

MONTHLY CPI

**USED CORRECTLY IT IS A
POWERFUL INDICATOR OF THE
INFLATIONARY PULSE.**

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Westpac Institutional Bank

30 August 2023



July will set the tone for September quarter CPI

- The key risk this month is electricity.
- This is partly due to the ABS only very recently introducing a monthly electricity series; historically, electricity was surveyed quarterly, and the reported monthly changes only go back to September 2021. Prior to that, electricity price changes appear in the last month of each quarter. This data provides a rough guide for broad trends but does little to help us understand monthly seasonality.
- For the previous round of rebates in September 2022, electricity prices fell -4.3% in September, then bounced 10.8% in October to fall -0.2% in November.
- For the coming quarter, there is the tension of the recent round of price increase vs. various state rebates. Also, with the move to monthly reporting this will pick up various billing cycles as well as the timing of the rebates which are subject to various eligibility criteria. The rebates in NSW are for first home buyers while they go to everyone in Victoria but as they are paid to the households, and don't directly reduce power bills, they will be treated as income by the ABS and won't affect the CPI.
- We estimate the net impact will be a 7% rise in the quarter but don't know how it will be spread over the quarter, so we have pencilled in a 2.4% increase in the month. If all the rebates are applied earlier, it could be smaller or even negative; if the rebates are spread out, the monthly increase could be larger.
- For the above reasons we're more uncertain than usual for our July Monthly Indicator forecast. As such, it will be a critical update on inflation momentum and thus form an important base for our September quarter CPI forecast.

0.2%

Monthly increase held back by moderating food prices, ongoing fall in clothing & footwear and falling auto fuel prices.

Breakdown of July Monthly CPI Indicator

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

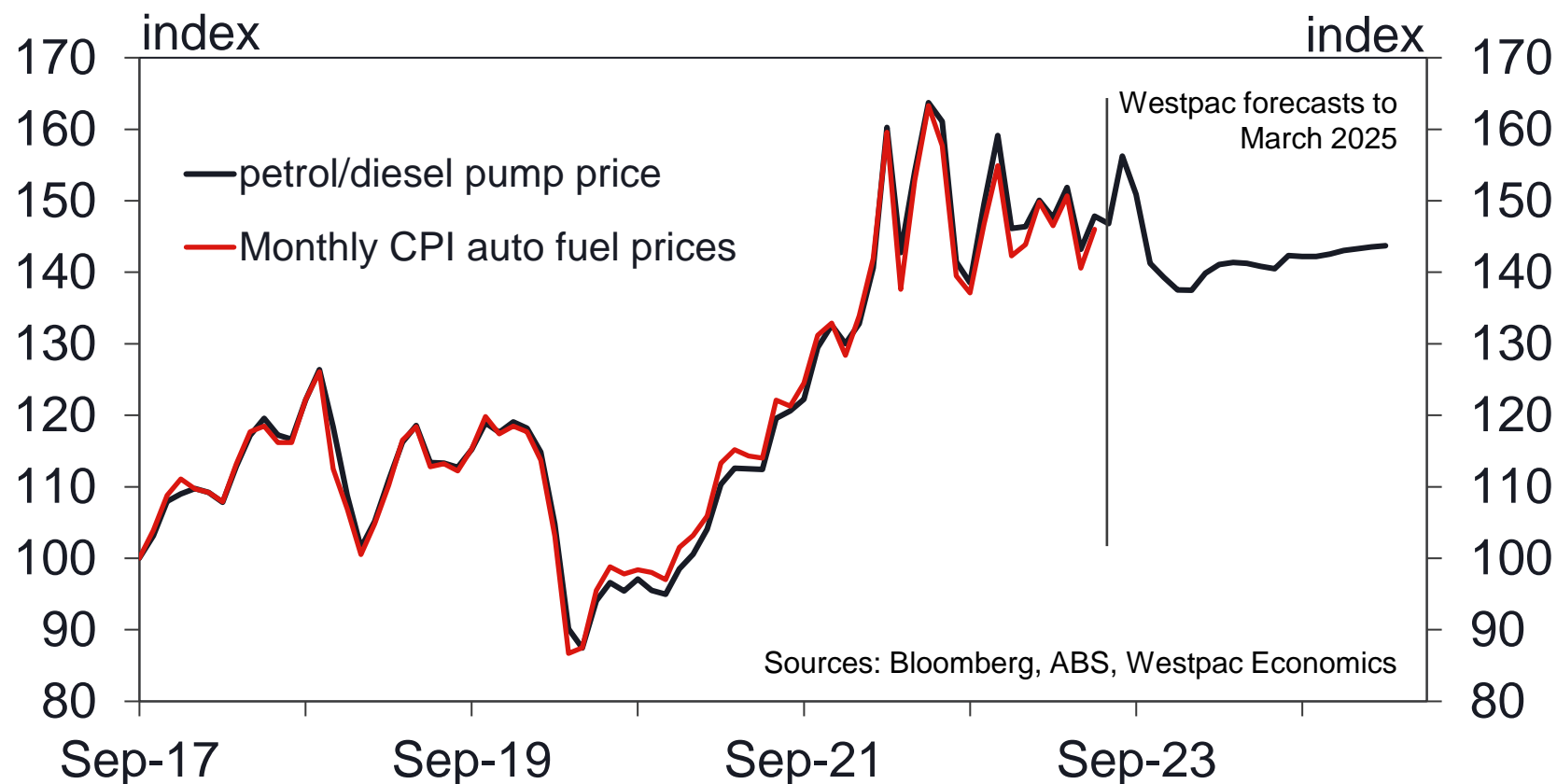
Breakdown in annual inflation in Monthly CPI

