17 November 2026

OCTOBER CPI PREVIEW

Inflationary pressure fades as we move through year-end

Key points

- October CPI to rise 0.41% with the annual pace lifting to 4.8%yr. The seasonally adjusted CPI lifts 0.7%mth, a small step up from the 0.6% increase in September.
- October Trimmed Mean (TM) is set to gain 0.42%mth lifting the annual pace to 3.7%yr from 3.6%yr.
- There is a small downside revision from our *October 19th estimate* for the December quarter CPI to 1.2%qtr while the TM remains 0.9%qtr.
- The December quarter will represent the peak in Australian inflationary pressure. Our March quarter CPI remains 0.4%qtr and the TM is unchanged at 0.7%qtr.
- We now see TM inflation dipping below 3% by Q3 2027 and be well within the RBA's target band by end 2027 at 2.7%yr.
- Demand remains the larger driver of inflation, but the recent pick-up in trimmed mean inflation appears to have been largely supply-driven.

CPI: December quarter & monthly breakdown

	Dec–27	Oct–26	Nov–26	Dec–26
	Qtr fcs	Mth fcs	Mth fcs	Mth fcs
Item	% qtr	% mth	% mth	% mth
Food	**0.4**	**0.2**	**0.2**	**0.3**
of which, bread & cereals	1.0	0.4	0.5	0.9
of which, meat & seafood	–0.2	0.3	0.2	0.2
of which, dairy & related prod.	–0.3	–0.2	0.7	1.0
of which, fruit & vegetables	–1.2	–0.9	–0.4	–0.2
of which, food products nec	1.1	0.1	0.4	1.0
of which, non–alcohol bev.	–0.3	–0.2	0.2	–0.2
Alcohol & tobacco	**1.1**	**0.6**	**0.0**	**–0.4**
of which, alcohol	–0.2	0.0	–0.2	–0.6
of which, tobacco	3.9	1.9	0.3	0.1
Clothing & footwear	**–2.1**	**1.8**	**–2.8**	**0.0**
of which, garments	–1.6	2.0	–2.3	0.1
Housing	**0.4**	**0.1**	**0.3**	**0.2**
of which, rents	0.7	0.2	0.3	0.3
of which, house purchases	0.4	0.2	0.2	0.2
of which, electricity	–0.3	0.1	0.1	0.2
of which, gas & other fuels	–0.4	–2.5	3.4	–0.2
H/hold contents & services	**–0.1**	**0.6**	**–0.5**	**–0.3**
Health	**0.0**	**0.3**	**–0.2**	**–0.4**
Transportation	**5.3**	**2.9**	**–0.9**	**–1.7**
of which, auto fuel	16.1	8.2	–2.1	–5.1
Communication	**0.3**	**0.4**	**0.2**	**–0.3**
Recreation	**2.9**	**–1.5**	**–0.1**	**6.4**
of which, holiday travel	5.2	–3.0	–0.9	13.1
Education	**0.1**	**0.1**	**0.0**	**0.0**
Financial & insurance services	**1.0**	**0.2**	**0.1**	**0.6**
CPI: All groups	**1.2**	**0.4**	**–0.1**	**0.7**
CPI: Trimmed mean	**0.9**	**0.4**	**0.2**	**0.2**

Sources: ABS, Westpac Banking Corporation

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October to mark the peak in inflation

Justin Smirk, Senior Economist
Neha Sharma, Economist

Inflation accelerated in September...

The CPI rose 0.8% in the month of September, stronger than Westpac's 0.6% estimate and the market's expectation of 0.7%. The annual pace picked up from 4.0%yr to 4.3%yr. The seasonally adjusted CPI rose 0.6% in September highlighting some positive seasonality in the month.

Key factors driving the headline monthly result were: auto fuels (9.4%mth); domestic holiday travel & accommodation (8.0%mth); international holiday travel & accommodation (7.2%mth); and property rates & charges (5.5%mth). There were modest offsets from: women's garments (–3.1%mth); household textiles (–6.6%mth); and accessories (–4.1%mth).

The more important underlying measure, the Trimmed Mean (TM), gained 0.3% in September, spot on both Westpac and market expectations with the annual pace lifting from 3.5%yr (revised from 3.6%yr) to 3.6%yr. The six-month annualised pace is now 4.0%yr the fastest in the short history of this series.

Overall, the breadth of inflation moderated for a second consecutive month. The share of the basket running above 3%yr fell from 40% to 35%, while the share below 2%yr rose from 27% to 32%. Meanwhile, our replication of the San Francisco Fed's inflation shock momentum index moved into positive territory after trending higher since April. Around 14% of the CPI basket, on an expenditure-weighted basis, experienced positive inflation shocks in September, driven by holiday travel, fuel, and clothing & footwear. This was partly offset by negative shocks across 7% of the basket, concentrated in food & non-alcoholic beverages. For full analysis of the September CPI, see "*Inflation accelerating in the run up to Christmas*".

