

# CPI December & Q4 2024

The headline CPI (unadjusted) rose 0.2% in Q4 2024, taking the annual inflation rate 0.4ppts lower to 2.4% (mkt exp. 0.3% QoQ and 2.5% YoY).

The trimmed mean, which is the RBA's preferred underlying price gauge, rose by 0.5% QoQ and 3.2% YoY (mkt exp. 0.6% QoQ and 3.3% YoY).

%, Original	QoQ	YoY
Headline CPI	0.2	2.4
Market Sector Ex Volatile Items	0.4	2.7
Trimmed Mean CPI	0.5	3.2
Goods	-0.1	0.8
Services	0.7	4.3
Non-tradables	0.3	3.1
Tradables	-0.2	1.1

The monthly CPI indicator suggested that annual headline inflation picked up 0.2ppts to 2.5% in December, while the annual trimmed mean inflation declined 0.5ppts to just 2.7%. However, the monthly CPI is given less weight by the RBA.

## Groups

Headline inflation is being subdued by the impact of household electricity credits. The electricity subindex declined by 9.9% QoQ and 25.2% YoY. Without this measure, electricity prices would have risen by 0.2% QoQ in Q4.

In addition, dwelling prices fell by 0.2% in the quarter, the first fall in 3.5 years, to be up by just 2.9% YoY. Rent price growth slowed to 0.6% QoQ and 6.4% YoY, partly thanks to an increase in Commonwealth rent assistance.

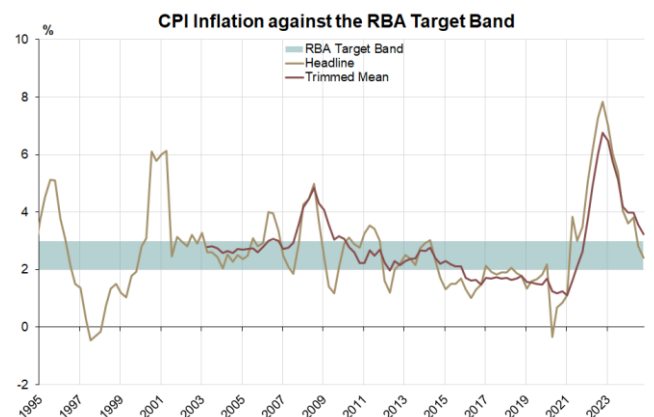
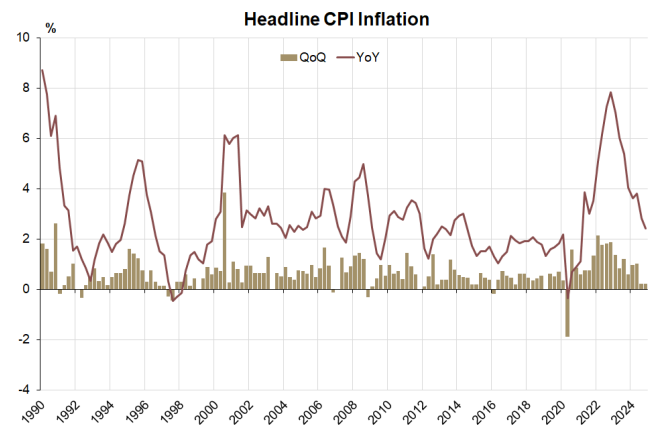
Automotive fuel prices fell another 2.0% QoQ and 7.9% YoY. There were also quarterly declines in health (the impacts of the pharmaceutical benefits and 60-day prescriptions; -0.2%), as well as furnishing, household equipment, and services (also -0.2%).

## Capital Cities

While quarterly inflation varied across capital cities, annual CPI inflation declined in all mainland capitals except for Brisbane, where inflation was steady at 1.8%, reflecting the impact of their state electricity credit.

The Perth CPI rose 0.7% QoQ and 2.9% YoY, the most of all mainland capital cities, with the electricity price index being the biggest contributor, as the first instalment of the WA Government's household electricity credit had been used up.

Capital Cities (% , Original)	QoQ	YoY
Perth	0.7	2.9
Sydney	-0.1	2.4
Melbourne	0.1	2.5
Brisbane	0.6	1.8
Adelaide	-0.1	2.5
Hobart	1.5	1.5



## Comment

The Q4 CPI report has provided support to the scenario of an upcoming cash rate cut from the RBA.

The headline inflation rate is around the mid-point of the RBA's 2-3% target range, while annual trimmed mean inflation could fall below 3.0% as early as Q1 this year.

The RBA does not look at one data point in determining policy and would be uncomfortable with the ongoing high rate of services price inflation as well as recent signs that the labour market may have tightened further toward the end of 2024. Unfortunately for the RBA, the next labour market report will not be available until two days after the February Board meeting.

However, it is hard to ignore the sharp change in RBA rhetoric in December, with the minutes of the final Board meeting of 2024 showing increased concern for the outlook. RBA Board members viewed the upside risks to inflation as having diminished and downside risks to activity as having strengthened.

Given this change in outlook and the faster-than-projected decline in underlying inflation, an interest rate cut in February is very much on the cards, although to us the probability is closer to 50% than the current market pricing of around 100%.

**29 January 2025**