



RESERVE BANK OF AUSTRALIA

# Inflation Explained

## Natasha Cassidy (Economic Analysis)

Education

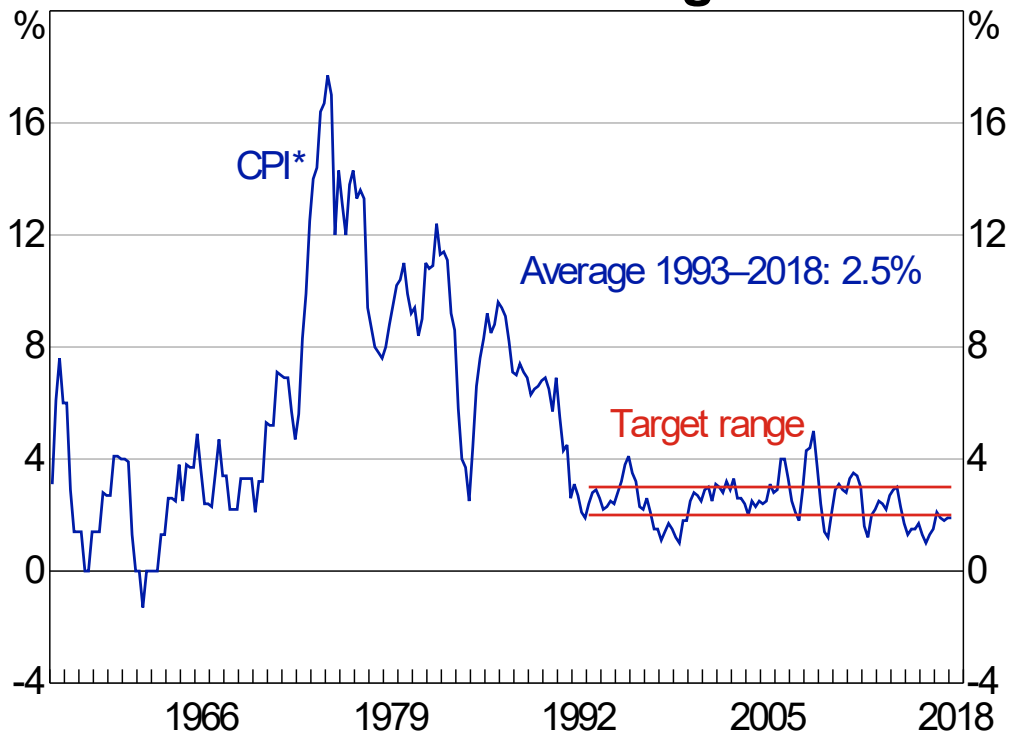


# Presentation Outline

- RBA's inflation target
- How is inflation measured?
- Why is inflation low?
  - Demand-pull: spare capacity in the economy
  - Cost-push: low wages growth
  - Low inflation expectations
  - Other factors



