

Information note—Living costs, housing costs and low-income earners

This note provides estimates of the Selected Living Cost Index for employee households (LCI) without mortgage interest and housing costs of lower-income earners.

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1 Trends in LCI and CPI during the COVID-19 pandemic

Living Cost Indexes (LCI) are prepared for 4 different types of households. The Expert Panel refers to the LCI for employee households—those households whose principal source of income is from wages and salaries.¹ The LCI reflects changes over time in the purchasing power of the after-tax income of households. It measures the impact of changes in prices on the out-of-pocket expenses incurred by households to gain access to a fixed basket of consumer goods and services.

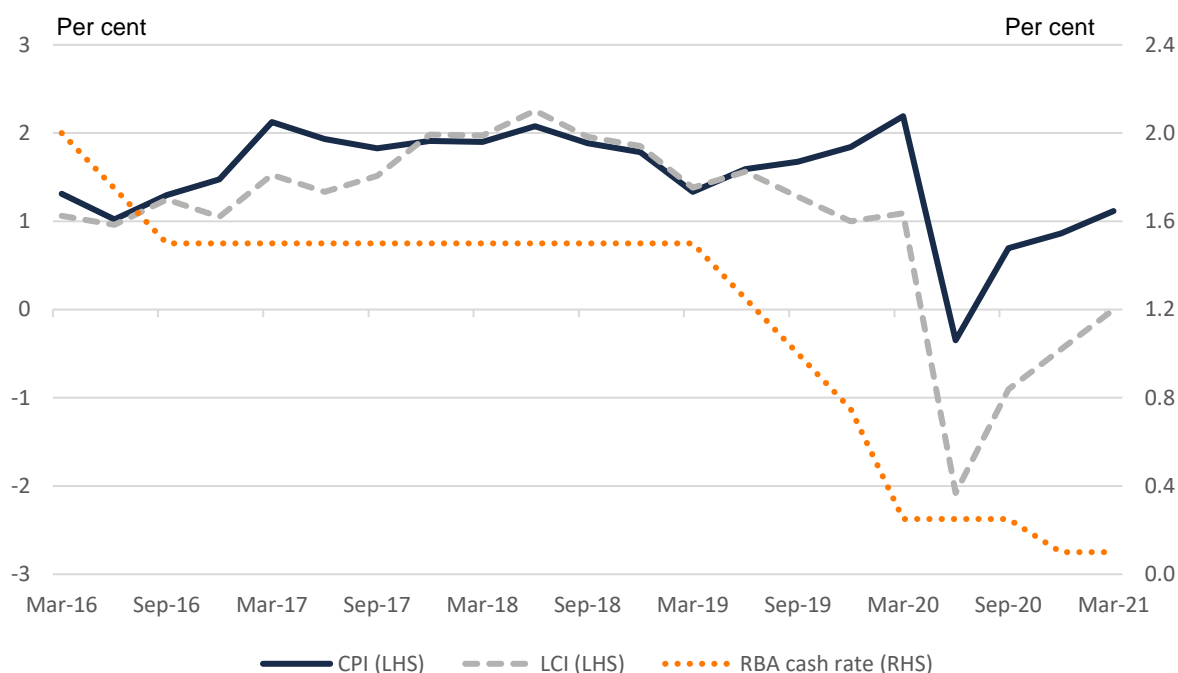
The CPI is designed to measure price inflation for the household sector as a whole and is not considered to be an ideal measure for assessing the changes in the purchasing power of the disposable incomes of households.²

From here on, all references made to the LCI will be the LCI for employee households.

Over the 3 years to the March quarter 2019, annual LCI growth broadly followed annual CPI growth. However, since late 2019, growth in the LCI has been below the CPI, with these differences increasing during the COVID-19 pandemic. This period also coincides with the fall in the Reserve Bank of Australia's overnight cash rate, which initially declined from 1.5 per cent in May 2019 to 0.75 per cent in October 2019, and further throughout the pandemic to reach 0.1 per cent in November 2020 (Chart 1).

¹ See [2020] FWCFB 3500 at [137]–[138].

² ABS, *Selected Living Cost Indexes, Australia methodology*, March 2021.

Chart 1: Annual growth in CPI and LCI, and interest rates

Note: CPI and LCI data are expressed in original terms.

Source: ABS, *Consumer Price Index, Australia*, March 2021; ABS, *Selected Living Cost Indexes, Australia*, March 2021; Reserve Bank of Australia (2021), [Cash Rate Target](#).

