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TD Securities – Melbourne Institute Monthly Inflation Gauge

March 2014

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.2 per cent in March, following a similar increase in February, and a rise of 0.1 per cent in January. In the twelve months to March, the Inflation Gauge increased by 2.7 per cent, a similar pace to February.

Contributing to the overall change in March were price rises for fruit and vegetables, holiday travel and accommodation, and meat and seafood. These were offset by falls in rents, non-alcoholic beverages, and audio, visual and computing equipment and services. The price of automotive fuel fell by 1.3 per cent in March, while the price of fruit and vegetables rose by 1.3 per cent.

The trimmed mean of the Inflation Gauge rose by 0.1 per cent in March, following a rise of 0.3 per cent in February, to be 2.7 per cent higher than a year earlier.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “With this March report we have finalised our March quarter CPI forecasts, and there is little comfort for the RBA. We expect headline inflation to rise by 0.6 per cent in the quarter, to be 3.0 per cent higher than a year ago, and we forecast underlying inflation to rise by 0.8 per cent in the quarter, for an annual rate of 2.9 per cent. We suspect the recent and unexpected pickup in inflation has prevented the RBA from talking down the currency in recent months.”

“The RBA is increasingly seeing the glass as half full, with the turnaround in leading indicators such as job vacancies and building approvals suggesting that non-mining activity is recovering. Inflation pressures are clearly building up, neither due to ‘noise’ nor proof that Australia’s speed limit on growth is below 3%. While the RBA Board has a few months to voice the “period of stability in the cash rate” theme, the use-by date for the emergency cash rate is approaching fast. We see the August monetary policy testimony as the perfect timing to announce that emergency cash rates are no longer required, paving the way for at least one small upward adjustment by year end.” added Ms Beacher.

The April 2014 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 5 May 2014.

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