



RBA-AR-262721

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Summary of Request	1. Forecasting assumptions informing the Reserve Bank's analysis 2. Discussion or analysis of the wealth effect and any impacts on consumption 3. Analysis of the composition and exposure of households' financial assets (including equities and superannuation).
Document titles	1. Forecasting Assumptions Star Variables & Gaps - August 2026 SMP - August 5 2026 2. Note EA - Wealth and consumption – 20 August 2026 3. Households' AI exposure – 1 September 2026
Notes/context to any specific documents released:	The documents represent routine monitoring, briefing and analysis of issues relevant to the Reserve Bank's responsibilities.

FORECASTING ASSUMPTIONS, STAR VARIABLES & GAPS AUGUST 2026 SMP

Last updated: 05/08/2026 (assumptions) and 06/08/2026 (stars & gaps)

Economic Analysis' forecasts are based on a set of conditioning assumptions. These include an assumed path for the cash rate and other technical variables, as well as assumptions for the NAIRU, inflation expectations, potential output and neutral rate. This document will be updated throughout the forecast process to incorporate changes in assumptions, and model estimates.

	MQ2026	DQ2026	DQ2027	DQ2028
NAIRU (%)	4.6%	4.6%	4.6%	4.6%
NAIRLU (%)	5.85%	5.85%	5.85%	5.85%
Potential output growth (ye)	2.5%	2.0%	2.1%	2.1%
Trend inflation expectations	2.5%	2.5%	2.5%	2.5%
Cash rate (%)	3.8	4.4	4.5	4.4
Exchange rate (TWI)	64.5	65.3	65.3	65.3
Oil prices (\$US per barrel)	77.0	81.2	73.6	71.3
Working age population growth (ye%)	1.8	1.8	1.5	1.4

Cash rate

The market implied OIS curve increases by around 18 basis points (bps) over the next year, then declines marginally, ending around the current level by December quarter 2028. The updated assumption sits around 25 bps lower in June quarter 2028 compared to in the *May Statement*.

Exchange rate

The current TWI assumption is 65.3, around 2.0 per cent lower than the assumption published in the *May Statement* (66.6).

The latest value of the daily trade-weighted index (TWI) is assumed to be held constant across the forecast horizon and then a quarter-average is taken to determine the profile.

Oil price

The Brent oil price assumption (unadjusted) picks/picked up considerably over the first half of 2026, reaching a peak of US\$94.9 per barrel, before later retracing some of this increase. The updated assumption is little changed from the *May Statement*, albeit a little lower at the margin.

There oil price assumption is for oil prices to equal the quarterly average of the future contracts maturing within that quarter.

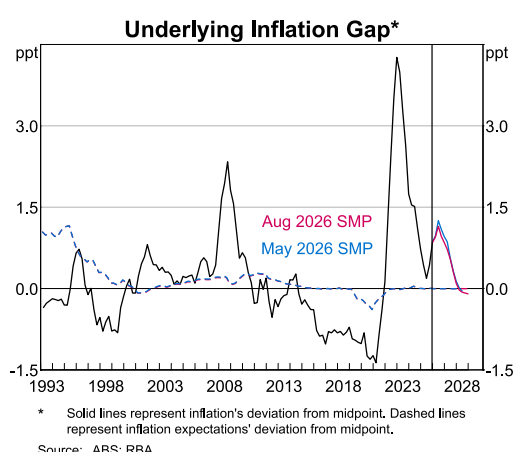
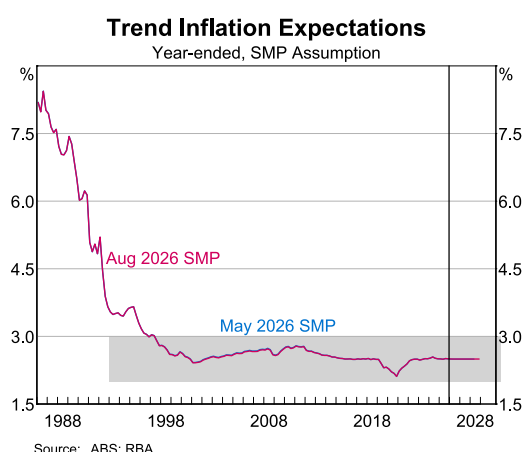
DAT have also constructed an adjusted oil price assumption, that reflects the recent large increase in refined spreads. This adjusted assumption series reaches a higher peak (both peak in the June 2026 quarter) than the unadjusted series (133.1 vs 94.9) but settles at the same level.

Trend Inflation Expectations and Inflation Gap

For the August 2026 forecasting round, we assume that inflation expectations remain at the model estimate of 2.50 per cent over the forecast horizon.

SAMM's model estimate of trend inflation expectations is 2.50 per cent. This estimate has remained very stable over recent years, which partly reflects the model's heavy weighting on the RBA market economist survey (5-10 years). It is possible the model is taking too much signal from this one measure, and we are missing information from the other measures. Having said this, looking across the underlying long-term measures in the model, with the exception of the Unions 5-10 years measure, they are all telling a broadly consistent story of stable expectations. Taking a simple average of all these long-term measures as a cross check to the model estimate yields 2.70 per cent for the June quarter 2026 and excluding unions the average is 2.50 per cent.

The inflation gap is fairly consistent with the May SMP, although becomes a little more negative over 2028, as the unemployment rate pushes above the NAIRU, settling at -0.1 percentage points in December 2028.



