

Box B

The Introduction of a Monthly CPI Indicator for Australia

In September, the Australian Bureau of Statistics (ABS) started publishing a monthly Consumer Price Index (CPI) indicator for Australia.^[1] Going forward, it will typically be published around four weeks after the end of the reference month and will include updated prices for around two-thirds of the CPI basket each month. As part of developing the new series, the ABS has compiled and released data back to late 2017. These data suggest that the monthly CPI indicator provides a reasonable guide to the quarterly CPI outcome and is a welcome step towards a timelier read on inflation in Australia. However, due to the lack of monthly price collections for many CPI items and the more limited outputs in the monthly release, the quarterly CPI is likely to remain the principal measure of CPI inflation in Australia for the foreseeable future.

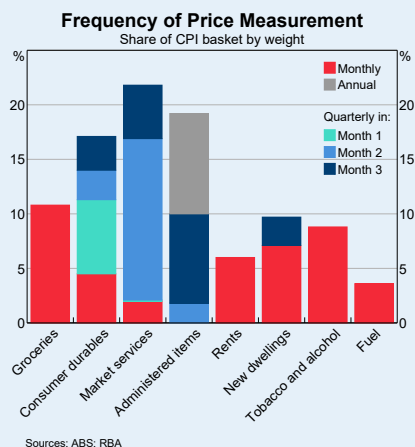
The new indicator leverages the ABS's existing data collection

The monthly CPI indicator includes updated prices for around two-thirds of the CPI basket each month, using existing data sources from the quarterly CPI release. The ABS currently collects monthly price data for 43 per cent (by weight) of the CPI basket – including most food items, alcohol, tobacco, fuel, holiday travel and accommodation, new dwellings and rents (the acquisition of monthly rents data is a recent development) (Graph B.1). Prices for around 47 per cent of the CPI basket are updated once a quarter and these are included in the monthly CPI in the month they are collected. Consumer

durables account for most items priced in the first month of each quarter, while market services tend to have their prices updated in the second month. Items across a range of categories are priced in the final month of the quarter and include many administered prices – these are services for which prices are at least partly regulated or where the public sector is a significant provider, such as child care and utilities. Prices for the remaining 10 per cent of the basket – including property rates, education fees and private health insurance – are updated annually, which reflects the typical repricing frequency for these items.

Given the volatility in the monthly data, the ABS recommends using either year-ended or three-month-ended growth rates to understand trends in the monthly CPI indicator. It has cautioned against using the month-on-month changes to make

Graph B.1



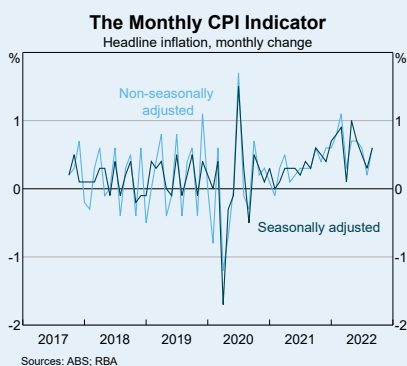
assessments about inflation. This is because monthly movements can be volatile due to differences in the coverage of prices used to compile the indicator each month (Graph B.2). Where prices are not collected in a particular month, prices collected in previous months will be ‘carried forward’ – this means that each month zero price movement is assumed for around one-third of items (by weight) in the CPI basket.

The new monthly CPI indicator release includes only a small subset of the breakdowns and details that have long been provided with the quarterly CPI. Data are only published at the national level and include aggregate headline CPI, trimmed mean, each of the 11 CPI groups (e.g. clothing & footwear, health etc) and some selected expenditure classes (e.g. automotive fuel, new dwelling costs, rents, domestic and international travel, and some food categories). Aside from the aggregate headline CPI and trimmed mean, the data are only available in non-seasonally adjusted format.

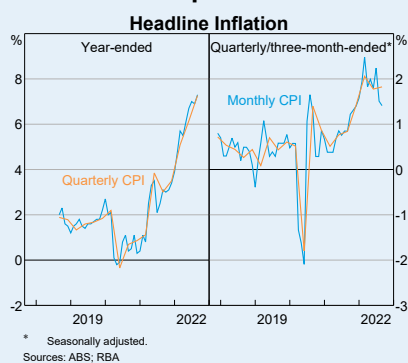
The monthly CPI indicator follows similar trends to the quarterly CPI ...

