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Contents

Introduction	i
SECTION 1: June Quarter 2011 Cost of Living Changes	1
Longer-term trends.....	2
SECTION 2: Key Cost of Living Changes	3
Food	4
Housing	6
Utilities	8
Income Support.....	9
Health	10
Transport.....	11
Explanatory Notes	13
1. CPI and ALCI	13
2. Limitations of the ALCI Data	13
3. Housing Costs.....	14
Sources	15

Figures

Figure 1: Increases in ALCI and CPI June Qtr 2011	1
Figure 2: ALCI & CPI Indexes	2
Figure 3: CPI Indexes since 2001	3
Figure 4: Adelaide Food Prices since 1990	4
Figure 5: Adelaide Healthy Food Index	5
Figure 6: Adelaide Rents since 1990.....	6
Figure 7: Adelaide Rent Prices vs CPI.....	7
Figure 8: Adelaide Utilities Prices.....	8
Figure 9: Selected Income Support Payments and CPI	9
Figure 10: Adelaide Health Prices since 1990.....	10
Figure 11: Adelaide Transport Prices since 1990.....	11
Figure 12: Adelaide Transport Prices (Disaggregated)	12

Tables

Table 1: Cost of Living Change June Qtr 2010 – June Qtr 2011	1
Table 2: Price Rises relative to generic CPI since 2001	3

Introduction

This report tracks changes in the cost of living for the least advantaged in South Australia. The report is in two parts.

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 second part of this *Cost of Living Update* focuses on particular cost issues relevant to vulnerable and disadvantaged South Australians. This allows both for a South Australian focus (ALCI figures are only published for Australia as a whole) and for a deeper consideration of particular drivers of cost of living rises.

This issue summarises the changes in the cost of living for a range of essential expenditures. Price increases in these areas particularly impact on the vulnerable and disadvantaged (because they constitute a greater proportion of their weekly expenditure) and in the next period SACOSS will be developing specific policy responses to address these rising costs.

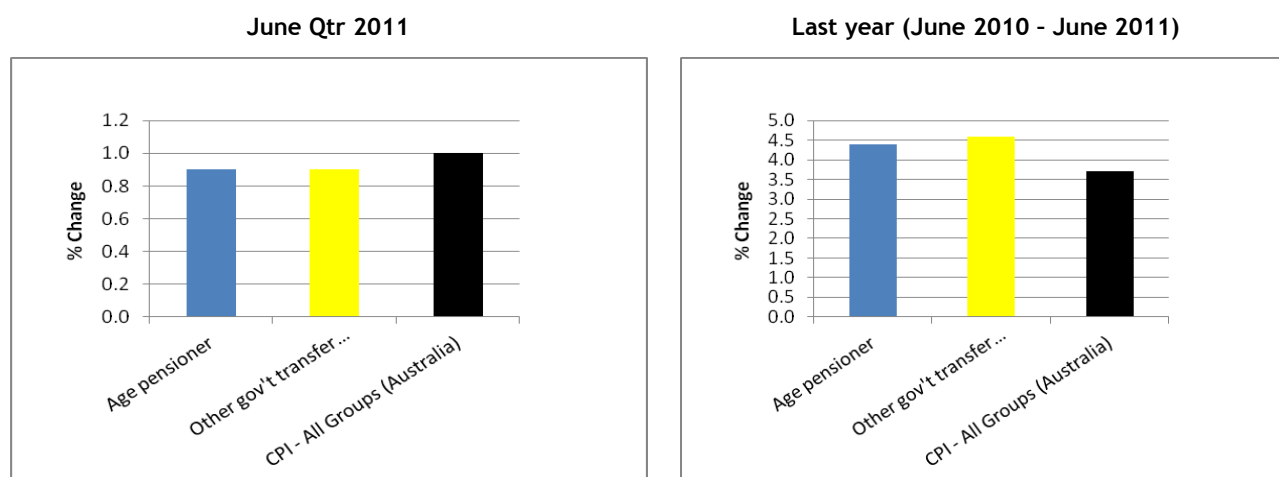
SECTION 1: June Quarter 2011 Cost of Living Changes

In the June 2011 quarter, the cost of living (as measured by the ALCI) for Aged Pensioners and Other Welfare Recipient households increased by 0.9% (ABS, 2011a), mainly due to increases in fruit, automotive fuel, furniture, and for hospital and medical expenses in the pension index, and rent and tobacco in the index for Other Welfare Recipients. This was off-set by falls in vegetable and electricity prices. By comparison, the national CPI (All Groups) increased 1.0% (ABS, 2011c).