NAIRU and NAIRLU

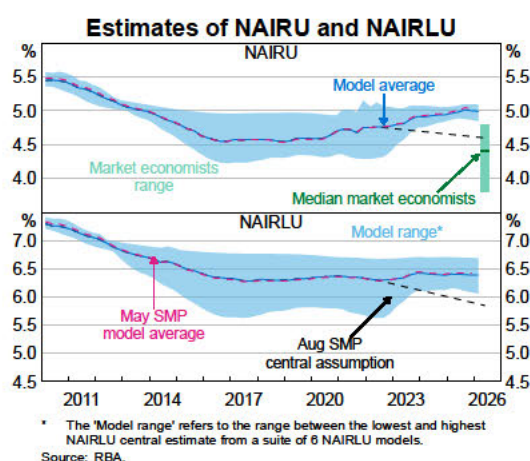
For August 2026, we have kept the NAIRU and NAIRLU assumption unchanged at 4.6 per cent and 5.85 per cent respectively.

With the model estimates broadly unchanged, we are keeping the same amount of judgement as the May round at -40 basis points. The 4.6 per cent assumption is below all model estimates, although the full employment indicator approach below does support downward judgement. Model estimates of the NAIRU have remained stable at around 5 per cent for the past few quarters which gives us more confidence in this estimate. As such we plan to stay attentive to upside risks to the central NAIRU assumption this round.

Model estimates

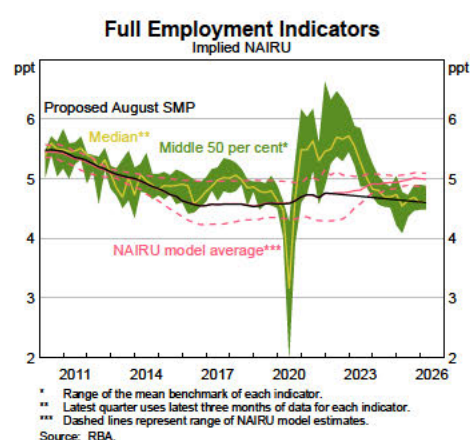
Since the May forecast round the NAIRU has been estimated over the March quarter 2026 outcomes (see

This saw the NAIRU model average estimate decrease marginally from 5.03 to 4.99 per cent. Similar results apply for the NAIRLU.



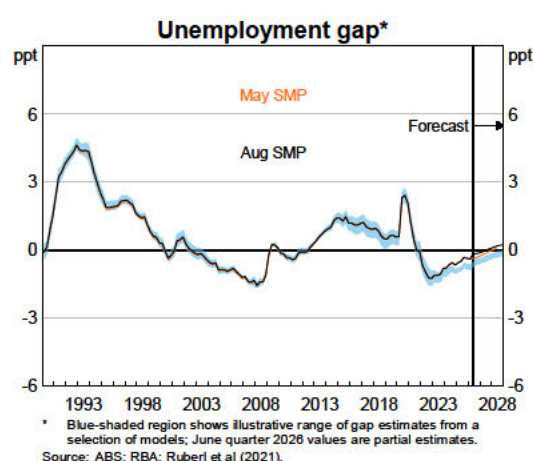
Full employment indicators

The median of the implied NAIRU estimate from a range of full employment indicators remained at 4.6 per cent in the March quarter (interquartile range of 4.5–4.9 per cent).¹



Unemployment and Underutilisation Gap

Our suite of models indicate that the unemployment gap was likely negative in the June quarter roughly between -0.7 and -0.5 per cent.² The central forecast is outside this range at -0.2 per cent narrowing over the coming years and becoming positive from the second half of 2027 onward. The central gap is a little higher than in the May SMP reflecting a higher unemployment rate forecast. In December 2028 the unemployment gap is 0.2 per cent.



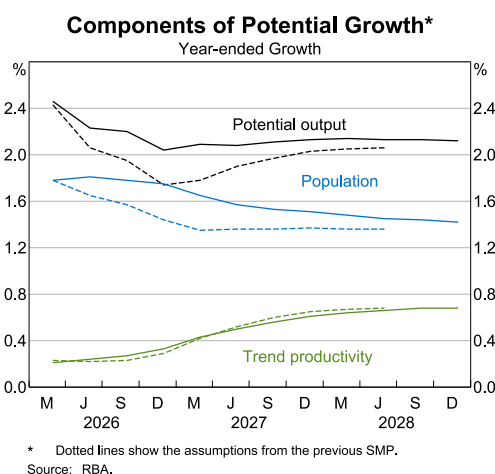
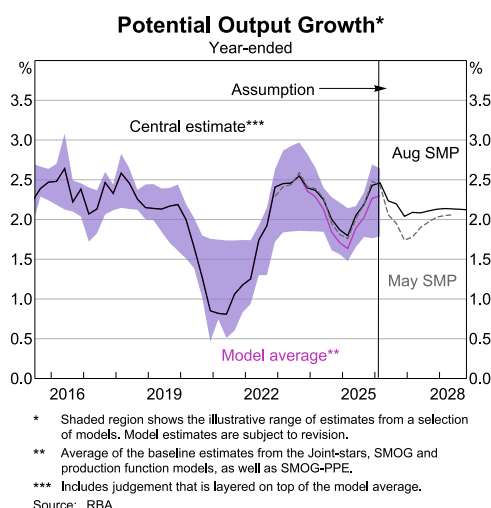
- 1 These estimates are based on calculating gaps between the current value of indicators and a range of 'full-employment-consistent' benchmarks. The benchmarks are a) a linear time trend, b) a HP filter, c) a linear model with a time trend and unemployment gap and d) a state-space model based on latest version of [Cusbert \(2017\)](#). See [RBA Technical Note Feb 2026](#).
- 2 This is a partial estimate using Economic Analysis forecasts for the June 2026 quarter.

