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Strait Talk: Growth Lower, Uncertainty Higher

- Recent data flow largely pre-dates the impact of higher fuel prices on the Australian economy, though measures of confidence have fallen sharply.
- Growth was healthy heading into this shock, but elevated uncertainty and cost pressures will lead to some pullback for both consumers and businesses.
- Inflation was too high before the rise in oil prices, and the pass-through of cost increases will likely pressure underlying inflation further.
- This month we have nudged down our forecasts for growth over 2026, pushed up underlying inflation forecasts and revised up our unemployment track slightly.

Available economic data largely precede the unfolding events in the Middle East though the falls in both consumer and business confidence over the past month highlight the risk persistently high oil prices flow through to weaker consumer spending, business investment and hiring intentions.

That said, the NAB Business Survey also showed the risk bias for inflation, with reported cost pressures recording the largest monthly spike (by some margin) in the history of our survey. The survey also shows that conditions and capacity utilisation remained consistent with a healthy level of growth as the conflict in the Middle East began to unfold and our NAB Spend Trend report shows that consumer spending growth remained positive in March, even excluding fuel purchases. The official labour force data paints a similar picture with trend employment growth of 30k in the month and the unemployment rate remaining low.

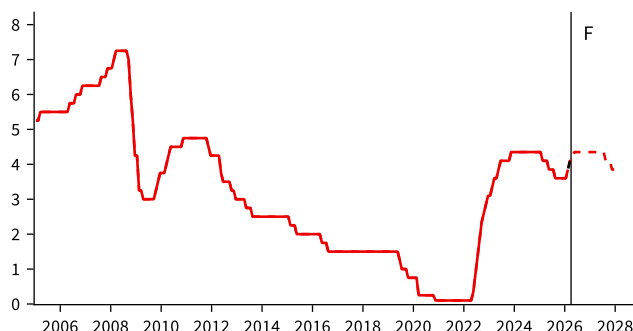
On a weekly basis, our internal transactions data show that fuel spending has already fallen as the excise cut flows through, and after some early softness, discretionary services spending is showing tentative signs of a rebound. Accommodation spending also rose inline with usual increases in the week to 11 April but is yet to recover the softness in March. The trend for discretionary goods spending has been less clear.

For the RBA, second round pass-through to broader consumer prices risks compounding an already unfavourable inflation backdrop with the economy operating at capacity and the unemployment rate low. We expect the RBA will increase rates by 25bps in May before pausing to see the impacts of the recent retightening and how the flow through of higher oil prices impacts the economy.

Key Forecasts	2024	2025	2026	2027
Domestic Demand (a)	1.9	2.5	2.1	1.7
Real GDP (annual ave)	1.0	2.0	2.0	1.9
Real GDP (year-ended)	1.2	2.6	1.5	1.9
Employment (a)	2.4	1.5	1.6	1.2
Unemployment Rate (b)	4.0	4.3	4.5	4.8
Headline CPI (b)	2.4	3.6	4.3	2.3
Trimmed Mean CPI (b)	3.3	3.4	3.8	2.7
RBA Cash Rate Target (b)	4.35	3.60	4.35	3.85
\$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

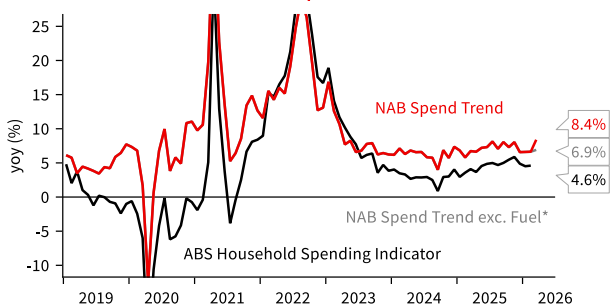
Household spending dynamics will remain key to overall growth in 2026.

Even prior to the outbreak of the conflict in the Middle East, household spending growth appeared to have slowed. Following a moderation in growth in the Q4 national accounts measure of consumption, the ABS' monthly household spending indicator (MSHI) saw nominal spending growth of 0.3 in both January and February, around half the pace of average monthly growth in nominal terms in Q4. Although the [NAB Spend Trend](#) points to a sharp 2.1% increase in March, this was largely driven by higher fuel prices, as well as some likely precautionary spending on food and groceries.

