AIBE Explainer Series: Inflation Intro: Covid related supply disruptions and the massive income support programs around the world have both put upward pressure on prices in most if not all countries around the world. The invasion of Ukraine by Russia has led to further disruption and large increases in the prices of oil, gas, and coal. The upshot of all that is that we are now facing increases in prices that havenot been seen in a long time, really decades. In the first instalment of this new AIBE series, we explain what inflation is, how it is measured, why it matters, and how inflation affect different people. [MAYBE HAVE SOMETHING HERE ABOUT AIBE].

**Inflation is personal, but the CPI number is an average.**

If a a 35-year-old single mother of 2 children (1 under 5 and 1 under 16) living in Brisbane, working part-time on a casual contract, and relying on means-tested income support payments spend their income as follows:

|  |  |
| --- | --- |
| **Home outline** | **Housing (Rent): 24%** |
| **Grocery bag outline** | **Food: 34%** |
| **Fluorescent Light Blub outline** | **Utilities: 8%** |
| Car outline | **Transport: 14%** |
| Desk outline | **Education: 8%** |
| Money outline | **Others: 12%** |

**then their annual personal rate of inflation as of March 2022 is 4.8%.**

The [**Wage Price Index**](https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/mar-2022) **(WPI)** is measure of the increase in wages. **For the year ending March 2022, the WPI increased to 2.4%**: a return to pre-pandemic levels and below historic levels.

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**What matters for the standard of living is real wages as measured by the WPI have declined by 2.6% and most income support schemes declined by 3% in real terms in the year to March 2022.**

**Inflation** is the increase in the prices of the goods and services households buy.

A key measure of inflation in Australia is the **Consumer Price Index (CPI)** calculated by the [Australian Bureau of Statistics](https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/mar-2022). The CPI measures the average change over time in the prices for a fixed basket of goods and services paid by households **who reside in the eight State/Territory capital cities**.

**The CPI increased to 5.1% in the first quarter of 2022 compared to the same period last year**; the highest annualised increase in a quarter since June 2001.­

The CPI is how we keep track of the cost of living in Australia. It influences pension and other government payments, interest rates and wages, but it can conceal a world of pain for individuals and families.

The goods and services included in the CPI cover a high proportion of consumers’ expenditures.

[There are 87 expenditures classes arranged in eleven groups with the aggregated weights for 2021 given by:](https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/annual-weight-update-cpi-and-living-cost-indexes/2021#appendix-1-comparison-between-the-2020-and-2021-cpi-weights-weighted-average-of-eight-capital-cities-a-)

|  |  |  |
| --- | --- | --- |
| **Grocery bag outline** | **Food and non-alcoholic beverages** | 16.8 |
| **Beer outline** | **Alcohol and tobacco** | 9.0 |
| **Clothes hanger outline** | **Clothing and footwear** | 3.3 |
| **Home outline** | **Housing** | 23.2 |
| **Couch outline** | **Furnishings, household equipment/services** | 9.2 |
| **Medical outline** | **Health** | 6.5 |
| Car outline | **Transport** | 10.6 |
| **Email outline** | **Communication** | 2.4 |
| **Performance Curtains outline** | **Recreation and culture** | 8.6 |
| Desk outline | **Education** | 4.6 |
| **Piggy Bank outline** | **Insurance and financial services** | 5.8 |
|  | **TOTAL** | 100.0 |

**Inflation is personal, but the CPI number is an average.**

The typical Queenslander according to the [2016 census](https://www.abs.gov.au/census/find-census-data/quickstats/2016/3) is 37 years old woman, married with two children. If they recently bought a house with a mortgage, travel to work by car and have one child in childcare and the other in state school, and if they spend their income (net of any savings) as follows:

|  |  |
| --- | --- |
| **Home outline** | **Housing: 25%** |
| **Grocery bag outline** | **Food: 15%** |
| **Fluorescent Light Blub outline** | **Utilities: 3%** |
| Car outline | **Transport: 13%** |
| Desk outline | **Education: 5%** |
| Money outline | **Others: 39%** |

**then their annual personal rate of inflation as of March 2022 is 7.3%**.

**Inflation is personal, but the CPI number is an average**

If a full-time domestic undergraduate university student, living in shared off-campus accommodation in a Brisbane suburb, cycling to university, working part-time in hospitality, and receiving Youth Allowance, spend their income as follows:

|  |  |
| --- | --- |
| **Home outline** | **Housing (Rent): 33%** |
| **Grocery bag outline** | **Food: 19%** |
| **Fluorescent Light Blub outline** | **Utilities: 7%** |
| Car outline | **Transport: 4%** |
| Desk outline | **Education: 2%** |
| Money outline | **Others: 35%** |

**then their annual personal rate of inflation as of March 2022 is 2.5%.**