



Australian Government
Productivity Commission

RESEARCH PAPER | JULY 2020

Why did young people's incomes decline?

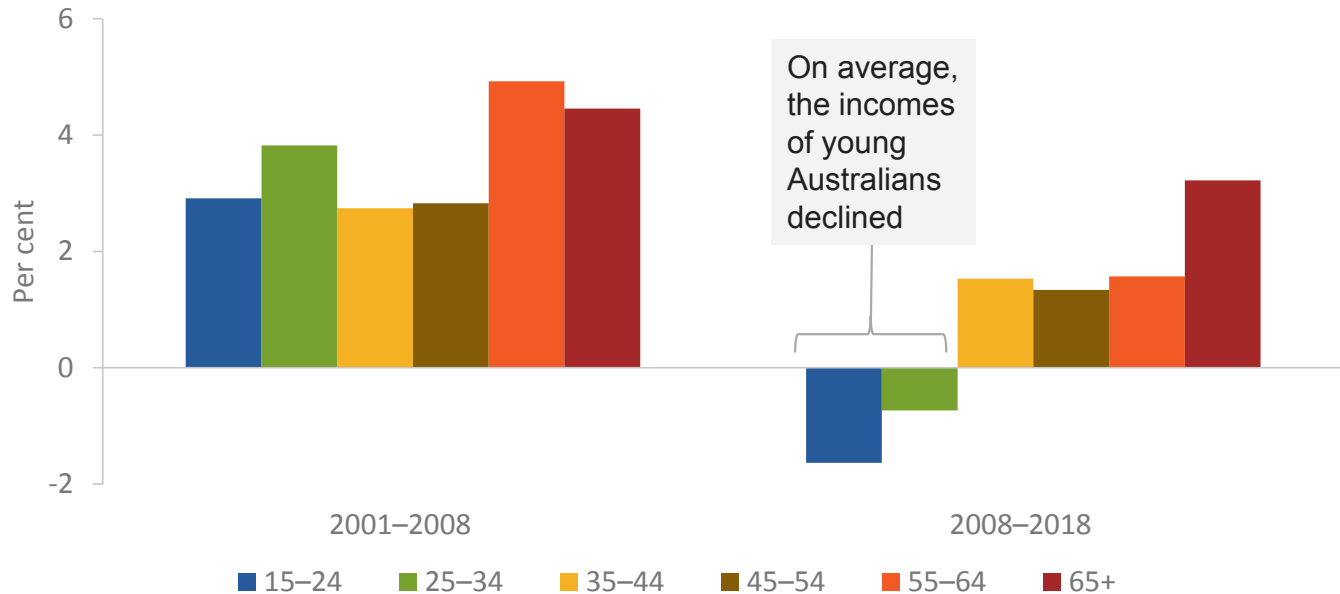
▶ *Visual summary*



▶ Setting the scene

Young people's incomes have declined

Average annual growth in real disposable incomes by age



▶ Decomposing income

Income is comprised of labour income, transfer income and other income – most age groups rely on labour income

Composition of gross income by source 2018



▶ The importance of each income source

Labour income drove the decline in young people's incomes

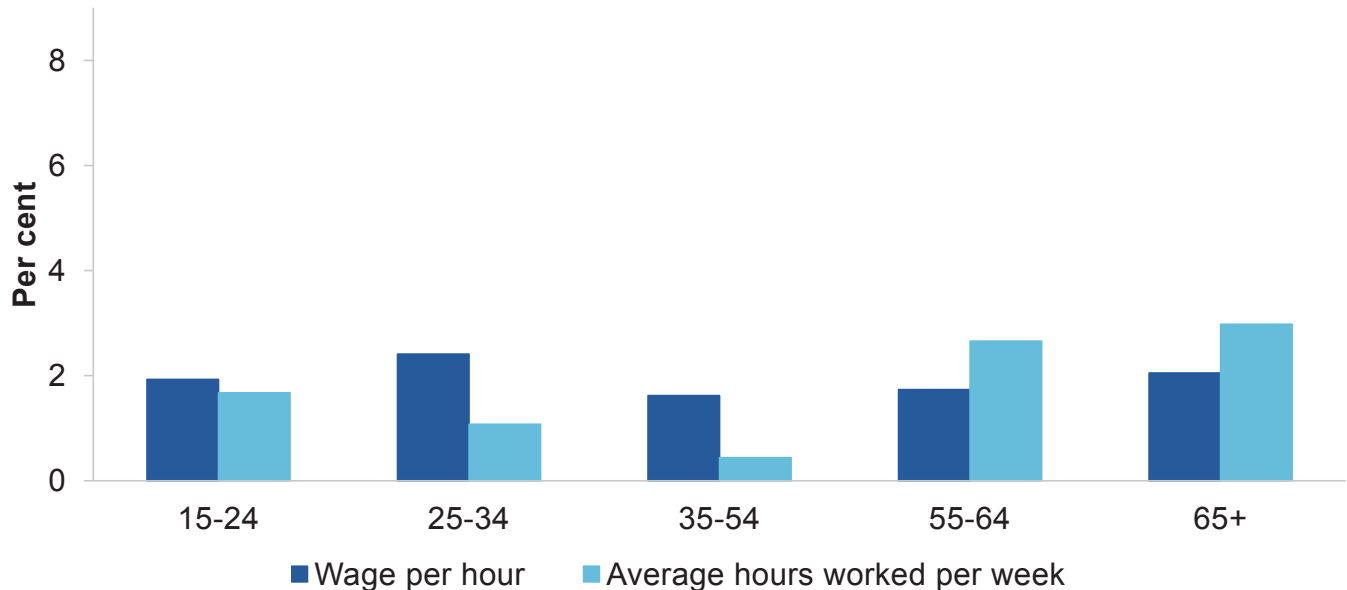
Contribution to growth in real gross income per person, 2008–2018



▶ What happened to labour income?

