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TD Securities – Melbourne Institute Monthly Inflation Gauge

September 2014

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.1 per cent in September, following two months of flat results. In the twelve months to September, the Inflation Gauge increased by 2.2 per cent, following a 2.4 per cent increase for the twelve months to August.

Due to the removal of tariffs related to the carbon component in the prices of electricity and gas, the July Inflation Gauge was revised down from 0.2 per cent to flat.

Contributing to the overall change in September were price rises for fruit and vegetables (+1.6 per cent), tobacco (+2.0 per cent), and holiday travel and accommodation (+3.0 per cent). They were offset by falls in health (-1.0 per cent), fuel (-4.4 per cent), and clothing and footwear (-0.6 per cent).

The trimmed mean of the Inflation Gauge also rose by 0.1 per cent in September, to be 2.3 per cent higher than a year earlier.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “With this September report we have finalised our September quarter CPI forecasts, and they look rather benign. We expect headline inflation to increase by 0.4 per cent in the quarter, to be 2.2 per cent higher than a year ago, while we forecast underlying inflation to increase by 0.5 per cent in the quarter, for an annual rate of 2.6 per cent. We expect underlying inflation to remain at the mid-point of the RBA’s 2-3 per cent target band over the next year while the impact of the carbon tax removal temporarily dampens prices, however, the recent slump in the exchange rate brings fresh upside to the outlook for 2015.”

“We expect tomorrow’s RBA Board Meeting to be keenly watched, but not due to leaving the cash rate at 2.5 per cent for another month, but whether the Board still considers the exchange rate to be at historically high level after the six per cent depreciation in September. Otherwise, expect the RBA to repeat that “a period of stability in interest rates” is the mantra for now”, added Ms Beacher.

The October 2014 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 3 November 2014.

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