

The Cost of Living

A Perth perspective

Mixing the continued pressures from the pandemic, increasing demand, global supply-chain issues and now a war which is targeting fuel and energy prices, the cost of living is front of mind for almost everyone.

The Australian Bureau of Statistics has today released new data on inflation which sheds light on the pressures facing people across Australia.

The following provides a working overview of the cost of living in Perth in 2022, by looking at inflation and wage growth. I delve into specific goods and services that the ABS monitors, some they have been keeping an eye on for more than 50 years, and how much they have risen in Perth over the past three months.

I look at the changes in prices of these goods and services in the past three months, one year, two year and five-year periods to shed light on where we are and the longer-term trends while comparing this to wage growth over the same period.

I show that the cost of living is growing increasingly faster than that of wages, creating a 12-month gap between them of 5.4 per cent, which is spread across essential costs like food, housing and transport.

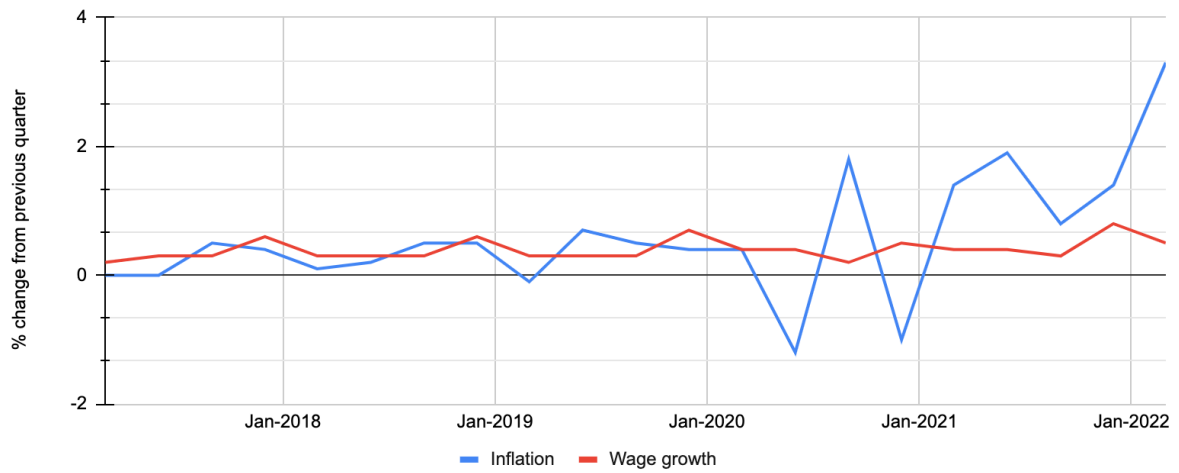
All inflation data used is ABS640109, using quarterly changes; all wage data used is ABS634502b.

Key statistics

- Over the past year, inflation has increased more than 3.5 times that of wages.
 - There is a gap of 5.4 per cent in terms of inflation and wage growth.
- This is an extreme in a long-running trend of inflation and the cost of living outstripping wage growth.
- Since 2020, the cost of groceries has grown progressively faster than wages.
 - In the past three months alone fruit and vegetables have grown by 4.5 per cent, or more than double the annual wage growth rate.
- In the past twelve months, the cost of housing has grown more than eight times the rate of wages.
 - While this is across new and existing houses, it is driven primarily by new houses.
 - Rents have grown more than four times that of wages in the same period.
- In the last three months, the price of fuel has increased by one-third of the total growth of the last five years.
 - In the same period, public transport costs have declined 2.6 per cent.
- When compared to wages over the past twelve months:
 - Coffee and tea costs have risen six times faster;
 - Childcare costs have risen more than 3.5 times faster;
 - Both health and education costs have risen more than 1.5 times faster.

