

Markets Research Economy Watch



CPI Preview – underlying inflation approaching target

Key Points

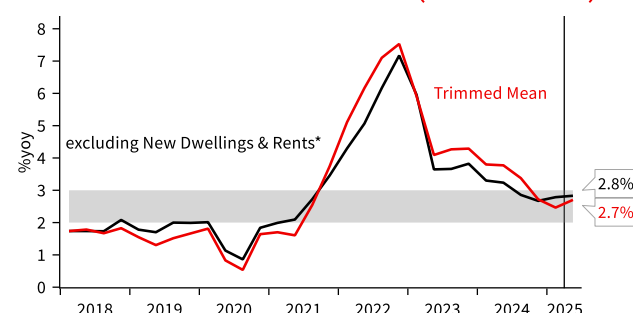
- The RBA July Statement noted that Q2 inflation was likely to be 'broadly in line' with the May SoMP, but monthly indicators were *"at the margin, slightly stronger than expected."*
- That is in line with our own assessment. The RBA in May forecast trimmed mean inflation of 0.6% qoq and 2.6% yoy. We see a 0.7% qoq and 2.7% yoy as the more likely outcome. Though a 0.6 is possible, our forecast to 2 decimal places, unhelpfully, is 0.66%.
- We expect Headline Q2 CPI of 0.8% qoq and 2.2% yoy, supported by a further unwind of electricity rebates.
- April's surprising strength in new dwelling prices is the key support relative to the RBA's May forecast. Shelter categories have been the key driver of recent disinflation. 6m-annualised trimmed mean inflation fell 0.9ppt to 2.5% between Q3 2024 and Q1 2025. Calculated excluding New Dwellings and Rents, the measure fell just 1 tenth to 2.8% over the same period.
- Travel, grocery, and durable goods prices were also sources of upward pressure in the quarter but are not of particular concern for the outlook beyond Q2.
- On the other hand, market services disinflation has continued, particularly in insurance. Market services are now running below rates that have previously been consistent with at-target inflation.
- The RBA in July demonstrated they will remove policy restrictiveness more cautiously than we had expected. We don't think Q2 CPI data will stand in the way of an August cut and continue to expect the RBA will move policy to broadly neutral settings to sustain low unemployment and support the pickup in growth. NAB expects cuts in August, November and February to 3.1%

Table 1: Consumer Price Index Forecasts

	Actual				Forecast			
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Headline CPI								
%qoq	1.0	0.2	0.2	0.9	0.8	0.7	0.6	1.0
%yoy	3.8	2.8	2.4	2.4	2.2	2.7	3.1	3.1
	RBA May SoMP:				2.1		3.0	
Trimmed Mean								
%qoq	0.9	0.8	0.5	0.7	0.7	0.6	0.6	0.6
%yoy	4.0	3.6	3.3	2.9	2.7	2.5	2.6	2.5
	RBA May SoMP:				2.6		2.6	

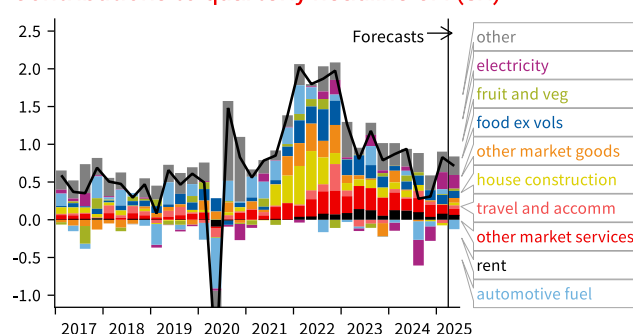
Source: National Australia Bank, ABS

Trimmed Mean Inflation and Shelter (6m annualised)



*Calculated by NAB using EC level data and a reweighted basket that excludes New Dwellings & Rents
Source: National Australia Bank, ABS

Contributions to quarterly headline CPI (SA)



