



Household Expenditure Measure Update on Changes

November 2018

Presented to the LIXI Forum

Update on changes to the HEM

What's happened

- The HEM quarterly update released on the 15th August incorporated four key changes
- Two changes impacted the numbers
 - Updating / changing the underlying data set
 - Changes to some expense category allocations and calculations
- Two changes impacted how the HEM is used
 - Simplified table structure
 - Introduction of usage guidelines

Update on changes to the HEM

Some context / history

2010

Pilot commissioned for potential replacement for the HPL

2011

Introduction of HEM and initial adoption. Tables plus “Full Cameo”

2012

1st Update (2003/4 to 2009/10 HES)

2013

Smoothing introduced

2015

Indexed income bands introduced

2016

1st extension of income bands

2017

Increased scrutiny, feedback and criticism; 2nd income band extension

2018

2nd Update (2009/10 to 2015/16 HES)

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What's happened

1. Updating the underlying data set to the 2015/16 HES

- The HES (Household Expenditure Survey) is the underlying data set
- Refreshed every six years
- Changes in spending patterns
- 2015/16 survey data made available in early 2018

Update on changes to the HEM

What's happened

2. Changes to Allocations and Calculations

- Opportunity to make changes to reflect current lending environment
- “Dialling back” the belt tightening
 - Some shift from Discretionary to Absolute Basic
- Transport costs
 - From “budget” calculation to use of HES numbers

Update on changes to the HEM

What's happened

3. Simplified Table Structure

- Reduction in the # of ways that the HEM can be applied
 - Removal of full cameo table
 - Adoption of indexed income bands only
 - Note: Per child accounting to be removed in 2019
- Objective is to ensure that for any given borrower, the same HEM figure will be used by all lenders

Update on changes to the HEM

What's happened

4. Introduction of Usage Guidelines

- Consistent with objective to “standardise” application of the HEM
- The guidelines address
 - “Grey areas” – previously open to interpretation
 - Single applicants
 - High income / multi dependent households
 - Multiple households
 - Income bands: calculation and selection
 - Treatment of excluded categories
 - Clarifications
 - Excluded categories (note: these are now also included in the standard update document from the Melbourne Institute)

Update on changes to the HEM

Areas of likely impact

- Generally (but not always) higher
- Changes to how the HEM is applied
 - Possible change of data source (table)
 - Indexed income bands
 - Application of usage guidelines (not mandatory)
- Changes to origination systems how / what data is collected

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