Australian Inflation and Cost Dynamics

KPMG Australia

—

November 2025

Executive Summary

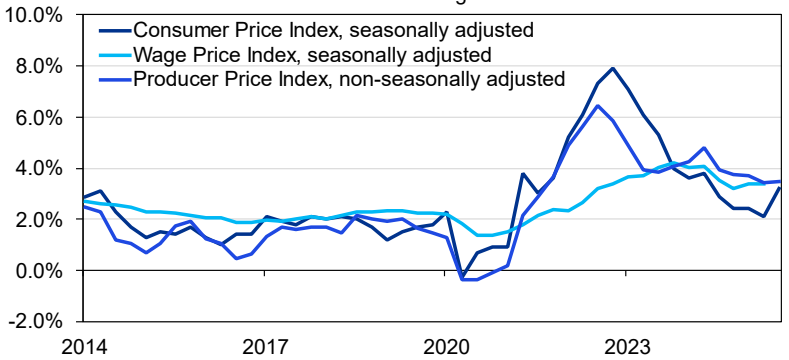
KPMG's biannual *Australian Inflation and Cost Dynamics* report is designed to provide unique and timely insights into the complexities of inflation and its driving forces within the Australian economy. The report investigates trends in international prices, consumer prices, producer prices and wages.

A significant feature of this report is the construction of the KPMG Inflation Pressure Gauge. This analytical tool is designed to offer a clearer understanding of the diverse factors contributing to inflation. Through this gauge, we differentiate the impact of demand-side and supply-side influences on the economy.

By examining these dynamics, this report aims to provide a nuanced perspective of inflationary pressures. Our goal is to equip decision-makers with the insights needed to help them navigate and anticipate the implications of inflation trends.

Measures of Inflation

Year-ended growth



Source: ABS, Haver, KPMG

Consumer inflation rebounded by more than expected in the September quarter 2025, surging above the RBA's target range for the first time in more than a year.

Headline consumer inflation jumped to 3.2% y/y and 1.3% q/q in the September quarter 2025.

The largest contributor to the inflation movement is a significant rise in *Electricity*. Prices for *Electricity* are up 23.6% through the year, including a 9.0% rise this quarter. Despite the renewal of the federal energy bill relief, electricity prices were rising to reflect annual price reviews that took place in July 2025 and the cessation of state governments' contribution to electricity bill relief. A more detailed analysis of *Electricity* trends is presented in Box B of this report.

Crucially, the RBA's preferred measure of underlying inflation – trimmed mean inflation – accelerated to 3.0%, also marking its first increase since the December quarter 2022.

The September quarter saw a broad-based inflation rebound where all inflation categories recorded an increase. The inflation surprise also reflected a sustained upward trend over recent quarters rather than a one-off spike where 9 out of 11 categories recorded higher q/q inflation in September compared to June.

Consistent with movements in consumer prices, producer price inflation rose to 3.5%, though it has remained broadly stable around the mid-3% range since the start of the year.

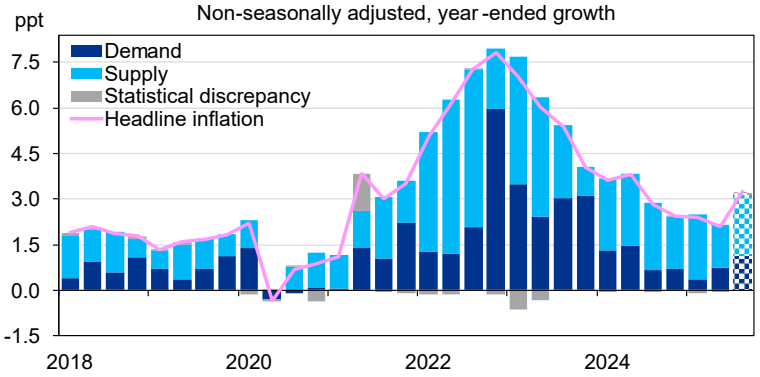
In contrast to the increase in retail electricity prices, electricity prices as an input to production fell 0.1% y/y, while wholesale electricity prices in the national market fell 27% y/y in the September quarter 2025.

Earlier data from the Wage Price Index showed that the pace of wages growth held steady at 3.4% y/y in the June quarter. This was down from growth of 4.1% a year ago, but nevertheless, delivered the fastest rise in real wages outside the pandemic since the December quarter 2012.

As a result of this inflation surprise, the RBA decided to leave the cash rate unchanged in its November meeting at 3.6%.

Executive Summary (cont.)

Estimated Contribution to Headline Inflation



Source: KPMG, ABS, Haver *September quarter 2025 is KPMG nowcast

Inflation and Wage Forecasts

	2025 Jun	Sep	Dec	2026 Mar	Jun	Sep
Core Inflation						
Q/Q	0.7	1.0	0.8	0.7	0.7	0.7
Y/Y	2.7	3.0	3.2	3.2	3.2	3.0
Wages						
Q/Q	0.8	0.9	0.8	0.8	0.8	0.8
Y/Y	3.4	3.4	3.4	3.3	3.3	3.3

Source: KPMG *Shaded cells indicate actual data

Supply factors still dominate inflation, but demand factors are rebounding.

With the full data available up to the June quarter 2025, we estimate that demand-driven factors accounted for approximately 0.8ppt (rounded) of the 2.1% headline inflation. This represents a sharp increase in the demand-side factors from 0.4ppt in the March quarter, when inflation was higher at 2.4%. Clearly, the rate cuts have started working their way through, stimulating the demand in the economy not long after the RBA's first cut in 2025.

Supply-side factors contributed 1.4ppt, down from 2.4ppt a year ago. While easing, the supply pressure remains persistent and continues to dominate the inflation profile.

Our nowcast suggests a stronger resurgence in demand-driven pressures in the latest inflation figure. High interest rates had previously succeeded in curbing demand; however, the three interest rate cuts this year appear to have re-stimulated household demand.

Supply-side pressures are expected to remain elevated in September quarter and continue to play a significant role in driving inflation, particularly due to sharp increases in electricity costs and sustained wage growth.

Although the forward outlook may still be affected by trade policy volatility, the upcoming shift to monthly publication of complete inflation data will provide more timely insights into the Australian economy.

Looking ahead, the global economic outlook remains clouded by trade uncertainty despite recent welcomed development after the first meeting between US President Trump and Chinese President Xi after six years.

KPMG expects the recent rebound in inflation to be contained. With electricity prices being the largest contributor to the recent inflation shock, the significant drop in wholesale electricity price is good news and we expect it to flow through to retail energy prices in the near term.

We also believe the current cash rate remains restrictive, which will soon leave the private sector and the pick-up in demand pressures to lose momentum. Coupled with modest economic growth prospects and a gradual easing in labour market conditions, wage growth is also expected to cool.

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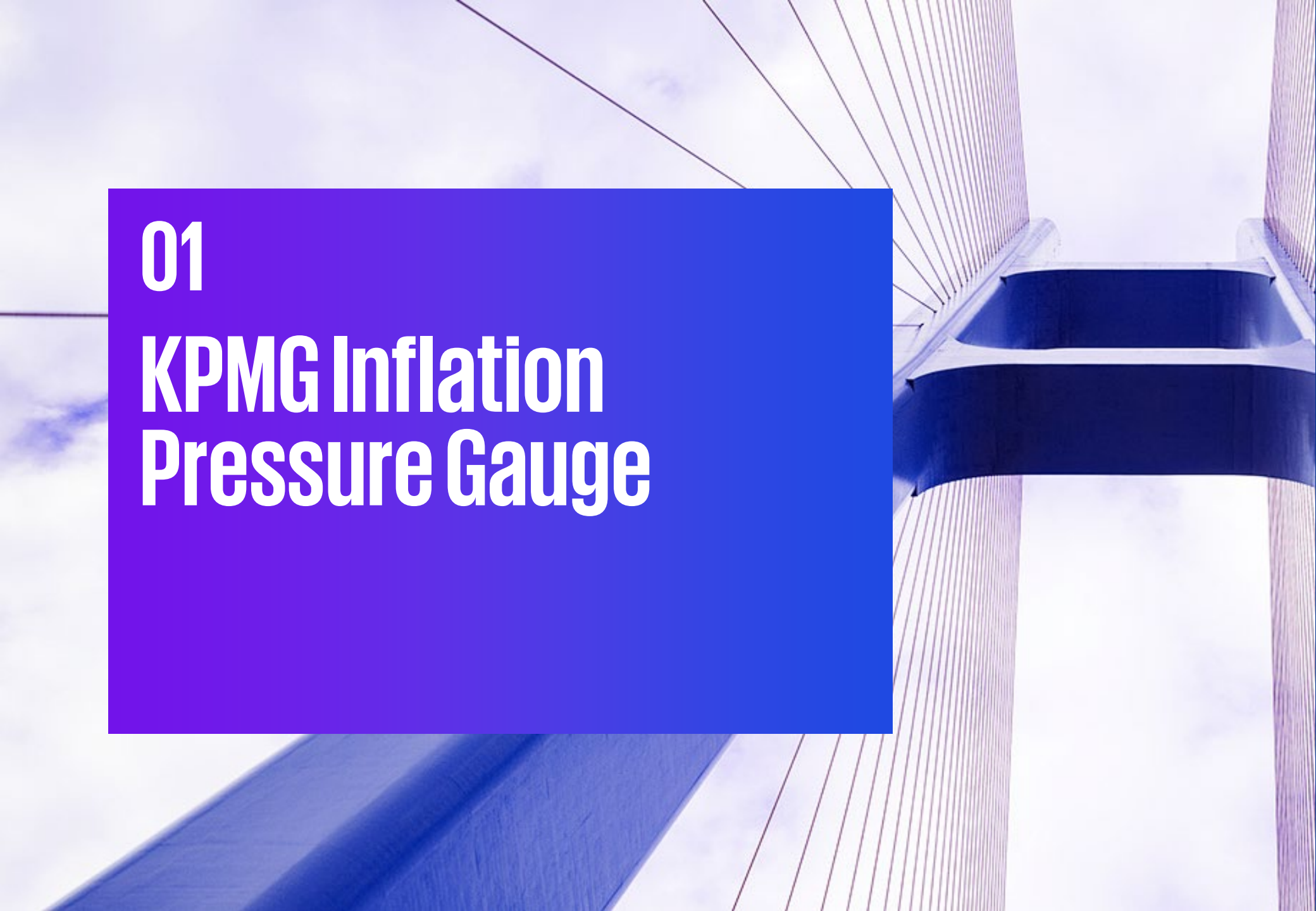
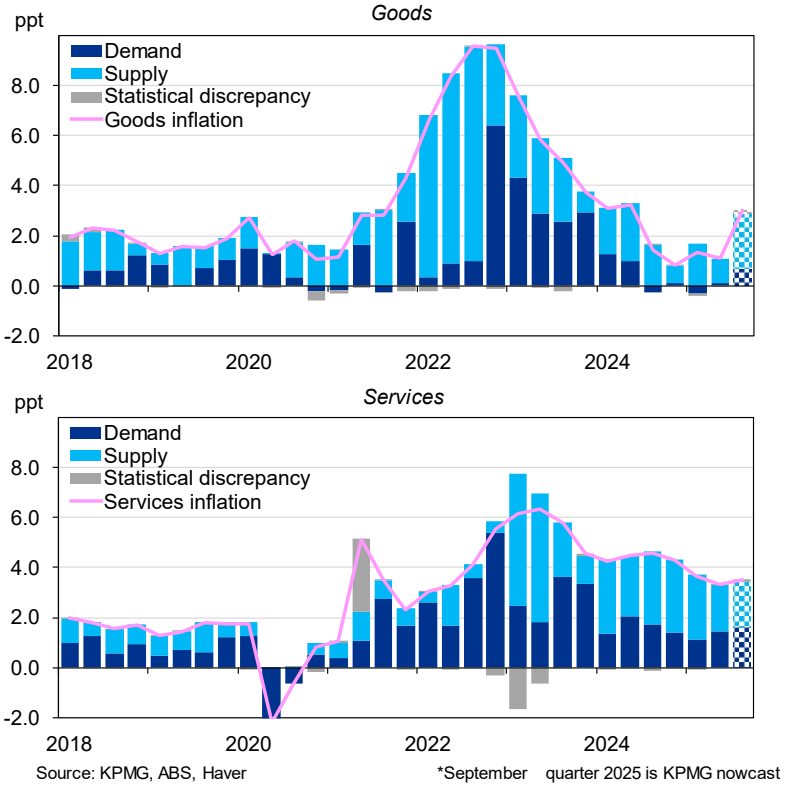


