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Contents

INTRODUCTION	ii
SECTION 1: DECEMBER QUARTER 2015 COST OF LIVING CHANGES.....	1
<i>Prices</i>	1
<i>Incomes</i>	2
SECTION 2: A DECADE OF CHANGE – THE GOOD, THE BAD AND THE UGLY	3
<i>Introduction</i>	3
<i>Analysis</i>	3
<i>Conclusion</i>	6
APPENDIX: EXPLANATORY NOTES	8
SOURCES	10

List of Figures

Figure 1: Increases in Living Costs December Qtr 2015	1
Figure 2: Increases in Living Costs December 2005 – 2015.....	5

List of Tables

Table 1: Cost of Living Changes December Qtr 2015 by expenditure type.....	2
Table 2: Cost of Living Changes Dec Qtr 2014 –Dec 2015.....	2
Table 3: The Good, the Bad and the Ugly.....	4
Table 4: Cost of Living Pressures on Different Household Types, 2005-15.....	6

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, 2016a) and Consumer Price Index (ABS, 2016c) to show key changes in the cost of living in the last quarter and over the last 12 months.

As a summary measure, the Selected Living Cost Indexes are preferred over the better known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. It tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and poor households in particular. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are less relevant. However, increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

The Selected Living Cost Indexes use a different methodology to CPI (see Appendix: Explanatory Note 1) and they disaggregate expenditure into a number of different household types (ABS, 2016b), although this *Cost of Living Update* focuses on the "Aged Pension" and "Other government transfer recipients" (hereafter "other social security recipients") figures, as these are likely to represent the more disadvantaged households. While the Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes – all of which is useful data for analysis. This report also adds to the Selected Living Cost Indexes by putting a dollar value on the changes, and by using disaggregated CPI data to summarise changes in prices of key items.

SACOSS *Cost of Living Updates* sometimes also contain a second section with a more in-depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This Update provides a simple summary of different price rises over the last decade identifying "the good, the bad and the ugly" in terms of the impacts on household budgets.

