Press Release

September Quarter 2009 Consumer Price Index

The Headline Consumer Price Index (CPI) increased by 1.8 per cent in the September quarter 2009, compared to 0.5 per cent in the June quarter 2009. Inflation through the year to September was 5.3 per cent down from 6.7 per cent in the year to June 2009. Over the coming quarters, Treasury expects inflation to accelerate to a higher level driven by strong economic activity, high government spending – especially from trust accounts, the substantial depreciation of the kina against the Australian dollar in 2009 and capacity constraints in the economy.

The increase in CPI inflation in the September quarter is mainly attributed to price increases in the following expenditure items: betel nut (up 14.1 per cent), fruit and vegetables (up 7.7 per cent), fuel and power (up 5.1 per cent), durable goods (up 4.9 per cent) and alcoholic drinks (up 3.7 per cent). The pick up in prices appear to be broad based, with close to half of the expenditure items in the consumer basket recording price increases of more than 5 per cent on an annualised basis.

Underlying inflation increased by 1.1 per cent in the September quarter 2009, compared to 0.8 per cent in the June quarter 2009, to be 4.9 per cent higher through the year. The exclusion-based underlying inflation measure has grown less strongly than headline inflation in the September quarter largely due to the exclusion of highly volatile items such as betel nut and fruit and vegetable prices, which grew strongly in the September quarter. Although the underlying inflation measure points to an easing in inflationary pressures, it also indicates that inflation remains persistent in the economy, with prices still growing in the quarter and above the level recorded a year ago.

Prices of imported (or tradeable) goods have continued to show signs of moderation over the course of the year, increasing by 3.9 per cent through the year to the September quarter 2009 compared to 6.1 per cent through the year to the June quarter. The moderation in tradable inflation is largely due to lower fuel prices and slower growth in food prices compared to a year ago. However, there are already signs that prices are increasing for these two primary drivers of tradable inflation.

Non-tradeable inflation remains strong, growing by 2.9 per cent in the September quarter 2009, to be 7.1 per cent through the year. This indicates that domestic inflationary pressures remain significant, largely due to the ongoing strength in the domestic economy, which is running up against significant capacity constraints and the impact of high government spending from trust accounts.

International drivers of inflation such as the high oil and food prices have eased from peaks in 2008. However, the price of crude oil has strengthened over 2009 to trade around US$70 per barrel at the end of September. This has driven the rise in fuel and kerosene prices in the CPI basket in the September quarter, which grew by 5.1 per cent. Oil prices have generally increased further since the September quarter.

Over the medium term, inflation is likely to remain uncomfortably high with the expected commencement of the LNG project in 2010, the continued fast drawdown from trust accounts and the significant ramp up in government spending in the 2010 Budget. This is at a time when the economy is already running up against capacity constraints.

Therefore, one of the key challenges for the Government is to contain the expected acceleration in inflation. This can be achieved through a close coordination with the Bank of PNG to ensure both the fiscal and monetary policies are consistent to ensure high inflation does not become entrenched in the economy.

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