26 September 2025

INFLATION UPDATE
SEPT QTR CPI PREVIEW

Electricity holding down headline inflation

Key points

- The August Monthly CPI came in below our expectations, so while it surprised many in the market, it was broadly in line with our view.
- Despite falling electricity prices, offsetting gains elsewhere mean our estimate for the September quarter CPI remains unchanged at 1.1%qtr. Due to rounding, the annual rate lifts slightly from 2.9%yr to 3.0%yr.
- Excluding electricity, our Trimmed Mean estimate rises from 0.7%qtr to 0.8%qtr, with some upside risk noted.
- The August Monthly CPI was a mixed picture, with both stronger and weaker prices. It's possible to cherry-pick the data to support different narratives so given the Monthly Indicator's unreliability, we will wait for the September quarter CPI before making any profile adjustments.
- We continue to expect the Trimmed Mean inflation rate to dip into the lower half of the RBA's target band during 2026.

Breakdown of September quarter forecast

	Previous		Revised	
Item	**% qtr**	**contrib**	**% qtr**	**contrib**
Food	**0.7**	**0.12**	**0.7**	**0.12**
of which, Fruit & vegetables	1.5	0.03	–1.1	–0.02
Alcohol & tobacco	**1.6**	**0.10**	**1.6**	**0.10**
of which, Tobacco	1.7	0.03	2.3	0.04
Clothing & footwear	**0.4**	**0.01**	**0.7**	**0.02**
Housing	**2.9**	**0.65**	**2.5**	**0.54**
of which, Rents	1.0	0.07	1.0	0.07
of which, House purchases	0.8	0.06	0.9	0.07
of which, Utilities	10.3	0.46	7.7	0.34
H/hold contents & services	**0.5**	**0.04**	**0.6**	**0.04**
Health	**–0.6**	**–0.04**	**–0.7**	**–0.05**
of which, Pharmaceuticals	–1.5	–0.01	–1.9	–0.02
Transportation	**0.9**	**0.07**	**0.9**	**0.10**
of which, Car prices	–0.1	0.00	–0.7	–0.02
of which, Auto fuel	1.4	0.02	1.9	0.06
Communication	**0.6**	**0.01**	**1.4**	**0.03**
Recreation	**1.1**	**0.10**	**1.1**	**0.13**
of which, Audio visual & comp.	0.7	0.01	2.2	0.04
of which, Holiday travel	1.7	0.07	2.1	0.13
Education	**0.0**	**0.00**	**0.0**	**0.00**
Financial & insurance services	**0.7**	**0.03**	**1.0**	**0.06**
CPI: All groups	**1.1**	–	**1.1**	–
CPI: All groups % year	**2.9**	–	**3.0**	–

Sources: ABS, Westpac Banking Corporation

Westpac Inflation forecasts

		Sep–25	Dec–25	Mar–26	Jun–26
CPI	Index	143.3	143.6	144.6	145.8
	(%qtr)	1.1	0.2	0.7	0.8
	(%yr)	3.0	3.0	2.8	2.9
Trimmed mean	(%qtr)	0.8	0.5	0.6	0.5
	(%yr)	2.7	2.6	2.5	2.4
	(6mth ann'd)	2.5	2.3	2.0	2.2

Source: ABS, Westpac Economics.

Dwellings present a risk to core inflation.

Justin Smirk
Senior Economist

August CPI was below our expectations

The Monthly CPI Indicator rose by 3.0% over the year to August, broadly aligning with expectations—slightly below Westpac's forecast of 3.1% and just above the market's median estimate of 2.9%. The monthly figure showed a modest decline of 0.1%, softer than Westpac's estimate of a 0.1% increase. This was largely driven by a sharp 6.3% fall in electricity prices, which was partially offset by a stronger than expected 0.4% rise in dwelling costs and a 0.3% increase in clothing & footwear when a 0.7% decline was expected.

The Trimmed Mean CPI, which is only reported as an annual rate, eased to 2.6%yr in August, down from 2.7%yr in July and 3.4%yr a year earlier. This month's estimate excluded the annual rise in electricity and other significant price movements. However, the Reserve Bank of Australia continues to focus on the quarterly Trimmed Mean, viewing the monthly version as less reliable. As Assistant Governor Hunter recently noted, the RBA does not consider the monthly Trimmed Mean a useful measure of inflation.

For a deeper dive into the August Monthly CPI data, please refer to our earlier update "August Monthly CPI Indicator".

With falling electricity prices being offset by stronger price gains elsewhere in August, we see balanced risks to our headline September quarter CPI estimate of 1.1%qtr. However, electricity will not be included in the Trimmed Mean while many of the smaller gains will be, suggesting upside risk to our current Trimmed Mean estimate of 0.7%qtr.

