

Australian 4Q inflation surpasses expectations

Australia's consumer price level in 4Q20 rose 0.9%QoQ from 3Q mainly driven by higher alcohol and tobacco prices, though furnishings and household equipment also helped.



Source: istock

0.9%YoY 4Q20
Headline inflation rate
Higher than expected

No alarming inflation message in these figures

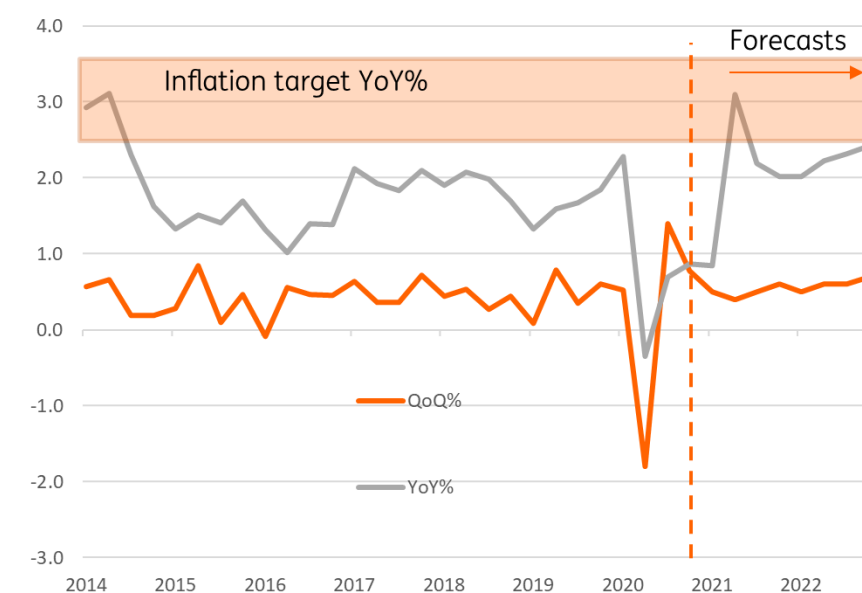
Although higher than expected, there is no alarming inflation message embedded in these latest price figures. Alcohol and tobacco prices, rose 4.2%QoQ, but are largely a function of State taxation, not market forces. We're not ruling out that some people may have hit the bottle quite hard during the earlier lockdowns, and that may have enabled some margin expansion, but in any

case, we don't read into this a long-lasting inflationary impulse.

Long days spent at home during earlier lockdowns may have encouraged some long overdue home interior improvements, and that may have helped spur demand and price increases in the home furnishings and household equipment sector. This was the other group providing much of the contribution to the headline increase according to the Australian Bureau of Statistics, showing a 3.4%QoQ rise.

In contrast, if you're not going out much, that tatty old T-shirt will still do, and clothing prices dipped 1.0%QoQ from the previous quarter.

Australian Inflation forecasts



Source: CEIC, ING

Australian inflation and forecasts

Inflation heading higher in 2021

Without much effort, inflation in Australia will head higher in 2021, with a massive 1.8%QoQ base-effect in 2Q21 likely to see headline inflation briefly touch 3.0% or higher. This won't last. Even with a relatively constructive run-rate for QoQ price gains, inflation should quickly settle down to a range between 2-2.5% for the rest of the year, below the Reserve Bank's (RBA's) target. We don't think the RBA will be in a hurry to reverse their very accommodative monetary stance, which we believe will be more of a question for 2022.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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>.