



23 January 2025

INFLATION DECEMBER QUARTER CPI PREVIEW

Dwellings drive a moderation in core inflation

Key points

- Westpac’s December quarter CPI near-cast is 0.3%qtr/2.5%yr. Our December Monthly CPI Indicator near-cast is 0.9%mth/2.5%yr.
- Various energy rebates and cost-of-living assistance have helped drive headline inflation to the mid-point of the RBA’s target band.
- Our Trimmed Mean estimate for the December quarter is 0.6%, with the annual pace easing back to 3.3%yr from 3.5%yr and the two-quarter annualised pace dropping to 2.7%yr.
- The CPI and the Trimmed Mean are ‘soft’ estimates (that are rounding up to the second decimal place) so we see modest downside risks to both.
- We estimate that energy rebates, the increase in rental assistance and public transport fare subsidies shaved 0.3ppt off the CPI and 0.1ppt off the Trimmed Mean in Q4.

Breakdown: Dec Quarter CPI & Dec Monthly CPI

	Dec f/c	Oct	Nov	Dec f/c
	Qtr	Mth	Mth	Mth
Item	% qtr	% mth	% mth	% mth
Food	0.2	0.1	0.5	0.3
of which, bread & cereals	1.7	1.3	0.4	0.9
of which, meat & seafood	0.7	0.5	0.2	-0.2
of which, dairy & related prod.	-0.5	-1.0	0.9	0.7
of which, fruit & vegetables	-2.9	-0.6	-0.2	-0.3
of which, food products nec	1.2	0.0	0.5	1.4
of which, non-alcohol bev.	-0.2	0.2	0.3	0.7
Alcohol & tobacco	2.7	1.0	0.3	0.1
of which, alcohol	1.1	0.2	0.4	0.1
of which, tobacco	5.8	2.8	0.1	0.2
Clothing & footwear	0.3	0.4	-0.4	1.0
of which, garments	-0.2	0.2	-0.7	1.7
Housing	-0.7	-1.0	1.7	0.7
of which, rents	0.6	-0.3	0.6	0.6
of which, house purchases	-0.2	0.1	-0.6	0.2
of which, electricity	-8.0	-12.3	22.4	5.0
of which, gas & other fuels	1.0	-1.3	3.2	-0.5
H/hold contents & services	0.2	-0.6	0.3	0.8
Health	-0.1	0.0	0.0	-0.1
Transportation	-0.8	0.0	0.3	0.6
of which, auto fuel	-2.4	-0.1	0.9	2.2
Communication	0.4	0.2	0.7	-0.1
Recreation	0.6	-1.3	-0.1	3.8
of which, holiday travel	1.1	-2.0	-1.3	7.9
Education	-0.1	-0.1	0.0	0.0
Financial & insurance services	1.2	0.2	0.2	0.9
CPI: All groups	0.3	-0.3	0.5	0.9

“A meaningful step-down in core inflation momentum”

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Cost of living assistance shaves 0.3ppt in Q4



Justin Smirk
Senior Economist

Nov Monthly CPI: Energy bounces but dwellings fall

The November print was a touch stronger than Westpac's near-cast of 2.2%yr (the market median was also 2.2%yr). In the month, the CPI Indicator lifted 0.5% compared to Westpac's near-cast of 0.4%. Due to the larger-than-expected jump in electricity prices in November, and given we are unlikely to see a full reversal in December, we had to revise up our electricity estimate for the December quarter CPI. Offsetting some of the rise in electricity prices was a fall in dwelling prices, which captures both new builds and renovations. They fell -0.6% in November following a very modest 0.1% gain in October and a surprising -0.1% fall in September.

As we have previously emphasised, the Monthly CPI Indicator provides a partial update on the CPI basket, with the first month of the quarter skewed towards goods while more services appear in the second and third month of the quarter. The remaining unknown services, for which we have few leading indicators for, make estimating the final month of the quarter quite tricky. Nevertheless, the increase in electricity prices has led us to revise up our CPI estimate for the December quarter to 0.3%.

However, for the Trimmed Mean, the softer-than-expected dwelling prices result is more important as electricity is currently being trimmed out. Our Trimmed Mean estimate is unchanged at 0.6%, but we now see a downside risk to this estimate with the annual pace rounding slightly to 3.3%yr rather than the earlier estimate of 3.4%yr.

