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Introduction

This report tracks changes in the cost of living for the least advantaged in South Australia. It differs from the official Cost Price Index (CPI) because the CPI is based on all households, and therefore includes expenditures which are not part of the expenditure of the poorest households. Those poorer households simply can't afford the items which make up the CPI basket of goods. This is important because if expenditure on bare essentials make up the vast bulk (or entirety) of expenditure for low income households, then the price increases in those areas are crucial, while price increases on other goods are largely irrelevant. However, crucial increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

This SACOSS Cost of Living update is the third in a series of reports, but has an updated format and uses a different methodology. Previous reports produced raw figures for particular essential expenditures at particular points in time. This made the expenditures real in terms of using actual dollars values for living costs, but involved a number of assumptions and the data was not available for a longer time series. Where the data was available, the general trend in those particular expenditures tended to be reflected in the Adelaide CPI data for those expenditure types (though not necessarily the All Groups CPI, or the rent figures).

This report makes use of the Australian Bureau of Statistics' Analytical Living Cost Index (ALCI) which is now being produced quarterly (ABS, 2010a). The ALCI is an index of average expenditures weighted by reference to the last Household Expenditure Survey (2003/04). However, the ALCI uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure by identifying expenditure in 4 different household types. It then tracks changes in the cost of goods and services for the average expenditure in each household type. The household types are categorized as those having their primary income source as:

- employment;
- age pension;
- other government transfers (hereafter Other Welfare Recipients); and
- self-funded (retirement).

These make up 90% of households in Australia (ABS, 2010b) although this Cost of Living Report focuses only on the "aged pension" and "other government transfer recipient" figures as these represent the more disadvantaged groups.

While the ALCI is more nuanced than the generic CPI, it still has limitations in being able to represent the real living costs of the most disadvantaged in those broad groups. These limitations are detailed in the Explanatory Notes below (No. 2), but they largely relate to the fact that any indicator of *average* expenditures for household groups will hide impacts for particular subgroups. For instance, as will be evident below, a pensioner owning their own home outright is in a very different financial position from a pensioner who has to pay market rents. The other major issue is that the ALCI is only published with national figures, which means that it may be difficult to trace Adelaide or South Australia specific issues. Nonetheless, the ALCI does provide a robust statistical base, a longer time series, and quarterly tracking of changes in the cost of living for welfare recipients.

This report adds to the ALCI by:

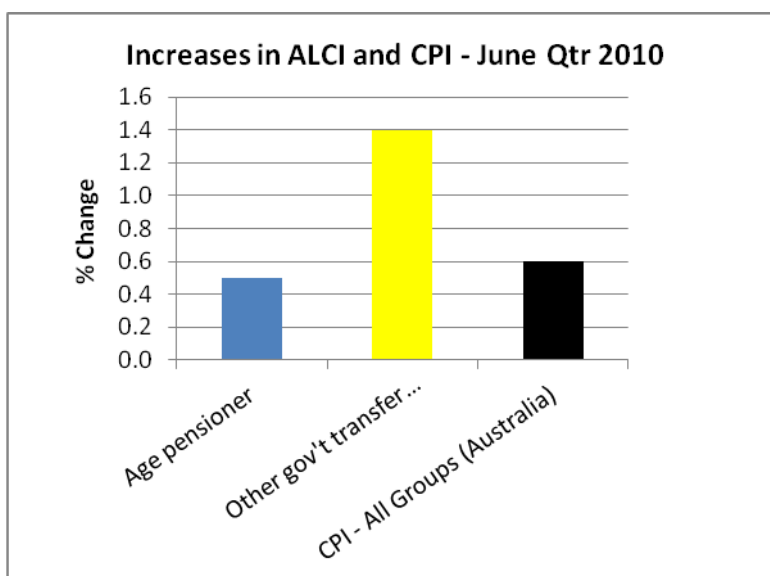
- placing dollar values on the cost of living changes;
- including an analysis of Adelaide rent price changes as a particularly important cost and an important driver of poverty for the vulnerable in South Australia.

