

2017 Household Incomes Report and the companion report using non-income measures (NIMs): Guidelines for using and interpreting the findings

There are two reports, the Incomes Report and the companion report using non-income measures (NIMs)

- 1 The reports provide information on the material wellbeing of New Zealand households from two perspectives:
 - *household incomes*: the reports use disposable household income (after-tax income from all sources for all members of the household) – for most households the key economic resource for determining the consumption possibilities, and widely used as a proxy measure of the material wellbeing of households
 - *non-income measures (NIMs)*: this approach more directly measures the material wellbeing of households in terms of their having the basics such as food, clothes, accommodation, electricity, transport, keeping warm, maintaining household appliances in working order, and so on, and in terms of freedoms to purchase and consume non-essentials – household income levels have a strong impact on the ability of households to fund all of this consumption, but so also do other factors such as savings, the stock of household goods, and help from outside the household, and negatively, special demands on the household budget such as high debt servicing costs and high health related costs.

The latest data is from the 2015-16 Household Economic Survey (HES)

- 2 The HES incomes question asks about incomes “in the last 12 months”. The latest figures (2016 HES) therefore reflect on average what household incomes were in calendar 2014. They are not a snapshot of “today”.
- 3 The NIMs report draws on HES data from 2007 to 2016, and from data gathered in MSD’s 2008 Living Standards Survey.
- 4 Though most of the survey data is from Statistics New Zealand, the analysis and findings are the work and responsibility of the Ministry of Social Development.

Trends over time are robust, but year-on-year changes can jump around

- 5 The findings are based on data from sample surveys – this means that it is not wise to read too much into year-on-year changes which can be affected by statistical uncertainties because the original data is from a sample not a full census. Looking at trends over several surveys or longer gives a more certain picture.

What do the reports mean by poverty and hardship?

- 6 In the more economically developed countries (MEDCs) poverty is generally understood as exclusion from a minimum acceptable way of life in one’s own society because of a lack of adequate resources. A household is considered “poor” when its resources are not adequate to meet its consumption needs for the basics or necessities.
- 7 “Poverty” is sometimes used as a synonym for “unacceptably low income”, and sometimes more generally to cover both low income and material hardship.

Poverty is not the same as inequality

- 8 While it is not an absolute subsistence notion (“third world starvation”), neither is it “just relative”. Poverty is not just about having “less than”, it is about “not having enough”. There will always be

debate about where to set the threshold and even about the use of the “poverty” word itself, but most would agree that there are people in New Zealand today whose actual day-to-day living standards are below a minimum acceptable level. It is not just that these people have less than others who are better off, it is that they are going without things that the bulk of New Zealand society considers that all should have and none should be without. See Section D in the NIMs report for a detailed discussion on setting material hardship thresholds when using DEP-17.

- 9 When using the fully relative income poverty measures (eg 50% of the current median), then the reported “poverty” trends are also about inequality, though it is inequality in the lower half of the distribution only, not that of the whole distribution.
- 10 Income poverty levels using fully relative measures can be reduced if the incomes of low-income households rise more quickly than the incomes of middle income households (or if they fall more slowly in a recession).

Keep a distinction between poverty and the causes and consequences of poverty

- 11 Sometimes “poverty” is used very widely to cover an extended range of aspects of social and material disadvantage, including some of the mooted causes and consequences of low income and material hardship. It then becomes a catchall term for a long list of social and material bads which is not helpful for clear and productive discussion. The MSD reports encourage the practice of keeping a clear distinction between the core experiences of low income and material hardship, and their causes and consequences, and other associated disadvantage.

Using and interpreting the poverty and hardship findings in the two reports

- 12 The reports provide a framework and some general guidelines for interpreting and using the poverty and hardship and inequality figures produced, and these are just as important as the figures themselves:
 - a) *the analysis and the findings sit within an incomes-wealth-consumption-material-wellbeing framework – see the Overview and Key Findings document for more on this*
 - b) *poverty and hardship have several important dimensions, so use a multi-measure approach*
 - c) *poverty and hardship exist on a continuum from less to more severe, so for each measure use more than one threshold if possible, a multi-level approach*
 - d) *use income after deducting housing costs (AHC income) to more sensibly compare the material wellbeing of those households with similar incomes but very different housing costs (eg renters vs those in mortgage-free homes; those in low-cost vs high-cost housing areas)*
 - e) *beware of reading too much into year-on-year changes – trends over several surveys or longer are more certain*
 - f) *keep a clear distinction between anchored (fixed line) and fully relative (moving line) measures of income poverty – they reflect quite different notions of the meaning of changes in rates over time: declining fixed line rates mean that the incomes of low-income households are on average rising in real terms, whereas declining moving line rates means that the incomes of low-income households are getting closer to incomes of middle-income households (whether the low incomes are rising or falling in real terms)*
 - g) *for reporting on trends and assessing progress, the reports use the AHC anchored income poverty measure and the material hardship measure as the primary ones – the fully relative income poverty measures are more relevant for monitoring aspects of longer-term changes*
 - h) *material hardship rates are more sensitive to changes in household circumstances than are income poverty rates – comparing trend directions in each is useful, but not the relative sizes of the changes*
 - i) *information on income mobility and low-income persistence is needed to give a fuller income-based picture of household material wellbeing – up to date New Zealand data on this is limited at present, though the material hardship measures go some way to capture the impacts of income history beyond that of the current year’s income.*

