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Tel: 02 9257 6127

Email: media@amp.com.au

Website: AMP.com.au/media

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Household incomes outpacing the cost of living
But bigger lifestyles and aspirations adding to cost of living pressures

Australian household income is outpacing the cost of living over the longer term, with disposable incomes increasing 20% over the last 27 years, while the average family is better off by \$224 per week in real terms, according to the latest AMP.NATSEM Income and Wealth Report.

The AMP.NATSEM Income and Wealth Report: *Prices these days! The cost of living in Australia* explores how living costs have changed since 1984 finding that average income growth for Australian households across all income and socio-economic groups more than covered the cost of living over this period.

However, cost of living pressures continued with strong price growth since 1984 across everyday essentials including electricity, which increased 253%, rent prices grew 223%, mortgages increased 256%, petrol increased 208% and public transport costs jumped 287%.

This growth was partially offset by dramatic drops in audio visual and computing, which now cost one tenth what they did in 1984, while average prices for clothing, footwear and major household appliances have changed little, and are often lower today than 27 years ago.

Key Findings

- **We're spending more on discretionary items**
The highest income households are spending around 30% on basic necessities and 45% on discretionary items, while the lowest income households devote 30% to discretionary items. Overall households are spending a greater proportion of income on services such as private schooling, restaurant meals, childcare and tertiary education.
- **Incomes have outpaced the cost of living across the board since 1984**
Couples with children have seen their income grow by 37%, single parent incomes have grown 34% and working families 22%. The smallest increase was rental households who experienced only 11% growth. On average, households are \$224 per week better off than in 1984.

- **The cost of services have increased strongly since the 1980s**
Education expenses for secondary students have grown by 264%, or 4.9% per annum, mostly attributed to higher private school fees. Medical, dental and insurance costs have increased at even greater rates, jumping 560%, 356% and 346% respectively.
- **The costs of many imported goods shrank since the 1980s**
The lower or stagnant prices of clothes and footwear, computing and audio visual equipment have all helped to offset price increases in other areas. The biggest change has been in audio visual and computing, which has fallen 90%.
- **Work demands have driven increases in childcare spending**
Childcare is an example of the real nature of cost of living pressures. Demand for childcare has increased significantly since the 1980s with households spending more than double on these services in just six years.
- **Australia's petrol prices are among the lowest in the world**
Only Canada, USA and Mexico have cheaper petrol prices in the developed world. Australia's average unleaded petrol price of around \$1.40 per litre is significantly cheaper than most European countries where petrol can cost more than AUD\$2 per litre.
- **Sydney continues to be the most expensive city to live in**
Sydney is the most expensive capital city to live in, costing on average, \$71,426 for a standard 'Sydney' basket of goods per year, or \$1,374 a week. For that same basket of goods, Adelaide is the cheapest costing the average household \$4,442 per year less than Sydney. Canberra has the highest standard of living taking into account both average costs and income, followed by Darwin and then Perth.
- **Sydney and Melbourne are two of the most expensive cities in the world**
As our currency has appreciated over recent years, so has our place in the international cost of living index. Sydney and Melbourne sit 7th and 8th respectively on the index, making cost of living for the international worker 45% higher than in New York. However offsetting this, Sydney and Melbourne also enjoy some of the highest incomes.

AMP Financial Services Managing Director Craig Meller said the AMP.NATSEM report shows households today are more focused on lifestyles and aspirations than they were in the 80s.


“Many Australians are leading busier lives and facing greater demands on their time which means we're now paying for things we may not have previously, such as childcare, gardening and housekeeping.

“We've also seen a noticeable shift in spending habits with people spending more on education, holidays and eating out. Essentially we seem to be leading bigger lifestyles, all of which can add to perceived cost of living pressures.”

NATSEM lead author of the report, Principal Research Fellow Ben Phillips said that strong economic growth in Australia since the early 1990s has led to Australia having one of the highest standards of living in the world.

“While there is little doubt that many families still struggle to make ends meet, this report shows that on average, Australian households, both high and low income, are financially better off than in previous decades.

“Cost of living pressures are more related to our increased expectations and the greater demands from a modern society than the prices we pay for petrol or electricity.”

Since 2002, AMP and NATSEM have produced a series of reports that open windows on Australian society, the way we live and work – and our financial and personal aspirations. AMP publishes these reports to help the community make informed financial and lifestyle decisions and to contribute to important social and economic policy debate. 

