

Title: Winners and losers, the implications of changing cost pressures on various household types and income groups.

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Abstract

Much of recent discussion regarding the economic health of Australian families has focused on the change in household incomes. However there has been little discussion regarding the nature of household expenditure, the changes in the costs of various goods and services, and the resulting impact that this has on various income groups and household types.

This paper will update the Relative Price Index (RPI) and explores the distributional impact on various income groups and household types in the changes in the costs of various goods and services.

It demonstrates that increased cost pressures have disproportionately impacted upon various households depending upon the stages of their life cycles and income source. It finds that since 1990 there has been a growth in inequality due to changes in the cost burdens of various goods and services.

These findings raise significant social policy issues for both Governments and the broader community as it documents the changing nature of both economic and social justice.

Background

The St Vincent de Paul Society of Victorian (SVDP), its members, and others within the community welfare sector have continued to document increased demand for their social services¹.

However when SVDP articulates our day-to-day experiences many decision makers and public commentators argue that such experiences must be exaggerations or isolated to particular areas or particular household types. Decision makers support their claims by highlighting the underlying CPI rate, the changes to wages and salaries and other indicators of positive economic growth. This, it is argued, indicates that as costs have risen at a relatively low rate (as indicated by the CPI) and that as incomes continue to rise, overall individuals within the community are better off.

This paper develops Relative Price Indexes (RPI) for particular household groups and various income sources as a means to explain SVDP daily experiences in a manner that is consistent with the broad headline economic data.

The Consumer Price index

Relative price changes for various goods and services are detailed in the Consumer Price Index (CPI)

Each major grouping is comprised of subgroups, which contain individual items. For example: 'Clothing Group: Women's and girls subgroup - women's underwear, nightwear and hosiery'.²

These price changes are then weighted to the reference population to assess the impacts on the community.

¹ This increase in demand is documented in the Annual reports of the Society of St Vincent de Paul Victoria for the years 2001-02, 2002-03, 2003-04.

² Detailed information of longitudinal CPI for specific capital cities - available through the ABS (Special data services - quarterly update) Product Code CPL11 - has been used throughout this report as the basis for Relative price changes from March 1998 to March 2005.

“The reference population for the Australian CPI is all private households in the eight capital cities.....This is referred to as the CPI population group and it represents approximately 64 per cent of the Australian private households....Not all people are part of a private household, that is, reside in private dwellings. Examples of non-private dwellings include hotels, boarding houses, and institutions such as gaols and universities”.³

The Household Expenditure Survey (HES)

The HES details expenditure patterns, for various income and households characteristics of those living in private dwellings throughout Australia. This data enables accurate weighting's of the raw CPI data to be developed for specific household using their unique expenditure patterns. This is unlike the CPI which develops its weightings based on all metropolitan private households in aggregate.

HES details expenditure patterns which reflect the '*net or out of pocket expenditure*' of the sample groups. These expenditure details account for the value of any concessions or entitlements available to government pension and benefit recipients.

Consequently, the weighting's developed in this report reflect the value of any concession and benefit delivered to particular household groups.

Development of the Relative Pricing Index

The consistency between HES and CPI categories allows the CPI data to be weighted to reflect various household expenditure patterns, thus producing Relative Pricing Indices for various household types.

This enabled the development of weightings that represent expenditure patterns of specific households⁴.

By using the HES detailed expenditure patterns according to income source, it was possible to construct weightings for those individuals in receipt of the following statutory incomes:

- Aged and disability support pensioners,
- Unemployment and sickness allowance, and
- Other government pensions and allowances (sole parents)

In addition to constructing weightings for various sources of income, using HES detailed expenditure patterns, weightings were also constructed for the following household types:

- Couple only,

³ ABS, Australian Consumer Price Index, Concepts, sources and Methods, 2003, cat number 6461.0 p44

ABS, c6461.0 Australian consumer price index Concept Sources and methods, 2005 chapter 10

10.48 The Australian CPI is designed to measure changes in retail prices experienced by all metropolitan private households in aggregate. The CPI basket and its weights relate to this population as a whole. The index becomes much less representative at successively lower levels of aggregation of this population. Ultimately, the composition and weighting pattern of the basket will not coincide with that of any individual household in Australia. There are several reasons for this.

10.49 First, the basket represents the **average expenditure of all households**, rather than the **expenditure of the average household**. Individual households may have significantly higher or lower expenditure on particular items than the average would suggest.