2 Mortgage interest and a comparison of the LCI with the CPI

In the Annual Wage Review 2013–14 decision, the Expert Panel stated that the LCI is a ‘broader measure of costs facing wage earners since it includes the impact of mortgage interest and consumer credit payments’.³

There are several differences between the calculation of the CPI and LCI. The CPI is constructed using the acquisitions approach, which measures changes in the prices of goods and services acquired (actually received). In contrast, the LCI is constructed using the outlays approach, which measures changes in the prices of goods or services from which payments were made to gain access to those goods and services.⁴

While for most goods and services purchased, outlays and acquisitions occur within a relative short space of time, and therefore lead to similar results. However, this is not the case for housing and mortgage interest, which is an area of expenditure that provides significantly different results.

The net purchase of housing and the increase in volume of housing due to renovations, extensions and other costs are included in the CPI for all owner-occupied housing but are excluded in the LCI, resulting in a higher weight for the Housing group in the CPI. In contrast, the LCI includes mortgage

³ [2014] FWCFB 3500 at [191].

⁴ ABS, *Selected Living Cost Indexes, Australia methodology*, March 2021.

interest and consumer credit charges, which are excluded from the CPI, resulting in a higher weight for Insurance and financial services in the LCI.⁵

Mortgage interest is less relevant for low-paid employee households⁶ than higher-paid employee households, as they are less likely to own a home or be currently paying off a mortgage (see section 3).

The different expenditure weights of the commodity groups that determine the LCI and CPI are shown in Table 1. As highlighted, the contribution from Housing is lower in the LCI and Insurance and financial services contributes around twice the amount to the LCI as the CPI.⁷

Table 1: Expenditure weights by commodity group, LCI and CPI, March 2021

Commodity group	LCI (%)	CPI (%)
Food and non-alcoholic beverages	18.4	17.4
Alcohol and tobacco	9.6	8.9
Clothing and footwear	3.6	3.3
Housing	15.7	24.1
Furnishings, household equipment and services	9.2	8.8
Health	6.3	6.3
Transport	10.2	10.2
Communication	2.6	2.5
Recreation and culture	9.1	8.7
Education	4.8	4.7
Insurance and financial services	10.5	5.1
All groups	100.0	100.0

Source: ABS, *Selected Living Cost Indexes, Australia methodology*, March 2021.

A significant driver of changes in the LCI since the pandemic has been mortgage interest. This is due to the decline in interest rates, which are currently at a record low of 0.1 per cent.⁸ Mortgage interest declined by 18.5 per cent over the year to the June quarter 2020 and while this reduced by the March quarter 2021 (–15.1 per cent), it is still detracting from growth in the LCI.

Removing mortgage interest from the calculation of the LCI⁹ shows a significant increase in the annual growth rate of the LCI (Table 2). Changes to mortgage interest detracted between

⁵ ABS, *Selected Living Cost Indexes, Australia methodology*, March 2021.

⁶ Employee households are those households whose main source of income is from wages or salary. Low-paid employee households are defined as those households in the bottom quintile of equivalised disposable household income for employee households. Disposable household income is equivalised using the 'modified OECD' method where each person in the household is given a score (1 for the first adult, 0.5 for subsequent adults and 0.3 for each child under the age of 15) and the income is divided by the sum of these scores.

⁷ Mortgage interest accounts for the majority (62 per cent) of Insurance and financial services.

⁸ Reserve Bank of Australia (2021), [Cash Rate Target](#).

⁹ Mortgage interest accounted for 8 per cent of the LCI in the June and September quarters 2020 and 6.25 per cent in the December quarter 2020 and March quarter 2021.

1.0 percentage point and 1.4 percentage points in annual LCI growth between the June quarter 2020 and the March quarter 2021.

Compared with the annual CPI growth, the LCI without mortgage interest remained lower than annual CPI growth for most of the period, with growth equal to annual CPI growth in the March quarter 2021.

Table 2: LCI with and without mortgage interest, growth over the year

	LCI (%)	Mortgage interest for employee households (%)	LCI without mortgage interest (%)	Effect of mortgage interest on LCI (ppt)	CPI (%)
Jun-20	-2.1	-18.5	-0.7	-1.4	-0.3
Sep-20	-0.9	-17.6	0.5	-1.4	0.7
Dec-20	-0.5	-15.1	0.6	-1.0	0.9
Mar-21	0.0	-15.1	1.1	-1.1	1.1

Note: CPI and LCI data are expressed in original terms.

