

Household Economic Wellbeing

What is household economic wellbeing?

When considering the circumstances of households, the key economic wellbeing factors that affect people's material standard of living are income, consumption and wealth.

Income can be used to support consumption of goods and services, such as food, clothing, housing and leisure activities. Alternatively, it can be saved and invested to increase wealth which can be used at a later date to support consumption.

Some people with low incomes have considerable wealth allowing them to maintain consumption levels above their current income. People with low reserves of wealth may face financial difficulty in times of need, such as during any period of reduced income or substantial unexpected expenses.

Diagram 1 illustrates this relationship, although people's actual wellbeing is affected by individual circumstances and lifestyle choices.

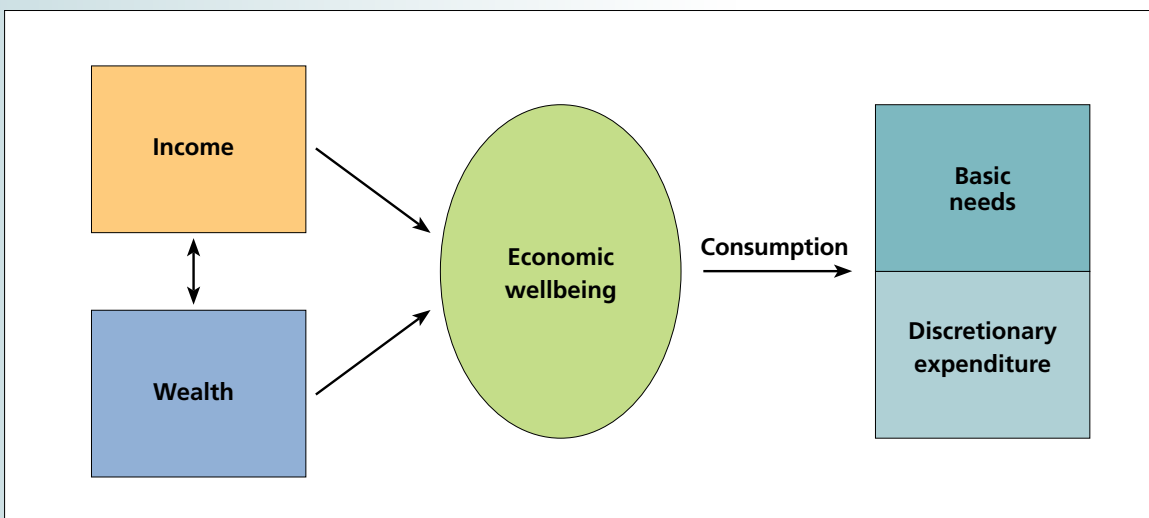
The Household Economic Wellbeing Fact Sheet Series

These fact sheets provide a broad overview of the key concepts and data sources for measuring household economic wellbeing. The Household Economic Wellbeing Fact Sheet Series currently comprises:

- **Fact sheet 1.** What is household economic wellbeing?
- **Fact sheet 2.** Understanding measures of income and wealth
- **Fact sheet 3.** Low economic resource households
- **Fact sheet 4.** Key data sources
- **Fact sheet 5.** Changes over time

The series may be expanded in the future to cover other aspects of these important statistics.

Diagram 1. Components of household economic wellbeing



Key Terms

Equivalisation – a method of standardising the income, expenditure or wealth of households to take account of household size and composition differences

Household – a person living alone or a group of related or unrelated people who usually live in the same private dwelling



What is household economic wellbeing?

Box 1. Key resources for statistics on household income, consumption and wealth

Canberra Group Handbook on Household Income Statistics, Second Edition, 2011

Reflects new international standards for household income statistics and provides guidance on conceptual and practical issues related to their production and use.

Available at <<http://www.unece.org/statshome/publications-amp-resources/publications.html>>

OECD Guidelines for Micro Statistics on Household Wealth

Provides an internationally agreed set of standard concepts, definitions and classifications for micro wealth statistics and best practice for compiling and analysing wealth statistics.

