

01 July 2024

Inflation Deeper Insights – forecasts are unchanged. The monthly indicator came in as per our expectations and the details suggest no reason change our current forecast.

- The Monthly CPI Indicator increased 4.0% in the year to May, up from 3.6%yr in April, 3.5%yr in March, and the 3.4%yr in February. This was Westpac's forecast which is part of the reason why our June quarter CPI forecast is unchanged.
- May provided an important update on household services. Overall, the services update was softer than we have expected with smaller gains in restaurants & takeaway food offset by stronger than expected gains in some durable goods. For more information see ["Inflation drifts higher before cost-of-living measures kick in"](#).
- Westpac estimates that market services inflation (ex volatile components and holiday travel) eased back to 5.4%yr in May from 5.7%yr in April and a recent peak of 6.2%yr in June 2023. Our forecast is for this measure of inflation to be down to around 5%yr by end 2024.
- The June Monthly Indicator will provide the critical second round of quarterly surveys as well as June's monthly data. The data for the last month of each quarter is released with the quarterly CPI.
- Westpac is forecasting the June Monthly CPI Indicator to gain 0.3% in the month which, with base effects, will see the annual pace ease back to 3.6%yr.
- Westpac's June quarter CPI near-cast remains 1.0%qtr/3.8%yr while the Trimmed Mean remains 0.9%qtr/4.0%yr.
- This update builds on our recent update which backgrounded our current inflation forecast ["Rebates increase CPI volatility"](#).
- For end 2024, the CPI is forecast to ease to just 2.9%yr due to the impact of the various cost of living measures. These measure push inflation down to a low of 2.4%yr at June 2025 before the expiry of the measures will see prices jump in September 2025 with inflation back to 3.1%yr at end 2025.
- The Trimmed Mean removes most of the volatility from cost of living measures, and so it will be the focus of the RBA during this period. Trimmed Mean inflation will be down to a 3.5%yr pace by end 2024 and 2.8%yr at end 2025 highlighting a continued moderation in inflation.
- The May Monthly CPI Indicator again highlighted the issue of naively using it as a quick guide to the headline quarterly CPI. As we noted back in 2022 (see ["Deeper Insights on the Monthly CPI Indicator"](#)) just under 50% of the data is surveyed and updated on a monthly basis. However, many components are surveyed only once a quarter or once a year, so overall, only around 60% of the data gets updated with each monthly reading. As such, while the annual pace of the Monthly Indicator will track roughly in line with the quarterly CPI annual pace, month to month it can have significant deviations.
- Nevertheless, given the Monthly CPI Indicator uses the same data as the quarterly CPI, it remains the best source of partial information for our inflation near-cast.
- Westpac Chief Economist Luci Ellis observed in their weekly note ["When Stars Collide"](#) that we don't think the RBA would have been surprised by the 4% gain in the May Monthly CPI Indicator and, as such, the Bank's analysis and strategy would not have changed post the update.

June Quarter & June Month Forecasts (%mth)

	June	Apr	May	Jun
	Qtr	Mth	Mth	Mth
Item	% qtr	% mth	% mth	% mth
Food	1.2	0.5	0.5	-0.1
of which, bread & cereals	-0.3	-0.4	0.1	-0.2
of which, meat & seafood	1.5	0.6	0.3	-0.2
of which, dairy & related prod.	0.0	0.0	-0.4	0.4
of which, fruit & vegetables	6.2	3.9	2.3	-0.2
of which, food products nec	-0.1	0.6	-0.4	0.1
of which, non-alcohol bev.	0.6	-0.5	0.8	-1.2
Alcohol & tobacco	1.4	0.6	0.3	-0.1
of which, alcohol	0.7	0.3	0.3	0.0
of which, tobacco	2.8	1.3	0.2	-0.1
Clothing & footwear	2.9	4.0	-1.5	-1.6
of which, garments	2.4	4.2	-2.4	-2.6
Housing	1.3	0.1	0.4	1.0
of which, rents	1.9	0.5	0.8	0.7
of which, house purchases	1.0	0.3	0.4	0.3
of which, electricity	4.5	-1.9	1.4	7.2
of which, gas & other fuels	-2.8	-0.6	-2.5	-0.9
H/hold contents & services	0.8	0.6	0.0	0.1
Health	2.6	2.0	0.0	-0.2
Transportation	0.6	0.7	-1.3	-0.6
of which, auto fuel	0.8	2.2	-5.1	-1.7
Communication	-0.3	-0.2	-0.6	-0.2
Recreation	-0.6	2.0	-1.3	1.9
of which, holiday travel	-1.0	4.6	-2.7	4.7
Education	0.0	0.0	0.0	0.0
Financial & insurance services	1.8	0.0	0.7	1.1
CPI: All groups %qtr/%mth	1.0	0.7	-0.1	0.3

