

Economic and market update

Economic Overview – as at 15th October 2026

Global markets

The primary attribute of global markets remains rising bond yields to multi-decade highs. This coincides with very resilient stock markets, including recent new all-time highs for the US S&P500 and Nasdaq. Rising bond yields are very challenging for valuations on future earnings, and for leverage in general including sovereign debt. This unusual combination of strong equities on AI-related growth despite weak bonds could unravel at any stage – but the trend is still intact. As the recent RBA financial stability report noted “while exposures to the AI investment boom are growing...

leverage is contained and balance sheets generally remain healthy at present... along the AI value chain”. How sustainable this investment boom is will be heavily dependent on perceptions around its payoff. One argument in favour of this is the pace of acceleration for AI’s practical ability to solve problems (e.g. the stunning announcements last week in the field of mathematics). However countering this is the risk that US hyper-scalers could be undercut by more affordable Chinese AI models, or that the collective hype may fall short.

Share Price Accumulation Indices

Log scale, end December 1994 = 100



Sources: Bloomberg; RBA.

The 30 October FOMC decision a week prior to the US mid-term elections, should be a close call given the messaging in the September rate hike and subsequent data pointing to upside risks to inflation. However, a number of Fed speeches since then have hinted at a measured pace. Even after the core CPI for September printed last night at 0.34% m/m (and 2.6% y/y) the Fed's Williams said there was "no reason to do more than one hike" while Bowman talked about "no urgency". The market reacted to the data by immediately pricing in a hike this month as a 55% probability, but by the end of the trading day pricing was closer to 35%. Beyond this jump in US CPI, as noted above, central banks are increasingly wary of the impact of the AI investment boom on inflation, while the US economy continues to show resilience (e.g. via the latest ISM services index). However, slightly weaker jobs and housing data alongside a cautious Fed, point to a 'no rush but at least two hikes to come in 2027' outlook. Meanwhile, recent jumps in oil and diesel prices and 'energy ceasefire' confusion suggests the risks will remain tilted to the upside next year.

The stress in global bond markets as investors seek larger risk-premia amid a range of risk frontiers has been more evident than anywhere in Europe, where French debt stress has seen their 10-year yield rise to almost 5% (the highest level since 2002). The spread to German bunds widened to more than 150bp (the widest margin since the 2010–12 eurozone debt crisis), ahead of the 2027 presidential election. And some other EZ countries have seen similar pressures as more ECB hikes are expected, adding to fiscal pressures. Spain's economy is expected to achieve growth of 2.5% this year while Germany (Europe's largest economy) will be closer to 1.3%. France, however, is on track for just 0.4% growth and unemployment above 8%.

The Chinese economy remains less exposed to challenges around inflation and bonds than elsewhere. It has managed higher energy prices via a range of tactical responses, but is still experiencing poor domestic demand offset by strong exports. The latest trade data showed exports rose 36% y/y in September (vs 25% in August), with hi-tech exports still dominating the numbers. Imports also rose (to 31% y/y growth) although were a little lower for iron ore, LNG and oil. Domestic demand remains in the doldrums, evidenced by weak bank lending and subdued mortgage demand: 'broad credit growth' fell to a fresh record low of 7.1% in September. Another PBoC rate cut is expected early next year.

In summary, the prospect of energy prices remaining higher-for-longer will keep the global slowdown at risk of extending, but the AI build-out investment binge is minimising the deceleration. As the IMF [noted](#) in their October update, the global economy is facing ever increasing challenges but is coping with the same resilience this year to geopolitical strains as it did last year with tariffs. This leaves our target for global GDP growth of 3.1% for 2026 on track.

Domestic economy

The RBA rate hike to 4.6% was a *fait-accompli* by the time it was announced on 29 September. After the disappointing July CPI data, and as oil prices jumped higher forcing other central banks to move in a somewhat coordinated manner, the press conference did reveal that the option of 'no change' was at least considered, and a larger hike wasn't in the mix. The subsequent press conference was interpreted as less hawkish than expected with Michele Bullock saying she "hoped (that rates are now) restrictive enough – after four interest rate increases – to bring things down". Subsequent data suggests that this may be the case, although in line with global conditions outlined above, the risks remain skewed to the upside.

