The Forward View Australia: Oct 25
Torn: Between a Hold and a Hard Place
NAB Economics and Markets Research

Overview

- Data over the past month points to some challenges for the RBA in sticking the soft landing.
- The August CPI indicator signals an uncomfortably strong rise in Q3 trimmed mean inflation of 0.9% qoq (with upside risk).
- The unemployment rate spiked in August to its highest level since late 2021; we are looking to next month's data to confirm the trend, or not.
- We recently pushed our rate call out on the back of higher inflation in the quarter, though still expect the next move to be down. At face value the labour force data skews the risk to an earlier cut.

Data over the past month suggests the economy has maintained its momentum in Q3 after accelerating in H1 2025. The NAB Monthly Business Survey shows that both business confidence and conditions consolidated the improvement seen through mid-2025. In addition, our transactions data points to a solid rise in spending (in nominal terms) in September, consistent with another solid quarter for consumption growth.

However, the monthly CPI indicator (an upward surprise) and the labour force data (a downside surprise) released over the past month pose a challenge for the RBA. If the Q3 trimmed mean CPI prints in line with our forecast (0.9% qoq), we think the RBA will remain cautious (and on hold) in November, despite the recent uptick in the unemployment rate. In trying to assess the true demand/supply capacity of the economy in real time, the RBA will take some signal from the upside surprise in the market services components of the CPI and will require more time to gain the confidence that inflation will settle at around the middle of the target band. However, a rising unemployment rate and a build-up in spare capacity in the economy would change this picture and upcoming unemployment prints will be important in assessing this. We acknowledge the risk is to a -being delivered earlier than our current May projection.

That said, we have not changed our forecasts for growth (returning to trend through 2026) and the labour market (unemployment peaking at just below 4.5% in quarter average terms). Inflation is expected to be slightly higher in the near-term but ease back towards 2.5%, largely keeping the soft landing intact.

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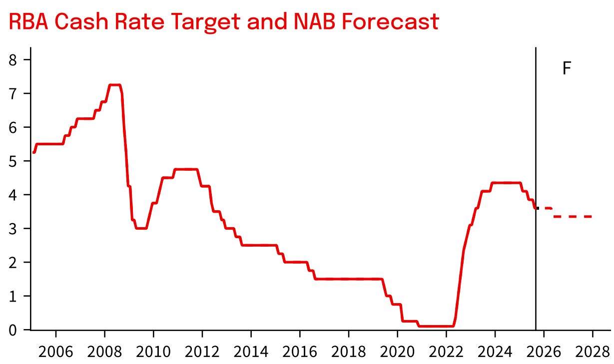
Key Economic Forecasts

	2024	2025(f)	2026(f)	2027(f)
Domestic Demand (a)	2.0	2.0	2.4	2.3
Real GDP (annual ave)	**1.0**	**1.8**	**2.3**	**2.3**
Real GDP (year-ended)	**1.3**	**2.0**	**2.3**	**2.3**
Employment (a)	2.3	2.1	1.8	1.7
Unemployment Rate (b)	4.0	4.3	4.2	4.3
Headline CPI (b)	2.4	3.4	3.0	2.5
Trimmed-mean CPI (b)	3.2	3.0	2.6	2.5
RBA Cash Rate (b)	4.35	3.60	3.35	3.35
$A/US cents (b)	0.62	0.67	0.71	--

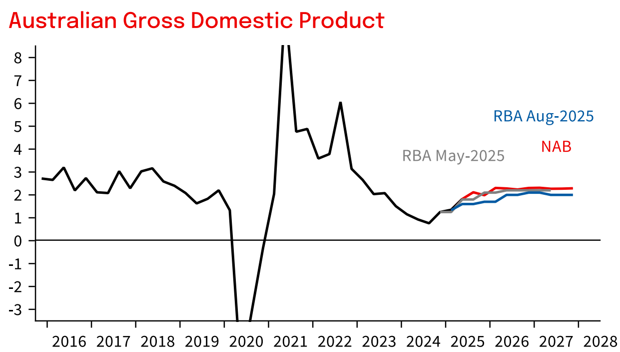
(a) annual average growth, (b) end-period

