12 June 2025

INFLATION DEEPER INSIGHTS

Core inflation into the lower half of the band

Key points

- Stronger than expected increases in dwelling prices, electricity, and health in April see us to revise our June quarter CPI and the Trimmed Mean estimates to 1.0%qtr and 0.8%qtr, respectively.
- Our forecasts for annual inflation at December 2025 have the CPI unchanged at 3.4%yr but we lowered our the Trimmed Mean estimate to 2.7%yr from 2.8%yr.
- Our updated outlook has weaker domestic demand and weaker global demand both working to soften market sector services inflation and potentially see deflating imported durable goods prices.
- Lower population growth will contain housing cost pressures, slowing rent inflation and limiting builders' scope to expand margins.
- Our forecast for December 2026 have been lowered: the CPI is 0.1ppt lower at 2.7%yr with a Trimmed Mean 0.2ppt lower at 2.3%yr.

Breakdown: June Quarter CPI & May Monthly CPI

	Jun f/c	Mar	Apr	May f/c
	Qtr	Mth	Mth	Mth
Item	% qtr	% mth	% mth	% mth
Food	**1.0**	**0.5**	**0.3**	**0.5**
of which, bread & cereals	-0.1	0.8	-0.4	0.4
of which, meat & seafood	-0.5	0.3	-0.6	0.0
of which, dairy & related prod.	0.5	1.0	0.1	0.1
of which, fruit & vegetables	5.1	2.7	2.5	1.7
of which, food products nec	0.4	0.2	1.0	-0.3
of which, non–alcohol bev.	1.3	0.9	-0.6	0.7
Alcohol & tobacco	**0.4**	**0.7**	**-0.4**	**0.4**
of which, alcohol	-0.4	0.4	-1.0	0.5
of which, tobacco	2.0	1.4	1.1	0.2
Clothing & footwear	**2.0**	**-1.4**	**4.2**	**-1.7**
of which, garments	2.7	-2.4	6.0	-2.7
Housing	**1.5**	**0.9**	**0.5**	**0.5**
of which, rents	1.0	0.3	0.3	0.3
of which, house purchases	0.6	-0.1	0.5	0.3
of which, electricity	9.0	9.2	1.5	4.0
of which, gas & other fuels	-1.6	-0.2	-0.6	-2.5
H/hold contents & services	**1.3**	**0.3**	**1.0**	**0.0**
Health	**3.5**	**2.9**	**2.4**	**0.0**
Transportation	**-1.2**	**-0.2**	**-0.7**	**-0.7**
of which, auto fuel	-4.0	-0.7	-2.6	-3.1
Communication	**-0.1**	**-0.2**	**0.2**	**-0.6**
Recreation	**1.9**	**0.9**	**3.0**	**-1.6**
of which, holiday travel	3.7	1.7	6.0	-3.6
Education	**0.0**	**0.1**	**0.0**	**0.0**
Financial & insurance services	**0.7**	**0.5**	**0.1**	**0.0**
CPI: All groups	***1.0***	***0.6***	***0.8***	***-0.2***

Sources: ABS, Westpac Banking Corporation

"A June quarter bump does not shift a medium-term moderation in core inflation"

Despite the June boost core profile is unchanged

Justin Smirk
Senior Economist

Stronger than expected April Monthly Indicator

The April Monthly CPI Indicator rose by 0.8% in the month, significantly above Westpac's published nearcast of 0.3%. This upside surprise was driven by larger than expected increases in medical and hospital services as well as dwelling prices.

As our readers will appreciate, the quarterly CPI is not a simple average of the Monthly CPI Indicator. Historical experience has shown that relying on a straightforward 'face value' extrapolation from monthly to quarterly figures can be misleading. Additionally, volatile components, such as fresh food prices, can quickly reverse, potentially diverging from our current monthly profile.

Nonetheless, after incorporating the April data, updating our May and June estimates, and factoring in the quarterly estimates embedded in the April monthly survey, it became clear that there is meaningful upside risk to our June quarter inflation forecasts.

As a result, we have revised our June quarter CPI estimate up from 0.8%qtr to 1.0%qtr, and our Trimmed Mean estimate from 0.6%qtr to 0.8%qtr.

Despite these upward revisions, our forecasts for annual inflation at December 2025 are broadly unchanged, with CPI at 3.4%yr and the Trimmed Mean down 0.1ppt to 2.7%yr.

The most significant revisions to our June quarter CPI estimates are:

- Alcohol & tobacco –0.6ppt to 0.4%qtr,
- Clothing & footwear +0.6ppt to 2.0%qtr,
- Housing +0.7ppt to 1.5%qtr due to stronger than expected dwelling purchase and electricity,
- Health +2.3ppt to 3.5%qtr, and
- Transport –0.8ppt to –1.2%qtr.