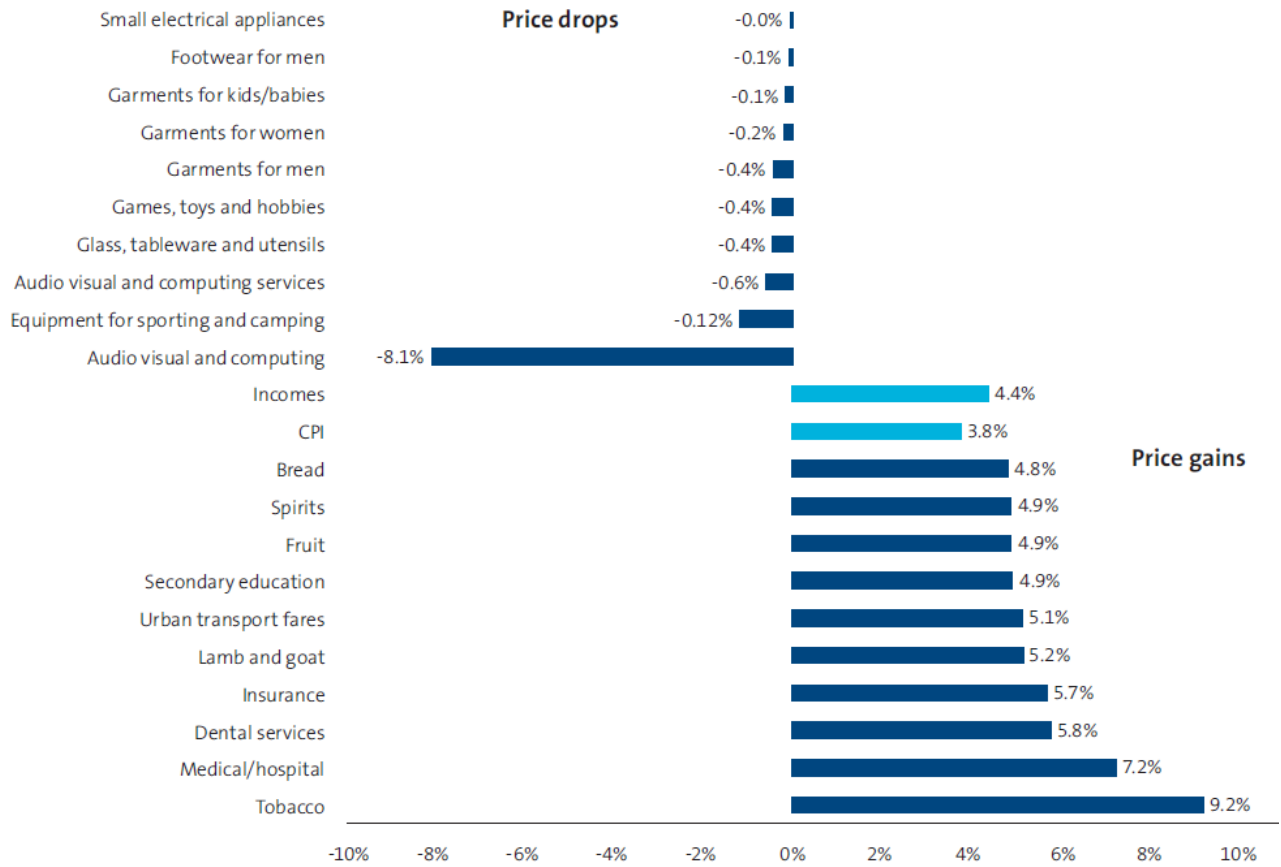
Media enquiries

Renae McGregor
AMP
Ph: 02 9257 6160
Mob: 0422 159 787

Ben Phillips
NATSEM, University of Canberra
Ph: 02 6201 2760
Mob: 0403 929 395

