



## **Australian Social Trends 2007**

### **Article: Low income low wealth households**



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## SYMBOLS AND USAGES

billion	1,000 million
kg	kilogram
m	metre
n.a.	not available
n.e.c	not elsewhere classified
n.p.	not published
n.y.a.	not yet available
no.	number
'000	thousand
'000m	thousand million
\$	dollar
\$m	million dollars
\$b	billion dollars
\$US	American dollar
%	per cent
*	estimate has a relative standard error of 25% to 50% and should be used with caution
**	estimate has a relative standard error of greater than 50% and is considered too unreliable for general use
. .	not applicable
—	nil or rounded to zero (including null cells)

Where figures have been rounded, discrepancies may occur between the sums of the component items and totals.

# Low income low wealth households

**The weekly equivalised expenditure on goods and services of relatively low income low wealth households averaged \$309, which was almost two-thirds (65%) the expenditure of middle expenditure households (\$472).**

The most important economic resource for many households is a regular income, be it earned from a job or business, provided by the government as a pension or allowance, from superannuation or earned from other assets. Income, however, is not a perfect indicator of all economic resources available to a household. Many households also have access to wealth, such as bank accounts, shares, superannuation or property. Wealth is an important household resource in two ways. First, living costs can be financed for a limited period of time by running down cash reserves, borrowing against assets or selling assets outright. Secondly, some wealth can generate income such as rental income from an investment property or interest from savings accounts.

Households that have low levels of income as well as low levels of wealth have less opportunity to draw down on their wealth to finance everyday spending, and so are at a greater risk of economic disadvantage compared with low income higher wealth households. This article looks at the characteristics of households with both relatively low incomes and relatively low levels of wealth (low economic resources households). It also examines the level of household expenditure on goods and services and the presence of financial stress in households.

## Low economic resources households

Increases in mean household income and mean household net worth over the last 9 years indicate that, overall, households have

## Data sources and definitions

Data in this article are from the ABS 2003–04 Survey of Income and Housing.

A household's *income* comes from regular and recurring cash receipts including money from wages and salaries, government pensions and allowances, and other sources such as superannuation, child support, profit or loss from own unincorporated business or investment income. The *principal source of income (PSI)* is the source from which the most positive income is received. As households can have several sources of income, the principal source may account for less than 50% of total income.

A household's net worth, or *wealth*, at any point in time is the difference between the value of its assets and liabilities (see *Australian Social Trends 2006*, Components of household wealth, pp. 151–155).

Households with *low economic resources* are those households which are simultaneously in the lowest three equivalised income deciles and the lowest three equivalised net worth deciles. The balance of households, or *other households*, are all households which are not simultaneously in the lowest three equivalised deciles of both income and wealth. Low economic resources households and other households are mutually exclusive.

Throughout this analysis, income, wealth and expenditure of low economic resources households are compared with *middle expenditure households*. This group of households comprises those in the fifth and sixth deciles of equivalised household expenditure. Middle expenditure households are used as a comparison group as they are considered to be representative of households having a medium level of living standards.

benefited considerably from Australia's economic performance.<sup>1</sup> However, income and wealth are not evenly distributed and there will always be households placed relatively lower than others on the income and wealth distributions. In 2003–04, over one million households (14%) were simultaneously in the lowest three deciles of income and the lowest three deciles of wealth, referred to as low economic resources households. One out of every five children aged 0–14 years (21%, or 822,000 children) and one out of every nine people aged 15 years and over (11%, or 1.8 million people) lived in a low economic resources household.

## Households by level of economic resources — 2003–04

	Low economic resources(a)		Other(b)		Total	
	%	'000	%	'000	%	'000
Persons	13.2	2 592	86.8	17 014	100.0	19 606
Aged 15 years and over	11.3	1 770	88.7	13 880	100.0	15 650
Aged 0–14 years	20.8	821.0	79.2	3 134	100.0	3 955
Households	13.6	1 050	86.4	6 685	100.0	7 735

(a) Households simultaneously in the lowest three income deciles and the lowest three net worth deciles.

(b) Households not simultaneously in the lowest three income and lowest three net worth deciles.

Source: ABS 2003–04 Survey of Income and Housing.

