

The Forward View Australia: Sep 2025

Goldilocks Glow

NAB Economics



Overview

- The stronger-than-expected household consumption in Q2 has lifted our expectation for growth this year.
- Our forward-looking assessment is little changed. Growth is expected to return to trend over the next 18 months, with unemployment remaining low and inflation settling at 2.5%.
- We continue to expect 25bp rate cuts in November and February, for a terminal rate of 3.1% in early 2026.
- Global factors remain a downside risk to activity and the labour market, though if the tone of recent domestic data sustains risks will shift to the upside.

The domestic data flow over the past month continues to provide greater confidence in our forecast of a gentle acceleration in GDP growth in coming quarters. July activity data showed a pickup in household spending, a solid rise in jobs growth and a decent lift in credit growth. Growth in house prices has continued in 3Q, and the composite PMI for Australia has lifted over 5 points so far this year. The NAB business survey has improved in recent months, with the August survey showing better outcomes in previously weak sectors and regions (retail, manufacturing and Victoria). GDP rose 0.6% in the June quarter, boosted by strength in household spending. In summary, we are encouraged by the breadth of improvement in the domestic activity data in the past month or so.

The labour market remains resilient, with the unemployment rate at 4.2% and growth in employment running at 2.0% over the past year. Forward indicators of labour demand are largely tracking sideways. **Core inflation has continued to sustain a gradual descent**, with the June quarter measure rising 0.6% q/q. The most recent monthly inflation data for July confirm our expectation that the shelter components of the inflation basket have likely troughed. While a faster pickup in this component is a risk, broader conditions are consistent with overall inflation sustaining near target.

On net, this leaves our outlook for the economy broadly unchanged. We expect another year of below trend growth in 2025 and forecast GDP growth to accelerate to around trend over 2026. We expect the unemployment rate to drift up modestly, peaking at 4.4% in late 2025 before falling back to ~4.25% in 2026. We still expect underlying inflation to settle around 2.5% from H2 2025.

Risks to our forecasts for the Australian economy remain balanced, although if the tone to recent domestic data sustains in coming months, risks will shift to the upside. We expect the RBA to deliver quarterly easings in November and February, taking the cash rate to 3.1% by early 2026.

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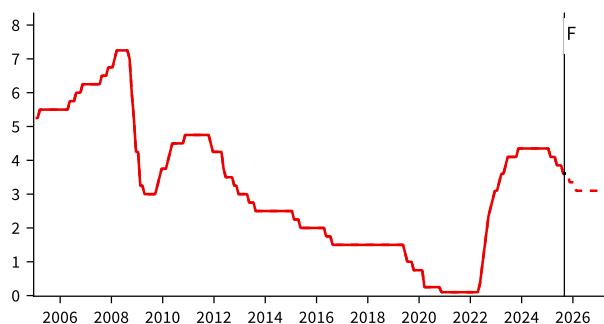
Key Economic Forecasts

	2023	2024	2025(f)	2026(f)
Domestic Demand (a)	2.9	2.0	2.0	2.3
Real GDP (annual ave)	2.1	1.0	1.8	2.3
Real GDP (year-ended)	1.5	1.3	2.0	2.3
Employment (a)	3.4	2.3	2.1	1.8
Unemployment Rate (b)	3.9	4.0	4.4	4.3
Headline CPI (b)	4.1	2.4	3.1	2.9
Trimmed-mean CPI (b)	4.2	3.2	2.7	2.5
RBA Cash Rate (b)	4.35	4.35	3.35	3.10
\$/US cents (b)	0.68	0.62	0.68	0.73

