



SOCIAL POLICY AND
PARLIAMENTARY UNIT

Working for the eradication of poverty in NZ

“WHAT DOES IT PROFIT US?”

A STATE OF THE NATION REPORT FROM THE SALVATION ARMY



**Front cover photo: Maori family and pet puppy.
PhotoNewZealand / Warren Bayliss**

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WHAT DOES IT PROFIT US?

“People are the common denominator of progress,” said the famous Canadian economist John Kenneth Galbraith. We run the risk of losing sight of this simple truth if we become distracted by recent turmoil in global financial markets. While this turmoil may be important to our immediate economic future, the real and enduring basis of progress is people. This means of course that we do not just measure progress in economic terms but we also consider the experiences of people, particularly the most vulnerable people.

The purpose of this brief report is to consider the extent of social progress made in New Zealand over the past five years. This consideration is not in terms of the common economic indicators but in terms of often-ignored social statistics. These social statistics can allow us to glimpse the changing lives of New Zealanders. The Salvation Army anticipates that this report will be repeated annually to allow us to reflect on the nature of social change and progress on a regular and consistent basis.

This report considers social progress in five areas: the position of our children, crime and the punishment of criminals, the working lives of New Zealanders, social hazards and our housing.

The social outcomes which we as New Zealanders have achieved over the past five years are somewhat mixed and in some areas quite disappointing. More of our children appear to be at risk of harm, more of our young people are engaged in petty crime, there is more violent crime and more people in our jails. None of these trends can be seen as progress. While more New Zealanders are working than ever before and many New Zealanders have benefited from the recent housing market boom, our incomes have risen only modestly, we are chronically indebted and home ownership rates have fallen. This is mixed progress at best.

What is perhaps most disappointing about these results is that as a country we have invested hugely in the core areas of social spending over the past five years. Ten years ago, the New Zealand Government spent \$23 billion on social welfare, health and education. Five years ago, this figure had risen to \$28 billion. During this financial year the Government is budgeting to spend over \$39 billion on these areas, of which \$11 billion is to be spent in health and \$10 billion in education. Of the \$18 billion being spent in social welfare \$7.3 billion is to fund New Zealand Superannuation while \$3.7 billion is for means-tested benefits such as the unemployment benefit, DPB and sickness and invalid benefits.

While this social spending is essential it seems to have contributed very little to our social progress. Why should this be the case?

Clearly there are few straightforward and universally–agreed answers to this straightforward question. The Salvation Army and perhaps many other concerned New Zealanders believe that part of the answer lies in our social priorities. In other words, our patchy progress is not due to our rate of economic or employment growth nor to how many tax dollars we spend on social welfare, health and education but to what we value both as individuals and as a nation.

In addressing this important issue of our social priorities, we need perhaps to focus on two quite compelling moral questions – what priority have we given to families and to the poor? In particular, how have our personal behaviours and public policies nurtured family life and the ability of families to care for themselves? Furthermore, how have our public policies addressed the apparently widening gap in New Zealand between the rich and poor?

Now is as good a time as any to begin to refocus our priorities. If we are to make real social progress and not simply grow our economy as well as our prison population, then we need to reflect on the relative priority we give to economic issues ahead of social concerns. We also need to reflect on the efforts we are making to ensure that the children of the poor are not left behind because they have second–class educational opportunities and fragile family lives.

Our measures of progress at this time next year should not just be those of how much the economy has grown or the value of the share market or of house sales. Rather, more relevant measures could be those of how few people are locked up in prison, how few violent crimes have been committed and how much better children in poorer schools are achieving. The first change necessary to achieving this sort of progress is to change our minds about what is important.



A handwritten signature in black ink, appearing to read 'Campbell Roberts', written in a cursive style.

Major Campbell Roberts
Director The Salvation Army Social Policy & Parliamentary Unit

OUR CHILDREN

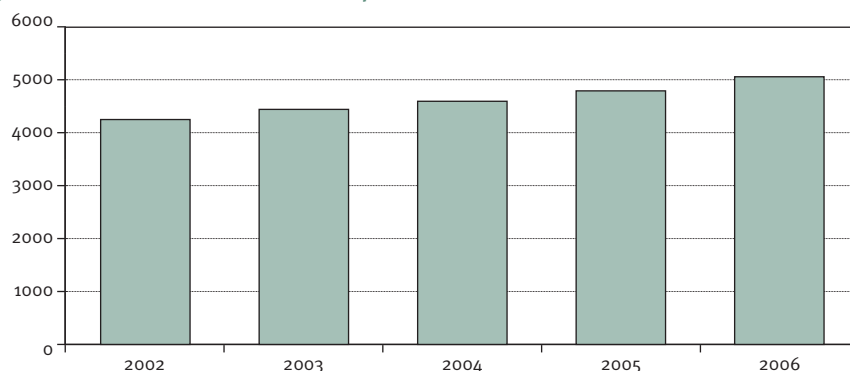
Most New Zealand children are well-off by international standards and in comparison with previous generations. While progress is being made across a number of indicators, it does however appear that there are large numbers of our children and youth who do not share the same opportunities as their fellow New Zealanders. For these of our children some things appear to be improving while other aspects of their lives are not.

Rising numbers of referrals to CYFS and more children in CYFS care

The number of referrals to the Government's child welfare agency Child Youth and Family Services has grown more or less continuously since 2002. In 2006 there were 66,210 referrals to CYFS for suspected cases of neglect or abuse of children and adolescents. This is a 24% increase from the referrals of 2005 and 140% increase in the 27,507 referrals back in 2004. Of these referrals in 2006, 74% or 49,000 were deemed to require further investigation.

This trend for increasing levels of child abuse and neglect is reflected in the increasing numbers of children in CYFS care. At June 2006 5,077 children were in CYFS care; up from 4,853 twelve months earlier and a 19% increase from the 4,281 children in CYFS care in 2002. This is not due to population increases but to an apparently-growing need to protect vulnerable children. In 2002, nearly 48 children in every 10,000 were in CYFS care but by 2006 this ratio had risen to 55 children for every 10,000.

