



# ABS 16<sup>th</sup> Series Australian Consumer Price Index Review

## ACTU Submission

26 March 2010

D No 5/2010

# **Submission to the ABS 16th Series Australian Consumer Price Index Review**

## **Contents**

1. Introduction .....	4
2. Overview .....	4
3. Principal purpose .....	4
4. Compilation frequency.....	5
5. Evaluation of the deposit and loan facilities index.....	5
6. Maintaining the relevance of the CPI .....	5
7. Seasonal Adjustment.....	6
8. Spatial Indexes.....	6

## **1. Introduction**

The Australian Council of Trade Unions [ACTU] is the peak council for organized labour in Australia, representing almost 2 million Australian workers who are members of its affiliated unions.

The ACTU welcomes the opportunity to participate in the 16<sup>th</sup> Series Review of the CPI.

## **2. Overview**

The CPI has been of fundamental importance to Australian unions for more than 90 years.

It provides the key yardstick for assessing changes over time in the purchasing power of wages. Since the 1920s the CPI (and its component series) has been used to adjust wages and allowances to protect their real value against rising prices, in bargaining and in setting minimum wages. More broadly, the CPI is used to adjust a range of social security entitlements that determine the real incomes of working people and their families during and after working life, and is of central importance to macroeconomic policy settings in Australia.

## **3. Principal purpose**

The ACTU believes an outlays approach best captures changes in the cost of living for wage and salary earners. Until the 13th Series review of the CPI the outlays approach was the conceptual basis underpinning the compilation of the index. The ACTU believes this remains the most appropriate conceptual basis for the CPI.

That said, we agree that the CPI has become a well established measure of broad inflation which plays an important role in helping to guide economic management in general and monetary policy in particular, and that this is relevant to the well-being of the Australian community.

However, since the adoption of the acquisitions approach following the 13th Series Review Australia has not had an official index which measures changes in our collective living costs. This is not the principal purpose of the CPI today. An additional high-profile index specifically designed to measure such costs would fill an important gap, enhance public understanding and provide a better basis for indexing social security payments and other public sector outlays.

If an acquisitions-based CPI is not supplemented by a new official cost of living index based on an outlays approach, and inflation as measured by the CPI is not consonant with community experience of changes in the cost of living, the ACTU believes the CPI will lose credibility in the community. Accordingly we support maintenance and further development of outlays-based analytical series measuring changes in the cost of living for a range of sub-populations including wage and salary earner households and pensioner and beneficiary households.

#### **4. Compilation frequency**

Quarterly periodicity is sufficient for wage adjustment purposes and adjustment of benefits and allowances. Monthly periodicity would be nice (provided quarterly and annual series were continued too) but is a low priority for us, and not one we would support without assurance of the same data quality that attaches to the quarterly issue. The ACTU supports the AWU suggestion that, if monthly issues are required for official monetary policy purposes, the RBA could meet the (substantial) additional costs directly or through a bank levy.

#### **5. Evaluation of the deposit and loan facilities index**

If the acquisitions approach is retained, the ACTU believes a review of the methodology (especially that underlying the indirect charges component) of the index is warranted.

Further, the ACTU considers that mortgage and other consumer-debt interest charges should be included in an outlays-based cost of living index (see above under Principal Purpose).

#### **6. Maintaining the relevance of the CPI**

The ACTU believes six years is too long an interval between expenditure class updates. Of primary importance in providing an evidentiary base for contemporary expenditure patterns is a more frequent Household Expenditure Survey. The HES should be conducted biennially, and urgent action should be taken to move it immediately to a four-yearly cycle both for CPI re-weighting purposes and to better inform research into well-being, living standards, poverty and social inclusion. Consideration should also be given to using alternative data sources (such as scanner data) for weighting purposes.

Further, pricing to ‘constant quality’ (or ‘pure pricing’, which seeks to remove from measures of inflation the contribution of embedded quality changes to price movements especially of durable goods) introduces a degree of fiction to the measurement of change in the cost of living. The ACOSS proposal for official cost of living indexes to be based on shelf prices has merit and should be considered.

## **7. Seasonal Adjustment**

Production of a seasonally adjusted CPI is within scope for the ABS and would be a useful inclusion in the official CPI release. As such a series would be subject to revision it could not be considered to be ‘the official’ CPI measure

## **8. Spatial Indexes**

The ACTU supports the development of spatial indexes of the CPI, to better measure the living costs and inflation pressures faced by Australians in rural and regional areas. Given the additional costs entailed in this exercise, annual or semi-annual series should be considered.