4. Inflation

Inflation declined by more than expected in the June quarter, though it remains high and broadly based. An easing in global upstream cost pressures and a moderation in domestic demand led to a notable decline in goods price inflation in the quarter. However, services inflation remained strong and rent inflation has increased in response to tight conditions in the rental market. Measures of short-term inflation expectations have moved lower in recent months alongside the decline in inflation, though they remain elevated. Most measures of medium- and long-term inflation expectations remain consistent with the inflation target.

Wages growth reached its highest rate in a decade in the March quarter, driven by a tight labour market, high inflation and the implementation of some new public sector wage policies. Timely indicators suggest that wages growth remained steady over the June quarter ahead of the Fair Work Commission (FWC) decision taking effect in the September quarter. Growth in broad measures of labour costs have been stronger than growth in base wages as firms continued to use bonus payments to attract or retain staff and to compensate for cost-of-living pressures. Unit labour costs increased at their strongest pace in several decades (outside of the pandemic period) as productivity growth continued to be weak.

Inflation eased further in the June quarter

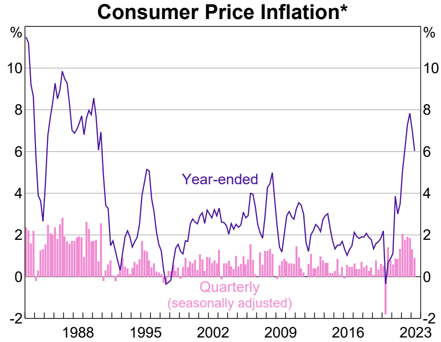
The Consumer Price Index (CPI) increased by 0.9 per cent in the June quarter (in seasonally adjusted terms) and by 6 per cent over the year; this was less than expected three months ago. As such, inflation continued to decline from its peak of 7.8 per cent in the December quarter of 2022 but remains high (Graph 4.1; Table 4.1).

High inflation continues to be broadly based, with a wide range of items having contributed to inflationary pressures over the past year (Graph 4.2). The share of CPI prices growing faster than 3 per cent in annualised terms declined to around 50 per cent in the June quarter, which is higher than its pre-pandemic share (Graph 4.3).

Measures of underlying inflation (which remove the effect of irregular or temporary price changes) also eased further in the June quarter but remain high. Trimmed mean inflation was 0.9 per cent in the quarter and 5.9 per cent over the year, down from a peak of 6.9 per cent in late 2022 (Graph 4.4; Table 4.1).

Graph 4.1

Consumer Price Inflation*



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

Sources: ABS; RBA.

Table 4.1: Measures of Consumer Price Inflation

Per cent

	Quarterly[a]		Year-ended[b]	
	June quarter 2023	March quarter 2023	June quarter 2023	March quarter 2023
Consumer Price Index	0.8	1.4	6.0	7.0
Seasonally adjusted CPI	0.9	1.3	–	–
– Tradables	0.8	0.6	4.4	6.1
– Tradables (excl. volatile items)[c]	0.9	0.8	5.8	6.7
– Non-tradables	1.0	1.7	6.9	7.5
Selected underlying measures				
Trimmed mean	0.9	1.3	5.9	6.6
Weighted median	1.0	1.3	5.5	5.9
CPI excl. volatile items[c]	0.9	1.5	6.5	7.3

(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.

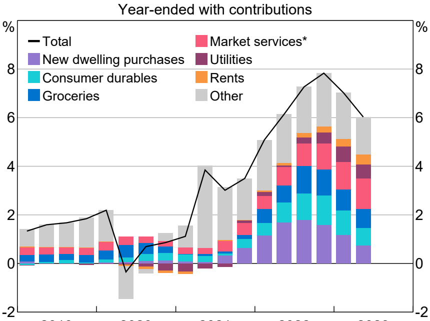
Fuel prices declined

Automotive fuel prices declined a little in the June quarter due to falls in diesel prices and were 3½ per cent lower over the year (Graph 4.5). The sharp decline in oil prices since the middle of last year has been partly offset by increases in wholesale and refining margins and the reintroduction of the fuel excise in September 2022. Fuel prices in the September quarter to date are similar to the June quarter average.

Goods price inflation slowed further in response to easing upstream cost pressures

Goods price inflation eased further in the June quarter, particularly for consumer durables. The earlier easing in global cost pressures is flowing

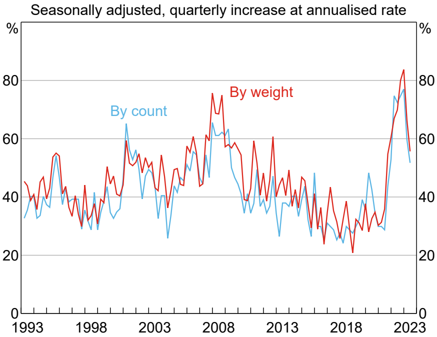
Graph 4.2



* Excludes domestic holiday travel & accommodation and telecommunications.

