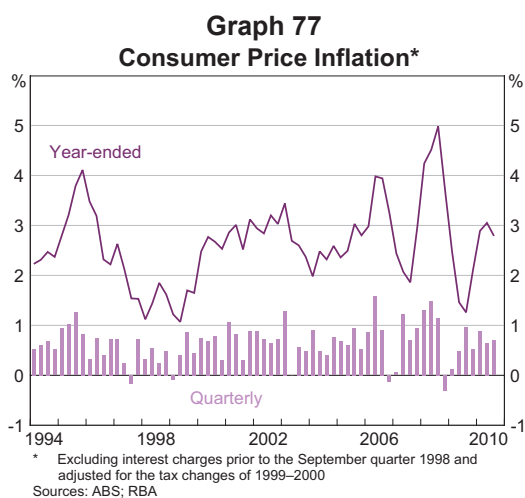


# Price and Wage Developments

## Recent Developments in Inflation

Over the past two years there has been a significant moderation in inflation, reflecting the easing in demand and capacity pressures in late 2008 and 2009, as well as the slowing in wage growth and the exchange rate appreciation over 2009.

The consumer price index (CPI) increased by 0.7 per cent in the September quarter, to be 2.8 per cent higher over the year (Graph 77, Table 12). In the quarter there were significant increases in the prices of utilities, tobacco (partly reflecting the remaining effects of the tobacco excise increase in late April) and property rates & charges, as well as a solid rise in rents. These were partly offset by sharp falls in the prices of automotive fuel, vegetables and audio,

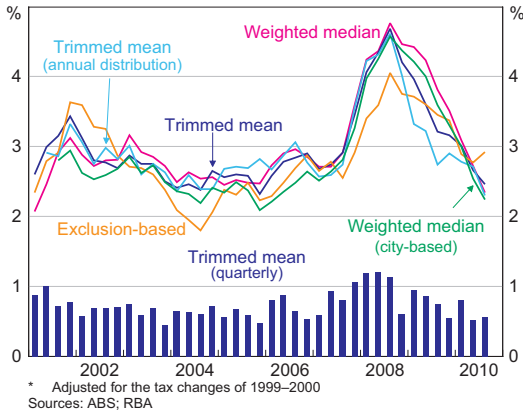


**Table 12: Measures of Consumer Price Inflation**  
Per cent

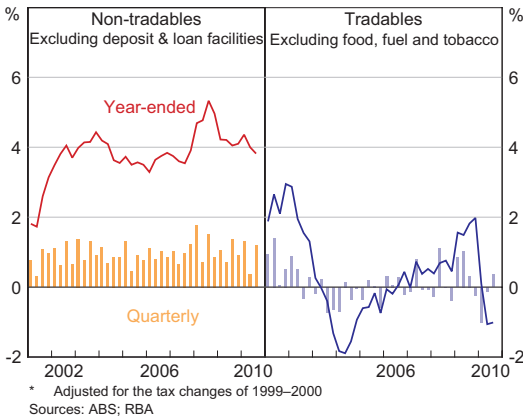
	Quarterly		Year-ended	
	June quarter 2010	September quarter 2010	June quarter 2010	September quarter 2010
CPI	0.6	0.7	3.1	2.8
– Tradables	1.0	0.2	1.4	1.4
– Tradables (excl food, fuel and tobacco)	–0.1	0.4	–1.1	–1.0
– Non-tradables (excl deposit & loan facilities)	0.4	1.2	4.0	3.8
<i>Selected underlying measures</i>				
Trimmed mean	0.5	0.6	2.7	2.5
Weighted median	0.5	0.5	2.7	2.3
CPI excl volatile items <sup>(a)</sup> and deposit & loan facilities	0.7	1.1	2.8	2.9

(a) Volatile items are fruit, vegetables and automotive fuel  
Sources: ABS; RBA

**Graph 78**  
**Consumer Price Inflation\***



**Graph 79**  
**Consumer Price Inflation\***



visual & computing equipment, as well as a seasonal fall in pharmaceutical costs. The quarterly outcome was lower than had been expected at the time of the *August Statement*. This mostly reflected the unanticipated large price declines in the volatile petrol and vegetable components. There was also a smaller-than-expected increase in the price of deposit & loan facilities.

