

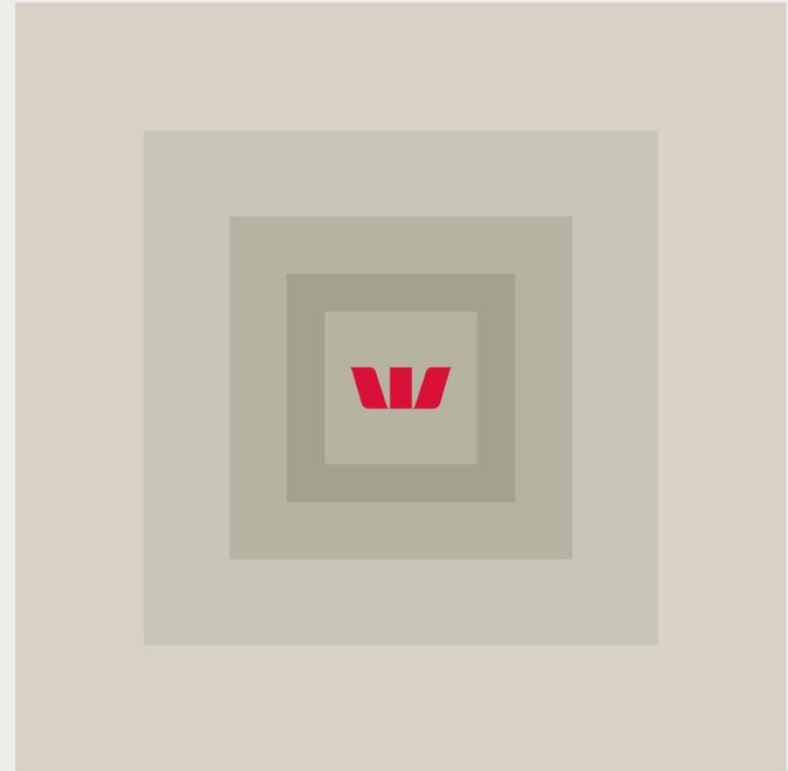
TD-MI Inflation Gauge

Westpac's monthly chart
pack.

April 2015

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TD-Melbourne Institute

Inflation Gauge

- The Gauge rose 0.3% in April following on from a robust 0.4% gain in March. The annual pace was 1.4% in April, a slight moderation from the 1.5% pace in March and only marginally up from the recent low of 1.3% in February. We continue to see a moderation in the annual pace from the recent peak of 3.0%yr in June 2014. The previous low was 2.1%yr in October 2013.
- In the first half of 2014 the Gauge was threatening to breach the RBA's inflation target band but it is now in bottom half. But we are
- The annualised three month pace has lifted to 2.6% in April from 1.9%yr in March 2014. This is a lift but we are cautious that it may have more to do with the recent bump in petrol prices (plus 18% in three months to April) than a significant lift in underlying inflation.
- There is some positive seasonality in April, our seasonally adjusted measure lifted 0.1% in the month. The three month change to April was 0.5%; we estimate the rise is a more modest 0.3% after seasonal adjustment.

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Inflation Gauge (cont)

