

Post-GST price movements

Surveys by the ACCC checking price movements pre- and post- GST show that businesses generally haven't used the change as an opportunity to increase profit margins.

The ACCC has been surveying prices since December 1999. The ongoing general survey involves collecting the prices of identical products at different times. About 340 000 comparisons were made between May 2000 and February 2001.

The survey covers prices for a wide range of common household goods and services. Prices are collected from around 10 000 sites in 115 locations (capital cities, major regional cities and towns) in all States and Territories.

Between May 2000 (just before the GST was introduced) and February 2001 the overall average price change was an increase of only 4.4 per cent.

If you exclude fresh fruit and vegetables, which have highly variable supply and demand characteristics because of their perishable and seasonal nature, the increase drops to 3.2 per cent.

Remove alcohol and tobacco products (subject to CPI-related half-yearly indexation of excise rates unrelated to the New Tax System) and it drops further to 2.9 per cent.

On the same basis, the average price change between May–October 2000 was only +2.6 per cent — which means that between October 2000 and February 2001 there was only a slight average increase.

The ACCC considers that price increases happened mainly in the three months after 30 June 2000, and that further increases resulting from the New Tax System are unlikely.

Prices that have risen since September 2000 have generally been in line with inflation trends that existed before the New Tax System changes.

Others may be accounted for by some businesses having separated tax and non-tax factors in pricing and holding off passing on the non-tax factors when the tax changes occurred. These businesses would now need to make sure that future price increases are justified by these non-tax factors and aren't implemented under the guise of the GST.

It's these non-tax factors that are now increasingly responsible for price changes. They include increasing production costs for raw materials, labour, imported plant and equipment; changes in the Australian dollar exchange rate; fuel price rises; and climatic conditions and seasonal patterns affecting fresh produce supply.

The table shows that average price changes for most products have moved moderately since October 2000. The May 2000–February 2001 averages are in the unshaded column, with those for May–October 2000 shown in the next. The fresh food group jumped to 10.3 per cent during May 2000–February 2001 because of large increases in the prices of bananas, apples, pears, potatoes, pumpkins and lettuces.

Before the February survey the following factors, unrelated to tax changes, affected the supply-side of fresh food prices surveyed:

- floods in northern New South Wales and southern Queensland growing areas during November 2000; and
- extreme heat conditions over summer creating poor growing conditions for many crops, particularly lettuce, onions and potatoes.



Product group average price changes — May 2000–February 2001 survey data

Group	Average change May '00–February '01	Average change May–October '00	Estimated New Tax System effect on prices by end 2000
	%	%	%
Clothing and footwear	3.2	3.8	7.5
Fresh/unprocessed food	10.3	2.9	-1.1
Household furnishings and equipment	2.8	1.2	2.2
Household services and operation	4.2	2.6	2.2
Personal care	-0.3	-1.2	1.5
Recreation — audio visual	-5.9	-6.1	-3.6
Recreation — other	2.0	1.8	3.2
Processed food and beverages	1.8	0.2	-0.3
Meals out and takeaway food	8.5	8.1	9.2
Miscellaneous goods and services	4.2	3.6	3.6
Medical and health	5.9	5.5	5.4
Motor vehicle expenses	5.1	2.9	1.9
Alcohol and tobacco products	11.2	not applicable	6.0
All groups weighted average	4.4	2.7*	3.0

* The May–October 2000 overall result does not include alcohol and tobacco products.

The surveys also showed almost no significant differences in average price changes when comparing:

- capital cities with regional areas;
- smaller businesses with larger retailers/retail chains; and
- the States and Territories.

Apart from checking prices to assess the general impact of the New Tax System on prices, the ACCC's monitoring work also helped to identify potential cases of price exploitation.

Most of those investigated arose because businesses either experienced technical errors with their GST implementation or misunderstood its effect on the supplies made by their businesses. Errors included charging GST:

- on GST-free items, such as food, sunscreen products and prescription medicines;
- in relation to a pre-GST contract in circumstances where the contract provided no review opportunity; and
- in the absence of a clause allowing the business to pass on any GST charge to the customer.

In most cases businesses readily admitted their error and took corrective action including providing refunds or discounting products for an agreed period.

Advertising prices

Advertised or quoted prices should include GST. Some businesses complain that including GST in their prices will lose them sales because customers will believe their prices are higher than their competitors. It's a good reason for standardising the way prices are advertised.

And that's what the ACCC is working towards: if a business supplies goods and/or services to individual customers (who cannot claim input tax credits, and who therefore pay GST that won't be refunded later), then the prices should be GST-inclusive — because customers are entitled to know the total price before deciding to buy.