

Consumer Price Index 16th Series Review – User Submission

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Labour Relations welcomes the opportunity to provide feedback to the 16th series review of the Consumer Price Index (CPI). The views discussed in this submission are the views of Labour Relations and do not necessarily reflect the views of the Western Australian State Government.

Background

Labour Relations uses CPI primarily as the only means to evaluate the cost of living conditions of employees receiving pay and minimum conditions under industrial relations pay setting methods. This is particularly important when making annual wage submissions to Fair Work Australia and the Western Australian Industrial Relations Commission.

Compilation frequency

A monthly compilation of CPI would be beneficial to access more current information, especially in monitoring the impacts of expected and known cost of living expenses and how they impact on the overall CPI. Currently there are obvious lags in some expenditure groups which make it difficult to assess the impact over a three monthly period. Despite the benefits of increasing the CPI release frequency, if a change of frequency impacts on the quality of the index, either index exclusions or other trade-offs, Labour Relations would not support a change in frequency.

Maintaining the relevance of the CPI

The exclusion of some housing costs seriously deflates the overall impact of housing inflation to the total cost of living faced by more than one-third of households. The exclusion of established house prices and land purchases from the house purchase expenditure class, does not fully account for the total cost of living expenses paid by households. Even though the ABS views land and established houses as investment rather than consumable items, the cost of these items overall seriously impacts on a household's cost of living conditions. The inclusion of mortgage repayments in the index is also vitally important in assessing the full impact of housing costs to the CPI, especially the impact of interest rate increases on household's cost of living.

The current six yearly review of CPI's 'basket of goods' is not frequent enough, as household spending patterns can change dramatically and quickly during these periods. For example, rapid changes in information technology greatly impacts on the spending habits of households. Labour Relations would support increasing the review of spending patterns and expenditure class weightings on a more frequent basis. Without a more frequent review process, the relevance of CPI could be seriously undermined.

Analytical series

Labour Relations heavily relies on the Consumer Price Index to evaluate the cost of living conditions for employees receiving pay and minimum conditions under industrial relations pay setting methods. The CPI forms a large part of our considerations when formulating pay increases under these minimum pay and conditions for the annual submission process for wage increases under the National Fair Work Australia and the WA State Wage Case jurisdictions.

One major concern when relying on CPI as a measure for setting wage increases has been the lack of information on the CPI impacts for low-income households (lowest quintile) compared to all households. Labour Relations is aware that the ABS has previously researched the possibility of releasing a low-income household index in-line with the analytical living costs for particular household types (employee, aged pensioner, other government transfer recipient and self funded retirees).

Other issues – spatial geographic expansion

Labour Relations is responsible for setting accurate and reliable district allowances for public sector awards and agreements which factor in the cost of living conditions which may impact on employees living in regional areas in Western Australia. Assessing the size and possible impacts of district allowances is currently problematic due to a lack of reliable information on cost of living expenses in regional areas. This problem was especially highlighted during the recent resources boom which significantly impacted on the cost of living for employees living in the Pilbara region (particularly for those employees who are not directly employed by a resources sector employer and therefore are not fully remunerated for increases in the cost of living in regional areas). Currently Labour Relations relies on the WA Department of Regional Development and Lands Regional Prices Index¹ which was last released in November 2007. Labour Relations would welcome the development of official regional indexes, particularly in those areas which are faced with significantly higher cost of living conditions than in capital cities. The cost of introducing regional indexes would be expensive; therefore Labour Relations supports the collaboration with State government agencies to collect and release these indexes.

¹ <http://rdl.wa.gov.au/Content/Publications/StatInfo/RegionPricesIndex.aspx>