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AUSTRALIA'S RISING **COST OF LIVING** CHALLENGE

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Introduction

Australia is rapidly entering a new economic era of high inflation, high and rising interest rates, intense cost of living pressures, and heavily constrained government budgets laden with high and growing debt levels.

Cost of living pressures, associated with economy-wide inflation, and within certain critical sectors such as energy, transport, and food, are likely to continue rising. Inflationary pressures, combined with weak productivity growth and expectations of weak economic growth, could lead to a return of 1970s-style stagflation.

The purpose of this research report is to provide initial analysis of the impact that rising inflation is having on the typical Australians cost of living. To do this, this report analysis what the same basket of goods bought today would have cost on year ago in the absence of inflation. This provides a broad indication of the extra spending required by households to offset the rising cost of living pressures.

Key results of the research using the quarterly ABS CPI data for September 2022 are summarised as follows:

- For the approximately **9.8 million households** in Australia in 2021, Australian households would have had to spend an additional **\$7,844** on average over the year to September 2022, or around **\$654** more per month, to buy the same items they did a year ago.
- The highest average increases in costs nationally across the consumer basket over the year to September 2022 were in **Housing** (annual increase of **\$2,637** or **\$220** per month), **Food** (annual increase of **\$1,635** or **\$136** per month), and **Transport** (annual increase of **\$1,049** or **\$87** per month).
- Increases in the costs of non-discretionary items such as **food, housing and transport** made up **almost 68%** (67.8%) of the increases in costs to national households.

On a state basis:

- **The Northern Territory:** \$9,103 over the year or \$759 per month.
- **Queensland:** \$8,383 annual increase or \$699 per month.
- **South Australia:** \$8,085 annual increase or \$674 per month.
- **Tasmania:** \$7,977 annual increase or \$665 per month.
- **New South Wales:** \$7,973 annual increase or \$664 per month.
- **Victoria:** \$7,868 annual increase or \$656 per month.
- **Western Australia:** \$6,313 annual increase or \$526 per month

This rising cost of living pressure highlights the need for urgent government action, including the following:

1. Putting reliability and affordability as the core policy objectives of energy policy, rather than reducing emissions and meeting targets such as net zero.
2. Cutting red tape and regulation to increase business investment, and in doing so alleviate supply chain pressures which are pushing up prices.
3. Alleviate crippling workers shortage through cutting tax and red tape disincentives on pensioners, veterans, students, and Australians with a disability from working.

Analysis

We have calculated inflation over the past year for each group across each jurisdiction, then we estimate total household consumption expenditure in nominal terms. Consumption weighting by group is taken from the ABS, which are applied to get total spending by state and by consumption group, this is then divided by the number of households, which gives average house by state and by consumption group. This is then multiplied by the inflation over the past year for each group.

According to the Australian Bureau of Statistics' (ABS) quarterly CPI series, Australian inflation was running at a rate of 7.3% per annum in September 2022.¹

Table 1: Annual inflation to September 2022

	SYD	MEL	BRI	ADE	PER	HOB	DAR	CAN	AUS
Food and non-alcoholic beverages	8.8%	9.0%	8.9%	9.5%	9.1%	8.7%	9.6%	8.7%	9.0%
Alcohol and tobacco	4.1%	3.6%	4.5%	3.8%	4.4%	3.2%	3.8%	5.0%	4.0%
Clothing and footwear	7.1%	3.8%	5.5%	5.6%	4.9%	4.1%	3.3%	3.1%	5.3%
Housing	10.8%	11.2%	12.8%	14.0%	3.5%	14.3%	6.7%	7.0%	10.5%
Furnishings, household equipment and services	7.1%	8.2%	7.2%	8.1%	7.6%	8.5%	8.7%	9.5%	7.7%
Health	2.0%	2.9%	3.4%	1.5%	3.7%	2.7%	2.3%	1.9%	2.7%
Transport	7.9%	9.2%	9.2%	10.4%	9.7%	14.1%	13.6%	12.9%	9.2%
Communication	2.0%	2.0%	1.8%	1.8%	1.8%	1.8%	2.0%	2.2%	2.0%
Recreation and culture	4.0%	4.3%	6.0%	5.2%	6.9%	6.9%	4.8%	5.0%	5.0%
Education	3.9%	5.2%	5.0%	4.1%	3.6%	4.6%	7.3%	5.8%	4.6%
Insurance and financial services	2.6%	5.0%	5.3%	7.0%	4.8%	3.0%	4.8%	0.4%	4.2%
All groups	7.0%	7.4%	7.9%	8.4%	6.0%	8.6%	7.0%	6.9%	7.3%

Source: ABS 2022a, *Consumer Price Index, Australia, September 2022*.

