

Australia: Inflation not beaten yet

The November monthly inflation series surprised markets with a stronger-than-expected rise. While this will be a disappointment for the Reserve Bank of Australia, many of these factors look likely to reverse in the months ahead



Australian retail sales

Source: Shutterstock

7.3%

November inflation

YoY%

Higher than expected

A bad number, but it should soon fade

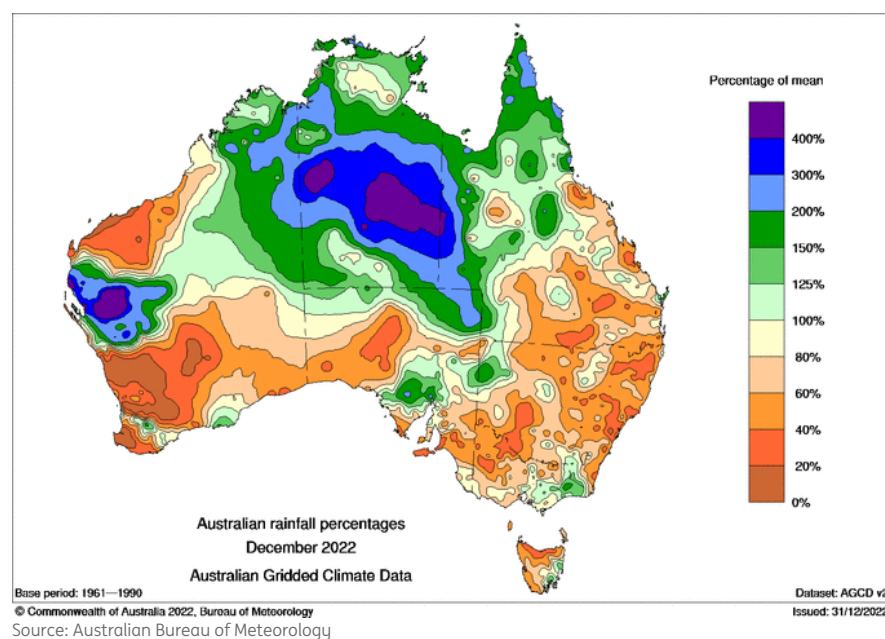
After falling to 6.9% in October, the return of inflation to 7.3% in November is quite disappointing and highlights the fact that inflation in Australia is not going to be a pushover for the Reserve Bank as it tries to squeeze it back to its 2-3% target. A relatively muted month-on-month gain in the price level in November last year meant that at best we were only likely to have seen a modest further reduction in inflation this month instead of the rise we actually saw. But some outsize rises

in the price of a number of components mean that we may be waiting another month or two before we can confidently call "peak inflation" in Australia.

Rain stops play

The monthly data tells the story quite well. Let's start with food. And after two consecutive months of large declines, food prices, especially fruit and vegetables, were pushed strongly higher. Poor weather and more flooding in New South Wales and Victoria are probably to blame for much of this. And December wasn't by any means a return to normality either, with the Bureau of Meteorology noting rainfall was 33% above average for the month as a whole with temperatures below or very much below normal (though New South Wales and Victoria were drier than normal after the previous month's rain).

Australian December rainfall - percentage of mean

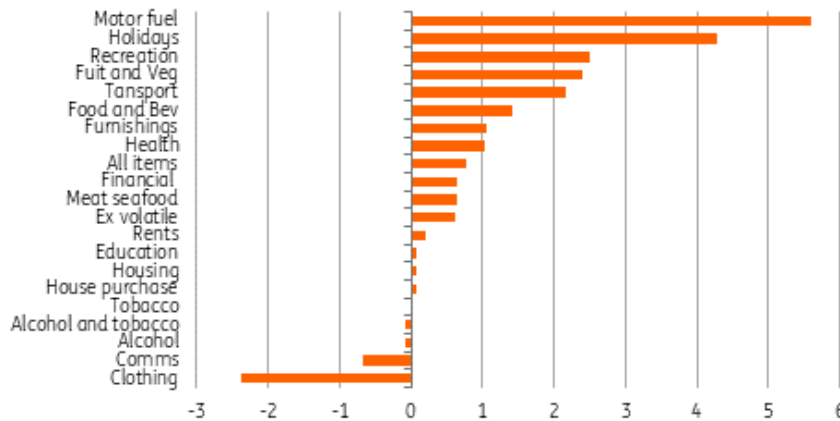


Oil isn't helping

The second 2.2% month-on-month increase in a row for the transport component is largely a reflection of crude oil and retail gasoline prices, with the motor fuel component up 5.6% MoM after a 7% MoM increase in October. National pump prices in December more than reversed the November increase, though they are on the rise again in January, so any respite in December may be short-lived.

Then there is the recreation component, which is being driven by holidays, the price of which rose 4.3% in November due to a choppy and hard-to-forecast combination of air fares (a derivative of oil prices) and pressure on holiday vacancies (a function of global reopening). Rising overseas visitors for Christmas mean that these November figures may only partially reverse in December after the latest spike.

Australian inflation by component MoM%



Source: CEIC, ING

Better news buried in the detail

However, all of this could be regarded as the death throes for inflation in Australia, as there are some encouraging developments elsewhere that could signal lower inflation once this latest volatility is out of the way, and absent any renewed climate-related impacts (a very big "if" these days).

Firstly, clothing, which is a good reflection of discretionary spending strength, dropped 2.4% MoM, though it is also extremely volatile, so we aren't reading too much into just one month's reading. More importantly, housing registered only a 0.1% MoM increase in November, with house purchase costs also only up 0.1%, while rents rose only 0.2% MoM, down from 0.6% in October. These prices tend to be much less volatile, and having softened, we could anticipate even weaker figures in the months ahead, which may help to soften any residual volatility in the other components that we still need to work through.

What does this mean for markets?

Interestingly, after a brief spike higher on the news, 10Y Australian bond yields have tended to drift lower today following the CPI numbers. This could indicate that markets also view this as a last hurrah for inflation rather than any meaningful setback for the Reserve Bank of Australia. The same seems true for RBA expectations, where December 2023 bank bill futures have risen, signalling an expectation for lower, not higher yields. The Australian dollar did push higher against the US dollar following the release, though drifted back before strengthening again later, though not clearly a direct result of today's data.

Certainly, today's data adds more risk to our view that the RBA will stop raising rates once it reaches 3.6% (another two 25bp rate hikes from here), and we may have to raise that to 3.85% if we don't see some more encouragement from other figures, for example, the labour data. But we are not throwing in the towel just yet. This latest inflation data offered just enough hope that this is a temporary setback to enable us to defer that decision for a little while longer.

Author

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