



Consumer Price Index (CPI) slows to +1.8% p.a. in Q3 2017

Headline consumer inflation slowed to 1.8% p.a. in the September quarter of 2017 (Q3) from 1.9% in Q2 2017. It remains below the RBA's target band of 2 to 3% p.a. over the cycle. In quarterly growth terms, headline CPI accelerated to +0.6% in Q3 from just 0.2% in Q2 2017.

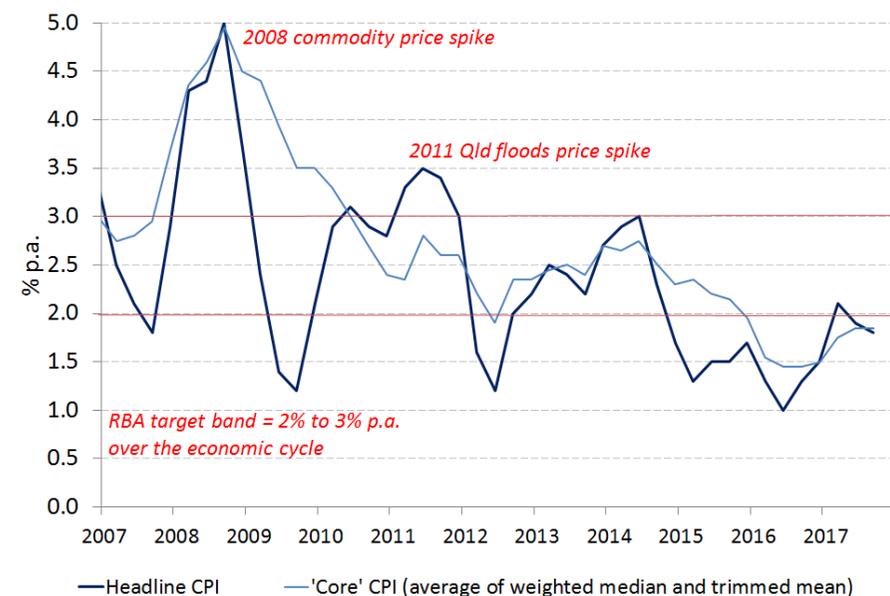
The main contributors to headline inflation in Q3 were price rises for alcohol and tobacco (+2.2% q/q and +7.0% p.a.), housing (+1.9% q/q, +3.3% p.a.) and recreation and leisure (+1.3% q/q, +0.6% p.a.), which together lifted consumer prices by +0.9 percentage points in the quarter. The rise in housing costs in Q3 was driven by sharp rises in electricity prices (+8.9% q/q) and gas prices (+5.2% q/q), since utilities are included in housing costs.

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 above headline inflation in Q3, at +1.9% p.a., unchanged from Q2. Underlying inflation has increased slightly from the lows of 2015 and 2016 but it remains decidedly sluggish. It indicates that aside from accelerating energy prices, there is little evidence of inflationary pressures building in the economy. This situation is also playing out in other advanced economies, where low inflation is proving intractable.

Across the capital cities, annual inflation in Q3 2017 was slowest in Darwin (+0.6% p.a.) and Perth (+0.8%). This weakness reflects the post-boom phase of mining investment in Western Australia and the Northern Territory. Inflation pressures were strongest in Melbourne (+2.2% p.a.), Hobart (+2.0% p.a.), Adelaide (+1.8% p.a.) and Sydney (+1.9% p.a.) where annual hikes in energy prices were generally the largest. This also reflects stronger population growth and demand for goods and services in these cities (and especially in Melbourne).

Prices for **tradable goods and services** fell by -0.3% q/q in Q3, after falling by -0.3% q/q in Q1, to be down 0.9% p.a. This was the first annual decline in two years. This component makes up 35% of the weight of the CPI and comprises domestic goods and services which are exposed to competition from imports.

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



+0.6%

HEADLINE CPI
QUARTER GROWTH
Q3 2017

+1.8%

HEADLINE CPI
ANNUAL GROWTH
Q3 2017

Prices for tradable goods and services are influenced by movements in the exchange rate and commodity prices, so these price trends appear to reflect the disinflationary impact of a higher Australian dollar earlier in the year.

The decrease in tradable prices in Q3 was largely driven by falls in vegetable prices (-10.9% q/q) and automotive fuel (-2.3% q/q) reflecting continued weakness in world oil prices. Higher prices for international holiday travel and accommodation (+4.1%) provided some offset to these price rises.

