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Rising Costs and Vulnerable Households

INQUIRY ON THE COST OF LIVING IN AUSTRALIA

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10 March 2023

The Hon Jane Hume
Chair
Select Committee on Cost of Living
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Chair,

On behalf of the Economics Discipline at the Tasmanian School of Business and Economics, University of Tasmania and in collaboration with Anglicare Tasmania and Well Economics Analysis, I enclose a submission to the Inquiry on the Cost of Living in Australia. Our terms of reference - **The cost of living pressures facing Australians** focuses on food insecurity and housing insecurity impacting the vulnerable members of society.

Yours sincerely

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Submission to Select Committee on Cost of Living

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Acknowledgement of Country

The University of Tasmania pays its respects to elders past and present and to the many Aboriginal people that did not make elder status and to the Tasmanian Aboriginal community that continues to care for Country. We acknowledge the profound effect of climate change on this Country and seek to work alongside Tasmanian Aboriginal communities, with their deep wisdom and knowledge, to address climate change and its impacts.

The Palawa people belong to one of the world's oldest living cultures, continually resident on this Country for over 65,000 years. They have survived and adapted to significant climate changes over this time, such as sea-level rise and extreme rainfall variability, and as such embody thousands of generations of intimate place-based knowledge.

We acknowledge with deep respect that this knowledge represents a range of cultural practices, wisdom, traditions, and ways of knowing the world that provide accurate and useful climate change information, observations, and solutions.

The University of Tasmania likewise recognises a history of truth that acknowledges the impacts of invasion and colonisation upon Aboriginal people, resulting in forcible removal from their lands.

Our island is deeply unique, with cities and towns surrounded by spectacular landscapes of bushland, waterways, mountain ranges, and beaches.

The University of Tasmania stands for a future that profoundly respects and acknowledges Aboriginal perspectives, culture, language, and history, and a continued effort to fight for Aboriginal justice and rights paving the way for a strong future.

Contents

1. Introduction	1
2. Cost Pressures and Related Income Distribution	1
3. Financial Stress and Food Insecurity	5
4. Housing Pressures and Regionality	7
5. References	11

1. Introduction

In this submission, we argue that while all households face rising prices for the things they consume, **low-income households most need urgent relief**. For these households, who are the most vulnerable members of Australian society, **food security and housing affordability** are the apparent factors impacting their rising cost of living.

First, we illustrate the interaction between low income, low assets, and financial stress. Phillips (2022) demonstrates that for most of the 'living cost' policies put forward in the recent budget, **the primary beneficiaries are not vulnerable households** in the lowest income brackets. Instead, households in the highest income bracket appear to capture most of the benefits.

Reversing the growing inequality in asset ownership and disposable income will require a **concerted effort of political will**. For example, **short-term relief**, such as funding measures to improve food security and to increase the benefits rate for low-income households, would be most welcome. These short-term measures could be funded by reversing or postponing the proposed Stage 3 tax cuts. However, many factors underlying housing cost pressures call for **long-term responses**. Hence, the government's Housing Strategy Policy interventions need a coordinated approach at different levels of government and policy institutions to address housing affordability.

2. Cost Pressures and Related Income Distribution

The impact of cost pressure is intimately related to household characteristics. Therefore, the rising cost of living impact households in various ways, and these differences have important implications for policy responses. The differences can be analysed in terms of

- i. the source and level of household income,
- ii. household composition,
- iii. household expenditure patterns, and
- iv. whether the change in living cost is transitory or permanent.

The ABS Living Cost Index (LCI) measures out-of-pocket living expenses incurred by selected population sub-groups of Australian households. The LCI highlights that employee households have experienced the most significant change in living costs in the past few years. As Figure 1 shows, employee households, many of whom are mortgagees with families, benefited from the continuous cut in the cash rate by RBA and cuts in childcare costs by Treasury during the pandemic. Recently there has been a sharp reversal of this trend, causing the employee households LCI to rise by 9.3% in the December quarter of 2022.

