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Tuesday, 22 November 2022

‘Mortgage stress’ increases to its highest since April 2018 with 22.6% of mortgage holders now ‘At Risk’

New research from Roy Morgan shows an estimated 1,013,000 mortgage holders (22.6%) were ‘At Risk’ of ‘mortgage stress’ in the three months to October 2022. This period encompassed two interest rate increases of 0.5% and in increase of 0.25% in early October taking official interest rates to 2.6% in early October – the highest official interest rates since August 2013.

Since then, there has been another interest rate increase of +0.25% in November which has taken official interest rates to 2.85% - the highest official interest rates for over nine years since May 2013.

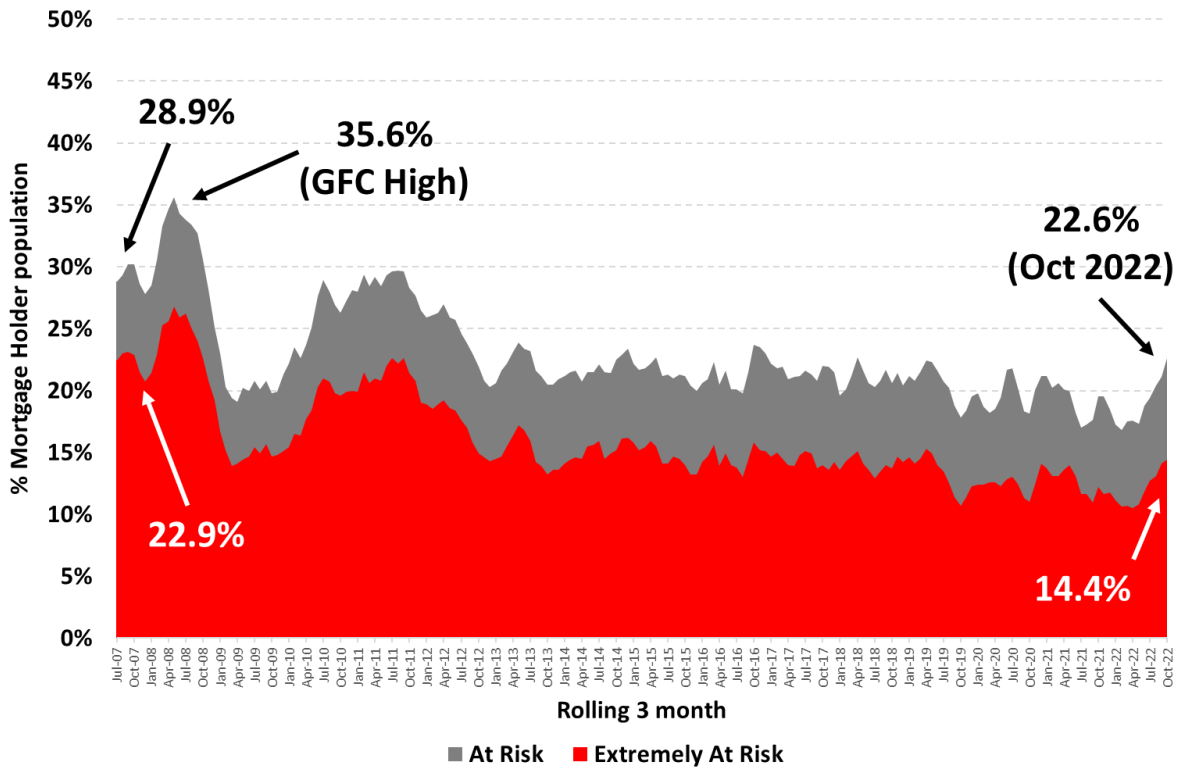
Despite these interest rate increases the proportion of mortgage holders considered ‘At Risk’ of mortgage stress in the three months to October 2022 (22.6%) is well below the high reached during the Global Financial Crisis in early 2009 of 35.6% (1,455,000 mortgage holders).

The number of mortgage holders now considered ‘At Risk’ is now just below the long-term average over the last 15 years of 22.8% of mortgage holders considered ‘At Risk’.

‘Mortgage stress’ dropped to record lows during 2021 as record low interest rates, tens of billions of dollars of Government stimulus, and the measures taken by banks and financial institutions to support borrowers in financial distress combined to reduce the number of mortgage holders considered ‘At Risk’.

The number of mortgage holders considered ‘Extremely At Risk’, has now increased to 619,000 (14.4%) in the three months to October 2022 which remains clearly below the long-term average over the last 15 years of 659,000 (15.9%).

Mortgage Stress – Owner-Occupied Mortgage-Holders



Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – October 2022, n=2,707.
Base: Australians 14+ with owner occupied home loan.

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Mortgage Risk set to increase to over 1-in-4 mortgage holders (over 1.1 million) by January 2023

The RBA decision to increase interest rates by 0.25% in November means official interest rates are now at 2.85% - and widely expected to increase again for an eighth straight month in December.

Roy Morgan has modelled the impact of three potential interest rate increases in December of +0.25% to 3.1%, +0.4% to 3.25% and +0.5% to 3.35% and projected how these different sized increases would impact the number of mortgage holders that would be considered 'At Risk' by January 2023.

