

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”.⁵²

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

Five 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, housing affordability and household crowding.

The focus is largely on objective measures of economic living standards. 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.

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.

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.

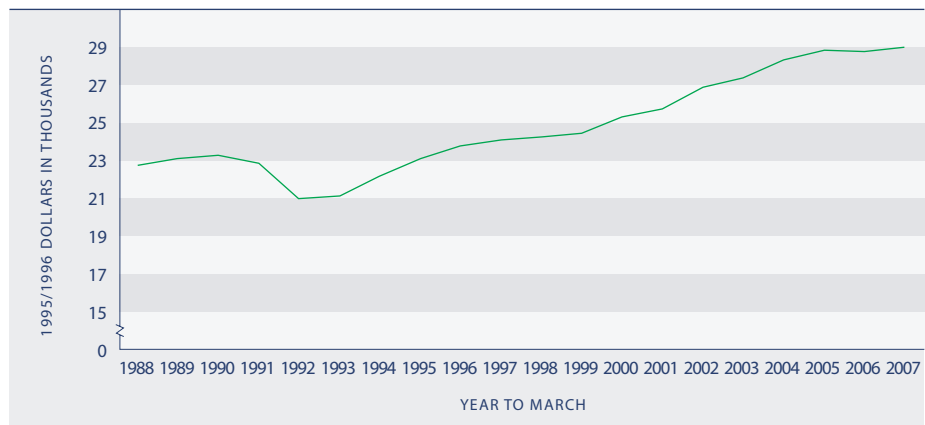
RELEVANCE

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 2007, RGNDI per person was \$29,037 in constant 1995/1996 dollars. This was marginally above the previous year's income (\$28,794 per person). Slower economic growth combined with an increase in net borrowing from overseas by New Zealanders contributed to this result, along with population growth. RGNDI grew slowly from \$22,747 in 1988 to \$23,288 in 1990 and fell sharply to a low of \$20,943 in 1992. From 1992, growth in RGNDI per person was variable but uninterrupted until the year to March 2006, when it levelled off. The average annual growth rate over the whole period from 1988 to 2007 was 1.3 percent.

Figure EC1.1 **Real gross national disposable income per capita, 1988–2007**



Source: Statistics New Zealand

INTERNATIONAL COMPARISON

While gross domestic product (GDP) per capita is the measure most commonly used to compare income levels between countries, gross national income (GNI) per capita more closely corresponds to the measure used in this indicator. To facilitate comparison, both measures are expressed in US dollars at current prices and current purchasing power parities (PPPs). By either measure, New Zealand was ranked 22nd out of 30 OECD countries in 2005, the same ranking as in the previous five years.⁵³ Using GDP per capita, New Zealand was the 18th most prosperous out of 26 countries in 1986 and the ninth most prosperous in 1970. Using GNI per capita, the rankings for New Zealand were 19th in 1986 and eighth in 1970.

Between 1986 and 2005, 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 43 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.

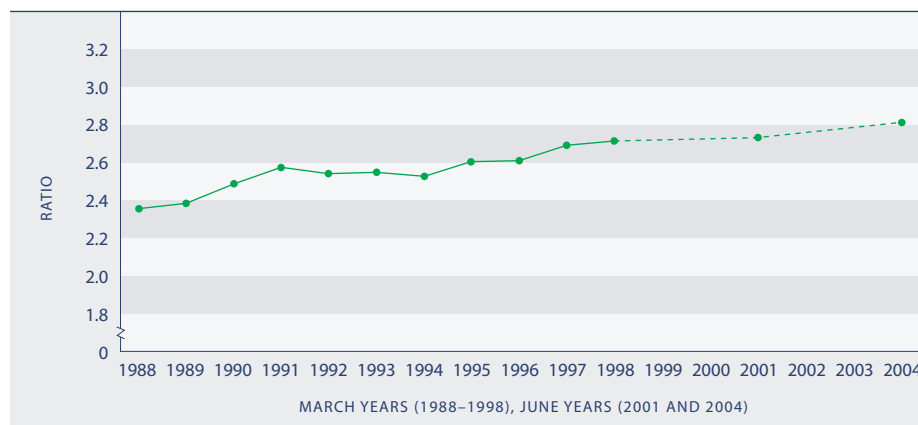
CURRENT LEVEL AND TRENDS

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, rising again from 1994.

Most of the observed increase in income inequality was 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. Between 1988 and 2004, incomes of those in the bottom 20 percent of all incomes increased only a little, once adjustments for inflation are made, whereas those in the top 20 percent of incomes climbed by more than a third. Incomes for the middle 60 percent 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 households with equivalent disposable income net-of-housing-cost below two thresholds.

