

Economic Analysis

CPI April 2023

The monthly CPI indicator rose by 6.8% over the year to April 2023, up from 6.3% in March. The April figures surprised to the upside, as the market participants expected annual CPI inflation to be steady at 6.3%.

%	MoM (s.a.)	YoY
Headline CPI	0.3	6.8
Annual Trimmed Mean	-	6.7
CPI Ex Volatile Items and Holiday Travel	0.2	6.5

Compared to March, the monthly CPI indicator rose 0.3% in seasonally adjusted terms.

Turning to the underlying inflation rates, the CPI indicator excluding volatile items and holiday travel rose a seasonally adjusted 0.2% to be up 6.5% through the year. The annual rate of trimmed mean inflation rose 0.2ppts to 6.7% (the ABS did not provide the MoM change for this series).

Groups

A significant contribution to the re-acceleration in annual growth in the CPI indicator in April came from the base effects from the impact of the fuel excise cut in April 2022. These base effects led to a 9.5% YoY rise in automotive fuel prices, compared to an 8.2% YoY drop in the previous month.

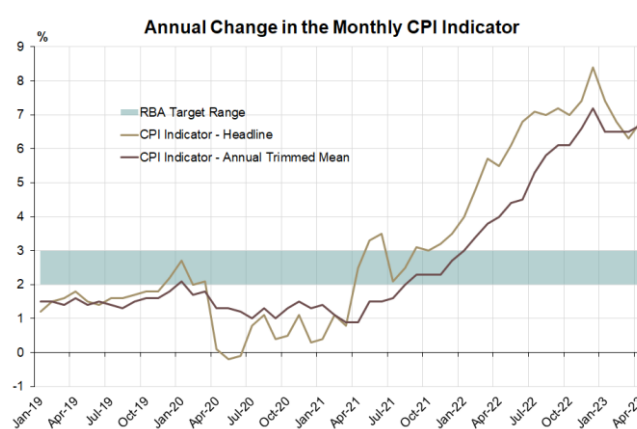
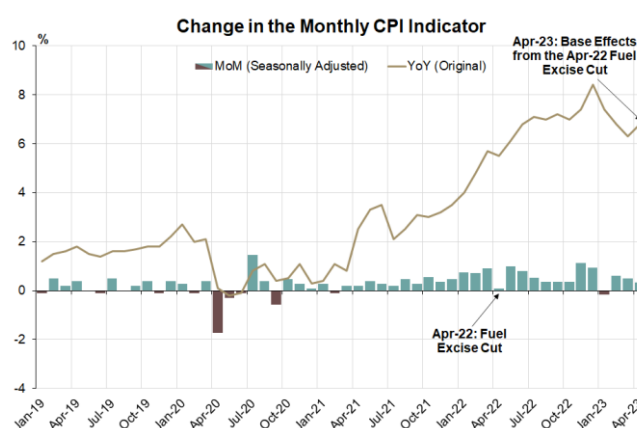
Notwithstanding those base effects, there was an acceleration in annual price growth for many subcategories of goods and services. This included rents and food products, such as bread and cereal products, meat and seafoods, and non-alcoholic beverages.

These increases were partly offset by slower, albeit still elevated annual growth in new dwelling prices, electricity and holiday travel.

Overall, there were increases in prices for most groups updated in April, with communication as well as insurance and financial services being the only exceptions (these numbers are not seasonally adjusted).

%, Original	MoM	YoY
Food and Non-alcoholic Beverages	0.2	7.9
Alcohol and Tobacco	0.1	4.8
Clothing and Footwear	1.9	2.0
Housing	0.3	8.9
Furnishings, Household Eq. and Serv.	1.5	6.3
Health	0.1	4.7
Transport	0.9	7.1
Communication	-0.7	0.2
Recreation and Culture	2.8	6.4
Education*	0.0	5.5
Insurance and Financial Services	0.0	6.7

*Updated quarterly, with changes typically occurring once a year only.



Comment

While the surprising rise in the monthly CPI indicator in April was largely due to the base effects from the impact of the fuel excise cut a year before, the details of the report are worrying.

Annual trimmed mean inflation, which is the RBA's preferred measure of underlying inflation, picked up in April, reaching the highest since December 2022. The other measure of underlying inflation, which excludes the most volatile items such as fruit and vegetables, automotive fuel as well as holiday travel and accommodation, declined but remained high.

Prices of many goods and services continue to rise in monthly terms. These include most notably non-discretionary items, such as rents, and bread and cereal products. Inflation remains high across all product groups, apart from communication.

Following the upside surprise to the monthly CPI, traders have increased bets for another 25bps cash rate hike next week, although the implied probability remains below 50% at the time of writing. We continue to expect that the RBA will hold rates steady at the June meeting, though the likelihood of a hike has risen.

31 MAY 2023

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