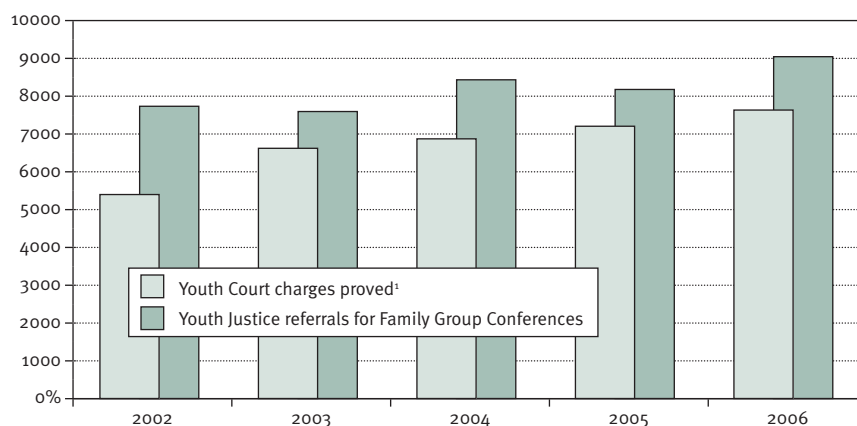
Figure 1: Number of children in CYFS care placement



Rising youth offending

Common perceptions of increasing youth offending are unfortunately being reflected in court and welfare statistics. In 2006 7,741 cases brought to the Youth Court were proved—an increase of 7% from the 2005 figure of 7,255 and a 28% increase from the 6,027 proved cases five years earlier in 2001. Greater increases are recorded in the number of CYFS referrals of offenders to family group conferences. In 2006, 9,064 teenagers aged between 10 and 16 who had committed minor criminal offences were referred to family group conferences—up from 8,153 a years earlier and 7,802 four years earlier in 2004.

Figure 2: Youth at Risk



Climbing teenage pregnancy and abortion rates

New Zealand's teenage pregnancy rates continue to climb. In 2006, 137 young women aged between 10 and 14 became pregnant, compared with 92 five years earlier. Similarly in 2006, 8,300 young women aged between 15 and 19 became pregnant compared with just under 7,000 five years earlier. Just over three quarters of young women aged under 15 who become pregnant have an abortion, while just under half of pregnant 15–19 year olds do.

Improving child mortality but increasing accident rates

Rates of children's deaths have fallen modestly while accident rates have risen modestly. In 2007, the mortality rate for children and adolescents (under 15s) was 537 deaths per 100,000 people, down from 563 deaths per 100,000 people five years earlier in 2002. Injury-related deaths of under 15s dropped from 97 in 2002 to 76 in 2007. However, serious injury rates for under 15s rose from 207 per 100,000 people in 2001 to 296 per 100,000 in 2006. The most at-risk of serious injury are the 10–14 year olds.

Continuing educational inequality

Serious and concerning signs of education disadvantage remain and while there have been substantial gains made in such areas as early childhood education and the retention of senior students, the gap between rich and poor communities and advantaged and disadvantaged children has shown only limited signs of closing.

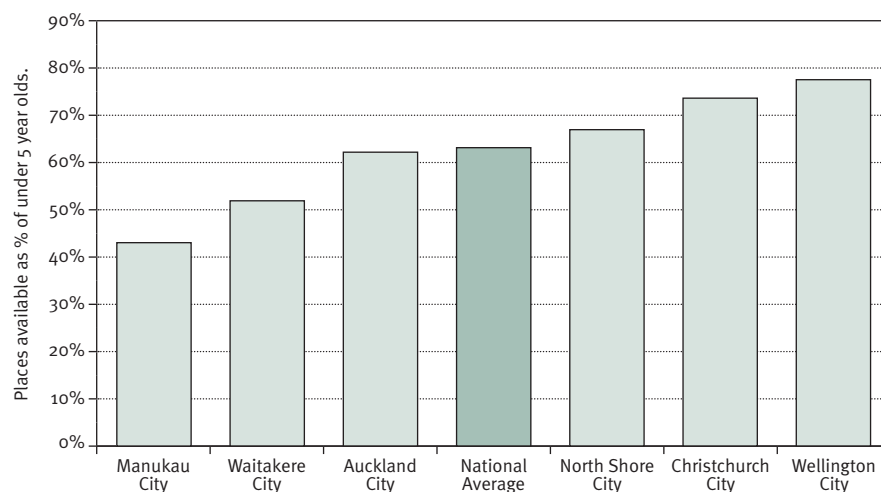
The availability of early childhood education (ECE) opportunities appears to be heavily-biased against poorer urban communities. Between 2001 and 2006, there was a 25% increase in licensed ECE centres and a 7% increase in the number of pre-school children attending these centres. These increases have almost entirely been in the for-profit sector while the not-for-profit and community sector has lost ground with the numbers of kindergartens, play centres and kohanga reo actually falling.

¹ Youth Court statistics from Ministry of Justice Statistical Bulletin No 1

In both 2006 and 2005 the age-standardised enrolment rate for pre-schoolers in ECE centres was 64.9%, up from 59.7% in 2001. There is however significant variation around this national average with average enrolment rates such as 86% in Tauranga City, down to 44% in Manukau City.

The availability of ECE places in poor urban suburbs is nearly half the national average suggesting a large and lingering inequality of access for poor and generally brown children. In 2006 in Otara there were ECE places for just 33% of pre-schoolers while in Mangere and Manurewa this rate was just 35%. In the Massey ward of Waitakere City there were ECE places for just 31% of under 5 year olds while in Porirua East the rate was 37%.

Figure 3: Comparison of availability of Early Childhood Education Centres

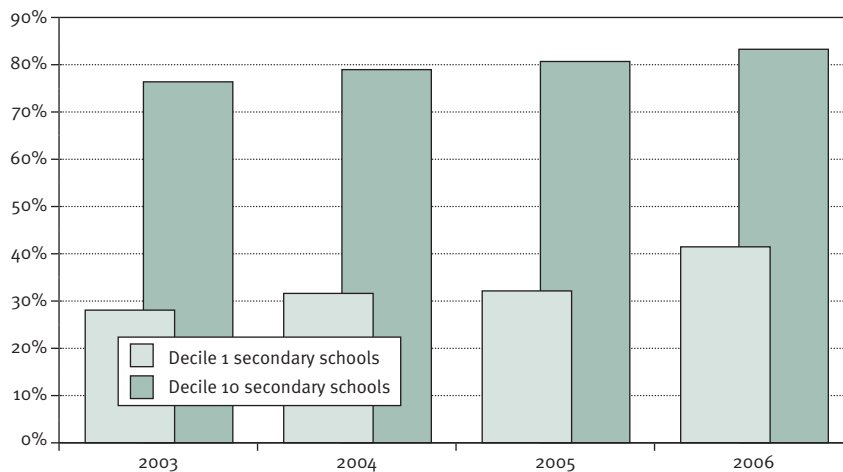


Suspension rates of poorly-behaved students have risen modestly between 2001 and 2006 from 26 students per 1000 in 2001 to 31 per 1000 in 2006. Rates of more serious suspensions and exclusions remain relatively low and fairly constant. In 2006, Maori students were 2.7 times more likely than Pakeha students to be stood down from school for disciplinary problems while Pasifika students are twice as likely as Pakeha to be stood down. Similarly, poor students (from the poorest 20% of schools) are 3.6 times more likely to be stood down than their fellow students in the richest 20% of schools.