01

KPMG Inflation Pressure Gauge

KPMG Inflation Pressure Gauge

Estimated Contribution to Goods and Services Inflation



Source: KPMG, ABS, Haver *September quarter 2025 is KPMG nowcast

Services inflation is increasingly being driven by demand, while core goods inflation remains influenced by supply.

The estimated contributions of demand factors and supply factors to goods and services inflation are shown respectively in the chart.

Annual goods inflation has been below 2% since the second half of 2024, only picking up again in the most recent reading for the September quarter 2025. The decomposition shows that consistently low annual goods inflation since the second half of 2024 reflects an absence of demand-side pressures – namely weak household consumption and restrained discretionary spending for goods.

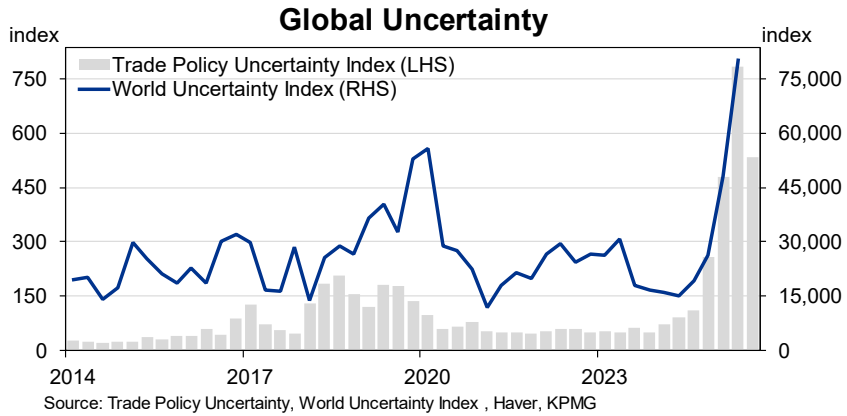
In contrast, services inflation has been much more sticky. While the supply factors such as elevated wage pressures continue to be the dominant forces, the demand factors are playing an increasingly larger role in shaping services inflation than goods inflation, especially strong demand for housing, particularly rents. The latest estimate in the June quarter shows demand factors contributing 1.5ppt to annual services inflation, up from 1.1ppt in the previous period. Our nowcast now points to an even larger contribution from demand factors to services inflation for the September quarter.

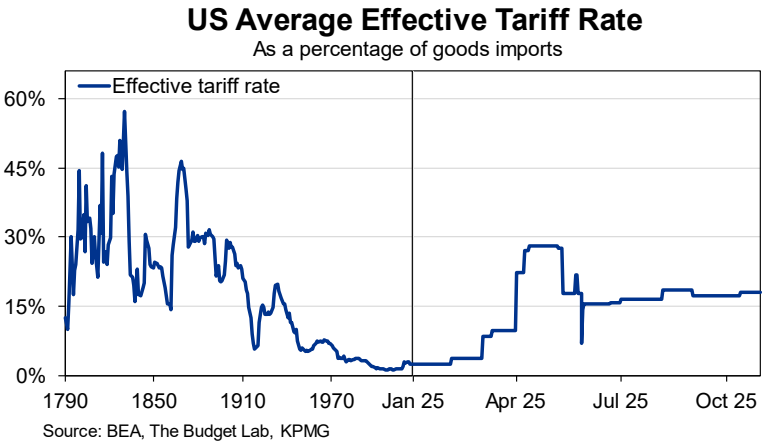
Looking ahead, demand-side factors are again gaining momentum. Together with the persistent contribution from supply-driven inflation, it presents a risk to the sustainability of the inflation rate to remain within the RBA's target range. If this upward trend in inflation continues, this could bring the current easing cycle to an end.

[1] For further details, refer to Appendix A.

02
International Trends

Trade and Policy Uncertainty





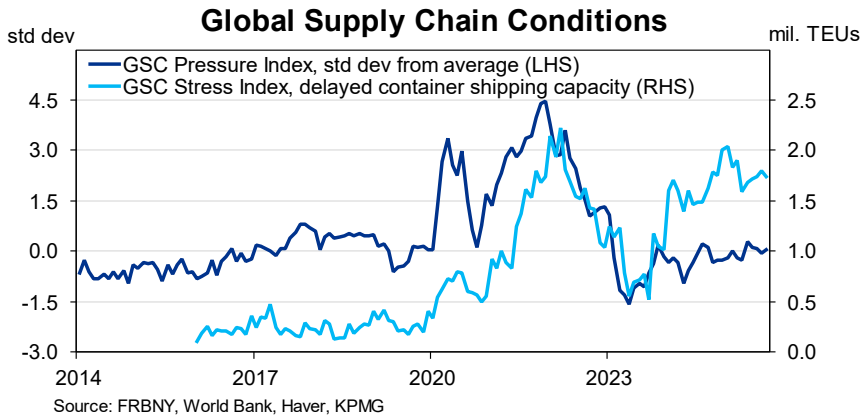
Global uncertainty soared to unprecedented levels following the initial US tariff announcements, though have since eased partially.

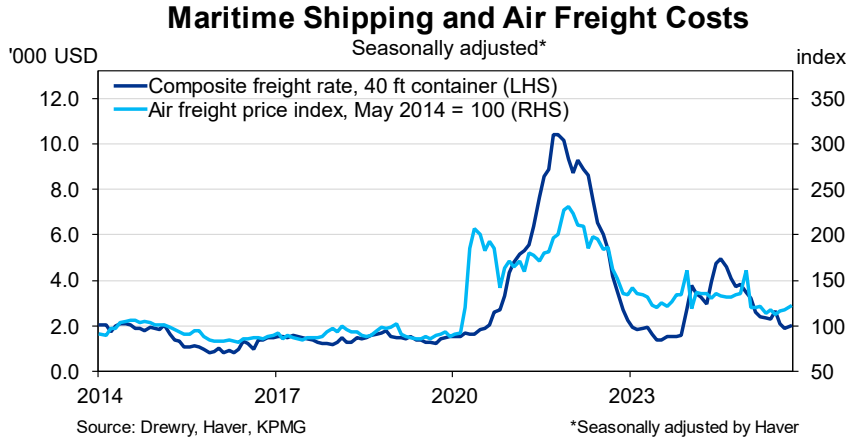
The Trade Policy Uncertainty Index climbed to a new record, averaging 782pts in the June quarter, before easing to a still-elevated 532pts in the September quarter.

This comes as the US average effective tariff rate soared to 27.99% following 'Liberation Day'. As of mid-October, the average effective tariff on US goods imports has cooled to 17.98% as negotiations continue and many trade deals have been agreed around the world.

While this extreme level of policy uncertainty has undoubtedly complicated decision-making, it does not appear to have had a material price impact so far. Nevertheless, past experience suggests that it may take time for the full impact to become clear. The effect tends to intensify over time as firms gradually pass the tariffs on to customers, trade routes are permanently altered, and the global economy becomes less efficient.

