



COPING WITH COVID-19: RETHINKING AUSTRALIA

Taking the Pulse of the Nation 2020

6. Household Incomes: The Real Test is Yet
to Come





HOUSEHOLD INCOMES: THE REAL TEST IS YET TO COME

Roger Wilkins

Income inequality was broadly stable in the period leading up to the COVID-19 pandemic. Taking the Pulse of the Nation (TTPN) data suggest this stability largely persisted over the course of 2020, although not all members of the community have fared equally well. The prevalence of low household incomes has increased for women, young adults, people employed in the worst-affected industries and the non-employed.

Household Incomes: The Real Test is Yet to Come

Setting the scene: What we knew before TTPN

The main sources of data on the distribution of household incomes in Australia, the Australian Bureau of Statistics (ABS) Survey of Income and Housing, and the Household, Income and Labour Dynamics in Australia (HILDA) Survey, show that household income levels and inequality were broadly stable in the decade up to 2018, although there was some growth in income poverty between 2016 and 2018 (see ABS 2019 and Wilkins et al. 2020).

These data sources only cover the period up until the 2017-18 financial year, and therefore provide no information on what has happened to the household income distribution over the course of the COVID-19 pandemic.

National Accounts data provide a more contemporary picture of household income, although only at the aggregate level. The data show that total household income was not adversely affected as of the September quarter of 2020. This was largely due to Commonwealth Government expenditure measures, including JobKeeper and the Coronavirus Supplement, which saw total subsidies and social assistance benefits surge from \$39 billion in the March quarter to over \$100 billion in both the June and September quarters (ABS 2020).

However, the National Accounts data do not tell us how the **distribution** of income has changed over the course of the year – for example, whether income inequality increased or decreased, and how different groups in the community have fared.

The TTPN Survey collects information on household incomes monthly and is available up until November 2020 (at the time of writing), along with individual-level demographic and employment data, providing an opportunity to assess how household incomes have evolved over the course of 2020. This chapter presents an analysis of this income data.

What has happened to household incomes over the course of 2020?

To examine what has happened to household incomes using the TTPN income measure (see Box 1), individuals are classified into one of three income groups: low income (less than \$30,000), moderate income (between \$30,000 and \$80,000), and comfortable income (more than \$80,000). For reference, note that HILDA Survey data show that the poverty line in 2018 was approximately \$24,000 for a single-person household and \$50,000 for a couple with two children.

Based on these income categories, the TTPN data suggest that the stability in income levels and inequality evident up to 2018 largely persisted throughout 2020 (Figure 6.1). The stability in 2020 is no doubt in large part due to government income supports. Indeed, in the middle of 2020 there was a slight decline in the proportion of people with low household incomes.

Measuring household income

Studies of the income distribution typically examine 'household equivalised disposable income' of individuals. This is the total income of the household in which the person lives after receipt of government benefits and payment of income taxes, adjusted for household size to provide a 'per-person equivalent income' of each individual (United Nations, 2011).

The household income data collected by the TTPN Survey does not allow us to construct such an income measure. Similar to the personal income question in the census, household income is reported as falling into one of 10 intervals (under \$20,000, eight \$10,000 intervals up to \$100,000, and a final category of more than \$100,000) and is for before-tax income. We also do not know how many people live in the respondent's household and therefore cannot adjust incomes for household size.

The TTPN income data is therefore not ideal for income distribution analysis. Nonetheless, we can glean valuable information on how household incomes have changed over 2020 from this data, especially since income taxes and household structures will be broadly the same across the year.

Table 6.1: Proportion of people aged 18 and over in low-income households in 2020, by selected characteristics

	January	June	November
All people	19%	18%	20%
Sex			
Men	17%	18%	17%
Women	20%	18%	23%
Age Group			
18–34	16%	18%	22%
35–54	14%	10%	10%
55 and over	26%	26%	28%
Selected States			
New South Wales	19%	19%	22%
Victoria	17%	18%	20%
Queensland	16%	18%	18%
Employment Status			
Employed in worst-affected industries	6%	6%	16%
Employed in other industries	7%	7%	4%
Not employed	34%	34%	40%

Source. Consumer Attitudes, Sentiments and Expectations in Australia Survey, January 2020 and Taking the Pulse of the Nation Survey (Melbourne Institute), waves 9 and 23. Total sample size is 3,204.

Notes for Table 6.1 Worst-affected industries comprise wholesale and retail trade, accommodation and food services, and arts and recreation services. The data show that the proportion of employed people working in those industries was 28% in January, 22% in June and 17% in November.

Table 6.1 briefly considers how different groups in the community have fared, showing the proportion of each group with low household income in January, June and November of 2020.

