

21 April 2023

March Quarter CPI Preview

Food, clothing & footwear plus dwellings lower the inflationary pressure with utilities and childcare key unknowns.

- Westpac is forecasting 1.4% rise in the March quarter taking the annual pace down 0.8ppt to 7.0%yr from 7.8%yr. We believe that December was the peak for annual inflation and it is expected to continue to moderate from here.
- The reasons behind the step down from 1.9%qtr print in Q4 are the ongoing moderation in pace of price increases for food, a seasonal decline in clothing & footwear, a further moderation in dwellings and household contents & services inflation as well as falling prices for auto fuel and audio visual & computing equipment.
- The Trimmed Mean is forecast to lift 1.4% in March, a moderation from the 1.7% gain in December and the 1.9% gain in September. The annual pace for the Trimmed Mean is set to moderate from 6.9%yr to 6.7%yr. We see the 6.9%yr pace in December as the peak in annual core inflation.
- The Monthly CPI Indicator is a helpful guide to the components of the CPI and we use the data from the January and February surveys to fine tune our forecast.
- An important note:** electricity prices are measured in the last month of each quarter and so the Monthly CPI Indicator is not able to provide an update on electricity prices before the release of the Quarterly CPI (when the last month of the quarter Indicator is released). For more information on the Monthly CPI Indicator, and what it does and does not provide in regards to the quarterly CPI, please see ["Australian Monthly CPI Indicator First Release"](#).
- Despite the additional information provided by the Monthly CPI Indicator there are still many significant unknowns we have to estimate. The most significant this quarter are two that are measured in the last month of each quarter: utilities, with the unwinding of state rebates likely to have a significant impact; and, childcare, where an increase in state support will provide an offset for the recent price increases.
- Overall, the March quarter CPI is set to confirm that inflationary pressures peaked in late 2022 and are set to moderate through 2023.

March Quarter CPI forecast

Item	March 2023 fc		Dec 2022	
	% qtr	contrib	% qtr	contrib
Food	1.8	0.30	0.9	0.15
of which, fruit & vegetables	2.2	0.05	-7.3	-0.18
Alcohol & tobacco	1.1	0.09	1.2	0.11
of which, tobacco	0.6	0.02	1.5	0.05
Clothing & footwear	-2.0	-0.07	2.6	0.09
Housing	1.7	0.41	1.9	0.45
of which, rents	1.7	0.10	1.2	0.07
of which, house purchases	1.5	0.14	1.7	0.16
of which, utilities	2.9	0.12	4.5	0.19
H/hold contents & services	0.2	0.02	1.8	0.16
Health	2.2	0.14	0.8	0.05
of which, pharmaceuticals	5.4	0.06	0.0	0.00
Transportation	0.7	0.07	1.7	0.19
of which, car prices	1.1	0.03	2.2	0.07
of which, auto fuel	-0.7	-0.03	2.2	0.09
Communication	0.3	0.01	-0.5	-0.01
Recreation	0.7	0.06	5.4	0.46
of which, audio vis & comp	-1.1	-0.02	0.1	0.00
of which, holiday travel	0.2	0.00	10.9	0.22
Education	5.5	0.25	0.1	0.00
Financial & insurance services	2.0	0.11	2.0	0.12
CPI: All groups	1.4	-	1.9	-
CPI: All groups % year	7.0	-	7.8	-

Sources: ABS, RBA, Westpac Banking Corporation.

