Economic Update

A home grown slowdown

Sally Auld | Chief Economist

August 2026

February vs. August

The domestic economic backdrop has changed

February

- **Growth was above trend in H2 2025**, driven by a pick up in private sector growth. The economy hit capacity constraints sooner than expected.
- **Capacity utilisation had lifted sharply, was above average, and there was genuine breadth to the rise in capacity utilisation** (6 out of 8 industries running above long run averages of capacity utilisation);
- **Financial conditions were loose** (house prices rising, credit spreads tight, lending growth solid) and **there was uncertainty over the restrictiveness of rates;**
- **The labour market had tightened** and forward indicators of labour demand were strong;
- **Inflation had picked up quickly**, and was broad based. Inflation expectations were also rising, and real rates were declining;
- The case for rate hikes was clear – policy was not appropriate given growth and inflation fundamentals.

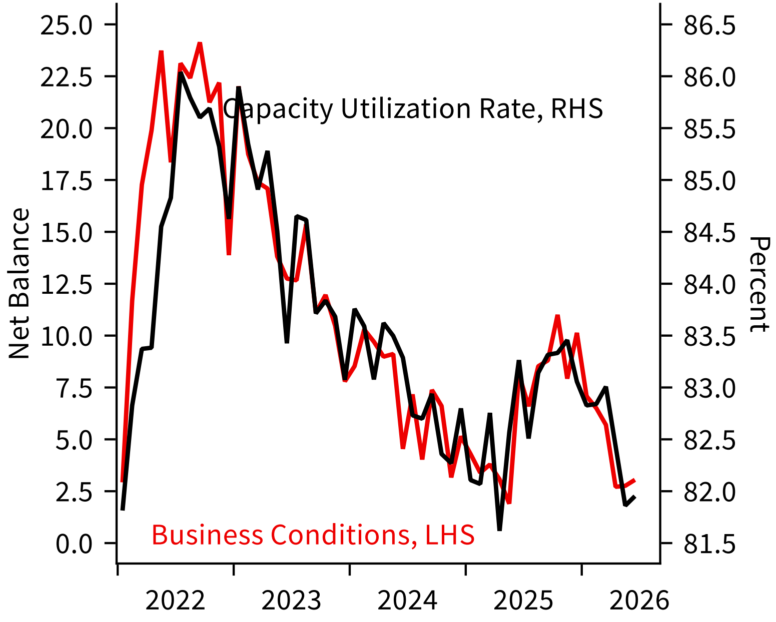
August

- **The Q1 national accounts shows that the economy had lost some momentum in the first three months of 2026** as household spending growth is now closer to 1.5% yoy and business investment is weak outside of data centres;
- **The capacity constraints picture has shifted** – the NAB Business Survey shows that activity has cooled somewhat, with business conditions and capacity utilisation having eased;
- **Near-term inflation outcomes have undershot RBA SoMP forecasts** but we continue to expect a very gradual sequential improvement in inflation in coming quaters;
- **Housing was softening pre-Budget** with house price growth slowing in all major capital cities, Budget changes represent an exogenous shock to the sector;
- In summary, **recent economic data give us confidence in our already soft growth forecasts, affirm our view of gradual sequential improvement in inflation and stability in the RBA cash rate for the next couple of quarters**.

NAB Business Survey for June

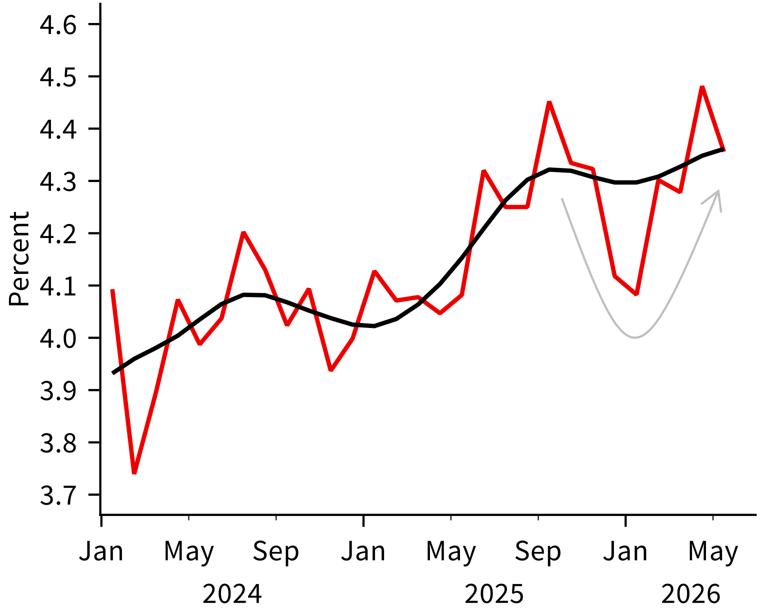
An unwind of the 2H 2025 cyclical upswing

The 2025 boomlet has unwound



Source: National Australia Bank, National Australia Bank, Macrobond

The unemployment rate has reversed



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

Four themes to watch in 2H 2026

Data watching

1. Inflation

- We are expecting a quarterly rise of 0.9% for trimmed mean inflation in Q3, helped by stronger petrol prices and a likely increase in travel and accommodation prices.
- A result of this magnitude is unlikely to force the RBA's hand in November, assuming the economy continues to slow in line with the RBA's forecasts (meaning activity data will be key).

2. Household consumption

- We expect household consumption to slow over the course of this year, to around 1.3% yoy (below the rate of population growth) as housing slows and real incomes growth slows.
- However, our own internal spending data, *NAB Spend Trend*, has been strong in the three months to June, suggesting the risk of stronger outcomes.

3. Capacity indicators (u-rate, cap. utilisation)

- As domestic economic growth slows, the labour market should loosen. We forecast the unemployment rate to rise towards 4.75% in 2027. This is still low by historical standards, but will help to reassure the RBA that capacity pressures have eased.
- The NAB Business Survey measure of capacity utilisation slowed in the first six months of the year. If this continues, then the RBA will have greater confidence that the requisite slowing in the economy is underway.

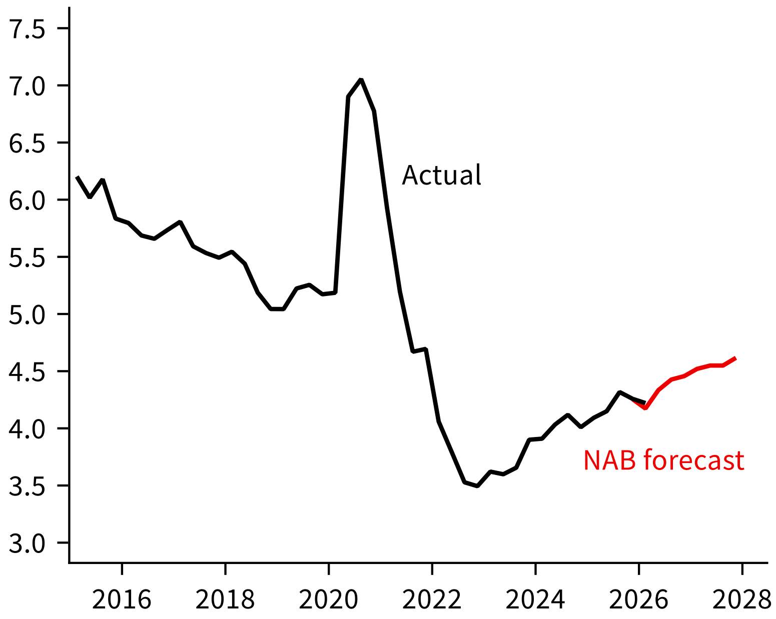
4. Housing

- There is now a more pronounced housing cycle underway. This will drag on growth, but has not (yet) forced downward revisions to our GDP forecasts. The market needs to find the new clearing price such that total risk adjusted after-tax returns in housing are once again attractive, both in an absolute and relative sense.

Lower inflation and higher u-rate

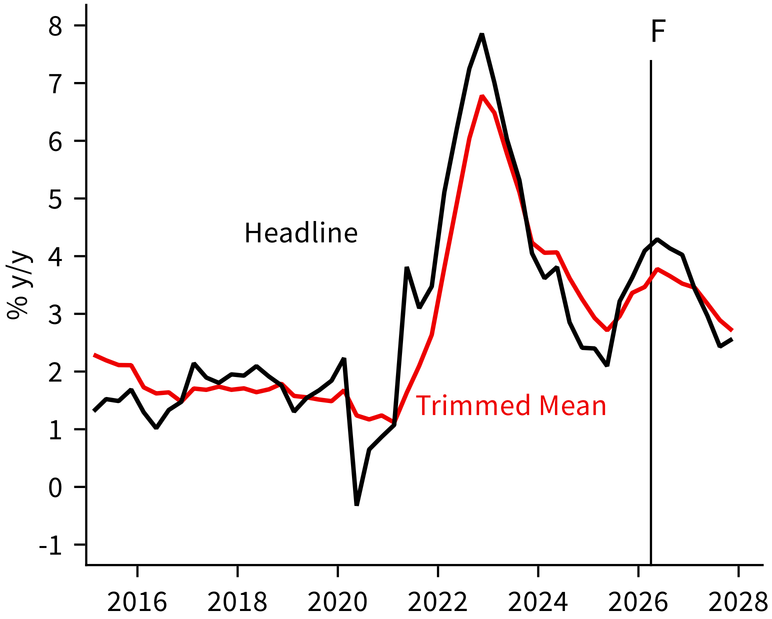
No such thing as a costless disinflation

Unemployment rate forecast



Source: National Australia Bank, RBA

Inflation rate forecast

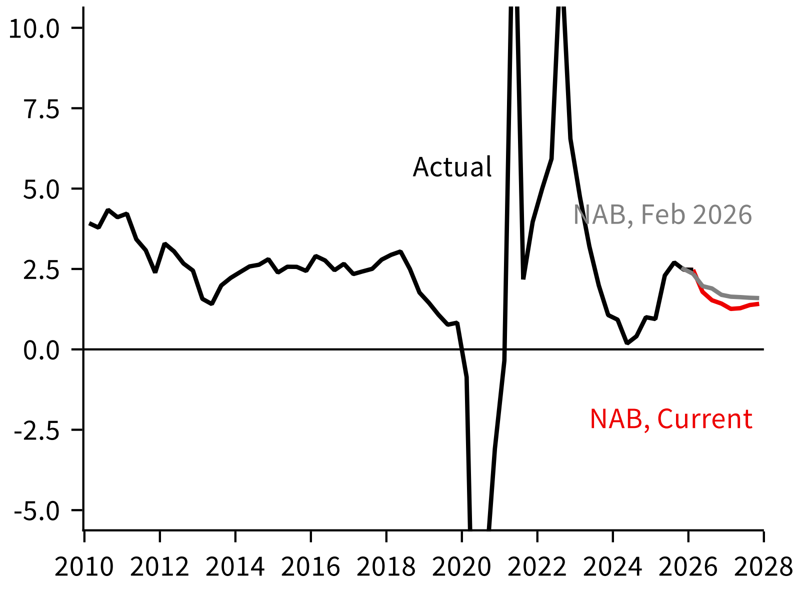


Source: National Australia Bank, ABS, RBA

Lower consumption growth and house prices

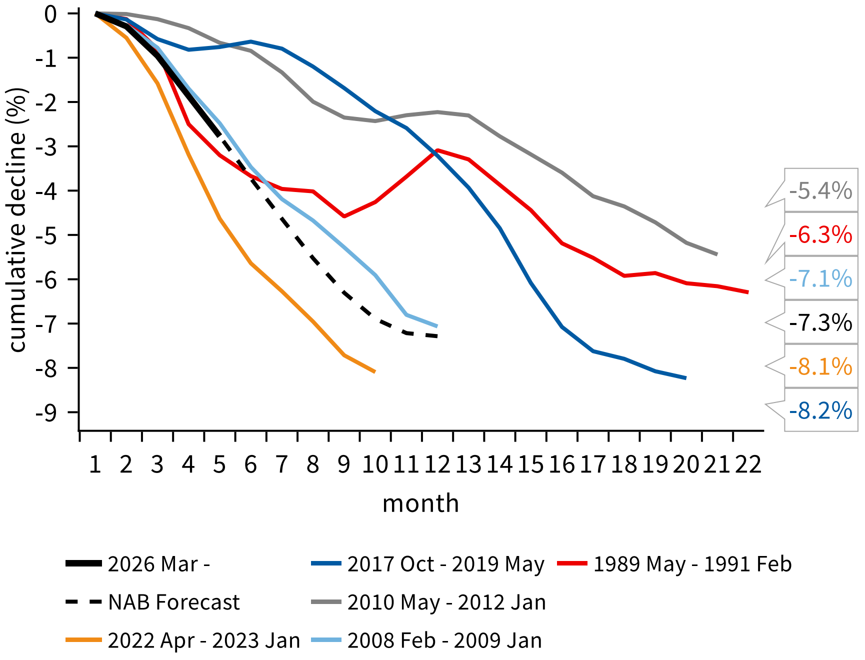
A slower economy requires a slowing in consumption growth

