



**SACOSS**

*South Australian Council  
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# SACOSS

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## Introduction

This report tracks changes in the cost of living, particularly for vulnerable and disadvantaged South Australians.

The first part uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2018a) and Consumer Price Index (ABS, 2018c) to show key changes in the cost of living in the last quarter and over the last 12 months.

As a summary measure, the Selected Living Cost Indexes are preferred over the better-known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. It tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and poor households in particular. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are less relevant. 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 Selected Living Cost Indexes use a different methodology to CPI (see Appendix: Explanatory Note 1) and they disaggregate expenditure into a number of different household types (ABS, 2018b), although this *Cost of Living Update* focuses on the "Aged Pension" and "Other government transfer recipients" (hereafter "other social security recipients") figures, as these are likely to represent the more disadvantaged households. While the Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes – all of which is useful data for analysis. This report also adds to the Selected Living Cost Indexes by putting a dollar value on the changes, and by using disaggregated CPI data to summarise changes in prices of key items.

SACOSS *Cost of Living Updates* sometimes also contain a second section with a more in-depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This *Update* focuses specifically on petrol costs.

## SECTION 1: September Quarter 2018 Cost of Living Changes Prices

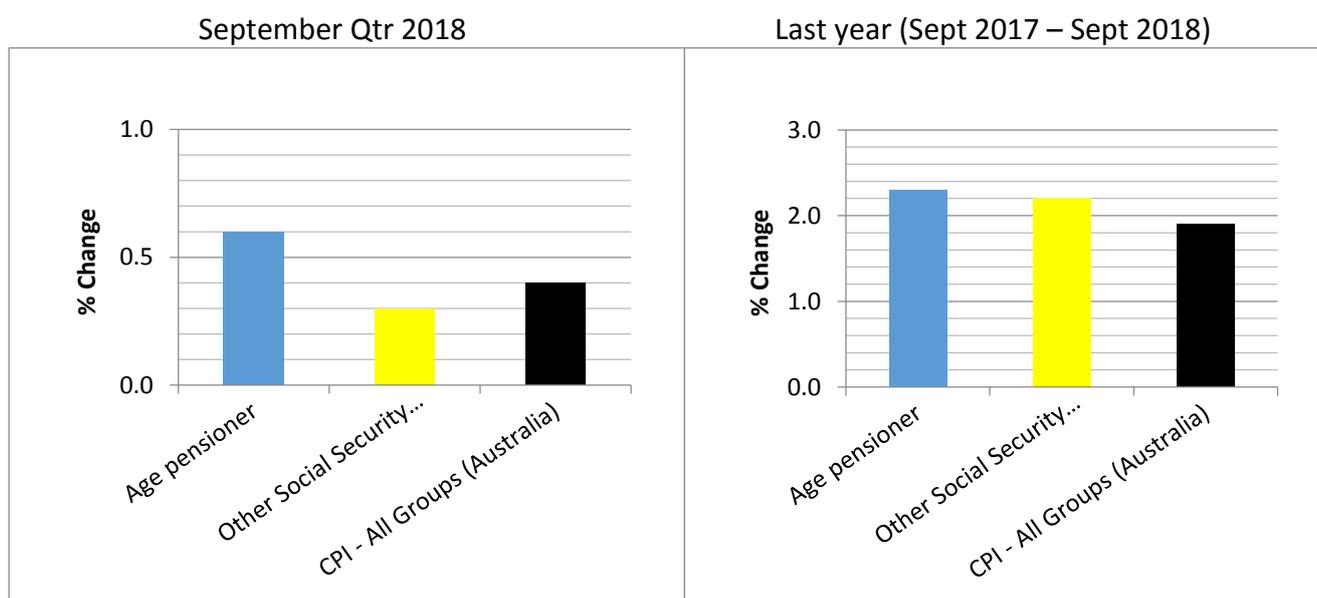
In the September 2018 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for age pensioners rose by 0.6%, while for other social security recipients the cost of living rose by 0.3%. CPI in the same period rose by 0.3% in Adelaide and 0.4% nationally (ABS, 2018a; ABS, 2018c).

