

Australia's cost-of-living crisis: is it real, how bad is it and how will the Federal budget address it?

With escalating housing costs and other rising costs, more and more Australians are struggling to meet their basic daily needs.

The Albanese Government is delivering a cost-of-living package in an attempt to ease the crisis in the upcoming 2023/24 Budget.

Leading up to the budget announcement today, we take a closer look at the cost-of-living crisis in Australia.

What actually is a cost-of-living crisis?

Economists coined the term 'cost-of-living' to refer to the amount of money needed to maintain a reasonable standard of living while paying for essential items like food, housing, electricity, and healthcare.

A cost-of-living crisis is a situation in which the cost of essential items has increased faster than average household wages.

Is it real?

The Australian Bureau of Statistics (ABS) calculates Living Cost Indexes (LCIs) as a measure of the cost of living. There are four LCIs representing Australians with different income sources.

All four LCIs have shown a sharp increasing trend in the last three years, at levels that have not been observed for the last couple of decades.

Table: Main (Top 2) annual contributors to cost of living increases (% increases) - ABS

Employee	Mortgage interest charges - 78.9% Food - 7.9%
Age pensioner	Food - 8.2% Housing - 8.4%
Other government transfer recipient	Housing - 7.4% Food - 8.3%
Self-funded retiree	Recreation - 10% Food - 8%

At the same time, while wages have also been increasing (ABS measures this through the Wage Price Index (WPI)) , they have not increased at the same rate as the LCI. For instance, in the 12 months to December 2022, the Employee LCI increased by 9.3% compared to an increase of 3.3% in the WPI.

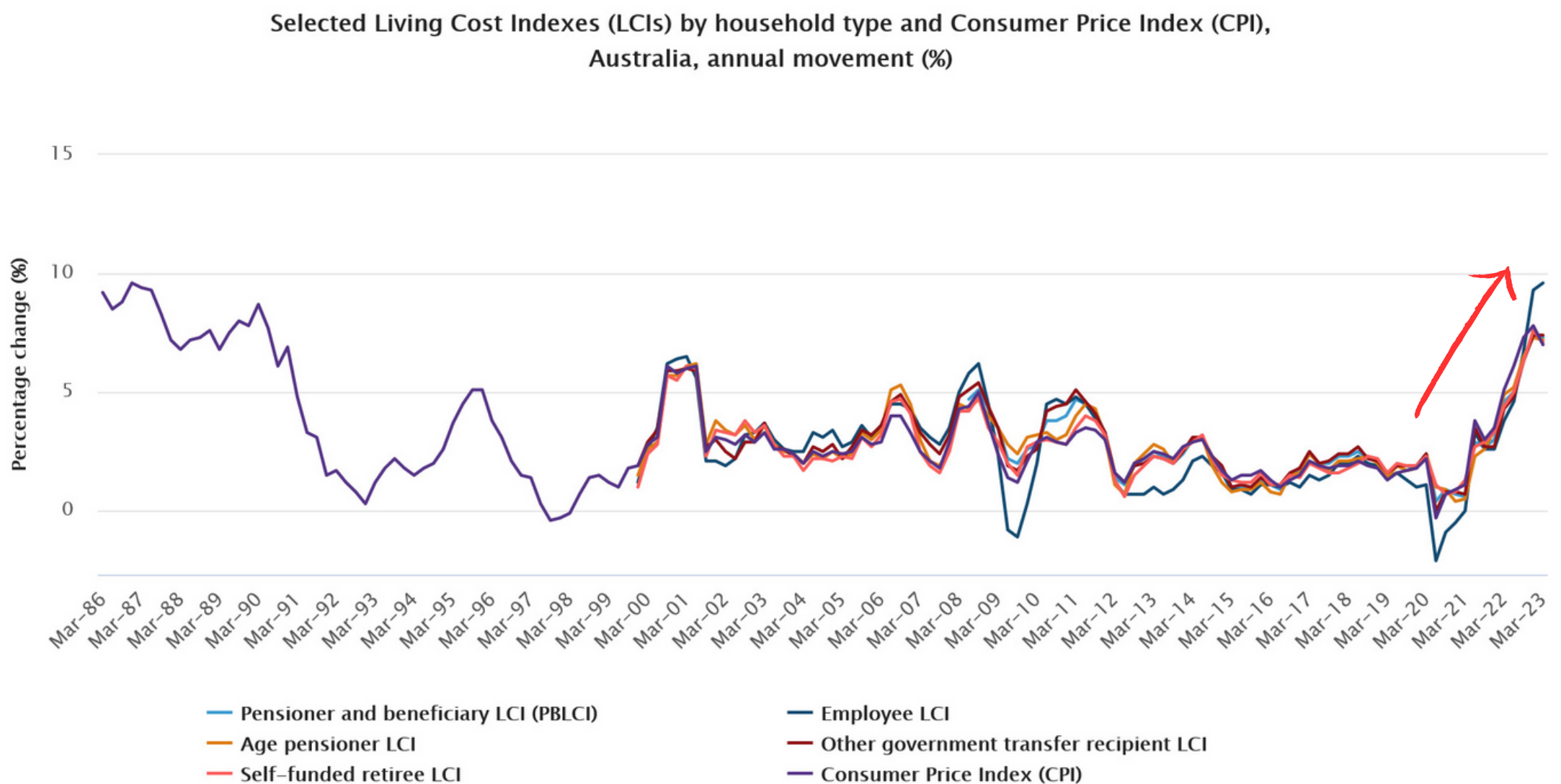
With costs of living growing faster than wages, the cost-of-living crisis is very much real.



