

## Summary

- Nationally, headline consumer prices increased 0.5% in December quarter 2003 to be 2.4% higher over the year. This represents a slight easing from the 2.6% annual growth recorded in the previous quarter, with annual headline inflation having eased considerably from the recent peak of 3.4% in March quarter 2003.
- Market sector goods and services prices, which exclude the more volatile items, recorded smaller increases of 0.4% in the December quarter and 1.8% over the year. This is the lowest annual increase recorded in this underlying measure of inflation since June quarter 1999, prior to the introduction of the GST.
- In contrast, Brisbane consumer prices rose by 0.6% in the quarter, to be 3.1% higher over the year. Annual CPI inflation in Brisbane has now accelerated in each of the last two quarters. Meanwhile, the annual underlying rate of inflation for Brisbane was unchanged at 2.7% in December quarter 2003, although this is still markedly higher than the 1.8% rate recorded nationally.

## Analysis

- Nationally, consumer price rises were driven primarily by increases in food prices, in particular fruit and vegetable prices, reflecting the continued impact of the drought. Housing costs and the costs of recreation and alcohol and tobacco also contributed to the increase in the CPI in the quarter but to a lesser extent than food.
- In contrast, the increase in the Brisbane CPI was primarily driven by housing costs, which has been the principal driver of CPI inflation in Brisbane for three consecutive quarters. The major components of housing costs driving this increase were increased rents, house purchase costs and other housing costs. Higher food prices, primarily fruit and vegetable prices, also contributed substantially to the increase in the Brisbane CPI in the December quarter, following two quarters in which they detracted from CPI growth.

## Implications

- The subdued consumer price inflation in the December quarter partially reflected the impact of the stronger \$A, which helps contain inflation by reducing import prices.
- Many market observers were predicting a further increase in interest rates by the RBA in February 2004. However, the December quarter inflation result, combined with the current strength of the \$A and signs that activity in the housing sector has begun to ease, reduces the likelihood that the RBA will increase interest rates again next month.

Table 1: Percentage change in the CPI - Australia

Inflation	Sept qtr 2003		Dec qtr 2003	
	Qtrly	Yearly	Qtrly	Yearly
Headline	0.6	2.6	0.5	2.4
Market Sector	0.4	2.0	0.4	1.8

Chart 1: CPI annual change, quarterly - Australia

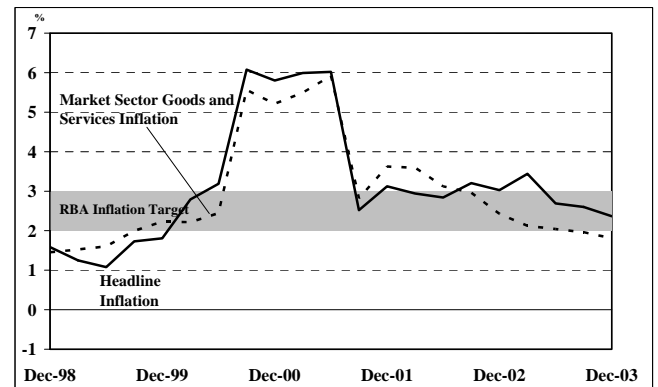


Chart 2: CPI components  
Quarterly contribution to change in CPI  
December quarter 2003

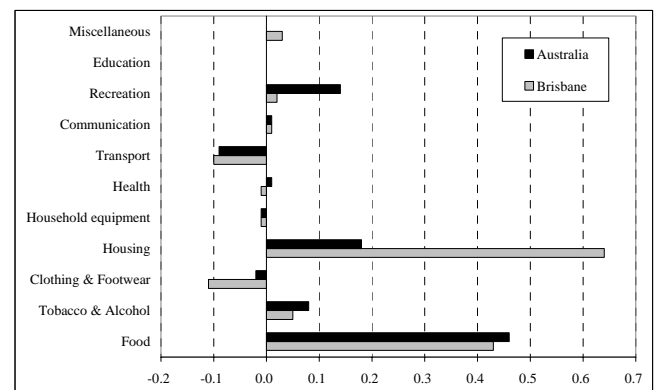


Table 2: Percentage change in the CPI

Capital City	Dec qtr 2003	
	Quarterly	Yearly
Sydney	0.8	2.3
Melbourne	0.2	2.2
Brisbane	0.6	3.1
Adelaide	0.6	3.3
Perth	0.4	2.1
Hobart	0.6	2.9
Darwin	0.5	1.7
Canberra	0.7	2.7
<b>Australia</b>	<b>0.5</b>	<b>2.4</b>