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Australian Consumer Prices Advance, Sending Currency to Record
2011-07-27 03:30:00.95 GMT

By Michael Heath

July 27 (Bloomberg) -- Australia's inflation rate gained more than economists forecast last quarter, prompting investors to scrap bets on an interest-rate cut this quarter and driving up the nation's currency to a record.

The consumer price index rose 0.9 percent in the three months through June from the prior quarter, led by costlier food, clothing and health care, the Bureau of Statistics said in Sydney today. That exceeded the 0.7 percent median estimate in a Bloomberg News survey of 25 economists. Prices advanced 3.6 percent from a year earlier, more than economists' 3.4 percent forecast and the biggest annual gain since 2008.

The report reflects lingering effects of floods and a cyclone that shut mines and ruined crops in the northeast, with the cost of bananas soaring 138 percent. The currency surged as traders wagered for the first time in six weeks on a chance that Reserve Bank of Australia Governor Glenn Stevens will resume tightening policy, ending his longest rate pause since 2007.

"It's a firm number," said Michael Turner, an economist at RBC Capital Markets Ltd. in Sydney who correctly predicted the quarterly figure. "The RBA is always going to be uncomfortable when it comes in above forecast -- even though there are flood effects still seeping through -- and it certainly strengthens the case for a rate increase."

RBC Capital predicts the central bank will raise borrowing costs in the fourth quarter, Turner said.

Record Currency

The local currency surged to a record \$1.1063, from \$1.0944 before the data were released, and traded at \$1.1042 at 1:28 p.m. in Sydney. The Australian government two-year bond yield climbed 12 basis points to 4.49 percent, the biggest advance since Feb. 4.

Australia's dollar has risen more than 22 percent in the past year, the second-best performer among the 16 major currencies tracked by Bloomberg, as investors are drawn by the developed world's highest interest rates.

The RBA's core inflation measures, which exclude the largest price increases and declines, also climbed more than forecast.

Core inflation, as measured by the central bank's so-called trimmed mean gauge, rose 0.9 percent from the previous quarter and 2.7 percent from a year earlier. Economists forecast a quarter-to-quarter gain of 0.7 percent and annual rise of 2.5 percent.

The weighted-median gauge of inflation advanced 0.9 percent in the second quarter, for an annual increase of 2.7 percent. Economists forecast a quarterly rise of 0.7 percent and annual increase of 2.5 percent.

Cost of Living

Today's report showed a measure of clothing costs jumped last quarter by the most in three years from the prior three months, a gauge of food prices rose for a third straight quarter and transportation expenses were the most since 2008.

A 0.6 percent decline in recreation costs was the only main category to weaken, and it reached the lowest in four years, the report showed. Education costs were unchanged from the prior quarter, it showed.

Stevens boosted the benchmark lending rate by 175 basis points from a half-century low of 3 percent in early October 2009 to November to contain inflation in an economy where unemployment is below 5 percent and resource companies are boosting hiring to meet demand from China and India. Stevens and his board aim to keep inflation in a range of 2 percent to 3 percent on average. The RBA meets next week to set rate policy.

"The RBA needs to hike, there can't be any debate about that now," said Adam Carr, a senior economist in Sydney at ICAP Australia Ltd., a unit of the world's biggest interdealer broker.

'Contained'

After the report, Treasurer Wayne Swan said underlying inflation remains "contained" and attributed almost half of last quarter's price gains to fruit costs. Consumer prices should ease as agriculture production rebounds, he said at a press conference in Sydney. The dollar's strength is a "mixed blessing," he said.

Finding skilled labor for reconstruction in Queensland, and flood-damaged eastern states of Victoria and New South Wales, may become more difficult. A mining boom, to feed China's demand for raw materials, has caused a worker shortage at a time when the jobless rate is below 5 percent.

Two coal-seam gas projects, expected to cost more than A\$30 billion (\$33 billion), are proceeding near the Queensland port of Gladstone. Santos Ltd., Australia's third-largest oil producer, and BG Group Plc, the U.K.'s third-biggest gas producer, will start hiring the first of more than 10,000 construction workers needed for the two projects later this year.

RBA Outlook

The RBA signaled this month that the economy is unlikely to reach its forecast of 4.25 percent growth this year because a resumption of coal exports from flooded mines is taking longer than expected. New forecasts are scheduled to be released Aug. 5.

Australia's economy shrank 1.2 percent in the first quarter, the most since 1991, because of the natural disasters.

In New Zealand, where the nation's currency also reached a record high, a report today showed business confidence rose to a 14-month high in July as record-low interest rates and higher commodity prices bolstered prospects for a recovery.

Central bank Governor Alan Bollard may signal tomorrow that interest rates will need to rise to ensure the quickening recovery doesn't fan inflation, economists said.

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