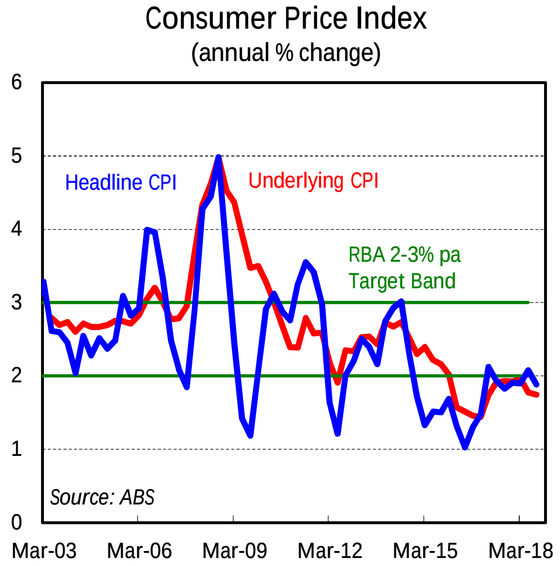
Data Snapshot

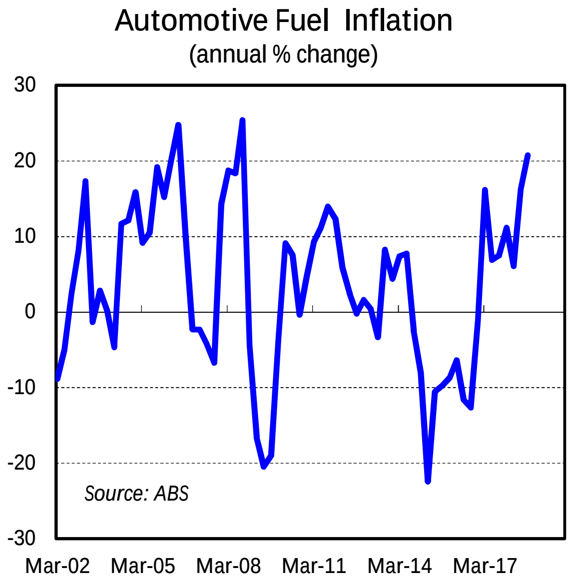
Wednesday, 31 October 2018

Bank of Melbourne

Consumer Price Index
Inflation: Where Art Thou?

- Headline CPI rose just 0.4% in the September quarter, which was slightly below consensus expectations for a 0.5% increase. It indicates that inflation remains low. The annual pace of headline inflation slowed to 1.9%, from 2.1% in the June 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 0.3% in the September quarter, the smallest increase since the March quarter 2016.
- The annual rate of underlying inflation fell to 1.7% in the September quarter, from 1.8% in the June quarter. This is the lowest pace of underlying inflation in 1½ years. The annual pace of underlying inflation fell further below the RBA's 2-3% per annum target inflation band.
- In the September quarter, price increases were driven by international holiday travel & accommodation, domestic holiday travel & accommodation, tobacco and automotive fuel. These price increases were tempered by declining prices for child care (-11.8%) and telecommunications equipment & services (-1.5%).
- We do not expect inflation will hit the middle of the RBA's target band over the medium term. Low inflation will allow the RBA to leave interest rates unchanged for an extended period.





Headline CPI rose 0.4% in the September quarter, which was slightly below consensus expectations for a 0.5% increase. It indicates that inflation remains low. The annual pace of headline inflation slowed to 1.9%, from 2.1% in the June 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 0.3% in the September quarter, the smallest increase since the March quarter 2016. The annual rate of underlying inflation edged down to 1.7% in the September quarter, from 1.8% in the June quarter. This is the lowest pace of underlying inflation in 1½ years. The annual pace of underlying inflation fell further below the RBA's 2-3% per annum target inflation band.

Inflation pressures remain subdued in Australia as reflected in low wage growth, spare capacity within the labour market and strong competition in the retail sector.

CPI Groups Analysis

In the September quarter, price increases were driven by international holiday travel & accommodation (4.3%), domestic holiday travel & accommodation (2.4%), tobacco (1.8%) and automotive fuel (1.4%).

Higher prices for international holiday travel & accommodation reflect the seasonal impact of the peak summer season in Europe and America. The rise in the tobacco price is due to the impact of the increase in the federal excise tax on September 1st 2018. Higher oil prices boosted automotive fuel prices over the quarter.