## Inflation over the Long Run

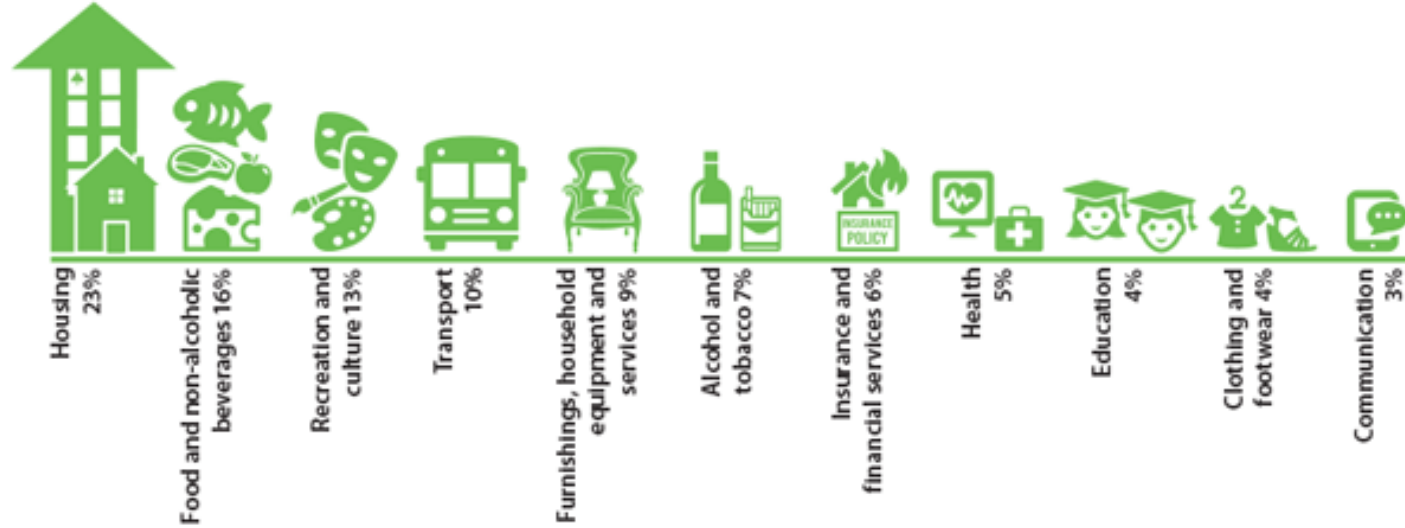


\* Excludes interest charges prior to September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA



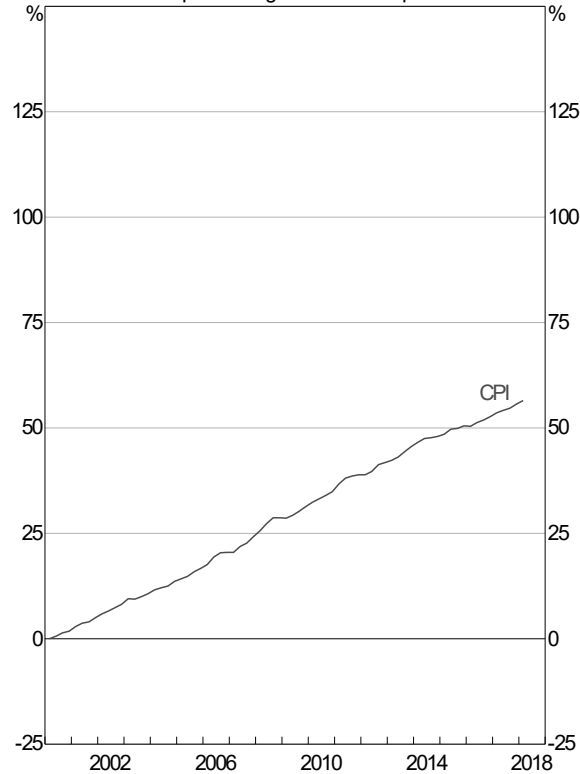
## Groups in the CPI basket and their weights





### Consumer Price Inflation\*

Cumulative price change since March quarter 2000



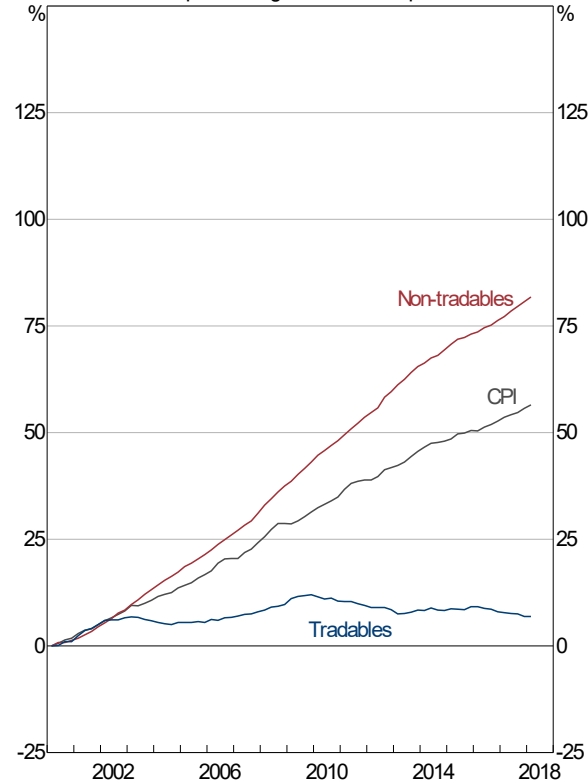
\* Adjusted for the tax changes of 1999–2000; administered excludes housing and includes utilities; non-tradables exclude tobacco; housing excludes utilities; tradables exclude tobacco and volatiles; food excludes fruit, vegetables, meals out and take-away; market services exclude domestic travel and telecommunications

