14 September 2026

AUGUST CPI PREVIEW

Softer August picture; risks skewed to the upside

Key points

- August CPI to rise 0.43%mth boosting the annual pace to 4.0%yr from 3.5%yr in July. On a seasonally adjusted basis, we expect a 0.7%mth increase.
- August Trimmed Mean estimated to lift 0.23%mth, a step down from the 0.4% average over the previous 3mths, holding the annual pace at 3.6%yr.
- For Q3 we revised our CPI estimate to 1.3%qtr (from 1.1%qtr) while the Trimmed Mean is now expected to print 0.9%qtr (vs. 0.8%qtr). A stronger-than-expected July set a higher starting point which we expect to be partially unwound in August-September. We still see a moderation unfolding with Q4 Trimmed Mean now lower at 0.7%qtr, and the CPI is now 0.5%qtr.
- Further out, a higher interest rate profile, productivity gains from AI, and softer durable goods prices see inflation drift below mid-point of target, reaching 2.3%yr by end-2028.

CPI Breakdown: Q3 and monthly profile

	Q3	Jul-26	Aug-26	Sep-26
	Qtr fcs	Mth	Mth fcs	Mth fcs
Item	% qtr	% mth	% mth	% mth
Food	**0.8**	**0.3**	**0.2**	**–0.3**
of which, bread & cereals	0.5	–0.3	0.4	0.0
of which, meat & seafood	0.7	0.2	0.5	–0.2
of which, dairy & related prod.	2.1	0.2	0.3	0.0
of which, fruit & vegetables	–0.7	–0.8	0.1	–2.8
of which, food products nec	0.0	0.0	0.4	0.5
of which, non–alcohol bev.	0.6	0.0	–0.6	–0.8
Alcohol & tobacco	**1.4**	**1.2**	**0.1**	**0.6**
of which, alcohol	1.1	1.2	0.2	–0.4
of which, tobacco	2.2	1.2	0.0	2.9
Clothing & footwear	**0.4**	**2.6**	**–0.1**	**–1.1**
of which, garments	–1.0	3.2	0.2	–3.4
Housing	**1.5**	**0.4**	**0.2**	**0.6**
of which, rents	1.0	0.4	0.3	0.3
of which, house purchases	1.3	0.4	0.4	0.3
of which, electricity	–1.4	–1.6	–0.7	–0.1
of which, gas & other fuels	6.8	2.8	0.5	1.7
H/hold contents & services	**1.0**	**4.4**	**–1.6**	**–0.5**
Health	**–0.2**	**0.1**	**0.0**	**0.0**
Transportation	**2.6**	**2.6**	**4.5**	**0.6**
of which, auto fuel	6.2	7.5	16.6	2.4
Communication	**1.3**	**1.8**	**0.0**	**–0.4**
Recreation	**1.6**	**1.8**	**–1.4**	**1.9**
of which, holiday travel	1.6	1.8	–3.4	4.3
Education	**0.1**	**0.0**	**0.1**	**0.0**
Financial & insurance services	**0.8**	**0.2**	**0.1**	**0.3**
CPI: All groups	**1.3**	**1.0**	**0.4**	**0.4**
CPI: Trimmed mean	**0.9**	**0.5**	**0.2**	**0.2**

Sources: ABS, Westpac Banking Corporation

- Using the San Francisco Fed's Inflation Shock Momentum framework we found signs that the disinflationary impulse may have started to fade.

Jump in fuel offsets price falls elsewhere

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July saw more momentum than expected ...

The July CPI reversed May and June weakness with a larger-than-expected 1.0% increase (see Inflation boosted by end of year price resetting). This was stronger than Westpac's expectation of 0.8% and market's expectation of 0.9%. The annual pace eased to 3.5%yr from 3.8%yr due to a base effect of a stronger print a year earlier as electricity subsidies ended.

The Trimmed Mean (TM) lifted 0.5%mth (0.49%mth) and 3.5%yr, on par with last July which was the strongest monthly read in the series' short history. The result was stronger than both our and the market's expectation of 0.4%mth and 3.5%yr. Meanwhile market services excluding volatiles increased 0.9%mth/3.3%yr. This core measure of domestic inflation eased from 3.7%yr in June but is holding above the 3%yr pace.