Chart 1: RBA Cash rate forecast



Source: National Australia Bank, RBA, Macrobond

Chart 2: GDP forecasts



Source: National Australia Bank, ABS, RBA

23 October 2025 | Authors: Sally Auld, Gareth Spence, Taylor Nugent, Michael Hayes, Jessie Cameron

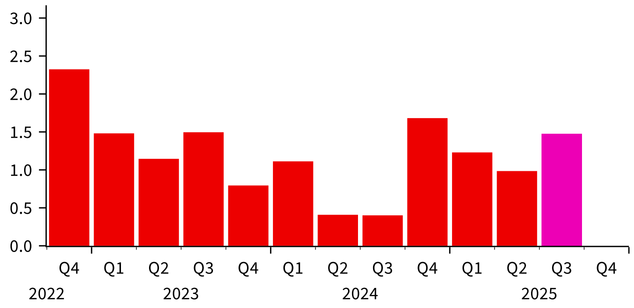
Consumption

Household consumption will likely post another solid gain in Q2.

The ABS's monthly household spending indicator (MHSI) slowed in August (0.1% mom; reported in nominal terms), after stronger gains in prior months (0.5% and 0.4% mom in June and July, respectively). Our transactions data points to a 0.9% mom rise in September, which implies a quarter average increase of around 1.5% in nominal terms and 0.6% qoq in real terms. This is in line with our Q3 forecast for household consumption in the national accounts, which would see the year-ended rate rise to 2.5%.

The growth in the August MHSI was driven by continued strength in transport services (0.8% mom) as well as hotels, cafes and restaurants spending (1.4% mom), albeit at a slower rate to the prior month. Spending on alcohol and tobacco continued to fall (-0.9% mom) to be 19% lower over the past year.

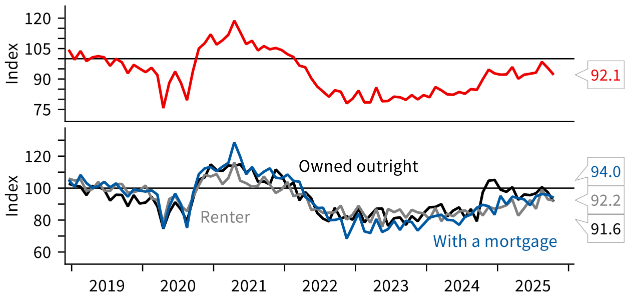
Monthly Household Spending Indicator (Quarter average, %)



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

With disposable income growth firmly back into positive territory and the savings rate having stabilised, consumer confidence will be important for future spending/saving decisions.

Australian Consumer Sentiment
By Home Ownership



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

The W-MI measure highlights the risk around the durability of consumption growth and likely ongoing price sensitivity of consumers. Consumer sentiment declined further in October (-3.5% mom), erasing recent gains and returning to the level observed 6-months prior. This monthly decline was driven by a deterioration in the outlook for family finances (-9.9% mom) as well as the short-term economic outlook (-2.5% mom). A paring back in interest rate cut expectations likely contributed to the fall following an upside surprise to the August CPI indicator. However, the deterioration in consumer confidence was more modest for households with a mortgage. Despite the recent weakness, consumer sentiment remains 18% higher from its low in late 2022.

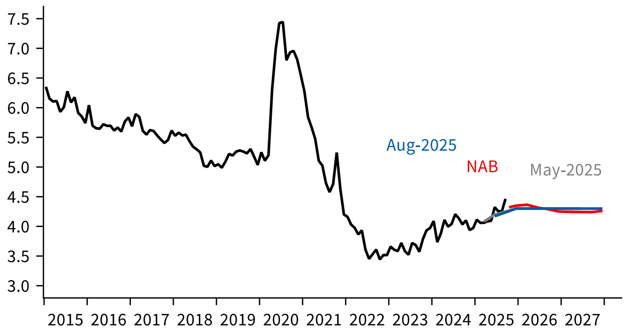
Labour market

The unemployment rate rose to 4.5% in September and has now increased by 0.4ppts since May 2025.

