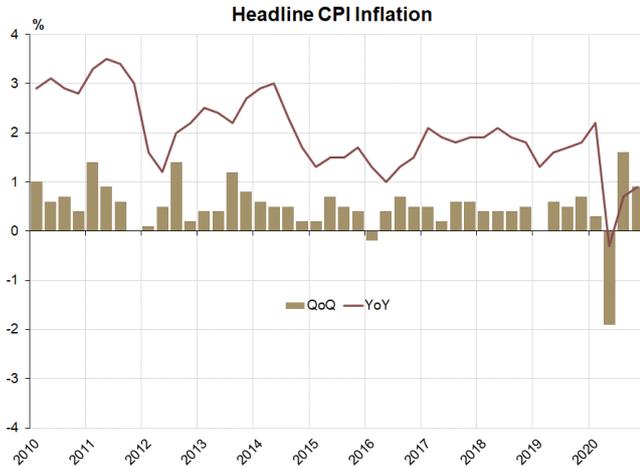


The headline CPI (unadjusted) rose 0.9% in Q4 2020, slightly more than expected by market participants (0.7%). Through the year, headline CPI also increased by 0.9% (market forecast 0.7%).

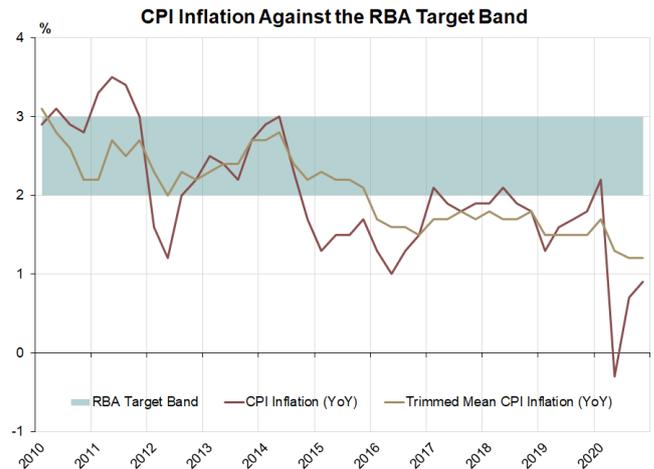
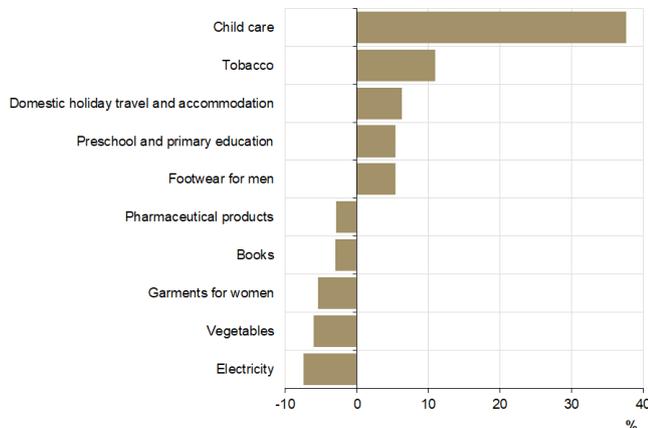


The largest contributors to the rise in CPI were a hike in tobacco excise and the return to pre-COVID childcare fees. A 10.9% rise in tobacco prices and a 37.7% surge in childcare costs each added around 0.4ppts to quarterly CPI inflation.

There was also a significant increase in domestic travel and accommodation prices (6.3%), reflecting the re-opening of state borders ahead of Christmas. The index for the purchase of new dwellings rose 0.7% in the quarter and would have been higher but for the impact of government grants.

Offsetting these increases was a large fall in the weighted average electricity prices, driven by a 66.7% plunge in Perth due to the A\$600 electricity credit introduced by the Western Australian government. The fall in electricity prices subtracted 0.2ppts from quarterly CPI inflation nationwide.

Major Movers of the Q4 Change in CPI



The RBA's favourite inflation gauge, annual trimmed mean CPI inflation is 1.2% up over the year, still significantly below the RBA's inflation target band.

Weighted Average for Eight Capital Cities, %	QoQ	YoY
Headline CPI	0.9	0.9
Market Sector Ex Volatile Items	0.9	2.0
Trimmed Mean CPI	0.4	1.2
Goods	0.2	1.1
Services	1.9	0.8
Non-Tradables	1.5	1.5
Tradables	-0.4	-0.6

The largest CPI increase was in Melbourne, reflecting the resumption of regular childcare services after the 'stage 4' lockdown was lifted. Perth saw a 1.0% decline, reflecting the electricity credit introduced by the Western Australian government in early Q4.

Capital Cities, %	QoQ	YoY
Perth	-1.0	-0.1
Sydney	1.0	0.8
Melbourne	1.5	1.3
Brisbane	1.1	1.0
Adelaide	0.7	1.0
Hobart	0.8	0.8

Comment

Given the subdued demand and wage pressures in the aftermath of the COVID recession, inflation is set to remain low for some time. However, the spare capacity in the Australian labour market, while still significant, is narrowing faster than anticipated a few months ago.

We expect that the RBA will upgrade its employment and inflation forecasts next week. However, even after this upgrade, the mid-term wage and inflation outlook will be subdued, implying the extension of the bond purchase program beyond mid-2021.

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Disclaimer

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