BULLETIN

18 June 2024

Inflation Deeper Insights – rebates increase CPI volatility

Power rebates will push inflation below 3% in 2024 but as they end inflation is back above 3% in 2025.

- Energy rebates, cost of living assistance and falling auto fuel prices result in a very modest 0.1% rise in the September 2024 CPI taking the annual pace down to 2.7% and then down to 2.4%yr in the first half of 2025.
- There is also the risk that if crude oil prices fall sustainably below US$80/bbl then falling petrol prices could see the CPI modest fall in September quarter possibly taking inflation down to the mid point of the RBA's target band.
- Energy rebates take headline inflation back within the RBA's target band this year, earlier than the RBA is currently forecasting (RBA forecasts didn't include the latest energy rebates) but they don't have a material impact on core inflation. Our Trimmed Mean forecast remains 3.5%yr for end 2024 and 2.8%yr for end 2025.
- More significant has been the moderation in wages (**see here**), the smaller than expected 2024 Fair Work Commission increase in the minimum wage (**see here**) and the improvement in productivity and moderation in unit labour cost inflation (see Pat Bustamante note "**Stagflation threat receding rapidly, bringing rate cuts into frame**").
- We have assumed the state and federal energy rebates are not repeated in 2025 and thus, even with electricity prices trending lower into 2025, we see a jump in electricity, other motor vehicle services and public transport in the September quarter of 2025. This will lift headline inflation back up through 3%yr in the second half of 2025.
- Our preliminary forecast for the May Monthly CPI Indicator is for a flat print in the month which, given a -0.4%mth decline in May 2023, will see the annual pace lift from 3.6%yr to 4.0%yr.
- While the May Monthly CPI Indicator was broadly as expected, details suggest some tensions with stronger than expected clothing & footwear prices resulting in an upwards revision to these components in our June quarter CPI forecast (see **May Monthly CPI First Impressions**).
- Our preliminary June quarter CPI forecast is 1.0%qtr/3.8%yr. The RBA will look throught the headline volatility and focus on core inflation. If core inflation continues to moderate as expected it may open the window for a November rate cut.

Inflation forecasts

		Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
CPI	Index	138.8	139.0	140.1	141.1	142.2
	(%qtr)	1.0	0.1	0.8	0.7	0.8
	(%yr)	3.8	2.7	2.9	2.7	2.4
Trimmed mean	(%qtr)	0.9	0.8	0.7	0.7	0.7
	(%yr)	4.0	3.6	3.5	3.2	3.0

Breakdown of CPI forecast for Jun & Sep

	Jun 2024 f/c		Sep 2024 f/c	
Item	**% qtr**	**contrib**	**% qtr**	**contrib**
Food	0.9	0.15	1.0	0.17
of which, Fruit & vegetables	4.1	0.08	-0.8	-0.02
Alcohol & tobacco	1.3	0.09	1.0	0.07
of which, Tobacco	2.8	0.06	1.4	0.03
Clothing & footwear	2.7	0.09	0.6	0.02
Housing	1.4	0.31	-1.8	-0.38
of which, Rents	1.9	0.12	1.5	0.09
of which, House purchases	0.9	0.07	1.0	0.08
of which, Utilities	2.8	0.11	-15.5	-0.64
H/hold contents & services	1.1	0.09	1.3	0.11
Health	2.5	0.17	0.5	0.03
of which, Pharmaceuticals	-1.5	-0.01	-1.1	-0.01
Transportation	0.7	0.08	-1.7	-0.19
of which, Car prices	-0.2	-0.01	0.0	0.00
of which, Auto fuel	1.6	0.06	-6.0	-0.22
Communication	-0.2	0.00	1.0	0.02
Recreation	-0.3	-0.04	1.0	0.12
of which, Audio visual & comp.	-0.6	-0.01	0.1	0.00
of which, Holiday travel	-0.6	-0.04	0.6	0.03
Education	0.0	0.00	0.0	0.00
Financial & insurance services	1.9	0.10	1.4	0.08
CPI: All groups	**1.0**	-	**0.1**	-
CPI: All groups % year	**3.8**	-	**2.7**	-

Sources: ABS, RBA, Westpac Banking Corporation.