Potential Output and the Output Gap

Potential Output Growth

For the August 2026 forecasting round, we assume that year-ended potential output growth stabilises at 2.1 per cent through 2027 and 2028. Relative to the May SMP assumption, this implies an upgrade of 0.3 percentage points in 2027 and 0.1 percentage points in 2028. This upgrade is driven by a stronger population projection.

- The population assumptions have been revised upwards across the whole horizon, largely reflecting a stronger outlook for NOM.
- The year-ended trend labour productivity growth assumption is broadly unchanged. The trend labour productivity implied by the MQ data and JQ nowcast is broadly consistent with the house view assumption in May.³



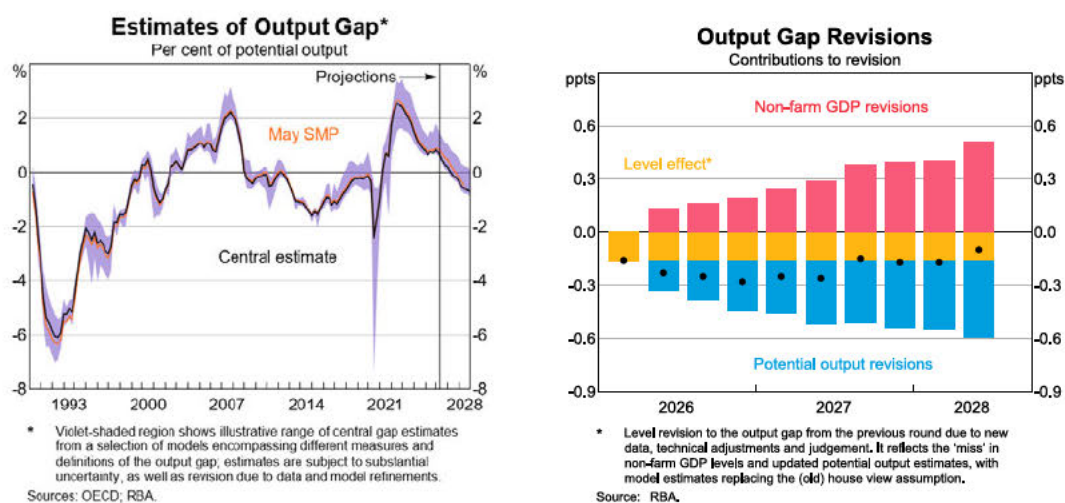
Output Gap

- We judge that the central output gap was 0.7 per cent in the March quarter 2026, 0.2 percentage points lower than our expectation at the May SMP. While our post-national accounts model estimate of the output gap is 1.1 per cent), we retain the 0.4 percentage point downward judgement applied at the May SMP. This judgement is a technical assumption to align the amount of judgement in the Bank's preferred estimate of the output gap and the unemployment gap⁴ All of the RBA's internal model estimates are positive.
- Projections of the output gap over the forecast period suggest the output gap will continue to narrow, closing by the end of 2026 and remaining negative throughout 2027 and 2028. Relative to the May SMP, the output gap has been revised lower over the forecast horizon. Although the lower cash rate path and stronger population growth support a stronger outlook for non-farm GDP, these effects are more than offset by an upward revision to potential output, especially in

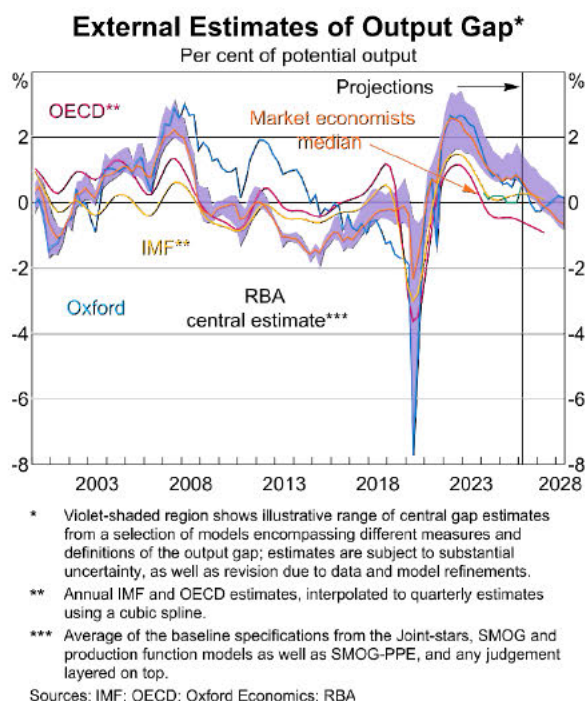
³ More details about the methodology of house view assumption can be found in

⁴ The models produce output gap estimates that imply a higher NAIRU than our central assumption. To ensure consistency with our NAIRU assumptions, we reference the Okun's law relationship and apply judgement to the output gap.

the near term. Recent outcomes for non-farm GDP and the unemployment rate have also implied a lowered starting point (MQ) for the output gap, contributing to the downward revision over the forecast period (level effect).