10.50 Second, the CPI does not measure changes in living costs that may be experienced by individual households as a direct consequence of their progression through the life cycle. For example, younger households may incur a higher proportion of their expenditure on housing and child care, while those households in the older age groups may incur increasing expenditure on medical services. However, changes in the demographic make-up of households does affect the pattern of total household expenditure recorded in the HES and is thus incorporated in the CPI weights during reviews.

10.51 Third, the CPI basket includes items that are mutually exclusive for individual households. For example, both the rent payments of renter households, and the amounts paid by owner-occupier households for purchasing their principal residence are in the basket. No single household will incur both these expenses on their principal residence at the same time.

10.52 Last, although the Australian CPI coverage is extremely broad, it excludes certain households, such as hotels, university residences, and jails, due to the significant differences in their consumption patterns. Individuals in such households may find that the CPI is unrepresentative of their price experiences.

- Couple with one child,
- Couple with two children,
- Lone person,
- Lone parent with one child and
- Lone parent with two or more children.

This was undertaken to explore the impact of differing expenditure patterns of various household types, and income sources on the cost of living.

In addition to the specific weighting developed above identified above the following various household life cycles, life styles were obtained through prescribing specific CPI price trends for various housing and transport options.

- Specific Private rental costs, and urban transport cost
- Specific Private rental costs, and the broad CPI transportation price trend
- Broad CPI housing price trend, specific urban transport cost
- Broad CPI housing price trends, broad CPI transportation price trends

The prescription of the rental housing and urban transportation options seeks to explore the cost pressures on households that are reliant on the rental housing market and public transport options.

In doing so it is intended to explore the impact of access to various housing and transport options on the cost of living.

The comparison of the various relative price indexes with the CPI seeks to document changes in cost of living of various households, consuming various housing and transport options over the last 15 years.

The Relative Price Index's

Government Pensions and benefits

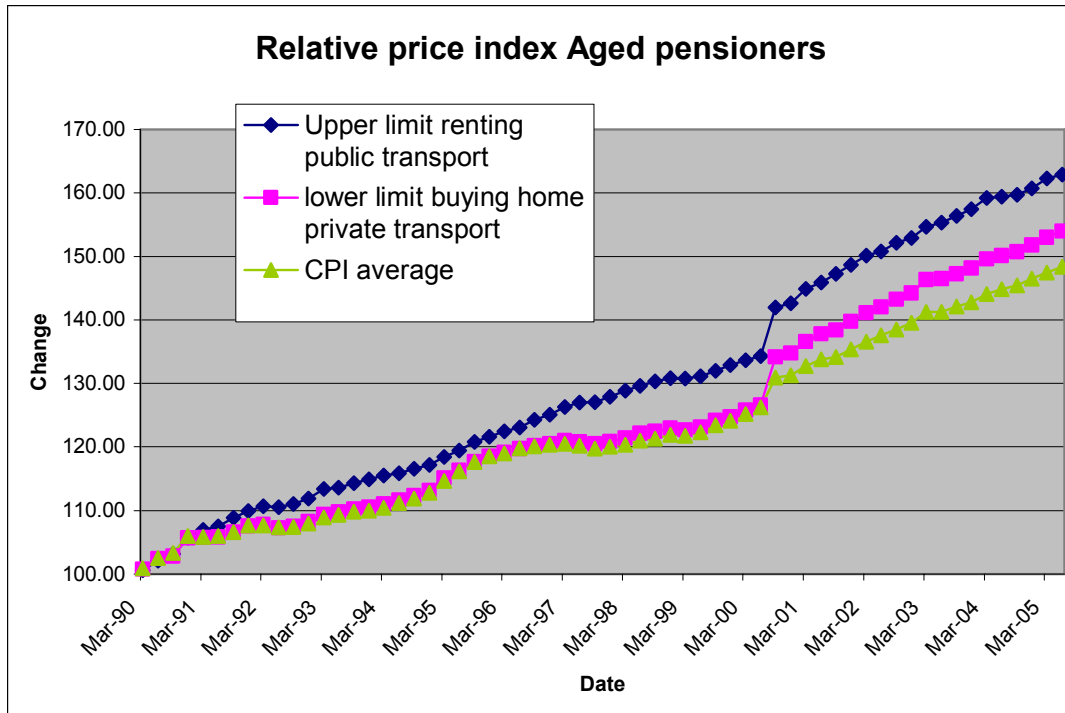
The weighting for the following statutory income recipients was derived from the average expenditure patterns for those receiving aged and disability support pensions, other government pensions and allowances (sole parent pensioners) and unemployed benefits.