The LCI differs from the Consumer Price Index (CPI). The LCI records changes in the purchasing power of after-tax incomes of households. For example, the LCI includes rent and interest paid on mortgages, while the CPI includes new house purchases but does not include

mortgage charges. This distinction is essential when designing policy to alleviate the cost of living pressures, particularly for measures targeted towards specific household types.

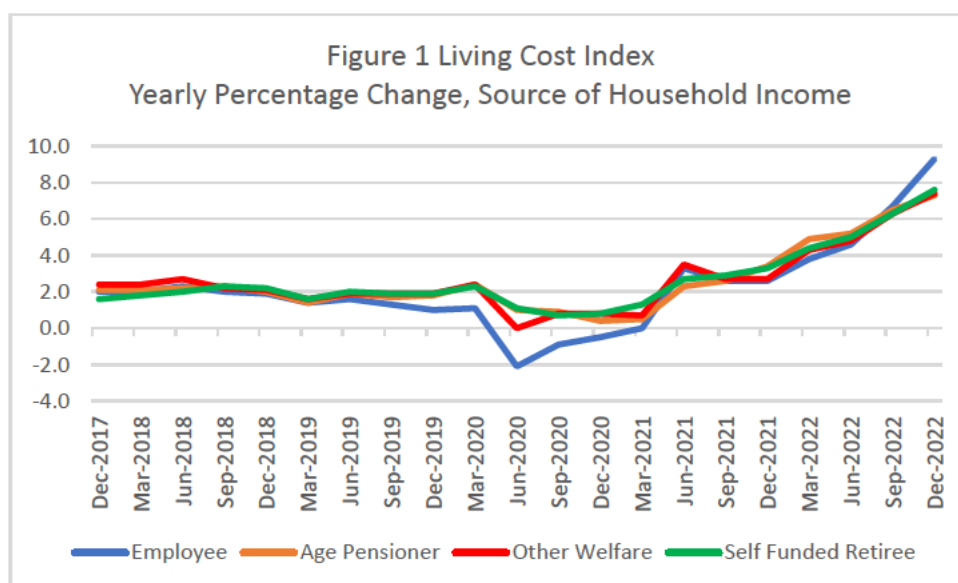


Table1: Expenditure Weights, Consumer Price Index and Living Cost Index

Group	CPI		LCI	
		Employees	Self Funded Retiree	Pensioner and Beneficiary
Food and non-alcoholic beverages	16.76	18.13	17.35	19.38
Alcohol and tobacco	9.01	9.9	9.14	10.19
Clothing and footwear	3.33	3.64	2.86	3.21
Housing	23.24	15.1	13.26	22.94
Furnishings, household equipment & services	9.16	9.8	10.81	8.64
Health	6.47	6.64	12.66	7.73
Transport	10.58	10.84	11.49	9.24
Communication	2.41	2.53	2.87	3.31
Recreation and culture	8.64	9.13	12.06	7.14
Education	4.63	4.8	1.38	1.96
Insurance and financial services	5.80	9.48	6.11	6.27

Source: ABS, Annual weight update of the CPI and Living Cost Indexes December 2022.

Table 1 shows that expenditure weights can differ markedly between household types and between the LCI and the CPI. For example, the most recent comparative data show marked differences in expenditure weights for housing. Pensioner and Beneficiary households spend 23% of their after-tax income on housing, while employee households spend just 15%. These weights will likely increase for both groups in recent months as mortgage interest rates and

rents have risen. On the other hand, the CPI weight on housing has remained relatively unchanged over the last three years.¹

Cost pressures are more acute for low-income households than higher income households. Table 2 provides recent data on the distribution of Australian disposable income for equivalised households. **Equivalised income** is an income adjusted by applying an equivalence scale to facilitate the comparison of income levels between households of different sizes and compositions. It is a 'per person' measure and indicates the income a single person requires to deliver the same level of well-being as if that person was in a multiple-person household.