Real household consumption forecast



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

Capital city dwelling price downturns



Source: National Australia Bank, Cotality

Housing – key points

Finding the new clearing price so after tax risk-adjusted returns recalibrate

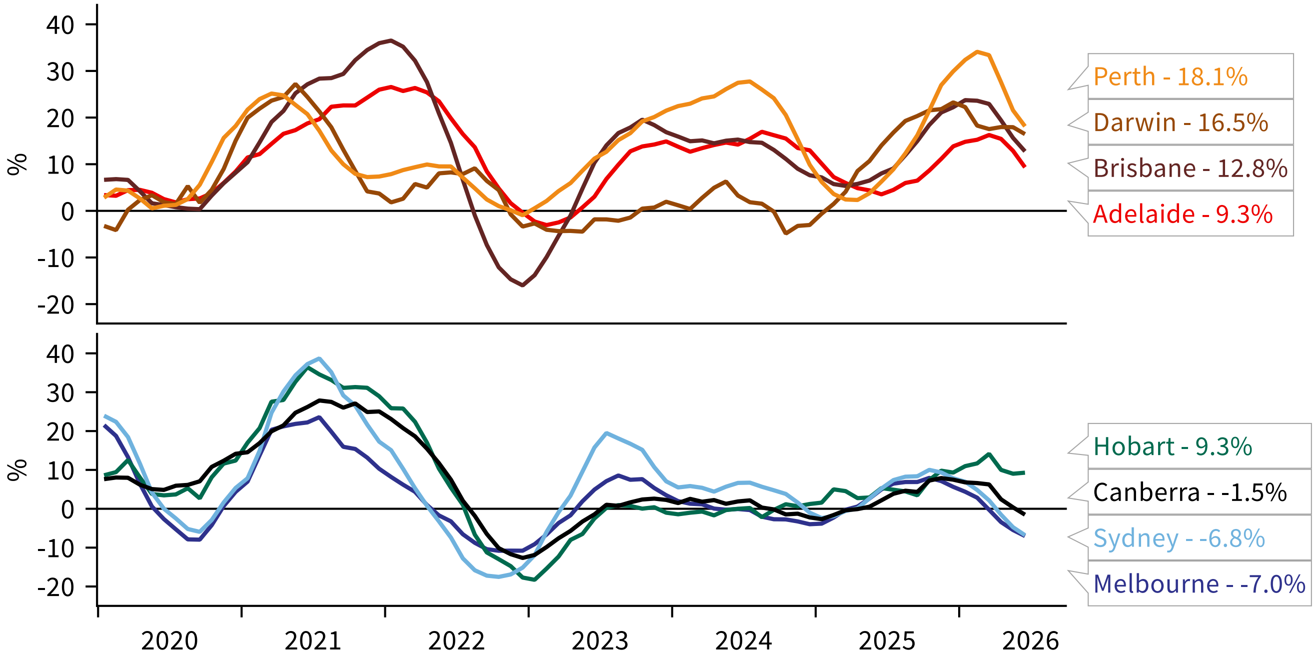
- **The change in taxation arrangements for investor property are significant.** After tax total returns need to adjust; this will happen via a combination of higher rents and lower house prices.
- **We expect house prices to fall ~7% peak to trough**, a sharp slowdown from the 8.8% growth over 2025.
- Declines of that magnitude are not outside recent experience, but they do support our forecast for below trend GDP growth in 2026.
- **We expect weaker credit demand**, especially for investors, tighter borrowing capacity, slower dwelling investment, and softer consumption. Estimates generally find a 10% fall in dwelling prices subtracts ~1ppts from consumption growth over a couple of years.
- **Turnover is falling quickly**, which is usually the channel to amplify a housing downturn.

- Elevated construction pipelines in QLD, WA and SA mean near-term completions will be insulated, but also, that construction activity may respond more slowly.
- **Tight rental markets and homebuilding input costs are likely to support housing CPI this year**, but cooler demand across the sector should be reflected more in the broad CPI in 2027.
- **For the RBA**, the housing backdrop will weigh on growth, but below trend growth is necessary amid elevated inflation. This means **monetary policy will not be a circuit breaker for the housing cycle this year**.
- **The shift in credit demand is still important**. The RBA's assessment of financial conditions has been sensitive to housing lending, and a declining credit-to-income ratio will support their assessment that policy is somewhat restrictive.

House prices, 6m annualised

Quite divergent outcomes, but cooling evident in recent months

Dwelling Prices - Greater Capital Cities*

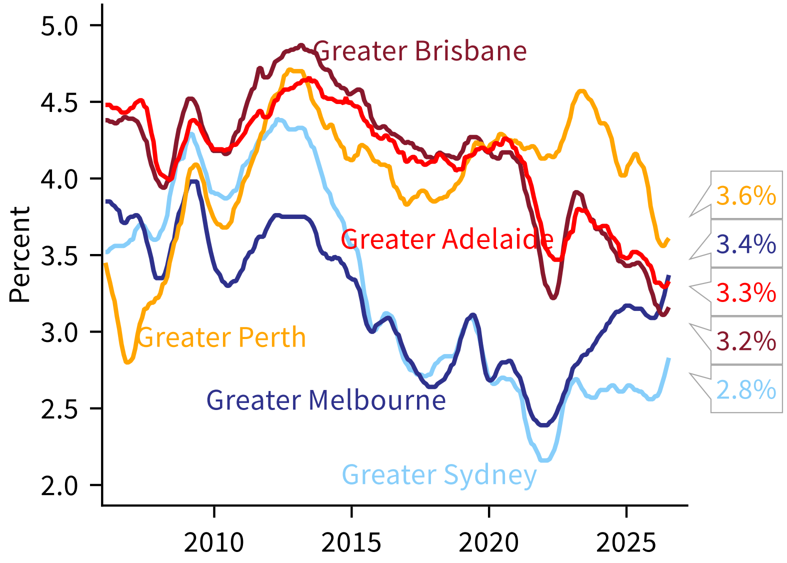


Source: National Australia Bank, Cotality Australia, Macrobond

Notes: 6-month annualised.

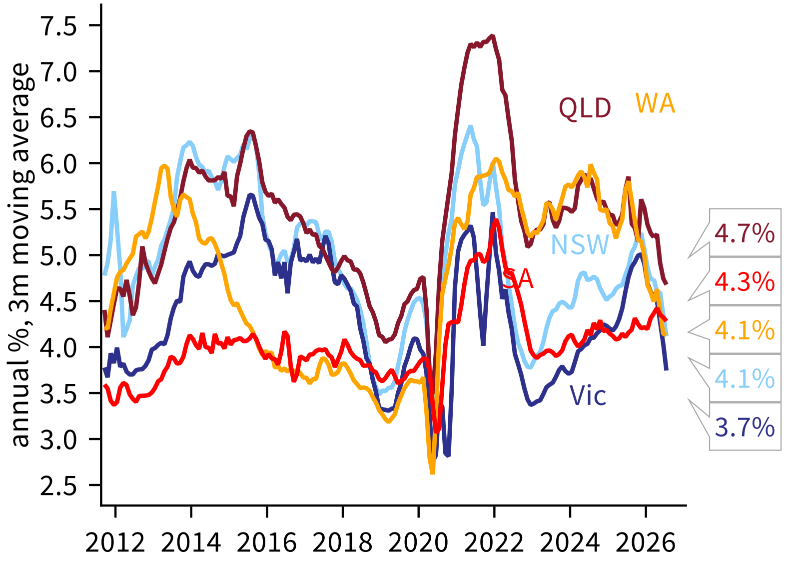
Rental yields and turnover

Median house rental yield



Source: National Australia Bank, Cotality Australia, Macrobond

Turnover rates

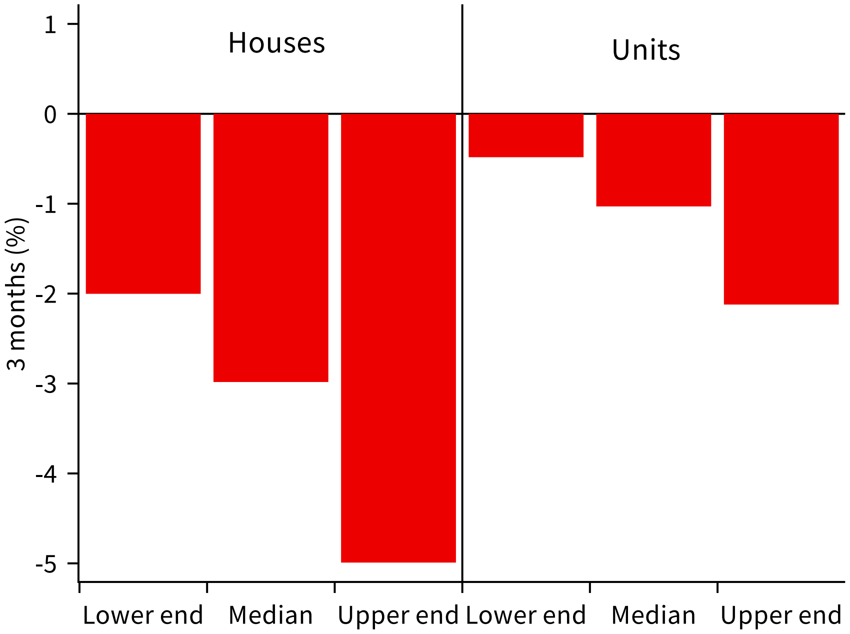


Source: National Australia Bank

Dwelling prices

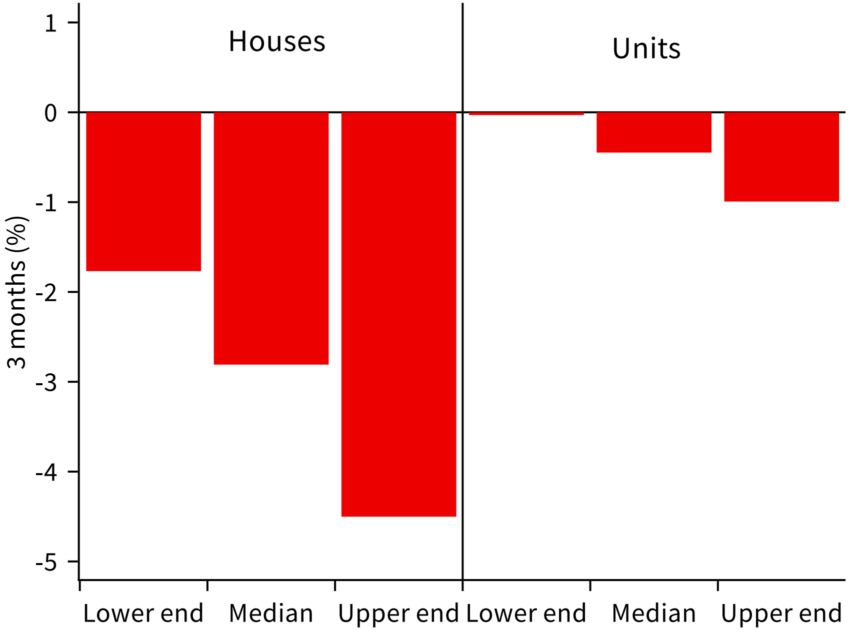
Top end of the market is driving price declines so far

Sydney Dwelling Prices



Source: National Australia Bank, Cotality Australia, Macrobond
Notes: Upper end is the 75th percentile and lower end is the 25th percentile.