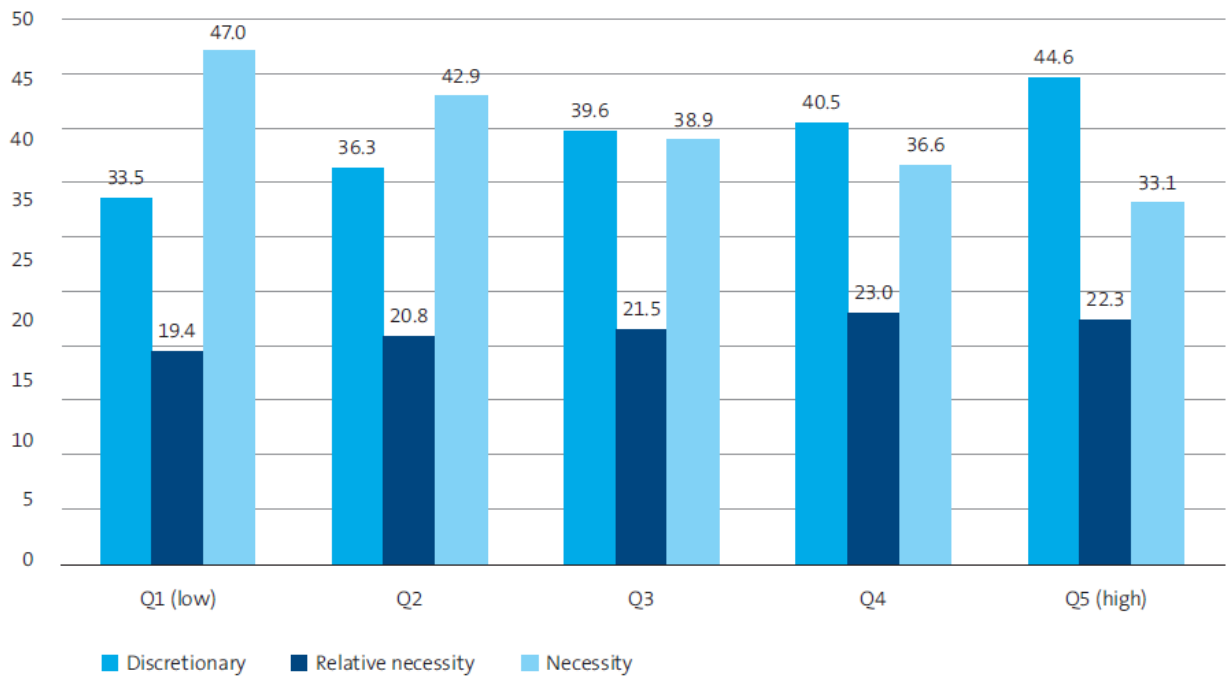
Appendix

Figure 3 - Top 10 and bottom 10 price movers
(ABS Expenditure Class)
Average annual change 1984–2011 %



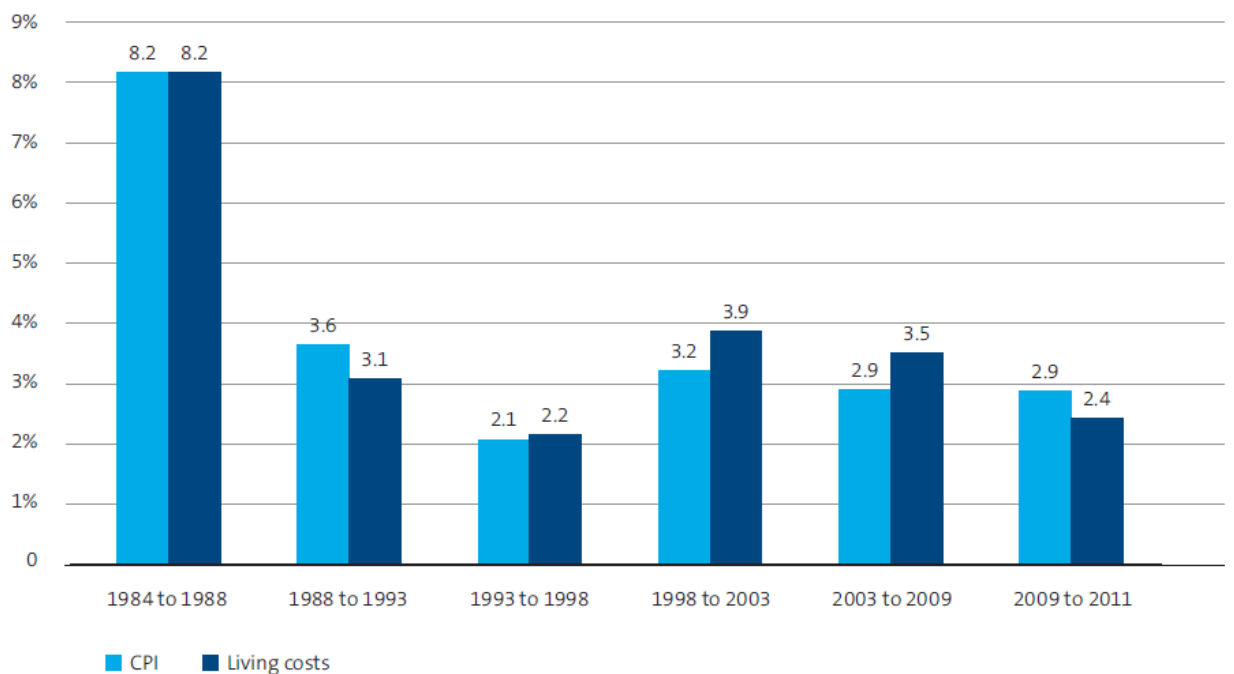
Source: ABS CPI.

