower). Even so, it does leave trend employment growth on a firmer footing.

Looking ahead, we expect the unemployment rate to remain around 4.4% over the forecast horizon, similar to the RBA's November SoMP forecast. The earlier pickup in private sector activity is expected to sustain, supporting private sector employment growth.

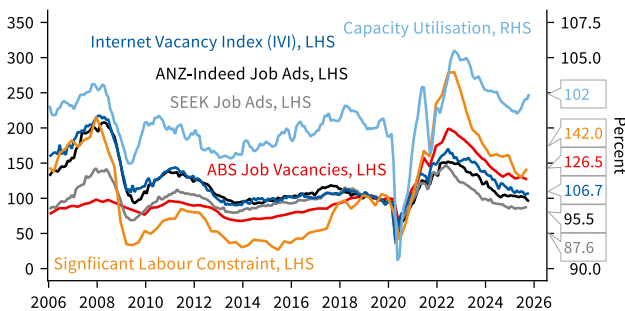
RBA Unemployment Rate Forecasts



Forward indicators of labour demand generally remain at healthy levels but show mixed momentum. Job ads and vacancies relative to the labour force have eased from 2023

high and continue a modest trend lower. However, measures of capacity constraints show signs of tightness and potential tightening. NAB's Business Survey shows a pick-up in capacity utilisation and an increasing share of firms citing labour as a major constraint on output.

Measures of Labour Demand*



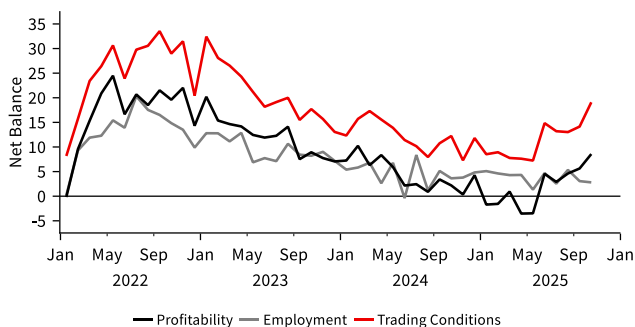
Note: * Measures of job ads and vacancies are shown relative to the size of the labour force
Source: National Australia Bank, Australian Bureau of Statistics, National Australia Bank, Macrobond

Businesses

Business conditions strengthened further and despite confidence easing, both remain above their long run average in October.

Strength in business conditions in the [NAB October Business Survey](#) suggests that the economy has maintained momentum gained since late 2024. Profitability and trading conditions led the improvement and have shown a strong upward trend over the past 6-months. Forward orders and capex reached new highs (since April-23 and Dec-24, respectively).

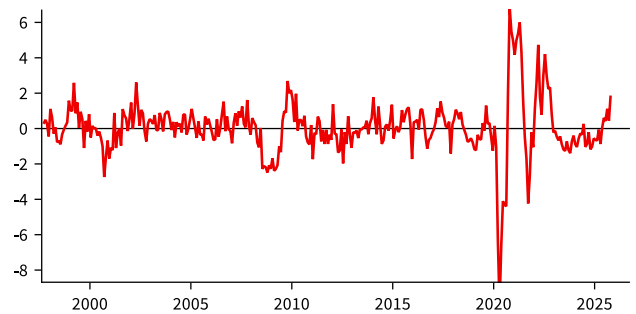
Business Conditions Sub-Components



Source: National Australia Bank, National Australia Bank, Macrobond

Activity has reaccelerated from a starting point in which businesses were already experiencing capacity constraints. The survey's measure of capacity utilisation had cooled from pandemic peaks but remained above pre-pandemic levels, before rising noticeably over the past 6 months. While cost and price measures were benign in October there is some risk these measures reaccelerate as supply side pressures build.

Capacity Utilisation*, 6-month Change



Source: National Australia Bank, National Australia Bank, Macrobond
* Ppt deviation from capacity utilisation reported 6-months prior.

Borrowing conditions appear to be easing for businesses. Across all industries the net balance of borrowing conditions sits above their long-run averages. The share of businesses that found borrowing easier rose to its highest level since June 2021, seven months after the end of RBA's previous cutting cycle. Business credit growth remains strong. The ABS lending indicators saw the value of new business finance commitments rise 22% yoy in Q3.