Over the last year (June Qtr 2010 – June Qtr 2011), the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 4.4% and 4.6% respectively (ABS, 2011a). By comparison, the national CPI (All Groups) increased 3.7% nationally, and 3.9% for Adelaide (ABS, 2011c).

In effect, the cost of living for pensioners and welfare recipients rose slower than the general inflation rate in the last quarter, but still faster than the generic CPI over the last year as a whole.

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 June Qtr 2010 - June Qtr 2011

	Base Rate Benefit per week (1 April 2010)	ALCI Change	\$ Amount per week
Aged Pensioner	\$322.10	4.4%	\$12.88
Newstart with two children (Other Welfare Recipient)	\$250.35	4.6%	\$11.52

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

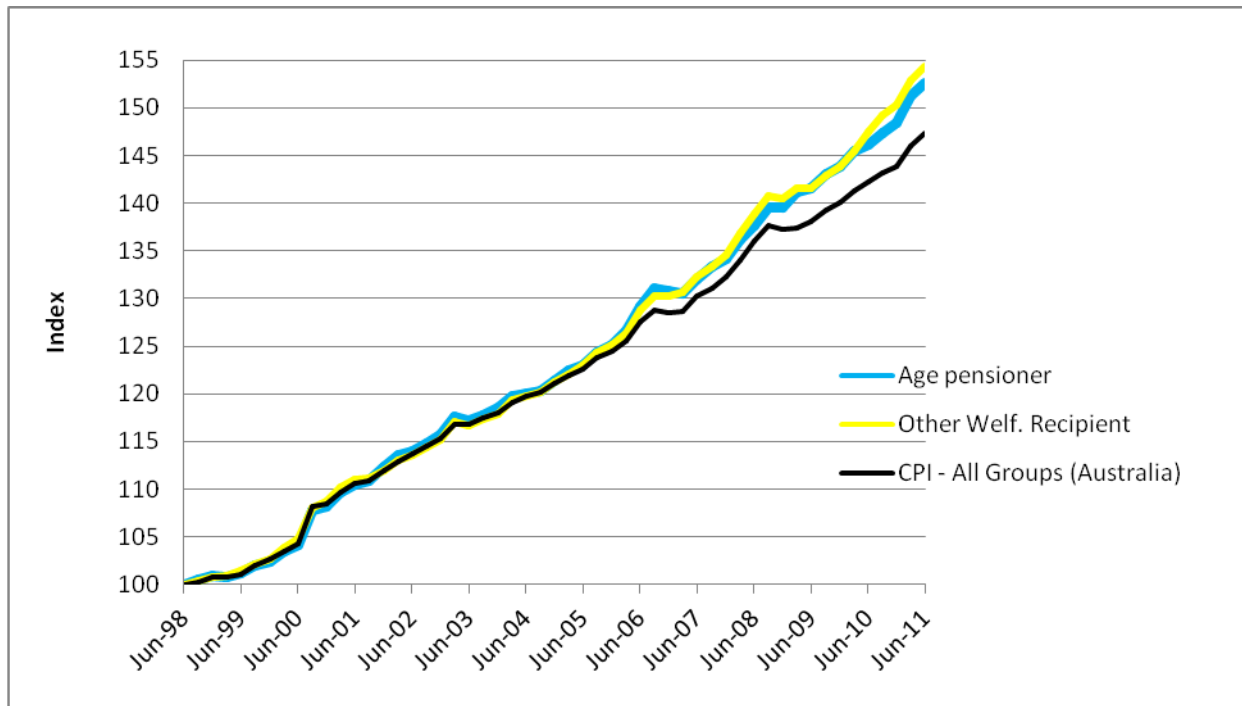
That is to say, for those whose only source of income is a base-rate government benefit and who spend all their income, the cost of living over the last year increased by nearly \$13 a week for pensioners, and \$11.50 for other welfare recipients. By comparison, the base rate pension rose by \$13.35 in the same period, while Newstart rose by \$6.55. **Thus, while the real income of those**

on base-level Aged or Disability Pensions remained steady, those on Newstart are still falling further behind, with the cost of living rising by about \$5 a week more 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 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 6.9 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.

This difference is particularly important where income support payments like Newstart and Youth Allowance are tied to CPI.

SECTION 2: Key Cost of Living Changes

SACOSS's *Cost of Living Updates* have focussed on 6 key areas relevant to the cost of living, particularly for vulnerable and disadvantaged South Australians. These areas are the cost of basic necessities (food, housing, utilities, health and transport) as well as income rates for those on government income support payments.

