

****MEDIA RELEASE****

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NEW COST OF LIVING ANALYSIS SHOWS AUSTRALIAN HOUSEHOLDS ARE EXPERIENCING THE TIGHTEST SQUEEZE IN 16 YEARS

New economic analysis shows the average Australian mortgage holder has \$21,300 less per annum to spend on non-essential items and households that are renting have \$13,300 less per annum to spend.

Polis Partners' new report, *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 factors in changes in household income; changes in essential household spend; and the amount of money the household has left to spend on non-essential 'discretionary' purchases such as electronic goods, eating out, gym memberships, attending events, holidaying, or to invest or save. Core results are presented for the average of Australian households and across 5 different income levels.

The Household Report key findings show that 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 including 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.

Polis Partners Economist and report author Rob Tyson says that “Households haven’t felt the cost-of-living squeeze this tight for 16 years. The last time the real level of discretionary funds that households have to spend on non-essential items was this low was in 2008.”

“This cost-of-living squeeze has been the steepest and most prolonged period of deteriorating household finances since the start of the time series in the early 2000s.”

“Our analysis shows that compared to the 2020 pandemic period, households now have, on average, \$10,700 less per annum to spend on non-essential items and households in the lowest 20% of incomes find the cost of essentials greater than their 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.”

Mr Tyson also explained that during 2023, cost of living pressures on essential household items outstripped growth in wages, albeit at a slowing rate.

“Wage growth during the year was stronger, driven by a tight labour market and the finalisation of enterprise bargaining agreements. However, this growth in wages was not sufficient to offset the tail end of the interest rate rises on housing costs. This was the largest cost pressure households face. Insurance and essential bill costs also increased across this period, as did travel cost associated with high petrol prices,” he said.

Looking ahead, Mr Tyson says the situation is starting to stabilise, although major reprieves for households appear some way off.

“Wage growth has picked up, interest rates steadied, and inflation has started to ease. While households still have an average \$515 less 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,” he said.

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Notes to media:

1. A copy of the report can be found here: <https://www.polis.partners/copy-of-publications>
2. Graphics are available for your use.
3. 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:

Polis Partners is a team of senior economic, financial and policy advisors with extensive experience at multinational professional services firms and across Government. Our focus is on helping clients deliver investments that make the places we live better and the communities within them stronger. We take an 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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