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## **Cost of Living Update**

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47 King William Road  
Unley, SA, 5061 Australia  
Ph (08) 8305 4222  
Fax (08) 8272 9500  
Email: [sacoss@sacoss.org.au](mailto:sacoss@sacoss.org.au)  
Website: [www.sacoss.org.au](http://www.sacoss.org.au)

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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 that are not part of the expenditure of the poorest households. Those poorer households simply can't afford the items that 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 whilst 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 sixth in a series of reports and the fourth to utilise 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). It uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure by identifying four 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')
- self-funded (retirement).

These make up 90% of households in Australia (ABS, 2010b) although this *Cost of Living Update* 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 within those broad groups. These limitations are detailed in the Explanatory Note 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, 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 changing levels of food prices as a particularly important part of the cost of living for low income households.**



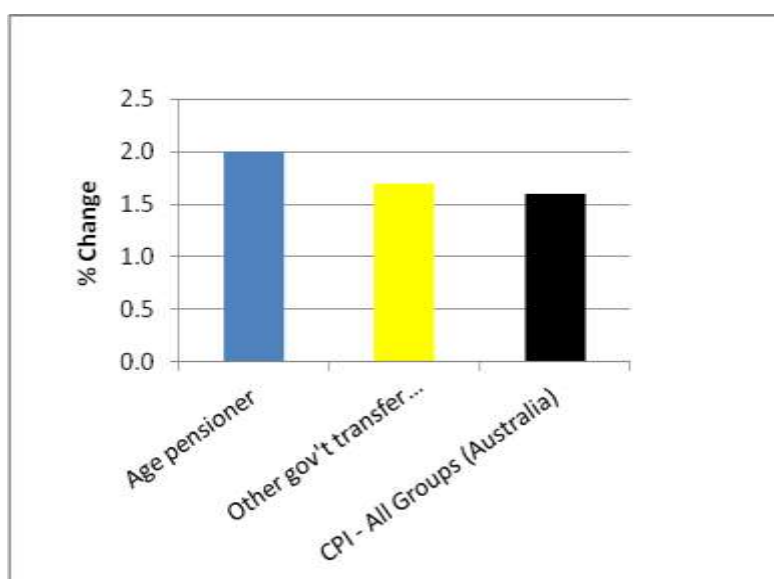
# March Quarter 2011 Cost of Living Changes

## Change from Previous Quarter

In the March 2011 quarter, the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 2.0% and 1.7% respectively (ABS, 2011a), mainly due to increases in pharmaceuticals, vegetables, automotive fuel, fruit and electricity. That is, the cost of living for the average household in those categories increased by 2% and 1.7%. By comparison, the national CPI (All Groups) increased 1.6% (ABS, 2011c). **In effect, the cost of living for welfare recipients rose faster than the general inflation rate (CPI) in the last quarter.**

The differences can be seen in Figure 1:

Figure 1: Increases in ALCI and CPI March Qtr 2011



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 March Qtr 2011

	Base Rate Benefit per week (1 Jan 2011)	ALCI Change	\$ Amount per week
<b>Aged Pensioner</b>	\$329.20	2.0%	\$6.58
<b>Newstart with two children (Other Welfare Recipient)</b>	\$254.10	1.7%	\$4.32

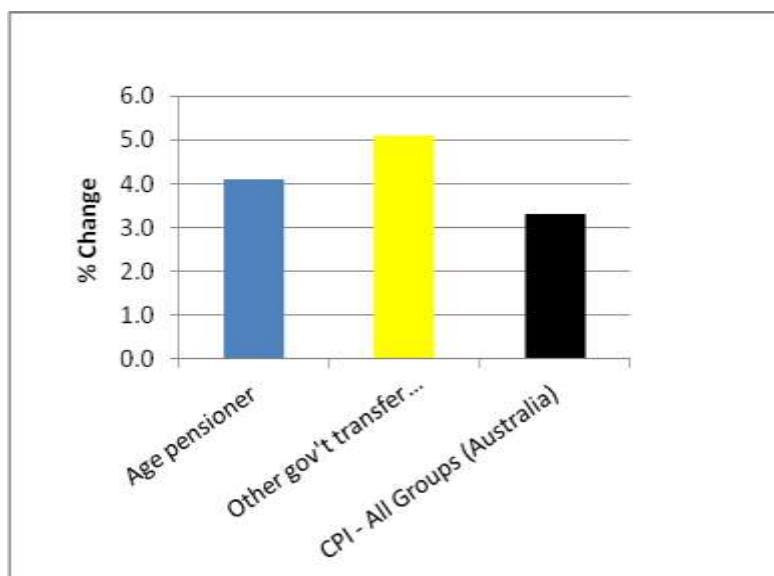
(Source: Centrelink, 2011; ABS, 2011a)

