

23 January 2024

December set to confirm a moderation in inflation CPI 0.8%qtr/4.3%yr, Trimmed Mean 0.9%qtr/4.4%yr.

- Westpac confirms our December quarter CPI forecast of 0.8%qtr/4.3%yr released back on the 11th of December 2023. See [“Monthly CPI points to softer headline inflation”](#)
- The Trimmed Mean forecast also remains 0.9%qtr/4.4%yr.
- At 4.3%yr, headline inflation is forecast to come in a bit softer than the RBA forecast of 4.5%yr. At 4.4%yr for the Trimmed Mean, our forecast is marginally softer than the RBA's forecast of 4.5%.
- Our forecast for inflation is consistent with our current view that the RBA will remain on hold at the February meeting, and that the RBA will be reducing the cash rate at the September meeting later this year.

Inflation forecasts

		Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
CPI	Index	136.4	137.3	138.4	139.8	140.8
	(%qtr)	0.8	0.7	0.8	1.0	0.7
	(%yr)	4.3	3.5	3.5	3.3	3.2
Trimmed mean	(%qtr)	0.9	0.9	0.8	0.8	0.7
	(%yr)	4.4	4.0	3.8	3.4	3.2

CPI Sep Quarter actual & Dec quarter f/cs

Item	Sept 2023		Dec 2023 f/c	
	% qtr	contrib	% qtr	contrib
Food	0.6	0.11	0.8	0.13
of which, fruit & vegetables	-3.7	-0.08	1.0	0.02
Alcohol & tobacco	1.4	0.11	2.6	0.20
of which, Tobacco	1.7	0.05	6.9	0.19
Clothing & footwear	0.4	0.01	1.0	0.03
Housing	2.2	0.49	1.9	0.43
of which, Rents	2.2	0.12	1.1	0.06
of which, House purchases	1.3	0.11	1.5	0.13
of which, Utilities	3.6	0.16	5.0	0.21
H/hold contents & services	-0.8	-0.07	-1.0	-0.09
Health	0.8	0.05	-0.4	-0.03
of which, Pharmaceuticals	-1.2	-0.01	-1.5	-0.02
Transportation	3.2	0.35	0.2	0.02
of which, car prices	0.5	0.02	1.1	0.03
of which, auto fuel	7.2	0.26	-0.7	-0.02
Communication	2.1	0.05	0.4	0.01
Recreation	0.2	0.02	-0.7	-0.08
of which, audio visual & comp.	-0.1	0.00	-0.6	-0.01
of which, holiday travel	-0.9	-0.04	-1.4	-0.08
Education	-0.4	-0.02	0.0	0.00
Financial & insurance services	1.4	0.08	1.9	0.11
CPI: All groups	1.2	-	0.8	-
CPI: All groups % year	5.4	-	4.3	-

Sources: ABS, RBA, Westpac Banking Corporation.

- For the December Monthly CPI Indicator, Westpac is forecasting a 3.0%yr increase (the ABS focuses on through the year estimates for the Monthly Indicator) which would be a 0.3% increase in the month.
- With two months worth of Monthly CPI Indicator data, we have greater confidence in our near-cast of the CPI. However, there are some significant components that are only surveyed in the third month of each quarter including childcare, health, motor vehicles, newspaper books & stationary, veterinary & other pet services and other financial services. As such, there is still some scope for a surprise on the day.
- There is a small downside risk to our quarterly CPI forecast. As noted in our [November Monthly Indicator review](#), while dwelling and rents remain a concern, the increase in household services in November was less than expected. Also, many household goods are not measured in November, and thus missed the significant Black Friday/Cyber Monday sales.

