

# The Forward View Australia:

## Firmer consumer and steady outlook

### NAB Economics



## Overview

- Our labour market and inflation forecasts are unchanged this month, but we have made a small upward adjustment to our Q2 GDP growth forecast, due to stronger household consumption.
- 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 risk to the activity and labour market outlook, though there is little evidence of an impact so far in domestic data.

**The domestic data flow over the past month has provided greater confidence in our forecast of a gentle acceleration in GDP growth in coming quarters.** June activity data showed a pickup in household spending, a solid rise in building approvals and a decent lift in credit growth. Growth in house prices has started to accelerate in Q2, and the composite PMI for Australia has lifted almost 3 points so far this year. The NAB business survey has improved in recent months, with the July survey showing better outcomes in previously weak sectors and regions (retail, construction and Victoria). 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 1.8% 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. Shelter components were a key driver of earlier declines in inflation but have likely troughed. A faster pickup is a risk, but 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 inflation to settle around 2.5% from H2 2025.

**Risks to our forecasts for the Australian economy remain balanced.** On the downside, we are mindful of elevated global risks to activity and the likelihood that additional US tariffs would be disinflationary for Australia. The upside stems from a stronger-than-expected run of domestic data. 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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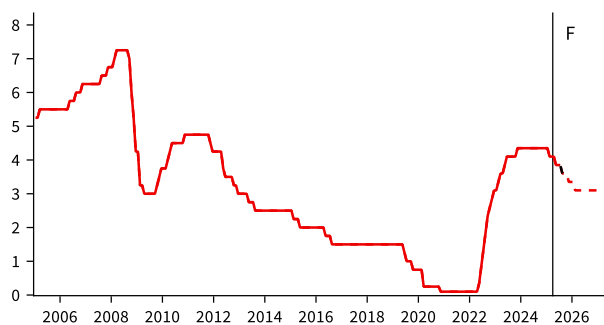
## Key Economic Forecasts

	2023	2024	2025(f)	2026(f)
Domestic Demand (a)	2.9	1.9	2.1	2.3
<b>Real GDP (annual ave)</b>	<b>2.1</b>	<b>1.0</b>	<b>1.6</b>	<b>2.2</b>
<b>Real GDP (year-ended)</b>	<b>1.5</b>	<b>1.3</b>	<b>1.7</b>	<b>2.2</b>
Employment (a)	3.4	2.3	2.1	1.8
Unemployment Rate (b)	3.9	4.0	4.4	4.2
Headline CPI (b)	4.1	2.4	2.9	2.8
Trimmed-mean CPI (b)	4.2	3.2	2.6	2.5
RBA Cash Rate (b)	4.35	4.35	3.35	3.10
\$A/US cents (b)	0.68	0.62	0.68	0.73

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

## Chart 1: RBA Cash rate forecast

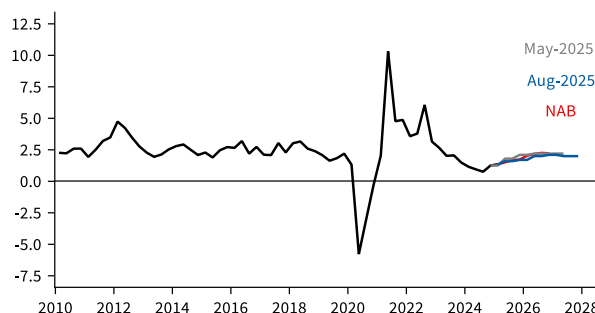
RBA Cash Rate Target and NAB Forecast



Source: National Australia Bank, RBA, Macrobond

## Chart 2: GDP forecasts

Australian Gross Domestic Product



Source: National Australia Bank, ABS, RBA

## Consumption

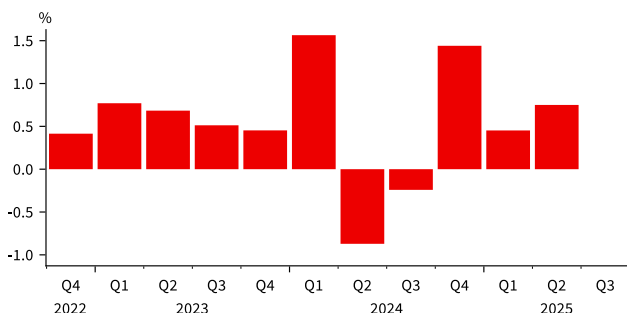
### Household spending data points to a continued recovery in consumption growth in Q2, despite a slower than expected start to 2025.

