

8 August 2023

June Quarter CPI Deeper Insights

The ongoing moderation in core services inflation resulted in a downward revision to our inflation forecasts.

- The Headline CPI printed 0.8%qtr/6.0%yr; Trimmed Mean 0.9%qtr/5.9%yr; Weighted Median 1.0%qtr/5.5%yr; Market services ex volatile 1.2%qtr/6.8%yr.
- The June quarter CPI surprised to the downside, lifting just 0.8%qtr compared to market expectation for 1.0% and Westpac's forecast for a 1.1% lift. This represents a significant moderation in the annual pace of inflation, from 7.8%yr in December 2022, to 7.0%yr in March 2023, now to 6.0%yr in June 2023.
- The Monthly CPI Indicator was also softer than expected in the month of June, gaining just 0.7% to be up 5.4% over the year.
- The Trimmed Mean also came softer than expected, rising just 0.9%qtr for an annual pace of 5.9%yr – a significant step down from the recent peak of 6.9%yr in December 2022.
- The six-month annualised pace of core inflation is now just 4.3%yr compared to 6.0%yr in March and the recent peak of 7.4%yr in December 2022.
- The moderation in core inflation was also seen in the Monthly CPI Indicator Trimmed Mean, which rose 6.0%yr to June compared to May's 6.1%yr and December's peak of 7.2%yr.
- This moderation is also apparent in core services inflation (i.e. market services ex volatile). While the through the year pace held at 6.8%yr in June, the six month annualised pace dropped from 9.3%yr in December 2022 to 7.4%yr in March 2023 then down to 4.3%yr in June. It is this moderation in core market services inflation that gave us confidence to mark down the momentum in our inflation forecasts.
- We have incorporated this step-down in momentum into our inflation forecasts. Compared to our forecasts before the released of the Q2 CPI we have revised our end-2023 CPI forecast from 4.3%yr to 3.9%yr and our end-2023 Trimmed Mean forecast from 4.1%yr to 3.8%yr. At this stage our end-2024 forecast for the CPI is unchanged at 3.2%yr while our Trimmed Mean is 3.1%yr (was 3.3%yr).
- However, there is a step-down in the momentum in the second half of 2024, with a six month annualised pace of 2.8%yr expected for both the CPI and the Trimmed Mean at end 2024.

June Quarter CPI forecast vs actual

Item	June 2023		June 2023 f/c	
	% qtr	contrib	% qtr	contrib
Food	1.6	0.28	1.8	0.31
of which, fruit & vegetables	2.4	0.06	2.8	0.07
Alcohol & tobacco	1.0	0.09	1.3	0.11
of which, tobacco	1.1	0.04	1.3	0.05
Clothing & footwear	0.6	0.02	2.0	0.07
Housing	0.8	0.20	0.9	0.22
of which, rents	2.5	0.15	2.4	0.14
of which, house purchases	1.0	0.10	1.2	0.11
of which, utilities	-1.1	-0.05	-1.2	-0.05
H/hold contents & services	2.1	0.19	2.4	0.22
Health	-0.1	0.00	0.7	0.04
of which, pharmaceuticals	-1.0	-0.01	-1.1	-0.01
Transportation	-0.1	-0.01	0.7	0.08
of which, car prices	-0.6	-0.02	1.0	0.03
of which, auto fuel	-0.7	-0.03	0.5	0.02
Communication	-0.4	-0.01	0.6	0.01
Recreation	-0.2	-0.02	-0.4	-0.03
of which, audio vis & comp	0.1	0.00	0.4	0.01
of which, holiday travel	-2.0	-0.04	-2.0	-0.04
Education	-0.2	-0.01	0.0	0.00
Financial & insurance services	3.0	0.17	2.5	0.14
CPI: All groups	0.83	-	1.13	-
CPI: All groups % year	6.0	-	6.3	-

Sources: ABS, RBA, Westpac Banking Corporation.

