

Material Hardship lead indicators dashboard

Quarter 2 2025

We have provided indicators in four key areas:

1. Indicative estimates of material hardship

We cannot forecast material hardship. As a proxy, we produce indicative estimates of future levels of material hardship from projections of AHC50(fixed line) rates, based on the historic relationship between AHC50 and material hardship. AHC50 and material hardship rates have tended to move together, and the Budget 25 forecast for AHC50 has been used to estimate current material hardship levels.

The period of economic shocks and wider challenges, including the COVID-19 pandemic, may have impacted this relationship. We will observe any change and impact in the relationship over time, as more data is produced.

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

There has been an increase of around 8,000 children (4%) in benefit-receiving households from Quarter 2 2024, to 230,700 children in Quarter 2 2025. The number of children has increased by around 3,000 children (1%) since Quarter 1 2025.

3. Key driver of material hardship- Cost of living

Annual inflation increased on the CPI measure from the March 2025 quarter to the June 2025 quarter. The HLPI measure is not available for Quarter 2 2025.

4. Proxy for hardship – Household Credit Arrears

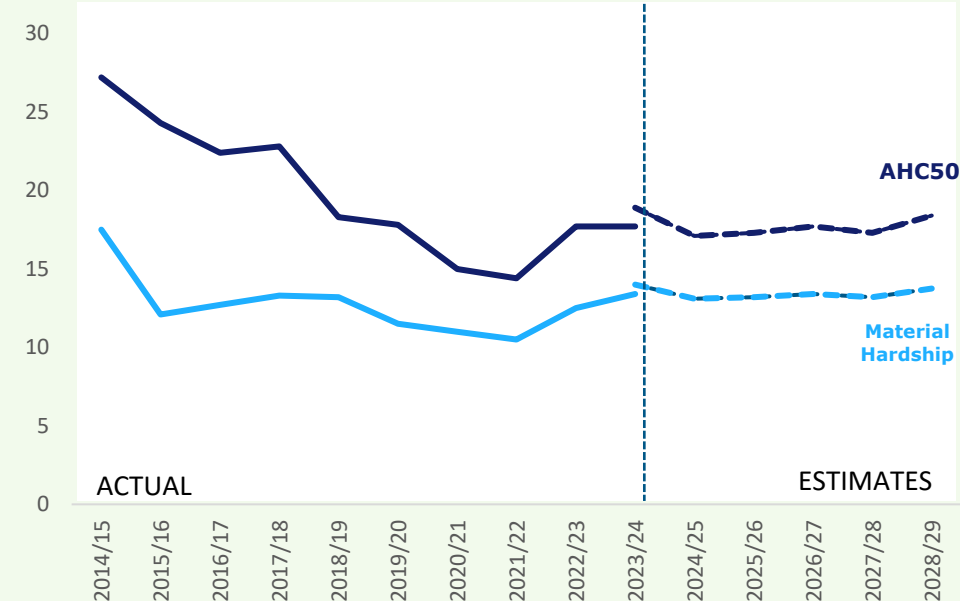
Household credit arrears fell slightly from Quarter 1 2025 to Quarter 2 2025, but remain high, relative to previous years.

Implications for levels of material hardship

The mix of indicators suggests there is further pressure on households, and levels of material hardship are likely to have worsened slightly between Quarter 1 2025 and Quarter 2 2025.