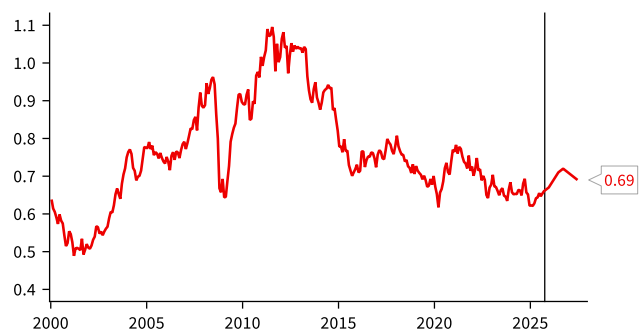
Foreign exchange

AUD/USD is expected to appreciate as the Federal Reserve eases policy.

AUD/USD has been little changed over the past month, mostly contained within a 0.6450 to 0.66 range. This is despite the strong Q3 CPI print and paring of rate expectations by the RBA. Since the start of the year, AUD/USD and TWI are around 1% higher, supported by an increase in the yield differential between Australia and other advanced economies.

We continue to see the Australian dollar appreciating to US0.67c by the end of 2025 and US0.70c over the next year. However, this move is contingent on further easing by the Federal Reserve [[see FX Strategy Forecast Update](#)].

NAB Forecasts, AUD/USD



Source: National Australia Bank, Account in-house

Housing

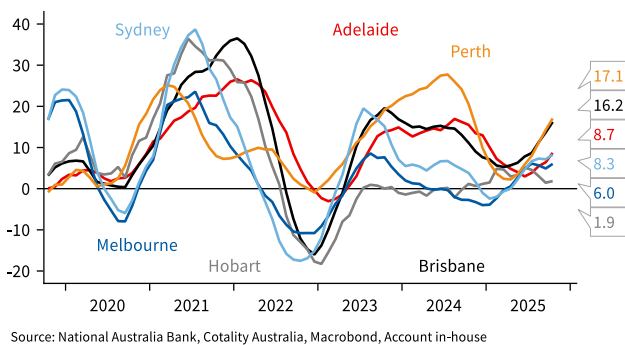
House price growth accelerated in October, growing at its fastest rate since June 2023. Meanwhile rents growth remained stable.

Australian dwelling prices rose 1.1% mom in October to be 6.1% higher over the year. Prices growth has been relatively

broad based across both houses and units (6.6% and 4.0% yoy, respectively).

Dwelling price growth was strongest in Perth and Brisbane and the gap to other capital cities widened in 6-month annualised terms. However, despite other capitals lagging, sentiment in Sydney and Melbourne rose notably in the Q3 NAB residential property survey. New housing lending also picked up, led by investors. New investor loan commitments rose 27.2% yoy in Vic and 18.6% yoy in NSW.

CoreLogic Hedonic Dwelling Price Growth by Capital City (6-month-ended Annualised,%)



The latest building approvals data suggests that supply will continue to fall short of demand despite slowing population growth which will support prices further. In October, prices grew at their fastest monthly rate since June 2023. We expect house price growth to continue, and pencil in 6% growth over 2026.

Meanwhile, advertised rents growth steadied at 0.5% mom over the three months to October after trending up since mid-2024. Persistently low vacancy rates, which sit below 2% across all capital cities, are expected to continue to support rents growth that runs ahead of overall inflation

Inflation

Inflation was hot in Q3 and will remain above the RBA's target for the next few quarters.

Trimmed mean inflation was 1.0% qoq and 3.0% yoy in Q3, confirming the signal from the August indicator of a broad-based reacceleration in inflation. The share of the CPI increasing more than 1ppt above the 2.5% midpoint rose from 41% to 56%, the share running more than 1ppt below fell from 33% to 15%. ([AUS: Q3 CPI confirms RBA's fears on housing and services](#)).

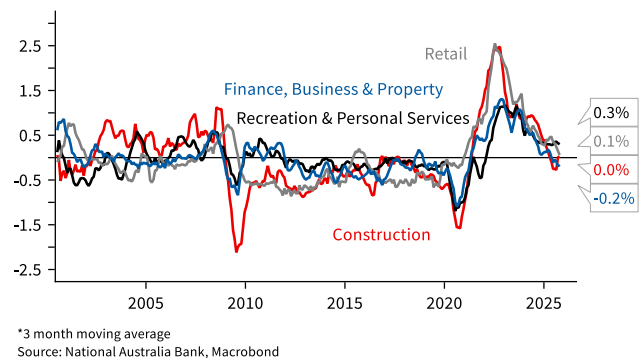
The Q3 outcome was further supported by price increases in a range of more volatile components, but reacceleration was pronounced across domestic services categories and new dwelling purchase costs. The former is unlikely to repeat, but the latter reflects stronger domestic inflation pressures that will keep underlying inflation above the RBA's target band in the near term. Our preliminary forecast for Q4 trimmed mean is a still much too strong at 0.8% qoq.

