



RESERVE BANK OF AUSTRALIA

Teacher Immersion Event 2023

Education



RESERVE BANK OF AUSTRALIA

Inflation, Costs and Profits

Tom Williams, Economic Analysis Department

7 July 2023

Education



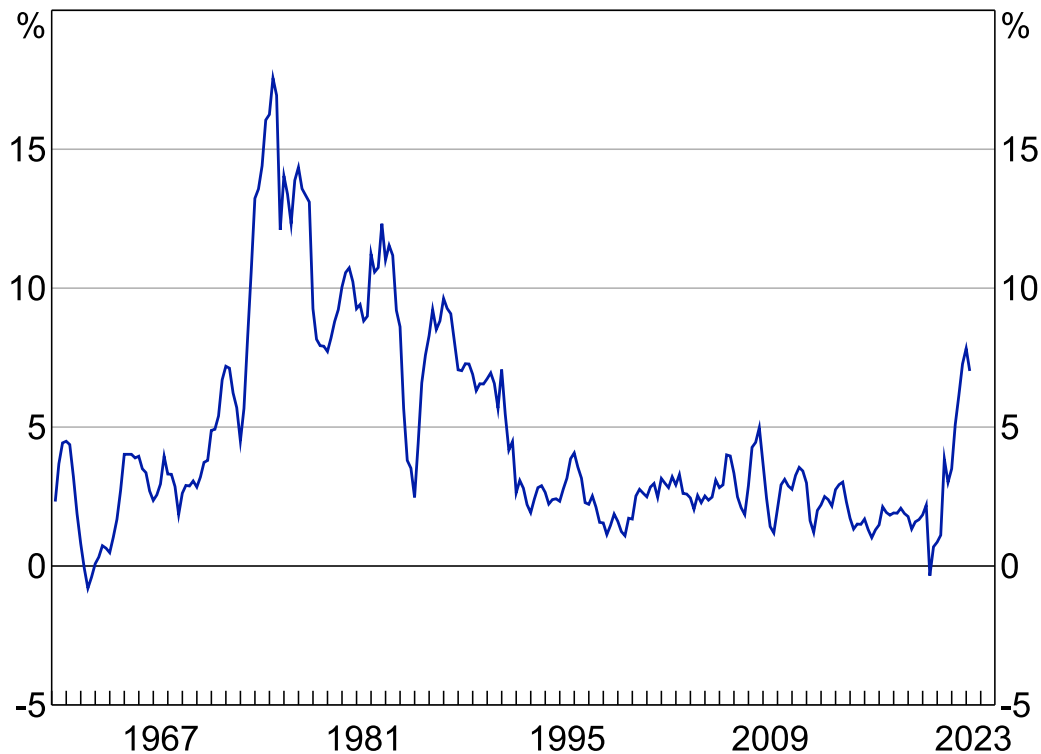
Outline

- Recent inflation outcomes
- Costs vs profits
- Demand vs supply
- Inflation expectations
- The outlook for inflation



Consumer Price Inflation

Year-ended

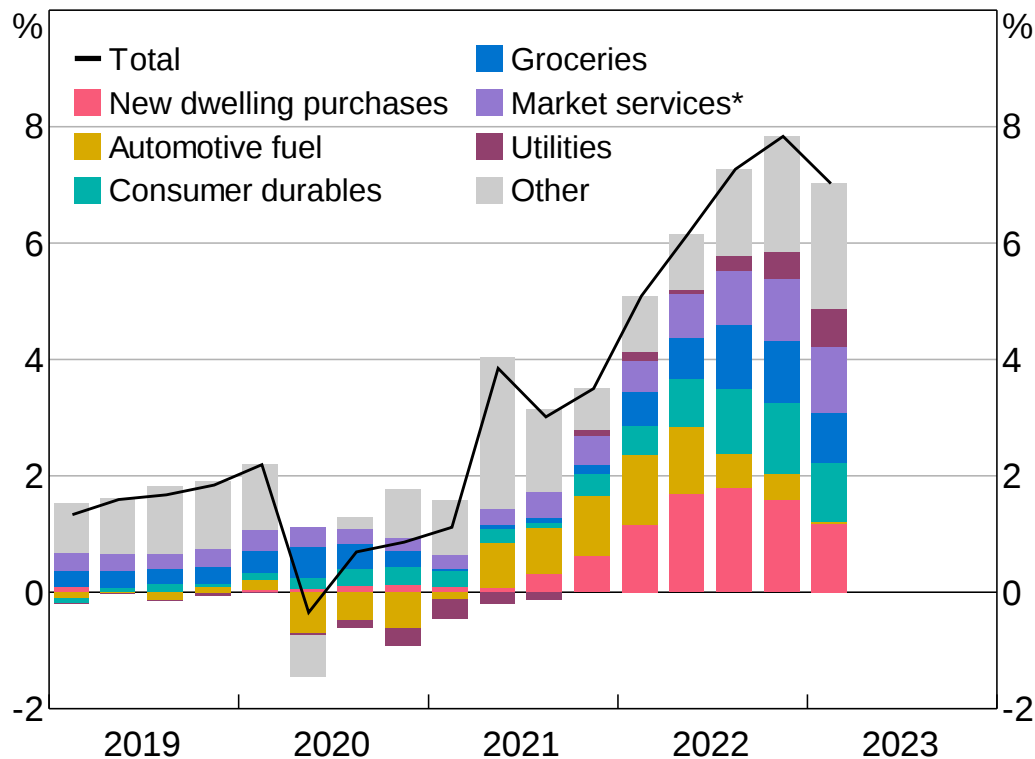


Sources: ABS; RBA.