Quarterly CPI vs Monthly Indicator

Item	June 23	Apr	May	Jun
	Qtr % qtr	Mth % mth	Mth % mth	Mth % mth
Food	1.6	0.2	1.0	-0.1
of which, bread & cereals	2.9	1.7	1.7	-0.5
of which, meat & seafood	0.1	0.2	0.4	-1.0
of which, dairy & related prod.	1.6	0.2	-0.2	0.8
of which, fruit & vegetables	2.4	-0.7	1.4	1.0
of which, food products nec	1.1	0.4	-0.2	0.3
of which, non-alcohol bev,	2.2	2.0	-0.1	-2.0
Alcohol & tobacco	1.0	0.1	0.1	-0.1
of which, Alcohol	1.0	-0.1	0.1	-0.1
of which, Tobacco	1.1	0.7	-0.2	-0.2
Clothing & footwear	0.6	1.9	-1.9	-1.8
of which, Garments	1.6	3.9	-3.2	-2.8
Housing	0.8	0.3	0.2	0.3
of which, Rents	2.5	0.8	0.8	0.9
of which, House purchases	1.0	0.5	0.4	0.2
of which, Electricity	-1.8	-0.9	-0.8	-0.9
H/hold contents & services	2.1	1.5	0.3	0.1
Health	-0.1	0.1	0.0	0.2
Transportation	-0.1	0.9	-2.0	1.0
of which, auto fuel	-0.7	2.9	-6.7	3.8
Communication	-0.4	-0.7	0.8	-1.1
Recreation	-0.2	2.8	-4.4	4.8
of which, holiday travel	-2.0	7.2	-11.3	10.9
Education	-0.2	0.0	0.0	-0.3
Financial & insurance services	3.0	0.0	1.1	1.7
CPI: All groups %qtr/%mth	0.8	0.7	-0.4	0.7

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Monthly CPI confirms inflation pace continues to moderate

The June quarter CPI surprised to the downside, continuing the trend of that while prices are still rising, many of these increases are smaller than they have been in recent quarters.

While it may not get the same headlines as the Quarterly CPI, it is important to note that the Monthly CPI Indicator rose just 0.7% in June for an annual pace of 5.4%yr. That compares to our forecast for a 1.0%mt/5.8%yr lift. That the Quarterly CPI was up 6.0%yr suggests the momentum through the June quarter was also softer than anticipated, with the monthly index starting at a lower point that we had thought it would.

The Monthly CPI Indicator is still under development. The ABS plan to produce a true monthly CPI series, as opposed to the current indicator which releases the Quarterly CPI data as it becomes available.

This month, the ABS introduced a monthly gas series with a history back to October 2021 (which resulted in some revision to the Monthly CPI Indicator history). The new monthly gas series is being used to compile the gas & other household fuel series in the Quarterly CPI going forward. Also of note, there were no revisions made to the Quarterly CPI history.

We have to recognise that the overall momentum in the Monthly CPI Indicator is softer than we had been anticipating. This is something we are watching closely for should it continue, it would suggest further downside risk to our inflation forecasts.

Core measures are disinflating and there are signs that core services inflation has peaked

As mentioned earlier, the Trimmed Mean surprised with a softer than expected increase of 0.9%qtr to be up 5.9% in the year to June. This saw the six-month annualised pace slow to 4.3%yr compared to 6.0%yr in March and the recent peak of 7.4%yr in December 2022. If this disinflationary momentum continues through the second half of the year, then it would suggest downside risk to our end-2023 target for the Trimmed Mean of 3.8%yr. Note this has been revised down from 4.1%yr since the June CPI release.

Recall that prices that are seasonally adjusted in the core measures and the largest 15% by weighted change are trimmed off the top and bottom. Trimmed off the top are: rents (2.5%), motor vehicle spare parts (2.5%), other financial services (2.5%), poultry (2.5%), take away foods (2.7%), other food products (2.8%), postal services (3.4%), ice cream (4.1%), bread (5.2%), garments for infants (5.6%), insurance (5.7%), household textiles (6.4%) and international holiday travel (6.4%).

The top of the range for the Trimmed Mean estimate is 2.5%.

Trimmed off the bottom are: domestic holiday travel (-4.5%), garments for women (-2.4%), accessories (-2.2%), footwear for men (-1.9%), medical & hospital services (-1.4%), footwear for women (-1.3%), glassware (-1.2%), major household appliances (-1.1%), gas other household fuels (-1.0%), beef & veal (-0.8%) and automotive fuel (-0.7%).

The bottom of the range for the Trimmed Mean estimate is -0.7%.

