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Financial Stress and Household Consumption: Exploring households' commitment to contractual payments

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Abstract

In a context of increasing attention to growing fixed payments, slim buffers, and unstable incomes in the household sector, this analysis considers the degree to which households prioritise contractual payments. The study uses Australian household expenditure data to examine which expenditure categories are prioritised when households enter into financial stress. The analysis finds that financially stressed households maintain basic expenditure and contractual payments by reducing expenditure on insurance along with more conventional discretionary spending. These findings suggest that insurance is effectively considered a luxury good. The findings thus point towards a sharp rise in risk exposure that accompanies the early stages of financial stress as households absorb shocks in order to maintain the stability of contractual payments. The findings have important implications for how we understand household sensitivity to shocks and the behaviour of households with regards to risk management, as well as the capacity of private insurance markets to stabilise the household sector. The findings also feed directly into broader questions about how the distribution of risk is evolving as household balance sheets expand.

JEL classification: D12, G52

Keywords: Underinsurance, Contractual Payments, Financial Stress, Household Risk, Middle income Households

1. Introduction

Economic insecurity amongst household has become an increasingly prominent concern in the advanced economies as issues like stagnating real wages, job insecurity and rising living costs (OECD, 2019) attract increasing attention. Described by Warren and Tyagi (2004) as the 'two income trap' and the OECD (2019) as the 'middle income squeeze', households are increasingly bound by spending commitments that reflect rising costs for things like education, housing and healthcare.

These costs erode disposable income even as gross household incomes have risen with the increasingly common incidence of two income families, leaving households with little disposable income spare for building up either long-term savings or liquid buffers. The everyday reality of this financial precariousness is examined by Morduch and Schneider (2018), whose influential study, 'The Financial Diaries', tracks the slim buffers, unstable incomes and lumpy spending requirements of individual US households. Morduch and Schneider (2018) reveal an order of volatility amongst even relatively well-off households that has remained hidden in conventional data and document how household finances can rapidly spiral out of control in the face of unexpected but relatively common shocks like injury, divorce or job loss. Hacker (2008) offers an account of the restructuring of social policy that foregrounds this body of literature: risk has been shifted off the books of the state and corporations and onto the books of the household in what Hacker terms 'the great risk shift'. In Hacker (2008), the key issue is that collective insurance has been rescinded, for example in relation to unemployment risks, health risks and income risks in retirement, leaving households to insure their own futures by building up savings, securing private insurance and making risky investments in education at the same time as housing costs rise precipitously . Be it 'the middle income squeeze' or 'the great risk shift', at issue is economic insecurity that households face as they juggle growing costs.

Quantitative approaches to these kinds of changes focus on the household balance sheet. In the macroeconomics literature, high levels of debt and slim buffers are seen as key to a new and more important role for the household sector in the wider economy. Mian and Sufi (2014) and Sufi and Verner (2017), for example, explore the new dynamics of household deleveraging

that have arisen with unprecedented levels of household debt. Across the advanced economies they find a pattern first identified in the US, by which high levels of debt in the household sector generates fiercer peaks and troughs in the business cycle and slower post-recession economic recovery. The same household characteristics are introduced into policy modelling by Kaplan, Violante and Weidner (2014), which identifies a significant cohort of 'wealthy hand-to-mouth households' across the advanced economies. Characterised by slim buffers of liquid wealth despite sizable net worth, Kaplan, Violante and Weidner (2014) emphasise the distinct economic behaviour of households that carry little liquid surplus over and above their weekly costs and the implications for fiscal and monetary policies of this hitherto fore unaccounted segment of the household sector.

This research effectively uses the imprint that is left on household balance sheets by the kinds of issues that are raised by Warren and Tyagi (2004), Morduch and Schneider (2018), Hacker (2008) and the OECD (2019). The high levels of household debt that are central to new thinking in macroeconomics are primarily the high mortgage costs and student debt of Warren and Tyagi (2004)'s 'two income trap' and the OECD (2019)'s 'middle income squeeze'. Warren and Tyagi (2004) and the OECD (2019)'s fixed costs are also driven by rising childcare costs, which tend to accompany two income households, as well as the higher costs of insurance that are integral to Hacker (2008)'s 'great risk shift'. The illiquid assets of the macroeconomics literature's wealthy hand-to-mouth households include the superannuation assets that Hacker focuses on in the shift from Defined Benefit to Defined Contribution pensions;[1] and their slim buffers of liquid savings are the pointy end of Morduch and Schneider (2018)'s hidden economic volatility and the residual of both Warren and Tyagi (2004)'s rising fixed costs as well as Hacker (2008)'s great risk shift.

The orientation of the macroeconomic literature however is less normative and more technical. Kaplan, Violante and Weidner (2014)'s work, for example, is about sharpening the tools of stimulus policy in order to restore growth more effectively in a downturn; not about exploring the hidden precariousness of households in pursuit of major policy interventions on key issues.

