

Economic Analysis

CPI July & August 2022

The monthly CPI indicator, a new measure of consumer price growth introduced by the ABS, rose by 6.8% over the year to August 2022. This followed a 7.0% YoY increase in July (the highest since Q2 1990). The most recent quarterly CPI pointed to an annual rate of inflation at 6.1% in Q2 2022.

YoY %, Original	Q2 2022	Jun-22	Jul-22	Aug-22
Headline CPI	6.1	6.8	7.0	6.8
All Groups CPI Ex Volatile Items	5.3	5.5	6.1	6.2

The July-August release of the monthly CPI indicator did not include estimates for annual trimmed mean inflation, which is the RBA's preferred underlying inflation gauge. However, another measure of core inflation, the annual rate of CPI inflation excluding volatile items, has been growing steadily, to reach 6.2% in August (the highest level since Q4 1990).

Groups

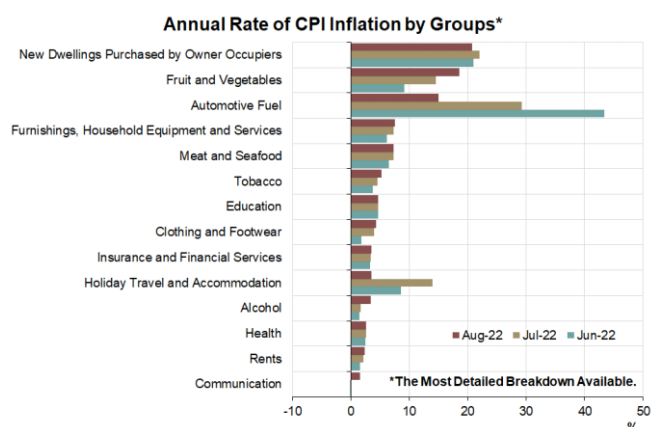
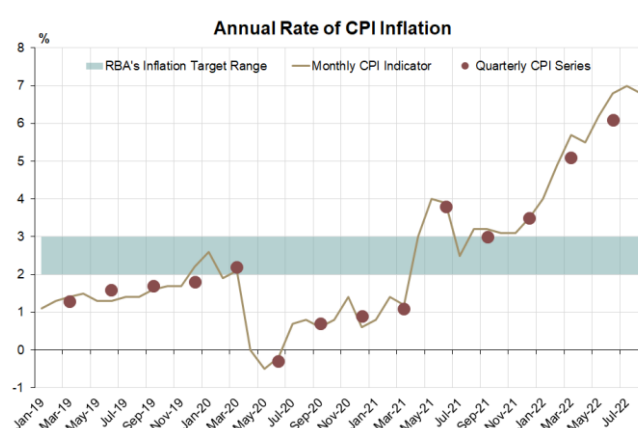
A 20.7% rise in the price of new dwellings purchased by owner-occupiers was the largest single contributor to the increase in the CPI over the year to August. New dwelling costs, along with the 2.4% rise in rents, drove housing costs up 9.5% over the year to August.

The other major contributor to annual CPI inflation over the year was transport (+8.5%), with prices for automotive fuel rising by 15.0% over the year to August. However, annual price growth for automotive fuel slowed significantly from the 43.3% in June and 29.2% recorded in July. The deceleration in fuel price growth was the main contributor to a slight decline in the annual rate of CPI inflation from July to August.

There was also a significant annual increase in prices for food and non-alcoholic beverages (+9.3% YoY in August and +7.8% in July). It was particularly true for fruit and vegetables (+18.6% YoY in August and +14.5% YoY in July). Furnishings, household equipment and services saw a 7.3% increase in July and 7.5% in August.

Annual CPI inflation was well above the RBA's 2-3% target band across most categories in August, with only the communications category being below target.

YoY %, Original	Q2 2022	Jun-22	Jul-22	Aug-22
Food and Non-Alcoholic Beverages	5.9	6.4	7.8	9.3
Alcohol and Tobacco	2.2	2.3	2.8	4.1
Clothing and Footwear	1.6	1.8	4.0	4.3
Housing	9.0	9.3	9.9	9.5
Furnishings, Household Eq. and Serv.	6.3	6.2	7.3	7.5
Health	2.4	2.5	2.6	2.6
Transport	13.1	16.4	12.3	8.5
Communication	0.0	-0.1	-0.1	1.6
Recreation and Culture	4.5	4.9	5.9	3.0
Education	4.7	4.6	4.6	4.6
Insurance and Financial Services	3.4	3.3	3.4	3.5



Comment

The long-awaited monthly CPI report confirmed a further increase in inflation in Q3, in line with the recent RBA projections.

The CPI indicator pointed to inflation easing back to 6.8% in August from 7.0% in July, but this was largely thanks to a decrease in fuel prices in August. Global oil prices fell further over the past month, however, the downward pressure on fuel prices will be short lived given the expiration of the fuel excise rate cut this week.

The monthly CPI indicator should be interpreted with a grain of salt, as it differs from the quarterly CPI index. Depending on the month, the monthly indicator encompasses only 62-73% of the weight of the CPI basket and, in contrast to the quarterly CPI, the monthly indicator will be subject to revisions.

Following the July-August CPI indicator report, expectations for the RBA cash rate have increased, with a 50bps hike to 2.85% now around 75% priced in for next week. The monthly CPI numbers have also strengthened our conviction of a 50bps rise in October.

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