

## Box C

# Household Experiences in the Downturn: Evidence from the HILDA Survey

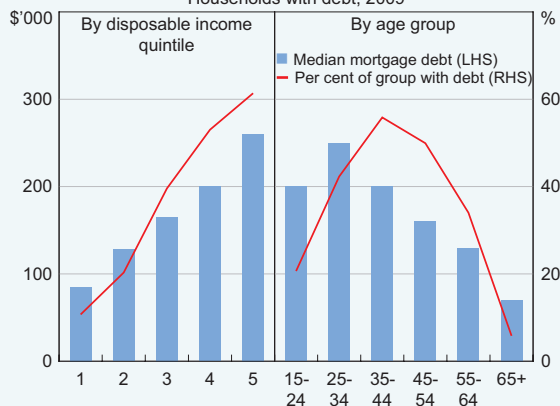
The Household, Income and Labour Dynamics in Australia (HILDA) Survey is a panel study, interviewing the same households each year since 2001. The latest survey was released in December 2010, covering interviews conducted mainly between August and November 2009. Because the same households are interviewed each year, comparison with the 2008 survey provides detailed insights into the effects of the crisis and economic slowdown over the 2008–2009 period, and how Australian households responded to them.

Between any two years, some households report a fall in weekly income derived from wages and salaries, unrelated to changes in the households' membership. Around 27 per cent of respondents to the 2009 survey had experienced such a decline in income from the previous year, compared with an average of 24 per cent in the previous five annual surveys. Many of these declines in income in 2009 were associated with one or more household members experiencing an adverse transition in their labour market status: either becoming unemployed or working fewer hours. Around 6.9 per cent of all households reported that at least one member experienced a spell of unemployment in the period between their 2008 and 2009 interviews, after having been employed at the time of their interview in 2008. A further 4.3 per cent of households reported that at least one member switched from full-time to part-time work (but was not unemployed at any point). Of these 11.2 per cent of households reporting an adverse labour market transition, over one half also reported a fall in wage and salary income over the year, even though around 80 per cent were employed by the

time of the 2009 interview. The share of households reporting an adverse labour market transition in the 2009 survey was higher than in previous surveys, in line with deteriorating labour market conditions in this period: between the 2007 and 2008 surveys, for example, the proportion was 1.6 percentage points lower, at 9.6 per cent.

Around 37 per cent of Australian households had owner-occupier mortgage debt in 2009, up from 31 per cent in 2001. This debt was largely concentrated in households in the top two income quintiles (those with annual after-tax household income of \$77 500 or more), with these households holding around 70 per cent of mortgage debt in 2009. More of these households had a mortgage, and those that did had higher loan balances on average (Graph C1). Only 10 per cent of mortgage debt was held by households in the bottom two income quintiles. In addition, low-income indebted households were more likely than

**Graph C1**  
**Indebtedness Measures**  
Households with debt, 2009



Source: HILDA Release 9.0

those with high incomes to be aged over 55. These older households tend to have smaller mortgages and higher net asset holdings than younger households with mortgages. Low-income households with mortgage debt also tend to have much higher incomes in previous and subsequent years, suggesting that this group includes many small business owners that have volatile earnings. Households are more likely to have a mortgage if their head is of prime working age: the share peaks at 56 per cent for households in the 35 to 44 year age bracket.

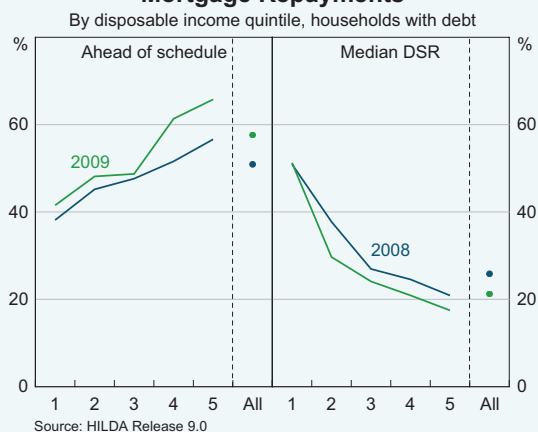
In line with movements in aggregate measures of housing gearing (see Graph 3.7 in the 'Household and Business Balance Sheets' chapter), the median loan-to-valuation ratio for indebted owner-occupiers increased from 37 per cent to 44 per cent between 2004 and 2008, but was unchanged in 2009. Almost two thirds of the increase in aggregate debt reported between 2008 and 2009 was accounted for by an increase in the amount of debt owed by households aged 55 and over, even though they were only one fifth of all households with mortgages. Both the share of these households with debt rose and their average loan balance grew more strongly than for younger households. This suggests that a greater share of households are carrying debt as they approach the traditional early retirement age than was the case a few years ago. Contributing factors include: less downsizing by older households; larger mortgages – including amounts redrawn – taking more time to repay; increased use of reverse mortgages; and people working longer.

