

In this issue

Consumption	2
Labour market	2
Businesses	3
Foreign exchange	4
Housing	4
Inflation	5
Monetary Policy	6
Key Forecasts	7

Growth and inflation risks move closer to balance

- Recent data flow show that the economy has lost some momentum through H1 2026 and that a gentle uptrend in the unemployment rate has continued.
- Inflation remains elevated and remains a key risk, but headline inflation will peak lower than earlier feared.
- Our forecast for 2026 GDP is little changed from last month and continues to anticipate below trend growth this year.
- Unemployment is still expected to end this year around 4½% and end next year at 4¾%.

The economy has lost some momentum through H1 2026. The national accounts for Q1 show that the underlying trend in consumption growth is closer to ~1.5% annualised than the 2.6% annual growth seen in 2025, and business investment growth outside of data centres has slowed. A fallback in NAB Survey business conditions (though still positive) suggests that softer growth has persisted into Q2.

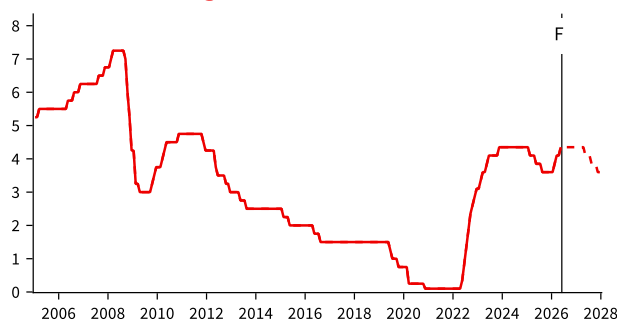
Inflation continues to track well above the mid-point of the RBA's target band. While April CPI didn't show evidence of broad-based passthrough of cost pressures and NAB Survey measures of purchases costs and output costs eased in May, inflation risks remain elevated. We continue to expect the renewed cost shock from the Middle East conflict will temporarily arrest the improving trend in underlying inflation. However, falling refined oil product prices over the past couple of months mean that the magnitude of the cost shock has been smaller than initially feared.

With firmer evidence of slower growth, anticipated cooling in the labour market, and new downside risks from the shift in housing market momentum, we think the data is unlikely to push the RBA to deliver additional tightening. We now see the RBA on the sidelines for the rest of 2026 and anticipate further easing in both capacity pressures and the labour market to drive gradual easing from Q2 2027.

Key Forecasts	2024	2025	2026	2027
Real GDP (b)	1.2	2.5	1.5	1.9
Employment (a)	2.3	1.5	1.5	1.2
Unemployment Rate (b)	4.0	4.3	4.5	4.8
Headline CPI (b)	2.4	3.6	4.0	2.6
Trimmed Mean CPI (b)	3.3	3.4	3.6	2.7
RBA Cash Rate Target (b)	4.35	3.60	4.35	3.60
3-year Yield (b)	3.8	4.1	4.5	4.0
\$US per A\$ (b)	0.62	0.67	0.73	0.72

Source: National Australia Bank, Account in-house, Macrobond
Notes: (a) annual average growth, (b) end-period, shaded area represents NAB forecasts.

RBA Cash Rate Target and NAB Forecast



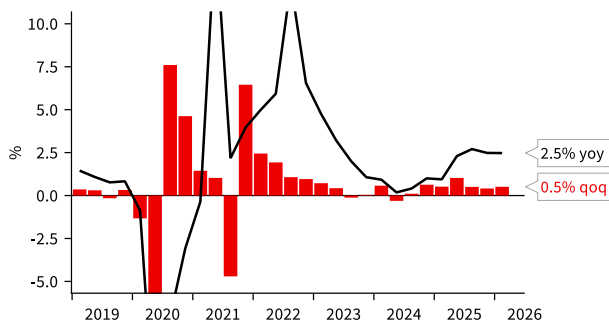
Source: National Australia Bank, RBA, Macrobond

Consumption

Underlying household spending growth has slowed

Real household consumption growth rose 0.5% qoq in Q1 to be 2.5% higher over the year. However, this overstates underlying momentum, as the headline was boosted by the unwinding of electricity subsidies. Adjusting for this effect, real household consumption growth was a more subdued 0.2% qoq and has slowed to around 1.5% on a six-month annualised basis.