## Low economic resources households: income, wealth and expenditure — 2003–04

		Low economic resources Units households(a)	Middle expenditure households(b)	All households
Mean weekly equivalised disposable household income	\$	262.35	535.85	548.91
Mean weekly equivalised household expenditure	\$	309.10	471.88	534.07
Mean equivalised net worth	\$'000	24.8	251.1	267.4
Households	'000	1 050.6	890.4	7 735.8

(a) Households simultaneously in both the lowest three income deciles and the lowest three net worth deciles.

(b) Households in the fifth and sixth equivalised expenditure deciles.

Source: ABS 2003–04 Survey of Income and Housing.

### ...income and wealth

A household's financial resources and its potential standard of living are related to its household characteristics, with income being a major indicator of the household's economic situation. In 2003–04, the mean weekly equivalised disposable household income for low economic resources households was \$262, which was less than half that of middle expenditure households (\$536). In terms of wealth, low economic resources households had an average equivalised net worth that was less than 10% of the average equivalised net worth of middle expenditure households (\$24,800 compared with \$251,100).

## Equivalised income, wealth and expenditure

A household's needs are related to its size and composition. Larger households need greater income, wealth and expenditure for the same standard of living as smaller households, but larger households have economies arising through the sharing of benefits between household members, such as the accommodation, heating and other utilities.

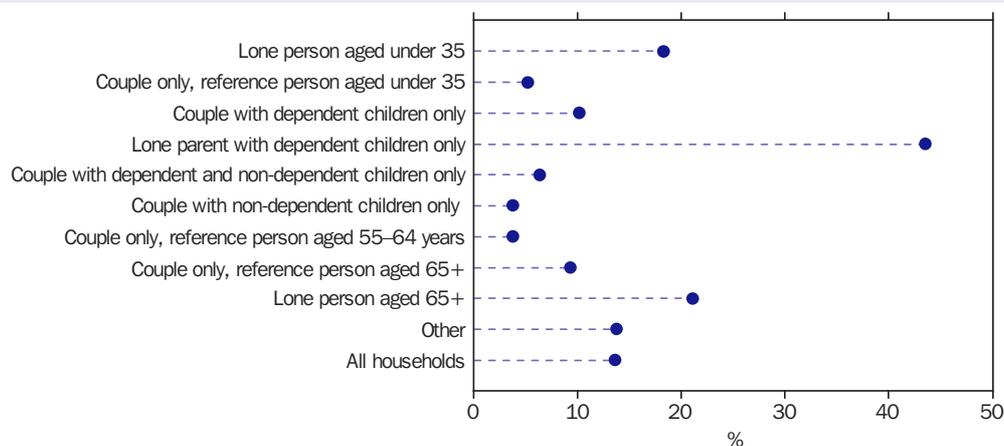
To make meaningful comparisons of living conditions, measures of household income, wealth and expenditure in this article are adjusted or *equivalised* to take account of differing household size and composition. To equivalise a household's income, wealth or expenditure, the dollar amount is divided by that household's *equivalence factor*. The equivalence factor is the sum of 'points' in the household where an equivalisation scale assigns: 1.0 point for the first (or only) adult, 0.5 points for each additional adult and 0.3 points for each child under the age of 15. The equivalised income, wealth or expenditure of a lone person household is the same as the unequivalised value. For households comprising more than one person, the equivalised value is less than the total unequivalised value but greater than the per capita share of the unequivalised value.

For more information on equivalence scales see *Household income and income distribution, Australia, 2003–04* (ABS cat. no. 6523.0).

### ....household composition

While 14% of households overall were classified as low economic resources households in 2003–04, the proportion was considerably higher among one parent family households and certain lone person households.

## Low economic resources households as a proportion of households in each life cycle group — 2003–04



Source: ABS 2003–04 Survey of Income and Housing.

## Selected household characteristics of low economic resources households — 2003–04

Household characteristic	Units	Low economic resources	Other	All households
		households(a)	households	
Median age of household reference person	years	43	48	47
Average number of persons	no.	2.5	2.5	2.5
Average number of employed persons	no.	0.4	1.4	1.2
Average weekly hours worked(b)	no.	10.5	51.7	46.1
Principal source of household income from wages and salaries	%	15.9	64.1	57.5
Principal source of household income from government pensions and allowance	%	77.9	19.9	27.7
Home owner(c)	%	14.4	78.7	70.0
Public housing	%	30.1	0.9	4.9
Private renter	%	45.0	17.4	21.2

(a) Households simultaneously in both the lowest three income deciles and the lowest three net worth deciles.

