CHILD POVERTY ACTION GROUP

A scenario for changes in child poverty rates from the COVID-19 recession

Background paper

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Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high level of child poverty is not the result of economic necessity but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of child poverty.

Background

This paper offers a scenario of possible numbers of children living in relative income poverty as a result of the expected COVID-19 recession. The purpose for creating this scenario is to gain some appreciation of the possible impacts of this recession on the wellbeing of New Zealand's children. As a scenario it is just an assessment of what might plausibly happen and not a forecast. There are in fact huge uncertainties around the extend of the COVID-19 recession and the nature of the subsequent recovery. These uncertainties as well as the duty of care we have for our children anyway make it important to be mindful that the impacts of recessions do not fall evenly or fairly. As a consequence, we need to plan for responses which minimise negative impacts on children. To help us do that we need some understanding of the extent of the challenge we are facing around who New Zealand's poorest children are and how many they are. This scenario is an attempt at providing some of this understanding.

Treasury's recovery scenarios

In mid-April 2020, Treasury released the results of scenario modelling work it had undertaken in order to scope the extent of change which a post-COVID-19 recession might involve. The scenarios offered in this modelling work revolved around different periods for the shutdowns involved in each of the COVID-19 alert levels and in two scenarios an assumption of further fiscal support – in addition to the support offered to date. This additional support was $20 billion and $40 billion where this spending was highly aggregated with no attention given to how it was spent. The scenarios modelled are described in Table 1.

Table 1: Treasury post-COVID-19 recession scenarios[1]

Scenario	COVID-19 Alert Level	Other assumptions
Scenario 1	Level 4 – 1 month Level 3 – 1 month Level 1/2 – 10 months	Borders assumed closed to foreign visitors for up to 12 months. World annual average real GDP growth is lower than HYEFU by 6% in calendar 2020.
Scenario 2	Level 4 – 3 months Level 1/2 – 9 Month	May be interpreted as a number of shorter periods at Level 4 linked by periods at Level 1 and 2.
Scenario 3	Level 4 – 6 months Level 3 – 6 months	
Scenario 4	Level 4 – 3 months Level 3 – 3 months Level 1/2 – 6 months	May be interpreted as a number of shorter periods at Level 4 and/or Level 3 linked by periods at Level 1 and 2.
Scenario 5	As in Scenario One	World annual average real GDP growth is lower than Scenario One by 3% in calendar 2020 and 4% in 2021
Scenario 1a	As for Scenario 1	$20 billion fiscal support in addition to current spending
Scenario 2a	As for Scenario 2	$40 billion fiscal support in addition to current spending

Based on these scenarios Treasury has modelled possible outcomes for GDP, inflation and unemployment. Table 2 offers result for future changes in the unemployment rate under each of these scenarios between March 2020 and June 2024. As reported on this table these scenarios present a range of possible future unemployment rates ranging from 8.3% (Scenario 1a) to 25.9% (Scenario 3).

Given that the COVID-19 shutdown has to date followed the path assumed in Scenario 1 the realistic scenarios to model any child poverty impacts on are either Scenario 1 or Scenario 1a. The estimates offered below are based on Scenario 1a as it is assumed that Government will continue to provide fiscal support for the recovery and not allow the outcomes suggested in Scenario 1 to emerge.

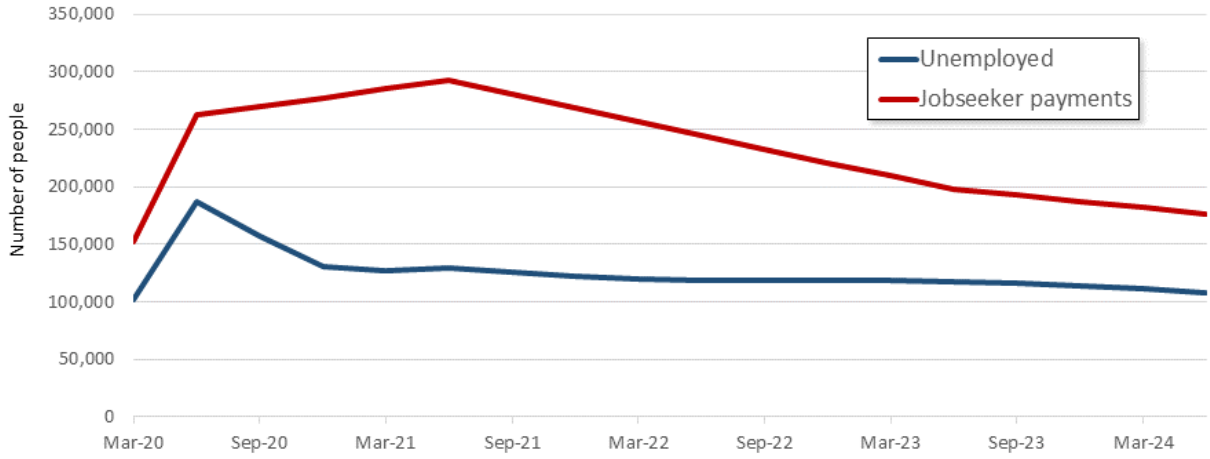
Scenario 1a suggests that there could be a short sharp increase in unemployment in the middle of 2020 but by the end of 2020 the unemployment rate has fallen to 5.8% and that it remains above 5.0% for the following three years. This scenario suggests that the overall medium-term effect of the recession on employment levels will only be marginal – around 1% higher (or about 20,000 people) than a business as usual scenario where there was no COVID-19 recession. We find this proposal somewhat unlikely given New Zealand's experience from the recession caused by the Global Financial Crisis. This assessment is considered in slightly more detail below**.**

Table 2: Treasury unemployment scenarios for post-COVID-19 recovery[2]