From 2001 to 2008, wage rates and hours worked grew for all age groups ...

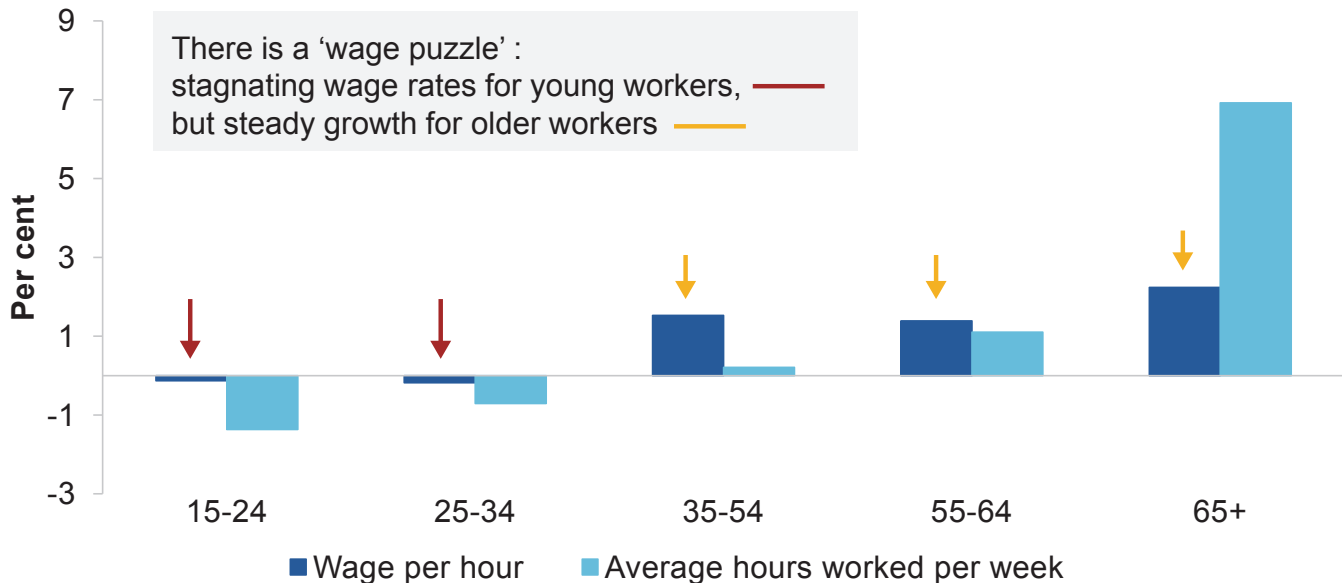
Average annual growth rates in average wage rate and hours worked per person, by age group, 2001–2008



▶ What happened to labour income?

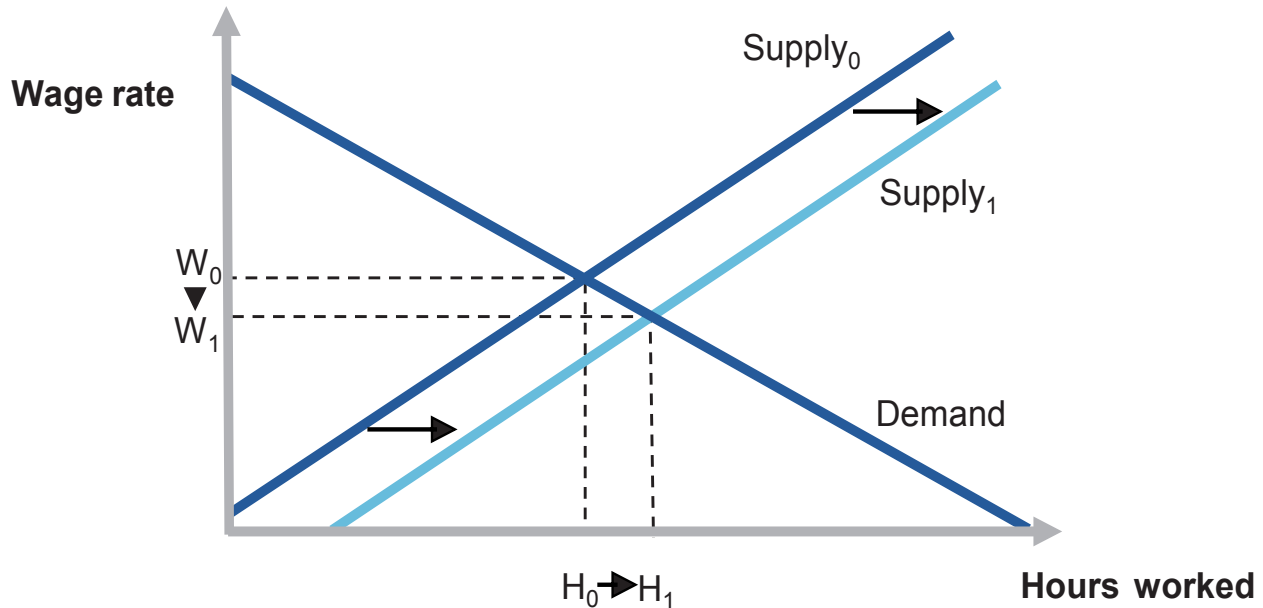
... but from 2008–2018, wage rates stalled and hours fell for young people

Average annual growth rates in average wage rate and hours worked per person, by age group, 2008–2018



▶ What happened to labour income?

