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Economic Update

Presented to Queensland Economic Teachers Association Annual Conference

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QUEENSLAND
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A night landscape with a starry sky and silhouetted trees and grass. The sky is dark blue with many stars, and the foreground shows tall grass and trees in silhouette.

ACKNOWLEDGEMENT OF COUNTRY

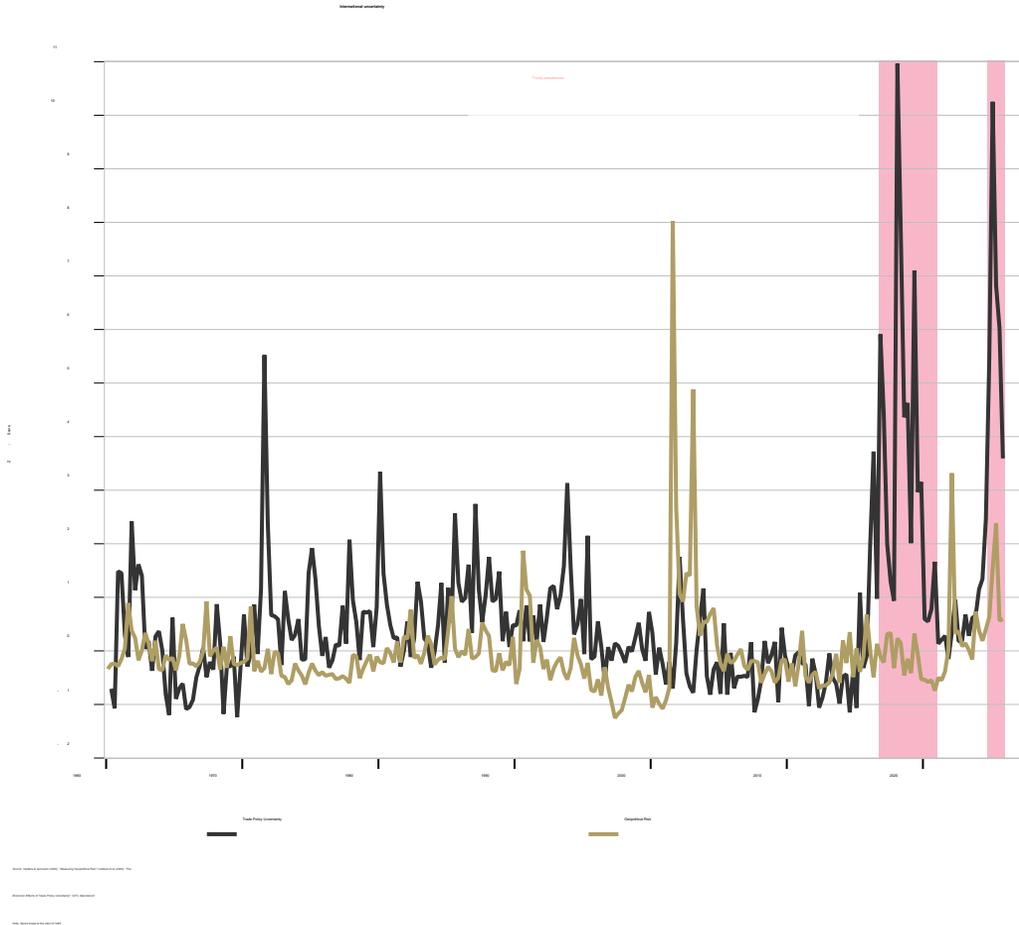
QTC acknowledges the Aboriginal and Torres Strait Islander ancestors of this land, their spirits and their legacy. The foundations laid by these ancestors—our First Nations peoples—give strength, inspiration and courage to current and future generations towards creating a better Queensland

Agenda

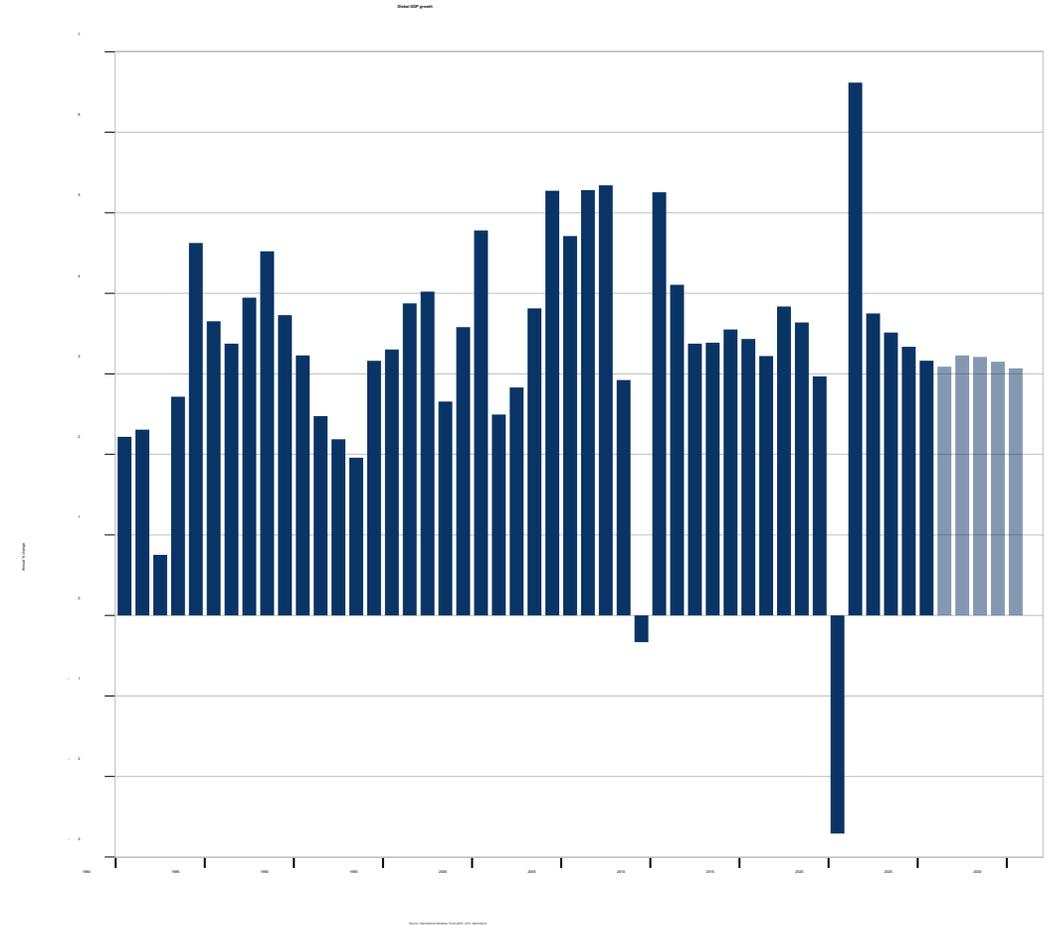
1. Global and national economies
2. Case study – Infrastructure construction
3. Topical issues – AI and government debt

Global and national economies

Global economy - Uncertainty and activity

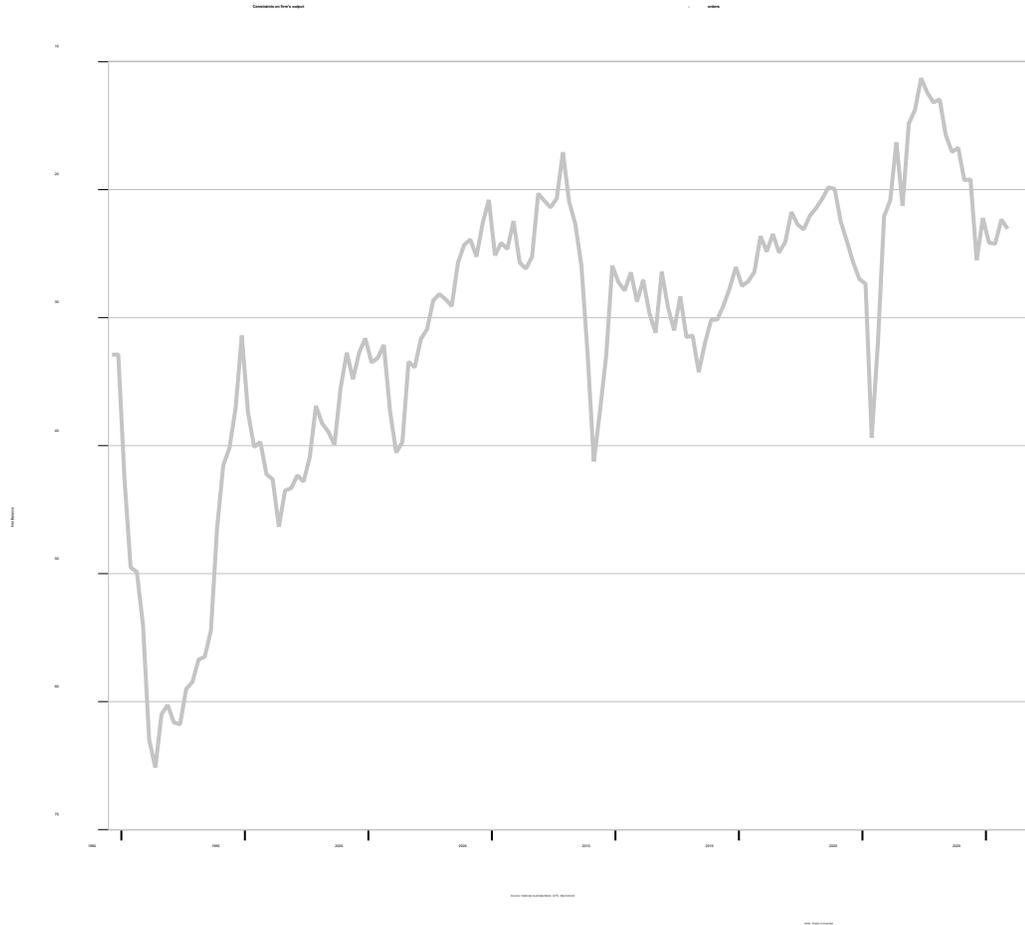


Uncertainty over US trade policy is ebbing...

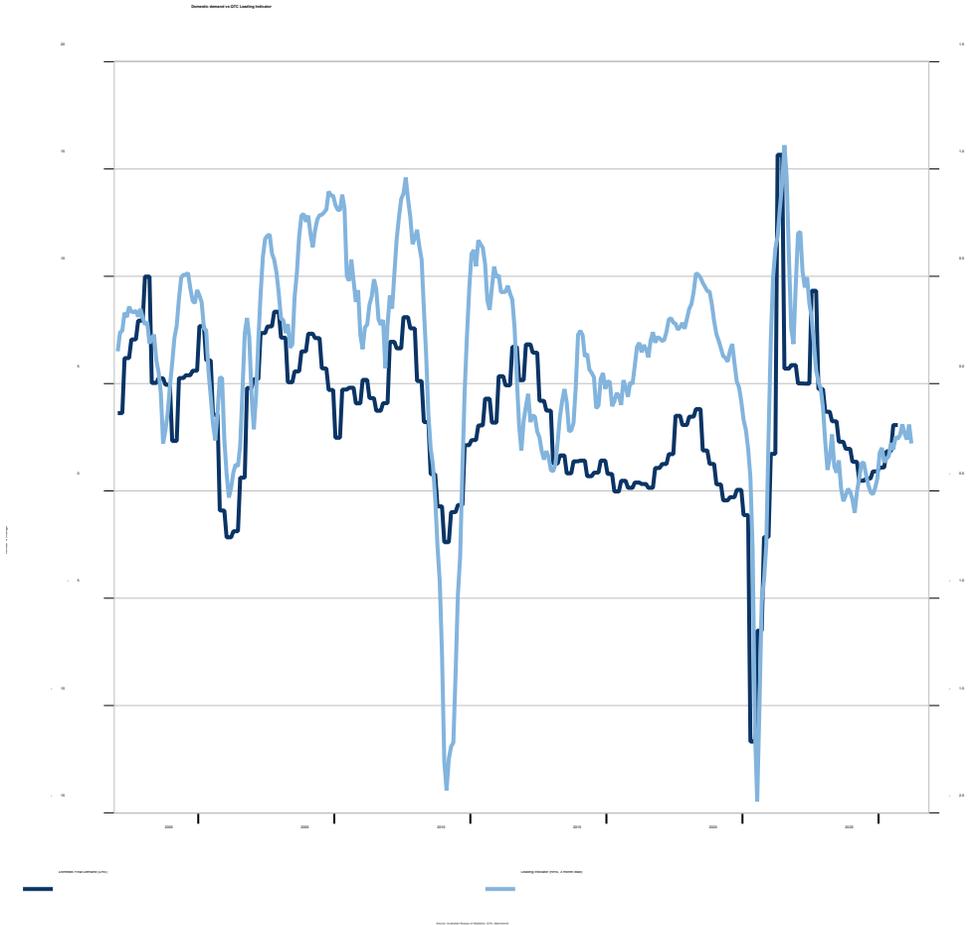


...laying the foundation for steady growth in the global economy

National economy – Demand conditions

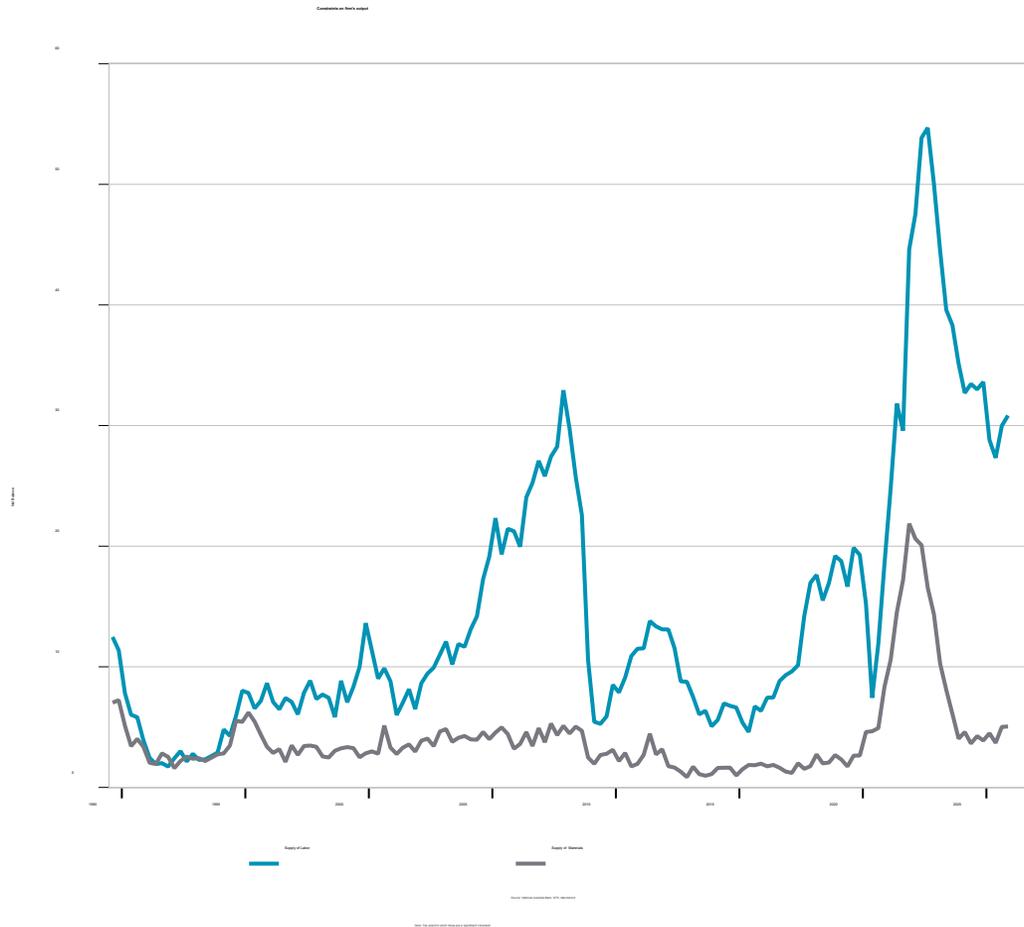


Demand conditions had been weakening but have recently stabilised...