Incomes are after-tax (disposable) and after deducting housing costs, and the incomes are adjusted for household size and composition. The thresholds are set at 50 percent and 60 percent of the 1998 household disposable income median, with 25 percent deducted to allow for average housing costs. The thresholds are adjusted for inflation to keep them fixed in real terms.

RELEVANCE

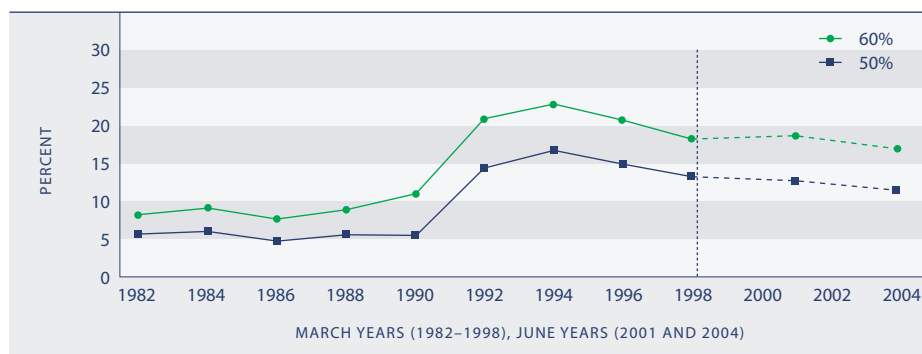
Insufficient economic resources limit people's capability to participate in and belong to their community and wider society and otherwise restrict their quality of life. Furthermore, long-lasting low family income in childhood is associated with negative outcomes, such as lower educational attainment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

CURRENT LEVEL AND TRENDS

In the year to June 2004, 17 percent of the population was living below the 60 percent threshold, down from 19 percent in the previous survey year to June 2001. The proportion of the population with low incomes rose sharply from 1990, reached a peak in the mid-1990s and has been declining generally since then. However, in 2004, the proportion was still substantially above what it had been in the 1980s.

The increase in the proportion of the population with low incomes through the early 1990s is attributable to declining household incomes arising from high rates of unemployment and reduced levels of social assistance. The improvement in this measure since the mid-1990s reflects more robust economic (and income) growth, the steady decline in unemployment and the increase in housing assistance for those at the low end of the income distribution. Rates remain higher in 2004 than in the 1980s in part because housing costs for low-income households rose significantly as a proportion of their household incomes over that period.

Figure EC3.1 **Proportion of population with net-of-housing-cost household incomes below thresholds, 1982–1998, 2001 and 2004**



Source: Derived from Statistics New Zealand's Household Economic Survey (1982–2004), by the Ministry of Social Development

AGE AND SEX DIFFERENCES

In 2001 and 2004, there is a clear decrease across age groups in the proportion below the 60 percent threshold. The relatively low rates for older New Zealanders reflect the high rate of mortgage-free home ownership for this group. The relative position of the 18–24 years age group deteriorated in the first half of the 1990s and had not recovered by 2004.

In 2004, 23 percent of dependent children were in households with incomes below the 60 percent line, a decline from 29 percent in 2001. The 2004 rate was

substantially below the peak of 35 percent in 1994, but was still above the levels of the mid-1980s (11 percent).

Rates for females aged 15 years and over have been a little higher than for males, although the gap closed in 2004.

Table EC3.1 **Proportions (%) in low-income households (60 percent threshold), by age and sex, selected years, 1986–2004**

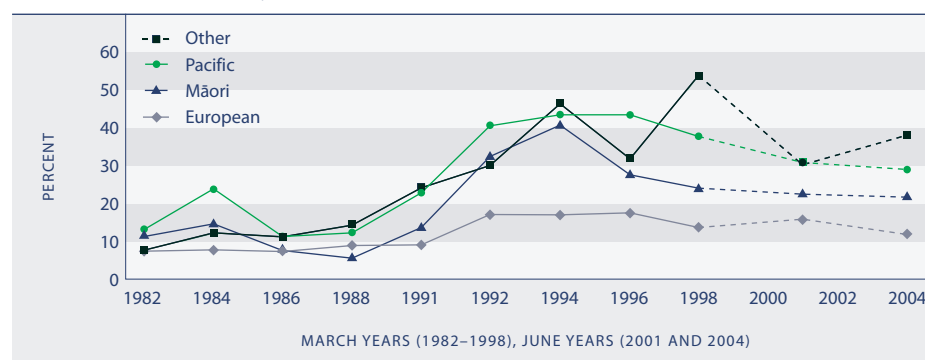
Year	Children	18–24	25–44	45–64	65+	Males 15+	Females 15+	Total
1986	11	5	8	5	4	5	7	8
1990	16	8	12	6	6	8	9	11
1994	35	20	23	15	8	17	20	23
1998	28	16	18	12	9	13	16	18
2001	29	21	18	14	7	14	17	19
2004	23	22	17	13	7	15	15	17

