

Iran war hits Australian economy

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As the Albanese Labor government accelerates its attack on health, in the opening shot of what is a war on all social services, with massive cuts to the National Disability Insurance Scheme of \$35 billion, the Australian economy is being hard hit by the US war on Iran.

Banks are reporting that they expect an increase in defaults from companies already reporting sharp increases in their cost structures well above the rise in petrol and diesel prices. Major companies are issuing profit downgrades. The cost hikes go across the board, from energy, to fertilisers and building materials.

A report in the *Australian Financial Review* (AFR) last week, headlined “Australia’s inflation time bomb: why the worst is yet to come,” detailed some of the increases, including a 36 percent rise in the price of plastic pipes at a major plumbing firm, a 10 percent increase in the cost of paint and a surge in air fares.

And the price hikes are taking place in unexpected areas, with a plumbing supply group warning of a 35 percent hike in the price of toilets.

The warnings of the AFR were underscored by official figures released by the Australian Bureau of Statistics today, putting inflation at 4.6 percent for the 12 months to March, up from 3.7 percent the previous month.

The AFR report cited comments from Jo Masters, chief economist at the financial firm Barrenjoey, on the extent of the rises.

“The thing that has been most astounding to me is how quickly and how widely we have seen businesses—not just in construction, but also more broadly—passing on price increases,” she said.

Like many others in the world of finance, Masters is concerned that the inflationary spiral is going to lead to struggles by workers for wage increases to compensate for the daily cuts in their living standards and is looking to the Reserve Bank of Australia (RBA) to increase

interest rates to drive down the economy if that takes place.

“If you start getting inflation expectations de-anchored as firms are passing on price increases, you’re embedding higher inflation,” she said. “If you allow that to get ahead of you as a central bank, then you’ve got to do more damage to the economy.”

In other words, there is a real prospect of stagflation—a situation of higher inflation coupled with a recession induced by higher interest rates imposed by the central bank.

This is already very much on the agenda of RBA officials and its governing body.

Earlier this month at an event in New York, the deputy governor of the RBA, Andrew Hauser, said the “stagflationary shock” from the war on Iran was a “central banker’s nightmare” with soaring fuel prices delivering a “big income shock” as consumer confidence was falling to its lowest level in years.

The Westpac-Melbourne Institute index of consumer confidence plunged 12.5 percent to 80.1 for the month of April, the largest monthly fall since the start of the pandemic, indicating what has been characterised as “deep pessimism, with households feeling significant strain on finances.”

Business confidence is sharply down with the National Australia Bank (NAB) monthly survey showing it had fallen to its lowest level in six years after the second largest fall in history.

The fall in confidence is reflected in profit forecasts with the AFR warning last week that “investors are bracing for a grim string of profit downgrades” as the RBA lifts interest rates.

How far and how fast the outlook can change is illustrated by the plunge in the share price of the hearing implant manufacturer Cochlear, a global leader in this field.

Last Wednesday its share price fell 41 percent

followed by a further 4 percent the next day.

In statement issued in February, Cochlear said it expected to “deliver a strong second half” with earnings to be between \$435 million and \$460 million. But this was rapidly downgraded when the company lowered its profit guidance for the year to between \$290 million and \$330 million, sending its shares to their lowest level in a decade with analysts describing the downgrade as “staggering.”

Besides the economic impact, both the size and rapidity of the fall have an important ideological component because Cochlear has been held up as one of the “success” stories of Australian capitalism.

The company has not been directly affected by the energy price hikes, but its sudden decline nevertheless highlights their global impact, not least in the US. The company said in its statement that it was forced to make the downward revision because demand for its implants, which are treated as discretionary healthcare purchases, has declined as the result of consumer sentiment in the US falling to a record low—one of the consequences of the war on Iran.

A report in the *Australian* said the fall in Cochlear’s stock had sent “alarm bells ringing” with analysts warning of other downgrades because of the impact of higher fuel costs, interest rate hikes by the RBA and a higher value of the Australian dollar.

Other companies have been announcing profit falls with the result that the net downgrades for companies in the ASX 300 are running at 20 per cent compared to a norm of 13 percent. Major firms including A2 Milk, EML Payments, Northern Star, Orara, Virgin, Worley, Qantas and Westpac have warned that they are being impacted by the war.

And more are to come. Yarra Capital deputy portfolio manager Edward Waller told the AFR it was “roughly quarter time” as far as the number of downgrades was concerned. He said that so far profit warnings had been concentrated on companies that operated in the Middle East or were heavy users of fuel.

“I think the third and largest category that is yet to come are those companies that are going to be more exposed to broader economic activity,” he said.

Retail has not yet been affected, at least as far as available statistics reveal, but it appears to be only a matter of time as has been predicted by Ten Cap portfolio manager Jun Bei Liu whose firm owns stock

in the pizza making chain Domino’s among others.

“I think they’re still hanging on to the last few weeks, but if we look at consumer confidence, and the feedback for bulky goods like furniture and others, it sounds like it’s dire out there. Activity is just stretched for these categories. Retailers are absolutely struggling,” he told the AFR.

This means that cuts, even bankruptcies, and job losses are in the pipeline.

One of the major lenders to businesses, the NAB, has made increased provision for a sharp rise in bad debts.

Earlier this month it said that its interim results, to be released next week, would include an increase in the provision for impairments—that is a permanent reduction in the recorded value of an asset on a balance sheet below the recoverable amount—to \$706 million, up from \$485 million, with an additional \$300 million set aside for bad debts.

NAB said the increase in the provisions was based on the likelihood that some fuel dependent businesses would be unable to repay their loans. NAB is the biggest lender to businesses in agriculture and transport which have been hit by higher fuel and fertiliser costs.

The rapidly worsening economic situation has decisive political implications. It demonstrates that no country is exempt from the crisis of global capitalism triggered by the Iran war and that like its counterparts around the world, the response of the Albanese government, as exemplified in the sweeping attack on the NDIS, is to impose its costs on to the working class.



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