	HYEFU 2019	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 1a - extra fiscal ($20b)	Scenario 2a - extra fiscal ($40b)
2019Q3	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.1
2019Q4	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
2020Q1	4.2	4.5	4.6	4.5	4.5	4.5	4.5	4.5
2020Q2	4.3	13.4	17.6	17.7	17.6	13.4	8.3	9.5
2020Q3	4.2	13.0	17.2	23.0	22.5	13.4	7.0	9.3
2020Q4	4.2	10.7	13.6	25.9	21.8	11.6	5.8	7.1
2021Q1	4.2	9.4	11.2	24.3	16.7	11.0	5.7	6.3
2021Q2	4.2	8.5	9.7	21.8	14.5	10.7	5.7	6.0
2021Q3	4.2	7.6	8.4	18.3	12.2	10.4	5.6	5.8
2021Q4	4.2	6.9	7.5	15.2	10.4	10.1	5.4	5.5
2022Q1	4.2	6.3	6.7	12.7	9.1	9.7	5.3	5.4
2022Q2	4.2	5.9	6.2	10.9	8.2	9.3	5.2	5.4
2022Q3	4.2	5.6	5.9	9.6	7.5	8.8	5.2	5.4
2022Q4	4.2	5.4	5.7	8.6	6.9	8.4	5.2	5.4
2023Q1	4.2	5.2	5.5	7.7	6.4	8.0	5.2	5.4
2023Q2	4.3	5.0	5.3	7.0	6.0	7.6	5.2	5.3
2023Q3	4.3	4.8	5.1	6.5	5.6	7.2	5.1	5.3
2023Q4	4.3	4.7	4.9	6.0	5.3	6.8	5.0	5.2
2024Q1	4.3	4.5	4.7	5.6	4.9	6.4	4.8	5.0
2024Q2	4.3	4.3	4.5	5.2	4.6	6.0	4.7	4.9

Treasury's Scenario 1a does not however match up with its expectations for benefit numbers which were reported in the documentation for the 2020 Budget[3]. Scenario 1a proposes that the unemployment rate will peak at 8.3% which on recent labour force participation rates suggests that the numbers of people defined as officially unemployed will rise by around 85,000 during mid-2020. The number of people receiving a working age benefit is forecast to reach 464,000 during the middle of 2021 – up from 310,000 in March 2020 just prior to the COVID-19 shutdown and significantly more than the 351,000 people receiving such a benefit by late May 2020[4]. The comparison between these scenarios is offered in Figure 1.

Figure 1: Treasury scenarios for unemployment and demand for working age benefits – 2020 to 2024



Employment patterns during the Global Financial Crisis

The most recent recession was the result the Global Financial Crisis (GFC) of 2007-2008. While caused by a financial crisis rather than a public health one, the GFC can still provide us with insights into the extent of economic fallout which can be expected in a recession now being contemplated – post-COVID-19.

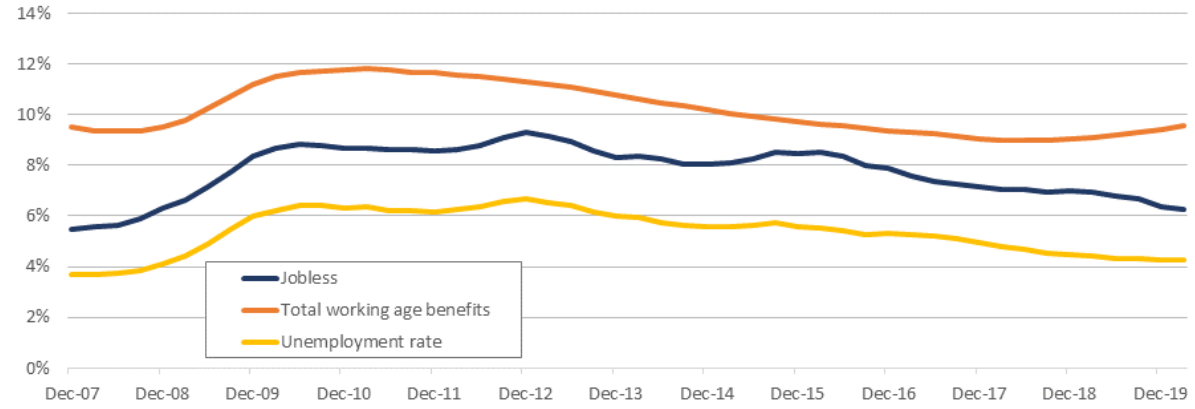
Figure 2 charts three indicators of unemployment or joblessness over the period 2007 to early 2020. In late 2007 the economic impacts of the GFC was still to be felt and indeed these impacts reached their peak in late 2009 and lasted through to late December 2011. By some accounts the effects of the GFC plateaued in later 2010. Figure 2 reports rates of unemployment and joblessness[5] as a proportion of the workforce and adult reliance on welfare benefits as a proportion of the resident population aged 15 to 64 years old.

Figure 2 illustrates the common trends followed by all three indicators over the period in question but particularly during the period of the GFC recession between 2009 and 2012. During this period the official unemployment rate peaked at 6.7% during the December 2012 quarter but remained above 6% for four years from late 2009 to late 2013. Similarly, joblessness peaked at 9.3% of the workforce during the December 2012 quarter but remained above 8% for almost seven years through to the September 2016 quarter. Benefit reliance peaked at 11.8% of the working age population in the March 2011 quarter and remained above 11% through to June 2013.