Available at <<http://www.oecd.org/statistics/guidelines-for-micro-statistics-on-household-wealth.htm>>

OECD Framework for Statistics on the Distribution of Household Income, Consumption and Wealth

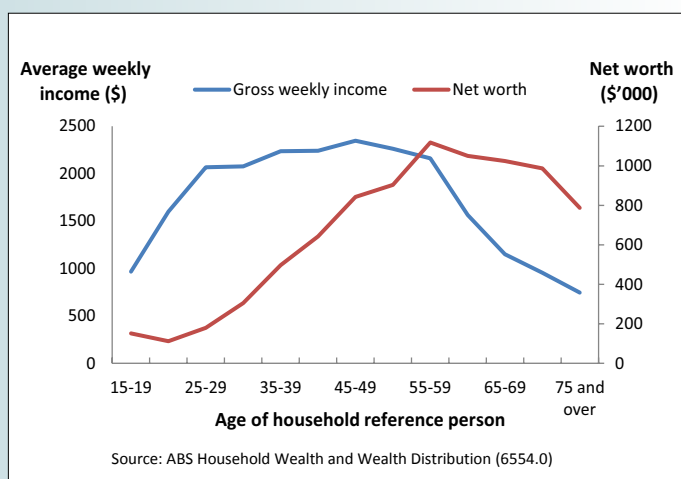
Presents an internationally agreed framework to support the joint analysis of micro-level statistics on household income, consumption and wealth as three separate but interrelated dimensions of people's economic wellbeing.

Available at <<http://www.oecd.org/statistics/icw-framework.htm>>

Income and wealth accumulation over the life cycle

Income levels and wealth vary over a person's life and are affected by two main factors, age and labour force participation. Incomes tend to grow until middle age. Wealth tends to be gradually accumulated during the working lives of household members and used during retirement. (Graph 1)

Graph 1. Gross household income and net worth by age of reference person, 2011–12



Key concepts for measuring economic wellbeing

The definitions used to measure the economic wellbeing of people can have a significant impact on the results. The Australian Bureau of Statistics (ABS) follows international best practice in producing micro statistics relating to household economic resources.

Income

The most comprehensive measure of income is compiled from the ABS Survey of Income and Housing (SIH) and the ABS Household Expenditure Survey (HES). This definition aligns with new international standards released in 2004 and fully adopted from SIH 2007–08 and HES 2009–10:

Income consists of all current receipts, whether monetary or in kind, that are received by the household or by individual members of the household, and which are available for, or intended to support, current consumption.

Wealth

The first international wealth standards were published by the OECD in 2013.

Wealth refers to economic resources in the form of assets and liabilities. Wealth, or net worth, is the value of all the assets (e.g. property, bank accounts and shares) owned by a household less the value of all its liabilities (mortgages and other loans) at a particular point in time. Net worth may be negative when a household's liabilities exceed its assets.

Consumption expenditure

The international definition of consumption expenditure is summarised as:

Household consumption expenditure is the value of consumer goods and services acquired, used or paid for by a household through direct monetary purchases, own account production, barter or as income in kind.

In the HES, expenditure is valued as the cost of goods and services acquired during the reference period for private use, whether or not the goods were paid for or consumed in that period. Expenditure is net of refunds and trade-ins. Consumption expenditure includes in kind income from employers, such as subsidised housing or the use of a car for private purposes.

Broadening the income measure

In recent years the ABS has made significant progress in extending its measurement of household income to reflect real world changes and enhance analytical opportunities. This includes developing new measures to allow the full economic circumstances of different types of households to be compared. In particular, the ABS has produced:

- imputed rent (IR) estimates since 2003–04
- social transfers in kind (STIK) allocations from SIH 2011–12 (previously only based on HES data)
- final income estimates since 1984.

a) Imputed rent

What is it?

Income from imputed rent is allocated to owner occupiers and households living in subsidised private rentals e.g. renting from a family member. For owner occupiers, income from imputed rent is the estimated market rent of a dwelling less housing costs normally paid by a landlord such as mortgage interest, rates, insurance and repairs. For renters, it is the difference between market rent and actual rent paid.

Why include imputed rent in income?

Housing is one of the most significant living costs borne by many households. The inclusion of imputed rent in income provides a broader picture of the economic wellbeing of owner occupied and rent-subsidised households relative to other households, allowing more meaningful comparisons of the wellbeing of people living in different tenure types.

b) Social transfers in kind

What are they?