Sources: ABS; RBA



### Consumer Price Inflation\*

Cumulative price change since March quarter 2000

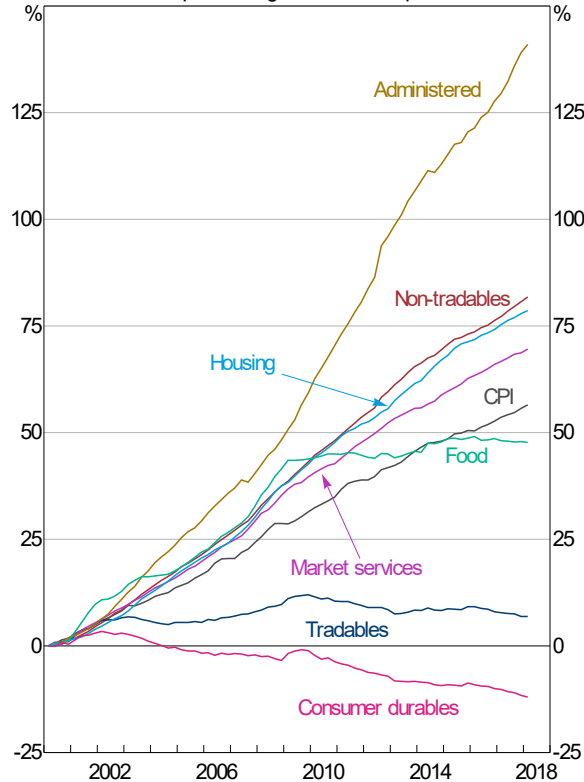


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### Consumer Price Inflation\*

Cumulative price change since March quarter 2000



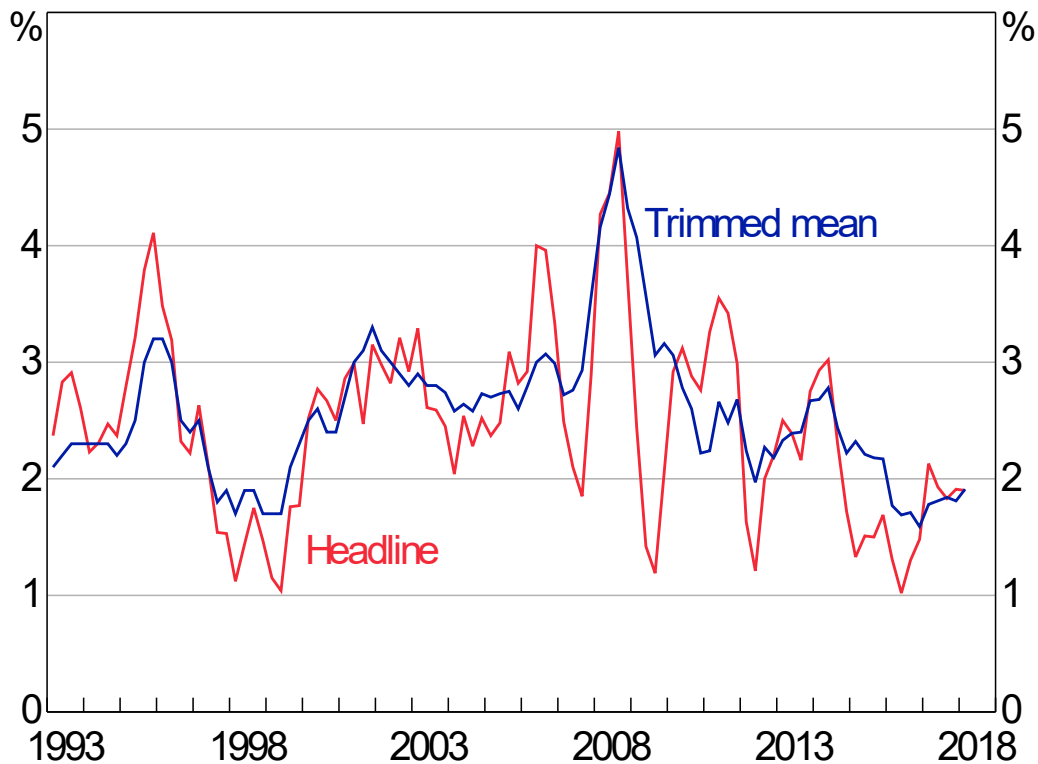
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Sources: ABS; RBA