Despite large increases in some areas, overall inflation was muted in the September quarter. The rise in CPI inflation was tempered by declining prices for child care (-11.8%) and telecommunications equipment & services (-1.5%). The Child Care Benefit and Child Care Rebate were replaced by the Child Care Subsidy from 2 July 2018, pushing down child care prices for the quarter.

For the year to the September quarter, there were strong price increases for automotive fuel (20.8%), tobacco (14.0%), postal services (10.6%) and domestic holiday travel & accommodation (7.4%). Meanwhile, offsetting declines occurred in audio, visual & computing equipment (-9.0%) and childcare (-8.5%).

Tradables and Non-Tradables Inflation

The prices of tradables lifted 0.8% in the September quarter. Tradables have declined in five out of the last eight 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 international holiday travel & accommodation, automotive fuel and fruit.

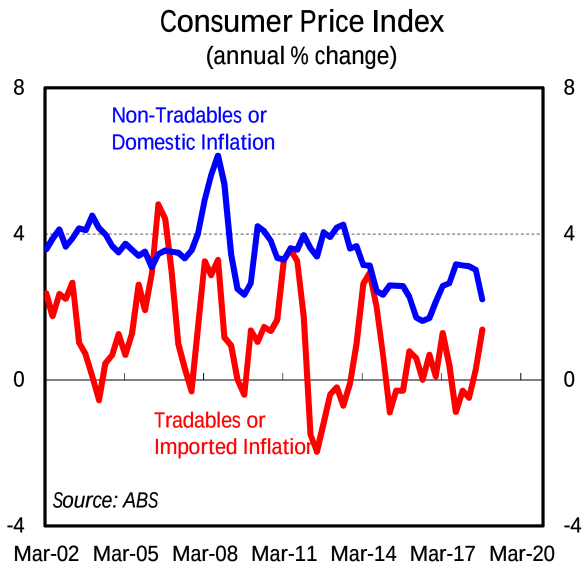
On an annual basis, the prices of tradables were up 1.4%, a lift from growth of 0.3% in the June quarter and decline in the three quarters prior to that.

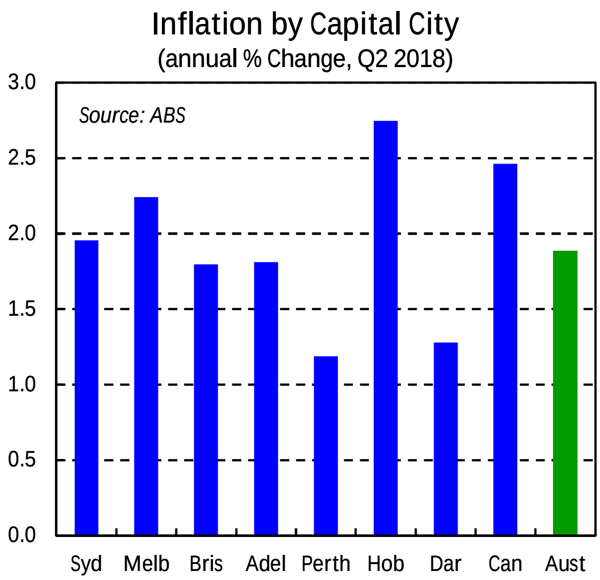
Non-tradables consumer prices, which reflect domestic prices not subject to international or import competition, rose by a more restrained 0.3% in the September quarter, suggesting domestic price pressures remain subdued. The increase in non-tradable prices reflected higher prices for tobacco, beer and takeaway and fast food. The annual rate of growth fell to 2.2% in the September quarter, down from 3.0% in the June quarter.

Inflation by States

Inflation varied across the capital cities in the September quarter. It stood at 0.2% in Melbourne, and was subdued growth in Adelaide (0.3%) and Brisbane (0.4%) and Perth (0.5%). Price rises were a little more pronounced in Sydney, Hobart, Darwin and Canberra, all increasing 0.6% for the quarter.

In annual terms, inflation rates in Hobart (2.7%) and Canberra (2.5%) were in the upper half of the RBA's 2 to 3% per annum target band. Inflation in Melbourne (2.2%) and Sydney (2.0%) were in the lower half of the RBA's 2 to 3% per annum target band. Meanwhile, inflation in Brisbane (1.8%), Adelaide (1.8%), Darwin (1.3%) and Perth (1.2%) were 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 remains below 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. Inflation is expected to remains subdued due to ongoing spare capacity in the labour market, slow wage growth and the competition in the retail sector. Low inflation will allow the RBA to leave interest rates unchanged for an extended period.

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