(b) Total average hours worked by all household members in their main and second job.

(c) Comprises households who own their home with or without a mortgage.

Source: ABS 2003–04 Survey of Income and Housing.

In 2003–04, 44% of all one parent family households with dependent children were living in low economic resources households. Furthermore, half (53%) of children living in one parent family households lived in low economic resources households.

In 2003–04, 18% of lone persons aged less than 35 years were in low economic resources households, as were about one-fifth (21%) of all older lone person households (persons aged 65 years and older). Older lone person households also comprised the greatest proportion of all lone person, low economic resources households, making up 40% (151,000) of these households.

Household compositions with the lowest proportions of low economic resources were couples with non-dependent children only (4%), older couples (with a reference person aged 55–64 years) only (4%) and younger couples without children (5%).

Certain types of household therefore predominated among low economic resources households. Lone person households and one parent family households together accounted for more than half of low economic resources households (36% and 22% respectively).

### ...labour force and employment status

In 2003–04, the average number of employed people in all low economic resources households was 0.4 people compared with 1.4 people in other households. This was partly due to the high proportion of lone person and one parent family households in the low economic resources group. Also, households comprised of older lone persons, older couples and lone parents were likely to contain people who were not in the labour force due to their retirement or caring responsibilities. These three types of households all had less than 0.2 people working, on average.<sup>2</sup>

### ...principal source of income

Consistent with the low levels of employed people in low economic resources households, 78% of low economic resources households had government pensions and allowances as their principal source of income, compared with 20% of other households. The vast majority (93%) of one parent family households within the low economic resources group relied on government pensions and allowances for their principal source of income, as did couples with a reference person aged 65 years and over (100%).

## Expenditure patterns of low economic resources households

Society generally accepts that people have a right to a minimum standard of living, although there is no consensus about the minimum level of goods and services necessary or what level of expenditure would be required to help achieve a minimum level of consumption. However, a household's material standard of living can be analysed in relation to its expenditure on goods and services, keeping in mind that some households that have low levels of expenditure on goods and services may not consider themselves to be poor or deprived based on their wants and needs.

In 2003–04, the mean weekly equivalised household expenditure on goods and services for low economic resources households was \$309. These households spent two-thirds (65%) the average amount spent by middle expenditure households (\$472). Not surprisingly, the majority (86%) of low economic resources households were ranked in the bottom 30% of household equivalised expenditure (in addition to being in the bottom 30% of equivalised household income and wealth).

## Lower income households with middle to higher wealth

In 2003–04, there were 1.1 million households both with incomes in the three lowest income deciles and wealth in the lowest three wealth deciles. There were a further 1.4 million households which also had income in the lowest three deciles, yet had wealth levels greater than that at the top of the third decile of wealth. The mean equivalised wealth in these latter households was \$343,000 per household, which was 14 times greater than the \$24,800 estimated for low economic resources households. These households also had a mean weekly equivalised disposable household income (\$256) that was similar to the income levels of low economic resources households (\$262). Yet their mean equivalised household expenditure on goods and services per week (\$392) was much higher than the expenditure of low economic resources households (\$309).

Housing, food and transport were the three broad expenditure groups that accounted for the largest proportions of household expenditure for both the low economic resources households and middle expenditure households in 2003–04. These three items accounted for about half of the total average equivalised household

