

5. Price and Wage Developments

Recent Developments in Inflation

Consumer price inflation has been moderate in recent quarters, notwithstanding a slight pick-up in the quarterly pace of inflation in the June quarter. The consumer price index (CPI) rose by 0.5 per cent on a seasonally adjusted basis in the June quarter, following an increase of 0.2 per cent in the March quarter, to be 2.4 per cent higher over the year (Graph 5.1, Table 5.1). The increase in inflation in the quarter was mainly attributable to a broad-based turnaround in tradables inflation, while non-tradables inflation eased slightly.

Taken together, the various measures suggest that underlying inflation was a touch above ½ per cent in the quarter, which was a small increase from the March quarter. In year-ended terms, underlying

**Graph 5.1
Consumer Price Inflation***

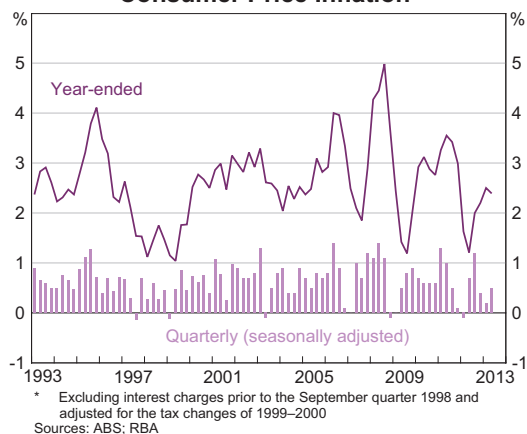


Table 5.1: Measures of Consumer Price Inflation
Per cent

	Quarterly ^(a)		Year-ended ^(b)	
	March quarter 2013	June quarter 2013	March quarter 2013	June quarter 2013
Consumer Price Index	0.4	0.4	2.5	2.4
Seasonally adjusted CPI	0.2	0.5	–	–
– Tradables	–1.1	0.1	–0.2	–0.7
– Tradables (excl volatile items and tobacco) ^(c)	–1.1	0.1	–1.4	–1.3
– Non-tradables	0.9	0.8	4.2	4.3
<i>Selected underlying measures</i>				
Trimmed mean	0.4	0.5	2.3	2.2
Weighted median	0.5	0.6	2.6	2.6
CPI excl volatile items ^(c)	0.3	0.6	2.4	2.6

(a) Except for the headline CPI, quarterly changes are based on seasonally adjusted data; those not published by the ABS are calculated by the RBA using seasonal factors published by the ABS

(b) Year-ended changes are based on non-seasonally adjusted data, except for the trimmed mean and weighted median

(c) Volatile items are fruit, vegetables and automotive fuel

Sources: ABS; RBA

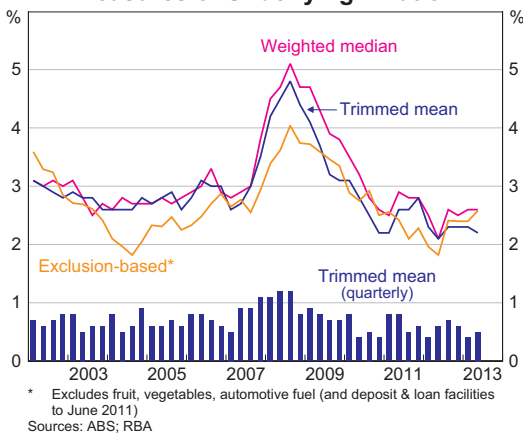
inflation was a little under 2½ per cent, where it has remained since the middle of last year (Graph 5.2). The year-ended rate continues to be affected by the introduction of the carbon price in July 2012. While it is not possible to identify the effects precisely, outcomes in recent quarters have been consistent with the earlier expectation of only a modest effect on underlying inflation. The Bank’s forecasts assumed this effect to be around ¼ percentage point over the year to June 2013 (see August 2012 *Statement*).

Tradables prices (excluding volatile items and tobacco) rose by 0.1 per cent in the June quarter (Graph 5.3). Much of the turnaround in tradables price inflation in the quarter was attributable to

