

COST OF LIVING PRESSURES

Top lines

- The cost of living in Australia, as measured by the Consumer Price Index, has grown slower than average over the last year.
- Inflation is now lower than when the Government came to office, and wages have grown faster than inflation.
- Interest rates faced by most Australian borrowers are currently at a little above their average levels over the past decade, although the key lending rates are still lower than their peaks in late 2008.

Key facts and figures

- Headline inflation was 2.6 per cent through year to the December quarter 2010, lower than its long-run average.
 - Most market-driven prices have grown slowly or even fallen in the past 12 months.
 - : Clothing & footwear prices decreased by 4.8 per cent, recreation decreased by 1.9 per cent, household contents & services decreased by 0.2 per cent, while transportation increased by just 1.7 per cent.
 - Some items have risen strongly such as utilities prices (up 11.5 per cent in the past 12 months) but these form a small part of the CPI basket.
- Wages have grown faster than inflation over the past year.
 - Average Earnings National Accounts grew 3.9 per cent, average weekly ordinary time earnings grew 4.5 per cent and average weekly earnings grew 4.1 per cent through the year to the September quarter of 2010.
- Other cost of living measures grew more quickly than the CPI in the past year.
 - The Pensioner Beneficiary Living Cost Index (PBLCI) was 4.0 per cent higher through the year.
 - : However, pensions are indexed to the higher of the CPI and the PBLCI.

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Background

Cost of living indexes

- The Pensioner and Beneficiary Living Cost Index is a combination of the age pensioner index and the other government transfer recipient index.
 - Historically, the PBLCI has grown around $\frac{1}{4}$ of a percentage point faster than the CPI.
 - : This reflects the fact that items such as food, pharmaceuticals, utilities, tobacco and financial and insurance services have relatively high weights in the PBLCI. By comparison, items such as house purchase prices, rents and private motoring have relatively high weights in the CPI.
- The Analytical Living Cost Indexes (ALCI) series was introduced in September quarter 1998 and reflects changes over time in the purchasing power of the after-tax incomes of households. It measures the impact of changes in prices on the out-of-pocket expenses incurred by households to gain access to consumer goods and services.
 - In the December quarter 2010, the Analytical Living Cost Indexes reported rises across the four index measures of employees, age pensioners, other government transfer recipients and self-funded retirees.
 - : The Analytical Living Cost Index reported rises equal to or greater than CPI inflation across all four categories, ranging from a 2.6 per cent increase in the cost of living for self-funded retirees through the year to December, to a 4.5 per cent increase for employees and other government transfer recipients.

Flood levy

- The combined effect of the floods and Cyclone Yasi are expected to increase inflation by around $\frac{1}{2}$ to $\frac{3}{4}$ of a percentage point to the March quarter inflation outcome, with around a half to two thirds unwinding in subsequent quarters.
- The damage cause by the recent floods is unprecedented and the task of rebuilding is significant. Australia's rebuilding program requires widespread support.
- The temporary flood reconstruction levy will raise \$1.8 billion from individuals earning over \$50,000 a year in taxable income in 2011-12.
 - The levy is based on an individual's ability to pay.
 - Two-thirds of that funding will be delivered through spending cuts, while the other third will be provided by the levy.

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Government policies and election commitments

- The Government is committed to ensuring strong competition in the lending market to keep interest rates low.
 - The Government is also permitting covered bonds to lower the cost of raising finance from offshore and building a corporate bond market to increase the sustainability of the financial system.
- The Government understands that pensioners can sometimes find it difficult to keep up with increases in the cost of living, including increases in essential services such as utilities. This is why the Government has improved pension indexation arrangements, as part of the Pension Reforms in 2009, to ensure they better respond to cost of living increases faced by pensioners.
 - From 20 March 2010 the benchmark for single pensioners increased from 25 per cent to an effective 27.7 per cent of Male Total Average Weekly Earnings and 41.76 per cent for pensioner couples combined.
 - Maximum rate pensioners have received increases of around \$115 a fortnight for singles and \$97 a fortnight for couples combined, as a result of the pension reforms delivered in September 2009, and higher indexation in March and September 2010.
 - Around 2.4 million Australian seniors have benefited from these substantial pension increases.
- The Government is also committed to supporting low and middle income families with the cost of raising children. The Government provides significant direct assistance to families with children through Family Tax Benefit, the Baby Bonus, Child Care Benefit and the Child Care Rebate.
- The range of available payments assists both parents who stay at home with their children and those undertaking paid employment. Family payments are targeted to families on the basis of need.
 - They are essential to ensuring that children in families in which the household income is insufficient to support both parents and their children have access to an acceptable standard of living. In addition, the Government provides substantial tax concessions to families with dependent children.
 - Most recently, the Government introduced a comprehensive Paid Parental Leave scheme for new parents who are the primary carers of a child born or adopted on or after 1 January 2011. It is an historic reform that will provide greater financial support to families, increase workforce participation and promote early childhood development.
- The Government will apply a progressive temporary flood reconstruction levy in the 2011-12 financial year to assist with the costs of rebuilding infrastructure following the recent floods.

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[Section 22(1)(a)(ii) – material irrelevant to the request]

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