... but is set to peak in October.

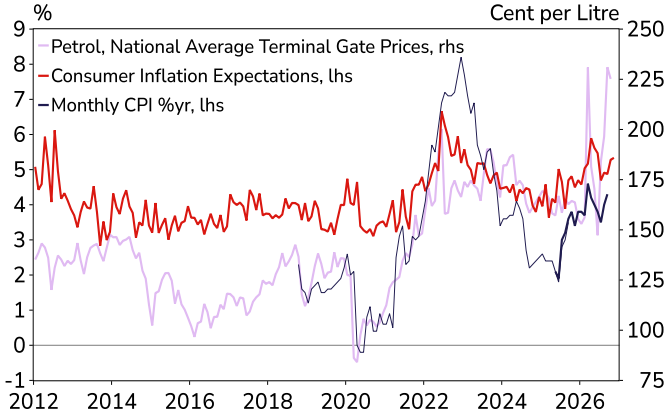
Looking ahead to October, early indicators were mixed. The NAB business survey suggested firms continued to absorb a meaningful share of higher input costs, with purchase cost growth edging up to 2.4%qtr (+0.1ppt from September), while retail price growth slowed sharply to 0.2%qtr (–0.8ppts), partly reflecting some moderation in labour cost growth (see here). Meanwhile, consumers' year-ahead inflation expectations rose to 5.3% in October, with this rate holding steady in November. Fuel prices provided a more pronounced source of inflationary pressure, with retail petrol and diesel prices jumping 8.7% and 5.3%, respectively, in October to average $2.40/l and $2.82/l as global oil prices approached a local peak.

Revisions to the December quarter CPI estimate

	15-Oct-26		13-Nov-26	
Item	% qtr	contrib	% qtr	contrib
Food	**0.5**	**0.09**	**0.4**	**0.06**
of which, Fruit & vegetables	–0.8	–0.01	–1.2	–0.02
Alcohol & tobacco	**1.2**	**0.08**	**1.1**	**0.07**
of which, Tobacco	4.8	0.10	3.9	0.08
Clothing & footwear	**–0.9**	**–0.03**	**–2.1**	**–0.07**
Housing	**0.6**	**0.14**	**0.4**	**0.09**
of which, Rents	0.8	0.05	0.7	0.05
of which, House purchases	0.6	0.05	0.4	0.03
of which, Utilities	0.3	0.01	–0.3	–0.01
H/hold contents & services	**0.2**	**0.02**	**–0.1**	**–0.01**
Health	**–0.1**	**–0.01**	**0.0**	**0.00**
of which, Pharmaceuticals	–1.2	–0.01	–1.1	–0.01
Transportation	**4.7**	**0.61**	**5.3**	**0.63**
of which, Car prices	–0.7	–0.02	0.0	0.00
of which, Auto fuel	15.3	0.67	16.1	0.65
Communication	**0.3**	**0.01**	**0.3**	**0.01**
Recreation	**3.1**	**0.39**	**2.9**	**0.36**
of which, Audio visual & comp.	0.0	0.00	0.0	0.00
of which, Holiday travel	5.6	0.34	5.2	0.32
Education	**0.0**	**0.00**	**0.1**	**0.00**
Financial & insurance services	**0.9**	**0.05**	**1.0**	**0.06**
CPI: All groups	**1.26**	**–**	**1.21**	**–**
CPI: All groups % year	**4.6**	**–**	**4.6**	**–**
Trimmed Mean %qtr	**0.90**	**–**	**0.85**	**–**
Trimmed Mean %yr	**3.5**	**–**	**3.6**	**–**

Sources: ABS, Westpac Banking Corporation

Consumer inflation expectations



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

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We expect the October CPI to rise 0.4% (0.41% to 2dp), lifting annual inflation to 4.8%, which we expect to mark the peak. On a seasonally adjusted basis, we estimate a stronger 0.7% increase (0.68% to 2dp). For the monthly trimmed mean, we expect a 0.4% rise (0.42% to 2dp), nudging the annual pace up to 3.7%. On a 3m/3m basis, the TM is tracking a 1.0% increase in October. While conceptually different from the quarterly trimmed mean, this measure nonetheless provides a useful guide to near-term underlying inflation momentum. For market services excluding volatiles & holiday travel, we have pencilled in a 0.3% rise, lifting annual inflation to 4.0% from 3.8%, which had marked a ten-month low.

Transport is expected to make the largest contribution (+0.35ppts), almost entirely reflecting auto fuel (+0.32ppts). Smaller contributions are expected from clothing & footwear (+0.06ppts), household goods & services (+0.05ppts), and meals out & takeaway (+0.04ppts). The main offset comes from recreation & culture (–0.18ppts), driven entirely by holiday travel (–0.18ppts), while fruit & vegetables, utilities and several other components provide only marginal offsets.

