Surging inflation intensifies cost-of-living crisis in Australia

Mike Head
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Official Consumer Price Index (CPI) statistics released in Australia this week show that inflation is accelerating, rather than "peaking," on top of staggering price rises over the past year for food, petrol and other essentials, hitting working-class households by far the hardest.

According to the headline CPI figure, inflation jumped to a 33-year annual high of 7.8 percent in the December quarter of 2022, up from 7.3 percent in the September quarter. The index for "non-discretionary" spending rose even more sharply, by 8.4 percent.

Working-class households are experiencing enormous hardship, and the greatest cut to living standards since World War II, as the Reserve Bank of Australia (RBA) and the Labor government, assisted by the trade union bureaucrats, insist that real wages must continue to fall.

As is happening worldwide, the price surge is led by the most basic items that people need to live. Dairy and related products were up 4 percent during the last quarter of 2022 and 14.9 percent over the year. Bread and cereal product prices climbed by 3.4 percent in the three months to be up more than 12.2 percent in the year. Fruit and vegetables fell by 7.3 percent in the December quarter, but were still up by 8.5 percent over the year.

Non-durable items—household consumables like toiletries and detergents—climbed at 2.3 percent during the quarter, and at an annual pace of 12 percent. Automotive fuel prices increased by a little over 2 percent in the three months to December, but were 13.2 percent higher than at the end of 2021.

Housing costs rose by 10.7 percent over the year. That included rents, which lifted by 4 percent, the highest rise since 2012. Economists predicted rental inflation would continue to climb.

The acceleration in the cost-of-living crisis was further revealed in the monthly (rather than quarterly) CPI indicator for December. It rose 8.4 percent in the 12 months to December, following annual rises of 7.3 percent in November and 6.9 percent in October.

While the media focussed on a 13 percent jump in holiday travel and accommodation in the December quarter—to distract attention from the impact on food and energy—electricity prices also rose sharply, up 8.6 percent in those three months alone.

Much bigger energy price hikes will occur in 2023, despite token price caps on wholesale electricity and gas introduced by the Labor government in December. But Treasurer Jim Chalmers, while yet again pretending sympathy for "Australians doing it tough," quickly insisted that even the small promised bill rebates for small businesses and low-income households would not start until later in the year. He peddled the illusion that inflation may have peaked.

However, the RBA's preferred measure of "underlying" inflation, which removes "volatile" items such as food and petrol, jumped from 6.1 percent to 6.9 percent in the December quarter, much higher than the central bank's prediction of 6.5 percent.

Chalmers' contemptuous response epitomises the demand of the ruling class—the financial and corporate elite and its governments—that the working class must continue to be made to pay for the economic crisis gripping global capitalism. Labor's fraudulent "a better future" slogan for last May's federal election is a distant bitter memory.

Inflation has been outstripping workers' wages at a record rate for more than a year—with the union officials policing the biggest cuts to real wages. In the September quarter of 2022, union-negotiated enterprise agreements delivered average nominal annual wage rises of just 2.6 percent, compared with 3.1 percent in non-union deals, according to the most recent data available from the Department of Workplace Relations.

That is, union agreements are imposing supposed pay "rises" that average less than a third of the soaring cost of

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living. This is in line with the call by RBA governor Philip Lowe, backed by the Albanese government, for wage rises to be kept lower than 3.5 percent.

That is on top of more than a decade of wage cutting. Real wages have fallen to below the level of June 2009, which was during the global financial crisis of 2008?09.

That underscores the reality that wages are not the cause of the inflation that is devastating working-class households in Australia and internationally. Instead, the roots lie in the capitalist profit system and the US-led drive to war.

Profit-gouging by food and energy conglomerates, exploiting the US-NATO proxy war against Russia in Ukraine, is compounding the inflationary spiral caused by years of governments and central banks pumping trillions of dollars into the financial markets—ever since the global financial crisis—and the ongoing global supply chain problems created by governments letting the COVID-19 pandemic rip for the sake of profit.

Oxfam's recent global inequality report shows that "95 food and energy corporations more than doubled their profits in 2022, driving major inflation in Australia and around the globe and leaving millions struggling to feed themselves and their families."

Nevertheless, the big banks and financial commentators have declared that the RBA must further hike interest rates, like its counterparts in the US, the UK and the EU, in order to prevent a supposed "wages-price spiral."

Commonwealth Bank head of Australian economics Gareth Aird said the outlook for wages was a "key risk" to his bank's official cash rate forecast peak of 3.35 percent. Similar warnings were issued by UBS Australian chief economist George Therenou and KPMG chief economist Brendan Rynne.

An *Australian Financial Review* editorial noted that real wages had already fallen "a steep 4 per cent or so through 2022," but any pegging of wages to inflation would "simply force the central bank to keep interest rates higher for longer in order to squeeze prices growth out of the economy."

Money market representatives are either predicting or canvassing three more RBA rate rises in 2023, on top of the eight in 2022. That would lift the official cash rate to close to 4 percent. ANZ senior economist Catherine Birch said the CPI result "cements" another rise in the official interest rate at the RBA's first meeting of 2023 on February 7, taking it to 3.25 percent. Both the ANZ and Westpac, two of the country's four biggest banks, are forecasting an RBA rate of 3.85 percent by May.

This interest rate "shock"—intended to "squeeze" the economy into a downturn and higher unemployment—will intensify the financial stress confronting millions of working-class homebuyers.

Until last May, the RBA kept rates at a record low of 0.10 percent, in order to pump cheap cash into the hands of business during the pandemic. It promised homebuyers that it would not lift the rate until 2024.

Now a "fixed rate cliff" has begun. About $400 billion worth of fixed rate loans are expiring in 2023 after being taken out on the basis of the previous near-zero rates. RateCity, a company that monitors home loans, estimates that typical fixed-rate borrowers will have to pay about $2,700 more a month. Its calculation is based on a borrower coming off a two-year, 1.92 percent fixed mortgage rate onto a revert rate of 7.16 percent.

Of the $2.1 trillion in home loans, the RBA itself says about 35 percent, or $735 billion, is fixed rate and 65 percent of these are due to expire by the end of 2023. For all the central bank's claims that "most" borrowers will be safe because of savings "buffers," the ruling class is intent on inflicting financial misery on millions of low-income homebuyers for the sake of the capitalist economy and for the benefit of the wealthy.

Social inequality is already accelerating. Oxfam reported this month that Australia's 42 billionaires have a combined wealth of close to $236 billion—61 percent higher than before the COVID-19 pandemic began. This is intensifying a longer-term trend. Oxfam said the richest 1 percent of Australians had accumulated 10 times more wealth than the bottom 50 percent in the past decade.

An immense social crisis is developing in Australia, as it is globally. Major working-class struggles have broken out over the past year against the increasingly unbearable conditions, not least among nurses, health workers and educators.

For these struggles to succeed, however, there must be a conscious break out of the political and organisational straitjacket of the totally pro-capitalist Labor government and unions. That means building rank-and-file committees, independent of the unions, and building a new socialist leadership in the working class to overturn the entire failed private profit system.

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