

## CPI Preview – housing drives lower trimmed mean in Q4

### Summary

- We expect Headline Q4 CPI of 0.2% q/q, with a fall in fuel prices and measured electricity prices once again weighing on the headline. That would bring the headline rate down to 2.4% y/y from 2.8%.
- More importantly, we expect trimmed mean inflation of just 0.5% q/q (3.2% y/y) from 3.5% y/y, 2 tenths below the RBA's November forecast. Our forecast is reasonably centred at 0.5%, though risk skews slightly to a 0.6%.
- Subsidy impacts weigh on both headline and trimmed mean in Q4, but don't account for all the undershoot. 0.5% q/q is not the new normal, and we expect Q1 2025 trimmed mean will be higher than Q4.
- A step-shift lower in New Dwelling inflation is hugely important. If new dwellings had not slowed from its Q3 pace, our trimmed mean forecast would be 15bp higher.
- NAB still pencil in a first cut in May, but it is a close call and the February meeting is live.
- Underlying inflation progress looks to be substantively outpacing the RBA's November caution, but the decision will hinge on how completely the RBA abandons their November assessment of spare capacity, and that won't be answered by the data flow alone.

### RBA Implications

Underlying inflation progress looks to be substantively outpacing the RBA's cautious November forecasts and gives the RBA the justification needed if they are inclined to cut.

While Q4 inflation in line with our forecast is not a barrier to cuts, the February decision will hinge on the outlook, particularly whether recent improvement will sustain given stabilisation in the labour market and an outlook for a pickup in growth. That assessment depends on whether, and how completely, the RBA reassesses the degree of both labour market tightness and the sustainable level of activity relative to the November forecast round.

We think that the broader macro backdrop does not create urgency for cuts, and there is value in waiting to get a better handle on labour market trends and the extent growth is picking up.

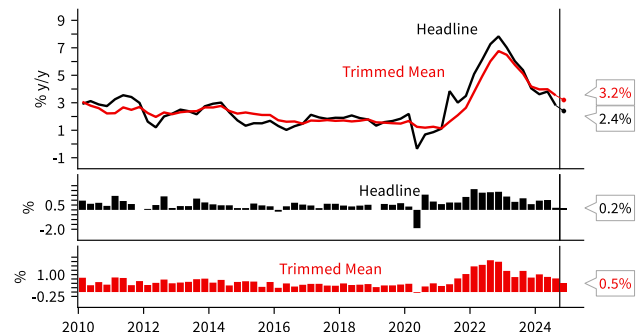
NAB continues to pencil in a first cut in May, but it is a close call. February and April are live. Q4 CPI on 29 January is the only major data release of note ahead of the February meeting. By April, the RBA would have 2 more unemployment prints, Q4 GDP, Q4 WPI, and the February CPI Indicator. By May, the RBA would have Q1 CPI and an additional 2 employment prints.

Table 1: Consumer Price Index Forecasts

	Actual				Forecast				
	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>Headline CPI</b>									
CPI - NSA									
%q/q	0.6	1.0	1.0	0.2	0.2	0.7	0.7	1.0	
%y/y	4.1	3.6	3.8	2.8	2.4	2.1	1.8	2.6	
			RBA November SoMP:		2.6		2.5		
<b>Core Measures</b>									
Trimmed Mean									
%q/q	0.8	1.0	0.9	0.8	0.5	0.6	0.6	0.7	
%y/y	4.2	4.0	4.0	3.5	3.2	2.8	2.6	2.5	
			RBA November SoMP:		3.4		3.0		

