



Consumer Price Index (CPI), March quarter (Q1) 2016

Headline annual inflation slowed to 1.3% p.a. in the March quarter of 2016, remaining significantly below the RBA's target band of 2-3%. Headline CPI fell by -0.2%, the first negative reading (and the lowest) since the December quarter of 2008. The annual rate of inflation slowed to +1.3% p.a. The main contributors to this rare example of deflation in March were price falls for transport fuel (i.e. petrol), clothing & footwear, recreation & culture (i.e. travel and accommodation services).

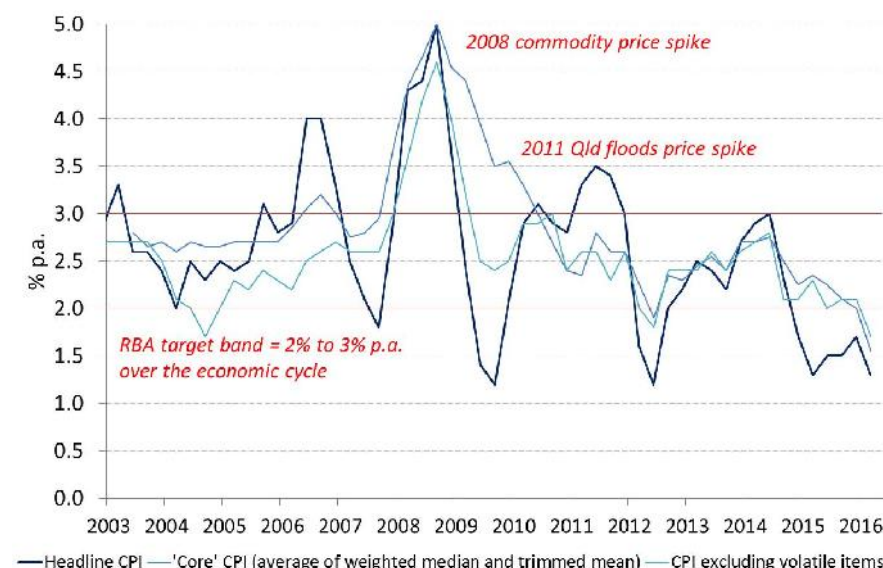
Headline inflation (CPI) for the March quarter of 2016 (Q1) is very weak in annual terms, at just +1.3% p.a., slowing from +1.7% p.a. in Q4 2015. This is the same annual rate of inflation as in Q1 2015 and is close to the slowest headline rate since June 2012, when it slowed to +1.2% p.a. (see Chart 1). Headline inflation has now been below the RBA's target band of 2-3% p.a. (on average, over the economic cycle) for six consecutive quarters. This is the longest period of CPI readings below 2% since 1999.

Underlying inflation (the average of the trimmed mean and weighted median measures of inflation, and a less volatile measure than headline CPI) slowed to +0.2% q/q and +1.6% p.a. in Q1 2016, from +0.5% q/q and +2.0% p.a. in Q4 2015. This is the slowest annual rate of core inflation recorded in the relevant CPI data series (commencing in 2003). Underlying inflation is now below the RBA's target band of 2-3%, for the first time since June 2012.

These unusually low inflation rates over an unusually prolonged period are a key reason why the RBA decided to cut the cash rate by 25 basis points to 1.75% in May. The RBA hopes that the lower cash rate will help to stimulate local demand and stabilise prices, and help to suppress the Australian dollar.

Across the capital cities, annual inflation in Q1 2016 was lowest in Darwin (-0.3% p.a.) which is currently experiencing deflation, and highest in Melbourne and Brisbane (both +1.7% p.a.). This reflects differences in general economic conditions between these cities; with modest price increases in the largest cities and weaker price increases elsewhere (see Table 1).

Chart 1: CPI p.a., headline & core



Key numbers: Australian headline CPI, March quarter 2016

-0.2%

HEADLINE CPI,
QUARTER GROWTH

+1.3%

HEADLINE CPI,
ANNUAL GROWTH

Prices for tradable goods and services (accounting for around 40% of the CPI basket) decreased by 1.4% q/q in the March quarter, to be up just +0.6% p.a. Prices for tradable goods and services are largely determined globally and are also affected by movements in the exchange rate. The decline in prices in Q1 was significantly affected by lower fuel prices (i.e. petrol and diesel) driven by lower oil prices globally. Prices for other imported goods might have fallen in Australian dollar terms, due to the appreciation in the Australian dollar towards the end of Q1.

Prices for non-tradeable goods and services (accounting for around 60% of the CPI basket) increased modestly in the March quarter, at +0.4% q/q and +1.7% p.a. This rate of growth was largely unchanged from the December quarter. Prices for non-tradeable goods and services are largely determined locally by labour, rent and other local costs. Driving the price increase in this group were education and health.

Within the whole basket of goods and services that make up the CPI, the main categories driving prices upward in the March quarter continue to be education (+3.1% q/q and +3.3% p.a.) and health services (+1.9% q/q and +4.6% p.a.). Putting downward pressure on the March quarter CPI were large price falls for transport (-2.5% q/q and -0.5% p.a.), recreation and culture (-1.0% q/q and +0.1% p.a.), clothing and footwear (-2.6% q/q and -0.8% p.a.) and communications (-1.5% q/q and -6.4% p.a.).

