

5. Price and Wage Developments

Recent Developments in Inflation

The quarterly rate of inflation slowed in the March quarter. On a seasonally adjusted basis, the consumer price index (CPI) rose by 0.1 per cent, to be 2.5 per cent higher over the year (Graph 5.1, Table 5.1). The low March quarter outcome was in part due to declines in the prices of fruit, vegetables and automotive fuel, which are relatively volatile. However, it also reflected a more broad-based decline in tradables prices, with pronounced falls in the prices of consumer durables and a range of traded food items. In contrast, new dwelling cost inflation picked up in the quarter.

Taken together, the various measures suggest that underlying inflation in the quarter was slightly lower than had been expected, at a little under ½ per cent. In year-ended terms, underlying inflation

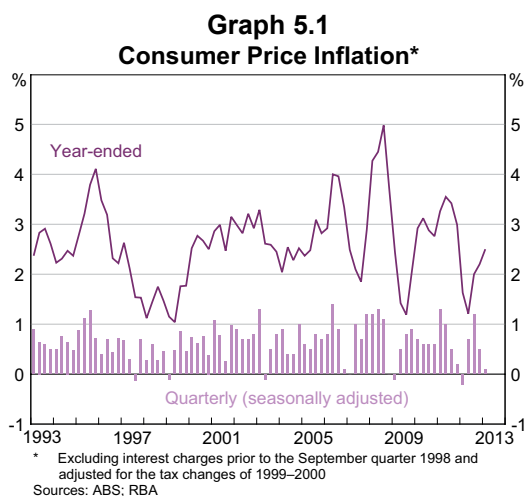


Table 5.1: Measures of Consumer Price Inflation
Per cent

	Quarterly ^(a)		Year-ended ^(b)	
	December quarter 2012	March quarter 2013	December quarter 2012	March quarter 2013
Consumer Price Index	0.2	0.4	2.2	2.5
Seasonally adjusted CPI	0.5	0.1	2.2	2.5
– Tradables	–0.2	–1.1	–0.4	–0.2
– Tradables (excl volatile items and tobacco) ^(c)	–0.4	–1.1	–0.7	–1.4
– Non-tradables	0.9	0.9	3.9	4.2
<i>Selected underlying measures</i>				
Trimmed mean	0.6	0.3	2.3	2.2
Weighted median	0.6	0.5	2.5	2.6
CPI excl volatile items ^(c)	0.5	0.3	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

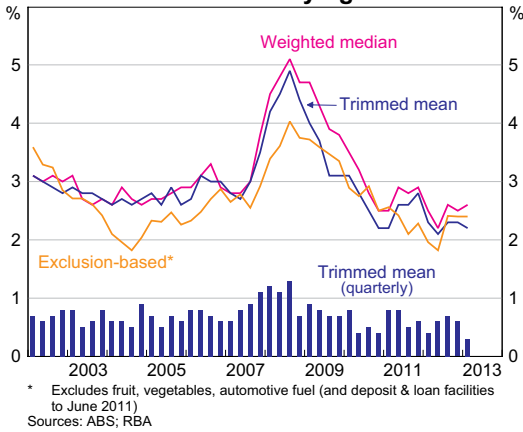
(b) Year-ended changes are based on non-seasonally adjusted data, except for the trimmed mean and weighted median

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

Sources: ABS; RBA

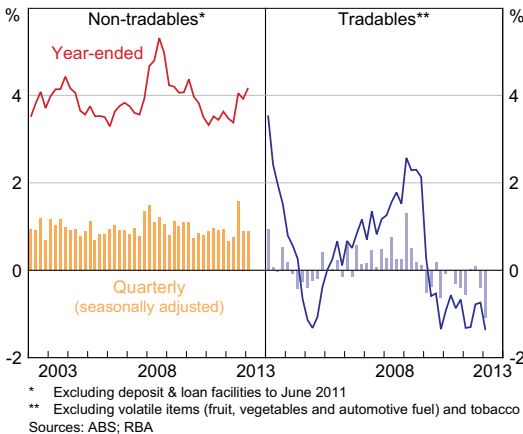
was a little under 2½ per cent in the March quarter, unchanged from the December quarter (Graph 5.2). These outcomes are broadly consistent with earlier expectations that the introduction of the carbon price would have only a modest effect on underlying inflation, although it is not possible to identify this effect precisely (see August 2012 *Statement*).