Annual Inflation Dec 2024 and Dec 2025

	Dec 2024 f/c		Dec 2025 f/c	
Item	**% yr**	**contrib**	**% yr**	**contrib**
Food	3.0	0.53	2.5	0.43
of which, Fruit & vegetables	2.9	0.05	0.5	0.01
Alcohol & tobacco	4.9	0.35	2.7	0.20
of which, Tobacco	10.6	0.24	3.2	0.08
Clothing & footwear	4.1	0.14	0.9	0.03
Housing	1.2	0.26	5.4	1.19
of which, Rents	4.5	0.28	3.6	0.22
of which, House purchases	3.9	0.32	2.9	0.23
of which, Utilities	-11.1	-0.45	14.7	0.58
H/hold contents & services	2.3	0.20	3.4	0.29
Health	5.7	0.38	2.3	0.15
of which, Pharmaceuticals	2.7	0.02	0.9	0.01
Transportation	-0.3	-0.03	2.3	0.25
of which, Car prices	2.0	0.06	2.3	0.08
of which, Auto fuel	-6.3	-0.23	-1.0	-0.03
Communication	0.5	0.01	1.3	0.03
Recreation	2.8	0.34	1.5	0.20
of which, Audio visual & comp.	1.3	0.02	0.2	0.00
of which, Holiday travel	2.5	0.14	2.2	0.12
Education	5.9	0.26	4.9	0.22
Financial & insurance services	8.0	0.45	5.1	0.30
CPI: All groups	**2.9**	-	**3.1**	-

Sources: ABS, RBA, Westpac Banking Corporation.

Energy rebates introduce significant volatility into CPI

In the 2024/25 Budget the Australian Commonwealth Government extended the previous Energy Relief Bill Plan but this time it would be a $300 rebate for all households. The rebate is is structured as a $75 payment each quarter starting in July 2024. This is in addition to the earlier announced Queensland government's $1,000 lump sum rebate for all Queensland households while the West Australian government is providing a one off $400 rebate to all households in that state. As the payment is made to the retailers, so reduce power bills, they will have an impact on the CPI.

We have used those the rebates to estimate the impact on electricity prices in each capital city then aggregate this to estimate national electricity prices. We have also made an assumption that the underlying energy prices continue to fall and from April 2024 to July 2025 they decline around 9%.

On this basis we estimate that electricity prices will rise 5.5% in June 2024, fall -30% in September 2024, rise 6% in December 2024 and March 2025, rise 5% in June 2025 then surge 15% in September 2025 as the impact of the current rebates expire.

With a weight of 2.3% in the CPI such large moves in electricity prices have a meaningful impact on headline inflation.

Public transport prices also being adjusted

Starting August 6th and running for six months the Queensland government has introduced a flat 50 cent fair for all public transport in the state. Urban transport fares fell 22% in Perth in March 2024 due to free public transport in WA from Christmas Eve 2023 to the 28th of January 2024. We expect this to be repeated in 2024/2025.

Public transport has a weight of 0.3% in the CPI so these rebates/subsidies are far less influential on inflation than the energy rebates.

Qld reduces motor vehicle registration fees by 20%

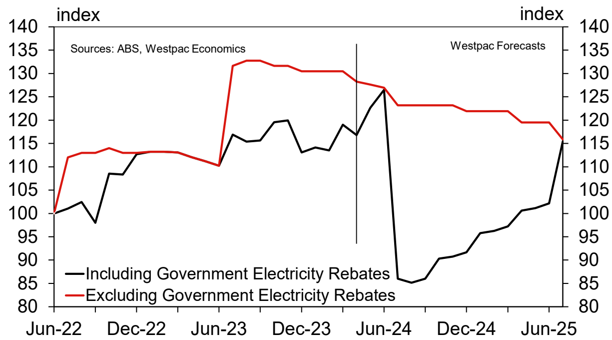
We have also adjusted our forecast for other motor vehicle services to incorporate a 20% reduction in Qld motor vehicle registration fees from the 16th of September. However, there has been no change to pricing arrangements for CTP (third party insurance) or the traffic improvement fee so the net impact is somewhat less than the the total cost of of registering a motor vehicle in Qld. Other motor vehicles services have a weight of 1.3% of the CPI.

