

# Consumer bonanza as import prices fall

## Import & export prices

- Prices of imported goods slumped by 3.8 per cent in the December quarter, driven largely by the appreciation of the Australian dollar. Import prices are 1.0 per cent lower than a year ago.
- Import prices were at record lows across a whole host of products including computers, mobile phones, leather & travel goods, and paper products and electrical equipment.
- The index of imported electrical appliances fell by 7.9 per cent in the quarter – marking the biggest quarterly fall in records going back 23 years. Similarly imported food prices have fallen by almost 20 per cent in the past two years.
- Prices of export goods fell by 8.1 per cent in the December quarter. However export prices are still 19.0 per cent higher than a year ago.
- The data on import and export prices suggest that the broader terms of trade may have fallen by around 2 per cent in the December quarter.

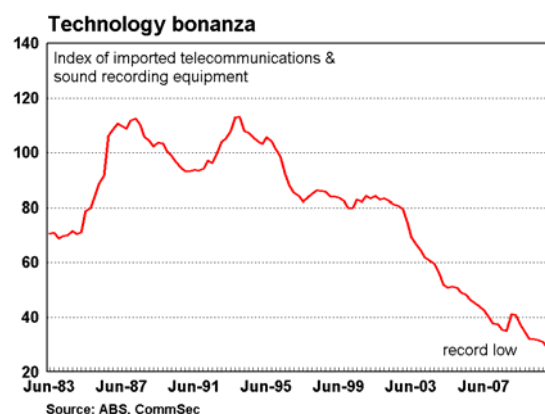
### What does it all mean?

- It's great news for consumers. The import prices for an array of items have fallen to the lowest levels in records going back more than two decades. The index of imported electrical goods is holding at the lowest level in records going back 23 years. Even prices for leather, travel goods and mobile phones have fallen to record lows. And given the sluggish retail sales environment, retailers will continue to pass these savings on to consumers in coming months.
- Across the docks input prices are sliding and that is why consumers will need to keep the pressure on retailers to pass through the price savings. However retailer may not need to much coaxing, especially given the sluggishness in retail activity, the pass through effect is likely to be much faster than in the past. Overall the cheaper prices should also help to elevate margin pressure will still allowing retailers to discount

### Record Low Import Prices

#### *New lows December 2010*

Household electrical goods  
Computers, technology equipment  
Mobile phones, telecom equipment  
Paper & paperboard  
Leather & travel goods  
Machinery & electrical equipment



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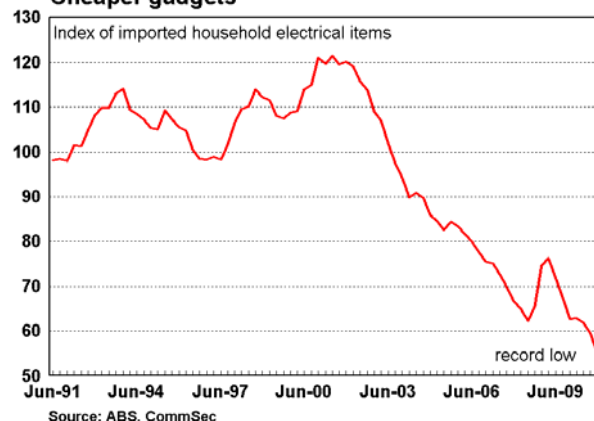
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- Given the Aussie dollar is likely to hold around parity over the next couple of months a further fall in import prices is a possibility. Import prices tend to respond to the movements in the Aussie dollar with a lag effect. And the recent lift in the Aussie has not been fully reflected in already low import price data. In essence there are further cost saving to come and which will in turn at least partially be passed on to consumers.
- The latest trade data certainly bodes well on the inflationary front. Imported prices are being kept low across a whole range of items ensuring that the Reserve Bank can remain on the interest rate sidelines in the near term. And while the latest result is likely to see a modest decline in the terms of trade story, it is unlikely to derail the income boost that will continue to drive the Australian growth story over the coming year.
- In simple terms, the ratio of export to import prices fell by 4.5 per cent in the December quarter. And while the actual terms of trade doesn't line up with this measure precisely, it probably eased by a more modest 2 per cent in the quarter.

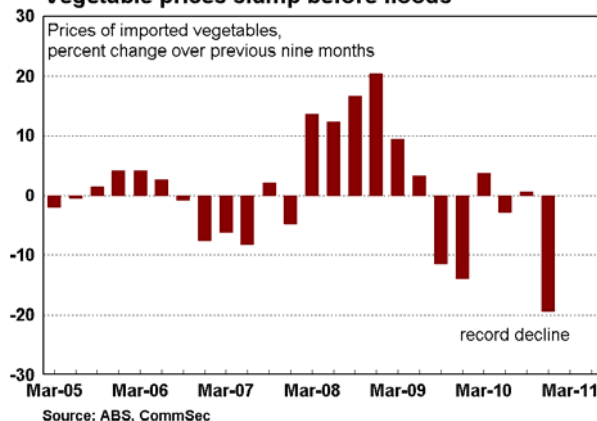
### What do the figures show?