The last quarter saw a significant above general inflation increase in cost of living for pensioners, with the main contributor being housing rates and charges which had annual increases from 1 July (ie. in the September quarter). However the cost of overseas travel also increased the pensioner living cost index and some of the difference to CPI was also due to a fall in child care costs in the CPI (which is less relevant to pensioners). Accordingly, the above CPI cost of living data may not be of such a great concern to many of the lowest income pensioners.

The main contributor to cost of living increases for other social security recipients was tobacco price increases (with tobacco being over-represented in this SLCI basket) driven by increases in the federal excise tax. However, the relatively low increase in the SLCI for other social security recipients may also be a bit misleading. The 0.3% headline figure includes the fall in child care costs (due to the introduction of the revamped Child Care Subsidy) which provided welcome relief for some, but not all social security recipients. Further, the greater rise in CPI was driven partly by increases in recreation and culture, which means that many non-pension social security recipients missed out on part of the rise in cost of living because of their poverty meant that they had little expenditure on recreation and culture. That is probably better than suffering increases in the cost of essentials, but it is a marker of poverty rather than an improvement in their well-being.

Over the last year (September Qtr 2017 – September Qtr 2018), the living cost indexes for age pensioners rose by 2.3% and for other social security recipients by 2.2%, by comparison to the generic CPI rise of 1.8% in Adelaide and 1.9% nationally (ABS, 2018a, 2018c).

**Figure 1: Increases in Living Costs September Qtr 2018**



These overall figures can be disaggregated to track changes in the price of key basic goods and services in the last quarter both in Adelaide and nationally. These are shown in Table 1 and show a welcome decrease in electricity prices in Adelaide, although transport price rises are well above CPI – a fact which will be explored in more detail in Section 2.

**Table 1: Cost of Living Changes September Qtr 2018 by Expenditure Type**

	September Quarter CPI Increase		Annual CPI Increase (Sept 2017 – Sept 2018)	
	Adelaide %	Australia %	Adelaide %	Australia %
Food	0.6	0.5	1.3	1.6
Fruit and Vegetables	2.5	1.9	4.0	5.0
Housing	-0.7	0.4	0.1	1.6
Rent	0.1	0.2	0.8	0.6
Utilities	0.1	0.8	-0.9	1.9
• Electricity	-0.8	0.4	-2.2	1.8
• Water	2.3	1.3	2.3	1.3
• Gas	-0.5	1.1	-1.2	3.0
Health	0.0	-0.4	3.8	3.2
Transport	0.3	0.8	5.7	6.0
CPI All Groups	<b>0.3</b>	<b>0.4</b>	<b>1.8</b>	<b>1.9</b>

(Source: ABS, 2018c)

## Incomes

Given that social security 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 payments with other incomes. For someone on the base level of benefits (with no rent assistance), and assuming that they spend all their income, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 2.

**Table 2: Cost of Living Changes Sept Qtr 2017 – Sept Qtr 2018**

	Base Allowance + Supplements (30 Sept 17)	Selected Living Cost Index Change	Living Cost Change per week	Base Allowance + Supplements (30 Sept 18)	Change in Rates of Same Benefits	Net Result \$pw
Age Pensioner (Single)	\$447.20	2.3%	\$10.29	\$458.15	\$10.95	\$0.66
Newstart with two FTB children	\$563.92	2.2%	\$12.41	\$570.07	\$6.15	-\$6.26

(Source: Calculated from Centrelink, 2017, 2018; ABS, 2018a. See Explanatory Note 3 in the Appendix here)

That is to say, for those whose only source of income is a base-rate Age Pension (with the Energy Supplement) and who spend all their income, the cost of living over the last year increased by \$10.29 per week, which was covered by a rise of \$10.95 in the pension. By contrast, the cost of living for a single person on Newstart with two children went up by \$12.41 per week while their income increased by only \$6.15, leaving them \$6.26 a week worse off than a year ago.