In quarter average terms, the unemployment result was in line with our 4.3% forecast (and marginally higher than the RBA's August SoMP forecast of 4.2%). While the labour force data can be volatile on a month-to-month basis, the sharp rise in September does point to the risk of a deterioration in the labour market. However, further data will be needed to confirm if the latest rise is a trend. We still view an unemployment rate of 4¼% as broadly sustainable, and the headline figure was consistent with this, tracking just above 4% for the greater part of a year.

Employment growth has clearly slowed since mid-to-late 2024. It has tracked below 15k per month through mid-2025 in trend terms, although this accelerated to around 20k per month in September. Population growth has also slowed from its peak but has stabilised at an elevated level. This suggests that absent a further easing in the participation rate, the risk remains to the upside for the unemployment rate. How much of the acceleration in private sector activity growth flows through to labour demand will be an important dynamic over coming months.

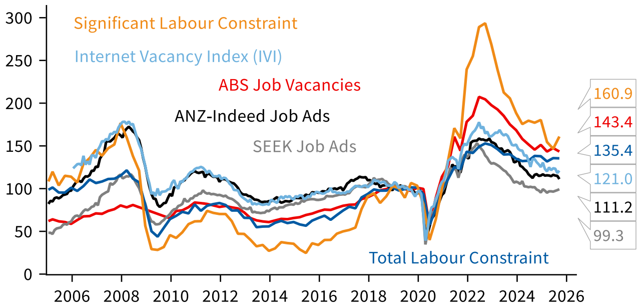
RBA Unemployment Rate Forecasts



Source: National Australia Bank, RBA

Forward indicators of labour demand continue to track broadly sideways after easing from their highs through 2023. They support the view that even though labour market conditions may be easing, labour demand growth remains positive. In terms of residual tightness, the Q3 NAB Quarterly Business Survey shows that the reported difficulty in finding suitable labour remains elevated.

Measures of labour demand



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

Businesses

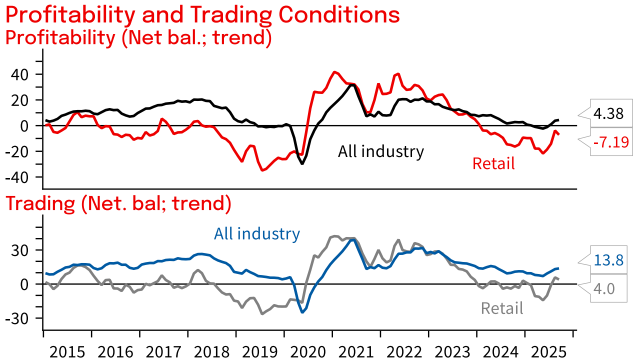
The NAB Monthly Business Survey showed a consolidation of both confidence and conditions, to be broadly around average levels in September.

Outside of mining, business conditions generally remained highest in the services sectors and weakest in retail, wholesale and manufacturing. There has been some improvement in retail conditions alongside the pick-up in household spending growth through H1 2025; trading conditions are now back into positive territory. However, profitability remains weak in the sector, especially in the context of the survey-wide average.

The monthly survey also shows that growth in input costs (labour and materials) continues to outpace output prices. While there remain signs of ongoing margin compression, the NAB Quarterly Survey showed some evidence of a slight easing.

Indeed, the NAB Quarterly Business Survey continued to show that the two largest issues affecting confidence were wage costs and pressure on margins.

Profitability and Trading Conditions



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

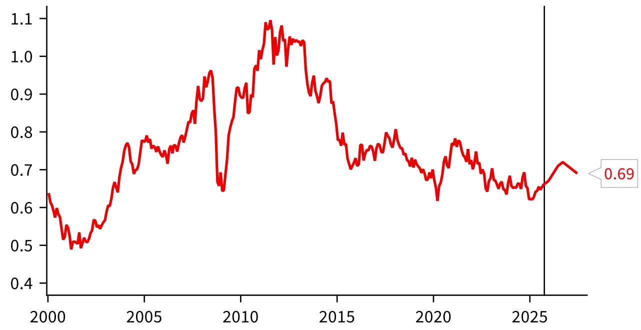
Foreign exchange

While our AUD/USD forecast has been revised modestly lower, the Australian dollar is still expected to appreciate over the remainder of this year and in 2026.

