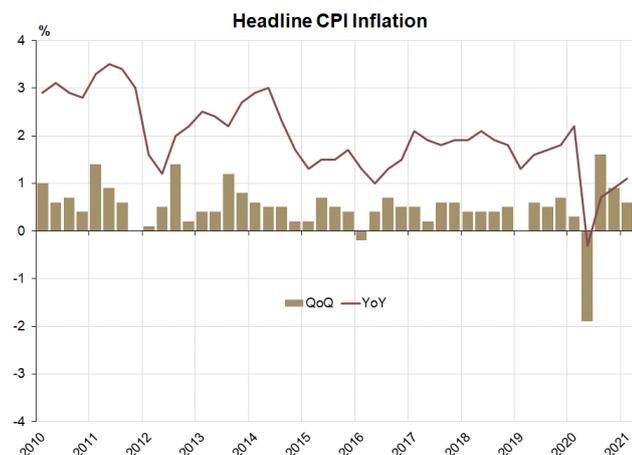


Headline CPI (unadjusted) rose 0.6% in Q1 2021, much less than envisaged by the market consensus (0.9%). Through the year, the headline CPI increased by 1.1%, against the market forecast of 1.4%.

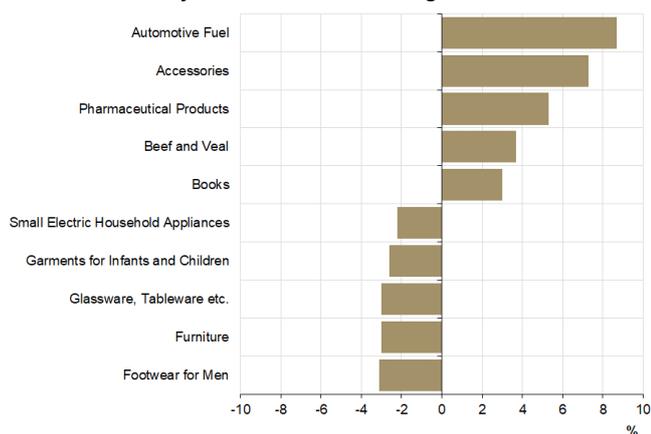


The major contributor to the rise in CPI was automotive fuel, which saw an 8.7% increase in prices, boosted by the significant increase in oil prices over the past few months.

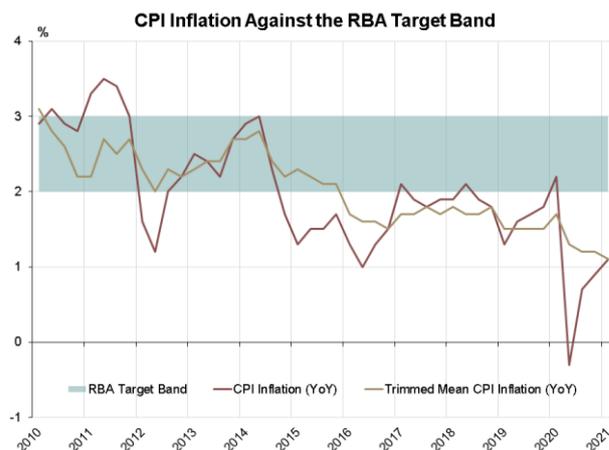
Prices for accessories rose by 7.3%, reflecting higher prices and improved demand for precious metals. Pharmaceutical products also saw a significant 5.3% increase in prices, resulting from a cyclical reduction of consumers qualifying for subsidies.

These increases were offset by falls in furniture (-3.0%) due to post-Christmas discounting. Some household equipment, footwear and clothing product groups also saw marked declines.

Major Movers of the Q1 Change in CPI



New dwelling prices recorded a slight 0.1% decline, reflecting government's homebuilding grants. Also, changes in student contributions within the Job-ready Graduates Package led to a 1.7% fall in tertiary education fees.



Annual trimmed mean CPI inflation, the RBA's favourite inflation gauge, declined to an all-time low of 1.1%.

Weighted Average for Eight Capital Cities, %	QoQ	YoY
Headline CPI	0.6	1.1
Market Sector Ex Volatile Items	0.2	1.9
Trimmed Mean CPI	0.3	1.1
Goods	0.7	1.1
Services	0.4	1.1
Non-Tradables	0.4	1.3
Tradables	1.1	0.7

Consumer prices rose across all states and territories. Perth saw the largest increase, as households had used most of the WA Government's A\$600 electricity credit in Q4. The smallest increase was recorded in Melbourne, dragged down by lower electricity prices.

Capital Cities, %	QoQ	YoY
Perth	1.4	1.0
Sydney	0.4	0.9
Melbourne	0.3	0.8
Brisbane	0.6	1.7
Adelaide	0.6	1.2
Hobart	0.8	1.1

Comment

The Q1 inflation report provides fresh support for the RBA's dovish stance. The sustained fall in the trimmed mean CPI inflation points to very low underlying price pressure. Despite the remarkable post-COVID recovery, the Australian economy is still operating below potential, just like it was before the pandemic hit.

In Q2, annual headline CPI inflation will rise quite sharply, reflecting the depressed price levels from a year ago. This rise will be temporary, however, with inflation expected to fall back below the RBA's target band in the following quarters.

28 APRIL 2021

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