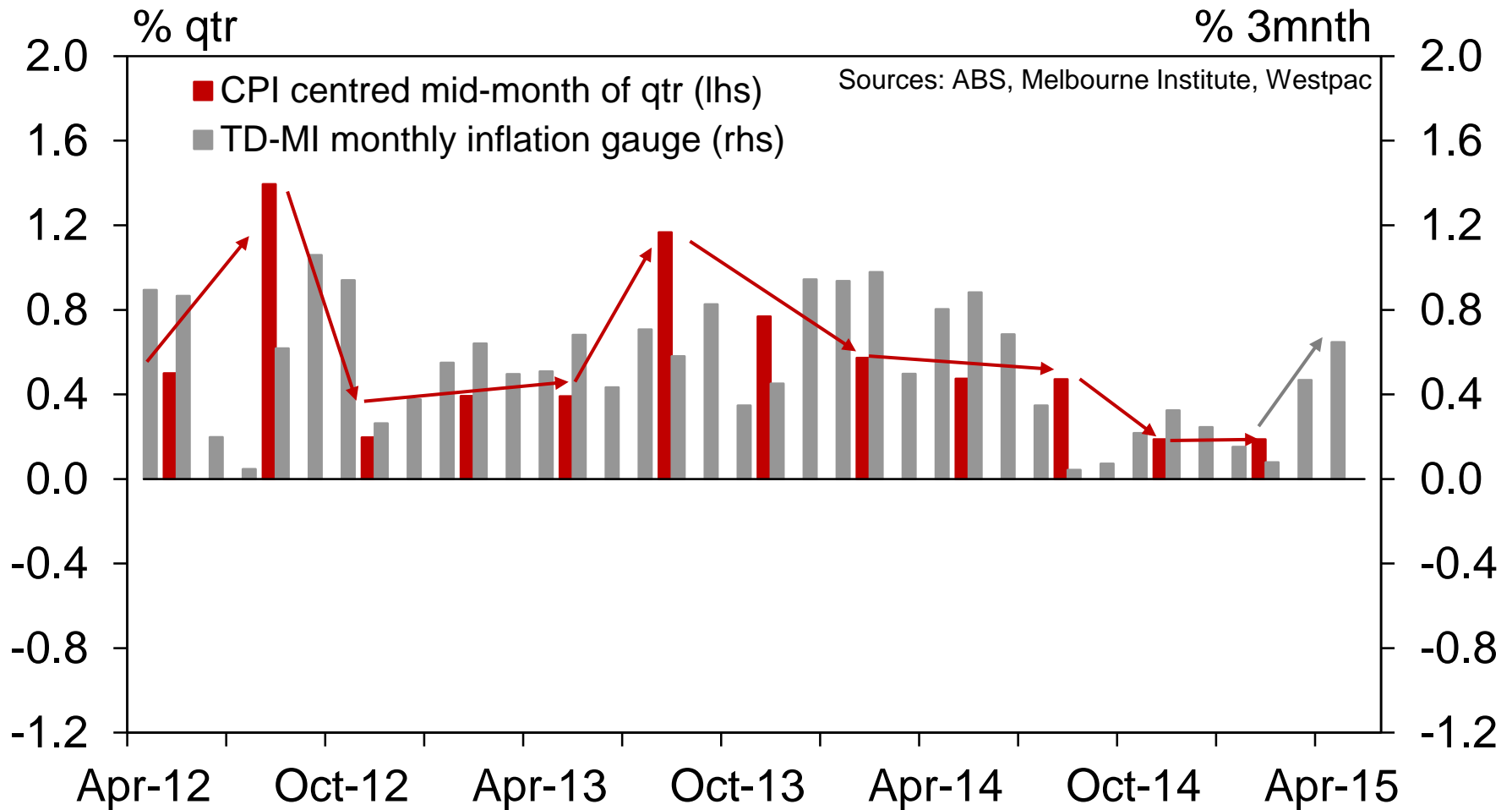
- The trimmed mean of the Inflation Gauge rose by 0.2% in April following a flat print in March. The trimmed mean increased by 0.2% over the three months to April following a 0.5% rise over the three months to March. This more modest print from the trimmed highlights just how narrowly based the increase in prices are.
- Contributing to the overall change in April were price rises for medical, dental & hospital services (+4.7%), holiday travel & accommodation (+3.1%) and automotive fuel (+0.8%). These were offset by falls in alcoholic beverages (−0.7%), garments (−0.7%), and audio, visual & computing equipment & services (−2.2%). Prices for fruit & vegetables fell by 0.5% in April.
- We believe the net balance (number of price rises less number of price falls) is a good way to gauge the breadth of price pressure. The net balance was just 2 in April, for a three month average of −0.7 compared to an average of 13 in 2014 and a history average of 10.0. The net balance suggests that any price pressure is currently very narrowly based.

