



7 August 2025

INFLATION DEEPER INSIGHTS

Inflationary pressures continue to moderate ...

Key points

- Both headline and core inflation surprised to the downside in the June quarter.
- Perhaps more critically, market services excluding volatile items gained 0.6% in the quarter with the annual pace falling from 3.3% to 2.9%. We had not expected this measure to be within the RBA's target band so soon.
- On the back of the update, Westpac is estimating a 0.8%qtr increase in the September quarter CPI taking the annual pace to 2.7%yr from 2.1%yr.
- Our Trimmed Mean estimate has also be revised down 0.1ppt to 0.6% which will see the annual pace drop to 2.4%yr but note this is a soft print as at two decimal places it is just 0.56%qtr.
- In the May SMP, the RBA forecast a Trimmed Mean annual pace of 2.6%yr for end 2025, which would imply a 0.6% increase in each of the next two quarters.

Breakdown of qtr CPI: Jun actual, Sep forecast

Item	June 2025		Sep 2025 fcs	
	% qtr	contrib	% qtr	contrib
Food	1.0	0.17	0.7	0.11
of which, Fruit & vegetables	4.3	0.09	0.6	0.01
Alcohol & tobacco	0.7	0.04	1.3	0.09
of which, Tobacco	2.0	0.04	1.3	0.02
Clothing & footwear	2.6	0.09	-0.4	-0.01
Housing	1.2	0.26	2.3	0.50
of which, Rents	1.0	0.06	0.8	0.06
of which, House purchases	0.4	0.03	0.5	0.03
of which, Utilities	3.9	0.16	8.0	0.35
H/hold contents & services	1.1	0.09	0.9	0.07
Health	1.5	0.10	-0.2	-0.01
of which, Pharmaceuticals	-2.0	-0.02	-1.5	-0.01
Transportation	-0.7	-0.08	0.5	0.06
of which, Car prices	-0.2	-0.01	-0.1	0.00
of which, Auto fuel	-3.4	-0.11	-0.5	-0.02
Communication	0.1	0.00	0.0	0.00
Recreation	0.5	0.06	-0.3	-0.04
of which, Audio visual & comp.	1.9	0.04	0.4	0.01
of which, Holiday travel	0.3	0.02	-1.4	-0.08
Education	0.0	0.00	0.0	0.00
Financial & insurance services	0.5	0.03	0.6	0.03
CPI: All groups	0.7	-	0.8	-
CPI: All groups % year	2.1	-	2.7	-

Sources: ABS, Westpac Banking Corporation

Westpac Inflation forecasts

		Sep-25	Dec-25	Mar-26	Jun-26
CPI	Index	142.8	143.5	144.4	145.5
	(%qtr)	0.8	0.5	0.6	0.8
	(%yr)	2.7	2.9	2.6	2.7
Trimmed mean	(%qtr)	0.6	0.6	0.6	0.5
	(%yr)	2.4	2.4	2.3	2.2
	(6mth ann'd)	2.3	2.2	2.3	2.2

Source: ABS, Westpac Economics.

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.

... leading to downward revisions to our forecasts



Justin Smirk
Senior Economist

Holiday travel the biggest surprise

The CPI gained 0.7% in the June quarter, softer than market consensus and Westpac's expectation. The annual pace of headline inflation, at 2.1%yr, is now down to the bottom of the RBA target band which is somewhat surprising given we are also experiencing a surge in electricity prices due to the expiry of various cost-of-living measures. This has had a very limited impact on core inflation, and so such measures take on a more critical role in assessing the current pace of inflation.

Compared to our forecast, most of the components of the CPI came in broadly as expected, with the main error in holiday travel (0.3%qtr vs. 2.8%qtr forecast for a +0.15ppt error) with pharmaceuticals falling a bit more than expected (-2.0%qtr vs. -1.4%qtr for a +0.01ppt error) partially offset by slightly stronger food prices (1.0%qtr vs. 0.8%qtr) and a smaller than expected fall in car prices (-0.2%qtr vs. -0.5%qtr) and auto fuel (-3.4%qtr vs. -3.8%qtr).