Dwelling prices bounce in April

The April Monthly CPI Indicator revealed two notable upside surprises in the housing category: new dwelling prices and electricity costs.

The first surprise was a 0.6% increase in new dwelling prices. This marks the first monthly rise since December 2024, following a cumulative decline of –0.8% since August 2024. According to the ABS, previous declines were driven by project home builders offering incentives and promotional discounts to attract buyers. The April increase suggests

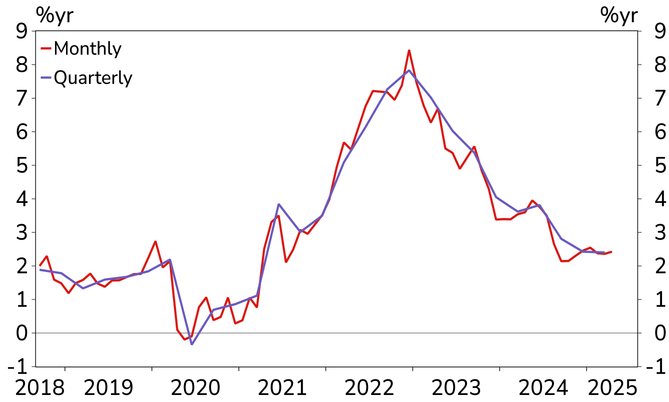
Westpac Inflation forecasts

		Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
CPI	Index	142.1	143.4	144.2	145.1	146.3	146.3
	(%qtr)	1.0	0.9	0.6	0.6	0.8	0.8
	(%yr)	2.4	3.1	3.4	3.1	3.0	3.0
Trimmed mean	(%qtr)	0.8	0.7	0.5	0.5	0.6	0.6
	(%yr)	2.8	2.7	2.7	2.5	2.3	2.3
(6mth ann'd)	(%yr)	2.9	2.9	2.4	2.1	2.2	2.2

Source: ABS, Westpac Economics.

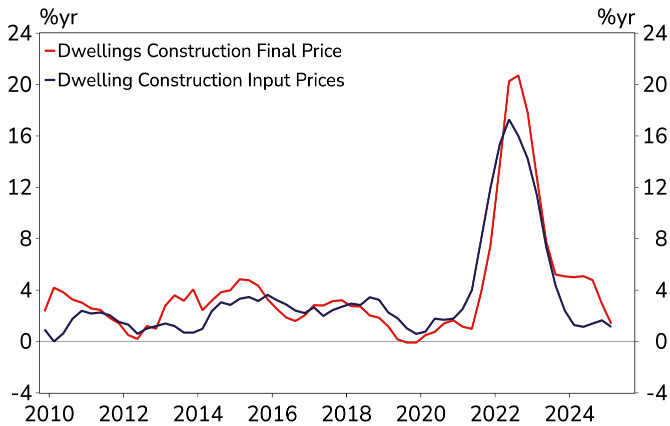
Consumer Price Index

Quarterly CPI vs. Monthly CPI Indicator



Source: ABS, Macrobond, Westpac Economics

Housing Construction Inflation vs Input Costs



Source: ABS, Macrobond, Westpac Economics that discounting may have ended. However, key questions remain: will prices continue to rise as builders attempt to rebuild margins, and how quickly can they do so? Given the moderation in construction input costs, we have assumed an average monthly increase of 0.2% for the remainder of 2025.

In contrast, rents rose by 0.3% in April, slightly below the 0.4% monthly average observed over the past six months. We expect rent growth to moderate to 0.3% per month for the rest of the year, supported by a earlier-than-anticipated slowdown in immigration, which is easing pressure on rental demand.

The second housing-related surprise was in electricity prices, which rose 1.5% in April, defying expectations of a small decline due to the roll-out of March quarter rebates. The end of Queensland's $1,000 lump-sum rebate, combined with significant increases in power bills for many Brisbane households, contributed to the national average increase. Despite this, the impact of government rebates remains evident: the ABS reported that electricity prices fell –6.5% in the year to April. Since June 2023, electricity prices for households have declined 1.0% when rebates are included. Excluding rebates, prices would have risen 17.6% over the same period.

Looking ahead, we have pencilled in a 6% increase in underlying electricity prices in July 2025. This reflects the recently announced Default Market Offer (DMO) increases: NSW (8.0%), Qld (8.9%), SA (7.4%), and Vic (1.2%). These changes are expected to result in a 5.8% average increase in power bills nationally. However, the actual impact on the CPI will depend on the timing and structure of future energy rebates.