The experiences of the GFC offer three lessons which should be recalled as we reflect on the realism of Treasury's most optimistic scenarios. The first is that the peak unemployment rate was significantly above the maximum suggested in Treasury's Scenario 1A of 5.7%. The one percent difference between this maximum and the post GFC people peak is a further 20,000 people officially unemployed. The second lesson is that benefit reliance rises proportionately with unemployment as should be expected but due to a number of background factors could be three time more in people terms. The third lesson is that the recession effectively lasted for three years and wasn't really over until four years after the events which precipitated it.

While there is something of a causal difference between the GFC recession and the probable COVID-19 recession which might justify belief that the forthcoming recession will be less severe and shorter, it should be remembered that in New Zealand the GFC recession was not caused by toxic debt and bank failure but by falling export prices and revenues and weak demand from our trading partners. A similar trade scenario alongside identical levels of household and business indebtedness suggest that the characteristics of the GFC recession may not be unique to financially driven recessions.

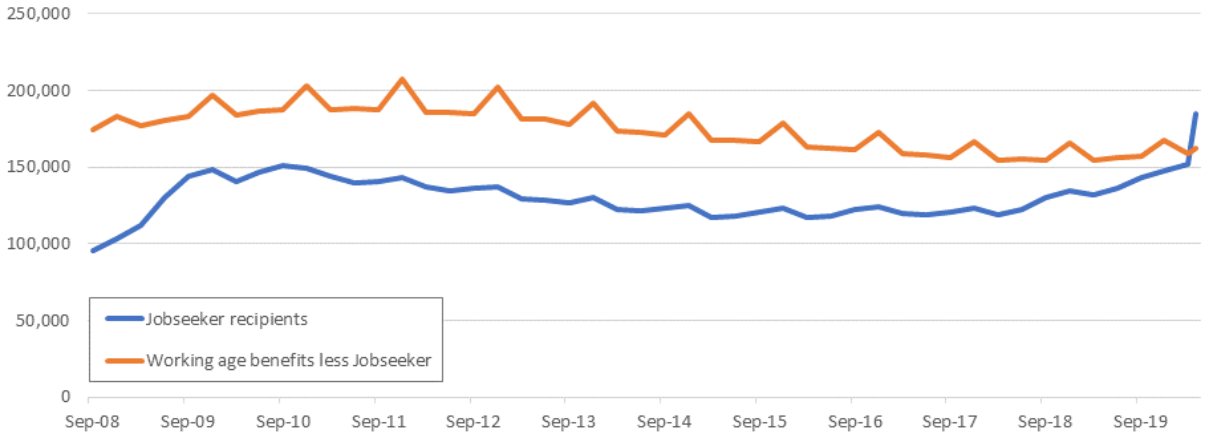
Figure 2: Unemployment indicators – 2007 to 2020[6]



Recent trends in benefit numbers

Ministry of Social Development has reported a sudden spike in people receiving a Jobseeker payment a spike which is quite unprecedented in New Zealand's history. During April 2020 the number of Jobseeker – Work Ready benefit being paid rose 35% or by almost 31,000 to 119,734 people which is the largest ever number of people receiving this payment. Overall, the number of people receiving a working age benefit rose by more than 36,000 during April to stand at 346.121 people. As noted below there are 190,000 to 200,000 children dependent on these adults. [7] The total number of people receiving a benefit in April 2020 was the highest since the peak of unemployment during the GFC when benefit numbers peaked at just over 352,000 in December 2010. There is clearly potential for the COVID-19 recession to see working age benefit numbers exceed the peaks of those seen during the GFC recession as indicated in Figure 3.

Figure 3: Numbers of adults receiving means tested working age benefits – 2008 to 2020[8]



Changes in numbers of households at risk for child poverty

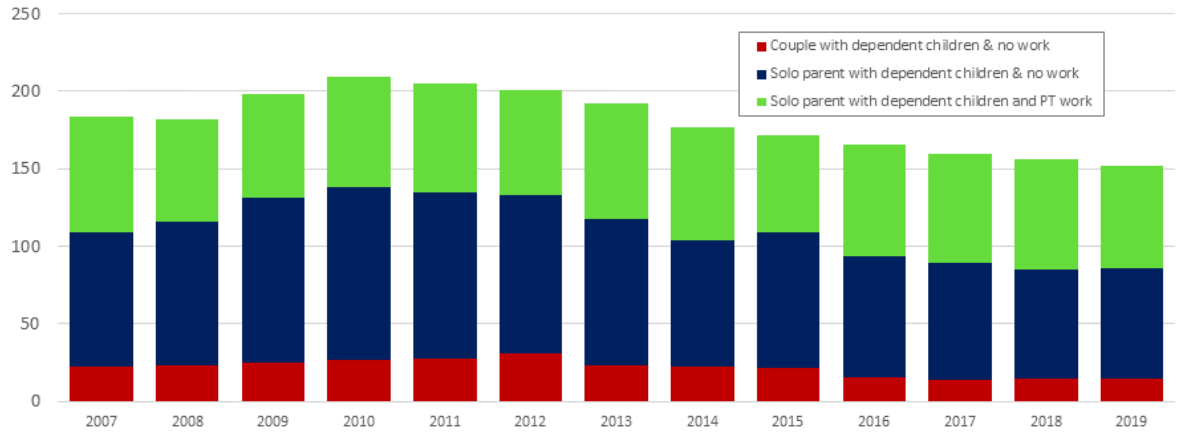
Underlying any changes in the numbers and rates of children living in relative income poverty are the employment fortunes of their families. Around 80% of children living in a household whose main source of income is a welfare benefit live in poverty and this group of children makes up around 55% of all those who do. Similarly, around 55% of children living in a single parent family or in a household without at least one full-time worker are also likely to live in relative poverty.[9]

These trends suggest there are a small set of households whose children are far more likely to live in relative poverty. Further, it means that changes in the employment and income fortunes of these households are most

likely to impact on levels and rates of child poverty. These most at risk households are either those headed by a single parent with no work or only working part-time or a two-parent household without any work.