[1] Defined Benefit pensions stipulate the rate of payment that will be received during retirement, based on salary and tenure of employment. As Defined Benefit pensions have been phased out, they have been replaced with Defined Contribution pensions, in which a portion of income is invested in financial markets through the pension account. The Australian superannuation system is a Defined Contribution system, as are 401(K) accounts in the US.

like job security, healthcare, childcare or pensions, as it is for Warren and Tyagi (2004), Morduch and Schneider (2018), Hacker (2008) and the OECD (2019). The question here is not, 'what has driven middle class precariousness and how can those drivers be reversed?' but how do changes in household balance sheets interact with consumption decisions and thus define household responses to policy and non-policy shocks?

Either way, these literatures offer a consensus that households enjoy less economic stability than in decades past, whether expressed in terms of slim buffers and high sensitivity to shocks or the social costs of microeconomic instability. Moreover, they reflect a grappling with the changing role of the household in the economy as household balance sheets expand into new debt and asset positions, from record breaking mortgage costs to Defined Contribution systems like 401(K) accounts and mandatory superannuation.[2]

This working paper pursues these themes of economic insecurity in the household sector, of pressure on middle income households and of expanding household balance sheets by considering the propensity of households to maintain contractual payments – not only rent, mortgage, car loans and consumer debt, but contractual payments like school fees, mobile phone plans and power bills. These are payments for what Chetty and Szeidl (2007) call 'commitment goods', which are contracted payments that are infrequently adjusted because they entail high transaction costs to cancel. By examining the degree to which households prioritise the stability of contractual payments in their day to day financial management we get a sense of how households manage the risk burden that is documented by Warren and Tyagi (2004), Morduch and Schneider (2018), Hacker (2008) and the OECD (2019) as well as those such as Mian and Sufi (2014) and Kaplan, Violante and Weidner (2014). This approach draws on the work of Bryan and Rafferty (2018) who examine fixed expenditure amongst Australian households in terms of the distribution of risk between households and markets and the financial idiosyncrasies of the household sector. What the present paper contributes is the novel use of Australian household expenditure data to examine the propensity of households to maintain contractual payments through an analysis of spending patterns amongst financially stressed households.

[2] 401(K) accounts are tax-advantaged Defined Contribution accounts that are commonly offered by employers in the US. These are similar to the superannuation system in Australia, in which employers pay a set portion of wages into the employee's superannuation account.

The second section of the paper presents data that shows change in household expenditure on various contractual payments over the last three decades. Similar to Warren and Tyagi (2004)'s two income trap and the analysis undertaken by Bryan and Rafferty (2018)'s, the data show a rise in these costs that crowds out disposable spending, even as household income has risen significantly.

The third section then turns to the question of how households manage those higher contractual payments. In order to examine the propensity of households to maintain contractual payments, the analysis uses Household Expenditure Survey data from the Australian Bureau of Statistics to observe the degree to which households prioritise contractual payments in conditions of financial stress. The comparison of spending patterns between stressed and non-stressed households that are otherwise alike in terms of demographics, labour market status and housing tenure provides a proxy for how household spending changes as households enter into financial stress. The analysis shows that financially stressed households preserve the stability of contractual commitments by absorbing shocks on other parts of their balance sheet. The data show that this prioritisation of financial commitments comes at the cost of conventional discretionary spending categories, such as recreation and, more surprisingly, at the cost of spending on insurance. These findings raise the specter of a precipitous rise in risk exposure as households shed insurance coverage, which is common amongst households as they enter into the first stages of financial stress. This suggests that the impacts of financial stress be assessed not only at face value, but also in terms of the financial risk associated with underinsurance that commonly accompanies financial stress.

The fourth section frames this underinsurance as shock absorption on the part of households in their efforts to maintain the stability of contractual payments and considers the role played by social and subsistence binds that are unique to the household sector. The paper concludes that the reduction in insurance that accompanies the early stages of financial stress offers an important example of how risk dynamics are shifting as the household sector plays a more central macroeconomic role.

2. Changes in contractual payments amongst Australian households

Household expenditure data from the Australian Bureau of Statistics shows that the evolution of expenditure on key costs like housing, medical care and childcare amongst Australian households is fitting with Warren and Tyagi (2004)'s 'two income trap'. This analysis uses the Bureau's Household Expenditure Survey data, which is a nationally representative household survey that draws on a sample of over 10,000 households and is undertaken every six years. The Household Expenditure Survey collects detailed information about household expenditure and is collected jointly with the Survey of Income and Housing, which includes data on household income, assets, liabilities and household characteristics.

