



Summary

Headline CPI inflation:

Queensland	0.9% (quarterly)	2.9% (annual)
Australia	0.9% (quarterly)	3.0% (annual)

Market sector goods and services (core CPI) inflation:

Australia	0.3% (quarterly)	1.7% (annual)
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The national headline consumer price index (CPI) rose 0.9% in March quarter 2006, to be 3.0% higher over the year. This compares with a 0.5% rise in the December quarter (2.8% annually). The March quarter result was slightly above market expectations of a 0.8% rise over the quarter (and 2.9% over the year).

The price index for market sector goods and services, which excludes more volatile items, rose only 0.3% in the March quarter, with annual growth softening to 1.7%. Slower growth in this underlying inflation measure was explained by the fact that price rises in non-core CPI items (such as vegetables, petrol, pharmaceuticals and education) were largely responsible for higher headline price inflation in March quarter.

Queensland recorded a similar rise in headline consumer prices to that nationally, with the Brisbane CPI increasing by 0.9% in March quarter, to be 2.9% higher annually.

Analysis

Nationally, consumer price rises in the March quarter were driven by rises in food (mainly vegetables), health (largely pharmaceuticals) and transport (predominantly motor vehicles and fuel). Partly offsetting these rises, clothing and footwear prices fell by 1.7% over the year.

The rise in vegetable prices was due to adverse weather in growing areas together with seasonal shortages affecting supply. Meanwhile, the rise in pharmaceutical prices was primarily driven by the cyclical reduction in the proportion of consumers who qualify for subsidised medications under the Pharmaceuticals Benefit Scheme at the start of each year. Lower clothing and footwear prices were largely due to heavy retail discounting in March quarter 2006, following lacklustre Christmas sales.

Compared with nationally, Brisbane recorded stronger price rises in food, health and housing during the quarter. Education and transport recorded weaker price increases in Brisbane, while clothing and footwear recorded a larger price decline than nationally (Chart 2).

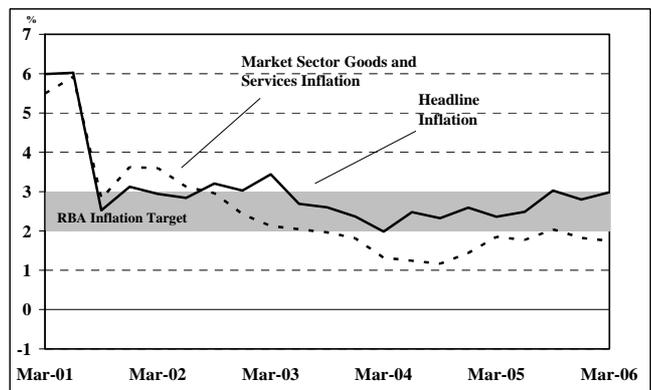
While there has been some speculation that inflationary pressures will see the Reserve Bank of Australia (RBA) raise interest rates in coming months, underlying price inflation eased in March quarter 2006. However, there are several upstream pressures to the outlook, including the increase in oil prices in April 2006 and higher producer price inflation in March quarter 2006. Together, these factors may cause higher CPI inflation if producers begin to pass on cost increases to consumers.

The RBA will next announce its official interest rate on 3 May, and release its next quarterly Statement on Monetary Policy on 5 May 2006. These dates will provide further insights into the direction of monetary policy going forward.

Table 1: Percentage change in the CPI, Australia

Inflation	Dec qtr 2005		March qtr 2006	
	Qtrly	Yearly	Qtrly	Yearly
Headline	0.5	2.8	0.9	3.0
Market Sector	0.5	1.8	0.3	1.7

Chart 1: CPI annual change, quarterly, Australia



**Chart 2: CPI components
Quarterly contribution to change in CPI
March quarter 2006**

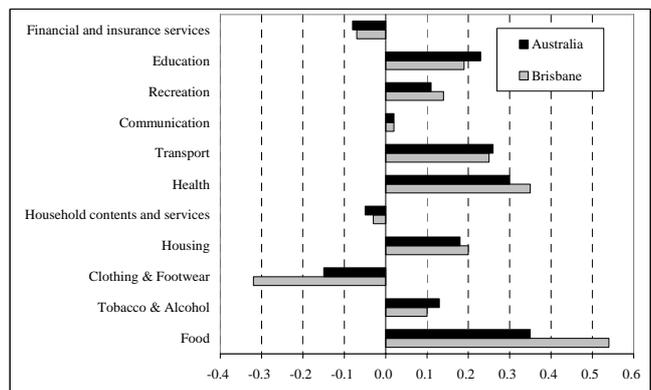


Table 2: Percentage change in the CPI

Capital City	March qtr 2006	
	Quarterly	Yearly
Sydney	0.8	2.7
Melbourne	0.9	2.8
Brisbane	0.9	2.9
Adelaide	1.0	3.1
Perth	1.0	4.2
Hobart	0.8	2.8
Darwin	0.9	3.4
Canberra	0.9	3.5
Australia	0.9	3.0