1. Indicative estimate of material hardship

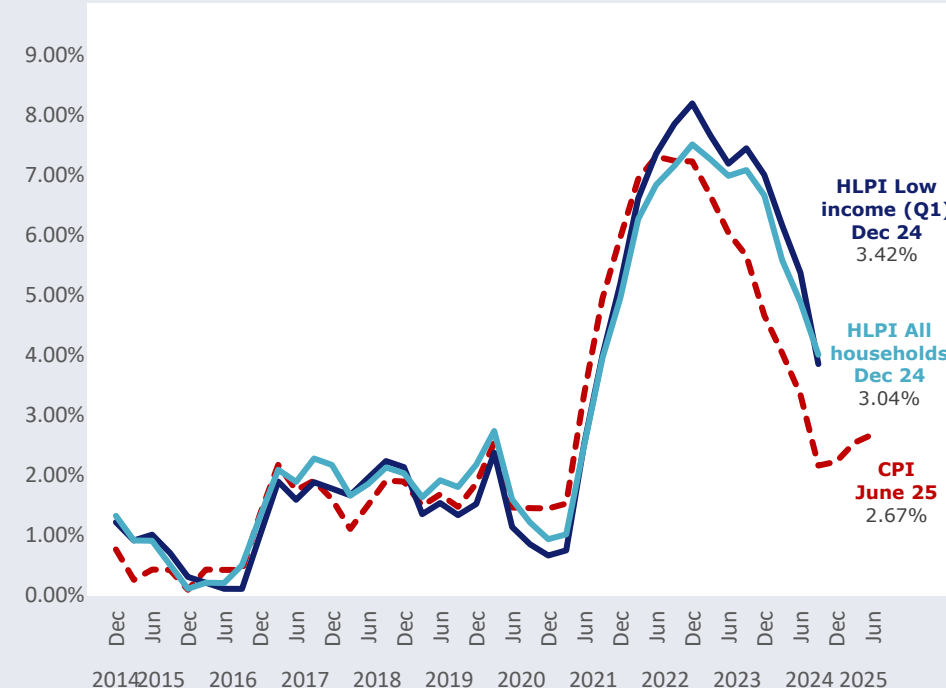
Lead Indicator: Rates and indicative estimates of material hardship



Based on the Budget 25 Treasury forecasts for AHC50(fixed line) and the historic relationship between AHC50 and material hardship, we would expect material hardship to remain steady before beginning to increase at the end of the forecast period.

3. Key driver- Cost of living

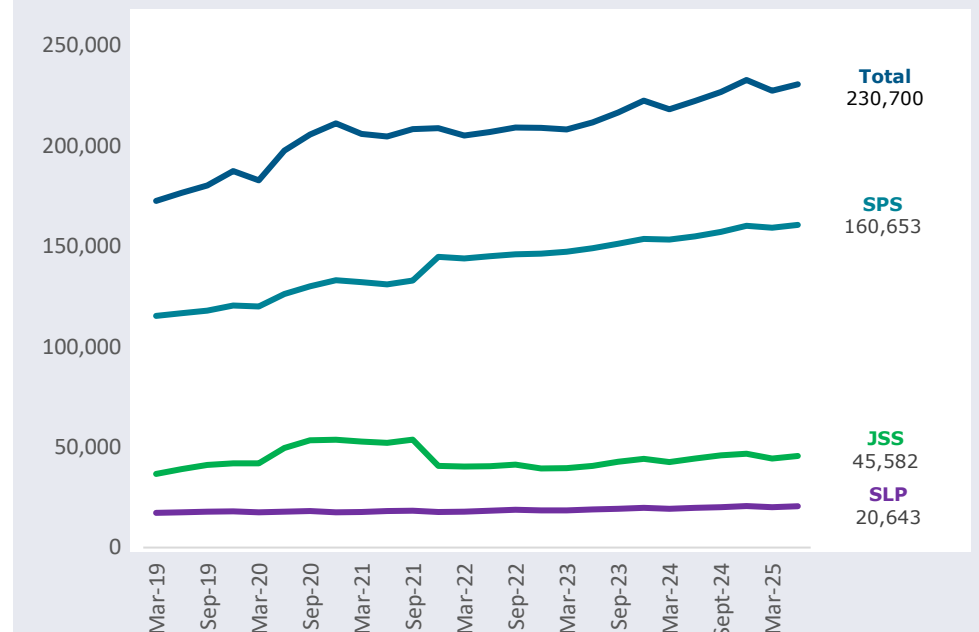
Lead Indicator: Household Living Price Index: Low income



After peaking in 2022, annual increases in the cost of living slowed in 2024. CPI inflation was 2.7% in the 12 months to the June 2025 quarter, following a 2.5% increase in the 12 months to the March 2025 quarter. This was the highest level of inflation since the June 2024 quarter.

