

# The Forward View Australia: More tortoise than hare, but getting there

## NAB



## Overview

- The economy appears to be gaining momentum more slowly than expected 6 months ago.
- The labour market has remained resilient and forward indicators remain healthy.
- The inflation outlook has become more balanced and will allow the RBA the scope to normalise policy, while remaining alert to any downside risks to the labour market.

The key domestic data over the past month show that private sector growth may be recovering more slowly than expected 6 months ago. The Q1 national accounts pointed to some loss in momentum in household consumption growth and an ongoing softer trend in business investment growth relative to the strong outcomes over recent years. Early data for Q2 point to a similar trend, with consumer spending measures volatile month-to-month but on average soft, and the NAB Monthly Business Survey still showing below average business conditions.

We forecast growth of 1.7% over this year and around 2¼% next year. This forecast embodies an improvement in household spending growth, a continued rise in dwelling investment and more consistent business investment growth. We expect public demand to continue to rise, though at a slower pace than over recent years.

While growth has picked up more slowly than expected, the labour market has remained tighter than forecast 6 months ago. We continue to see the unemployment rate rising to 4.4% by late 2025 and then stabilising at around 4.25% by end 2026.

Underlying inflation is expected to settle around the middle of the RBA's target band by late 2025. We see the risks around our forecast as broadly balanced. Productivity and housing constraints point to upside risk over the next 18 months given the balanced starting point for potential output but these risks are offset by global factors that represent a risk to growth, the labour market and therefore, consumer demand.

For us, the key policy risk is a slower than expected pickup in household consumption growth as population growth slows and real incomes recover more gradually than expected. These dynamics could lead to a faster increase in unemployment alongside less ability for businesses to pass on cost pressures. However, while inflation is expected to settle around the middle of the target band, we see both upside and downside risks amid elevated global uncertainty and volatile domestic data flow.

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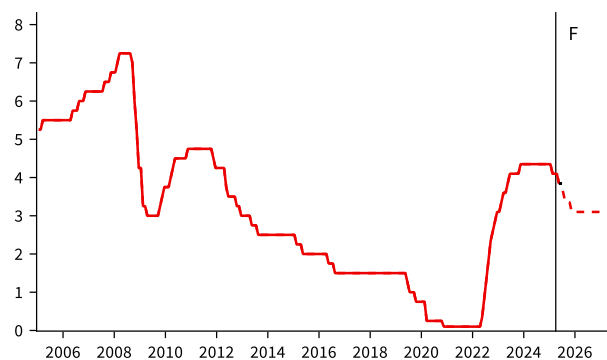
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## Key Economic Forecasts

	2023	2024	2025(f)	2026(f)
Domestic Demand (a)	2.9	1.9	1.8	2.2
<b>Real GDP (annual ave)</b>	<b>2.1</b>	<b>1.0</b>	<b>1.5</b>	<b>2.2</b>
<b>Real GDP (year-ended)</b>	<b>1.5</b>	<b>1.3</b>	<b>1.7</b>	<b>2.2</b>
Employment (a)	3.4	2.4	2.2	1.7
Unemployment Rate (b)	3.9	4.0	4.4	4.2
Headline CPI (b)	4.1	2.4	2.9	2.8
Trimmed-mean CPI (b)	4.2	3.3	2.6	2.5
RBA Cash Rate (b)	4.35	4.35	3.10	3.10
\$A/US cents (b)	0.68	0.62	0.70	0.73

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

## Chart 1: RBA Cash rate forecast



Source: National Australia Bank, Reserve Bank of Australia, Account in-house, Macrobond

## Chart 2: GDP forecasts

### Australian Gross Domestic Product



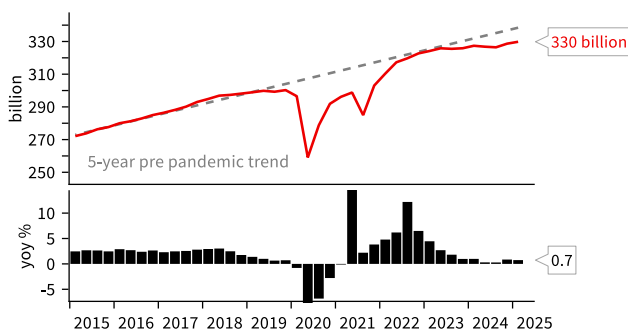
Source: National Australia Bank, ABS, RBA

