

DESIRED OUTCOMES

New Zealand is a prosperous society, reflecting the value of both paid and unpaid work. Everybody has access to an adequate income and decent, affordable housing that meets their needs. With an adequate standard of living, people are well-placed to participate fully in society and to exercise choice about how to live their lives.

Economic Standard of Living

INTRODUCTION

Economic standard of living concerns the physical circumstances in which people live, the goods and services they are able to consume and the economic resources they have access to. It is concerned with the average level of resources in New Zealand as well as the distribution of those resources across New Zealand society.

Basic necessities such as adequate food, clothing and housing are fundamental to wellbeing. The 1972 Royal Commission on Social Security agreed that a useful standard for adequacy was a level of resources that allowed individuals not just to survive but also to participate. They defined participation as meaning “no-one is ... so poor that they cannot eat the sort of food that New Zealanders usually eat, wear the same sort of clothes, [and] take a moderate part in those activities which the ordinary New Zealander takes part in as a matter of course”.⁵³

The desired outcomes statement points to the importance of not only everyone enjoying a decent standard of living, but also of our society being as prosperous as possible. Such prosperity gives people choice over how to live their lives.

INDICATORS

Six indicators are used in this chapter to provide information on different aspects of economic standards of living. They are: market income per person, income inequality, the population with low incomes, the population with low living standards, housing affordability and household crowding.

The focus is largely on objective measures of economic living standards, though one indicator (the population with low living standards) takes into account people's subjective perceptions about how well off they are. Together, the indicators provide information about overall trends in living standards, levels of hardship and how equitably resources are distributed. All are relevant to the adequacy of people's incomes and their ability to participate in society and make choices about their lives.

The first three indicators focus on incomes, while the remaining three are more direct measures of the material living standards people can achieve. This recognises that the same level of income can produce different living standards, depending on factors such as people's coping skills, their health and the assets they own.

Market income per person gives an indication of the average level of income and therefore the overall material quality of life available to New Zealanders. This is an internationally-recognised measure, allowing comparisons between New Zealand and other countries. We also provide an estimate of the economic value of unpaid work.

Income inequality is measured by comparing the incomes of the top 20 percent of households with the incomes of the bottom 20 percent. High levels of inequality are associated with lower levels of social cohesion and personal wellbeing, even when less well-off people have adequate incomes to meet their basic needs.

The proportion of the population with low incomes also provides information about how equitably resources are distributed and how many people are likely to be on incomes that do not allow them to participate fully in society.

The population with low living standards takes into account the extent people do without things and do not engage in social activities because of the cost, as well as measuring whether people feel their incomes are satisfactory.

Housing affordability measures the proportion of the population spending more than 30 percent of their income on housing. Housing costs have a major impact on overall material living standards.

The final indicator measures the number of people living in overcrowded houses. Housing is a basic need, and this indicator provides a direct measure of the adequacy of housing people can afford.

Market income per person

DEFINITION

The total value of goods and services available to New Zealanders, expressed in inflation-adjusted dollars, per head of population, also known as real gross national disposable income (RGNDI) per person.

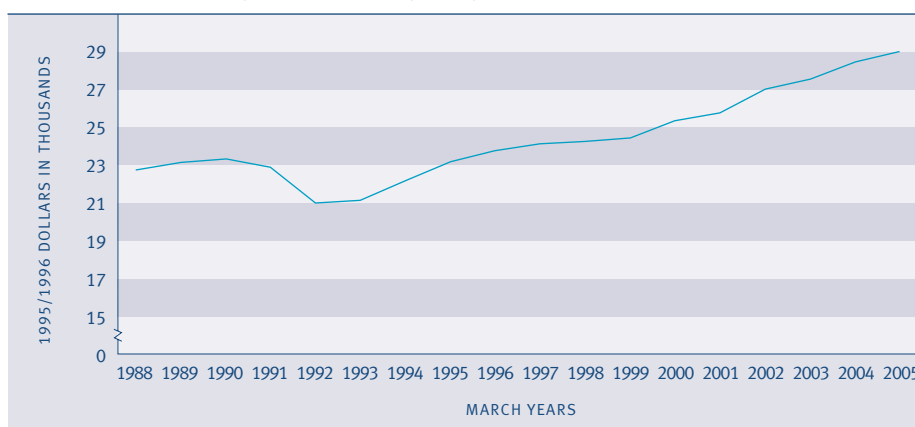
RELEVANCE

Per capita RGNDI measures the average income available to New Zealanders. A nation with a rising per capita RGNDI will have a greater capacity to deliver a better quality of life and standard of living to the population.

