



RESERVE BANK OF AUSTRALIA

# Inflation (and what drives it)

## From the Bank: Tomas Cokis (Economic Analysis)

Education



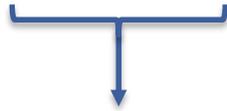
# Inflation

*“How much prices are changing for things household spend on”*



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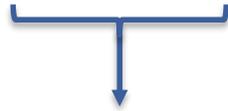


Usually over a  
quarter or year

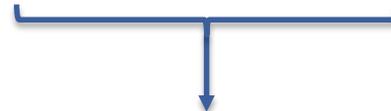


# Inflation

*“How much prices are changing for things household spend on”*



Usually over a  
quarter or year



Not businesses



## The Consumer Price Index



Housing	Recreation & culture	Household Furnishings...	Health	Education	Communication
Food	Transport	Alcohol	Insurance & financial	Clothing and footwear	



# A worked example...

Items	2016
	\$20
	\$30





# A worked example...

Items	2016	2017
	\$20	\$20.50
	\$30	\$31.41



# A worked example...

Items	2016	2017	Inflation
	\$20	\$20.50	2.5%
	\$30	\$31.41	4.7%





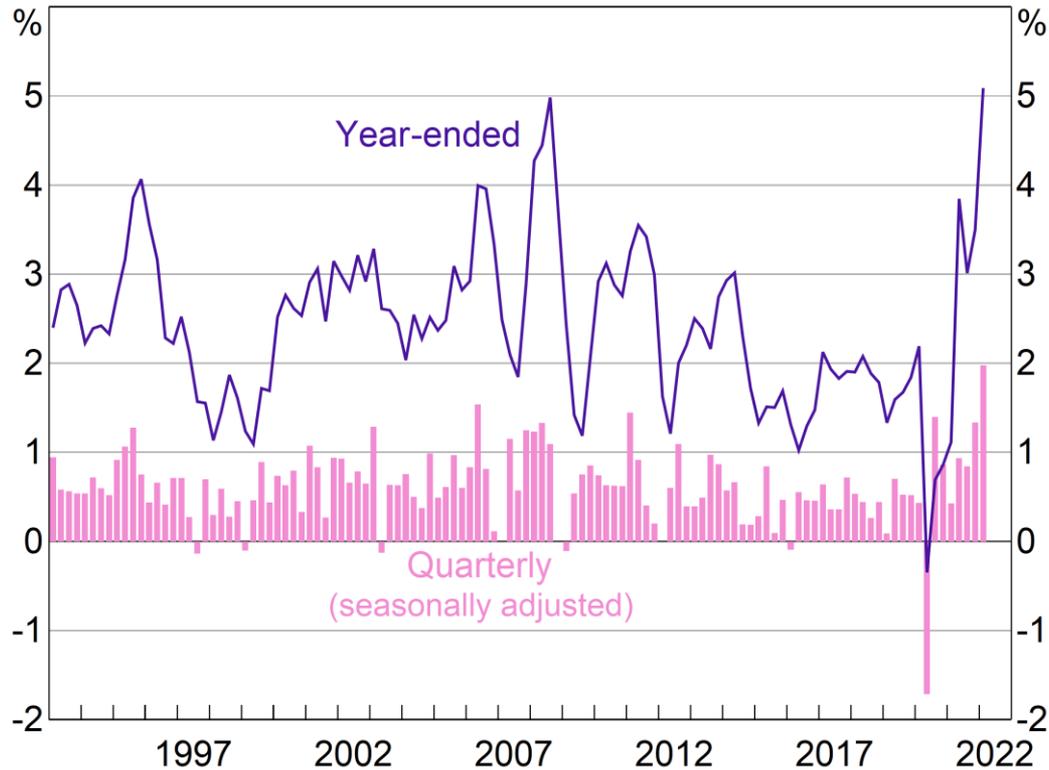
# Details and limitations

- *Quality adjustment*
- *Changing weights*
- *Substitution bias*
- *Location and averaging*





