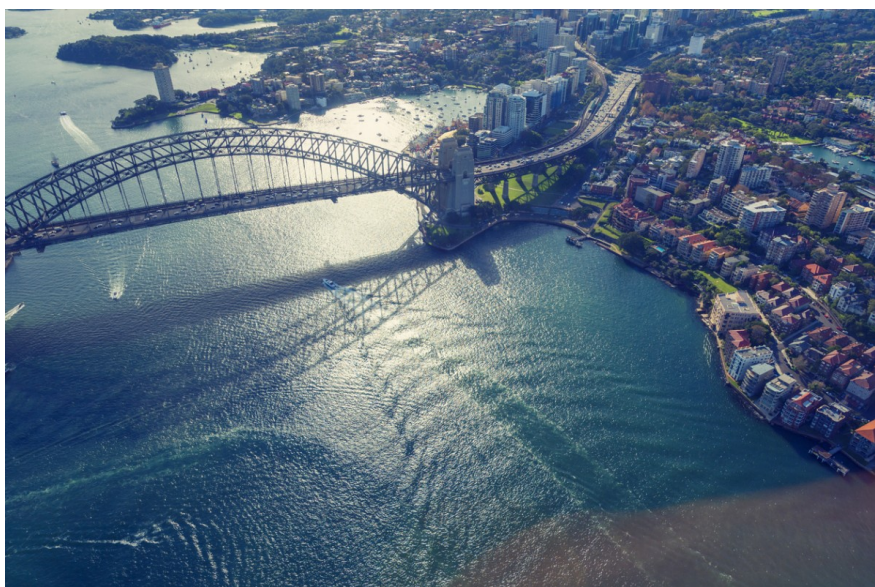


1Q21 Australian inflation rises less than expected

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

Lower than expected

1Q21 Australian CPI

1.1% YoY

0.6% QoQ gain well down on consensus expectations

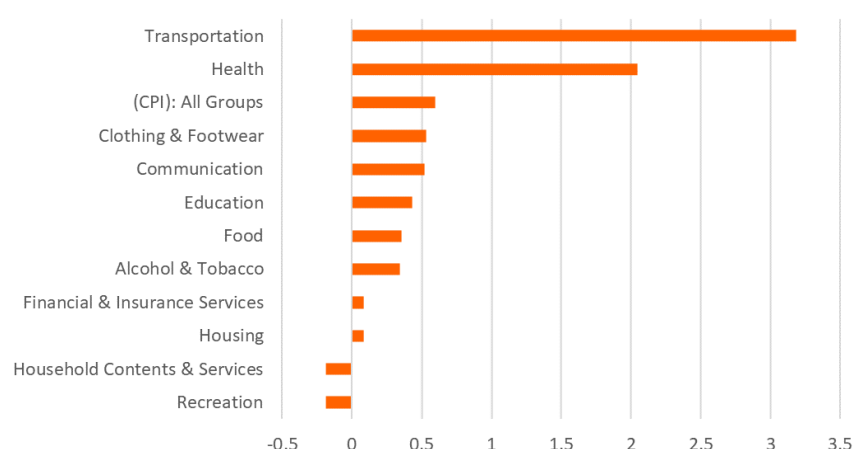
The 0.6% gain in Australia's 1Q21 consumer price index was well down on expectations for a 0.9% increase. In the same quarter a year ago, the growing Covid-19 pandemic was beginning to weigh on Australian as well as global economic activity and prices, and CPI rose only 0.3% QoQ, down from its prevailing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

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