Weekly Economic Update

OPTIMAL ECONOMICS

24 April 2026 | NDIS reforms will help … but we still have a spending problem

There was a rare lightbulb moment in Canberra this week. The government accepted, belatedly and after repeated warnings, that the careening NDIS eventually will devour the budget unless something drastic was done. The announced reforms were bolder than expected and will help regain control of the runaway train. But, even if the savings are realised – and it's a sizeable if – we'll still have a major problem with excessive government spending.

The government's own budget papers show spending growing three times faster than the economy and the Commonwealth's heavy spending footprint the largest share of GDP since the 1980s, with the exception of the emergency pandemic era. And that's on-budget spending – a peak behind the curtain to ballooning off-budget extravagance reveals the problem to be materially worse.

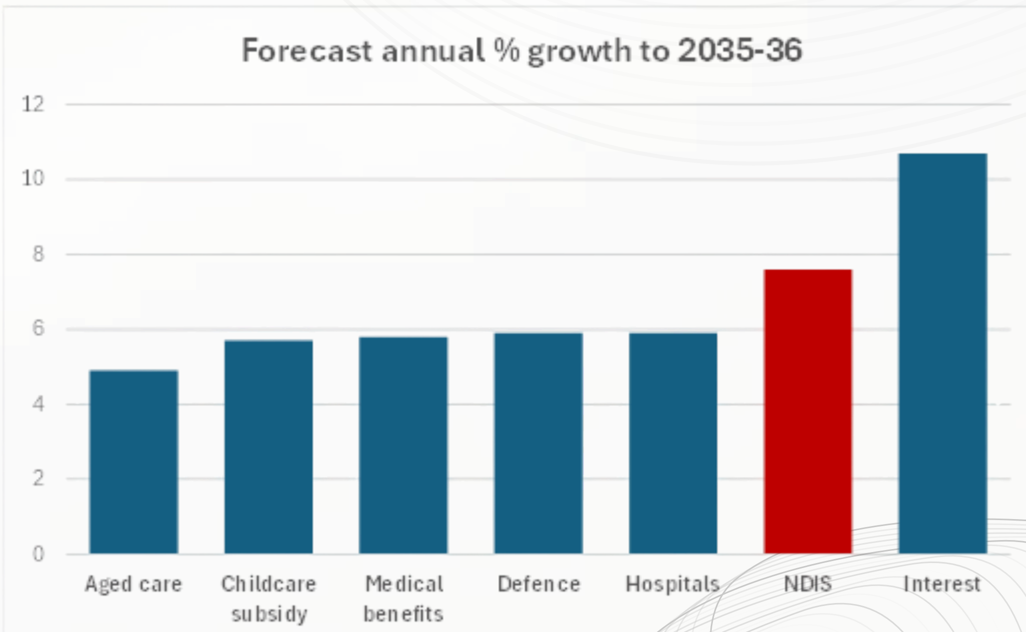
On the NDIS, the government's plan claims to shave $15 billion off annual spending on the NDIS. Wow, that's huge, but some savings don't come until 2028. Also, spending on disability support still grows over time … just by less. After the changes, the NDIS still will consume more than $50 billion a year by 2030, with growth projected to accelerate over time. All this additional spending needs to be funded by tax revenue … or more debt.

In the meantime, fiscal policy will resemble a gushing government money hose … and especially so if the May 12 budget includes more untargeted cost of living largesse. Such excess seems even more likely given the collapse in household confidence last week and the government's polling challenges. Remember - the looser fiscal policy becomes the tighter monetary policy will have to be to quell the inflation pulse.

Already, another RBA rate hike before the budget looks likely, with futures markets pricing a 75% probability of a quarter point rise on May 4. Much can happen before then, but we know there's a powerful inflation pulse coming our way. Petrol prices are receding, but prices for pretty much everything else (housing, food, airfares, plastics, medical equipment, transported goods, etc) are rising, some sharply. Inflation expectations already are untethered.

In financial markets, despite all this, share markets have gone on a tear, including here in Australia. Rose-tinted investors are looking through the inflation "valley of death" to (apparently) sunnier uplands beyond. This blind optimism, though, ignores growing risks of recession both globally and here at home, which the IMF's gloomy growth downgrades last week highlighted. Good luck with all that.

Finally, in the US, Fed chair-designate Kevin Warsh's Senate confirmation hearing went off-piste. Amid ongoing efforts by the Trump administration to strong-arm the Fed into cutting interest rates, Warsh was forced to confirm he would be no "glove puppet" for the White House. Bond market investors already are nervous because of the political shenanigans in London. They don't need more turmoil at the Fed.



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