Australian interest rate hike hits working-class households

Mike Head
3 February 2026

Yesterday's decision by the Reserve Bank of Australia (RBA) board to begin lifting interest rates again will severely affect millions of working-class families, shattering whatever remained of the Albanese Labor government's claims to have "turned the corner" in resolving the cost-of-living crisis.

Not only did the RBA, the capitalist class's nominally "independent" central bank, raise its cash rate to 3.85 percent from 3.6 percent. Its forecasts indicated a re-acceleration of inflation, increasing the likelihood of two more 0.25 percent rate hikes by the end of the year, accompanied by deeper cuts to workers' real wages.

Yesterday's rate hike alone will add about $105 a month, or nearly $1,300 a year, to repayments on average home mortgages, which now sit at around $700,000 in working-class areas due to soaring house prices.

While many corporate media commentators say households can handle this, recent Roy Morgan survey data estimated that it could cause "huge financial losses" for many people, throwing 1.3 million households into mortgage stress. Mortgage stress is generally defined as spending 30 percent or more of pre-tax income on home loan repayments.

Worse financial stress is to come. The RBA board predicted that headline inflation, which already rose to 3.8 percent over the year to last December, would reach 4.2 percent by June and not return to the bank's target of 2-3 percent until mid-2028—the end of the bank's forecast horizon.

Part of this re-acceleration of inflation is due to the axing by the Labor government and its state counterparts of electricity bill rebates that were adopted to put a temporary band-aid on the cost-of-living and housing crisis, and sky-rocketing childcare fees, which rose by 11.2 percent during 2025 despite operators receiving billions of dollars in government subsidies.

Yet the central bank said it expected wages to grow by only 3.1 percent a year. This will leave workers' real wages further in negative territory at -0.9 percent annual growth by June this year. At the same time, the bank calculated that official unemployment would rise from 4.1 percent in December to 4.4 percent by June. That translates to the elimination of about 50,000 jobs.

Prominent in the RBA's media release yesterday was its determination to further suppress wages. It is effectively blaming workers for higher prices, despite an historic cut to real wages over the past five years. "Labour market conditions are a little tight" and "growth in unit labour costs remains high," it said, adding: "The unemployment rate has been a little lower than expected."

This is code language for driving up unemployment to put pressure on workers to forgo wage rises, while counting on the trade union bureaucrats to keep policing real pay cuts via enterprise agreements on behalf of big business and its political servants in the Labor government.

On behalf of the ruling elite, the bank board is also demanding a sharp rise in productivity. It said annual productivity growth had fallen to just 0.6 percent, down from an already low 0.9 percent. Driving up this rate depends on attracting corporate investment, such as for more AI data centres, by increasing the level of exploitation of workers' labour power.

The RBA admitted the resurgence in inflation was more broad-based and persistent than it had expected when it made three 0.25 percent cuts last year, largely driven by fears of a global recession triggered by the Trump administration's tariff war.

Significantly, in comments not reported in the corporate media, the RBA's statement on monetary policy warned that this prospect could quickly re-emerge, with severe implications for Australian capitalism. "The recent escalation in geopolitical tensions has had a limited economic effect on Australia and its trading partners to date," it said. "However, these pose upside risks to the global inflation outlook, particularly in the near term."

Noting the depreciation of the US dollar and rising prices for gold and other precious metals, the bank stated: "If key downside risks to economic activity were to materialise or be reassessed by financial markets, this could prompt a sharp tightening in global financial conditions with potential consequences for the global economy and, in the extreme, financial stability."

In other words, the global shock waves produced by the Trump administration's economic warfare to try to reassert post-World War II US dominance could produce a crash that would dramatically further worsen economic and social conditions internationally, including in Australia.

Yesterday's hike is the first RBA increase in interest rates since November 2023, when the bank raised rates to 4.35 percent. That was part of a three-year drive to suppress wages and household spending after the bank cut rates to near zero in 2020 as an emergency response to the COVID-19 pandemic disaster and associated economic slump.

The RBA's preferred measure of "trimmed mean" inflation is tipped to jump from 3.2 percent in December to 3.7 percent by June. But this camouflages the full burden on working-class families because the "trimmed mean" is based entirely on the official Consumer Price Index, which does not take into account mortgage payments or rising house prices. Nor does it measure the greater impact of everyday necessary spending on lower-income households.

The ruling class has seized upon the rate hike to escalate a drumbeat of demands for the Albanese government to further slash social spending in the May federal budget, if not before.

Today's Murdoch media *Australian* carries an editorial demanding a "wholesale pruning of public spending" such as "increasing Medicare bulk billing, relieving student debt, free TAFE places and generous childcare handouts."

Business chiefs are insisting that the government must cut at least $50 billion a year from essential social services. The Australian Chamber of Commerce and Industry (ACCI) issued this demand on Monday in its pre-budget submission to the government, specifically targeting the National Disability Insurance Scheme (NDIS), childcare, aged care and health.

Such brutal cuts are supposedly designed to tackle inflation and overcome "unsustainable" budget deficits over the next decade. In reality, the only concern in corporate boardrooms is to ramp up profits at the expense of the working class.

Thus, the ACCI submission demands a reduction in the company tax rate for large firms from 30 percent to 25 percent and the cutting of "red tape" and "over-regulation"—euphemisms for axing workplace safety, environmental and other rules that investors regard as unacceptable restrictions on profit-making.

Likewise, an Organisation for Economic Co-operation and Development (OECD) report last month on the Australian economy, featured recommendations such as raising the retirement pension age from 67 to 70, increasing the level of the regressive Goods and Services Tax (GST) from 10 to 15 percent, cutting corporate and income taxes for the wealthy, and slashing spending on the NDIS, health and aged care.

In efforts to satisfy the corporate elite and money markets, Prime Minister Anthony Albanese and Treasurer Jim Chalmers have boasted that the Labor government has delivered "$114 billion in savings" since taking office in 2022, but that is nowhere enough to satisfy the financial oligarchs.

At the same time, the Trump administration is demanding that military spending rise to 5 percent of GDP, far above the Labor government's latest pledge to reach 2.4 percent by 2033–34. That inevitably means diverting billions of more dollars a year into AUKUS-related military outlays at the expense of social programs.

These marching orders are being handed to the Labor government under conditions of enormous anxiety in ruling circles over the disintegration of the Liberal-National Coalition that has been, together with the Labor Party, a central pillar of the political establishment since World War II. Today's *Australian* editorial lashed the Liberal and National leaders for not resolving their "internal squabbles" and "holding the government to account."

Far from "squabbles," the continuing Coalition bust-up is a sharp expression of an historic crisis of the entire parliamentary set-up that has defended capitalist rule since World War II. That has increased the dependence of the ruling class on the Albanese government and its partners in the union bureaucracy to deepen the assault on working-class conditions, and this is already fuelling social and political discontent.