Figure 4 traces the numbers of these 'at risk' households over the period 2007 to 2019 which of course includes the GFC recession between 2010 and 2012. In 2018 there were around 150,000 such households and they accounted for perhaps 150,000 to 170,000 of the estimated 236,000 children estimated to be living in relative income poverty[10]. During the GFC recession there was around 200,000 households which accounts for the higher child poverty rates experienced at that time. If the COVID-19 recession is as deep and as prolonged as the GFC recession it is possible that we may see a similar, one third, increase in the numbers of households with children who are most at risk of living in relative income poverty. This prospect is considered later in this paper.

Figure 4: Households at risk of child poverty – 2007 to 2018[11]



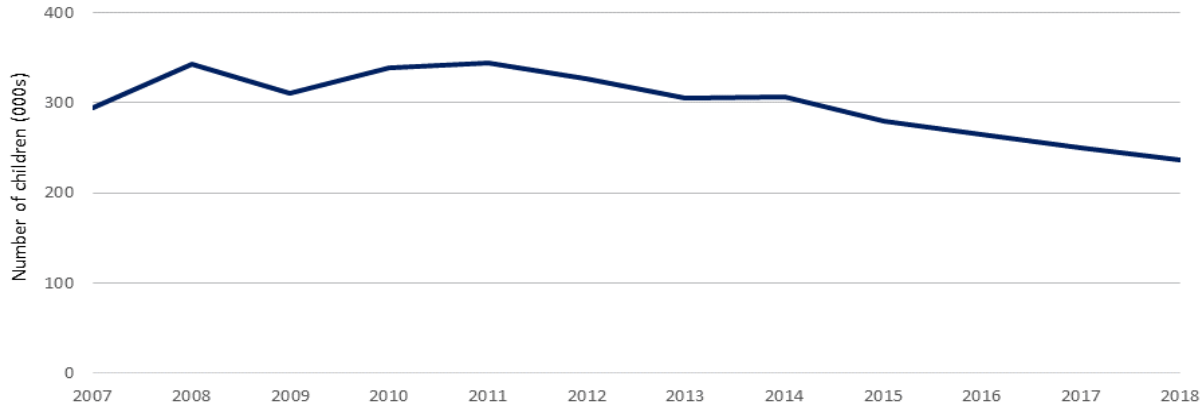
Recent trends in child poverty rates

The GFC recession offers us a glimpse of what a COVID-19 recession might mean for child poverty. Trends in the numbers of children living in child poverty are reported in Figure 5. This indicator is for children living in households receiving less than 50% of the equivalent household median income after taking account of housing costs. The median income measure used is a relative one based on the distribution of household incomes in 2018.

As expected, Figure 4 show a sharp rise in the numbers of children living in relative income poverty during the GFC recession and a gradual reduction in these numbers as the recovery set in. Figures for 2016 and 2017 reported here are interpolated on account of the unreliability of sampling in the surveys of household income conducted in these years.

During the GFC recession there was around 350,000 New Zealand children living in relative poverty compared to perhaps 230,000 to 250,000 prior to the COVID-19 shutdown[12]. As suggested above a COVID-19 recession of the depth and extent of the GFC may see a similar number of children as in that period living once again in income poverty. As discussed below the extent of such a rise will be moderated somewhat by recent top-ups in benefit levels although these are not likely to lift children above more generous relative income poverty measures such as the 60% one.

Figure 5: Number of children living in relative income poverty – 2007 to 2018[13]



Possible scenarios for unemployment and benefit demand

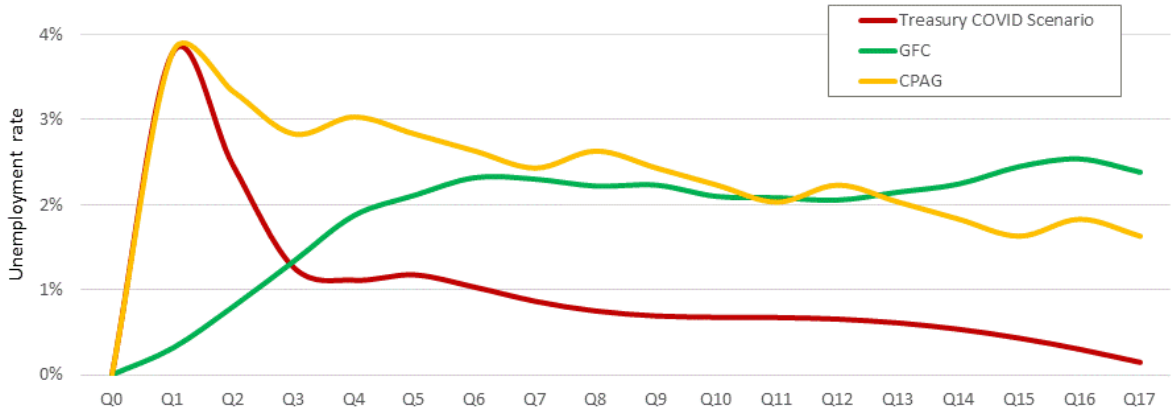
Treasury's Scenario 1 matches the actual history of the COVID-19 shutdown and the 2020 Budget set out the substantial fiscal support Government is planning to aid the recovery. This suggests that Treasury's Scenario 1a is the most likely of all those offered by Treasury to play out over the next four years. Some exception might however be taken with the speed of the recovery suggested by Treasury in its Scenario 1a.

CPAG has developed an alternative scenario for the recovery from the COVID-19 recession. This scenario is for the same peak in unemployment (8.3%) as for Treasury's Scenarios 1 and 1a but for an extended and more gradual recovery.

