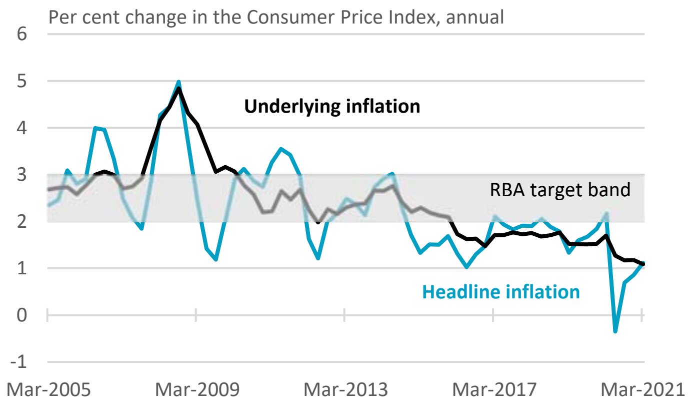
ASFA Economic Snapshot: week ending 30 April

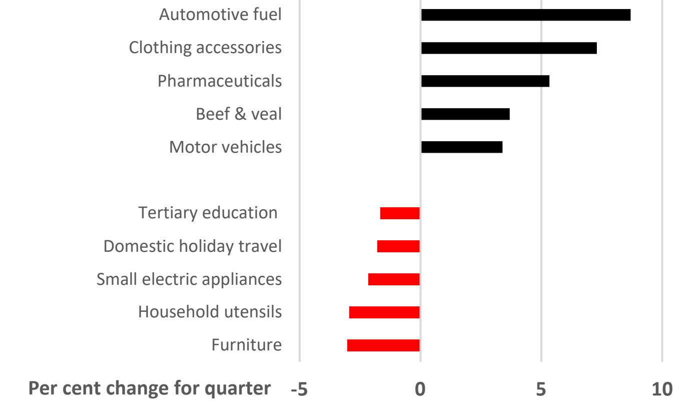
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Inflation remains low in the March quarter …



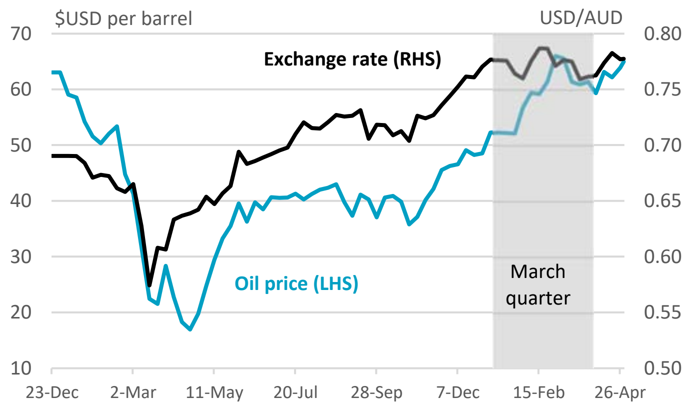
Headline inflation (or growth in Headline CPI) was 1.1% for the year to the March quarter, up from 0.9% for the year to the December quarter. The sharp fluctuation in headline inflation early in 2020 largely reflected the introduction and then removal of free childcare. Underlying inflation, which excludes volatile items and is a better indicator of general price pressure, was 1.1% over the year (previously 1.2%) and remains well below the RBA's medium-term target band.

… notwithstanding strong price rises for some goods



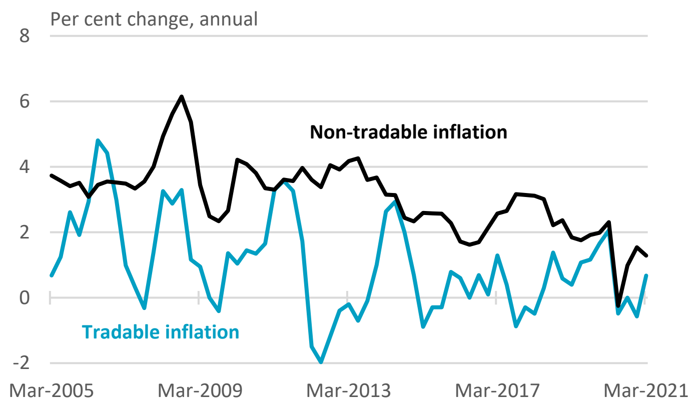
This chart shows the largest quarterly price changes (among the changes excluded from underlying inflation). Recovering global demand for oil drove the rise in fuel prices (Panel 3). Pharmaceutical prices rose due to the cyclical reduction in the proportion of people who qualify for subsidies.* Furniture and appliance prices fell in the quarter following strong rises in the second half of last year as consumer demand surged (prices are 6 to 7% higher than a year ago).

