# TD-MI
# Inflation Gauge

## Westpac's monthly chart pack.

## October 2013

Westpac

# TD-Melbourne Institute

## *Inflation Gauge*

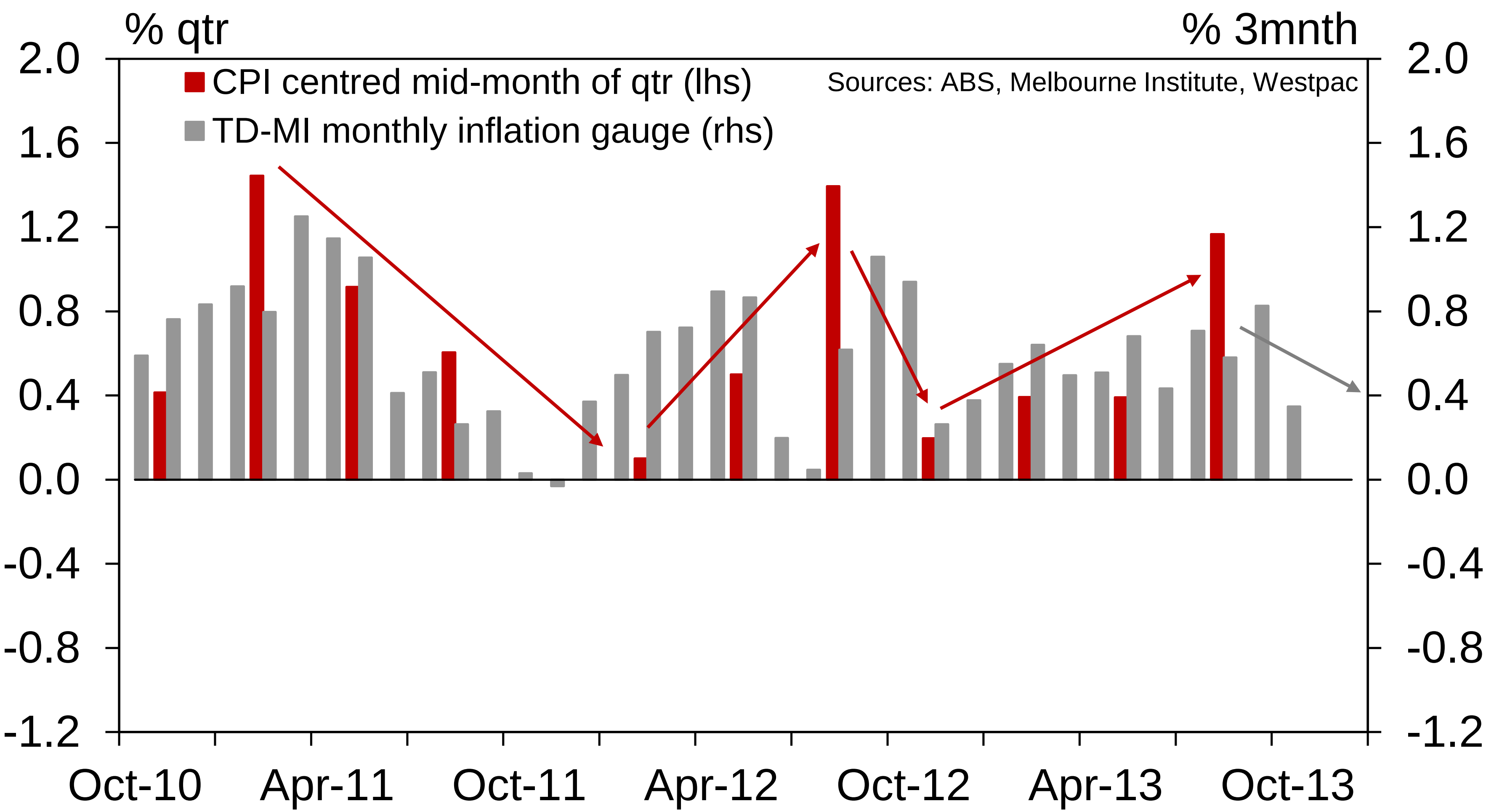
- Up 0.1% in October, 0.3% in the last three months; annual growth of 2.1%yr well down from the 2.7%yr print in July which was boosted by the introduction of the carbon price. The recent low was 1.5%yr in July 2012.
- The Gauge is highlighting that even with the depreciation in the Australian dollar, inflationary pressures remain well contained. The three month annualised pace is just 1.4%yr, the slowest pace since November 2012.
- Contributing to the overall change in October were price rises for new dwelling purchase by owner-occupiers, non-alcoholic beverages, and meat and seafood. These were offset by falls in fruit and vegetables, automotive fuel, and furniture and furnishings.
- TD-Melbourne Institute reports that the price of automotive fuel fell by 2.0% in October, and the price of fruit and vegetables fell by 0.6%.

