

Australian inflation remains unchanged in January

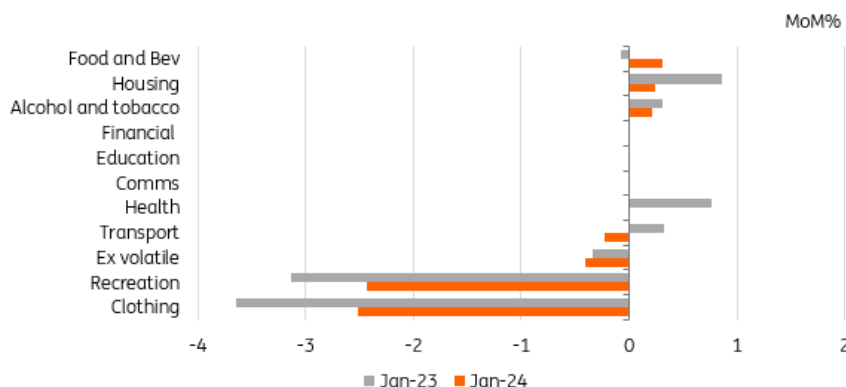
Along with the rest of the forecasting community, we were expecting a bounce in these January numbers after the big drop in December. We still expect inflation to edge higher again in the coming months



Wide-ranging price weakness keeps inflation steady in January

The logic for an inflation increase in January was sound. Big price spikes in December 2022 gave rise to a large unwinding in January 2023. Smaller price increases in December last year should have resulted in less unwinding in January this year. In fact, to two decimal places, there was very little difference, with the January 2023 0.3pp decline virtually the same as the -0.26pp fall in January 2024.

Many prices remained flat or fell in January 2024 compared to January 2023



The price weakness was broadly based

Rather than the result of a single large drop in one component weighing down the index, a comparison of the major sub-categories of the price index shows that price weakness in January was quite broadly based.

Compared to January 2023, when the main cause of the month-on-month decline was the unwinding of holiday prices (recreation) and clothing associated with the seasonal surge the month before, the declines in 2024 were more broadly spread. There were, as usual, seasonal declines in recreation and clothing, and they were indeed smaller than those last year. But there was also a much weaker housing component, driven by both furnishings and the cost of house purchases.

Transportation costs were also weaker, reflecting lower fuel prices – and where healthcare costs in January 2023 were still rising quite fast, they flatlined in January 2024. Stripping out the more volatile items from the price index, the January 2024 decline of 0.4pp was actually a little larger than the last January's decline of 0.3%.

The next few months still look tricky for Australian inflation

Markets will have been encouraged to see this data supporting their view that the Reserve Bank of Australia has finished hiking rates and that the next move will be down. But while there is no disputing the weakness of the January price data, we still think that the road ahead could see inflation pushing higher again over the first half of this year, before it reverts back to a more obvious downtrend again. While this probably won't be enough to prompt the RBA to hike again, it remains an outside possibility, as [the latest RBA statement](#) suggests.

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