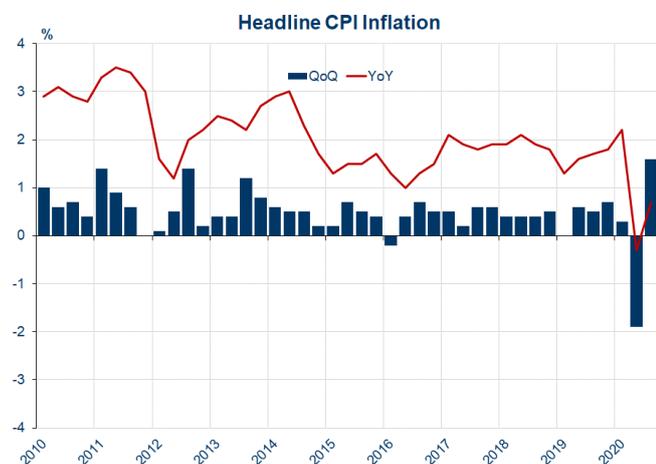


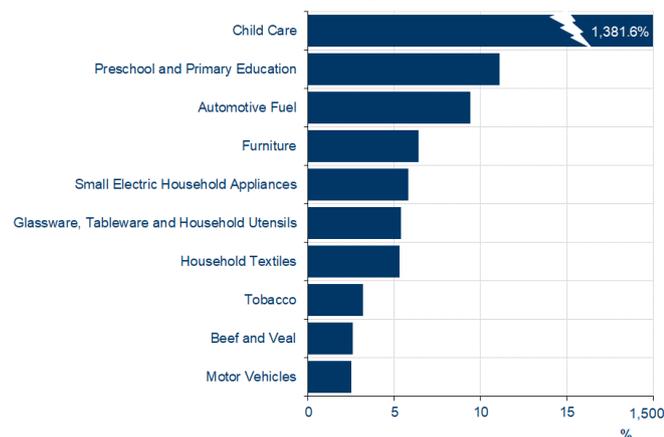
Headline CPI (unadjusted) rose 1.6% in Q3 2020, roughly in line with expectations. This followed the largest quarterly decline on record in Q2 (-1.9%).



The largest contributor to the rise in CPI was childcare fees, which returned to pre-pandemic rate in early Q3. There was also a significant 11.1% rise in preschool and primary education costs, as before and after school care fees were restored by the federal government.

Fuel prices posted a solid 9.4% increase, as global oil prices recovered from a slump in Q2. Prices of household goods rose significantly as well, due to the combined impact of strong demand from households and supply shortages.

Major Movers of the Change in CPI in Q3 2020



If childcare, preschool and primary school education as well as fuel were excluded from the CPI, it would have risen by a meagre 0.4%.

The CPI was up just 0.7% through the year, with the RBA's favoured inflation gauge, the trimmed mean CPI, 1.2% higher than a year ago. This is significantly below the RBA's target band of 2-3%

Weighted Average of Eight Capital Cities, %	QoQ	YoY
Headline CPI	1.6	0.7
Market Sector Ex Volatile Items	0.5	1.7
Trimmed Mean CPI	0.4	1.2
Goods	1.0	1.8
Services	2.3	-0.6
Non-Tradables	1.6	1.0
Tradables	1.4	0.0

There was a large divergence in CPI inflation across the capital cities. The Australian Bureau of Statistics noted that this largely reflects differences in the weight of child care costs in individual cities.

Capital Cities, %	QoQ	YoY
Perth	1.8	1.3
Sydney	1.8	0.3
Melbourne	0.9	0.7
Brisbane	2.3	0.6
Adelaide	1.0	1.0
Hobart	1.0	1.7

In Melbourne, where various child care fee waivers were offered by the federal government, quarterly CPI growth was the smallest of all capital cities. Excluding Melbourne, the CPI was 1.8% up in the quarter.

Comment

As expected in the previous [note](#), factors that had put a significant drag on the CPI earlier in the year, unwound in Q3, resulting in a sharp rebound.

Looking ahead, inflation is set to remain low for some time amid low demand pressure in the Australian economy. According to the federal budget forecasts, inflation is to stay below the RBA's target band in the coming three years. Given this, and the ongoing slack in the [labour market](#), we expect that the RBA will cut the interest rate targets to near zero next week and embark on government bond purchases for longer-term maturities.

28 OCTOBER 2020

DISCLAIMER

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