Quarterly CPI forecast vs Monthly Indicator

Item	Mar 23	Dec	Jan	Feb
	Qtr % qtr	Mth % mth	Mth % mth	Mth % mth
Food	1.8	0.8	-0.1	1.0
of which, bread & cereals	1.5	1.6	0.2	-0.2
of which, meat & seafood	1.0	0.7	0.1	0.2
of which, dairy & related prod.	1.1	1.9	-0.5	-0.1
of which, fruit & vegetables	2.2	3.0	-2.9	3.3
of which, food products nec	2.1	1.5	1.1	1.1
of which, non-alcohol bev,	3.3	-0.8	2.9	1.3
Alcohol & tobacco	1.1	-0.2	0.3	1.2
of which, Alcohol	1.3	-0.4	0.5	1.7
of which, Tobacco	0.7	-0.1	0.2	0.2
Clothing & footwear	-2.0	1.2	-3.6	1.5
of which, Garments	-2.5	2.1	-5.0	2.6
Housing	1.7	1.0	0.5	0.3
of which, Rents	1.7	0.5	0.7	0.7
of which, House purchases	1.5	0.9	0.5	0.2
of which, Electricity	1.9	5.6	0.5	0.0
H/hold contents & services	0.2	0.7	-1.6	0.7
Health	2.2	0.2	0.8	0.0
Transportation	0.7	-2.0	0.3	1.8
of which, auto fuel	-0.7	-8.1	1.1	4.1
Communication	0.3	0.2	0.0	0.3
Recreation	0.7	11.0	-3.1	-6.0
of which, holiday travel	0.2	27.0	-7.2	-14.6
Education	5.5	0.0	0.0	5.5
Financial & insurance services	2.0	1.4	0.0	0.7
CPI: All groups %qtr/%mth	1.4	1.5	-0.4	0.2

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December quarter inflation recap

The December quarter CPI rose 1.9% vs. 1.5% forecast; the Trimmed Mean lifted 1.7% vs. 1.6% forecast. Annual inflation lifted to 7.8%yr from 7.3%yr, the fastest since March 1990. Trimmed Mean inflation lifted to 6.9%yr from 6.1%yr, the fastest pace since December 1988 and above the RBA's forecast of 6.5%yr.

The most significant contributions came from domestic holiday travel & accommodation (+13.3%), electricity (+8.6%), and international holiday travel & accommodation (+7.6%).

There was the expected unwinding of WA's \$400 electricity credit offset by Qld's \$175 Cost of Living rebate and Tas's \$119 Winter Bill Buster electricity discount.

Food prices have started to ease

Distribution disruptions have eased somewhat and there has been something of a return to normality with weather conditions and while labour shortages remain, they are not as bad as they were. Fruit & vegetable prices are set firm (2.2%qtr fc) while the Monthly Indicator suggests that price pressures also continued for bread & cereals (1.5%qtr), dairy products (1.1%qtr) and other food products (2.1%qtr).

Food forecast is 1.8% contributing 0.30ppt.

Seasonal discounting of clothing & footwear

Garment prices fell 6% in the January Monthly CPI highlighting the usual New Year sales. While a partial recovery was seen in February, overall clothing & footwear is expected to fall 2% in the March quarter

Clothing & footwear forecast is -2.0% contributing -0.07ppt.

Housing costs moderating despite electricity and rents

Rental costs have lifted and grew 0.7% in both the January and February Monthly CPI surveys and are expected to be at least around this in March. However, new dwelling price inflation has eased meaningfully rising just 0.2% in February, compared with a 0.9% rise in December, and so the moderation in dwelling price inflation is offsetting rising rents inflation.

Rents forecast is 1.7% contributing 0.10ppt.

Dwellings forecast is 1.5% contributing 0.14ppt.

As we covered in our report "[Energy prices driving an out-sized price shock](#)" the Australian energy market has been hit by a perfect storm of rising demand, less output from coal fired base load generation plus record high coal and gas prices. There has been a surge in low cost renewable energy but it has not been enough to offset the loss of coal fired generation nor the rise in gas and coal prices plus the demand for further investment in energy storage and distribution. This resulted in a significant increase in the Default Market Offers (DMO) around the country but many states have offset this increase with energy rebates.

