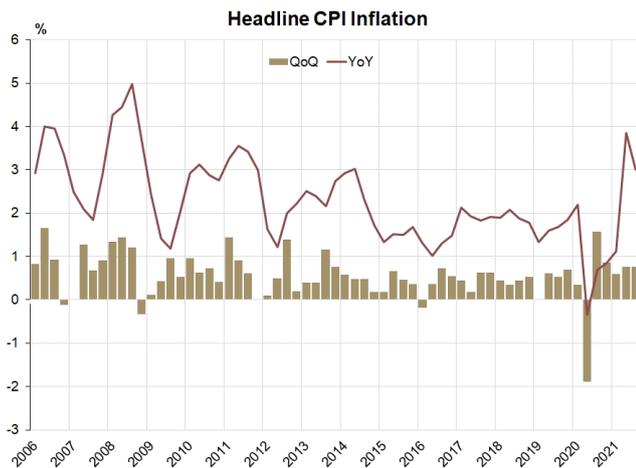


Economic Analysis

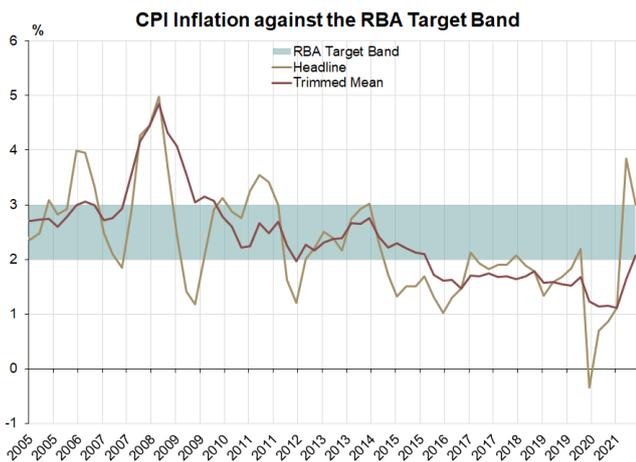
CPI Q3 2021

The headline CPI (unadjusted) rose 0.8% in Q3 2021 for the second quarter in a row, in line with the market expectations.

| %, Original | QoQ | YoY |
|---------------------------------|-----|-----|
| Headline CPI | 0.8 | 3.0 |
| Market Sector Ex Volatile Items | 0.7 | 2.5 |
| Trimmed Mean CPI | 0.7 | 2.1 |
| Goods | 0.9 | 2.8 |
| Services | 0.7 | 3.5 |
| Non-tradables | 0.9 | 3.2 |
| Tradables | 0.8 | 3.1 |



Annual headline CPI inflation slowed to 3.0%, against the 3.1% pencilled in by the consensus. Annual trimmed mean inflation, the RBA's favourite price growth gauge, rose to 2.1% from 1.6% in Q2 and hence was back in the RBA target range for the first time since Q4 2015. The market expected a slower increase, to 1.8%.

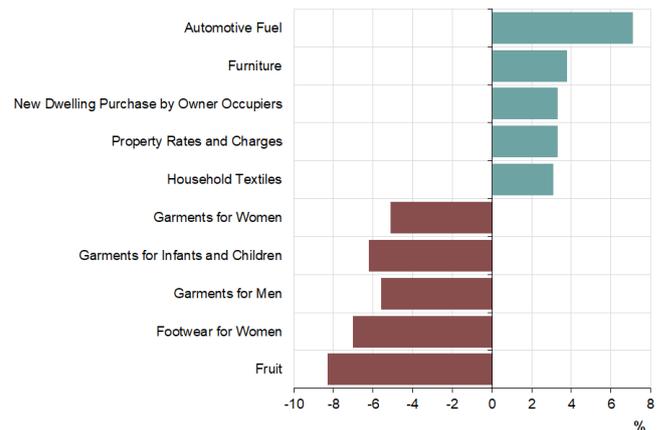


Automotive fuel prices were again the key contributor to the quarterly rise in the CPI, rising by 7.1% in the quarter and 24.6% through the year to hit a series high (since 1972). Unsurprisingly, large increases were recorded for purchases of new dwellings and property

rates and charges, as the housing market continues to heat up. Household goods like furniture and household textiles also saw considerable price increases.

These increases were partly offset by sharp falls in fruit prices amid favourable growing conditions as well as clothing and footwear prices, reflecting lower demand amid the lockdowns over east.

Major Changes in Q3 CPI Subgroups



Quarterly CPI inflation ranged from 0.3% in Hobart to 1.3% in Brisbane. Perth saw a 0.8% rise in consumer prices in Q3, with annual CPI inflation falling to 3.2%.

| Capital Cities (% , Original) | QoQ | YoY |
|-------------------------------|-----|-----|
| Perth | 0.8 | 3.2 |
| Sydney | 0.7 | 2.9 |
| Melbourne | 0.8 | 2.9 |
| Brisbane | 1.3 | 3.9 |
| Adelaide | 0.7 | 2.5 |
| Hobart | 0.3 | 3.0 |

Comment

While the Q3 headline CPI inflation numbers came out as expected, trimmed mean inflation unexpectedly returned to the RBA target range. This has resulted in markets pulling forward their expectations for the first increase in the RBA cash rate to as early as mid-2022. This compares with the RBA's guidance of a 2024 hike.

The RBA has said that it needs to see inflation sitting comfortably in the target range for some time before it considers an increase in the cash rate. One reading of trimmed inflation within the target range is unlikely to trigger a significant change in the RBA's language, especially considering that wage inflation is still substantially lower than the above 3% level desired by the RBA. However, a slight alteration in guidance after the November meeting and an upward revision to inflation forecasts in the November Statement of Monetary Policy is likely.

27 OCTOBER 2021

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