This report provides a brief snap-shot of changes over time in each of these areas. The intention is not to provide a detailed analysis of any particular area or to argue for policy responses to assist low income South Australians, but rather just to provide some up to date information as a basis for policy discussion.

The cost of living rises in these key areas over the last decade are summarised in Figure 3 and Table 2. Figure 3 compares the CPI indexes for each Cost of Living area with the generic CPI-All Groups (all re-indexed to a June Qtr 2001 base).

Figure 3: CPI Indexes since 2001

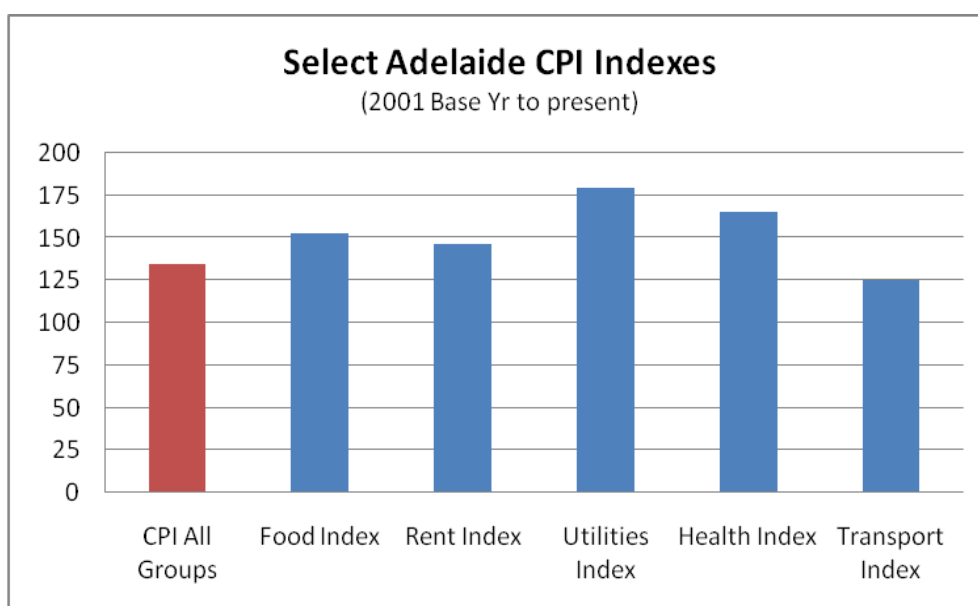


Table 2 translates this into percent rises over the generic CPI inflation rate, showing how much more than CPI those key cost of living prices have risen (or fallen in the case of transport) over the last decade. This “% above the generic CPI” figure is particularly important for those on income support payments like Newstart or Youth Allowance and for those who have their wages pegged to CPI, because it shows the increasing cost of these basic goods and services relative to income.

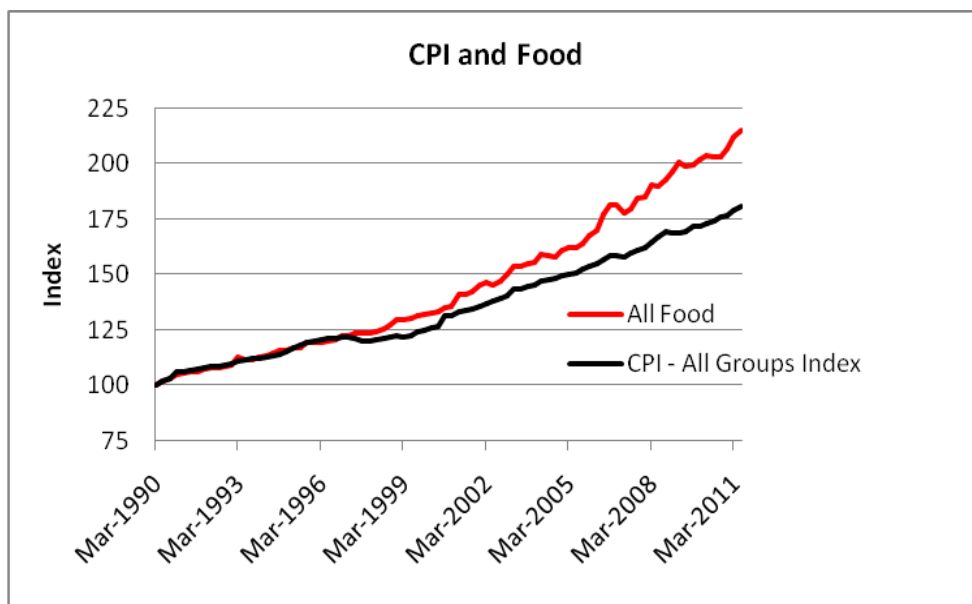
Table 2: Price Rises relative to generic CPI since 2001

Cost of Living Area	% above generic CPI (All Groups)
Food	13.2
Rent	8.4
Utilities	33.4
Health	22.8
Transport	-7.3

Food

The *Cost of Living Update* for the March Quarter of 2011 traced food prices since 1990 and showed that since the late 1990s, food prices have risen more than CPI (SACOSS, 2011). Figure 4 updates the graph and shows a continuation of this trend.