Sources: ABS; RBA.

Graph 4.3



* Adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA.

through to domestic goods inflation, alongside the effects of slow growth in domestic demand. These factors are expected to result in a further slowing in goods price inflation in the period ahead, consistent with the experience overseas. Global supply chain issues have largely been resolved and the costs of international freight, raw materials and some imported goods have declined significantly. Disinflation from these global forces has been partly offset by recent increases in domestic labour and energy costs.

New dwelling cost inflation has declined materially over the past year, averaging around 1 per cent on a quarterly basis over the first half of 2023 – well below the quarterly outcomes of around 5 per cent observed in the first half of 2022. The easing reflected continued improvement in the availability of building materials and weaker demand for new dwellings following the increases in interest rates and the costs of land and construction. Prices for building materials increased by around ½ per cent in the June quarter to be around 7½ per cent higher over the year; this is slower than the pace of increases observed over 2022 (Graph 4.6). However, labour shortages and associated labour costs remain a source of pressure for builders.

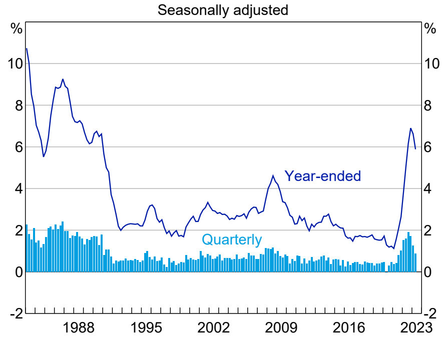
Consumer durables inflation declined significantly in the June quarter to be around 4 per cent over the year, compared with a peak of 7 per cent in the December quarter of 2022 (Graph 4.7). This reflected an easing in global upstream costs flowing through to consumer prices. In addition, consumers are limiting their discretionary spending due to cost-of-living pressures. Businesses have responded by leaving prices unchanged or offering discounts. Clothing and motor vehicle prices declined in the quarter, while many other durable prices were unchanged. By contrast, furniture and furnishing prices continued to increase strongly (Graph 4.8).

Grocery prices (excluding fruit and vegetables) increased by 1.7 per cent in the June quarter, to be 9 per cent higher over the year (Graph 4.7).

Graph 4.4

Trimmed Mean Inflation*

Seasonally adjusted



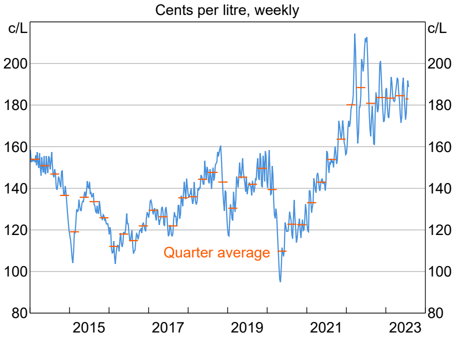
* Excludes interest charges prior to the September quarter of 1998 and deposit & loan facilities; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA.

Graph 4.5

Unleaded Petrol Prices

Cents per litre, weekly

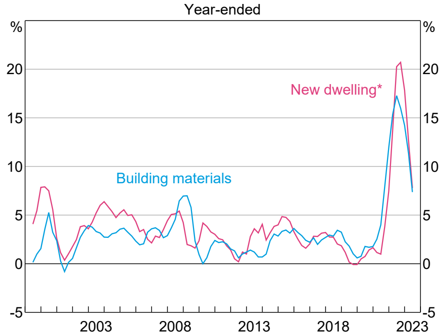


Sources: Australian Institute of Petroleum; RBA.

Graph 4.6

New Dwelling and Building Materials Inflation

Year-ended



* Adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA.

Supermarkets continued to pass through higher prices paid to suppliers. Several food categories, particularly those requiring a greater degree of processing such as breads and cereals, continued to record strong price increases in the quarter. Prices for fruit and vegetables and meat and seafood increased a little (Graph 4.9).

