THE HOUSEHOLD REPORT

Tracking the cost of living for different Australian households

April 2024

POLIS PARTNERS
ECONOMICS STRATEGY POLICY

The Household Report

About

The Household Report combines income, expenditure and price data to track how much, on average, an Australian household has left for non-essential spending at the end of each month. This household budget perspective is how most households understand and experience cost-of-living pressures. This measure is also relevant to any business reliant on household spending.

2023 Summary

1. Households haven't felt the cost-of-living squeeze this tight for 16 years. The last time the real level of discretionary funds was this low was in 2008.

2. This cost-of-living squeeze has been the steepest and most prolonged period of deteriorating household finances since the start of the timeseries in the early 2000s. Compared to the 2020 pandemic period, households now have, on average, **$10,700 less per annum** to spend on non-essential items like eating out, holidays, furniture and electronics, gym memberships and savings.

3. However, this average decline hides the uneven impact across households. Households with a mortgage have **$21,300 less** per annum and households that are renting have **$13,300 less** per annum. Households in the lowest 20% of incomes find the cost of essentials greater than monthly income.

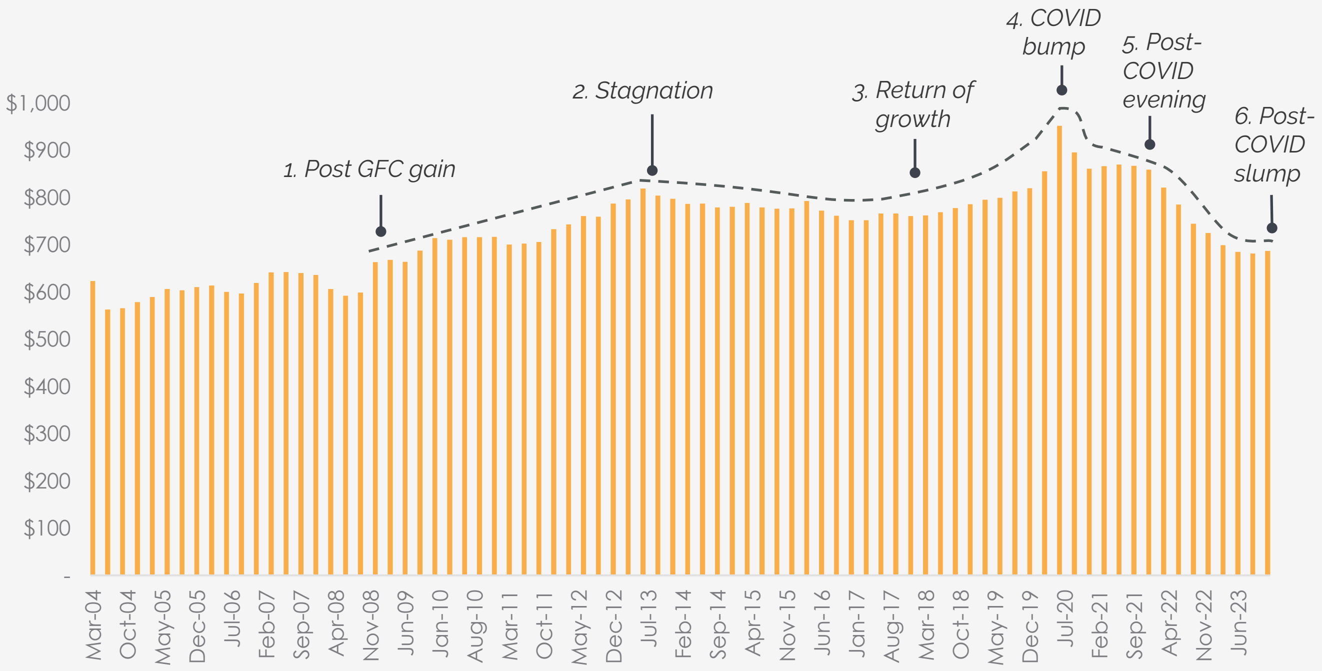
4. Over the last year, the situation is showing signs of stabilising. Wage growth has picked up, interest rates steadied, and inflation has started to ease. While households still have an average of **$515 less** a year to spend on non-essential items than they did last year, this is a significantly smaller drop than seen during the previous 18 months. Furthermore, the last two quarters of 2023 started to show very moderate recovery.

