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A consumer index for the 12 days of Christmas

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Annual 12c index.

Today's release of the 2015 Christmas Price Index should give consumers plenty to cheer about.

The index, which, like its American counterpart, calculates the cost of purchasing the gifts listed in *The Twelve Days of Christmas*, shows those gifts are more affordable than ever, with the full complement — going from the partridge in a pear tree to the 12 drummers drumming — costing 3 per cent less in Australia than five years ago. In contrast, yuletide prices in the US are 20 per cent higher than they were in 2010.

It is therefore unsurprising that the Federal Reserve last week began the process of lifting official interest rates, while the Reserve Bank has kept its cash rate, which is at a historic low, on hold.

Yet the good news for local consumers spells lean times for Australian producers. And no one is doing it tougher than lords-a-leaping and ladies dancing, with reputable agencies quoting hourly rates that are 41 per cent lower for lords, and 24 per cent lower for ladies, than in December of last year. That collapse, which contrasts with moderate increases in the US, has already provoked heated commentary. Noting that while the nobility's pay has been slashed, the more plebeian maids milking, pipers piping and drummers drumming have held their own, one expert blamed Malcolm Turnbull's

“precipitate” axing of Tony Abbott’s knights and dames for unleashing a glut of aristocrats on to the local market.

Just as between the wars every other taxi driver in Paris was said to be a Russian grand duke in exile, so, we were told, it is difficult nowadays to find a leaping lord or dancing lady on Sydney’s streets who was not once an honoured guest at Government House.

But it isn’t only the top end of town that is suffering from excess supply. After soaring earlier in the decade, several local birds have plummeted, with French hens trading at barely half the prices they fetched in 2012-13. As for turtle doves — which the ancients regarded, like the stork, as an indicator of an imminent increase in population and hence of an impending surge in grocery spending — they are 36 per cent cheaper than when prices were in full flight.

It is true that geese and swans are bearing up, as is the market for canaries (also known as calling birds), which may be benefiting from the resilience of mining; however, even for them, prices are barely steady in nominal terms.

Whether that should give cause for concern is controversial. There is an argument, put to us by a senior government adviser, that this year’s outcomes are much as one would expect, given the decline in the terms of trade (that is, the ratio of the prices we get for our exports to the prices we pay for imports).

That is because most of the items included in our index are services, such as drumming and piping, or products, such as doves and partridges, that are rarely traded internationally: they are, in the jargon of economics, “non-traded goods”. When the terms of trade leapt sky-high, pushing the Australian dollar up and making imports cheaper, some of consumers’ greater purchasing power spilled over into increased demand for non-traded goods, raising their price. Now, it is claimed, that process is in reverse, causing our index to fall compared to prices in the economy as a whole.

That suggests an attitude of benign neglect: having enjoyed the good times, producers should take the rough with the smooth. And with consumers coming out in front, the Coalition is sure to boast about Christmas affordability when it faces voters in 2016.

But everything is hardly for the best. Lavish subsidies for some non-traded goods, such as child care, bolster their demand, while regulation and generous industrial awards increase their costs and their call on resources; that inefficiently shifts the brunt of adjustment on to unassisted parts of the sector, such as leaping lords and dancing ladies, whose earnings have to contract more.

Nor does the budget deficit help: as it is partly financed by capital inflows, it keeps our exchange rate higher, and our competitiveness lower, than they would otherwise be. As well as slowing the creation of alternative job opportunities for displaced aristocrats,

that dampens tourism, which might have brought star-struck lovers searching for attractively priced French hens and turtle doves to our shores.

Additionally, even accepting that adjustment is under way, there is a risk that the declines in the index herald a broader deflation last week's Mid-Year Economic and Fiscal Outlook overlooked. While not necessarily harmful, falling prices could lead the RBA to further reduce interest rates and — should the trend persist as rates declined — eventually force it into the “quantitative easing” policies adopted by central banks in the US, Europe and Japan since the global financial crisis.

It would be premature to predict that with any confidence. And it is even more difficult to predict whether the opportunity to buy the 12 days of Christmas package for a mere \$130,000 — down from nearly \$150,000 two years ago — will induce an outbreak of courtly love. These are, after all, grudging and perplexed times, which may weigh as heavily on the heartstrings as they do on the purse-strings.

We are left, therefore, like Guy Noir, the private detective, who, as we know, is up on “the 12th Floor of the Acme Building still trying to find the answers to life's persistent questions”. But vexing as they are, we tackle them in hope: and confident that the joy of the Twelve Days of Christmas will bring readers the prospect, as often renewed as it is imperilled, of peace and prosperity, health and happiness, for all people of goodwill.