

5. Price and Wage Developments

Recent Developments in Inflation

Recent inflation data confirmed that the pace of headline and underlying inflation eased over the past year. In the June quarter, the consumer price index (CPI) rose by 0.6 per cent on a seasonally adjusted basis, to be 1.2 per cent higher over the year (Table 5.1, Graph 5.1). The quarterly inflation rate was higher than the unusually weak March quarter outcome owing to a pick-up in fruit and vegetable prices, which tend to be volatile, and higher inflation in a range of other goods and services. Over the year, headline inflation was held down by the earlier large falls in fruit and vegetable prices.

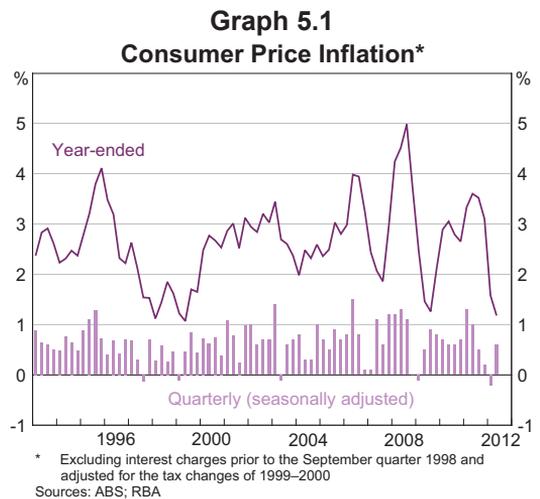


Table 5.1: Measures of Consumer Price Inflation
Per cent

	Quarterly ^(a)		Year-ended ^(b)	
	March quarter 2012	June quarter 2012	March quarter 2012	June quarter 2012
CPI	0.1	0.5	1.6	1.2
Seasonally adjusted CPI	-0.2	0.6	1.6	1.2
- Tradables	-1.6	0.5	-1.5	-2.0
- Tradables (excl volatile items and tobacco) ^(c)	-0.8	0.1	-1.3	-1.3
- Non-tradables ^(d)	0.7	0.7	3.5	3.3
<i>Selected underlying measures</i>				
Trimmed mean	0.4	0.5	2.2	2.0
Weighted median	0.4	0.7	2.1	1.9
CPI excl volatile items ^{(c), (d)}	0.3	0.5	2.0	1.9

(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

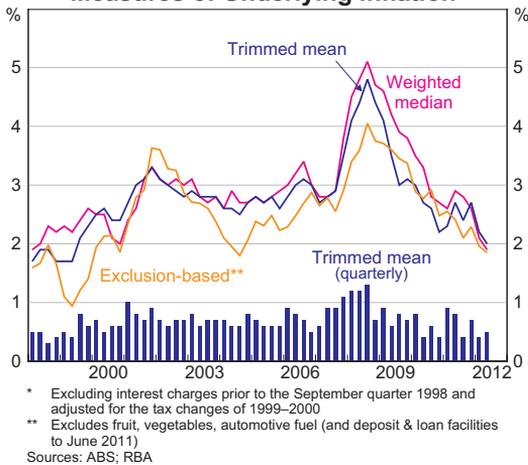
(c) Volatile items are fruit, vegetables and automotive fuel

