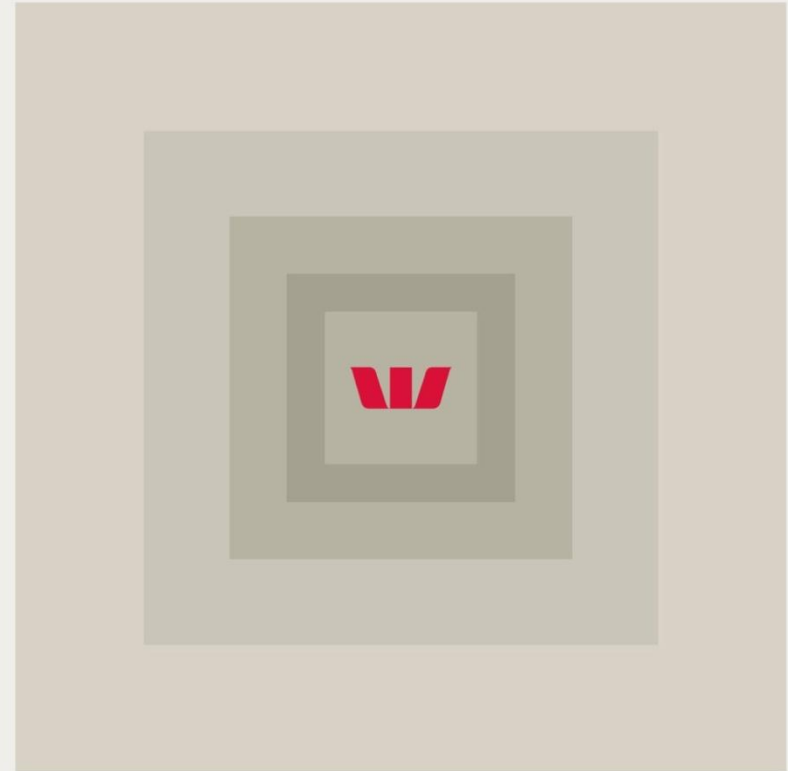


TD-MI Inflation Gauge

Westpac's monthly chart
pack.

