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TD Securities – Melbourne Institute Monthly Inflation Gauge

May 2014

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.3 per cent in May, following an increase of 0.4 per cent in April. In the twelve months to May, the Inflation Gauge rose by 2.9 per cent, following a 2.8 per cent increase for the twelve months to April.

Contributing to the overall change in May were price rises for fruit and vegetables (+ 6.1 per cent), furniture and furnishings (+4.0 per cent) and Tobacco (+2.3 per cent). These were offset by falls in holiday travel and accommodation (-3.7 per cent), health (-0.8 per cent), and footwear (-0.9 per cent). The price of automotive fuel fell by 1.1 per cent in May.

The trimmed mean of the Inflation Gauge rose by 0.2 per cent in May, following an increase of 0.5 per cent in April, to be 2.9% higher than a year earlier.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “For the June quarter, using mid-quarter prices, our headline inflation measure and trimmed mean measure rose by 0.9 per cent, and annual rates remain at the top of the RBA two to three per cent target band at 2.9 per cent. While we will publish our forecasts for the official ABS June quarter CPI with our June Inflation Gauge report, the clear signal from our Gauge is that inflation remains sticky and the ‘soft’ prior March quarter CPI report could prove to be a one-off.”

“The RBA has expressed some doubt about the reliability of the capital expenditure survey, however, we believe the recent substantial upgrade to 2014-15 services investment plans should be well received, and combined with the leap in residential construction in the early months of 2014 proves that non-mining activity can offset the decline in mining investment. While we may have pushed out the beginning of our expected tightening cycle from November to March 2015, upside to price and activity data speaks to us that the market remains too complacent by not pricing any rate rises over the next twelve months.” added Ms Beacher.

The June 2014 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 30 June 2014.

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