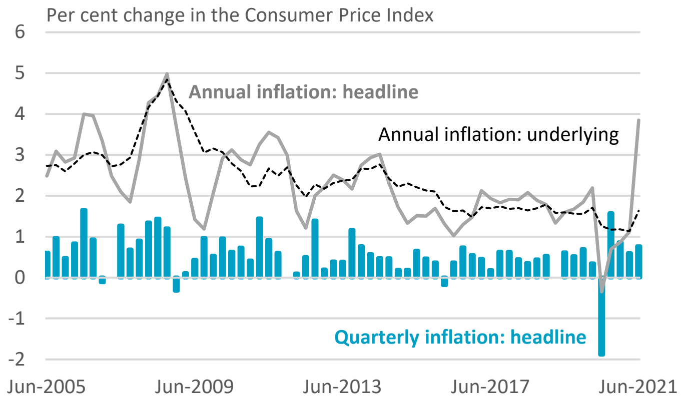
ASFA Economic Snapshot: week ending 30 July

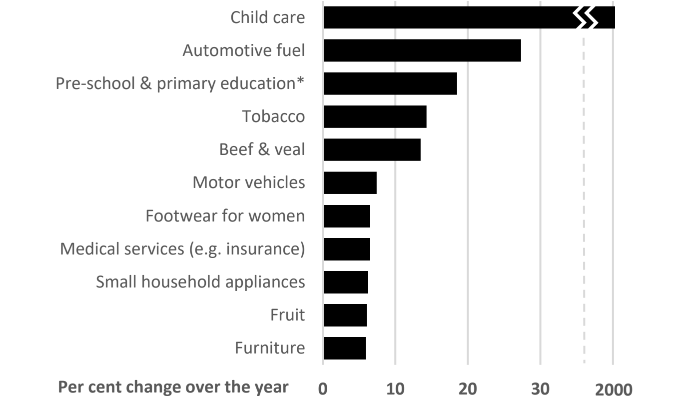
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Inflation up in the June quarter …



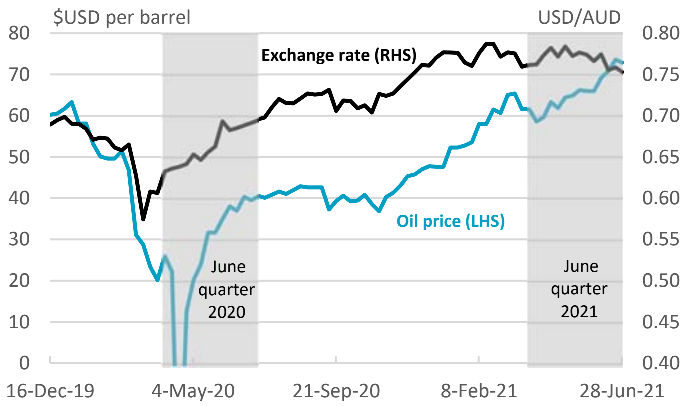
Headline annual inflation (grey line) rose sharply to 3.8% for the year to the June quarter 2021, following a period where annual inflation actually fell (for the year to the June quarter 2020). This volatility largely reflects the pass-through of the sharp fall and subsequent rebound in childcare fees and fuel prices. There is also evidence of some pick-up in underlying inflationary pressures (dotted line - see Panel 2).

… mainly driven by temporary factors



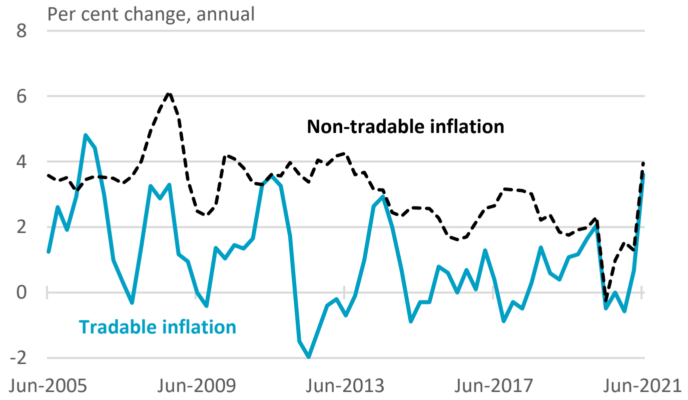
This shows the largest price rises from June quarter 2020 to June quarter 2021. For childcare, the 2000% rise reflects the fact that childcare was free for almost all of June quarter 2020, while the 27% rise in fuel prices is due to recovering global oil demand (Panel 3). Other rises reflect supply-chain constraints (vehicles), localised labour shortages (fruit) and annual adjustments (health insurance premia).

