



Summary

- Nationally, headline consumer prices increased 0.9% in March quarter 2004 to be 2.0% higher over the year, easing from the 2.4% annual growth recorded in the December quarter. After peaking at 3.4% in March quarter 2003, inflation has now moderated steadily for 12 months, to reach the lower bound of the Reserve Bank's target range of 2-3%, in March quarter 2004.
- The price index for market sector goods and services, which excludes the more volatile items, remained unchanged in the March quarter, to be only 1.3% higher over the year. This is the lowest annual increase recorded since December quarter 1997.
- Brisbane consumer prices rose by 0.8% in the March quarter, to be 2.5% higher over the year. Meanwhile, the annual underlying rate of inflation for Brisbane moderated from 2.7% to 2.2% in March quarter 2004.

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. In addition, housing costs, health and education all contributed substantially to the increasing national CPI in March quarter 2004. Meanwhile, the strength of the \$A caused a fall in the cost of overseas travel, resulting in an overall detraction from the CPI by recreation costs.
- The increase in the Brisbane CPI was driven by similar components to that nationally. However, an increase in automotive fuel costs was largely responsible for a more substantial contribution to the Brisbane CPI from transport costs.

Implications

- The subdued level of annual consumer price inflation in the March quarter partially reflected the ongoing impact of the stronger \$A, which helps contain inflation by reducing import prices. The prices of internationally tradeable goods and services actually fell 0.5% over the year to March quarter 2004, in contrast to a 4.1% rise in non-tradeable goods and services.
- This large annual rise in the prices of non-tradeable goods and services would appear to be of concern to the RBA. However, this increase has been largely driven by volatile items, with annual underlying inflation remaining more subdued (1.3% compared with 2.0% headline inflation). This very low level of underlying inflation could temper the speed and magnitude of any future monetary tightening by the RBA.

Table 1: Percentage change in the CPI – Australia

Inflation	Dec qtr 2003		Mar qtr 2004	
	Qtrly	Yearly	Qtrly	Yearly
Headline	0.5	2.4	0.9	2.0
Market Sector	0.4	1.8	0.0	1.3

Chart 1: CPI annual change, quarterly – Australia

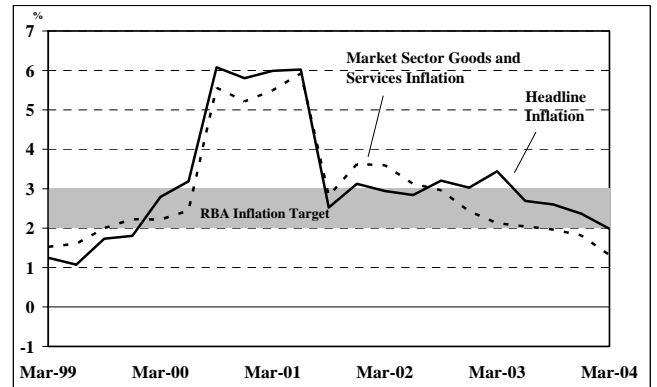


Chart 2: CPI components
Quarterly contribution to change in CPI
March quarter 2004

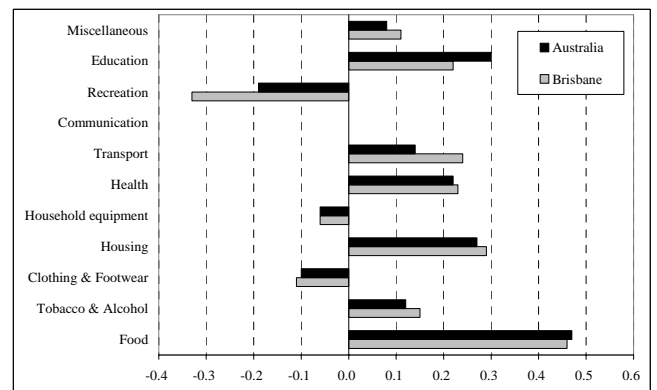


Table 2: Percentage change in the CPI

Capital City	Mar qtr 2004	
	Quarterly	Yearly
Sydney	1.0	2.0
Melbourne	1.0	1.8
Brisbane	0.8	2.5
Adelaide	1.0	2.1
Perth	0.3	1.6
Hobart	0.7	2.1
Darwin	0.4	1.1
Canberra	0.7	2.3
Australia	0.9	2.0