# CPI Preview – underlying inflation near target

## Key Points

- We expect Headline Q1 CPI of 0.8% q/q, supported by an unwind of electricity rebates after 2 quarters of low outcomes
- For the more policy-relevant trimmed mean indicator, we continue to expect a rise of 0.6% q/q. That's a tenth below the RBA's February forecast, though we note the risks do skew higher to a 0.7% q/q outcome.
- There is ongoing disinflation across a range of market services categories and housing components have cooled from their mid 2024 pace. Q4's 0.5% q/q outcome was flattered by the rent assistance increase, and elevated administered services categories are a support in Q1.
- We think the tariff shock is ultimately disinflationary for Australia and include a 'Box' detailing trade diversion incentives that support that assessment. Unlike some central banks, we don't think the RBA is constrained by inflation and so can be proactive in responding to global headwinds.
- Given the deterioration in the global backdrop, we think a May cut is less sensitive to the April 30 CPI outcome, the question is instead how large it will be. Our base case is that the RBA will deliver a 50bp cut to take policy more quickly toward neutral. Exceptionally elevated uncertainty means forecasts are subject to larger-than-usual error bands.

## RBA Implications

The RBA wrote in its April Statement that "*monetary policy is well placed to respond to international developments if they were to have material implications for Australian activity and inflation.*" We agree.

A May cut is now less sensitive to the Q1 CPI decision, but an outcome in line with our forecast for a 0.6% q/q trimmed mean would help the RBA feel comfortable the balance of risks have shifted sufficiently to deliver a 50bp cut in May. If our forecast is realised, 6-month annualised core inflation will be running at 2.2% at a time when the distribution of risks to growth have shifted to the downside.

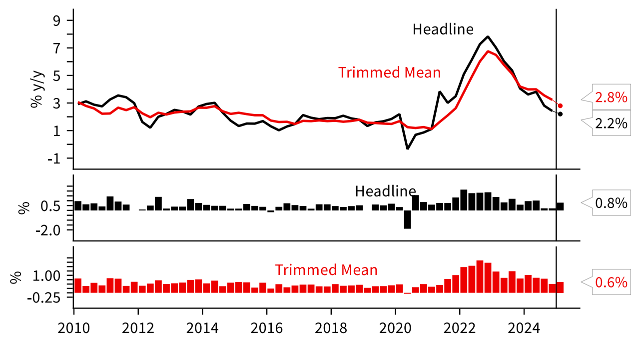
Australia is comparatively well-placed facing into tariff impacts, but growth headwinds from the global backdrop are material and risks have intensified. Unlike many other central banks, the RBA will not be constrained by inflation should they need to ease more aggressively in response to deteriorating growth or rising unemployment.

Table 1: Consumer Price Index Forecasts

| | Actual | | | | | Forecast | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
| Headline CPI | | | | | | | | | |
| CPI - NSA | | | | | | | | | |
| %q/q | 1.0 | 1.0 | 0.2 | 0.2 | | 0.8 | 0.6 | 0.6 | 0.6 |
| %y/y | 3.6 | 3.8 | 2.8 | 2.4 | | 2.2 | 1.8 | 2.2 | 2.6 |
| | | RBA February SoMP: | | | | | 2.4 | | 3.7 |
| Core Measures | | | | | | | | | |
| Trimmed Mean | | | | | | | | | |
| %q/q | 1.0 | 0.9 | 0.8 | 0.5 | | 0.6 | 0.6 | 0.6 | 0.6 |
| %y/y | 4.0 | 4.0 | 3.6 | 3.2 | | 2.8 | 2.6 | 2.4 | 2.4 |
| | | RBA February SoMP: | | | | | 2.7 | | 2.7 |

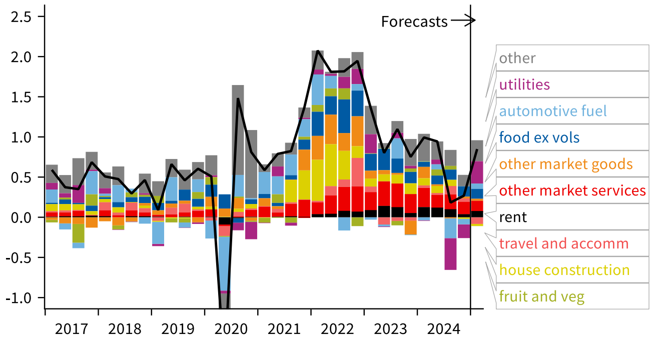
Source: National Australia Bank, ABS

Consumer Price Index Forecast




Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Contributions to quarterly headline CPI (SA)