Oil prices continued to rise in the quarter



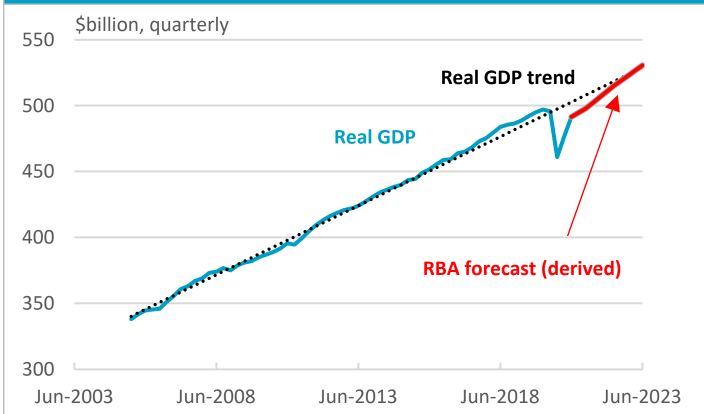
During the March quarter the global price of oil rose by about 20% while the exchange rate depreciated by 1% (together, reflected in domestic fuel prices in Panel 2). The global oil price is back around pre-crisis levels, which reflects the slow recovery in economic activity coupled with ongoing crude production limits among OPEC countries.

Tradable and non-tradable inflation remain low



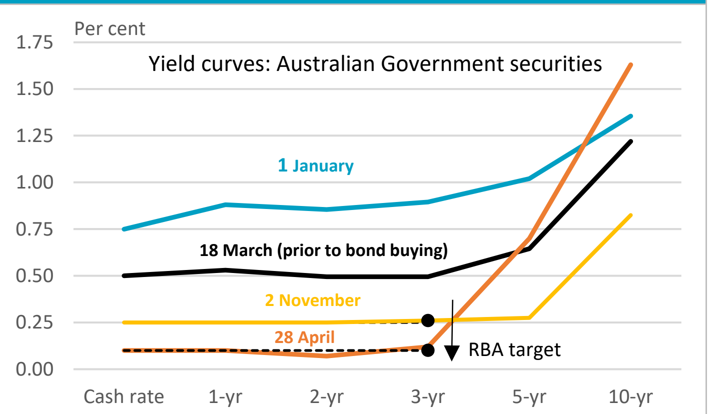
CPI components are designated tradable or non-tradable, depending on the relative influence of international and local factors. The recent pick-up in tradable inflation largely reflects fuel prices. Non-tradable inflation (a measure of domestic price pressure) was about 2% prior to the crisis, with the recent fluctuation largely reflecting childcare prices.

Inflationary pressures will remain subdued …



This chart shows the expected trajectory for real GDP (red), which is derived from the RBA's February forecasts. The GDP trend (black) shows an assumed path for GDP in the absence of the crisis and is a measure of potential GDP. The gap between the two lines over the forecast period suggests inflationary pressures will remain subdued.

… and monetary policy will remain accommodative



With inflation below target and GDP below potential, the RBA will maintain its current policy stance for an extended period. The RBA has cut the cash rate to 0.1%, and reduced rates on government bonds out to 3 years via secondary-market purchases. The rise in long-term rates partly reflects market expectations for improving economic prospects.

Sources for each panel: (1 to 2) ABS, *Consumer Price Index*, March 2021; (3) Yahoo Finance; (4) ABS, *Consumer Price Index*, March 2021; (5) The Reserve Bank of Australia, *Statement of Monetary Policy*, February 2021; ABS, *National Accounts*, December 2020 and ASFA; (6) RBA, *Statistical tables*, F1 and F2 and ASFA. *Under the Medicare safety net and Pharmaceutical Benefits Scheme.