CURRENT LEVEL AND TRENDS

In the year to March 2005, RGNDI per person was \$28,998 in constant 1995/1996 dollars compared with \$22,735 in 1988. The average annual growth rate between 1988 and 2005 was 1.4 percent. RGNDI grew slowly between 1988 and 1990 and fell sharply between 1990 and 1992. Since 1992, there has been uninterrupted though variable growth, reflecting labour productivity gains, increasing labour force participation and declining unemployment.

Figure EC1.1 **Real gross national disposable income per capita, 1988–2005**



Source: Statistics New Zealand

INTERNATIONAL COMPARISON

Comparisons with other OECD countries are available for a related measure: gross domestic product (GDP) per person compared by using purchasing power parities (PPP). By this measure, New Zealand was ranked 21st out of 30 OECD countries in 2004, the same ranking as in the previous four years. By way of comparison, New Zealand was the 18th most prosperous out of 26 countries in 1986, and the ninth most prosperous in 1970. Between 1986 and 2004, real GDP per person, using US dollars and PPPs for the year 2000, grew by 27 percent in New Zealand compared with an OECD average of 41 percent.

ECONOMIC VALUE OF UNPAID WORK

RGNDI does not take into account the value of unpaid work such as looking after one's own children, cooking meals at home, fixing the car, doing home maintenance, or doing voluntary work in the community. Using data from the 1998/1999 Time Use Survey, the value of unpaid work in 1999 was estimated to be \$39,637 million (1998/1999 dollars), equivalent to 39 percent of GDP, or \$10,333 per capita.⁵⁴

Income inequality

DEFINITION

The extent of disparity between high and low incomes.

The measure used here is the ratio of the 80th percentile to the 20th percentile of the equivalised household disposable income distribution (ie the ratio of a high household income to a low household income, after adjustment for household size and composition). The higher this ratio, the greater the level of inequality.

RELEVANCE

The degree of income inequality is often regarded as an important aspect of the fairness of the society we live in. A high level of income inequality may also be detrimental to the level of social connectedness across society.

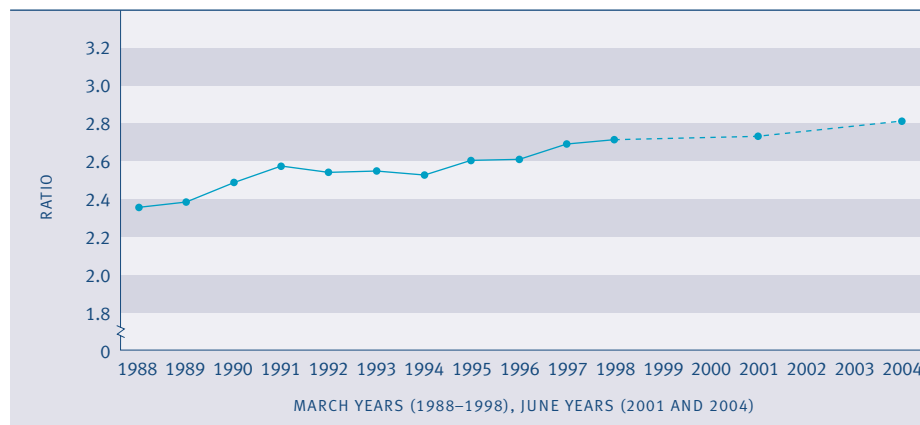
CURRENT LEVEL AND TRENDS

In 2004, the equivalised disposable income of a household at the 80th percentile was 2.8 times larger than the income of a household at the 20th percentile, a slight increase from 2.7 times larger in 2001. In 1988, the ratio was 2.4. Income inequality rose between 1988 and 1991, then plateaued, and has been rising since 1994.