March 2013

Released March 31, 2014



TD-Melbourne Institute

Inflation Gauge

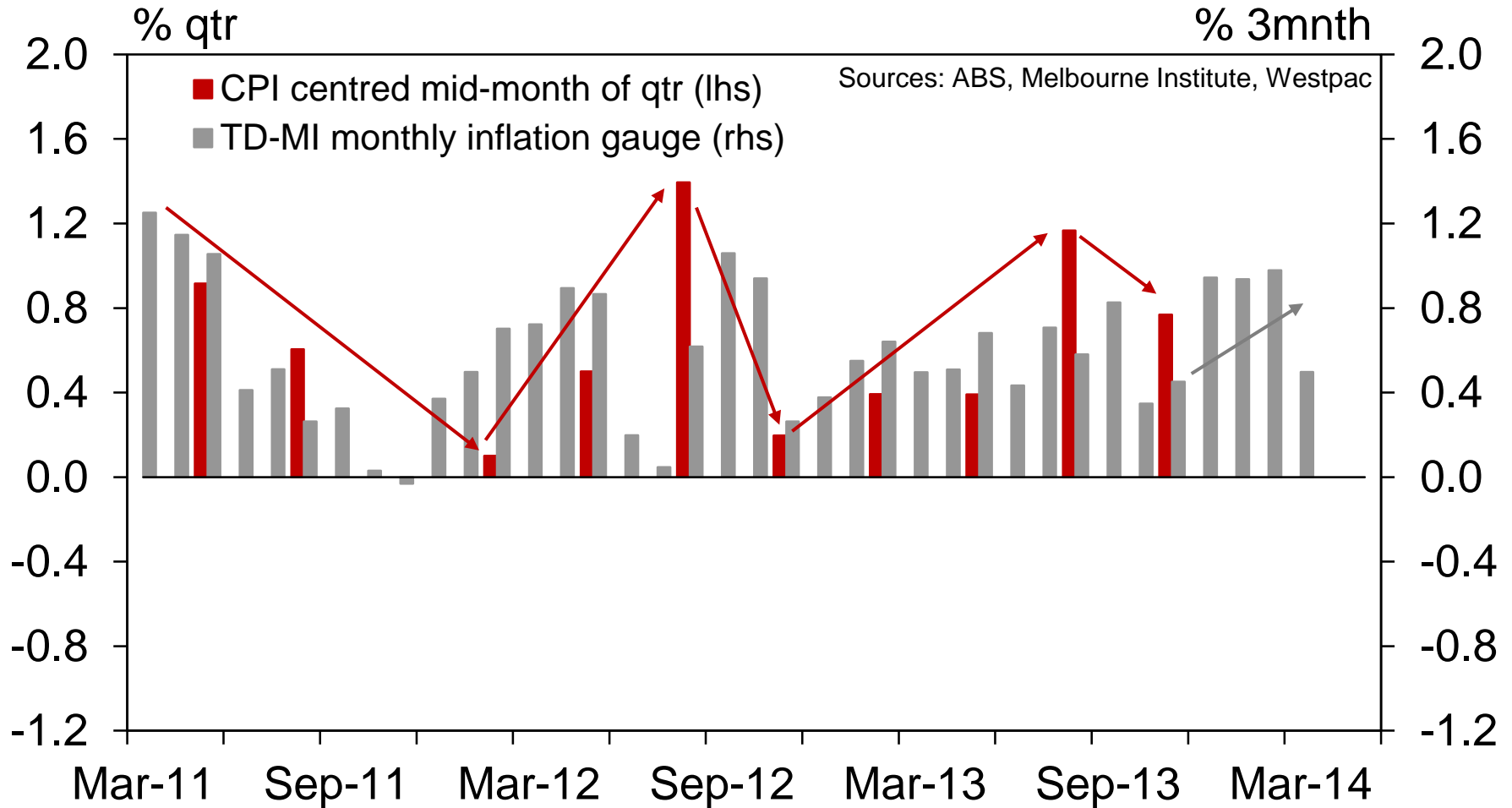
- The Gauge rose 0.2% in Mar following a 0.2% rise in Feb and a 0.1% rise in Jan. This was enough to hold the annual pace at 2.7%yr in line with Feb and up from 2.5%yr in Jan, the upper half of the RBA's inflation target.
- The Gauge had suggested that the pace of inflation was lifting as 2013 ended but the drop in the three monthly pace to 0.5% in Mar, from 1.0% in Feb argues that some of this pressure may have eased.
- For Mar, Westpac estimates that there is a seasonal boost worth 0.1ppt for the Gauge meaning that our seasonally adjusted Gauge rose just 0.1%.
- TD-MI reports that contributing to the overall change in March were price rises for fruit & vegetables, seasonal holiday travel & accommodation, and meat & seafood. These were offset by falls in rent, non-alcoholic beverages, and audio, visual & computing equipment & services.
- The price of automotive fuel fell by 1.3% in Mar, while the price of fruit & vegetables rose by a similar amount.

