

Headline CPI inflation (unadjusted) fell to 0.3% in Q1 2020 from 0.7% a quarter before. In annual terms, headline CPI inflation rose to 2.2%, the highest since Q3 2014. The quarterly and annual inflation figures both surprised slightly to the upside. Market participants expected 0.2% and 2.0%, respectively.

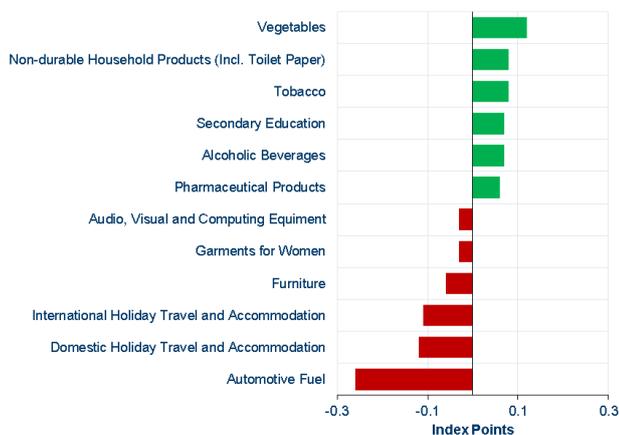
	QoQ	YoY
Headline CPI	0.3%	2.2%
Market Sector Ex-Volatile Items	0.3%	2.1%
Trimmed Mean CPI	0.5%	1.8%
Goods	0.6%	2.7%
Services	0.2%	1.8%
Non-Tradables	0.6%	2.3%
Tradables	-0.2%	2.1%

The upside surprise reflected the impact of drought and bushfires on food prices led by fruit and vegetables.

Some evidence of the COVID-19 impact was also present in the inflation data, with prices for non-durable household products, which include toilet paper, rising at the fastest pace on record (to 1989). Prices of pharmaceutical products and alcoholic beverages increased as well.

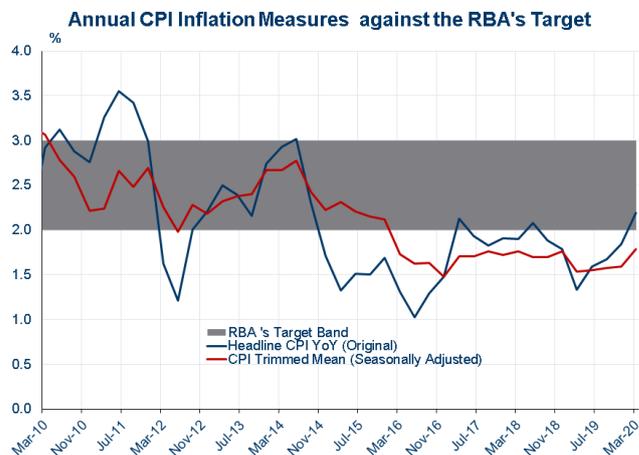
Inflation also received some support from a rise in prices for education services amid the start of the new school year.

Change in Contribution to Total CPI in Q1 2020



As expected, the fall in fuel prices, stemming from the drop in global oil prices, weighed heavily on the CPI inflation. Other major drags on inflation were declines in prices for holiday travel related both to the pandemic and bushfires. Prices for furniture and clothes fell amid lower consumer demand.

The RBA's preferred underlying inflation gauge, the seasonally-adjusted trimmed mean, rose at a faster than expected pace but remained below the lower bound of the RBA's target band.



Inflation eased in quarterly terms across all capital cities but Perth where it was steady at 0.4%. In Brisbane, quarterly price growth rate turned slightly negative, putting a drag on annual inflation. Outside of Brisbane, annual price growth picked up across the capital cities.

Capital Cities	QoQ	YoY
Perth	0.4%	2.1%
Sydney	0.3%	2.0%
Melbourne	0.8%	2.7%
Brisbane	-0.1%	1.8%
Adelaide	0.3%	2.4%
Hobart	0.4%	3.4%

**Comment**

Given the scale of the challenges related to cushioning the impact of the pandemic on the economy, central banks are likely to look through the temporary swings in prices related to the pandemic or bushfires.

However, as the pandemic subsides, inflation will be back in focus. Already, the RBA Governor announced that the projections point to annual price growth rate turning negative in Q2 2020. It can be expected that the RBA would not be happy with a prolonged period of negative price growth and would add to the case for keeping monetary policy accommodative for an extended period.

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