Most of the observed increase in income inequality has been due to a larger overall rise in incomes for those in the top 20 percent of incomes than for those in the bottom 20 percent of incomes. Since 1988, incomes of those in the bottom 20 percent of all incomes have only increased a little, once adjustments for inflation are made, whereas those in the top 20 percent of incomes have climbed by more than a third. Incomes for the middle 60 percent have climbed more overall for those closer to the top 20 percent than for those closer to the bottom 20 percent.

Between 1998 and 2001, changes in average incomes were uniformly low for all income groups. Between 2001 and 2004, average incomes grew most for those with incomes in the middle 60 percent and less for those with incomes in the top 20 percent after inflation is taken into account. On average, there was relatively little change for those with incomes in the lowest 20 percent after adjusting for inflation. Year to year changes for these figures need to be treated with caution because many of the changes may be within the margin of error for their estimates.

Figure EC2.1

Ratio of the 80th percentile of equivalised disposable household income to the 20th percentile of equivalised disposable household income, 1988–1998, 2001 and 2004

Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2004), by the Ministry of Social Development

Notes: (1) Since 1998, the Household Economic Survey has been conducted on a three-yearly basis, rather than annually

(2) This measure adjusts for household size and composition

INTERNATIONAL COMPARISON

Comparisons with other OECD countries are available using a different measure, the Gini coefficient.⁵⁵ Gini coefficients measure income inequality, with a score of 100 indicating perfect inequality and a score of 0 indicating perfect equality. Around the year 2000, New Zealand's score of 33.9 indicated higher inequality than the OECD median (30.1) and a ranking of 18th out of 25 countries. Northern European countries had the least income inequality, with Denmark having the lowest Gini coefficient of 22.5. New Zealand's score was slightly higher than those for Canada (30.1), Australia (30.5) and the United Kingdom (32.6), and lower than that for the United States (35.7).⁵⁶ The 2004 figure for New Zealand was 33.5.

Population with low incomes

DEFINITION

The proportion of the population in economic family units with equivalent disposable income net-of-housing-cost below three thresholds (low, medium and high).

The measures take account of incomes, housing costs and family size and are adjusted for inflation and taxes. The thresholds are 40 percent, 50 percent and 60 percent of the 1998 median equivalent net-of-housing-cost family incomes.

RELEVANCE

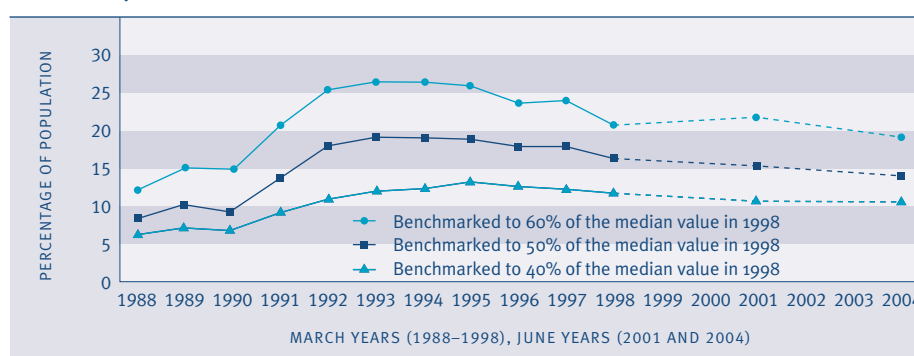
Insufficient economic resources limit people's ability to participate in, and belong to, their community and wider society and otherwise restrict their quality of life. Furthermore, long-lasting low family income in childhood is associated with negative outcomes, such as lower educational attainment and poor health.

CURRENT LEVEL AND TRENDS

In the year to June 2004, 19 percent of the population was living below the 60 percent threshold, down from the proportion in the previous survey year to June 2001 (22 percent). On all three measures (low, medium and high), the proportion of the population with low incomes increased sharply in the early-1990s, reached a peak in the mid-1990s and dropped over the latter half of the decade. However, in 2004, the proportion of the population living below these thresholds was still substantially higher than it had been in 1988.

