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Weekly economics podcast: A few thoughts for 2026

By Perpetual Corporate Trust

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It is the time of year for making bold forecasts for what might happen next year. Every analyst does it and the only certainty is that no one will get it entirely right. For what it is worth, we see the global economy muddling through next year, growing a little below long-term trend, but with inflation becoming a problem that needs to be dealt with for some countries, including the US and Australia. We see the Australian economy growing above long-term trend through much of 2026, driven by continuing strength in domestic spending. But we also see Australia experiencing higher inflation than most and that will bring the RBA in sooner than most of its peers to deal with the problem.

What we are seeing for Australia in 2026 is a continuation of what almost everybody failed to see late in 2024 looking towards 2025, the pronounced acceleration in household spending through the year. According to most analysts back in late-2024, the sharp acceleration in household spending should not have happened. In late 2024 everybody from the government down was proclaiming a severe cost-of-living crisis, cruelling consumer sentiment, and making likely that household spending would rise only softly at best.

Few took account of what a sharp rise in household disposable income, contributed to by rising employment and wages; RBA rate cuts; earlier tax cuts and plethora of government

cost-of-living handouts, would do to household spending. It took off, including a sharp increase in willingness to buy homes at very high prices on any historic metric.

Our economic growth and inflation forecasts for 2026 – growth close to 2.5% y-o-y with inflation close to 4% y-o-y – are based on strong spending growth continuing for the next few months at least. That will cause the RBA to become more concerned about inflation prospects in 2026 and 2027, starting to rule out more firmly that the higher inflation problem is temporary.

The near-term markers of whether our view is shaping up close to reality or not, will be November and December readings of household spending and inflation, as well as the labour market readings for December and January. All of these will be released over the next six weeks ahead of the RBA's early February interest rate setting meeting. At the same time as the February RBA meeting the RBA will also release its latest economic forecasts in the quarterly Monetary Policy Statement.

If the various economic releases mentioned above show household spending growth continuing above 5.5% y-o-y with headline CPI inflation around 3.8% y-o-y and underlying inflation around 3.5% y-o-y, and the unemployment rate around 4.4%, the RBA will recognise that inflation is likely to hold higher for longer unless it is tackled with higher interest rates.

If the various economic indicators mentioned are softer than we have described above, then the RBA can hold the cash rate at 3.60% for longer with some possibility of a rate cut down the track. This is not what we expect, but we recognise that economic forecasting is not a precise business. Unexpected developments capable of derailing the best economic forecasts happen randomly and quite often.

If forecasting the Australian economy is hard, forecasting what will happen in the world's biggest economy, the United States, has become even harder. The economic policy twists and turns by the US Administration are near impossible to predict, although the broad direction through 2026 appears to be growth supportive fiscal and monetary policy settings.

Investment in US AI related industries has been massive, but may be crowding out investment in other areas of US production, including basic manufacturing. The future of President Trump's tariff protection policy is in the air and subject to decision by the US courts. If the tariffs have to be abandoned, the already high US budget deficit will balloon. There could be consequences such as much higher US government bond yields, regardless of how much official interest rates are lowered by an increasingly politically-pressured Federal Reserve.

Our best guess is that the US economy continues to grow above trend in 2026, but with stubborn inflation causing increasing division within the Federal Reserve. We see perhaps two more 25bps rate cuts from the Federal Reserve taking the Federal Funds rate down to 3.25%,

but that will cut little ice with longer-term US bond yields and we see the 10-year US bond yield pushing up above 5.00% in 2026.

Just a few thoughts for what might happen in 2026.

This is my last economic report before I retire. I wish you all a Merry Christmas and a prosperous 2026. It has been my privilege providing economic reports for Laminar/ Perpetual colleagues and clients over the past 13 years.

Stephen Roberts

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