Australian central bank applies “painful squeeze” to working-class households

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As a result of a calculated recessionary policy by the Reserve Bank of Australia (RBA), backed by the federal Labor government, the social and housing crisis in Australia is becoming increasingly acute.

Interest rates, mortgage payments and rents are soaring, as they are internationally, while wages continue to fall rapidly in real terms as employers, governments and trade unions impose sub-inflationary deals.

The RBA’s Financial Stability Review, released on April 6, demonstrates the class war character of its measures, which are particularly targeting low-income households in order to slash their spending, drive up unemployment and suppress wages further.

Regardless of the bank’s current pause in what it calls a “painful squeeze” on many households, with 10 monthly rate hikes since last May, this pain will intensify over the next year. More households will come off fixed rates and others face “negative equity” in their homes because their loans exceed the fallen market value of their homes.

The rate rises are falsely presented by the bank, the media and the Labor government as necessary to fight inflation. In fact, the causes of inflation lie in profit-gouging, especially by food and energy companies, on top of the pouring of trillions of dollars by governments and central banks into the global money markets since the 2008-09 world financial crisis and the impact of the COVID-19 pandemic and the US-NATO war against Russia.

In response, the RBA is consciously creating hardship. Overall, the bank calculates that up to 17 percent of borrowers will experience “negative spare cash flows” by December 2023 if unemployment rises. That is, about a million households will not be able to make ends meet and could lose their homes.

Nearly half of low-income borrowers (the poorest 20 percent) are already in what the bank classifies as mortgage stress. That proportion has almost doubled in just eight months.

The report states: “The share of low-income mortgagors devoting more than one-third of their income to servicing their housing loan has increased from around one-quarter before the first increase in interest rates in May 2022 to around 45 per cent in January 2023.”

By contrast, only about 5 percent of borrowers in the highest income quartile of income earners fall into this category.

Low-income households are also more at risk of losing their jobs, and therefore their homes, according to the RBA’s scenario of rising unemployment and underemployment. The report states: “Relatively few households can sustain their mortgage through an extended period of unemployment.”

By the end of 2023, if unemployment and underemployment rise to 5.5 percent and 8 percent respectively, more than 80 percent of households that experience job loss are expected to have negative spare cash flows. Around half of households that lose even a share of their hours would have negative flows.

The RBA claimed repeatedly for months that households had billions of dollars in savings that would protect them from financial stress. The financial stability report reveals a very different situation: “While many borrowers have significant buffers, around 40 percent of loans have less than three months of prepayment buffer. Borrowers with these loans are potentially more at risk of struggling to service their debts, particularly if they experience shocks to their income or expenses.”

The bank adds: “This risk is highest for those who also have low incomes. This is because low-income households typically have less ability to draw on wealth or cut back on discretionary consumption to free up cash flow for debt servicing.”

The report still insists that most borrowers have “large equity buffers in their properties, giving them the option

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to sell their property and repay their loan if it becomes too difficult to service the loan." but that of course means losing their homes.

The report then reveals that many mortgage holders will be unable to refinance their loans. "Estimates suggest around 16 percent of existing loans are unable to meet serviceability assessments conducted at current interest rates. If mortgage rates were to increase by a further 1 percentage point, the share of loans unable to refinance with another lender is estimated to increase to around 20 percent." That would be about 1.2 million households.

"Newer borrowers are over-represented in this cohort, especially the small share who borrowed close to their maximum capacity when interest rates were very low."

In other words, most exposed are those people who took out mortgages after the bank lowered rates to near-zero to boost big business during the first two years of the COVID pandemic, counting on the RBA's assurances that it would not increase rates before 2024.

The bank's interest rate hikes are exacerbating a disaster for the rising numbers of renters, who now make up more than 35 percent of the population.

Nationally, rents jumped 11 percent over the past 12 months. In Sydney, one of the locations of sharpest increase, the median asking rent for units jumped 24 percent to $620 a week in the year to March—the fastest annual growth on record.

For the RBA, this impact is just as expected. "As renters tend to have lower incomes than other households and so spend a larger share of their income on essential items, they are less able to adjust their spending behaviour in response to high inflation. In addition, renters have historically been more likely to lose work during downturns."

The bank's only concern is whether this social distress poses a risk to the overall economy. "While renters do not pose direct financial stability risks, if a large share of renters were to sharply reduce their consumption it could contribute to a more material economic downturn."

Such is the indifference of the ruling class to the working-class victims of its policies.

A housing campaign group, Everybody's Home, released figures this week comparing the average weekly unit rents against award wages for 15 essential jobs. There are virtually no regions of Australia where a single full-time worker, such as those in aged care, early childhood or nursing, could afford to rent by themselves.

For a worker in hospitality or meat packing to meet the average capital city rent of $572 a week, they would have to spend 81 percent of their pay. For an aged care worker, it would be 77 percent. Even those on higher pay, like teachers and firefighters, would have to spend 58 percent of their average pay on rent. That is almost double the 30 percent benchmark for rental stress.

As a result, homelessness is becoming a more visible blight, with frequent reports of people living in cars, tents or on the streets. Almost 280,000 people sought help from homelessness services in Australia last year, up by around 8 percent from four years earlier. Many were turned away due to a lack of resources. In Queensland, the numbers rose by 22 percent, and 29 percent in regional areas.

The Labor Party's election promise of a $10 billion fund, to be invested to build 30,000 social housing units over five years, would be a drop in the ocean, even if it were implemented. The government is also shutting down a National Rental Affordability Scheme introduced by the previous Rudd Labor government that subsidised landlords to keep rents on new homes on a cheaper rate for 10 years.

The housing crisis demands a socialist solution. That means the fight for a workers' government that would redirect the massive wealth accumulated by the billionaires, property developers and financial speculators, and the billions being spent on war preparations, to housing, health, education and other essential social programs. To do that, it would place the banks, finance houses and property industries under public ownership and the democratic control of the working class.

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