

## Australia Watch

# Weaker growth forecasts amid global turbulence

## Growth forecast shifted down modestly in 2025

The Australian economy entered 2025 in a cyclical upswing with growth expected to gradually accelerate, but global headwinds are constraining the recovery. We have lowered our GDP growth forecast for 2025 from 1.9% to 1.6% amid weaker global growth weighing on export volumes and elevated uncertainty reducing consumption and investment (see report: [Caught in the \(tariff\) crossfire: Australia's growth risks](#), Exhibit 1). However, we have slightly raised our 2026 growth forecast from 2.0% to 2.2% as we expect a positive fiscal impulse, RBA cash rate cuts, and rising global growth will support demand (see report: [Global Economics - Surfing the tariff wave](#)).

## Inflation forecasts trimmed, but above the midpoint

Inflation has been revised down to 2.6% in 2025 (from 2.9%) as weaker domestic demand flows through to lower non-tradable inflation, while lower oil prices and trade diversion reduces tradable inflation (Exhibit 3). Inflation should pick up to 2.8% in 2026 as growth accelerates and stimulus supports higher prices. While inflation risks are skewed to the downside, our base case sees inflation remaining above the RBA's target midpoint in 2025 and 2026.

## RBA forecasts unchanged, next cut in May

We maintain our view that the RBA would cut by 25bps in May to help offset the negative growth effects from the global trade shock. The starting point – underlying inflation above target, unemployment rate below the NAIRU – suggests the RBA would likely take a cautious approach to assess the impact of tariffs rather than rush to aggressively cut. Nevertheless, the risk distribution has shifted to the RBA easing more than our out-of-consensus forecast for two more 25bp cuts in 2025 in response to downside growth risks.

## Risks skewed to the downside

Our revised outlook hinges on the assumption of no further escalation of US tariffs from here on, although the US trade policy stance on China will remain restrictive. However, a re-escalation of tariffs, which would further lower growth, cannot be ruled out. Even with tariff de-escalation, there is a risk the uncertainty shock could end up having a larger and more persistent impact on investment and consumption.

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Economics  
Australia

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NAIRU- Non- Accelerating Inflation  
Rate of Unemployment

## Weaker global growth backdrop...

We expect a slower growth path for the global economy, growing 2.8% in 2025 and 3.0% in 2026, given higher tariffs, growing uncertainty around trade and the likely negative impact on investment. The revised global growth forecasts represent a downgrade of 30bp and 20bp in 2025 and 2026, respectively, from the earlier baseline. The majority of the growth downgrade is explained by lower growth in the US and China (see report: [Global Econ - Surfing the tariff wave](#)).

The uncertainty bands are obviously significant. We expect some de-escalation and eventually a US-China deal in the coming months, with effective tariffs on China converging to around 50%. We also expect additional policy stimulus in China to counter the trade shocks, which will help growth in Australia (see report: [Asia Econ - Downgrade Asia growth forecasts on persistent pressure from tariff shocks](#)).

### Exhibit 1: Australia Economic Forecasts

Geopolitical uncertainty and trade tensions expected to weigh on the economy in the near-term

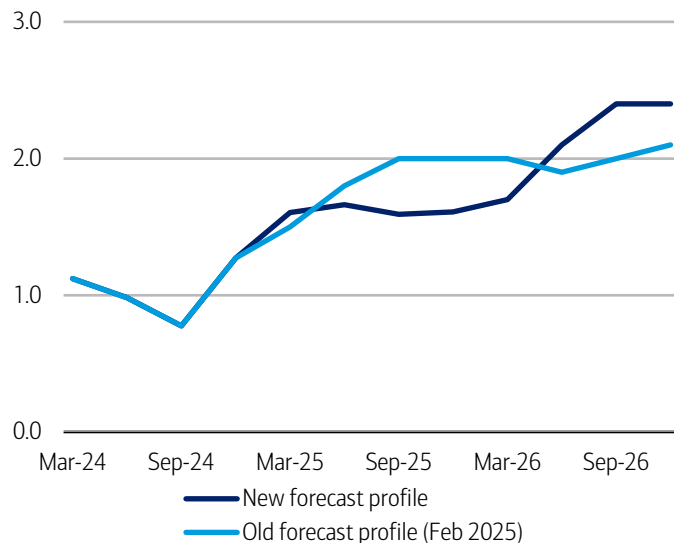
	2025				2026						
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	2024F	2025F	2026F
Gross domestic product											
%ch from last quarter	0.5	0.3	0.3	0.6	0.6	0.6	0.6	0.6			
% ch from year earlier	1.6	1.7	1.6	1.6	1.7	2.1	2.4	2.4	1.0	1.6	2.2
Labour Market											
Employment	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	2.9	2.0	1.2
Unemployment rate (%)	4.1	4.2	4.3	4.4	4.4	4.3	4.3	4.3	4.0	4.3	4.3
Inflation											
Headline CPI	0.8	0.9	0.7	0.5	1.0	0.5	0.6	0.6			
% ch from year earlier	2.2	2.2	2.8	3.0	3.1	2.7	2.6	2.7	2.9	2.6	2.8
Trimmed Mean CPI	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7			
% ch from year earlier	2.8	2.6	2.5	2.7	2.8	2.8	2.8	2.8	3.7	2.7	2.9
Interest rates											
RBA cash rate	4.10	3.85	3.85	3.60	3.60	3.60	3.60	3.60	4.35	3.60	3.60

