



Economics | April 27, 2021

Underlying inflation at a 13-year high Consumer Price Index

- The main measure of inflation in Australia – the Consumer Price Index (CPI) – rose by 2.1 per cent in the March quarter (consensus: +1.7 per cent). The annual rate of the CPI rose from 3.5 per cent to a 21-year high of 5.1 per cent. It was the largest lift in headline CPI since the introduction of goods and services tax (GST).
- The most significant price rises in the March quarter were for New dwelling purchase by owner-occupiers (+5.7 per cent) and Automotive fuel (+11 per cent).
- The ‘underlying’ or trimmed mean CPI rose by 1.4 per cent in the quarter (consensus: +1.2 per cent) with the annual growth rate lifting from 2.6 per cent to a 13-year high of 3.7 per cent (consensus: 3.4 per cent) – exceeding the ceiling of the Reserve Bank’s 2–3 per cent target range.

	Quarterly %		Year-ended %	
	Mar Qtr 22	Dec Qtr 21	Mar Qtr 22	Dec Qtr 21
CPI - unadjusted	2.1	1.3	5.1	3.5
CPI - seasonally adjusted	2.0	1.3	5.2	3.6
- Tradables	2.8	1.4	6.8	4.9
- Tradables excl volatile items (a)	na	1.3	na	2.2
- Non-Tradables	1.8	1.2	4.2	2.8
<i>Selected underlying measures</i>				
Trimmed mean	1.4	1.0	3.7	2.6
Weighted median	1.0	0.9	3.2	2.5
CPI excluding volatile items (a)	1.7	1.2	4.0	2.6

(a) Volatile items are fruit, vegetables and automotive fuel
Source: ABS, RBA, CommSec

What does it all mean?

- Today's data surprised on the upside - with much higher-than-expected readings of inflation. The cost of living in Australia has lifted in line with trends in other major economies in response to largely global factors. What would have surprised is that the inflation rate hadn't lifted in Australia at a time of even bigger inflation results overseas.
- When the latest inflation data is released, for many the key question is what the latest figures mean for interest rate settings. And that makes sense. The Reserve Bank (RBA) aims to keep inflation between 2-3 per cent over an economic cycle. Deviations from the target band can have implications for official rates.
- Before the release of today's March quarter figures, the Reserve Bank had expected annual underlying inflation to reach 3¼ per cent by June quarter 2022 before trending at 2¾ per cent from December quarter 2022 through to June quarter 2024.

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- It's possible that underlying inflation will hit the RBAs June quarter forecast given the cut in the fuel excise. But clearly, underlying inflation now well exceeds the top of the 2-3 per cent target range. The Reserve Bank will update its economic forecasts on May 6.
- The economy is thriving, business confidence soaring, the jobless rate sitting at the lowest levels since the mid-1970s and underlying inflation above the top of the target range. The super-stimulatory interest rate settings - put in place to support Aussie households and businesses at the height of the pandemic - have out-lived their usefulness.
- While the Reserve Bank could increase rates next week (May 3), Commonwealth Bank (CBA) Group economists still think that the Board is more likely to wait for confirmation that wages have started to lift towards the goal rate of 3 per cent. The other complication being the timing of the federal election on May 21. The Wage Price Index is released on May 18. Also, the National Accounts are released on June 1, containing the latest economic growth figures and other wage measures. So we expect that the Reserve Bank to be positioned to lift rates at the Board meeting on June 7.
- In our view, the first rate hike may just be 15 basis points (0.15 per cent), taking the cash rate to 25 basis points or 0.25 per cent. There is the risk of an even larger 40 basis point rate hike, dependent on the latest wage data. Rates are expected to be gradually lifted to 1.25 per cent by March quarter 2023.
- As mentioned above, the Reserve Bank wants to have confidence that underlying inflation has sustainably returned to the 2-3 per cent target range before commencing its first rate tightening cycle in over a decade. In addition, the RBA wants wage growth to be travelling near 3 per cent or above and for the economy to be sitting at full employment (broadly, a jobless rate of 3.5-4.0 per cent).
- At present supply-chain issues and the Ukraine war (that is, higher housing construction costs, food and oil prices have spiked) are key reasons behind the lift in inflation. The Reserve Bank believes that the tight job market and higher wages will take over as influences supporting inflation between 2-3 per cent.

