



21 November 2024

INFLATION DEEPER INSIGHTS

Energy rebates have a meaningful impact on the CPI ...

Key points

- Using ABS data on electricity prices before the energy rebates were applied, we estimate that the rebates trimmed 0.5ppt off the annual rate of headline inflation in the September quarter 2024.
- However, as electricity prices have been trimmed out of the core measures of inflation, we find that the rebates did not impact on core inflation.
- With the rebates planned to expire, headline inflation is forecast to jump to 3.3%yr in December 2025.
- If you exclude rebates, Westpac is forecasting headline inflation to be 2.6%yr at end 2025.
- Rebates brought forward a sub 3%yr pace for headline inflation but if they are not extended into 2025, then this will add 0.7ppt to inflation.
- Our forecast for the October Monthly CPI Indicator is -0.2%mt/2.3%yr.

CPI December 2024 Forecast

Item	Sep 2023		Dec 2024 fcs	
	% qtr	contrib	% qtr	contrib
Food	0.6	0.10	0.4	0.07
of which, Fruit & vegetables	1.0	0.02	-0.1	0.00
Alcohol & tobacco	1.3	0.09	2.4	0.17
of which, Tobacco	1.7	0.04	6.1	0.14
Clothing & footwear	-0.7	-0.02	1.1	0.04
Housing	-0.1	-0.03	-0.2	-0.04
of which, Rents	1.6	0.10	0.7	0.04
of which, House purchases	1.0	0.08	0.7	0.06
of which, Utilities	-7.6	-0.31	-4.0	-0.15
H/hold contents & services	0.9	0.07	-1.1	-0.10
Health	-0.1	-0.01	-0.4	-0.03
of which, Pharmaceuticals	-1.6	-0.02	-1.7	-0.02
Transportation	-2.2	-0.25	-1.0	-0.11
of which, Car prices	-0.8	-0.03	0.2	0.01
of which, Auto fuel	-6.7	-0.25	-3.0	-0.10
Communication	0.5	0.01	-0.3	0.00
Recreation	1.3	0.16	1.3	0.16
of which, Audio visual & comp.	1.0	0.02	-0.3	-0.01
of which, Holiday travel	1.4	0.08	3.1	0.18
Education	0.4	0.02	-0.1	0.00
Financial & insurance services	1.2	0.07	1.9	0.10
CPI: All groups	0.2	-	0.3	-
CPI: All groups % year	2.8	-	2.5	-

Sources: ABS, RBA, Westpac Banking Corporation

- Our preliminary forecast for the December quarter CPI is 0.3%qtr/2.5%yr.
- The ABS noted that childcare has been overstated since September 2023 and they will make a one-off correction to the index in the October Monthly CPI.

... but they don't have any impact on core inflation



Justin Smirk
Senior Economist

Rebates shaved 0.5ppt off CPI inflation

The ABS has provided data on electricity prices, both before and after government rebates, back to when the rebates were introduced in 2022. Westpac used the electricity prices without rebates to estimate what the CPI and the Trimmed Mean would have been had the rebates not been available. As we noted in earlier research, electricity prices have been trimmed out of the core measures so we were not surprised to find that the rebates did not have a material impact on the Trimmed Mean.

However, as you can see in the table over, the rebates had material impact on headline CPI. In September 2022, the CPI lifted 1.8%qtr but we estimate that if the rebates are excluded, then the CPI would have risen 2.1%qtr. This was reversed in December quarter as rebates expired and electricity prices moved back toward their pre-rebate levels lifting the CPI 1.9%qtr compared to 1.5%qtr increase without rebates. The biggest impact from the rebates was seen in September 2023 and again in September 2024 when rebates trimmed -0.4ppt from the CPI in each quarter.

The ABS reported that with energy rebates the CPI rose 2.8% in the year to the September quarter 2024. Westpac estimates that if the rebates are excluded, the CPI would have lifted 3.3% in the year to September, with the rebates lowering the annual rate inflation by -0.5ppt.

However, given that electricity has been trimmed out of the core measures (as expected), we found that there is no difference in the Trimmed Mean rate of inflation with and without rebates in the year to September 2024.

