November 2024

All they want for Christmas

Families with children hit the hardest by cost-of-living pressures

A report prepared for **Minderoo Foundation**

IMPACT ECONOMICS AND POLICY

MINDEROO FOUNDATION

IMPACT ECONOMICS AND POLICY

About Impact Economics and Policy

Impact Economics and Policy brings together a group of expert economists and policy specialists with experience working for government, non-for-profits and big four consulting. Established at the start of 2022, our mission is to partner with clients for impact through providing robust evidence, fresh analysis, and strategic communication to tackle Australia's biggest public policy challenges.

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Acknowledgement of Country

We acknowledge Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Australia and their continuing connection to both their lands and seas. We also pay our respects to Elders – past and present – and generations of Aboriginal and Torres Strait Islander peoples now and into the future.

We support THE ULURU STATEMENT

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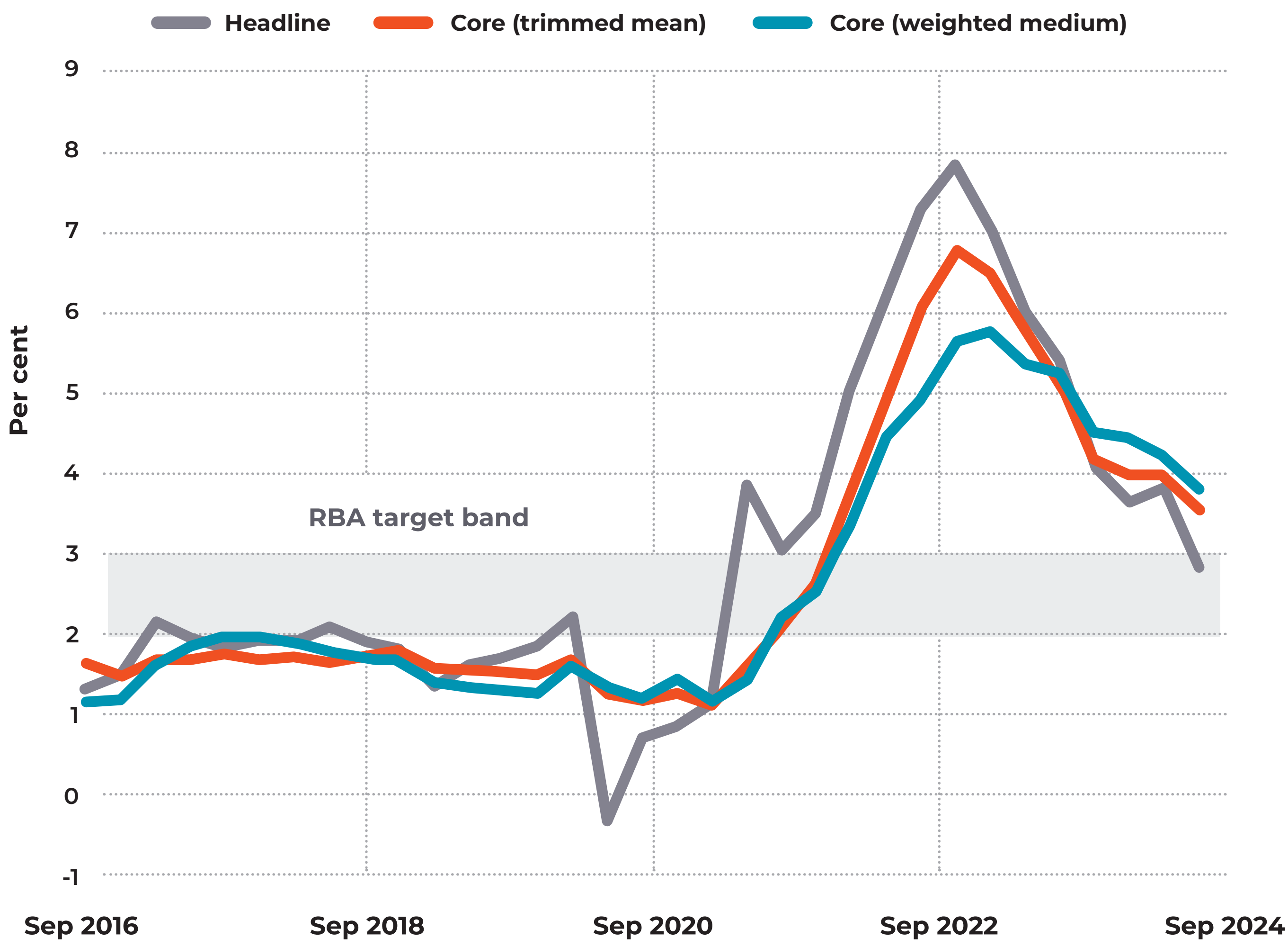
Overview

High inflation since the middle of 2021 has led to rising cost-of-living pressures as incomes have failed to keep up with prices. Household saving rates have fallen and an increasing number of households are spending more than they are earning, relying on savings buffers built up during the pandemic to make ends meet.

