Australia: Inflation soars and thousands more face losing their homes

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Official inflation figures for the March quarter, showing a leap to a 16-year high of 4.2 percent, have raised the chance of further interest rate increases in Australia, which will push thousands more working class families into severe financial stress.

The unexpectedly high cost of living figures underscore the worsening impact of global inflationary forces that are driving up prices for food, oil and other commodities worldwide.

Although the headline result was 4.2 percent, the annualised rate for the March quarter was 5 percent. Over the past year, household budgets have been hit by rises of 18.9 percent for petrol, 10.5 percent for electricity and 5.7 percent for food. Bank fees rose 7.6 percent and rents by 7.1 percent. Secondary education costs rose by 6.6 percent, while health costs were up 5.4 percent.

ANZ bank senior treasury economist Warren Hogan described the results as a "shocker". He warned journalists that the headline inflation rate could rise to 5 percent this year. "The problem is not just that inflation is elevated but that it is accelerating. If anything, inflation pressures are intensifying."

The March quarter result is well above the Reserve Bank of Australia (RBA) target range of 2-3 percent, and belies the forecast made by RBA governor Glenn Stevens just two weeks ago that inflation was likely to decline over time. Stevens made the comments in the context of explaining why the RBA board decided to keep interest rates on hold last month, after a dozen 25-basis point rises since 2004.

Economists and market speculators predict that the RBA will now resume raising rates in a bid to counter inflation by cutting domestic spending. Financial markets have put the chance of another 25-basis point rise by August at 60 percent. Media commentators have raised the spectre of average home loan rates of more than 10 percent. The RBA's official cash rate is already 7.25 percent, up a full percentage point in 12 months, and major banks have pushed their basic mortgage rates to around 9.5 percent.

Key big business interests are urging the RBA not to hesitate in raising rates, regardless of the hardship for ordinary people. In its April 24 editorial, the *Australian Financial Review* said the RBA must be prepared to "endure sustained criticism—at times bordering on the hysterical and personal—for inflicting 'pain' on 'working families'."

By contrast, the Murdoch media outlets are calling on the RBA to hold off, amid signs of an emerging slump, with sharp downturns in retail spending and consumer confidence. The *Australian's* April 24 editorial cautioned that it would be unwise to "put further pressure on household budgets" when higher food and petrol prices were already "doing the RBA's work for it by causing people to cut back on discretionary spending".

Whatever the differences, all sections of the ruling elite agree that it is the working people who must pay the price for a deepening economic crisis over which ordinary people have no say or control.

Rising interest rates and prices are already causing increasing levels of housing stress. According to *Anatomy of Australian Mortgage Stress*, published by Fujitsu Consulting on Thursday, about 400,000 households will be in "severe" mortgage stress by September—with half of them likely to lose their homes. That compares with Fujitsu's March report, which said 300,000 households would fall into the severe stress category by June.

Severe mortgage stress is defined as when borrowers fall behind in repayments, think of selling up or face default proceedings. Fujitsu predicts that by September almost a million households will be in mild or severe housing stress, based on in-depth surveys of difficulties in meeting repayments. Moreover, every 25-basis point rise in the mortgage rate from now on will push 150,000 more households into mild stress, and 75,000 into severe stress. Of these, 45,000 will be young families.

Fujitsu's managing consultant director Martin North told Fairfax newspapers: "We've got all these things coming together: global trends of recession in the US and potentially in Europe; the credit crunch continuing to lift rates for consumers and also to banks and business; we have [housing] affordability at its lowest level and debt as high as it's ever been. I think all of these things together are creating the perfect storm."

North pointed out that mortgage stress is experienced for some time before households default. "One of the biggest things we've noticed over the past two months is people who've maxed out on their credit cards and now don't have the ability to continue to [cover] their other expenses." In 2005, only 14 percent of households blamed rate rises for trouble paying mortgages, but the most recent data showed 72 percent blaming rate rises.

North said households in severe stress typically attempt one or two refinances before the end. That is, they seek to avoid defaulting by borrowing more money from other lenders, always at higher rates and with larger repayments and less equity left in their homes. The Fujitsu research shows that refinancing doubles the likelihood of ultimately losing the house. By last September, it estimated that 50,000 households over the previous year had fallen victim to predatory brokers and lenders, who earned high commissions by pushing loans on people.

Defaults and forced house sales are rising, while home prices are falling, leaving many people with "negative equity"—owing more on their mortgages than their property can be sold for. Estimates by property research group Residex show that working class suburbs in Sydney, Melbourne and Perth have been worst affected, with price falls of between a third and half in their suburbs during February.

Knock-on effects from the mortgage crisis are creating severe hardship for those renting, or trying to rent. While rents rose 7.1 percent nationally over the past year, the situation is far worse in some of the poorest areas. In the Sydney western suburb of Auburn, for example, the local newspaper, the *Auburn Review*, reported this week that some rents had almost doubled over the past year. Other rents had risen by 25 percent.

Some economists have been warning for years that unprecedented levels of private debt, particularly household debt, were creating the conditions for a financial crash. Steve Keen, associate economics professor at the University of Western Sydney, has estimated that private debt [household plus business] has risen to 170 percent of Gross Domestic Product, far higher than during the Great Depression of the 1930s when the ratio peaked at 78 percent.

According to Keen's calculations, the Australian ratio is as high as America's, while the British level has risen to 243 percent. In Australia, the debt bubble has grown quickly since 1990, when household debt was about 20 percent of GDP. Today, mortgage debt alone is some 100 percent of GDP. Keen warns that, as a result, a recession within the next two years is inevitable.

Further signs of deeper problems in the Australian banking system emerged this week. Behind the scenes, the RBA spent $1.1 billion in two days to buy packages of mortgages from lenders, leading to speculation in business circles of a banking bailout like those conducted by the US Federal Reserve and the Bank of England.

One major bank, the ANZ, reported a half-yearly cash profit drop of 14 percent, mainly attributed to the global credit squeeze and a trebling of provisions for doubtful loans, which now total $2.4 billion. However, the bank's share price rose, because the markets had expected even worse news. ANZ also outlined new job-shedding, including the eventual shifting of all its 4,000 backroom jobs to the Indian city of Bangalore.

While bailouts may be organised for the banks and finance houses whose highly-profitable operations helped sow the seeds for the economic breakdown, no bailouts are being offered to the millions of ordinary people in danger of losing their jobs and homes.

The Rudd Labor government is committed to imposing the burden of the crisis onto the back of working people. In his response to the inflation results, while paying lip service to the "pain people are feeling around their kitchen table," Treasurer Wayne Swan reiterated "the need for a responsible [government] budget that gets spending under control".

Swan attacked the previous Howard government from the right, claiming that its "irresponsible" spending had put upward pressure on interest rates and inflation. Asked if the May Budget would now be even tougher, Swan said: "We will be taking difficult decisions in this Budget when it comes to spending.'' His comments are a warning of deep cuts in social spending in the May 13 budget, on top of the $10 billion already pledged.