Fundamentals shifting disinflationary

Looking further out fundamental parameters have continued to move in a disinflationary direction which should see a futher moderation in core inflationary over the next year or so. Our Trimmed Mean forecast is 3.5%yr for end 2024 and 2.8%yr for end 2025. The key fundamental parameters helping to moderate core inflation are:

- A strengthening Australian dollar, both against the US dollar and the more important trade weighted index.
- A modest fall in crude oil prices with Brent down below US$80/bbl in 2025.
- A widening in the output gap as illustrated by GDP less trend GDP and the unemployment rate less trend unemployment.
- A smaller than expected Fair Work Commission increase in the minimum wage and awards. The 3.75% awarded was less than what we had penciled in our wage forecasts so we trimmed 0.1%ppt off wages growth

Monthly electricity prices



Inflation: June quarter & May month forecasts

Item	June Qtr % qtr	Mar Mth % mth	Apr Mth % mth	May Mth % mth
Food	**0.9**	**0.3**	**0.5**	**0.1**
of which, bread & cereals	0.4	0.6	-0.4	0.7
of which, meat & seafood	1.5	1.0	0.6	0.1
of which, dairy & related prod.	0.7	0.6	0.0	0.4
of which, fruit & vegetables	4.1	0.4	3.9	-0.6
of which, food products nec	-0.2	-0.3	0.6	0.0
of which, non-alcohol bev.	0.4	1.2	-0.5	-0.7
Alcohol & tobacco	**1.3**	**0.7**	**0.6**	**0.1**
of which, alcohol	0.6	-0.1	0.3	0.2
of which, tobacco	2.8	2.3	1.3	-0.1
Clothing & footwear	**2.7**	**-0.3**	**4.0**	**-1.7**
of which, garments	2.1	-0.4	4.2	-2.8
Housing	**1.4**	**0.9**	**0.1**	**0.8**
of which, rents	1.9	0.6	0.5	0.7
of which, house purchases	0.9	0.4	0.3	0.3
of which, electricity	5.5	4.8	-1.9	5.0
of which, gas & other fuels	-1.4	-0.2	-0.6	-0.5
H/hold contents & services	**1.1**	**0.6**	**0.6**	**0.2**
Health	**2.6**	**2.9**	**2.0**	**0.0**
Transportation	**0.7**	**0.8**	**0.7**	**-0.7**
of which, auto fuel	1.6	1.5	2.2	-2.8
Communication	**-0.3**	**-0.1**	**-0.2**	**0.5**
Recreation	**-0.3**	**-0.4**	**2.0**	**-1.3**
of which, holiday travel	-0.6	-1.2	4.6	-3.3
Education	**0.0**	**0.0**	**0.0**	**0.0**
Financial & insurance services	**1.9**	**1.1**	**0.0**	**0.7**
CPI: All groups %qtr/%mth	***1.0***	***0.7***	***0.7***	***0.0***

in the year to December 2024. As this is as good as a rounding error we have not adjusted our core inflation forecasts on the back of the FWC decision but do note it does makes it easier to achieve our forecasts.

Moderating unit labour costs

As noted in our **March Quarter National Accounts bulletin** unit labour costs (ULC), which measure the labour cost to produce one unit of GDP output, rose 0.4% in the March quarter which was the smallest quarterly increase since the -0.9% print in December 2021. From a peak of 7.4%yr back in March 2023 the annual pace has now moderated to 5.8%yr.

However, real non-farm unit labour costs (which are ULC deflated by the GDP deflator) fell -0.7% in March following a -0.2% print in December 2023. This has seen the annual pace ease to 3.4% from 3.6% in December 2023 and the recent peak of 4.9%yr in June 2023. The fact that ULC are now growing at a slower pace than overall GDP price inflation suggests firms are able to pass on a larger share of rising labour costs. But even then, margins appear to be under a bit more pressure than they were in 2022 when real non-farm ULC inflation was negative.