CHART 1 **Annual consumer price inflation**



Source: ABS and Impact Economics and Policy.

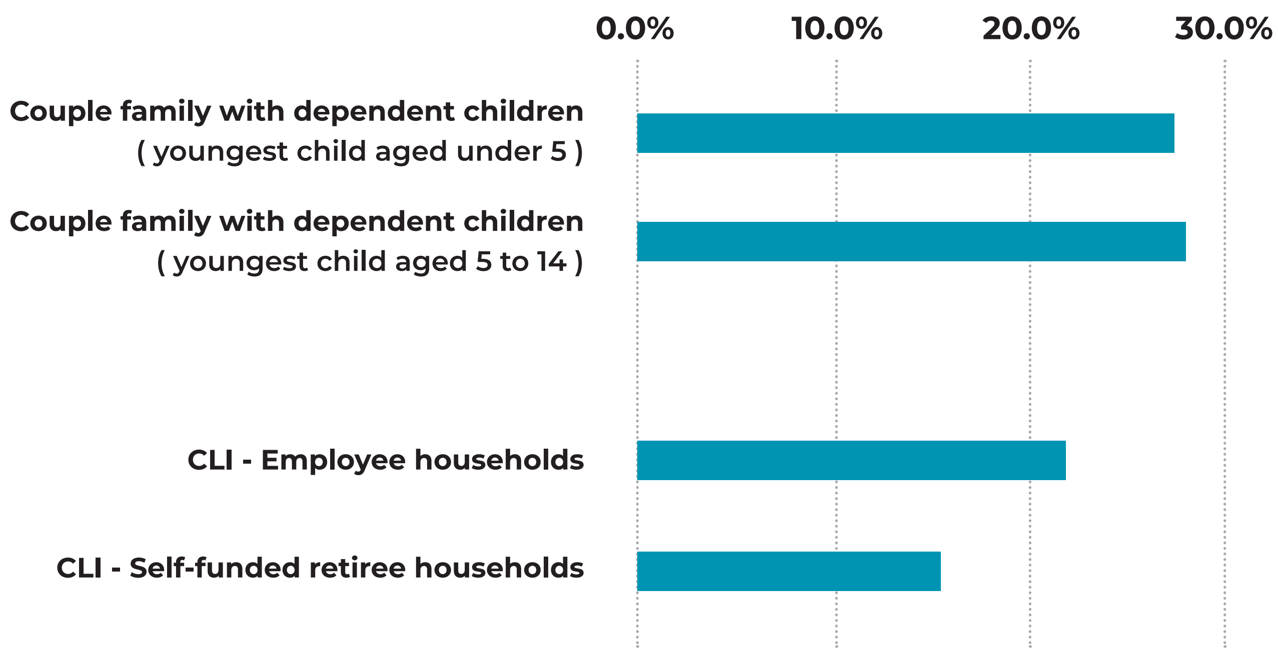
But not all Australians have been impacted equally.

New analysis for this report by Impact Economics and Policy shows that while headline inflation has fallen to 2.8 per cent, the living costs growth for families with children remains high.

Over the 12 months to September 2024, Impact Economics and Policy estimates that the increases in the living cost indexes for families with the youngest child aged under five (6.1 per cent) and the youngest child aged 5-14 (5.8 per cent) were above the increases for employee households (4.7 per cent) and self-funded retirees (2.8 per cent).[1]

Since mid-2021 the living cost index increases for families with the youngest child under five (27.1 per cent) and the youngest child aged 5-14 (28.0 per cent) have also been well above increases for employee households (21.8 per cent) and self-funded retirees (15.5 per cent).

CHART 2 Families with children facing biggest cost-of-living increases (from September 2021)



Source: ABS (2024) Cost-of-Living Indices and Impact Economics and Policy modelling.

Contributing to these cost-of-living rises, childcare costs have increased sharply over the past year (10.1 per cent), following a large decline in September quarter 2023. The decline was a result of the Government's $5 billion Cheaper Childcare package, and provided some short-term relief for families with young children.

The cost-of-living increases have resulted in Australians cutting back on discretionary spending, and dipping into savings. Many households are finding that they are spending more than they are earning, with families with children facing the greatest pressure.

1. The categorisation of any household relates to the status of the reference person within that household.

Consumer price index a poor measure of cost-of-living increases

The Consumer Price Index (CPI) is a general measure of prices and reflects the cost of a representative basket of goods and services. It is used in contracts, wage agreements and by governments to ensure that prices or payments maintain their real value over time. It is also used by the Reserve Bank of Australia to inform its monetary policy settings.

