



2 September 2025

INFLATION FORECAST REVISIONS

Sep quarter firmer but year-end forecasts unchanged

Key points

- The larger-than-expected rise in the July Monthly CPI Indicator was driven by stronger-than-anticipated outcomes in two key categories: electricity and domestic holiday travel & accommodation.
- As a result, we have revised up our September quarter estimates for the headline CPI and the Trimmed Mean to 1.1%qtr and 0.7%qtr, respectively.
- However, these revisions are largely due to timing effects – specifically, the removal of power rebates and seasonal travel cost increases – rather than a fundamental shift in underlying inflationary pressures. Accordingly, our end-2025 forecasts remain unchanged.
- Our Trimmed Mean estimate is 0.67% at two decimal places, which rounds up to 0.7%. Given the upside risk to dwelling prices, we are comfortable that this appropriately captures the modest upside risk in the September quarter.

Breakdown of September quarter forecast

Item	Previous		Revised	
	% qtr	contrib	% qtr	contrib
Food	0.7	0.11	0.7	0.12
of which, Fruit & vegetables	0.6	0.01	1.5	0.03
Alcohol & tobacco	1.3	0.09	1.5	0.10
of which, Tobacco	1.3	0.02	1.4	0.03
Clothing & footwear	-0.4	-0.01	0.4	0.01
Housing	2.3	0.50	2.9	0.65
of which, Rents	0.8	0.06	1.0	0.07
of which, House purchases	0.5	0.03	0.8	0.06
of which, Utilities	8.0	0.35	10.3	0.46
H/hold contents & services	0.9	0.07	0.5	0.04
Health	-0.2	-0.01	-0.6	-0.04
of which, Pharmaceuticals	-1.5	-0.01	-1.5	-0.01
Transportation	0.5	0.06	0.6	0.07
of which, Car prices	-0.1	0.00	-0.1	0.00
of which, Auto fuel	-0.5	-0.02	0.5	0.02
Communication	0.0	0.00	0.6	0.01
Recreation	-0.3	-0.04	0.8	0.10
of which, Audio visual & comp.	0.4	0.01	0.5	0.01
of which, Holiday travel	-1.4	-0.08	1.2	0.07
Education	0.0	0.00	0.0	0.00
Financial & insurance services	0.6	0.03	0.6	0.03
CPI: All groups	0.8	-	1.1	-
CPI: All groups % year	2.7	-	2.9	-

Sources: ABS, Westpac Banking Corporation

Westpac Inflation forecasts

		Sep-25	Dec-25	Mar-26	Jun-26
CPI	Index	143.2	143.5	144.4	145.6
	(%qtr)	1.1	0.2	0.6	0.8
	(%yr)	2.9	2.9	2.6	2.8
Trimmed mean	(%qtr)	0.7	0.4	0.6	0.5
	(%yr)	2.5	2.4	2.3	2.2
	(6mth ann'd)	2.5	2.3	2.0	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.

Monthly surprise but broader outlook remains steady



Justin Smirk
Senior Economist

July CPI bumped higher pushing on the quarter

Inflation came in hotter than expected in the July Monthly CPI Indicator, printing at 2.9%yr, well above the market expectation of 2.3% and even the top-end forecast of 2.7%. The Trimmed Mean also rose sharply, from 2.1% to 2.9%yr, which might suggest inflation is re-accelerating.

For a deeper dive into the July CPI data, please refer to our earlier update [“July Monthly CPI Indicator”](#) and the short video [“Inflation comes in hotter than expected”](#)

While we accept that the headline print from the July data suggests some upside risk to our September quarter CPI estimates, we also think the result should be treated with care.

Firstly, readers will remember that the Monthly CPI Indicator is so named as it is not a full monthly CPI but rather the progressive release of the partial estimates of the quarterly survey as they become available with some components only surveyed once a quarter or even annually. As such, we can not simply average three months to derive a reliable quarterly result.

Secondly the entire upside surprise can be traced to two key factors:

- A larger-than-expected increase in electricity prices, driven by the unwinding of cost-of-living rebates and the rise in Default Market Offer rates; and
- A significant spike in domestic holiday travel & accommodation associated with school holidays.

Similarly, while the up-tick in the various core measures is a cautionary signal, it's also important to remember:

- The Monthly Trimmed Mean has consistently run below its quarterly counterpart since 2024, and
- The acceleration to 2.7%yr simply brings the monthly measure into line with the latest quarterly Trimmed Mean.