As you can see from the numbers above, we are starting to see longer tails for the distribution of seasonally adjusted price changes in June - from a low of -4.5% to a high of 6.4% - suggesting the inflationary force has a less clear upwards bias. This is also present in the share of expenditure categories running faster than a 3%yr pace, having fallen to 72%, the lowest share since Jun-22 and well down from the Dec-22 peak of 90%.

Quarterly CPI vs Monthly Indicator %yr

	June 23	Apr	May	Jun
	Qtr	Mth	Mth	Mth
Item	% yr	% yr	% yr	% yr
Food	7.5	7.9	7.9	7.0
of which, bread & cereals	11.6	11.4	12.8	10.9
of which, meat & seafood	3.5	4.4	3.8	2.7
of which, dairy & related prod.	15.2	14.5	15.1	15.0
of which, fruit & vegetables	1.6	3.5	2.7	1.0
of which, food products nec	11.3	11.7	11.5	10.5
of which, non-alcohol bev,	8.6	9.7	9.2	6.8
Alcohol & tobacco	4.7	4.8	4.7	4.6
of which, Alcohol	5.0	5.1	5.0	5.1
of which, Tobacco	4.2	4.3	4.1	3.8
Clothing & footwear	0.3	2.0	-0.4	-0.7
of which, Garments	0.4	3.5	-0.6	-1.2
Housing	8.1	8.8	8.3	7.4
of which, Rents	6.7	6.1	6.3	7.3
of which, House purchases	7.8	9.2	8.3	6.6
of which, Electricity	13.4	15.2	14.1	10.2
H/hold contents & services	6.3	26.3	27.2	22.2
Health	4.9	6.3	6.0	6.3
Transportation	1.9	4.7	4.7	5.2
of which, auto fuel	-3.6	7.1	0.8	-0.9
Communication	0.7	9.5	-8.0	-10.6
Recreation	6.8	0.2	1.1	0.6
of which, holiday travel	12.2	6.4	3.5	6.8
Education	5.2	11.9	7.3	12.9
Financial & insurance services	8.5	5.5	5.5	5.2
CPI: All groups %yr	6.0	6.7	5.5	5.4

Inflation history

		Sep-22	Dec-22	Mar-23	Jun-23
CPI	(index)	128.4	130.8	132.6	133.7
	(%qtr)	1.8	1.9	1.4	0.8
	(%yr)	7.3	7.8	7.0	6.0
CPI sa	(%qtr)	1.9	1.9	1.3	0.9
	(%yr)	7.3	7.8	7.0	6.1
Trimmed Mean	(%qtr)	1.9	1.7	1.3	0.9
	(%yr)	6.2	6.9	6.6	5.9
Goods	(%qtr)	2.1	1.6	1.2	0.9
	(%ann)	9.6	9.5	7.6	5.8
Services	(%qtr)	1.6	2.1	1.7	0.8
	(%ann)	4.1	5.5	6.1	6.3
Market goods ex vol	(%qtr)	2.3	1.8	0.8	1.2
	(%ann)	9.1	9.4	7.7	6.2
Market services ex vol	(%qtr)	1.8	2.7	0.9	1.2
	(%ann)	4.8	6.4	6.8	6.8
Market G&S ex vol	(%qtr)	2.1	2.2	0.9	1.2
	(%ann)	7.5	8.3	7.4	6.5

Half Year Annualised Inflation

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Trimmed Mean	6.3	7.2	7.4	6.0	4.3
Goods	11.6	9.7	7.4	5.5	4.2
Services	3.6	4.5	7.6	7.8	5.1
Market G&S ex vol	7.8	8.7	8.9	6.2	4.1
Market services ex vol	3.5	6.1	9.3	7.4	4.3

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It is true that goods inflation is now well past the peak, rising 5.8% in the year to June compared to 7.6%yr in March and the recent peak of 9.6%yr in September 2022.

But we may have also seen the peak for services inflation. For while it is up 6.3% in the year to June – the strongest pace since 6.7%yr in March 2001 – the six month annualised pace actually moderated, from 7.8%yr in March to 5.1%yr June. This moderation is even apparent in core services (market services ex volatile), where the annual pace held at 6.8%yr in March and June, but the six month annualised pace dropped from 9.3%yr in December 2022, to 7.4%yr in March 2023, to 4.3%yr in June.

