Future Focus: NZ's Young Generation

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2 EXECUTIVE SUMMARY

This document analyzes the relationship between education level, income, debt, cost of living, and saving rate to determine if there are any financial difficulties for young people. Education, income, debt, living costs, and saving patterns significantly impact young people's finances upon entering the workforce. These factors are crucial for assessing long-term prosperity. The main objective is to evaluate how income, debt, education, cost of living, and saving patterns can shape the financial future of young people.

Key findings found in this analysis are:

- Higher education correlates with higher income. Higher education can increase income.
- A stable debt level shows that young people are more cautious in borrowing money.
- Rising debt service costs happen because of increased interest rates.
- The strong correlation between high income and an increase in debt indicates future financial risk, mainly if poor financial management exists.
- The rising cost of living with declining saving rates can lead to financial strain.

Young people may face financial difficulties due to rising costs, declining savings, and potential increases in debt. Accessible education and financial management are essential to ensure prosperity in the future. Further research is needed to understand regional impact and the influence of economic conditions.

3 INTRODUCTION

Understanding the financial challenges faced by young people is vital. They transition from education to the workforce, and several factors can influence their financial stability. Education, debt, income, cost of living, and savings can shape their financial future. Recent trends highlight growing concerns about how these factors affect young adults, as they face a challenging economic environment with rising cost of living, fluctuation of debt, and evolving income patterns.

The purpose is to examine the relationship between education level, debt, income, cost of living, and saving to determine whether young people are at risk of facing financial difficulties in the future. The report will cover data used for this analysis and the results of young people's education, debt level, income, and the current cost of living index and saving patterns.

4 METHODOLOGY

Data used for this analysis:

- Stats NZ. (n.d.). *Young people's income: Income by region, sex, age groups, and ethnic groups*. Retrieved from https://nzdotstat.stats.govt.nz/wbos/Index.aspx?DataSetCode=TABLECODE7471#
- Stats NZ. (n.d.). *Age group employment rate: CSV files for download*. Retrieved from https://www.stats.govt.nz/large-datasets/csv-files-for-download/
- Education Counts. (2021). *10 - School leaver pathways (2018 - 2021)*. Retrieved from https://www.educationcounts.govt.nz/statistics/what-happens-to-school-leavers
- Stats NZ. (2024). *Household living costs price indexes: June 2024 quarter – time series indexes – CSV*. Retrieved from https://www.stats.govt.nz/large-datasets/csv-files-for-download/
- Reserve Bank of New Zealand - Te Pūtea Matua. (n.d.). *Household debt*. Retrieved from https://www.rbnz.govt.nz/statistics/key-statistics/household-debt
- Reserve Bank of New Zealand - Te Pūtea Matua. (n.d.). *National saving (M6)*. Retrieved from https://www.rbnz.govt.nz/statistics/series/economic-indicators/national-saving

Define the key metrics

- Income level: Median income for New Zealanders aged 15-29
- Education level: Higher education attainment and its impact on income in New Zealand
- Cost of Living: Trend in housing, healthcare, and education costs in New Zealand
- Debt Level: Household debt consumer loans, credit card, mortgage loans, and student loans
- Saving rates = Household saving rates (%)

Data transformation and EDA

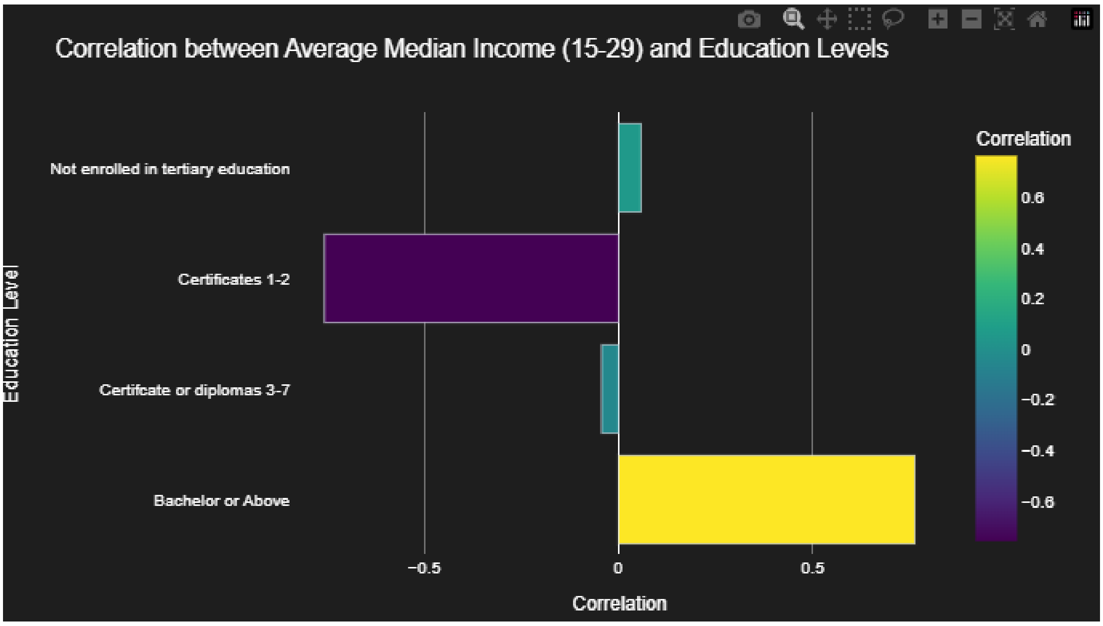
- Checking missing value
- Ensure consistency in formats (for example currency, values, and age range)
- Descriptive analysis – calculating mean, median, and standard deviation for income, debt, and savings
- Analysing how these metrics have changed over recent years.