Supply Chain Conditions





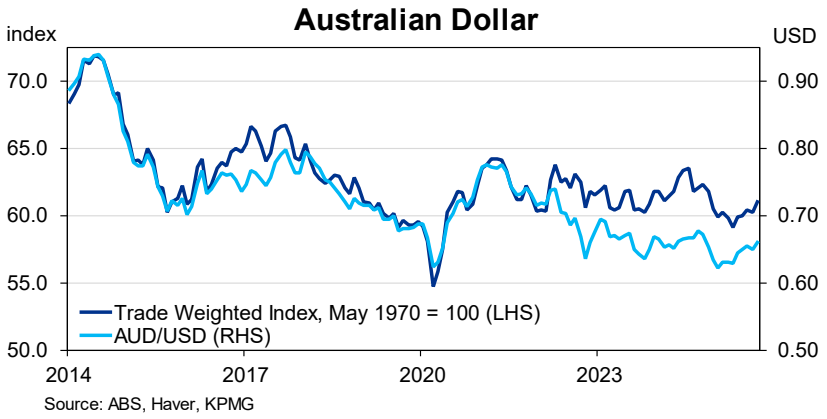
Tensions in the Middle East, alongside ongoing trade policy volatility, have not injected excess pressure into global supply chains as we had initially feared.

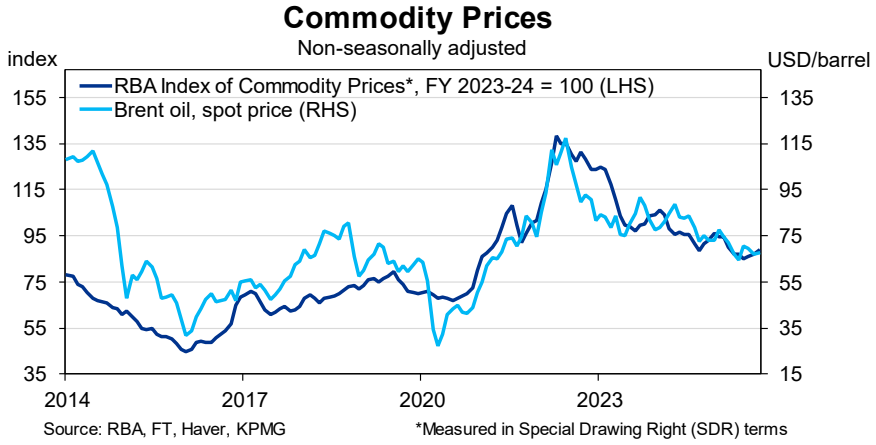
The Global Supply Chain Pressure Index (GSCPI), which integrates transportation costs and manufacturing indicators to assess global supply chain conditions, continues to be close to its long run average. After an uptick to 0.28pts in May, the index has now settled back to 0.03 pts by September. While trade policy uncertainty has disrupted some established trade and logistics dynamics, this appears to have been absorbed readily by supply chains.

Turning to maritime shipping, escalating tensions in Iran earlier this year threatened a blockade of the Strait of Hormuz. This would have injected further disruption to the region, in addition to the Red Sea shipping crisis. Although tensions have since cooled, the World Bank's Global Supply Chain Stress Index (GSCSI), which measures delayed container shipping capacity due to port congestion and closures, continues to be elevated. After peaking at 2.2 million twenty-foot equivalent units (TEUs) in January – a standard measure of container capacity and port traffic – it has since eased somewhat to 1.7 million TEUs but remains above pre-pandemic levels.

Nonetheless, the decline in ocean freight rates has been more substantial and is close to pre-pandemic levels. Meanwhile, air freight rates have moved modestly upwards over the past few months but remain well below their pandemic peak.

Exchange Rates and Commodities





The value of the Australian dollar has recovered, after hotter than expected inflation data dashed expectations of another rate cut in 2025.

Exchange rates

The value of the Australian dollar saw a recovery in late October. After peaking in mid-September at US$0.669, the Australian dollar slid to a low of US$0.648, before lifting to US$0.659 following the release of inflation data. This came after the RBA governor noted that a 0.9% or higher increase for core inflation would be a 'material miss', alongside increased optimism for trade deals between the US and China.

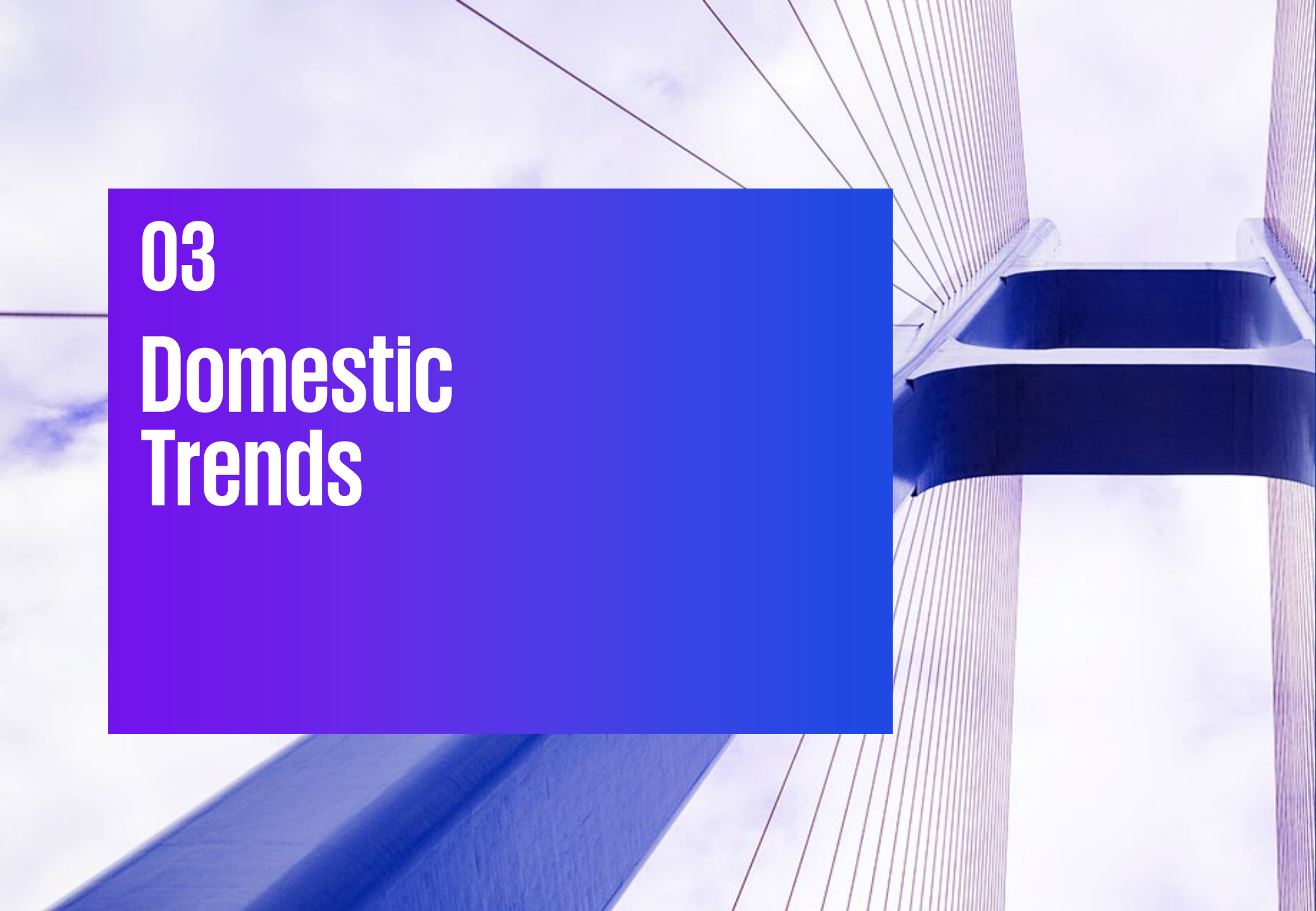
Commodity prices

The RBA Index of Commodity Prices increased by 1.9% in September to be flat through the year. Lower prices for thermal and coking coal, as well as LNG, were offset by other commodities. This included gold, which continued to soar to new record highs, alongside higher prices for iron ore and rural commodities.

Both the rural commodities and non-rural commodities subindices rose during the month. Through the year, prices for rural commodities were up 9.1%, while non-rural commodities saw a 1.3% decline.

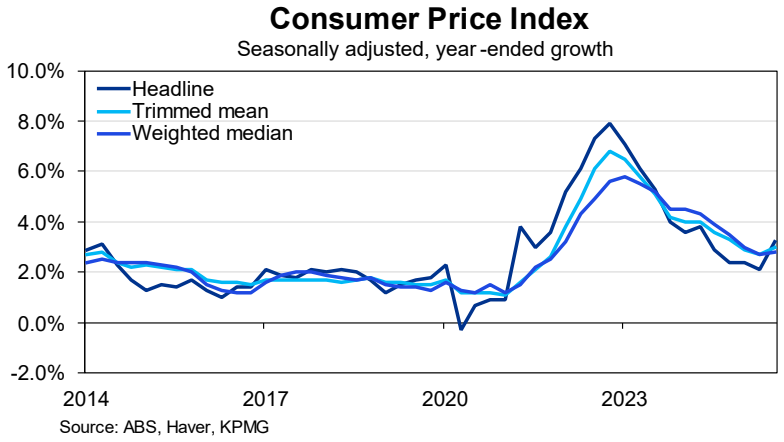
Oil prices

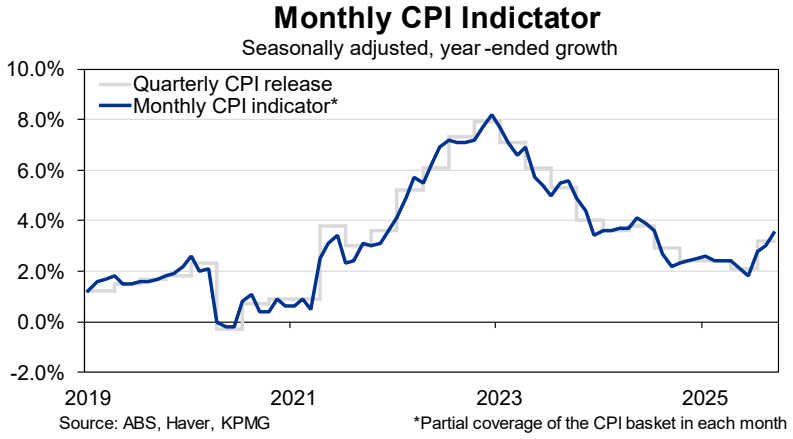
Oil prices spiked in June, amid fears of a prolonged conflict between Israel and Iran. Thankfully, these tensions proved to be short-lived, most importantly limiting the human cost. Since then, oil prices have continued to face downward pressure, with a depressed outlook for global growth leading to sluggish demand. At the same time, the International Energy Agency is anticipating a supply surplus in 2026, as this weaker demand also coincides with increased output from OPEC+ and other producers.



