



TD Securities – Melbourne Institute Experimental Monthly Inflation Gauge

November 2005

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Aim To produce a timely and accurate monthly measure of inflation in Australia. See <http://melbourneinstitute.com/research/macro/tdsec.html> for details.

Prices steady in November The TD Securities–Melbourne Institute Experimental Inflation Gauge was unchanged in November following a 0.1 per cent fall in October, to be 2.9 per cent above the level of a year earlier (see Figure 1b). After reaching a peak of 3.4 per cent in the year to September, the year-ended inflation rate has fallen below the top of the RBA target band for the first time since July. The sharp increases in prices in the four months to September have been partly unwound in October and November. The annualised inflation rate was 1.9 per cent over the three months to November.

In November prices of automotive fuel, audio, visual and computing equipment, and financial services fell. Offsetting these decreases were increases in rents, house purchase, fruit and holiday travel. Excluding volatile items (automotive fuel, fruit and vegetables), the core inflation measure rose by 0.2 per cent in November, to be 2.7 per cent higher than a year earlier.

The trimmed mean of the TD–MI Inflation Gauge, a measure of underlying inflation, fell by 0.2 per cent in November, following a 0.1 per cent fall in October. The annualised rate of the three-month change in the trimmed mean was 1.6 per cent. In the twelve months to November 2005 the trimmed mean rose by 2.8 per cent.

Figure 1: TD–MI Experimental Monthly Inflation Gauge

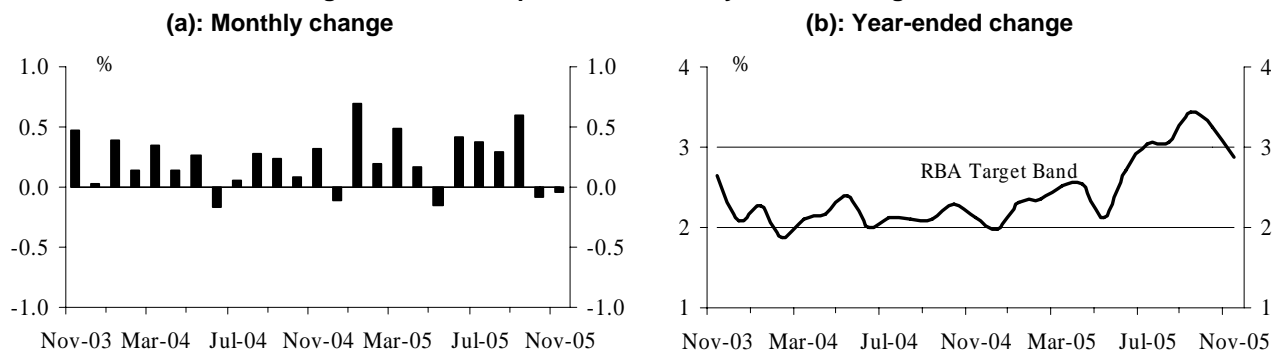


Table 1: TD–MI Experimental Monthly Inflation Gauge: recent rates of price change

	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05
<i>Per cent change from</i>				Inflation	Gauge*			
Previous month	0.2	-0.2	0.4	0.4	0.3	0.6	-0.1	0.0
Three months ago (annualised rate)	3.5	2.0	1.7	2.6	4.5	5.2	3.3	1.9
Average change over quarter		2.4			4.1			
12 months ago	2.5	2.1	2.7	3.0	3.1	3.4	3.3	2.9
<i>Per cent change from</i>				Trimmed	mean**			
Previous month	0.0	-0.2	0.6	0.5	0.3	0.6	-0.1	-0.2
Three months ago (annualised rate)	3.4	2.7	1.1	2.2	4.3	5.0	2.3	1.6
Average change over quarter		2.4			3.9			
12 months ago	2.5	2.2	2.5	2.7	3.0	3.3	3.3	2.8

*These figures are rounded to one decimal point, calculated from the index that is published to two decimal points in Table 4.

**The trimmed mean inflation rate represents the weighted mean of price movements in the central core of Inflation Gauge components. This publication chooses the central 90 per cent of the distribution for each period (one, three or 12 months).

**Table 2: TD–MI Experimental Monthly Inflation Gauge: direction of price change**

<i>Number of classes showing</i>	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05
Increase in price	27	28	28	29	25	29	32	34
Fall in price	21	19	15	17	21	14	18	16
Net balance	6	9	13	12	4	15	14	18
No change	41	42	46	44	44	47	40	40

The surveyed goods and services, which are used to calculate the TD–MI Inflation Gauge, are grouped into 90 expenditure classes (89 in the 14th series until June 2005). The net balance is the difference of the second and third rows in the Table. Changes in the net balance may provide an indication of changes in inflationary pressures.

Table 3: TD–MI Experimental Monthly Inflation Gauge: number of months since last price change, proportion of all items

<i>Number of months</i>	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05
1	22	26	21	25	26	26	25	30
2	33	32	30	30	33	35	35	36
3	36	40	36	35	38	40	40	42
4	45	41	42	40	41	44	44	47
5	48	48	44	48	45	47	48	52
6	52	50	52	50	52	50	51	54

This table shows the cumulative proportion of items whose prices have changed in the last month, two months ago, three months ago, etc. This provides an indication of the frequency of price changes and the extent of price stickiness (that is, where prices of individual goods and services are changed infrequently).

Table 4: TD–Melbourne Institute Experimental Monthly Price Index

	TD–MI Monthly Price Index		ABS Consumer Price Index	
	Index number	Year-ended % change	Index number	Year-ended % change
<i>November 2004</i>	105.48	2.1	105.8	2.6
<i>December 2004</i>	105.36	2.0		
<i>January 2005</i>	106.09	2.3		
<i>February 2005</i>	106.29	2.4	106.5	2.4
<i>March 2005</i>	106.82	2.5		
<i>April 2005</i>	107.00	2.5		
<i>May 2005</i>	106.83	2.1	107.1	2.5
<i>June 2005</i>	107.28	2.7		
<i>July 2005</i>	107.69	3.0		
<i>August 2005</i>	108.01	3.1	108.2	3.0
<i>September 2005</i>	108.65	3.4		
<i>October 2005</i>	108.56	3.3		
<i>November 2005</i>	108.51	2.9		

Base of each index: August 2002 =100.0. ABS CPI is based on the ABS Publication Cat. 6401.0.

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