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Cost of Living Update

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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, 2013a) and Consumer Price Index (ABS, 2013c) to show changes in the cost of living in the last quarter and over the last 12 months. Previous SACOSS reports have used the ABS Analytical Living Cost Index, but this index has been discontinued and incorporated into the Selected Living Cost Indexes.

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 Explanatory Note 1) and it disaggregates expenditure into a number of different household types (ABS, 2013b), 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 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 figures by putting a dollar value on the percentage changes in the indexes, and by using disaggregated CPI data to summarise change in prices of key items.

As is standard in the SACOSS *Cost of Living Updates*, the second section contains 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 on the cost of telecommunications (telephones and internet) and uses the disaggregated CPI figures for Adelaide, as well as quantitative and qualitative data from other sources.

SECTION 1: June Quarter 2013 Cost of Living Changes

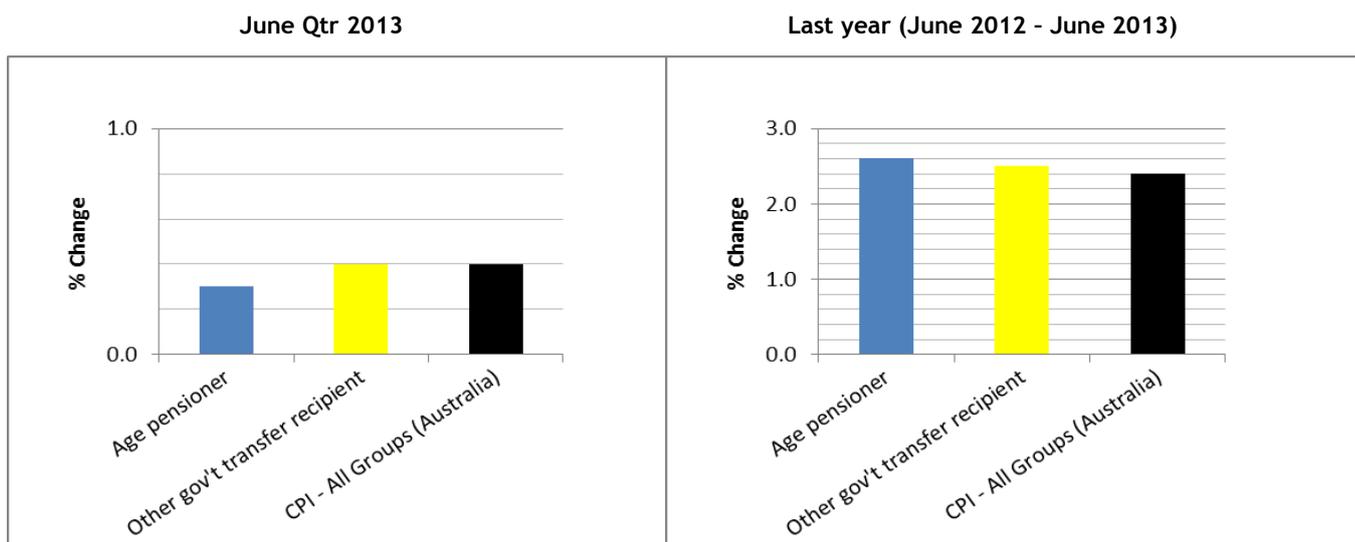
Prices

In the June 2013 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for Aged Pensioners rose by 0.3% and by 0.4% for Other Welfare Recipients. CPI in the same period rose by 0.4% nationally and 0.2% in Adelaide (ABS, 2013a; ABS 2013c).

The main areas of price rises were clothing and footwear (which as an import-dominated industry was hit by the fall in the Australian dollar), alcohol and tobacco and health. Rent increases also contributed to the higher LCI for other welfare recipients, while not being as big a factor in the pensioner index (where home ownership is more common). Price increases were offset by continuing falls in petrol prices.

Over the last year (June Qtr 2012 – June Qtr 2013), the living cost indexes for Aged Pensioners rose by 2.6% and for Other Welfare Recipients by 2.5%. CPI rose by 2.4% nationally, and 2.2% in Adelaide (ABS, 2013a, 2013c).