The increase in the proportion of the population with low incomes through the early-1990s is attributable to high rates of unemployment and declines in the level of social assistance. The recent improvement in this measure may reflect more robust economic (and income) growth, and the steady decline in unemployment, as well as the increase in housing assistance for those at the low end of the income distribution.

Figure EC3.1 **Proportion of population with net-of-housing-cost incomes below thresholds, 1988–1998, 2001 and 2004**



Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2004), by the Ministry of Social Development

POPULATION GROUP DIFFERENCES

In 2004, 21 percent of dependent children were in economic family units below the 60 percent line (benchmarked to the 1998 median). This represents a decline from 27 percent in 2001 and is substantially below the peak of 34 percent in 1994. However, the proportion of children in low-income families remains higher than it was in 1988 (14 percent). The most striking change between 2001 and 2004 is the fall in the proportion of children in sole-parent families below the 60 percent line, from 61 percent to 43 percent.

In the population aged 15 years and over, just under a fifth (19 percent) lived in low-income economic family units in 2004. There was no difference between males and females.

Economic family units most likely to have low incomes are families who rely on income-tested benefits, sole-parent families, families with at least one adult belonging to an ethnic group other than European, families in rented dwellings and families with three or more dependent children. The situation improved for most of these family types between 2001 and 2004. However, there was no change for Pacific families, and there was an increase in the proportion of families with at least one adult belonging to Other ethnic groups (including Asian) who fell below the 60 percent benchmark line.

Table EC3.1

Proportion of population with net-of-housing-cost incomes below the 60 percent line (benchmarked to 1998 median), selected years, 1988–2004

	1987–1988	1992–1993	1997–1998	2000–2001	2003–2004
Total population	12.3	26.5	20.9	21.8	19.3
Population aged 15 and over	11.6	23.8	19.3	20.0	18.6
Males aged 15 and over	11.5	23.0	18.7	19.0	18.6
Females aged 15 and over	11.8	24.5	19.9	21.0	18.7
Total dependent children	13.5	33.9	24.4	26.7	20.6
Children in sole-parent families	15.4	63.3	51.0	60.7	43.3
Children in two-parent families	13.1	27.0	16.8	18.4	14.6
Total economic family units	13.8	27.9	22.8	23.1	21.7
<i>By number of children and family type</i>					
With one dependent child	10.3	29.2	24.0	25.2	18.8
With two dependent children	11.1	30.4	22.8	25.0	16.4
With three or more dependent children	16.8	40.6	26.1	30.6	27.4
Sole-parent families	13.9	59.6	47.1	55.1	39.8
Two-parent families	11.9	24.2	16.1	17.1	12.9
Total families with dependent children	12.3	32.7	24.2	26.4	20.1
<i>By ethnic group</i>					
With any Māori adult	13.5	41.8	30.3	31.5	23.6
With any Pacific adult	23.4	50.0	43.6	41.1	40.2
With any Other ethnic group adult	24.0	42.1	53.7	35.2	46.8
With any European adult	12.5	23.2	18.1	18.6	15.7
<i>By main source of income</i>					
New Zealand Superannuation	7.5	9.5	10.6	7.1	7.6
Income-tested benefit	25.1	75.1	60.5	61.2	51.2
By housing tenure (households with one family unit)					
Rented	na	44.3	35.9	33.7	28.7
Owned with mortgage	na	22.5	14.5	15.9	10.7
Owned without mortgage	na	5.1	3.8	5.7	5.3

Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2004), by the Ministry of Social Development
Note: Revised data (see technical details in Appendix 2)

INTERNATIONAL COMPARISON

Based on a different measure used by the OECD – 50 percent of median equivalent disposable household income and not taking housing costs into account – 9.8 percent of New Zealanders in 2000 were living in households with incomes below the low-income threshold.⁵⁷ This figure places New Zealand in the middle of the OECD ranking, with a rate similar to Canada (10.3 percent), slightly below Australia (11.2 percent) and the United Kingdom (11.4 percent), and well below the United States (17 percent). Denmark has the lowest proportion of the population with low incomes (4.3 percent). By 2004, the New Zealand rate was 10.8 percent.