CPI Inflation

Year-ended with contributions



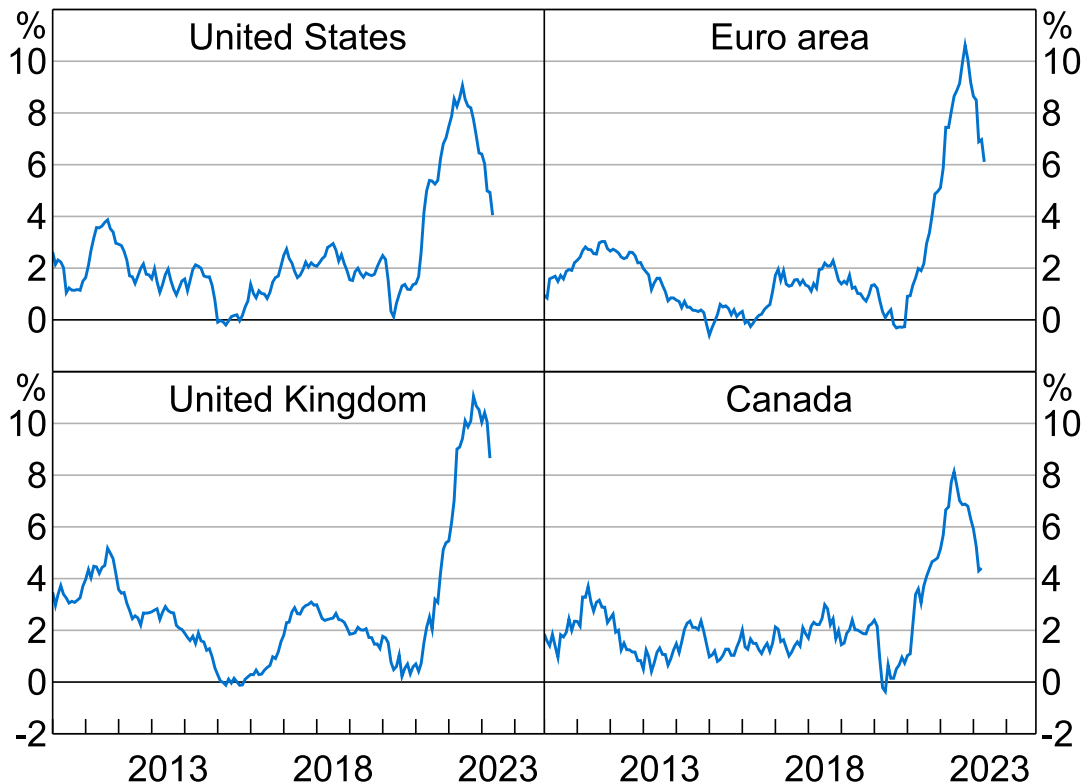
* Excludes domestic travel and telecommunications.