Correlation analysis

- Income vs Education: Explore how higher education income levels in New Zealand
- Debt vs income: Analyze the relationship between debt level and income
- Cost of living vs Savings: Investigate the impact of rising costs on savings rates.

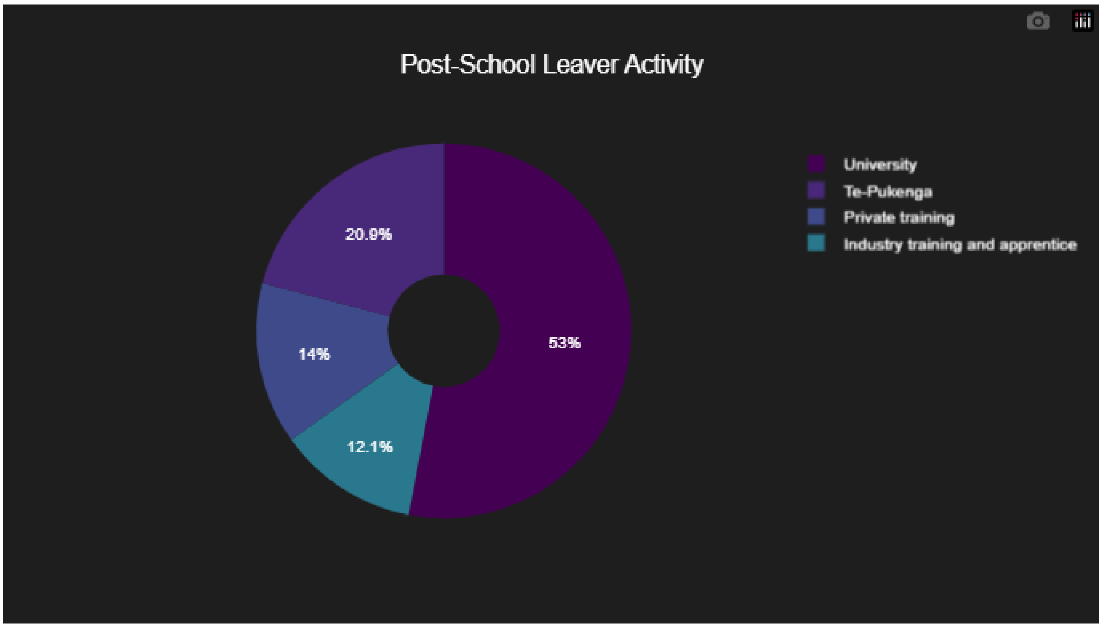
5 RESULTS

5.1 INCOME VS EDUCATION LEVEL



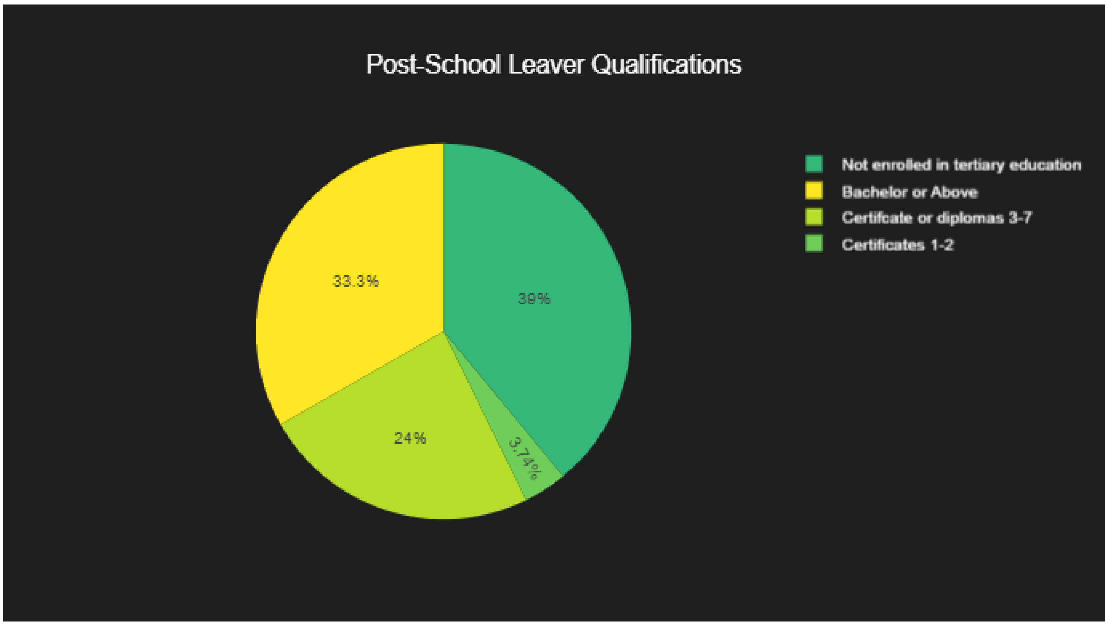
5.1.1 Correlation between Average Median Income (15-29) and Education Level

