

MSD's Household Incomes Report and companion report using Non-Income Measures: Headline Findings

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The reports

- A suite of three documents:
 - a 40-page Overview and Key Findings document
 - Household Incomes Report
 - the companion report using non-income measures (NIMs) such as the ability to keep the home warm, pay the bills, repair appliances, have a couple of decent pair of shoes, a good meal each day, purchase commonly desired non-essentials, and so on (the NIMs report)
- They update previous releases with analysis from Statistics New Zealand's 2015-16 Household Economic Survey (2016 HES).

The surveys gather information on the usually resident population living in private dwellings

- The survey includes those living in retirement villages, but not those in non-private dwellings such as "rest homes", hotels, motels, boarding houses and hostels.
- Low-income (poverty) and material hardship rates based on the HES and surveys like it are about trends and relativities for the population in private dwellings. Other sorts of surveys are needed to obtain a picture of what life is like for those "living rough" or in boarding houses, hostels and so on.
- This does not mean that the survey does not reach households with very limited financial resources, or those in more severe hardship. For example, in 2016, 80 of the households interviewed reported receiving help from a foodbank or other community organisation more than once in the previous 12 months; and 35 with school-age children reported that the children do not have a meal with meat, fish, chicken (or vegetarian equivalent) at least each second day.

The HES incomes data

- The survey runs from July one year to June the next. The HES income question asks about incomes in the 12 months prior to the interview. This means that for the 2016 HES the income figures on average reflect what household incomes were in late 2015.
- The reports are focussed on the material wellbeing of New Zealand households, so the income measure they use is disposable household income (total after-tax income from all sources for all members of the household), adjusted for household size and composition. This allows the income resources of households of different types to be more sensibly compared.
- Trends are reported based on incomes before deducting housing costs (BHC) and after deducting housing costs (AHC).
- The changes from the Budget 2015 Child Material Hardship package came in on 1 April 2016, so this 2015-16 survey picks up virtually nothing from this; the Budget 2017 Family Incomes package will impact on the 2018-19 survey – the 2020 reports will pick up these impacts.

What to expect in each update

- Unless there is a major shock to the economy such as the global financial crisis (GFC), or a policy change that directly impacts in a significant way on the labour market or incomes, findings using the latest available survey data can be expected to be broadly in line with previously identified levels and trends in all the main areas monitored by the reports.
- There were no major shocks to the economy or changes in government policy that could be expected to impact on the 2016 HES data.

- The HES is however a sample survey and as for all such surveys we can expect random fluctuations in the numbers from year-to-year simply because it is a sample not a full census-type count. The volatility in numbers is greater for population sub-groups (eg children, renters) than for the population as a whole.
- In addition to updating on trends and confirming existing knowledge, one of the main values of the updates is that they can remove uncertainties about trends in situations where recent figures have been volatile.
- Each update also includes new analysis and information. For example, this time: child-specific deprivation items; some new non-monetary indicators relating to the material wellbeing of households; middle income shares in New Zealand compared with other countries.

Headline findings

- **Strong real income growth for most income groups from HES 2008-09 to HES 2015-16 ...**
 - BHC median up 3% pa in real terms in the post GFC recovery phase (ie 3% pa above CPI).
 - Net gains of around 11-13% in real terms from HES 2008-09 to 2015-16 for all income groups from the top of the bottom decile (P10) up, 11% at the median.
 - This is better than many OECD countries whose middle incomes have been relatively flat since the GFC (eg Australia, UK, Spain, France, Italy, Germany, and the US).
- **... but**
 - The rises at P10 (top of bottom decile) mainly reflect the strong increases in real terms for NZS in recent years – there is a strong bunching of 65+ households, whose income is NZS and little more, at the top of the bottom decile and the bottom of the second decile. The minimum wage rose around 7% in real terms in the period. Beneficiary incomes were flat or declining in real terms.
 - The trajectory of incomes after deducting housing costs (AHC) is less favourable for the medium to long-term picture as housing costs now make up a much larger proportion of the household budget for most – so, for example, P10 AHC incomes in 2016 were still a little lower in real terms than P10 incomes were in the late 1980s, whereas BHC incomes were (a little) higher in 2016 for all income groups.
- **There is no evidence of any sustained rising or falling trend in BHC household income inequality over the last two decades using the Gini and top 1% share measures**
 - The share of income received by the top 1% of tax-payers has been steady in the 8-9% range since the early 1990s, up from 5% in the late 1980s.
 - The Gini measure of inequality is a popular one but, because it uses information on all household incomes, it is susceptible to showing large fluctuations because of sampling issues for very high income households:
 - the 2015 HES (like the 2011 HES) had an unusually high number of very high income households, which led to an unusually high Gini number
 - in the 2016 HES the number of very high income households was a little closer to normal and the Gini number dropped accordingly, back towards the trend line
 - for the lower 99% there is no evidence of any sustained rising or falling trend in the last 20 years, using the Gini.
 - Apart from a blip in 2011, the 90:10 ratio was fairly flat from 2004 to 2016. Like the top 1% measure, the 90:10 showed a large rise from the late 1980s to the early 1990s – there was a slight rise in the 90:10 ratio from the mid 1990s to the mid 2000s, but much less than the earlier large rise.
 - Incomes after deducting housing costs (AHC incomes) are more unequal than BHC incomes, as housing costs make up a higher proportion of the household budget for lower income