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

Chart 1: RBA Cash rate forecast

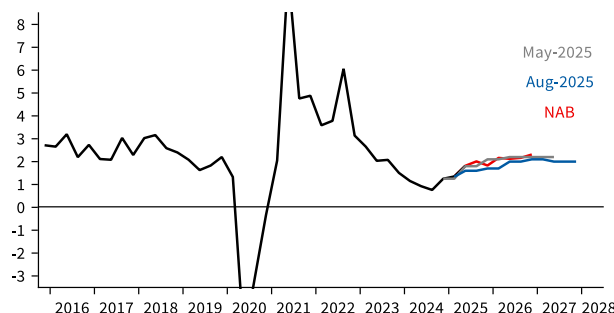
RBA Cash Rate Target and NAB Forecast



Source: National Australia Bank, RBA, Macrobond

Chart 2: GDP forecasts

Australian Gross Domestic Product



Source: National Australia Bank, ABS, RBA

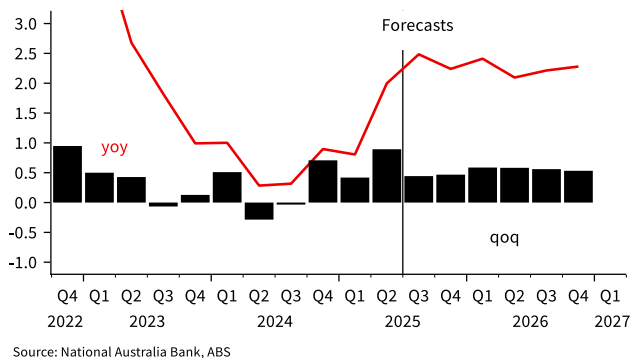
Consumption

Consumption data surprised to the upside in Q2, recovering from a slower than expected start to 2025.

Household consumption in Q2 GDP data surprised higher at 0.9% qoq and was a key driver of stronger GDP growth (contributing 0.4 ppts of the 0.6% qoq rise in GDP). The data confirmed that household consumption growth is on a firmer footing, having accelerated from late 2024. The soft start to 2025 now looks more to do with quarter-to-quarter volatility than a loss of momentum. Spending appears to have been more concentrated around sales period, shifting spending into Q4 and Q2, for example.

Combined with a boost to household consumption from the unwinding of electricity subsidies, our assessment is that household consumption growth has more clearly picked up in response to the earlier improvement in real household income growth. We expect that improvement to sustain but have not revised our forward-looking expectation for consumption growth, which already embedded a strengthening trend. Consumption growth is expected to remain a little above 2% yoy over the next couple of years and be a support for overall growth.

NAB Real Consumption Growth Forecasts (%)

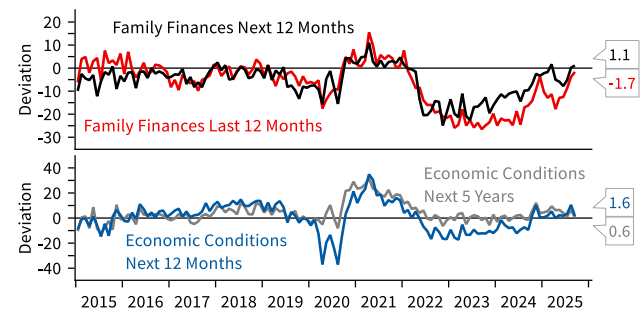


Early indicators for Q3 support the view that underlying momentum is not as strong as the Q2 quarterly outcomes suggests in isolation. The ABS's monthly household spending indicator (MHSI) grew by 0.5% mom July (in nominal terms), after 0.5% in June and 1% in May. There was a fallback in furniture and household equipment spending (-1.4% mom), as some of the Q2 strength alongside end of financial year sales and replacement demand after weather impacts unwound. NAB data insights suggest that continued in August.

Services spending drove growth in the July indicators, with a strong increase in health spending (+1.8% mom) and transport, hotel and hospitality spending. Travel and accommodation demand alongside events including the Lions tour in the month are one driver, with NAB's spending data pointing to slower, but still positive, growth in August.

Overall, the pick up in real income growth has flowed through to stronger consumption growth after a period of very soft outcomes into mid 2024. Consumer confidence has also improved, back to around its long run average, supported by a rebound in household perceptions of their own family finances.

Consumer Sentiment (Deviation from Average)*



Consumer spending and saving decisions amid elevated global uncertainty remain important for the outlook. The savings rate at 4.2% remains a little below its pre-pandemic average, even as it has risen comfortably off its recent lows when consumers were insulating consumption levels from the full extent of the squeeze on real income.

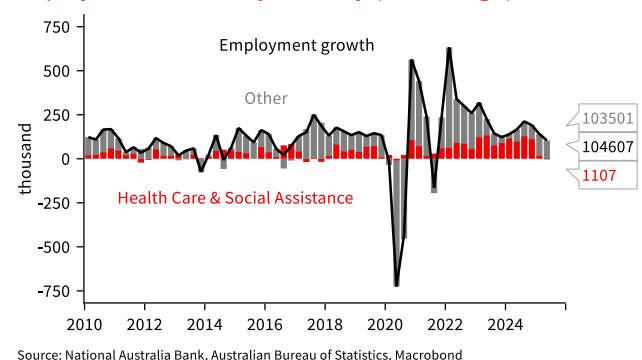
Labour market

The labour market remains close to balance.

