

The rising cost of living

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Without budgeting for it, Australians have been busily finding new ways to spend money and then complaining that the cost of living is getting away from them. How about blowing more than half a billion dollars a year on bottled water? A personal trainer, anyone? A barista on every corner and a corner for every barista. You don't have the iPad yet? I mean the latest iPad, of course.

Then there's international travel – previously a lifetime's aspiration, now an annual necessity, as unexceptional as the seaside camping ground of an earlier time. Heavens, not just travel but a whole "gap" year is normal. And we want to tell everyone about it all the time so we're buying more than one million mobile phones a month, most of them smart phones with which many of us will get into trouble managing data and call plans and end up paying a couple of grand a year to a telco.

Tell me about your runners, or joggers, or Xtrainers, or all three. Where Volley OCs were the all-encompassing top-of-the-line sandshoe, we now have chains of specialist stores devoted to annually refreshed lines of genetically engineered thong variants with hundred-dollar-plus price tags. Or two-hundred-dollar-plus. Even running "bare foot" has become expensive. And don't forget to buy and wear Skins when exercising and down a sports supplement drink upon returning.

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When we're done paying someone to encourage us to sweat, nearly a third of us sit watching Foxtel or Austar at home at an average cost of \$100 or more a month - \$1200 after-tax dollars a year to watch the rugby. Just as well we have the time to enjoy it since we started paying someone else to mow the lawn.

Cripes, we don't even do inexpensive bars of soap much anymore to wash the sweat off – it's plungers of liquid soap with extra kryptonite-reduction enzymes. It's no better than the old Sunlight or Cashmere Bouquet, might even be worse, and it certainly costs more both to buy and environmentally thanks to the packaging and requiring more water.

At least we're slowly getting smarter about smoking, but the genuinely stupid are still spending \$10 billion a year on cancer sticks. Yes, genuinely stupid – there's a strong correlation between smoking and lower IQ, lower educational attainment, lower income and a generally more miserable life, never mind that it's a shorter one. No, kiddies, smoking doesn't look cool, it's an indication that you're more likely to be an all round loser.

Ditto gamblers. The astounding \$180 billion or so we're on track to flutter this financial year – mainly on pokies - maintains Australians' title as the World's Biggest Mugs. By way of comparison, the Federal Government's individual and company income tax take in 2010-11 was only \$8 billion more. That an allegedly significant number of people could be suckered into campaigning to ensure the title is in no way threatened probably merits an insanity award in its own right.

And then tabloid and not-so-tabloid media and politicians, both government and opposition, reinforce our prejudices by telling us again that the cost of living is through the roof, that we're doing it tough and no doubt need help from the government. In the meantime, we desperately need lower interest rates so we can afford to go shopping again to save a retail sector that's been placed on the endangered species list. Oh, that's right – the consumer is supposed to be on strike.

Reality perceptions

No, it all doesn't really add up. Our perception of reality is highly selective. We remember the sticker shock of our last electricity bill, but forget the average household's power bill is about the same as the average Foxtel contract. We're appalled by the cost of water and sewerage, but don't think how much cheaper (and more useful) it is than gym memberships. And we all forget our last pay rise or pension increase.

Which is one of the reasons we're fortunate to have the Australian Bureau of Statistics to occasionally give us an objective view of reality.

Some parts of retail and retail in some parts have been doing it hard, as empty shops attest. Department stores with reductions in profit do not. Families on the fringes or people who even briefly fall from the income wagon – illness, unemployment, family tragedy, divorce – quickly discover that poverty remains real enough in the lucky country. But for the vast majority of us, the cost of living and consumer strike headlines are myths.

The second bit first: As the Reserve Bank has been trying to remind us often enough, the consumer isn't on strike, he or she is just spending a little differently while returning to longer-term saving patterns. Deputy Governor Ric Battellino did it most recently on Tuesday:

"After a 10–15 year period during which households increased their gearing and reduced their rate of saving, they have returned to a more conservative, and traditional, pattern of financial behaviour. Household credit growth has slowed to a rate in keeping with, or slightly below, the growth in household incomes; the saving rate has increased to a level that is more normal based on history and household spending growth has slowed from a rate that substantially exceeded household income growth, to one that, over the past year, has been broadly in line with income growth. Within total consumer spending, there appears to have been a shift away from spending on goods in stores to spending on services, particularly services such as overseas travel, eating out and entertainment. As a result, retail sales have been particularly weak."

Incomes are growing nicely and thus so is consumption, just sensibly within the bounds of the income growth unlike in the years of unsustainable credit growth before the GFC. For a variety of reasons, the stuff in some shops isn't competing as well as it used to with our many other temptations. Maybe the retail lobby would be better served campaigning against pokies instead of internet shoppers.

Living costs

As for the cost of living, the detail in Wednesday's consumer price index figures explained some of our perception problems. Those utility bills have shocked us with the sharpness of their increases. Electricity, water and sewerage and property rates and charges costs, all lumped together in the "housing" category, were the big movers in the September quarter CPI. Electricity costs jumped 7.8 per cent, water and sewerage 8.6, property rates and charges 5.2 per cent.

There are some seasonal factors in the CPI business though: utility rises tend to occur more in the quarter that starts the financial year; there was no education cost rise to speak of because that hits at the start of the school year; pharmaceutical costs fell because of the pharmaceutical benefits scheme subsidy picks up more people as the calendar year rolls on, only to jump again in the March quarter.

Whatever the season, everyone knows and complains about rising utility charges. Well, nearly everyone. Origin Energy CEO Grant King instead offers the idea that the percentage of household income we spend on energy has actually been fairly constant at two to three per cent for the past quarter century .

That is the other thing we forget – that household incomes have been rising faster than the inflation rate. Therefore, on average, it shouldn't be the electricity bill that breaks the budget, but all the other stuff we spend money on.

And while we're complaining about the rising cost of living, we tend to overlook all the things that haven't been rising, or not rising much. Over the past three years, the all groups CPI has risen by 7.7 per cent, an average of about 2.8 per cent. The categories with the biggest increases have been alcohol and tobacco up 19 per cent thanks to higher taxes, followed by education up 18 per cent and that housing group ahead 15 per cent.

But at the same time, clothing and footwear didn't increase, transport and recreation and culture costs fell and communications increased by just one per cent.

It's swings and roundabouts, or perhaps shoes and school fees, in the cost of living game. Smoke and pay private school fees for a pile of kids who like airconditioning and leaving the TVs and computers on and you'll go backwards. Ditch the coffin nails, send the kids to state schools or, better yet, don't have kids and stay at home letting your parents pay for the power bills and you'll have no trouble living the good life. There are plenty of cost of living choices we make for ourselves.

But maybe even yuppies sometimes do it tough. I was saddened recently to see an up-market deli with a sign outside saying "TREAT YOURSELF" over that week's special - bottles of Fiji Water. Luxury ain't what it used to be.

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