

Australia: Inflation back on the rise

While this is mostly down to less helpful base effects, international energy prices and excise duty hikes, it is not safe to conclude that the RBA rate cycle has peaked



Source: Shutterstock

5.2%YoY

August headline inflation

up from 4.9%

As expected

In line with expectations, but more progress needed

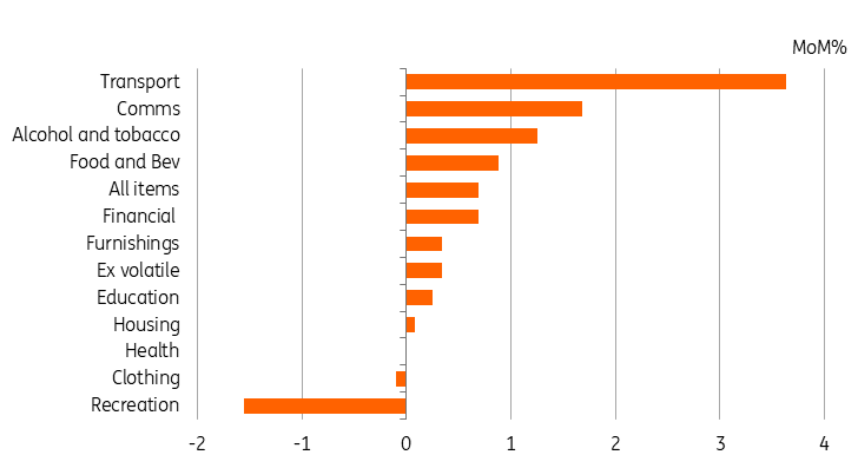
At 5.2% YoY, the August inflation figures were bang in line with expectations. However, inflation is rising again, not falling, and the month-on-month and core inflation figures (0.69% MoM and 0.3% MoM respectively) leave no room for complacency. It is still possible that the Reserve Bank of Australia (RBA) will conclude that the trend pace of improvement in inflation is insufficiently fast and that a further hike is required.

Base effects can take some of the blame for the rise in inflation this month. In 2022, the August CPI

index rose only 0.3% MoM, so this year's August CPI was always going to have to come in low just to keep inflation steady. It didn't come in low enough. This could be a problem over the coming two months, with September and October 2022 CPI increases also just 0.3% MoM.

Excluding volatile items, the rise in CPI was indeed only 0.3%, but with oil prices rising, and September retail gasoline prices likely to boost the transport component almost as much as it did in August, this is not going to be enough to keep inflation on a downward trend. And that sort of consecutive backsliding in inflation could be exactly the sort of condition that could pressure the Reserve Bank of Australia to respond with some further tightening. This could perhaps occur at the November meeting, after the September (and 3Q23) CPI release, or even in December, when the October inflation figures will be available.

Australian CPI by major component (MoM%)



Source: CEIC, ING

Inflation will likely rise again in September

The chart above shows where most of the inflation came from in August. A 9.1% increase in motor fuel prices lifted the transport component by 3.6% MoM. This is likely to be repeated in September, as retail gasoline prices have continued to rise, though it may not be quite so large as indexed excise duties on fuel will not reoccur until February next year.

That same twice-yearly excise duty indexation also means that some other price rises are not likely to be repeated next month. Alcohol and tobacco prices, for example, rose 1.3% MoM in August. With rising inflation, comes a rise in excise duties. That resulted in an August jump in the price of booze and tobacco six months after excise duties were raised in February. But that won't reoccur again until next February, so this component is likely to be much flatter in September.

The housing component is still rising strongly, with rents up 0.7% MoM, the same as July, and only slightly down from their June peak growth of 0.9% MoM. Some moderation over time is probable. But with supply still constrained and strong demand in the face of a rising population, we don't expect much slowdown any time soon.

One factor that was a sizeable drag for a second consecutive month, was recreation. This is a seasonal factor. The end of the holiday season leads to a drop in the prices of hotel room charges and airfares. But it doesn't last. So this month's 3.9% MoM decline in holiday prices, after July's 3.3% decline, is likely to revert to a positive figure in September in line with past trends.

The AUD has taken some comfort from the data

The AUD started the day languishing below 64 cents to the USD, but it has been buoyed by this data, and by the growing possibility of a bit more rate support from the RBA, recovering back above 64 cents. Futures markets are still undecided about the RBA, with very little chance of a rate hike priced in before the end of this year, rising to a peak of about a 66% probability for a further 25bp of tightening, though not until May 2024.

We think that if the RBA is going to hike again, it will need to be this year, as we don't believe the current inflation backsliding will last beyond the year-end. So we'd expect these cash rate futures to start pricing in more tightening sooner over the coming months, as headline inflation continues to go in the wrong direction. That may also provide some additional lift to the AUD, though for that, we also would like to see some generalised USD weakness, and the US inflation and rates story is very similar to that of Australia, so we aren't taking that for granted.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill

Credit Strategist
timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com