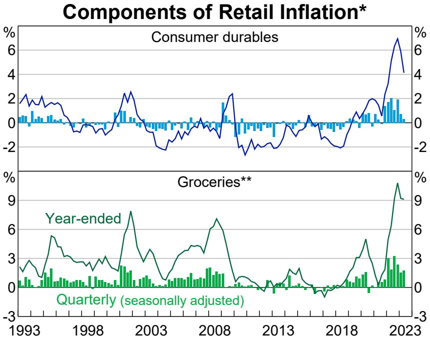
Services inflation remained strong

Services inflation was strong and broadly based in the June quarter, reflecting cost pressures and a still-high level of demand. Market services prices (excluding domestic travel and accommodation, and telecommunications) – which covers around one-fifth of the CPI basket – rose by 2 per cent in the quarter to be 7 per cent higher over the year (Graph 4.10). The prices of these services are generally among the most sensitive to domestic labour costs, although increases in non-labour costs such as materials and transport have also been an important factor for some services recently.

Within market services, prices for insurance and financial services increased by 3 per cent in the June quarter, underpinned by higher premiums and property transfer-related fees (such as stamp duty and real estate agent fees). Insurance premiums have increased significantly over recent quarters reflecting higher replacement costs of insured items, including costs of repairs and reinsurance, and increased claims owing to unfavourable weather. Prices for

Graph 4.7

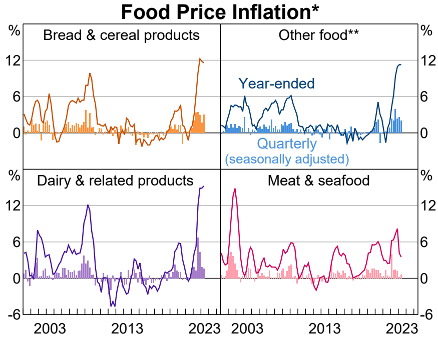
Components of Retail Inflation*



* Adjusted for the tax changes of 1999–2000.
** Excludes fruit & vegetables.
Sources: ABS; RBA.

Graph 4.9

Food Price Inflation*

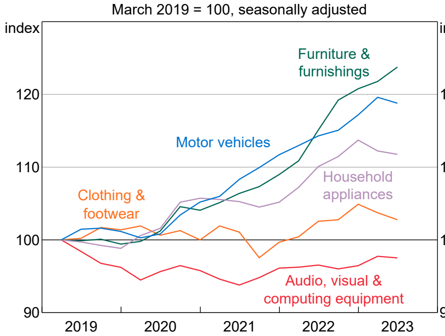


* Adjusted for the tax changes of 1999–2000.
** Includes products such as eggs, jams, oils, snacks etc.
Sources: ABS; RBA.

Graph 4.8

Consumer Durables Prices

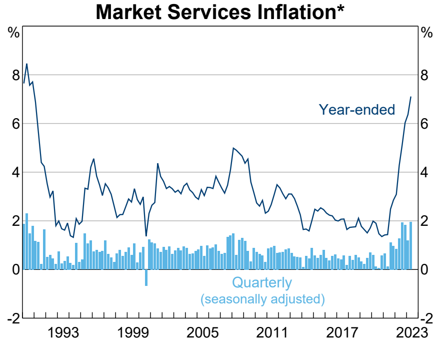
March 2019 = 100, seasonally adjusted



Sources: ABS; RBA.

Graph 4.10

Market Services Inflation*



* Excludes domestic holiday travel & accommodation and telecommunications; adjusted for the tax changes of 1999–2000.
Sources: ABS; RBA.

meals out and take-away also increased strongly in the quarter to be 8 per cent higher over the year. While overseas holiday travel costs also increased strongly, prices for domestic holiday travel and accommodation declined due to increased discounting in airfares and lower accommodation prices amid weaker demand (Graph 4.11).

Rents increased by 2½ per cent in the June quarter and by 7 per cent over the year – the strongest annual increase since 2009 (Graph 4.12). High rent inflation is consistent with tight rental market conditions across the country. Rent increases in regional areas have outpaced capital cities since the onset of the COVID-19 pandemic (Graph 4.13). Within capital cities, rent inflation has been higher for apartments than for detached houses recently. High advertised rents and historically low vacancy rates are expected to contribute to a further pick-up in CPI rent growth in the year ahead.