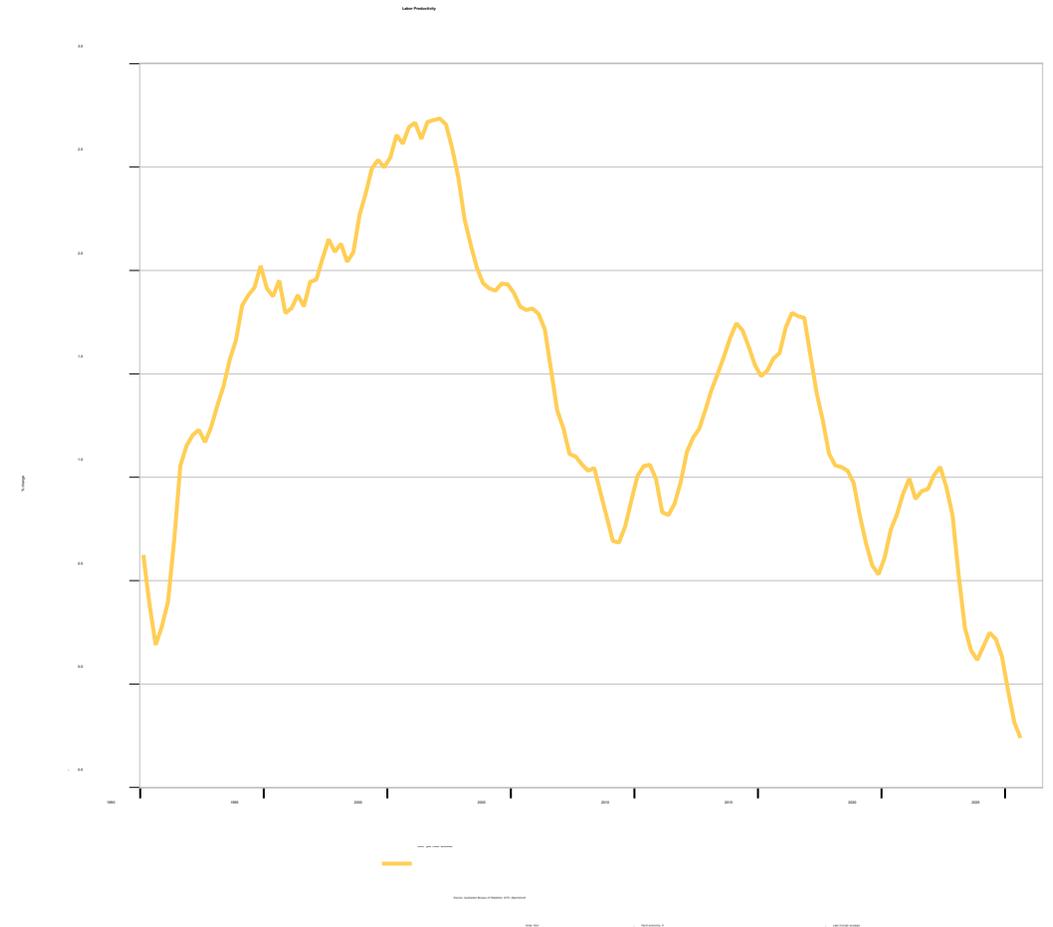


...with momentum set to continue in the very near-term...

National economy – Supply side constraints

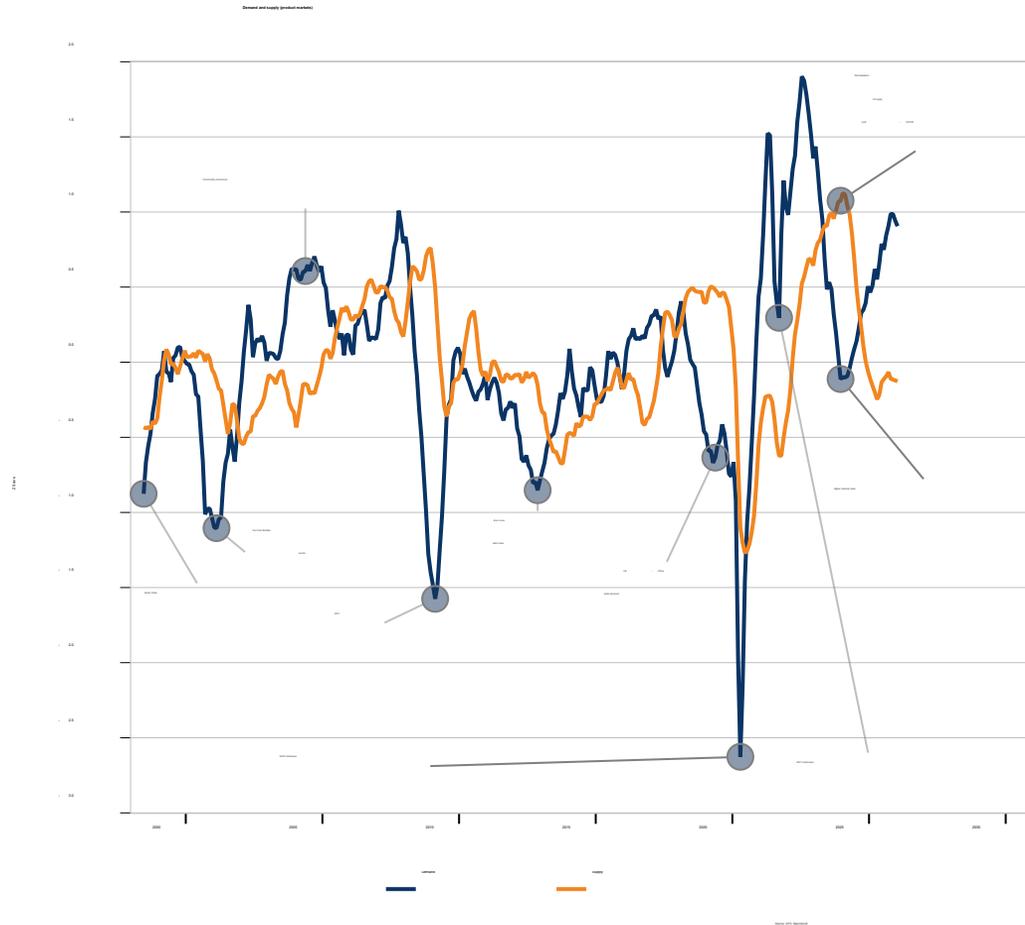


...though the supply labour is being cited by firms as a significant constraint on output...

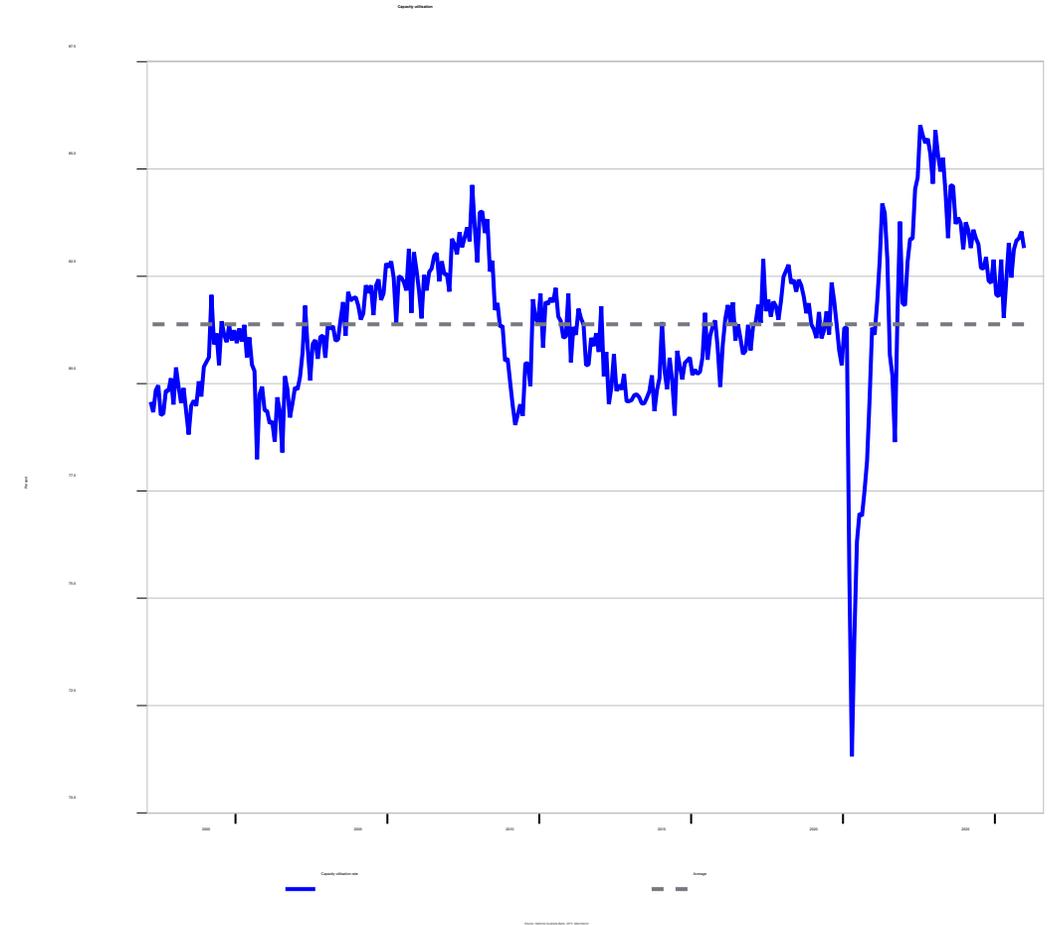


...with low productivity also limiting the economy's supply capacity...

National economy – Balance between demand & supply

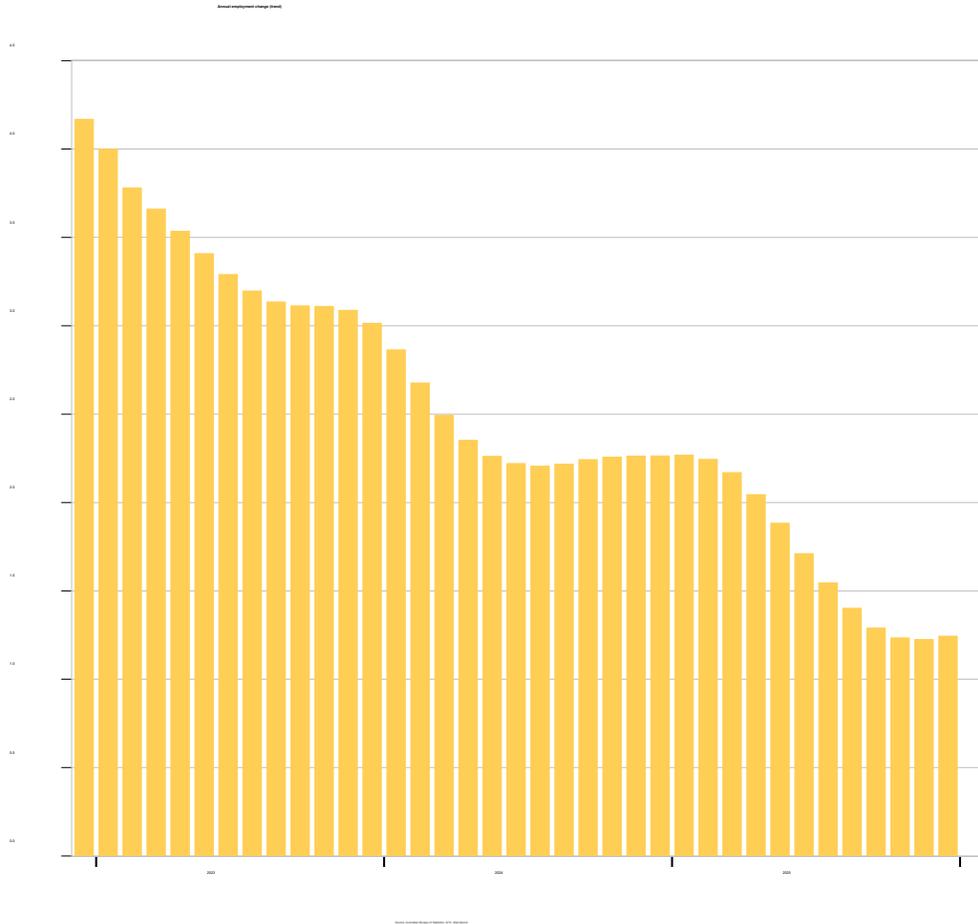


...such that, with demand stabilised and supply remaining constrained...