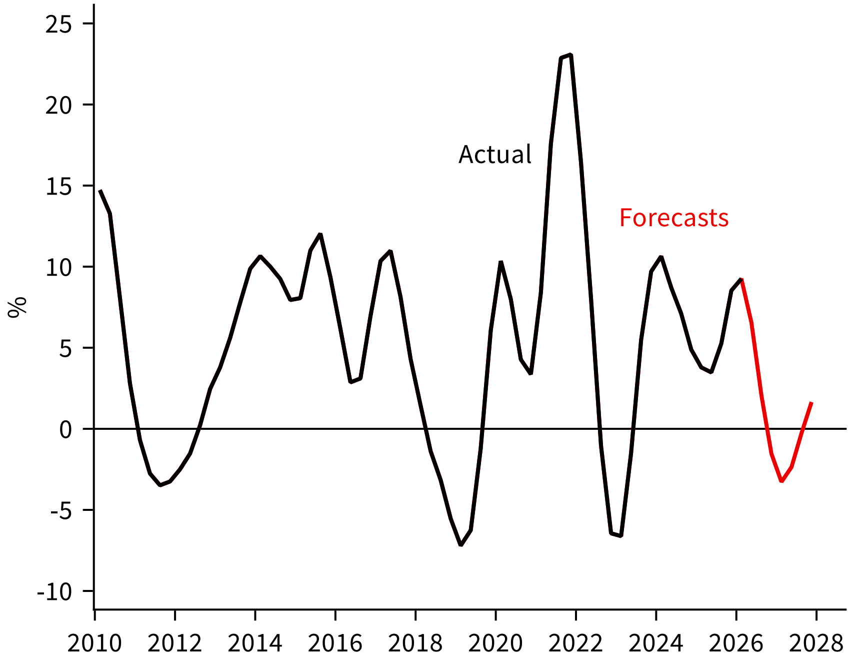
Melbourne Dwelling Prices



Source: National Australia Bank, Cotality Australia, Macrobond
Notes: Upper end is the 75th percentile and lower end is the 25th percentile.

House prices and consumption

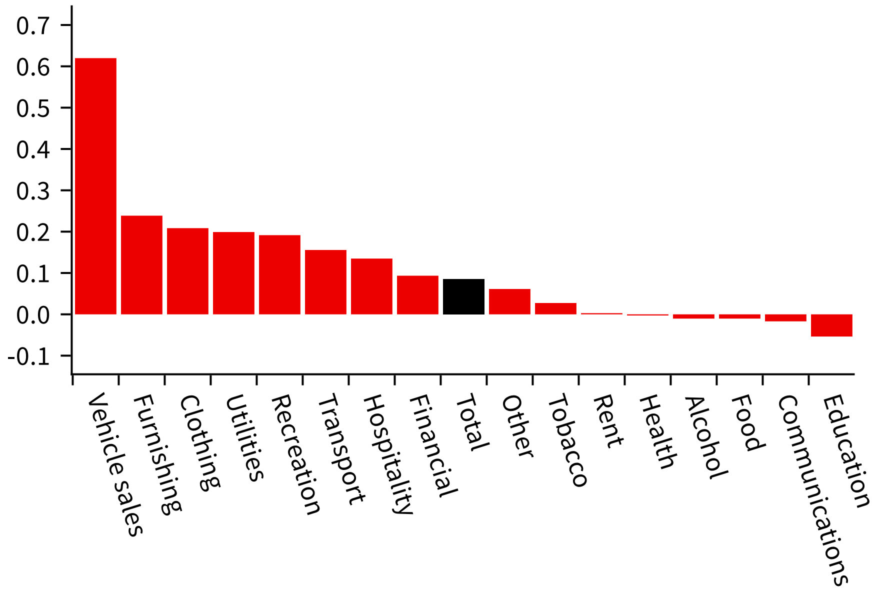
NAB House Price Growth Forecasts, Year-ended



Source: National Australia Bank, Cotality

RBA estimates of wealth effect by category

Short-run consumption response to 1% rise in housing wealth

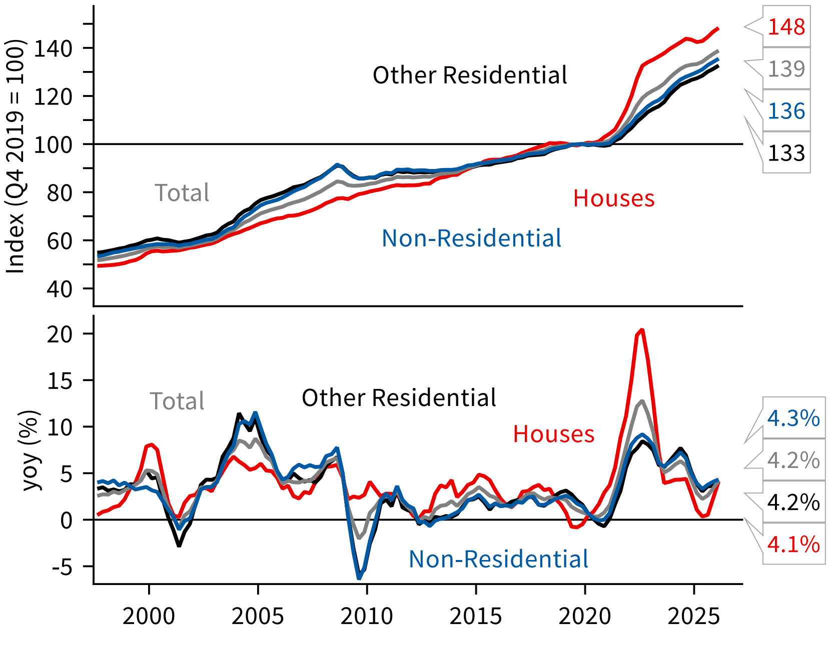


Source: National Australia Bank; May, Nodari and Rees (RBA, 2019)

Construction costs remain elevated

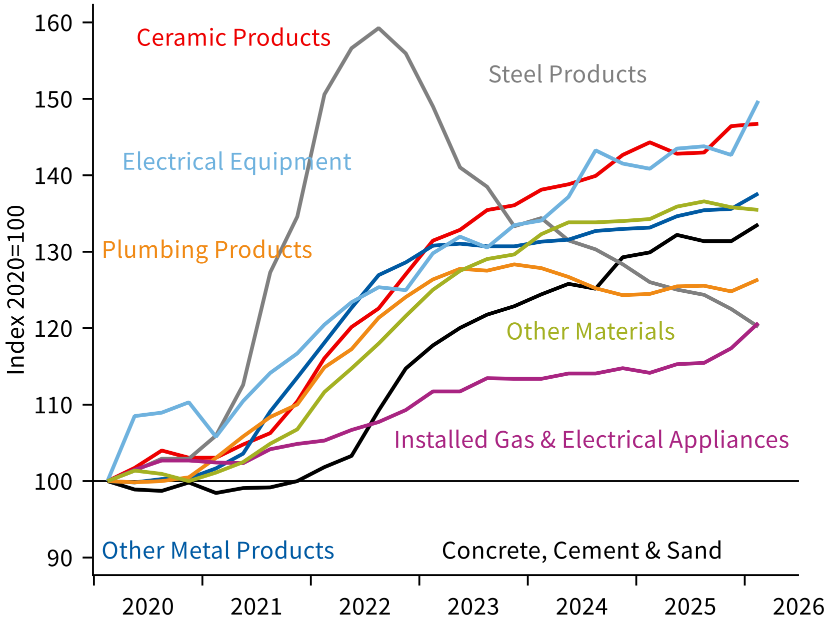
Output prices of the resi construction industry are 39% higher than 2019

Building Construction Output Prices



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

Construction Input Prices



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

There will now be a more pronounced cycle in housing

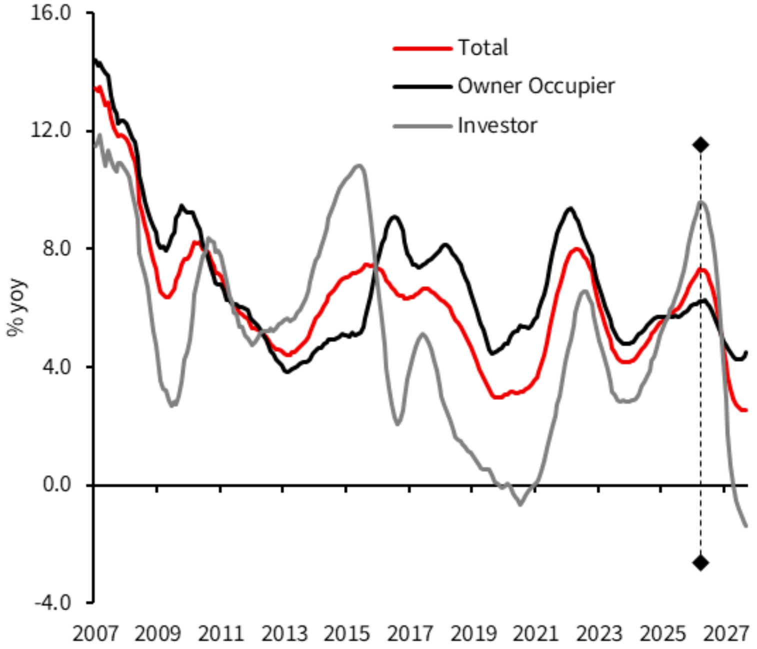
Downward revisions to price and credit growth forecasts post Budget

Dwelling price forecasts (% yoy change)

City	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
Sydney	11	3	7	-10	1
Melbourne	4	-2	5	-9	1
Brisbane	14	11	15	2	2
Adelaide	9	14	9	1	1
Perth	16	18	18	5	1
Hobart	-2	1	7	7	2
Capital city ave.	**10**	**5**	**9**	**-5**	**1**

Source: National Australia Bank.

Credit growth forecasts

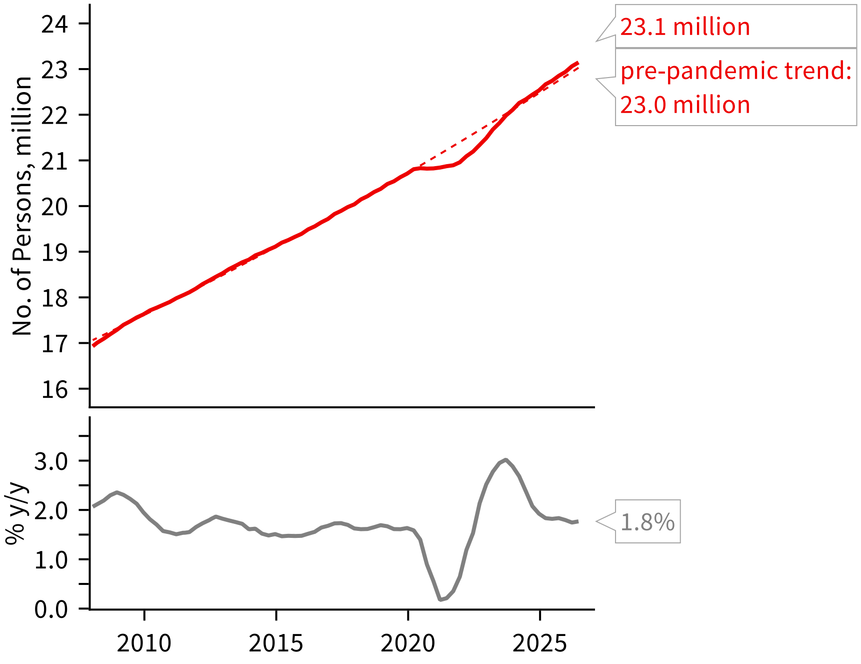


Source: National Australia Bank.

