Weekly Economic Update

17 April 2026 | A "central banker's nightmare - inflation up, activity down"

The acute global energy crisis is getting worse … and it's now leaving a heavy footprint in areas other than soaring petrol prices. This week, both business and consumer confidence in Australia tanked in the most recent surveys published by NAB and Westpac, respectively. This helps to explain why our government officials finally are taking the fuel crisis seriously.

For households, the Westpac MI confidence measure sank 12% in April – the biggest fall since the pandemic – as respondents reeled from the twin hits of the Reserve Bank's interest rate hike and the spike in petrol prices. Confidence is at dismal lows usually associated with periods of recession. There's that R-word again. Many households are closing their wallets as banks warn of increased loan defaults.

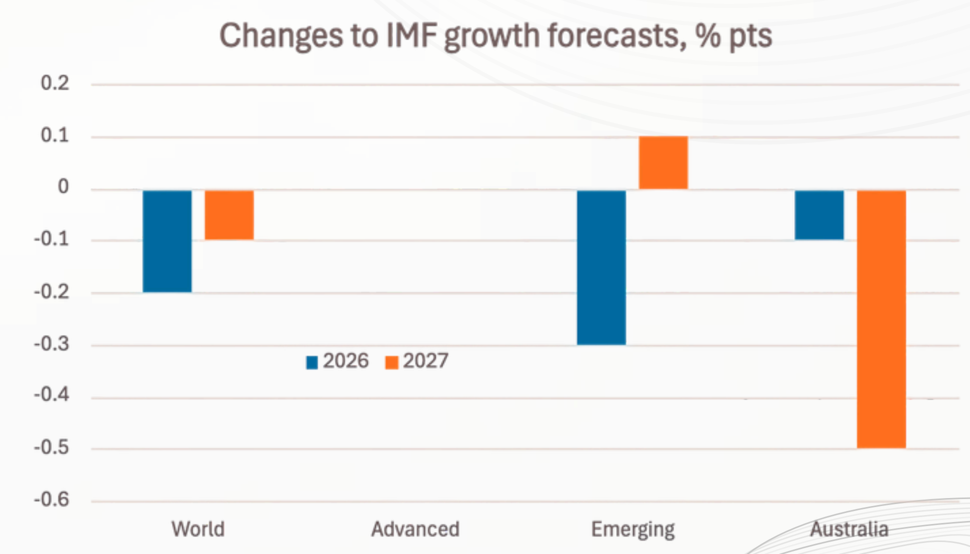
But business leaders also have become morose, seemingly overnight. The headline confidence measure dived in March to its second lowest level in the 37-year history of the NAB survey. The more contemporary business conditions measure held up, but respondents have little confidence in the future. That means fewer people hired and less investment.

This week's jobs report for March, however, was decent. It revealed a near-18,000 gain in net employment (all full-time roles) and a steady unemployment rate at 4.3%. It should be noted, though, that this data was collected in the two weeks immediately after the bombs and missiles started falling on Iran. That is, too soon to see how employers are reacting to the ensuing chaos.

It can be said, though, that the fuel crisis quickly is evolving into an economic catastrophe for Australia. This is despite us being a net energy exporter, despite our elected officials leaving untouched so much of our vast energy riches. Australia should be in a much stronger position. This would be especially so if we'd built fiscal buffers during the good times. Which we didn't.

Economic growth here is grinding to a standstill as supply chains are blocked, with some economists now forecasting recession (not this one … yet). Meanwhile, the wave of inevitable price pressures is breaking over us, meaning the RBA will raise interest rates again into weak (negative) economic growth. It's become a fast-moving train wreck. Not yet stagflation, but definitely on that path.

To demonstrate the seriousness of events, the IMF this week released updated economic forecasts. Predictably, it trimmed its growth expectations (including for Australia, which suffered larger downgrades than most – see chart below). But, given the heightened uncertainty, the IMF released a darker "adverse" scenario that makes for difficult reading. The IMF's worse "severe" scenario is a horror show, with weak growth yet global inflation hovering at 6% for two years. Yikes.



Back home, it's now all but certain next month's federal budget will include more ill-advised, untargeted cost-of-living handouts to (now) miserable households, alongside tax grabs to pay for them, including perhaps a new tax on gas exports. Another revenue measure will be shaving the capital gains tax discount. But a misguided mix of fiscal policy risks making matters worse by adding to demand in the economy and, therefore, inflation.

As before, the Reserve Bank will be left to deal with the spreading omnishambles as our public debt breaches $1 trillion. RBA Deputy Governor Andrew Hauser this week said in a speech in New York that the current situation was becoming a "central banker's nightmare – inflation up, activity down". Yet, despite all the reported gloom, the ASX index this week reached a six-week high!

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