## Consumer Price Inflation\*



\* Excludes interest charges prior to the September quarter of 1998; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA

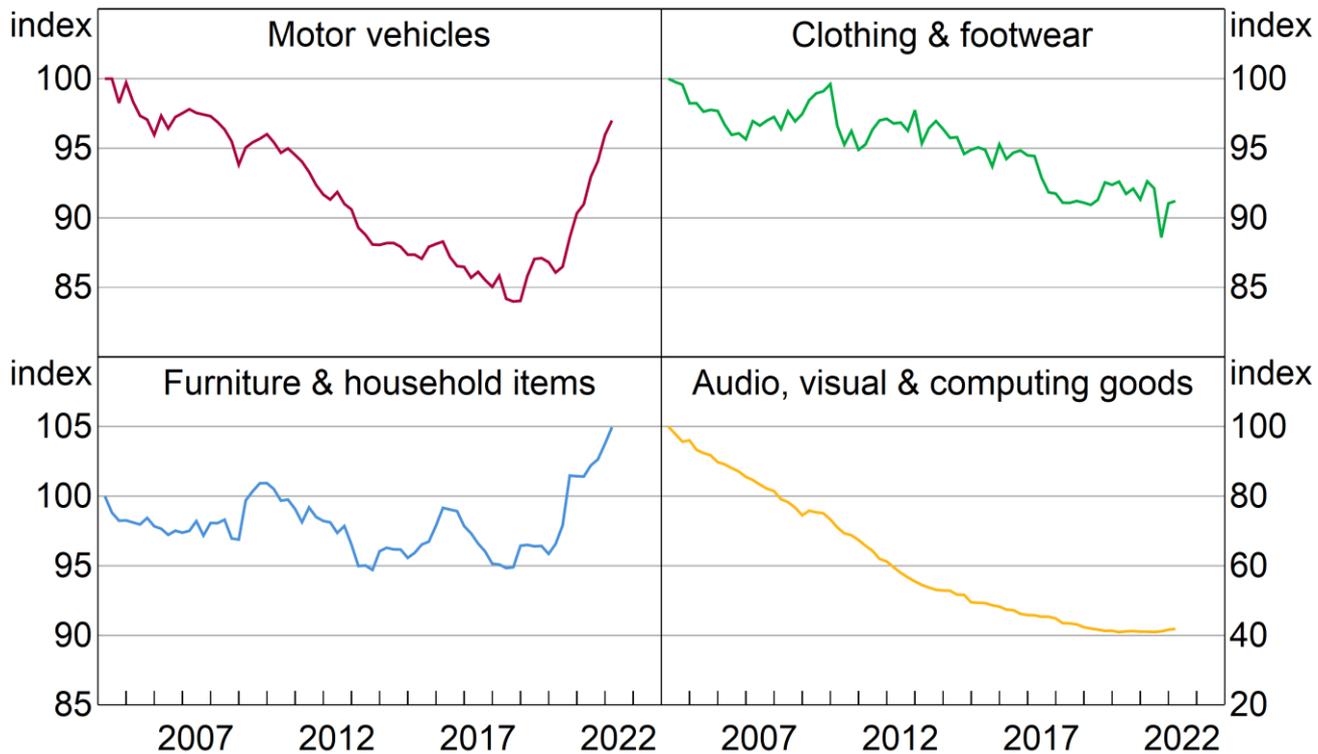


- Durable and other retail items
- Groceries
- Housing
- Market services
- Administered prices