## Consumption

**Q1 consumption growth slowed in underlying terms and highlights the risk that growth may pick up more slowly than expected earlier in the year.**

Household consumption grew 0.4% qoq in Q1 after an upwardly revised 0.7% in Q4. The headline measure was boosted by increased spending on electricity as government subsidies ended. Excluding this impact, underlying consumption grew by just 0.2% qoq. Growth across most categories was weaker than in Q4, which suggests that the strength in Q4 was influenced, at least to a degree, by price-sensitive consumers during a period of high discounting and ongoing shifts in household spending patterns. Still, we characterise this as a loss in momentum. Household consumption growth per capita again declined in the quarter, with Q4 being the only positive quarter of growth since Q4 2022.

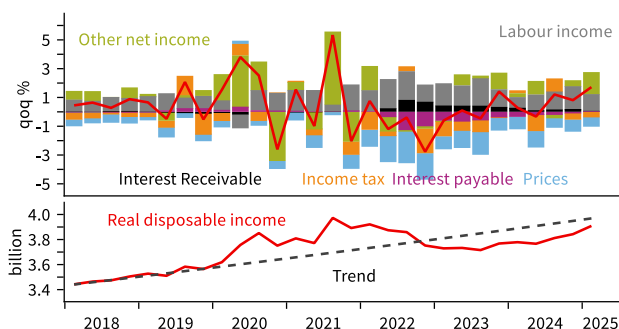
### Real household consumption



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

As population growth slows further, there will be increasing focus on per-capita improvement especially on the income side. Real disposable income growth rose in the quarter, though this was boosted by temporary income supports (government payments and insurance payouts) in response to Ex-Cyclone Alfred which will unwind in coming quarters. In levels terms, real disposable remains below its 2015-19 trend. We expect real income growth will continue to recover over 2025. Rate cuts and further progress on inflation are expected to support real incomes with the labour market remaining relatively healthy. However, the savings rate remains below its pre covid average and consumers' decisions around spending and saving will be important.

### Real Disposable Income Growth



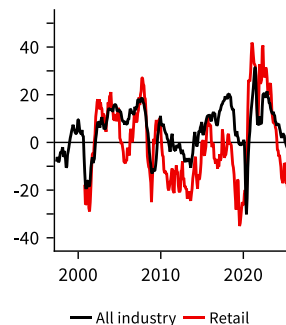
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Consumer sentiment has been little changed over recent months. Tariff and financial market volatility has not flowed through to consumer sentiment in a meaningful way, but it remains well below its long-run average.

The loss of momentum has been reflected in the discretionary/consumer sensitive sectors of the NAB Business Survey. In the [May NAB business survey](#), we highlighted that retail conditions and confidence remain very weak and they are stubbornly in negative territory. Profitability and trading conditions slightly improved for retail in late 2024/early 2025, but this has since faded. There is a stark gap between retail and all industry metrics, with retailers continuing to face cost pressures which have been difficult to pass through to price sensitive consumers.

### Profitability conditions

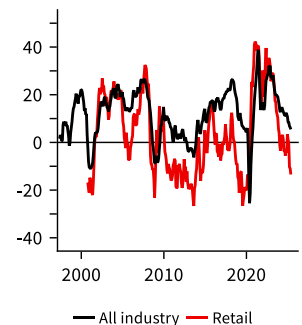
Net bal.



Source: NAB, Macrobond

### Trading conditions

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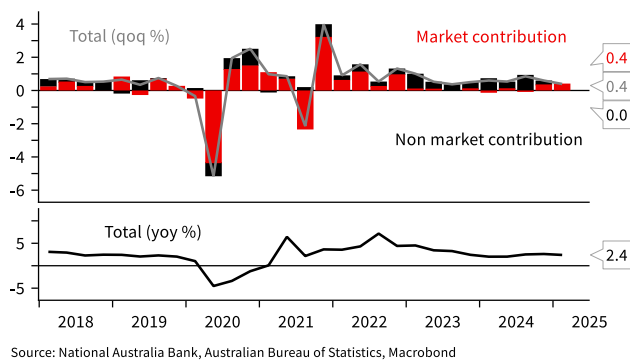
Consumption data will remain in focus going forward. April retail sales and the monthly household spending indicator point to soft growth in spending in early Q2, but also reflected some unusual seasonal impacts with warmer than expected weather holding back clothing sales. It is possible this may unwind in May. NAB [consumer spending data](#) points to some evidence of this with a rebound in clothing sales and department stores with overall spending rising 1.2% mom in May vs 0.2% April. On average over the first two months of Q2, however, spending growth has remained soft.