households than they do for higher income households. AHC income inequality was also a little higher from 2011 to 2016 compared with the mid 2000s and earlier.

- **Housing affordability issues remain for the lower two income quintiles (ie when looking at rent, mortgage payments and rates ... relative to income)**
 - The reports do not look at affordability for purchasing homes, just how affordable the accommodation is once in the accommodation.
 - From HES 2011 to 2016, around 42% in the bottom income quintile had housing outgoings of more than 30% of income, 32% spent more than 40% of their income, and 25% more than half their income on housing costs.
 - For under 65s, over the whole bottom quintile, housing costs account on average for just over half of household income (51%), up from 29% in the late 1980s.
 - These figures are all high historically, but the rates have plateaued for the bottom quintile.
 - There are regional variations, as indicated by analysis of rental information, for example ... but reliable HES-based regional analysis is not feasible because of sample size.
- **There are some housing quality issues, especially for children – they are concentrated among those already experiencing material hardship on other basic items. On average over three surveys, HES 2013 to HES 2015:**
 - For 10% of children, their household reports a major problem with dampness and mould (~110,000 children).
 - For 13% of children, a major problem with heating / keeping it warm in winter (~140,000).
 - For 7% of children, their household reports both issues (~75,000).
 - 70% of those reporting these issues live in rental accommodation – 45% are in private rental and 25% in HNZC houses – with the rates around 15% and 35% respectively (ie for each issue, one in three HNZC homes (35%) are reported as having a major problem).
 - 80% of the problems are reported by the lowest material wellbeing quintile (ie lowest 20%).
- **Low income (poverty) and material hardship trends for children are flat or falling depending on the start date or measure used**
 - For monitoring trends, the reports use as their primary measures:
 - an anchored line income measure AHC, 50% and 60% of median (reference year, 2007)
 - a material hardship measure with both a less and a more severe threshold.
 - Child numbers using an AHC anchored 50% of median line are down from their GFC peak of 200,000 (19%) to 155,000 (14%) on average in 2015 and 2016, below pre-GFC numbers of 180,000 (17%).
 - Using the higher AHC anchored 60% of median line numbers are down from 270,000 (25%) at their peak in the GFC to 220,000 (20%) on average in 2015 and 2016, a little below pre-GFC numbers of 250,000 (24%).
 - Child material hardship numbers are down from 220,000 (20%) in the GFC to 135,000 (12%) on average in 2015 and 2016 using the less severe measure. 60% of this decline has come from “non-poor” households moving out of hardship as their incomes improved, a reminder of the precarious nature of household finances for some of the “near-poor” (those with incomes above a particular low-income line but below the median).
 - Using the more severe measure, numbers were steady at around 80,000 to 100,000 through to 2014, but were lower at around 70,000 on average for 2015 and 2016.
 - The two thresholds closely correspond to the EU ‘standard’ and ‘severe’ measures.
 - For all the above measures, the 2016 numbers were lower than expected from the previous trend data, so another survey is needed to know whether this was a random statistical fluctuation or not – the finding of a net decline in recent years on these primary measures is not in doubt, it’s just the size of the fall that needs clarification with another year’s data.