Source: National Australia Bank, ABS

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## Summary

Support for inflation in Q1 comes from the partial unwind of electricity rebates, after these subtracted from inflation in H2 2024, and from a rise in fuel prices in the quarter. Many health and education prices adjust in Q1, and those, alongside other administered services prices, remain elevated and tend to be both less responsive and less sensitive to broader cyclical conditions.

Elsewhere, market services components closely watched by the RBA as an indicator of domestic inflation pressures are on track for an encouraging outturn in Q1, with further disinflation across a range of household services and insurance. Housing components have shifted materially in the past 6-9 months. Markets goods prices are seen little changed in Q1 and further out we see the intensification in US tariff policy as placing downward pressure on these components.

We forecast trimmed mean inflation of 0.6% q/q in Q1. We think that the RBA's February inflation outlook is a little too cautious, though note that still elevated administered services inflation combined with electricity and fuel both falling on the high side of the trimmed mean this quarter, leave the risks on the Q1 trimmed mean outturn skewed upward to the RBA's 0.7% q/q forecast.

### Inflation heatmap with Q1 forecast

(relative to last time inflation sustained at target)

| | | annualised % change | | | |
|---|---|---|---|---|---|
| | weight | q/q | 6m | 12m | benchmark* |
| **Food and Beverage** | | | | | |
| *grocery ex fruit & veg* | 8.3 | 3.2 | 3.1 | 2.9 | 0.7 |
| *fruit & veg* | 2.1 | -0.3 | -0.2 | 5.9 | 2.5 |
| *Alcohol* | 4.7 | 3.3 | 3.8 | 3.7 | 2.3 |
| *Meals out and Takeaway* | 7.1 | 2.4 | 2.5 | 2.7 | 2.3 |
| **Housing** | | | | | |
| *Rent* | 6.6 | 4.8 | 3.6 | 5.5 | 3.5 |
| *Home purchase* | 7.6 | -1.3 | -1.1 | 1.5 | 3.0 |
| *Maintenance and repair* | 2.0 | 4.0 | 2.8 | 2.7 | 2.1 |
| *Utilities/rates* | 5.1 | 25.0 | 5.1 | -3.0 | 7.9 |
| **Market services** | | | | | |
| *Household Services* | 6.4 | 3.1 | 3.5 | 3.9 | 3.1 |
| *Insurance & Financial* | 5.6 | 2.2 | 2.8 | 3.8 | 2.3 |
| *travel* | 6.1 | -5.3 | -1.3 | 1.5 | 1.6 |
| **Market goods** | | | | | |
| *Other market goods*** | 17.1 | 0.6 | 0.6 | 0.3 | -1.3 |
| *Automotive fuel* | 3.3 | 8.1 | -0.1 | -5.1 | 2.7 |
| **Government-influenced** | | | | | |
| *Education & Health* | 11.6 | 6.1 | 5.0 | 4.3 | 5.1 |
| *Tobacco* | 1.9 | 10.9 | 12.2 | 12.9 | 11.7 |
| *Other services^* | 4.5 | 2.8 | -0.7 | 0.6 | 2.4 |
| **Trimmed mean** | 70.0 | 2.5 | 2.3 | 2.8 | 2.5 |
| **Headline** | 100.0 | 3.4 | 2.3 | 2.3 | 2.5 |

*average change over 6 years to Q2 2015, when headline and trimmed mean averaged 2.5%