Table 2 shows that differences in gross savings are striking. The average per annum consumption spending of a household in the lowest quintile is \$5,000 more than their disposable income. Since it is an average, not all households in this quintile would be in this precarious position. Some would have positive savings, while others would have a larger dissaving. In-kind transfers for this quintile (\$48829) are almost as large as their gross disposable income; however, these transfers are unavailable for actual consumption spending. A third of households in this group are also in the lowest wealth quintile. **So, for many of these households' dissaving implies acquiring more debt**². Illustrative case studies are provided below.

Table 2: Equivalised Income, Consumption and Saving

	Income Quintiles, 2021-22				
	First	Second	Third	Fourth	Fifth
Gross disposable income	54,134	86,689	117,495	154,434	288,311
Final consumption expenditure	59,904	74,311	96,621	117,796	177,037
<i>Gross saving</i>	-5,769	12,378	20,874	36,638	111,274
Social transfers in kind	48,829	47,879	39,896	31,133	26,388
Health	16,549	19,497	17,332	14,800	14,346
Education	13,984	12,517	12,112	10,421	8,588
Other	18,296	15,865	10,452	5,913	3,454
Adjusted disposable income	102,964	134,568	157,391	185,568	314,699
Actual individual consumption	108,733	122,189	136,517	148,930	203,425

Source: ABS, Australian National Accounts, Distribution of Household Income, Consumption and Wealth

Significantly, households' financial stress indicates the cost of living pressures. As Figure 2 shows, households in the lowest wealth and income quintiles face significantly more financial stress than those in higher quintiles. For example, a rise in the heating bill for someone in the highest income quintile may be significant in dollar terms but is unlikely to be a source of financial stress. Therefore, **alleviating the cost of living pressures requires easing financial stressors on low-income households**.

¹ Source: ABS, Annual weight update of the CPI and Living Cost Indexes, December 2022.

² In these data, the ABS excludes the first two percentiles of the income distribution; to that extent, the number of households facing severe economic difficulty is understated.

