

Australia: Some welcome news on inflation

Headline CPI inflation for October dropped below 5%, and there should be further declines in the coming months, increasing (but not guaranteeing) the chances that rates in Australia have peaked



Source: Shutterstock

4.9%

October CPI inflation

Down from 5.6%

Lower than expected

Size of the decline beats expectations

The October CPI inflation print of 4.9% YoY was a fair bit lower than the consensus expectation which only had inflation dropping to 5.2% (ING f 5.0%) from 5.6% in September.

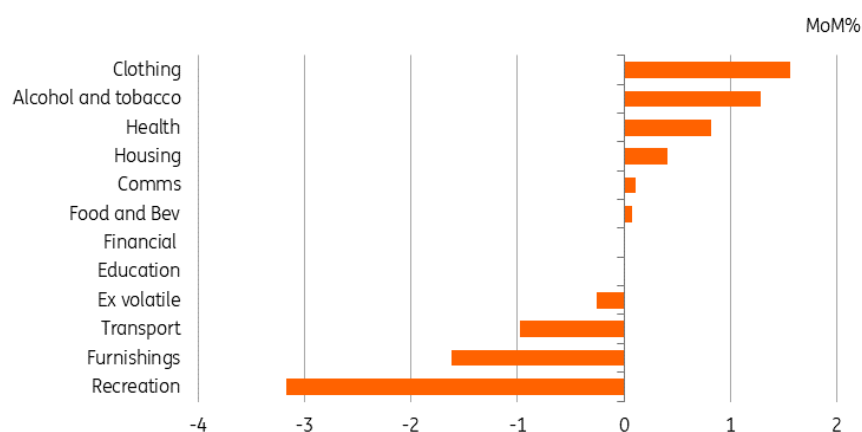
If you pore through the month-on-month data, the main contribution apart from lower transport costs, which were mainly due to lower motor fuel prices (more of that to come next month given

what is happening to crude oil prices) was from housing.

- The main housing component slowed from 0.8% MoM to 0.4% MoM
- This was mainly because rents went from a 0.3% MoM increase in September to a 0.4% decline in October - is RBA rate policy finally beginning to bite even against industry data that points to a still robust property market (at least as far as purchases go)?
- Home furnishings fell in MoM terms for a second month - not a sign of health in the property sector, surely?

There was also some volatility in things like recreation and holiday prices - which are extremely seasonal. So this probably doesn't represent more than the usual monthly noise at this time of year. Financials also slowed to zero after a couple of months of higher readings, which will also have helped. Tobacco prices continued to rise at a reasonable pace - probably lagged effects of earlier bi-annual excise duty adjustments. This should not extend into next month.

October CPI inflation MoM% by component



Source: CEIC, ING

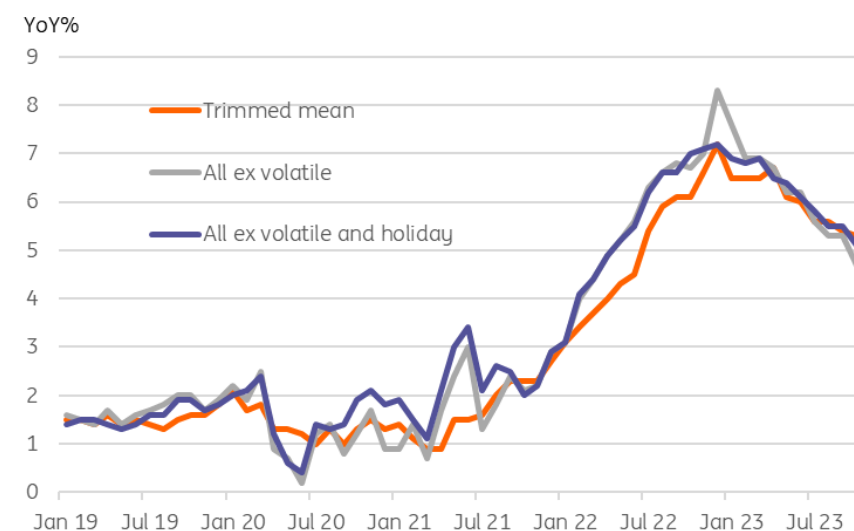
Inflation still strong across the board

Despite a softer reading for October, annual inflation rates for most components are still much higher than the Reserve Bank's (RBA) 2-3% inflation target. Of the main sub-groups, only communications, recreation, furnishings and clothing were within or below the 2-3% YoY range. Two-thirds of the main sub-components were higher, and in some cases a lot higher than the target.

