Which families are feeling the pinch of the pandemic the most?

The unprecedented disruption to family income caused by the COVID-19 pandemic is limiting children’s opportunities during a crucial time in their health and development.
The first years of life are a critical developmental period that lay the foundations for health and opportunity across the lifespan. The experience of sustained adversity during the early years of life has wide-ranging and long-lasting negative consequences (Heckman 2006). Adversity takes many forms: one is the financial stress that arises when families are unable to pay for essential services such as housing, bills and healthcare. Parents experiencing financial stress have difficulties in purchasing goods and services that children need to thrive and are more likely to have poor mental health, which in turn affects their parenting capabilities.

The continuing lockdowns, job losses and closures of businesses and schools caused by the COVID-19 pandemic have disrupted families’ financial and mental health. To recover from the pandemic and ‘build back better’, we should address potential harms caused by these disruptions. Understanding the financial stress experiences of families with young children is key. In this Research Insight we use Melbourne Institute’s Taking the Pulse of the Nation (TTPN) Survey data from June 2020 to September 2021 to explore the levels of financial stress experienced by families with children. Does stress depend on the age of children? Does stress fluctuate over time? How does stress relate to community characteristics?

Key Insights

1. Families with young children feel the pinch of financial stress the most

Respondents with children, irrespective of their age, are on average six percentage points more financially stressed compared to those with no children. In the last month, this difference increased to 13 percentage points.

We compare the levels of financial and mental distress\(^1\) for respondents (aged 18-54) based on the age of the youngest child in the household. Over the past year, 68 percent of families with children younger than five have had difficulty paying for essential goods and services or are only ‘making ends meet’. In comparison, 63 percent of families with older children and 60 percent of families without children experience this same level of financial stress (Figure 1a). These differences could be due to the higher costs associated with early childhood and the lower economic resources that families with young children have, especially when compared to those with older children.\(^2\)

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\(^{1}\) To measure financial stress, respondents are asked: “How would you describe your current financial conditions, in terms of paying for essential goods and services such as bills, rents, mortgages?” We measure financial stress as responding as “very or moderately financially stressed.” Responses also include ‘making ends meet’, ‘moderately comfortable financially’, and ‘very comfortable financially’.

\(^{2}\) The share of respondents with pre-tax income less than $100,000 is higher for those with young children (60%) than for those with older children (48%).
Contrary to what one might expect, respondents with older children are more likely to report higher levels of mental distress than families with young children (Figure 1b). An explanation could be that more respondents (around 14 percent) with older children report being single parents, compared to those with young children (9 percent). Having less help at home and having adolescent children may be a reason to feel more mentally distressed.

Families with children who are financially stressed are also more likely to experience high mental distress, especially those with older children. The relationship is stronger in the most recent four months (June-Sept 2021) than for the same period in 2020. This may be partially explained by the ending of the Federal Government’s free childcare program in July 2020 and the closure of childcare in Victoria and New South Wales in recent months.

Which families are feeling the pinch of the pandemic the most?

Source: Data from *Taking the Pulse of the Nation Survey* (June 2020 – September 2021). Respondents are aged 18 to 54. Older respondents are excluded because a very low share of those 55 and above report having children under the age of 18. Respondents are grouped according to the age of the youngest child in their house, families with young children are respondents with at least one child under five years of age and families with older children are respondents with only children older than five. Figure 1 compares levels of financial stress and mental distress across the family groups after controlling for age of the respondent.
Almost 70 percent of families with young children have persistently experienced some form of financial stress over the entire pandemic period and across Australia. In recent months (June-Sept 2021), the share of families with young children reporting being either financially stressed or making ends meet has been increasing (Figure 2).

Several factors can explain this finding, but the impacts of the COVID-19 pandemic on household income is likely the leading explanation. Over the pandemic, many families with children have experienced unemployment and underemployment, leading to a loss of household income (Broadway et al. 2020). The surge in unemployment and the loss of working hours may have contributed to a decline in household income that has pushed many Australian families into financial stress.

Figure 2: Financial stress
Respondents with children less than 5 years of age at home

Source: Data from Taking the Pulse of the Nation Survey (June 2020 – September 2021). Respondents are aged 18 to 54. Older respondents are excluded because a very low share of those 55 and above report having children under the age of 18. Figure 2 compares the levels of financial stress for families with young children over the period.
Financial stress is highest for families with children living in communities with medium levels of poverty.

