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TD Securities – Melbourne Institute Monthly Inflation Gauge

June 2009



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Securities



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Monthly inflation rose in June after a fall in May

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.4 per cent in June, following a 0.3 per cent decline in May and no change in April. In the twelve months to June, the Inflation Gauge rose by 1.4 per cent, a fresh record low for the series and the second consecutive month that annual inflation has printed below the bottom of the RBA target band. The fall in inflation has been marked - the annual increase in the Inflation Gauge in June 2008 was 4.8%.

Contributing most to the overall change in the Inflation Gauge in June were price rises for private motoring, insurance services, and fruit and vegetables. The price rises were offset by falls for books, newspapers, and magazines, alcoholic drinks, and meat and seafood. The price of fuel rose by around 5 per cent in June, although it remains 20 per cent below its level of a year ago. The price of dwelling rent was unchanged in June, after three consecutive monthly falls.

Year-end trimmed inflation still at the bottom of the target band

The trimmed mean of the Inflation Gauge rose by 0.1 per cent in June, following a fall of 0.2 per cent in May. In annualised terms, the trimmed mean rose by 0.2 per cent over the three months to June, following a 2.2 per cent decline for the three months to May. In the twelve months to June, the trimmed mean rose by 2.0 per cent (see Figure 2a). Excluding volatile items (automotive fuel, fruit and vegetables), the core inflation measure increased by 0.2 per cent in June and was 2.5 per cent above the level of a year ago (see Figure 2b).

Figure 1: TD-MI Monthly Inflation Gauge

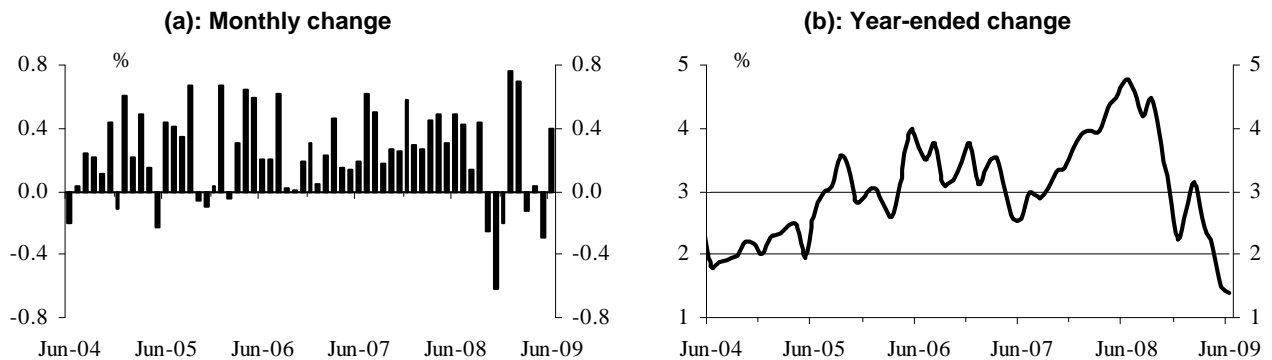
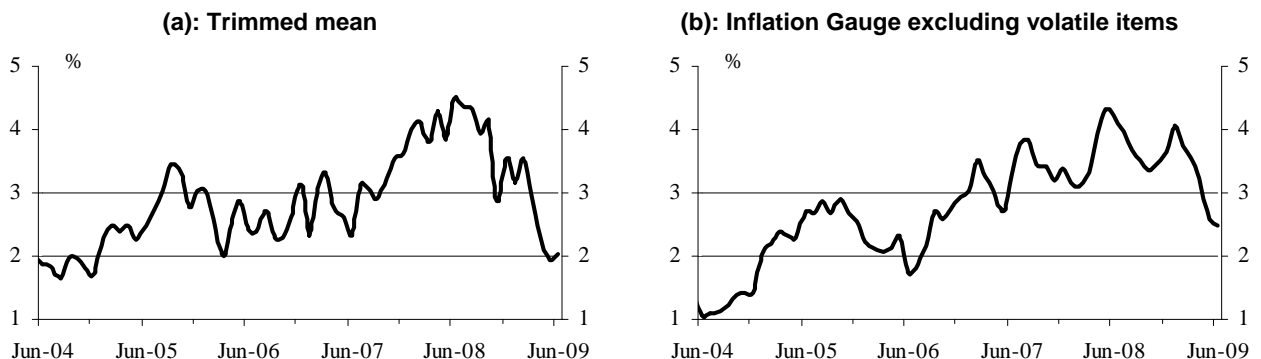