In response the various state governments offer energy rebates - WA and Victoria grants were open to all local residents. WA offered a \$400 rebate against an annual average bill of \$1,990. The Victorian rebate was a bit less generous, \$250 compared to a \$1,220 annual bill. However, the Victorian rebate is a direct cash payment and is considered income by the ABS and did not lower electricity prices in the Melbourne CPI. The WA rebate was provided to the retailer thus lowering power bills and did have an impact on the Perth CPI.

Perth electricity prices collapsed -84% in September due to the rebates then surged 570% in December as prices started to

Quarterly CPI forecast vs Monthly Indicator

	Mar 23	Dec	Jan	Feb
	Qtr	Mth	Mth	Mth
Item	% yr	% yr	% yr	% yr
Food	8.2	8.4	7.4	6.8
of which, bread & cereals	11.9	12.9	12.6	12.5
of which, meat & seafood	4.3	8.4	5.1	3.3
of which, dairy & related prod.	14.0	14.4	14.5	14.3
of which, fruit & vegetables	4.8	9.8	5.1	5.8
of which, food products nec	10.2	11.9	11.1	11.8
of which, non-alcohol bev,	7.8	9.5	9.9	6.6
Alcohol & tobacco	4.4	4.2	4.0	4.3
of which, Alcohol	4.4	4.4	4.3	4.5
of which, Tobacco	4.2	4.0	3.8	4.1
Clothing & footwear	3.9	6.3	3.1	3.7
of which, Garments	4.0	7.2	2.8	3.8
Housing	9.6	10.6	10.4	9.9
of which, Rents	5.1	4.1	4.8	4.8
of which, House purchases	13.1	16.0	14.7	13.0
of which, Electricity	14.2	16.1	16.8	17.2
H/hold contents & services	7.5	8.5	6.8	6.6
Health	3.7	4.2	5.0	5.0
Transportation	4.4	7.2	6.1	5.6
of which, auto fuel	1.2	10.8	7.5	5.6
Communication	1.3	1.5	1.3	1.2
Recreation	9.1	14.4	10.2	6.4
of which, holiday travel	18.2	29.3	17.8	14.9
Education	5.6	4.6	4.6	5.6
Financial & insurance services	6.6	5.0	5.1	5.6
CPI: All groups %qtr/%mth	7.0	8.4	7.4	6.8

Inflation indicators

		Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	(index)	0.68	0.68	0.71	0.73	0.75
AUD/USD %yr	(%yr)	-5.5	-4.5	3.9	11.5	9.1
TWI	(index)	62.6	62.9	63.6	64.4	64.4
TWI %yr	(%yr)	2.3	0.3	1.5	4.5	3.0
Brent US\$bbl	(index)	82	83	83	84	86
Brent %yr	(%yr)	-14.2	-24.6	-13.1	-4.3	5.3
Output gap t-3	(index)	0.31	-0.13	-0.40	-0.48	-0.57

Inflation forecasts

		Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
CPI	(index)	132.6	134.1	135.1	136.0	137.0
	(%qtr)	1.4	1.1	0.7	0.7	0.7
	(%yr)	7.0	6.3	5.2	4.0	3.3
Trimmed mean	(%qtr)	1.4	1.0	0.6	0.7	0.9
	(%yr)	6.7	6.0	4.7	3.7	3.2

normalise post the rebates. With prices back around pre-rebate levels we think the big surge in Perth electricity prices is more likely to be seen in the June rather than March quarter.

In December the credit offset by Qld's \$175 Cost of Living rebate saw electricity prices in Brisbane fall 14% in December while Tas's \$119 Winter Bill Buster electricity discount saw Hobart electricity prices fall 7.3% - we are looking for a partial recovery in both cities in the March quarter. As noted earlier, electricity prices are measured in the last month of the quarter so the Monthly CPI Indicator can't provide any guidance for electricity prices.

Overall housing forecast is 1.7% contributing 0.41ppt.

Furnishings, household goods & services

There was the usual post New Year sales fall in household contents & services in the January Monthly CPI which would have been in furnishing, textiles and other household goods. While we expect that there was something of a recovery in February, that would have continued into March, adding to the ongoing price inflation being seen in household services, the partial data to date suggests this has been quite modest most likely due to softer than expected consumer demand.

