

The headline CPI (unadjusted) rose 0.5% in Q3 (WATC +0.6%, Mkt +0.5%), following a 0.6% increase in Q2. The annual inflation rate picked up 0.1ppt to 1.7% YoY. Goods prices rose 0.4% (+1.5% YoY) and services prices were up 0.7% (+1.8% YoY). The ABS measure of the core CPI (market goods and services excluding volatile items) increased 0.8% in the quarter (+1.8% YoY).

	QoQ	YoY
Headline CPI	0.5%	1.7%
Market Sector Ex-Volatile Items	0.8%	1.8%
Trimmed Mean CPI	0.4%	1.6%
Goods	0.4%	1.5%
Services	0.7%	1.8%
Non-Tradables	0.4%	1.9%
Tradables	0.9%	1.2%

The RBA's favoured statistical measure of underlying inflation, the seasonally adjusted trimmed mean, was 0.4% in the quarter and +1.6% YoY.

A 6.1% rise in the cost of international holidays contributed 0.2ppts to quarterly inflation, while a 3.4% increase in tobacco and 1.8% rise in wine prices were the major drivers behind a 0.2ppt contribution from the alcohol and tobacco category.

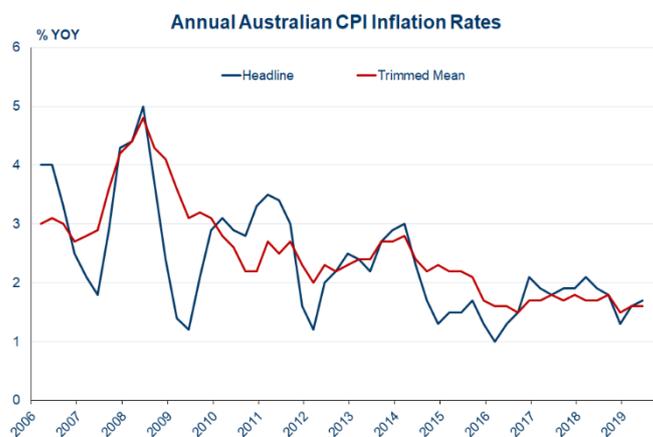
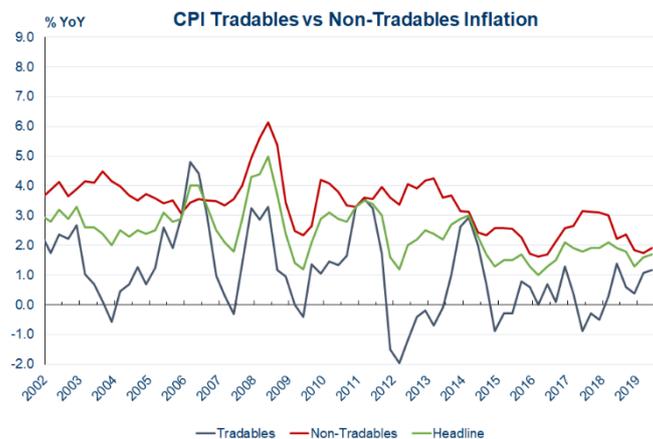
On the other side of the ledger, a 2.0% fall in automotive fuel and a 2.7% drop in fruit and veg prices each shaved 0.1ppt from headline inflation.

Non-tradable items, whose prices are largely determined by domestic conditions, rose 0.4% to be up 1.9% YoY. The prices of tradable items, largely determined by global markets, rose 0.9% for the quarter and were up 1.2% YoY.

Capital Cities

Capital Cities	QoQ	YoY
Perth	0.5%	1.6%
Sydney	0.5%	1.6%
Melbourne	0.5%	1.7%
Brisbane	0.6%	1.9%
Adelaide	0.7%	1.9%
Hobart	0.5%	2.2%

Of the state capital cities, Adelaide saw the biggest quarterly increase of 0.7%, though Hobart continues to have the fastest annual inflation rate at 2.2% YoY. Annual CPI inflation in Perth was steady at 1.6% YoY which, along with Sydney, is the slowest annual inflation rate among the state capitals.



Comment

While employment has, at least in the short-term, taken over as the number one policy driver for the RBA, the ongoing soft inflation outcomes give the RBA plenty of room to pursue its policy goal of full employment. Full employment meaning an unemployment rate somewhere closer to 4.5%.

We continue to expect the RBA will cut the cash rate at least once more in the current cycle, however, we don't anticipate the next move will come until early 2020 with our best guess being February. From there a further cut to 0.25% appears more likely than not sometime in the first half of the year. However, we expect that with little appetite at the RBA for a 0% cash rate, other policy options will then come into play.

With the CPI outcome not causing any surprises, there was no real reaction on financial markets.

30 OCTOBER 2019

DISCLAIMER

Any opinions, judgments, conclusions, forecasts, predictions or estimations contained in this advice are made in reliance on information provided to Western Australian Treasury Corporation which Western Australian Treasury Corporation believes to be reliable. Western Australian Treasury Corporation, however, cannot guarantee the accuracy of that information. Thus, any recommendations are made in good faith but are provided only to assist you with any decisions which you make. These recommendations are not intended to be a substitute for professional advice on a particular matter. Before accepting or rejecting those recommendations you must discuss your particular needs and circumstances with Western Australian Treasury Corporation.