Australia: June inflation falls further

Another decline in inflation should be enough to keep the Reserve Bank of Australia (RBA) on hold at their next meeting, but the helping hand from base effects will grind to a halt after next month, which could set the stage for a further hike in September.

5.4%

June inflation YoY%

Down from 5.5%

As expected

The inflation figures in brief

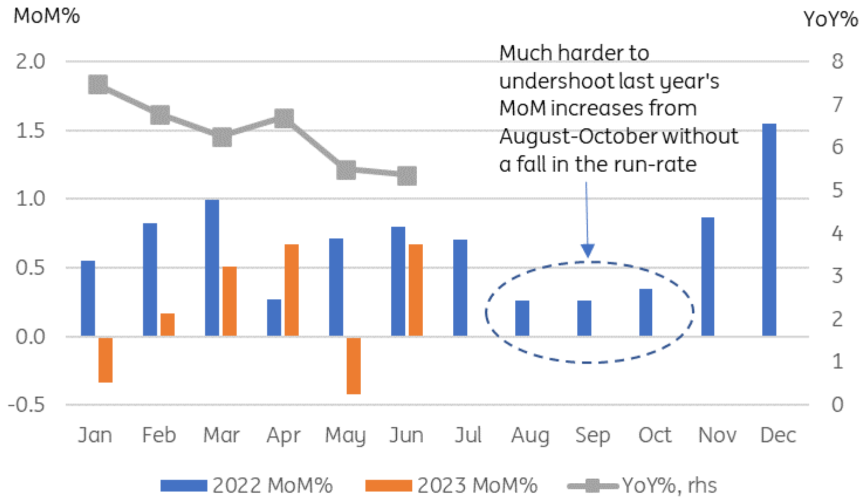
June monthly inflation dropped to 5.4%YoY as expected, though last month's inflation was revised down to 5.5%, so the month-on-month increase was higher (0.7%) than had been expected. The revisions also helped bring down the 2Q23 quarterly inflation rate to 6.0% YoY from 7.0%, and there were also decent declines in the trimmed mean core inflation rate (5.9% down from 6.6%) and the weighted median rate (5.5% from 5.9%).

Don't get complacent

With the CPI index for June last year rising 0.8% MoM, a further decline in Australia's annual inflation rate for June 2023 was always a good bet. And the outlook for the July print is looking pretty good too, with July 2022 CPI rising 0.7%MoM.

This favourable run of events, absent any unforeseen supply shocks (and we aren't ruling these out, following the lapse of the Black Sea grain initiative, and India's embargo on non-Basmati rice exports) should help to keep policy rates on hold for a few meetings. But thereafter things become trickier.

Australian inflation and the upcoming base effects



Source: CEIC, ING

A September hike looks possible, even probable

After the release of the July data, it is going to be a lot harder for Australian inflation to keep falling, unless the run-rate (the trend of month-on-month percentage increases) drops further. And to put that into a little perspective, June's month-on-month CPI increase this year was almost 0.7%, much too high if maintained at that rate to keep inflation falling over the coming months - even with helpful base effects.

The August inflation release, in particular, looks like a tough target to limbo under and could see inflation stagnate at around 5%, or even begin to backtrack higher. A September undershoot will be equally hard.

And it is mainly because of this that we still think there is work for the RBA to do, probably at the September meeting, where we look for a further 25bp rate hike.

The decline in inflation should accelerate again over the turn of the year, with big spikes in inflation last year (November and December) on the back of bad weather and also spiking holiday-related prices (hotels, airfares) due to pent-up re-opening demand and labour shortages. We can't rule out similar gains this year, though we would hope that they would be of a smaller magnitude than last year, enabling further inflation declines as we head into 2024.

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