Australian central bank chief declares interest rates must rise despite financial distress

Mike Head
16 June 2022

Australia's Reserve Bank governor gave a rare television interview on Tuesday night to bluntly insist that interest rates must keep increasing, regardless of the immense financial stress in working-class households as the cost of living soars.

It was a blatant move to help the Labor government and the trade unions suppress surging workers' wage demands, by driving down consumer spending and hence the demand for labour, even at the expense of a recession.

In his appearance on the Australian Broadcasting Corporation's "7.30" program, Philip Lowe also sought to reinforce the government's sudden, post-election, discovery of the necessity to slash social spending to cut the record budget deficits and looming $1 trillion federal government debt.

Lowe said people had to consider how the federal government would continue to pay for all the things voters wanted. The "bigger fiscal issue" was paying for the higher spending the community expected on disability, aged care, healthcare and defence.

"There are increasing demands on the public purse. It's harder to find out how we're going to pay for that," he said.

Speaking for the first time since the bank announced last week's 0.5 percentage point cash-rate hike to 0.85 percent, the largest move in 22 years, Lowe said: "Australians need to be prepared for higher interest rates."

At the same time, he delivered another shock to working-class households, announcing that the bank now expects the official inflation rate, as measured by the Consumer Price Index, to reach 7 percent by the end of the year, overturning its previous forecast of 6 percent.

In other words, interest rates must be pushed up, with potentially devastating consequences for heavily-debt laden households in terms of soaring mortgage rates and rents, on top of the sky-high costs of petrol, electricity, domestic gas and food.

Lowe added that it was "reasonable" to think interest rates would reach about 2.5 percent at some point, but it was "unclear" how far they would rise. Financial markets are now betting on the central bank's cash rate reaching 4 percent by early next year and 4.2 percent by May 2023.

For a household with a 25-year typical variable rate mortgage of $500,000, that would add more than $1,000 a month to repayments; for $750,000, the additional repayments would be over $1,500 and for $1 million, more than $2,000.

Lowe sought to justify the rate hikes by asserting that households had saved $250 billion during the COVID-19 pandemic. "The current rate of savings is very high," so people could afford higher repayments, he said.

This "savings" figure is a misleading aggregate. It reflects the affluence of the wealthiest layers of society, while airbrushing the indebtedness and cost of living crisis confronting working people.

Studies have shown that even before the Reserve Bank lifted its cash rate by a total of 0.75 percentage points in the past month, over 70 percent of households in some working-class outer suburbs, particularly in Sydney and Melbourne, were already suffering "mortgage stress."

Lowe refused to apologise for the bank insisting, up until recent months, that it would not start raising rates from their two-year-long "emergency" levels of near-zero until 2024. He said these statements were not "promises," even while conceding that these assurances would have influenced how much some people borrowed.

In fact, hundreds of thousands of home buyers relied on the bank's predictions when signing up to huge mortgages because of spiralling property prices—with median house prices in Sydney and Melbourne exceeding $1 million, up by more than 30 percent in two years.

A letter to banks this week from the Australian Prudential Regulation Authority underscored that reality. It warned that its data for the March quarter showed that 23.1 percent of new mortgages had a debt-to-income ratio of six times or more—the level it considered "risky." The volume of high debt-to-income mortgages was only slightly down from a record of 24.3 percent in the December quarter.

Growing numbers of these people, and other recent home

© World Socialist Web Site

buyers, now face the likelihood of "negative equity" in their homes—that is owing more than the value of the property—because house prices are predicted to fall by up to 20 percent in major cities as a result of the bank's rate hikes.

Australian business columnist Robert Gottliebsen this week warned of a "hurricane" about to hit the housing market because "a vast proportion of those who borrowed the massive total of $650 billion (30 percent of housing loan outstandings) during the two-year bank lending spree will owe more on their dwelling than it is worth."

As of April, Australia's household debt, primarily mortgages, was around 130 percent of gross domestic product, among the highest levels globally. Household debt to disposable income was at 203 percent, compared with 50 percent in the 1980s. Despite two years of record-low interest rates, over 13 percent of income was used to service debt, higher than in 1989–90 when interest rates peaked at nearly 20 percent.

Data published by home loans provider Joust and Digital Finance Analytics in March estimated that even before the Reserve Bank's two rate rises, 42 percent of home buyers were already in mortgage stress, as measured by having to spend 30 percent or more of their income on mortgage repayments.

That totalled 1.5 million households. A 3 percent rise in interest rates would have added almost another million, taking the proportion to around 50 percent.

Suburbs in Sydney's outer southwest had the worst mortgage stress, affecting 76.5 percent of borrowers in the Macarthur electorate, taking in Campbelltown. In the western Sydney seat of Chifley, covering Mount Druitt and Rooty Hill, 66.8 percent were in stress.

Across Melbourne, the outer suburbs also had highest stress levels—57.1 percent of borrowers in the southeastern Bruce electorate, covering Narre Warren, and 53.4 percent the northern seat of Calwell, covering Craigieburn.

In Brisbane, 46.6 percent of borrowers were in mortgage stress in the northern seat of Lilley, taking in Chermside.

This crisis is the result of ruthless capitalist profit-making, especially by financial speculators and property developers, for decades. Since the 1990s, house prices have risen from 2.5 times annual household income, to more than six times today.

As a result, the rate of home ownership is declining rapidly, especially among those under 40. On current trends, fewer than 55 percent of people born after 1990 will own a house by the age of 40, compared to a historical high of almost 72 percent.

This reversal is not just affecting young people. The proportion of homeowners aged 55 to 64 years still owing money on mortgages has tripled from 14 percent to 47 percent over the past 25 years.

That situation will get a lot worse. In his *Australian* article, Gottliebsen wrote: "Few Australians have any idea of the force behind the hurricane that now looks certain to hit the residential home building market in 2023. Unless builders and highly borrowed owners understand what is coming, they will be badly mauled."

According to the Murdoch media columnist, "the fact that this total national transformation has erupted in the first two weeks of a new government is stunning, given it was not discussed in the election campaign."

What a distortion! Both Labor and the outgoing Liberal-National Coalition, assisted by the entire corporate media, cynically covered up this crisis, and all the other economic and social disasters, throughout the election campaign. Now the phony pretences, summed up in Labor's election slogan of "a better future," are being thrown overboard.

Lowe's declarations followed those last week by Treasury Secretary Steven Kennedy. Obviously speaking with the government's agreement, Kennedy made it clear that the government must cut social spending—particularly in already severely under-funded health, aged care and disability programs—and stifle workers' growing demands for wage rises to match the spiralling cost of living and soaring interest rates.

That message was amplified by the June 14 editorial in the *Australian Financial Review*, which declared that the Albanese government had to "use the snowballing cluster of shocks to recast Australia's economic agenda in the same way its Coalition predecessor should have seized the COVID-19 pandemic—as a burning platform for change."

The editorial insisted that Treasurer Jim Chalmers and Albanese had to "start verbalising what that actually means: that many of Labor's election promises have been made redundant."

That means an explosive collision course with the growing sections of the working class, including the nurses, aged care workers, teachers, university staff, bus drivers, public sector workers and others who have already taken strike action in recent months, demanding wage rises and an end to soaring living costs, as are millions of workers around the world.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site