The ABS's monthly household spending indicator (MHSI) grew by 0.5% mom in June (in nominal terms), after 1% in May. In real terms, the MHSI rose 0.7% qoq in Q2 - a solid quarterly increase. Accordingly, we have revised up our expected growth for consumption in the Q2 national accounts to 0.5% qoq. While the MSHI implies a higher outcome, it covers only around 60% of the full household consumption measure – with the remaining 40% likely to have grown more slowly.

Overall, we expect this pace of growth to be maintained in H2 2025, which would see consumption growth accelerate to 1.9% yoy by Q4. This is broadly in line with the RBA's current August SoMP forecast of 1.8% yoy.

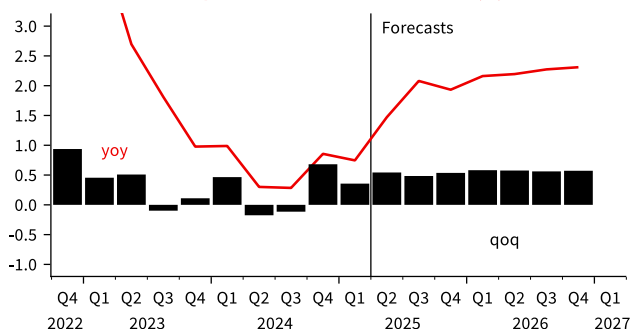
For the first month of Q3, the [NAB Data Insights](#) measure of household spending points to a 0.7% mom rise in July. This is a slight slowing compared to previous months, 0.9% mom in June and 1.3% mom in May. Retail sales growth was slower in July at 0.2% (0.9% in June). Spending on services grew strongly at 1.4% and goods spending was stable through the month.

#### Monthly Household Spending Growth\* (Quarterly volumes, %)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond  
\* Growth of quarterly chain volumes seasonally adjusted.

#### NAB Real Consumption Growth Forecasts (%)

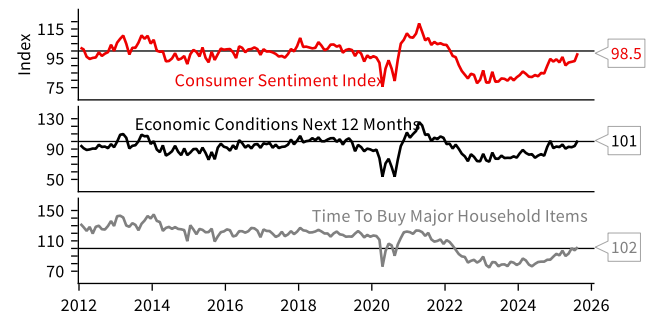


Source: National Australia Bank, ABS

Important factors that will continue to impact the outlook on consumption are population growth and household savings rates. Since 2022 total household consumption expenditure has been driven by population growth as consumption per-capita has flatlined. In Q1 the household savings ratio rose to 5.2% from 3.9% in the previous quarter as improvements in

household incomes did not translate into stronger consumption growth in the quarter.

#### Westpac-MI Consumer Sentiment Measure



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

In addition, consumer spending and saving decisions amid elevated global uncertainty will be important. The Westpac-MI consumer confidence index improved in August, rising 5.7% to 98.5. Consumer confidence has not been at 100 for 3.5 years. Respondents' beliefs about economics conditions over the next 12 months rose 7.6% mom to 101.2, well above the long run average.

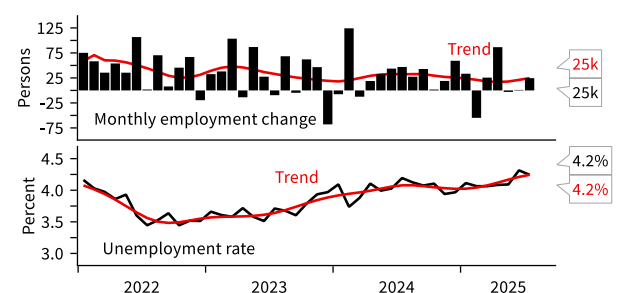
## Labour market

### 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%. Employment rose around trend at 25k in the month, and the unemployment rate was also supported by a 10k decrease in unemployed persons.