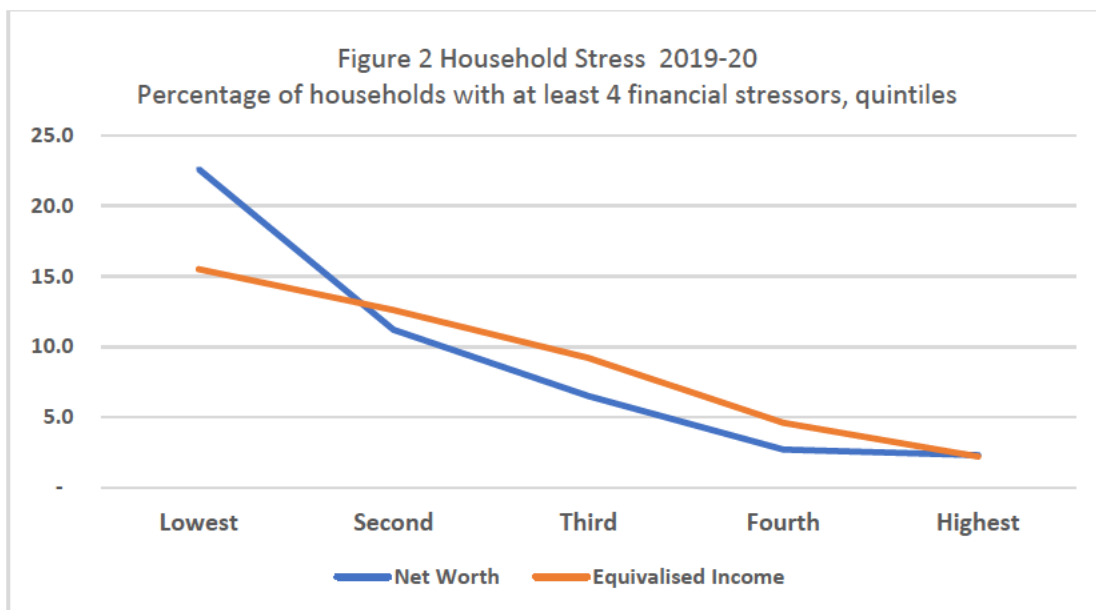
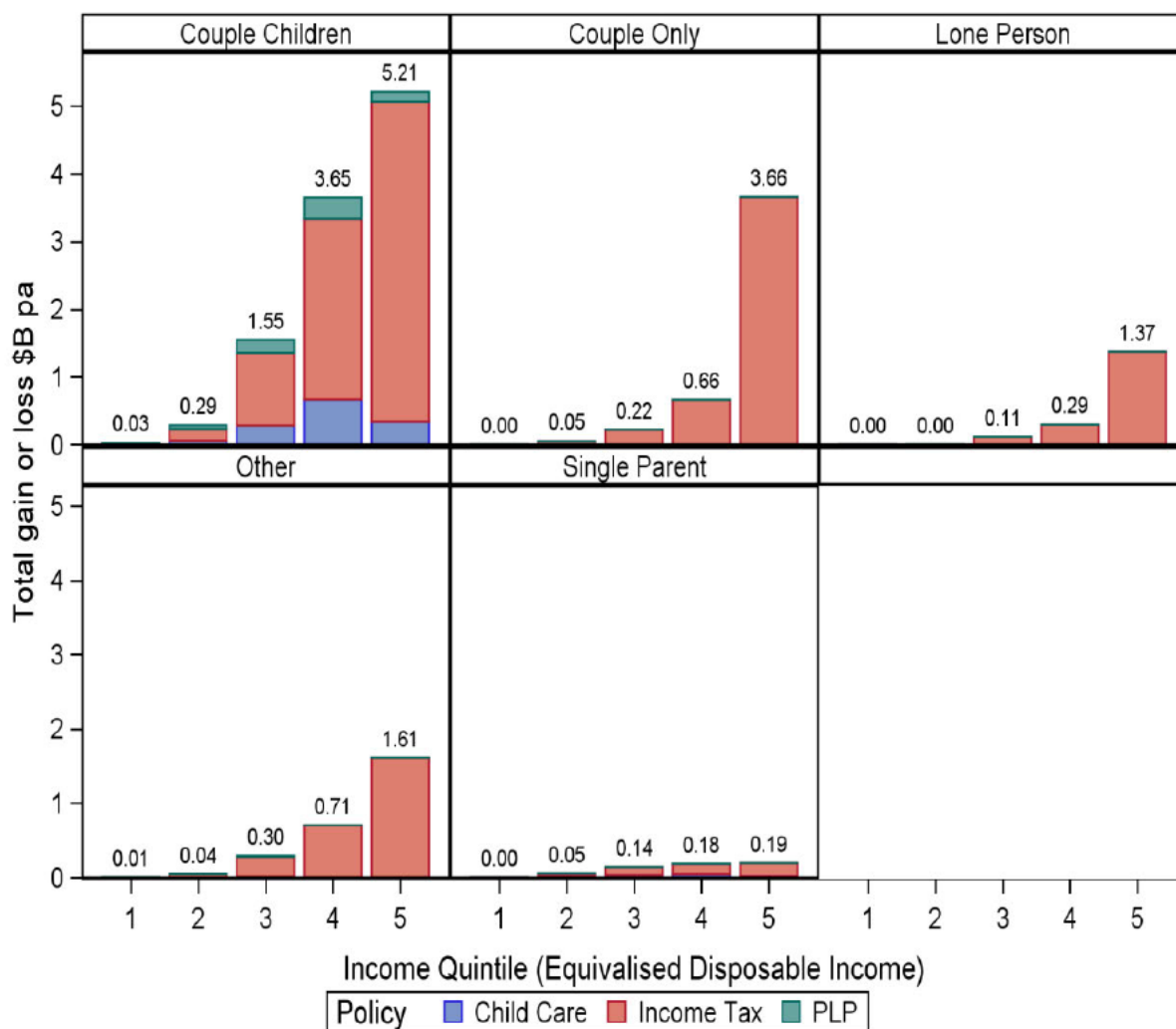


Figure 3: The distribution of benefits by income quintile for various household types



Source: Phillips (2022), 'Cost of Living Budget Package: Distributional Modelling', CSRM Research Note, 2/22.