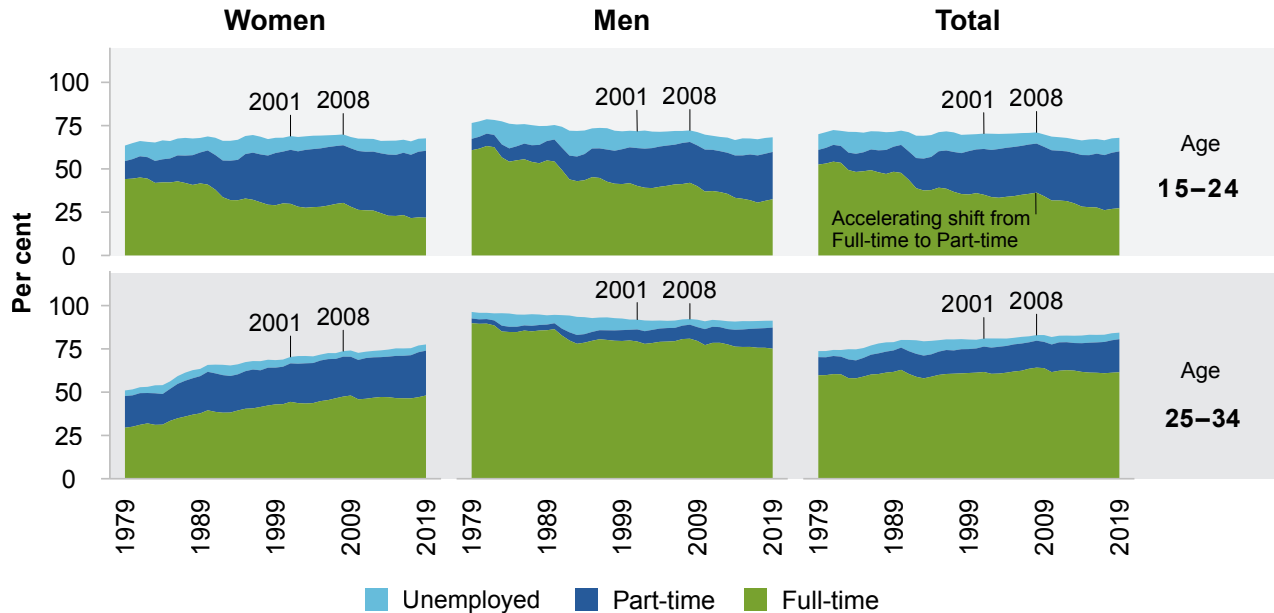
Supply likely grew faster than labour demand in many occupations



▶ Changing employment types

Young people's hours fell because of increased part-time employment and decreased full-time employment

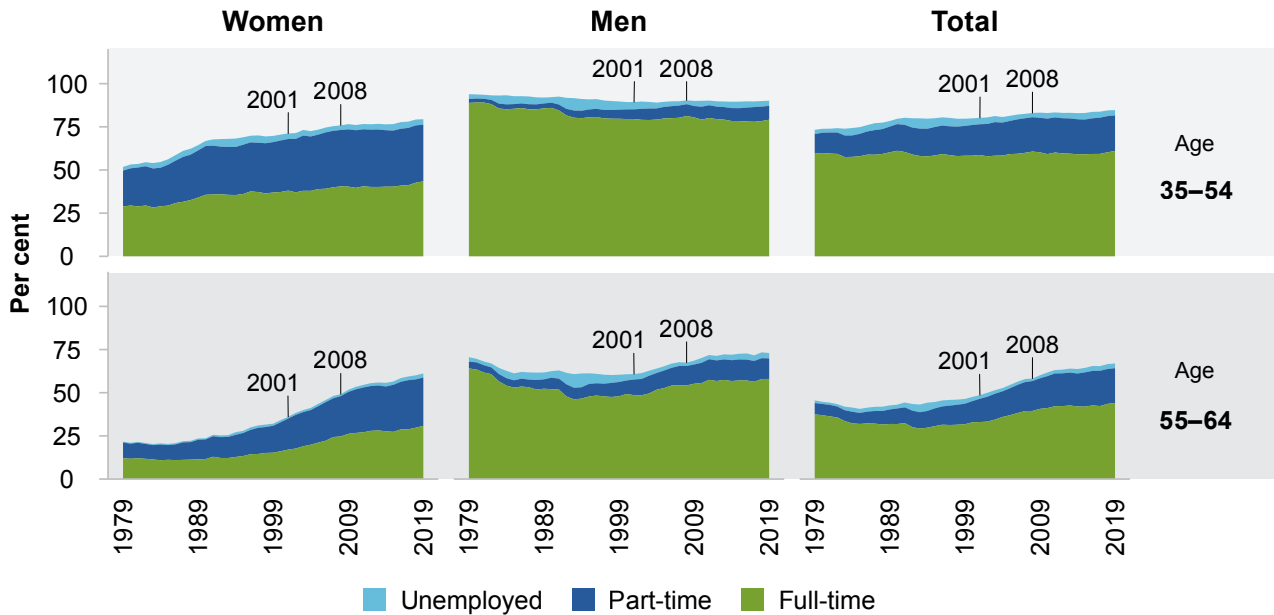
Shares of unemployment, full- and part-time employment, by age group