Dwellings and rents were as expected, underpinning the TM gain. Upside surprises were mostly in durable goods (motor vehicles, clothing & footwear, household appliances, furniture & furnishing, audio visual & computing equipment) while household services (restaurants, domestic travel, other recreation activities, other services in respect of motor vehicles) made significant contributions.

Looking forward to August it is clear that domestic inflationary pressures are elevated. The question for us is just how much of the July bump was due to larger-than-expected post financial year price adjustments following a larger-than-expected increase in minimum and Award wages, and how much is a sustained increase in underlying inflationary pressure. In this note we attempt to break this down. The bottom line is that, at least for now, we still expect core inflationary pressures to peak in the September quarter.

... while core inflation flattens in August

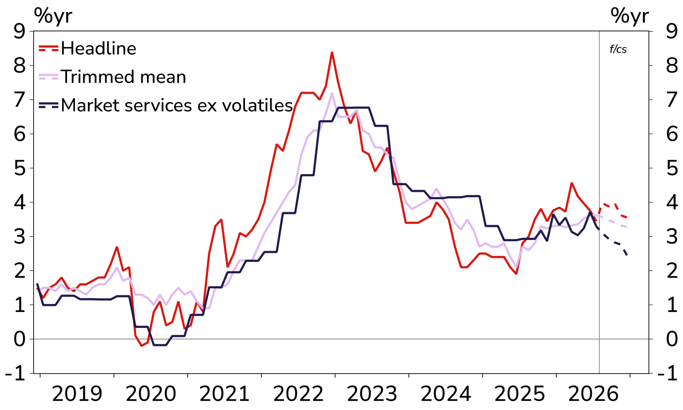
The August CPI is expected to rise 0.4% with the annual pace accelerating to 4.0%yr from 3.5%yr while our seasonally adjusted estimate lifts 0.7%mth/4.0%yr. Our estimate of the monthly TM is set to rise 0.2%mth lifting the annual pace to 3.6%yr. For market services excluding volatiles and holiday travel we have pencilled in a step down to 0.1%mth, this series lifted 0.8% in July possibly due to the larger-than-expected increase in minimum and Award wages, with the annual pace easing a touch (–0.1ppt) to 4.0%yr.

Revision to the September quarter CPI estimate

	14-Aug-26		09-Sep-26	
Item	**% qtr**	**contrib**	**% qtr**	**contrib**
Food	**1.0**	**0.17**	**0.8**	**0.14**
of which, Fruit & vegetables	0.8	0.02	–0.7	–0.01
Alcohol & tobacco	**1.0**	**0.06**	**1.4**	**0.09**
of which, Tobacco	1.6	0.03	2.2	0.04
Clothing & footwear	**0.4**	**0.01**	**0.4**	**0.01**
Housing	**1.3**	**0.28**	**1.5**	**0.34**
of which, Rents	0.9	0.06	1.0	0.07
of which, House purchases	1.3	0.10	1.3	0.10
of which, Utilities	0.5	0.02	1.8	0.08
H/hold contents & services	**1.0**	**0.08**	**1.0**	**0.08**
Health	**–0.3**	**–0.02**	**–0.2**	**–0.01**
of which, Pharmaceuticals	–1.7	–0.02	–2.0	–0.02
Transportation	**1.3**	**0.15**	**2.6**	**0.30**
of which, Car prices	–0.1	0.00	0.1	0.00
of which, Auto fuel	2.0	0.07	6.2	0.22
Communication	**1.2**	**0.02**	**1.3**	**0.03**
Recreation	**1.8**	**0.22**	**1.6**	**0.20**
of which, Audio visual & comp.	0.9	0.02	4.1	0.08
of which, Holiday travel	3.0	0.18	1.6	0.09
Education	**0.1**	**0.01**	**0.1**	**0.01**
Financial & insurance services	**0.8**	**0.04**	**0.8**	**0.04**
CPI: All groups	**1.1**	–	**1.3**	–
CPI: All groups % year	**3.7**	–	**3.9**	–
Trimmed Mean %qtr	**0.83**	–	**0.91**	–
Trimmed Mean %yr	**3.5**	–	**3.5**	–

