

## Consumer Price Index (CPI) stable at +1.9% p.a. in Q1 2018

Headline consumer inflation held steady at 1.9% p.a. in the March quarter of 2018 (Q1). It remains below the RBA's target band of 2 to 3% over the cycle. In quarterly growth terms, headline CPI held slowed to +0.4% in Q1 2018 from +0.6% in Q4 2017.

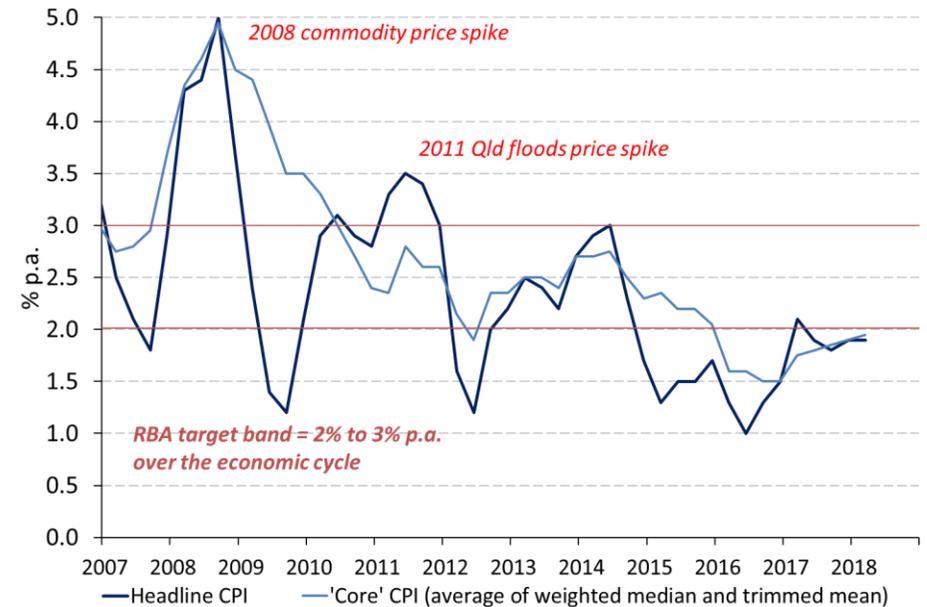
The main contributors to headline inflation in Q1 were price rises for housing (+0.7% q/q and +3.3% p.a.); transport (+1.1% and +2.9% p.a.); health (+2.2% q/q and +4.2% p.a.); and education (+2.6% q/q and +2.6% p.a.), which together lifted consumer prices by 0.6% q/q. Housing-related price rises included gas and other household fuels (+6.0% q/q) and electricity (+1.8% q/q) and reflected recent wholesale utility price rises in Melbourne being passed onto retail customers. These strong quarterly rises were offset by price falls for clothing and footwear and by recreation and culture goods and services.

Inflation for goods and services with market determined prices (excluding volatile items) remained weak in Q1 (0.0% q/q and +1.1% p.a.) while inflation for government regulated or administered items (such as utilities and pharmaceuticals) remains high (1.1% q/q and 6.2% p.a.).

**Underlying inflation** is the average of the trimmed mean and weighted median measures of inflation. It is a less volatile measure than headline CPI, as it removes the effects of more volatile and seasonal items. Underlying inflation was slightly stronger than headline inflation over the March quarter (+0.5% q/q) and over the year to Q1 2018, at 2.0% p.a. Underlying inflation has accelerated since its low point in 2016. It is now slightly higher than the RBA's mid-year (Q2 2018) forecast of 1.75%, reflecting (modestly) stronger consumer demand. Nevertheless, underlying inflation remains sluggish and just below the RBA target band of 2-3% over the cycle.

**Across the capital cities**, annual inflation in Q1 was slowest in Perth (+0.9% p.a.) and highest in Canberra (+2.4% p.a.). Annual inflation was strongest in the non-mining state and territory capital cities of Canberra, Adelaide, Melbourne and Sydney. Inflation remained in the lower half of the RBA's target band or below it in all capital cities.

**Chart 1: Headline and core inflation, % p.a.**



**+0.4%**

HEADLINE CPI  
QUARTER GROWTH  
Q1 2018

**+1.9%**

HEADLINE CPI  
ANNUAL GROWTH  
Q1 2018

Prices for **tradeable goods and services** (accounting for around 35% of the CPI basket) fell by 0.4% q/q in Q1 and 0.5% over the year. Prices for tradeable goods and services are largely determined by global production costs but are also affected by movements in the exchange rate and in commodity prices (agricultural as well as resources).

Prices for **non-tradeable goods and services** (accounting for around 65% of the CPI basket) increased by 0.8% q/q and 3.1% p.a. in Q1. Prices for non-tradeable goods and services are largely determined locally by labour, rent and other local production costs. They include large categories of consumer and household spending such as housing, healthcare and education.