Overall, we now see upside to our September quarter estimates: currently 0.8%qtr for the headline CPI and 0.6%qtr for the Trimmed Mean. Accordingly, we have revised these forecasts up to:

- 1.1%qtr/2.9%yr for the CPI, and
- 0.7%qtr/2.5%yr for the Trimmed Mean.

However, since these movements are largely due to timing effects – namely, the removal of power rebates and seasonal travel costs – rather than a fundamental shift in inflationary pressure, our end-2025 forecasts remain unchanged.

Breakdown Monthly CPI Indicator

	May	Jun	Jul	Aug f/c
	Mth	Mth	Mth	Mth
Item	% mth	% mth	% mth	% mth
Food	0.5	0.3	0.1	0.4
of which, bread & cereals	0.4	-0.1	0.7	-0.1
of which, meat & seafood	0.2	-0.3	0.1	0.4
of which, dairy & related prod.	0.9	0.1	-0.1	0.5
of which, fruit & vegetables	-0.2	2.3	0.7	0.4
of which, food products nec	0.5	0.1	0.4	0.0
of which, non-alcohol bev.	0.3	0.4	0.1	0.1
Alcohol & tobacco	0.3	-0.2	1.1	0.2
of which, alcohol	0.4	-0.2	1.0	0.4
of which, tobacco	0.1	-0.3	1.3	-0.3
Clothing & footwear	-0.4	-0.9	1.7	-0.7
of which, garments	-0.7	-1.6	1.3	-1.1
Housing	1.7	0.2	1.9	0.2
of which, rents	0.6	0.3	0.3	0.3
of which, house purchases	-0.6	0.2	0.4	0.2
of which, electricity	22.4	-0.4	13.0	0.0
of which, gas & other fuels	3.2	0.5	6.2	0.9
H/hold contents & services	0.3	0.0	0.4	0.1
Health	0.0	-0.9	0.0	0.0
Transportation	0.3	0.9	0.1	0.5
of which, auto fuel	0.9	3.5	0.0	0.3
Communication	0.7	-0.9	1.6	-0.5
Recreation	-0.1	1.3	2.2	-1.5
of which, holiday travel	-1.3	2.4	4.7	-3.6
Education	0.0	0.0	0.0	0.0
Financial & insurance services	0.2	0.5	0.0	-0.2
CPI: All groups	0.5	0.2	0.9	0.0

“... hotter than expected July inflation does not mean the inflationary trend is accelerating...”

September quarter in detail

The 0.3ppt increase in our estimate of the September quarter CPI can be put down to changes in just two items:

- Electricity prices: Following the larger-than-expected increase in July, our estimate for utilities was revised from 8.0%qtr to 10.3%qtr, contributing 0.11 percentage points to the overall revision.
- Holiday travel and accommodation: Revised from 1.4% to 2.6%qtr, this category added 0.15 percentage points to the revision.

There were also smaller upward revisions to:

- Fuel: From -0.5%qtr to +0.5%qtr.
- New dwelling purchases: From 0.5%qtr to 0.8%qtr.

Together, these two categories contributed just an additional 0.04 percentage points to the overall revision.

Lift in house purchase costs something to watch

House purchase costs rose 0.4% in July, surprising to the upside. This continues the upward trend we've seen through 2025: from -0.2%qtr in the December quarter last year, to -0.4%qtr in March, and then a 0.4%qtr increase in June. The July result suggests that prices are rising again, with the ABS reporting it is largely driven by project home builders increasing prices and scaling back discounts and promotional offers, particularly in some cities (recall that this is the cost of the building component of a new home, i.e. excluding land, and hence can track very differently to dwelling prices).

We had been expecting a 0.2% monthly increase, so the 0.4% rise represents a notable upside surprise.

According to the ABS, the increase reflects builders' ability to lift prices. This supports our view that a new positive price trend is emerging. If house purchase costs continue to rise at 0.2% per month, we would see a 0.8%qtr increase in the September quarter. However, if the 0.4% monthly pace persists, the quarterly increase could reach 1.0%, presenting upside risk not only to our headline CPI estimate, but also to our Trimmed Mean estimate (see more below).

Rent stable at 0.3% per month

Rents rose 0.3% in July, the fifth in a row rents have increased by 0.3%. We expect this to continue to at least the end of the year, outside of October when an increase in Commonwealth Government rental assistance on the 30th of September is likely to lead to a small fall in reported rents.

