

## 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”.<sup>58</sup>

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.

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## 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 disposable 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.

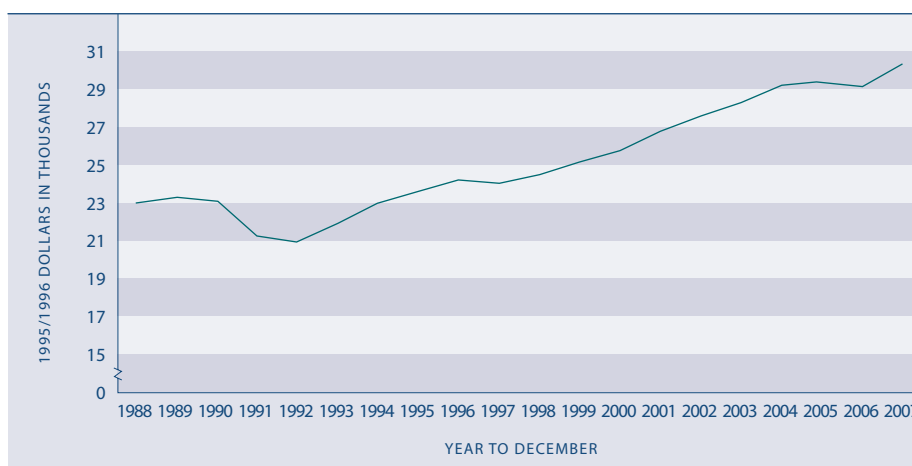
## RELEVANCE

Per person RGNDI measures the average income available to New Zealanders. A nation with a rising per person 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 December 2007, RGNDI per person was \$30,255 in 1995/1996 dollars. This was 4 percent above RGNDI per person for the year ended December 2006 (\$29,104). Between 1988 and 1990, RGNDI per person was just over \$23,000. It then fell sharply to a low of \$20,976 in 1992. From 1992, RGNDI per person grew continuously except for slight decreases in 1997 and 2006. The average annual growth rate over the whole period from 1988 to 2007 was 1.4 percent.

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



Source: Statistics New Zealand

## INTERNATIONAL COMPARISON

While gross domestic product (GDP) per person is the measure most commonly used to compare income levels between countries, gross national income (GNI) per person 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 2006, the same ranking as in the previous five years.<sup>59</sup> Using GDP per person, New Zealand was the 18th most prosperous out of 26 countries in 1986 and the ninth most prosperous in 1970. Using GNI per person, the rankings for New Zealand were 19th in 1986 and eighth in 1970.

Between 1986 and 2006, real GDP per person (using US dollars and PPPs for the year 2000), grew by 30 percent in New Zealand compared with an OECD average of 46 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 person.<sup>60</sup>

# Income inequality

## DEFINITION

The extent of disparity between high income and low income households.

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

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## 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.

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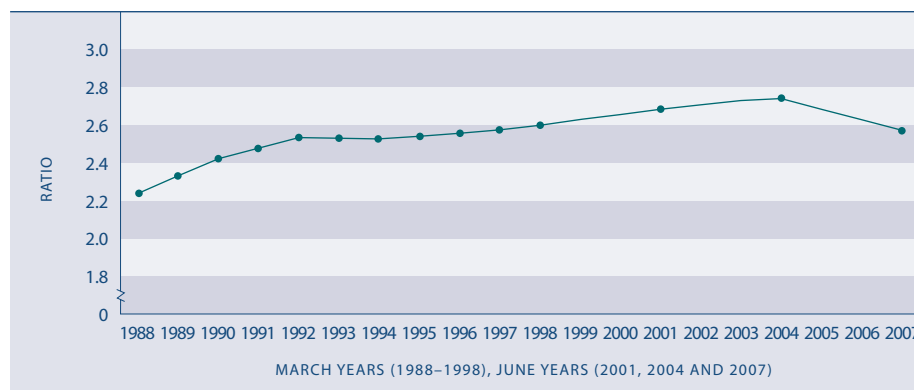
## CURRENT LEVEL AND TRENDS

In 2007, the equivalised disposable income of a household at the 80th percentile was 2.6 times larger than that of a household at the 20th percentile, a decrease from 2.7 times larger in 2004. In 1988, the ratio was 2.2. Income inequality rose between 1988 and 1991, briefly plateaued, then rose again from 1994 to 2004.

