

Economic Analysis

CPI December & Q4 2023

The headline CPI (unadjusted) rose 0.6% in Q4 2023, taking the annual rate of inflation 1.3ppts lower to 4.1% unseen in two years.

Trimmed mean CPI, the RBA's favourite underlying price gauge, rose by 0.8% QoQ, to be 4.2% up through the year.

These figures surprised market analysts, who expected headline and trimmed mean inflation to be at 4.3%.

In its November 2023 Statement on Monetary Policy, the RBA forecast headline and trimmed mean inflation rates at 4.5% for Q4 2023.

%, Original	QoQ	YoY
Headline CPI	0.6	4.1
Market Sector Ex Volatile Items	0.7	4.1
Trimmed Mean CPI	0.8	4.2
Goods	0.4	3.8
Services	1.0	4.6
Non-tradables	1.3	5.4
Tradables	-0.7	1.5

The monthly CPI indicator suggested that headline inflation eased to 3.4% in December in headline terms (mkt exp.: 3.7%) and 4.0% in trimmed mean terms (there is no market survey for the latter indicator).

Groups

The biggest contributors to the decline in CPI in quarterly terms were transport (-0.4ppts) and housing (-0.3ppts).

The slower rise in housing cost was due largely to the cost-of-living relief measures, most notably the increased Commonwealth rent assistance.

Transport and housing were also among the major contributors to the fall in the annual rates of inflation in Q4 2023. However, the only categories that did not see deceleration in annual price growth were alcohol and tobacco and communications.

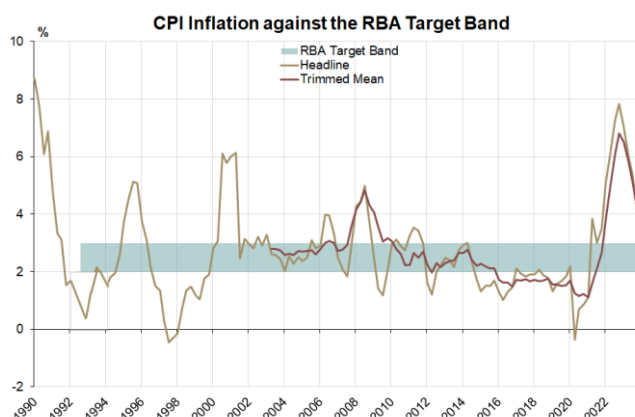
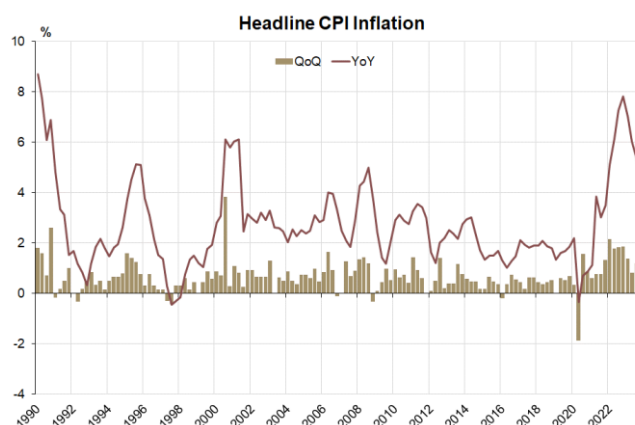
Capital Cities

Annual rates of inflation declined across all capital cities, with Perth seeing the strongest deceleration of 2.1ppts to 3.6% YoY, the lowest of all mainland capital cities.

The 1.5% quarterly increase in Perth CPI was due to the unwinding effects of the State and Commonwealth Governments' energy price relief measures.

In other mainland capital cities, Adelaide saw the largest rise in CPI in Q4 2023, of 0.7% QoQ and 4.8% YoY.

Capital Cities (% , Original)	QoQ	YoY
Perth	1.5	3.6
Sydney	0.4	4.2
Melbourne	0.6	3.8
Brisbane	0.5	4.2
Adelaide	0.7	4.8
Hobart	0.7	3.3



Comment

The Q4 2023 inflation figures confirm ongoing and broadening disinflation in the Australian economy.

Disinflation is now a fact for around 2/3 of the CPI basket. It is increasingly evident in services price inflation, which fell to 4.6% unseen since Q3 2022, and discretionary price inflation, which reached 3.0%, touching the upper bound of the RBA target range. Non-tradables inflation eased to the still-elevated 5.4%.

The decline of the above measures suggests that disinflation is starting to be driven by easing demand pressure, following the aggressive tightening of monetary policy last year. However, some of these measures are still too high for the RBA to be comfortable enough to drop its tightening bias at this stage.

After the release of the Q4 CPI figures, cash rate cut expectations intensified, with a 25bps reduction now fully priced in for August rather than September. The RBA will publish the updated projections on Tuesday, which will show if the lower starting point and broadening disinflation imply a faster return of headline and trimmed mean inflation rates to the target range than thought in November 2023.

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