

25 September 2023

## Preview: August Monthly CPI Indicator

### Critical update of services and power bill inflation while the significant jump in auto fuel prices is known.

- The Monthly CPI Indicator lifted 0.3% in July to be up 4.9%yr, a moderation from the 5.4%yr in June and the recent peak of 8.4%yr in December. The July print was softer than market expectations of 5.2% but close to our own forecast of 4.8%yr.
- Westpac is forecasting a 0.6% increase in August that will take the annual pace from 4.9%yr to 5.2%yr, just a touch under the 5.4%yr pace reported in June.
- The ABS has done a lot of work to make the trimmed mean from the Monthly Indicator more consistent with the trimmed mean from the quarterly CPI. As such, we will be watching the August update to see how it is tracking compared to our September quarter forecast of 4.7%yr.
- Readers would be aware that the Monthly Indicator is not a true monthly inflation measure but rather the release of the data for the quarterly CPI as it becomes available. Much of the data is monthly, but a fair proportion is only available quarterly, and is released in the month of the quarter the survey is conducted, with a smaller proportion of annual data.

#### CPI Monthly Indicator with current forecast

	May-23	Jun-23	Jul-23	Aug-23
	Mth	Mth	Mth	Mth
Item	% mth	% mth	% mth	% mth
<b>Food</b>	<b>1.0</b>	<b>-0.1</b>	<b>-0.2</b>	<b>0.7</b>
of which, bread & cereals	1.7	-0.5	0.1	-0.1
of which, meat & seafood	0.4	-1.0	0.6	-0.3
of which, dairy & related prod.	-0.2	0.8	1.9	0.2
of which, fruit & vegetables	1.4	1.0	-2.9	0.7
of which, food products nec	-0.2	0.3	-0.2	0.7
of which, non-alcohol bev,	-0.1	-2.0	1.0	-0.3
<b>Alcohol &amp; tobacco</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>
of which, Alcohol	0.1	-0.1	0.1	0.0
of which, Tobacco	-0.2	-0.2	0.0	0.3
<b>Clothing &amp; footwear</b>	<b>-1.9</b>	<b>-1.8</b>	<b>2.5</b>	<b>-1.3</b>
of which, Garments	-3.2	-2.8	-1.8	-2.1
<b>Housing</b>	<b>0.2</b>	<b>0.3</b>	<b>1.3</b>	<b>0.7</b>
of which, Rents	0.8	0.9	0.7	0.9
of which, House purchases	0.4	0.2	0.7	0.5
of which, Electricity	-0.8	-0.9	6.0	2.0
of which, Gas & other fuels	-2.1	-0.8	2.3	1.0
<b>H/hold contents &amp; services</b>	<b>0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>0.4</b>
<b>Health</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>
<b>Transportation</b>	<b>-2.0</b>	<b>1.0</b>	<b>-0.1</b>	<b>3.2</b>
of which, auto fuel	-6.7	3.8	-0.2	8.6
<b>Communication</b>	<b>0.8</b>	<b>-1.1</b>	<b>0.8</b>	<b>-0.7</b>
<b>Recreation</b>	<b>-4.4</b>	<b>4.8</b>	<b>-1.5</b>	<b>-0.5</b>
of which, holiday travel	-11.3	10.9	-3.3	-1.7
<b>Education</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financial &amp; insurance services</b>	<b>1.1</b>	<b>1.7</b>	<b>0.0</b>	<b>0.5</b>
<b>CPI: All groups %qtr/%mth</b>	<b>-0.4</b>	<b>0.7</b>	<b>0.3</b>	<b>0.6</b>