Household contents & services forecast is 0.2% contributing 0.02ppt.

The reset to PBS will see the usual Q1 surge in health costs

Pharmaceutical prices should experience their usual seasonal rise as families health expenditure is reset to zero and is now below the threshold to qualify for support under the Pharmaceutical Benefit Scheme (PBS). However, following a 0.8% gain in January, health in Monthly CPI was flat in February.

Health costs forecast 2.2% contributing 0.014ppt.

Falling crude prices have helped to lower fuel costs

Auto fuel prices did rise in January and February (1.1% and 4.1% respectively). Pump price data is pointing to a 2.1% fall in March, which on a quarterly average basis is consistent with a 0.7% fall in the quarterly CPI survey.

Offsetting falling fuel prices in the March quarter will be further gains in vehicles, spare parts, maintenance and other services.

Transport forecast 0.7% contributing 0.07ppt.

Recreation & culture rebounds from lock-downs

The Monthly CPI provides price data on holiday travel with falls of 7.2% in January and 14.6% in February. Industry data is pointing to something of a modest recovery in airfares in March so we are looking for holiday travel to be flat in the quarter.

Recreation & culture forecast is 0.7% contributing 0.06ppt.

Education inflation could be suppressed by childcare rebates

The Monthly CPI has education lifting 5.5% in January with this month being the time of the annual price reset.

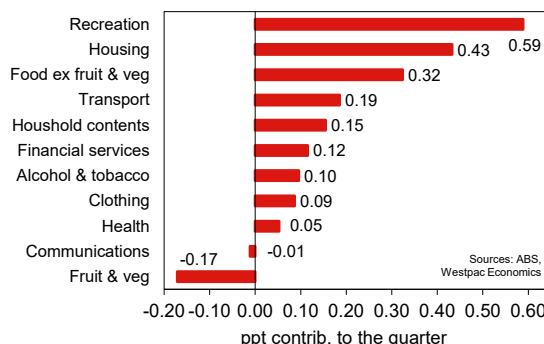
For the March quarter overall there is some degree of uncertainty this year around childcare. A major childcare chain lifted prices 6% from 30 January but there should be something of an offset from the NSW and Victorian state governments increasing childcare assistance.

Education forecast is 5.5% contributing 0.25ppt.

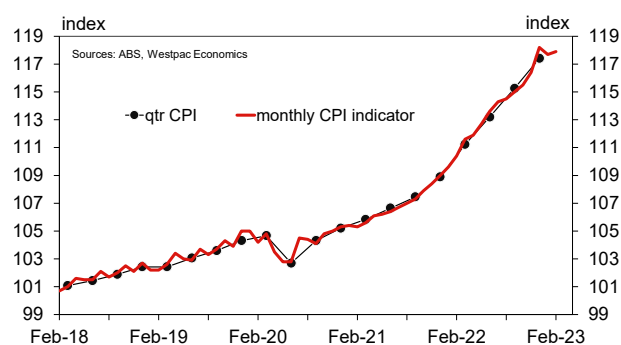
Inflationary pressures are moderating

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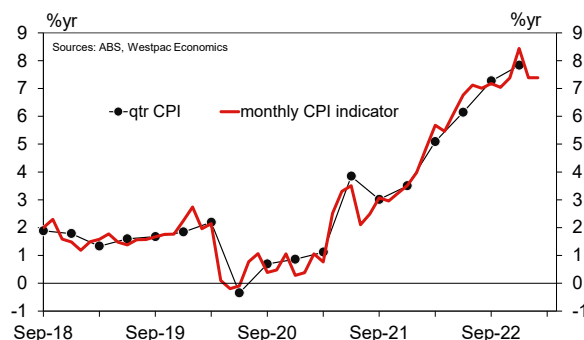
Contributions 2023Q1 CPI 1.4%qtr print



