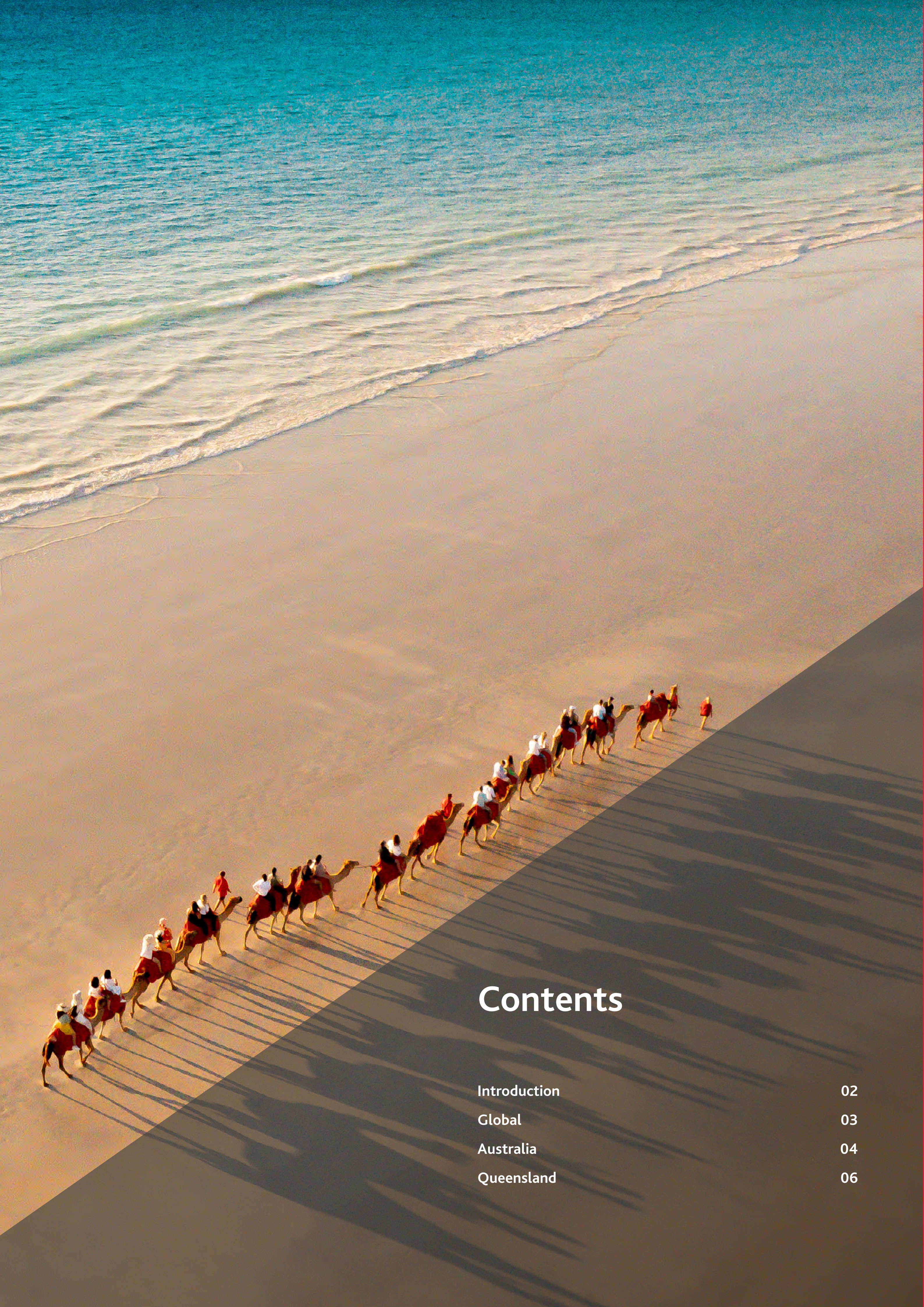
IDEAS | PEOPLE | TRUST

BDO Outlook 2026



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Growth across advanced economies has slowed over recent decades as governments have prioritised social outcomes, risk controls, and more recently, economic security. Public spending has risen, regulation has expanded, and financial and political capital has been directed towards resilience rather than productivity. The result has been slower economic growth. There is nothing inherently wrong with choosing to prioritise these things over economic growth, but the trade-off needs to be recognised. When they aren't, new challenges emerge.