This result supports previous assessments that the June data did not represent a rapid cooling in the labour market. Our view is that based on a range of indicators that the labour market is showing some gradual cooling which is not fully reflected in the unemployment rate.

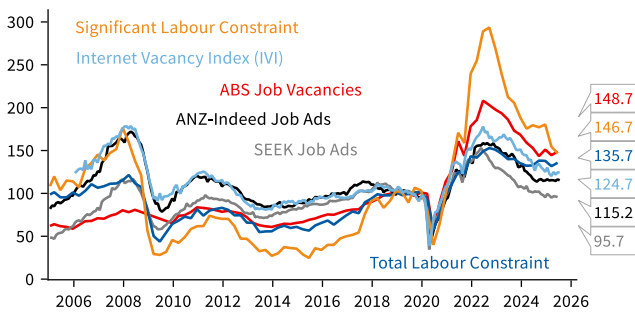
#### Labour market indicators



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

Measures of demand in the labour market have broadly continued to move sideways or ease. The ANZ-Indeed job ads measure fell 1% mom in July following a downwardly revised 1.6% mom rise in June. In the NAB business survey the employment index slid back below the long-run average to +1 index points, where it was in May. The May job vacancies supported this data sitting 2.8% below a year prior despite rising by 10k from the previous quarter.

### Measures of labour demand

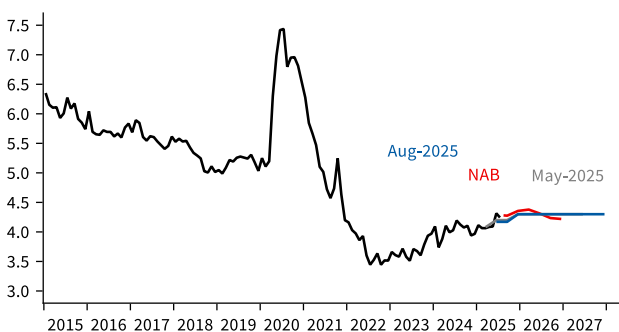


Source: National Australia Bank, Australian Bureau of Statistics, ANZ-Indeed, SEEK Australia, National Australia Bank, Jobs & Skills Australia, Macrobond

The wage price index (WPI) came in at consensus, rising 0.8% qoq in Q2. In year-ended terms the WPI came in at 3.4%, only 0.1ppt above both the August SoMP and Consensus. Strength in the public sector WPI (+3.7% yoy) was largely attributed to backdated pay rises coupled with regular pay increases from state based EBA's coming into effect. This Q2 result has not materially changed our outlook of wages growth which we expect to slow toward 3% over the next 12 months.

Our assessment remains that risks to the labour market are skewed to the downside given continued profitability pressures faced by businesses and an expected cooling in non-market employment gains. We forecast the unemployment rate will rise to 4.4% by the end of 2025 and settle around 4¼% longer term.

### RBA Unemployment Rate Forecasts



Source: National Australia Bank, RBA

## Businesses

**Business conditions held on to most of the prior month's gains in July, while confidence lifted further.**

Business conditions eased in the month, with rises in retail, construction and wholesale offset by declines across the other industries. Overall, conditions remain strongest in mining and both consumer and business services, while retail and wholesale are weaker.

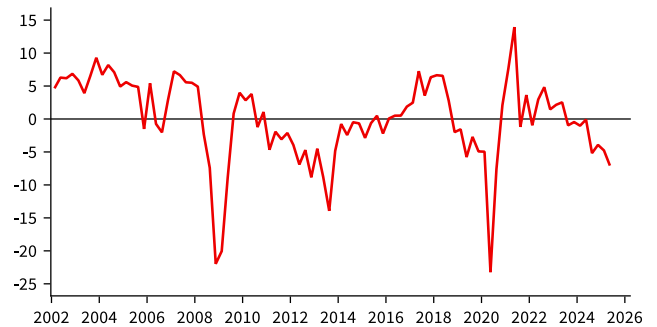
The trend higher in conditions over recent months points to improving growth in the economy. However, the survey also pointed to an uptick in price pressures in the month with both input and output cost growth ticking up.

In trend terms, purchase costs remain above average in all industries except manufacturing. Wholesale, recreation & personal services, retail and finance, business & property are furthest ahead of their averages.