# Durable Goods Inflation

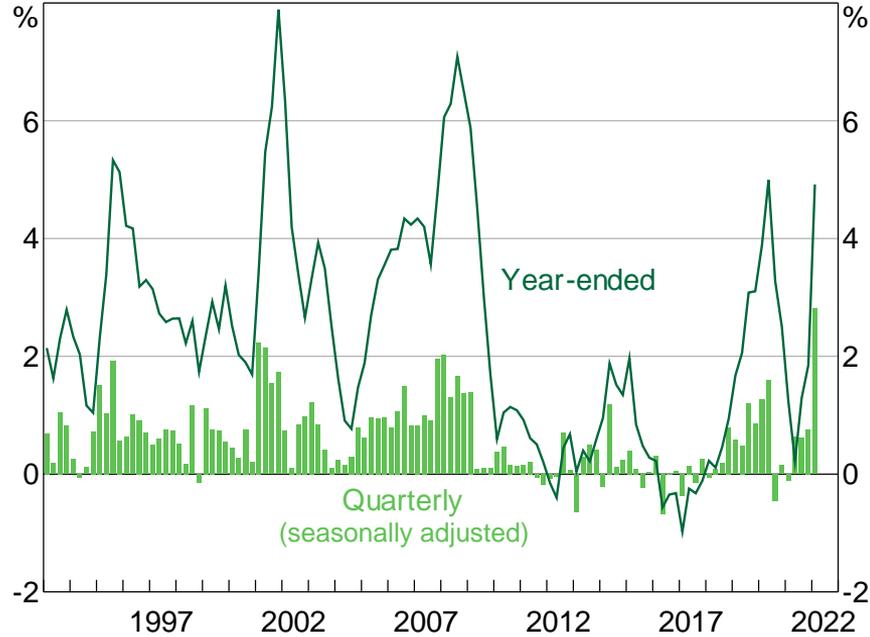
March 2004 = 100



Sources: ABS; RBA



## Grocery Price Inflation\*

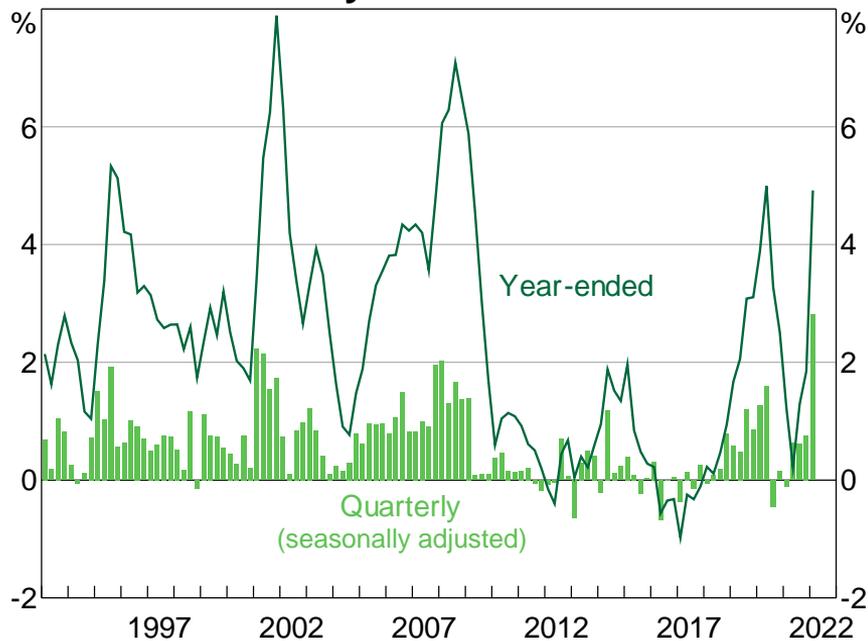


\* Excludes fruit & vegetables; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA



