Aussie income inequality and poverty rise

Economic issues

- **Poverty:** According to the Productivity Commission, 9 per cent or 2.2 million Aussies lived below the relative income poverty line (half of median disposable income) in 2015/16.

- **Income & wealth inequality:** Wealth inequality has increased over the 12 years to 2015/16 with the Gini coefficient based on the Bureau of Statistics Survey of Income and Housing increasing by seven per cent. The Gini coefficient for wealth (at about 0.6) is close to double the Gini coefficient for income (at about 0.3) and nearly triple that for final consumption (at about 0.2). Among OECD countries, Australia has the eighth most equal wealth distribution, near the average.

*The wealth and inequality data are important as a guide to future spending.*

What does it all mean?

- Those fortunate enough to call Australia home have a good life. It's a life of prosperity for most and a life of opportunity for all. World-class education, an entrepreneurial spirit and a willingness to embrace innovation and new technologies have helped make Australia one of the wealthiest countries in the world.

- And according to the most recent *Finance & Wealth* publication from the Bureau of Statistics, on average, each Australian has net assets (assets less liabilities) of just over $410,000, a total that has lifted by over $9,000 in the year to March 2018. Over the past five years per capita wealth has lifted by more than $100,000 or 36 per cent. It is clear that household balance sheets remain solid.

- While Australia has experienced a record breaking run of uninterrupted economic growth over nearly three decades, some Aussies have not enjoyed the benefits of living in the “Lucky Country”. Globalisation has left some behind, while differences in opportunity, including education, skills, mobility, cultural backgrounds, social circumstances and age may have played a part in creating disadvantage.

- According to a report released today by the Productivity Commission “inequality has risen slightly in Australia”. But 27 years of unprecedented economic growth “has delivered for the average Australian household in every...”

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*Figure 3.5 Average income has grown for all income deciles
Average equivalised disposable income by income decile, 1988-89 to 2015-16*

*Both percentage and dollar growth in real terms (2016-17 dollars).

*Source: Productivity Commission estimates using ABS (Microstat: Household Expenditure, Income and Housing, 2015-16), Cat. no. 6546.0, released 29/10/17 and ABS (HES Basic) Confidentialised unit record file for 1988-89 as available at 25/10/17.*

*How unequal is income?**

Germany
France
Canada
Japan
Australia
UK
US

0.24 0.26 0.28 0.3 0.32 0.34 0.36 0.38 0.4

Source: OECD, CommSec

Gini Coefficient adjusted disposable income, 2017

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income decile significantly improved living standards. This is in contrast with the United States (which had a similar rate of increase in income inequality as Australia) where the distribution is much more uneven, with income growth in the lower deciles about a quarter of that for Australian households.

- Australia’s progressive tax system has helped to reduce inequality with income tax and government transfers “typically lowered the measure of overall income inequality (the Gini coefficient) by 30 per cent.” However, strong growth in wealth from rising home prices and superannuation over the past 15 years, particularly in the upper income deciles, have increased inequality.

- The OECD measures inequality by determining a country’s “Gini co-efficient” or the proportion of all income that would have to be redistributed to achieve perfect equality. A nation’s Gini coefficient would be 0 if every household had the same amount of disposable income, and it would approach 1 if a single household had all of the disposable income. Australia’s income and wealth distribution remains less skewed than in other countries. Among 28 OECD countries, Australia’s level of income inequality is close to the OECD country average at 0.34, below the US at 0.39, but above Germany at 0.29. And our wealth Gini coefficient at 0.6 is the eighth most equal in terms of distribution in the OECD.

- According to the Productivity Commission around nine per cent or 2.2 million Aussies live below the poverty line in 2015/16. And of particular concern is that around half of all Aussies experienced some income poverty between 2001 and 2016 for three years or less. And those who have lost their jobs and are supporting a family, children and older people aged over 65 years’ experience the highest poverty rates.

What do the figures show?

