

Australia Watch

Monthly CPI steady at 3.4%

Monthly CPI steady at 3.4%, below the official rate

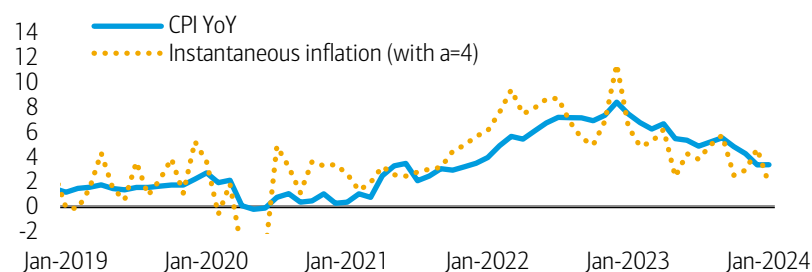
Monthly CPI remained unchanged at 3.4% yoy in January. This is the lowest since November 2021 and well below the official rate at 4.1% yoy. The monthly CPI index for January provides the first gauge for inflation into 2024 as it includes updates for about 65% of the CPI basket as well as an annual update on the weights. Overall, these data show inflation is becoming more narrow-based (Exhibit 2) but those components that tend to be sticky are still driving the increases. Rents in particular remain hot though there are signs that prices may be near their peak (Exhibit 3 & Exhibit 4). When excluding volatile items from the monthly CPI indicator, the annual rise in January was 4.1%, down from 4.2% in December. Annual inflation when excluding volatile items has been declining since the peak of 7.2% in December 2022.

Instantaneous inflation shows pressures are easing

The gap between the official quarterly measure currently at 4.1% yoy versus monthly inflation at 3.4% in January increases difficulties for the Reserve Bank of Australia (RBA) to assess current inflation pressures. Indeed, annual inflation considers observations from the past, with base effects contributing to the easing of annual inflation since its peak (7.8% yoy) in late 2022. We think a measure of instantaneous inflations provides a better gauge as it captures fast changes in prices and places more weight on recent observations. While monthly inflation showed CPI steady at 3.5% yoy, the instantaneous measure eased to 1.8% yoy. This is the first time instantaneous inflation has fallen below 2% since March 2021.

Exhibit 1: Instantaneous inflation is consistent with monthly CPI

Suggesting inflation continues to slow



Source: Macrobond calculation based on Instantaneous inflation paper from UPF Barcelona, July 2023. Kernel density estimation with bandwidth parameter $a=4$ vs traditional inflation $a=0$.

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Front-end rates look good, but long AUDNZD is the best

Even after a weak CPI print, markets are pricing a very shallow RBA easing cycle with terminal cash rates around 3.6%. With the US market now converging with our forecast for rate cuts in 2024, the risk of an offshore-led cheapening in the front end has also diminished. We see a lower cash rate in 2025 and 2y/3y rates now look cheap, although the differential with NZ rates still looks too wide, especially after dovish communication from the RBNZ today, and our preferred expression is [long AUDNZD via 2m calls](#) (spot 1.0675). Risks are RBNZ hikes and real money positioning.

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28 February 2024

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Exhibit 2: Inflation heatmap

