Covid-19 impact on financial wellbeing of New Zealand households wave 2 (October 2020)

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Background

- We asked 4,009 people on how their personal and household finances were affected by the COVID-19 pandemic. 3,687 were responsible or jointly responsible for household finances.
- Questions about income, payment of bills, borrowing, debt, savings, ability to pay for other essentials such as food and seeking financial help, employment etc.
- Fieldwork took place between 30 September and 22 October 2020
- This survey follows a similar survey conducted in April 2020 on a sample of 3,085 people.
- Both surveys used the questionnaire was designed by Professor Elaine Kempson of the University of Bristol. Modifications were made to reflect the NZ context.

Main points

Uneven recovery

Underemployment rather than unemployment

Arrangements with creditors – what happens when they expire?

Reluctance to seek help; fuelled by a feeling that the worst is over?

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IMPACT OF COVID-19
ON FINANCIAL WELLBEING

Findings from the second wave of a national survey
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Income recovery is uneven

- One in three households have not recovered their incomes to the February 2020 level; this includes 11% of households that are still on a severely reduced income.

- More than 1 in 10 households (11%) report an increased income compared to February 2020. These households are more likely to include knowledge workers and public sectors employees.

Household income compared to February 2020	April 2020	October 2020
Decreased by one third or more	13%	11%
Decreased by less than one third	25%	22%
The same	52%	56%
Increased	9%	11%
Total	100%	100%

Income change by age of main respondent

- The percentage of those still on reduced incomes compared to February 2020 was highest among households where the main respondent was aged 55 to 64 (37%).
- Ageism in the labour market might be a possible explanation?
- Among younger respondents, there was high impact in terms of job losses, but the overwhelming majority found new jobs
- Some of the increased incomes in the youngest age group are linked to finishing education and entering the labour market

Household income change since February 2020	18 to 34 yrs	35 to 54 yrs	55 to 64 yrs	65 +	Total
Decreased by one third or more	9%	13%	14%	6%	11%
Decreased by less than one third	24%	22%	23%	16%	22%
Stayed stable	52%	55%	55%	68%	56%
Increased	14%	11%	9%	10%	11%

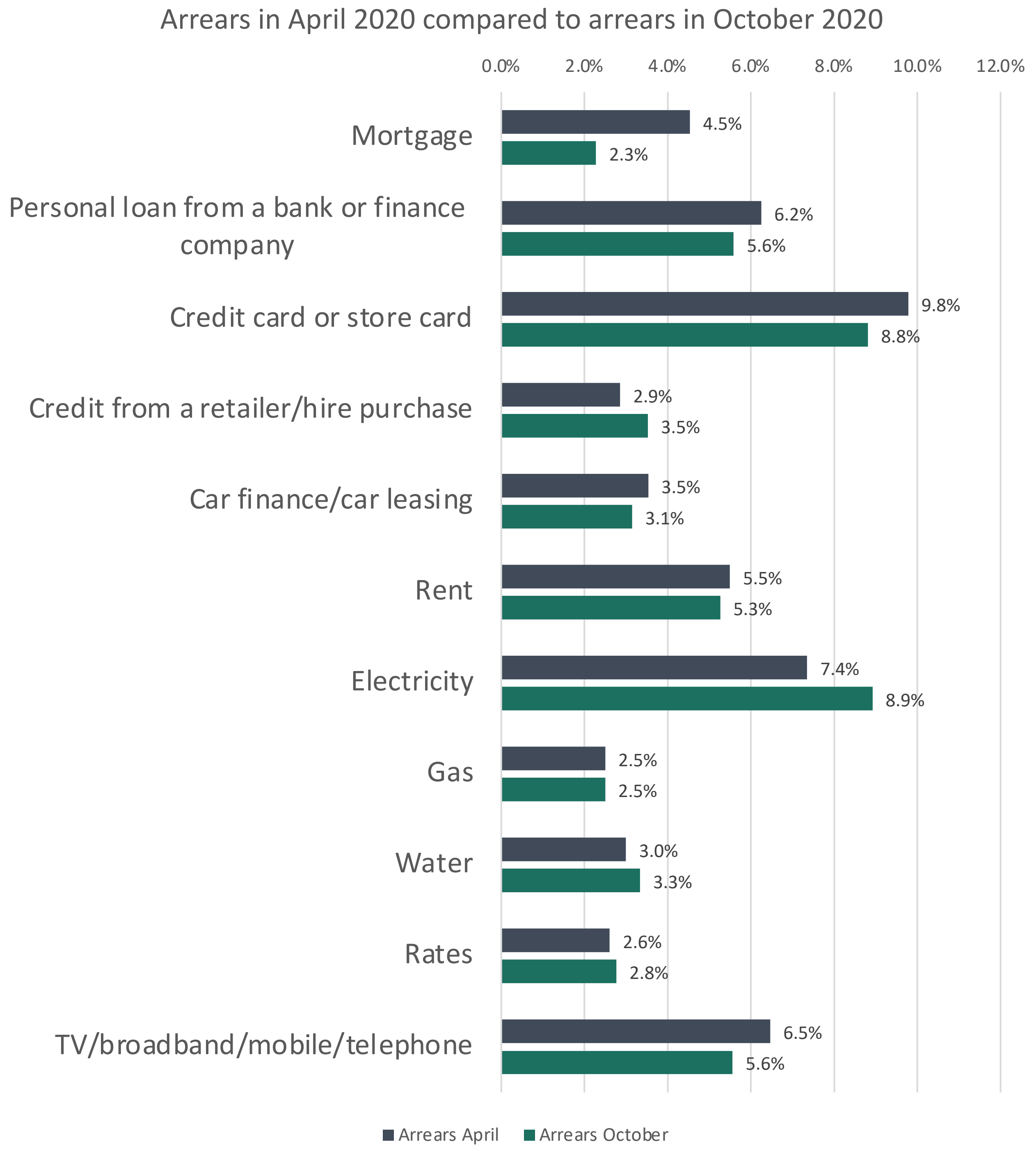
(Age is the main respondent's from the household)