The most recent Budget introduced several measures to ease the cost of living pressure. Amongst them, the **three most important measures were paid parental leave, increased childcare subsidy and stage three tax cuts**. When these measures are fully implemented by 2024-25, they will **do little to benefit low-income households facing the most severe financial stress**. Figure 3 shows the distribution of benefits by income quintile for various household types. For example, a couple with children who falls in the lowest quintile get no benefit from these 'living cost' measures. A similar picture emerges if the distributional impact of Federal tax expenditures is considered. For example, the budgetary costs of two of the most significant tax expenditures, negative gearing and the capital gains discount, are directed toward the top income quintiles. Clearly, **to have any likelihood of relieving cost of living pressures on the most vulnerable households, the heavily skewed tax and transfer system requires urgent reform**.

3. Financial Stress and Food Insecurity

Food insecurity is defined as the limited or uncertain availability of nutritionally adequate and safe foods or the ability to acquire acceptable food in socially acceptable ways (Radimer, 2002). There are two different levels of food insecurity (Burns, 2004):

- i. **Insecure but without hunger:** There may be anxiety or uncertainty about food access, leading to poor nutritional quality food consumption. Though regular consumption of food occurs, it affects essential nutrition and care.
- ii. **Insecure with extreme hunger:** where meals are often missed or inadequate.

According to the Food Bank Hunger Report, 2022, **over 3.3 million households** (33%) in Australia have **struggled to meet their food needs** in the last 12 months. Of these, 21% experienced severe food insecurity, while 12% experienced moderate food insecurity. **64% of these food-insecure households are due to rising living costs**. Rising prices of food and groceries mainly drive it (49%), followed closely by energy (42%) and housing (33%) (Food Bank Hunger Report, 2022).

The assumption that food insecurity affects only those unemployed or homeless is incorrect. The data shows that over half of food-insecure households had someone in paid work, while a third of households with mortgages have experienced food insecurity. In addition, 32% of severely food-insecure households are those with children.

A recent report from the Tasmania Project³ at the University of Tasmania provides an alternative measure of food insecurity with three categories of severity:

- i. **Marginal food security:** Worry about running out of food and limited food selection due to a lack of money.

³ Kent et al. (2022) [TTP8-Food-insecurity.pdf \(utas.edu.au\)](https://utas.edu.au/TTP8-Food-insecurity.pdf)

- ii. **Low food security:** Compromise in quality and quantity of food due to a lack of money for food.
- iii. **Very low food security:** Missing meals, reducing food intake, and, at extremes, going day(s) without food.

The Project reports that, based on a recent Tasmanian household survey, **50.6% of Tasmanian households have experienced some level of food insecurity** over the past month and out of this, 7% have marginal food security, 23% have low food security, and 20% have very low food security.

Food security is an essential social determinant of health and a significant public health concern at national and state levels. The **rising cost of living and poor nutrition could harm financially stressed households** and the public health system in the short and long term. The risk of obesity is higher among those who experience moderate food insecurity due to their tendency to purchase cheaper food with lower nutritional content. These disadvantaged groups also experience a higher mortality rate, heart disease, type-2 diabetes and some cancers (Turrell & Kavanagh, 2005; Gill et al., 2009; Browne et al., 2009; Rosier, 2011).

Food insecurity is not only exacerbated by inequalities in income but also due to the resulting poor health outcomes. It reduces income-earning prospects for those who suffer from it, **worsens income inequalities, and deteriorates health and social inequalities**. These inequalities could persist across generations.