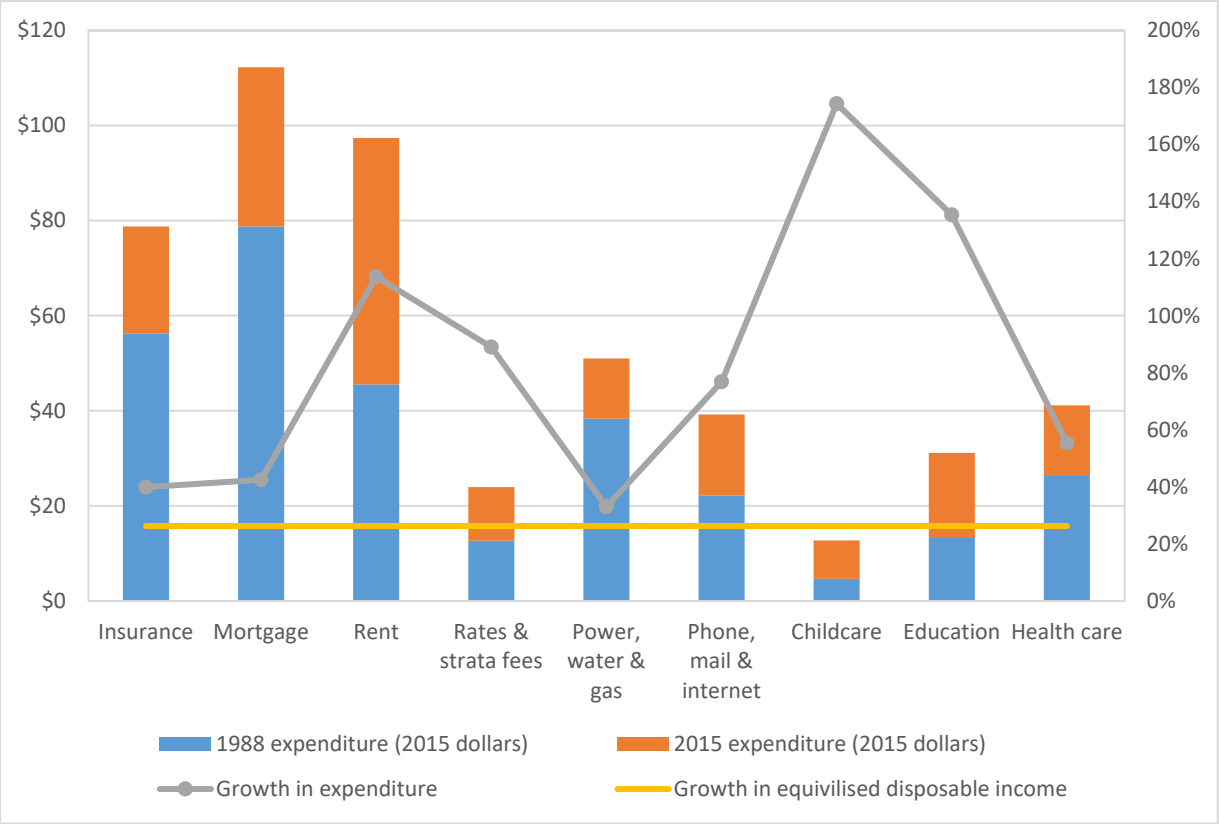
This data set is used to collate Figure 1, which examines the growth in key expenditure categories for middle income households between 1988 and 2015, both in constant dollar terms and in terms of a growth rate. [3] As Figure 1 shows, post-tax household incomes have risen by an average of 26% over the period (indicated by the yellow line on Figure 1). Given largely stagnant wages, much of this increase is attributed to the growing share of double income households, which has come about largely as a result of the increased participation of women in the workforce. Yet, as Figure 1 shows, the growth rate of expenditure on each of the categories displayed - from insurance, housing and utilities to childcare and education - has outpaced the rise in income (indicated by the grey line, corresponding to the right-hand axis). Hence, we see in Figure 1 that these costs now take a greater share of post-tax income *despite the overall rise in post-tax income* as households send a second family member into workforce income.

These rising costs are reflected in the weekly dollar spend on each category (which has been adjusted for inflation, indicated by the columns corresponding to the left-hand axis). The biggest hike in costs in dollar terms is rent, which accompanies booming expenditure on mortgages, rates and strata fees. In relative terms, however, the biggest growth is in childcare costs, for which expenditure is nearly three times what it was in 1988, followed by education and rent, which have more than doubled. The least growth in cost amongst these spending categories

[3] Household income is adjusted for the size of the household as per the ABS's equivalisation scale (see www.abs.gov.au). In order to capture the experience of middle income households, this data excludes the first and fifth equivalised income quintiles.

is observed in power, water and gas, followed by insurance. Yet even power, water and gas has risen by 33% in constant dollar terms between 1988 and 2015 and insurance by 40%. These costs considerably exceed the 26% growth in household incomes.

Figure 1: Household expenditure on selected categories, in constant dollar terms (left axis), and growth rate in expenditure (right axis)



Source: Australian Bureau of Statistics, Household Expenditure Surveys 1988 and 2015

These statistics are fitting to the narrative of the 'two income trap' and the 'middle income squeeze': rising costs, and especially for the kind of expenditure categories that reflect middle class values like health and education, have eroded disposable income even as double incomes have become not only a norm but, increasingly, a necessity.