Sources: ABS, Westpac Banking Corporation

Monthly Inflation Indicators



Source: ABS, Macrobond, Westpac Economics

The largest contributors to the monthly print come from transport (0.51ppt) due to a solid gain in auto fuel (0.52ppt) while both food and housing make a contribution (each 0.04ppt). For housing the gains from rents (0.02ppt) and dwellings (0.03ppt) are partially offset by falling electricity prices (–0.02ppt). Some offset is provided by recreation & culture (–0.17ppt) with the most significant contribution from holiday travel & accommodation (–0.20ppt). Also helping to mute the August gains is falling household textiles (–0.02ppt).

Key details for August

Food & non-alcoholic beverages are expected to rise 0.2%mth and 3.3%yr, largely due to solid gains for bread & cereal products (0.4%), meat & seafoods (0.5%) and food products n.e.c. (0.4%) partially offset by falling non-alcoholic beverages (–0.6%) and a soft print for meals out & take away food (0.1%) following the step up in July (0.9%).

As noted in our August Market Outlook, the impact of El Niño on commodity prices is uneven, but the key areas of exposure for Australia are in wheat and livestock. We are also monitoring the spread of bird flu closely. There remains no detections in commercial poultry to date.

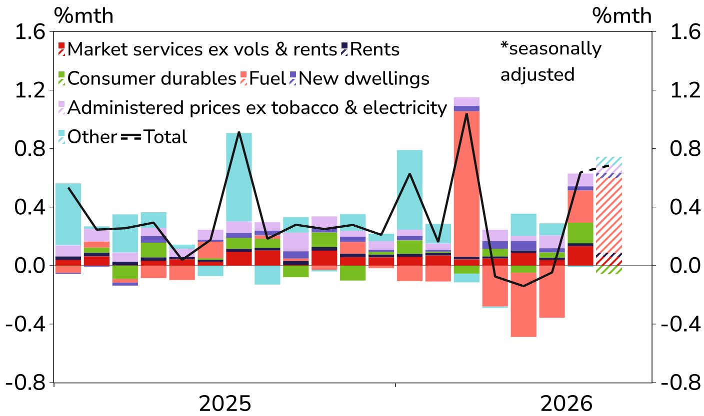
Housing is expected to rise 0.2%mth in August, taking annual pace to 5.7%yr. Component-wise:

- Rents are expected to rise 0.3%mth and 3.5%yr. We continue to expect a modest firming in CPI rents into year-end given the divergence with asking rents, although growth in asking rents appears to have peaked and is gradually easing.
- New dwelling prices – covering the cost of the building component only – are expected to rise 0.4%mth and 5.6%yr. Disinflation remains gradual as capacity constraints persist across the sector.
- In July the decline in electricity prices was less than expected at –1.6%mth (we expected –4.4%mth due to new annual market offers coming into effect). As such, we expect some residual price resetting to show through in August (–0.7%mth) but not by enough to prevent the annual pace lifting from 6.1%yr to 12.4%yr.

Transport inflation is picking up with a 4.5% lift in August taking the annual pace to 5.9%yr – it was 1.6%yr in July. The return to full fuel excise, plus the CPI indexing of that excise, occurred in August lifting auto fuel prices 16.6% in the month boosting the annual pace to 15.4%yr from –0.4%yr in July.

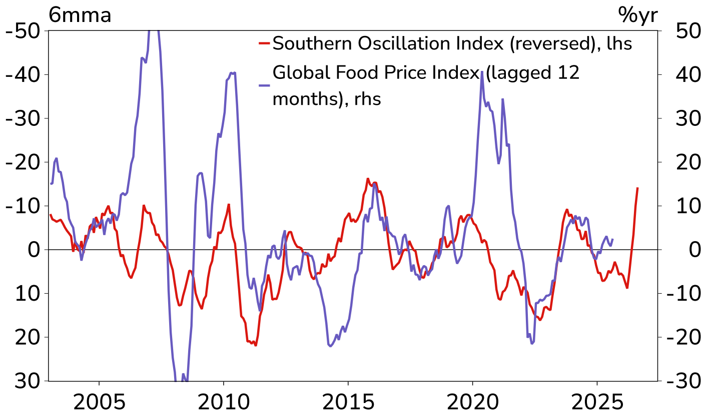
Recreation & culture is expected to fall 1.4% in August. Underscoring this is a 3.4%mth seasonal decline in holiday travel, being partly offset by a 1.2%mth rise in audio, visual & computing equipment & services.

