

Australia: Inflation falls within the target range

The headline inflation rate has fallen within the Reserve Bank of Australia's (RBA) target range for the first time since October 2021. We do not think this merits an immediate re-think of the rate outlook. There are a lot of moving parts to this set of data, any one of which could reverse in the coming months.



Source: Shutterstock

2.7% August inflation
YoY%

As expected

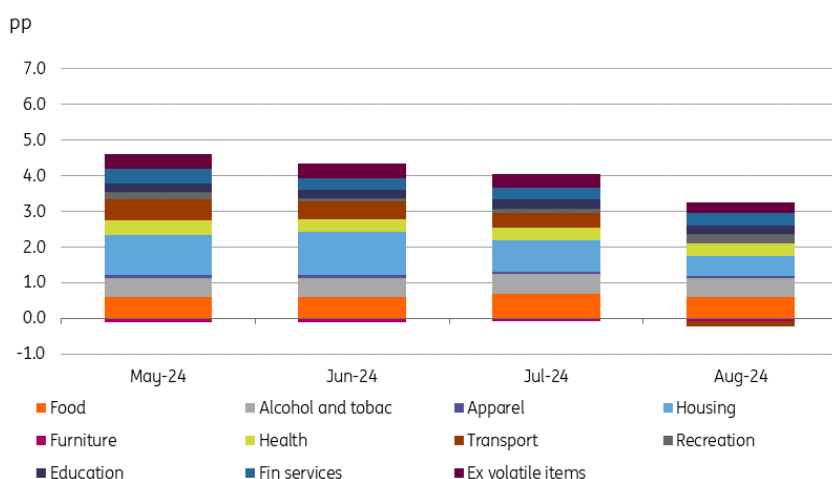
Inflation is back in the RBA's target range

Headline inflation was only 2.7% YoY in August, lower than we had been forecasting (3.3%) but in line with the market consensus. And if you care about rounding, it was very close to coming in at

2.6% YoY.

The chart below shows the contribution to the year-on-year inflation rate. Except for transport, which delivered an entirely predictable drag on the headline, the much lower inflation figure looks as if it is mainly the result of the smaller contribution than normal from housing, which itself owes to big falls in electricity prices in August. Electricity prices fell 14.5% MoM, and this led the housing component as a whole to fall 1.3% MoM. Adding to this were some very slightly smaller contributions to inflation from several other components (food, alcohol and tobacco and apparel), which offset a slightly higher contribution from recreation. The net result was as reported.

Contribution to YoY inflation (pp)



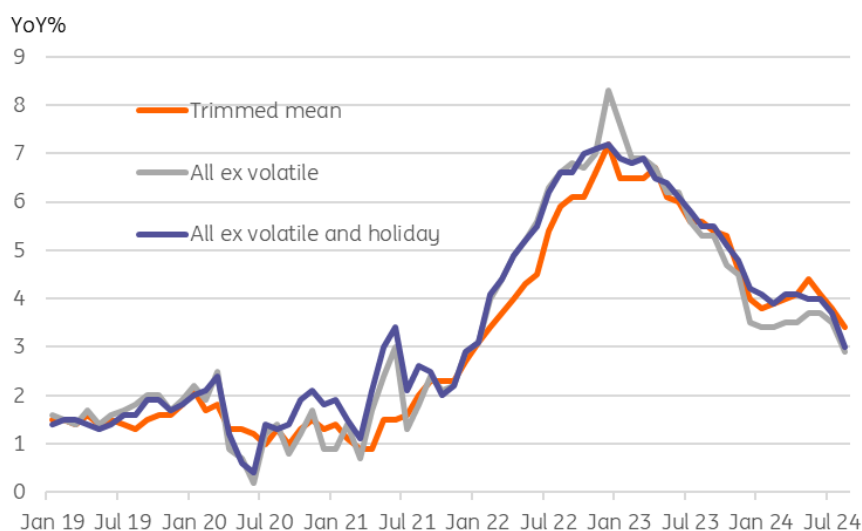
Decent moves in the core indices too

Despite much of the downswing in inflation in August coming from energy prices, fuel and food, there were also reasonable declines in some of the measures of core inflation. The trimmed mean fell from 3.8% YoY to 3.4%, the all-items ex-volatile elements dropped from 3.5% to 2.9%, and the all-items ex-volatile and holidays fell from 3.7% to 3.0% YoY.

We think the RBA will want to see the trimmed mean inflation rate below 3% for a couple of months before it even considers easing policy, though it is clear from today's numbers that it is getting closer to that goal.

That said, we still believe that rate cuts are a story for 1Q25, not 4Q24. The market reaction to today's inflation numbers was also muted. There was a small increase in implied easing by the 10 December RBA meeting, which is now about 78% (of a 25bp cut) priced in. But this is only a small increase from 72% yesterday. There was far more movement in implied easing following the omission of any reference to a discussion of hiking in the RBA's statement earlier this week.

Monthly measures of core inflation



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