That is to say, for those who fit the assumptions above, the cost of living increased in the December Quarter by \$6.58 per week for aged pensioners, and by \$4.32 per person for a Newstart recipient with two children.

## Change from Corresponding Quarter 2010

Over the last year (March Qtr 2010 – March Qtr 2011), the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 4.1% and 5.1% respectively (ABS, 2011a). By comparison, the national CPI (All Groups) increased 3.3%, with the same increase for Adelaide (ABS, 2011c). **In effect, the cost of living for pensioners and welfare recipients rose faster than the general inflation rate over the last year.** The differences can be seen in Figure 2.

Figure 2: Increases in ALCI & CPI March Qtr 2010-11



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 March Qtr 2010 - March Qtr 2011

	Base Rate Benefit per week (1 January 2010)	ALCI Change	\$ Amount per week
Aged Pensioner	\$307.90	4.1%	\$12.62
Newstart with two children (Other Welfare Recipient)	\$246.65	5.1%	\$12.57

(Source: Centrelink, 2010; ABS, 2011a)

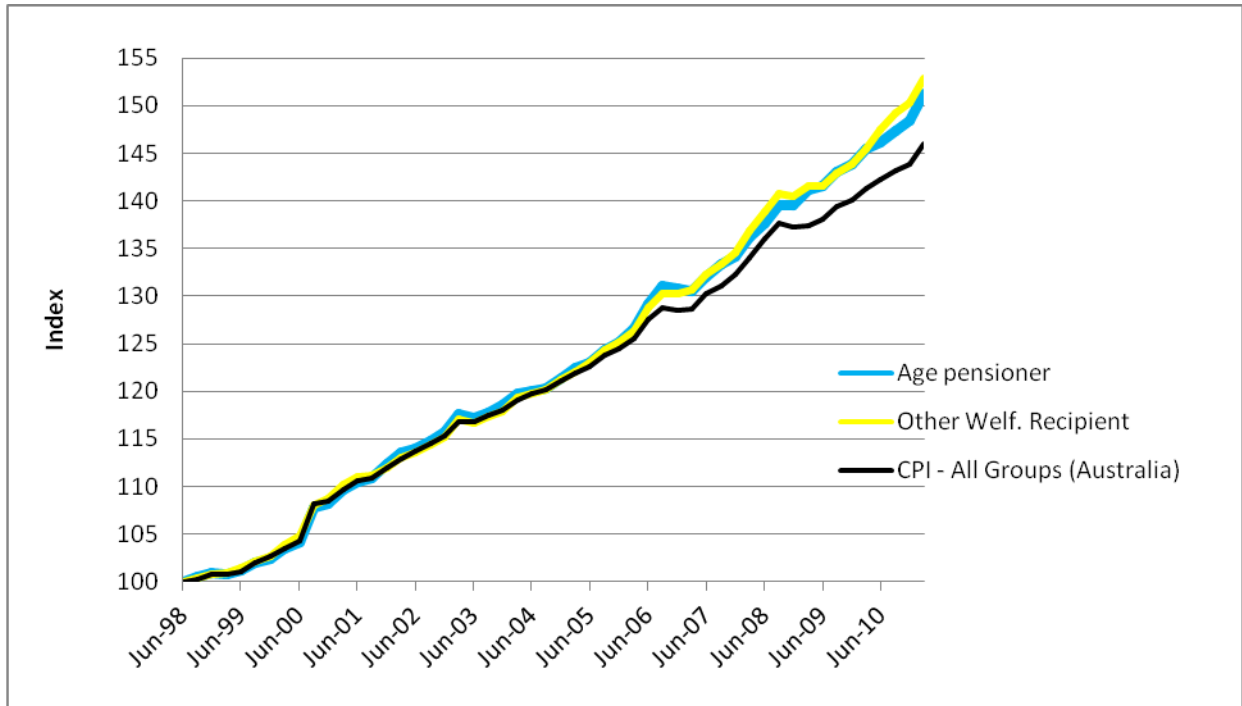
That is to say, for those whose only source of income is a base-rate government benefit and who spend all their income, the cost of living over the last year increased by over \$12 per week. The base rate pension rose by \$21.30 in the same period, while Newstart rose by \$7.45. **Thus, while the federal government commitment to raising aged pensions, beginning in September 2009, has made a difference, those on Newstart are still falling further behind, with the cost of living rising faster than their income.**



