Australia: Rising debt stress among homebuyers

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Personal debt levels in Australia have risen back to levels comparable to those at the onset of the credit crisis in September 2008, according to a report published in April by Veda Advantage. The report gives a glimpse of the reality for ordinary working people, puncturing the Rudd government's claims that Australia has escaped the effects of the global financial crisis.

The social cost of managing debt repayments is revealed in one report finding: 80 percent of debt holders "worry" about their ability to meet their payments over the next 12 months—the highest level in two and a half years. The stated reasons included rising food costs, one-off expenses, a potential drop in income, higher interest rates, rising health costs and increasing transport costs.

Some 40 percent of people with debt were finding their repayments difficult, or "using a lot of their income"—up from 33 percent two years ago. About 14 percent had missed at least one repayment and 2 percent were unsure how their next payment would be made.

A Fujitsu Mortgage Stress Report gave another insight into the difficulties confronting homebuyers, particularly the estimated 270,000 who bought into the market after September 2008. There was an increase in "severely stressed" households that faced default or the need to sell or refinance. Fewer households reported "some degree" of mortgage stress, but 40 percent of first homebuyers who had taken out loans in the past 18 months said they were in that situation. Based on current trends, Fujitsu expects the rate of mortgage defaults to increase from 28,000 per year to 32,000 per year by December.

Last week the Moody's ratings agency reported that rising interest rates were already causing a significant increase in the level of "delinquencies" or missed mortgage payments. Among premium-rated mortgages, the delinquency level rose from 1.10 percent in the final quarter of 2009 to 1.34 percent in the March quarter. The problem is far worse for mortgages with a high-risk rating; that delinquency rate grew from 12.13 percent to 13.02 percent. By one estimate, made by the Melbourne *Herald-Sun*, about 90,000 recent first homebuyers are in danger of losing their homes.

The rising level of mortgage stress is partly a result of the Rudd government's stimulus measures to prop up the banks, building companies and property developers. As the Reserve Bank lowered interest rates to historically low levels in late 2008, the government doubled the first homebuyers' grant, and offered greater incentives to those purchasing new homes. The purpose was to entice people into taking out mortgages in order to prevent a plummeting housing market.

It was always obvious that the inevitable subsequent increases in interest rates would place many new homebuyers under enormous financial stress. Over recent months, six interest rate hikes by the Reserve Bank have increased lending rates by 1.5 percentage points, with a significant impact in working class areas.

For young people with a typical loan of $300,000 at an interest rate of 7 percent over 25 years, the rate rises have meant an additional $300 per month in repayments. Average repayments now total almost $2,000 a month. The increase, coupled with other rising costs of living, has placed a serious burden on many families, as wage incomes have stagnated or decreased. In order to pay the mortgage, families need to find a second, or even third job, buy cheaper food and curtail social activities.

Since July 2008, workers have experienced a general decline in aggregate hours worked. By January this year, hours worked had dropped 2.9 percent in 18 months. The most recent statistics show a further drop of 8.3 million hours during April. The official unemployment rate, currently at 5.4 percent, is not an accurate measure of the difficulties working people face. While they did not necessarily lose their jobs in the first stage of the global crisis, they are working and earning less, and often in less secure, casualised jobs.

That unemployment has not jumped more sharply is not a reflection of the health of the Australian economy, but primarily a result of the labour market "reforms" implemented by governments, both Labor and Liberal, over the past 30 years, with a huge expansion in low-paid part-time, casual and temporary jobs. The Reserve Bank of Australia's March 2010 Bulletin explained that the low official jobless rate was "partly explained by the greater degree of flexibility in employment and wage-setting practices, compared with those in the 1980s and 1990s recessions".

Initially, the level of household debt fell after the shock of the global financial crisis. Since then, the overall reduction in workers' incomes has been accompanied by a return to greater reliance upon credit cards to cover living expenses. Veda found that 8 percent of all Australians expect to apply for a new credit card over the next six months. With banks commonly charging interest rates of more than 20 percent on credit cards, the debt of individuals can easily spiral.

By contrast, with rising interest rates and the end of the first homebuyers' grant boost, the level of lending for housing has declined sharply over the past six months—another sign of the growing inability of working families to afford to buy a house. Australian Bureau of Statistics data show that house lending fell to a nine-year low in March, the sixth consecutive monthly decline. The amount of funding being provided for housing loans has fallen from $15.38 billion last October to $12.36 billion, the lowest point since April 2001.

The problems facing working people will only worsen as the Rudd government cuts back on public spending in crucial areas such as health and education and the second stage of the global economic crisis impacts on Australia.