The Monthly CPI Indicator suggests the moderation in core inflation continued through the month of June

The Monthly Indicator includes a number of core measures which we can compare to the Quarterly CPI. Excluding volatile items, the quarterly pace of the Monthly Indicator slowed from 1.9% in December to 1.3% in March then 1.1% in June. The annual pace has slowed from a peak of 8.3%yr in December to 6.2%yr in May, holding this pace in June. This compares to the Quarterly CPI ex volatile, which rose 2.0% in Q4, 1.4% in Q1 and 0.9% in Q2, with the annual pace easing from a peak of 7.6%yr in Q4 down to 6.5%yr in Q2.

The ABS has done a lot of work to improve the Trimmed Mean from the Monthly Indicator and while it is only released on a through the year basis, it does have a good fit with annual growth in the Quarterly Trimmed Mean. From the Monthly Indicator, the Trimmed Mean has dropped from a peak of 7.2%yr in December to 6.0% June. This compares to the peak of 6.9%yr in the December quarter CPI, following a moderation to 5.9%yr in the June quarter. Westpac is forecasting the Quarterly Trimmed Mean to moderate further to 4.7%yr in the September quarter and the momentum in the Monthly Indicator Trimmed Mean appears to be consistent with this forecast.

Westpac errors in the June quarter forecast were mostly small but widespread

Relative to our forecast for the June quarter CPI, the largest error was in transport which fell -0.1%qtr compared to our forecast for a 0.7% increase. The contribution error was +0.09pt. This was due to both car prices and auto fuel prices falling when we had expected a modest rise in both. As noted by the ABS, automotive fuel prices fell 0.7% in the quarter, with the main contributor being a 6.5% fall in diesel prices. As we had expected, unleaded petrol rose slightly at 0.3%. Compared to June 2022, unleaded petrol prices are 3.2% lower while diesel prices are 10.1% lower. The ABS noted that the gap between unleaded petrol prices and diesel prices is the smallest since March 2022.

As you can see in the left table on Page 1, all other errors were quite small but widespread, summing to 0.19ppt. This suggests the disinflationary force is wider than we had anticipated.

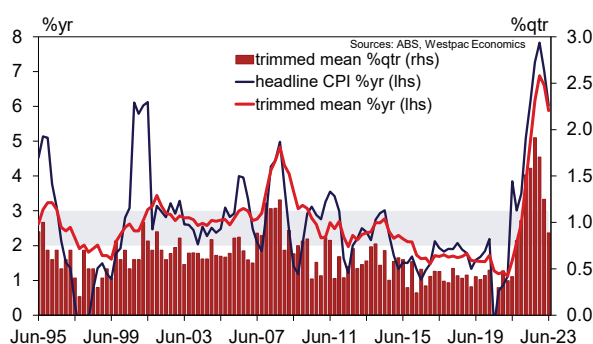
The most significant contributors to the June quarter rise were rents (+2.5%), international holiday travel & accommodation (+6.2%), other financial services (+2.5%), and new dwelling purchases by owner-occupiers (+1.0%).

It is also worth noting that utilities prices fell 1.1% in June, driven by electricity (-1.8%) plus gas and other household fuels (-1.2%). The ABS notes that electricity prices declined due to falls in some market offer plans. Gas fell due to winter concession pricing starting in May in Melbourne in addition to some falls in some market offer plans.

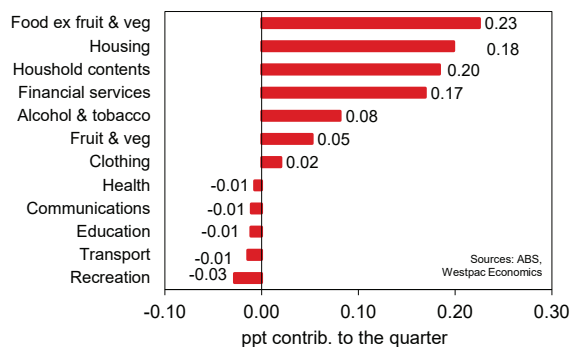
Inflation forecasts

		Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
CPI	(index)	134.9	135.9	137.1	138.3	139.4
	(%qtr)	0.9	0.7	0.9	0.9	0.8
	(%yr)	5.1	3.9	3.4	3.4	3.3
Trimmed mean	(%qtr)	0.8	0.8	0.8	0.8	0.7
	(%yr)	4.7	3.8	3.3	3.3	3.1

