

# The Forward View Australia: March 26



## Too many shocks too little slack

### NAB Economics and Markets Research

#### Overview

- The economy ended 2025 in a strong position though activity indicators in 2026 have been a little more mixed.
- Inflation and capacity pressures remain evident, and the RBA will need to see activity slow to build comfort on inflation.
- We see the RBA increasing rates again in May, taking the cash rate to a peak of 4.35% and remaining on hold until mid-2027.
- Uncertainty remains extremely elevated, with the supply disruption in the Middle East adding sharply to near term inflation and creating risks to both inflation and growth.

The Q4 national accounts showed that GDP growth rose to 2.6% yoy over 2025 – a rate that is above its sustainable trend. At the component level there are some signs that household consumption growth has softened slightly, but also that business and dwelling investment have held up, after strengthening over the past year or so.

Activity indicators for early 2026 have been more mixed. When taken together over January and February the ABS's Household Spending Indicator and our [NAB Spend Trend](#) show that momentum in consumer spending may have slowed slightly, though the NAB Business Survey suggests that overall conditions have held up.

The labour force data for February show trend unemployment continues to track in the low 4% range, and employment growth remains positive. Leading indicators point to ongoing resilience.

We have lowered our growth forecast for 2026 and 2027 to ~1.8%. That sees the unemployment rate peak at a slightly higher rate of 4.75% at end 2026. Both our headline CPI and underlying inflation forecasts have been revised up in the near-term, with inflation expected to peak at around 5% and underlying inflation to rise to 3.5% yoy.

Uncertainty around forecasts has increased further. The economy entered 2026 in a strong position, having weathered global trade uncertainty through 2025. However, the impact of higher oil prices and related disruptions will have a much more direct (and faster) impact on the economy than previous shocks. The size of the shock is significant, but hard to quantify, and there are very real risks of a more material hit to growth than we have reflected in our baseline forecasts.

Higher fuel prices impact consumers directly, but disruptions will also impact Australia through lower global growth, as well impacting consumer and business confidence. The starting point of elevated inflation means we think the RBA will be more tolerant of slower growth than more persistent inflation.

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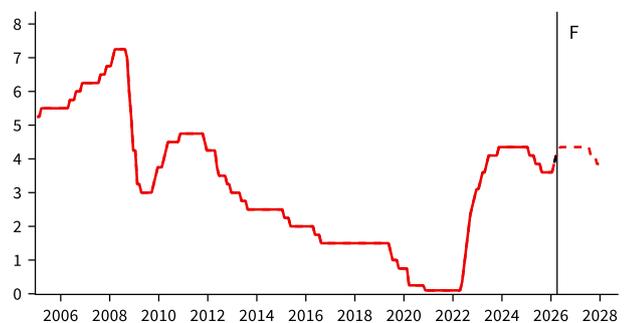
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#### Key Economic Forecasts

|                              | 2024       | 2025(f)    | 2026(f)    | 2027(f)    |
|------------------------------|------------|------------|------------|------------|
| Domestic Demand (a)          | 1.9        | 2.5        | 2.2        | 1.7        |
| <b>Real GDP (annual ave)</b> | <b>1.0</b> | <b>2.0</b> | <b>2.1</b> | <b>1.8</b> |
| <b>Real GDP (year-ended)</b> | <b>1.2</b> | <b>2.6</b> | <b>1.8</b> | <b>1.8</b> |
| Employment (a)               | 2.3        | 1.7        | 1.6        | 1.3        |
| Unemployment Rate (b)        | 4.0        | 4.2        | 4.5        | 4.7        |
| Headline CPI (b)             | 2.4        | 3.6        | 4.5        | 2.6        |
| Trimmed-mean CPI (b)         | 3.3        | 3.4        | 3.4        | 2.7        |
| RBA Cash Rate (b)            | 4.35       | 3.60       | 4.35       | 3.85       |
| \$/US cents (b)              | 0.62       | 0.67       | 0.73       | 0.70       |