June Quarter 2010 Cost of Living Changes

Change from Previous Quarter

In the June 2010 quarter, the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 0.5% and 1.4% respectively (ABSa). That is, the cost of living for the average household in those categories increased by 0.5% and 1.4%. By comparison the national CPI (All Groups) increased 0.6% (ABS, 2010c). In effect, the cost of living for welfare recipients (other than pensioners) rose faster than for the population as a whole in the last quarter. The differences can be seen in Figure 1:

Figure 1: Increases in ALCI and CPI June Qtr 2010



As an index of price changes the ALCI tracks only percentage changes, but it is possible to extrapolate from those figures to put a dollar value on the price rises.

Given that welfare recipients have very low incomes, it is unlikely that any or any significant amount of the weekly benefit can be saved – at least for those not able to supplement their government transfer with other incomes. For someone on the base level of benefits, and assuming that they spend all their income, the changes in cost of living are shown in Table 1.

Table 1: Cost of Living Change June Qtr 2010

	Base Rate Benefit per week	ALCI Change	\$ Amount per week
Aged Pensioner	\$322.10	0.5%	\$1.60
Newstart with two children (Other Welfare Recipient)	\$250.35	1.4%	\$3.50

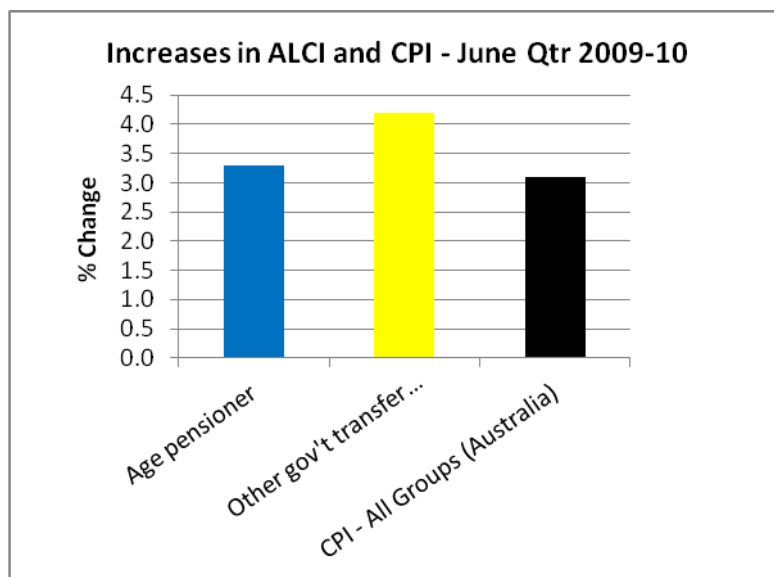
(Source: Centrelink, 2010; ABS, 2010a)

That is to say, for those who fit the assumptions above, the cost of living increased in the June Quarter by \$1.60 per week for aged pensioners and by \$3.50 per person for a Newstart recipient with two children.

Change from Corresponding Quarter 2009

Over the last year (June Qtr 2009 – June Qtr 2010), the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 3.3% and 4.2% respectively (ABS, 2010a). That is, the cost of living for the average household in those categories increased by 3.3% and 4.2%. By comparison the national CPI (All Groups) increased 3.1%, with a 2.8% increase for Adelaide (ABS, 2010c). In effect, the cost of living for pensioners and welfare recipients rose faster than for the population as a whole over the last year. The differences can be seen in Figure 2.

Figure 2: Increases in ALCI & CPI June Qtr 2009-10



Using the same assumptions as above, the dollar amounts of the ALCI cost of living increases over the last year are as follows:

Table 2: Cost of Living Change June Qtr 2009 - June Qtr 2010

	Base Rate Benefit per week	ALCI Change	\$ Amount per week
Aged Pensioner	\$322.10	3.3%	\$10.70
Newstart with two children (Other Welfare Recipient)	\$250.35	4.2%	\$10.51

