



Living costs on the up ... and up

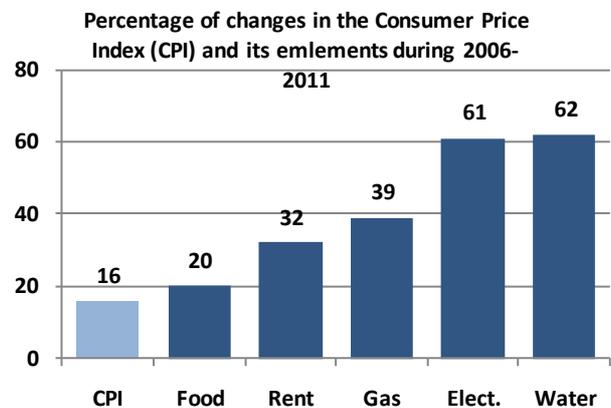
There are stories in the media most days about how living costs are going up. In fact, the income of most people goes up in line with inflation, and income generally rises at the same rate as expenses. When income and expenses both increase together, it is assumed that the household's financial situation should not change over time. That is the theory, but it is not clear how people or the media perceive and interpret it.

A CPI (Consumer Price Index) estimates the percentage of changes in the price of goods and services typically purchased by the households. It measures price changes over time in the metropolitan areas, the average changes in the prices in capital cities of Australia. Changes in the price of any items in the household's basket change the overall CPI value. However, the price of some items may rise while others may not change or even decrease. In recent years, some items such as groceries, electricity, gas and water have sharply increased, while the cost of some services and goods such as sport equipments have fallen or roughly remained constant. But people are more likely to notice an increase in their weekly grocery bill than a decrease in the price of a tennis racquet!

This 'Facts and Figures'¹ highlights the changes in the price of some items included in the CPI over the last five years using data collected by the ABS². It also identifies the groups of Australians that may feel more pressure than the average Australians due to changes in CPI and inflations.

Analysis of the ABS data confirms that the cost of some essential living items such as food and energy supplies have substantially increased compared with overall CPI value (16%) between 2006 and 2011.

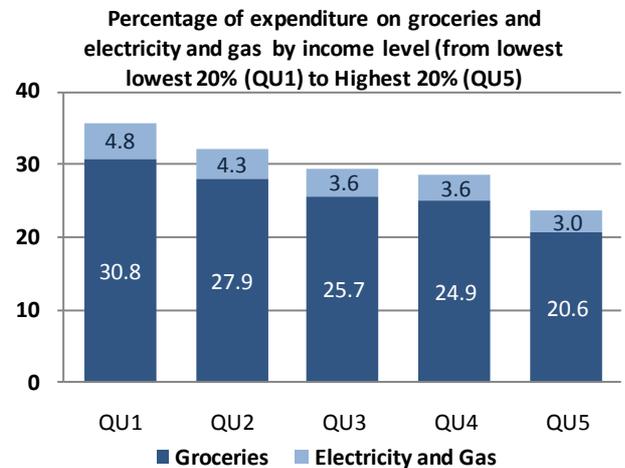
- The cost of food stuffs has increased at about 20%.
- Rent has increased at more than **twice** the CPI rate.
- Most rises in the prices go to the energy supplies.
- Gas at **2.5 times** (39%) the CPI rate; and at about **four times** the CPI rate for Electricity (61%) and water (62%).



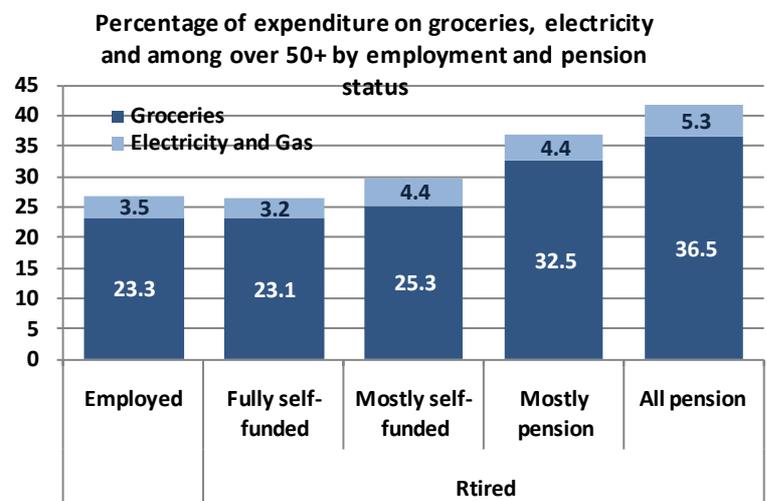
¹ This issue of 'Facts and Figures' is based on research undertaken by Professor Simon Kelly of KELLYresearch for the National Seniors Australia Productive Ageing Centre. The full report will be released in September 2011 and available from the productiveageing.com.au website.

² Inflation over the last five years is calculated as the change in the CPI and its elements between June 2006 and June 2011 (ABS 6401.0 - Consumer Price Index, Australia, Jun 2011 Table 7).

As expenditure on food and energy supplies are essential and continual, any increase in their prices is immediately noticed by the households. However, the pattern of consumption varies amongst households, and the amount of economic pressure on each household differs from other households. Using HILDA³ data, we can rank households by their income. The result shows that the proportion of expenditure on two essential living costs – *Groceries* and *Electricity & Gas* decreases as income increases. For example, 35.6% of the expenditure of the households with lowest income (1st quintile) is spent on the groceries, but this figure is about 23.6% for households with highest level of income (5th quintile).



Many Australians aged 50 years or over live on low incomes sourced from investments, government benefits or a combination of both. A large proportion of total expenditure of low income households represents the cost of their food and energy supplies, particularly for those who have no private income to supplement their pension. The result from HILDA data indicates that 26.8% of expenditures of employed people is spent on the food and energy supplies, while retired people relying only on pension spend about 41.8% of their expenditure on these essential items.



The large share of the expenditure that the low income households of those aged 50-plus are already spending on groceries and energy suggest that they don't have many places to prune back the extra payment for these essentials. Yet some of these expenditure items have had price rises up to four times the rate of inflation over the last five years. **These low income households are facing significant pressures to the family budget.**

³ HILDA is the Household, Income and Labour Dynamics in Australia survey. The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views in this report are those of the author and should not be attributed to either FaHCSIA or the Melbourne Institute.