Quarterly CPI vs Monthly Indicator

Item	Dec-23 f/c	Oct	Nov	Dec f/c
	Qtr % yr	Mth % yr	Mth % yr	Mth % yr
Food	4.7	5.3	4.6	3.7
of which, bread & cereals	7.4	8.5	8.3	6.6
of which, meat & seafood	0.6	1.8	0.2	-0.3
of which, dairy & related prod.	6.5	7.8	6.1	5.2
of which, fruit & vegetables	2.0	1.0	0.7	-3.4
of which, food products nec	6.2	6.2	6.6	5.5
of which, non-alcohol bev.	5.0	3.4	5.4	5.9
Alcohol & tobacco	6.4	6.6	6.4	6.4
of which, Alcohol	4.2	4.5	4.2	4.1
of which, Tobacco	10.5	10.4	10.5	10.7
Clothing & footwear	-0.6	-1.5	-0.9	-0.8
of which, garments	-0.1	-1.7	-0.4	-0.5
Housing	7.1	6.1	6.6	6.5
of which, Rents	7.5	6.6	7.1	7.4
of which, House purchases	5.0	4.7	5.5	5.0
of which, Electricity	14.9	10.1	10.7	12.1
of which, Gas & other fuels	14.5	13.0	12.9	9.2
H/hold contents & services	-0.2	0.4	-0.3	-0.5
Health	4.1	6.3	5.2	4.6
Transportation	4.0	5.9	3.6	3.8
of which, auto fuel	4.9	8.6	2.3	3.8
Communication	2.2	1.8	2.4	2.5
Recreation	-0.5	2.7	1.2	-7.5
of which, holiday travel	-5.0	1.3	-0.3	-17.5
Education	4.7	4.8	4.8	4.8
Financial & insurance services	8.5	8.6	8.8	8.5
CPI: All groups %qtr/%mth	4.3	4.9	4.3	3.0

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Food +0.8%qtr contributing +0.13ppt

The wholesale prices for many food products (particularly beef, grains and dairy) have been falling but to date, the flow on to lower retail prices has been marginal at best. While we do expect to see a further correction in food prices give the significant pressure the major retailers are under due to increasing household income stress, this is unlikely to materialise until well into 2024. Beef and dairy prices in particular have not adjusted lower as you would expect through the second half of 2023 given the sizeable fall in wholesale milk and live cattle prices.

Alcohol & tobacco +2.6%qtr contributing +0.20ppt

The tobacco excise is revised in March and September each year. In September the excise was increased by 6.8% which, with an expected increase in retail prices, will be the major contributor to price rises in this group. The Monthly CPI Indicator reported tobacco was up 4.8% in September and 3.4% in October.

Clothing & footwear +1.0%qtr contributing +0.03ppt

Outside of garments, which are surveyed monthly, most categories in this group are surveyed in the first month of each quarter. As such we have a meaningful share of the data already and note that this quarterly data would miss November's discounts.

Housing +1.9% contributing +0.43ppt

Rents bounced back from the 0.4% fall in October, which was due to the increase in the Commonwealth Government's rental assistance, with a 0.7% increase in November. We are looking for something similar in December. What surprised in November was a very solid 0.9% increase in dwelling prices following a modest gain of just 0.2% in October. For the month of December, we expect dwelling price gains to moderate to 0.4% in the month.

Given there was a 3.4% bump in electricity prices in October we had expected to see a similar gain in November given the expectation for the impact of the various government energy rebates to fade. However, the 0.4% increase in November was less than the ABS estimate of a 0.8% in underlying electricity prices before rebates due to newly eligible households in Victoria applying the rebates. As far as we can tell, this should be the end of the most recent round of rebates, and so we are looking for reported electricity prices to move up toward the prices before rebates as they did through 2022.

Household contents & services -1.0% contributing -0.09ppt.

Furniture & furnishings, household textiles and household appliances are surveyed in the first month of the quarter so we already have that data. Non-durable household goods are surveyed monthly so we have two of the three months to base our estimate. Childcare is surveyed in the first month of each quarter and fell -13.2% in October due to the increase in Commonwealth government support. What we are waiting on is the update from hairdressing & personal grooming services and other household services.