- Import prices** fell by 3.8 per cent in the December quarter, largely due to the appreciation of the Australian dollar. The fall was underpinned by lower prices for food products, machinery & transport equipment, and telecommunication & sound recording equipment. Partly offsetting these falls were rises in the prices paid for gold. Import prices are 1.0 per cent lower than a year ago.
- Only two of the ten broad import categories recorded price increases in the December quarter.
- The index of **imported consumer goods** fell by 4.1 per cent in the quarter with falls in prices for food and clothing. In annual terms import prices were down 2.3 per cent on a year ago.
- Prices for household electrical items fell by 7.9 per cent in the quarter – marking the biggest quarterly price fall in records going back 23 year. Over the year the price of electrical goods fell by 12.6 per cent.
- The index of **imported capital goods** fell by 4.9 per cent in the quarter to be 4.4 per cent lower than a year ago.
- The index of **imported intermediate goods** fell by 3.0 per cent in the quarter however prices are still up 1.0 per cent on a year ago.
- Export prices** fell 8.1 per cent in the December quarter, underpinned by falls in the prices received for metal ores and metal scrap, coal, coke and briquettes, gas, natural and manufactured and iron and steel. However export prices are still 19.4 per cent higher than a year ago.
- Only three of the ten broad export categories recorded price increase in the December quarter.

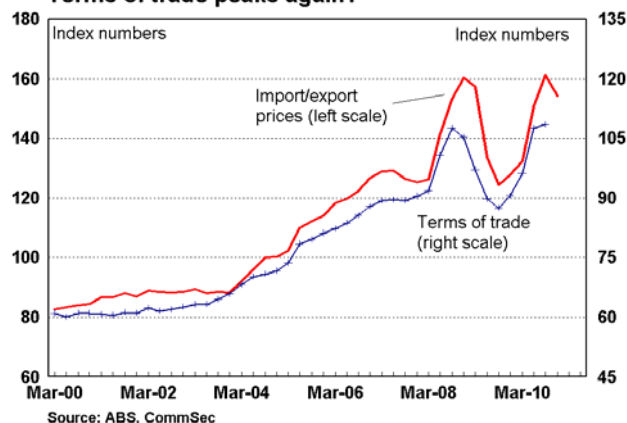
**Cheaper gadgets**



**Vegetable prices slump before floods**



**Terms of trade peaks again?**



## What is the importance of the economic data?

- The Australian Bureau of Statistics (ABS) provides quarterly estimates of **export and import prices**. The figures assist in gauging inflationary pressures in the economy.

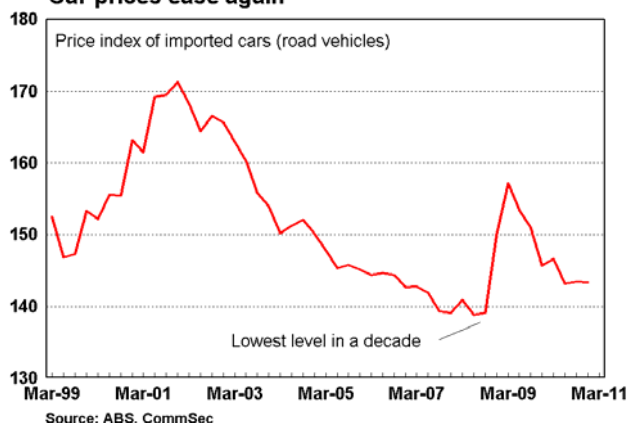
## What are the implications for interest rates and investors?

- Prices of imported goods are 1.0 per cent down on a year ago. And the sustained strength of the Australian dollar should ensure that retailers will be able to keep discounting while also improving margins in coming months.
- The slide in the price of imported goods will help to keep inflation low in the near term. Lower imported inflation should ensure that the Reserve Bank can remain on the interest rate sidelines in the near term allowing consumer activity levels to recover.
- At present all the indications suggest the additional income from the terms of trade boom is being used to pay down debt or boost savings. However as the economic recovery gains traction over the coming year it is likely that the extra money will get spent which could lead to higher prices.
- Higher iron ore and coal prices coupled with stronger volumes will ensure that trade surpluses remain on the agenda. The additional money flowing into Australian coffers will boost incomes and spur economic activity in the midterm

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**Car prices ease again**



**Cheaper food prices**