Key details for the month of October

Food & non-alcoholic beverages are expected to rise 0.2% in October, lifting annual inflation to 3.3%. Strength in the month is concentrated in meals out & takeaway, where we expect prices to rise 0.6%mth and 4.3%yr. We have allowed for a greater-than-usual degree of price resetting as businesses adjust to the card surcharging ban.

Housing inflation is expected to rise 0.1% in October, with the annual pace increasing to 6.2% reflecting base effects from electricity. Across the major components:

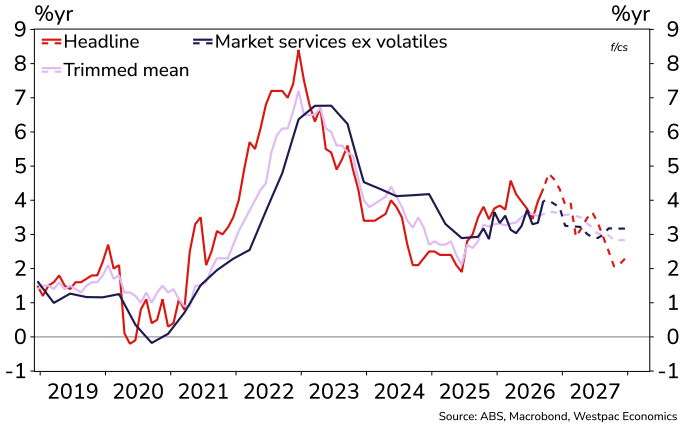
- Rents are expected to rise 0.2%mth and 3.5%yr, with the late-September indexation of the Commonwealth Rent Assistance flowing through more broadly in October. Our seasonally adjusted estimate is stronger at 0.4%mth.

- New dwelling inflation has been a key source of downside surprise in recent months. We expect a 0.2%mth rise in October, which would see the annual pace moderate to 4.5%. The downturn in established home prices has deepened into year-end (see here), which should weigh on new dwelling inflation over the months ahead. Our current estimates point to a trough of around 1.3%yr by late-2027.

- Maintenance & repair costs are expected rise a solid 0.9%mth, taking annual inflation to 3.5%, while gas & other household fuels provide the main offset, falling 2.5%mth.

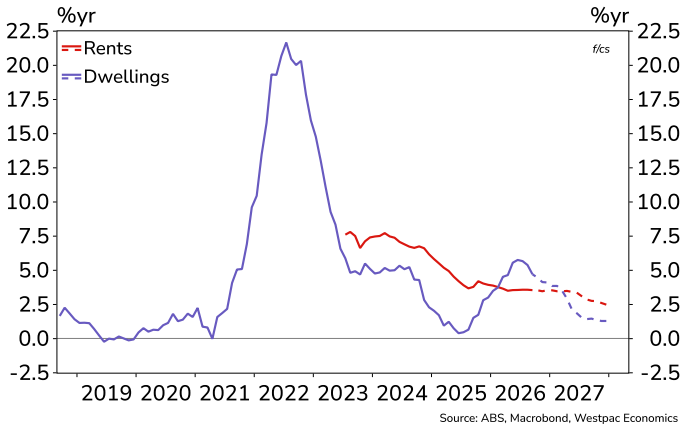
Transport is expected to be the main source of upward pressure in October, rising 2.9%mth and lifting to 11.6%yr. This largely reflects an 8.2%mth jump in auto fuel prices following the rise in global oil prices through the month. Motor vehicle prices and spare parts are also expected to increase, by 0.4%mth and 1.6%mth respectively.

Monthly inflation indicators



Source: ABS, Macrobond, Westpac Economics

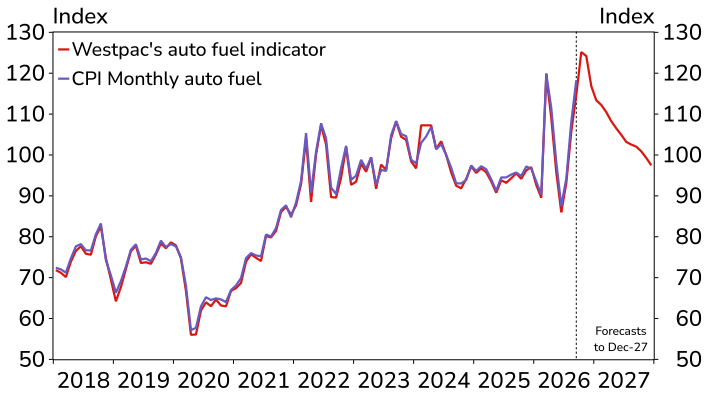
Housing inflation – rents and dwellings



Source: ABS, Macrobond, Westpac Economics

Auto fuel prices

Pump Price Average for Unleaded and Diesel



Source: ABS, Macrobond, Macrobond, Westpac Economics

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Recreation & culture is expected to provide the key offset, falling 1.5%mth, driven by a 3.0%mth decline in holiday travel. We also expect some pull-back across components exposed to the AI trade, including audio, visual & computing equipment (–0.2%mth) and games, toys & hobbies (–0.3%mth).