Right here, right now

Inflation and wage growth, Perth/WA since 2017



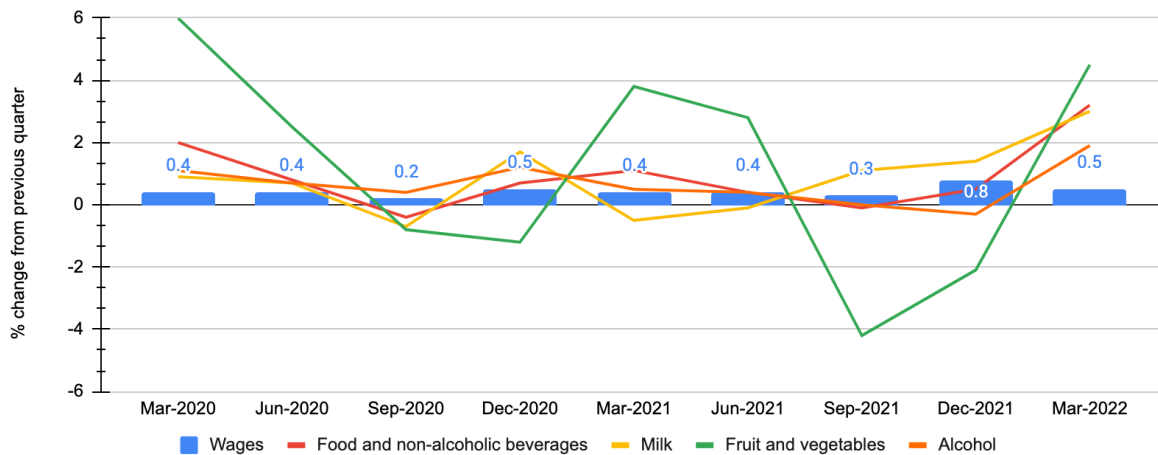
	Wage growth* (WPI)	Inflation (CPI)
Since March 2017	7.9%	9.2%
Since March 2020	3.4%	5.5%
Since March 2021	2.0%	7.4%
Previous 3 months	0.5%	3.3%

**Wage growth figures until December 2021 only. I have adjusted the charts and tables to include the same number of reporting periods (IE starting and concluding one month earlier) for consistency.*

Selected measures

Food and alcohol

Cost of selected groceries compared to wage growth, Perth/WA since 2020

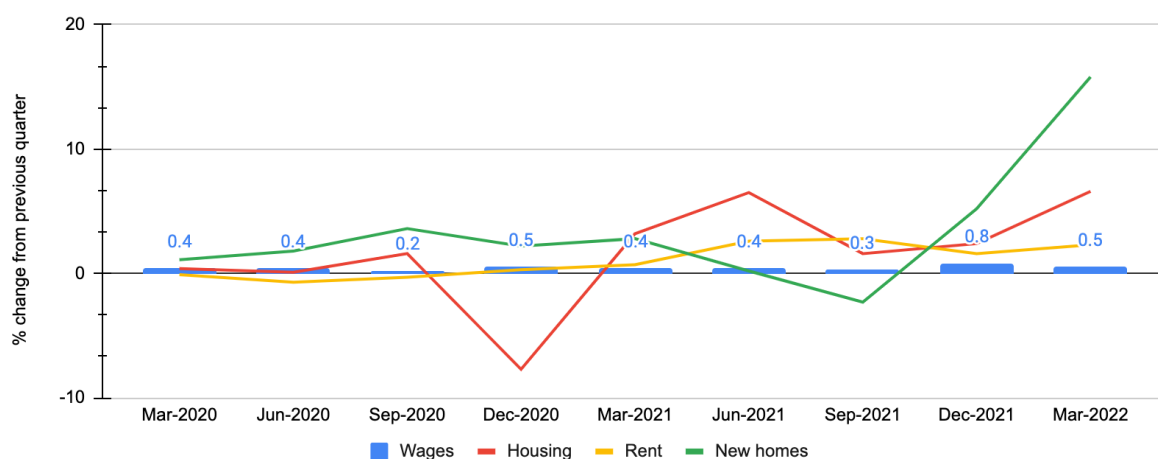


	Food and non-alcoholic beverages	Milk	Fruit and vegetables	Alcohol
Since March 2017	7.4%	13.5%	5.2%	8.4%
Since March 2020	5.0%	4.5%	6.8%	4.0%
Since March 2021	4.0%	5.4%	1.0%	2.0%
Previous 3 months	3.2%	3.0%	4.5%	1.9%

- Cost increases here are likely due to supply chain and transport costs that have exacerbated over the past twelve months.
- In line with this, reliance on international markets for fruit and vegetables has caused significant recent price increases.