(d) Excludes deposit and loan facilities to June 2011

Sources: ABS; RBA

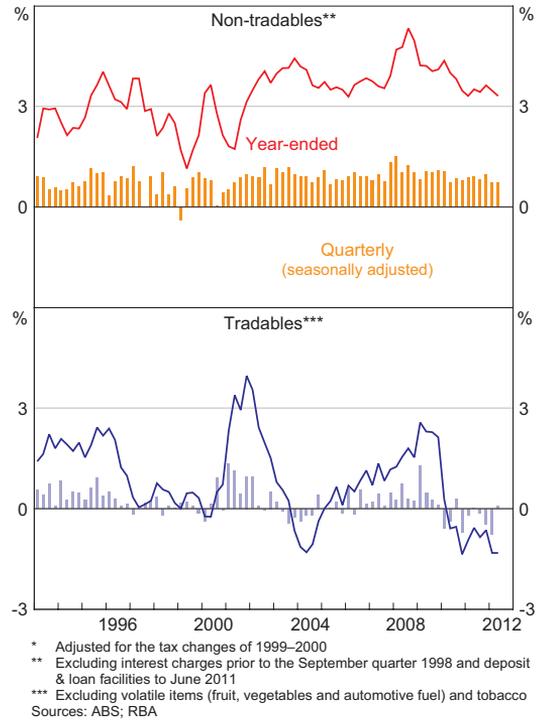
The various measures indicate that underlying inflation was around ½ per cent in the June quarter and 2 per cent over the year (Graph 5.2). Overall, they suggest that the pace of underlying inflation moderated by around ¾ percentage point over the past year, taking underlying inflation to its lowest level since the late 1990s. The decline over the year in underlying inflation has been driven by falls in tradables prices, associated with the earlier exchange rate appreciation, and some easing in non-tradables inflation in recent quarters. The moderation in inflation is consistent with broad-based competitive pressures, soft demand in some parts of the economy and an improvement in productivity.

Graph 5.2
Measures of Underlying Inflation*



The prices of non-tradable goods and services rose by 0.7 per cent for the second consecutive quarter, and the year-ended pace of inflation moderated further, to 3.3 per cent (Graph 5.3). This modest slowdown has been broad based across a range of goods, including food and new dwellings, and market-based services, notably domestic travel and accommodation. Inflation in new dwelling purchase costs has fallen to its lowest level since the 1990s, in line with weak demand for new homes. Nonetheless, inflation pressures remain firm for some non-tradables prices, such as rents, which rose by 4.4 per cent over the year. Overall, the pace of non-tradables inflation is now around its average over the inflation-targeting period.

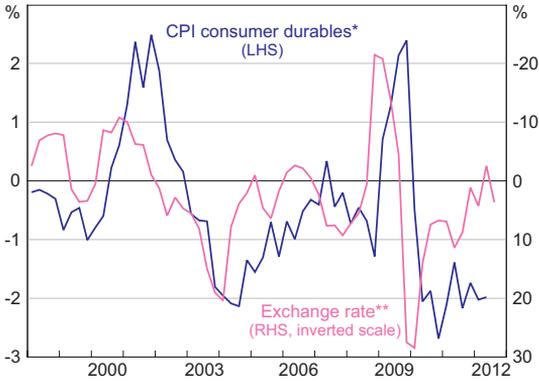
Graph 5.3
Tradables and Non-tradables Inflation*



Tradables prices (excluding volatile items and tobacco) rose by 0.1 per cent in the June quarter, but were 1.3 per cent lower in year-ended terms, following significant falls over the previous year. Price increases for a range of consumer durables in the June quarter – including cars, clothing, footwear and some household goods – drove the first rise in tradables prices in a year and a half. More broadly, the outcome for tradables prices suggests that the disinflationary influence of the earlier exchange rate appreciation has lessened, with the exchange rate little changed over the past year (Graph 5.4). At the same time, however, world export price inflation has eased.

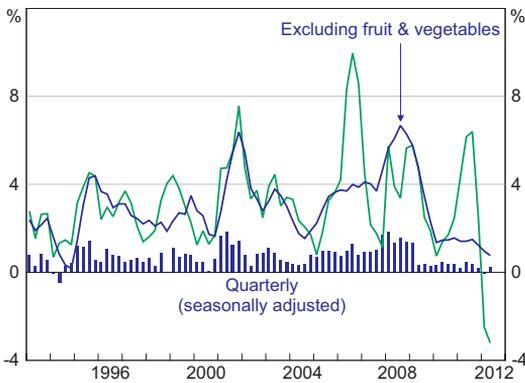
Excluding the fruit and vegetables component, food price inflation recorded another low quarterly outcome, with the pace of year-ended inflation now at its lowest rate since 1994 (Graph 5.5). The subdued outcome for grocery food items – with a particularly sharp fall in bread prices in the quarter – is consistent with strong competition among supermarket

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



* Retail items (excluding food and alcohol) and motor vehicles and parts; adjusted for the tax changes of 1999–2000
 ** Import-weighted index; includes an estimate for September quarter 2012
 Sources: ABS; RBA

Graph 5.5
Food Price Inflation*



* Adjusted for the tax changes of 1999–2000
 Sources: ABS; RBA

retailers putting downward pressure on prices in the supply chain. Inflation in meals out and takeaway food prices also moderated and remains low relative to its history.