# Consumer Price Inflation

Year-ended

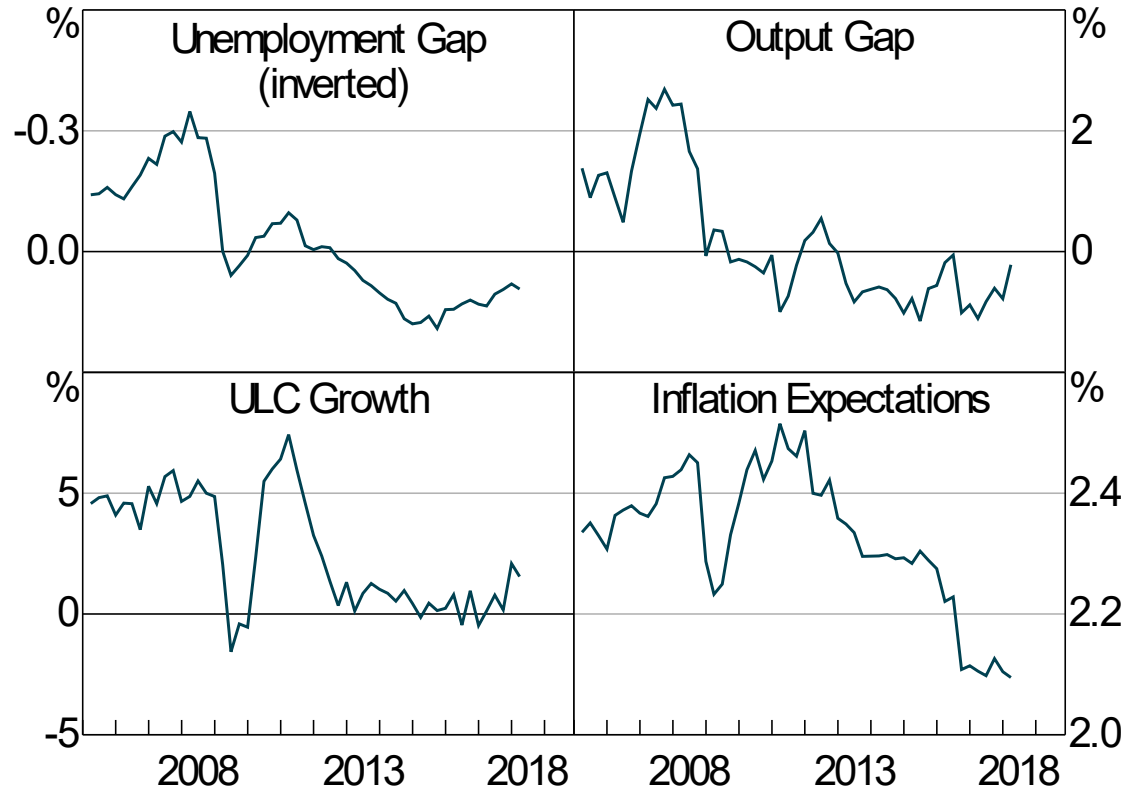


Sources: ABS; RBA





# Inflation Determinants

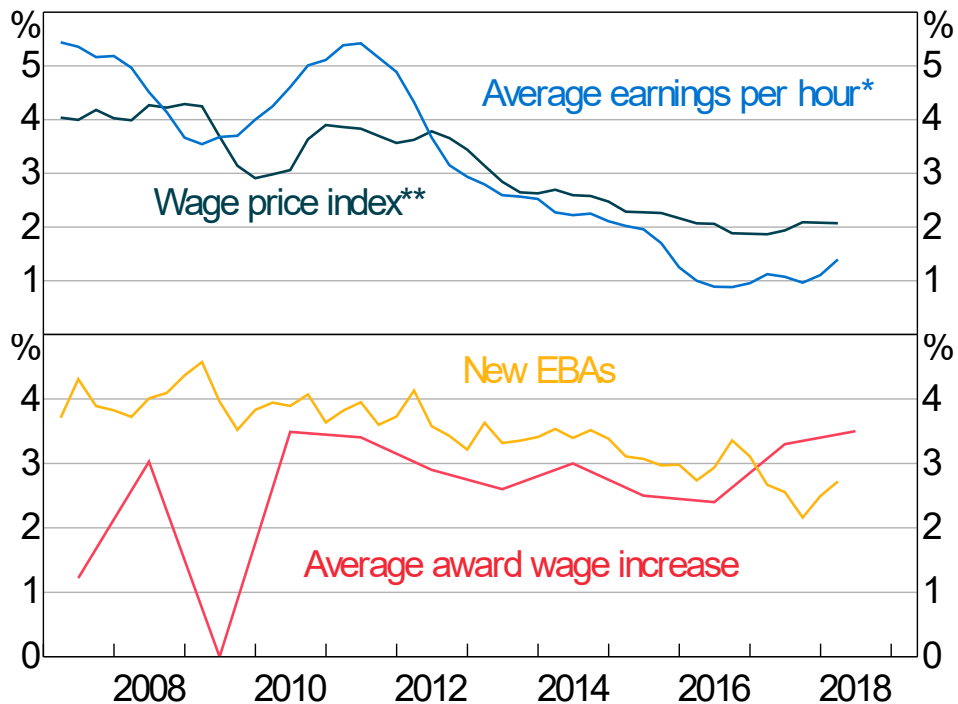


Sources: ABS; RBA



# Wages Growth

Year-ended



\* 9-quarter centred moving average, non-farm