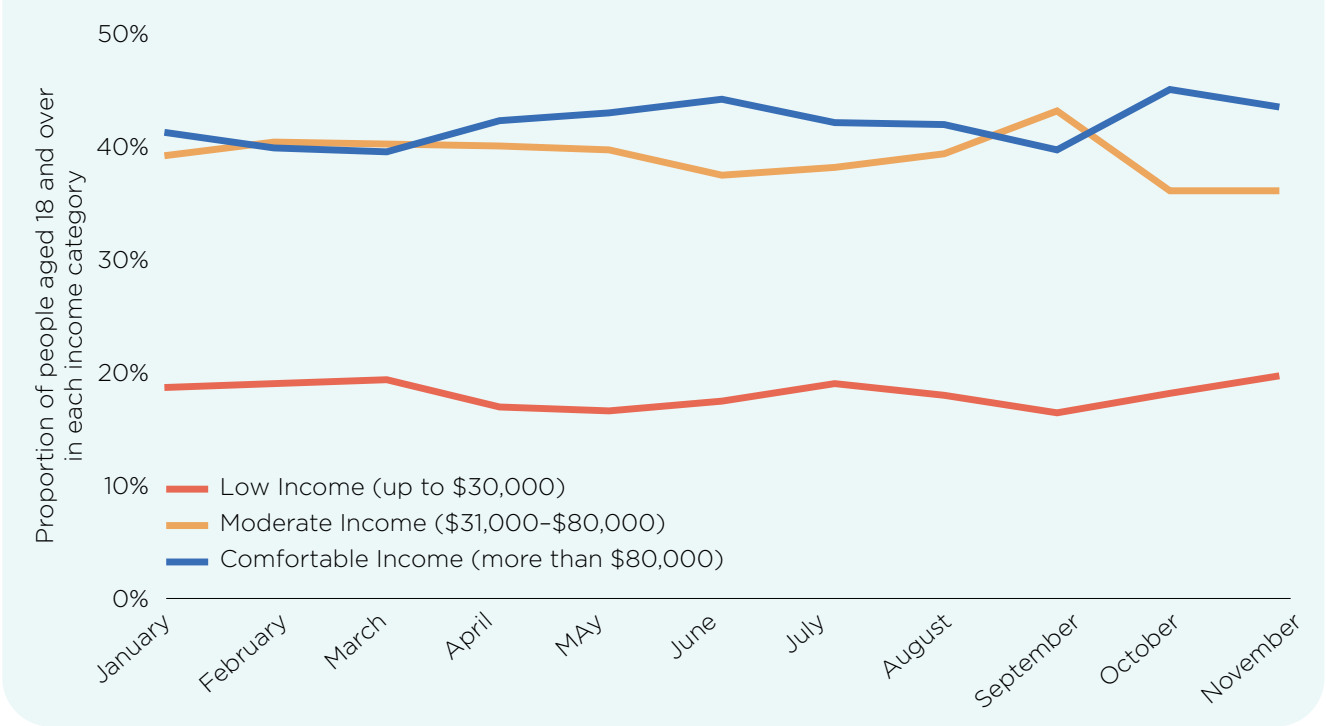
Prior to the pandemic, women were more likely to be in low-income households than men. This gap disappeared in June 2020, but by November had widened considerably, such that women were approximately 35 percent more likely to be in low-income households.

Low incomes were consistently more prevalent among older people (aged 55 and over) during 2020, but young people (18 to 34) experienced a considerable rise in the prevalence of low income from 16 percent in January to 22 percent in November. People aged 35 to 54 are the least likely to have low incomes, and indeed were less likely to have low incomes in June and November than in January.

Across the three eastern mainland states, both New South Wales and Victoria experienced increases in the proportion of people with low incomes between June and November, whereas Queensland did not—although there was some rise between January and June in Queensland.

Low incomes became more prevalent among workers employed in the most adversely impacted industries between June and November (with further analysis showing most of the rise occurred between June and August). Moreover, the proportion of workers employed in these industries declined from 28 percent in January to only 17 percent in November. It is likely this decline involved a rise in non-employment of people previously employed in these industries. The non-employed are more likely to have low incomes, and there was also a significant rise in the proportion of non-employed people with low incomes between June and November.

Figure 6.1 Distribution of Household Incomes In Each Month, January to November 2020



Source. Consumer Attitudes, Sentiments and Expectations in Australia Survey, January, February and March 2020 and Taking the Pulse of the Nation Survey (Melbourne Institute), waves 1, 5, 9, 13, 16, 18, 20 and 23. Total sample size is 11,765.

So far so good, but dark clouds loom

Perhaps an important reason for Australia’s success to date in suppressing COVID-19 infections has been the Commonwealth Government income supports that have largely protected Australians economically from the effects of the pandemic and economic shutdowns. Without these income supports, it may have been much more difficult for state and territory governments to pursue the aggressive suppression strategies they have adopted.

The experience of previous recessions suggests that the economy, and hence employment and wages, will not spring back to pre-COVID-19 levels for a long time to come.

The outlook for household incomes is, however, not positive, with the Coronavirus Supplement and JobKeeper being phased out or significantly reduced. The experience of previous recessions suggests that the economy, and hence employment and wages, will not spring back to pre-COVID levels for a long time to come.

Government income support will therefore continue to be important to the economic wellbeing of a larger number of Australians than before the pandemic. In particular, the number of recipients of JobSeeker Payment is likely to remain significantly elevated throughout 2021. A slower phasing out of the Coronavirus Supplement, or indeed a permanent increase to the JobSeeker payment rate, would help mitigate rising poverty and inequality in 2021 and beyond.

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Researchers at the Melbourne Institute have been informing and shaping economic and social policy in Australia since its establishment in 1962. The Melbourne Institute's list of longstanding accomplishments includes the creation of such things as: the Henderson Poverty line, the blueprint for Medicare, the Household, Income and Labour Dynamics in Australia (HILDA) Survey, the Australian Economic Review, and the Consumer Sentiment Index. Melbourne Institute researchers have engaged in analyses on critical issues such as poverty, economic growth and inflation, housing and family structure, healthcare and wellbeing, employment and skill development, and tax and transfer policies.

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The *Taking the Pulse of the Nation* survey was created for the purpose of being able to track the economic and social wellbeing of Australians and to provide measures of attitudes and willingness to take on risk given the coronavirus pandemic. These data have been used to provide timely insights that track behaviour and inform policy.

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