Based on a range of measures, underlying inflation is estimated to have been around ½ per cent in the September quarter. The trimmed mean and weighted median measures were 0.6 per cent and 0.5 per cent respectively. The CPI excluding volatile

items and deposit & loan facilities measure was higher at 1.1 per cent, although this difference largely reflects the effects of the tobacco excise and seasonal influences. In year-ended terms, underlying inflation is estimated to have moderated to around 2½ per cent (Graph 78). This is the lowest outcome since 2005 and around 2 percentage points below the peak in late 2008. The proportion of expenditure classes recording annualised price rises of more than 2.5 per cent (by weight and seasonally adjusted) remained at around 40 per cent in the September quarter, which is low relative to outcomes over the past decade. Underlying inflation is expected to remain around 2½ per cent until mid next year, before rising gradually as the inflationary effects of stronger domestic growth and the tightening labour market outweigh the dampening influence on consumer import prices of the higher exchange rate (see the ‘Economic Outlook’ chapter for further discussion).

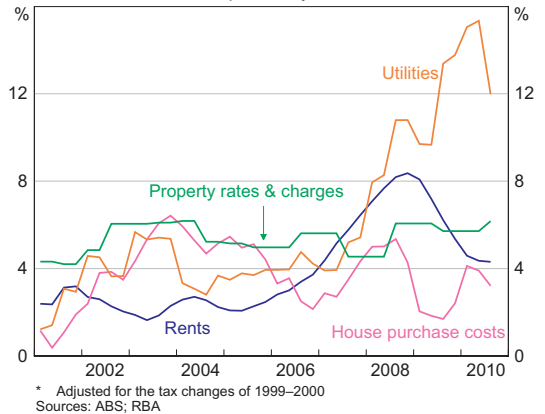
Non-tradables inflation (excluding deposit & loan facilities) remained firm at 1.2 per cent in the September quarter, although this was boosted by seasonal effects (Graph 79). The year-ended rate eased to 3.8 per cent – its slowest pace since late 2007, and substantially below its peak of 5.3 per cent a couple of years ago – although the disinflationary effects of the earlier easing in demand and wage growth mostly appear to have passed. Housing-related costs continued to rise strongly, increasing by 2.3 per cent in the quarter and 5.2 per cent over the year. Utilities price inflation has been particularly strong at around 10–15 per cent in year-ended terms for the past couple of years (Graph 80). These large utilities price increases reflect a number of factors, including the need to significantly increase investment – both to replace ageing infrastructure and expand capacity – and, to a lesser extent, rising input costs for generation fuels and infrastructure inputs, including steel. Property rates also continued to rise strongly, following the annual reset of prices in July. The quarterly rate of rent inflation remained solid at 1.1 per cent, after easing between mid 2008 and late 2009,

and is expected to pick up gradually, reflecting low rental vacancy rates in most capital cities. Inflation in house purchase costs eased slightly in the quarter to 0.5 per cent, following a modest 0.6 per cent rise in the June quarter.

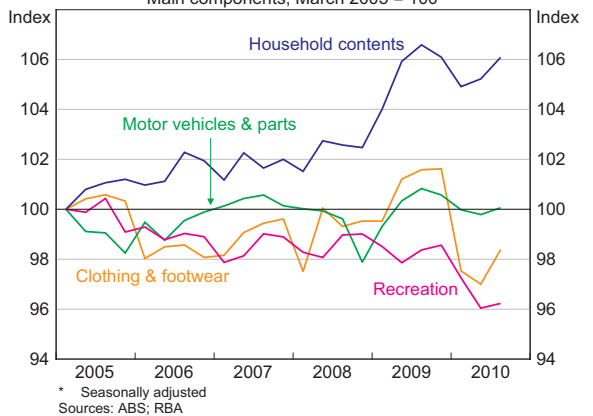
Tradables prices (excluding food and fuel) rose by 1.1 per cent in the September quarter, to be 1.4 per cent higher over the year. However, inflation in tradables prices over the past two quarters has been significantly affected by higher tobacco prices, partly due to the 25 per cent increase in the tobacco excise in late April. Excluding tobacco (and food and fuel), tradables prices rose by 0.4 per cent in the quarter – and declined by 1.0 per cent over the year – with the quarterly increase reflecting a pick-up in prices for items such as clothing & footwear, household contents and, to a lesser extent, motor vehicles (Graph 81). In recent quarters, free-on-board import prices for some of these items have risen in foreign currency terms, and the disinflationary effects of the tariff cuts (for clothing & footwear and motor vehicles & parts, effective from 1 January) appear to have mostly passed. However, the further appreciation of the exchange rate in recent months is expected to exert downward pressure on tradables prices in coming quarters.

Inflation in food prices has been subdued since mid 2009 (Graph 82). Prices have declined in four of the past six quarters, and year-ended inflation is low relative to outcomes over the past 15 years. The moderation in food price inflation has been driven by a number of factors, including favourable seasonal conditions, the appreciation of the exchange rate in 2009, and the earlier easing in demand pressures, while the Bank’s liaison also suggests that there has been significant competition amongst retailers. However, looking forward, strong increases in the global prices of some food commodities in recent months (as discussed in the ‘International Economic Developments’ chapter) are likely to exert upward pressure on food prices in coming quarters.