Figure 1: Increases in Living Costs June Qtr 2013



While the differences are small and the last quarter was better for age pensioners, the figures over the last year show that for both groups the cost of living over the last year increased more than CPI. This is a particular concern for other welfare recipients reliant on payments like Newstart, Youth Allowance or Widows Allowance which are indexed to CPI. It is also notable that the living costs of employees and self-funded retirees went up less over the past year than for pensioners and other welfare recipients – 1.4% for employees, 2.2% for self-funded retirees. **In other words, prices for the things bought by those who can least afford it are going up faster than for other sections of the population whose basket of goods and services is different.**

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 over the page, and show some significant trends with Adelaide prices in many areas going up less than nationally (with the exception of health).

Table 1: Cost of Living Changes June Qtr 2013 by expenditure type

Cost of Living Area	Adelaide CPI June Qtr change %	Adelaide CPI June 2012- June 2013 %	National CPI June 2012 - June 2013 %
Food	-0.2	0.3	1.1
All Housing Costs	-0.9	4.6	5.3
• Rent	0.8	2.6	3.4
• Utilities	-3.8	12.8	13.3
• Electricity	-6.7	12.8	17.2
• Water	0.0	10.5	2.6
Health	2.9	7.8	6.6
Transport	-1.2	-1.0	-0.5
CPI All Groups	0.2	2.1	2.4

(Source: ABS, 2013c)

The standout figures here are in housing and electricity. Adelaide was the only capital city to record a drop in housing, but this was actually due to electricity (which is incorporated in the summary measure of housing) not housing prices. Adelaide rents actually increased in the June Quarter by significantly more than CPI, while new house prices increased by 0.1%. The ABS explains the fall in electricity prices as being due to a seasonal switch to off-peak pricing.

Incomes

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 2.

Table 2: Cost of Living Change June Qtr 2012 – June 2013

	Base Rate Benefit per week (30 June 2012)	Allowance + Household Assistance Package	Selected Living Cost Index change	\$ Amount per week
Aged Pensioner	\$347.65	\$353.75	2.6%	\$9.19
Newstart with two children (Other Welfare Recipient)	\$264.90	\$269.45	2.5%	\$6.73

(Source: Centrelink, 2012; ABS, 2013a)

That is to say, for those whose only source of income is a base-rate government benefit (with the Household Assistance Package Payment) and who spend all their income, the cost of living over the last year increased by \$9.19 a week for pensioners, and by \$6.73 for people on Newstart with children. By comparison, the base rate pension rose by \$19.20 in the same period, while the relevant Newstart rate rose by only \$4 (Centrelink, 2012). The Household Assistance Package payments remained at the same level. Thus, while pension increases covered the cost of living rises, those on Newstart and other base level benefits again fell behind.

SECTION 2: Telecommunications Costs

The Importance of Telecommunications Expenditure

Telecommunications, most notably phone and internet services, are basic services in a modern society. They provide a platform for a variety of social connections and participation in society from keeping in touch with friends and family, to finding information on current affairs, government services and community events, to shopping, paying bills, accessing government payments and looking for employment. If these things are increasingly done via the internet or mobile phone (and supply systems are built around these technologies), then people who can't afford telecommunications are at risk of serious social isolation and deprivation. While a teenager deprived of Facebook may appear trivial, in their cultural world it is of some importance. But if jobs are only advertised "online" then lack of internet connection is crucial to life opportunity, while for people with mobility issues there may be additional expenses incurred by any lack of telecommunications (eg. having to take an access cab to a government office rather than engaging online or phone). Distance education and remote health is increasingly reliant on digital platforms and for people facing emergency situations, there may be very clear harm from lack of telecommunication connections.

Telecommunications is not a stand-alone category in most of the *ABS Household Expenditure Survey (HES)* data, so to track telecommunications expenditure the data needs to be combined from various subcategories. When this is done for the last *HES* (2009/10) SACOSS calculates that nationally households spent an average of nearly \$40 a week on telecommunications services plus over \$5 a week on the various hardware platforms (Note: this includes home computer equipment and software which, although necessary for some form of communications, may be used for other purposes and accordingly only half the actual expenditure is included in this SACOSS calculation).

Total telecommunication expenditure represented 3.8% of household expenditure on all goods and services. In South Australia the average expenditure was slightly less, but made up a slightly greater proportion of total household expenditure on goods and services, as evident in Table 3.