However, the CPI is a poor measure of the cost-of-living, and the pressure facing many households, because it measures certain prices and excludes some expenses, including the purchase of existing housing stock and the cost of interest payments on mortgages.

The ABS has innovated over the years, and constructed alternative cost-of-living measures to better reflect the true impact of price rises on households. Recently it has started to produce regular estimates of both discretionary and non-discretionary CPI to better reflect the different aspects of price rises.

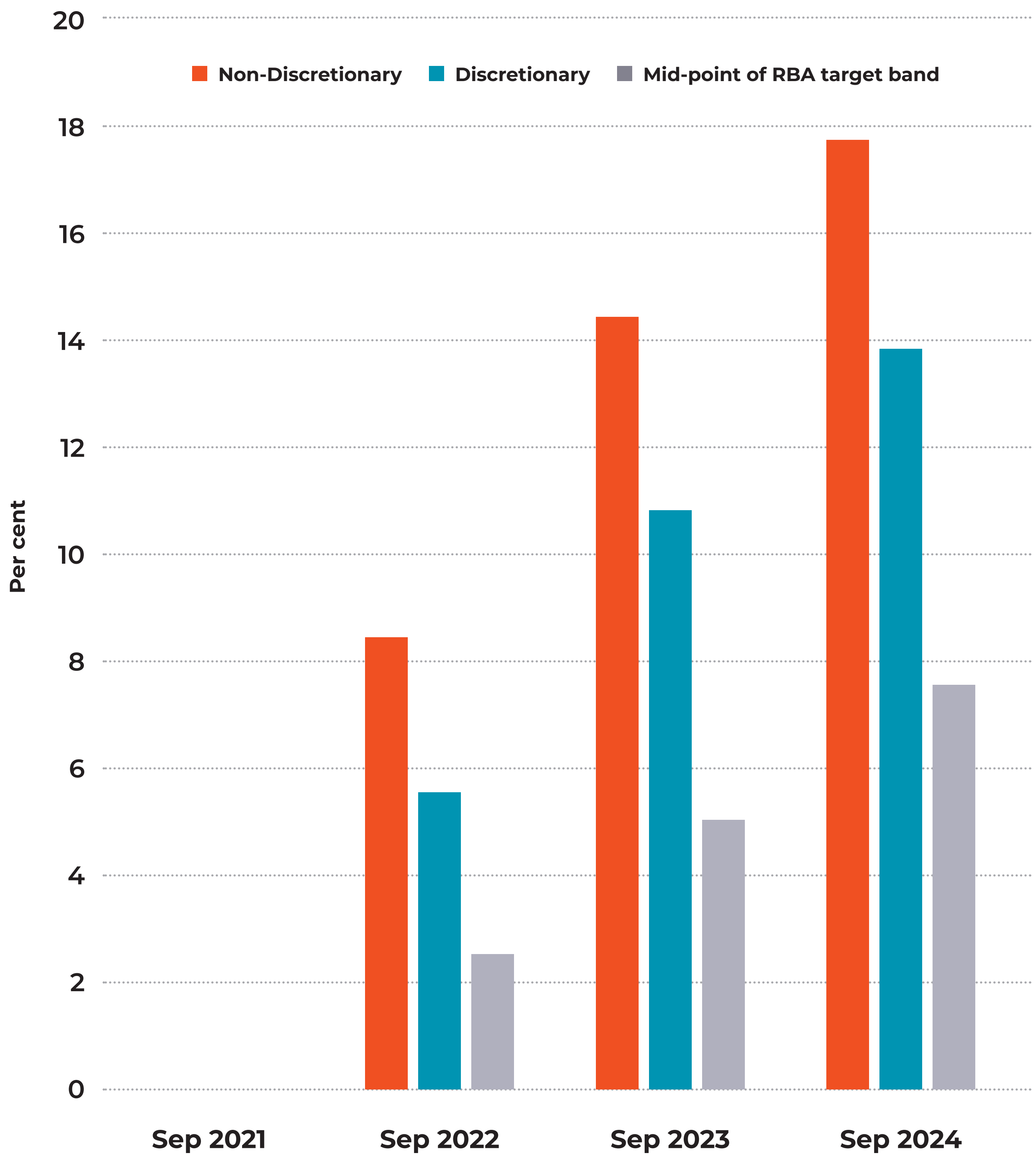
Inflation higher for non-discretionary than discretionary spending

On average, inflation has been higher for non-discretionary (or essential) goods and services than for discretionary goods and services. While households can more easily cut back on discretionary spending, it is likely that households under acute budgetary pressure will also have to cut back on non-discretionary spending – which may include education, and medical expenses.

Elevated inflation for non-discretionary goods and services has been broad-based, including for a range of food items, utilities, insurance, fuel, and a range of general household services. Over the last 12 months inflation for childcare services (which is classed as a non-discretionary, or an essential, service) has been particularly high.