**ex houses, tobacco, food, fuel, alcohol | ^public transport, postal, vehicle rego, childcare, telco

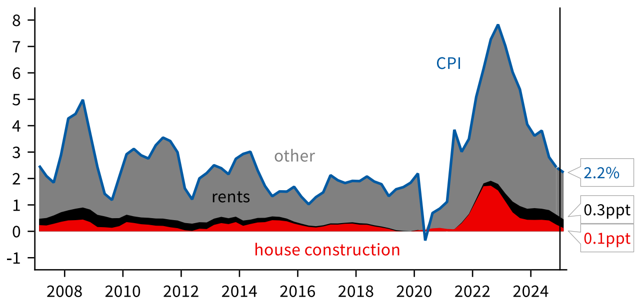
Source: National Australia Bank, ABS

## Housing

**Rents** inflation was artificially soft in Q4 due to the introduction of higher rent assistance, but further cooling was always in train as average rents growth in CPI converged to more benign price growth in newly agreed contracts. Rents growth was 0.3% m/m in December and January setting up the prospect that this was flowing through a little more quickly than we had been expecting, though the 0.5% m/m increase in February balances that risk.

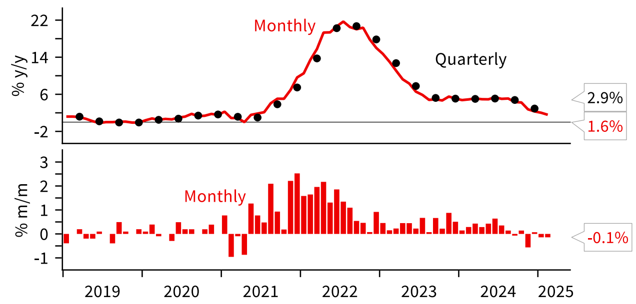
**New Dwelling Purchase** costs are set to fall for a second consecutive quarter (we pencil in -0.3% q/q). Prices until mid-2024 had been rising at near 5% in annualised terms, contributing 4 tenths to annual inflation. Slower input cost inflation and fading in more acute capacity constraints have seen price pressures ease and we expect prices to be broadly stable in the near term. Risks are asymmetric for the trimmed mean outlook. Price falls would not subtract much from trimmed mean given the component is already toward the bottom of the expected distribution of prices, but an unexpected reacceleration would add to the trimmed mean.

### Housing contribution to CPI



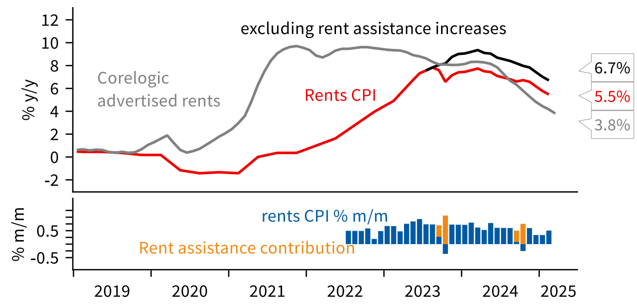

Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

### New Dwelling Inflation




Source: National Australia Bank, ABS

### Rents CPI



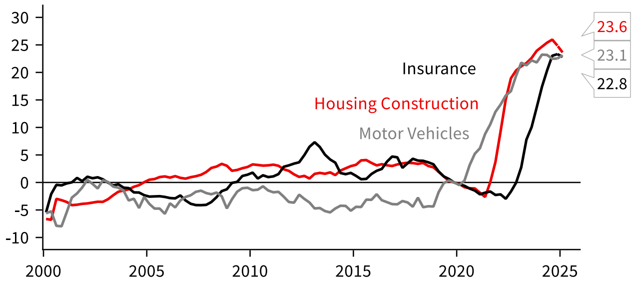

Source: National Australia Bank, Australian Bureau of Statistics, CoreLogic

## Market Services

**Market services** inflation has moderated substantially. **Insurance** premiums have slowed sharply, and price rises over the past 6 months now look more benign. Insurance premiums had been playing catch up to the replacement costs of the underlying insured items, like cars and houses, but have now seen similar levels of cumulative 'excess inflation'.