The moderation is broadly consistent with the moderation in both market services ex volatile inflation (a key measure of domestic inflationary pressure) and the core Trimmed Mean measure of inflation and suggests this trend can continue to be so through 2024.

Core inflation profile is left largely unchanged

The energy and cost of living rebates/assistance do not have a material impact on our core inflation forecasts. Our Trimmed Mean inflation forecast remains 3.5%yr at end 2024 and 2.8%yr by end 2025. Near term we are seeing a bit more pressure in the June quarter with the Trimmed Mean lifting 0.9%qtr/4.0%yr but this is followed by 0.8%qtr/3.6%yr in September and 0.7%qtr/3.5%yr in December.

For further insights into the productivity turnaround, particularly in the non-mining sector, and how this is helping to reduce growth in unit labour costs and therefore inflationary pressures, please see "**Stagflation threat receding rapidly, bringing rate cuts into frame**" by Pat Bustamante. Pat's research suggests that Trimmed Mean inflation could get back to around 3%yr a little sooner than our current forecast for June 2025.

April Monthly CPI Indicator was broadly as expected but detailed analysis suggests some tension for the quarterly CPI

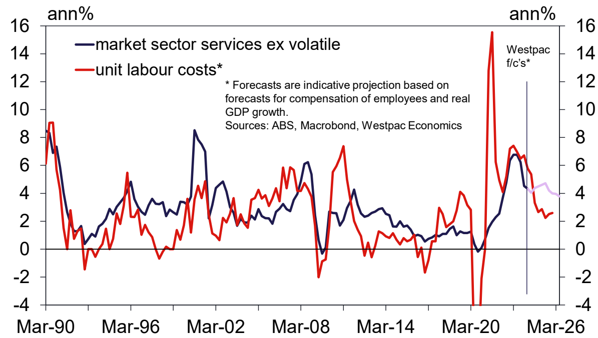
The Monthly CPI Indicator gained 3.6% in the year to April compared to 3.5%yr in March and 3.4%yr in both February and January. The April print was very close to Westpac's forecast of 3.5%, the market median was 3.4%yr. As such, you may expect it to have little impact on our June quarter forecast.

However, the quarterly CPI is not a simple average of the Monthly CPI Indicator and history has taught us that a simple 'face value' estimate of the monthly to quarterly CPI can be misleading. In any one month only 60% of the quarterly CPI is surveyed by the Monthly Indicator with many components surveyed in just one month each quarter, some only once a year. This is why a simple three month average of the Monthly Indicator is not a good guide to the quarterly CPI.

We take those components of the CPI that are surveyed just once a quarter as direct inputs into our quarterly estimate and use the monthly surveyed components as a partial guide. The first month of each quarter is heavy in durable goods quarterly surveys with estimates for:

- garments for children,
- footwear for men, women & children,
- accessories & clothing services,
- maintenance & repairs of dwellings,
- furniture & furnishings,
- household textiles, and
- household appliances, utensils & tools.

Unit labour costs vs services inflation



Inflation: June quarter & May month forecasts

Item	June Qtr % yr	Mar Mth % yr	Apr Mth % yr	May Mth % yr
Food	**3.0**	**3.5**	**3.8**	**2.8**
of which, bread & cereals	4.6	7.3	5.1	4.0
of which, meat & seafood	-0.3	-0.9	-0.6	-0.8
of which, dairy & related prod.	3.1	2.9	2.7	3.3
of which, fruit & vegetables	1.5	-1.2	3.5	1.4
of which, food products nec	3.9	4.0	4.2	4.4
of which, non-alcohol bev.	3.5	5.5	2.8	2.2
Alcohol & tobacco	**6.6**	**6.1**	**6.5**	**6.5**
of which, alcohol	3.3	2.7	3.1	3.2
of which, tobacco	13.1	12.4	13.0	13.1
Clothing & footwear	**2.5**	**0.3**	**2.4**	**2.7**
of which, garments	2.4	1.7	2.1	2.5
Housing	**5.5**	**5.2**	**4.9**	**5.6**
of which, rents	7.2	7.7	7.5	7.3
of which, house purchases	4.9	5.1	4.9	4.8
of which, electricity	9.6	5.2	4.2	10.3
of which, gas & other fuels	-2.5	-2.9	-3.5	-1.9
H/hold contents & services	**-0.8**	**0.1**	**-0.8**	**-0.9**
Health	**6.9**	**4.1**	**6.1**	**6.1**
Transportation	**4.3**	**4.5**	**4.2**	**5.5**
of which, auto fuel	7.6	8.1	7.4	11.9
Communication	**1.9**	**1.6**	**2.0**	**1.8**
Recreation	**0.1**	**-0.6**	**-1.3**	**2.0**
of which, holiday travel	-2.5	-3.9	-6.2	2.3
Education	**5.4**	**5.2**	**5.2**	**5.2**
Financial & insurance services	**7.1**	**8.2**	**8.2**	**7.7**
CPI: All groups %qtr/%mth	***3.8***	***3.5***	***3.6***	***4.0***