The unemployment rate edged down to 4.2% in July from 4.3% in June after breaking a five-month streak holding at 4.1%. Trend employment growth near 25k is broadly in line with population growth and indicators of labour demand generally have steadied over the past year or so at healthy levels.

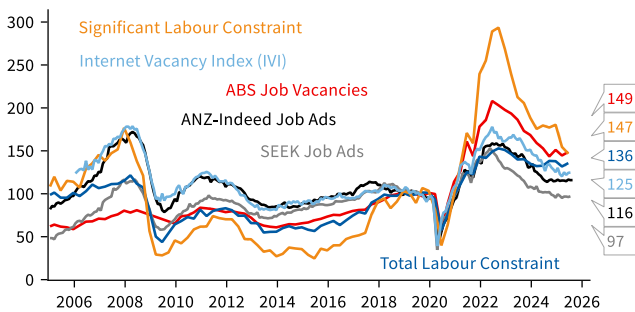
Detail from the labour account data show a marked shift in the drivers of employment growth in H1 2025. Health care and social assistance accounted for more than 60% of employment growth over 2023 and 2024, driven by demand for aged, disability, and child care workers. Employment growth in that industry has flatlined in the first half of 2025 as market sector employment growth has picked up.

Employment Growth by Industry (6m change)



Structural trends underpinning labour demand in health and care have not gone away, but an easing back from the rapid employment gains of recent years means some recovery in private hiring can more readily be absorbed without a retightening in the broader labour market.

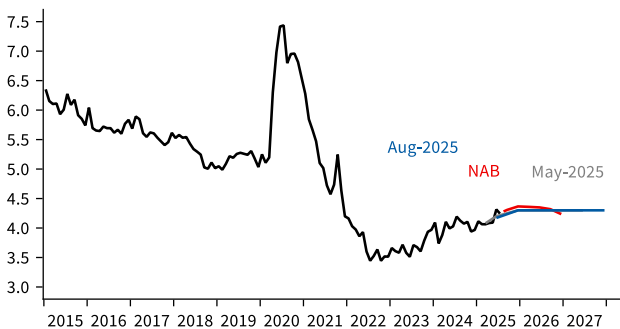
Measures of labour demand



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

We expect the unemployment rate to be little changed going forward, forecasting a peak of 4.4% in Q4 before settling around 4¼% longer term. The labour market remains near balance and has not been a source of upward pressure on inflation over the past year or so. As the GDP growth recovery increasingly translates through to an easing in margin and profitability pressures, risks around the labour market trajectory are becoming more two sided.

RBA Unemployment Rate Forecasts



Source: National Australia Bank, RBA

Businesses

Business conditions and confidence remain around their long run average in August.

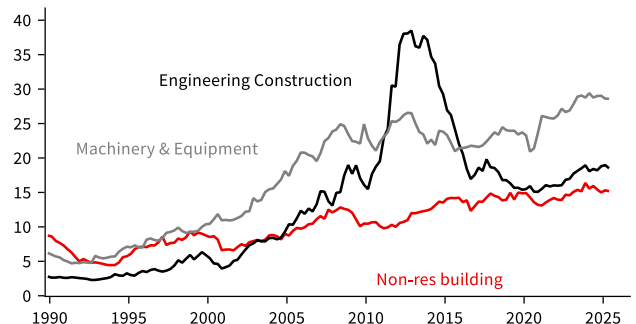
Business conditions rose 2pts in August reflecting improvements in both employment intentions and profitability while trading conditions remained steady. Trend conditions across all states either improved or remained flat in August. Notably, Victoria saw positive trend confidence and conditions for the first time since May 2024.

Confidence fell 3pts (unrounded) in August after four consecutive months of gains, remaining around its long-run average. In trend terms, confidence is strongest in construction and transport & utilities while it is weakest in mining and wholesale.

Cost pressures moderated in the month as purchase costs grew at their slowest pace since 2021 while both labour costs and prices growth edged down. Forward orders were in positive territory for the first time in the past two years after trending upward for some time. Capacity utilisation rose, sitting 2ppts above the long-run average suggesting continued tightness in the supply/demand balance.

