



**TREASURER**

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12 FEB 2002

The Hon. David Hawker MP  
Chairman  
Standing Committee on Economics, Finance and Public Administration  
House of Representatives  
Parliament House  
Canberra ACT 2600

Dear Mr Hawker

The Government response to the recommendation of the House of Representatives Standing Committee on Economics, Finance and Public Administration to extend the coverage of the CPI to include regional Australia has been approved and will be tabled in Parliament at the next available opportunity.

A copy of the Government response has been attached.

Yours sincerely

PETER COSTELLO

**GOVERNMENT RESPONSE TO THE HOUSE OF  
REPRESENTATIVES STANDING COMMITTEE  
ON ECONOMICS, FINANCE AND PUBLIC  
ADMINISTRATION — REVIEW OF THE  
RESERVE BANK OF AUSTRALIA ANNUAL  
REPORT 1999-00 — INTERIM REPORT:  
THE WAGGA WAGGA HEARING**

## Introduction

In the biannual appearance of the Governor of the Reserve Bank of Australia before the House of Representatives Standing Committee on Economics, Finance and Public Administration (the Committee), questions were asked about whether the sample used by the Australian Bureau of Statistics (ABS) for the compilation of the Consumer Price Index (CPI) is representative. The RBA replied that this was a matter for the ABS.

In the interim report, the Committee noted that the CPI measures price changes in the spending patterns of all private metropolitan households, with the ABS defining metropolitan households as all the State capitals, Canberra and Darwin. The Committee then stated its belief that the CPI should be measured using a more representative sample that includes regional areas.

**Committee recommendation:** That the ABS investigate methods for ensuring the sample used for calculating the CPI includes regional areas and implement the appropriate changes to achieve this.

The Government's response to the Committee's recommendations is as follows.

**Response:** The Government agrees that the ABS should investigate the issue. Such an investigation will be incorporated in a review of CPI procedures to be undertaken by the ABS later this year. However, it is likely that there could be significant additional costs in extending the CPI to cover non-metropolitan households.

As the CPI measures changes in prices, and not the absolute level of prices, the inclusion of non-metropolitan households would not necessarily lead to significantly different CPI outcomes. While it is generally accepted that price levels in regional areas differ from those prevailing in the eight capital cities, it does not necessarily follow that price movements behave differently. For example, the ABS constructed a set of indexes for around 200 Australian cities and towns over the period 1960 to 1990. While these indexes were limited to food prices, they showed that, in the absence of major structural change, such as the opening or closing of a rail line, all areas exhibited similar price movements.

The geographical coverage of the CPI was last considered in the 13th Series Australian CPI Review in 1997. Out of that review, the ABS decided to continue to exclude non-metropolitan households, because of the substantial costs that would be involved. The CPI Review Advisory Group formed as part of this review supported this decision. The Group represented a broad range of CPI users, including the RBA, a number of Commonwealth and State Departments, the Australian Council of Trade Unions, the Australian Chamber of Commerce and Industry and the Australian Council of Social Services.