Graph 5.2
Measures of Underlying Inflation



The decline in tradables prices over the past couple of years has continued, despite the relative stability of the exchange rate during this period. In the March quarter, tradables prices (excluding volatile items and tobacco) declined by 1.1 per cent (Graph 5.3). The decline in tradables prices

Graph 5.3
Non-tradables and Tradables Inflation



largely reflected a substantial fall in consumer durables prices (see 'Box B: The Recent Deflation in Consumer Durables Prices'). Price falls were particularly pronounced for clothing & footwear, and large declines were also recorded in the prices of motor vehicles, audio, visual & computing equipment and other household appliances. Tradable food prices also declined, with the weakness evident across a range of items.

Overall, food prices (excluding fruit and vegetables) declined by 0.3 per cent in the quarter, consistent with reports that supermarket competition continues to place downward pressure on prices. Notable price declines were recorded for non-alcoholic beverages and dairy products, as well as for meat & seafood products, bread & cereals and a range of packaged items. Fruit and vegetables prices declined by 5.3 per cent in the quarter; to date, the floods in early 2013 in agricultural regions of Queensland and northern New South Wales appear to have had little effect on fresh food prices.

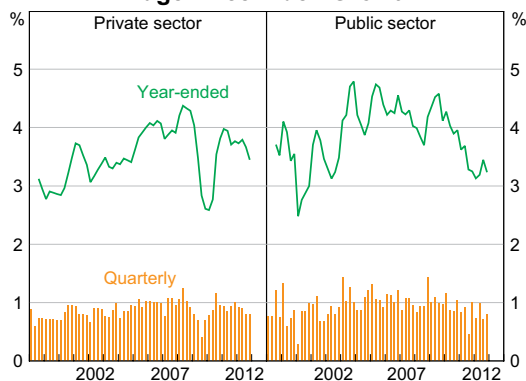
Quarterly inflation in the prices of non-tradable goods and services remained slightly above its average pace over the inflation-targeting period. Non-tradables inflation in the March quarter was 0.9 per cent, with a pick-up in housing inflation offset by softer outcomes for market services and non-traded food items. The increase in housing inflation was driven by a sharper increase in new dwelling costs than might ordinarily be associated with the moderate upturn in housing activity, with a particularly large rise recorded in Melbourne. In contrast, inflation in rents and utilities prices eased in the quarter, with electricity price inflation in some cities lower than the March quarter increases of previous years. Inflation for a range of market services also eased in the quarter, including a slowing in insurance & financial services inflation.

Costs

The pace of wage growth was little changed in the December quarter and in line with the relatively subdued conditions in the labour market observed since the middle of last year.

The wage price index rose by 0.8 per cent in the December quarter, to be 3.4 per cent higher over the year. Private sector wages grew at a below-average pace in the second half of 2012, consistent with information on wages coming from business surveys and the Bank's liaison with firms (Graph 5.4). Public sector wage growth in the December quarter also remained below its average of the past decade or so. Fiscal restraint continues to keep public sector wages contained, with year-ended growth in public sector wages near or below 3 per cent in all states except Western Australia.

Graph 5.4
Wage Price Index Growth



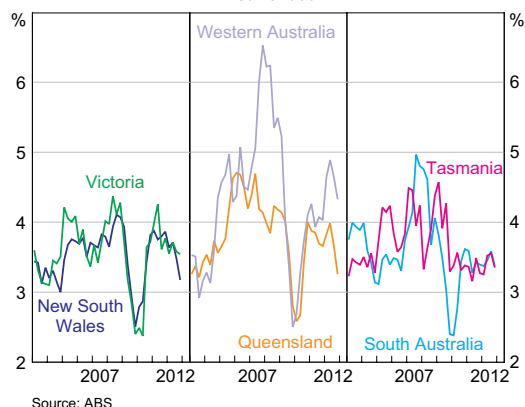
Data from business surveys suggest that wage growth has remained steady in early 2013 at a below-average pace, and that shortages of labour have not been widespread. Liaison with firms also suggests that wage pressures remained moderate in the March quarter, with skills shortages easing in the resources sector in particular.

The year-ended pace of wage growth eased in most industries over 2012. Following relatively strong growth over most of 2011 and 2012, wage growth in industries such as professional services and wholesale trade appears to have softened

more recently. Wage growth has eased further or remained at low levels in industries more directly exposed to consumer demand, such as retail trade and accommodation & food services.

