



6 September 2022

Australian Bureau of Statistics
PO Box 10
Belconnen ACT 2617

By email: prices.statistics@abs.gov.au

Monthly Publication of the Consumer Price Index

The Australian Financial Markets Association (AFMA) represents the interests of over 120 participants in Australia's wholesale banking and financial markets. Our members include Australian and foreign-owned banks, securities companies, treasury corporations, traders across a wide range of markets and industry service providers. Our members are the major providers of services to Australian businesses and retail investors who use the financial markets. AFMA's Inflation Products Committee is comprised of the majority of the major market participants in the Australian inflation-linked bond market and inflation swap market.

AFMA welcomes the opportunity to comment on the initiative of the Australian Bureau of Statistics (ABS) to publish Australian inflation data as measured by the Consumer Price Index (CPI) on a monthly basis. More frequent publication of inflation data has the broad support of AFMA's members who believe that it will contribute to more effective hedging and trading of interest rate and inflation linked products which will facilitate better transmission of monetary policy through the economy.

Inflation is the major macroeconomic factor in determining monetary policy for many of the central banks that operate in advanced economies. The Consumer Price Index (CPI) is a significant inflation benchmark index for the Australian economy and one of the most important inputs into the RBA's monetary policy deliberations but quarterly publication has meant it is also one of the least timely by international standards. Australia is one of the few countries in the world to publish its primary inflation data on a quarterly rather than a monthly basis. Monthly publication will be consistent with publication timelines of every economy in the G20 and almost every economy in the OECD.

Benefits of Monthly Publication

Inflation information should be released in a timely manner to foment a forward-looking and pre-emptive approach to monetary policy. The lack of timeliness in compiling and issuing inflation data has the potential to give monetary policy a backward-looking bias. A monthly CPI release will ensure that each Reserve Bank Board meeting has the benefit of an update on the inflation rate.

Inflation expectations and expectations for monetary policy are drivers of hedging and trading activity in short term and long-term interest rate markets. Members of AFMA's technical market committees

confirm that the majority of participants trading in interest rate markets favour more frequent publication of the inflation data which will help increase hedging efficiency.

The capacity of financial markets to transmit monetary policy to the real economy depends on market participants' future inflation expectations and the anticipation of adjustments to the official interest rate by the central bank. Prices of securities in short term interest rate markets are heavily influenced by participants' inflation expectations and expectations for monetary policy. These markets include money market loans and deposits, certificates of deposits, bank bills, commercial paper and forward foreign exchange. Efficient short term interest rate markets contribute to a reduction in liquidity risk and credit risk premiums for financial market participants, allowing for a smoother functioning of the payments system. Stable financing conditions in the economy contribute to financial stability.

The level of interest rates in short term interest rate markets indirectly influence interest rates in the real economy and determine the level of interest that small, medium and large businesses will have to pay on their loans. Having more timely and accurate data will assist these markets to trade more efficiently and facilitate the transmission of monetary policy through to the real economy as more frequent publication of the CPI will help provide an earlier indication of the trend in inflation.

Central banks smooth changes in interest rates over time to minimise the risk of policy errors from the seasonality of inflation data. This is made more challenging by the lag between publication of quarterly data and the seasonal adjustments the ABS must make to establish the underlying trend. The publication of monthly data will promote a gradualist approach to monetary policy where more frequent data will reduce the impact of seasonality and lead to more timely policy action.

There is strong participation in Australia's nominal, government and corporate bond markets by offshore investors, especially Asian investors. A monthly CPI will help to facilitate offshore participation in Australia's inflation indexed bond market too and could be expected to increase offshore holdings of Treasury indexed bonds (TIBs). Globally, most inflation-linked bonds are priced based on the Canadian Treasury model for the indexation of cash flows on a monthly basis. Australian inflation indexed bonds do not fit neatly into global bond portfolios based on a quarterly CPI and will benefit from harmonisation with the global standard.

AFMA's members support the decision to publish a monthly CPI but encourage the ABS and the Government to continue to work towards a true monthly CPI;

"Any move towards more regular updates on trends in consumer price inflation is welcome progress. While the monthly CPI indicator includes most of the goods and services of the full quarterly CPI, and tracks the quarterly data closely, it is not a true substitute for a complete monthly CPI series, and work should still continue towards the goal of a true monthly CPI series."

If a higher frequency CPI leads to more timely monetary policy action and better transmission of policy, the economy-wide benefits could be very large. AFMA and its members welcome the decision by the ABS to produce the CPI at a monthly frequency.

Yours sincerely,



Mark McCarthy
Head of Markets