The Forward View Australia: April 2025

Calm before the storm

NAB Economics

Overview

- Domestic data has been overshadowed by tariff chaos, with changes to US trade policy shifting the distribution of risks to the growth and inflation outlook in Australia.
- Consequently, we have slightly revised down our forecasts, with domestic growth now expected to be 2.0% over 2025 (was ~2¼%) and the unemployment rate forecast to peak at around 4.4% (was 4.2%).
- With a larger headwind emanating from the global backdrop, we now see the RBA easing more quickly to reach a neutral stance (3.10%) by Q3.

Tariff announcements from the US since April 2nd have led to significant market volatility. Though Australia faces only the baseline tariff level (10%), these announcements have shifted global and domestic risks to the downside.

Domestically, the outlook was little changed before tariff announcements. Labour market resilience has continued but remains non-inflationary, in our view. The February monthly CPI provided further evidence that inflationary pressures are easing, especially across the important market services components, and we continue to expect Q1 CPI to print slightly below RBA forecasts. Before tariffs, we did not view inflation as a barrier to a gradual easing of monetary policy as the RBA became more comfortable with an unemployment rate in the low 4s.

However, the drag on global growth from tariffs and uncertainty are now more pressing and we have slightly revised our Australian economic forecasts this month in response to a weaker global growth forecast. The revisions are not large (we now expect 2.0% economic growth over 2025 vs 2¼%, and a peak unemployment rate of 4.4% vs 4.2%, before edging back down to around 4¼% at end 2026) because we expect lower interest rates can offset larger impacts on growth and inflation.

This is outlined in our revised RBA rate path. We now expect the RBA to cut by 50bps in May, followed by 25bp easings in July, August, November and February. This path reaches neutral more quickly than previously expected (3.1% in August), which is a more appropriate policy stance given the shock imposed by changes to US trade policy. We then expect the RBA to cut to modestly accommodative territory after a short pause to reach a cyclical low of 2.6% in February. We retain our view that rates will settle in the low 3s longer term, and view the visit below 3% as only temporary.

However, we note that there is a wide error band around our forecasts amidst ongoing tariff developments. The risks to the outlook are significant: there is potential for further tariff surprises and market volatility, as well as more significant than expected flow-through to weaker Australian business and consumer sentiment and activity.

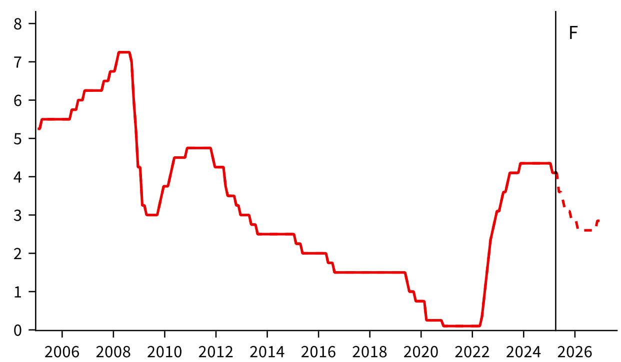
Contents

Key Economic Forecasts

	2023	2024(f)	2025(f)	2026(f)
Domestic Demand (a)	2.9	1.9	2.1	2.1
Real GDP (annual ave)	**2.1**	**1.0**	**1.8**	**2.2**
Real GDP (year-ended)	**1.5**	**1.3**	**2.0**	**2.3**
Employment (a)	3.4	2.5	2.6	1.5
Unemployment Rate (b)	3.9	4.0	4.4	4.3
Headline CPI (b)	4.1	2.4	2.6	2.8
Trimmed-mean CPI (b)	4.2	3.2	2.4	2.5
RBA Cash Rate (b)	4.35	4.35	2.85	2.85
$A/US cents (b)	0.68	0.62	0.67	0.73