Source: Derived from Statistics New Zealand's Household Economic Survey (1986–2004), by the Ministry of Social Development

ETHNIC DIFFERENCES

Proportions below the 60 percent threshold fell from 1994 to 2004 for all ethnic groups (Māori, Pacific peoples, European and Other), with Māori recording the largest proportional fall of close to 50 percent. In 2004, those of Pacific and Other ethnicity had the highest proportions under the threshold (29 percent and 38 percent respectively), and Europeans the lowest (12 percent). Māori rates fell between the two (22 percent).

Figure EC3.2 **Proportion of the population with net-of-housing-cost household incomes below the 60 percent threshold, by ethnic group, 1982–1998, 2001 and 2004**



Source: Derived from Statistics New Zealand's Household Economic Survey (1982–2004), by the Ministry of Social Development

HOUSEHOLD AND FAMILY TYPE DIFFERENCES

Since the mid-1990s, the proportion of people in sole-parent families below the 60 percent threshold has been two to three times that of those in two-parent families (42 percent and 16 percent respectively in 2004). Households with three or more children have a higher proportion under the 60 percent threshold than those with only one or two children (28 percent and 16 percent respectively in 2004). There has been a substantial rise in the proportion of those under 65 years in one-person households who are below the threshold. The rate rose to 30 percent in the early 1990s and it remained relatively high (27 percent) in 2004.

INTERNATIONAL COMPARISON

Based on the 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 (17.0 percent). Denmark has the lowest proportion with low incomes (4.3 percent). By 2004, the New Zealand rate was 10.8 percent.

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.

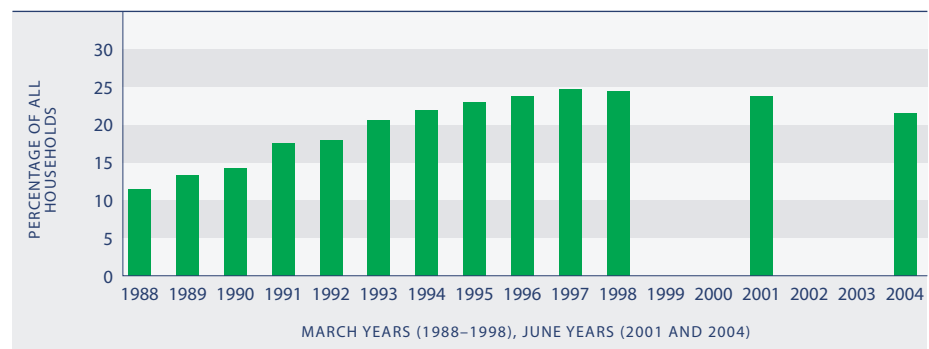
CURRENT LEVEL AND TRENDS

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 at 24 percent in 1998 and 2001.

Figure EC4.1

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 for 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 EC4.1 **Proportion (%) of the population in households with housing cost outgoings-to-income ratio greater than 30 percent, selected years, 1988–2004**

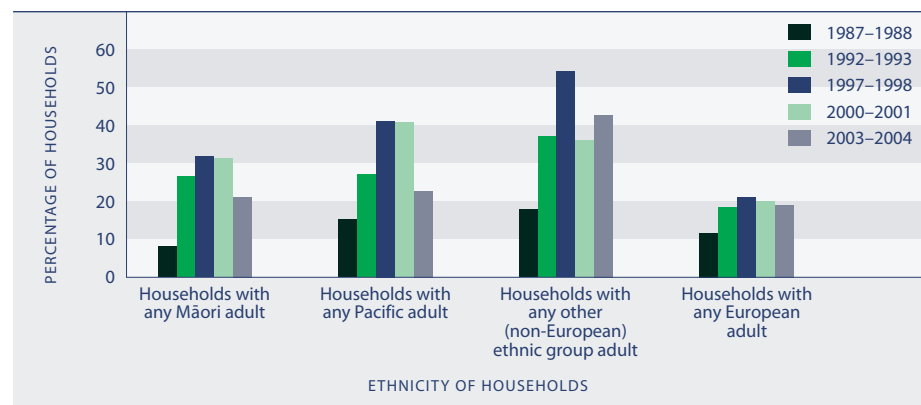
	1987–1988	1992–1993	1997–1998	2000–2001	2003–2004
Total population	10.6	20.6	24.9	23.6	21.4
Population aged 15 and over	9.9	19.0	21.9	20.9	19.7
Males aged 15 and over	10.3	18.8	21.0	19.9	20.0
Females aged 15 and over	9.5	19.3	22.7	21.9	19.5
Age groups					
Under 18 years	11.9	27.1	37.1	34.2	29.2
18–24 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 with 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 of households). This may reflect, in part, the changing composition of a group that has many new migrants.

