Mizuho Flash: Australia

Economics & Strategy | Asia ex-Japan

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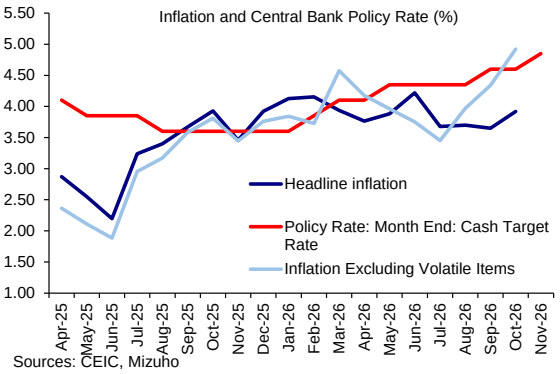
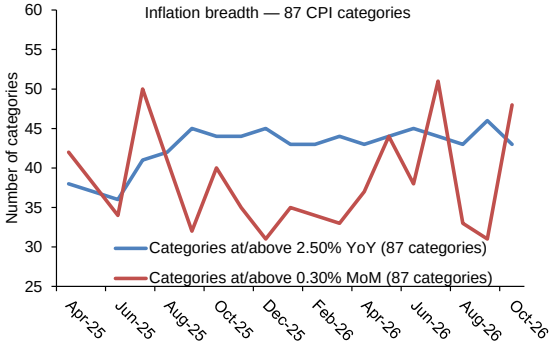
RBA & CPI: Sharper Trade-offs Abound



Sources: CEIC, Mizuho



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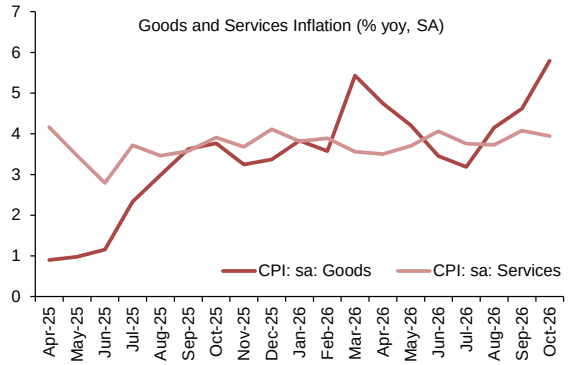

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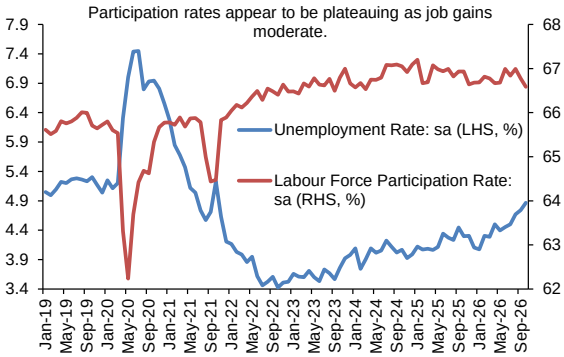

Source: CEIC; Mizuho

- This morning, Australia's October CPI print came in above market expectations with **headline and trimmed mean inflation at 4.9% and 3.8% respectively,** accelerating from the 4.3% and 3.6% outturn in September.
- Inflation's momentum remains a worrying one for the RBA with both headline and trimmed mean CPI higher by 0.5% MoM. Furthermore, our tracking of the underlying CPI categories also showed a **sharp increase in breath of prices increases across various items.**
- Notably, it **was goods inflation** that drove much of the overall increase rather than services inflation which stayed rather flat and reflecting so, tradeables which include fuel and food was responsible for much of the inflation spike.
- **Housing inflation also remains problematic.** Beyond base effects associated with the expiration of electricity rebates, **new dwelling inflation accelerated, reflecting continued pressures from labour shortages and elevated construction costs.** The ABS even noted that **home builders reduced discounts and promotions** and raised base prices despite subdued demand.
- Regardless of headlines of housing market downturns, it is perhaps worth another one of our incessant reminders that transactions for existing dwelling do not feature in the CPI series.
- On balance, we retain the view that **direct dis-inflationary forces are largely absent at this juncture** while external inflationary impulses as reflected by the tradeable goods inflation remain unnerving for the RBA.
- For the RBA, with 125bps of rate hikes in 2026 thus far, even after the latest inflation print, the policy stance can still be considered as rather **pre-emptively restrictive** as policy tightening outpaced inflation increase.
- On that note, we note **risks of the RBA being driven into another contentious rate hike in early 2027** should **both headline and trimmed mean momentum remain elevated.** The trade-off facing the RBA is becoming sharper: inflation remains stubborn, but signs of labour-market and housing-market adjustment continue to emerge.
- Nonetheless, we maintain our base case for policy normalisation via **easing** in Q4 2027 as employment and housing market woes collide to warrant shifts in the RBA's response function especially with potential for inflation to inch closer to RBA's upper limit in 2028.

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