Australian inflation rate moves back up as real wages continue to fall

Nick Beams
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The headline inflation rate in Australia has kicked up again despite evidence that interest rate increases by the Reserve Bank of Australia (RBA) are bringing a slowdown in the economy amid clear indications of a recession.

The jump in the inflation rate for April to 6.8 percent from 6.3 percent in March was driven by increased rents, a lift in petrol prices because of the ending of the cut in the fuel excise levy last year as well as increased travel costs.

The new data increases the probability that the RBA will again lift interest rates when it meets next week from the current rate of 3.85 percent. Markets are now pricing in a one in three chance of a further rate rise, up from 20 percent before the publication of the latest figures.

Goldman Sachs has revised its forecast for the cash rate from 4.1 percent to 4.35 percent, forecasting rises in both June and July. Citi Australia said the higher-than-expected increase in prices heightened the likelihood of further rate rises.

One of the biggest components of inflation is the rise in rents. According to data from the housing site *Domain*, median weekly asking rates for apartments in the capital cities rose 22.2 percent over the year to March while wages increased by only 3.7 percent over the same period.

The continued mantra from the RBA, along with other central banks, is that rate hikes are needed to "fight inflation." But in the case of housing, which is the largest single component of the basket of commodities used to calculate the Consumer Price Index, rate increases lead to higher rents. This fact is now starting to be acknowledged.

An article by *Sydney Morning Herald* economics correspondent Shane Wright this week noted that RBA "increases in interest rates can actually contribute to inflation."

"By pushing up interest rates," he wrote, "the RBA is actually pushing up the costs incurred by landlords who are carrying mortgages on their properties. While some of those costs will be shifted onto taxpayers via the deductions they claim, the most immediate impact will be on tenants who endure an increase in their weekly rent."

A feedback mechanism is set up in which interest rate hikes lift rents, boosting inflation, to which the RBA responds with further rate increases.

The ANZ-CoreLogic measure of housing affordability has found that a household with a median income needs to spend 30.8 percent of that to service a new rent. This level is generally regarded as indicating financial stress. Those below the median income level need to spend 51.6 percent of their income on accommodation.

And the interest rate rises are having another adverse effect on the housing market. Data from the Australian Bureau of Statistics this week showed that the number of dwelling approvals dropped by 8.1 percent in April and have fallen by more than 24 percent in the past year. Total approvals are now down to the same level as they were in 2012.

As the supply of housing goes down, so prices and rents rise.

But despite data which indicates a growing crisis for ever-increasing sections of the population, the RBA, in line with its counterparts internationally, is determined to press ahead with the suppression of the living standards of the working class.

This was made clear by RBA governor Philip Lowe in a closed-door meeting of the parliament's economics committee last week and in public statements to a Senate estimates committee meeting this week.

Lowe said nominal wage growth "has not been the source of inflation" and he wanted to make that "clear." He could hardly do otherwise given that with sub-inflation increases workers have taken the biggest hit to their real wages in the post-war period.

But while wage rises are not the cause of inflation, their suppression is regarded by the RBA as the cure, combined with an intensification of exploitation in all areas of the economy.

"The problem is with productivity growth over the last three years—there has been no increase in the average output produced per hour worked in Australia," Lowe told senators yesterday.

"In the normal course of things 4 percent wages growth is not problematic. But it is problematic if we had no productivity growth."

But a 4 percent increase in wages, clearly regarded by Lowe as the maximum that can be tolerated, is far below the rate of inflation as the latest figures indicate.

In other words, the demand of finance capital, articulated by the central bank governor, is that real wages must be put on a permanent downward trajectory while productivity, the code word for intensified exploitation, is increased.

There are now clear indications that the economy is heading into a recession. As the *Australian Financial Review* (AFR) noted in a report, the central bank "is achieving its desired economic slowdown, with partial data suggesting GDP growth ground to a halt in the first three months of the year as households cut back on discretionary spending."

The worsening economic outlook was underscored by Treasury secretary Steven Kennedy in remarks to the Senate estimates committee on Tuesday.

He said the economy had peaked last September but now "high domestic inflation and rising interest rates were squeezing household incomes and weighing on consumer spending."

Interest rates, he said, were rising sharply and "are likely to remain elevated for a time, and inflation is unlikely to return to the RBA's target band quickly."

Households carrying a large mortgage or with limited savings—he did not give a figure but clearly there are millions of people in this situation, especially young working-class families—were "likely to be finding conditions challenging."

The forecast in the Labor government's May budget is that growth will slow from 3.25 percent in the current financial year to just 1.5 percent in the next—and even that could be an overestimate on present indications.

In a comment piece published in the AFR, economist Craig Emerson, a former Labor government minister, warned that "real household disposable income is now falling at its fastest pace on record outside of recessions."

More falls were coming "as still large numbers of fixed-rate mortgages will shift onto much higher variable rates" with real per capita spending falling because of the eleven increases to interest rates.

While pointing to these developments, Emerson then advanced the claim that the policies of the RBA risked "plunging the economy into a needless, painful recession." This, he suggested, was the result of a "culture" in the central banking community of "success being measured by low inflation, even if it is achieved at the expense of throwing large numbers of people out of working and small business against the wall."

Such claims serve an essential ideological purpose. They aim to promote the fiction that the attacks on the working class are not the outcome of the deepening crisis of global capitalism, which has every national economy in its coils, but are the product of a faulty mindset.

In Emerson's case it also aimed at deflecting attention from the role of the Albanese Labor government. If the RBA continued its present course, he concluded, "it risks tipping the country into a recession while the government watches on, helpless to prevent it."

In fact, as Treasurer Jim Chalmers has made clear, the Labor government stands four-square behind the RBA agenda. He has emphasised, following discussions at meetings of the International Monetary Fund, that government policies must be completely in line with those of the central bank.

Other efforts are also being made to deflect the attention of the working class from the essential causes of the deepening crisis it confronts. These involve the claim that the root of the housing and rent crisis is an increase in the number of immigrants whose demand for housing cannot be met.

Federal Liberal opposition leader Peter Dutton made this issue a centrepiece of his reply to the Labor government's budget, drawing on the reactionary tradition, going back more than 200 years, that problems created by capitalism are the result of "too many people."

The key issue facing the working class in developing its independent response is understanding that all the mounting social ills it confronts are the result of a deepening crisis of the profit system which can only be overcome through the fight for a socialist program.