2. Key driver- Benefit receipt and employment for parents

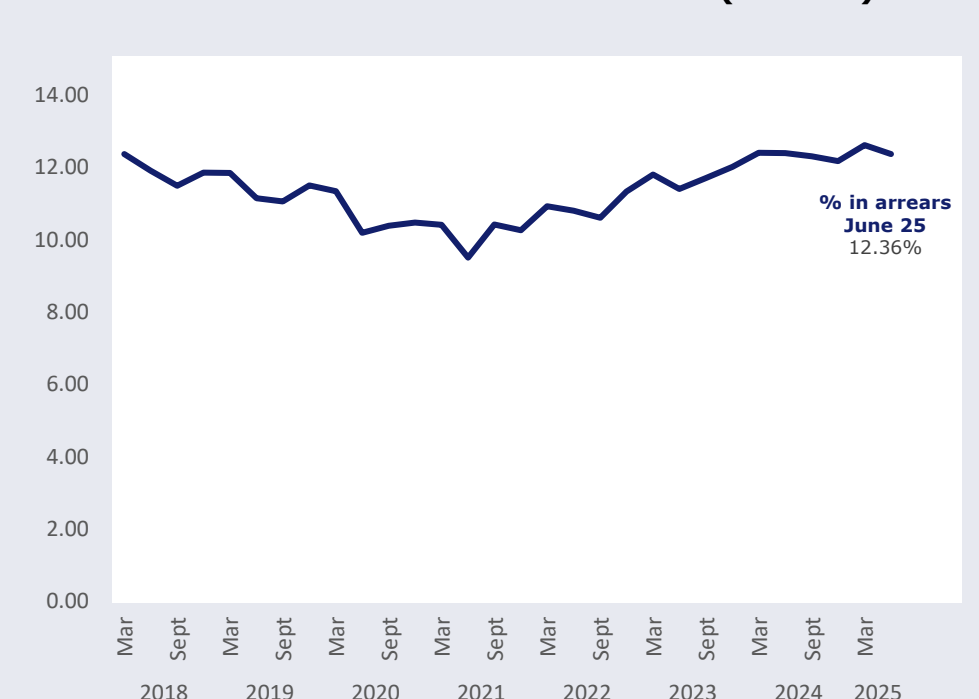
Lead Indicator: Children in Benefit-Dependent Families



The number of children in benefit-dependent families increased between Quarter 1 2025 and Quarter 2 2025.

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. Arrears fell slightly between Quarter 1 and Quarter 2 2025, in line with seasonal patterns.

Contextual trends: Growth in wages compared to living costs (Stats NZ)

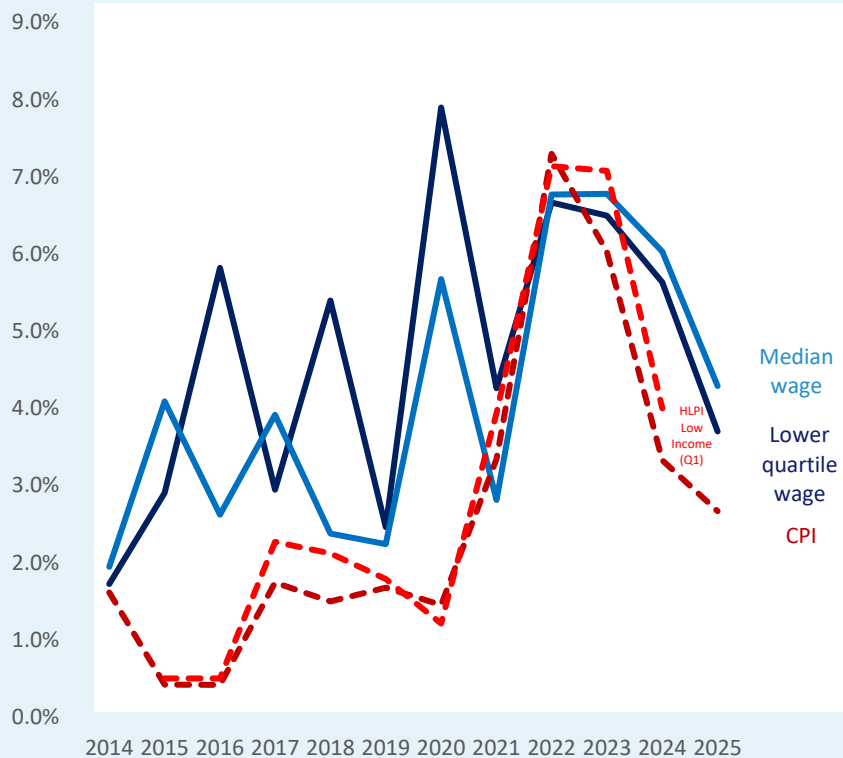
Wage are growing faster than the cost of living