TD-Melbourne Institute

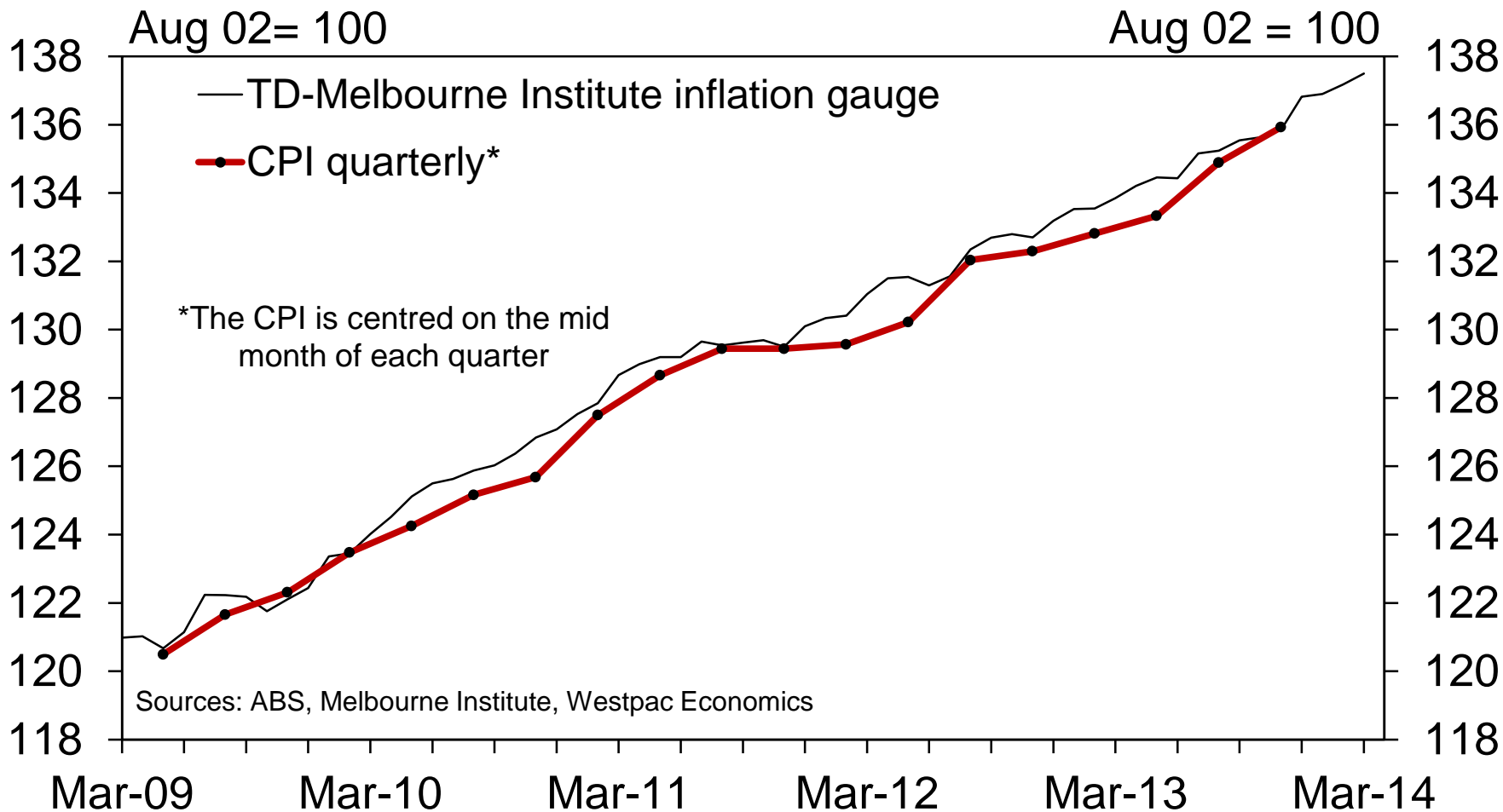
Inflation Gauge (cont)

- The trimmed mean of the Gauge rose 0.1% in Mar following a rise of 0.3% in Feb and a flat print in Jan. In the year to Mar, the trimmed mean Gauge rose 2.7% from 3.0% in Feb. Excluding volatile items (automotive fuel, fruit & vegetables), the core inflation measure rose by 0.3% in Mar, a rise of 2.0% in the year.
- More critically, the net balance (number of price rises less number of price falls) was 18 in Mar, up from 17 in Feb and is holding above the long run average of 10. Westpac estimates that the seasonally adjusted figure was a very robust 18 in Mar, up from 13 in Feb and equal to the 18 in Jan.
- In the Dec quarter, the CPI rose 0.8%qtr and closed the gap with the level of the Gauge. The Jan Gauge report pointed to further modest uptick in inflation which continued into Feb. However, the Mar report suggests that some of this pressure may have eased.
- Westpac's preliminary estimate for the 2014Q1 CPI is 0.7%qtr. While we do see upside risk to the number the easing Gauge may point to an easing in CPI inflation in 2014Q2.