The recovery path for CPAG's scenario and Treasury's 1a scenario are graphed in Figure 6 along with the GFC recession recovery. Figure 6 covers possible unemployment rate changes over 17 quarters which is the period covered by Treasury's scenarios. These changes are compared against the starting unemployment rate just prior to the onset of the recession – in the present case this was 4.5%.

Treasury are predicting a V shaped recovery where output and hence employment bounce back quite soon after the initial shock. The GFC recession recovery was an extended U shape and as seen in Figure 6 the recovery had not even begun 17 quarters after the start of the recession. There are few reasons to believe that COVID-19 recession recovery will be swift especially if borders remain closed for an extended period and if the pandemic continues into further waves in the countries we trade with the most. CPAG's recovery scenario reflects a slower recovery and one which takes account of seasonal fluctuations in the unemployment rate. As seen below this more gradual recovery is likely to impact more on demand for welfare benefits and hence on the numbers of children living in families reliant on this support.

Figure 6: Recovery profiles for unemployment rates[14]



As noted above there is an inconsistency between Treasury's employment/unemployment forecasts on one hand and its benefit forecasts on the other. This inconsistency is illustrated in Figure 1 which shows an expected peaking in unemployment in the June 2020 quarter but a peaking in benefit numbers in June 2021. During the GFC recovery benefit demand tended to lag behind rises in unemployment but such a lag cannot explain this inconsistency. As mentioned above unemployment is expected to rise by 85,000 people while benefit numbers may increase by 150,000 people.

It seems likely that the full consequences of the COVID-19 recession will take some time yet to roll out especially given the extent of Government financial support for employers and workers in an effort to shore up household incomes, liquidity and demand. This being the case, expecting a peak in benefit demand in mid-2021 seems reasonable especially if the recovery takes longer than is being suggested in Treasury's scenarios. This expectation is built into the modelling offered here. This modelling is based on employment/unemployment experiences of the GFC recession which is shown in Figure 6 and which assumes a similar unemployment rate for much of the recovery period.

The numbers of children likely to be living in relative income poverty is tied to the employment fortunes of their parents. This is mainly due to the inadequacy of income support programmes, such as the main working age benefits, which has most often meant that children living in households solely or mainly dependent on such programmes live on household incomes below various income poverty thresholds.

While it is not feasible, for reasons of uncertainty, to forecast the employment fortunes of households at risk of income poverty, the experience of the GFC recession offers us some lead over the distribution of unemployment amongst various sorts of households. Following the GFC single parent households experienced that largest increases in unemployment rising a third between 2007 and 2010 to 37% of all single parent households. Two parent households typically have unemployment rates which are close to the New Zealand average and following the GFC they saw only a modest increase in their unemployment rates – to 6.5% by 2012. Two parent families however still faced reduced employment post GFC with the rise in the proportion of households having mixed employment with at least one partner losing their full-time work.

The employment patterns for single and two parent households with dependent children are provided in Figures 7 and 8 for the period 2007 to 2019. These are extended through to 2021 as scenarios - based on the assumption that levels and patterns of unemployment seen after the GFC may emerge again in the COVID-19 recession. This scenario is extended to consider what such patterns and levels of unemployment mean for the numbers of children at risk of relative income poverty.

Figure 7: Scenario for employment future for single parent households with dependent children

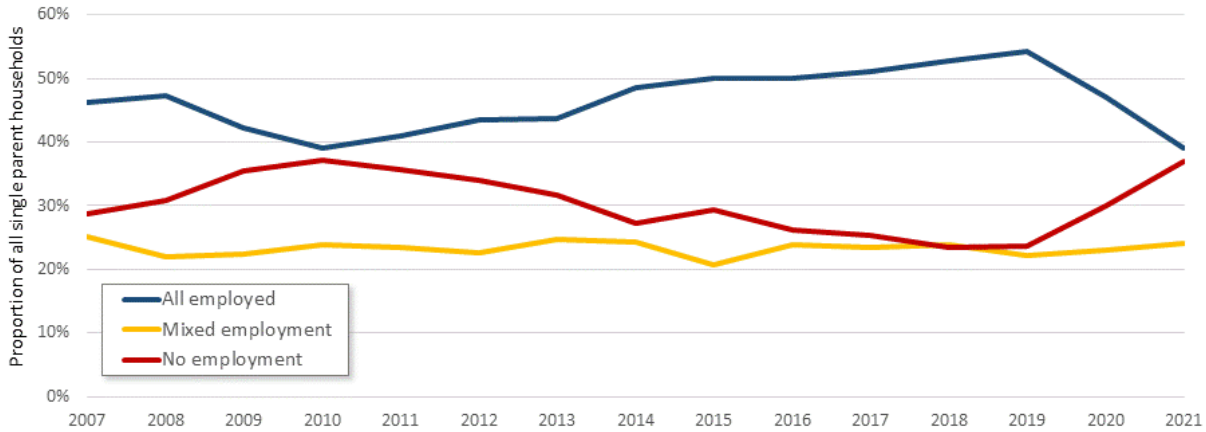
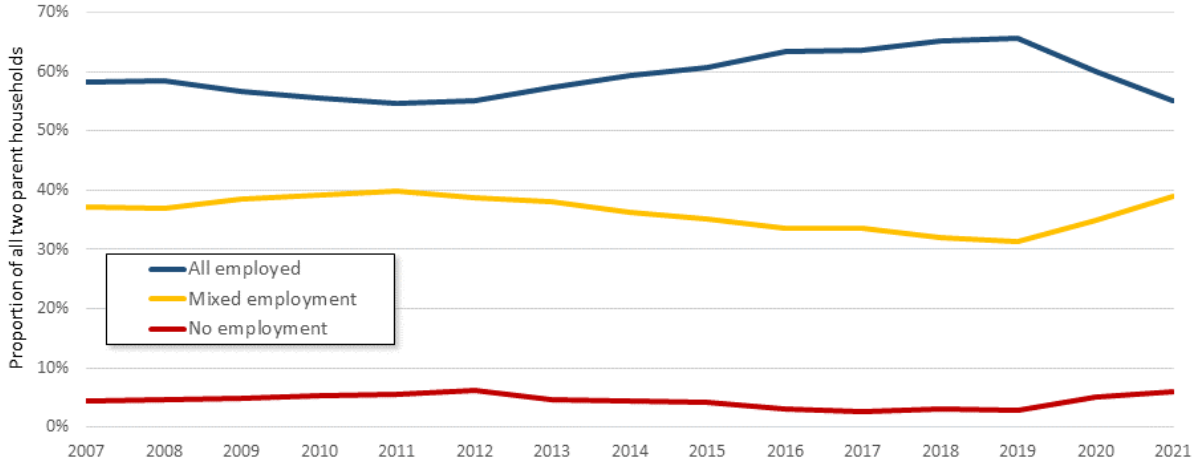


