

Consumer Price Index – September Quarter 2010

ECONOMIC ALERT

27 October 2010

KEY POINTS

- Headline inflation was 0.7 per cent in the September quarter 2010 and 2.8 per cent over the year.
- This result was below the expectations of the Reserve Bank and market economists.
- Growth in the headline CPI during the quarter was mainly driven by tobacco, housing utilities and property rates & charges.
- The headline inflation rate can be affected by volatile items and is not always the best measure of underlying inflationary pressures. For this reason, economists tend to focus on 'underlying measures' of inflation. While there are many possible measures of underlying inflation, economists tend to place most weight on 'trimmed mean' and 'weighted median' inflation.
- Both these measures have grown modestly over the past 6 months, and have come in at the lower end of the Reserve Bank's expectations.
- 'Trimmed mean' inflation was 0.6 per cent in the September quarter and 2.5 per cent over the year.
- Similarly, 'weighted median' inflation was 0.5 per cent in the quarter and 2.3 per cent over the year.

Policy implications

- Inflationary pressures appear to have been relatively modest over the past 6 months and somewhat less than the RBA and market economists were expecting.
- As a result, while we continue to expect interest rates to rise over the coming year, today's inflation release does not appear to give the RBA reason to raise interest rates in the immediate future.

Consumer Price Index – September Quarter 2010

ECONOMIC ALERT

27 October 2010

Chart: Headline and Underlying Inflation