Fundamental inflation indicators

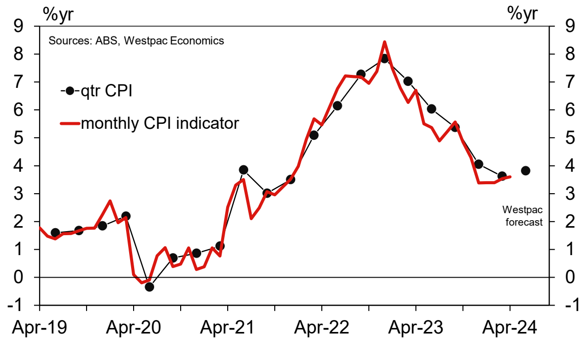
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD/USD	0.66	0.66	0.67	0.68	0.69
AUD/USD %yr	-1.6	0.8	2.3	2.9	4.4
TWI	62.6	62.2	62.6	62.9	63.1
TWI %yr	1.4	1.9	0.1	2.2	0.8
Brent US$bbl	85	82	81	79	79
Brent %yr	8.9	-3.5	-2.0	-3.2	-6.2
Output gap t-3	-0.75	-0.85	-0.93	-0.97	-0.97

As we noted in our **April Monthly CPI Indicator First Impressions** clothing & footwear prices were stronger than expected at 4.0% vs. 0.2% forecast due to strong price gains for both male and female garments as well as the quarterly clothing & footwear surveys. This led to an upward revision to these components in our June quarter CPI forecast.

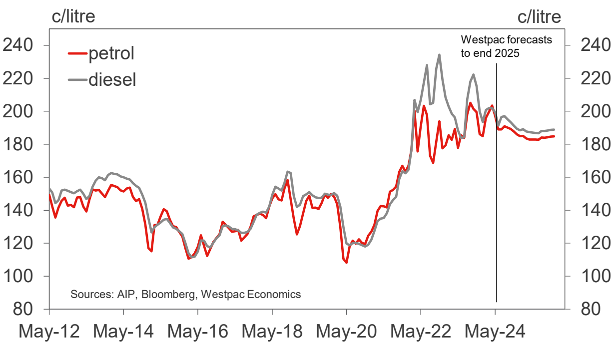
Compared to our April Monthly CPI Indicator forecast we noted the following discrepancies that help guide our June quater forecast:

- Food was a touch softer at 0.5% compared to 0.1% forecast. Outside of restaurant meals & take away food, which are surveyed in the last month of the quarter, food is survey monthly.
- Alcohol & tobacco was on the stronger side, 0.6% vs. 0.2% forecast, due to a stronger-than-expected tobacco price increase. These series are surveyed monthly.
- Housing was softer than expected at 0.1% vs. 0.9% forecast, due to Tasmanian rebates suppressing electricity prices. Rents were close to expectations (0.5% vs. 0.7% forecast) while dwellings came in softer lifting just 0.3% vs. 0.4% forecast. It is somewhat surprising we are still yet to see a meaningful lift in dwelling price inflation. Rents, dwellings, electricity and gas are surveyed monthly. Maintenance & repairs of dwellings are surveyed in the first month of each quarter, property rates & taxes in the last month.
- Household contents & services were close to expectations at 0.6% vs. 0.7% forecast. Outside of non-durable household goods (monthly), childcare (last month of the quarter) and hairdressing and other household services (second month of each quarter), this group is surveyed in the first month of the quarter locking those estimates in for the June quarter.
- Health was surprising lifting 2.0% vs. 0.0% forecast as we had not expected the increase in health insurance premiums till the June survey.
- Recreation was also on the softer side 2.0% vs. 3.1% forecast) with a smaller 4.6% rise in holiday travel (we had expected an 8% lift). Holiday travel is surveyed monthly, as are audio visual & computing equipment and pets & related products, equipment for sports & camping, games, hobbies & toys, sports participation and other recreational sporting & other cultural services are in the second month while veterinary & other services for pets and newspapers, books & stationary are surveyed in the last month of the quarter.

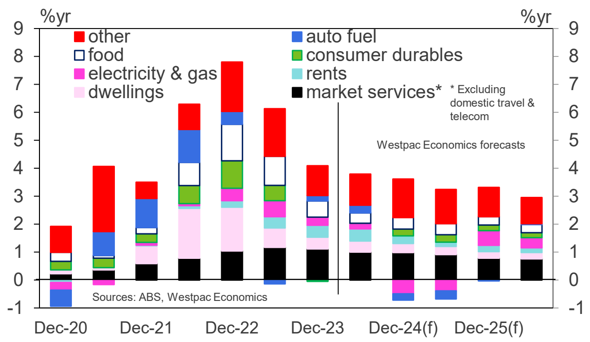
Annual inflation



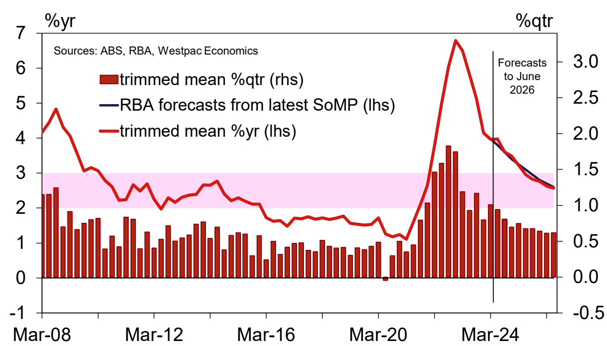
Australian fuel pump prices



Contributions to annual inflation



Westpac vs. RBA core inflation forecasts



The upside surprise in many of the durable good prices represented an upside risk to our earlier June quarter forecast. This risk can also be illustrated with the annual pace on the Monthly Indicator Tradables measure lifting from 0.5%yr to 1.1%yr, the fastest pace since November 2023.

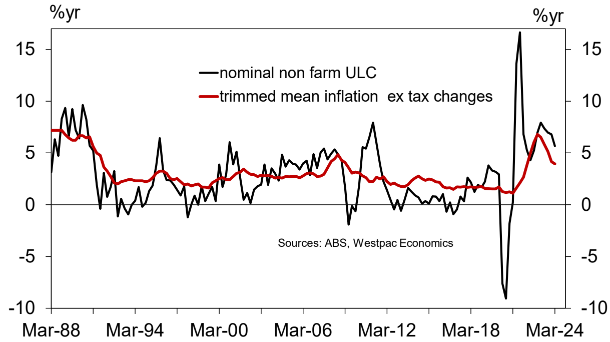
May Monthly CPI Indicator: 0.0%mth/4.0%yr

Our preliminary forecast for the May Monthly CPI Indicator is for a flat print in the month which, given a -0.4%mth decline in May 2023, will see the annual pace lift from 3.6%yr to 4.0%yr. This base effect will take the annual pace of the monthly indicator above the pace of the March quarter CPI of 3.6%yr and our revised June quarter forecast of 3.7%yr. This will be the first time since September 2023 that the Monthly CPI Indicator annual rate of inflation is running faster than the quarterly CPI annual rate of inflation.

