Economic Analysis

CPI August 2023

The monthly CPI indicator rose to 5.2% over the year to August 2023, 0.3ppts up from the 4.9% in the previous month and in line with the market expectations.

%	MoM	YoY
Headline CPI*	0.8	5.2
Goods	0.9	5.1
Services	0.3	5.6
Tradables	0.9	3.4
Non-tradables	0.5	6.2
Annual Trimmed Mean	-	5.6
CPI Ex Volatile Items and Holiday Travel*	0.6	5.5

*MoM changes are seasonally adjusted.

The monthly CPI indicator surged by 0.8% MoM in seasonally adjusted terms.

Excluding volatile items and holiday travel, the CPI indicator rose a seasonally adjusted 0.6% in the month, to be up 5.5% YoY (0.3ppts less than in July). Annual trimmed mean inflation remained at 5.6% (July was revised 0.2ppts downwards from 5.8%).

Groups

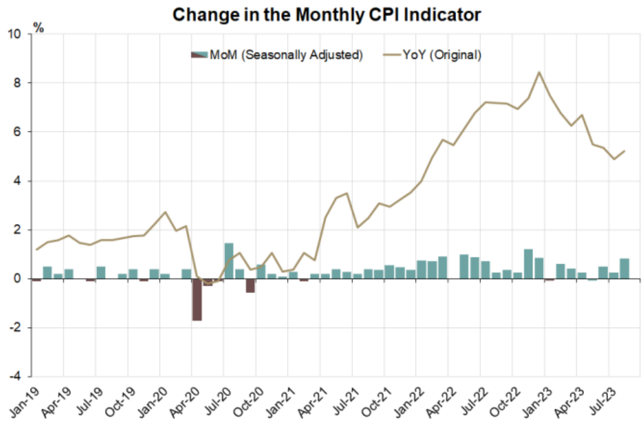
The renewed rise in inflation was driven almost exclusively by transport amid a strong rebound in automotive fuel prices. This category added 0.7ppts to the annual rate of consumer price growth, having risen by 13.9% YoY compared to a 7.6% YoY decline in July.

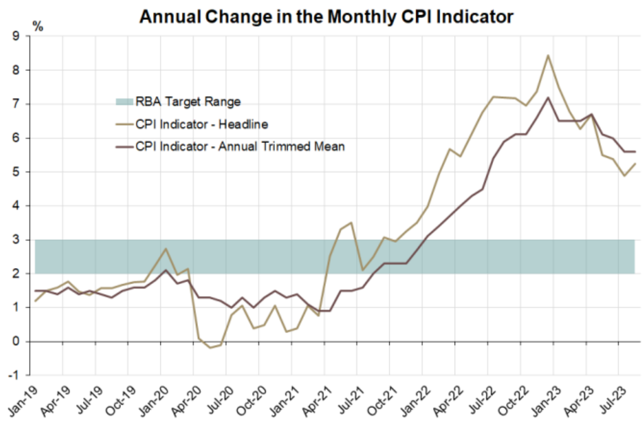
There was also acceleration in the annual rates of growth for insurance premiums (to 14.7% YoY) and rents (to 7.8% YoY). In both cases, these were the highest rates on record.

These increases were partly offset by slower growth in prices for food (particularly fruit and vegetables), new dwellings for owner occupiers, as well as electricity amid the Commonwealth government's energy bill relief program.

%, Original	MoM	YoY
Food and Non-alcoholic Beverages	0.9	4.4
Alcohol and Tobacco	1.3	4.4
Clothing and Footwear	-0.1	1.5
Housing	0.1	6.6
Furnishings, Household Eq. and Serv.	0.3	4.0
Health*	0.0	5.2
Transport	3.6	7.4
Communication	1.7	1.6
Recreation and Culture	-1.5	3.9
Education	0.3	5.5
Insurance and Financial Services	0.7	8.8

*Not updated in August.





Comment

August saw the first increase in the annual rate of the CPI indicator in four months. This was no surprise given the strong increase in petrol prices over the past month amid a surge in global oil prices due to supply concerns.

While global oil prices are certainly beyond the RBA's impact, higher fuel prices may translate into a rise in prices of other items, particularly given the ongoing demand pressure. Services price inflation, which is driven to a large extent by demand pressure, was unchanged at the elevated 5.6% in August.

What is more worrying, however, is that underlying inflation also remains elevated, with no change in the annual rate of trimmed mean inflation in August and only a slight decline in inflation excluding volatile items and international travel.

While having come down from the late 2022 highs, inflation in Australia is still well above the 2-3% target.

Given this, the RBA will likely retain its tightening bias. Another 25bps cash rate hike is still partly priced in for the turn of 2023 and 2024. However, we continue to expect no more hikes in this cycle.

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