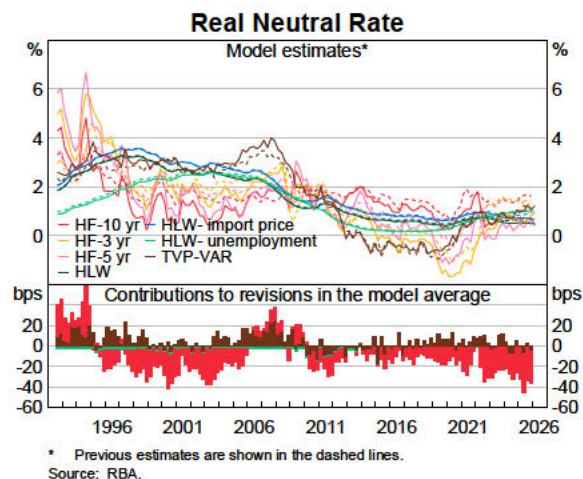
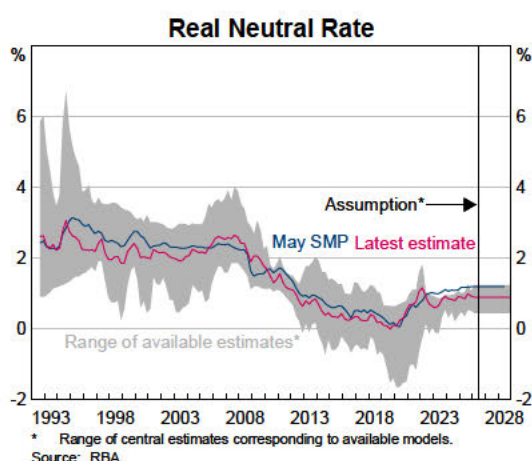


- Our current central estimate sits above many external estimates, largely reflecting differences in the treatment of productivity. The RBA flows low productivity outcomes over recent years more to potential output than some others. It is also worth noting that the median market economist estimate of the output gap has increased to 0.5 per cent in the March quarter, up from 0 per cent previously and close to our central estimate. All external estimates project the output gap to close and move into negative territory at some stage over the forecast horizon.



Real neutral interest rate ([McCririck and Rees 2017](#); [Hambur and Finlay 2018](#))

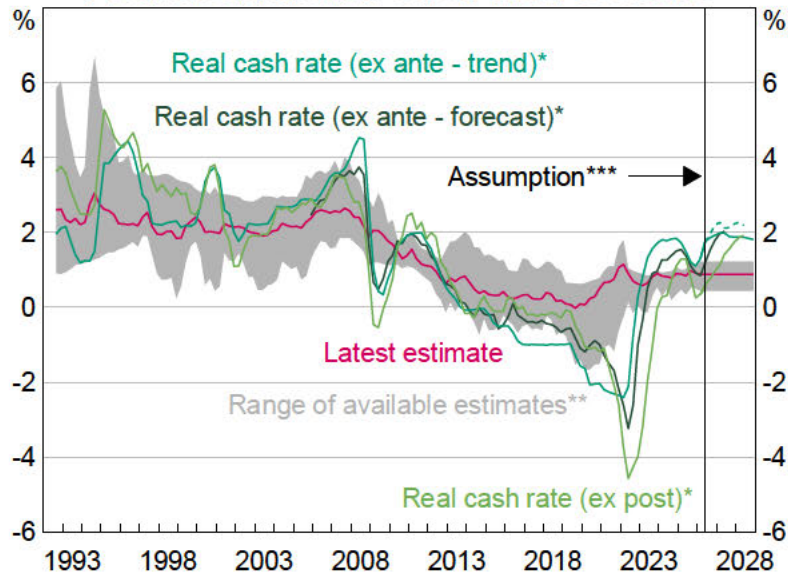
A range of model estimates suggests that the real neutral interest rate is between 0.4 and 1.2 per cent.⁵ The model-average estimate for the March quarter 2026 is around 0.9 per cent, revised down by about 0.4 percentage points compared to the May SMP. The downward revision is mainly driven by the re-estimation of the financial market term-structure model, with parameters previously fixed at pre-COVID values now updated.



The ex-ante real cash rate (deflated by the forecasted inflation rate for the March quarter 2026) was about 0.85 per cent in the March quarter 2026, close to the model-average neutral rate, but increases to slightly above the neutral rate in the June quarter. Using trend inflation expectations, the ex-ante real cash rate is estimated to be higher, at around 1.3 per cent, placing it above the model-average neutral rate. All the real cash rate measures (ex-ante and ex-post) are expected to rise above the range of neutral rate over the forecast horizon.

⁵ Range based on all models in the neutral rate model suite.

Real Neutral and Cash Interest Rate



* The real cash rate (ex-ante - trend) is deflated using trend inflation expectations. The real cash rate (ex-ante - forecast) is deflated using the forecast for year-ended trimmed mean inflation, one year ahead. The real cash rate (ex-post) is deflated using year-ended trimmed mean inflation.

** Range of central estimates corresponding to available models.

*** The dotted line shows the assumption from last SMP.

Source: RBA.

Wealth and consumption¹

Purpose: This note outlines the evidence of the role of housing wealth effects on household consumption and seeks to highlight where there are gaps in our understanding and what that could imply for the consumption outlook.

Why this matters: The August 2026 SMP baseline forecast assumes housing prices decline over the forecast horizon. Consistent with this, a lower profile for housing wealth is expected to drag on household consumption. Understanding the size, timing and drivers of housing wealth effects, including how these have changed over time, is therefore important for judging the risks around the outlook.

Conclusion: Both domestic and international literature find a positive but modest housing wealth effect, implying a housing wealth elasticity of consumption of around 0.15-0.2. The strongest evidence suggests that much, though not all, of the effect operates through collateral and borrowing capacity rather than through a pure wealth channel. There is little strong evidence that housing wealth elasticities have changed materially over time, or that they are systematically larger in housing downturns. However, it is recognised that house prices and consumption are jointly determined, making it difficult to isolate the causal effect of housing wealth on consumption.

What are housing wealth effects?

A large literature shows that housing wealth and household spending move together. Several mechanisms may underlie this "housing wealth effect". A traditional explanation is a pure wealth effect, whereby higher housing wealth increases the resources available to fund consumption over a household's lifetime, leading a consumption-smoothing household to raise expenditure. However, theory suggests this effect may be relatively small since higher house prices also increase the cost of future housing consumption.²

A growing literature instead points to collateral constraints as a key transmission channel. Higher housing values increase housing equity, allowing some households to borrow more against their homes.³ Consistent with this explanation, spending responses are largest among younger, more leveraged and lower-wealth households. Rising house prices may also support spending by increasing household turnover, which is typically associated with purchases of furnishings, appliances, renovations and other durable goods.

