Weekly Economic Update

OPTIMAL ECONOMICS

16 January 2026

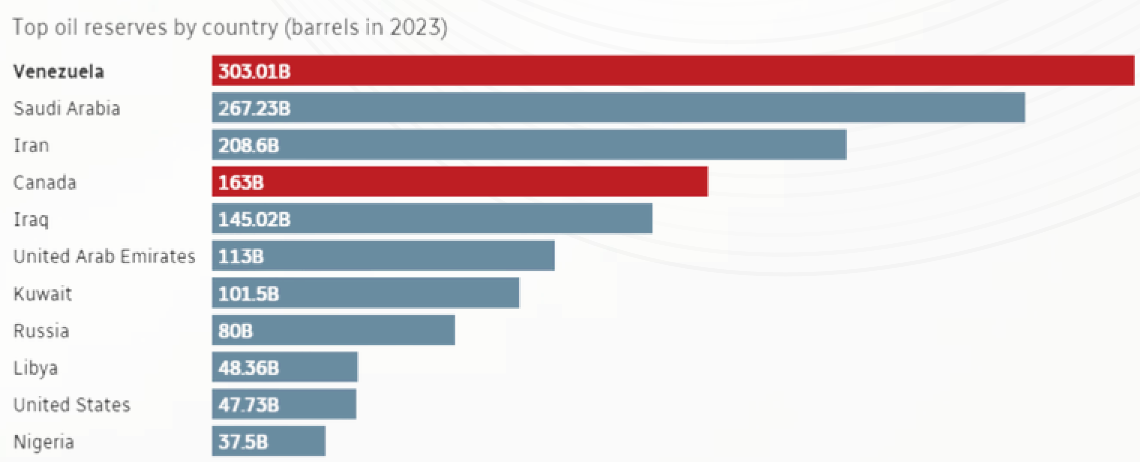
Welcome to the first Eco Weekly of 2026 - below is a synopsis of what you may have missed over the break and a summary of economic developments this week.

Domestically, the main event over summer was the undershoot on **annual inflation** in November, although it remains elevated. The monthly series is in its infancy, but it's a complete measure now rather than the partial indicator released previously. So, we should take notice. Crucially, while inflation fell slightly, at 3.4%, it remains above the target zone of the **Reserve Bank**. The official forecasts showing a persistent inflation overshoot this year make further interest rate cuts improbable, a gloomy reality check that RBA Deputy Governor Andrew Hauser all but confirmed in a rare TV interview last week. In fact, futures pricing implies the next move in the cash rate will be up. Some economists forecast a rate hike as early as February, but a later rise is more likely.

Also here in Australia, the **house price data** for December showed more modest gains in prices on the national measure and lower prices in Sydney and Melbourne. This reflects the prospect of RBA rate hikes - previously, investors were savouring the likelihood of lower interest rates. Earlier, the **November jobs report** revealed an unchanged jobless rate at 4.3%, despite a plunge in total employment. The leading indicators of employment have been weakening for some time.

Finally, the federal government slipped out its **annual budget update** (and the tax expenditure statement) a few days before Christmas. The update contained mainly good news, with a slightly lower deficit forecast, helped by revenue upgrades. But we're still staring at budget deficits for a decade and rising government debt.

The main overseas development was the US government's controversial "extraction" of the **Venezuelan President**. The manoeuvre was successful on a military level but adds considerably to already elevated geopolitical uncertainty. Who and what is next? President Trump has his sights set on Greenland, a territory of NATO member Denmark, and its vast mineral wealth. There was little immediate movement in **crude oil prices**, though, despite Venezuela boasting the world's largest known oil reserves (17% of total, compared with just 5% of global production, thanks to depleted infrastructure) – *see chart below.*



Reserves are estimated volumes of crude oil anticipated to be commercially recoverable from known accumulations from a given date.

Source: OPEC, Natural Resources Canada (CBC)

In financial markets, the sharp rise in **Australian bond yields** late last year continued as global investors repositioned to reflect the likelihood of higher short-term interest rates here. The **Aussie dollar** rose to a 14-month high this week in response. **Share markets** generally ground higher over the summer despite the geopolitical troubles, with new record highs set this week in the US, Europe and Japan (but not in Australia!). The limited share market in Venezuela has increased four-fold since the US extraction! **Gold prices** also reached yet another record high this week, triggered by the additional uncertainty.

This week in Australia, there was unexpected strength in household spending. **Retail sales** rose more than 6% in the year to November, well above economists' expectations. This was thanks largely to the growing popularity of sales gimmicks like Black Friday and Cyber Monday, although these drag spending forward from the traditional Christmas period. But **consumer confidence** dipped again in the January survey after the unexpected plunge in December. The sagging confidence measure is back to where it was a year ago, before the RBA's rate cuts. The main overseas event this week was President Trump launching a **criminal probe** against the chairman of the Federal Reserve over his testimony over the cost blowouts of renovations. This distraction and affront risks further undermining the Fed's independence as an inflation fighter.

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