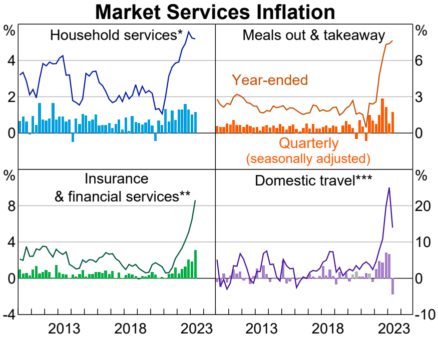
Utility prices were little changed in the quarter

Electricity and gas prices were little changed in the June quarter, though they have increased sharply over the past year (Graph 4.14). Retail electricity prices will increase further in the September quarter as higher average wholesale costs recorded last year are passed through to prices. However, the effect of these increases on the CPI in the 2023/24 financial year will be partially offset by the energy rebates offered to households under the Australian Government's Energy Price Relief Plan and various state government measures.

In the CPI basket, 'administered prices' are (at least partly) regulated or relate to goods and services for which the public sector is a significant provider. They include categories such as health, education and child care, as well as utilities. Administered prices (excluding utilities) were little changed in the June quarter,

Graph 4.11

Market Services Inflation



* Includes home cleaning, vehicle repairs, hairdressing, veterinary services, sports and leisure services.

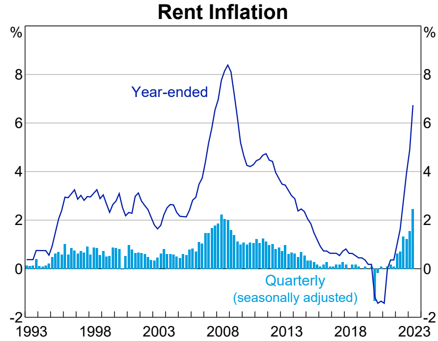
** Excludes deposit & loans to June quarter of 2011.

*** Imputed using headline CPI in the June and September quarters of 2020 and September quarter of 2021.

Sources: ABS; RBA.

Graph 4.12

Rent Inflation

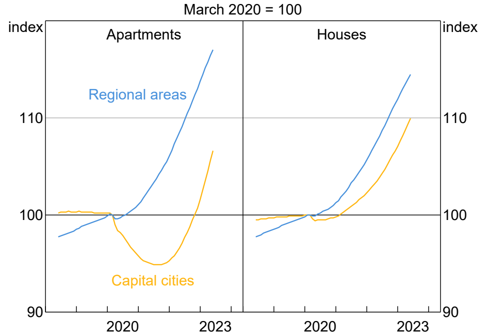


Sources: ABS; RBA.

Graph 4.13

Rent Prices*

March 2020 = 100



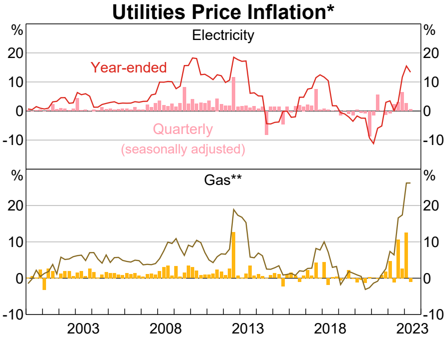
* Alternative stratification approach; excluding rent assistance and public rents.

Sources: ABS; RBA.

to be 5 per cent higher over the year. Prices declined for health items as several health insurers delayed their usual April annual premium increase. Increased subsidies under the Australian Government's Pharmaceutical Benefits Scheme also reduced inflation. State government pre-school fee relief programs led to a decline in the measured price for pre-school education. By contrast, there were moderate price increases for child care, secondary education and state government charges related to property rates and charges and urban transport fees (Graph 4.15).

Graph 4.14

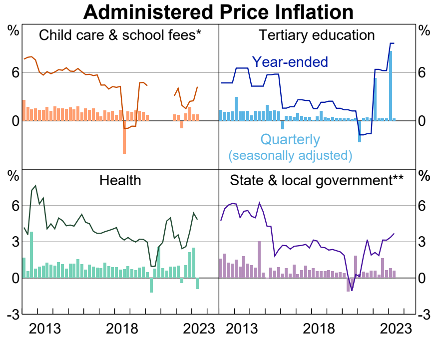
Utilities Price Inflation*



* Adjusted for the tax changes of 1999–2000.
** Includes other household fuels.
Sources: ABS; RBA.

Graph 4.15

Administered Price Inflation



* Excludes volatile periods from June 2020 to September 2021 caused by the government's free child care policy.
** Includes urban transport fares, property rates & charges and other services in respect of motor vehicles.
Sources: ABS; RBA.

