NTCOSS

NT Council of Social Service Inc.

COST OF LIVING REPORT

Tracking changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians: CPI rises over the past quarter and past year.

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Introduction

This report tracks changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians.

The report is an abridged version of the format used for the previous NTCOSS Cost of Living Reports, as it only focuses on changes in CPI and SLCI figures over the past quarter and the past year – but does not contain a more in-depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures in the NT. This current format will be used for every second Cost of Living Report from here on.

This report uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS 2014a) and Consumer Price Index (ABS 2014d) to show changes in the cost of living in the last quarter and over the last 12 months. The Living Cost Indexes (LCI) have been designed to answer the question: 'By how much would after tax money incomes need to change to allow households to purchase the same quantity of consumer goods and services that they purchased in the base period?' (ABS 2014a).

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. The CPI 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 in particular, not part of the expenditure of poor households. This is important when considering the cost of living 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. 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, which may be discretionary items and therefore less relevant to low income households (SACOSS 2012).

The Selected Living Cost Indexes use a different methodology to the CPI (see Explanatory Note 1) and it disaggregates expenditure into a number of different household types (ABS, 2014b), although this *Cost of Living Update* focuses only on the "Age Pension" and "Other government transfer recipient" figures (hereafter "Other Welfare Recipients"), 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 provide 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 (SACOSS 2012).

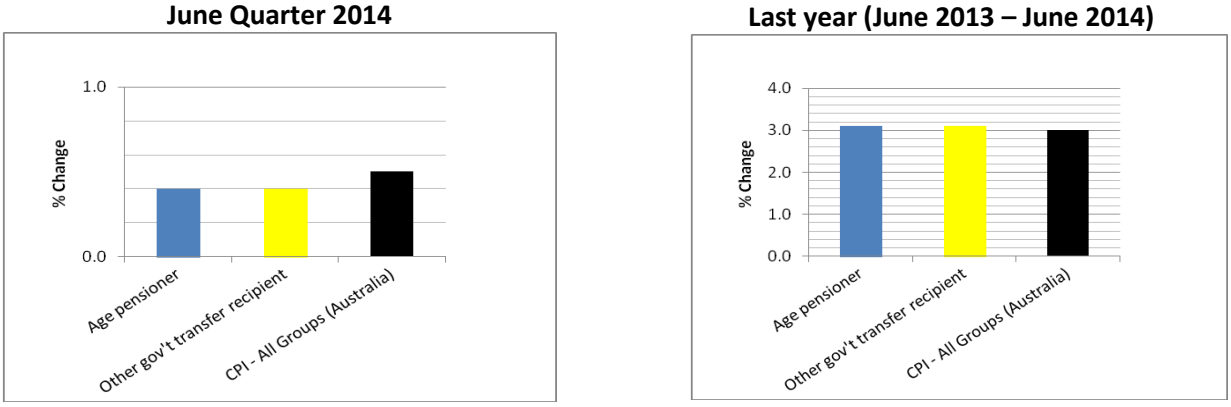
NTCOSS acknowledges the generous time and resources and advice provided by SACOSS, whose Cost of Living Reports have contributed significantly to the development of this and previous NTCOSS Cost of Living Reports.

Prices: In the June 2014 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes (SLCI) rose by 0.4 for Age Pensioners and 0.4 for Other Welfare Recipients, at the national level. In the same period, CPI rose by 0.5 % overall nationally and 0.7% in Darwin. (ABS 2014a; ABS 2014d).

The major contributors to the price rises for Age Pensioner households included health, 'furnishings, household equipment and services' and 'food and non-alcoholic beverages'. The health rises were predominantly caused by "increases in private health fund premiums effective from 1 April 2014 and the indexation to the Private Health Insurance rebate effective from 1 April 2014". The rise in health prices is significant as Age pensioner households, in particular, have a relatively higher proportion of expenditure on health. For Other Welfare Recipients, the rise in clothing and footwear was a significant contributor. Transport fell by 1.0% for both groups, contributing to the partial offset, largely due to falls in prices in automotive fuel prices. (ABS 2014c).

Over the last year (June Qtr 2013 – June Qtr 2014) the living cost indexes (SLCI) for both Age Pensioners and Other Welfare Recipients, increased by 3.1%. Nationally, CPI rose by 3.0%, while in Darwin CPI rose by 3.3% in the 12 month period. (ABS 2014a; ABS 2014d).

