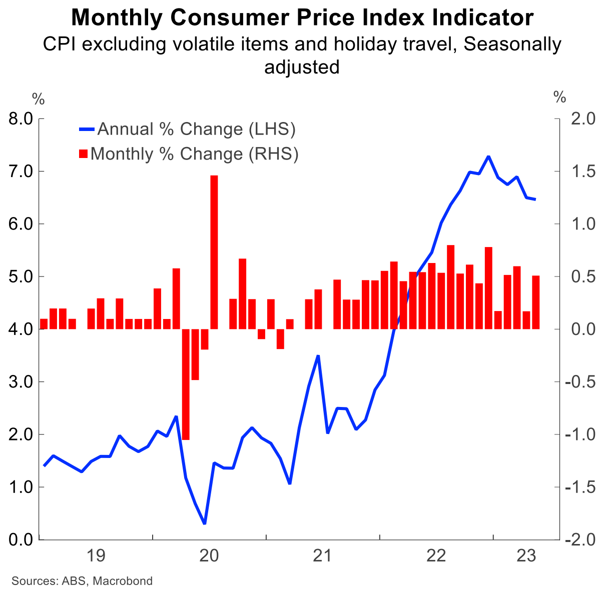
Data Snapshot

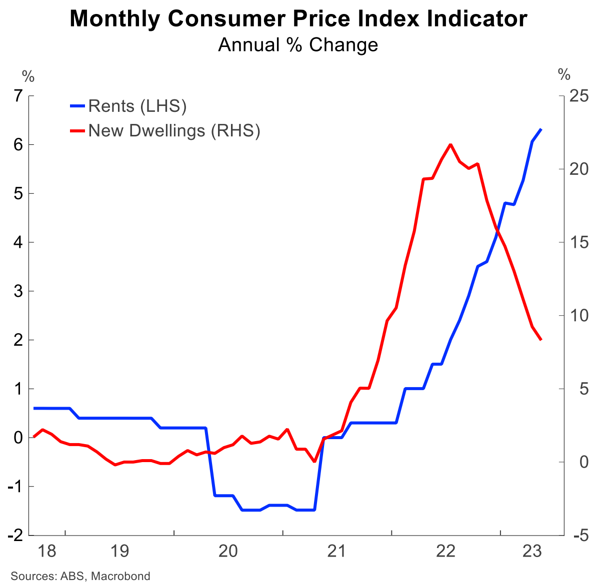
Wednesday, 28 June 2023

CPI Monthly Indicator

Moderation Unlikely To Dissuade The RBA

- **The monthly consumer price index (CPI) indicator rose 5.6% over the year to May, down sharply from the 6.8% recorded in April. This was the slowest annual growth rate since April 2022. Part of the moderation was payback from last month when the halving of the fuel excise back in 2022 led to a jump in the annual CPI indicator.**
- **When adjusting for volatile items and holiday travel, the seasonally adjusted indicator shows a 6.4% increase in annual terms, down from the 6.5% recorded in April. This seasonally adjusted series rose by 0.5% over the month of May, a step up from the 0.2% recorded in April. It confirms that a substantial part of the moderation in headline inflation was driven by volatile items including fuel (-8.0% in annual terms) and holiday travel (+7.3% in annual terms, a moderation from the +11.9% recorded last month).**
- **In an underlying sense, both housing (+8.4%) and food and non-alcoholic beverages (+7.9%) continue to be the largest contributors to inflation. Many of the services prices that drove inflation over the March quarter (medical and hospital services, education, financial services) were not updated for May. The price of insurance was updated and increased by a record 14.2%, reflecting higher premiums for house, home contents, and motor vehicle insurance.**
- **We continue to expect the RBA will hike by another 25 basis points next week. While the headline read showed inflation is moderating, pressures from the tight labour market and elevated past inflation, coupled with increased spending by governments in 2023-24, risk inflationary pressures becoming embedded. The Bank for International Settlements warned over the weekend that "the last mile (in the disinflationary process) could prove harder to travel".**