The monthly CPI indicator and the quarterly CPI series move similarly over time, for both headline CPI (including and excluding volatile items) and trimmed mean inflation (Graph B.3; Graph B.4). Changes in the monthly component level measures are also similar to the changes in the corresponding quarterly measures (Graph B.5). While the monthly and quarterly series align closely in most cases, they are not identical. This is because, when prices are collected less frequently than monthly, the monthly CPI indicator assigns price changes to the month they are collected, whereas in the quarterly CPI series price changes are allocated across the entire quarter. When prices are collected only in the second or third month of the quarter, these data will not be used to revise the previous months in the quarter for the monthly CPI. For this reason, the average of the index in the three months for the monthly CPI indicator will not equal the index of the quarterly CPI; the differences in these series do not appear to be biased in one direction.

Graph B.2



Graph B.3



... although its accuracy in predicting quarterly CPI outcomes has varied over time

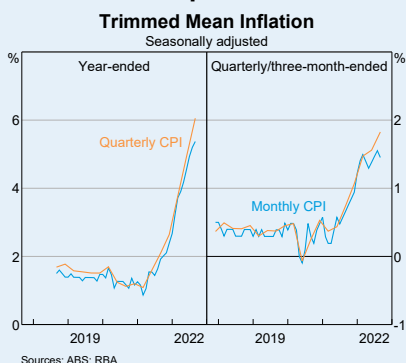
The monthly CPI indicator provides a timelier read on inflation in Australia than has been available to date and – using the back data provided by the ABS – has been a good indicator of material turning points in consumer prices over the past few years. Data for the first two months in the quarter – which will be available prior to each quarterly CPI release – has generally provided a reasonable guide to the eventual quarterly outcome for both headline CPI and trimmed mean measures (Graph B.6). Since the start of 2021, the indicator has marginally outperformed market economists’ nowcasts (i.e. their expectations immediately prior to

the release of the quarterly CPI) on average; however, it generally performed worse in the years leading up to the pandemic (Graph B.7).

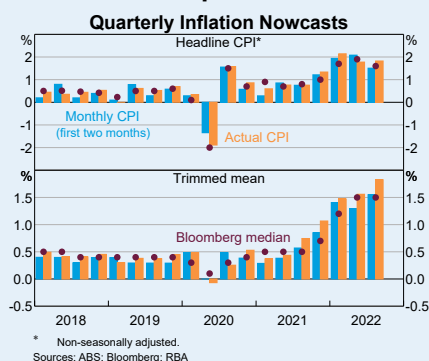
The ABS will continue to enhance the monthly indicator

The ABS will engage with stakeholders to prioritise future enhancements of the monthly CPI indicator. For example, it plans to further expand the number of items measured on a monthly basis, largely through further use of administrative and web-scraped data. These changes will also be implemented in the quarterly CPI when they are available. The ABS has noted that the monthly CPI indicator may be routinely

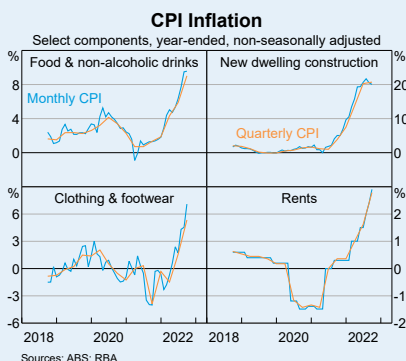
Graph B.4



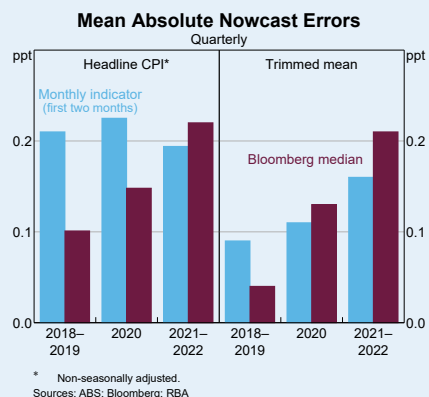
Graph B.6



Graph B.5



Graph B.7



revised as it continues to develop the series; the quarterly CPI is not routinely revised. ✖

Endnotes

- [1] See ABS (2022), 'Introducing a Monthly Consumer Price Index (CPI) Indicator for Australia', Information Paper, 29 September.