

The Domestic View: Cyclical slowdown, structural limits

Commonwealth Bank · 2026-09-09 · English original

Key points

- Australia's economy is entering a cyclical slowdown, with growth expected to moderate through the rest of 2026 before gradually picking up in 2027.
- Private demand is becoming a more important driver of growth, supported by business investment, including strong investment in renewables and data centres.
- Household spending remains resilient but is starting to slow, as higher interest rates, falling home prices and cost-of-living pressures weigh on consumers.
- The labour market is gradually moving back towards balance, with unemployment rising and wages growth expected to ease.
- Inflation is proving more persistent than expected, limiting the RBA's room to lower rates even as economic growth slows.

The Australian economy is embarking on a cyclical slowdown. Growth peaked at 2.6% in the December quarter 2025 and slowed to 2.1% in the June quarter 2026.

We expect this moderation to continue through the remainder of the year, with growth slowing to ~1.5%. However, the outlook remains subject to considerable uncertainty with the Middle East conflict, household behaviour and the timing of data centre investment among the key risks to the growth profile.

• CommBank View 2

Australia's growth composition is shifting. Private demand is rising, helped by business investment including renewables and data centres.

Data centre investment has been choppy the last two quarters with strong fit outs driving growth in Q1 26 before switching to new buildings and structures for data centres in the June quarter.

We expect data centre investment to continue to add to growth in coming years, with the estimated net direct contribution to real GDP of +0.2ppts each year.

Household spending has remained largely resilient despite growing headwinds from interest rate hikes, falling home prices and continued weak sentiment.

But again, there have been interesting developments in the detail. In the June quarter, Electric Vehicle (EV) purchases drove most of household spending as higher petrol costs and government subsidies likely brought forward spending.

At the same time the Middle East conflict and cost of living pressures lowered travel by Australians to Europe and North America. Some of this spending was recycled on shore and likely contributed to

inflationary pressures in the domestic economy.

We continue to see household spending slowing from here and unpack the risks below. Public demand has made a more modest contribution to growth in the recent period.

Public investment remains elevated but off its peak while public consumption has slowed.

We expect public demand to make a solid contribution to growth given government spending remains elevated as a share of GDP. But private demand is expected to play a bigger role in driving economic growth.

In line with a slowing economy there are signs the labour market is moving back towards balance. The unemployment rate, on both a trend and seasonally adjusted basis has lifted to 4.5%. Other measures of slack in the labour market, including underemployment and hours worked also show a loosening.

Underutilisation sits at 10.8%, compared to 9.9% at the end of 2025. A labour market looking more in balance has implications for wages growth, household incomes and inflation. There is a strong link between unemployment and wages set by individual arrangements. A loosening in the labour market should see wages growth largely contained and eventually pass through to inflation.

We see wages growth peaking at 3.4% late 2026 before easing to 3.1% by end 2027 and 3.0% by end 2028. The timing of this sequence and the lags will be important from here for both the path of the economy and interest rates.

Despite growth slowing roughly in line with expectations, inflation remains too high and is proving more persistent than we had expected. The July CPI showed several measures of inflation accelerate, including trimmed mean, market services and our own measure of persistent inflation.

- RBA Pricing

- CPI Inflation

The July inflation surge, together with our view that the RBA is losing patience saw us change our cash rate call on 27 August. See here for details. We now expect a final rate hike this cycle in November to take the cash rate to 4.60%.

The 28-29 September meeting is live with a hike firmly on the table given the recent data flow, language shifts by the RBA in recent communications and marketing pricing.

Waiting for the November meeting will allow for refreshed forecasts as well as the full picture of inflation over the quarter given month to month volatility.

It is the path of several key indicators that could change the outcome for the economy and interest rates as we enter the final stretch of the year.

As we have flagged in previous CommBank Views - the path of household consumption remains a key risk. We recently downgraded our home price forecast here. We now see a peak to trough fall nationally of 9% due to weaker housing market momentum than expected.

Overexuberance is unwinding across mid-tier capitals, the Budget tax changes continue to dampen investor sentiment, and the additional interest rate hike in our forecasts will keep prices depressed. A 9% peak to trough fall would see home prices return to levels last seen nationally in March 2025.

