

20 October 2023

September Quarter CPI Preview

Childcare represents a significant unknown due to changes in government rebates.

- Westpac holds to our forecast for a 1.1% rise in the September quarter CPI which will see the annual pace ease back from 6.0%yr to 5.3%yr.
- For core inflation, our Trimmed Mean estimate is also 1.1%qtr which will see the annual pace ease to 5.0%yr from 5.9%yr. We will also see a moderation in the six month annualised pace from 4.3%yr in June to 4.0%yr in September. The recent peak was 7.4%yr in December 2022.
- Westpac is forecasting a 0.2% rise in the September Monthly CPI Indicator which will see the annual pace hold flat at 5.2%yr.
- We don't forecast a Monthly CPI Indicator Trimmed Mean but note that the reported flattening of the annual pace in the August release (at 5.6%yr) suggests we have seen something of a pickup of the monthly momentum in this indicator. While there is not a clear translation from the Monthly Indicator Trimmed Mean to the Quarterly CPI Trimmed Mean, the annual pace estimates are close enough for us to caution of possible upside risks to our September quarter Trimmed Mean estimate.
- Auto fuel is making the most significant contribution in the September quarter (+0.26ppt) closely followed by utilities (0.24ppt), food (0.17ppt), rents (0.13ppt), financial services (0.10ppt) and then dwelling purchases (0.09ppt).
- From the Monthly Indicator we know that rebates have held down electricity prices in the Monthly CPI Indicator and in September we will find out just how large the offset from the increase in the child care rebate is. The Government increased the child care rebate from 71% to 91% and estimates that it represents a 37% reduction in out-of-pocket costs for eligible families. This represents a significant uncertainty for both the September Monthly CPI Indicator and the September quarter CPI.
- The Monthly CPI Indicator has proved to be an incredibly useful early data release and can significantly improve the near term quarterly forecasts as long as you take into account which components are survey monthly, quarterly or annually. For this reason we have published the breakdown of our Monthly CPI Indicator forecast for transparency.

CPI Monthly Indicator with Sep. forecast

	Jun-23	Jul-23	Aug-23	Sep-23
	Mth	Mth	Mth	Mth
Item	% mth	% mth	% mth	% mth
Food	-0.1	-0.2	0.9	0.3
of which, bread & cereals	-0.5	0.1	1.8	-0.6
of which, meat & seafood	-1.0	0.6	0.6	-0.6
of which, dairy & related prod.	0.8	1.9	0.0	0.5
of which, fruit & vegetables	1.0	-2.9	-1.3	2.8
of which, food products nec	0.3	-0.2	0.2	0.3
of which, non-alcohol bev,	-2.0	1.0	-0.2	-0.1
Alcohol & tobacco	-0.1	0.0	1.3	-0.1
of which, Alcohol	-0.1	0.1	1.7	-0.3
of which, Tobacco	-0.2	0.0	0.4	0.2
Clothing & footwear	-1.8	2.5	-0.1	-1.3
of which, Garments	-2.8	-1.8	-0.8	-2.1
Housing	0.3	1.3	0.1	1.0
of which, Rents	0.9	0.7	0.7	0.7
of which, House purchases	0.2	0.7	0.1	0.2
of which, Electricity	-0.9	6.0	-1.3	3.2
of which, Gas & other fuels	-0.8	2.3	0.4	0.2
H/hold contents & services	0.1	0.2	0.3	-1.4
Health	0.2	0.0	0.0	-0.1
Transportation	1.0	-0.1	3.6	1.0
of which, auto fuel	3.8	-0.2	9.1	3.7
Communication	-1.1	0.8	1.7	-0.4
Recreation	4.8	-1.5	-1.5	0.0
of which, holiday travel	10.9	-3.3	-3.9	-0.7
Education	0.0	0.0	0.0	0.0
Financial & insurance services	1.7	0.0	0.7	0.9
CPI: All groups %mth	0.7	0.3	0.6	0.2