### 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 3: 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 5.3 points higher than CPI, while for other welfare recipients the ALCI is 6.9 points higher than CPI. That translates to prices for goods and services bought by pensioners going up 3.6% more than inflation, and prices increasing by 4.7% more than inflation for those goods and services bought by other welfare recipients.

# Food Prices and the Cost of Healthy Eating

## ***Introduction***

Food is the most basic necessity of life. Put most simply, we need food to survive from day to day. The current ALCI figures are based on food accounting for approximately 21% of expenditure for households whose primary source of income is the aged or disability pension, and 19% of expenditure in households whose primary income is other welfare payments (ABS, 2011b). Clearly food is a significant household expenditure, although it is slightly less significant in the CPI where it accounts for only 15% of the CPI basket of goods (ABS, 2005). Both sets of figures are based on the 2003/04 *Household Expenditure Survey* and will be updated when the new (2008/09) survey figures are incorporated into the data. However, the difference between the ALCI weighting the CPI basket of goods suggests again that generic CPI increases is not the best reflection of the cost of living for low income households and that food prices are disproportionately more important for low income households than for the rest of the population.

This *Cost of Living Update* looks at food prices as they relate particularly to low income earners and tracks price changes for different food bundles over time to draw out two important conclusions:

- food generally has gone up faster than CPI over a sustained period, and
- the cost of healthy food has increased more than the cost of other food.

The first has been the focus of much media commentary, particularly since this year's floods and cyclone damage to crops in eastern states, and is of particular concern for low income households because food is such a significant and necessary expenditure item. Of equal concern is the second conclusion because it means that there is an increasing price incentive to eat less healthy food. This in turn has health and wellbeing implications for individuals, as well as health service providers, governments and the wider community. And again, any negative outcomes from these unhealthy food price signals will be felt disproportionately by those on lower incomes, both because they spend proportionately more on food so the price impacts will be greater, and because they have fewer resources to deal with the health and other problematic outcomes of poor diets.

## ***Food Prices v Inflation***

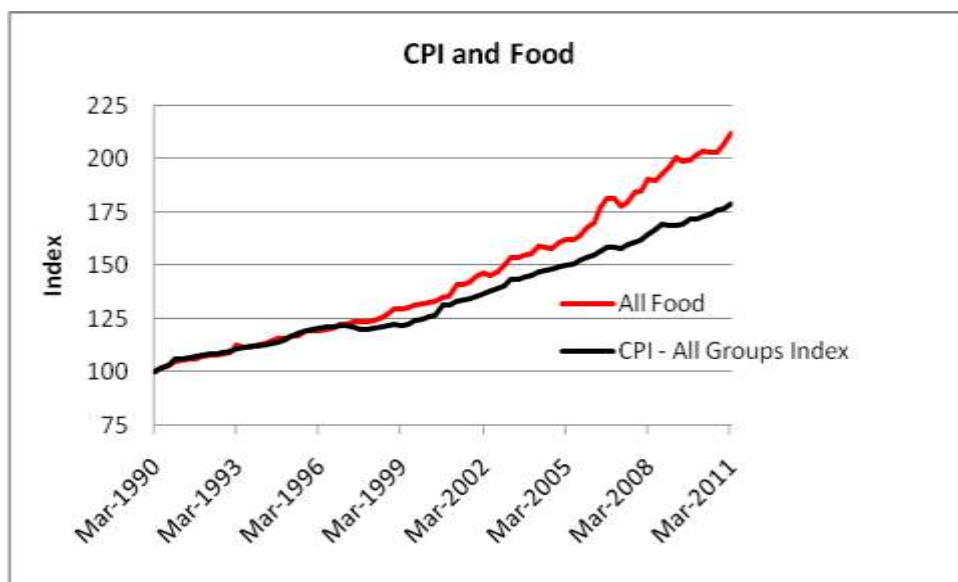
The rising cost of food has been the subject of much recent discussion around rising costs of living. With natural disasters destroying tropical food crops like bananas and avocados, and floods elsewhere disturbing other food production, increased food prices were a major contributor to the 1.6% CPI rise in the March Quarter this year. Food prices themselves rose by a massive 2.9% in the March Quarter – and 4.4% for the year (well ahead of the 3.3% overall inflation rate). Adelaide food prices changes were almost identical to the national trends, increasing by the same amount in the March Quarter and 4.3% over the last year.