Insurance and replacement costs

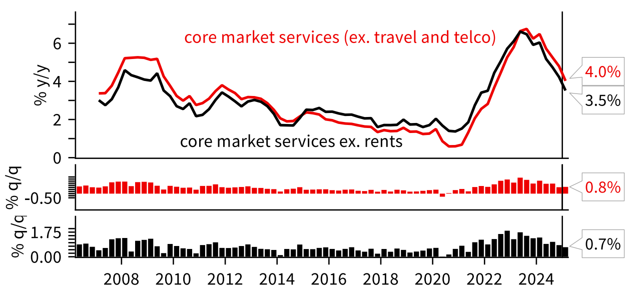
cumulative deviation from trend since 2019*




*i.e. insurance costs have grown 22.8% more since Q4 2019 than if they had grown at their 2010-19 trend
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Disinflation across market services has been broader than just insurance. **Household services** look to be annualising a little over 3%, which was consistent with sustained at target inflation in the 6 years to 2015. These are parts of the basket that have a high share of labour costs in their cost base and the RBA has been looking to this component for signals on cyclical and labour market pressures. The recent cooling should be encouraging as the RBA continues to confront their assessment of an overly tight labour market. We explored the RBA's assessment of full employment in *'RBA not yet convinced on lower NAIRU'* .

Market Services Inflation




*Seasonally adjusted; calculated by NAB from ABS data and NAB forecasts
Source: National Australia Bank, ABS

## Administered Services

Administered prices (where public sector pricing decisions have a larger impact) are a large influence in the first quarter with many annual price adjustments taking place and are set to remain elevated. Education was measured in February and is set to rise around 5% q/q (nsa). Some of the reflects lagged indexation in tertiary fee schedules, but private school fee increases also remain elevated. Higher Melbourne public transport fares also supported urban transport fares in Q1.

Health prices remain a key uncertainty (and are measured in the March month).

## Other Selected Detail

- **Grocery** inflation remained somewhat elevated in Q1, in part reflective of higher prices for cocoa, coffee and some other input prices. More volatile **fruit and veg** inflation moderated.

- **Electricity** prices had been suppressed by large payments to households made through electricity bills. Those rebates began to unwind in Q1, largely driven by the progressive exhaustion of the one-off Queensland payment that will continue in Q2. The largest impact, from the end of the federal government subsidy, is now delayed to Q1 2026 after a 6-month extension.

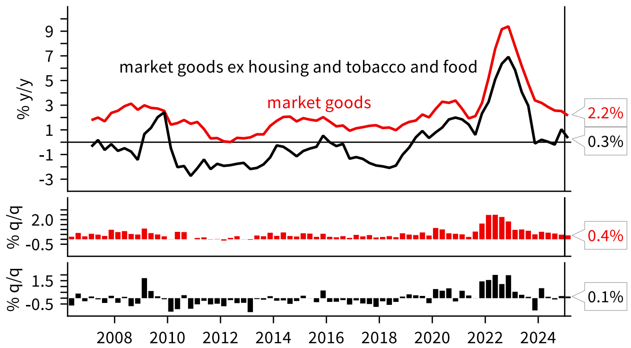
- **Fuel** was higher in the quarter, +1.9% q/q, but automotive fuel will follow oil lower and is on track to decline in Q2.

- **Travel & accommodation prices declined more than seasonally, driven by international travel.** Domestic holiday travel is on track to be near the 15th percentile. A surprisingly strong outturn in March is an upside risk to the trimmed mean.

## Market Goods

**Market goods** ex food, fuel and houses, capturing mostly trade-exposed durable goods, are expected to be benign in Q1 at 0.1% q/q. Most of these prices are not measured monthly and are already measured for Q1, with the notable exception of **motor vehicles**, where we pencil in a +0.3% q/q (-0.4% sa).

Market Goods Inflation*




Seasonally adjusted; calculated by NAB from ABS data and NAB forecasts
Source: National Australia Bank, ABS

## Box: Tariffs and Australia's CPI

There are competing forces on domestic inflation from the tariff shock, but we expect that the tariff shock will ultimately be disinflationary. Higher barriers on imports into the US create incentives for trade diversion. The 90-day pause has reduced that incentive for many of our East and Southeast Asian trading partners (for now), though the uncertainty could still encourage exporters in those countries to favour Australian counterparties. Regardless, most finished consumer goods imports come from China, and US tariffs on Chinese imports, with limited exceptions, are now very high.

The US import mix is generally less skewed towards China compared to Australia's, and in categories like Electronics and Furniture, has been shifting towards ASEAN countries since 2017-2018 alongside increasing attention on imbalanced trade with China. Even so, the US is much larger than Australia. China exports 6-9 times as much to the US as to Australia for categories including Furniture, Electrical and Clothing & Footwear, and 14 times as much recreational and other miscellaneous manufacturers (consumer durables from sporting equipment, to toys, to hairbrushes) where US imports remain more concentrated from China.