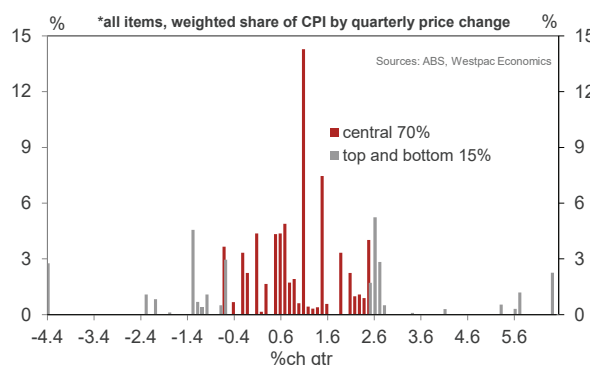
Inflation; headline and core



Contributions 2023Q2 CPI 0.8%qtr print



Distribution of seasonally adjusted Q2 CPI



Food marginally softer +1.6% vs. +1.8% forecast

Meals out & take away foods rose 1.7% due to higher input costs including ingredients, energy, rents and wages. Fruit & vegetables lifted 2.4% due to cooler weather reducing supply of tomatoes and cucumbers, and further price rises for frozen vegetables. Bread & cereal products rose 2.9% in response to higher production costs.

Alcohol & tobacco on the soft side +1.0% vs. +1.3% forecast

Beer lifted +1.5%, spirits +1.6% while tobacco rose +1.1% all on the soft side of expectations.

Clothing & footwear much softer at +0.6% vs. +2.0% forecast

Garments rose 1.6% while footwear lifted 1.4% due to the introduction of new season winter stock. This was a softer than usual post-sales increase, with seasonally adjusted prices falling 0.9%. The main contributor was garments for women which declined 2.4% on a seasonally adjusted basis.

Housing close to forecast at +0.8% vs. +0.9% forecast

As a group, housing prices rose 0.8% driven by increases in rents (+2.5%) and new dwelling purchase by owner-occupiers (+1.0%). As noted earlier, the rise was partially offset, as expected, by a fall in utilities (-1.1%). Rents continue to rise across all capital cities reflecting strong demand amid low vacancy rates. Rental prices are up 6.7% in the year to June, the largest annual rise since 2009. The ABS also noted that rental price growth for flats continues to outpace growth for houses across the capital cities. In regards to dwelling prices, the ABS noted that the rate of price growth has continued to ease due to softening new demand and an easing in material costs.

As expected, utilities fell 1.1% due to a 1.8% fall in electricity and a 1.2% fall in gas & other household fuels. Electricity prices fell due to falls in some market offer plans. Gas fell due to winter concession pricing starting in May in Melbourne, and falls in some market offer plans. It does appear that this year, the price adjustment was less than usual as in seasonally adjusted terms, the group rose 1.2%.

Household contents & services a touch softer at +2.1% vs. +2.4% forecast

Furniture & furnishings rose +4.2% while household textiles lifted 9.5% due to prices returning from post-Christmas discounting in the previous quarter. Child-care (+1.5%) and hairdressing (+2.2%) rose due to higher wages, utilities and supply costs for businesses. This was a stronger than usual increase, with seasonally adjusted prices for the group up 1.2%. The main contributor was household textiles (+6.4%).

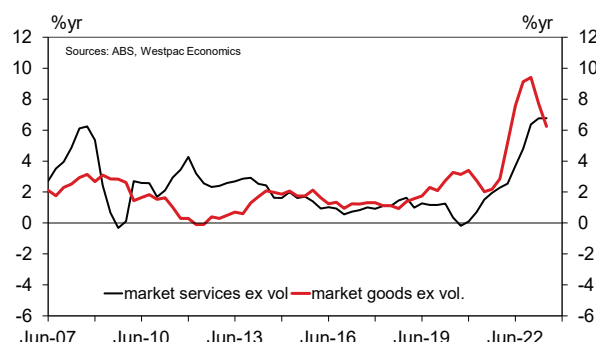
Health quite a bit softer at -0.1% vs. +0.7% forecast

Pharmaceuticals fell 1.0% due to an increase in the proportion of consumers who qualify for subsidies under the Pharmaceutical Benefits Scheme (PBS). Medical & hospital services were flat (0.0%). Typically, private health insurance providers increase premiums in April, but the majority did not do so this year. In seasonally adjusted terms the group fell 0.9%. The main contributor was medical & hospital services (-1.4%).

