

Trends in Household Living Standards in Australia: 1990 to 2016

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Introduction: The Australian economy has enjoyed a golden run since the last recession in the early 1990s. Strong gains in economic activity have boosted employment and incomes across much of the economy. In this research note we focus on the fortunes of Australian households since 1990. In particular we consider living standards of households as measured by per capita household income in real terms.

Data and Methods: All data was obtained from Australian Bureau of Statistics data. Household income is based on the ABS *National Accounts* seasonally adjusted household income account disposable income measure. To ensure that income is not influenced by price or population growth we deflate incomes by the Consumer Price Index and remove the population growth component using the Australian total population as measured by Australian *Demographic Statistics*. All data is based on the March quarter for 2016 publications. Demographic statistics is based on December 2015 but projected forward to March 2016 using a simple extrapolation of recent trends in population growth for Australia.

Results: On average we find that living standards in Australia peaked in June 2012 with living standards increasing by 53.5 per cent since March 1990. Since this peak living standards have declined by 0.6 per cent to March 2016.

Over a 5 year period we find that growth in living standards are at their lowest point between 2010 and 2015 – even lower than the growth experienced during the last major Australian recession in the early 1990s. Australia only managed growth of 1.2 per cent during this period well down on the strongest period between December 2003 and December 2008 where living standards increased by 22.5 per cent.



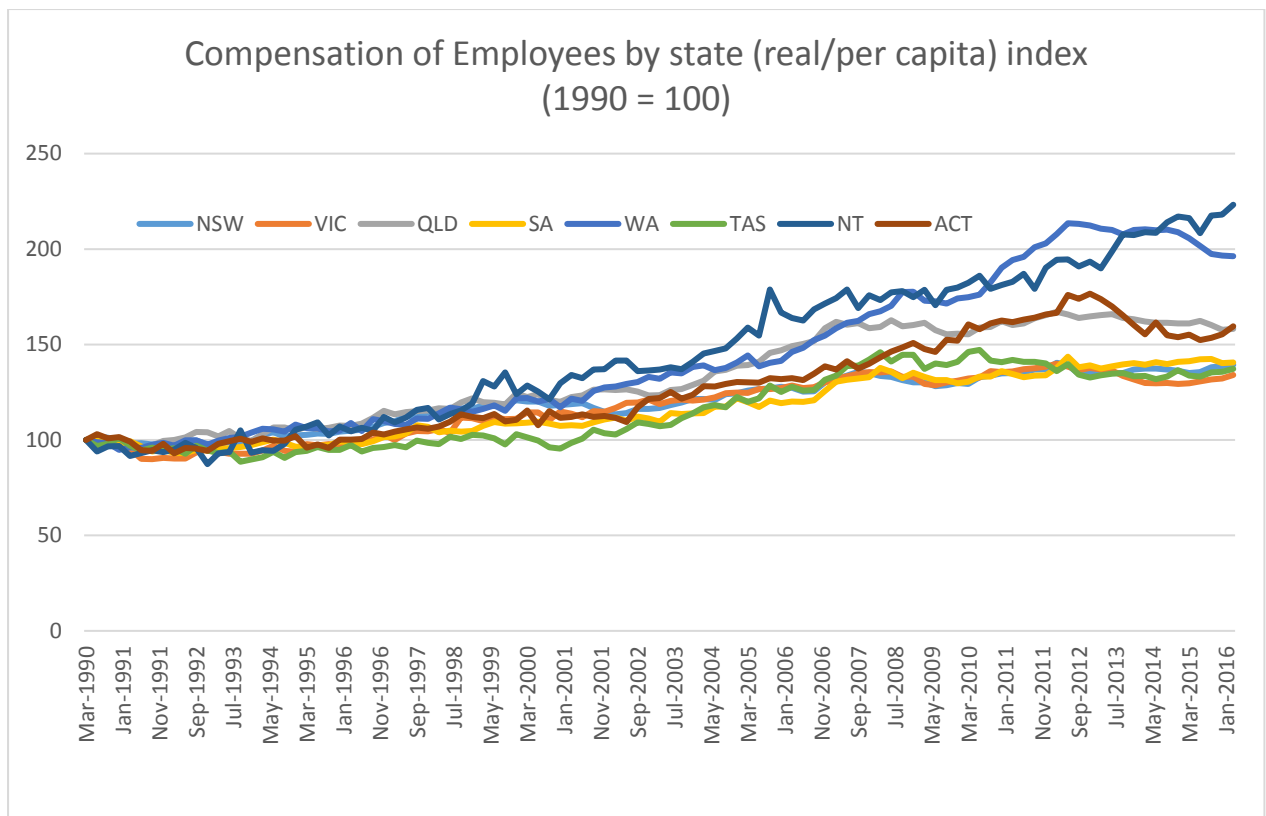
Prior to the Global Financial Crisis in 2008 Australia enjoyed a booming economy helped along by a mining boom. Household disposable income was also assisted by large reductions in personal income taxation rates (approximately 20 per cent lower) during the previous decade.

The stagnation in household living standards in recent years manifest itself largely through lower income growth (mostly wages) rather than lower employment and higher unemployment as was the case in the last recession in the early 1990s.

There has been considerable divergence between the states in terms of changes in living standards. A key driver here is real wage growth in per capita terms. Using ABS National Accounts data on 'compensation of employees', capital city consumer price information and state population estimates we derives estimates of wage growth by state.

Each state has enjoyed considerable growth in wages over the longer term. The mining states of WA and NT have led the way with growth of 123 per cent and 196 per cent respectively. This compares with just 34 per cent in Victoria and 37 per cent in Tasmania and 40 per cent in South Australia and 39 per cent in New South Wales. Queensland, another state that benefited from the mining boom grew by 58 per cent since 1990. Clearly, there is a substantial divide in wages growth that was heavily dependent upon the mining boom.

Without the mining boom Queensland and WA wages are falling (in real, per capita terms). Over the past three years Queensland wages are down 4.4 per cent and WA wages are down 6.8 per cent.



Conclusion: After two decades of strong growth in living standards Australian households no longer enjoy strong growth in incomes. Over the past 5 years living standards have barely altered which is in stark contrast to the previous decade where living standards were helped along by a mining boom and a strong domestic and international economy and lower personal income taxation rates.

In absolute terms Australian living standards remain amongst the highest in the developed world.

The economy, at least in the short to medium term, is not currently adding to living standards.

Unlike in previous periods of slow economic growth this stagnation is manifesting itself in the form of reduced growth in wages and other income rather than significantly lower growth (or even negative growth) in economic activity or employment, both of which remain reasonably robust.