

Snap | 30 November 2022

# 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

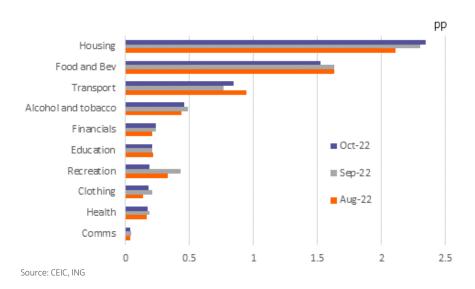
## Both headline inflation and core rates fall in October

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)



## 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.

#### **Author**

### **Robert Carnell**

Regional Head of Research, Asia-Pacific robert.carnell@asia.ing.com

Snap | 30 November 2022

#### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.