Australian central bank rate rises target working-class households

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28 December 2022

The year 2022 has already seen the sharpest reversal in working-class living conditions in Australia and globally since World War II, driven by sky-rocketing inflation and interest rates.

Internal documents from the Reserve Bank of Australia (RBA) show that this economic and cost-of-living crisis will intensify in 2023, with a deliberate policy to inflict the suffering primarily on workers and their families.

On December 23, just two days before Christmas, the RBA released the "restricted" documents in response to a Freedom of Information application. The timing was designed to bury the contents as much as possible during the holiday period.

The draft reports and emails, dating back to June, show that the central bank has consciously calculated that the harshest impact of its ongoing interest rate rises since May will fall on lower-income households, threatening many with mortgage defaults.

The documents are a warning of the severe financial and personal stress facing millions of people as the RBA, like other central banks internationally, engages in the fastest raising of rates for decades. Over half of home loan borrowers will suffer a 20 percent decline in their cash flows.

The material shows that the RBA expects its consecutive monthly rate rises—so far from 0.1 percent to 3.1 percent—to dramatically reduce consumer spending by the most indebted and lowest-income households. By contrast, wealthier and older people with cash savings are expected to lift their spending thanks to higher yields on savings.

These calculations are all premised on using the aggressive rate rises to also ensure that real wages continue to be cut. In the RBA's scenarios, the official inflation rate is expected to be around 8 percent, while annual wage rises—including those for high-salary employees—will average just 5 percent.

Thus workers are being hit by a double blow—real wage cuts and sharp rate rises that have the effect of cutting disposable incomes even more.

At the same time, the documents show that the wealthiest households also obtained the greatest financial benefit of the near-zero interest rates that the bank previously implemented at the outset of the COVID-19 pandemic. Those record low rates were set in order to provide the corporate elite with cheap money, boost the already-inflated property market and stimulate consumer spending.

In sum, the RBA, together with other central banks, is intent on imposing on the working-class the overwhelming burden of the economic and cost-of-living crisis produced by the pandemic and the US-NATO proxy war against Russia in Ukraine.

Also revealed are efforts by the RBA to camouflage the regressive "distributive" effect of its interest rate hikes in its official statements and presentations, and to play down the likely suffering of working-class households, so as not to be "alarmist."

No doubt these calculations have been shared with Treasurer Jim Chalmers, for all his feigned empathy for the "pain" facing ordinary people. The Albanese Labor government has supported the demand of RBA Governor Philip Lowe for wage increases to be kept below 3.5 percent.

Overall, the RBA's forecasts are stark. Almost two in three home loan borrowers are expected to slash "non-essential" spending, and 30 percent will deplete their savings within 12 months.

A graph shows that more than 80 percent of borrower households will suffer a greater than 10 percent fall in "spare cash," that is cash flow relative to income.

According to a note: "Just over half of variable-rate owner-occupier borrowers would see their spare cash flows decline by more than 20 percent over the next couple of years, including around 15 per cent of households whose spare cash flows would become negative."

But the wealthiest 5 percent of variable-rate owner-occupier borrowers would experience an increase in their cash flows. "This group are typically high-income borrowers who spend a low share of their income on essential living expenses" and "their expected income growth would exceed that of their (loan and living) expenses."

At the other social pole, one report identifies 6 percent of borrowers as "highly vulnerable" and likely to fully deplete their savings "buffer" within six months, even if they cut non-essential spending by 90 percent. This could lead to some being forced to sell their homes, unable to meet elevated mortgage demands.

Some 71 percent of borrowers were supposedly "not vulnerable" but only because they had mortgage prepayment buffers considered large enough to absorb the financial shock for at least two years, providing they cut non-essential spending by 10 percent.

Another graph further illustrates the unequal class content of the bank's offensive. It shows that a household with two children on a gross income of $120,000 a year with a $600,000 debt would suffer about a 13 percent cut in disposable income, while one on $250,000 would take a smaller 8 percent reduction. No comparison was offered for households on even lower incomes.

A September 15 note records advice by Lowe to hide this distributional impact. "Phil [Lowe] raised a point that a 5?10 percent decline as share of household income seemed to be alarmist." So the RBA decided to present overall percentage cuts in "spare cash flows" rather than what these cuts were as a percentage of household incomes.

Another presentation says nearly a quarter of variable loan borrowers would have debt servicing ratios exceeding 30 percent of income—a measure of financial stress. Of these, 75 percent would be "in the lower half of the income distribution," while one-third would have "less than one month buffer."

A note states: "Lower income households tend to spend a larger proportion of their incomes on (unavoidable) essential living expenses. Lower income households may also be subject to a higher effective rate of inflation if they are less able to substitute away from purchases of goods and services with more rapidly rising prices."

One summary concludes that if such households "have limited ability to make other adjustments to their financial situation (e.g. by increasing their hours worked) and pressure on their finances continues, they could fall into arrears on their loan obligations; some may eventually need to sell their homes or may even enter into foreclosure."

These scenarios understate the depth of the financial stress to come because they assume no substantial rise in unemployment, despite the looming economic contraction. One note admits: "Should labour and housing market conditions deteriorate further than assumed in the Bank's central scenario over the coming years, a larger share of households would be expected to fall into arrears on their mortgages."

The housing and financial crisis will worsen during 2023 because about 35 percent of mortgages are on short-term fixed rates, and most are due to expire next year. Many loans were taken out at fixed rates of around 2 percent, relying on RBA statements that it would keep rates at record lows until 2024 at least.

The RBA estimates that many of these households will confront a more than 40 percent rise in mortgage repayments. But the bank's chief concern is that there is a "lag" in this impact and the wider effect of rate rises on variable rate borrowers.

The documents show that the lion's share of the benefit of the record low interest rates in 2020 and 2021 went to wealthiest households. In his public statements, Lowe sought to play down the impact of rate hikes by reporting that households had built up $260 billion in savings.

But a graph shows that about $220 billion of the estimated additional household savings from the March quarter of 2020 to the December quarter of 2021 went to the richest two quintiles. Of that, some $160 billion went to the top quintile. That left about $40 billion for the lowest three quintiles—a thin "buffer."

Like their counterparts around the world, the bankers know that the rate rises will not bring down global inflation—which has not been caused by workers' wages or spending. The rises are aimed at suppressing workers' wages struggles by imposing an economic contraction, or even a recession.

In announcing the RBA's latest rise earlier this month, Lowe reiterated the bank's focus on "the importance of avoiding a prices-wages spiral." He warned of even higher rates in 2023. In November, he had warned that if workers pressed ahead with wage demands, the central bank would lift interest rates to induce a "severe recession."

Treasurer Chalmers defended the bank, saying the "defining" economic challenge was inflation. "That's what the Reserve Bank was responding to today."

Since scraping into office in May the Labor government has demanded "sacrifices" from workers, junking its election slogan of "a better future." With its state and territory Labor counterparts, the Albanese government is spearheading the suppression of wages by imposing punishing sub-inflation wage caps on nurses, teachers and other public sector workers.

Facing deepening discontent and a resurgence of strikes, the Labor leaders are relying on the trade union bureaucrats to keep imposing sub-inflation workplace agreements to enforce the pro-business agenda laid out in the Albanese government's first budget on October 25, which was predicated on at least two more years of real wage cuts.