CHILD POVERTY ACTION GROUP

Where's our money going?

Inflation trends to December 2006.

The Reserve Bank has been worried about the way wages have been rising and the way that feeds into prices. The fall in prices for the December quarter (-0.2% inflation) was therefore welcome, making the rate of inflation just 2.6% for the year. Most commentators expected the Reserve Bank would leave the interest rates unchanged in the January monetary policy statement.

Why did prices fall in the December quarter? In short: petrol. The annual rate of inflation is based on the price of a basket of goods that reflects average household spending patterns. Therefore if one good heavily weighted in the basket dramatically rises or falls in price it affects the total cost of the basket, and hence the overall inflation rate. This is what has happened with petrol prices. Petrol prices pushed inflation up to 4.0% for the year to June 2006, and falling petrol prices have now reduced it. Good news if you run a gas guzzler, but what about the other expenses faced by families with children?

In fact many of these other costs have increased well above the official inflation rate. In the year to December 2006 food prices may have increased just 2.7% but this figure is an average, glossing over hefty increases in the price of fresh fruit and vegetables during the winter of 2006. At the same time electricity prices rose 7.1% and water charges 8.5%. For those who rely on public transport falling petrol prices were no comfort. Prices for road and rail transport increased 24.3% during 2006, with the Auckland Regional Transport Authority (ARTA) announcing further substantial fare increases for trains and buses from early January 2007. For those on low incomes who use public transport, or with children who use public transport to travel to and from school, this represents a significant erosion of disposable income. Parents also faced increases in primary and secondary school fees of 5.9%. None of these costs are readily avoidable. In addition, housing costs continued to increase. Rental accommodation rose an average of 3.8% nationally in 2006. In Auckland, the median price for a rented house was $330 per week, reflecting declining housing affordability. Households rolling over fixed mortgages faced increased payments as interest rates rose as well as increased insurance costs. Interest is not included in the inflation rate, so rising rates of interest are not captured as increases in the CPI. For people on low and/or fixed incomes, the effect of these price increases is a significant reduction in purchasing power, often resulting in borrowing to cover day-to-day costs or cutting back on discretionary expenses such as food and healthcare. A 7% increase in electricity prices is much more significant for a family on $20,000 a year than one on $60,000.

Similarly, many families must be wondering whose wage rises are contributing to the inflationary pressure the Reserve Bank is so concerned about. The biggest wage increases have occurred in the public sector, with an average 3.9% rise for local and central government workers. For those in the private sector wage increases were a more restrained 2.9%. Workers already on low wages – clerks and unskilled jobs – received the lowest wage rises. Beneficiaries, whose incomes are adjusted by the rate of inflation annually, may find themselves falling further behind as their incomes fail to keep pace with their actual day-to-day expenses.

So while lower fuel costs are welcome, increases in other household costs are likely to cancel any benefits that might accrue to low wage and beneficiary households whose incomes are rising only slowly, if at all. Perhaps this explains why our foodbanks continue to do such good business. Beneficiary and low income households are due to get another $10 per child per week on 1st April this year. This will help recover some of the lost ground but won't make much of a dent in child poverty