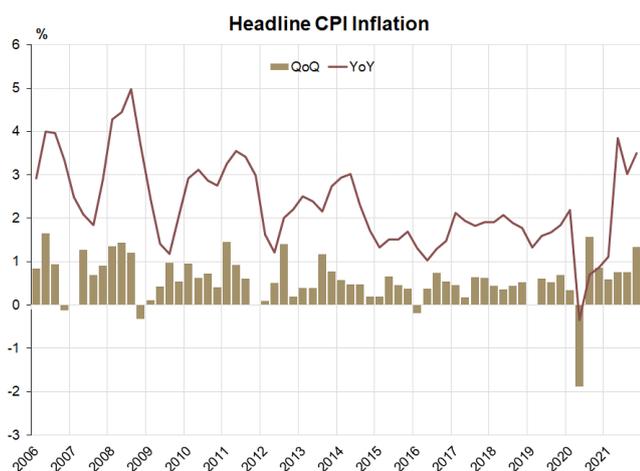


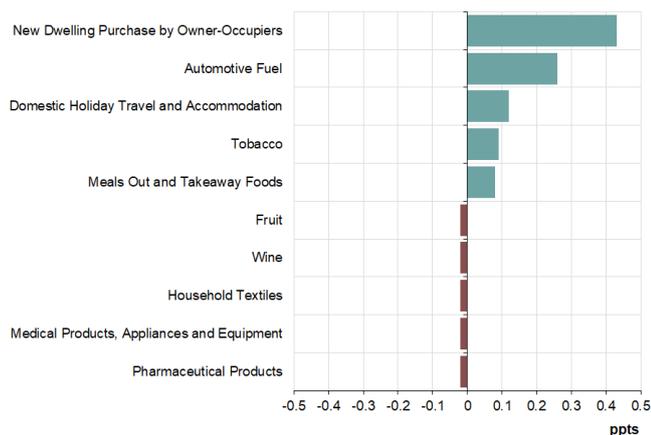
The headline CPI (unadjusted) rose 1.3% in Q4 2021, taking annual inflation to 3.5% or back above the RBA's target band. The Q4 increase in CPI exceeded market expectations of 1.0% QoQ and 3.2% YoY.

% , Original	QoQ	YoY
Headline CPI	1.3	3.5
Market Sector Ex Volatile Items	1.2	2.6
Trimmed Mean CPI	1.0	2.6
Goods	1.6	4.3
Services	0.7	2.3
Non-tradables	1.2	2.8
Tradables	1.4	4.9

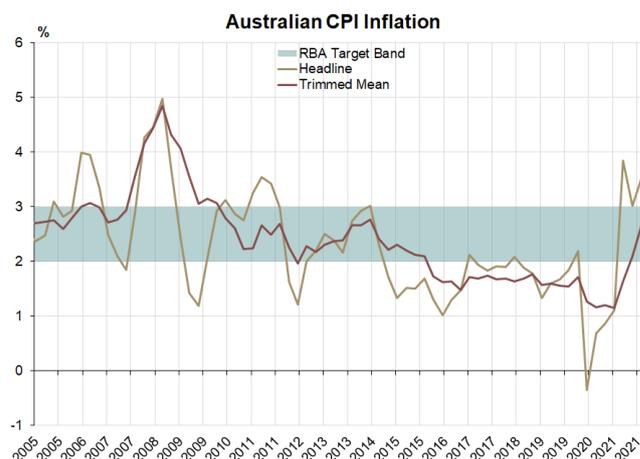


Around a half of the Q4 rise in CPI came from two major contributors. The first one was new owner-occupier dwellings, as elevated demand for housing construction allowed the builders to pass through the elevated labour and materials. The second factor was automotive fuel, which reflected the surge in global oil prices.

**Major Contributors to the Q4 Rise in CPI by Subgroup**



The rise in inflation was wide-ranging, however, with over 80% of subcategories seeing acceleration in price growth. For around half of all subcategories, Q4 inflation was higher than the series average.



Trimmed mean annual inflation, which is the RBA's preferred inflation gauge, rose further into the target band to 2.6%.

Quarterly CPI inflation ranged from 1.1% in Melbourne to 2.2% in Hobart.

Capital Cities (% , Original)	QoQ	YoY
Perth	1.4	5.7
Sydney	1.2	3.1
Melbourne	1.1	2.5
Brisbane	1.6	4.3
Adelaide	1.5	3.3
Hobart	2.2	4.5

Perth saw a 1.4% rise in consumer prices in Q4 and its annual inflation was 5.7%, which was the highest of all capital cities. However, this reflected mainly the low statistical base from the previous year, due to the A\$600 household electricity credit introduced by the Western Australian Government in October 2020.

**Comment**

Trimmed mean inflation reached the mid-point of RBA's target band two years earlier than envisaged in the most recent RBA projection.

Prices for non-discretionary goods rose faster than those for discretionary goods. This implies a risk of a pick-up in consumer inflation expectations and, hence, an upward pressure on wage growth going forward. Wage growth has been below the 3% level the RBA needs to see to be comfortable that inflation will remain sustainably around its target band.

The Q4 inflation report has undoubtedly added to the pressure on the RBA to speed up the normalisation of its monetary policy. The RBA is now widely expected to scrap its bond buying program at its meeting next week, with the first cash rate increase fully priced in for around midyear.

25 JANUARY 2022

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