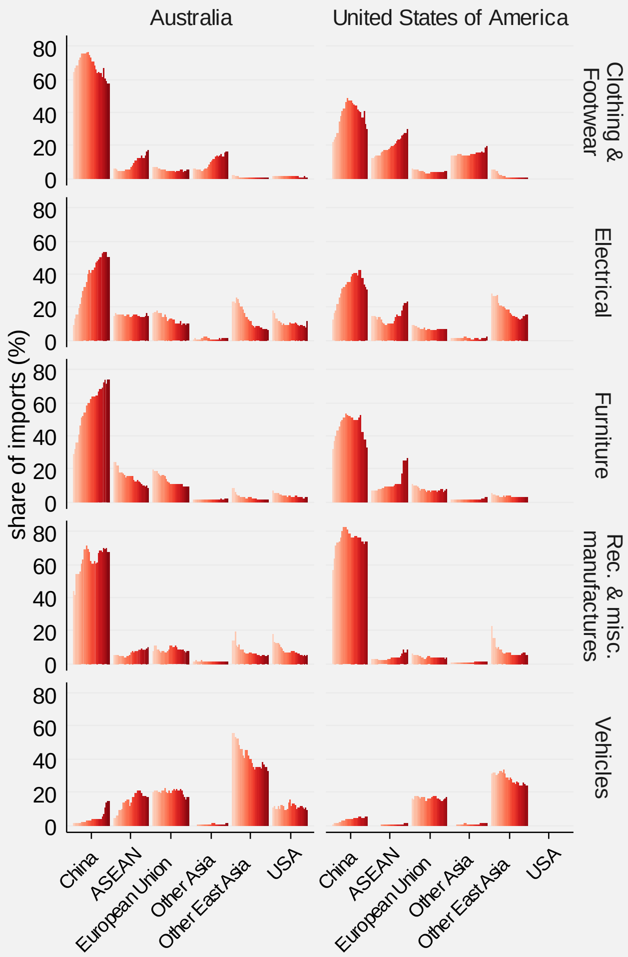
Trade diversion incentives depend on both of the level of US tariffs and of the gap between a country's tariff rate and export competitors' rates. From that perspective, while the disruption to global trade flows and global growth will be smaller if tariffs on our other trading partners are negotiated down beyond the 90 day pause, it doesn't necessarily follow that the trade diversion incentives will be smaller.

Australian importers are used to dealing with Chinese counterparties, and a near-prohibitive tariff on China and modest tariffs elsewhere increases Chinese exporters' need to find alternative markets compared to a situation where US tariffs ranged from 20-35% across a range of exporting countries. Among finished goods, product specific tariffs for some consumer electronics and autos do apply, but (for now) they are in categories where imports are less concentrated in China to begin with.

Our assessment is that this shock will on net be disinflationary over time. Some currency impact, including through autos from Europe and Japan, may be a partial and short-term offset. Disruptions or cost pressures where intermediate goods cross tariff barriers before export to Australia may also be a challenge for certain sectors. Much will depend on how enduring tariff increases are and how US tariff policy and countermeasures evolve.

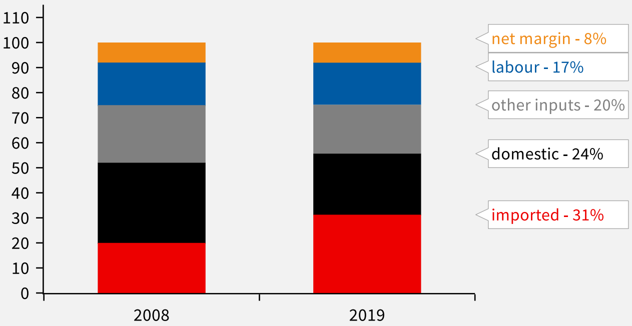
About 55% of retail goods prices is cost of goods sold, and more than half of that is imported costs. Goods (excluding houses) are just under half of the CPI by weight and about 2 thirds of those are trade exposed. As a rule of thumb, each 1% fall in imported consumer goods prices subtracts 1-2 tenths from CPI.

