

The monthly CPI indicator rose 4.9% over the year to July 2023, down from 5.4% in the previous month. This was a downside surprise to market participants, who expected a decline to 5.2%.

%	MoM	YoY
Headline CPI*	0.3	4.9
Goods	0.5	4.4
Services	-0.2	5.6
Tradables	-0.4	1.7
Non-tradables	0.5	6.5
Annual Trimmed Mean	-	5.6
CPI Ex Volatile Items and Holiday Travel*	0.5	5.8

*MoM changes are seasonally adjusted.

The monthly CPI indicator rose by 0.3% MoM in seasonally adjusted terms.

Excluding volatile items and holiday travel, the CPI indicator rose a seasonally adjusted 0.5% in the month, to be up 5.8% through the year. The annual rate of trimmed mean inflation fell 0.4ppts to 5.8% (the ABS does not provide the monthly rate of change for this series).

Groups

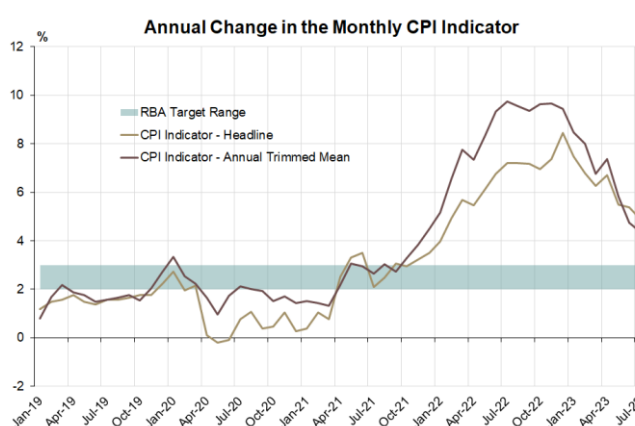
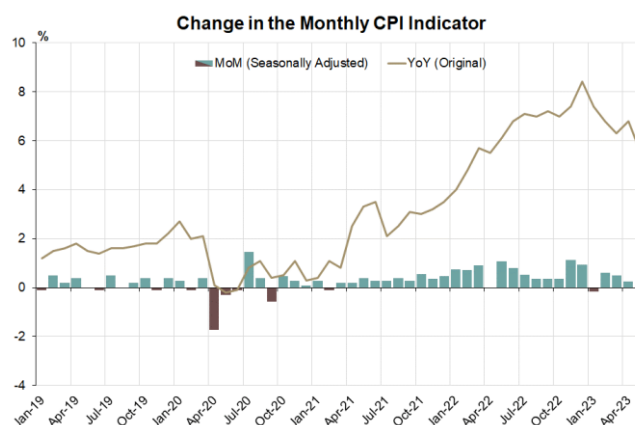
Disinflation in July was quite broad-based, with clothing and footwear being the only major category to see clear acceleration in annual price growth. From more detailed categories, there was acceleration in the annual growth of rents, as well as electricity prices. The pace of decline in automotive fuel eased.

The strongest contribution to disinflation in annual terms came from recreation and culture, as well as food prices. In greater detail, there was a strong deceleration in holiday travel and accommodation, while the annual growth rate for fruits and vegetables turned negative.

Annual price growth decelerated for both goods and services but remained higher for services. Strong declines in holiday travel and accommodation translated into declines in services prices in monthly terms.

%, Original	MoM	YoY
Food and Non-alcoholic Beverages	-0.2	5.6
Alcohol and Tobacco	0.0	4.5
Clothing and Footwear	2.5	1.5
Housing	1.3	7.3
Furnishings, Household Eq. and Serv.	0.2	4.3
Health*	0.0	5.2
Transport	-0.1	0.3
Communication	0.8	0.3
Recreation and Culture	-1.5	4.1
Education*	0.0	5.2
Insurance and Financial Services*	0.0	8.5

*Not updated in July.



Comment

The further drop in the annual rate of inflation in July is a welcome sign.

However, the scale of disinflation in July was magnified by changes in prices of volatile categories, such as fruit and vegetables and holiday travel.

Excluding these volatile categories, the scale of disinflation was somewhat smaller (0.3ppts to 5.8% rather than 0.5ppts to 4.9% for the headline index). Annual trimmed mean inflation also slowed slightly less than the headline.

Despite ongoing upward pressure from housing costs, disinflation is clearly progressing in Australia, giving the RBA Board more comfort to pause the cash rate increases again next week.

After the May CPI indicator figures, expectations for cash rate increases disappeared for the next two meetings and the probability of cash rate hikes declined below 30% for the following months.

30 AUGUST 2023

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