## SECTION 2: Petrol Prices

There has been much public concern and media commentary about petrol prices recently, and indeed the CPI figures show that over the last year petrol prices went up by 19.2% in Adelaide, and by around 30% over the two years combined. However, the broader picture of petrol prices is both more nuanced and arguably less alarming than the headline figures suggest.

### Expenditure on Petrol

Transport is the third biggest weekly expenditure for the average South Australian household (after housing and food), and auto fuel is a significant component – making up 24% of this transport expenditure. Fuel is also the expenditure with one of the most volatile price movements not only within the transport area, but in the whole household budget. This makes it harder to budget expenditure and can cause problems for households without the resources to cover sudden price increases. The authoritative *2015-16 Household Expenditure Survey* (ABS, 2017a) details average household expenditure on transport, and fuel in particular, as shown in Table 3.

**Table 3: Expenditure on Transport, 2015-16**

	South Australia \$ per week	Australia \$ per week
Vehicle Purchase	42.47	53.40
<b>Fuel</b>	<b>39.62</b>	<b>49.64</b>
• Petrol	30.06	37.52
• Diesel	5.18	5.30
• LPG	0.89	0.63
• Other	3.69	6.25
Registration & Insurance	31.13	35.54
Parts & Accessories	10.42	10.25
Public Transport Fares	3.27	5.83
Other Transport Costs*	35.10	52.76
<b>Total Transport Expenditure</b>	<b>\$159.68</b>	<b>\$207.96</b>
<i>Transport as % of Av. H/hold Disposable Income</i>	13.3%	14.9%
<i>Petrol as % of Av. H/hold Disposable Income</i>	3.3%	3.6%

Source (ABS, 2017a)

\* Other Transport Costs consist of the ABS categories of vehicle charges (inc crash repairs, servicing, leasing), non-holiday or PT fares (inc taxi, ride-share and airfares), and delivery and freight charges.

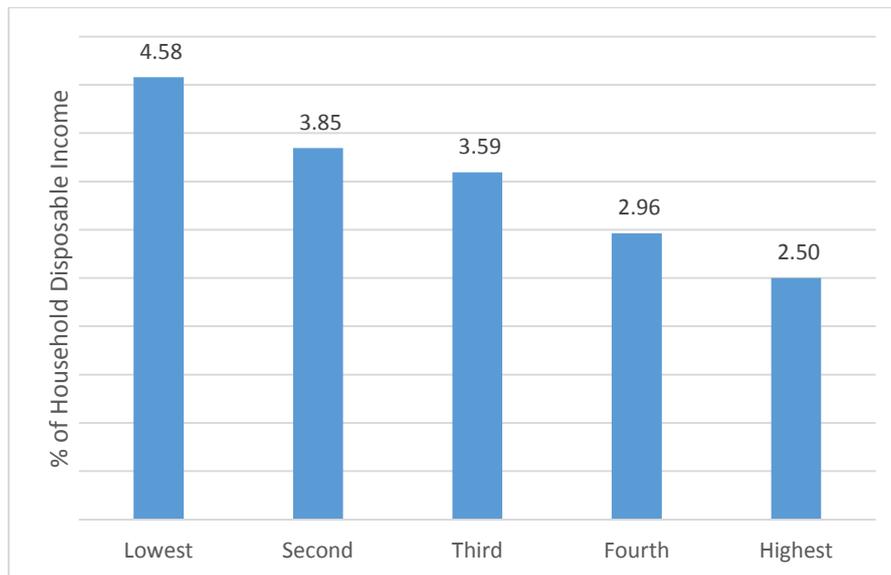
Adjusted for fuel price inflation, \$39.62 worth of fuel purchased by the average South Australian household in 2015-16 would cost \$50.52 per week in today's dollars.

### Low Income Households

While 3.3% of average household disposable income does not seem like a significant household expenditure, it is approximately the same proportion of household income as other essentials like energy and telecommunications. And like those other essential expenditures, fuel costs are regressive and impact disproportionately on low income households. While the average household spends more on fuel absolutely than those in the lowest income brackets (\$49.64 p.w.

vs \$21.85p.w.), as Figure 2 shows, as a percent of household disposable income fuel costs make up more of the household budget in the lowest income households than for those on higher incomes.