13 The reports give three types of information on poverty and hardship:

Types of information		Comment
Levels or rates at a point in time	<ul style="list-style-type: none"> ○ How many are poor or in hardship? 	The numbers here depend significantly on both the measure and on the threshold used for that measure.
Composition at a point in time	<ul style="list-style-type: none"> ○ What is the make-up of those counted as poor or in hardship? ○ Which groups are over-represented among those in poverty or hardship? 	The same groups are almost always identified as over- or under-represented in the poverty and hardship figures, though the balance among the groups can change at different depths.
Trends over time	<ul style="list-style-type: none"> ○ What are the longer-run trends over decades? ○ What are the trends before and after major policy changes, major changes in employment or unemployment rates, or significant international or local events (eg Christchurch earthquakes, the GFC)? 	<p>When interpreting changes over time:</p> <ul style="list-style-type: none"> ○ Conclusions from changes in poverty, inequality and hardship rates from one year to the next need to be made with great caution – the HES is a sample survey and some figures can bounce around a longer-run trend line from survey to survey. ○ The reference year used as the start point for identifying a trend is sometimes critical for the conclusion reached.

How many children are in poverty or hardship in New Zealand?

14 The Reports use a multi-measure multi-level approach as outlined above.

15 This means that the reports give no single figure answer to that question. Rather, they encourage an approach that monitors trends for a range of measures, and which brings together a more comprehensive story that better represents what is happening for the different aspects of poverty and hardship. “Success” on this approach has to meet a more demanding standard than when using a single measure:

- the approach taken in the reports is that anchored (fixed line) AHC income poverty measures and material hardship measures are the primary measures for monitoring, especially in the short to medium term
- the NIMs report also gives detailed comparisons with European countries using the EU’s material deprivation index. This provides any external benchmark for monitoring progress in New Zealand.

16 The reader is encouraged to find and read the Annex to Section H in the Incomes Report. This brings together in one place all the main child poverty and hardship material, and also addresses some common misunderstandings and misinterpretations of the published findings.

Using and interpreting the inequality findings

17 There are many different types of inequality:

- the report is primarily about household income inequality – it has some material on wealth inequality - it has next to nothing on wage inequality
- the three (household income, household wealth and wage rates) are quite different concepts with differing degrees of unequalness and differing trends
- it is easy to confuse the three and when this happens the ensuing discussion and reporting can become incoherent and unhelpful – for example:
 - bringing capital gains into a discussion about income inequality usually confuses wealth inequality and income inequality (though some capital gains are treated as income by IRD)
 - the increasing real estate wealth in Auckland increases wealth inequality between owners and renters, but it does not (directly) impact on income inequality.

18 Income inequality in the longer term

- the report notes:
 - the rapid rise in BHC household income inequality from the late 1980s to mid 1990s
 - the relatively flat trend-line from the mid 1990s to 2016
 - NZ inequality as being a little above the OECD median using the Gini and the Palma ratio (top decile share divided by share for lower 4 deciles)
 - the relatively low to middling share of pre-tax income received by the top 1% in NZ compared with other OECD countries.

19 Some of the aspects of income inequality in New Zealand are quite different from the US and the UK, so sound bites from there may not apply here

- “Top 1% share is rising rapidly”
 - the share of income received by the top 1% in the US has continued to rise in recent years and in 2015 was 22% (UK was 13%)
 - in New Zealand the share in 2013 (latest available) was 8% and has been very close to that since 1995.
- “Middle incomes are flat or declining”
 - this is the case in the US and UK, but in New Zealand middle incomes are rising and have done so consistently since 1994 except for a brief decline in the GFC.

Rising (ongoing) housing costs relative to income especially for the lower two quintiles

- 20 When discussing housing affordability it is important to distinguish between high purchase prices and high ongoing rent or mortgage servicing costs. The Incomes Report has figures only on the latter type of affordability.
- 21 It is also important to distinguish between trends in national averages and what is happening in different regions. The Incomes Report only has figures for national averages for different income groups.
- 22 Around 40% of households in the lower two income quintiles have housing costs of more than 30% of their income. 25% of these low-income households have housing costs of more than 40% of their income.
- 23 The steady rise in housing stress for lower income households seems now to have plateaued, albeit at an historically high rate. This is a finding for national average figures.