These weightings explored various life style/life cycle situations such as various housing and transport options including; home purchaser/owner using public and private transport users options and private renters using public and private transport users options.

Aged / Disability Pensioners

The chart below details the range of the RPI for the various scenarios for the aged / disability pensioners group since 1990. This shown that CPI has risen to 148.4 since 1990, however during this period the cost of living for home purchaser/purchasers using private transport has increased to 153.99, while private renters using public transport it increased to 162.93.

This suggest that the cost of living for aged/disability support pensioners who are reliant on the rental market and the public transport system have experienced cost increases in the order of 30% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost in creases in the order of 11.5% greater than the underlying inflation rate.



There are a number of factors that have contributed to this greater increase in the cost of rental than the cost of purchasing a home, and significant increase in the cost of urban transport fares relative to the cost of private motoring.

In addition to these cost pressures this groups consumes goods and services in a different manner that the metropolitan private households in aggregate, see table below.

Item	CPI Weighting	Aged/Disability Pensioner weighting	% Variance
Food	18.1	23.6	30.68%
Alcohol	5.3	2.4	-54.55%
Tobacco	2.8	2.2	-20.29%
Clothing / Footwear	4.6	4.2	-8.70%
Housing	17.4	12.9	-25.86%
Utilities	3.5	5.5	57.14%
Furniture and furnishings	3.2	2.9	-10.22%
Household appliances, utensils and tools	1.7	3.3	100.00%
Household supplies	1.8	2.7	54.29%
Household services	0.7	1.4	108.96%
Health	5.2	6.6	26.20%
Transportation	14.6	11.3	-22.60%
Communication	2.7	3.8	38.69%
Recreation	11.3	10.4	-7.96%
Education	3.0	0.1	-96.67%
Miscellaneous	3.6	6.6	83.84%
Childcare	0.5	0	-100.00%
Total	99.9	99.9	

Other government pensions and allowances – (Parenting payment etc)

The RPI for the various scenarios for the other government pension and allowances (single parent group) since 1990 details that the cost of living for home purchaser/purchasers using private transport has increased to 152.76, while private renters using public transport increased to 162.39.

This suggest that the cost of living for single parent pensioners who are reliant on the rental market and the public transport system have experienced cost increases in the order of 28.86 % greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost in creases in the order of 8.9% greater than the underlying inflation rate.

Unemployed benefits

The RPI for the various scenarios for the unemployed benefit group shows that the cost of living for home purchaser/purchasers using private transport has increased to 150.7, while private renters using public transport increased to 161.9.

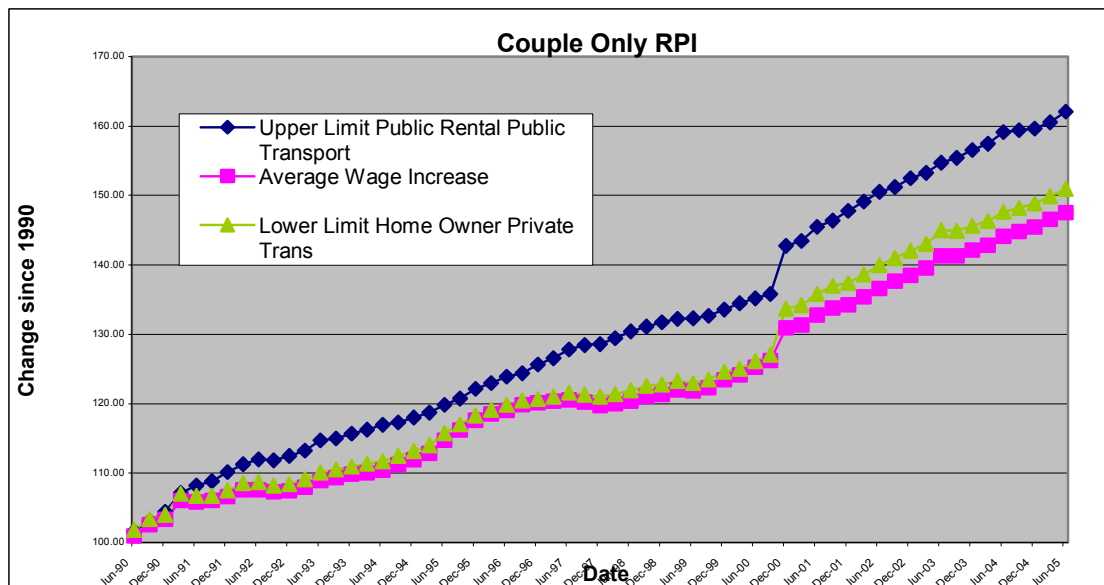
This suggest that the cost of living for unemployed benefit recipients who are reliant on the rental market and the public transport system have experienced cost increases in the order of 27.8% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost in creases in the order of 4.7% greater than the underlying inflation rate.

