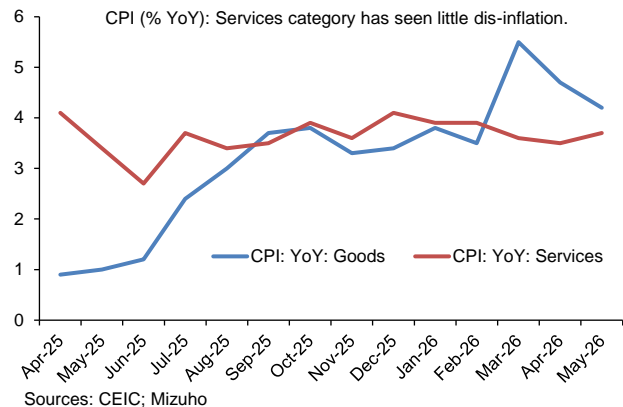
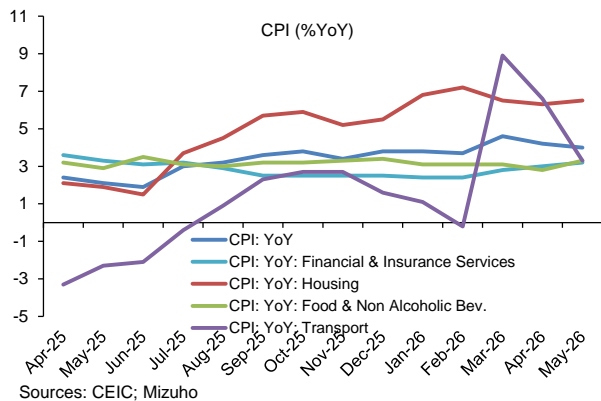


## Post Australia CPI: Reactions and Expectations



- Headline inflation in Australia **edged lower in May to 4.0% YoY from 4.2%** in April while the trimmed mean inflation rose to 3.6% YoY from 3.4% in April.
- The decline in headline inflation is unsurprising considering the **lower automotive fuel prices** (-11.9% MoM).
- Nonetheless, a higher trimmed mean inflation reflects simmering prices pressures.
- Furthermore, there was broad-based inflation pick up across many components such as food and beverage, housing, communications and insurance & financial services.
- Across these items, **various underlying drivers could linger and impart sticky inflation**.
- For one, there is continued passthrough of higher fuel and material costs in the construction sector affecting prices of new dwellings. Rentals dis-inflation appears to have stalled amid low vacancy rates.
- Medical fees, health insurance premiums also appear to rather elevated reflecting demographics and earlier approvals from the authorities.
- Admittedly, headline inflation figures in Q2 are well below the RBA's forecast (4.8%) at this juncture.
- That said, the current trimmed inflation figures are much closer to the RBA's forecast of 3.8%.
- To be clear, the policy discomfort for inflation is not about the distance of the point estimate relative to forecast but the focus is on duration needed for underlying inflation to return to their target range.
- On this note, the expiry of the fuel excise tax duty in June adds risks of stickier than expected trimmed mean inflation due to **potential for prolonging the current bout of cost passthrough**.
- Looking ahead, even as we envisage a rate hike in Q3, the **RBA's August decision is increasingly complicated** by both **their employment mandate and timing of data releases**.
- For the latter, it should be noted that the **July CPI print will be released after the RBA's 11 August meeting**. As such, the revised set of forecasts in August faces the challenge of incorporating the impact of the expiry of the fuel subsidies and the resulting passthrough.
- In view of such uncertainties, the **policy response would be highly dependent on the state of the labour market** as markets assess if the hiring contraction in April would be extended or was a one-off. (See [Mizuho Flash: Australia Labour Down But Not Out, 21 May](#)).
- While another dismal jobs print may eliminate the odds of further hikes, distinguishing inflation worries may be far harder.
- All in, dismal risk sentiments in the near term may be hobbling the AUD but resource demand on the back of AI led semiconductor cycle may assist a firmer recovery in late 2026 after the hawkish noise from Fed hikes settles.

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