▶ Changing employment types

On the other hand, older workers increased their participation

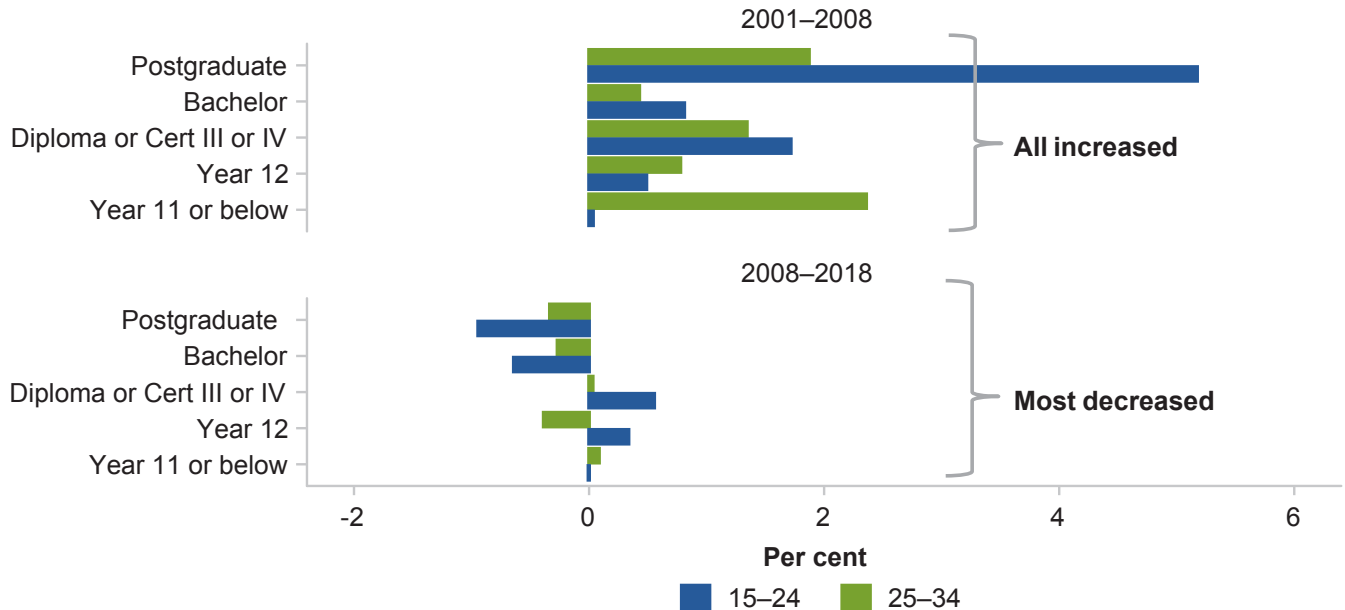
Shares of unemployment, full- and part-time employment, by age group



▶ The wage puzzle

It is harder to explain the 'wage puzzle'. Stalling wage rate growth was not limited to specific education levels

Average annual growth in real wage rates, by highest level of education, 2001–2018



▶ The wage puzzle

In contrast, older worker's wages grew during both periods

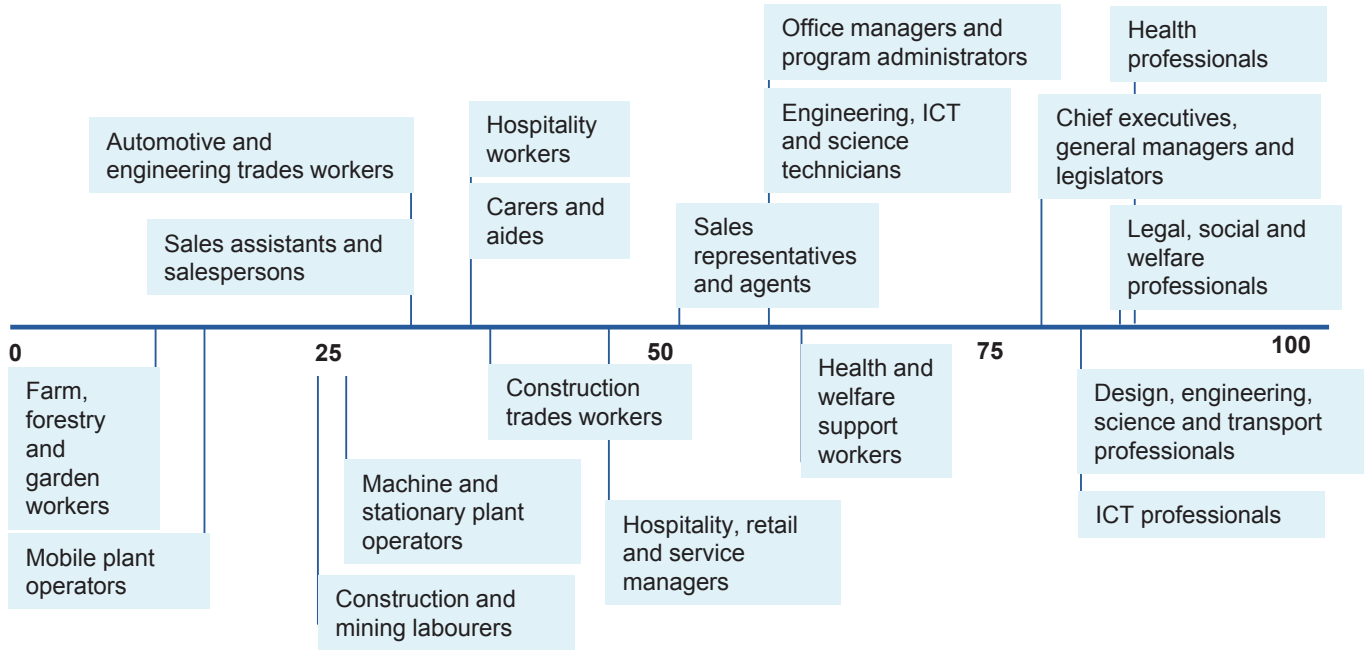
Average annual growth in real wage rates, by highest level of education, 2001–2018