Figure 4 - Discretionary vs necessary expenditure by Income Level, households 2009–10 %



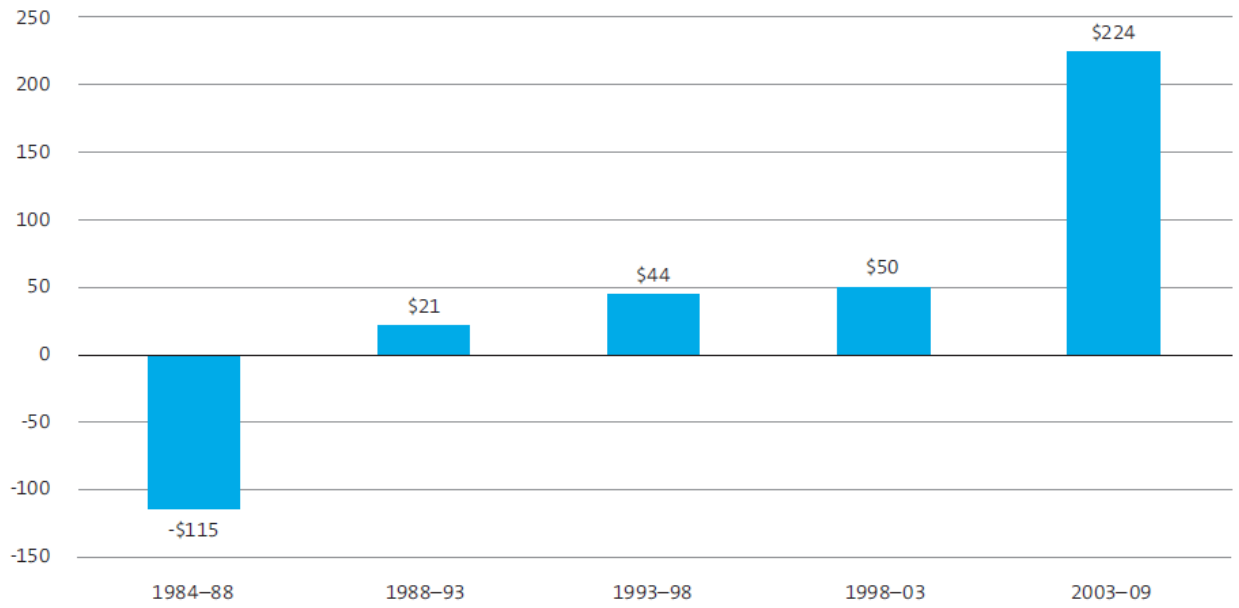
Source: Author’s calculations from ABS Household Expenditure Survey 2009–10.
 Note: Q1 refers to low income, Q2 refers to high income

Figure 11 - CPI and Living Cost Indexes - annual growth %



Source: ABS and NATSEM.

Figure 13 - Income gains above the cost of living, \$0 pw, households



Source: ABS and NATSEM.