Real annual Australian household consumption expenditures in chain volume measure terms (CVM) are sourced from the ABS *National Accounts: National Income, Expenditure and Product* over the four quarters to June 2021, and are summarised as follows.² (The September quarter 2022 results had not been released at the time of this analysis.)

¹ ABS, 2022a.

² ABS, 2022b.

Table 2: Annual household consumption

	Four quarters to June 2021
New South Wales	\$352,457,000,000
Victoria	\$265,088,000,000
Queensland	\$209,554,000,000
South Australia	\$69,653,000,000
Western Australia	\$109,346,000,000
Tasmania	\$21,104,000,000
Northern Territory	\$10,964,000,000
Australian Capital Territory	\$20,036,000,000
Australia	\$1,058,202,000,000

Source: ABS 2022b, *Australian National Accounts: National Income, Expenditure and Product, June 2022*.

The ABS reweight the household consumption expenditure CPI basket annually, with the weights for 2021 tabulated as follows showing that non-discretionary items such as food, housing and transport make up over one half (50.6%) of the household consumption expenditure basket.³

Table 3: Consumption basket weights

Food and non-alcoholic beverages	16.8%
Alcohol and tobacco	9.0%
Clothing and footwear	3.3%
Housing	23.2%
Furnishings, household equipment and services	9.2%
Health	6.5%
Transport	10.6%
Communication	2.4%
Recreation and culture	8.6%
Education	4.6%
Insurance and financial services	5.8%
Total household consumption expenditure	100.0%
Food, Housing and Transport	50.6%

Source: ABS, 2021, *Annual weight update of the CPI and Living Cost Indexes 2021*.

Using the household consumption expenditure by state and territory, and the ABS CPI basket weights for 2021, the following table displays the relative values of annual household consumption expenditure by group.

³ ABS, 2021.

Table 4: Annual household consumption

Group	SYD (\$m)	MEL (\$m)	BRI (\$m)	ADE (\$m)	PER (\$m)	HOB (\$m)	DAR (\$m)	CAN (\$m)	AUS (\$m)
Food and non-alcoholic beverages	\$59,213	\$44,535	\$35,205	\$11,702	\$18,370	\$3,545	\$1,842	\$3,366	\$177,778
Alcohol and tobacco	\$31,721	\$23,858	\$18,860	\$6,269	\$9,841	\$1,899	\$987	\$1,803	\$95,238
Clothing and footwear	\$11,631	\$8,748	\$6,915	\$2,299	\$3,608	\$696	\$362	\$661	\$34,921
Housing	\$81,770	\$61,500	\$48,617	\$16,159	\$25,368	\$4,896	\$2,544	\$4,648	\$245,503
Furnishings, household equipment and services	\$32,426	\$24,388	\$19,279	\$6,408	\$10,060	\$1,942	\$1,009	\$1,843	\$97,355
Health	\$22,910	\$17,231	\$13,621	\$4,527	\$7,107	\$1,372	\$713	\$1,302	\$68,783
Transport	\$37,360	\$28,099	\$22,213	\$7,383	\$11,591	\$2,237	\$1,162	\$2,124	\$112,169
Communication	\$8,459	\$6,362	\$5,029	\$1,672	\$2,624	\$506	\$263	\$481	\$25,397
Recreation and culture	\$30,311	\$22,798	\$18,022	\$5,990	\$9,404	\$1,815	\$943	\$1,723	\$91,005
Education	\$16,213	\$12,194	\$9,639	\$3,204	\$5,030	\$971	\$504	\$922	\$48,677
Insurance and financial services	\$20,443	\$15,375	\$12,154	\$4,040	\$6,342	\$1,224	\$636	\$1,162	\$61,376
All groups	\$352,457	\$265,088	\$209,554	\$69,653	\$109,346	\$21,104	\$10,964	\$20,036	\$1,058,202

To calculate the average annual household consumption expenditures, the number of households in Australia is sourced from data published by the ABS 2021 Census.⁴

As the Survey of Income and Housing (SIH) is published biannually, the number of households in 2017-18 is used for 2018, the number in 2019-20 is used for 2019 and 2020, and the number of households from the 2021 Census is used for 2021.