Arrears
(% of households)

Arrears have <u>decreased</u> compared to April 2020

…but almost one in four households (23%) had some sort of arrangement with at least one creditor (such as a payment holiday or reduced payments).

This raises questions about what happens when these arrangements expire.



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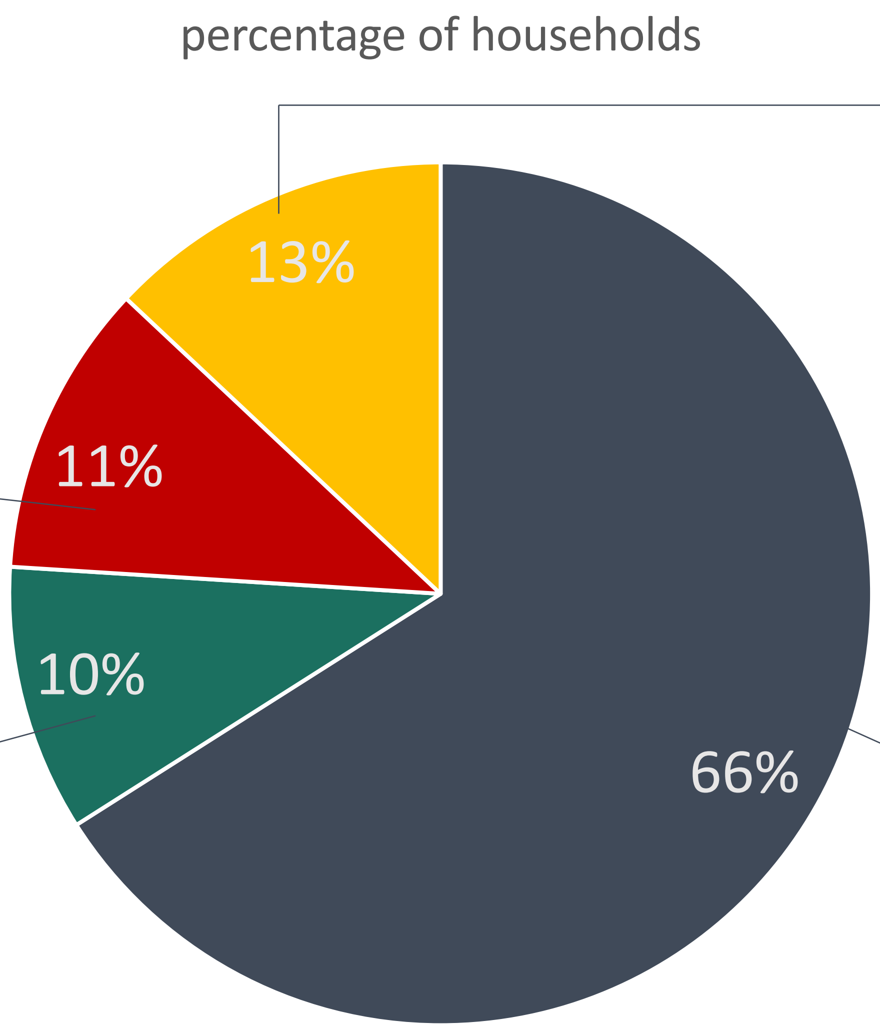
Arrears and arrangements