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

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Quarterly prices locked in for the June quarter CPI

From April and May Monthly CPI Indicators, the following categories have been locked in for the June quarter CPI forecast. All are quarterly % changes:

- Meals out & take away food (0.7%).
- Garments for children(6.8%), footwear (4.2%) and accessories & clothing services (3.3%).
- Maintenance & dwelling repairs (0.6%).
- Furniture & furnishings (2.8%), household textiles (1.0%), and household appliances & utensils (-0.2%).
- Hairdressing & personal grooming services (0.8%) and other household services (0.1%).
- Medical & hospital services (3.7%).
- Motor vehicle spare parts & accessories (1.2%), maintenance & repairs of motor vehicles (1.4%), other motor vehicle services (0.3%) and urban transport fares (0.9%).
- Audio visual & computing services (3.7%), equipment for sports & camping (-0.5%), games, toys & hobbies (-4.4%), sports participation (0.4%) and other recreational, sporting & cultural services (0.2%).
- Insurance (3.0%).

Electricity did not bounce as expected in May

Electricity prices gained just 1.4% in May. Westpac had been looking for a larger rise as the energy rebates rolled of and this left a gap of around 7% between prices being paid post rebates and the underlying electricity prices. We are looking for the gap to close in the June Monthly CPI Indicator before the new round of rebates commence in July. The smaller than expected rise in May mean that even if electricity prices fully revert to per-rebate levels in June (a rise of 7.5% in the month) the average for the June quarter will 4.5%. For more details on how the cost of living rebates will impact on electricity prices and the CPI please see ["Rebates increase CPI volatility"](#).

Fuel prices fell in May and forecast to do so again in June

Auto fuel gained 2.2% in April then fell 5.1% in May. Unleaded and diesel pump prices fell through June and we are forecasting a -1.7% decline in auto fuel prices in June Monthly CPI Indicator for a June quarter average of +0.8%.

Quarterly prices released in the June Monthly CPI Indicator

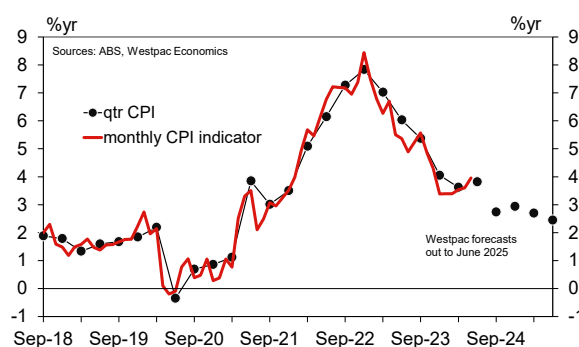
The following prices are surveyed in the last month of each quarter:

- Property rates & charges and water & sewerage. Price rises implemented post June 30 so appear in the September quarter.
- Childcare is forecast to rise 1.0% compared to a 1.5% increase in June 2023.
- Medical products, appliances & equipment price are forecast to fall -1.3% due to families crossing spending thresholds for the PBS.
- Medical, dental & hospital services already picked up the 2.7% increase in health insurance premiums in the month of April so we expect a smaller 0.1% rise in June due to an increase in dental services fees.
- Motor vehicles prices have been falling as discounting has returned to the motor vehicle market (-0.8%).
- Newspapers, books & stationery prices continue to rise up 0.2% in June.
- Veterinary & other services for pets inflation has started to slow and is forecast to rise 0.3% in June.