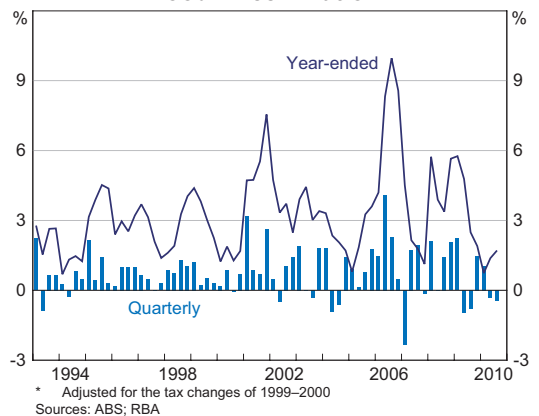
**Graph 80**  
**Housing Cost Inflation\***  
Main components, year-ended



**Graph 81**  
**Tradables Prices\***  
Main components, March 2005 = 100



**Graph 82**  
**Food Price Inflation\***

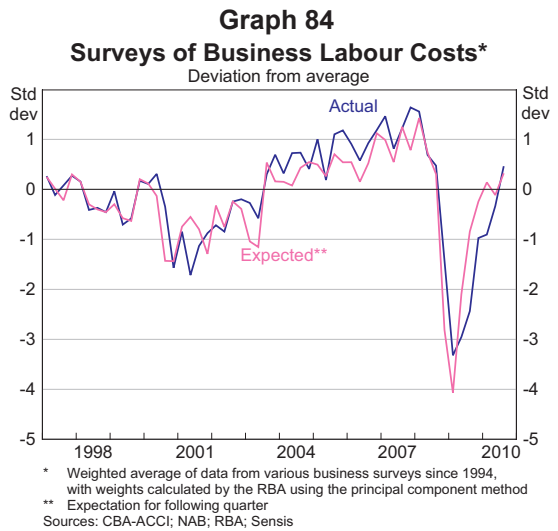
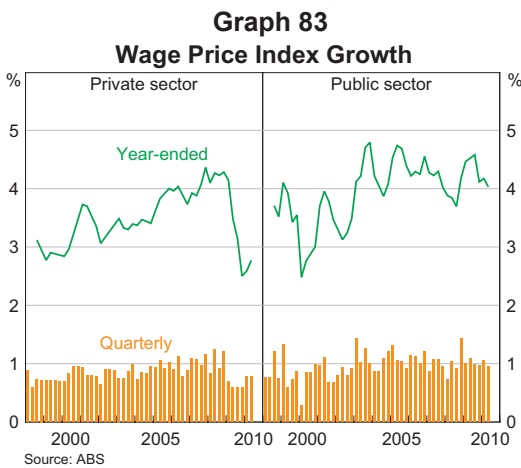


## Costs

Labour cost growth has picked up during 2010 – consistent with the improvement in labour market conditions – following the low outcomes in 2009. The overall wage price index (WPI) increased at an annualised rate of 3.3 per cent over the first half of 2010, which is modestly below the average since 1997, following growth of 2.9 per cent over 2009. In the private-sector, the WPI increased at an annualised rate of 3.2 per cent over the first half of 2010, which is also modestly below its average pace (Graph 83). Solid outcomes have been recorded in the mining

industry, which is consistent with relatively high wage growth in Western Australia, as well as in the utilities industry (Table 13). Public-sector wages continued to grow at a solid pace, to be 4.0 per cent higher over the year.

Business surveys and the Bank's liaison suggest that average labour cost growth has increased a little further recently, to around its average pace (Graph 84). This recent pick-up partly reflects the timing of the minimum wage increase – which came



**Table 13: Wage Price Index Growth by State**  
Per cent

	2009	2010 <sup>(a)</sup> (annualised)
New South Wales	2.9	3.3
Victoria	2.7	2.7
Queensland	3.2	3.8
South Australia	2.4	3.9
Western Australia	3.0	4.1
Tasmania	3.7	3.6
Australia	2.9	3.3

