

Economic Analysis

CPI May 2023

The monthly CPI indicator rose by 5.6% over the year to May 2023, down from 6.8% in April. This was a downside surprise to the market participants, who expected a decline to 6.1%.

%	MoM (s.a.)	YoY
Headline CPI	0.0	5.6
Annual Trimmed Mean	-	6.1
CPI Ex Volatile Items and Holiday Travel	0.5	6.4

The monthly CPI indicator was unchanged in May in seasonally adjusted terms.

Turning to the underlying inflation rates, the CPI indicator excluding volatile items and holiday travel rose a seasonally adjusted 0.5% in the month, to be up 6.4% through the year. The annual rate of trimmed mean inflation dropped 0.6ppts to 6.1% (the ABS does not provide the monthly rate of change for this series).

Groups

The decline in the annual rate of growth in the monthly CPI indicator was driven by an 8.0% YoY drop in automotive fuel prices, which was due to a higher statistical base from a year ago. This was reflected in the annual rate of transport price growth dropping back to 0.8%.

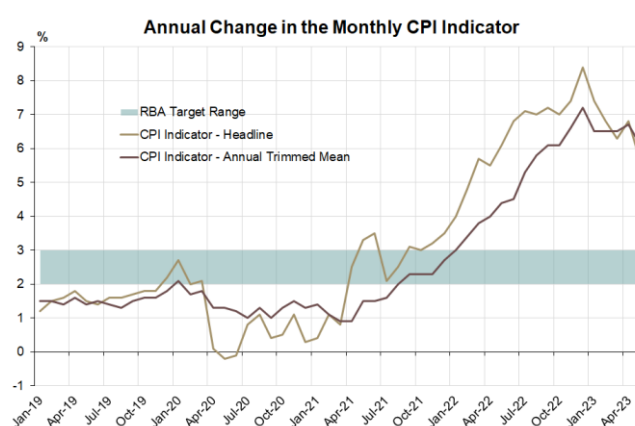
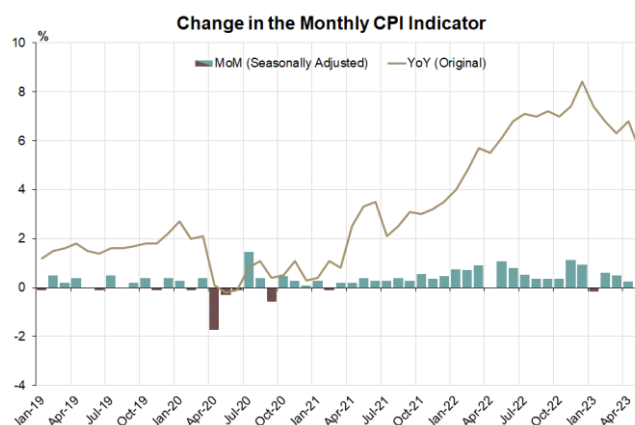
Prices of clothing and footwear were 0.4% lower than a year ago. The annual rate of price growth of recreation and culture almost halved to 3.5% from 6.4% YoY in April, with price growth in holiday travel and accommodation slowing to 7.3% YoY.

At the same time, food and non-alcoholic beverages (7.9% YoY) and housing (9.4% YoY) continued to rise quickly. New dwellings saw an 8.3% increase through the year, somewhat slower than the 9.2% recorded in April. Rents rose by 6.3% YoY in May, 0.2ppts faster than in the previous month. Electricity prices were 14.1% up from a year ago in May.

Some discretionary items, such as takeaway food and furnishings, household equipment and services, continued to record solid annual growth rate in prices.

% , Original	MoM	YoY
Food and Non-alcoholic Beverages	1.0	7.9
Alcohol and Tobacco	0.1	4.7
Clothing and Footwear	-1.9	-0.4
Housing	0.3	8.4
Furnishings, Household Eq. and Serv.	0.3	6.0
Health*	0.0	4.7
Transport	-2.0	0.8
Communication	0.8	1.1
Recreation and Culture	-4.4	3.5
Education*	0.0	5.5
Insurance and Financial Services	1.1	7.8

*Updated quarterly.



Comment

The drop in headline inflation in May was expected by market economists, given the higher statistical base for fuels from a year ago.

However, the scale of this drop proved somewhat larger mainly due to surprisingly quick slowdown in price growth for holiday travel and accommodation. Prices for another discretionary group, clothing and footwear, also declined in May.

That said, inflation is still too high, especially for the underlying measures. Annual trimmed mean inflation, while it declined, is now higher than headline. Inflation excluding the volatile items and holiday travel was hardly changed in May.

What is more, some discretionary items continued to see solid increases in prices in May.

There were items that continued to record acceleration in price growth in May, most notably rents.

After the May CPI indicator figures, the probability of an RBA cash rate hike next week declined below 30%, with the peak of the cycle at 4.35%. However, the risks to this path are to the upside and the RBA Board meeting next week is definitively live.

28 JUNE 2023

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