The easing in private sector wage growth over 2012 was also broadly based across the states (Graph 5.5). While wage growth in Western Australia remains higher than in the other states, it has declined noticeably over the past two quarters, consistent with an easing in labour demand associated with resource and resource-related activity. Wage growth in Queensland has also fallen sharply over this period, reflecting the relatively soft labour market conditions in that state over 2012. Wage growth is reported to have slowed in New South Wales, while it has remained relatively steady in the other states.

Graph 5.5
Private Wage Price Index Growth by State
Year-ended



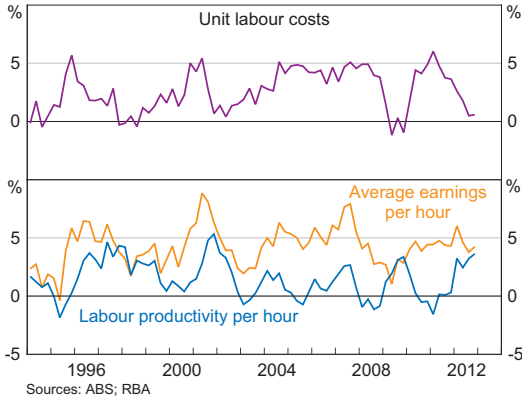
Despite a pick-up in the December quarter, growth in unit labour costs remained relatively slow over 2012, reflecting continued strong growth in labour productivity (Graph 5.6). Measured non-farm labour productivity growth over 2012 was well above its average of the past 20 years.

Producer price data suggest that domestic inflation pressures were modest across all stages of production over the year to the March quarter.

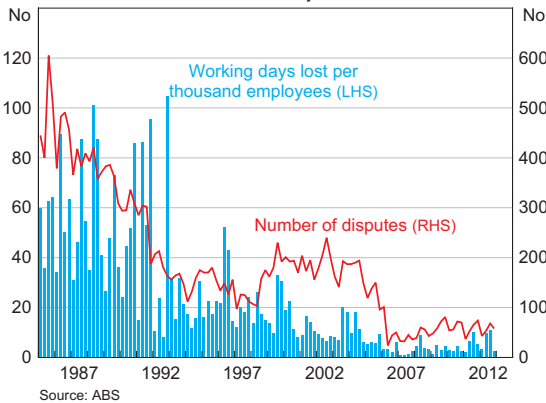
ABS data indicate that the number of working days lost per employee as a result of industrial disputes in the December quarter fell back to a very low level

(Graph 5.7). The fall in the quarter mostly reflected a reduction in the average number of employees involved per dispute and the average duration of disputes, while the decline in the number of disputes was more modest. The number of working days lost fell in most industries.

Graph 5.6
Unit Labour Costs Growth
Non-farm, year-ended



Graph 5.7
Industrial Disputes
Quarterly



Inflation Expectations

Measures of inflation expectations remain consistent with the inflation target (Graph 5.8). Since the February *Statement*, market economists have revised down their expectations for inflation over 2013, largely reflecting the low outcome in the March quarter, while union officials' forecasts for inflation over 2014 have increased a little (Table 5.2). Financial market measures of inflation expectations are slightly below their historical average levels. The Melbourne Institute's measure of consumer inflation expectations, which tends to be volatile, remains low compared with its history.

Graph 5.8
Indicators of Inflation Expectations

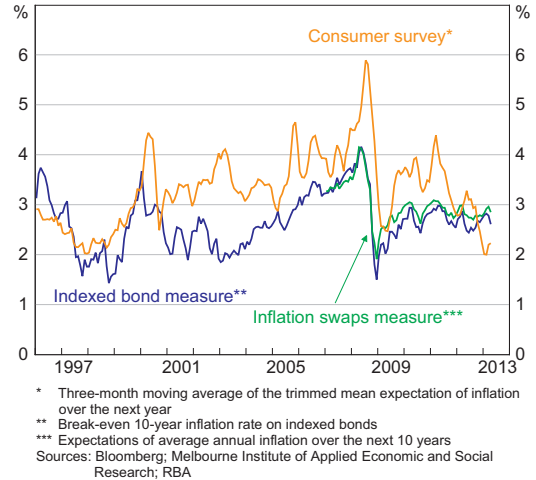


Table 5.2: Median Inflation Expectations
Per cent

	Year to December 2013			Year to December 2014	
	November 2012	February 2013	May 2013	February 2013	May 2013
Market economists	2.6	2.6	2.3	2.7	2.7
Union officials ^(a)	2.5	2.5	2.5	2.5	2.8

(a) Excluding carbon price

Sources: RBA; Workplace Research Centre