Weekly Economic Update

The Iran war is back on (officially) and AI and data-centres are to be regulated as the PBO blows the whistle on fiscal (un)sustainability

Last week's restart of the war in Iran is official now, with the Iranians declaring the Straight of Hormuz closed (again) and President Trump temporarily demanding a ransom on cargo ships daring to pass through. He walked that back the following day, but the exchange of bombs and rockets escalated. A negotiated settlement for the end of the war looks as far away as ever.

Predictably, crude oil prices now have spiked 20% since the low of two weeks ago, although they remain below earlier peaks. That said, fill up your tank now ahead of more petrol price spikes.

The increase in shipping costs adds an additional inflation pulse that will make Reserve Bank officials nervous. Remember, core inflation here already is above target ... and is accelerating.

Midweek, the annual report from the independent Parliamentary Budget Office (PBO) lobbed a grenade - with the pin out - into discussions of the Commonwealth's budget forecasts. The PBOs' annual budget update implied the government's near-term fiscal strategy is not sustainable.

There's no way income tax cuts can be offered *and* a surplus delivered, even in a distant eight years as promised. This fiscal common sense refocused attention on the urgent need for spending restraint, especially in the runaway train (wreck) of the NDIS.

The independent PBO also highlighted the enormous amount of additional revenue the government expects to collect over the forward estimates ... but hasn't told us about. The expected near $15 billion in additional receipts is a record, shown in the budget as "Decisions taken but not yet announced" - the DTBNYA. Hmmm. Much of this could be from sale of idle Defence land, but we don't know (see chart below).

Also, this week, the federal government announced a new regime to regulate AI and data centres, with the details to be filled in later. While more oversight is needed, the risk is that the heavy-handed intervention the unions demand could kill the only golden goose available to turn around our dire productivity performance.

Because there's no chance of the serious whole-of-system tax reform that is needed desperately (instead, we have punitive tinkering). And, equally, there's zero chance of this government reversing the productivity-killing workplace changes implemented since 2022.

So AI is it in terms of golden geese. Even its most enthusiastic advocates still can't grasp the potential upside of the technology, so let's tread carefully here.

The local economic data this week was the twin consumer and business confidence reports delivered on Tuesday by Westpac and NAB, respectively. Both improved in the latest readings, although consumers remain deeply pessimistic – still recession-like. The net balance for business confidence remains negative, although it has lifted for three straight months.

Finally, on the softening housing market, auction clearance rates improved to be back above 50% for the first time in weeks. That's great, but that level of auction "success" remains consistent with falling house prices. This apparently was the intent of the tax measures in the budget, although

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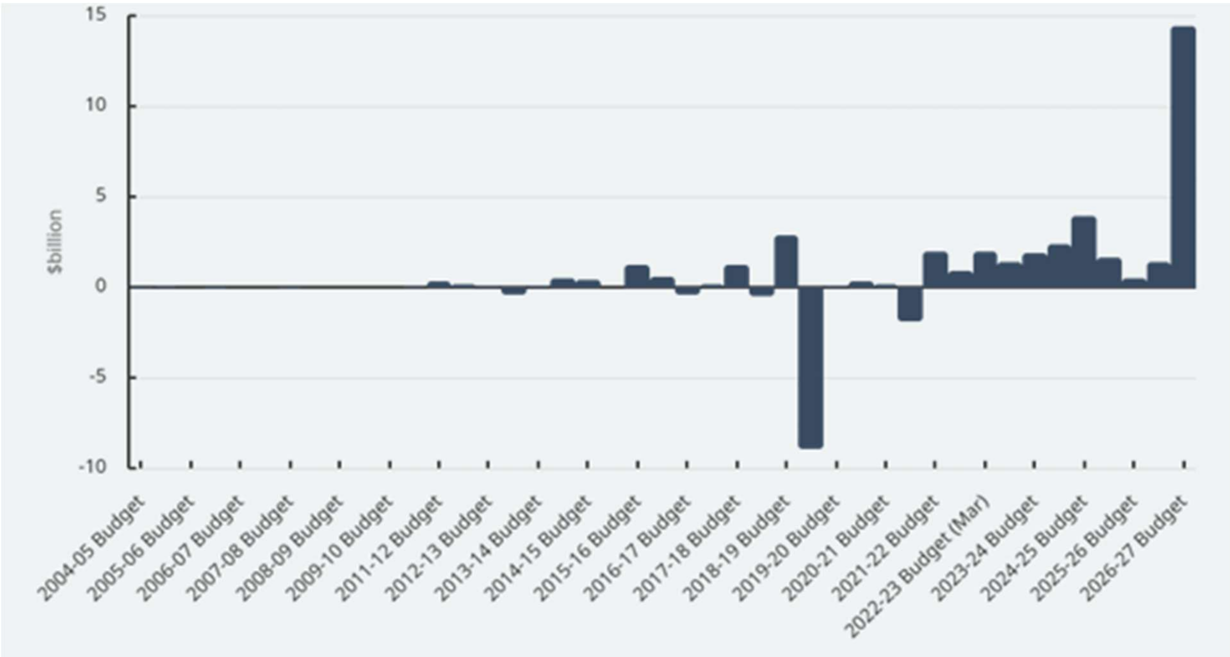
government officials still can't bring themselves to publicly embrace lower established house prices.

Speak to housing industry participants (this economist has) and a bleaker story emerges. Some estate agents claim "real" auction clearance rates are closer to 30%, that house prices are "cratering", rents are climbing and demand for home loans is tumbling.

Anecdotes are emerging of proponents walking away from planned housing developments fearful they now can't secure sufficient pre-sales to raise finance.

This “correction” has a long way to run.

Federal budget - Decisions Taken But Not Yet Announced (DTBNYA)



Source: *2026-27 Budget*, PBO *Historical Fiscal Data* and PBO analysis.
Note: Values shown are the total over the forward estimates period for the relevant economic update. Values shown for some but not all economic updates include NFP.

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