Summary

- The national headline consumer price index (CPI) rose 0.7% in March quarter 2005, to be 2.4% higher over the year, easing from 2.6% annual growth in December quarter 2004. The result was slightly below market expectations of a 0.8% rise over the quarter (and 2.5% over the year). Given a large proportion of the increase was due to seasonal increases in some of the components (health and education), the underlying rise in prices was fairly moderate over the quarter.

- The price index for market sector goods and services, which excludes the more volatile items, rose 0.4% in the March quarter, to be 1.8% higher over the year. Although still below the RBA’s inflation target band of 2-3%, this measure has been gradually trending upwards from a recent low of 1.2% in September quarter 2004.

- Queensland consumer prices rose a little faster over the March quarter, with the Brisbane CPI rising 0.8%, to be 2.6% higher over the year. Brisbane’s underlying inflation rate was 0.5% in March quarter 2005, with the 2.2% annual rate also representing a strengthening from a recent low of 1.5% in September quarter 2004.

Analysis

- Nationally, consumer price rises in the March quarter were driven primarily by seasonal rises in education and health. Strong contributions also came from rises in house purchase costs, food prices, and tobacco and alcohol. Partially offsetting these increases, transport costs declined, driven by a fall in petrol prices over the quarter. Household equipment, and clothing and footwear prices also recorded declines over the quarter.

- In Brisbane, price increases were more heavily felt in food prices, which rose 1.3% in the March quarter, following on from a 2.0% increase in December quarter 2004. Brisbane also experienced a stronger increase in recreation costs than that recorded nationally, and recorded a rise in household equipment prices, compared with a large fall recorded nationally.

Implications

- Over the March quarter, the increase in the national headline inflation rate was driven largely by seasonal rises in some components, but partially offset by falling petrol prices and some imported goods prices. With petrol prices rising strongly in April, and the $A/$US exchange rate depreciating over the same period, national inflation may be stronger in the June quarter.

- The weaker-than-expected inflation result takes any immediate pressure off the Reserve Bank to increase official interest rates. However, the rising trend in underlying inflation may see the RBA maintain their tightening bias for monetary policy over the medium term.