Population with low living standards

DEFINITION

The proportion of the population with a standard of living characterised by “severe hardship”, “significant hardship” and “some hardship”: Levels 1–3 of the Economic Living Standard Index (ELSI), as measured in the New Zealand Living Standards Surveys.

RELEVANCE

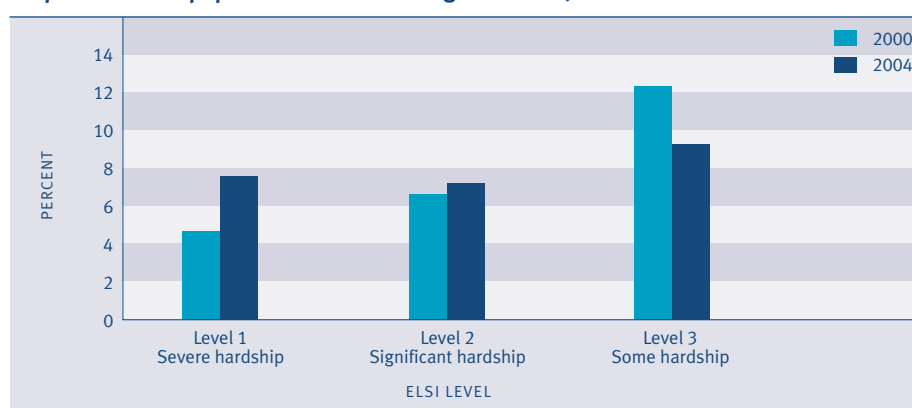
ELSI is an indicator of how people are living in terms of their possessions and activities and how they get by financially. Having a low living standard limits a person’s ability to participate in the wider society, curtails their quality of life, and can have negative long-term consequences across a wide range of social and economic outcomes.

CURRENT LEVEL AND TRENDS

In 2004, around one-quarter of the population (24 percent) had living standards in the bottom three levels of the ELSI scale. This was the same proportion as in 2000. However, within the three levels, there was a movement towards the lower level over the period. Between 2000 and 2004, there was an increase of 3 percentage points in the proportion of the population experiencing severe hardship and a drop of 3 percentage points in the proportion experiencing some hardship. The proportion experiencing significant hardship did not change between 2000 and 2004.

The ELSI measure is a relatively new tool and there is still more to be understood about some of its properties. It is not a final product and ongoing scrutiny and analysis are expected to lead to improvements.

Figure EC4.1 **Proportion of the population with low living standards, 2000 and 2004**



Sources: Ministry of Social Development (2003b); Ministry of Social Development (2006)

POPULATION GROUP DIFFERENCES

In 2004, some population groups were more likely than others to experience low living standards, including dependent children and families with dependent children (particularly those with three or more children), sole-parent families, Pacific families, beneficiaries and those living in Housing New Zealand rented dwellings.

The probability of having low living standards declines with age, except for a slight increase during peak child-rearing years.

Table EC4.1

Proportion of population and economic families with low living standards (ELSI Levels 1–3), 2000 and 2004

	Percent	
	2000	2004
Total population	24	24
Males	23	23
Females	24	25
Dependent children (under 18 years)	36	38
18–24 years	19	22
25–44 years	25	24
45–64 years	18	17
65 years and over	7	8
Total economic families	20	21
<i>By number of children and family type</i>		
With one dependent child	31	32
With two dependent children	31	30
With three or more dependent children	42	43
Sole-parent families	55	60
Two-parent families	25	23
<i>By ethnic group</i>		
With any Māori members	34	33
With any Pacific members	49	54
With any European members	16	17
With any Other ethnic group members	25	22
<i>By main source of income</i>		
New Zealand Superannuation	7	8
Income-tested benefits	47	51
Market income	16	17
<i>By housing tenure</i>		
Rented – Housing New Zealand	61	61
Rented – Private	31	34
Owned with mortgage	19	16
Owned without mortgage	8	7

Sources: Ministry of Social Development (2003b); Ministry of Social Development (2006)

Notes: (1) The New Zealand Living Standards 2000 data has been re-weighted and differs from previously published data
(2) None of the changes between 2000 and 2004 reported in the table above are statistically significant

Housing affordability

DEFINITION

The proportion of households and the proportion of people within households spending more than 30 percent of their income on housing.