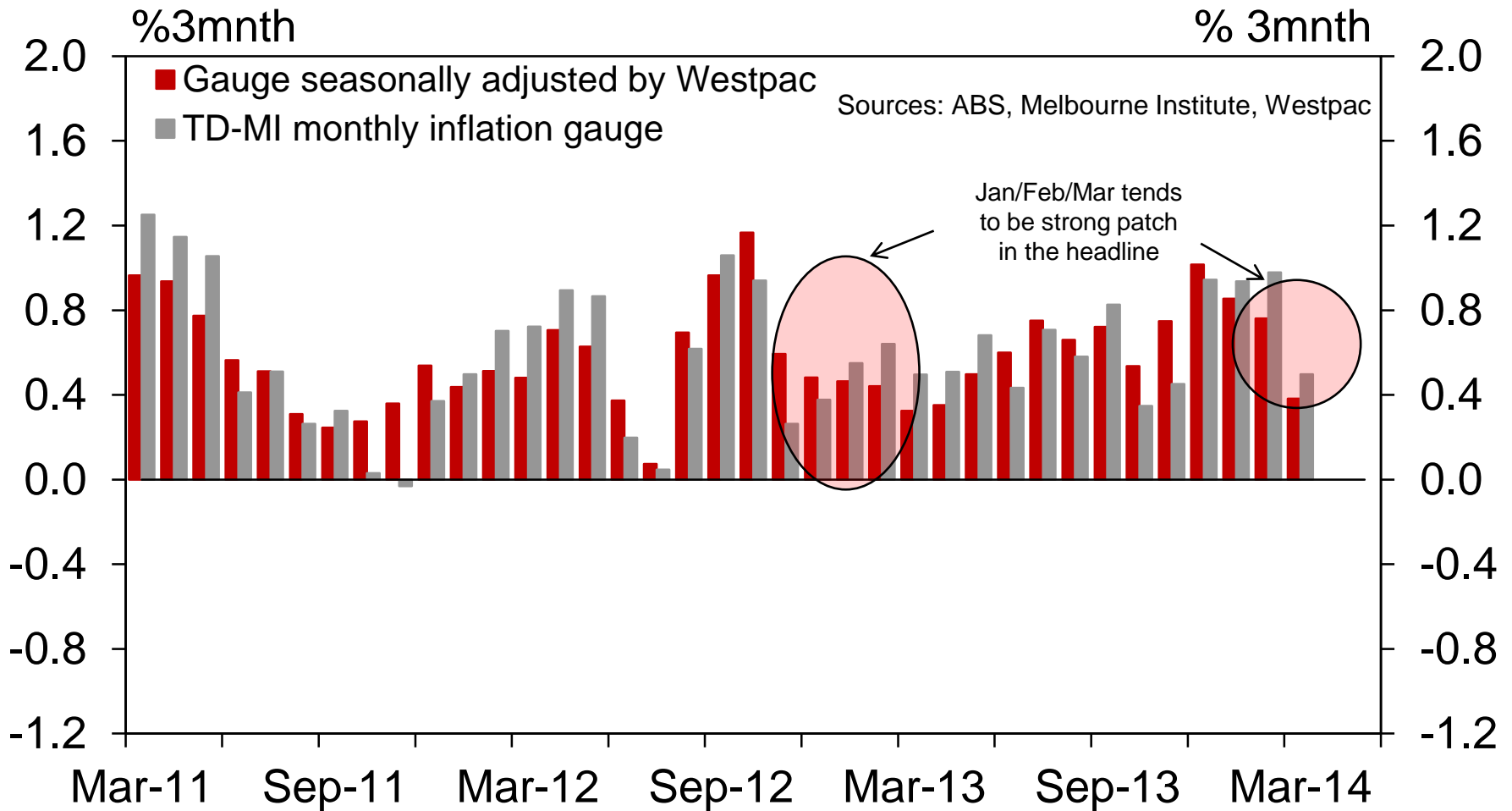
The Gauge was pushing higher in early '14 ...



