

Department of Treasury and Finance

The Treasury Building
21 Murray Street, HOBART, Tas 7000
GPO Box 147, HOBART, Tas 7001 Australia
Telephone: (03) 6233 3100 Facsimile: (03) 6223 2755
Email: secretary@treasury.tas.gov.au Web: www.treasury.tas.gov.au



Doc reference 12/37249

Mr S Donnelly
Secretary
Select Committee on the Cost of Living
House of Assembly
Parliament House
HOBART TAS 7000

Dear Mr Donnelly

Select Committee on the Cost of Living

I refer to your letter dated 10 February 2012 seeking information for the Select Committee on the Cost of Living.

To assist the Select Committee in its deliberations, Treasury considers it would be useful to inform the Committee on income and expenditure patterns of Tasmanian households over time to identify any trends that relate to cost of living issues. Accordingly, the information below compares the latest Household Expenditure Survey undertaken by the Australian Bureau of Statistics in 2009-10 with the previous survey conducted in 2003-04.

A key finding is that the ABS data do not indicate that a large number or share of low income Tasmanian households face worsening cost of living pressures. The ABS estimates that household income for low income households increased by more than their expenditure between 2003-04 and 2009-10 in real terms (22.4 per cent growth in income compared with 12.2 per cent growth in expenditure). That is, the growth in income, allowing for the effects of inflation, has been around twice the growth in expenditure for the average low income Tasmanian household.

Further details about the 2009-10 Household Expenditure Survey and the key trends are provided below.

Household income and expenditure – key trends from 2003-04 to 2009-10

The ABS estimated that Tasmanian households spent an average of \$1 064 each week on goods and services in 2009-10, an increase of 40.2 per cent (or \$305 more) in nominal terms since 2003-04.

Part of the increases in household expenditure in 2009-10 can be attributed to inflation. Over the six years between 2003-04 and 2009-10, the price of goods and services as measured by the Hobart Consumer Price Index rose by an estimated 18.7 per cent.

To examine real growth of household income and expenditure over the six year period, Treasury has removed the inflation rate from the survey data, using the percentage change in CPI over the period. This allows the examination of changes in income and spending in conjunction with changes in prices to determine how they have changed in real terms over time. CPI changes provide an upper limit on the increase in the cost of living, as, in practice, households substitute for cheaper goods and services and alter their consumption mix to adjust to price changes. For example, when the price of bananas rose to around \$16 per kilogram in 2010, households switched to cheaper alternative fruit.

The ABS estimated Tasmania's household weekly average gross income was \$1 305 in 2009–10. The State's average household weekly gross income (up 22.5 per cent) increased by more than weekly expenditure (up 18.1 per cent) in real terms from 2003–04 to 2009–10.

Tasmanian low income households – defined for these purposes as those households in the lowest two income quintiles – were estimated by the ABS to have spent an average of \$677 each week on goods and services in 2009–10, an increase of 12.2 per cent in real terms since 2003–04. Over the same period, average gross weekly income for these households was estimated to be \$602 in 2009–10, up by 22.4 per cent in real terms, similar to growth for the State as a whole.

The ABS's finding that Tasmania's average household incomes have increased more than their average expenditure over the six year period contradicts anecdotal claims that the cost of living pressure in Tasmania have been rising and that Tasmanian households are finding it more difficult to cover their expenses. This is particularly the case for low income households, on average, though it is recognised that these are average trends only and a number of low income households may be experiencing severe financial pressures.

It was also estimated by the ABS that the State's mean household net worth (wealth) increased by about 38.9 per cent in real terms over the period, higher than an estimated 29.7 per cent increase in household wealth in real terms nationally. Tasmania's housing boom lagged behind the mainland states, with the State's housing boom taking off from around 2003. This is likely to play a part in explaining why Tasmania had a higher wealth growth rate than nationally from 2003–04 to 2009–10, as dwellings are households' principal asset.

Tasmania's low income households' wealth was estimated by the ABS to have increased by 37.8 per cent, slightly lower than the State as whole, but much higher than growth for low income households nationally (17.9 per cent). About 45 per cent of low income households in the State were home owners without a mortgage.

Household expenditure by category

The level and pattern of household expenditure differ significantly between households, reflecting characteristics such as income, wealth, household composition, size and location. To further understand household spending patterns, it is useful to classify the ABS expenditure into two broad groups: essential goods and services, and discretionary goods and services.

As the ABS has no specific definition for essential and discretionary goods and services, the classification method applied in the report titled 'A Cost of Living Strategy for Tasmania' is used. Essential goods and services comprise current housing costs, domestic fuel and power, food and non-alcoholic beverages, clothing and footwear, medical care and health expenses and transport. The discretionary goods and services include the ABS categories of alcohol beverages, tobacco products, household furnishings and equipment, household services and operation, recreation, personal care and miscellaneous goods and services.

According to the HES data, average household estimated expenditure on essential goods and services in Tasmania increased from 60.1 per cent in 2003-04 to 61.9 per cent in 2010-11. For low income households, the estimated share also increased slightly from 62.2 per cent in 2003-04 to 63.2 per cent in 2009-10.

The proportion of spending on domestic fuel and power in Tasmania in 2009-10 was almost unchanged from six years earlier, despite the prices of electricity and some types of fuel having increased significantly over the period. In 2009-10, the ABS estimated that Tasmanian households spent an average of \$38 each week on domestic fuel and power, accounting for 3.6 per cent of total expenditure. As average household income increased by more than household expenditure from 2003-04 to 2009-10, this implies that domestic fuel and power expenditure was a smaller share of average income in 2009-10 than six years earlier.

Over the six years in Tasmania, the ABS estimates that the expenditure categories that experienced the largest percentage increase in real terms for low income households were medical care and health expenses (up 45.1 per cent), followed by personal care (up 32.5 per cent) and recreation (up 30.6 per cent). These increases in weekly household expenditure were substantially greater than the increase in domestic fuel and power (7.7 per cent).

In summary, the ABS data suggests that real income and wealth of Tasmanian households, and particularly for low income households, have been increasing on average in the six years to 2009-10.

Should you have any queries about this information, please contact Chris Lock on (03) 6233 2737 or email Chris.Lock@treasury.tas.gov.au.

Yours sincerely


Martin Wallace
Secretary

16 March 2012