Source: BofA Global Research

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### Exhibit 2: GDP Forecasts (% yoy)

We expect weaker GDP growth in 2025, before a rebound in 2026

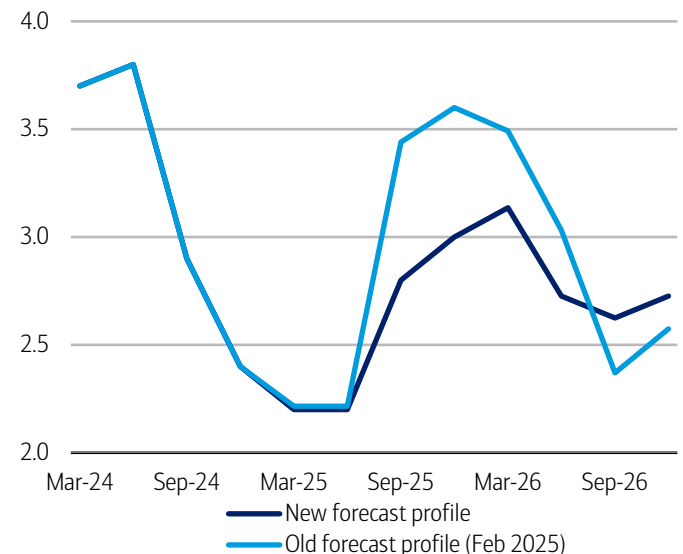


Source: ABS, BofA Global Research

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### Exhibit 3: Headline inflation forecasts (% yoy)

Headline inflation revised down in 2H-2025, but picks up in early 2026



Source: ABS, BofA Global Research

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## ...weighs on Australian growth in 2025

The weaker global growth backdrop is expected to weigh on Australian growth, particularly in Q2, but the overall impact is relatively muted. We expect a modest direct effect from tariffs, but larger indirect effect through lower global growth (primarily



China) with negative spillovers to lower exports. Heightened uncertainty and lower confidence are expected to lower investment intentions in Q2 and delay in the gradual lift in consumer spending as precautionary savings increase.

On the positive side, we expect a positive fiscal tailwind and further RBA easing to support growth, and we have slightly raised our 2026 growth estimates from 2.0% to 2.2%. We also anticipate fiscal stimulus in China will support export volumes and commodity prices.

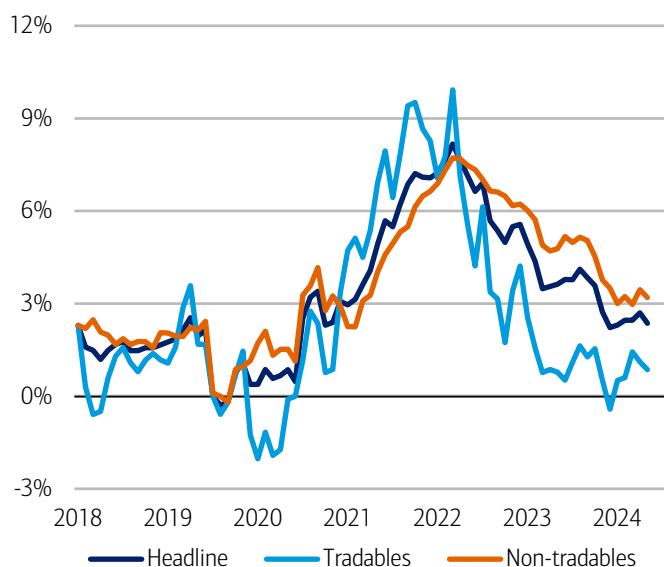
## Inflation revised down in the near-term

Inflation is forecast to rise to 2.6% in 2025 (revised from 2.9%) as weaker domestic demand flows through to lower non-tradable inflation. Tradeable inflation will also slow as lower oil prices and trade diversion lowers import prices (Exhibit 4). Inflation should pick up to 2.8% in 2026 as growth accelerates and stimulus supports higher prices. The overall impact of the trade shock on inflation is uncertain, but we view risks as skewed to the downside.

In the recent Budget, the Australian government announced a \$1.8bn extension of the Energy Bill Relief Fund, extending the energy rebates another 6 months until the end of 2025 (see report: [Budget review: back in the red](#)). As a result, the expected energy-driven jump in headline CPI shifts from Q3-25 to Q1-26. Treasury estimates this will lower headline inflation by 0.5ppts in Q4-25, but we note uncertainty around second-round effects from increased demand in response to rebates.

### Exhibit 4: Tradable and non-tradable inflation (% y/y)

Tradables account for around one-third of the CPI basket



Source: ABS

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## Labour market to ease, but remain relatively tight

The weaker growth outlook implies a slightly weaker labour market in 2025 than previously expected. We now forecast the unemployment rate to increase from 4.1% in Q1 to 4.4% in Q4 (revised from 4.3%), before declining to 4.3% in Q2-2026. Despite the forecast revision, the labour market remains relatively tight alongside lower GDP growth, partly as we expect employment growth will continue to be driven by government-related sectors that have lower productivity.

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