

Ai GROUP ECONOMICS FACTSHEET

Consumer price index (CPI), Q2 2019



The headline consumer price index (CPI) accelerated to 0.6% q/q and 1.6% p.a. in the June quarter (Q2) of 2019. This followed no movement (0.0% q/q) and very weak annual price changes (1.3% p.a.) in the March quarter (Q1) of 2019.

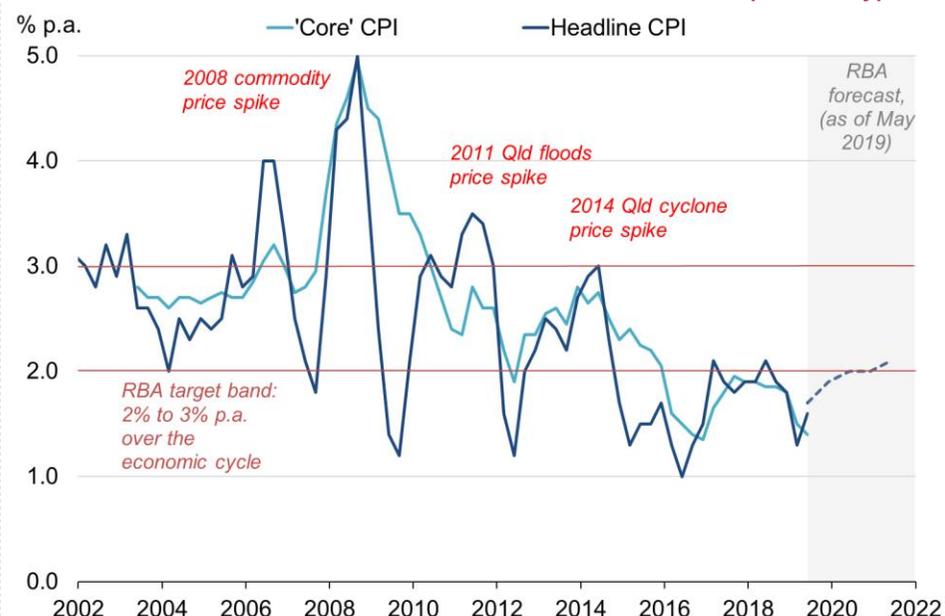
The headline consumer price index (CPI) rose by 0.6% q/q in Q2 2019, largely because of rising global oil prices flowing through to higher local petrol prices (see below). Annual inflation picked up to 1.6% p.a. but remained below the RBA's forecast of 1.7% p.a. for Q2 2019.

Underlying or 'core' inflation is the average of the trimmed mean and weighted median measures of inflation. It rose by 0.4% q/q and 1.4% p.a. in Q2. This is the RBA's preferred measure because it excludes the temporary effects of volatile pricing. Core inflation remains well below the RBA's target band of 2 to 3% over the cycle. It has been below 2% since Q4 2015. The persistence of very slow underlying inflation reflects trends including weak economic growth, spare capacity (in the labour market and in local production) and fierce pricing competition. Persistently low inflation means the RBA is less likely to increase the cash rate for Australia.

In Q2, prices fell (deflation) for 24% of the detailed items listed in the 'basket of goods and services' that the CPI tracks but rose for 76% of the detailed items. Price changes across these detailed categories indicate the following factors affected consumer inflation in Q2 2019:

- **Global oil prices** increased substantially in Q2, so the retail price of automotive fuel rose by 10.2% q/q in Q2 2019. Automotive fuel prices returned to levels recorded in late 2018 after falling by 8.7% q/q in Q1 of 2019. This rise had a significant impact on the headline CPI because automotive fuel is a relatively large item in the CPI's household spending 'basket'. This meant that higher petrol prices alone contributed half of the 0.6% q/q rise in this quarter.
- The annual increase in **private health insurance premiums** pushed health costs up by 1.8% q/q and 3.0% p.a. in Q2. Prices for medical and hospital services (+3.5% p.a.) include private health insurance premiums, which were the main driver of rising medical prices in Q2.