Of course these figures may not reflect the actual change in household expenditures on food because the CPI can't take account of substitution effects. If bananas triple in price it has an impact on CPI, but if consumers simply buy apples instead of bananas, there is little impact on the cost of fruit to the household. However, while some food substitution may be easy, other food products are not so easily substituted and if the price of food overall goes up, households can't *simply* substitute non-food items (although there may be cheaper ways to buy food, and in the worst case scenarios, poor households do in fact substitute and go without food—usually to pay for other necessities).

This *Cost of Living Update* can't track all the possible substitution effects, but a recent study by the Centre for Social and Economic Modelling (NATSEM) published in the *Adelaide Advertiser* found that over the last 5 years, food had increased by \$786 per year for the average household (Hudson

& Kenny, 2011). This is a significant amount of money, but is just one manifestation of a longer term phenomenon of food prices rising faster than the rate of inflation (the generic CPI). SACOSS's calculations from the ABS indexes show that since 1990 the CPI for food has increased by 33.1 index points or 18.4% more than the generic CPI. That is, the real price (adjusting for inflation) of food in Adelaide is 18.4% higher than it was in 1990. This is evident in Figure 4 where the black line is the generic CPI and the red line is the CPI All Foods index.

Figure 4: CPI and Food Prices (Adelaide)



The trend evident in Figure 4 is particularly important because, as the *Cost of Living Update No. 5* noted (SACOSS, 2011), income support levels for those on Newstart, Youth Allowance and other base level benefits are tied to CPI. *Thus, when food prices rises outstrip CPI, food becomes harder to afford for some of the most vulnerable and disadvantaged in our society.*

### **The Price of Healthy Food**

The overall price of food is only one issue in relation to food and the cost of living. The type of food, and the costs of healthy food, are also a major concern. Nutritious food is a key social determinant of health outcomes and poor diet is associated with a number of chronic diseases like obesity, diabetes, heart disease and some cancers. Kettings, Sinclair and Voevodin (2009) point to a number of studies which show that low income Australians are less likely to buy and eat healthy food, and are not eating foods in line with broad public health recommendations. There is a complex intermixing of reasons for this, but cost is a factor. A number of international studies cited by Kettings, Sinclair and Voevodin suggest that healthy food is more expensive than unhealthy food, while their own study estimates that those on income support would need to spend approximately one-third of their weekly income to afford a healthy diet (p 566, 570). This is well above the ALCI average food expenditures, and given other cost pressures, this is probably not achievable for many low income households. It is clearly an impediment to any public health campaign aiming at improving Australian diets and is also a basic equity and social justice issue.

Of course, what constitutes a healthy diet is debateable (see for instance, Russell, 2009), and there are a range of studies of the cost of a "healthy food basket". These usually itemise a basket of healthy foods that could provide a healthy diet and then price these items. However by their nature, these studies tend to be either point-in-time and/or small-scale studies. This *Cost of Living Update* takes a different approach and uses CPI data to trace the cost of healthy foods over time. The purpose is not so much to calculate the cost of any particular healthy food basket, but to see whether such food is becoming more, or less, affordable.