### Consumer goods import shares (2000 to 2023)




Source: WTO, NAB

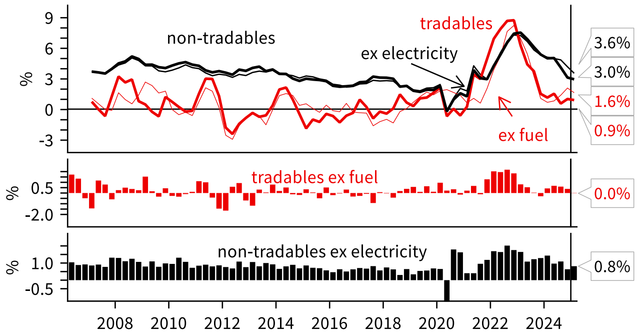
### Consumer goods cost structure




Source: National Australia Bank, ABS

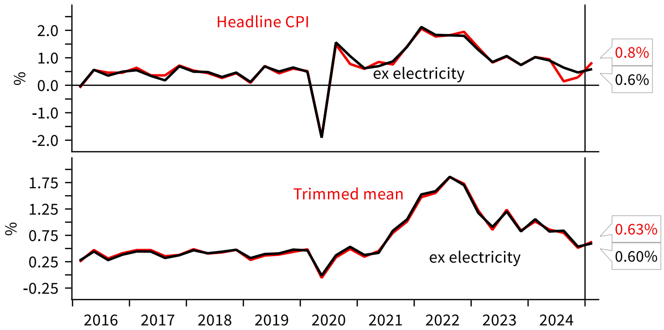
# Other Charts and Tables

## Tradable and non-tradable inflation




Source: National Australia Bank, ABS

## CPI excluding electricity* (seasonally adjusted)




*Calculated by NAB from based on EC level data according to a reweighted basket that excludes Electricity
Source: National Australia Bank, ABS

**Consumer Price Index - Component Expectations (NSA)**

| | Dec-24 | NAB Mar-25 | NAB Qtr cont. | in CPI Basket |
|---|---|---|---|---|
| Food and non-alcoholic beverages | 0.2 | 1.1 | 0.2 | 17.4 |
| *Fruits and vegetables* | *-3.3* | *2.0* | *0.0* | *2.0* |
| *Restaurants and takeaway* | *0.6* | *0.6* | *0.0* | *7.1* |
| Alcohol and tobacco | 2.4 | 1.2 | 0.1 | 6.6 |
| Clothing and footwear | 0.1 | -0.4 | 0.0 | 3.3 |
| Housing | -0.7 | 1.4 | 0.3 | 21.4 |
| *Rents* | *0.6* | *1.2* | *0.1* | *6.6* |
| *New dwellings* | *-0.2* | *-0.3* | *0.0* | *7.6* |
| *Utilities* | *-4.9* | *6.3* | *0.2* | *3.7* |
| Household equip and services | -0.2 | -0.8 | *-0.1* | 8.0 |
| Health | -0.2 | 2.2 | 0.1 | 6.7 |
| Transport | -0.7 | 1.0 | 0.1 | 11.4 |
| *Automotive fuel* | *-2.0* | *2.0* | *0.1* | *3.3* |
| *Motor vehicles* | *-0.2* | *0.3* | *0.0* | *3.5* |
| Communication | 0.5 | 0.2 | 0.0 | 2.1 |
| Recreation and culture | 1.5 | -1.8 | -0.2 | 12.7 |
| *Audio, visual and computing equip.* | *-1.0* | *-2.8* | *0.0* | *1.0* |
| *Domestic travel and accom.* | *5.7* | *-0.5* | *0.0* | *3.2* |
| *International holiday travel and accc* | *0.3* | *-7.6* | *-0.2* | *3.1* |
| Education | 0.0 | 5.0 | 0.2 | 4.7 |
| *Secondary education* | *0.0* | *6.3* | *0.1* | *2.0* |
| *Tertiary education* | *0.0* | *3.6* | *0.1* | *1.7* |
| Insurance and financial services | 0.8 | 0.5 | 0.0 | 5.6 |
| **Headline CPI** | **0.2** | **0.8** | **0.8** | -- |
| Trimmed Mean, sa | 0.5 | 0.6 | -- | 70 |

Source: National Australia Bank, ABS

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