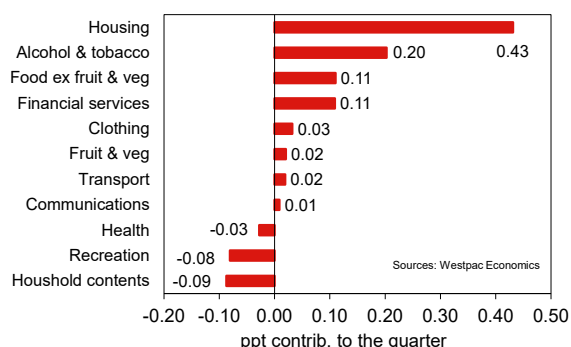
Health -0.4% contributing -0.03ppt

Most of the decline in health prices is due to an increase in the number of households being eligible for cheaper pharmaceuticals under the PBS. However, as health prices are only surveyed in the last month of each quarter we will also get an update on appliance & equipment prices as well as medical, hospital and dental services.

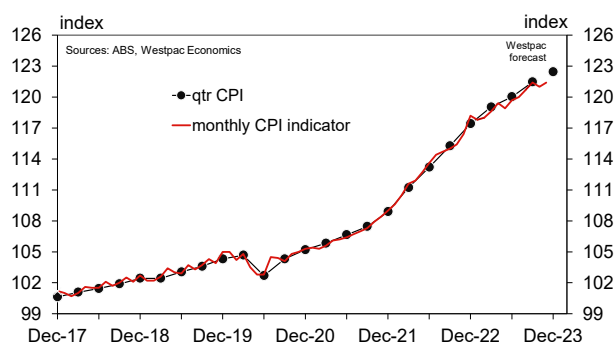
Monthly Indicator %yr with forecasts

	Sep	Oct	Nov	Dec fcs
	Mth	Mth	Mth	Mth
Item	% yr	% yr	% yr	% yr
Food	4.7	5.3	4.6	3.7
of which, bread & cereals	8.9	8.5	8.3	6.6
of which, meat & seafood	1.7	1.8	0.2	-0.3
of which, dairy & related prod.	8.0	7.8	6.1	5.2
of which, fruit & vegetables	-5.4	1.0	0.7	-3.4
of which, food products nec	6.8	6.2	6.6	5.5
of which, non-alcohol bev.	4.9	3.4	5.4	5.9
Alcohol & tobacco	5.8	6.6	6.4	6.4
of which, Alcohol	5.0	4.5	4.2	4.1
of which, Tobacco	7.5	10.4	10.5	10.7
Clothing & footwear	-0.1	-1.5	-0.9	-0.8
of which, garments	-2.2	-1.7	-0.4	-0.5
Housing	7.2	6.1	6.6	6.5
of which, Rents	7.6	6.6	7.1	7.4
of which, House purchases	4.9	4.7	5.5	5.0
of which, Electricity	18.0	10.1	10.7	12.1
of which, Gas & other fuels	12.7	13.0	12.9	9.2
H/hold contents & services	2.3	0.4	-0.3	-0.5
Health	5.4	6.3	5.2	4.6
Transportation	9.4	5.9	3.6	3.8
of which, auto fuel	19.7	8.6	2.3	3.8
Communication	1.2	1.8	2.4	2.5
Recreation	3.5	2.7	1.2	-7.5
of which, holiday travel	1.9	1.3	-0.3	-17.5
Education	4.8	4.8	4.8	4.8
Financial & insurance services	8.6	8.6	8.8	8.5
CPI: All groups %qtr/%mth	5.6	4.9	4.3	3.0

Contributions 2023Q4 CPI 0.8%qtr forecast



CPI Monthly Indicator vs. qtr CPI



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Transportation +0.2% contributing +0.02ppt

Auto fuel is a monthly survey so we already have the data for October and November with weekly pump prices to guide us for the December estimate. As prices for spare parts, maintenance & repairs, other motor vehicle services and urban transport fares are surveyed in the mid-month of the quarter, we are only waiting on quarterly update on motor vehicle prices.