Education level can impact on the income. The data shows a positive correlation between having a higher education level, such as a Bachelor's degree or higher and earning a higher average median income. The impact of higher education on higher income emphasizes the importance of promoting it for economic advancement. On the other hand, income tends to decrease with a lower education level (Certificate level 1-2). This means that individuals with this qualification earn less than those with higher education.



5.1.2 Post-School Leaver Activity

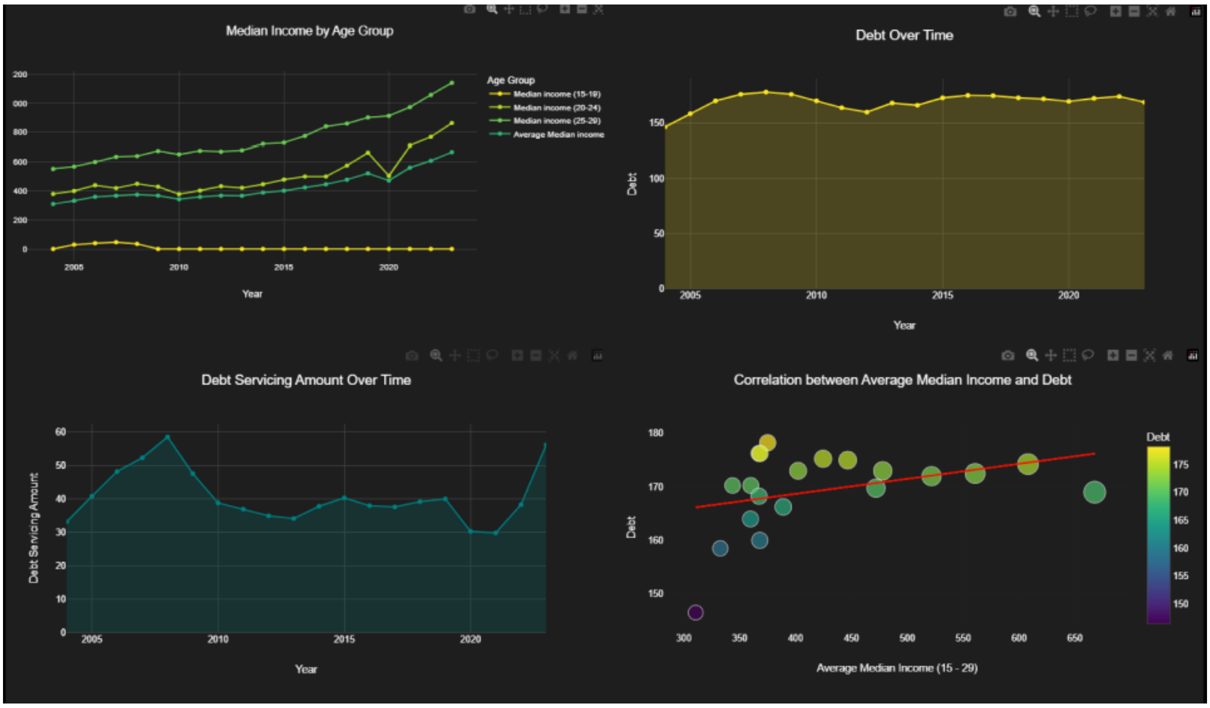
A university degree is the most common pathway for school leavers. The chart shows that 53% of school leavers choose to attend university, while 20.9% opt for private training, and 14% pursue industry training apprenticeships. This indicates that higher education is widely viewed as the most popular and essential path for many young individuals, as university degrees are often linked to better job opportunities and higher earnings. Nevertheless, it's also evident that 20.9% of leavers opt for private training and 14% choose industry training and apprenticeships, indicating that some students prefer more specialized or hands-on training. This path might be for those who choose to enter the workforce more quickly or who are pursuing careers that don't require university degrees

