



29 October 2024

INFLATION DEEPER INSIGHTS ON Q3 RISKS

Current momentum suggests downside risk for CPI...

Key points

- Westpac is forecasting a 0.3% increase taking the annual pace down to 2.9%yr, the slowest pace since March 2021.
- The market median for the CPI is also 0.3% with a range of 0.2% to 0.8%. However, all forecasts bar one fall between 0.2% and 0.4%.
- The current trend in the partial data suggests downside risk to our CPI forecast.
- Westpac is forecasting a 0.7% increase in the Trimmed Mean taking the annual pace down to 3.5%yr, the slowest pace since December 2021.
- The market median for the Trimmed Mean is 0.8% with a range from 0.3% to 0.8%. Most of the forecasts fall within 0.7% to 0.8% with one at 0.6% and one at 0.3%.
- At two decimal places our Trimmed Mean forecast is 0.75% so it is much easier to round up to 0.8% than round down to 0.6% suggesting the risk

CPI breakdown: Sep 23 actual, Sep 24 forecast

Item	Sep 2023		Sep 2024 fcs	
	% qtr	contrib	% qtr	contrib
Food	0.6	0.10	0.9	0.15
of which, Fruit & vegetables	-3.7	-0.08	2.3	0.05
Alcohol & tobacco	1.4	0.11	1.1	0.08
of which, Tobacco	1.7	0.05	1.7	0.04
Clothing & footwear	0.4	0.01	-0.5	-0.02
Housing	2.2	0.48	0.1	0.02
of which, Rents	2.2	0.12	1.8	0.11
of which, House purchases	1.3	0.11	1.2	0.10
of which, Utilities	3.6	0.15	-6.5	-0.26
H/hold contents & services	-0.8	-0.07	0.6	0.04
Health	0.8	0.05	0.2	0.02
of which, Pharmaceuticals	-1.2	-0.01	-1.1	-0.01
Transportation	3.2	0.35	-2.3	-0.26
of which, Car prices	0.5	0.02	-0.5	-0.02
of which, Auto fuel	7.2	0.25	-7.0	-0.26
Communication	2.1	0.05	0.8	0.02
Recreation	0.2	0.02	1.1	0.14
of which, Audio visual & comp.	-0.1	0.00	0.7	0.01
of which, Holiday travel	-0.9	-0.05	1.0	0.06
Education	-0.4	-0.02	0.1	0.00
Financial & insurance services	1.4	0.08	1.0	0.06
CPI: All groups	1.2	-	0.3	-
CPI: All groups % year	5.4	-	2.9	-

Sources: ABS, RBA, Westpac Banking Corporation

to our forecast is balanced given the downside risk to the CPI.

- Since 2020 the average market median forecast error on the Trimmed Mean is +/- 0.2ppt suggesting the Trimmed Mean could range from 0.6% to 1.0%.

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.

...but rounding suggests upside for Trimmed Mean.



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September update compared to a year earlier

We have kept our estimates for the quarterly price updates in the September Monthly CPI broadly on par with what was reported a year earlier. Given that we have seen a broad disinflationary trend unfolding, and the minimum wage awarded in 2024 was the smallest in three years, we would suggest the risks to these forecasts lie to the downside particularly for services:

- Property rates & charges (4.2%qtr vs. 4.4%qtr in 2023)
- Water & sewerage (4.5%qtr vs. 4.7%qtr in 2023)
- Childcare (0.5%qtr vs. -13.2%qtr in 2023; the large fall last year was due to increased government assistance)
- Pharmaceutical products (-1.4%qtr vs. -1.3% in 2023)
- Therapeutic appliances & equipment (1.1%qtr vs. 1.0% in 2023)
- Medical & hospital services (0.8%qtr vs. 1.0% in 2023)
- Dental services (2.5%qtr vs. 2.5%qtr in 2023)
- Motor vehicles (-0.9%qtr vs. 0.5% in 2023)
- Books (-0.7%qtr vs. -0.7% in 2023))
- Newspapers, magazines & stationery (1.2%qtr vs. 1.2%qtr in 2023)
- Veterinary & other services for pets (2.3%qtr vs. 2.4%qtr in 2023)
- Other financial services (0.7%qtr vs. 0.8%qtr in 2023).

The above group represents 18% of the CPI suggesting that while we may have two of the three months worth of data from the Monthly CPI Indicator, at least a quarter of CPI is still based on educated guesses for prices we have little in the way of leading indicators for.

Easy to round up the Trimmed Mean estimate

At two decimal places our Trimmed Mean estimate is 0.75% for the September quarter so it is much easier for it to be rounded up to 0.8% than it is for it to be rounded down to 0.6%. As such, this suggests that were it not for the downside risk to our headline CPI estimate then we should be pointing to upside risk to our core inflation estimate. As such, we would think that the risk to our Trimmed Mean estimate is balanced.

In the following analysis it is important to remember that the Trimmed Mean estimate is based on seasonally adjusted data.

The lower bound of our Trimmed Mean estimate is -0.8% (falling on motor vehicles) and the major components trimmed off the bottom 15% are:

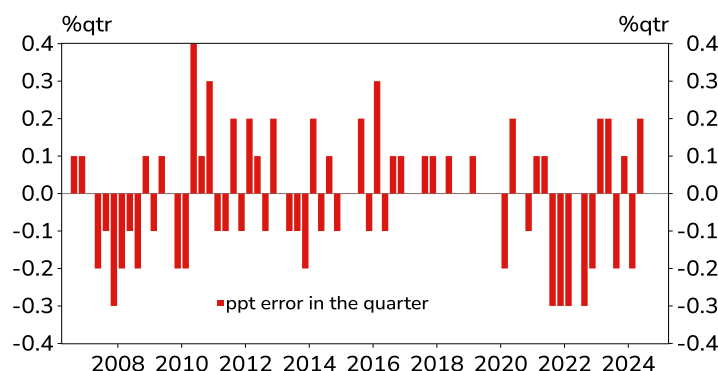
- Electricity (-17.3%qtr),
- Automotive fuel (-6.7%qtr),
- International holiday travel & accommodation (-2.3%),
- Other non-durable household products (-2.0%),
- Furniture (-1.8%), and
- Garments for women (-1.1%).

The upper bound of the Trimmed Mean estimate is 1.7% (falling on rents) and the major components trimmed of the top 15%, which includes rents, are:

- Vegetables (2.0%qtr),
- Other recreation, sporting & cultural (2.0%qtr)
- Sports participation (2.5%qtr),
- Tobacco (2.9%qtr),
- Insurance (3.2%),
- Gas & other household fuels (5.2%qtr), and
- Fruit (7.7%qtr).

Since 2020 the average market median forecast error on the Trimmed Mean is +/- 0.2ppt. This would suggest that you could expect the Trimmed Mean to range from 0.6% to 1.0%.

1. Average error +/- 0.2ppt Error of Market Median vs ABS Trimmed Mean



Source: ABS, Macrobond, Westpac Economics



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