

Economic Analysis

CPI October 2022

The monthly CPI indicator, a recently introduced measure of consumer price growth, rose by 6.9% over the year to October 2022. This followed a 7.3% YoY increase in September and Q3 as a whole. The market consensus was for a 0.3ppts rise to 7.6%.

YoY %, Original	Aug-22	Sep-22	Oct-22
Headline CPI	6.9	7.3	6.9
Trimmed Mean Inflation	5.1	5.4	5.3
All Groups CPI Ex Volatile Items	6.2	6.8	6.4

Trimmed mean inflation, the RBA's preferred measure of underlying inflation, was broadly unchanged in October (5.3% YoY against 5.4% in September). Another measure of core inflation, the annual rate of CPI inflation excluding volatile items, declined 0.4ppts to 6.4%.

Groups

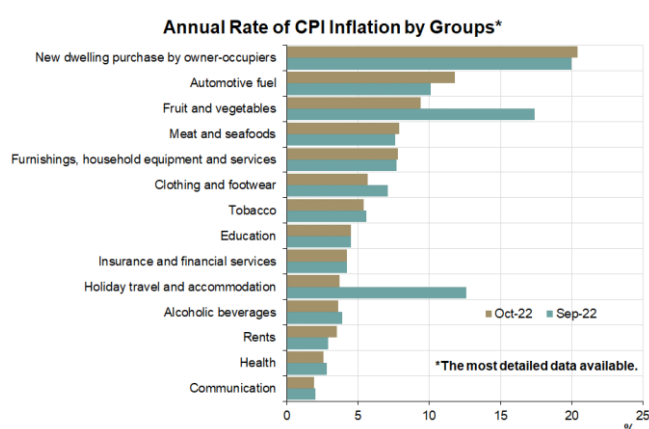
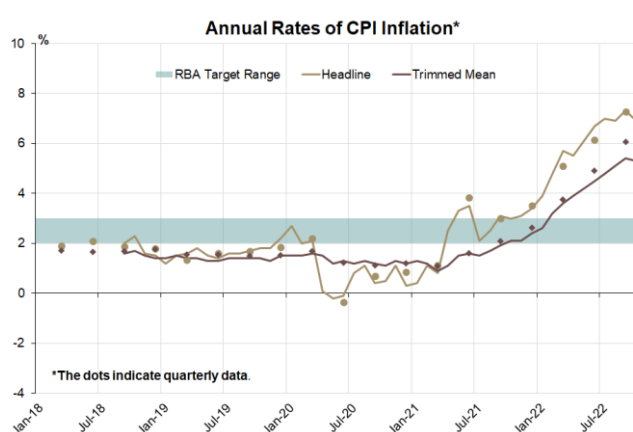
The decline in inflation was driven by a slower annual increase in prices for fruit and vegetables (9.4% versus 17.4% in September). According to the Australian Bureau of Statistics, the lower annual rate of price growth for this category was driven by improved growing conditions, following strong rainfall over east earlier this year. The slower price growth for fruit and vegetables translated into a lower rate of inflation for food and non-alcoholic beverages (8.9% against 9.6%).

There was also a significant fall in the annual rate of inflation for clothing and footwear (5.7% versus 7.1%) as well as recreation and culture (2.3% against 5.3%). In case of the latter, the decline was caused by moderation in holiday travel and accommodation (3.7% against 12.6%), driven by the end of the school holiday period as well as the end of the peak travel season to Europe and the US.

At the same time, the annual rate of inflation for automotive fuel prices picked up 1.7ppts to 11.8% in October, supported by the end of the fuel excise cut in late September. In consequence, the inflation rate for transport rose to 7.4% from 6.8% in the previous month.

Housing inflation also saw a slight 0.2ppts increase to 10.5%, with new dwellings prices rising by 20.4% YoY and rents up by 3.5% YoY.

YoY %, Original	Aug-22	Sep-22	Oct-22
Food and Non-alcoholic Beverages	9.5	9.6	8.9
Alcohol and Tobacco	4.1	4.6	4.3
Clothing and Footwear	4.5	7.1	5.7
Housing	9.5	10.3	10.5
Furnishings, Household Eq. and Serv.	7.8	7.7	7.8
Health	2.4	2.8	2.6
Transport	8.5	6.8	7.4
Communication	1.9	2.0	1.9
Recreation and Culture	4.1	5.3	2.3
Education	4.6	4.5	4.5
Insurance and Financial Services	3.7	4.2	4.2



Comment

The October CPI report surprised to the downside, mainly due to a surprising decline in the rate of inflation for fruit and vegetables due to better growing conditions, which is a factor beyond RBA's control.

According to the ABS, due to the significant changes in spending patterns over 2021 and 2022, the annual updates to the weights had a larger impact on the CPI than usual. This was particularly true for food and non-alcoholic beverages, which saw a decline in inflation on the one hand and a rise of weight on the other. If the previous weights had been applied, the monthly CPI indicator would have risen by 7.1% YoY in October, rather than by 6.9% YoY.

The monthly CPI indicator encompasses only 62-73% of the weight of the CPI basket and is subject to revisions.

Following the July-August CPI indicator report, expectations for the RBA cash rate declined, but a 25bps hike in December is still anticipated. We also continue to expect a 25bps increase next week as, despite the decline in October, inflation remains well and truly above the RBA's target of 2-3%.

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