Communication +0.4% contributing +0.01ppt

Postal and telecommunication services are surveyed monthly so we have two of the three months in question.

Recreation & culture -0.7% contributing -0.08ppt

Holiday travel & accommodation is surveyed monthly and we have BITRE data on domestic airfares to help guide us for a December estimate. We also have monthly data for pets & related products. Also surveyed in the mid-month of the quarter are audio visual & computing services as well as equipment for sports, games toys & hobbies, sports participation and other recreational, sporting & cultural services. Surveyed in the last month of the quarter are newspapers books & stationary plus veterinary & other pet services.

Financial Services +1.9% contributing +0.11ppt

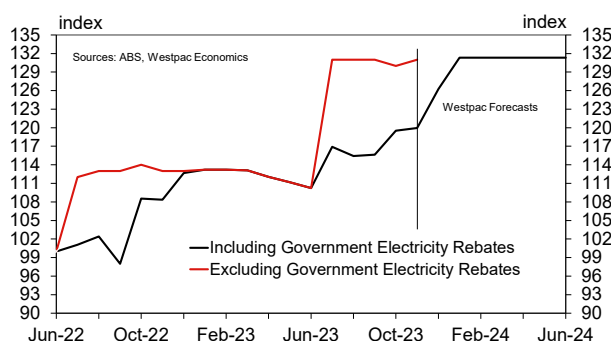
We have the monthly data for deposit & loan facilities, the quarterly estimate for insurance and are just waiting for other financial services which are surveyed in the last month of the quarter.

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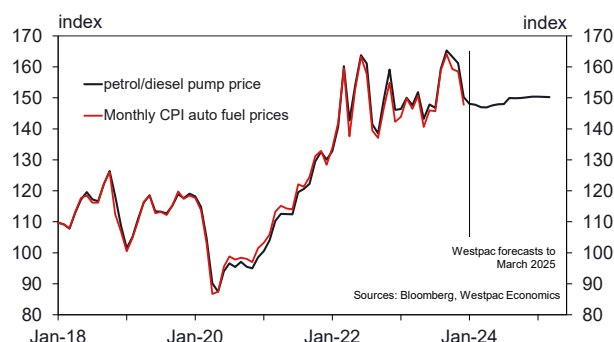
Monthly Indicator %mth + forecasts

	Sep	Oct	Nov	Dec
	Mth	Mth	Mth	Mth
Item	% mth	% mth	% mth	% mth
Food	-0.4	0.1	0.8	0.0
of which, bread & cereals	0.5	0.2	0.6	0.1
of which, meat & seafood	-0.6	0.1	-0.9	0.2
of which, dairy & related prod.	-0.5	0.7	-0.1	1.0
of which, fruit & vegetables	-3.1	-0.1	2.1	-1.1
of which, food products nec	0.5	0.2	1.0	0.4
of which, non-alcohol bev.	-0.2	-0.6	1.4	-0.3
Alcohol & tobacco	1.9	1.3	-0.3	-0.2
of which, Alcohol	0.3	0.0	-0.4	-0.4
of which, Tobacco	4.8	3.4	0.1	0.1
Clothing & footwear	-0.3	1.6	-1.7	1.2
of which, garments	-0.5	3.4	-2.9	2.0
Housing	0.8	0.4	0.7	0.9
of which, Rents	0.3	-0.4	0.7	0.7
of which, House purchases	0.7	0.2	0.9	0.4
of which, Electricity	0.2	3.4	0.4	5.3
of which, Gas & other fuels	0.1	-2.5	2.3	0.2
H/hold contents & services	-1.3	-1.6	0.3	0.5
Health	0.5	0.8	0.0	-0.5
Transportation	1.3	-1.0	-0.1	-1.8
of which, auto fuel	3.3	-2.9	-0.5	-6.8
Communication	0.3	0.1	-0.1	0.3
Recreation	2.0	-3.2	1.0	1.4
of which, holiday travel	4.3	-7.0	2.7	5.1
Education	0.0	0.0	0.0	0.0
Financial & insurance services	0.8	0.0	0.8	1.0
CPI: All groups %qtr/%mth	0.6	-0.3	0.3	0.3

