The Forward View Australia: March 2025
More progress, lingering risks
NAB Economics

Overview

- Data released over the past month continue to reflect resilience in the economy.
- Our forecasts are largely unchanged, with growth returning to trend this year (~2.25%), unemployment edging up to 4.25% and underlying inflation settling around 2.5% from mid year.
- We see growing downside risks to economic activity amidst elevated global uncertainty.

The economy grew 0.6% q/q in Q4, taking growth over 2024 to 1.3%. This is broadly as we expected, supported by an uptick in household consumption (0.4% q/q, after two quarters of small declines) and continued strength in public demand. Business investment on the other hand remains sluggish, while stronger growth in exports than imports meant net exports added 0.2pts to growth.

The labour market remains resilient, with stronger growth in Q4 market sector employment than seen in earlier parts of the year (which was dominated by non-market employment gains). The January CPI print encouragingly confirmed the weaker outlook on housing and market services components.

Overall, our forecasts are largely unchanged this month. We continue to expect inflation to ease gradually from here (including 0.6% q/q for Q1 underlying inflation) and reach the midpoint of the target band by Q2. This is more optimistic than the RBA's forecast (0.7% q/q for Q1), which we expect will trigger the next rate cut in May as a result. We expect the RBA to gradually ease rates from there, reaching 3.1% in early 2026.

We continue to expect that a pick up in household consumption will drive growth closer to its long run trend over 2025. However, it will be important to see both business investment and dwelling investment pick up to sustain growth – especially as some uncertainty around the extent of the consumer recovery remains. Estimated business investment growth for FY25 is notably softer than previous years, though early expectations for FY26 capex in the NAB survey are around long-run average levels.

The impact of escalating trade wars and the associated uncertainty is a key risk to our outlook. Overall, we expect tariffs and slower global growth to be disinflationary for Australia (via lower commodity prices and national income), though a lower exchange rate would offset some of the weaker income effects. However, tariff uncertainty may weigh on consumer and business sentiment.

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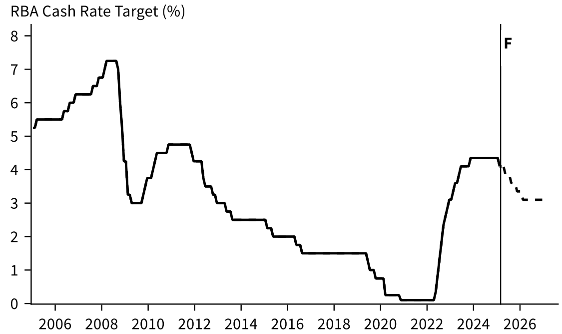
Key Economic Forecasts

	2023	2024(f)	2025(f)	2026(f)
Domestic Demand (a)	2.9	1.9	2.3	2.3
Real GDP (annual ave)	**2.1**	**1.0**	**2.0**	**2.2**
Real GDP (year-ended)	**1.5**	**1.3**	**2.2**	**2.2**
Employment (a)	3.4	2.5	2.7	1.5
Unemployment Rate (b)	3.9	4.0	4.2	4.2
Headline CPI (b)	4.1	2.4	2.9	2.4
Trimmed-mean CPI (b)	4.2	3.2	2.5	2.5
RBA Cash Rate (b)	4.35	4.35	3.35	3.10
$A/US cents (b)	0.68	0.62	0.67	0.73

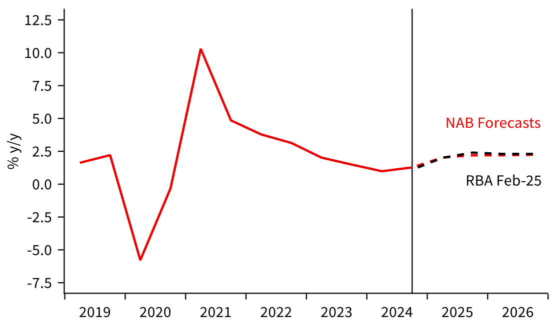
(a) annual average growth, (b) end-period