Fuel spending is likely to decline somewhat in April, reflecting the halving of the fuel excise on the 1st of the month. Indeed, our [weekly NAB transaction data](#) to 11 April showed a second weekly decline in fuel spending as the impact of the excise reductions flowed through. Of note, these data also show a tentative rebound in discretionary service spending.

Mapping from partial indicators to the national accounts measure of household consumption remains challenging, reflecting changes in seasonal spending patterns (such as Black Friday sales), measurement differences (e.g. timing of payments compared to actual consumption), as well as other coverage differences. We have pencilled in a 0.2% qoq increase in real consumption growth in Q1 which is slightly stronger than implied by the MHSI (which points to a fall of ~0.2% in real terms when combined with our forecast for Q1 CPI.)

Nominal Household Consumption Indicators



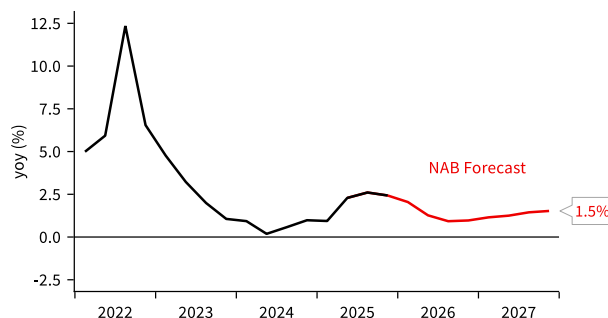
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Account in-house
Notes: * Excludes fuel spending for March 2026 only.

Looking ahead, NAB expects real household consumption growth of around 1% over 2026, a material slowing from the annual pace of 2.4% over 2025. This reflects a fading of the tailwinds that previously supported real household disposable income growth, alongside a rising unemployment rate and the effects of higher fuel prices and interest rates.

However, this forecast will depend on how households respond to the real income shock. In particular, whether consumers choose to run down savings rates (which are

slightly above pre-pandemic levels) to support spending or instead look to maintain buffers.

Real Household Consumption



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

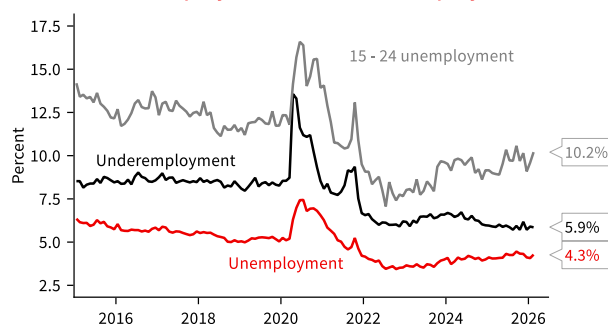
Indeed, the Westpac-MI Consumer Sentiment survey highlights these risks, with sentiment falling by 13% in April to levels last seen in early 2024. While consumer sentiment maps poorly to spending outcomes, it points to heightened cost-of-living pressures and an increased risk of precautionary saving.

Labour Market

The labour market remains resilient with trend employment growth tracking at around 30k in March, enough to keep the unemployment rate at 4.3%.

The unemployment rate has now hovered in the low-4% range since early 2025 (though has moved within a 0.4ppt range) even as non-market sector employment growth has slowed. Employment has risen by 260k (1.8%) over the past year. This has broadly matched the growth in working-age population.

Australian Unemployment and Underemployment

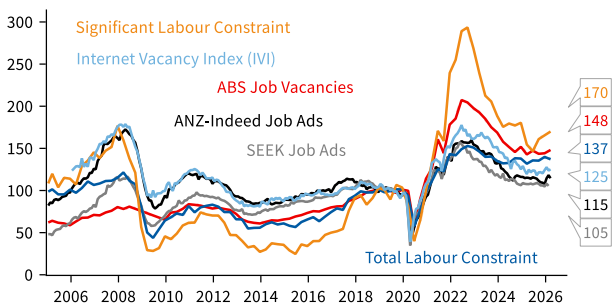


Source: National Australia Bank, ABS

Forward-looking indicators of labour demand have remained healthy over recent months, though these data largely pre-date the conflict in the Middle East and the large fall in business confidence.

