



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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Australia in 40 Years' Time

MARKET INTELLIGENCE REPORT

Summary

- The Australian Government has released its intergenerational report (IGR), setting out expected economic and social changes over the next 40 years to 2066.
- The report concludes that Australia remains well positioned to achieve higher living standards and sustained economic growth over the next four decades, but this prosperity will depend on how effectively the nation manages a series of profound structural transitions, where the pace of change is accelerating and intensifying.
- It is noted that five major transitions will shape Australia's economic and fiscal outlook over the next 40 years: Artificial intelligence (AI) is developing rapidly, and will be a defining influence on the economy; geopolitical fragmentation is increasing as conflict and strategic competition have flared and broadened; the energy transition is becoming more important and urgent; the population is ageing more quickly, accelerated by falling fertility rates; and Australia's industrial base is evolving further towards services, influenced by AI and the other major transitions.

- As with previous IGRs, the report has been used as a call to action for policymakers to strengthen Australia's resilience, lift productivity, and ensure the nation is well positioned to navigate significant economic, technological, demographic and global change in the decades ahead. Treasurer Chalmers argued that Australia is better placed than many peer economies to navigate these transitions.
- Australia's latest IGR is relevant to New Zealand as we are likely to face similar social and economic challenges over the next 40 years, and because of Australia's enduring importance to our own prosperity.

Report

Intergenerational reports (IGR) provide a long-term assessment of Australia's economic, demographic and fiscal outlook, helping governments evaluate future challenges and opportunities, support evidence-based policymaking, and ensure the sustainability of public finances and living standards for future generations. The last IGR was published in 2023.

In his [speech](#) on the release of the [report](#), Treasurer Chalmers provided commentary on how the Australian Government in 2026 is positioning Australia to respond to those challenges.

AI revolution tied to productivity

The 2026 IGR identifies artificial intelligence (AI) as the most significant economic transformation since the previous report and a key driver of Australia's future prosperity.

The report projects that AI will make a substantial contribution to long-term productivity growth, helping achieve Treasury's forecast annual productivity rate of 1.2 percent and potentially exceeding it over time. From 2030 onwards, every additional 0.1 percentage point of productivity growth generated by AI could improve the budget position by 0.07 percentage points and reduce gross debt by 0.3 percentage points within a decade.

The IGR emphasised that AI is expected to augment rather than replace most jobs, with human judgement, coordination, accountability and interpersonal skills remaining essential. While only a small proportion of workers face high automation exposure, the workforce will need to adapt to changing skill demands.

Treasurer Chalmers argued Australia was well placed to benefit from the AI transition, with AI adoption rates among the highest in the G20 and around two-thirds of businesses already using AI in some capacity. The report notes that adoption alone will not deliver economic gains; productivity improvements will depend on businesses successfully integrating AI into processes and ways of working.

The report highlighted the importance of managing the risks associated with AI, including misinformation, scams, cyber threats, market concentration, social harms and economic disruption. Ensuring these risks are effectively governed will be critical to Australia realising AI's benefits while maintaining public trust and economic resilience.

Business Council of Australia (BCA) CE Bran Black said the IGR should be a burning

platform for comprehensive economic reform, with Australians already paying the price for weak productivity through lower living standards. The BCA has used the report to reinforce calls for reforms to improve investment, workforce capability, competition and productivity.

Productivity Commission chairwoman Danielle Wood said that a concerted effort from government to reduce the regulatory compliance burden would make a real difference to productivity. She cited research from the Australian Institute of Company Directors that showed board time spent on compliance has more than doubled from 24 percent to 55 percent in the past 10 years.

Geopolitical fragmentation

The report suggests that Australia's economic future will be shaped by an increasingly fragmented and uncertain global environment. International conflicts are contributing to greater economic volatility and expose vulnerabilities in global energy and supply chains. Protectionism is increasing, with higher tariffs, discriminatory trade measures and tighter restrictions on foreign investment, critical minerals, semiconductors and AI technologies reshaping global commerce. The report cautioned that rising trade barriers will impose long-term economic costs, but Australia's reputation as a stable, trusted and reliable trading partner positions it to benefit from shifting trade patterns and evolving strategic partnerships. It suggests that resilience will be a more prominent consideration for businesses and governments, and economic relationships will increasingly be influenced by considerations beyond short-term cost minimisation.

Energy transition fuels the industrial transformation

The report concludes that the energy transition is becoming more important and urgent as global energy supply chains face disruption, the savings from reliable renewable energy and electrification become clearer, and the associated industrial opportunities expand. The maturing of large economies, especially China, and their transition towards net zero, are expected to alter global trade dynamics. Demand may wane for some of Australia's traditional exports, while new opportunities emerge in areas such as critical minerals, clean energy and other industries. Global lithium demand is expected to triple, while demand for nickel, graphite and rare earths is forecast to increase by 50 to 90 percent. Renewable energy industries are projected to generate more than \$68 billion in additional export opportunities. Chalmers stated that Australian green exports could exceed \$100 billion annually by 2050.

