

Weekly Economic Update



25 September 2026

The Commonwealth government this week released a creative work of fiction otherwise known as the Intergenerational Report (IGR). It was firmly in the fantasy genre, exploring what happens when outlandish assumptions are made about issues over which the government has little control. Like artificial intelligence, as the PM discovered this week. Economists can't predict what will happen over the next 40 years let alone forty years.

Back in the real world, the IGR masked the nation's serious fiscal challenges by airily assuming them away. This was done by accepting that AI will drive a rebound in productivity from the current rate of zero (and no gain at all since 2019!) to a consistent growth rate of 1.2% over the next 40 years. How exactly this happens as the government tries to regulate AI into submission was not explained.

The assumption of future productivity growth matching the average of the last 30 years flies in the face of our recent dismal underperformance. It also ignores the lack of business investment (outside the data centre boom) and the suite of government policies that will drag on productivity for years. These include the re-regulated labour market, an increasingly heavy burden of red tape for business and recent tax changes that punish innovation and enterprise.

The IGR couldn't totally overlook our dire economic and fiscal position. But even using the optimistic base case assumptions, the IGR forecasts no return to budget surplus at all over the next four decades (see chart)! This is a gob-smacking assessment given the upbeat parameters. What if something goes wrong, which it will?

The underlying risk with the IGR presenting such an unrealistically rosy future is that it creates an excuse for governments to avoid confronting our current challenges.

Instead, a document that presented an honest assessment of these challenges would ring loud alarm bells and even spur our reluctant leaders into urgent action. This document, therefore, is a huge, missed opportunity. The national interest suffers on the altar of political expediency. Again.

The other major policy revelation this past week was equally gobsmacking. That was the admission to Parliament by RBA officials that the Bank's economists had not modelled the impact on inflation of lower government spending. Why wasn't explained. But it's a puzzling oversight given the clear role excessive government spending is playing in keeping inflation above the RBA's target zone.

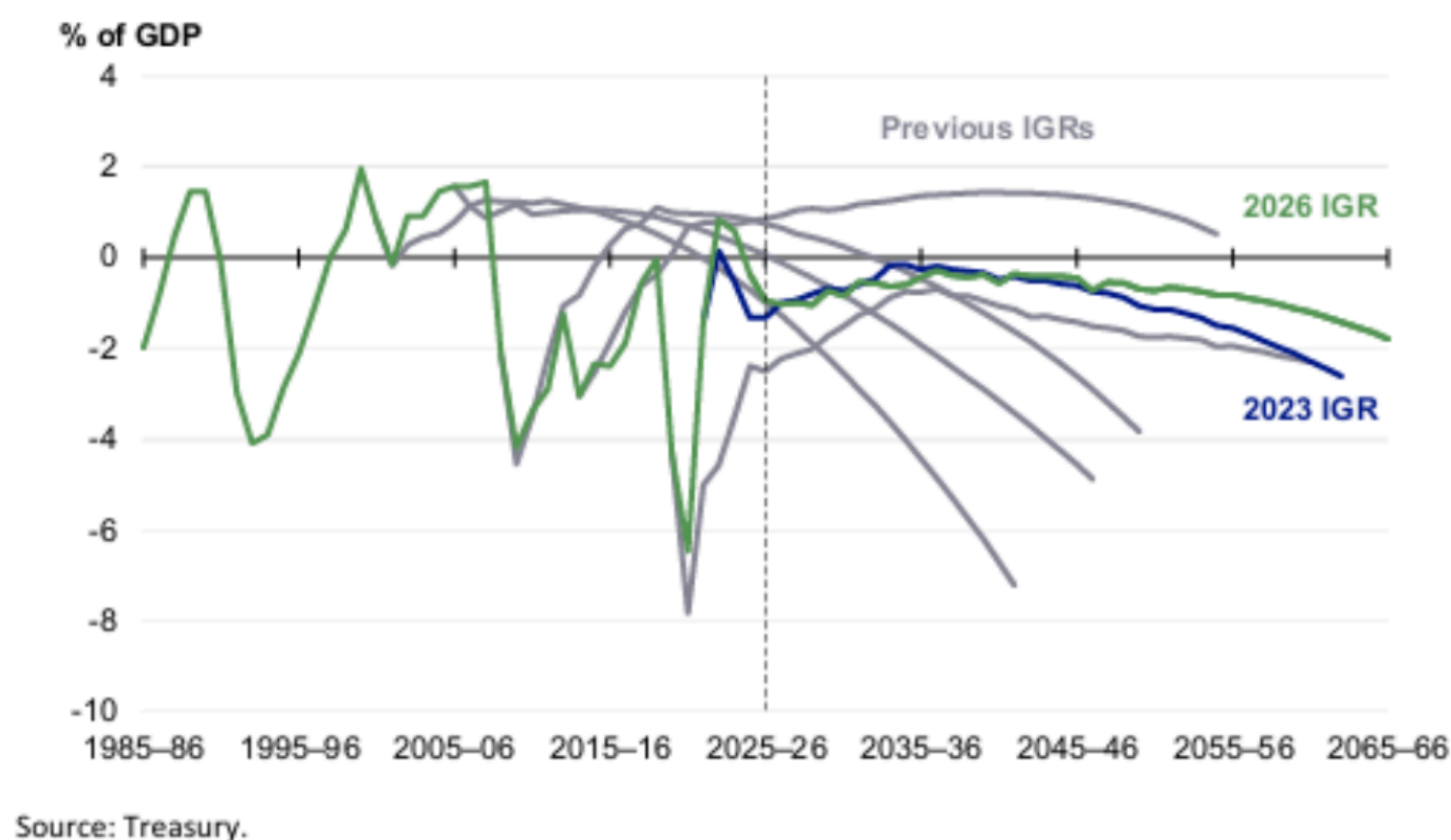
In the same testimony, Governor Bullock said the inflation risks the RBA had been fearing were materialising. This essentially is confirmation the Reserve Bank will lift interest rates next Tuesday. Markets all but fully price this outcome. Given the lack of Commonwealth fiscal restraint masked by the IGR, and similar reckless behaviour among the states, a further rate hike later this year looks highly likely. Maybe more.

The comments confirm that the RBA Board has pivoted away from last year's quest to preserve gains in employment as part of the Bank's modified dual mandate. The failed experiment of leaving interest rates lower for longer allowed domestic inflation pressures to pop. The only answer now is to lift the cash rate by more than otherwise would have been the case. So, the drag on growth in the economy will be larger.

The only significant local economic data this week was the monthly jobs report for August. The data revealed another decent gain in employment but a rise in the unemployment rate to a 5-year high. The ongoing resilience of jobs growth is yet more confirmation the RBA will tighten monetary policy. Governor Bullock this week said a 5% jobless rate may be needed to quash inflation – we're on the way there, but the inflation horse has bolted.

With all this going on, we haven't even mentioned the war in Iran nor the wipeout in domestic housing. The latter is deepening, with developers now warning that housing supply is collapsing. Meanwhile, bond yields continue to rise as global investors lose faith in the ability of governments to properly manage their budgets and debt. This is undermining valuations in equity markets, triggering the latest sell offs.

Underlying cash balance across IGR projections¶



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