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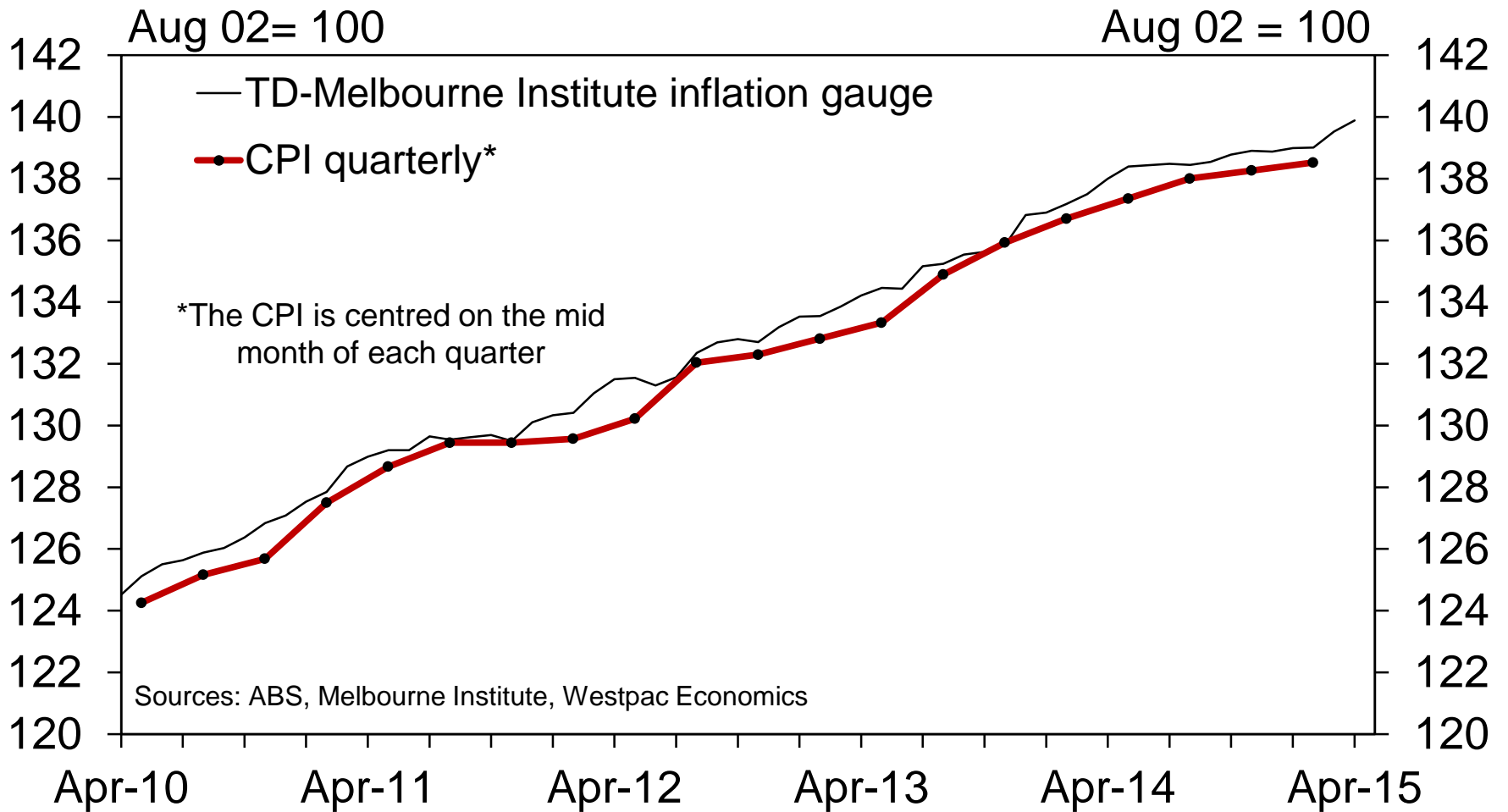
Inflation Gauge (cont)

- In the December quarter of 2014, and March quarter of 2015, the Gauge gave us a good guide in the quarterly change in the CPI (both rose 0.2% in both quarters). But this left the level of the CPI still lagging behind that of the Gauge as the Gauge had outperformed the CPI for a number of quarters.
- We have found that the mid-month of the quarter is the best point of reference to compare the Gauge to the CPI. April is just the first month of Q2 so the 0.5% rise in the three months to April is a very preliminary estimate of the momentum for the Q2 CPI.
- Westpac's preliminary Q2 CPI forecast is a 0.7% qtr rise in the headline measure. However, our final estimate will be very much dependent on how both petrol, fruit & vegetables prices track through May and June. We also need to see how much pass through we see of the recent weakness in the AUD in imported goods and services.