However, the expected 12% peak to trough fall in Melbourne would take prices back to January 2021

levels while an 8% fall in Perth would see prices return to October 2025 levels. The downgrade to our home price forecasts raises the risk of a more negative impulse on household consumption from the wealth effect. But a high savings rate will allow households to smooth consumption if desired. We are seeing evidence of slower consumption growth compared to late 2025.

The exception to this over the June quarter was the large lift in EV purchases noted above. Outside of this, consumption was softer. We expect household consumption to slow from 1.8%/yr in Q2 26 to 1.1%/yr in Q4 26. More resilient household spending would raise the risk of inflation being more persistent than our current expectations. Elevated energy and other input costs, particularly diesel, also raise the risk of lingering pass through to final consumer prices.

The spread between petrol and diesel prices has widened. We unpack oil and diesel markets further below, but overall, we expect diesel prices will take longer than crude oil prices to return to pre-Iran war levels. We expect there has been a change in willingness from businesses to adjust prices more quickly as a result. Risks to the outlook remain to the upside on inflation. Risks to economic growth are more balanced given outcomes have broadly tracked in line with expectations. Despite the change to our interest rate forecast this year, we maintain two interest rate cuts in our profile for 2027. But risks are tilted towards no interest rate cuts next year given the number of factors that need to fall into place around growth, inflation and the labour market for the RBA to justify lowering rates. Uncertainty over the Board's reaction function remains in place. A guarded approach to rate cuts after the 2025 inflation resurgence could see a longer period on the sidelines before taking some of the restriction out of the monetary policy setting.

It's worth noting that even with 50 basis points of cuts in our profile next year, monetary policy would still be considered restrictive at our implied cash rate of 4.10% given the current estimate of the nominal neutral cash rate is ~3.7%. We acknowledge though that upside pressures continue to persist with neutral cash rate estimates. Looking beyond this economic cycle, Australia has a large investment pipeline; with data centres, housing, defence, and renewables are all on the agenda, competing for scarce resources. We continue to remain optimistic on Australia's growth outlook beyond this economic cycle. However, ongoing speed limit challenges will continue to pressure inflation on an ongoing basis. The key to unlocking higher growth potential, as always, is productivity growth.

This report is not investment research and nor does it purport to make any recommendations. Rather, it is for informational purposes only and is not to be relied upon for any investment purposes. This report has been prepared without taking into account your objectives, financial situation (including your capacity to bear loss), knowledge, experience or needs. It is not to be construed as an act of solicitation, or an offer to buy or sell any financial products, or as a recommendation and/or investment advice. You should not act on the information contained in this report. To the extent that you choose to make any investment decision after reading this report you should not rely on it but consider its appropriateness and suitability to your own objectives, financial situation and needs, and, if appropriate, seek professional or independent financial advice, including tax and legal advice.

- [CommBank View](#)
- [News](#)
- [CBA story](#)

Newsroom

For the latest news and announcements from Commonwealth Bank.

The information presented is an extract of a Global Economic and Markets Research (GEMR) Economic Insights report. GEMR is a business unit of the Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. This extract provides only a summary of the named report. Please use the link provided to access the full report, and view all relevant disclosures, analyst certifications and the independence statement. The named report is not investment research and nor does it purport to make any recommendations. Rather, the named report is for informational purposes only and is not to be relied upon for any investment purposes. This extract has been prepared without taking into account your objectives, financial situation (including your capacity to bear loss), knowledge, experience or needs. It is not to be construed as an act of solicitation, or an offer to buy or sell any financial products, or as a recommendation and/or investment advice. You should not act on the information contained in this extract or named report. To the extent that you choose to make any investment decision after reading this extract and/or named report you should not rely on it but consider its appropriateness and suitability to your own objectives, financial situation and needs, and, if appropriate, seek professional or independent financial advice, including tax and legal advice.

Source: <https://www.commbank.com.au/articles/newsroom/2026/09/commbank-view-cyclical-slowdown-structural-limits.html>