Figure 4: Adelaide Food Prices since 1990



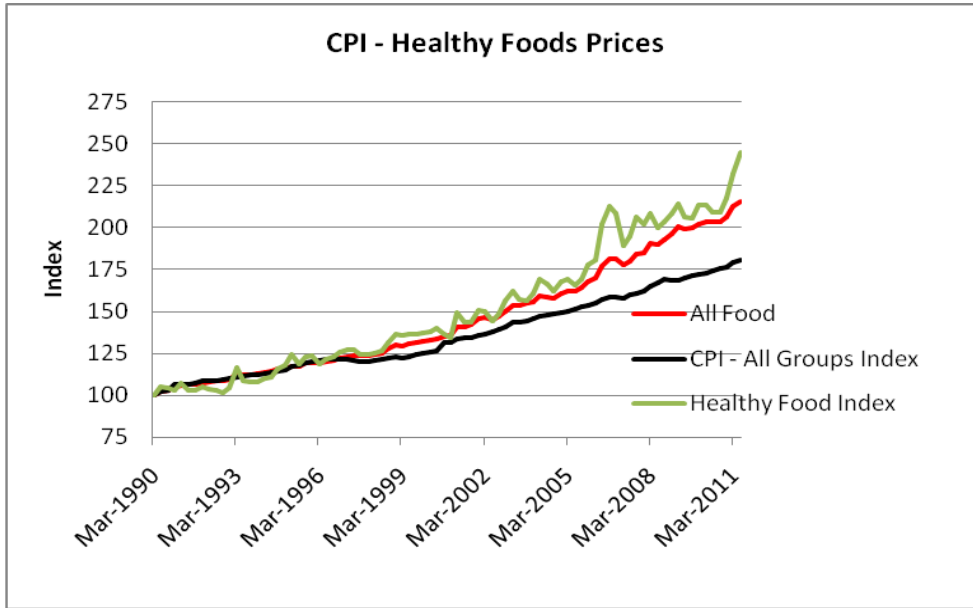
In the last quarter, food prices rose 1.4% - which was higher than the overall inflation rate of 1%.

Importantly though, food prices in South Australia did not follow the national prices exactly – to the detriment of South Australian consumers. Fruit prices went up more than the national average (36.9% in Adelaide rather than 26.9% nationally), while Adelaide vegetable prices fell less than the national average (7.8% rather than the national figure of 10.3%).

This has a particular importance when considering the cost of healthy foods. In the last *Cost of Living Update*, SACOSS created a Healthy Food Index to track the relative costs of healthy food groups over time (SACOSS, 2011). The methodology behind in the index is outlined in that update, but the finding was that the cost of healthy food has increased more than the cost of other food over the last decade. In turn this has health implications because it means that there is an increasing price incentive to eat less healthy food.

The *Update* concluded that any negative outcomes from these unhealthy food price signals would 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. Figure 5 shows that this trend continues.