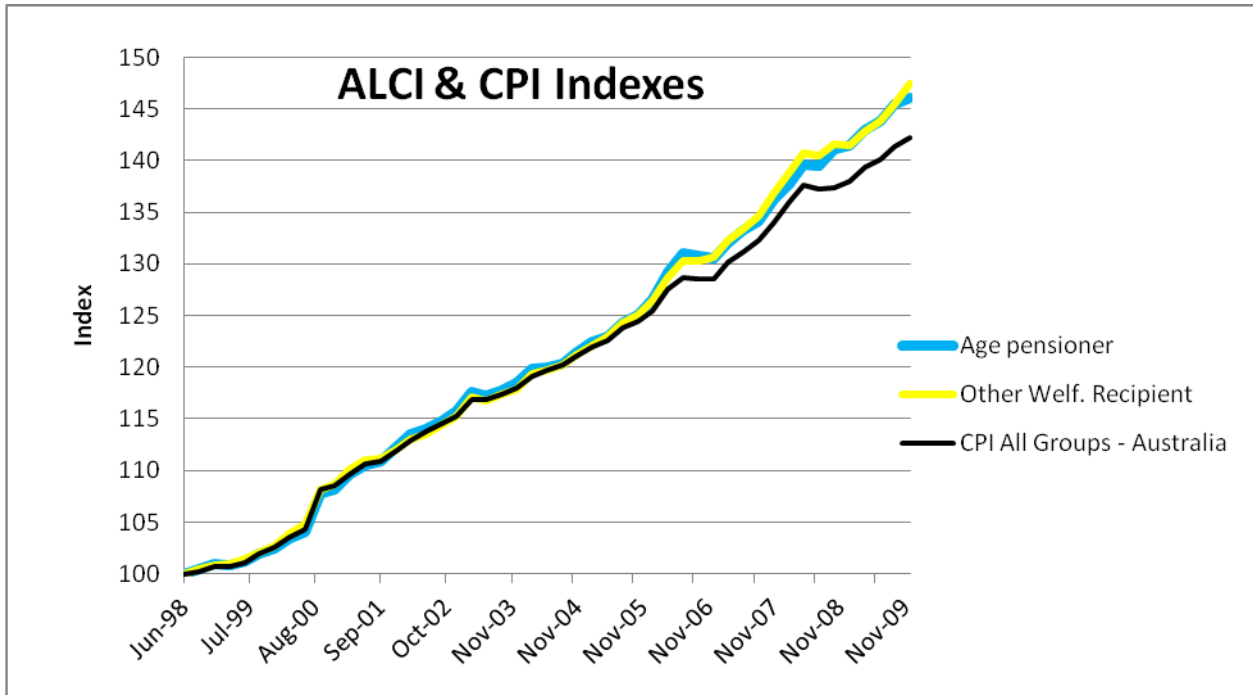
(Source: Centrelink, 2010; ABS, 2010a)

That is to say, for those whose only source of income is a base-rate government benefit and who spend all their income, the cost of living increased over the last year increased by over \$10 per week.

Longer-term trends

Previous SACOSS Cost of Living Reports have noted a trend where the cost of living for welfare recipients has been rising faster than CPI since 2006 (SACOSS, 2009). The ALCI allows us to compare CPI and costs of living for welfare recipients over a longer time frame. Figure 3 tracks trends since 1998.

Figure 3: ALCI & CPI Indexes



It is evident from Figure 3 that the CPI and the rises in costs for the welfare recipients tracked closely for a period, but that since 2006 the costs for welfare recipients did indeed begin to rise faster than CPI, and that that trend has continued since. The ALCI for aged pensioners is now 3.9 percentage points higher than CPI, while for other welfare recipients the ALCI is 5.3 percentage points higher than CPI, which is to say that the prices for goods and services bought by welfare recipients have increased by 3.9 and 5.3 percentage points more for those groups than prices across the board.

In current dollars, and again using the assumptions above, every percentage point represents the cost of living going up approximately \$3.20 per week for aged pensioners and \$2.50 for a Newstart recipient on base rates.

Housing Issues – Adelaide Rents

Housing represents one of our most basic needs and other than for people who own their own homes outright, is likely to require the largest proportion of weekly expenditure for most people, and particularly for many of the least advantaged in our society. Based on the 2003/04 Household Expenditure Survey, the ALCI weights housing costs (including utilities) as 16.8% of weekly expenditure for pensioners and 19.2% for other welfare recipients (ABS, 2010b). However, this massively underestimates housing expenditures and the importance of changes in housing costs for some groups – particularly those on low incomes in the private rental market.

This underestimation is because the weighting in the ALCI is based on an average figure which includes the expenditure patterns of people who own their home, or live in shared or free (family) accommodation, or public/community housing etc, alongside the private rentals which are probably at the pointy end of poverty. The aggregation of all these different housing costs in one category means that the costs of private rental are hidden as the cheaper accommodation types skew the averages. CPI has the same problems, but it has the advantage of having an Adelaide time series for Rent Prices.