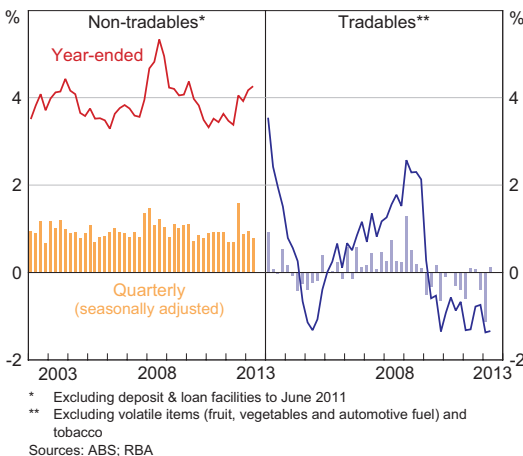
consumer durables prices, which were unchanged following recent pronounced declines. Clothing and footwear prices rose strongly in the quarter while the pace of deflation in the prices of motor vehicles and household electrical items eased. Given the sizeable falls in tradables prices in preceding quarters, however, tradables prices remain noticeably lower than a year ago. Indeed, tradables prices have declined steadily since 2010, reflecting the appreciation of the Australian dollar since 2009 as well as pronounced competitive pressures that have constrained firms’ margins and driven increased efforts to contain costs. The recent depreciation of the exchange rate is unlikely to have had much of an effect on tradables prices as yet, with higher import costs typically taking some time to pass through to final retail prices for most items.

Inflation in non-tradables prices eased in the June quarter to be below the pace of the previous three quarters. Much of the easing in the quarter was driven by a softening in inflation in market services prices, for which labour costs tend to be a significant determinant (Graph 5.4). Inflation in new dwelling costs also declined in the quarter, though it has increased over the past year, consistent with reports of increased demand and rising costs of building materials. Inflation in rents increased in the quarter, and continues to outpace overall inflation, consistent with the vacancy rate being below its historical average.

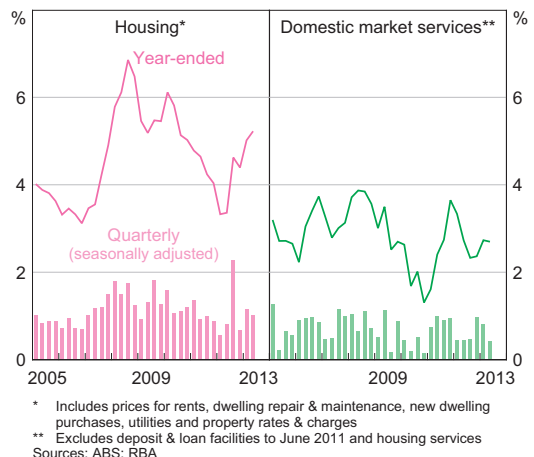
Graph 5.2
Measures of Underlying Inflation



Graph 5.3
Non-tradables and Tradables Inflation



Graph 5.4
Non-tradables Inflation



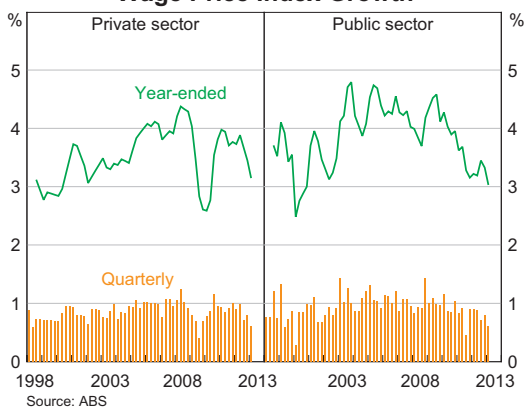
Food prices (excluding fruit and vegetables) increased by 0.2 per cent in the quarter, in line with the relatively subdued outcomes for food price inflation observed since 2009. This is consistent with continued reports from liaison that competition among supermarkets is placing downward pressure on prices. Apart from meals out and takeaway items, the small pick-up in food price inflation in the quarter was broad based across a range of items.

Costs

The pace of wage growth slowed further in the March quarter, consistent with the softening in labour market conditions observed since the middle of last year (see 'Box B: The Slowing in Wage Growth'). The wage price index rose by 0.7 per cent in the March quarter, to be 3.2 per cent higher over the year, which is ½ percentage point below the average of the past decade. In recent quarters there has been a pronounced slowing in wage growth in the private sector (Graph 5.5). Public sector wage growth has also moderated, in line with ongoing fiscal restraint at both the state and federal levels. Business surveys and liaison suggest that wage growth remained subdued in the June quarter and firms have tended to report that they expect a moderation in wage growth over the period ahead.

The slowing in private sector wage growth has been broad based across industries, including mining, construction, wholesale trade, transport

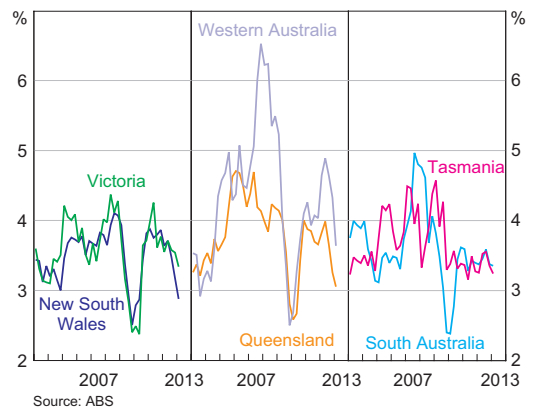
Graph 5.5
Wage Price Index Growth



and professional services. Aggregate wage growth in industries more directly exposed to consumer demand has remained subdued, at levels well below historical averages.