We have revised our Trimmed Mean estimate to 0.8% and note that, as the estimate is 0.846% at three decimal places, the risks lie to the upside.

One month is not a trend

Readers may remember all the excitement back in June when, on the back of all the confusion over President Trump's Liberation Day reciprocal tariffs, a much softer than expected print from the May Monthly CPI Indicator saw the market shift to pricing in a July rate cut before they had seen the full June quarter CPI print. Some in the market even speculated that the RBA could cut rates by as much as 50bps. In the end, the RBA waited for the June quarter result and then cut by 25bps. Clearly, the RBA does not consider the Monthly CPI Indicator to be as reliable an indicator of inflation.

As Luci Ellis noted in her note "RBA to remain on hold in September, further cuts still likely afterwards" some of the price increases seen in August, such as in clothing & footwear, are expected to reverse in coming months as these

Breakdown Monthly CPI Indicator Au

	Jun	Jul	Aug	Aug f/c
	Mth	Mth	Mth	Mth
Item	**% mth**	**% mth**	**% mth**	**% mth**
Food	**0.3**	**0.1**	**0.4**	**0.4**
of which, bread & cereals	-0.1	0.7	0.1	-0.1
of which, meat & seafood	-0.3	0.1	1.1	0.4
of which, dairy & related prod.	0.1	-0.1	1.1	0.5
of which, fruit & vegetables	2.3	0.7	-2.9	0.4
of which, food products nec	0.1	0.4	0.4	0.0
of which, non-alcohol bev.	0.4	0.1	-0.8	0.1
Alcohol & tobacco	**-0.2**	**1.1**	**0.2**	**0.2**
of which, alcohol	-0.2	1.0	0.2	0.4
of which, tobacco	-0.3	1.3	0.1	-0.1
Clothing & footwear	**-0.9**	**1.7**	**0.3**	**-0.7**
of which, garments	-1.6	1.3	0.4	-1.1
Housing	**0.2**	**1.9**	**-0.5**	**0.5**
of which, rents	0.3	0.3	0.3	0.3
of which, house purchases	0.2	0.4	0.4	0.2
of which, electricity	-0.4	13.5	-6.3	3.0
of which, gas & other fuels	0.5	6.2	0.2	0.9
H/hold contents & services	**0.0**	**0.4**	**0.3**	**0.1**
Health	**-0.9**	**0.0**	**0.0**	**0.0**
Transportation	**0.9**	**0.1**	**0.5**	**0.3**
of which, auto fuel	3.5	0.0	0.8	0.0
Communication	**-0.9**	**1.6**	**0.7**	**-0.5**
Recreation	**1.3**	**2.2**	**-1.4**	**-1.3**
of which, holiday travel	2.4	4.7	-3.5	-3.2
Education	**0.0**	**0.0**	**0.1**	**0.0**
Financial & insurance services	**0.5**	**0.0**	**0.4**	**-0.1**
CPI: All groups	***0.2***	***0.9***	***-0.1***	***0.1***

"...history tells us to use the Monthly CPI Indicator with a high degree of caution... "

categories typically show considerable volatility. While services inflation was slightly higher than anticipated, the detail was mixed. Notably, the rise in prices for meals out and takeaway aligns with recent job growth in the hospitality sector which has been recovering after a significant downturn through 2023–2024. In this context, some margin rebuilding is understandable, but it doesn't necessarily point to sustained elevated inflation in the sector. Similarly, if the increase in meal prices was driven by higher food costs, the outlook remains subdued given the inherent volatility of food prices.

Abroad, inflationary pressures remain limited. China continues to exert downward pressure on global tradeable goods prices. While geopolitical developments, such as Ukraine's attacks on Russian oil infrastructure and shifting rhetoric from the US, could lift global energy prices for a time, but a sustained uptrend is unlikely.

Take care converting monthly to quarterly

The Monthly CPI Indicator is so named as it is not a full monthly CPI, but rather the release of the partials of the quarterly survey as they become available, with some components only surveyed once a quarter, or even annually. This means you can't simply average three monthly outcomes to derive a reliable quarterly result. Instead you need to judiciously apply surveyed prices for the whole quarter.