Source: National Australia Bank, ABS

Summary

- **Shelter:** the leg lower in trimmed mean outcomes from Q3 2024 was driven by New Dwellings and Rents. That source of disinflation is nearly exhausted
- **Services:** Insurance and household and financial services have cooled further. What was a source of concern for the RBA about the 'last mile' of disinflation are now running below levels that have previously been consistent with target.
- **Goods:** Non-food goods prices ran a little hotter through H1 2025 as the earlier depreciation in the AUD fed through into import prices. Food inflation has also been stronger.
- **Electricity:** Electricity subsidies have added noise, suppressing inflation in H2 2024 and adding back in H1 2025

Beyond shelter, the broader inflation basket has shown ongoing gradual progress, even with Q1, like in 2024, showing being stronger than surrounding quarters due to the timing of still-elevated administered price resets in health and education.

Travel prices are of some support in the quarter, and the Q2 trimmed mean outcome is sensitive to the size of the seasonal increase in international travel costs in June.

Looking forward, our assessment remains that the economy and labour market are near balance and consistent with inflation stabilising near target. A weaker than expected pickup in demand growth could see inflation below the mid-point of the RBA band. Conversely, capacity constraints may bind sooner than we expect, both in housing and more broadly if productivity proves so weak that the labour market retightens alongside a further pickup in growth.

Inflation heatmap with Q2 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	2.8	2.9	2.9	0.7
fruit & veg	2.1	5.8	4.0	4.2	2.5
Alcohol	4.7	0.2	1.9	3.1	2.3
Meals out and Takeaway	7.1	2.7	2.5	2.7	2.3
Housing					
Rent	6.6	3.9	4.4	4.5	3.5
Home purchase	7.5	1.9	0.1	0.8	3.0
Maintenance and repair	2.0	2.3	3.0	2.8	2.1
Utilities/rates	5.4	13.4	17.1	-0.1	7.9
Market services					
Household Services	6.4	2.1	2.6	3.6	3.1
Insurance & Financial	5.6	0.9	1.5	2.8	2.3
travel	6.0	3.2	0.2	2.4	1.6
Market goods					
Other market goods**	16.9	1.5	0.8	0.4	-1.3
Automotive fuel	3.4	-14.0	-3.6	-10.2	2.7
Government-influenced					
Education & Health	11.7	5.9	6.3	5.1	5.1
Tobacco	1.9	10.9	9.8	11.6	11.7
Other services^	4.5	4.3	3.0	1.0	2.4
Trimmed mean					
	70.0	2.7	2.7	2.7	2.5
Headline					
	100.0	2.9	3.1	2.1	2.5

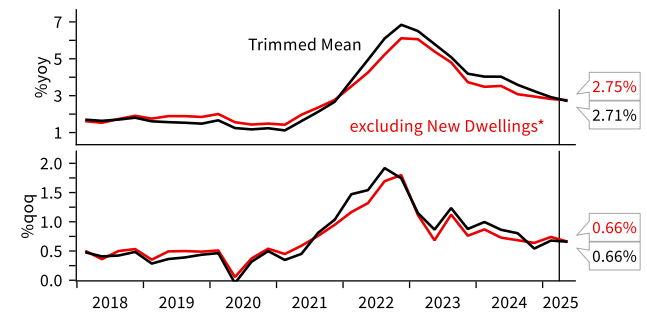
*average change over 6 years to Q2 2015, when headline and trimmed mean averaged 2.5%

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

Source: National Australia Bank, ABS

Housing

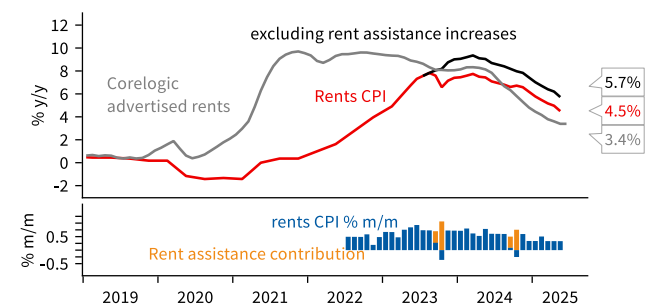
Trimmed Mean Inflation and Shelter



*Calculated by NAB based on EC level data excluding New Dwellings and Rents
Source: National Australia Bank, ABS

Rents are on track for a 1% qoq gain. CPI rents reflect the stock of all rents paid and lag new rents growth. Advertised rents growth has picked up after running at very low levels in late 2024 with vacancy rates still low and edging down over the past few months. Population growth has slowed, but housing supply remains a challenge, meaning rents growth is likely to settle a little above broader inflation.