Sources: ABS; RBA



Consumer Price Inflation

Year-ended





Costs vs profits

Labour costs + non-labour costs + profit margin = prices





Costs vs profits

Labour costs + non-labour costs + profit margin = prices

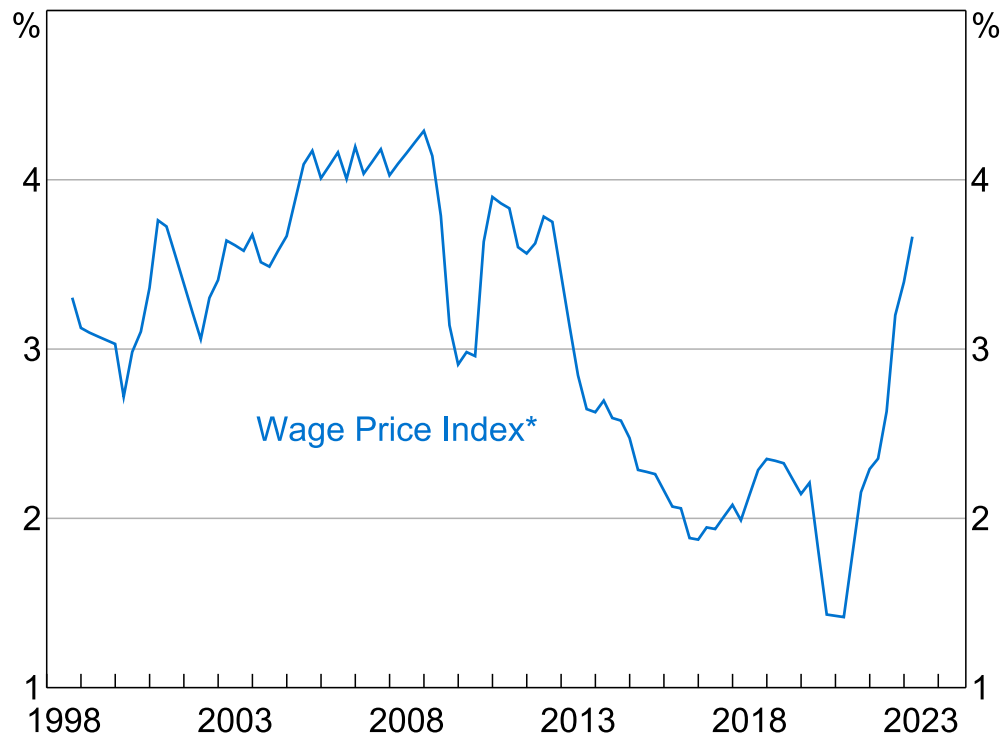


Growth in unit labour costs $\approx$ wages growth – productivity growth



Wages Growth

Year-ended



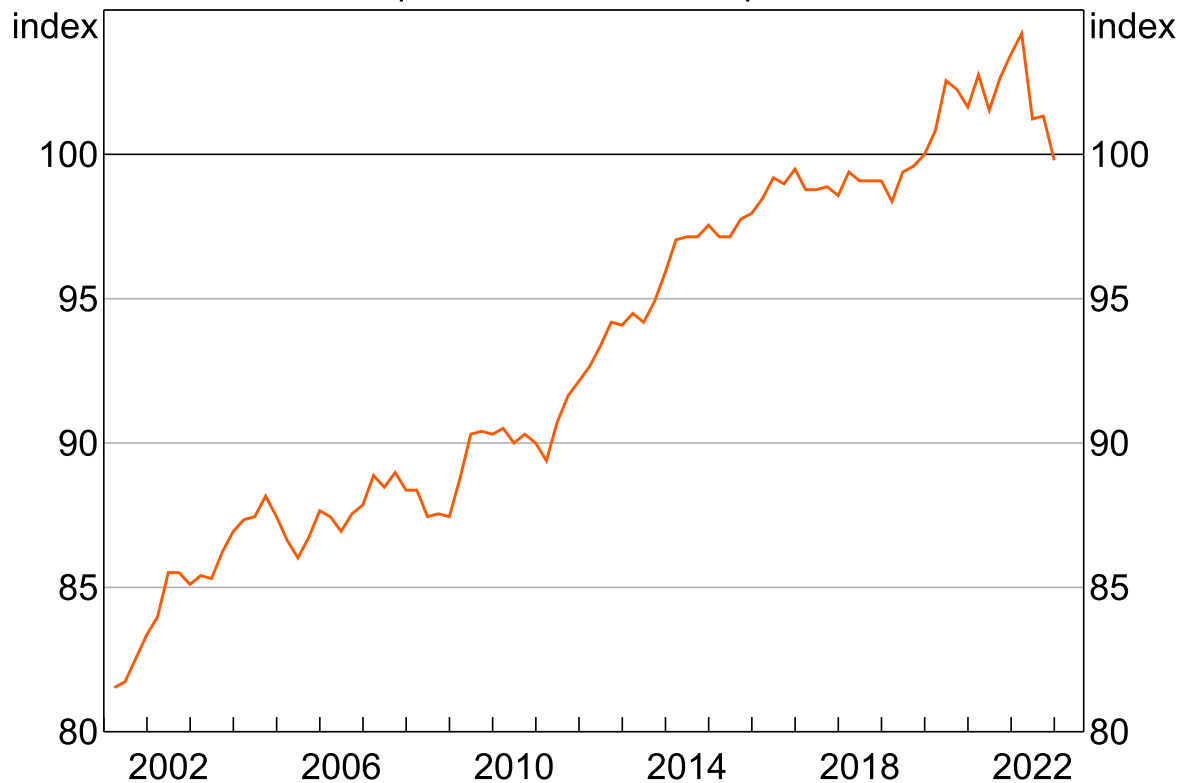
* Excluding bonuses and commissions.

Sources: ABS; RBA.