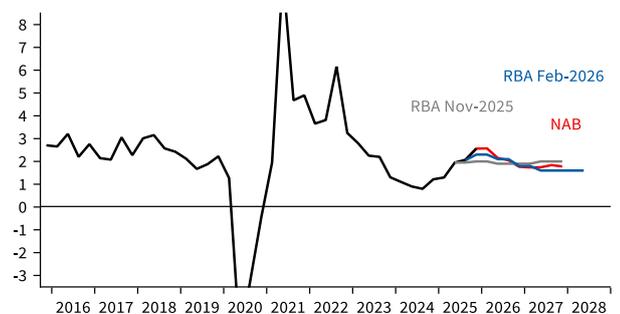
(a) annual average growth, (b) end-period

#### RBA Cash Rate Target and NAB Forecast



Source: National Australia Bank, RBA, Macrobond

#### Australian Gross Domestic Product



Source: National Australia Bank, ABS, RBA

## Consumption

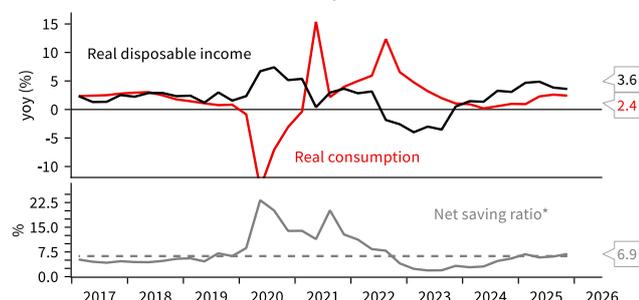
### Household spending moderated in Q4 but appears to have retained much of its momentum into early 2026.

Household consumption growth slowed to 0.3% qoq in Q4, though remains 2.4% higher over the year. The outcome was driven by an increase in discretionary spending, particularly furnishings & household equipment and clothing & footwear, supported by discounting associated with promotional sales. Partly offsetting this, spending on electricity, gas & other fuels declined sharply (-9.5% qoq), reflecting the impact of higher electricity rebates and lower usage due to milder weather outcomes.

While the Q4 outcome was softer than both NAB and RBA expectations, more timely indicators suggest the household sector remains in relatively good health. The ABS Household Spending Indicator rose by 0.3% mom in nominal terms in January, led by stronger services spending, while goods spending eased, consistent with some payback following strong sales-related spending in October and November. The [NAB Spend Trend](#) points to a further 0.4% mom increase in February.

Taken at face value, these partial indicators (despite proving a poor guide to Q4 outcomes) suggest consumer spending has slowed a little in early 2026 after accounting for inflation. There is likely some element of payback in the data from ongoing shifts in seasonal patterns and the increasingly large impact of Black Friday sales.

#### Household Income and Consumption



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond  
 Notes: \* Household consumption net of depreciation; dotted line represents the ten-year average to the end of 2019.

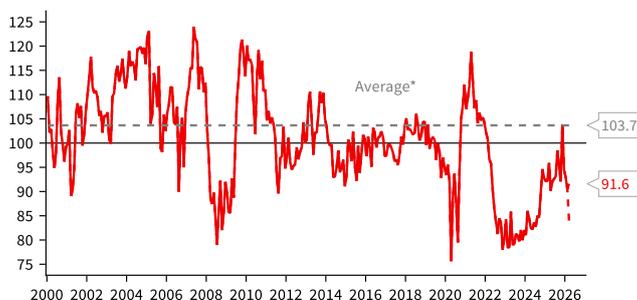
Looking ahead, a material risk to the overall growth in the economy and our forecasts, is the magnitude of the real income shock and how consumers respond to this shock. Based on current oil prices and the increase in petrol prices, the direct impact is around 1-2% on disposable incomes.

Consumption growth was well supported by a number of tailwinds through 2025 (tax and rate cuts, prior easing in inflation, subsidies and strong rises in asset prices), but these were already fading in our base case and consumer spending was expected to slow. How consumers react to the new impact on real incomes will be important.

Offsetting some of the income pressures, are the fact that household balance sheets are in good shape and the savings rate has recovered to a level a little above pre-pandemic rates.

Indeed, consumer sentiment points to increased downside risks. Confidence is near the bottom of its 18-month range, and responses captured following recent Middle East developments suggest sentiment has fallen to its weakest level since mid-2024. This raises the risk of a lift in precautionary saving, which could weigh more materially on discretionary spending. However, household saving ratios are slightly above pre-pandemic levels.