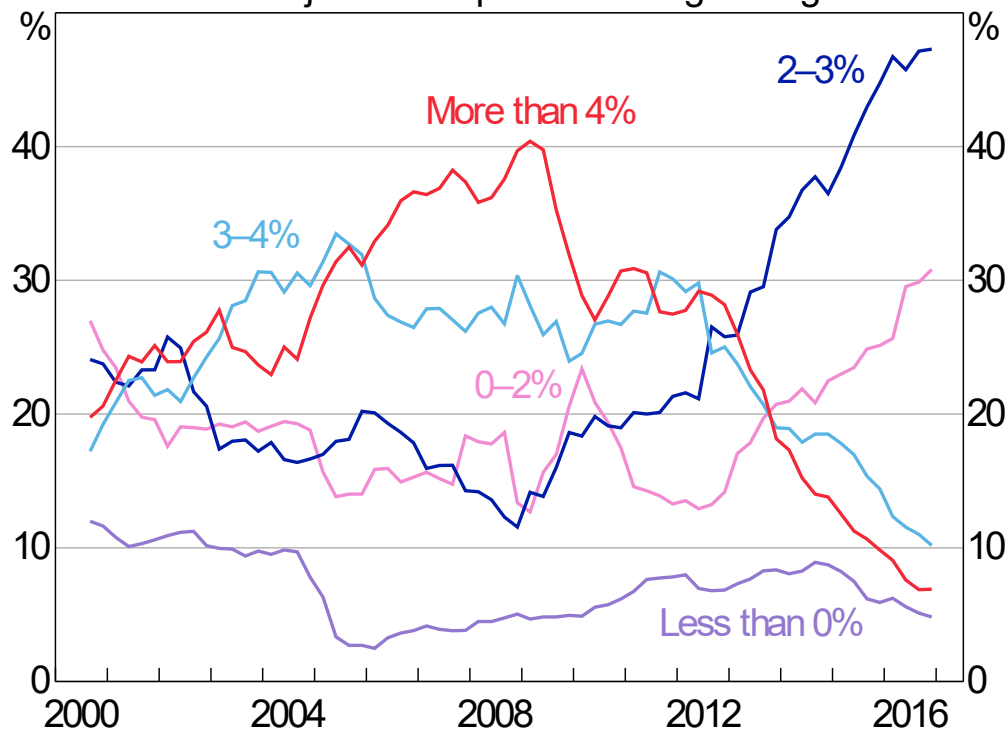
\*\* Excluding bonuses

Sources: ABS; Department of Jobs and Small Business; FWC; RBA



# Wage Changes of Different Sizes

Share of jobs that experience a wage change\*

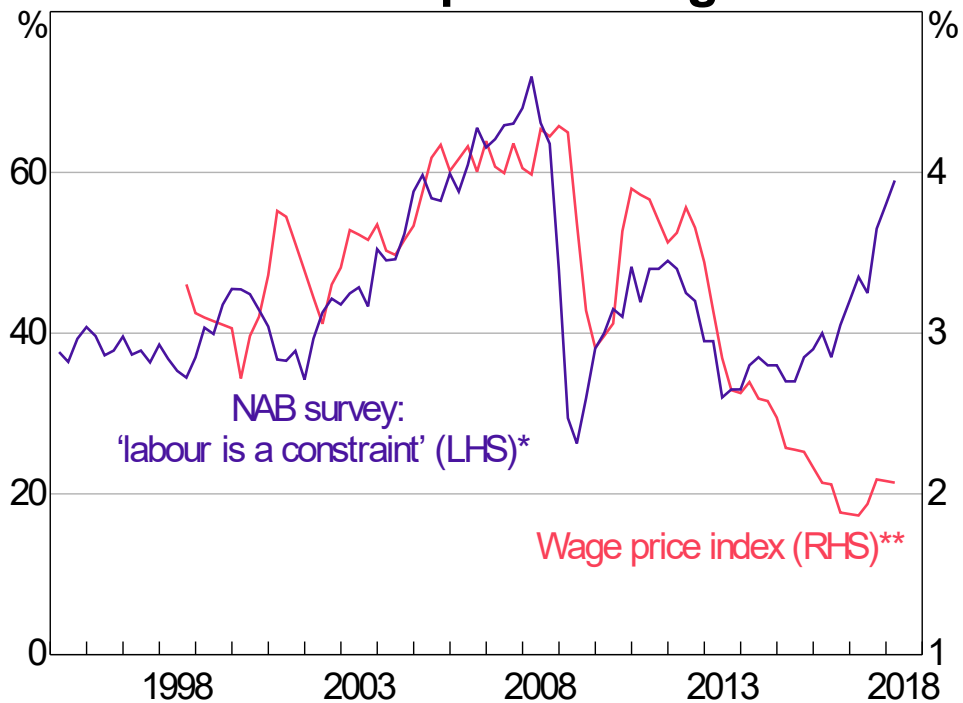


\* Smoothed using a four-quarter trailing average