3. Basic spending, discretionary spending and financial stress

In order to explore how households manage this rise in costs, the analysis now turns to the spending patterns of middle income households. This section undertakes a comparison of household expenditure amongst non-stressed households and those who are in the early stages of financial stress so as to proxy how household spending changes when households enter into a period of financial stress. By examining which expenditure categories are cut and which are preserved, we can get a sense of the degree to which households prioritise contractual payments.

In this, it is imperative that we compare the same type of households in the early stages of financial stress as those that are not financially stressed. By limiting variation within the sample in terms of income, household tenure and demographics, we strengthen the likelihood that the expenditure of stressed and non-stressed households is comparable in the absence of panel data. Hence, the analysis focuses on two groups of households in the middle three quintiles of post-tax income: households with dependent children, and working households who rent or pay mortgage.[4] These subgroups have high levels of contractual payments, notably in housing costs. For many, these costs are compounded by high costs for childcare and education.

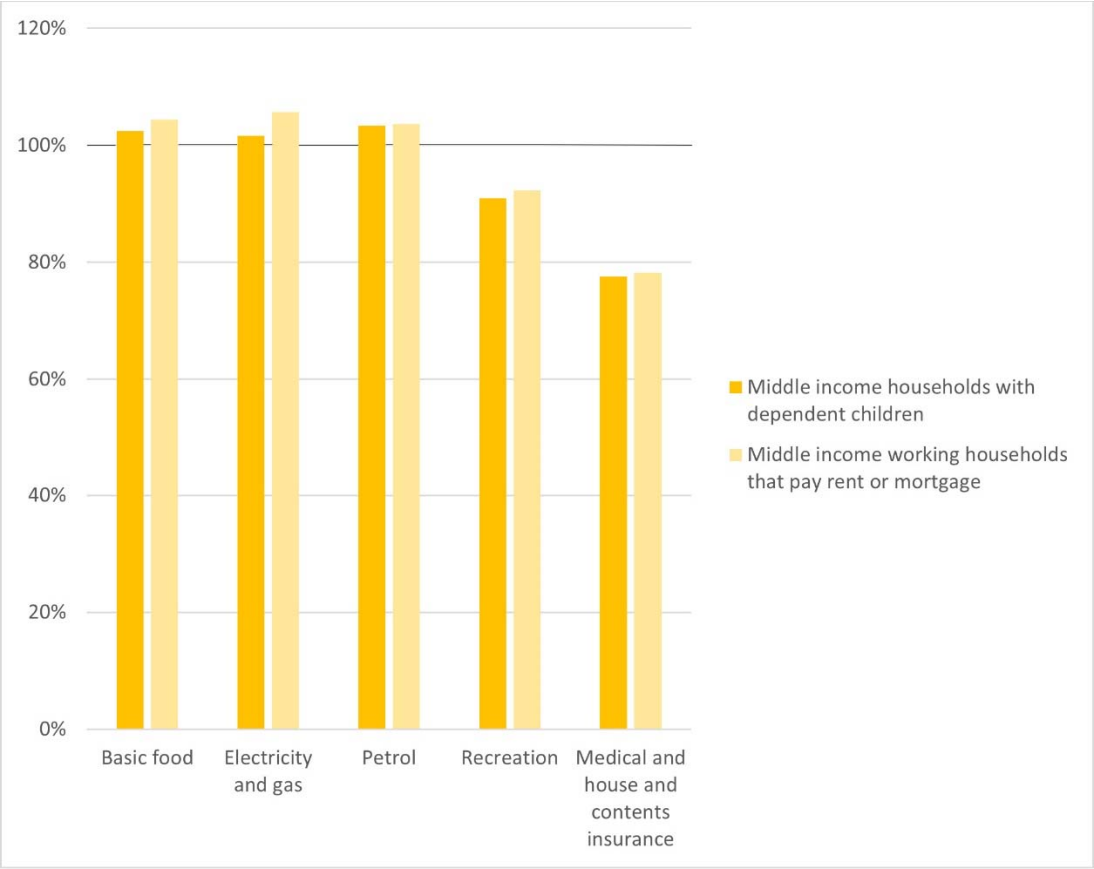
Financially stressed households are defined in this paper as households that report one indicator of financial stress in the Household Expenditure Survey. Of the 12 financial stress indicators in the Survey, the most common is the inability to afford a holiday for at least a week per year, but also included are indicators like the inability to raise $2000 in a week or inability to pay a utility or phone bill on time. The paper uses this relatively narrow definition of financial stress in order to capture households in the early stages of financial stress, as distinct to those in an entrenched state of stress, for example as indicated by the reporting of two, three or four indicators of financial stress.

Figure 2 presents expenditure on selected items by financially stressed households as a percentage of expenditure on those same items by non-stressed households, within the groupings of middle income households with dependent children and middle income households

[4] That is, those in the second, third and fourth equivalised income quintiles.

who rent or pay mortgages, respectively. These data show consistent patterns that reflect roughly equal spending between stressed and non-stressed households on basics like electricity, petrol and basic food but considerable reductions in spending on recreation - from holidays to televisions to camping equipment – amongst those households that are in the early stages of financial stress.