Underlying inflation holds momentum

As noted above, our October TM estimate is also 0.4%mth, a step up from 0.3% in September taking the annual pace to 3.7%yr from 3.6%yr and lifting the six month annualised pace to 4.2%yr, from 4.0%yr, the fastest pace in the short history of the series. Rents and dwellings continue to underpin the TM estimates.

Upside risks to October baseline ...

We view the risks around the October CPI outcome as slightly tilted to the upside. Our estimates already allow for a greater degree of price resetting in areas such as meals out & takeaway and personal and household services, but there is a risk that this adjustment proves broader than we have assumed. Increases in fuel levy surcharges in early October are another source of upside risk, including increases by Woolworths and Australia Post, with the latter nearly doubling its surcharge between September and October. The key downside risk remains housing, particularly new dwelling prices, which have surprised to the downside in recent months and could continue to do so as the housing market downturn deepens. Trade notifications data also point to some further downside risk, with builders on average announcing smaller price changes than in prior months.

... but momentum to ease in November ...

We have a preliminary estimate for the November CPI of –0.1%mth which will see the annual pace ease back to 4.6%yr. Auto fuel moved lower through November to be down –2.1% in the month with seasonal falls in garments, health, furniture & household appliances and holiday travel offsetting some strength in food, housing, communication and financial services.

Seasonally adjusted the CPI is estimated to lift 0.1% in November, highlighting the seasonal weakness in the month, while our TM estimate is for a 0.2% lift seeing the annual pace ease a touch to 3.6%yr while the six month annualised pace drops from 4.2%yr to 3.9%yr. This moderation is expected to continue into December with a preliminary TM estimate of 0.2%mth/3.6%yr.

The following page has a table with monthly profiles for the CPI, seasonally adjusted CPI and the TM out to July 2027. By July 2027 we now expect an annual pace of 3.3%yr for the CPI and seasonally adjusted CPI while our estimate for the TM is 3.0%yr. More significantly, the six month annualised pace of the TM is estimated to be down to 2.7%yr by June 2027, well within the RBA's target band. We have also included tables breaking down the monthly components of the CPI through the December and March quarters.

... with December quarter now the peak ...

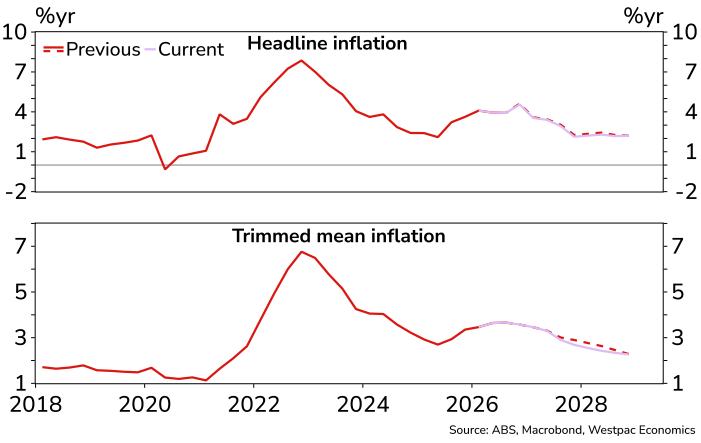
Our December quarter CPI estimate has been revised down slightly to 1.2%qtr, a modest 0.05ppt revision, with the annual pace lifting from 3.9%yr to 4.6%yr. The seasonally adjusted

Breakdown Monthly CPI through Mar quarter

	Mar–27	Jan	Feb	Mar
	Qtr fcs	Mth fcs	Mth fcs	Mth fcs
Item	%qtr	%mth	%mth	%mth
Food	**0.4**	**0.2**	**0.2**	**0.3**
of which, bread & cereals	1.0	0.4	0.5	0.9
of which, meat & seafood	–0.2	0.3	0.2	0.2
of which, dairy prod.	–0.3	–0.2	0.7	1.0
of which, fruit & vegetables	–1.2	–0.9	–0.4	–0.2
of which, food products	1.1	0.1	0.4	1.0
of which, non–alcohol bev.	–0.3	–0.2	0.2	–0.2
Alcohol & tobacco	**1.1**	**0.6**	**0.0**	**–0.4**
of which, alcohol	–0.2	0.0	–0.2	–0.6
of which, tobacco	3.9	1.9	0.3	0.1
Clothing & footwear	**–2.1**	**1.8**	**–2.8**	**0.0**
of which, garments	–1.6	2.0	–2.3	0.1
Housing	**0.4**	**0.1**	**0.3**	**0.2**
of which, rents	0.7	0.2	0.3	0.3
of which, house purchases	0.4	0.2	0.2	0.2
of which, electricity	–0.3	0.1	0.1	0.2
of which, gas & other fuels	–0.4	–2.5	3.4	–0.2
H/hold contents & services	**–0.1**	**0.6**	**–0.5**	**–0.3**
Health	**0.0**	**0.3**	**–0.2**	**–0.4**
Transportation	**5.8**	**2.9**	**0.0**	**–1.9**
of which, auto fuel	17.8	8.2	0.4	–5.5
Communication	**0.3**	**0.4**	**0.2**	**–0.3**
Recreation	**2.9**	**–1.5**	**–0.1**	**6.4**
of which, holiday travel	5.2	–3.0	–0.9	13.1
Education	**0.1**	**0.1**	**0.0**	**0.0**
Financial & insurance	**1.0**	**0.2**	**0.1**	**0.6**
CPI: All groups	**0.4**	**–0.1**	**0.0**	**0.1**
CPI: Trimmed mean	**0.7**	**0.2**	**0.2**	**0.2**