The 2021 Census of population and housing data shows that there were around 10,875,248 dwellings in Australia consisting of 9,808,428 occupied private dwellings (households), 1,043,776 unoccupied private dwellings and 22,616 non-private dwellings.

⁴ ABS, 2022e.

Table 5: Number of households

Number of dwellings (000)	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Occupied private dwellings	3,058	2,508	1,998	723	1,030	229	85	175	9,808
Unoccupied private dwellings	300	298	192	84	118	29	10	12	1,044
Non-private dwellings	7	5	5	1	2	1	1	0	23
Total	3,365	2,811	2,196	808	1,150	259	97	187	10,875

Source: ABS, 2022e, *Census*, 2021.

Dividing the annual household consumption expenditures by the number of households provides the following average annual household consumption expenditures by household and consumer basket group for each year.

Table 6: Annual consumption spending per household

Average annual household consumption expenditure: four quarters to June 2021									
Group	SYD	MEL	BRI	ADE	PER	HOB	DAR	CAN	AUS
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Food and non-alcoholic beverages	\$19,362	\$17,760	\$17,620	\$16,181	\$17,839	\$15,454	\$21,575	\$19,238	\$18,125
Alcohol and tobacco	\$10,372	\$9,514	\$9,439	\$8,669	\$9,557	\$8,279	\$11,558	\$10,306	\$9,710
Clothing and footwear	\$3,803	\$3,489	\$3,461	\$3,178	\$3,504	\$3,036	\$4,238	\$3,779	\$3,560
Housing	\$26,737	\$24,525	\$24,332	\$22,346	\$24,635	\$21,341	\$29,794	\$26,566	\$25,030
Furnishings, household equipment and services	\$10,603	\$9,726	\$9,649	\$8,861	\$9,769	\$8,463	\$11,815	\$10,535	\$9,926
Health	\$7,491	\$6,871	\$6,817	\$6,261	\$6,902	\$5,979	\$8,348	\$7,443	\$7,013
Transport	\$12,216	\$11,206	\$11,117	\$10,210	\$11,256	\$9,750	\$13,613	\$12,138	\$11,436
Communication	\$2,766	\$2,537	\$2,517	\$2,312	\$2,548	\$2,208	\$3,082	\$2,748	\$2,589
Recreation and culture	\$9,911	\$9,091	\$9,020	\$8,283	\$9,132	\$7,911	\$11,044	\$9,848	\$9,278
Education	\$5,301	\$4,863	\$4,824	\$4,431	\$4,885	\$4,231	\$5,907	\$5,267	\$4,963
Insurance and financial services	\$6,684	\$6,131	\$6,083	\$5,586	\$6,159	\$5,335	\$7,449	\$6,642	\$6,257
All groups	\$115,247	\$105,712	\$104,880	\$96,318	\$106,186	\$91,986	\$128,423	\$114,510	\$107,887

Multiplying the average annual household consumption **expenditures over the four quarters to June 2021** by the respective **annual inflation rate over the four quarters to September 2022** for each consumption basket group, calculates the increased average annual cost for households to maintain their current expenditure patterns across the various items.

