



# INFLATION WHERE ART THOU?

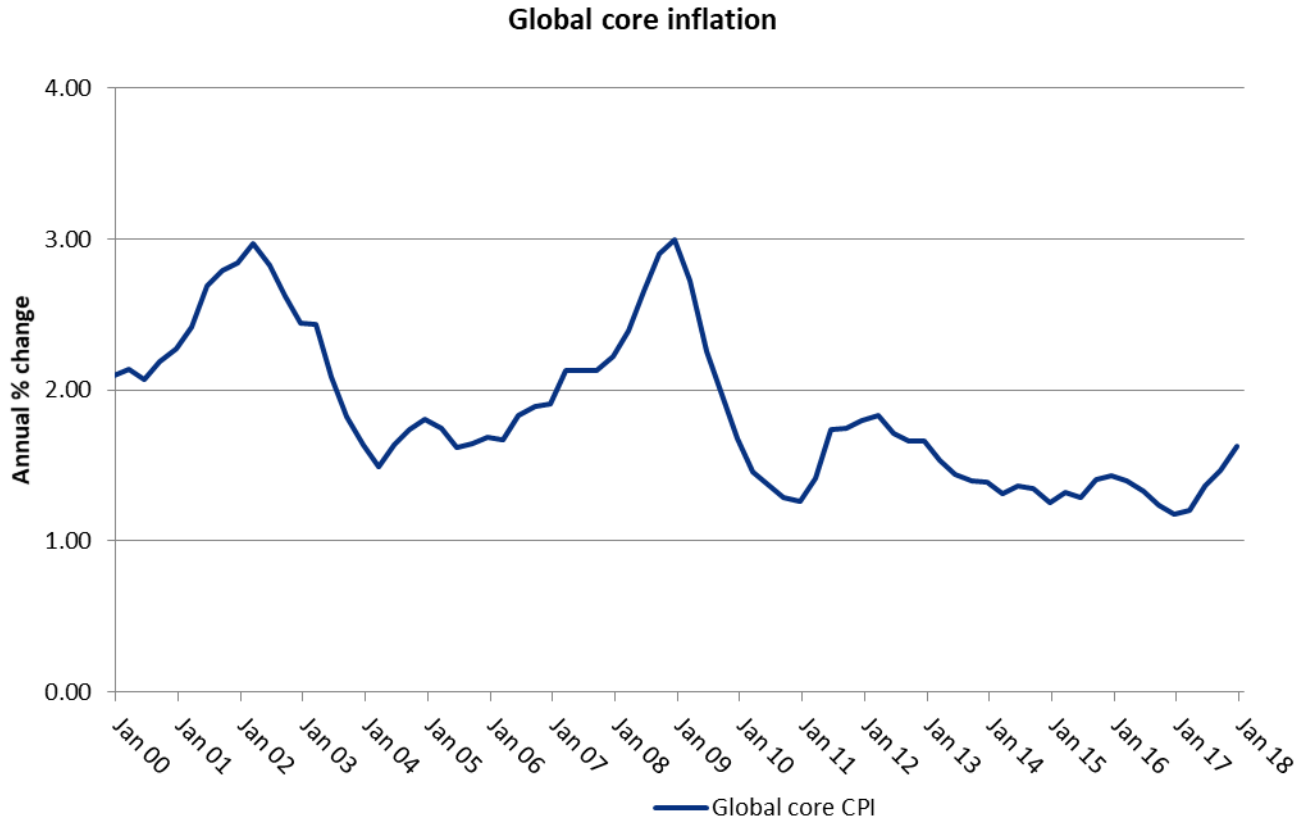
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FEBRUARY 2018

# Inflation where art thou?

Global core inflation is close to the lowest rates this century, although it started to pick up in 2017



Source: Bloomberg, QTC calculations.

# Inflation where art thou?

- Maybe it's just a question of timing and eventually firmer conditions in labour markets will impact prices.
- Maybe wages now aren't as responsive to economic conditions as we have come to expect (see next slide).
- Maybe this simple textbook relationship is too narrow and we need to look at other potential drivers of inflation (see slide after next).

# Inflation where art thou?

Wages may no longer be as responsive to economic conditions because:

- There could be more spare capacity in labour markets than key indicators suggest
- Labour productivity is low
- Inflation expectations are anchored
- Pressure on wages so firms can improve international competitiveness
- Uncertainty over the outlook which makes it preferable for firms to choose labour instead of less reversible capex
- Seeing some payback now after wages didn't adjust down as much during the GFC
- Globalisation and technology changes increases competition which reduces:
  - bargaining power of labour
  - market power of firms (thereby reducing scope to raise prices and therefore pay higher wages)
  - Increased prevalence of self-employed, temporary, task-based workers (reduces strength in numbers and therefore worker bargaining power)
  - Baby boomer retirements which takes higher wages of more experienced people out of labour force and replaces them with lower wages of less experienced people
- In Australia's case also, there has been softer commodity prices, and therefore, profits.

# Inflation where art thou?

CHANNEL	FACTOR	OUTLOOK
Labour costs	Tightness of labour markets	▶
	Point of economic cycle	▶
	Productivity	▲
	Use of capital	▲
	Technology	▼
	Inflation expectations	▶
	Uncertainty	▼
	Global competitiveness	▼
	Labour share	▲
	Compositional changes	▶
Inflation expectations	▶	
Administered prices	▲	
Demographics	▼	
Technology	▼	

CHANNEL	FACTOR	OUTLOOK
Global factors	Correlated business cycles	▲
	Common shocks	▲
	Similarities in policy reaction functions	▶
	Competition from offshore	▼
	Increasing economic integration	▶
	Exchange rate	▼
	Conditions	▶
Demand	Policy settings	▲
	Potential growth	▶
	Debt levels	▼
	National income	▶

Source: QTC

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