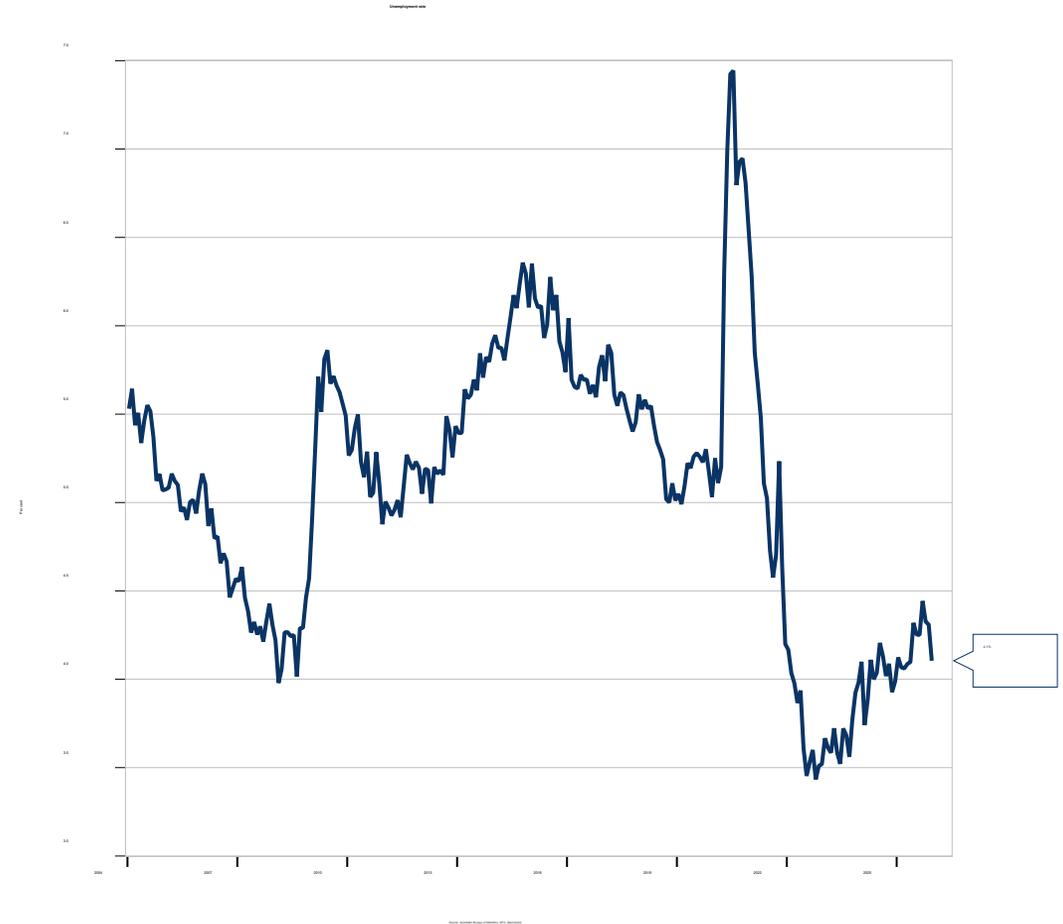


...the economy is bumping up against capacity constraints

National economy – Labour market

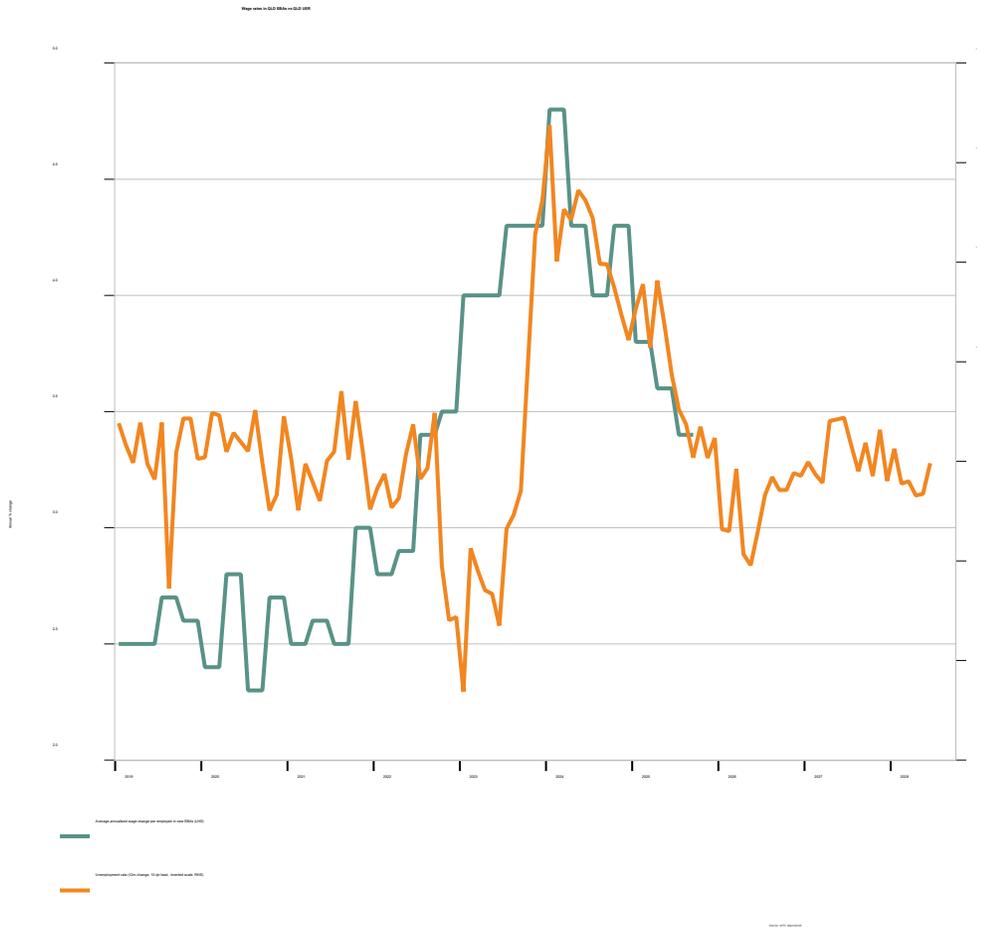


Jobs growth is slowing...

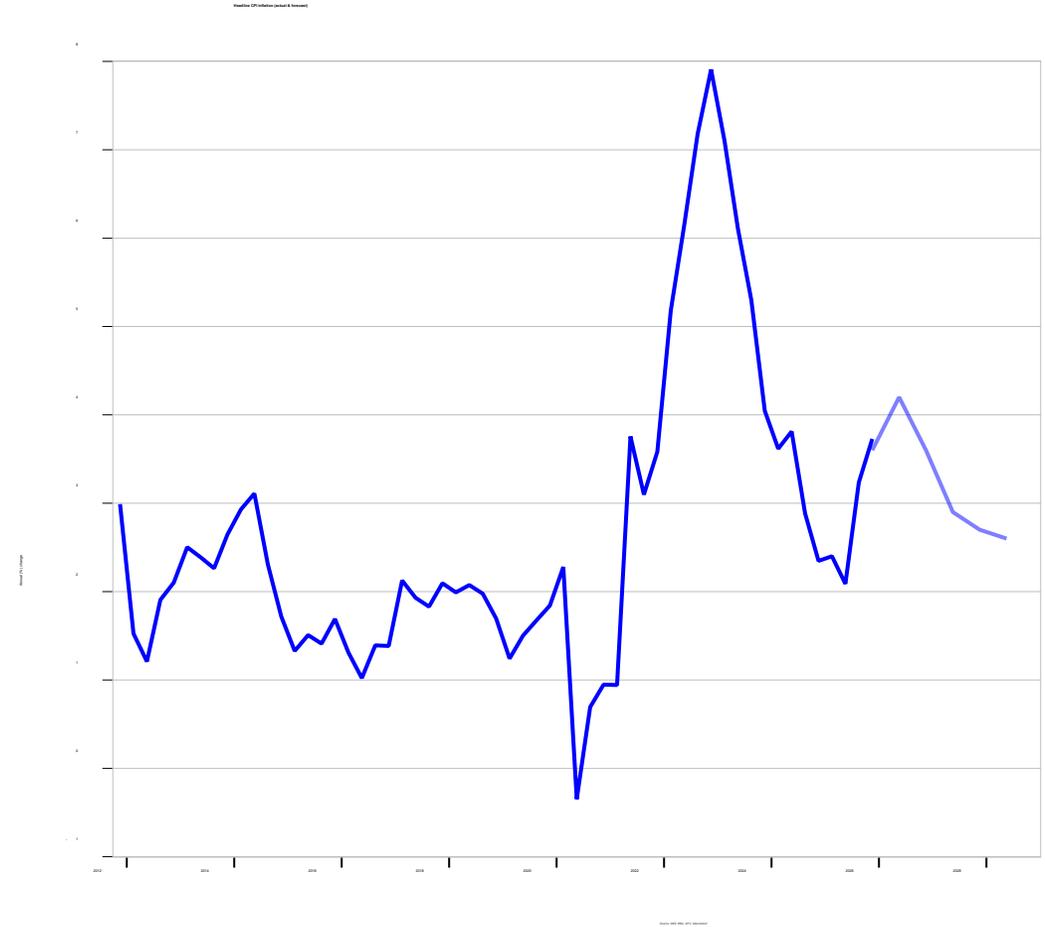


...and the labour market rebalancing...

National economy – Wages and prices



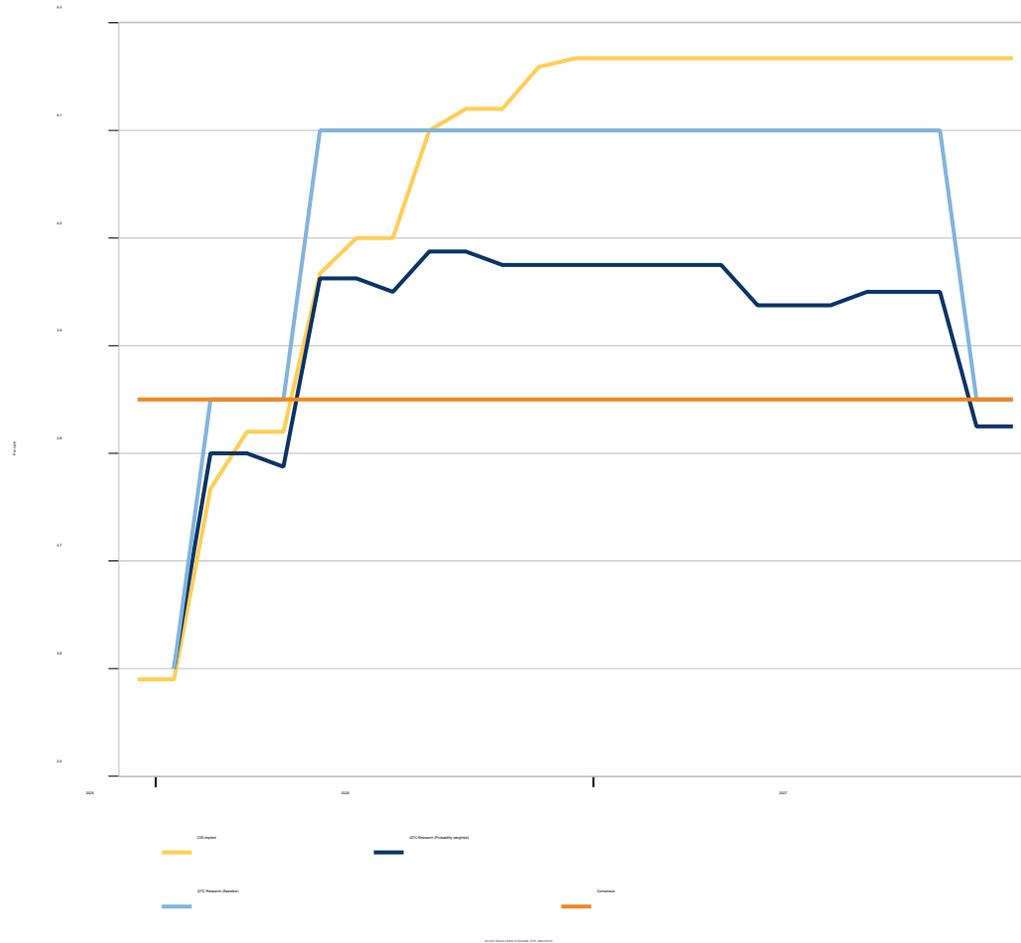
Low productivity will cap any wage gains, as will an earlier easing in labour market conditions...



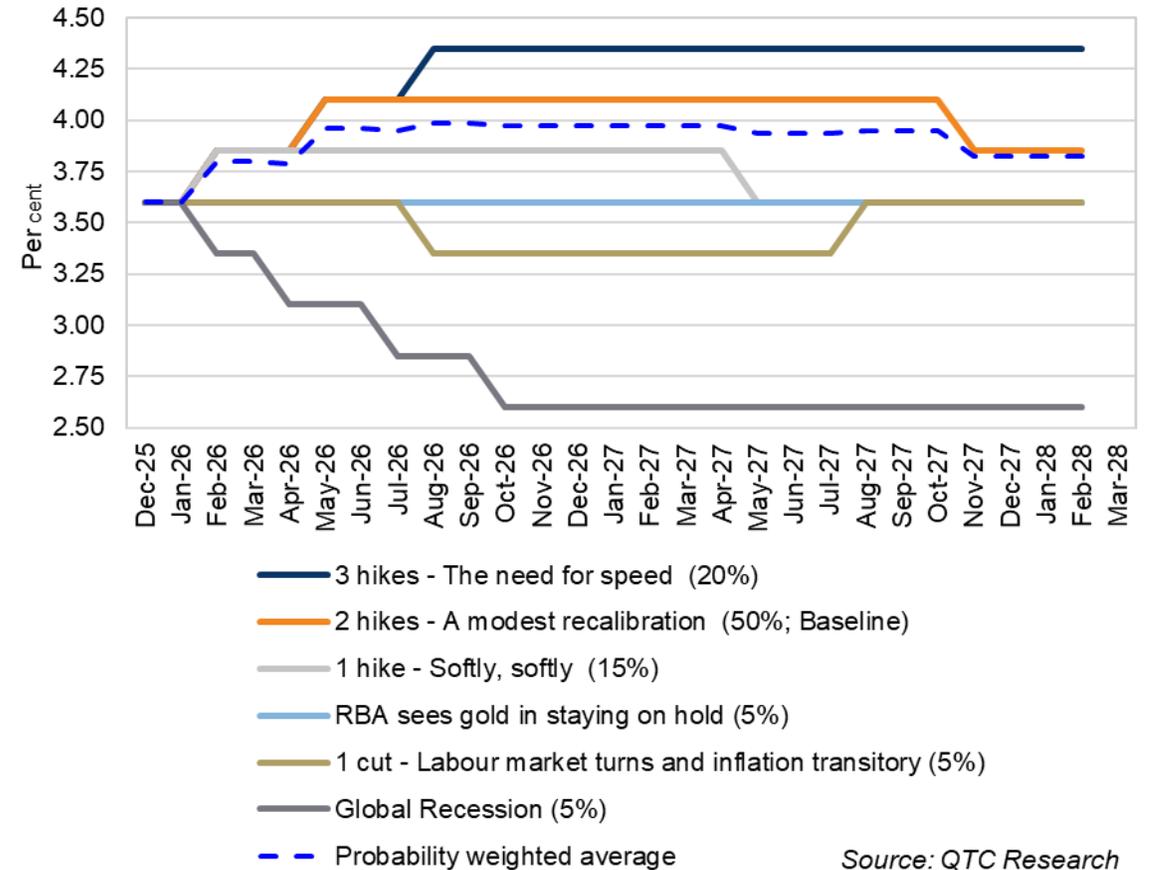
...with the easing of demand in the economy as interest rate hikes take effect set to see inflation slow