More broadly, the relationship between house prices and consumption may partly reflect the influence of other factors that affect both variables. In particular, periods of rising housing wealth often coincide with easier access to credit, stronger income expectations and greater willingness

¹ We would like to thank

for their feedback on this work.

² See [Buiter \(2008\)](#).

³ See [Windsor, Jaaskela and Finlay \(2013\)](#), [Guren et al. \(2021\)](#), [Cloyne et al. 2019](#), [Mian and Sufi \(2011\)](#), [Aladangady \(2017\)](#), [Atalay, Whelan and Yates \(2014\)](#) and [Mian Rao and Sufi \(2013\)](#) for evidence for the collateral constraint hypothesis. Notably [\(2025\)](#) finds the housing wealth effect is not explained by refinancing, suggesting that a significant portion of the wealth effect in Australia is independent of the collateral channel.

to take risk, all of which can support household spending independently of changes in wealth itself.⁴ As a result, it can be difficult to estimate the true causal effect of housing prices on consumption, absent these unobserved forces.

Estimates of the housing wealth effect

Studies of housing wealth effects find a positive but generally modest relationship between housing wealth and consumption. Australian estimates are consistent despite using different methodologies. [May, Nodari and Rees \(2019\)](#) estimate a housing wealth elasticity of consumption of around 0.16, with [\(2025\)](#), [Tornielli di Crestvolant \(2017\)](#) and [Windsor, Jaaskela and Finlay \(2013\)](#) reporting similar estimates.⁵

A key challenge in estimating housing wealth effects is that house prices and consumption are jointly determined. Changes in expected income, credit conditions, and sentiment can move both. Aggregate time-series models are least able to separate these common shocks from genuine wealth effects and tend to produce larger estimates. Studies that use household-level, regional or quasi-experimental variation find more modest effects. Importantly, these designs find patterns that cannot be explained by common shocks alone: spending responses are concentrated among homeowners rather than renters, and among more leveraged households. This provides evidence that part of the observed co-movement between house prices and consumption reflects genuine wealth effects, while part reflects common underlying drivers that affect both variables.

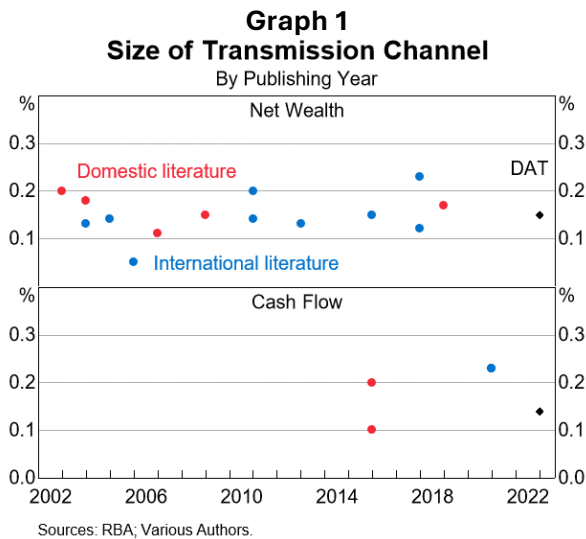
Taken together, the evidence suggests Australian households spend around 3 cents out of each additional dollar of housing wealth. This magnitude is broadly consistent with the estimated relationship between wealth and consumption in internal EC models.⁶ However, these models are designed to forecast aggregate consumption rather than identify causal housing wealth effects. As a result, they may capture both genuine wealth effects and the influence of other factors.

As shown in Graph 1, international evidence is broadly comparable. [Mian, Rao and Sufi \(2013\)](#) find larger effects in the United States among highly leveraged households, with MPCs of around 5 to 7 cents. More recent work that is better able to isolate the causal relationship between house prices and spending ([Guren et al. \(2021\)](#)) estimates US MPCs of around 2.5 to 3 cents. Overall, the international evidence reinforces the conclusion that housing wealth has a positive but modest effect on household spending, with the largest responses concentrated among households facing borrowing constraints.

⁴ See [\(2025\)](#).

⁵ The elasticities in these papers are consistent with MPCs of around 3 cents per dollar of housing wealth.

⁶ The Bank's consumption models are estimated using total household net wealth rather than housing wealth alone. While housing wealth may influence spending different from other forms of wealth because it can relax borrowing constraints and serve as collateral, the estimated wealth elasticities from DAT and MARTIN are broadly consistent with housing wealth effects in the literature. See [\(2025\)](#) for an assessment of a decomposition of net wealth in DAT's ECM consumption model.



Has the strength of the wealth effect changed over time?

The literature suggests that housing wealth elasticities have remained broadly stable over time. [May, Nodari and Rees \(2019\)](#) find that the elasticity of consumption to housing wealth in Australia was little changed between 1988-2001 and 2001-2019. Similarly, Tornielli di Crestvolant (2017) finds little change in the wealth effect over time.⁷ International evidence suggests a similar conclusion (Graph 1).⁸ [Guren et al. \(2021\)](#) find that housing wealth elasticities in the United States were slightly smaller in the 2000s than in earlier decades. Taken together, the evidence provides little indication that housing wealth effects have changed over time.

In contrast, recent vintages of the Bank's forecasting models imply a weaker relationship between wealth and consumption than in earlier estimates⁹. DAT's main ECM estimate falls from around 0.24 pre-COVID sample to 0.15 in the full sample. At the same time MARTIN's long-run wealth elasticity declined from around 0.17 in 2019 to 0.11 in the August SMP estimates.