# TD-Melbourne Institute

## *Inflation Gauge (cont)*

- The trimmed mean of the Inflation Gauge remained flat in October, following a rise of 0.2% in September. In annualised terms, the trimmed mean rose by 0.9% over the three months to October, following a 3.0 per cent rise for the three months to September. In the twelve months to October, the trimmed mean rose by 2.2%.
- Over all, the Gauge is suggesting that inflation remains benign. We are, however, closely watching the rise in the net balance of price rise to price falls. At 19 in October, it is higher than the long run average of 10 and higher than the average for the past 6 months of 11. The higher the net balance, the broader is the upwards pressure on prices.
- We do shy away from using the Gauge for directly picking quarterly moves in the CPI (see pages 5 & 9 of the chart pack). We also note that the September quarter saw the long awaited convergence between the CPI and Gauge as the CPI rose but a much larger amount that the Gauge. As such, we don't see any near term inflation risk from the benign Gauge print.

# The Gauge suggests momentum has eased

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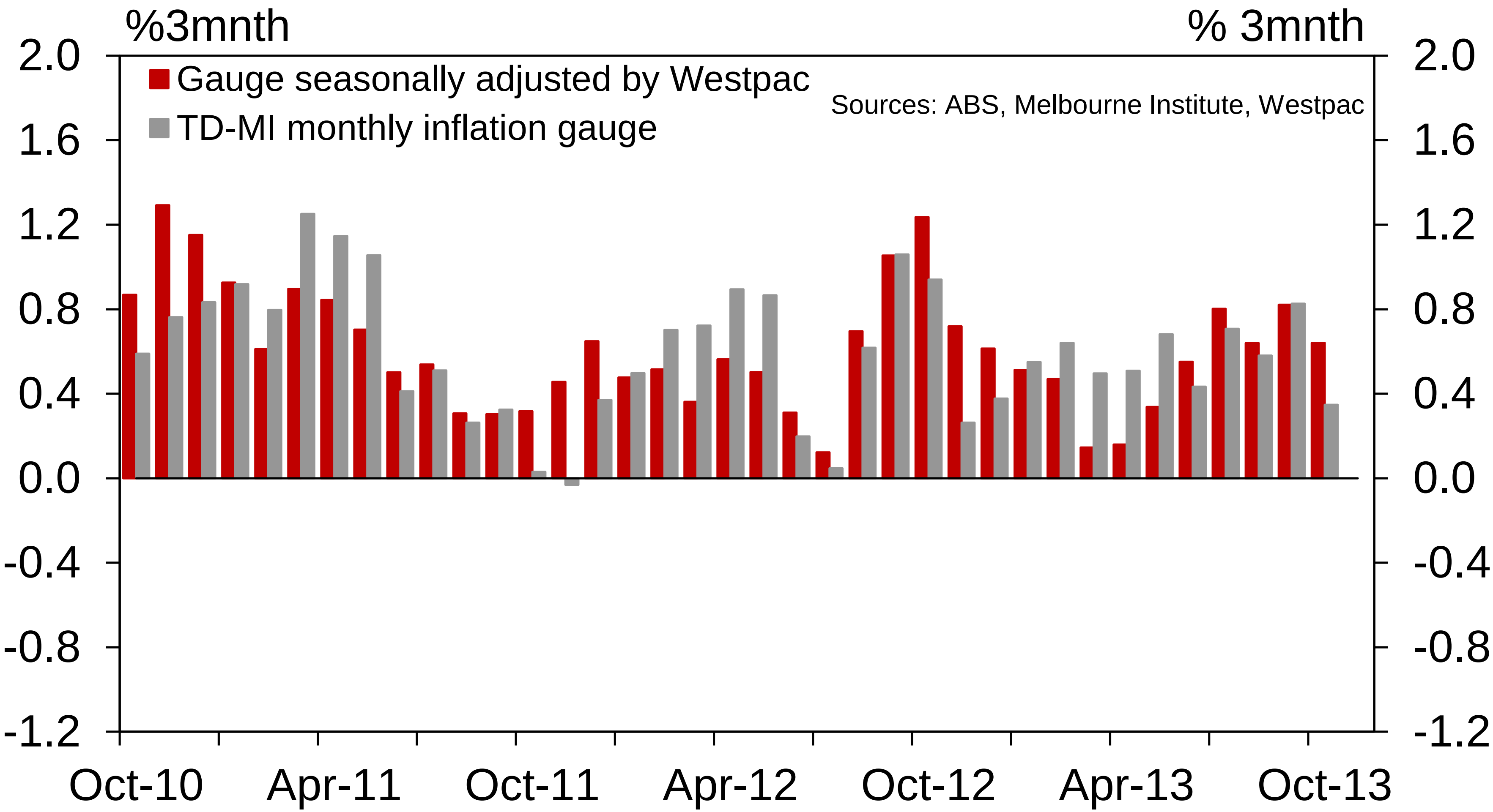
# ...but this is a seasonal norm…