SECTION 1: December Quarter 2015 Cost of Living Changes

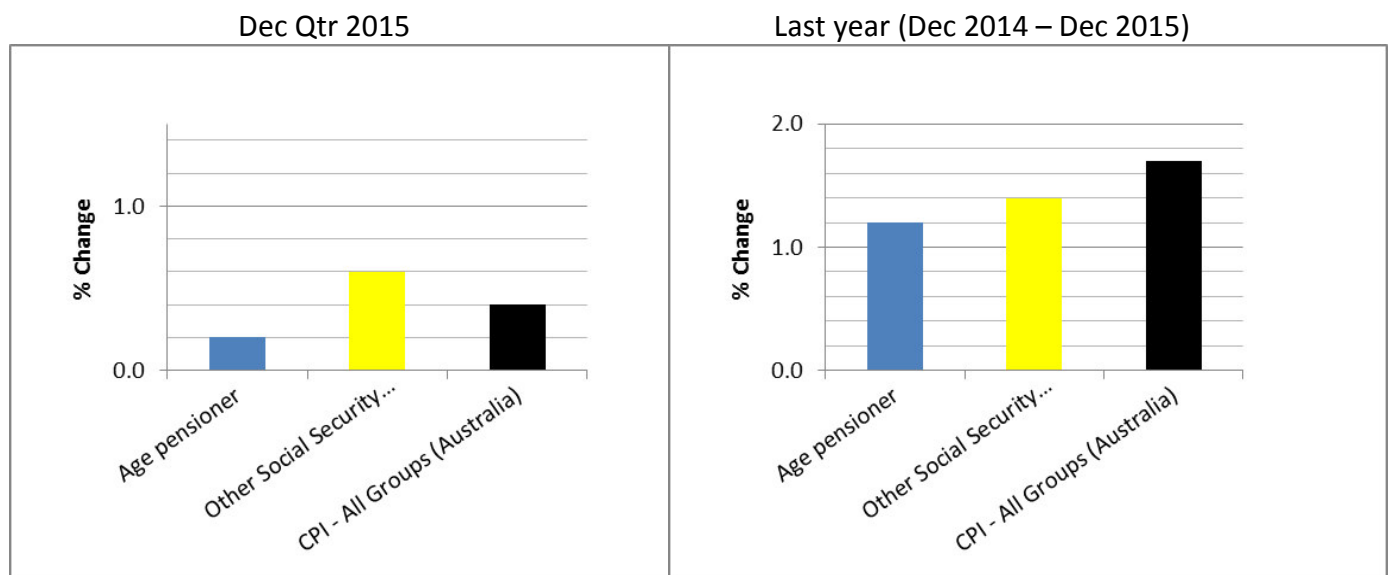
Prices

In the December 2015 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for age pensioners rose by 0.2% and for other social security recipients by 0.6%. CPI in the same period rose by 0.4% nationally and 0.2% in Adelaide (ABS, 2016a; ABS, 2016c).

The biggest driver in cost of living increases in the December Quarter were tobacco (due to a flow on of the federal excise tax increase in September), while transport and health provided offsets due respectively to lower petrol prices and cyclical effects of more consumers qualifying for the Pharmaceutical Benefits Scheme. This also explains the differences between the household types as age pensioners have a higher expenditure on health, while other social security recipients have higher expenditure on tobacco.

Over the last year (Dec Qtr 2014 – Dec Qtr 2015), the living cost indexes for age pensioners rose by 1.2% and for other social security recipients by 1.4%, by comparison to the generic CPI rise of 1.0% in Adelaide and 1.7% nationally (ABS, 2016a, 2016c).

Figure 1: Increases in Living Costs December Qtr 2015



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.

Table 1: Cost of Living Changes December Qtr 2015 by expenditure type

Cost of Living Area	Adelaide CPI Dec Qtr change %	National CPI Dec Qtr change %	Adelaide CPI Dec 2014- Dec 2015 %	National CPI Dec 2014- Dec 2015 %
Food	0.4	0.3	0.3	0.4
Housing	0.1	0.1	0.6	2.2
Rent	0.1	0.2	1.2	1.2
Utilities	0.0	-0.3	-3.1	0.7
• Electricity	0.0	0.0	-8.1	-0.1
• Water	0.0	0.0	1.7	2.3
• Gas	0.0	-1.2	3.8	1.0
Health	-0.3	-0.4	4.0	5.3
Transport	-1.6	-1.4	-1.0	-1.4
CPI All Groups	0.2	0.4	1.0	1.7

(Source: ABS, 2016c)

Incomes

Given that social security recipients have very low incomes, it is unlikely that any or any significant amount of the weekly benefit can be saved – at least for those not able to supplement their government payments with other incomes. For someone on the base level of benefits (with no rent assistance), and assuming that they spend all their income, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 2.

Table 2: Cost of Living Changes Dec Qtr 2014 –Dec 2015

	Base Allowance + Supplements (31 Dec 14)	Selected Living Cost Index change	Living Cost Change per week \$	Base Allowance + Supplements (31 Dec 15)	Change in rates of same benefits \$	Net Result \$pw
Age Pensioner (Single)	\$427.15	1.2%	\$5.12	\$433.5	\$6.35	+\$1.22
Newstart with two FTB children	\$542.72	1.4%	\$7.60	\$551.26	\$8.54	+\$0.94

(Source: Calculated from data in Centrelink, 2015, 2016; ABS, 2014a.
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 Age Pension (with the Energy Supplement) and who spend all their income, the cost of living over the last year increased by \$5.12 but this was more than covered by the approximately \$6.35 a week increase in their income. Similarly, (but to a lesser extent) for a single person on the base rate of Newstart with two children, their cost of living of the last year went up by \$7.60 per week while their income increased by \$8.54, leaving them \$0.94 a week better off.

