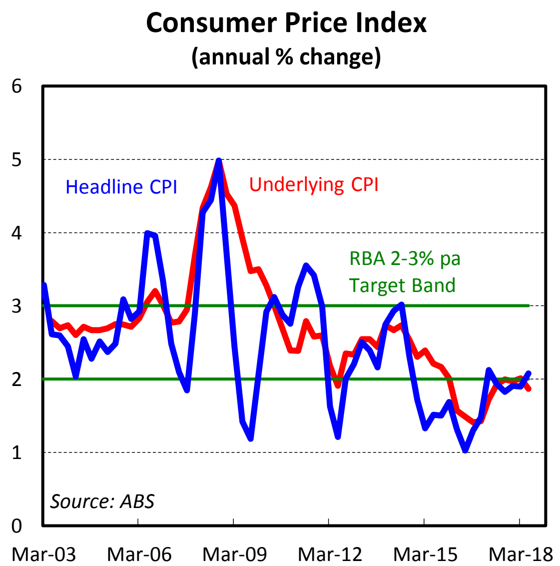
Data Snapshot

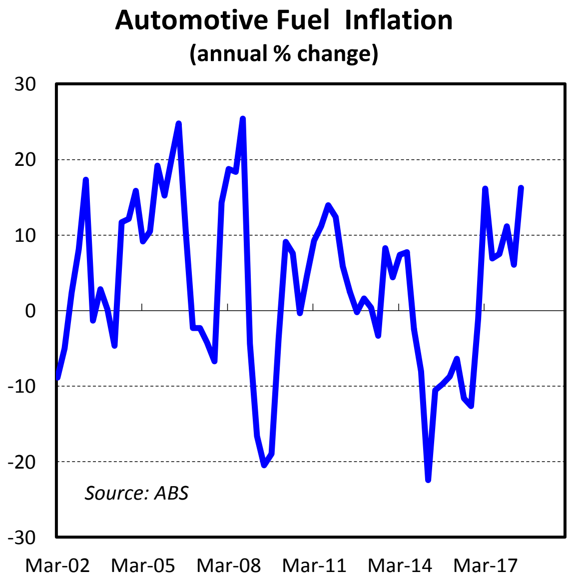
Wednesday, 25 July 2018

Bank of Melbourne

Consumer Price Index
Inflation Remains Subdued

- **Headline CPI rose 0.4% in the June quarter, which was a touch above our forecast, but continues to indicate that inflation remains subdued. This resulted in the annual rate lifting to 2.1% in the June quarter, from 1.9% in the March quarter.**
- **More relevant for the Reserve Bank of Australia (RBA) are the underlying rates of inflation, the trimmed mean and the weighted median. The average of these two underlying measures rose 0.5% in the June quarter, in line with our forecast.**
- **The annual rate of underlying inflation fell to 1.9% in the June quarter, from 2.0% in the March quarter. It has returned to below the RBA's 2-3% per annum target inflation band.**
- **In the June quarter, price increases were driven by automotive fuel, reflecting higher oil prices, and a rise in medical & hospital services and tobacco prices. These price rises were offset by declining prices for domestic holiday travel & accommodation, motor vehicles and vegetables.**
- **Underlying inflation is under the RBA's 2 to 3 % per annum target band, indicating inflation remains low. We do not expect inflation will hit the middle of the RBA's target band over the medium term. With limited price pressures we expect the RBA to remain on hold for some time.**





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Inflation pressures remain subdued in Australia. Low wage growth, spare capacity within the labour market and strong competition in the retail sector are some of the factors which are keeping a lid on price pressures.

CPI Groups Analysis

In the June quarter, price increases were driven by automotive fuel (6.9%), medical & hospital services (3.1%), tobacco (2.8%) and clothing (1.3%, and the first increase in seven quarters).

Higher oil prices boosted automotive fuel prices over the quarter.

The increase in medical & hospital services reflects the seasonal annual increase in private health insurance premiums (on April 1st) and the decrease in the private health insurance rebate (which increases the out-of-pocket cost for consumers).

The rise in the tobacco price reflects the ongoing impact of the increase in the federal excise tax on March 1st 2018.

The major offsetting price decline was for domestic holiday travel & accommodation, which fell (-2.7%) reflecting the off-peak season, and motor vehicles (-2.0%) and vegetables (-2.9%).

After strong increases in 2017, electricity prices fell (-1.3%) in the quarter.