Real Household Consumption Growth



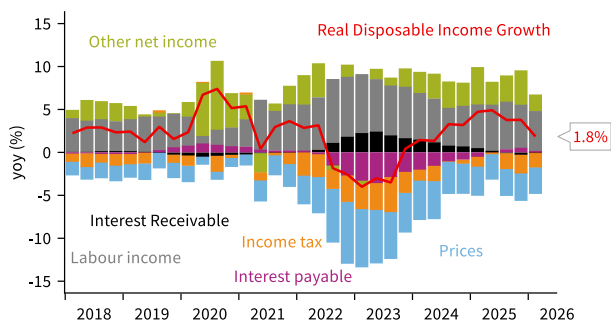
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The quarterly outcome was driven entirely by essentials spending, which increased 0.8% qoq, largely reflecting the unwind of government energy rebates. Food spending rose 0.8% qoq, while spending on the operation of vehicles increased 0.6% qoq. In contrast, discretionary spending rose by a modest 0.1% qoq. Furnishings & household equipment and clothing & footwear both declined 0.5% in the quarter, likely reflecting some payback following Black Friday and Boxing Day driven strength in Q4. Partially offsetting this, recreation & culture increased 0.7% qoq, while spending on hotels, cafes & restaurants was flat.

There has been volatility in the nominal monthly partial indicators. Our [NAB Spend Trend](#) rose by 1.1% in May, partly reversing April declines as travel refunds normalised and suggesting some stabilisation in nominal consumption growth. Underlying momentum remains uneven, with growth driven by essential categories while discretionary spending has slowed.

We expect real household consumption growth to slow further to around 1.4% over 2026, a material moderation from its 2.5% pace in 2025. The earlier tailwinds to household income, including tax relief and earlier declines in interest rates, have now faded. The expiry of the fuel excise cut from July will lift fuel prices, placing additional pressure on real household disposable income.

Real Disposable Income Growth

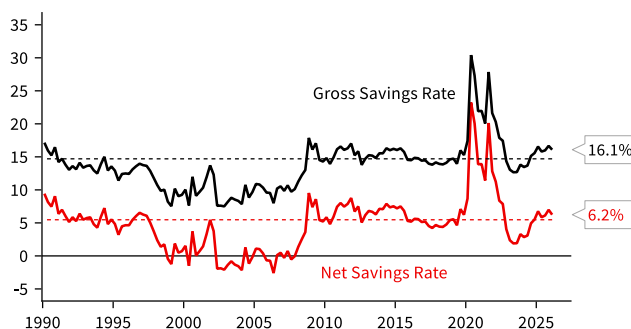


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The savings rate edged lower to 6.2% in Q1 but has generally stabilised over the past year at levels broadly in line with those seen pre-pandemic.

The outlook for consumption will depend in part on how households respond to weaker income growth. While there remains scope for households to draw down savings to support spending, a more cautious response, where households engage in precautionary saving, would see a sharper slowdown in consumption.

Household Saving Rate (% disposable income)



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

Labour Market

Unemployment to drift higher amid softer demand growth

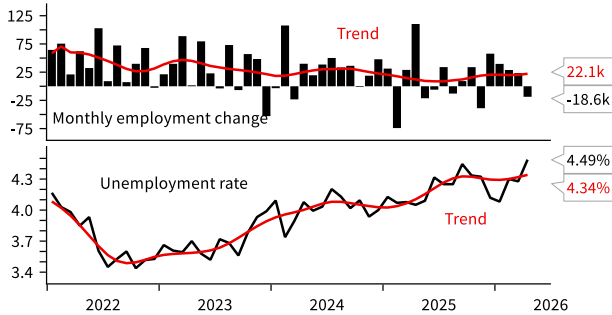
The unemployment rate rose 2 tenths to a new multi-year high at 4.5% in April. We think this result overstates weakness, and there are reasons to discount the signal from the soft April employment report. Employment is often unusually soft in years where both Good Friday and Easter Monday fell within the survey reference period. Moreover, we observed that hours worked rose and job-finding were both low in April, and there was little evidence of a spike in layoffs. Together, these may suggest exceptional uncertainty related to the Middle East conflict caused firms to pause hiring decisions.

