

Weekly Economic Update



4 September 2026

Wednesday's much anticipated National Accounts confirmed that Australia's economy is stuck in a dismal rut of insipid growth, zero productivity, falling living standards, tumbling house prices, flatlining business investment (outside data centres), rising unemployment, sticky inflation and rising interest rates. Apart from all that ...

Amid this gloom, growth in Australia's economy actually was slightly better than the boffins had expected at a still weak 0.4% over the quarter, a small improvement from Q1. But GDP growth over the year slipped to 2.1%, from 2.5% in the year to March. That's pretty underwhelming for an economy that routinely grew faster than 3% in the good old days.

Households delivered half the growth in the economy last quarter - fully two-thirds of that was spending on EVs. Cars are imported, so this particular spending is a drag on GDP. Net overseas exports, home building and government spending provided the rest of the growth. Private business investment was flat, albeit after a spike in Q1 thanks to the stop-start data-centre boom.

There was no growth at all in either productivity or real per capita GDP (the best measure of living standards), after falls in both in Q1. If you want a preview of where our living standards are headed from here, look at the chart below ... and then look away. Poor productivity means (even) lower living standards, which already have fallen in 10 of the last 14 quarters. That's unprecedented.

Remember, this is the economic slowdown the RBA board has engineered via higher interest rates. Board members are trying to cool our profligate spending habits to better balance demand with sluggish growth in supply (our potential growth, which is determined by productivity growth).

This is about 2% so, on this week's evidence, we are pretty much there. This should help quell underlying inflation pressures. Eventually.

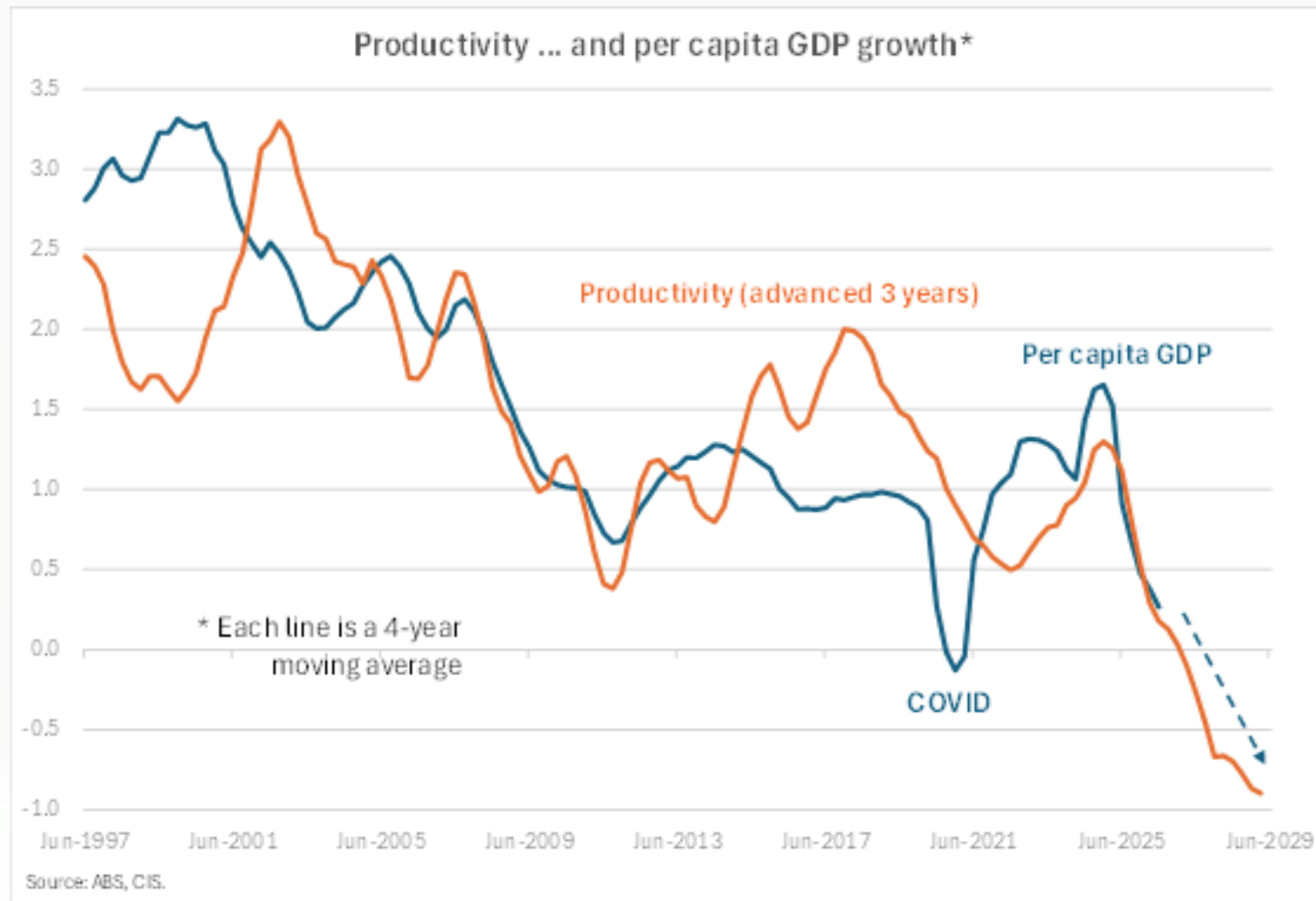
That said, oil prices have spiked again as hostilities in the Middle East have escalated and rents are known to be soaring. That's because many potential housing investors have fled because of the recent tax changes. Fewer investors means fewer homes for rent. This imbalance not only was foreseeable but was foreseen, including by this economist. Someone should tell Treasury.

Further on housing, the price correction is accelerating and broadening. Prices nationally fell nearly 1% in August, with every major city except Darwin reporting a decline. Some economists claim we're on track for double-digit falls, the steepest decline in four decades. This correction will be exacerbated should the Reserve Bank pump the brakes again later this month, as seems likely.

All the while, global interest rates have spiked to multi-decade highs on twin fears - that surging crude oil prices will fuel even more inflation and that central banks have been way too slow lifting interest rates. The RBNZ joined the "reluctant" rate hike club this week, with the US Fed poised to do so soon. Bond yields in Australia are at a 15-year high. This will add to the federal government's ballooning interest costs, which already are the fastest growing spending item in the budget.

Do something enjoyable over the weekend that distracts you from this mess.

See graph over the page.



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