

5. Price and Wage Developments

Recent Developments in Inflation

The rate of inflation picked up in the September quarter from the low level recorded in the June quarter. On a seasonally adjusted basis, the consumer price index (CPI) rose by 1.2 per cent in the quarter, to be 2.0 per cent higher over the year (Table 5.1; Graph 5.1). Some of the strength in the quarterly outcome can be attributed to one-off policy changes, in particular the introduction of the carbon price and the means testing of private health insurance rebates. Volatile items made a small positive contribution to the headline outcome, with a large increase in fruit and vegetable prices partly offset by a decline in the price of automotive fuel. The quarterly rate of inflation also picked up for a broad range of food items and for new dwelling prices.

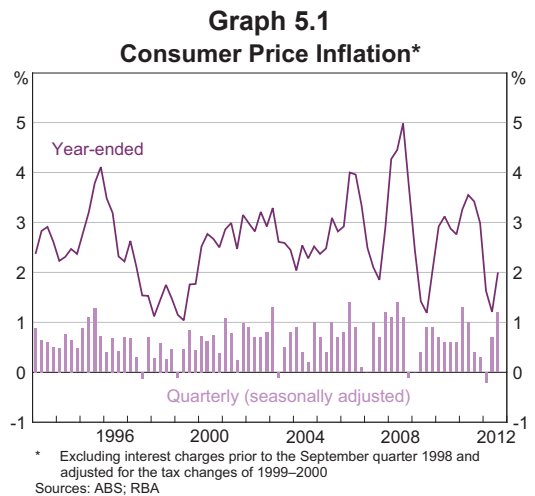


Table 5.1: Measures of Consumer Price Inflation
Per cent

	Quarterly ^(a)		Year-ended ^(b)	
	June quarter 2012	September quarter 2012	June quarter 2012	September quarter 2012
Consumer Price Index	0.5	1.4	1.2	2.0
Seasonally adjusted CPI	0.7	1.2	1.2	2.0
– Tradables	0.6	0.7	–2.0	–1.2
– Tradables (excl volatile items and tobacco) ^(c)	0.2	0.1	–1.3	–0.8
– Non-tradables	0.7	1.5	3.4	4.0
<i>Selected underlying measures</i>				
Trimmed mean	0.6	0.7	2.0	2.4
Weighted median	0.7	0.8	2.2	2.6
CPI excl volatile items ^(c)	0.6	1.0	1.8	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

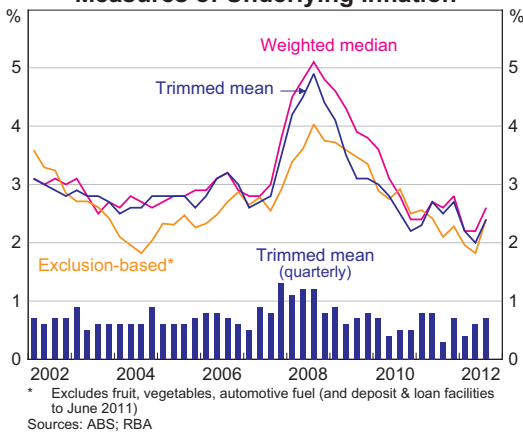
(b) Year-ended changes are based on non-seasonally adjusted data, except for the trimmed mean and weighted median

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

Sources: ABS; RBA

The published measures of underlying inflation were around ¾ per cent in the September quarter, while revisions due to seasonal adjustment suggest that underlying inflation in the year to the June quarter was also a little stronger than previously indicated. The rate of underlying inflation over the past year is assessed to have been around 2½ per cent (Graph 5.2). This is ½ percentage point higher than the assessment of underlying inflation three months ago.

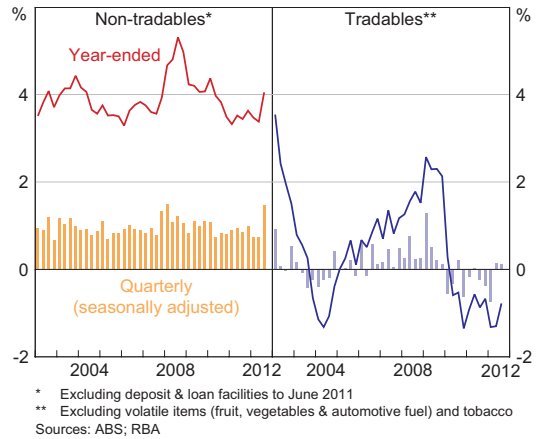
Graph 5.2
Measures of Underlying Inflation



The prices of non-tradable goods and services increased by 1.5 per cent in the quarter, with the year-ended pace picking up to 4 per cent (Graph 5.3), reflecting the effect of the carbon price on utilities prices and the policy changes for health insurance. Abstracting from these effects, the pace of non-tradables inflation appears to have picked up slightly in the quarter. Faster increases in the prices of new dwellings and some non-traded food items were only partly offset by slower growth in rents and the prices of some services, including domestic travel and child care.

