

5. Price and Wage Developments

Recent Developments in Inflation

The quarterly rate of inflation slowed in the December quarter. On a seasonally adjusted basis, the consumer price index (CPI) rose by 0.5 per cent, following a 1.2 per cent increase in the September quarter, to be 2.2 per cent higher over the year (Graph 5.1, Table 5.1). Lower inflation in the quarter largely reflected the absence of the one-off factors that had lifted inflation in the September quarter, notably the introduction of the carbon price and the means testing of private health insurance rebates. Inflation in the prices of both utilities and medical services eased in the December quarter. Inflation also slowed for new dwelling purchase costs and for a broad range of food items, with a pronounced fall

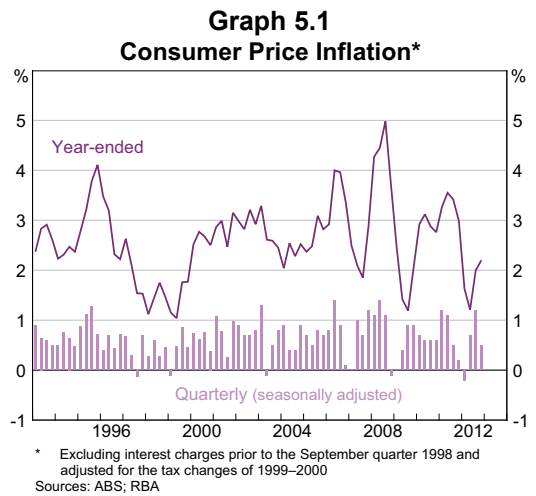


Table 5.1: Measures of Consumer Price Inflation
Per cent

	Quarterly ^(a)		Year-ended ^(b)	
	September quarter 2012	December quarter 2012	September quarter 2012	December quarter 2012
Consumer Price Index	1.4	0.2	2.0	2.2
Seasonally adjusted CPI	1.2	0.5	2.0	2.2
– Tradables	0.8	–0.3	–1.2	–0.4
– Tradables (excl volatile items and tobacco) ^(c)	0.1	–0.3	–0.8	–0.7
– Non-tradables	1.6	0.8	4.0	3.9
<i>Selected underlying measures</i>				
Trimmed mean	0.7	0.6	2.3	2.3
Weighted median	0.8	0.5	2.4	2.3
CPI excl volatile items ^(c)	1.1	0.5	2.4	2.4

(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

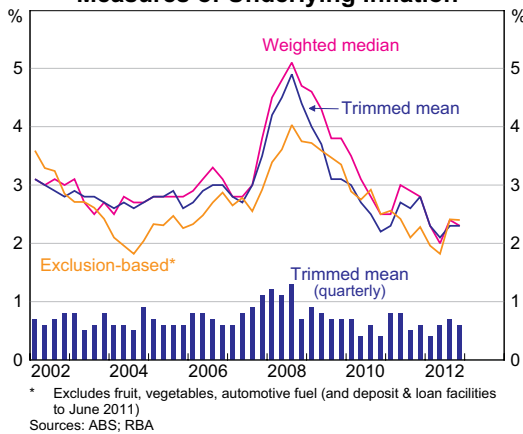
(c) Volatile items are fruit, vegetables and automotive fuel

Sources: ABS; RBA

in the prices of fruit and vegetables. This was partly offset by an increase in inflation for a number of market services, as well as an increase in the price of automotive fuel.

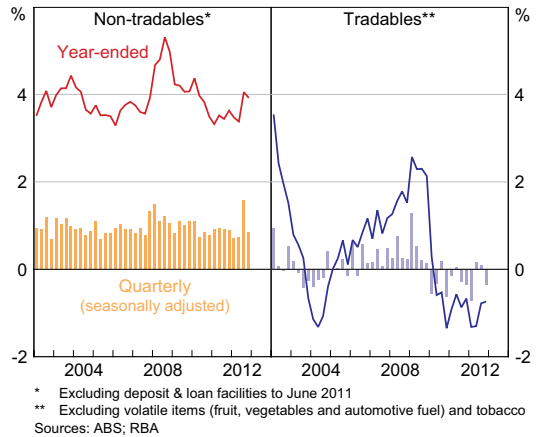
The various measures of underlying inflation were around ½ per cent in the December quarter. Underlying inflation was around 2¼ per cent in year-ended terms, unchanged from the September quarter (which was revised down slightly reflecting changes in seasonal adjustments) (Graph 5.2). Information from liaison contacts, and the pattern of price changes for different components of the CPI, are consistent with the earlier expectation that the introduction of the carbon price would be likely to have only a modest effect on measures of underlying inflation (see August 2012 *Statement*).