Biggest contributors to change in CPI

March qtr 2022; Expenditure class; index points

New dwelling purchase by owner-occupiers	0.62
Automotive fuel	0.46
Tertiary education	0.12
Other non-durable household products	0.11
Alcohol and tobacco	0.11
Vegetables	0.10
Medical, dental and hospital services	0.10
Pharmaceutical products	0.08
Gas and other household fuels	0.08
Secondary education	0.07
Waters, soft drinks and juices	0.06

Source: ABS, CommSec

Biggest negative contributors of change in CPI

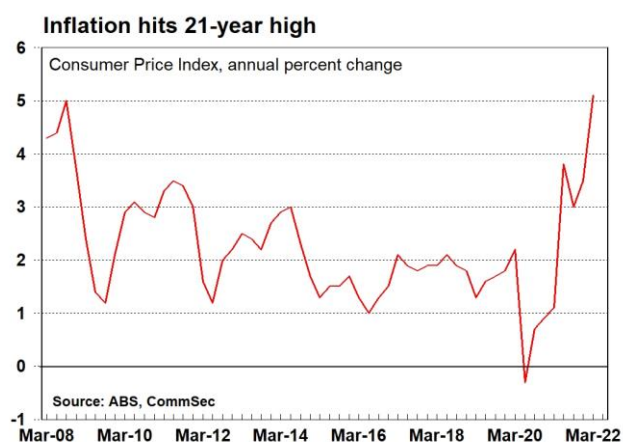
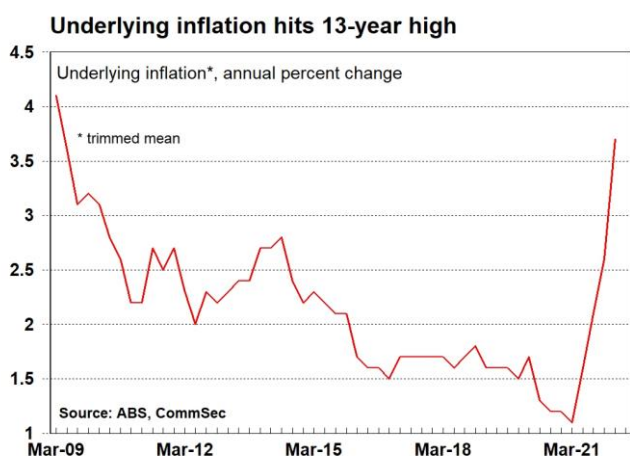
March quarter 2022; Expenditure class; index points

Audio, visual and computing media and services	-0.01
International holiday travel and accommodation	-0.02
Glassware, tableware and household utensils	-0.02
Footwear for women	-0.02
Garments for women	-0.02
Electricity	-0.02
Furniture	-0.07

Source: ABS, CommSec

What do you need to know?

- **Overall result:** The Consumer Price Index (CPI) rose by rose by 2.1 per cent in the March quarter (consensus: +1.7 per cent). The annual rate of the CPI rose from 3.5 per cent to a 21-year high of 5.1 per cent. (The seasonally adjusted



measure rose from 3.6 per cent to 5.2 per cent).

- **Underlying measures:** The 'underlying' CPI or trimmed mean rose by 1.4 per cent in the quarter (consensus: +1.2 per cent) with the annual growth rate lifting from 2.6 per cent to a 13-year high of 3.7 per cent (consensus: 3.4 per cent) – well above the top end of the Reserve Bank's 2-3 per cent target range.
- The weighted median rose by 1.0 per cent (+3.2 per cent annual). The CPI less volatile items rose by 1.7 per cent (4.0 per cent annual). Market goods and services less volatile items rose by 1.7 per cent in the quarter to be up 4.2 per cent on the year.
- **Capital cities CPI:** Sydney +1.7 per cent in the quarter (annual +4.4 per cent); Melbourne +2.3 per cent (+4.5 per cent); Brisbane +2.2 per cent (+6.0 per cent); Adelaide +1.9 per cent (+4.7 per cent); Perth +3.3 per cent (+7.6 per cent); Hobart +2.0 per cent (+5.8 per cent); Darwin +2.1 per cent (+5.5 per cent); Canberra +2.2 per cent (+5.4 per cent).

