

Economic Analysis

CPI March & Q1 2023

The headline CPI (unadjusted) rose by 1.4% in Q1 2023, taking the annual rate of inflation 0.8ppts lower to 7.0%.

The Q1 inflation figures surprised slightly to the upside. The markets had expected CPI to increase by 1.3% in the quarter and 6.9% through the year.

The annual rate of trimmed mean inflation, the RBA's favourite inflation gauge, declined 0.2ppts to 6.6%, which is slightly less than the 6.7% envisaged by the market consensus.

%, Original	QoQ	YoY
Headline CPI	1.4	7.0
Market Sector Ex Volatile Items	1.4	7.3
Trimmed Mean CPI	1.2	6.6
Goods	1.2	7.6
Services	1.7	6.1
Non-tradables	1.9	7.5
Tradables	0.3	6.1

The monthly CPI indicator suggested that the CPI rose 0.6% in March, to be up 6.3% YoY.

%	MoM	YoY
Headline CPI (Original)	0.6	6.3
Headline CPI (Seasonally Adjusted)	0.5	6.5
CPI Ex Volatile Items (Original)	0.6	6.9

Groups

The strongest contributors to the quarterly rise in the CPI were education (5.3% QoQ; led by tertiary education) and health (3.8% QoQ; due to medical and hospital services). Stronger increases in both groups are typical at the start of the year.

There were also strong increases in domestic holiday travel and housing costs, driven amongst other factors by, 'other household fuels' (amid a review of wholesale gas prices).

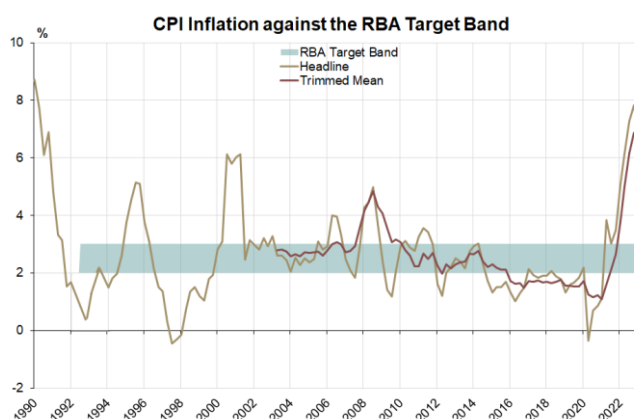
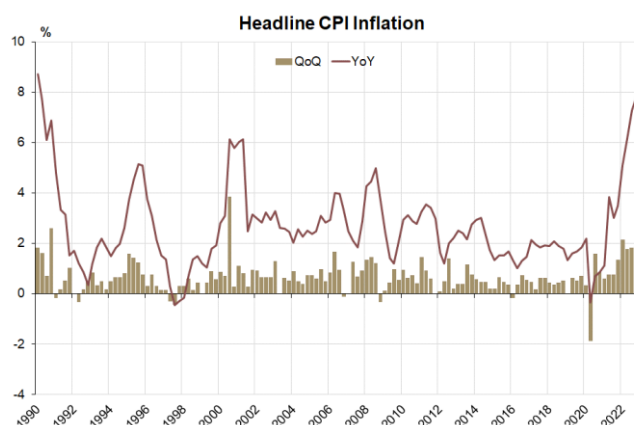
The major offset was an 8.2% fall in international holiday travel, as well as declines in furniture, household appliances and fuel prices.

States

Perth saw the smallest rates of CPI inflation, both in quarterly and annual terms (0.9% and 5.8%, respectively).

The highest quarterly rate of inflation was recorded for Brisbane (1.9% QoQ), while Adelaide saw the largest annual rate of inflation (7.9% YoY).

Capital Cities (%, Original)	QoQ	YoY
Perth	0.9	5.8
Sydney	1.4	7.3
Melbourne	1.2	6.8
Brisbane	1.9	7.4
Adelaide	1.2	7.9
Hobart	1.2	6.9



Comment

The inflation figures for Q1 and March confirmed that price growth has started to decelerate in Australia. Similarly to countries where disinflation started a bit earlier, annual headline inflation saw a more significant decline compared to the trimmed mean.

However, despite the decline, inflation remains significantly higher than the RBA's target band of 2-3%.

What is more, similarly to other advanced economies, the fall in inflation is led by goods, while services price inflation accelerated 0.6ppts to 6.1%. This is the highest level since mid-2001.

The annual rate of inflation remains slightly higher for non-discretionary goods than for discretionary goods, but the difference has narrowed (in Q1, it was 7.2% and 6.8%, respectively). Despite the falls, it remains elevated for both categories.

The markets continue to expect no more hikes from the RBA. Market pricing for an RBA rate hike next week fell to about 8% from over 20% earlier this morning, reflecting the downside surprise to trimmed mean inflation. However, the numbers released today give no reason for the RBA to withdraw from its tightening bias and further hikes cannot be ruled out completely.

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