Graph 5.2
Measures of Underlying Inflation



Prices of non-tradable goods and services increased by 0.8 per cent in the December quarter, after rising by 1.6 per cent in the September quarter, to be 3.9 per cent higher over the year (Graph 5.3). Abstracting from the one-off policy changes that boosted the September quarter outcome, non-tradables inflation appears to have edged a little higher. This can largely be attributed to inflation in the prices of a range of market services, such as insurance & financial services, telecommunications, and domestic holiday travel & accommodation. The inflation of rents also ticked up, following an

Graph 5.3
Non-tradables and Tradables Inflation



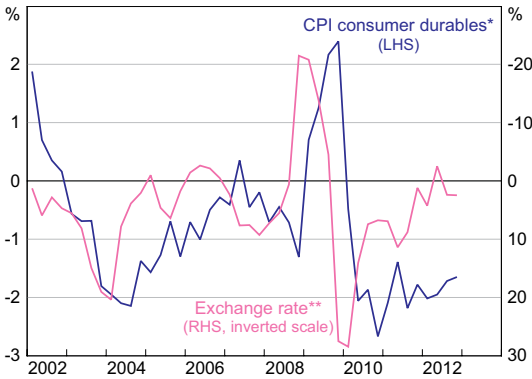
unusually low outcome in the September quarter. On the other hand, new dwelling cost inflation eased in the quarter, partly owing to changes in first home buyer grants available for new dwellings in several states.

Tradables prices (excluding volatile items and tobacco) declined by 0.3 per cent in the December quarter, following small increases in the previous two quarters. Prices fell for a range of traded food items in the quarter, while international holiday travel and accommodation prices, which tend to be volatile, also declined.

The pace of decline in consumer durables prices eased a little in the December quarter, reflecting a rise in prices of clothing accessories. Nevertheless, the decline in consumer durables prices remained more pronounced than that implied by the historical relationship with the exchange rate (Graph 5.4). In particular, the prices of audio, visual and computing equipment continued to decline significantly, while prices were also lower for household appliances. Overall, the recent falls in the retail prices of household electrical goods appear to have exceeded the declines in these goods' import prices.

Excluding the volatile fruit and vegetables component, quarterly food price inflation in the December quarter returned to its low levels of recent years. Inflation eased for a broad range of food items

Graph 5.4
Consumer Prices and the Exchange Rate
 Year-ended percentage change



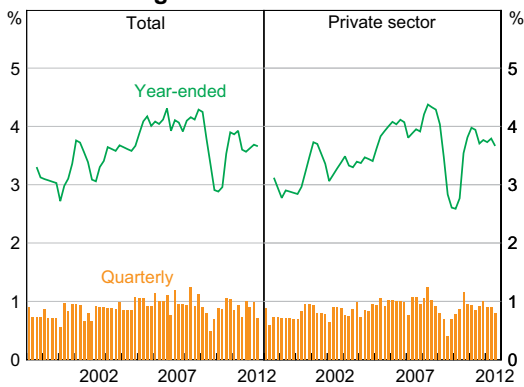
* Retail items (excluding food and alcohol) and motor vehicles and parts
 ** Import-weighted index
 Sources: ABS; RBA

in the quarter, including bread, dairy items and some meats. This is consistent with reports that supermarket competition is continuing to restrain price increases, partly through putting downward pressure on supplier costs.

Costs

Wage growth moderated a little in the September quarter, consistent with relatively subdued labour market conditions over the past year and reports from the Bank's liaison with firms. The wage price index rose by 0.7 per cent in the quarter, to be 3.7 per cent higher over the year (Graph 5.5). Part of the slowing can be attributed to the fact that the

Graph 5.5
Wage Price Index Growth

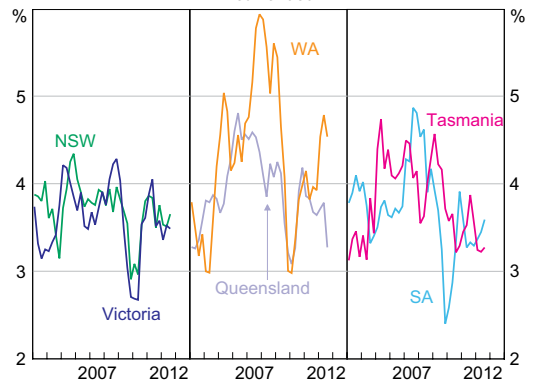


Source: ABS

annual award wage increase that came into effect in July was smaller than in the previous year. Wage growth in the private sector eased slightly over the year, with the decline most pronounced in industries more directly exposed to consumer demand, such as retail trade and household services. In contrast, wage growth in mining and professional & scientific services remained strong, notwithstanding signs of weakening demand for labour in these industries since the middle of 2012. Public sector wage growth remained below average in line with ongoing fiscal restraint at all levels of government.