The trend improvement in conditions and confidence have been maintained in August and further supports the view that the business outlook has become more positive. Even so, underlying business investment was a modest drag on growth in Q2 GDP and there remains some uncertainty about how much some improvement in conditions will translate through to investment spending.

Business Investment by Type (\$, Billion)



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

In Q2, underlying business investment was weighed down by non-dwelling construction, which fell 1.7% qoq, while machinery & equipment investment was soft (-0.1% qoq). In year-ended terms business investment was only 0.2% higher than the previous year, this is the weakest it has been since 2020.

A bright spot for business investment was continued strength in investment related to data centres. Capex spending in the information media & telecommunication industry remained more than 3 times pre-pandemic levels in real terms.

While we continue to expect an improvement in underlying business investment, it will need to recover over the next 18 months in order to see GDP return to trend. We have left our forecast for business investment growth unchanged, seeing it strengthening to around 2.7% (compared with the RBA's latest expectation of 2.0%) over 2026.

Foreign exchange

The AUD uptrend in evidence since April had threatened to stall in a 64-66c range in recent months but the recent move through 66c supports our FX strategists outlook that the AUDUSD will end the year around 68c. Support has come from the combination of the US Federal Reserve moving towards easing, the Chinese renminbi appreciating through 7.15 against the USD, and some more positive domestic data flow.

We expect a 65-70c range through the end of the year to shift towards a 70-75c range by the end of 2026.

Housing

House prices continue to rise at a solid clip while rents growth has also strengthened through 2025.

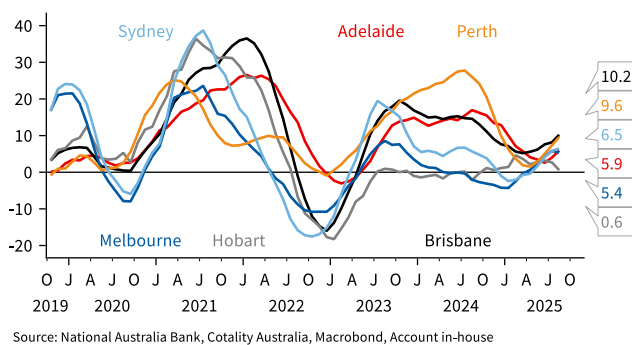
Combined capital city house prices rose 0.8% mom in August and are up 1.9% over the past three months. Prices in Perth and Brisbane continue to rise most strongly, up 3.0% and

3.1%, respectively over the past three months. Prices in Sydney and Adelaide also saw moderate rises of around 2%, while Melbourne prices rose by a more modest 1% over the past three months. The rise in property prices has been broad-based across cities and regions. Overall, prices in Brisbane, Adelaide and Perth remain around 80% higher over the past 5 years reflecting the strength in population growth and strong labour markets in these states. Sydney prices are up 36%, likely restrained by affordability constraints (which have been eased somewhat by rate cuts through 2025). Melbourne prices are up a more modest 16% over the period and remain around 3% below their peak in early 2022.

The imbalance between supply and demand in the housing market and near record low vacancy rates has also seen an acceleration in rents growth through 2025. Cotality hedonic rents growth accelerated to 0.5% mom in August, to be 3.4% higher over the year.

We expect house prices to continue to rise through 2025 and 2026, supported by lower interest rates and the ongoing strength in demand. Prices have risen a little more quickly than we had expected over recent months meaning the gain over 2025 is likely to be close to 7.5%. We expect a broadly similar growth rate of around 6% over 2026.

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



On the supply side, building approvals continue to trend higher, up around 12% over the year. That said, while approvals have come off their lows, they remain well below the levels seen between 2015-2018. In rolling annual terms, approvals have now risen to around 188k pa, above the current run rate of completions which was ~180k pa in Q1.

Updated data on the number of starts and completions for Q2 (as well as the pipeline of work) is not yet available but the preliminary building activity release and national accounts for Q2 point to a similar rate of work done in the quarter. Therefore, how quickly any pickup in approvals will translate to overall completions (as well as the overall rate of economic activity) remains uncertain given difficulty in scaling up work done across residential construction.