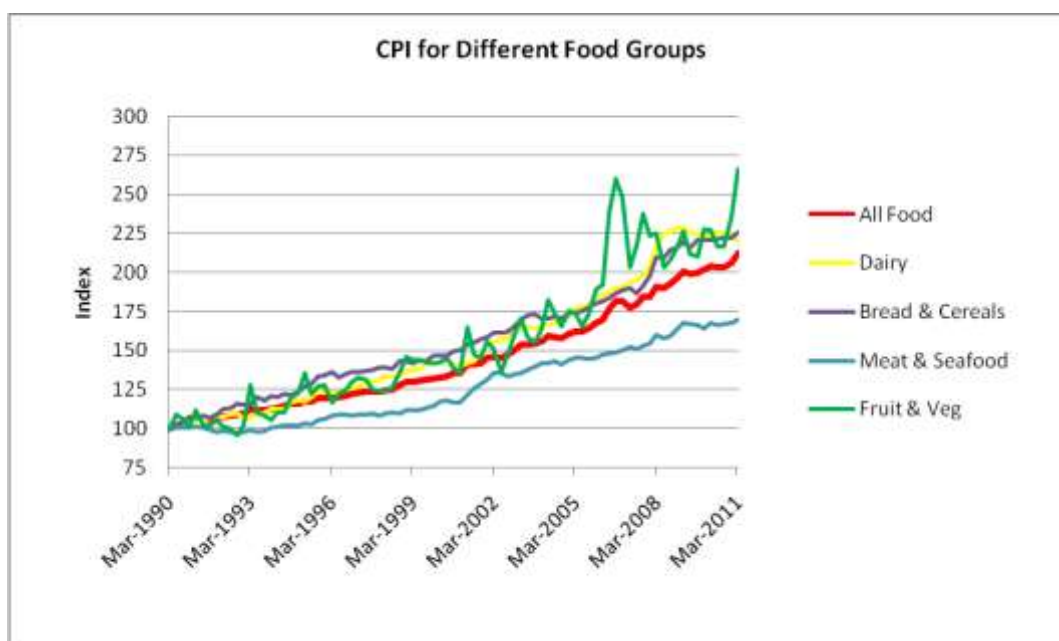
In taking this approach, the defined “healthy foods” are somewhat beholden to the aggregations of existing CPI categories. SACOSS has used the CPI categories that most closely match the categories of food recommended in the *Dietary Guidelines for Australian Adults* published by the National Health and Medical Research Council (2003). This mapping of categories is outlined in Explanatory Note 3 below, but the result is that healthy foods categories used here are the CPI (Adelaide) aggregates of:

- Dairy and Related Products
- Bread & Cereals
- Meat and Seafood
- Fruit and Vegetables.

Using these CPI categories does mean some of the “healthy food” categories include less healthy foods. For instance, the Cereals category contains not only the healthy bread, rice, and pasta, but also cakes, biscuits and breakfast cereals that are sugar laden. Similarly, the Dairy category includes ice-cream along with milk and cheese. By contrast, there are also a number of healthy foods which are not included in any of these four categories. However, despite these caveats, the CPI categories used do broadly match the *Dietary Guidelines* and enable us to answer the question of whether healthy food is becoming more, or less affordable.

Figure 5 tracks the changes in the CPI for each of these groups by comparison with the CPI for All Foods (which we have already seen has itself increased more than the generic CPI).

Figure 5: CPI and Healthy Food Prices (Adelaide)



While fruit and vegetable prices are volatile, the trend shows that they have increased more than CPI for All Foods over the period. The same general trend is true of Bread and Cereals, and of Dairy products. Meat and Seafood are the only healthy food group that increased less than the average of all food groups. In fact, through much of the 1990s, meat and seafood prices grew more slowly than the generic inflation rate (CPI – All Groups), meaning that in real terms it was becoming cheaper, although since about 2002 it has tracked a fairly close to generic CPI.

