



10 February 2025

INFLATION DEEPER INSIGHTS Q4 2024

The moderation in core inflation is fundamental

Key points

- The step down in the pace of inflation in the second half of 2024 was not just about the governments' cost-of-living measures.
- Cost-of-living measures may have shaved 0.7ppt off the CPI in 2024, but we estimate they had no meaningful impact on the Trimmed Mean.
- We found that the step down in core inflation was due to a moderation in housing costs as well as disinflation in clothing/ footwear and deflation in durable goods.
- This has resulted in a downward revision to our inflation forecasts. At June 2025, we now expect the CPI to print 1.7%yr.
- However, the CPI is being boosted by the unwind of energy rebates. We now expect the Trimmed Mean to ease to 2.4%yr at June 2025.

Breakdown: Dec Quarter CPI & Dec Monthly CPI

	Dec	Oct	Nov	Dec
	Qtr	Mth	Mth	Mth
Item	% qtr	% mth	% mth	% mth
Food	0.2	0.1	0.5	0.1
of which, bread & cereals	1.7	1.3	0.4	0.6
of which, meat & seafood	0.9	0.5	0.2	0.2
of which, dairy & related prod.	-0.4	-1.0	0.9	1.0
of which, fruit & vegetables	-3.3	-0.6	-0.2	-1.4
of which, food products nec	1.0	0.0	0.5	1.3
of which, non-alcohol bev.	-0.4	0.2	0.3	0.3
Alcohol & tobacco	2.4	1.0	0.3	-0.7
of which, alcohol	0.7	0.2	0.4	-1.0
of which, tobacco	5.8	2.8	0.1	0.2
Clothing & footwear	0.1	0.4	-0.4	0.6
of which, garments	-0.2	0.2	-0.7	1.0
Housing	-0.7	-1.0	1.7	-0.1
of which, rents	0.6	-0.3	0.6	0.3
of which, house purchases	-0.2	0.1	-0.6	0.1
of which, electricity	-9.9	-12.3	22.4	-1.5
of which, gas & other fuels	0.6	-1.3	3.2	-1.7
H/hold contents & services	-0.2	-0.6	0.3	0.4
Health	-0.2	0.0	0.0	-0.2
Transportation	-0.7	0.0	0.3	1.1
of which, auto fuel	-2.0	-0.1	0.9	3.8
Communication	0.5	0.2	0.7	-0.3
Recreation	1.5	-1.3	-0.1	5.5
of which, holiday travel	3.1	-2.0	-1.3	11.5
Education	0.0	-0.1	0.0	0.1
Financial & insurance services	0.8	0.2	0.2	0.5
CPI: All groups	0.2	-0.3	0.5	0.8

Sources: ABS, Westpac Banking Corporation

“Core inflation is moderating faster than anticipated”

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Housing is fundamental to the moderation



Justin Smirk
Senior Economist

December quarter CPI surprises to the downside

In our [CPI Preview](#), we noted that the risk to our December quarter CPI and Trimmed Mean estimates were to the downside. That risk ended up materialising, with the CPI increasing just 0.2%qtr/2.4%yr (Westpac f/c: 0.3%qtr/2.5%yr) while the Trimmed Mean rose 0.5%qtr/3.2%yr (Westpac f/c: 0.6%qtr/3.3%yr).

In our [post CPI wrap](#), we highlighted that the CPI had been significantly impacted by various cost-of-living measures, including Commonwealth Rent Assistance (CRA), Commonwealth Energy Bill Relief Fund (ERBF) rebates and various state government energy rebates. We estimate these measures collectively shaved 0.3ppt off the CPI in the December quarter and 0.7ppt over 2024; that is, headline inflation would have printed 3.1%yr in the December without the offset from the cost-of-living measures.

However, the impact on core inflation (as measured by the Trimmed Mean) was negligible given those components impacted by those measures have been trimmed out. We estimate that the cost-of-living measures shaved just 0.1ppt off the Trimmed Mean in the December quarter (and this is a rounded up estimate) and at most 0.1ppt over 2024. The Trimmed Mean therefore provides a clearer guide on underlying inflationary pressures that are not influenced by the government cost-of-living measures. Thus, the 0.5% increase in the December quarter represents a genuine step down in the pace of core inflation (see tables over).

Housing key to core disinflation

In the December quarter, dwelling prices fell -0.2% taking the annual pace down to 2.9%yr from 4.8%yr in September and a recent peak of 20.7% in September 2022. As noted by the ABS, this is not due to any cost-of-living or home buyer assistance, but rather it “reflects project home builders increasing incentives and promotional offers to entice new business in a subdued new home market”. Remember dwelling prices in CPI measure the cost of constructing or renovating a dwelling, including builders margins, so prices can fall as margins are compressed – even if input costs such as materials or wages are not falling.