The monthly CPI indicator points to easing inflationary pressures

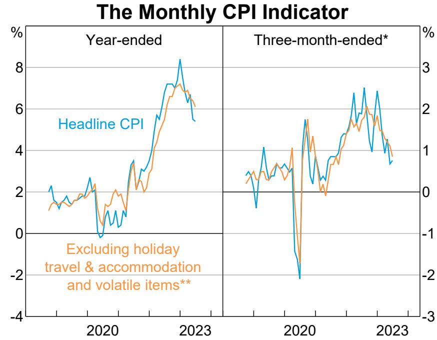
The CPI monthly indicator for June showed an easing of inflationary pressures through the quarter, with the year-ended rate slowing to 5.4 per cent in June from 6.3 per cent in March (Graph 4.16). A similar easing is apparent in the measure excluding volatile items and holiday travel and accommodation. The easing in the monthly CPI indicator between April and June was largely driven by disinflation in goods prices and domestic holiday travel and accommodation.

Short-term inflation expectations have declined but remain elevated

Household perceptions of recent inflation – that is, what households believe inflation has been over the past year – have increased to around 9 per cent, which is slightly higher than the peak in actual CPI inflation recorded in the December quarter of 2022. By contrast, household expectations for inflation over the year ahead have eased to around 5 per cent (Graph 4.17). This difference suggests that households expect much of the current high inflation to be temporary. Other measures of short-term inflation expectations have also declined from their mid-2022 peaks but remain above the Bank's inflation target. Most medium- and long-

Graph 4.16

The Monthly CPI Indicator



* Headline CPI is seasonally adjusted.
** Volatile items are automotive fuel and fruit & vegetables.
Sources: ABS; RBA.

term inflation expectation measures remain consistent with the Bank's inflation target (Graph 4.18).

Wages growth was high over the year to the March quarter …

The Wage Price Index increased by 0.8 per cent in the March quarter and 3.7 per cent in year-ended terms (Graph 4.19). This was the highest rate of year-ended wages growth since 2012, reflecting a tight labour market, high inflation outcomes and the implementation of some new public sector wage policies. Public sector wages rose by 0.9 per cent in the quarter, to be 3 per cent higher over the year; the stronger quarterly outcome reflected the implementation of some new enterprise agreements. Private sector wages growth increased by 0.8 per cent in the March quarter and 3.8 per cent over the year.

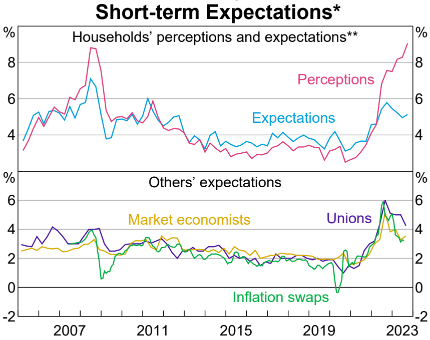
Of jobs that experienced a wage change in the year to the March quarter, around one-third were larger than 4 per cent (Graph 4.20); by contrast, less than 10 per cent of wage changes were above 4 per cent in the years immediately preceding the pandemic. The average size of wage increases (for those jobs that received a wage change) were around decade-high levels in the March quarter, at 4 per cent in the private sector and 3 per cent in the public sector. These outcomes reflected ongoing labour market tightness and the implementation of award and minimum wage increases in the September and December quarters of 2022.

While wages growth for those on enterprise bargaining agreements (EBAs) increased notably in the March quarter, it continued to lag behind growth in award and individual arrangement wages in year-ended terms (Graph 4.21). Much of that difference reflects the multi-year structure of EBAs, which cause a lag in the flow-through of wage pressures to agreements.

Broad measures of labour costs have continued to grow at around their fastest rate in over a

Graph 4.17

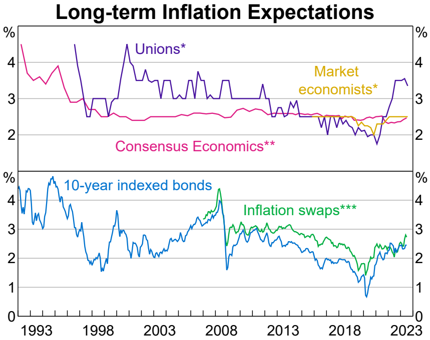
Inflation Perceptions and Short-term Expectations*



* Expectations are for one year ahead.
** Based on the middle 70 per cent distribution; quarterly average.
Sources: Australian Council of Trade Unions; Bloomberg; Melbourne Institute; RBA; Workplace Research Centre.

