

Economic Bulletin.


21 January 2020



Preview of December quarter CPI: 24 January, 10:45am.

- We expect a 0.4% rise in the Consumers Price Index (CPI) for the December quarter, with annual inflation lifting to 1.8%.
- Travel-related costs such as airfares and accommodation will account for much of the quarterly increase.
- We also expect stronger than average contributions from food, fuel and electricity prices, which contribute to the rise in the annual inflation rate.
- Our forecast is higher than the Reserve Bank's estimate, though the difference is on the more transitory tradables side of the CPI.

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We expect this Friday's release to show a 0.4% rise in consumer prices over the December 2019 quarter. That would lift the annual inflation rate from 1.5% to 1.8%, leaving it in much the same range that it has lingered for the last few years – close to, but just below, the 2% midpoint of the Reserve Bank's inflation target.

Our forecast for the quarter is in line with market forecasts, but is higher than the 0.2% that the Reserve Bank expected in its last *Monetary Policy Statement*. However, the difference this time is on the tradables side of the CPI, where price changes tend to be more transitory. In contrast, we expect non-tradables inflation to ease off a little in the December quarter, after a much stronger than expected lift last quarter. Consequently, a result in line with our forecast would have only a minor impact on the outlook for monetary policy.

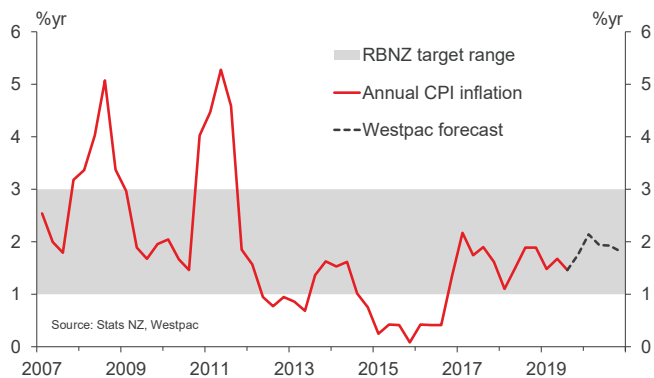
The CPI is strongly affected by seasonal price changes in the December quarter. The biggest positive contribution typically comes from the travel-related categories, with large increases in airfares, accommodation and car rentals over the holiday period. Petrol prices were also about 1% higher on average over the quarter.

Housing-related costs remain an ongoing contributor to overall inflation, with increases in rents, newly-built homes and insurance. There was also a notable rise in electricity prices, which is unusual for this time of year.

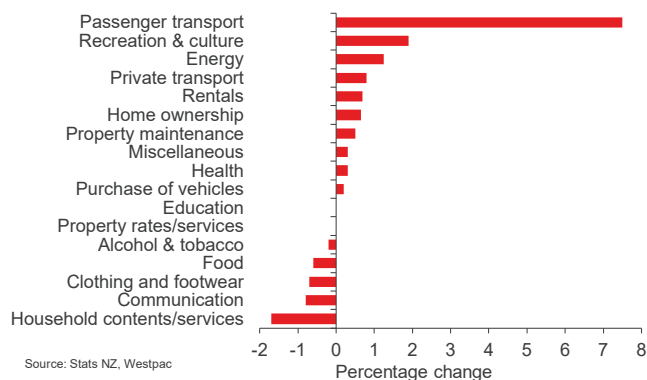
The major negative for the quarter is likely to be household goods, due to the usual year-end discounting. Food prices also tend to fall over the December quarter, although the 0.6% decline this year was smaller than in previous years – in particular, fresh vegetable prices did not fall as much as usual.



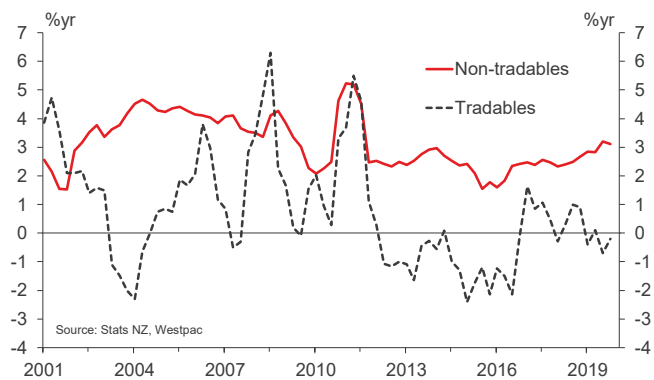
Annual inflation forecast



Contributions to Q4 forecast



Tradables and non-tradables inflation



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