Westpac is forecasting dwelling inflation to continue easing from here, falling to a nadir of 1.2%yr in December 2025. December’s Monthly CPI Indicator revealed that dwelling prices rose just 0.1%moth, on par with the flat average of the previous six months. In the six months to December 2023, dwelling prices rose an average of 0.5% per month and our forecast to June 2025 is an average of 0.2% per month over six months.

Impact of rebates on the CPI

	CPI		CPI	
	ex rebates		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	0.5	3.1	0.2	2.4

Sources: ABS, Westpac Banking Corporation

Rebates had little impact on core inflation

	TM		TM	
	ex rebates		with rebates	
	% qtr	% yr	% qtr	% yr
Jun-22	1.6	4.9	1.5	4.9
Sep-22	1.9	6.1	1.9	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	3.6
Dec-24	0.6	3.3	0.5	3.2

Sources: ABS, Westpac Banking Corporation

Rents gained 0.6% in the December quarter, the softest quarterly increase since December 2021. The ABS noted that the “maximum rate available for Commonwealth Rental Assistance (CRA) increased by 10% on 20 September 2024, in addition to the usual biannual CPI indexation on 20 March and 20 September each year. This follows an additional increase to CRA maximum rates of 15% in September last year.” We estimate that without the additional increase in assistance, rents would have increased 1.5% in the December quarter. Regardless, this still represents a step down in the pace of rental inflation compared to the 1.6% increase in September (1.8% without the rental assistance increase). The

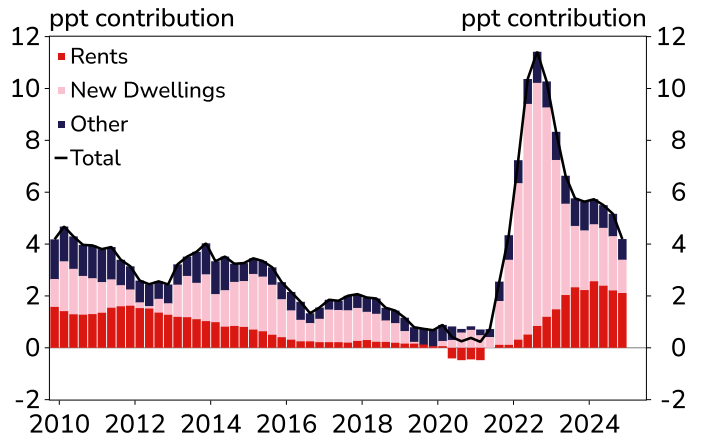
pace of rental inflation has clearly taken a step down, and the ongoing moderation in asking rents inflation alongside slower population growth suggests this should persist through 2025.

The annual pace of rental inflation was 6.4%yr in the December quarter, down from 6.7%yr in September and the recent peak of 7.8%yr in March 2024. Westpac is forecasting rental inflation to fall to around 4%yr through 2026.

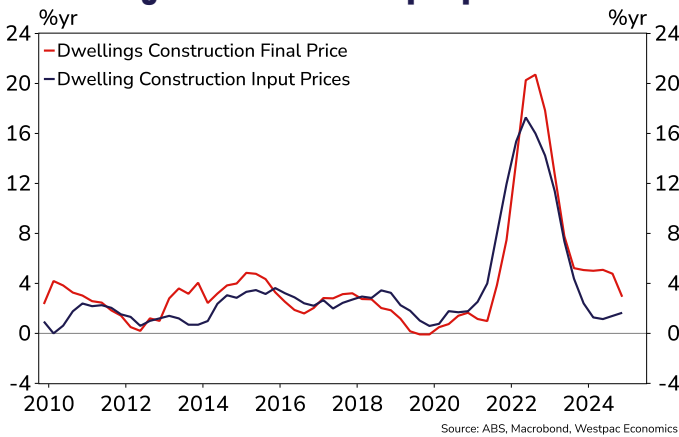
Our inflation profile has been marked down

Our preliminary estimate for the March quarter is 0.5%qtr/2.0%yr. Our Trimmed Mean estimate is also 0.5%qtr/2.7%yr. Excluding the cost of living measures we estimate a 0.6%/2.6%yr increase in the CPI. As before, we do not see cost-of-living measures as having a meaningful impact on our Trimmed Mean estimate.