In my view, Australia has fallen into that trap. We continue to spend as though the economy is growing at 3 per cent, when in reality, growth is closer to half that rate. This is the challenge the Reserve Bank of Australia (RBA) has described as Australia exceeding its economic 'speed limit'. When spending exceeds the economy's capacity to grow, we effectively fund the gap by borrowing from future generations through higher debt and by eroding current living standards through inflation. For example, during the COVID period real wages fell by around 6 per cent due to inflation and have yet to fully recover.

These pressures are unlikely to improve quickly. Community preferences and an aging population continue to drive higher social spending, while geopolitical fragmentation is directing investment towards resilience and security. Artificial intelligence (AI) offers some hope for boosting productivity, but the scale of investment it requires may also crowd out other economic activity and concentrate growth in a narrow range of sectors, increasing vulnerability. Without stronger productivity growth, high public debt and elevated interest rates are likely to remain features of the economic landscape for some time.

However, slow growth does not mean limited opportunity. The economy is changing rapidly, creating new demands, markets and competitive advantages. Those businesses who anticipate and respond to these shifts will be well positioned.

Anders Magnusson
Chief Economist

Global

The global economy remains resilient, but growth is increasingly dependent on a narrow set of drivers. The International Monetary Fund expects world output to expand by 3.0 per cent in 2026 and 3.4 per cent in 2027. Emerging and developing economies are forecast to grow by around 3.8 per cent in 2026, compared with 1.7 per cent for advanced economies. Beneath these headline figures, four megatrends are reshaping the outlook: AI, demographics, geopolitics and, in advanced economies, productivity.

Megatrends are trajectories of globally significant change that unfold over decades.

AI investment has become a significant source of activity. Global corporate AI investment more than doubled in 2025, mostly in the United States. AI-enabling products such as computer chips also supported trade in 2025 and early 2026. This expansion faces physical constraints with electricity generation for data centres projected to rise from 460 TWh in 2024 to 1,300 TWh by 2035. The risk here is that underperformance of AI companies leads to a downward reassessment of expected returns by investors, weakening financial markets through a painful correction. However, revenues are starting to cover AI company operating costs as businesses integrate AI into their operations and annual operating budgets. Asset prices have also moderated gently in recent months, rather than collapsing.

Demographic pressures differ sharply across the globe. Advanced economy populations are growing but aging, with tighter labour supply and rising health, aged care and pension costs. China's population fell by 3.4 million in 2025 and births dropped to a record low. Projections suggest its population could decline by around 250 million by 2050. The story is very different in the developing world, where about 1.2 billion young people are expected to reach working age between 2025 and 2035. This could be an economic boost if sufficient productive jobs are created, or a social risk from high unemployment.

Geopolitical fragmentation is becoming structural. Supply chains are being redesigned around resilience, friend-shoring and strategic capability, while volatile tariffs, export controls and sanctions are increasing uncertainty. Real world merchandise trade growth is projected to slow from 4.7 per cent in 2025 to around 2.0 per cent in 2026, with AI-related sectors masking weaker momentum elsewhere. Global military expenditure reached US$2.9 trillion in 2025, 41 per cent above its level a decade earlier, and NATO Allies have committed to annual defence and defence-related spending of 5 per cent of GDP by 2035. This will create opportunities across defence, cyber, energy, advanced manufacturing, critical minerals and infrastructure, although more duplicated and regionalised supply chains will raise costs.

Productivity growth is necessary if economies are to pay for healthcare, aged care, pensions, defence spending, and other social priorities. However, productivity growth has been slow lately in advanced economies, with the OECD average growth in GDP per hour worked slowing from around 2 per cent historically to about 0.8 per cent in the past decade, due to a combination of reduced innovation and investment. Without stronger productivity growth, adjustment must come through higher debt, taxes or inflation, or compromising on public services. Global public debt was just under 94 per cent of GDP in 2025 and is projected to reach 100 per cent by 2029.