#### Consumer Sentiment\*



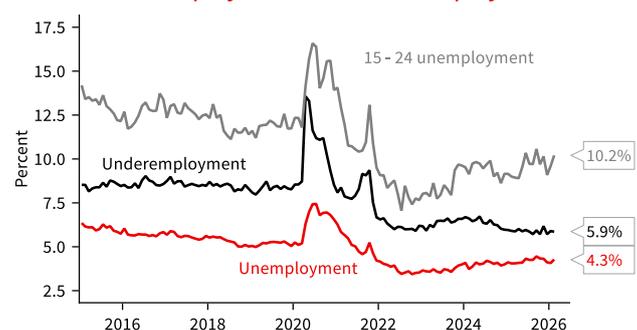
Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research, Macrobond  
 Notes: \* Dotted red line represents consumer sentiment in March for the last three days of the survey only; \* Represents the average from 2000 to 2019.

## Labour market

### The trend unemployment rate is now 4.2% and is sitting broadly in line with the RBAs February forecast.

The unemployment rate rose to 4.3% in February. In trend terms, the unemployment rate fell in February and employment growth has continued to pick up, now sitting at 24k per month, enough to keep pace with current population growth. In February, the underemployment rate and the employment-to-population ratio were steady at historically tight levels.

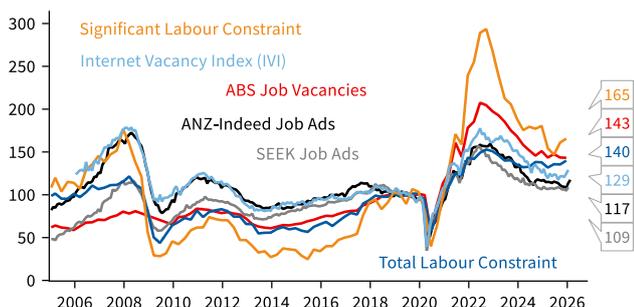
#### Australian Unemployment and Underemployment



Source: National Australia Bank, ABS

The ABS's job vacancy series fell 1.5% qoq in Q4 to its lowest level since Q1 2021, however more timely private sector measures of labour demand have been rising in recent months. While data on labour demand is unclear, the pick-up in employment growth and measures such as the labour as a constraint from the business survey support the RBA's assessment that the labour market remains 'a little tight'.

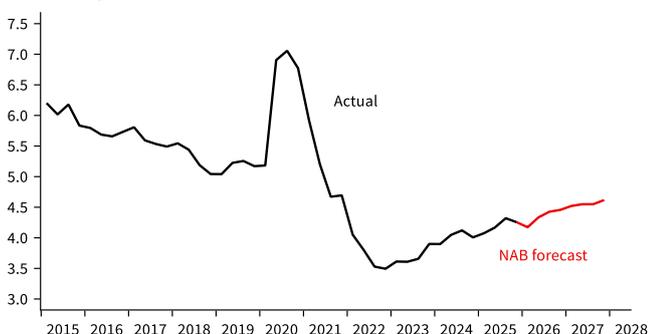
Measures of labour demand



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

We expect slower activity growth to see labour demand cool and the unemployment rate rise, to 4.75% by the end of the forecast horizon. The unemployment rate will be required to rise further than previously forecast as the RBA responds to pressure from both domestic capacity constraints and global supply shocks.

Unemployment Rate Forecasts



Source: National Australia Bank, RBA

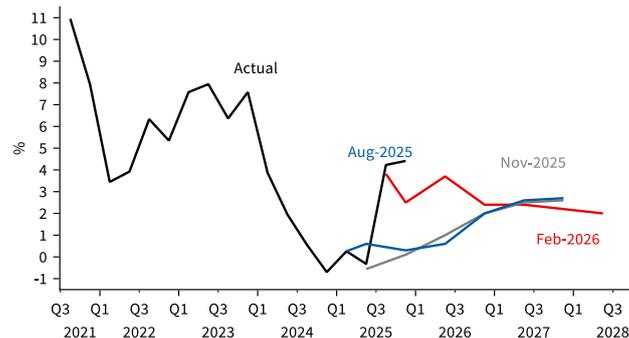
Businesses

Businesses conditions hold while confidence weakens in early 2026.