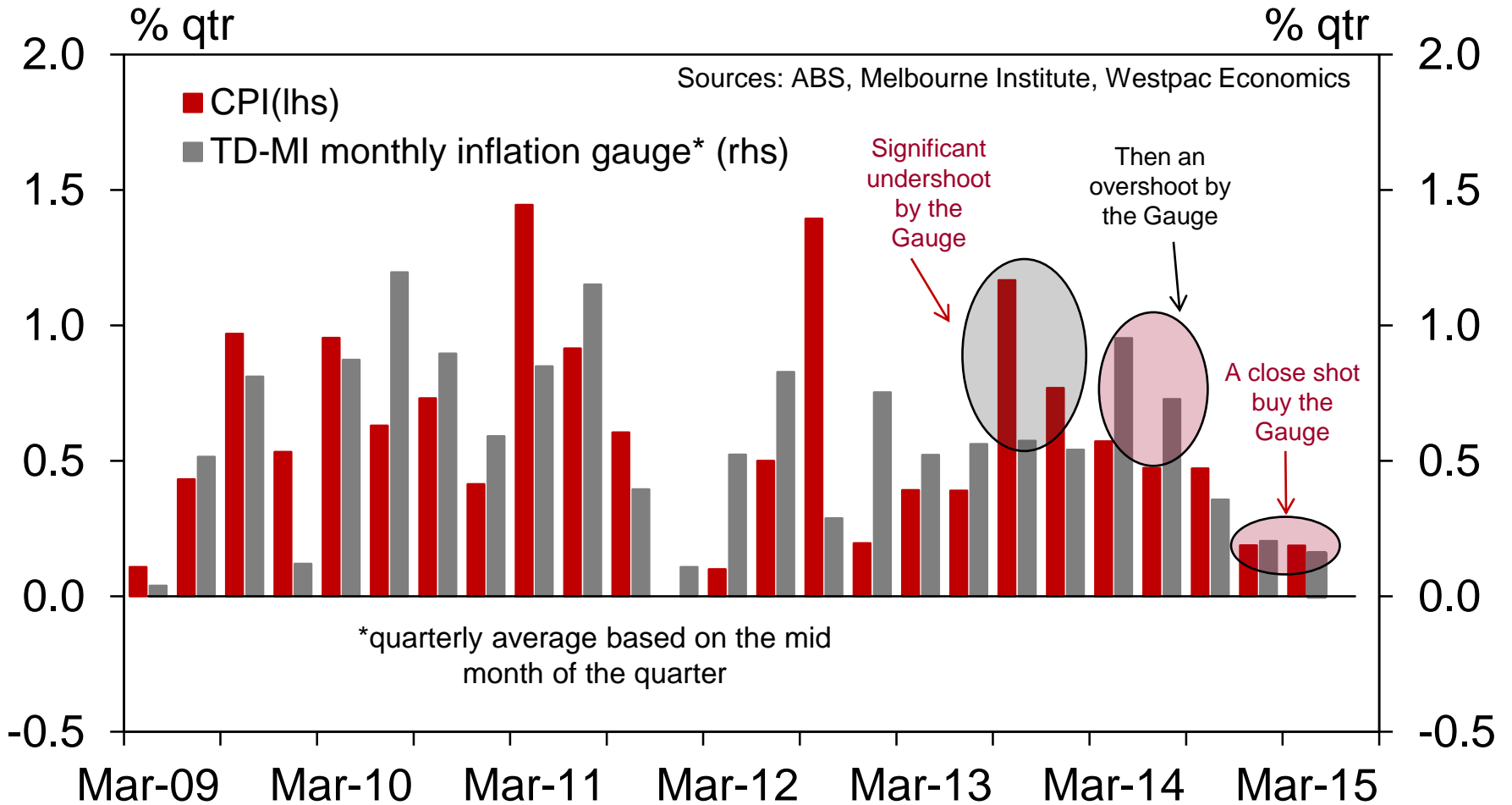
The pulse of the gauge has picked up