CPI Item	Qtr CPI fcs		Monthly CPI Indicator	
	Jun-23 % yr	May-23 % yr	Jun-23 % yr	Jul-23 % yr fcs
Food	7.5	7.9	7.0	5.7
of which, bread & cereals	11.6	12.8	10.9	9.9
of which, meat & seafood	3.5	3.8	2.7	1.8
of which, dairy & related products	15.2	15.1	15.0	11.5
of which, fruit & vegetables	1.6	2.7	1.0	-2.9
of which, food products nec	11.3	11.5	10.5	8.6
of which, non-alcohol beverages	8.6	9.2	6.8	5.4
Alcohol & tobacco	4.7	4.7	4.6	4.7
of which, Alcohol	5.0	5.0	5.1	5.0
of which, Tobacco	4.2	4.1	3.8	4.0
Clothing & footwear	0.3	-0.4	-0.7	-1.2
of which, garments	0.4	-0.6	-1.2	-2.1
Housing	8.1	8.3	7.4	6.7
of which, Rents	6.7	6.3	7.3	7.8
of which, House purchases	7.8	8.3	6.6	5.5
of which, Electricity	13.4	14.1	10.2	11.7
H/hold contents & services	6.3	27.2	22.2	12.2
Health	4.9	6.0	6.3	4.1
Transportation	1.9	4.7	5.2	4.9
of which, auto fuel	-3.6	0.8	-0.9	-0.6
Communication	0.7	-8.0	-10.6	-7.2
Recreation	6.8	1.1	0.6	-1.4
of which, holiday travel	12.2	3.5	6.8	1.7
Education	5.2	7.3	12.9	8.9
Financial & insurance services	8.5	5.5	5.2	5.2
CPI: All groups % year	6.0	5.5	5.4	4.8

- The Monthly CPI Indicator is not true monthly price measure but rather the release of the price data in the month as it is collected for the quarterly CPI.
- As such, the Monthly Indicator measures through the year pace of inflation. Note that a simple sum of the monthly changes in a quarter will not necessarily match those calculated from the quarterly CPI.
- Nevertheless, the Monthly CPI Indicator is a very good partial guide on the current state of the inflationary pulse.
- Used correctly, the Indicator can provide an important update on the key risks for the upcoming quarterly CPI.
- Unfortunately, the last month of each quarter is released with the quarterly CPI. Therefore, we only have partial data leading into the release of the quarterly CPI.

Petrol/diesel prices vs monthly CPI auto fuel

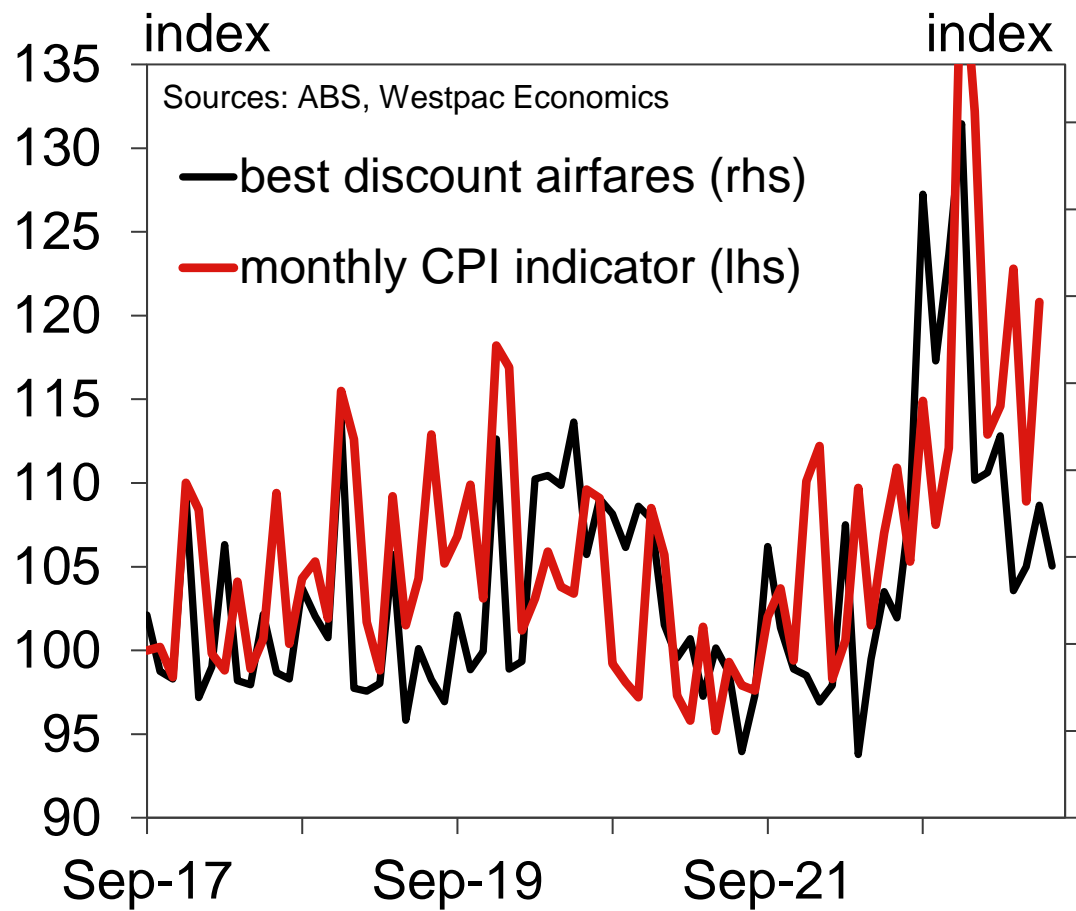
- Near term boost is unlikely to be sustained past August



