

The headline CPI (unadjusted) rose 1.8% in Q2 2022, taking the annual inflation rate to 6.1% (the highest level since Q2 2001). This is slightly less than the 1.9% and 6.3% expected by the markets, respectively.

| % , Original | QoQ | YoY |
|---------------------------------|-----|-----|
| Headline CPI | 1.8 | 6.1 |
| Market Sector Ex Volatile Items | 1.6 | 5.3 |
| Trimmed Mean CPI | 1.5 | 4.9 |
| Goods | 2.6 | 8.4 |
| Services | 0.6 | 3.3 |
| Non-tradables | 1.4 | 5.3 |
| Tradables | 2.7 | 8.0 |

The increase in consumer prices was broad-based, and recorded for all major groups of goods and services but education.

Across the subgroups, the largest quarterly increase was recorded for international holiday travel and accommodation (+19.9%), which is a combined effect of lifted travel restrictions in the previous quarter and higher travel costs. Significant increases were recorded for vegetables (+7.3%), impacted by heavy rain and flooding events over east. Higher transport and manufacturing costs were reflected in a 7.0% surge in furniture prices.

However, due to the large share in consumer spending, the largest contribution to the CPI increase in Q2 came from dwellings (+5.6%) and automotive fuel (+4.2%).

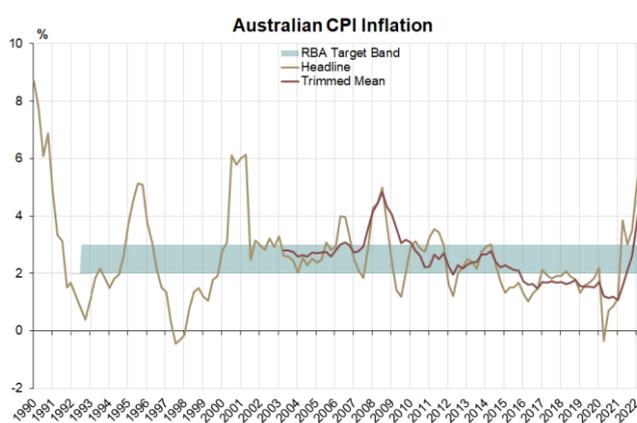
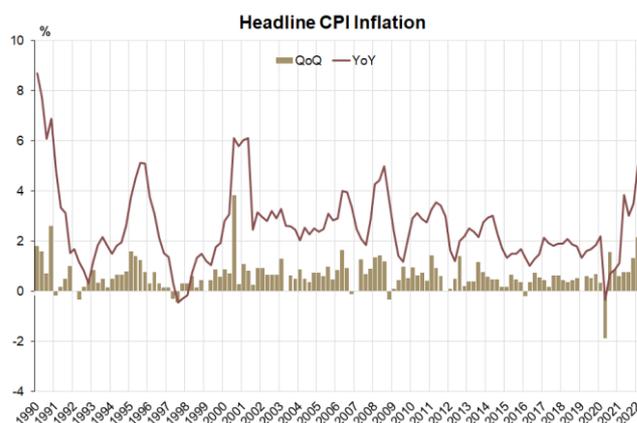
Annual trimmed mean inflation, which is the RBA's preferred inflation gauge, rose to a new record high of 4.9% (since Q2 2003). This is significantly higher than the upper bound of the RBA target range of 2-3%.

States

Perth saw a slightly lower increase in CPI compared to the national average, reflecting slightly slower rises in the prices of dwellings and automotive fuel. However, Perth's annual CPI inflation rate, at 7.4%, was still the highest of all state capital cities, reflecting stronger price increases in the previous quarters.

Across the other state capital cities, the quarterly rise in CPI ranged between 1.6% in Sydney and 2.1% in both Brisbane and Adelaide. The annual inflation rate was 5.3% for Sydney and 7.3% in Brisbane.

| Capital Cities (% , Original) | QoQ | YoY |
|-------------------------------|-----|-----|
| Perth | 1.7 | 7.4 |
| Sydney | 1.6 | 5.3 |
| Melbourne | 1.8 | 6.1 |
| Brisbane | 2.1 | 7.3 |
| Adelaide | 2.1 | 6.4 |
| Hobart | 1.8 | 6.5 |



Comment

Despite missing the elevated market forecasts, the Q2 CPI report was still quite confronting. This is not only because both headline and trimmed mean inflation measures have drifted far away from the RBA target. The measures of inflation driven by demand, the ones that can be impacted by monetary policy decisions, have also accelerated.

The annual inflation index for discretionary goods and services rose to 4.0%, which is the highest level on record. Services price inflation increased to 3.3%, partly dragged down by the impacts of additional childcare subsidies. This was still the highest level since 2013.

Following the downside surprise to the CPI inflation, the expectations for a 75bps cash rate hike next week eased somewhat, but are still over 50% priced in. We see some risk of such a supersized increase, but a 50bps hike remains our baseline scenario.

The Statement on Monetary Policy, which will follow the cash rate decision, will be another important event this week. It will show an upward revision to the CPI forecasts on the one hand, as well as the RBA's thinking on the impacts of high inflation on consumer spending going forward.

27 JULY 2022

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