Underlying business investment slowed sharply in Q4 to 0.5% (from 3.8% in Q3), but remained strong in year-ended terms up 4.4% yoy. Machinery and equipment investment drove growth over 2025 up 5.1% yoy while non-dwelling construction was also solid at 3.0% yoy. The weaker Q4 result was due to the partial retracing of the large jump in machinery and equipment which fell 1.1% qoq after rising 7.7% qoq in Q3. The large swings in machinery and equipment in the past two quarters have been attributed to the lumpy nature of data centre equipment investment. Non-dwelling construction investment has seen more orderly growth over the past year, growing in the mid-to-low 1% qoq range in three of the past four quarters. Ultimately underlying business investment growth is expected to remain relatively strong. Machinery and equipment investment is likely to remain volatile, while non-dwelling construction growth is

expected to gradually ramp up.

Business Investment Growth Forecasts, Year-ended

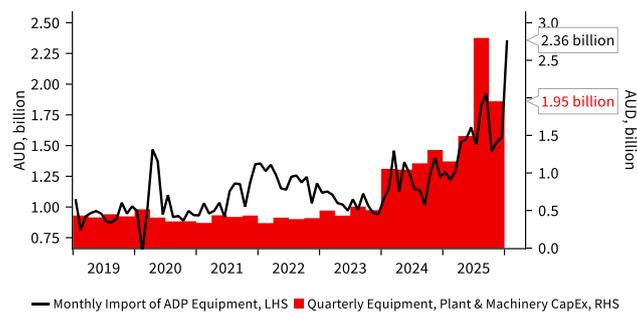


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Account in-house

More insight into the next 18 months of business investment is available in the forward-looking element of the Q4 capex data. Business expectations adjusted for the long run realisation ratio implies growth for FY25/26 of ~6.2% in nominal terms which will then slow to ~1.4% the following financial year.

The Information Media & Telecommunications sector, which is where data centre investment is primarily captured, is expecting nominal new capex growth of around 50% for both this financial year and next. While the Equipment, Parts & Machinery element of the survey has shown lumpy growth we can gain insight for the next quarter from the goods trade data due to the import heavy nature of data centre equipment. In January the import of ADP equipment rose 50% mom after a soft end to 2025 suggesting Q1 data-centre capex will re-accelerate. Spillover effects are also present with data centre related industries expecting much stronger capex growth than non-related industries over the next 18-months. In the Q4 work done survey it was reported that activity in wind and solar power, battery storage and data centre construction remained elevated.

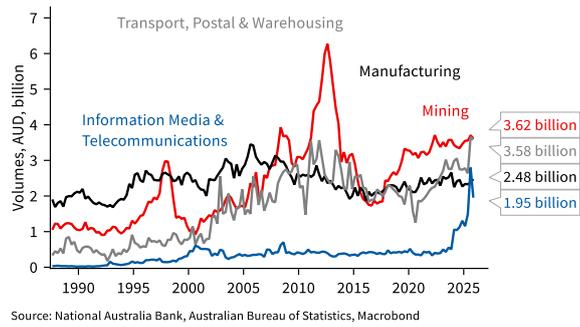
Import of ADP Equipment & Equipment Capex from Information Media & Telecommunication



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

Meanwhile, results in the February business survey suggested a more uncertain outlook for businesses as conditions remained flat and confidence fell. The retracing of confidence likely reflected caution due to the February rate hike. Despite the survey being undertaken before the conflict begun in the middle east, confidence has fully retraced gains made over 2025 to be in negative territory for the first time in almost a year. However, forward looking elements of the survey remained positive for the outlook for activity. Both the Capex measure and Forward orders reached their highest level in several years.

**Equipment, plant and machinery (selected industries)**



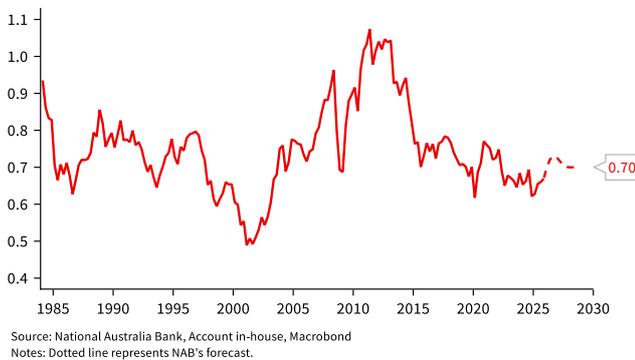
**Foreign exchange**

**AUD/USD has been well supported around US70c, though the balance of risks is skewed to the downside.**

AUD/USD is currently trading around US70c, driven in part by rising interest rate expectations in Australia relative to other advanced economies. Support has also come from a positive term of trade shock, with the Middle East conflict increasing energy prices and benefiting Australia as a net energy exporter.