Graph 4.18

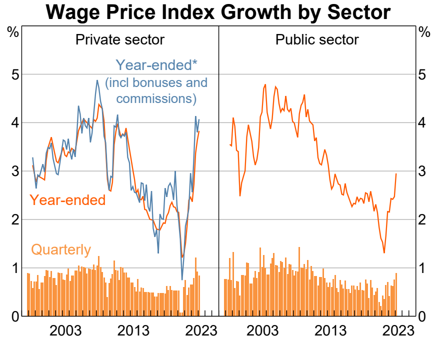
Long-term Inflation Expectations



* Average over the next 5–10 years.
** Average over 6–10 years in the future.
*** 5-years to 10-years forward.
Sources: Australian Council of Trade Unions; Bloomberg; Consensus Economics; RBA; Workplace Research Centre; Yieldbroker.

Graph 4.19

Wage Price Index Growth by Sector



* Non-seasonally adjusted.
Source: ABS.

decade. Bonus-inclusive wages measures increased at a faster pace than base wages, consistent with reports that employers have been using bonuses to attract or retain staff amid the tight labour market and to compensate for cost-of-living pressures. Compensation of employees – which includes the effects of wages growth as well as increases in employment (both headcount and hours worked) – rose by 11 per cent over the year to the March quarter (Graph 4.22).

Labour productivity continued to decline in the March quarter as total hours worked remained at high levels and activity growth weakened (Graph 4.23). Year-ended productivity growth has been weak across most industries; however, it is difficult to assess underlying trends in productivity growth over short time periods with the available data. The extent of the economy-wide slowdown in productivity growth is further complicated by the pandemic-related shifts in the labour force between industries. Weak measured productivity growth contributed to unit labour costs growing at the strongest rate in several decades (Graph 4.24).

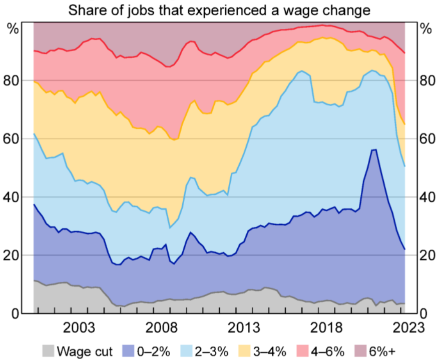
… and appears to have held steady in the June quarter

Timely indicators suggest that wages growth was broadly steady in the June quarter ahead of the implementation of the FWC's award and minimum wage changes in July (Graph 4.25).

Graph 4.20

Wage Changes of Different Sizes*

Share of jobs that experienced a wage change

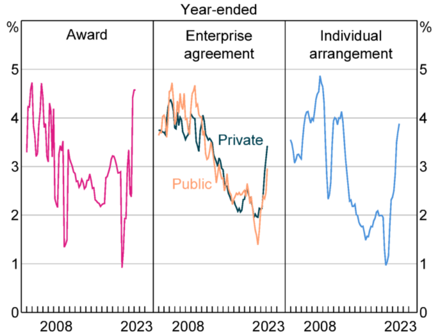


* Smoothed using a four-quarter trailing average.
Sources: ABS; RBA.

Graph 4.21

Wages Growth by Pay-setting Method*

Year-ended

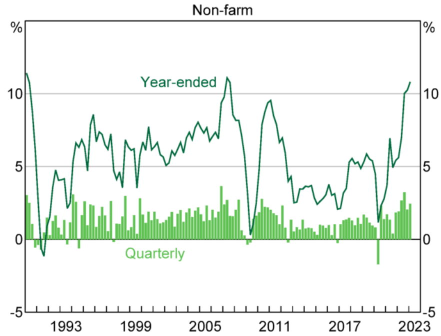


* Excludes bonuses and commissions.
Sources: ABS; RBA.

Graph 4.22

Compensation of Employees Growth

Non-farm

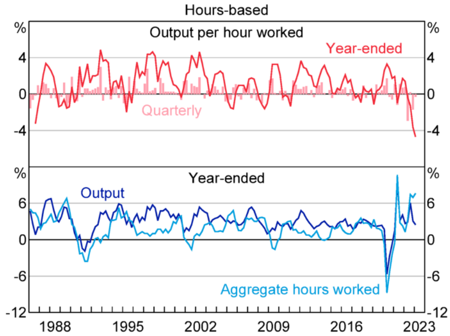


Source: ABS.

Graph 4.23

Non-farm Labour Productivity Growth

Hours-based



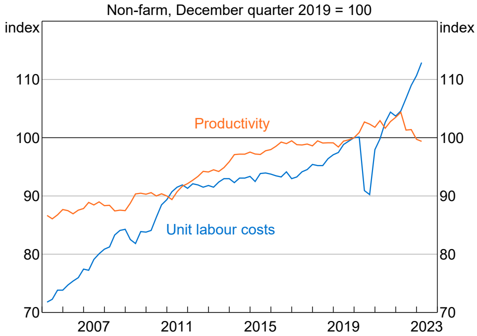
Source: ABS.