Table 6 - Cost of Sydney 'basket of goods' - capital city comparison

December 2011 per annum	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Food	\$11,074	\$11,285	\$10,745	\$10,592	\$11,281	\$11,515	\$12,247	\$10,931
Alcohol and tobacco	\$4,515	\$4,626	\$4,580	\$4,556	\$4,981	\$5,067	\$5,141	\$4,758
Clothing and footwear	\$2,673	\$2,816	\$3,040	\$2,879	\$2,848	\$2,910	\$2,652	\$2,793
Housing								
Rent	\$4,769	\$3,598	\$4,132	\$2,936	\$3,628	\$2,660	\$3,950	\$4,981
Electricity	\$1,166	\$1,018	\$1,050	\$1,077	\$846	\$946	\$794	\$963
Other utilities	\$801	\$872	\$890	\$793	\$820	\$722	\$712	\$881
Other housing	\$2,357	\$2,643	\$2,271	\$2,409	\$2,594	\$2,447	\$2,321	\$2,494
Mortgage interest	\$4,086	\$2,952	\$2,860	\$2,415	\$3,046	\$2,087	\$4,024	\$3,344
Household contents and services	\$6,793	\$6,493	\$6,422	\$6,444	\$6,651	\$6,838	\$6,136	\$6,826
Health	\$3,559	\$3,829	\$3,378	\$3,734	\$3,439	\$3,619	\$3,582	\$3,671
Transportation	\$9,356	\$8,701	\$8,633	\$8,855	\$8,793	\$8,557	\$8,905	\$9,296
Communication	\$2,362	\$2,355	\$2,357	\$2,339	\$2,356	\$2,375	\$2,375	\$2,380
Recreation	\$8,475	\$8,412	\$8,460	\$8,315	\$8,355	\$8,419	\$8,075	\$8,442
Education	\$1,970	\$1,961	\$1,885	\$2,078	\$1,988	\$1,850	\$1,539	\$1,668
Financial and insurance services	\$7,471	\$7,425	\$7,493	\$7,561	\$7,603	\$7,381	\$7,727	\$7,598
Total cost	\$71,426	\$68,968	\$68,198	\$66,983	\$69,227	\$67,391	\$70,178	\$71,024
Cost index	1	0.966	0.955	0.938	0.969	0.944	0.983	0.994
Income index	1	0.973	0.994	0.895	1.040	0.829	1.060	1.230
Standard of living comparison	1.000	1.008	1.041	0.954	1.073	0.879	1.079	1.237
2011 comparison with Sydney								
Food		212	-329	-482	207	441	1,173	-143
Alcohol and tobacco		111	65	41	466	552	626	243
Clothing and footwear		143	366	206	174	236	-22	119
Housing								
Rent		-1,170	-636	-1,832	-1,140	-2,109	-818	212
Electricity		-148	-116	-89	-320	-220	-372	-203
Other utilities		71	90	-7	20	-79	-88	80
Other housing		286	-85	52	237	90	-36	138
Mortgage interest		-1,135	-1,227	-1,672	-1,040	-1,999	-63	-743
Household contents and services		-300	-371	-349	-142	45	-657	33
Health		271	-180	175	-120	60	23	112
Transportation		-655	-723	-501	-563	-799	-451	-60
Communication		-7	-4	-22	-5	14	13	18
Recreation		-63	-15	-160	-120	-56	-400	-33
Education		-9	-84	108	18	-120	-431	-302
Financial and insurance services		-46	22	90	132	-90	256	127
Total		-2,439	-3,228	-4,442	-2,198	-4,034	-1,247	-401
Rent and mortgage		-2,305	-1,863	-3,504	-2,181	-4,108	-881	-531
Other		-135	-1,365	-938	-17	74	-366	129