SECTION 2: A Decade of Change – The Good, the Bad and the Ugly

Introduction

The first SACOSS Cost of Living Update was published in 2009, and the early reports tracked the prices from 2006 of key goods and services relevant to low income households. As was noted at the beginning of this Update, this came out of a concern that the summary figures like the generic Consumer Price Index was not designed to and did not properly reflect cost of living pressures on vulnerable and disadvantaged households. The commodities tracked in Table 1 above have been the main concerns, although previous Cost of Living Updates have also looked other areas where price increases impact particularly on vulnerable and disadvantaged people, including telecommunications, insurance and education.

However, in this update, we simply take a quick look at what has happened to prices over the last decade for each set of commodities tracked in the CPI. In the decade from the December Quarter 2005 to the December Quarter 2015, the general inflation rate (CPI All Groups) was 27.9%.¹

The tables below disaggregate this All Groups figure and list “the good, the bad and the ugly” – that is, those commodities whose prices have fallen or only increased modestly over the last decade, those that have risen significantly above the generic inflation rate, and those whose prices have increased at more than double the general inflation rate.

The first two tables (the “good” and the “bad”) are based on the 33 sub-groups within the CPI (which are the disaggregation of the 11 of main CPI Groups), although obviously many sub-groups are not included where their price rises were just below or just above the general inflation rate. The third table of “the ugly” commodities are from the expenditure classes within each of the sub-groups as this further level of disaggregation highlights what is driving some of the broader group outcomes.

Analysis

As the “good, bad and ugly” tables (below) show, there are significant differences in the rates of price increase between different goods and services – a fact which again highlights important details that are hidden by average figures such as CPI All Groups. It is beyond the scope of this quick *Update* to analyse the reasons for the various differences (though clearly the list of those things whose prices went down is dominated by imports). However, it is important to note that most of the “ugly” commodities – those which went up by more than double the general inflation rate – are essential or basic commodities. It is also the case that the impact of utilities (which make up 3 of the top 8 “uglies”) and tobacco prices is regressive in that low income households spend proportionately more than the average household on those commodities. Further, for commodities like education and health which are also represented among the uglies, price increases may provide a (greater) barrier for low income households accessing these vital services, so there is an additional social justice concern in these increasing prices.

¹ The CPI All Groups Index number in December 2005 was 83.9, in December 2015 it was 107.3 (ABS, 2016c), a 27.9% increase over the decade.

Table 3: The Good, the Bad and the Ugly

THE GOOD	
(Price increase less than half of CPI All Groups)	% Increase
Audio, visual and computing equip & services	-49.4
Garments	-12.9
Household textiles	-11.3
Footwear	-9.5
Household appliances, utensils and tools	-5.7
Communication	-1.6
Furniture and furnishings	2.4
Non-durable household products	6.7
Dairy and related products	13.9

THE BAD	
(Price Increase 1/3 more than CPI All Groups)	% Increase
Tobacco	150.2
Utilities	88.9
Medical, dental and hospital services	75.9
Education	66.4
Other Housing (maintenance, repairs, rates)	44.6
Domestic and household services	45.0
Rents	39.9
Urban Transport Fares	39.8

THE UGLY	
(Price Increase more than double CPI All Groups)	% Increase
Tobacco	150.2
Gas and other household fuels	111.3
Water and Sewerage	95.0
Property rates and charges	81.5
Secondary education	80.5
Pre-school and primary education	79.8
Medical and hospital services	79.1
Electricity	77.9
Other household services ²	62.7
Other motor vehicle services	58.8