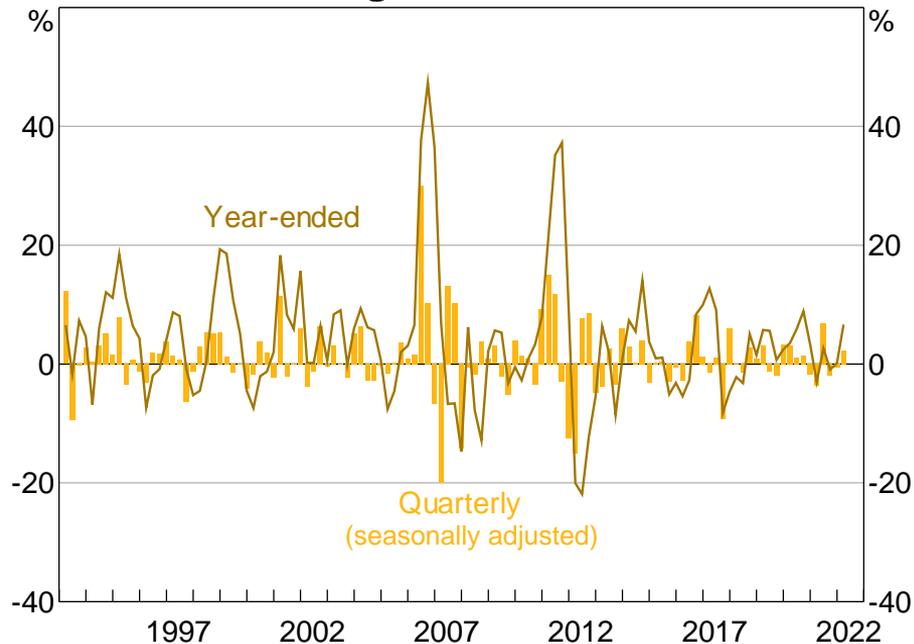
## Grocery Price Inflation\*



\* Excludes fruit & vegetables; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA

## Fruit and Vegetable Price Inflation



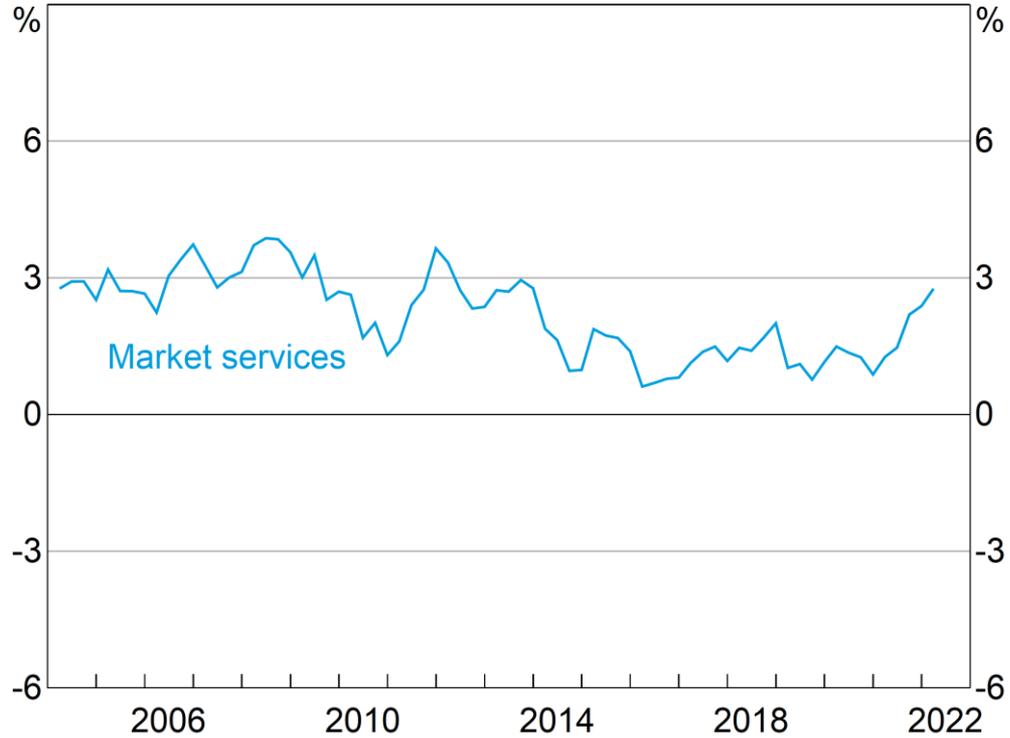
\* Adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA



# Market and Administered Inflation

Year-ended

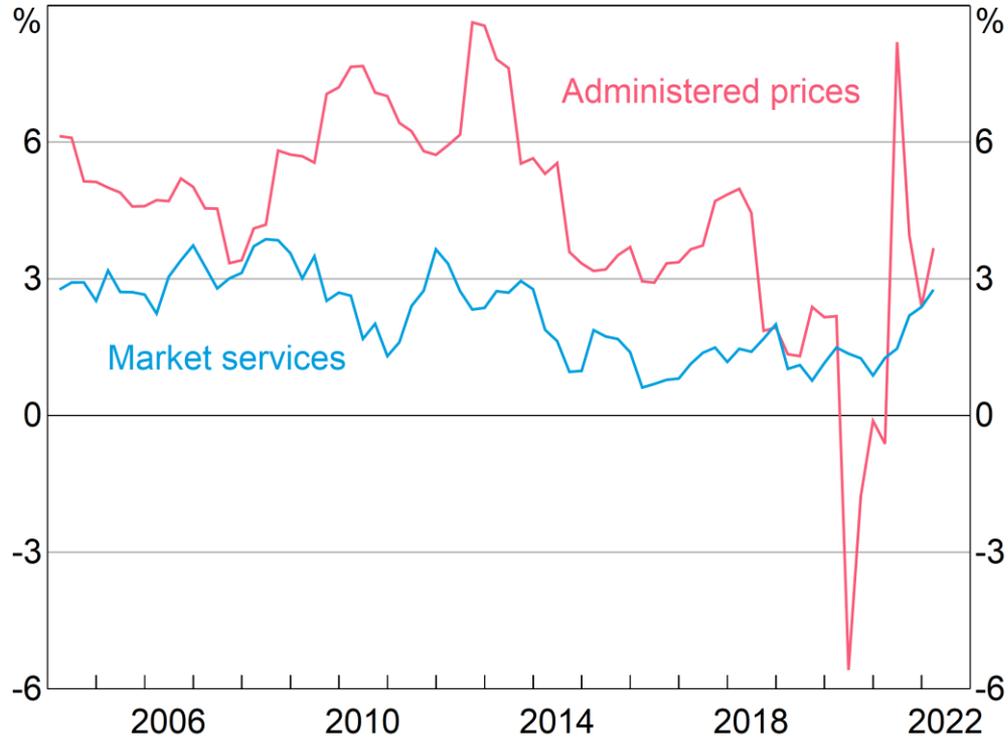


Sources: ABS; RBA



# Market and Administered Inflation

Year-ended

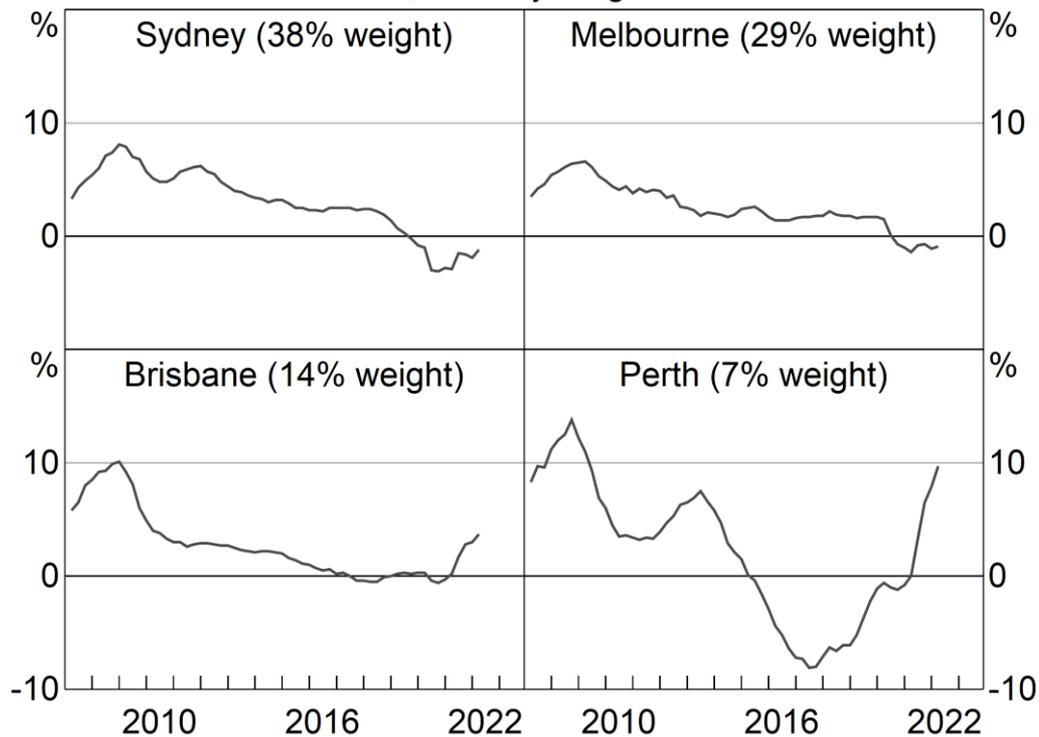


