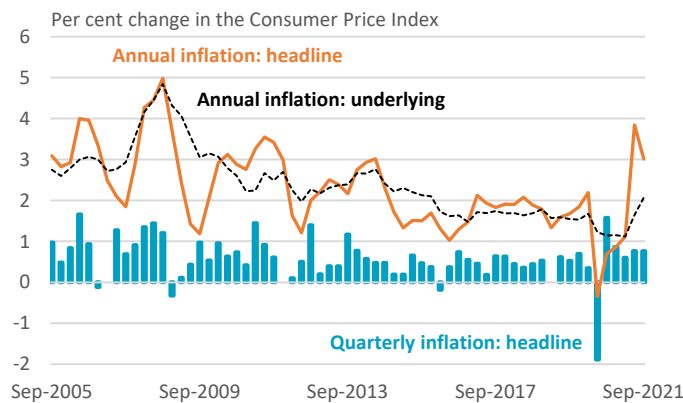


# ASFA Economic Snapshot: week ending 29 October

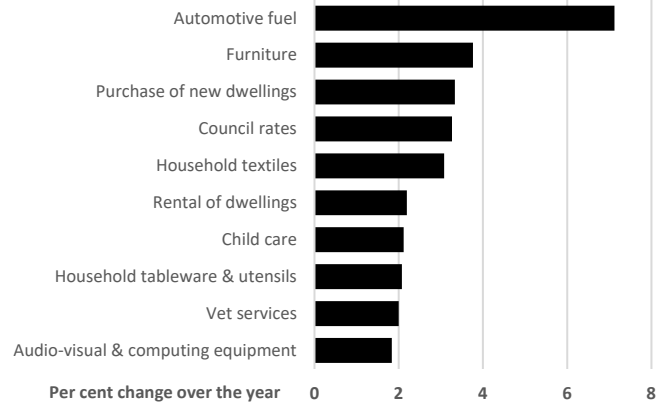
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

## Inflation high in the year to September quarter ...



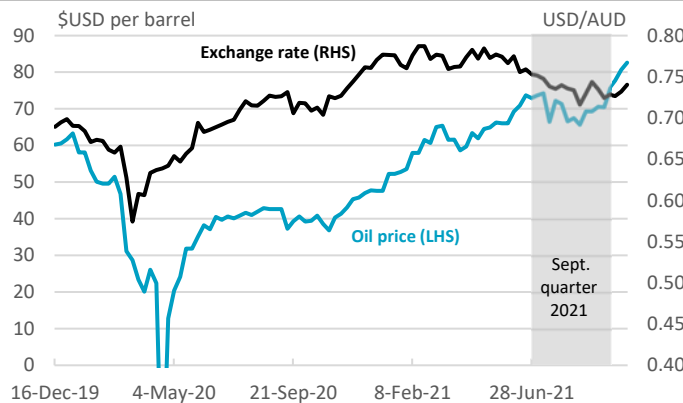
Headline annual inflation (orange line) was 3.0% for the year to the September quarter 2021, following a period where annual inflation actually fell (for the year to the June quarter 2020). This volatility largely reflects the pass-through of the sharp fall and subsequent rebound in childcare fees and fuel prices. There is also evidence of a pick-up in underlying inflationary pressures (dotted line, see Panel 2).

## ... partly due to emerging supply-chain constraints



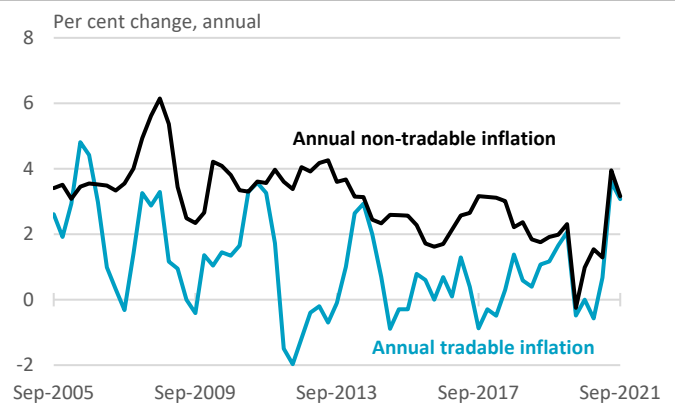
This chart shows the largest price rises for the September quarter. The 7% increase in fuel prices reflects recovering global oil demand (Panel 3). For new dwellings, the cost of construction materials rose due to supply disruptions and shortages. Supply-chain constraints also led to significant price rises for furniture, audio-visual and computing equipment, and motor vehicles (not shown above, up 1.4%).

## Oil prices continued to rise in the September quarter



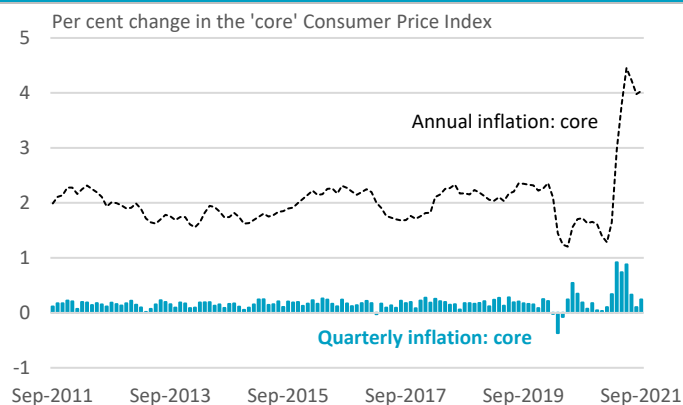
Following the sharp drop in the early stages of the COVID shock,\* global oil prices have surpassed pre-crisis levels – as the impact of the global economic recovery has exceeded that from the slow unwind of earlier OPEC production cuts. As tends to be the case for global shocks, changes in the AUD have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

## Imported inflation to be the key driver of price pressures



CPI components are designated tradable or non-tradable depending on the relative influence of global/local factors. The recent rise in tradable inflation largely reflects fuel prices, while the non-tradable inflation spike largely reflects one-off childcare fee changes (Panel 1). Looking ahead, the prospect of persistent constraints in global supply-chains suggests a period of elevated tradable inflation ahead.

## US inflation falls, but this is likely to be temporary



US monthly 'core' inflation excludes food and fuel. In quarterly terms, core inflation fell to 0.7% in the September quarter (down from 2.5% in June quarter), as price growth slowed for some major items. Looking ahead, inflationary pressure is likely to build in the US, and globally, where supply-chain bottlenecks constrain recovering demand.

## Inflation concerns shift US monetary policy expectations



The key channel by which US inflation affects the global economy is via US interest rates. This chart shows the median of forecasts for the policy interest rate from members of Fed Board.<sup>^</sup> It suggests a shift in inflationary expectations between the June and September meetings, such that members expect monetary policy to be tighter earlier.

Sources for each panel: (1 to 2) ABS, *Consumer Price Index*, September 2021; (3) Yahoo Finance and ASFA calculations; (4) ABS, *Consumer Price Index*, September 2021; (5) FRED database; (6) Federal Reserve and ASFA calculations; \* 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).