Long-term view

The last 24 months have been characterised by a steep deterioration in funds. This began with a normalisation of discretionary funds after the spike households experienced through the pandemic's low interest rates and government stimulus. This was followed by a sustained deterioration which coincides with the tightening of interest rates. This has taken household budgets back to levels not seen since the Global Financial Crisis. The impact on household psyche is potentially compounded by coming off such a recent high, and the subsequent speed and sustained nature of the deterioration.

This means that compared to the 2020 pandemic period, households now have, on average, approximately **$10,700 less per annum** to spend on non-essential items like eating out, holidays, furniture and electronics, gym memberships and savings. However, this average hides the starkly different experience between households with a mortgage, those that rent and those that own their homes (see below). There is also a stark difference across household income levels (see page 5).

Long term changes to discretionary funds per week ($ real Dec 2023)



Compared to 2020:

On Average, households have approximately **$10,700 less** per annum to spend on non-essentially items.

- **Renters.** Households that are renting have approximately **$13,300 less** per annum to spend on non-essential items. Importantly, non-essential items includes savings, which means the household cost squeeze is also eating into their ability to save a deposit. Renters also missed out on the capital growth in housing since 2020.
- **Mortgage holders.** Households with a mortgage have approximately **$21,300 less** per annum to spend on non-essential items. The exact timing of when this cost increase fully hits depends on when (and how) individual households have transitioned their mortgage off the record lows to the current interest rate environment.
- **Homeowners.** Households who own their home have approximately **$7,2000 less** per annum to spend on non-essential items. Households in this category which rely on investment returns, instead of wages for income (for example retirees not on the pension), experienced even less of a decline, and potentially even an increase on funds to spend on non-essential items, as asset and savings returns have outstripped wage growth.

Annual view

During 2023, cost of living pressures on essential household items have outstripped growth in wages, albeit at a slowing rate.

