

Consumers facing double whammy

ELEANOR HALL: While much of the world has been fearing deflation, in Australia inflation remains stubbornly high.

Consumer prices rose by one per cent in the last quarter, well above market expectations, and underlying inflation remains above the Reserve Bank's target range.

The rising prices mean pain for consumers and for indebted Australians fearing further rate rises.

Joining us to analyse the numbers is economics correspondent Stephen Long.

So Stephen, run us through these numbers?

STEPHEN LONG: One per cent in the quarter, Eleanor and if you look at the headline number, inflation over the past year was comparatively modest - just 1.3 per cent - but in this case it is wise to ignore the headline and focus on what lurks beneath.

The measures of underlying inflation that the Reserve Bank uses show that inflation was 3.2 per cent over the past year on what it calls the trim median and 3.8 per cent - the trimmed mean rather - and 3.8 per cent on the weighted median.

They are both above its target range of two to three per cent despite that fact that we have gone through serious economic downturn in Australia and 0.8 per cent in the quarter which, if you do the maths, points towards inflation remaining stubbornly high.

ELEANOR HALL: So what's driving this rise in Australia's inflation rate?

STEPHEN LONG: The thing that is driving it first and foremost, Eleanor is basically price rises that we just can't avoid - for utilities, the basics of life that if you own a home you have to pay for.

So electricity costs have gone up sharply, council rates and charges, sewerage, water and just to run you through them - electricity up 11.4 per cent in the quarter; water and sewerage more than 14 per cent; rates and charges 5.7 per cent.

Rents are going up above the average trend of inflation overall and so basically price rises that are going to hit everybody in the hip pocket.

ELEANOR HALL: And why are these utility prices rising?

STEPHEN LONG: Well, with water we know we have a shortage in this country. We've got governments in various states putting in place desalination plants to try to generate more water but they are inevitably forcing up the costs.

We have got the recovery overseas which is meant that the collapse in commodity prices has eased and coal is going offshore and basically there is no turnaround on this.

We know with global warming and the shift towards carbon pricing and with the shortage of water that we are going to see these kinds of prices go up over the long haul.

ELEANOR HALL: So will the Reserve Bank board take any notice of what it is that is driving up inflation when it looks at its interest rates settings?

STEPHEN LONG: Well, no doubt it will and I'd have to say there is a case for saying that you should look through these increases in the cost of utilities because you could argue that, in effect, they are a de facto rates rise.

Everybody has to pay them who owns a home and they would be passed through to renters and so presumably that means that people have less money to spend on discretionary items and so that may temper the Reserve Bank's enthusiasm.

On the other hand if you look at those underlying measures of inflation that the Reserve Bank puts great weight on, they are still above its comfort zone and certainly not consistent with interest rates at emergency lows and so inevitably it means that rates will go up fairly fast.

ELEANOR HALL: So if there's not much doubt then the Reserve Bank will react to this, what are we looking at in terms of a rate rise next week?

STEPHEN LONG: Well, the debate is still whether we will see a 25 basis point increase, a quarter of a percentage point, or whether they will go for half a percentage point, 50 basis points.

Interestingly, there was a rise in the Australian dollar as these numbers came out and then it pared back and as they looked at the detail, the money markets began paring back expectations that the Reserve would go for that bigger increase.

Inevitably though, anyone who has got a mortgage should look at rates going up and going up often in the coming months.

ELEANOR HALL: Stephen Long, our economics correspondent, thank you