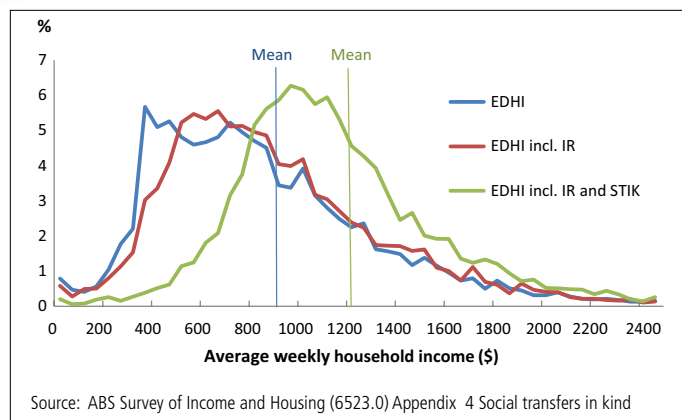
Social transfers in kind are goods and services provided by governments that benefit individuals but are provided free or at subsidised prices. Examples include free or subsidised education, health and child care.

Why include STIK in income?

STIK have a significant impact on the wellbeing of people and on the measurement of the distribution of income. This is important for comparisons within and across countries. In Australia, many government services have been designed to assist those most in need of financial support. The allocation of benefits differs between households, reflecting characteristics such as household composition, life cycle stages, household size and income.

The inclusion of IR and STIK increased the mean equivalised disposable household income (EDHI) from \$918 to \$1220 per week in 2011–12 and reduced the inequality of income distribution across households. (Graph 2)

Graph 2. Distribution of equivalised disposable household income with and without IR and STIK, 2011–12



c) Final income

What is it?

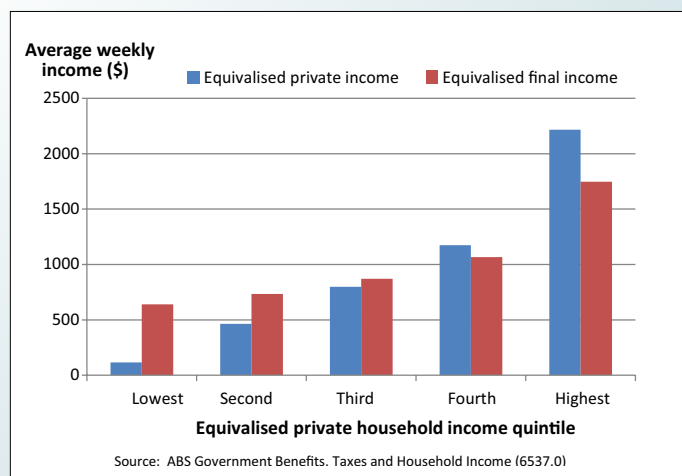
Final income is equal to household private income plus social assistance benefits in cash (e.g. age and disability support pensions, Family Tax Benefit) and STIK less income taxes and taxes on production (e.g. GST and taxes on alcohol and cigarettes). Both household income and expenditure are required to estimate final income. This data is available whenever the HES is conducted, most recently in 2009–10. (Diagram 2)

Why is it important?

Final income shows the full effect of government expenditure and taxes on the distribution of income among private households in Australia. This allows policy makers to understand the effects of changes in either government revenues or spending that directly impact on the economic wellbeing of households.

The net effect of government benefits and taxes in 2009–10 was to increase average incomes of households in the three lowest quintiles and decrease those of the two highest quintiles. (Graph 3)