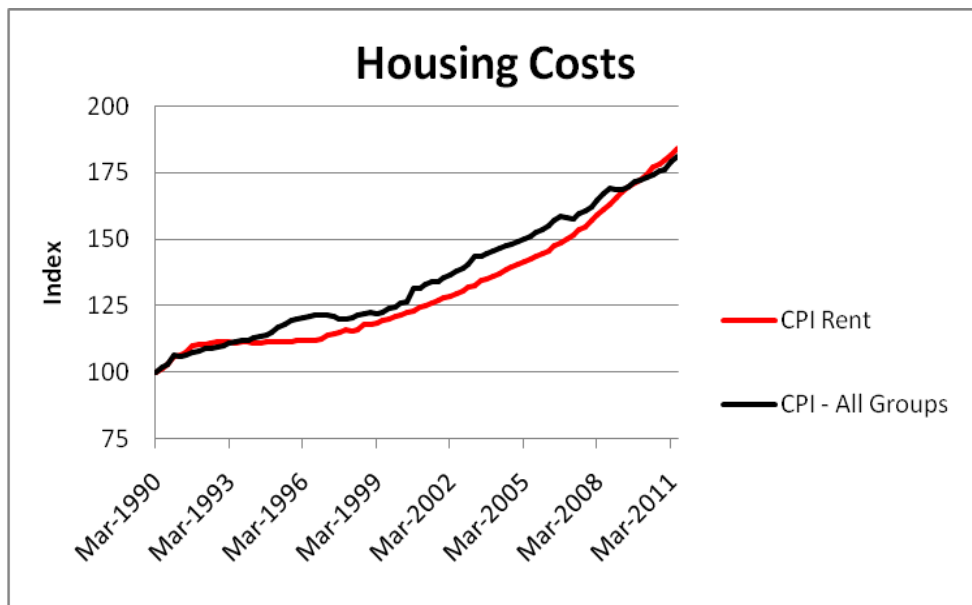
Figure 5: Adelaide Healthy Food Index



Housing

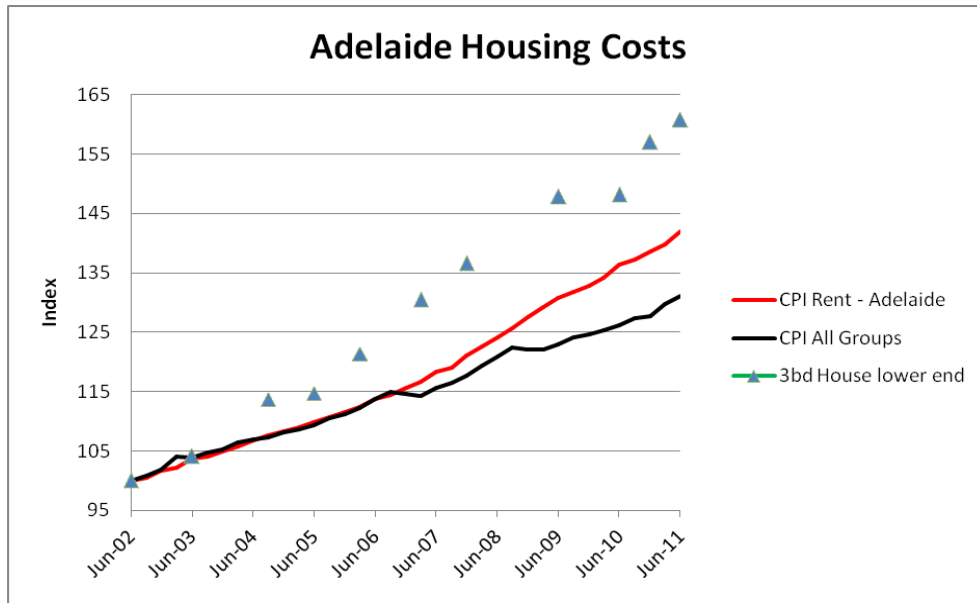
Housing is a basic necessity and a core determinant of health, life opportunity and financial security. However, housing costs are difficult to measure in the framework of the *Cost of Living Updates*. The CPI housing figures are generally based on acquisition prices rather than on weekly costs - ie. the mortgage payments which are a major stress for households. For this reason, and because renters in the private rental market are among the most vulnerable in the housing market, SACOSS *Cost of Living Updates* have focused on rent prices, which are shown in Figure 6.

Figure 6: Adelaide Rents since 1990



The graph suggests that over the long term there is no major divergence between rent rises in CPI and the general inflation rate, but as Figure 7 shows, rent increases recorded in the Adelaide CPI are generally well below the increases calculated by SACOSS (see Explanatory Note 3) from Housing SA data on new rentals bonds (DFC, 2000-2011). SACOSS only has these figures for the last 10 years, hence the shorter time series. However, the graph also shows that in that period – and particularly since 2006, Adelaide rent prices have increased faster than CPI, thus adding to cost of living pressures for households in recent years.

