

24 July 2024

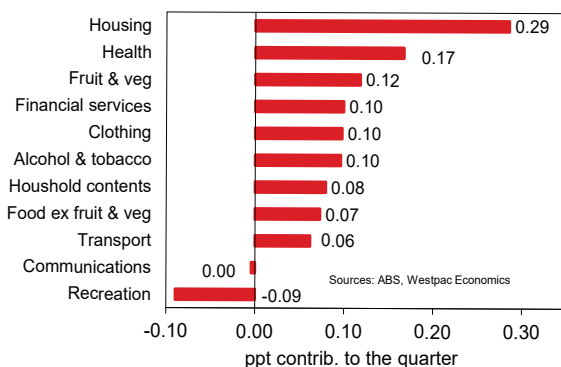
JUNE QUARTER CPI PREVIEW BULLETIN

June CPI should not close the door on a rate cut

Key points

- Westpac confirms its June quarter CPI forecast of 1.0%qtr/3.8%yr which we first released on [June 18](#) and left unchanged at our [July 2 update](#).
- Our Trimmed Mean forecast is also unchanged at 0.9%qtr/4.0%yr.
- For June, our forecast for a 0.3% rise in the month, which would see the annual pace ease from 4.0%yr in May to 3.5%yr in June (we did have 3.6%yr in early July).

Rebates having a significant impact Contributions 2024Q2 CPI 1.0%qtr forecast



- June will provide a critical update on some services, including: rates & property charges, water & sewerage, child care, dental services, veterinary & other services for pets, and other financial services.

“If the June quarter CPI prints as we expect, this would leave the door open for a November rate cut.”

- As our Chief Economist Luci Ellis recently expressed [“we not that special”](#) and it is unlikely Australia would move in the opposite direction to global disinflationary forces.
- Our colleagues across the ditch have already acknowledged that New Zealand is [not that special either](#).

Housing & health are key, but update on services is critical



Justin Smirk
Senior Economist

Core inflation is finely balanced

Westpac has a June quarter now-cast for the Trimmed Mean of 0.9% – a ‘hard’ 0.9% increase given it is 0.94% at two decimal places. This is a step down from the 1.0% increase in the March quarter, which would hold the annual pace steady at 4.0%yr. The Weighted Median is forecast to rise 1.0% in the June quarter, following on from a 1.1% increase in March, which also holds the annual pace steady but this time at 4.4%yr.

As the Trimmed Mean and Weighted Median are based on seasonally adjusted estimates, some of the following price changes may not be consistent with rates of change reported later in the report. The lower end of the trimming starts at -0.4% while the top end starts at 2.5%.

As has been the case in most quarters, dwelling and rents will remain key factors driving core inflation in Q2. The most significant components trimmed off the bottom in June quarter are: domestic holiday & travel (-3.7%), audio visual & computing equipment (-1.6%),

furniture (-0.8%), sports participation (-0.4%) and motor vehicles (-0.4%).

The most significant components trimmed off the top are: medical & hospital services (2.5%), insurance (3.6%), tobacco (3.8%), electricity (5.9%), international holidays (6.0%) and fruit (8.0%). Services are dominating the top end of the inflation distribution.

Energy rebates are a significant uncertainty

We are surprised at just how long energy rebates have been able to hold down electricity prices in the CPI. For the month of June, we are forecasting a snap back to pre-rebate prices which would be a 7.2% rise in the month resulting in a 4.5% rise in the quarter. If there

Breakdown of CPI forecast for the June quarter

Item	March 2024		June 2024 f/c	
	% qtr	contrib	% qtr	contrib
Food	0.9	0.16	1.1	0.19
of which, Fruit & vegetables	2.5	0.05	5.9	0.12
Alcohol & tobacco	0.9	0.06	1.4	0.10
of which, Tobacco	1.2	0.03	2.9	0.06
Clothing & footwear	-1.1	-0.04	2.9	0.10
Housing	0.7	0.16	1.3	0.29
of which, Rents	2.1	0.13	1.9	0.12
of which, House purchases	1.1	0.09	1.0	0.08
of which, Utilities	-1.4	-0.06	1.9	0.08
H/hold contents & services	-0.1	-0.01	1.0	0.08
Health	2.8	0.18	2.5	0.17
of which, Pharmaceuticals	7.1	0.07	-1.5	-0.01
Transportation	0.5	0.06	0.5	0.06
of which, Car prices	1.0	0.03	-0.6	-0.02
of which, Auto fuel	-1.0	-0.04	1.0	0.04
Communication	-0.3	-0.01	-0.2	0.00
Recreation	-0.1	-0.01	-0.7	-0.09
of which, Audio visual & comp.	1.6	0.03	0.8	0.01
of which, Holiday travel	-2.0	-0.12	-1.3	-0.07
Education	5.9	0.26	0.0	0.00
Financial & insurance services	2.0	0.11	1.8	0.10
CPI: All groups	1.0	-	1.0	-
CPI: All groups % year	3.6	-	3.8	-