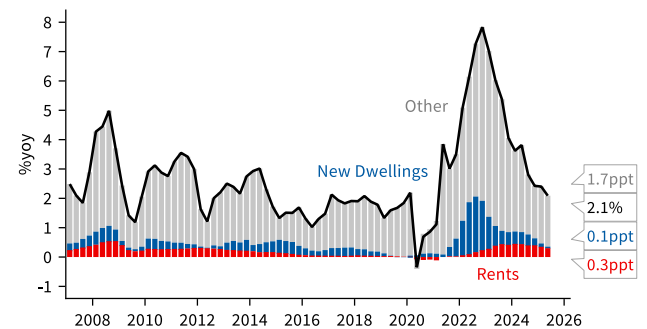
While population growth has slowed, the underlying supply-demand imbalance will likely persist for some time supporting both price and rents growth.

Inflation

Q2 CPI data confirmed that underlying inflation over the past couple of quarters has been around the midpoint of the RBA's 2-3% target. We expect it to stay there, though some lingering risks remain.

Trimmed mean inflation was 0.6% qoq and 2.7% yoy in Q2. Underlying inflation pressures have moderated alongside the gradual rebalancing of the economy over the past couple of years. Cooling has been broad-based over the period, with another leg lower in H2 2024 driven by housing components.

CPI with shelter contributions



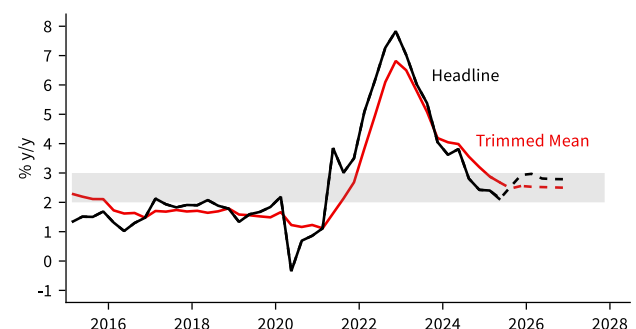
We do not look for further disinflation from shelter categories. Prices in measured New Dwelling purchase costs are rising again after earlier declines, and timely indicators of rents are showing some modest reacceleration alongside low vacancy rates that is expected to keep rents running above aggregate inflation looking forward.

Shelter presents some upside risk, but in our baseline expectation it does not derail the outlook for inflation to sustain near target. Global food commodity prices continue to rise, but domestic price competition and a stronger AUD provide some near-term offsets to still-elevated grocery inflation. Higher durable goods prices were a support for inflation in H1 2025, largely reflecting the earlier depreciation of the Australian dollar, and the July CPI indicator suggests this was already fading.

Beyond component level drivers, our broader macro assessment is that the economy is near balance, and an ongoing pickup in growth towards trend means it will stay there, sustaining inflation near its recent pace.

The effect of electricity subsidies will see headline inflation lift temporarily to around 3% by early 2026, but we expect underlying inflation to remain near target.

Inflation Forecasts



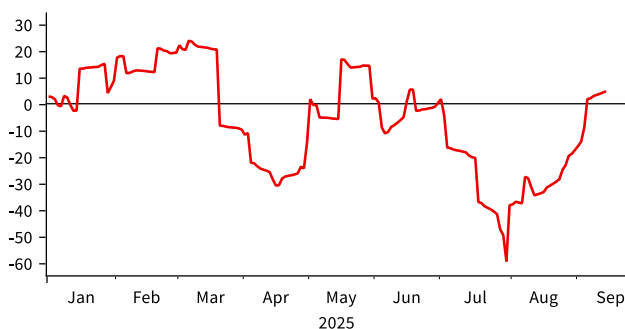
Monetary Policy

We forecast the RBA to deliver two more 25bp easings, in November and February. Our forecast sees the cash rate at 3.1% by early 2026.

Since we last published the *Forward View*, there has been little in the way of communication from the RBA. The minutes from the August meeting were released and confirmed that while the RBA's central case for the economy embedded some further modest easing, the pace of decline in the cash rate was to be determined by the data on a meeting-by-meeting basis.

The next meeting of the Monetary Policy Board is not until late September. We expect the cash rate to remain unchanged at 3.6% at this meeting. The flow of data so far does not suggest any urgency to lower rates; indeed, as the chart below illustrates, domestic data have surprised on the stronger side of expectations in the last six or so weeks.