Still some upside risk to electricity

As noted earlier, July saw a larger-than-expected increase in electricity prices, driven by the unwinding of cost-of-living rebates and the rise in Default Market Offer (DMO) rates. Reported electricity bills rose 13% in the month, while underlying power prices before rebates increased 5.1%, reflecting the nationwide lift in DMO rates.

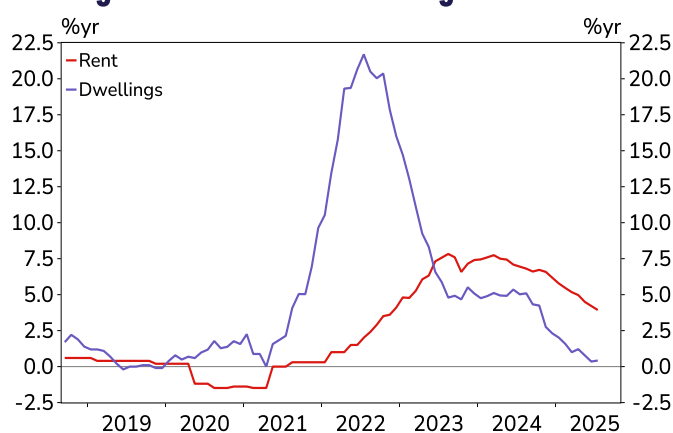
Overall, we estimate an 8% gap between the CPI-reported level of electricity bills and the actual level before rebates.

Breakdown: Sep Quarter CPI & Monthly CPI

	Sep	Jun	Jul	Aug fcs
	Qtr	Mth	Mth	Mth
Item	% yr	% yr	% yr	% yr
Food	3.0	3.2	3.0	3.0
of which, bread & cereals	2.0	2.3	1.9	2.0
of which, meat & seafood	2.1	3.3	2.4	2.2
of which, dairy & related prod.	0.8	0.3	0.2	0.7
of which, fruit & vegetables	5.1	4.9	4.8	4.5
of which, food products nec	3.6	3.8	3.7	3.6
of which, non-alcohol bev.	6.0	5.5	5.7	5.8
Alcohol & tobacco	5.8	5.7	6.5	6.0
of which, alcohol	3.3	3.3	3.8	3.3
of which, tobacco	11.2	11.1	12.4	12.1
Clothing & footwear	2.3	1.4	2.3	2.0
of which, garments	0.9	1.2	1.2	0.6
Housing	5.1	1.6	3.6	5.2
of which, rents	3.9	4.2	3.9	3.6
of which, house purchases	0.5	0.4	0.4	0.5
of which, electricity	29.9	-6.3	13.1	32.4
of which, gas & other fuels	4.8	4.3	4.7	4.8
H/hold contents & services	0.6	0.9	0.9	0.7
Health	3.5	4.1	4.1	4.1
Transportation	0.2	-1.9	-1.0	0.4
of which, auto fuel	-3.0	-8.0	-5.5	-2.1
Communication	1.0	0.9	0.8	0.7
Recreation	1.2	-0.7	2.6	1.3
of which, holiday travel	0.8	-3.7	3.3	1.0
Education	5.2	5.6	5.6	5.5
Financial & insurance services	2.5	3.1	3.1	2.4
CPI: All groups	2.9	1.9	2.8	3.1

Sources: ABS, Westpac Banking Corporation

Housing inflation - rents & dwellings



Source: ABS, Macrobond, Westpac Economics

This suggests there is scope for a further sharp increase, even without any additional rise in underlying power prices.

However, we do not expect this to occur in August, and only anticipate a modest increase in September. The ABS noted that households in NSW and the ACT did not receive payments from the extended Commonwealth Energy Bill Relief Fund (EBRF) in July. These payments are scheduled to commence in August, which will likely temper the CPI impact.

Taking all this into account, Westpac is forecasting a 14.6% increase in electricity prices for the September quarter, though we acknowledge there is a high degree of uncertainty around this estimate.

Travel is a further boost to September

According to the ABS, holiday travel & accommodation prices rose 4.7% in July, driven primarily by a 7.9% increase in domestic holiday travel & accommodation, reflecting heightened demand during the July school holidays. International holiday travel & accommodation also rose, albeit more modestly, by 1.5%.