## Labour market

**The labour market remains in healthy balance.**

There were an additional 58K employed persons in Q1, growing at a still healthy 0.4% qoq and 2.4% yoy. Similar to Q4, market sector employment growth has risen notably compared to 2023 and much of 2024. There were some adverse weather impacts in the Labour Account data, likely through slower growth in hours worked in Q1. The ABS flagged that there was a small fall in the number of filled jobs (main jobs + secondary jobs), driven by a 4.2% decline in secondary jobs which was partially offset by a rise in main jobs.

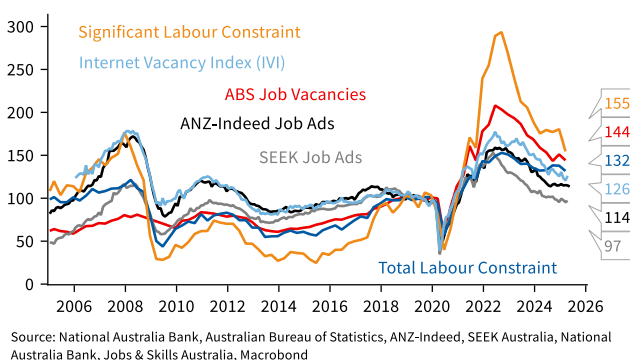
### Market vs non-market employment growth



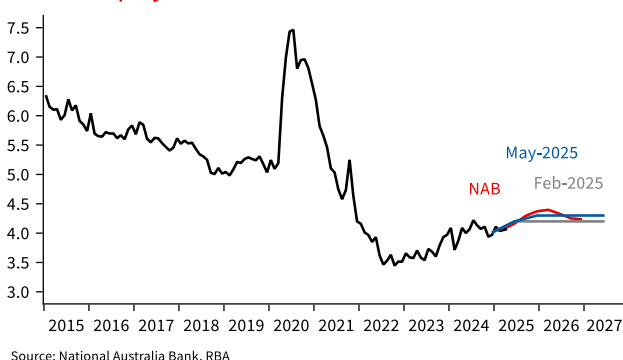
Forward indicators remain stable. Job ads data has been fairly flat in 2025 so far, even as some measures of recruitment difficulty have eased. The RBA continue to flag tightness in the labour market as a risk to inflation, though did note in the Minutes of the May meeting “*uncertainty about the extent of tightness in the labour market was two-sided*”. However, our view remains that the labour market is largely in balance and as such, is exerting non-inflationary influence

Looking ahead, we think the risks to the labour market are more skewed to the downside given continued profitability pressures faced by businesses and a weaker demand backdrop. The NAB Business Survey saw employment intentions ease in May, though this is only one month of data.

### Measures of labour demand



### RBA Unemployment Rate Forecasts



## Businesses, trade and FX

**Business conditions continued to track below average in May with the employment sub-component softening.**

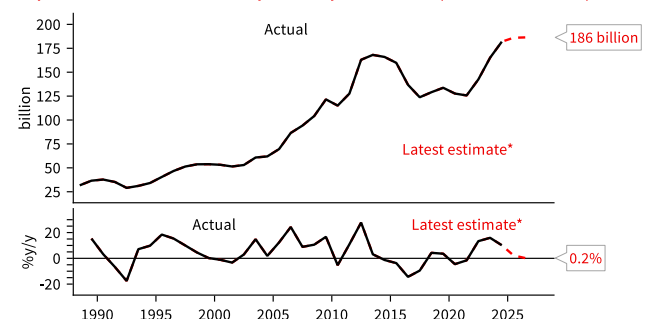
That said, despite the further softening in conditions and ongoing uncertainty over global trade confidence edged up in the month.