A wide but closing achievement gap

Some progress has been made in improving the achievement rates for students in poorer schools and although the “achievement gap” is closing it still remains alarmingly wide. In decile 1 (the poorest 10%) secondary schools the pass rates of Year 11 students gaining Level 1 NCEA qualifications has improved from a mere 28.5% in 2003 to a credible 41.5% in 2007. Meanwhile, in decile 10 secondary schools the Year 11 /Level 1 NCEA rate has improved from 77.1% of all students in 2003 to 83.3% in 2006. The “achievement gap” between decile 1 and decile 10 schools has closed from 49% in 2003 to 42% in 2006. Similarly the Year 13/Level 3 “achievement gap” has declined from 58% in 2003 to 52% in 2006.

Figure 4: Year 11 – NCEA Level 1 pass rates



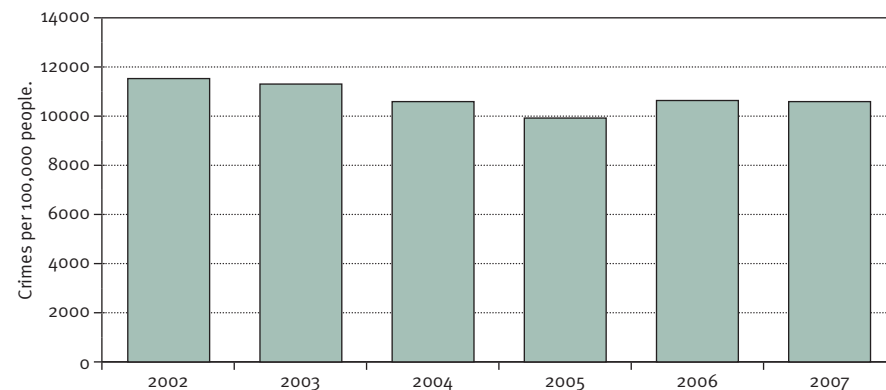
CRIME AND PUNISHMENT

Crime appears to be a major preoccupation of New Zealanders although the reason for this preoccupation is a little unclear. Reported crime in New Zealand is dropping, the crime rate per 100,000 people is declining and resolution of crime by the Police is improving. There may however be a number of reasons for these changes which have little to do with people's perception and experience of crime and much to do with what is reported, the state of our economy and what the Police focus their efforts on.

Falling levels of crime

The total number of reported crimes in New Zealand for the year ending June was 426,584; almost exactly the same as the number of reported crimes for the year before and 3% less than the level of reported crime five years previously in 2002. If population growth is taken into account, this trend of modest decline looks better. In 2007 the number of reported crimes per 100,000 people was 10,449 or approximately one reported crime for every ten New Zealanders. This rate is 10% lower than the crime rate of 11,641 in 2002 and is just slightly more than the recent historic low point in 2005 when there were 10,012 reported crimes for every 100,000 people.

Figure 5: Crime Rates in New Zealand 2002-2007

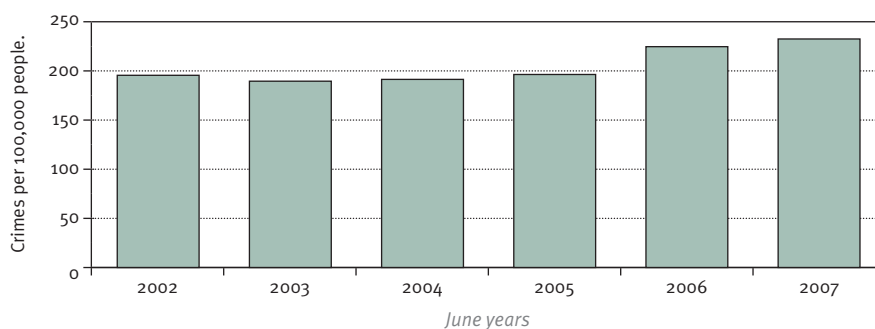


Within these overall figures there is a complex series of shifts which suggest changes in criminal offending or changes in the emphasis being placed on various crimes both by the victims of crime and the Police. Just over half the reported crime is for offences of dishonesty such as theft, fraud and burglary. Over the past five years there has been a 10% decline in dishonesty offences with major declines in the numbers of reported frauds and thefts but a small increase in the number of burglaries. This means of course that there has been an offsetting increase in other forms of crime. For example between 2002 and 2007 violent crime rose 18% with the most pronounced increases being those of grievous assault (+49%) and serious assault (+27%). Similarly, between 2002 and 2007 non-cannabis drug offences rose 57% while cannabis drug offences declined 31%.

But levels of serious crime may be rising

There is some evidence to support claims that serious crime is increasing. Combined, the number of homicides, grievous assaults, robberies and sexual attacks has increased 28% between 2002 and 2007 from 7,471 offences in 2002 to 9,537 in 2007. This increase includes a more modest 4% rise between 2006 and 2007. These increases mean that the rate of these more serious crimes has increased from 198 per 100,000 people in 2002 to 234 in 2007. Encouragingly, the Police's resolution of these crimes has improved from 62% in 2002 to nearly 68% in 2007.

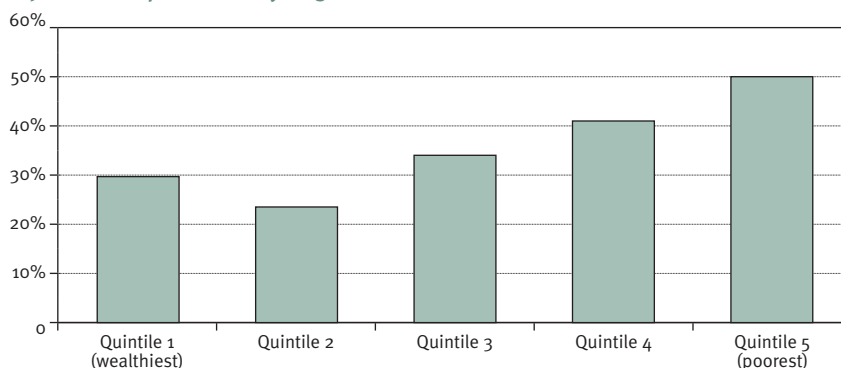
Figure 6: Serious crime rate



Crime impacts hardest on the poor

The burden of crime is not evenly spread, with poorer communities being home to more offenders and of course more victims. For example the rate of “serious” crime in the Counties–Manukau Police District is 1.6 times the national average with 387 serious crimes for every 100,000 people. Furthermore, growth in serious crime in Counties–Manukau between 2002 and 2007 was more than twice that nationally.