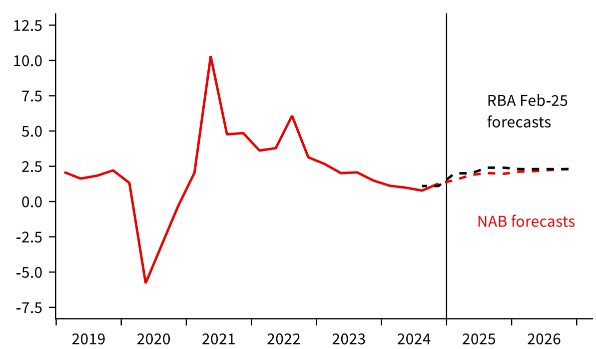
(a) annual average growth, (b) end-period

Chart 1: RBA Cash rate forecast



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

Chart 2: GDP forecasts



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

15 April 2025 | Authors: Michelle Shi, Gareth Spence

Businesses, trade and FX

Tariffs have dominated headlines since April 2nd and are expected to weigh more heavily than expected on global growth, even after the April 9th walk-back.

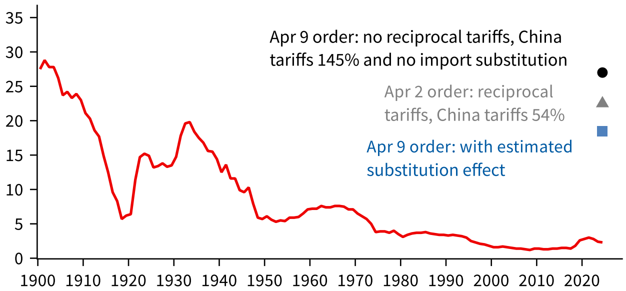
There has been no shortage of tariff chaos in April. It began on April 2nd ('Liberation Day') with reciprocal tariffs higher than anticipated across a range of trading partners, including an additional 34% on China. Australia and New Zealand faced the 10% baseline rate and did not retaliate.

After significant market volatility and a global bond market sell-off in the days that followed, President Trump announced a 90 day pause on all reciprocal tariffs (above the 10% baseline) except for China (which have ratcheted to 145% in a series of retaliatory measures). Instead, all other trading partners will face the 10% baseline tariff in order to 'provide time for negotiation'. China retaliated, lifting tariffs on US imports to 125%.

The 90 day pause and headlines of a temporary pause of tariffs on electronics and possibly autos (including from China) has soothed market volatility, though significant tariff uncertainty remains. While China is the main focus (for now), further product specific tariffs are still in the cards (including pharmaceuticals).

Even with the pause, US trade will face significant disruption through the 145% additional tariff on Chinese imports. China accounted for 14% of US imports in 2024, and the 145% rate will outweigh the easing of tariff rates across other trading partners (see chart below). Modelling from the Budget Lab suggests that after trade substitution (where US firms replace imports from China with imports from other countries) the effective average tariff rate may be about 18.5%, with China's share of US imports falling from 14% to 4% in 2025.

US - average effective tariff rate



Source: National Australia Bank, The Budget Lab, Macrobond
Note: The China tariffs above include the 20% tariffs in effect from early March. This modelling was completed before the electronics exemption.

For Australia, the direct impact of the 10% tariffs will be limited. As outlined in our recent industry trade exposures note, the US accounts for less than 4% of Australian exports with activity concentrated to a few products, like beef, pharmaceuticals and gold (currently exempt from tariffs), steel and aluminium. The industries and domestic supply chains behind these products will be exposed, though many competitors now face the same tariff (or higher for non-exempt Canadian and Mexican products). Instead, the key risks to Australia are through indirect impacts via global and Chinese growth – see the Risks section below.

