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TD Securities – Melbourne Institute Monthly Inflation Gauge

March 2015

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.4 per cent in March, following a flat result in February. In the twelve months to March, the Inflation Gauge rose by 1.5 per cent, following a 1.3 per cent rise for the twelve months to February.

Contributing to the overall change in March were price rises for automotive fuel (+12.9 per cent), fruit and vegetables (+2.6 per cent), and tobacco (+1.4 per cent). These were offset by falls in alcoholic beverages (-1.2 per cent), rents (-1.2 per cent) and clothing (-1.8 per cent).

The trimmed mean of the Inflation Gauge was flat in March, following a rise of 0.2 per cent in February, to be 1.6 per cent higher than a year earlier.

According to Annette Beacher, Chief Asia-Pac Macro Strategist at TD Securities, “With this March report we have firmed up our March quarter CPI forecasts, and we can rule out oil-related deflation for now. We expect headline inflation to barely rise by 0.1 per cent in the quarter, to be 1.2 per cent higher than a year ago, while underlying inflation is expected to lift by 0.5 per cent in the quarter, for an annual rate of 2.2 per cent. This underlying CPI forecast is consistent with the RBA target of 2¼ per cent as published in February.”

“The RBA Board is in an uncomfortable position. The exchange rate remains above the Bank’s measure of fundamental value especially given the recent slide in the iron ore price, and the economy is expanding at a lukewarm sub-trend pace. In stark contrast, house prices and auction clearance rates are accelerating as record low finance costs encourages rampant property speculation. While low inflation certainly allows the RBA to cut the cash rate further, we pencil in only one more cash rate reduction to 2 per cent in May, with risks of delay into the second half of the year, should the housing sector keep expanding at an uncomfortable pace.” added Ms Beacher.

The April 2015 TD – MI Inflation Gauge will be released at 10.30am AEST on Monday 4 May 2015.

Contacts:

Annette Beacher

Chief Asia-Pac Macro Strategist, TD Securities

Tel: 65 6500 8047

Mobile: 65 9008 3122

Email: annette.beacher@tdsecurities.com

Dr. Michael Chua

Melbourne Institute of Applied Economic and Social

Research, The University of Melbourne

Tel: 03 8344 2144

Email: mchua@unimelb.edu.au