TD Securities

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TD Securities – Melbourne Institute Monthly Inflation Gauge

June 2015

The TD Securities – Melbourne Institute Monthly Inflation Gauge increased by 0.1 per cent in June, following rises of 0.3 per cent in May and April. In the twelve months to June, the Inflation Gauge increased by 1.5 per cent following an increase of 1.4 per cent for the twelve months to May.

Contributing to the overall change in June were price rises for automotive fuel (+4.2 per cent), fruit and vegetables (+0.7 per cent) and new dwelling purchase by owner-occupiers (+0.7 per cent). These were offset by price falls in holiday travel and accommodation (-1.6 per cent), newspapers, books and stationery (-3.0 per cent), and furniture and furnishings (-1.7 per cent).

The trimmed mean of the Inflation Gauge rose by 0.1 per cent in June after a rise of 0.4 per cent in May.

According to Prashant Newnaha, Rates Strategist at TD Securities, "With this June report we have finalized our June quarter CPI forecasts and they look rather benign. We expect headline inflation to increase by 0.7 per cent in the quarter, to be 1.6 per cent higher than a year ago, while we forecast underlying inflation to increase by 0.4 per cent in the quarter, for an annual rate of 2.2 per cent, in line with RBA forecasts from the May SoMP."

"The benign outcome for our gauge last month is consistent with June being a seasonally weak month, so on this basis alone our gauge should stage a bounce in July. Supporting a bounce as well is a breakdown of our inflation gauge revealing a steady trend pick up in the number of expenditure classes posting increases in prices in the past three months while the number of expenditure classes registering falls in price over the same period has decreased. It is too early to state that upside price pressures are brewing, but the data supports fixed income price action that the worst of the deflation scare is over".

"We expect tomorrow's RBA Board meeting to pass without much excitement, with the statement to be a cut and paste of last month, keeping explicit forward guidance off the table. Developments in Europe should rate a mention but are unlikely to be a key driver of deliberations. We remain of the view that the RBA is comfortable with a terminal cash rate of 2%. However as we expect weak data reports in the weeks and months ahead, the next move is more likely to be down than up, a factor that will be supportive of the RBA's call for a lower AUD" added Mr Newnaha.

The July 2015 TD – MI Inflation Gauge will be released at 10.30am AEST on Monday 3 August 2015.

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The latest TD–MI Monthly Inflation Gauge can be found at
http://www.melbourneinstitute.com/miaesr/publications/indicators/tdsec.html