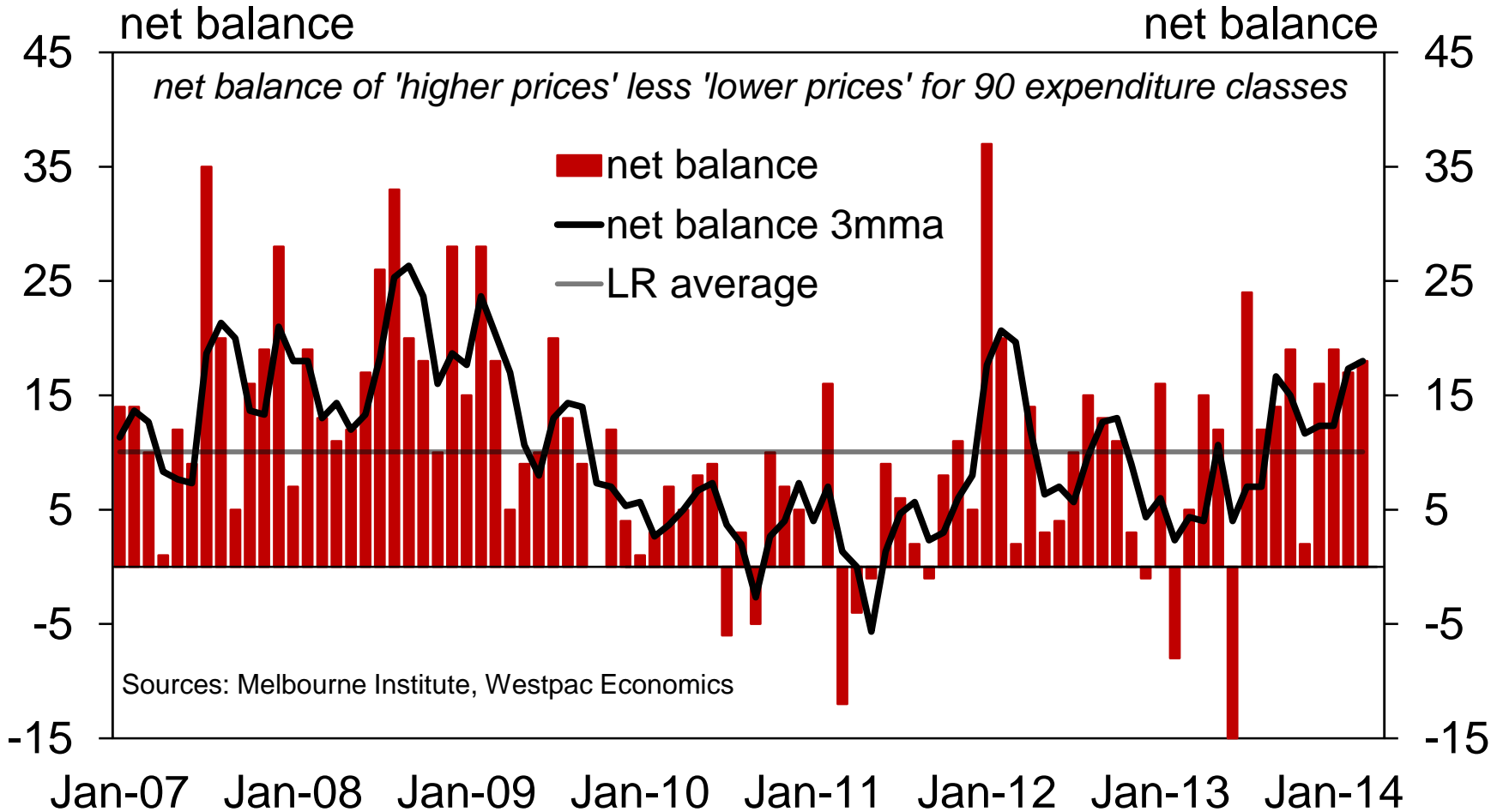
...but the CPI caught the Gauge in Q4.