Contribution to Monthly CPI Inflation



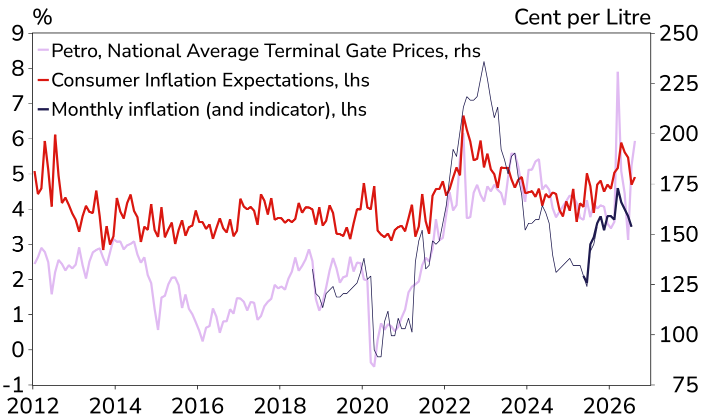
Source: ABS, Macrobond, Westpac Economics

El Niño event a growing risk to global food prices



Source: BOM, Our World in Data, FAO, NOAA, ABS, Macrobond, Westpac Economics

Consumer Inflation Expectations



Source: Melbourne Institute of Applied Economic & Social Research, AIP, ABS, Macrobond, Westpac Economics

Risks to August baseline

We view the risks around the August CPI outcome as skewed to the upside. Price resets associated with the minimum and Award wage decision should continue to flow through and may broaden beyond award-reliant sectors. In mid-August, the Fair Work Commission also approved a minimum wage for food delivery drivers that sits above the national minimum wage, which could place upward pressure on the takeaway foods component.

Cost pressures remain evident elsewhere. Trade materials suppliers continued to announce above-average price increases through August and September and while soft activity in the established housing market may constrain the extent of pass-through to new dwelling prices, these increases still present an upside risk, including for maintenance, repairs and insurance.

In addition, there has also been anecdotal evidence of fuel levies being reimposed as higher fuel costs continue to make their way through the system. The recent up-tick in silver and gold prices also presents upside risks to accessories which is still seeing double digit annual price growth.

Was July noise or signal?

July's stronger-than-expected CPI was accompanied by a broadening in inflation pressures across the basket. Interpreting this signal is not straightforward. The monthly CPI remains volatile, the ABS is still building a sufficient history to identify seasonal patterns across several components, and monthly TM estimates remain subject to revision. While these revisions have become smaller over time, the challenge remains distinguishing temporary volatility – 'noise' – from a more persistent shift in inflation dynamics – 'signal'.

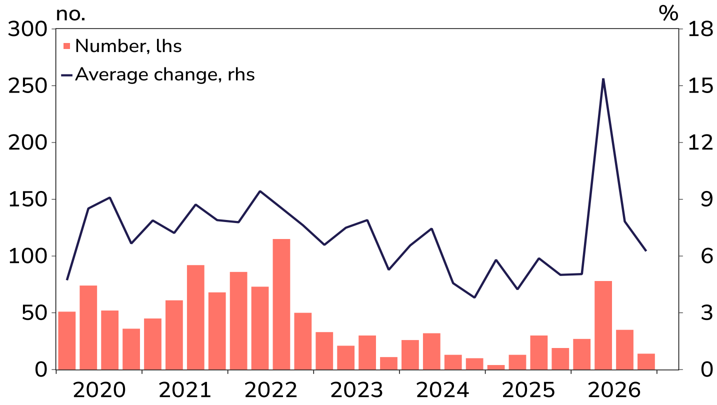
To assess whether the underlying inflation environment may be changing, we have adapted the San Francisco Fed's Inflation Shock Momentum framework to Australian monthly CPI data[1]. The approach identifies components experiencing consecutive positive or negative inflation *surprises* and aggregates these signals using expenditure weights.

