Summary

- The national headline consumer price index (CPI) rose 0.8% in December quarter 2004, to be 2.6% higher over the year, following 2.3% annual growth in the September quarter. After relatively weak growth in the September quarter, the 0.8% growth recorded in the December quarter was substantially stronger than financial markets had anticipated.

- The price index for market sector goods and services, which excludes the more volatile items, rose 0.7% in the December quarter, to be 1.4% higher over the year. This represents a slight increase from 1.2% annual growth recorded in the September quarter, which was the lowest annual growth in “underlying” inflation since the inception of the series in 1987.

- Queensland consumer price movements matched those nationally, with the Brisbane CPI also rising 0.8% in the December quarter, to be 2.6% higher over the year. Brisbane’s underlying inflation rate was 0.7% in the December quarter, to be 1.7% higher over the year, up marginally from the September quarter.

Analysis

- Nationally, consumer price rises in the December quarter were driven primarily by increases in housing costs, food prices and transport costs. Increased fuel costs and a rise in the cost of motor vehicle purchase contributed to the increase in transport costs, while fruit and vegetable prices and house purchase costs also boosted the national CPI.

- In Brisbane, price increases were more heavily felt in food prices, which rose 2% in the December quarter, largely reversing the price declines experienced in the previous two quarters. Brisbane also experienced a slightly stronger increase in housing costs than that recorded nationally, partially due to an increase in renting costs as well as higher house purchase costs.

Implications

- Over the year to December quarter 2004, the increase in the national headline inflation rate has been driven by components that are considered volatile, including fuel, housing and fruit and vegetable prices. As a result, the headline rate of inflation remains substantially above the underlying rate.

- In a recent statement, the Reserve Bank predicted inflation would strengthen over 2005 to reach 2½% by year end. While the rise in annual inflation to 2.6% in December quarter 2004 may renew calls for the Reserve Bank to raise official interest rates, the low level of underlying inflation may warrant a cautious approach to monetary policy in the near future.