Chart 3 shows accumulated annual inflation since September 2021 for the broad categories of non-discretionary goods and services (red bars), and discretionary goods and services (blue bars). While the average price of discretionary goods and services is around 14 per cent higher than three years ago, the average price of non-discretionary (essential) goods and services is around 18 per cent higher.

CHART 3 Accumulated annual inflation since September 2021



Source: ABS and Impact Economics and Policy.

Childcare costs rising

Childcare makes up a small component of CPI, but a large component of expenditure by families with small children. The ACCC reported that households spend between 2 and 21 per cent of their disposable income on childcare.[2]

The cost of childcare fell immediately following the implementation of the Cheaper Childcare reforms in July 2023, with average out of pocket costs falling by 17.1 per cent.

However, over the past 12 months, childcare costs have increased at a far faster pace than almost all of the other sub-categories of Australia's consumer price index (CPI).

- The 'headline' CPI comprises 87 sub-categories, which represent the full range of goods and services that households purchase (there are some exclusions, such as second-hand items).
- Overall consumer price inflation is measured by changes in the headline CPI.

Inflation rates, for the past year, for selected CPI sub-categories are shown in Table 1. Over the past year, childcare costs have risen by 10.6 per cent. This is almost four times the growth rate of CPI inflation (2.8 per cent), and faster than all of the other 86 sub-components of the headline CPI excluding tobacco products and general insurance.

For education services more broadly, inflation for both *Preschool and primary education* and *Secondary education* increased by over double the pace of headline CPI (6.6 and 6.1 per cent respectively).

For many families with childcare-aged children, the recent sharp rise in childcare costs represents a key source of pressure on household budgets.

A new survey of household income and expenditure patterns undertaken for this report (see Appendix for details) reveals that for families that pay for childcare services, the cost of childcare accounts for around 9 per cent of total household expenses. For individual families, the actual proportion will differ – and, in particular, will depend on the number of days that children are in care.

2. ACCC (2023), Pricing practices and operating costs of childcare services to be examined, as latest ACCC report confirms fees outpaced inflation.

TABLE 1 CPI inflation, by selected category *Year to September 2024*

CPI Category	% Growth
Food and non-alcoholic beverages	3.3
Alcohol	3.3
Tobacco	13.4
Clothing and footwear	1.7
Rents	6.7
New dwelling purchase	4.8
Utilities	-7.6
Health	4.8
Furnishings, household equipment and services	0.7
Transport	-0.9
Communication	-0.1
Recreation and culture	2.1
Insurance	14.0
Childcare	10.7
Preschool and primary education	6.6
Secondary education	6.1
Total CPI	**2.8**

Source: ABS and Impact Economics and Policy.

Because the price of childcare services has risen at a faster rate than the headline CPI over the past year families with children in childcare have faced bigger inflationary pressures than families that do not have children in childcare (all else being equal) over the period.


SNACK SALAD

The cost of housing a big driver of families cost-of-living pressures

Housing costs are the largest single expense for families, and the cost of housing is key source of budget pressure for younger families – with or without dependent children.

