

SACOSS 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 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 Explanatory Note 1) and they disaggregate expenditure into a number of different household types (ABS, 2013b), although this *Cost of Living Update* focuses 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 by putting a dollar value on the changes, and by using disaggregated CPI data to summarise change in prices of key items.

The second part of SACOSS *Cost of Living Updates* contain 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. Given current political interest and debate around tax reform, and around the Goods and Services Tax (GST) in particular, this issue focuses on the impact of the GST on cost of living and the potential impact of various possible changes to the GST.

SECTION 1: December Quarter 2014 Cost of Living Changes

Prices

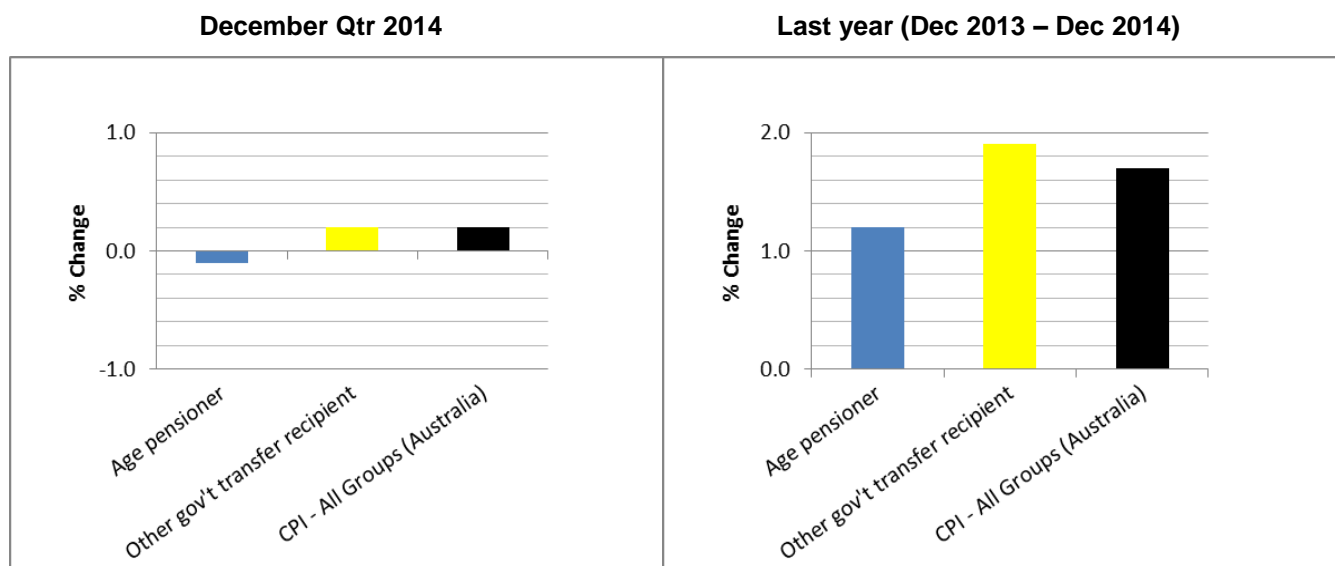
In the December 2014 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for Aged Pensioners *fell* by 0.1%. For Other Welfare Recipients it rose by 0.2%, equalling the rise in the national CPI – although Adelaide CPI increased slightly more at 0.3% (ABS, 2015a; ABS, 2015c).

The relatively low price of petrol (average daily petrol prices in December were the lowest since February 2009) was the most significant factor leading to the modest inflation result and low cost of living increases for all household types in the December Quarter. For average pensioner households, the cost of living actually fell – despite the modest rise in CPI. This was because of a fall in health costs (mainly due to the cyclical effect of a greater proportion of consumers qualifying for the Pharmaceutical Benefits Scheme) and because part of the CPI rise was due to increased house prices (new dwelling purchases) – which do not figure in the SLCI (the SLCI counts mortgage expenditure rather than purchase prices).

For other welfare recipients, the falls in health and transport prices were offset by increases in other commodities which also make up a higher proportion of their expenditure (eg. alcohol and tobacco).

Over the last year (Dec Qtr 2013 – Dec Qtr 2014), the living cost indexes for Aged Pensioners rose by 1.2% and for Other Welfare Recipients by 1.9%, by comparison to the generic CPI rise of 1.7% in both nationally and in Adelaide (ABS, 2014a, 2014c).