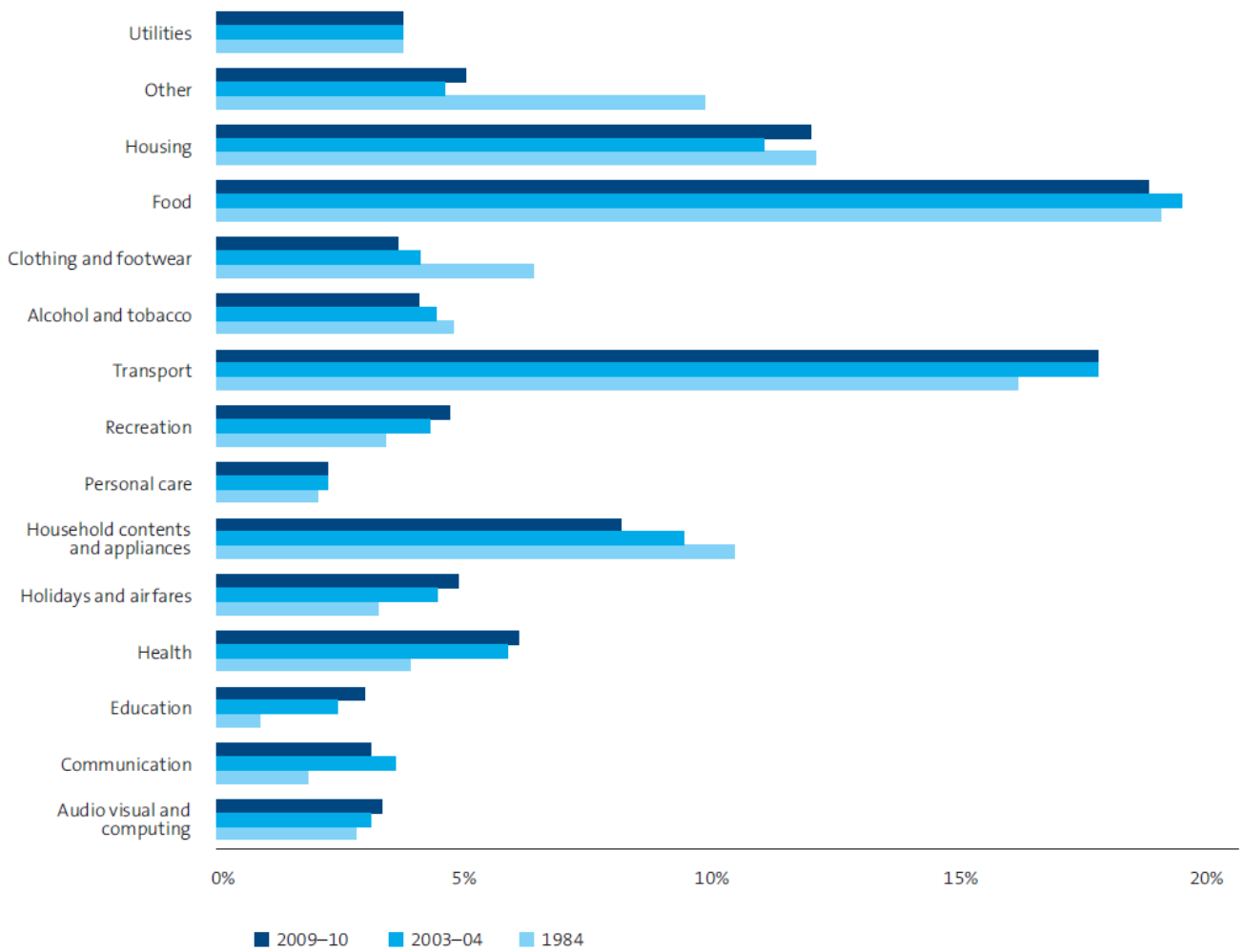
Source: ABS and NATSEM calculations.

Table A1 - CPI price inflation by expenditure class

Rank (out of 86)	Top 10 inflation	1984 to 2011 %	Rank	Top 10 deflation	1984 to 2011 %
1	Tobacco	978	1	Audio visual and computing	-90
2	Medical/hospital	560	2	Equipment for sporting and camping	-27
3	Dental services	356	3	Audio visual and computing services	-15
4	Insurance	346	4	Glass, tableware and utensils	-11
5	Lamb and goat	289	5	Games, toys and hobbies	-11
6	Urban transport fares	288	6	Garments for men	-11
7	Secondary education	264	7	Garments for women	-5
8	Fruit	262	8	Garments for kids/babies	-4
9	Spirits	261	9	Footwear for men	-2
10	Bread	256	10	Small electrical appliances	-1
Notable others					
11	Mortgage interest	256	12	Major household appliances	0
13	Electricity	253	13	Footwear for babies/kids	0
17	Rents	223	16	Footwear for women	11
23	Petrol	208	18	Books	16
	Household income	217			

Source: ABS CPI December 2011 and NATSEM.

Figure 14 - Expenditure shares (1984, 2003–04, 2009–10), % total expenditure



Source: ABS and Household Expenditure Survey and NATSEM.