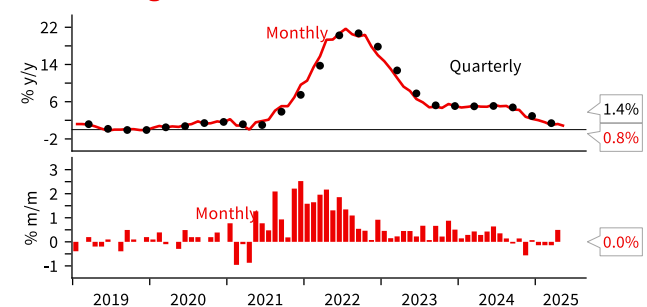
Rents CPI



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

New Dwelling Purchase costs surprised higher in April. That was not sustained in May, but even so sets up an acceleration to +0.4% qoq from -0.4% qoq in Q1. Input cost inflation has slowed in the industry, but there had been some additional slowing in the CPI component as demand for new builds slowed and discounting returned, especially in Sydney and Melbourne. In Q4 and Q1, new dwellings were subtracting substantially from the trimmed mean but are closer to the median increase in Q2.

New Dwelling Inflation



Source: National Australia Bank, ABS

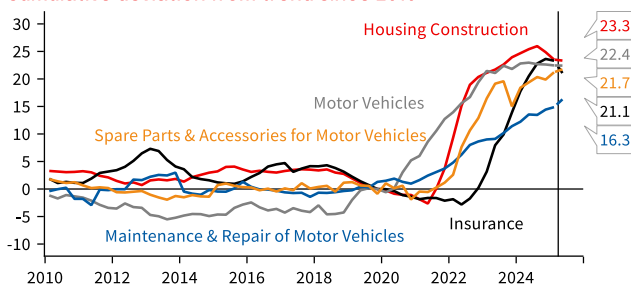
Market Services

Market services inflation has moderated substantially. It was no longer elevated relative to previous periods when inflation has sustained near target in Q1 and looks to have taken another leg lower in Q2, driven by insurance.

Insurance premiums fell in Q2, the first fall since Q2 2017. After a period of catchup, insurance premiums now appear to have normalised relative to the underlying cost of insuring cars, houses and other items. Recent falls have more to do with that dynamic than they do the domestic demand and supply balance. Note while insurance inflation is measured based on premiums, the weight of Insurance is 'only' 1.3% in the CPI because it reflects the net of premiums and payouts.

Insurance and replacement/repair costs

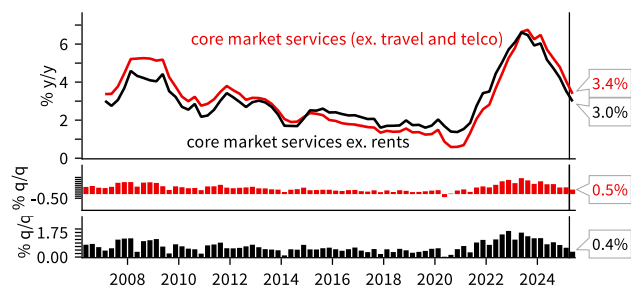
cumulative deviation from trend since 2019*



*i.e. insurance costs have grown 21.1% more since Q4 2019 than if they had grown at their 2010-19 trend
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Disinflation has been broader than just insurance. **Household services** look to annualise at a thoroughly benign 2% in Q2. These are components most sensitive to demand and labour costs should be encouraging as the RBA reckons with labour underutilisation measures that remain low. 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

