

Consumer Price Index (CPI): +1.9% p.a., June quarter (Q2) 2017

Headline consumer inflation slowed to 1.9% p.a. in the June quarter of 2017 (Q2) from 2.1% in Q1 2017, moving below the RBA's target band of 2 to 3% over the cycle. In quarterly growth terms, headline CPI slowed to +0.2% from 0.5% Q1 2017.

The main contributors to inflation in Q2 were price rises for housing (+0.3% q/q, +2.4% p.a.) and health services (+2.7% q/q, +3.8% p.a.), which together lifted consumer prices by +0.3% in the quarter. These rises were offset by price falls in some other product categories.

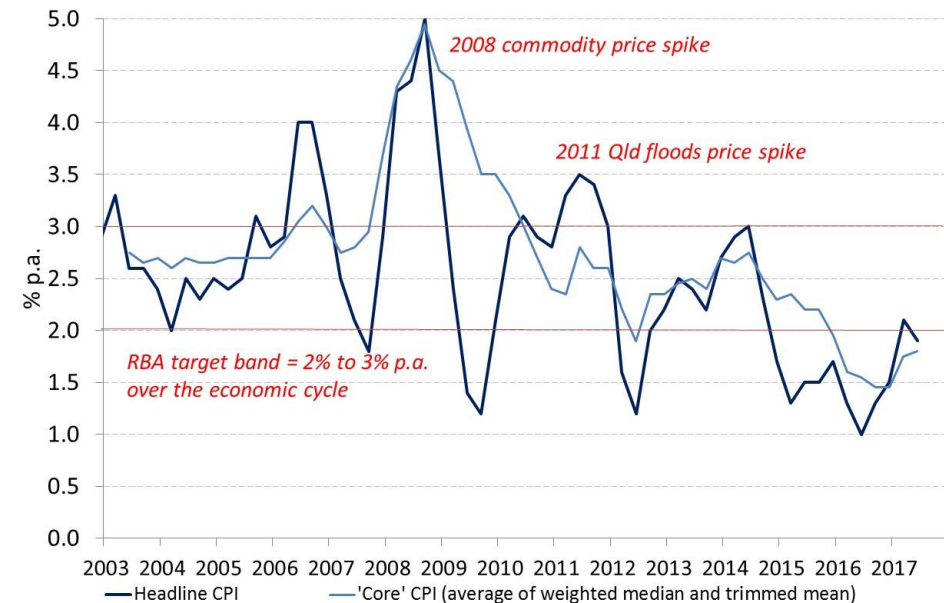
At +1.9% p.a. in Q2, Australia's headline inflation rate has slipped back below the RBA's target range of 2-3% over the cycle and looks persistently weak.

Underlying inflation is the average of the trimmed mean and weighted median measures of inflation. It is a less volatile measure than headline CPI, since it removes the effects of more volatile and seasonal items. It was slightly lower than headline inflation in Q2, at +1.8% p.a., unchanged from Q1. Underlying inflation has accelerated from the lows of 2015 and 2016 but it remains decidedly sluggish. It indicates that widespread expectations (including from the RBA) for gradually accelerating inflation in 2017 are not yet eventuating. This situation is also playing out in other advanced economies, where low inflation is proving intractable.

Across the capital cities, annual inflation in Q2 2017 remained slowest in Darwin (+0.5% p.a.) and highest in Hobart (+2.3% p.a.). The eastern capitals continue to experience stronger price growth in line with their stronger economic growth. This might imply less spare capacity in these areas than in the 'mining' states.

Prices for **tradable goods and services** (accounting for around 35% of the CPI basket) fell by -0.3% q/q in Q2 (after falling by -0.2% q/q in Q1) and slowed to 0.4% in annual terms, from 1.3% p.a. in Q1. Prices for tradable goods and services are largely determined globally and are affected by movements in the exchange rate and commodity prices (agricultural as well as resources). The decrease in tradable prices in Q2 was largely driven by falls in local automotive fuel prices (-2.5% q/q, +6.9% p.a.) and strongly influenced by lower global oil prices in the June quarter.

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



+0.2%

HEADLINE CPI
QUARTER GROWTH
Q1 2017

+1.9%

HEADLINE CPI
ANNUAL GROWTH
Q1 2017

Prices for **non-tradeable goods and services** (accounting for around 65% of the CPI basket) decelerated to +0.4% q/q and +2.7% p.a. in Q2 from +0.9%q/q and +2.6% p.a in Q1. Prices for non-tradeable goods and services are largely determined locally by labour, rent and other local costs. They include large categories of consumer spending such as housing, healthcare and education.