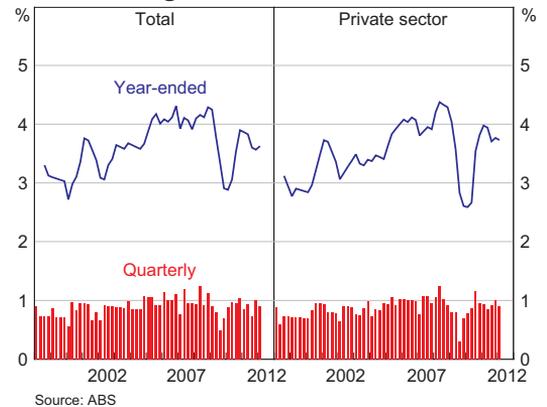
Costs

Overall, the pace of wage growth remains a little below that recorded prior to the financial crisis, but appears to have been broadly unchanged over recent quarters (Graph 5.6). According to the wage price index (WPI), over the year to the March quarter private sector wages grew by 3.7 per cent, around the average pace of the past decade. There has

been a more notable slowing in year-ended growth in public sector wages, with growth over the year to the March quarter the slowest pace in around a decade, although some of the slowing may be due to delays in finalising some enterprise bargaining agreements.

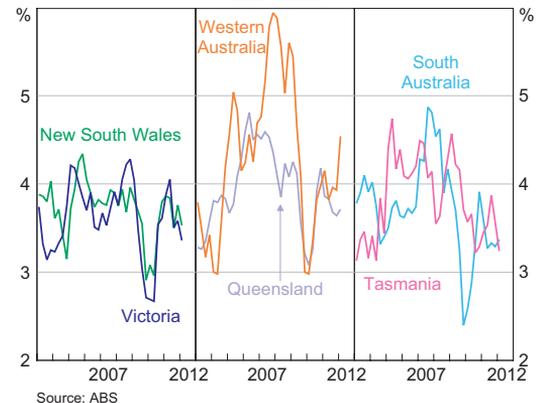
The disparity in labour market conditions across the states has been reflected in wage outcomes. Year-ended wage growth picked up in Western Australia, whereas wage growth was slower in the other states and has generally moderated over the past year (Graph 5.7). Consistent with the strength in Western Australia, the fastest wage growth was seen in the mining, construction and business services industries.

Graph 5.6
Wage Price Index Growth



Source: ABS

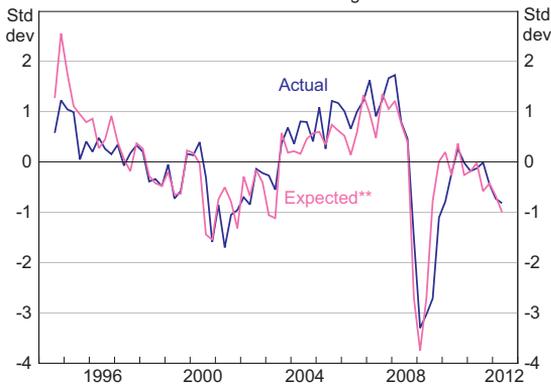
Graph 5.7
Wage Growth by State
 Year-ended



Source: ABS

Notwithstanding the around average wage growth as measured by the WPI, data from business surveys suggest that growth in labour costs has been below average and that firms expect this to continue in the near term (Graph 5.8). This sentiment is consistent with reports from liaison that firms have been controlling labour costs by economising on labour input. Firms are also generally reporting that they are not experiencing significant difficulty finding suitable labour, although there are some firms reporting difficulties finding skills that are used intensively in mining.