Figure 7: Adelaide Rent Prices vs CPI

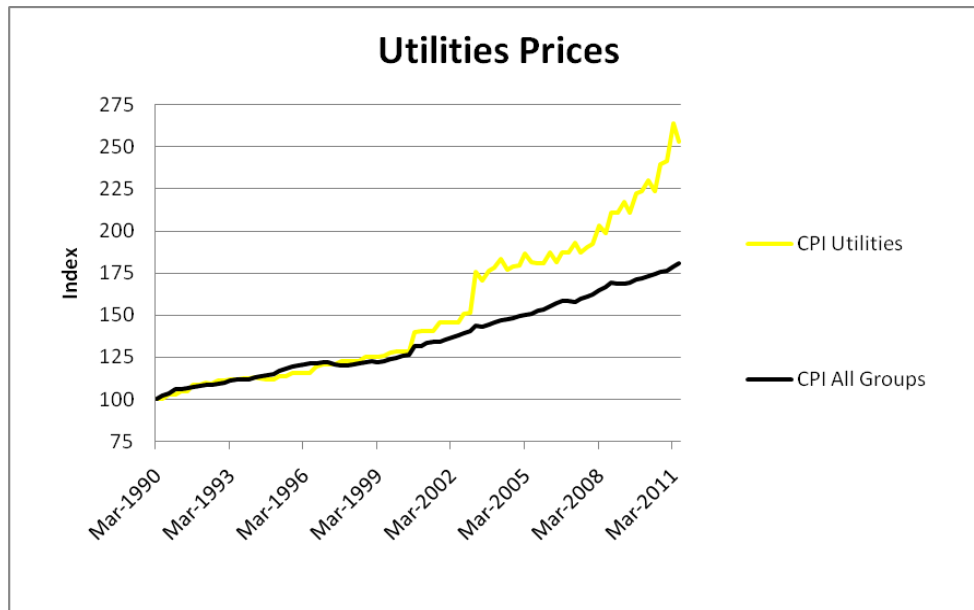


It should also be recognised that with housing costs being such a large portion of household expenditure, any slight change in housing rents - even a relatively short term price hike - can have major implications for households, particularly for low income households.

Utilities

Utilities like electricity, gas and water and sewerage are an essential household cost, but price rises over the last 10 years have meant that they are also one of the key drivers of cost of living pressures. Figure 8 shows Adelaide utilities prices rising at a much faster rate than CPI. The downturn in the last quarter is largely a seasonal variation in electricity usage and the June Quarter figures do not take account of the massive rises in the prices of electricity (20%), gas (14%) and water (30%) which came into effect on 1 July 2011, and the further 17% increase in electricity from 1 August 2011 (SACOSS, 2011b).

Figure 8: Adelaide Utilities Prices

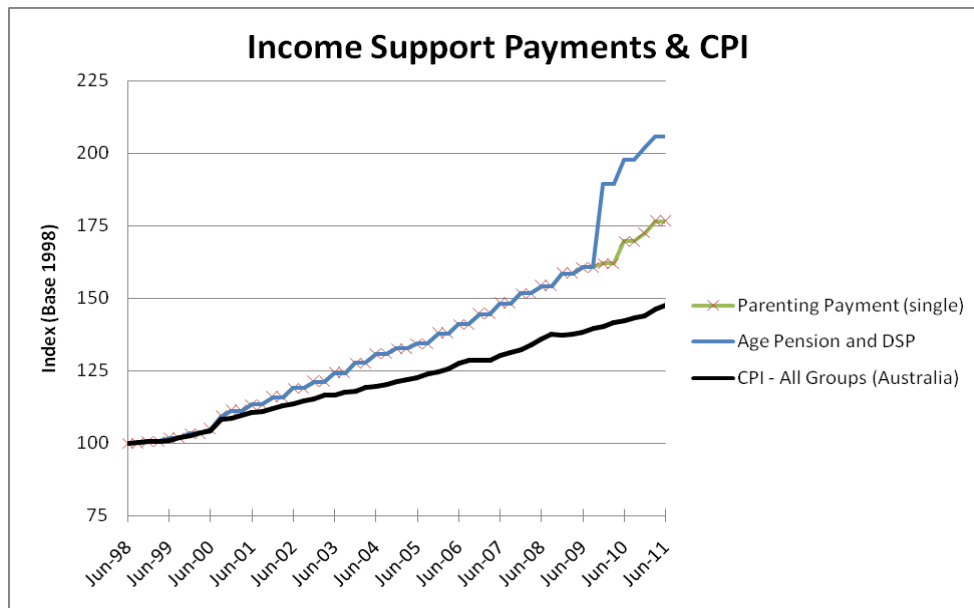


Given this long-term increase in prices, we expect that when the results of ABS's latest *Household Expenditure Survey* are released in September 2011, we will see that household electricity bills will account for an increased percentage of household expenditure. "Domestic Fuel and Power" (which is predominantly electricity) accounted for 5.2% of expenditure in Adelaide's lowest income quintile households in the last survey in 2003-04.

