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TD Securities – Melbourne Institute Monthly Inflation Gauge

June 2014

The TD Securities – Melbourne Institute Monthly Inflation Gauge remained flat in June, following a rise of 0.3 per cent in May, and an increase of 0.4 per cent in April. In the twelve months to June, the Inflation Gauge increased by 3.0 per cent, following a 2.9 per cent increase for the twelve months to May.

Contributing to the overall change in June were price rises for rents (+1.2 per cent), automotive fuel (+1.1 per cent), and tobacco (+2.4 per cent). These were offset by falls in fruit and vegetables (-3.2 per cent), health (-0.7 per cent), and recreation and culture (-0.9 per cent).

The trimmed mean of the Inflation Gauge rose by 0.2 per cent in June, following a similar rise in May, to be 3% higher than a year earlier.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “With this June report we have finalised our June quarter CPI forecasts. We expect headline inflation to increase by 0.7 per cent in the quarter, to be 3.2 per cent higher than a year ago, while we forecast underlying inflation to also increase by 0.7 per cent in the quarter, for an annual rate of 2.75 per cent. We expect underlying inflation to remain in the top half of the RBA’s 2-3 per cent target band and could remain elevated closer to 3% given the clear signal from our gauge that inflation remains sticky.”

“We expect tomorrow’s RBA Board Meeting to pass without much excitement, with the statement likely to resemble those of recent past. We expect the cash rate to remain unchanged at the record low of 2.50 per cent, with the RBA likely to voice a neutral to dovish bias. Although the RBA sighted signs of improvement in domestic data in its previous statement, it’s likely the RBA will reaffirm its call for a lower AUD to foster growth. Even if Q2 CPI exceeds the top end of the RBA’s band, it appears that it, like the Fed is willing to run the risk of higher inflation before it acts, hence why we pushed our call for the 1st RBA hike to Q1 2015. For now expect the RBA to echo ‘a period of stability in interest rates’ added Ms Beacher.

The July 2014 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 4 August 2014.

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