Graph 5.8
Surveys of Business Labour Costs*
 Deviation from average



* Weighted average of data from various business surveys since 1994, with weights calculated by the RBA using the principal component method
 ** Expectation for following quarter
 Sources: ACCI; NAB; RBA; Sensis

Fair Work Australia (FWA) announced the outcome of its annual wage review in June, increasing award wages by 2.9 per cent from 1 July 2012. In line with its 2011 decision, FWA increased award wages by a fixed percentage to preserve wage relativities across awards. The increase in award wages this year is lower than in 2011, with FWA's decision taking into account evidence of structural change and different developments across industries, as well as the weaker labour market conditions in the second half of 2011.

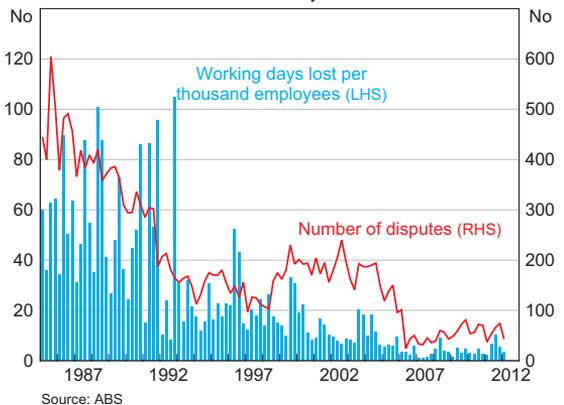
Data from the national accounts indicate that growth in unit labour costs – the average cost of labour per unit of output – slowed over the year

to the March quarter. Although growth in average labour costs rose, this was more than offset by a pick-up in productivity growth. Part of the strength in productivity growth over the past year reflects slower growth in employment; as discussed in the 'Domestic Economic Conditions' chapter, competitive pressures have pushed firms to seek productivity gains.

ABS data suggest that the number of industrial disputes and the number of working days lost fell in the March quarter (Graph 5.9). Disputes in coal mining accounted for almost half of all working days lost. In annual terms, working days lost per employed worker have picked up slightly over the year to be around the level in 2005, but remain at low levels relative to history.

Producer price data suggest that domestic inflation pressures remain contained, consistent with recent outcomes for consumer price inflation.

Graph 5.9
Industrial Disputes
 Quarterly



Source: ABS

Inflation Expectations

Measures of inflation expectations remain consistent with the inflation target. Market economists and union officials surveyed by the Bank have revised down their near-term inflation expectations slightly since the time of the previous *Statement*, but still expect inflation to be within the target range over the year to the December quarter 2013 (Table 5.2).

Consumer inflation expectations – as measured by the Melbourne Institute – have been volatile but are currently around the same level as three months ago (Graph 5.10). Financial market indicators of longer-term expectations are also unchanged. Surveys of businesses, which include producers and retailers, suggest a somewhat more subdued outlook for inflation, with near-term expectations for inflation in their output prices remaining below the average of the inflation-targeting period. ✎

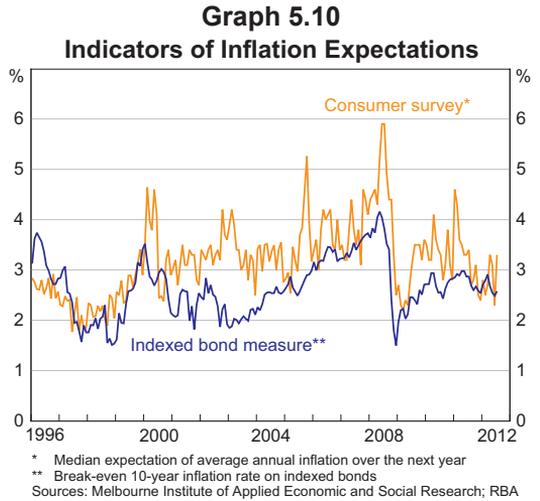


Table 5.2: Median Inflation Expectations
Per cent

	Year to December 2012			Year to December 2013	
	February 2012	May 2012	August 2012	May 2012	August 2012
Market economists	3.2	2.8	2.6	2.6	2.7
Union officials ^(a)	3.0	2.3	2.0	2.5	2.2

(a) Excluding carbon price
Sources: RBA; Workplace Research Centre