

Living costs update

BACKGROUND:

As part of its social monitoring The Salvation Army's Social Policy and Parliamentary Unit undertakes a small scale shopping survey and calculates a "Low Income CPI".

The shopping survey is based on the cost of the same basket of goods from the same South Auckland supermarket and has been conducted on a quarterly basis since June 2008. This basket of goods includes a range of food, household cleaning and personal hygiene items which a typical low-income household might purchase. For every item the best value option at the time of the survey is chosen. To account for the fact that different households consume items at different rates, this basket of goods is assessed against what is judged to be the typical needs of a household with two adults and three school age children and a household of one adult and two school age children.

The "Low Income CPI" is based on Statistics New Zealand's Consumer Price Index. The Unit's index uses a smaller number of the groups of commodities and services reported in Statistics New Zealand's survey and weighs these differently. This different weighting is to take account of the fact that a low income household will have different spending patterns to the middle income household which is notionally represented by the "All Groups" index that is most often reported in the media. This alternative weighting of expenditures was developed in consultation with family budget advisors working for The Salvation Army. The "Low Income CPI" is reported for the last five years and is compared against changes in the "All Groups" CPI to assess the relative fortunes in terms of living costs of typical low income and middle income households

THE RESULTS FOR JUNE 2011 QUARTER

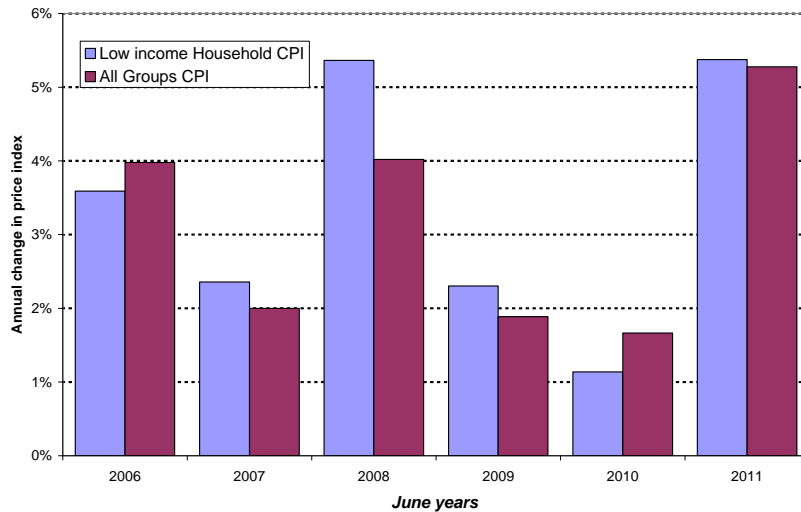
The shopping survey for the June quarter showed a slight decrease of between 1.5% and 2.4% over the previous quarter despite the costs of a small number of fresh food items such as tomatoes rising in price. For the year to the end of June 2011 the costs faced by the two household types considered in the survey rose between 8.2% and 9.1%. The actual figures are reported in Table 1 below.

Table 1: Costs of a typical low-income household's supermarket purchase (\$'s)

Month of survey	June-08	Jun-09	Jun-10	Oct-10	Apr-11	Jul-11
TYPE of HOUSEHOLD						
2 adults + 3 children	234.01	249.69	261.54	272.75	289.67	285.32
1 adult + 2 children	136.30	145.25	153.18	160.47	169.97	165.81

Both the All Groups CPI of Statistics New Zealand and the Unit's Low Income CPI rose 1% over the June 2011 quarter and by 5.3% and 5.4% respectively over the year to 30th June 2011. Annual changes since June 2006 in these indices are shown in Figure 1 below.

Figure 1: Annual changes in consumer price indices 2006-2011



COMMENT:

The recent quarterly decline in the costs of groceries in the sample basket (or trolley) used in the shopping survey is significant for two reasons. Usually the total cost of the sample trolley varies seasonally. This is because the cost of fresh fruit and vegetables reduces any overall increase in the March quarter due to the seasonal availability of these and subsequently contributes to increasing costs during the winter and spring quarters. This pattern is not apparent in the results for the June/July 2011 quarter suggesting perhaps that more or less static household incomes are putting pressure on supermarkets to moderate any price increases – at least in South Auckland where the survey is undertaken.

Secondly, the slight decline in grocery shopping costs runs against Statistics New Zealand's data which suggests that during the second quarter of 2011 food prices (as measured by the food groups CPI) rose by 1.1%. A breakdown of this index shows nil or very minimal increases in fresh food price despite the seasonal shifts from autumn to winter. This is consistent with the shopping survey outcome.

A significant difference in the cost of living experience of low income households does however emerge when trends from the two indicators are considered for the past 12 months. The cost of groceries has risen by 8 to 9% over the past 12 months while both the "All Groups" CPI and the Low-income Household CPI have risen by around 5.4%. These indices of course include other areas of expenditure such as energy and housing costs as well as groceries and this difference in composition helps explain some of the variance. Rents for example which make up 40% of the weighting in the low-income CPI have risen by less than 1.5% over the past year thus weighing down any overall increase.

Overall it does not appear that the fortunes of low-income households have been too different from those of middle income households at least in terms of living cost increases. The affordability of these increases does however depend on the changes in incomes across the income scale. Data from the Quarterly Employment Survey on income changes suggest recent increases (for the year to March 2011) of around 2.6% (in average hourly wages) and 4% in total weekly earnings. Clearly the recent cost of living increases show that most households have lost some ground over the past 12 months. This is so because while the GST increase was meant to have been offset by lower personal tax payments and higher benefit payments, only a small part of the recent cost/price increases can be explained by this GST increase. This is especially the case for price increases shown up in the shopping survey.