PRESS RELEASE PRESS RELEASE

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TD Securities – Melbourne Institute Monthly Inflation Gauge

December 2014

The TD Securities – Melbourne Institute Monthly Inflation Gauge remained flat in December, following the 0.1 per cent rise in November. In the twelve months to December, the Inflation Gauge rose by 1.5 per cent, after the 2.2 per cent rise for the twelve months to November.

Contributing to the overall change in December were seasonal price rises for fruit and vegetables (+3.3 per cent), holiday travel and accommodation (+2.0 per cent), and tobacco (+2.9 per cent). These seasonal price rises were offset by a large fall in automotive fuel prices (-8.9 per cent) as well as audio, visual and computing equipment and services (-2.1 per cent).

The trimmed mean of the Inflation Gauge rose by 0.1 per cent in December, following similar rises in November and October, to be 1.7 per cent higher than a year ago.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, "December is a seasonally strong month for our Gauge, especially for December 2013, explaining why the annual rates for both the headline and trimmed mean measures were so weak. The usual seasonal price rises were still apparent, but were offset by fuel and other price falls in the month."

"We have finalised our December quarter CPI forecasts, and there will be a soft report all round. We see headline inflation rising by only 0.3 per cent in the quarter, to be 1.8 per cent higher than a year ago, while we forecast underlying inflation to rise by 0.45 per cent in the quarter, for an annual rate of 2.1 per cent. We now expect underlying inflation to track around 2-2¼ per cent until year end, a lower trajectory than we previously assumed."

"The RBA Board meets on February 3, and the market turmoil of recent days and weeks is highly likely to leave the Board on the sidelines until the smoke clears. Market turmoil also tends to dampen consumer and business sentiment, and these bear close watching. In a change of view, this very low inflation environment allows the RBA cash rate to remain at 2.5 per cent for much longer, and we no longer expect a rate hike this year. However, we remain unconvinced that cash rate cuts are the solution, rather we call on the government to announce a well-targeted infrastructure package, taking advantage of the current favourable funding conditions, to boost growth and jobs." added Ms Beacher.

The January 2015 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 2 February 2015.

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