Figure 2: Expenditure by financially stressed households as a percentage of expenditure by non-stressed households, selected categories



Source: Australian Bureau of Statistics, Household Expenditure Survey 2015

However the data also show that these middle income financially stressed households consistently reduce expenditure on medical and house and contents insurance.[5] It is most likely

[5] Although the Household Expenditure Survey collects spending on life insurance and sickness and personal accident insurance, these are not commonly held by Australian households. To ensure robustness against outliers, the term insurance is used in this analysis to refer to hospital, medical and dental insurance combined with house and/or contents insurance.

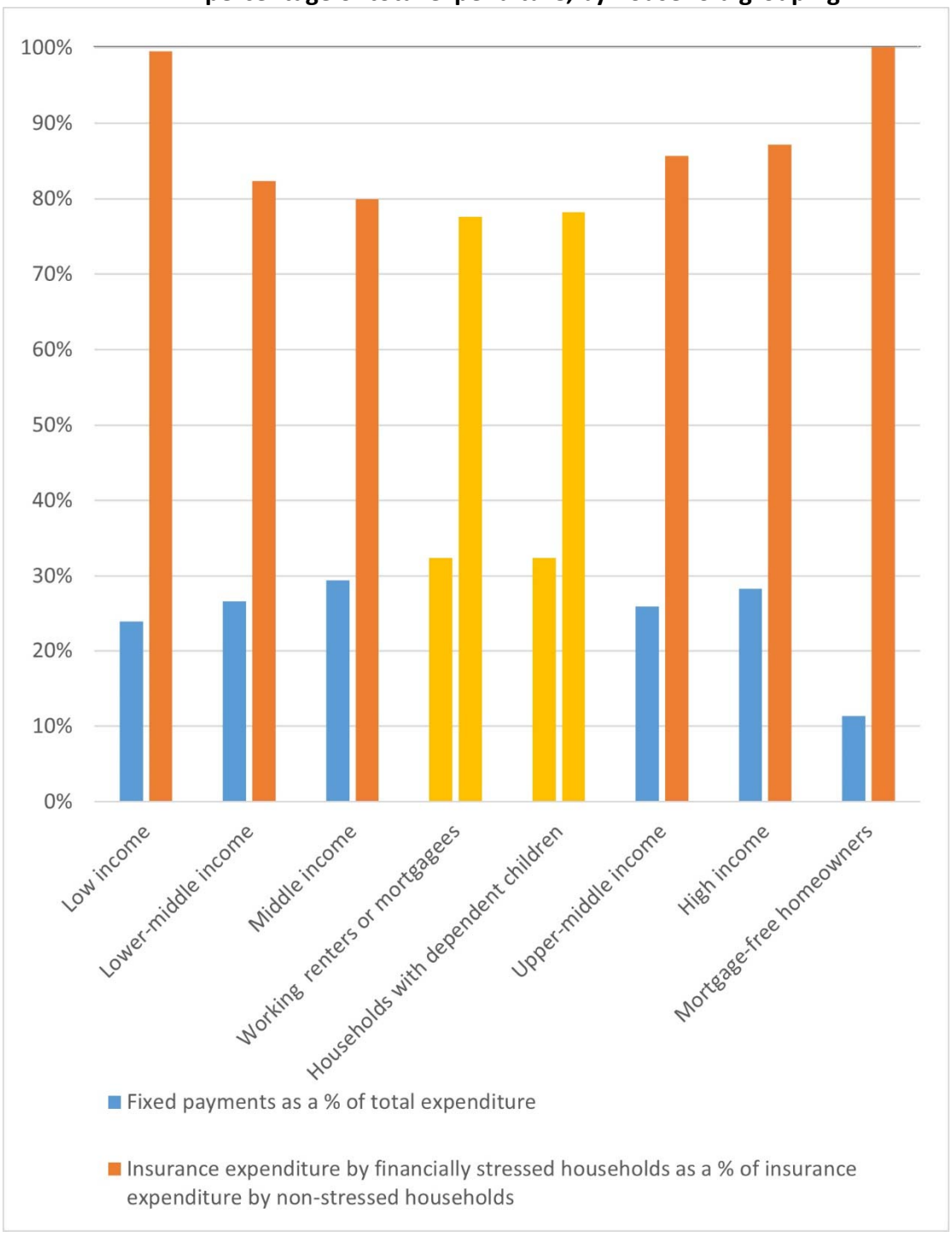
that the reduction in recreation spending is less than the reduction in insurance spending because financially stressed households reduce their recreation spending rather than cutting it entirely. In the case of insurance, we can expect that households both reduce coverage in some cases and cancel policies altogether in others.

