

Economics Weekly

This week's economic highlights

- The ABS released **CPI data** for the June quarter of 2022, revealing high levels of inflation driven by fuel and housing. This is the fourth consecutive quarter of annual CPI increases above 3%, and indicates underlying background inflation continues to accelerate
- **Retail sales** recorded the smallest month-on-month growth in the year in June – indicating the post-pandemic growth in retail sales is slowing in the face of rising interest rates.
- Australia's **import and export prices** both grew dramatically in the June quarter, but export prices outpaced imports. This reflects strong demand for Australian commodities – particularly iron ore, coal and metals – and will further improve Australia's terms of trade.
- The ABS **producer price indexes** indicated the second largest annual growth in the price of goods and services in the June quarter, following the high prices recorded during the global financial crisis in 2008.

Latest Australian economic data

The headline consumer price index (CPI) rose 6.1% y/y in the June quarter (Q2) of 2022. This is up from 5.1% y/y in Q1 of 2022. The increase in headline inflation is due to rising transport costs (record high petrol prices), new dwellings and furniture. Robust demand, combined with material and labour supply disruptions, resulted in the highest annual inflation for new dwellings since 1999 (when the series commenced). Price inflation for automotive fuel reached a record level for the fourth consecutive quarter.

The annual rise in the CPI is the largest since the introduction of the goods and services tax (GST). The price of goods (+8.4%) rose more strongly through the year than that of services (+3.3%).

Trimmed mean inflation rose by 1.5% q/q and 4.9% y/y in Q2 2022. This was the second quarter this measure was above the RBA's target band of 2 to 3% since Q1 of 2010. Trimmed mean inflation "removes volatility caused by seasonal and irregular price movements" and is the Reserve Bank of Australia's (RBA) preferred measure of 'underlying' inflation.

This indicates that underlying background inflation continues to accelerate, and at a faster pace than forecasted by the RBA in May 2022.

The ABS noted that *"Shortages of building supplies and labour, high freight costs and ongoing high levels of construction activity continued to contribute to price rises for newly built dwellings. Fewer grant payments made this quarter from the Federal Government's HomeBuilder program and similar state-based housing construction programs also contributed to the rise. The CPI's automotive fuel series reached a record level for the fourth consecutive quarter. Fuel prices rose strongly over May and June, following a fall in April due to the fuel excise cut."*

Looking ahead, the RBA expects inflation to remain above its 2-3% p.a. target band until Q2 of 2024. The RBA will update its forecasts in its next *Statement on Monetary Policy* on 5 August 2022. More information about the CPI in Q2 2022 is in our *Fact Sheet* [here](#).

Retail sales grew by 0.2% in June 2022 (up 12.0% compared to a year earlier) recording a high of \$34.2 billion and remaining higher than levels recorded in November 2021. Although the increase recorded was the sixth consecutive monthly increase, it was the smallest increase recorded this year (see chart 5).

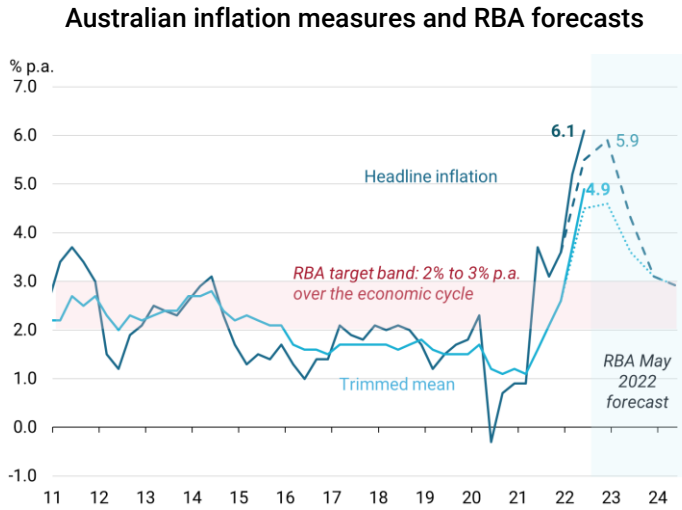
Three of the six retail sub-sectors reported increases in sales in June – ‘cafes, restaurants and takeaway food services’ (+2.7% m/m), ‘clothing, footwear and personal accessory retailing’ (+1.3% m/m) and other retailing (+0.5% m/m). Retail sales fell in the department stores (-3.7% m/m), food retailing (-0.3% m/m) and household goods retailing (-0.3% m/m) sub-sectors.