How bad is it?

In the last three years, living costs have increased dramatically

The increase in LCIs is dramatically higher than increases in previous years. Over the past 12 months all LCIs increased by between 7.1 and 9.6%.



Source: Australian Bureau of Statistics, Selected Living Cost Indexes, Australia March 2023

How bad is it?



Housing crisis

- Mortgage interest charges increased for employees by 78.9% in the 12 months to March 2023. (Source: [bnnbbbnABS](#))
- In the capital cities, average rents have risen by 13.0% (houses) and 22.2% (units) in the last 12 months. (Source: [Domain](#))
- In the regional areas, average rents have risen by 7.5% (houses) and 10.3% (units) in the last 12 months.



Rising food costs

- Food and non-alcoholic beverage prices have increased by 8% between March 2022 and March 2023. (Source: [ABS](#))
- Soaring food prices have seen people buying cheaper cuts of meat and leaving vegetables on the shelf. Some people are skipping meals entirely. (Source: [ABC News](#))



How bad is it?



Poverty

- In 2019-20, 1 in 8 Australians including 1 in 6 children were living below the poverty line. For people receiving JobSeeker and Parenting Payment, 60% and 72% respectively live in poverty. (Source: [UNSW](#) and [ACOSS](#))
- The combination of increased housing and other living costs together with strain on services is likely to force even more Australians into poverty.



Pressures on the service system

- Service providers are facing significant shortages. Homelessness services are having to turn away people and food banks do not have enough food to go around. The strain on these welfare services is only predicted to worsen as housing (renting, mortgages) and food prices continue to rise.



**Things need to
change now to
prevent more
Australians falling
below the poverty
line.**

2023/24 Budget: cost-of-living relief

On Tuesday 9th May, the Albanese Government will announce the 2023/24 Budget.

In the lead up to budget, the Government has promised a cost-of-living package to help ease the growing strain on Australians.

So far it's been hinted that the budget will include:

- A \$14.6bn package of cost-of-living relief.
- An increase to JobSeeker payments.
- A package of almost \$200 million to help improve services and establish partnerships with philanthropists to grow programs to help break the cycle of disadvantage.
- This includes \$100 million for a new outcomes fund which will establish a partnership between the Commonwealth and states, territories and social enterprises to deliver projects designed to tackle entrenched disadvantage.
- \$1.5 billion for energy bill relief.

We welcome the focus on cost-of-living in the upcoming budget. We look forward to unpacking the details and understanding the extent to which this budget will be effective in reducing financial stress and improving living standards.

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