National economy – The RBA raising interest rates

RBA Cash Rate Profiles



RBA Cash Rate Scenarios

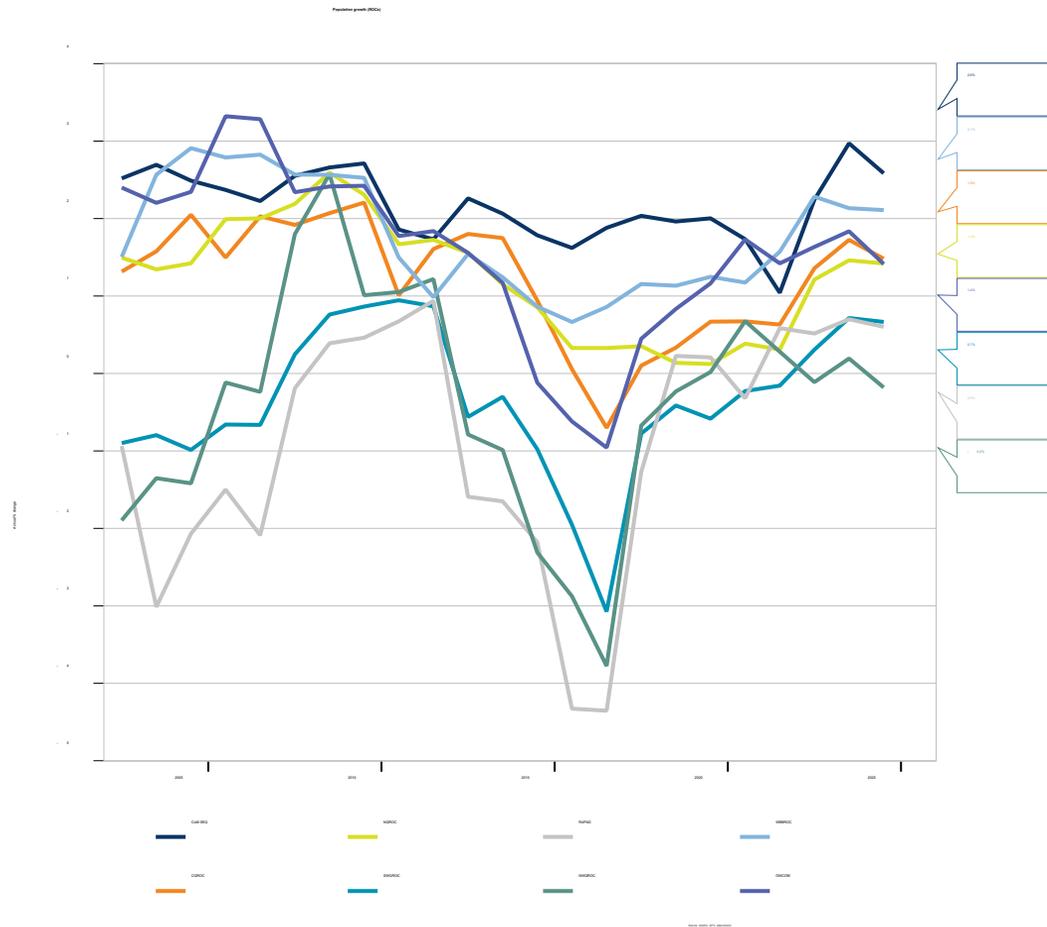


Source: QTC Research

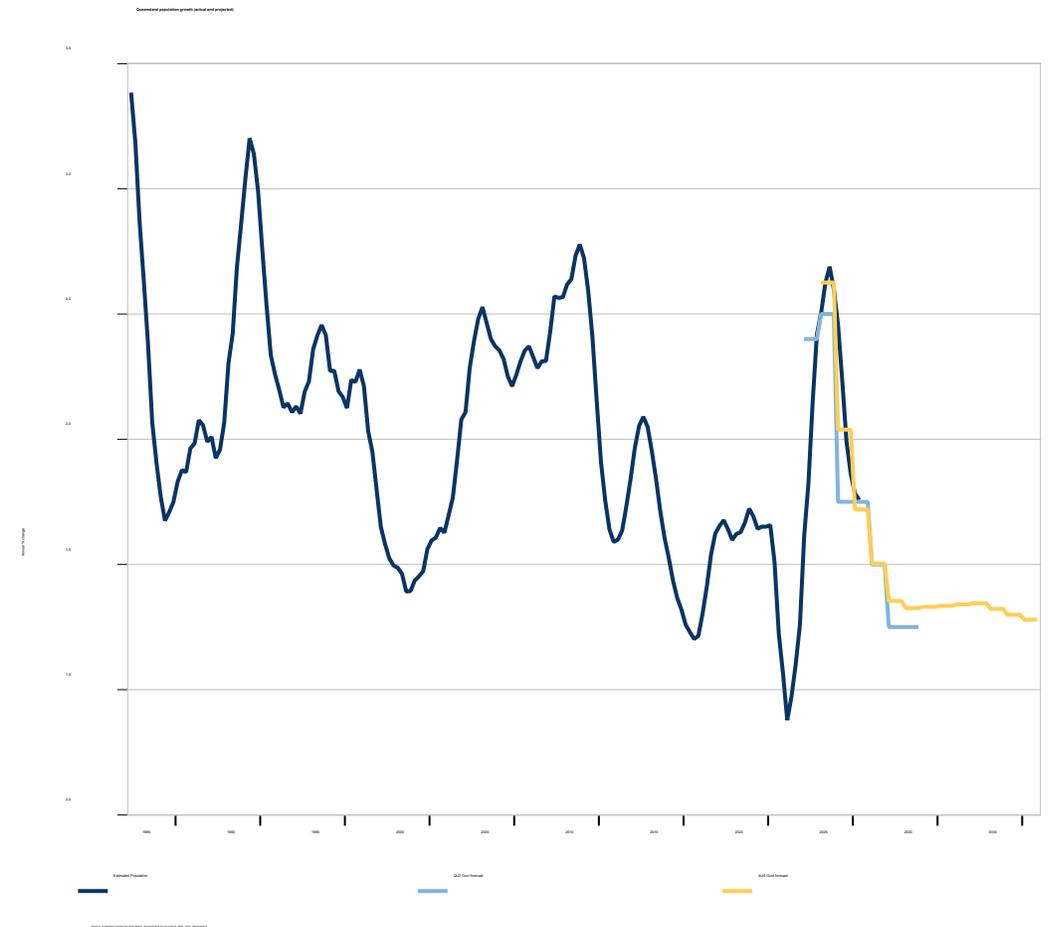
Our baseline profile assumes two rate hikes from the RBA next year given an improvement in national economic activity, resilient labour market conditions, and sticky inflation. Of the different scenarios we are considering (prepared before the Feb rate hike), we favour more hikes than less.

Case study – Infrastructure construction

Population



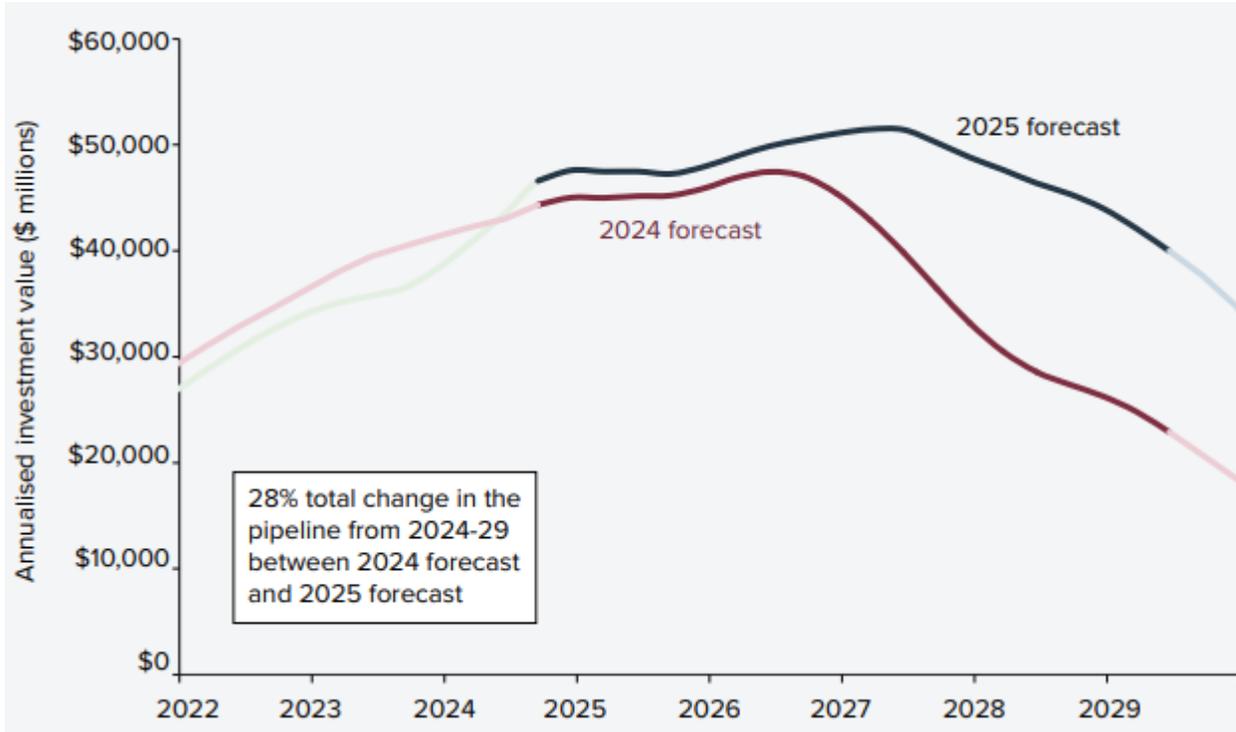
Population growth looks to have peaked across the state...



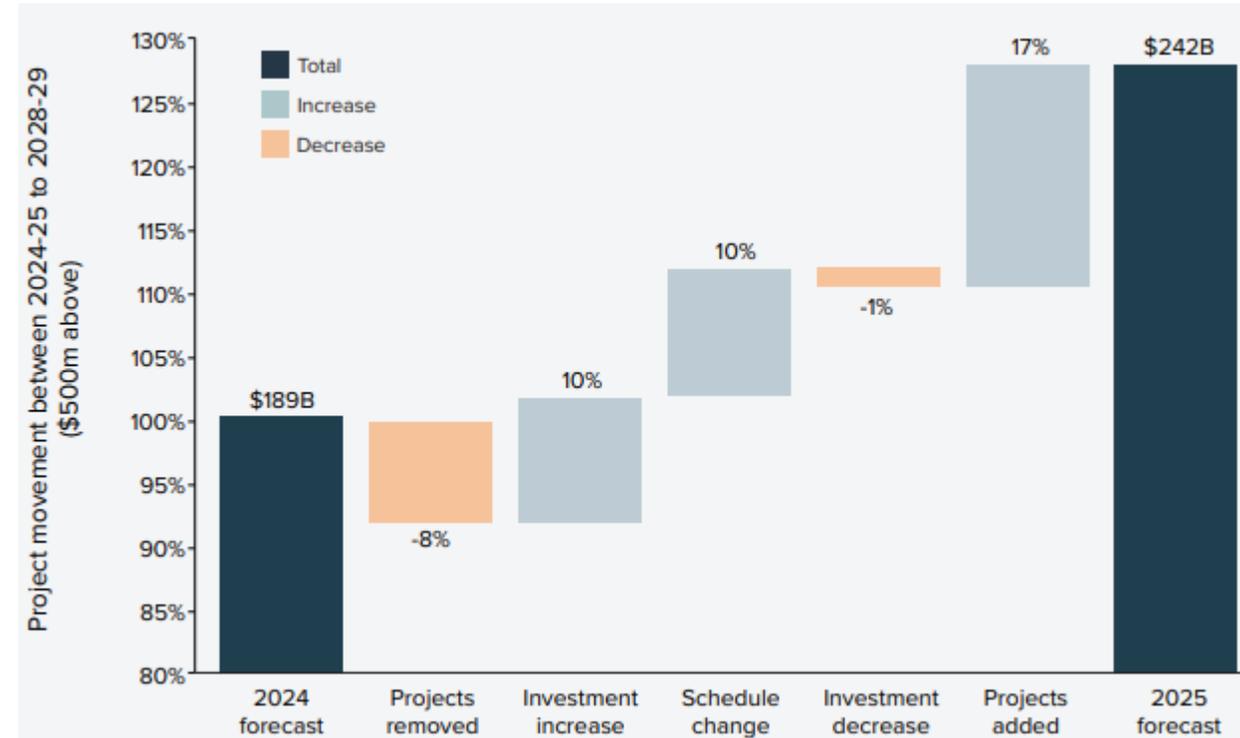
...with actual outcomes, so far, tracking projections for moderation in growth quite closely

Construction pipeline

Comparison of 2024 & 2025 forecasts of major public infrastructure pipeline activity (FY25 to FY29)



Major public infrastructure pipeline spend from FY25 to FY29, change between 2024 & 2025 forecast