The increase in non-tradable prices in Q2 was driven by new dwelling purchases by owner occupiers (+0.9% q/q, +2.8% p.a.), tobacco (+0.8% q/q, +5.9% p.a.), medical and hospital services (+4.1% q/q, +5.3% p.a.) and restaurant meals (+0.7% q/q, +2.8% p.a.).

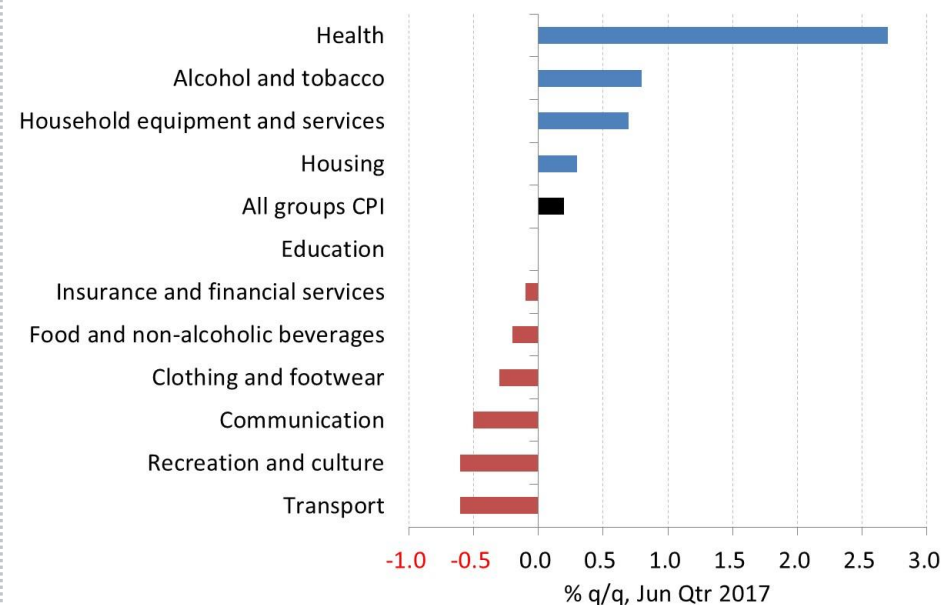
Looking across the **categories of goods and services** that are included in the CPI 'basket':

- **Housing-related prices** were one of the main drivers of the increase in CPI in Q2 (+0.3% q/q and +2.4 %p.a.). This category included price increased for new dwelling purchases by owner occupiers (+0.9% q/q, +2.8% p.a.), rents (+0.2% q/q, +0.6% p.a.) and prices for gas and other household fuels (+0.4% q/q, +2.8% p.a.).
- **Health services prices** (+2.7% q/q, +3.8% p.a.) also helped drive up prices in Q2, mainly due to medical and hospital services (4.1%, +5.3% p.a.) and dental and hospital services (+3.6% q/q, +4.8% p.a.). This was partly due to the annual increase in private health insurance premiums on 1 April and the annual decrease in the private health insurance rebate.

Dampening price growth in Q2 were declines in prices for:

- Transport (-0.6% q/q, +2.1% p.a.), with automotive fuel prices declining (-32.5% q/q, +6.9% p.a.) in line with falling global oil prices.
- Recreation and culture (-0.6% q/q, -0.1% p.a.), with prices for domestic holiday travel and accommodation declining (-3.2% q/q, +2.2% p.a.).
- Audio, visual and computing equipment (-0.8% q/q, -7.0% p.a.).

Chart 2: Quarterly price rises, Q2 2017



+0.5%

CORE CPI,
QUARTER GROWTH
Q2 2017

+1.8%

CORE CPI,
ANNUAL GROWTH
Q2 2017

Table 1: Key CPI Numbers, June quarter (Q2) 2017

	Quarterly change (% q/q)	Annual change (% p.a.)
Headline CPI	0.2	1.9
Trimmed mean	0.5	1.8
Weighted median	0.5	1.8
Core CPI <i>(average of trimmed & weighted)</i>	0.5	1.8
Tradable goods and services	-0.3	0.4
Non-tradable goods and services	0.4	2.7
Goods	0.1	2.0
Services	0.4	1.8
Capital cities		
Sydney	0.4	2.2
Melbourne	0.1	2.2
Brisbane	0.5	1.8
Adelaide	0.1	1.6
Perth	0.0	0.7
Hobart	0.0	2.3
Darwin	0.3	0.5
Canberra	0.0	2.1

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 (Q3) 2017 due for release on 25 October 2017

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