Labour Productivity

Non-farm GDP per hour, December quarter 2019 = 100

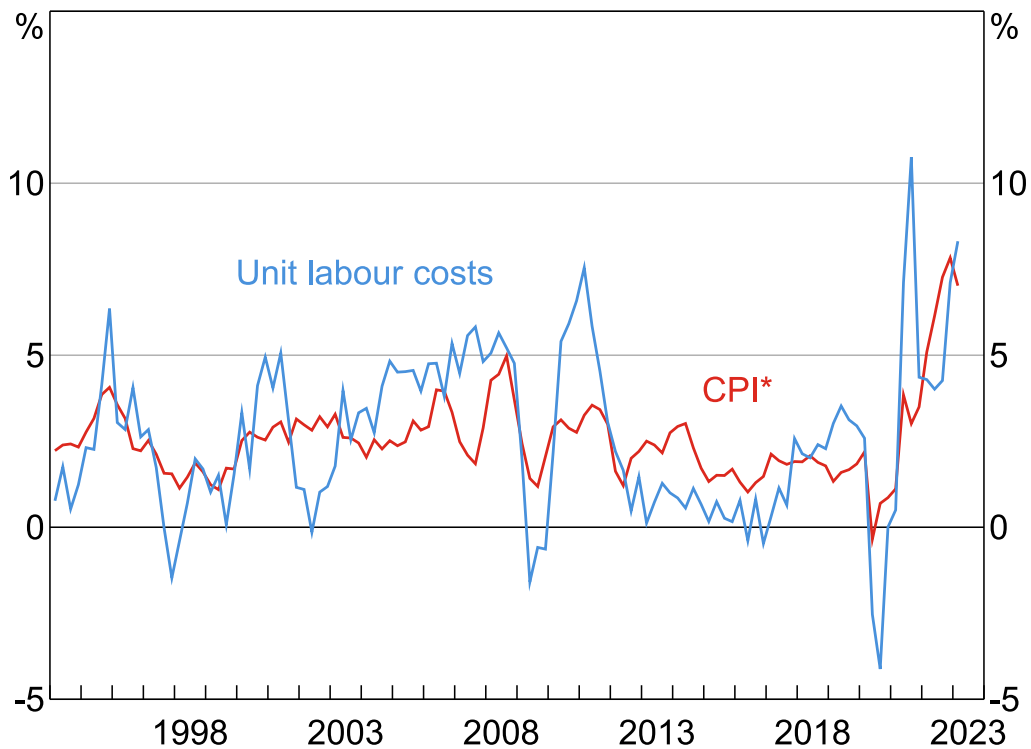


Sources: ABS; RBA.



Inflation and Unit Labour Costs

Year-ended



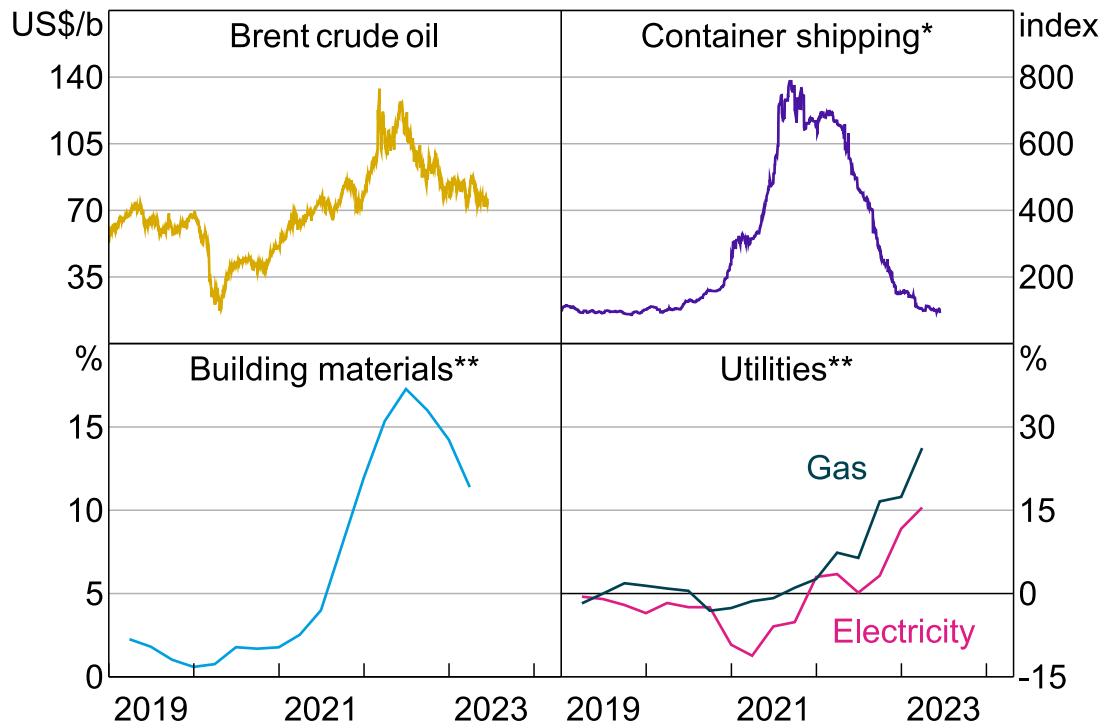
* Excludes interest charges before September quarter 1998.

Sources: ABS; RBA.



