



**EMBARGO: Not for publication before 10.30am Monday 16 January, 2012**  
***TD Securities – Melbourne Institute Monthly Inflation Gauge***  
***December 2011***

The TD Securities – Melbourne Institute Monthly Inflation Gauge rose by 0.5 per cent in December, following a 0.1 per cent decrease in November and a 0.1 per cent increase in October. In the twelve months to December, the Inflation Gauge rose by 2.4 per cent, following a 2.1 per cent rise for the twelve months to November.

Contributing to the overall change in December were price increases for holiday travel and accommodation (seasonal), alcohol and tobacco, and new dwelling purchase by owner-occupiers. These were offset by falls in fruit and vegetables, clothing and footwear, and meat and seafood. The price of fruit and vegetables fell by 4.7 per cent in December, following a 2.1 per cent decrease in November, while fuel prices were unchanged.

The trimmed mean of the Inflation Gauge rose by 0.3 per cent in December, following a fall of 0.2 per cent in November.

According to Annette Beacher, Head of Asia-Pacific Research at TD Securities, “With this December report we have finalized our CPI forecasts for the December quarter, and it is clear that price pressures were well contained in the final months of 2011. We forecast headline inflation to increase by 0.2 per cent, to be 3.3 per cent higher than a year ago, the weakest quarterly CPI growth outcome since March quarter 2009. We also forecast underlying inflation to increase by 0.2 per cent in the quarter, lowering the annual rate to 2.1 per cent, the softest outcome in the history of that series.”

“Inflation tumbled over the course of 2011, paving the way for the RBA to shift monetary policy back to a neutral setting in the final months. As we anticipate many more months of global financial market ructions due to the unraveling European debt crisis, as well as underlying inflation dipping beneath the bottom of the RBA’s target band, we expect a 25 basis point reduction in the cash rate to 4 per cent at the 7 February RBA Board meeting. However, should the Board choose to pause and assess the outlook at the time, we will just shift our expectations into the March meeting, for an eventual mid-year cash rate target of 3.5 per cent.” added Ms Beacher.

The January 2012 TD – MI Inflation Gauge will be released at 10.30am AEDT on Monday 6 February 2012.

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