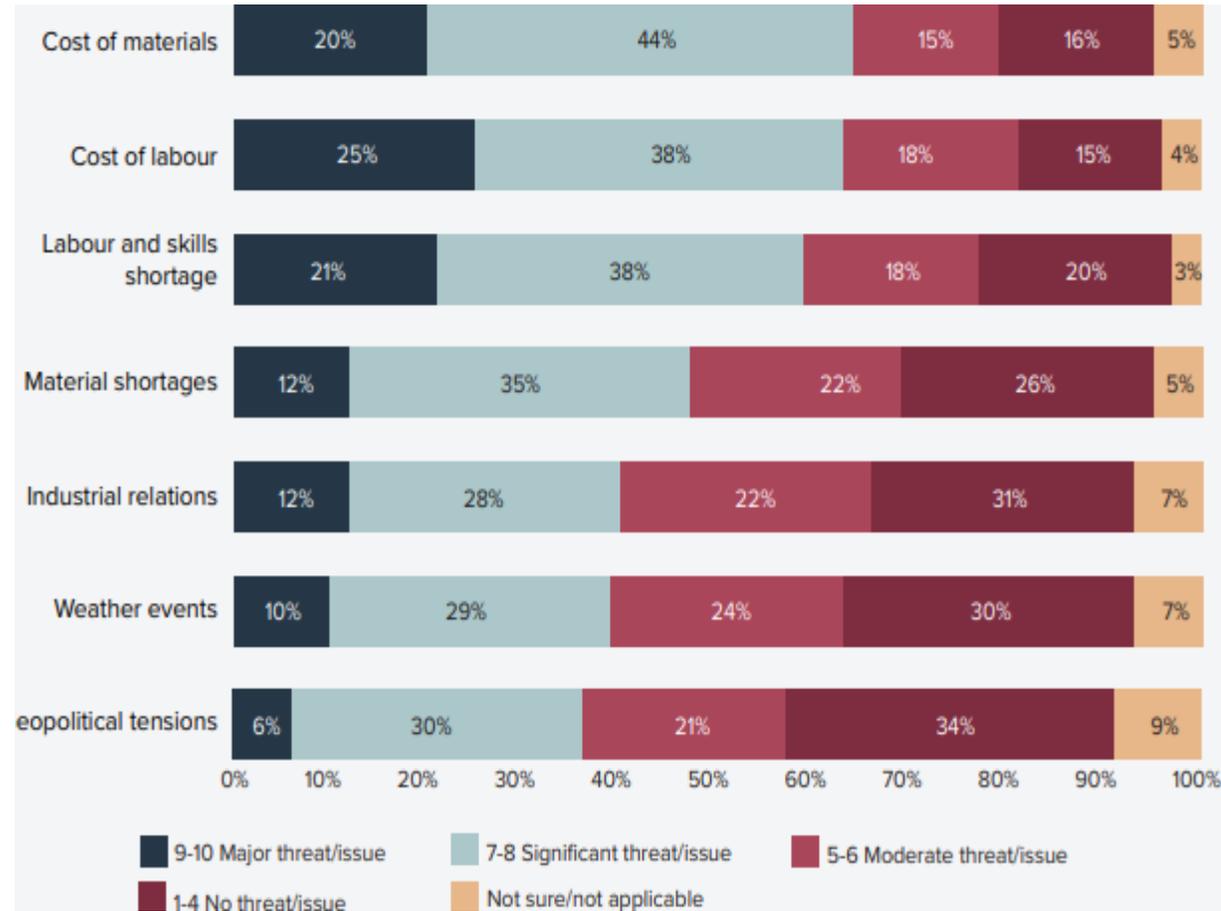


The MPIP is increasing in size & getting pushed out in time...

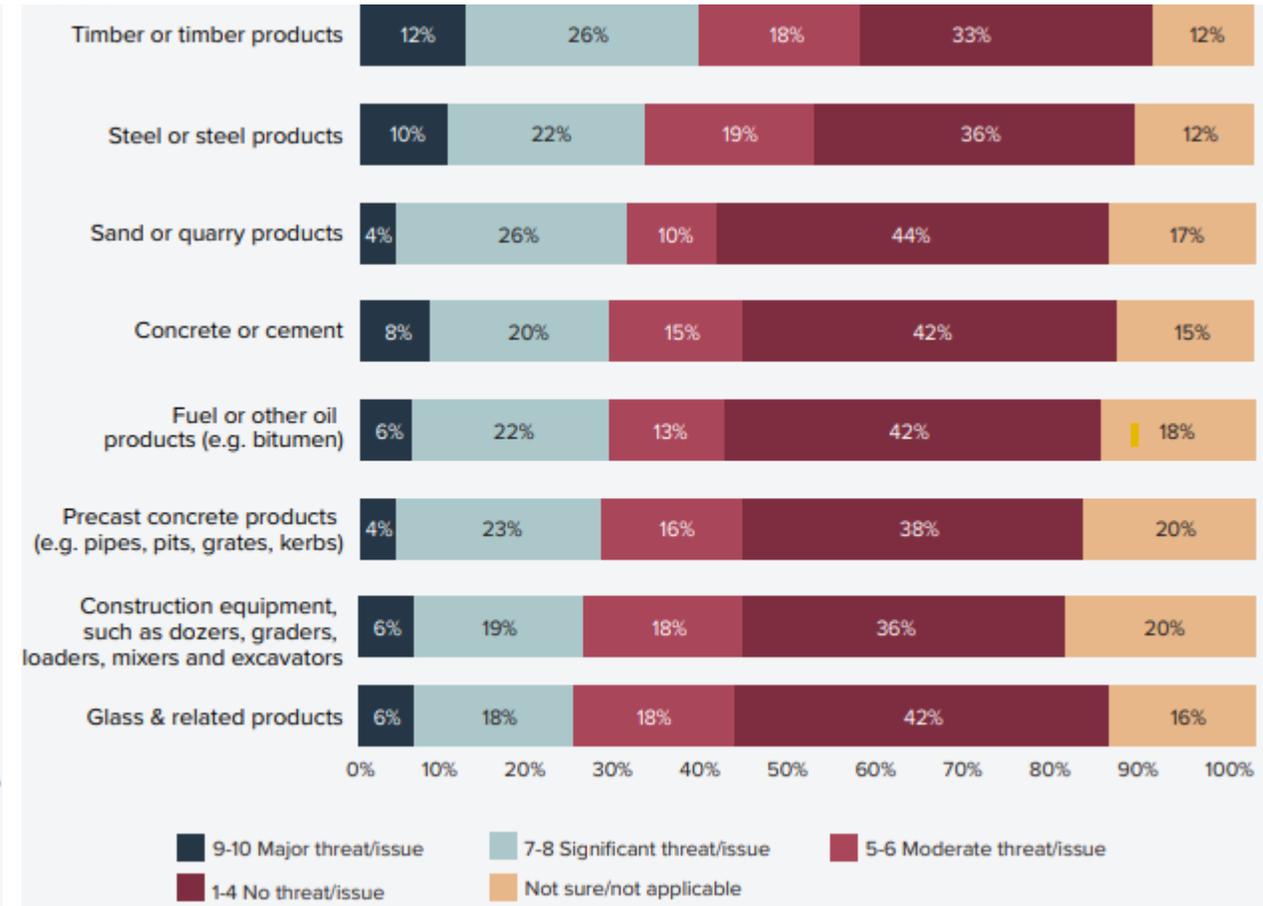
...with the increase being due to projects being added, investment in existing projects increasing and timing being pushed out

Construction challenges

Severity of disruptions to project delivery as reported by industry (%)



Supply chain risk factors to successful delivery of projects in last 12 months (%)

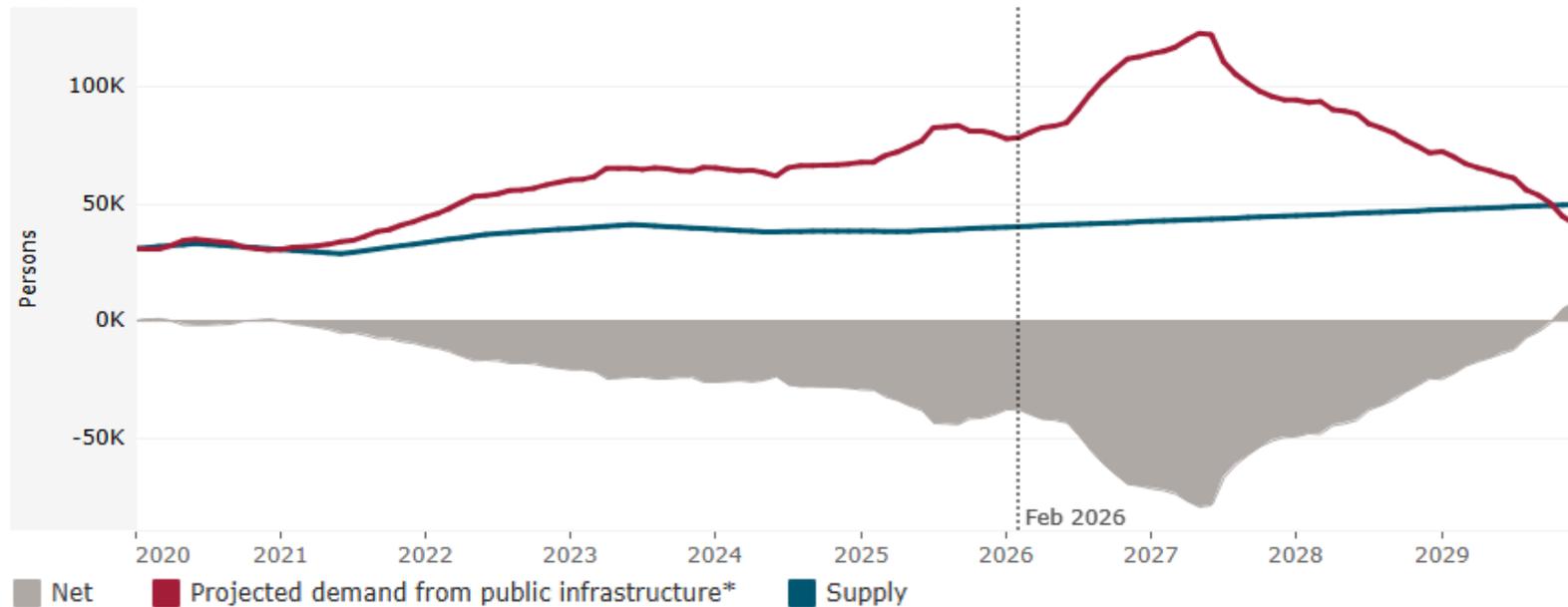


Project delivery disruptors – Disruptions driven primarily by cost of materials and labour as well as labour and skills shortages

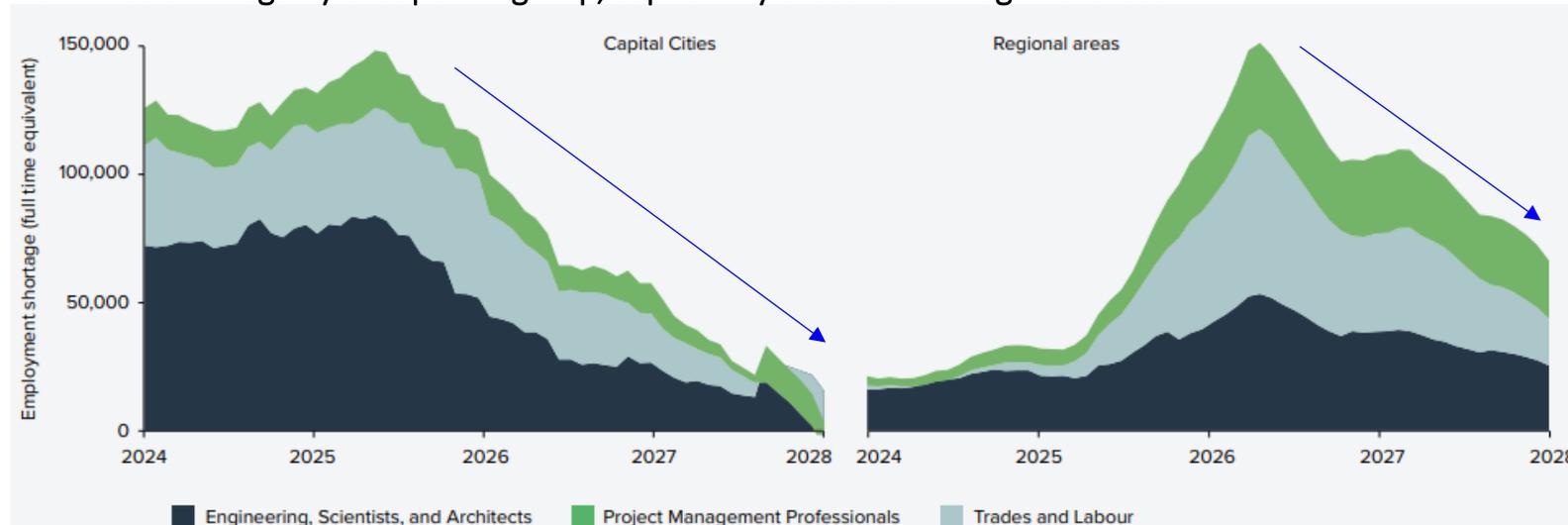
Supply chain constraints – Supply of most key materials continues to impact project delivery

Construction challenges

Supply vs demand for workers on major public infrastructure projects (QLD)



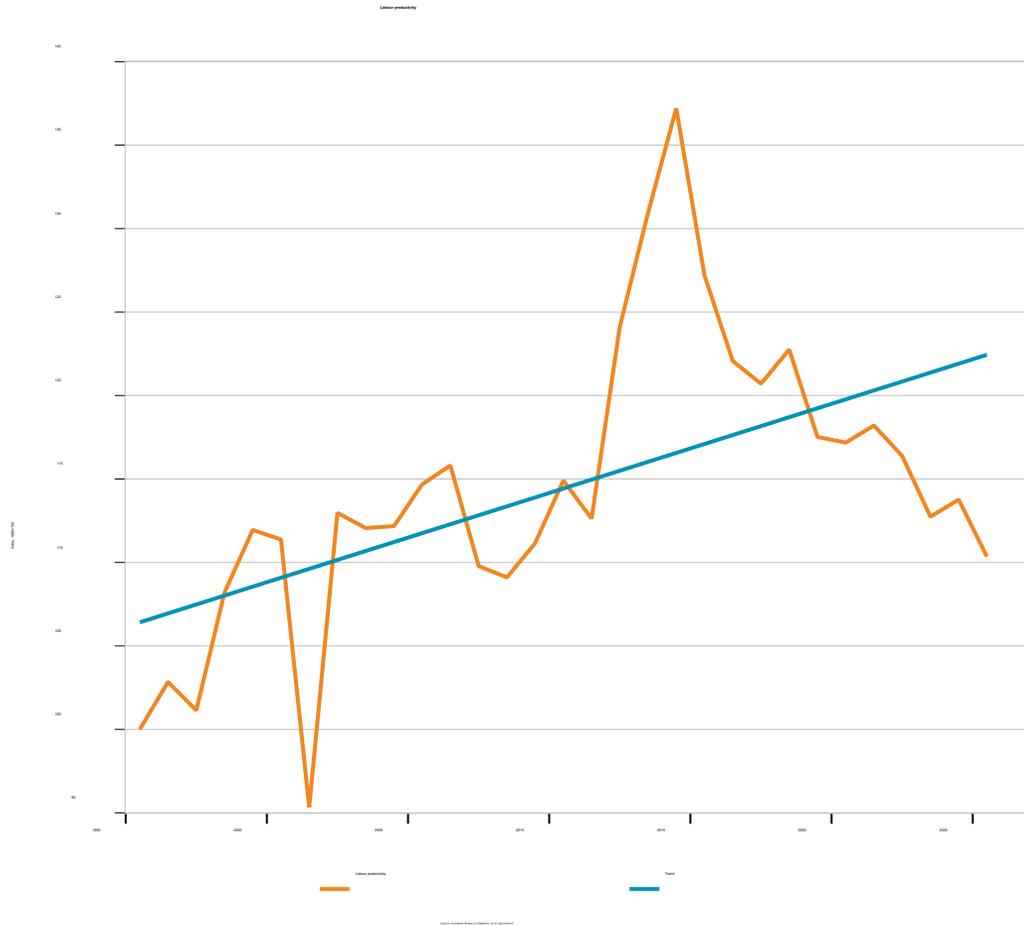
Workforce shortage by occupation group, capital-city areas versus regional areas