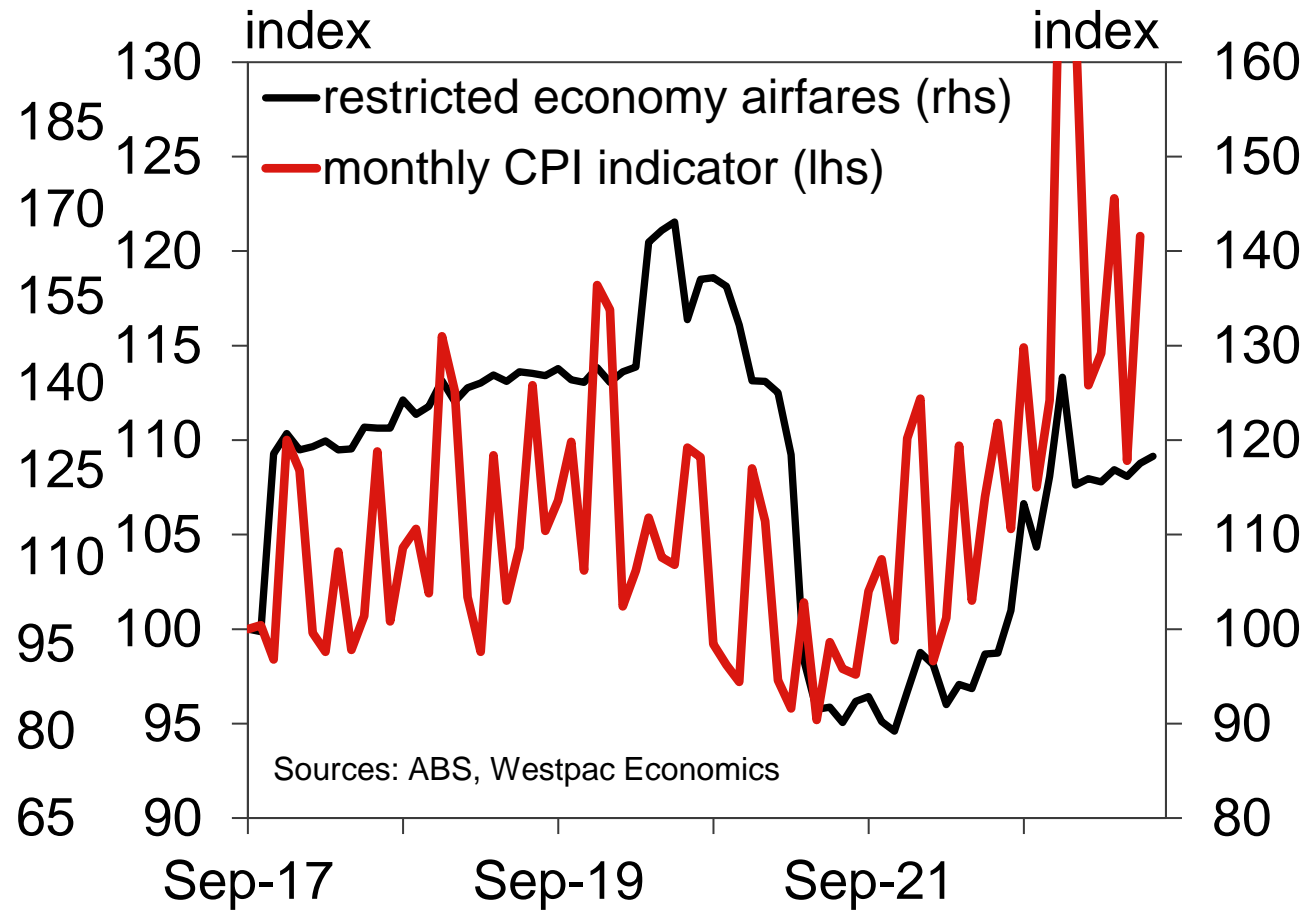
- Softer crude prices in late 2023 will see lower auto fuel prices which could extend into early 2024.
- From there, fuel prices are expected to firm, rising 4% in the year to December 2024.
- By end 2024, Westpac is forecasting Brent to rise to US\$92/bbl with the increase tempered by an appreciation of the AUD to US74¢