03
Domestic Trends

Consumer Prices: Overview





Quarterly CPI release – September quarter 2025

Growth in consumer prices[2] accelerated sharply to 3.2% in the September quarter, as measured by seasonally adjusted annual headline inflation. This was higher than the market consensus of 3.0%, which already expected a rebound from the 2.1% result seen in the June quarter.

More significantly, the RBA's preferred measure of trimmed mean inflation also delivered an upside surprise. The trimmed mean measure lifted by 1.0% in the September quarter, contributing to an annual rise of 3.0%. This compares to a 0.7% rise during the June quarter (revised up from 0.6%), while also being above the consensus expectation of 0.8%.

Monthly CPI indicator – September 2025

The monthly inflation figures more clearly show that there has been upward momentum in price growth through the quarter. This timelier measure of annual headline price growth accelerated in the past three months, from 1.9% in June to 3.5% by September.

Although this measure does not update the price movements of the entire CPI basket in each month, it can provide a more dynamic measure of inflation compared to the main quarterly release.

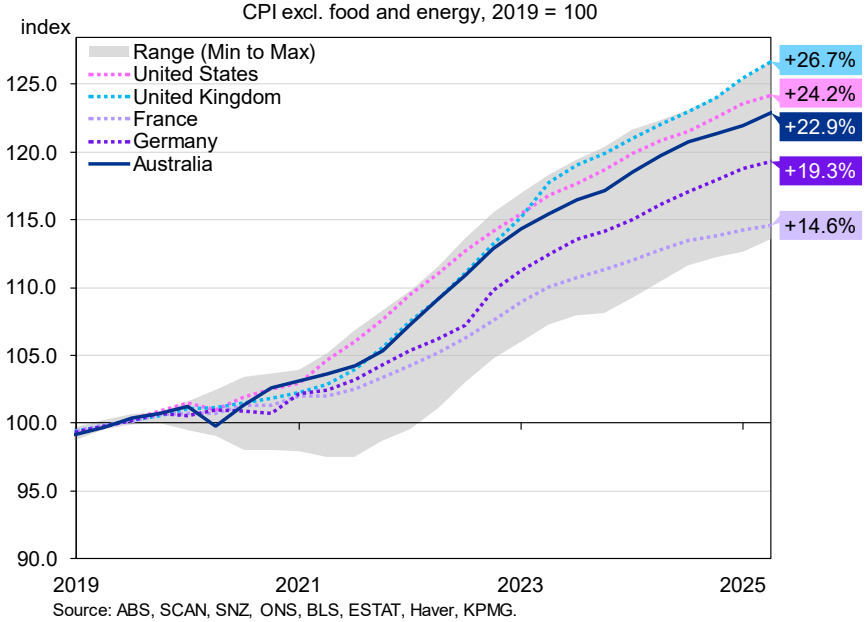
Looking ahead, September was the final publication of the monthly CPI indicator, due to the transition to the complete monthly CPI, which commences publication from November.

[2] Appendix B describes key measures of inflation in further detail.

Consumer Prices: Overview (cont.)

Harmonised Price Level, Selected Advanced Economies

CPI excl. food and energy, 2019 = 100



Source: ABS, SCAN, SNZ, ONS, BLS, ESTAT, Haver, KPMG.

Box A: Although the post-pandemic inflation surge has passed, it has left a permanent impact on the price level of the Australian economy.

Disinflation across the world has seen the pace of price growth normalise across advanced economies, allowing for an easing of monetary policy. Nevertheless, this post-pandemic inflationary period has resulted in a permanent increase in global price levels, well beyond what would have otherwise been observed.

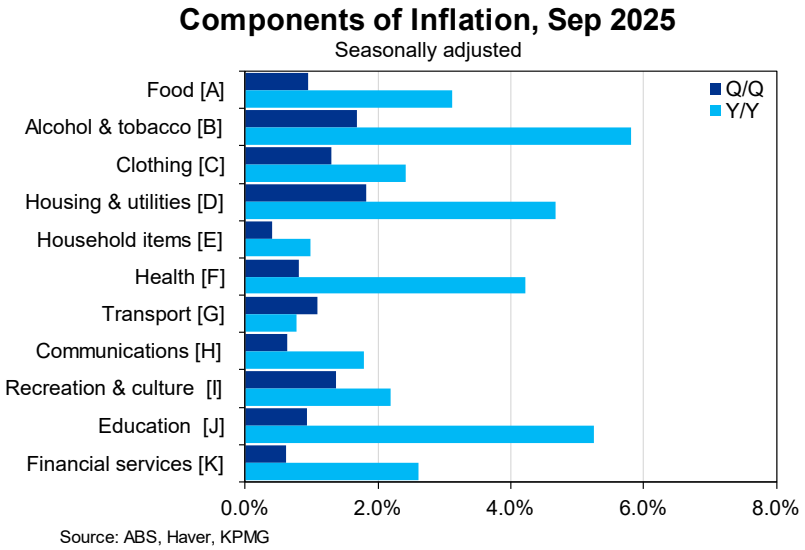
This has been emphasised in central bank communications, with RBA governor Michelle Bullock noting following the September rate decision that 'while inflation has fallen a lot the price level isn't coming back down, and this higher price level affects everyone'.

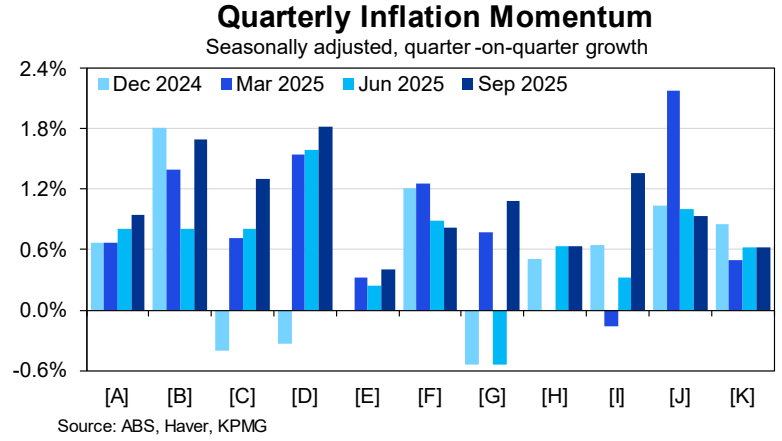
The extent to which prices have risen not only reflects the peak inflation rate, but also the extent to which this elevated price growth persisted.

Looking at a harmonised construction of CPI (which is more readily comparable across jurisdictions), prices in Australia were 22.9% higher in the June quarter 2015 compared to the average over 2019. This change in price level is comparable to peer economies such as Canada (+18.5% since 2019) and New Zealand (+25.7% since 2019).

Had prices in Australia grown at their typical level (based on the two decades to 2019), prices in the June quarter would have been 11.2% higher compared to 2019 levels.

Consumer Prices: Detail





The September quarter saw a broad-based inflation rebound and reflected a sustained upward trend over recent quarters rather than a one-off spike.

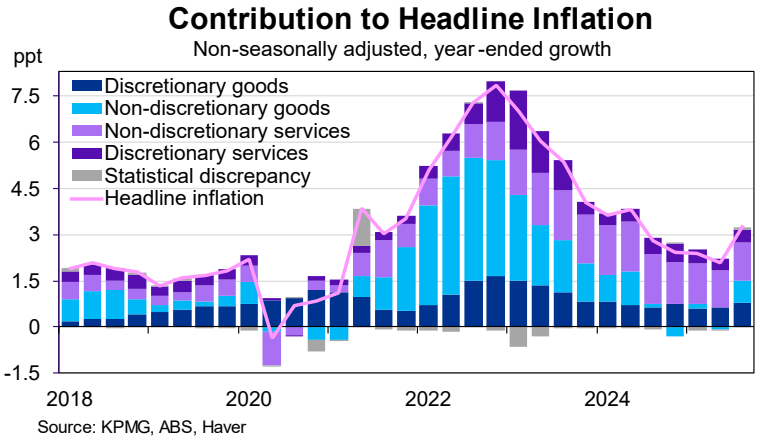
Over the September quarter, prices rose by 1.3% in seasonally adjusted terms. This compares to 0.7% in the June quarter, and 0.2% in the corresponding quarter of 2024. This was mainly due to:

- *Housing* (+2.5%), due to a 9.0% rise in *Electricity* which was associated with annual price reviews taking effect from July, as well as volatility due to the timing of government rebates. There was also a 6.3% rise for *Property rates and charges*, coinciding with annual reviews for council rates and levies.
- *Recreation and culture* (+1.9%), which coincided with school holiday periods in July and late September, as well as increased international travel demand to Europe.
- *Transport* (+1.2%), as *Automotive fuel* prices rose by 2.0% in the September quarter.

