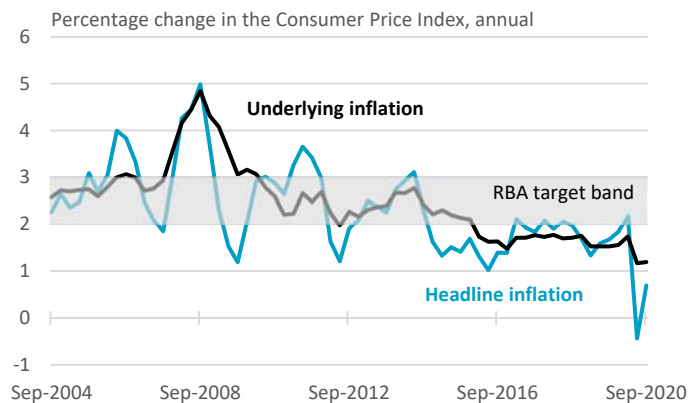


# ASFA Economic Snapshot: week ending 30 October

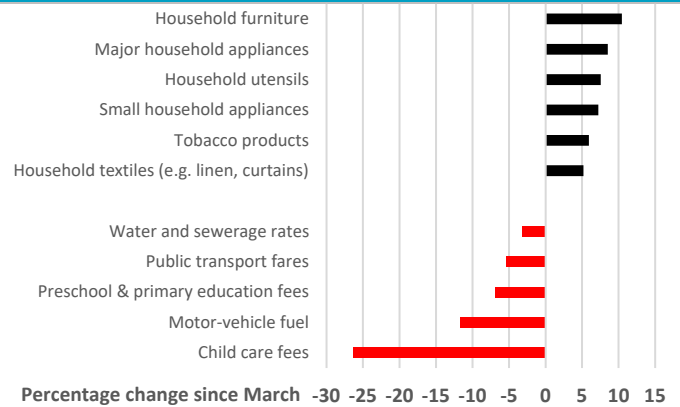
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

## Inflation remains low in the September quarter ...



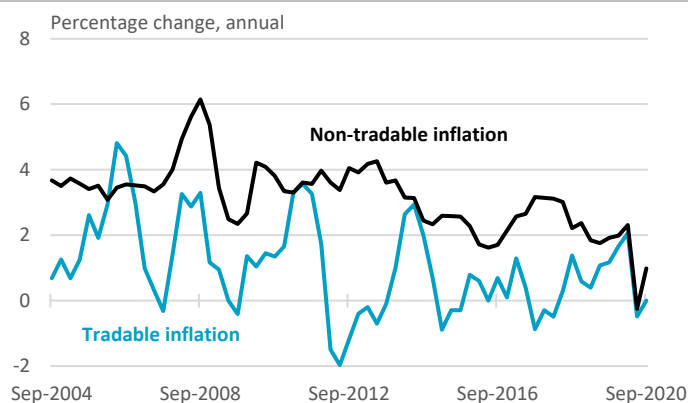
Headline inflation (or growth in the Headline CPI) was 0.7% for the year to the September quarter, up from -0.4% for the year to the June quarter. The fluctuation in headline inflation during the past 2 quarters largely reflects the introduction and then removal of free childcare (Panel 2). Underlying inflation, which excludes volatile items and is a better indicator of general price pressures, was unchanged (1.2% over the year) and remains well below the RBA's medium-term target band.

## ... with some large price changes since March



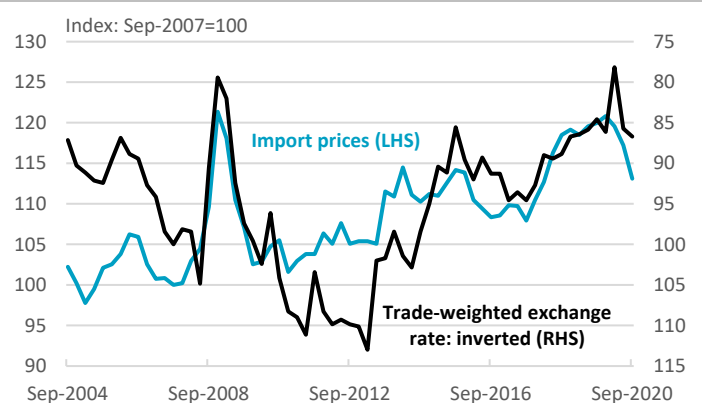
This chart shows the largest price changes in the 6 months since the onset of the crisis (among the price changes excluded from underlying inflation). Strong consumer demand for appliances, coupled with shortages, led to large price rises. For childcare, that the (average) price in the September quarter was still below pre-crisis levels reflects the timing of the end of free care (mid-July). The impact of temporary free care on the CPI will be fully reversed in the December quarter.