Figure 2: TD-MI Monthly Inflation Gauge underlying measures (Year-ended change)



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

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

	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09
<i>Per cent change from</i>								
			Inflation Gauge*					
Previous month	-0.6	-0.2	0.8	0.7	-0.1	0.0	-0.3	0.4
Three months ago (annualised rate)	-1.7	-4.2	-0.3	5.1	5.5	2.5	-1.5	0.5
Average change over quarter				3.4			0.5	
12 months ago	3.0	2.2	2.7	3.1	2.6	2.1	1.5	1.4
<i>Per cent change from</i>								
			Trimmed mean**					
Previous month	0.0	0.2	0.4	0.7	-0.1	0.0	-0.2	0.1
Three months ago (annualised rate)	0.9	2.1	4.2	5.0	4.3	2.5	-2.2	0.2
Average change over quarter				4.5			0.2	
12 months ago	2.9	3.6	3.2	3.6	3.0	2.4	1.9	2.0
<i>Per cent change from</i>								
			Inflation Gauge excluding volatile items***					
Previous month	0.3	0.6	0.7	0.1	0.0	0.2	-0.3	0.2
Three months ago (annualised rate)	1.4	3.3	6.4	5.6	3.3	1.1	-0.6	0.0
Average change over quarter				5.1			0.2	
12 months ago	3.5	3.6	4.1	3.7	3.5	3.2	2.6	2.5

* 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 90 per cent of Inflation Gauge components.

*** Volatile items are automotive fuel, fruit and vegetables.

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

<i>Number of classes showing</i>	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09
Increase in price	29	37	30	40	31	25	25	30
Fall in price	19	9	15	12	13	20	16	20
Net balance	10	28	15	28	18	5	9	10
No change	42	44	45	38	46	45	49	40

The surveyed goods and services, which are used to calculate the TD–MI Inflation Gauge, are grouped into 90 expenditure classes. 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 Monthly Inflation Gauge: number of months since last price change, proportion of all items

<i>Number of months</i>	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09
1	31	22	24	31	26	23	20	23
2	36	36	32	34	41	32	28	29
3	43	40	44	42	42	43	37	33
4	55	46	47	52	47	44	46	42
5	61	58	52	55	55	50	47	51
6	63	64	62	59	58	57	52	52

