

2013 Household Incomes Report – Key Findings

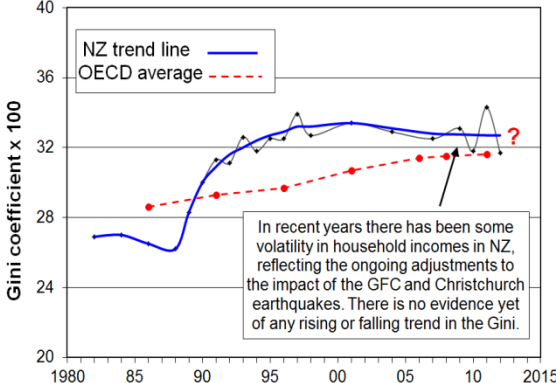
The Incomes Report and the Household Economic Survey

- 1 The 2013 Incomes Report updates the previous one with data from the 2011-12 Household Economic Survey (usually called the 2012 HES).
- 2 The survey took place from July 2011 to June 2012, and the incomes question asked about incomes “in the last 12 months”. The latest figures (2012 HES) therefore reflect on average what household incomes were in calendar 2011.
- 3 This is the first HES to pick up the beginning of the impact on household incomes of the recovery following the global financial crisis (GFC) and the Christchurch earthquakes.

Incomes

- 4 From HES 2011 to HES 2012:
 - median household income rose 2.3% in real terms, following a 3% fall from HES 2010 to HES 2011
 - incomes rose a little for all the lower 9 deciles, but fell 8% for the top decile, mainly reflecting lower investment returns for this group.
- 5 From just before the impact of the GFC to the beginning of recovery (from HES 2009 to HES 2012, that is, approximately from calendar 2008 to 2011), the net change in median household income in real terms was close to zero (+0.5% over three years):
 - this “no change” result contrasts with the strong income growth from the mid 1990s to 2008, averaging 3% pa in real terms
 - however in the context of the GFC and its aftermath it is better than many other countries who experienced net falls in the median in the period – for example, Australia, Ireland, the UK and the US
 - for many OECD countries, lower income households tended to lose more or gain less than high-income households – for New Zealand, there was a small gain for bottom decile households (1-3%) and a net fall for the top decile (~-6%).

Inequality

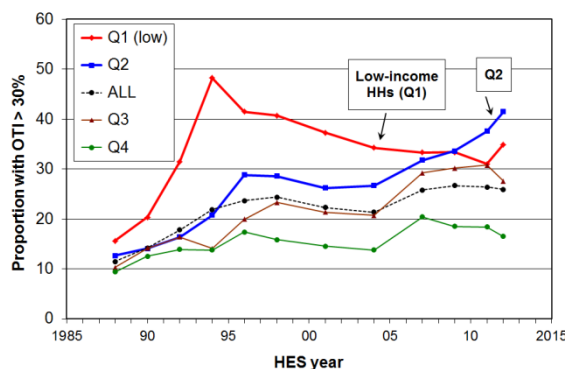
- 6 Income inequality has been very volatile in recent years with the GFC shock impacting on investment returns, employment and wages over the three years from mid 2008. From HES 2011 to 2012, inequality as measured by the Gini fell significantly, following a large rise from HES 2010 to 2011 and other ups and downs before that. The trend-line is flat. There is no evidence of any general rise or fall in income inequality since 2007.
- 7 The latest available figures for OECD comparisons are for 2010. New Zealand's trend-line figure indicates levels of inequality similar to Australia, Japan and Canada, and a little above the OECD median.
- 8 In New Zealand the top decile receives 8.5 times the income of the bottom decile (after tax and transfers). This is average for the OECD, a little lower than Canada and Australia (8.9).
- 9 Income inequality can also be looked at in terms of the income share received by those receiving very high incomes. For example, the top 1% in New Zealand received around 8% of all taxable income in 2009 and 2010 (before tax), more than in Denmark, Finland and

Sweden (5 to 7%), similar to Norway, France and Australia, lower than Ireland (11%) and Canada (12%), and much lower than the UK (14%) and the US (17%). For most of these countries these proportions are all higher than in the 1980s (60 to 100% higher).

- 10 Wealth inequality is usually around double the level of income inequality (using the Gini measure). New Zealand's wealth inequality is about average for the OECD.
- 11 Redistribution through the tax and transfer system reduces income inequality very significantly compared with what it would otherwise be. An example is that single-earner two-child families with income less than around \$60,000 from wages pay no net income tax. They receive more from Working for Families tax credits than they pay in income tax and ACC.

Housing costs relative to income

- 12 High housing costs relative to income are often associated with financial stress for low- to middle-income households. Low-income households especially can be left with insufficient income to meet other basic needs such as food, clothing, transport, medical care and education for household members.
- 13 For the bottom income quintile (Q1), around one in three households have in recent years had housing costs of more than 30% of their after-tax income.
- 14 There is evidence of increasing numbers of second quintile households with high housing costs. The rate has been rising strongly since 2004, so that in HES 2012, 42% of these households had housing costs of more than 30% of their income, more than for the bottom quintile.
- 15 Half of households in the bottom quintile are mortgage-free (mainly older New Zealanders) or are paying only the subsidised income-related rent while living in HNZA houses. This is keeping the Q1 trend line reasonably flat. On the other hand the bulk of second quintile households (75%) rent privately or have mortgages and are therefore more affected by rising housing costs.