Chart 1: RBA Cash rate forecast



Source: Macrobond, NAB Economics

Chart 2: GDP forecasts



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

18 March 2025 | Authors: Michelle Shi, Gareth Spence

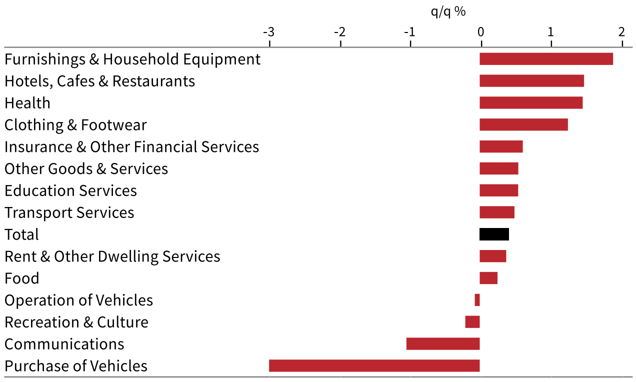
Consumption

Household consumption growth has begun to pick up

After two quarters of small declines, household consumption rose 0.4% in Q4. There were similar increases across discretionary spending (+0.4%) and essential spending (+0.5%). Significant discounting activity in Q4 saw a notable uptick in Furnishings & Household Equipment and Clothing & Footwear spending.

Outside of Black Friday sales, spending also grew strongly in Hotels, Cafes and Restaurants and Health. Vehicle purchases was the main detractor from household consumption growth, down 3% q/q and 7% y/y.

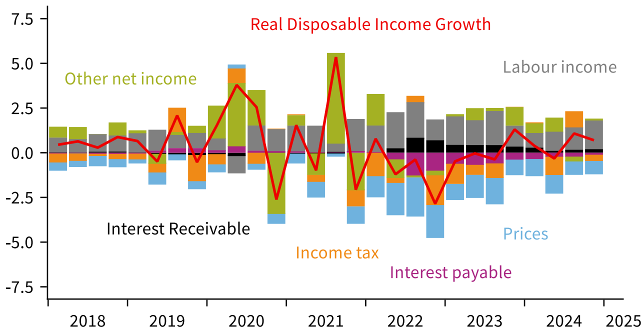
Household consumption growth by category



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

Improving real disposable income growth has been – and will continue to be – the key driver of consumption growth. Labour income grew 2.0% over the quarter, with overall real disposable income growth at 0.7% q/q. Further easing in inflation and monetary policy will continue to see real disposable income growth improve through the year.

Real Disposable Income Growth (quarterly, %)



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

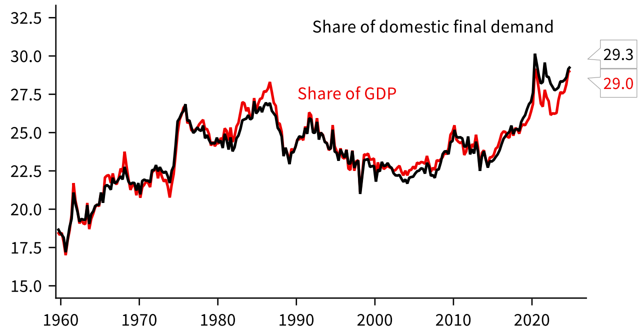
The latest partial data for Q1 2025 consumption continues to support our determination that consumption growth is picking up. Nominal retail spending was up 0.3% in January, while the Monthly Household Spending Indicator reported a 0.4% increase.

As explored in our retail note, we expect that retail goods spending will grow more in line with overall discretionary consumption this year as spending patterns rebalance. A number of large retailers have reported that trading conditions were broadly positive in the first six or seven weeks of 2H FY25, but risks to the outlook remain (as seen in some weaker reads in our Business Survey and transactions data in January and February).

Public demand continues to be a major driver of growth

After two quarters where public demand drove the majority of final demand growth, public and private demand was more balanced this quarter. Public demand was up 0.9% q/q and contributed 0.3pt towards GDP growth (compared to a 0.3pt contribution from private demand). However, public demand as a share of final demand and GDP remains near record highs.

Public demand (nominal % shares)



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

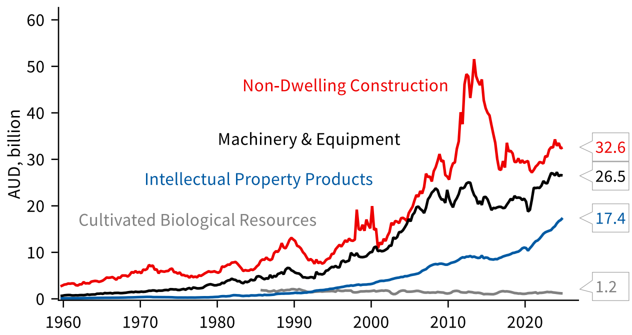
Business investment, trade and FX

Business investment growth still sluggish, but slightly better capex expectations for FY26 than FY25

Business investment rose 0.7% q/q but fell 0.1 % y/y. The increase this quarter was driven by non-mining (which was up 1.1% q/q) whereas mining investment pulled back 0.9% q/q. While this was a welcome quarterly increase after a 0.9% q/q decline in Q3, annual business investment growth has weakened from the post-covid highs though investment remains relatively high in level terms still.