Housing costs rose sharply in the quarter, with a particularly large increase in utilities prices, while inflation in new dwelling prices picked up from the very soft outcome in recent quarters. The increase in utilities prices reflected large increases in electricity and gas prices, in part due to the introduction of the

Graph 5.3
Consumer Price Inflation



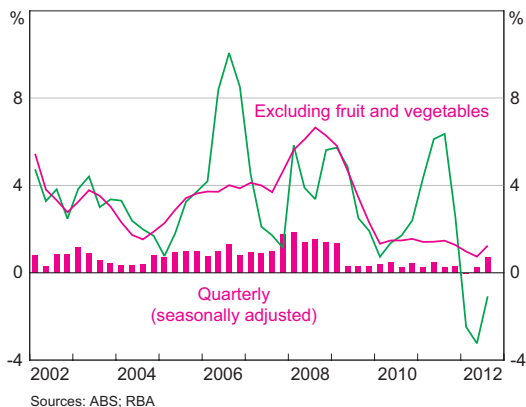
carbon price, but also as a result of ongoing increases in other costs (see 'Box D: Recent Developments in Utilities Prices'). New dwelling price inflation picked up in the quarter despite continued softness in residential building activity. Liaison suggests that the increase in new dwelling prices only partly reflects the pass-through of higher costs due to the carbon price. In contrast to the other housing items, rent inflation, which has been strong for some time and tends to be quite persistent, slowed unexpectedly in the quarter.

Tradables prices (excluding volatile items and tobacco) rose by 0.1 per cent in the September quarter. Consistent with previous episodes, the increases in tradables prices over the past two quarters provide some confirmation that the deflationary effect of the earlier exchange rate appreciation has waned, although inflation in tradables prices overall remains subdued. International holiday travel and accommodation prices increased substantially in the September quarter, along with the prices of a few traded food items. The pace of tradables inflation continued to be weighed down by soft consumer durables prices in the quarter.

There was a sizeable increase in fruit and vegetable prices in the quarter owing to unfavourable growing conditions in some regions. There was also a

broad-based pick up in inflation for other food items in the quarter, with pronounced increases in the prices of bread & cereal products and dairy items (Graph 5.4). This pick-up is somewhat at odds with ongoing reports that major supermarkets have persisted with their discounting strategies.

**Graph 5.4
Food Price Inflation**

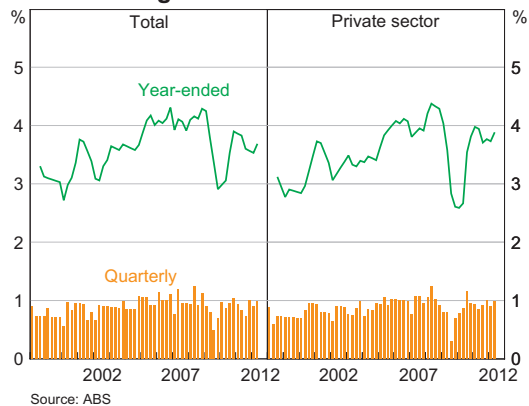


Costs

The pace of wage growth appears to be broadly unchanged over recent quarters, despite the slowing in the labour market seen over the past year or so. According to the wage price index, wages increased by 3.7 per cent over the year to the June quarter, around the average of the past decade (Graph 5.5). Wage growth in the private sector was 3.9 per cent over the year, driven by wage growth in industries such as mining and professional & scientific services, which was partly offset by slowing wage growth in retail and household services. The more subdued pace of wage growth in these latter industries, which are more directly tied to consumer demand, suggests that wage pressures that feed directly into consumer prices may be more muted than the aggregate wage outcomes suggest. Public sector wage growth picked up in the June quarter, but year-ended growth remained relatively subdued following softer outcomes in 2011.

Differences in labour market conditions between states continue to affect wage outcomes. Wages in

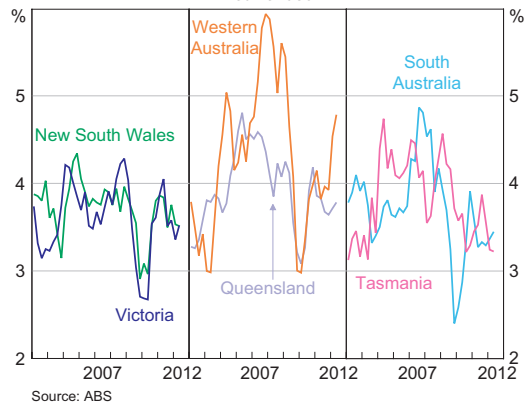
**Graph 5.5
Wage Price Index Growth**



Western Australia have been growing faster than in the other states with the relative strength in wage growth in Western Australia broad based across industries (Graph 5.6). In other states, wage growth remained around or a little below the averages of the past decade.

