

Opening Statement to the Economics Legislation Committee

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Secretary to the Treasury

Thank you, Chair, and thank you to the Committee for the opportunity to make an opening statement. I will focus my remarks on what has changed in the macroeconomy since my appearance in December last year.

International economic conditions

Global growth continues to be more resilient than expected following last year's increase in US tariffs. China and the United States have both outperformed expectations despite weaker bilateral trade between them. This appears to have occurred because many tariffs were implemented later and at lower rates than initially proposed, there has been a diversification of trade flows, and there was some front-loading of imports ahead of tariff changes. However, as the full impact of higher trade costs materialises and the trading system becomes less efficient, this is expected to weigh on growth and supply chains over time.

China's economy grew by 5 per cent in 2025, in line with the official growth target. A large part of this story has been the continued strength in Chinese exports. As a result of US trade restrictions, Chinese exports have been redirected to alternative markets including markets in the ASEAN and European Union regions. Meanwhile, domestic momentum in the Chinese economy has slowed as the property sector continues to weigh on aggregate demand.

The US economy grew by 4.4 per cent (in annualised terms) in the September quarter, supported by solid household spending. US household consumption was strong in 2025, and there was a lift in investment in software and technology-related capital. There are, however, signs of some weakening in the US labour market. Recent data continues to point to slowing jobs growth. This is driving market expectations of further monetary policy easing by the US Federal Reserve.

Recent data indicate some persistence in inflation outcomes across major economies. Across the United States, the United Kingdom, Canada and New Zealand, inflation remains elevated above monetary policy targets even as labour markets have softened. In contrast, the inflation outlook in major European

economies is relatively contained. These differing paths have left central banks facing more difficult choices between returning inflation to target and supporting activity.

Uncertainty over US trade policy including court challenges to tariff arrangements continue to cloud global trade. At the same time, the ongoing conflict in Ukraine and recent tensions in the Middle East, including around Iran, have raised concerns about global oil markets and commodity prices. Rising uncertainties have been reflected in financial markets, with the price of gold exhibiting significant volatility including reaching record highs as investors continue to seek safe -haven assets.

Domestic economy

Turning to Australia, there continues to be underlying positive momentum in the domestic economy. Solid annual growth is expected over the next two years.

Private demand has made a stronger contribution to growth than public demand over the past four quarters.

Business investment has strengthened as firms invest heavily in software and cloud computing infrastructure. This includes the construction of data centres, which is expected to support growth in non-mining business investment going forward. Given much of this investment has a high import share, it has had a minimal direct impact on GDP, but it has the potential to raise the productive capacity of the economy over time.

Dwelling investment is gaining momentum and, while volatile, approvals for new housing supply have picked up and this has translated into higher commencements and an elevated level of activity. This is expected to support continued growth in dwelling investment in the near term. Higher rental yields have supported apartment and townhouse approvals in recent years, which has flowed through to higher construction activity.

Alongside this, household consumption has strengthened over the past year, supported by rising real household incomes. Signs are emerging of stronger household spending on discretionary services, suggesting that households may be more confidently navigating cost-of-living pressures.

Treasury is monitoring the economic impact of recent natural disasters. Around 1.4 million people are living in areas affected by bushfires in Victoria and flooding in Queensland. We currently estimate the loss of economic activity could reach

nearly \$1 billion, or around 0.1 per cent of real quarterly GDP. Support for affected communities is being delivered through Commonwealth and state government arrangements.

Labour force and wages

The labour market was broadly stable through 2025, with high participation and low unemployment. This stability is expected to continue in the forecast period.

In December 2025, the unemployment rate fell to 4.1 per cent and the participation rate remained high by historical standards. The labour market is expected to soften a little this year, but the unemployment rate is expected to remain low by historical standards.

Employment growth eased through 2025. This reflected a slowdown in non-market sector employment, which was partially offset by market sector employment recovering, consistent with the shift from public-sector to private-sector-led growth. Indicators such as job vacancies and business surveys of hiring intentions are steady, suggesting employment will continue to grow around its current pace in the near term.

The labour force participation rate was 66.7 per cent in December. While it eased slightly in 2025, it remains well above pre-pandemic levels. Australia has avoided the large rises in unemployment or sharp declines in participation seen in other advanced economies over the past few years.

Inflation

After inflation moderated substantially from its peak in late 2022, it increased in the second half of last year. Headline inflation was 3.6 per cent over the year to the December quarter, a little above the 2025–26 MYEFO forecast. A major contributor to this increase was the expiry of state government electricity rebates. Headline inflation is likely to increase further in January as Commonwealth rebates come to an end.

Measures of underlying inflation, which largely exclude the impacts of rebates and other one-off factors, also rose in the second half of 2025. While the December quarter outcome was a little less than the September quarter outcome, both were higher than we had expected. The RBA's preferred measure of underlying inflation — the quarterly trimmed mean — rose from 2.7 per cent over the year to the June quarter to 3.4 per cent over the year to the December quarter.

Our assessment is that the pickup in underlying inflation reflects a combination of temporary and more persistent factors. The temporary factors include some businesses and service providers rebuilding margins, following a period in which they had been unable to pass higher input costs on to households, and volatility in travel components. More persistence has been observed in the food and market services components, in particular.

These recent data have increased the risk that inflation is higher and takes longer to return to the target band, than expected at MYEFO. Expected ongoing constrained growth in wages and the higher exchange rate should support inflation returning to the target band.

Close

Finally, I would like to confirm that on 13 January, Treasury's internal audit provider commenced a management-initiated review of the adequacy and effectiveness of the controls for state payments administration. This will consider opportunities to strengthen those controls, taking into account the measures we have already implemented to strengthen our processes, procedures and training. The final report will be delivered to me in March 2026.

The ANAO has also initiated planning for a potential audit into state payment arrangements under the Federation Funding Agreements framework in 2025-26.

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