These findings are echoed across the full dataset but are most strongly reflected in the middle income bracket. The orange bars in figure 3 indicate how insurance spending differs amongst financially stressed households across the income ladder. The figure shows that there is little difference in insurance spending amongst households in the bottom income bracket. These low income households spend roughly the same amount on insurance, regardless of if they are in the early stages of financial stress or are experiencing no indicators or stress at all. The figure shows that the lower-middle income group, upper-middle income group and high income group all show some reduction in insurance spending, but it is the third income quintile, which sits right in the middle of the income spectrum, who drop their insurance spending most in the early stages of financial stress.

Figure 3 also indicates the proportion of total spending that is allocated to contractual payments, which is represented by the blue bars.[6] This shows that it is also the third income quintile that has the highest proportion of post-tax income tied up in contractual payments, such as housing, utilities and education, when compared to the other income quintiles.

[6] Contractual payments denote mortgage and rent, rates, water and sewerage rates, local government rates, interest payments, childcare, education (excluding HECS payments, which is the scheme for payment deferral of student debt administered by the federal government), internet and mobile phone bills and costs associated with any other property. Total spending refers to total expenditure on goods and services as defined by the Bureau, combined with some costs defined by the Bureau as 'other costs' and considered capital expenditure in accounting terms. These are costs for additions and extensions, internal renovations, insulation, solar panels, in-ground swimming pools, outside buildings, landscape contracting, other outside improvements and other capital housing costs, as well as life insurance.

Figure 3: Insurance expenditure by financially stressed households as a percentage of insurance expenditure by non-stressed households and contractual payments as a percentage of total expenditure, by household grouping



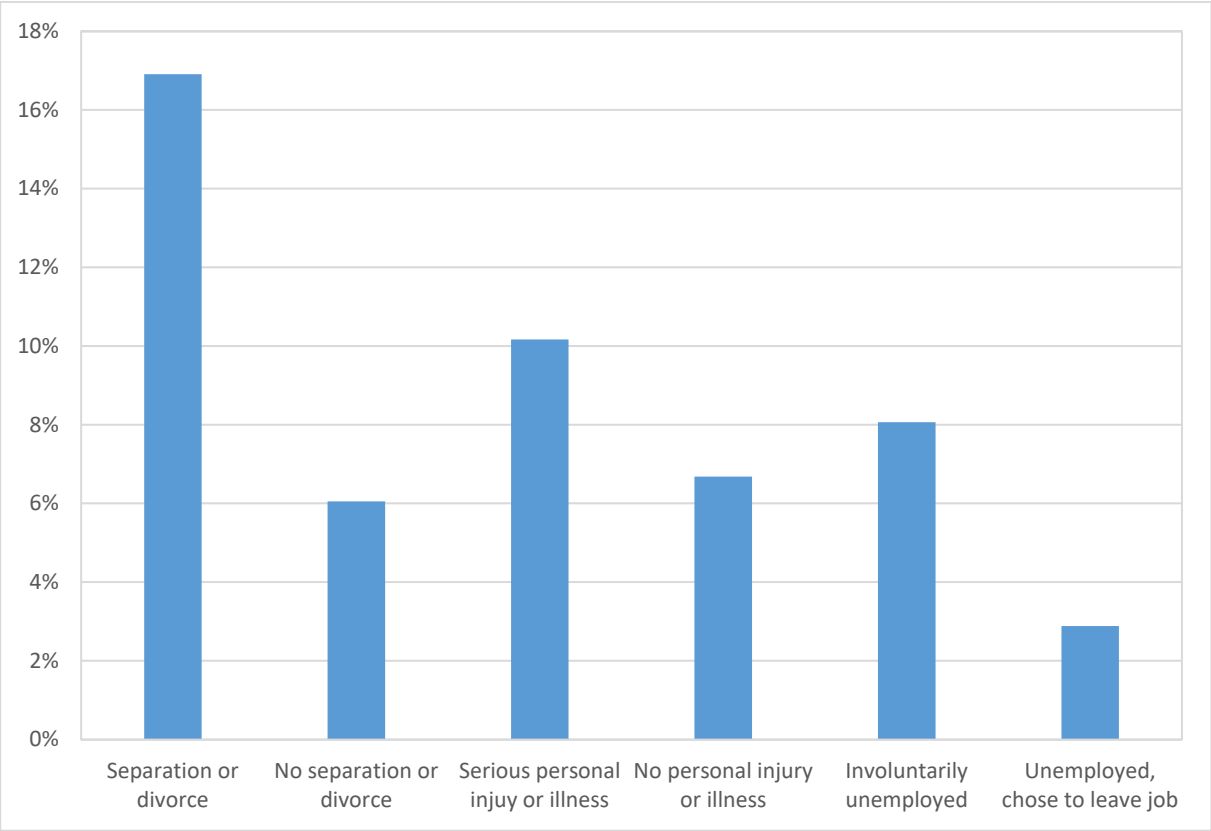
Source: Australian Bureau of Statistics, Household Expenditure Survey 2015

As Figure 3 shows, however, these patterns are even stronger for middle income households with dependent children, and for middle income working households who rent or pay mortgage in the middle income brackets (in yellow). These subsamples of middle income households have both higher fixed expenditure as a percentage of total expenditure than any of the income quintile groupings and exhibit a more severe cut in insurance spending. Yet the opposite is observed amongst middle income homeowners who don't have mortgages, as is shown in the final set of columns in the figure. Non-mortgaged homeowners in the middle income brackets show no reduction in insurance spending in the early stages of financial stress and much lower contractual payments than the other middle income groups.