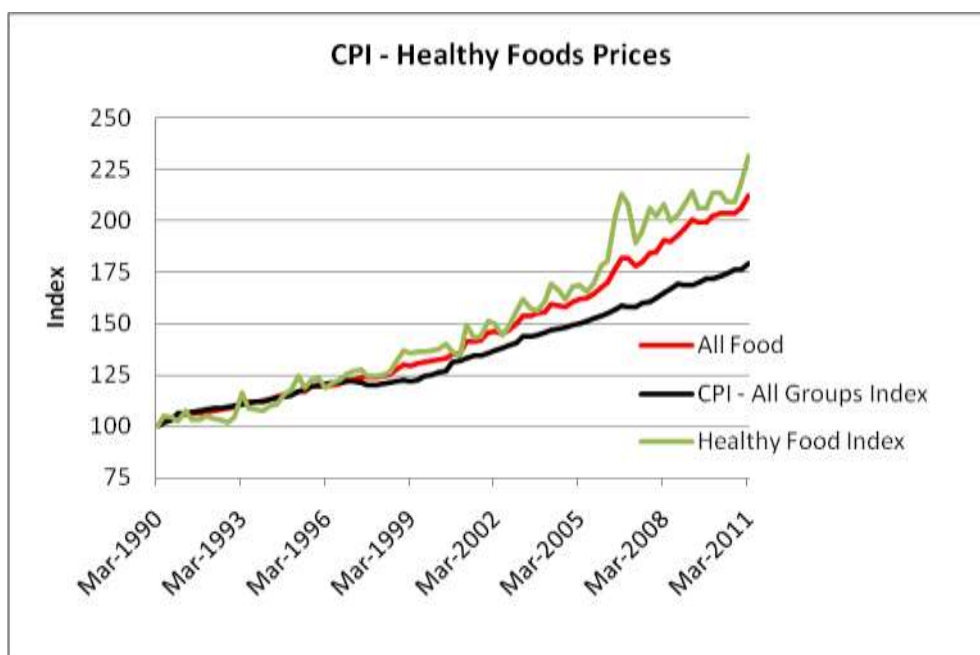
What is not clear from Figure 5, though, is the relative importance of each of those foods in relation to the actual cost of a healthy food basket. The prices of Meat and Seafood may not have increased as quickly as other food prices, but if they were relatively more expensive in the first place, then any increase may have a significant impact on household budgets. To overcome this

issue, and to simplify the graph and identify the trend, SACOSS has developed a *Healthy Food Index* by combining the CPI figures for the four healthy food groups.

Because of the different expenditure of the various groups (i.e. the different relative costs), the Healthy Food Index is not just a simple addition of the four index numbers. Rather, the index number for each food group is weighted based on the amount spent on each item in a healthy diet—as calculated in the Kettings, Sinclair and Voevodin study (2009). That study is particularly useful because it uses the *Dietary Guidelines for Australian Adults* to calculate the cost of a healthy food basket. Further explanation of the weighting used in the SACOSS Healthy Food Index is in Explanatory Note 4 below.

Figure 6 shows the Healthy Food Index against CPI for All Food groups, and against the generic CPI. The graph clearly shows that over the last decade the price of healthy food has increased faster than both the price of food generally, and also the rate of inflation. In fact, since the March Quarter 1990, the Healthy Food Index is 19.2 points higher than CPI All Foods, and 52.4 points higher than the generic CPI. That translates to healthy food prices since 1990 rising about 9% more than the price of food generally, and a massive 29.2% more than CPI – All Groups. That is, the real price (inflation adjusted) of healthy food has increased 29.2% since 1990, with most of that growth being over the last decade.

Figure 6: CPI and Healthy Food Prices (Adelaide)