NAB's FX strategy team recently revised their AUD/USD forecast lower [See FX Strategy Forecast Update]. The key driver of the revision has been a reassessment of the USD which is now expected to depreciate by less, as the 'sell America' narrative has subsided.

The Australian dollar is still forecast to appreciate from its current level of US0.65c to US0.67c by the end of 2025 (prev. US0.68c) and move above US0.70c over the next year, peaking at US0.72 by Q3-26 (versus previous forecast peak of US0.75 in mid 2027).. The main driver of USD weakness is a further 100bps of interest rate cuts by the Fed versus only more rate cut from the RBA, resulting in further compression of shorter-end yield differentials..

NAB Forecasts, AUD/USD



Source: National Australia Bank, Account in-house

Housing

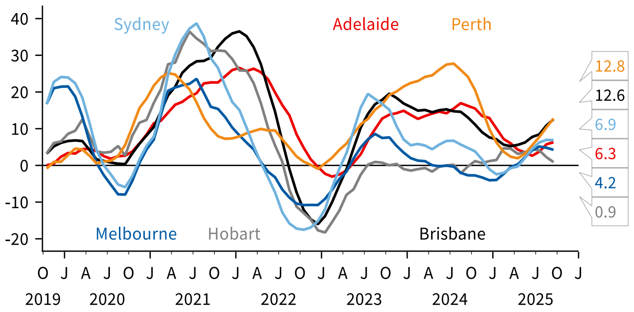
House prices delivered their largest monthly gain since October 2023 in September, while rents growth continued its upward trend through 2025.

Australian dwelling prices rose 0.8% mom and 9.0% in three-month annualised terms in September. Dwelling price gains were broad-based across all states and types of dwellings (0.9% and 0.7% mom for houses and units, respectively). Given the remaining supply constraints in the market, we believe that prices will rise by around 7.5% over 2025. This is despite the heightened interest rate uncertainty amid persistent demand and the lack of supply coming to market, even as commencements rise.

Brisbane and Perth continue to outperform the other major capitals, with prices increasing between 77% to 83% over the past 5 years. At the same time, house prices in other capitals have grown between 17-39%. Melbourne in particular lagged the growth seen in other capitals, growing 0.5% mom and remaining around 3% below its March 2022 all-time highs.

Advertised rents growth remained steady at 0.5% mom, continuing the upward trend seen since late 2024, to be 4.3% higher in year-ended terms. The strength in rents has been supported by persistently low vacancy rates, which have been trending down over 2025 in most capital cities.

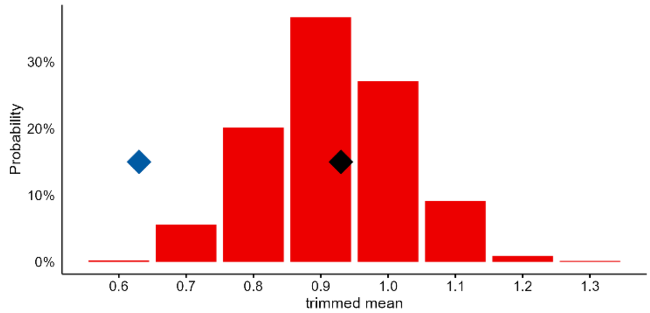
CoreLogic Hedonic Dwelling Price Growth by Capital City (6-month-ended Annualised,%)



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

NAB trimmed mean inflation forecast distribution

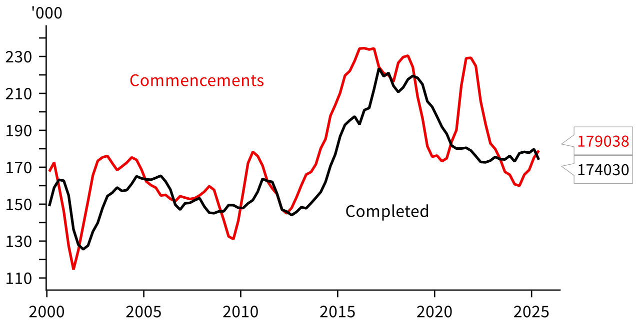
Blue diamond = RBA August forecast; Black diamond = NAB point forecast



Source: National Australia Bank, ABS
*Probability of each outcome when rounded to 1 decimal place
Calculated based on random forecast errors to remaining component level uncertainty.