Figure 7: Crime is a problem in my neighbourhood

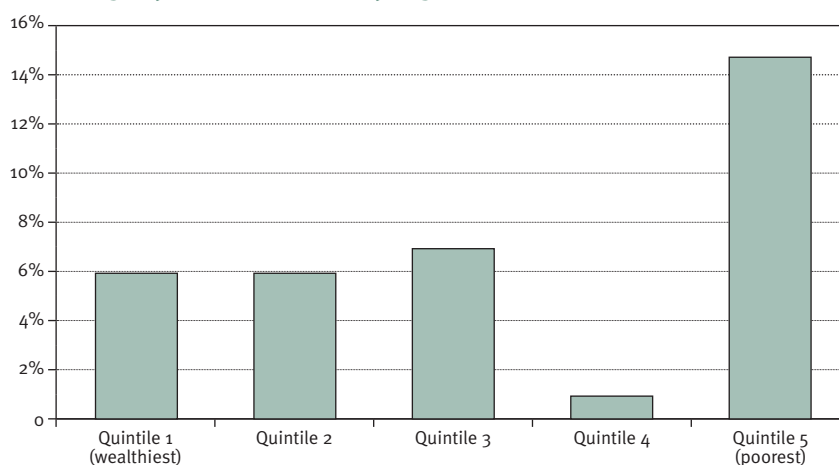


The negative impact of crime on poorer communities is borne out by the New Zealand Crime and Safety Survey 2006¹. Participants in this survey who lived in the poorest 20% of communities reported greater fear for their personal safety and more pessimism about their neighbourhood and its future. Half of all respondents in the poorest

1 Mayhew & Reilly (2007) Community Safety – Findings from the New Zealand Crime & Safety Survey 2006, Ministry of Justice

communities said that crime was a problem in their neighbourhood compared with 32% of everyone else. 15% of the respondents in the poorest communities claimed that they felt very unsafe at night while just 5% of people from other communities did so.

Figure 8: Feeling very unsafe after dark in my neighbourhood



More prisons, more prisoners

The criminal justice system in New Zealand appears to be becoming more and more punitive. The causes of this shift are difficult to identify precisely but may be due in part to public perceptions that crime is becoming a greater social problem. These perceptions have arisen despite the fact that overall crime rates are falling and the growth in serious crime is from a very small base and appears often to be quite localised into poorer communities.

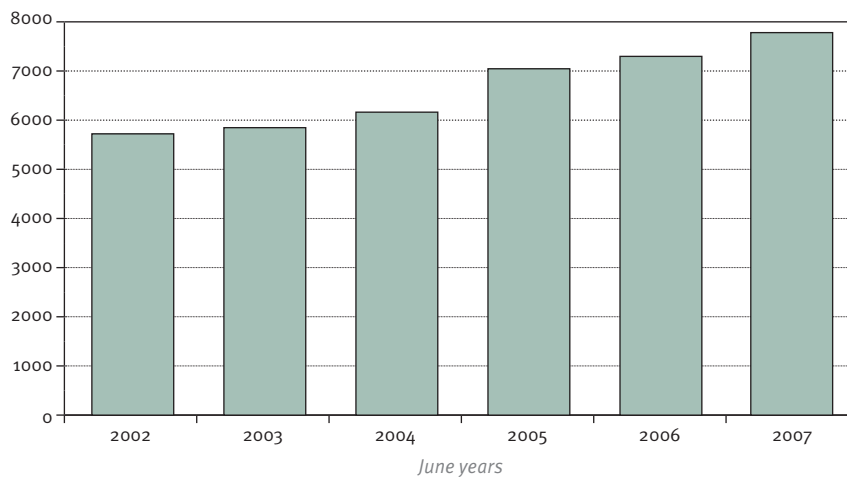
The consequences of this more punitive stance in our criminal justice are however far more apparent and can be seen in recent increases in the nation's prison population and in our rate of imprisonment.

Over the past five years, New Zealand's prison population has increased 36% from an average prison muster of 5,689 inmates in 2002 to 7,734 in 2007. The Department of Corrections has recently reported a record prison population of 8,457 prisoners in September 2007². The most rapid growth within this prison population has been a 69% increase in remand prisons – those people awaiting trial or sentencing. Of this prison population around half are Maori, meaning that the imprisonment rate for Maori at around 600 prisoners per 100,000 population is three times that for the population overall. Unfortunately, imprisonment rates for both Maori and non-Maori appear to be rising. For Maori, the imprisonment rate has risen from around 530 prisoners per 100,000 people in 2004 to 610 in 2007. For the entire population, the rate has risen from around 150 to about 190 prisoners per 100,000 people³.

2 Department of Corrections (2007) Briefing for Incoming Minister – 31 October 2007, p.5
 3 See page 19 Department of Corrections Annual Report 2007

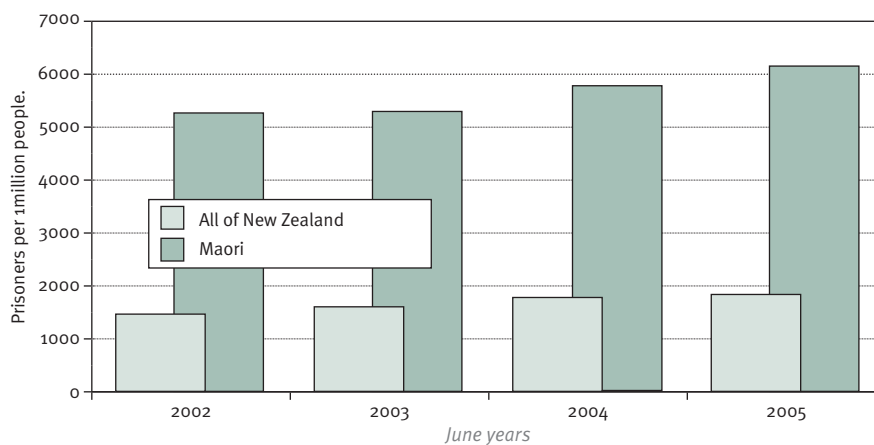
The cost of running prisons and other parts of the penal system has doubled in just five years. The costs to taxpayers of the Department of Corrections has risen from \$431 million in 2002/03 to \$862 million in 2007/08. This is due in part to the growing business of running more prisons, locking up more people and supervising more sentences. It is also due to the increasing cost of keeping people locked up. This cost annually has risen from \$54,750 per prisoner in 2002 to \$76,700 in 2007.