Table 7: Increase in average annual household consumption expenditure to September 2022

Group	SYD (\$)	MEL (\$)	BRI (\$)	ADE (\$)	PER (\$)	HOB (\$)	DAR (\$)	CAN (\$)	AUS (\$)
Food and non-alcoholic beverages	\$1,699	\$1,605	\$1,577	\$1,533	\$1,623	\$1,352	\$2,069	\$1,675	\$1,635
Alcohol and tobacco	\$426	\$341	\$424	\$328	\$416	\$265	\$444	\$510	\$389
Clothing and footwear	\$269	\$133	\$189	\$179	\$172	\$124	\$142	\$117	\$190
Housing	\$2,888	\$2,753	\$3,103	\$3,136	\$871	\$3,041	\$2,001	\$1,849	\$2,637
Furnishings, household equipment and services	\$755	\$798	\$690	\$714	\$738	\$717	\$1,023	\$996	\$759
Health	\$148	\$196	\$230	\$91	\$259	\$161	\$194	\$142	\$186
Transport	\$961	\$1,035	\$1,023	\$1,059	\$1,090	\$1,377	\$1,857	\$1,562	\$1,049
Communication	\$54	\$50	\$46	\$43	\$47	\$41	\$61	\$61	\$51
Recreation and culture	\$392	\$395	\$537	\$427	\$628	\$543	\$528	\$491	\$460
Education	\$206	\$253	\$242	\$181	\$174	\$197	\$428	\$306	\$228
Insurance and financial services	\$175	\$309	\$323	\$394	\$294	\$160	\$356	\$28	\$260
All groups	\$7,973	\$7,868	\$8,383	\$8,085	\$6,313	\$7,977	\$9,103	\$7,737	\$7,844
Food, Housing and Transport % cost	69.6%	68.5%	68.0%	70.8%	56.8%	72.3%	65.1%	65.7%	67.8%

The average monthly increases in household consumption costs over the year to September 2022 due to annual inflation is calculated by dividing the annual totals by twelve, respectively.

Table 8: Increase in average monthly household consumption expenditure to September 2022

Increase in average monthly household consumption expenditure to September 2022									
Group	SYD	MEL	BRI	ADE	PER	HOB	DAR	CAN	AUS
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Food and non-alcoholic beverages	\$142	\$134	\$131	\$128	\$135	\$113	\$172	\$140	\$136
Alcohol and tobacco	\$35	\$28	\$35	\$27	\$35	\$22	\$37	\$43	\$32
Clothing and footwear	\$22	\$11	\$16	\$15	\$14	\$10	\$12	\$10	\$16
Housing	\$241	\$229	\$259	\$261	\$73	\$253	\$167	\$154	\$220
Furnishings, household equipment and services	\$63	\$67	\$58	\$60	\$62	\$60	\$85	\$83	\$63
Health	\$12	\$16	\$19	\$8	\$22	\$13	\$16	\$12	\$16
Transport	\$80	\$86	\$85	\$88	\$91	\$115	\$155	\$130	\$87
Communication	\$5	\$4	\$4	\$4	\$4	\$3	\$5	\$5	\$4
Recreation and culture	\$33	\$33	\$45	\$36	\$52	\$45	\$44	\$41	\$38
Education	\$17	\$21	\$20	\$15	\$14	\$16	\$36	\$26	\$19
Insurance and financial services	\$15	\$26	\$27	\$33	\$25	\$13	\$30	\$2	\$22
All groups	\$664	\$656	\$699	\$674	\$526	\$665	\$759	\$645	\$654
Food, Housing and Transport % cost	69.6%	68.5%	68.0%	70.8%	56.8%	72.3%	65.1%	65.7%	67.8%

Conclusion

Australia is rapidly entering a new economic era of high inflation, high and rising interest rates, intense cost of living pressures, and heavily constrained government budgets laden with high and growing debt levels.

Cost of living pressures, associated with economy-wide inflation, and within certain critical sectors such as energy, transport, and food, are likely to continue rising. Inflationary pressures, combined with weak productivity growth and expectations of weak economic growth, could lead to a return of 1970s-style stagflation.

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About the author

Daniel Wild is the Director of Research at the IPA. He specialises in red tape, regulation, economic policy, the philosophy of free enterprise, and criminal justice. Daniel has authored research papers on economic policy, environmental regulation, and criminal justice reform.

Daniel frequently appears in the media and has published a number of opinion pieces in *The Australian*, *The Daily Telegraph*, *The Sydney Morning Herald*, *The Courier Mail* and *The Spectator*. Daniel has also made a number of radio and television appearances, including on 2GB, 3AW, Sky News and Channel 7 News.

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