Why uncertainty is the new normal for Australia

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Four forces reshaping the economy

Uncertainty and volatility is the new normal.

I have argued strongly that we are now in a fundamentally new and different economic era. One that is more dangerous and more complex.

I’d argue there is not just one, but four major structural forces underway, that are reshaping the political, business and consumer landscape.

Shifting geopolitics and the return of strategic competition, most notably between the US and China, has undermined the rules-based order, increased the risk of major supply chain disruptions, and seen globalisation shift into reverse.

The emergence of AI and increasingly robotics is another game changer, with impacts that are likely to exceed those of the dot-com era. The immediate effects are being felt in share markets and through the AI capex boom, but the biggest effects will come over time as businesses and consumers reimagine existing ways of doing things.

The Net Zero transition is already having a big impact on energy and gas markets and household consumption patterns, including through growing EV and battery uptake. Energy grids will remain volatile and under pressure in coming years, and increasingly, other sectors such as aviation, shipping, road transport, agriculture, land use and construction will be required to adapt on a faster and larger scale.

And finally, demographics are continuing to shift rapidly. Across advanced Western countries, like Australia, the population profile is getting older and birth rates are falling sharply. And in some countries, including China, we are seeing populations shrinking.

Importantly, it is the cumulative effect of these massive and rapid changes that matters.

The result of this rapid change is more shocks and more uncertainty. We now shouldn’t expect major economic shocks once a decade, but more like once every 1-2 years.

With more investment in AI, renewables, defence and sovereign manufacturing, competition for capital is increasing, driving up long-term neutral interest rates.

And with economic security increasingly prioritised over economic efficiency, we are seeing more regulation and more trade barriers, adding cost to the system.

Consumers are feeling this pressure. When you look at surveys of consumer sentiment and broader measures it is clear that consumers are feeling uneasy amongst all this change. Unfortunately, these are deep structural drivers, not a temporary cycle.

Supply chains in the spotlight

The second point I want to make is that supply chains will be a key battleground in this new economic era. The Strait of Hormuz provides a clear example of how trade chokepoints and critical supply chains are being weaponised in this new era.

Recent events have demonstrated how easily (and cheaply) critical chokepoints can be shut off, with major impacts on global supply chains.

This matters a lot to a country like Australia, that relies on global shipping lanes for many of our critical inputs. Even as a major food producer, when the Strait closed, it quickly became clear that Australian agriculture needed imported fertiliser and diesel.

Our central case is that we will see a diplomatic resolution that reopens the Strait to traffic in the next 4-6 weeks, avoiding critical shortfalls across oil and other key markets. However, this can't be taken for granted, and if the Strait remains closed for another eight to 10 weeks, we will start to hit critical thresholds that could see oil prices hit $US150 a barrel and drive higher prices and potential shortages of other key commodities.

This remains the single biggest near-term risk to the Australian economy.

While the current focus is on the Middle East, recent analysis by our team shows that many of the most vulnerable global maritime chokepoints are in our region. As a result, we expect Government's to remain very focussed on our economic resilience, particularly in areas related to food security, fuel security and defence.

What CBA is seeing in the economy

Let me now move closer to home. What are we seeing at CBA in terms of the current economic outlook and consumer spending?

We are now seeing clear evidence that the pace of economic activity is slowing, driven by weaker household spending and falling house prices. And we expect growth to remain subdued over the second half of 2026, before recovering into next year.

Three interest rate hikes in February, March and May, higher petrol and diesel prices, and now the impact of the Federal Budget tax changes are all working to slow growth.

You can see this clearly in our CBA internal data.

In 2025, our internal measure of household income growth was running at very strong annual rates of above 10% in nominal terms. That has now stepped down to 7-8%.

Our CBA Wage and Labour insights report shows that trend levels of employment growth have steadily been moving lower this year. In our view, overall employment growth is currently a little below the 'break-even' rate that is enough to keep the unemployment rate stable, so we expect unemployment to drift higher.

Slower income growth and rising unemployment, along with high levels of uncertainty and weak consumer confidence, are all driving household spending down.

Our CBA Household Spending Insights data shows a clear downward trend in spending growth. Last year, annual spending growth was running at around 6%, it has now fallen to below 5%. We are also seeing less flows into CBA redraw and offset accounts, indicating that households are tapping into their savings buffers.

I want to be clear, that while we see economic growth and household spending slowing, we see no signs of a major collapse or a recession on the horizon. On our forecasts, overall growth in the economy will drop from around 2.5% to 1.5% by the end of this year. That is a marked slowdown, but it still represents steady growth overall.

We continue to see strong public spending putting a floor under growth and the data centre, renewables and defence investment booms will also support growth.

The good news is that a slowing economy will take pressure off inflation and interest rates. The RBA has been clear that growth must slow to reduce demand and bring it more into line with what the economy can supply.

We consider there is now enough evidence of that to allow the RBA to remain on hold for the rest of this year, with no more rate hikes in this cycle. If we are right, and growth continues to slow, then there is the prospect of 1-2 rate cuts in mid-2027.

A lot depends on what happens in the Middle East and how businesses respond. So far, firms have not fully passed on higher input costs to consumers, taking the hit on their margins. If that changes, the RBA may still need to hike rates again.

The RBA will be cautious and won't be in a rush to cut rates. They will want to be very certain that inflation is back in the target band this time around, not just forecast.

The labour market is still structurally tighter than it has been in decades, with an unemployment rate in the 4's, rather than 6-7%. And with more supply shocks expected, the RBA is worried about inflation expectations rising.

So, while we expect rates to remain on hold, we are generally in a higher inflation, higher interest rate environment, and we expect that to remain the case.

How consumers respond under pressure

Finally, what can we say about how consumers respond during downturns and periods of uncertainty, especially in relation to food. Every cycle is different, but when you look at the data, there are clear patterns that emerge.

When they first come under pressure, consumers initially look to maintain their spending patterns by drawing on their savings buffers.

We saw this during the post-COVID cost of living crunch, when the household saving rate dropped down to around 2% — typically Australian households like that figure to sit closer to 5-7%. It is now back at around those levels.

Next, households pull back on discretionary spending to preserve essential items.

The types of things that tend to be cut back are furnishings & household equipment, recreation and clothing & footwear. The essential items that are protected tend to include the mortgage, rent and utilities, along with health care.

Food is an interesting category. Food itself is an essential item, so the overall spend on food tends to hold up quite well during consumer downturns. But food captures a wide range of products — from premium offerings and high-end restaurants to fast food takeaway and household staples.

You can definitely see a shift away from premium products and a ‘focus on value’ and smaller basket sizes when the pressure in on consumers.

This is the edited text of an address given by Luke Yeaman to the National Farmers Federation Leaders Summit on August 18.

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