Figure 1: Increases in Living Costs June Qtr 2014 - National Figures



Source: SLCI Figures taken from (ABS, 2014a; ABS 2014d Tables 12 & 13)

The cost of living for Age Pensioners and Other Welfare Recipients over the last year increased more than the CPI. It is also notable that the living costs of employees (2.3%) rose far less steeply over the past year, than for pensioners and Other Welfare Recipients, and well under the rate of the overall national CPI rise (ABS, 2014a).

This means that prices for the 'basket' of essential items bought by those who can least afford it, is going up faster than for other sections of the population.

These overall figures can be disaggregated to track changes in the price of key basic goods and services over the past year in Darwin and nationally (Table 1). Significant trends are evident, with Darwin prices rising more than prices nationally in a number of key areas over the past year. Food (3.2%), rent (4.8%) and health (6.0%), for example, all rose faster than the corresponding national CPI for those items (2.5%; 2.4%; and 4.9% respectively), and higher than the national CPI rate of 3.0% (ABS 2014d). When disaggregated health figures are examined, the increase is more alarming, a rise of 8.3% in Medical, Dental and Hospital services in Darwin over the past year, higher than the national rise for this category (6.1%); and the rise is also far greater than the general CPI increases for both Darwin (3.3%) and the national (3.0%) figures.

The rent situation (referred to above) is particularly significant, with the rise in Darwin twice the national rise over the past year and more than the national CPI (also 3.0%). New house prices in the Territory, however, went up at a much lower rate (1.1%) than the rent increase (4.8%) (ABS 2014d), which is significant as rent increases disproportionately hurt poorer households. (See Table 1).

The figures (Table 1) below compare price changes in a number of basic necessities in Darwin with the national changes in the last quarter, and over the last year, however they do not account for local variations in prices.

Table 1: Cost of Living Changes June Qtr 2014 by expenditure type Darwin vs National

Cost of Living Area	Darwin CPI June 2014 Qtr change %	National CPI June 2014 Qtr change %	Darwin CPI June 2013- June 2014 change %	National CPI June 2013 - June 2014 change %
Food (& non-alcoholic beverages)	1.5%	0.4%	3.2%	2.5%
Clothing and footwear	1.4%	1.5%	0.6%	-0.6%
Housing (includes utilities)	0.2%	0.8%	3.1%	3.9%
• Rent	0.5%	0.6%	4.8%	2.4%
• New Dwelling Purchase – owner/occupiers	0.1%	1.6%	1.1%	3.2%
Health	2.1%	2.9%	6.0%	4.9%
• Medical, dental and hospital services	3.4%	4.1%	8.3%	6.1%
Transport	0.2%	-0.7%	2.5%	2.7%
• Automotive fuel	-1.1%	-2.7%	6.7%	7.7%
Utilities	-0.4%	-0.3%	5.1%	6.6%
• Electricity	-0.5%	-0.7%	5.1%	5.2%
• Water & Sewerage	-0.4%	0.3%	4.9%	11.1%
• Gas & Other Household Fuels	-0.6%	0.3%	9.5%	6.2%
CPI All Groups	**0.7%**	**0.5%**	**3.3%**	**3.0%**

Source: ABS 2014d Tables 12 & 13

Incomes: Given that welfare recipients have very low incomes, it is unlikely that any significant amount of the weekly benefit can be saved, at least for those not able to supplement their government transfer payments with additional income. For someone on the base level of benefits, and assuming they spend all their income, NTCOSS has calculated the dollar value of changes in cost of living over the past year, as shown in Table 2.

Table 2: Cost of Living Change June Qtr 2013 –June Qtr 2014 Australia

	Base Rate Benefit per week $ (30 June 2013)	Base Rate Benefit per week $ (30 June 2014)	Selected Living Cost Index change %	Amount per week increase in 'cost of living' $	Amount per week increase in base payment rates $
Age Pensioner	$404.20	$421.40	3.1%	$12.53	$17.20
Newstart single – no children	$252.70	$259.60	3.1%	$7.83	$6.90
Newstart single – 2 children & FTB A & B	$518.94	$530.10	3.1%	$16.09	$11.11

Sources: Centrelink, 2013 & 2014; ABS 2014a. Newstart Single 2 children figures based on one child under 13 and one b/w 13-15. For simplicity, supplements & Rent Assistance not included in Table 2, as these can vary from person to person.