Nominal wage growth at both the lower quartile and the median was consistently higher than the cost of living up until 2021. Wage growth was generally slightly higher at the lower quartile than at the median.

In 2021/22, wage growth matched the cost of living, and in 2022/23 price growth overtook wage growth.

In 2023/24, wage growth was once again higher than cost of living increases. Wages grew faster at the median than at the lower quartile.

In 2024/25, wages grew faster at the median than at the lower quartile.



Contextual trends: Household perception of inflation (Reserve Bank)

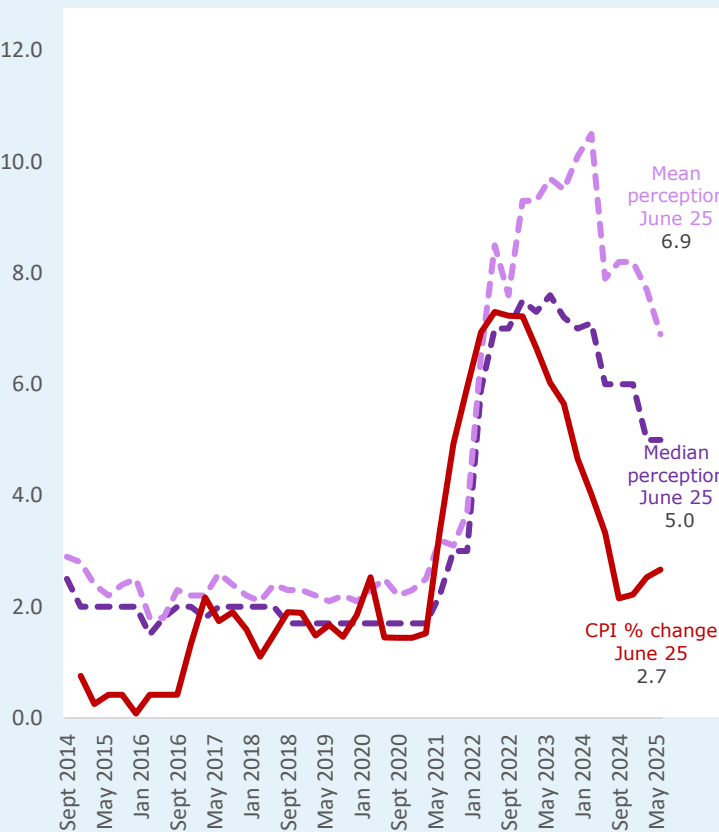
Households are continuing to perceive levels of inflation as high

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 from June 2022. Perceptions remained high over 2023 and early 2024, before beginning to fall.

Perceptions of inflation have been significantly higher for mean households than median households from 2023, with the gap in perception widening in 2024. This reflects 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.



Contextual trends: Annual average change in household items in CPI (Stats NZ)

There has been cost of living pressure on key household items

Specific groups of items can be looked at within the CPI, to understand how specific prices change over time.

We have looked at three groups of items: food, actual rentals for housing and household energy. These groups cover essential goods and services. Because a level of spending on these essentials is necessary for households with children, it's likely that low-income households spend a higher proportion of their income on these items, and that these households may be more affected by changes in price. Changes in price and expenditure are likely to reflect different factors, including seasonal fluctuations in price and spending.

Household energy inflation has been increasing since 2022, with steep increases over mid 2023 and mid 2025.

Food prices have been volatile, with prices particularly volatile from 2021 to 2025. Prices peaked at over 12% in June 2023. The rate of increase has sharpened again from December 2024.

Actual rentals inflation has increased relatively gradually. The rate of inflation has fallen from June 2024, with the change from March 2025 to June 2025 the smallest annual increase in four years.