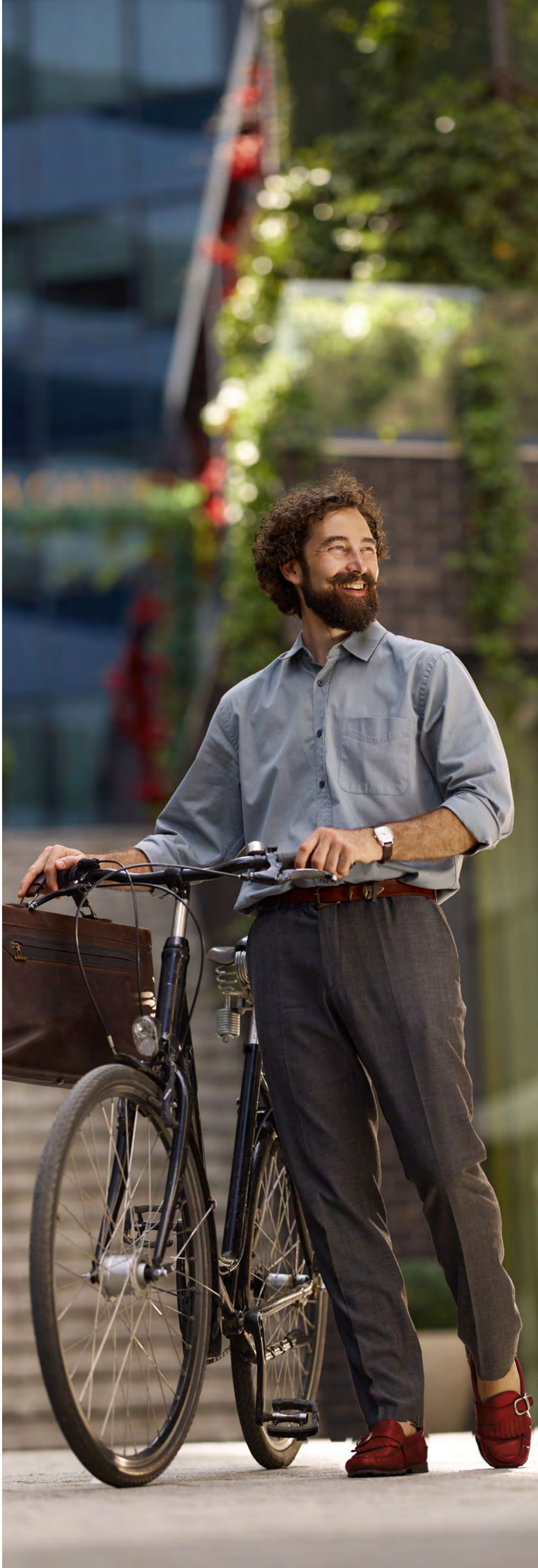
Australia

Australia has moved beyond the immediate energy shock, only to find the structural pressures evident since COVID remain. Inflation is still too high, productivity growth is weak, public spending is expanding, and the economy has limited spare capacity. At the same time, AI is moving from experimentation into business as usual, changing workflows, investment decisions and required skills.

Workforce conditions remain tight. The unemployment rate was 4.4 per cent in June 2026, while employment increased by 76,300 and the participation rate rose to 67 per cent. While these conditions are good for workers, it means Australia must manage major project pipelines and an ageing population without a large pool of unused labour. AI is beginning to change the composition of work, but the evidence points more to churn than to widespread job destruction. Jobs and Skills Australia found that generative AI is more likely to augment workers than replace them, and that workers are moving from AI-exposed roles into other positions, rather than exiting the workforce. Our challenge is to facilitate this rebalancing, while using labour-saving technology to offset the challenge of an aging population.

