

Australia: May inflation raises the spectre of rate hikes

Everything now hangs on the June inflation print, just days before the Reserve Bank of Australia's (RBA) 6 August rate meeting. We need to see inflation dropping then, or we may be facing another rate hike



4.0 May inflation (YoY%)
Up from 3.6%
Higher than expected

5 months in which inflation has gone nowhere except backwards

Until December 2023, Australia had made decent progress on inflation, with the December print of 3.4%YoY well down from the peak of 8.4% in December 2022.

Since then, inflation has not just stalled, it has started to rise again. The latest reading of 4.0% YoY

came in well above the consensus expectation for a 3.8% increase and up from 3.6% in April.

We said a few months ago that we were just one bad inflation print away from taking out all cuts from our forecast. We removed the final cut last month. We also said we were just two bad inflation reports away from forecasting a hike.

Well, we're there now. And we are sorely tempted. The only thing stopping us from doing this right now is that we still have one more inflation report, just days before the RBA's next rate meeting on 6 August. The June report comes with the second-quarter inflation numbers and will carry more weight than today's data. Consequently, we think the RBA will want to see the June data before deciding whether or not to pull the trigger on a rate hike

But that is where the risks are skewed because we think the RBA will want to see concrete evidence that its policies are working by that August meeting and a "flat" inflation report then won't do that, it needs to show a decline.

The arguments for and against rate hike action are finely balanced for the August meeting

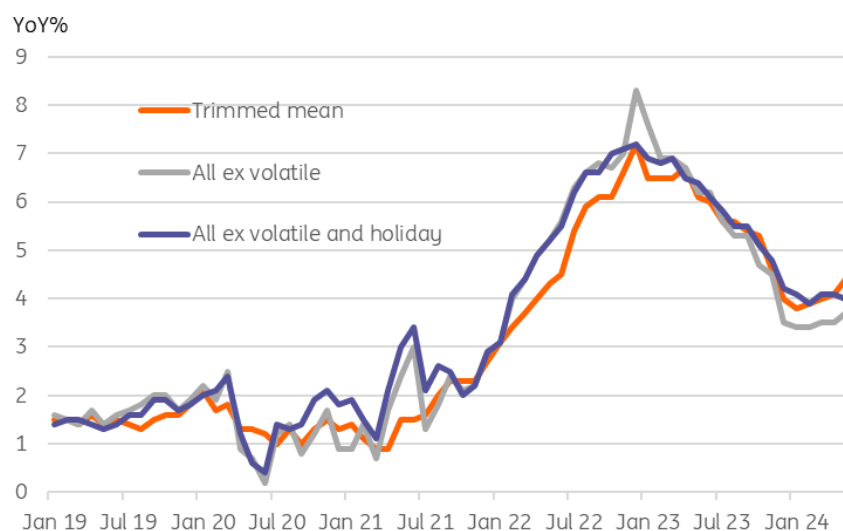
The May CPI data showed a very modest decline of 0.04%. There weren't any real surprises in the data. Motor fuel showed a fall of 5.1% MoM. That decline helped deliver a 2.5% MoM decline in the larger transport component. But that was as expected. Other than that, there were the usual predictable seasonal fluctuations in categories such as apparel and holiday prices.

For June, retail gasoline prices have risen by more than they fell in May, so the drag from transport could turn into a similar or slightly larger boost. Also, some of the drag from seasonal holiday prices could reverse in June. These two components, together with some slight underlying inflation from other components, could take the June CPI to about 0.6% MoM.

The 2023 June CPI index rose 0.73% MoM. So a 0.6% increase for June 2024 should deliver a 0.1pp decline in year-on-year inflation. That would take June monthly inflation back down to 3.9% YoY. But for the full quarter, and using our own seasonal adjustment, we think that would deliver something like a 1.1-1.2% QoQ increase, up from 0.88% in 1Q24, and 0.74% in 4Q23. The direction of travel is worrying.

If it were us, we'd have to admit that the evidence was not just pointing towards making inadequate progress towards the RBA's inflation target, but that maybe, rates hadn't been raised sufficiently high to deliver that target over the medium term.

Various measures of "core" Australian inflation



Could core inflation provide some excuse for inaction?

Just to leave no stone unturned, we've looked at the various monthly core measures of inflation to see if we can find some underlying reason to be more optimistic about the inflation outlook.

And with the small exception of the May inflation rate for the index excluding volatile items and holiday travel, which dropped slightly to 4.0% YoY in May from 4.1% in April, the news isn't great. The measure excluding volatile items provides the lowest inflation reading at 3.7%. But this is still up from 3.4% in January. The trimmed mean shows an inflation rate of 4.4% YoY, up from a low of 3.8% in January.

There is no respite to be found here.

AUD spikes higher

The AUD spiked higher on the CPI release, rising from 0.6640 to close to 0.6680, though such spikes have recently proved short-lived, and the gravitational force of EURUSD has tended to keep the AUD rangebound. Short-term interest rate markets are at least beginning to price in just over a 50% chance of a hike by September, which seems sensible. We could see this rising to about 80% ahead of the June CPI release on 31 July, which could provide a further boost to the AUD.

Author

Alissa Lefebre

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
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