



Today's cost of living: it's a mixed bag

Few dinner table conversations pass without some mention of the high cost of petrol at the local bowser, hikes in gas and electricity prices, or the cost of fruit and vegetables.

It is almost a national pastime to discuss the cost of living in negative terms, without feeling a need to refer to facts or figures! Rarely do you hear anyone talk about how much wages or salaries have risen, our houses have grown or cars improved. Other positives, such as increased savings, growing investments and superannuation are also often overlooked.

Snapshot

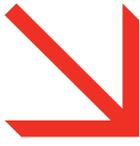


As the graph from the Reserve Bank of Australia (RBA) shows, consumer price inflation over the past 20 years has had its ups and downs. At times the increases have been quite steep, but overall price inflation has spent more time below three per cent than above.

Looking at wages and prices

A key to working out whether you are better off is to look at wages and income against prices. For sure, the price of some items might be going up—it is hard to ignore the rising cost of utilities or

Snapshots



fluctuations in fruit and vegetable prices. Yet the costs of many of the items we regularly buy including food, clothing and household appliances are actually decreasing.

To help put the cost of living into perspective, the economics team at CommSec looked at the cost and quality of a range of goods 30, 40 and 50 years ago and compared them to what could be bought today.

Whether you measure the cost in today's dollars or compare the prices of goods with the value of wages, the study concluded Australians in 2012 are better off than their parents and grandparents.

For example, according to CommSec, based on the average weekly wage for full-time employees of \$276.90 in 1982 it would have taken about 38 weeks to pay off the latest model Holden then priced at \$10,633.

Today it would take the average worker about 30 weeks to pay off a new Holden Commodore costing about \$39,990.

Most people agree the quality and accessories in today's cars are better than they were 30 years ago. The same could be said of many household appliances from vacuum cleaners to televisions.

Housing: an exception

One of the few areas of affordability that hasn't improved with time is housing.

The median Sydney house price of \$77,100 in 1982 would have taken the average wage earner 23 years to pay off. Today it would take the average worker about 42 years to pay off an average-priced Sydney home.

According to the latest Household Expenditure Survey from the Australian Bureau of Statistics, a record 36.2 per cent of Australian families are paying off a mortgage, with mortgage repayments dominating weekly spending.

Mortgage repayments are among the biggest household weekly outlays, along with petrol and rent. 'Mortgage stress' occurs when homeowners are paying 30

per cent or more of their gross incomes on home loan repayments. Unfortunately, the number of Australians currently experiencing this type of stress is on the rise, particularly among lower income earners.

The high cost of housing will impact many people's spending on other items as well as their ability to save.

Competing forces

Economic changes and technology are key forces in making us adjust the way we use our money. For example, the internet and online purchasing are driving major shifts in the way we purchase the things we need or want.

Other key pressures leading to structural change within the economy include a booming resources sector and a high Australian dollar. All of these factors and competing forces are taken into account by the RBA as it manages monetary policy.

The RBA's challenge is to set interest rates at a level that keeps inflation under control and ensures stability in the overall economy. Understandably, any interest rate moves make a considerable difference to consumer 'sentiment' and how confident people feel about spending.

However, what the statistics show for the whole country is not necessarily reflected in individual experiences so it's often hard to tell in real terms whether we are better off than we were in the past unless we do the sums as CommSec has.

Certainly with higher comparative wages, many goods are cheaper to buy and there are more options available to make these purchases. At the same time, the cost of housing and everyday essentials such as electricity and petrol, coupled with a desire to save more money, can eat into your disposable income.

In light of the above it will be interesting to see what approach the RBA takes today with official interest rates.

If you have any questions please feel free to email or call me.



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