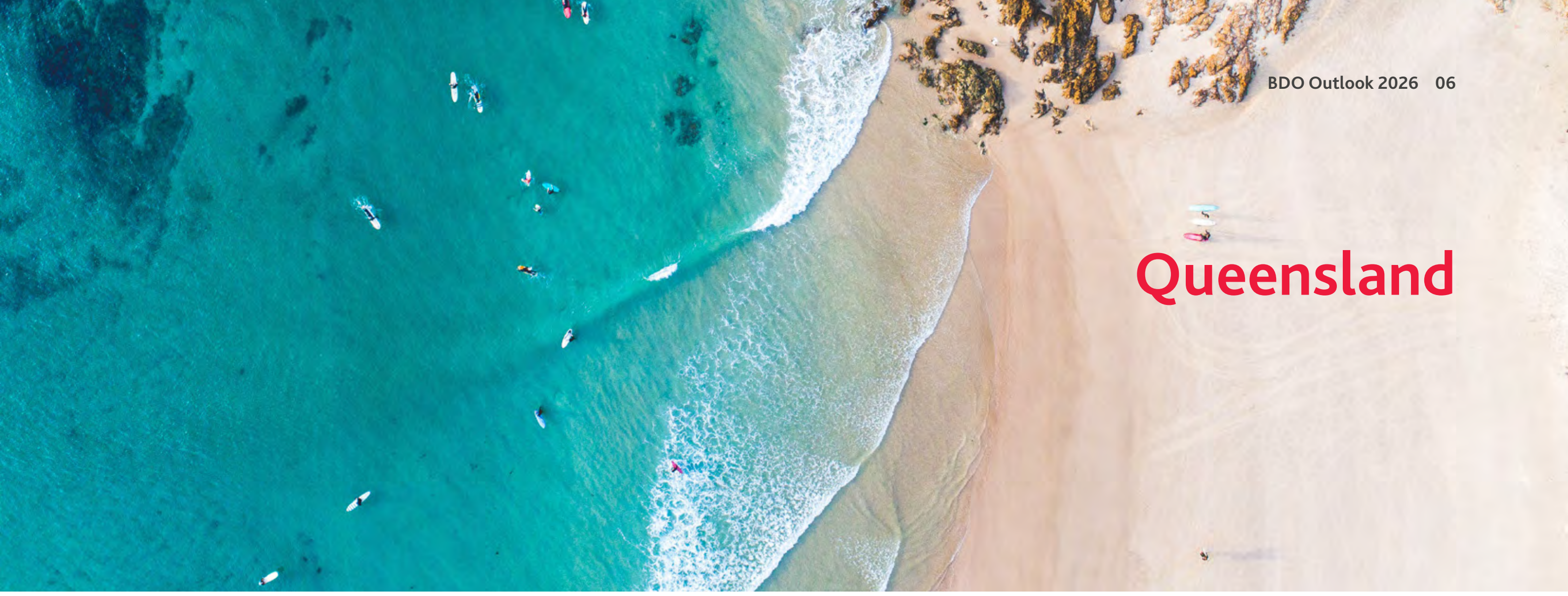
Living standards will depend on whether Australia can reverse its productivity slowdown. Labour productivity has barely increased in the past ten years. Weak productivity growth limits the sustainable growth of real wages and makes higher living standards harder to achieve. Australia needs stronger business investment, innovation and competition, but firms face a policy environment that can make active risk-taking less attractive. AI offers a potential productivity lift, although the gains will depend on businesses redesigning work rather than simply adding new technology to existing processes. Tax and regulatory settings should encourage active investment in productive assets.

Australia *continued*



Public finances face growing pressure as more services are provided where households make spending decisions and government pays the bill. This spending is called 'social transfers in-kind' and includes programs such as the NDIS, aged care, and PBS. They deliver substantial value to recipients, but it is important to also understand that they weaken important price signals in the economy and encourage inflation. The 2026–27 Budget identifies the NDIS as Australia's largest social program outside the Age Pension, with budget measures targeting savings of $37.8 billion over four years. These types of pressures will intensify as the population ages with the number of Australians aged 65 and over projected to more than double in the next 40 years, and labour force participation projected to decline. Sustainable public finances will likely need to rely less heavily on taxing the relatively smaller working-age population and more on consumption taxes or other sources.

The near term is likely to show an economy that is resilient but unexciting. Unemployment was 4.4 per cent in June, headline inflation was 3.5 per cent over the year to July and the RBA held the cash rate at 4.35 per cent in August. The energy shock from the Middle East continues, trimmed mean inflation remains elevated, businesses are still passing higher input costs into prices, and the labour market remains tight. The RBA forecasts inflation to only return to the midpoint of its 2–3 per cent target range by early 2028. With three cash rate increases already delivered in 2026, a fourth is likely in the face of these upside risks to inflation. Households and businesses should plan for interest rates, labour constraints and cost pressures to remain elevated while weak productivity continues to limit the economy's growth.