Previous SACOSS *Cost of Living* updates have also used the Office of Consumer and Business Affairs' rental bond data measures of median rent prices for newly rent premises (SACOSS, 2009). However, the median rent prices are themselves skewed by high end rent prices so that even the median-priced rentals are simply unattainable welfare recipients. For instance, in the June Quarter of 2010, the median rental for a one bedroom flat in Adelaide was \$220 per week, which was only \$11 per week less than the base rate Newstart Allowance for a single person (\$231.40) (OCBA, 2010, Centrelink, 2010).

In effect, as an indicator of the rent prices faced by welfare recipients and low income earners, the CPI and ALCI is based on an expenditure which greatly underestimates the importance of rent costs, while the OCBA median rent prices exaggerates the actual prices.

For this third *Cost of Living Update*, SACOSS has used both the CPI for Adelaide Rents, plus an indicator of an average rental price in the lower half the market derived from OCBA data on median rent prices (see Explanatory Note 3 for more details).

The indicative low end rent figures show that those welfare recipients who are in private rental are either forced to share housing or are in housing stress. Housing stress is usually defined as where people on low incomes face housing costs amounting to more than 30% of their income (National Shelter, 2010). If housing costs are more than 50% of income then it could be viewed as *extreme* housing stress. The following table compares the indicative low end housing costs of particular housing types with income for different categories of welfare payments (base rate plus rent assistance and other relevant allowances). It shows the extent of housing stress in particular instances.

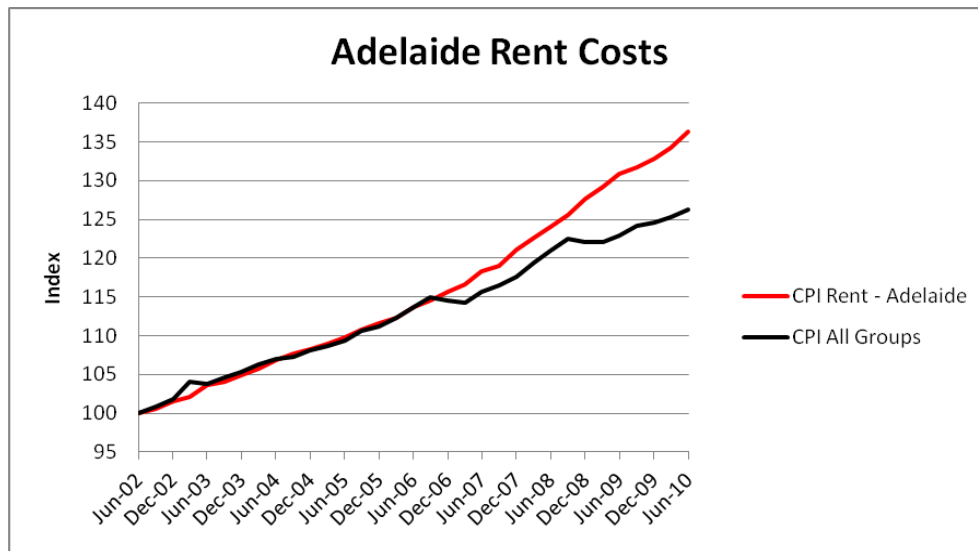
Table 3: Adelaide Rents and Welfare Housing Stress

	Weekly Payment	House Type	Low-end Rent	% of Income
Aged Pensioner	\$407.30	1 Bedroom Flat	\$159	39%
Newstart (single, no children)	\$288.10	1 Bedroom Flat	\$159	55%
Sole Parent (Parenting Payment – 2 children)	\$515.50	3 Bedroom House	\$270	52%

(Source: Centrelink, 2010; and data derived from OCBA, 2010)

While these housing stress figures are alarming, the CPI time series shows that housing rent pricing in Adelaide are currently increasing, and increasing at a greater rate than CPI for All Groups in Adelaide (ABS, 2010c). The two indicators tracked closely until 2006. CPI went backwards in the December Quarter 2006 and March 2007, while rents continued to rise. From 2008 rents in Adelaide have consistently risen faster than the generic CPI, as evident in Figure 4 below.