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 Monthly Price Index

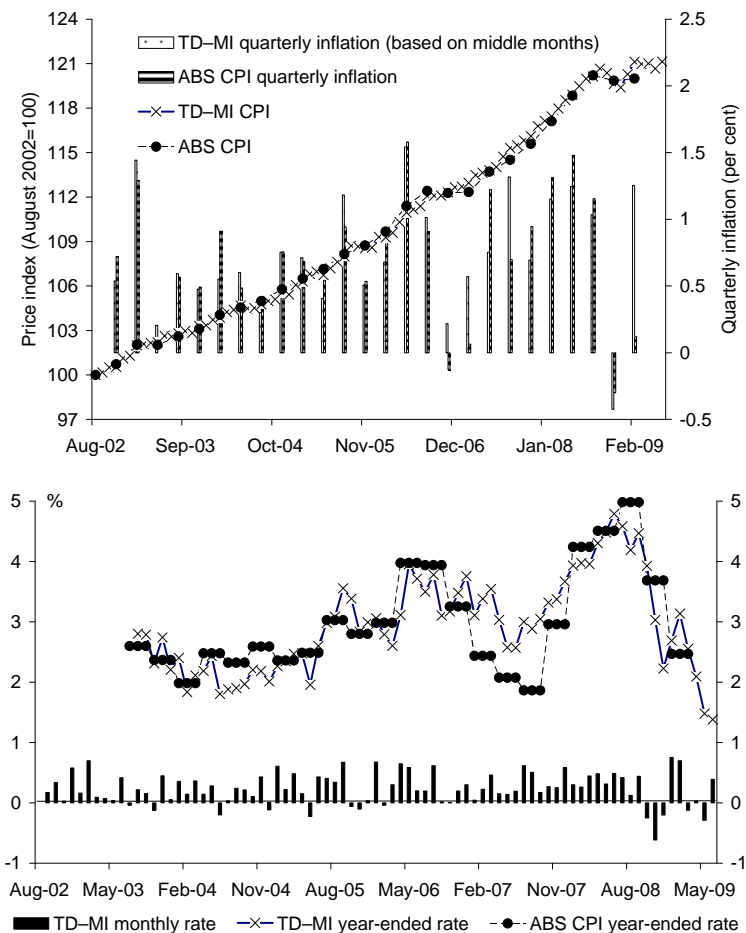
	TD–MI Monthly Price Index		ABS Consumer Price Index		Percentage error*
	Index number	Year-ended % change	Index number	Year-ended % change	
May 2005	106.73	2.0	107.1	2.5	-0.39
June 2005	107.19	2.6			
July 2005	107.63	3.0			
August 2005	107.99	3.1	108.2	3.0	-0.15
September 2005	108.72	3.6			
October 2005	108.66	3.4			
November 2005	108.54	2.8	108.7	2.8	-0.18
December 2005	108.58	3.0			
January 2006	109.31	3.1			
February 2006	109.27	2.8	109.7	3.0	-0.37
March 2006	109.59	2.6			
April 2006	110.31	3.1			
May 2006	110.95	4.0	111.4	4.0	-0.41
June 2006	111.17	3.7			
July 2006	111.39	3.5			
August 2006	112.08	3.8	112.4	3.9	-0.30
September 2006	112.09	3.1			
October 2006	112.10	3.2			
November 2006	112.32	3.5	112.3	3.3	0.04
December 2006	112.66	3.8			
January 2007	112.71	3.1			
February 2007	112.96	3.4	112.3	2.4	0.55
March 2007	113.48	3.5			
April 2007	113.65	3.0			
May 2007	113.81	2.6	113.7	2.1	0.08
June 2007	114.03	2.6			
July 2007	114.73	3.0			
August 2007	115.31	2.9	114.5	1.9	0.70
September 2007	115.51	3.0			
October 2007	115.82	3.3			
November 2007	116.11	3.4	115.6	3.0	0.44
December 2007	116.79	3.7			
January 2008	117.14	3.9			
February 2008	117.45	4.0	117.1	4.2	0.29
March 2008	117.97	4.0			
April 2008	118.54	4.3			
May 2008	118.91	4.5	118.8	4.5	0.05
June 2008	119.49	4.8			
July 2008	119.99	4.6			
August 2008	120.14	4.2	120.2	5.0	-0.06
September 2008	120.67	4.5			
October 2008	120.37	3.9			
November 2008	119.63	3.0	119.9	3.7	-0.19
December 2008	119.39	2.2			
January 2009	120.29	2.7			
February 2009	121.13	3.1	120.0	2.5	0.94
March 2009	120.98	2.6			
April 2009	121.02	2.1			
May 2009	120.67	1.5			
June 2009	121.14	1.4			
Average					0.028

Base of each index: August 2002 =100.0. ABS CPI is based on the ABS Publication Cat. 6401.0. * Percentage error: the percentage difference between the TD–MI Inflation Gauge and the ABS CPI, that is equal to $100 \times (\text{TD-MI} - \text{ABS CPI}) / \text{ABS CPI}$.

TD-MI Monthly Inflation Gauge Comparison with the ABS CPI

The TD-MI estimate of the March quarter 2009 Consumer Price Index was accurate to ninety four hundredths of one per cent. On average over the past 26 quarters the Inflation Gauge has been accurate up to twenty eight one thousandths of one per cent, with a standard deviation of thirty three hundredths of one per cent (see Table 4).

Figure 3: Comparison of the ABS CPI and TD-MI Inflation Gauge



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