Figure 8: Scenario for employment future for two parent households with dependent children



If the unemployment and under-employment patterns of the GFC recession play out again during the COVID-19 recession and recovery we are likely to see two shifts occurring at the same time. Some households will lose some of their employment and so shift from being a household with full employment to one with mixed employment – that is some under-utilisation of the available labour. Other households will end up completely out of work either by shifting from full employment to being unemployed or by becoming unemployed from a mixed employment situation. For single parent families the loss of full-time employment may be more pronounced simply because there is no one around to share a mixed employment outcome with.

Estimates of numbers of households involved in these shifts for the scenario of unemployment and under-employment as experienced during the GFC recession are provided on the following table. This table also estimates the numbers of children possibly affected by such changes based on the ratio of 1.4 children per household[15] and the numbers of children amongst these who are at risk of relative poverty. These later numbers are based on consistent estimates that around 80% of children in benefit dependent households live in relative income poverty and 15% of households with some employment do so as well[16]. This scenario suggests that slightly more than 70,000 additional children are at risk of relative poverty as a result of increasing unemployment during the COVID-19 recession. Of these children just over 60,000 will be living in benefit dependent households.

Table 3: A scenario for changing household employment during the COVID-19 recession

SINGLE PARENT HOUSEHOLDS

	Households 2019	Households 2021	Children 2019	Children 2021	Change 2019 to 2020	Children at risk of poverty
All employed	162,600	117,000	227,640	163,800	-63,800	
Mixed employment	66,250	72,000	92,750	100,800	8,000	1,200
No employment	71,150	111,000	99,600	155,400	55,800	44,600

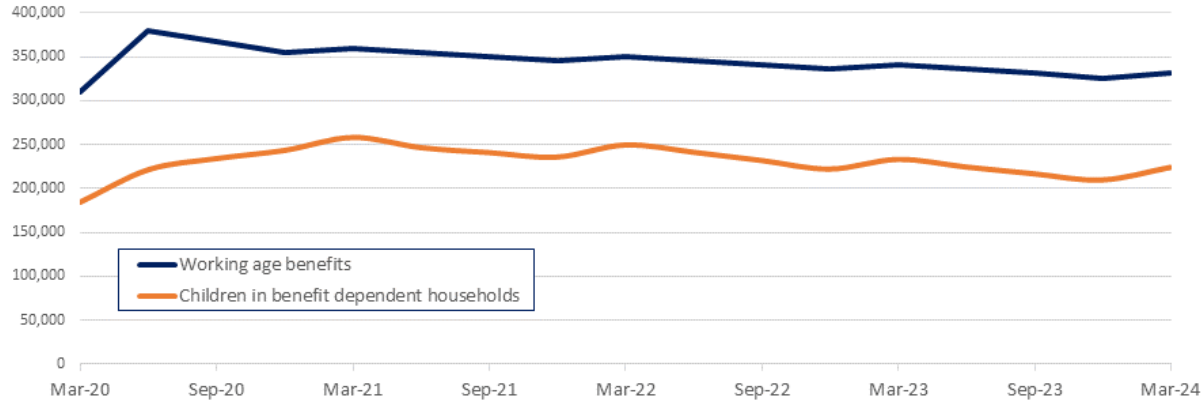
TWO PARENT HOUSEHOLDS

	Households 2019	Households 2021	Children 2019	Children 2021	Change 2019 to 2020	Children at risk of poverty
All employed	328,400	275,000	459,750	385,000	-74,700	
Mixed employment	156,900	195,000	219,700	273,000	53,300	8,000
No employment	14,700	30,000	20,600	42,000	21,400	17,100

An alternative approach to assessing the impact of the COVID-19 recession on child poverty is to consider what projections or estimates of unemployment mean for benefit numbers and what these numbers mean in turn for children living in benefit dependent households. This approach has been taken using CPAG's estimates of

the likely pattern of slowly falling unemployment over the next four years (see Figure 6). This assessment is summarized in Figure 9 and shows working age benefits being paid to around 350,000 people through until early 2023. In this assessment the numbers of children living in a benefit dependent household rises from 185,000 in March 2020 to 259,000 in March 2021 – a rise of around 75,000 children which is consistent with the estimates offered in Table 3.

