New Reserve Bank of Australia governor warns interest hikes could continue

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In her first major speech since becoming Reserve Bank of Australia governor, Michele Bullock insisted that the central bank will continue to lift interest rates no matter what the consequences for families under increasing financial stress because of the rapid rise in mortgage payments.

Bullock warned of further interest rate rises in an address to a Commonwealth Bank conference on Tuesday evening. She made clear there would be no let up on interest rates while inflation remained above the bank's target range of between 2 and 3 percent.

While it was possible this could be achieved with the RBA cash rate at its present level there were risks it would come down more slowly than current forecasts, she said.

"The Board will not hesitate to raise the cash rate further if there is a material upward revision to the outlook for inflation."

Evidence of an upward movement came yesterday with the news that consumer prices in the third quarter had risen 1.2 percent compared to 0.8 percent in the second, on the back of increased electricity and petrol prices. The next rise in rates could come as early as next Tuesday when the RBA board next meets.

Bullock said it might have been possible to bring inflation down by raising the cash rate more sharply, but this would have caused "greater hardship for households and businesses and ultimately higher unemployment" and the costs outweighed the gains.

Eager to establish her authority with financial markets, she quickly added: "At the same time, the Board has been clear that it has a low tolerance for allowing inflation to return to target more slowly than currently expected. Accepting this risk would risk eroding public credibility in our commitment to low and stable inflation."

The RBA's rate increases have already had a major impact on living standards. It is estimated that a family trying to pay off a $750,000 mortgage is at least $1800 per month worse off than when rate rises began in May last year. Such huge mortgages were unthinkable not so many years ago but are now a commonplace under conditions where the median price for a house is above $1 million in many areas.

The RBA is well aware of the impact of its decisions. Bullock even provided some figures in her speech showing their effect.

She said that, on average, households with a mortgage "have experienced a significant decline in spare cash flows" and that "higher interest costs have reduced their cash flow by more than the rise in inflation."

According to RBA data, 5 percent of all borrowers on a variable rate "are estimated to be paying more for essential expenses and housing than they receive in income." This rises to about 25 percent for highly leveraged borrowers, defined as those with loans amounting to at least four times their income, not an unusual situation.

Under conditions where house prices are continuing to rise and wage increases are being suppressed, above all because of the actions of the trade union apparatuses in imposing sub-inflation wage agreements, this cohort is likely to be increasing.

Data gathered by the Roy Morgan research group published earlier this month showed that in August a record high of 1.57 million people, representing nearly a third of all mortgage holders, were now at risk of mortgage stress.

The level for August surpassed the previous record set in July and the research found the number would rise to 1.65 million in the event of another rate increase.

Presenting its latest findings, Roy Morgan CEO Michele Levine said of even more concern than the overall increase was the number of mortgage holders considered to be “extremely at risk.” Now standing at 1.066 million for August, it had doubled since the RBA began its rate rises.

In its report on the Bullock speech, the *Australian* cited the findings of a survey conducted by JWS Research. It found that eight out of 10 adults chose cost of living in their top five issues and 56 percent said it was among their top three, up from 43 percent in June.

The survey reported that “there is a sense that cost of living is now a challenge for ‘most’ households, impacting not just low-income earners but also Middle Australia.” There was a “frustration at increases in essential services expenses outstripping rises in their income, limiting their ability to maintain their standard of living and to save for their future.”

The view is sometimes put forward that the RBA is not aware of the social consequences of its policies and that, if only it were, things might be different.

That is not the case as Bullock indicated in her address. She said the RBA spoke directly to organisations that provide debt advice and mental services. They “are hearing that many households are under significant stress” and this was discussed “regularly in Board meetings.”

However, she continued, while the RBA recognised that interest rates were a “blunt instrument” it had to set its policy to “serve the welfare of Australians collectively.”

Such phrases are aimed at covering up the real agenda with Orwellian doublespeak. Policies which reduce real incomes for swathes of working-class families by $22,000 a year and more are not “collective welfare” but rather the collective punishment of the population for the ills of the profit system.

The so-called fight against inflation has got nothing to do with tackling its real causes. These include the vast profiteering by food, energy and financial speculators, as acknowledged in a recent report by the United Nations and other analyses, but specifically denied by the RBA.

The interest rate hikes are aimed at only one price, the wages of the working class. The objective is to suppress wages struggles as workers seek compensation for the largest price hikes in four decades by slowing the economy and ending what the RBA, along with its international counterparts, continually refers to as “tight” labour market.

Bullock’s first speech as RBA chief after being appointed to the post by federal Labor government Treasurer Jim Chalmers made clear that, no matter what the economic social distress, there will be no letup in its class war agenda.