

Weekly Economic Update



9 October 2026

It's getting increasingly difficult to see silver linings on our dark economic clouds.

Battered consumers are feeling increasingly despondent. This week's Westpac MI measure showed a near-5% slide from already depressed levels. This reflects the twin blows of higher petrol prices and last week's interest rate hike, which took the cash rate to a 15-year high. The headline confidence measure now is back at recession-like lows.

Even more striking than the dismal headline confidence result, however, was that the 40% of responses received after the rate hike delivered a 20% collapse in confidence. This may also partly stem from the inflation data released the day after the RBA announcement, which showed inflation rising, fuelling calls for even higher interest rates.

This snapshot is emblematic of our enduring inflation troubles, which are mainly home grown. The blocked Strait because of the war in Iran is making things worse, for sure, but the primary cause is surging government spending and a supply side of the economy nobbled by our terrible productivity. The alarm bells are ringing ever more loudly, and not just for economists.

Will Australia dip into recession? The risks certainly are rising, but recession usually stems from a serious policy error and/or unexpected shocks, like the pandemic. The extended list of policy errors is growing ever-longer, but none alone is egregious enough (yet) to trigger a sustained fall in real GDP. Not with our population growing faster than ever. Per capita real GDP has been falling for years.

On population, all three major political parties now agree that immigration must be cut, although they disagree on the means and by how much. Cutting migration will slow growth in the economy because population is the only one of the "Three-Ps" that grow

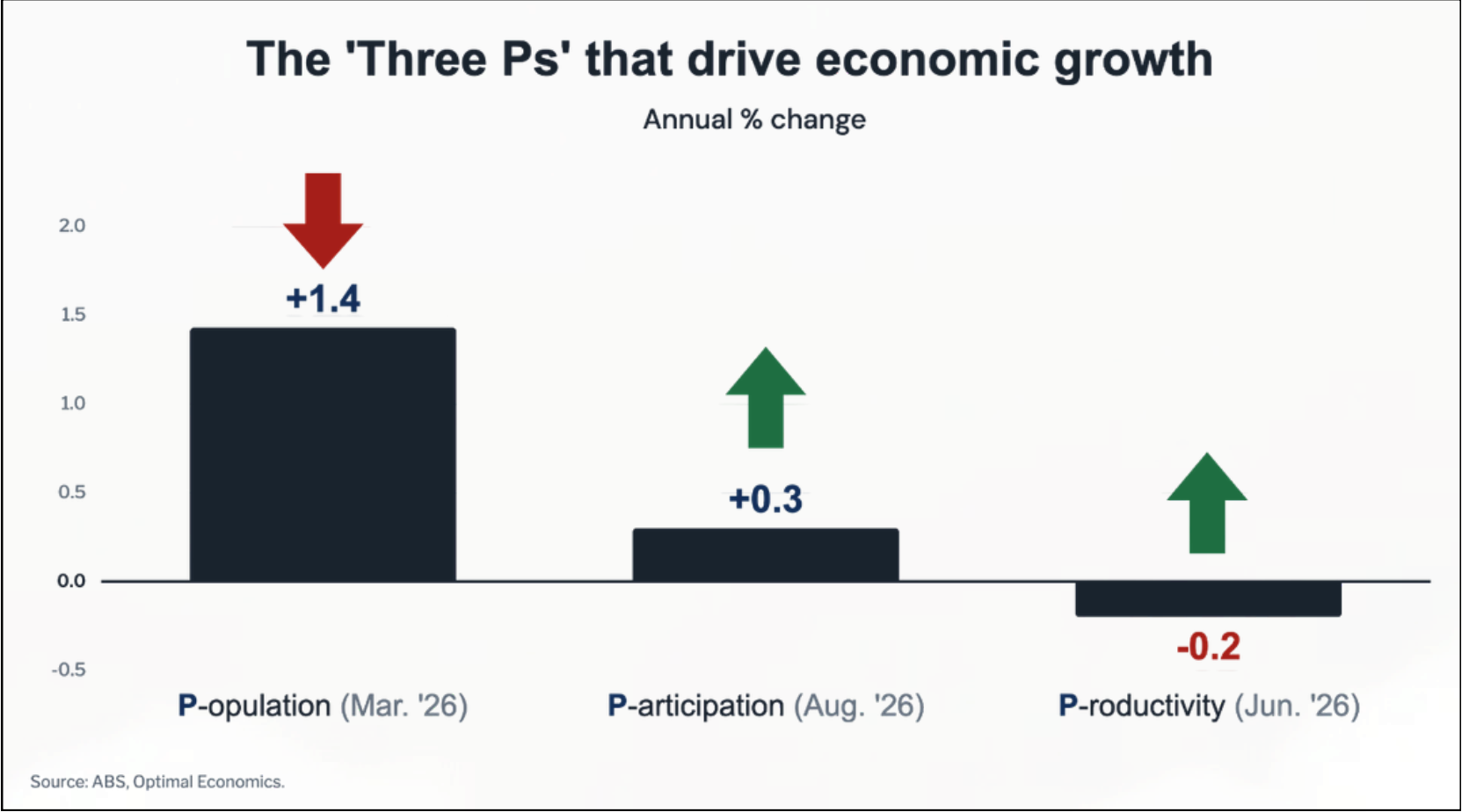
the economy troubling the scorers (see chart). Here's an idea. Let's get another P, say productivity, to rise, so inward migration can be trimmed without damaging the economy.

Rating agency S&P this week belled the cat by saying Australia was vulnerable should we get the wobbles. Remember, the recent IGR predicted no return to surplus over the next 40 years (!?), despite heroic assumptions. There is no doubt we will be hit by multiple shocks between now and 2066. And we have no fiscal net to catch us when we fall. More eminent economists than me have said recently that we should be running big budget surpluses.

Also on policy, there was a fascinating Economics 100 lesson this week after the abolition of card surcharge fees. Rather than absorbing the merchant fees, many outlets instead are raising prices. The government proclaimed the end of the surcharge as a cost-of-living measure. It's not – it added a small flame under already smouldering inflation.

On housing, the news was bad. After a brief respite, auction clearance rates sank back below 50% last weekend. The "Mungo" grand final may have played a role alongside school holidays. But with most home auctions failing to deliver a sale, sentiment is sliding. All the while, the investment horizon remains uncertain, including the tax environment, which remains a moving feast.

In financial markets, the US headline share indexes touched fresh record highs this week, despite two wars, soaring energy costs, rising inflation and interest rates and sagging economic growth. Confidence in AI is supporting momentum, but the continued rise in bond yields is challenging valuations.



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