That said, risks remain skewed to the downside, as any shift to broader risk-off sentiment is likely to overwhelm supportive domestic fundamentals. In such an environment, AUD/USD could fall below US68c ([see FX Strategy Thematic - Iran Conflict and the AUD](#)).

**\$US per A\$**



**Housing**

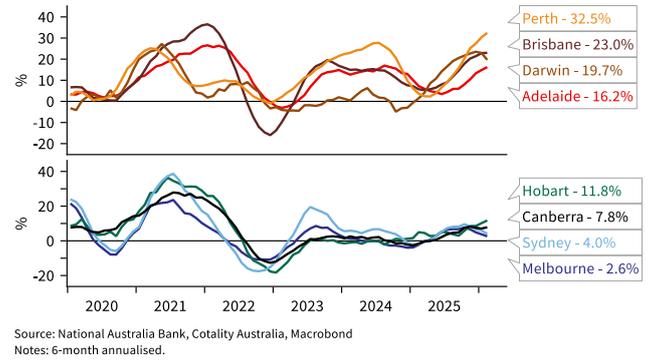
**Housing price growth has moderated but remains solid, led by the mid-sized capital cities.**

Dwelling prices across the combined capitals have risen 9.6% over the past year. Monthly momentum eased to 0.6% in February, following stronger price growth in late 2025. This moderation is consistent with a higher expected interest rate outlook, though overall price growth remains firm.

Price gains remain concentrated in the mid-sized capitals. On a three-month annualised basis, dwelling prices are rising by around 30% in Perth and around 20% in Brisbane and Adelaide. According to Cotality, this reflects tight supply conditions, with listings running 20 to 40% below their five-year averages over the four weeks to mid-February. Strong population growth, driven largely by interstate migration, has also been most pronounced in Perth, Brisbane

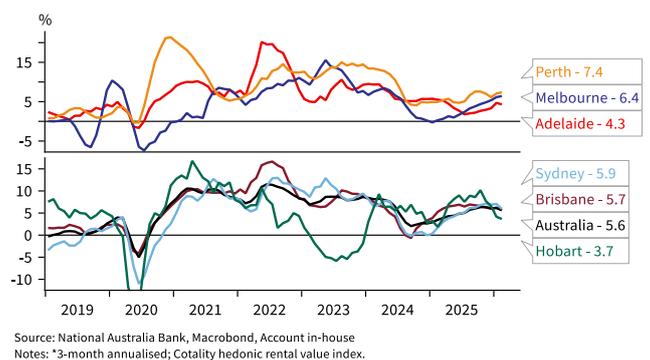
and Adelaide, while relative affordability continues to support demand. By contrast, momentum has turned negative in Sydney (-0.3% mom) and Melbourne (-1.8% mom), where affordability constraints are more acute.

**Dwelling Prices - Greater Capital Cities\***



Rental market conditions remain very tight, with vacancy rates near record lows at around 1.6%. While advertised rents continue to rise, growth has stabilised at around 5.6% on a three-month annualised basis. There are clear divergences across cities, with momentum easing in Sydney and Brisbane, but remaining strong in Melbourne and Perth.

**Advertised Rents - Greater Capital Cities\***



Supply conditions remain constrained. Net additions to the dwelling stock are well below the 2015 peak, and while approvals have risen since early 2024, momentum has softened in recent months. This is flowing into an already large pipeline, particularly for apartments and townhouses, where starts are outpacing completions. This persistent imbalance between supply and demand is expected to continue supporting both prices and rents this year, even as rates rise.

**Inflation**

**Inflation looks on track to peak near 5% yoy in Q2 and will be highly sensitive to fuel prices.**

January inflation data was broadly as expected. Headline inflation was 3.8% over the year to January (with the unwind of almost all of the remaining electricity subsidies a key driver).