Measuring poverty and hardship

- 12 Poverty and hardship in the more economically developed countries are about being excluded from a minimum acceptable way of life in one's own society because of lack of resources. While it is not an absolute subsistence notion ("third world starvation"), to label it "just relative" is not accurate either – there are basic essentials that we expect everyone to have and no one to have to go without even though some of these may change over time.
- 13 New Zealand has no official measure(s) of poverty or material hardship (deprivation).
- 14 MSD reports regularly using both income poverty measures and non-income measures of hardship or deprivation. These include internationally comparable measures (EU, OECD).
- 15 Poverty and hardship exist on a continuum from less to more severe. The choice of threshold impacts on the level reported, but not usually on the trends over time nor on which groups are identified as at higher risk of poverty or hardship.

Income poverty for children

- 16 In HES 2012, the child poverty rate was 21% using the after housing costs (AHC) 60% fixed line measure; 25% on the moving line AHC 60% measure; 16% on the more stringent 50% moving line measure. This is 170,000 to 270,000 children, depending on the measure.
- 17 Child poverty rates were flat from HES 2009 to 2012 on all standard measures. This is a good result in the circumstances (GFC, economic downturn), but rates are still high relative to other age groups (see #22), and relative to the 1980s when housing costs were lower relative to incomes.
- 18 New Zealand had 217,000 children (21%) in beneficiary families at 31 March 2013, and 820,000 in working families. 25% of children (270,000) are in households with no FT worker.
- 19 Poverty rates for children in working families are on average much lower than for those in beneficiary families (12% and 65% respectively), but 2 out of 5 poor children come from families where at least one adult is in FT work or is self-employed. This is an OECD-wide issue – the working poor. The In-work Tax Credit is really important here for alleviating poverty..
- 20 70% of poor children live in rental accommodation (20% HNZC, 50% private).
- 21 50% of poor children are Maori/Pacific.
50% of poor children are from sole parent families and 50% from two parent.
50% of poor children are from households where the highest educational qualification for parent(s) is school or less (32% of children are in these families)
- 22 There is an age gradient for income poverty (using AHC incomes): population rate is 16%, 0-17 (21%), 18-24 (21%), 25-44 (15%), 45-64 (14%), 65+ (7%) ... with 65+ singles at 10% and couples 6%.

Material hardship for children

- 23 Household income is a really important factor in determining the actual day-to-day living standards of a household, but other things matter too. For example, having the basic household furniture, appliances and other goods and having them in reasonable condition makes a positive difference, especially if household income is low. On the other hand high housing costs, high debt servicing or high health and disability related costs make a large negative difference.
- 24 Because of these and other differences the overlap between children counted as being in poverty and those in day-to-day hardship is only around 50%. Half of the children in hardship come from non-poor homes – those with incomes above the poverty line.
- 25 Hardship rates for children rose from 15% in the 2007 HES to 21% in HES 2011, then fell to 17% in HES 2012.
- 26 The rise in hardship to HES 2011 reflects the falling incomes of those in deciles 3-6, some of whom were already in a precarious financial position – the loss of income was enough to tip them into hardship even though their incomes were still above the poverty threshold used. The falling hardship rate from HES 2011 to 2012 mainly reflects reduced hardship for children from non-poor households some of whom struggle to make ends meet.

Income mobility and poverty persistence

- 27 The HES gives a repeat cross-sectional picture – different people are interviewed each survey. To understand how much income mobility there is, and how long-lasting or brief poverty is, we need to follow the same people each survey. The longitudinal data from the SoFIE survey provided this (2001 to 2009).

- 28 We find that there is a good deal of movement but a lot is short-range. Over 7 years there is a mix of mobility and immobility. For example, out of those who start in the first wave in one of the bottom three deciles:
- half are still there after seven years
 - a quarter have moved up to around the middle
 - and another quarter have moved to have incomes above the middle.
- 29 It is important to look at cross-sectional poverty rates with “longitudinal eyes”, especially now that the SoFIE has finished. Chronic poverty is about having an average household income over several years that is below the average poverty threshold over those years. For example, for every 100 children in poverty in a HES survey (cross-sectional) we know that:
- 60 are in chronic poverty
 - there are another 20 not in current poverty but who are in chronic poverty.

Older working-age adults

- 30 Income poverty rates for single person working-age households trebled from the 1980s to 2007 and were 31% in 2011 and 2012. The rates are higher for the older group living on their own (45-64 years) than for the younger group (38% compared with 28%).

International comparisons

- 31 The OECD and EU publish international league tables that rank countries on their income poverty rates using 50% and 60% of median poverty lines respectively.
- 32 On the latest comparisons available (c 2010-2011), New Zealand is in the middle of the rankings for population and child poverty rates on both measures. For example, the rates for children (0-17 years) are 12% (OECD) and 19% (EU), both in the middle for the respective measures.
- 33 Income and wealth inequality comparisons are given above.