Figure 9: Average Prison Population



Despite this spending and despite the Department of Correction's apparent attempts to rehabilitate and reintegrate prisoners, the rate of re-offending or recidivism has remained stubbornly high. In 2007 nearly 28% of prisoners released within the last 12 months had re-offended and gone back to prison while 55% of prisoners released in the last 24 months were also re-imprisoned. These rates of re-offending have changed little over the last five years.

Figure 10: Imprisonment Rates



SOCIAL HAZARDS

We live with hazards of various sorts throughout our lives in part because we gain benefits from the risks these hazards entail. As an example, we live with the risk of road accidents mainly because of the ease of movement which cars and road use offer us. In the same way, as a society we generally accept a range of social risks because of the enjoyment or benefits which these risks provide. For example, as a society we live with and accept the risks associated with the consumption of alcohol, mainly because the use of alcohol is widespread and for many people provides them with enjoyment and few negative side-effects. However, for some people alcohol is deeply destructive of their health, livelihood and families. This risk of harm means that as a community we choose to control the availability of some opportunities such as those associated with drinking and gambling and we may even choose to prohibit some opportunities such as the use of harmful or highly addictive drugs.

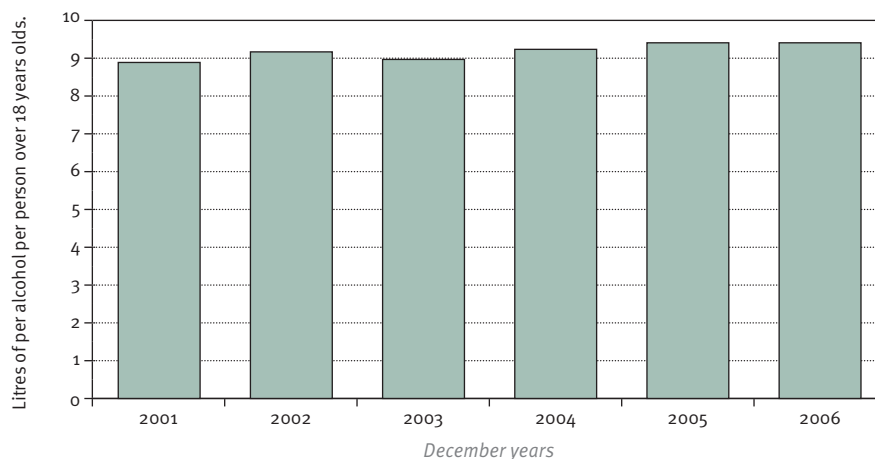
An ongoing question within a liberal democratic society such as New Zealand is the extent of social control which should be placed over products and opportunities which may be harmful to some people. There is seldom any consensus on such issues as there are usually quite different views of what is an acceptable social risk or social hazard to face. Regardless of this variance of views it is important to monitor the level of social hazard we are facing so that we can have an informed debate on limits. This is the purpose of this section of the report.

Modest increases in our consumption of alcohol

In 2006 New Zealanders probably consumed 464 million litres of alcoholic drink, an increase of 1% on the previous year and nearly 12% more than five years previously in 2001. Within this consumption there have been two significant shifts in our drinking preferences. These shifts were the increasing popularity of wine and pre-mixed spirit-based drinks or RTDs. Between 2001 and 2006 New Zealanders' consumption of wine rose 34% to 92 million litres or about 40 bottles of wine each for everyone over 18 years. Over the same period our consumption of pre-mixed spirit drinks rose 77% to 50 million litres. Beer consumption remained relatively stable at around 310 million litres or about 200 handles of beer per adult per year.

Because alcoholic drinks have varied alcohol content, a more reliable measure of our alcohol consumption is the amount of actual alcohol that was available for consumption. Adjustments for population growth should also be made to be able to make a fair comparison over time. These adjustments suggest that our alcohol consumption has risen on a per-person basis from 8.8 litres (of pure alcohol) in 2001 to 9.4 litres in 2006 – an increase of around 6.7%.

Figure 11: Per capita availability of alcohol



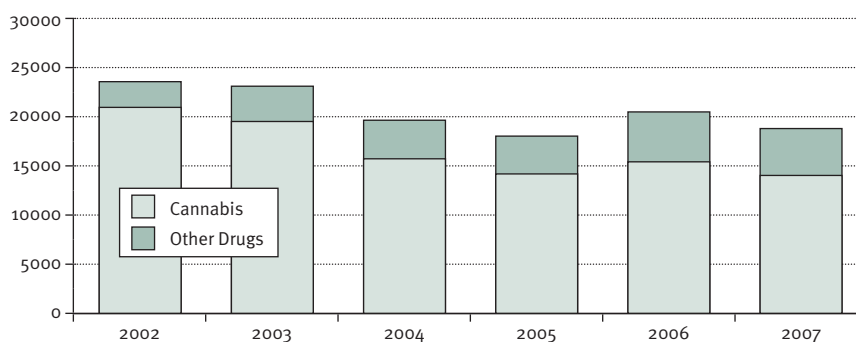
The harm caused by alcohol

Widespread harm is caused by the use and abuse of alcohol. The Alcohol Advisory Council of New Zealand in a 2002 report by economist Brian Easton calculate that the annual social costs of alcohol may be between \$1 billion and \$4 billion annually with health costs of \$655 million and the costs of crime of \$240 million annually. The Ministry of Transport reports that around 100 intoxicated drivers annually are involved in fatal road accidents¹. The Ministry also reports from Police sources that there were 29,289 alcohol offences in 2006—up 8% from 2005 and 16% from 2001.

Declining drug crime

The level of drug-related offences has fallen significantly since 2002, mainly due to a 31% decline in reported cannabis-related offences. Partly offsetting this decline has been a 57% increase in other types of drug crimes which include recently-common drugs such as methamphetamines. In 2007 there were 18,908 reported drug offences, of which over three quarters or 14,449 were cannabis-related offences. The decline in

Figure 12: Drug offences



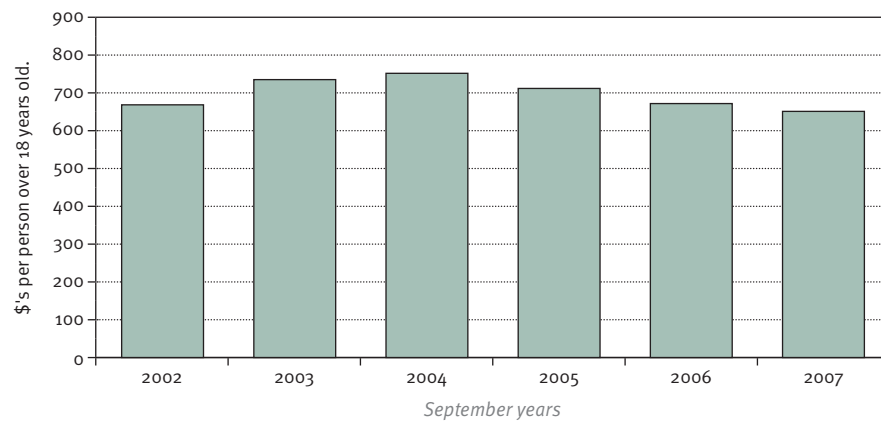
¹ Minister of Transport (2007) Alcohol/Drugs – Crash Statistics for Year Ending 31 Dec 2006.

drug offending since 2002 is probably not an indication of reduced levels of drug use but more a consequence of changing community attitudes and Police priorities toward cannabis use.