December update of quarterly prices

The components of the CPI that will get a quarterly update in the December Monthly CPI indicator, and will also appear as reported in the quarterly CPI, are the following (Westpac forecasts in brackets):

- Water & sewerage (0.0%)
- Childcare (-2.3%)
- Pharmaceutical products (-1.7%)
- Therapeutic appliances & equipment (-0.3%)
- Medical & hospital services (0.2%)
- Dental services (0.1%)
- Motor vehicles (-0.2%)
- Books (-1.8%)
- Newspapers, magazines & stationery (-0.2%)
- Veterinary & other services for pets (0.1%)
- Other financial services (1.3%)

Breakdown of qtr CPI: Sep actual, Dec forecast

Item	Sep 2024		Dec 2024 fcs	
	% qtr	contrib	% qtr	contrib
Food	0.6	0.10	0.2	0.04
of which, Fruit & vegetables	1.0	0.02	-2.9	-0.06
Alcohol & tobacco	1.3	0.09	2.7	0.19
of which, Tobacco	1.7	0.04	5.8	0.13
Clothing & footwear	-0.7	-0.02	0.3	0.01
Housing	-0.1	-0.03	-0.7	-0.14
of which, Rents	1.6	0.10	0.6	0.04
of which, House purchases	1.0	0.08	-0.2	-0.02
of which, Utilities	-7.6	-0.31	-4.2	-0.16
H/hold contents & services	0.9	0.07	0.2	0.01
Health	-0.1	-0.01	-0.1	-0.01
of which, Pharmaceuticals	-1.6	-0.02	-1.7	-0.02
Transportation	-2.2	-0.25	-0.8	-0.10
of which, Car prices	-0.8	-0.03	-0.2	-0.01
of which, Auto fuel	-6.7	-0.25	-2.4	-0.08
Communication	0.5	0.01	0.4	0.01
Recreation	1.3	0.16	0.6	0.07
of which, Audio visual & comp.	1.0	0.02	-0.1	0.00
of which, Holiday travel	1.4	0.08	1.1	0.07
Education	0.4	0.02	-0.1	0.00
Financial & insurance services	1.2	0.07	1.2	0.07
CPI: All groups	0.2	-	0.3	-
CPI: All groups % year	2.8	-	2.5	-

Sources: ABS, RBA, Westpac Banking Corporation

Energy rebates continue to dominate CPI

The anticipated jump in electricity prices presented in November, with a reported 22% rise due to the return to a single monthly instalment of the 2024-25 Commonwealth Energy Bill Relief Fund (EBRF) rebate for all households in SA, Tasmania, NT and ACT, and for most households in NSW and Victoria. Differences in the roll out schedule of the 2024-25 EBRF rebates meant that households in these last two states received catch up payments (two instalments) in October then nothing in November. The first instalments of 2024-25 Commonwealth and State rebates in Western Australia were also used up in November.

It is difficult to assess how the rebates are used, and thus their impact on actual bills, so it is hard to get a clear estimate of their impact and timing on the CPI. We do know that households in WA will receive their second instalments of both Commonwealth and State rebates from December 2024. What we don't know is just how much of the Qld \$1,000 lump sum remains with households in that state and thus we cannot estimate the size of the bounce to expect from Brisbane electricity prices.

In addition, as we do not get a breakdown of the capital cities in the Monthly CPI Indicator so we cannot get a clear picture on just how much of each state's expected rebates has already flowed through to consumers and how much more is still to come (see Chart 1).

For electricity, we are looking for a 5% gain in the month of December. All up we are looking for electricity to fall -8.0% in the December quarter.

Housing disinflationary in the December quarter

Rents gained an average of 0.7% per month through the first half of the year then moderated to 0.6% per month through the September quarter. The indexation of the Commonwealth Rental Assistance occurred on September 20th, so there was a modest 0.1% increase in September and a -0.3% decline in October followed by a 0.6% increase in November; a return to the pre-Rental Assistance adjustment trend. We have pencilled in a 0.6% increase for the month of December which would give a 0.6% rise for the quarter. This is a moderation from the 1.6% rise in the September quarter and will see rents be included in the Trimmed Mean and thus help generate a softer core inflation print (see Chart 2).

Dwelling prices gained an average of 0.4% per month through the first half of the year before lifting 0.4% in July, 0.1% in August then declining -0.1% in September, a small 0.1% gain in October before the surprising -0.6% decline in November. This is a marked downward shift in dwelling inflation. In the November Monthly CPI Indicator the ABS noted the fall was "mainly due to builders offering discounts and promotional offers to entice business". Westpac has pencilled in a modest 0.2% increase in December but there is a clear risk dwelling prices could fall again. A 0.2% increase in December would see a quarterly average of -0.2%, the first quarterly decline since June 2021 (see Chart 3).

