

Economic Analysis

CPI January 2023

The monthly CPI indicator rose 7.4% over the year to January 2023, declining from the 8.4% recorded in the final month of 2022. This was significantly less than the 8.0% expected by the market participants.

%	MoM	YoY
Headline CPI (Original)	-0.4	7.4
Headline CPI (Seasonally Adjusted)	-0.1	7.2
CPI Ex Volatile Items (Original)	-0.4	7.2

Compared to December, the level of the monthly CPI indicator declined by 0.4% in original terms and 0.1% in seasonally adjusted terms.

Groups

In contrast to previous months, price developments differed significantly across the groups, with declines recorded in monthly terms.

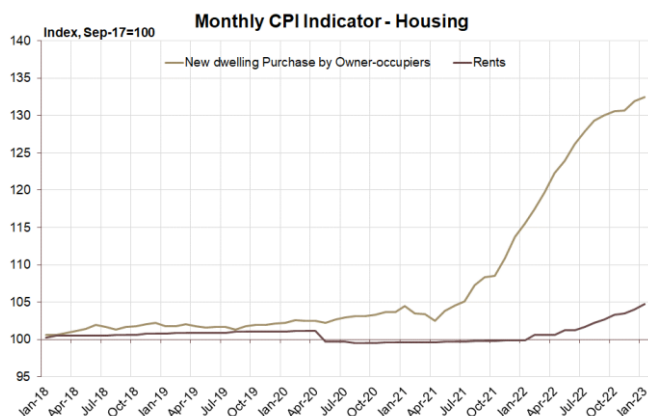
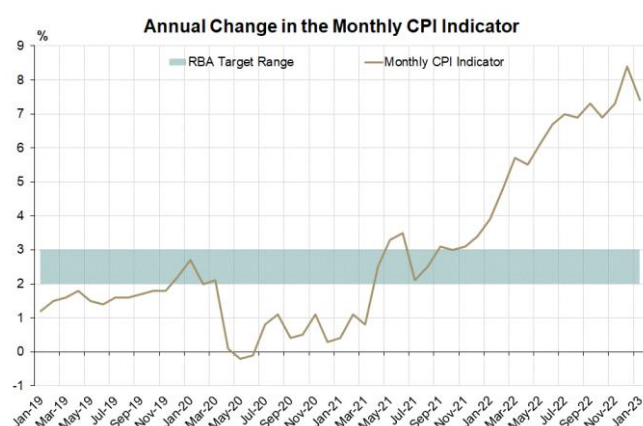
The biggest monthly declines were in, recreation and culture, clothing and footwear, as well as furnishings, household equipment and services. These were due to a setback from the higher costs of holiday travel in December and larger-than-usual discounting of summer clothing, which may be another sign of easing demand for discretionary items. Prices for food and non-alcoholic beverages saw a 0.1% decline in January, driven by a 2.9% fall in fruit and vegetables, but were 8.2% higher through the year.

Housing remained the major contributor to inflation in January. While growth in prices for new owner-occupier dwellings decelerated in monthly and annual terms, rents continue to rise at a faster rate.

There were also increases in prices for both health services and transport, as well as alcohol and tobacco. Within the transport group, automotive fuel prices rose by 1.1% in January after dropping by 8.1% in December.

%, Original	MoM	YoY
Food and Non-alcoholic Beverages	-0.1	8.2
Alcohol and Tobacco	0.3	4.0
Clothing and Footwear	-3.6	3.1
Housing	0.4	9.8
Furnishings, Household Eq. and Serv.	-1.6	6.8
Health	0.8	5.0
Transport	0.4	6.3
Communication	0.0	1.3
Recreation and Culture	-3.1	10.2
Education	0.0	4.6
Insurance and Financial Services*	0.0	5.1

*Not updated in January.



Comment

The stronger-than-expected decline in inflation implied from the January CPI indicator is a welcome sign.

However, inflation is still unacceptably high for the RBA, remaining well above the target band of 2-3%.

In addition, the release does not cover around one-third of goods and services, with particularly large gaps in services, where spending remains strong.

There is some evidence that cost pressures and the rise in mortgage rates are starting to constrain demand and thus price pressures for discretionary goods, such as furniture and clothing. However, it is uncertain if this will continue in the coming months.

After the downside surprise to the monthly CPI indicator for January, as well as to Q4 GDP figures, RBA cash rate expectations declined somewhat, but a 25bps increase is still priced in for next week. The markets also continue to expect that the cash rate will rise above 4%. We agree and think this singular release will not be enough to alter the more hawkish language recently adopted by the RBA and expect tightening to continue.

1 MARCH 2023

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