Oil prices continued to rise in the June quarter



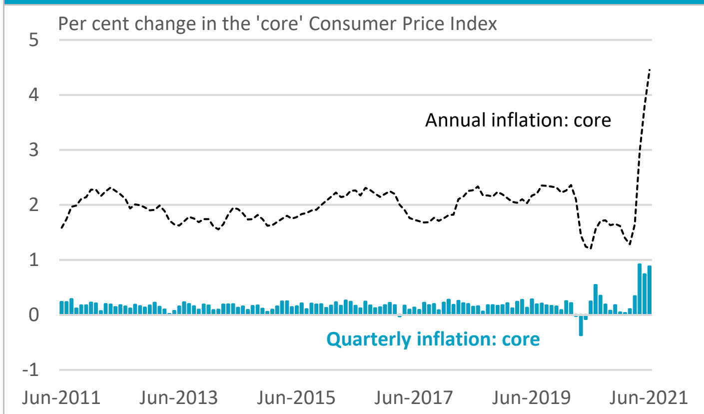
Following the sharp drop in the early stages of the COVID shock,** global oil prices have surpassed pre-crisis levels – the impact of the global economic recovery has exceeded that from the slow unwind of earlier OPEC production cuts. As tends to be the case for global shocks, movements in the AUD reflected changes in commodity prices – and so tempered the impact on domestic oil prices (in both directions).

Temporary impacts on tradable & non-tradable inflation



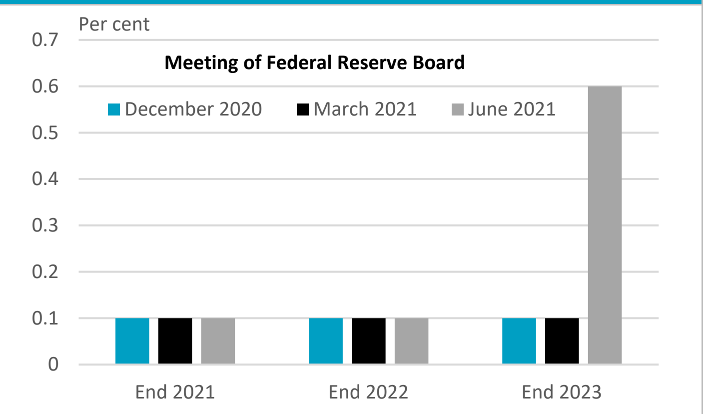
CPI components are designated tradable or non-tradable, depending on the relative influence of international and local factors. The sharp pick-up in tradable inflation for the year to the June quarter largely reflects fuel prices (in AUD), while the pick-up in non-tradable inflation (indicator of domestic price pressure) reflects the temporary impact of childcare fee changes. Both measures will drop in the next quarter.

US inflation picking-up



This shows US monthly ‘core’ inflation, which excludes food and fuel prices. Monthly core inflation has averaged around 0.8% over the last 3 months, or 2% for the June quarter. The major driver of the rise is motor vehicle prices (due to global supply-chain constraints), but there is also evidence of some underlying inflationary pressures.

US monetary policy accommodative for some time



The key channel by which US inflation affects the global economy is via US interest rates. This chart shows the *median* of forecasts made by members of the Fed Board for the policy rate.^ It suggests the Board considers the inflation spike to be largely temporary, and that policy will remain accommodative for some time to support the US recovery.

Sources for each panel: (1 to 2) ABS, *Consumer Price Index*, June 2021; (3) Yahoo Finance and ASFA calculations; (4) ABS, *Consumer Price Index*, June 2021; (5) FRED database; (6) Federal Reserve and ASFA calculations; * Pre-school price rises reflect the changes in childcare fees. ** Oil prices turned negative on 20 April 2020 (in effect, oil producers paid buyers to take oil supplies off their hands). ^ US monetary policy is set by the Federal Open Market Committee, which comprises the 7 members of the Federal Reserve Board of Governors and 5 Federal Reserve Bank presidents (from the group of regional Reserve Banks).