The finding that households reduce insurance coverage as they enter into financial stress can be corroborated using Australia's premier household panel data survey, Household Income and Labour Dynamics in Australia (HILDA), which provides annual data on a representative sample of over 17,000 Australian households. In order to consider insurance coverage amongst households who are in the early stages of financial stress, Figure 4 draws on a sample of HILDA households who reported in the 2018 survey that they have experienced the kinds of shocks that typically push households into financial stress – namely family breakup, serious injury or illness or involuntary job loss – in the last 12 months. The figure shows the propensity of this group of households to report that they don't have home contents insurance because they can't afford it[7] in comparison to the propensity of households who haven't experienced those shocks to report the same.

[7] This pertains to question V of the Household Questionnaire, which asks if the respondent has home contents insurance and, if not, if they don't have home contents insurance because they can't afford it.

Figure 4: Percentage of households that don't have home contents insurance because they can't afford it as a percentage of all households by household grouping: households that have recently experienced separation, injury or illness or have become unemployed



Source: HILDA (2018)

Figure 4 reveals the strongest disparity between households that have experienced family break up, such as divorce or separation, in the last 12 months and those that haven't: families who have experienced divorce or separation in the last 12 months are almost three times more likely to report that they don't have home contents insurance because they can't afford it.[8] The figure shows a similar but weaker trend for those who report a major injury or illness to

[8] These results pertain to the subsample of 556 respondents who responded positively to question B23b in the Self Completion Questionnaire of the 2018 HILDA survey, which asks if the respondent separated from their spouse or long-term partner (b) in the last year. The subsample of those who reported that they hadn't separated from their spouse of long-term partner in the last year constitute a sample of 15,552 households.

themselves in the last 12 months, of whom 10% report not having contents insurance because they can't afford.[9] By contrast, amongst those who haven't experienced a major injury or illness to themselves, only 6.5% report not having home contents insurance because they can't afford it. Similarly, those who have lost their jobs involuntarily during the last year and remain unemployed are almost three times as likely to report not having home contents insurance because they can't afford it than those who left their jobs voluntarily but remain unemployed.[10]

These data must be viewed with caution. Having recently experienced family breakup, major injury or illness or involuntary job loss is an imperfect proxy for experiencing the early stages of financial stress. Moreover, the sample sizes are in some cases quite small. Figure 4 nonetheless reflects trends that are fitting with the analysis of expenditure data, which suggest that households in the early stages of financial stress view insurance coverage not as a basic cost which must be accommodated through cuts to more conventional discretionary spending, but as discretionary spending itself that can be cut in order to accommodate other expenditure priorities.

4. Discussion

Insofar as the data suggest that insurance is one of the key expenses that households cut back on in order to maintain contractual payments, these data reveal a precipitous rise in risk exposure amongst financially stressed households. The implications of this are that households not only absorb shocks onto their balance sheets by cutting expenditure in conventional discretionary categories like recreation spending; but that they tend to sharply increase their risk

[9] Question B23b in the Self Completion Questionnaire asks if respondents have suffered a serious personal injury or illness to self in the last 12 months, from which a sample of 1,397 households who have experienced serious personal injury or illness to self and a sample 12,497 households who haven't experienced serious personal injury or illness to self is drawn.

[10] Those referred to as being now unemployed and having become involuntarily unemployed from the job that they held at the time of the last annual survey are a sample of 186 respondents who answered (3), (6) or (7) (got laid off, retrenched, dismissed, employer went out of business; or own business closed down) to question D22 in the Continuing Person Survey, which asks why the respondent no longer works in the job that they reported working in during the last annual survey. Those that are referred to as leaving their jobs voluntarily but remaining unemployed are a sample of 520 respondents who answered (1), (2), (4), (5), (8) and (10) to (16) to the same question, which explains the job loss as due to its temporary nature, because it was unsatisfactory, to obtain a better job, to retire, to stay at home with children, travel, return to partner, to relocate or because travel was too long.

exposure in their efforts to maintain stability in their contractual payments. This suggests that the risk burden that Warren and Tyagi (2004), Morduch and Schneider (2018), Hacker (2008) and the OECD (2019) focus on in terms of slim buffers in the context of rising fixed costs is exacerbated by the underinsurance that arises with the first signs of financial stress.