Mixed fortunes from gambling

In year to September 2007 New Zealanders lost just over \$2 billion in gambling; nearly half of which was from non-casino gaming machines or so-called “pokies”. This amounts to

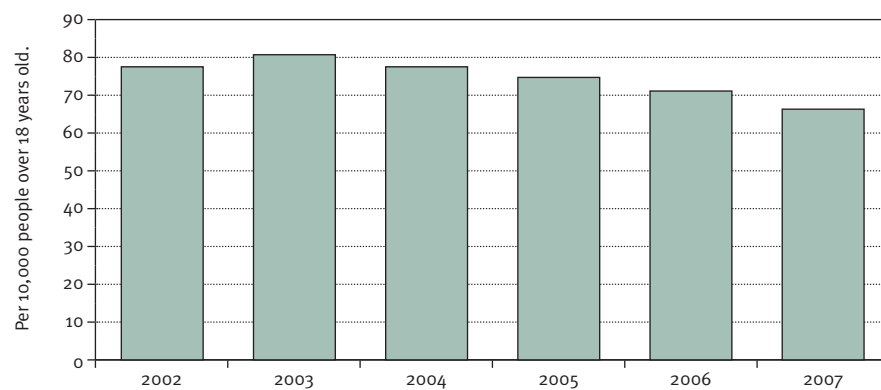
Figure 13: Per capita spending on gambling



\$656 for every New Zealander over 18 per year, of which \$309 was lost on “pokies”. Taking into account inflation and population growth, the per capita losses from gambling have gradually declined since 2004, with a modest 2% decline overall between 2006 and 2007.

The sharpest decline in gambling losses since the gambling boom of 2004 has been on non-casino gaming machines. This form of gambling accounted for \$1.035 billion of losses in 2004, declining to \$906 million in 2006 and rising again to \$950 million in 2007.

Figure 14: Prevalence of non-casino gaming machines



Taking into account inflation, this increase in 2007 represents a 3% growth since 2006 but a 16% decline since 2004.

Overall the number of “pokie” machines has declined every year since 2003 when there were 23,083 machines or 81 machines for every 10,000 adult New Zealanders. By 2007 the number of machines had fallen to 20,163 or 67 machines per 10,000 adults.

The distribution of machines is however quite uneven with small communities experiencing far greater concentrations of machines than cities. For example in Thames–Coromandel there are 126 gaming machines per 10,000 people; in Kaikoura District, 125; in Kawerau District, 102; while Wairoa District has 89 machines per 10,000 people. Waitakere City has the lowest overall concentration of gaming machines with just 23 machines per 100,000 people, followed by Selwyn District (23), Manukau City (28) and North Shore City (28).



WORK AND INCOMES

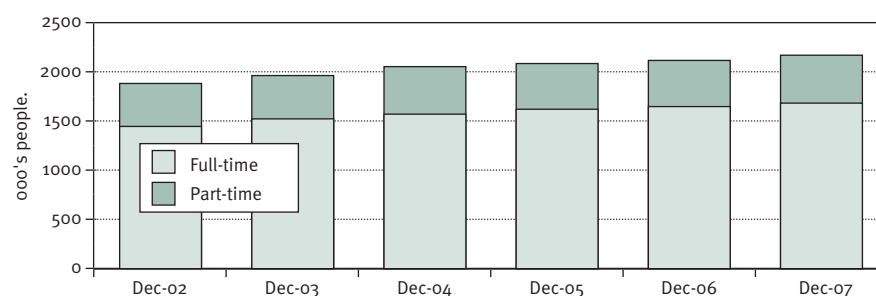
New Zealanders' love affair with work continues with our labour force participation rate climbing to a record 68.8% in December 2007 which makes us the second-hardest-working nation in the OECD. This participation rate is buoyed by the relatively high and growing rate at which women are participating in the labour market. In December the female labour force participation rate was 62.4% up from 61% 12 months earlier and 59% five years earlier. This increase appears to be the result of increasing participation by women who are single parents and may be the consequence of the incentive structures set up by the Government's "Working for Families" package. While more New Zealanders are working than ever before, generally we have avoided working longer hours with the average working week remaining at around 38 hours consistently for the past five years.

New records for employment and unemployment

In December 2007 a new record for employment in New Zealand was reached with 2,173,000 people in jobs of which 489,000 were part-time. This total is 2.5% more than 12 months earlier and 15% greater than five years previously.

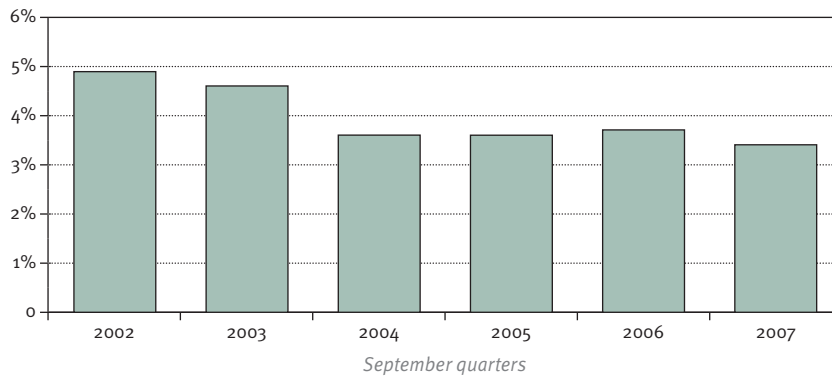
Employment patterns appear somewhat volatile at the moment with the balance between full-time and part-time employment changing from quarter to quarter. The most recent growth in employment has been in full-time employment while previously there has been even growth in the numbers of full and part-time jobs. Over the last year women have taken up nearly 75% of all new jobs created while they took up less than half of the 231,000 jobs created in the four years before. Much of this recent upsurge in female employment may be as a result policy changes such as the "Working for Families" package.