Job vacancies rose 2.7% qoq in February to be at their highest level in over a year, while other job ads measures have risen since the end of 2025. The employment index in the March business survey also rose, despite the sharp fall in confidence, while reported labour constraints ticked up in the NAB Quarterly Business Survey and continue to suggest that the labour market remains tight.

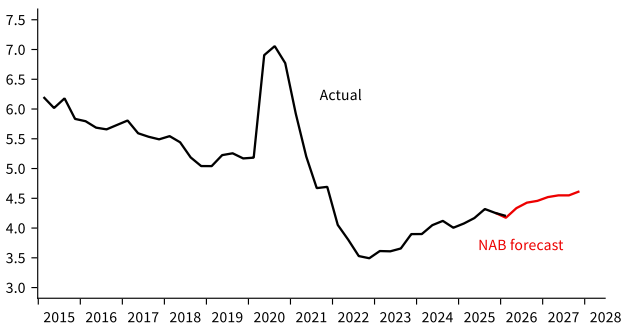
Measures of labour demand



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

At around 4.3% we see the labour market as broadly consistent with full employment, and not a particular source of broader inflation pressure. Looking forward, we expect labour demand growth to slow and the unemployment to drift up, to around 4.75%.

Unemployment Rate Forecasts



Source: National Australia Bank, RBA

Businesses

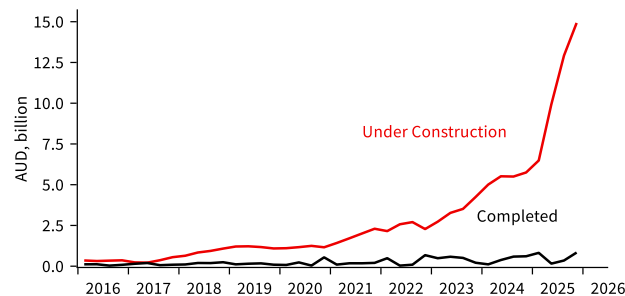
Q4 ABS Capex expectations implied moderate growth, however rising global uncertainty sees the risk that investment intentions pull back a little.

The Q4 capex data gave insight into businesses' expected investments over the next 18 months, suggesting implied growth for FY25/26 of ~6.2% in nominal terms. The key driver of this growth is an expected increase in capex of over 50% in the information, media and telecommunications sector (in which data centre investment is primarily captured).

Consistent with the Capex expectations data, the pipeline of non-residential building work underway reported in the ABS' Building Activity Survey has grown rapidly, over 20% yoy to AUD76 billion.

Data centre Capex will also support machinery & equipment investment though this will largely be offset by tech-related imports in the overall GDP number. This will also likely be a lumpier component. Indeed, February Automatic Data Processing imports unwound strong growth from the month prior to sit around levels seen across most of 2025, suggesting Q1 growth in this component may slow relative to its recent pace.

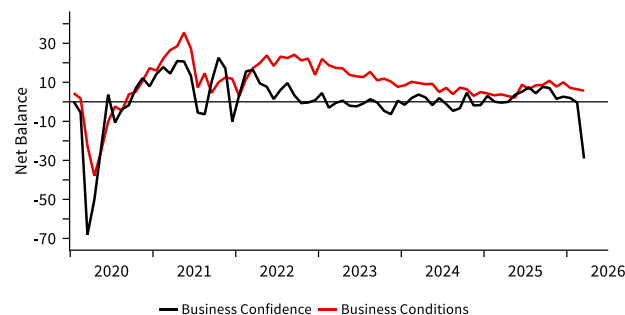
Value of Other Commercial Buildings Completed & Under Construction



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

However, while forward looking measures of business investment point to some ongoing growth, the uncertainty emanating from the war in the Middle East risks softer outcomes in the near term. Indeed, [NAB Business confidence](#) fell sharply in March, as did forward orders, alongside a spike in reported purchase cost growth.

Business Confidence & Conditions



Source: National Australia Bank, National Australia Bank, Macrobond

At least for now the activity indicators in the survey have held up, with business conditions still near their long-run average and capacity utilisation remaining above average. However, a sustained decline in business confidence will likely signal some weakness in business conditions, given these series tend to align over the course of the business cycle.