The pandemic rearranged population

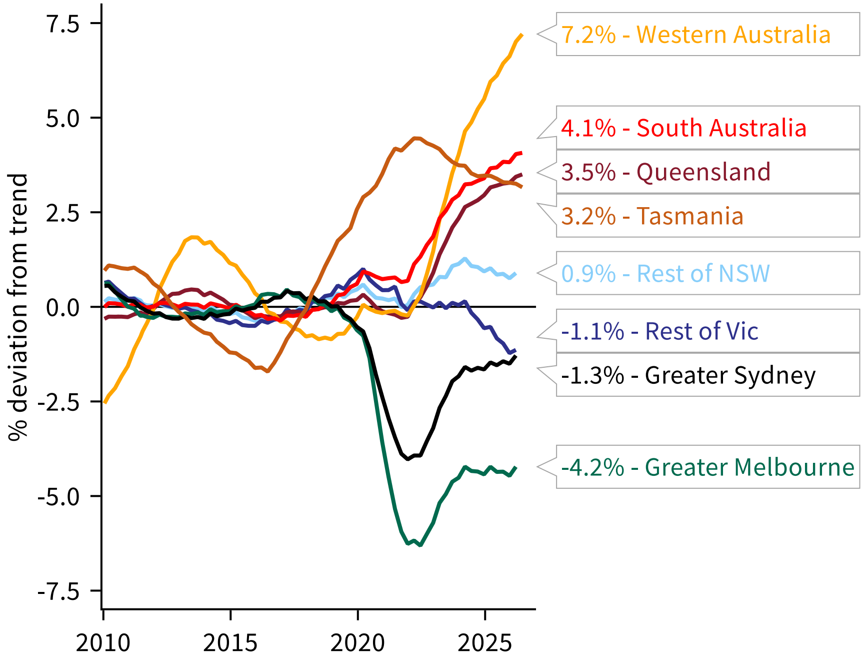
Melbourne is much smaller, WA, QLD, SA much bigger

Civilian 15+ Population



Source: National Australia Bank, ABS

Population (15+) deviation from 2010-2019 trend

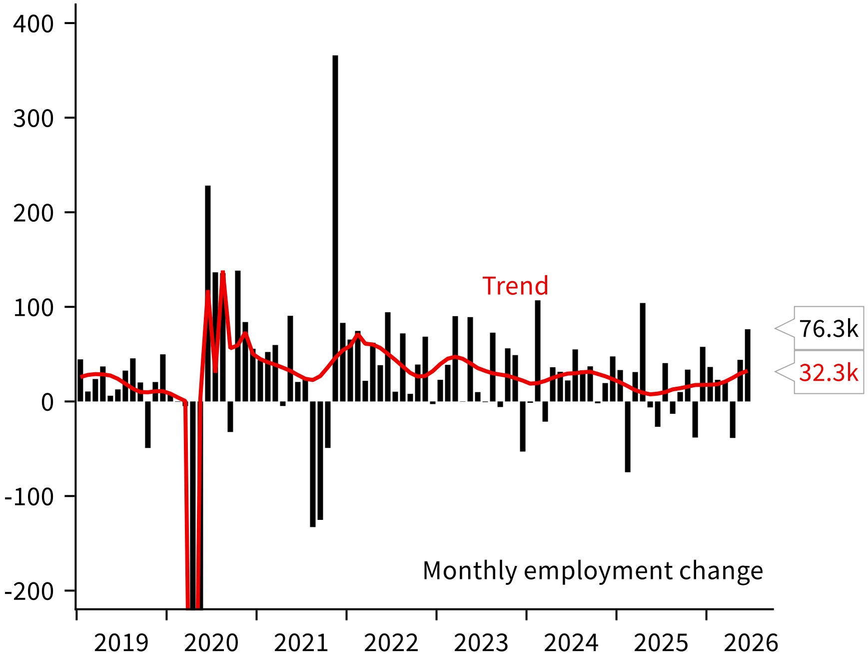


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The labour market has remained resilient

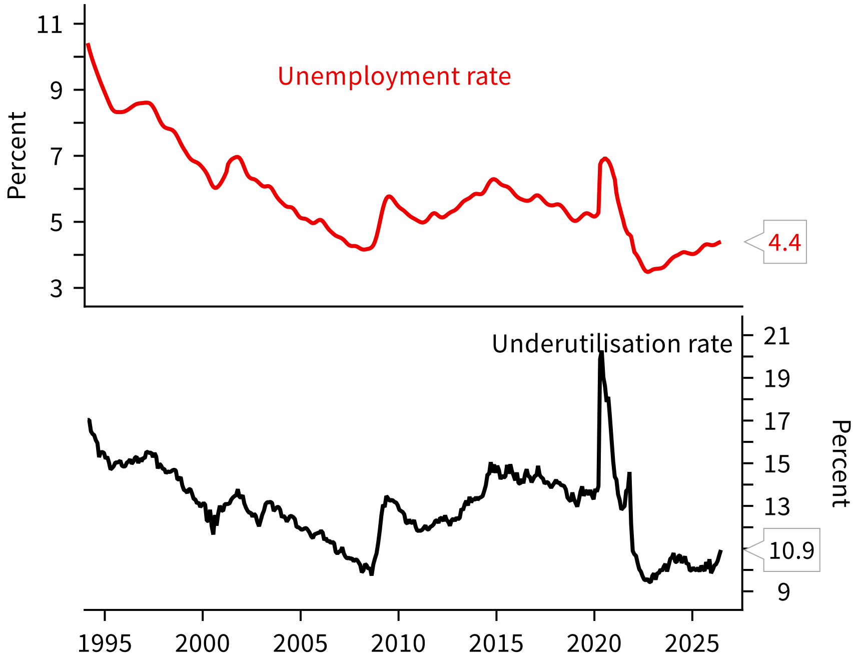
Unemployment up 0.9ppts from its 2022 low, but remains 1ppt below pre-pandemic

Australian Employment



Source: National Australia Bank, ABS

Unemployment rate

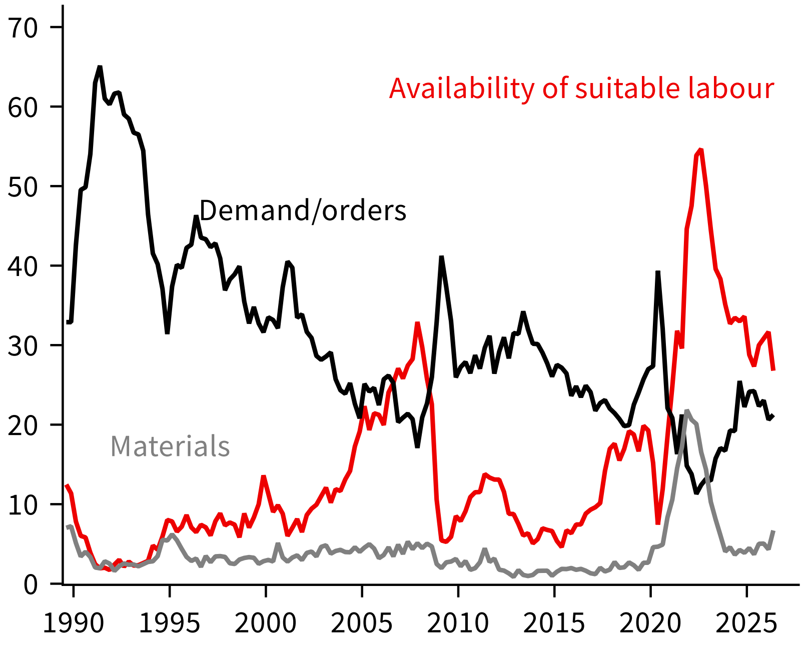


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

But there are signs that the labour market is gently easing

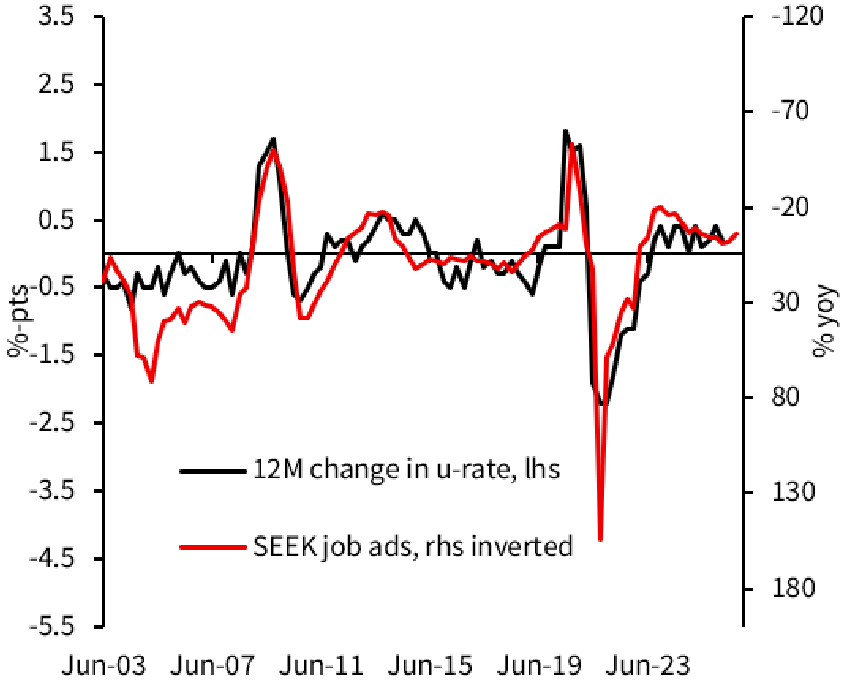
Job ads may have turned for the cycle?

Constraints on output (% of firms)



Source: National Australia Bank, National Australia Bank, Macrobond

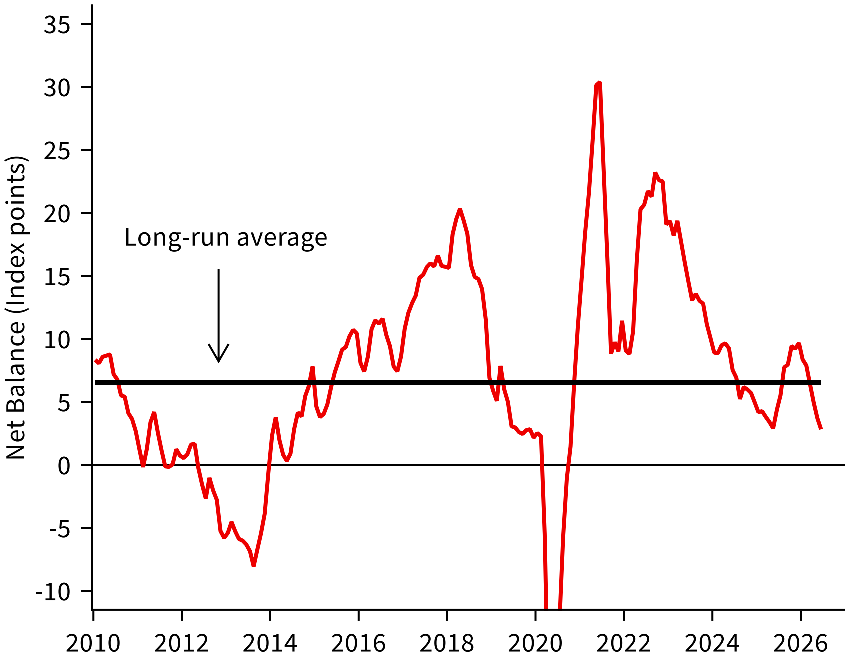
SEEK job ads vs. change in u-rate



Business conditions have eased through H1 2026

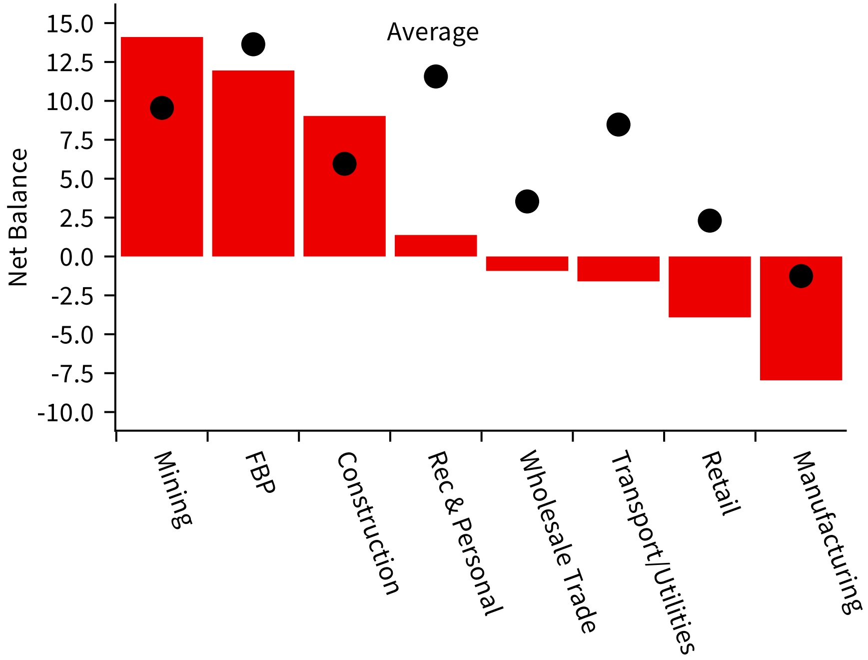
They are consistent with a slowing in growth but are still positive

NAB Survey Business Conditions (Trend)



Source: National Australia Bank, National Australia Bank, Macrobond

Business Conditions by Industry (Trend, Net Bal.)