The monthly inflation data for August was released the day after the RBA decision, and pleasingly saw a halving in the core (trimmed mean) CPI rate down to 0.24% for that month from 0.48% in the month of July. The year-on-year rate remained up at 3.6%, but the deceleration in the monthly pace was very welcome, so it will be interesting to see how this flows through to the full quarterly numbers out on 28 October. The main challenge will come from the latest jump in oil (and especially diesel) prices, which is feared to reignite inflationary pressures. All of which aligns to our view that the RBA can keep the official cash rate unchanged in November and December, but that rates will need to remain restrictive throughout 2027. The consensus view continues to factor in rate cuts in the second half of 2027, however our basecase forecasts (refer table below) continue to predict one more hike next year and no cuts until FY29.

The September jobs report was supportive of our view of no further hikes in 2026 (although admittedly may add to the case of no need for hikes in early 2027 either) with a fall in total employment of 39k pushing the unemployment rate up to 4.7%. Depending on updates to the

RBA's view of ' [NAIRU](#) ', this may be the first time unemployment is above a level considered as 'full employment', so at face value reduces urgency for the RBA to increase rates further. Tight labour markets, combined with poor labour productivity, has been problematic for inflation here (and partly explains why the RBA hiked rates in February prior to the Middle East conflict and higher oil prices) – so an easing in demand for labour is somewhat welcome. This data can jump around month to month with sample rotation complications, but does match our long standing forecasts of above consensus rates of unemployment ahead, albeit lower than in 2019.

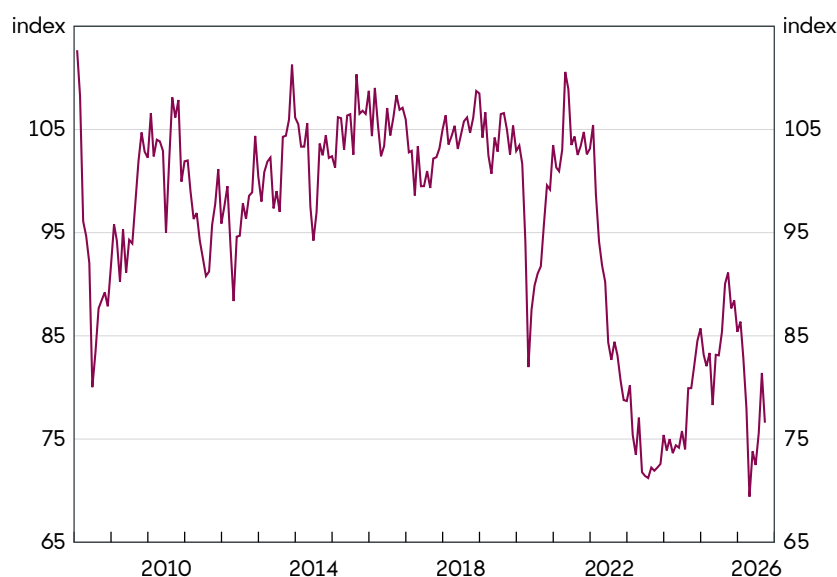
Consumer sentiment plunged again in [October](#) in response to the latest rate hike on top of renewed cost-of-living pressures, with confidence levels resembling those of the 1991 recession. This, together with the weaker Household Spending Indicator figures out for [August](#), does suggest that we may finally be seeing the lagged impact of the earlier rate hikes on demand. This gives the RBA some evidence that higher prices are in themselves reducing demand, however their challenge is to ensure higher inflation doesn't become more permanently embedded. Monetary policy is a blunt tool, but the enemy is inflation first and foremost,

and consumer sentiment will recover strongly when this bout of inflation is behind us.

Population growth is another complication for these forecasts and indeed for policy makers. Recently, political debate has focused on how recent higher than normal levels of migration have added to inflationary pressures, although the experience of the pandemic (when our population briefly shrank for the first time since 1919) is a lesson in why we need a happy medium. As the appendix shows, net overseas migration reached 550k in mid-2023. This in turn added to demand for housing and infrastructure, which combined unfavourably with other cost-of-living and inflation problems including rising material costs from impaired supply chains. But as the recent [Intergenerational Report](#) shows via its modelling, a sudden and/or lasting reduction in migration will likely impair the economy via labour markets and GDP, and would add to government debt. Our economy benefits from migration to help with shortages in skilled labour: migrants constitute a large share of regional GPs, nurses, aged-care staff and agricultural workers. So the challenge isn't so much reducing numbers, it is arguably just better matching of skills.