RELEVANCE

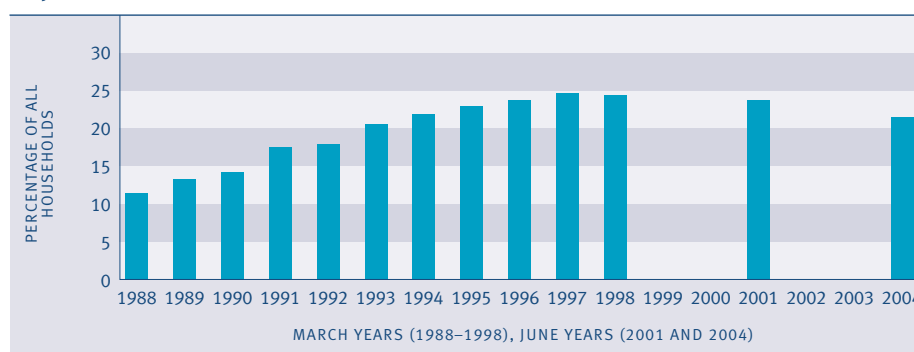
Affordable housing is an important factor in people's wellbeing. For lower-income households especially, high housing costs relative to income are often associated with severe financial difficulty, and can leave households with insufficient income to meet other basic needs such as food, clothing, transport, medical care and education. High outgoings-to-income ratios are not as critical for higher-income households, as there is still sufficient income left for basic needs.

CURRENT LEVEL AND TRENDS

In 2004, 22 percent of New Zealand households spent more than 30 percent of their income on housing costs, a decline from 24 percent in 2001.

Since the late-1980s, there has been a substantial increase in the proportion of households spending more than 30 percent of their income on housing. Between 1988 and 1997, the proportion rose from 11 percent to 25 percent of households, before levelling off.

Figure EC5.1 **Proportion of households with housing cost outgoings-to-income ratio greater than 30 percent, 1988–1998, 2001 and 2004**



Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2004), by the Ministry of Social Development

High housing costs relative to household income are of more concern in respect of low-income households. The proportion of households in the lowest 20 percent of the equivalised household income distribution spending more than 30 percent of their income on housing rose from 16 percent in 1988 to reach a peak of 49 percent in 1994 before levelling off at 41–42 percent over the period 1996–2001. In 2004, this proportion had fallen to 35 percent.⁵⁸ While this represents a substantial improvement, the proportion of low-income households spending more than 30 percent of their income on housing is still over twice as high as it was in 1988.

AGE AND SEX DIFFERENCES

In 2004, 29 percent of children under 18 years lived in households with housing costs exceeding 30 percent of income. This was a considerable decline from 35 percent in 2001 but is still more than double the proportion in 1988.

Adult females were as likely as adult males (20 percent) to be living in households spending more than 30 percent of their income on housing in 2004.

Table EC5.1 **Proportion (%) of the population in households with housing cost outgoings-to-income ratio greater than 30 percent, selected years, 1988–2004**