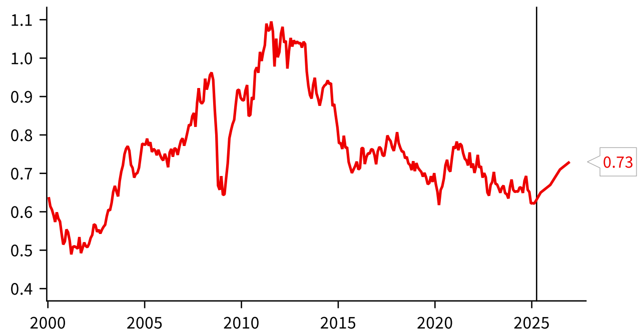
The AUD/USD has been volatile, falling sharply after April 2nd to a low of 0.59 before recovering to 0.63

The AUD fell to a five-year low of 0.5915 in the week after Liberation Day, reflecting the exposure of the Aussie to both Chinese and global growth. April 4th was the seventh largest daily decline in the AUD/USD in the past 25 years.

NAB's FX forecasts are currently unchanged given the high degree of uncertainty that remains. However, we continue to expect that support for the AUD/USD returns in coming quarters to end 2025 in the mid-60s. This is based on the expectation that China does engage in significant fiscal stimulus and keeps the CNY stable.

While the AUD has recovered its recent losses against the USD, it remains lower against EUR and JPY recently as the USD has become less attractive with continued trade uncertainty and heightened recession risks. JPY continues to attract safe-haven flows as the US singles out Japan as a key focus for trade negotiations and inflationary pressures persist

NAB Forecasts, AUD/USD



Source: National Australia Bank, Account in-house

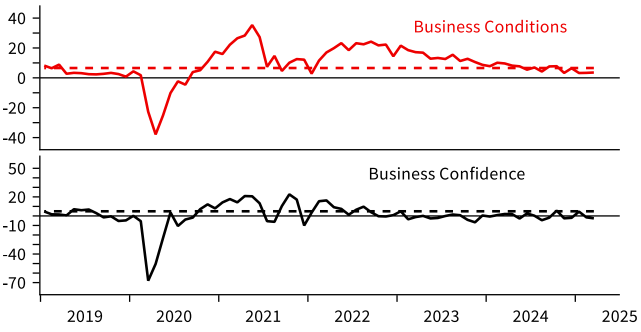
Business conditions, before tariff announcements, were flat for March and we may see sentiment weaken in coming surveys.

The latest NAB Monthly Business Survey was taken prior to April 2nd. However, it does provide a useful starting point on business sentiment ahead of upcoming surveys, where tariff impacts will be more apparent.

Overall, business conditions and confidence were fairly steady in March, though both measures remain below average. Capacity utilisation was the only exception to an otherwise unchanged survey read: capacity utilisation rose from 82.0% to 82.9%, the highest it has been since September 2024. This was driven by an increase in utilisation among goods production industries.

Upcoming surveys will be important to gauge how businesses are feeling about a tariff-addled domestic outlook. Even though direct exposure is limited (due to limited US trade and a relatively small share of businesses in Australia that export), the impact on business confidence may be pronounced given significant volatility and media focus. Goods production industries may be impacted more than services industries, though weaker consumer sentiment will also weigh on service industries.

Conditions and confidence (trend, net bal.)



Source: National Australia Bank, Macrobond

Consumption

Spending growth in Q1 so far has been slightly softer than Q4 and recent tariff developments have shaken consumer sentiment in early April.

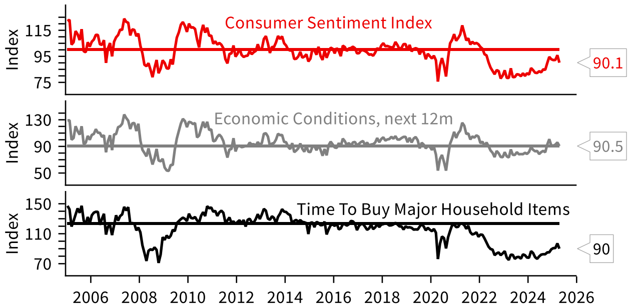
Nominal retail sales rose 0.2% m/m in February, following a 0.3% rise in January. These are fairly modest rises after a strong 1.3% q/q gain in the final quarter of 2024 and suggest that consumers remain somewhat cautious with their spending to kick start the year.