**Figure 2: Fuel Expenditure by Income Quintile, Australia\***



\* Note: South Australian figures not published by ABS. Source (ABS, 2017a)

There is another element to this expenditure pattern in that while fuel (and most other elements of private motoring) are regressive, vehicle purchase (and maintenance/servicing) is not. The result is a very different mix of transport expenditures for the highest and lowest income brackets. Fuel accounts for 29.6% of the transport costs for the lowest income households but only 19.6% of transport costs for the highest income quintile, while even more strikingly, the highest income households spend a massive 9 times more on vehicle purchase than the lowest income households – while for most other transport costs the difference is a spend of around 3 to 4 times more in the highest income households.

At one level this difference in private transport capital expenditure (purchase) as against usage expenditure is explicable by poorer households buying cheaper cars, the exorbitantly high price of luxury cars and the ability of those on higher incomes to buy more cars. However, this expenditure pattern suggests an even more regressive nature to private motoring in that those on low incomes spend more on usage (ie. actual transport), while those on the highest incomes spend more on luxury (ie. not essential transport usage). It might also suggest or reflect a poverty premium where those on lower incomes can't afford to buy better, more energy efficient (including hybrid/electric) vehicles and are thus trapped into higher fuel consumption.

### **Regional Expenditure**

There are also significant differences in household fuel expenditure in South Australia between households in Adelaide and those in the rest of the state. The expenditure estimates in Table 4 show that households outside of Adelaide spend more on fuel than Adelaide households, and significantly more as a percent of household disposable income. This is unsurprising given the greater distances needed to travel in regional areas and the lack of public transport, and also the lower average incomes in regional areas, but there is also a different pattern of expenditure. Again unsurprisingly those in regional areas spend significantly more on diesel fuel (and slightly less on petrol and LPG) reflecting different vehicle use.

**Table 4: Fuel Expenditure, Adelaide and Rest of State, 2015-16**

	<b>Adelaide</b> \$ per week	<b>Rest of SA</b> \$ per week
<b>Fuel</b>	<b>38.59</b>	<b>42.98</b>
• Petrol	30.59	28.33
• Diesel	3.98	9.10
• LPG	0.94	0.73
• Other	3.49	4.34
<i>Fuel as % of Av. H/hold Disposable Income*</i>	2.5%	3.5%

Source: SACOSS calculations based on ABS (2017a)

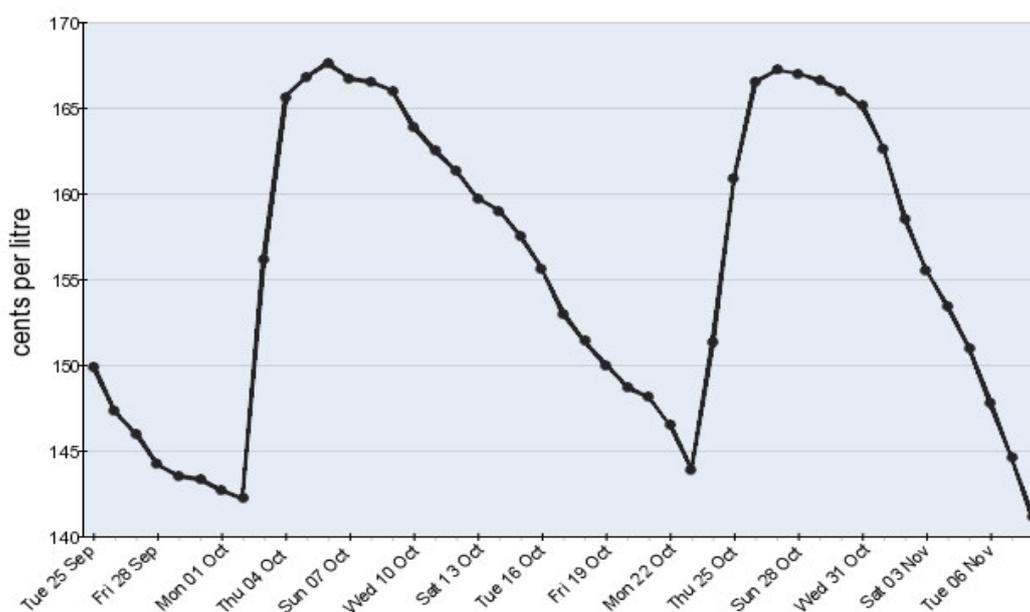
\* Note: this is mean Household Disposable Income rather than the Median HDI used in Table 3. The median is the preferred figure, but the mean figure is used here to enable calculation of Rest of State figures as ABS does not publish full data for the Rest of State.