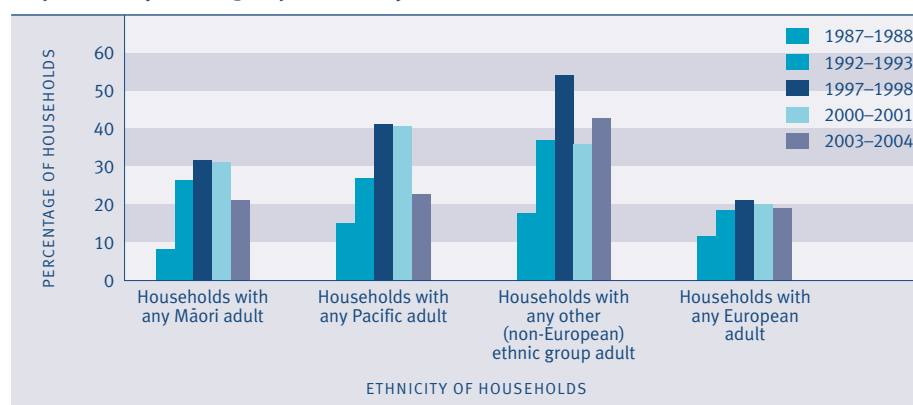
	1987–1988	1992–1993	1997–1998	2000–2001	2003–2004
Total population	10.6	20.6	24.9	23.6	21.4
Population aged 15 and over	9.9	19.0	21.9	20.9	19.7
Males aged 15 and over	10.3	18.8	21.0	19.9	20.0
Females aged 15 and over	9.5	19.3	22.7	21.9	19.5
Age groups					
Under 18 years	11.9	27.1	37.1	34.2	29.2
18–24 years	12.4	24.6	26.1	28.6	29.0
25–44 years	14.7	26.3	31.1	28.0	25.0
45–64 years	5.0	12.2	13.8	15.5	15.4
65 years and over	3.2	4.0	7.1	7.1	5.9

Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2004), by the Ministry of Social Development

ETHNIC DIFFERENCES

Housing costs in excess of 30 percent of income are more common in households that include at least one non-European adult. For households with at least one Māori adult, the proportion increased from 8 percent in 1988 to peak at 36 percent in 1997, fell slightly to 31 percent in 2001, then dropped sharply to 21 percent in 2004. For those households with at least one Pacific adult, the changes have been more dramatic, the proportion increasing from 15 percent in 1988 to 48 percent in 1997, falling to 41 percent in 1998 and 2001, then almost halving to 23 percent in 2004. Only non-European households other than Māori and Pacific households showed an increase in the proportion with housing costs greater than 30 percent between 2001 and 2004, from 36 percent to 42 percent. This may reflect, in part, the changing composition of a group that has many new migrants.

Figure EC5.2 **Proportion of households with housing cost outgoings-to-income ratio greater than 30 percent, by ethnic group, selected years, 1988–2004**



Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2004), by the Ministry of Social Development

Household crowding

DEFINITION

The proportion of the population living in crowded housing (ie requiring one or more additional bedrooms, as defined by the Canadian Crowding Index).

The Canadian Crowding Index is a proxy measure to monitor the incidence of “crowding” in the population.

RELEVANCE

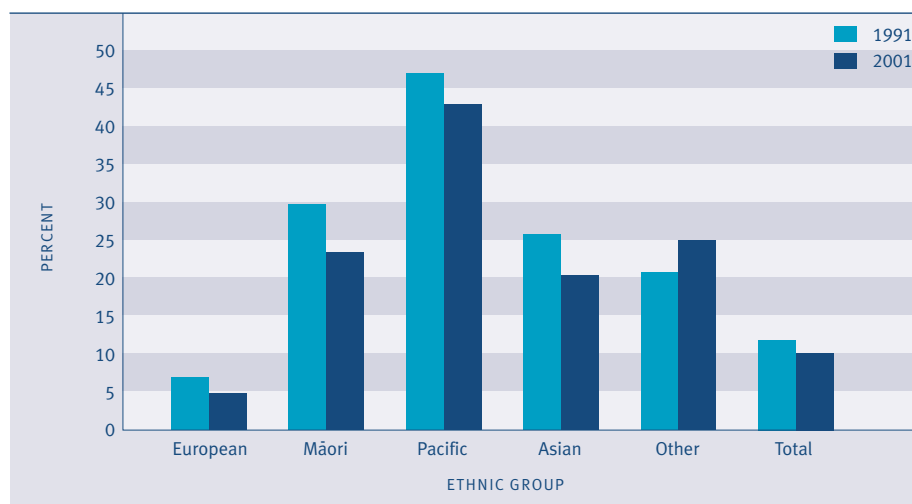
Housing space adequate to the needs and desires of a family is a core component of quality of life. National and international studies show an association between the prevalence of certain infectious diseases and crowding⁵⁹ as well as between crowding and poor educational attainment. Crowding can also contribute to psychological stress for people in the households concerned.

