

Monthly economic e-news

October 2011



'In the September quarter, the core rate of inflation was only 0.3%, bringing the annual rate to just 2.3%'

Craig Turnbull
Chief Investment Officer

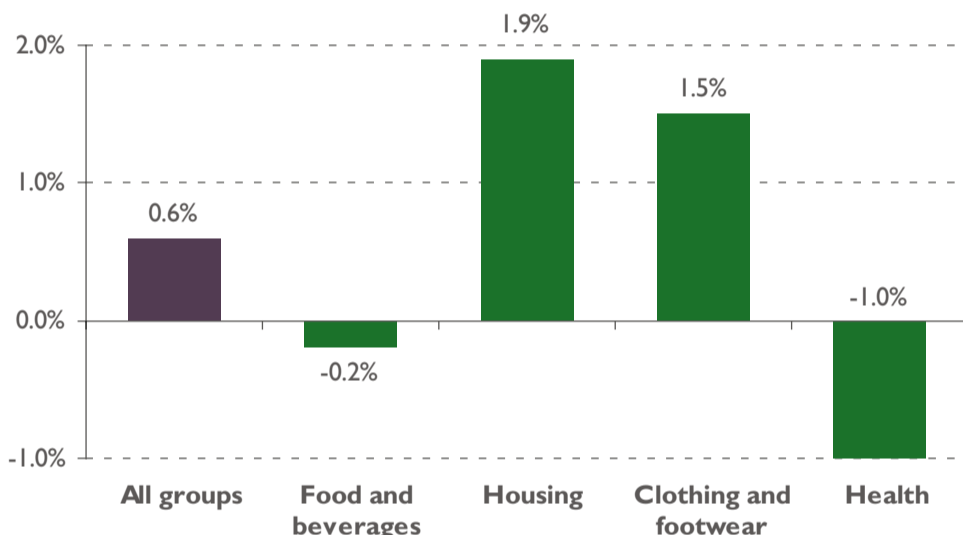
Inflation may not be such a threat after all

This month the Australian Bureau of Statistics (ABS) released a better than expected Consumer Price Index (CPI) figure of 0.6% for the September quarter bringing the annual inflation rate to 3.5%.

Prices overall rose 0.6% in the September quarter but one crucial category, food and beverages, dropped 0.2% after large increases in the first half of the year.

Housing costs remained high with 1.9% increase for the quarter along with clothing and footwear, rising 1.5%, while health costs dropped by 1%.

CPI - September Quarter 2011



Source: ABS

So while these figures give us a picture of price movements in the last three months, the rate that economists, and particularly the Reserve Bank of Australia (RBA), focus on is the 'core' or 'underlying' inflation rate.

In the September quarter, the core rate of inflation, or the 'trimmed mean' rate in ABS terms, was only 0.3%, bringing the annual core inflation rate to just 2.3%.

Difference between the 'headline' and the 'core' inflation rate

The 'headline' CPI rate is usually quoted as the official inflation rate and it measures the quarterly changes in the prices of a selected 'basket' of consumer goods and services including food, clothing, housing, health, transport, communication and education.

One criticism of using this rate is that it can be distorted by seasonal factors including extreme weather incidents and one-off economic events such as a change in government policy.

For example, the current annual headline rate of 3.5% reflects the unusual price increases of fruit and vegetables in the first half of the year as a result of the spate of natural disasters which hit Australian crops during the summer.

In contrast, the current core rate of inflation is just 2.3%, and this rate is calculated by removing any sharp price movements caused by one-off economic events to get a better picture of the underlying trends.

So what does the inflation rate mean for your super investment?

High inflation can erode the value of your super investment and if your returns do not keep pace with inflation, your super balance could go backwards.

But of course, if the economy is growing at the same time, the returns on growth assets, such as shares or property, may still mean you come out ahead.

All this underlines why you need to have a good long-term investment strategy, one with the right mix of growth and income assets to achieve your long-term financial objectives.



Markets at a glance

for the month ending 31 October 2011

- ↑ Australian shares¹ up by **7.2%**
- ↑ Australian Government Bonds² up to **4.51%**
- ↑ Australian dollar up to **US\$1.0509**
- ▭ Cash rate³ steady at **4.75%**
- ↑ International shares⁴ up by **10%**

1 ASX 200
2 Yield on 10 year Australian Government Bonds
3 RBA cash rate
4 MSCI - World ex Australia