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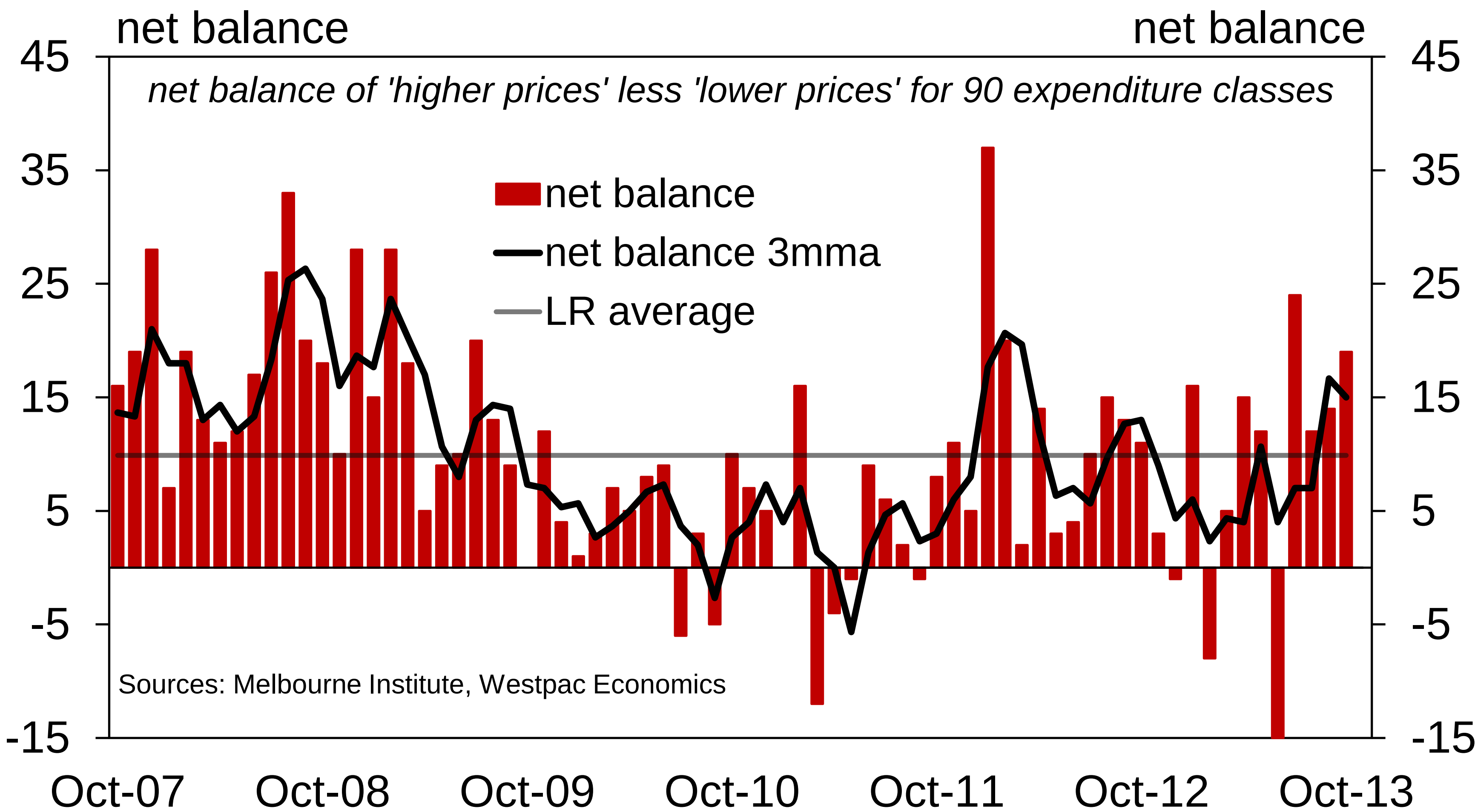
# …& the net balance is lifting again.