## Mean weekly equivalised household expenditure — 2003–04

Broad expenditure group	Low economic resources households(a)		Middle expenditure households(b)		All households	
	\$	%	\$	%	\$	%
Goods and services						
Current housing costs (selected dwelling)	71.28	23.1	75.54	16.0	84.39	15.8
Domestic fuel and power	11.34	3.7	13.92	2.9	13.98	2.6
Food and non-alcoholic beverages	64.33	20.8	91.63	19.4	92.71	17.4
Alcoholic beverages	4.74	1.5	13.12	2.8	13.46	2.5
Tobacco products	8.06	2.6	7.68	1.6	6.76	1.3
Clothing and footwear	11.75	3.8	19.03	4.0	21.85	4.1
Household furnishings and equipment	13.34	4.3	21.26	4.5	30.73	5.8
Household services and operation	21.96	7.1	31.06	6.6	32.74	6.1
Medical care and health expenses	8.11	2.6	24.62	5.2	26.80	5.0
Transport	35.61	11.5	67.27	14.3	83.19	15.6
Recreation	29.70	9.6	57.74	12.2	68.51	12.8
Personal care	4.73	1.5	9.51	2.0	10.28	1.9
Miscellaneous goods and services	24.14	7.8	39.50	8.4	48.66	9.1
<b>Mean weekly equivalised expenditure on goods and services</b>	<b>309.10</b>	<b>100.0</b>	<b>471.88</b>	<b>100.0</b>	<b>534.07</b>	<b>100.0</b>
<b>Mean weekly equivalised disposable household income</b>	<b>262.35</b>	<b>..</b>	<b>535.85</b>	<b>..</b>	<b>548.91</b>	<b>..</b>

(a) Households simultaneously in both the lowest three income deciles and the lowest three net worth deciles.

(b) Households in the fifth and sixth equivalised expenditure deciles.

Source: ABS 2003–04 Household Expenditure Survey.

expenditure on goods and services for low economic resources households (55%) and middle expenditure households (50%). In 2003–04, low economic resources households spent a greater proportion, on average, on housing costs (23%) than middle expenditure households (16%).

Transport costs accounted for a similar proportion (12%) of household expenditure for low economic resources households compared with middle expenditure households (14%). However, low economic resources households spent about half the amount spent on transport by middle expenditure households (\$36 and \$67 respectively).

Recreation accounted for 10% of total household expenditure on goods and services of low economic resources households. However, household expenditure on recreation for low economic resources households (\$30) was roughly half of the expenditure by middle expenditure households (\$58) on this item.

Although it is not possible to accurately measure household savings from the ABS 2003–04 Household Expenditure Survey, differences between income and expenditure are indicative of households' financial

sustainability and the likelihood of facing financial stress. In 2003–04, low economic resources households spent almost \$50 per week more on average, for goods and services than they earned through regular income, while the middle expenditure households had a weekly surplus of about \$64.

## Indicators of financial stress

While low household income, wealth and expenditure suggest a low standard of living, further insights into the economic wellbeing of low economic resources households may be gained by examining subjective indicators of financial stress.

### ...ability to save income

The ability to save income was reported by 13% of low economic resources households, compared with 37% for all other households. Low economic resources households were also more likely to report spending more money than they received (28%) compared with other households (16%). Among low economic resources households, couples with non-dependent children and couples with dependent children only households had the lowest proportions able to save money most weeks (6% and 7% respectively). In contrast, older lone persons and older couples in low economic resources households had the highest proportion of households able to save money most weeks (28% and 23% respectively) and were less likely to spend more than they earn (13% and 7% respectively).

### Selected indicators of financial stress(a) — 2003–04

Household experience	Low economic resources households(b)	Other households(c)	All households
	%	%	%
Unable to raise \$2000 for something important in a week	52.1	8.6	14.3
Could not pay electricity, gas or telephone bills on time	37.8	11.5	14.9
Could not pay for car registration or insurance on time	13.5	4.6	5.7
Pawned or sold something	11.7	2.3	3.5
Went without meals	11.8	1.8	3.1
Unable to heat home	8.9	1.2	2.3
Sought assistance from welfare/community organisations	14.7	1.2	2.9
Sought financial assistance from friends or family	26.4	7.8	10.3
	'000	'000	'000
<b>Total households</b>	<b>1 050.6</b>	<b>6 685.2</b>	<b>7 735.8</b>

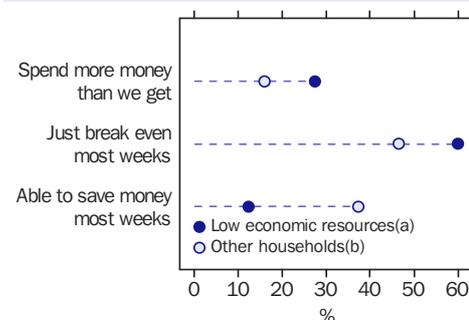
(a) Household's situation over the past 12 months due to lack of money.