Firms in the Bank's liaison program continue to report that wages growth has been steady at around 4 per cent, with wages growth expectations for the year ahead also stable at 4 per cent. This is consistent with other timely indicators of wages growth, which have also been little changed over the quarter. Market economists and union officials expect wages growth to be around 3½ to 4 per cent over the year ahead (Graph 4.26). Beyond that, both market economists and unions expect wages growth to ease a little to around 3¼ to 3¾ per cent.

Graph 4.24

Unit Labour Costs and Productivity

Non-farm, December quarter 2019 = 100

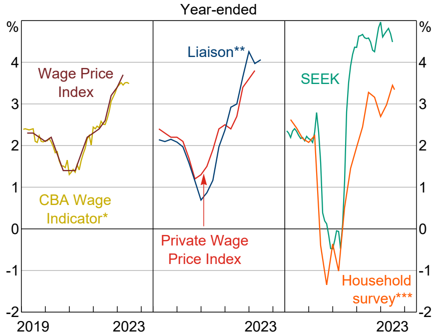


Sources: ABS; RBA.

Graph 4.25

Timely Measures of Wages Growth

Year-ended



* Changes in base wages based on a sample of CBA retail banking transactions.

** Private sector; trimmed mean; rescaled to have the same mean as the private Wage Price Index.

*** Based on the 30 per cent trimmed mean distribution.

Sources: ABS; CBA; Melbourne Institute; RBA; SEEK.

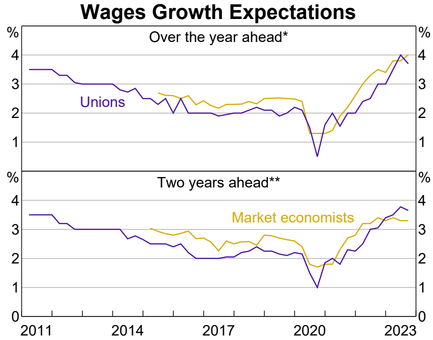
Wages growth in newly lodged enterprise agreements, which provides an indication about the direction of average enterprise agreement wages growth, eased a little to 3.4 per cent in the June quarter but remains elevated compared with pre-pandemic levels (Graph 4.27). Firms in the Bank's liaison program have noted that new enterprise agreements are typically including higher average wage increases than prior agreements due to the tighter labour market and high inflation. However, there is no evidence from liaison of a higher share of firms linking wage outcomes to the CPI. Around 5 per cent of employees on federally registered enterprise agreements have wages explicitly linked to the CPI (with a similar share among newly lodged agreements as the outstanding stock of all agreements).

Award and minimum wages increased in July

In June, the FWC announced a 5.75 per cent increase to modern award wages, effective from 1 July (Graph 4.28). The national minimum wage increased by 8.6 per cent, consisting of a 5.75 per cent headline increase and an additional increase from a technical readjustment that realigned the minimum wage to a different wage classification. It is estimated that around 30 per cent of employees are

Graph 4.26

Wages Growth Expectations



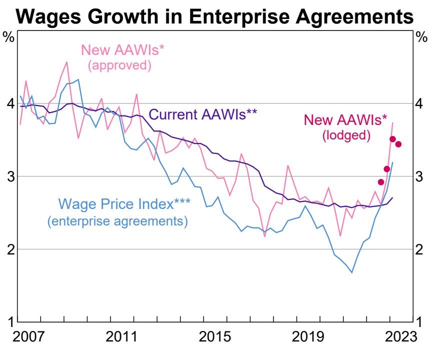
* The current calendar year for union expectations.

** The next calendar year for union expectations.

Sources: Australian Council of Trade Unions; RBA; Workplace Research Centre.

directly or indirectly affected by these increases, though the share of the aggregate wage bill that is impacted is lower; for the most part, these increases will flow through to wages growth in the September quarter. Previously announced increases to modern award wages for direct care workers and some other staff in the aged care sector will also impact wages growth in the September quarter; the 15 per cent increase took effect on 30 June 2023.

