

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 3-5 June 2008

Question: bet 98

Topic: Price Increases

Hansard Page: E109

Senator Coonan asked:

Senator COONAN—Can you confirm that the effect of a government policy on the CPI can be calculated by multiplying the percentage price change due to government policy by the share of that item in the CPI? For example, fuel is about 3.8 per cent of the CPI. A five per cent increase in fuel prices will increase the CPI by 3.8 per cent times five per cent or I suppose that would be 0.19 percentage points. Would that be broadly right?

Dr Henry—Yes, I think that is how the arithmetic would work.

Senator COONAN—Can you provide an estimate of the percentage price increase due to the following policy changes—I will do them one by one because I do not expect you to keep it all in your head—the increase in the luxury car tax and the effect on car prices?

Dr Henry—I am not going to be able to do the mental arithmetic. Anyway, I do not know the weights. I do not know the percentage price increases, either, for that matter. I do not have the information available to perform the mental arithmetic and so I think I am going to have to take these questions on notice.

Senator COONAN—I will run through them and note that you will take them on notice. The increase in excise on pre-mixed drinks, the increase in the passenger movement charge, the increase in the passport application fee and the increase in visa application fees. Can you now provide an estimate of the proportion of the CPI that is made up of each of these items—that is, cars, pre-mixed drinks, passenger movement charge, passport application fee and visa application fee?

Dr Henry—We will have a go at that. Seriously, I cannot promise anything in respect of that second question, because there are not that many weights. The CPI weights are not at that level of granularity, as I am sure you would understand. I could be wrong, but I doubt very much that the passenger movement charge has a weight in the CPI.

Dr Gruen—I have a couple of those numbers for you, if you would like them. For the price of ready-to-drink beverages, the direct estimated increase in the CPI is 0.042 percentage points. For the increase in luxury car tax the estimate is 0.024 percentage points. The others I do not have.

Senator COONAN—Take those on notice if you can get them. Thank you for giving me the ones that you had.

Answer:

Treasury does not have an estimate for the CPI weights of the remaining items. These items are below the finest level of aggregation at which CPI data is released by the Australian Bureau of Statistics.