



Car affordability at best levels in 37 years

Economic trends

- **Best car affordability since 1976:** The CommSec Car Affordability index has improved to the best levels since 1976. CommSec estimates that someone earning the average wage has to work for around 26 weeks to purchase a new Ford Falcon XT auto sedan, down from around 30 weeks just two years ago.
- **Huge gains over decade:** Over the past decade the average wage has increased by 55 per cent but cars as diverse as the Mitsubishi Lancer, BMW 320i and Porsche 911 Carrera have fallen in price over the period.
- **Petrol & housing affordability:** Affordability of both petrol and housing has been relatively stable over recent years, although easing modestly over the past decade.
- **Home purchase not out of reach.** The Rismark all regions median dwelling price to income ratio stood at 3.9 in the June quarter, only modestly higher than a decade ago when the ratio stood at 3.8.
- **Standard of living soars:** Over the past decade, the average household disposable income has lifted 71 per cent while the cost of food has lifted 32 per cent, the cost of clothing has fallen by 4.2 per cent and the cost of major household appliances has fallen by 13.6 per cent.

What does it all mean?

- There is a perception that goods can only go up in price and never fall. And while that holds for a raft of goods, that doesn't always apply. The petrol price rises and falls over time as do food prices, in particular, fruit and vegetables. But even some car prices have fallen over the past decade in response to a firmer currency, lower tariffs and competitive forces.
- But while price changes are important, more relevant is affordability – that is, our ability to purchase the goods in question. Over the past decade the average wage has lifted by just over 55 per cent (household disposable incomes up 71 per cent), but consumer prices in general have only risen by 24.5 per cent. So clearly – in an aggregate sense at least – Australians have become substantially better off over time.

NEW CAR PRICES, over past decade

	JunQ 2003	JunQ 2013	% change
Average Weekly Earnings	\$47,533	\$73,887	55.4
Ford Falcon, auto	\$34,660	\$37,235	7.4
Holden Commodore, Acclaim/Omega auto	\$37,510	\$39,990	6.6
Toyota Corolla Conquest/Ascent 1.8	\$21,840	\$22,990	5.3
Mitsubishi Lancer GLXi/ES 2L manual	\$20,990	\$19,990	-4.8
Audi TT 2.0L Coupe	\$74,100	\$75,050	1.3
BMW 320i 2l auto	\$65,500	\$58,600	-10.5
Mercedes E240 Classic/E220 Elegance	\$89,900	\$84,800	-5.7
Lexus IS200/IS250	\$53,490	\$55,800	4.3
Porsche Carrera 911 manual	\$225,300	\$206,500	-8.3

Source: NRMA, Glass's Guide, CommSec, ABS

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- New cars have certainly becoming more affordable over time, allowing Aussies to either trade up to more expensive vehicles or use the savings to purchase other goods or services.
- And while there is a perception that petrol and houses have become substantially dearer over time, in actual fact there has been little change in affordability of both goods over time.
- Aussie families have enjoyed a substantial lift in the standard of living over the past decade with incomes far outpacing living costs.

What do the figures show?