Queensland

Queensland (QLD) has combined relatively strong total economic growth with one of Australia's strongest population growth stories. Its population increased by around 17 per cent over the decade, outpacing the national growth rate, driven by natural increase, overseas migration and, most notably, the strongest interstate migration inflow in Australia. Total Gross State Product (GSP) growth has also marginally outperformed the national average.

However, QLD's expansion has relied more on additional people and hours worked than on higher productivity. GSP per capita remains below the Australian average, while GSP per hours worked increased by only around 2 per cent over the decade. The modest productivity gains made before COVID have not advanced since, with GSP broadly keeping pace with rising hours worked. QLD does not have a concentration in an exceptionally high-value resource sector, so its diverse base reduces exposure to any single commodity. QLD has been one of Australia's strongest growth stories, but the next phase will be judged less by how many people arrive and more by whether that growth translates into higher productivity and living standards.

The State's defining economic story is Brisbane 2032, which is increasingly less about sport and more about reshaping QLD's economic geography. Transport, housing and infrastructure investments are expanding well beyond Brisbane and helping integrate a larger statewide economy. Layered on top of that are the 2027 Rugby World Cup, major transport investments such as Cross River Rail and the Bruce Highway upgrades, and growing investment in critical minerals, renewable energy and regional development.

For business leaders, the opportunity is obvious: population growth, infrastructure investment and international visitor demand are generating new markets across almost every sector. The challenge is that everyone can see the opportunity. Competition for labour, land, materials and skills is likely to remain intense for much of the decade, making productivity, workforce planning and early positioning more important than ever.

Local experience, national support, global network

BDO in Brisbane

Brisbane is a rapidly expanding capital city, creating opportunity for organisations of all sizes and in all industries. Our team, based in Brisbane's CBD, provides an extensive range of tax, audit and assurance, and advisory services, with the approachability and relationship-driven style you can expect from BDO.

We have been serving Queensland businesses for more than 100 years, and our long history gives us a thorough understanding of the Queensland marketplace, and the knowledge required to provide real value and expert advice.

We are proud to support a number of charitable and not-for-profit organisations in the community, giving back through workplace giving, fundraisers and donations. Our industry involvement is extensive and includes the Lord Mayor's Business Awards, the Premier of Queensland's Export Awards and Women in Technology.