Sources: ABS, Westpac Banking Corporation

Quarterly forecast revisions



Source: ABS, Macrobond, Westpac Economics

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CPI gains 1.4% in the December quarter highlighting normally December is a seasonally soft quarter. Our TM estimate for Q3 has a small downward revision of 0.05ppt to 0.85% at two decimal place but this rounds up to our published estimate of 0.9%qtr. **For now that suggests downside risk for our TM estimate as getting the quarter to round to 0.8% is much easier than getting it to round up to 1.0%**. We also note auto fuel prices falling faster than expected which may not only result in downside risks to out CPI estimate but also our TM estimate due to less pass through pressure.

… with inflation moderating through 2027 …

Westpac's preliminary March quarter CPI estimate is just 0.4%. Driving most of this outcome is the 7.7% decline in autofuel (–0.29ppt) and a 3.8% fall in holiday travel (–0.23ppt) being offset by rising food (1.0%, 0.18ppt), housing (0.7%, 0.15ppt), health (2.6%, 0.18ppt) and education (3.5%, 0.17ppt). The March quarter does not have a lot in the way of net seasonally with the seasonally adjusted estimate up 0.5%. Our underlying TM measure of inflation is estimated to rise 0.7% in the March quarter taking the annual pace down to 3.5% while the six month annualised pace dips from 3.8%yr to 3.2%yr.

… as a disinflationary impulse kicks in.

We have for some time expected auto fuel prices to peak in October, 240 cpl for petrol and 282 cpl for diesel, then to trend lower from there. Our November estimates are currently sitting on 237 cpl and 279 cpl respectively trending down to 186 cpl for petrol and 196 cpl for diesel by December 2027. This represents a 12.7% fall in auto fuel through the first half of 2027 subtracting 0.42ppt off the CPI over the same period of time. For a detailed description on how we constructed the auto fuels profile please see: "*Persistent energy pressures have further to run*". At this stage we have not adjusted our Brent forecast in line with the current correction underway (see the *November Market Outlook* for more details why) as we expect this to be a volatile ride. Should the current correction continue, auto fuel will represent a larger drag on the CPI and potentially the Trimmed Mean.

Critical to our expected moderation in core inflation is a step down in dwelling price inflation on the back of falling established home prices. From a 1.0%qtr increase in Q3 2026 we see dwelling price increasing by 0.4% in Q4 2026, and then 0.5% in Q1 and 0.4%qtr in Q2 before dropping to 0.2%qtr in Q3 and Q4. This will see dwelling price inflation in the CPI drop from 5.4%yr at June 2026 to 2.3%yr by June 2027 then down to 1.3%yr by December 2027.

At least to the end of this year there is still a high degree of uncertainty about how much businesses will be able to pass through upstream cost pressures. The latest NAB business survey continues to highlight robust input price pressure but also that firms are struggling to pass on those increases.

For businesses, it is almost a now or never opportunity to raise prices. We expect that through 2027, as energy prices ease and the domestic economy slows under the weight of higher interest rates and falling established home prices, households will be much more resistant to price increases especially if discretionary household spending softens by more than expected. 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 a possible bounce back in energy prices due to renewed conflict in the Middle East.

Supply or demand driven inflation?

Inflation has steadily drifted away from the RBA's target over recent quarters. While the demand side is the larger driver of inflation currently, most of the recent *pick-up* in TM inflation appears to be from the supply side, and the more detailed breakdown may understate how much.

There are several ways to split inflation into supply and demand. One is to estimate how much of the rise a standard demand-driven model can explain and attribute the rest to supply (see here). Run through to Q3 2026, this approach puts most of the recent *pick-up* in TM inflation down to supply. Without it, trimmed mean would have risen from around 3.0%yr to 3.2%yr over the year to Q3 2026, rather than the 2.9%yr to 3.7%yr

Quarterly forecast inflation profile

		Dec-26	Mar-27	Jun-27	Sep-27
CPI	Index	104.9	105.3	105.8	106.7
	(%qtr)	1.2	0.4	0.5	0.8
	(%yr)	4.6	3.5	3.4	2.9
Trimmed mean	(%qtr)	0.9	0.7	0.7	0.6
	(%yr)	3.6	3.5	3.3	2.9
	(6mth ann'd)	3.8	3.2	2.8	2.6

Source: ABS, Westpac Economics.