Housing costs were a little softer than expected (1.2%qtr vs. 1.4%qtr for a 0.04ppt error) but this was all due to a smaller than expected rise in utilities (3.9%qtr vs. 4.8%qtr for a 0.04ppt error). Rents and dwellings increased as expected.

Core inflation also surprises to the downside

The Trimmed Mean (TM) lifted 0.6% in the June quarter. Westpac and the market had expected 0.7% but in our [preview](#) we did highlight a downside risk to our estimate as it was just 0.66% at two decimal places and so would be easier to round down to 0.6% than round up to 0.8%. This saw the annual pace drop to 2.7%yr from 2.9%yr while the six-month annualised pace is 2.6%yr, highlighting that the momentum in core inflation remains well within the RBA's target band.

We also note that due to revisions, the TM annual pace did not drop to 2.6% as we expected – without revisions, it would have printed 2.6% based on the 0.6% increase in the quarter. As such, the reported annual pace was as per our expectations and just a touch stronger than the RBA's forecast of 2.6%yr.

Services inflation fell into the band

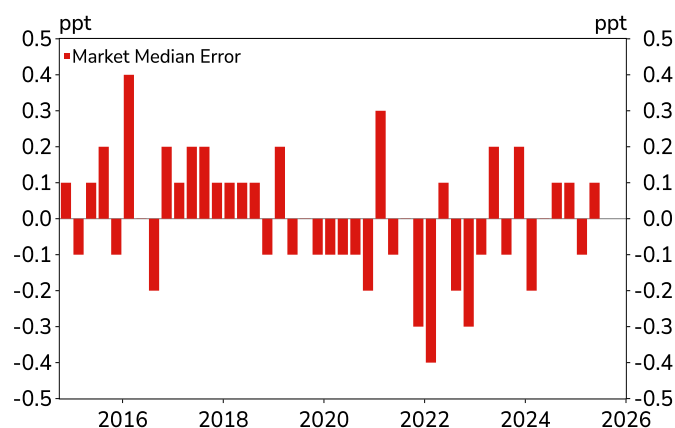
Services inflation rose 0.7% in the quarter taking the annual pace down to 3.3% from 3.7%. The more important market services excluding volatile items posted an even smaller 0.6% in the quarter with the annual pace falling from 3.3% to 2.9%. This key measure of domestic inflation has surprised us by falling within the RBA's target band in the first half of 2025 and we are now expecting it to fall to the bottom of the band in the second half of the year.

Breakdown of qtr CPI: Jun actual, Jun forecast

Item	June 2025		Jun 2025 fcs	
	% qtr	contrib	% qtr	contrib
Food	1.0	0.17	0.8	0.15
of which, Fruit & vegetables	4.3	0.09	3.1	0.07
Alcohol & tobacco	0.7	0.04	0.8	0.05
of which, Tobacco	2.0	0.04	2.2	0.04
Clothing & footwear	2.6	0.09	2.6	0.09
Housing	1.2	0.26	1.4	0.30
of which, Rents	1.0	0.06	1.0	0.07
of which, House purchases	0.4	0.03	0.4	0.03
of which, Utilities	3.9	0.16	4.8	0.20
H/hold contents & services	1.1	0.09	1.1	0.09
Health	1.5	0.10	2.2	0.15
of which, Pharmaceuticals	-2.0	-0.02	-1.4	-0.01
Transportation	-0.7	-0.08	-1.0	-0.12
of which, Car prices	-0.2	-0.01	-0.5	-0.02
of which, Auto fuel	-3.4	-0.11	-3.8	-0.12
Communication	0.1	0.00	0.0	0.00
Recreation	0.5	0.06	1.5	0.19
of which, Audio visual & comp.	1.9	0.04	2.1	0.04
of which, Holiday travel	0.3	0.02	2.8	0.17
Education	0.0	0.00	0.0	0.00
Financial & insurance services	0.5	0.03	0.6	0.04
CPI: All groups	0.7	-	0.9	-
CPI: All groups % year	2.1	-	2.3	-