June Quarter & June Month Forecasts (%yr)

	June	Apr	May	Jun
	Qtr	Mth	Mth	Mth
Item	% yr	% yr	% yr	% yr
Food	3.3	3.8	3.3	3.2
of which, bread & cereals	3.9	5.1	3.4	3.7
of which, meat & seafood	-0.3	-0.6	-0.6	0.2
of which, dairy & related prod.	2.4	2.7	2.4	2.1
of which, fruit & vegetables	3.6	3.5	4.4	3.1
of which, food products nec	4.0	4.2	4.0	3.8
of which, non-alcohol bev.	3.7	2.8	3.8	4.7
Alcohol & tobacco	6.6	6.5	6.7	6.7
of which, alcohol	3.4	3.1	3.4	3.4
of which, tobacco	13.1	13.0	13.4	13.4
Clothing & footwear	2.7	2.4	2.8	2.6
of which, garments	2.8	2.1	2.9	2.8
Housing	5.4	4.9	5.2	6.0
of which, rents	7.2	7.5	7.4	7.2
of which, house purchases	5.0	4.9	4.9	5.0
of which, electricity	8.5	4.2	6.5	15.2
of which, gas & other fuels	-3.8	-3.5	-3.9	-4.1
H/hold contents & services	-1.1	-0.8	-1.1	-1.2
Health	6.9	6.1	6.1	5.7
Transportation	4.1	4.2	4.9	3.1
of which, auto fuel	6.7	7.4	9.3	3.5
Communication	1.9	2.0	0.7	1.6
Recreation	-0.2	-1.3	2.0	-0.7
of which, holiday travel	-2.8	-6.2	2.9	-3.3
Education	5.4	5.2	5.2	5.4
Financial & insurance services	7.0	8.2	7.8	7.1
CPI: All groups %qtr/%mth	3.8	3.6	4.0	3.6

Inflation drops through 2024H2



- Other financial services expected to post a solid 1.5% gain in June.

Market services inflation has moderated but very slowly

Goods inflation peaked at 9.8%yr in July 2022 before easing back to 4.7%yr by June 2023 to hit a low of 2.9%yr in February 2024. Goods inflation recently picked up to 3.3%yr in the last three months to May.

Services inflation peaked a bit later at 7%yr in December 2022 but at June 2023 it was still running at a 6.3%yr pace with a recent low of 3.7%yr in January 2024. Since then it has picked up a bit to 4.8%yr in May. An underlying measure of services inflation is the market services ex volatile & holiday travel measure. This more stable series peaked at 6.2%yr at July 2023 moderating to 5.6%yr at end 2023 and then down to 5.4%yr by May.

Westpac is forecasting a 0.4% rise in market services ex volatile & holiday travel in June moderating the annual pace to 5.2%yr. Westpac is forecasting this series to be around 5%yr at end 2024 then down to 3.7%yr by end 2025 so while it is relatively more sticky than goods inflation we are expecting it to continue to ease back from the current pace.

Monthly Indicator core measures are more volatile

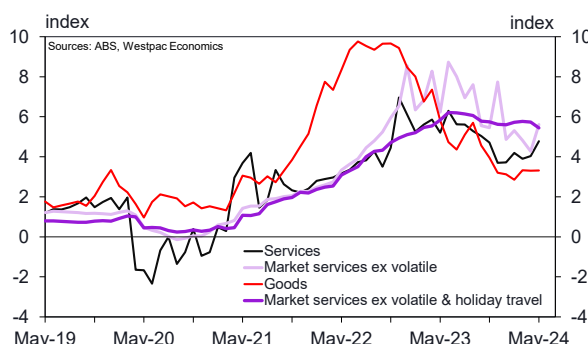
In May, the Monthly CPI Indicator Trimmed Mean annual pace lifted to 4.4%yr in May, the fastest pace since the 4.6%yr print in November 2023 and stronger than the 4.0%yr print from the March quarter CPI. This has led some to speculate that the annual pace of the Trimmed Mean in the June quarter could pick up as well to something around 4.4%yr. Our analysis of the April and May Monthly CPI Indicators suggests this is unlikely to the case and note the Monthly Indicator Trimmed Mean does have a history of being more volatile than the quarterly series. Westpac holds to the forecast for the Trimmed Mean to print 0.9%qtr/4.0%yr in the June quarter.