Insights from NAB spending data suggest that nominal retail sales growth over the March quarter was up 0.6% q/q, though broader consumption growth (including services) was stronger at 1.3% q/q with strength evident in essential services spending. March retail data may reflect a few factors, including the Australian Grand Prix (where large sporting events typically support catering services spending) and Cyclone Alfred (which may see an uptick in spending to replace household goods, though this is likely to also spill into April spending data).

However, concerns on the global backdrop have started to flow through to weaker consumer confidence. The Westpac-Melbourne Institute consumer sentiment measure fell 6.0% m/m in April. Those surveyed after 2 April saw a much greater fall in confidence, clearly in response to the larger than expected tariffs and the subsequent market reaction.

If this weakness in consumer sentiment is sustained, cautious consumers may opt to save more as real disposable incomes continue to improve. The household savings ratio remains low relative to history.

Westpac-MI Consumer Sentiment Measure



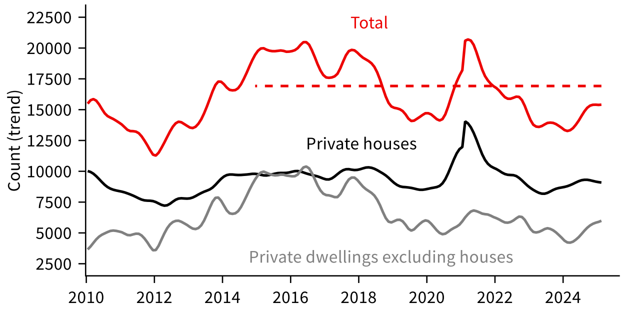
Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research, Macrobond

Housing

Building approvals flat but March dwelling prices continue to reflect improved housing sentiment.

Total building approvals were fairly flat in February (-0.3% m/m seasonally adjusted, 0.1% m/m in trend terms). Private sector house approvals were up over the month (1.0% m/m), driven by a noticeable uptick in NSW (5.1% m/m). However, total dwelling approvals remain below the decade average, and well below the level needed to hit the 1.2m housing accord target.

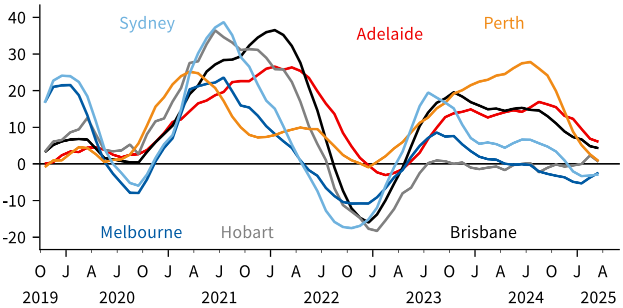
Dwelling approvals (trend)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond
Note: Dotted line shows the decade average for total dwelling approvals

National capital city dwelling prices rose again in March (0.4% m/m), likely still reflecting improved housing sentiment post the February RBA cut. Every capital city except Hobart saw an increase this month. Melbourne dwelling prices, which have lagged notably behind other capital cities since the pandemic, saw dwelling prices rise 0.5% m/m (on top of a 0.4% lift in February).

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



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

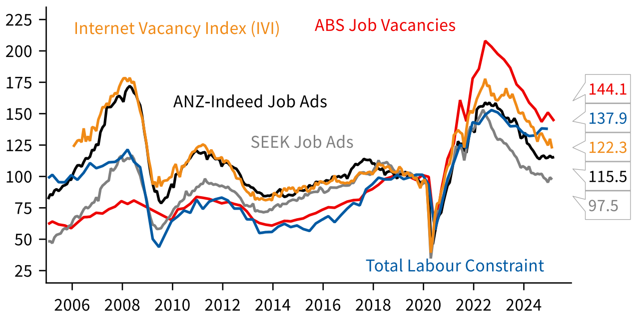
Labour market

The labour market remains healthy, but a weaker global backdrop means less risk of a sustained retightening this year.

The unemployment rate was steady at 4.1% in February, despite a surprise 50k fall in employment. The participation rate fell from 67.2% to 66.8%, though prior sharp drops in the participation rate have typically rebounded quickly in subsequent months.