Sources: ABS; RBA



# Rent Inflation

Year-ended, with city weights indicated

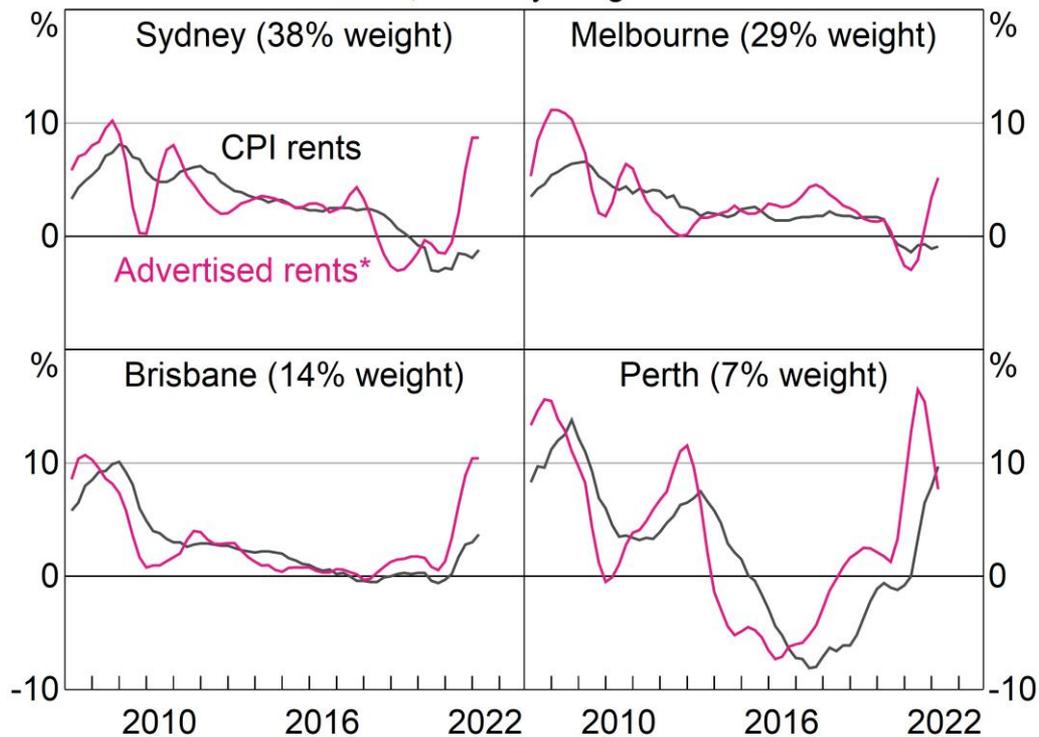


Sources: ABS; CoreLogic; RBA



# Rent Inflation

Year-ended, with city weights indicated

