

CPI May 2025

The monthly CPI indicator suggested that the annual rate of consumer price inflation fell by 0.3ppts to 2.1% in May. This was a downside surprise to the market participants, who expected a smaller 0.1ppts decline to 2.3%.

| % | MoM | YoY |
|---|------|-----|
| Headline CPI | -0.4 | 2.1 |
| Seasonally Adjusted Headline CPI | 0.0 | 2.1 |
| Goods | -0.1 | 1.0 |
| Services | -0.8 | 3.3 |
| Tradables | -0.8 | 0.0 |
| Non-tradables | -0.3 | 3.2 |
| Annual Trimmed Mean | - | 2.4 |
| CPI Ex Volatile Items and Holiday Travel* | 0.2 | 2.7 |

*MoM changes are seasonally adjusted.

The monthly CPI index declined by 0.4% in unadjusted terms, but was flat when seasonally adjusted.

The CPI excluding volatile items and holiday travel, rose by 0.2%, to be up by 2.7% YoY. Annual trimmed mean inflation, which is the RBA's favoured measure of underlying inflation, fell 0.4ppts to 2.4%, which is the lowest level since November 2021.

Groups

The decline in annual inflation in May was largely driven by a sharp decline in the growth rate of holiday and accommodation costs (-4.7ppts to 0.6% YoY), following a spike in April due to elevated demand during the back-to-back Easter and Anzac Day long weekends and school holidays.

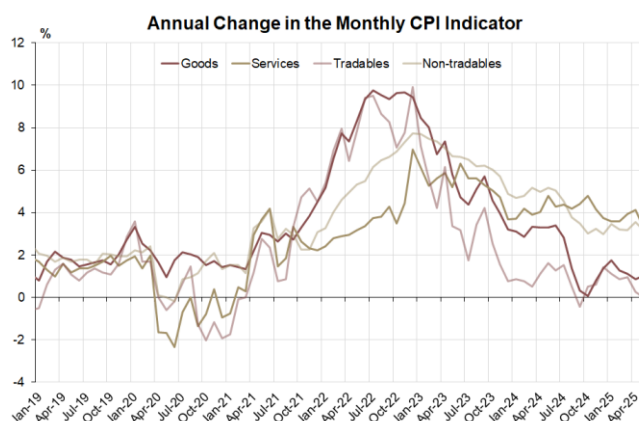
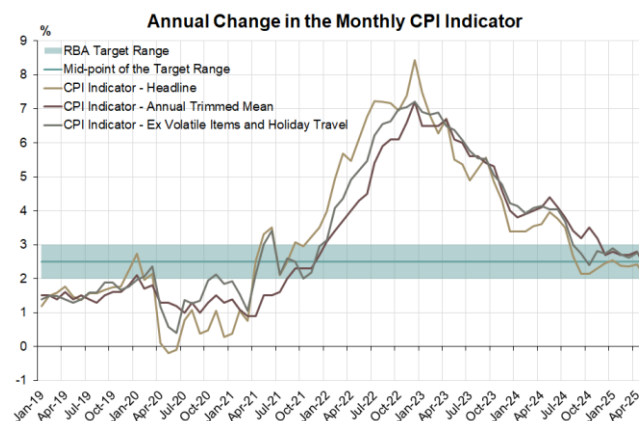
Price growth slowed also for food and non-alcoholic beverages (-0.2ppts to 2.9% YoY), rents (-0.5ppts to 4.5% YoY) and new dwelling costs (-0.4ppts to 0.8% YoY).

The annual pace of decline in electricity prices eased by 0.6ppts to -5.9% in May, reflecting the impacts of Commonwealth and state energy bill relief measures.

Automotive fuel also continued to decline, to be down by 10.0% over the year to May.

| %, Original | MoM | YoY |
|--------------------------------------|------|------|
| Food and Non-alcoholic Beverages | 0.3 | 2.9 |
| Alcohol and Tobacco | 0.5 | 5.9 |
| Clothing and Footwear | -1.0 | 1.3 |
| Housing | 0.2 | 2.0 |
| Furnishings, Household Eq. and Serv. | -0.1 | 0.9 |
| Health* | 0.0 | 4.4 |
| Transport | -0.5 | -2.5 |
| Communication | -0.2 | 1.0 |
| Recreation and Culture | -3.4 | 1.4 |
| Education* | 0.0 | 5.7 |
| Insurance and Financial Services | -0.2 | 3.1 |

*Not updated in May.



Comment

The May CPI indicator confirmed further disinflation in Australia, even if its scale was a bit exaggerated by the impacts of the superlong weekend in April. Both headline and trimmed mean inflation are comfortably in the 2-3% target range, with trimmed mean inflation now close to the 2.5% mid-point of this range.

Headline inflation is held down by lower electricity prices due to the lower out-of-pocket expenses amid the energy bill relief measures. These measures are likely to be less generous in the coming year, which will translate into a rise of headline inflation later in 2025, but trimmed mean inflation is expected to remain in check.

Lower automotive fuel prices are the other factor holding inflation down at the moment. Over the past two weeks, oil prices saw some wild swings due to the Iran-Israeli conflict. However, they are now back to where they were before the conflict started, which means that the upside risk to inflation from higher fuel costs has been averted.

That said, the downside surprise to the May CPI indicator led to a further slight intensification of cash rate cut expectations. The next cut is almost fully priced in for the RBA Monetary Policy Board meeting on 7-8 July, with a total of 81bps of cuts priced in for the second half of 2025, rather than 78bps before the CPI release.

25 June 2025