In July, 14 of the 87 expenditure classes exhibited persistent positive shocks, up from 8 in June – the highest since January 2024. Food was the most exposed category, accounting for around one-third of positive shock momentum. On a 3mth moving average basis, the expenditure-weighted share of positive shock momentum increased to 11% of the basket in July from 7% in June, while the negative momentum share declined to 19% from 21%.

As a result, the net balance (positive minus negative shocks) lifted to its highest level since December 2025. The net balance appears to be a relatively good lead indicator for annual inflation in the quarterly TM, particularly at horizons of around three quarters. While we do not think the latest readings signal an imminent re-acceleration in trimmed mean inflation, they suggest the disinflationary impulse may have started to fade.

1 Backcasted to 2018 for expenditure classes that did not have sufficient history. The original authors use a 10-year rolling window for estimation, we use a 3-year rolling window.

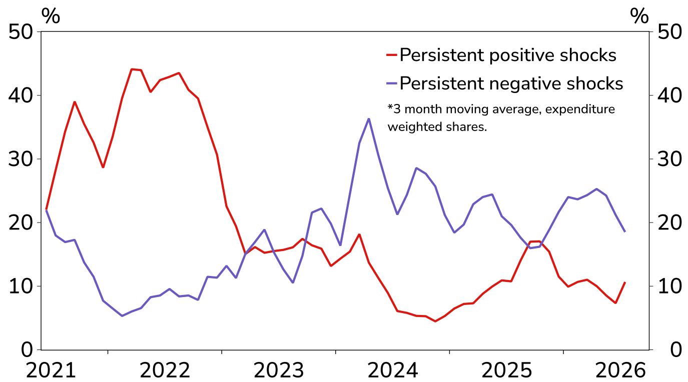
Building Product Price Notifications



Source: Reece, Tradelink, Macrobond, Westpac Economics

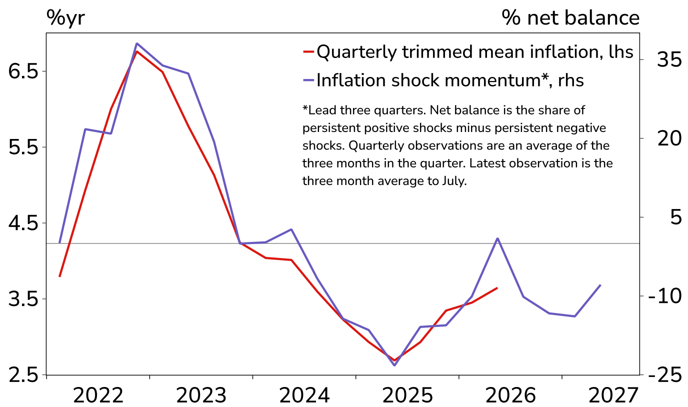
Persistence of Monthly Inflation Shocks

Share of basket experiencing persistent inflation shocks



Source: Federal Reserve Bank of San Francisco, Macrobond, Westpac Economics

Inflation Shock Momentum



Source: Federal Reserve Bank of San Francisco, Macrobond, Westpac Economics

Quarterly CPI sees more near-term pressure…

Relative to our August *Market Outlook* forecasts, we now expect slightly stronger momentum in near-term inflation. Recent data have pointed to a more resilient household sector and larger-than-expected spillovers from the data centre investment boom, both of which are expected to keep capacity pressures in the economy a little more elevated. These developments have lifted the probability of further policy tightening sufficiently for Westpac to now expect the RBA to raise the cash rate by 25bps in November (see here).

Westpac estimates headline CPI will rise 1.3%qtr in Q3, up 0.2ppts from our previous profile, leaving annual inflation steady at 3.9%yr. Q4 headline CPI has been revised down to 0.5%qtr (from 0.8%qtr previously), with annual inflation easing to 3.7%yr. In year-ended terms, the remainder of our profile through to end-2028 has been revised lower. We now see headline inflation at 2.4%yr by end-2027, reaching 2.3%yr by end-2028. All year-ended estimates are below the RBA's current published forecasts.