Figure 9: Scenario for demand for benefits and children living in benefit dependent households



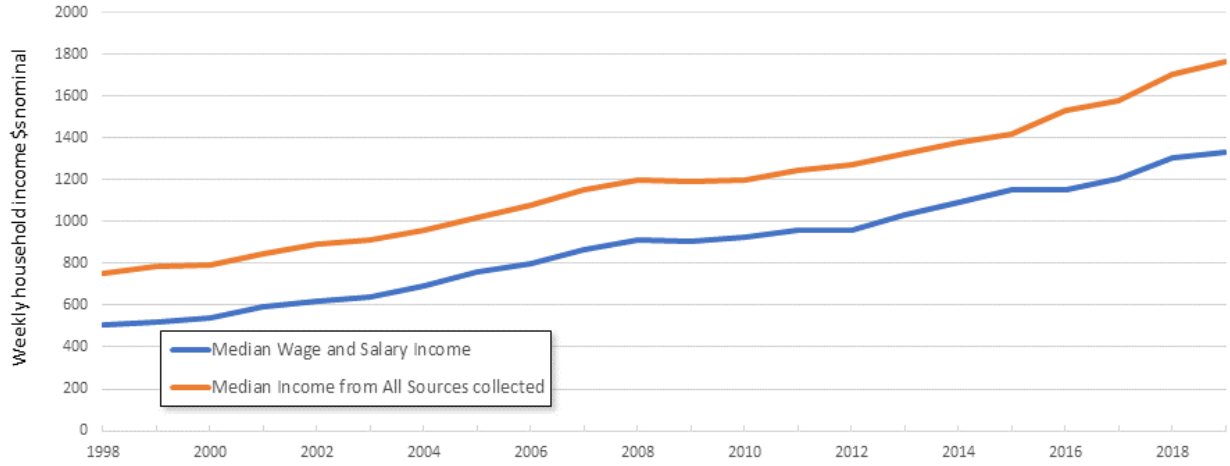
Treasury forecasts of child poverty rates

The 2020 Budget reported on the Government's progress in reaching the various child poverty targets. The three headline child poverty indicators (of ten overall) are set out in Appendix 1. As mentioned above the AHC-50 fixed line indicator is the one on which the scenarios considered above have been run against.

In commencing its discussion on the possible impacts of the COVID-19 recession on child poverty rates the Treasury states quite reasonably that it '*is too soon to estimate precisely what COVID-19 will mean for all the child poverty measures and targets*'. It then suggested that an '*economic downturn can mean different things for different measures, and the results can sometimes be counter-intuitive*'. [17] This possible counter-intuition arises when relative income measures to report changes in poverty rates are based on a current value or moving line measure such as median household income. In a recession, household incomes may fall including the median household income if middle income households begin to experience unemployment, under-employment from reduced working hours or wage and salary cuts. If the poorest households rely on fixed incomes such as working age benefits for their incomes, then they generally don't suffer the same income falls. This means that the income gap between low-income and modest -income households narrows and with this relative poverty may reduce. Incomes drop and poverty rates fall.

This paradox is not unproblematic when use is made of relative income measures to monitor changes in income poverty. By using the AHC-50 fixed line indicator this problem is somewhat avoided because the base against which relative poverty is being measured is not this year's median incomes for equivalent households but those measured during 2017/18. It is however by no means certain that median household incomes will fall during a recession as Treasury has suggested they may. During the GFC recession for example median household incomes remained quite stable. Figure 10 reports median household incomes from wages and salaries and from all income sources from 1998 to 2019. Between 2009 and 2012 the median household income from wages and salaries rose from $905 per week to $960 – in nominal terms. In inflation adjusted terms this change represented a fall of about $19 per week – a decline of about 2%. Given that working age benefits at the time were indexed to inflation, the real value of benefits paid to low-income households would probably not have fallen at all so the gap between middle and low-income households closed by just 2% over the period of a four-year recession.

Figure 10: Changes in nominal median household incomes 1998 to 2019[18]



Treasury offers a very modest effort at forecasting child poverty rates during the COVID-19 recession[19] These forecasts are reported graphically with no background figures offered. It suggests a minimal increase in poverty rates of 2% to 3.5% above what it was otherwise predicting would have been the trajectory of child poverty rates without COVID-19[20]. Such rises represent perhaps 20,000 to 35,000 children.

The background forecasts/scenarios which Treasury offer on benefit numbers are somewhat confused and it would appear that these numbers have no relevance to its child poverty forecasts. This is despite the connection between the benefit numbers, the numbers of children living in benefit reliant households and that 80% of these children are likely to live in relative income poverty.

In 2020 Budget documents Treasury offers four forecasts/scenarios of benefit numbers over the next four years. Three of these are summarized in Table 4. While the figures vary considerably the most notable thing with these forecasts is that total working age benefit numbers may exceed 500,000 people by early 2021 compared with an average of 300,000 people during 2019. Despite this two-thirds and 200,0000 increase in benefit numbers, Treasury is expecting the numbers of children living in relative income poverty to grow by 20,000 to 35,000.

Table 4: Treasury's forecasts/scenarios for benefit numbers – 2020 to 2024 – *thousands of people*

	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23	Jun-24
BEFU 2020 Table 6.2						
Job Seeker Payment + Emergency Benefit	139	166	297	248	202	180
Supported Living Payment	95	96	9	99	101	103
Sole Parent Payment	59	61	70	74	73	70
MSD reported BEFU[21]						
Job Seeker Payment + Emergency Benefit		238.0	265.1	218.3	183.5	169.8
Supported Living Payment		96.2	97.7	99.9	102.0	103.3
Sole Parent Payment		63.6	73.2	73.8	71.4	68.1
MSD reported BEFU - slow recovery						
Job Seeker Payment + Emergency Benefit		238.9	321.9	284.1	239.8	230.4
Supported Living Payment		96.2	97.7	99.9	102.0	103.3
Sole Parent Payment		64.2	73.9	76.4	75.3	71.8

Some conclusions and provisos

The analysis offered in this paper is a scenario and not a forecast or a projection. As such it is somewhat speculative. The result which is offered here – that the number of children living in relative income poverty may rise by 70,000 over the next year, should be seen as a first estimate while we wait for more complete and up-to-date data. This 70,000 figure represents around 6.5% of all New Zealand children and is predicated on an assumption that there will be little further change in the income entitlements and relativities over the next few years.

