

Mr D Cullen
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Attention: Mr M Abbondante

Dear Mr Cullen

16TH SERIES AUSTRALIAN CONSUMER PRICE INDEX REVIEW

Thank you for the opportunity to provide comments as part of the review of the 16th series of the Australian Consumer Price Index. The Department of Treasury and Finance values the Australian Bureau of Statistics' commitment to produce the CPI and improve the series where possible.

Our comments on the major issues identified in the 16th series review are below.

Principal Purpose of the CPI

I am in favour of retaining the acquisitions approach to the CPI, as I believe that the principal purpose of the CPI is to provide a general measure of price inflation for households. Since the CPI is used for monetary policy purposes, the acquisitions approach is appropriate, as it excludes mortgage interest payments.

Compilation Frequency of the CPI

I consider that the current policy of releasing the CPI on a quarterly basis should be maintained. Moving to a monthly series would be unlikely to result in improved policy analysis, as seasonal factors are likely to be more influential in determining monthly price movements. It is highly unlikely that the costs of moving to a monthly series would outweigh the benefits of a more timely series. There are also several pieces of legislation in Tasmania that have indexation provisions that refer to quarterly movements in the CPI. An additional cost of moving to a monthly series would be amendments to these pieces of legislation.

Evaluation of the Deposit and Loan Facilities Index

I would prefer that the deposit and loan facilities expenditure class include direct fees and charges on deposit and loan facilities only. The inclusion of indirect charges through interest rate margins results in the measure of CPI being affected directly by monetary policy decisions. This type of measurement influence is not desirable as the CPI itself is the target of monetary policy.

Maintaining the Relevance of the CPI

I welcome the use of scanner data as part of the continuous improvement program for the CPI. As services are forming an increasing share of household budgets, I would welcome the ABS setting improved price measurement in services as a key priority.

Analytical Series

I am satisfied with the current suite of analytical series produced by the ABS. However, I would be concerned that producing a seasonally adjusted measure of the headline index may result in the unadjusted headline index being displaced as the main measure reported and used from the CPI release. This would also potentially require amendments to Tasmanian legislation that has indexation provisions that refer to the CPI, as there would be two high profile series. I am also in favour of ceasing the publication of the Average Retail Prices data because of the lack of quality adjustment applied to these data.

Spatial Price Measures and Geographical Coverage

Consistent with earlier advice that Treasury officers have provided to the ABS, I recommend that the ABS considers producing spatial price indices for the capital cities on at least an annual basis. I appreciate the conceptual and methodological difficulties associated with their compilation, but consider that the benefits of producing these measures would outweigh the costs.

While expanding the geographical coverage of the CPI beyond the eight capital cities may improve the representativeness of the measure, I cannot identify any advantages for Tasmania and consider that the costs associated with this would outweigh the benefits.

Should you have any questions regarding this submission, please contact Chris Lock, Director, Economic Policy Branch, on (03) 6233 2646 or email Chris.Lock@treasury.tas.gov.au.

Yours sincerely


D W Challen
SECRETARY
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