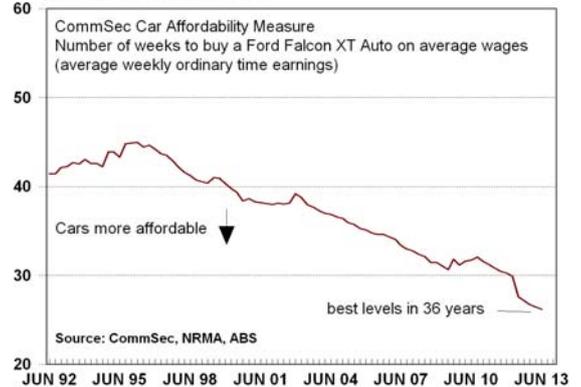
New car affordability

- CommSec estimates that someone on the average wage has to work for 26.2 weeks to purchase a new Ford Falcon XT auto sedan. Just two years ago the same worker would have needed to work 30.4 weeks to afford the same vehicle and a decade ago the worker would have needed to work 37.7 weeks to make the equivalent purchase.
- The data on car prices has been obtained from issues of the NRMA Open Road magazines over time, which in turn has sourced data from the authoritative Glass’s Guide.
- Interestingly the data has indicated that new car prices have been relatively stable in recent years. Listed new car prices for the Holden Commodore, Ford Falcon and Toyota Corolla haven’t moved in the past 18 months. However over the same period the average weekly wage has lifted by almost 7 per cent, confirming a sharp improvement in car affordability.
- Over the past decade, the average wage has increased by over 55 per cent. But family sedans such as the Ford Falcon and Holden Commodore have increased by just 6-7 per cent while luxury vehicles from BMW, Mercedes Benz and Porsche have actually fallen over the period.
- CommSec estimates that someone on the average wage has to work for 41.2 weeks to purchase a new BMW 320i auto sedan. Just two years ago the same worker would have needed to work 42.9 weeks to afford the same vehicle and a decade ago the worker would have needed to work 57.5 weeks to make the equivalent purchase.

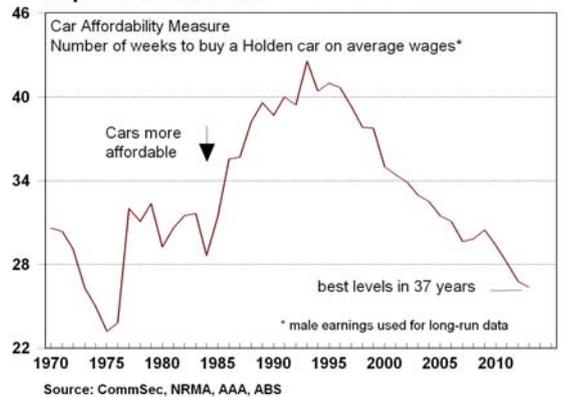
Petrol & Housing affordability

- Consistent historical price data is difficult to obtain for many goods. But two goods where price data is available are petrol and housing. In the June quarter, Australian petrol prices averaged 142.7 cents a litre. That means a worker on the average wage could purchase 995.7 litres of petrol, up 9 per cent over the past two years but down 3.7 per cent over the past decade.
- While petrol is slightly less affordable than a decade ago, at least the average motorist can use savings from

Super-affordable cars



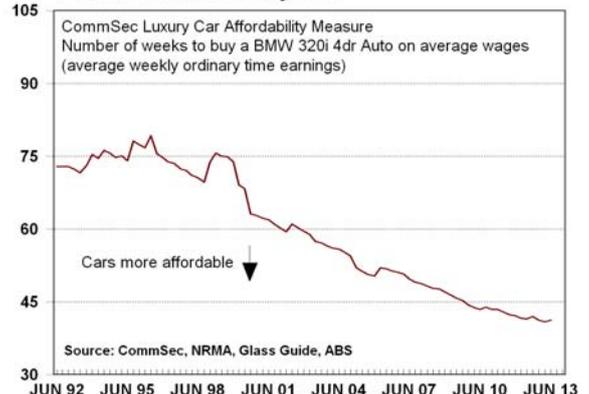
Super-affordable cars



Petrol affordability



More affordable luxury cars



buying a car to meet the slightly higher running cost.

- Data on established home prices is also regularly collated over time. And one of the key providers of home price data, Rismark (who publishes the Home Price Guide in conjunction with RP Data) has compiled an index of housing affordability.
- The Rismark all regions median dwelling price to income ratio stood at 3.9 in the June quarter, down from 4.0 in June 2011, and only modestly higher than in June 2003 when the ratio stood at 3.8.
- While the perception is that the average home has moved out of the reach of new home buyers, that doesn't accord with the housing affordability measure.
- Over the past decade, average household disposable incomes lifted by 71 per cent while the median home price increased by 73.5 per cent.

What are the implications?

- A little information can be a dangerous thing. Unfortunately many people look at prices in isolation, rather than measuring the ability to purchase goods or services. That is certainly the case with housing. While the average home has lifted 73 per cent over the past decade, disposable incomes have lifted by 71 per cent.
- The good news for many families is that lower interest rates and improved affordability for other goods have meant that the standard of living has continued to rise.
- While cars are substantially cheaper than a decade ago, affordability of clothing, holidays, electrical goods and even food have improved over the past decade.
- Simple price and affordability comparisons fail to take account of quality improvements over time. Clearly the average home, car, telephone and TV – just to name a few items – are of higher quality now, than a decade ago.

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