Table 3: Expenditure on Telecommunications, 2009-10

	Average Weekly Expenditure \$ per household	
	SA	Australia
Telephone (Fixed Line) Charges	13.47	14.67
Mobile Phone Charges	12.36	15.32
Internet Charges	7.51	7.50
Total Recurrent Charges	*34.71	*39.46
Mobile Phone Purchase	1.15	1.42
Telephone Handset	0.55	0.24
Home Computer Equipment	3.41	3.47
Digital media device	0.15	0.45
Total Telecommunications Capital	5.26	5.58
TOTAL TELECOMMUNICATIONS EXPENDITURE	\$39.97	\$45.04
<i>Telecommunications as % of Total Goods & Service Expenditure</i>	3.8%	3.6%

Source: (ABS, 2011b, Table 27A, 27B).

* Includes other minor telecommunications expenditure not displayed in this table.

If these figures were translated into today's money by simply indexing to the generic CPI, this would equate to an average expenditure of \$41.30 per week in South Australia, and \$49.07 nationally. (Note: because of changing expenditure patterns, this is not an estimate of current expenditure, but rather an expression of the 2009-10 data in current dollar values).

This is clearly a significant expenditure when it is considered that domestic fuel and power (ie. electricity and gas) accounts for less of the weekly budget: 3.3% of expenditure in South Australia and 2.6% nationally (ABS, 2011c, Table 3). Even taking out the (arbitrarily estimated) home computer expenditure and simply using the *HES* summary data, telecommunications accounts for 3.3% of household expenditure in South Australia and 3.2% nationally (derived from ABS, 2011b, Table 29) – again about the same or slightly more than is spent on electricity, gas and water.

Like those other utilities, telecommunications bills often involve complex lock-in contracts and are a lumpy expenditure which can (depending on contracts, billing arrangements and usage) be hard to predict and budget for. A national survey by the Australian Communications Consumer Action Network last year found that 17% of users had experienced a problem with an unexpectedly high bill in the previous twelve month period, with 9% of respondents experiencing hardship as a result of a telecommunications bill. Given the numbers of people using telecommunications, this 9% represents a large number of people across the country, as does the fact that 5% of respondents had had their service disconnected in the previous year. The survey also showed that younger people were particularly affected and were more than twice as likely to be disconnected or be referred to debt collectors (ACCAN, 2012, p 59, 61, 74-75).

Different Household types

Beyond its social importance and significance in the household budget, there is a further reason to be concerned about telecommunications expenditure because, as with other utilities, the expenditure is regressive in that households with less income/expenditure spend proportionately more on telecommunications. Figure 2 shows the national figures with the numbers contained in Table 4, but what is noticeable apart from the proportionately higher overall expenditure for lower income households is that this is more marked in relation to current charges than overall. Higher income households spend actually proportionately more on the devices and platforms than lower income households, although the expenditure is still regressive overall. In short, lower income households spend proportionately more on telecommunications than higher income households but have cheaper/lower standard equipment.

Figure 2: Telecommunications Expenditure by Income Quintile (Australia)