Occupational scores— the ‘occupational ladder’

Looking at occupation types shows differences in the age groups

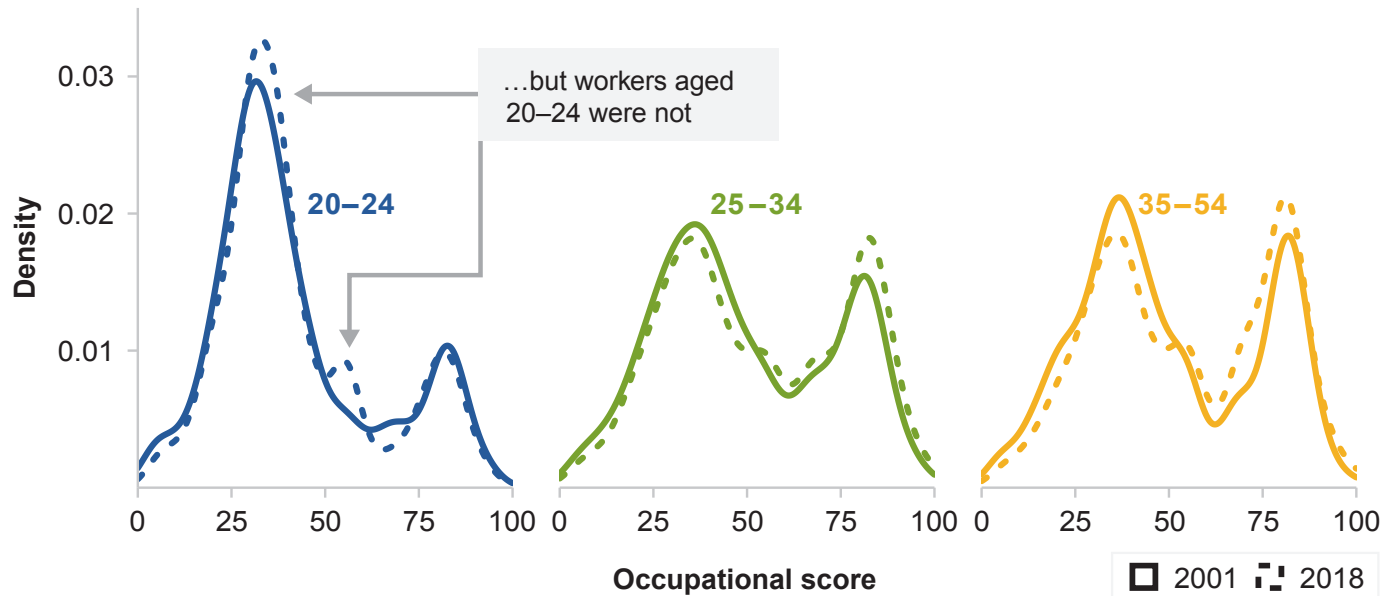
The AUSEI06 is a scoring of all occupations from 0 to 100 based on each occupation’s educational requirements and earning potential



Distribution of occupations

Workers aged 25–54 were in higher-scored occupations in 2018 ...

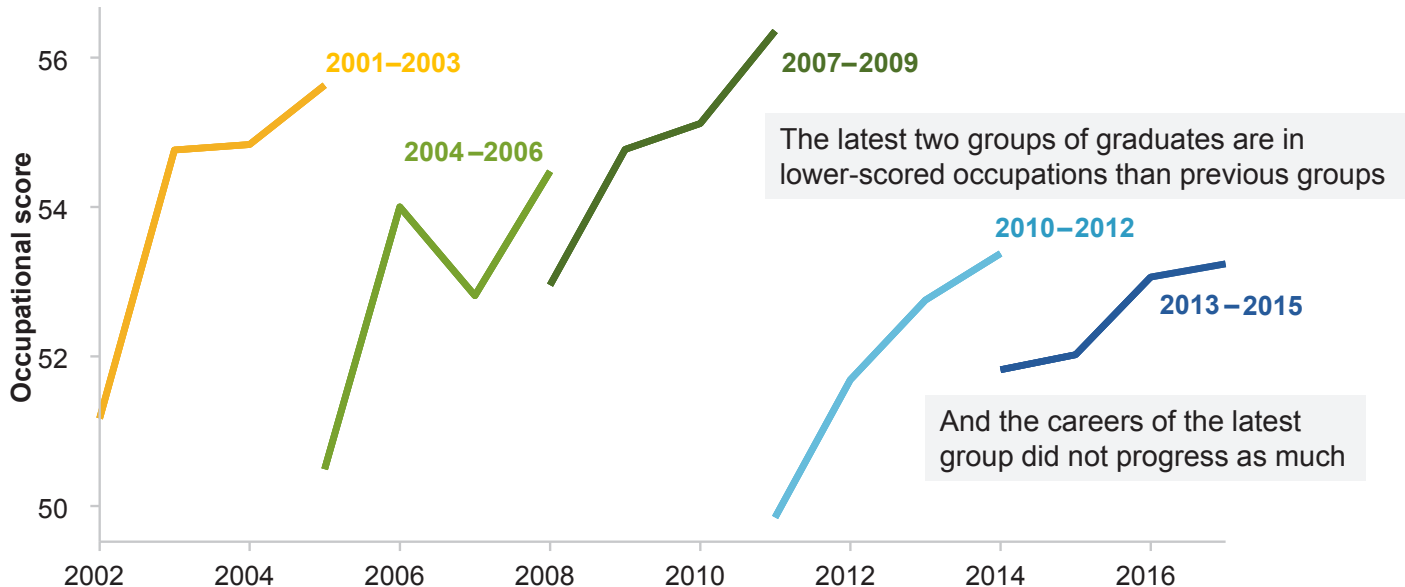
Empirical probability density functions of occupational score