May employment data is due next week, with the April to August surveys a week later than usual for additional validation during a data collection modernisation process. May is likely to see at least partial unwind of the April weakness, but that would reflect volatility around a weakening underlying trend. We continue to expect the

unemployment rate to rise gradually to around 4.4% by the end of 2027.

The trend unemployment rate has gradually risen through the start of 2026 after retightening late in 2025, consistent with the earlier acceleration and recent slowing in activity growth.

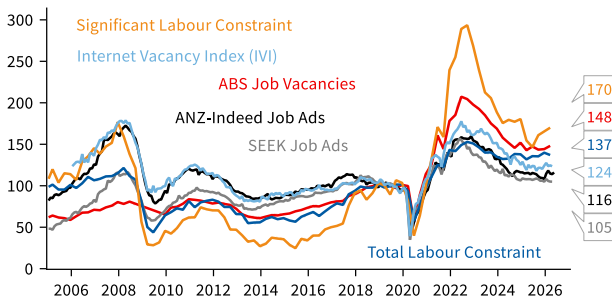
Australian Employment and Unemployment



Source: National Australia Bank, ABS

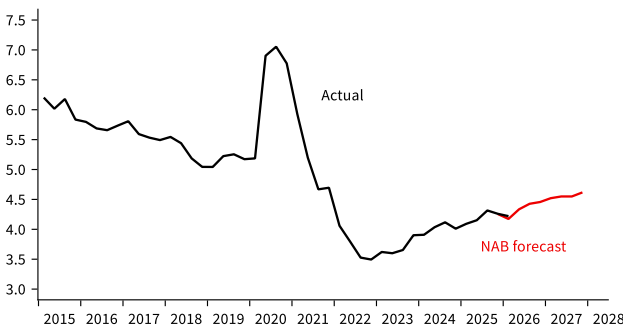
Activity growth has cooled and is expected to remain below trend. That will feed into labour demand over time, but for now, most forward-looking indicators have tracked broadly sideways since the beginning of the year

Measures of labour demand



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

Unemployment Rate Forecasts



Source: National Australia Bank, RBA

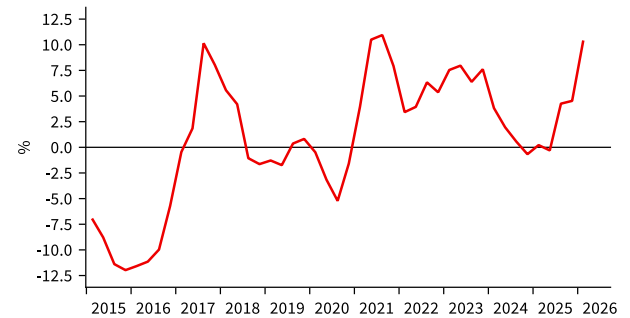
Businesses

Expect some unwind of the Q1 surge in business investment

Business investment surprised strongly to the upside in the latest national accounts print, led by strong data centre investment. Underlying business investment rose 5.7% qoq

contributing 0.7ppt to GDP, driven by a 14.7% qoq rise in machinery and equipment investment. Non-dwelling construction was broadly flat in the quarter as a 2.7% qoq rise in new building was offset by a 2.5% qoq fall in new engineering construction. We expect the Q1 result to partially unwind going forward with growth softening despite the level of business investment remaining elevated. We see volatility in data centre investment remaining alongside downward cyclical pressure on broader investment as the economy slows.

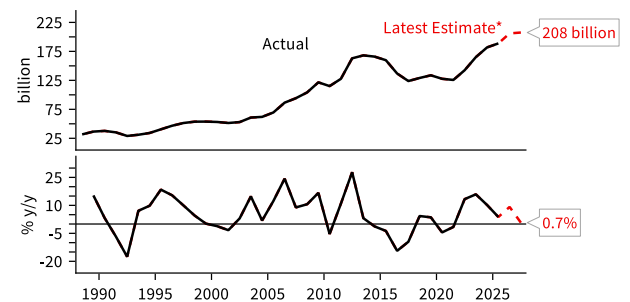
Private New Business Investment, Year-ended



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

Also recently released were the Q1 capex data which gave an updated insight into business investment intentions. Nominal growth for FY25/26 is seen at 9.2%, according to the realisation ratio adjusted 6th estimate, up from 6.3% in the previous estimate. Meanwhile, partially due to a pull forward in investment in Q1, nominal growth for FY26/27 in estimate 2 was revised down from an already soft 1.4% to 0.7%. By industry, outside of the large contribution to growth from the Information, Media and Telecommunications sector other major industries are broadly flat or are expected to see relatively small growth over the next 18 months.