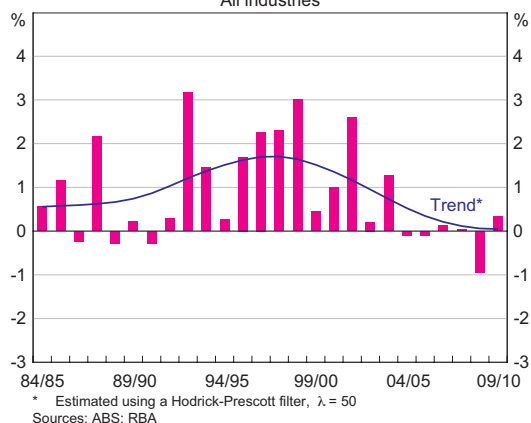
(a) State data are seasonally adjusted by the RBA  
Sources: ABS; RBA

into effect on 1 July – as well as continued strength in the labour market. Despite the relatively strong labour market, firms are generally reporting that they are still able to hire employees without too much difficulty; according to survey data, the difficulty of obtaining suitable labour has risen to a little above average levels, though it remains well below its level prior to the downturn. There have, however, been reports of skills shortages in mining-related occupations and in some specialised professions.

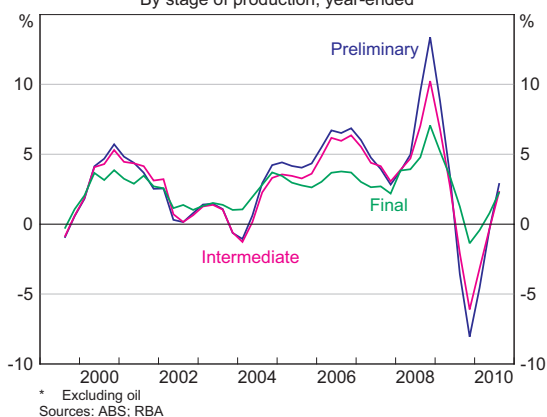
Multifactor productivity is estimated to have risen modestly in 2009/10, after declining in the previous year (Graph 85). However, multifactor productivity growth has generally been weak since the early 2000s. Estimated labour productivity growth has been quite low in recent quarters, and combined with the pick-up in wage growth, implies that growth in labour costs per unit of output has increased, following significant weakness over 2009.

Producer price data suggest that inflation has picked up at the various stages of production over 2010, following weak outcomes over 2009 (Graph 86). Producer prices (excluding oil) rose by a little less than 1½ per cent at each stage of production in the September quarter. Solid outcomes were recorded for domestic prices, with the pace of inflation picking up in the quarter at all stages. Imported producer price inflation has also firmed over 2010, following significant deflation over 2009. Large price increases for resource and rural commodities are exerting upward pressure on producer prices, along with price rises for utilities and non-residential construction. In contrast, manufacturing prices fell slightly in the September quarter.

**Graph 85**  
**Multifactor Productivity Growth**  
All industries



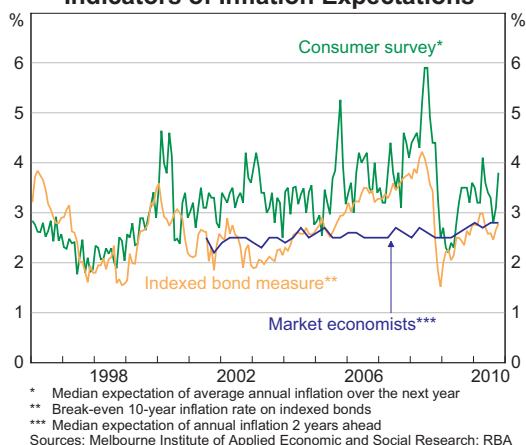
**Graph 86**  
**Producer Price Inflation\***  
By stage of production, year-ended



## Inflation Expectations

Measures of inflation expectations are generally consistent with the medium-term inflation target. Following the release of the September quarter CPI, which was lower than market expectations, market economists surveyed by the Bank revised down their near-term inflation forecasts marginally, although inflation is expected to remain towards the top of the medium-term target over the next couple of years (Graph 87, Table 14). Union officials have lowered their expectations slightly for the next couple of years, but their medium-term expectations are unchanged. Medium-term inflation expectations derived from financial markets have risen modestly, with the indexed bond measure now around its average over the inflation-targeting period. The Melbourne Institute’s measure of consumer inflation expectations for the year ahead has picked up in recent months, although this is a volatile series. Business survey measures of expected selling prices in the near term remain around or below average levels.

**Graph 87**  
**Indicators of Inflation Expectations**



**Table 14: Median Inflation Expectations**  
Per cent

	Year to June 2011			Year to June 2012	
	May 2010	August 2010	November 2010	August 2010	November 2010
Market economists <sup>(a)</sup>	3.0	3.2	3.0	2.8	3.1
Union officials <sup>(b)</sup>	3.0	3.0	3.0	3.2	3.0

(a) RBA survey

(b) Workplace Research Centre