

The headline CPI (unadjusted) rose 2.1% in Q1 2022, the most since the introduction of the goods and services tax in 2000. The Q1 increase took annual CPI inflation to 5.1%, another high in over two decades. The market expectation had been for a 1.7% CPI increase in the quarter and 4.6% YoY.

%, Original	QoQ	YoY
Headline CPI	2.1	5.1
Market Sector Ex Volatile Items	1.7	4.0
Trimmed Mean CPI	1.4	3.7
Goods	2.9	6.6
Services	1.1	3.0
Non-tradables	1.8	4.2
Tradables	2.8	6.8

Quarterly increases were recorded for all major groups, with the notable exception of clothing and footwear (-0.6%). The largest rise was recorded for education (+4.5%), followed by transport (+4.2%) and food (+2.8%). Transport saw the largest increase in prices over the year at 13.7%, with auto fuel up 35.1% YoY.

Across the subgroups, the largest quarterly increase was recorded for automotive fuel (+11.0%), followed by beef and veal (+7.6%). Only 15 out of 87 subgroups saw a decline in prices in Q1, which is the lowest proportion since Q2 1990.

Annual goods price inflation of 6.6% was the highest level since Q4 1990, while services price inflation accelerated to 3.0%.

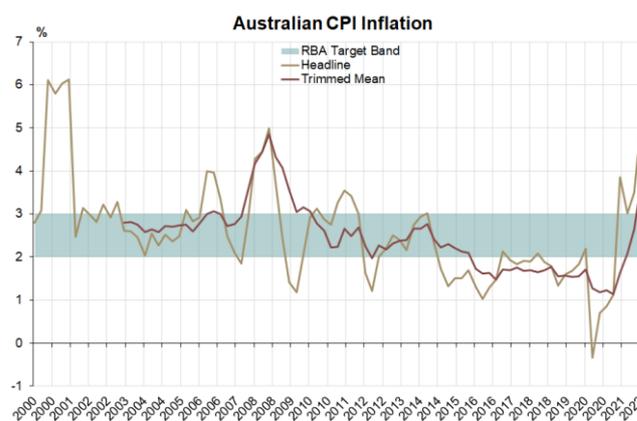
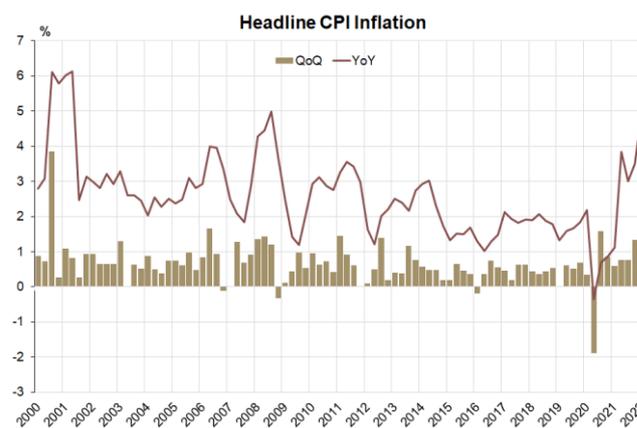
The trimmed mean CPI rose by 1.4%, the most on record (since Q3 2002). Annual trimmed mean inflation, which is the RBA's preferred inflation gauge, rose to 3.7%. This is significantly above than the RBA's target band of 2-3% and the highest level since March 2009.

### States

Perth recorded the highest inflation of all the capital cities in both quarterly (3.3%) and annual terms (7.6%).

The rise in Perth consumer prices over the quarter was led by higher expenses for new dwelling purchases, amid lower government homebuilder grant payments and rising material and labour costs. Electricity costs, were up 116.7% YOY, after costs were kept artificially low in Q4 2020 and Q1 2021 due to the A\$600 household electricity credit introduced by the Western Australian government in October 2020.

Capital Cities (% , Original)	QoQ	YoY
Perth	3.3	7.6
Sydney	1.7	4.4
Melbourne	2.3	4.5
Brisbane	2.2	6.0
Adelaide	1.9	4.7
Hobart	2.0	5.8



### Comment

The Q1 CPI report was an upside surprise across the board. Most importantly, annual CPI inflation is at a two-decade high and annual trimmed mean inflation is the highest it's been in over a decade.

There are a couple of caveats, however. Firstly, recent increases in prices have followed an extended period of subpar inflation. Secondly, around 60% of the increase was due to higher prices for new owner occupier dwellings, automotive fuel and tertiary education. These increases were not driven by demand but by the expiration of government subsidies, higher costs, the rise in global oil prices and the updated student contribution bands and fees.

This notwithstanding, the Q1 CPI figures justify the imminent beginning of the tightening cycle by the RBA. However, we do not expect that this will happen as soon as next week. The RBA has signalled the importance of labour costs in assessing the inflation outlook and the Q1 WPI is scheduled for release after the May RBA meeting. We continue to expect a hike in June, with a risk of a 40bps rather than a 15bps increase on the rise.

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