

Economic Analysis

CPI September & Q3 2023

The headline CPI (unadjusted) rose 1.2% in Q3 2023, taking the annual rate of inflation 0.6ppt lower to 5.4%.

The Q3 CPI surprised slightly to the upside, with the markets expecting a rise of 1.1% QoQ and 5.3% YoY.

Trimmed mean inflation, the RBA's favourite underlying inflation gauge, was also higher than expected, rising 1.2% in the quarter (exp 1.0%) with the annual rate falling 0.6ppts to 5.2%.

% , Original	QoQ	YoY
Headline CPI	1.2	5.4
Market Sector Ex Volatile Items	1.0	5.5
Trimmed Mean CPI	1.2	5.2
Goods	1.2	4.9
Services	1.0	5.8
Non-tradables	1.3	6.2
Tradables	0.7	3.7

The annual increase in the monthly CPI indicator accelerated to 5.6% in September from 5.2% in August (exp 5.3%).

Groups

The biggest contributors to the quarterly rise were automotive fuel (7.2%), rents (2.2%), new dwelling purchases by owner-occupiers (1.3%) and utilities (4.7% in water and sewage, 4.2% in electricity).

The slightly slower rise in rents reflected lower out-of-pocket expenses due to a 15% rise in the maximum rate of Commonwealth rent assistance in late September, on top of the CPI indexation that happens twice a year.

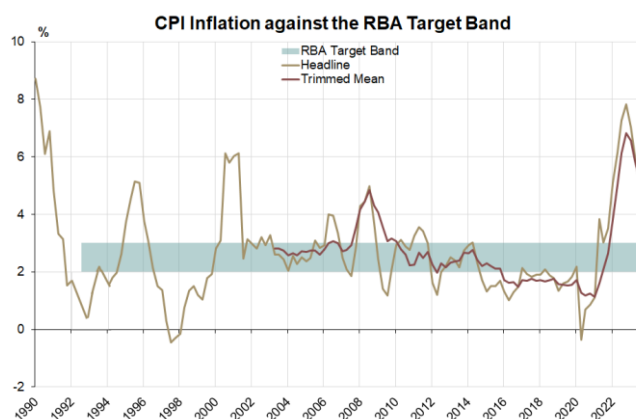
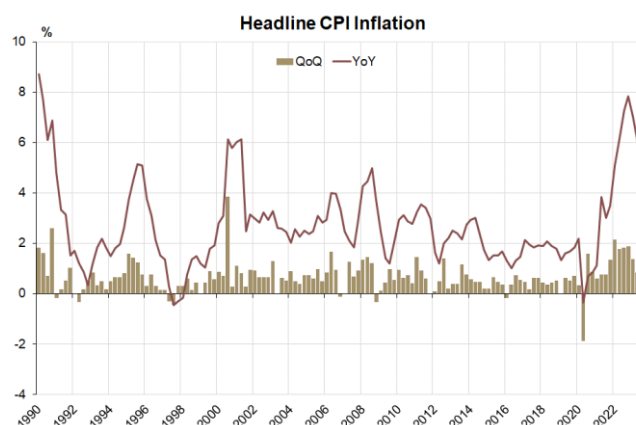
Offsetting these increases, was a strong 13.2% decline in childcare costs, due to lower out-of-pocket expenses after a rise in the rate of the childcare subsidy and expansion of its eligibility in July.

Capital Cities

Perth saw the smallest quarterly increase in CPI of all capital cities, but the annual rate of inflation accelerated to 5.8% due to the low base effects from a year ago, after the WA Government's A\$400 electricity credit was introduced in July 2022.

For other capital cities, quarterly inflation rates ranged between 0.7% in Brisbane and 1.3% in both Sydney and Melbourne. The annual rates were between 4.1% in Hobart and 5.9% in Adelaide.

Capital Cities (% , Original)	QoQ	YoY
Perth	0.4	5.8
Sydney	1.3	5.6
Melbourne	1.3	4.9
Brisbane	0.7	5.2
Adelaide	1.7	5.9
Hobart	0.9	4.1



Comment

The Q3 inflation figures confirm that the annual rate of inflation continues to decelerate, even if somewhat slower than hoped.

That said, the inflation reports released today provided several worrying signs.

First, inflation is still significantly above the RBA's target band of 2-3%.

Second, the recent rise in fuel prices translated into somewhat faster growth in CPI in quarterly terms and an uptick in the annual rate implied from the monthly CPI indicator. This constitutes an upside risk to inflation going forward, particularly if higher fuel costs spill over to a wider range of products and result in higher inflation expectations.

Third, trimmed mean inflation accelerated more than expected in quarterly terms in Q3 (1.2% against 1.0%), while the Q2 figures were revised slightly upwards (to 1.0% from the 0.9% estimated originally).

Following the Q3 CPI figures, the probability of a 25bps cash rate hike at the RBA's November meeting rose above 50%. We also see the risk of such a move, particularly if today's inflation numbers drive an upward revision to RBA inflation projections, which they likely will.

25 OCTOBER 2023

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