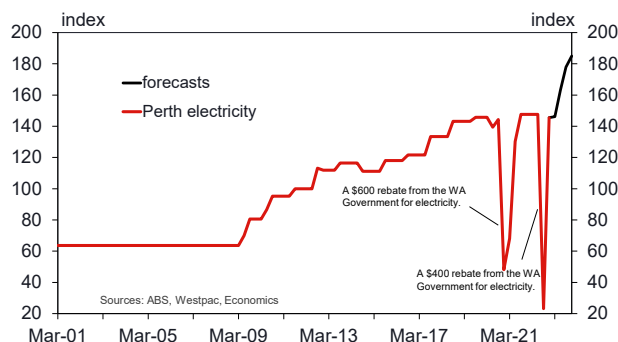
CPI Monthly Indicator vs. qtr CPI



CPI Monthly Indicator vs. qtr CPI



WA electricity rebates return



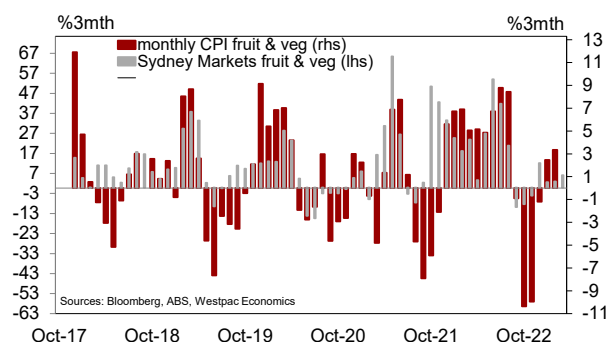
The Trimmed Mean is forecast to rise 1.4% moderating from the 1.7% gain in the December quarter and 1.9% in the September quarter (likely to be the peak in quarterly pace this cycle). The annual pace is set to ease from 6.9%yr to 6.7%yr with the two quarter annualised pace easing from 7.3%yr to 6.3%yr.

Recall that the prices that are seasonally adjusted in the core measures and the top 15% by weighted change are trimmed off the top and bottom. Trimmed off the top are; fruit (6.3%), international travel & accommodation (6.2%), secondary school education (4.5%), newspapers (4.1%), tertiary education (3.9%), oils & fats (3.6%), spare parts & accessories or motor vehicles (3.4%), other household non-durables (3.2%), pets & related products (3.0%), dwellings maintenance & repairs (2.4%), electricity (2.4%), bread (2.4%), gas & other household fuels (2.4%). The top of the range Trimmed Mean estimate is 2.2%.

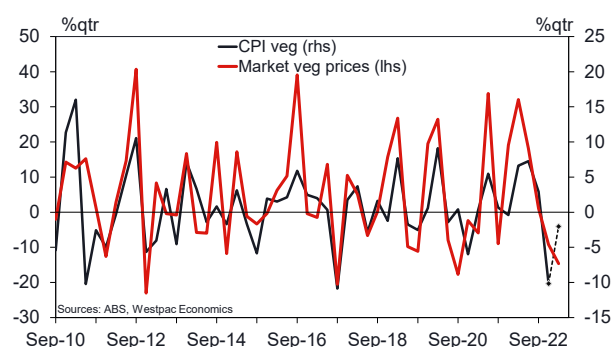
Trimmed off the bottom are; vegetables (-4.0%), infants footwear (-2.6%), footwear for women (-2.6%), footwear for men (-2.1%), garments for men (-1.7%), automotive fuel (-0.7%), garment for women (-0.6%), beef & veal (-0.6%), telecommunication equipment (-0.3%), poultry (-0.2%), pork (-0.2%), fish (-0.2%), lamb & goat (-0.1%), glassware etc. (0.0%), audio visual & computing services (0.1%), children's garments (0.1%), audio visual & computing equipment (0.2%), therapeutic appliances & equipment (0.2%). The bottom Trimmed Mean estimate is 0.4%.