Adjusted for fuel price inflation, the current value of the 2015-16 Adelaide household weekly spend on fuel would be \$49.20 per week in today's dollars and \$54.81 for the rest of the state – although the rest of the state figure is dubious as the indexation is based on Adelaide fuel prices and the ABS does not track changes in prices outside the capital cities. Indeed, while the above figures would suggest that petrol price rises would hit people outside Adelaide harder the price changes may be different in regional areas (or even between regional areas) and the conclusion can't be stated categorically from the ABS data.

## Changes Over Time

As noted above, petrol price rises have been making headlines in recent months and have contributed to recent CPI rises. There is also some evidence that prices have continued to increase (or at least hit high points) since the end of the September Quarter, although as Figure 3 shows, there is considerable volatility in prices and significant cycles.

**Figure 3: Recent Petrol Prices, Adelaide**



Source: ACCC (2018)

The price fluctuations here are quite large over a short period. The biggest gap between the highest and lowest prices points in this six-week period is around 27c per litre – which is a fluctuation of around 19% on the cheapest price through the period. These cycles, which the ACCC (2018) suggests result from pricing policies of petrol retailers rather than changes in wholesale costs, make budgeting difficult for households and give rise to concerns about price gouging by retailers – especially when prices increase over high demand times like long weekends.

Prices in regional areas are on average slightly higher than in Adelaide, due to extra transport costs and less competition, but they also tend to be more stable (ACCC, 2018). Similarly, diesel and LPG prices are also more stable, but the retail market is dominated by unleaded petrol and several media reports have highlighted the peaks of these recent cycles as the highest prices in years (eg. Carey, (2018); Ziffer, (2018)).

However, while there is no doubt that prices have clearly been increasing recently, the changes over the longer term are less clear. Again, price volatility makes it harder to track, but the relative level of current prices is in some measure dependent on the starting point of the analysis. Figure 4 shows the index of Adelaide fuel prices over the last twenty years (September Qtr 1998 to September Qtr 2018). Clearly fuel price rises exceeded the general inflation level for most of the period (i.e. the cost of petrol went up in real terms) and are now 49 index points above the general CPI. Or put another way, in that twenty year period, fuel prices went up 117% while the general CPI rose by only 68%.

