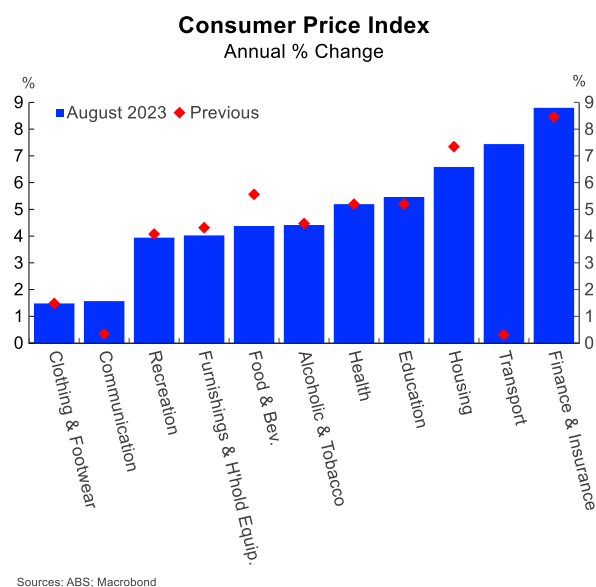
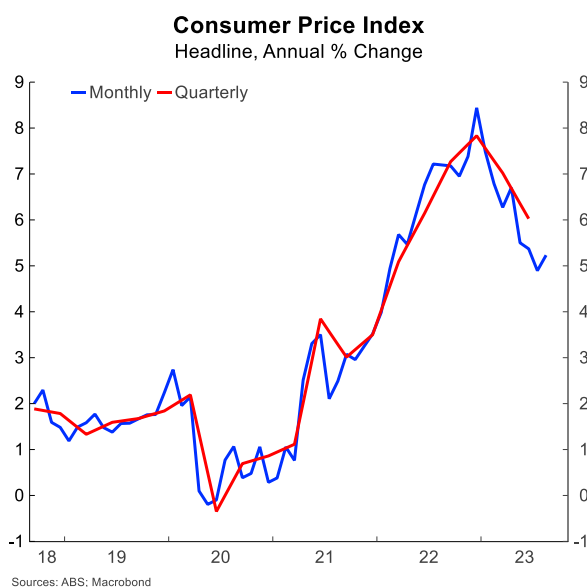


Wednesday, 27 September

Monthly CPI Indicator Disinflation, Don't Bet the House on it Yet

- The monthly inflation indicator rose 5.2% over the year to August, up from 4.9% in July. As expected, the reacceleration in headline inflation was largely driven by a rise in petrol costs as the Aussie dollar remained under pressure and the price of oil firmed.
- When excluding volatile items (like petrol) annual inflation slowed to 5.5% in August from 5.8% in July, illustrating that the disinflation impulse is still alive and kicking. However, disinflation remains concentrated in goods items. Services disinflation stalled - a positive given the backdrop of higher minimum and award wages, but further progress is required.
- Disinflation might still be here, but I wouldn't bet the house on it just yet. The momentum of inflation suggests it's too early to call victory. In 6-month annualised terms headline inflation accelerated in the month, while the core measure barely budged. This is a potential sign that inflation is becoming sticky.
- Despite continued progress, the biggest drivers of inflation remain housing (+6.6%), transport (+7.4%) and food (4.4%). Insurance costs (+14.7%), however, are becoming an increasingly large contributor to inflation and continue to accelerate, presenting another upside risk.
- All-in-all the inflation result will do little to sway the Reserve Bank (RBA) from its 'on-hold' stance at the October meeting. The disinflation pulse in goods remains intact and services inflation is at least not getting worse. There are some early signs of stickiness in some areas, but this will need to be confirmed by the official quarterly release next month.



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