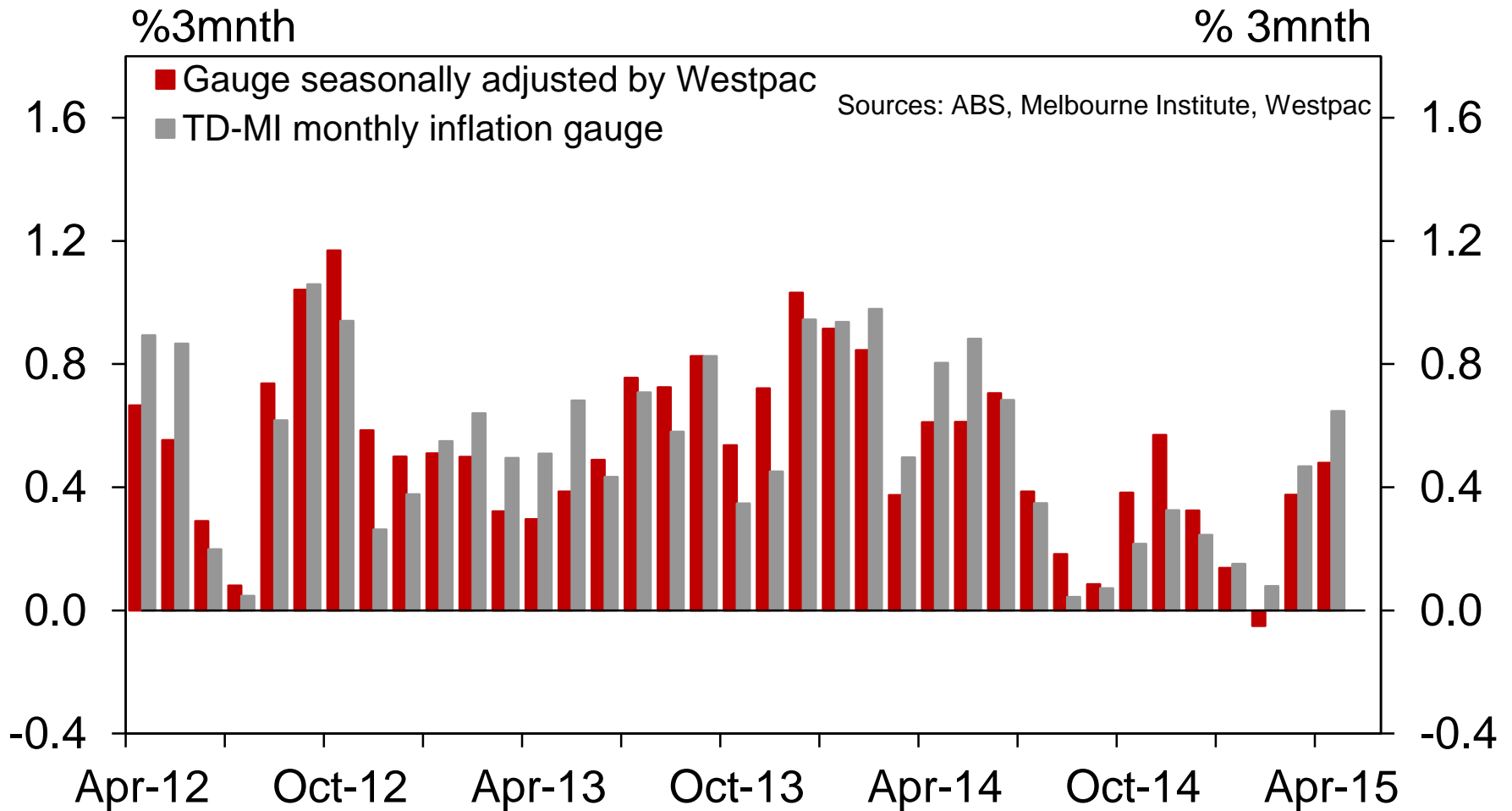
CPI is still lagging the Gauge