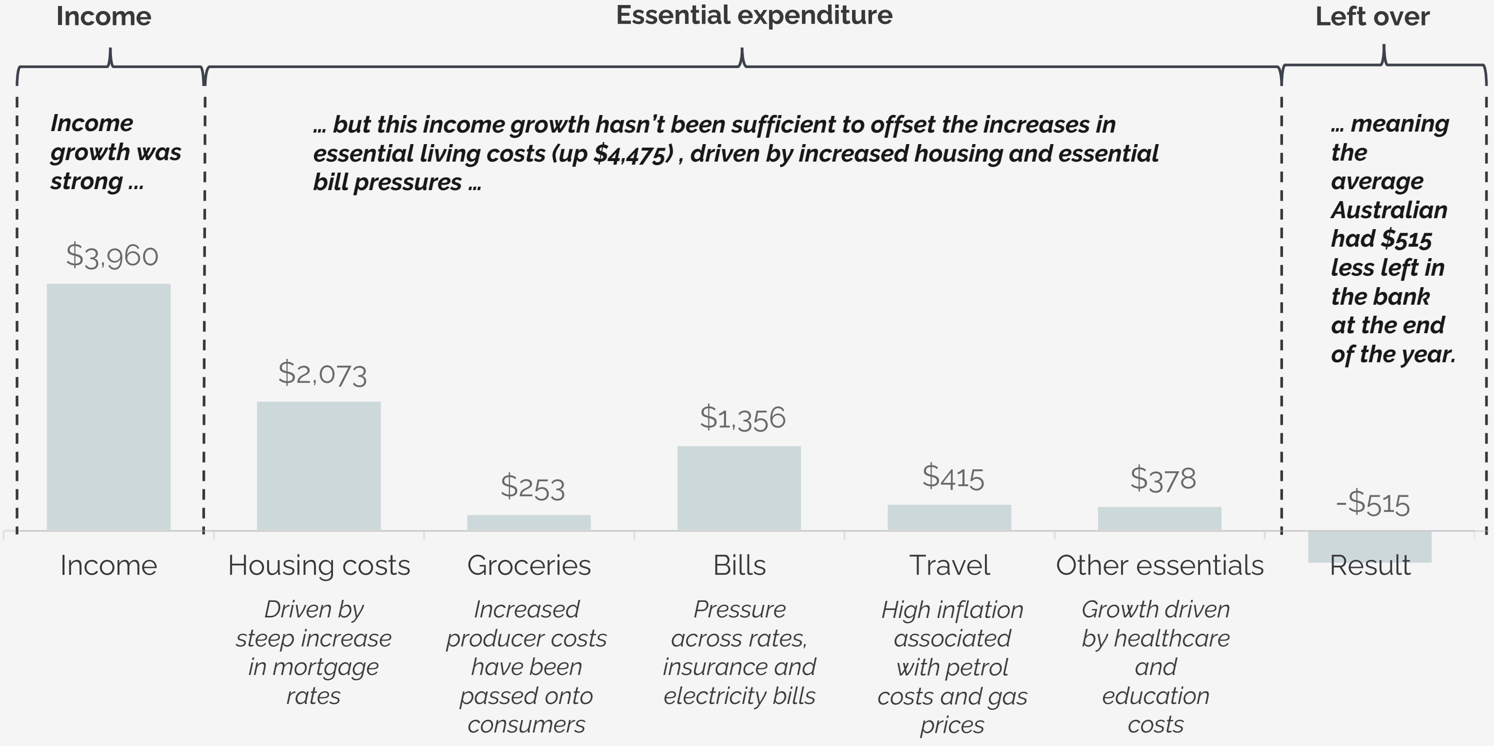
Wage growth during the year was strong. This strength was driven by a tight labour market and the finalisation of enterprise bargaining agreements that also occurred during this period.

However, this growth in wage was not sufficient to offset the tail end of the interest rate rises on housing costs. This was the largest cost pressure households faced.

Insurance and essential bill costs also increases across this period, as did travel cost associated with high petrol prices.

On average, the Australian household had **$515 less** in their bank account for saving or spending on non-essential items at the end of 2023, compared to the previous year. While this drop still places pressures on households, it is substantially less than the declines seen during 2022 and 2021.

Annual changes to the household budget (Dec 2023)



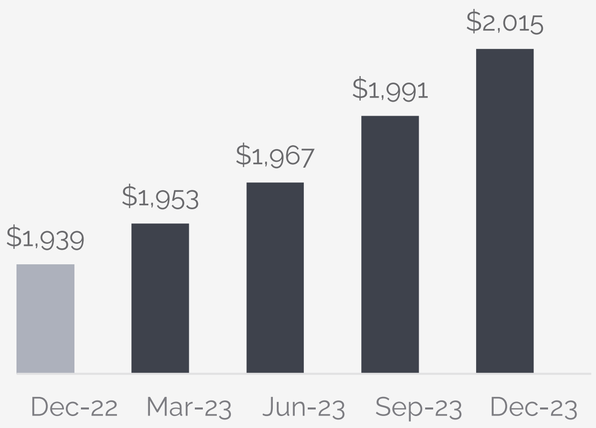
Quarterly view

June 2023 could represent the bottom of the cost-of-living squeeze for households. The prior two years saw a steady deterioration in household budget. However, the September and December quarters in 2023 saw a steadying, and even slight increase in funds available for non-essential items, as interest rates steadied, and wage growth caught up to slowing consumer cost pressures.

At an individual household level, a key factor influencing their budget continues to be their household income bracket (see page 5). The timing of when the full extent of the interest rate rises flows through to mortgage repayments is also a critical factor, with some households still fixed at lower rates (see page 2).