Sources: ABS, RBA, Westpac Banking Corporation

Breakdown of June quarter & month forecasts

Item	Jun f/c	Apr	May	Jun f/c
	Qtr	Mth	Mth	Mth
	% qtr	% mth	% mth	% mth
Food	1.1	0.5	0.5	-0.3
of which, bread & cereals	-0.3	-0.4	0.1	-0.2
of which, meat & seafood	1.4	0.6	0.3	-0.4
of which, dairy & related prod.	-0.3	0.0	-0.4	-0.3
of which, fruit & vegetables	5.9	3.9	2.3	-1.2
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	-0.1
of which, tobacco	2.9	1.3	0.2	-0.2
Clothing & footwear	2.9	4.0	-1.5	-1.6
of which, garments	2.5	4.2	-2.4	-2.7
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	-1.0
H/hold contents & services	1.0	0.6	0.0	0.0
Health	2.5	2.0	0.0	-0.2
Transportation	0.5	0.7	-1.3	-0.6
of which, auto fuel	1.0	2.2	-5.1	-1.2
Communication	-0.2	-0.2	-0.6	-0.2
Recreation	-0.7	2.0	-1.3	1.4
of which, holiday travel	-1.3	4.6	-2.7	2.8
Education	0.0	0.0	0.0	0.0
Financial & insurance services	1.8	0.0	0.7	1.1
CPI: All groups	1.0	0.7	-0.1	0.3

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.

are still some residual rebates being used in June, or there is a fall in the underlying electricity prices, the rise in electricity price in both the month and the quarter overall could be less than we are forecasting.

Auto fuel prices fall through the June quarter

Auto fuel prices fell 5.1% in May and are forecast to fall 1.2% in June. However, given the 2.2% rise in April, 1.5% rise in March and 5.1% rise back in February, the resulting quarterly average for Q2 will still be 1.0% higher than it was in Q1.

Food prices falling further in June

Westpac is forecasting food prices to fall -0.3% in the month of June, broadly-based across the group. The only sub-group we expect to see a rise in prices is in food products nec of just 0.1%. Fruit and vegetable markets data suggest prices have been falling over the last few months.

Clothing & footwear face a seasonal fall

The End of Financial Year Sales happened early this year, boosting reported retail sales in May, but much of the consumer goods sector in the CPI would have missed these sales as they are surveyed in the first month of each quarter, which is April for the June quarter. This is why we are expecting a 2.9% rise in the June quarter for clothing & footwear and a 1.0% rise for household contents & services.

Male and female garments are surveyed monthly and fell -3.5% and -2.6% respectively in May, following a respective 2.4% and 4.5% increase in April. Also surveyed monthly are cleaning & maintenance products (-1.0% in May, -0.9% in April), personal care products (0.1% in May, -0.8% in April) and other non-durable household products (-0.4% in May, 0.9% in April). Audio visual & computing equipment is also surveyed monthly falling -0.1% in May and -0.7% in April.

Westpac is forecasting garments to fall -2.7% in the month of June and clothing & footwear to fall -1.6% overall, but given clothing and footwear lifted 4.0% in April, this is only enough to limit the quarterly average rise in clothing & footwear to 2.9%.

Housing remains an inflationary pressure point

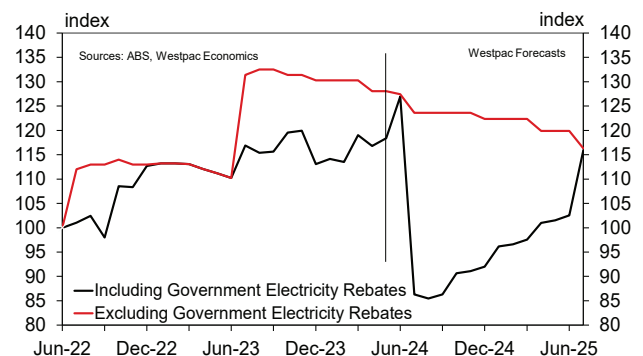
Outside of electricity, both rent and the purchase of dwellings remain key sources of inflationary pressure. As population growth has slowed, so to has the rate of inflation for dwelling construction. And while the rate of inflation for asking rents has clearly turned over, we are yet to see that in CPI rents. We are looking for a quarterly rise of 1.9% for rents and 1.0% for dwellings. In total housing is forecast to gain 1.3% in the quarter.