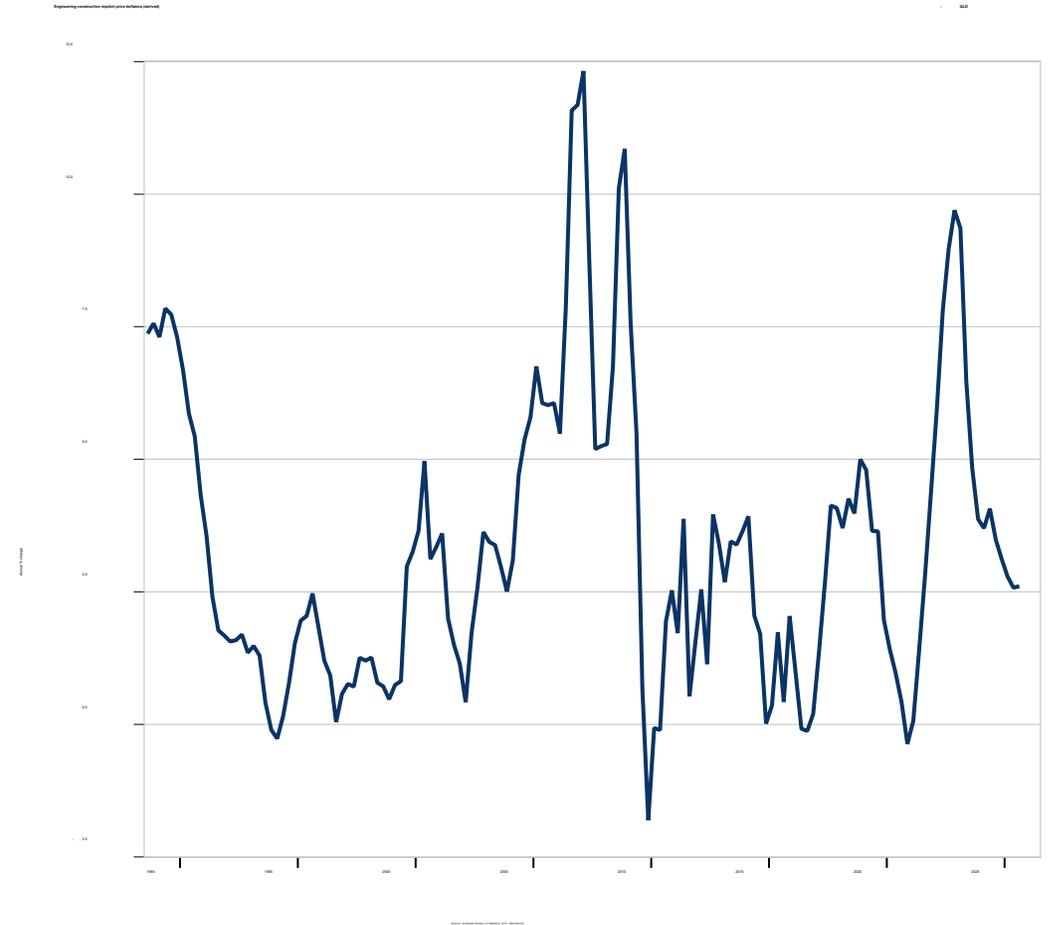
Availability of labour

- In QLD, the shortage of workers is going to get worse before it gets better
- Across AUS, in metro areas there was a gentle pick-up in the size of the worker shortage while this was far more acute in regional areas (shortages forecast to quadruple between 2025 and 2027)
- Some of the biggest increases in shortages in regional areas were in QLD (Sunshine Coast, Wide Bay, Mackay/Isaac/W'Sunday, Toowoomba)

Construction costs

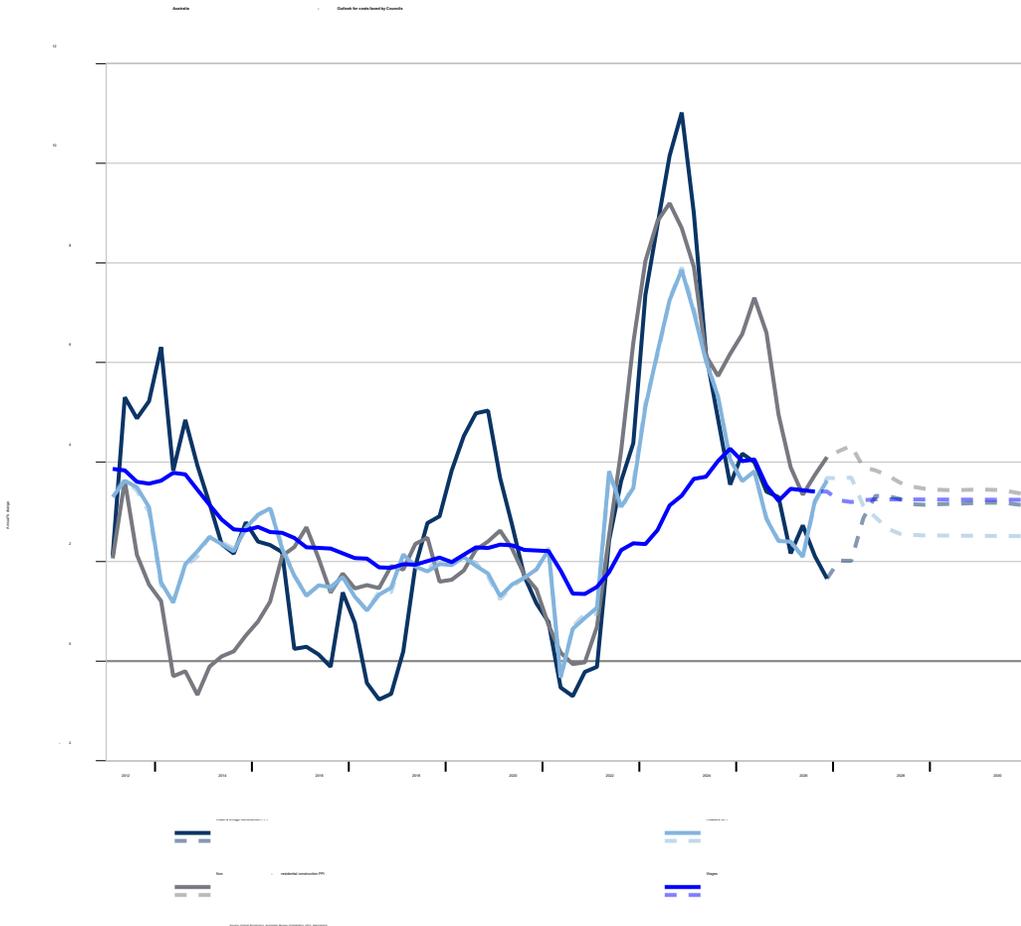


Productivity of labour – The productivity has been in decline for more than a decade



Costs – The rate of cost growth on engineering type projects has slowed

Construction costs



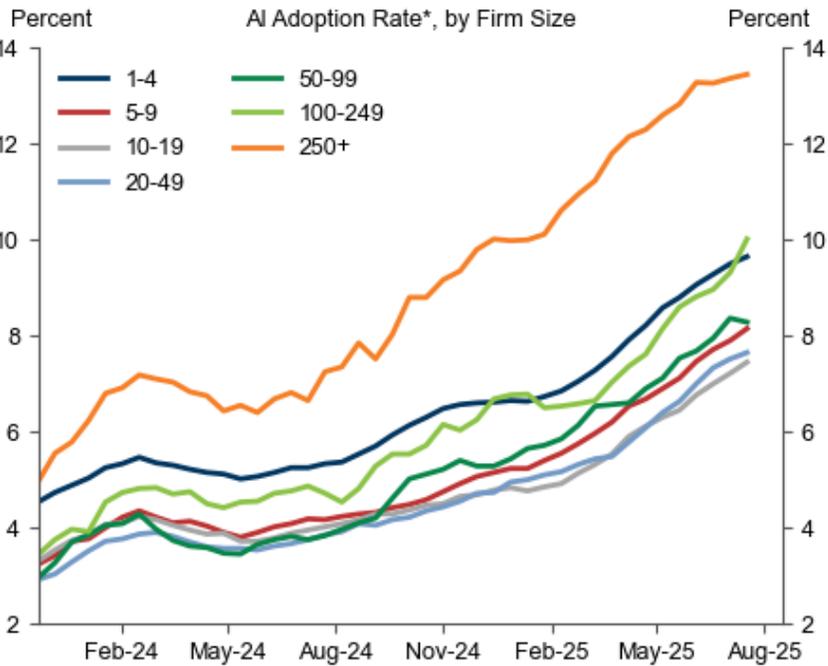
Caveats:

- The variables selected to explain these cost drivers were those which could account for a reasonable share of the variation in these whilst also being ones that projections could be sourced for. There may be other variables or estimation approaches that could explain more of the variation in these items.
- The quality of these projections relies on the relationships between these cost drivers and explanatory variables observed in the past holding in the future.
- This analysis is designed to provide simple indicative projections for these cost drivers. These are baseline projections designed to act as a starting point as discussions around the outlook for cost escalation factors.

Wages growth should remain steady road and bridge construction costs lift but growth in non-residential construction costs and the CPI should ease

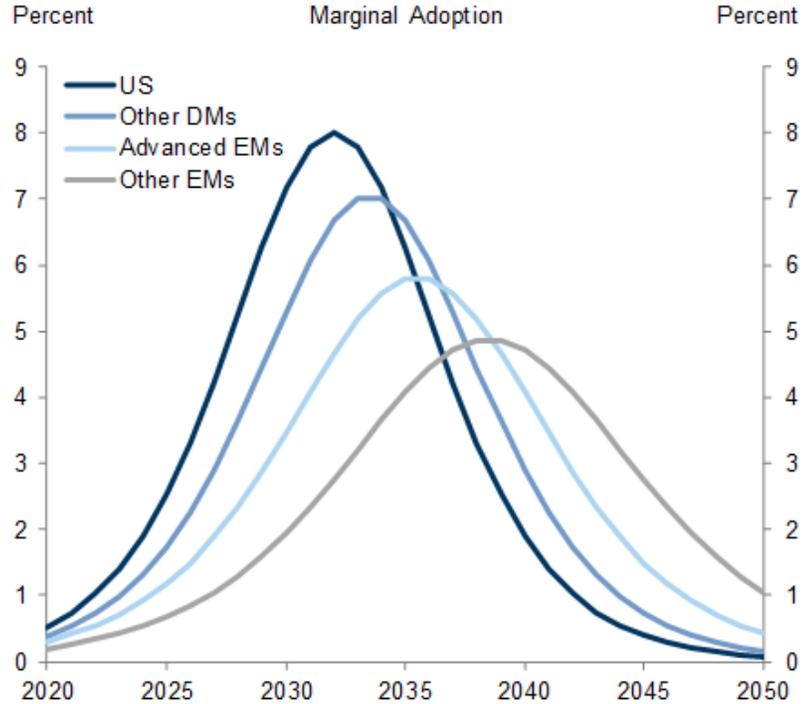
AI

AI adoption

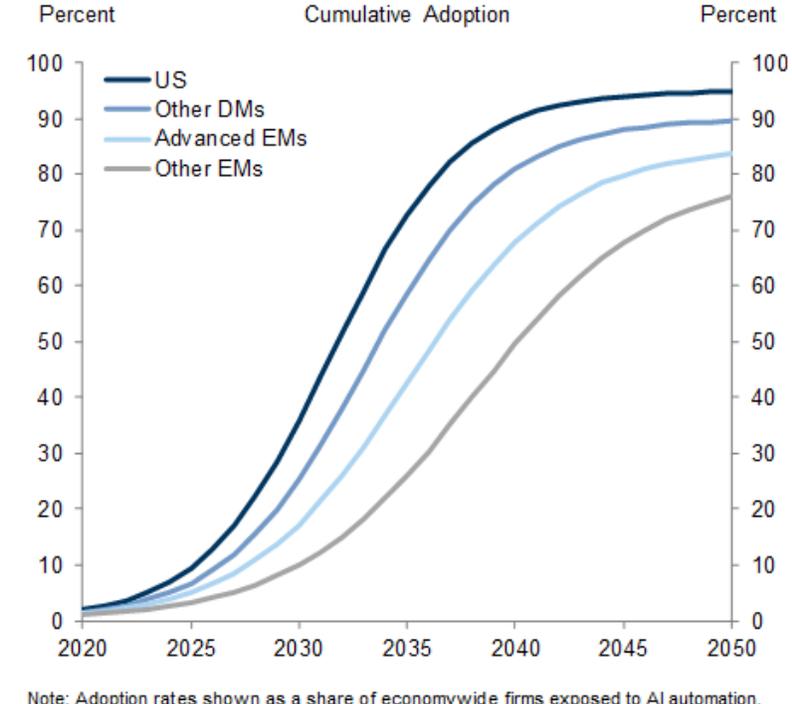


*Six survey moving average. Surveys are generally biweekly.

AI adoption is increasing...



...with the fastest gains likely over the next decade...