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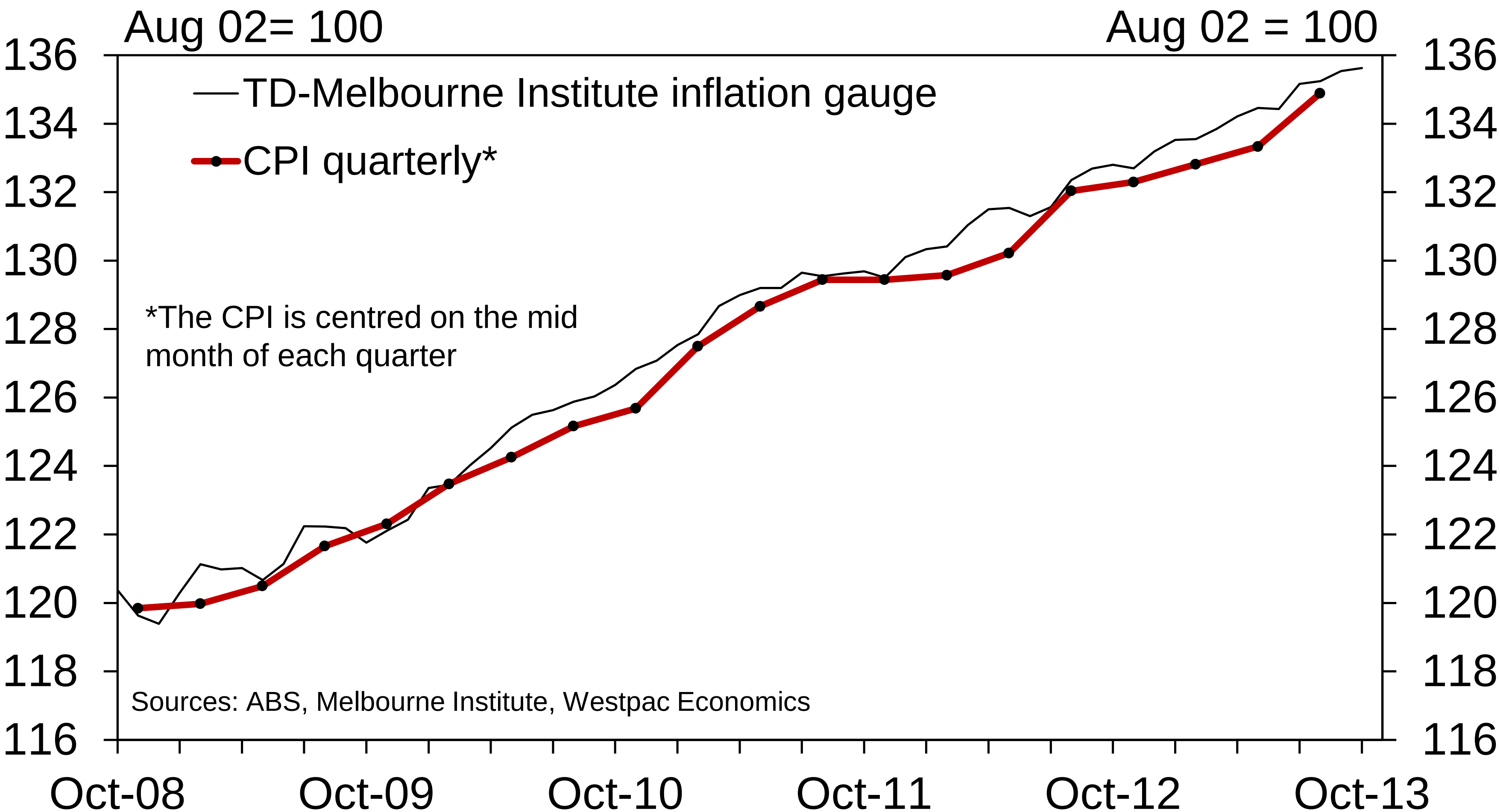
# The CPI has caught up to the gauge.

