Material Hardship lead indicators dashboard

Quarter 3 2024

We have provided indicators in four key areas:

1. Indicative estimates of material hardship

We can estimate current and future levels of material hardship from projections of AHC50 rates. There's been no change in the estimates since quarter 2, as the AHC50 projections have not been updated.

2. Key driver of material hardship- Benefit receipt and parental employment

There's been an increase of around 4,600 children in benefit-receiving households since quarter 2.

3. Key driver of material hardship- Cost of living

Increases in the cost of living have slowed between quarter 2 and quarter 3.

4. Proxy for hardship – Household Credit Arrears

Household credit arrears fell slightly between quarter 2 and quarter 3.

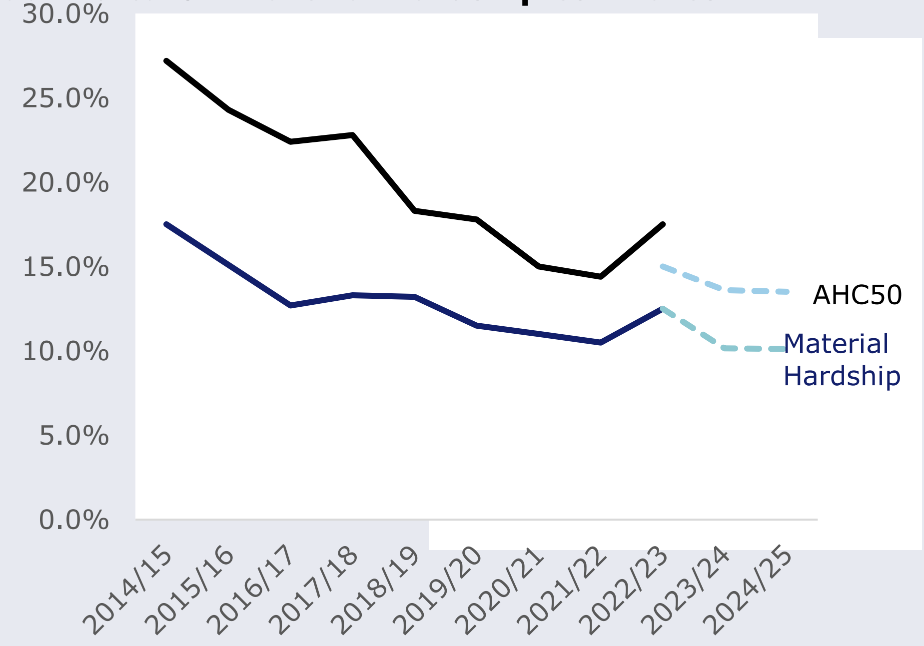
Implications for material hardship rates

On balance, the trends in these lead indicators suggest that the rate of child material hardship for 2023/24 is likely to be somewhat higher and more persistent than indicated by earlier estimates based on the forecasts and data available at Budget 2024.

The economic situation has worsened since the Budget forecast, which may mean that our earlier estimates of future material hardship rates may no longer hold.