Various household types

The RPI for these groups was achieved-using average expenditure, as detailed expenditure for various household types. Lone person, Couple only, couple one child, Couple 2 children, couple three children and more, single parent one child and single parent two children or more.

These relative price indexes explored various life style/life cycle situations such as various housing options and various transport options including: home purchaser/purchases, public and private transport users, and private renters.

Couple no children



This chart details the range of the RPI for the various scenarios for the couple only group since 1990. This shown that CPI has risen to 148.4 since 1990, however the cost of living for home purchaser/purchasers using private transport has increased to 151.9, while private renters using public transport increased to 162.66.

This suggest that the cost of living for couple who are reliant on the rental market and the public transport system have experienced cost increases in the order of 29.5% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost increases in the order of 7.2% greater than the underlying inflation rate.

There are a number of factors that have contributed to this the principle drivers can be attributed to a greater increase in the cost of rental than the cost of purchasing a home, and significant increase in the cost of urban transport fares relative to the cost of private motoring.

In addition to the impact of these cost pressures this groups consumers goods and services at a different rate than the average expenditure of all private metropolitan households. This also influences the Relative Price Index as experienced by this particular group. For example the table below compares the consumption of various good and services of couple with no children with the weightings of the Consumer Price Index⁵.

Item	CPI Weighting	Couple only weighting	% Variance
Food	18.1	18.9	4.65%
Alcohol	5.3	3.3	-37.50%
Tobacco	2.8	1.4	-49.28%
Clothing / Footwear	4.6	5.1	10.87%
Housing	17.4	11.6	-33.33%
Utilities	3.5	4	14.29%
Furniture and furnishings	3.2	4.5	39.32%
Household appliances, utensils and tools	1.7	3.1	87.88%
Household supplies	1.8	2.4	37.14%
Household services	0.7	1.1	64.18%
Health	5.2	5.8	10.90%
Transportation	14.6	14.7	0.68%
Communication	2.7	2.9	5.84%
Recreation	11.3	13.8	22.12%
Education	3.0	0.9	-70.00%
Miscellaneous	3.6	6.9	92.20%
Childcare	0.5	0	-100.00%
Total	99.9	100.4	

Couple one child

The RPI for the various scenarios for the couple one child group since 1990 shows the cost of living for home purchaser/purchasers using private transport has increased to 152.27, while private renters using public transport increased to 163.36.

This suggest that the cost of living for Couple with one child who are reliant on the rental market and the public transport system have experienced cost increases in the order of 30.9% greater than the

⁵ Australian Bureau of Statistics, Consumer Price Index Australia, June quarter 2005, page20 –21.

underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost increases in the order of 8.0% greater than the underlying inflation rate.

Couple with two children

The RPI for the various scenarios for the Couple with two children group since 1990 shows the cost of living for home purchaser/purchasers using private transport has increased to 151.40, while private renters using public transport increased to 162.63.

This suggests that the cost of living for couple with two children who are reliant on the rental market and the public transport system have experienced cost increases in the order of 29.4% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost increases in the order of 6.2% greater than the underlying inflation rate.

Couple three or more children

The RPI for the various scenarios for the couple with three or more children group since 1990 this shows that the cost of living for home purchaser/purchasers using private transport has increased to 153.57, while private renters using public transport increased to 162.81.

This suggests that the cost of living for couple with three or more children who are reliant on the rental market and the public transport system have experienced cost increases in the order of 29.8% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost increases in the order of 10.6% greater than the underlying inflation rate.

Lone person

The RPI for the various scenarios for the lone person households since 1990 this shows that the cost of living for home purchaser/purchasers using private transport has increased to 150.13, while private renters using public transport increased to 160.20.

This suggests that the cost of living for lone person households who are reliant on the rental market and the public transport system have experienced cost increases in the order of 24.4% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost increases in the order of 3.5% greater than the underlying inflation rate.

Lone parent one child

The RPI for the various scenarios for the lone parent households with one child since 1990 this shows that CPI has risen to 148.4 since 1990, however the cost of living for home purchaser/owner using private transport has increased to 153.08, while private renters using public transport has increased to 162.36.