Monthly inflation profile

		Oct–26 (f)	Nov–26 (f)	Dec–26 (f)	Jan–27 (f)	Feb–27 (f)	Mar–27 (f)	Apr–27 (f)	May–27 (f)	Jun–27 (f)	Jul–27 (f)
CPI	Index	104.77	104.62	105.34	105.26	105.29	105.44	106.07	105.63	105.75	106.52
	(%mth)	0.41	–0.1	0.7	–0.1	0.0	0.1	0.6	–0.4	0.1	0.7
	(%yr)	4.8	4.6	4.3	3.9	3.9	2.9	3.2	3.5	3.6	3.3
Seasonally Adjusted	(%mth)	0.7	0.1	0.0	0.2	0.2	0.1	0.2	0.1	0.1	0.4
	(%yr)	4.8	4.6	4.3	3.9	3.9	2.9	3.2	3.5	3.6	3.3
Trimmed mean	(%mth)	0.42	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.3
	(%yr)	3.7	3.6	3.6	3.6	3.6	3.5	3.5	3.3	3.2	3.0
	(6mth ann'd)	4.2	3.9	3.7	3.3	3.3	3.1	2.8	2.8	2.7	2.7

Source: ABS, Westpac Economics.

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rise we actually saw. The supply contribution is moderate, though, and well below its Covid-era peak. This analysis also reveals that most of the disinflation through late-2023 and into early-2025 reflected supply pressures unwinding, while demand-driven inflation remained stickier, persisting above 3%yr.

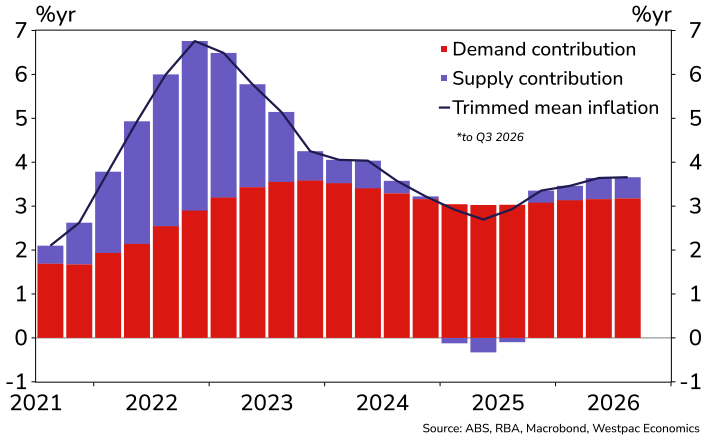
Another is the San Francisco Fed approach, which the RBA has also replicated (see here). The attribution is that if prices rise and quantities fall, it is supply; if both rise, it is demand. We run it to Q2 2026, as Q3 volume data are not yet available. Like the first approach, it finds that demand accounts for most of inflation (headline in this case). However, unlike the first approach, it shows supply contributions easing a little.

A closer look at the categories classified as demand tells a more nuanced story. Utilities, health and insurance all feature, and their prices are largely shaped by government policy or are not the categories that usually come to mind when people talk about demand-driven inflation, and they are not very sensitive to interest rates. You can look at electricity as a clear example where prices in recent history have been set by government policies (the introduction of, and then removal of, cost of living rebates as well as policies to decarbonise the economy) or external supply shock (rising gas prices pushing up the marginal cost of generation).

Categories more commonly thought of discretionary do show up on the demand side, with recreation & culture (excluding travel) and meals out & takeaway being the key ones. The drawback of this sort of decomposition is that it labels categories where prices and quantities move together as demand, even when this may reflect the ripple effects of a supply shock elsewhere, a point our Chief Economist Luci Ellis detailed in a note in 2024 (see *In a world gone bananas, don't squash the other fruit*). Some of this may be occurring now. In particular, the analysis is likely not capturing the shift in spending towards these categories resulting from travel disruptions associated with the Middle East conflict (travel services itself was classified as a supply-side contributor in Q2). As travel normalises, some of the "demand" contribution from recreation & culture and meals out & takeaway should therefore fade over coming quarters.