▶ Graduate outcomes

... but occupational scores for graduates have declined

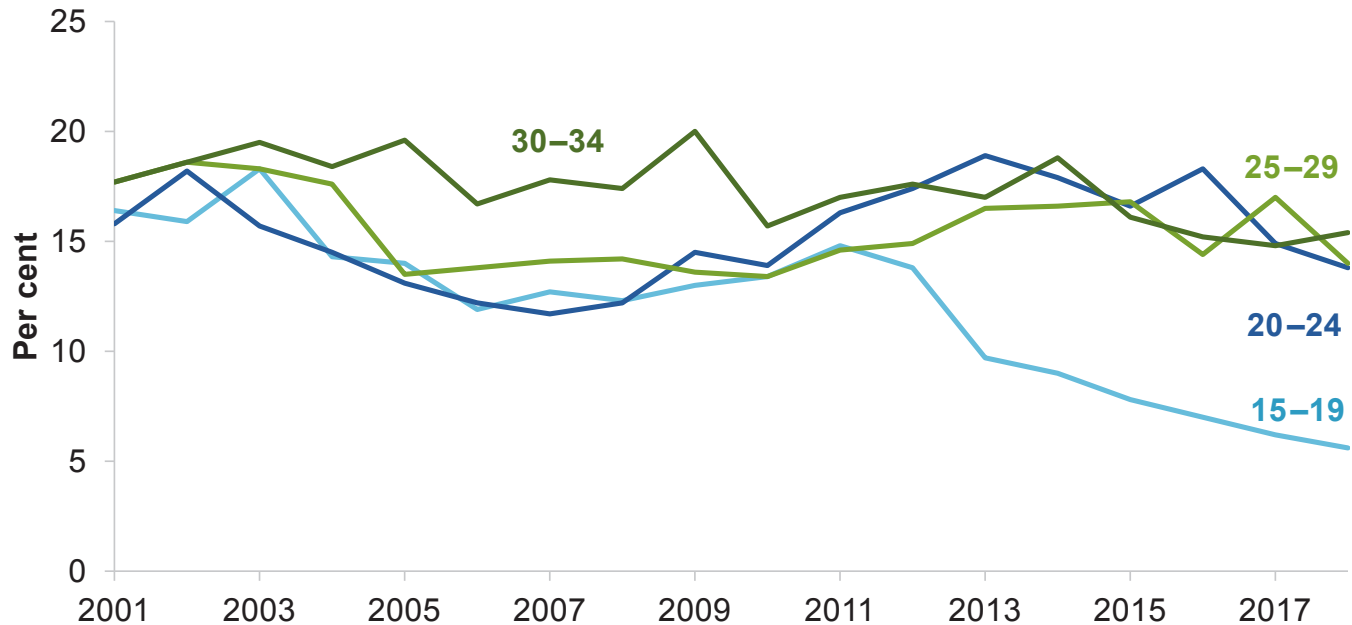
Average occupational score in the first four years after graduation, by graduation cohort, 2002–2018



Government transfers

Transfers decreased, especially for people aged 15-19.
Policy changes reduced eligibility among young people

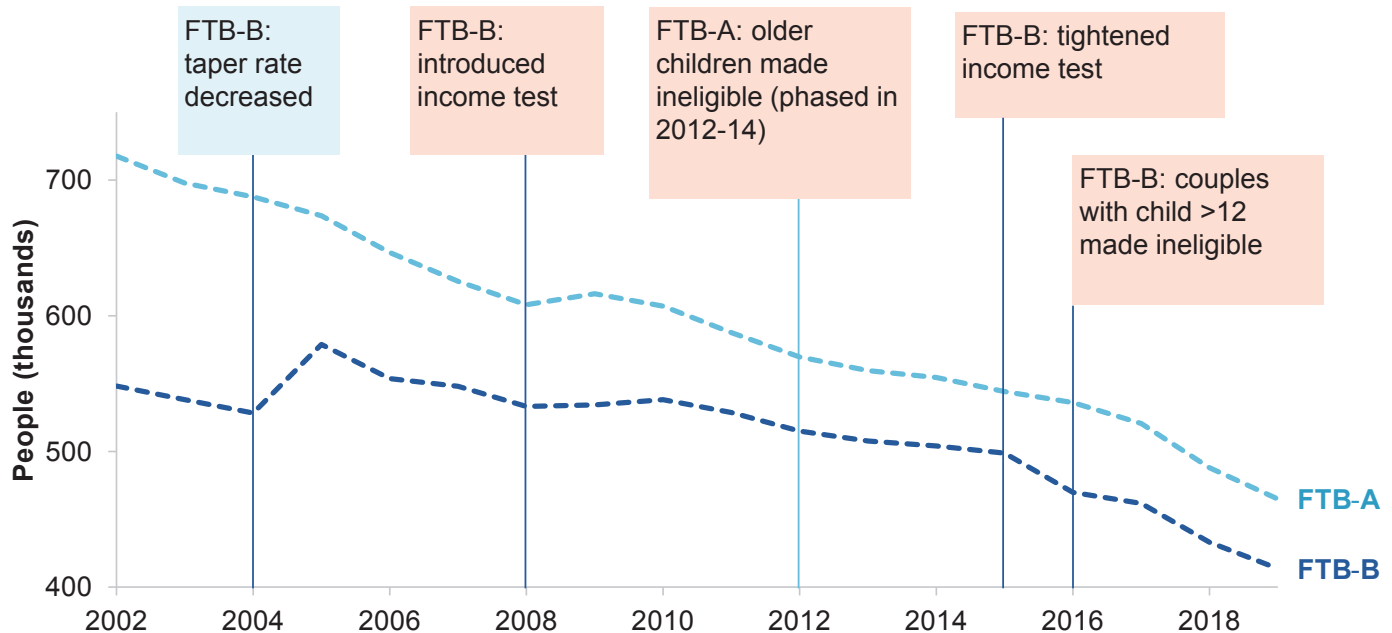
Percentage of young people receiving transfers, 2001-2018