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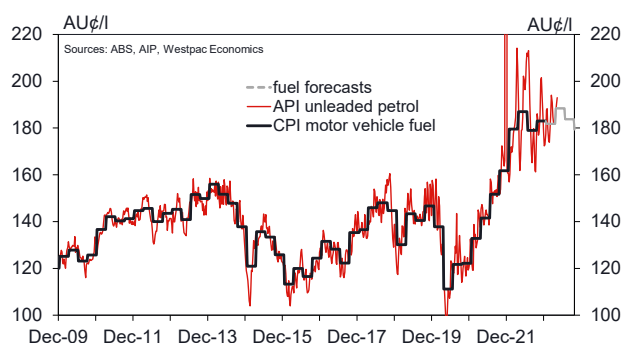
Monthly fruit & veg three month change



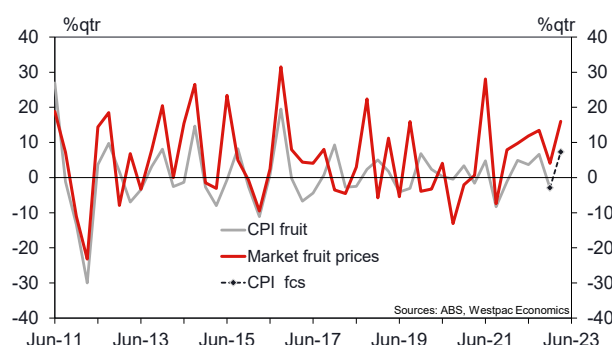
Vegetable prices, wholesale & CPI



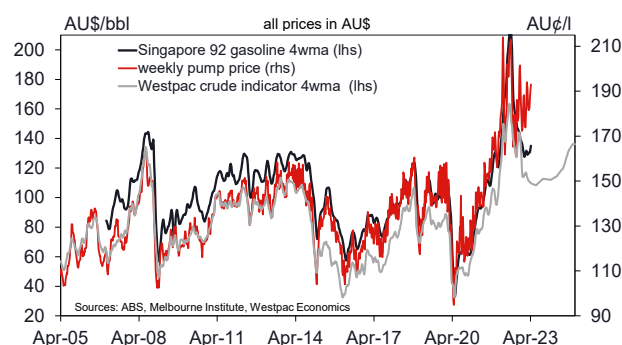
Weekly bowser price & CPI auto fuel



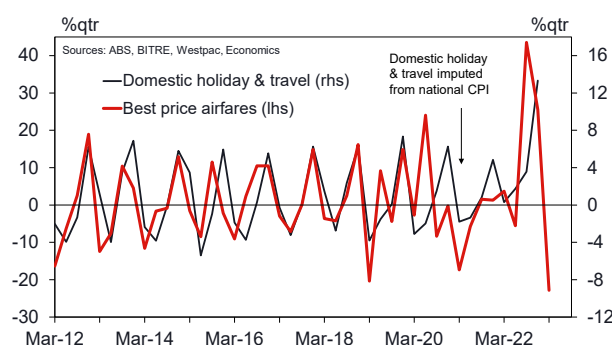
Fruit prices, wholesale & CPI



Aust. fuel at a premium to crude & Sing.