Capex expectations for the remainder of FY25 and FY26 were also released recently. The latest estimate for FY25 has not changed significantly but importantly, the first estimate for FY26 is slightly better (4.0% for FY26 Estimate 1, compared to 2.8% for FY25 Estimate 5, using five-year realisation ratio adjustments). Capex expectations were notably higher for Manufacturing and Non-Mining, while largely flat for Mining.

Components of business investment

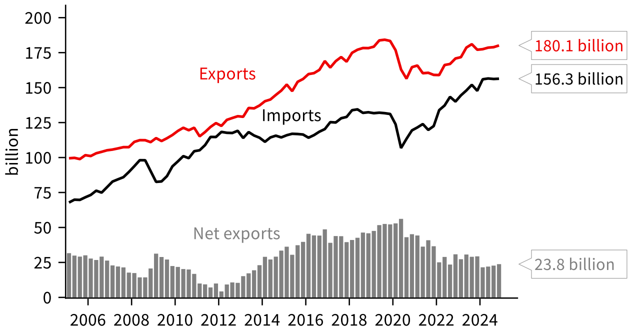


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Net trade contributed 0.2pts to GDP growth in Q4, as exports grew 0.7% q/q and outpaced imports growth of 0.1% q/q. The uptick in exports was driven by services, predominantly around intellectual property services related to pharmaceuticals and computer software. Good exports also rose, driven by rural goods (the ABS called out chickpea exports in particular, where exporters benefitted from a temporary lift of Indian tariffs).

On the imports side, goods imports rose driven by a rise in electric vehicle imports. Services imports fell over the quarter, as Australians opted for less expensive and closer to home holidays.

Net exports (chain volumes)

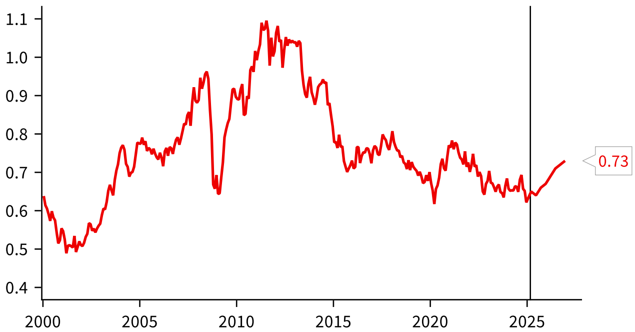


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Recent AUD/USD movements have been driven by ongoing tariff announcements and the associated uncertainty around them. The AUD hit a low of 0.6088 in early Feb following Trump's announcement of 25% tariffs on Canada/Mexico and 10% on China, before then reaching a high of 0.6409 on 21 Feb after news of a delay to tariffs.

NAB's AUD/USD forecasts are little changed but key cross rates are revised mostly in the direction of a weaker AUD as downside risks from tariff uncertainty remain significant.

NAB Forecasts, USD/AUD



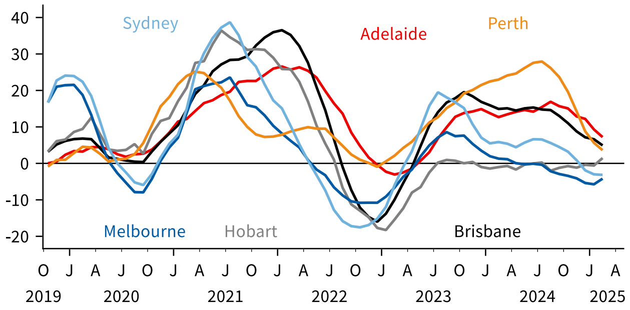
Source: National Australia Bank, Account in-house

Housing

Capital-city house price growth rebounded in early 2025

Both Sydney (+0.3%) and Melbourne (+0.2%) house prices rose in January. While Sydney had only declined for the previous four months, the monthly increase was the first in Melbourne since March 2024. Across Brisbane, Perth and Adelaide, price growth slowed over the past 6 months though remained positive. Overall prices in the smaller capitals are up 60-70% since 2018, while Sydney (up 28%) and Melbourne (up 8%) have increased by less. We continue to see prices increasing further (but by less than recent years) as rates fall through 2025.