Domestic travel & accommodation

Best discount airfares are volatile...



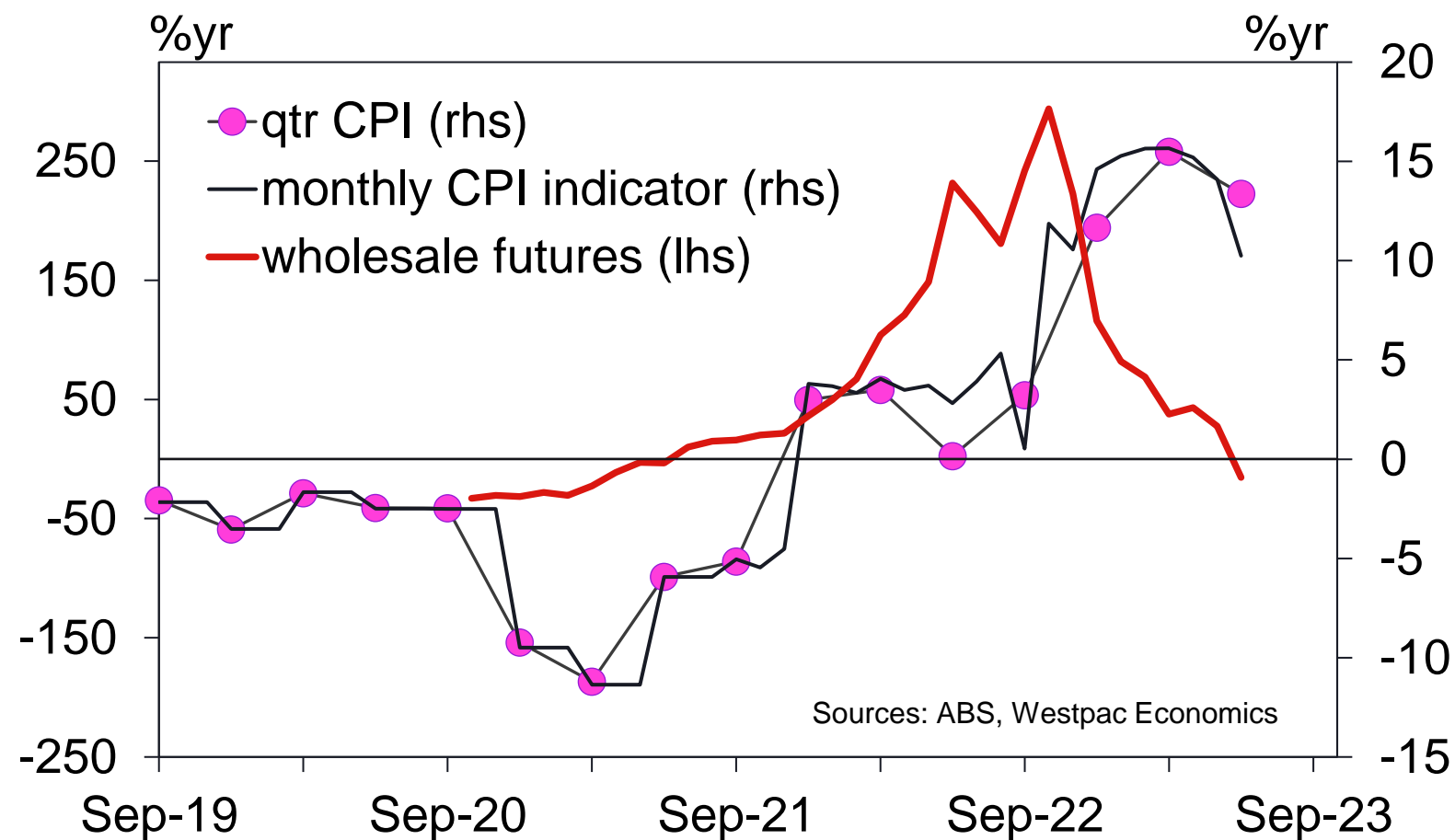
... restricted economy less so.



Peak

Electricity futures appear to have peaked, at least for now, suggesting power bills may also find a peak this year. However, futures peak rate was almost 300%yr in late 2022 and are down just -15%yr to July.

