STAGFLATION IS BACK ON AUSTRALIA'S RADAR
ARE YOU READY?

Stagflation (the toxic mix of high inflation and stagnant economic growth) is no longer just a 1970s textbook concept. In early 2026, some economists have warned that stagflation "is happening" or may be a serious near term risk for the economy.

What stagflation actually means

Stagflation occurs when an economy experiences three bad things at once:

- slow or negative economic growth,
- rising unemployment, and
- persistently high (or rising) inflation.

This combination is especially painful because the usual policy fixes clash. Raising interest rates can fight inflation however often crushes growth and jobs. Cutting rates to boost growth can, in turn, entrench or worsen inflation.

The term was coined in the 1960s by British politician Iain Macleod, who warned of "the worst of both worlds". Today, that phrase feels uncomfortably relevant for Australia.

Australia's 2026 warning signs

As of April 2026, Australia's economy is flashing several stagflation warning lights:

Indicator	Status in early 2026	Why it matters
Inflation (CPI)	3.7% annual rate	Above the RBA's 2-3% target, eroding household purchasing power
Unemployment	Around 4.3%	Historically low, however economists warn it could rise if growth stalls further
Economic growth	Slowing, with weak GDP	Growth has lost momentum, raising fears of stagnation

Professor Bob Gregory, a former RBA board member, says Australia may already be seeing the initial signs of stagflation and expects both inflation and unemployment to rise. Dr Martin Parkinson, former Treasury Secretary, doesn't see full stagflation yet however warns the risk is substantial.

What's driving the risk right now?

The current threat is largely supply side, not demand side:

- **Oil and fuel shock**
  Soaring petrol, diesel and jet fuel prices are lifting transport and delivery costs across the economy, pushing up prices for goods and services.
- **Global oil crisis**
  Escalating conflict in the Middle East, including tensions with Iran, is threatening oil and gas supplies, amplifying energy price volatility.
- **Little spare capacity**
  HSBC's chief economist for Australia and NZ says Australia is 'less well placed' than many peers to cope with a stagflationary shock because inflation is already above target and the economy has little or no spare capacity.
- **Fiscal position**
  Some commentators describe the Australian economy as 'hostage to the war', and suggest stagflation may already be 'baked in', with the budget in a weaker fiscal shape than in previous periods.

This is different from the 1970s, when inflation was already around 10% before the first OPEC oil embargo and later hit 17.5%. Today's inflation is much lower, however the risk is that it re-accelerates while growth stalls.

Why this matters for ordinary Australians

If stagflation takes hold, households and businesses face a triple threat:

- **Household budgets**
  Prices for food, fuel, utilities and services keep rising while wage growth lags, reducing real disposable income.
- **Mortgages and loans**
  If the RBA keeps rates high or hikes further to fight inflation, mortgage repayments stay elevated or increase, tightening household cash flows.
- **Jobs**
  Unemployment rises as businesses cut costs in response to higher input costs and weaker demand.
- **Savings**
  Inflation erodes the real value of cash savings and low yield deposits.
- **Investments**
  Traditional 60/40 portfolios (shares and bonds) can struggle when growth is weak and inflation is high.

Are we definitely in stagflation now?

Not all economists agree that Australia is already in full stagflation. Unemployment is still below 4.5%, historically low, suggesting we may see a recession rather than classic stagflation if growth turns negative. However, the risk is elevated and the conditions are aligning: stubborn inflation, slowing growth and a global energy shock that could push unemployment higher.

Looking for the full picture?

This feature only scratches the surface. If you're a borrower or business owner, you need to know:

- how stagflation could specifically affect your mortgage and cash flow,
- what loan structures may suit your circumstances when rates remain higher for longer, and
- how to stress test your budget in a stagflationary environment.

Read the detailed explainer next to understand what stagflation means for your home loan and what you can do about it.

Contact us to read **'Stagflation in Australia: What it means for your home loan'.**

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