Mortgage stress rising in Australia

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Moody's Investors Service, in a report titled "Australian mortgage delinquencies increasing despite mining boom," has warned of a "material deterioration" in the capacity of homebuyers to pay their mortgages over the past 12 months. The "boom" states of Queensland and Western Australia (WA) showed some of the worst results.

The Moody's analysis, comparing October 2010 with June 2011, provides just a glimpse of the mounting financial stress being experienced by working class households, even before the current barrage of tens of thousands of manufacturing job losses. The report, issued on September 28, further debunks the myth that the Australian economy is well-poised to withstand the unfolding international economic crisis.

In fact, the Moody's study shows just the start of the impact of a concerted drive by the financial and corporate elite, spearheaded by the Labor minority government of Prime Minister Julia Gillard, to cut wages and conditions and slash public spending. The central thrust has been to make Australian capitalism "competitive" amid the systemic lowering of working class living standards being imposed internationally to impose the post-2008 burden of bailing out the banks and finance houses.

As Moody's report illustrates, this process is already making its way through the much-touted $1.1 trillion "stable" Australian residential mortgage market, presaging renewed problems for the local banks, building societies and other lenders.

The study, which measured loan delinquency rates in 65 regions, revealed a qualitative deterioration since October 2010. Delinquency was defined as failure to make one or more payment—that is, being at least 30 days overdue.

Regions considered to be performing "very poorly", that is, with a delinquency rate of more than 2.5 percent, increased from 2 to 11. Those performing "poorly" increased from 5 to 17. In total, the number of regions rated poor or very poor rose fourfold from 7 to 28, or almost half of the 65 regions.

A further breakdown into postcodes revealed that South West Metropolitan Perth in WA, encompassing outlying working class suburbs such as Rockingham, Hillman, Garden Island and Peron, had the highest delinquency rate, 5.31 percent—more than three times the national average. North Western Sydney (Oakhurst, Glendenning and Plumpton in the Mount Druitt area) followed on 5.20 percent, and Fairfield-Liverpool in south-western Sydney on 5.05 percent.

Of the 20 worst-affected postcodes, 9 were in Queensland and 3 in WA, alongside 8 in or near Sydney in New South Wales. Queensland and WA, the two states supposedly benefiting most from the super-profits of the boom in Australian mineral exports, saw the sharpest declines in performance. Among the poorest results were in the Gold Coast and Sunshine Coast areas of Queensland, where tourism numbers have plunged.

Overall, Queensland jumped up from 1.54 percent to 2 percent between November and March. Significantly, the trend emerged before January's floods and cyclone that wreaked havoc in many parts of the state.

Moody's analyst Arthur Karabatsos said the "apparent paradox" was partly explained by the fact that non-mining jobs still accounted for most employment in Queensland and WA, and that "the strong Australian dollar has weakened the tourism industry, which accounts for more than 5 percent of employment in Queensland."

"Overall, mining accounts for just 1.8 percent of employment in Australia, and then 2.4 percent in Queensland and 7.1 percent in WA. Now Queensland's tourism-dependent Gold Coast region not only has Australia's third worst mortgage performance with 3.11 percent delinquencies, but also contributes the most delinquent loans outright with 6.9 percent of such loans in

Australia."

Moody's also pointed to the impact of high levels of indebtedness among the poorest homebuyers. It said those households most affected by the deteriorating situation were those with the lowest equity in their homes, and the highest relative levels of debt.

Another factor was falling house values, with Fairfield-Liverpool prices dropping 2.3 percent in the past year, the worst result in Sydney. Nationally, homes bought after 2007 have lost over 7 percent of their value.

Adding to the stress was the soaring cost of living for working people, with food and utility prices rising at about 6 percent, much faster than the official Consumer Price Index of 3.6 percent.

Utterly indifferent toward the plight of those experiencing financial distress, the Labor government, the credit agencies, the banks and the media sought to downplay the trend and its ramifications. The Reserve Bank of Australia stated: "Despite the increase over the first half of 2011, the overall mortgage arrears rate in Australia is still low by international standards, and the bulk of housing loans in arrears are well collateralised."

Many delinquencies were found to be of "2009 vintage". They arose from loans taken out during 2009 when the Labor government propped up the banks and building industry with multi-billion dollar stimulus packages that included an expanded first homebuyers' grant scheme. At the same time, the Reserve Bank dropped official interest rates to an historic low of 3 percent.

These measures encouraged young working class families (more than 78,000 in the first six months of the grant) into borrowing with little or no equity as banks and lenders eased loan-to-value ratios.

Nationally, 30-day arrears rose to 1.84 percent (an estimated 92,000 mortgagees) from 1.37 percent at the end of last year, while 90-plus day delinquencies rose to 0.79 percent (close to 40,000 mortgagees) from 0.54 percent.

While not at the 8 percent delinquency rate that preceded the US sub-prime mortgage crisis, the results reveal rising financial distress that will intensify amid mass layoffs and rising unemployment. The Moody's report was just one of several pointing in this direction.

The number of borrowers experiencing "mortgage stress" rose to a staggering 25 percent, up from 21 percent in March, according to a study by Genworth Financial Australia. Mortgage stress is generally defined as 30 percent of a borrower's income going to home loan repayments.

Many workers can no longer afford to buy a house. A study by the University of Canberra and AMP found that median house prices jumped 147 percent to $417,000 between 2001 and 2011, while median incomes grew by just half. On average, the amount needed to buy a house jumped from nearly five times annual income in 2001 to more than seven times.

Residential construction has slowed to the lowest level in two and a half years. New home sales crept up 1.1 percent in August, after dropping 8 percent in July and 8.7 percent in June—the lowest level in five years according to the Housing Industry Association.

At the same time, the country's major banking institutions continue to make record profits. During the most recent reporting season, the big four banks earned $12 billion cash profits in six months to December, up 16 percent on the previous year. In part, these results were achieved by reducing provisions for bad and doubtful loans. Thus the Commonwealth Bank dropped its bad debt provisions from $1.38 billion to $722 million.

The Moody's report produced signs of nervousness in the corporate media. While the Reserve Bank last month said the "big four" banks—the Commonwealth, Westpac, NAB and ANZ—were among the strongest in the world, an article in the *Australian* noted that competition between the banks for new mortgages had "picked up at a time of rising unemployment, falling house prices and increasing global jitters."