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## Reserve Bank of Australia Raises Cash Rate to 4.10%

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The Reserve Bank of Australia (RBA) announced yesterday, March 17th, that the cash rate will be raised by 25 basis points to 4.10% from 3.85%.

This follows a 25-basis point hike in just over a month ago in early February, following cuts throughout 2025 that provided relief to borrowers and stimulated the residential property market.

The decision comes as inflation, which had declined significantly from its 2022 peak, increased materially in the latter half of 2025 with headline inflation rising to 3.8% in January 2026.

In recent weeks conflict in the Middle East has driven substantial fuel price increases, which if sustained will further contribute to inflationary pressures.

The RBA now sees persistent inflation as a material risk, with inflation sitting above the 2-3% target range longer than previously forecasted.

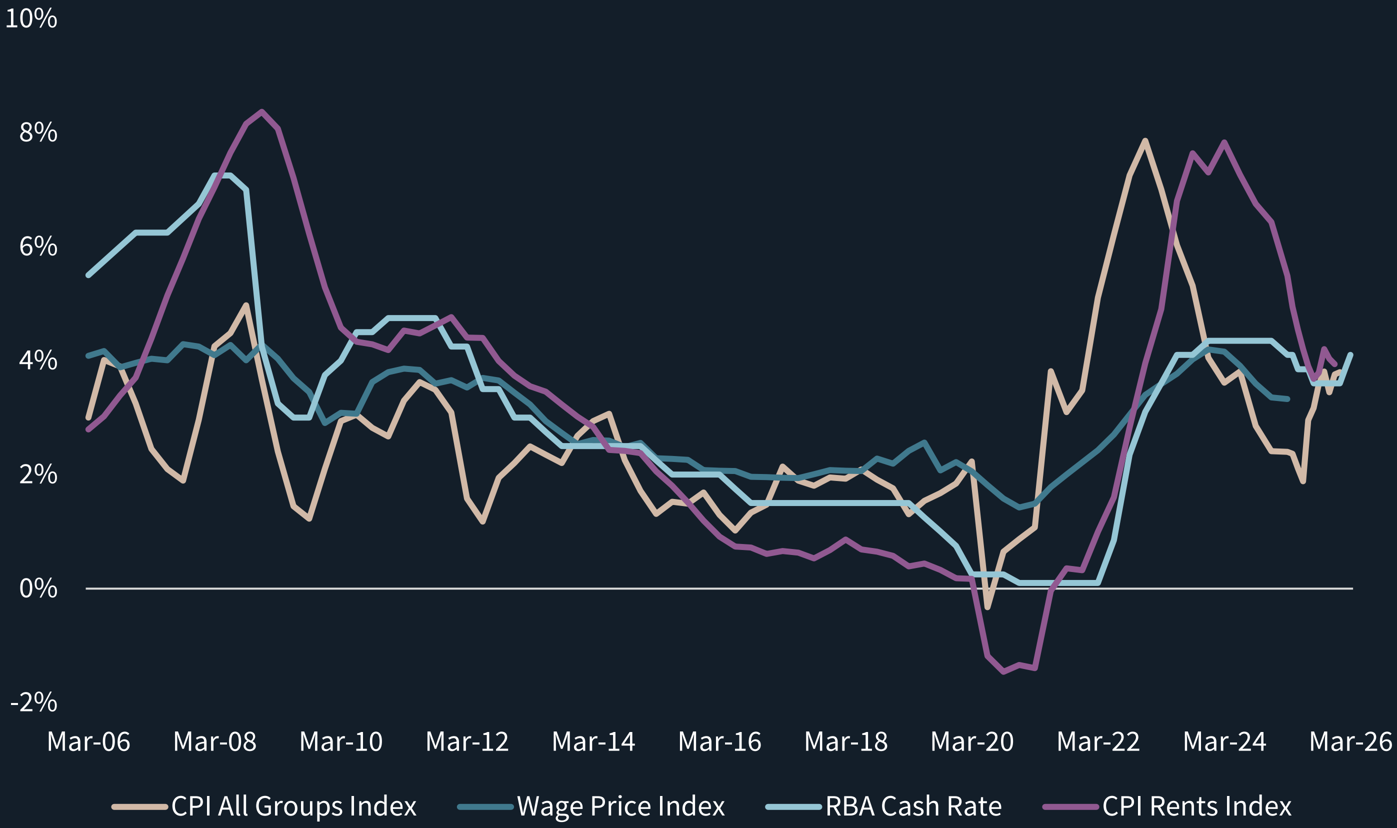
This uncertainty has seen broad market activity soften over the past few weeks; however it remains unclear as to whether market sentiment will continue to soften or adjust after a short-term shock.

For Australia's housing market, this rate rise will further impact borrowing costs. Homeowners with variable rate mortgages can expect a second increase in their repayments in a short space of time, while those with fixed rates are likely to face higher costs when refinancing.

For first-home buyers this reduces home-buying budgets further and many may find themselves priced out of segments of the market as affordability deteriorates, especially where price growth is outpacing wage growth.

Through 2026, the underlying strength in population growth and economic activity will continue drive fundamental demand for housing, so this softening in market activity may not last.

## Figure 1: Economic Indicators




*Source: JLL Research, ABS*

Figure 1 illustrates the relationship between key economic indicators and the housing market. While borrowing costs are likely to increase for everyday borrowers from bank lenders, investors may stand to benefit, as CPI rents often trends in parallel with the cash rate.

Reductions in affordability in the sales market see increased demand in the rental market and with strong demand for rental properties already, rental growth is likely to be sustained through 2026. An increase in rents will also offset some of the increases in financing costs from investors.

Despite this rate increase, Australia's economic fundamentals remain robust. Population growth continues at elevated levels, strongly supporting housing demand, which continues to outpace supply, while business investment and consumer spending have demonstrated resilience.

This strength suggests that while higher rates may moderate some activity, they're unlikely to derail the broader economic expansion.

The outlook for property prices in 2026 continues to be tempered somewhat, given the relationship between interest rates and buyer confidence. However, the market fundamentals that have driven price growth in recent years in many parts of Australia, with some areas even seeing extraordinary growth, have not substantively changed.

Population growth, demographic changes, and chronic supply shortages have not changed and will continue to maintain pressure on prices in both the sales and rental markets across Australian cities.

It is unclear what the cash rate will be after the next RBA decision in May but Australia has successfully navigated previous interest rate cycles, and while the RBA works to bring inflation back to the target range, the current economic strength provides confidence that the economy will adapt to these necessary monetary policy adjustments while maintaining its long-term growth trajectory.

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