Elevated Australian inflation rules out further interest rate cuts

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27 November 2025

Australian home buyers battling to pay off mortgages have no possibility of even any limited relief through a cut in interest rates for the foreseeable future. The latest inflation numbers released on Wednesday have taken that prospect off the agenda and made it likely that the next move will be up rather than down.

The annual inflation rate in the year to October jumped to 3.8 percent, up from 3.6 percent in September, well above the Reserve Bank of Australia's (RBA) target range, with a major factor being the 37.1 percent increase in electricity prices following the withdrawal of subsidies by state governments.

The biggest increase in the index was housing, up by 5.9 percent, which includes the cost of electricity as well as rent and building costs. But this figure is a vast understatement because it does not include the cost of mortgage payments. They are excluded because the cost of buying a home, putting a roof over the head of one's family, is considered a capital expenditure item, not a current expense.

In the three years since 2022 when interest rates by the Reserve Bank started to be lifted—some 13 times in all—the median mortgage payment on a $750,000 loan has increased by $1550 month, that is, equivalent to a wage cut of almost $400 per week. Limited marginal relief has come with the three rate cuts by the RBA this year but that is now over.

The strain on home buyers is indicated by the fact that in 2021, 24 percent were paying more than 30 percent of their income—regarded as the stress level—whereas by 2024 this had risen to more than 40 percent.

And as working families have had to take on more employment to make ends meet, they have been hit by an 11 percent increase in childcare costs over the year.

The increase in the headline rate was also reflected in the lower so-called "trimmed rate" which the RBA uses to make its decisions. This came in at 3.3 percent for the year to October, above the central bank's forecast of 3.2 percent for the December quarter and appears to be rising.

According to a report in the *Australian Financial Review* (AFR), it has been "running at an annualised rate of 3.5 percent over the past three months, and at an annualised rate of 4 percent based on October's numbers."

"There is simply no chance the RBA is cutting in December, or any time in the immediate future, given the central bank's concerns are now playing out," the AFR said.

In fact, two investments banks, Barrenjoey and UBS, are predicting that interest rates will be lifted next year. Barrenjoey's chief economist Jo Masters said the RBA could lift rates as early as May next year followed by another rise in August and UBS has said rates will rise next year.

Its chief economist for Australia, George Tharenou, said in a note to clients: "There is now more of a 'trend' to higher inflation, which is becoming concerning."

The response from financial circles to the inflation spike, reflected in the main media outlets, has been that the Labor government must undertake significant cuts in spending and initiate measures to lift productivity—the scrapping of regulations on business activity and measures to facilitate the extraction of greater output and profit from the workforce.

An article in the business section of the Murdoch-owned *Australian* began: "The Albanese government is under intensifying pressure to make serious spending cuts to stop resurgent inflation, after prices jumped by more than expected."

It pointed to a speech by the head of the RBA's international department Penelope Smith which, while advanced in technical language, made clear that unless government spending is reduced the bank may push rates up.

She told the Australian Securitisation Conference that the so-called neutral rate, which supposedly keeps growth at its highest potential and contains inflation, can be influenced by the government's budget.

"Factors that could push neutral rates higher include growing fiscal deficits," she said.

In other words, unless the government starts cutting spending the RBA will keep rates higher.

Echoing the recent call by the International Monetary Fund for greater fiscal discipline and advancing the demand for social spending cuts, an *Australian* editorial said that "reliance on taxpayers to pay for everything from childcare to more HECS debts, health, aged care and National Disability Insurance Scheme services comes at a price—inflation, higher interest rates and higher tax."

As with all such calls, it did not even mention the major increases in government spending on the military as the Labor government integrates itself more deeply into the war preparations by the US against China.

There are indications that the government is responding to the demand for major cuts. This week the AFR reported that the government was seeking 5 percent savings across the public service amounting to as much as $5.6 billion a year.

Finance Minister Katy Gallagher has confirmed the veracity of the report but has claimed it did not signify major job cuts but involved "reprioritisation." "The budget is in deficit. We have lot of pressures on it. We just can't keep adding on to everything," she said.

But according to economist Chris Richardson, major job cuts of around 7000 a year are contained in the government's own forecasts. In its budget papers the public service wages bill falls from $30.5 billion in 2025–26 to $29.6 billion in 2026–27 and remains flat for the next three years, even as the estimates include annual pay rises for its employees.

"If your wage bill isn't changing, but wages are going up, then jobs have to go down. Follow the money: that is quite a large cut in public service numbers," he said.

The Labor government has worked to keep its agenda of cost cutting, which goes well beyond the public service, under wraps because the claim by then Liberal leader Peter Dutton at the last election that he would reduce public service jobs by 41,000 was a factor in his party's demise.

Major employers have already made their position clear. With the publication of the September results, which showed an upturn in inflation, the head of the Australian Industry Group, Innes Willox, said they were part of a "dangerous cocktail" creating an elevated risk of stagflation—rising prices combined with increased unemployment.

He hammered away on what has become a central theme of all business organisations and economic think tanks—the need for increased productivity, that is sweeping away what are considered restrictive regulations and intensifying the extraction of profit, along with a push against wage rises.

Outlining the position of sections of business, Willox said: "Recent high wage rises [he did not detail where they were] that have been disconnected from productivity growth have stoked inflation, particularly in wage-exposed services sectors."

That view and the implications for workers which flow from it will only have been strengthened by the data released this week.