This month, the prices that apply for the whole of the September quarter are:

- restaurant meals, 1.3% vs. 0.7% fcs
- take away & fast foods, 1.5% vs.0.9% fcs
- hairdressing & grooming, 0.7% vs. 1.1% fcs
- other household services, 1.9% vs. 0.9% fcs
- spare parts & accessories motor vehicles, –1.3% vs. 0.9% fcs
- maintenance & repairs motor vehicles, 1.1% vs. 0.9% fcs
- other motor vehicle services, 2.1% vs. 1.0% fcs
- audio, visual, media & services, 6.3% vs. 1.2% fcs
- equipment sports, camping & recreation, –0.3% vs. –0.5% fcs
- games, toys & hobbies, –3.3% vs. 0.2% fcs
- sports participation, 1.1% vs, 1.0% fcs
- other rec. sporting & cultural services, –0.9% vs. 1.5% fcs
- insurance, 1.6% vs. –0.2% fcs

After incorporating the latest estimates from the Monthly Indicator, our updated bottom-up estimate for the September quarter CPI suggests balanced risks for our current headline CPI estimate of 1.1%qtr/2.9%yr as falling electricity offsets strong services and dwelling prices. As such, we have left our September quarter CPI estimate unchanged at 1.1%qtr.

Core inflation risks to the upside

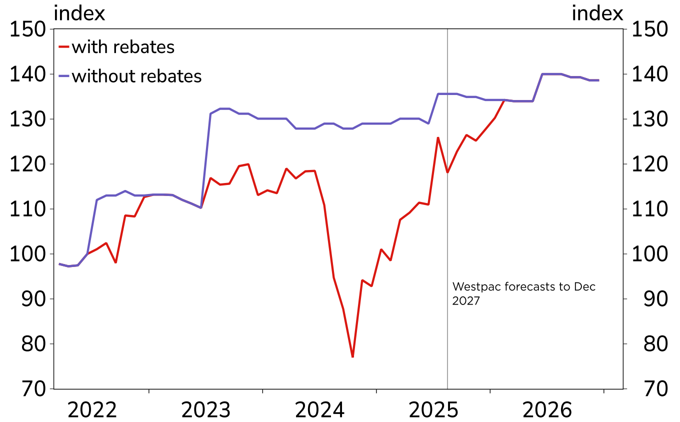
As noted earlier, with electricity out of the Trimmed Mean sample but many of the smaller gains likely to be included, there was clear upside risk to our initial Trimmed Mean estimate of 0.7%qtr. As such, we have revised our estimate to 0.8% and note that, given it is 0.846% at three decimal places, the risks still lie to the upside.

Breakdown: Sep Quarter CPI & Monthly CPI

	Sep	Jul	Aug	Sep fcs
	Qtr	Mth	Mth	Mth
Item	% qtr	% mth	% mth	% mth
Food	**3.0**	**3.0**	**3.0**	**3.0**
of which, bread & cereals	2.0	1.9	2.1	2.2
of which, meat & seafood	2.8	2.4	2.9	2.8
of which, dairy & related prod.	1.0	0.2	1.3	1.3
of which, fruit & vegetables	2.5	4.8	1.1	1.6
of which, food products nec	3.7	3.7	4.1	3.3
of which, non–alcohol bev.	5.2	5.7	4.9	5.0
Alcohol & tobacco	**5.9**	**6.5**	**6.0**	**4.9**
of which, alcohol	2.9	3.8	3.1	2.1
of which, tobacco	12.2	12.4	12.6	11.7
Clothing & footwear	**2.6**	**2.3**	**3.0**	**2.0**
of which, garments	1.4	1.2	2.1	0.7
Housing	**4.7**	**3.6**	**4.5**	**5.7**
of which, rents	3.9	3.9	3.7	3.9
of which, house purchases	0.7	0.4	0.7	1.1
of which, electricity	25.4	13.6	24.6	39.9
of which, gas & other fuels	4.3	4.7	4.1	4.0
H/hold contents & services	**0.6**	**0.9**	**0.9**	**0.6**
Health	**3.5**	**4.1**	**4.1**	**3.9**
Transportation	**0.5**	**–1.0**	**0.4**	**1.8**
of which, auto fuel	–1.7	–5.5	–1.7	2.6
Communication	**1.8**	**0.8**	**1.9**	**2.1**
Recreation	**1.5**	**2.6**	**1.4**	**0.6**
of which, holiday travel	1.8	3.3	1.1	–0.2
Education	**5.2**	**5.6**	**5.5**	**5.2**
Financial & insurance services	**2.9**	**3.1**	**3.0**	**2.9**
CPI: All groups	***3.0***	***2.8***	***3.0***	***3.1***

Sources: ABS, Westpac Banking Corporation

Electricity prices before and after rebates



As Luci Ellis has noted, the August inflation data may be signalling a stronger underlying trend in dwelling purchase costs. Dwelling prices gained 0.4% in July, then 0.4% in August. Some of the unexpected strength in this component appears to reflect an unwinding of earlier price discounting by project home builders, a levels effect that should not be expected to drive ongoing price growth.