Similarly, labour costs growth is above average in all industries except mining and construction, led by strength in recreation & personal services.

Input cost pressures have continued to outpace price growth over recent months. This has been reflected by a further reported weakening in margins in the NAB Quarterly Business survey.

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



Source: National Australia Bank, National Australia Bank, Macrobond

Despite slow private sector growth over recent years, capacity utilisation remains above average even after declining in the month, and is above average in 4 out of 8 industries. Notably, it remains most above average in the recreation & personal services industries which capture health, care and education sectors.

We expect underlying business investment will rise by around 1% qoq in Q2 (with the national accounts released in early September) following small gains in each of the past two quarters. Business investment growth has slowed as the impact of tax and pandemic-related stimulus has faded. That said, despite a small decline in Q1, machinery & equipment investment remains well above pre-pandemic levels. Buildings and structures investment supported growth in Q1 with engineering investment outpacing softer growth in non-residential buildings.

Going forward it is likely that both engineering and non-residential building investment will remain supported by the broader trends in the economy of investment in renewables as well as an ongoing rise in expenditure on datacentres.

More broadly, a sustained improvement in business investment will be required over the next 18 months in order to see GDP to return to trend. We pencil in an ongoing recovery in business investment growth and see growth of around 3% (compared with the RBA's latest expectation of 2.0%) over 2026. Next week's investment partials as well as an updated set of expectations for 2025/26 from the ABS Capex Survey will be an important marker for how business investment is tracking against a backdrop of heightened global uncertainty and ongoing cost pressures for business amid the ongoing recovery in the consumer sector.

## Foreign exchange

**We have slightly lowered our AUD/USD forecasts in the near term, but still expect the Aussie to appreciate over the next 18 months.**

We now see the AUD/USD reaching US68c (was US70c) by the end of the year and then rising to around US73c over 2026. This is largely predicated on a cyclical weakening in the USD alongside a longer-term trend decline. Our outlook for the other Australian cross rates is largely unchanged.

## Housing

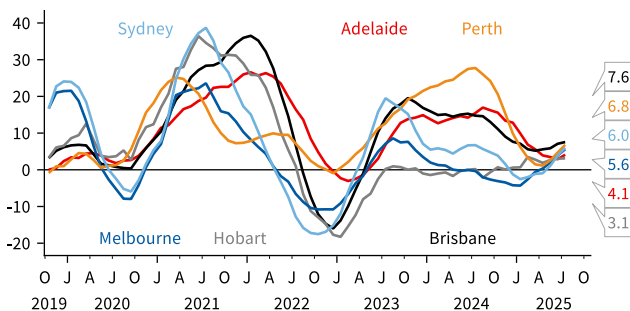
### July housing market data show a continuation of the trends seen in recent months.

According to Cotality (formerly CoreLogic) data, the 8-Capital City dwelling price index rose by 0.6% mom in July, led by gains in Perth (which rose by a strong 0.9% mom), followed by Brisbane and Adelaide at 0.7% mom. Both Sydney and Melbourne recorded moderate gains (0.5% and 0.4%, respectively). Weekly data for August suggests that overall capital city growth will broadly maintain this momentum, with a slight slowing in Adelaide price growth offset by another strong outcome for Perth, while Sydney price growth also looks to have accelerated slightly in monthly terms.

More broadly, 6 month ended growth continues to reflect a convergence of prices across the capitals with some slowing across the smaller capitals, while Sydney and Melbourne price growth has accelerated. With prices having outpaced our forecasts over recent months, we have lifted our forecast for the 8-capital city dwelling price index to 6% over 2025 (was 3.5%) and still expect growth of around 6% over 2026.

Though building approvals continue to trend higher, the imbalance of supply and demand will continue to support prices across the country (including regional areas) alongside falling interest rates which support borrowing power in affordability constrained markets.

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



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

The rental market will also likely remain tight. Cotality vacancy rates continue to show vacancies across the capitals tracking below 2% and remaining broadly around their lows over recent year. Vacancies remain lowest in Adelaide, followed by Perth and Melbourne.

In 6-month annualised terms, rents growth is highest in Brisbane and Perth, follow by Sydney, Adelaide and Melbourne.