1. Indicative estimate of material hardship

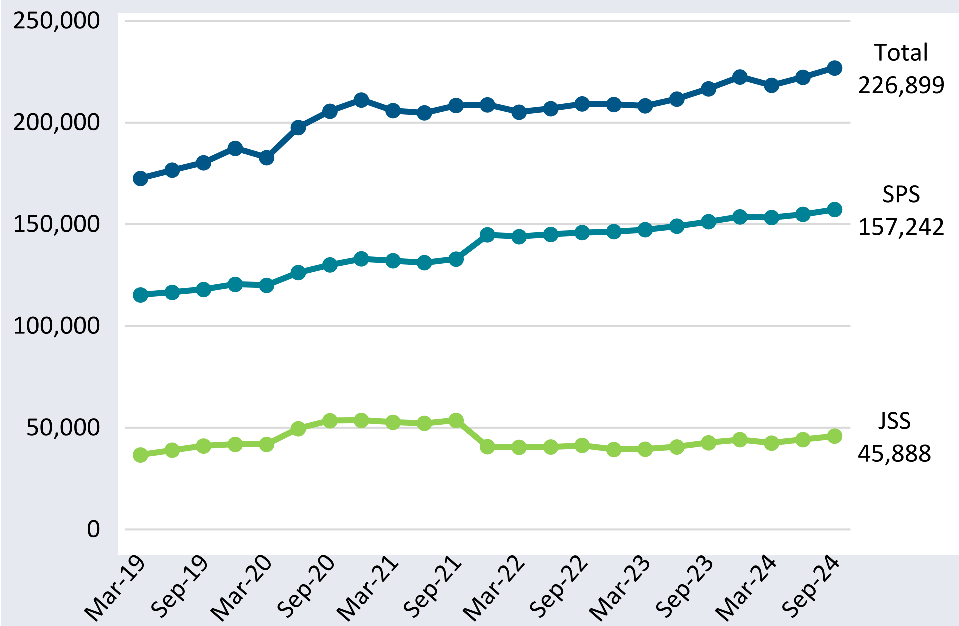
Lead Indicator: Material Hardship estimates



Based on Budget 24 forecasts for AHC50, we would expect material hardship to fall in 23/24 and remain steady in 24/25. However economic conditions have changed and we expect this forecast overestimates the reduction in material hardship rates and that rates are likely to increase.

2. Key driver- Benefit receipt and employment for parents

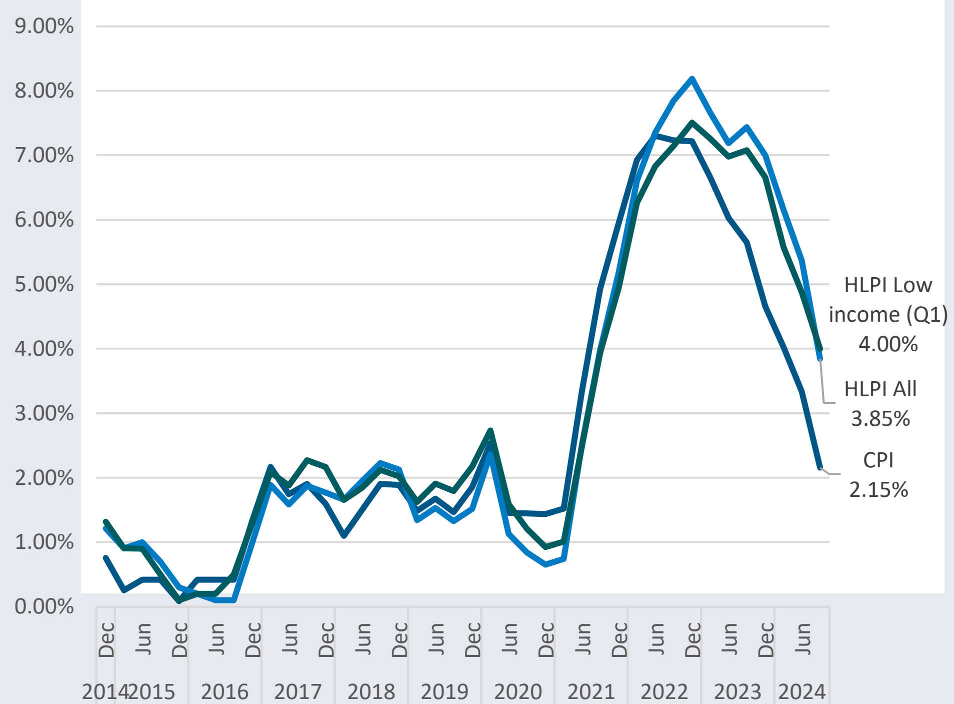
Lead Indicator: Children in Benefit-Dependent Families



The number of children in benefit-dependent families has continued to steadily increase since 2019.