September Quarter CPI forecast

	Sep 2023 f/c		Jun 2023	
Item	% qtr	contrib	% qtr	contrib
Food	1.0	0.17	1.6	0.28
of which, fruit & vegetables	-1.5	-0.04	2.4	0.06
Alcohol & tobacco	1.2	0.10	1.0	0.09
of which, tobacco	0.6	0.02	1.1	0.04
Clothing & footwear	1.2	0.04	0.6	0.02
Housing	2.3	0.55	0.8	0.20
of which, rents	2.2	0.13	2.5	0.15
of which, house purchases	0.9	0.09	1.0	0.10
of which, utilities	5.7	0.24	-1.1	-0.05
H/hold contents & services	-0.4	-0.04	2.1	0.19
Health	-0.1	0.00	-0.1	0.00
of which, pharmaceuticals	-2.1	-0.02	-1.0	-0.01
Transportation	2.7	0.30	-0.1	-0.01
of which, car prices	-0.7	-0.02	-0.6	-0.02
of which, auto fuel	6.7	0.26	-0.7	-0.03
Communication	2.1	0.05	-0.4	-0.01
Recreation	-1.2	-0.10	-0.2	-0.02
of which, audio vis & comp	-0.4	-0.01	0.1	0.00
of which, holiday travel	-2.6	-0.05	-2.0	-0.04
Education	0.0	0.00	-0.2	-0.01
Financial & insurance services	1.7	0.10	3.0	0.17
CPI: All groups	1.1	-	0.8	-
CPI: All groups % year	5.3	-	6.0	-

Sources: ABS, RBA, Westpac Banking Corporation.

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.

June quarter inflation recap

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%qtr and Westpac's forecast for a 1.1%qtr lift. In terms of the annual pace in inflation, this was a significant moderation from 7.8%yr in December 2022, to 7.0%yr in March 2023 and then 6.0%yr in June 2023. The June 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.

This moderation was also apparent in core services inflation (i.e. market services ex volatile) in the June quarter. While the through the year pace was flat at 6.8%yr, 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 was this moderation in core market services inflation that gave us confidence, at that point, to mark down the momentum in our inflation forecasts.

For more detail, see [“June Quarter CPI Deeper Insights”](#)

August Monthly CPI Indicator recap

In August, the Monthly CPI Indicator lifted 0.6%, in line with our forecast and consistent with our overall view on inflation momentum. There were, however, some interesting divergences in the components. A large surprise for us was housing, which rose just 0.1% vs. our forecast of 0.7% due to softer than expected rents (0.7% vs. 0.9% forecast), dwelling purchase costs (0.1% vs. 0.5% forecast) while electricity prices fell (-1.3%) due to the impact of government rebates compared to our forecast for a modest increase (2.0%). Gas & other household fuels also rose more modestly than expected (0.4% vs. 1.0% forecast).

Regarding underlying momentum, we note that the annual pace of the Monthly Indicator Trimmed Mean held flat at 5.6%yr in August, suggesting that the last few months have seen a pickup in the pace of underlying inflation on a monthly/quarterly basis.

As we noted in our preview, if the Monthly CPI Indicator printed as expected it would point to an upside risk to our published forecast for the September quarter CPI. Following an in depth review of the Monthly CPI to take into account the momentum seen so far in the components, including the quarterly components surveyed in either July or August as well as any further partial updates we have received (including fresh fruit & vegetables as well as auto fuels), we revised up our **Q3 CPI forecast to 1.1%qtr/5.3%yr** and lifted our **Trimmed Mean forecast to 1.1%qtr/5.0%yr**.

We have maintained these forecasts for our September quarter estimates.

For greater details on the August Monthly CPI Indicator see [“August Monthly CPI Indicator”](#) and [“Upgrading our Inflation Forecasts”](#).

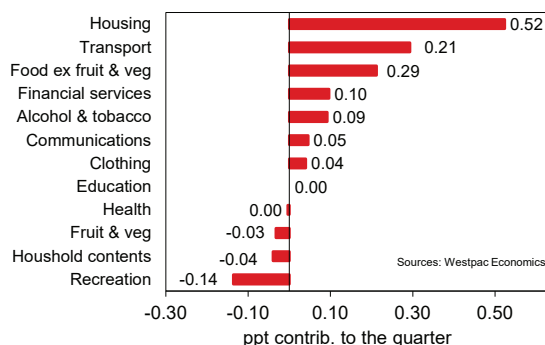
Food maintains a solid pace: +1.0%qtr

We have two of three months for a lion's share of the components in food as well as the quarterly estimates for restaurants & take away meals. We are looking for fruit & vegetables to bounce back in the month of September which would help to lift food 1.0% in quarter. Cattle and sheep prices have been weakening as farmers reduce stock in the face of a dryer season this year. This has flowed through to falling lamb & goat prices but we are yet to see these lower prices flow through to beef & veal.