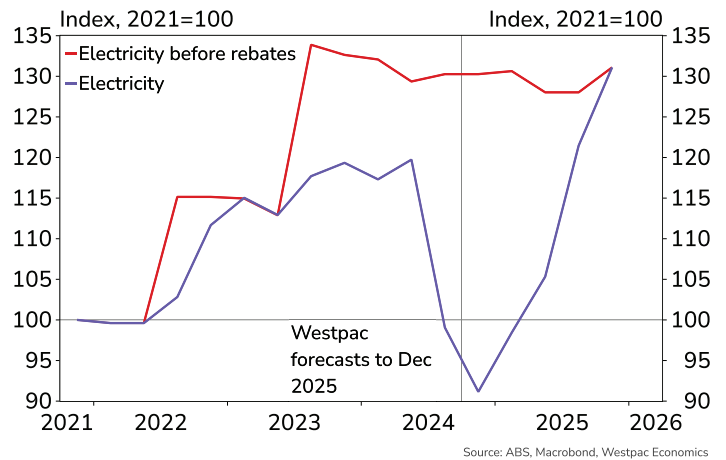
This decline in dwelling prices will be included in the Trimmed Mean and is an important part of the story behind the moderation in core inflation.

Indexation boost to tobacco is getting smaller

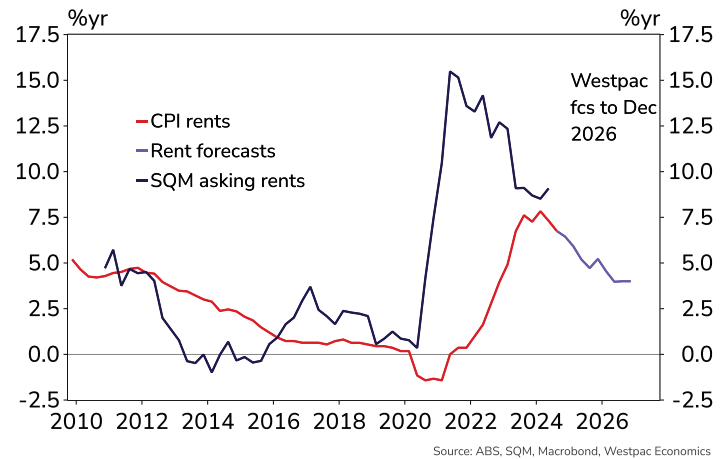
The tobacco excise is indexed to the average weekly ordinary time earnings (AWOTE) wages measure in September, and therefore boosts prices in that month. In addition to the regular indexation, the excise is also increased by 5% per year from 1 September 2023 to 1 September 2025. This generated an out-sized gain in the December quarter 2023 (7.0%) and we expect to see this again in 2024 (5.8%) and something similar in 2025 (4.9%), the gains getting smaller due the moderation in wages growth.

From the Monthly CPI Indicator, tobacco lifted 4.4% in September, 2.8% in October and then 0.1% in November. Our estimate of a 0.2% increase in December will give us a 5.8% quarter average change.

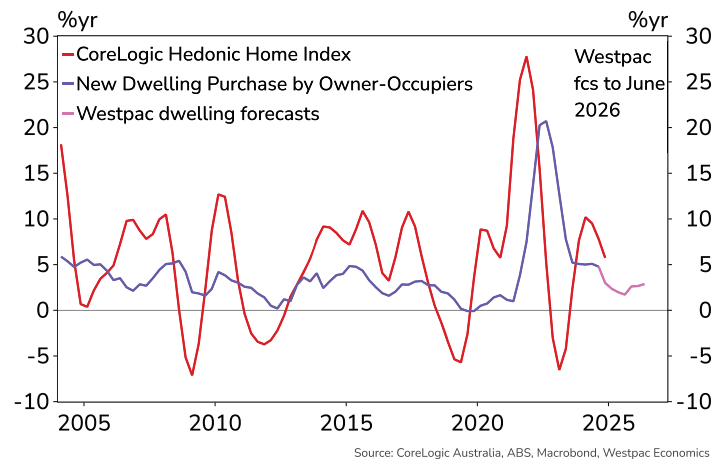
1. Rebates impact reverses in 2025



2. Rent inflation has peaked



3. Dwellings have already moderated



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Downside risk on the Trimmed Mean

Our Trimmed Mean estimate of 0.6% is rounded up from 0.57% at two decimal places, whereas our preliminary estimate (pre the November Monthly CPI) was rounded down from two decimal places. For this reason, we see a greater risk of a 0.5% than a 0.7% print in Q4. Of note, we have the decline in dwelling prices (-0.2%) and the soft print on rents (0.6%) that are helping produce the softest quarterly print on core inflation since June 2021. There is a clear risk we could see a bit of a rebound in housing costs in early 2025. Note that the lower bound for items being included in the Trimmed Mean is currently -0.7% while the upper bound is +1.6%.