Between 2008 and 2009, indebted owner-occupiers were more likely than outright owners were to experience an adverse employment shock – 13.2 per cent compared with 6.8 per cent.<sup>1</sup> This reflects the greater prevalence of retirees within

the group of outright owners, relative to those with mortgages. For example, 74 per cent of outright owner households were aged over 55, compared with only 19 per cent of those with mortgages. Similarly, households that owned their house outright were around half as likely to participate in the labour force as those with a mortgage – 43 per cent compared with 90 per cent.

Between August 2008 and April 2009, the average standard variable mortgage interest rate fell by almost 4 percentage points. There is evidence to suggest that some households used this period as an opportunity to pay down their mortgage ahead of schedule, for example by maintaining the size of their regular repayments despite required repayments falling. Around 58 per cent of the households with mortgage debt reported being ahead of schedule on their mortgage payments as at the 2009 survey, compared with 51 per cent as at the 2008 survey (Graph C2, Table C1). The increase was especially apparent among the high-income households that owe the bulk of the debt. Nevertheless, around 54 per cent of households with mortgage debt did actually reduce their mortgage repayments between 2008 and 2009, compared with only

**Graph C2**  
**Mortgage Repayments**



<sup>1</sup> Outright owner-occupier households previously had mortgages but have since paid them off, or are households that have paid for their current home with equity or cash.

**Table C1: Household Debt and Income Experience**  
2008 to 2009, per cent of respondents

	All households	No income fall or labour market shock <sup>(a)</sup>	Income fell <sup>(a)</sup>	Labour market shock
All households <sup>(b)</sup>	100.0	68.0	26.7	11.2
Per cent with debt	37.0	32.8	48.1	44.7
<i>of which:</i> <sup>(b)</sup>				
Reduced total repayment	54.0	54.2	52.6	58.8
Ahead of schedule	57.6	58.0	60.3	62.0
Improved payment position	18.3	17.4	19.7	15.2
DSR>50 per cent	8.8	10.0	6.0	3.4

(a) Fall of \$20 or more in gross weekly income derived from wages and salaries

(b) Does not sum to 100

Source: HILDA Release 9.0

26 per cent between 2007 and 2008, when interest rates were rising. Households were more likely to reduce their mortgage repayments if at least one member experienced an adverse labour market transition. But households whose wage and salary income fell were no more likely than others to reduce their repayments; this might reflect that temporary fiscal policy measures during 2009, including tax cuts and one-off bonus payments, were supporting households facing income shocks. In line with the reduction in mortgage repayments, the median debt-servicing ratio (DSR) – the percentage of household disposable income required to service actual principal and interest payments on an owner-occupier mortgage – also fell, from 26 per cent to 21 per cent between the two surveys. For many households, the DSR on the *required* repayment would have fallen by more.

In the 2009 survey, a larger share of households improved their repayment position (by moving from on schedule to ahead, or from behind schedule to either on or ahead of schedule) than

did the reverse – 18 per cent compared with 11 per cent. Almost one half of indebted owner-occupier households were ahead of schedule in both 2008 and 2009, with only 1 per cent reporting that they were behind schedule in both survey years. Households that had high debt-servicing requirements were more likely to take advantage of the low-interest-rate environment and improve their repayment position; they had been less likely to be ahead of schedule in 2008. Of the households with owner-occupier mortgages, those that experienced an adverse labour market transition were slightly less likely to improve their repayment position than those that did not – 15 per cent compared with 18 per cent.

Together with the pattern of payment reduction, this suggests that at least some households experiencing an adverse labour market outcome in the 2008–2009 period were able to cushion its effects using the fiscal transfers and falls in interest rates that also occurred in that period. ✎