Breakdown of June quarter & month forecasts

Item	Jun f/c	Apr	May	Jun f/c
	Qtr	Mth	Mth	Mth
	% yr	% yr	% yr	% yr
Food	3.5	3.8	3.3	3.0
of which, bread & cereals	7.3	5.1	3.4	3.7
of which, meat & seafood	-0.9	-0.6	-0.6	0.0
of which, dairy & related prod.	2.9	2.7	2.4	1.3
of which, fruit & vegetables	-1.2	3.5	4.4	2.1
of which, food products nec	4.0	4.2	4.0	3.8
of which, non-alcohol bev.	5.5	2.8	3.8	4.7
Alcohol & tobacco	6.1	6.5	6.7	6.7
of which, alcohol	2.7	3.1	3.4	3.4
of which, tobacco	12.4	13.0	13.4	13.4
Clothing & footwear	0.3	2.4	2.8	3.0
of which, garments	1.7	2.1	2.9	3.4
Housing	5.2	4.9	5.2	6.0
of which, rents	7.7	7.5	7.4	7.2
of which, house purchases	5.1	4.9	4.9	5.0
of which, electricity	5.2	4.2	6.5	15.2
of which, gas & other fuels	-2.9	-3.5	-3.9	-4.1
H/hold contents & services	0.1	-0.8	-1.1	-1.2
Health	4.1	6.1	6.1	5.7
Transportation	4.5	4.2	4.9	3.3
of which, auto fuel	8.1	7.4	9.3	4.0
Communication	1.6	2.0	0.7	1.6
Recreation	-0.6	-1.3	2.0	-1.4
of which, holiday travel	-3.9	-6.2	2.9	-4.6
Education	5.2	5.2	5.2	5.4
Financial & insurance services	8.2	8.2	7.8	7.1
CPI: All groups	3.5	3.6	4.0	3.5

Rebates having a significant impact

Monthly electricity prices



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Health cost muted by PBS

The 2.7% rise in health insurance premiums was already reported in April so the month of June will be dominated by the -1.5% fall in pharmaceutical prices as an increasing number of families pass the threshold spend for PBS assistance. Even with the benefit of the PBS health costs are forecast to rise 2.5% in the June quarter.

Falling airfares pulling down holiday travel prices

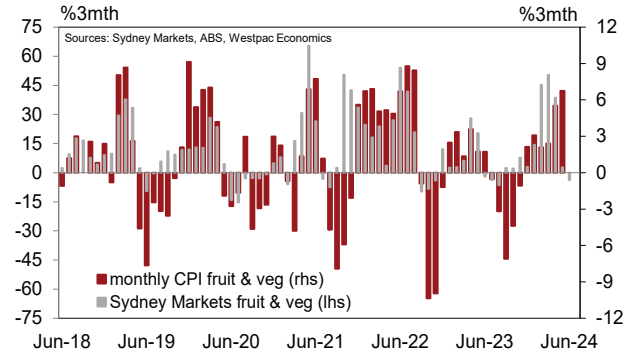
Holiday travel costs fell -2.7% in May, with a -6.6% fall in domestic travel partially offset by a 2.0% rise in international travel. Airfare data suggests we should not be expecting a significant change in prices in the month of June, leaving our June quarter forecast for holiday travel costs at -1.3%. All up we are looking for recreation to fall -0.7% in the June quarter.

Finance also an inflationary pressure point

Insurance is measured in the second month of the quarter so we already have a 3.0% increase locked in. The month of June will provide an update on other financial services and we have pencilled in a 1.5% increase. All up insurance & financial services is forecast to increase 1.8% in the June quarter.