While we continue to expect inflation will return to the midpoint of the RBA's target band by the end of the forecast horizon, recent inflation data points to a much less benign inflation backdrop. We forecast inflation in the top half of the RBA's target band over 2026.

Disinflation in Australia into the first half of 2025 had been supported by margin pressures, and some easing of that squeeze alongside the pickup in private sector demand growth likely allowed some further passthrough of earlier cost pressures.

Final prices measures in consumer facing industries in the NAB Business Survey have not shown the same reacceleration evident in the inflation data. Broader cost and price measures from the survey continue to look relatively benign and have now largely returned to near long run averages but any signs that these are reaccelerating alongside the improvement in trading conditions and profitability would point to upside risk to our forecast.

NAB Survey Final Prices (deviation from average)*

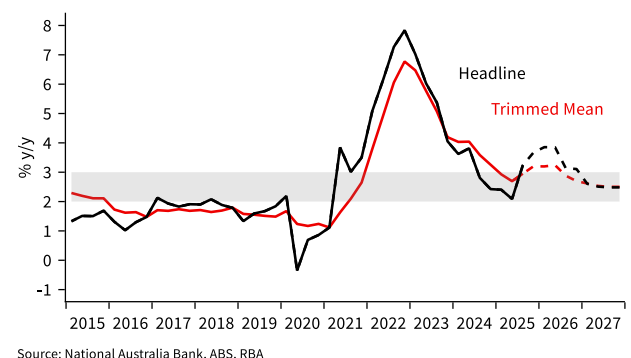


Inflation data in Australia is now monthly, but our longer-term forecasts will continue to reflect quarterly outcomes.

October and Q4 numbers will be weighed by a measured decline in electricity prices due to timing of subsidy payments, we pencil in Q4 headline CPI of 0.6% qoq. Rebates are currently scheduled to end this year, meaning a large upward contribution in early 2026. Treasurer Chalmers has said "We'll have another look at them as we get closer to the mid-year budget update...but they won't be in the budget forever."

The first release of the monthly CPI is 26 November and will contain September and October data for market services categories key to the RBA's assessment of capacity. For more on the Monthly CPI, see [Australian CPI is now monthly, what you need to know](#)

Inflation Forecasts



Monetary Policy

We now expect the RBA to remain on hold at 3.6% for the foreseeable future.

While the RBA has largely navigated a “soft landing”, the bar to further rate cuts is now much higher with the inflation backdrop looking less benign than three months ago and little-to-no spare capacity in the economy amid a pickup in private sector growth.

Underlying inflation now expected to print above 3% over coming quarters and remain above 2.5% until at least 2027. Further moderation in inflation is expected to be gradual and we see little chance of inflation undershooting 2.5% over the next 18 months.

The imbalance of supply and demand in the housing market will see ongoing upward pressure on inflation – with new dwelling purchase cost growth likely to remain elevated, while rents growth is also expected to remain solid.

While the persistence of the spike in other market services inflation components remains uncertain, it is likely that a stronger consumer may allow businesses to at least pass on some of the larger prior large increase in input costs. While the labour market itself does not appear to be a significant source of inflation pressure, the unemployment rate remains low and the acceleration in private sector growth is expected to see it remain that way.

Base wages growth – as highlighted by the Q3 WPI – does not appear excessive, but productivity growth has been weak. That means unit labour costs (wages adjusted by productivity) growth remains elevated and will cool only gradually.

Putting all of these factors together suggests that the RBA will remain cautious in further easing. While we see “long-run neutral” as close to 3% in nominal terms, the RBA will err on the side of “marginally restrictive” policy given the skew of risks. Further, higher inflation over the next year will see a lower than previously expected real rate of interest meaning the RBA will also need to do less.

