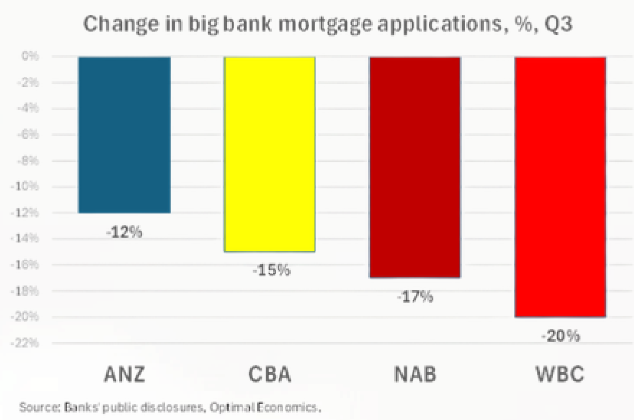
Weekly Economic Update

OPTIMAL ECONOMICS

21 August 2026

Someone should tell the federal government that the benign housing market adjustment assumed in the Budget forecasts is well past its use-by date. NAB reported this week that applications for new home loans had tumbled 17% from the June quarter, in line with the collapse in applications for the other big banks (see chart below).



The decline in loan applications is a sure sign potential buyers are holding off. More house price falls are ahead because vendors will have to lower their price expectations to secure a sale. For now, low auction clearance rates suggest a stand-off. So far, house prices have slipped broadly in line with historical averages but, on evidence coming to hand, this correction is shaping up as worse.

Predictably, loan applications by investors are leading the decline because the long-term tax arrangements for housing fundamentally changed on Budget night. NAB's economists this week said rents would have to rise up to 30% to counteract the drag on after-tax returns (or, alternatively, house prices fall, or both). It wasn't a forecast, but an estimate of the rent rises needed to compensate investors.

In better news, mortgage holders at least reported a bounce in sentiment this week in the Westpac Consumer Confidence results. Reponses received after the RBA left the cash rate steady last Tuesday were stronger than those received before. Overall, confidence bounced 6% in August, although the headline measure remains depressed, with pessimists outnumbering optimists.

Also in the sentiment data was another rise in the measure of whether now was a "good time to buy a dwelling". A small majority of respondents still say no, but the index is the highest since late last year. It follows Friday's lending data showing a (tiny) rise in the proportion of first-time buyers, albeit because investors and other owner-occupiers pulled back. Let's call these green shoots.

This week saw the release of more data on the labour market with the quarterly wages data on Wednesday and the monthly jobs report yesterday. Employment unexpectedly fell by nearly 16,000 positions in July, albeit after a huge gain in June. Given this volatility, changes in the unemployment rate can help clarify what's really going on – it increased a touch to 4.5%.

For wages, there was a 0.8% gain over the June quarter (with public sector wages again rising faster than for private sector jobs), which left the annual gain at 3.2%. This seems decent enough until measured against inflation which, on the core measure, is running at 3.6%. So, real wages fell again last quarter and have declined in four of the last six years.

There was a public finances milestone of sorts this week when Commonwealth debt reached $1 trillion for the first time. It will dip back below $1 trillion today with a small debt repayment, but the trend is up as the government continues to spend beyond its means. A reminder though that, as a share of GDP, Australia's public debt is low at 35%, compared to above 100% for the US and UK and 250% for Japan.

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Company earnings (confession) season has kicked off locally. One standout corporate result this week was from JB Hi Fi, which reported weak gadget sales, despite the underlying strength of the labour market and rising incomes. Uncertainty about tensions in the Middle East, high petrol prices and the outlook for interest rates (that is, likely further hikes) are weighing on spending behaviour.

Finally, we've now had six months of open conflict between Iran and the US and Israel as the two-month ceasefire this week expired without fanfare. Markets took this in their stride (crude oil prices trading are where they were a month ago), with attention focussed elsewhere. Indeed, copper prices reached a record high this week and US government bond yields touched a 30-year high on concerns about inflation and the growing US debt pile.

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