We have illustrated our electricity price projections, both before and after rebates, in the accompanying chart.

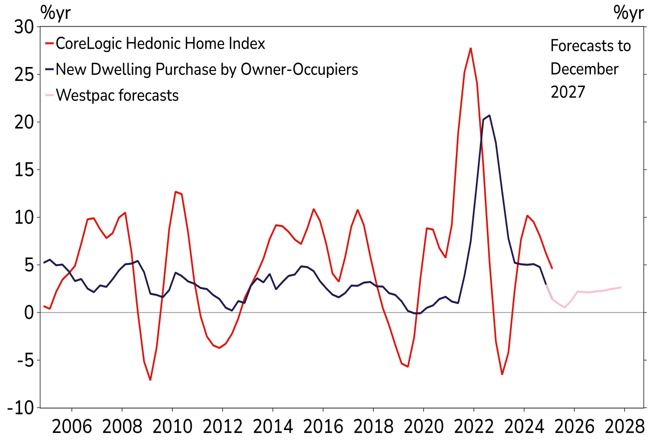
Health: we missed the April increase

As noted by the ABS, health rose 4.4% in the year to April, up from a 4.0%yr rise in March. Medical & hospital services was the main contributor, with a 5.4%yr rise to April, following a 4.9%yr rise to March. The increase in annual growth was driven by health insurance premiums, which rose on 1 April. The 3.2% increase in medical & hospital services was the largest April increase since 2018 and has seen us lift our June quarter estimate for health from +1.2%qtr to 3.5%qtr.

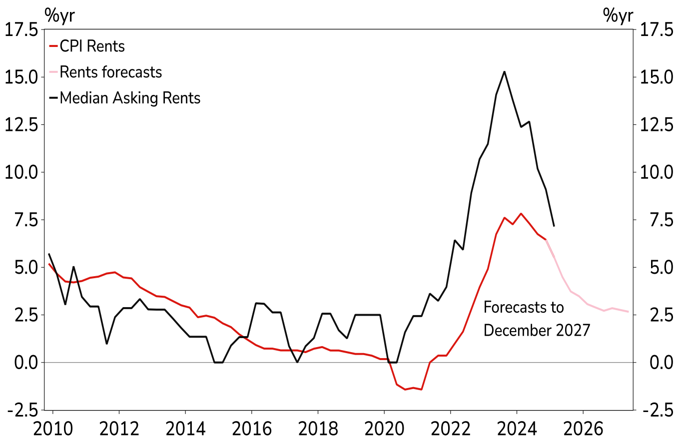
Transport: auto fuel continues to fall

Through the June quarter auto fuel continue to fall as crude oil prices remain constrained by rising supply and soft demand while the AUD strengthens in the face of weaker US dollar. However, recent supply disruptions boosted crude prices while refiners margins widened supporting Singapore gasoline prices, meaning our Q2 estimate is unchanged at –4.0%. It will be interesting to see where motor vehicles prices head through the remainder of 2025 and into 2026 with an increasing number of Chinese brands entering the Australian market.