The annual pace of the Trimmed Mean is estimated to be 3.3%yr, a moderation from the 3.5%yr in September and 4.0% in June while the two-quarter annualised pace is down to 2.7%yr, well within the RBA's target band and the slowest pace since September 2021.

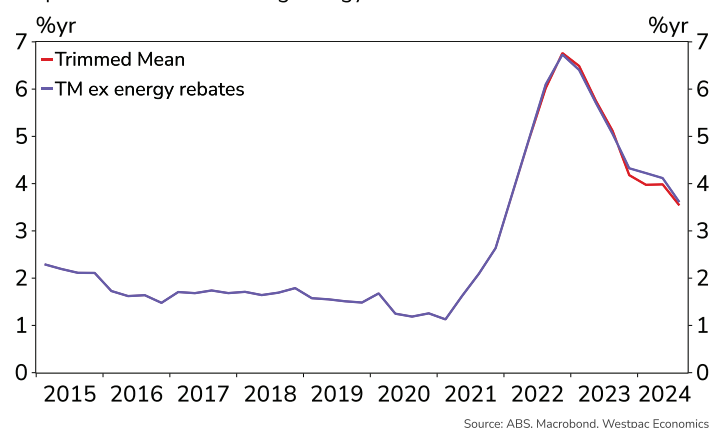
Clear impact of cost-of-living assistance

As noted in our economic bulletin – [Energy rebates have a meaningful impact on the CPI](#) – our analysis suggests that the energy rebates had a significant impact in moderating CPI inflation but had little impact on the trimmed mean. We have expanded this analysis to also include rental assistance as well as the public transport subsidies. We find that the cost-of-living assistance trimmed 0.4ppt off the CPI in the September quarter and a further 0.3ppt off in the December quarter. All up, Westpac estimates that CPI inflation in the year to December 2024 would have been 3.2%yr rather than the 2.5% we are estimating with the assistance.

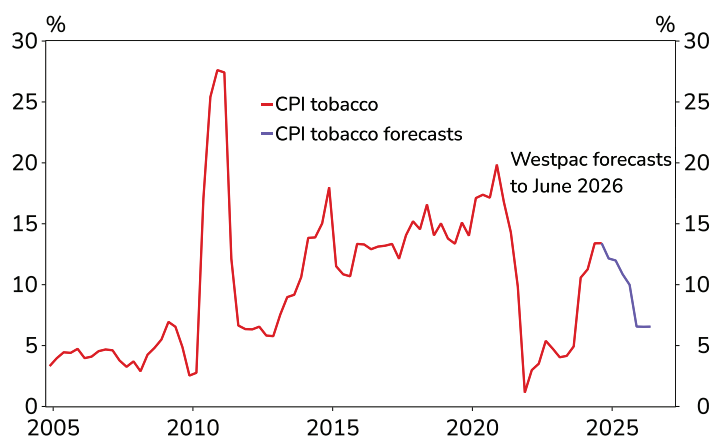
Again, due to trimming, the impact on core inflation is much smaller (see Chart 5) and we estimate it to be worth just -0.1ppt in the December quarter. As shown in the table overleaf, without this assistance, core inflation would print 3.4% in the year to the December quarter, on par with the RBA's estimate, compared to our near-cast of 3.3%yr.

5. Core inflation remains a good guide

As published and excluding energy rebates



4. Tobacco inflation peaking



Impact of rebates on CPI inflation

	CPI ex rebates	CPI ex rebates	CPI with rebates	CPI with rebates
	% qtr	% yr	% qtr	% yr
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	4.7	0.6	4.1
Mar-24	1.1	4.3	1.0	3.6
Jun-24	0.9	4.3	1.0	3.8
Sep-24	0.6	3.4	0.2	2.8
Dec-24 (f)	0.6	3.2	0.3	2.5

Rebates have little impact on core inflation

	TM ex rebates	TM ex rebates	TM with rebates	TM with rebates
	% qtr	% yr	% qtr	% yr
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	1.3	5.1	1.2	5.1
Dec-23	0.9	4.3	0.8	4.2
Mar-24	1.1	4.2	1.0	4.0
Jun-24	0.8	4.1	0.9	4.0
Sep-24	0.8	3.6	0.8	3.5
Dec-24 (f)	0.7	3.4	0.6	3.3



Authors

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics
E: eclarke@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas

Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Jameson Coombs

Economist
E: jameson.coombs@westpac.com.au

Neha Sharma

Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon

Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs

Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod

Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark

Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva

1 Thomson Street
Suva, Fiji

Shamal Chand

Senior Economist
E: shamal.chand@westpac.com.au



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