Sources: ABS; RBA



## Constraints on Output and Wages Growth



\* Share of firms reporting availability of suitable labour as a minor or significant constraint on output

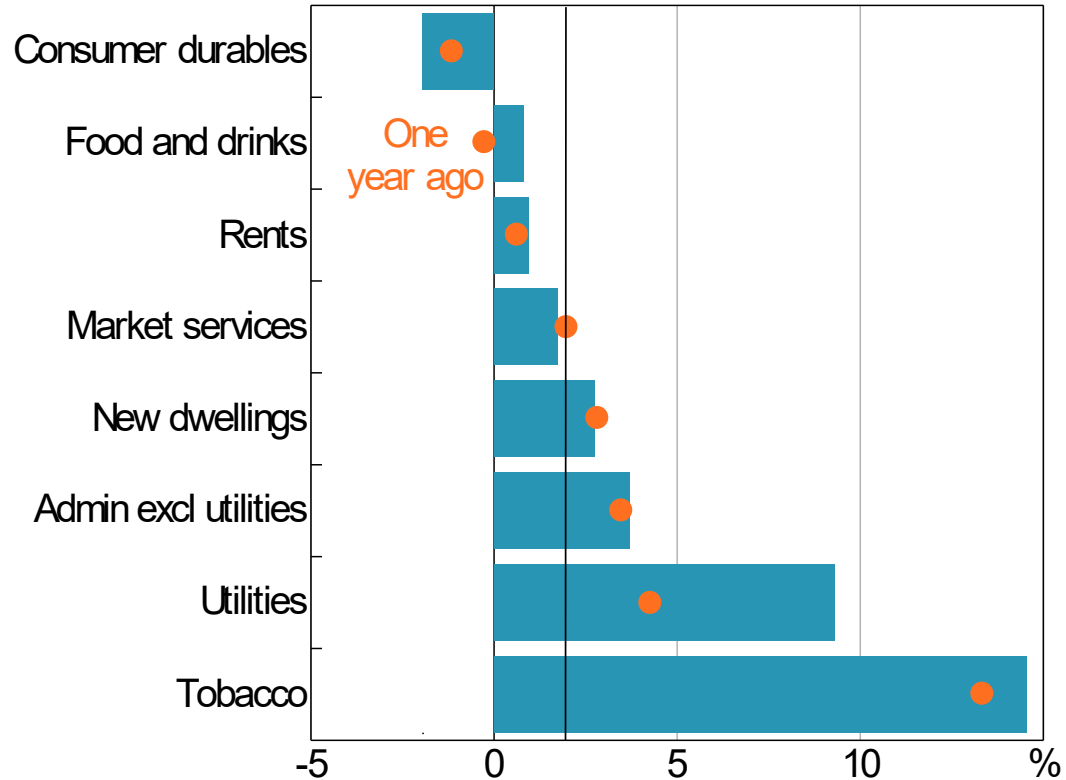
\*\* Year-ended growth; excludes bonuses