Australia's energy system has already begun to fundamentally change. In 2023, renewables made up approximately a third of the grid, and now in 2026 they account for nearly half. Over 60 percent of coal-fired power generation will retire over the next

decade, meaning renewables will continue to play a bigger role. Costs for some renewables have fallen 80 percent in a decade improving their competitiveness relative to traditional energy sources.

Growing electricity demand from AI-related infrastructure and data centres is expected to become a significant feature of the energy system, accounting for almost 10 percent of National Electricity Market demand by 2050.

The report also highlighted the benefits of electrification for households and energy security. Average household energy costs are projected to fall by around 40 percent between 2030 and 2050 as more households adopt electric technologies, rooftop solar, and battery storage, with fully electrified solar-powered households potentially saving around \$4,300 per year.

The report stated that the benefits of Australia's reliable renewable energy resources will require sustained investment by governments, businesses and households, supported by consistent policy settings that encourage long-term adaptation and planning.

The IGR warned that a "disorderly" or delayed energy transition would carry significant economic and environmental costs. Failing to properly manage the shift is projected to trigger lower productivity, smaller crop yields, damaged tourism, and worse environmental fallout from rising sea levels and flooding.

Ageing and the care economy

Australia's population will age more quickly and grow more slowly than projected in the 2023 IGR, primarily due to lower fertility rates. For the first time, deaths are projected to outnumber births by the 2060s. The number of Australians aged 85 and over is expected to triple in the next 40 years, driving increased demand for health and aged care which the IGR identifies as one of the fastest-growing areas of government spending.

Better health care, higher living standards and medical advances are also contributing to population ageing, with life expectancy expected to increase further. As more people move into older age groups, a smaller share of the population will be in the traditional working ages, placing gradual pressure on labour supply and overall productivity growth.

Intergenerational equity

The report predicts that long-term demographic and economic pressures will intensify concerns about intergenerational equity. While future Australians are expected to enjoy higher living standards, younger generations face challenges, especially in housing affordability and wealth accumulation. The report notes growing concerns that the

benefits of economic growth are not being shared evenly across generations and highlights the importance of policy settings that support fairness and opportunity. The report warns that, without reform, the long-term pressures on housing, the tax system, and from an ageing population will intensify concerns about intergenerational equity and risk eroding Australia's strong democratic and social cohesion as well as economic security.

The economy

The report projects that the Australian economy will be more than twice its current size by 2065-66, with real income per person rising by approximately 55 percent. However, slower population growth means that future prosperity will rely increasingly on productivity improvements rather than workforce expansion alone. The IGR projections for growth in real GDP per person are underpinned by labour productivity growing at the same level it did over the past 40 years, at odds with projections from leading economists.

In 40 years, net overseas migration (NOM) will drive population growth. The NOM will moderate to a long-term average of 235,000 people annually through to 2066, down from the 292,100 for the year to March recorded in the latest statistics. The report also showed that lower than forecast population growth would worsen the budget's fiscal position.

From a fiscal perspective, the report concludes that the long-term budget outlook has improved since the 2023 IGR, reflecting reforms in areas such as aged care and the National Disability Insurance Scheme. Nevertheless, rising expenditure on health, aged care, defence and other essential services will continue to place pressure on government budgets over coming decades.

The Australian labour market is expected to remain resilient, with employment and the labour force continuing to grow. The unemployment rate is projected to settle to 4.25 percent over the long run.

The budget's reliance on personal income tax revenue is projected to grow as the tax take from excises on fuel and tobacco decline.

With expected scrutiny on the 1.2 percent forecast annual productivity rate, the report caveats that the pathway for future productivity is uncertain and will depend on a range of factors, including the evolution of the major transitions, Australia's ability to keep pace with and adapt to technological progress, and how well policy settings manage risks and opportunities.

Treasurer Chalmers emphasised Australia's relatively strong position to manage the upcoming challenges, and highlighted that over the past three years, Australia's growth

has been faster than almost every G7 economy and much faster than the G7 median. Despite significant global volatility, the Australian economy is over 5 percent larger than at the time of the 2023 IGR. Chalmers pointed to low unemployment and high participation relative to history and many advanced economies.

Comment

The 2026 IGR is cautiously optimistic. Australia's economic fundamentals remain strong, and the nation possesses significant advantages including a skilled workforce, abundant natural resources, strong institutions and opportunities arising from technological and energy transitions.

However, success is not guaranteed. Productivity growth, workforce participation, innovation, fiscal sustainability and intergenerational fairness will all be factors in determining whether future generations enjoy greater prosperity than those today.

New Zealand can benefit from close cooperation with Australia as both countries navigate similar demographic, economic and strategic challenges. The IGR concludes that geopolitical fragmentation is intensifying and that economic relationships will increasingly be shaped by security, resilience and strategic alignment as much as efficiency. Australia expects trusted partners to become more important in trade, investment and supply chains. In this context, Closer Economic Relations and the depth of trans-Tasman economic integration are strategic assets.

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