Sources: ABS, Westpac Banking Corporation

Market Forecasts vs ABS CPI



Source: ABS, Macrobond, Westpac Economics

Market services inflation is not a risk

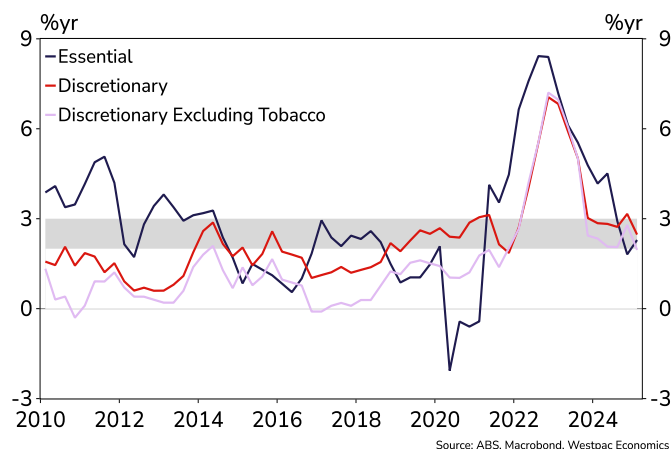
Household services rose just 0.5% in the quarter taking the annual pace down to 2.9%yr in the June quarter from 3.2%yr in the March quarter, well down from the recent peak of 5.7%yr in the March quarter of 2024. Meanwhile meals out & take away gained 0.7% in the June quarter holding the annual pace at 2.7%yr. We will be watching to see if there is any boost to this series due to the increase in the minimum wage/awards in the September quarter.

Perhaps more surprising has been the faster than expected moderation in insurance & financial services inflation, in particular the recent correction in insurance. After having lifted 1.1% in the December quarter insurance rose 0.6% in the March quarter then surprised with a -0.5% fall in the June quarter. Our leading indicators for insurance are pointing to a further fall in the September quarter. On this path it is possible the annual pace insurance inflation could be flat by end 2025 and could even turn negative in early 2026.

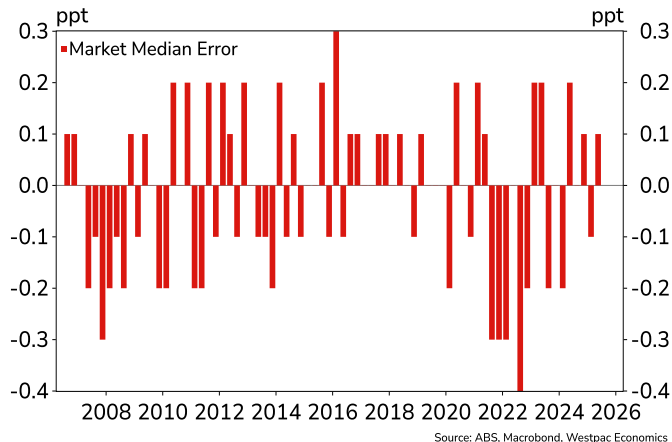
Essential inflation also in the band

Inflation for essential goods and services was down to just 1.8%yr in the June quarter. For sure, a large share of this is due to the cost of living rebates that have suppressed electricity prices and this is set to reverse through the second half of the year. But our forecasts already incorporate the ending of the rebates, plus a further 6% increase in the underlying power bills, which will see electricity prices up more than 50% in the year to the December quarter 2025. It is also import to note that price of non-essential good and services, excluding tobacco, is up just 1.9% in the year to the June quarter, which is just below the bottom of the RBA's target band.