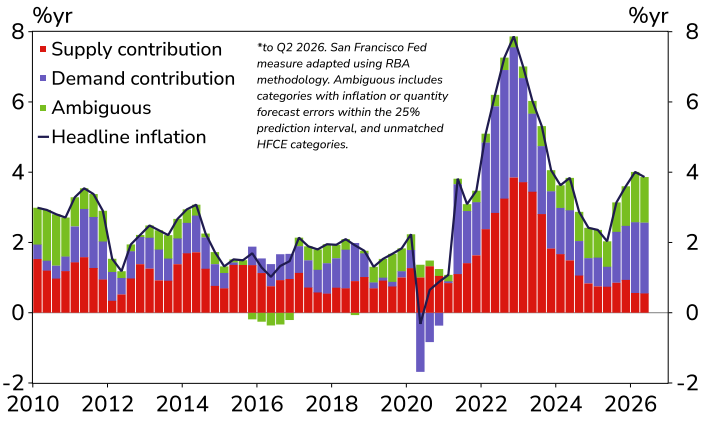
We would also acknowledge the work of Tim Toohey and his analysis "*The RBA has an identity problem*".

Inflation decomposition: Phillips curve*



Source: ABS, RBA, Macrobond, Westpac Economics

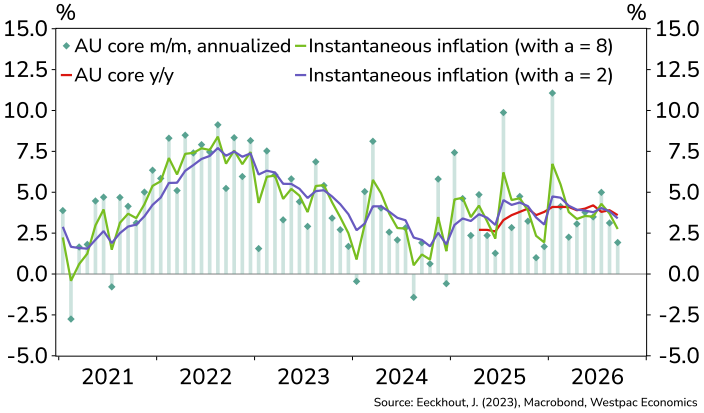
Inflation decomposition: headline inflation*



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

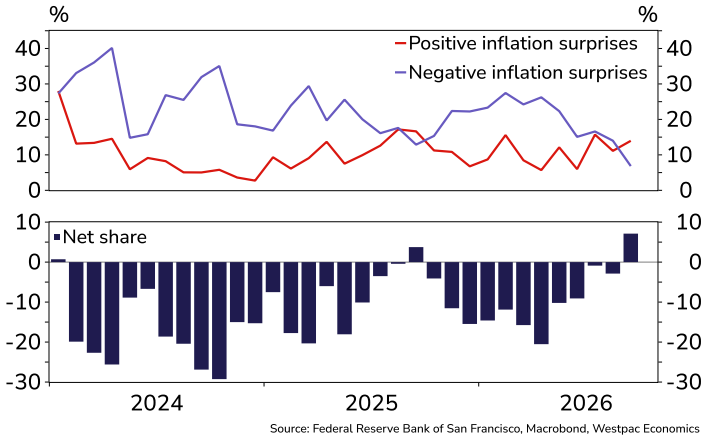
Conventional and instantaneous (s.a.)

Merged new CPI and old indicator



Source: Eeckhout, J. (2023), Macrobond, Westpac Economics

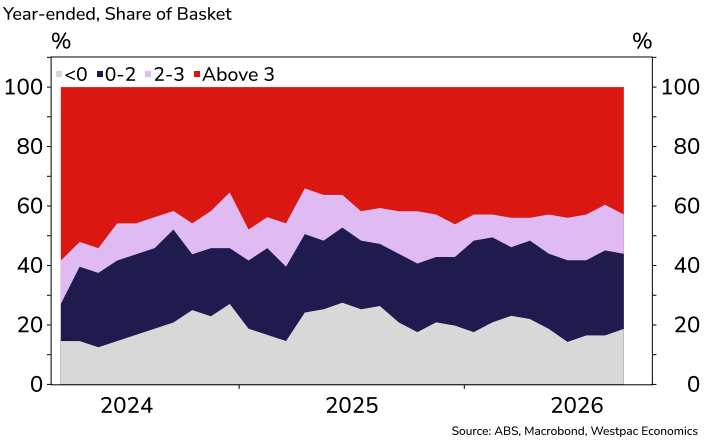
Inflation shock momentum



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

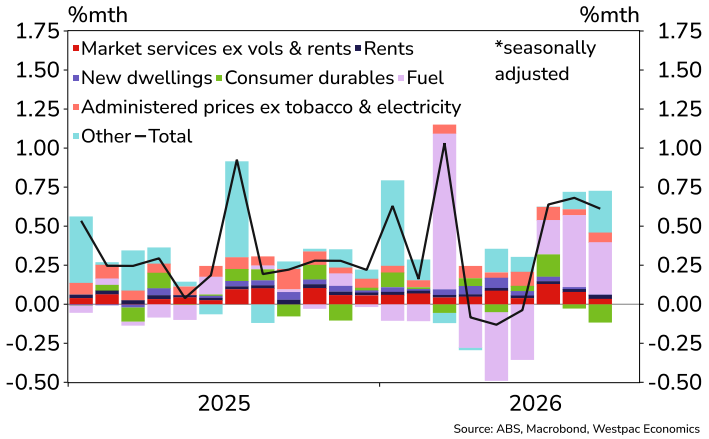
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Breadth of inflation