13% of households had arrears and arrangements with creditors. This suggests that these households were unsuccessful in getting arrangements on some of their loans or are still in the process of negotiating with creditors. Common types of arrears are credit cards (35%), rent (27%) and electricity (40%).

11% of households had arrears but no arrangements with creditors. These households either did not try to approach creditors or were unsuccessful. Low income households are over-represented here. Common types of arrears are: credit cards (40%), personal loans (21%) electricity (35%), TV/broadband (25%) and other bills / unsecured loans.



10% of households had arrangements with creditors and no arrears. This means that these households successfully negotiated with all their creditors. Common types of arrangements in this group are mortgage holidays (34%) or rent reduction (11%).

66% of households had no arrears and no arrangements with creditors.

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Reasons why people might not seek help

- unwillingness to face reality of their situation
- over-optimism about their ability to get on top of their debts
- worry about being judged by society at large, but also by employers, family members or debt advisors
- the desire to maintain an image of themselves as successful, professional people
- strong sense of personal responsibility and self-blame for their situation
- not knowing where to get advice from, the nature of the advice available or how to access it
- assumption that any advice would be charged for, which they could not afford to pay
- fear of being exploited by commercial companies looking to make a profit, and a difficulty in distinguishing, when using web search, free-to-client advice organisations from others that charged
- assumption that free-to-client debt advice services were not people 'like them'
- worries about what seeking help might do to their credit rating, and possible consequences for ability to get a mortgage in the future.

	% of those who have at least one arrear who accessed the service
Budgeting services or similar	15%
Sorted.org.nz	23%
MoneyTalks helpline	10%
Citizens Advice Bureau	21%
At least one of the above	42%

KiwiSaver was not raided

The April survey indicated a high rate of intention of Kiwisaver hardship withdrawal

October figures show that the rate of those who actually have done it is much lower than those intentions would indicate.

We do not know how much of this gap is due to improvement of people’s situation, and how much of it is due to barriers to KiwiSaver withdrawal.

While the amount of hardship withdrawal increased, Kiwisaver funds were not “raided” to the extent we feared looking at the April withdrawal intention!

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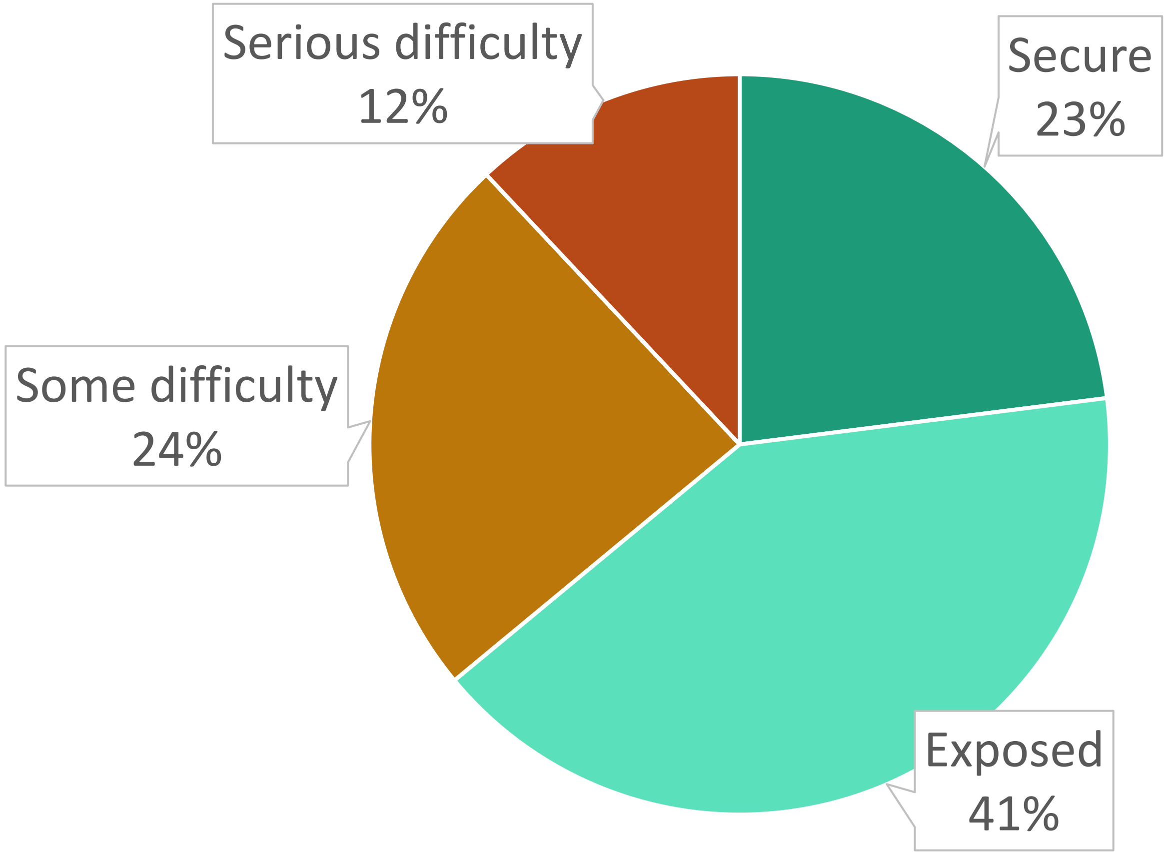
The 4 segments (% of households)