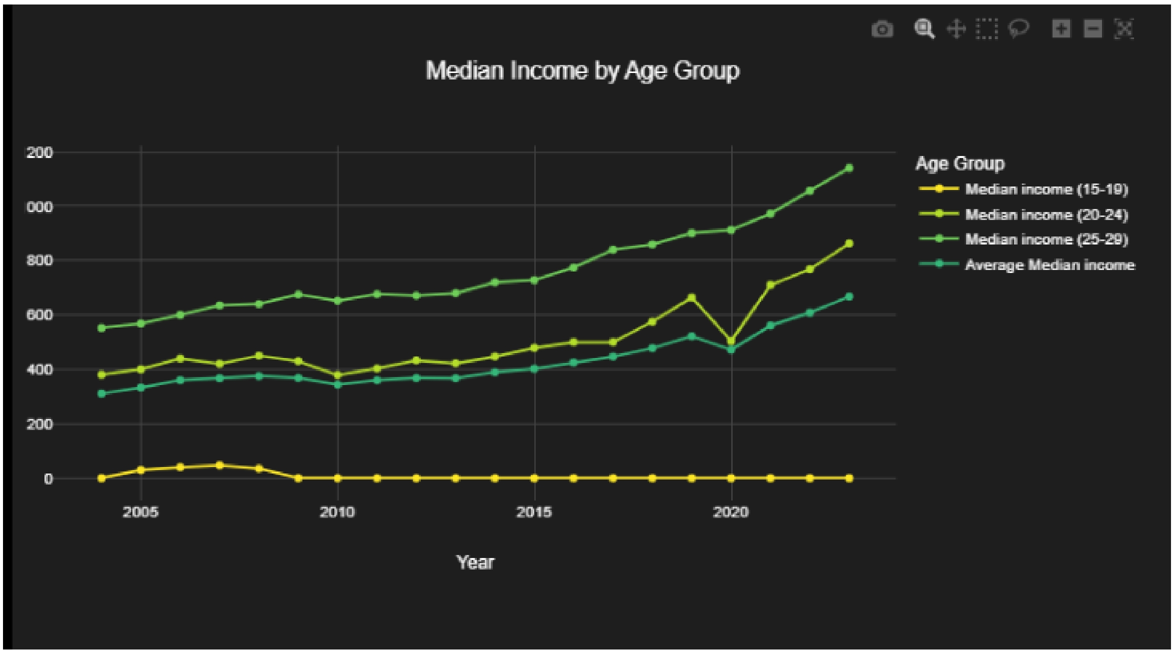


5.1.3 Post-School Leaver Qualification

There are more high school graduates pursuing bachelor's degrees or higher, while many others are not continuing their education. The chart shows that the highest percentage of school leavers attaining a Bachelor's Degree or higher, followed by those not enrolled in tertiary education This means that higher education is a priority for many school leavers, but there are a lot of students not pursuing further education. To address this, more support or alternative options could be provided for those who choose not to continue their education.