Source: ABS, *Consumer Price Index, Australia*, March 2021; ABS, *Selected Living Cost Indexes, Australia*, March 2021.

Table 3 shows the main contributors to the quarterly changes in the LCI and CPI over the 4 quarters to the March quarter 2021. The main differences in the contributing groups have been Insurance and financial services (which includes mortgage interest), which detracted from growth in the LCI in each of the last 4 quarters, particularly the June and September quarters 2020. In contrast, Insurance and financial services contributed positively to CPI growth over the period.

There were also differences in the size of the contribution from Furnishings, household equipment and services (which includes child care services). This group was the largest detractor from growth in both the LCI and CPI in the June quarter 2020 and the largest contributor in the September quarter 2020. The significant changes were driven by the introduction of free child care that affected the June quarter and then the removal of free child care and higher attendances in the September and December quarters. However, the impact was larger on the LCI because the child care series has a higher weight in the LCI (1.5 per cent) compared with the CPI (1.2 per cent).¹⁰ By the March quarter 2021, the contribution from this group to the LCI and CPI was the same.

¹⁰ ABS (2020), *Methods changes during the COVID-19 period*, 17 June.

Table 3: Main contributors to quarterly change, June quarter 2020 to March quarter 2021

	June quarter 2020		September quarter 2020		December quarter 2020		March quarter 2021	
	LCI	CPI	LCI	CPI	LCI	CPI	LCI	CPI
Food and non-alcoholic beverages	0.5	0.5	-0.4	-0.4	0.2	0.2	0.4	0.4
Alcohol and tobacco	1.6	1.5	1.5	1.6	4.0	4.2	0.4	0.3
Clothing and footwear	0.0	0.1	0.5	0.4	-0.9	-1.0	0.3	0.5
Housing	-0.9	-0.7	-0.3	0.0	-1.4	-0.6	0.3	0.1
Furnishings, household equipment and services	-14.0	-11.2	14.1	12.0	4.7	3.4	-0.2	-0.2
Health	-0.2	-0.2	0.1	-0.1	1.5	1.3	1.6	2.0
Transport	-7.3	-6.8	3.6	3.4	0.9	0.9	3.3	3.2
Communication	-1.3	-1.3	-0.8	-0.8	-0.4	-0.4	0.5	0.5
Recreation and culture	-1.6	-1.0	1.0	1.1	1.7	1.6	-0.2	-0.2
Education	-4.2	-3.7	2.2	2.1	1.4	1.2	0.8	0.4
Insurance and financial services	-2.5	0.3	-3.9	0.1	-1.1	0.1	-1.4	0.1
All groups	-2.6	-1.9	1.3	1.6	0.8	0.9	0.5	0.6

Source: ABS, *Selected Living Cost Indexes, Australia*, various.

3 Housing costs of lower-income earners

In research conducted for the Annual Wage Review 2016–17, analysis of data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey found that around 44 per cent of award-reliant employees were located in the bottom 3 deciles of the household disposable income distribution. Fewer than 1 in 6 award-reliant employees were located in the top 3 deciles.¹¹

According to the HILDA Survey, in 2019, around half (50.5 per cent) of low-paid employee households own a home or are currently paying off a mortgage, compared with around two-thirds (68.3 per cent) for higher-paid employee households.¹²

The most recent Census found that around two-thirds (67.1 per cent) of private dwellings were owner-occupied in 2016, the lowest proportion since 1954.¹³ Similarly, the Australian Bureau of Statistics' (ABS) Survey of Income and Housing for the 2017–18 financial year also found that around two-thirds (66.2 per cent) of households owned their own home with or without a mortgage, while around one-third (32 per cent) of households were renters (Table 4).¹⁴

¹¹ Refers to households with at least one employee. Jimenez C & Rozenbes D (2017), [Award-reliant workers in the household income distribution](#), Fair Work Commission Research Report 1/2017, February.

¹² Fair Work Commission estimates. Low-paid employee households are as those in the bottom quintile of equivalised disposable household income; *Household, Income and Labour Dynamics in Australia Survey*, Wave 19.

¹³ Hall A & Thomas M (2019), [Declining home ownership rates in Australia](#), *Parliamentary Library Briefing Book*, Key issues for the 46th Parliament, Department of Parliamentary Services, July.

¹⁴ ABS, [Housing Occupancy and Costs](#), 2017–18 financial year.