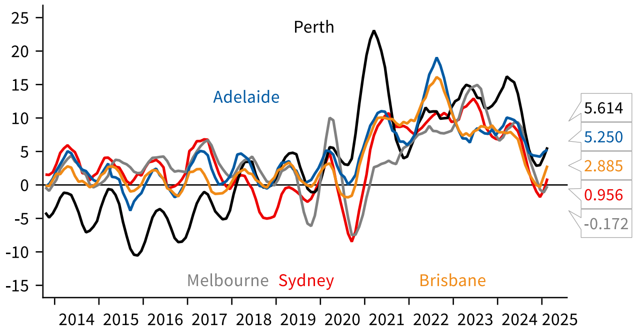
CoreLogic Hedonic Dwelling Price Growth by Capital City (6-month-ended Annualised,%)



Source: National Australia Bank, CoreLogic Australia, Macrobond, Account in-house

Capital city rents growth has also reaccelerated over the past 3 months after slowing in H2 2024. Sydney, Melbourne and Brisbane saw outright declines in rents for a number of months in H2 2024 but have all now turned positive again. Rents growth in Perth and Adelaide also slowed but remained stronger. In 6-month annualised terms rents growth has now reaccelerated across all the capitals.

Capital-city rents growth (%, 6-month annualised)



Source: National Australia Bank, Account in-house

The underlying supply and demand dynamics in the housing market will continue to support both prices and rents. Dwelling approvals have stabilised at around 45k per quarter (160k per year) after coming off their lows in late 2023/early 2024 but continue to track well below the required rate to match population growth. Indeed, the average household size has increase since mid-2022 with the impact of high prices and rents constraining household formation.

Despite the strength in prices and strong population growth, weak dwelling investment continues to weigh on growth. The Q4 national accounts showed a further small fall. An increase in new construction was offset by weakness in alterations & additions. That said, dwelling investment rose 5% in South Australia, and edged up in New South Wales (up by 0.6%) and Victoria (up 0.3%). These increases were offset by declines in Western Australia and Queensland.

The sector continues to be challenged by a raft of factors. The construction industry reports ongoing difficulty in finding suitable labour, high cost pressures (with input costs up around 30% since late 2019 according to the producer price index) as well as weaker productivity and other obstacles in gaining approvals.

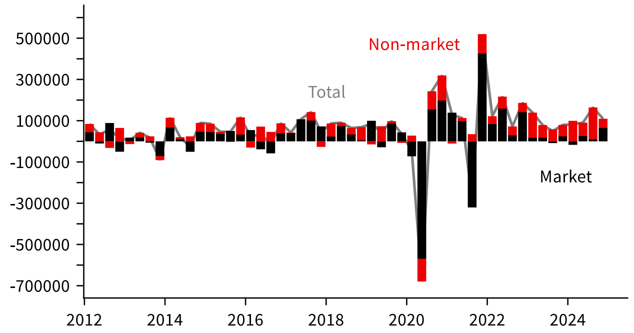
Labour market

Market employment growth stronger in Q4 2024.

Labour account data from the ABS showed a strong uptick in market employment in Q4. Market sector employment rose by 65K (0.6% q/q) in Q4 compared to an average of +10K over the previous 7 quarters since Q1 2023. Non-market employment rose by 44K in Q4, accounting for 40% of the total quarterly increase (compared to around 90% in Q3).

Within the market sector, employment growth was strongest in Other Services (3.2% q/q), Transport (2.5% q/q), and Accommodation and Food Services (1.9% q/q).

Non-market vs market quarterly employment growth

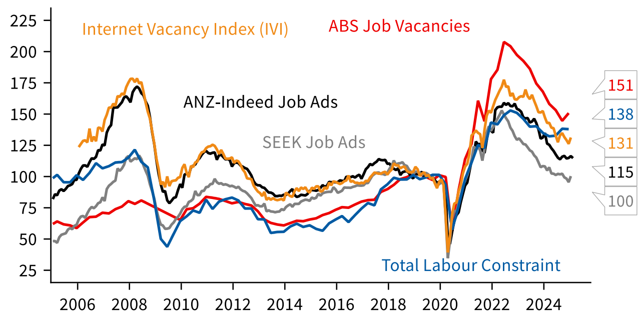


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The ABS flagged that the number of people holding multiple jobs surpassed 1 million people for the first time in Q4. They attributed this to the Health care and social assistance and Administrative support services industries – around one in five employed persons in Health care hold multiple jobs.

