

## Australia Economic Watch

## Monthly CPI preview: Subsidies help

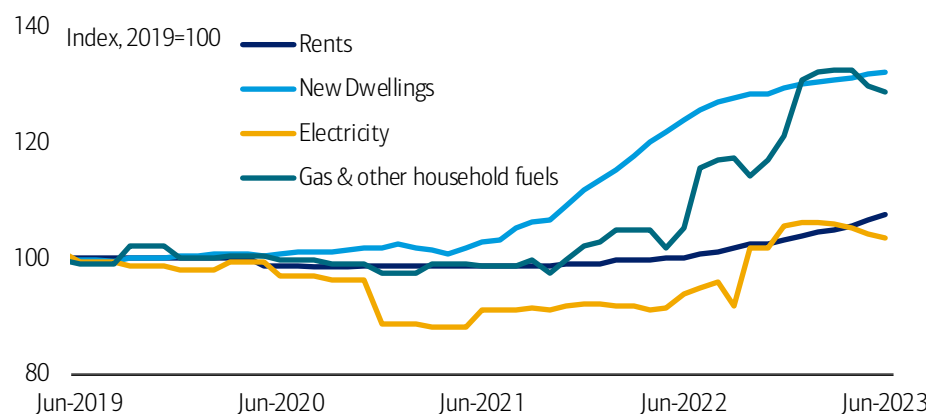
## July Monthly CPI to ease further

The monthly CPI index will be released on Wednesday Aug 30 and will reflect the impact of electricity rebates and childcare subsidies offsetting the ongoing strength in domestic inflation. We see inflation easing from 5.4%yoy in June to 5.3%yoy in July. Notably, excluding the impact of subsidies, monthly inflation pressure would increase to 5.9%yoy in July, in our view.

While there is some easing in goods prices, households continue to face increases in the cost of living (Exhibit 1). The Government has addressed these pressures by providing rebates on electricity bills for households and small businesses. The latter would temporarily ease inflation pressures.

**Exhibit 1: Households bills rise**

But subsidies and rebate help



Source: ABS, Macrobond,

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## The monthly CPI index in July

Australia's official measure of inflation remains the quarterly index that is now sitting at 6% yoy, well above the monthly series at 5.4% yoy. Data for the September quarter will be released on October 25 and will include strong seasonal increases as well as higher rent prices, phone bills, higher petrol prices along with some easing in goods inflation and subsidies.

Because of different collection dates for some prices, the basket of goods used in the monthly index changes. For instance, the July month has the highest level of not updated prices (carried forward) at 34% and the lowest data updated on a quarterly basis at 9%.

The RBA Board will meet on Sep 5 and will most likely focus on signs of easing inflation pressures and the small rise in unemployment. In our view, this release does not have significant policy implications and we expect the RBA to leave interest rates unchanged at 4.1%.

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## Monthly CPI falls faster, but is still high

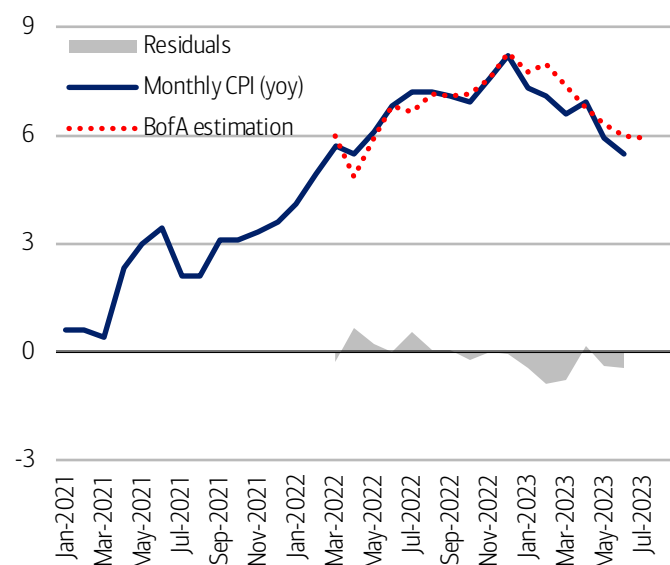
We have developed our own estimation of monthly inflation from a top-down perspective. The estimation is based on surveyed measures for prices, expectations for wages growth, weekly rent prices and petrol prices. While highly correlated to actual monthly inflation outcomes (Exhibit 2), our estimation does not take into account the impact of subsidies.

The July data will include two major policy measures to reduce cost of living for households: utility rebates and childcare support. The Australian Government is partnering with State and Territory governments to provide up to A\$3bn in electricity bill relief for eligible households and small businesses through the Energy Bill Relief Fund from 1 July 2023 through to 30 June 2024. Notably, electricity accounts for 2.2% of the CPI basket. The Government estimates energy bill relief is expected to reduce inflation by 0.75 percentage points (ppts) in 2023-24.

In addition, from 10 July 2023, changes to the Child Care subsidy scheme mean more families will be eligible for lower childcare fees. Families earning less than AUD 80,000 will have 90% of their childcare fees subsidized (up from 85%) and the income cap for eligibility has been increased from AUD 356,756 to AUD 530,000. Childcare accounts for 0.82% of the CPI basket. Given our framework does not account for policy driven disinflation we made an adjustment (Exhibit 3) and expect these subsidies to detract 0.6ppts from the annual monthly CPI in July.

### Exhibit 2: BofA's estimation of monthly CPI

Suggests inflation has increased in July.

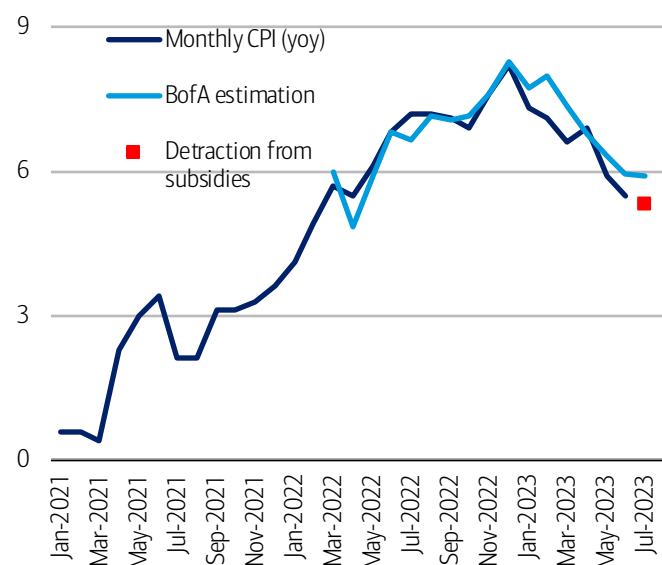


Source: ABS, Macrobond, adjusted  $r^2=0.88$

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### Exhibit 3: We estimate subsidies detract 0.6ppts of monthly CPI

Based on the residual



Source: ABS, Macrobond

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## Changes to the Monthly series in July

The Australian Bureau of Statistics has introduced the Gas series in the monthly CPI indicator, which has been updated with monthly prices from October 2021 onwards. The inclusion of this new monthly Gas series has resulted in revisions to the monthly CPI indicator dating back to October 2021.

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