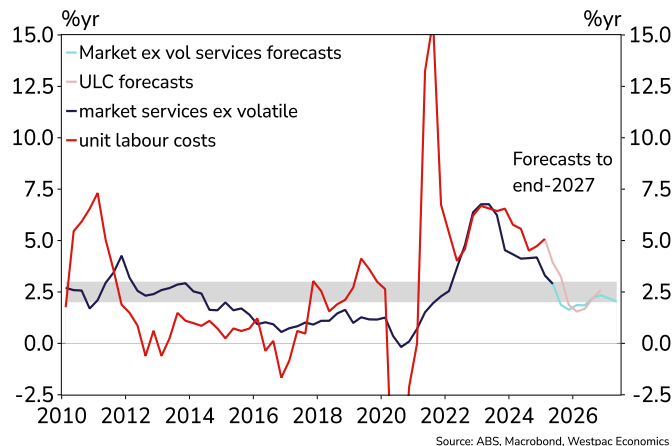
Consumer Price Inflation



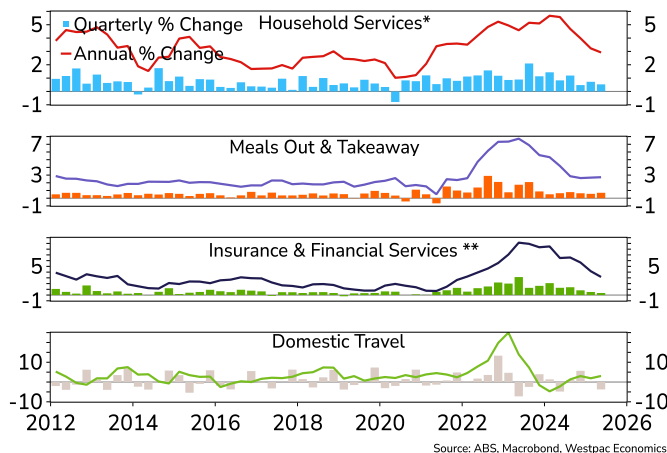
Market Trimmed Mean Forecast vs ABS



Market sector inflationary pressures are easing



Market Services Inflation



Housing costs continue to moderate

As noted earlier housing costs were a little softer than expected but this was all due to a smaller than expected rise in utilities and there is more on this below. More importantly for core inflation, rents and dwellings increased as expected.

Rents gained 1.0% in the quarter but with the monthly pace now at 0.3% we are expecting rents to rise 0.8% in the September quarter. With population growth to slow to around 1.4%yr in 2026, Westpac is expecting rental growth to continue to moderate and be just under 3%yr by end 2026.

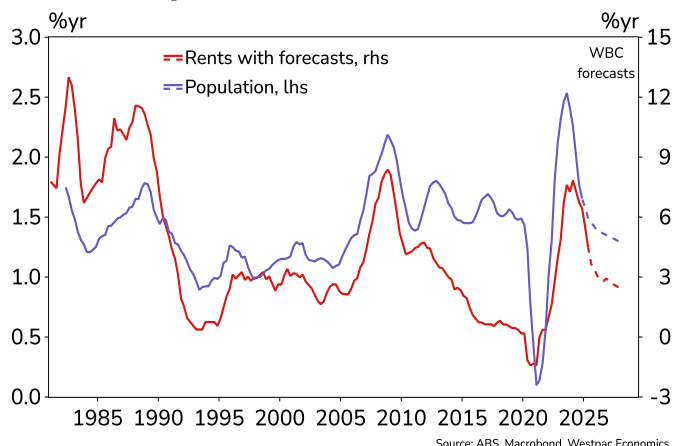
Dwelling prices, which represent the cost of constructing a home including builders margins and any taxes/charges but excludes the value of the land, gained 0.4% in the June quarter while the monthly momentum continues to surprise by averaging just 0.2% per month over the last three months. On the basis that we expect this momentum to continue at least through the September quarter, our estimate for Q3 is 0.5%.

