



**SACOSS**

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## **Cost of Living Update**

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## Introduction

This report tracks changes in the cost of living for the least advantaged in South Australia.

The first part uses the Australian Bureau of Statistics' Analytical Living Cost Index (ALCI) to show changes in the cost of living (ABS, 2011a). The ALCI is preferred over the better known Consumer Price Index (CPI) because the CPI measures changes in the price of a set basket of goods. This basket includes discretionary goods and services that are not part of the expenditure of the poorest households. 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 whilst price increases on other discretionary goods are largely irrelevant. However, 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.

The ALCI uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure into four different household types (ABS, 2011b), although this *Cost of Living Update* focuses only on the "Aged Pension" and "Other government transfer recipient" (hereafter "other welfare recipients") figures, as these are likely to represent the more disadvantaged households. While the ALCI also has limitations in tracking cost of living changes for these groups (see Explanatory Note 2), it does provide a robust statistical base, a long time series, and quarterly tracking of changes. This report also adds to the ALCI figures by putting a dollar value on the percentage changes in the ALCI.

The SACOSS *Cost of Living Updates* usually contain a second part examining in detail a particular issue of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This Update does not contain such a section. Instead SACOSS will soon be publishing the outcomes of the recent SACOSS Cost of Living Summit. The Summit, held on 19 October 2011 as part of Anti-Poverty Week, brought together leading practitioners and thinkers in South Australia to address what can be done about increasing cost of living pressures.

The next *Cost of Living Update* will resume the normal format.

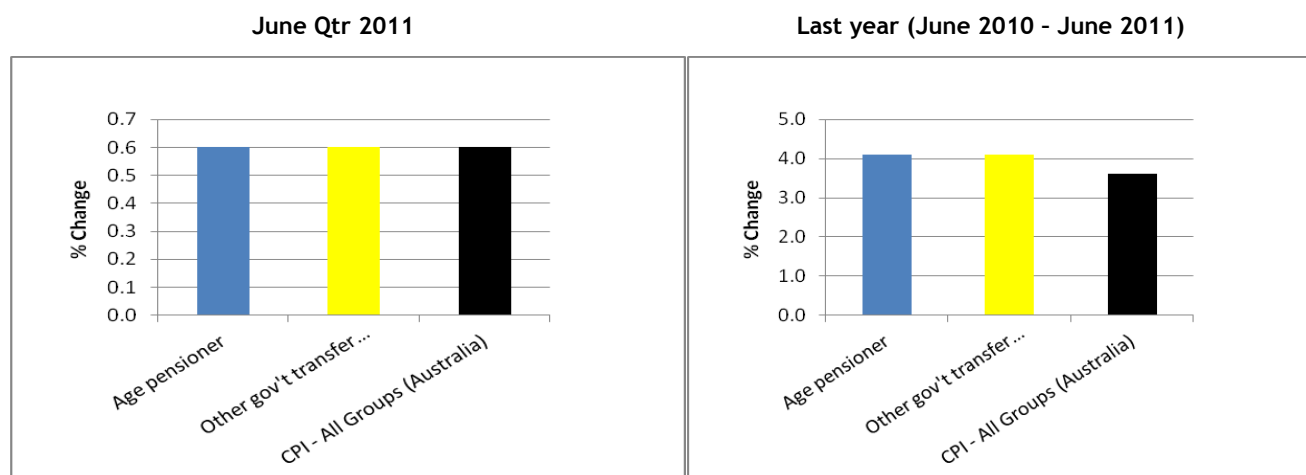
## SECTION 1: September Quarter 2011 Cost of Living Changes

In the September 2011 quarter, the cost of living (as measured by the ALCI) for Aged Pensioners and Other Welfare Recipient households increased by 0.6% (ABS, 2011a), which was the same as the national CPI increase. However, the equivalent CPI All Groups figure for Adelaide rose by 1% (ABS, 2011c).

Over the last year (Sept Qtr 2010 – Sept Qtr 2011), the ALCI for Aged Pensioners and Other Welfare Recipient households both increased by 4.1% (ABS, 2011a). By comparison, the national CPI (All Groups) increased 3.6% nationally, and 4.0% for Adelaide (ABS, 2011c).

**In effect, the cost of living for pensioners and welfare recipients was the same as the general inflation rate in the last quarter, but still rose faster than the generic CPI over the last year as a whole – except in Adelaide where inflation has been above the national figures.**

Figure 1: Increases in ALCI and CPI June Qtr 2011



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, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 1.

Table 1: Cost of Living Change Sept Qtr 2010 - Sept Qtr 2011

	Base Rate Benefit per week (30 Sept 2010)	ALCI Change	\$ Amount per week
<b>Aged Pensioner</b>	\$329.20	4.1%	\$13.50
<b>Newstart with two children (Other Welfare Recipient)</b>	\$254.10	4.1%	\$10.41

(Source: Centrelink, 2011; ABS, 2011a)

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 over the last year increased by \$13.50 a week for

pensioners, and about \$10.50 for other welfare recipients. By comparison, the base rate pension rose by \$15.30 in the same period, while Newstart rose by \$9.20.

**These figures show the importance of the different indexing system used for these two payments. The increase in pensions covered the cost of living rise, while those on Newstart (which is indexed to CPI) fell further behind, with the cost of living rising by more than their income.**

The situation for low income households is probably worse in Adelaide than these national figures suggest. Table 2 compares price changes of a number of basic necessities in Adelaide with the national changes.

