

# Weekly Economic Update



OPTIMAL  
ECONOMICS

6 March 2026

The main economic event was last weekend when the US and Israel started bombing Iran. The first-round fall-out is higher oil prices, as always with these things, which spiked 20%. We're feeling this at the bowser already. Longer-term damage will come via disruption to shipping – a generous slice of the world's two-way trade passes through the Strait of Hormuz, which is closed. Shipping costs already have soared.

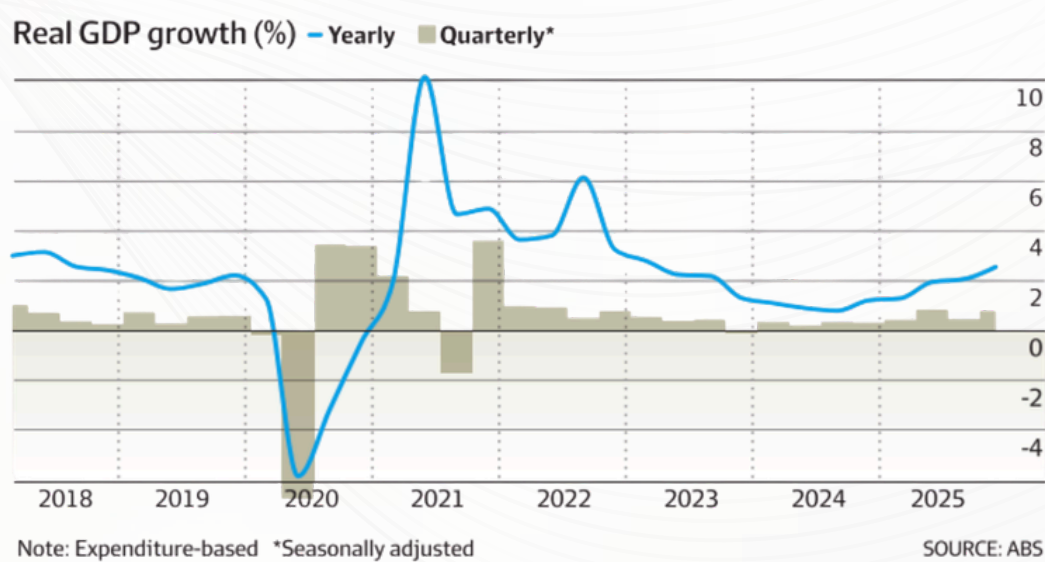
There's also lost productivity, with many people stranded at airports. This all adds to higher business costs and more inflation, although RBA Governor Michele Bullock said this week's the RBA could look through near term impacts of this "tax" on households and businesses. Still, these events increase the risk of a second interest rate hike in mid-March (now priced as a one-in-three chance, which still looks too thin).

The main local economic data was the release of the Q4 National Accounts on Wednesday .. and it contained mainly good news. GDP growth improved to 0.8% over the quarter (and to 2.6% over the year, the fastest in nearly three years) thanks to a rise in household spending and, inevitably, even more public demand. Business investment also grew, offsetting a drag from net trade. See chart below from the AFR.

In the fine print, however, productivity was flat last quarter, demonstrating again why the economy is hitting capacity constraints. Productivity has gained 1% over the last year, a significant improvement, but this still leaves the supply side of the economy unable to deliver the goods and services in demand. Heightened competition for resources means inflation and, in time, higher interest rates.

This week's housing data showed another plunge in home construction and yet another gain in national house prices. Prices in Sydney and Melbourne were flat in February as potential buyers weighed the impact of the recent interest rate hike, but there were strong gains in smaller cities, especially Perth. National housing (un)affordability reached a new record high.

Unsuspecting financial markets were buffeted by the troubling geopolitical news from the Middle East. Energy and gold stocks listed in Australia soared and Bitcoin bounced, but the AUD softened as investors sought the perceived safer haven of the greenback. Oil prices spiked but remain low relative to recent history.





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