

Ten questions for 2026

From AI to fiscal policy, from China to AUD and from interest rates to RBA policy

As this is our last Brief before the Christmas break, the Economics & Research team would like to thank our readers for their support over the year. We wish you a Merry Festive Season and a Happy New Year. In this week's Brief, we focus on the less anticipated developments over 2025 that will continue to impact the outlook over 2026. From AI to fiscal policy, from China growth pressures to the AUD, and of course, from RBA rate calls to what needs to change at the RBA: here are 10 questions for 2026.

1. Could the big increase in data centre fit-outs bring Australia to the leading edge of supercomputing and AI technologies?

While Australia will not reach the sophistication and size of the US and Chinese tech giants, this does not mean that hosting a large data centre ecosystem won't have positive spill-over effects for Australia's tech sector. Australia will benefit from AI applications in industries it is a global leader, such as mining and agriculture.

Additionally, a data centre ecosystem, and the close connections with American tech giants that it will bring, will benefit Australia's already world-leading quantum computing industry.

2. Should the federal government cut spending or increase taxes?

Australian governments need to cut spending to promote the transition in the Australian economy toward private-sector led growth. This will allow more balanced growth in the economy without further igniting inflationary pressures.

Lower deficits will also help cement Australia's status as a low public-debt country, maintain our AAA rating and our attractiveness as a destination for foreign investment.

3. Is the government's current fiscal stance contractionary or expansionary?

To date, the government's fiscal stance has been expansionary. However, if the government is able to reduce spending in line with MYEFO, the federal budget will become mildly contractionary by 2027.

4. What is your forecast for 10-year bond yields over 2026?

With the RBA unlikely to deliver rate hikes expected by the market over 2026, 10-year government bond yields are likely to fall toward 4.5%.

5. What is your GDP forecast for China in 2026, and how will that affect Australia?

QIC expects China's real GDP growth to slow from 4.9% in 2025 to around 4.5% in 2026. However, the slowdown in headline real GDP overstates the impact on the Australian economy. Importantly, an expected improvement in fixed asset investment in China, particularly across infrastructure and manufacturing, will support demand for Australia's resource exports and our terms of trade.

6. What is your forecast for the iron ore price and how will it affect the federal budget?

We expect the iron ore spot price to ease modestly to US\$95/tonne by the end of 2026. With the government's Mid-Year Economic & Fiscal Outlook incorporating a steeper decline in the iron ore price, this outcome would see an upgrade in tax revenue over 2025-26 and 2026-27 of around \$1 billion.

7. What is your \$A forecast and why?

With interest rate differentials favouring Australia, and a recovery in Chinese fixed asset investment providing support for commodity prices, we expect the \$A to increase to US\$0.69 by the end of 2026.

8. What is the next RBA rate move and why?

As we outlined in a recent Brief ([A healthy transition for the Australian economy](#)), the RBA must provide stability by keeping rates on hold throughout 2026, allowing the economy to correct its current imbalances.

9. How do you rate the RBA's communications/messaging under the new regime?

The RBA has done a good job of improving communications. Market analysts and economists are benefiting from a more transparent and informative Statement of Monetary Policy, including a clearer identification of risks.

10. How can it be improved?

Public communications from board members other than Governor Bullock and Deputy Hauser would help improve the transparency of the monetary policy decision making process.

Table 1: Financial market movements: 11 - 18 December 2025

EQUITY INDEX	LEVEL	CHANGE	10-YR GOVERNMENT BOND	YIELD	CHANGE	FOREIGN EXCHANGE	RATE	CHANGE
S&P 500	6,774.8	-1.8%	US	4.12%	-3.5 bps	US Dollar Index (DXY)	98.43	0.1%
Nikkei 225	49,001.5	-2.3%	Japan	1.97%	4.1 bps	USD-JPY	155.55	0.0%
FTSE 100	9,837.8	1.4%	UK	4.48%	-0.3 bps	GBP-USD	1.338	-0.1%
DAX	24,199.5	-0.4%	Germany	2.85%	0.7 bps	EUR-USD	1.172	-0.1%
S&P/ASX 200	8,588.2	0.0%	Australia	4.74%	2.2 bps	AUD-USD	0.661	-0.8%