On the supply-side, Q2 building activity data showed that completions fell and commencements held onto their upward trend on a 12-month rolling basis, to be around 13% higher than 18-months ago. The number of dwellings currently under construction increased in the third quarter after easing over 2023-24 as the number of completions slowed. Challenges in getting new supply to market remain, and completion times for dwellings remain elevated.

Dwelling Approvals and Completions, Rolling Annual



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

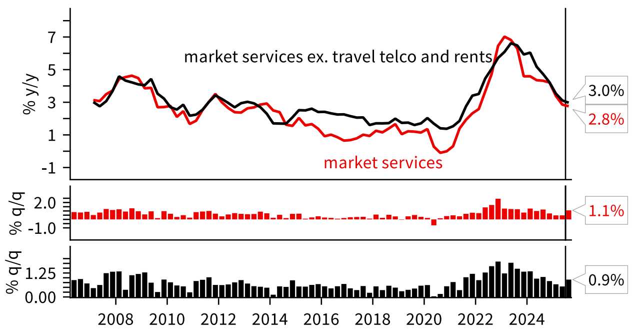
Inflation

We expect Q3 CPI to confirm that underlying inflation was materially higher than its recent pace.

The higher Q3 headline inflation print was already expected to be driven by the large upward contribution from electricity prices. However, compared to our forecast and information in the Monthly CPI Indicator, faster price growth looks to have been broad-based. Consequently, we expect the RBA's preferred quarterly trimmed mean inflation measure to print at 0.9% qoq. Analysis based on historical volatility in the yet-to-be-reported components of the quarterly inflation outcome suggest the trimmed mean is unlikely to print near the RBA's August forecast (CPI Preview – A warning shot the RBA won't ignore).

Two things stand out at the component level. First, downward pressure on inflation from housing components has run its course and homebuilding costs may be reaccelerating a little more quickly than expected. Second, much of the breadth in inflation in the quarter stems from hotter services inflation.

Market Services Inflation*

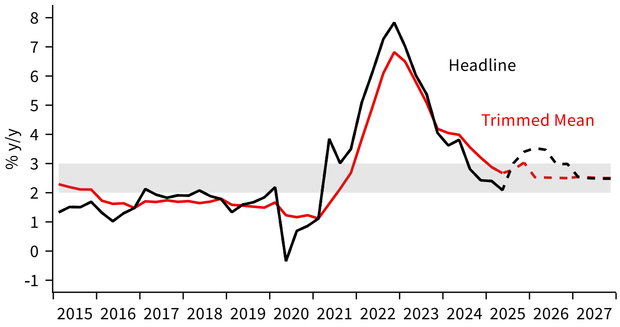


Source: National Australia Bank, Macrobond

Looking further ahead, headline inflation is being impacted by the unwind of electricity rebates and will peak near 3½% in early 2026. For underlying inflation, the year-ended trimmed mean will be closer to 3% for a couple of quarters, with some modest upward revisions to our near term quarterly trimmed mean inflation profile.

Our revised forecast reflects indications that domestic inflation pressures remain a little stronger than we had previously thought. Capacity utilisation has increased in recent months and input cost pressures for many firms remain somewhat elevated. Stronger profitability and trading conditions relative to the first half of the year are consistent with some easing in pressure on margins. Although we remain cautious in taking too much signal from these developments and note that final prices for consumers facing services industries in the NAB Business Survey have eased a little further in recent months. Labour market dynamics are not consistent with a sustained upswing in domestic inflation pressures.

Inflation Forecasts



Source: National Australia Bank, ABS, RBA

Monetary Policy

We expect the RBA to remain on hold in November, though the risk has skewed to an earlier cut than May.

The recent flow of data presents a challenge for the RBA, with insufficient data to confirm a trend of higher inflation nor a weaker labour market. Nonetheless, an unemployment rate at 4.5% presents a materially different picture when compared to a few months prior, where the unemployment rate had remained stable for an extended period at just above 4%.

