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TD Securities – Melbourne Institute Monthly Inflation Gauge

December 2013

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.7 per cent in December, following a rise of 0.2 per cent in November, and an increase of 0.1 per cent in October. In the twelve months to December, the Inflation Gauge increased by 2.7 per cent, following a 2.4 per cent rise for the twelve months to November.

Contributing to the overall change in December were price rises for fruit and vegetables, tobacco, automotive fuel, and holiday travel and accommodation, the latter seasonal. These were offset by falls in furniture and furnishings, garments, and rents. The price of automotive fuel rose by 5.0 per cent in December and the price of fruit and vegetables increased by 5.8 per cent.

The trimmed mean of the Inflation Gauge increased by 0.4 per cent in December, following a flat result in November to be 2.9 per cent higher than a year ago.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “The message from this strong report needs to be treated with a little caution as December is a seasonally strong month for our Gauge, while the tobacco price increase rests squarely with the previous government’s staggered excise tax increase.”

“Nevertheless, with this December report we have finalised our December quarter CPI forecasts. We expect headline inflation to rise by 0.5 per cent in the quarter, to be 2.5 per cent higher than a year ago, and we forecast underlying inflation to also rise by 0.5 per cent in the quarter, for an annual rate of 2.2 per cent. On our projections we expect this to be the low point for the inflation cycle, although gains from here are likely to be measured, reaching the mid-target level of 2.5 per cent by mid-2014.”

“The RBA Board meets on 4 February. The data flow of recent weeks confirms that ongoing accommodative monetary policy continues to stimulate the interest rate sensitive sectors of consumer spending, housing finance and house prices. The recent employment report has enhanced expectations for an additional cash rate cut, but just like the U.S. payrolls report, is likely to prove to be a one-off. The RBA Board has ample time to assess the health of the labour market, and we remain of the view that the next move remains up for the cash rate, although not until the final months of the year.” added Ms Beacher.

The January 2014 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 3 February 2014.

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