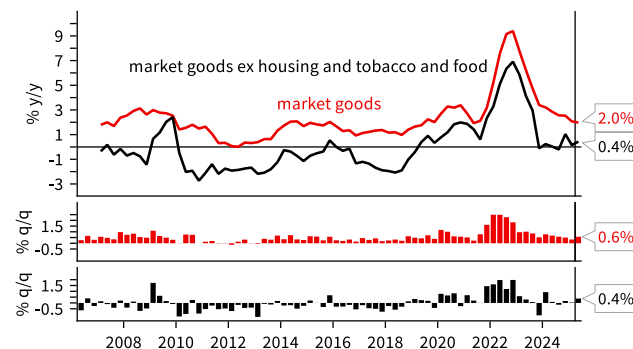
Market Goods

Market goods ex food, fuel and houses, capturing mostly trade-exposed durable goods, are tracking a little stronger in Q2, with many key categories not measured monthly and already measured for Q2 in the April Indicator. Motor vehicles are the notable exception, where we pencil in a -0.3% qoq (0.0% sa). More broadly, consumer goods import prices were stronger in Q4 and Q1, reflecting the earlier depreciation of the Australian dollar and this has supported some strengthening in goods price growth. We do not expect that

dynamic to persist.

Grocery inflation remained somewhat elevated in Q2 on a quarter average basis. That's alongside elevated global food inflation and some strength in more volatile **fruit and veg** prices alongside weather and disease disruptions. Looking forward, we expect renewed focus on discounting and a fading of earlier cost pressures should keep price growth contained.

Market Goods Inflation*

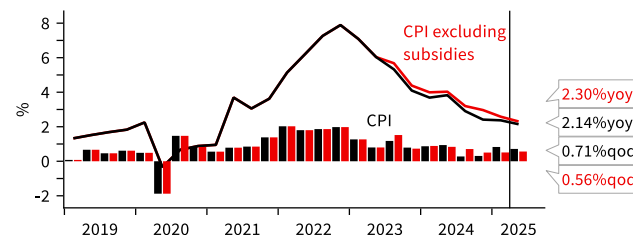


Seasonally adjusted; calculated by NAB from ABS data and NAB forecasts
Source: National Australia Bank, ABS

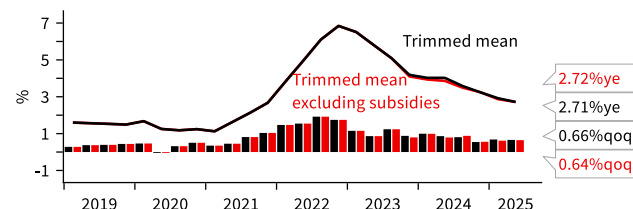
Electricity

Electricity subsidies were adding back to CPI through H1 2025 after subtracting through H2 2024. The unwind of electricity subsidies added 30bp to headline CPI in Q1 (23bp seasonally adjusted), as the share of electricity bills covered by rebates fell to 21% from 32%. It is set to contribute another 17bp (18bp sa) in Q2. That leaves another 50bp or so to be added back onto CPI, which under current policy will be mostly Q1 2026 when the broad Commonwealth rebates are set to end.

CPI (seasonally adjusted)



Trimmed Mean CPI



Source: National Australia Bank, ABS

Other Selected Detail

- **Fuel** was sharply lower in the quarter, down 3.7% qoq despite a rebound in June.
- **Travel & accommodation** prices can be volatile and are worth a material 6% of the CPI weight, so are regularly a key swing factor in trimmed mean outcomes. This quarter, domestic travel is on track to support despite the pullback in May and what is anticipated to be a relatively contained seasonal increase in June alongside the start of the ski season and in the lead up to July school holidays. International travel, in contrast, is on track for broadly flat seasonally adjusted outcome in Q2. Airfares rise seasonally in June, and NZ selected prices are consistent with a reasonably strong increase. We pencil in 10% mom for international travel.