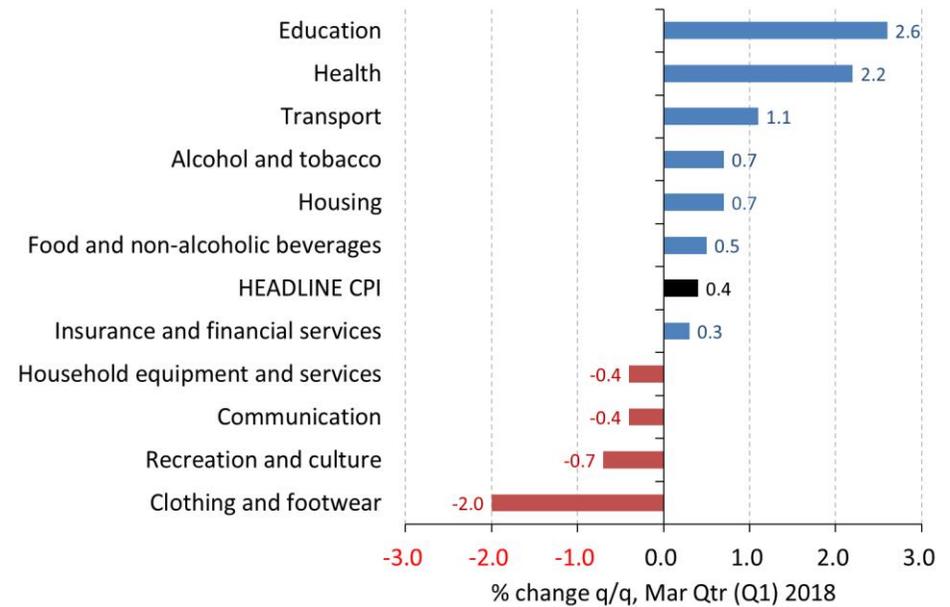
Looking across the **categories of goods and services** that are included in the CPI 'basket':

- **housing** (+0.7% q/q and +3.3% p.a.) helped push up the CPI in Q1, largely due to the flow on effects of bi-annual increases in utility prices. This was particularly evident in Victoria, where rises in wholesale costs throughout last year were passed onto customers in Q1 2018;
- price increases for motor vehicles (+1.4% q/q) and automotive fuels (+0.9% q/q) lifted **transport prices** (+1.1% q/q and +2.9% p.a.) in Q1;
- **education prices** (+2.6% q/q and +2.6% p.a.) also helped drive up the CPI in Q1, mainly due to annual increases in private school fees at the beginning of the year; and
- **health prices** (+2.2% q/q and +4.2% p.a.) contributed to price rises in Q1 because of co-payment indexation rises for the Pharmaceutical Benefits Scheme (PBS) and a reduction in the proportion of customers qualifying for subsidies under the PBS and Medicare Benefits Scheme (MBS). The co-payment indexation for the PBS and the safety net threshold amounts for both the PBS and MBS are reset on 1 January each year.

Dampening price growth in Q1 were declines in prices for:

- **clothing and footwear** (-2.0% q/q and -3.5% p.a.) driven by ongoing global competition and discounting in the retail industry, with Australian prices for garments falling by 2.7% q/q and prices for footwear falling by 3.8% q/q; and
- **recreation and culture** (-0.7% q/q and +0.6% p.a.) due to a seasonal dip in international travel prices and (more) deflation in audio, visual and computing equipment and services.

**Chart 2: Quarterly price rises, Q1 2018**



**+0.5%**

CORE CPI,  
QUARTER GROWTH  
Q1 2018

**+2.0%**

CORE CPI,  
ANNUAL GROWTH  
Q1 2018

**Table 1: Key CPI Numbers, March quarter (Q1) 2018**

	Quarterly change (% q/q)	Annual change (% p.a.)
<b>Headline CPI</b>	<b>0.4</b>	<b>1.9</b>
Trimmed mean	0.5	1.9
Weighted median	0.5	2.0
<b>Core CPI</b> <i>(average of trimmed &amp; weighted)</i>	<b>0.5</b>	<b>2.0</b>
Tradeable goods and services	-0.4	-0.5
Non-tradeable goods and services	0.8	3.1
Goods	0.3	2.0
Services	0.6	2.0
<b>Capital cities</b>		
Sydney	0.3	2.1
Melbourne	0.9	2.2
Brisbane	0.1	1.7
Adelaide	0.4	2.3
Perth	0.1	0.9
Hobart	0.7	2.0
Darwin	0.0	1.1
Canberra	0.8	2.4

## 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/6401.0?opendocument#from-banner=LN>

Next CPI release date: June quarter (Q2) 2018 due for release on 25 July 2018.

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