For those whose only source of income is a base-rate government benefit, and who spend all their income, as their budget doesn't allow any leftover to save, the cost of living over the last year increased by $12.53 a week for pensioners, while the base rate pension rose by $17.20 per week over the same period, **so for pensioners, their payments are more than keeping pace with the cost of living.** For single people on Newstart, however, the cost of living rose by $7.83 per week, while the base Newstart rate rose by $6.90 per week, lower than the increase in living costs. For sole parents with 2 children, receiving Newstart and FTB (A & B), the cost of living rose by $16.09 a week, however their payment rate only rose by $11.11 per week (Centrelink 2013 and 2014).

These figures underline the importance of the current method of indexation used to adjust pensions, with payments pegged to wages and prices*. The inadequate indexing that Newstart and other base level benefit payments receive, being pegged to CPI only, means that increases in allowances simply cannot keep up with the cost of living. Additionally, -with the low base payments for allowances, Newstart payments lag further behind pensions and are currently $162 lower p/w. It is imperative that the Federal Government commit to increase Newstart and other base level payments by $50 p/w.

*See Explanatory Note 4

Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes (SLCI) 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 SLCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). (SACOSS 2012). Further information is available in the Explanatory Notes to the Selected Living Cost Indexes (ABS, 2014b). 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 (SACOSS 2012).

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 the Northern Territory. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households indicates 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 Northern Territory trends or circumstances may not show up (SACOSS 2012).

At the more technical level, the Selected Living Cost Indexes are for households whose predominant income is from the described source (e.g. Age pension or government transfers), though 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 (SACOSS 2012).

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; as an example, 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 (SACOSS 2012).

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the 2009-10 ABS *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 (SACOSS 2012).

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 Age Pensioners and 2.57 for the Other Welfare Recipients (ABS, 2014b). This makes comparison with allowances difficult. This Report generally 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 (SACOSS 2012).

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 (SACOSS 2012).

3. Pension and Newstart (and Family Tax Benefit) Calculations for Table 2

Age Pension figures based on maximum weekly payment for single pensioner ($366.85), plus maximum rate of Pension Supplement ($30.60), plus the Household Assistance Package (HAS)* payment ($6.75)as at 30 June 2013; **and** $383, plus Pension Supplement ($31.45); and HAS ($6.95) as at 30 June 2014.

Newstart single no children figures based on maximum payment for single Newstart recipient ($248.50), plus the Household Assistance Package (HAS) payment ($4.20) as at 30 June 2013; **and** $255.25, plus HAS ($4.35) as at 30 June 2014.

Newstart single with children figures based on maximum payment for single Newstart recipient ($268.90) as at 30 June 2013 plus the Household Assistance Package (HAS) payment ($4.55); **and** ($276.20), and HAS ($4.70) as at 30 June 2014; **AND**

FTB A figures based on maximum payment for parent with one child under 13 ($84.84) and one secondary student between 13-15 ($110.32) as at 30 June 2013; **and** $86.10 and $112 as at 30 June 2014; **AND**

FTB B figures based on $50.33 maximum payable to family with youngest child over 5, as at 30 June 2013 (assuming income test requirements are met); and $51.10 as at 30 June 2014.

**The Household Assistance Package (HAS) payments to address carbon tax price increases were made available to most pensioners and adult allowance recipients (incl. Newstart) from 20 March 2013. From 20 March to 30 June 2014, these payments added $6.95 a week to the single pension, $4.35 to Newstart for singles and $4.70 to those with dependent children, and are included in calculations used in Table 2.* (Figures from Centrelink 2013 & 2014).

4. How Pension rates are adjusted

"Currently, pensions (including the Age Pension, Service Pension, Disability Support Pension and Carer Payment) are indexed twice each year by the greater of the movement in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI). They are then 'benchmarked' against a percentage of Male Total Average Weekly Earnings (MTAWE). The combined couple rate is benchmarked to 41.76% of MTAWE; the single rate of pension is set at 66.33% of the combined couple rate (which is equal to around 27.7% of MTAWE). 'Benchmarked' means that after it has been indexed, the combined couple rate is checked to see whether it is equal to or higher than 41.76% of MTAWE. If the rate is lower than this percentage, the rates are increased to the appropriate benchmark level." (Parliamentary Library, 2014).

"The CPI is a measure of changes in the prices paid by households for a fixed basket of goods and services. Indexing pension rates to CPI maintains the real value of pensions over time. The PBLCI measures the effect of changes in prices of the out-of-pocket living expenses experienced by age pensioner and other households whose main source of income is a government payment. The PBLCI is designed to check whether their disposable incomes have kept pace with price changes. The MTAWE benchmark is not intended to maintain the value of the pension relative to costs; it is seen as ensuring pensioners maintain a certain standard of living, relative to the rest of the population." (Parliamentary Library, 2014).

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