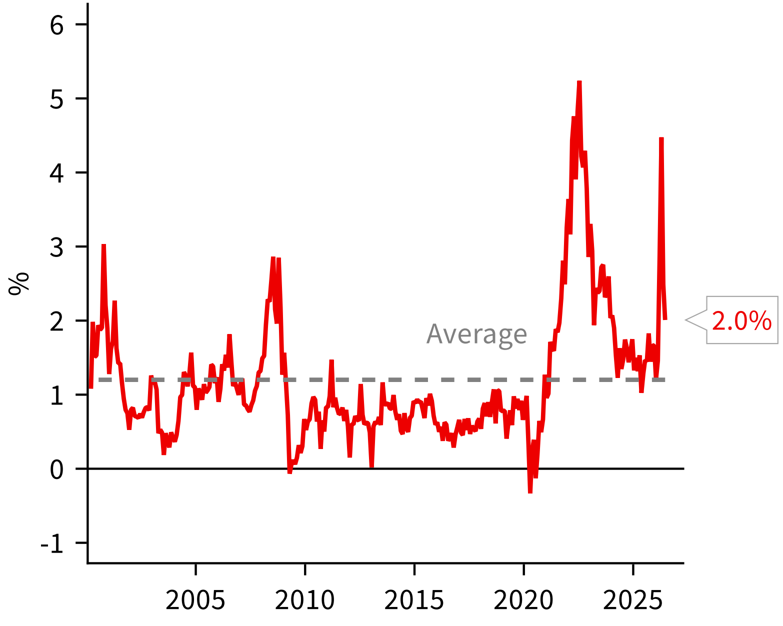


Source: National Australia Bank, National Australia Bank, Macrobond

Cost pressures normalised quickly

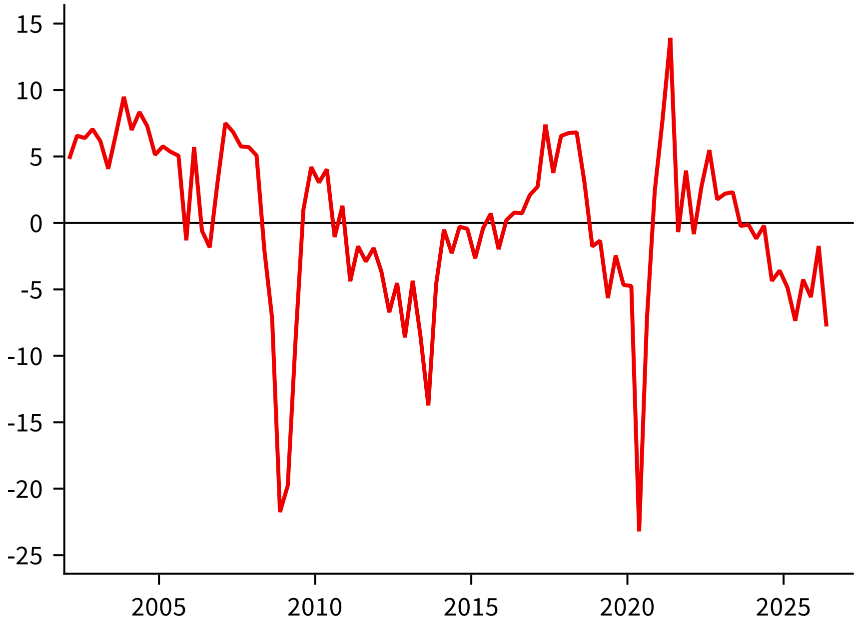
But margins are not elevated, suggesting limited capacity to absorb further cost shocks

NAB Business Survey Purchase Costs



Source: National Australia Bank, National Australia Bank, Macrobond

NAB Survey Margins (Net Bal., Deviation from Average)

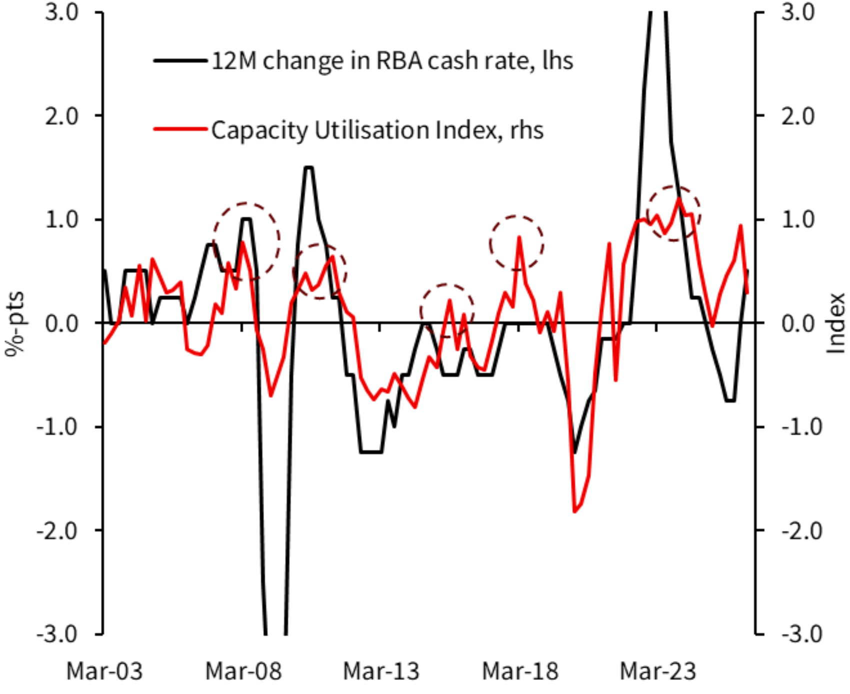


Source: National Australia Bank, National Australia Bank, Macrobond

NAB Business Survey for June

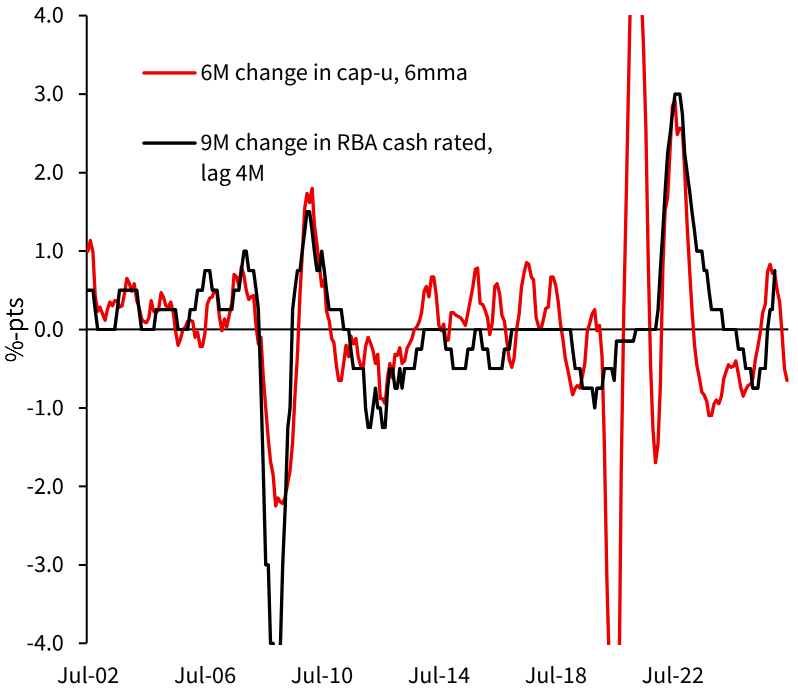
A reversal in the cap-u index* is often significant for the direction of rates

Cap-u Index vs. 12M chg in RBA cash rate



Source: National Australia Bank and RBA. *constructed using capacity utilisation, 6m change in capacity utilisation and a measure of the breadth of capacity utilisation.

Driven by changes in cap-u

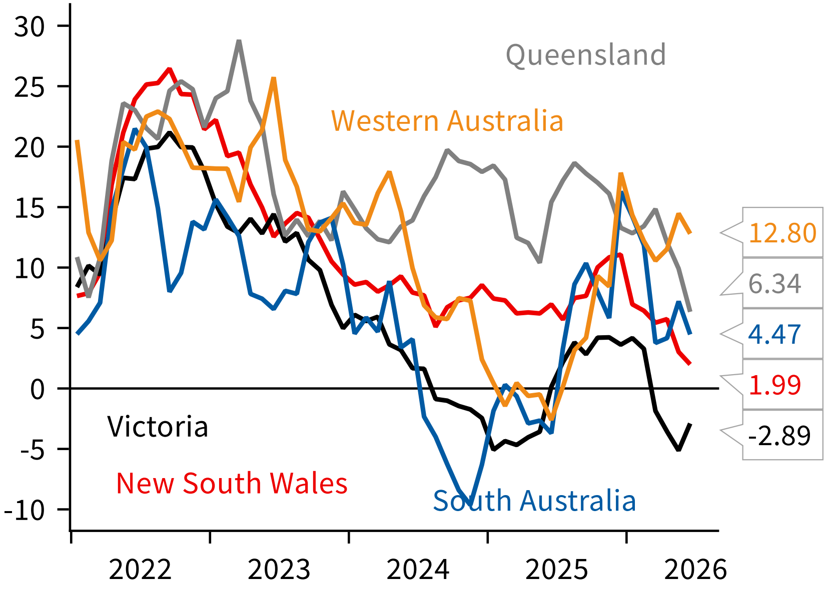


Source: RBA, *over past 5 years.

Variation by State

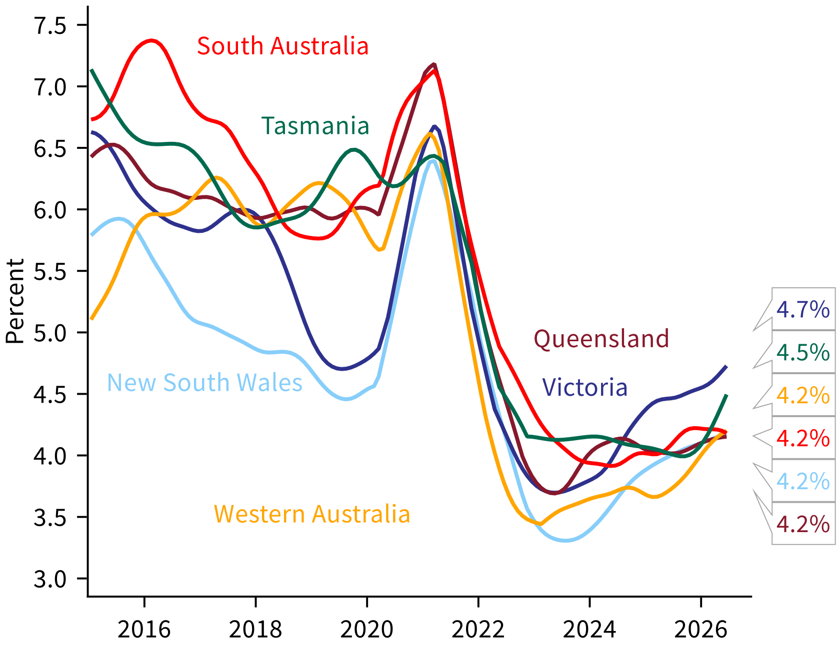
Victoria under-performing

Business Conditions by State (Net Bal.)