At this stage, the rebates are set to expire, so June 2025 will see the last Commonwealth energy rebate of \$75 while the lump sum of \$1,000 from the Qld government is likely to have been fully used by the majority of households. As such, we expect electricity prices to jump 20% in September 2025 and by December 2025 the annual pace of electricity inflation will be 40%yr a big jump up from the -23%yr pace forecast for December 2024.

This will see the CPI jump 1.1% in September 2025 and the annual pace will be back at 3.3%yr by December 2025 compared to a forecast low of 2.0%yr at June 2025.

If the rebates are excluded, we forecast the annual pace of CPI inflation to hit a low of 2.3%yr at June 2025 before lifting modestly to 2.5%yr at December 2025. The unwinding of the

Impact of rebates on CPI inflation

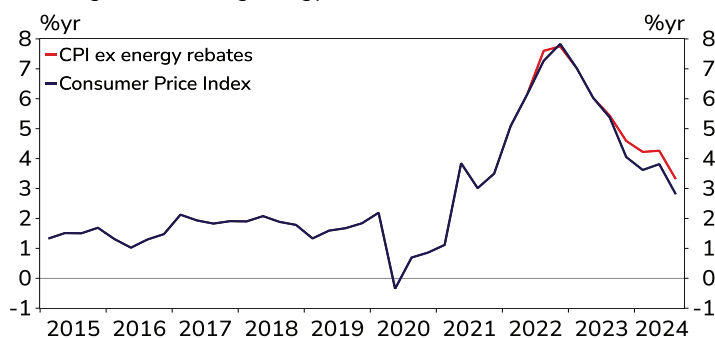
	CPI	CPI	CPI	CPI
	ex rebates	ex rebates	with rebates	with rebates
	% qtr	% yr	% qtr	% yr
Mar-22	2.1	5.1	2.1	5.1
Jun-22	1.8	6.1	1.8	6.1
Sep-22	2.1	7.6	1.8	7.3
Dec-22	1.5	7.7	1.9	7.8
Mar-23	1.5	7.0	1.4	7.0
Jun-23	0.8	6.0	0.8	6.0
Sep-23	1.6	5.4	1.2	5.4
Dec-23	0.7	4.6	0.6	4.1
Mar-24	1.1	4.2	1.0	3.6
Jun-24	0.9	4.3	1.0	3.8
Sep-24	0.6	3.3	0.2	2.8

Rebates have little impact on core inflation

	TM	TM	TM	TM
	ex rebates	ex rebates	with rebates	with rebates
	% qtr	% yr	% qtr	% yr
Mar-22	1.5	3.8	1.5	3.8
Jun-22	1.6	4.9	1.6	4.9
Sep-22	1.9	6.1	1.8	6.0
Dec-22	1.6	6.7	1.7	6.8
Mar-23	1.2	6.4	1.2	6.5
Jun-23	0.9	5.7	0.9	5.8
Sep-23	1.2	5.0	1.2	5.1
Dec-23	0.8	4.2	0.8	4.2
Mar-24	1.1	4.1	1.0	4.0
Jun-24	0.8	4.0	0.9	4.0
Sep-24	0.8	3.5	0.8	3.5

CPI Inflation

Including and excluding energy rebates



Source: ABS, Macrobond, Westpac Economics

rebates is forecast to add 0.8ppt to headline inflation in the year to the December quarter 2025.

A one off adjustment to childcare in October

The [ABS recently noted that](#) it identified a number of errors in estimating the impact of the Government's reforms to increase the rate of the Child Care Subsidy and its eligibility parameters. This resulted in child care costs being overstated in the September 2023 CPI. The ABS noted that in the September 2024 CPI the child care index was 5.8% (or 9.5 index points) higher than it should have been.

The ABS outlined that it will make a one-off correction to child care costs in the October 2024 Monthly CPI Indicator (due 27 November 2024) and the December quarter 2024 CPI (due 30 January 2025). A 5.8% (or 9.5 index point) correction will be applied to the child care index while the primary and pre-school education index will see a 0.4% reduction.