Figure 4: Adelaide Rent Costs 2002-10



Given the large proportion of welfare recipients' income which can be dedicated to paying rent (as evident in Table 3 above), these price rises represent a major problem and a potential driver of poverty and homelessness.

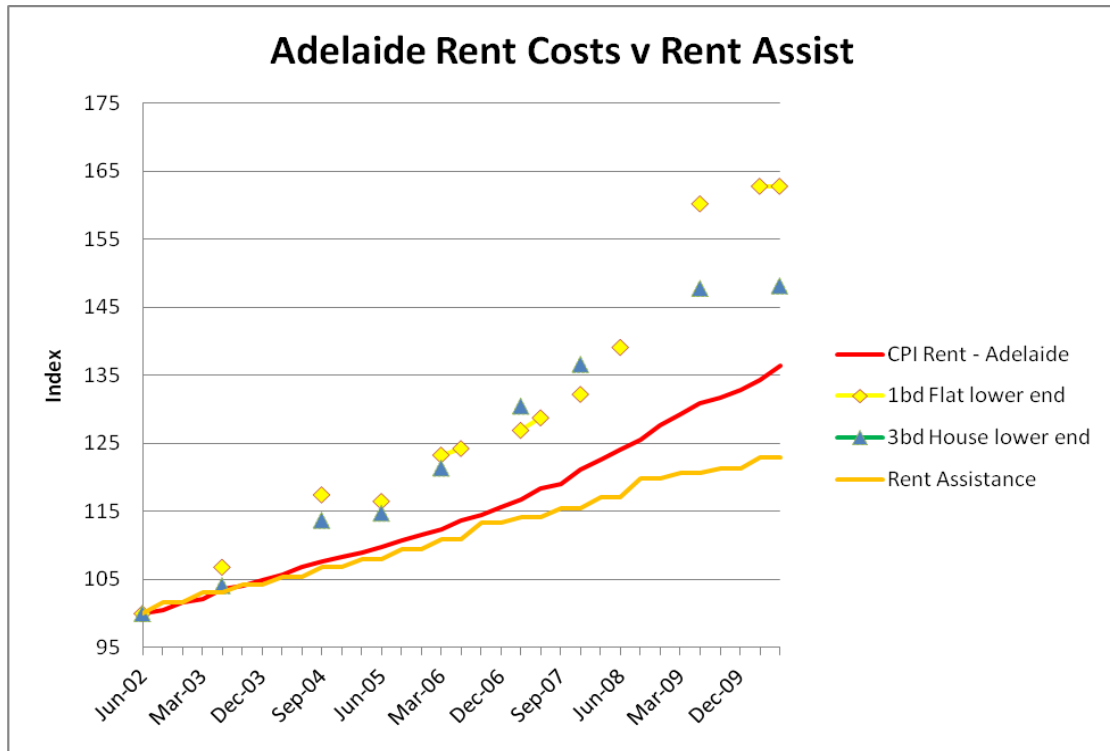
However, the CPI does not tell the whole story and the problem of rising rent costs can be seen more graphically in Figure 5 below which also plots the low-end rental figures at particular points in time.

These figures suggest that rental prices in Adelaide may be increasing at a faster rate than the CPI Rent figures suggests. This is partly because the median rental figures are for new rentals which would have a higher proportion of newly built properties, and partly because landlords often increase rental when new tenants come in or force old tenants out with rent increases. Again these rent increases are swamped by ongoing rentals in the CPI, but welfare recipients requiring new rental premises confront the prices indicated by the median prices not the CPI averages.

The higher median rent prices for new rentals will also eventually flow through into CPI, suggesting that the CPI Rent indicator will continue to rise. Underpinning these rises is the amount of rental properties not meeting demand, with Adelaide's vacancy rate currently the lowest in three years at 1.06% (REISA, 2010). For that reason, the increases in median rent prices evident in Figure 5 are particularly concerning.

Figure 5 also shows the changes in the rate of Commonwealth government Rent Assistance. This forms an important part of the social security safety net, but it is clearly failing to keep pace with rent increases. This has real impacts on welfare recipients. Since the beginning of 2006, an average new rental price for a 3 bedroom house at the lower end of the market in Adelaide has increased by about \$27, while rent assistance for a single person on Newstart with two children living in that house has only increased by \$8.