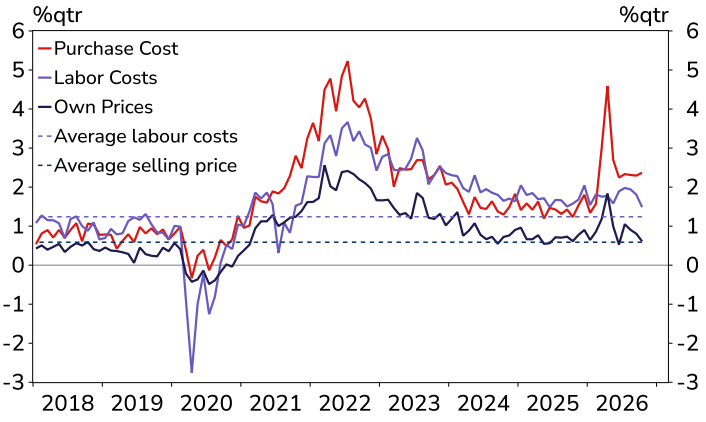
Source: ABS, Macrobond, Westpac Economics

Contribution to monthly CPI inflation



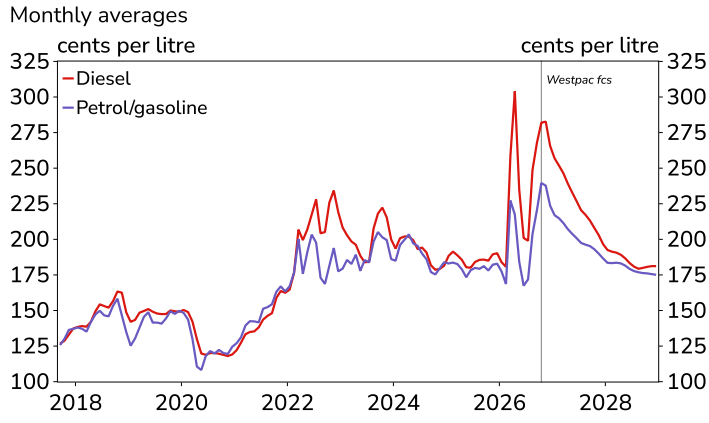
Source: ABS, Macrobond, Westpac Economics

Costs and prices, NAB Business Survey



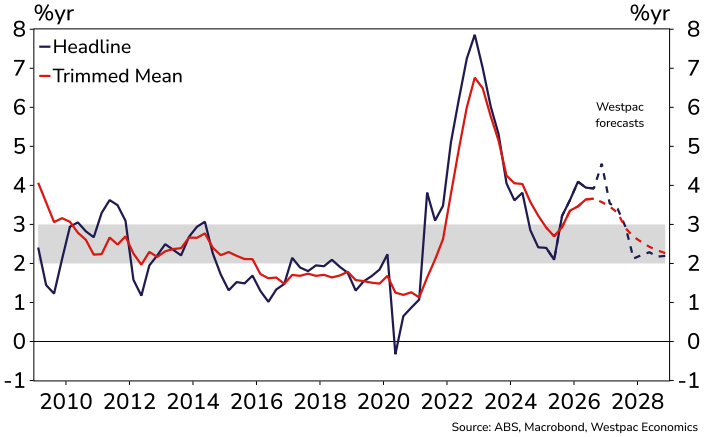
Source: NAB, ABS, Macrobond, Westpac Economics

Australian pump prices for auto fuel



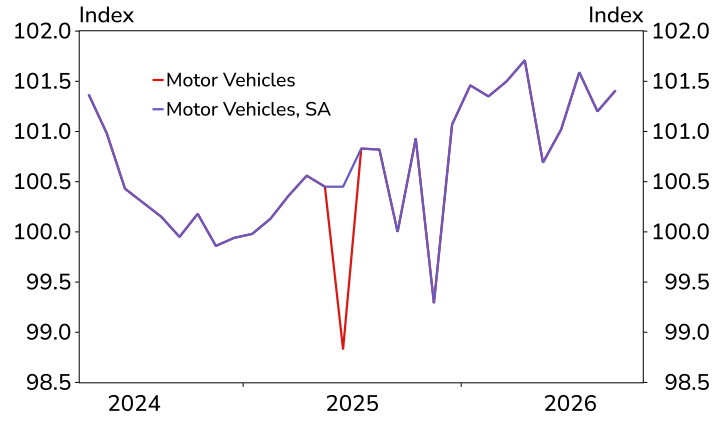
Source: , Macrobond, Westpac Economics

Underlying inflation to lower half of target band



Source: ABS, Macrobond, Westpac Economics

Private Motoring - Motor Vehicles



Source: ABS, Macrobond, Westpac Economics

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