3. Key driver- Cost of living

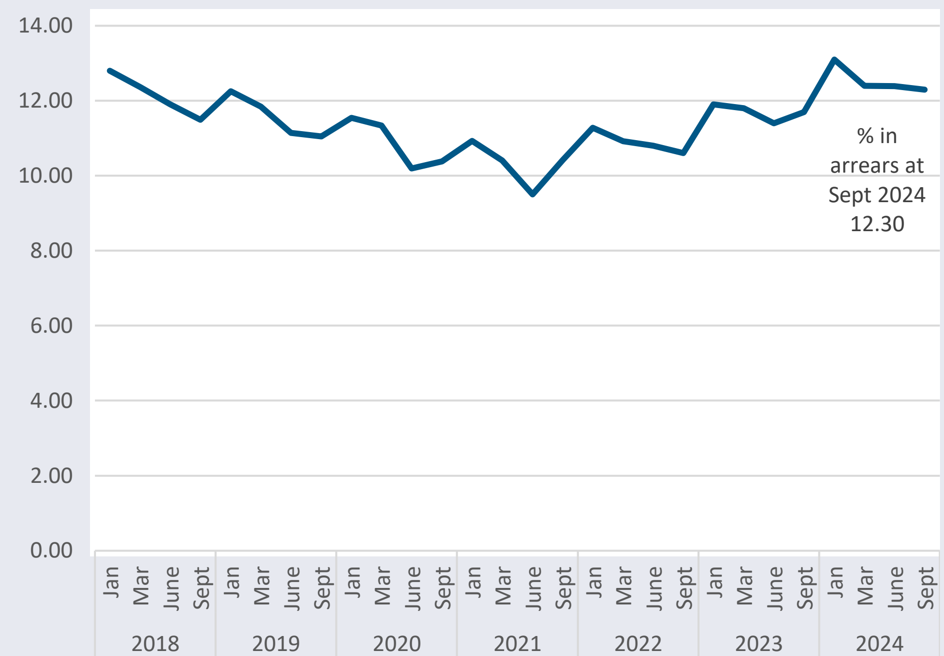
Lead Indicator: Household Living Price Index: Low income



After peaking at 8%, annual increases in the cost of living have slowed to ~3% (CPI) and 4% (HLPI), with low-income households continuing to feel the impacts of earlier increases to a greater extent.

4. Proxy for hardship and financial strain

Lead Indicator: Household Credit Arrears (Centrix)



The number of people behind on their credit payments has been rising since 2021, likely due to cost-of-living pressures.

Lead indicators in context: Additional context for Quarter 3 2024

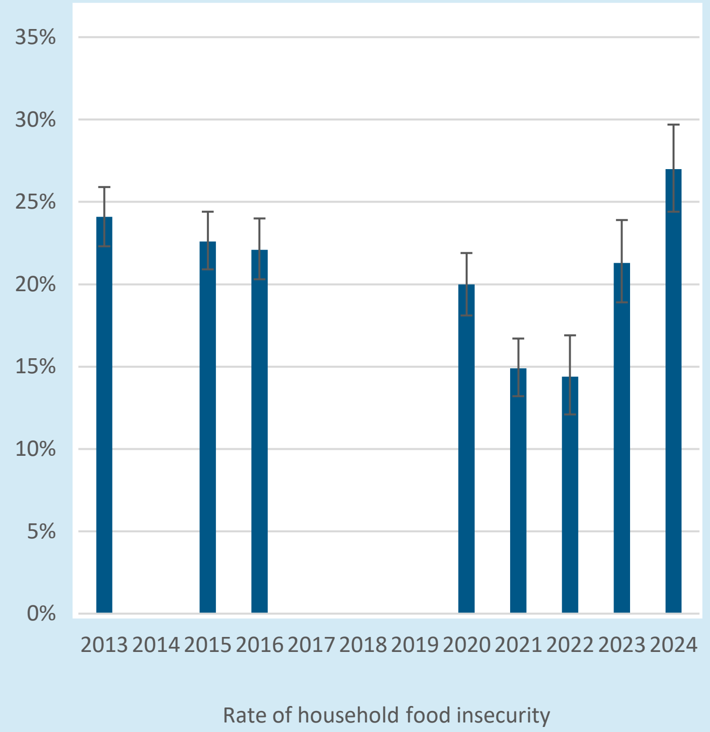
Contextual trends: Household food insecurity (New Zealand Health Survey)

