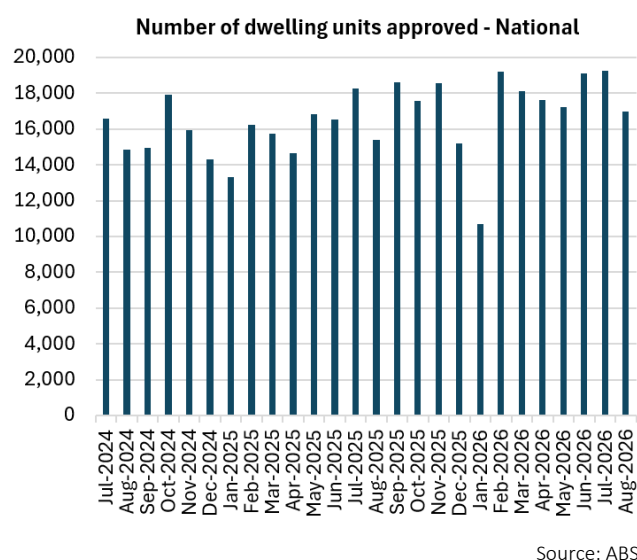
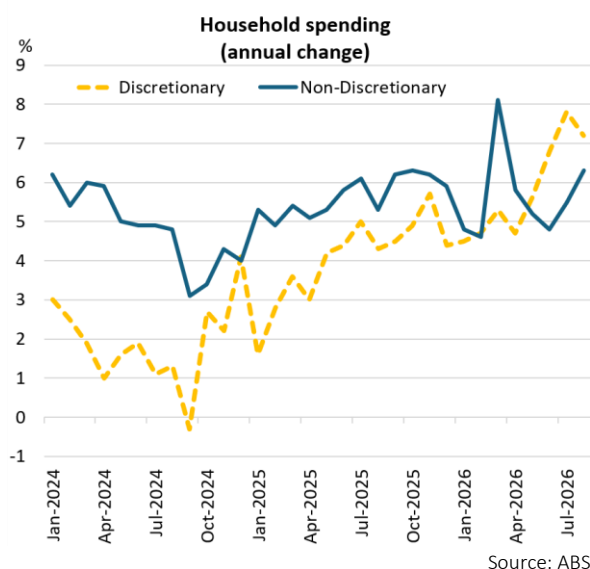


Inflation, interest rates, household spending & implications for the property sector

Dr Sherman Chan, Chief Economist

Key data announcements this week

- RBA interest rate decision.** The RBA raised its cash rate target by 25 basis points to 4.60% following its September meeting. The fourth rate hike in 2026 has taken the benchmark rate to a 15-year high. The RBA noted in its statement that its Board ‘will continue to do what it considers necessary to bring inflation sustainably back to target, including increasing the cash rate further if needed.’
- Consumer Price Index (August 2026).** Headline inflation jumped to 4.0% (from 3.5% in July). Although underlying inflation held steady at 3.6%, it was still well above the RBA’s target band of 2% to 3%. Housing costs (up 5.7%) and transport costs (up 5.6%) were the two largest contributors to inflation in August. Across capital cities, inflation was highest in Hobart (4.8%), followed by Adelaide (4.7%), Darwin (4.5%), Perth (4.3%), Brisbane (4.1%), Canberra (4.1%), Sydney (3.9%) and Melbourne (3.5%).
- Household spending (August 2026).** Overall household spending was flat in August. Following the end of the fuel excise cut, fuel prices rose notably during the month, contributing to a 0.6% month-on-month increase in non-discretionary spending (up 6.3% from a year ago). Discretionary spending, which is an indicator of consumer appetite, fell 0.3% but remained 7.2% higher than a year ago. The sharpest decline was in recreation and culture, down 1.4% month-on-month.
- Dwelling approvals (August 2026).** The total number of dwelling units approved in August (16,968 in the original series) remained below the rule-of-thumb (20,000 units monthly) derived from the government’s National Housing Accord target. Another important data series—the number of dwellings completed—will be released next week.



Implications for the property sector

- With inflation sitting above the RBA's target band and accelerating, the RBA is highly likely to deliver further rate hikes. The next one may be as early as 3 November (Melbourne Cup Day) if the data releases in the coming weeks continue to show a still-tight labour market by historical standards.
- The major banks have promptly passed on this week's rate hike to borrowers. Rising interest rates coupled with changes to the capital gains tax and negative gearing will continue to weigh on market sentiment and slow property market activity in the coming months.
- The broad-based slowdown in household spending during the month of August has important implications for the retail property sector, especially if consumers continue to tighten their belt amid rising interest rates.
- Apart from service stations, the other category that has seen a surge in consumer spending during August was new vehicle sales, particularly electrical vehicles.
- The largest reduction in consumer spending was in 'recreation and culture' (e.g. entertainment and sporting venues), followed by 'clothing and footwear' and 'alcoholic beverages and tobacco'.
- The National Housing Accord target of delivering 1.2 million new homes in the five years to mid-2029 is looking increasingly out of reach. Although there are varying levels of progress in different states and territories, most are likely to miss their respective share of the housing target based on current trajectory.
- The housing shortage—whereby supply is insufficient to meet demand—is set to persist as a structural issue facing the economy. This will limit the decline in property prices which are currently impacted by both the tax reforms and the subsequent fall in market confidence.