Consumer Sentiment*

Average since 1996 = 100



* Average of the ANZ-Roy Morgan and Westpac-Melbourne Institute consumer sentiment measure of respondents' perceptions of their personal finances relative to the previous year; ANZ-Roy Morgan index rescaled to have the same average as the Westpac-Melbourne Institute index since 1996.

Sources: ANZ-Roy Morgan; RBA; Westpac and Melbourne Institute.

Interest Rate Outlook

The RBA will maintain a tightening bias for the rest of 2026 and probably for all of 2027. This follows the cash rate rising to 4.6% in the wake of recent inflation data, and oil prices rising back above US\$100 per barrel. Having now delivered four rate hikes in eight months alongside some signs of moderating demand, the RBA can keep rates on hold through to year end. We do, however, continue to expect a longer, more drawn-out tightening cycle due to resilient demand amid capacity constraints. The next rate hike is most likely to occur in February or March 2027.

Economic Forecasts: basecase scenario

	2025			2026				2027			
% (actual, forecast)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP q/q	0.8	0.5	0.9	0.3	0.4	0.3	0.2	0.4	0.6	0.6	0.6
GDP y/y	1.9	2.1	2.6	2.5	2.1	1.9	1.2	1.3	1.5	1.8	2.2
Unemployment	4.3	4.4	4.1	4.3	4.4	4.6	4.8	4.9	5.0	5.1	5.2
CPI (q/q)	0.7	1.3	0.6	1.4	0.6	1.1	0.5	0.6	0.7	0.8	0.7
CPI (y/y)	2.1	3.2	3.6	4.1	3.9	3.7	3.6	2.8	2.8	2.7	2.8
CPI (core y/y)	2.7	3.0	3.4	3.5	3.6	3.7	3.3	3.2	3.1	3.0	3.0
RBA cash rate	3.85	3.60	3.60	4.10	4.35	4.60	4.60	4.85	4.85	4.85	4.85
AUD / USD	.658	.662	.668	.690	.692	.695	.725	.74	.76	.78	.79

Benchmark rates

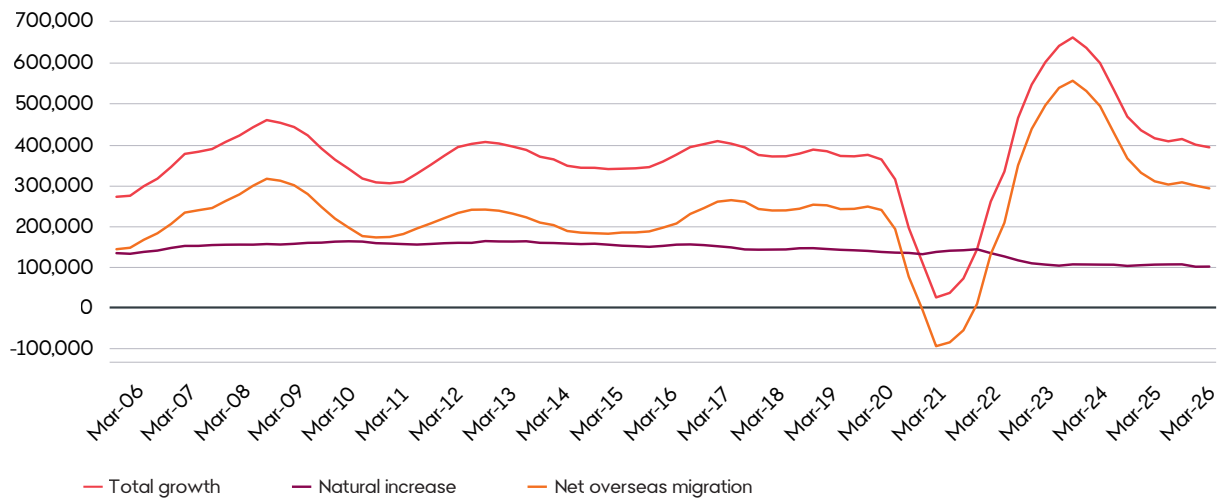
	29/8/25	31/8/2026	30/9/2026	15/10/2026
90-day bills	3.57%	4.50%	4.72%	4.79%
3-year swap	3.30%	4.64%	4.95%	4.91%
5-year swap	3.65%	4.93%	5.00%	5.22%
AUD/USD	.6540	.7165	.6945	.6955
ASX 200	8 973	9 076	8 789	8 710
Credit Index (iTraxx- 5 yr)	66.7	68.3	69.6	75.5