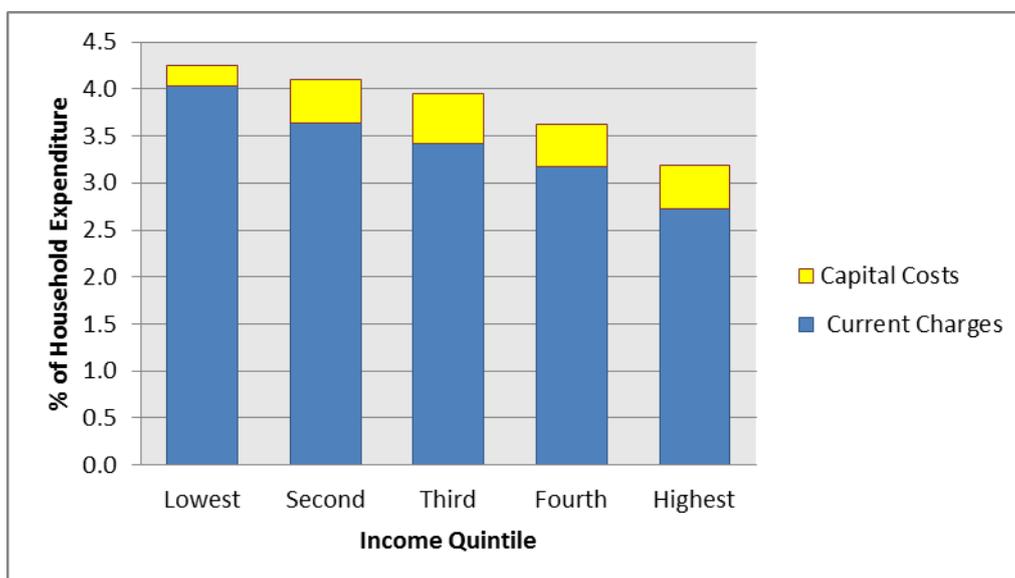


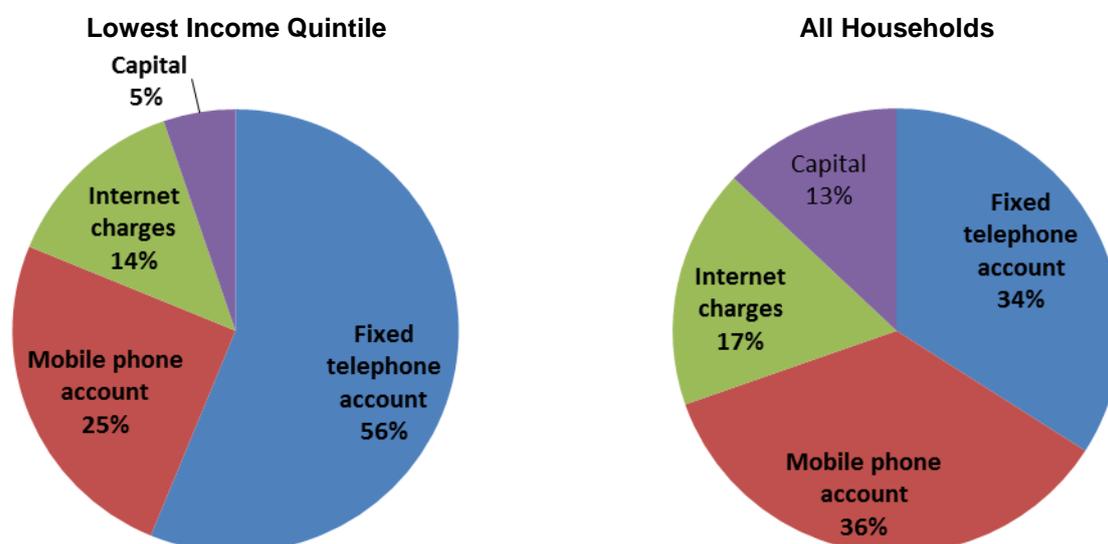
Table 4: Telecommunication Expenditure by Income Quintile (Australia-wide)

	Expenditure \$ per week				
	Lowest	Second	Third	Fourth	Highest
Phone and Internet Charges	22.52	29.67	40.03	47.03	58.82
Capital Costs	1.24	3.79	6.09	6.67	10.12
Total Expenditure on Telecommunications	23.76	33.46	46.12	53.7	68.94
<i>% of Total Goods and Services Expenditure</i>	4.2	4.1	3.9	3.6	3.2

Source: Adapted from (ABS, 2011b, Table 3A)

This pattern of lower income households paying proportionately more for lower standard services is arguably even more unfair than similar patterns in relation to other utilities. For instance, while lower income households spend proportionately more on electricity than higher income households, at least they get the same product – electricity is generic. In telecommunications this is not the case. This product differential is further evident when the expenditure is disaggregated. Figure 3 shows the breakdown of key telecommunication expenditures in the lowest income quintile households by comparison with the average of all households. Lower income households clearly spend proportionately more on fixed telephones, which could be a result of the regressive nature of fixed line rental charges and/or differing proportions of households with/without landlines. As a proportion of total household expenditure on all goods and services, expenditure on mobile phones and internet is about the same between the lowest income quintile and the average household – just over 1% for mobile phone accounts and 0.6% for internet charges, so the clear differences between the households is the expenditure on capital and fixed telephone lines.