Key Forecasts

Australia forecasts

	% Growth q/q			% Growth y/y			
	Q2-25	Q3-25 (f)	Q4-25 (f)	2024	2025 (f)	2026 (f)	2027 (f)
GDP and Components							
Private Consumption	0.9	0.4	0.5	0.9	2.2	2.0	1.8
Dwelling Investment	0.4	0.5	0.5	3.5	3.5	3.1	3.0
New Business Investment	-1.0	0.2	0.6	-2.0	0.0	2.1	2.2
Underlying Public Final Demand	0.0	0.4	0.4	5.4	0.6	1.6	1.6
Domestic Demand	0.5	0.4	0.5	2.3	1.8	2.2	2.1
Stocks (Cont. to GDP)	-0.4	0.0	0.0	0.1	0.1	0.0	0.0
Gross National Expenditure	0.4	0.5	0.6	2.4	1.9	2.2	2.1
Exports	1.7	0.4	0.4	1.4	1.8	1.6	1.6
Imports	1.4	0.4	0.6	6.2	2.5	2.0	1.8
Net Export (Cont. to GDP)	0.1	0.0	0.0	-1.0	-0.1	0.0	0.0
Real GDP	0.6	0.4	0.5	1.3	1.8	2.1	2.1
Nominal GDP	0.7	1.6	1.2	3.6	5.0	4.6	4.1
Labour Market							
Employment	0.6	0.2	0.4	2.2	1.5	1.8	1.6
Unemployment Rate (Q-Ave, End of Period)	4.2	4.3	4.4	4.0	4.4	4.4	4.4
Wage Price Index (WPI)	0.9	0.9	0.9	3.2	3.5	3.2	3.2
Inflation and Rates							
Headline CPI	0.7	1.3	0.6	2.4	3.7	3.1	2.5
Trimmed-mean CPI	0.7	1.0	0.8	3.3	3.2	2.7	2.5
RBA Cash Rate (End of Period)	3.85	3.60	3.60	4.35	3.60	3.60	3.60
10 Year Govt. Bonds (End of Period)	4.17	4.34	4.45	4.48	4.45	4.55	--
\$A/US cents (End of Period)	0.66	0.66	0.67	0.62	0.67	0.71	--

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

NAB Economics & Markets Research

Sally Auld	Group Chief Economist	+(61 0) 422 224 752	Sally.Auld@nab.com.au
Jacqui Brand	Executive Assistant	+(61 0) 477 716 540	Jacqui.Brand@nab.com.au
Australian Economics			
Gareth Spence	Head of Australian Economics	+(61 0) 422 081 046	Gareth.Spence@nab.com.au
Taylor Nugent	Senior Economist	+(61 0) 452 671 752	Taylor.Nugent@nab.com.au
Jessie Cameron	Senior Associate Economist	+(61 0) 491 380 013	Jessie.Cameron@nab.com.au
Michael Hayes	Associate Economist	+(61 0) 411 186 777	Michael.Hayes@nab.com.au
International Economics			
Antony Kelly	Head of International Economics	+(61 0) 477 746 237	Antony.Kelly@nab.com.au
Gavin Friend	Manager Research	+(44) 207 710 1588	Gavin.Friend@eu.nabgroup.com
Behavioural Economics			
Dean Pearson	Head of Behavioural Economics	+(61 0) 457 517 342	Dean.Pearson@nab.com.au
Robert De lure	Associate Director Economics	+(61 0) 477 723 769	Robert.De.lure@nab.com.au
Economics Analytics			
Brien McDonald	Senior Economist	+(61 0) 455 052 520	Brien,McDonald@nab.com.au
Thao Nguyen	Associate Director Economics	+(61 0) 451 203 008	Thao.Nguyen5@nab.com.au
Rocky Facciolo	Analyst	+(61 0) 416 586 554	Rocky.Facciolo@nab.com.au
Markets Research			
Skye Masters	Head of Markets Research	+(61 2) 9295 1196	Skye.Masters@nab.com.au
Foreign Exchange			
Ray Attrill	Head of FX Strategy	+(61 2) 9293 7170	Ray.Attrill@nab.com.au
Rodrigo Catril	Senior FX Strategist	+(61 2) 9293 7109	Rodrigo.h.Catril@nab.com.au
Fixed income			
Michael Bush	Head of Credit Research	+(61 3) 8641 0575	Michael.d.Bush@nab.com.au
Kenneth Crompton	Senior Interest Rate Strategist	+(61 2) 9293 7132	Kenneth.Crompton@nab.com.au
Evy Noble	Senior Associate	+(61 2) 7226 7336	Evy.Noble@nab.com.au
Gregorius Steven	Senior Associate	+(61 2) 7209 8133	Gregorius.Steven@nab.com.au

Important notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use