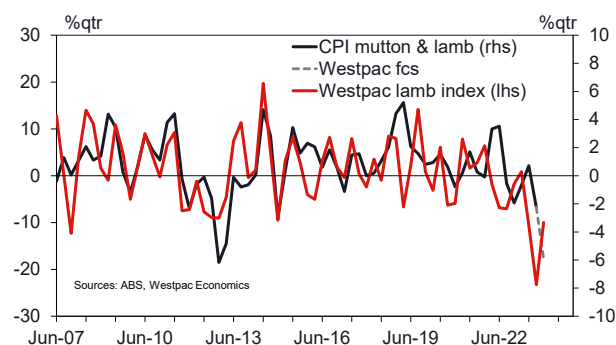
Monthly electricity prices



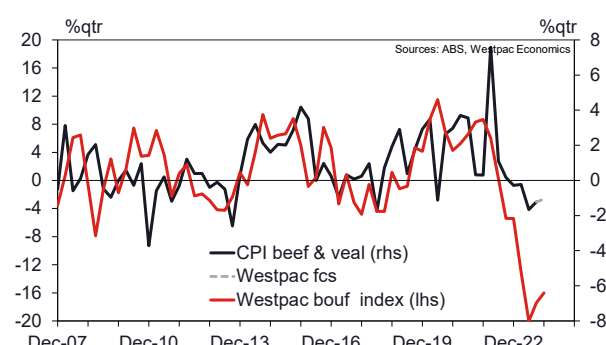
Petrol/diesel prices vs monthly CPI auto fuel



Market lamb prices & mutton/lamb CPI

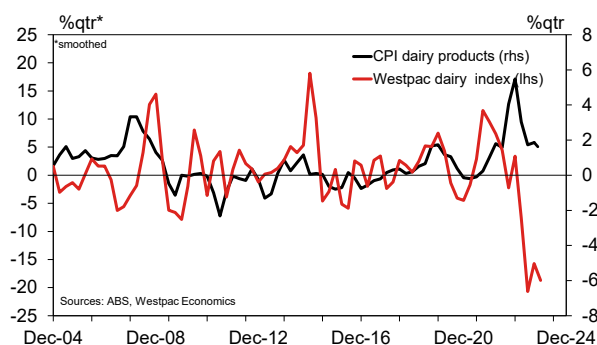


Market beef prices & beef/veal in CPI

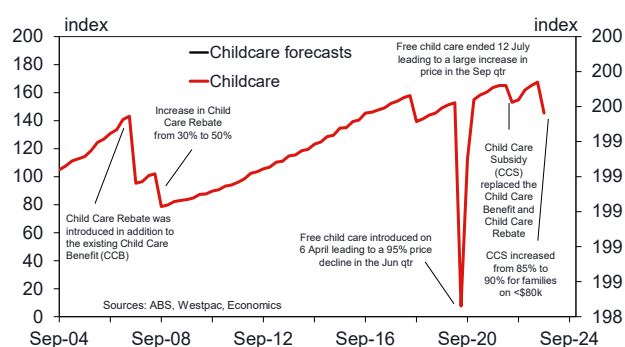


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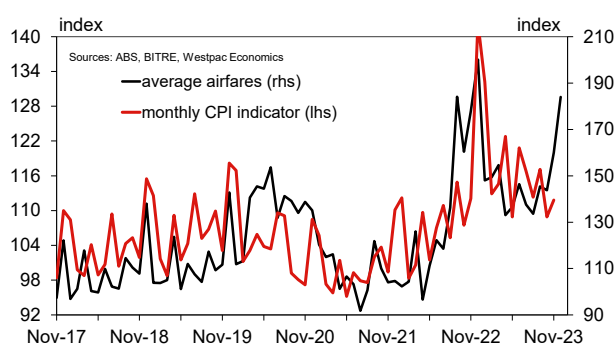
Global dairy prices & CPI dairy products