Some of the components that had looked surprisingly soft in December were strong in January, and overall, the data did little to shift our or the RBA's rolling assessment. Heading into early 2026 inflation was too high, but underlying inflation

pressures did not look to be accelerating further and were in line with the RBA's February forecasts. These forecasts pre-date the unfolding shock to inflation from the war in the Middle East.

Near-term inflation forecasts remain at the whim of oil and fuel price developments. Brent oil prices are currently around US\$100/bbl, up ~30% from 3 weeks ago. Refined products have increased even further. Retail fuel prices are currently averaging around A\$2.30/L - ~30% higher than 3 weeks ago.

If those prices sustain, headline inflation will peak around 5% in Q2, before falling back quite sharply on base effects from the earlier unwinding of electricity subsidies which have materially boosted measured inflation.

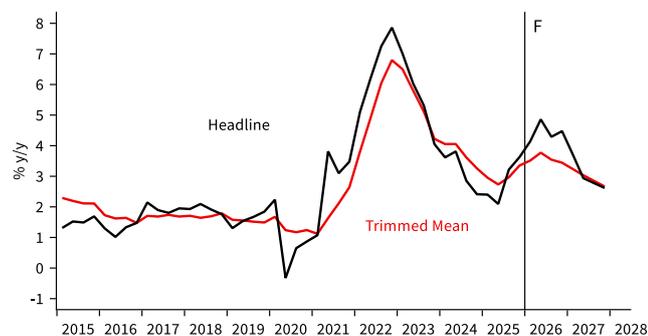
Besides petrol prices, early impacts on inflation will also be felt through airfares, which are likely to jump from April in measured domestic travel prices and May in measured international travel prices.

The RBA's preferred underlying inflation measure, the trimmed mean, is not an exclusion-based measure, and as a result will be impacted at the margin by components that are highly sensitive to fuel costs. Higher fuel prices in March have already tipped our Q1 forecast for trimmed mean inflation to a 0.9% qoq. February CPI data next will provide further colour on the inflation picture before the impact of the Middle East begin to flow through.

The inflationary impact of the disruptions in the straight of Hormuz will be broader, echoing through cost-push pressures throughout the supply chain. Logistics and freight costs, fertiliser, inputs that rely on petrochemicals will all be higher. Price increases for LNG and thermal coal will support electricity and gas prices, more quickly for businesses exposed to wholesale prices, and with a lag for smaller businesses and households where tariffs are set annually and subject to regulatory overlay.

We had been assessing that much of the recent strength in inflation had reflected a greater ability of firms to pass earlier increases in the cost of doing business downstream, with margin pressure easing as private demand picked up. This shock will worsen it there is a further increase in business input costs, pressuring margins further and risking greater passthrough to consumer prices.

Inflation and NAB Forecast



Source: National Australia Bank, ABS, RBA

While the near-term peak in headline inflation is highly sensitive to the extent of the energy shock, the outlook depends as much on its persistence. Our current baseline

forecast anticipate that oil prices settle around \$80/bbl. If that is realised, fuel prices will fall and some of those cost pressures will begin to fade as we move later into 2026. Headline and trimmed mean inflation are forecast to be back below the top of the target band in 2027.

## Monetary Policy

**We expect the RBA to increase the cash rate by a further 25bps in May, taking the cash rate to 4.35% before remaining on hold until mid-to-late 2027.**

This follows back-to-back increases in February and March which have taken the cash rate back into modestly restrictive territory.

The reversal in the direction in policy for the RBA has been driven by:

- 1) A reacceleration in underlying inflation through H2 2025 to above the top of the RBA's target range.
- 2) Stronger than expected growth – which points to the economy growing above its trend rate.
- 3) Greater capacity constraints (a weaker supply side) than anticipated, and
- 4) Looser than expected financial conditions which mean despite a cash rate that is high relative to recent history, the overall stance of policy has not been as restrictive as thought.

Alongside this, employment growth is still positive and unemployment rate is low - which is consistent with the acceleration in private sector activity through 2025.

While conditions are evolving quickly, the starting point for inflation complicates the RBA's response. The RBA's set of forecasts in the February statement pointed to inflation tracking above target until 2028 even with further rate increases. These forecasts also embodied a period of below trend growth in the economy (1.6%) and a rise in the unemployment rate to 4.6% by mid 2028 driving the return of inflation back to target.