Source: National Australia Bank, National Australia Bank, Macrobond

Unemployment Rates (trend, 12m average)

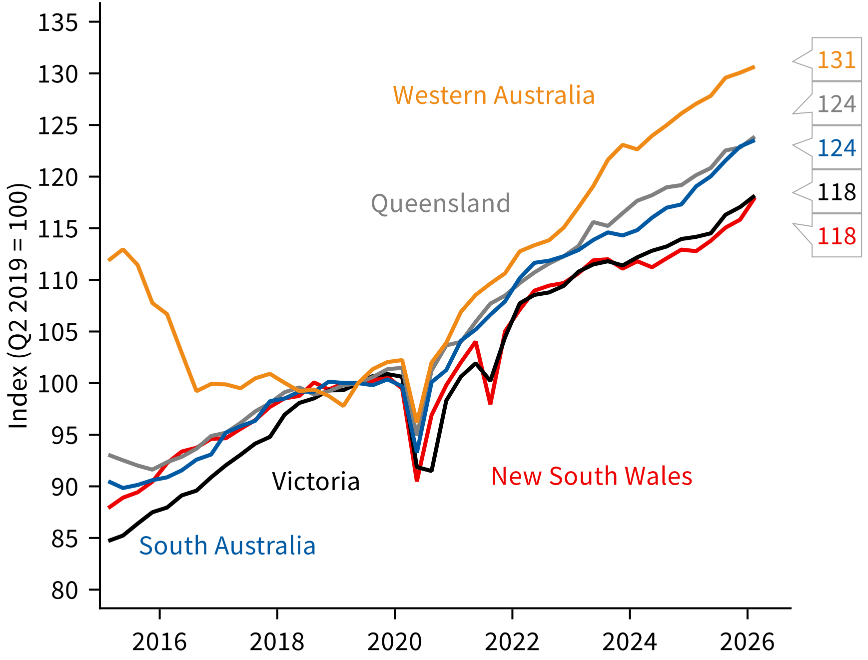


Source: National Australia Bank, ABS

The smaller states have grown more quickly

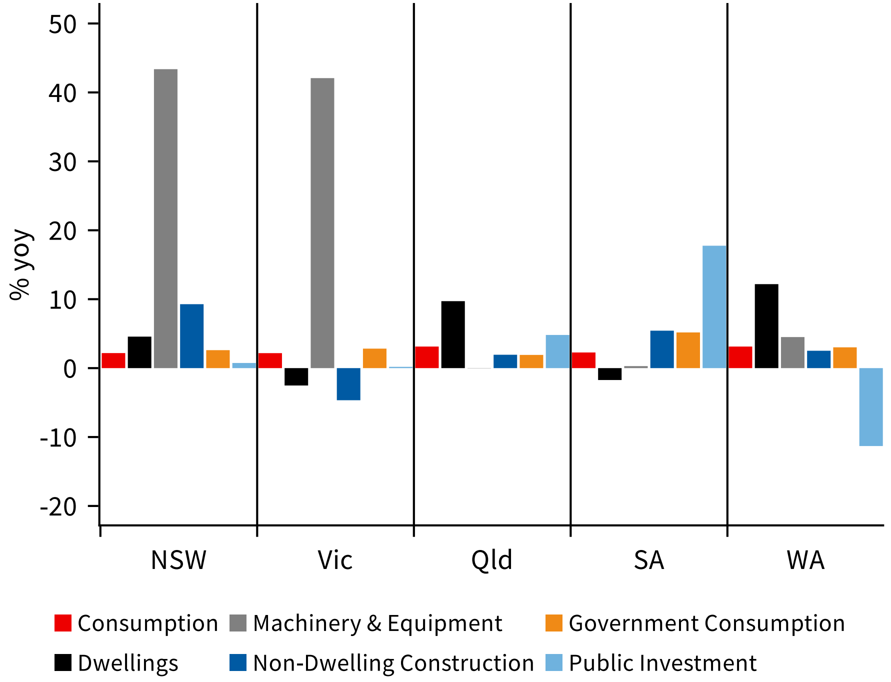
But we are starting to see some convergence in the private sector…

State Final Demand



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

Conponents of state final demand by state

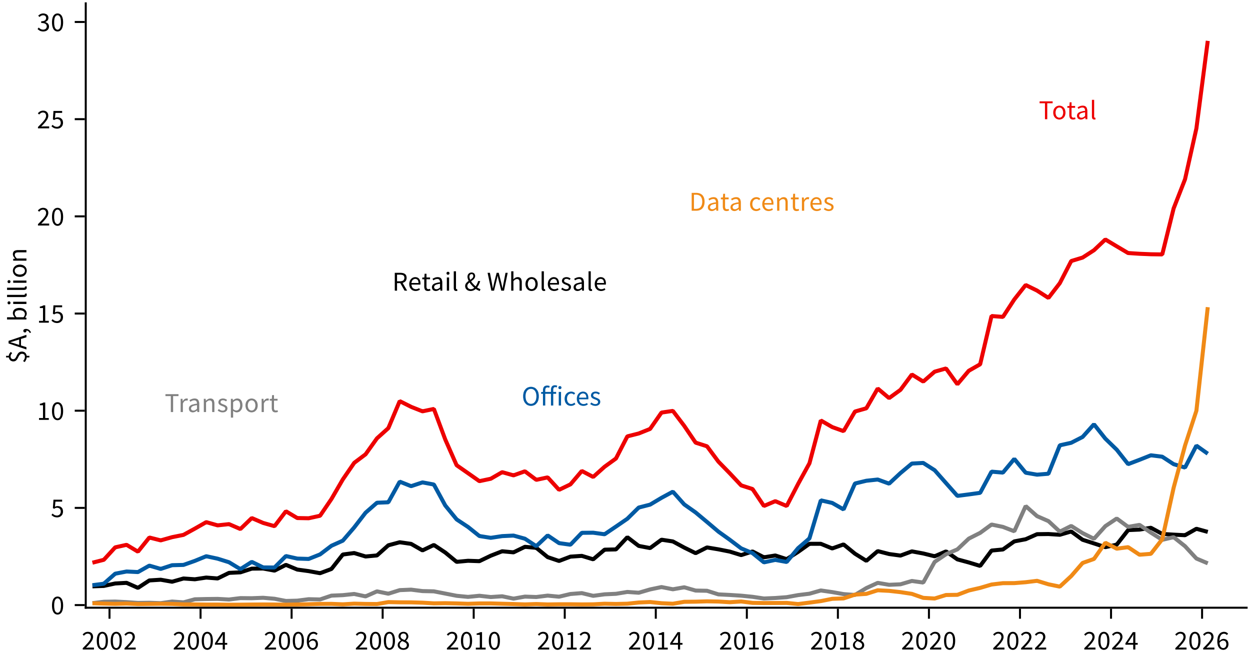


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The pipeline of datacentres is growing

But we are still in a relatively early phase..

Pipeline of Commercial Buildings

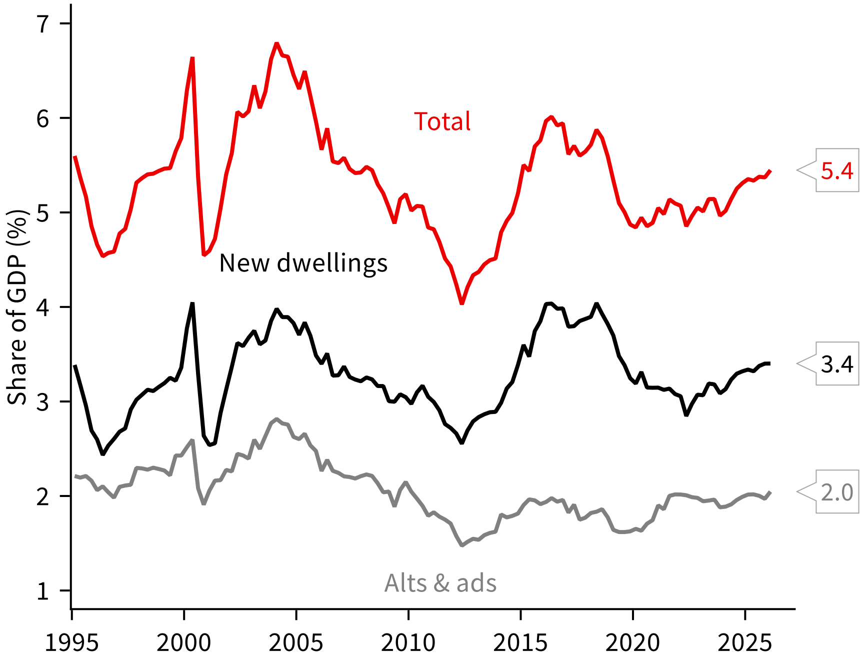


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Housing and AI are big forces

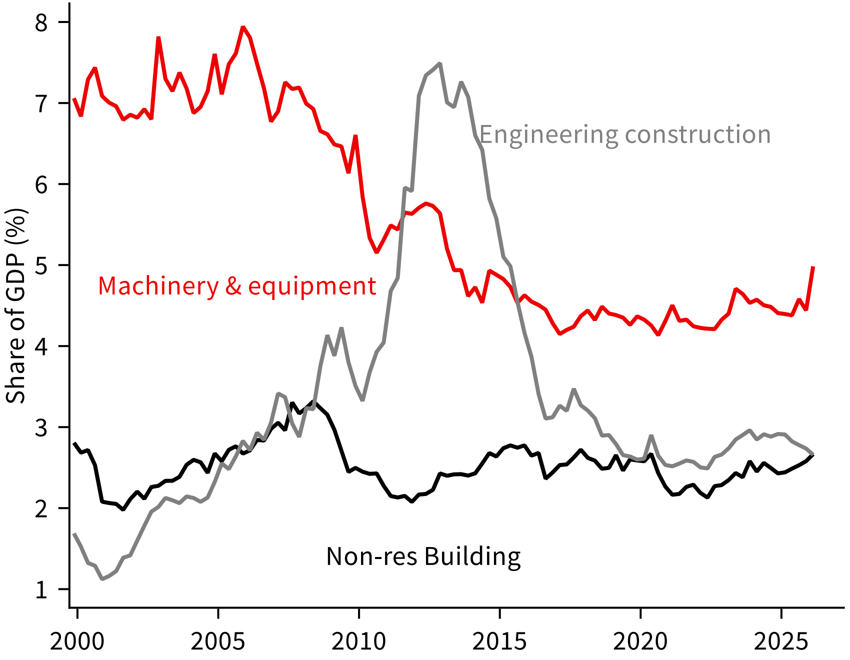
But are relatively small shares of GDP in Australia..