Retail sales rose or paused in all states and territories except New South Wales (-0.2% m/m and +11.1% y/y). The largest increase across states and territories was in the Northern Territory (+1.8% m/m and +5.4% y/y) and South Australia (+0.7% m/m and +9.9% y/y).

The latest release of the producer price indexes by the ABS indicate the price of goods and services rose by 1.4% q/q and 5.6% p.a., the second largest annual change recorded in the data series (see chart 6). The last time the price of goods and services rose this substantially was during the period of the global financial crisis in 2008. Output of ‘building construction’ (+3.9% q/q), ‘petroleum refining and petroleum fuel manufacturing’ (+31.5% q/q) and ‘heavy and civil engineering construction’ (+2.8% q/q) were the largest contributors to the quarterly growth.

The ABS import and export price indexes indicate that export prices rose by 38.7% p.a. in Q2 of 2022. Import prices rose by 22.1% p.a. (charts 7 and 8). Strong export price rises in Q2 mainly reflected high prices for coal, iron ore and other metals, driven by disruptions in supply related with the Russia-Ukraine conflict and adverse weather conditions. Export prices of gas also rose 4.5% q/q due to the growth in oil-linked contracts capturing the continued oil price rises in early 2022.

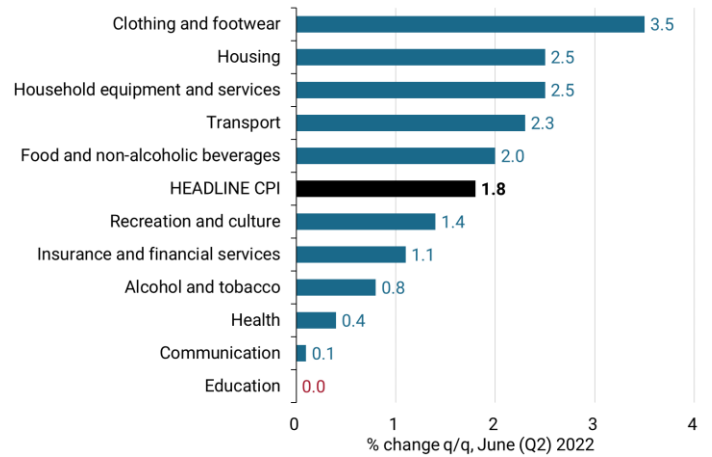
Chart 1: On an annual basis, **headline inflation** (CPI) rose to 6.1% p.a. up from 5.1% p.a. in Q1 of 2022 and is well above 3% which is the top of the Reserve Bank’s (RBA’s) target range for inflation.



Source: ABS, Consumer Price Index, June 2022

Chart 2: Price increases in Q2 2022 were led by **‘clothing and footwear’ prices** which rose 3.5% q/q. This was followed by **‘housing’ prices**. Shortages of building supplies and labour, high freight costs and ongoing high levels of construction activity continued to contribute to price rises for newly built dwellings.