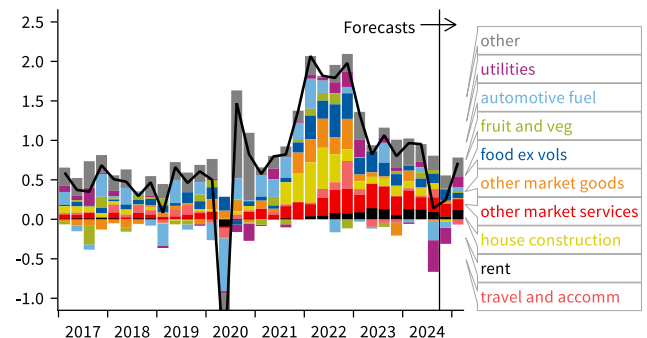
Source: National Australia Bank, ABS

### Consumer Price Index Forecast



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

### Contributions to quarterly headline CPI (SA)



Source: National Australia Bank, ABS

## Housing

Housing components have shifted. They had been a potential driver of persistence in too high inflation, but now look supportive of further disinflation.

The prospective cooling signalled by advertised **rents** remains in train. New rents growth remains broadly benign at 0.2% m/m and will flow through into sustainably cooler rents over time, likely from late this year. Q4 data also benefits from a rent assistance increase that takes 1ppt off quarterly rents inflation and 10bp of trimmed mean (we pencil in rents of 0.6% q/q in Q4). Rents will bounce back in Q1 2025, but the Q4 contribution is a preview of the effect cooler rents will have on CPI once recent new rents growth flows through.

**New Dwelling Purchase** costs are set to fall in Q4 (we pencil in -0.3% q/q). Prices had been growing near 5% annualised, contributing 4 tenths of annual inflation. Flattening over the past couple of months had been encouraging and consistent with easing input cost inflation and some fading in the most acute capacity constraints as pandemic work pipelines improved or stabilised.

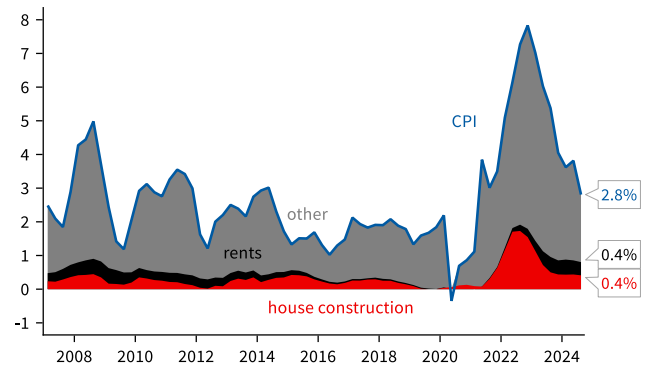
An outright fall in November highlights as a risk that some correction in home building prices puts material downward pressure on inflation over the next few quarters. For detached houses, the ABS collects the price of newly constructed homes (excluding land). These include temporary promotions like price discounts upgraded fittings and fixed appliances. Indeed, the November fall was driven by discounts and promotional offers. That likely reflects an effort to attract business in a modest demand environment and given the extent of price growth over the past 4 years, there is room for some price correction even without meaningful declines in input costs. But the November fall coincides with Black Friday promotions from some builders, so at this stage we don't forecast sustained price level falls in this component and there is some risk of payback in December (a temporary boost to inflation). In the December month, prices of attached dwellings are also included.

To illustrate how important these dynamics can be, if New Dwellings inflation was in line with Q3 at 1.0% q/q, our Q4 trimmed mean forecast would be 16bp higher.

## Market Goods

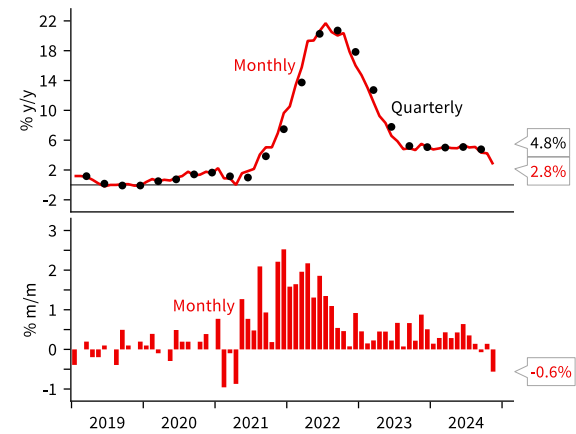
**Market goods** ex food, fuel and houses, capturing mostly trade-exposed durable goods, is expected to be up 0.3% q/q. While goods inflation remains low, it is stronger than the modest goods deflation that prevailed when inflation last sustained at the RBA's target. Most of these prices are already measured, with the notable exception of **motor vehicles**, where we pencil in a -0.2% (-0.4% sa). The recent fall in the Australian dollar could see easing in upstream goods cost pressures stall, but we see the implications for the broader inflation outlook as modest. (See: [What does AUD weakness mean for the RBA?](#))