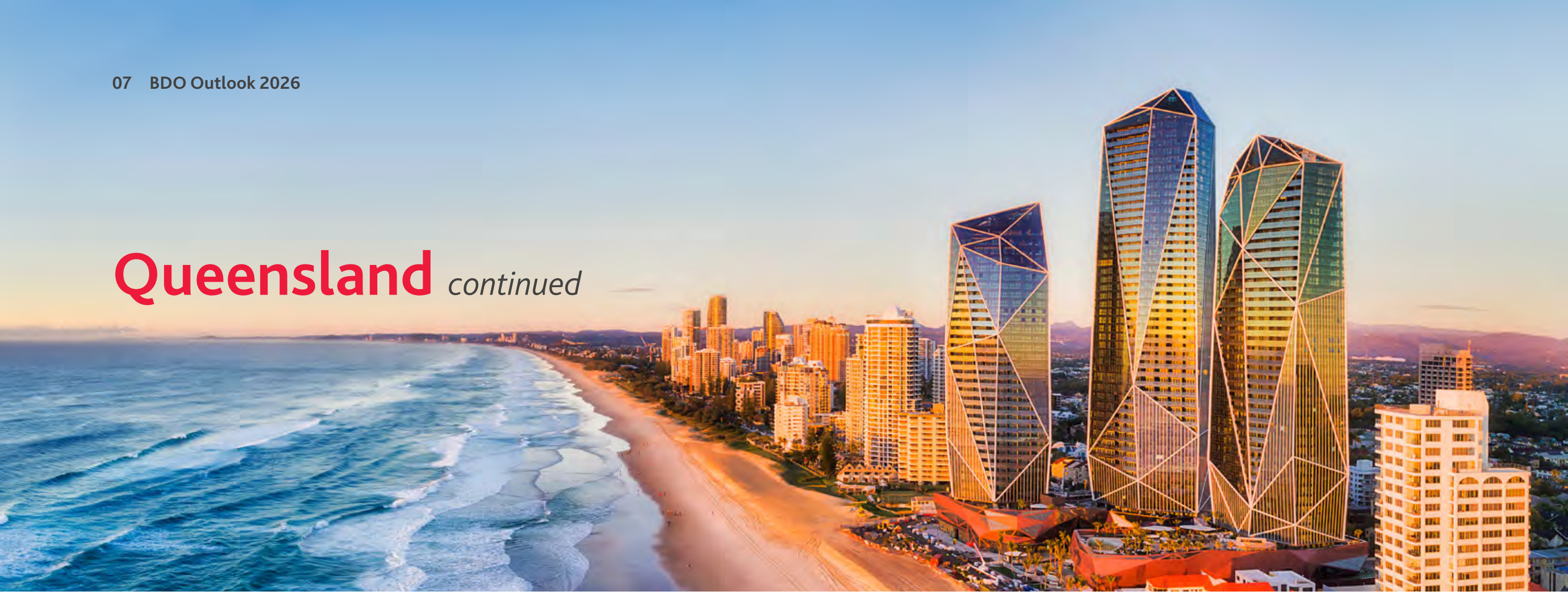
BDO in Cairns

Cairns, located in the heart of Far North Queensland, is a vibrant and diverse region. BDO (NTH QLD) has proudly served the community since 1906, making us the largest full-service accounting and advisory firm in North Queensland. Our long-standing presence means we understand the unique opportunities and challenges of operating a successful business in regional Queensland.

We understand that each client and business is different. As a full-service firm, we offer comprehensive solutions across accounting, tax, audit and advisory services. Our experts support our clients across every part of the business lifecycle, from regional market entry through to growth and succession activities.

Our Partner-led approach ensures personalised service and enduring relationships. We work proactively with you to deliver practical solutions and meaningful outcomes.

Queensland *continued*



We treat your businesses as our own, taking pride in every step of the journey. We are especially proud of our extensive experience working with First Nations communities and remote organisations across all of Far North Queensland. We are committed to improving financial literacy, business improvement practices, growing and retaining talent in our region, creating pathways and opportunities that long-term success and intergenerational impact.

BDO on the Gold Coast

The Gold Coast region is booming – experiencing bold infrastructure investments, a surge in innovation, and a real commitment to building future-focused industries.

Our office is situated in the centre of the Gold Coast Financial District, and provides a range of tax, audit and assurance and advisory services, with a commitment to working with businesses, government, and communities to shape a resilient, sustainable, and globally connected region.

We are proud to support local charities and partnerships on the Gold Coast such as Yalari and Rizeup, and are actively involved with industry groups including Gold Coast North Chamber of Commerce, Gold Coast South Chamber of Commerce, Trade and Investment QLD, and the Property Council of Australia.

BDO on the Sunshine Coast

A popular Australian tourism destination, the Sunshine Coast is also a bustling business hub. Our team is based in the centre of the Sunshine Coast at Maroochydore, and provides a range of tax, audit and assurance, and advisory services. Our partner-led approach creates a genuine sense of trust through strong, personal relationships - we treat your business as our own and take pride in the work we do for you.

We're also committed to supporting local causes. For us, this means investing financial support, as well as our people's time and resources. We are proud to support local charities, sporting teams, organisations and events throughout the region such as the Sunshine Coast Hockey Association and Maroochy Beach Gymnastics, and various Surf Life Saving clubs and Rotary Clubs.

BDO in Townsville

Our Townsville office is part of BDO (NTH QLD) – North Queensland's largest full-service accounting and advisory firm. BDO (NTH QLD) has proudly served the community since 1906. Our long-standing presence means we understand the unique opportunities and challenges of operating a successful business in regional Queensland.

We understand that every client and business is different. As a full-service firm, we offer comprehensive solutions across accounting, tax, audit and advisory services. Our experts support our clients across every part of the business lifecycle, from regional market entry through to growth, succession and exit strategies.

Our Partner-led approach ensures personalised service and enduring relationships. We work proactively with you to deliver practical solutions and meaningful outcomes. Our people are skilled, energetic and confident, with the experience and expertise to deal with the intricacies of any matter and deliver results.

Our office is centrally located on Sturt Street, in the heart of Townsville – call or email to arrange a time to discuss your requirements with our team.

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