Dwelling Investment



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

Business Investment Components

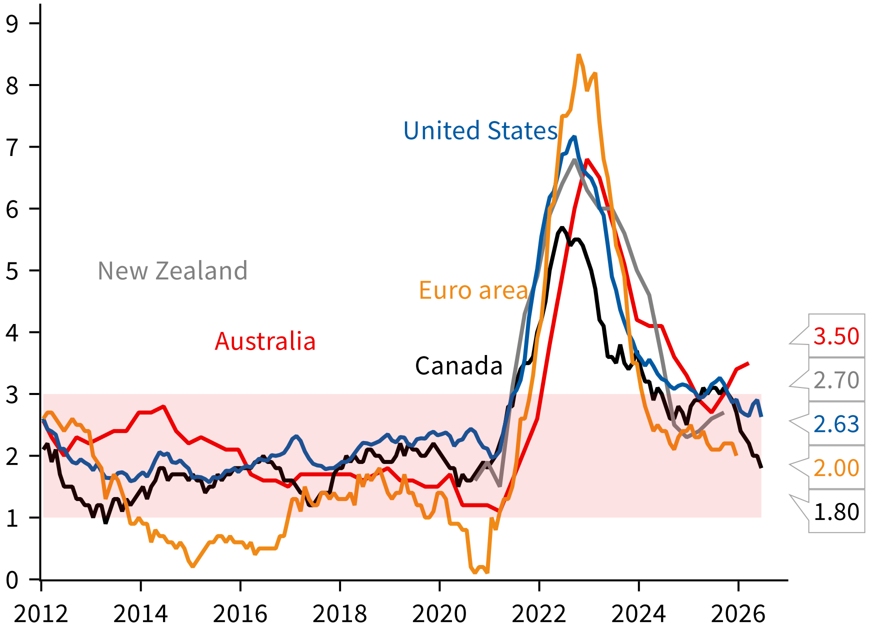


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The global easing in rates has come to an end

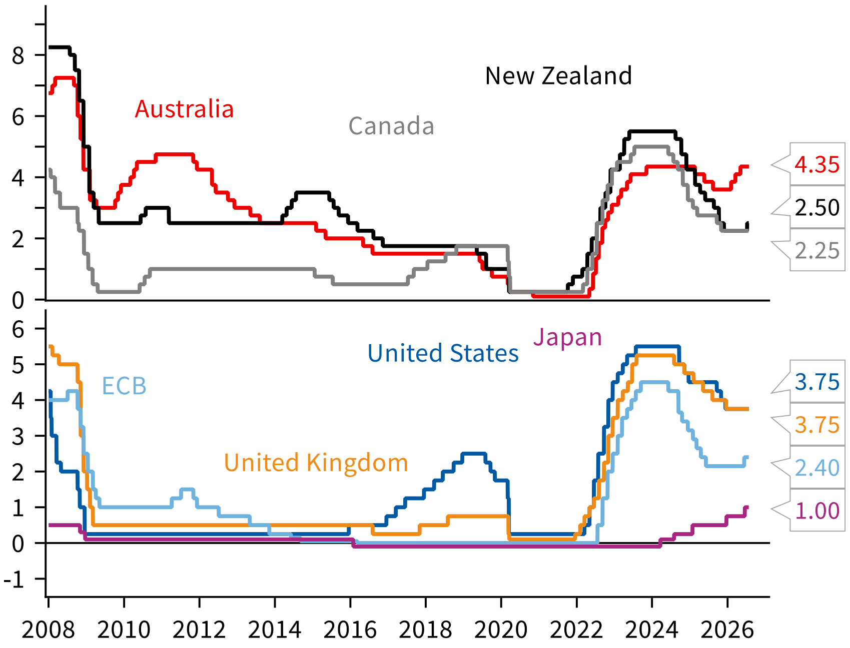
But inflation remains near the top of target ranges…

Underlying Inflation by Country



Source: National Australia Bank, Australian Bureau of Statistics, Statistics Canada, Statistics New Zealand, Federal Reserve Bank of Cleveland, ECB (European Central Bank), Macrobond

Monetary Policy Rates (%)

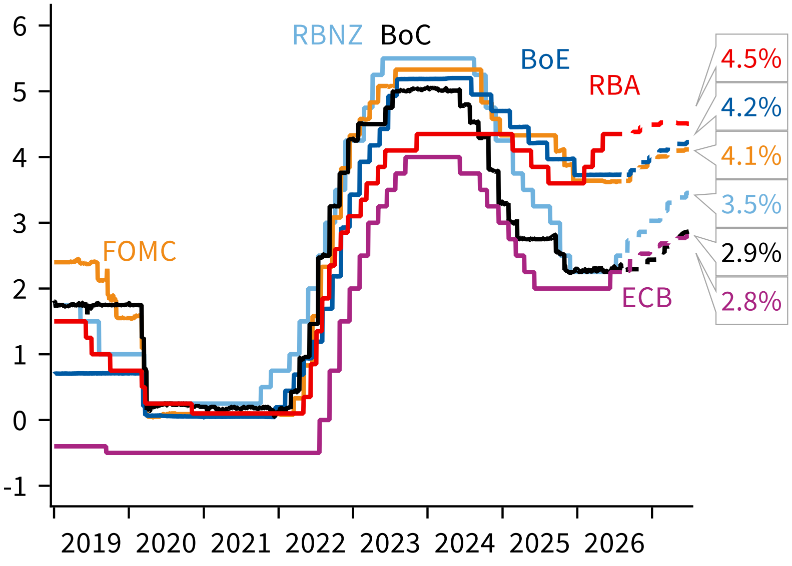


Source: National Sources

RBA approach has left them out of sync

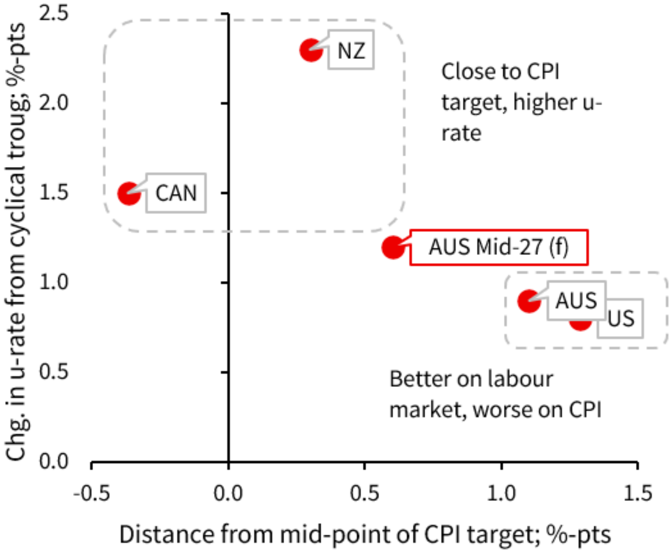
Efforts to minimise cycle meant recalibration and higher for longer

Policy rate pricing



Source: National Australia Bank, Bloomberg

The growth / inflation trade off



Source: National Australia Bank.

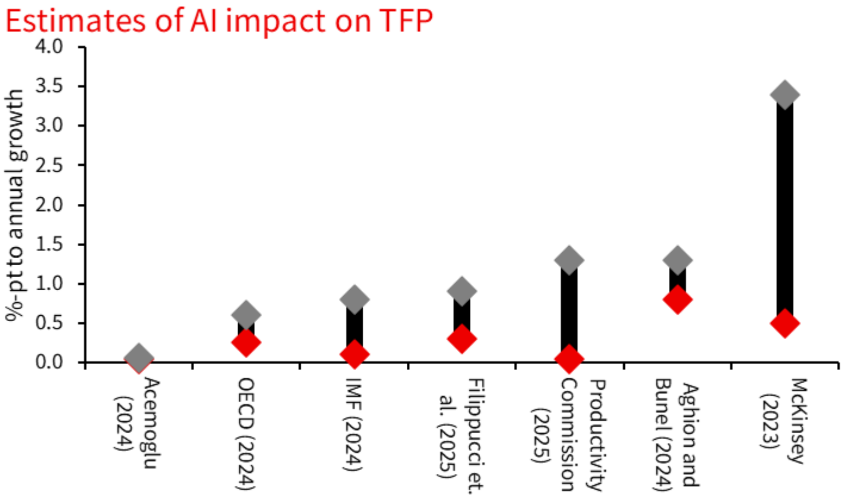
RBA – next move is down

But uncertainty re timing

- We see the cash rate peaking at the current rate of 4.35% for the cycle. **The next move in the cash rate is likely to be down, but the timing is uncertain**. The RBA is likely to be a "cautious cutter", given the experience of 2025.
- **We are minded to view the proposed changes to taxation arrangements for housing and other asset classes as an exogenous tightening of financial conditions**. Overall financial conditions are thus now tighter for any given level of the cash rate.
- **Both Q1 GDP data and the NAB business survey suggest momentum in the economy has slowed**, meaning that growth has likely peaked for the cycle. The labour market is a touch softer (basis unemployment rate) than the RBA expected.
- However, we are cognisant that **there is still considerable uncertainty around both activity and prices**. Inflation is still too high, and is being pressured by both structural and cyclical dynamics.
- **On the prices side, we are still forecasting above target core inflation through to mid-2027**. This outlook is not dissimilar to that of the RBA, and is likely to keep the RBA watchful around pass through from higher input costs to final prices. **Ongoing disruption to oil supply in the Middle East and Russia are a risk** to higher inflation and inflation expectations.
- **Consumption has been – at least on the monthly partial data – resilient**, and we are forecasting softer outcomes as housing slows further, the unemployment rate rises and employment growth slows. **Failure to realise weaker spending outcomes may see the RBA once again question the restrictiveness of monetary policy**.
- Our forecast sees below trend growth, a modest rise in the u-rate and a gradual disinflation. These should, all else equal, allow scope for some normalisation of policy settings in H2 2027.
- **If we are correct on the direction of the RBA cash rate, there is scope for decent moves in AUD and front-end rates as the market adjusts to a more dovish view.**

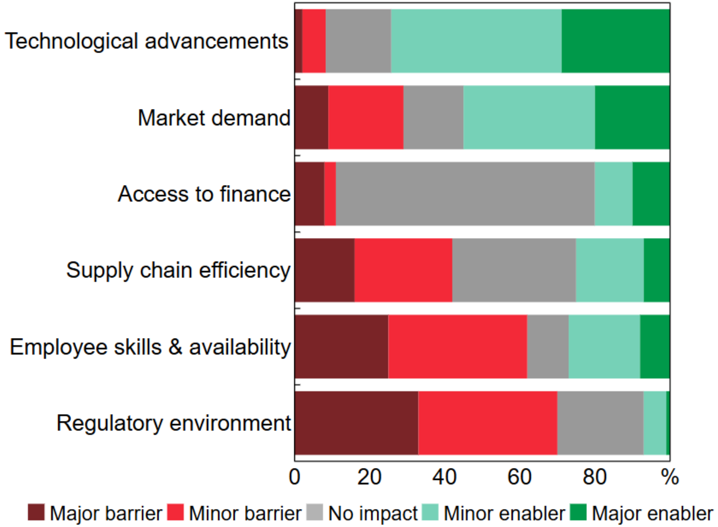
AI in Australia

Estimates of the productivity impact are quite varied



Source: National Australia Bank.

Factors impacting productivity, share of firms*

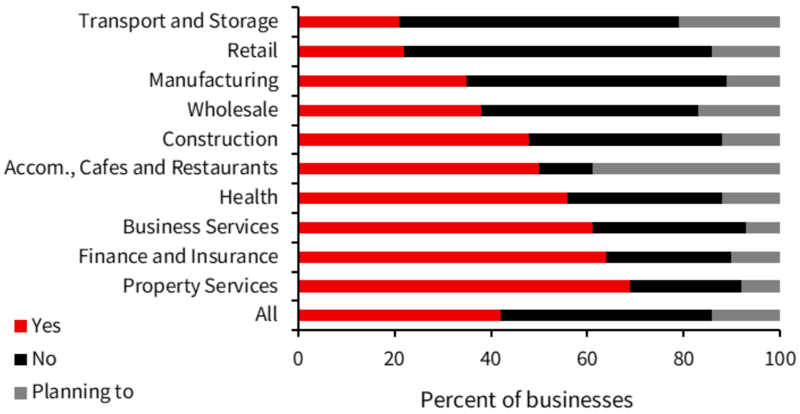


Source: RBA, *over past 5 years.

AI in Australia

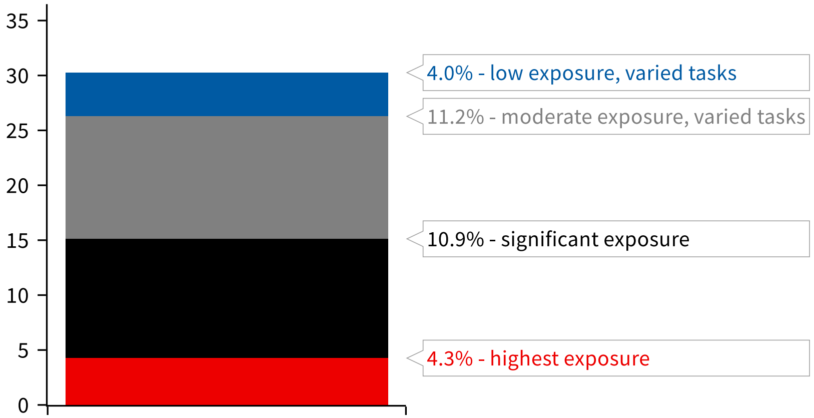
In train

Currently using AI tools in business (%)



Source: National Australia Bank survey of AI adoption in the SME sector.

