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TD Securities – Melbourne Institute Monthly Inflation Gauge

April 2015

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.3 per cent in April after a rise of 0.4 per cent in March. In the twelve months to April, the Inflation Gauge rose by just 1.4 per cent, the fifth consecutive print below 2 per cent.

Contributing to the overall change in April were price rises for medical, dental and hospital services (+4.7 per cent), holiday travel and accommodation (+3.1 per cent) and fuel (+0.8 per cent). These were offset by falls in alcoholic beverages (-0.7 per cent), clothing (-0.7 per cent), and audio, visual and computing equipment and services (-2.2 per cent).

The trimmed mean of the Inflation Gauge rose by 0.2 per cent, following a flat result in March, to be 1.4 per cent higher than a year ago.

According to Annette Beacher, Chief Asia-Pacific Macro Strategist at TD Securities, “There are mixed messages in this report, with a solid monthly increase but weak annual inflation, but this can be explained by base effects, with our Inflation Gauge being quite buoyant this time last year”.

“Looking into the details, a jump in private health insurance was the main upside this month, which is clearly a one-off, while price rises and falls canceled each other out. We highlight that domestic (non-tradable) inflation rose by 0.3 per cent in April, to be only 1.8 per cent over the year, the lowest annual rate in over a decade. This bears close watching in the coming months.”

“For the RBA Board meeting tomorrow, the combination of sub-trend GDP growth, lower terms of trade and a low inflation environment all tilt the odds towards the RBA delivering a 25 basis point cut to 2 per cent. The Bank then has the opportunity to thoroughly flesh out its justification for the cut in Friday’s Statement on Monetary Policy. We expect the sluggish outlook for non-mining activity to keep the RBA’s easing bias on the table for many months to come.” added Ms Beacher.

The May 2015 TD – MI Inflation Gauge will be released at 10.30am AEST on Monday 1 June 2015.

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