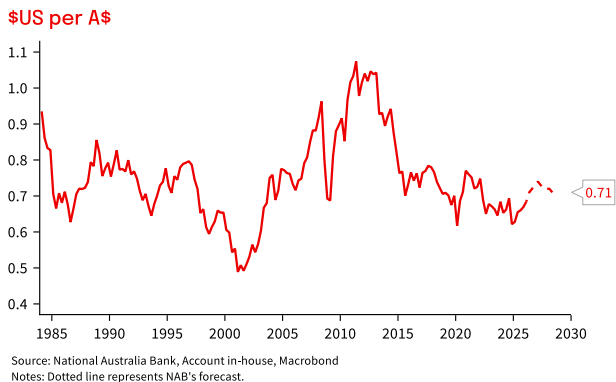
Foreign Exchange

AUD/USD has appreciated since the start of the year and is around its highest level since mid-2022.

AUD/USD and the AUD TWI have appreciated by 6.5% and 7.5% respectively since the start of the year. The AUD/USD recently reached a high of 0.7220, its highest level since June 2022.

In April, rallies in the AUD have aligned with periodic bouts of optimism towards an early re-opening of the Strait of Hormuz and related global equity market gains, alongside the ongoing support of positive interest rate differentials. Setbacks for the currency have come in conjunction with 'risk-off' episodes driven by negative headlines regarding prospects for a quick resumption of commodities flows through the Strait.

In our latest [Global FX Strategist](#), our colleagues in FX Strategy left their end-2026 forecast for AUD/USD unchanged at 0.73, continuing to characterise the AUD as a '70-75 cent currency' this year. Downside risks were also noted in the event that global growth forecasts were to suffer a significant hit from a more protracted period of highly elevated oil prices than currently assumed.

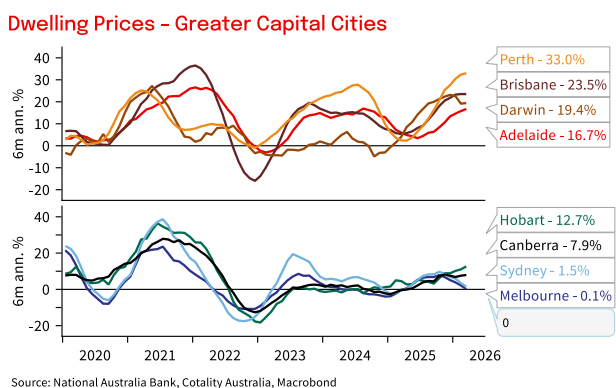


Housing

Housing price growth has eased but remains solid, with prices in mid-size capital cities continuing to outperform.

Dwelling prices across the combined capital cities rose 0.6% mom in March to be 9.3% higher over the past year. Growth has moderated since late 2025, consistent with higher interest rates and affordability constraints in some cities, although overall price growth remains solid.

There is a continuing divergence across capital cities, with mid-size capitals outperforming. On a 3-month annualised basis, dwelling prices are rising around 30% in Perth and about 20% in Brisbane. 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. In contrast, dwelling prices have declined in Sydney and Melbourne, falling by around 0.8% and 2.5% respectively on a three-month annualised basis.



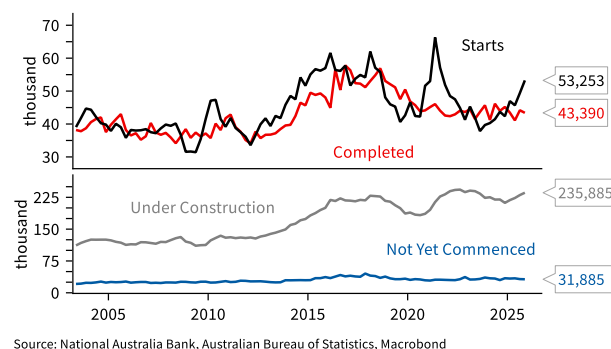
Rental market conditions remain tight, with the capital city vacancy rate at a low 1.6%. While advertised rents continue to rise, growth edged lower to 5.9% on a 6-month annualised basis in March. There are divergences across

cities, with momentum easing in Sydney and Brisbane, but remaining strong in Melbourne and Perth.

Dwelling starts have increased by 34% since late 2023, led by apartments. However, starts continue to exceed completions, keeping the construction pipeline elevated. Around 235k dwellings remain under construction, around 35% above the pre-pandemic (2010-2019) average.

