

Macro Note

Australia: RBA poised for further tightening as inflation remains sticky

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- Headline CPI held at 3.8% y/y in Jan, slightly above expectations, while trimmed-mean inflation eased only marginally to 3.4% y/y. Housing, driven mainly by electricity, as well as food, remained the key contributors, whereas recreation and culture inflation moderated.
- The RBA hiked by 25 bps to 3.85% on 3 Feb, delivering its first rate hike in over two years, citing a renewed rise in inflation and capacity pressures. The RBA's continued reliance on quarterly inflation data makes a 17 Mar policy move unlikely, supporting our view of a cautious stance until after the 1Q26 CPI on 29 Apr.
- Beyond that, while we see inflation gradually easing back towards target, inflation pressures are expected to remain elevated in the near term, and we do not expect underlying inflation to fall below 3.0% for some time. We thus anticipate a follow-up 25 bps rate increase at the 5 May meeting, taking the cash rate to 4.10%.

Australia's annual inflation remains elevated at 3.8% y/y in Jan, unchanged from Dec, but stronger than the consensus estimate of 3.7%. On a month-on-month basis, seasonally adjusted headline CPI rose 0.5% in Jan after rising 0.2% m/m in Dec. Headline inflation was 4.0% on a three-month annualized basis and 3.7% on a six-month annualized basis. As far as underlying inflation was concerned, momentum in trimmed-mean inflation continues to slow, rising 3.4% y/y from 3.3% y/y in Dec. That beat consensus of 3.3% but remains broadly in line with the RBA's [Statement of Monetary Policy – Feb 2026](#).

The largest contributor to annual inflation in Jan was Housing, up 6.8% from 5.5% in Dec. This reflected cost rises in Electricity, New dwellings and Rents. Electricity costs rose 32.2% y/y in Jan, up from 21.5% y/y to Dec. The increase in electricity costs over the year is mostly related to households using up both the extended Commonwealth Energy Bill Relief Fund (EBRF) and various State Government rebates. The higher increase in the year to Jan compared to Dec reflects the cessation of the EBRF rebates. Excluding the impact of the Commonwealth and State Government electricity rebates over the previous year, electricity prices rose 4.5% in the 12 months to Jan. This reflects annual price reviews by energy retailers in Jul 2025.

Annual inflation was also lifted by Food and non-alcoholic beverages, up 3.1% in Jan, though this is down from 3.4% y/y in Dec. Food inflation continues to be elevated due to higher prices for Meals out and takeaway, up 3.9% y/y in Jan, driven by rises in wages and ingredient costs. Meanwhile, annual inflation for Recreation

and culture was 3.7% y/y, down from 4.4% y/y in Dec. Domestic holiday travel and accommodation prices rose 5.6% y/y in Jan, down from a 9.6% y/y rise in Dec.

The Reserve Bank of Australia (RBA), at its first meeting of the year (3 Feb), decided to increase the cash rate target by 25 bps from 3.60% to 3.85%. This was the first time in more than two years that the Australian central bank has raised interest rates. In the [accompanying statement](#), the RBA noted that “while inflation has fallen substantially since its peak in 2022, it picked up materially in the second half of 2025. The Board has been closely monitoring the economy and judged that some of the increase in inflation reflects greater capacity pressures. As a result, the Board considers that inflation is likely to remain above target for some time”.

The latest figures come from a new monthly inflation series that will eventually replace the quarterly release. In a speech on Tue (25 Feb), Michael Plumb, the RBA’s head of economic analysis, reiterated that policymakers will continue to rely primarily on quarterly data for forecasting and assessing underlying inflation trends, noting it will take time to fully understand the seasonal patterns and properties of the newer monthly indicators. His guidance effectively sets a high hurdle for the RBA to adjust policy again at the next RBA meeting on 17 Mar.

This reinforces our view of a cautious RBA waiting for 1Q26 CPI data (due 29 Apr) to become available, particularly as recent data suggests that underlying inflation pressures are easing from the 3Q25 spike. Besides, the latest numbers do not materially challenge the RBA’s projections in the [Statement of Monetary Policy – Feb 2026](#). The Bank currently expects headline CPI to be around 4.0% y/y in the Mar quarter of 2026 and 3.6% by the Dec quarter, while the trimmed mean inflation forecast for Dec 2026 has been revised up to 3.2% from 2.7%.

Beyond that, although we see inflation gradually easing back towards target, inflation pressures are expected to remain elevated in the near term, and we do not expect underlying inflation to fall below 3.0% for some time. We thus anticipate a follow-up 25 bps rate increase at the 5 May meeting, taking the cash rate to 4.10%, a modestly restrictive level that the RBA will need to deliver to help rebalance the economy.

Our Forecast					
%	As of 26 Feb	1Q26	2Q26	3Q26	4Q26
AUD Official Cash Target	3.85	3.85	4.10	4.10	4.10

Source: Global Economics & Markets Research

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