Figure 3: Comparison of Key Telecommunication Expenditures



While the figures are a bit less statistically reliable, there also appears to be a marked difference between households with different age compositions. The ABS *Household Expenditure Survey* describes age in relation to the “household reference person” (ie. the person who fills out the survey), so the age of the reference person does not necessarily reflect the age of other members of the household. However, the figures show that nationally households where the reference person was 15-24 years old spent about 20% more on telecommunications than the average household, with the younger household spending \$54.07 per week (equating to 4.4% of their total expenditure on goods and services) by comparison with the \$45.18 average for all households (3.6% of total expenditure). Households whose reference person was over 65 years or older old

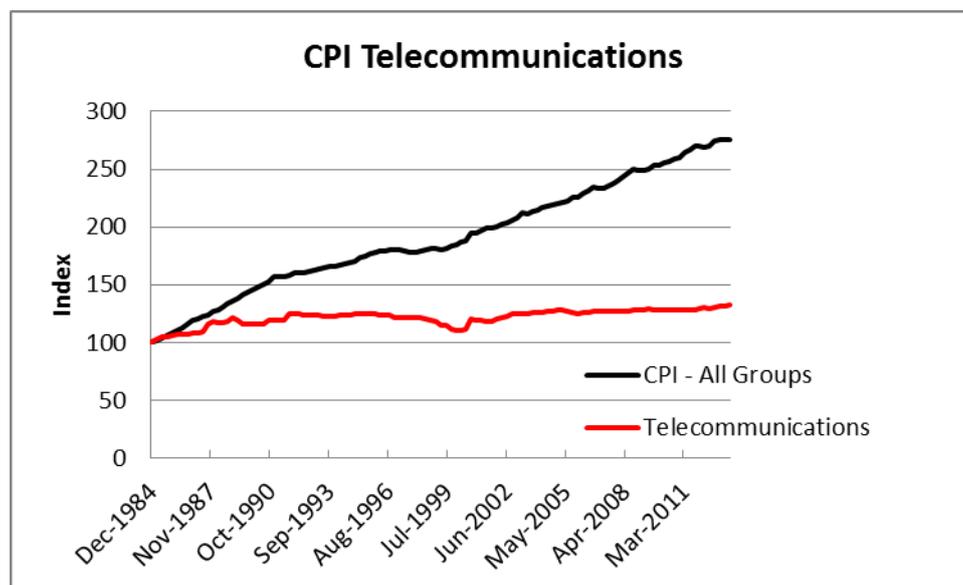
spent just over half the average expenditure of all households on telecommunications, but from a much smaller base. The proportion of household expenditure on telecommunications was the same for older households as for the average of all households.

The mix of expenditures across the different age households was also quite different. For young households, mobile phone accounts were about five times more than fixed line accounts (mobile \$29.52: fixed \$6.31), while for households where the reference person was over 65 the ratio was reversed with expenditure on fixed lines being three times that on mobile phones (fixed 5.12: mobile \$15.86). The all household average was about even (fixed \$14.67: mobile \$15.32). The figures also show that, both absolutely and as a proportion of household expenditure, the young households spent much more on communications capital than the average household, while the older households spent far less, although the survey data is less reliable here.

Summary of Telecommunication Price Movements

The household expenditure data above shows that telecommunications is a significant household expenditure and have many of the same attributes as other utilities expenditures (eg. lumpy, regressive), although there are some differences between services delivered. However, unlike electricity, gas and water prices, prices for telephone and internet services have not been rising rapidly. In fact, as Figure 3 shows, they have been increasing far less slowly than the generic inflation rate and over the last 10 years have barely increased at all.

Figure 4: Telecommunication Prices – Adelaide



The CPI data does not disaggregate the various components of telecommunications, but the ACCC reports each year on price changes in telecommunications. The methodology and categories are different to the ABS data presented above, but the latest ACCC report found that the average *real* (ie. inflation-adjusted) price paid for telecommunications services decreased by 2.2 per cent in 2011–12. This reflected the following price changes in the year:

- Real prices for fixed-voice services decreased by 4.9 per cent;
- Real prices for mobile services decreased by 1.0 per cent; and
- Real prices for internet services decreased by 2.7 per cent (ACCC, 2012, p. 69).