Share of Workforce by GenAI exposure

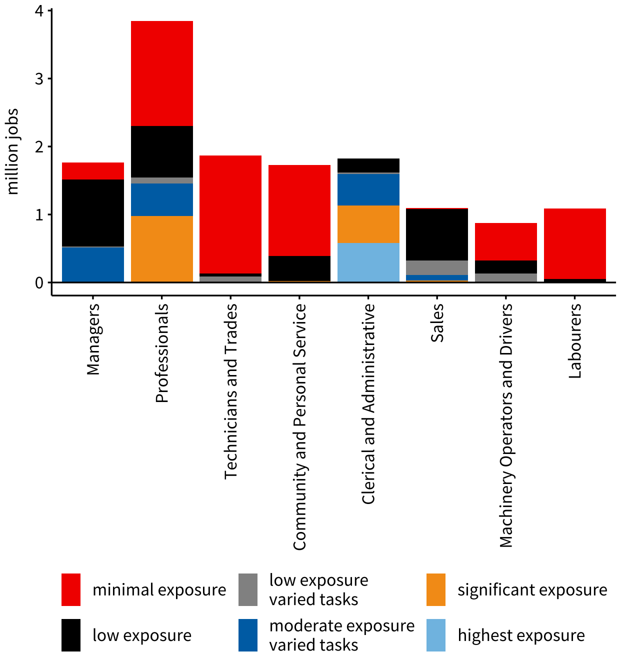


Source: National Australia Bank

AI in Australia

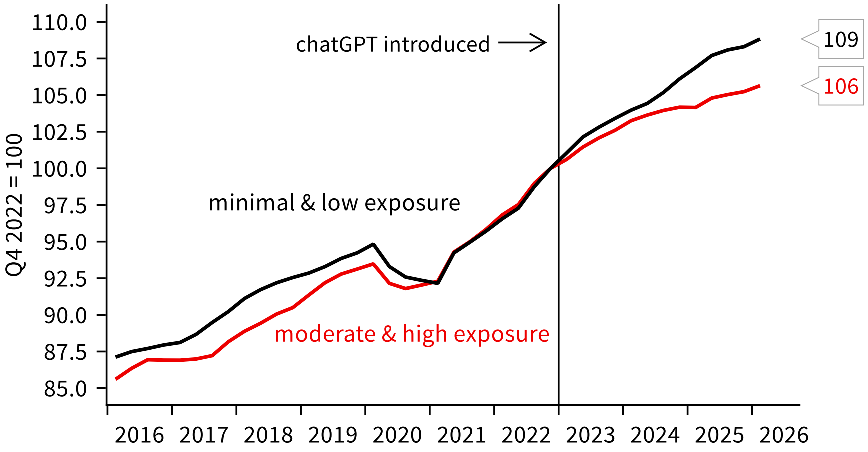
Signs starting to emerge in labour market data

Exposure by profession



Source: National Australia Bank, ABS

Employment by GenAI exposure

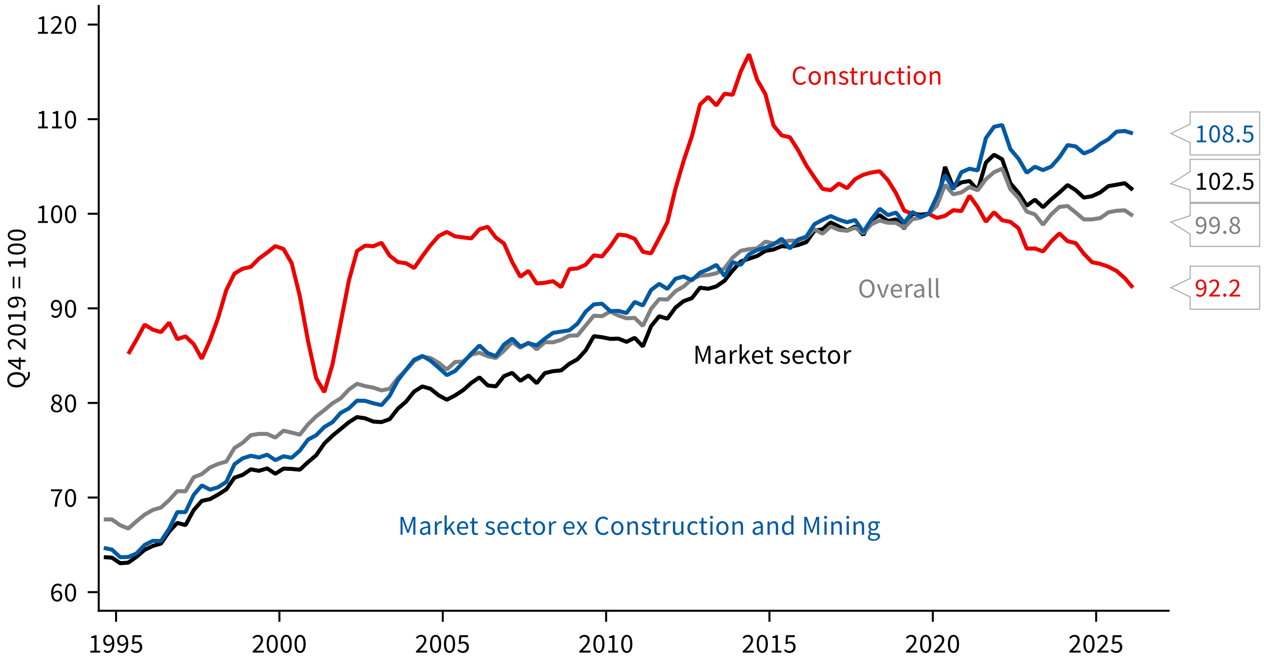


Source: National Australia Bank, ABS

Productivity growth has been weak

This will pressure inflation any time growth hits 2%+…

Labour Productivity

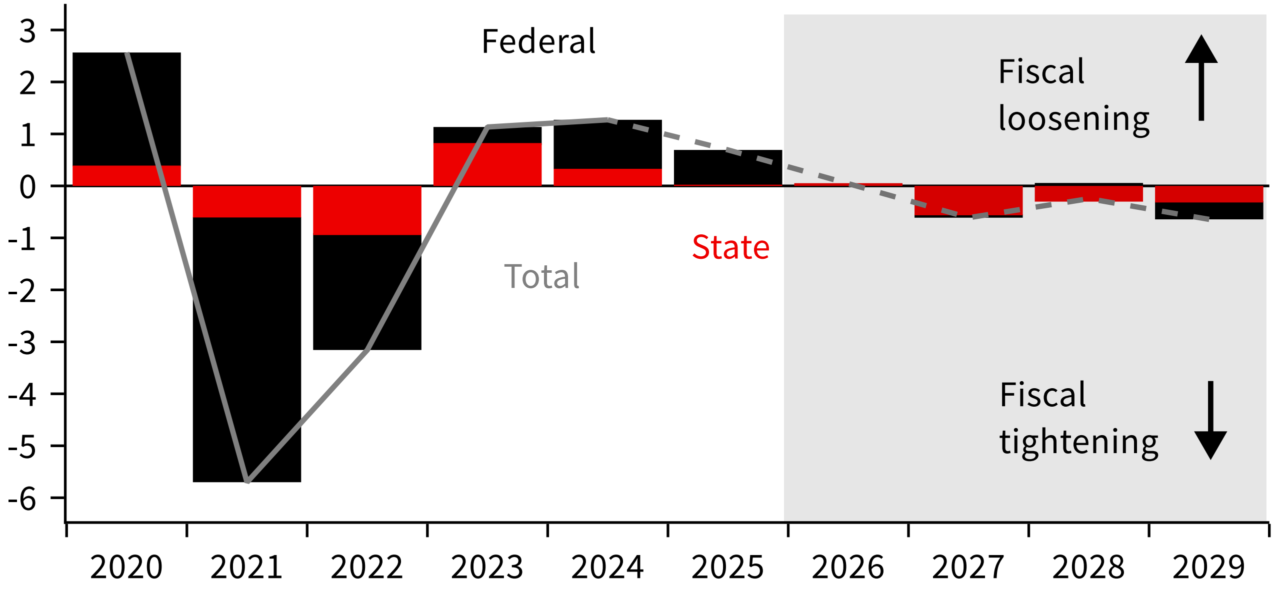


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The fiscal impulse should be broadly neutral in FY26/27

And modestly tighter in the out-years, if forecasts are realised

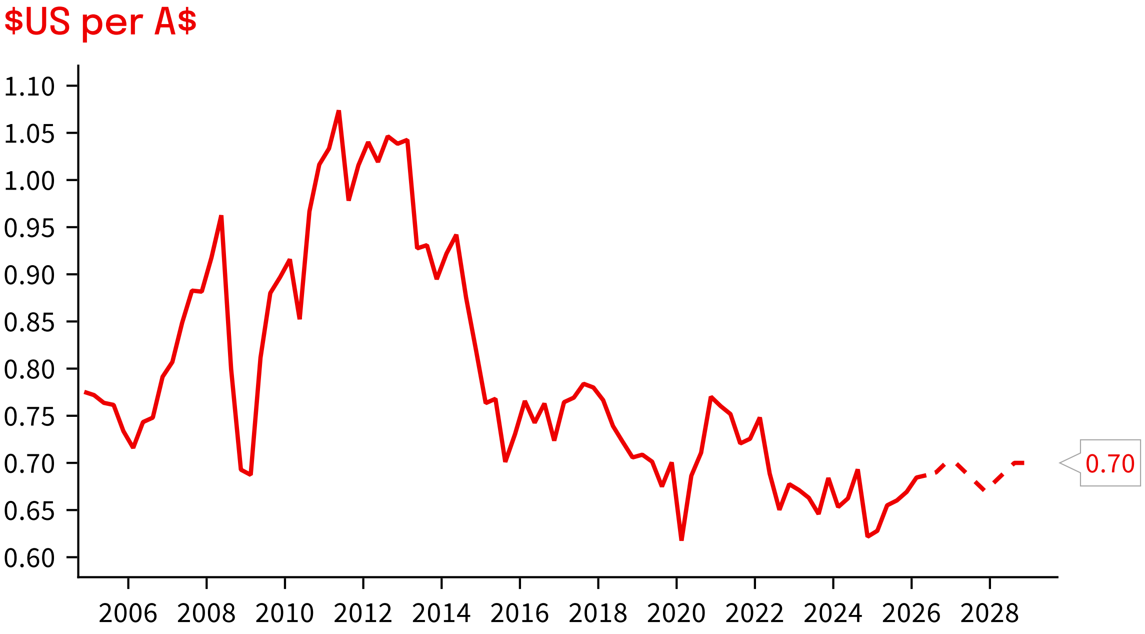
Fiscal impulse - based on NFPS UCB (% GDP)



Source: National Australia Bank, Australian Department of the Treasury, Macrobond. Federal NFPS forecasts extended using General govt. growth rates. Impulse = -(change in underlying cash balance). X-axis shows first year of the financial year (2025 represents FY 2025-26)

The exchange rate has held around US70c

We expect it to remain broadly around that level over coming months…



Source: National Australia Bank, Account in-house, Macrobond
Notes: Dotted line represents NAB's forecast.

Forecasts

national australia bank

	% Growth qoq			% Growth yoy		
	Q1-26	Q2-26 (f)	Q3-26 (f)	2025	2026 (f)	2027 (f)
GDP	**0.3**	**0.3**	**0.4**	**2.5**	**1.5**	**1.9**
Private Consumption	0.5	0.3	0.3	2.5	1.4	1.4
Dwelling Investment	0.7	-0.2	0.3	5.1	1.0	1.5
New Business Investment	6.9	-4.1	0.9	4.1	3.7	1.6
Underlying Public Final Demand	0.0	0.4	0.4	2.4	1.3	1.6
Domestic Demand	**1.0**	**-0.1**	**0.4**	**2.9**	**1.7**	**1.8**
Net Exports (cont.)	-0.8	0.6	0.0	-0.2	-0.1	0.0
Unemployment Rate (qtr. ave.)	4.2	4.4	4.5	4.3	4.5	4.8
Headline CPI	1.4	0.9	1.2	3.6	4.0	2.6
Trimmed Mean CPI	0.8	1.0	0.9	3.4	3.5	2.7
RBA Cash Rate (end of period)	**4.10**	**4.35**	**4.35**	**3.6**	**4.35**	**3.6**
10Y ACGB Yield (end of period)	4.97	4.72	5.10	4.76	5.00	4.80
AUD/USD (end of period)	0.68	0.69	0.69	0.67	0.70	0.67

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