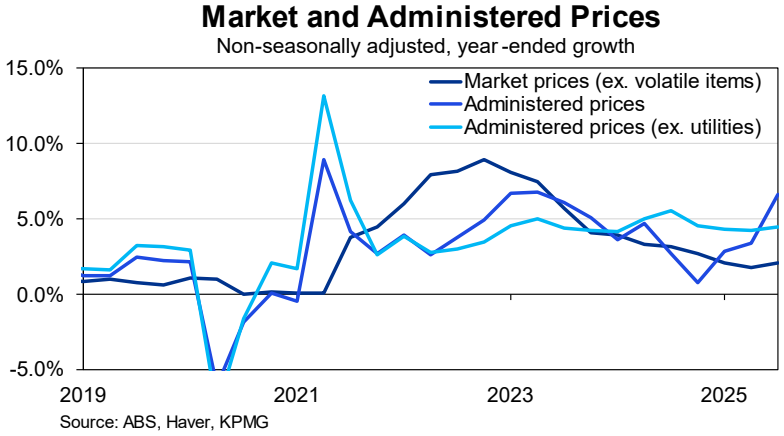
All together, inflation is broad-based, with all categories recording positive q/q growth.

The quarterly pattern also reveals the inflation surprise in this quarter is not a one-off spike but a sustained trend. Nine out of eleven categories show increasingly positive momentum since the June quarter. Importantly, the acceleration is concentrated in five sectors where momentum has been building since early 2025: *Food, Clothing, Housing & utilities, Communications,* and *Financial services.*

Consumer Prices: Detail (cont.)



Source: KPMG, ABS, Haver



Source: ABS, Haver, KPMG

Goods and services inflation

Annual goods inflation jumped to 3.0%, from 1.1% in the June quarter. This was mainly attributed to non-discretionary (essential) spending on *Electricity*, which is up 23.6% through the year. Additionally, *Automotive fuel* prices only fell 1.6% in the year to the September quarter, compared to a 10.0% decline last quarter.

The uptick in annual services inflation was more modest, though it remains elevated. In the September quarter, it rose to 3.5%, compared to 3.3% in the year to the June quarter. An acceleration was seen across a variety of services, including *Domestic holiday travel* (+5.2%) and *Restaurant meals* (+2.8%). However, annual price growth for *Insurance* has eased significantly, falling to 2.6%, compared to 14.0% during the corresponding period a year ago

Market and administered price inflation:

The recent uptick in inflation has been led by administered prices, rising by 6.4% over the year. Administered prices are those typically regulated or relate to services where the public sector plays a significant role, such as *Utilities*, *Health care*, and *Education*. Even when excluding *Utilities*, administered prices still recorded strong growth of 4.4%.

Meanwhile, market prices for goods and services (excluding volatile items) have remained relatively stable in recent quarters. Over the year to the September quarter, these prices have risen by 2.0%, reflecting a divergence between regulated and market-driven inflationary pressures.

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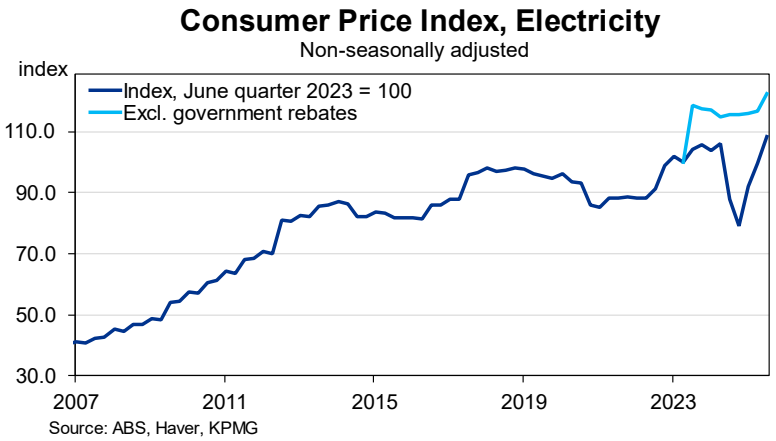
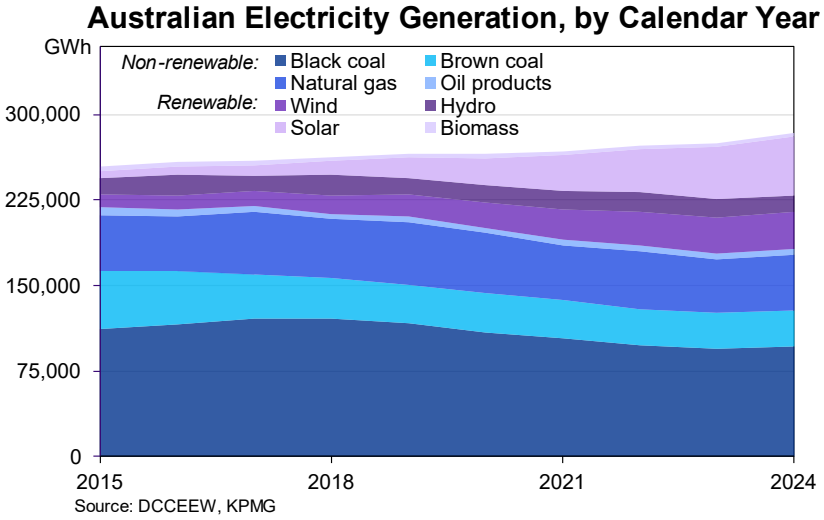
Consumer Prices: Detail (cont.)





Box B: Government rebates continue to have a significant impact on the measured price of electricity for consumers, contributing to volatility in headline inflation.

Electricity was the most significant contributor to the annual inflation movement, after rising 23.6% compared to a year ago. This included a 9.0% rise in the latest quarter, as annual electricity price reviews came into effect for the new financial year.

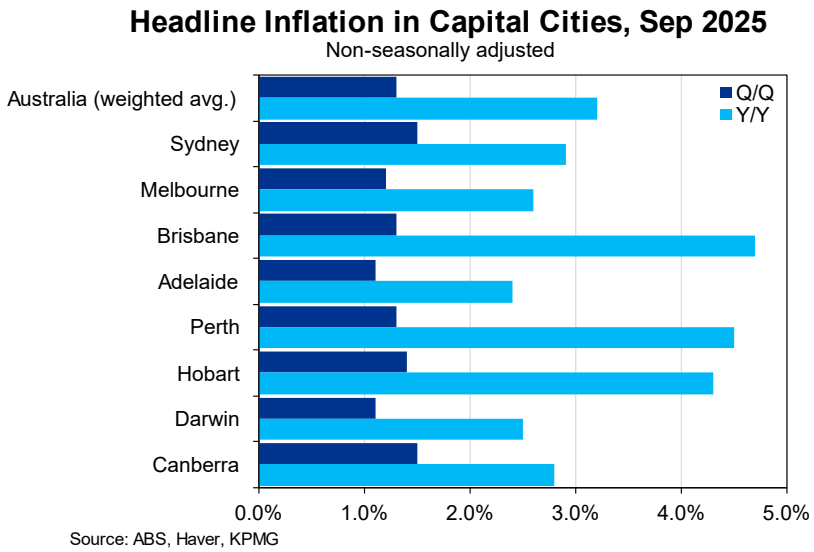
However, the timing and impact of electricity rebates continues to inject volatility in the measure of electricity included in the CPI basket. Excluding rebates, electricity prices would have seen an annual increase of 5.9%. As of the September quarter 2025, the index of *Electricity* excluding government rebates would be 12.7% higher than its actual level.

While government subsidies have been the primary driver of near-term prices, a key longer-term factor is the energy transition, where a significant acceleration of efforts towards renewable energy will be required to meet the nation's climate ambitions.

Between 2015 and 2024, renewables have increased their share of total electricity generation from 14.1% to 36.1%, through an expansion of wind and solar projects. However, while annual renewable generation has increased by 66,500 GWh in that time, annual non-renewable generation has only fallen by 36,600 GWh.

This highlights the tension between expanding generation capacity and replacing legacy fossil-fuel power plants. A modernisation of the electricity grid will require significant upfront investment that does not contribute to increased generation capacity. At the same time, the electricity demands of the nation will continue to grow, with AI and data centres demanding increased power, as will the electrification of transport and homes.

Consumer Prices: States and Territories

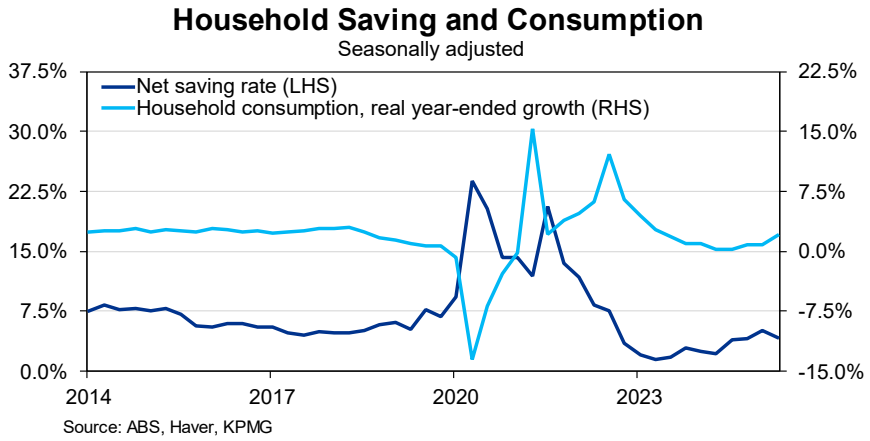


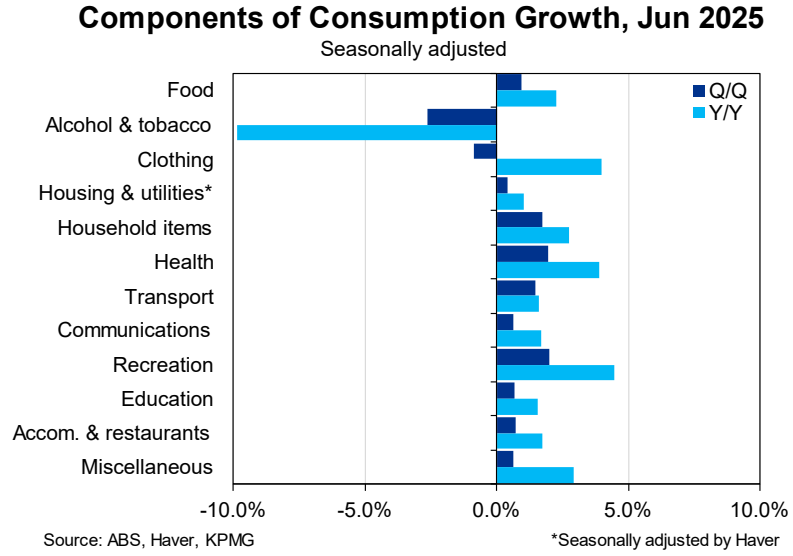
Inflation dynamics were mixed across the capital cities, in part, reflecting variations in electricity subsidies.

