Home buyers to take major hit as Australian central bank moves to lift interest rates

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The Reserve Bank of Australia (RBA) kept its base interest rate at the ultra-low level of 0.1 percent at its meeting yesterday but indicated a rise is soon on the way, with major social and economic consequences for the working class.

Rate rises are set to be implemented as soon as the Australian election scheduled for May is over. The RBA dropped its previous commitment that it was “prepared to be patient” in deciding whether to lift interest rates in the face of accelerating inflation.

Higher rates will deliver a hammer blow to millions of working-class families, already struggling to meet mortgage payments due to the highly-inflated housing market, boosted by the flooding of the global financial system with cash by the world’s major central banks, including the RBA.

The median price for a house in Sydney is now more than $1 million, with prices having risen markedly in all urban centres.

In his statement on monetary policy, RBA governor Philp Lowe said inflation had increased “sharply in many parts of the world.” This had led to rising yields [interest rates] on bonds and “expectations of future interest rates have increased.” Already, he noted, “fixed mortgage rates for new loans have risen recently.”

Lowe said inflation had risen in Australia, while remaining lower than in many other countries, but “higher prices for petrol and other commodities will result in a further lift in inflation over coming quarters with an updated set of forecasts to be published in May.”

This sets the stage for a June hike in the RBA’s base or cash rate.

According to reports in the financial press, markets have priced in an RBA base rate of 1.75 percent by the end of the year, rising to 3 percent by next August. Calculations from various sources point to the devastating effect these rises would have on home buyers.

According to the *Sydney Morning Herald*, an RBA cash rate of 1.75 percent would lift repayments on an $800,000 mortgage by almost $1,400 a month, or $16,000 a year. That is, families paying off such a mortgage, which is likely to be prevalent for recent home buyers in Sydney, face a cut in their disposable income by around $350 a week.

Other calculations, though not as high, go in the same direction. The ANZ bank estimates that a borrower with a 25-year mortgage would pay an additional $504 per month by the end of the year if the cash rate went to 2 percent, rising to $771 if it went to 3 percent.

A survey by Canstar, a financial research company, found that around 11 million people are worried they will not be able to meet household costs, with one-third of those citing housing as their biggest worry.

This comes on top of rising household costs, one of the chief components of which is the price of petrol, impacting heavily on workers who often must travel considerable distances to get to work.

Food prices are also escalating because of the floods in New South Wales and Queensland and the flow-on effects of the war in Ukraine.

The head of the IGA retailer, Fred Harrison, reported late last month that the prices of cabbages, potatoes and broccoli had risen by 75 percent in the space of just two weeks and prices were expected to remain high for at least six months.

Data from a consumer survey group in February noted that compared to a year ago the cost of many basic items had surged well beyond the official inflation rate of 3.5 percent.

The price of diced beef was 22 percent higher and basic beef mince had risen by 14 percent. Cooking oils were up 19 percent, canned fruit had increased 19 percent and baked beans and tinned spaghetti had jumped by 21 percent.

The surge in prices is taking place under conditions where wages have been suppressed and are going backward in real terms.

The issue of wages will be a central focus of the forthcoming election. But as Australian Broadcasting Corporation economics journalist Ian Verrender noted in a recent article, elections are not about delivery. They are about creating illusions and the "big illusion in this year's contest centres on wages."

The Liberal-National government, basing itself on the Treasury papers for last week's budget, is predicting a rise in wages during 2023. But such predictions have been continually made in the past and never materialised.

The Labor Party has also said it will seek to lift wages but has advanced no policies to achieve that. It remains totally committed to the very mechanisms, in particular the Fair Work Commission (FWC), that have helped suppress wages over the past decade.

Verrender scathingly noted: "If you believe Treasury and its forecasts in last week's pre-election budget, magic is about to happen." According to the Treasury, next year inflation is going to drop back to 3 percent while wages will grow at 3.5 percent, "miraculously delivering 'real' wages growth."

The Treasury forecast is based on the so-called Non-Accelerating Inflation Rate of Unemployment (NAIRU). Supposedly, once unemployment falls to a low level, wages start to rise because of the shortage of labour. But any such relationship that may have existed in the past has now gone.

That is because of two factors. First, the labour market has been transformed by the rise of casualisation, temporary contracts and the "gig" economy, in which growing numbers of workers are on call and at the mercy of employer demands.

Second, the labour market operates under what amounts to an industrial police force, comprising all sections of the trade union bureaucracy, working in the closest collaboration with the FWC.

The Rudd-Gillard Labor government established the FWC, in partnership with the peak trade union body, the Australian Council of Trade Unions (ACTU). In order to take any industrial action, workers face lengthy FWC proceedings, with any breaches bringing major fines.

One of the reasons former Liberal-National Prime Minister John Howard lost the 2007 election and his seat in parliament, was his introduction of "WorkChoices" laws to suppress workers' struggles.

But as Verrender pointed out, the Fair Work Act, drafted by Labor and the ACTU to replace WorkChoices, "has been every bit as efficient at eliminating industrial disputes." It had pushed down strike activity to its lowest-ever level, "maintaining wages growth at the slowest pace in history."

Faced with an attack on all fronts—increases in home mortgage payments as the major banks turn workers into debt slaves to finance their rising profits, the escalation of prices across the board and the lowering of wages—the issue raised directly before the working class is to develop new forms of struggle and a new political perspective.

Workers and their families face not just individual employers but the operations of the profit system itself and all its political representatives. The entire economy must be reorganised on socialist foundations to meet social needs, not the dictates of profit.

The first step for workers in carrying forward this pressing and necessary struggle is to break out of the straitjacket in which they have been confined by the trade union apparatuses and develop rank-and-file committees in workplaces.

Their formation cannot be aimed at trying to pressure the union apparatuses—that is impossible because they are tied by a thousand strings to the profit system—but at opening a new road of independent struggle.