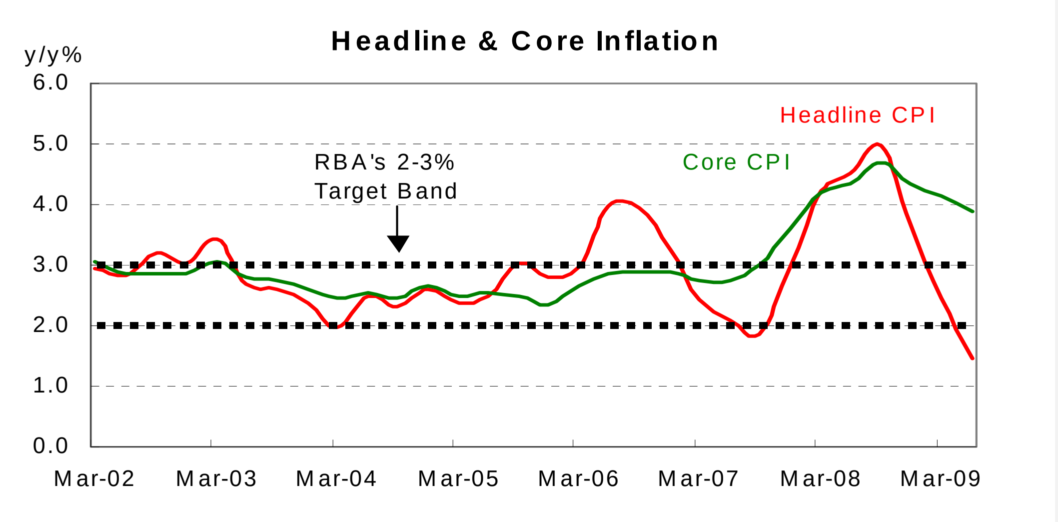
DATA SNAPSHOT

Consumer Price Index – June Qtr 2009

Wednesday, 22nd July 2009

- **Domestic consumer prices climbed 0.5% in the June quarter. The annual rate, however, fell from 2.5% to 1.5%. It marks the lowest inflation rate since June 1999 and is below the RBA's target band of 2-3%. The outcome is in line with what the RBA had projected in May.**
- **The increase in headline consumer prices occurred as imported price pressures fell heavily due to the stronger AUD. It indicates that producers may not have fully passed on their cost savings to customers.**
- **Core inflation remains sticky downwards and has come in above the RBA's May forecast. The average of the RBA's two underlying inflation measures rose by 0.8% in the quarter. The annual core inflation rate moved down from 4.2% to 3.9% but remains well above the RBA's target band.**



Higher petrol prices (+3.9% q/q) were a key upward contributor to the headline CPI. This was in contrast to previous quarters where they had exerted significant downward pressure. Looking ahead, there appears to be an imminent floor for petrol prices. World oil prices have rebounded significantly on the back of growing economic optimism and are unlikely to move back to recent lows.

Other key components, which pushed the CPI higher, were hospital and medical services (+3.6% q/q) and a range of housing costs given stronger demand for housing. Rents were up 1.4% in the quarter, furniture rose 3.7% and house purchase costs gained 0.8%.

The most significant offsetting influence to the price increase was the 'deposit and loan facilities' component (-4.3%). But the negative impact of this has become less intense and could soon turn into a positive. This component is linked to interest rates and we've seen the RBA par back the extent of their rate cuts in recent months. Moreover, we believe that they have likely reached the low point in their easing cycle. The next move, in our view, will be a rate hike, to occur before mid 2010.

Capping gains in the CPI were also falls in the prices of vegetables (-6.9%), fruit (-7.6%) and overseas holiday travel and accommodation (-3.4%).

The increase in consumer prices this quarter was both externally and domestically driven. The 'tradables' component (where prices are largely determined on the world market) climbed 0.7% q/q. This was despite upstream pressures falling sharply in the same period (see our Data Snapshot on the PPI on the 20th of July). It suggests that producers are broadly holding on to some cost savings and haven't passed them on to consumers. Domestically driven prices, or the 'non-tradables' of the CPI rose 0.4%.

We would not be surprised if the RBA revises their core CPI forecasts when their next Statement on Monetary Policy is published in August. Upward revisions to their domestic GDP forecasts are also likely, as they have acknowledged that growth conditions are much better than anticipated a few months ago.

Core inflation is taking stubbornly longer to return to the RBA's target band. Such developments argue for the RBA to tread the rate-cutting path cautiously. We believe that the central bank has finished cutting rates and should soon start to push them higher. We expect the first rate hike to occur by mid 2010 as the global economy returns to growth.

	Quarterly Percentage Changes		Annual Percentage Changes	
	Mar-09	**June-09**	Mar-09	**June-09**
Headline CPI	+0.1	**+0.5**	+2.5	**+1.5**
RBA Trimmed mean	+1.0	**+0.8**	+3.9	**+3.6**
RBA Weighted Median	+1.2	**+0.8**	+4.4	**+4.2**

RBA MAY SOMP GDP & INFLATION FORECASTS

Percentage change over year to quarter shown

	Dec 2008	June 2009	Dec 2009	June 2010	Dec 2010	June 2011	Dec 2011
GDP	0.3	–1¼	–1	½	2	3¼	3¾
Non-farm GDP	0.0	–1½	–1	½	2	3¼	3¾
CPI	**3.7**	**1½**	**2¼**	**2½**	**2**	**1½**	**1½**
Underlying inflation	4.3	3¾	3¼	2½	2	1½	1½

(a) Actual data to December 2008. Underlying inflation refers to the average of trimmed mean and weighted median inflation. For the forecast period, technical assumptions include A$ at US$0.75, TWI at 61, cash rate at 3.00 per cent, and WTI crude oil price at US$65 per barrel and Tapis crude oil price at US$67 per barrel.

Sources: ABS; RBA

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