Stripping away volatile items also shows that there is still work to be done by the RBA.

Trimmed mean inflation fell this month from 5.4% to only 5.3%. There was a larger decline in the CPI ex-volatile items inflation rate to 4.7% from 5.3%, and the CPI-ex volatile items and holidays inflation rate fell from 5.5% to 5.1%.

Australian core measures of inflation



Source: CEIC, ING

Further declines in inflation over the next 2 months barring accidents

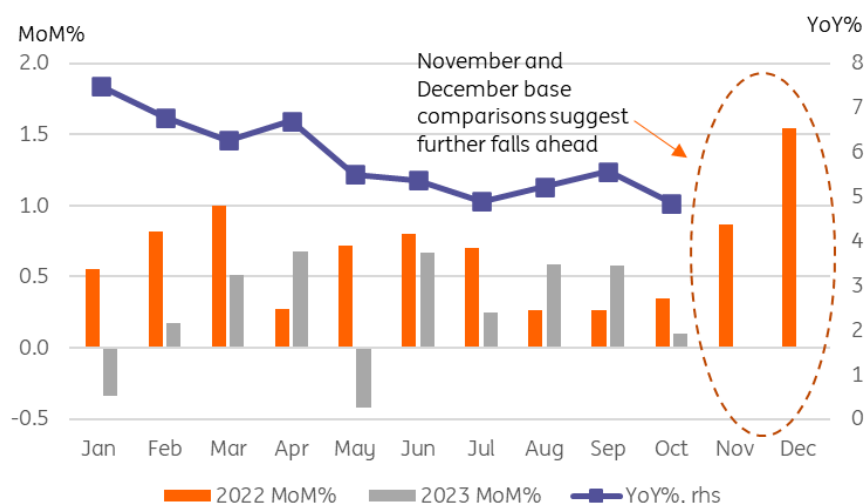
The outlook for the next two months is that we should see further, and perhaps rapid falls in inflation. Indeed, it is only thanks to upward rounding from two decimal places that inflation in October registered as 4.9%, not 4.8%, so we are already well on the way to a further reduction just on rounding.

Last year's weather-induced food and energy price spikes, plus outsize post-Covid re-opening surges in holiday-related costs around December will hopefully not be repeated, at least not as substantially as last year. That said, we are still in an El Nino weather pattern, so freak cold or wet weather and the ensuing impacts on prices cannot be ruled out, though will hopefully be less disruptive and damaging than in 2022.

If so, then we could well see some further substantial reductions in headline inflation taking us into the New Year of 2024 and delivering a much more benign inflation backdrop in early 2024 than we had in early 2023. If so, that could well temper any lingering thoughts of further RBA hikes.

We still think that RBA rate-policy has peaked, but the main risk will come later on in 2024, in February and March, when the base effects (from Jan and Feb inflation) turn much less favourable. And so unless we see the month-on-month run rate for Australian inflation dropping more convincingly by then, there is still, in our view, a slight risk of a final 25bp rate hike around then. If we get past that point, it will look increasingly likely that the peak came with the last hike in November.

Monthly inflation progression and base effects



Source: CEIC, ING

Markets move to price in more cuts in 2024

The market response following this inflation data was to price in a greater chance of a rate cut in 2024 than had been assumed. Yesterday, only 0.148 of a 25bp rate cut was priced into the December 2024 cash rate contract. Today, that has risen to 0.733. The AUD monetarily dipped on the news, but then recovered, overshoot and settled down to roughly where it was. Clearly, USD weakness is the dominant currency theme right now, not the local rate story.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

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
Senior 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