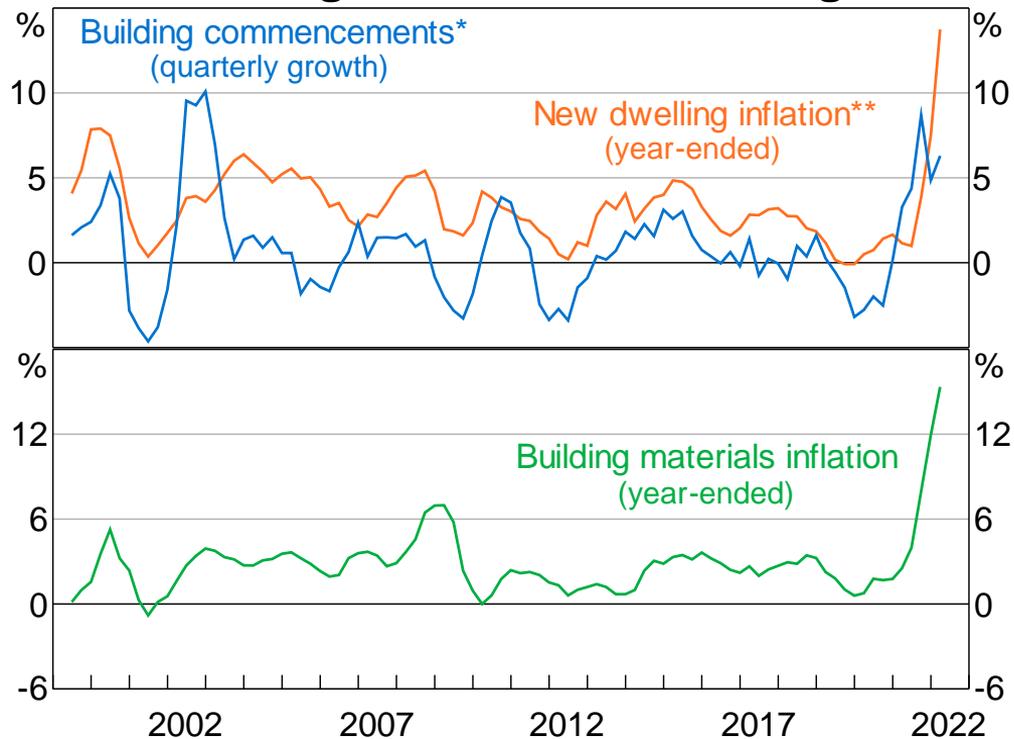


\* Hedonic three-month average.

Sources: ABS; CoreLogic; RBA



## New Dwelling Inflation and Building Costs



\* Six-quarter average lagged by one quarter.