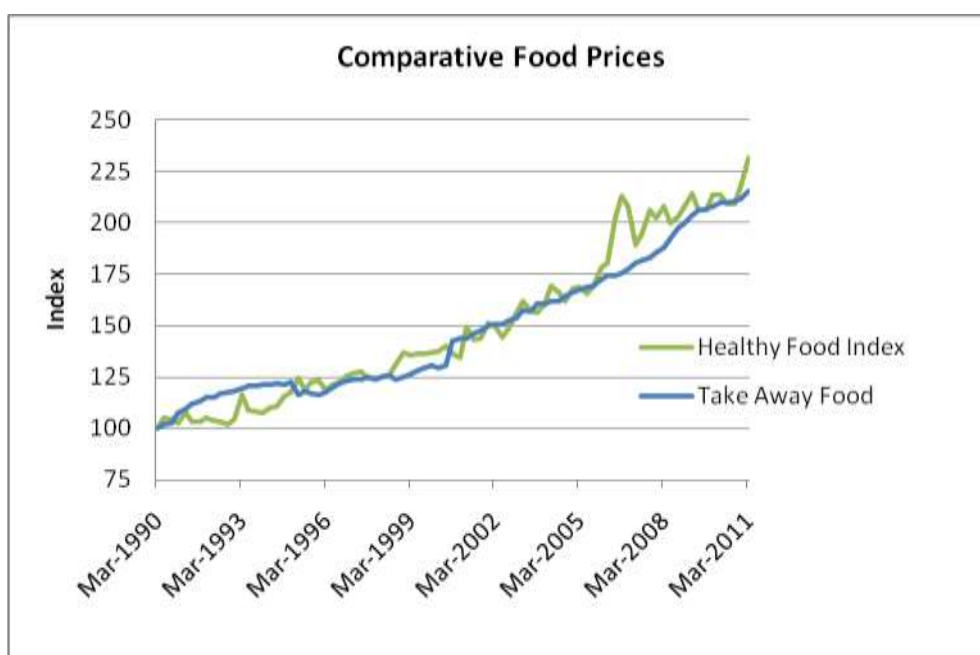


Again, such price increases are a particular issue for low income households because they spend proportionately more of their income on food, and because these price signals are a clear disincentive to a healthier diet.

### **Prices of Healthy Food and Fast Food**

If the Healthy Food Index shows that the price of healthy food is rising faster than the generic food price index, then by definition, the price less healthy foods must be rising less quickly (or even falling)—that is, becoming comparatively cheaper. There is no easy way to use CPI figures to track “unhealthy” foods, but the CPI does have a category of Take Away and Fast Foods. While not all take-away or fast food is unhealthy, there is little doubt that generally speaking take-away and fast foods are less healthy than most of the food captured in the Healthy Food Index. Figure 7 shows changes in the CPI for take-away and fast foods against the Healthy Food Index.

Figure 7: CPI Fast Food and Healthy Food Prices (Adelaide)



CPI for take-away and fast food actually tracks very closely to the generic CPI food index, so the graph looks similar to Figure 6. This is simply another way of making the point that with healthy foods rising faster than other foods, less healthy foods are becoming comparatively cheaper—thus sending the wrong health signals to consumers, and particularly to low income consumers for whom food represents a greater proportion of their weekly expenditure.

## Conclusion

Food is both a basic necessity and a significant expenditure item for most households, particularly for low income households. The real price (adjusting for inflation) of food in Adelaide is 18.4% higher than it was in 1990, and as food prices rises outstrip CPI, food becomes harder to afford for some of the most vulnerable and disadvantaged in our society.

This report has also shown that the price of healthy food has increased faster than both the price of food generally, and also the rate of inflation—rising about 9% more since 1990 than the price of food generally, and a massive 29.2% more than CPI — All Groups. With healthy food prices rising faster than other foods, less healthy foods are becoming comparatively cheaper. While price is not the only factor determining diet choice, this clearly sends the wrong health signals to consumers. Given that food is a determinant of health, the issue is not just about food choice: it has implications for the health, wellbeing and life-course of individuals and for public policy more broadly.

Governments currently invest resources in public health campaigns aiming at educating the community and influencing diet choice. These are useful in producing better health outcomes for the population, and consequently, less expense and pressure on the health care system. However, healthy food programs like the “Go for 2 and 5” (2 serves of fruit, 5 serves of vegetables per day) public education campaign being pursued by Commonwealth and state governments, and obesity programs like the South Australian government’s expensive OPAL initiative, are at odds with the rising prices of food, and of healthy foods in particular. The market price signals undermine (and potentially overwhelm) the good diet messages. And in the worst cases, even if the public health messages of these programs do change public perception (and again, there are a range of factors underpinning diet choice, not just education), people on low incomes simply may not be able to afford to heed the advice. At the extreme, poor diet becomes not a choice but an economic imperative.

# 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, 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 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 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 (e.g. aged pension or government transfers). However, the expenditures that 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.

