Weekly Economic Update

OPTIMAL ECONOMICS

15 May 2026

The big event clearly was the federal budget, released Tuesday night. There were lots of moving pieces but, overall, the budget failed to meet the lofty expectations the government had set. It was not bold enough. There were no big productivity-boosting measures. There was little genuine reform. And the tax changes will do little to address so-called intergenerational inequity. As such, the budget is a missed opportunity.

The fiscal balances have improved because of the war in Iran, elevated inflation and $64 billion of savings the Treasurer claims to have banked, most in the NDIS. Even with these savings, though, we continue to stare at whopping budget deficits for a decade. Public debt will reach $1 trillion next year. There was no lasting fiscal repair and the fiscal rules jettisoned in 2022 did not return. Even more spending is hidden "off budget" - in excess of $100 billion, in fact.

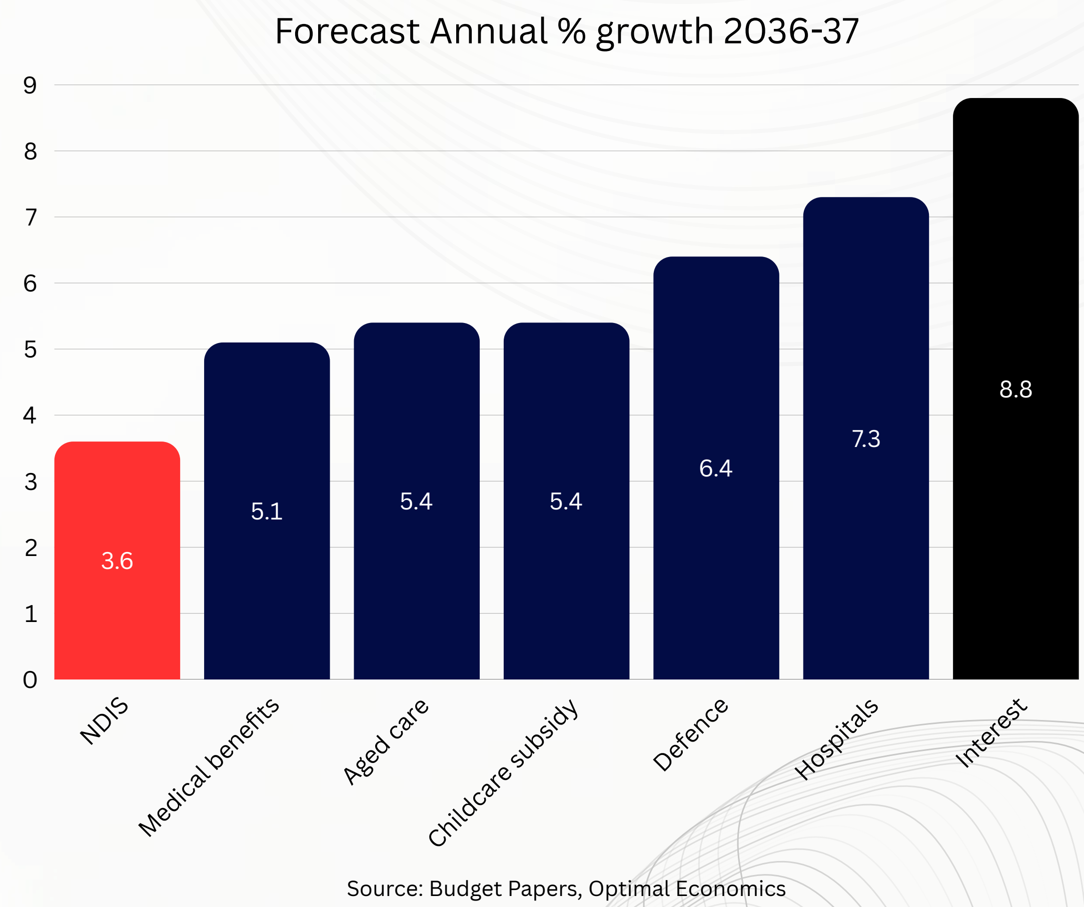
In terms of the impact on the economy, the budget unleashed another wave of government spending - $18 billion in the year ended June 2027 alone. This is despite Reserve Bank Governor Michele Bullock last week all-but begging governments to avoid this. The new spending will stoke growth in demand, but supply is unchanged. The budget, therefore, probably will be inflationary when there already is a big price pulse coming our way from the war.

Government spending remains too high. The budget predicted that Commonwealth spending will hover at the highest share of GDP since the 1980s, if we ignore the emergency pandemic period. The budget expects growth in the NDIS to come down sharply but for interest costs on our ballooning debt to grow more quickly (see chart below). By 2030, Australians collectively will pay $115 million in interest per day, or $80,000 per minute!

In more routine news, this week's official wages data on Wednesday showed a 3.2% rise over the year. This seems decent enough until you consider that the budget expects inflation to reach 5%. So, real wages will go backwards again. There's little prospect of productivity improving, either, so even wage rises of this modest magnitude risk adding to inflation.

The other main data this week was the release of the NAB Business Survey for April. The confidence net balance improved slightly but remains depressed, having collapsed in March. The standout result in the survey was that businesses' purchasing costs spiked to the highest levels since the pandemic. This confirms that much of the war-related inflation is still to come.

In financial markets, equity investors essentially are ignoring bad news from the Middle East, driving indexes to record highs (except here). This is despite crude oil prices staying elevated. It's not so rosy in the UK, where more political instability has driven down sterling and driven up interest rates. The interest rate on the 10-year UK gilt has spiked to the highest level in 28 years!



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