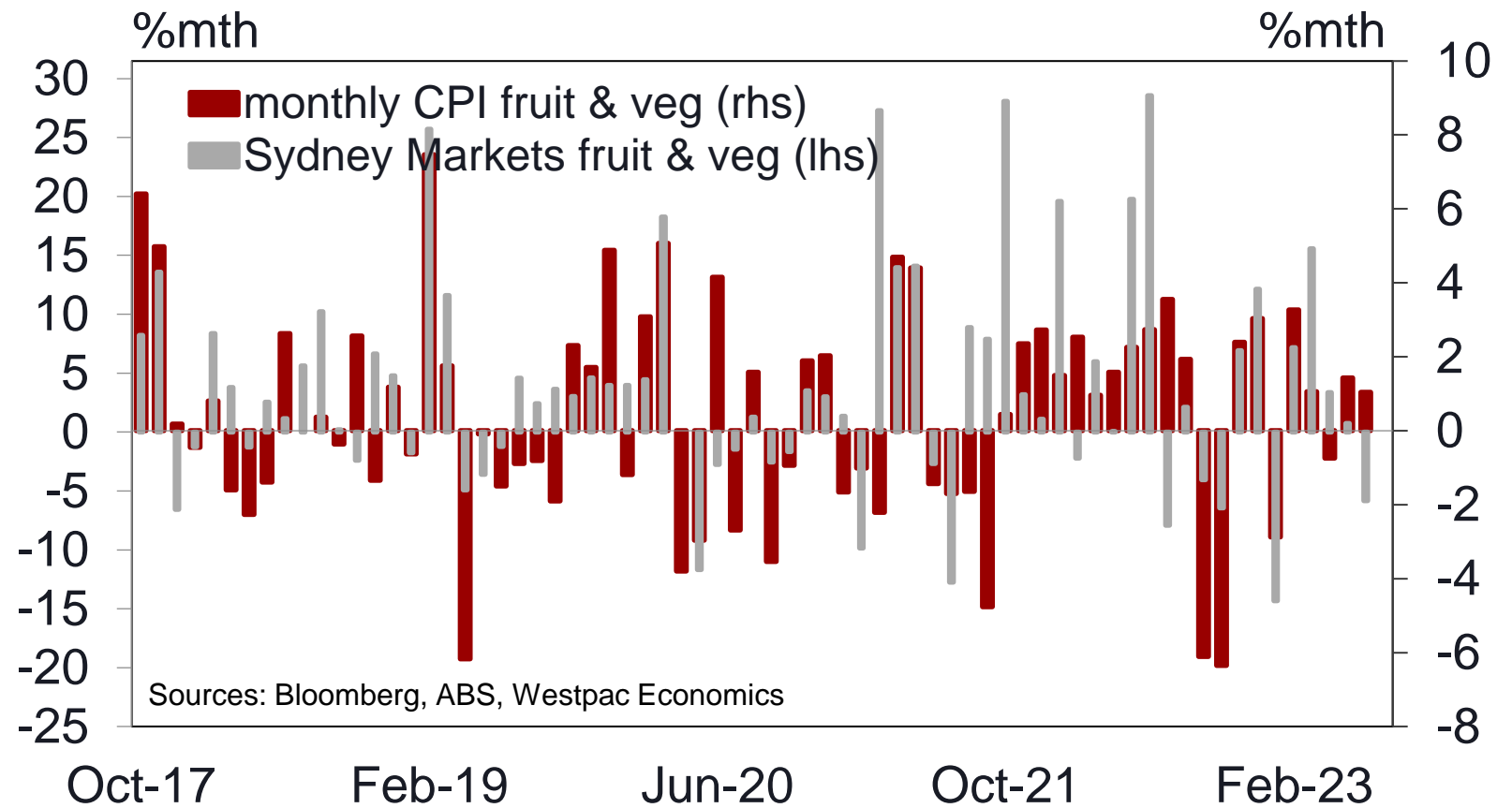
Electricity prices



Guide

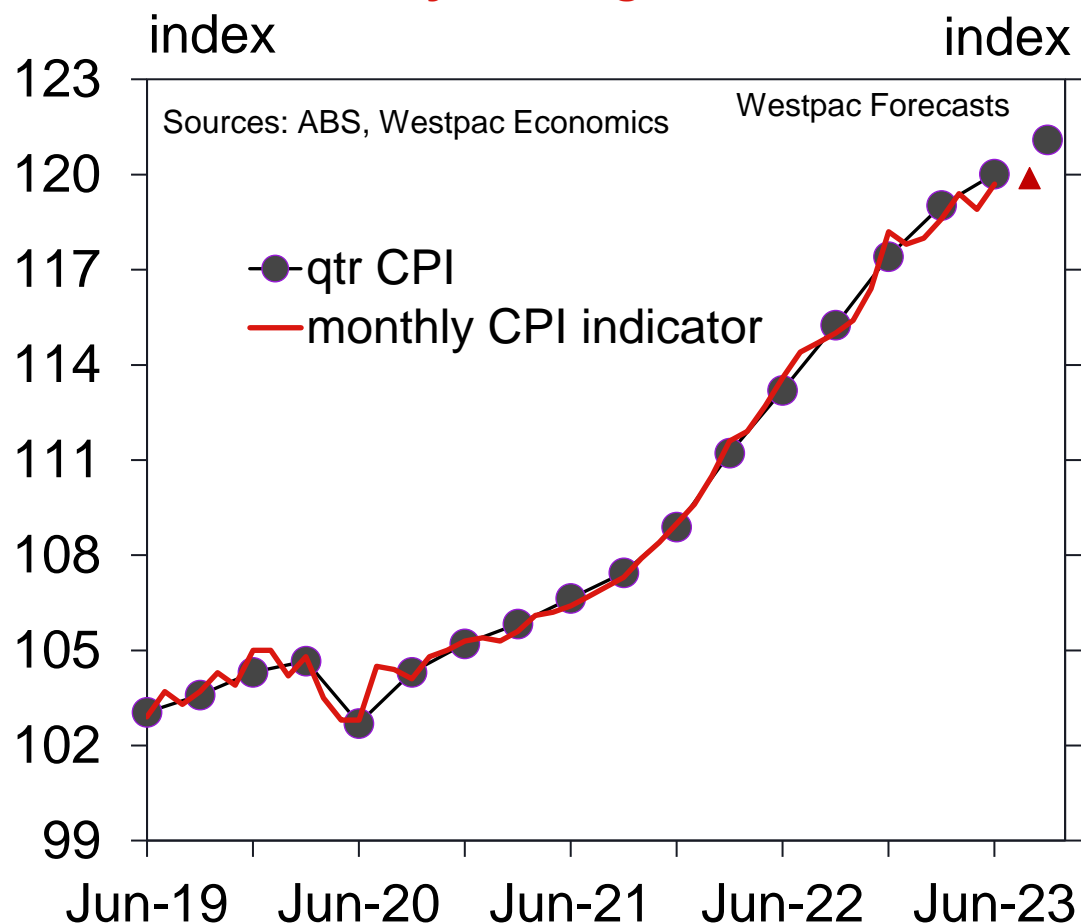
We use Sydney Markets fruit & vegetable prices as a broad guide to the direction of inflation in fruit & vegetable prices.

