Inflation remained contained in the June quarter. Headline CPI rose 0.7% for the quarter. The annual inflation rate rose to 1.5% in the year to the June quarter, from 1.3% in the year to the March quarter.

The focus for the RBA is underlying inflation. The average of the quarterly underlying inflation rates was at 0.5% in the June quarter, which was slightly below consensus and our expectations. For the year to the June quarter, underlying inflation eased to 2.3%, down slightly from 2.4% in the year to the March quarter.

Underlying annual inflation remains comfortably within the RBA’s 2 to 3% per annum target band.

Rising petrol prices played a key role in inflation over the quarter. Automotive fuel jumped 12.2% in the June quarter, reflecting the higher oil price, after falling 12.2% in the March quarter (when the oil price fell). The medical and hospital services component rose 4.5%, reflecting a rise in health insurance premiums in the June quarter.

We expect the RBA to leave official interest rates on hold this year, although there is a risk the RBA could cut rates again, if economic data deteriorates. Today’s data indicates inflation remains contained and would not be an impediment to a rate cut, if needed.
the year to the June quarter, from 1.3% in the year to the March quarter.

Rising petrol prices were a key driver of inflation for the quarter, rising 12.2%, fully reversing the decline of 12.2% in the March quarter. This reversal in petrol prices reflects the volatility of the oil price over this period. Other major drivers of inflation for the quarter were higher medical and hospital services (4.5%) and new dwelling purchase by owner occupiers (rising 1.5% with higher dwelling prices). Medical and hospital services rose due to an increase in health insurance premiums in the June quarter.

Meanwhile, prices for domestic holiday travel and accommodation (-5.4%) and pharmaceutical products (-1.8%) declined for the quarter.

Given the prices of some items can be volatile, the RBA tends to focus more on the underlying rate of inflation when assessing inflationary pressure in the economy. Unlike the headline rate, underlying inflation abstracts from these volatile items such as petrol prices. The average of the quarterly underlying inflation rose 0.5% in the June quarter and 2.3% in the year to June, down from 2.4% in the year to the March quarter. Underlying annual inflation remains comfortably within the RBA’s 2 to 3% per annum target band.

**Tradables and Non-Tradables Inflation**

Tradables inflation includes the prices of goods and services which are imported or compete with imported goods and services. Tradables CPI rose 1.2% in the June quarter, after falling 1.2% in the March quarter. For the year to the June quarter, tradables inflation fell 0.3%, up from a decline of 0.9% in the year to the March quarter.

While the Australian dollar was only slightly weaker in the June quarter, there has been a larger decline in recent years, both against the US dollar and in trade weighted terms. The rise in tradables inflation likely reflects the weaker Australian dollar (which drives up import prices) to some degree. However, in the near term the ability of businesses to pass on higher import prices to consumers remains limited by slow wages growth and lacklustre domestic demand.

Non-tradables or domestic prices rose 0.5% in the June quarter. This outcome suggests soft wages growth is limiting domestic inflation. For the year to the June quarter, non-tradables inflation held at 2.6%. The main drivers for the increase in non-tradables inflation were new dwelling purchase by owner-occupiers and medical and hospital services. The increase was offset to some extent by declines in electricity and domestic holiday travel and accommodation prices.

**CPI Groups Analysis**

The largest price increase in the quarter was for automotive fuel (12.2%), which reflected rising global oil prices. Medical and hospital services (4.5%) and new dwelling purchase by owner-occupiers (1.5%) also had strong quarterly price rises.

The most significant price decrease for the quarter was domestic holiday travel and accommodation (-5.4%) due to lower prices for the off-peak season. Prices for pharmaceutical products (-1.8%) were also weaker, as a larger number of consumers exceeded the Pharmaceutical Benefits Scheme (PBS) safety net, qualifying for subsidies.

**States Analysis**

For the June quarter, inflation was mixed across the capital cities, ranging between 0.0% and 0.9%.
Sydney had the largest increase (0.9%), followed by Melbourne and Brisbane (both 0.7%), Perth (0.6%), Adelaide (0.5%), Canberra (0.4%) and Hobart (0.1%). Darwin prices were unchanged for the quarter.

In the year to the June quarter, inflation was below the RBA’s 2-3% target band in all capital cities, with the exception of Sydney, where it was still contained at 2.2%. After Sydney, the highest annual inflation was in Brisbane (1.5%), followed by Adelaide and Perth (both 1.2%), Melbourne (1.1%), Canberra (0.8%), Hobart (0.6%) and Darwin (0.2%).

**Outlook**

Both headline and underlying rates of inflation indicate that price pressures remain contained. The underlying inflation rate remains comfortably within the RBA’s 2-3% target band.

In time, there is likely to be further evidence of the inflationary impact of the weaker Australian dollar, while helping to support economic growth. However, subdued growth in domestic demand and wages will limit the ability of businesses to pass on price increases in the near term. On balance, inflation pressures are likely to remain contained over the medium term.

We expect the RBA to leave interest rates on hold this year, although there is a risk the RBA could cut rates again, if economic data deteriorates. Today’s data indicates inflation remains contained and would not be an impediment to a rate cut, if needed.

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