Four rate rises, and prices are rising faster

The Reserve Bank is aiming at prices it cannot reach. To hit its target, everything else must slow to 1.9 per cent, below the Bank's own band.

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5.3%	0.1%	54%	4 of 4
a year for 25 years in government and institutional prices, through every tightening and easing	the most domestic businesses could raise prices by, if left to carry the adjustment	of headline inflation sits in prices set by governments, institutions and world markets	predictions written down a day before the figures came true

SYDNEY, 28 October 2026: After four increases in the cash rate this year, inflation is rising, not falling. Headline inflation rose from 4.0 to 4.3 per cent, and almost all of that rise came from world prices, led by fuel.

Execution Economics Global divided today's figures by who sets each price. More than half of headline inflation sits in prices set by governments, regulators, insurers, schools, hospitals and world markets. On the Bank's monthly underlying measure, 0.44 of the 1.03 points above the middle of the target sits in prices set by governments and institutions, which the cash rate has no direct route to.

Headline inflation by who sets the price. Shaded: governments, institutions and world markets

Who sets the price	Rise over the year to September, %	Points of the 4.3 per cent headline
World markets, including fuel	6.2	1.13
Governments and regulators	6.1	0.69
Insurers, schools and hospitals	4.8	0.54
Builders and landlords	4.2	0.59
Domestic businesses	3.3	0.99
Groceries and alcohol	2.7	0.40
All prices	**4.3**	**4.3**

The arithmetic follows. If those prices keep their present pace, everything else must slow to about 1.9 per cent for the Bank to reach its 2.5 per cent target, below the bottom of its own band. If the work is left to the businesses the cash rate actually reaches, their prices would have to all but stop rising: no more than about 0.1 per cent a year.

> "This is not a want of resolve at the Bank," said Peter Fritz AO, co-creator of Execution Economics. "The rate reaches customers, builders and firms. It does not reach the Health Minister's premium approval, the fuel excise or the council rates notice, and that is where much of the excess sits."

What the Bank does not see

The Bank reads inflation as one number, after the event. Its framework has no step that asks who set each rising price, or whether the cash rate can reach that decision. Read that way, the pattern is plain. For twenty-five years, government and institutional prices have risen about 5.3 per cent a year, through every tightening and every easing, while prices set by domestic businesses rose about 2.5. And two-fifths of the fall in inflation from 2023 to 2025, the fall credited to the rate rises, came in prices the rate reaches weakly or not directly at all.

Today's domestic prices follow energy. Fuel rose 23.6 per cent over the year and electricity 12.8 per cent. On the record since 1998, a 10 per cent rise in oil prices lifts the prices of cafes, trades, retailers and services by about half a per cent or more within a year.

The chain the Bank relies on, against the record

What economics says a rate rise does	What the Bank's own record shows within two years
1 The cash rate rises	It rises
2 Borrowing gets dearer	It does
3 People spend less	They do: spending on furniture and clothing falls about 10 per cent for each point of unexpected rate rise
4 Businesses lower their prices	**Not found**
5 Inflation falls through lower prices	**Not found**
Instead	**Home building approvals fall by more than a quarter within a year, and company failures rise in every industry**

Who pays

Company failures reached 14,722 in 2024-25, and 64 per cent of the failed firms had fewer than five employees. A $600,000 mortgage costs about $366 a month more than in January. None of these households or small firms sets the prices that are rising fastest.

Predicted before the figures came out

Four predictions about today's figures were written down a day before the release, each with the result that would prove it wrong.

> "We wrote down our predictions a day before the figures came out, and every one came true," Mr Fritz said. "Who sets each price can be seen before the Board meets. That is the time to look, not two years later."

> "A fifth rise asks the businesses that set their own prices to carry the ones they do not set," Mr Fritz said. "The cash rate's job is cooling overspending. The rest of the excess has names on it, and they are in Canberra and the state capitals."

What should happen now

The Reserve Bank Board: hold the cash rate at 4.60 per cent on 3 November.

The Commonwealth: pause fuel excise indexation while the oil shock lasts, phase electricity rebates out gradually, and weigh the next health premium round against inflation.

The states and councils: hold charges set by formula, and release land and approve building faster.

The Treasurer and the Bank: publish inflation by who sets each price, alongside the trimmed mean.

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Notes to editors

- Sources: Australian Bureau of Statistics, Consumer Price Index, Australia, September 2026; Australian National Accounts: Input-Output Tables; Reserve Bank of Australia statistical tables, including Table F6 lending rates; Australian Securities and Investments Commission, Insolvency Statistics; World Bank, Commodity Price Data.
- Method: each of the 87 expenditure classes is assigned to the party that sets its price, and the Bank’s monthly trimmed mean is rebuilt from the classes, to within 0.003 of a percentage point, and divided by those parties. The 1.03-point excess is measured on the sum of the twelve monthly figures to September. On the quarterly trimmed mean, which rose from 3.6 to 3.7 per cent, the same prices hold 0.42 of a 1.17-point excess and the rest must run at about 2.0 per cent.
- The 1.9 per cent assumes the institutional prices keep their present rates and the trimmed mean’s weights are held as they are; the 0.1 per cent is on the monthly measure, and 0.4 on the quarterly. The mortgage figure uses the average owner-occupier variable rate, 5.5 per cent in January and 6.2 per cent in July, with the September increase passed on in full.

About Execution Economics Global

Execution Economics Global, based in Sydney, applies Execution Economics to public policy, markets and investment. It reads each outcome by who takes the decision behind it, whether a policy reaches that decision, and who has to act, and it sets down its predictions before the data arrive.