Retail fruit & veg less volatile than wholesale

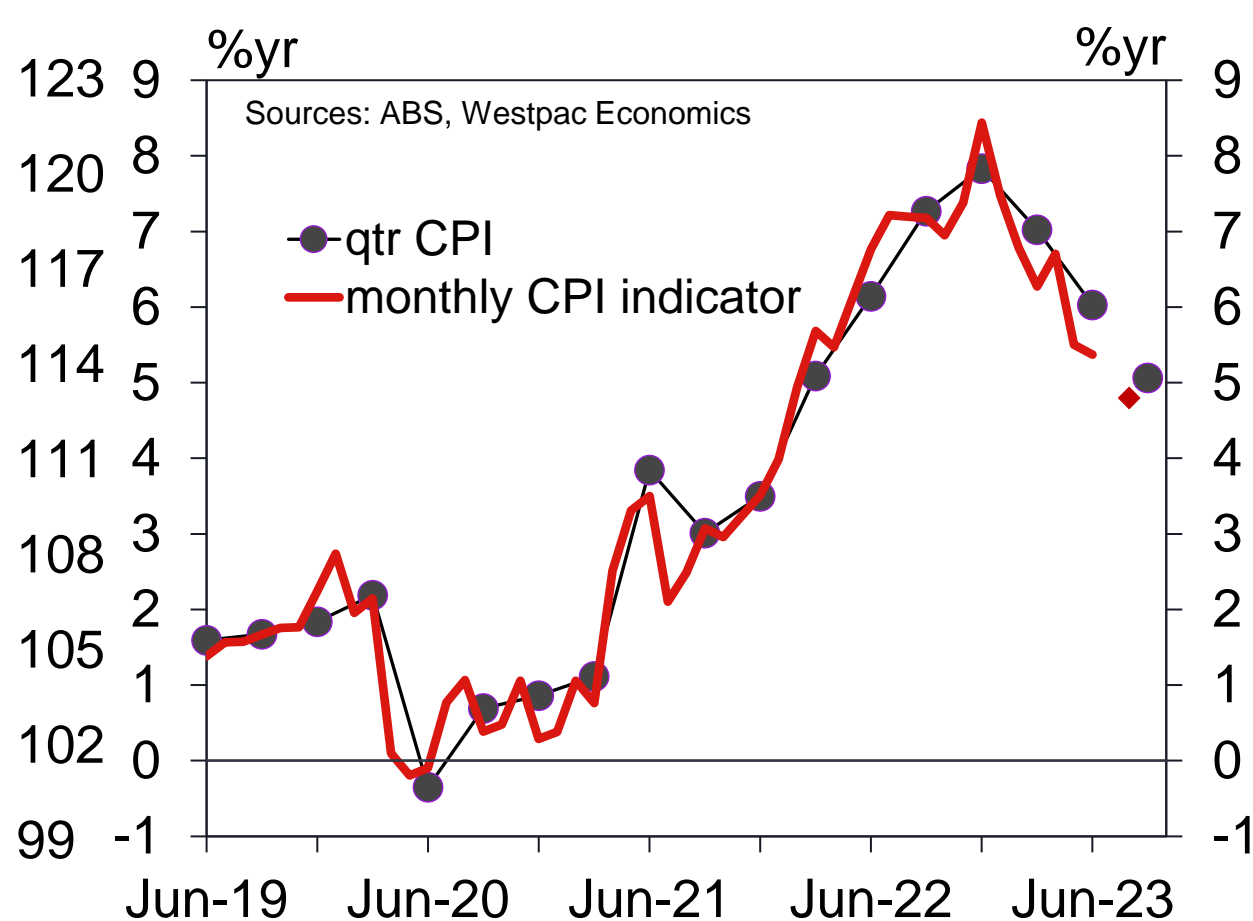


Monthly CPI Indicator vs. quarterly CPI