Breakdown: Sep Quarter CPI & Jul Monthly CPI

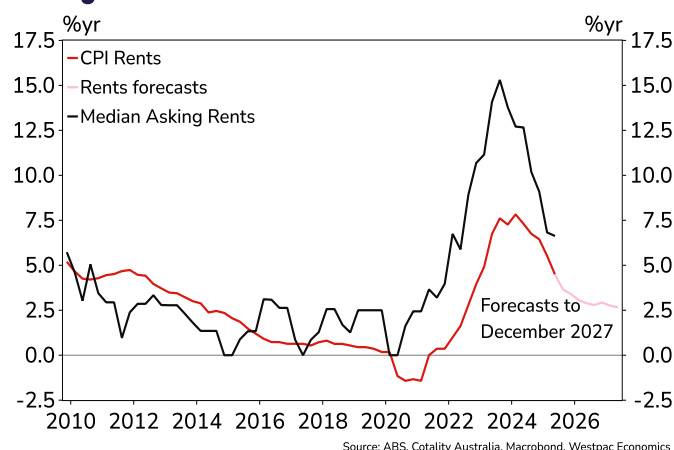
	Sep	May	Jun	Jul
	Qtr	Mth	Mth	Mth
Item	% qtr	% mth	% mth	% mth
Food	0.7	0.3	0.3	0.1
of which, bread & cereals	0.4	-0.5	-0.1	0.5
of which, meat & seafood	0.8	0.9	-0.3	0.4
of which, dairy & related prod.	0.1	-0.4	0.1	0.1
of which, fruit & vegetables	0.6	-0.8	2.3	-0.2
of which, food products nec	0.2	-0.3	0.1	0.0
of which, non-alcohol bev.	0.7	2.1	0.4	0.0
Alcohol & tobacco	1.3	0.5	-0.2	0.1
of which, alcohol	1.3	0.8	-0.2	0.2
of which, tobacco	1.3	-0.2	-0.3	0.1
Clothing & footwear	-0.4	-1.0	-0.9	0.7
of which, garments	-0.9	-1.6	-1.6	1.1
Housing	2.3	0.2	0.2	1.0
of which, rents	0.8	0.3	0.3	0.3
of which, house purchases	0.5	0.0	0.2	0.2
of which, electricity	11.5	2.0	-0.4	6.0
of which, gas & other fuels	4.1	-2.4	0.5	4.1
H/hold contents & services	0.9	-0.1	0.0	0.5
Health	-0.2	0.0	-0.9	0.0
Transportation	0.5	-0.5	0.9	0.5
of which, auto fuel	-0.5	-2.9	3.5	1.1
Communication	0.0	-0.2	-0.9	0.8
Recreation	-0.3	-3.4	1.3	-0.4
of which, holiday travel	-1.4	-7.0	2.4	-1.0
Education	0.0	0.0	0.0	0.0
Financial & insurance services	0.6	-0.2	0.5	0.0
CPI: All groups	0.8	-0.4	0.2	0.3

Sources: ABS, Westpac Banking Corporation

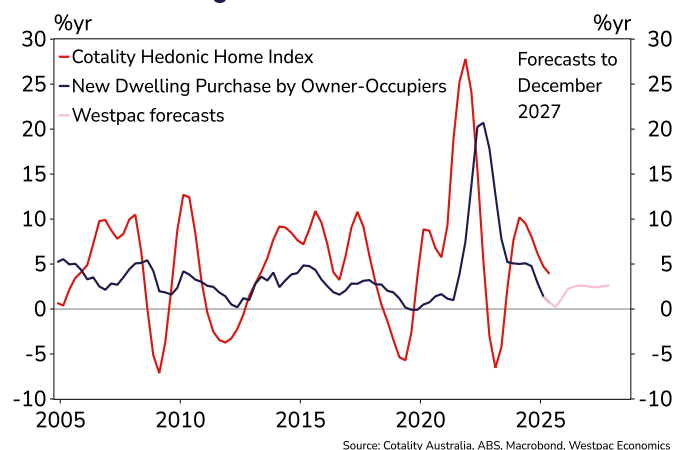
Growth in Population and Rents



Asking rents vs CPI rents



CPI New Dwellings vs Established Homes



Ending rebates boost electricity prices

The energy rebates continue to have a significant impact on inflation, but this time it is to boost rather than suppress inflation, though its impact can vary significantly from city to city. Electricity rose 8.1% in the June quarter, following a 16.3% increase in March. But despite two consecutive increases, electricity bills are still 6.2% lower than they were a year ago due to the introduction of the second round of the Commonwealth Energy Bill Relief Fund (EBRF) rebates from July 2024, which continue to hold down electricity prices in most capital cities.