Non-labour Input Costs

Select items



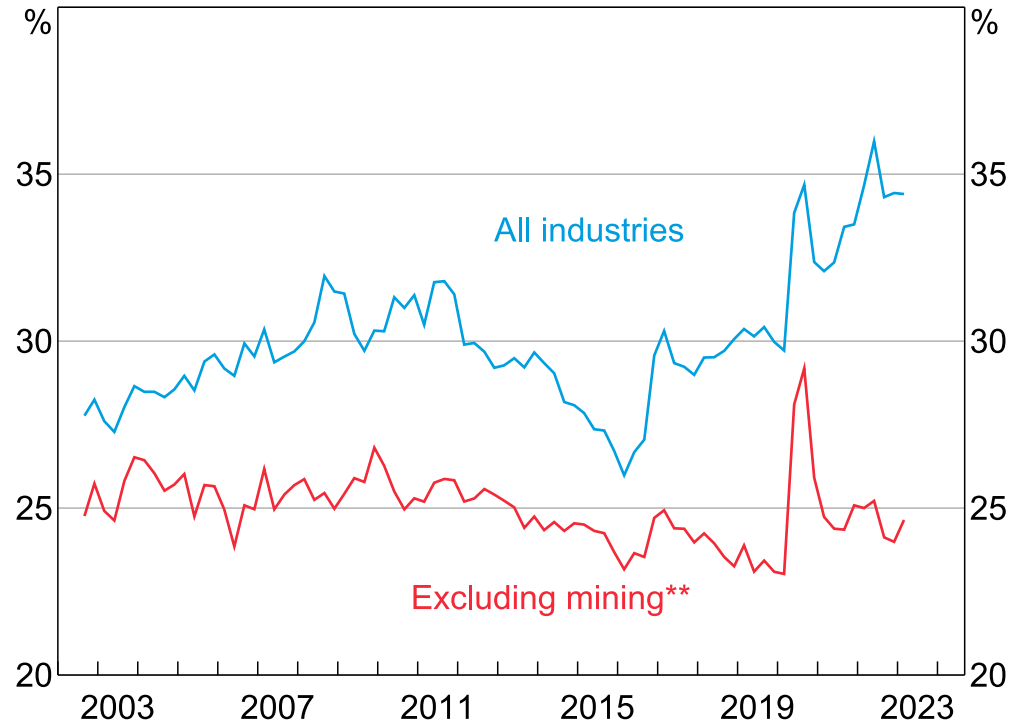
* January 2019 = 100, based on the US dollar price.

** Year-ended growth.

Sources: ABS; Bloomberg; RBA; Refinitiv.



Profit Share of Income*



* Gross operating surplus of private non-financial corporations plus gross mixed income as a share of total factor income.

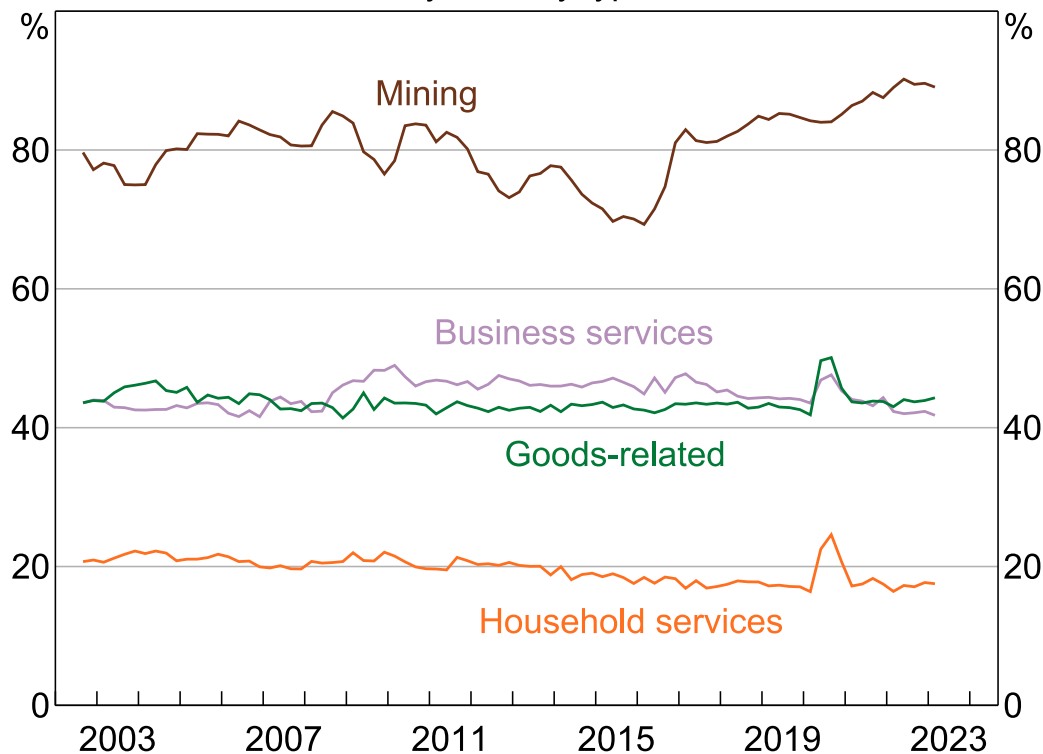
** Excluding mining sector profits and mining sector labour income.