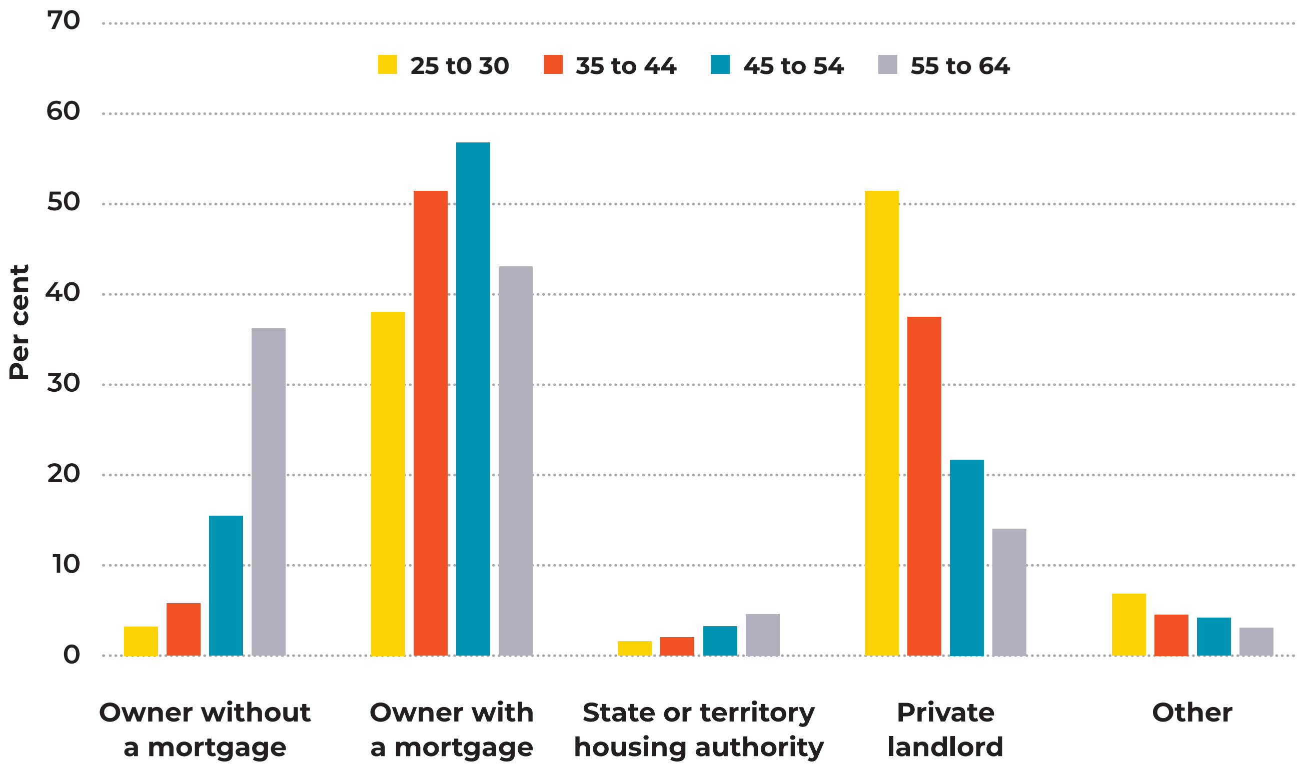
Compared with older generations, younger families are more likely to live in rental accommodation (Chart 4). If they own their own home, younger families have a proportionately higher mortgage-repayment burden (see Chart Box). A smaller proportion own their own home outright (Chart 4).

- The data in Box 1 is for 2019-20 (the latest available) and does not reflect the impacts of the recent period of elevated rent inflation and higher mortgage interest rates – both of which would result in higher shares of gross household income than depicted in the charts.
- 2019-20 is still useful for comparing the relative burden of rent/repayments between different types of households.

Rent is a component of the CPI. As such, the impact of elevated rent inflation over the past three years is reflected in overall inflation – and in particular, non-discretionary inflation.

Rent inflation has increased at almost 6% per annum since mid-2021. Over the previous two decades it averaged around 3% per annum. Compared to 2019-20, rents are almost 20 per cent higher, on average, whereas disposable household income is 17 per cent higher, on average.

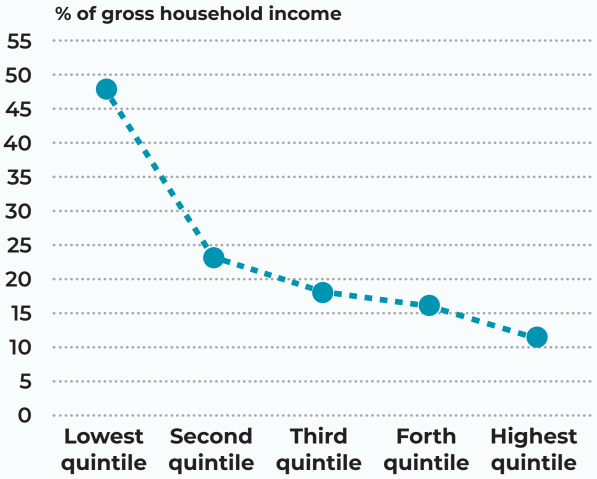
CHART 4 **Housing tenure, by age cohort**



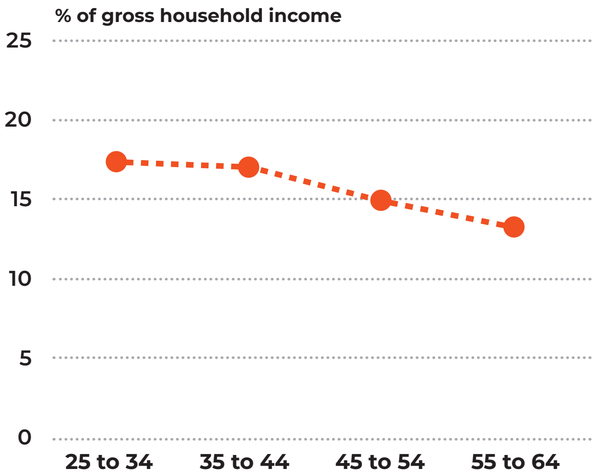
Source: ABS.

