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# GST

## ACCC reports on price changes before and after GST

The Commission has issued two reports on the outcomes of its surveys of price movements of commonly purchased household items since the beginning of the year.

The price collections include a general survey in July of about 90 000 prices of goods and services from about 2000 retail outlets across Australia and a monthly supermarket survey in July and August of about 30 000 prices from more than 300 stores.

Price checking by the Commission has shown no evidence of widespread opportunistic pricing intended to raise margins in advance of the introduction of the GST on 1 July 2000, or immediately after the tax changes.

Price changes were generally in line with Commission expectations as published in the *Everyday shopping guide with the GST*, although a few will be further investigated. For example, the survey shows price changes outside Commission price expectations in the areas of car parts, adhesives and sealants, sunscreen and some processed foods.

The report shows an average price change between the May (pre-GST) and July (post-GST) surveys of 1.8 per cent for the surveyed products. This report reflects prices during June and July 2000 while the Commission factors in its price expectations over the first six months of the New Tax System.

While about 40 per cent of surveyed products recorded price increases, about 30 per cent of products recorded decreases and about 30 per cent of products stayed the same.

Details of the survey between May and July 2000 follow.

### Alcohol and tobacco

The prices of alcohol products were generally in line with Commission expectations. For example, bottled wine prices on average increased by 2.7 per cent. Similarly, spirits (takeaway) were expected to stay about the same in price but fell slightly by 0.5 per cent on average in the survey.

### Clothing and footwear

Clothing prices in the survey on average increased by around 5 to 8 per cent. Casual observation indicates that some retailers continued pre-30 June sales into July.

### Processed food and beverages

Prices of most processed food and beverage products stayed about the same, with 39 of 66 product groups recording average price increases or decreases of less than 1 per cent. The product groups subject to GST and previously exempt from WST, such as pies and cakes, increased by between 8 and 9 per cent. Soft drinks and carbonated waters decreased on average by 3.6 per cent. Prices of processed fruit and vegetable juices/drinks also decreased on average. Fruit drinks have different tax treatments, both under WST and GST. There were consequently several different expected price movements, depending on what proportion of the beverage was fruit juice. A few products in this category, such as packet soup, long-life milk and, to a lesser extent, cereal products, showed average increases outside the estimated New Tax System-related effect. The Commission is also monitoring milk prices for the effects of dairy industry deregulation. It should be noted that prices were collected before Woolworths recently announced reductions in milk prices.

### **Fresh food**

Prices of fresh fruits, vegetables, meats and seafood in the survey on average mostly fell or increased by less than 1 per cent. The exceptions were lettuce (average increase of 16 per cent), capsicums (5.6 per cent) and onions (average increase of 1.6 per cent). However, considerable volatility in the prices of fresh foods is common.

### **Household furnishings and equipment**

Prices of products in 12 of 14 groups in this category generally showed average increases of up to about 4 per cent. Most average increases were less than Commission estimates.

### **Household appliances**

The prices of household appliances (whitegoods and kitchen and cleaning appliances) generally stayed about the same or fell slightly. Ten of 19 product groups recorded average price increases of less than 1 per cent. Only two groups' average price changes were outside the estimate of the tax effects.

### **Household supplies and services**

This broad category contains a mix of products subject to different tax treatments under the WST, although all are taxable under the GST. Prices of house and kitchen cleaning products fell on average, generally by more than Commission estimates. Service products such as maintenance trades and house cleaning increased by around 4 to 6 per cent, which was less than expected.

A group of like products that showed average price falls were pesticides, herbicides and insecticides. However, these price changes from the survey were not as substantial as expected.

### **Meals out and takeaway food**

This category of products was not subject to WST before 30 June, but is now subject to GST. On this basis price increases of about 9 per cent, taking into account indirect tax-related cost savings, were expected. Generally the immediate price effect was below this, with increases ranging from about 4 to 9.6 per cent. The exception in the survey sample results is 'hot

beverages (restaurant/cafe)' which recorded an average increase of 10.3 per cent. The Commission received many complaints about prices in restaurants, cafes and takeaway food outlets, particularly coffee prices, in the first few weeks after 1 July. This issue has been addressed by approaching businesses and their associations, and by producing and distributing a brochure in its *GST News for business* series.

### **Medical and health products**

Products in this category were generally exempt from WST. However, their tax status under the GST varies. It was expected that the tax changes would lead to price rises of up to 9 per cent, with a few product groups expected to fall slightly. With the exception of sunscreen prices, the average change is consistent with Commission expectations.

Sunscreen prices rose on average by 1.5 per cent in the July collection. This differs from the expected small reduction of 1 per cent.

### **Motor vehicle parts and services**

This category covers motor vehicle parts, tyres and car servicing. The prices of parts and tyres in the survey decreased and car servicing prices increased. The direction of change was consistent with the Commission's expectations, although in the case of some parts the average reductions were not as large as expected.

### **Personal care products and personal services**

Most personal care product prices in the survey decreased. Reductions in the prices of toiletries were between 2 and 5 per cent. Products in this category that were not subject to WST but now taxable under GST, rose on average within the expected 9 per cent.

Prices of hairdressing services surveyed in July increased on average by 10.6 per cent. Increases of 10 per cent were relatively common in the collection, with several over 10 per cent.

### **Recreational equipment: audio-visual**

Reflecting the removal of 22 per cent WST, prices of products in this category, such as televisions, sound systems and VCRs, fell

substantially on average. Reductions were of the order of 6 to 8 per cent. Average price decreases were greater than the Commission expected.

### **Other recreation equipment and services**

The prices in this mixed category were generally expected to fall with the removal of WST (usually at 22 per cent) for many products. Examples include cameras, soft toys and electronic games. Services, such as sports lessons and gymnasium memberships, were expected to rise by up to around 9 per cent. The preliminary results from the July collection indicate that price changes were consistent with the Commission's expectations.

Changes in prices of cinema admission tickets and photographic film processing appear to be exceptions. Cinema admission prices had an average percentage price change of slightly over 10 per cent.

The Commission will continue to check post-GST price changes. The reports are available on the ACCC website at <http://gst.accc.gov.au>.