Sources: ABS; RBA.



Profit Share of Factor Income*

By industry type



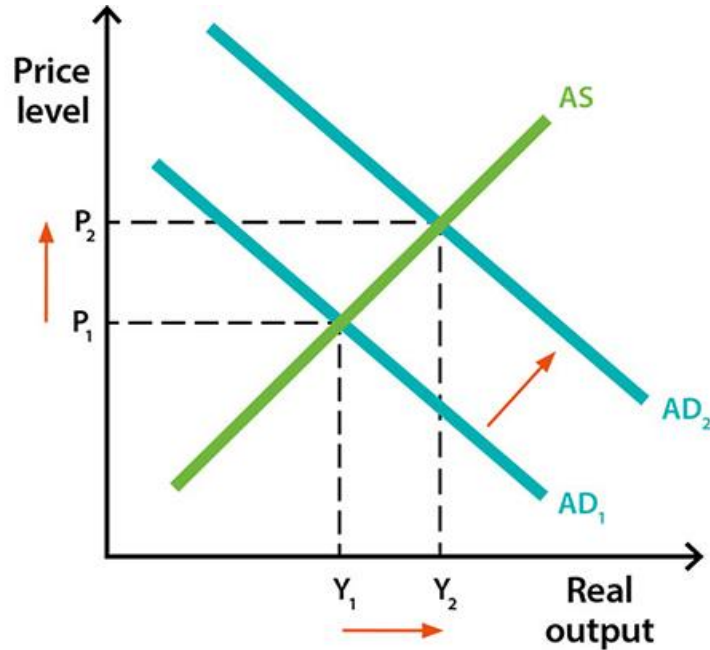
* Profits include gross mixed income.

Sources: ABS; RBA.

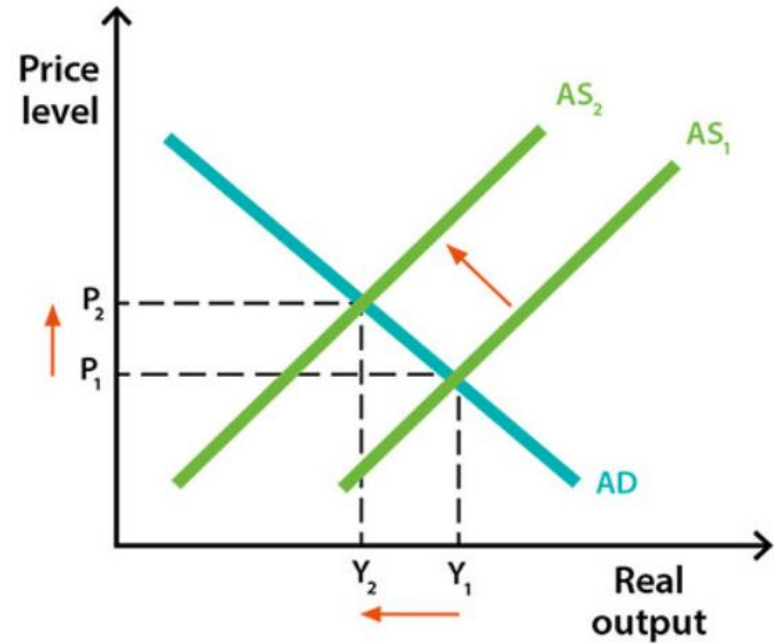


Demand vs supply

Demand pull



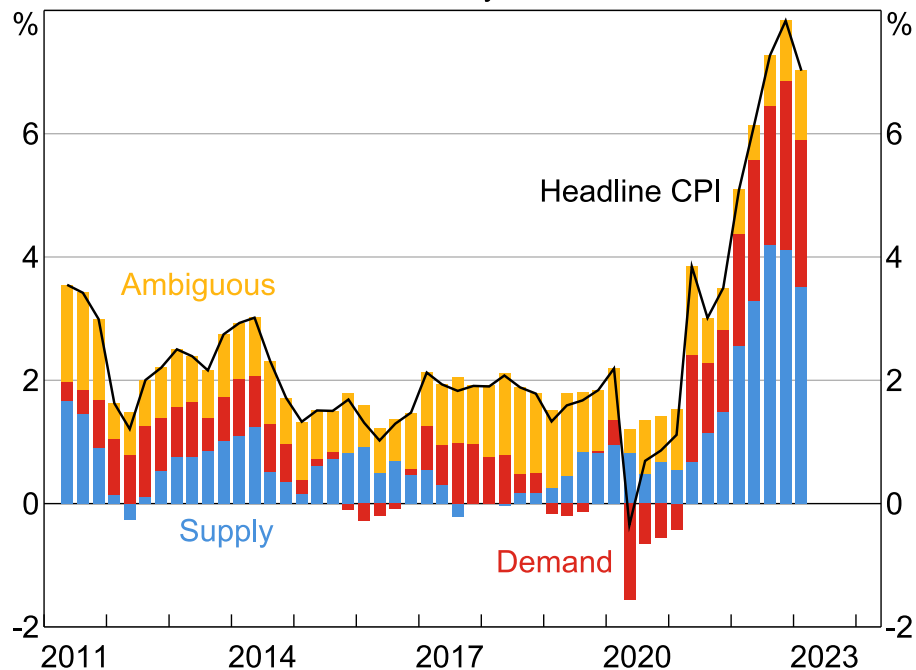
Cost push (supply)