Figure 15: Total employment in New Zealand



New records for unemployment were also reached in December 2007 with the number of people unemployed falling to 25-year lows with 77,000 people reported as seeking work. This compares with 82,000 12 months earlier and 97,000 five years earlier. These figures show that while 284,000 jobs were created during the five years to December 2007, unemployment declined by just 20,000 people. The remaining jobs have been picked up by higher rates of participation in the job market and by population growth.

Figure 16: Unemployment rate

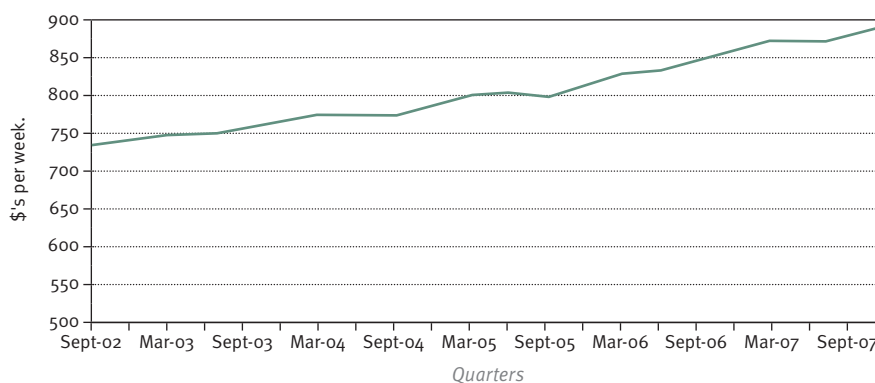


Very modest wage growth

As the labour market has tightened, wages have grown in real terms although quite modestly in comparison with New Zealand's gross domestic product. In December 2007 the average weekly wage across the whole economy was \$886 per week, up from \$856 12 months previously and from \$739 five years earlier. If inflation is taken into account, these increases are far more modest however. Real wage growth for the 12 months to September 2007 was a very modest 1.7% and just 5.1% for the entire five years back to September 2002. During these same periods, New Zealand's economy grew in real terms by 4.7% in the year to September 2007 and 17.1% for the five year period.

Against this background of very modest growth in wages and salaries, the various income gaps have changed very little. The gap between the average hourly wage rate of men and women remains at around \$3.10 per hour while the gap between the poorest-paid sector and the average wage is also quite stable over the five years to December 2007. Workers in the accommodation/restaurant sector consistently earn around 70% of the average wage.

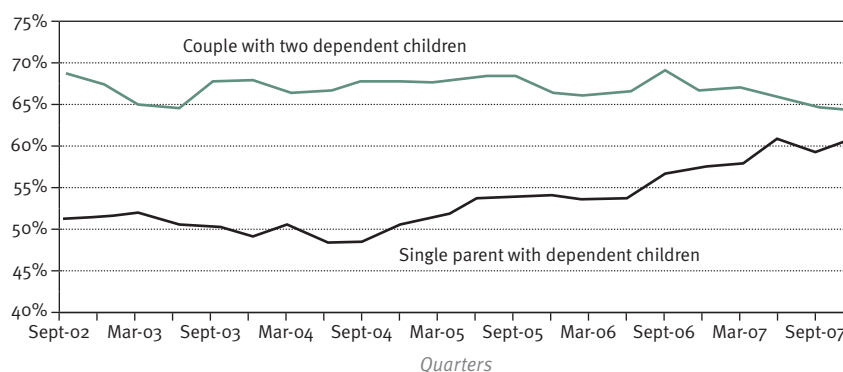
Figure 17: Average weekly wage all sectors



Working at the expense of children?

One of the purposes of “*Working for Families*” is to make work pay; in other words, to provide people with children with sufficient incentive to move off social welfare benefits and into work. Such an incentive is required because the difference between benefit levels and incomes from low-paid jobs is often so small that people may be as well off financially staying at home and looking after their children. The incentive appears to have worked in part by encouraging single parents with dependent children to take up work. At the same time, couples with dependent children appear to be working less, most likely to spend more time with their children. This trend has reduced the number of domestic purposes benefits being paid out, from just over 109,000 in September 2002 to 100,500 by September 2006 and 96,600 in September 2007. A question emerges as to who is looking after the children given that early childhood education facilities and after-school care is least common in low-income communities where single parents and welfare beneficiaries most commonly live.

Figure 18: Labour Force Participation of Families with Children



Lingering benefits

Despite the strong economic and employment growth of the past five years, around 250,000 adults and perhaps as many as 210,000 children continue to live on basic means-tested welfare benefits. The vast majority of these adults are in this position either for health reasons or because they are caring for dependent relatives, normally children. In September 2002 the Government paid out 323,400 means-tested benefits, of which 101,800 were for sickness or invalid benefits. At this time, around 263,600 children or 29% of all New Zealand children were living on welfare benefits. By September 2006 the number of means-tested benefits had shrunk to 263,300 on account of falling unemployment. Also at this time, the number of sickness and invalid benefits had risen to 121,800, although the number of children living on welfare had

fallen to around 225,400 or just under a quarter of all Kiwi children. By September 2007 the number of means-tested benefits being paid had fallen further to 244,300, of which just over half or 124,500 were sickness or invalid benefits. By this time, the number of children living on welfare had fallen to 212,000 or about 23% of New Zealand children.

Benefits levels are adjusted annually by the rate of inflation or more specifically by the consumer price index. This has been the practice since the benefit cuts of the early 1990s and since that time there have been no official attempts to reconcile benefit levels with living costs and appropriate living standards. Consequently, over the 12 months to September 2007 benefit levels rose 2.6% or \$6.55 per week for a single parent with dependent children. During the same period food prices rose 3.3% while household energy costs rose 6.2%.

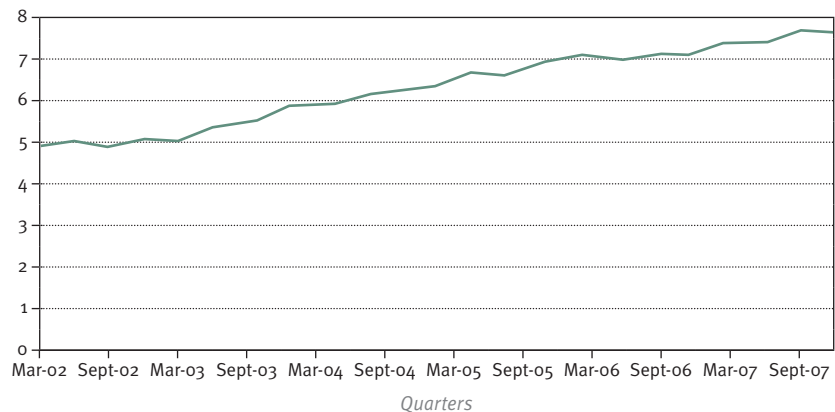
The “*New Zealand Living Standards 2004*” report by the Ministry of Social Development reported (p.103) that in 2004, 42% of single-parent families experienced significant or severe hardship and 60% of such families had some level of economic hardship. Little has changed for these people since 2004.