Most of the observed increase in income inequality between 1988 and 2004 was due to a larger overall rise in incomes for those in the top 20 percent of incomes – around a quarter once adjustments for inflation are made. In that period, incomes for those in the bottom 20 percent of incomes decreased a little. 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.

From 2004 to 2007, incomes for households in the low to middle income range grew strongly, whereas incomes for the top 40 percent grew by only 2 percent to 4 percent in real terms. This led to the decline in the 80:20 percentile ratio from 2004 to 2007.

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, 2004 and 2007**

Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2007), 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.<sup>61</sup> Gini coefficients measure income inequality, with a score of 100 indicating perfect inequality and a score of 0 indicating perfect equality. The most recent OECD comparison (from 2004) gives New Zealand a score of 34, indicating higher inequality than the OECD median of 30 and a ranking of 23rd equal out of 30 countries. The New Zealand Gini score was below that of the United States (38), the same as that of the United Kingdom (34), and slightly above those of Australia (30), Canada (32) and Ireland (33). Denmark and Sweden had the lowest income inequality with Gini scores of 23.<sup>62</sup> The 2007 Gini score for New Zealand was still 34.

# Population with low incomes

## DEFINITION

The proportion of the population in households with equivalised disposable income net-of-housing-cost below two thresholds.

Incomes are after deducting tax and housing costs, and adjusting for household size and composition. The thresholds are 50 and 60 percent of 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

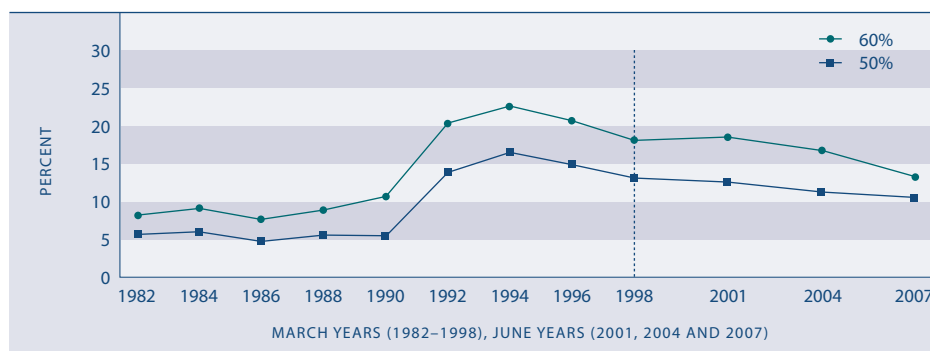
Insufficient economic resources limit people's capability to participate in and belong to their community and wider society and otherwise restrict their quality of life. Furthermore, long-lasting low family income in childhood is associated with negative outcomes, such as lower educational attainment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

## CURRENT LEVEL AND TRENDS

In the year to June 2007, 13 percent of the population was living below the 60 percent threshold, down from 17 percent in the previous survey year to June 2004. The proportion of the population with low incomes rose sharply from 1990, reached a peak in the mid-1990s and has generally declined since then. However, in 2007, the proportion was still above what it had been in the 1980s.

The increase in the proportion of the population with low incomes in the early-1990s is attributable to declining household incomes arising from high rates of unemployment and reduced levels of social assistance. The improvement since the mid-1990s reflects more robust economic (and income) growth, the steady decline in unemployment, the increase in housing assistance and the increase in tax credits for families with children. Rates remain higher in 2007 than they were in the 1980s partly because housing costs for low-income households have risen significantly as a proportion of their household incomes.

Figure EC3.1 **Proportion of population with net-of-housing-cost household incomes below thresholds, 1982–1998, 2001, 2004 and 2007**



Source: Derived from Statistics New Zealand's Household Economic Survey (1982–2007), by the Ministry of Social Development

## AGE AND SEX DIFFERENCES

In 2007, a lower proportion of older people than younger people were below the 60 percent threshold, although the difference between younger and older people was much smaller in 2007 than a decade before. The relatively low rates for older New Zealanders reflect their high rate of mortgage-free home ownership.