#### CPI Monthly Indicator with current forecast

	May-23	Jun-23	Jul-23	Aug-23
	Mth	Mth	Mth	Mth
Item	% yr	% yr	% yr	% yr
<b>Food</b>	<b>7.9</b>	<b>7.0</b>	<b>5.6</b>	<b>4.2</b>
of which, bread & cereals	12.8	10.9	9.9	8.4
of which, meat & seafood	3.8	2.7	2.4	1.7
of which, dairy & related prod.	15.1	15.0	12.7	10.3
of which, fruit & vegetables	2.7	1.0	-5.4	-6.5
of which, food products nec	11.5	10.5	8.3	7.4
of which, non-alcohol bev,	9.2	6.8	6.8	5.0
<b>Alcohol &amp; tobacco</b>	<b>4.7</b>	<b>4.6</b>	<b>4.5</b>	<b>3.3</b>
of which, Alcohol	5.0	5.1	5.0	3.0
of which, Tobacco	4.1	3.8	3.6	3.6
<b>Clothing &amp; footwear</b>	<b>-0.4</b>	<b>-0.7</b>	<b>1.5</b>	<b>0.3</b>
of which, Garments	-0.6	-1.2	0.4	-5.9
<b>Housing</b>	<b>8.3</b>	<b>7.4</b>	<b>7.3</b>	<b>7.2</b>
of which, Rents	6.3	7.3	7.6	8.0
of which, House purchases	8.3	6.6	5.9	5.2
of which, Electricity	14.1	10.2	15.7	16.4
of which, Gas & other fuels	27.2	22.2	13.9	13.6
<b>H/hold contents &amp; services</b>	<b>6.0</b>	<b>6.3</b>	<b>4.3</b>	<b>10.5</b>
<b>Health</b>	<b>4.7</b>	<b>5.2</b>	<b>5.2</b>	<b>3.5</b>
<b>Transportation</b>	<b>0.8</b>	<b>-0.9</b>	<b>0.3</b>	<b>8.4</b>
of which, auto fuel	-8.0	-10.6	-7.6	12.5
<b>Communication</b>	<b>1.1</b>	<b>0.6</b>	<b>0.3</b>	<b>4.8</b>
<b>Recreation</b>	<b>3.5</b>	<b>6.8</b>	<b>4.1</b>	<b>-2.9</b>
of which, holiday travel	7.3	12.9	5.3	1.9
<b>Education</b>	<b>5.5</b>	<b>5.2</b>	<b>5.2</b>	<b>14.7</b>
<b>Financial &amp; insurance services</b>	<b>7.8</b>	<b>8.5</b>	<b>8.5</b>	<b>5.7</b>
<b>CPI: All groups %qtr/%mth</b>	<b>5.5</b>	<b>5.4</b>	<b>4.9</b>	<b>5.2</b>

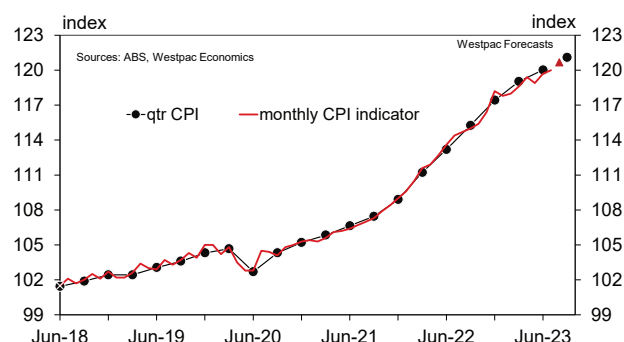
- As such, incorporating the timing of these surveys into the quarterly estimate is critical to understanding the Monthly CPI.
- Nevertheless, the Monthly CPI Indicator is a powerful partial indicator of inflationary momentum and, as such, provides a critical update for our September quarter CPI forecast.
- August will see a large number of quarterly services being surveyed ranging from hairdressing, other household services, urban transport fares, motor vehicle maintenance and other motor vehicle services to sports participation and insurance.
- Reported pump prices for petrol rise close to 8% in August while diesel is up more than 12%, so auto fuel will be a meaningful positive factor this month. We are forecasting an 8.6% increase.
- Food prices are forecast to lift, led by a bounce back in fresh fruit & vegetables. With something of an offset from falling meat prices, food prices are forecast to lift 0.7% in the month.