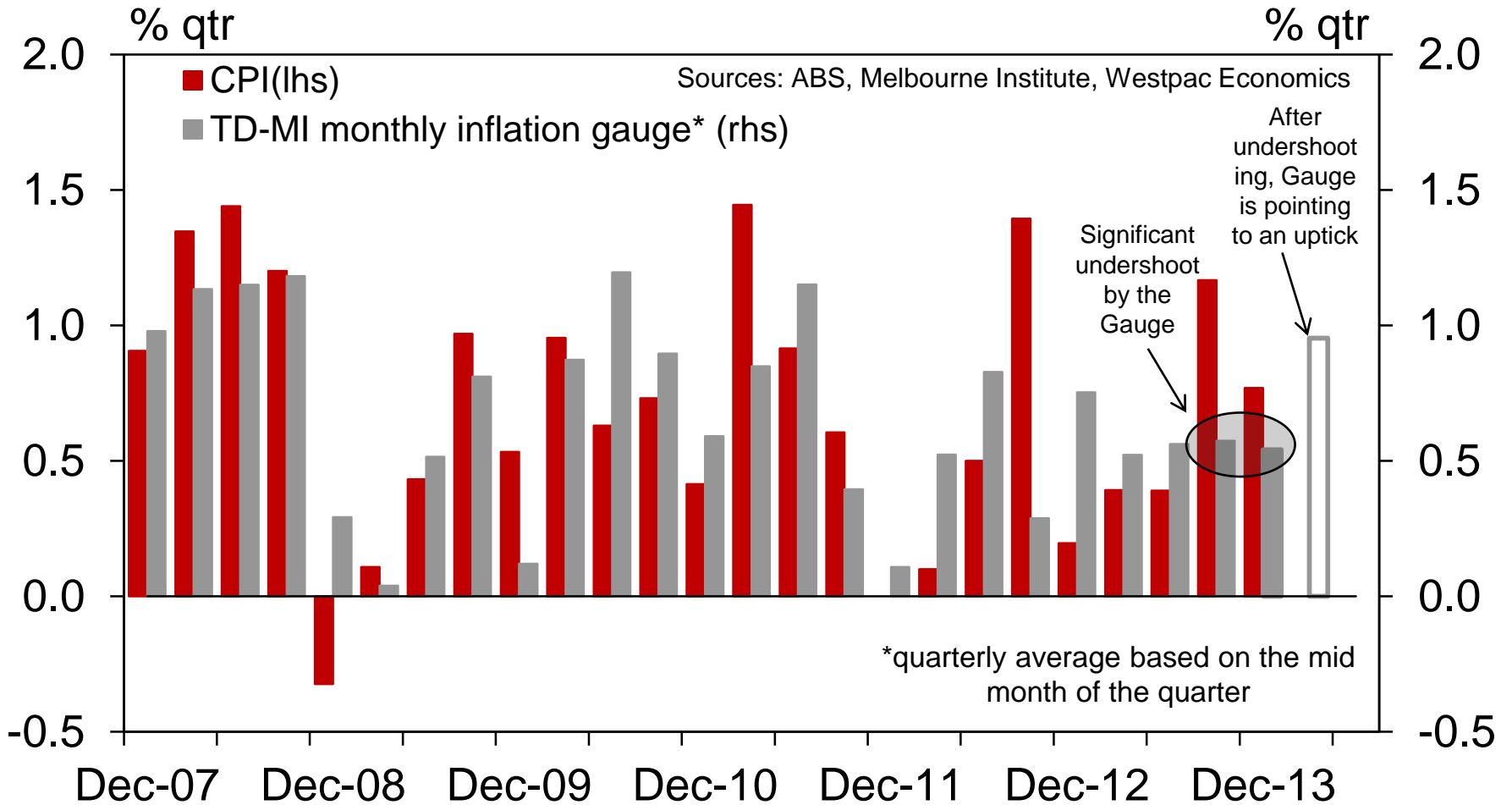
The Gauge is seasonally soft in late Q3 early Q4



Price rises appear to be on a broadening trend...



The Gauge vs. the CPI:



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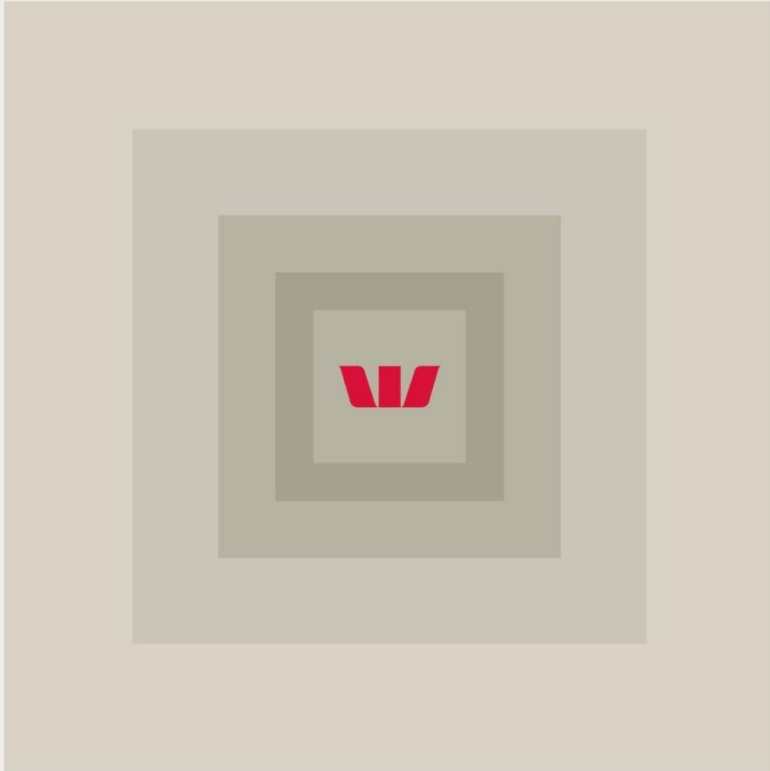
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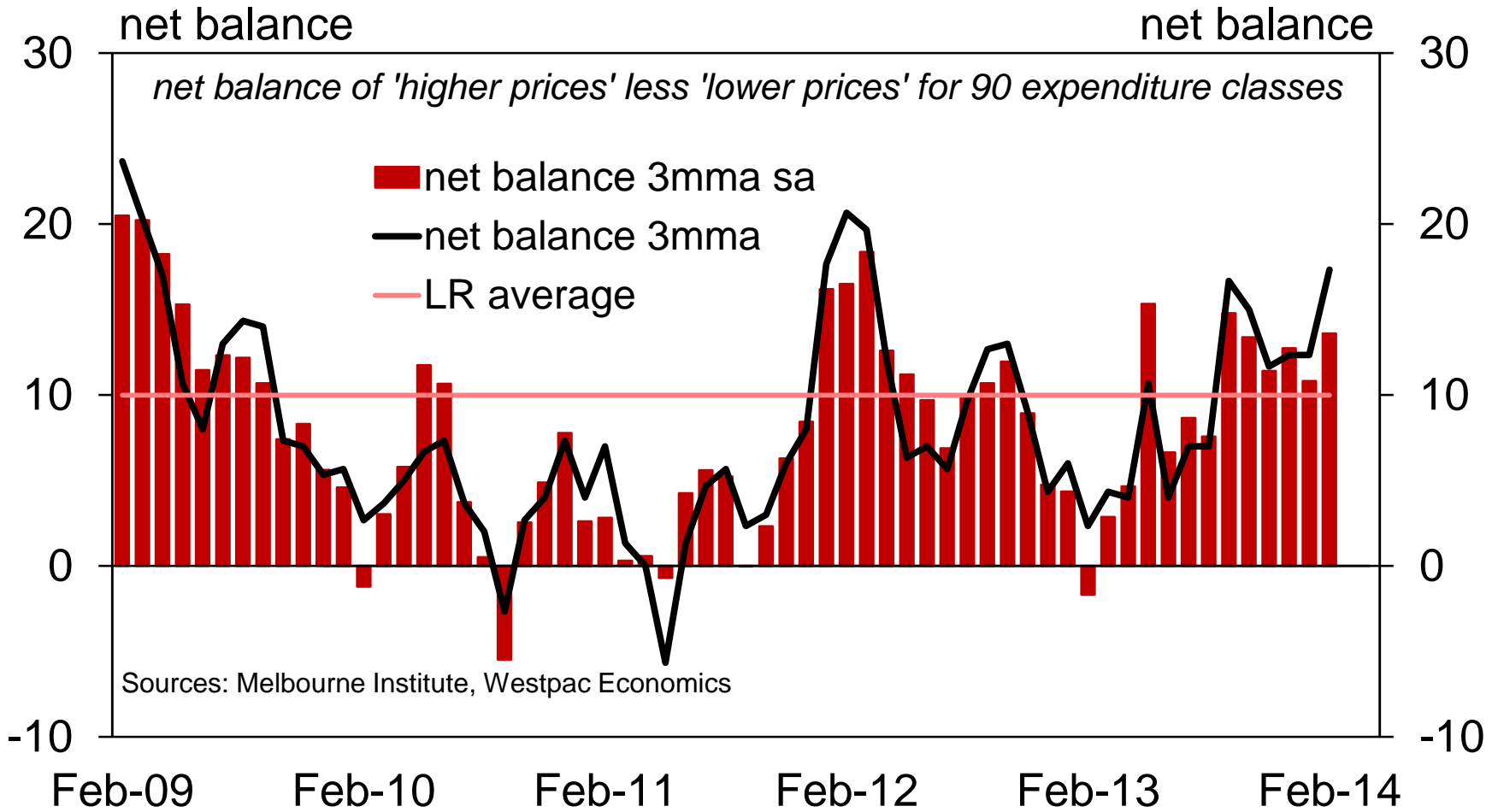
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