

Weekly Economic Update



11 September 2026

This ongoing house price correction looms as the biggest in decades thanks to the toxic combination of higher interest rates, the unexpected tax changes in the May Budget and heightened uncertainty. The downturn now has big dollars attached as the effects cascade through the economy and dominate the published economic data.

The ABS reported this week that a tidy \$34 billion was erased from Australia's \$13 trillion housing market in the June quarter (\$136 billion off housing in NSW and Victoria, partly offset by gains elsewhere). The downturn has got materially worse and broadened since then, with some economists now expecting a 15% peak-to-trough plunge. That's nearly \$2 trillion if it pans out, so serious money (e.g. double the national debt).

The Reserve Bank's chief economist this week admitted that falling house prices will trigger weaker growth in the economy as some homeowners curb their spending habits in response to the negative wealth effect and through direct drags on sales activity and home construction, which already are playing out. Recession, though, is unlikely, according to the RBA. Housing industry participants at the crumbling coal face are much more pessimistic.

The house price falls probably will not dissuade the RBA from raising interest rates again, including as early as this month. In a rare TV interview this week, Deputy Governor Andrew Hauser pondered out loud whether the Bank had done enough with the three rate hikes earlier this year. Markets (and this economist) say “no”, with another hike now fully priced by end year. A rate hike later this month is priced as a three-in-four chance.

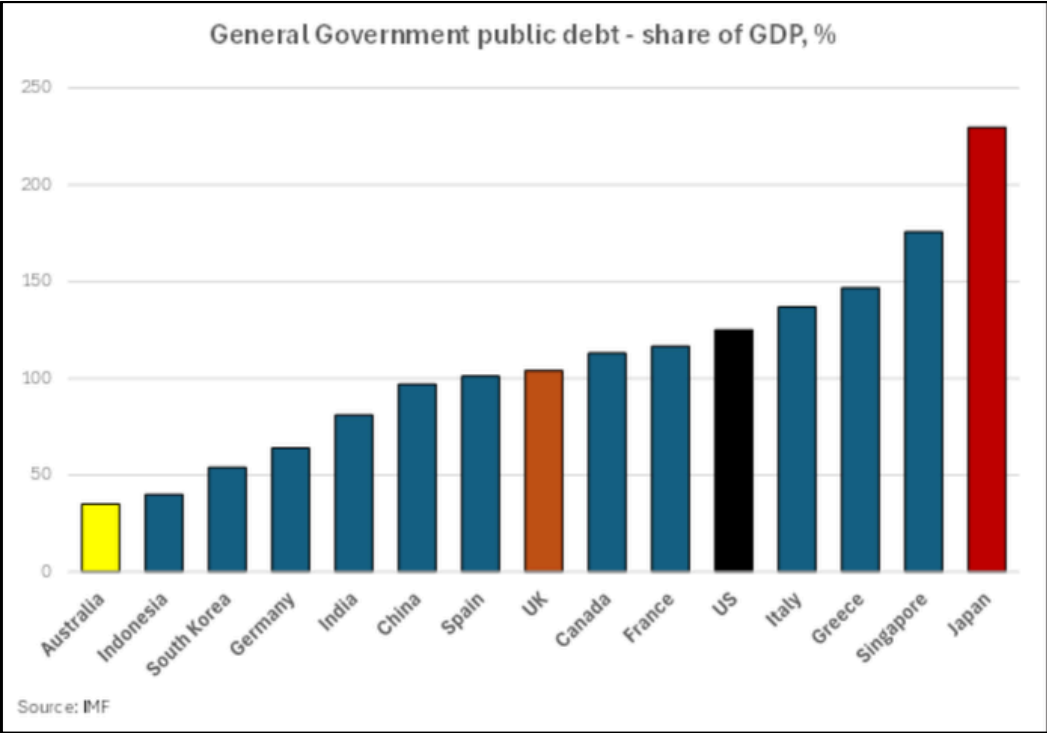
Falling house prices helps to explain the fall in consumer confidence reported this week by Westpac. The headline index dropped more than 5% in September, deepening the already entrenched pessimism among respondents. Rising fuel prices and the realisation that interest rates probably will rise again also contributed to the downdraft.

The house price falls also are being felt by state governments via lower stamp duty collections. Stamp duty revenue depends on both sales volumes and house prices ... and both are down. Investors essentially have vacated the field given the additional uncertainty over the tax changes. First time buyers are yet to replace them, partly because the biggest price falls are concentrated in higher priced homes. And no-one wants to catch a falling knife.

Business confidence also slipped according to NAB. The confidence net balance slipped 6 points to -8, reflecting increased global uncertainty and rising energy costs. The business conditions measure slipped into negative territory for the first time in six years, back when business respondents were particularly gloomy during the pandemic. It's not as bad as that, but it is tough out there.

In financial markets, the rise in global interest rates continues. Investors are nervous about rising government debt levels and worsening fiscal sustainability. They demand higher returns to take on perceived greater risk of holding government bonds, even AAA-rated versions like our own. Australia looks better than most for public debt to GDP ratios (*see chart over the page*), but the official expectation here of budget deficits for a decade is troubling.

Finally, crude oil prices reached US\$100 per barrel again this week, so brace yourselves for (even) higher petrol prices. The ASX had a difficult week, tumbling to a six-week low on the combination of stretched valuations (thanks to the higher bond yields) and renewed global uncertainties. The AUD, though, spiked to a four-month high.



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