Prices for non-tradable goods and services increased by 1.0% q/q in Q3 and 3.2% p.a. This was the strongest annual growth rate for non-tradable goods and services in almost four years. This component makes up 65% of the weight of the CPI and is largely determined by domestic price pressures. The most significant contributors to growth in non-tradable inflation in Q3 were electricity (+8.9% q/q), tobacco (+4.1% q/q), motor vehicle services (+2.7% q/q) and property taxes and charges (+2.6% q/q).

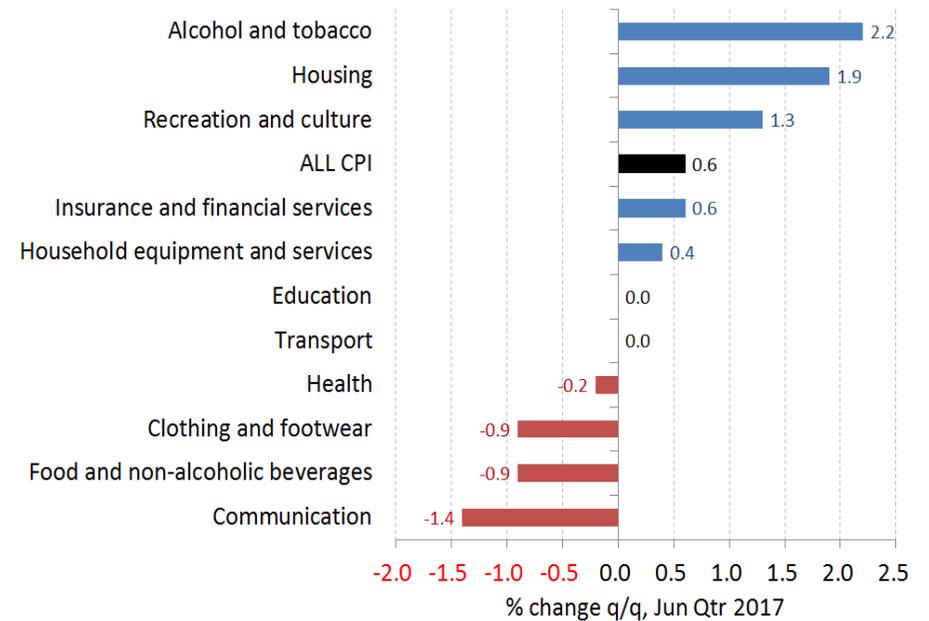
Looking across the **categories of goods and services** that are included in the CPI 'basket':

- **Housing-related prices** were a major driver of the increase in CPI in Q3 (+1.9% q/q and +3.3 %p.a.). This category includes price increases for utilities such as electricity (+8.9% q/q and 11.5% p.a.) and gas and other household fuels (+5.2% q/q, +8.2% p.a.).
- **Alcohol and tobacco prices** (+2.2% q/q, +7.0% p.a.) helped push up the CPI in Q3, largely due to another increase in the government tobacco excise in September.
- **Recreation and leisure prices** lifted in Q3 but were relatively flat over the year (+1.3% q/q and 0.6% p.a.), reflecting the seasonal influence of higher prices for overseas travel and an unusually large increase in prices for audio visual and computing media and services (+3.9% q/q and +3.2% p.a.).

Dampening price growth in Q3 were declines in prices for:

- **Communication** (-1.4% q/q, -2.9% p.a.), with telecommunications equipment and services declining by 1.5% q/q and 3.2% p.a.;
- **Food and non-alcoholic beverages** (-0.9% q/q, -0.7% p.a.);
- **Clothing and footwear** (-0.9% q/q, -3.2% p.a.); and
- **Health services** (-0.2% q/q and +3.9% p.a.)

Chart 2: Quarterly price rises, Q3 2017



+0.4%
CORE CPI,
QUARTER GROWTH
Q3 2017

+1.9%
CORE CPI,
ANNUAL GROWTH
Q3 2017

Table 1: Key CPI Numbers, September quarter (Q3) 2017

	Quarterly change (% q/q)	Annual change (% p.a.)
Headline CPI	0.6	1.8
Trimmed mean	0.4	1.8
Weighted median	0.3	1.9
Core CPI <i>(average of trimmed & weighted)</i>	0.4	1.9
Tradable goods and services	-0.3	-0.9
Non-tradable goods and services	1.0	3.2
Goods	0.6	1.8
Services	0.6	1.8
Capital cities		
Sydney	0.7	1.9
Melbourne	0.5	2.2
Brisbane	0.4	1.5
Adelaide	1.1	1.8
Perth	0.5	0.8
Hobart	0.3	2.0
Darwin	0.6	0.6
Canberra	0.9	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:

December Quarter (Q4) 2017 due for release on 31 January 2018

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