Changes to transfer eligibility

The number of Family Tax Benefit (FTB) recipients decreased

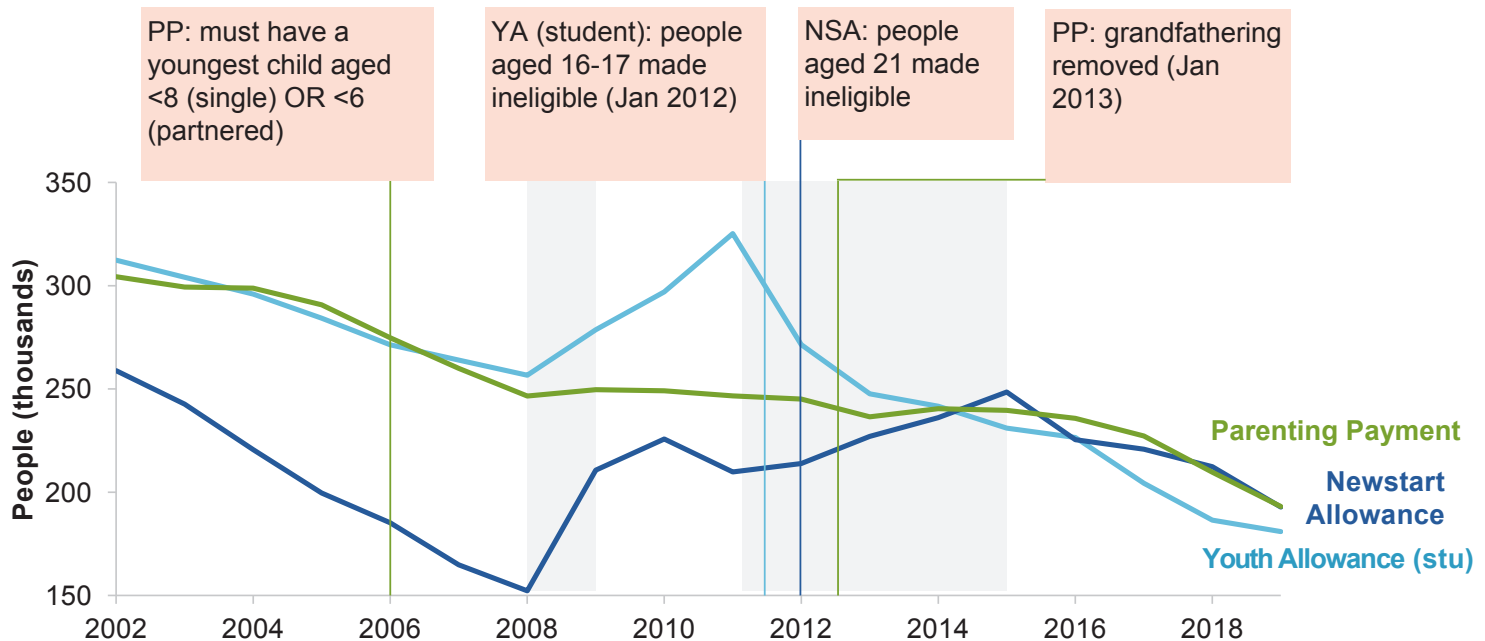
Number of recipients aged 15–34, 30 June 2002–2019 (eligibility: blue = expanding; red = tightening)



Changes to transfer eligibility

The number of Youth Allowance recipients decreased and the number of Newstart Allowance recipients fluctuated with the unemployment rate