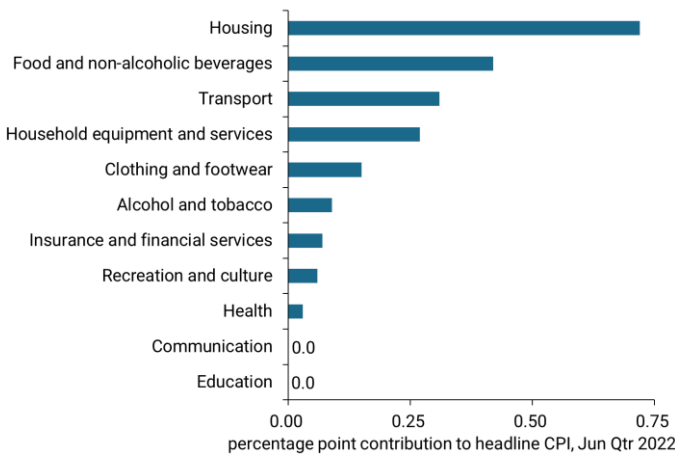
Quarterly change in prices by component, Q2 2022



Source: ABS, Consumer Price Index, June 2022

Chart 3: Housing, driven by significant price rises of new dwelling purchase by owner-occupiers (+5.6% p.a.) and food & non-alcoholic beverages were **the largest contributors to the headline CPI** in Q2 of 2022.

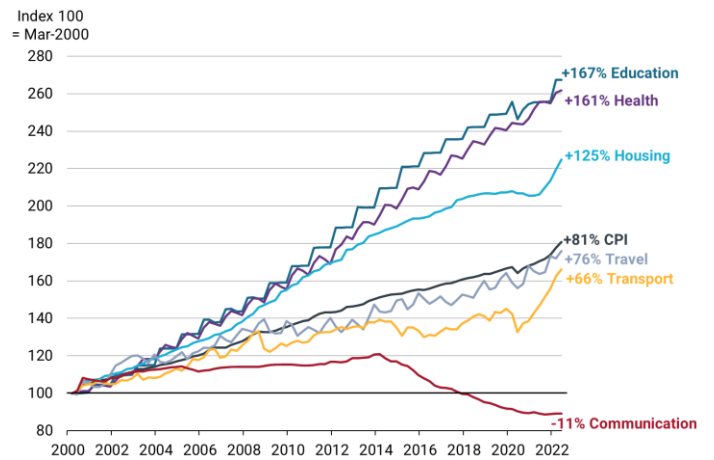
Percentage point contribution to headline CPI, June 2022



Source: ABS, ABS, Consumer Price Index, June 2022

Chart 4: Consumer prices (as measured by the CPI) have increased by 81% since 2000, but there has been wide divergence for price trends across different goods and services. Education prices have increased by over 167%, while communications prices have fallen.

Cumulative change in prices by CPI category, 2000 to Q2 of 2022



Source: ABS, Consumer Price Index, June 2022

Chart 5: Australian nominal retail sales rose 0.2% m/m to a record level of \$34.2 billion in June 2022 and remains higher than levels recorded in November 2021.

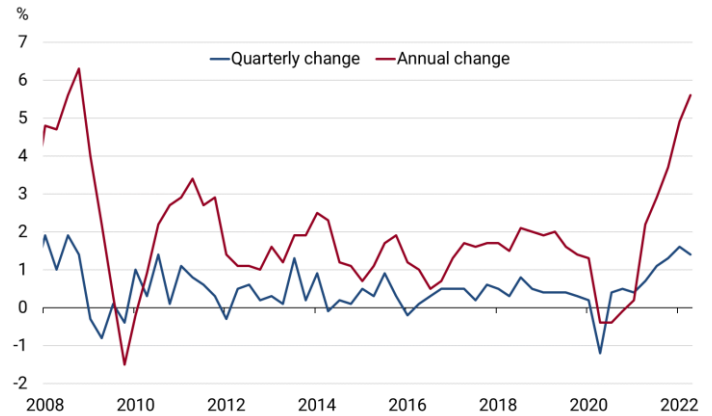
Nominal retail sales (\$bn per month)



Source: ABS, Retail trade, June 2022

Chart 6: ABS producer price indexes indicate the price of goods and services rose by 1.4% q/q and 5.6% p.a. The major contributors to the quarterly growth were the output of 'building construction', 'petroleum refining and petroleum fuel manufacturing' and 'heavy and civil engineering construction'.