MORTGAGE PAYMENTS

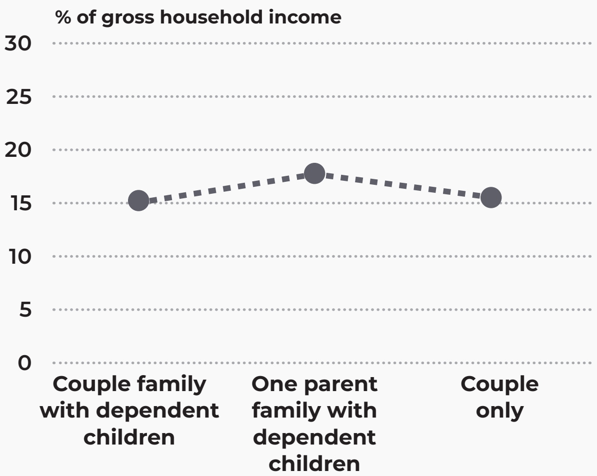
Equivalised disposable household income



Age of household reference person

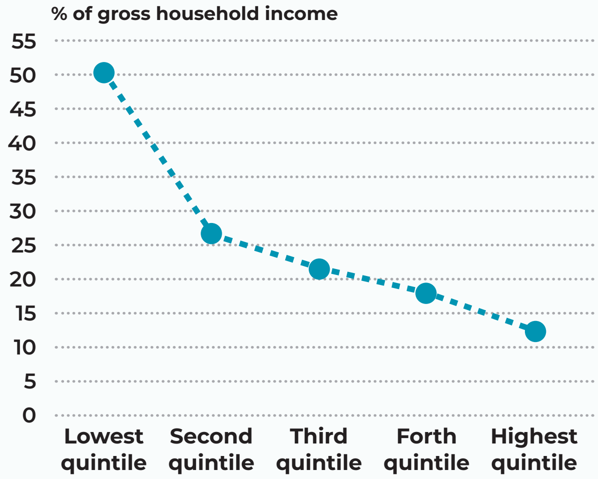


Family type

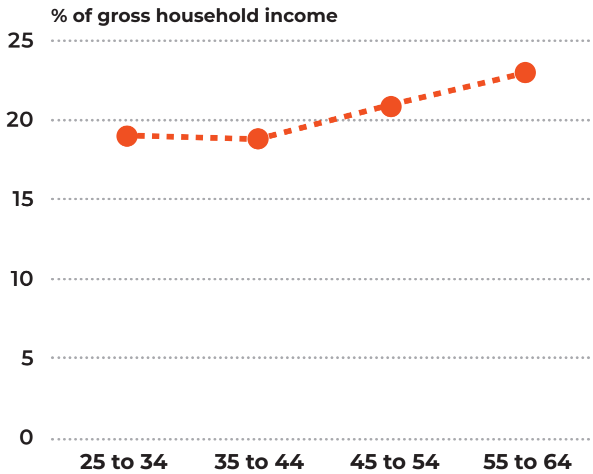


RENT

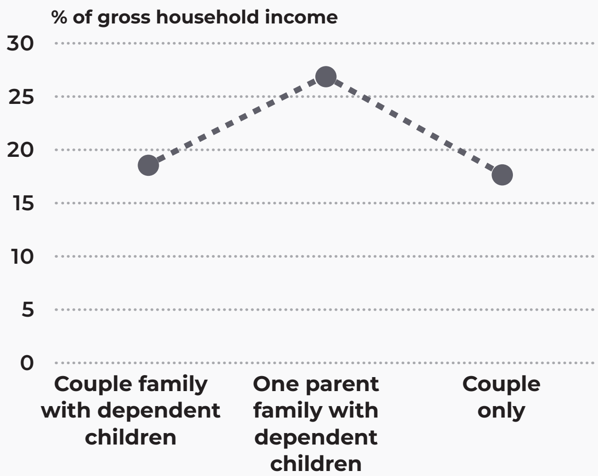
Equivalised disposable household income



Age of household reference person



Family type



Given that rent represents the largest household expense (for those who rent), the recent period of elevated rent inflation has put pressure on household budgets – particularly on younger families and those on low-to-middle incomes. For affected households, this means less to spend on other goods and services – both discretionary and non-discretionary.

Similar impacts relate to households with a mortgage. Compared to 2019-20, mortgage interest rates are around 2.8 per cent higher,[3] which for an average outstanding mortgage implies higher repayments in the order of 25 per cent of household income.

Cost-of-living increases higher for families with children

Young families with dependent children tend to spend a large proportion of their disposable income on essential goods and services relative to (age-comparable) households without dependent children. In particular, this cohort spends more on essential items such as food, utilities, health, education and childcare.

The pressures on young families with dependent children is reflected in cost-of-living indexes. A cost-of-living index comprises price indexes for individual goods and services combined by their proportions (or weights) in an overall consumption 'basket'. The indexes include housing costs – in particular, rent and mortgage servicing.

