

# Weekly Economic Update



OPTIMAL  
ECONOMICS

29 May 2026

Inflation receded in April thanks largely to the Commonwealth government halving the fuel excise. Annual inflation dropped to 4.2% from 4.6% in March as free public transport also helped. Higher housing and transport costs remain the principal drivers of our still-elevated inflation. Moreover, the less volatile core inflation rate accelerated in April and remains above the RBA's 2-3% target zone.

While lower headline inflation is welcome, many of the second-round price effects of the war in Iran are still to come. We've seen the spike in airfares and petrol prices, but higher prices for food, fertilizer, packaged and transported goods, plastics and building materials will come over the next few months. More bad news on the war will make the coming inflation pulse even worse.

This unpleasant reality explains why markets still price a decent chance of the Reserve Bank lifting interest rates again this year (now prices as an 80% chance by December, albeit down from 100%). The RBA has hiked three straight times, but the minutes from the most recent Board decision indicate there now is "space" for officials to take a breath and watch developments in the Middle East. They also now have the federal budget fallout to consider.

On the budget, the government continues to struggle to make its case for the contentious tax changes announced two weeks ago. This is partly because the modest income tax cuts are dwarfed by the tax rises for holders of capital. Which, the government now understands, is pretty much everyone with an Insta account. Negotiations continue on which start-ups and sectors will get a carve-outs from higher capital gains tax.

For now, the tax environment is uncertain, which hardly is conducive to new investment and hiring.

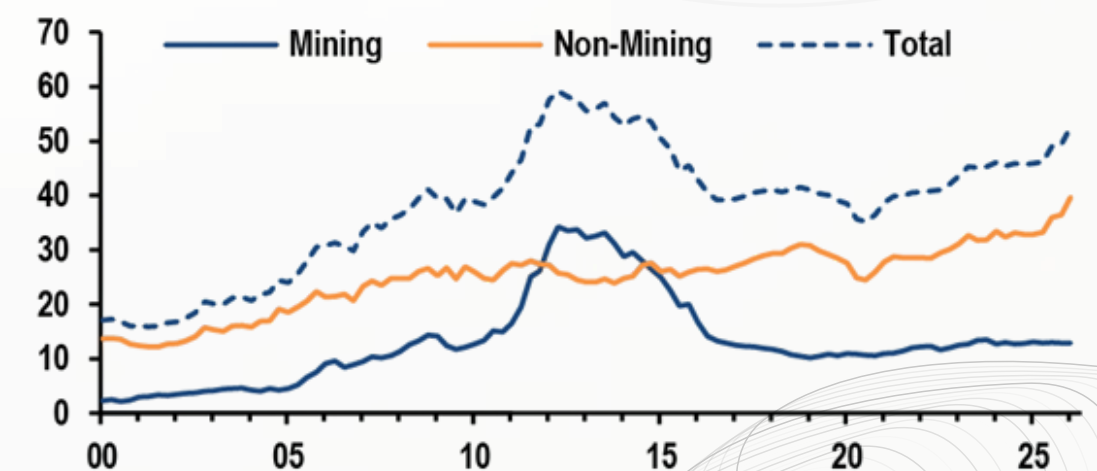
Yesterday, though, the latest official investment report showed not only a rise in capex in the March quarter but more upbeat expectations for spending by business leaders (see chart below from JPMorgan). This probably has a lot to do with the data-centre boom. But the ongoing war, the rate hikes and now the contentious budget will cruel broader investment plans.

Financial markets treaded water this week. Bond yields receded from last week's 15-year high and most equity markets gained as the prospects of the Iran war ending improved. Oil prices receded, but no-one really knows what will happen in the Middle East, including President Trump, who thinks he's controlling outcomes. The AUD slipped after the inflation data but otherwise is well-supported above 71 US cents.

Next Wednesday sees the release of Australia's National Accounts for the March quarter, including the latest GDP results. Economists expect the economy to have barely grown at all last quarter, leaving annual growth at an unimpressive 2%. The data nerds will be probing the accounts for news on productivity, among other details. The fact that output per hour has been so weak explains why our economy is bumping up against capacity constraints even at modest rates of GDP growth.

## Australia: Private new capital expenditure

A\$bn (real), sa



Source: ABS, J.P. Morgan



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