- Relative income poverty trends have generally been flat and steady over the last decade and even longer – the exception is for the AHC 60% figures which have been relatively volatile, albeit still representing a flat trend.
 - The falling numbers for the anchored line measures reflect the fact that there is an improvement in real terms for household incomes for some in the low-income zone ... and the flat relative income trends mean that the incomes of the bulk of lower-income households are holding their own relative to the median.
 - The changes from the Budget 2015 CMH package came in on 1 April 2016, so this 2015-16 survey picks up virtually nothing from this; the Budget 2017 Family Incomes package will impact on the 2018-19 survey – the 2020 reports will pick up these impacts.
 - See the **Appendix** for detailed tables for low income and material hardship numbers for children.
- **The material wellbeing of the vast majority of older New Zealanders continues to be good to very good**
 - The 65+ have lower AHC income poverty rates and lower hardship rates than other age groups.
 - Internationally, older New Zealanders have very low hardship rates in league tables for the richer countries.
 - The relatively good position for this age group reflects the mix of universal public provision (mainly NZS) and the private provision built up by most of the current cohort over their lifetime – a key component of this private provision is mortgage-free home ownership which is relatively high among the current cohort.
 - There is high dependence on NZS for most: for example, around 60% of singles and 30% of couples report less than \$100 pw per capita from non-government sources.
 - The small group (4-8%) that do have financial challenges are, unsurprisingly, those who rent and have little other than NZS for income.
 - Declining mortgage-free home ownership for the cohorts approaching “retirement”, and elevated low income rates (AHC) for older working-age adults living on their own suggest that this small group (4-8%) may grow in coming years.
 - This finding is in line with the Commission for Financial Capability's research in which 18% of people aged over 55 reported that they struggled to make ends meet.
- **The “working poor” remain an issue for NZ as for other OECD countries**
 - Even with the assistance from WFF and child-care subsidies, an estimated one third to one half of children in hardship are from working families.
 - This is a real challenge for most OECD countries, and policies to help grow employment, provide jobs with credible pathways to higher wages, improve educational achievement and lift wages and are central to addressing it.
- **International comparisons**
 - Strong broad-based household income growth from 2008 (just before GFC) to 2016, better than many others in the OECD (eg Australia, UK, Spain, France, Italy, Germany, and US).
 - No evidence of any sustained rising or falling trend for BHC income inequality (BHC), with New Zealand levels a little above the OECD average and similar to Australia. The share of total income received by the top 1% has been steady in the 8-9% range since 1990, similar to Australia and Norway, and much lower than the UK (14% in 2015) and the US(22% in 2015).
 - As for other OECD countries, household wealth inequality in New Zealand is greater than income inequality. New Zealand ranks in the middle of the table, with around 50-52% of wealth held by the top 10%, similar to Canada, Norway and France. For the USA, 76% is held by the top 10%.

- Using the EU's 13-item material hardship index (less severe hardship threshold):
 - material hardship rates for older New Zealanders are very low on this measure, as on our own DEP-17 measure (3-4%), with New Zealand in the top 5 along with Norway and Denmark.
 - the New Zealand child material hardship rate was in 2008 at the EU median for the expanded EU (~18%), but New Zealand rates are higher than the rates for most of the richer western European countries with whom we have traditionally compared ourselves.
 - the above figures are for the latest available comparisons in 2008 – the New Zealand child hardship rate has fallen since then using our own hardship measure (see above).
 - Using the common 50% and 60% BHC low-income measures, New Zealand rates for children are around the median for the OECD (50% measure) and also for the EU (60% measure), 13% and 20% respectively.
 - Very few countries collect housing cost information in their income surveys, so there are no international league tables for AHC income inequality nor for AHC low-income trends.
- **UN's Sustainable Development Goals**
 - In September 2015 all 193 UN member states formally adopted the 2030 Agenda for Sustainable Development. The Agenda includes a new set of global goals (the Sustainable Development Goals (SDGs)) which replace the Millennium Development Goals (MDGs). One of the differences between the SDGs and MDGs is that the SDGs are universal rather than just focussing on “developing countries”.
 - One of the targets for Goal #1 is that member states “by 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions” (Goal 1.2)
 - One of the targets for Goal #10 is that member states “by 2030, progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average” (Goal 10.1).
 - Information on the relevant indicators is provided in the MSD reports.

