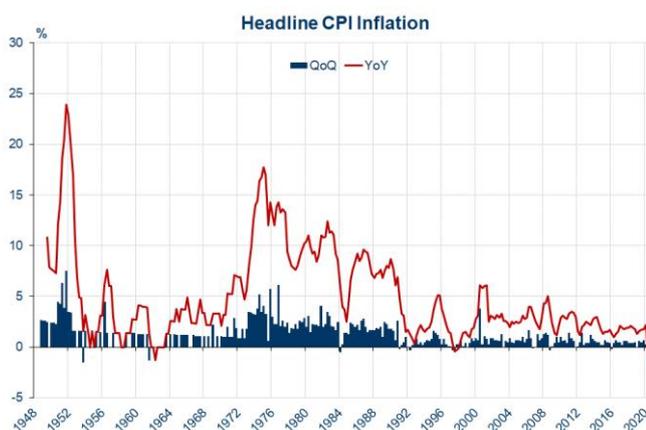
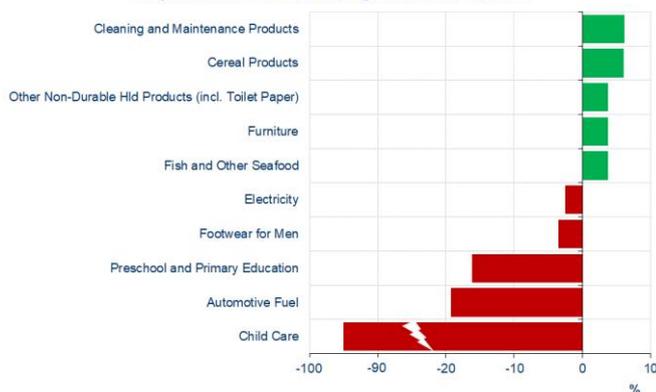


Headline CPI (unadjusted) fell by 1.9% in Q2 2020, broadly in line with expectations. This was the largest quarterly fall in CPI in the history of the series (since Q4 1948). Through the year, CPI declined by 0.3%, the first annual decline since Q1 1998.



The fall in the CPI resulted from free child care and pre-school as well as a significant drop in petrol prices. Child care costs plummeted by 95.0%, automotive fuel prices plunged by 19.3%, while pre-school and primary education fees fell by 16.2%. Excluding these categories, CPI rose by 0.1% QoQ and 1.8% YoY.

Major Movers of the Change in CPI in Q2 2020



At the same time, there were significant, albeit less spectacular, increases in the prices of products in high demand due to the pandemic. These were most notably cleaning and maintenance products (6.2%), cereals (6.1%) and other non-durable household products, which include toilet paper (3.8%).

The RBA's preferred inflation gauge, the trimmed mean CPI, which excludes the above major movers, fell by

0.1% QoQ and rose by 1.2% YoY, the slowest on record and significantly below the RBA inflation target of 2-3 per cent.

If imputed prices of goods and services unavailable amid the pandemic were excluded, trimmed mean CPI would have risen by 0.1%, to be up 1.5% YoY, still well below the target.

Weighted Average of Capital Cities (%)	QoQ	YoY
Headline CPI	-1.9	-0.3
Market Sector Ex Volatile Items	0.3	2.0
Trimmed Mean CPI	-0.1	1.2
Goods	-0.7	1.3
Services	-3.5	-2.2
Non-Tradables	-2.3	-0.2
Tradables	-1.3	-0.5

The CPI fell across all capital cities, with the sharpest falls recorded in Sydney, Brisbane and Melbourne. This reflects relatively large weight of child care costs in these cities, the Queensland government's utility rebate, as well as the introduction of free pre-school in New South Wales, Queensland and Victoria.

Capital Cities (%)	QoQ	YoY
Perth	-1.2	0.1
Sydney	-2.3	-1.0
Melbourne	-1.8	0.3
Brisbane	-2.2	-1.0
Adelaide	-1.0	0.8
Hobart	-1.4	1.3

Other capitals, including Perth, saw smaller declines in Q2 CPI. The decline in Perth was led by a 20.1% drop in automotive fuel prices, partly offset by a rise in prices of new dwellings to owner occupiers due to higher input costs.

Comment

The Q2 fall in CPI, while the largest on record, resulted from temporary factors that have been unwound in Q3. The free child care scheme ended in mid-July, though with relaxed criteria for the childcare subsidy. Oil prices have risen from the April lows, translating into higher petrol prices. Also free pre-school programs of New South Wales, Queensland and Victorian governments were terminated in Q3.

While inflation will rebound in Q3, it will likely remain subdued going ahead, reflecting low demand pressure in the Australian economy. The RBA projects that both headline and trimmed mean inflation will remain below the target at least until mid-2022.

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