

Economic Analysis

CPI September & Q3 2022

The headline CPI (unadjusted) rose by another 1.8% in Q3 2022, taking the annual inflation rate to 7.3% (the highest level since Q2 1990). This is more than the 1.6% and 7.0% expected by the markets, respectively.

The annual rate of trimmed mean inflation, the RBA's favourite inflation gauge, increased to 6.1%, which is a new series high (since Q3 2003).

% , Original	QoQ	YoY
Headline CPI	1.8	7.3
Market Sector Ex Volatile Items	2.1	6.7
Trimmed Mean CPI	1.8	6.1
Goods	2.1	9.6
Services	1.6	4.1
Non-tradables	2.0	6.5
Tradables	1.5	8.7

The ABS has also released its estimates of the monthly CPI indicator. They suggest that headline inflation rose to 7.3% in September from 6.9% in the previous month, while trimmed mean inflation picked up 0.2ppts to 5.4%.

YoY %, Original	Jul-22	Aug-22	Sep-22
Headline CPI	7.0	6.9	7.3
Trimmed Mean Inflation	4.9	5.2	5.4
All Groups CPI Ex Volatile Items	6.0	6.9	6.8

Groups

The rise in inflation, both in the entirety of Q3 and the individual months, was driven by a rise in housing costs amid a surge in costs of new dwellings purchased by owner occupiers. It was followed by transport, though the pace of annual price growth for this category has eased throughout the last quarter due to a decline in global oil prices.

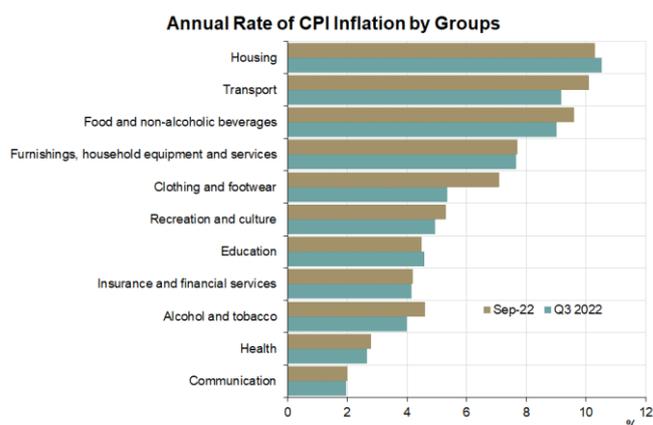
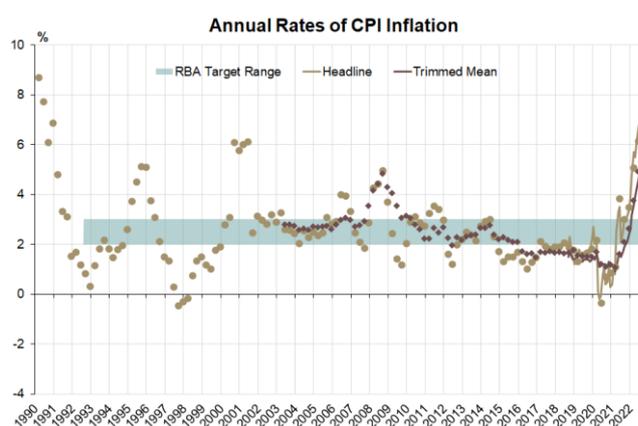
Q3 also saw the strongest increase in prices for food and non-alcoholic beverages since 2006 due to the adverse weather conditions over east. Some easing in price growth for vegetables was recorded in September.

States

A significant increase in CPI was reported for all capital cities but Perth, where the annual rate of inflation was also the lowest nationwide.

The 0.5% decline in Perth CPI in Q3 was driven by an 84.3% drop in electricity prices due to the new \$400 household electricity credit introduced by the Western Australian from July.

Capital Cities (% , Original)	QoQ	YoY
Perth	-0.5	6.0
Sydney	2.3	7.0
Melbourne	2.1	7.4
Brisbane	1.8	7.9
Adelaide	2.6	8.4
Hobart	2.3	8.6



Comment

As forecast by the RBA and the Commonwealth Government, the annual rate of inflation continues to climb. It is expected to reach 7.75% in Q4, before gradually declining towards the target over the following two years or so. The RBA will release its new inflation projections this week, but it is quite unlikely that this overall picture will change.

The Q3 inflation data did surprise to the upside, with price pressures becoming increasingly broad-based. In Q3, 79.1% of subgroups saw a rise in prices exceeding the RBA target.

While inflation is broadening, it is still larger for non-discretionary (8.4% YoY) than for discretionary (5.5% YoY) items. Inflation for services is the highest on record. However, it is significantly lower than goods price inflation, which is the fastest since 1983.

Following today's release, RBA cash rate expectations have increased, with a 50bps hike next week now anticipated. However, we continue to anticipate a 25bps increase as the rise in inflation in the second half of the year was expected by the RBA for some time.

26 OCTOBER 2022

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