These decreases are an extension of the longer term trends where all three categories have shown a long term decrease in prices. Since 1997-98 fixed voice services for all consumers have fallen by 45.4% and mobile phone services by 51.1%. This is clearly good news for consumers, but

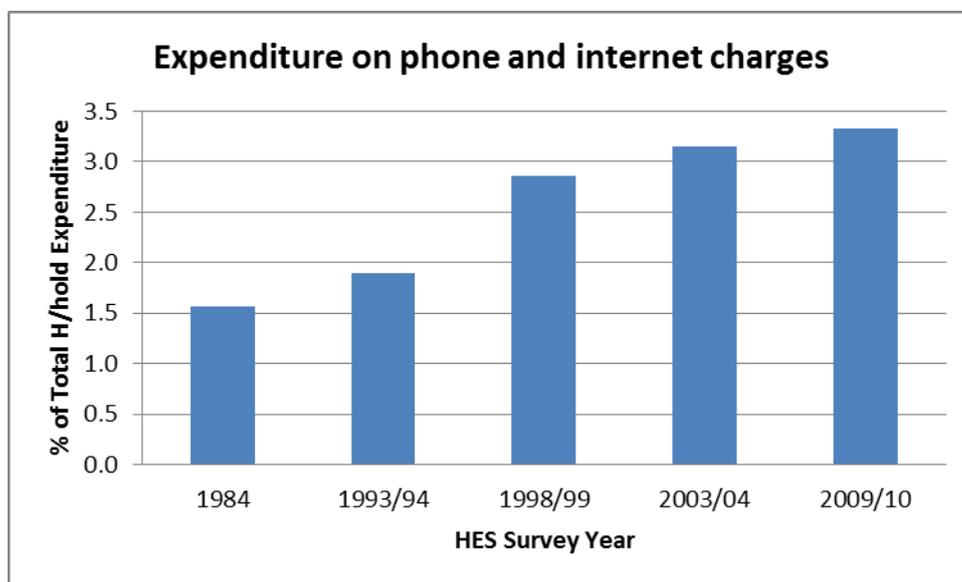
not all consumers have benefitted equally. Fixed voice calls for business in that period have fallen by 52.8%, while the figure is only 40.5% for residential consumers. Perhaps more importantly, in the same period basic access fees to fixed voice calls have *increased* by 59% - mainly due to a change in price structures about ten years ago with companies decreasing call costs but increasing basic access charges (ACCC, 2012, p. 100, 78). Prices for basic access have been falling in recent years, but like most utilities service charges, these fees are largely regressive and constrain the chances for poorer customers to limit their bills. However, this should still be seen in the context of prices overall (including basic access charges) decreasing considerably.

Impact on household budgets

While it is good news for consumers, and particularly for consumers on low incomes, that telecommunications prices are not rising, the impact on the household budget is a product of both prices and the amount of the expenditure and over recent years there has been a significant intensification of usage. The result has been that household expenditure on telecommunications has increased – despite the flat or falling real prices.

The 1993-94 *Household Expenditure Survey* showed that South Australian households spent on average \$10.48 on telephone charges, equivalent to 1.9% of their total expenditure on all goods and services. Mobile phone and internet charges were not counted separately (with many homes on dial-up internet this would have just recorded as phone calls anyway), and the later categories of digital media devices and online downloads were not in the *HES*. By the 2009-10 *HES*, the total telephone bill was \$27.20 plus internet of \$7.51 – equating to 2.6% of household expenditure. And as was evident in Table 3 above, with the new communications platforms required (mobile phones, digital media devices), total communications expenditure was 3.8% of household expenditure in South Australia. Figure 5 shows the growing expenditure on current telecommunication charges (not including telecommunications capital as the timeline data is less reliable).

Figure 5: Timeline of Telecommunications Expenditure Growth



To put these figures into perspective, if current households were spending the same proportion of their total expenditure on telecommunications now as they were in 1993, they would have been spending \$19.84 on telephone and internet charges in 2009/10 rather than the \$34.71. Or alternatively, if the CPI for telecommunications is applied to the 1993 expenditure, that basket of telecommunications goods would be worth \$11.04 in 2009/10 – which means that consumers were actually buying almost 3 times the value of services (and somewhat overwhelming the household budget impact of falling prices). And again, this is based only on current charges, not capital items

as there are no expenditure figures for mobile phones and digital media devices in the earlier *HES* data. However, it is probably safe to say that while prices have been falling, expenditure on telecommunications has increased two to threefold over the last 20 years.

None of this is particularly surprising when our day to day experience is informed (and formed) by new digital communication technologies of i-phones, androids, tablets and various social media connections, but it does mean that despite falling prices, telecommunications could be contributing to cost of living pressures simply because their increased usage. The cultural requirement to own, access and use telecommunications is increasing at a greater rate than prices are coming down.

