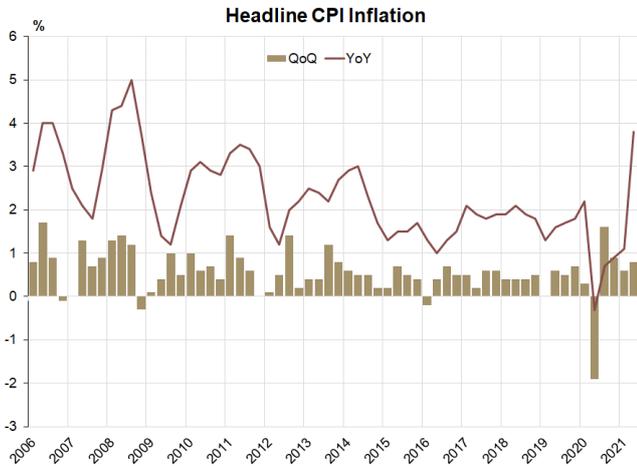


Economic Analysis

CPI Q2 2021

The headline CPI (unadjusted) rose 0.8% in Q2 2021, slightly more than forecast by market participants (0.7%) and faster than the 0.6% in the previous quarter.



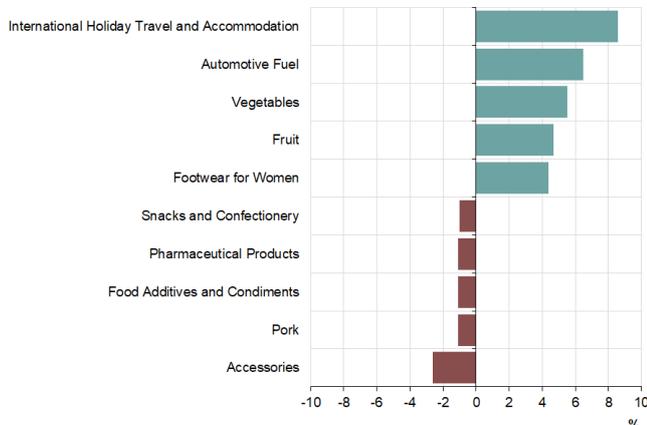
Annual headline CPI inflation accelerated to 3.8%, in line with market expectations, reflecting the low statistical base from a year ago and a reversal of earlier decreases in prices for some goods and services.

The key contributor to the quarterly rise in the CPI was again automotive fuel prices, which rose by 6.5% in Q2, to be up by 27.3% through the year.

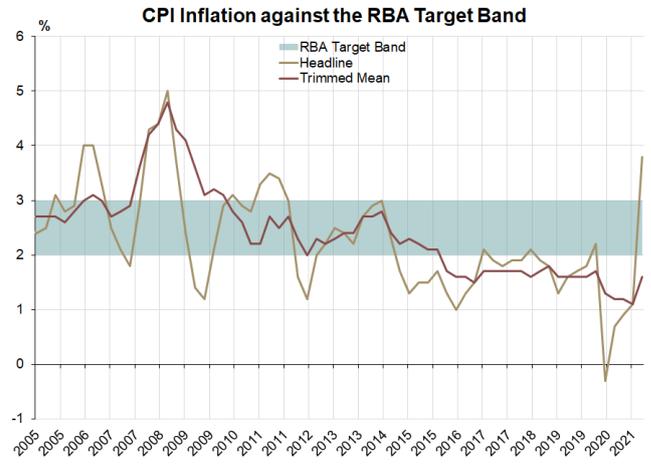
International travel and accommodation, which have less weighting in the CPI than automotive fuel, also saw a considerable increase in estimated prices over the quarter as the trans-Tasman travel bubble was opened in mid-April. These estimates, however, are distorted by the international travel restrictions over the previous quarters that forced the ABS to impute data for this category.

The unwinding of free childcare as well as pre-school and primary education saw prices for these categories increase significantly through the year.

Major Changes in Q2 CPI Subgroups



New dwelling prices continued to decline in Q2 (-0.1%) amid housing construction grants, without which new dwelling prices would have risen by 1.9%.



Annual trimmed mean CPI inflation picked up from all-time lows to 1.6%, still well below the lower bound of the RBA's target band.

	QoQ	YoY
Headline CPI	0.8%	3.8%
Market Sector Ex-Volatile Items	0.3%	1.9%
Trimmed Mean CPI	0.5%	1.6%
Goods	1.0%	2.8%
Services	0.4%	5.1%
Non-Tradables	0.3%	4.0%
Tradables	1.5%	3.6%

Perth saw the largest prices increase of all capital cities in Q2, as the impact of the A\$600 electricity credit continued to unwind. Increases in the other capital cities ranged between 0.5% in Adelaide and 1.1% in Hobart.

Capital Cities	QoQ	YoY
Perth	1.9%	4.2%
Sydney	0.8%	4.1%
Melbourne	0.3%	2.9%
Brisbane	0.8%	4.9%
Adelaide	0.5%	2.8%
Hobart	1.1%	3.6%

Comment

The bottom line of the Q2 inflation report is that, despite the emerging cost pressures, underlying inflation remained low ahead of the recent escalation of COVID-19 outbreaks over east. Given the certain deterioration in economic conditions amid the Greater Sydney lockdown, demand pressures should abate in the coming quarters, justifying the relatively dovish RBA monetary policy stance.

28 JULY 2021

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