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- For housing, we are looking for a bit of a bounce in rents from a softer July, offset to some extent by a moderation in dwelling price inflation following a stronger July. The big unknown in August is electricity prices due to the contrasting tension between rising bills vs. government rebates. Electricity lifted 6.0% in July and we have pencilled in 2.0% in August.
- In total housing costs are forecast to increase 0.7% in August.
- Holiday travel is forecast to fall again in August as monthly airfare data suggests that the discounting of airfares continued through August before an up-tick appeared in September.
- If the August Monthly CPI Indicator comes in as we have outlined, it does present an upside risk to our current September quarter CPI forecast of 0.9%qtr/5.1%yr. We have not revised our quarterly CPI as there are many unknowns in the Monthly Indicator and we would like to have the August update before we revise our forecasts.
- It is also worth noting that our current CPI forecast to end-2023 is based on crude prices easing back to around US\$85/bbl. If the current run up in crude prices can be sustained around current levels, and the current weakness in the AUD continues, it could see our December quarter CPI forecast lift from 0.7%qr to 0.8%qr.
- Both the Monthly CPI Indicator, and the current strength in crude oil prices, present an upside risk to our year-end CPI forecast of 3.9%yr.

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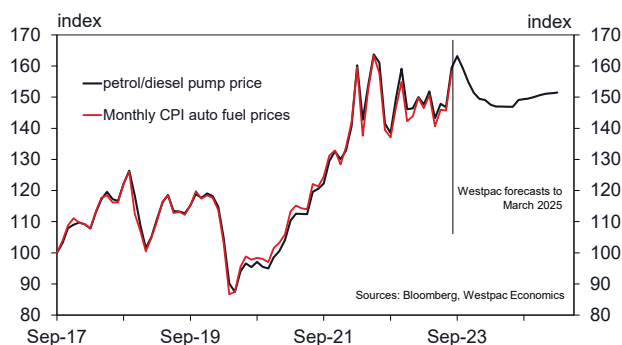
### CPI Monthly Indicator vs. qtr CPI



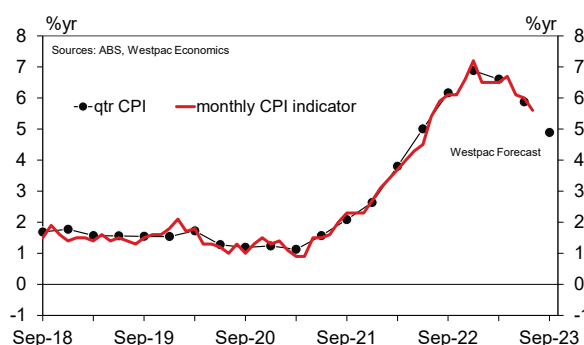
### CPI Monthly Indicator vs. qtr CPI



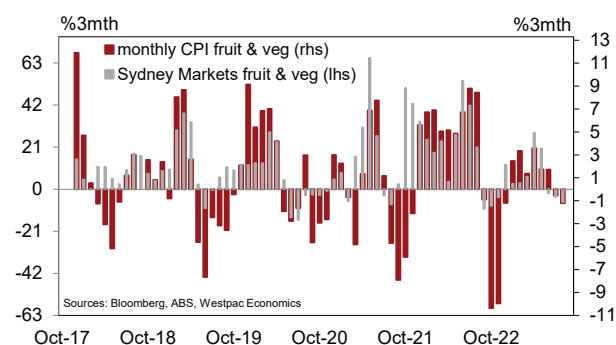
### Petrol/diesel prices vs monthly CPI auto fuel



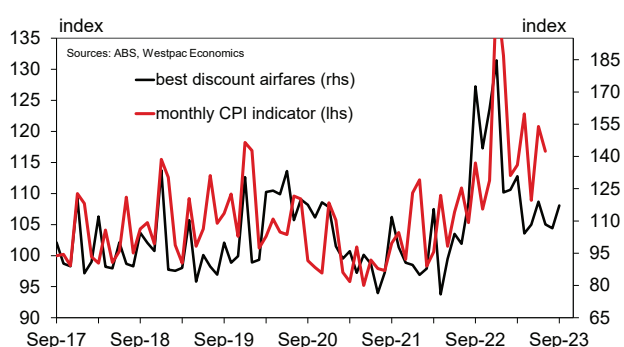
### Annual inflation trimmed mean measures



### Monthly fruit & veg three month change



### Monthly travel & accom vs. airfares



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