Net additions to dwelling stock are well below the 2016 peak and continue to lag population growth, despite a recent pick-up. This persistent imbalance between supply and demand is expected to continue to support dwelling prices, with NAB forecasting house price growth of 5% over 2026. That said, given the high degree of uncertainty around the impacts of the conflict in the Middle East and the interest rate outlook, housing market activity may slow as these developments weigh on buyer confidence.

Residential Construction Pipeline



Inflation

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

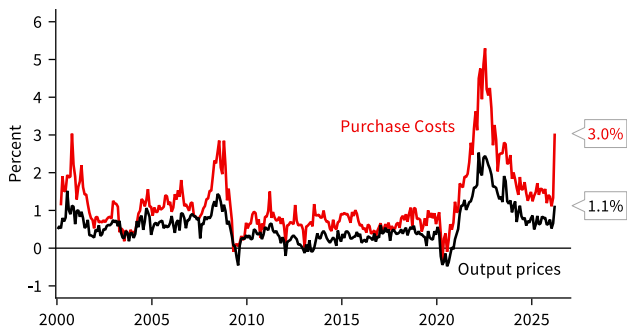
February inflation data were near expectations and leave our Q1 trimmed mean forecast at 0.9% qoq and 3.5% yoy. That would be in line with the RBA's February SoMP forecast, but only because it is boosted by the March surge in fuel prices. Without that, our trimmed mean forecast would be 0.8% qoq. Inflation data released ahead of the Middle East conflict show that inflation was both too high and broad-based, but marginally less concerning than the RBA feared in their February SoMP forecast.

Looking forward, we expect inflation to peak in Q2, with trimmed mean at 3.9% yoy and headline at 4.9%. We expect trimmed mean inflation to be cumulatively 0.5ppt higher over the course of 2026 due to the cost shock emanating from the Middle East.

For context, at current diesel prices, the additional cost of diesel used for road transport alone (compared to February prices) is equivalent to over 1% of total household spending. The magnitude of this shock is outside historical experience. We expect rapid and forceful propagation through a breadth of consumer prices, but there is significant uncertainty about the magnitude and timing. If price rises cascade through explicitly temporary price

changes or surcharges, then core inflation may prove to be less persistent than the historical experience would suggest.

NAB Survey Prices

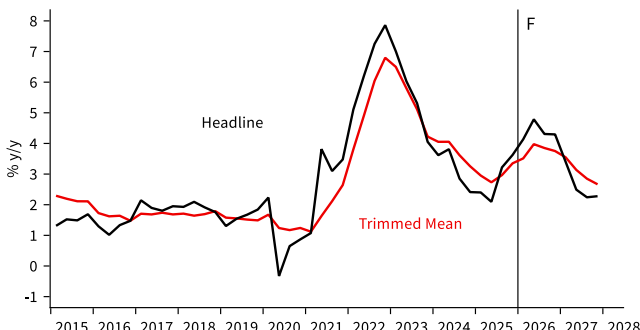


Source: National Australia Bank

While we expect headline inflation to peak near 5% in Q2, the 32c reduction in the fuel excise tax directly reduces headline CPI by about 4 tenths in that quarter, before adding back when it expires.

We base our central CPI forecast on the naïve assumption that underlying fuel prices will be little changed through June, and gradually moderate over the following months, consistent with oil prices moderating towards \$80 a barrel in early 2027. Each 10% increase (decrease) in the fuel price directly adds (subtracts) 34bp from CPI.

Inflation and NAB Forecast



Source: National Australia Bank, ABS, RBA

Monetary Policy

We expect the RBA will increase interest rates by 25bps at the May board meeting, taking the cash rate to 4.35%.

That would see the cash rate reach the same peak reached prior to the series of rate cuts we saw in 2025. From there, we see the cash rate on hold for an extended period before the RBA begins to normalise rates from mid-to-late 2027.

We see policy at 4.35% as moderately restrictive and sowing to slow activity. However, rates remain well below historical peaks in tightening cycles and given the strength in underlying inflation, real interest rates remain low. In the near term the policy debate will continue to revolve around whether policy is sufficiently restrictive to

ensure inflation will return to target within a reasonable timeframe.