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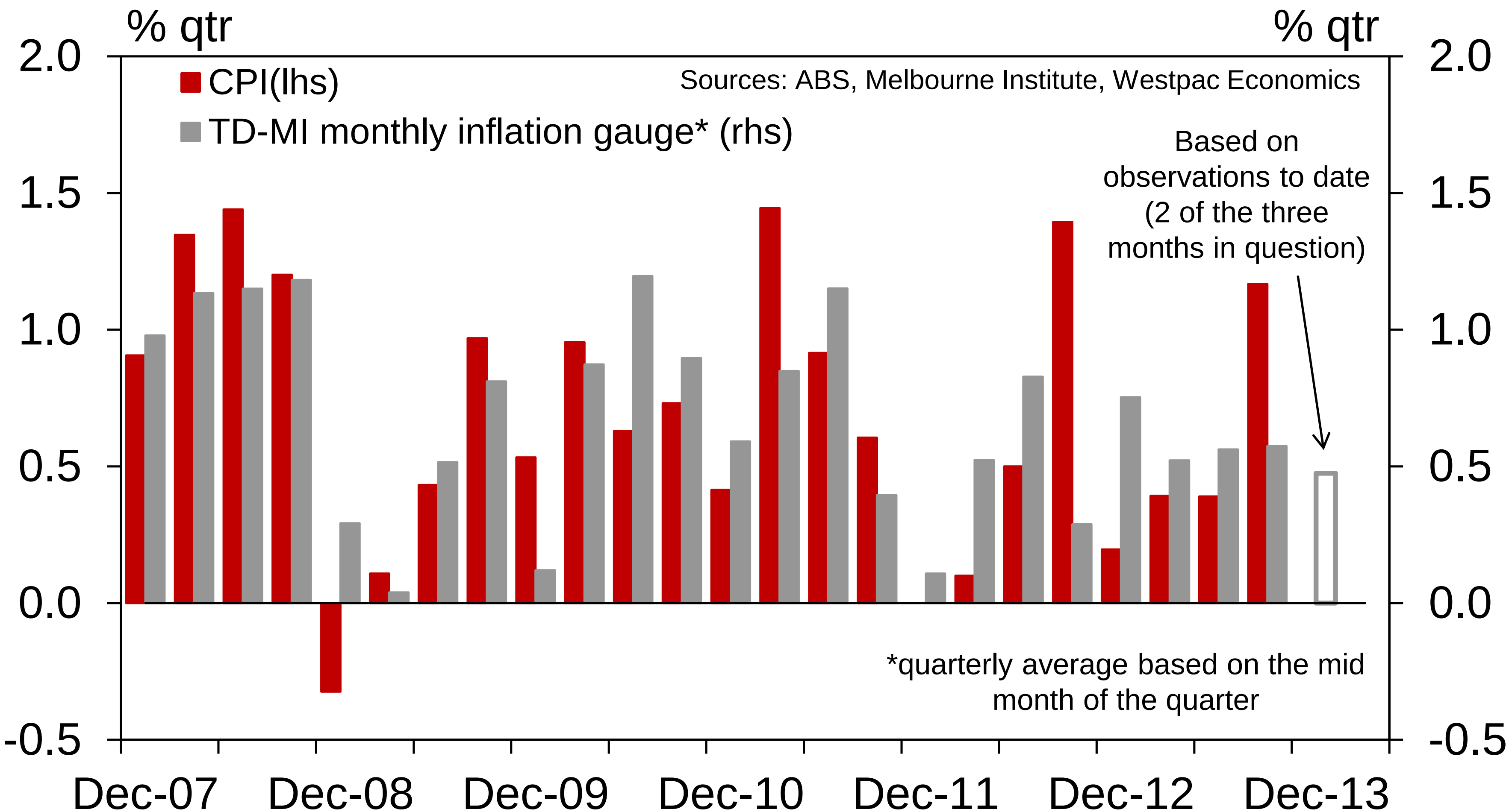
# The Gauge vs. the CPI:



