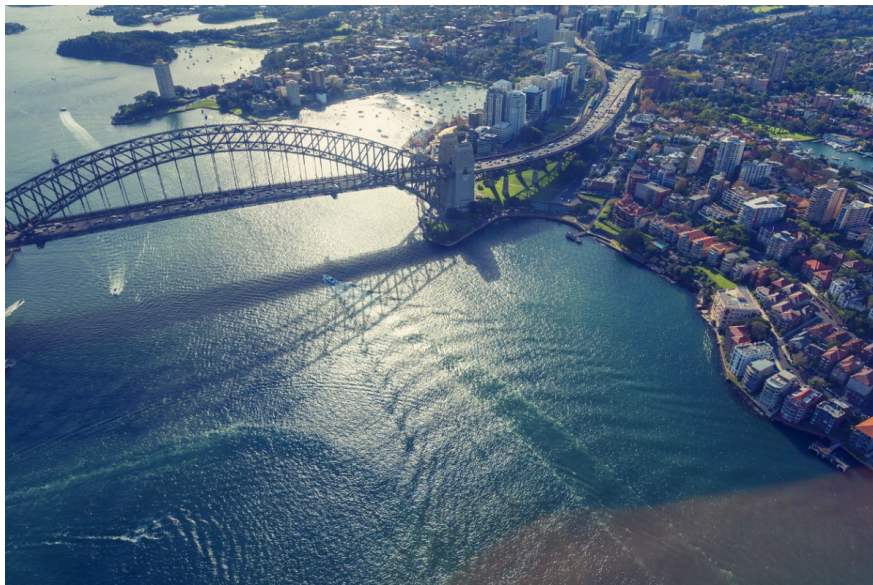


1Q21 Australian inflation rises less than expected

Although base comparisons from last year's pandemic-affected price declines are now beginning to push headline measures of inflation higher, the quarterly increase in prices in 1Q21 was muted, keeping inflation well below the central bank target of 2-3%



0.6% QoQ

1Q21 Australian CPI

1.1% YoY

Lower than expected

0.6% QoQ gain well down on consensus expectations

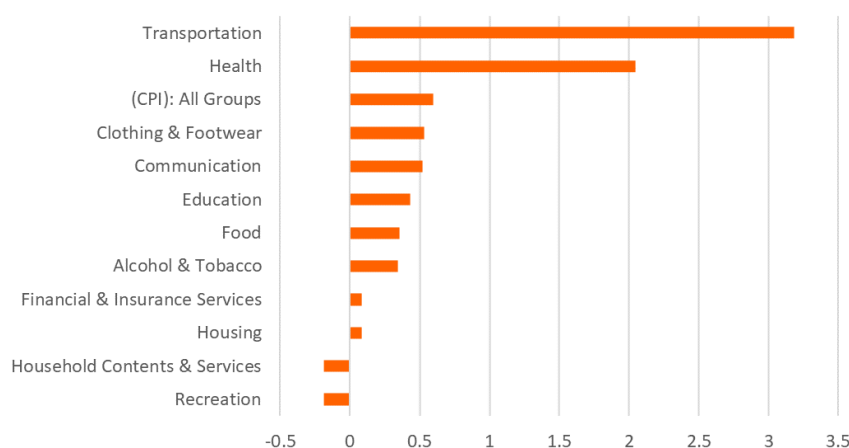
The 0.6% gain in Australia's 1Q21 consumer price index was well down on expectations for a 0.9% increase. In the same quarter a year ago, the growing Covid-19 pandemic was beginning to weigh on Australian as well as global economic activity and prices, and CPI rose only 0.3% QoQ, down from its prevailing trend of about 0.6%QoQ. Weakness in prices last year was the main reason that

the annual inflation rate rose in 1Q21.

In 2Q21, the base comparison will be much more stark, as Australia's CPI index fell 1.9% QoQ in 2Q20, so even if 2Q21 is another uninspiring quarter for price increases, we should still see the headline rate of inflation increase by about a further 2 percentage points, potentially pushing annual inflation slightly above the central bank's 2-3% inflation target.

However, without a stronger pick up in the quarterly rates of CPI increase, this peak is likely to prove very short-lived. Third-quarter base comparisons reverse abruptly, with 3Q20 CPI increasing by 1.6%QoQ. So any spike in inflation above 3% in 2Q21 is unlikely to foster thoughts of any imminent changes to policy rates or quantitative easing schedules without a noticeable change in the underlying quarterly rates.

QoQ price changes by component (%)



Source: CEIC, ING
Australian CPI QoQ%

Apart from transport and health, price rises were fairly small

Looking at a breakdown of the price increases by component (chart above), and it looks as if it was quite lucky that CPI rose even 0.6% QoQ in 1Q21. Only two components exceeded the all-items CPI average, and they were health, and transport. Automotive fuel marked the most significant price increase [according to the Australian Bureau of Statistics \(ABS\)](#), rising 8.7%QoQ. (Retail) gasoline pump prices in Australia rose from a national average of about AUD1.26/l at the end of 2020 to AUD1.38/l at the end of March, and this will have played a major part in lifting headline inflation in the first quarter. Crude oil benchmark prices have already been a little softer so far in April, so unless this changes, the transport component of CPI may well deliver much less of a boost in 2Q, and the health component too may ease back a bit as pandemic-related health expenditure eases back (pharmaceutical products rose 5.3%QoQ in 1Q21 while medical and hospital service prices rose 1.5%). The [ABS has a nice link to the importance of automotive fuel in inflation](#) in this latest release, and which is worth a quick read.

All of which paints a fairly tepid picture of underlying inflation last quarter, and also looking ahead to next quarter. And aside from base effects, which policy-setters and investors alike are well aware of, today's release underscores the lack of any need for the RBA to change its current message of patience and caution.

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>.