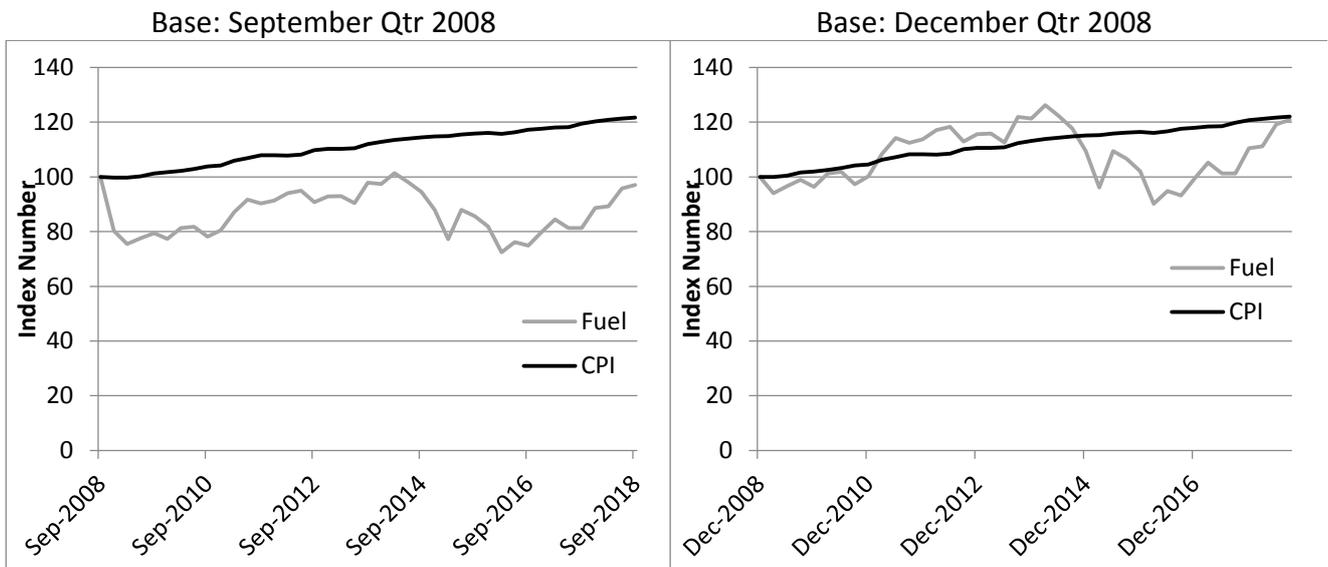
**Figure 4: Adelaide Fuel Prices Over the last 20 years**



Source: SACOSS calculation from ABS (2018c).

However, as Figure 5 shows, the story is a bit different if taken over the last 10 years – or less. The graph on the left shows price changes from September 2008 to September 2018, with fuel price increases below the general CPI in the last ten years and motorists being much better off than they were ten years ago. However, the graph on right shows the same data with the start date moved by just one quarter to December 2008. The large drop in that December Quarter changes the base and therefore the apparent results, with fuel price rises bouncing either side of the general CPI, with the end result being that in real terms fuel prices now are about the same as they were a little less than 10 years ago.

**Figure 5: Adelaide Fuel Prices Over the last 10 years**

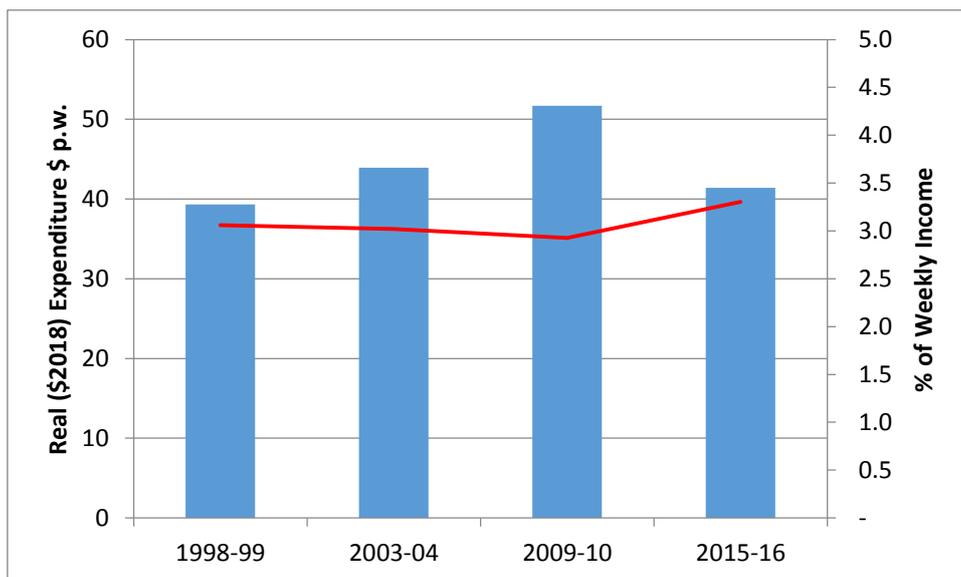


Source: SACOSS calculation from ABS (2018c).