Chart 5 shows derived cost-of-living indexes for couples with dependent children, where the youngest child is aged under 5, and where the youngest child is aged 5-14 (see Appendix for methodology). Official, published indexes from the ABS are also shown for employee households and self-funded retiree households (dotted lines).

Broadly speaking, since the September quarter 2021, the indexes for families with dependent children have tracked above that for all employee households combined and for self-funded retiree households.

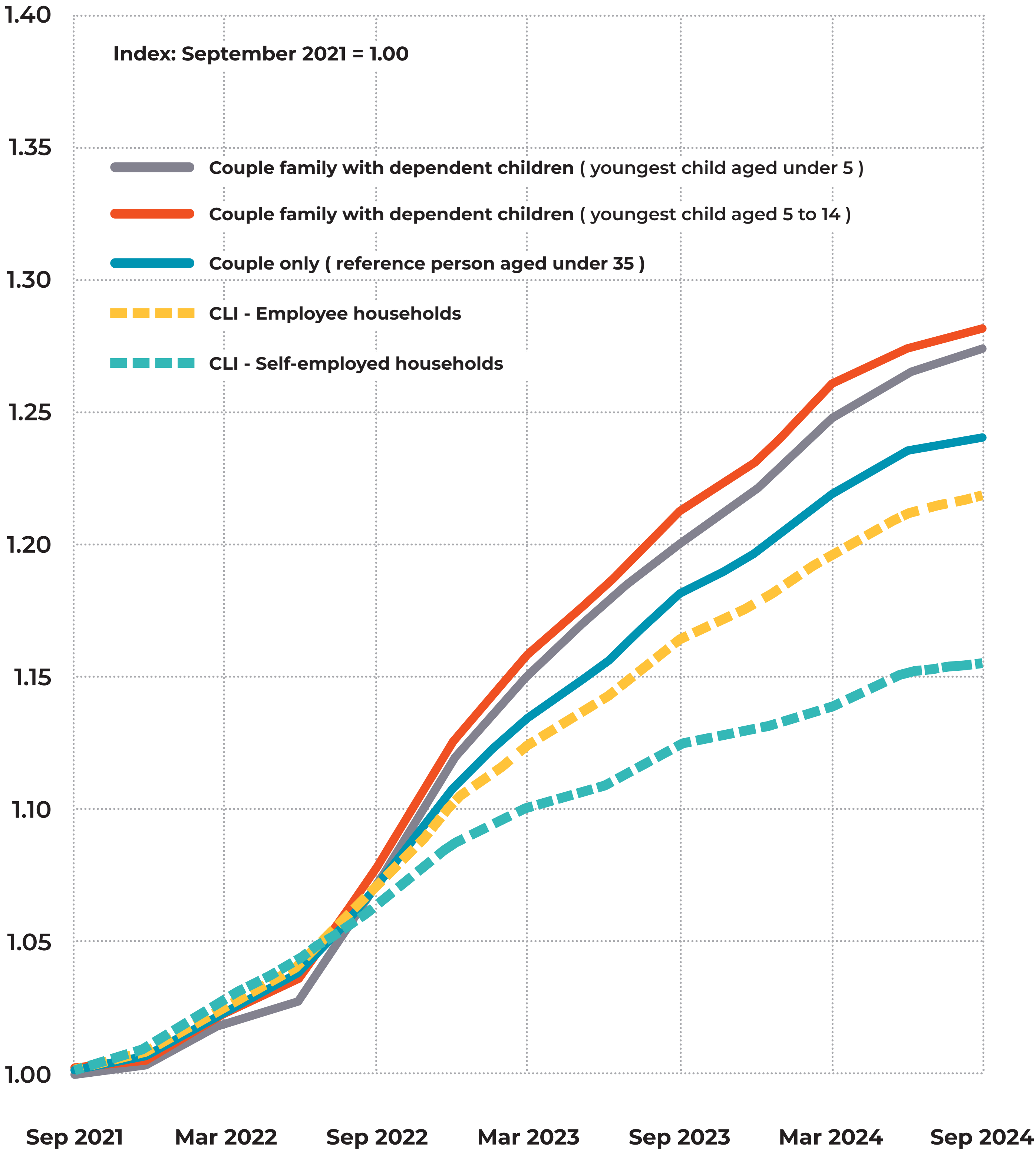
- Cost-of-living has increased by 27.1 per cent for couples with children aged under 5 since September 2021
- Cost-of-living has increased by 28.0 per cent for couples with children aged 5 to 14 since September 2021
- Cost-of-living has increased by 21.8 per cent for employee households since September 2021
- Cost-of-living has increased by 15.5 per cent for self funded retirees since September 2021

Over the past 12 months, the index for a couple family where the youngest child is aged under 5 (the cohort in the chart most exposed to childcare costs), has increased by 6.1 per cent, compared to 4.7 per cent for employee households. The index for a couple family where the youngest child is aged 5 to 14 increased by 5.8 per cent.

