Australia sees unexpected drop in October inflation

Monthly inflation data not only provides a more timely look at Australia's inflation than the old quarterly series, it has also ushered in some welcome lower numbers

6.9%

October inflation (year-on-year)

Back to school effect?

Lower than expected

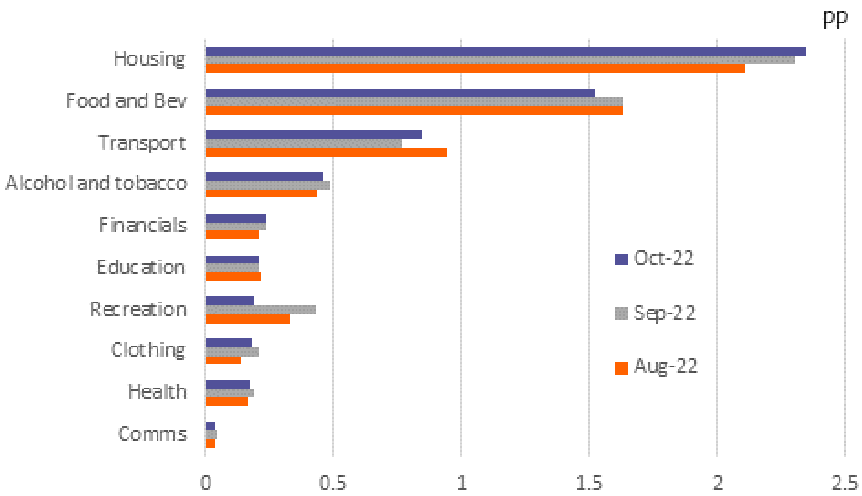
Both headline inflation and core rates fall in October

Against expectations for an increase, both headline and core inflation rates for Australia's monthly inflation series fell in October. The headline inflation rate fell from 7.3% year-on-year in September to only 6.9% YoY in October. The monthly trimmed mean index inflation rate also fell slightly, to 5.3%YoY from 5.4%.

When we examine the components of the index, we can see that most of the current rate of inflation is being driven by housing components (in particular house purchase costs), food and beverages, and transport. However, this month, it was smaller increases in recreation as well as some moderation in the high rates of food price inflation that led to the lower-than-expected figure for October.

The particular recreation sub-component that provided the biggest impact to the headline rate was holiday accommodation and travel. The Australian Bureau of Statistics (ABS) says of this component "The monthly fall in holiday travel and accommodation was driven by the conclusion of the school holiday period and the end of the peak tourist season for travel to Europe and America".

Contributions to year-on-year inflation rate (pp)



Source: CEIC, ING

What now for the Reserve Bank of Australia?

This drop in inflation vindicates the Reserve Bank of Australia's (RBA) dovish pivot some months ago when it decided to only increase rates at a 25bp per meeting pace. At 6.9%, inflation is still way too high for comfort, but we believe that the RBA will see this as confirmation that it is on the right track, and that further declines could lead them to entertain thoughts of a pause in rates.

We are currently forecasting a fairly low peak in the cash rate target at only 3.6% in 1Q23 next year. But while there remains considerable uncertainty about the future path of both inflation and rates, today's numbers provide us with some encouragement that we are not too far off the right track.

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