Monthly CPI is good indicator...



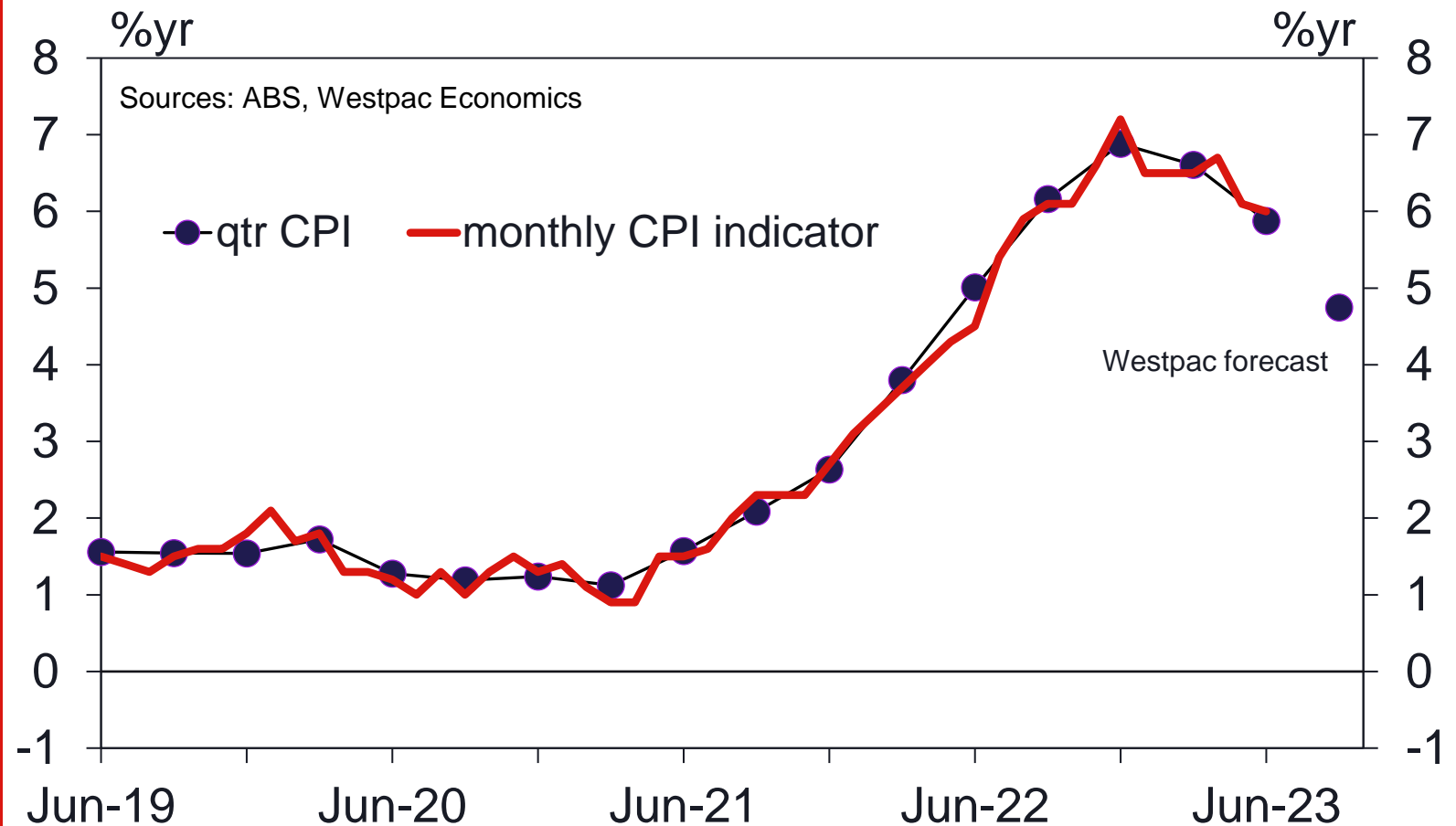
... of inflation momentum.



