

Consumer Price Index – September Quarter 2011

ECONOMIC ALERT

26 October 2011

KEY POINTS

- Headline inflation was 0.6 per cent in the September quarter 2011, and 3.5 per cent over the year (Chart 1).
- 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.
- The average of these two measures grew by 0.3 per cent in the September quarter, to be 2.5 per cent higher over the year (Chart 2).
- This was the lowest quarterly growth rate recorded since 2002 and was also noticeably below the expectations of market economists (0.6 per cent).
- Taken together with the growth recorded in the June quarter, underlying inflation has averaged close to 0.6 per cent over the past six months, which is a little below the average quarterly rate recorded since 2002.
- While on the surface, this points to some easing in inflationary pressures in the Australian economy, the interpretation of today's results may be somewhat complicated by the fact that they have coincided with a number of methodological changes made by the ABS.
- Inflation remains at high levels for food, education and transport services (Charts 3 & 4).
- On the other hand, inflation remains subdued for communication and recreation services (Chart 5).

Policy implications

- What does this data imply for the direction of interest rates?
- We believe the best gauge of the future direction of official interest rates is the predominant view of domestic market economists.
- Prior to this release, the majority of market economists expected interest rates would remain on hold for the next few months, while a significant minority were forecasting rates to fall in the near term.
- Today's results appear to provide further scope for the RBA to reduce interest rates, and hence may strengthen the case for interest rates to fall in the near term. However, given that the surprisingly low growth in underlying inflation recorded this quarter coincided with significant methodological changes made by the ABS, and the fact that underlying inflation has still averaged close to 0.6 per cent over the past two quarters (which is only a little below the average rate recorded since 2002), we see today's release as increasing the likelihood that rates will remain on hold in the near term.

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Chart 1

Headline Inflation

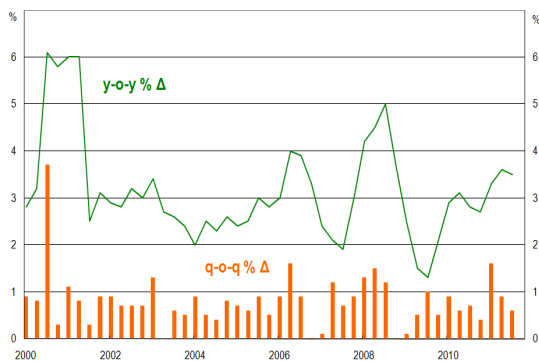


Chart 2

Underlying Inflation

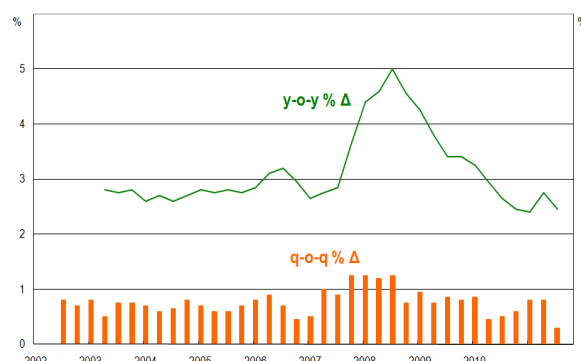


Chart 3

CPI Inflation

Year-ended growth

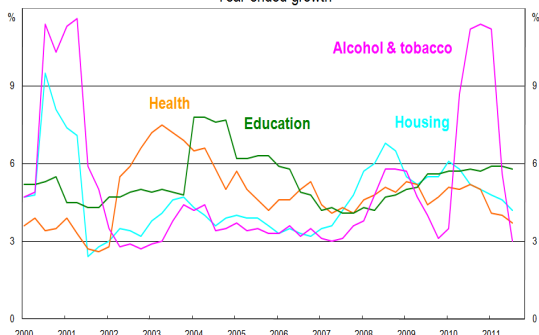


Chart 4

CPI Inflation

Year-ended growth

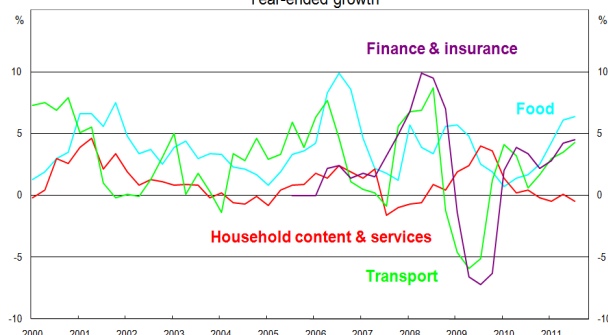


Chart 5

CPI Inflation

Year-ended growth