The seasonally adjusted CPI is estimated to increase 1.1%qtr in Q3 and 0.6%qtr in Q4 highlighting that some of the strength seen in both quarters is usual seasonality.

The upward revision to Q3 inflation is concentrated in alcohol & tobacco (1.4%qtr, +0.4ppts), housing (1.5%qtr, +0.2ppts) and transportation (2.6%qtr, +1.3ppts).

Key component revisions include rents (1.0%qtr, +0.1ppt), utilities (1.8%qtr, +1.3ppts), automotive fuel (6.2%qtr, +4.2ppts) and audio, visual & computing (4.1%qtr, +3.2ppts). On this last component, the unprecedented pipeline of global investment in data centres is driving strong demand for semiconductors and computing equipment, indirectly contributing to higher ongoing price pressures.

Partially offsetting these are downside revisions to food (0.8%qtr, –0.2ppts) owing to a 1.5ppt downgrade to fruit & vegetables. Holiday travel has also been revised 1.4ppts lower to 1.6%qtr in Q3.

…but disinflationary impulse higher from 2027

We estimate the TM will rise 0.9%qtr in Q3, up from our previous estimate of 0.8%qtr, with annual inflation easing to 3.5%yr. At two decimal places, our Q3 estimate is at 0.91%qtr, up from 0.83%qtr. We have, however, lowered our Q4 trimmed mean forecast to 0.7%qtr from 0.8%qtr previously, leaving our end-2026 forecast unchanged at 3.3%yr.

We now expect a modestly faster pace of disinflation from late-2027 onwards, with end-2027 at 2.7%yr (unchanged) and end-2028 at 2.3%yr (–0.1ppt). This is supported by a higher cash rate profile than previously through to the end of our forecast horizon, alongside rising supply capacity on the back of productivity gains from greater AI adoption and firm growth in labour supply.

A key uncertainty remains the extent to which businesses are able to pass through ongoing labour and non-labour cost pressures. There is a risk that firms face greater resistance to price increases if discretionary household spending softens by more than expected following the unwinding of the temporary fuel excise reduction (see here). In addition, some domestic demand may be displaced by international travel if holidays deferred earlier in the year due to Middle East-related disruptions are taken in the second half of 2026. That said, these headwinds may be at least partially offset by the stronger starting point for household incomes, which has proven more resilient than previously anticipated, and by higher energy prices due to the ongoing conflict in the Middle East.

Quarterly forecast inflation profile

		Sep-26	Dec-26	Mar-27	Jun-27
CPI	Index	103.6	104.1	104.8	105.4
	(%qtr)	1.3	0.5	0.7	0.6
	(%yr)	3.9	3.7	3.0	3.0
Trimmed mean	(%qtr)	0.9	0.7	0.8	0.7
	(%yr)	3.5	3.3	3.2	3.1
	(6mth ann'd)	3.5	3.3	2.9	2.9

Source: ABS, Westpac Economics.

Monthly inflation profile

		Apr–26	May–26	Jun–26	Jul-26	Aug-26(f)	Sep-26(f)	Oct-26(f)	Nov-26(f)	Dec-26(f)
CPI	Index	102.80	102.09	102.03	103.07	103.51	103.88	103.96	103.63	104.56
	(%mth)	0.4	–0.7	–0.1	1.0	0.43	0.4	0.1	–0.3	0.9
	(%yr)	4.2	4.0	3.8	3.5	4.0	3.9	4.0	3.6	3.6
Seasonally Adjusted	(%mth)	–0.1	–0.1	0.0	0.6	0.7	0.2	0.3	–0.1	0.2
	(%yr)	4.2	4.0	3.7	3.5	4.0	3.9	4.0	3.6	3.6
Trimmed mean	(%mth)	0.3	0.4	0.3	0.5	0.23	0.2	0.3	0.2	0.2
	(%yr)	3.4	3.5	3.6	3.6	3.6	3.5	3.4	3.3	3.3
	(6mth ann'd)	3.1	3.4	3.5	3.9	3.9	3.8	3.7	3.2	3.0

Source: ABS, Westpac Economics.