This is not to deny the reality of recent price rises – which are evident in the rising fuel price line in *all* the graphs in the last two years. However, it does show the impact of price volatility and context on how we perceive current fuel prices.

Given this, and the possibility of changes in driving habits and the introduction of more fuel efficient cars over time, it is also possible that any price increases have been offset by decreased consumption – meaning that prices alone do not tell the full story of the impact of fuel prices on household budgets. Figure 6 shows the changes in household fuel expenditure recorded in the *Household Expenditure Surveys* in South Australia, with the blue columns being average dollars per week spent in real terms, and the red line being the percent of gross weekly income.

**Figure 6: Adelaide Fuel Expenditure over last 20 years**



Source: SACOSS calculations from ABS (2017a) and previous HES data.

Figure 6 shows that in real terms fuel expenditure in South Australia has decreased from the 2009-10 levels, but remains around the same level that was evident in the two *HES* surveys prior to that. Interestingly though, while fuel expenditure has decreased in real terms from 2009-10 to 2015-16, as a proportion of household income fuel costs have increased. This may suggest that much of the impact of fuel on household budgets is about flat income growth rather than actual fuel expenditure. If incomes had grown at a faster rate (incomes have generally risen faster than inflation) then fuel expenditure would be less of an issue as its importance would have diminished in the household budget.

Again, this is not to downplay recent fuel price increases – particularly for low income households – but rather is to put them into context of long term price trends and expenditure patterns.

## Policy Considerations and Conclusions

The context of fuel price increases is particularly important when it comes to possible policy responses because fuel prices are more difficult than many cost of living issues. Petrol price levels are heavily determined by benchmark prices on world markets where state and even national governments have little control. According to the ACCC (2018), changes to international benchmark prices take about two weeks to work their way through the supply chain in Australian cities, and longer in regional areas, but the international benchmarks are the largest component of the price paid at the bowser. Thus Middle Eastern politics and supply decisions, sanctions on Iraq or other oil producers, and other geopolitics will flow through to Australian prices. The decline in the value of the Australian dollar relative to the US dollar in recent years is also putting upward pressure on prices (as Australia is a net importer and most contracts are delineated in US dollars) – and while government policies can impact on the exchange rate, it is a complex equation and not one to be solved just to make petrol prices cheaper.

One part of fuel prices that is subject to government control is the level of taxation on petrol. As well as GST, the federal government imposes an excise duty on petroleum products, currently around 41c per litre for most types of petrol and diesel. The excise duty serves as a proxy for a tax on road use and a contribution to the costs of externalities imposed by vehicle use, but it is also a significant revenue raiser for the federal government and is seen as a relatively efficient tax in economic terms (Webb, 2001). With recent high prices at least one federal parliamentarian (Craig Kelly, MP) has reportedly called for fuel excises to be cut by 10c per litre (Ziffer, 2018). However, this would undermine the federal revenue base and is a blunt instrument. The impact of tax changes could easily be overwhelmed by price fluctuations and international factors, while if petrol prices fall in the future it may be politically difficult to increase the rate – thus a sacrifice of an efficient revenue source for no long term benefit.

There are regulatory measures which could be aimed at the most egregious examples of price gouging by oil companies or retailers, while the Prime Minister has called on oil companies to reduce prices. There is some debate about the strength and appropriateness of Australian regulation, the ACCC is not pushing for change and there are no real reform proposals in the pipeline (Ziffer, 2018). Short of that the Prime Minister putting the oil companies “on notice” is simply a request to reduce prices, rather than a policy or regulatory response.

For individuals, the options are not much better. Limiting car usage may be an option in some circumstances, but this is made difficult by a very limited and ‘city-commuter’ centred public transport system. Similarly, shopping around can save money on petrol – but driving around

comparing prices may burn petrol and cost money. Comparing prices online is cheaper and there are a range of apps available to locate cheaper petrol (eg. FuelCheck, GasBuddy and MotorMouth), and the RAA website tracks petrol prices and shows price cycles. However, these all require internet access (which also costs money) and digital literacy. And for those in regional areas, the options for shopping for the best prices are limited or non-existent—as is public transport.