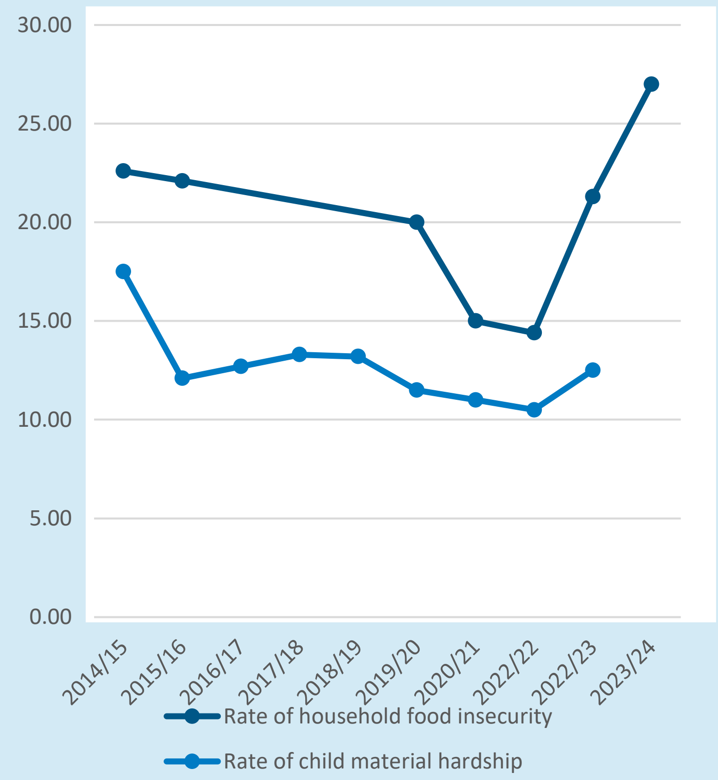
Rates of household food insecurity have risen

The 2023/24 New Zealand Health Survey found that one in four children (27.0%) lived in households where food ran out often or sometimes in the 12 months prior to the survey. This is a significant increase on the previous year (21.3% in 2022/23).

The NZHS data also shows that most of the increase in food insecurity was driven by higher rates of children in households reporting that food runs out "sometimes" in 2024 (21.4%) compared to 2023 (16.9%). The number reporting that food runs out "often", did not change significantly.

Ongoing rises in the cost of living are likely to have been the main drivers for the recent rise in food insecurity. The rising cost of living has put additional pressures on all household incomes but has particularly impacted lower-income workers whose wages have not kept pace with inflation. This is consistent with evidence that in the initial phase of an economic downturn, there's an increase in less severe hardship. Low-income working households may tip into hardship and food insecurity because their real income from employment decreases.





Contextual trends: Household perception of inflation (Reserve Bank)

Households are continuing to perceive levels of inflation as high

How households experience inflation and expect inflation to change over time affects household decisions around consumption, savings and employment. The Reserve Bank surveys households to understand their perceptions of current inflation.

Perceptions of inflation have fluctuated over time, with significant increases in the perception from June 2022. Perceptions have remained high over 2023 and 2024, but have fallen since March 2024.

Perceptions of inflation remain higher for mean households than median households in 2023, and the gap in perception has widened in 2024. This reflects the fact that lower-income households tend to perceive inflation to be higher and more persistent than actual levels.

It is not clear if higher inflation perceptions are likely to upwardly bias perceived material hardship, or if those who experience material hardship are likely to be more sensitive to inflation and respond accordingly.