However, it remains possible that the underlying trend in building cost inflation is higher than the rates observed late last year prior to the period of discounting. As such, we will be watching the data closely to see if dwelling prices tend stronger than we expect: our current forward estimates have dwelling prices growing at 0.3% in September, then 0.2% per month to April 2026. Given the weight of dwellings in the CPI, about 7½%, and the fact the dwellings price changes tend to be included in the Trimmed Mean, any change in this trend could be influential for core inflation outcomes.

Rent stable at 0.3% per month

Rents rose 0.3% in July, the fifth month in a row rents have increased by 0.3%. We expect this pace 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 uncertainty for electricity

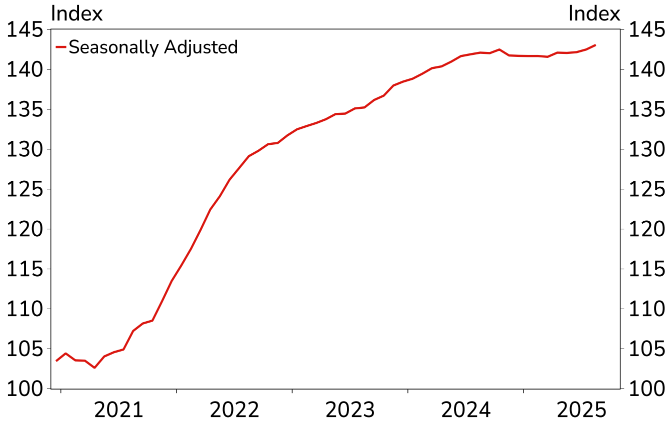
Electricity fell 6.3% in August as households in NSW and ACT received their first payments from the extended Commonwealth Energy Bill Relief Fund (EBRF) rebates. For households in Western Australia, they will receive the payment from the EBRF program from 11 October. This change in the timing of EBRF payments for Western Australian households also contributed to higher out of pocket electricity costs in August, and is likely to lead to further volatility in electricity until all the rebates have been granted in early 2026.

Core inflation is round down to 0.8%

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 –0.3% to 1.9%. Key components such as rents and dwelling prices fall well within this range, at 0.9%qtr (seasonally adjusted) for dwellings and 1.0%qtr (seasonally adjusted) for rents. As a result, any modest upside surprise in these categories will positively contribute to core inflation.

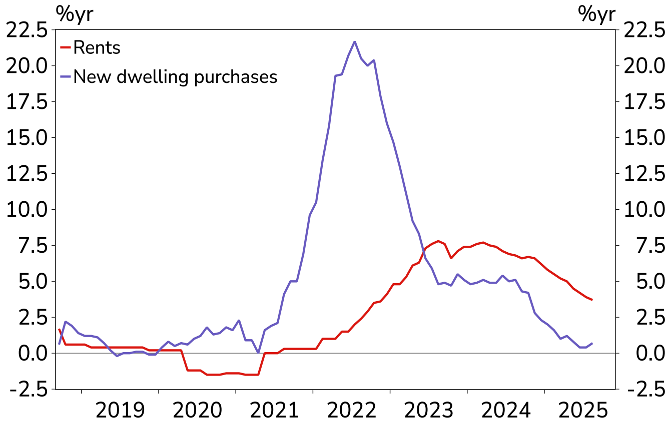
Our Trimmed Mean estimate is 0.846% at three decimal places. Given there is some upside risk to dwelling prices, this suggests any risk to this estimate lies to the upside.

Monthly Dwelling Prices



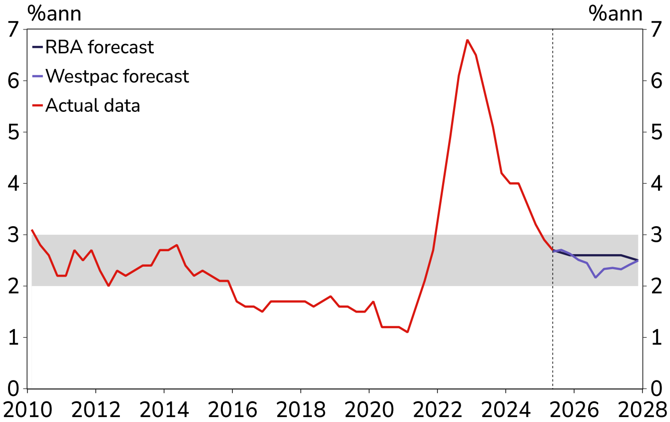
Source: ABS, Macrobond, Westpac Economics

New dwellings and rents



Source: ABS, Macrobond, Westpac Economics

Trimmed Mean Inflation



Source: ABS, RBA, Macrobond, Westpac Economics

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