Private sector wage growth slowed in all states over the year to the March quarter (Graph 5.6). In New South Wales, wage growth in the private sector looks to have been softer than the national average across a range of industries. While wage growth in Western Australia remains higher than in the other states, it has declined noticeably since the middle of last year, in line with an easing in labour demand associated with the softening in the resources sector. The pace of wage growth in Queensland has also fallen sharply over this period, consistent with the higher unemployment rate in that state.

Graph 5.6
Private Wage Price Index Growth by State



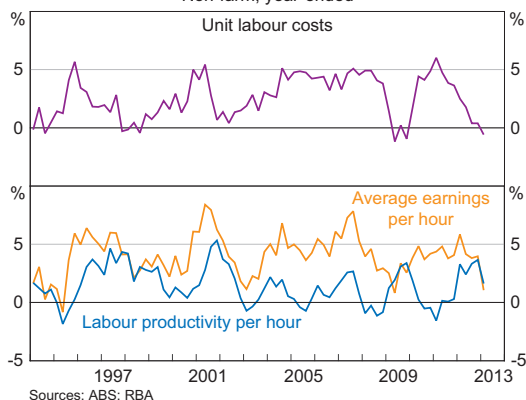
The slowing in wage growth has contributed to a moderation in measures of unit labour cost growth. Unit labour costs, as measured, declined over the year, with the sharp slowing in the growth of average earnings more than offsetting an easing in labour productivity growth from its recent fast pace (Graph 5.7).

Producer price data suggest that domestic inflation pressures were modest across all stages of production over the year to the June quarter.

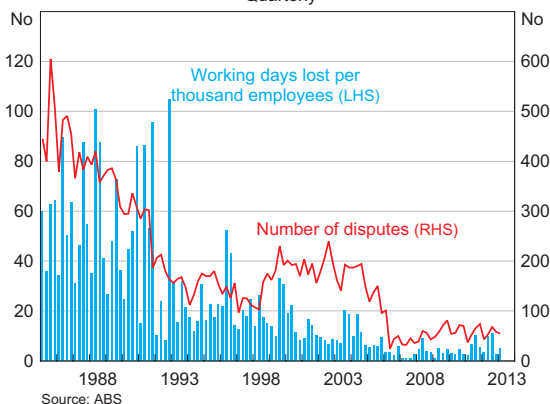
ABS data indicate that the number of working days lost as a result of industrial disputes increased slightly

in the March quarter from a low level, but remained below the decade average (Graph 5.8). This quarterly increase reflected a pick-up in the average number of employees per dispute and the average duration of disputes, while the number of disputes fell slightly.

Graph 5.7
Unit Labour Costs Growth
Non-farm, year-ended



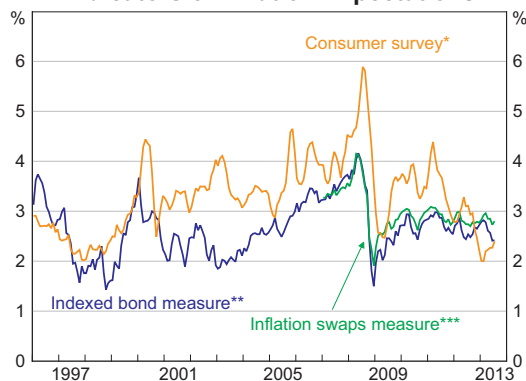
Graph 5.8
Industrial Disputes
Quarterly



Inflation Expectations

Measures of inflation expectations generally remain below their historical average levels (Graph 5.9, Table 5.2). Since the *May Statement*, market economists have revised down their expectations for inflation over 2013 and 2014, while union officials' forecasts for inflation over 2014 have also been revised down. Financial market measures of inflation expectations declined a little over the past few months, and remain below their historical average levels. The Melbourne Institute's measure of consumer inflation expectations has increased, but also remains low compared with its history.

Graph 5.9
Indicators of Inflation Expectations



* Three-month moving average of the trimmed mean expectation of inflation over the next year
 ** Break-even 10-year inflation rate on indexed bonds
 *** Expectations of average annual inflation over the next 10 years
 Sources: Bloomberg; Melbourne Institute of Applied Economic and Social Research; RBA

Table 5.2: Median Inflation Expectations
Per cent

	Year to December 2013			Year to December 2014	
	February 2013	May 2013	August 2013	May 2013	August 2013
Market economists	2.6	2.3	2.2	2.7	2.6
Union officials ^(a)	2.5	2.5	2.5	2.8	2.6

(a) Excluding carbon price

Sources: RBA; Workplace Research Centre