Forward looking measures of labour demand have been relatively stable since late 2024. Job vacancies were up 4.2% in the three months to November 2024, with a 4.7% quarterly increase in private sector vacancies compared to 0.4% for the public sector – which aligns with some of the strength seen in recent market sector employment growth. SEEK Job Ads were up 5.1% m/m in January, marking the highest monthly increase in over three years. SEEK describes this as a "course correction" after three months of decline.

Measures of labour demand



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

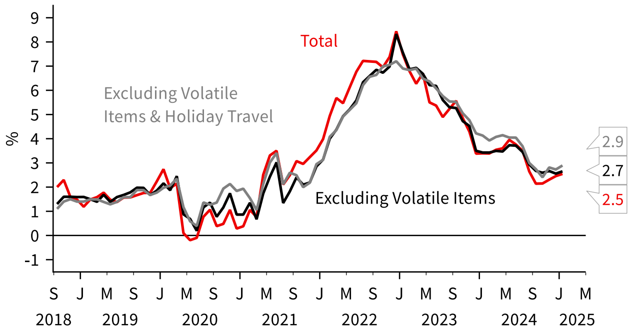
Overall, this data confirms that the labour market has stabilised at reasonably healthy levels. To date, this has not appeared to be wage inflationary, but the risk ahead is that the labour market re-tightens with the broader pick-up in activity. This may see continued improvement in market employment growth, while non-market employment gains remain robust. February labour force data (out later this week) is expected to be fairly strong, especially as January unemployed future starters convert to being considered 'employed' in February.

Inflation

The monthly CPI indicator for January was in line with our expectation of a 0.6% q/q print for trimmed-mean inflation in Q1.

The headline CPI indicator was unchanged at 2.5% y/y in January. Excluding volatile items, the CPI indicator rose to 2.9% y/y from 2.7%. While the CPI indicator for the first month of the quarter contains little new information on the services components (which are measured quarterly). The component outcomes were broadly in line with our expectation of a 0.6% q/q Q1 outcome for the quarterly trimmed-mean (released in late April).

Monthly CPI Indicator y/y %



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

Of note, the new dwelling purchase cost series edged down 0.1% m/m continuing the run of more benign outcomes since November 2024. That takes the annual rate of inflation in new dwelling purchase costs to 2.0% y/y, its lowest rate since mid-2021. Also, on housing, monthly rents growth continued to rise at a monthly pace of 0.3% in January (around half the pace of increase that was observed through most of 2024). Given the weight of these housing components in the consumption basket, this more benign outlook now offsets some of the risk of other persistent parts of the basket.

The market services (excluding rents) component continues to ease gradually. This is evident in the insurance component which is now annualising at 5% compared with year-ended increases of well over 10% in recent years. Restaurant meals inflation is benign and other household services inflation has also eased.

That said, the CPI continues to be buffeted by a range of temporary and transitory factors including subsidies for key components such as electricity as well as volatilities in other items. Further, while there has been some evidence of moderating cost growth there may still be some catchup with prior increases in the level of costs.

The NAB Survey measures of prices and costs are more mixed. On the input side, both labour and purchase costs growth continue to track a little above average. Aggregate final products price growth has tracked at 0.5% in quarterly terms over the past two months, while retail and recreation & personal services price components remain above average. Overall, the NAB Survey points to a weakening in margins with businesses less able to pass on cost increases in what has been a slow consumption growth environment.

Monetary Policy

Our rates view is unchanged.

We continue to expect the RBA to remain on hold at the next meeting (decision announced 1 April) before easing rates by a further 25bps at the May meeting (announced 19th May). From there we expect to see a gradual series of rate cuts taking the cash rate back to 3.1% by early 2026.

The minutes from the February Board meeting and other public communication from the Bank continued to push back on an ongoing sequence of further cuts. Interestingly, the RBA considered two scenarios for the cash rate as part of the February deliberations. A cash rate on hold would see inflation fall to 2.4% by the end of the forecast period, while a series of cuts in line with the assumed market path (3.4% by June 2026) would see inflation settle a little above the mid-point of the RBA's target band. This is consistent with our assessment that rates are only modestly restrictive.

However, while the RBA pushed back on further cuts, it is unlikely that the RBA is content to cut rates just once by 25bps and we see another imminent cut as likely. A small downside surprise for the Q1 CPI – where we expect 0.6% q/q, compared with the RBA's implied expectation of around 0.7% q/q - will likely be the trigger for further easing at the May meeting. Beyond Q1, the RBA's expected moderation in inflation appears very conservative even when including the projected easing in the cash rate.