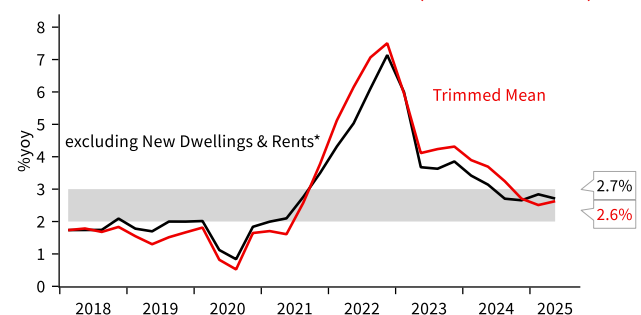
## Inflation

### 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.

Trimmed mean inflation was 0.6% qoq and 2.7% yoy in Q2 and the economic backdrop is consistent with inflation sustaining around the midpoint of the RBA's target looking forward.

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, but that gradual cooling appears as a particularly sharp drop in quarterly trimmed mean outcomes from mid-2024 due to the influence of housing components.

### Trimmed Mean Inflation and Shelter (6m annualised)



\*Calculated by NAB using EC level data and a reweighted basket that excludes New Dwellings & Rents  
Source: National Australia Bank, ABS

We do not look for further disinflation from shelter categories. Prices in measured New Dwelling purchase costs were rising again in Q2 after earlier declines, and timely indicators of rents have stabilised. Neither will return to the exceptionally elevated rates of 2022, but the contribution of these shelter categories, together worth about 15% of the CPI, has troughed and is likely to increase a little over the next couple of years.

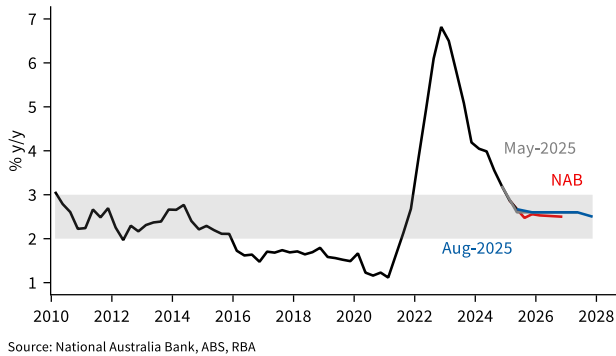
Encouragingly, components of inflation including many services prices that the RBA tends to look at as an indicator of domestic inflationary pressures have been benign and are expected to remain so. Market services inflation (excluding travel, telco and rents) over the past 6 months has been a little lower than the last time inflation sustained near target.

A reacceleration in food and grocery inflation is not expected to be sustained. Stronger durable goods inflation in Q2 is also not expected to derail the outlook, as it largely reflects the earlier depreciation of the Australian dollar. We continue to assess that, on balance, the disruptions from higher US tariffs will have a small net disinflationary impact for Australia, especially for finished consumer goods.

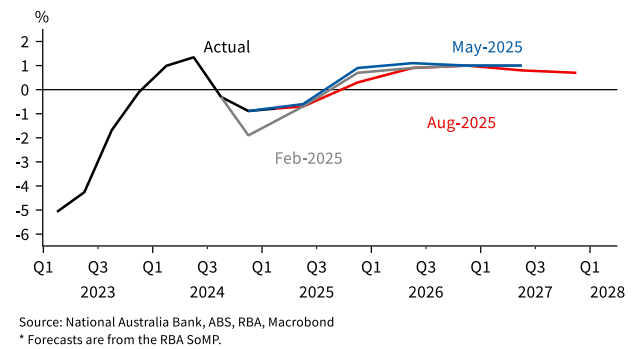
Beyond component level drivers, our broader macro assessment is that the economy is near balance, and an ongoing pickup in growth towards trend means it will stay there. The effect of electricity subsidies will see headline inflation lift temporarily to around 3% by early 2026, but we expect underlying inflation to remain near target.



### Trimmed Mean Inflation Forecasts



### Productivity Growth Forecasts\*, Year-ended



## 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.**

Unlike the July RBA meeting, the RBA delivered as expected in August. The cash rate was cut by 25bp to 3.6% as the RBA noted further evidence of 1) core inflation continuing to decline towards the mid-point of the 2-3% target band; and 2) a mild easing in domestic labour market conditions.

A new set of forecasts were provided in the updated quarterly *Statement on Monetary Policy*, but there were minimal changes relative to the forecasts provided in May. Indeed, the RBA outlook now appears very similar to our own, with core inflation settling close to the mid-point of the target band, the unemployment rate tracking sideways in the low 4s and GDP growth accelerating gently back towards trend growth.