Figure 1: Increases in Living Costs December Qtr 2014



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, but there are no big departures from overall trend which was generally good news with an easing of pressures driving cost of living increases.

Table 1: Cost of Living Changes Dec Qtr 2014 by expenditure type

| Cost of Living Area | Adelaide CPI Dec Qtr change % | National CPI Dec Qtr change % | Adelaide CPI Dec 2013- Dec 2014 % | National CPI Dec 2013 – Dec 2014 % |
|-----------------------|-------------------------------|-------------------------------|-----------------------------------|------------------------------------|
| Food | -0.4 | 0.1 | 1.6 | 2.0 |
| Housing | 0.3 | 0.5 | 2.8 | 2.4 |
| • Rent | 0.5 | 0.5 | 1.7 | 2.4 |
| Utilities | 0.0 | -0.3 | 2.7 | -2.0 |
| • Electricity | 0.0 | 0.0 | 0.3 | -4.4 |
| • Water | 0.0 | -0.1 | 3.0 | 0.4 |
| • Gas | 0.0 | -1.3 | 8.7 | 2.5 |
| Health | -0.6 | -0.9 | 4.3 | 4.4 |
| Transport | -1.9 | -2.2 | -1.6 | -1.9 |
| CPI All Groups | 0.3 | 0.2 | 1.7 | 1.7 |

(Source: ABS, 2015c)

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 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 Change Dec Qtr 2013 – Dec 2014

| | Base Allowance + Supplements (31 Dec 13) | Selected Living Cost Index change | Living Cost Change per week \$ | Base Allowance + Supplements (31 Dec 14) | Change in rates of same benefits \$ | Net Result \$pw |
|--------------------------------|--|-----------------------------------|--------------------------------|--|-------------------------------------|-----------------|
| Aged Pensioner (Single) | \$413.55 | 1.2% | \$4.96 | \$427.15 | \$13.60 | +\$8.64 |
| Newstart with two FTB children | \$527.95 | 1.9% | \$10.03 | \$542.72 | \$14.77 | +\$4.74 |

(Source: Calculated from data in Centrelink, 2013, 2014; ABS, 2015a. For details of calculation, see Explanatory Note 3 in the Appendix here)

That is to say, for those whose only source of income is a base-rate Aged Pension (with the Household Assistance Package Payment) and who spend all their income, the cost of living over the last year increased by \$4.96 but this was more than covered by the approximately \$13.60 a week increase in their income. Similarly, for a single person with two children on the base rate of Newstart, their cost of living of the last year went up by \$10.03 per week while their income only increased by \$14.77, leaving them \$4.74 a week better off.

These figures are clearly good news for households relying on income support payments and points to an easing of cost of living pressures. However, it should be remembered that the fact that their income is going up faster than the cost of living is (in part for aged pensioners and fully for other welfare recipients) the result of the time lag in indexing payments. In that sense, the “excess” of this quarter is simply the beginning of catching up with previous quarters of higher CPI, and in the case of those on Newstart and Youth Allowance, it is from an already inadequate base rate.

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, 2015b).

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, 2015b). 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.

3. Income Support Payment Calculations – December 2014

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 31 December 2013

| | Base Rate | Pension Supplement | Household Assistance Package | FTB A child u13 | FTB A child 13-15 | FTB B | Pharmac Benefit | TOTAL PAYMENT |
|-----------------------|-----------|--------------------|------------------------------|-----------------|-------------------|-------|-----------------|---------------|
| Aged Pension | \$375.85 | 30.85 | 6.85 | | | | | \$413.55 |
| Newstart - 2 children | \$271.05 | | 4.60 | 86.10 | 112.00 | 51.10 | 3.1 | \$527.95 |

Rates at 30 December 2014

| | Base Rate | Pension Supplement | Household Assistance Package | FTB A child u13 | FTB A child 13-15 | FTB B | Pharmac Benefit | TOTAL PAYMENT |
|-----------------------|-----------|--------------------|------------------------------|-----------------|-------------------|-------|-----------------|---------------|
| Aged Pension | \$388.35 | 31.75 | 7.05 | | | | | \$427.15 |
| Newstart - 2 children | \$278.95 | | 4.75 | 88.41 | 115.01 | 52.50 | 3.1 | \$542.72 |

Sources

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ABS (2011b), *6535.0.55.001 Household Expenditure Survey, Australia: Detailed Expenditure Items, 2009-10*, Australian Bureau of Statistics, Canberra.

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