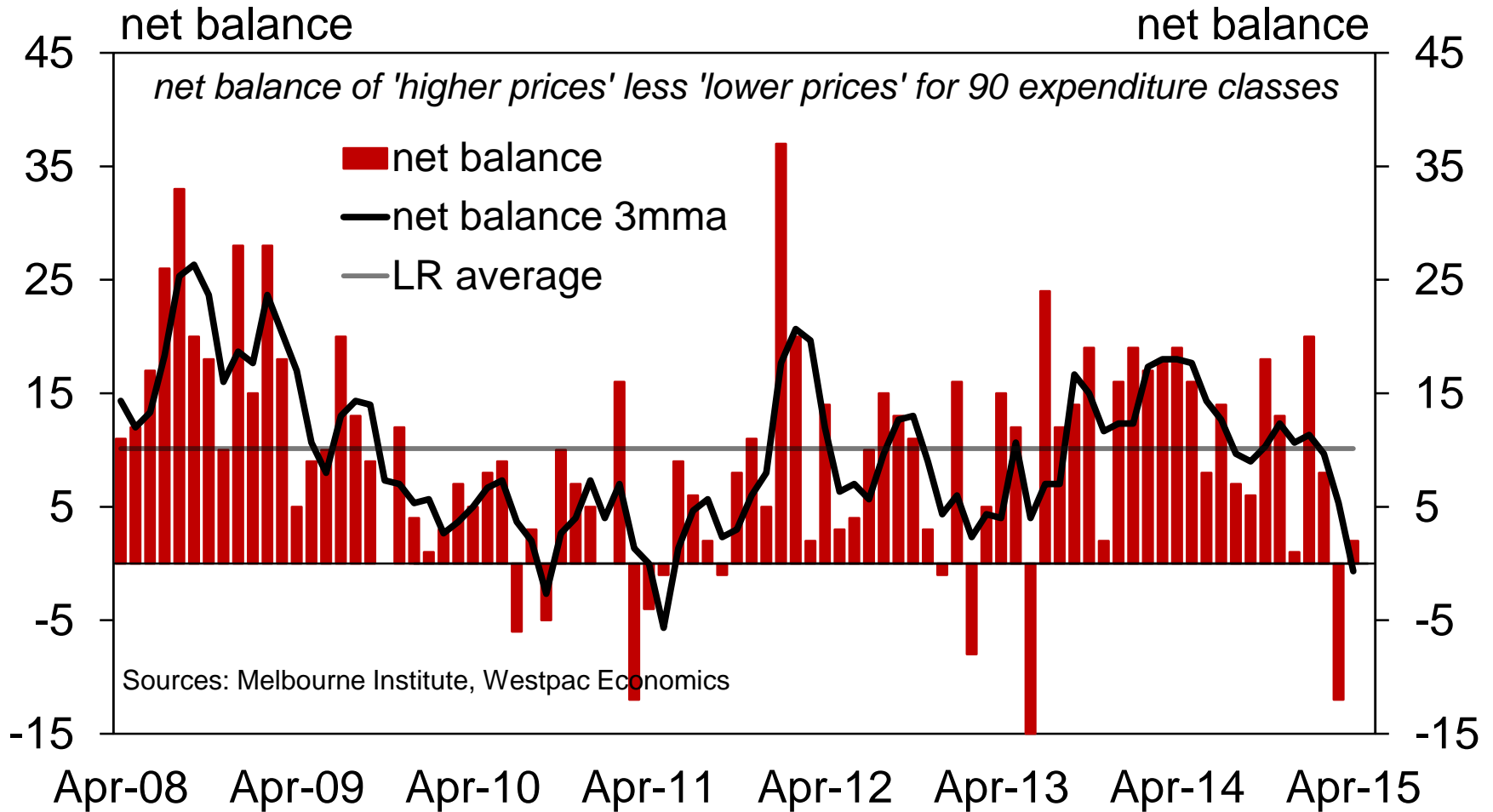
The Gauge vs. the CPI:



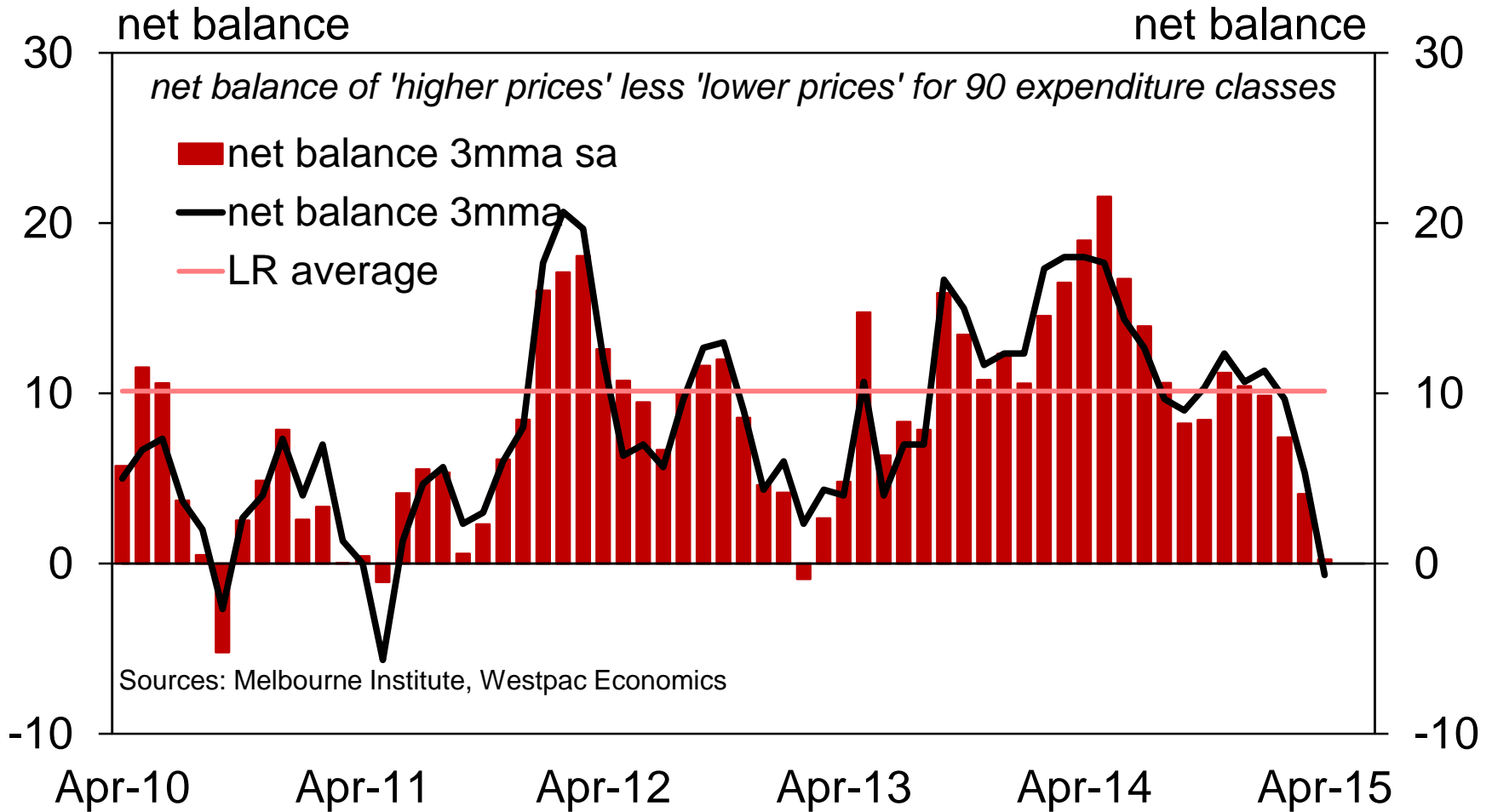
There is positive Q2 seasonality



Share of rising prices well below average



...even when seasonally adjusted.



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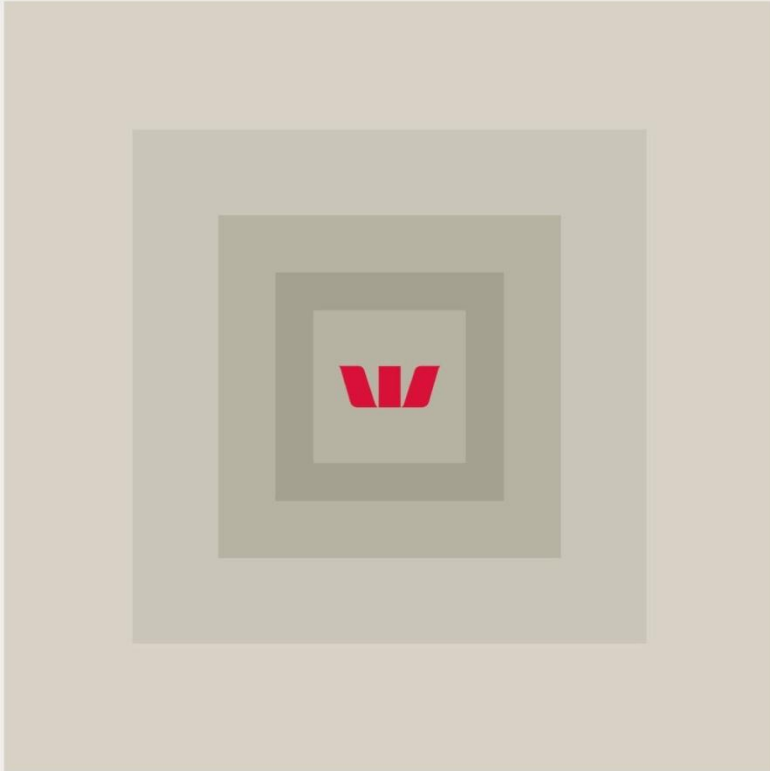
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