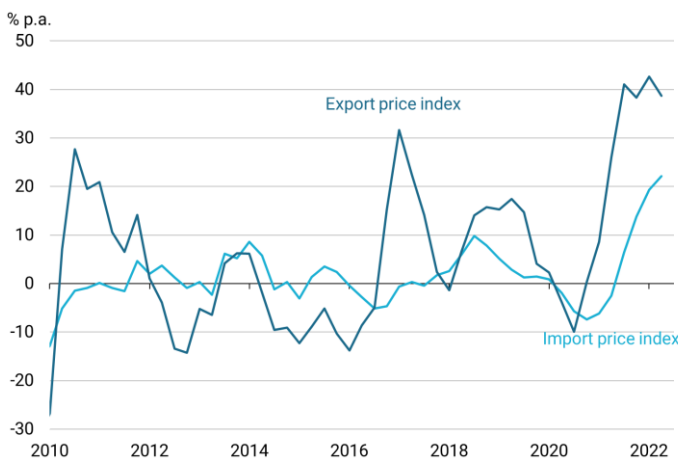
Final demand, quarterly and annual change, 2008 to Q2 of 2022



Source: ABS, Producer Price Index, June 2022

Chart 7: ABS import and export price indexes indicate that export prices rose by 10.1% q/q and 38.7% p.a. in Q2 of 2022, due to high prices for coal, iron ore and other metals while import prices rose by 4.3% q/q and 22.1% p.a. in Q2 of 2022.

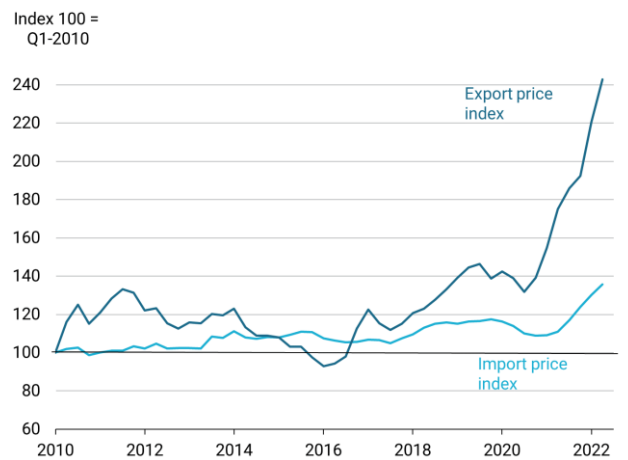
Export and import price index growth, 2010 to Q2 of 2022



Source: ABS, International Trade Price Index, June 2022

Chart 8: The prices Australia received for its exports have soared in recent years relative to the price Australia pays for its imports. Higher export prices help to support government budgets and national aggregate income.

Export and import price indexes, 2010 to Q2 of 2022



Source: ABS, International Trade Price Index, June 2022

This week's data and events 25 July – 29 July 2022

Day	Date	Data/event	Data period
Wed	27 July	ABS, Consumer Price Index	June 2022
Thu	28 July	ABS, Retail Trade	June 2022
Thu	28 Jul	ABS, International Trade Price Indexes	June 2022
Fri	29 Jul	ABS, Production Price Indexes	June 2022

Next week's data and events 01 August – 05 August 2022

Day	Date	Data/event	Data period
Mon	01 Aug	Ai Group, Performance of Manufacturing	July 2022
Tue	02 Aug	ABS, Building Approvals	June 2022
Tue	02 Aug	ABS, Lending Indicators	June 2022
Wed	03 Aug	Ai Group, Performance of Construction	July 2022
Thu	04 Aug	ABS, International Trade in Goods and Services	June 2022
Fri	05 Aug	Ai Group, Performance of Services	July 2022

Ai Group Industry Performance Indicators

Australian Performance of Manufacturing Index [®]	June 2022	54.0 ▲
Australian Performance of Construction Index [®]	June 2022	46.2 ▼
Australian Performance of Services Index [®]	June 2022	48.8 ▼

Seasonally adjusted. Arrows represent direction of movement relative to last observation. Source: Ai Group.

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