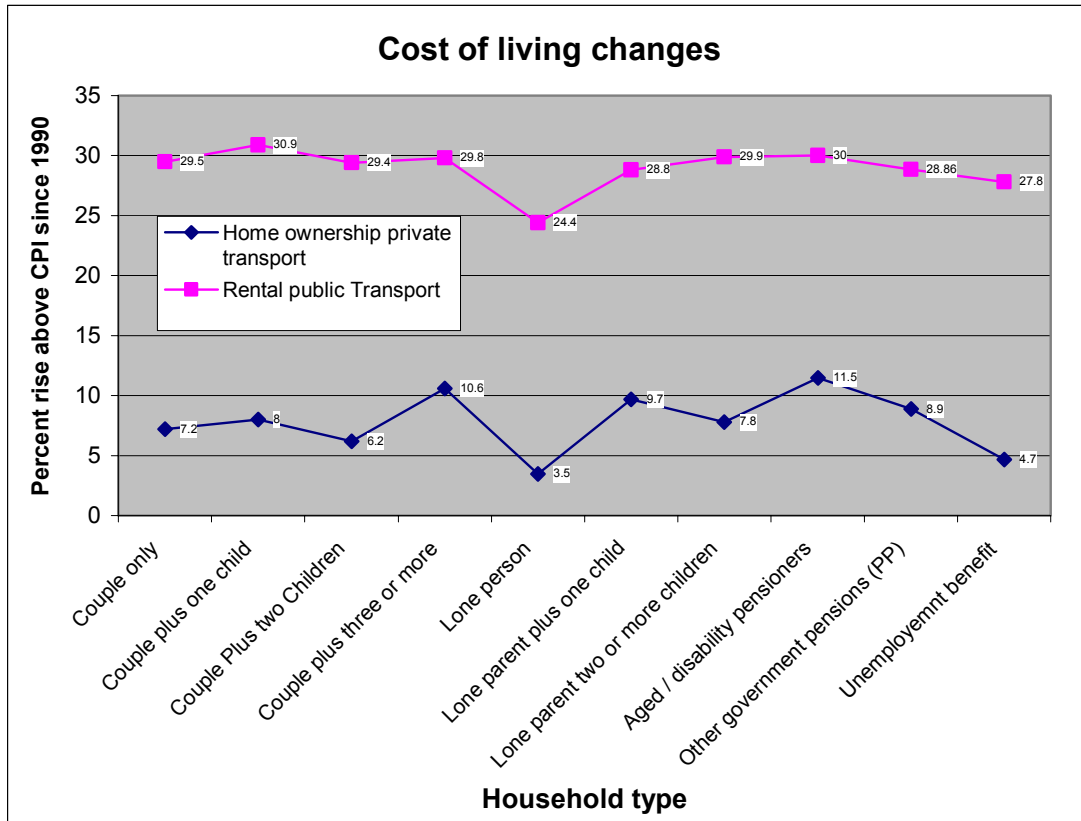
This suggests that the cost of living for lone parent with one child households who are reliant on the rental market and the public transport system have experienced cost increases in the order of 28.8% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost increases in the order of 9.7% greater than the underlying inflation rate.

Lone parent 2 or more children

The RPI for the various scenarios for the lone parent households with two or more children since 1990 this shows that the cost of living for home purchaser/purchasers using private transport has increased to 152.17, while private renters using public transport increased to 162.87.

This suggests that the cost of living for lone person households with two children who are reliant on the rental market and the public transport system have experienced cost increases in the order of 29.9% greater than the underlying inflation rate. While those who are owners/purchasers and use private transport have experienced cost increases in the order of 7.8% greater than the underlying inflation rate.

The Relative Price Index results are summarised in the chart below.



Conclusions

The relative price indexes indicate that there have been changes in cost pressures for various households in regards to both household composition and income source. This various cost pressures are influenced by both life cycles and the housing and transport options available to households.

The impact of these cost pressures has resulted in increased cost inequality for specific households. This has implications for both the community welfare sector and the state and federal Governments.

For Victorian State Government the relative price index provides a tool to assess the appropriateness, targeting and adequacy of the current concessions that the State offers in ameliorating the impacts of cost pressures. It also can provide a tool to assess the potential impact of various fees and charges levied by state governments.

For the Federal Government the relative price indexes serve to contextualize changes in household cost pressures, providing the government with a tool to assess the adequacy and efficacy of cash and other social transfers in ameliorating these cost pressures.

For the community and welfare sector agencies the relative price index provides a tool that explains the impact of various cost on household budgets providing explanations to current trends and experiences.

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