This suggests that households consider insurance as discretionary spending and view risk coverage as a luxury. Not only does this strike a contrast to the view in the finance literature of insurance as a normal or inferior good (Mossin, 1968; Aase 2007; Foncel and Treich, 2014) but it suggests weaknesses in the capacity of insurance to effectively support economic resilience in the economy insofar as insurance falls short of providing complete markets, even in relation to the most applicable of risks. Hence, although 'the great risk shift' has been accompanied by new tools to help households minimise their actual risk exposure, such as insurance and credit products, the effectiveness of these tools is undermined by limited uptake. That is, where these kinds of tools are seen as a luxury rather than a subsistence cost, we see the failure of private insurance markets to provide consistent protection to households from shocks. Whether we place the blame on households for failing to rationally manage their risk exposure or not, the fact remains that insurance is apparently not adequately defending households from risk. The gap identified in the present paper, moreover, is at the point at which households need it most: when they have entered into an early stage of financial stress and risk becoming entrenched in a deeper and more persistent state of stress with the experience of any further shock.

Secondly, these findings point towards the unique position of households in relation to committed payments. At issue here is the possibility that the prioritisation of contractual payments that is reflected in the data may be driven not only by the threat of financial penalties associated with contractual payments as per Chetty and Szeidl (2007), but also by the threat of social dislocation and subsistence pressures.

In the case of housing, education and childcare, for example, we see commitment goods that not only entail high transaction costs associated with breaking contractual commitments early, but also high transaction costs associated with the social dislocation of moving to a cheaper suburb away from local social networks, or moving children and young adults away from childcare and educational institutions where social bonds have been built. These social binds go

at least some way to explaining the puzzle of underwater mortgages in US in the wake of the GFC. As house prices dropped, many households persisted with paying what had suddenly become hugely overvalued mortgages despite the clear financial benefit of default. Where a firm would be quick to liquidate an underperforming asset that drags on the balance sheet, households were observed choosing to absorb the housing market shock and to keep paying their mortgages, implying financial decisions driven not by economic and financial considerations but, as observed by commentators and academics alike, by "personal reasons" (see for example Riquier, 2018). As argued by Bryan and Rafferty (2018), this marks out a sociality attached to the household that sets households apart from firms. This sociality makes household balance sheets illiquid in ways unique to the household sector.

Moreover, as Bryan and Rafferty (2018) make clear, a further illiquidity is imposed on households insofar as households are unable to go into liquidation like firms can. A household may persist with car payments in the case of an income shock that makes those payments much less affordable, not only because of financial penalties attached to canceling the contract, but because the household needs the car to get to work and needs the work to maintain subsistence. This is a key part of the 'two income trap' story but is posed here in terms of the limitations on household liquidity that rising contractual payments impose. For a firm, a shock may trigger insolvency and liquidation. For a household, however, liquidation is not an option.

Hence within the category of commitment goods (Chetty and Szeidl, 2007), we may consider three subcategories, which needn't be mutually exclusive: commitment goods that entail a financial cost to withdraw from, those that entail a social cost to withdraw from, and those that cannot be withdrawn from without undermining access to subsistence. Although the extent to which these latter categories of commitment goods are represented in the data is unclear, this explanation may nonetheless help to explain the high risk that the data show households are willing to bear in order to maintain certain contractual payments.

In any case, it is important to note that these findings are tentative. Although HILDA data can be used to corroborate findings from the HES about reductions in insurance coverage that appear to accompany financial stress, the relevant samples are small and variables limited. Even the Household Expenditure Survey data has its limitations in the present context. Albeit a large

and nationally representative survey, it does not provide panel data. Moreover the link between reduced expenditure on insurance and higher committed payments requires further exploration. The role of social and subsistence binds in reducing households' options for cutting costs is the most difficult relationship to verify and is touched on here only in a very tentative manner. Indeed, although risk and financial stress have attracted a great deal of attention in a booming literature on the household sector, there remains a great deal of scope for future research to explore household decisions on insurance uptake, the degree to which households prioritise contractual payments and the way that risk is shared between households, the state and markets.

5. Conclusion

The contributions of Warren and Tyagi (2004), Morduch and Schneider (2018), Hacker (2008) and the OECD (2019) as well as those of Mian and Sufi (2017) and Kaplan, Violante and Weidner (2014) reflect a consensus that households face greater financial insecurity – be it in terms of higher fixed costs, lower buffers of liquid wealth or the growing array of decisions that rest on the shoulders of individuals about how they will insure their own future. In this context, the analysis of household expenditure data offered here suggests that this financial insecurity is exacerbated by the underinsurance that accompanies the first signs of financial stress for a significant portion of households. This insofar as households are found to cut their insurance costs along with conventional discretionary items like holidays, televisions and camping equipment. These expenditure cuts, moreover, appear to occur in order for those households to be able to maintain contractual payments, such as mortgages, car loans and consumer credit payments, utility bills and childcare costs. That households absorb shocks onto their balance sheets in order to maintain contractual commitments is not necessarily surprising. What is surprising is that households treat insurance like a luxury. This has important consequences for how we understand household sensitivity to shocks and constraints on household risk management behaviour, as well as the capacity of private insurance markets to stabilise the household sector.

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