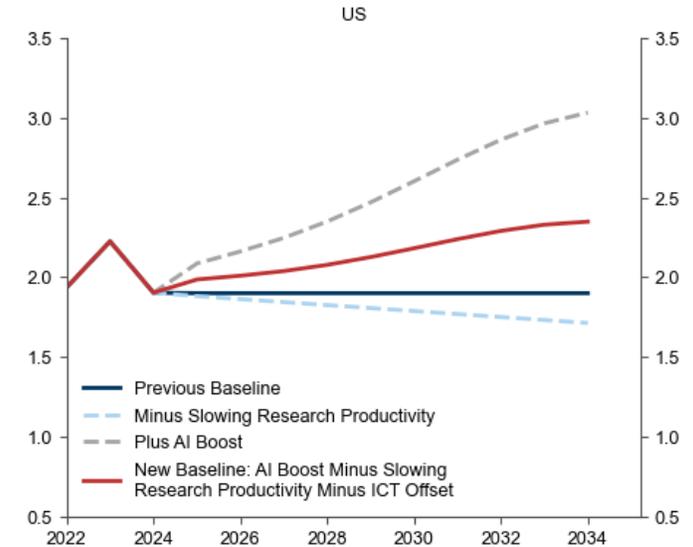
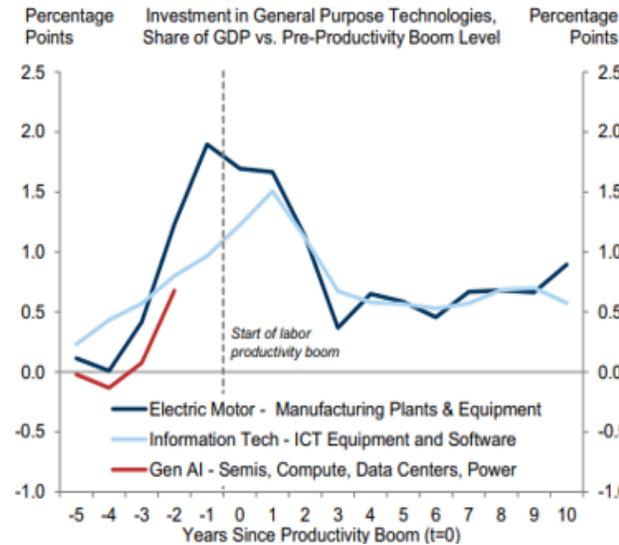
Note: Adoption rates shown as a share of economywide firms exposed to AI automation.

...and close to full penetration by 2040 (in the US)

Potential AI impacts – macro & markets

Potential macro impacts

- The capex cycle should continue to ramp up and support activity. However, the net effect on GDP will be muted by the high import-intensity of the investment.
- Strong equity valuations will support household consumption via the wealth effect.
- There will be jobs lost and created, though at this stage it's hard to get a clear sense of the magnitude of these effects.
- Productivity will see a boost, though this will take time to materialise, given the lags in embedding new technologies into business practices.



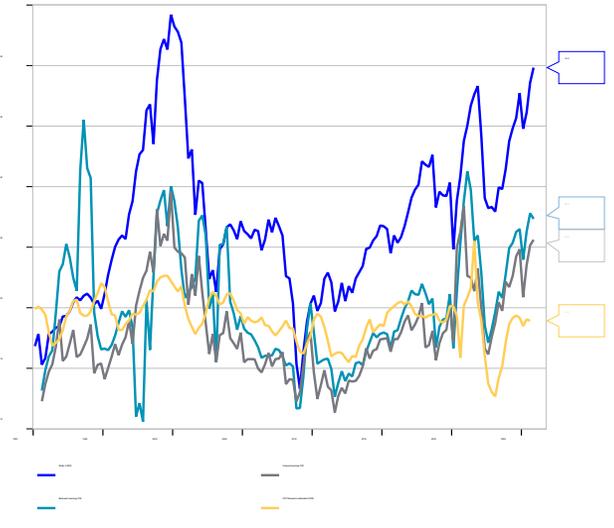
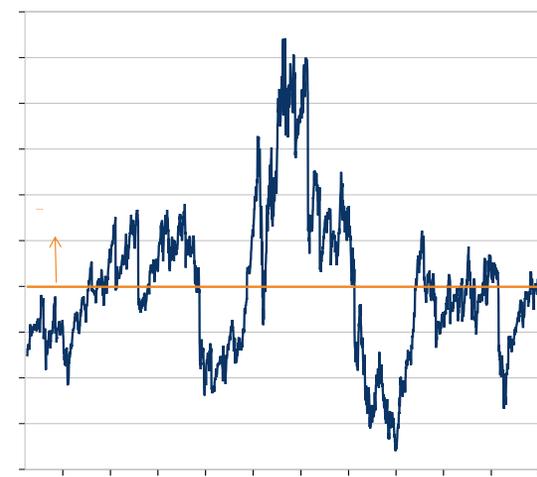
Potential market impacts

Equities

- Equities could see a correction this year as investors re-assess the AI story. But a favourable macro backdrop, potential for a slightly more dovish Fed, and supportive technical factors all paint a still constructive picture.

Fixed income

- Neutral rates could rise, thus the lifting the entire yield curve, as tech giants undertake the capex build-out to deliver the technology and then as firms throughout the economy do so to leverage it.
- AI could also help abate some fiscal concerns and compress term premia. This could occur if we see faster productivity growth which, in turn, has a positive impact on government finances (through higher corporate profits and share prices) and lowers supply of bonds into the market.



Source: The AI Transition One Year Later: On Track, but Macro Impact Still Several Years Off (Goldman Sachs, 2 April 2024)

Source: Upgrading Our Longer-Run Global Growth Forecasts to Reflect the Impact of Generative AI, Goldman Sachs, 29 October 2023

Source: The AI Spending Boom Is Not Too Big, Goldman Sachs, 15 October 2025

Public debt

Government debt is increasing...

Why debt increased *pre-COVID*

Revenue

- Globalisation induced need for low tax rates to preserve competitiveness
- Slowdown in productivity

Spending

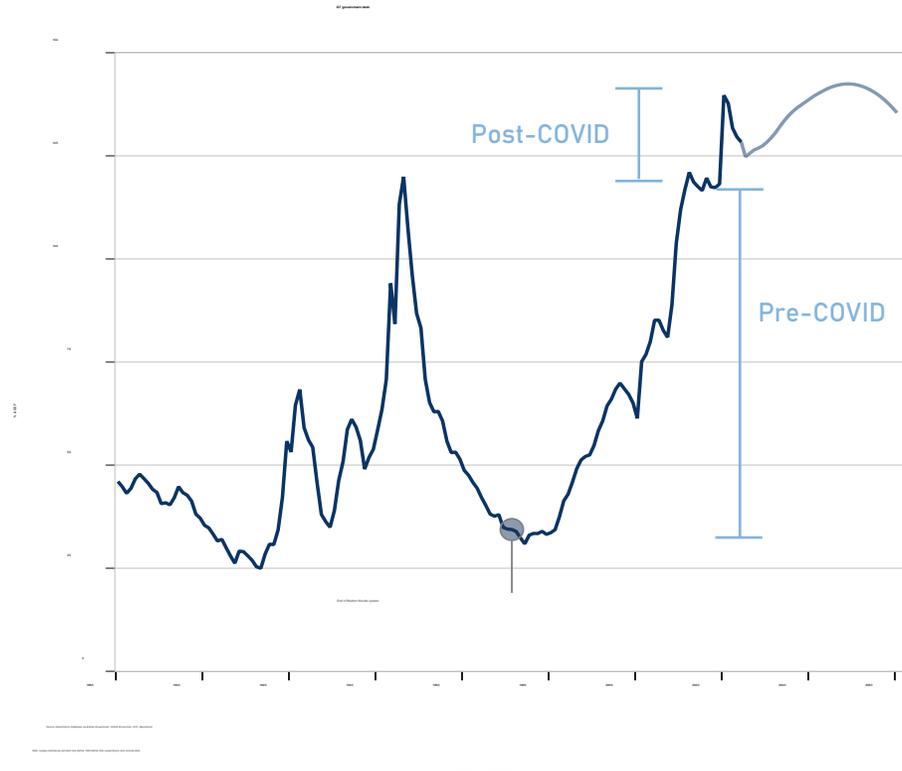
- Expansion of social spending

Fiscal policy

- Use of counter-cyclical policy
- Abandonment of anchor which imposed fiscal discipline
- Asymmetric fiscal policy

Investment

- Liberalisation
- Financialisation
- Globalisation
- Trusting markets



Why debt increased *post-COVID*

Enhance economic sovereignty

- > emphasis on risk management (supply chain diversification)
- > economic nationalism
- Seek to solve important social issues through govt-led solutions

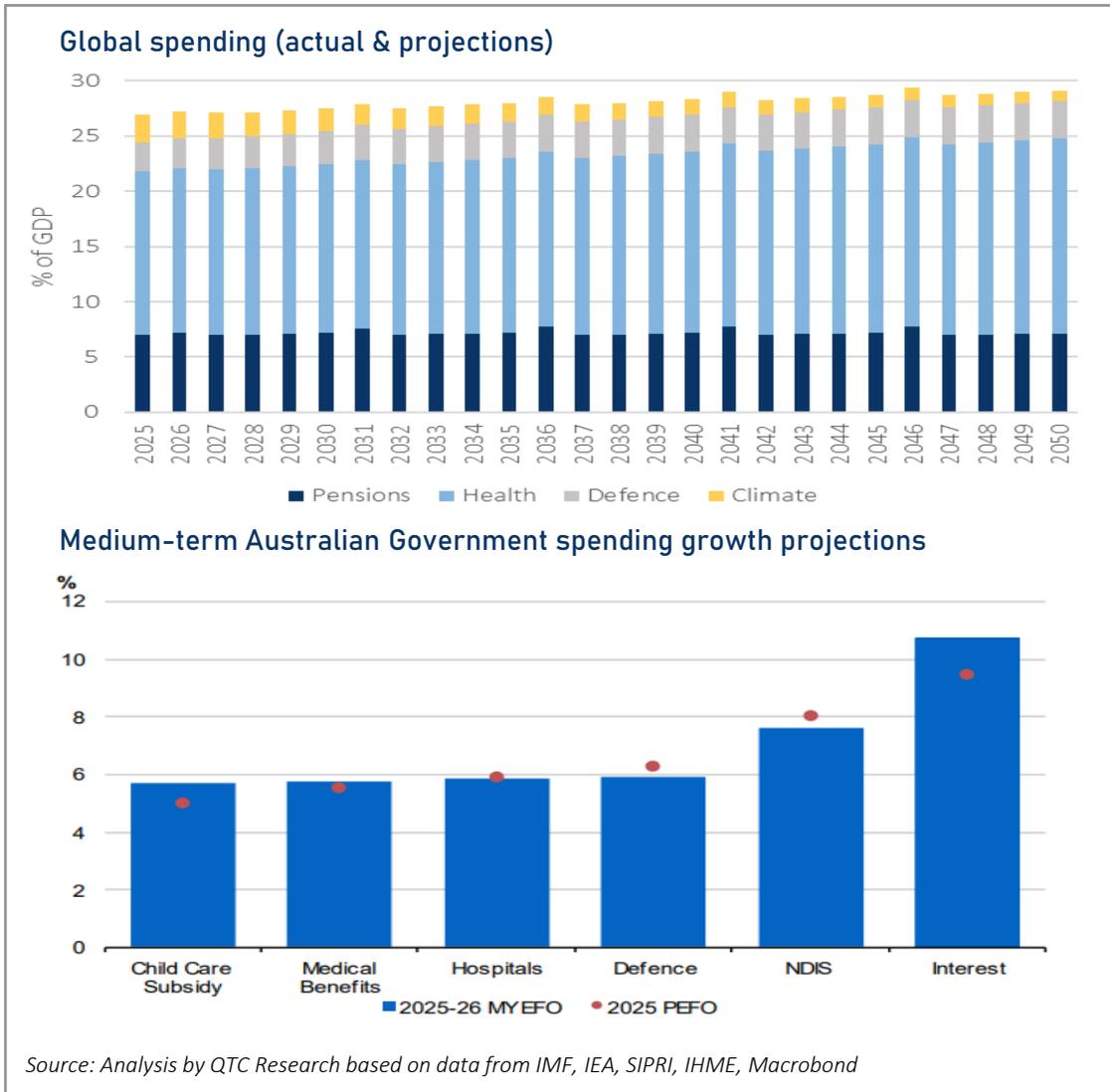
Greater fracturing of social fabric

- Social media echo chambers amplifies adversarial discourse
- Reduced trust in institutions (health authorities, media, central banks, government)
- People question if the system works for them amidst income & wealth inequality, perceptions of poor public services, unaffordable housing

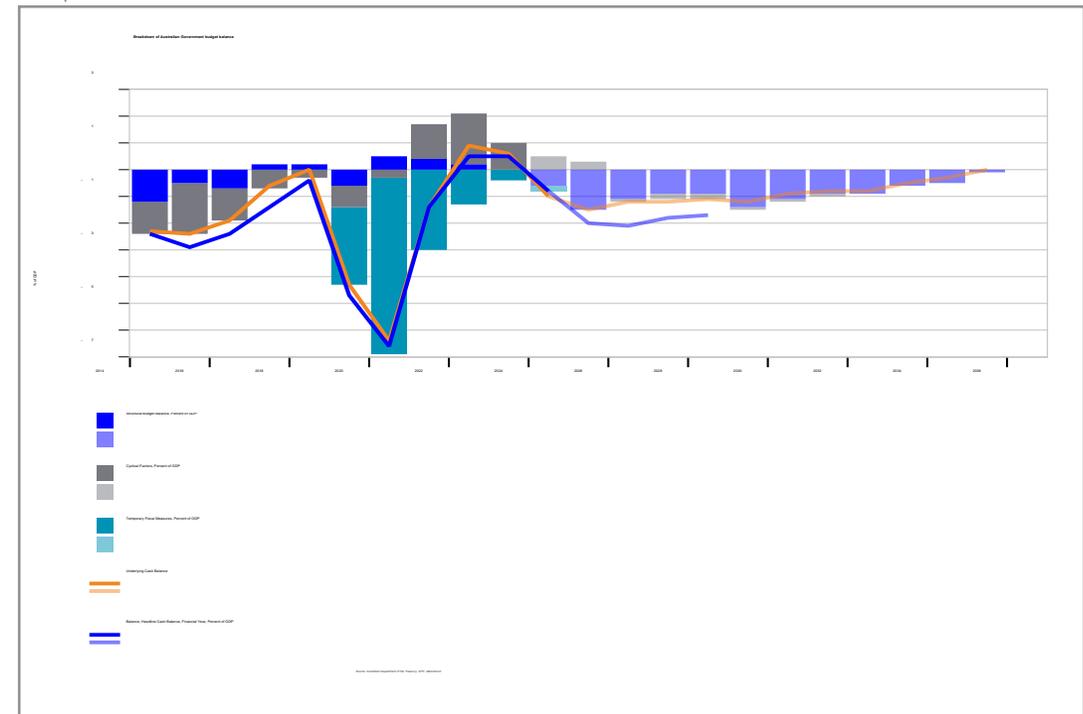
Harder to conduct fiscal policy

- Lower votes for major parties
- Rise of populists
- 24/7 news cycle & vested interests