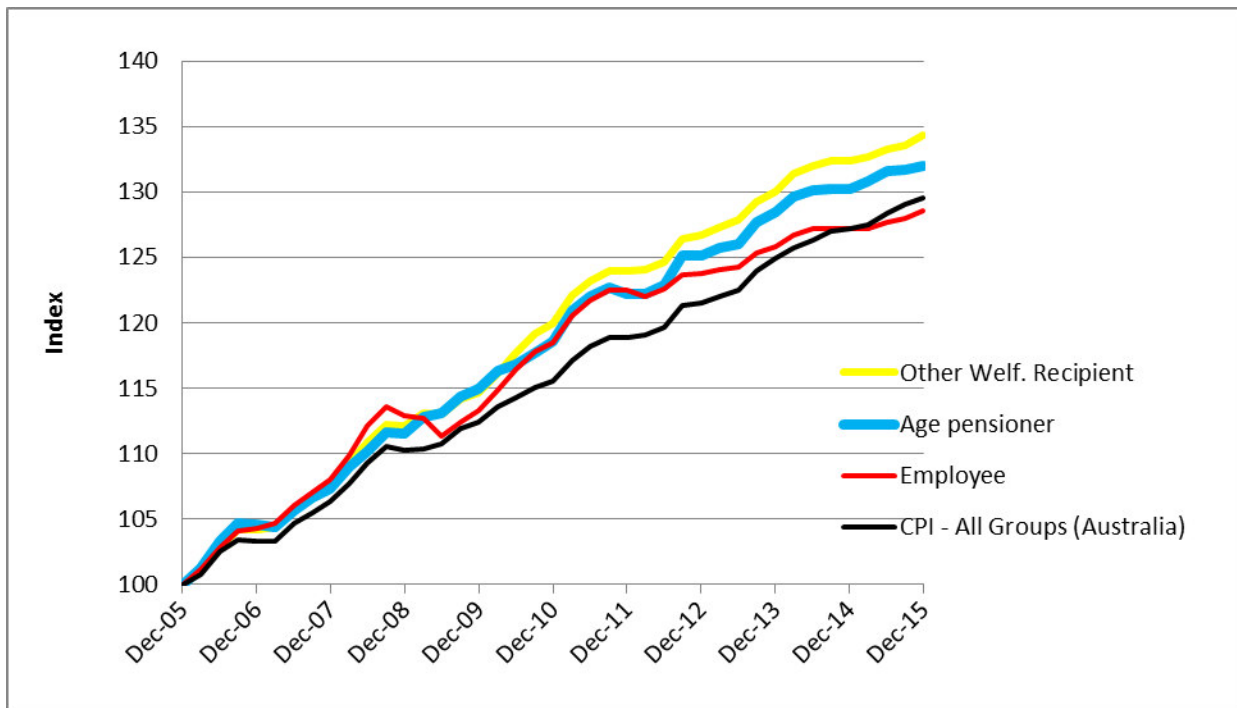
Source: SACOSS calculations from (ABS, 2016c)

² "Other household services" includes pest control, gardening, private rubbish removal, housekeeping and cleaning, security, removalists, and other services.

Even without detailed analysis, this quick snapshot suggests that there are ongoing cost of living concerns for low income households. This is confirmed by the ABS Selected Living Cost Index over the last decade. Although the figures are national rather than South Australian, they show that the cost of living for households whose primary source of income is social security payments has gone up faster than the general inflation rate. This is evident in Figure 2 below, and is a particular problem for those on income support payments like Newstart or Youth Allowance which are pegged to CPI.

Since December 2005, the SLCI for those on non-pension social security payments has gone up 4.9 percentage points more than the CPI. SACOSS calculates that for someone supporting two children on Newstart, this equates to their weekly basket of goods and services being \$20-\$27 a week more than if it had increased just at the general CPI rate. (The range here depends on whether they are receiving Commonwealth Rent Assistance, which gives a higher base income so the dollar figure amounts to more).

Figure 2: Increases in Living Costs December 2005 – 2015



Source: SACOSS calculations from (ABS, 2016a, 2016c)

This obviously represents an additional cost pressure on households already on very low incomes, but of course these figures only deal with expenditure. Table 4 considers these price/expenditure changes in relation to changes in income for those household categories, the impact of these percentage changes on household budgets will vary depending on the circumstances of each household, including different consumption patterns and other sources of income.