Source: Bloomberg

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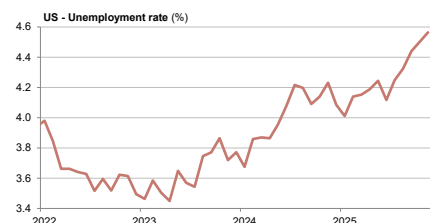
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Economic update by region

United States

US unemployment rate continues its gradual rise

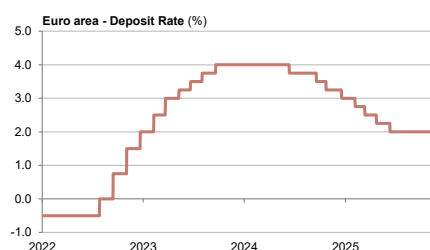
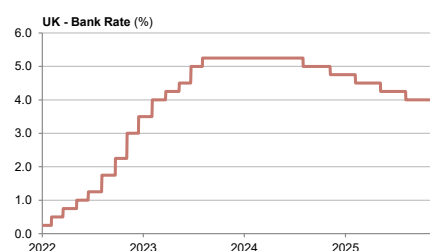
- Non-farm payrolls fell by 105k in October and rose by 64k in November. The large fall in October was expected, reflecting deferred layoffs in the federal government workforce made earlier in the year by the DOGE. The unemployment rate ticked up from 4.5% in September to 4.6% in November. Whilst the solid rise in November payrolls was a positive sign, overall the double October/November print was consistent with a continued gradual easing of the labour market.
- Retail sales were unchanged in October however control retail sales were up a robust 0.8% indicating a solid start to consumer spending for the quarter.
- The annual rate of headline CPI inflation moderated sharply from 3% in October to 2.7% in November whilst core inflation fell from 3% to 2.6%. The size of this fall has been attributed to methodological issues arising from missing data due to the government shutdown.



Euro area/United Kingdom

BOE delivers rate cut as UK inflation resumes disinflationary path

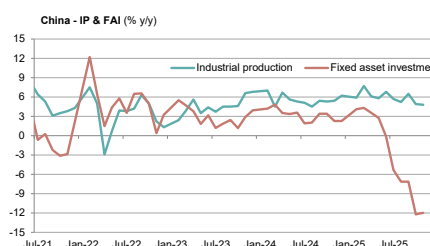
- The Monetary Policy Committee of the BOE voted 5-4 to cut the Bank Rate by 25bps to 3.75%. The renewed disinflation seen in the CPI prints since the last meeting provided more confidence in an ongoing moderation in inflation. The committee remains divided however with some members perceiving downside risks to inflation due to the ongoing easing in the labour market and weak activity. Whilst other members remain concerned about upside risks from elevated inflation expectations and indicators pointing to ongoing strong wage growth.
- The annual rate of UK headline inflation declined from 3.6% in October to 3.2% in November. This moderation was also seen in core inflation with the annual rate declining from 3.4% in October to 3.2% in November. Whilst some of the fall is attributable to one-off factors such as the timing of tobacco excise rate hikes, the print is a positive sign for ongoing disinflation in the UK.
- The softer economic momentum in the UK seen in the September quarter continued into the December quarter with real GDP declining by 0.1% in the month of October.
- As was widely expected, the ECB chose to leave the deposit facility rate unchanged at 2% at its December meeting. The ECB has been on hold since June following an easing cycle which saw its policy rate reduced by a cumulative 200bps. At the post-meeting press conference Governor Lagarde reiterated that the council continues to view monetary policy as being in a "good place" and that they are taking a meeting-by-meeting and data dependent approach.



China/Japan

China's economic momentum continues to slow

- The annual rate of fixed asset investment growth ticked up from -12.2% in October to -12% in November, remaining deeply in negative territory as Chinese authorities' anti-involution policies continue to weigh on investment. The annual rate of retail sales growth declined from 2.9% to 1.3%. The annual rate of industrial production edged down from 4.9% to a still solid 4.8%.



Australia/New Zealand

Australian consumer sentiment falls sharply in December

- The Westpac-MI consumer sentiment index fell from 103.8 in November to 94.5 in December, indicating pessimists outweigh optimists. News about the recent uptick in inflation and the prospect of RBA rate hikes in 2026 drove the decline in sentiment.



Sources: LSEG, QIC

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