Income Support

Many of the most vulnerable and disadvantaged South Australians are reliant on government income support payments. As noted throughout this report, many of these payments, including Newstart, Youth Allowance and Widow's Pensions, are indexed and broadly follow national CPI changes. The two big exceptions here are the Aged and Disability Pension, and Parenting Payments. These changes in these benefits over time is tracked in Figure 9 (with the CPI – All Groups line being a proxy for the other benefits). We are thus seeing an increasing divergence of income support levels between different types of welfare recipients. This has particular ramifications in light of changes to the eligibility requirements which will see a large number of Disability Support Pensioners moved from the DSP to Newstart – creating new reporting imposts and a cut of some \$127 per week in income.

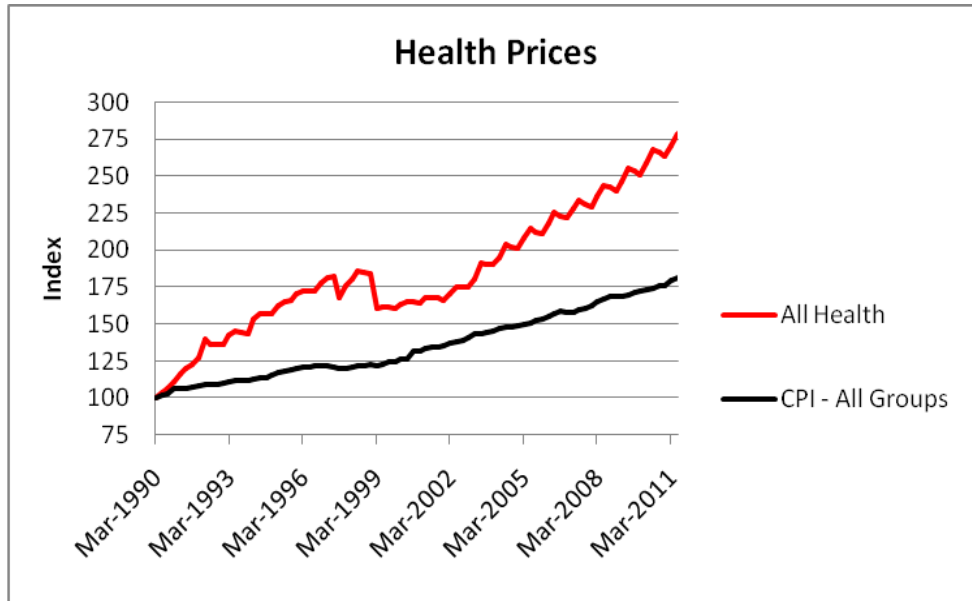
Figure 9: Selected Income Support Payments and CPI



Health

The price of health services is of concern to all South Australians, but is of particular importance for low income earners because research around the world consistently shows that the poor are more likely to suffer ill health and because price may be a barrier to accessibility of health services. Figure 10 shows the alarming trends in CPI for Health prices in Adelaide since 1990. Apart from the one-off drop in the September Quarter 1997, health prices have consistently increased faster than the generic CPI with health costs increasing 54% more than the inflation rate over the 20 year period. Again, this points to a major problem for those whose incomes are pegged to CPI.

Figure 10: Adelaide Health Prices since 1990

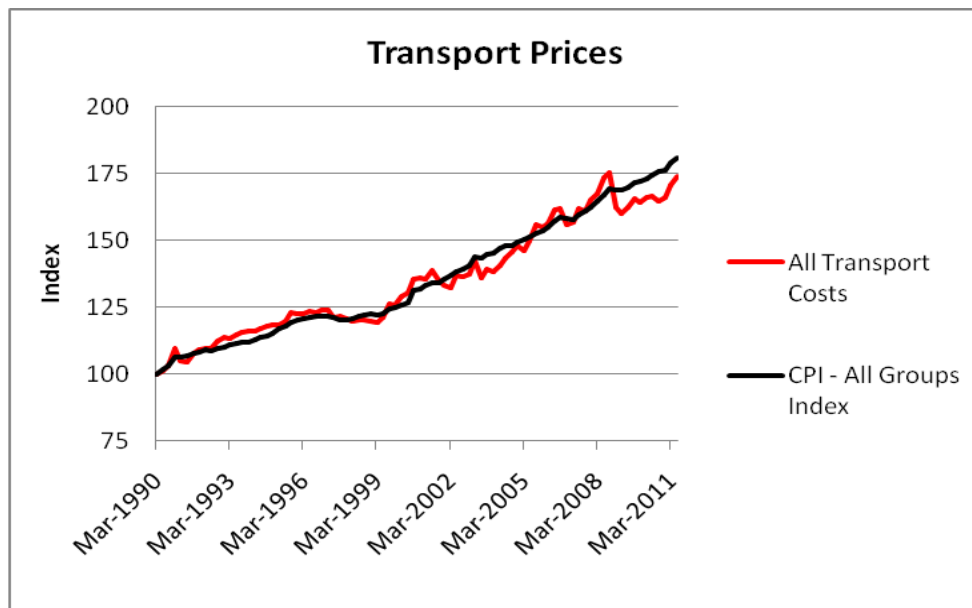


These health price rises are largely driven by over-CPI increases in hospital and medical prices, and dental prices. A more thorough analysis of health price trends will be provided in future *Cost of Living Updates*.