## Tradable and non-tradable inflation remain low ...



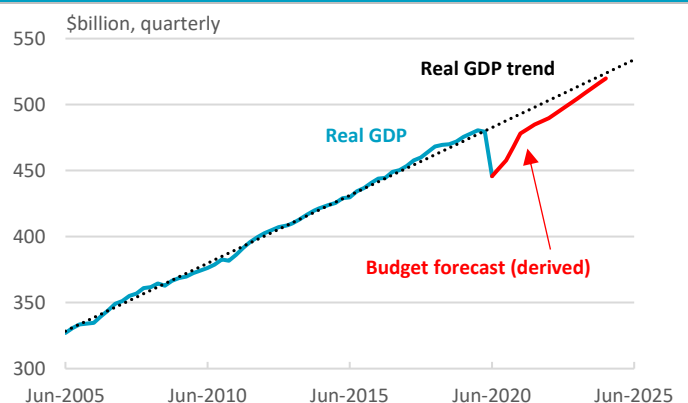
Prices within the CPI are designated as non-tradable or tradable, depending on the relative influence of local and international factors. Non-tradable inflation (an indicator of domestic price pressure), will rise in the next quarter as the impact of free childcare fully reverses. The recent drop in tradable inflation was driven by the AUD (Panel 4).

## ... with import prices impacted by the exchange rate



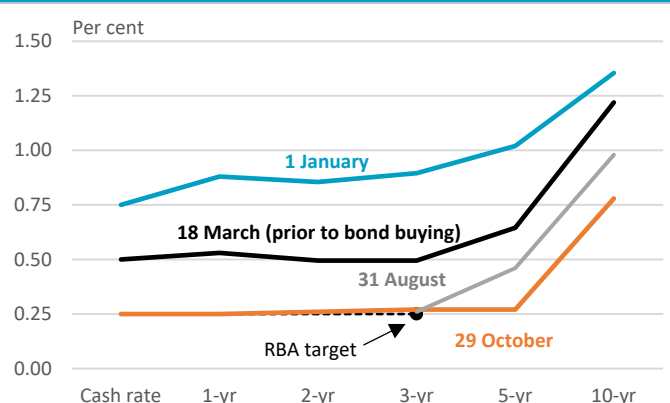
In the short-term, import prices tend to track the exchange rate (the exchange rate is inverted in this chart – falling import prices reflect a rising exchange rate). Over the past 6 months, Australia's trade-weighted exchange rate (composed of currencies weighted by trade shares) appreciated by 11%, while import prices fell by 5%.

## Inflationary pressures will remain weak ...



This chart shows the expected trajectory for real GDP (red line), which is derived from the Budget forecasts. The GDP trend (black line) shows an assumed path for GDP in the absence of the crisis, and is a measure of potential GDP. The persistent gap over the forecast period suggests that inflationary pressures will remain weak during this period.

## ... and the RBA has little policy room



The RBA Board meets next Tuesday for its monthly monetary policy decision. Inflation is below the RBA target, while GDP is below potential. However, the RBA has reached the effective limit of traditional policy. It has cut the cash rate to 0.25%, and also reduced rates on government bonds (via secondary-market purchases).

Sources for each panel: (1 to 3) ABS, *Consumer Price Index*, September; (4) ABS, *Consumer Price Index*, September and ABS, *International Trade Price Indexes*, September; (5) The Commonwealth of Australia, *Budget 2020-21*; ABS, *National Accounts*, June and ASFA; (6) RBA, *Statistical tables*, F1 and F2.