Figure 5: Adelaide Rent Costs v Rent Assistance



(Source: Centrelink, 2010; ABS, 2010c, data derived from OCBA, 2010)

Given that rent is such a major component of weekly expenditure for some welfare recipients, this failure of Rent Assistance to keep pace with rent increases is increasing hardship for those welfare recipients in the private rental market.

Explanatory Notes

1. CPI and ALCI

The ALCI uses a different methodology to the CPI in that the CPI is based on acquisition (ie. the price at the time of acquisition of a product) while the ALCI is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the ALCI traces changes in the amount expended each week on housing (eg. mortgage repayments). Further information is available in the Explanatory Notes to the ALCI (ABS, 2010b).

In that sense, the ALCI is not a simple disaggregation of CPI and the two are not strictly comparable. However, the differences do not matter for the way the indexes are used in this report. Both measure changes in the cost of living over time, and given the broadness of the CPI measure and its powerful political and economic status, it is useful to compare the two to highlight the differences for different household types.

2. Limitations of the ALCI Data

The ALCI is more nuanced than the generic CPI, but there are still a number of problems with using it to show the cost of living faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the ALCI figures are not state-based so any particular South Australian trends or circumstances may not show up.

At the more technical level, the ALCI figures are for households whose predominant income is from the described source (ie aged pension or government transfers). However, the expenditures which formed the base data and weighting (from the 2003/04 Household Expenditure Survey) (ABS, 2010b) add up to well over the actual welfare payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income beyond the welfare payment, or more than one welfare recipient in the same household. Like the CPI, the ALCI figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest or most vulnerable in those categories.

Another example of this “averaging problem” is that expenditures on some items like housing are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – as discussed in the Housing section above.

The weightings in the ALCI are also dated (2003/04) and can not be changed until the next Household Expenditure Survey. In the meantime, the price of some necessities (like rent) may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the ALCI weighting does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the ALCI household income figures are based on households that are the average size for that household type – 1.57 people for the aged pensioners, and 2.4 for the other welfare recipients (ABS, 2010b). This makes comparison with welfare allowances difficult. This *Update* tends to focus on single person households or a single person with two children (to align to the other welfare recipient household average of 2.4 persons). However, this is a proxy rather than statistical correlation.

3. Housing

As noted in the main body of this report, the previous SACOSS *Cost of Living Biannual Updates* used the quarterly Office of Consumer and Business Affairs statistics on median rent. Those reports traced changes for three categories of dwelling (one bedroom flat, two bedroom flat, three bedroom house). The median rental figures are useful for displaying trends over time, but as absolute values they are much higher than the actual cost of accommodation that welfare recipients looking at renting in those categories would probably face.

The high OCBA figures are partly because by definition a median is halfway up the market while welfare recipients are not likely to be in that bracket. Further, the OCBA figures are new rentals, which have a higher proportion of actually new (and presumably more expensive) buildings than the rent market overall. Finally, housing costs vary by location so that, for instance, while there has been a sharp rise in median rents for one-bedroom flats, the figures are dominated by the city centre which in the first quarter of 2010 accounted for almost a half of all new rentals and was some \$30 a week over the metropolitan median price. In short, move out of the Adelaide CBD, and the median prices were very different.

Since the ALCI figures are too low, and the OCBA rental figures too high, this *Update* uses an approximation for average rent in the lower half of the Adelaide market. The data in the OCBA spreadsheets is sorted by suburb and in order of median prices. An indicative rent cost is gained by taking the average (mean) for the values listed for the cheapest 50% of suburbs. This gives an indicative average for the lower end of the market, although it is not a true average or median of these prices (as the number of places let in each suburb varies). For instance, in the first quarter of 2010, 1 bed-room flats were let in 124 suburbs of Adelaide with the median price being \$240 (OCBA, 2010). The average of medians for all suburb medians was \$195. This was \$45 below the true median because a large number of flats were rented in Adelaide at a median price of \$270, which pushes the overall median up, but only counts for one unit in the suburb list average median price).

Using the method above, the average of median prices in the lower 50% of suburbs in the March 2010 quarter was \$159 per week. It does not matter that this is not a true average. It is simply a consistent way, based on a large enough sample, to find an indicative cost for rent in the appropriate sector of the rental market.

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