Job vacancies data for the three months to February also support this assessment. Job vacancies fell 4.5% over the three months to February (largely reversing the uptick seen in November) but remain about 45% higher than pre-pandemic levels. Private sector job vacancies were 5.4% lower over the quarter, compared to a 3.0% q/q increase in public sector job vacancies. Other measures of labour demand including job ads have also stabilised at healthy levels despite the recent period of soft private sector growth. February data continues to support our assessment that the labour market remained healthy in early 2025.

Measures of labour demand

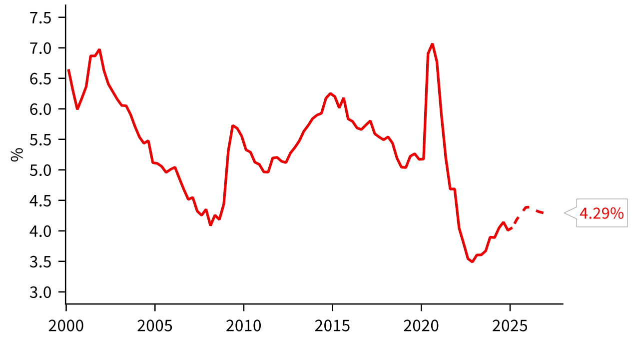


Source: National Australia Bank, Australian Bureau of Statistics, ANZ-Indeed, SEEK Australia, National Australia Bank, Jobs & Skills Australia, Macrobond

The recent thematic note '*RBA not yet convinced on lower NAIRU'* explores the RBA's assessment of full employment. We continue to assess an unemployment rate in the low 4s is consistent with the RBA's inflation target and expect the RBA will move towards that assessment over time. However, heightened global risks have likely shifted the focus away from the level of the NAIRU. Our view is that the r the labour market is currently healthy, rather than overly tight. If the RBA agrees with our assessment, then they are likely to approach the easing cycle in a more unconstrained manner.

Note that our labour market forecasts for 2025 have been slightly revised weaker this month, due to a modestly weaker GDP growth forecast, a consequence of indirect tariff effects. We now see the unemployment rate peaking slightly higher at around 4.4% in late 2025 before edging back down to around 4¼% at the end of 2026.

Unemployment rate forecasts



Source: National Australia Bank, Account in-house

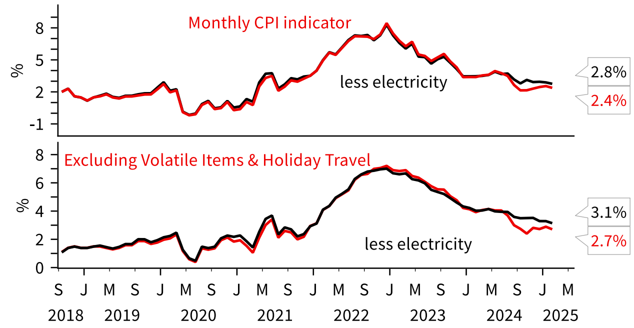
Inflation

We continue to expect trimmed mean inflation of 0.6% q/q in the March quarter, a better outcome than the RBA currently forecasts.

Annual trimmed mean inflation eased again in the February Monthly CPI indicator, falling a tenth from 2.8% to 2.7%. There was welcome progress through components of market services inflation, including insurance which saw year-to price growth ease from 11% to 7.6% in February.

New dwelling price inflation remained benign, and while rental inflation was a little higher than previous months it has slowed from its mid 2024 pace as it catches down to slower price rises in new rent agreements.