Child Poverty Action Group has recently published estimates of the impact of recent adjustments in benefit levels on after housing cost incomes of low-income households[22]. This analysis found that *'the income support increases which came into effect in April and May 2020 for the 2020/21 financial year are not insignificant: on average, ten of our example households receiving core benefits and Accommodation Supplement are left with $41 (17.5%) more per week*. However, the analysis also found that a further $110 per week on average was required to lift example households with children to the AHC 50% fixed line poverty measure. These recent increases included the winter energy payment, the indexation of benefit rates to wage movements rather than CPI and a $25 per week per household increase in base benefit rates. At the margin, where because some households have lower housing costs or some supplementary income, it is likely that these measures will lift them above the AHC50% fixed line poverty measure. For the majority of households with children relying on benefits it will not.

These estimates - of an additional 70,000 children living in relative poverty as a result of the COVID-19 recession -stand despite these modest increases in benefit entitlements over the past 12 months. This increase in numbers of children is due to two things – the job losses that are expected over the next one to three years and the remaining inadequacy of core benefit levels.

The Government's recent move to establish a two-tier benefit system with the introduction of the COVID-19 Income Relief Payment is testimony to the way income support programmes can be changed quickly if there is political will to do so. That there were at least 230,000 New Zealand children living in relative poverty prior to COVID-19 is an outcome of the present policy settings around income support. That this figure could rise to 300,000 children as a result of the recession caused by the pandemic is also a result of these policy settings. It is important to appreciate that while the COVID-19 recession will likely aggravate child poverty levels in New Zealand it has not caused them.

APPENDIX 1: Primary measures of child poverty – based on the Child Poverty Reduction Act 2018[23]

Measure	Low income, before housing costs – moving line measure (BHC50)	Low income, after housing costs – fixed-line measure (AHC50)	Material hardship
What are we measuring?	A measure of the number of children in households with much lower incomes than a typical household.	A measure of the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs	A measure of access to the essential items for living.
How do we measure it?	The threshold line is 50 per cent of the median household income in the year measured.	The threshold line is 50 per cent of the median income in 2017/18, after housing costs are remove	The threshold line is a lack of six or more out of the 17 items in the material deprivation index.

[1] Treasury (2020) Treasury Report T2020/973 Economic Scenarios. Available at https://treasury.govt.nz/publications/tr/treasury-report-t2020-973-economic-scenarios-13-april-2020

[2] Ibid

[3] Treasury (2020) 2020 Budget Economic and Fiscal Update . p.128

[4] Ministry of Social Development (2020) Income Support and Wage Subsidy Weekly Update Week ending 22 May 2020.

[5] Joblessness here refers to individuals who are either categorized as officially unemployed (out of work and actively seeking work) or those who might be called the discouraged unemployed. This later group include those who are not actively seeking work but would take a job if one was available and those who for timing reasons are seeking work but not presently able to take a job.

[6] Data sources – Ministry of Social Development's Benefit Factsheets and Statistics New Zealand's Household Labour Force Survey

[7] https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/index.html35%

[8] Data from MSD's Benefit Factsheet archives which are available at https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index-archive.html

[9] Perry, B. (2019) *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018.* Table H4 p.169

[10] This figure is based on Perry (2019) and is the 50% 2018 relative income measure after housing costs are taken into account. This is the standard child poverty referred to in this paper.

[11] Source: Statistics New Zealand Household Labour Force Survey

[12] Perry (2019) estimated that in 2018 236,000 children lived below the 50% after housing costs median income based on an anchored value. This has become known as the AHC50 fixed line measure. The Child Poverty Report which has become part of the Government's Budget publications reported that the 2017/18 result for the AHC50 fixed line measure was 253,800 children and that this fell to 235,400 children in 2018/19 See Wellbeing Budget 2020 – Rebuilding Together Table 3 p.29

[13] Perry,(2019). Appendix 15 p. 327. Data for 2016 and 2017 was not reported due to sampling problems so has been interpolated for illustrative purposes..

[14] Data for the GFC recovery is derived from Statistics New Zealand's Household Labour Force Survey. Treasury's recovery scenario is based on Scenario 1a from its 2020 Economic Scenarios report.

[15] This ratio is based on there being 1.1 million children in New Zealand (under 18's population) and the Household Labour Force Survey's estimate of 300,000 single parent households and 500,000 two parent households

[16] See Perry (2019) Table H.4 p.169

[17] Treasury (2020) Wellbeing Budget 2020. Rebuilding Together p.21

[18] Source: Statistics New Zealand Incomes Tables taken from the Household Labour Force Survey

[19] Treasury (2020) Wellbeing Budget 2020. Rebuilding Together Figures 4 and 5 pp.22-23.

[20] For example the BHC 50 moving line measure is expected to rise from a forecast 10.5% of children by 2021 to perhaps 12.5% by 2023 (Figure 4) while the AHC 50 fixed line measure may rise from the expected target of 18.5% in 2021 to perhaps 22% by 2023 (Figure 5).

[21] Reported by Ministry of Social Development at https://msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/index.html

[22] McAllister. J. (2020) *The effects of 2020/21 income support changes on After Housing Costs (AHC) incomes for representative households receiving benefits*. Child Poverty Action Group

[23] This Table is taken from the 2020 Budget statement – Table 1 p.18