Across the capital cities, annual inflation was highest in Brisbane (+4.7%), followed by Perth (+4.3%) and Hobart (+4.3%). However, this partly reflects an increase in out-of-pocket costs for electricity compared to the September quarter 2024. State government rebates were available in Queensland ($1,000), Western Australia ($400) and Tasmania ($250). These have now been used up, adding volatility to the inflation measure.

Meanwhile, the weakest annual price growth was seen in Adelaide (+2.4%), Darwin (+2.5%) and Melbourne (+2.6%).

Household Consumption





Strong household consumption was the primary driver of economic growth, with timely indicators pointing to continued resilience in spending pattern.

Consumer demand

Demand from consumers has continued to recover, with Household Final Consumption Expenditure increasing by 0.9% in real terms over the June quarter in the latest National Accounts. This was the fastest increase since the December quarter 2022, with a 1.4% rise in discretionary spending and 0.5% rise in essential spending.

Tourism activity was boosted by the proximity of Easter to the Anzac Day public holiday, with rises in *Recreation and culture* (+2.0%), *Transport services* (+1.7%), as well as *Hotels, cafes, and restaurants* (+0.7%). EOFY sales also supported opportunistic spending, contributing to a rise in *Furnishings and household equipment* (+1.7%). Meanwhile, a stronger-than-usual flu season resulted in increased attendance at medical services, adding to essential spending on *Health* (+1.9%).

More timely data from the Monthly Household Spending Indicator showed that real spending rose 0.2% during the September quarter, to be up 2.7% through the year. This was the fifth consecutive quarterly rise, and the strongest annual growth rate since the March quarter 2024, driven by non-discretionary spending for *Food* and *Health*.

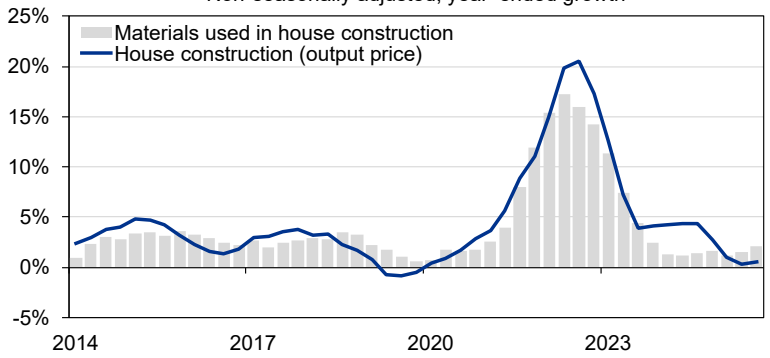
Household saving

This uptick in spending during the June quarter was supported by a fall in the net saving rate, while eased to 4.2%, from 5.2% in the prior quarter. Although gross disposable income rose by 0.6%, as interest paid on dwellings fell for a second consecutive quarter, this was outpaced by a 1.5% rise in nominal household spending.

Producer Prices: Construction

Input and Output Prices for House Construction

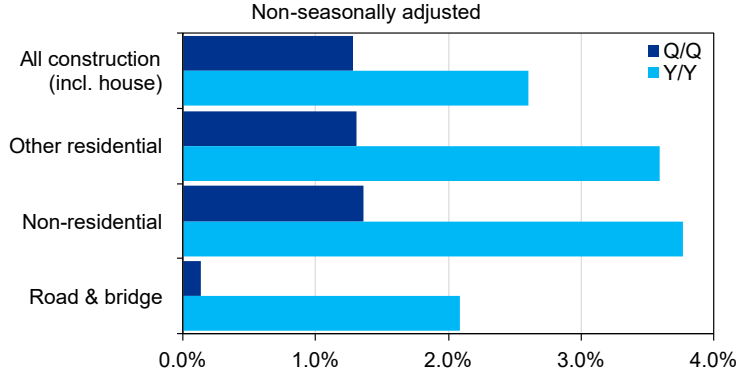
Non-seasonally adjusted, year-ended growth



Source: ABS, Haver, KPMG

Output Prices for Other Construction, Sep 2025

Non-seasonally adjusted



Source: ABS, Haver, KPMG

Ongoing labour market pressures and rising demand continues to influence construction price growth.

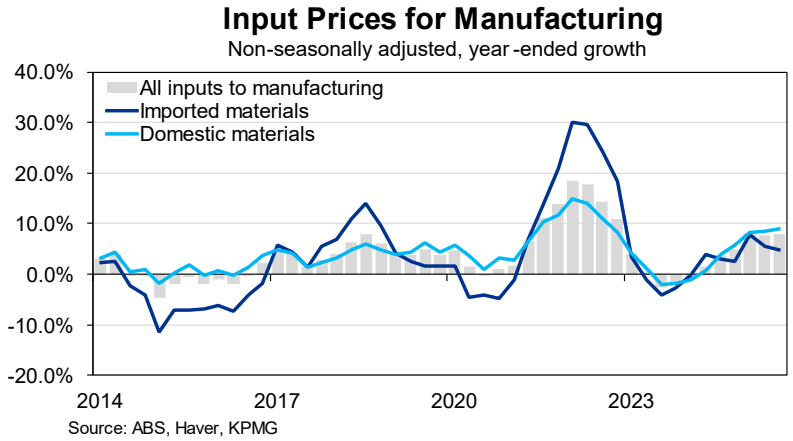
Prices for building materials used in residential house construction rose 0.8% over the September quarter 2025. Higher raw material costs and annual supplier price reviews lifted timber and metal prices, while concrete, cement and sand prices eased due to increased competition. Over the year, input prices to house construction rose 2.1%.

This modest pick-up in demand also saw output prices for *House construction* rise 1.2% over the quarter, with the annual growth rate (0.5%) climbing for the first time since the June quarter 2024. New South Wales, Victoria and Queensland contributed notably to the rise, as builders reduced incentive offers and passed through higher input and labour costs.

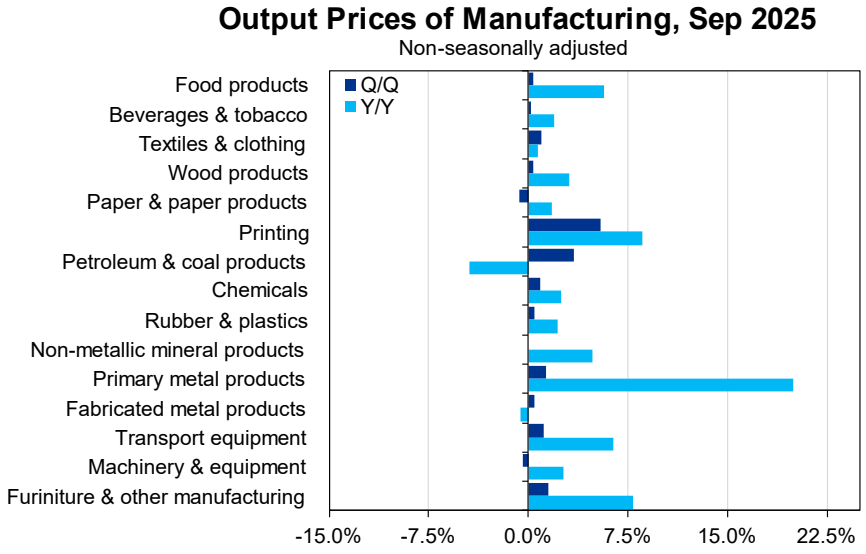
Looking at the rest of the construction sector:

- Output prices lifted by 1.3% during the September quarter and 3.6% annually for *Other residential building construction*, supported by increased activity in Queensland, Victoria and New South Wales. Labour costs remained under pressure due to ongoing labour shortages and scheduled enterprise agreement wage rises within Queensland. Elevated insolvency rates and longer completion times on larger projects have also prompted builders to account for higher risk when tendering, increasing output prices.
- *Non-residential construction* prices rose 1.4% in the quarter and 3.8% through the year. Price increases were driven by rising labour costs, including enterprise agreement wage rises for many Queensland employees and ongoing skilled labour shortages across states. Strong demand and increased labour costs further lifted prices in concrete trades and electrical services.

Producer Prices: Manufacturing



Source: ABS, Haver, KPMG



Source: ABS, Haver, KPMG

Global demand for gold and livestock lifts manufacturing prices.

Input costs to manufacturing rose by 0.7% over the September quarter, to be up 7.9% through the year. On an annual basis, imported material prices increased by 4.9% in the September quarter, while domestic material costs continue to accelerate, rising by 9.0%. The main factors behind this quarterly rise were:

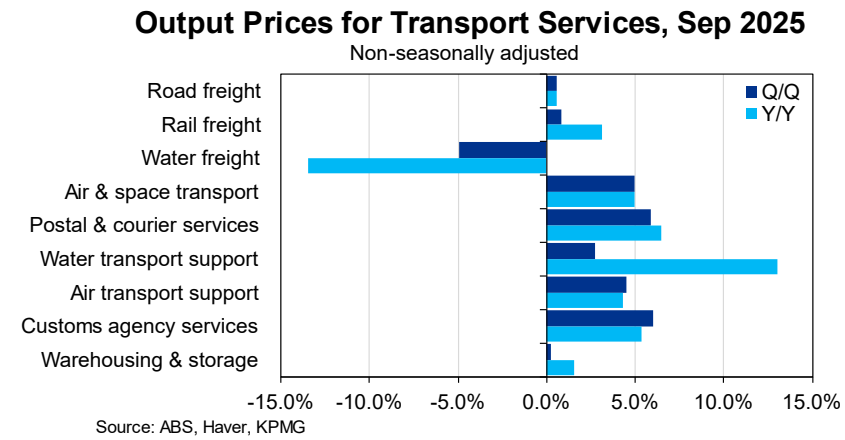
- *Metal ore mining* (+4.3%), driven by strong demand for gold amid ongoing global economic uncertainty. Prices for other ores, including copper, silver, zinc and iron also contributed.
- *Agriculture to manufacturing* (+4.2%) reflected higher prices for sheep and lamb due to drought conditions, lower slaughter rates, and strong export demand for lamb and beef.