Figure EC4.2 **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
Note: Data is for March years in 1988, 1993 and 1998 and June years in 2001 and 2004

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

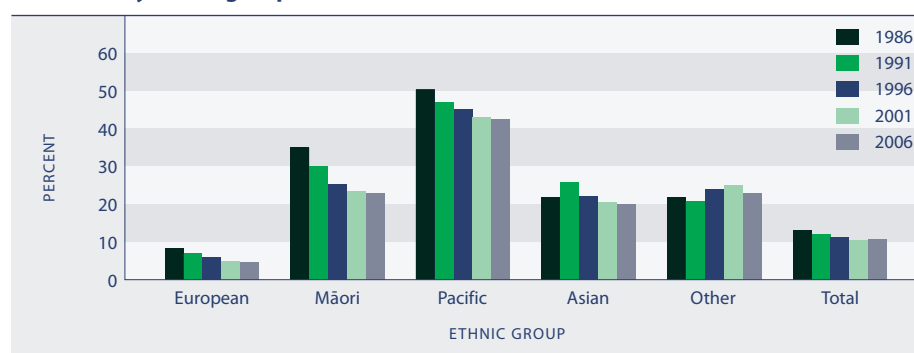
Housing space adequate to the needs and desires of a family is a core component of quality of life. National and international studies show an association between the prevalence of certain infectious diseases and crowding⁵⁹ as well as between crowding and poor educational attainment. Crowding can also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

CURRENT LEVEL AND TRENDS

In 2006, 389,600 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). This was similar to the level of crowding in 2001. The proportion of people in crowded households has reduced since 1986, when 13 percent of the population were living in crowded conditions (392,700 people).

The Canadian Crowding Index also shows how many people live in houses where two or more bedrooms are required. In 2006, there were 131,100 people or 3.5 percent of the usually resident population in this situation, compared to 118,700 people (3.9 percent) in 1986.

Figure EC5.1 **Proportion of population living in households requiring at least one additional bedroom, by ethnic group, 1986–2006⁶⁰**



Source: Statistics New Zealand

AGE AND SEX DIFFERENCES

Household crowding is more likely to be experienced by younger people than by older people. In 2006, 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, 9 percent lived in crowded households but this ranged from 17 percent of 15–24 year olds, to 10 percent of 25–44 year olds, 5 percent of 45–64 year olds and just 3 percent of those aged 65 years and over.

Between 1986 and 2006 there was little change in the proportion of children under the age of 15 years living in crowded households, defined either as needing one

or more additional bedrooms (17 percent in both years) or as needing at least two more bedrooms (just over 5 percent in 1986 and just under 6 percent in 2006).

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 2006, 43 percent of Pacific peoples lived in households requiring extra bedrooms. Māori and those in the Other ethnic group were the next most likely, with 23 percent of each group requiring at least one extra bedroom, followed by Asians (20 percent). Partly reflecting their older age profile, only 4 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 1986 and 2006 (from 22 to 23 percent). One possible explanation for this trend is that recent migrants, common in this ethnic group, are more likely to live in crowded households.⁶¹

The largest group of those living in households requiring at least one extra bedroom were those who identified as European (32 percent), followed by Māori (30 percent), Pacific peoples (27 percent), Asian (17 percent) and the Other ethnic group (just 2 percent).⁶² Of those living in more severe crowding situations (households requiring two or more bedrooms), Pacific peoples and Māori made up the largest groups (37 percent and 32 percent, respectively).

Cultural attitudes and economic conditions 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 7 percent, respectively). Seventeen percent of people who receive income support were living in crowded households in 2006, up slightly from 16 percent in 2001.⁶³

There is a clear correlation between levels of income and levels of crowding: in 2006, 5 percent of households in the bottom quartile of equivalised household income required one or more bedrooms, compared with less than 1 percent of those in the top income quartile.

Households in rental accommodation were more likely to be crowded (10 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. Manukau City has by far the highest level of household crowding, with 14 percent of households requiring one or more extra bedrooms in 2006. The next highest levels were in Opotiki District where 10 percent required at least one more bedroom, followed by Auckland City, Porirua City and Kawerau District (all 9 percent). In all of the South Island local authorities, levels of household crowding were lower than average.