As discussed in this note, these models identify a reduced-form relationship rather than a causal housing wealth effect. Given that broader evidence finds little evidence that housing wealth elasticities have changed materially over time, this decline in the Bank's estimates could point to a reduced role for unobserved factors that historically caused wealth and consumption to move together. For example, credit access may have historically driven changes in consumption and housing prices. Less pronounced credit cycles since the GFC may have weakened this relationship (see Michielsen (2024)).

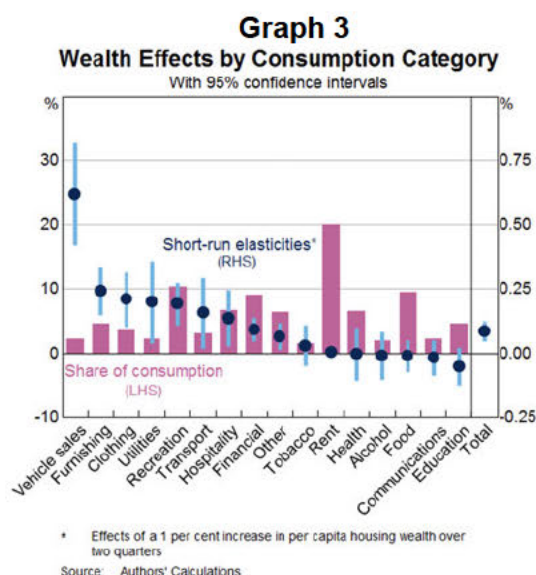
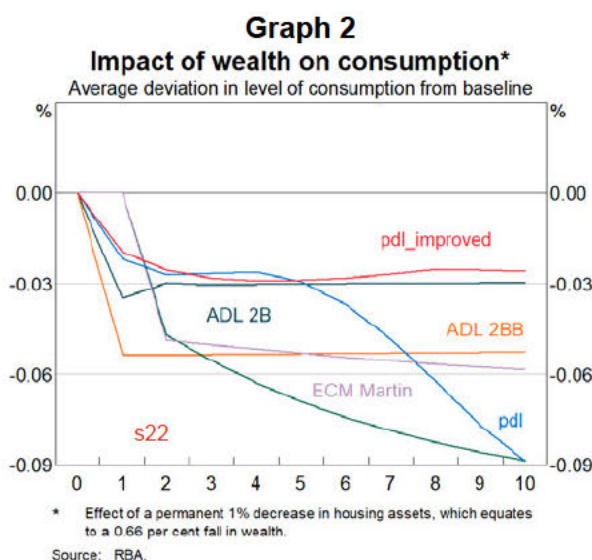
⁷ A stable elasticity does not imply a stable marginal propensity to consume (MPC). Household balance sheets have strengthened over recent decades, with housing wealth growing faster than consumption. As a result, the dollar spending response to an additional dollar of housing wealth is likely to have declined.

⁸ This graph has been sourced from an earlier note in 2023 and has not been updated to include recent literature. DAT values are broadly in line with latest estimates from our models.

⁹ These models use net wealth rather than housing wealth specifically.

How quickly does a change in house prices feed through to spending?

The available evidence suggests that housing wealth effects emerge quickly. [May, Nodari and Rees \(2019\)](#) estimate that around half of the total consumption response occurs within two quarters of a housing wealth shock. Results from DAT's preferred consumption model imply a similar adjustment profile over the same horizon (around 60 per cent). To assess the implications for the Bank's forecasts, we simulate the effect of a permanent 1 per cent fall in housing assets (equivalent to around a 0.66 per cent decline in net wealth) across the consumption model suite. While the estimated magnitude of the response varies across models, all imply that housing wealth shocks affect consumption within the forecast horizon, with most of the adjustment occurring in the first few quarters (Graph 2).



What components of consumption would you expect to be affected?

Housing wealth effects are concentrated in discretionary and durable spending rather than in spending on essentials. Both Australian and international evidence point to particularly strong responses in motor vehicles, furnishings and appliances, while spending on food, rent and education appears relatively insensitive (Graph 3, [May, Nodari and Rees \(2019\)](#); [Gillitzer and Wang \(2015\)](#); [Mian, Rao and Sufi \(2013\)](#)). Large purchases such as motor vehicles and household equipment are often financed, so changes in housing equity can have a disproportionate effect on spending in these areas.¹⁰

Is there any evidence of asymmetry in the wealth effect?

Evidence for asymmetries in housing wealth effects is mixed and, where found, modest. Some studies find evidence consistent with downturns having larger effects (Ryan (2017); [Case, Quigley](#)

¹⁰ Motor vehicle sales may currently be a less reliable indicator of housing wealth effects as the transition to electric vehicles and associated tax concessions has shifted vehicle purchases independently of household wealth.

and Shiller (2013); Bishop, 2009), while others find stronger responses when house prices are rising (Tornielli di Crestvolant (2017)). Theory suggests households may respond more strongly to declines in housing wealth. Declines in housing wealth may tighten borrowing constraints and increase precautionary saving, causing households to reduce spending by more than they increase it following an equivalent gain in wealth. Behavioural factors, such as loss aversion or a desire to maintain financial buffers above a certain threshold, may reinforce these responses (2017)). Relatedly, Berger et al. (2018) show that housing wealth effects depend on household leverage and access to credit, implying that the strength of the consumption response may vary across housing cycles depending on household balance sheets.