Breakdown Monthly CPI through Dec quarter

	Dec	Oct	Nov	Dec
	Qtr fcs	Mth fcs	Mth fcs	Mth fcs
Item	%qtr	%mth	%mth	%mth
Food	**0.3**	**0.1**	**0.3**	**0.2**
of which, bread & cereals	1.0	0.3	0.4	0.5
of which, meat & seafood	0.2	0.0	0.1	–0.3
of which, dairy prod.	0.0	–0.3	0.2	0.1
of which, fruit & vegetables	–0.5	0.5	1.0	0.2
of which, food products	1.1	0.1	0.3	0.9
of which, non–alcohol bev.	–0.7	–0.2	0.4	–0.1
Alcohol & tobacco	**0.9**	**0.3**	**0.1**	**0.2**
of which, alcohol	–0.6	–0.2	–0.3	0.0
of which, tobacco	4.0	1.2	0.9	0.7
Clothing & footwear	**–1.4**	**1.5**	**–3.0**	**–0.8**
of which, garments	–2.0	2.1	–2.3	–1.0
Housing	**0.5**	**0.1**	**0.3**	**0.2**
of which, rents	0.8	0.2	0.3	0.3
of which, house purchases	0.9	0.3	0.3	0.2
of which, electricity	0.0	0.2	0.1	0.1
of which, gas & other fuels	–1.7	–3.5	3.2	–0.1
H/hold contents & services	**–0.1**	**1.9**	**–3.5**	**0.1**
Health	**–0.5**	**0.0**	**–0.5**	**–0.4**
Transportation	**0.5**	**–0.4**	**–1.4**	**–0.1**
of which, auto fuel	1.8	–2.3	–2.7	–0.8
Communication	**–0.4**	**–0.3**	**0.4**	**–0.6**
Recreation	**2.2**	**–0.3**	**–1.0**	**6.5**
of which, holiday travel	4.1	–0.9	–2.5	13.2
Education	**0.1**	**0.0**	**0.0**	**0.1**
Financial & insurance	**0.5**	**0.1**	**0.0**	**0.4**
CPI: All groups	**0.5**	**0.1**	**–0.3**	**0.9**
CPI: Trimmed mean	**0.7**	**0.3**	**0.2**	**0.2**

Sources: ABS, Westpac Banking Corporation

Breakdown the next two quarters

	September 2026		December 2026	
Item	% qtr	contrib	% qtr	contrib
Food	**0.8**	**0.14**	**0.3**	**0.05**
of which, Fruit & vegetables	–0.7	–0.01	–0.5	–0.01
Alcohol & tobacco	**1.4**	**0.09**	**0.9**	**0.06**
of which, Tobacco	2.2	0.04	4.0	0.09
Clothing & footwear	**0.4**	**0.01**	**–1.4**	**–0.05**
Housing	**1.5**	**0.34**	**0.5**	**0.11**
of which, Rents	1.0	0.07	0.8	0.05
of which, House purchases	1.3	0.10	0.9	0.07
of which, Utilities	1.8	0.08	–0.4	–0.02
H/hold contents & services	**1.0**	**0.08**	**–0.1**	**–0.01**
Health	**–0.2**	**–0.01**	**–0.5**	**–0.03**
of which, Pharmaceuticals	–2.0	–0.02	–1.3	–0.01
Transportation	**2.6**	**0.30**	**0.5**	**0.06**
of which, Car prices	0.1	0.00	–0.8	–0.02
of which, Auto fuel	6.2	0.22	1.8	0.07
Communication	**1.3**	**0.03**	**–0.4**	**–0.01**
Recreation	**1.6**	**0.20**	**2.2**	**0.27**
of which, Audio visual & comp.	4.1	0.08	–0.5	–0.01
of which, Holiday travel	1.6	0.09	4.1	0.25
Education	**0.1**	**0.01**	**0.1**	**0.00**
Financial & insurance services	**0.8**	**0.04**	**0.5**	**0.02**
CPI: All groups	**1.3**	–	**0.5**	–
CPI: All groups % year	**3.9**	–	**3.7**	–
Trimmed Mean %qtr	**0.9**	–	**0.7**	–
Trimmed Mean %yr	**3.5**	–	**3.3**	–

Sources: ABS, Westpac Banking Corporation

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