Consequently, output prices for products produced by manufacturing industries lifted by 0.9% in the September quarter, to be up 6.2% over the year. Adding to the quarterly growth were:

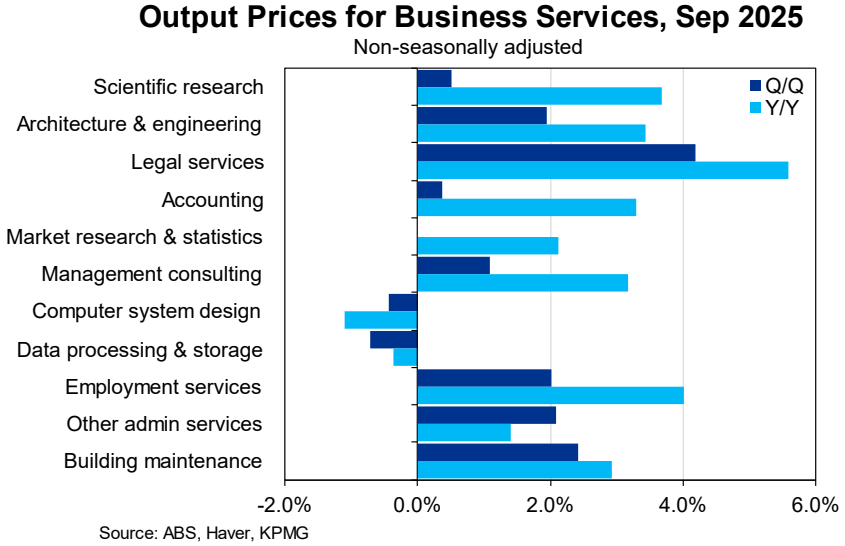
- *Basic non-ferrous metal manufacturing* (+1.7%), supported by strong demand for gold while partially offset by global oversupply of alumina.
- *Petroleum and coal product manufacturing* (+3.4%), driven by strong industrial and mining demand, alongside higher benchmark prices in the Asia-Pacific region.
- *Meat and meat product manufacturing* (+2.2%), lifted by sustained export demand and domestic supply constraints for beef and lamb amid drought conditions.

There were no significant negative contributors offsetting price rises this quarter.

Producer Prices: Transport and Business Services



Source: ABS, Haver, KPMG



Source: ABS, Haver, KPMG

Rising costs for postal services and strong passenger demand have driven upward pressure on transport sector prices.

Looking at the logistics sector, output prices for *Postal and Courier Pick-up and Delivery Services* rose 5.9% over the September quarter, and 6.5% annually, driven by price increases for letters and parcels.

Air & Space Transport rose 5.0% quarterly due to strong demand for flights related to major sporting events and school holiday travel, with both household and business passenger services recording strong growth. Over the year, *Air & Space Transport* prices also rose by 5.0%.

These increases were partially offset by *Water freight transport*, which fell 5.0% in the quarter and 13.5% over the year due to lower fuel costs, reduced freight demand, and high competition amid global trade policy uncertainty.

Price movements for business services were mixed, reflecting a variety of operating conditions.

Looking across the various business services, the most significant price rises were seen in *Legal services*, up 4.2% over the quarter and corresponding to a 5.6% annual rise. This was followed by *Building maintenance*, with a 2.4% quarterly increase and to be up 2.9% through the year.

Meanwhile, quarterly price decreases were seen in *Computer system design* (-0.4%) and *Data processing and storage* (-0.7%).

Energy Prices

Growth in energy prices have continued to be muted, reflecting both weaking global demand and improved supply.

Electricity (as an input to domestic manufacturing)

In contrast to the recent spike in consumer electricity prices, prices for electricity (measured as an input to manufacturing) fell 0.3% q/q in the September quarter 2025, continuing the downward trend from last quarter (-0.4%). Over the past 12 months, electricity fell marginally by 0.1%, marking the first decline since the June quarter 2024, when it recorded a larger fall of 4.7%.

The Australian Energy Market Operator's (AEMO) Quarterly Energy Dynamics report for the September 2025 quarter shows that wholesale electricity prices in the National Electricity Market (NEM) averaged $87 per megawatt hour (MWh), a 27% y/y decrease compared to the same period last year and a 38% drop since the June quarter 2025. This decline is driven by record levels of renewable energy generation and battery storage, which are continuing to push prices down.

Natural gas (extracted for domestic use)

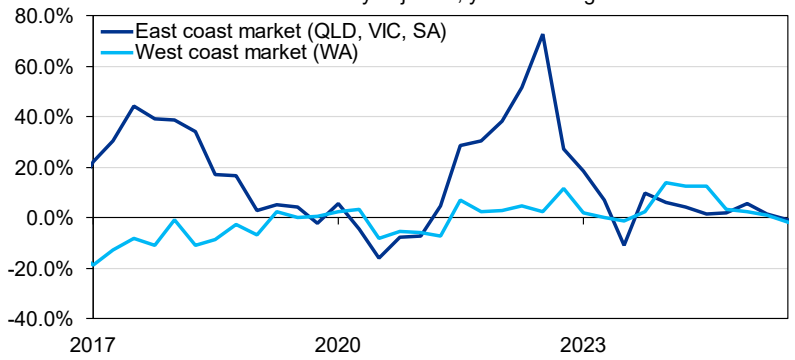
Prices received for domestic gas extraction fell by 0.4% in the September quarter 2025, continuing the decline from the June quarter (-1.3%). The decline was driven by healthy global LNG supply and reduced demand, partly due to mild European summer conditions. The quarterly movement comprised stable prices for east coast production (0.0%) and a 2.0% fall in prices for west coast production. Over the past 12 months, domestic gas extraction prices fell by 0.8%, comprising a 0.6% decrease in the east coast market and a 1.8% decline in the west coast market.

Oil and automotive fuel

Global oil prices have continued their downward trend, with the Australian import price of Brent crude oil falling to an average of US$67.9/barrel in the June quarter, from US$75.7/barrel in the March quarter. Prices continued to be depressed by a weakened outlook for demand, given heightened trade uncertainty, as well as improved supply. Consequently, the average price for regular unleaded (91 RON) in the June quarter was 177 cents/litre. This reflects a 3.3% fall through the quarter, to be down 10.6% from its peak a year ago.

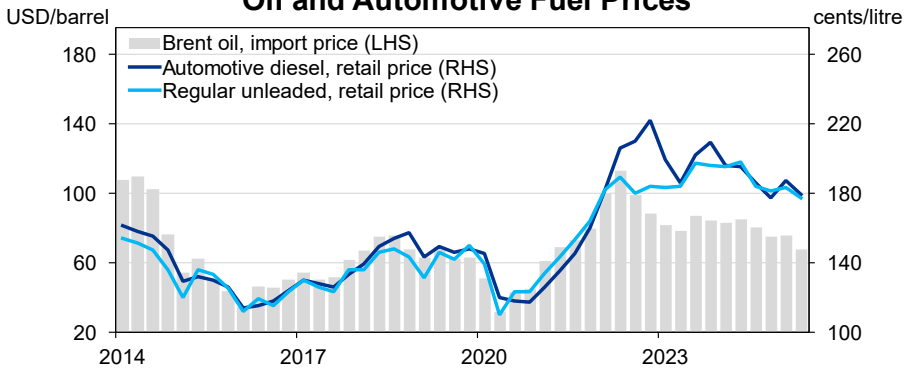
Output Prices for Domestic Gas Extraction

Non-seasonally adjusted, year-ended growth



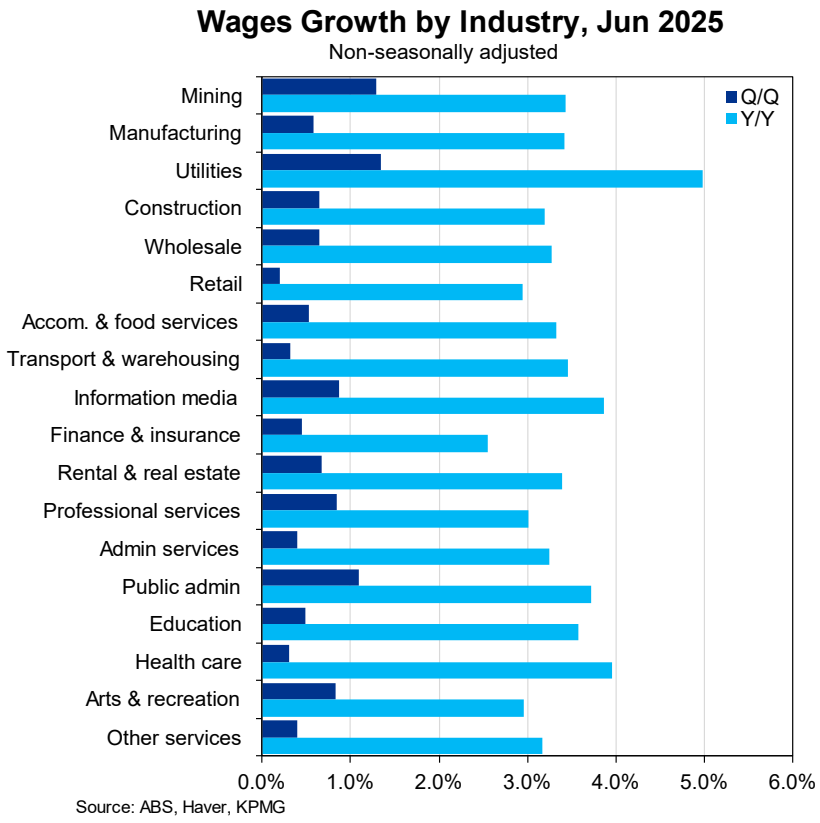
Source: ABS, Haver, KPMG

Oil and Automotive Fuel Prices



Source: DISR, DCCEEW, Haver, KPMG

Wage Prices



Wages growth has remained steady over the first half of the year, reflecting a pause to the easing which was seen throughout 2024.