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 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. CPI Food categories and the Australian dietary guidelines

The following table maps how the CPI Food categories which are used in this report relate to the Dietary Guidelines for Australian adults.

DIETARY GUIDELINE CATEGORIES	CPI FOOD CATEGORIES
<b>Cereals and Bread</b> includes: <ul style="list-style-type: none"> <li>• Breads,</li> <li>• Rice</li> <li>• Pasta</li> <li>• Noodles</li> </ul>	<b>Bread and cereal products</b> includes: <ul style="list-style-type: none"> <li>• Bread</li> <li>• Cakes and biscuits</li> <li>• Breakfast cereals</li> <li>• Other cereal products</li> </ul>
<b>Vegetables, legumes</b> <b>Fruit</b>	<b>Fruit and Vegetables</b>
<b>Milk, yoghurt, cheese</b>	<b>Dairy and related products</b> Includes <ul style="list-style-type: none"> <li>• Milk</li> <li>• Cheese</li> <li>• Ice-cream and other dairy products</li> </ul>
<b>Lean meat, fish, poultry, nuts and legumes</b>	<b>Meat and Seafood</b> includes <ul style="list-style-type: none"> <li>• Beef and veal</li> <li>• Lamb and mutton</li> <li>• Pork</li> <li>• Poultry</li> <li>• Bacon and ham</li> <li>• Fish and other seafood</li> </ul>

As noted in the main text, this creates a number of anomalies. The CPI can be disaggregated to the level of the dot point listings above, but this does not necessarily solve the problem and makes simply calculation of broad price movements difficult (because it is impossible to weight the relative expenditures at this next level down). For instance, in Bread and Cereals, we could delete the Breakfast Cereals category as being highly processed and largely sugar (rather than a healthy “cereal”), but this would also remove natural muesli which is unquestionably a healthy food. It simply replaces one anomaly with another, but it would also then require weighting the remaining categories within the broader Bread and Cereals category. This would be time-consuming and would be based on eight-year old *Household Expenditure Data*. Given this, and that it would not remove all anomalies, this report simply uses the broadest level CPI food categories.

### 4. Weighting the Healthy Food Index

As mentioned in the main text, creating a combined index for the four designated “healthy food” groups requires weighting each item by the actual expenditure. For instance, according to the Kettings, Sinclair and Voevodin study (2009; Table 4), a healthy diet would require spending approximately three to four times more on fruit and vegetables as on bread and cereals. A change in the cost of fruit and vegetables is therefore 3 – 4 times more significant as an impact on the cost of healthy food as a change in the cost of bread and cereals.

The Kettings, Sinclair and Voevodin study found that the market cost of a healthy diet for a one-parent family (Table 4) was as follows:

- Vegetables \$39.79
- Fruits \$31.40
- Meat, fish, chicken & eggs \$31.63
- Dairy products \$34.40



- Cereals & breads \$20.56
  - Extra foods and pantry items \$15.72
- \$173.50**

SACOSS has used these expenditure figures to weight the different CPI indexes in Healthy Food Index. The CPI index figure for each of the four groups (Dairy, Bread and Cereals, Meat and Seafood, and Fruit and Vegetable) is multiplied by the proportion of the total healthy food expenditure. (For the sake of simplicity, the “Extra foods and pantry items” are ignored, so the total food expenditure is just the total expenditure on the four key food groups – ie. \$157.78). Similarly, eggs are not included in the index as they are a separate CPI category. The revised index figures for the four groups are then added together to make a single index which is the sum of the weighted four categories.

**The Healthy Food Index =**

<b>CPI Bread &amp; Cereal Products (Adelaide)</b>	<b>x</b>	<b>20.56 / 157.78</b>
<i>PLUS</i>		
<b>CPI Fruit and Vegetables (Adelaide)</b>	<b>x</b>	<b>(37.79 + 31.40) / 157.78</b>
<i>PLUS</i>		
<b>CPI Meat &amp; Seafood (Adelaide)</b>	<b>x</b>	<b>31.63 / 157.78</b>
<i>PLUS</i>		
<b>CPI Dairy &amp; Related Products (Adelaide)</b>	<b>x</b>	<b>34.4 / 157.78</b>

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