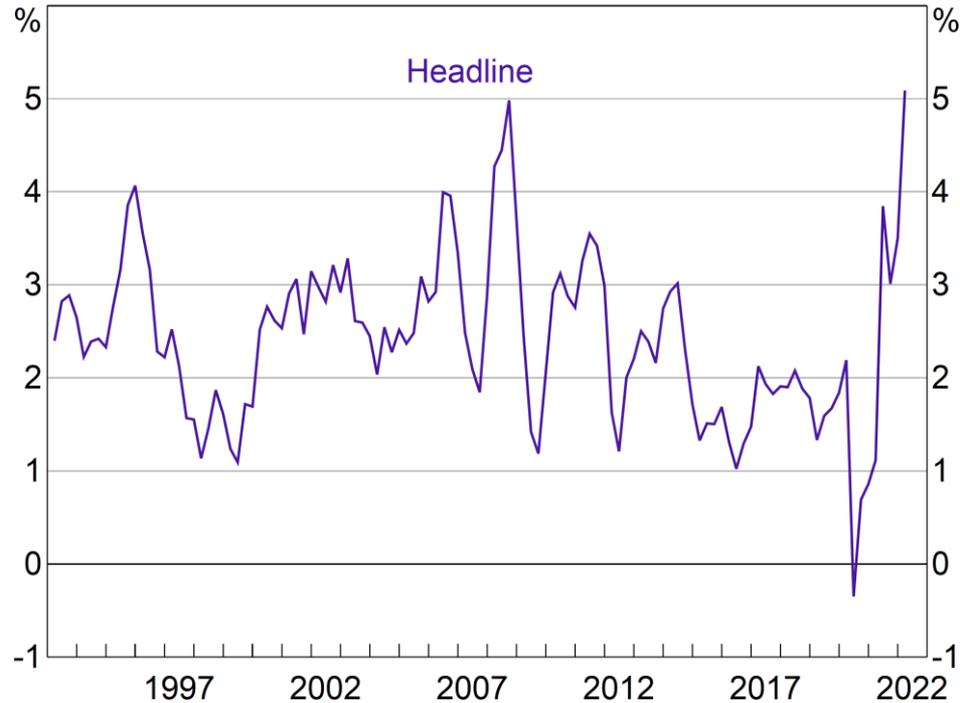
\*\* Adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA



## Consumer Price Inflation\*

Year-ended



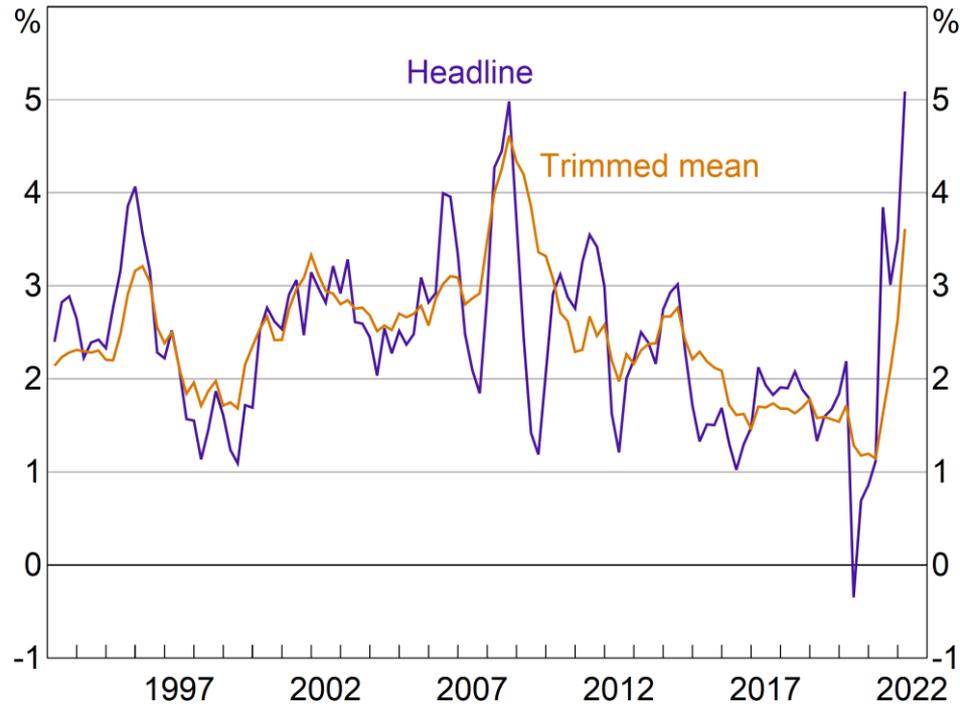
\* Excludes interest charges prior to the September quarter of 1998; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA



# Consumer Price Inflation\*

Year-ended



\* Excludes interest charges prior to the September quarter of 1998; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA



# Why target inflation?