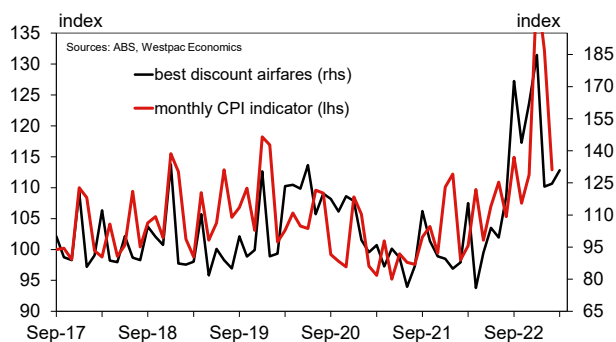


Domestic holidays & travel

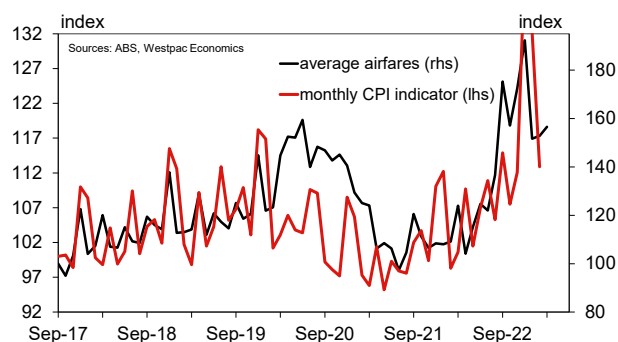


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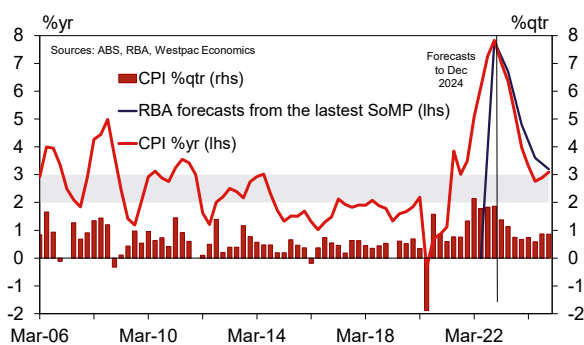
Monthly travel & accom vs. airfares



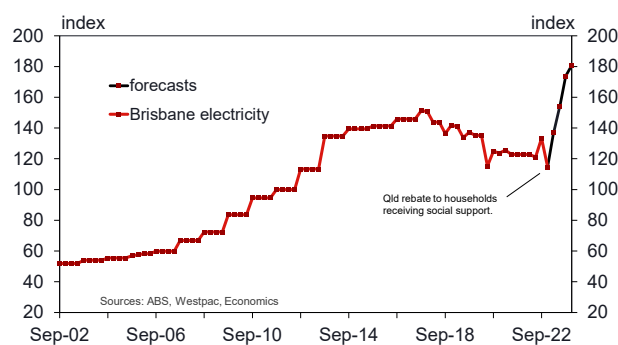
Monthly travel & accom vs. airfares



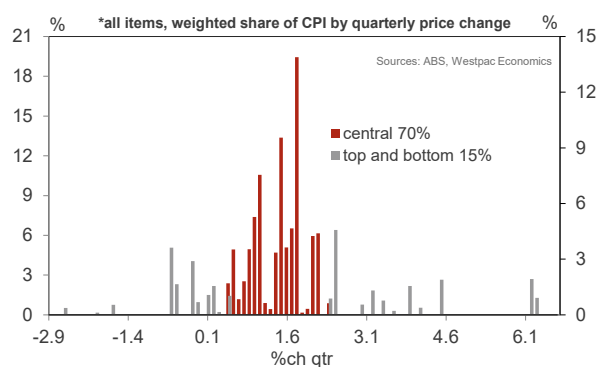
Westpac vs. RBA CPI forecasts



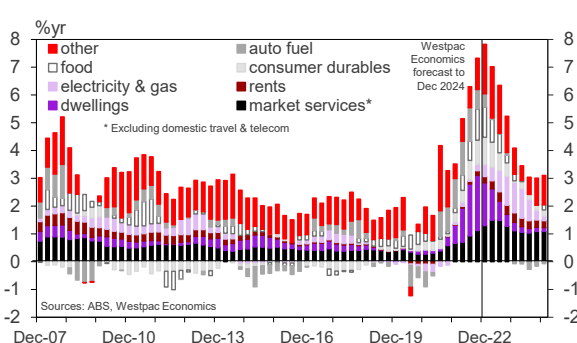
Qld rebate has a modest impact



Distribution of seasonally adjusted Q CPI fcs



Contributions to annual inflation



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