Tasmania has a population of 571,500, approximately 2% of the national population. Commentators regularly describe the population as the country's oldest, sickest and poorest. The average weekly wage for Tasmanians in 2022 was \$1,568.40, while the Australian average is \$1,807.70.⁴ However, over one-third of Tasmanians rely on government payments for most of their income. **Cost of living pressures, primarily rent/mortgage, utilities, fuel and food costs, significantly impact these people**. Many must choose between managing debt repayments, including mortgages, and essentials such as food and medical expenses.

Although Commonwealth funded Financial Counsellors, such as those employed by Anglicare Tasmania, can assist people to create and manage a budget, develop financial literacy skills, and, if necessary, advocate with creditors for either temporary or longer-term debt relief, the longer-term underlying issues are still at play. Importantly, **inadequate income was the cause of financial difficulty for 31% of Anglicare Tasmania's financial counselling clients in 2022**. Their income is insufficient to meet even their basic living expenses.

To the extent that food insecurity arises from transitory factors such as high prices caused by floods, a transitory response such as an immediate boost to funding for food banks is appropriate. However, **many factors underlying food insecurity call for a long-term response, and these include policies to alleviate family violence, housing insecurity, and access to health services**.

⁴ Source: ABS, Average Weekly Earnings, November 2022.

Regarding government policy's immediate impact, it is essential to note that inadequate income and the rising cost of living pressures are important indicators of financial stress (see Figure 2 above) and food insecurity.

Measures which the Inquiry could carefully consider include the following:

- i. Increases in income support for beneficiaries and low-income households.
- ii. Boost funding for food banks.
- iii. Support for programs by Federal and State governments directed towards providing information, referral and or encouragement to participate in available community programs.
 - Community gardens: plots of land set aside within a community where community members may grow vegetables and fruits.
 - Promotion of local markets or lower-cost retail options for food purchasing.
 - Bulk buying through community kitchens.
 - School breakfast clubs.

4. Housing Pressures and Regionality

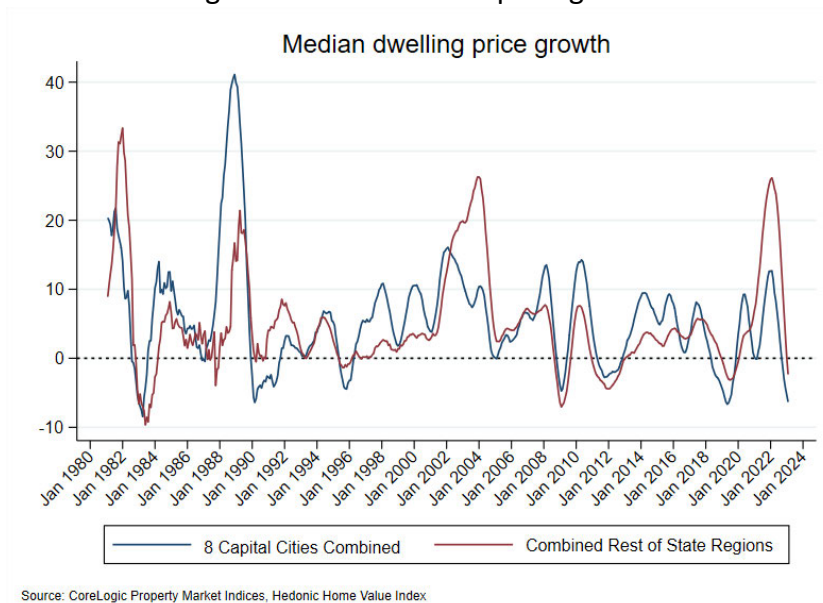
The cost of living in Australia, measured by inflation or exchange rates, did not increase much during pre-pandemic times. The inflation rate measured by CPI has stayed mostly within the target range (2% to 3%) since early 1991 up until 2020, and the exchange rate has been relatively stable with few small-scale jumps. However, as discussed under Section 2, **the cost of living, when measured by the cost of housing, has been high since the mid-2000s** for renters, first-home buyers, and owner-occupiers with a mortgage.