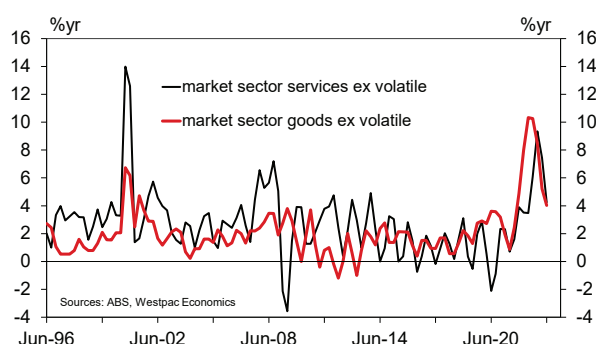
Transport fell -0.1% compared to a +0.7% forecast

Automotive fuel fell 0.7% due to falling diesel wholesale prices. Automotive fuel prices rose 2.9% in April, fell 6.7% in May and rose 3.8% in June. Motor vehicles fell 0.6%, the first quarterly fall since March 2020. Easing demand and improvement in supply of parts for manufacturing saw small discounts in some prestige and low-emission vehicles.

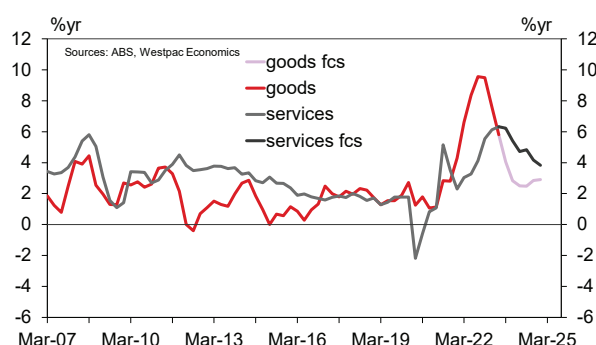
Market services inflation peaking



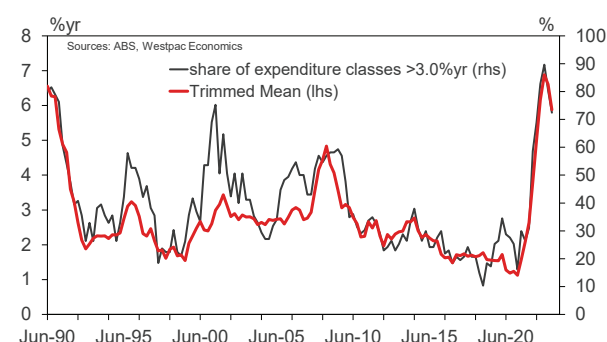
Two quarter annualised inflation



Services inflation moderating to 4%yr



Inflationary pressures have eased back



Communication fell -0.4% compared to a +0.6% forecast

A fall of 0.7% in telecommunication equipment & services was the main contributor. This appears to be a seasonal fall with the seasonally adjusted group being flat in the quarter.

Recreation & culture fell -0.2% compared to a -0.4% forecast

Domestic holiday travel fell 7.2% due to discounting in airfares, with accommodation also falling after the end of the summer school holiday period. International holiday travel & accommodation rose 6.2% as many European destinations entered their peak season. This appears to be close to the seasonal normal with this the group up 0.3% in seasonally adjusted terms.

Education falls with state rebates, -0.2% vs. 0.0% forecast

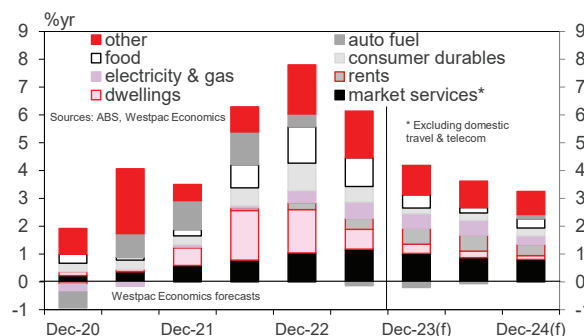
Preschool & primary education fell 1.2% as the NSW and Victorian Governments 'Start Strong' and 'Free Kinder' programs continued to provide fee relief for families with children in pre-school, resulting in reduced out-of-pocket expenses. In seasonally adjusted terms, the group rose 0.4% in the quarter.

