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CHiLD POVERTY ACTION GROUP

To: Alan Bentley and Katrina Dewbery

c/o Statistics New Zealand: HLPI@stats.govt.nz

Submission: Household living-costs price indexes – public consultation

Child Poverty Action Group (CPAG) thanks Statistics New Zealand for the opportunity to submit.

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 rate 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 the poverty they live in.

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We would like the opportunity to speak to this submission.

Summary

The consumers price index (CPI) is an aggregate measure of prices of goods and services experienced on average by New Zealand-resident private households. Inflation is measured by the increase in the CPI over a given time period. The new household living-costs price indexes (HLPIs), due to begin regular production in mid-2016, will highlight differences in household expenditure patterns and provide greater insight into the inflation experiences for groups of households.

Classifying households into HLPI groups will be based on demographic information collected in the Household Economic Survey (HES). The 2013 CPI Advisory Committee noted that while the CPI's principal use is to inform monetary policy-setting, its design is a compromise between this and other uses, including adjusting a range of public and private payments (Statistics NZ, 2013a).[1] The Committee therefore recommended provision of extra indexes to reflect changes in the purchasing power of incomes of particular population subgroups. HLPIs will be produced for the most commonly identified groups from a public consultation in 2014. These are:

- beneficiaries
- income quintiles (five groups)
- Māori
- superannuitants..

[1] See Statistics New Zealand (2013a). Report of the consumers price index advisory committee 2013. Available from www.stats.govt.nz.

Inflation as measured by changes in the CPI may be misleading as a guide to what is happening to the cost of living for the poorest families.

CPAG supports the regular production of the proposed HLPIs, and in particular, the HLPIs for beneficiaries and for the 2 lowest quartiles will provide a clearer record of any changes in the purchasing power of these groups, and thus will indicate any deterioration (or improvement) in their quality of life and access to goods and services. Price adjusted or real household income determines consumption possibilities and therefore the material wellbeing of households.

One key concern is the rising cost of rental accommodation. For example, in the early to mid 1990s 72% of children lived in households that owned the home, whereas by 2012 this proportion had fallen to 57%. This means that 43% of children were living in rental accommodation, and if in Auckland, may be unable to afford such accommodation and actually live in a caravan, a garage, or a car.

Children in low income families are particularly affected when the family income is inadequately adjusted for their costs of living. 23% of all individuals in low income households are aged 0 to 17 years.[2] Poverty rates are higher for children than for the population as a whole.[3] "*Children in households with three or more children generally have poverty rates considerably higher than those with only one or two children (30% and 20% respectively on average from 2007 to 2014. In 2014, children in these larger households made up just under half of all poor children (45%)*."[4]

In recent times, measured inflation has been very low. Working for Families is only adjusted when cumulative inflation is 5%. Families are hurt first by a measure of inflation that may not reflect their experienced cost of living and thus if on benefits fall further behind. Second, tax credits for children may not be adjusted over long periods as has been the case recently (2012-2016). CPAG believes the use of the CPI as currently configured for all groups is not in the best interests of low income families.

CPAG's submission addresses only those questions that involve families with children.

Group definitions

Answer 2.1a For clarity and simplicity, the most appropriate definition to classify beneficiary households is: Highest-income recipient receives a 'main' benefit.

Answer 2.2a For clarity and simplicity, the most appropriate definition of superannuitant households is: One or more people aged 65 or over, where the highest income earner receives a New Zealand government pension.

Answer 2.2c The pension types to classify as New Zealand government pensions are New Zealand Superannuation (NZS) and Veteran's Pension. These need to be distinguished from other government-funded benefits or pensions because they are paid at a much higher rate. For example, NZS and Veteran's Pension for a single person, living alone, is a gross weekly amount of $431.10. A single person aged 25+ on Jobseeker Support receives a gross weekly amount of $234.78. The vast difference in household income creates utterly different possibilities for household expenditure.

Answer 2.4a Our primary use of income quintile price indexes will be to monitor any changes over time in the levels of hardship experienced by the two bottom quintiles.

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[2] See Perry (2015) *Household incomes in New Zealand: Trends in indicators of inequality and hardship, 1982 to 2013*, Ministry of Social Development, Wellington, Table G.2, at https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html.

[3] Ibid, Table G.8.

[4] Ibid, p. 122.

Answer 2.4b We prefer use of income equivalisation to adjust income information because it enables comparison of purchasing power of households of different size and composition.[5] The Revised Jensen Scale assumes that children require less income than adults to maintain a similar standard of living.[6] While this assumption may hold occasionally, the costs of newborns and teenagers are significant, and for all children, education costs are increasingly high and burdensome.

Answer 2.4c the most appropriate equivalisation scale would be the OECD-modified scale, facilitating comparison over time within the OECD.

Answer 2.4d The disposable (net) income approach is preferred because it allows for more accurate cross-country comparison. For example, in Australia, income to $18,200 annually is tax free (but a Medicare levy of 2% would be deducted), while income in New Zealand is taxed from the first dollar.

Answer 2.4e A joint expenditure and income measure could be more robust over time than an exclusively income or expenditure measure. The Household Economic Survey (HES) collects information on individuals and households as well as information on household income (wages and salaries, self-employment, investments, or benefits) and expenditure (fruit and vegetables, footwear, cars, services such as electricity, telecommunications and health). This income and expenditure approach supports the three main objectives of HES: contributing to the reweighting of the CPI; supplying expenditure statistics for use in estimating GDP, and providing an indication of the overall living standards of New Zealanders, and any changes over time. Clarity around the third aim will be provided by the HLPI, and will support policy development and decision making by government agencies.

Aggregation method

Answer 3.1 Understanding the inflation experience of a 'typical' household within each group should be given higher priority. For HLPIs, the inflation for a 'typical' household within a household group can be estimated by calculating expenditure proportions for each household and then taking a simple unweighted average of these proportions.

Practical application of a 'payment' approach

Interest payments

Answer 4.1a The scope of consumer debt most appropriate to measure price change for interest payments is all consumer debt. The HLPIs will be constructed using a 'payment' conceptual approach which tracks the price change for goods and services 'paid for', regardless of when they are acquired or used.[7] As reported by Statistics New Zealand in the HLPI consultation document (2015, p. 21), this approach is often used by the International Labour Organization (ILO, 2003), "when the primary purpose of the index is for the adjustment of compensation or income", and the 2013 CPI Advisory Committee recommended this approach for HLPIs. Given the falling rates of home ownership, rapidly rising house prices, and increased reliance on third tier lending, particularly for families in the two bottom quintiles, reliance on mortgage debt as a measure of consumer debt is flawed.

Insurance

Answer 4.2 Using gross expenditure on items insured is not an appropriate practical application of the 'payment' approach because low income families are likely to carry life and funeral cover, but rarely insure their possessions, including their motor vehicles.

Second-hand goods

Answer 4.3 A net expenditure approach should be used for second-hand goods that are 'new' to the household-group. Many low income families improve their quality of life and increase their household possessions through second hand purchases, including motor vehicles.

[5] Ibid, p. 13.
[6] See http://www2.stats.govt.nz/domino/external/web/prod_serv.nsf/Response/Indicator+16:+Jensen+Equivalised+Annual+Household+Income.
[7] In contrast, the CPI uses an 'acquisition' approach, reflecting price changes for goods and services when they are acquired.