

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates 1 - 2 November 2006

Question: sbt 30
Topic: Inflation outlook / interest rates
Hansard Page: Written

Senator EVANS asked:

According to the Reserve Bank, headline inflation for the year to September is 3.9 per cent. On the Reserve Bank's measures of core inflation, the weighted median inflation measure is 3.2 per cent, above the RBA's target band of 2 per cent to 3 per cent.

- (1) What is Treasury's view of the level of core inflation?
- (2) What is Treasury's view of where core inflation is heading? What are the risks to the inflation outlook?
- (3) What is the effect of import prices on inflation?
- (4) Research from ABN-AMRO suggests that the drought will add 1-1¼ per cent to food prices, which would add 0.25 per cent to CPI. Do you agree?

Answer:

- (1)/(2) Treasury does not publish a forecast of core inflation. In terms of risks to the inflation outlook, the 2006-07 Budget stated that "...the direct effect of higher oil prices is expected to continue to contribute to inflation. However, the cyclical upswing in productivity and slow growth in import prices should have a moderating influence on inflation".
- (3) A fall (rise) in import prices generally leads to lower (higher) inflation.
- (4) Higher grain and fruit and vegetable prices as a result of the drought will flow through to consumers, putting some upward pressure on inflation. However, in the short term, meat prices are likely to fall as a result of increased livestock slaughters.