Sources: ABS; NAB



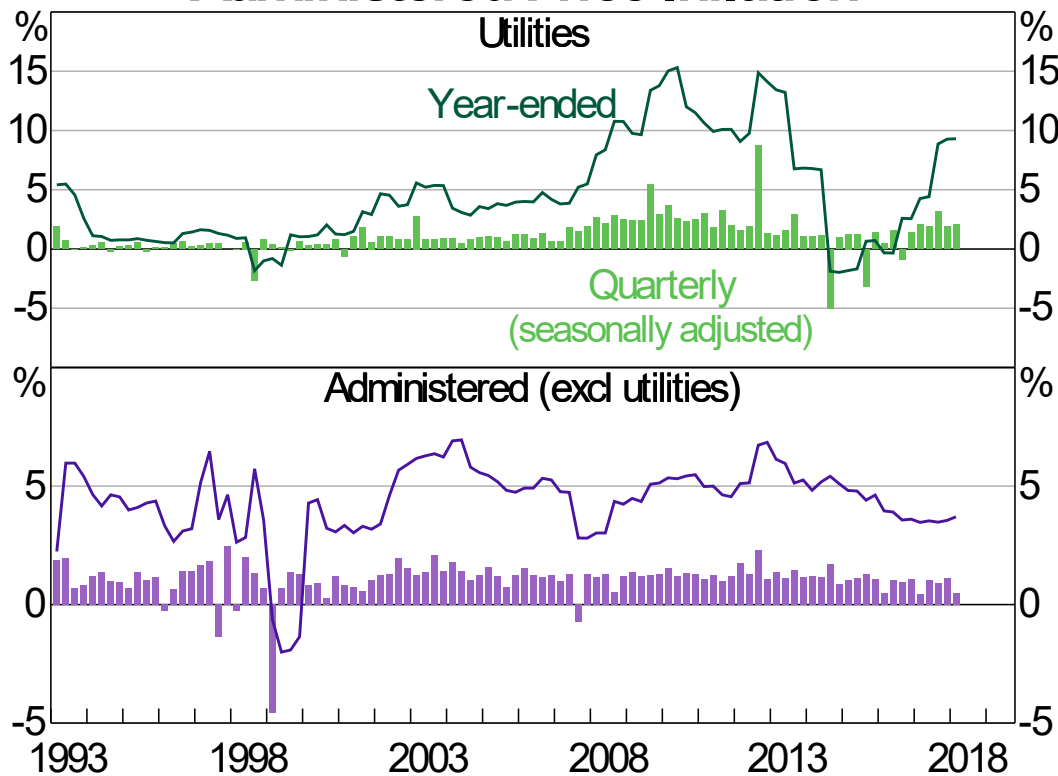
# Inflation by Component

Year-ended growth, March 2018





## Administered Price Inflation\*



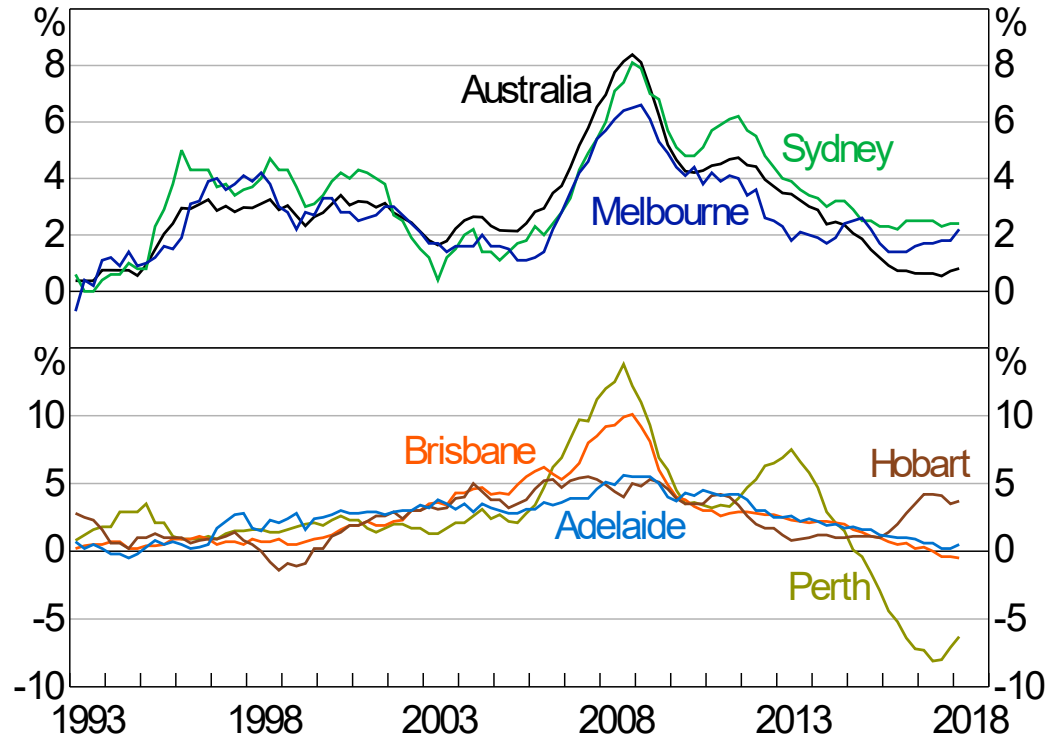
\* Adjusted for the tax changes of 1999–2000