(b) Households simultaneously in both the lowest three income deciles and the lowest three net worth deciles.

(c) Households not simultaneously in both the lowest three income deciles and the lowest three net worth deciles.

Source: ABS 2003–04 Household Expenditure Survey.

### Management of household income — 2003–04



(a) Households simultaneously in both the lowest three income deciles and the lowest three net worth deciles.

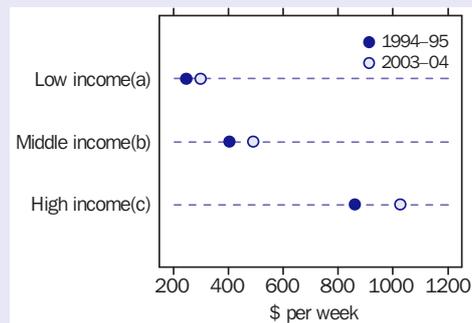
(b) Households not simultaneously in both the lowest three income deciles and the lowest three net worth deciles.

Source: ABS 2003–04 Household Expenditure Survey.

## Income growth and distribution

Between 1994–95 and 2003–04, the mean real weekly equivalised disposable household income for all households rose from \$455 to \$549 – an increase of 21%. This proportional increase was similar for each of the low, middle and high income groups over this period, and it appears that there has been no significant change in income inequality from the mid-1990s to 2003–04.<sup>3</sup>

### Mean real weekly equivalised disposable household income



- (a) Households in the second and third income deciles.  
 (b) Households in the fifth and sixth income deciles.  
 (c) Households in the ninth and tenth income deciles.

Source: *Household income and income distribution, Australia, 2003–04* (ABS cat. no. 6523.0).

Changes in a household's circumstances, such as the loss of a family member or the gain or loss of employment, can affect peoples' relative position on the household income distribution scale. Panel studies, such as the Household Income and Labour Dynamics in Australia (HILDA) survey follow the same households over time and can provide insights into the income mobility of people, based on changes in their household income over time. For example, 71% of individuals who were in low income households in 2001 were also in low income households in 2003, with the remaining 29% of people moving out of the low income deciles. High income people had a slightly greater level of mobility with around one third (34%) of those in high income households in 2001 being in households with incomes less than the ninth decile in 2003. The most mobility occurred for people in the middle income households. Almost three-fifths (59%) of people who were in middle income households in 2001 had moved up (30%) or down (29%) the income scale by 2003.<sup>4</sup>

## ...ability to raise \$2,000

Although a household's ability to raise money to meet an emergency does not reflect a household's current financial situation, it may provide an indication of the ability of the household to cope in potential crisis. In 2003–04, half (52%) of all households in the low economic resources group reported that they could not raise \$2,000 in one week for something important, compared with 9% of other households.

## ...other indicators of financial stress

All other indicators of financial stress occurred in greater proportions among low economic resources households than other households in 2003–04. For example, 38% of low economic resources households reported that within the last 12 months they could not pay utility bills on time and 26% had sought financial assistance from friends or family, while for other households the proportions were 11% and 8% respectively.

Going without meals in the last 12 months due to a shortage of money was experienced by 12% of low economic resources households, compared with 2% among all other households.

## Endnotes

- 1 Australian Bureau of Statistics 2006, *Australian System of National Accounts 2005–06*, cat. no. 5204.0, ABS, Canberra.
- 2 Australian Bureau of Statistics 2005, *ABS 2003–04 Survey of Income and Housing*, ABS, Canberra.
- 3 Australian Bureau of Statistics 2005, *Household income and income distribution, Australia, 2003–04*, cat. no. 6523.0, ABS, Canberra.
- 4 Headey, B, Warren, D and Harding, G 2006, *Families, Incomes and Jobs, A Statistical Report of the HILDA survey*, Melbourne Institute of Applied Economic and Social Research, Melbourne, viewed 25 October 2006, <<http://www.melbourneinstitute.com/hilda/statreport/statreport2005.pdf>>.



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