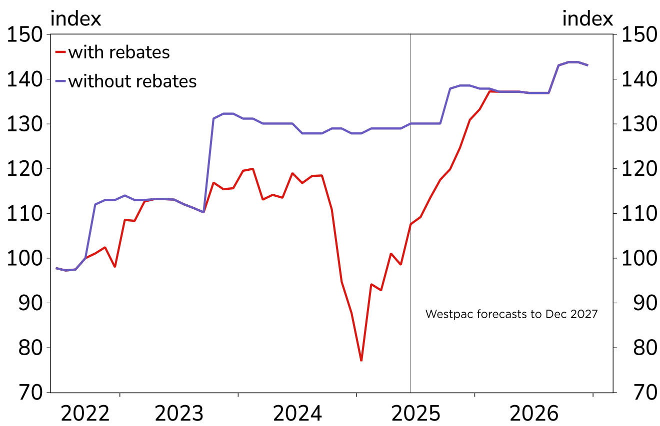
CPI New Dwellings vs Established Homes



Asking rents vs CPI rents



Electricity prices before and after rebates

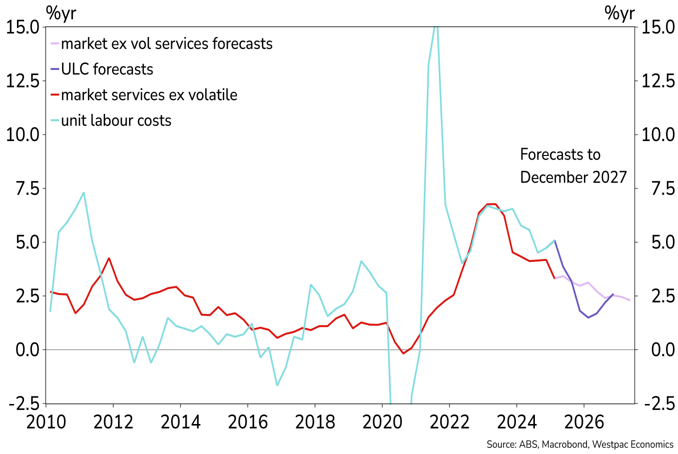


Source: ABS, Macrobond, Westpac Economics

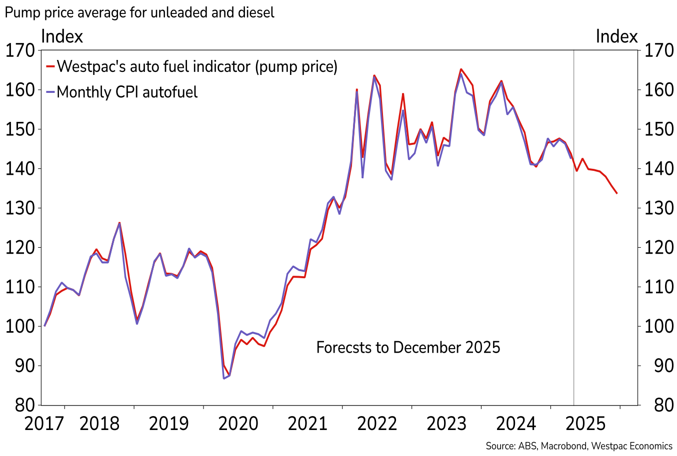
Market sector productivity better than average

As we noted in our National Accounts Bulletin "[Economic recovery stalls]" it is true that aggregate productivity continues to track sideways but this reflects the expansion of the non-market sector and falling mining productivity. We estimate that productivity across the rest of the economy is tracking around a 1.0%yr pace with unit labour costs up a more benign 3.8%yr (with a six-month annualised pace of just 2.3%yr) compared to a reported 5.6%yr for the non-farm unit labour costs. As such we are comfortable with our current projections that have unit labour cost inflation moderating as hours worked to soften which, along with an improvement in output and softer wages growth, should see a moderation in unit labour cost annual inflation. This is why we are projecting market sector services ex volatile annual inflation to continue to moderate from here, from 3.3%yr in March to around 3.0%yr by end 2025 and then down to around 2.5%yr by mid 2026.

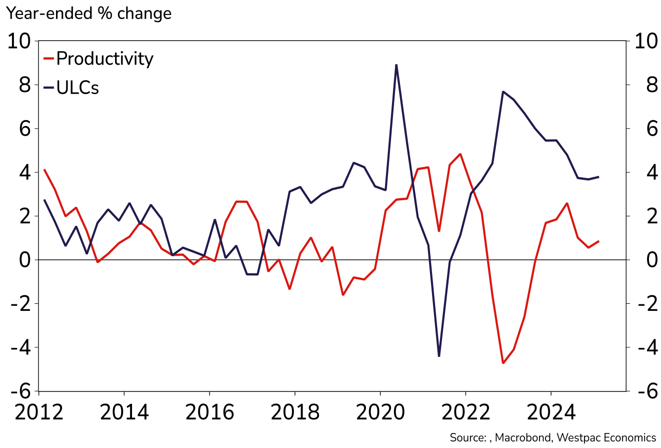
Market sector inflationary pressures are easing



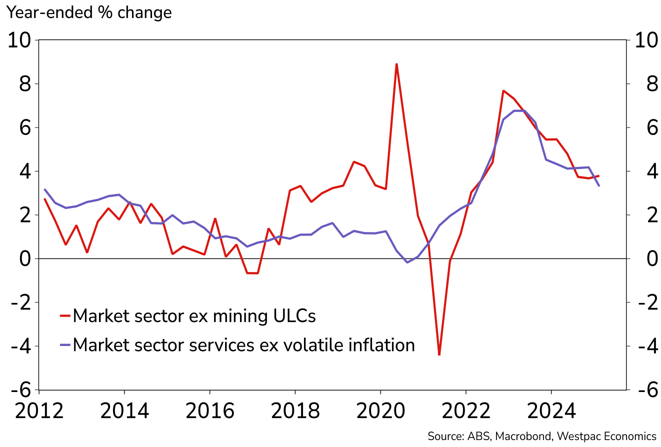
Auto fuel prices



Productivity and costs in market (ex mining) sector



Market sector productivity is better than average



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