Nominal Capital Expenditure Actuals & Expected (FY)

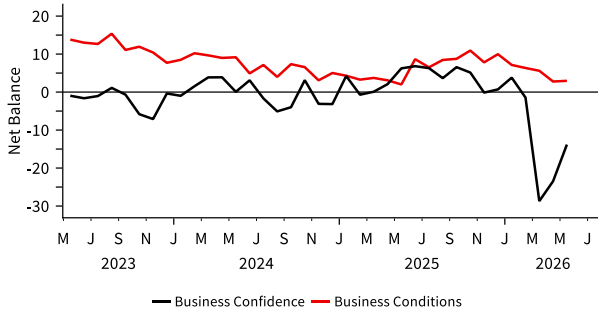


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond
* Latest estimates are adjusted using their long-run realisation ratio.

The **May NAB Business Survey** was also released in the past month, providing more timely insights into the business environment than the national accounts data. There were some improvements across survey measures in May, however, most indicators broadly still sit in worse positions than they were prior to the Middle East conflict. Confidence improved 10pts but remained in deeply negative territory while conditions held at +3 index points. Other activity measures in the survey also showed signs of recovery, capex is now back around its February level while forward

orders more than unwound their April fall. Prices and costs growth measures in the survey fell in May but remained elevated highlighting there remains ongoing risks from the Middle East conflict in the supply chain. Capacity utilisation continued its slide in May and is now down 1.6%-pts over the last six months. This suggests that despite some month-to-month volatility in a number of the survey indicators through the Middle East conflict, overall momentum has slowed.

Business Confidence & Conditions



Source: National Australia Bank, National Australia Bank, Macrobond

Overall, the recent data flow showed businesses were positioned well ahead of into the Middle East conflict and rate rises. However this position has deteriorated as the economy has slowed. We expect that the slowing seen to date will continue, affecting both investment growth as well as broader activity over the rest of the year.

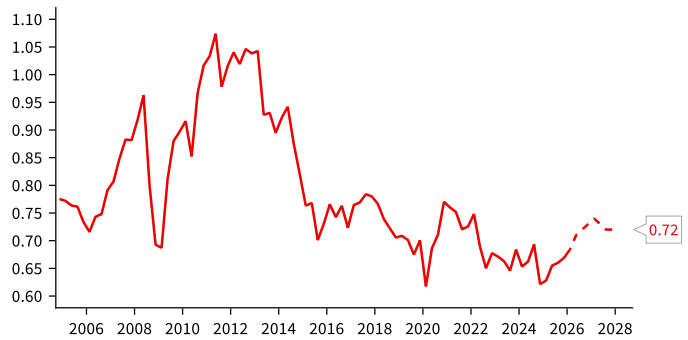
Foreign Exchange

AUD/USD has appreciated since the start of the year

The AUD/USD and AUD TWI are around 6% higher compared to the start of the year, but earlier support from positive and widening interest rate differentials has been exhausted. Resilient risk sentiment (outside the initial phase of the Middle East conflict) has helped the AUD mostly sustain above \$0.70c, but the AUD/USD has eased back from its May high near \$0.7260 as the interest rate differential has narrowed due to both high US yields and lower Australian yields. Softer domestic growth outcomes have likely also weighed on the currency. [NAB FX Forecasts](#) are unchanged, with AUD/USD expected to reach US\$0.73c by the end of 2026 before easing slightly over 2027, assuming rate cuts materialise from the RBA but not the Fed.

Key risks centre on developments in the Middle East, particularly whether the re-opening of the Strait of Hormuz proceeds as intended under the US-Iran deal, otherwise AUD is vulnerable to renewed oil price gains, downside global growth risks and deterioration in risk sentiment. Barring this, a low-volatility backdrop continues to support the carry-trade attractions of AUD, alongside support from ongoing depreciation in USD/CNY.

\$US per A\$



Source: National Australia Bank, Account in-house, Macrobond
Notes: Dotted line represents NAB's forecast.