Close

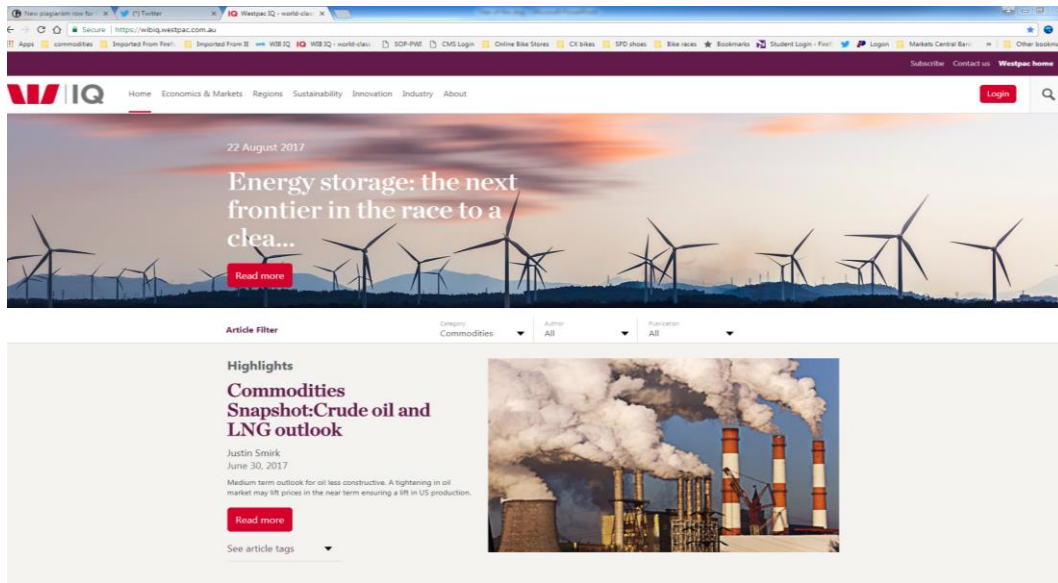
The ABS provides the through the year pace of the Monthly CPI Trimmed Mean measure of core inflation. This measure has a good fit with the quarterly estimates of annual Trimmed Mean inflation.

Trimmed mean core inflation

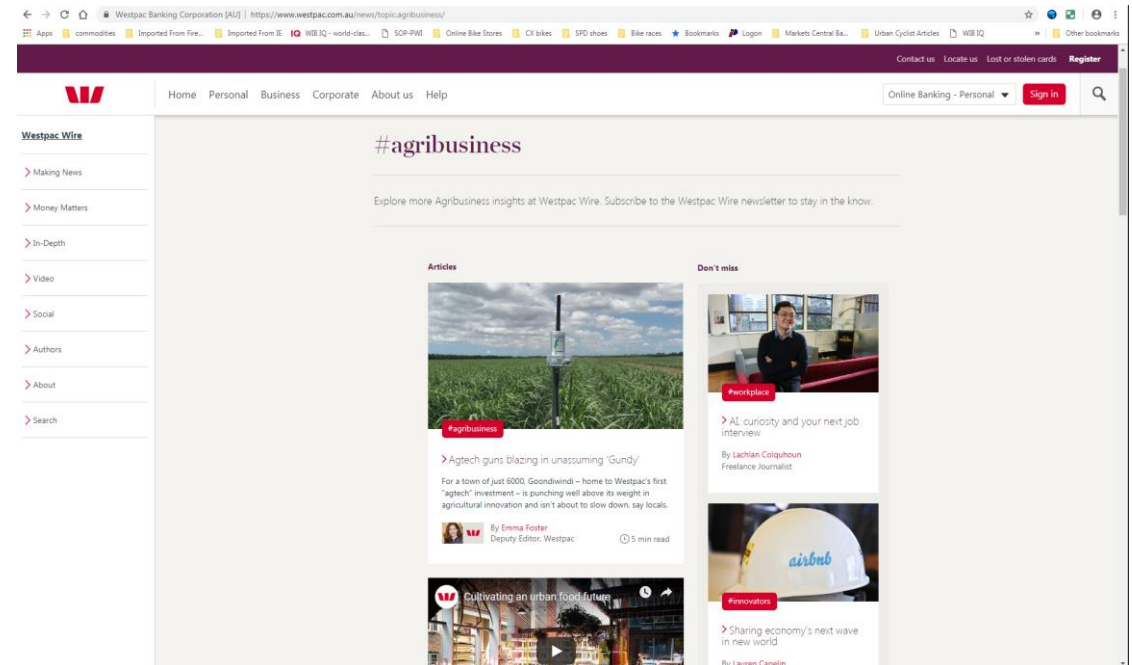


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