5.2 DEBT VS INCOME

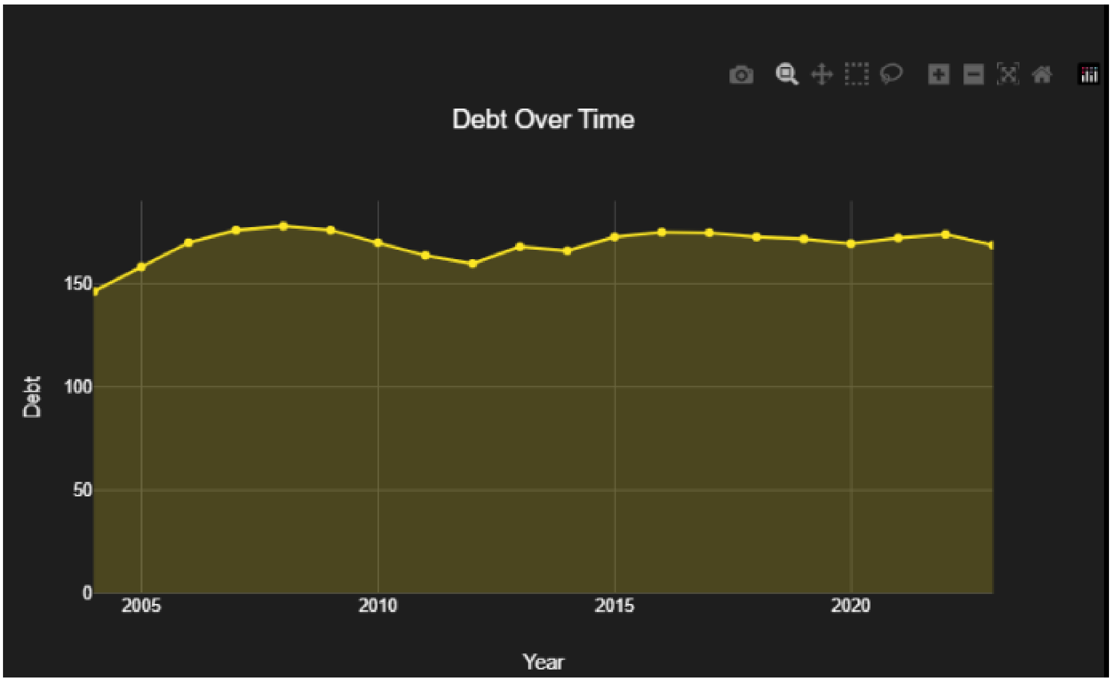




5.2.1 Median Income by Age Group

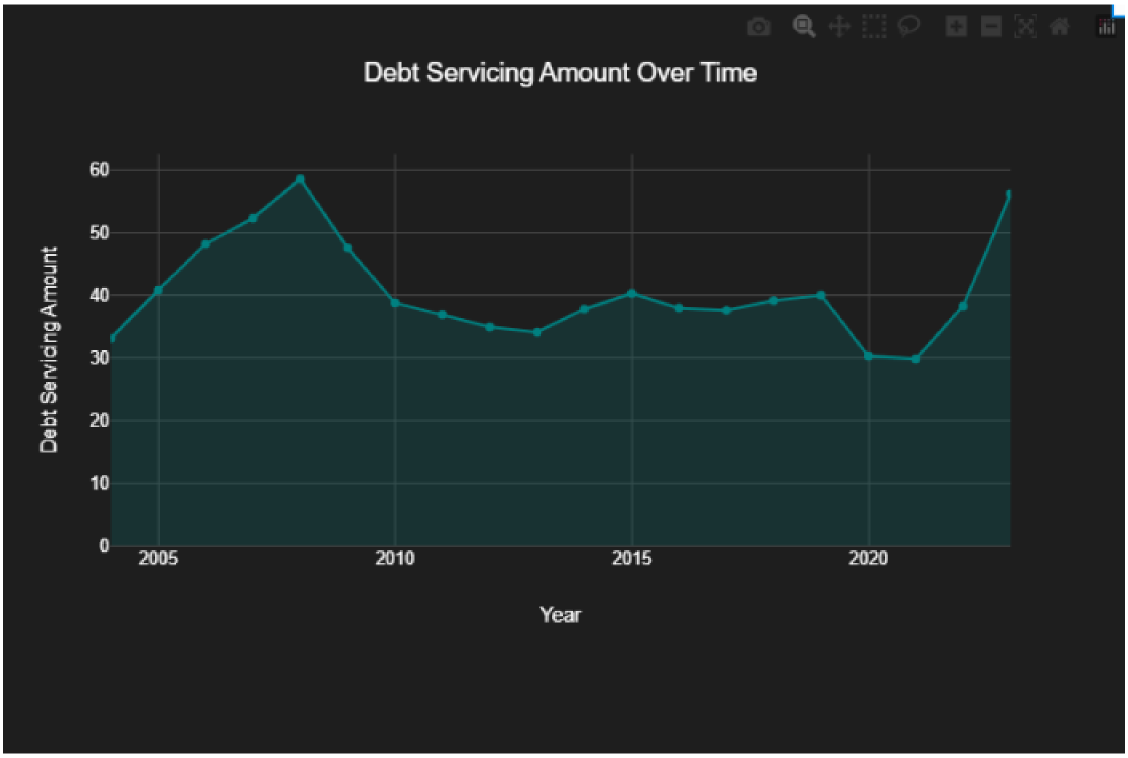
There was an increase in median income across all age groups from 2005 to 2023, with the highest earners in the 25-29 age group. Young workers are earning more over time, which could mean they have more financial opportunities by being able to save, invest, or spend more.

There was a significant spike in income around 2020, possibly due to economic factors such as inflation, wage adjustments, or changes in the labor market due to the COVID-19 pandemic. While people earn more money, it's crucial to be cautious. Rising income might also lead to more spending or borrowing. People should manage their finances wisely to avoid getting into too much debt, especially if costs continue to rise.



5.2.2 Debt Overtime

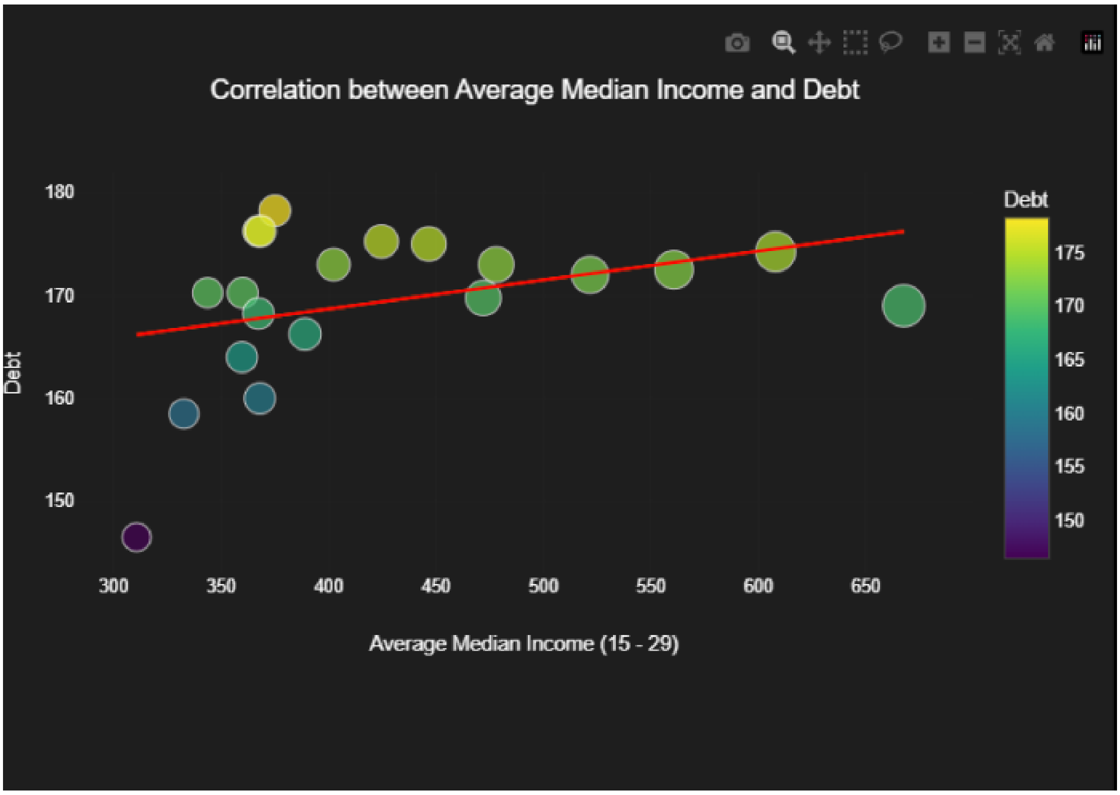
Debt has remained stable from 2005 to 2023, with minor fluctuation. It means that people can manage their debt well over the years. It could mean individuals will borrow money wisely, avoiding taking on more debt than they can handle. It is crucial to keep an eye on debt, especially if interest rates change, which could make it harder to pay off debt.



