

Box A

Consumption Patterns and Consumer Price Index Weights

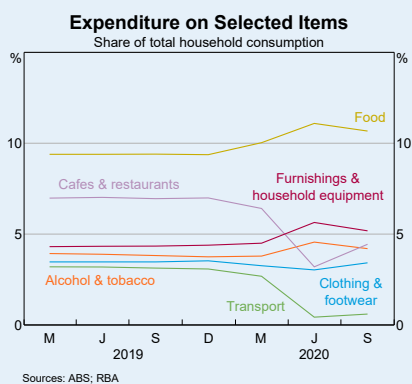
Restrictions on activity and discretionary decisions by households in response to the COVID-19 pandemic have led to changes in consumer spending patterns. These changes have in turn been reflected in the way the ABS calculates the Consumer Price Index (CPI). As household expenditure patterns continue to adjust to the pandemic and policy measures evolve, further larger-than-usual changes to CPI weights could occur over the next couple of years to ensure the index still provides an accurate and relevant measure of prices faced by households.

The pandemic has changed household consumption patterns ...

Household spending patterns shifted considerably in response to the COVID-19 pandemic and associated activity restrictions. For example, during the initial phase of the pandemic in March and April 2020, spending at cafes & restaurants fell markedly as people avoided public gatherings and restrictions on eating out were imposed (Graph A.1). This was largely offset by increased spending on groceries for consumption at home. There was also a very strong increase in spending on many types of household durables, including home entertainment and computer equipment, appliances, recreational goods, furniture and home renovation goods. In contrast, spending on new motor vehicles, clothing & footwear and a range of other household services declined.

As restrictions eased across most of Australia, expenditure patterns began returning towards pre-pandemic shares for some items, such as clothing & footwear and alcohol consumed at venues. However, some changes to consumption patterns of other categories of goods and services have persisted. Purchases of food and drink for consumption at home remained elevated in the September quarter 2020, while spending at cafes & restaurants remained much lower than prior to the pandemic. A particularly large change was spending on international travel for holidays and education; this had accounted for around 5 per cent of household consumption in recent years, but fell to very low levels due to international border restrictions (Graph A.2).

Graph A.1



... that have been reflected in the calculation of the CPI

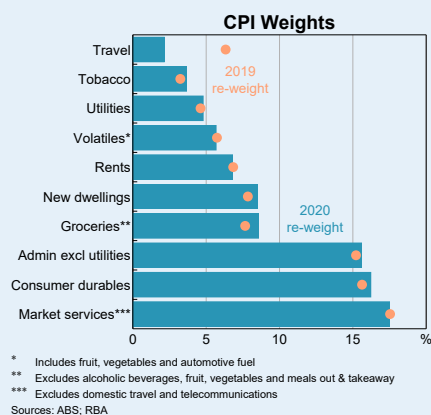
The ABS has captured these larger-than-usual shifts in household consumption patterns in the CPI by adjusting the relative weights of the various expenditure categories. Re-weighting ensures the CPI remains an accurate measure of household price inflation. In recent years, the ABS had been updating the weights in the CPI annually to reflect the consumption shares observed in the previous year's Household Final Consumption Expenditure (HFCE) estimates. Because of the unusually large changes in spending patterns since the outbreak of COVID-19, for the 2020 re-weighting the ABS has supplemented the HFCE estimates with a range of more timely data sources, such as supermarket scanner data.^[1] Expenditure weights for around one-fifth of the CPI basket have been estimated using timelier data sources, including for grocery food, alcohol, electricity and domestic and international travel.

Consistent with the very large fall in expenditure on both international and domestic airfares, the weight applied to travel prices fell substantially (Graph A.3). International holiday travel, which made up

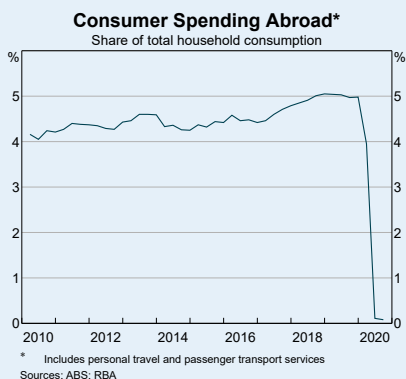
around 3 per cent of the CPI basket as at the end 2019, now comprises less than 0.1 per cent of the CPI. The decline in the weight assigned to international travel has meant that the share of tradable items in the consumption basket has continued its long-run decline, to be now less than one-third of the CPI (Graph A.4). The largest increases in expenditure weights over the past year were for groceries, consumer durables and new dwellings, with market services retaining the largest weight in the CPI.

Although some of these changes represent unusually large annual adjustments, in

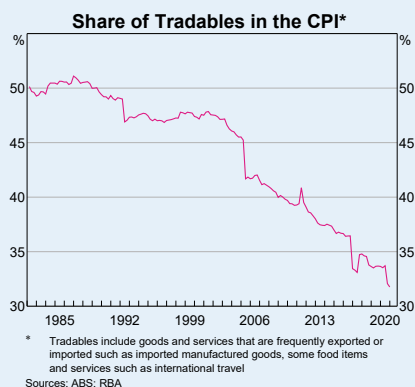
Graph A.3



Graph A.2



Graph A.4



absolute terms the changes to individual expenditure weights are still only around 1–2 percentage points. Accordingly, these weight changes have not affected our overall assessment of current and future inflation (see ‘Economic Outlook’ chapter). Where a larger weight applies to an expenditure category with a faster (or slower) rate of inflation, this will increase (or decrease) aggregate inflation measures by a small amount. There could also be larger-than-usual updates to CPI weights over the next

couple of years as household expenditure patterns continue to adjust to the pandemic and related policy measures. The ABS has indicated it will continue to monitor spending patterns using timely data in order to ensure that the CPI reflects the actual composition of household consumption. These weight adjustments may add some volatility to CPI outcomes over the next couple of years, but these effects are likely to be small relative to other factors shaping the inflation outlook. ❖

Endnotes

[1] This approach aligns with guidance from international bodies and has been used by other statistical agencies, including Stats NZ and Eurostat. For more information, see ABS (2020),

‘The 2020 Annual Re-weight of the Australian Consumer Price Index’, available at <abs.gov.au/statistics/research/2020-annual-re-weight-australian-consumer-price-index>.