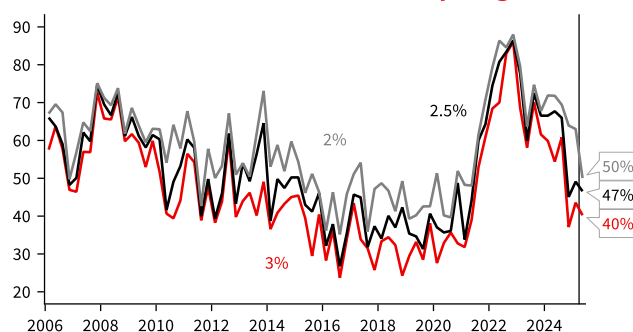
Monthly vs Quarterly

The annual trimmed mean measure from the Monthly Indicator fell to 2.4% yoy from 2.8% in May and is expected to fall further in June. It is a different, less useful concept to the RBA's preferred quarterly trimmed mean measure. The point of a trimmed mean is to ignore extreme price changes because these do not tend to be persistent and have less information about future inflation. The quarterly does that for quarterly price changes, the monthly does it for year-ended price changes. The longer window risks excluding less noise, but more signal. At the moment, education and health categories that have elevated inflation but are not particularly volatile are being excluded from the annual trimmed mean calculation for example.

Note the ABS intends to release a full monthly CPI, aiming for the end of the year. The additional information revealed in the full quarterly will shrink further.

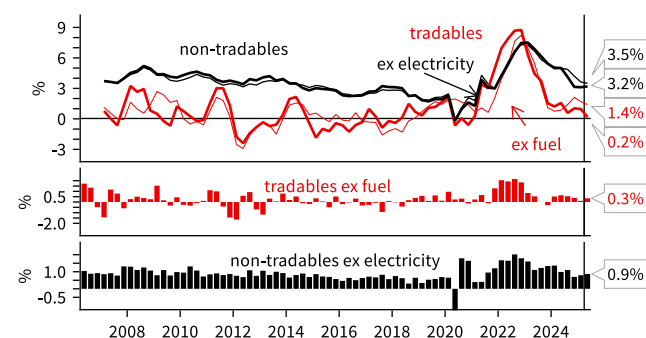
Other Charts and Tables

Share of CPI basket above threshold by weight



Source: National Australia Bank, ABS

Tradable and non-tradable inflation



Source: National Australia Bank, ABS

Consumer Price Index - Component Expectations (NSA)

	Mar-25	NAB Jun-25	NAB Qtr cont.	in CPI Basket
Food and non-alcoholic beverages	1.2	0.9	0.2	17.4
Fruits and vegetables	2.8	3.9	0.1	2.0
Restaurants and takeaway	0.6	0.7	0.0	7.1
Alcohol and tobacco	1.2	0.6	0.0	6.6
Clothing and footwear	-0.8	2.5	0.1	3.3
Housing	1.7	1.0	0.2	21.4
Rents	1.2	1.0	0.1	6.6
New dwellings	-0.4	0.5	0.0	7.6
Utilities	8.2	2.9	0.1	3.7
Household equip and services	-0.9	1.1	0.1	8.0
Health	2.9	2.1	0.1	6.7
Transport	1.0	-0.7	-0.1	11.4
Automotive fuel	1.9	-3.7	-0.1	3.3
Motor vehicles	0.2	-0.2	0.0	3.5
Communication	-0.3	0.0	0.0	2.1
Recreation and culture	-1.6	1.1	0.1	12.7
Audio, visual and computing equip.	-2.4	2.2	0.0	1.0
Domestic travel and accom.	0.2	-2.8	-0.1	3.2
International holiday travel and accc	-7.6	6.6	0.2	3.1
Education	5.2	0.2	0.0	4.7
Secondary education	6.4	0.0	0.0	2.0
Tertiary education	3.6	0.0	0.0	1.7
Insurance and financial services	0.5	0.3	0.0	5.6
Headline CPI	0.9	0.8		--
Trimmed Mean, sa	0.7	0.7		70

Source: National Australia Bank, ABS

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