5.2.3 Debt Servicing Amount Overtime

Debt servicing amounts were high around 2005, followed by a gradual decline. Individuals might have become better at managing debt, more cautious borrowing, or possibly low interest rates.

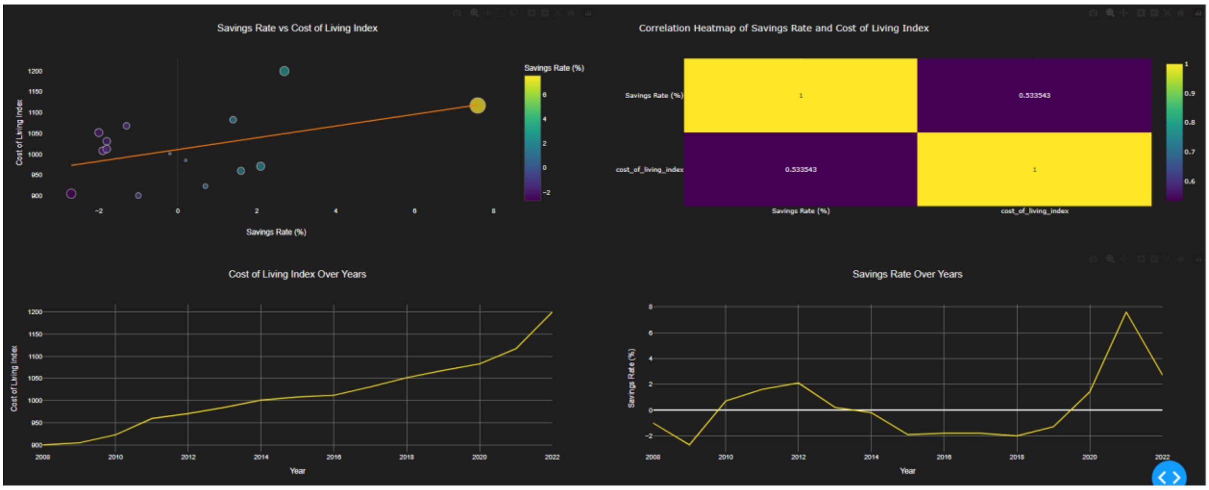
Debt had been relatively stable until a sudden increase around 2023. People borrowing more money due to higher living costs or increased interest rates. If this trend continues, it may become increasingly difficult for people to manage their debts in the future.

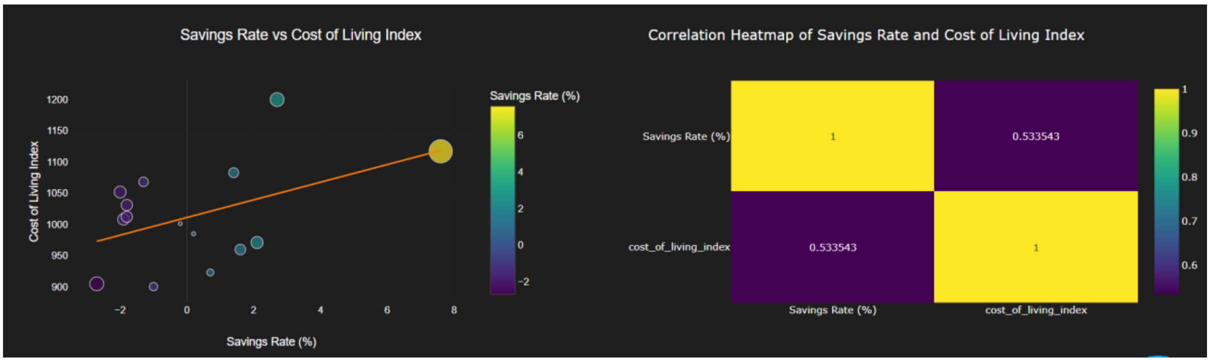


5.2.4 Correlation between Average Median Income and Debt

Higher-income can lead to higher debt. A positive correlation exists between average median income and debt, meaning as the average median income increases, there is a tendency for debt levels to rise as well. The trend might suggest higher income to greater borrowing. Individuals might be taking on more debt to finance lifestyle improvement or investment.