Both series are known for their volatility, which introduces some uncertainty around how they will evolve over the next two months.

For the September quarter, Westpac is forecasting:

- A 2.3% increase in domestic holiday travel and accommodation, and
- A 0.2% increase in international holiday travel and accommodation

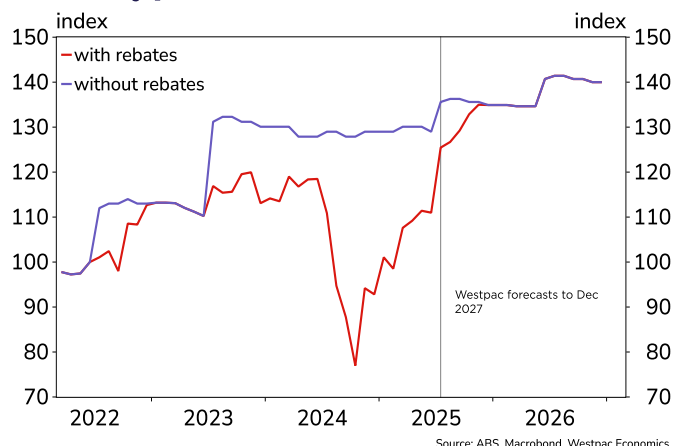
Core inflation is rounded up to 0.7%

Following a full bottom-up review of our September quarter CPI estimate, we have revised our Trimmed Mean estimate from 0.6%qtr to 0.7%qtr. It's important to note that the Trimmed Mean is calculated from seasonally adjusted contributions, not from the headline CPI data.

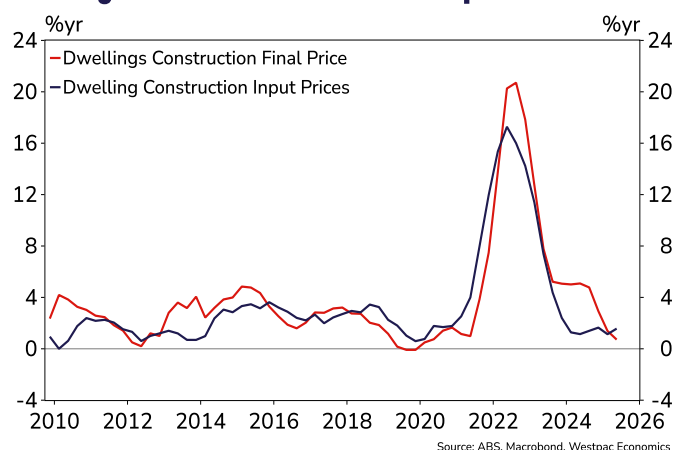
For the September quarter, the trimming boundaries range from 0.0% to 1.3%. Key components such as rents and dwelling prices fall well within this range – at 0.8%qtr (seasonally adjusted) for dwellings and 1.0%qt (seasonally adjusted) for rents. As a result, any upside surprise in these categories is likely to flow through to core inflation.

Our Trimmed Mean estimate is 0.67% at two decimal places, which we have rounded up to 0.7%. Given the upside risk to dwelling prices, we are comfortable with this upward rounding rather than rounding down.

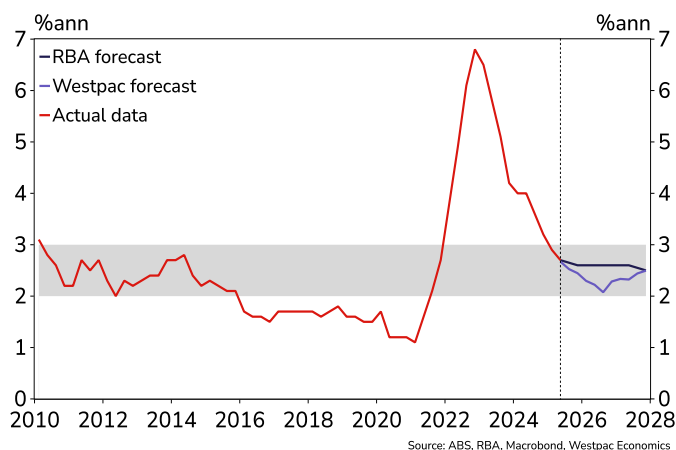
Electricity prices before and after rebates



Housing Construction Inflation vs Input Costs



Trimmed Mean Inflation





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