CPI indicator excluding electricity

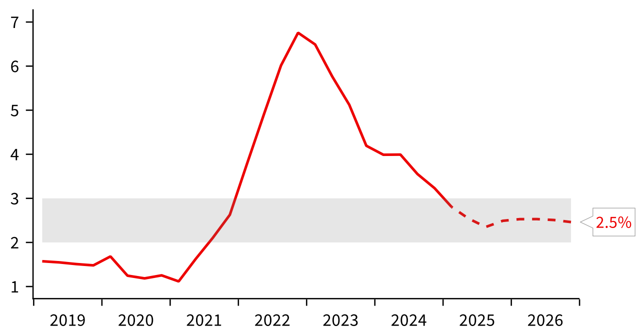


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

We continue to expect trimmed mean of 0.6% q/q (though the risk skews upward to the RBA's 0.7% q/q pick) and headline of 0.8% q/q. The specifics of the data will matter less to the RBA given rising global risks. In our view, ongoing benign quarterly prints should see annual trimmed mean inflation reach the midpoint of the RBA's target band in Q2.

Our assessment is that the starting point for core inflation ahead of tariff policy developments was consistent with inflation tracking sustainably near the RBA's target. We think higher tariff barriers on bilateral US trade is on net a disinflationary force for Australia as export capacity, especially through final consumer goods from China, is redirected away from the US.

Australian underlying inflation (%, y/y)



Source: National Australia Bank

Monetary Policy

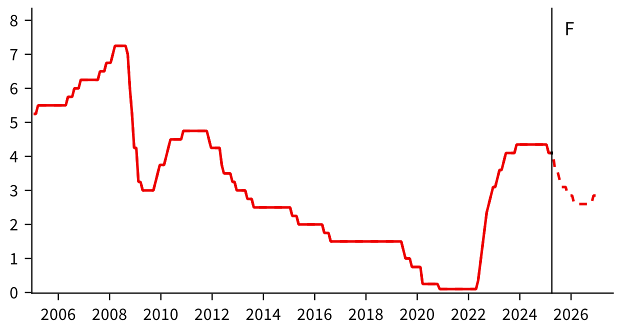
The weakening global backdrop has shifted the risks around inflation and growth to the downside, meaning the RBA will need to reconsider its policy stance.

We see the impact of global trade as weighing on the outlook for both growth and inflation in Australia. The upside risks to inflation over the next year or so have faded.

For the RBA, this means a restrictive policy stance is no longer appropriate and a return to neutral sooner will be needed to offset global headwinds and ensure that the gains in the labour market over recent years are not eroded.

Accordingly, we have revised our rate call and now expect the RBA to cut the cash rate by 50bps in May, followed up by 25bp cuts at the July and August meetings, taking the rate to 3.1% by mid-2025. Beyond that we expect the RBA to make follow-up cuts in November and February, taking the terminal cash rate to 2.6% in early 2026. We continue to see 'neutral' in the low 3% range and therefore after a period of modestly easy policy through much of 2026 we expect the RBA to normalise policy, retaining our longer run expectation of 3.1%.

RBA Cash Rate Target (%)



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

Indeed, the minutes from the April meeting suggests that the RBA were already cognisant of downside risks from trade disruptions before the announcement of reciprocal tariffs. They flagged: *"Members agreed that the implications of global developments for the Board's policy decisions would depend on their effects on Australian activity, inflation and employment. It was possible to envisage circumstances in which the impact was significant, and members acknowledged that it is important for monetary policy to be forward-looking."*

Risks to the outlook

Uncertainty remains elevated. Globally, the tariff ructions will likely continue in the near term – with a lack of clarity on the end state of the rate and breadth of tariffs across countries and sectors. While we are inclined to see 10% as the new floor for US tariffs across most countries, the starting point for US "negotiations" was much larger than expected. In addition, the policy goals of the US trade policy also remain unclear. For now, most of the US' trading partners have taken a negotiation approach to tariffs, but the risk of retaliatory trade policy remains, and China is an important exception.

Indeed, the tit-for-tat response between China (which is excluded from the 90 day pause) and the US so far has resulted in near prohibitive tariffs between the world's two largest trading partners. In terms of the US' plans for its broader set of trading partners, the 90-day pause does little to remove the uncertainty for business hiring and investment decisions beyond 3 months.

For China, we expect more fiscal support to be forthcoming, but do not see that fully offsetting headwinds to growth. China's domestic response is another area of uncertainty, and therefore the implications for our raw commodity export prices and volumes used in Chinese manufacturing remains uncertain, though the iron ore price has remained at high levels.