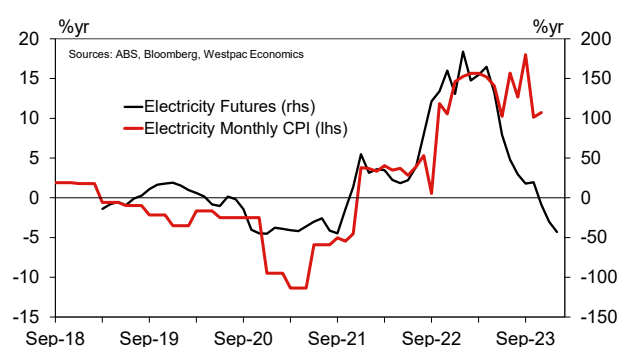
Childcare subsidy holding down inflation



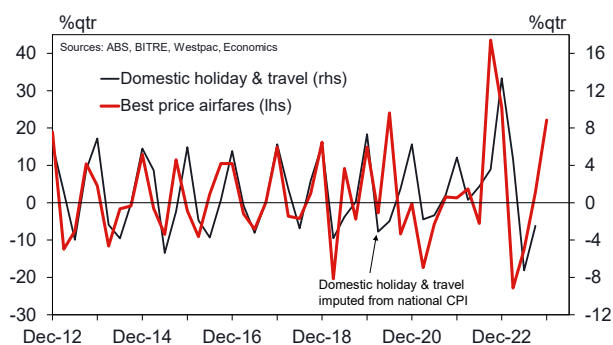
Monthly travel & accom vs. airfares



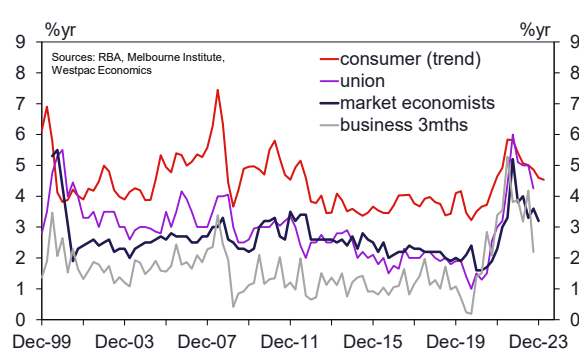
Electricity futures and Monthly CPI



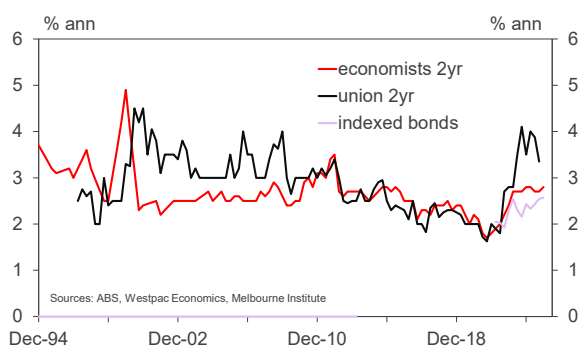
Domestic holidays & travel



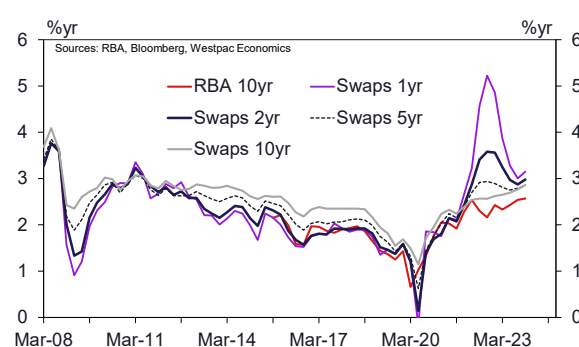
Short term inflation expectation



Longer term inflation expectations



Financial markets inflation expectations



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