Monthly CPI to rise 0.2% in June seasonally adjusted

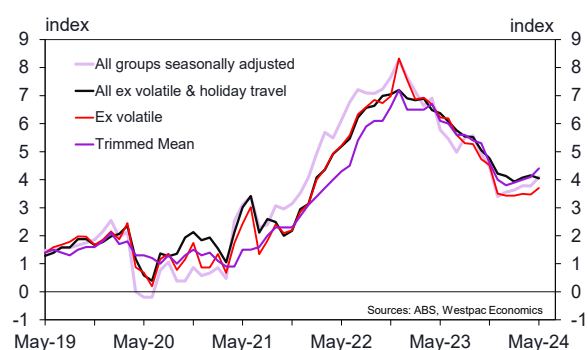
Westpac is forecasting the seasonally adjusted Monthly CPI Indicator to rise 0.2% in June which will be the third consecutive month that has reported a 0.2% gain. Due to base effects this will see the annual pace of the seasonally adjust Indicator drop from 4.1%yr in May to 3.7%yr in June. It is worth noting the step down in the seasonally adjust monthly pace so far this year from 0.4%mt in January to the 0.2%mt in April and May.

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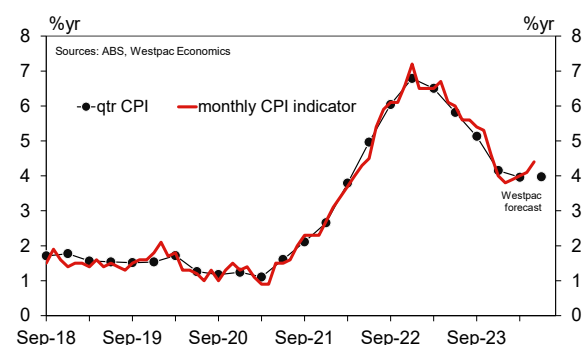
Monthly Indicator core measures