OUR HOUSING

Housing affordability has had some prominence in public debate over the past two years at least. This discussion has become something of a ‘blame game’ with various sectors involved in the housing market blaming other sectors for the rising cost of housing. There are however a number of causes relating to our present housing affordability problem including demographic factors, global liquidity, tax policies, land use and regulatory policies and industrial structures. This suggests that any solution to this problem will be equally complex and may have unexpected consequences.

Figure 19: Years to purchase median price house at average wage



New Zealand may be on the brink of a price correction in our housing markets which suggests that an extensive discussion of the extent of current housing affordability problems may be premature. Despite this possibility there is some value in recording the extent and nature of the affordability problem so that a benchmark for subsequent change can be established.

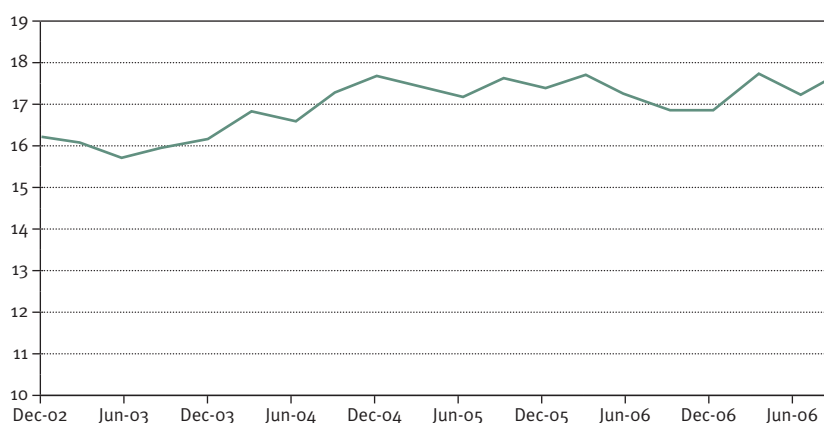
The burden of home buying

There are a number of measures of the affordability of housing purchase available, most of which relate house prices to household incomes. Some measures such as the ‘AMP Housing Affordability Index’ incorporate a number of factors such as house price, household income and interest rates. A simpler measure is that of the number of years it will take to purchase a house at an indicative household income. An example of this measure is the ratio of average annual income to a median house price.

In September 2002 it took 4.9 years of work at the average weekly wage to purchase a median-priced house which was then valued at \$185,000. By September 2006 this burden had grown to 7.1 years. A year later in September 2007, someone earning the average wage would face a burden of 7.7 years of work to purchase a median-priced house valued at \$350,000.

For Auckland the same measure shows that the relative affordability of housing in Auckland has shown a less dramatic deterioration although from a far less tolerable position. In September 2002 it would have taken 7 years of the average wage to purchase a median-priced house in the Auckland region. By September 2006 this ratio had risen to 9 years and by September 2007 to 9.8 years.

Figure 20: Hours of work required at average service sector wage to pay median rent for 2-bedroom house



Steady rents

There is a disconnection between rents and house prices which has meant that rents have tended to keep pace with rises in wages and salaries rather than house prices. The consequence of this for residential property investors is that cash flows from rents are seldom sufficient to cover outgoings especially during high interest rate periods. Since 2004 measures of rent affordability such as hours of work required to pay a median rent have shown a consistent relationship between incomes and rents. For example, the number of hours it would take for a low-paid worker in the service sectors to pay a median weekly rent for a two-bedroom house has remained quite constant since December 2004 at around 17 to 18 hours.

The Department of Building & Housing however reports¹ that rent increases over the past 12 months are running at more than twice the overall rate of inflation. For example, median rents for two-bedroom houses rose 8.9% for the 12 months to September 2007 while rents for three-bedroom houses rose a more modest 6.8% during the same period.

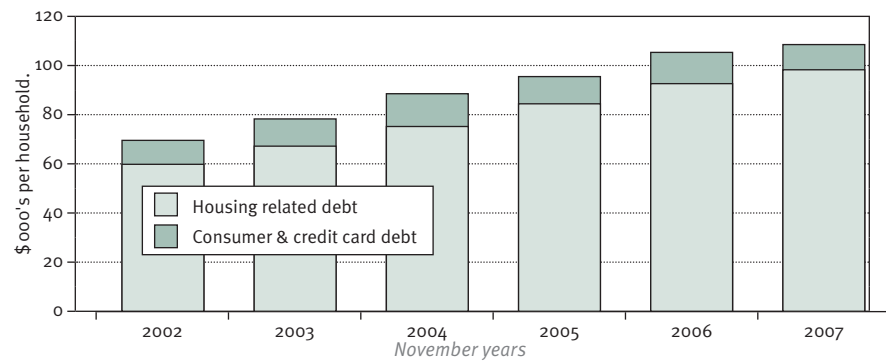
Burgeoning household debt

The boom in housing prices over the past four years has been fuelled and financed by easily-available debt from all banks. This debt now weighs heavily on only a minority of New Zealand households given the fact that about 38% of households rent their home and only around 8% of households are involved in residential property investment.

1 Department of Building & Housing (2007) Building and Housing Trends – July to September 2007; p14.

In November 2007 New Zealand households owed a total of \$153.6 billion in housing-related debt or about 90% of current GDP. In November 2006 this debt was \$135.5 billion or about 85% of GDP. In November 2002 housing-related debt was just \$76.5 billion or about 60% of GDP.

Figure 21: Average household debt



New Zealanders not only have a love affair with residential property investment but appear to be quite prepared to pay high interest rates to fund this investment. Our high level of indebtedness and the high costs of servicing this debt may prove to be a burden both on individual households and on the overall economy over the next 3–5 years.



A STATE OF THE NATION
FROM THE SALVATION ARMY

Alan Johnson
Senior Policy Analyst

The Salvation Army Social Policy and Parliamentary Unit
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What Does It Profit Us? was produced by The Salvation Army Social Policy and Parliamentary Unit 16b Bakerfield Place Manukau City: Director Major Campbell Roberts, Manager Major Ian Kilgour

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New Zealand, Fiji and Tonga Territory

Phone (09) 262 2332, Fax (09) 262 4103
P.O. Box 76-075 Manukau City, Auckland