On one hand, the challenge of a soft landing for the economy (i.e. not driving a larger cycle in the output gap or spare capacity in the labour market) is that there *cannot* be much tolerance for upward surprises to inflation nor growth. While inflation is a lagging indicator, uncertainty over the supply capacity of the economy means it remains a key indicator of capacity constraints in the economy – particularly for the market services components.

In addition, the tightness in the housing market will persist for some time, meaning both rents and demand for new dwellings will remain high. NAB Survey indicators such as Capacity Utilisation and the Difficulty Finding Suitable Labour also point to ongoing tightness in the economy, with the former above average and trending higher over recent months and the latter stabilising over the past 6 months at a high level. On cost pressures, the NAB Survey points to some pressure from both input and labour costs growth. This is consistent with the notion that while wage growth has eased from its post-pandemic peak, unit labour costs growth remains high, reflecting weak productivity growth.

The picture on the activity side is more mixed. Private sector growth has accelerated since late 2024, though volatility makes it difficult to get a clear read of the underlying pace of consumption growth. Our best guess is that household spending is currently tracking at ~2.0% yoy. Other components have been mixed, dwelling investment has risen over the year but was broadly unchanged in Q2 and business investment growth has slowed. Key supports for the private sector have been an improvement in real incomes and some recovery in household savings.

Our assessment of the balance of risks around the recent data implies that the RBA can afford to wait for further information on the trend in the unemployment rate (released 16 November) ahead of the December meeting. The Monetary Policy Board will also gain further incremental information on growth (largely the high frequency spending indicators) and a more complete picture of dynamics in the economy with the release of the Q3 national accounts in early December. The new monthly CPI will also be released in late November, and while the quarterly trimmed mean will remain the focus for now, it will provide a more granular picture of the trend in market services inflation over the past 18 months.

Key Forecasts

Australia forecasts

	% Growth q/q			% Growth y/y			
	Q2-25	**Q3-25 (f)**	**Q4-25 (f)**	**2024**	**2025 (f)**	**2026 (f)**	**2027 (f)**
GDP and Components							
Private Consumption	0.9	0.6	0.5	0.9	2.4	2.3	1.8
Dwelling Investment	0.4	0.5	0.5	3.5	3.5	3.1	2.2
New Business Investment	-1.0	1.0	0.8	-2.0	1.0	3.0	3.2
Underlying Public Final Demand	0.0	0.4	0.4	5.4	0.6	1.6	1.6
Domestic Demand	**0.5**	**0.6**	**0.6**	**2.3**	**1.9**	**2.4**	**2.2**
Stocks (Cont. to GDP)	-0.4	0.1	0.0	0.1	0.1	0.0	0.0
Gross National Expenditure	**0.4**	**0.7**	**0.5**	**2.4**	**2.1**	**2.4**	**2.2**
Exports	1.7	0.5	0.5	1.4	2.0	2.0	2.0
Imports	1.4	0.8	0.6	6.2	2.9	2.4	1.4
Net Export (Cont. to GDP)	0.1	-0.1	0.0	-1.0	-0.1	0.0	0.2
Real GDP	**0.6**	**0.6**	**0.5**	**1.3**	**2.0**	**2.3**	**2.3**
Nominal GDP	0.7	1.7	1.2	3.6	5.1	4.7	4.3
Labour Market							
Employment	0.6	0.5	0.4	2.3	1.8	1.8	1.7
Unemployment Rate (Q-Ave, End of Period)	4.2	4.3	4.3	4.0	4.3	4.2	4.3
Wage Price Index (WPI)	0.9	0.9	0.9	3.2	3.5	3.2	3.2
Inflation and Rates							
Headline CPI	0.7	1.1	0.6	2.4	3.4	3.0	2.5
Trimmed-mean CPI	0.6	0.9	0.8	3.2	3.0	2.6	2.5
RBA Cash Rate (End of Period)	3.85	3.60	3.60	4.35	3.60	3.35	3.35
10 Year Govt. Bonds (End of Period)	4.17	4.34	4.25	4.48	4.25	4.05	--
$A/US cents (End of Period)	0.66	0.66	0.67	0.62	0.67	0.71	--

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

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