Insurance & finance lifts +3.0%, forecast was +2.5%

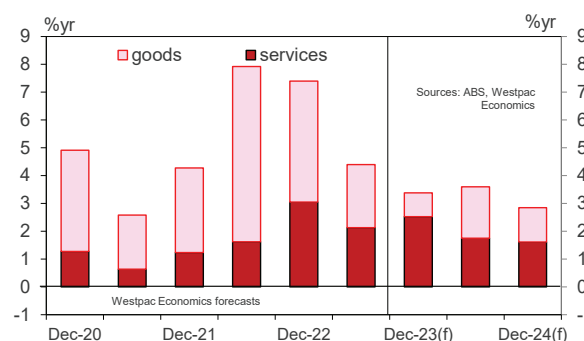
This was the strongest quarterly rise in the insurance & financial services group since 2008. Other financial services (+2.5%) was the main contributor due to stamp duty and higher real estate agent fees. Insurance (+5.3%) rose across house, house contents and motor vehicle insurance.

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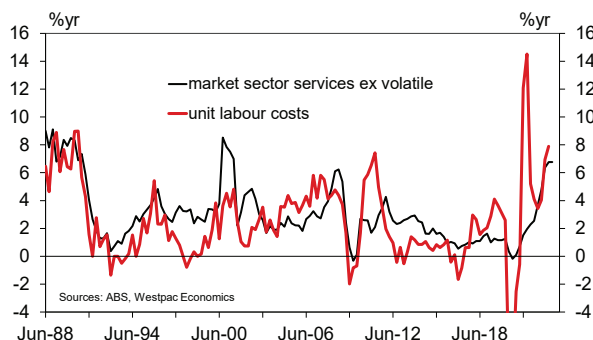
Contributions to annual inflation



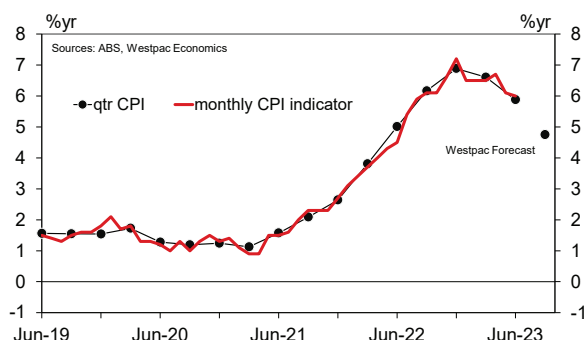
Six-month annualised contributions



Unit labour costs & services inflation



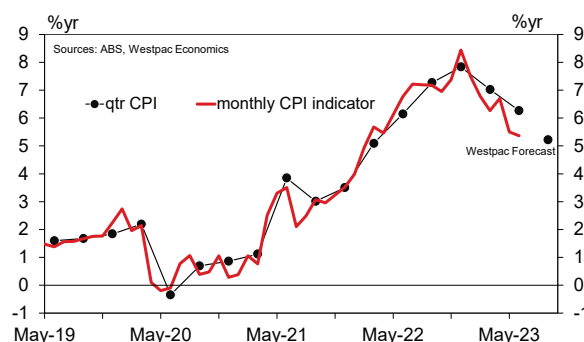
Annual inflation trimmed mean measures



Inflation indicators

		Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	(index)	0.67	0.67	0.68	0.69	0.70
AUD/USD %yr	(%yr)	-6.5	-2.5	2.9	0.4	5.3
TWI	(index)	60.4	62.8	62.3	63.0	63.1
TWI %yr	(%yr)	-3.6	0.3	1.1	2.7	4.5
Brent US\$bbl	(index)	78	84	78	81	84
Brent %yr	(%yr)	-29.3	-12.5	-11.1	-1.1	8.6
Output gap t-3	(index)	-0.13	-0.40	-0.48	-0.57	-0.63

CPI Monthly Indicator vs. qtr CPI



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