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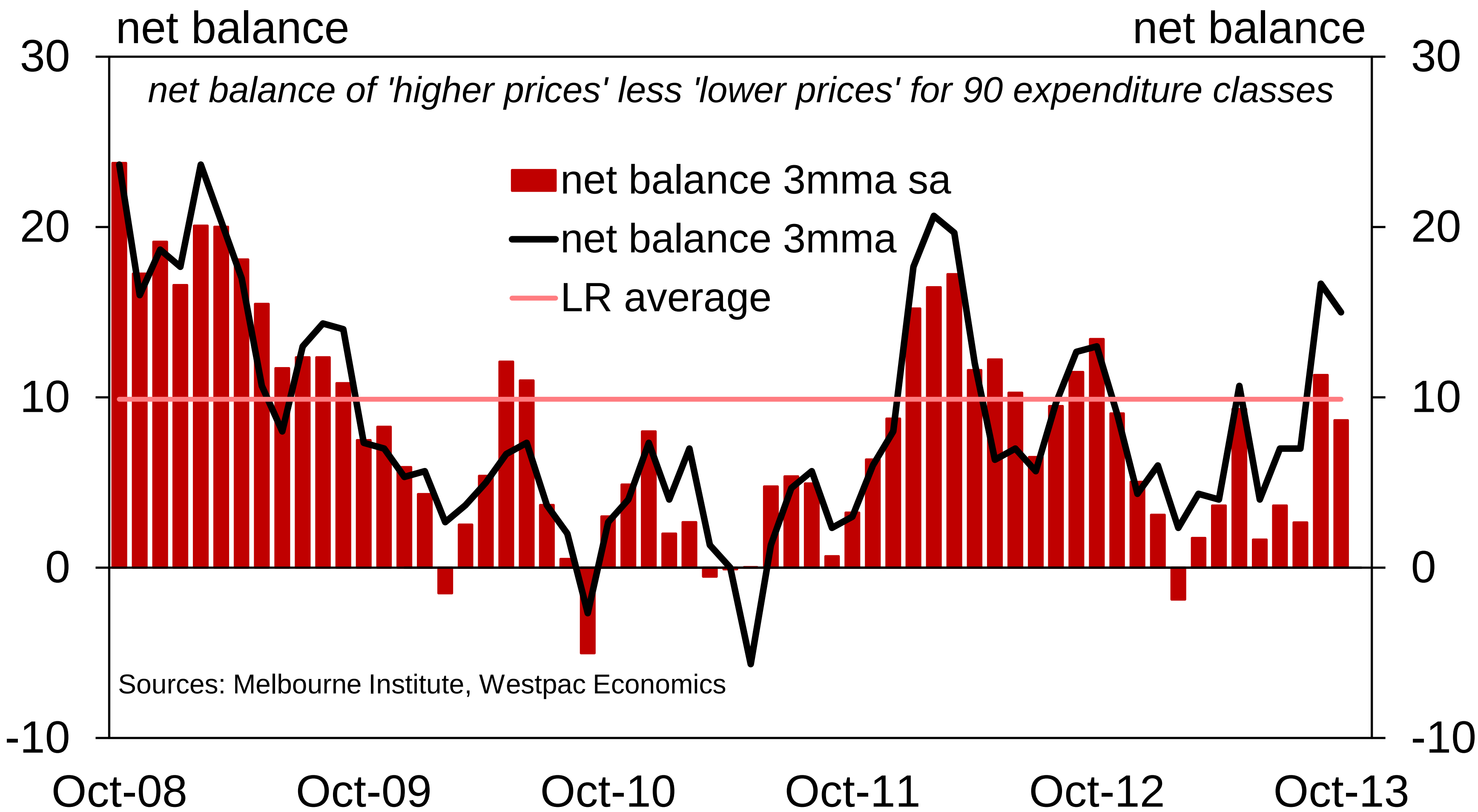
# 3mma sa.