In the June quarter the ABS reports that the rise is due to all households in Perth using up their second instalments of both the EBRF and the WA State government rebates in the March quarter, resulting in higher out of pocket electricity costs in the June quarter. Brisbane households also continue to use up the Queensland State government \$1,000 electricity rebate.

Excluding the rebates, electricity prices would have risen by a smaller 0.4% in the June 2025 quarter. Our forecasts already incorporate the ending of the rebates, plus a further 6% increase in the underlying power bills, which will see electricity prices up more than 50% in the year to the December quarter 2025.

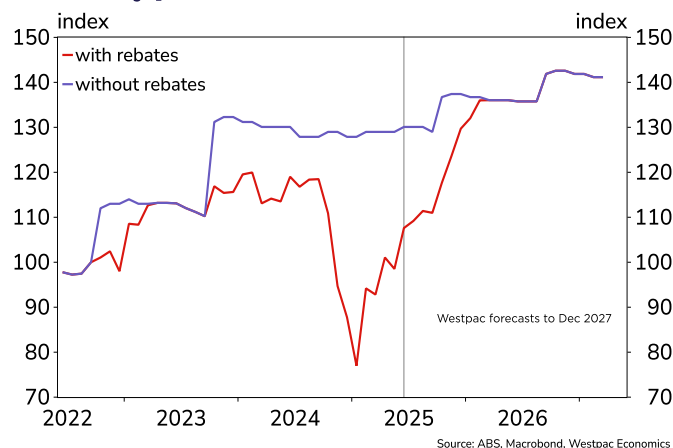
Fuel remains a disinflationary force

In the June quarter auto fuel fell -3.4% due to lower crude oil prices and a stronger AUD. Which expect similar forces to continue, that is relatively flat to lower crude oil prices and an appreciation AUD, to see auto fuel prices to continue to fall through to the first quarter of 2026.

Our September quarter estimates revised down

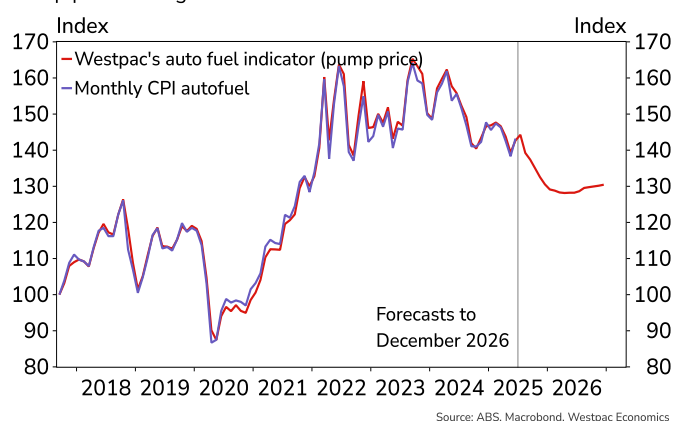
On the back of the above update, Westpac has revised down our estimate of both the CPI and TM by 0.1ppt. We are now estimating a 0.8%qtr increase in the CPI and a 0.6%qtr increase in the TM. This will see the annual pace of the CPI lift from 2.1%yr to 2.7%yr while the TM annual pace is set to fall from 2.7%yr to 2.4%yr – by contrast the RBA's May SMP forecast for the TM at December 2025 is 2.6%yr.

Electricity prices before and after rebates



Auto fuel prices

Pump price average for unleaded and diesel





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