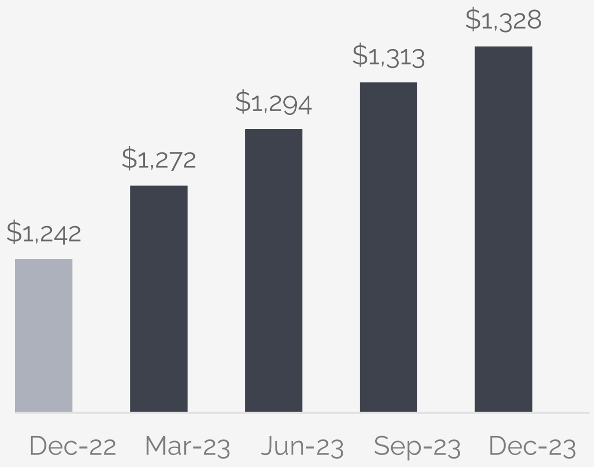
Weekly changes to the net household income

Between December '22 and December '23, the average net household income has increased by $76 per week, which represents a 3.9% growth.



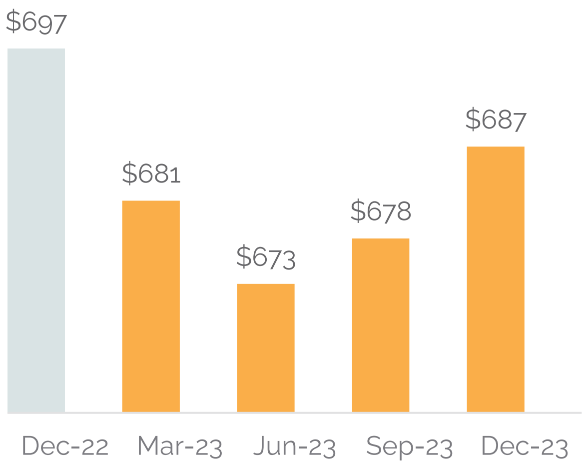
Weekly changes to essential expenditure

Between December '22 and December '23, the cost of essential goods and services per week has increased by $86 or 6.9%.



Weekly changes to the discretionary income

This represents the amount of income left over for saving or spending on non-essential items. Between December '22 and December '23, the average Australian household has $10, or 1.4%, less to save or spend on non-essential items per week.



Household income levels

The squeeze has been felt very differently by households in different income brackets.

Households in the lowest 20% of incomes still find the cost of essentials greater than monthly income. This deficit means households are forgoing essential items, falling behind on bills, going into debt or resorting to other means such as relying on friends or families.

At the top end of the income spectrum, just over half of income is spent on essential household items, implying a much greater capacity to absorb the recent squeeze.

		Lowest	Second	Third	Fourth	Highest
		The 20% of households with the lowest income	The 20% of households with the second lowest income	The 20% of households with the third highest income	The 20% of households with the second highest income	The 20% of households with the highest income
Dec 23	**Net income per week**	$560	$1,103	$1,682	$2,438	$4,303
Dec 23	**Essential expenditure per week**	$635 Costs of essential items is 113% of net income	$865 78% of net income is spent on essential items	$1,246 74% of net income is spent on essential items	$1,553 64% of net income is spent on essential items	$2,342 54% of net income is spent on essential items
Dec 23	**Available discretionary funds per week**	($75) *Households in the lowest quintile are in deficit every week*	$239	$436	$885	$1,961
Dec 23 vs. Dec 22	**Change in discretionary funds per week compared to last year**	-$19 -33%	-$12 -5%	-$17 -4%	-$10 -1%	$9 +0%

Methodology

The Household Report combines income, expenditure and price data to track how much, on average, an Australian household has left for non-essential spending at the end of each month.

