

CPI June & Q2 2025

The headline CPI (unadjusted) rose by 0.7% in Q2 2025, taking the annual rate of inflation 0.3 percentage points lower to 2.1%. This was a downside surprise to market participants, who expected gains of 0.8% QoQ and 2.4% YoY.

Trimmed mean CPI, which is the RBA's favourite underlying price gauge, rose by 0.6% QoQ and 2.7% YoY. While the quarterly growth rate surprised slightly to the downside, the annual rate of trimmed mean inflation was in line with expectations.

| %, Original | QoQ | YoY |
|---------------------------------|-----|-----|
| Headline CPI | 0.7 | 2.1 |
| Market Sector Ex Volatile Items | 0.8 | 2.5 |
| Trimmed Mean CPI | 0.6 | 2.7 |
| Goods | 0.8 | 1.1 |
| Services | 0.7 | 3.3 |
| Non-tradables | 0.7 | 3.1 |
| Tradables | 1.0 | 0.2 |

The monthly CPI indicator suggested that annual headline inflation declined to 1.9% in June, while annual trimmed mean inflation reached 2.1%.

Groups

The largest contribution to a slower rise in consumer prices in Q2 came from lower costs of domestic holiday travel and accommodation, as well as automotive fuel.

At the same time, electricity costs saw the strongest increase of all expenditure groups, with households having largely exhausted the energy bill relief measures.

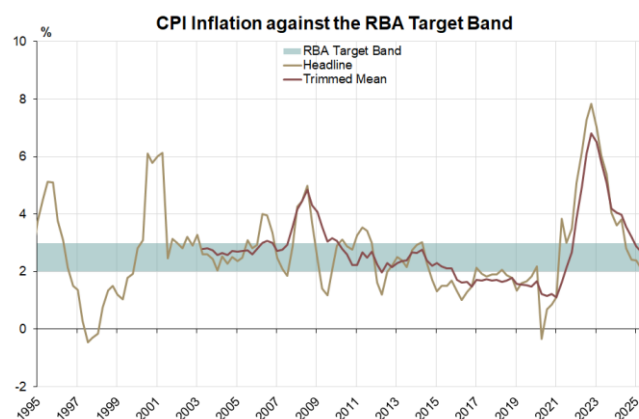
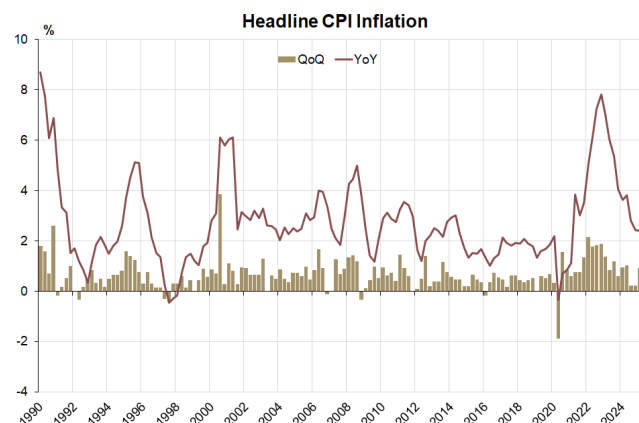
Energy bill costs are still 6.2% lower than a year ago. This – together with a 10.0% YoY fall in automotive fuel prices – continues to drag on the annual rate of CPI inflation. Meanwhile, there were up to two-digit annual gains in prices for some food items, and ongoing solid annual increases in rents, insurance, health services and gas for household use. However, overall, annual inflation for essential items has declined back to 1.8%.

Capital Cities

Annual rates of CPI inflation fell in all mainland capital cities, but quarterly developments varied nationwide, with three states seeing a rise in the CPI in Q2.

The Perth CPI rose by 1.9% QoQ and 2.7% YoY. The rise was mainly due to electricity costs more than doubling during the quarter, as both Commonwealth and State energy bill relief measures had been largely exhausted by households.

| Capital Cities (%, Original) | QoQ | YoY |
|------------------------------|-----|-----|
| Perth | 1.9 | 2.7 |
| Sydney | 0.6 | 1.9 |
| Melbourne | 0.4 | 2.0 |
| Brisbane | 0.8 | 2.5 |
| Adelaide | 0.8 | 1.8 |
| Hobart | 0.5 | 1.7 |



Comment

The Q2 CPI report has confirmed that trimmed mean inflation continues to decline towards the mid-point of the 2-3% target range.

The decline in trimmed mean inflation to 2.7% should be enough to secure a 25bps cash rate cut at the Monetary Policy Board meeting on 11-12 August. The RBA opted to keep the rates on hold at the previous meeting mainly to see another month of decline in trimmed mean inflation towards 2.5%.

What is even more encouraging, other measures of core inflation, such as inflation excluding food and energy or inflation excluding volatile items, declined in Q2. They are now close to or precisely at the mid-point of the 2-3% target range.

The Q2 CPI report saw cash rate cut expectations intensify a little, with a 25bps cut almost fully priced in, and a terminal rate expected to reach 3.00% by Q1 2026 compared to 3.10% before the release.

That said, there is still an extremely narrow chance that the RBA will see a glass half-empty and opt to stay put in August. This is because the Q2 trimmed mean inflation turned out to be slightly higher than the May RBA projection, which envisaged a decline to 2.6%.

30 July 2025