However, the above analysis of the context of petrol price rises does highlight one pathway forward. As noted, petrol prices impact most on low income households and those prices have risen steeply in the last two years, but the general inflation rate in Adelaide was a modest 1.8% in the last year, and electricity prices actually fell by 2.2% (after a huge rise in July 2017). If households are feeling cost of living pressures when the overall inflation rate is low, this may point to a different problem: that incomes might not be rising to cover even modest price rises. Again, this was evident in Figure 6 where real expenditure on petrol had decreased across the last two HES surveys, but had increased as a percentage of household income.

For households reliant on low wages or casual work where there is little bargaining power, where people are working more hours to maintain real income, or for those stuck on social security payments like Newstart which have not risen in real terms in over 20 years, the cost of living pressures are very real. But if at least part of these pressures is attributable to incomes not increasing, particularly at the lower levels where petrol prices (and other essential expenditure) hit hardest, then one way to address petrol price affordability is through ensuring adequate incomes. This is something that Australian governments can address through the minimum wage, changes to industrial relations regulation, or by increasing the social security safety net. Most obvious here is an increase in Newstart and other base level allowances. These payments are not only the income source for households with some of the lowest income levels, but as Table 2 showed, those allowances have demonstrably failed to keep up with the cost of living.

These income initiatives may be easier to fund and act on than international markets and exchange rates which have eluded regulation all over the world, and is likely to be a far more effective and direct help to those on the lowest incomes than simply pleading with oil companies or waiting out cycles of price increases.

## APPENDIX: Explanatory Notes

### 1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes 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 living cost index is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the SLCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the Selected Living Cost Indexes (ABS, 2018b).

In that sense, the Selected Living Cost Indexes are not a simple disaggregation of CPI and the two are not strictly comparable. However, both indexes are used to measure changes in the cost of living over time (although that is not what CPI was designed for), and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two and highlight the differences for different household types.

### 2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that social security 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 living cost indexes are not state-based, so particular South Australian trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes 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 2015-16 *Household Expenditure Survey*) add up to well over the actual social security 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 social security recipient in the same household. Like the CPI, the Living Cost Index 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 Selected Living Cost Indexes are also based on a set point in time (from the *Household Expenditure Survey*), but over time the price of some necessities may increase rapidly,

forcing people to change expenditure patterns to cover the increased cost. There is some adjustment of weightings for this, but these can't be checked without a new survey. Alternatively, or additionally, expenditure patterns may change for a variety of other reasons. However, the weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the Selected Living Cost Indexes' household income figures are based on households that are the average size for that household type: 1.52 people for the aged pensioners, and 2.57 for the other social security recipients (ABS, 2018b). This makes comparison with allowances difficult. This *Update* focuses on single person households or a single person with two children (to align to the other social security recipient household average of 2.57 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 Selected Living Cost Indexes 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.

### 3. Income Support Payment Calculations – September 2018

Even using the base rate of benefits, the calculation of the relevant weekly incomes is difficult because of the complexity of the income support system which means that payment eligibility and rates change depending on the exact circumstances of the household (eg. age of children, assets). The calculation is also complex because of changes over time in eligibility and available benefits. However, based on an assumption of a single Aged Pensioner and a single Newstart recipient with two children (aged 10 and 14) – with neither receiving Commonwealth Rent Assistance, the basic income supports payments are as follows:

#### ***Rates at 30 September 2017***

	Base Rate	Pension Supplement	Energy Supplement	FTB A Child u13	FTB A Child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	\$407.00	33.15	7.05					\$447.20
Newstart - 2 children	\$291.40		4.75	91.42	118.93	54.32	3.1	\$563.92

#### ***Rates at 30 September 2018***

	Base Rate	Pension Supplement	Energy Supplement	FTB A Child u13	FTB A Child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	\$417.20	33.90	7.05					\$458.15
Newstart - 2 children	\$297.55		4.75	91.42	118.93	54.32	3.1	\$570.07

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