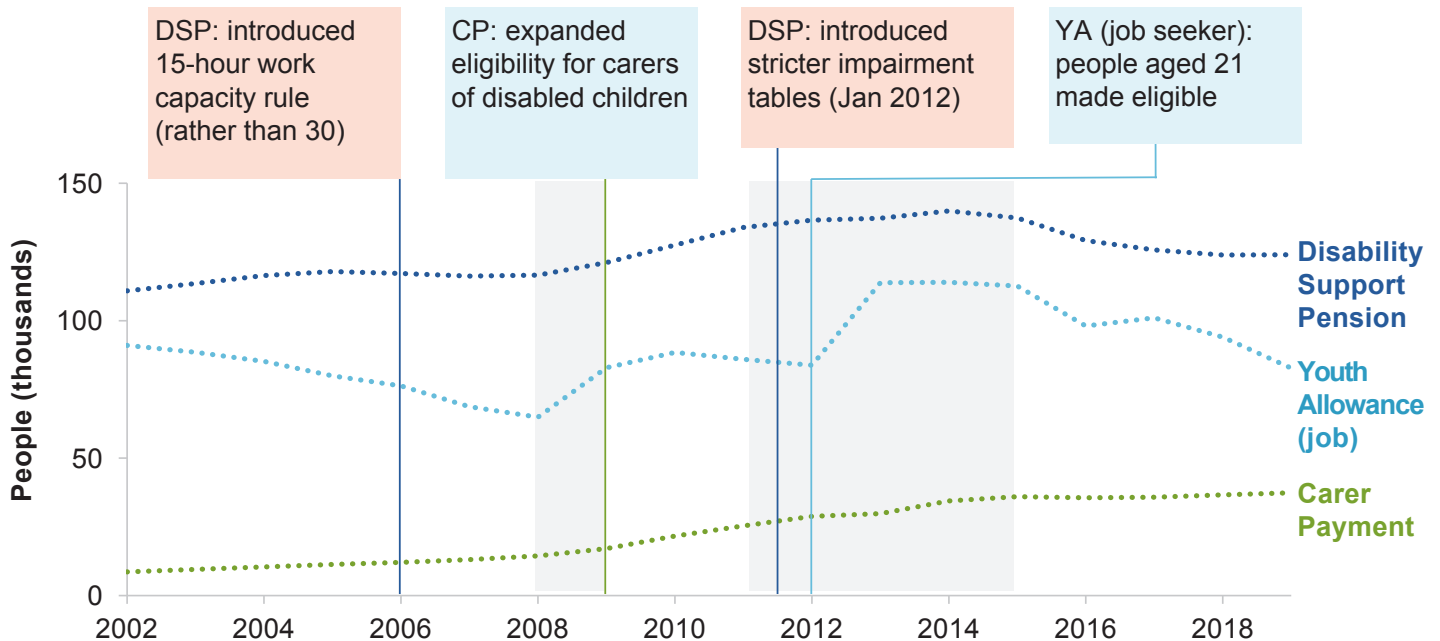
Number of recipients aged 15-34, 30 June 2002–2019 (eligibility: red = tightening)



Changes to transfer eligibility

Numbers of Disability Support Pension recipients remained relatively stable and numbers of Carer Payment recipients increased

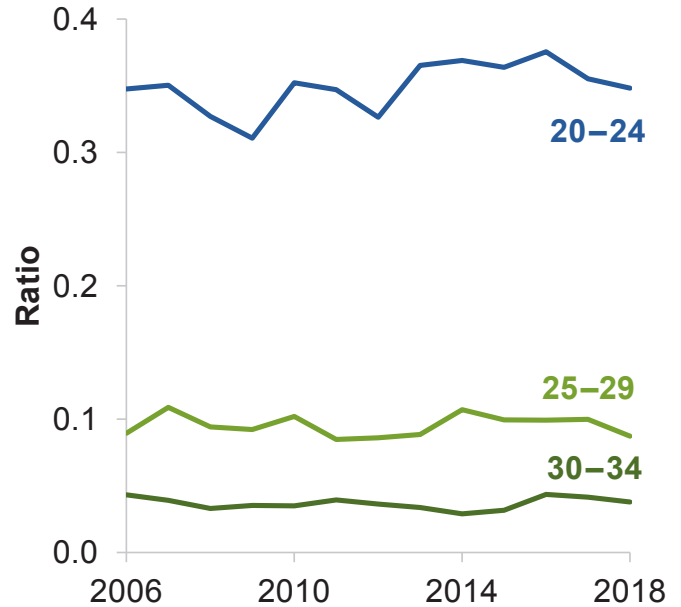
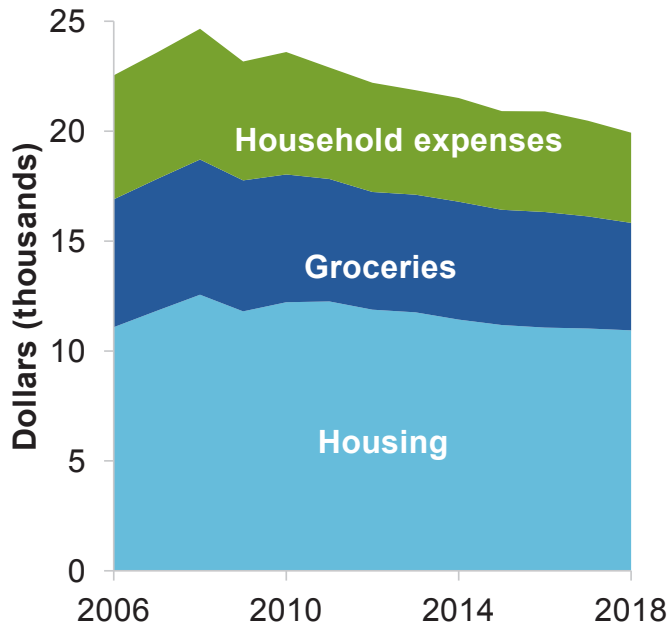
Number of recipients aged 15-34, 30 June 2002–2019 (eligibility: blue = expanding; red = tightening)



▶ Young people are staying at home

Estimated savings young people make from living in the parental home

Average savings for 20-34 year olds, 2019 dollars (left); ratio of savings to income (right); 2006–2018



▶ Young people are staying at home

Most young people who live at home are in higher-income households

Percentage of people aged 20-34 who live with their parents, 2001-2018

