



## **OPENING STATEMENT TO THE ECONOMICS LEGISLATION COMMITTEE**

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### **SECRETARY TO THE TREASURY**

4 June 2026

Thank you Chair, and the Committee, for the opportunity to make an opening statement. I will focus my remarks on macroeconomic developments, particularly new information since the Treasurer delivered the Federal Budget on 12 May 2026. As you are aware, I delivered an address to the Australian Business Economists last week that traversed a broader set of issues around the Budget and I am happy to address any questions flowing from that address.

#### **INTERNATIONAL ECONOMIC CONDITIONS**

The conflict in the Middle East continues to create a significant negative global supply shock. There are now clear signs that disruptions to production and trade of oil, liquified natural gas and petrochemicals are pushing up global inflation and will challenge the outlook for global growth in 2026.

Our assessment is that some of Australia's largest trading partners, such as China, Japan and Korea, possess large energy stockpiles and are relatively better positioned to navigate oil and fuel shortages. However, other South-East Asian economies with lower energy reserves and slimmer fiscal buffers are vulnerable to shortfalls, with many already imposing measures to manage energy demand.


Although central banks in many advanced economies have indicated that they will look through the direct inflationary impact of higher oil prices, recent communications confirm they will be concerned about persistent indirect price effects feeding through to core inflation measures.

The impacts of the closure of the Strait of Hormuz have been cushioned, to some extent, by a draw down of global inventories. But there are limits on the extent to which stocks can continue to be drawn down at current rates before operational stress levels increase. This also creates the risk of higher prices in the future if the current disruption continues, even if it doesn't escalate.

#### **DOMESTIC ECONOMIC CONDITIONS**

Yesterday's release of the National Accounts shows that the Australian economy grew by 0.3 per cent in the March quarter 2026, and by 2.5 per cent through the year. This solid result aligns broadly with our expectations at the time of finalising the Budget, although the composition of growth varied a bit from our expectations. Growth in the quarter was driven almost entirely by new private demand, particularly new private business investment, which grew by 5.7 per cent in the quarter. This reflects continued strong investment in data centres. Dwelling investment grew for the ninth consecutive quarter. Adverse weather across the quarter from cyclones Narelle, Koji and Mitchell impacted commodity exports, while government consumption and household discretionary consumption were subdued.

The March quarter outcome captures only the effects of the first month of the Middle East conflict. The full impacts of the conflict will become clearer as we go forward. These impacts will depend on a range of factors, including the duration and severity of the conflict, and how businesses, households and governments respond.



Treasury is monitoring the situation closely to assess the unfolding effects of the conflict on core measures of inflation and domestic activity. There is increasing volatility emerging in some data, which in part reflects short-term behavioural changes over the first two months of the conflict, and means it remains too early to tell the longer-term effects on outcomes.

The ABS' Monthly Household Spending Indicator showed a 1.1 per cent fall in nominal household spending in April. This was underpinned by a 4.7 per cent fall in transport spending, particularly air transport, as travellers chose to refund or re-book trips in response to the Middle East conflict. Food spending was also down, but this reflected an unwinding of a spike in purchases in March. Spending on discretionary goods weakened in the month.

On the business side, the ABS' latest Capital Expenditure release reported that businesses have upgraded their capex intentions for 2025-26, suggesting a rise of 9.1 per cent over the year, up from 3.8 per cent in 2024-25. This strong result is primarily driven by investment by large businesses in data centres and is consistent with the strength in business investment recorded in the March Quarter.

The ABS has recently reinstated its Business Conditions and Sentiment release to gauge how businesses are managing the impacts of the Middle East conflict. The May survey reported that about two thirds of businesses were making changes in response to fuel supply and prices – this included absorbing cost increases or delaying or cancelling investment. Smaller businesses appear to have been more heavily impacted – small and medium businesses reported being more than twice as likely to face difficulties meeting upcoming financial commitments compared to larger businesses in May.

To date, these impacts have not materialised through financial channels. Bank data suggests that business distress levels have remained broadly stable. Indicators such as overdraft utilisation and hardship applications have stabilised at levels similar to those recorded before the conflict.

In light of the current challenges, the Budget forecasts that the growth of the Australian economy would ease to 1 ¾ per cent in 2026-27 — and data received over the past month is consistent with that outcome.

## **LABOUR FORCE AND WAGES**

The effect of the Middle East conflict on both activity and business confidence is expected to weigh on employment growth over the period ahead. In April, employment fell and the unemployment rate increased to 4.5 per cent. However, monthly labour force data can be noisy and, despite the fall in employment, total hours worked increased and underemployment fell.

Timely indicators of labour demand such as job advertisements, vacancies and survey measures of employment intentions have softened through April but do not point to a sharp deterioration in labour market conditions, and remain consistent with the unemployment rate remaining below pre-pandemic levels. The Budget forecasts the unemployment rate to stabilise around 4 1/2 per cent, which remains low by historical standards.

Wage growth has also remained broadly steady, consistent with unemployment near its sustainable rate. The Wage Price Index increased by 0.8 per cent in the March quarter, to be 3.3 per cent higher through the year. The Budget forecasts a slight pick-up in wage growth over the coming year due to increased employee wage claims stemming from the recent increase in inflation, and recent Fair Work Commission decisions including the outcome of the Annual Wage Review, the phasing-out of junior pay rates for workers over the age of 18 and the gender undervaluation determination.



## **INFLATION**

The Budget noted that the conflict in the Middle East caused a sharp increase in automotive fuel prices, driving a pick-up in inflation in March. Inflation moderated to 4.2 per cent through the year to April, largely due to some moderation in fuel prices. This reflected the combined impact of the temporary reduction in the fuel excise, and lower fuel import prices, as regional refiners were able to adjust to disruption from the conflict. There was also some slight easing in some parts of the basket that had been experiencing elevated inflation prior to the conflict, including rents and some food items. Market services inflation, which has also been elevated, remained steady.

However, the April inflation data did show some broadening in price pressures from the Middle East conflict. There were strong increases in the price of newly constructed dwellings and freight and logistics. The pass through of price pressures to consumers is expected to continue in coming months, with food, air travel and construction prices likely to be affected. This is likely to impact both headline and underlying inflation. The Budget forecasts headline inflation to peak at around 5 per cent through the year to the June quarter.

The Budget forecasts inflation to moderate significantly in early 2027; however, the timing of the moderation will depend on the duration of the disruption to oil and broader petrochemical supplies.

## **CLOSE**

So in closing, as highlighted in the budget documents, the Middle East conflict looms large over our outlook for the economy — there remains considerable uncertainty that is yet to resolve.

On one other matter, since the last Estimates meeting, Dr Guy Debelle has completed his independent review of the Australian Office of Financial Management's operations, which is available on the Treasury website. It confirmed the AOFM is performing its functions effectively and is highly regarded by market participants. Treasury and the AOFM support the directions set out by the review and are working together to implement the review's recommendations. A more detailed response will be made public in coming weeks.

Thank you for the opportunity to give this opening statement. I welcome your questions.