Amid cost of living crisis, Commonwealth Bank of Australia reports record profit

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The Commonwealth Bank of Australia (CBA) this week reported a cash profit of $10.16 billion for the 2022?23 financial year. That is the biggest full year profit recorded by the country's largest bank, and is up by six percent on its takings the year before.

As has been widely discussed on social media and by some economic commentators, the profit bonanza for the CBA occurs amid the worst cost of living crisis in decades, with prices for essentials increasing by well above the rate of inflation, which remains over six percent.

At the same time, the Reserve Bank of Australia (RBA) has increased interest rates twelve times since last year. The measures, purportedly aimed at combatting inflation, have driven up housing costs. The monthly repayments of average mortgage holders have increased by over a thousand dollars across the country.

The two processes, the soaring profits of the banks, and the deepening social misery afflicting ordinary people are not unrelated. In fact there is a direct connection between the two.

The CBA profit report acknowledges that some of the boost to its bottom line was a result of the interest rate increases. Its business division drove the increase, with a 32 percent rise in annual profits to $4 billion. The retail division remains the largest, however, with earnings in that sector of $5.1 billion, up five percent year-on-year.

Across its operations, the bank's profitability was bound to the interest rate regime. As the hikes began last year, its net interest margin, measuring the difference between how much it earns on loans versus how much it pays on deposits, soared to 17 basis points.

There was a decrease of five basis points in the past six months, but that was not the result of any regulatory measure targeting the blatant profiteering. Instead, the net interest margin fell as the CBA sought to fend off the other banks' competition in the mortgage market.

The CBA profits are not an aberration. Suncorp Group, which operates across investment, banking and insurance, this week reported an annual profit increase of 69 percent to $1.15 billion.

The other three major banks will report their full-year profits in November, but they are also expected to rake in vast sums. Forecasting in May predicted year-on-year profits of $3.8 billion for ANZ, $4.2 billion for NAB and $3.8 billion for Westpac. All of the predictions note the windfall the banks are generating is on the back of the interest rate hikes.

Research released by Lendi Group this week, cited by *Australian Broker*, found that the average mortgage repayment across the country now sits at $3,865 a month. That is a hike of $1,387 every month, compared with payments on a 2 percent interest rate a year-and-a-half ago.

The research noted a decline in the number of mortgage holders still benefiting from record low interest rates earlier in the pandemic as a consequence of being on a fixed-rate plan. That cohort now only accounts for 21 percent of mortgage holders across the country, and it is set to diminish further over the coming months as broad layers are forced off what has been described as the "mortgage cliff."

They will immediately be confronted with an increase in their monthly housing expenses of more than $1,000 per month. Lendi reported that 34 percent of those still on fixed rates are single individuals, potentially indicating a limited financial buffer once their fixed-rate period concludes.

The CBA's own figures point to the growing levels of mortgage stress. They revealed that 3.4 percent of owner-occupiers who acquired a mortgage over the past five years have a negative cash flow, i.e., their income is insufficient to meet the minimum loan repayments and most essential living expenses.

With the bank indicating that only two-thirds of the already inflicted interest rate rises have filtered through, that figure is expected to increase. The *Australian Financial Review* cited forecasts that up to fifteen percent of all mortgage holders will be in negative cash flow by the end of the year.

Another 22 percent of mortgage holders are listed by the CBA as being "just in time" with their repayments. Though this cohort includes investors and others seeking to manage cash flow, it is undoubtedly an indication of broader pressure.

Across the board, the RBA's bad and doubtful debts increased more rapidly than its profits, by 19 percent to $15.6 billion. Some $1.47 billion of those were in the write-off category.

In comments to the *Guardian*, Paul Kofman, business and economics faculty dean at the University of Melbourne, stated: "When inflation crept up and interest rates started to increase, profit margins of banks increased considerably. But what we are seeing now is a provision for mortgage defaults."

He added: "Banks are getting spooked about increasing default rates when interest rate rises continue. We've come to the peak of profit margins and beyond that point they are getting eroded by bad debts."

While defaults and arrears remain at relatively low levels, they are growing. This week, the *Daily Telegraph* reported that in New South Wales, the most populous state, 13 homeowners are facing repossession of their property each week.

The analysis was based on data from the NSW Supreme Court. It showed that there had been 346 writs issued for possession of properties in the six months to June 30 this year. That compared with 390 issued for the whole of 2022 and 284 in 2021.

Increasingly, households are without any buffer. National Accounts data for the March quarter showed that the household savings rate had fallen to 3.7 percent, the lowest level since 2008. Australian households, moreover, have long been among the most indebted in the world, with the rate of household debt to gross domestic product consistently between 110 and 120 percent.

The increase in mortgage costs, which is intersecting with record high rental expenses, is part of a broader surge in the cost of living.

The latest selected living cost index by the Australian Bureau of Statistics found that the true cost of living for employee households had risen by at least 9.6 percent over the past year. That far outstrips the official inflation rate, which has only reached as high as 7.1 percent before falling back to around 6.

Part of the reason for the discrepancy is that the official consumer price index measure of inflation excludes many housing costs under conditions where they are one of the drivers of the rising cost of living.

The CBA profits, their connection to the RBA's rate hikes and to rising mortgage repayments underscores the fraud of the purported "war against inflation." In the name of combating rising prices, the RBA is increasing housing costs at the fastest rate in decades, with clear inflationary implications. At the same time, it is delivering a massive cash windfall to the banks, the most powerful corporate and financial institutions in the country.

That underscores the class character of the interest rate regime. Its real purpose is not to curb costs, which are a product of the US-NATO war against Russia in Ukraine, the unchecked pandemic, global supply chain disruptions and rampant corporate profiteering. Instead, the RBA, in tandem with central banks around the world, is seeking to slow the economy and drive up unemployment to reduce wages, even if it results in a recession.

The RBA has continually involved the threat of increased wages as the sharp end of the inflation crisis. But the danger is entirely spectral. In the twelve months to March 2023, the Wage Price Index recorded an average 3.7 percent pay rise, far below even the understated official inflation figures.

Those real wage cuts, which are forcing workers further and further backwards, are being enforced by big business Labor Party governments at the federal level and across the states and territories, and by a corporatised trade union apparatus that is doing everything it can to suppress an explosion of the class struggle.