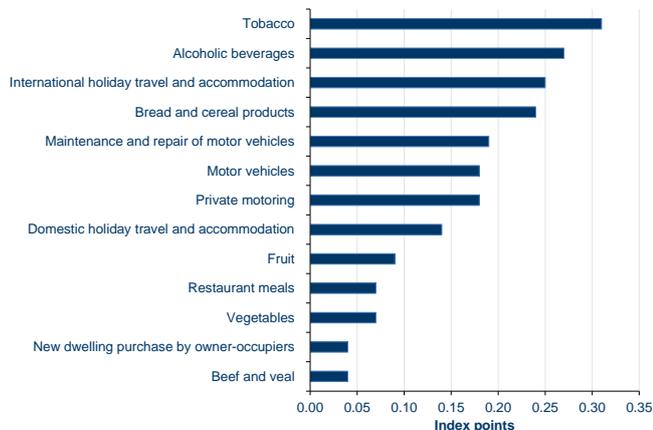


The headline CPI (unadjusted) rose by 0.7% in Q4 2019 against a 0.5% increase a quarter before. The rise was slightly stronger than the 0.6% expected by market participants (WATC anticipated 0.5%). In annual terms, headline CPI inflation was 1.8%, slightly up from 1.7% in Q3 2019. Annual inflation was expected to remain at 1.7%.

	QoQ	YoY
Headline CPI	0.7%	1.8%
Market Sector Ex-Volatile Items	0.6%	1.7%
Trimmed Mean CPI	0.4%	1.6%
Goods	0.9%	1.9%
Services	0.5%	1.8%
Non-Tradables	1.0%	2.0%
Tradables	0.2%	1.7%

The rise in inflation was driven to a large extent by one-off changes in tobacco, food and transport prices. Prices for tobacco, which was the largest single contributor, were propped up by the annual hike in excise tax. Transport prices, in turn, were lifted by a rise in global oil prices towards the end of 2019. The rise in food prices was led by fruit, vegetables and meat, which the ABS attributes partly to the impact of drought. The impact of the rebound in house prices on CPI inflation was limited.

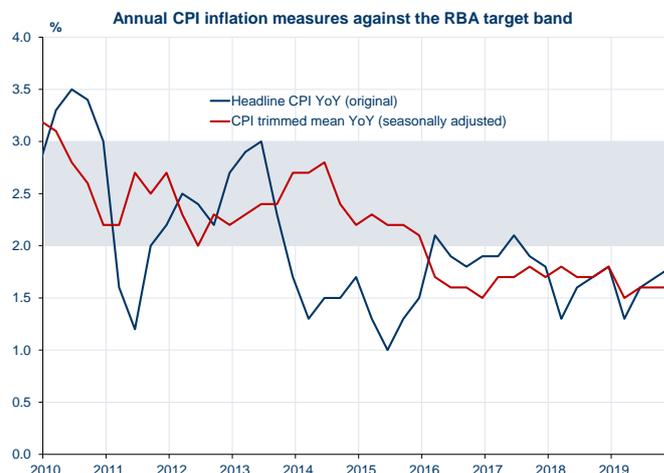
The largest changes in contribution to CPI



The rise in tobacco prices pushed up non-tradables inflation, adding to a rise in service price growth amid the holiday season. The price growth for tradables, in turn, was propped up by a rise in petrol and food prices.

Looking through these volatilities, underlying inflation remained unchanged. The RBA's preferred underlying inflation gauge, the seasonally adjusted trimmed mean,

which removes the largest price changes, was flat at 0.4% against the previous quarter and 1.6% in annual terms. Market sector inflation excluding the most volatile items declined to 0.6% in quarterly terms and to 1.7% in annual terms.



Inflation increase was uneven across capital cities, with annual price growth accelerating in Melbourne, Brisbane, Adelaide and Hobart, decelerating in Canberra and steady elsewhere. Consumer price growth in Perth decelerated from the previous quarter and was stable at 1.6% YoY for the third quarter in the row.

Capital Cities	QoQ	YoY
Perth	0.4%	1.6%
Sydney	0.5%	1.6%
Melbourne	0.9%	2.0%
Brisbane	0.7%	2.0%
Adelaide	0.8%	2.1%
Hobart	1.7%	2.7%

Comment

The upside surprise to headline consumer price growth in Q4 2019 is another event suggesting there is little pressure for an imminent rate cut, especially given that the December 2019 figures are in line with the RBA's most recent forecasts. However, the uptick in inflation was driven by one-off factors and, moreover, in spite of the increase, inflation remains below the RBA target band. Hence, we continue to be of the view that further RBA rate cuts are likely, though Q2 now seems to be more likely than our previous expectation of February.

29 JANUARY 2020

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