Supply and Demand Drivers of Inflation*

Headline CPI, year-ended



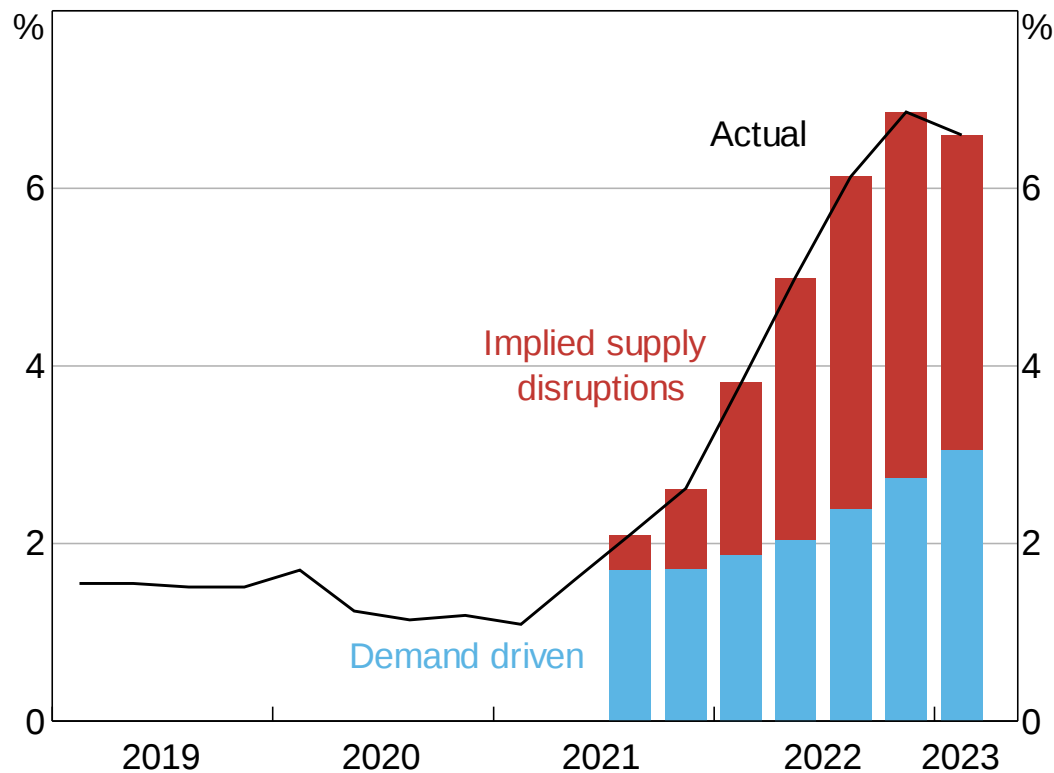
* Based on the methodology of Shapiro (2022); 'ambiguous' indicates the contribution from components where the unexpected change in prices or quantities is within the 25 per cent prediction interval and the contribution from unmodelled components due to data limitations.

Sources: ABS; RBA.