Typically, China has focused on domestic infrastructure and housing stimulus to support growth but oversupply in the Chinese property market and high debt levels are a constraint. Chinese authorities target growth around 5% this year. We forecast only 4.1%. Australian export volumes for our key commodities are generally at the lower end of the cost curve due to the quality of our minerals and our proximity to China, and so volumes will be insulated at least initially.

On trade impacts, though we do not compete directly on most products traded between the US and China, trade diversion will be important at the industry level and will be dependent on policy response of each country. We see the impact of a diversion of finished manufactured goods and construction inputs into the Australian market as disinflationary. Any disruption to Chinese agricultural imports to China from the US could present an opportunity to our exporters (including supporting the price of these exports).

Domestically, the magnitude of other indirect flow-on impacts also remains uncertain. The impact on consumer and business sentiment will be closely watched – Australian consumer confidence dropped sharply post the April 2nd announcement - though it will likely take some time for any weakness in consumer spending, business investment and hiring intentions to flow through to the data. The NAB quarterly business survey showed that 12-month investment intentions had eased back to around average levels in late 2024. Consistent with other forward-looking indicators of the labour market, the 12-month employment intentions series remained above average.

While there are rising global headwinds, the improving real income story domestically will continue to be a tailwind for the household sector, with tax cuts continuing to flow through the economy, inflation moderating and further interest rate cuts coming. Importantly, the starting point for Australia is favourable, with a low unemployment rate, inflation close to the RBA's 2-3% target band and ample scope for policy stimulus. This should provide some reassurance to businesses and households that Australia can navigate global challenges with some degree of success.

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	0.5	0.4	0.7	1.8	1.8
Dwelling Investment	-0.4	-0.2	-0.1	2.5	-1.8	-0.8
Underlying Business Investment	-1.3	0.0	-0.1	-3.4	-1.1	1.3
Underlying Public Final Demand	0.9	1.0	0.7	5.7	3.1	2.4
Domestic Demand	**0.5**	**0.5**	**0.5**	**2.1**	**1.9**	**2.2**
Stocks (Cont. to GDP)	0.3	0.0	0.0	0.1	-0.2	0.0
Gross National Expenditure	**0.6**	**0.4**	**0.5**	**2.3**	**1.9**	**2.2**
Exports	0.7	0.1	0.5	1.7	1.7	2.1
Imports	0.1	0.4	0.5	5.8	1.7	1.8
Net Export (Cont. to GDP)	0.2	-0.1	0.0	-0.9	0.1	0.2
Real GDP	**0.6**	**0.4**	**0.6**	**1.3**	**2.0**	**2.3**
Nominal GDP	1.6	0.6	0.8	3.7	3.5	4.7
Labour Market						
Employment	0.7	0.8	0.5	2.7	1.9	1.6
Unemployment Rate (Q-Ave, End of Period)	4.0	4.1	4.2	4.0	4.4	4.3
Wage Price Index (WPI)	0.7	0.9	0.9	3.2	3.4	3.2
Inflation and Rates						
Headline CPI	0.2	0.8	0.6	2.4	2.6	2.8
Trimmed-mean CPI	0.5	0.6	0.6	3.2	2.4	2.5
RBA Cash Rate (End of Period)	4.35	4.10	3.60	4.35	2.85	2.85
10 Year Govt. Bonds (End of Period)	4.48	4.38	4.20	4.48	4.00	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.

Group Economics

Sally Auld
Group Chief Economist
+(61 0) 422 224 752

Jacqui Brand
Executive Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+(61 0) 457 517 342

Australian Economics

Gareth Spence
Head of Australian Economics
+(61 0) 422 081 046

Michelle Shi
Senior Economist
+(61 0) 426 858 831

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

Thao Nguyen
Economist – Data & Analytics
+(61 0) 451 203 008

International Economics

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Skye Masters
Head of Research
Corporate & Institutional Banking
+(61 2) 9295 1196