The RBA faces a challenging policy environment which has been significantly complicated by developments in the Middle East. The sharp increase in oil prices represent a supply side shock. The rise in energy prices will flow through and support national incomes through higher government tax (at the Federal level) and royalty income (at the State level). This will support the economy through the fiscal backdrop but also through mining sector dividend income for domestic equity owners. However, the near-term impact on household demand/consumption growth through a large shock to real incomes weighs on our forecasts of activity growth.

The recent increases in fuel costs remain large. They are also highly visible and come against a backdrop of already elevated costs. We expect quick passthrough via “fuel surcharges” and other price increases given the starting point for the domestic economy pre the Middle East conflict.

This makes the RBA’s job of managing the impact on inflation expectations more challenging.

Outside of the uncertainty of the impact of the Middle East, and the associated inflation impulse, the backdrop for the RBA is that of an economy growing above its potential rate, a labour market near capacity and accelerating inflation even prior to the unfolding supply shock. However, the RBA Monetary Policy Board has left itself little room to wait out any inflation shock with underlying inflation having accelerated above 3% in late 2025. The impact of subsidies and volatility in the data will also complicate the read of the true underlying pace of inflation and growth in the economy.

The RBA will provide an updated set of forecasts at the May meeting. The staff forecasts will have a higher assumed track for interest rates, a higher exchange rate assumption and a weaker starting point for growth in Q1, and with underlying inflation broadly in line with previous expectations and an unemployment track that is only slightly higher. The overall theme of their forecasts will likely remain one of growth slowing enough to see some spare capacity building up in the economy and underlying inflation returning to the mid-point of the target by mid-2028.

At this stage, we expect the RBA to remain on hold at a cash rate of 4.35% for the remainder of 2026. This forecast assumes that the combination of 75bp of interest rate rises and a slowing in GDP growth (now larger than we expected even just one month ago) will be sufficient to ensure inflation returns to the mid-point of the 2-3% target band over a reasonable time period. This is despite an even less favourable forecast trajectory for inflation and overall financial conditions which have not tightened much since the March RBA meeting (ASX200 higher, swap yields and credit spreads largely unchanged, \$A TWI a touch higher).

Hence, we see risks to our forecasts as somewhat asymmetric. If key shipping channels reopen soon then the RBA may tilt to worrying more about inflation and less about growth as the growth slowdown proves more short-lived in nature while inflation remains sticky and elevated. This scenario could result in a higher terminal cash rate than we currently forecast.

However, in the event conflict resumes, supply of oil remains constrained and supply shortages across a range of goods adversely impacts growth outcomes in H2 26 and beyond, we still think the RBA cash rate will be likely to reach 4.35% next month. Perhaps in this scenario, the more relevant issue for consideration is whether the RBA could pivot quickly to a more dovish stance as growth impacts become more consequential.

Key Forecasts

Australia forecasts

	% Growth q/q			% Growth y/y		
	Q4-25	Q1-26 (f)	Q2-26 (f)	2025	2026 (f)	2027 (f)
GDP and Components						
Private Consumption	0.3	0.2	0.2	2.4	1.0	1.6
Dwelling Investment	0.6	0.2	0.2	5.5	0.9	2.2
New Business Investment	0.1	-0.2	0.1	4.0	0.0	1.0
Underlying Public Final Demand	0.9	0.6	0.4	2.4	1.8	1.6
Domestic Demand	0.5	0.4	0.3	2.9	1.5	1.9
Stocks (Cont. to GDP)	0.2	-0.1	0.0	-0.2	-0.1	0.1
Gross National Expenditure	0.9	0.2	0.3	3.0	1.3	2.0
Exports	1.4	0.4	0.4	5.2	1.5	1.6
Imports	1.8	0.3	0.4	6.7	1.3	1.7
Net Export (Cont. to GDP)	-0.1	0.0	0.0	-0.3	0.1	0.0
Real GDP	0.8	0.3	0.4	2.6	1.5	1.9
Nominal GDP	1.8	0.9	1.3	6.0	4.5	4.1
Labour Market						
Employment	0.3	0.6	0.3	1.2	1.7	1.2
Unemployment Rate (Q-Ave, End of Period)	4.2	4.2	4.4	4.2	4.5	4.7
Wage Price Index (WPI)	0.8	0.8	0.8	3.4	3.2	3.2
Inflation and Rates						
Headline CPI	0.6	1.4	1.4	3.6	4.3	2.3
Trimmed-mean CPI	0.9	0.9	1.1	3.4	3.8	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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