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TD Securities – Melbourne Institute Monthly Inflation Gauge

February 2014

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.2 per cent in February, following an increase of 0.1 per cent in January, and 0.7 per cent in December. In the twelve months to February, the Inflation Gauge rose by 2.7 per cent, following the 2.5 per cent increase over the twelve months to January.

Contributing to the overall change in February were price rises for fruit and vegetables, furniture and furnishings, and non-alcoholic beverages. These were offset by falls in holiday travel and accommodation, bread and cereal products, and newspapers, books and stationery. The price of automotive fuel rose by 1.2 per cent in February and the price of fruit and vegetables rose by 1.7 per cent.

The trimmed mean of the Inflation Gauge rose by 0.3 per cent in February, following a flat result in January, to be 3 per cent higher than a year earlier.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “Using mid-quarter prices now available, our Inflation Gauge measure is showing worrying signs of further price acceleration. Our Inflation Gauge rose by 1.0 per cent in the March quarter, led by a 1.4 per cent leap in tradable inflation, while our trimmed mean measure rose by an equally startling 0.8 per cent between November and February. These quarterly growth outcomes, using official inflation data, imply annual rates of 3.4 per cent and 3.0 per cent for headline CPI and underlying CPI respectively.”

“While we will publish our final forecasts for the official ABS March quarter CPI with our March Inflation Gauge report released later this month, the clear signal is that inflation pressures continue to build rapidly, pressing against if not punching through the upper bound of the RBA two to three per cent target range.”

“In tandem, GDP growth is shaping up to end 2013 on a decent note, approaching a return to trend 3 per cent. Leading housing indicators are accelerating, consumption remains supportive for growth and the star performer will be the trade sector, all offsetting the peak in mining investment. As inflation is already above the mid-point of the RBA target band, we expect the RBA to begin withdrawing some extraordinary stimulus by year end, and we target a cash rate of 3.0 per cent by December.” added Ms Beacher.

The March 2014 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 31 March 2014.

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