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Secure – professionals and retired professionals with a buffer (23%(-3))

- Not affected much by covid-19; in fact one fifth of these households increased their earnings compared to February

- Loss of income (if happened) was not an issue due to high savings / spending less than earning

- Overrepresented:

  - Older couples, no children or adult/near adult children who left home;
  - Homeowners; Wellington;
  - professional, scientific, public sector

- There was a decrease in the average saving level in these households –not due to income loss but helping family or buying property

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Exposed – no difficulties but no safety net/high debt; young upwardly mobile families / couples (41%(+1)) - saved by a combination of better than expected labour market, wage subsidies and mortgage relief

- These households are dependent on continued income to not fall into difficulty, because they have high debt commitments. Some have high income.
- Initially hit hard but recovered well – found new jobs, hours returned to previous levels; increased savings
- Overrepresented:
  - 18-34, couples, with and without children; In paid employment
  - Asian/European
  - IT, media, finance, trades,
  - homeowners with mortgage,
- Very successful in negotiating suspended/reduced payments – lots of mortgage holidays. Some have arrears but these seem not to be causing any immediate distress
- Were very anxious back in April but now relaxed – confident and optimistic, consider loss of job unlikely
- Turn for help and advice to family, Sorted

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Exposed

- Some “fell out” of this segment and into difficulty since April –the risk of not having a safety net materialised
- The high levels of consumer debt and low levels of savings mean that improving financial resilience of these households should remain a priority even after it seems like the worst of the covid-19 economic shock passed (did it?).
- Households in this segment increased their saving levels which suggests some of them realised the precarity of their financial situation.

Some difficulties – working families in blue collar and pink collar occupations + “demoted” exposed segment (24%)

- Used to be “just above the line” but covid hit them hard; some of them have some short term savings which are still keeping them afloat

- 50% of these households tapped into their savings in the last 4 weeks – highest of all segments – risk that they will spend their savings first before asking for help or taking action

- Overrepresented:
  - Working age couples (18-54) with children (often one of parents staying at home)
  - Construction, retail, food and accommodation services, transport, but also IT and media;
  - Renters

- Have arrears but much less per household than those in serious difficulty

- Very optimistic and expect their income to recover soon – perceive their difficulty as temporary

- Few use available sources of help even when in arrears – lowest use of available govt guidance (Money Talks, CAB, Sorted, budgeting services)

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Serious difficulties: entrenched poverty (12% of households)

- Pre-covid poverty & low level of employment – covid intensified hardship but did not cause it
- Overrepresented:
  - 35-54,
  - unpartnered, sole parents,
  - Māori, renting / boarding houses,
  - insecure employment or no employment,
  - migrants on temp visas
- Multiple arrears; most likely to be turned down by creditors when trying to get an arrangement
- Greatest anxiety about financial situation, no hope for improvement
- They turn for help to WINZ, family, further loans, budgeting services