Overall, both the monthly and quarterly business surveys point to an ongoing similar weak pace of activity growth in recent quarters with trading conditions hovering just below average. The profitability component has tracked into negative territory reflecting ongoing input and labour cost pressures and less ability to push up output prices (where growth is now tracking below that of the input costs). That is consistent with the reported margins components deteriorating over the past 18 months.

The NAB Quarterly Survey for June will provide an updated read on business' employment and investment intentions over the next 12 months – the first since the escalation in trade tensions and rise in geopolitical risk since March. Both have eased over the past year, with investment intentions now a little below average. Employment intentions were above average in Q1 though the weakening in reported profitability, alongside the quarterly survey indicating margins and wages were the two largest influences on confidence in Q1, may mean firms eventually start to pull back on labour demand.

In terms of official data, the ABS Capex release (which was surveyed through April and March) indicated that businesses expect business investment to end 2024/25 up just 2.3% in nominal terms, while the second estimate for 2025/26 was revised lower, and now points to a flat outcome for business investment over the next financial year.

### Expected and Actual Capital Expenditure (Financial Year)



Overall, the national accounts show that business investment growth continues to soften, with a mixed outcome for business investment in Q1. Machinery & equipment investment (the largest business investment component in the national accounts) fell 1.4% qoq, while investment in buildings & structure rose 1.7% qoq. Nonetheless, fixed asset investment remains around 14% higher than Q4 2019 in real terms.

**Trade subtracted from growth in Q1 but will likely rebound in Q2.**

The ABS noted that in Q1 there were weather disruptions to hard commodity exports (coal and LNG in QLD) alongside less education exports, with a seasonally adjusted fall in the number of students as well as a lower average spend within the country. It is likely that commodity exports will rebound in Q2 supporting export growth. After a period of very rapid

growth in international student numbers over recent years driven by a post reopening rebound and a slower departure of existing students, services exports are expected to contribute less to growth looking forward.

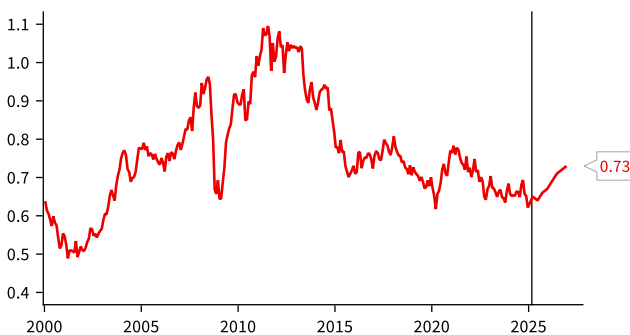
Overall, for export growth we don't expect large increases in hard commodity volumes with investment in the sector largely about sustaining output as existing mines deteriorate, while weaker global conditions may weigh somewhat on services exports. Therefore, we see a broadly neutral impact from trade on growth over the next 18 months with the volatility over recent years fading.

Commodity prices will remain a key dynamic for the economy. Despite concerns over global growth and developments in China, the iron ore price has remained elevated as have energy prices – while the latter had seen some easing over recent months the Israel-Iran conflict has seen a lift in the oil price. The strength in commodity prices and high terms of trade has supported national income growth.

**The Australian dollar is expected to appreciate to around US70c by end 2025 and drift higher over 2026 on the back of a weakening USD.**

For now, the Aussie has traded within a window around US65c over the past month or so. The appreciation of the pair is expected to be driven by ongoing USD weakness with little appreciation expected against other currencies outside of GBP or CNY crosses. We see the AUD softening against the Yen over time.

#### NAB Forecasts, USD/AUD



## Housing

**House price growth has been solid recently, while growth rates across the capital cities continue to converge.**

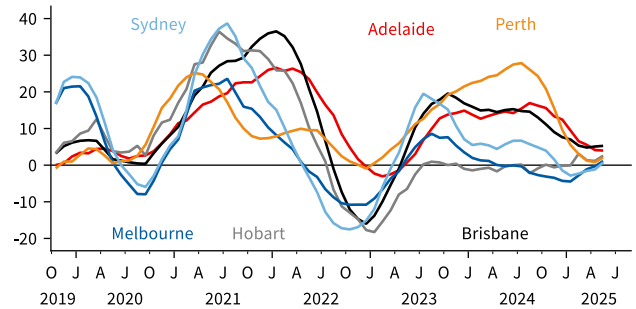
The Cotality (CoreLogic) 8-Capital City dwelling price index increased 0.5% mom in May – up from 0.2% in April but similar to the prior two months. Over the year to May, prices were only up 2.6% – the weakest rate in almost two years – but if recent trends are sustained this should stabilise soon.