Table 2: Cost of Living Changes Sept Qtr 2011 by expenditure type

Cost of Living Area	Adelaide CPI Qtr change %	National CPI Qtr change %
Food	0.0	-0.2
Housing	2.8	1.9
• Rent	0.5	1.2
Utilities	11.0	7.2
• Electricity	11.4	7.8
• Water	14.1	8.6
Health	-1.0	-1.0
Transport	0.3	0.1
<b>CPI All Groups</b>	<b>1.0</b>	<b>0.6</b>

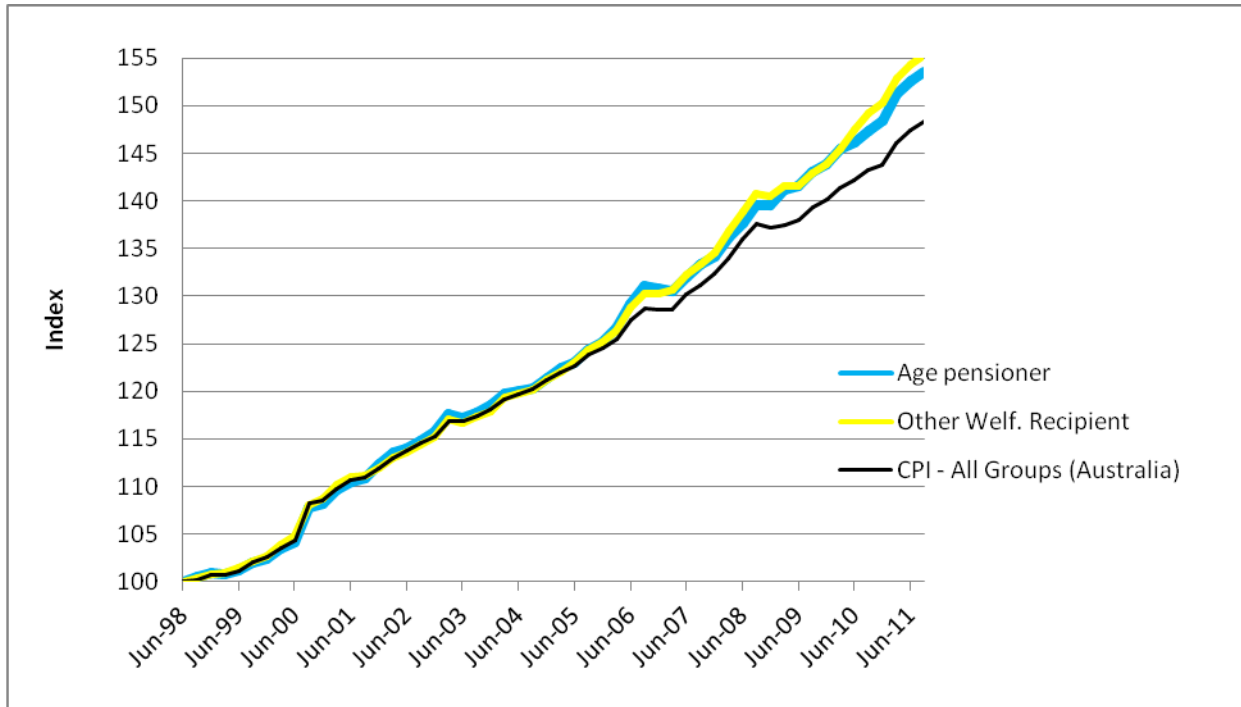
The fact that CPI for Adelaide went up more than the national average is important for those whose income is pegged to CPI (e.g. those on Newstart) because their income is going up on the national average while prices where they shop are going up faster.

The fact that the price increase of many of these necessities went up more in the last quarter than the overall inflation rate means that this impact is more pronounced because of the greater proportion of the household budget that has to be allocated to these goods (rather than to other things where the prices are coming down and reducing the overall CPI). The utilities prices stand out in this category.

## Longer-term trends

Previous SACOSS *Cost of Living Updates* have noted a trend where the cost of living for welfare recipients had been rising faster than CPI since 2006. This is evident in the long term trends of ALCI and CPI tracked in Figure 3.

Figure 2: ALCI & CPI Indexes



The trend that began in 2006 has continued as the lines representing the cost of living for welfare recipients and prices across the whole economy (as measured by CPI) grow further apart. The ALCI for aged pensioners is now 5.2 points higher than CPI, while for other welfare recipients the ALCI is 7 points higher than CPI. That translates to prices for goods and services bought by pensioners going up 3.5% more than inflation, and prices increasing by 4.7% more than inflation for those goods and services bought by other welfare recipients.

Again, this difference is particularly important where income support payments like Newstart and Youth Allowance are tied to CPI, meaning prices are going up faster than incomes.

# Explanatory Notes

## 1. CPI and ALCI

The ALCI uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. 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 (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the ALCI (ABS, 2011b).

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 general usage 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 cost of living changes 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 (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2009/10 Household Expenditure Survey) (ABS, 2011d) 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, 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 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 – again, because the worst case scenarios are “averaged out” by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were \$300 per week, the average expenditure on rent between the two would be \$150 per week, much less than what the renting pensioner was actually paying.

The weightings in the ALCI are also based on a set point in time (currently from the 2009/10 Household Expenditure Survey) and can't be changed until the next Household Expenditure Survey. In the meantime, the price of some necessities 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.

It is inevitable that any summary measure will have limitations, and as noted in the main text, the ALCI does provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners.

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