Notable price changes:

- The Australian Bureau of Statistics noted:
- *"The most significant contributors to the rise in the March quarter CPI were new dwellings (+5.7 per cent), automotive fuel (+11.0 per cent) and tertiary education (+6.3 per cent)."*
- *"Continued shortages of building supplies and labour, heightened freight costs and ongoing strong demand contributed to price rises for newly built dwellings. Fewer grant payments made this quarter from the Federal Government's HomeBuilder program and similar state-based housing construction programs also contributed to the rise."*
- *"The CPI's automotive fuel series reached a record level for the third consecutive quarter, with fuel price rises seen across all three months of the March quarter."*
- *"The rise in tertiary education reflected the continuing impact of updated student contribution bands and fees, introduced last year."*
- *"Notable rises were also recorded across the food group (+2.8 per cent), reflecting high transport, fertiliser, packaging and ingredient costs, as well as COVID-related disruptions and herd restocking due to favourable weather. Main contributors to the rise in food prices included vegetables (+6.6 per cent), waters, soft drinks and juices (+5.6 per cent), fruit (+4.9 per cent) and beef (+7.6 per cent)."*
- *"The rise for the food group was softened by voucher programs in Sydney and Melbourne, which reduced out of pocket costs for meals out and takeaway foods. The grocery component of the group, which excludes meals out and takeaway foods, rose 4.0 per cent in the March quarter."*
- *"Prices for other grocery items, such as non-durable household products (+6.7 per cent), which includes products such as toilet paper and paper towels, also rose in the March quarter."*

Biggest price changes in March quarter

Quarter, percent, seasonally adjusted

Price increases

Automotive fuel	11.0
Beef and veal	7.6
Lamb and goat	7.0
Coffee, tea and cocoa	6.9
Other non-durable household products	6.7
Pets and related products	6.7
Vegetables	6.6
Tertiary education	6.3
Gas and other household fuels	6.3
New dwelling purchase by owner-occupiers	5.7

Price decreases

Sports participation	-0.3
Footwear for men	-0.3
Electricity	-0.4
Therapeutic appliances and equipment	-0.6
Audio, visual and computing media and services	-1.0
Garments for women	-1.8
Furniture	-3.4
Footwear for women	-3.8
Glassware, tableware and household utensils	-4.7
International holiday travel and accommodation	-23.1

Source: ABS, CommSec

Biggest price changes in March quarter

Annual, percent, seasonally adjusted

Price increases

Automotive fuel	35.1
New dwelling purchase by owner-occupiers	13.7
Vegetables	12.7
Beef and veal	12.1
Other non-durable household products	11.8
Oils and fats	8.6
Coffee, tea and cocoa	8.2
Gas and other household fuels	7.4
Postal services	7.4
Other meats	7.3

Price decreases

Fruit	-0.5
Therapeutic appliances and equipment	-0.6
Garments for infants and children	-0.6
Telecommunication equipment and services	-1.1
Footwear for women	-2.2
Garments for women	-2.5
Glassware, tableware and household utensils	-2.6
Deposit and loan facilities (direct charges)	-2.7
Garments for men	-5.1
International holiday travel and accommodation	-7.6

Source: ABS, CommSec

- *"Annual price inflation for automotive fuel was the highest since the 1990 Iraqi invasion of Kuwait."*
- *"The price of goods (+6.6 per cent) rose more strongly through the year than that of services (+3.0 per cent)."*

On underlying inflation:

- *"Quarterly trimmed mean inflation increased to 1.4 per cent, the strongest movement since the beginning of the series in 2002. Annual trimmed mean inflation increased to 3.7 per cent, up from 2.6 per cent in the December quarter. Annual trimmed mean inflation was the highest since 2009. This reflected the broad-based nature of price rises, as the impacts of supply disruptions, rising shipping costs and other global and domestic inflationary factors flowed through the economy."*

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