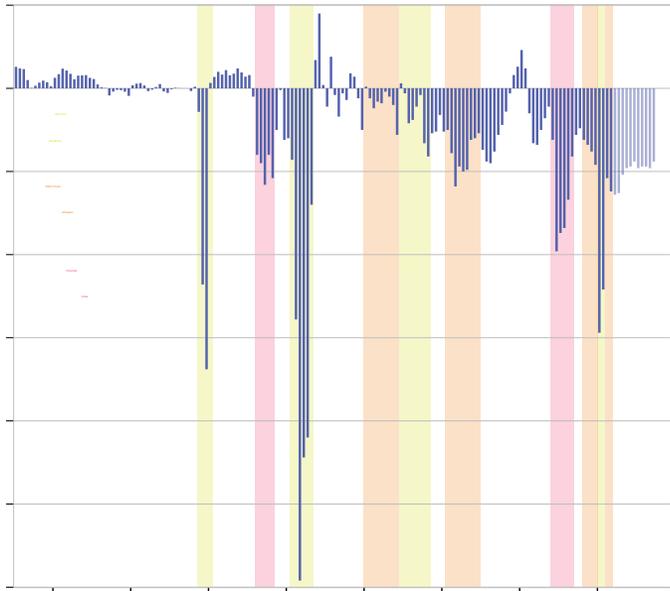
...and should keep doing so



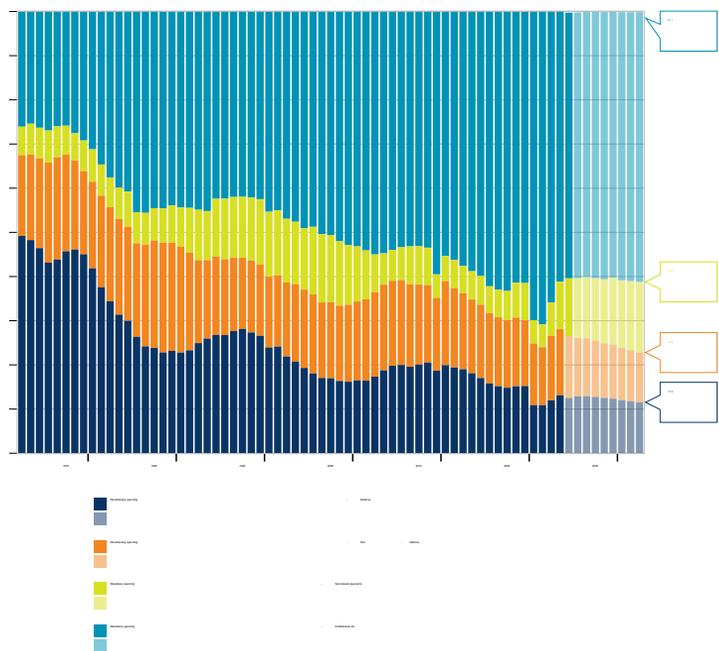
- Govt spending should continue to increase globally for the next few decades
- Similar story for Australia
- This is STRUCTURAL



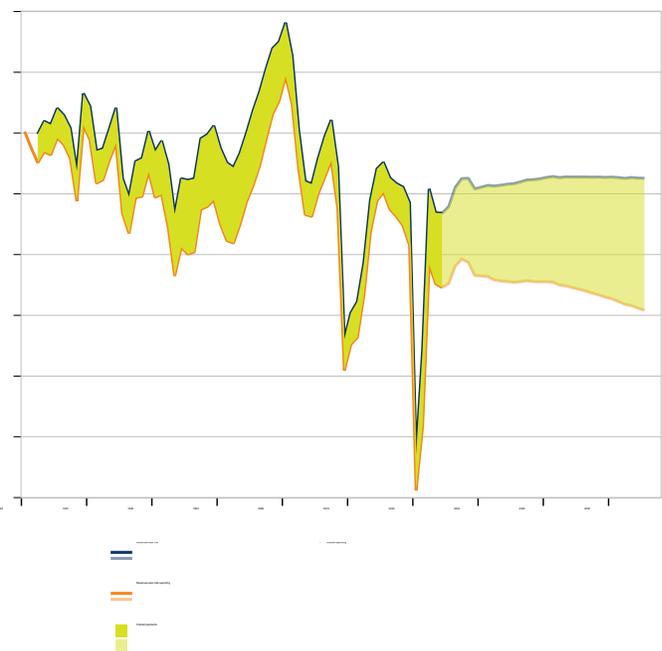
Fiscal risks are rising in key countries...



The US has run consistent budget deficits for the past century...



...and, with almost all spending mandatory, these will be hard to cut...



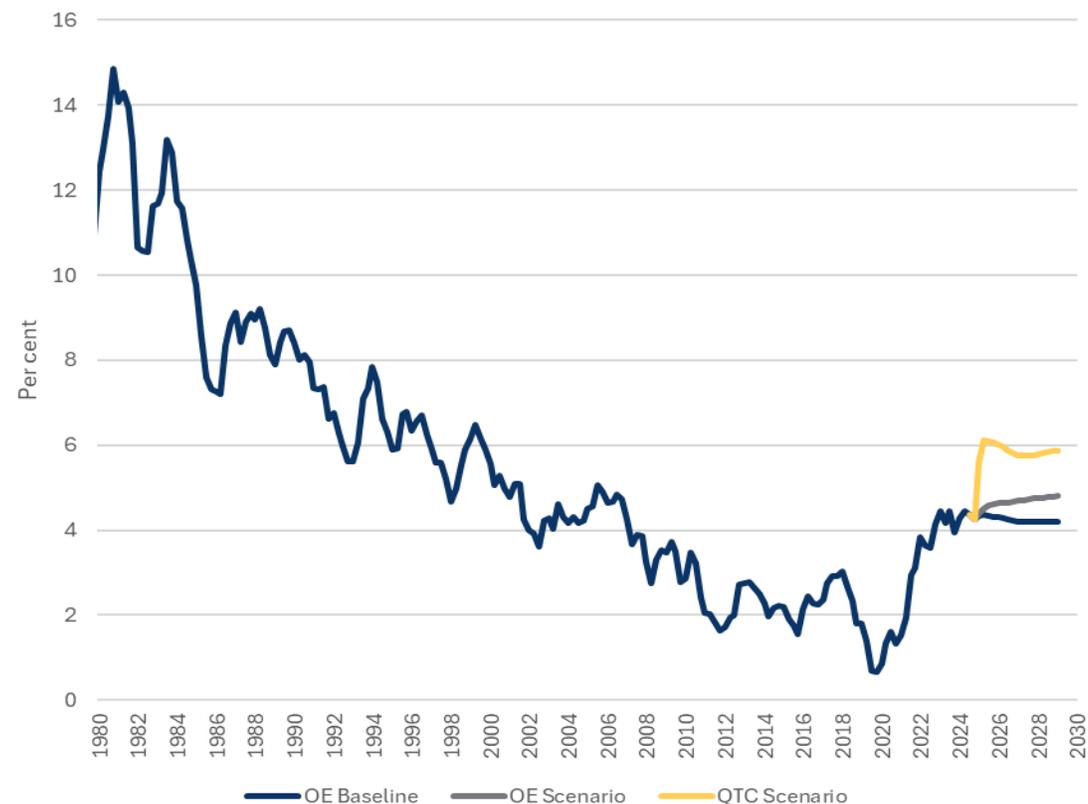
...opening the door to the possibility of unstable debt dynamics

...and could materialise in a disruptive manner

Possible triggers for a fiscal crisis for vulnerable countries*

- **Loss of credibility** (e.g. when Greece fudged its fiscal projections, Liz Truss' policies as UK PM)
- **Loss of confidence** in government's commitment to eventual fiscal consolidation (e.g. the US in the early 2030s if trust funds underpinning Social Security & Medicare run out and are not a catalyst for fiscal reform)
- **Rising interest rates and a short weighted average term to maturity**
- **Governments with high debt levels, large borrowing needs, trying to lengthen the duration of issuance in a rising interest rate environment** (e.g. the US in 2023 before it backed away from this)
- **Fiscal easing when economic conditions don't warrant it, when interest rates are rising, and when debt is high** (e.g. Japan now)
- **Investors perceive that there are few willing buyers** apart from domestic investors (financial repression) or the central bank (debt monetisation) who are forced to
- **Government puts pressure on the central bank to keep rates low to help keep it solvent**, even if this is not warranted by economic conditions (known as 'fiscal dominance')
- **Government officials start making noises about not wanting to meet current commitments** (e.g. debt restructuring such as haircuts or ever-greening)

UST 10Y yield under Fiscal Stress scenarios



Source: Oxford Economics Baseline forecasts and "Markets correct on fiscal fears" scenario (October 2025), Oxford Economics Global Macroeconomic Model, QTC Economic & Market Research

* Countries are fiscally vulnerable if, for example, they have high debt and deficits as well as slow growth and poor serviceability

The Prevalence of Regimes

Shocks change the world and set it on a path of profound economic, social, political change. These take time to play out, can be reinforcing, and continue until another shock arrives to throw things off course and into a new direction

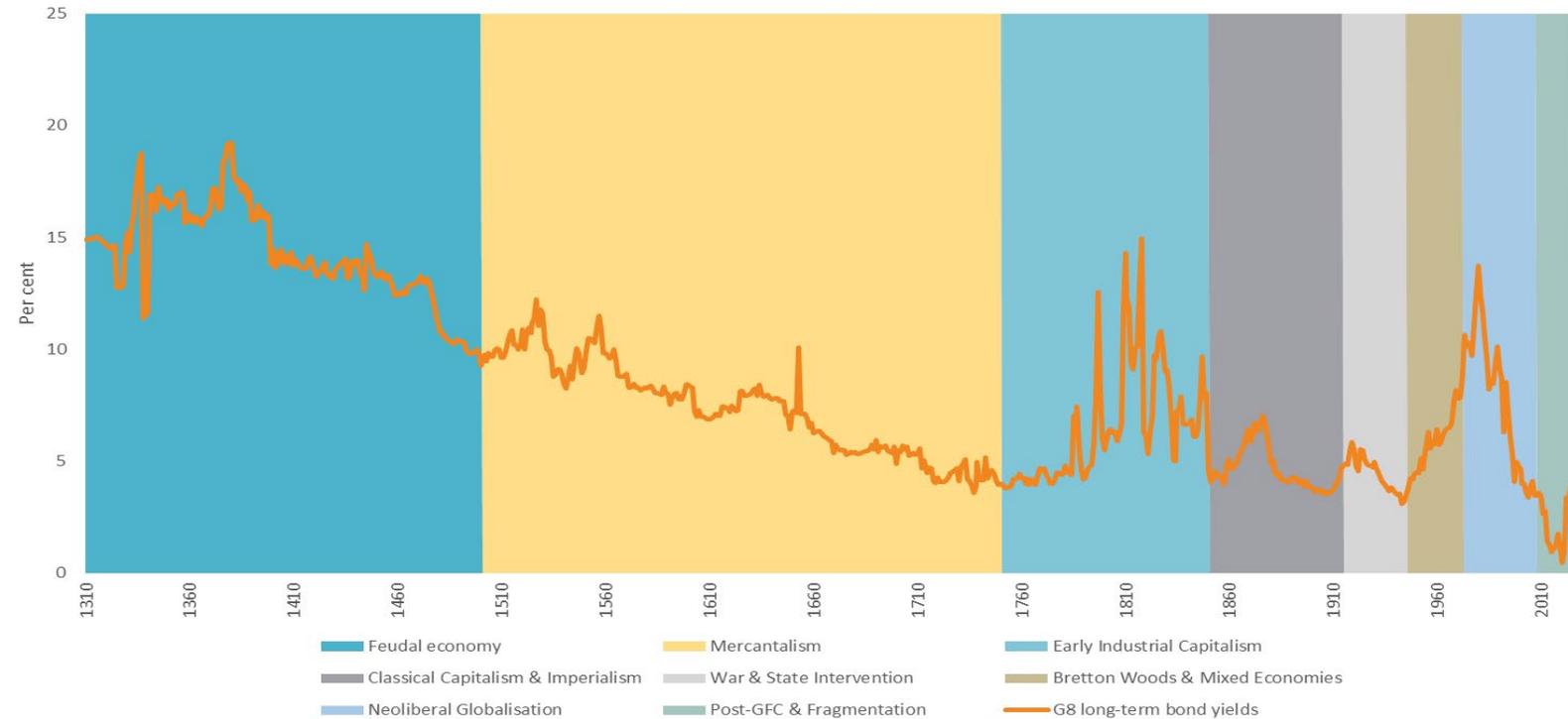


The Prevalence of Regimes

What could cause a shift in regimes?

- Technological innovation
- Fiscal or financial crisis
- Conflict
- Pandemic

G8 long-term bond yields



Note: G8 in this context includes the US, UK, Germany, France, Italy, Netherlands, Spain and Japan

Source: "Eight centuries of global real interest rates, R-G, and the 'suprasecular' decline, 1311–2018", Paul Schmelzing, Bank of England Staff Working Paper No. 845, QTC Economic & Market Research

Key takeaways

- **Global economy:** US trade policy uncertainty is easing and as such, the outlook for the global economy has stabilised.
- **National economy:** The economy has shown signs of picking up with this, and a constrained supply side, putting upwards pressure on inflation. The RBA has started raising interest rates in response with more moves yet to come.
- **Case Study – Infrastructure Construction:** The infrastructure construction pipeline continues to get pushed out with disruptions related to both labour and materials shortages. Labour shortages are particularly acute and are forecast to take some time yet to resolve. Low productivity in the construction sector is also a challenge. Cost growth has eased and is expected to stabilise going forward.
- **Topical issues - AI:** AI adoption is increasing with the fastest gains likely over the next decade and close to full penetration likely by 2040 (in the US). There are a range of potential macro and market impacts flowing from this.
- **Topical issues – Government debt:** Government debt is increasing and should continue to do so. Fiscal risks are rising in key countries and could materialise in a disruptive manner. We seem set to continue to be stuck in this regime of rising debt and rising fiscal risks.

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Inflation

- How tight is the Australian labour market? And what does it mean for wages and inflation?
- Oil prices and inflation: Is Australia facing a crude shock?
- Assessing the probability of different inflation outcomes
- What to expect when you're expecting inflation
- What's down with Australian inflation?
- Passing the peak: Will the recent slowdown in inflation be sustained?



Economy

- What effect will higher interest rates have on the Australian economy?
- The demand-supply imbalance in the Australian economy
- What the next phase of Australia's economic cycle might look like
- Re-assessing Australia's economic recovery
- Where are we in the economic cycle?
- Assessing US recession risks



Interest rates

- An RBA hiking cycle: Some paths less travelled
- RBA cash rate scenarios following its hawkish tilt
- Estimates of the neutral and terminal rate in Australia
- How tight is monetary policy in Australia?
- What goes up must come down – When, why and by how much will interest rates be cut

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