Quarterly WPI release – June quarter 2025

The latest data from the June quarter release of the Wage Price Index shows that annual wages growth held steady at 3.4%, in line with the previous quarter's result. Nonetheless, this was less than the 4.1% growth seen during the corresponding period a year ago.

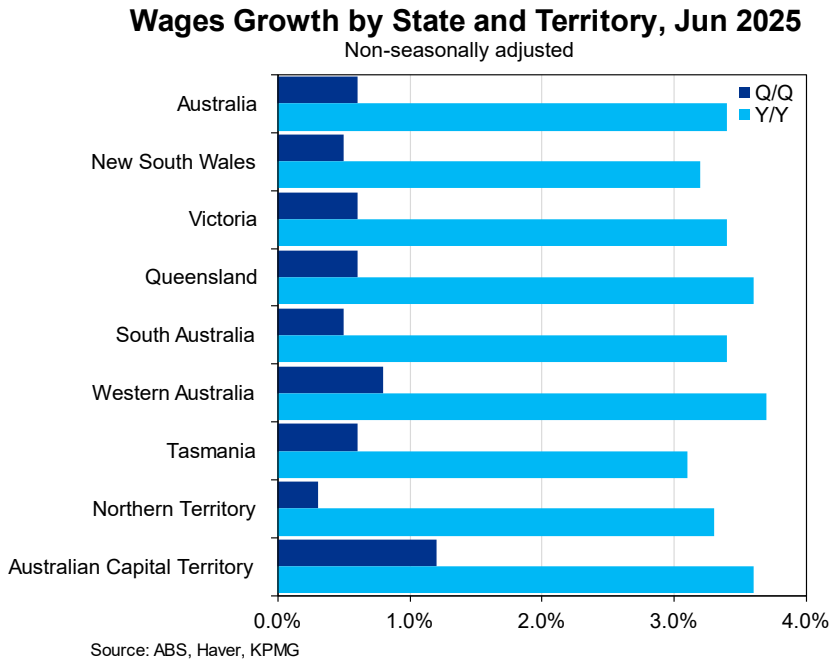
Annual wage growth in the public sector accelerated marginally to 3.7%, from 3.6% in the March quarter. Growth this quarter was supported by several state-based enterprise agreements coming into effect, which included backdated payrises. Overall, wages growth was still slower than the 3.9% recorded in the corresponding quarter a year ago.

Private sector wage growth also ticked up, rising to 3.4% in the June quarter, from 3.3% during the period prior. However, growth remains substantially cooler than the 4.1% seen a year ago, following a sharp easing during the second half of 2024.

Through the quarter, wages increased by 0.8%. Across the industries, the fastest quarterly growth was seen in *Mining* (+1.3%) and *Electricity, gas, water and waste services* (+1.3%), followed by *Public administration and safety* (+1.1%).

When factoring the relative size of industries, *Professional, scientific and technical services* (+0.10ppt) was the most significant contributor to the quarterly movement, followed by *Public administration and safety* (+0.08ppt) and *Construction* (+0.06ppt).

Wage Prices (cont.)



Across the states and territories, annual wages growth was fastest in Western Australia (+3.7%), Queensland (+3.6%), and the Australian Capital Territory (+3.6%). The weakest growth was seen in Tasmania (+3.1%) and New South Wales (+3.2%).

Real wages and productivity

Real wages growth accelerated to its fastest pace since the June quarter 2020, with growth nominal wages holding steady as headline inflation slowed. Through the year to the June quarter, real wages increased by 1.3%, as measured by real growth in the WPI. Outside of the pandemic, this was the fastest pace of growth since the December quarter 2012.

While this growth has been positive for workers, it is unlikely that ongoing growth at this pace can be sustained, given the ongoing weakness in productivity.

Since our previous report, the RBA has revised down their medium-term assumption of annual productivity growth from 1.0% to 0.7%. It follows that the sustainable pace of real wages growth over the long term should be around 0.7%. This is because wages cannot consistently outpace productivity as businesses face higher unit labour costs without a corresponding increase input; therefore leading to inflationary pressures and reduced profitability.

However, it should be noted that the WPI measures wages growth for a fixed composition of employment, while productivity gains are usually obtained not just from workers becoming more efficient, but also from the reallocation to higher-productivity jobs. Therefore, the upper bound of real growth in the WPI is likely to be lower than this figure as the WPI does not capture these compositional effects.

Evidently, real wage growth should broadly align with productivity growth over time to maintain price stability.

04
Appendices

Appendix A: KPMG Inflation Pressure Gauge

KPMG has developed a methodology to decompose headline inflation in Australia that allows us to identify how much of inflation is being driven by demand-side and supply-side factors.

Broadly, inflation can be categorised into two primary drivers. Demand-pull inflation occurs when aggregate demand in an economy exceeds its productive capacity, while cost-push inflation arises when production costs, such as labour or raw material prices rise and are passed on to consumers in the form of higher prices.

Understanding these underlying forces serves as a useful guide for the conduct of monetary policy. When inflation is driven by excess demand, central banks can raise interest rates to reduce consumer spending, business investment, and borrowing, thereby cooling the economy and bringing inflation back to target. Conversely, when inflation is driven by supply-side factors, interest rate adjustments may have a more limited effect on controlling prices, since the underlying problem is not excessive demand but rather constrained supply.

This analysis is derived using Consumer Price Index data combined with information from the National Accounts, Construction Activity and Overseas Arrivals and Departures, and follows similar methodologies associated with decomposing the drivers of headline inflation undertaken by the San Francisco Federal Reserve, Reserve Bank of Australia, and Norges Bank.[a,b,c]

The methodology is based on the idea that:

- Demand-driven categories are identified as those where unexpected changes in price move in the same direction as changes in quantity. Using a positive demand shock as an example, when consumers have increased willingness to make purchases, then *both* prices and quantities should now be higher than expectations.
- Supply-driven categories are identified as those where unexpected changes in price and quantity move in opposite directions. For instance, in a negative supply shock where producers experience constraints on their ability to supply, prices should be higher than expected while quantities should be less than expectations.

The contributions to inflation can then be developed by extracting the unexpected component of the quarterly changes in price and quantity for each of the expenditure category. However, it is also important to acknowledge some limitations of the classification methodology, which include:

- Both demand and supply shocks can be present at the same time, so this approach identifies which is more dominant (which depends the size of the shock and the sensitivity of demand and supply to price movements). Substitution between goods and services can also make it challenging to identify the root cause of inflation.[d]
- It is challenging to identify global spillover effects. As an example, a surge in demand overseas may reduce supply to Australia and would therefore be classified as a supply shock.

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[a] See the original article for further details: A. Shapiro, Federal Reserve Bank of San Francisco, Decomposing Supply and Demand Driven Inflation, 13 February 2024.

[b] Evaluates this approach in the Australian context: B. Beckers et al, Reserve Bank of Australia, Estimating the Relative Contributions of Supply and Demand Drivers to Inflation in Australia, 15 June 2023

[c] In line with Section 6, the data is demeaned before estimation: D. Bergholt et al, Norges Bank, What drives the recent surge in inflation? The historical decomposition roller coaster, July 2024

[d] For instance, suppose poor weather causes a decrease in the supply of apples: the price of apples would go up, and be recorded as supply pressure. If consumers substitute with pears, the price of pears will go up due to higher demand. Therefore, the substitution effect attributes some inflationary pressures to be demand-driven, but the root cause is a supply shock.

Appendix B: Measures of Inflation

Key inflationary measures in the economy include the Producer Price Index (PPI), the Consumer Price Index (CPI), and the Wage Price Index (WPI).

Producer prices

The PPI is a measure of inflation from the perspective of producers. It measures prices as they enter (input costs) or exit (output costs) the production process.

A key output of the PPI is called *Final demand,* which measures the price changes of products consumed with no further processing. For example, sugar cane is a preliminary product and used as an input into the production of raw sugar (an intermediate good). In turn, raw sugar is then used to produce refined sugar, which is destined for final consumption.

As the PPI generally excludes distribution costs, taxes and subsidies, it can provide a better picture of the underlying costs of items. It also contains detailed input costs and output costs for specific industries, including construction, manufacturing, mining and services.

Overall, the PPI is seen as a good pre-indicator of inflationary pressures as it measures the costs of producing consumer goods, and commodity and food prices which tend to flow through to retail pricing.

Consumer prices

The CPI focuses on a basket of goods and services consumers have bought in each capital cities. It tends to be the key inflationary indicator for the conduct of monetary policy in Australia as the Reserve Bank of Australia aims to keep consumer price inflation between 2% and 3%.

The CPI covers 87 ‘expenditure classes’, which are a collection of like items. They are arranged into 11 broad categories as follows:

- *Food and non-alcoholic beverages*
- *Alcohol and tobacco*
- *Clothing and footwear*
- *Housing*
- *Furnishings, household equipment and services*
- *Health*
- *Transport*
- *Communication*
- *Recreation and culture*
- *Education*
- *Insurance and financial services*.

Wage prices

The WPI measures the changes in wages and salaries paid by employers for a unit of labour (i.e. one hour) over time that arise from market factors. Wage inflation affects the cost of labour for businesses, who can pass on these costs to consumers.

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