Appendix

Low income (income poverty) and material hardship rates for children (0-17 yrs)

The tables below are from Appendix Five in the Overview report

Note that the reports:

- use a multi-measure multi-level approach to better capture the trends in different aspects of material disadvantage
- use the material hardship measures and the anchored line AHC income measures as the primary indicators for monitoring trends
- use the fully relative “moving line” measures as indicators of changing inequality in the lower half of the income distributions over the longer term
- warn against drawing definitive conclusions based on year-on-year changes – trends over several years and longer are what give robust information – the figures below are for two-year rolling averages.

For more detailed information on interpreting the figures and on the rationale for the approaches used in the reports, the reader is referred to the table on p26 in the Overview, the Annex to Section H in the Incomes Report and to the Guidelines document on the MSD website:

<http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html>

How many children are there in households experiencing material hardship?

(ie How many children live in households with deprivation scores below selected thresholds?)

**Material hardship rates (%) and numbers for children:
rolling two-year averages**

HES year	MSD less severe threshold ≡ EU 'standard' threshold		MSD more severe threshold ≡ EU 'severe' threshold	
	rate (%)	numbers	rate (%)	numbers
2008	16	170,000	8	80,000
2009	16	180,000	9	95,000
2010	18	190,000	9	95,000
2011	20	220,000	9	100,000
2012	19	200,000	9	95,000
2013	16	175,000	9	95,000
2014	15	155,000	8	90,000
2015	14	155,000	8	85,000
2016	12	135,000	6	70,000

- MSD uses its Material Wellbeing Index (MWI) to rank households from high to low material living standards using non-income measures. For the low end of the spectrum (material hardship), the MWI and the DEP-17 measures give very close to the same numbers.
- The less severe threshold in the table above uses an MWI score of 9 or less (≡ DEP-17 score of 7+/17). The more severe threshold uses an MWI score of 5 or less, (≡ 9+/17 for DEP-17).
- Note that for the MWI a lower score means lower living standards (higher deprivation), whereas for DEP-17 a higher score means higher deprivation.

How many poor children are there in New Zealand?

(ie How many children live in households with incomes below selected thresholds?)

Low income (poverty) rates for children in New Zealand: rolling two-year averages from 2008
(ie the proportion of children in households with incomes below the selected thresholds)

HES year	BHC			AHC				
	BHC 'anchored line (2007)'	BHC 'moving line'		AHC 'moving line'			AHC 'anchored line (2007)'	
		50% (07 ref)	50%	60%	40%	50%	60%	50% (07 ref)
2001	22	12	24	11	21	30	28	37
2004	17	14	26	11	19	28	23	31
2008	12	13	20	10	18	25	17	24
2009	11	12	21	11	20	27	18	25
2010	10	13	22	12	20	28	17	25
2011	11	14	23	12	20	28	18	25
2012	11	13	22	13	20	27	19	25
2013	10	12	21	13	19	26	18	23
2014	-	13	22	-	20	27	17	23
2015	9	14	22	12	20	28	16	22
2016	7	13	20	13	19	27	14	20

Numbers of poor children in New Zealand: rolling two-year averages from 2008
(ie the number of children in households with incomes below the selected thresholds)

HES year	BHC			AHC				
	BHC 'anchored line (2007)'	BHC 'moving line'		AHC 'moving line'			AHC 'anchored line (2007)'	
		50% (07 ref)	50%	60%	40%	50%	60%	50% (07 ref)
2001	225,000	120,000	250,000	115,000	215,000	310,000	285,000	380,000
2004	175,000	150,000	265,000	115,000	200,000	285,000	240,000	320,000
2008	130,000	135,000	210,000	105,000	190,000	260,000	180,000	250,000
2009	115,000	130,000	225,000	120,000	210,000	285,000	195,000	265,000
2010	105,000	135,000	240,000	130,000	210,000	295,000	185,000	265,000
2011	120,000	145,000	245,000	125,000	210,000	305,000	190,000	270,000
2012	115,000	135,000	230,000	130,000	210,000	285,000	200,000	260,000
2013	105,000	125,000	220,000	135,000	205,000	275,000	185,000	245,000
2014	-	135,000	230,000	-	210,000	280,000	180,000	240,000
2015	90,000	145,000	235,000	130,000	215,000	300,000	170,000	240,000
2016	75,000	140,000	215,000	140,000	210,000	290,000	155,000	220,000

* 40% of median AHC income poverty figures and 50% of median BHC figures are not reported for HES 2014 because of data issues for some beneficiary incomes – see main report.

AHC = after deducting housing costs
BHC = before deducting housing costs