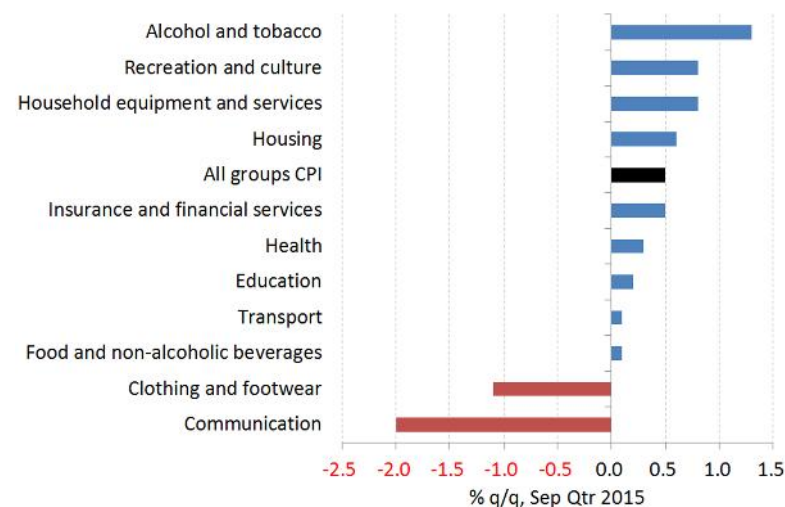
In health services, increased prices were partly due to a reduction in services and products qualifying for the Medical Benefits Scheme and Pharmaceutical Benefits Scheme, with safety net amounts being reset in January. As a result, Q1 saw further significant price increases for:

- medical and hospital services (+1.6% q/q and +6.2% p.a.); and
- pharmaceutical products (+4.8% q/q and +1.3% p.a.).

Transport prices plunged due to low oil prices in Q1. This mainly showed through in automotive fuel prices falling by -10.0% q/q and -6.4% p.a. Lower fuel prices may also have played a role in lower prices for recreation and culture services, which includes holiday travel. Prices for international holiday travel and accommodation fell by -2.0% q/q (+0.2% p.a.) and prices for domestic holiday travel and accommodation services declined by -1.9% q/q and -2.6% p.a.

Communication prices were also down in Q1, led by telecommunication equipment and prices (-1.7% q/q and -6.7% p.a.). Clothing and footwear prices were down (-2.6% q/q and -0.8% p.a.) due to lower prices for accessories (-4.3% q/q and -1.5% p.a.) and post-Christmas discounting by retailers.

Chart 2: Quarterly price rises, Q1 2016



Key numbers: Australian core CPI, March quarter 2016

+0.2%

CORE CPI,
QUARTER GROWTH

+1.6%

CORE CPI,
ANNUAL GROWTH

Table 1: Key CPI Numbers, March quarter (Q1) 2016

| | Quarterly change (% q/q) | | Annual change (% p.a.) | |
|---|-----------------------------|------------|---------------------------|------------|
| | Mar-16 | Dec-15 | Mar-16 | Dec-15 |
| Headline CPI | -0.2 | 0.4 | 1.3 | 1.7 |
| Trimmed mean | 0.2 | 0.6 | 1.7 | 2.1 |
| Weighted median | 0.1 | 0.4 | 1.4 | 1.9 |
| Core CPI <i>(average of trimmed & weighted)</i> | 0.2 | 0.5 | 1.6 | 2.0 |
| Tradable goods and services | -1.4 | 0.5 | 0.6 | 0.8 |
| Non-tradable goods and services | 0.4 | 0.4 | 1.7 | 2.3 |
| Goods | -0.7 | 0.3 | 0.9 | 1.2 |
| Services | 0.4 | 0.5 | 1.9 | 2.4 |
| Capital cities | | | | |
| Sydney | -0.2 | 0.3 | 1.3 | 2.0 |
| Melbourne | -0.1 | 0.7 | 1.7 | 1.9 |
| Brisbane | 0.0 | 0.4 | 1.7 | 1.7 |
| Adelaide | -0.3 | 0.2 | 0.7 | 1.0 |
| Perth | -0.6 | 0.5 | 0.7 | 1.5 |
| Hobart | -0.2 | 0.9 | 1.3 | 1.8 |
| Darwin | -0.9 | 0.3 | -0.3 | 0.5 |
| Canberra | 0.2 | 0.2 | 1.0 | 0.7 |

What is the CPI?

The Consumer Price Index (CPI) measures changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households. CPI data is collected by the Australian Bureau of Statistics (ABS) and released each quarter in January, April, July and October.

Headline CPI is the most commonly referenced CPI figure. It is not adjusted for the seasonality of volatile movements in prices.

Underlying CPI (or Core CPI) is a less volatile measure, as it removes the effects of items that tend to fluctuate frequently in price. Core CPI is the average of the trimmed mean CPI and the weighted mean CPI.

For more information from the ABS, or for information from the ABS on how to use the CPI in contracts, see:

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/6401.o?opendocument#from-banner=LN>

Next CPI release date:

June Quarter (Q2) 2016 due for release on 27 July 2016

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