

# Weekly Economic Update



OPTIMAL  
ECONOMICS

8 May 2026

On Tuesday, the Reserve Bank lifted the cash rate a quarter point for a third straight time this year. The Bank now has reversed all three of the rate cuts last year which, with the wonderful addition of hindsight and with inflation popping, now don't seem to have been such a great idea. The vote split on the Board this time was 8-1 in favour of the hike, a much more decisive margin than the 5-4 split back in March.

The reasons for the rate hike are as before – robust demand is growing too quickly relative to inhibited supply, pushing up prices. Supply is constrained by our awful productivity growth, which the RBA revised down to an abject zero. More recently, the war in Iran has unleashed a broad inflation pulse. The Bank wants to stay ahead of this so inflation expectations (and therefore wage demands) don't become even more untethered.

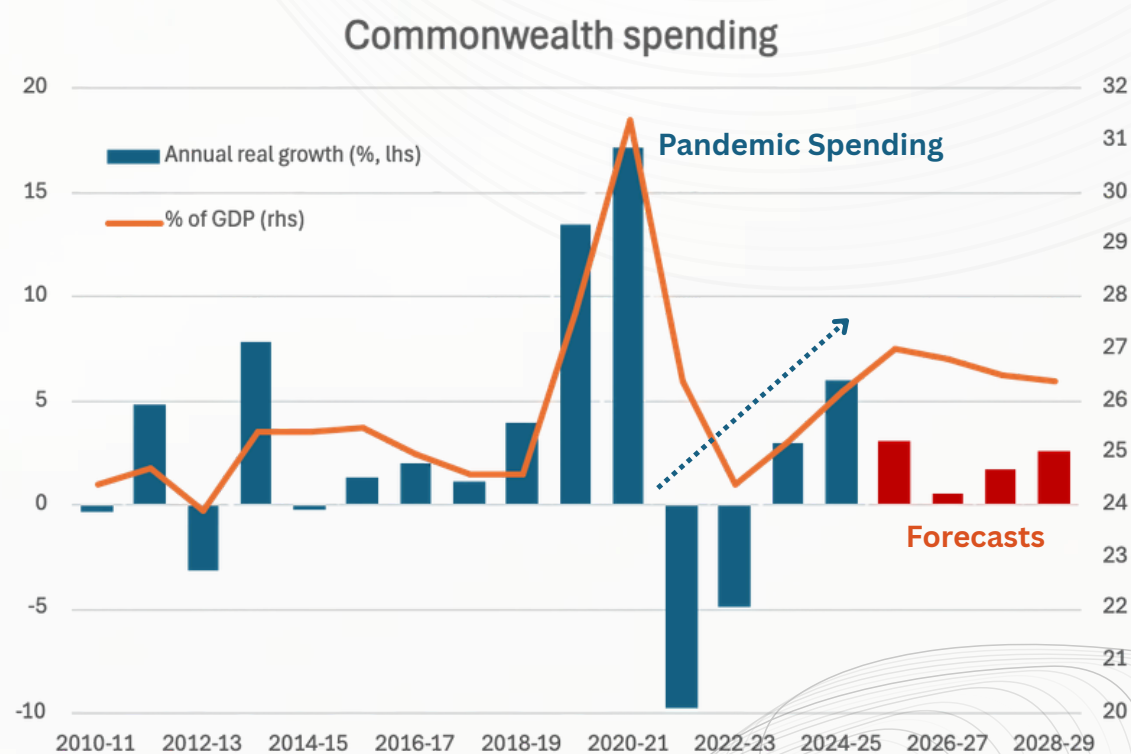
Treasurer Chalmers claimed (rightly) that the RBA statement did not explicitly mention high government spending as a trigger for the hike. But Governor Bullock did in her post-decision presser – the Governor said governments putting money into punters' hands makes the RBA's challenge of slowing demand harder. That's a crystal-clear message ahead of next week's federal budget, which risks becoming another spendathon.

Government spending clearly is too high and growing too quickly, despite the official warnings. The government is parading savings yet to be delivered to avoid blame for rising interest rates. But even if these are delivered, spending is growing three times faster than the economy from a share of GDP already the highest in 40 years (outside the pandemic period – see chart). But don't hold your breath for serious spending restraint next Tuesday.

On likely measures in the budget, there were more strategic leaks/drops this week. Alongside investment incentives for business, the probable winding back of the capital gains tax discount and restrictions on negative gearing (both of which are tax rises), it looks like every taxpayer in the land will receive a cash handout. This is the kind of untargeted cost of living splurge the RBA Governor warned against - handouts ultimately will make indebted households worse off as interest rates keep rising.

State governments are doing their bit to make matters worse. The respective treasurers in Victoria and Western Australia this week unleashed significant cost-of-living handouts in their own budgets. Victoria splurged despite carrying the highest debt in the land (nearly \$200 billion!) and the equal lowest credit rating (with Tasmania). WA at least has the excuse of running a sizeable budget surplus.

Populist budget handouts may seem justified on some level - households are deeply worried and already are paring back spending on things like luxury goods and hospitality. Spending on transport soared in March, but only because of the surge in petrol prices. We know that consumer confidence cratered in April, so there probably are weaker spending numbers to come.



In markets, it was a wild ride. Shares in the US bounced after yet more talk of a ceasefire in the Middle East, but price the price of crude oil remained above US\$100 per barrel. The AUD soared to a four-year high following Tuesday's rate hike. With the exception of the BoJ, the RBA is the only developed market central bank hiking right now, and markets price in another two rate hikes by the end of the year.



**Stephen Walters**  
**Chief Economist,**  
**Optimal Economics**

**Call us:**

+61 499 976 196

**Email:**

[stephenwalters@optimaleconomics.com.au](mailto:stephenwalters@optimaleconomics.com.au)

**Website:**

<https://optimaleconomics.com.au/>