Weekly Economic Update

OPTIMAL ECONOMICS

7 August 2026

There was some unexpectedly upbeat domestic economic data released this week to contrast with the ongoing (and worsening) correction in national house prices. The price falls accelerated in July and have broadened beyond Sydney and Melbourne, where prices now are down more than 5% from the recent peak.

Of the other data, the biggest surprise was in household spending, which leapt 0.8% in June – four times faster than economists had forecast – after a strong gain in May, too. The strongest rises were in transport, thanks partly to increased air travel, and in alcohol and tobacco. Hmmm. The discretionary areas of spending were the firmest, despite weak consumer confidence, falling house prices and higher interest rates.

The fact that consumers continue to spend up despite headwinds demonstrates the importance of the robust labour market, which is supporting household incomes. The jobless rate remains low and there was a huge gain in employment in June, even though most of the roles were part time. Job advertisements rose in July, so the resilience probably will continue.

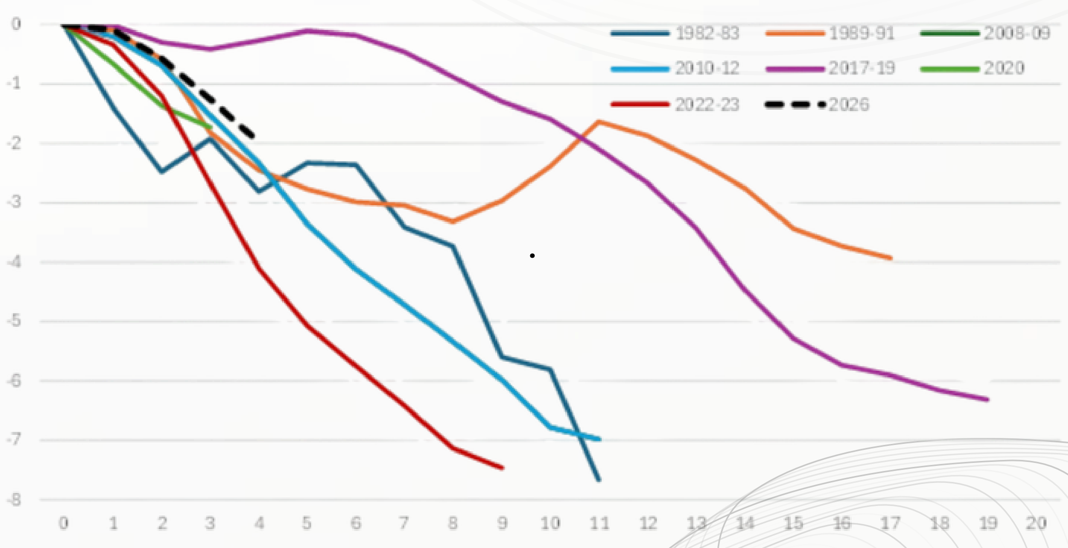
But the strength of the labour market complicates matters for the RBA board, which gathers early next week to decide whether to raise interest rates for a fourth time this year. Most economists expect no change thanks to the downside inflation surprise last week. But core inflation has been above the mid-point of the Bank's target zone for four years, so interest rates probably have to rise again. But not yet.

The apparent death spiral in house prices is another complication, albeit running the other way. National prices fell 0.7% in July, the biggest monthly drop since 2022. This reflects the toxic combination of higher interest rates and the May Budget's tax changes that are chilling potential investors. House price declines are not unusual, of course, and this decline is tracking the average fall since 1980 (see chart). But there's no sign yet of a floor.

In financial markets, the local equity market touched a record high mid-week, but the biggest action has been in bond markets. Global interest rates have spiked since the new chair of the US Federal Reserve said he had a "resolute commitment" to restore price stability … but then did nothing with interest rates. It was an inauspicious start given inflation in the US also is well above target, but the President was pleased.

All the while, the US-Iran war continues, although both sides confirmed this week they were in discussions to reopen the clogged Strait of Hormuz, where idle tankers bob like corks. No sensible observer takes these announcements seriously anymore, but let's be positive. Crude oil prices fell sharply.

Cumulative house price declines since 1980, %



Source: Cotality, Optimal Economics.

Stephen Walters

Chief Economist,
Optimal Economics

Call us:
+61 499 976 196

Email:
stephenwalters@optimaleconomics.com.au

Website:
https://optimaleconomics.com.au/