There was little difference in the mom growth rate across the capital cities (Darwin the exception) in May, as the convergence in house price growth that has been evident for a while continues.

The Cotality hedonic rents growth indicator has stabilised at around 0.3% mom this year (based on our seasonal adjustment) after a soft patch in late 2024. The annual growth

rate in May was 2.7%, the lowest in over four years, even though vacancy rates remain historically low.

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



The national accounts measure of residential investment rose 2.6% qoq in Q1, to be up 5.6% yoy (the strongest it has been since late 2021). However, we expect future residential growth to be more modest. For the second consecutive month there was a large fall in dwelling approvals (–5.7% mom in April after –7.1% mom in March). These data can be volatile but the recent data tentatively suggests that the improvement in approvals over the last year or so may have run its course. The level of recent approvals has been around the number of completions (based on Q4 data for the latter) – while this suggests that the pipeline of work will remain high in the near-term, industry supply constraints and cost pressures remain an issue.

## Inflation

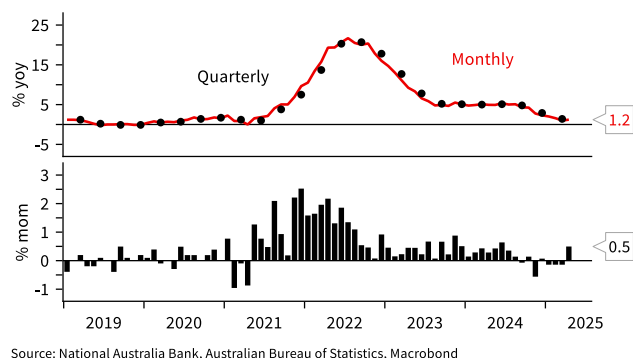
**New dwelling purchase price growth picked up in April, and will be important to track in May.**

The Monthly CPI indicator was steady at 2.4% yoy in April, with annual trimmed mean inflation rising slightly from 2.7% to 2.8%. Most importantly in April, there was a stronger than expected growth in New Dwelling Purchase prices at 0.5% mom (following from three months of –0.1% mom growth). Recent measured price declines had reflected some discounting, especially in Melbourne and Sydney, which may be fading faster than previously expected. However, this is only one month of data within an often volatile category.

New Dwellings is the largest category in the CPI and is therefore critical to the inflation outlook. We have nudged higher our preliminary Q2 trimmed mean forecast to 0.7% qoq from 0.6% qoq (the RBA's May pick was also a 0.6% qoq), and will watch how the May and June data comes in.

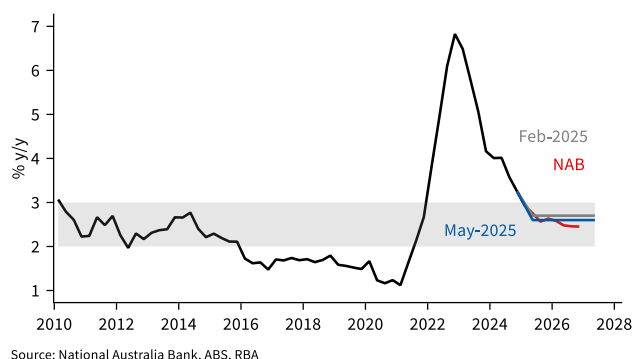
Housing components have driven a lot of the disinflation progress so far but there is some risk that the challenging supply backdrop in this industry sees progress stall or partially reverse. Overall though, broader domestic inflation pressures are consistent with an economy around balance and inflation settling around the middle of the RBA's target band from mid-to-late 2025. With gains in disinflation from easing global pressures and the moderating in housing inflation have likely been exhausted, meaning that market services inflation will need to continue to moderate for inflation to sustainably settle around 2.5%.