Table 4: Cost of Living Pressures on Different Household Types, 2005-15

Ten Year Difference		Other Social Security Recipient			Employee	Self-funded Retiree
		Single Age Pension	Newstart 2 Children	Newstart 2 Children + Rent Assistance		
CPI Increase	%	29.5	29.5	29.5	29.5	29.5
Cost of Living Increase (a)	%	32	34.4	34.4	28.6	28.7
Income Increase (b)	%	66.9	31.8	31.5	39.3	
Change in Position (c)	%	34.9	-2.6	-2.9	10.7	
Cash difference per week (c)	\$	\$90.70	-\$10.69	-\$15.67		

(a) Based on Selected Living Cost Index (ABS, 2016a)

(b) Centrelink Incomes calculated by SACOSS from Centrelink (various years); Employee Increase calculated from Wage Price Index, Hourly Rates of Pay Excluding Bonuses, (ABS, 2015, Table 1)

(c) SACOSS calculation.

The obvious alarming thing from this table (and Figure 2) is that non-Age Pensioner social security recipients have seen a drop in the real value of their income over the last decade. SACOSS calculates that **for someone on Newstart supporting two children, the result is that they are approximately \$10 to \$16 a week worse off**, again depending on whether they are receiving Commonwealth Rent Assistance. (Note: while the CRA increases the base income and subsequent calculations, CRA has gone up slightly less than Newstart – hence the difference in the percentage change in position).

The fact that pensioners are about \$90 a week better off reflects the welcome increases in pension levels over the last decade, although as Table 2 shows, the weekly income level is still not large.

Dollar value impacts on the household budgets for employee households and self-funded retirees are not available as there is no base line income. However, as Figure 2 shows, while the cost of living for employees also rose faster than the official inflation rate for much of the decade, in recent years the pressure has slowed and now sits just under the inflation rate. Hence, **employees whose wages have kept up with CPI over the last decade are now slightly better off than they were ten years ago**. Further, as Table 3 shows, according to the ABS Wage Price Index, overall wage rates have gone up faster than CPI, so **those who experienced that average wage rise (and kept the same working hours), are well ahead**.

While this is good news for many households, it again highlights the problem for those households relying on Newstart and other base level Centrelink payments. Not only are they among the poorest households, they are going backwards both in their own household budget and by comparison with the rest of the population.

Conclusion

Clearly from both the quick snapshot of the good, the bad and the ugly price increases over the last decade, and from the robust ABS living cost indexes, it is clear that (despite some respite in

recent years – including in South Australia in electricity prices) there remain real cost of living pressures on low income households. Those whose wages have not kept up with CPI, and those who are on base level Centrelink payments like Newstart are clearly falling behind.

SACOSS, along with the national body ACOSS and the Councils of Social Service in other states and territories, has long highlighted the inadequacy of the Newstart payment in supporting those who are out of work and allowing them to support themselves to be ready when employment opportunities arise. The data in this report shows that that situation is getting worse. This is socially and economically unacceptable and we therefore renew our call for an increase in the Newstart allowance in the order of \$50 a week.

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, 2016b).

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

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that social security recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the living cost indexes are not state-based, so particular South Australian trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes are for households whose *predominant income* is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the *2009-10 Household Expenditure Survey*) add up to well over the actual social security payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income, or more than one social security recipient in the same household. Like the CPI, the Living Cost Index figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories.

Another example of this “averaging problem” is that expenditures on some items, like housing, are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – again, because the worst case scenarios are “averaged out” by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were \$300 per week, the average expenditure on rent between the two would be \$150 per week, much less than what the renting pensioner was actually paying.

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the *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 social security 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 social security recipient household average of 2.57 persons). However, this is a proxy rather than statistical correlation.

It is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners.

3. Income Support Payment Calculations – December 2015

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 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

Rates at 31 December 2015

	Base Rate	Pension Supplement	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	\$394.2	32.95	7.05					\$433.50
Newstart - 2 children	\$283.15		4.75	89.88	116.97	53.41	3.1	\$551.26

Sources

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