Australia: Monthly CPI: January CPI a touch above expectations

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Bottom line: Australia's headline CPI increased 0.4%mom, a touch above our expectations of a 0.3%mom increase, while year-over-year headline inflation was little changed at 3.8%yoy. In underlying terms, growth in the ABS monthly trimmed mean measure rose 0.3%mom in January – as we expected – though revisions saw the year-over-year rate edge slightly (+2bp) higher to 3.36%, a bit stronger than we expected (GSe: +3.2%yoy; BBG: 3.3%yoy).

Compositionally, much of the increase in the month was driven by the unwinding of electricity subsidies (with the last of the impact of these subsidies falling out in February). The other main contributions came from a rise in groceries and some durable goods prices, with a rise in clothing a footwear prices presenting the main upside surprise to our forecasts. Offsetting this increase was a large seasonal fall in international travel prices, while a decline in automotive fuel also dragged on the headline number.

In light of today's inflation data coming in a touch above expectations, we revise our tracking estimate of 1Q2026 trimmed mean inflation to 0.78%qoq (previous: 0.75%qoq; RBA: 0.9%qoq). While we see much of the recent rise in inflation as temporary – and see a stronger Australian dollar weighing on durables inflation in the medium-term – above target year-over-year inflation will persist over 1H2026, before easing towards the RBA's target over 2H2026. Together this will likely see the RBA raise rates just once more in May (+25bp, 4.1%). However, the RBA's revised macro framework and increasingly resolute language on 'capacity constraints', suggest a back-to-back hike in March remains possible, and certainly more likely than market pricing would suggest (4bp; 16% implied probability).

Key numbers:

Monthly headline CPI, January: +0.4%mom, +3.8%yoy; GSe: +0.3%mom, +3.8%yoy; Bloomberg consensus: +3.7%yoy.

Monthly trimmed mean, January: +0.3%mom, +3.4%yoy; GSe: +0.3%mom, +3.2%yoy; Bloomberg consensus: +3.3%yoy.

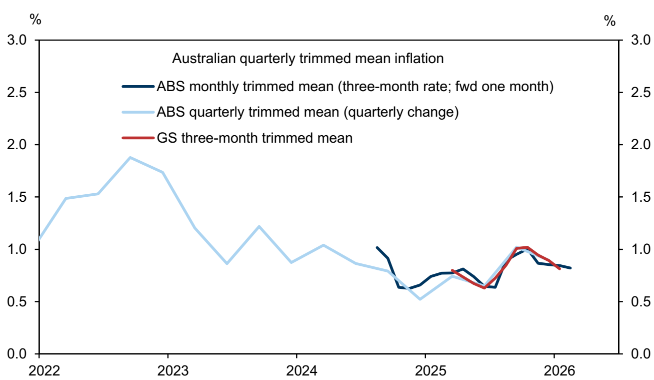
Main points:

1. **Headline monthly CPI** increased 0.4%mom in January, with the year-over-year rate remaining little changed at 3.8%yoy. The outcome was a touch above our expectations (GSe: +0.3%mom, +3.8%yoy; BBG: +3.7%yoy). **In underlying terms**, monthly trimmed mean CPI rose 0.3%mom, in line with expectations (GSe: +0.3%mom), but the year-over-year rate picked up 20bp to 3.4%yoy,

reflecting revisions over 2025. Our preferred three-month-on-three-month trimmed mean measure eased 8bp to 0.81%qoq.

2. The **rebound in headline inflation** was driven by electricity prices (+18.5%mom vs. GSe: +20.0%mom), with the last of the impact of the Commonwealth subsidy program falling out in February. This was partially offset by a decline in international travel prices (-16.3%mom vs. GSe: -17.0%mom) and fuel prices (-3.2%mom vs. GSe: -3.1%mom). The upside surprise relative to our headline forecast was largely driven by the clothing group (+2.9%mom vs. GSe: -0.1%mom).
3. **Key housing and market services components** were broadly in line with expectations. New dwellings inflation edged up (+0.4%mom vs. GSe: +0.3%mom), with the ABS noting "project home builders in some cities have raised base prices in response to increased demand". Meanwhile, rents inflation was a little softer than expected (+0.3%mom vs. GSe: +0.4%mom). On market services, restaurant meals inflation (+0.3%mom vs. GSe: +0.3%mom) eased a little, but takeaway food (+0.8%mom vs. GSe: +0.5%mom) inflation was slightly higher than expected. Household services (0.0%mom vs. GSe: +0.2%mom) and recreational services inflation (-0.7%mom vs. GSe: 0.0%mom) were on the weaker side.
4. **Other components** were generally in line with expectations. Health prices rose sharply (2.7%mom vs. GSe: +2.7%mom), driven by pharmaceutical products, while household goods fell slightly (-0.4%mom vs. GSe: +0.1%mom) as a result of some New Year sales. Alcohol and tobacco inflation (+0.9%mom vs. GSe: +0.4%mom) was firmer than expected. Insurance and financial services inflation was also a bit stronger than expected (+0.3%mom vs. GSe: +0.1%mom).
5. **In terms of the read-through for quarterly CPI**, we revise our tracking estimate of 1Q2026 trimmed mean inflation up to 0.78%qoq (previous: 0.75%qoq; RBA: 0.9%qoq).

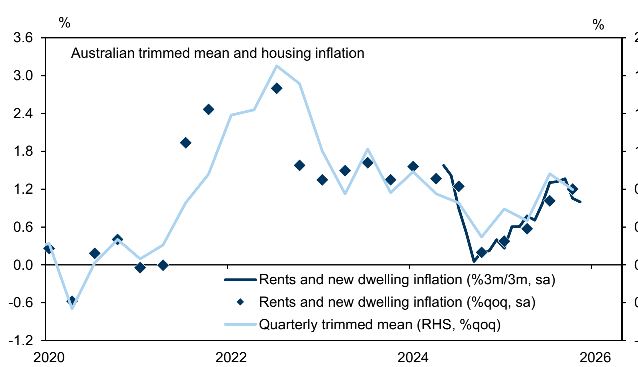
Exhibit 1: Growth in our preferred three-month-on-three-month trimmed mean measure continues to ease



We calculate a three-month-on-three-month trimmed mean using the three-month-on-three-month change in individual components.

Source: ABS, Goldman Sachs Global Investment Research

Exhibit 2: Housing inflation continued to ease in January in three-month-on-three-month terms



Source: ABS, Goldman Sachs Global Investment Research

Exhibit 3: Key data

January 2026 CPI	%mom	%yoy
Headline CPI	0.4	3.8
Trimmed mean	0.3	3.4
Food & non-alcoholic beverages	0.5	3.1
Alcohol & tobacco	0.9	5.0
Clothing & footwear	2.9	5.6
Housing	2.2	6.8
New dwelling purchase	0.4	3.5
Rents	0.3	3.9
Electricity	18.5	32.2
Household goods & services	-0.4	1.4
Health	2.7	3.2
Transport	-0.7	1.1
Automotive fuel	-3.2	-2.7
Communication	-0.1	1.4
Recreation & cullture	-3.4	3.7
Education	0.0	5.4
Insurance & financial services	0.3	2.4

Source: Goldman Sachs Global Investment Research, Haver Analytics

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