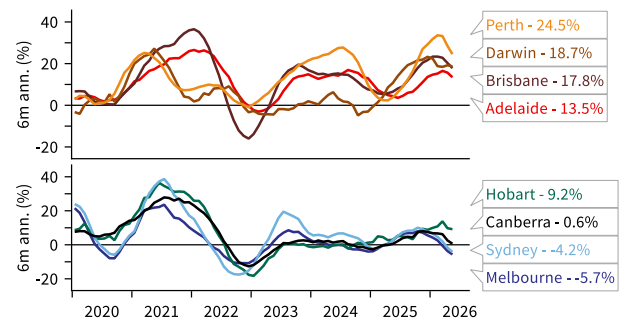
Housing

The housing market continues to cool with price growth softening and activity likely to slow further

There continues to be a notable divergence in price growth across the capital cities with Sydney and Melbourne continuing to register monthly price declines but growth remaining positive across the mid-size capitals. That said, growth has also now clearly slowed across Perth, Brisbane and Adelaide. After declining by just under 1% in both Sydney and Melbourne in the month, prices are now down by 2.1% and 2.3% over the past three months, respectively. Price growth in Perth remains strongest (up 4.8% in the past 3 months), followed by Brisbane (up 2.8%) and Adelaide (up 2.8%). Of the smaller capitals, Darwin price growth also remains strong at 1.5% mom and 5.2% over the quarter.

Overall, the 8-capital city dwelling price index declined by 0.1% in May, the first fall since early 2025. Nonetheless, prices remain 7.8% higher over the year. Regional prices are 11.8% higher than a year ago with monthly growth continuing to track at a stronger 0.6% mom – but also having seen some slowing over recent months.

Dwelling Prices Growth - Greater Capital Cities



Source: National Australia Bank, Cotality Australia, Macrobond

With evidence of further declines in Sydney and Melbourne and likely further slowing in Perth, Brisbane and Adelaide, we have revised down our house price forecasts further, now expecting a decline of 2% in the Cotality 8-capital city dwelling price index over 2026. We expect declines of 6-7% in Sydney and Melbourne, and a notable slowing in Perth, Brisbane and Adelaide. There is some risk we see a more material correction in the mid-size capitals following the

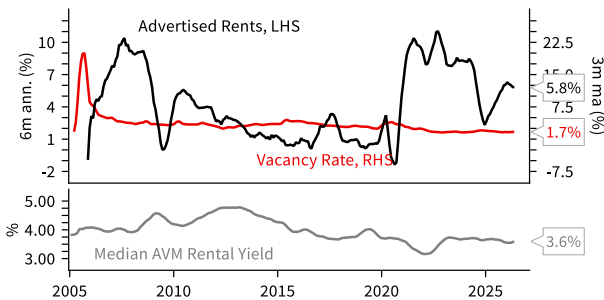
very strong price growth and increased investor activity over recent years. With rate cuts expected from mid-2027 we expect prices to see a modest pickup over 2027.

Dwelling Price Forecasts (%)	2023	2024	2025	2026	2027
Sydney	11	3	6	-6	1
Melbourne	4	-2	5	-7	2
Brisbane	14	11	15	9	3
Perth	16	18	17	14	3
Adelaide	9	14	8	7	4
Hobart	-2	1	7	7	2
Combined Capitals	10	5	9	-2	2

Source: Cotality (Hedonic Value Index)
Notes: Year-ended growth; forecast observations shown for December; Shaded area represents NAB forecasts.

Advertised rents rose by 0.6% in May, following a similar pace of growth in April but slightly softer than the average monthly pace seen through Q1. In annual terms, advertised rents growth remains elevated at 5.9%, remaining well above pre-COVID rates. Although CPI rents, which reflect all rents and so reflect advertised rents with a lag, have moderated and are now annualising at around 2.5% over recent months.

Advertised Rents and Vacancies



Source: National Australia Bank, Cotality Australia
Notes: Seasonally adjusted by NAB.

The cooling in the housing market has likely been driven by a range of factors. Price growth has been solid for an extended period and affordability constraints are likely to increasingly bind, alongside the increase in mortgage rates we have seen this year. In addition to weaker momentum, the likely drag on the housing market due to proposed changes to the taxation of investor-owned residential property may mean that households will remain more cautious in the near term.