Indeed, our forecasts embody a weaker inflation trajectory (though only slightly in the near term) than the RBA's and we expect the underlying rate of inflation to be close to 2.5% by Q2. We are also comfortable that an unemployment rate in the low 4% range is sustainable and that the economy and labour market are near balance. Both our and the RBA's forecasts see growth returning to trend, conditioned on a degree of easing in interest rates. With the upside risks to inflation having moderated and the output gap closing, rates will need to be gradually normalised to ensure the labour market remains resilient.

Risks to the outlook.

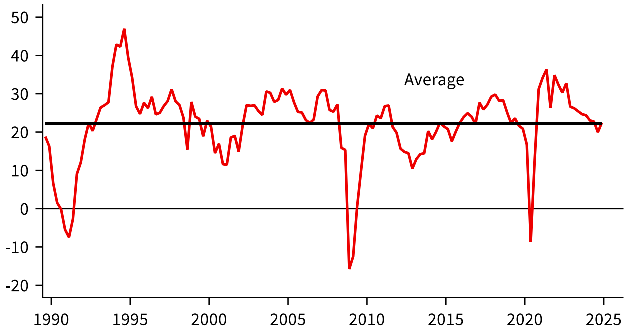
At present, we see the impact of escalating trade wars and the uncertainty arising from continual changes to these policies as the largest risk to our forecasts.

To be clear, we see the overall risk of tariffs and slower global growth as disinflationary for Australia, which would lead to falls in our key commodity prices and lower national income. Weaker global income growth could also see softer demand for our services exports (such as education and tourism) though both of these could also potentially benefit from diversion away from other major markets. A lower exchange rate would also serve to offset some of the weaker income effects. More broadly, as is becoming evident globally, a key risk for major economies is weaker sentiment for both consumers and business.

Domestically, both the trajectory for business investment and consumer spending remain important. Though consumption growth appears to be reaccelerating, disposable income growth has so far only recovered to pre-pandemic levels (a period of weak consumption growth) and while the savings rate has increased from its lows, it remains lower than average. The balance between spending and saving will be an important determinant of whether consumption returns to trend.

In order for overall GDP growth to return to trend, we will also likely need to see stronger outcomes for business investment over the next year or so. Investment intentions for FY26 are better than FY25 but are still relatively modest: the NAB Survey 12-month Capex expectation has fallen back to around average while the ABS Private capex survey implies nominal growth of 3-4% for FY26.

NAB Survey Capex 12m Expectations (Net Bal.)



Source: National Australia Bank, National Australia Bank, Macrobond

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)
GDP and Components						
Private Consumption	0.4	0.3	0.7	0.7	2.2	1.9
Dwelling Investment	-0.4	-0.2	-0.1	2.5	-1.8	-0.8
Underlying Business Investment	-1.3	0.2	0.3	-3.4	1.3	1.7
Underlying Public Final Demand	0.9	1.0	0.8	5.7	3.2	2.4
Domestic Demand	**0.5**	**0.4**	**0.7**	**2.1**	**2.4**	**2.3**
Stocks (Cont. to GDP)	0.3	-0.1	0.1	0.1	-0.2	0.0
Gross National Expenditure	**0.6**	**0.4**	**0.8**	**2.3**	**2.3**	**2.2**
Exports	0.7	0.1	0.5	1.7	1.7	2.1
Imports	0.1	0.4	0.9	5.8	2.6	1.9
Net Export (Cont. to GDP)	0.2	-0.1	-0.1	-0.9	-0.2	0.1
Real GDP	**0.6**	**0.5**	**0.6**	**1.3**	**2.2**	**2.2**
Nominal GDP	1.6	0.7	0.8	3.7	3.8	4.6
Labour Market						
Employment	0.7	0.8	0.6	2.7	2.1	1.4
Unemployment Rate (Q-Ave, End of Period)	4.0	4.1	4.2	4.0	4.2	4.2
Wage Price Index (WPI)	0.7	0.9	0.9	3.2	3.4	3.2
Inflation and Rates						
Headline CPI	2.4	2.1	1.7	2.4	2.9	2.4
Trimmed-mean CPI	3.2	2.8	2.5	3.2	2.5	2.5
RBA Cash Rate (End of Period)	4.35	4.10	3.85	4.35	3.35	3.10
10 Year Govt. Bonds (End of Period)	4.48	4.40	4.30	4.48	4.05	4.05
$A/US cents (End of Period)	0.62	0.63	0.65	0.62	0.67	0.73

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

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