Figure 4 shows that median dwelling (houses and units) prices have been growing for the most part between 1996 and 2008, and between 2012 to 2018, with a strong surge since the onset of the pandemic in 2020. Consequently, the household debt-to-household-disposable-income ratio has almost doubled in the last 30 years. The ratio of housing prices to household disposable income was above four in the late 2000s, increased to five in the 2010s and reached six during the Covid-19 pandemic period.⁵

Figure 5 shows the growth of median rents for the capital cities that experienced higher rental growth in the last ten years. The surge in rental prices, particularly in Hobart, has been strong even during the pandemic. As a result, the rental affordability index (RAI) has been declining since 2021. **Over the past four years, Greater Hobart has continued to be Australia's least affordable capital city for the average rental households measured by each city.**

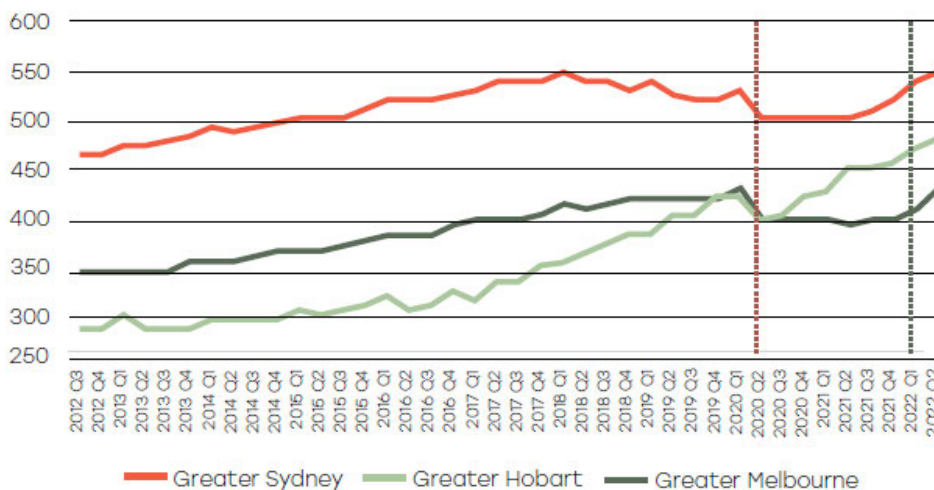
⁵ Reserve Bank of Australia, Chart Pack, Graphs on the Australian Economy and Financial Markets <https://www.rba.gov.au/chart-pack/>, accessed 8 February 2023.

Figure 4: Median house price growth



Source: CoreLogic Property Market Indices, Hedonic Home Value Index

Figure 5: Median rental rates – Sydney, Melbourne and Greater Hobart (2012-2022)



Source: SGS Economics and Planning, 2022

The rising pressure on rental markets is concerning. The market is experiencing low vacancy rates while demand-side pressures are expanding. **On average, rents in Australia have increased by 10.1% annually in January 2023, after a peak of 10.2% in December 2022.**⁶ There is little evidence of additional private rental supply. Rental markets are incredibly tight, with vacancy rates around 1% or lower across many parts of Australia. For example, Perth, Adelaide and Hobart vacancy rates are between 0.5% and 0.6%. **This environment will likely bring further rent rises and worsening social issues associated with housing affordability.**

⁶ CoreLogic, Monthly Housing Chart Pack, February 2023.

The rental situation is a complex and wicked issue caused by tight supply and growing demand. Rising rentals and house prices and associated indebtedness are likely to intensify the cost of living pressures in two ways:

- i. For many recent home buyers, unanticipated rises in mortgage interest rates will severely strain household budgets.
- ii. Rising rentals from a supply shortage will further pressure low-income households.

Recent data indicate that low-income households are already facing an unaffordable rental market. As Table 3 shows, single occupancy for a one-bedroom dwelling is beyond the reach of many single-age pensioners and most Jobseekers. As a result, ‘solutions’ such as those reported to an Anglicare housing support worker for Kylie (name changed) are increasingly common, as are sleeping rough in tents or cars.