Ultimately, however, house prices and rents growth will be supported by the weak supply backdrop after a period of strong population growth.

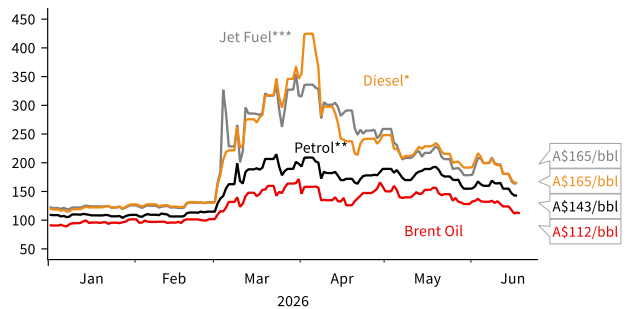
Inflation

The cost shock from the Middle East has been less material than expected

CPI was 4.2% yoy in April, down from 4.6% in March. Automotive fuel fell 7% mom, as higher diesel prices partially offset a 10% decline in petrol prices. Fuel prices are on track for a larger decline in May and another decline in June before rebounding in July if the lower excise tax ends as scheduled.

Although the physical disruption in the Strait of Hormuz has been protracted, the magnitude of the cost shock in refined oil products has been materially smaller than initially feared. Even before the recent selloff in oil as markets look to the possibility of supply normalisation on the back of the US-Iran deal, refined product prices had been trending lower and driving underlying price falls for petrol and diesel prices.

Oil Prices and Singapore refined benchmarks



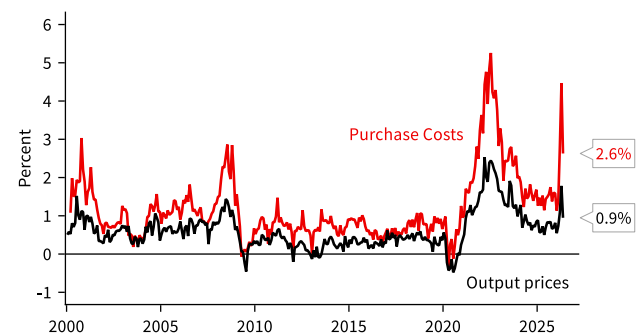
*Gasoil 10ppm, **Mogas 95, ***Jet Kerosene
Source: National Australia Bank, Bloomberg

Headline inflation is highly sensitive to automotive fuel prices, and lower prices than had been embedded in our (and the RBA's) assumptions mean headline inflation is now likely to peak around 4.3% in Q2.

Underlying inflation outcomes and signs of broader passthrough of cost pressures are more important for the policy outlook than where headline inflation lands.

The April CPI showed trimmed mean at 0.3% mom and 3.4% yoy. New Dwelling Costs accelerated as expected, but there was little breadth of passthrough evident so far. Grocery inflation in particular was softer than expected. Prices indicators in the NAB Business Survey remain elevated but moderated in May, and the fallback in output price growth may suggest firms are finding it more challenging to pass elevated cost pressure on.

NAB Survey Prices



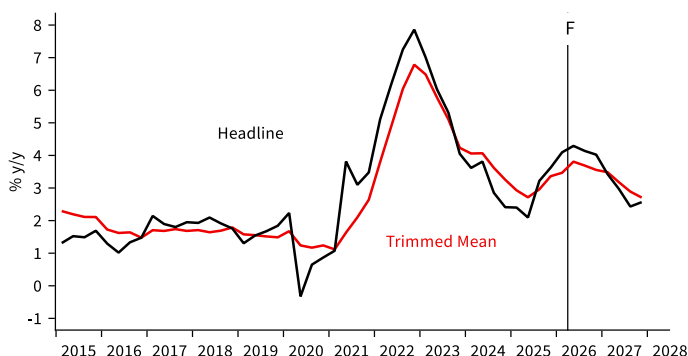
Source: National Australia Bank

We continue to expect elevated underlying inflation in the next couple of quarters. We pencil in a 1.0% qoq trimmed mean outcome for Q2, although with fuel prices surprisingly on track for a quarter average decline the trimmed mean is now unlikely to surprise the RBA to the upside.