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Appendix:

Selected charts from ABS and the 2026 IGR on population growth

Components of Annual Population Change*



*Annual components calculated at the end of each quarter.

Source: Australian Bureau of Statistics, National, state and territory population March 2026

Net Overseas Migration

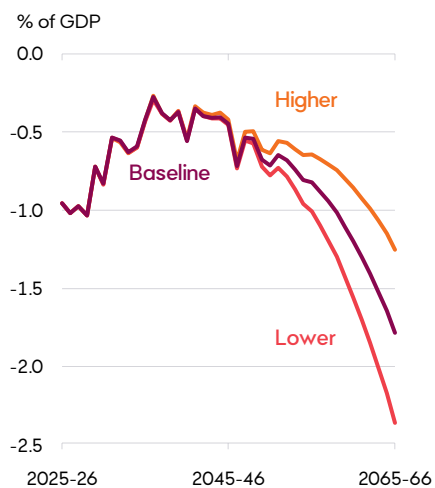


Source: ABS National, state and territory population; and Treasury.

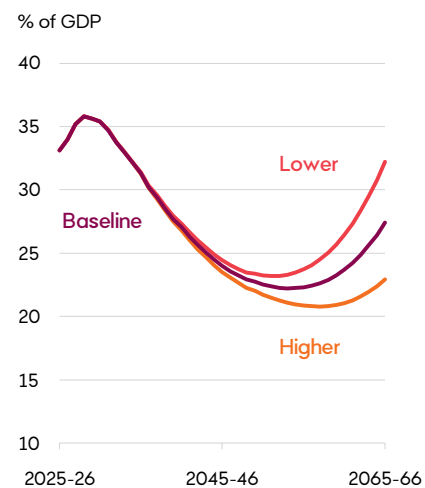
Appendix continued:

Selected charts from ABS and the 2026 IGR on population growth

Impact on UCB of population change



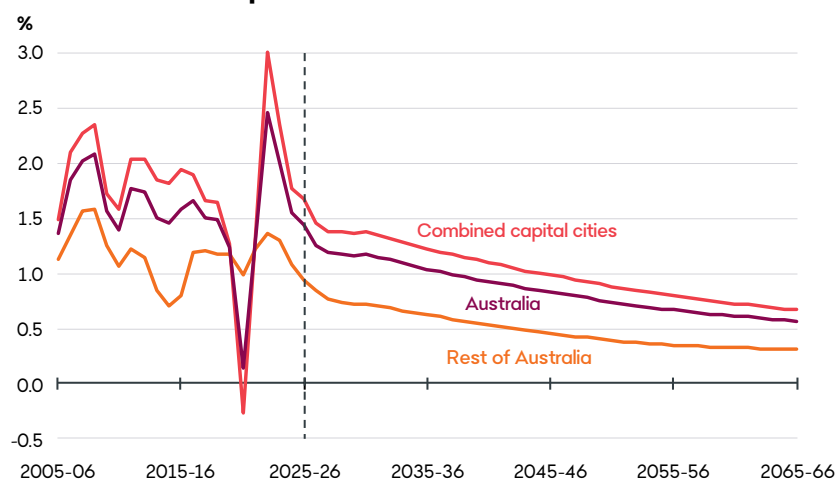
Impact on gross debt of population change



Note: The analysis excludes some effects, including migration-driven productivity gains, workforce skills and experience, environmental impacts, and costs to other levels of government.

Source: Treasury.

Population Growth in Australia



Note: Greater Capital City Statistical Areas (GCCSAs) are geographic areas built from Statistical Areas Level 4 (SA4s). GCCSA boundaries represent labour markets and the functional area of Australian capital cities respectively.

Source: ABS Regional population; and Treasury.