Data from business surveys suggest that the outlook for wage growth has moderated since early 2011, while labour shortages remain contained. Liaison with firms indicates that there was a slight easing in wage pressures in the September quarter. Although recent business surveys have reported a pick-up in wage growth, some of this is likely to be attributable to the annual award wage increase in July.

**Graph 5.6
Wage Growth by State
Year-ended**

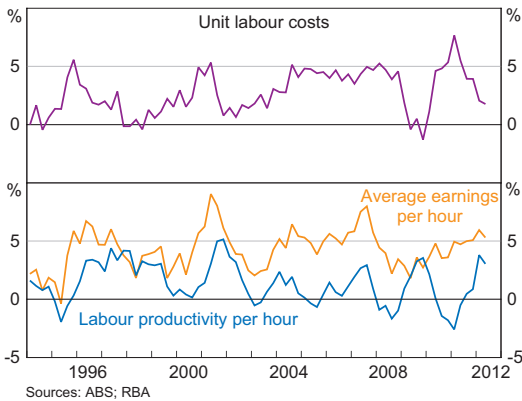


Growth in unit labour costs over the year eased slightly in the June quarter, to be close to average levels (Graph 5.7). The pace of growth in average earnings slowed in the June quarter, although year-ended growth remains relatively high. However, this has been offset by strong growth in labour productivity over the year.

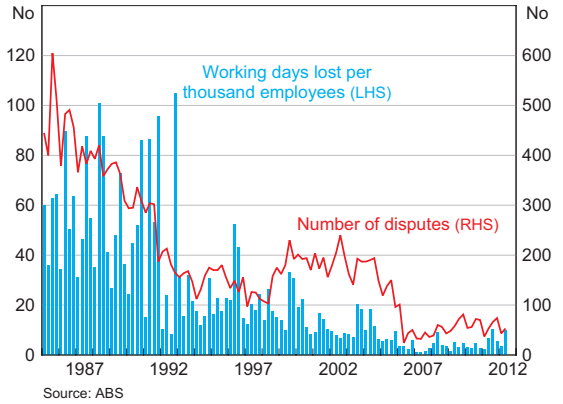
Producer price data suggest that domestic inflation pressures rose moderately in the September quarter, with some of the pick-up in final stage domestic prices attributable to higher utilities prices.

ABS data on industrial disputes suggest that the number of working days lost per thousand employees increased in the June quarter, while there was a smaller pick up in the number of industrial disputes. Nevertheless, both series remain low relative to their longer history (Graph 5.8). Disputes in the education and healthcare industries accounted for around two-thirds of all working days lost, reflecting public sector disputes in Victoria and New South Wales.

Graph 5.7
Unit Labour Costs Growth
Year-ended, non-farm



Graph 5.8
Industrial Disputes
Quarterly



Inflation Expectations

Measures of inflation expectations remain consistent with the inflation target. Since the August *Statement*, union officials surveyed by the Bank have revised up their near-term inflation expectations moderately, while market economists' inflation expectations have remained unchanged (Table 5.2). Surveys of businesses, which include producers and retailers, continue to point to subdued expectations for inflation in output prices. Consumer inflation expectations – as measured by the Melbourne Institute – have been below their average over the inflation-targeting period in recent months (Graph 5.9). Financial market measures increased slightly over the quarter.

Graph 5.9
Indicators of Inflation Expectations

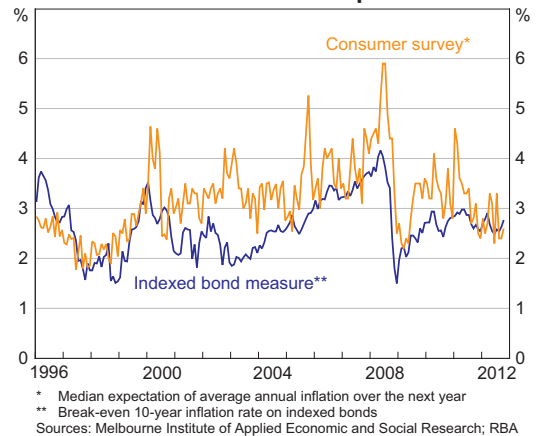


Table 5.2: Median Inflation Expectations
Per cent

	Year to June 2013			Year to June 2014	
	May 2012	August 2012	November 2012	August 2012	November 2012
Market economists	3.4	3.4	3.4	2.7	2.7
Union officials ^(a)	2.4	2.0	2.5	2.5	2.5

(a) Excluding carbon price

Sources: RBA; Workplace Research Centre