Trimmed Mean Inflation

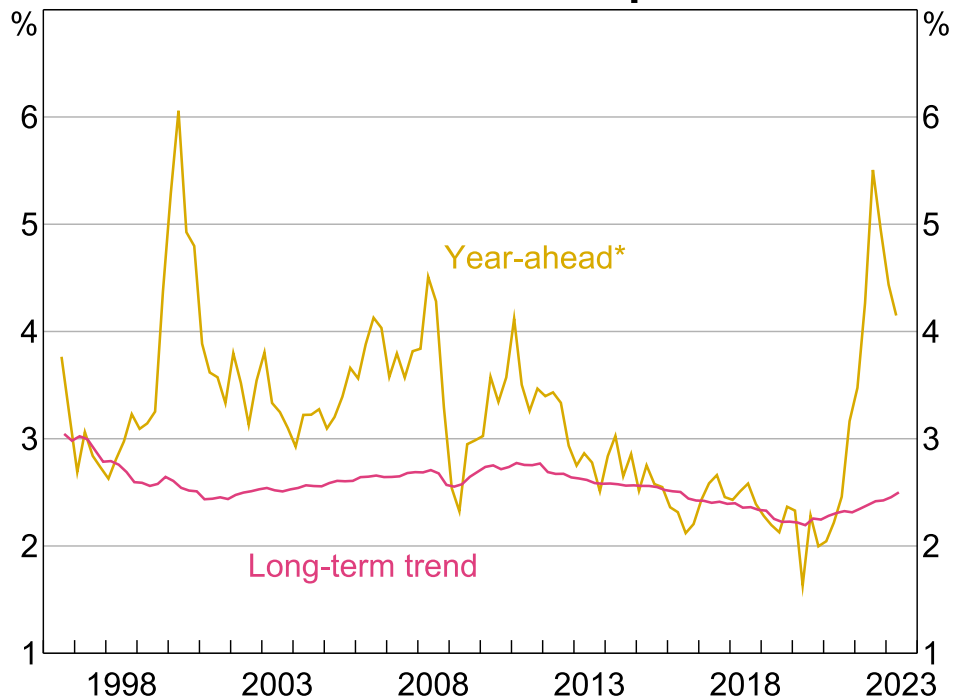
Year-ended contributions



Sources: ABS; RBA



Measures of Inflation Expectations



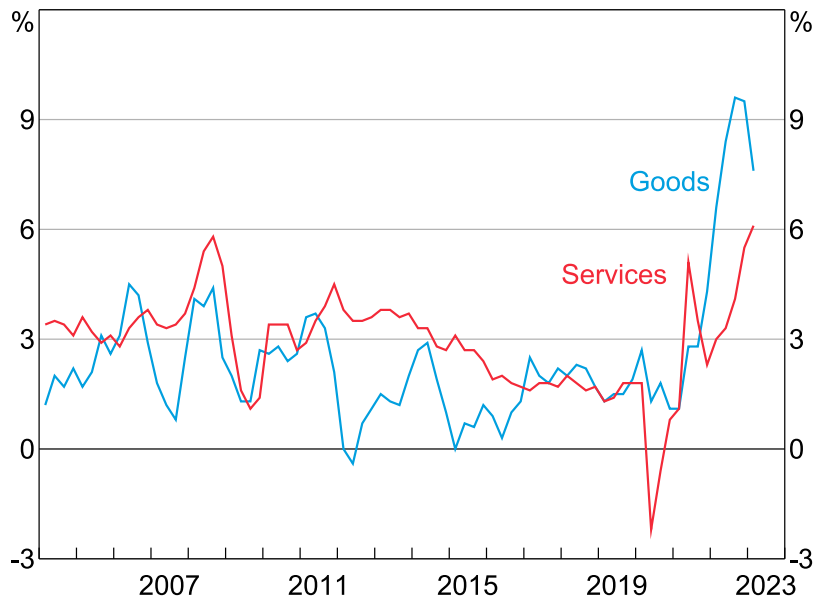
* Average of consumers, unions, inflation swaps and market economists from 2008 onwards and the average of first three before that.

Sources: Australian Council of Trade Unions; Bloomberg; Consensus Economics; Melbourne Institute; RBA; Workplace Research Centre; Yieldbroker.



Goods and Services Inflation

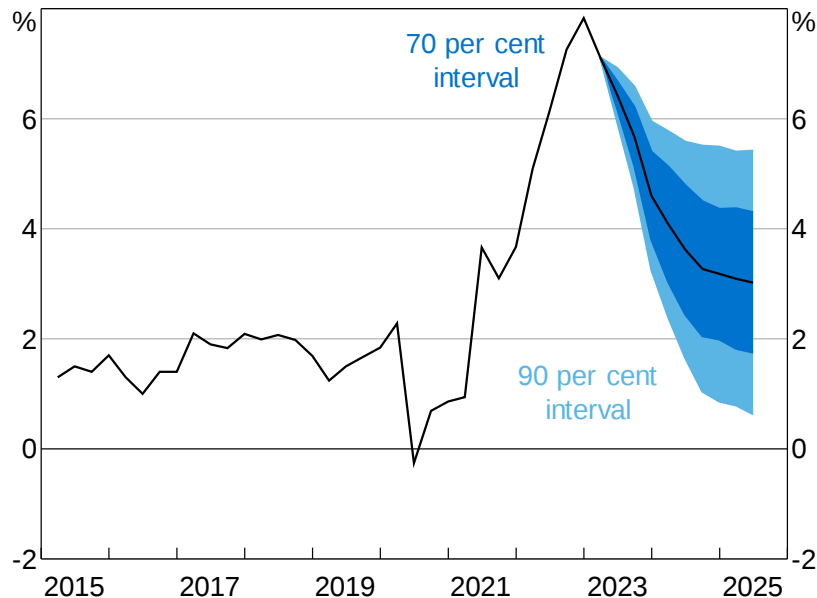
Year-ended



Source: ABS.

Headline Inflation Forecast*

Year-ended



* Confidence intervals reflect RBA forecast errors since 1993.

Sources: ABS; RBA