

## Economic Analysis

## CPI December & Q4 2022

The headline CPI (unadjusted) rose by another 1.9% in Q4 2022, taking the annual inflation rate to 7.8% (the highest level since Q1 1990).

The Q4 inflation figures surprised to the upside. The markets had expected that CPI had increased by 1.6% in the quarter and 7.5% through the year.

The annual rate of trimmed mean inflation, the RBA's favourite inflation gauge, increased to 6.9%, which is a new series high (since Q3 2003).

%, Original	QoQ	YoY
Headline CPI	1.9	7.8
Market Sector Ex Volatile Items	2.0	7.6
Trimmed Mean CPI	1.7	6.9
Goods	1.6	9.5
Services	2.1	5.5
Non-tradables	2.1	7.4
Tradables	1.5	8.7

The monthly CPI indicator suggests that headline inflation rose to 8.4% in December from 7.3% in the previous month. The monthly estimate for trimmed mean inflation was not released this time.

YoY %, Original	Oct-22	Nov-22	Dec-22
Headline CPI	6.9	7.3	8.4
All Groups CPI Ex Volatile Items	6.4	6.7	8.1

### Groups

The strongest increase in prices, both in the entirety of the quarter and in December, was reported for recreation. According to the ABS, this was due to a strong demand for holiday travel and accommodation, particularly during the summer school holidays.

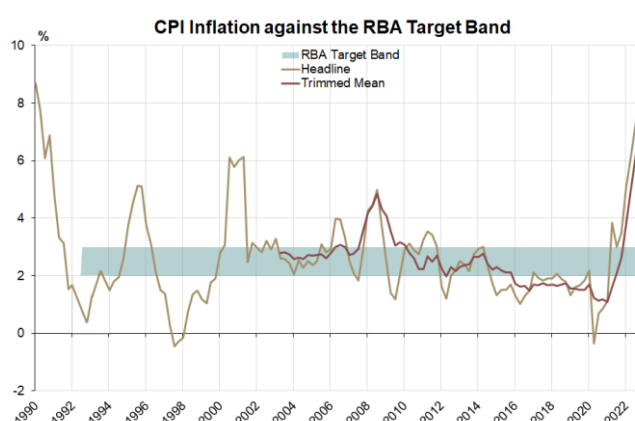
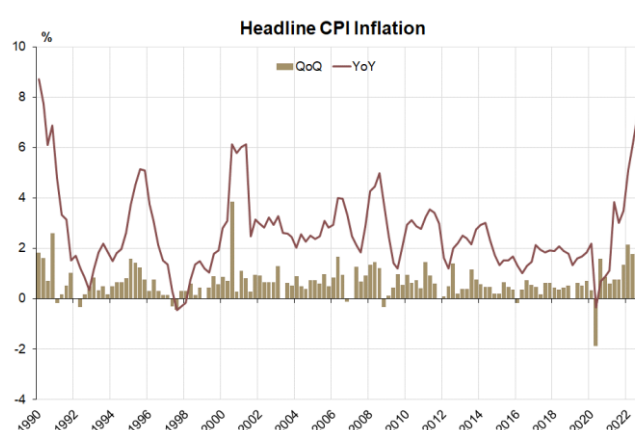
Apart from holiday travel, a significant contribution to the increase in consumer prices came from the housing group, with significant increases in electricity, new dwellings and rents. A rise in automotive fuel prices after restoration of the fuel excise also added to inflation.

### States

Annual rates of CPI inflation in Q4 ranged between 7.6% in Sydney and 8.6% in Adelaide.

Perth saw a 3.6% increase in CPI, driven by a rise in out-of-pocket expenses as households used most of the A\$400 Household Electricity Credit introduced by the Western Australian government in the previous quarter. The annual rate of inflation for Perth rose to 8.3%.

Capital Cities (% , Original)	QoQ	YoY
Perth	3.6	8.3
Sydney	1.8	7.6
Melbourne	1.6	8.0
Brisbane	1.5	7.7
Adelaide	1.7	8.6
Hobart	1.5	7.7



### Comment

The inflation figures for Q4 and December were a large upside surprise to the market participants, who most probably underestimated the magnitude of the surge in travel fares and the impacts of the unwind of the A\$400 electricity credit in Western Australia.

Q4 headline CPI inflation of 7.8% was very close to what was forecast in the RBA November projection (8.0%). However, trimmed mean inflation, which is the RBA's preferred inflation gauge, proved to be somewhat higher than estimated by the RBA (6.9% against 6.5%).

The share of categories, for which the annual rate of price growth accelerated, declined to the still elevated 70%, which was the lowest level in a year. Annual rates of price growth for goods and non-discretionary items were virtually unchanged at very high levels (9.5% and 8.4%, respectively). However, price growth continued to accelerate for services and discretionary items, suggesting ongoing demand pressure.

Following today's release, the probability of a 25bps cash rate hike in February rose back above 50%. We also anticipate such a move, with the timing of any further increases depending on the results of the February projection and the incoming data.

25 JANUARY 2023

### Disclaimer

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