In 2007, 16 percent of dependent children were in households with incomes below the 60 percent threshold, a substantial decline from 23 percent in 2004. The 2007 rate was less than half of the peak rate of 35 percent in 1994, but it was still above the levels of the mid-1980s (11 percent). Rates for females aged 15 years and over have generally been a little higher than those for males of the same age group from 1986 to 2007.

Table EC3.1 **Proportions (%) in low-income households (60 percent threshold), by age and sex, selected years, 1986–2007**

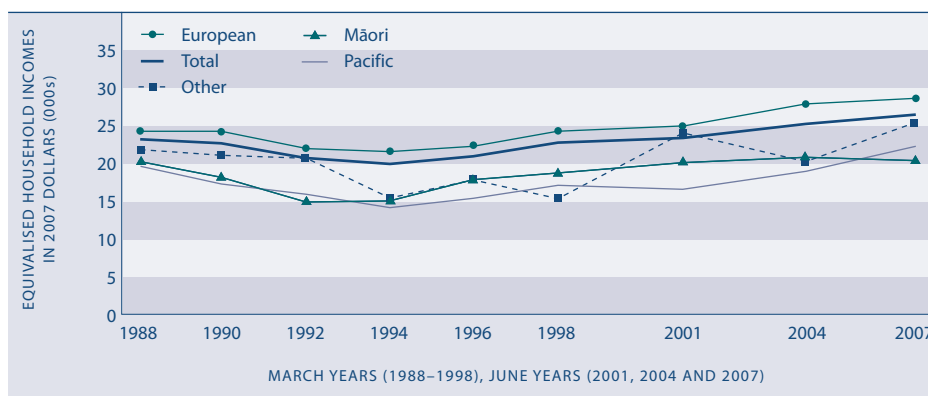
Year	Children 0–17	18–24	25–44	45–64	65+	Males 15+	Females 15+	Total
1986	11	5	8	5	4	5	7	8
1990	16	8	12	6	6	8	9	11
1994	35	20	23	15	8	17	20	23
1998	28	16	18	12	9	13	16	18
2001	29	21	18	14	7	14	17	19
2004	23	22	17	13	7	15	15	17
2007	16	17	13	11	8	11	13	13

Source: Derived from Statistics New Zealand's Household Economic Survey (1986–2007), by the Ministry of Social Development

## ETHNIC DIFFERENCES

Sample sizes in the source data are not large enough to support a reliable time series for proportions below the 60 percent threshold by ethnic group (see Appendix 2 for more details). Trends in real equivalised median household incomes are less volatile and are used to give an idea of the relativities between ethnic groups. Median incomes for all ethnic groups rose from the low point in 1994 through to 2007, although for Māori median incomes remained almost unchanged from 2004 to 2007.

Figure EC3.2 **Real equivalised median household incomes, by ethnic group, 1988–1998, 2001, 2004 and 2007**



Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2007), by the Ministry of Social Development  
Note: Household ethnicity is defined by the presence, within the household, of an adult of a particular ethnic group

## HOUSEHOLD AND FAMILY TYPE DIFFERENCES

Since 2001, the proportion of people in families with dependent children who were below the 60 percent threshold has declined. Between 2001 and 2007, the rate for those in two-parent families fell from 19 percent to 9 percent, while the rate for those in sole-parent families fell from 61 percent to 40 percent. Households with three or more children have a higher proportion under the 60 percent threshold than those with fewer children (19 percent and 14 percent respectively in 2007). The proportion of those under 65 years in one-person households who were below the threshold increased from around 12 percent in the late-1980s to 30 percent in the mid-1990s and was still 30 percent in 2007.

## INTERNATIONAL COMPARISON

For international comparisons, a different measure is used. The OECD measure is 50 percent of median (current year median rather than fixed line) equivalent disposable household income, which does not take into account housing costs. In 2004, 11 percent of New Zealanders were living in households with incomes below this threshold. The most recent OECD comparison (from 2004) places New Zealand 16th out of 30 OECD countries, and only just above the OECD median (10 percent). New Zealand's rate is similar to those of Germany, Canada and Australia (11–12 percent) and well below that of the United States (17 percent).<sup>63</sup> Sweden and Denmark have the lowest proportion of their populations with low incomes (5–6 percent). By 2007, the New Zealand rate was 12 percent.