Graph 4.27



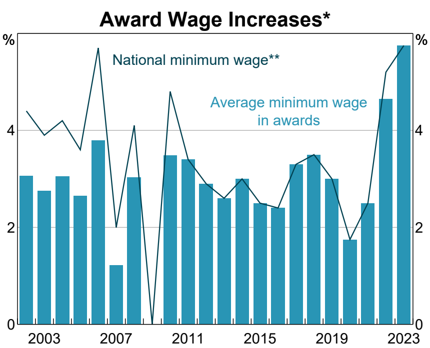
* Quantifiable average annualised wage increases (AAWIs) in new FWC-approved and federally registered enterprise agreements; dots represent quarterly average of AAWIs in newly lodged agreements; latest dot is current quarter to date.

** AAWIs in the total stock of nominally current, FWC-approved and federally registered enterprise agreements.

*** Year-ended growth; excludes bonuses and commissions.

Sources: ABS; Department of Employment and Workplace Relations; FWC; RBA.

Graph 4.28



* RBA calculations; the time period over which each increase applies varies.

** There was an additional 2.7 per cent increase to the national minimum wage in 2023 due to a realignment of the relevant wage rate.

Sources: AFPC; AIRC; FWC; RBA.

Increases to public sector wage policies will support wages growth in the period ahead

Changes to wage policies in a number of jurisdictions will continue to flow through to wages growth over coming quarters. The New South Wales Government has announced a 4 per cent wage increase for most public sector workers for the 2023/2024 financial year; it has also set up a task force that will consider setting wages through bargaining as part of broader reforms of the state's industrial relations system. The Queensland Government has continued to implement its wage offer across the public sector, which consists of a 4 per cent increase for the first two years of the agreement and a 3 per cent increase in the year after, as well as cost-of-living bonuses. The Australian Government has proposed wage increases of 4 per cent in the first year of the agreement, 3.5 per cent in the second year and 3 per cent in the third year, though negotiations with employees are ongoing.

Real incomes continued to decline in the March quarter

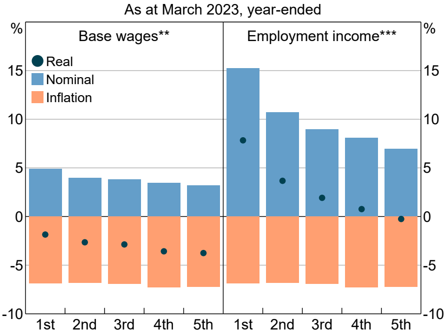
Real (inflation-adjusted) labour income declined further in the March quarter as labour income increased by less than consumer prices over the year. Real wages declined by around 3 per cent over the year. The declines have been smaller for lower wage earners; this is because nominal wages growth has been larger for this group (due in part to the FWC award wage decision), while the rise in inflation has been similar across the income distribution and household types. Administrative employment data suggests that lower income workers experienced stronger earnings growth than higher income workers in the year to the March quarter (Graph 4.29). Across all quintiles, nominal employment income growth has been stronger than base wages growth, which likely reflects increases in hours worked (especially for those on lower incomes), people switching to higher paid jobs or receiving promotions, and firms offering additional payments such as overtime or cost-of-living bonuses.

Growth in cost-of-living indices eased in the June quarter across most household types but remains high (Graph 4.30). Rising living costs tend to impact lower income households more than other groups as they typically have the most constrained budgets, spend a greater proportion of their income on essential items and have lower financial buffers. The experience of individual households varies widely and some workers who have remained in the same job and maintained the same hours will have seen their real incomes decline significantly over the past year.

Graph 4.29

Growth in Real Earnings by Quintile*

As at March 2023, year-ended



* Inflation quintiles constructed by income levels.

** Total hourly rates of pay, excluding bonuses and commissions; quintiles constructed using hourly wage rates in the previous period.

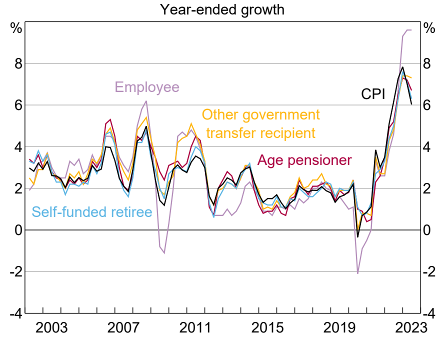
*** Single Touch Payroll employment income per worker for those with a 2019/20 tax return; percentiles constructed using employment income in the current period; estimates are based on the percentile at the mid-point of each group; administrative data on incomes are not necessarily directly comparable to published aggregate estimates.

Sources: ABS; ATO; RBA.

Graph 4.30

Selected Living Cost Indexes by Household Type*

Year-ended growth



* The living cost indexes include mortgage interest payments (which are not included in the CPI) but exclude the construction costs of new dwellings (which are included in the CPI); other financial and insurance items also differ between the indexes.

Source: ABS.