### Housing contribution to CPI



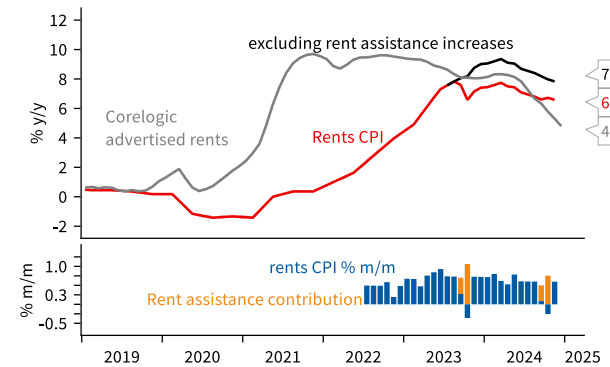
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

### New Dwelling Inflation



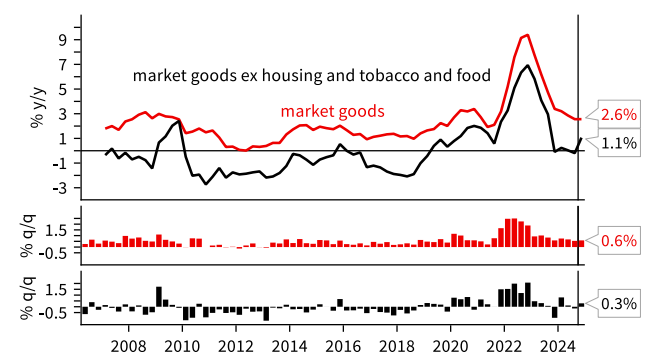
Source: National Australia Bank, ABS

### Rents CPI



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

### Market Goods Inflation\*



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

## Market Services

**Market services** inflation outside of rents and volatile market travel prices remains elevated relative to the period of “at-target” inflation in the years prior to 2015, but we expect some further progress. Our measure of core market services that excludes rents, travel and telco is expected to rise 0.8% q/q, which would see the year-ended rate slow to 4.2% from 4.7%. Insurance had been a key support for services inflation, in large part reflecting catch-up to earlier underlying cost increases for both car and dwelling replacement and repair costs. While it remains elevated at 1.5% q/q (seasonally adjusted), that is the softest outcome since Q3 2022.