Financial stress is correlated income and earnings. Low income is associated with living in poverty. Across Australia, there are substantial differences in community poverty rates. Is there a correlation between financial stress and community poverty rates? To explore this question, we group respondents according to community poverty rates, as constructed by Payne and Samarage (2020).

We might expect high levels of financial stress to be associated with communities with high poverty rates. But, for families with young children, the highest proportion of those who are financially stressed or unable to make ends meet reside in medium-poverty communities (Figure 3). Comparing financial stress from June to September 2021 with the same period in 2020, stress is somewhat lower for families that live in communities with low and high levels of poverty. For medium-poverty communities, however, stress has increased in recent months.

High-poverty communities tend to experience higher unemployment and lower levels of social inclusion. For example, in September, 19 percent of families with young children living in low-poverty communities report being unemployed. In contrast, this share is 23 percent in medium-poverty communities and 25 percent in high-poverty communities. Contrary to what one might expect, families in medium-poverty communities are experiencing higher levels of financial stress than those in high-poverty communities. This is a surprising and worrying finding, as it suggests that right now the important social ‘safety net’ for those at the bottom does not extend to those who may earn more but are still close to living in poverty.

**Figure 3a: Financial stress June - Sept 2020**

Respondents with children less than 5 years of age at home

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<thead>
<tr>
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<th>Low-poverty communities</th>
<th>Medium-poverty communities</th>
<th>High-poverty communities</th>
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<tbody>
<tr>
<td>Financially stressed</td>
<td>62%</td>
<td>72%</td>
<td>70%</td>
</tr>
<tr>
<td>Not financially stressed</td>
<td>38%</td>
<td>27%</td>
<td>30%</td>
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Invest in the economic security and wellbeing of families with young children

Why is it important to support families with young children? There is a growing literature on the negative impact of early childhood poverty on longer term outcomes, such as education, health, and employment. Past studies demonstrate that early interventions targeted toward disadvantaged children can generate substantial savings for individuals and society, e.g. reducing convict rehabilitation programs, tuition subsidies, or expenditure on police (for a literature review, see Reynolds et al. 2017; Fiszbein et al. 2009; Bastagli et al. 2016).

We show that many Australian families continue to report high levels of financial stress during the pandemic. This stress, however, is highest for respondents with young children, impacting over two thirds of Australian families.

Between lockdowns and employment changes, our analysis suggests we should be concerned about both the short and longer-term effects of the pandemic on household finances and the potential impact on child development.

There is a broad consensus in the literature that early family environments are the main predictors of children’s cognitive and non-cognitive abilities (Heckman 2006; Hoynes et al. 2016; Kalil et al. 2016) which are essential in shaping children’s futures. With the pandemic, many families might be unable to cultivate these abilities due to the high levels of financial and mental stress they experience. Targeting policies to these families may be an important investment and prevention strategy for COVID-19 recovery.
Further Information

Datasets:
This analysis has been drawn from Taking the Pulse of the Nation Survey data for the period covering June 2020 to September 2021 (waves 10 to 41). We study those respondents that are aged 18 to 54. Older respondents are excluded because a very low share of those 55 and above report having children under the age of 18. Our respondents are classified into one of three mutually exclusive groups: (a) those with at least one child under the age of 5, (b) those with only children above 5 at home, and (c) those with no children at home. In our sample, 9 percent of families with young children report not having a partner, while 72 percent report having a partner. Of those who do not have a partner, 202 (73 percent) are women and 93 (33 percent) are men. Of those who have a partner, 1,211 (54 percent) are women and 1,014 (45 percent) are men.

These data have been complemented with the 2016 poverty rates calculated in Payne and Samarage (2020). This rate is defined as the fraction of households within a community whose equivalised income is less than 60 percent of the median household income. This poverty rate is constructed at SA2 level that can be matched to the respondent’s postcode. We divide the communities into three equal groups: “low-poverty communities” (poverty rate ranges from 3.6 to 13 percent), “medium-poverty communities” (poverty rate ranges from 13 to 17.4 percent) and “high-poverty communities” (poverty rate changes from 17.5 to 52 percent). The share of respondents in each group is: “low-poverty communities” (no kids: 57 percent, young kids: 16 percent, older kids: 28 percent), “medium-poverty communities” (no kids: 57 percent, young kids: 18 percent, older kids: 25 percent) and “high-poverty communities” (no kids: 55 percent, young kids: 18 percent, older kids: 27 percent).

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References:


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