

# Weekly Economic Update



OPTIMAL  
ECONOMICS

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Household spending in Australia rose 0.3% in February, better than economists had forecast, but a marked slowdown from the cracking pace set late last year. Growth in spending on discretionary items beat nondiscretionary spending, despite weaker confidence and the RBA's rate hike that month. But, of course, this data predates the war in Iran and the spike in petrol prices, which has punched a yawning hole in many home budgets.

On the war, there was respite this week, with President Trump announcing a two-week ceasefire, which should allow some shipments to pass through the "unblocked" Strait. Crude oil prices plunged on the good news, as share markets bounced. The local ASX, recently down 9% from its pre-war record, enjoyed its best single-day gain in a year (up 2.6%).

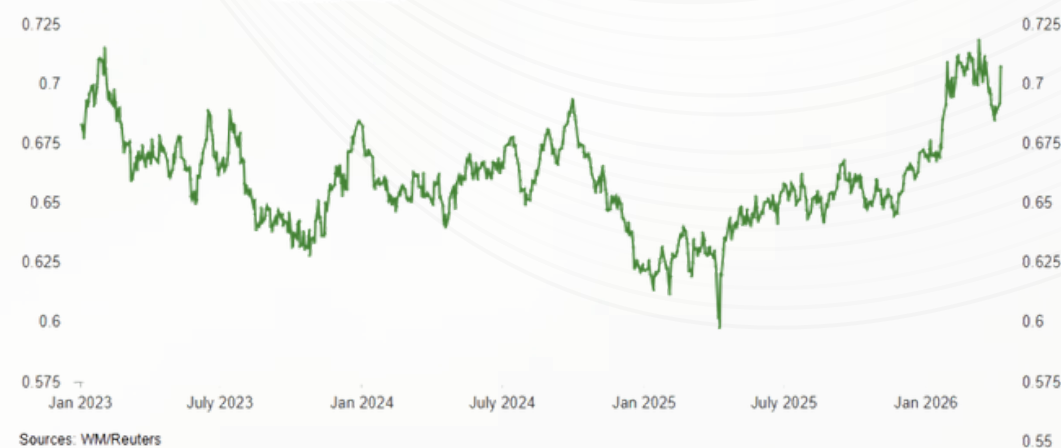
But no-one really knows whether the fragile ceasefire will hold, whether partisan conditions will be met and how much crude actually will be released (latest reports indicate that the vital Strait is closed again). The context here is that Australia's (deliberately) thin fuel reserves sit at just 29 days' supply, with hundreds of servos reporting no diesel.

One surprise in markets since the war started is the resilience of the AUD. The local unit reached a four-year high last month but since has dipped back to 70 US cents (see RBA chart below). The fact that the RBA has been hiking is a key source of support. Another, as Deutsche Bank reported this week, is that Australia is one of only three nations (with Canada and Norway) with both a AAA credit rating and status as a net energy exporter.

Meanwhile, soaring petrol prices seem to have put a rocket under sales of electric vehicles (EVs). In fact, nearly 15% of all car sales in Australia last month were EVs. Sales shot up 40% on February to a new record high. Another driver is increased confidence in the second-hand market – previously, there was uncertainty about battery life. Note - EVs will never reach 100% penetration here – this economist always will own a beloved (German-made) gas-guzzler.

Finally, across the Ditch, the Reserve Bank of New Zealand left the cash rate steady "by consensus", but the language of the statement indicated that interest rates probably will rise soon. Recall that Australia's Reserve Bank was the first in the developed world to lift interest rates (OK, the second after perennial hikers the BoJ), but other central banks surely will follow to curb worsening inflation.

Graph of AUD/USD Exchange Rate





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