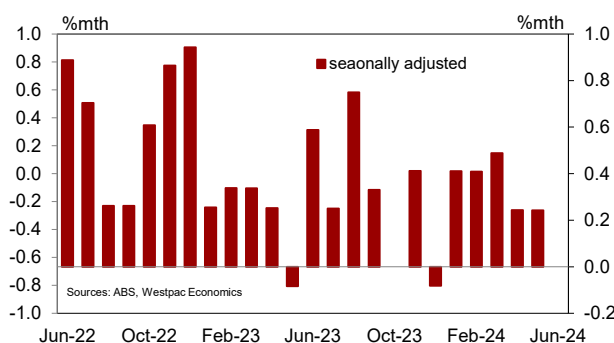
Monthly Indicator core measures



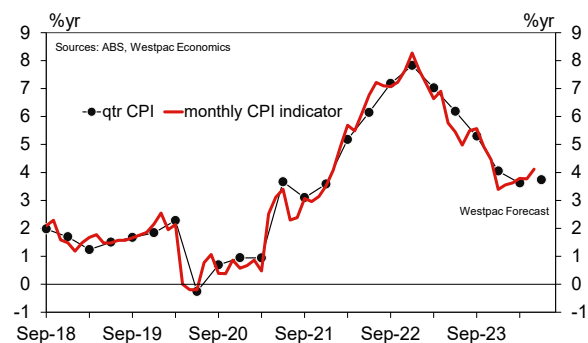
Annual inflation trimmed mean measures



Step down in the monthly pace of inflation

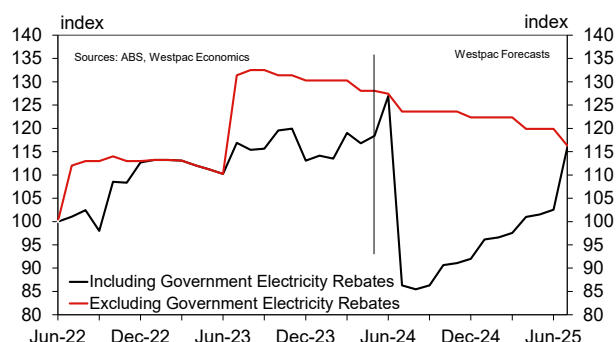


Annual inflation seasonally adjusted measures

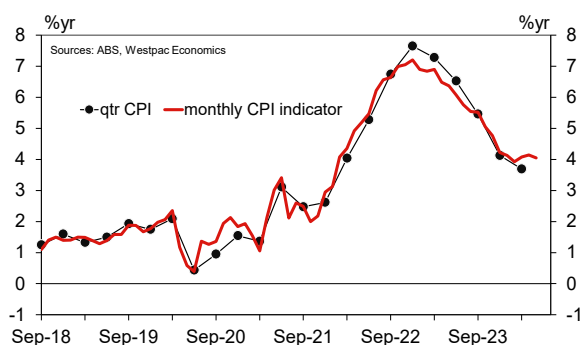


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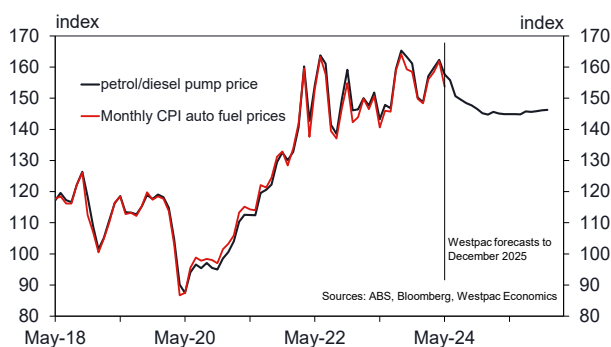
Monthly electricity prices



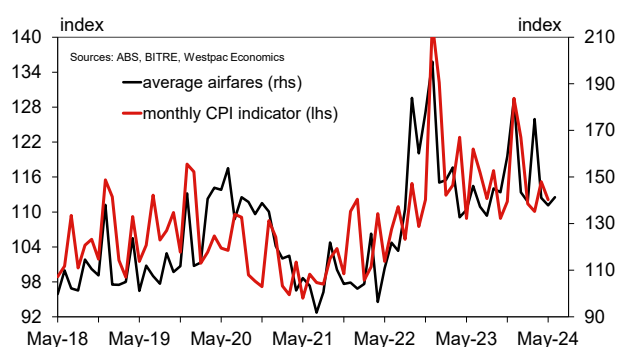
Annual inflation excluding volatile measures



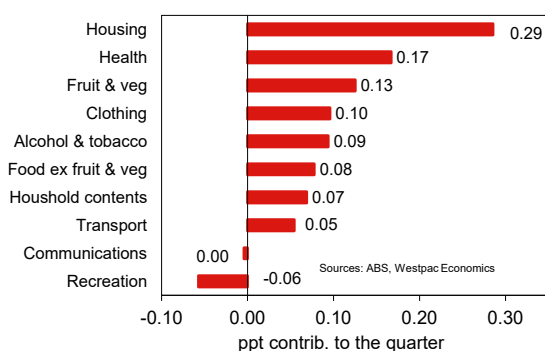
Petrol/diesel prices vs monthly CPI auto fuel



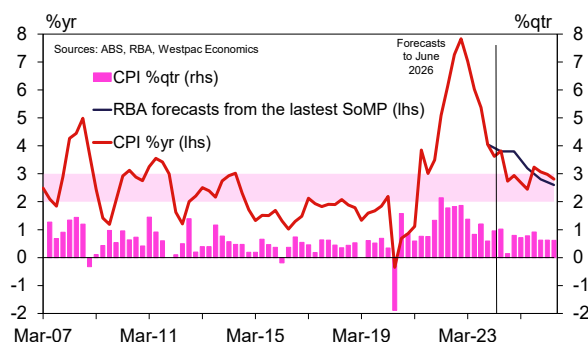
Monthly travel & accom vs. airfares



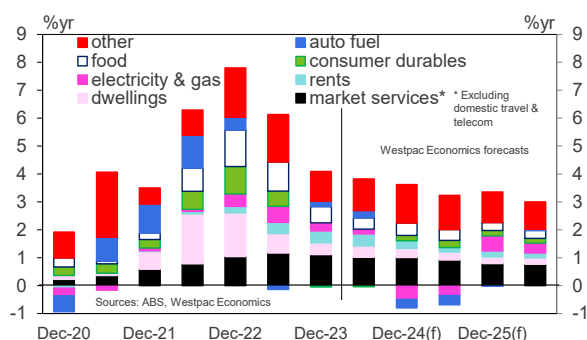
Contributions 2024Q2 CPI 1.0%qtr forecast



Westpac vs. RBA CPI forecasts



Contributions to annual inflation



Tradable vs non-tradable inflation



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