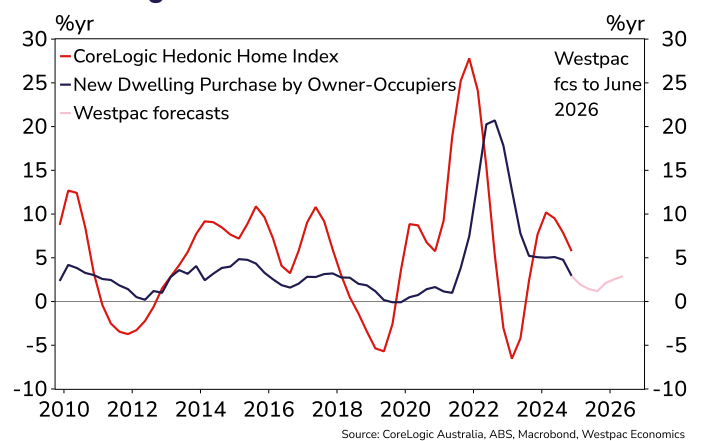
1. Housing ex energy inflation is moderating



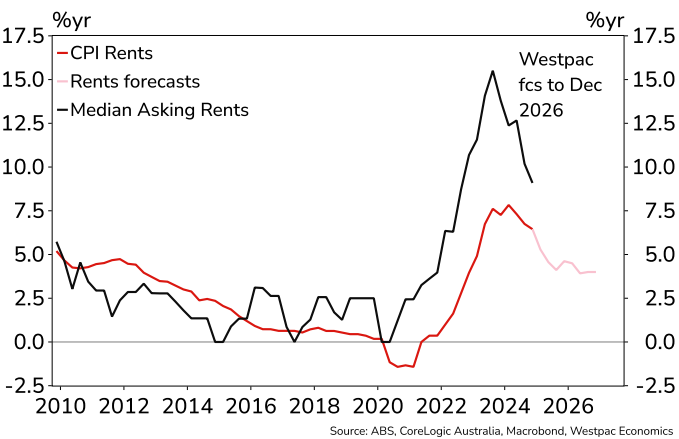
2. Dwelling construction & input prices



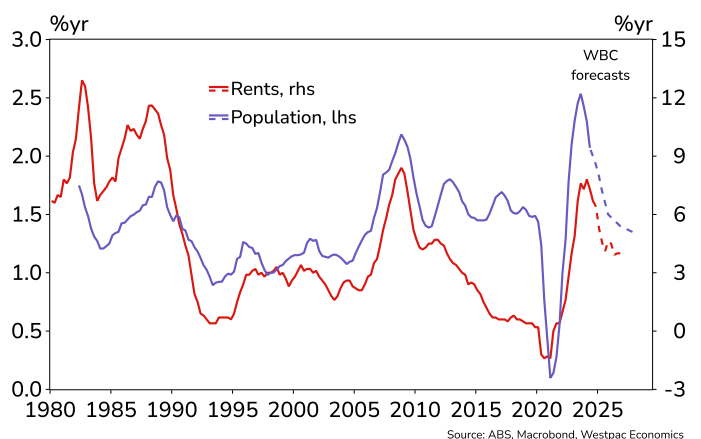
3. Dwelling inflation set to move lower



4. Asking rents vs. CPI rents



5. Rents to moderate with population growth



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Driving the 0.5% increase in the CPI is a 0.8% increase in food (0.14ppt contribution) and a 0.7% increase in housing (0.15ppt contribution). The latter not only a 1.0% increase in rents and a 0.1% lift in dwellings, but also a 1.9% increase in utility prices as the Qld and WA energy rebates unwind. Transportation is also set to make a solid contribution (1.2%/0.13ppt) mostly due to a 2.0% (0.07ppt) increase in auto fuel. Meanwhile, the usual seasonal increase in education is expected to be 3.3%/0.15ppt. Holiday travel & accommodation is expected to provide somewhat of an offset (-3.3%/-0.2ppt) while household contents & services are expected to fall (-0.7%/-0.06ppt) as are clothing & footwear (-1.1%/-0.04ppt).

Late last year, our forecast for the March quarter CPI and Trimmed Mean was 0.7%qtr/2.2%yr and 0.7%qtr/3.0%yr respectively. The Q4 CPI report subsequently revealed that a broad moderation in inflation seen through the final months of the year, which we anticipate will continue into 2025. As such, we have marked down our estimate for CPI inflation at the June quarter 2025 to 1.7%yr (it was 1.9%yr prior) and 2.4%yr for the Trimmed Mean (it was 2.8%yr prior). Key to this moderation in core inflation has been the moderation in housing costs excluding energy.