Citi Economic Surprise Index - Australia

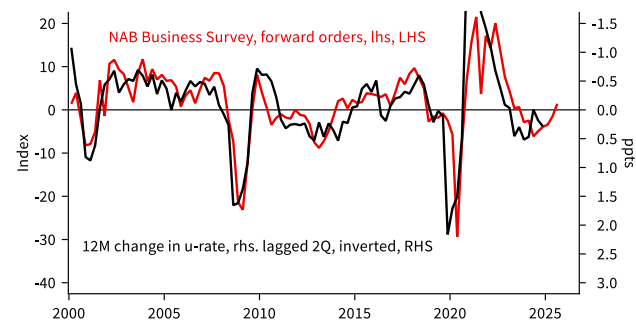


Source: National Australia Bank, Bloomberg

Our expectation of a relatively cautiously calibrated easing cycle looks to be appropriate. The RBA cites various sources of uncertainty in the outlook, including around both the demand and supply sides of the economy, the trajectory of household consumption and conditions in the labour market. In particular, these uncertainties reflect low confidence in modal forecasts of the output gap and thus imply policy makers will be sensitive to real time measures that reflect capacity pressures or lack thereof in the economy. In this context, and against the backdrop of a better tone to activity data of late, we believe the RBA will want to see quarterly inflation data before considering the case for further easing.

We see risks to our rate forecast as broadly balanced, but acknowledge that should the run of better-than-expected data persist, the RBA may finish the easing cycle a little earlier than we currently forecast. As the chart below illustrates, some leading indicators of capacity measures in the labour market are suggesting – if recent improvement is sustained – the possibility of a re-tightening in the labour market at some point. Though we currently see the labour market as close to balance, a retightening in labour market conditions and reacceleration in wage growth (amid soft productivity growth) could see a shallower cutting cycle than we expect.

Forward orders and Unemployment rate



Source: National Australia Bank, Australian Bureau of Statistics, Account in-house, Macrobond
* Forward orders for Q3 using August forward order trend as actual.

Source: Bloomberg and National Australia Bank

On the downside, a shock emanating from offshore would likely see the RBA accept the case for a modestly stimulatory policy setting. Slower global growth, amplified by a weakening in consumer and business confidence as well as weaker commodity prices, could weigh on both domestic growth and labour demand. However, the RBA remains well placed to respond to a shock of this nature given we do not expect such a shock to be inflationary – unlike the US where higher tariffs will drive up the domestic price level.

Key Forecasts

Australia forecasts

	% Growth q/q			% Growth y/y		
	Q2-25	Q3-25 (f)	Q4-25 (f)	2024	2025 (f)	2026 (f)
GDP and Components						
Private Consumption	0.9	0.5	0.5	0.9	2.3	2.3
Dwelling Investment	0.4	0.5	0.8	3.5	3.8	2.9
Underlying Business Investment	-1.0	0.4	1.0	-2.0	0.5	2.6
Underlying Public Final Demand	0.0	0.4	0.4	5.4	0.6	1.6
Domestic Demand	0.5	0.5	0.6	2.3	1.9	2.4
Stocks (Cont. to GDP)	-0.4	0.0	0.0	0.1	0.1	0.0
Gross National Expenditure	0.4	0.5	0.7	2.4	2.1	2.4
Exports	1.7	0.5	0.5	1.4	2.0	2.0
Imports	1.4	0.5	0.7	6.2	2.7	2.3
Net Export (Cont. to GDP)	0.1	0.0	0.0	-1.0	-0.1	0.0
Real GDP	0.6	0.5	0.6	1.3	2.0	2.3
Nominal GDP	0.7	1.4	1.2	3.6	4.8	4.6
Labour Market						
Employment	0.6	0.5	0.3	2.3	1.8	1.8
Unemployment Rate (Q-Ave, End of Period)	4.2	4.3	4.4	4.0	4.4	4.2
Wage Price Index (WPI)	0.9	0.9	0.9	3.2	3.5	3.2
Inflation and Rates						
Headline CPI	0.7	0.9	0.5	2.4	3.1	2.9
Trimmed-mean CPI	0.6	0.7	0.6	3.2	2.7	2.5
RBA Cash Rate (End of Period)	3.85	3.60	3.35	4.35	3.35	3.10
10 Year Govt. Bonds (End of Period)	4.17	4.25	4.25	4.48	4.25	4.05
\$A/US cents (End of Period)	0.66	0.66	0.68	0.62	0.68	0.73

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

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