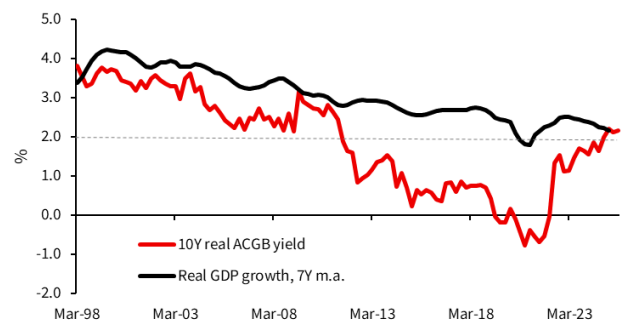
The assumptions underpinning these forecasts include a further ~50bp of easing in coming quarters, similar to our view on the policy rate. This assumption implies that all else equal, were the easing not to be delivered, inflation would be below the mid-point of the target band and the unemployment rate above NAIRU.

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.

The Governor had foreshadowed in a speech in July that the productivity assumptions were under review. So one development of note was a downgrade in the RBA's medium term productivity assumptions (see Chart).

The revisions have no implication for the output gap nor inflation, because the forecast for domestic demand growth was also revised down too (based on the notion that households and firms have adjusted to a weaker productivity and real incomes outlook and altered their consumption and investment behaviour accordingly). The RBA now sees trend GDP growth for Australia at 2%, not too far from where AUS 10Y real yields are currently tracking (see Chart). It appears that after a decade of low and sometimes negative real yields, the post-COVID repricing in global sovereign bond markets has realigned longer-term real yields with trend-like rates of GDP growth.

### Real yields and GDP growth converging ~2%



Source: Bloomberg, RBA and National Australia Bank.

We see risks to our rate forecast as broadly balanced. The key upside risk to our expected rate track continues to be a cautious RBA combined with a tight starting point for the labour market, particularly as private sector growth is expected to pick up. 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.

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 table

	% Growth q/q			% Growth y/y		
	Q1-25	Q2-25 (f)	Q3-25 (f)	2024	2025 (f)	2026 (f)
<b>GDP and Components</b>						
Private Consumption	0.4	0.5	0.5	0.9	1.9	2.3
Dwelling Investment	2.6	0.9	0.7	3.5	5.0	1.8
Underlying Business Investment	0.3	1.0	0.4	-2.1	3.0	2.9
Underlying Public Final Demand	-0.4	1.0	0.5	5.3	1.5	1.6
<b>Domestic Demand</b>	<b>0.2</b>	<b>0.8</b>	<b>0.5</b>	<b>2.2</b>	<b>2.1</b>	<b>2.3</b>
Stocks (Cont. to GDP)	0.2	0.0	-0.1	0.1	0.0	0.0
<b>Gross National Expenditure</b>	<b>0.3</b>	<b>0.8</b>	<b>0.5</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>
Exports	-0.8	0.4	0.5	1.3	0.6	1.9
Imports	-0.4	1.1	0.6	6.4	1.9	2.1
Net Export (Cont. to GDP)	-0.1	-0.1	0.0	-1.1	-0.3	0.0
<b>Real GDP</b>	<b>0.2</b>	<b>0.4</b>	<b>0.5</b>	<b>1.3</b>	<b>1.7</b>	<b>2.2</b>
Nominal GDP	1.4	0.6	1.1	3.7	4.4	4.6
<b>Labour Market</b>						
Employment	0.4	0.7	0.3	2.3	1.7	1.9
Unemployment Rate (Q-Ave, End of Period)	4.1	4.2	4.3	4.0	4.4	4.2
Wage Price Index (WPI)	0.9	0.9	0.9	3.2	3.5	3.2
<b>Inflation and Rates</b>						
Headline CPI	0.9	0.8	0.6	2.4	2.9	2.8
Trimmed-mean CPI	0.7	0.6	0.6	3.2	2.6	2.5
RBA Cash Rate (End of Period)	4.10	3.85	3.60	4.35	3.35	3.10
10 Year Govt. Bonds (End of Period)	4.38	4.17	4.25	4.48	4.25	4.05
\$A/US cents (End of Period)	0.63	0.66	0.66	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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