We also have to consider the impact of expiring energy rebates on inflation. Our current forecast is that headline CPI inflation will print 2.9% in December 2025 as electricity prices bounce back. However, if we exclude the cost-of-living assistance from our estimate, CPI inflation is just 2.2%yr at year-end.

We see a strong possibility that the Commonwealth Government will roll-forward the energy rebates into the second half of 2025 and thus, there is a significant downside risk to our forecast for headline inflation through 2025. However, as we noted earlier, we do not see these rebates having any meaningful impact on core inflation.

Monthly CPI Indicator in the band for now

Our preliminary near-cast for the January Monthly CPI Indicator is -0.4%mt/2.4%yr. January is a seasonally soft month around clothing & footwear, household contents and holiday travel, but with the Commonwealth government rebates carrying into the first half of 2025, there is a clear risk of electricity prices falling in the month. Our current monthly profile suggests that the annual pace of the Monthly CPI Indicator could dip below 2%yr in the first half of 2025.

CPI Breakdown: Q4 2024 actual, Q1 2025 f/c

Item	Dec 2024		Mar 2025 fc/s	
	% qtr	contrib	% qtr	contrib
Food	0.2	0.04	0.8	0.14
of which, Fruit & vegetables	-3.3	-0.07	1.2	0.02
Alcohol & tobacco	2.4	0.17	0.9	0.06
of which, Tobacco	5.8	0.13	1.0	0.02
Clothing & footwear	0.1	0.00	-1.1	-0.04
Housing	-0.7	-0.16	0.7	0.15
of which, Rents	0.6	0.04	1.0	0.06
of which, House purchases	-0.2	-0.02	0.1	0.01
of which, Utilities	-4.9	-0.19	1.9	0.07
H/hold contents & services	-0.2	-0.01	-0.7	-0.06
Health	-0.2	-0.01	1.3	0.09
of which, Pharmaceuticals	-1.6	-0.02	5.7	0.05
Transportation	-0.7	-0.08	1.2	0.13
of which, Car prices	-0.2	-0.01	0.4	0.01
of which, Auto fuel	-2.0	-0.07	2.0	0.07
Communication	0.5	0.01	0.1	0.00
Recreation	1.5	0.19	-1.2	-0.15
of which, Audio visual & comp.	-0.1	0.00	0.3	0.01
of which, Holiday travel	3.1	0.18	-3.3	-0.20
Education	0.0	0.00	3.3	0.15
Financial & insurance services	0.8	0.05	0.6	0.03
CPI: All groups	0.2	-	0.5	-
CPI: All groups % year	2.4	-	2.0	-

Sources: ABS, Westpac Banking Corporation

Breakdown Monthly CPI Indicator

Item	Jan-24	Nov-25	Dec-25	Jan f/c
	Mth	Mth	Mth	Mth
Food	0.3	0.5	0.1	0.3
of which, bread & cereals	-0.1	0.4	0.6	0.0
of which, meat & seafood	0.0	0.2	0.2	0.3
of which, dairy & related prod.	-0.7	0.9	1.0	-0.3
of which, fruit & vegetables	0.9	-0.2	-1.4	1.2
of which, food products nec	1.2	0.5	1.3	0.8
of which, non-alcohol bev.	1.6	0.3	0.3	0.8
Alcohol & tobacco	0.2	0.3	-0.7	0.2
of which, alcohol	0.3	0.4	-1.0	0.3
of which, tobacco	0.1	0.1	0.2	0.1
Clothing & footwear	-2.5	-0.4	0.6	-1.8
of which, garments	-2.8	-0.7	1.0	-2.1
Housing	0.2	1.7	-0.1	-0.3
of which, rents	0.7	0.6	0.3	0.3
of which, house purchases	0.1	-0.6	0.1	0.1
of which, electricity	0.9	22.4	-1.5	-5.0
of which, gas & other fuels	-1.8	3.2	-1.7	-1.0
H/hold contents & services	-1.1	0.3	0.4	-1.2
Health	0.0	0.0	-0.2	0.0
Transportation	-0.2	0.3	1.1	0.1
of which, auto fuel	-0.9	0.9	3.8	0.2
Communication	0.0	0.7	-0.3	0.1
Recreation	-2.4	-0.1	5.5	-2.0
of which, holiday travel	-5.2	-1.3	11.5	-4.5
Education	0.0	0.0	0.1	0.0
Financial & insurance services	0.0	0.2	0.5	0.0
CPI: All groups	-0.3	0.5	0.8	-0.4

Sources: ABS, Westpac Banking Corporation



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