### New dwelling purchase price growth



Rising tensions in the Middle East pose a risk to oil prices – largely a second-round risk for Australia in terms of transport costs and in products where oil is a key component. For now, trade tensions more broadly have not had a major impact on global supply chains nor have there been obvious price impacts from trade diversion. These remain a risk.

### Trimmed Mean Inflation Forecasts



noted that a reduction in the cash rate could be warranted on the basis of either domestic or global factors, and that the combination of these might therefore warrant a 50 basis point reduction at this meeting”) in the context of underlying inflation’s return to the target band having “crystallised” and emerging global risks and a weaker than expected rebound in growth.

That said, the RBA also likely remains cautious in assessing how supportive policy will need to be given the still tight labour market (in their view) and prospects of only weak productivity growth over the medium term. Indeed, the minutes noted that “it was not yet time to move monetary policy to an expansionary stance” even though staff estimates assess the output gap has broadly closed after a period of over-capacity growth.

## Monetary Policy

**We continue to expect three further 25bp cuts in 2025 taking the cash rate back to a broadly neutral rate of 3.1%.**

There has been little news from the RBA since the last board meeting (and staff forecast update) amid ongoing trade uncertainty, an escalation in geopolitical tensions and the confirmation that, while in line with their May forecasts, household consumption growth has not rebounded as strongly as expected earlier in the year.

We still assess that the appropriate path for policy is an easing back towards neutral over coming months. Policy remains restrictive at 3.85% (and the real cash rate around 1.3%). While assessing neutral is difficult in real time, with inflation expected to settle around 2.5% in underlying terms and with the risks broadly balanced around that outlook, the RBA can afford to become more forward looking and continue to adjust the policy stance in order to support real income growth and ensure the labour market maintains the gains relative to prior to the pandemic.

Indeed, the minutes confirmed that the consideration in the meeting was how much to ease the cash rate (“members



## Key Forecasts Tables

### Australia forecasts table

	% Growth q/q			% Growth y/y		
	Q4-24	Q1-25 (f)	Q2-25 (f)	2024	2025 (f)	2026 (f)
<b>GDP and Components</b>						
Private Consumption	0.7	0.4	0.3	0.9	1.7	2.3
Dwelling Investment	0.7	2.6	0.9	3.5	5.0	1.8
Underlying Business Investment	-1.6	-0.7	1.1	-3.8	1.7	2.9
Underlying Public Final Demand	0.6	-0.4	1.0	5.3	1.5	1.6
<b>Domestic Demand</b>	<b>0.7</b>	<b>0.2</b>	<b>0.4</b>	<b>2.2</b>	<b>1.7</b>	<b>2.3</b>
Stocks (Cont. to GDP)	0.3	0.2	-0.1	0.1	-0.1	0.1
<b>Gross National Expenditure</b>	<b>0.7</b>	<b>0.3</b>	<b>0.3</b>	<b>2.3</b>	<b>1.9</b>	<b>2.3</b>
Exports	0.1	-0.8	0.4	1.3	0.6	1.9
Imports	0.7	-0.4	0.3	6.4	1.0	2.0
Net Export (Cont. to GDP)	-0.1	-0.1	0.1	-1.1	-0.1	0.0
<b>Real GDP</b>	<b>0.6</b>	<b>0.2</b>	<b>0.3</b>	<b>1.3</b>	<b>1.7</b>	<b>2.2</b>
Nominal GDP	1.5	1.4	0.6	3.7	4.4	4.6
<b>Labour Market</b>						
Employment	0.6	0.4	0.7	2.4	1.7	1.9
Unemployment Rate (Q-Ave, End of Period)	4.0	4.1	4.2	4.0	4.4	4.2
Wage Price Index (WPI)	0.7	0.9	0.9	3.2	3.5	3.2
<b>Inflation and Rates</b>						
Headline CPI	0.2	0.9	0.7	2.4	2.9	2.8
Trimmed-mean CPI	0.5	0.7	0.7	3.3	2.6	2.5
RBA Cash Rate (End of Period)	4.35	4.10	3.85	4.35	3.10	3.10
10 Year Govt. Bonds (End of Period)	4.48	4.38	4.35	4.48	4.25	4.05
\$A/US cents (End of Period)	0.62	0.63	0.66	0.62	0.70	0.73

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

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