However, the estimated differences are generally modest. Consistent with this, using over a century of US data, Guren et al. (2021) find no evidence that the elasticity of consumption to housing wealth differs between booms as busts. They argue that larger consumption declines during housing downturns primarily reflect larger declines in housing wealth, rather than a fundamentally different elasticity. Their framework suggests housing wealth effects should remain relatively stable over the cycle because most housing wealth is held by households with substantial equity, and because mortgage borrowers are generally not forced to deleverage when house prices fall.

Is the current housing price downturn likely to be ‘different’ to previous episodes?

Based on our assessment of the evidence, the risk around the housing wealth effect embedded in the August 2026 SMP forecast remain broadly balanced. The August 2026 SMP baseline forecast assumes housing prices decline over the forecast horizon. Consistent with this, lower housing wealth is expected to weigh on household consumption.

There are reasons to think a given decline in housing prices may have a smaller effect on consumption than historical estimates would imply. Some historical episodes combined falling housing prices with broader developments that were independently weighing on household spending, making it difficult to isolate the effect of housing wealth alone. As a result, historical estimates may not always provide a precise guide to the consumption effects of changes in housing prices if a downturn does not generate the same degree of economy-wide weakness.

However, there are also reasons why housing wealth effects in the current episode could be similar to, or larger than, historical experience. The available evidence suggests that housing wealth affects spending through a range of channels, including household balance sheets and borrowing capacity. These channels remain relevant in this downturn, suggesting that housing wealth effects could remain broadly consistent with historical experience. On the other hand, changes to investor incentives may also reduce housing turnover by more than normal if grandfathering of current negative gearing and capital gains tax arrangements encourages existing investors to hold onto properties rather than sell. Because housing transactions are often accompanied by spending on furnishings and appliances, a larger fall in turnover could amplify the effect on consumption.

Some might also argue that housing wealth effects will be smaller following periods of unusually strong house price growth, because households have larger equity buffers. However, this pattern is

not unusual. Previous housing downturns have typically been preceded by sustained house price growth. Historical estimates therefore already incorporate periods where housing prices fell from elevated levels, suggesting there is little reason to assume a smaller response on this basis alone.

Overall, the available evidence does not provide a strong basis for assuming either substantially larger or substantially smaller housing wealth effects than have been observed historically.

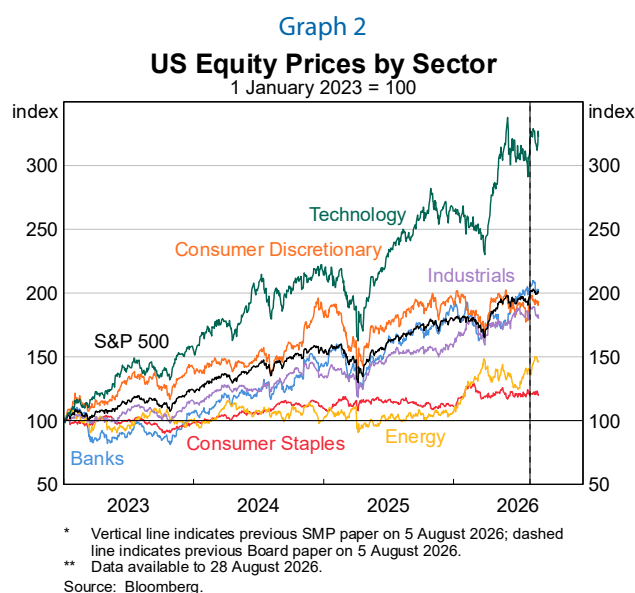
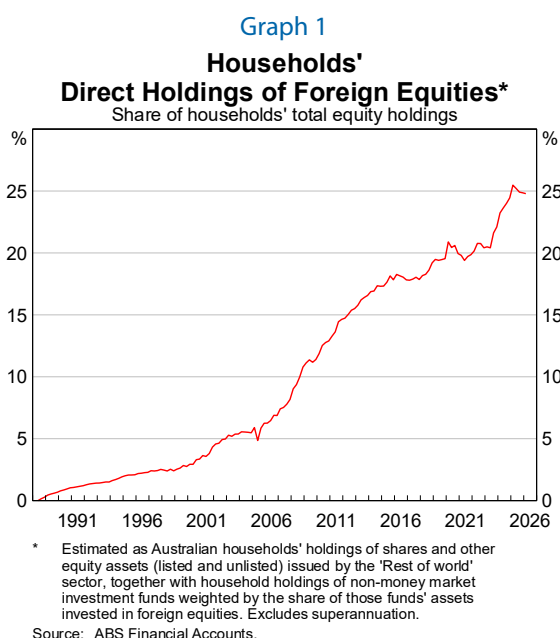
Economic Group
20 August 2026

DM Chatter: How Exposed are Households' Financial Assets to AI?¹

This short chatter provides back-of-the-envelope estimates for households' exposure to AI through financial assets. We estimate that 5.4 per cent of Australian households' financial wealth is in AI stocks, comprising 1.7 percentage points in direct equity holdings and 3.7 percentage points through superannuation. Foreign exposure accounts for close to 90 per cent of households' equity exposure to AI. Combined with previously estimated wealth effects, this suggests that a 20 per cent fall in the price of AI stocks would lead to a 0.7 per cent fall in long-run consumption.

Australians have increased their exposure (both in levels and share of equity portfolio) to overseas equities, particularly in the US (ABS; Graph 1). This has been the case for both assets held directly and through superannuation. Much of the recent rise in US equity prices has been driven by companies associated with AI and the related data centre build-out, with these stocks experiencing significant volatility of late

Graph 2). As a result, a sharp correction in AI-related equity prices could affect Australian households' wealth, with potential implications for economic activity and financial stability. So how exposed are Australian households to this risk?



Australian households hold around one-seventh of their financial wealth in equities directly, and one-quarter indirectly through super.