CURRENT LEVEL AND TRENDS

In 2001, 348,400 people, or 10 percent of the New Zealand resident population, lived in households requiring one or more additional bedrooms to adequately accommodate household members, based on the criteria in the Canadian Crowding Index (see Appendix 2). The number of people in crowded households has reduced since 1991, when 379,900 people or 12 percent of the population were living in crowded conditions.

The Canadian Crowding Index also shows how many people live in houses where two or more bedrooms are required. In 2001 there were 109,000 people or 3.2 percent of the usually resident population in this situation, compared to 113,000 or 3.5 percent in 1991.

Figure EC6.1 **Proportion of population living in households requiring at least one additional bedroom, by ethnic group, 1991 and 2001**



Source: Statistics New Zealand

AGE AND SEX DIFFERENCES

Household crowding is more likely to be experienced by younger people than by older people. In 2001, 17 percent of children under the age of 10 years lived in households requiring at least one more bedroom, compared to 15 percent of 10–14 year olds. Among all adults aged 15 years and over, 8 percent lived in crowded households but this ranged from 16 percent of 15–24 year olds, to 9 percent of 25–44 year olds, 5 percent of 45–64 year olds and just 2 percent of those aged 65 years and over.

Between 1991 and 2001 there was a decrease, from 17 percent to 16 percent, in the proportion of children under the age of 18 years living in crowded households, defined as needing one or more additional bedrooms. However, there was no change in the proportion of this age group living in more severe crowding levels where at least two more bedrooms were required (5 percent in both 1991 and 2001).

There is very little difference by sex in the likelihood of living in crowded households.

ETHNIC DIFFERENCES

Pacific peoples are far more likely to be living in crowded households than other ethnic groups. In 2001, a total of 43 percent of Pacific peoples lived in households requiring extra bedrooms. People in the Other ethnic group were the next most likely, with 25 percent requiring at least one extra bedroom, followed by Māori (23 percent) and Asians (20 percent). Partly reflecting their older age profile, only 5 percent of European New Zealanders were living in houses that met the definition of crowding used here. The Other ethnic group was the only ethnic group to have an increased incidence of crowding between 1991 and 2001. One possible explanation for this trend is that recent migrants, common in this ethnic group, are more likely to live in crowded households.⁶⁰

The largest group of those living in households requiring at least one extra bedroom were those who identified as European (38 percent), followed by Māori (34 percent), Pacific peoples (28 percent), Asian (14 percent) and the Other ethnic group (just 2 percent).⁶¹ However, of those living in more severe crowding situations (households requiring two or more bedrooms), Pacific peoples and Māori made up the largest groups (41 percent and 38 percent, respectively).

Cultural attitudes and economic circumstances are two primary factors that account for the extreme variation in crowding levels between ethnic groups. The variance in population age structures is also a factor: the Māori and Pacific peoples ethnic groups both have younger age structures than the European population.

SOCIO-ECONOMIC DIFFERENCES

Unemployed people are more likely to be living in crowded households than those with full-time jobs (20 percent and 6 percent, respectively). Other groups with crowding levels above the average adult level of 8 percent include people with no qualifications (10 percent) and people who receive income support (16 percent).⁶²

There is a clear correlation between levels of income and levels of crowding: in 2001, 6 percent of households in the bottom quartile of equivalised household income required one or more bedrooms, compared with 2 percent of those in the top income quartile.

Households in rental accommodation were more likely to be crowded (11 percent) than those in dwellings owned with a mortgage (4 percent) or mortgage-free (2 percent).

REGIONAL DIFFERENCES

Household crowding varies considerably across the country. Whether measured by population or household, Manukau City has by far the highest level of household crowding (24 percent of people and 13 percent of households required one or more bedrooms in 2001). The next highest levels were in Opotiki District and Porirua City, where almost one in five people, and one in 10 households, required at least one more bedroom. Other local authority areas with relatively high levels of crowding were Auckland City and the Far North, Wairoa and Kawerau Districts. All of the South Island local authorities had lower than average levels of household crowding.