For the year to the June quarter, there were strong price increases for tobacco (16.6%), automotive fuel (16.3%) and electricity (10.4%). Meanwhile, offsetting price declines occurred in audio, visual & computing equipment (-9.0%) and vegetable prices (-8.7%).

Tradables and Non-Tradables Inflation

The prices of tradables lifted 0.5% in the June quarter. Tradables have been declined in five out of the last seven quarters.

Tradables inflation measures the prices of goods and services that are imported (and those which compete with imported goods and services). It comprises around 35% of the weight of the CPI and is influenced by movements in the Australian dollar. The lift in tradables inflation reflected higher prices for automotive fuel and audio, visual & computing media & services. Additionally, international holiday travel & accommodation boosted the price of tradable services.

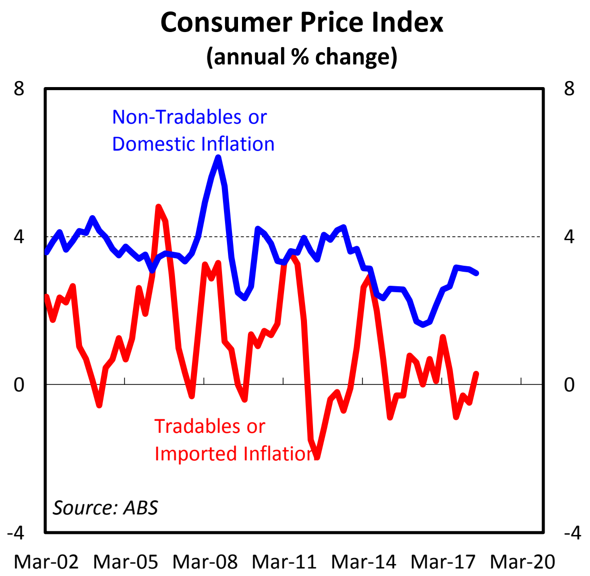
On an annual basis, the prices of tradables were up 0.3%, the first annual increase in four quarters.

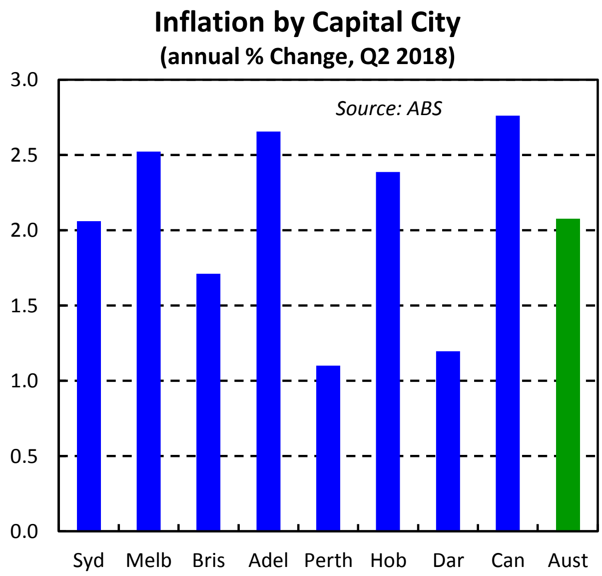
Non-tradables consumer prices, which reflect domestic prices not subject to international or import competition, rose by a softer 0.3% in the June quarter. The increase in non-tradable prices reflected higher healthcare and tobacco prices. The annual rate of growth edged down to 3.0% in the June quarter, from 3.1% in the March quarter.

Inflation by States

Inflation was fairly uniform across the capital cities in the June quarter, with prices in all capital cities rising by 0.4%, with the exception of Perth (0.2%).

In annual terms, inflation rates in Canberra (2.8%), Adelaide (2.7%) and Melbourne (2.5%) all moved into the upper half of the RBA's 2 to 3% per annum target band. Inflation in Hobart (2.4%) and Sydney (2.1%) held in the lower half of the RBA's 2 to 3% per annum target band. Meanwhile, inflation in Brisbane (1.7%), Darwin (1.2%) and Perth (1.1%) remained below the RBA's 2 to 3% target band. The weakness in inflation in Perth and Darwin continued to reflect the impact of the mining investment downturn on Western Australia and the Northern Territory.





Outlook

Underlying inflation is under the RBA's 2 to 3 % per annum target band, indicating inflation remains low. We do not expect inflation will hit the middle of the RBA's target band over the medium term. Ongoing spare capacity in the labour market, slow wage growth and the competition in the retail sector suggest that price pressures will remain muted. With limited price pressures we expect the RBA to remain on hold for some time.

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