Over the past 12 months, inflationary pressures for families with a child in childcare have been around 20 per cent higher than for families without a child in childcare.

3. Standard variable interest rate on outstanding loans (RBA: https://www.rba.gov.au/statistics/interest-rates/).

CHART 5 Cost-of-living indexes



Source: ABS and Impact Economics and Policy.

Capacity to increase household income

Some households may manage cost-of-living pressures by increasing their amount of paid work, and over the last 3 years there has been an increase in labour force participation and average hours worked.

However, average weekly earnings growth has not kept pace with inflation since mid-2021, and many workers are not able to readily increase the number of hours that they work. Between May 2021 and May 2024 real average weekly earnings fell by 3.5 per cent.

Table 2 shows the labour market status of all Australians aged 25 to 39. Around 64 per cent already work full-time. Of those not currently in the labour force (12.5 per cent of the total), 277,000 or around 40 per cent are unable to get a job in the short-term or are permanently unable to do so. For those who work part-time (20.8 per cent of the total), 296,000 or around one-quarter, are not able to increase their hours.

TABLE 2 **Labour market status for Australians aged 25 to 39 ('000s)**

	Thousands	% of Total
Employed: Full-time	3,686	63.8
Employed: Part-time	1,203	20.8
Prefer to work more hours, but is unable to do so	296	5.1
Unemployed	161	2.8
Not in the labour force	723	12.5
Have a job to start, or return to	74	1.3
Want a paid job, but is unable in short-term	222	3.8
Retired or permanently unable to work	55	0.9
Do not want a paid job	373	6.5
Total	**5,774**	**100.0**

Source: ABS and Impact Economics and Policy.

The main reason why women in this age cohort are unable to either enter the labour market, or increase their working hours is due to caring responsibilities – in particular, caring for children.

Barriers to entering the labour market, or increasing hours of work relate to the cost and/or availability of childcare.

Conclusion

All Australians have experienced rising cost-of-living pressures since inflation started increasing in mid-2021, however families with children have experienced the biggest increases.

Families with young children are now facing another tough Christmas in a year where despite inflation falling to 2.8 per cent:

- **Rents have increased by 6.7 per cent**
- **Childcare costs have increased by 10.7 per cent**
- **Overall living costs have increased by 6.1 per cent for families with young children**

Cost-of-living relief is all many families will be wishing for this Christmas.

Appendix

The ABS publishes Living Cost Indexes (LCIs) for a small number of specific types of household groups – these include employee households and self-funded retiree households (where the categorisation of any household relates to the status of the reference person within that household). LCIs show the degree to which general price changes for the goods and services that Australians purchase affect these specific household groups.

To derive each household group LCI, the ABS 'weights' changes in price indexes (for all key categories of goods and services), according to the specific spending patterns of that household group.

- Broadly speaking, to the extent that the spending pattern for each household group differs from the spending pattern for all Australian consumers combined, the weights used for each household group will differ from those used in the ABS's Consumer Price Index (CPI)
- That said, there are some compositional differences between the LCI and CPI consumption baskets. In particular, the LCIs include mortgage repayments (and consumer credit charges), but exclude home purchases and renovations.

For this report, LCIs were derived for other household groups – specifically, couples with no dependent children, and couples with dependent children (two separate LCIs that reflect different ages of dependent children).

As is the case for the ABS LCI series, the new LCIs were derived by weighting the standard (CPI) price indexes according to the spending patterns of the household groups.

The ABS Household Expenditure Survey (HES) provides spending-pattern weights for the relevant household groups. However, the most recent published data is for 2015-16. Updated weights for these household types were derived by comparing the weights for the CPI between 2015-16 and now, and applying changes to the weighting patterns for each of household groups, while maintaining differences in *relative* weights.

- Note, this was undertaken for all of the 21 separate household groups in the HES (see below)

For mortgage interest payments (and consumer credit charges), the ABS publishes price indexes as part of its broader LCI publication.

Weights for mortgage interest payments (and consumer credit charges) were derived for each household group. The ABS Survey of Household Income and Wealth provides estimates of the average outstanding loans for each household type. These were used to derive *relative* weights for each household type in respect of interest payments. Absolute weights, for interest payments, for each household type were derived using the published weights for *employee households* in the ABS LCI publication as a benchmark.

As a check for internal consistency, the whole above process was undertaken for each of the 21 separate household groups in the HES, including for the *All Household* category. For each household group, the relevant LCI was weighted using the relevant proportion of households in Australia (ABS Survey of Household Income and Wealth) and combined to derive a total LCI. This was checked against the derived LCI for the *All Households* category.

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