Kylie and her two children have been temporarily housed in a shelter. During her time-limited stay, Kylie and her support workers have been unsuccessful in finding housing for herself and her children that she can afford. Their only option on leaving the shelter was to move in with her mother, who lives in a two bedroom rental property which already houses four people.

Table 3: Rental Affordability

	The proportion of Income required to rent a single-bedroom dwelling	
	Single Pensioner (Annual income \$35,571)	Jobseeker (Annual income \$21,320)
Greater Sydney	69%	116%
Rest of NSW	43%	72%
Greater Melbourne	50%	84%
Rest of VIC	37%	61%
Greater Brisbane	53%	89%
Rest of QLD	56%	94%
Greater Adelaide	42%	71%
Rest of SA	29%	48%
Greater Hobart	48%	80%
Rest of TAS 3	35%	59%
ACT	70%	117%

Source: SGS Economics and Planning, Rental Affordability Index, November 2022.⁷

Safe housing is considered a fundamental human right by the United Nations.⁸ Many people in Australia suffer from inadequate housing due to unaffordability and inaccessibility.

⁷ [Rental-Affordability-Index_Nov_2022_low-resolution.pdf \(sgsep.com.au\)](#)

⁸ See the homepage of the UN Special Rapporteur on adequate housing as a component of the right to an adequate standard of living

Housing has also become a form of wealth. A home is the household's primary asset, and a mortgage is commonly the most significant debt held by the household. For this reason, rising house prices can exacerbate the inequality between homeowners and renters. Moreover, housing is a complex commodity, and as highlighted by Maclennan et al. (2021), **housing market choices have substantial consequences for health, wealth, lifestyle, social networks and job opportunities**. The COVID-19 pandemic and GFC confirm that housing market fluctuations and household debt are strongly linked to macroeconomic outcomes and performance affecting people's wellbeing. **Addressing the issues and pressures around housing the population should be a priority.**

In an inflationary environment, the Australian government can better respond to the pressures in the housing markets by switching away from demand-driven efforts, such as mortgage deposit guarantees and homeowner grants to more supply-driven efforts, such as the social and private supply of rentals. While this can be in the form of new stock, it can also mean appropriate incentives to use existing private dwellings as affordable, long-term private rental accommodations instead of being used for short-stay accommodation or for other purposes.

The government's Housing Strategy Policy interventions must follow a coherent system-wide strategy that is quantifiable and measurable. Many competing housing objectives exist, including reducing homelessness, constructing better sustainable housing and more affordable homes, stabilising housing costs, social housing investment, access to credit, and expanding homeownership. Can all these be measured in real-time and targeted simultaneously? The achievement of some of these outcomes may unintentionally curtail the accomplishment of others.

Better coordination is vital if the unintended consequences of the current housing policy are to be avoided. For example, during the Covid-19 pandemic, APRA, state, and federal governments adopted policies strongly urging first-home buyers (many of whom had very small deposits) to enter the housing market. However, the subsequent policy reversal by the Reserve Bank has left many households exposed to repayment risk. This cohort is now the centre of attention in the cost of living discussion, but it has roots in policy missteps in the last few years.

Finally, system difficulties and policy inadequacies or absences must be acknowledged, and the Commonwealth Government policy choices must be coordinated. At the state and local government levels, issues concerning inadequate social housing delivery strategies, poor strategic planning and delivery of land use change, infrastructure and other services must be recognised.⁹ Coordination is also needed across monetary, fiscal, taxation, and immigration policies. **The challenge for Housing Strategy Policy is to coordinate the different levels of government and policy institutions to address housing affordability and still provide place-based solutions.**

https://www.ohchr.org/sites/default/files/Documents/Publications/FS21_rev_1_Housing_en.pdf accessed 6 February 2023.

⁹ Many proposals have already been made, but few have been executed; see Maclennan et al. (2021) and The Australian Dream (2022).

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