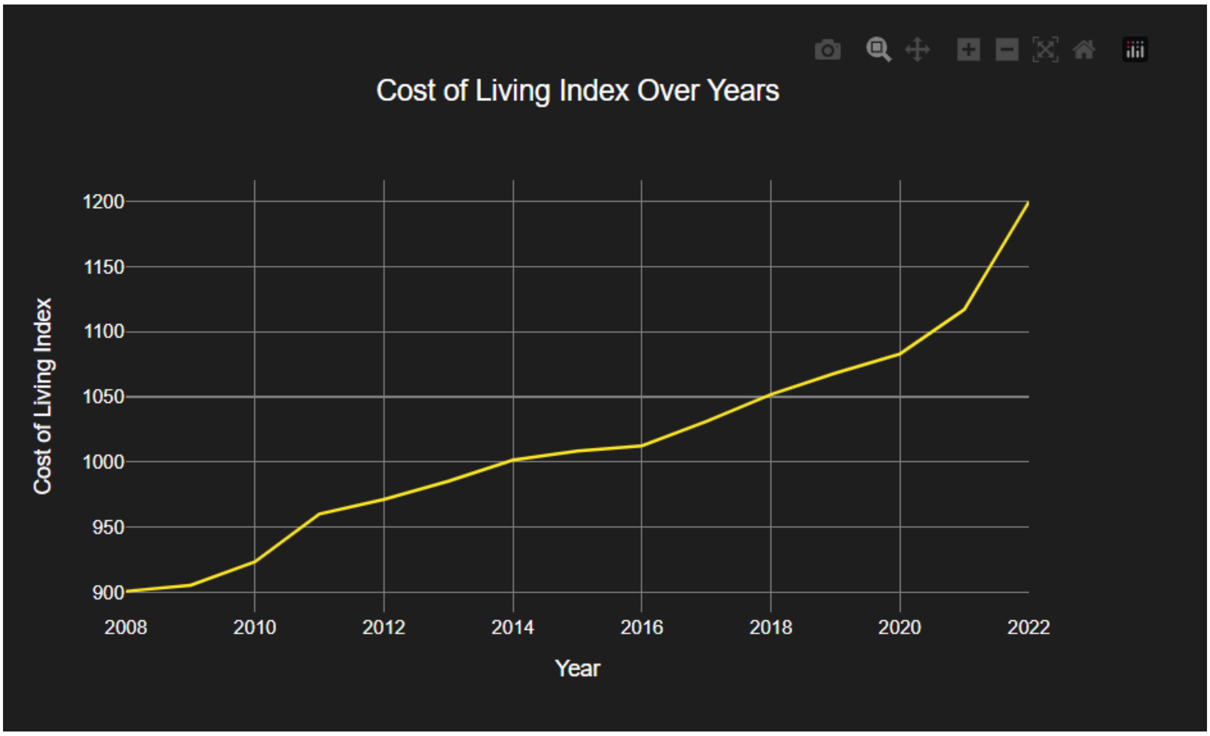
5.3 Cost of Living vs Savings





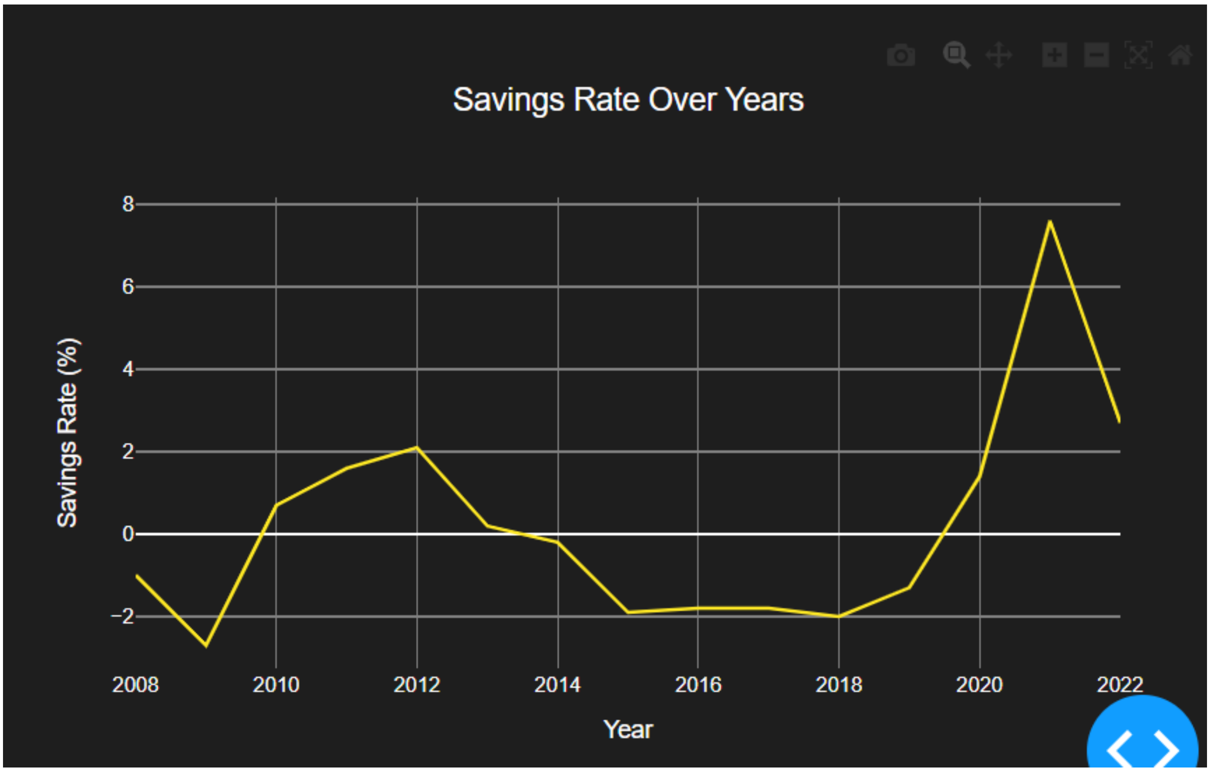
5.3.1 Cost of living and saving rates

There is a moderate positive correlation between cost of living and saving rates. With a correlation coefficient of 0.53, indicating that as the cost of living increases, the saving rate increases, though the relationship is weak. Higher cost of living might encourage individuals or households to save more to protect themselves from economic uncertainty, and they may have become more cautious and prioritize saving when faced with rising expenses



5.3.2 Cost of living index over the year

The cost of living has increased throughout the year. According to the cost-of-living index over the year chart, the cost of living increased from 900 in 2008 to 1,199 in 2022, marking more than a doubling over these 14 years. Everyday expenses are more expensive, and people are more likely to spend more on food, housing, and transportation, making it harder for some families to afford everything they need. Households and individuals might spend less because of higher costs. People might spend less on nonessential items and focus on necessities.



5.3.3 Saving rates over the year

Households and Individual are saving a much smaller portion of their income than they were previously. According to the 'Saving rate over the year' chart, saving rates have dropped from 7.6% in 2021 to 2.7% in 2022. Economic uncertainty, rising living costs, inflations, or income reduction are forcing households and individuals to save less

6 Discussion

The analysis shows the relationship between education level, income, debt, cost of living, and saving to determine if young people might face financial difficulties in the future. The analysis reveals that:

- Education can determine income level. A positive correlation exists between higher education and median income. University is the most common pathway for school leavers. Specialized training and apprenticeship are significant.
- Stable yet fluctuating debt over the year suggests that individuals are managing debt well, possibly due to individuals being more cautious about borrowing money.
- Rising debt servicing costs, driven by increased rates, signal potential challenges for debt management.
- A strong positive correlation between higher income and increased debt suggests that as individuals earn more, they are more likely to take additional due to finance lifestyle improvement or investment.

Based on the analysis, it appears that young people may face financial difficulties in the future due to

