The TD Securities – Melbourne Institute Monthly Inflation Gauge increased by 0.4 per cent in April, following an increase of 0.2 per cent in March. In the twelve months to April, the Inflation Gauge rose by 2.8 per cent, following a 2.7 per cent increase for the twelve months to March.

Contributing to the overall change in April were price rises for communication (+2.6 per cent), tobacco (+2.4 per cent), and holiday travel and accommodation (+6.4 per cent). These were offset by falls in fruit and vegetables (-6.7 per cent), clothing and footwear (-2.1 per cent), and automotive fuel (-2.1 per cent).

The trimmed mean of the Inflation Gauge rose by 0.5 per cent in April, to be 3.1 per cent higher than a year ago.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “Our TD-MI Monthly Inflation Gauge gave a timely warning that tradable inflation would drive the official March quarter inflation print. This first taste of the June quarter reveals an alarming jump in headline and trimmed mean inflation, of which only a portion can be attributed to seasonality, with annual rates for both measures sitting on top of the RBA’s two to three per cent target band.”

“We don’t share the market view that the RBA is set to leave the cash rate at its record low 2.5 per cent for another year. The recent ‘soft’ March qtr CPI report masked the nasty surprise that annual tradable inflation jumped to a mid-target pace after two years of deflation. This unwanted inflation, combined with a robust housing sector and signs that prior savings are re-fuelling consumption, suggests that the case for holding the cash rate at record low levels is no longer there.”

“Our base case of lifting the cash rate by 50 basis points by year end may look odd right now, but there is clear evidence that the economy is returning to trend growth, employment momentum is building and inflation pressures are not abating. These factors are expected to more than offset whatever lies within the May 13 budget.” added Ms Beacher.

The May 2014 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 2 June 2014.

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The latest TD–MI Monthly Inflation Gauge can be found at