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News release

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Official inflation figures ignore impact of interest rate rise and bank fees

This weeks rise in interest rates will have a major impact on the cost of living for Australians with mortgages but it will have no impact on the official measure of inflation according to Richard Denniss, Senior Research Fellow at the Australia Institute.

“While many Australians are bracing themselves for the impact of an extra 30 dollars a month on their mortgage repayments, the ABS will continue to ignore such expenses when calculating the quarterly rate of inflation.

“Not many people know that the ABS no longer includes the cost of mortgage interest payments in its CPI figures. Now that interest rates are on the rise again that decision is going to become quite significant for a large number of Australians,” said Mr Denniss.

In 1998 the ABS decided to exclude interest paid on home loan mortgages when it moved to a new framework for calculating the Consumer Price Index (CPI).

“If interest rates go from 6.5 per cent to 7.5 per cent, then interest payments will increase by more than 15 per cent per month. When you take into account that many people are spending 30 per cent of their disposable income on housing, that translates into a very large increase in their cost of living.

“Bank fees and charges are also excluded from the CPI. Over the past 10 years bank fees have been rising rapidly and taking a larger and larger slice of household income but these increases have been concealed by the CPI.

“In 1998 the ABS said it would develop new measures of the cost of bank fees and other financial services by the year 2000, but while bank fees continue to rise the official measure of inflation continues to ignore them.

“The Government might pride itself on the low level of measured inflation but the actual increase in the cost of living is quite a different story. There are people out there whose pay rises are being based on the measured rate of inflation and I think it is fair to say that they are being short changed,” concluded Mr Denniss.