Our October Monthly CPI Indicator and December quarter CPI /Trimmed Mean near-casts incorporate these changes to the childcare index.

Risk to our near-casts

Our December quarter near-cast for the CPI is 0.3%qtr/2.5%yr. We will have a much better idea of the risk to this forecast when the October Monthly CPI Indicator is released next week but for now we see the risks to our near-cast as being balanced.

Our December quarter near-cast for the Trimmed Mean is 0.6%qtr/3.3%yr. However, at two decimal places it is just 0.56% so only just rounding up to 0.6%. It is for this reason we would suggest that the risks to this near-cast lie to the downside as it is much easier to round down to 0.5% than to round up to 0.6%. Should we see a 0.5%qtr print it will be the softest quarterly Trimmed Mean print in four and a half years.

For the October Monthly CPI Indicator, our near-cast is -0.2%mt/2.3%yr. At two decimal points our monthly near-cast is -0.16% so we would see the risk to this near-cast being to the upside (i.e. a smaller decline) as it is easier to round up to -0.1% than it is to round down to -0.2%.

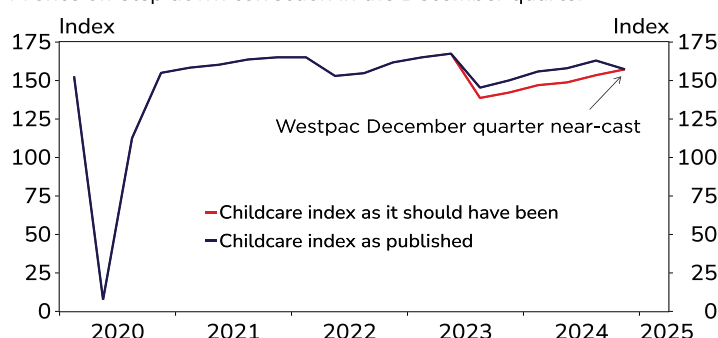
You can see a breakdown of our October Monthly CPI Indicator in the table over which compares it to the previous two months and our December quarter CPI near-cast.

Breakdown Monthly CPI Indicator

	Dec f/c	Aug	Sep	Oct f/c
	Qtr	Mth	Mth	Mth
Item	% yr	% yr	% yr	% yr
Food	3.1	3.4	3.3	3.4
of which, bread & cereals	1.0	2.5	1.8	1.4
of which, meat & seafood	2.0	0.2	0.9	1.1
of which, dairy & related prod.	-0.4	-0.2	-0.2	-0.2
of which, fruit & vegetables	9.9	9.6	9.1	10.5
of which, food products nec	3.8	4.2	4.1	4.1
of which, non-alcohol bev.	3.6	5.1	3.9	3.9
Alcohol & tobacco	6.2	6.6	6.3	6.0
of which, alcohol	3.1	3.0	3.0	3.1
of which, tobacco	12.5	13.4	12.9	12.4
Clothing & footwear	2.3	1.7	1.8	2.3
of which, garments	2.0	2.7	2.7	1.9
Housing	1.6	2.6	1.6	1.4
of which, rents	6.5	6.8	6.6	6.7
of which, house purchases	3.9	5.1	4.3	4.3
of which, electricity	-22.8	-17.9	-24.1	-25.1
of which, gas & other fuels	3.8	3.2	3.1	3.6
H/hold contents & services	0.5	-0.9	0.6	0.5
Health	3.8	5.3	4.8	3.9
Transportation	-1.8	-1.1	-3.8	-3.1
of which, auto fuel	-8.8	-7.6	-14.0	-12.4
Communication	-0.8	-0.2	-0.8	-0.9
Recreation	3.1	2.5	2.4	3.8
of which, holiday travel	3.4	2.8	2.5	6.1
Education	6.4	5.4	6.4	6.3
Financial & insurance services	6.5	6.2	6.1	6.1
CPI: All groups	2.5	2.7	2.1	2.3

CPI Childcare Quarterly Index

A once off step down correction in the December quarter



Source: , Macrobond, Westpac Economics



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