Segment profiles -October

	Serious difficulties *Entrenched poverty*	**Some difficulties** *Burning through savings and hoping for a quick improvement*	**Exposed** *Not in financial difficulty but no safety net*	**Secure** *A buffer big enough*
Covid impact	Pre-covid poverty & low level of employment – covid intensified hardship but did not cause it	Used to be “just above the line” but covid hit them hard; have some short term savings	Initially hit hard but recovered well – found new jobs, hours returned to previous levels; increased savings	Not affected; many increased their earnings; loss of income (if happened) not an issue due to high savings / spending less than earning
Typical / overrepresented demographics	35-54, unpartnered, sole parents, Māori, renting / boarding houses, insecure employment or no employment, migrants on temp visas	Working age couples (18-54) with children (often one of parents SAH); diverse segment - construction, retail, food and accommodation services but also IT and media; 51% renters	18-34, couples, with and without children, Asian/Euro, IT, media, finance, trades, homeowners with mortgage, high employment rate	Older couples, no children or adult/near adult children who left home; homeowners; Wellington; professional, scientific, public sector
Arrears	Multiple arrears; most likely to be turned down by creditors when trying to get an arrangement	Few arrears; 50% of these households tapped into their savings in the last 4 weeks – highest of all segments	Very successful in negotiating suspended/reduced payments – lots of mortgage holidays. Some have arrears but these seem not to be causing any immediate distress	Virtually none but decrease in saving levels –not due to income loss but helping family or buying property
Outlook	Greatest anxiety about financial situation, no hope for improvement	Very optimistic and expect their income to recover soon – perceive their difficulty as temporary	Were very anxious back in April but now relaxed – confident and optimistic, consider loss of job unlikely	Positive
Help-seeking	WINZ, family, further loans, budgeting services	Few use available sources of help even when in arrears – lowest use of available govt guidance (Money Talks, CAB, Sorted, budgeting services)	Family, Sorted	No need but even so they read Sorted

Segments within age groups and ethnic groups

Age of main respondent	18 to 34 yrs	35 to 54 yrs	55 to 64 yrs	65 +	Total
In serious difficulties	11%	16%	13%	4%	12%
In difficulties	27%	26%	22%	16%	24%
Exposed	47%	41%	38%	32%	41%
Secure	15%	17%	27%	48%	23%
Total	100%	100%	100%	100%	100%

Ethnicity of the main respondent	Māori	Pacific Peoples	Asian	European
In serious difficulties	17%	14%	7%	13%
In difficulties	36%	32%	24%	22%
Exposed	35%	42%	48%	40%
Secure	12%	11%	21%	25%
Total	100%	100%	100%	100%

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Insecure employment in February 2020 was a major risk factor for negative economic impact

- insecure employment includes self-employment, casual work, working through an agency, online platform/gig work such as Uber, and temporary contracts

- Insecure work was more common in industries most affected by the covid-19 crisis, such as hospitality, arts, sports and recreation and retail.

- Council of Trade Unions drew attention to the fact that Māori and Pacific workers are disproportionately represented in temporary /casual work (https://www.union.org.nz/wp-content/uploads/2016/12/CTU-Under-Pressure-Detailed-Report-2.pdf).

- loss of income could be abrupt, and access to assistance such as wage subsidies was uneven.

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Insecure employment

- We need a conversation about insecure employment - insecure employment / irregular income is the great divide when it comes to financial resilience
- Budgeting is difficult
- Borrowing when times are good (illusion of a trend) and borrowing when times are bad (to survive)
- Borrowing from finance companies rather than banks – banks' income requirements

Homeownership lessened the negative impact

- Even controlling for income and income loss and other factors such as age, homeowners were less likely to be in arrears. (The effect was larger for Māori than for non- Māori).
- This positive impact of home ownership may be linked to
  - the availability of mortgage holidays (with no equivalent relief scheme for renters),
  - opportunities for extra income by renting out a room,
  - or the ability to tap into existing equity.
  - stability of housing situation might contributing to building a supportive network.
- The survey did not attempt to measure any of these possible mechanisms of how homeownership was protective. Nonetheless, this finding suggests that homeownership can be an important part of financial resilience, especially for Māori, and underscores the importance of improving access to homeownership.

Questions?

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