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TD Securities – Melbourne Institute Monthly Inflation Gauge

December 2015

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.2 per cent in December, following an increase of 0.1 per cent in November. In the twelve months to December, the Inflation Gauge rose by 2.0 per cent after a rise of 1.8 per cent for the twelve months to November.

Contributing to the overall change in December were price rises for fruit and vegetables (+0.8 per cent), holiday travel and accommodation (+2.3 per cent, seasonal), and meat and seafood (+0.8 per cent). These were offset by price falls in fuel (-3.1 per cent), non-alcoholic beverages (-2.7 per cent) and rent (-0.9 per cent).

The trimmed mean of the Inflation Gauge fell by 0.1 per cent in December, to be 1.7 per cent higher than a year ago.

According to Annette Beacher, Chief Asia-Pac Macro Strategist at TD Securities, “With this December report we have finalized our December quarter CPI forecasts. We expect headline inflation to increase by 0.3 per cent in the quarter, to be 1.7 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 2.0 per cent. These forecasts are entirely consistent with the RBA’s November projections.”

“Our tradable and domestic inflation gauges have converged at annual rate of 2 per cent, a phenomenon that the RBA has already anticipated, whereby the weaker Australian dollar is boosting imported prices, but benign domestic inflation provides a welcome offset”.

“While we started 2016 with considerable market volatility, there is time between now and the next RBA Board meeting on 2 February for the members to decide what tone is appropriate for the Board statement. The RBA Board can also discuss Australia’s recent solid employment report, December quarter CPI and Chinese December quarter GDP. We remain of the view that the RBA is likely to leave the cash rate at 2 per cent this year, although the rocky start to the year has increased the odds that a rate cut could be delivered should that prove to be beneficial.” added Ms Beacher.

The January 2016 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 1 February 2016.

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