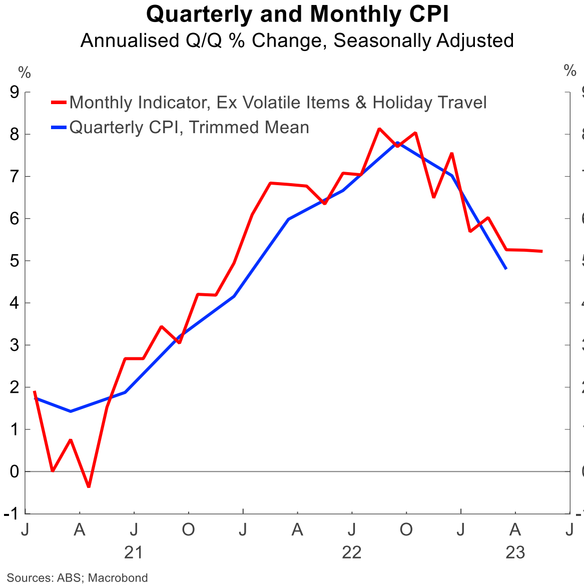


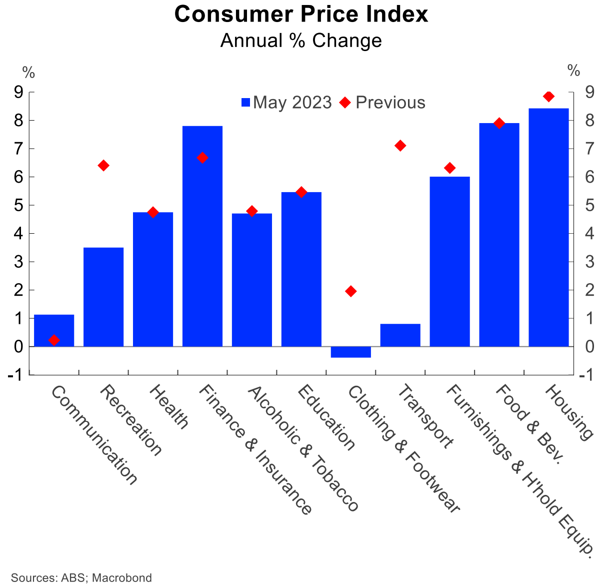
Reserve Bank Forecasts

The Reserve Bank (RBA) is forecasting the consumer price index to be at 6.3% over the year to the June quarter 2023 and underlying inflation of be at 6.0% in annual terms.

Today's outcomes are broadly consistent with the RBA's forecasts.

- The monthly consumer price index (CPI) indicator rose 5.6% over the year to May, down sharply from the 6.8% recorded in April.
- The annual trimmed measure, which dampens the impact of bigger price movements, declined to 6.1% in May, from the 6.7% recorded April.
- When adjusting for volatile items and holiday travel, the seasonally adjusted indicator shows a 6.4% increase in annual terms, down from the 6.5% recorded in April.





Housing Inflation

While housing inflation continues to ease from the peak recorded late last year, the composition is shifting with rents accelerating to 6.3% in annual terms, the strongest pace going back to 2017 (start of the monthly indicator).

As the double-digit growth in advertised rents are passed through to the stock of rental properties, we expect CPI rents to accelerate further.

The increasing cost of new dwelling construction continues to moderate.

Services inflation

Today's results make it particularly tricky to get an underlying read given the large impact of policy, seasonality in the data and that many of the services prices that drove inflation over the March quarter (medical and hospital services, education, financial services) were not updated for May – they are either updated quarterly or once a year.

The June quarter inflation report will therefore provide a clearer underlying read.

Pat Bustamante, Senior Economist
Ph: +61 468 571 786

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist
Jarek Kowcza
Jarek.kowcza@stgeorge.com.au
0481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
0468 571 786

Economist
Jameson Coombs
jameson.coombs@stgeorge.com.au
0401 102 789