# Housing affordability

## DEFINITION

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

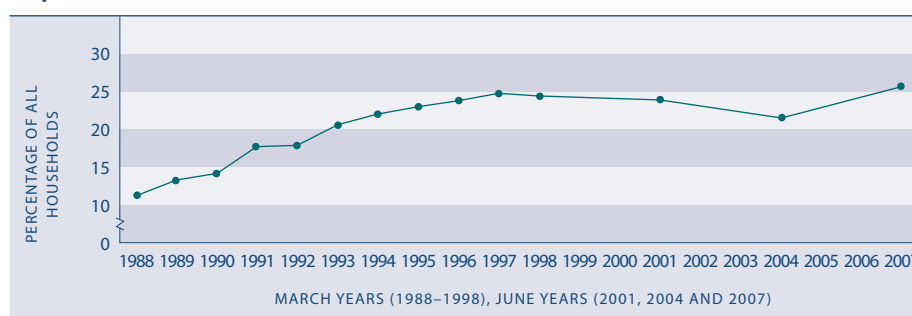
## RELEVANCE

Affordable housing is important for 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 2007, 26 percent of New Zealand households spent more than 30 percent of their disposable income on housing costs, an increase from 21 percent in 2004. 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, 2004 and 2007**



Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2007), by the Ministry of Social Development  
Note: Since 1998, the Household Economic Survey has been conducted on a three-yearly basis, rather than annually

There are other measures of housing affordability, which focus on the ability of people to purchase a house and meet subsequent mortgage repayments. These show a slight improvement in housing affordability between 2007 and 2008.<sup>64</sup>

## SOCIO-ECONOMIC DIFFERENCES

High housing costs relative to household income are of more concern for low-income households. The proportion of households in the lowest 20 percent (lowest quintile) of the equivalised household income distribution spending more than 30 percent of their income on housing rose from 16 percent in 1988 to a peak of 48 percent in 1994. The rate levelled off at 41–42 percent over the period 1996–2001, then fell to 34 percent in 2004 and 33 percent in 2007. While the change since 2001 represents a substantial improvement, the proportion of low-income households spending more than 30 percent of their income on housing was still twice as high in 2007 as it was in 1988.

Households in the lowest income quintile were the only income group to have an improvement in housing affordability from 2004 to 2007. In each of the other four quintiles housing affordability deteriorated. For example, in the third (middle) quintile the proportion of households spending more than 30 percent of their income on housing rose from 21 percent in 2004 to 29 percent in 2007, a higher level than at any other time since 1988.

## AGE AND SEX DIFFERENCES

In 2007, 32 percent of children under 18 years lived in households with housing costs exceeding 30 percent of their disposable income, an increase from 26 percent in 2004. There was a similar increase for the 25–44 years age group, many of whom are parents living with children. These changes reflect the increase in the proportion of households spending more than 30 percent of their income on housing in the second and third income quintiles.

In 2007, females aged 15 years and over (25 percent) were slightly more likely than males in the same age group (22 percent) to be living in households spending more than 30 percent of their income on housing.

Table EC4.1

**Proportion (%) of the population in households with housing cost outgoings-to-income ratio greater than 30 percent, selected years, 1988–2007**

	1988	1993	1998	2001	2004	2007
<b>Total population</b>	<b>10.6</b>	<b>20.6</b>	<b>24.9</b>	<b>24.1</b>	<b>21.3</b>	<b>26.0</b>
Population aged 15 years and over	9.9	19.0	21.9	20.9	19.7	23.6
Males aged 15 years and over	10.3	18.8	21.0	19.9	20.0	22.2
Females aged 15 years and over	9.5	19.3	22.7	21.9	19.5	25.1
<b>Age groups</b>						
Under 18 years	11.9	25.6	33.1	31.8	26.4	31.7
18–24 years	12.4	24.6	26.3	28.6	28.4	28.9
25–44 years	14.7	26.3	31.1	28.3	25.0	32.8
45–64 years	5.0	12.3	13.8	15.6	15.2	19.0
65 years and over	3.2	4.0	7.1	7.1	5.8	9.1