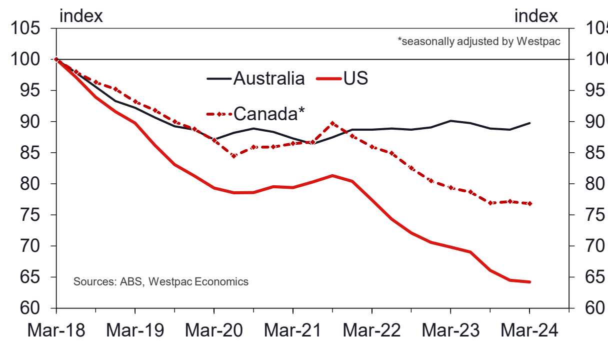
A component breakdown of our Monthly CPI Indicator forecasts, both in the month and through the year terms, are provided in earlier tables. Housing remains inflationary with rising dwelling prices and rents being boosted by the post rebate surge in electricity prices. Offsetting are falling prices for holiday travel, clothing & footwear, and auto fuel.

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

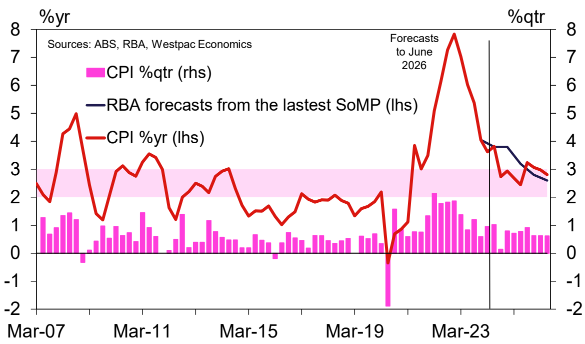
Unit labour costs vs. core inflation



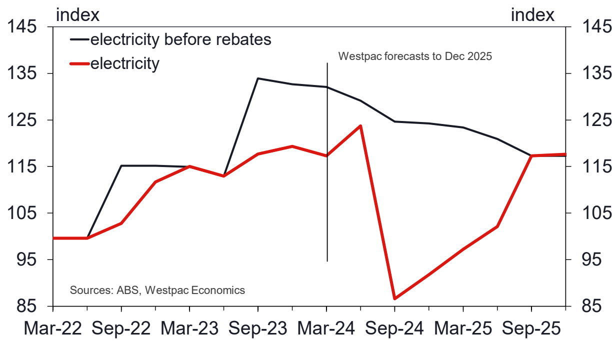
Retail Audio Visual Equipment



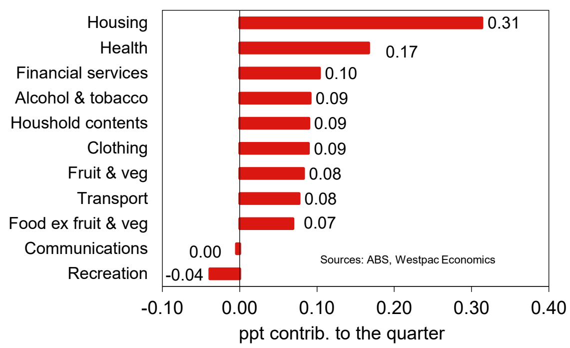
Westpac vs. RBA CPI forecasts



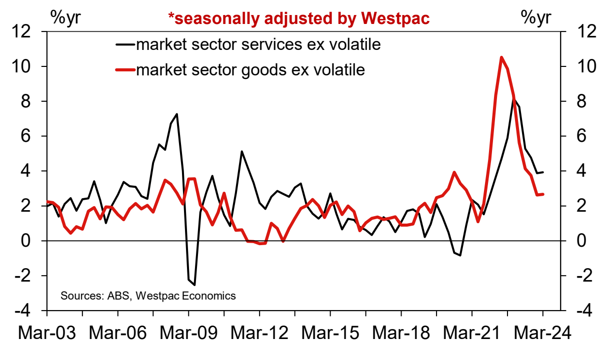
Rebates to have a bigger net impact in 2024



Contributions 2024Q2 CPI 1.0%qtr forecast



Two quarter annualised inflation*



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