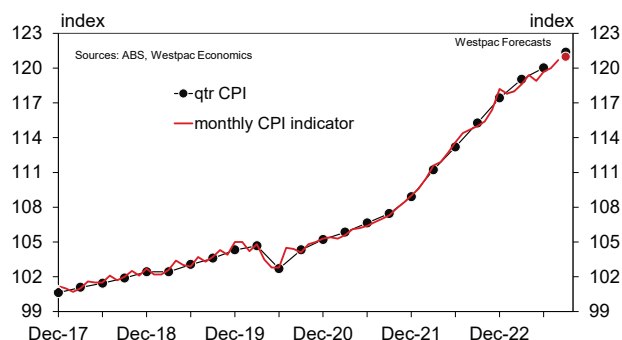
Select Inflation Indicators

		Dec-22	Mar-23	Jun-23	Sep-23(f)
CPI	(index)	130.8	132.6	133.7	135.2
	(%qtr)	1.9	1.4	0.8	1.1
	(%yr)	7.8	7.0	6.0	5.3
CPI sa	(%qtr)	1.9	1.3	0.9	1.0
	(%yr)	7.8	7.0	6.1	5.2
Trimmed Mean	(%qtr)	1.7	1.3	0.9	1.1
	(%yr)	6.9	6.6	5.9	5.0
Goods	(%qtr)	1.6	1.2	0.9	1.2
	(%ann)	9.5	7.6	5.8	4.9
Services	(%qtr)	2.1	1.7	0.8	1.0
	(%ann)	5.5	6.1	6.3	5.7
Market services ex vol	(%qtr)	2.7	0.9	1.2	1.5
	(%ann)	6.4	6.8	6.8	6.4
Tradables	(%ann)	8.7	6.1	4.4	4.0
Non-tradables	(%ann)	7.4	7.5	6.9	6.0

Contributions 2023Q3 CPI 1.1%qtr forecast



CPI Monthly Indicator vs. qtr CPI



Alcohol & tobacco: +1.2%qtr

We have two of the three months for both alcohol and tobacco. We are looking for a small fall in the month September following a 1.3% gain in August, leaving it up 1.2% over the quarter.

Clothing & footwear seasonal lift: +1.2%qtr

We have two of the three months for men's and women's garments but the quarterly survey for all other components of this group are surveyed in the first month of the quarter. As such our estimate of 1.2%qtr should be close to the final print.

Housing picks up the pace: +2.3%qtr

For the key elements of housing – rents, new dwelling purchases by owner occupiers, electricity and gas – we have two of the three monthly estimates. Rents rose by 0.7% in both July and August while new dwelling purchase lifted 0.7% in July then 0.1% in August. For the month of September, we have pencilled in 0.7% for rents and 0.2% for dwellings.

Both electricity and gas is surveyed monthly, so again, we have two-thirds of the data for the quarter. Electricity, in particular, has become tricky to estimate for the CPI given the nexus of rising electricity prices being offset by state energy rebates. Electricity prices fell -0.9% in June, rose 6.0% in July then fell -1.3% in August. We have pencilled in +3.2% for September which would see a electricity up 8% in the quarter. Before rebates, we estimate that electricity bills have risen between 15% and 20% across the nation.

Gas prices are quite seasonal and after falling 1.2% in the June quarter lifted 2.3% in July then 0.4% in August. We have pencilled in a 0.2% gain in September.

We have the quarterly estimate for maintenance & repairs for dwellings (+1.0%) while the quarterly estimates for property rates & charges (Westpac f/c: +3.6%) plus water & sewerage (Westpac f/c: 2.8%) are surveyed in September.