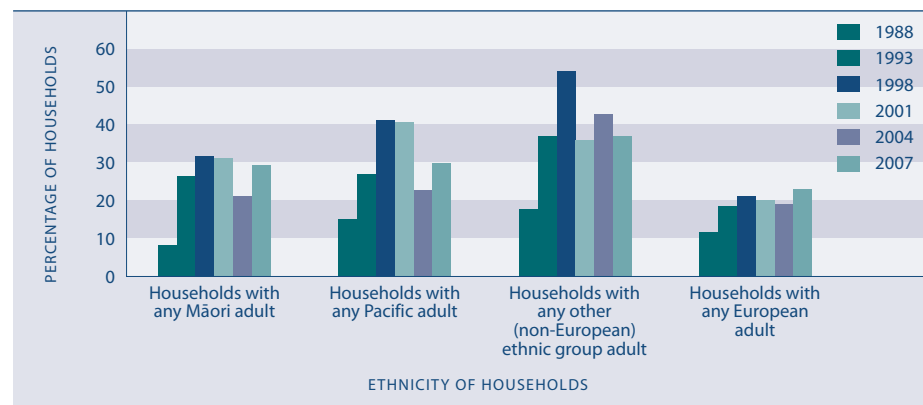
Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2007), by the Ministry of Social Development  
Note: Data is for March years in 1988, 1993 and 1998 and June years in 2001, 2004 and 2007

## ETHNIC DIFFERENCES

From 2004 to 2007, there was an increase in the proportion of households with at least one European, Māori or Pacific adult spending more than 30 percent of their disposable income on housing. This is consistent with the worsening of housing affordability across the top four quintiles.<sup>65</sup> Households with housing costs in excess of 30 percent of income are more common when they have at least one non-European adult. For households with at least one Māori adult, the proportion increased from 8 percent in 1988 to a peak of 36 percent in 1997, falling to 21 percent in 2004, then rising to 29 percent in 2007, close to the 2001 level (31 percent). For households with at least one Pacific adult, the proportion increased from 15 percent in 1988 to 48 percent in 1997, then fell to 23 percent in 2004 and then rose to 30 percent in 2007.

Figure EC4.2

**Proportion of households with housing cost outgoings-to-income ratio greater than 30 percent, by ethnic group, selected years, 1988–2007**



Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2007), by the Ministry of Social Development  
Notes: (1) Data is for March years in 1988, 1993 and 1998 and June years in 2001, 2004 and 2007 (2) Household ethnicity is defined by the presence, within the household, of an adult of a particular ethnic group

# 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

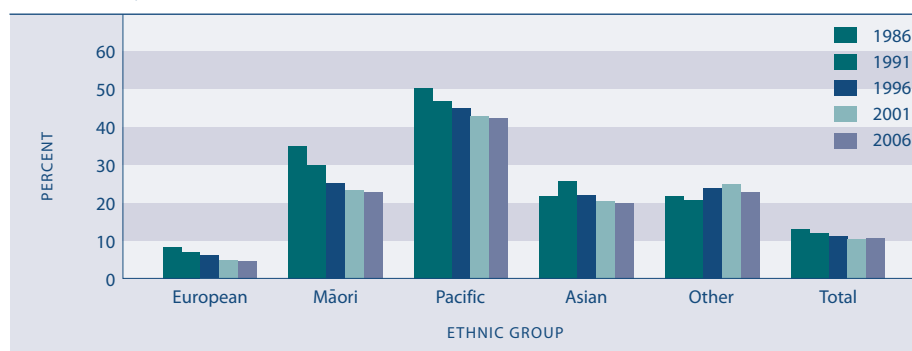
Housing space adequate to the needs and desires of a family is a core component of quality of life. National and international studies show an association between the prevalence of certain infectious diseases and crowding<sup>66</sup>, between crowding and poor educational attainment, and between residential crowding and psychological distress.<sup>67</sup>

## 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, 1986–2006<sup>68</sup>**



Source: Statistics New Zealand

## AGE AND SEX DIFFERENCES

Living in a crowded household 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 the population 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 percent 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.<sup>69</sup>

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).<sup>70</sup> 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.<sup>71</sup>

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

The proportion of people living in crowded households varies considerably across the country. Manukau City has by far the highest proportion, with 25 percent of people living in households requiring one or more extra bedrooms in 2006. The next highest levels were in Opotiki District (19 percent), Kawerau District (18 percent), Porirua City and Auckland City (both 17 percent). In all of the South Island local authorities, the proportions of people living in crowded households were well below the average, with the lowest being in Waimate (2 percent).