Differences in state labour market conditions continue to be reflected in wage outcomes. Wage growth has been relatively low in Queensland and Tasmania, consistent with elevated unemployment rates in both states (Graph 5.6). Western Australia continued to experience faster wage growth than the other states, where wage growth generally remained stable at around or a little below decade averages.

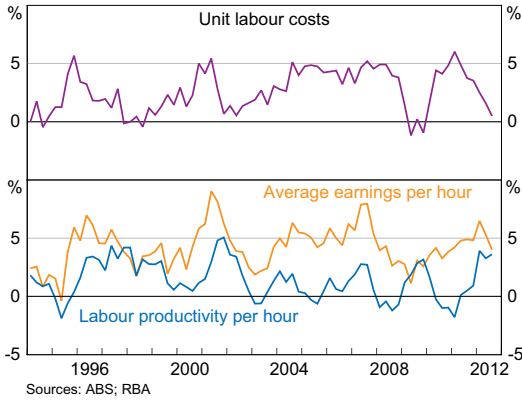
Graph 5.6
Wage Growth by State
 Year-ended



Source: ABS

Growth in unit labour costs continued to ease in the second half of 2012, reflecting slower growth in earnings and above-average growth in labour productivity (Graph 5.7). The increase in labour productivity growth in 2012 was broad based, with significant productivity improvements in the agriculture, wholesale trade, transport,

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



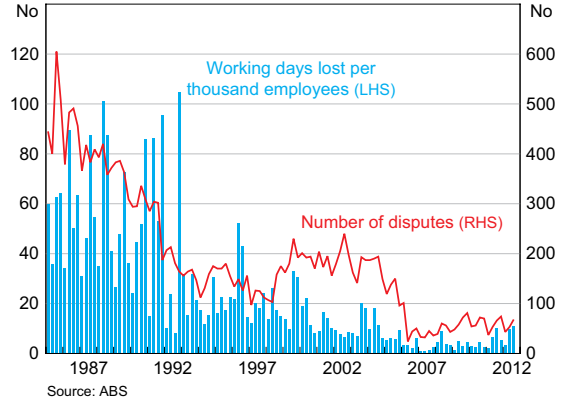
postal & warehousing and construction industries. The shift of employment into the mining sector over the past year has also made a significant contribution to aggregate labour productivity growth given that the level of labour productivity in mining remains well above the average for the economy as a whole.

Business surveys suggest that wage pressures eased further in the December quarter. Liaison with firms also indicates that there has been a pick-up in the share of firms expecting no growth in average wages over the year ahead, and that skills shortages and wage pressures in the resources sector have eased.

Following a moderate rise in the September quarter, producer price data suggest that domestic inflation pressures were subdued in the December quarter, consistent with the outcome for consumer price inflation.

ABS data suggest that the number of working days lost as a result of industrial disputes in the September quarter remained a little higher than the average of recent years but still well below its longer-run history (Graph 5.8). There was a pick-up in disputes in the construction industry, which accounted for two-fifths of working days lost in the quarter, while the number of working days lost in the education and healthcare industries declined.

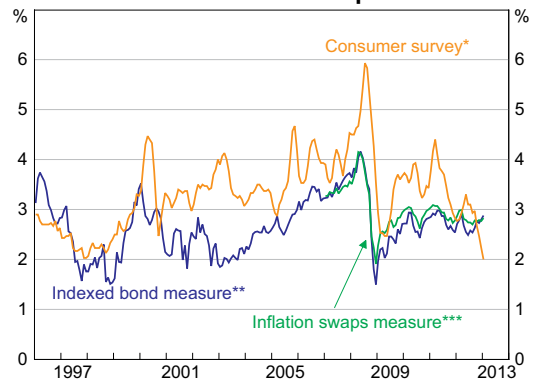
Graph 5.8
Industrial Disputes
Quarterly



Inflation Expectations

Measures of inflation expectations remain consistent with the inflation target. Since the November *Statement*, the near-term inflation expectations of union officials surveyed by the Bank, and market economists, are unchanged (Table 5.2). Financial market measures of inflation expectations have edged higher in recent months, although they remain around their long-run average levels (Graph 5.9). In contrast, the Melbourne Institute's measure of consumer inflation expectations, which tends to be volatile, has averaged 2 per cent in the three months to January, its lowest level since 1997. ❖

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	
	August 2012	November 2012	February 2013	November 2012	February 2013
Market economists	2.7	2.6	2.6	2.7	2.7
Union officials ^(a)	2.2	2.5	2.5	2.5	2.5

(a) Excluding carbon price

Sources: RBA; Workplace Research Centre