Furnishings, household equipment & services: -0.4%qtr

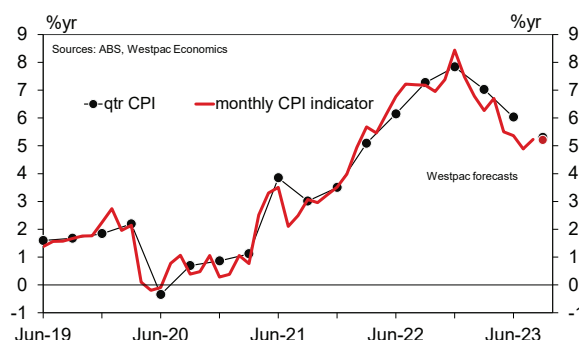
All of the components of this group except for non-durable household products (which are surveyed monthly), and domestic household services (hairdressing and other household services are surveyed in the mid month of the quarter, child care in the last month of the quarter), are survey in the first month of the quarter so we have a significant share of this group already.

However, this quarter larger than usual degree of uncertainty with our child care estimate. As childcare is surveyed in the last month of each quarter, September will capture the recent changes to the child care rebate. The rebate was lifted from 71% to 91% for eligible families. In the recent Commonwealth Budget, it was estimated that this would represent a 37% fall in out-of-pocket costs for eligible families. However, there have also been reports that rising child care costs are offsetting some, or even most, of the benefit of the increase in the rebate. As such, we have pencilled in a 10% decline but warn that we can't be sure which way the risks lie around this forecast.

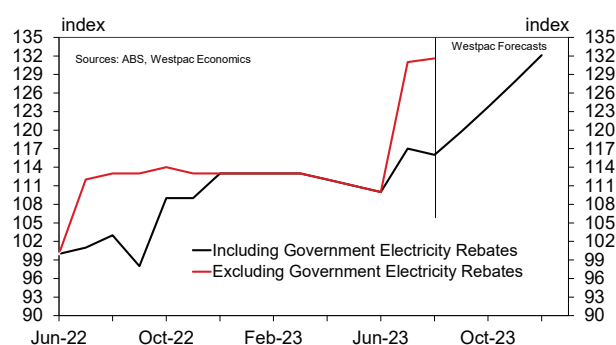
Health, seasonal fall in pharmaceuticals: -0.1%qtr

All of the components for health are surveyed in the last month of the quarter so we have no preliminary data here to guide us. Our -0.1% fall in health is the balance of a -1.8% decline in pharmaceutical costs (the usual decline this time of year as more families cross the spending threshold to qualify for PBS support) and a 0.4% increase in medical, dental & hospital services.

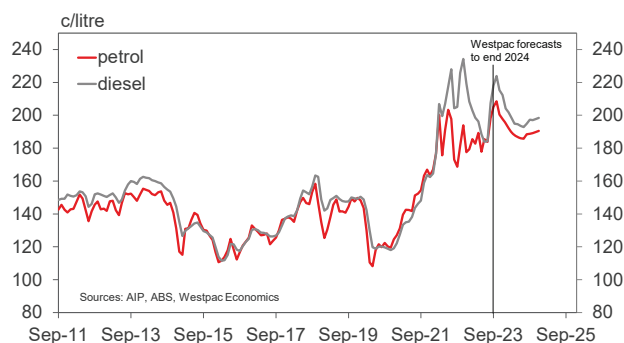
CPI Monthly Indicator vs. qtr CPI



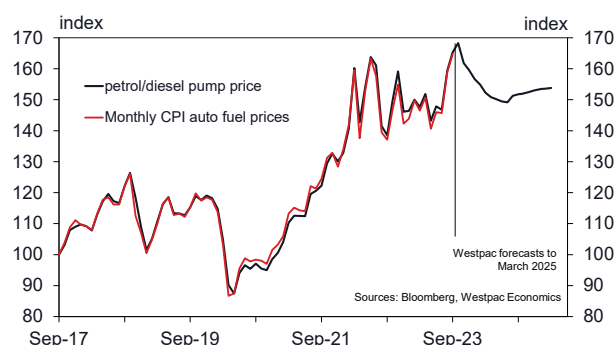
Monthly electricity prices



Fuel prices in Australian dollars



Petrol/diesel prices vs monthly CPI auto fuel



Transport cost rise on the back for rising fuel prices: +2.7%qtr

Auto fuel prices are surveyed monthly and along with the July and August data, we also have the pump price data for petrol and diesel in September. As such we are confident that our +6.7% forecast increase in auto fuel in the September quarter will be close to the mark.