Among lower-income households,¹⁵ the ABS found that around 6 in 10 (or 60.2 per cent) owned their homes, while 37.5 per cent were renting.¹⁶ Of those that owned their homes, around two-thirds (64.6 per cent) owned it without a mortgage. Of those that rented, around three-quarters (73.1 per cent) did so from a private landlord.

While there has been a general decline in the rate of home ownership since 1961, the decline in levels of home ownership has been greater for low-income households since at least the 1980s.¹⁷

The ABS survey found that average (mean) weekly housing costs were lower among lower-income households (\$209) than for all households (\$311). This was also the case for owners and renters. However, as a proportion of gross household income, housing costs were higher for lower-income households (21.8 per cent) than for all households (13.9 per cent). This trend was consistent across owners and renters.

Table 4: Housing costs, all households and lower-income households

	Mean weekly housing costs (\$)		Housing costs as a proportion of gross household income (%)		Proportion of households with characteristic (%)	
	All	Lower income	All	Lower income	All	Lower income
Owner without a mortgage	53	46	3.0	6.0	29.5	38.9
Owner with a mortgage	484	376	15.9	28.6	36.7	21.3
<i>Total owners</i>	<i>292</i>	<i>162</i>	<i>11.8</i>	<i>16.9</i>	<i>66.2</i>	<i>60.2</i>
State or territory housing authority	158	155	22.5	23.6	3.1	7.2
Private landlord	399	339	20.2	31.9	27.1	27.4
<i>Total renters</i>	<i>366</i>	<i>295</i>	<i>20.2</i>	<i>30.6</i>	<i>32.0</i>	<i>37.5</i>
Total	311	209	13.9	21.8	100.0	100.0

Source: ABS, [Housing Occupancy and Costs](#), 2017-18 financial year.

A measure of housing stress is when a household spends more than 30 per cent of its income on housing costs. Lower-income households that are renters were found to have spent 30.6 per cent of gross household income on housing costs. In 2015-16, over 40 per cent of low-income households experienced housing stress.¹⁸

A number of low-income households are eligible to receive Commonwealth Rent Assistance (CRA), a non-taxable income supplement. However, the rates and thresholds for CRA have not

¹⁵ Defined as those containing persons between the 3rd and 40th percentiles (or the bottom 4 deciles) of equivalised disposable household income and not limited to employee households.

¹⁶ ABS, [Housing Occupancy and Costs](#), 2017-18 financial year.

¹⁷ Hall A & Thomas M (2019), '[Declining home ownership rates in Australia](#)', *Parliamentary Library Briefing Book*, Key issues for the 46th Parliament, Department of Parliamentary Services, July.

¹⁸ Hall A & Thomas M (2019), '[Declining home ownership rates in Australia](#)', *Parliamentary Library Briefing Book*, Key issues for the 46th Parliament, Department of Parliamentary Services, July.

kept pace with rental costs.¹⁹ According to a survey of over 74 000 rental listings across Australia in March 2021 by Anglicare Australia, there has been a continued decline of rental affordability in 2021, particularly for low-income households (including with government benefits such as CRA and the Family Tax Benefit (FTB)).²⁰ Affordability is determined if no more than 30 per cent of a household budget is allocated to rent.

Table 2 presents estimates from a report by Anglicare Australia on rental affordability. It shows that there was a decrease in the percentage of affordable rentals over the 12 months to March 2021 across the range of hypothetical households, with the largest decrease for couple households with 2 children receiving the National Minimum Wage (NMW) and FTB A (–7.6 per cent). However, this household type also had the highest proportion of affordable rentals (14.3 per cent), which is significantly higher than other household types.

Table 1: Rental listing affordability, March 2020 and March 2021

Household type	Payment type	March 2020		March 2021		Percentage change
		Number	%	Number	%	
Single	NMW	1688	2.4	859	1.2	–1.3
Couple, two children	NMW + FTB A	15 373	22.0	10 657	14.3	–7.6
Single, two children	NMW + FTB A & B	2723	4.0	758	1.0	–2.9
Couple, two children	NMW + Parenting payment (partnered) + FTB A & B	4455	6.4	2708	3.6	–3.7

Note: Households with two children are assumed to have one child aged under 5 years and another aged under 10 years.

Source: Anglicare Australia (2021), [Rental Affordability Snapshot](#), April.

¹⁹ Ey C (2016), [Housing and the social security system](#), Parliamentary Library, Research Paper Series 2016–17, 12 October.

²⁰ Anglicare Australia (2021), [Rental Affordability Snapshot](#), April.