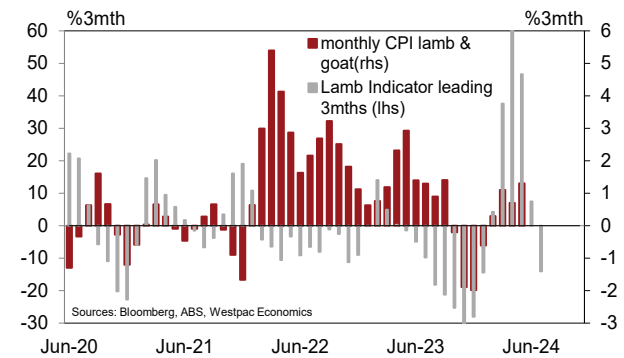
Market prices have eased back

Monthly fruit & veg three-month change



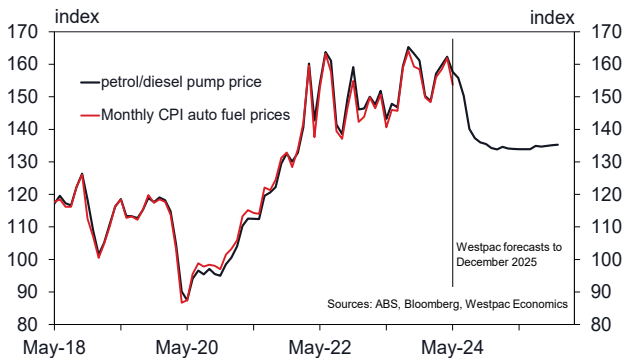
Spring lamb and falling prices

Monthly lamb prices



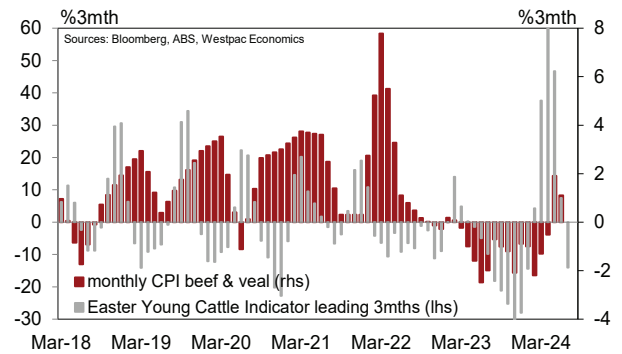
Falling crude easing auto fuel prices

Petrol/diesel prices vs monthly CPI auto fuel



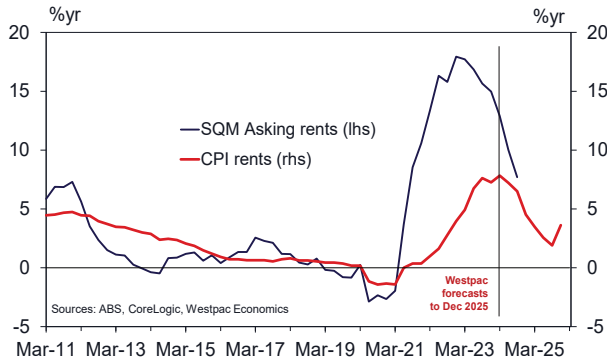
Increased supply eases beef prices

Monthly beef & veal prices



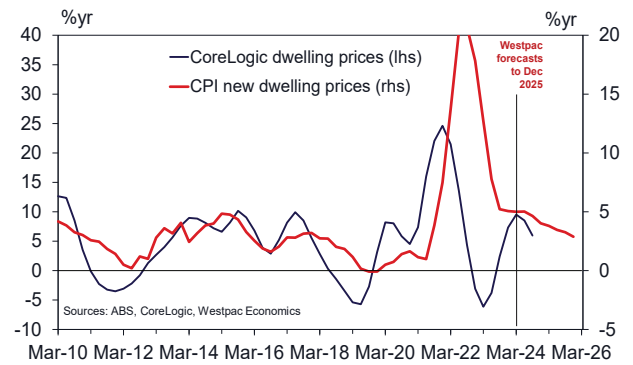
Rent inflation is yet to ease...

Asking rents vs CPI rents



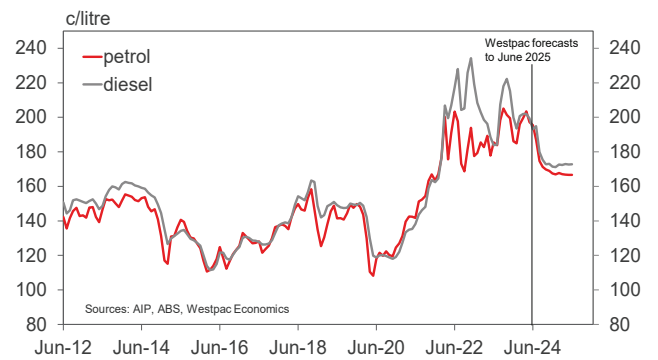
... while the heat has come out of dwellings

House prices vs CPI new dwelling prices



Diesel fell back to petrol prices in July

Fuel prices in Australian dollars





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