Chart 1: Headline and core inflation to Q2 2019 and RBA forecast for 'headline inflation' to Q2 2021 (as of May)



+0.6%

HEADLINE CPI
QUARTER GROWTH
Q2 2019

+1.6%

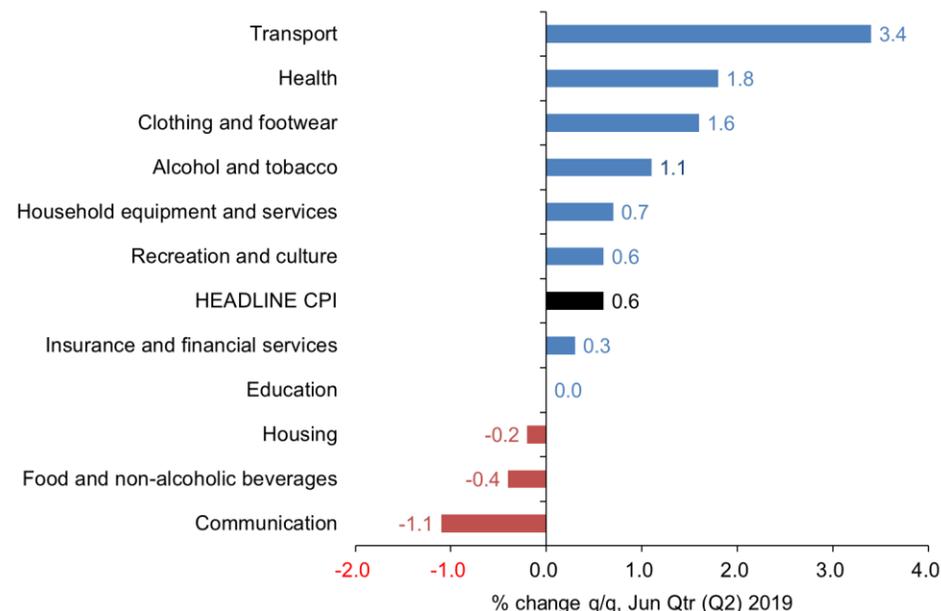
HEADLINE CPI
ANNUAL GROWTH
Q2 2019

- **Administered prices (that is, prices linked to or controlled by government regulation)** stabilised in Q2, after many years of sharp increases. Utility prices fell by 0.2% p.a. in Q2, with retail electricity prices down by 1.7% q/q and 1.0% p.a. and gas prices down by 0.5% q/q and flat over the year. Water prices were flat in Q2 and up by just 1.3% p.a. despite the drought, because water rates rise only once per year (usually from 1 July which is in Q3). Child care prices fell by 7.9% p.a., reflecting a new Child Care Subsidy package that commenced in July 2018.

Table 1: Key CPI Numbers, Q2 2019

	Quarter (% q/q)	Annual (% p.a.)
Headline CPI (original unadjusted)	0.6	1.6
Trimmed mean (seas. adj.)	0.4	1.6
Weighted median (seas. adj.)	0.4	1.2
Core CPI (average of trimmed & weighted)	0.4	1.4
Tradable goods and services (seas. adj.)	1.1	1.0
Non-tradable goods and services (seas. adj.)	0.5	1.7
Goods (original)	0.7	1.5
Services (original)	0.4	1.4
Sydney (original)	0.7	1.7
Melbourne (original)	0.5	1.3
Brisbane (original)	0.6	1.7
Adelaide (original)	0.5	1.4
Perth (original)	0.7	1.6
Hobart (original)	0.6	2.3
Darwin (original)	0.8	0.8
Canberra (original)	0.3	1.7

Chart 2: Headline CPI and major categories, change in Q2 2019



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 (including how to use the CPI in contracts) see: <http://www.abs.gov.au>

Next CPI release date: June quarter (Q3) 2019 released on 30 October 2019.