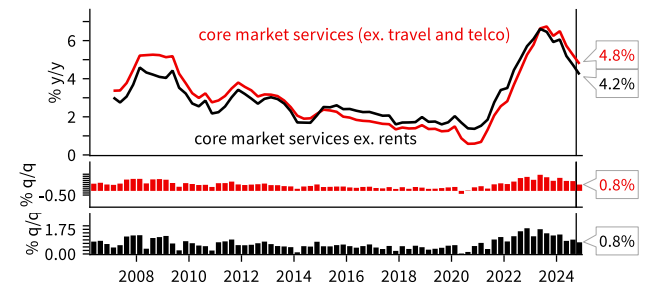
## Other Selected Detail

- **Grocery** inflation modestly reaccelerated in Q4, driven by eggs and lamb, while more volatile **fruit and veg** inflation moderated as growing conditions improved.
- **Electricity** prices will fall again in December as month-to-month shifts in electricity subsidy impacts continue. (The second WA instalment is paid in December). Electricity is set to subtract from headline for a second consecutive quarter. State and federal government payments, provided as credits on electricity bills, are treated as price reductions. These will add back to CPI as they unwind, and we expect small positive contributions in Q1 and Q2 2025 before a larger impact in Q3 2025.
- **Fuel** -2.3% q/q will subtract from headline again in Q4, but prices were rising through the quarter and the lower dollar and higher oil prices point to a positive contribution in Q1 2025.
- **Travel & accommodation.** Domestic holiday travel is on track to be trimmed out on the high side, while international travel will be trimmed out on the low side. Overall, we expect a small positive contribution in the quarter in seasonally adjusted terms.

## NAB Survey Pricing Indicators

Pricing indicators from the NAB Business Survey suggest an environment of better, but still elevated, labour and non-labour input cost pressures for consumer facing industries. Output prices in the retail industry remain elevated, with prices in food retailing a key support to retail prices overall. Meanwhile, earlier stubbornness in labour cost pressures in services industries has improved over recent months and is consistent with further trend improvement in market services inflation despite the resilient labour market.

## Market Services Inflation



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

## Inflation heatmap with Q4 forecast (relative to last time inflation sustained at target)

	weight	q/q	6m	12m	benchmark*
<b>Food and Beverage</b>					
grocery ex fruit & veg	8.1	3.2	2.6	2.4	0.7
fruit & veg	2.1	1.4	5.2	7.0	2.5
Alcohol	4.8	5.5	4.8	3.6	2.3
Meals out and Takeaway	7.0	2.2	2.8	2.5	2.3
<b>Housing</b>					
Rent	6.2	2.3	4.4	6.4	3.5
Home purchase	8.2	-1.3	1.2	2.8	3.0
Maintenance and repair	2.0	1.8	2.4	2.6	2.1
Utilities/rates	5.2	-11.6	-18.3	-8.3	7.9
<b>Market services</b>					
Household Services	6.4	4.2	4.5	4.8	3.1
Insurance & Financial	5.6	3.6	4.0	5.3	2.3
travel	5.9	2.0	4.6	3.1	1.6
<b>Market goods</b>					
Other market goods**	17.1	0.8	0.2	1.0	-1.3
Automotive fuel	3.4	-9.1	-17.0	-8.2	2.7
<b>Government-influenced</b>					
Education & Health	11.1	3.9	3.4	4.8	5.1
Tobacco	2.3	17.4	13.9	12.3	11.7
Other services^	4.5	-2.8	-0.6	1.2	2.4
<b>Trimmed mean</b>	70.0	2.1	2.6	3.2	2.5
<b>Headline</b>	100.0	1.2	0.9	2.4	2.5

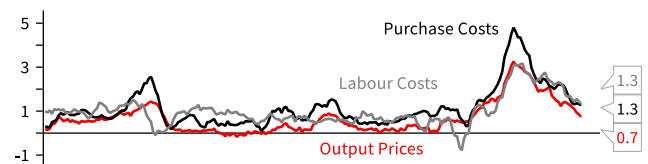
\*average change over 6 years to Q2 2015, when headline and trimmed mean averaged 2.5%

