

Economic Analysis

CPI March & Q1 2024

The headline CPI (unadjusted) rose 1.0% in Q1 2024, more than the 0.8% pencilled in by the market consensus and the 0.6% rise in the previous quarter.

The annual rate of inflation declined 0.5ppts to 3.6%, which is the lowest level since Q4 2021 but slightly above the 3.5% expected by the markets.

The trimmed mean CPI, the RBA's favourite underlying price gauge, also rose by 1.0% QoQ, to be up 4.0% through the year (mkt exp. 0.8% QoQ and 3.8% YoY).

%, Original	QoQ	YoY
Headline CPI	1.0	3.6
Market Sector Ex Volatile Items	1.0	3.7
Trimmed Mean CPI	1.0	4.0
Goods	0.5	3.1
Services	1.4	4.3
Non-tradables	1.5	5.0
Tradables	-0.2	0.9

The monthly CPI indicator suggested that annual headline and trimmed mean inflation rates picked up by 0.1ppts in March, to 3.5% and 4.0%, respectively.

Groups

The biggest contributors to the quarterly rise in the CPI were education and health. Education rose 5.9% due to the biggest rise in fees since 2012, while health rose 2.8%, due to annual revisions of consultation fees and Medicare and Pharmaceutical Scheme thresholds.

Housing costs rose by 0.7%, supported by further rises in new dwelling prices and rents. Despite the mitigating impact of enhanced rent assistance measures, rents increased by 2.1% QoQ and 7.8% YoY, the most in 12 years. Energy rebates continued to keep a cap on electricity prices, which fell by 1.7% in Q1.

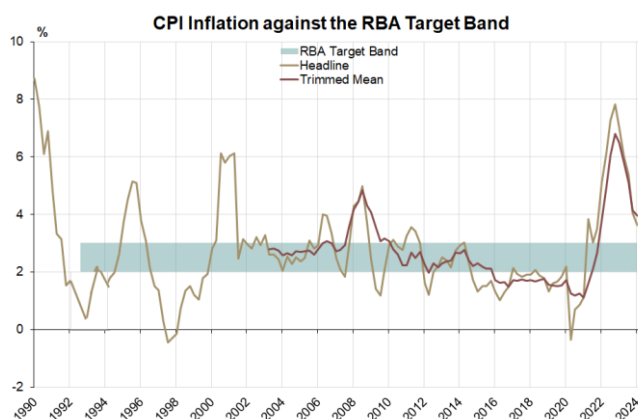
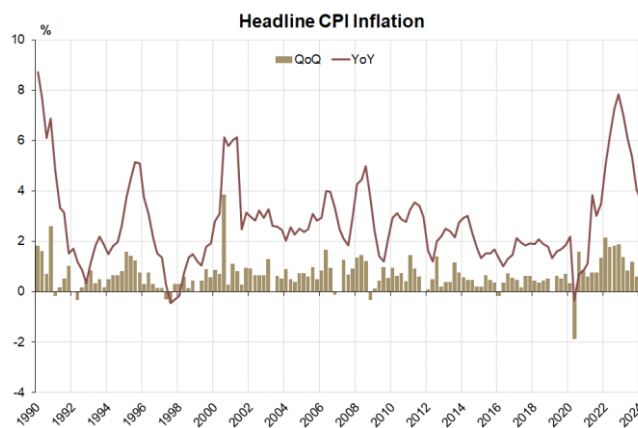
Insurance prices rose by another 3.7% in the quarter, taking the annual growth rate to 16.4%, the highest in 23 years.

Capital Cities

The CPI rose in all capital cities in Q1, while the annual rates of inflation fell. The annual rate of inflation remained the highest in Adelaide (4.3%), while Brisbane saw the largest quarterly increase in the CPI (+1.1%).

Perth registered the smallest quarterly rise in CPI (+0.6%) and the lowest annual inflation rate of all capital cities (3.4%). This is also the slowest rate of annual Perth CPI inflation since Q3 2021.

Capital Cities (%, Original)	QoQ	YoY
Perth	0.6	3.4
Sydney	1.0	3.8
Melbourne	1.0	3.6
Brisbane	1.1	3.4
Adelaide	0.7	4.3
Hobart	1.0	3.1



Comment

Despite the upside surprise, the Q1 2024 CPI report confirmed that disinflation continues in Australia, even if its pace has slowed and is most probably slower than the RBA forecast in February.

Annual headline inflation has a '3' in front of it again, but trimmed mean inflation, which is the RBA's favoured underlying inflation measure, is yet to get there. Despite progress in the previous quarters, both measures remain well above the mid-point of the 2-3% target band, which is the RBA's focus after the changes to its monetary policy strategy triggered by the review.

Both the non-tradables and services annual inflation rates declined further in Q1, but remained relatively high at 5.0% and 4.3%, respectively. Part of this strength is related to factors that are not influenced by monetary policy such as, among other things, rises in insurance premiums due to natural disasters, rising healthcare costs and higher education fees.

After the release of the Q4 CPI figures, RBA cash rate cut expectations intensified, with pricing for a 25bps reduction well and truly pushed into next year. Pricing for a rate cut this year is now at just 30%, down from over 90% before the release.

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