- Increased cost of living could pressure young people as they enter the workforce. Making it challenging for them to afford basic needs
- The saving rates drop from 7.6% to 2.7%, leaving young people with little disposable income after covering living costs.
- Debt servicing challenges - The debt level has remained stable over the year, with the sudden increase in debt servicing in 2023 due to rising interest rates.
- Potential increase in debt. The strong correlation between higher income and higher debt suggests that with growing incomes, individuals may take on more debt to fund lifestyle improvements or investments. Without careful financial management, this could lead to an unsustainable debt burden.

These findings matter because they show how education, income, debt, and savings can shape financial stability for future generations. They emphasize the need for accessible education, wise borrowing, and a financial support system to help households navigate economic challenges.

The result provides valuable insight, but there are limitations to consider. The analysis does not account for regional differences, which might affect how broadly the result applies. Additionally, studies use correlation, and it only shows relationships but doesn't prove one thing causes another. Further study is needed to understand the factors driving this relationship, such as the role of economic conditions, government policies, and individual financial behavior.

7 CONCLUSION

The analysis shows the combination of cost of living, income, debt, education, and savings and how these shape the financial future of young people. The result shows that higher education can lead to higher salaries. At the same time, higher income leads to more borrowing. Young people manage debt excellently, and rising debt servicing costs and declining saving rates signal potential financial difficulties ahead.

These findings are crucial because they highlight potential challenges young people might face as they enter adulthood. As the cost of living rises and the savings rate drops, it could become difficult for them to afford basic needs. Additionally, as income grows, taking on more debt to improve lifestyle or invest could lead to overwhelming debt if not managed carefully.

The analysis emphasizes the need for accessible education, wise borrowing, and a robust financial support system to help young people build a better financial future. Understanding these issues is crucial for preparing young people to handle the financial strain they may encounter and ensure they can live comfortably and securely as they grow older.