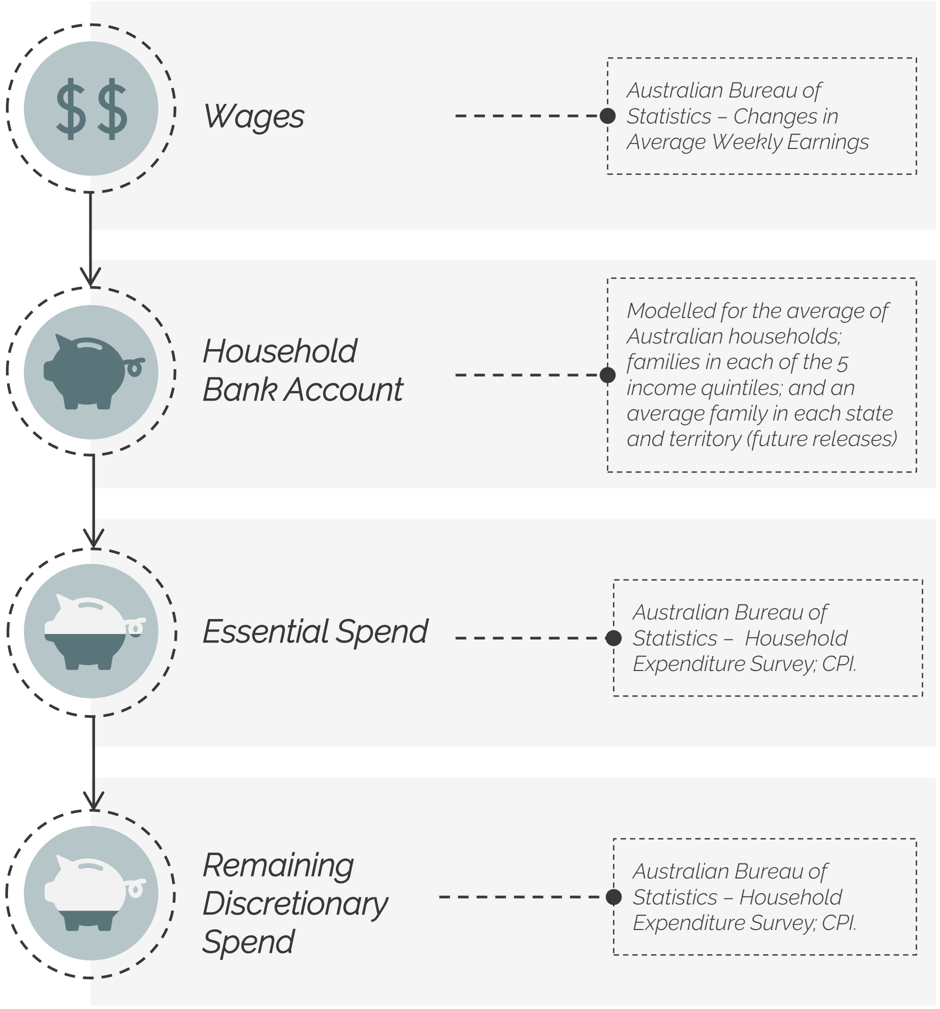
This tracking first factors in changes in household income (i.e., how much money is going into their bank account).

Second, changes in essential household spend (such as mortgage, groceries, petrol and bills) have been captured. This is spending which households are committed to and have less ability to scale back.

Once essential spend is accounted for, the amount of money the family has left for 'discretionary' purchases of non-essential items like electronic goods, eating out, attending events and holidaying is revealed, and tracked. Alternatively, remaining money can be saved or invested.

Our analysis is anchored by the latest ABS data. Core results are presented for the average of Australian households. Additional analysis presents results across 5 different income levels.

Future releases of The Household Report will track the differences between households across all states and territories. Savings and investment will also be progressively factored in and tracked.



About Polis Partners

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As the experts, we want to be the people working with clients on a day-to-day basis, delivering the work and securing the results. We only focus on the work where our experience and expertise can be directly applied to the problems our clients face.

We are proud of our evidence-based approach and are constantly looking at new research and modelling that can shed light on some of Australia's most pressing policy challenges.

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