Transport

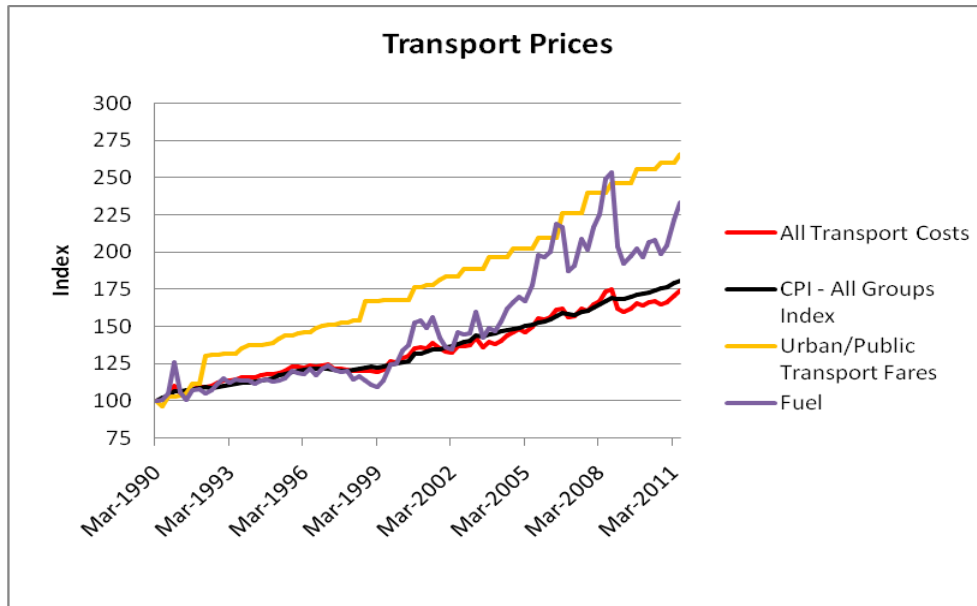
Transport is a basic necessity in a modern society and transport prices are a major factor in people's ability to participate fully in society. Figure 11 below tracks CPI changes in transport prices in Adelaide against the generic CPI. While the transport figures are more volatile, the trend is largely similar. This suggests that, although they may be a considerable impost on the budget of low income households, transport costs are not getting significantly worse.

Figure 11: Adelaide Transport Prices since 1990



However, there are nuances in transport prices as shown in Figure 12 below which adds CPI Fuel and CPI for Urban Transport fares in Adelaide. Both these later categories show a considerably greater rise in prices over the years than the generic CPI. The overall transport costs appear to have been held in check by the other categories of transport prices (eg. vehicle costs, repairs, accessories). In terms of private motoring though, it would appear the more you drive the more the cost pressures have increased, while for those who choose or can't afford to use private cars, the cost of transport fares (trains, buses, taxis etc) has increased much more rapidly than the general rate of inflation.

Figure 12: Adelaide Transport Prices (Disaggregated)



Note: the sharp rise in urban transport fares in the 1st Quarter of 1992 may exaggerate later trends by having a significantly higher base amount, but the overall trend of urban fares rising more than CPI remains if this rise is deleted from the analysis by tracking against a base year of 1993.

A more thorough analysis of transport price trends will be provided in future *Cost of Living Updates*.

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 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 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, 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 2003/04 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.

3. Housing Costs

The DFC/Housing SA figures are median rental figures by suburb, based on new rental bonds lodged with the Consumer and Business Services (formally OCBA) each quarter. These rental prices may be higher than CPI rental because the figures are new rentals, which have a higher proportion of actually new (and presumably more expensive) buildings than the rent market overall and there may be a “stickiness” in pricing where landlords take the opportunity of new rentals to increase rent. The figures also vary massively by location and so the median prices may be much higher than the rents actually paid by very low income earners who are by necessity at the low end of the rental market.

Given this, SACOSS has calculated an approximation for average rent in the lower half of the Adelaide market. The data in the Housing SA 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. This was skewed because a large number of flats were rented in Adelaide at a median price of \$270. 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. For further explanation and examples, see SACOSS *Cost of Living Update No. 3* (SACOSS, 2010).

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