Given these cultural pressures and usage trends, it is difficult to extrapolate the 2009/10 household expenditure data to current usage and expenditure, but SACOSS would expect that the next *HES* (due in a couple of years) will show a far greater household expenditure on telecommunications. And given that such expenditure impacts more on lower income households, it is a cost of living area that clearly needs more attention.

Concessions and Allowances

The Federal government provides a quarterly payment to a range of income support recipients (either directly or rolled into a pension supplement) to assist with “the cost of maintaining telephone services”. It also covers home internet services. The current standard rate of the allowance is \$25.60 per quarter, while there is a higher rate of \$38.40 per quarter available to those on Disability Support Pension and who are under 21 years old and with no children if they or their partner also have a home internet connection (Centrelink, 2013).

The 2009/10 *HES* showed that households whose main source of income was government income support spent \$26.60 per week on communications (SACOSS estimate based on ABS, 2011b, Table 11A). Updating this expenditure to current dollars (using CPI), the average expenditure per quarter of income support recipients on communications is \$375, meaning that the telephone allowance covers just 7.8% of expenditure.

By comparison, the utilities allowance paid by the Federal government to various welfare recipients for energy, water and sewerage is \$573.20 (\$143.30 per quarter) for a single person, that is, over five times the telephone allowance (for a utilities with similar expenditure patterns). In addition to these Federal Allowances, there are South Australian government concessions of up to 30% of the bill (subject to caps) for water and a flat rate of \$165 per annum for energy. There are no state government equivalent telecommunications concessions. In short, low income households whose primary source of income is government income support spend more on telecommunications than on power or water, but receive less support for it.

Perhaps even more importantly, the telephone allowance is designed to deal with service charges not the cost of telephone calls, so eligibility is based around “having a telephone connected”. This does not extend to mobile services and is particularly important because (particularly prepaid) mobile services are often the choice of those in financial hardship – either because the services do not have upfront connection costs or lock-in contracts, or because with low incomes and potentially poor credit ratings they may be unable to get post-pay accounts. The exclusion of those who do not have landlines is also in contradiction to the increasing move of government agencies to online and “app” based servicing – with apps now available for Medicare and a range of Centrelink functions and documents being able to be filed via mobile phones.

In short, the telephone allowance is inadequate, subsidises what is arguably a dated and less flexible technology and may not cover the services used and needed by the poorest people.

Conclusion and Recommendations

This report has shown that expenditure on phone and internet connectivity is important to social inclusion and represents a significant proportion of household expenditure. This is especially the case for low income households for whom telecommunications expenditure takes up a greater proportion of their weekly expenditure than it does for households with higher incomes. And it is also clear that those lower income households have a lower standard of equipment and service, although there are also other significant differences in expenditure patterns between older and younger households.

For all households, while real prices are decreasing, expenditure is increasing more rapidly due to increased usage. Given this, it is important to recognise the potential cost of living pressures for low income households caused by telecommunications expenditure and the importance of maintaining and supporting the capacity of all households to communicate with the wider society.

SACOSS is calling on state and federal government to develop a range of measures to assist with affordability and accessibility of telecommunications for low income households. While the technology and access issues are complex, SACOSS believes that consideration should be given to:

- Low income support schemes for broadband, potentially extending some of the hardship provisions and packages from the voice-service to broadband suppliers (eg. Bill Assistance Packages, Centrepay options);
- Increasing public wi-fi availability so that those on low incomes are able to minimise download costs;
- Wi-fi availability in all government offices so clients can find and provide data without paying for the downloads; and
- Increasing and broadening the telecommunications concessions and allowances to ensure they reflect current telecommunication services and usage.

The technologies of telecommunications are obviously changing rapidly, not just with the National Broadband Network but with changing personal platforms and an increased emphasis on mobility of services. Any package of support measures for those facing financial hardship and possible exclusion needs to avoid locking those people into static and low quality services, but some base level connectivity should be a universal standard.

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 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 Selected Living Cost Indexes (ABS, 2013b).

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 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 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 *2009-10 Household Expenditure Survey*) 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 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 *2009-10 Household Expenditure Survey*) and can't be changed until the next 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 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 welfare recipients (ABS, 2013b). 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 welfare 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.

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