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net balance of 'higher prices' less 'lower prices' for 90 expenditure classes
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LR average
Sources: Melbourne Institute, Westpac Economics
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Oct-09
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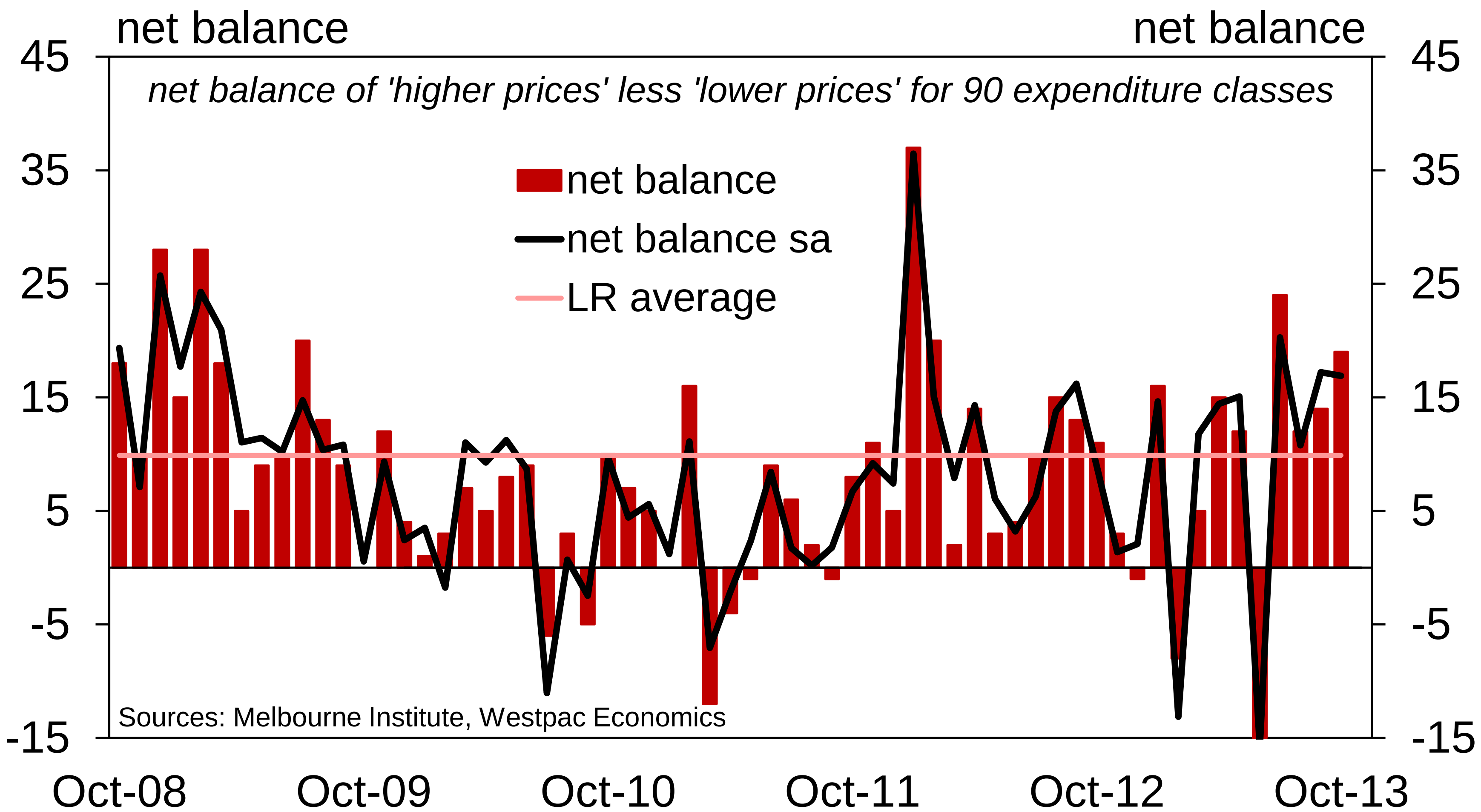
Oct-13

# Monthly sa.



net balance
net balance
net balance of 'higher prices' less 'lower prices' for 90 expenditure classes
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net balance sa
LR average
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Sources: Melbourne Institute, Westpac Economics
Oct-08
Oct-09
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Oct-11
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