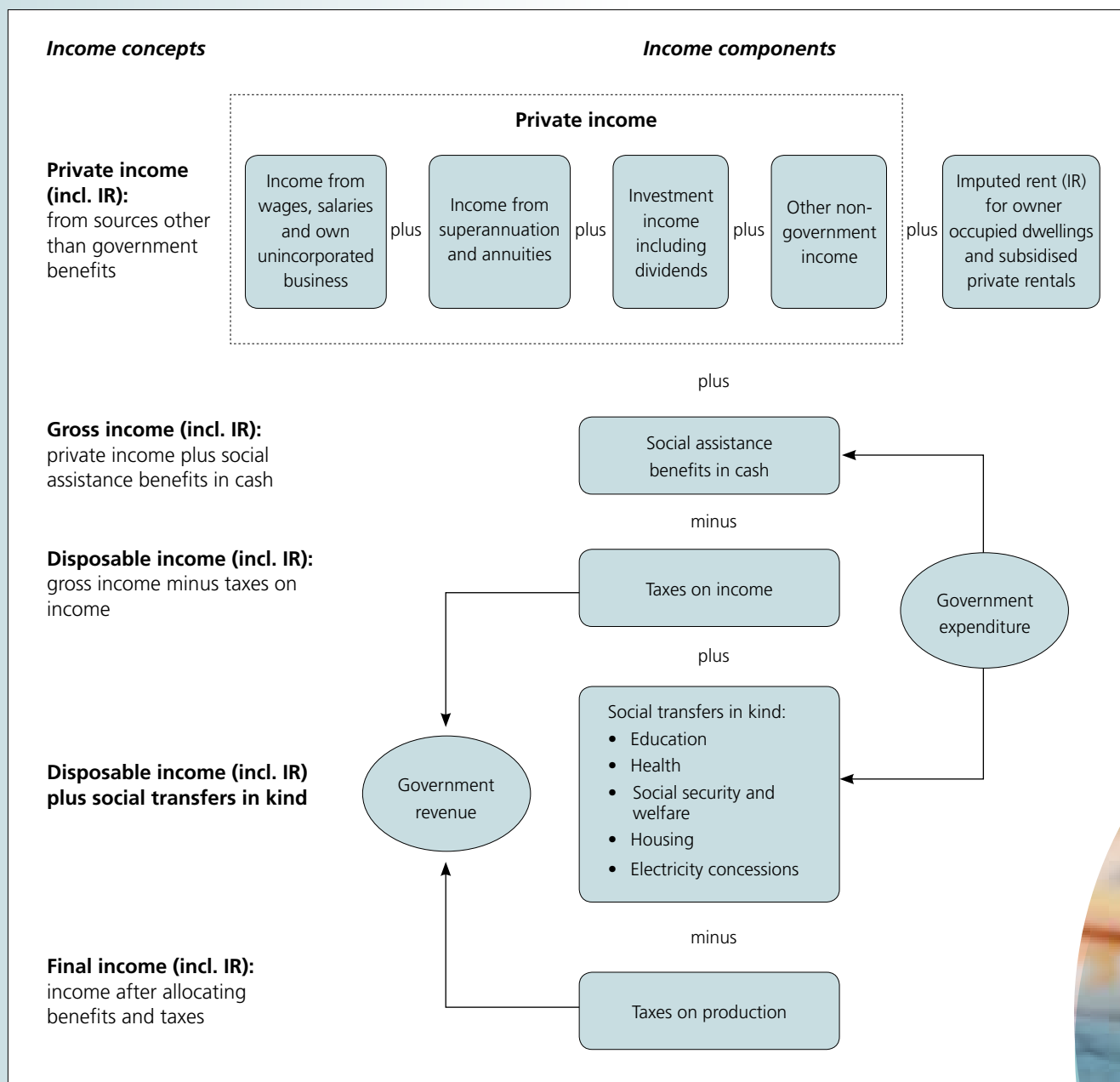
Graph 3. Private and final household income, by equivalised private income quintile, 2009–10



What is household economic wellbeing?

Diagram 2 illustrates the relationship between the different income concepts presented in this Fact Sheet Series.

Diagram 2. Income concepts and components



For more information

- OECD, 2013, *OECD Framework for Statistics on the Distribution of Household Income, Consumption and Wealth*, OECD Publishing <http://www.oecd.org/statistics/icw-framework.htm>
- OECD, 2013, *OECD Guidelines for Micro Statistics on Household Wealth*, OECD Publishing <http://www.oecd.org/statistics/guidelines-for-micro-statistics-on-household-wealth.htm>
- United Nations, 2011, *Canberra Group Handbook on Household Income Statistics, Second Edition*, United Nations Economic Commission for Europe <http://www.unece.org/stat/home/publications-amp-resources/publications.htm>

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