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

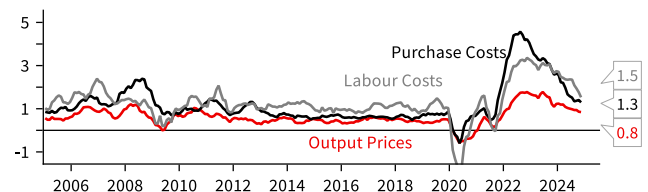
Source: National Australia Bank, ABS

## NAB Survey – Consumer-facing industry prices\*

### Retail



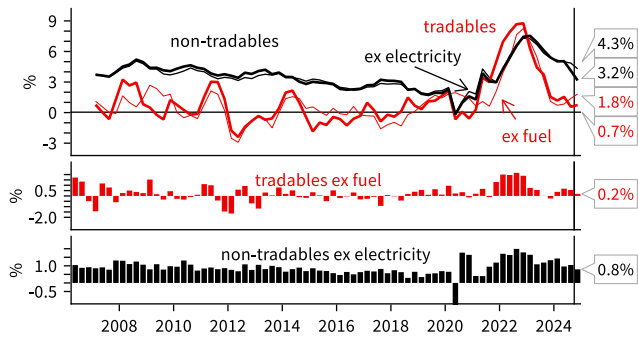
### Recreation & Personal Services



\*3-month moving average  
Source: National Australia Bank

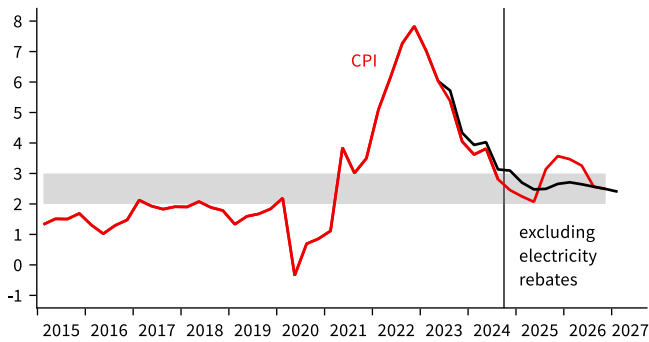
## Other Charts and Tables

### Tradable and non-tradable inflation



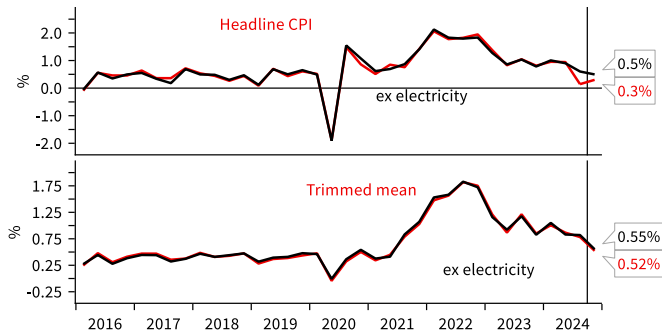
Source: National Australia Bank, ABS

### CPI and electricity rebates (as legislated)



Source: National Australia Bank, Australian Bureau of Statistics

### 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)

	Sep-24	NAB Dec-24	NAB Qtr cont.	in CPI Basket
Food and non-alcoholic beverages	0.6	0.2	0.0	17.2
Fruits and vegetables	1.0	-2.8	-0.1	2.0
Restaurants and takeaway	0.8	0.6	0.0	7.0
Alcohol and tobacco	1.3	2.4	0.2	7.0
Clothing and footwear	-0.7	0.1	0.0	3.4
Housing	-0.1	-1.2	-0.3	21.7
Rents	1.6	0.6	0.0	6.0
New dwellings	1.0	-0.3	0.0	8.1
Utilities	-7.6	-6.8	-0.3	4.2
Household equip and services	0.9	0.0	0.0	8.4
Health	-0.1	-0.4	0.0	6.4
Transport	-2.2	-0.8	-0.1	11.4
Automotive fuel	-6.7	-2.4	-0.1	3.7
Motor vehicles	-0.8	-0.2	0.0	3.3
Communication	0.5	0.5	0.0	2.1
Recreation and culture	1.3	1.4	0.2	12.6
Audio, visual and computing equip.	0.0	-0.4	0.0	1.1
Domestic travel and accom.	1.1	8.3	0.3	3.3
International holiday travel and accc	1.9	-4.5	-0.1	2.8
Education	0.4	-0.1	0.0	4.3
Secondary education	0.0	0.0	0.0	1.9
Tertiary education	0.1	0.0	0.0	1.6
Insurance and financial services	1.2	0.8	0.0	5.4
<b>Headline CPI</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	--
Trimmed Mean, sa	0.8	0.5	--	70

Source: National Australia Bank, ABS

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