Statement by the Monetary Policy Board: Monetary Policy Decision

Date: 3 November 2026

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to 4.85 per cent.

Inflation remains elevated and recent data indicate that it is broadly based. The inflation outlook has also been revised materially higher in the updated staff forecasts. This partly reflects higher fuel and other commodity prices affected by the conflict in the Middle East. But domestic capacity pressures are also judged to have been a little tighter than earlier thought. AI-related investment is driving rapid growth in prices for technology-related goods, and inflation in many goods and services remains high. Liaison indicates that many firms are experiencing cost pressures and are either increasing the prices of their goods and services in response or looking to do so. Inflation is now forecast to remain elevated through much of 2027 and is not expected to reach the top of the 2–3 per cent target range until late 2027, around three quarters later than previously forecast. This presents upside risks to inflation expectations; some measures are assessed to have risen lately.

The increases in the cash rate target since the beginning of the year have tightened financial conditions. The economy is slowing, housing prices have fallen significantly and the unemployment rate has risen. The forecasts see growth in output slowing further over the coming year, which is expected to reduce capacity pressures and help return inflation to target. Higher interest rates and falls in housing prices and turnover are expected to weigh on growth in dwelling investment and household consumption. On the other hand, growth in overall business investment is forecast to be stronger in the near term, including data centre-related investment. Employment is expected to continue to grow, but the unemployment rate is projected to rise by more than expected in the August forecasts.

There continue to be heightened uncertainties about the outlook for domestic economic activity and inflation. The Middle East conflict remains unresolved, and there are scenarios where inflation is higher and activity lower than forecast. Global oil supply disruptions are maintaining upward pressure on global and domestic energy prices and inflation. A period of prolonged uncertainty may also cause growth to be lower overseas and in Australia. To date, however, growth in Australia's major trading partners has been stronger than expected, as the boost from AI-related investment has outweighed the adverse effects of the Middle East conflict. In Australia, weak productivity growth continues to constrain potential growth and there are uncertainties about the extent and economic effects of the downturn in the housing market.

Decision

Since the previous meeting, the data have confirmed that underlying inflation remains broadly based. Capacity pressures appear a little tighter than previously estimated and there are indications that higher fuel prices are being passed through to prices of other goods and

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services. Inflation is now expected to remain above 3 per cent for the coming year and there is an increasing risk that higher inflation expectations will become embedded.

The Board is conscious of the period in which inflation has been too high. Given the revised inflation outlook and the continuing upside risks, the Board judged that a further tightening in financial conditions is warranted to support the return of inflation to target.

The Board will continue to do what it considers necessary to bring inflation sustainably back to target. Accordingly, the Board will be attentive to the data and the evolving assessment of the outlook and risks to guide its decisions. Monetary policy is well placed to respond to developments, and the Board is focused on its mandate to deliver price stability and full employment.

Today's policy decision was by majority: six members voted to increase the cash rate target by 25 basis points to 4.85 per cent; three members voted to leave the cash rate target unchanged at 4.60 per cent.

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