Australian households hold financial assets such as shares both directly and indirectly through superannuation funds. As of March 2026, Australian households held 14.7 per cent of their financial wealth directly in equities and 24.3 per cent indirectly through their super (Table 1).²

How exposed are households' financial wealth to AI?

We estimate that **5.4 per cent of households' financial wealth is exposed to AI-related equities (Table 1)**. This exposure was estimated in three broad steps:

-
- 1 We would like to thank _____ for providing us with an estimate of AI exposure in the US S&P 500, and _____ for help on wealth effects.
- 2 Given that our estimation method relies on established equity indices, we would ideally limit our data to listed equity. Holdings through super are for listed equity only; however, our measure of direct equity holdings include both listed and unlisted equity because of data limitations. Households hold most of their wealth (57.3 per cent) in housing assets. For details on sources and estimation methods, see the following section and footnotes to Table 1.

1. We source households' direct equities and super holdings from household balance sheet data in the ABS' Finance and Wealth release. We also source asset allocation data for APRA-regulated super funds and SMSFs.
2. Since AI exposure differ by equity market, we split these holdings into broad investment destinations, using a few assumptions and the ABS' International Investment Position (IIP) data. We split the data into domestic, USA and rest of world.
3. We apply market cap weights for either an AI-adjacent sector (e.g. the sectoral share of Information Technology for the ASX 200 and rest of world) or for a specific set of firms (e.g. hyperscalers and chip-makers for the US' S&P 500) to the holdings from step 2.

Table 1: Households' Estimated Exposure to AI via Equity Holdings

Share of household assets as at March 2026 (per cent)^(a)

	Share of financial assets	Share of all household assets
Direct equity holdings^(b)	19.6	7.6
<i>of which:</i>		
Domestic	14.7	5.7
<i>AI exposed^(c)</i>	<i>0.3</i>	<i>0.1</i>
Foreign	4.9	1.9
<i>AI exposed^(c)</i>	<i>1.4</i>	<i>0.5</i>
- USA	0.9	0.4
- Rest of world	0.4	0.2
Superannuation	51.1	19.7
<i>of which:</i>		
Listed equities^(d)	24.3	9.4
Domestic	12.2	4.7
<i>AI exposed^(c)</i>	<i>0.3</i>	<i>0.1</i>
Foreign	12.1	4.7
<i>AI exposed^(c)</i>	<i>3.4</i>	<i>1.3</i>
- USA	2.4	0.9
- Rest of world	1.1	0.4
Total AI-exposed equity holdings	5.4	2.1

(a) May not sum to totals due to rounding. The share of household assets accounted for by equity holdings and superannuation is calculated from the ABS (2026a), [Australian National Accounts: Finance and Wealth, March](#), Table 35. Within foreign equity exposure for both direct and super holdings, the USA/rest of world split is estimated from ABS (2026b), [International Investment Position, Australia: Supplementary Statistics 2025](#), Table 9.

(b) Includes both listed and unlisted equity. The domestic/foreign split is estimated by using Australian holdings of shares and other equity issued by the rest of the world, together with household holdings of non-money market investment funds weighted by the share of those funds' assets invested in foreign equities, sourced from ABS (2026b), Tables 23 & 34.

(c) For domestic equities held either directly or through super, the sectoral share of IT (2.1 per cent) was used to estimate exposure. For holdings of foreign equities: for the USA, the share of hyperscalers and chip-makers in the S&P 500 was used; for the rest of world, the IT sectoral share in the [MSCI ACWI ex USA Index](#) was used (see 'Composition' tab).

(d) Calculated from applying the combined share of listed equities in total investments from APRA (2026), [Quarterly Superannuation Industry publication, March](#), Table 9 and ATO (2026), [SMSF quarterly statistical report March 2026](#), Table 2, to households' superannuation share of assets. The domestic/foreign split is calculated from the same APRA and ATO tables.

Sources: ABS; APRA; ATO; RBA; authors' calculations.

How might a sharp reversal in AI equity prices affect consumption?

An unexpected and permanent fall in equity prices may affect consumers via wealth effects. We first consider a shock where the prices of AI stocks fall but equities from other sectors are unaffected. While stylised, this assumption is broadly consistent with episodes of volatility in AI-related stocks observed in June and July

2026, during which spillovers to other sectors appear to have been limited. We then consider a broader scenario in which these shocks do spillover to stocks in other sectors, as has occurred during some previous technology-sector-led sell-offs ([Bank Underground, 2026](#)).

Combining the central estimates for wealth effects out of stock market wealth from [May, Nodari and Rees \(2019\)](#) with our estimates above, we find that **a permanent 20 per cent decrease in the price of AI stocks would lead consumption to be 0.7 per cent lower in the long run** (Table 2). Should that spill over to other equities, consumption would fall by a much larger 2.4 per cent. Our estimates apply the same wealth effect to both directly and indirectly held equities – though consumers may not track the latter as closely as the former until close to retirement age – and may therefore overstate response from superannuation wealth.³

Table 2: Estimated Effect on Long-run Consumption from a Permanent Fall in Equity prices

Long-run effect on consumption (per cent)^(a)

	Magnitude of fall in equity prices		
	5 per cent	10 per cent	20 per cent
Fall in only AI-exposed equities	-0.2	-0.3	-0.7
Fall in all equity holdings	-0.6	-1.2	-2.4

(a) Wealth effect estimates source from May, Nodari and Rees (2019), '[Wealth and Consumption](#)', *Bulletin*, March, and applied to estimates from Table 1.

Sources: May, Nodari and Rees (2019); RBA; authors' calculations.

and

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3 There appear to be only small differences in the direct and all equity holdings wealth effect estimates in [Dvornak and Kohler \(2003\)](#).