The impact of the rise in oil prices will clearly impact headline inflation and will slow consumption growth through the impact on real incomes (though how much and how quickly is uncertain). However, the larger risk in the near term will be how much the rise in the cost of transport, freight and products derived from oil is passed onto the consumer.

The NAB Business survey shows that input, overhead and labour costs have moderated from their peaks in the post-covid period, and there are some signs that businesses have recovered margins somewhat, but the risk remains that with already elevated prices the pass through of any further increase to input costs could happen more quickly.

Further, given the visibility of oil and petrol prices, and the recent experience on supply chain disruptions and cost pressures a move higher in inflation expectations is a risk.

Our central view encompasses oil prices remaining higher than they were pre-Iran but below \$100 bbl. We see the RBA as reacting to the existing domestic inflation pressure, as well as the risk from second round impacts.

With policy back in restrictive territory, the RBA will likely need to begin easing rates back towards neutral. We expect this to begin in mid to late 2027. For now, we see two-sided risk around our view of a 4.35% peak in the cash rate.

## Key Forecasts

### Australia forecasts

|                                          | % Growth q/q |            |            | % Growth y/y |            |            |
|------------------------------------------|--------------|------------|------------|--------------|------------|------------|
|                                          | Q4-25        | Q1-26 (f)  | Q2-26 (f)  | 2025         | 2026 (f)   | 2027 (f)   |
| <b>GDP and Components</b>                |              |            |            |              |            |            |
| Private Consumption                      | 0.3          | 0.2        | 0.3        | 2.4          | 1.0        | 1.5        |
| Dwelling Investment                      | 0.6          | 0.6        | 0.6        | 5.5          | 2.1        | 1.4        |
| New Business Investment                  | 0.1          | -0.2       | 0.7        | 4.0          | 0.8        | 0.5        |
| Underlying Public Final Demand           | 0.9          | 0.6        | 0.4        | 2.4          | 1.8        | 1.6        |
| <b>Domestic Demand</b>                   | <b>0.5</b>   | <b>0.4</b> | <b>0.4</b> | <b>2.9</b>   | <b>1.6</b> | <b>1.8</b> |
| Stocks (Cont. to GDP)                    | 0.2          | 0.0        | 0.0        | -0.2         | 0.0        | 0.0        |
| <b>Gross National Expenditure</b>        | <b>0.9</b>   | <b>0.3</b> | <b>0.5</b> | <b>3.0</b>   | <b>1.6</b> | <b>1.7</b> |
| Exports                                  | 1.4          | 0.4        | 0.4        | 5.2          | 1.5        | 1.6        |
| Imports                                  | 1.8          | 0.3        | 0.6        | 6.7          | 1.6        | 1.5        |
| Net Export (Cont. to GDP)                | -0.1         | 0.0        | 0.0        | -0.3         | 0.0        | 0.0        |
| <b>Real GDP</b>                          | <b>0.8</b>   | <b>0.4</b> | <b>0.4</b> | <b>2.6</b>   | <b>1.8</b> | <b>1.8</b> |
| Nominal GDP                              | 1.8          | 1.0        | 1.3        | 6.0          | 4.5        | 3.9        |
| <b>Labour Market</b>                     |              |            |            |              |            |            |
| Employment                               | 0.3          | 0.6        | 0.3        | 1.2          | 1.7        | 1.3        |
| Unemployment Rate (Q-Ave, End of Period) | 4.2          | 4.2        | 4.3        | 4.2          | 4.5        | 4.7        |
| Wage Price Index (WPI)                   | 0.8          | 0.8        | 0.8        | 3.4          | 3.2        | 3.2        |
| <b>Inflation and Rates</b>               |              |            |            |              |            |            |
| Headline CPI                             | 0.6          | 1.4        | 1.4        | 3.6          | 4.5        | 2.6        |
| Trimmed-mean CPI                         | 0.9          | 0.9        | 0.9        | 3.4          | 3.4        | 2.7        |
| RBA Cash Rate (End of Period)            | 3.60         | 4.10       | 4.35       | 3.60         | 4.35       | 3.85       |
| 10 Year Govt. Bonds (End of Period)      | 4.76         | 4.95       | 5.00       | 4.76         | 5.00       | 4.70       |
| \$A/US cents (End of Period)             | 0.67         | 0.70       | 0.72       | 0.67         | 0.73       | 0.70       |

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

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