Ahead of price pressures from the conflict in the Middle East, inflation remained too high but was gradually moderating. We expect the improving trend to stall or reverse temporarily, but expect cost pressures will fade and slower growth and an easing labour market should mean inflation pressures do not become embedded.

Supply-side challenges have frustrated the disinflation trajectory in recent years and trimmed mean inflation outcomes have been materially stronger than what would have been implied by a standard Phillips curve relationship. Looking forward, with growth expected to be below trend and labour market tightness expected to ease a little in coming quarters, we see domestic conditions as consistent with underlying inflation annualising below 3% by early next year and around the midpoint of the RBA’s target range by the end of 2027.

Inflation and NAB Forecast



Source: National Australia Bank, ABS, RBA

doesn’t respond how the Board expects “we might have to do more... I’m just not ruling that out.”

The Monetary Policy board clearly remains alert to the risk that inflation becomes more ingrained in wage and price setting behaviour. That said, we get the impression the Board would need a push from the data flow to deliver on further tightening, and our central forecast does not anticipate they will get that push.

With rates now again in modestly restrictive territory, the RBA can remain on hold while it observes the ongoing impact of weaker household and business confidence – and how this flows through to spending, hiring and investment decisions.

Further ahead, our forecasts anticipate below trend growth and a gradual weakening in the labour market to allow the RBA to begin to gradually normalise policy from Q2 2027.

Monetary Policy

We now expect the RBA to remain on hold at 4.35% for the remainder of 2026, before beginning to cut rates from mid-2027.

Recent dataflow suggests that growth has eased through H1 2026 from the solid pace seen over 2025. Business conditions in the business survey have also eased in trend terms from around 10 index points (above average) in early 2026, to now be tracking a little below the long-run average and capacity utilisation has eased and is now much closer to its long-run average.

Q1 GDP confirmed growth had been slowing and the unemployment rate is at risk of tracking higher more quickly than the RBA forecast in May. Inflation dynamics remain challenging, but both the monthly CPI data and NAB Business Survey measures of costs and prices suggest that while inflation pressure remains elevated, it may not be as broad-based or rapidly passed through as we had initially feared.

The RBA held rates in June, and the post-meeting statement acknowledged that growth had slowed and that this was necessary to bring inflation back towards target. However, the RBA Board is not willing to move to a more neutral footing; Governor Bullock said that if inflation

Key Forecasts

Australia forecasts

	% Growth q/q			% Growth y/y		
	Q1-26	Q2-26 (f)	Q3-26 (f)	2025	2026 (f)	2027 (f)
GDP and Components						
Private Consumption	0.5	0.3	0.3	2.5	1.4	1.4
Dwelling Investment	0.7	-0.2	0.3	5.1	1.0	1.5
New Business Investment	6.9	-4.1	0.9	4.1	3.7	1.6
Underlying Public Final Demand	0.0	0.4	0.4	2.4	1.3	1.6
Domestic Demand	1.0	-0.1	0.4	2.9	1.7	1.8
Stocks (Cont. to GDP)	0.2	-0.3	0.0	-0.1	-0.2	0.0
Gross National Expenditure	0.9	-0.4	0.4	3.0	1.3	1.9
Exports	-1.1	0.9	0.4	5.2	0.6	1.6
Imports	2.1	-1.7	0.5	6.7	1.1	1.6
Net Export (Cont. to GDP)	-0.8	0.6	0.0	-0.2	-0.1	0.0
Real GDP	0.3	0.3	0.4	2.5	1.5	1.9
Nominal GDP	0.6	1.2	1.2	6.1	4.0	4.0
Labour Market						
Employment	0.6	0.3	0.4	1.1	1.7	1.2
Unemployment Rate (Q-Ave, End of Period)	4.2	4.4	4.5	4.3	4.5	4.8
Wage Price Index (WPI)	0.8	0.8	0.8	3.4	3.2	3.2
Inflation and Rates						
Headline CPI	1.4	0.9	1.2	3.6	4.0	2.6
Trimmed-mean CPI	0.8	1.0	0.9	3.4	3.5	2.7
RBA Cash Rate (End of Period)	4.10	4.35	4.35	3.60	4.35	3.60
10 Year Govt. Bonds (End of Period)	4.97	5.10	5.10	4.76	5.00	4.80
\$/US cents (End of Period)	0.68	0.71	0.72	0.67	0.73	0.72

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

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