Wealth inequality

The Productivity Commission released a research paper today entitled “Rising inequality? A stocktake of the evidence”. The report can be found here: [https://www.pc.gov.au/research/completed/rising-inequality/rising-inequality.pdf](https://www.pc.gov.au/research/completed/rising-inequality/rising-inequality.pdf) and some of the key observations are as follows:

**On Income and consumption inequality in Australia:**

- “Income inequality has increased modestly since the late 1980s.”
- “Australia’s level of inequality is close to the OECD country average.”
- “Australia’s progressive income tax and highly targeted transfer system has a powerful equalising effect on household incomes. On average, income tax and transfers reduce income inequality by about one third.”
- “Inequality of private consumption is only slightly lower than that of disposable income, but once in-kind government transfers (such as education and healthcare) are accounted for, final consumption inequality is 30 per cent lower than that of disposable income.”

**On wealth inequality in Australia:**

- “Average wealth in Australia has steadily increased over the 12 years to 2015-16.”
- “Average equivalised household wealth rose by 43 per cent over the period, to just under $530,000.”
- “The gains have been across the distribution, but growth was stronger for the top half of the distribution.”
- “Owner-occupied housing and superannuation balances accounted for most of the increase in wealth.”
- “Wealth inequality increased over the same period — the Gini coefficient based on the ABS Survey of Income and Housing rose by 7 per cent.”
- “Almost all the rise in wealth inequality occurred in the mining boom period through to 2010 (income inequality also rose during this period).”
- “The Gini coefficient for wealth (at about 0.6) is close to double the Gini coefficient for income (at about 0.3) and nearly triple that for final consumption (at about 0.2).”
“The person at the 90th percentile of the wealth distribution has almost forty times as much wealth as the person at the 10th percentile; for income, they have four times as much.”

“Australia’s households are wealthy, and household wealth is relatively evenly distributed, compared to other developed countries.

“Among 28 OECD countries Australia ranked fifth in average household wealth and third in median household wealth”

“Australia has the eighth most equal wealth distribution, as measured by the Gini coefficient.”

On economic disadvantage in Australia:

“Nine per cent of Australians (2.2 million people) lived below the relative income poverty line (half of median disposable income) in 2015-16.”

“Using a different poverty line anchored to the 1988-89 median income in real terms, the rate of poverty fell from 9 per cent in 1988-89 to 3 per cent (700,000 people) in 2015-16.”

“The demographics of poverty reveal that jobless households, particularly those with children, experience the highest poverty rates. Age-wise, children and older people (65+ years) have been the most likely to experience both income and consumption poverty.”

“About half of Australians experienced income poverty at some point between 2001 and 2016. Most of these experiences (79 per cent) lasted less than three years.”

“A small proportion of people get ‘stuck’ in poverty for extended periods. Six per cent of poverty spells lasted six years or longer.”

What is the importance of the economic data?

The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies in the long term interest of the Australian community. The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole. Further information on the Productivity Commission can be obtained from the Commission’s website (www.pc.gov.au).

What are the implications for interest rates and investors?

With wages tracking closely in line with prices and wealth now easing, there will be continued uncertainty about future spending by Australian families.

Strengthening jobs growth is expected to slowly lead to higher wages and prices.

And while the unemployment rate is near six year lows at 5.3 per cent in July, around 713,000 Aussies are still unemployed with those people likely to get ‘stuck’ in poverty for an extended period of time.

While most Australians have been able to accumulate wealth over time largely on the back of solid economic growth, the current period of anaemic wages growth is contributing to income and wealth inequality, particularly for younger Australians.

Australia stacks up well when compared to our OECD peers. Our living standards have increased. Income and wealth inequality is lower than most. Our superior mobility has enabled people to become wealthier.

But today’s report from the Productivity Commission is a stark reminder that many Australians are suffering from economic disadvantage. At least two million Aussies are living in poverty. And over 700,000 people are unemployed – one of the key contributors to inequality.

CommSec expects interest rates to remain unchanged until late 2019.

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