Housing

Housing costs compared to wage growth, Perth/WA since 2020

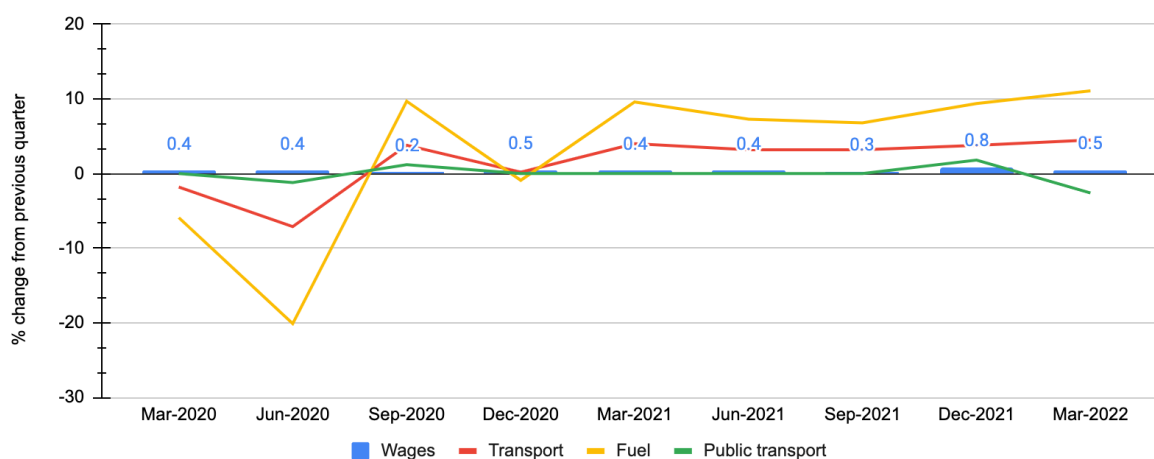


	Housing	Rents	New houses
Since March 2017	7.2%	-7.6%	12.2%
Since March 2020	8.1%	6.9%	14.6%
Since March 2021	17.1%	9.3%	18.9%
Previous 3 months	6.6%	2.3%	15.8%

- Shortages in good and labour have had significant impacts on the housing market, in new-builds, renovations and maintenance.
- A well-documented tight rental market continues to see costs rise for tenants.

Transport

Transport costs compared to wage growth, Perth/WA since 2020



	Transport	Fuel	Public transport fares
Since March 2017	18.7%	34.6%	12.7%
Since March 2020	9.3%	15.9%	1.8%
Since March 2021	14.7%	34.6%	-0.8%
Previous 3 months	4.5%	11.1%	-2.6%

- Transport costs generally have been driven by fuel price increases, primarily but not exclusively, due to the war in Ukraine.
- It is notable that the last three months have seen fuel price increases equivalent to that of one-third of the previous five years.
- Additionally, every quarter for more than a year has seen increases in fuel costs by more than 6 per cent.

Other measures

	Accommodation (travel)	Childcare	Clothing	Coffee, tea	Education	Health	Vehicles	Recreation activities
Since March 2017	15.4%		-4.0%	-1.7%	7.2%	14.8%	10.1%	7.0%

Since March 2020	4.6%		0.1%	2.7%	0.7%	3.7%	10.3%	2.0%
Since March 2021	7.0%	7.7%	-1.7%	12.5%	3.7%	3.4%	5.5%	3.4%
Previous 3 months	1.0%	0.3%	-1.1%	11.3%	3.6%	2.1%	0.5%	1.3%

Note: Childcare figures varied significantly in 2020 and distort the overall trend.

Commentary

- The difference between wages and inflation has been a long-term issue that has often gone unnoticed and unactioned.
- Inflation seems to be impacting base-line goods most significantly, which will cause the greatest pressure on households with lower incomes.
- While workers deserve increased wages due to rising costs, it is unlikely most businesses can afford this.
- Well-reported increases in fuel prices have failed to consider a more than year-long trend of significant growth.
- Consideration ought to be paid to increasing local capacity for fruit and vegetables, or bringing consumer tastes more in-line with seasonal offerings.
- Bringing inflation back into line with wages will require a mix of upskilling workers, sorting our supply issues and businesses having greater capacity to meet demand. This will be a whole-of-economy effort.

Disclosure:

This is part of a periodic analysis of various workplace and economic issues of contemporary national and industry interest conducted by Conrad Liveris, independently and not in any of his formal roles. All efforts are made to present the evidence as impartial, independent, fair and not misleading. Where possible, evidence is checked by another party.

The author, Conrad Liveris, is an economist and corporate adviser, focusing on the labour market and workplaces. Considered one of Australia's leading employment and workplace experts, he works closely with decision-makers across sectors on a range of HR, management and economic issues. He is alumni of the US State Department's programs and is an Associate Fellow of the Royal Commonwealth Society (London). He completed a Bachelor of Arts at the University of Notre Dame Australia, a Master of Commerce at Curtin University and has undertaken executive and further education at the Governance Institute of Australia, the University of California, Los Angeles and University of Oxford.