Sources: ABS; RBA



# Rent Inflation

Year-ended

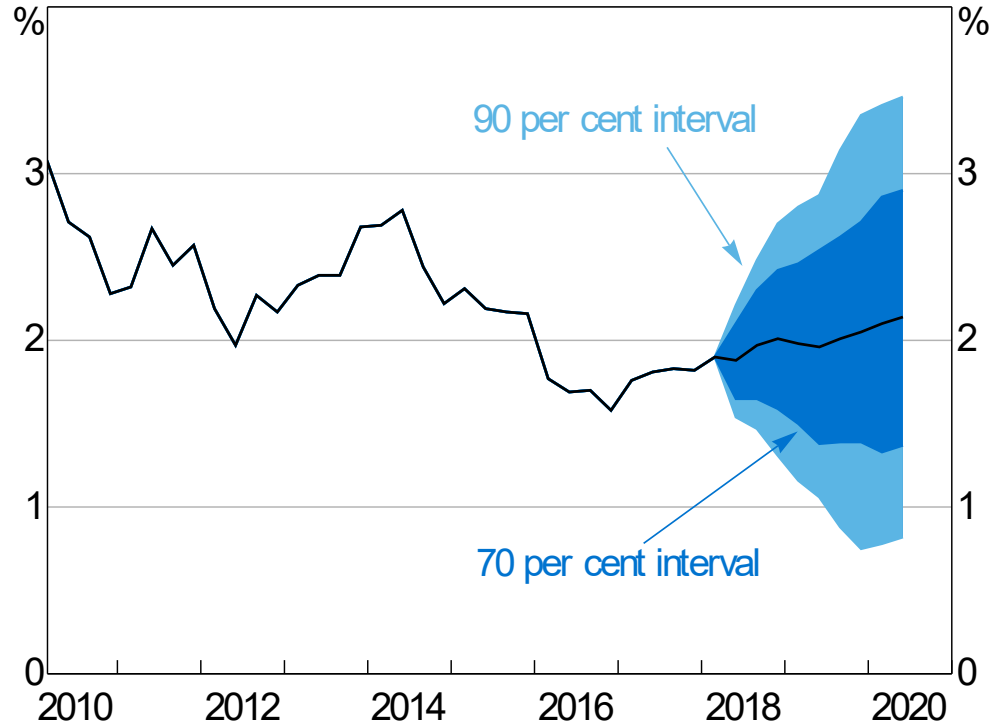


Source: ABS



# Trimmed Mean Inflation Forecast\*

Year-ended



\* Confidence intervals reflect RBA forecast errors since 1993

Sources: ABS; RBA