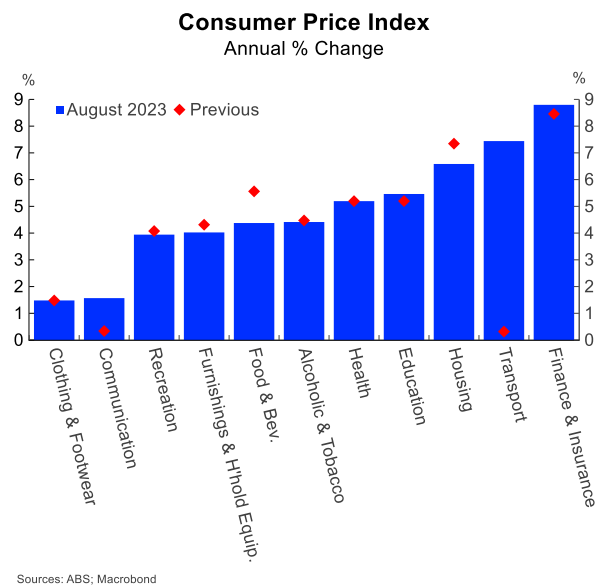
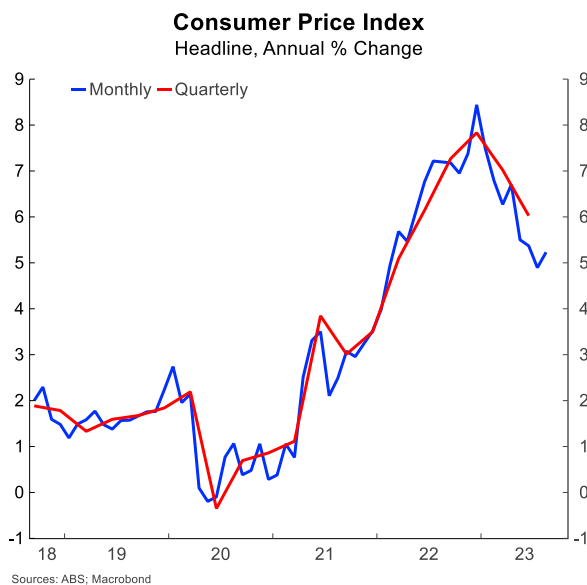


Wednesday, 27 September

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.



Jameson Coombs, Economist
Ph: +61 401 10 789

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist

Jarek Kowcza
Jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Senior Economist

Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
0468 571 786

Economist

Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
0401 102 789

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.