Inflation pressure is becoming more narrow-based

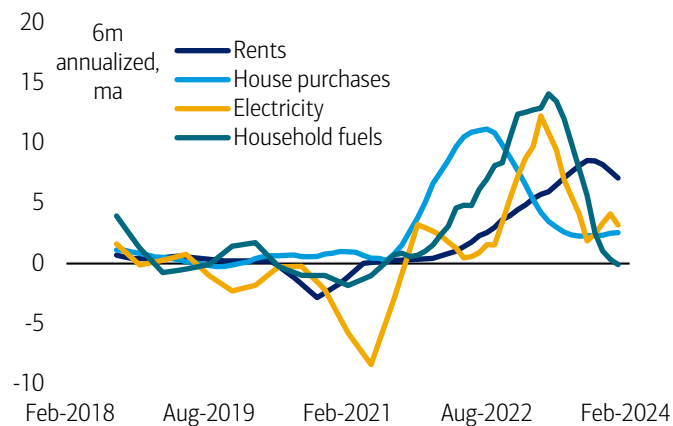
	Old Weights	New weights Jan-2024	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23
Total	100	100	3.4	3.4	4.3	4.9	5.6	5.2	4.9	5.4	5.5	6.7	6.3
Food & Non-Alcoholic Beverages	17.04	17.15	4.4	4	4.6	5.3	4.7	4.4	5.6	7	7.9	7.9	8.1
Meat & Seafoods	2.27	2.12	-2	-1.9	0.2	1.8	1.7	2.6	2.4	2.7	3.8	4.4	4.3
Fruit & Vegetables	2.2	1.99	1.6	-2.2	0.7	1	-5.4	-8.3	-5.4	1	2.7	3.5	5.9
Alcoholic Beverages & Tobacco	7.74	6.98	6.7	6.8	6.4	6.6	5.8	4.4	4.5	4.6	4.7	4.8	4.9
Alcoholic beverages	5.04	4.8	4.5	4.6	4.2	4.5	5	4.7	5	5.1	5	5.1	5.4
Tobacco	2.7	2.18	10.7	10.8	10.5	10.4	7.5	3.7	3.6	3.8	4.1	4.3	3.9
Clothing & Footwear	3.22	3.4	0.4	-0.8	-0.9	-1.5	-0.1	1.5	1.5	-0.7	-0.4	2	3.2
Housing	22.18	21.74	4.6	5.2	6.6	6.1	7.2	6.6	7.3	7.4	8.3	8.8	9.4
Rents	5.76	6.03	7.4	7.4	7.1	6.6	7.6	7.8	7.6	7.3	6.3	6.1	5.3
New Dwelling Purchase by Owner-Occupiers	8.52	8.07	4.8	5.1	5.5	4.7	4.9	4.8	5.9	6.6	8.3	9.2	11.1
Furniture, Furnishings & Household Equipment & Services	8.77	8.43	0.3	-0.3	-0.3	0.4	2.3	4	4.3	6.3	6	6.3	7.2
Health	6.22	6.43	3.9	4.7	5.2	6.3	5.4	5.2	5.2	5.2	4.7	4.7	5.4
Transport	10.69	11.42	3	3.6	3.6	5.9	9.4	7.4	0.3	-0.9	0.8	7.1	0.8
Automotive Fuel	3.46	3.73	3.1	5.3	2.3	8.6	19.7	13.9	-7.6	-10.6	-8	9.5	-8.2
Communication	2.18	2.14	2	2	2.4	1.8	1.2	1.6	0.3	0.6	1.1	0.2	1.2
Recreation	11.87	12.55	-1.7	-2.4	1.2	2.7	3.5	3.9	4.1	6.8	3.5	6.4	6.1
Travel & Accommodation	5.38	6.02	-7.1	-9.1	-0.3	1.3	1.9	6.6	5.3	12.9	7.3	11.9	13.9
Education	4.43	4.34	4.7	4.7	4.8	4.8	4.8	5.5	5.2	5.2	5.5	5.5	5.5
Finance & Insurance	5.66	5.43	8.2	8.2	8.8	8.6	8.6	8.8	8.5	8.5	7.8	6.7	6.6

Source: ABS, Macrobond

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Exhibit 3: Household living costs have eased over the last 6 months

Yet rents remain elevated and sticky

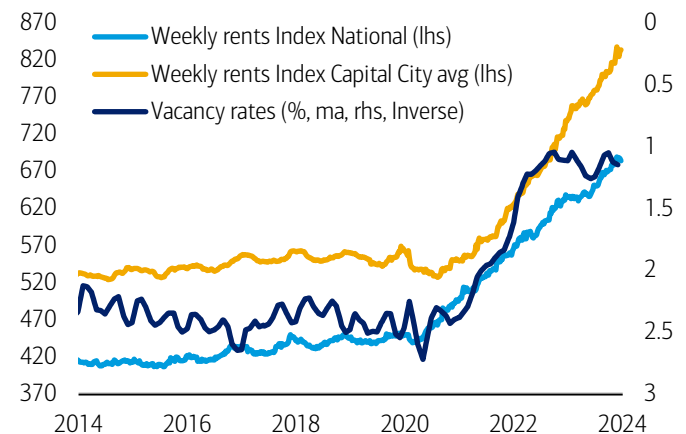


Source: ABS, Macrobond

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Exhibit 4: Rent prices are still rising fast

Suggesting the rental market remains tight



Source: SQM research, Macrobond

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