For the rest of the components, which are surveyed quarterly, outside of motor vehicle prices which are surveyed in the last month of the quarter, we have the quarterly updates already. As such, as long as we are not too far off the mark with our forecast -0.7% decline in motor vehicle prices we feel transport will be making a meaningful contribution to the September quarter CPI.

Communication prices bounce: +2.1%qtr

The ABS surveys communication prices monthly so we have two-thirds of the data already. We don't expect to see a significant divergence from our +2.1% forecast.

Recreation & culture: -1.2%qtr

This group is more of a mixed bag with some uncertainty around our estimate. We have monthly data for holiday travel & accommodation and airfare data to guide our September estimate. There is also monthly data for audio, visual & computing equipment as well as pets & related products. We also have the quarterly survey data for equipment for sports/camping, games & hobbies, sports participation and other recreation & sporting services. For the rest we have to wait for the September survey for the quarterly estimates.

Education: 0.0%qtr

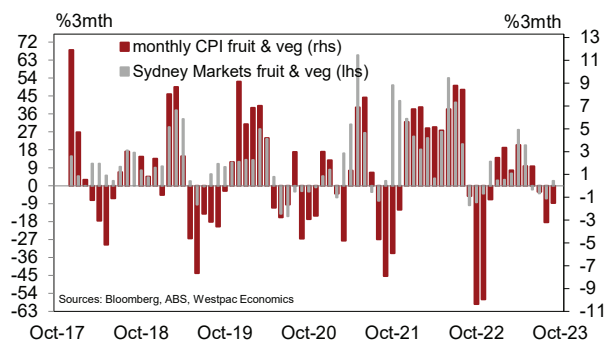
This group normally only sees prices revised in the first quarter of each year. However, the Monthly Indicator reported a 0.3% rise in this group despite nothing in the breakdown details, so we are unsure what is happening here. We caution for a very small upside risk to this group in the September quarter.

Finance & insurance services: 1.7%qtr

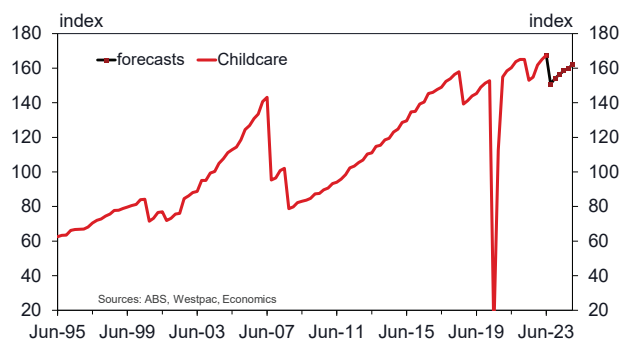
We have the quarterly data for insurance (+2.8%) and the monthly data to date for deposit & loan facilities but we are waiting on the quarterly survey for other financial services. As such there is some uncertainty about the risks to this forecast.

Justin Smirk, Senior Economist, ph (61-2) 8254 9336

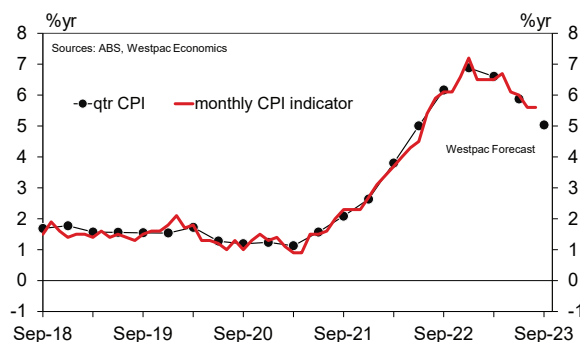
Monthly fruit & veg three month change



Childcare rebates to lower costs



Annual inflation trimmed mean measures



© 2023 Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, AFSL233714 ('Westpac'). References to the "Westpac Group" are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

Disclaimer

This information has been prepared by the Westpac Institutional Bank and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

Additional country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714).

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

Disclaimer continued overleaf

Disclaimer continued

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac's London branch by the PRA are available from us on request.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2) of the Order; (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an 'investment recommendation' and/or 'information recommending or suggesting an investment', both as defined in Regulation (EU) No 596/2014 as applicable in the United Kingdom ("UK MAR"). In accordance with the relevant provisions of UK MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest concerning the financial instruments to which that information relates have been disclosed.