In October 22.6% of mortgage holders, 1,013,000, were considered 'At Risk' and depending on the size of the interest rate increase this is set to increase by between 2.5-2.8% points by January 2023.

If the RBA raises interest rates by +0.25% in December to 3.1% there will be 25.1% (up 2.5% points) of mortgage holders, 1,123,000, considered 'At Risk' in January 2023 – an increase of 110,000.

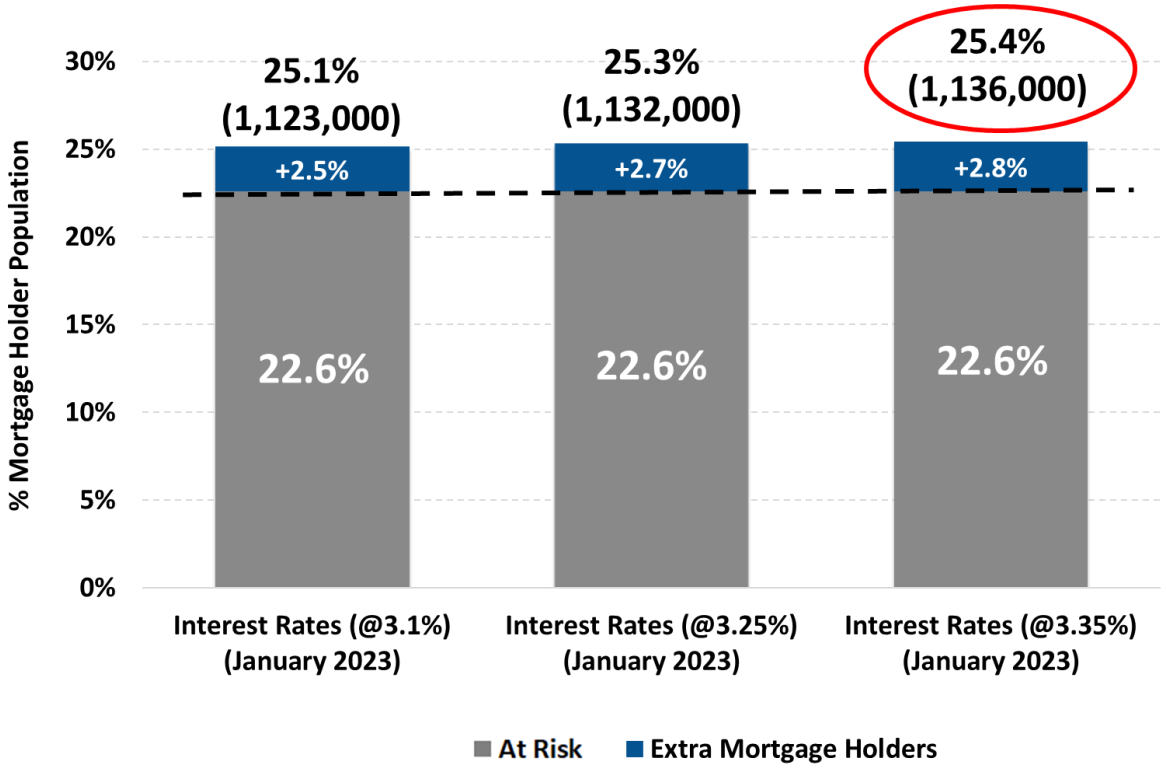
If the RBA raises interest rates by +0.40% in December to 3.25% there will be 25.3% (up 2.7% points) of mortgage holders, 1,132,000, considered 'At Risk' in January 2023– an increase of 119,000.

If the RBA raises interest rates by +0.50% in December to 3.35% there will be 25.4% (up 2.8% points) of mortgage holders, 1,136,000, considered 'At Risk' in January 2023– an increase of 123,000.

It is worth understanding that this is a conservative model, essentially assuming all other factors remain the same. And of course we are already seeing an increase in unemployment (**Australian unemployment increases to 9.2% in October as final COVID-19 restrictions end – November 14, 2022**).

The greatest impact on an individual, or household's, ability to pay their mortgage is not interest rates, it's if they lose their job or main source of income.

Mortgage Risk at different level of interest rate increases



Source: Roy Morgan Single Source (Australia), July-Oct. 2022, n=3,508. **Base**: Australians 14+ with owner occupied home loan.

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Michele Levine, CEO Roy Morgan, says mortgage stress in Australia is set to increase to over one-in-four mortgage holders if the RBA raises interest rates for an eighth straight month in December – the highest level of mortgage holders 'At Risk' for over a decade since June 2012:

"The latest Roy Morgan data shows mortgage stress in the Australian housing market has continued to increase this year with 1,013,000 mortgage holders (22.6%) now defined as 'At Risk' in October 2022, up 253,000 on a year ago when the extensive lockdowns in NSW and Victoria finally ended.

"The figures for October 2022 take into account the first six interest rate increases by the RBA from May to October totaling 2.5%. If the most recent interest rate increase in November of +0.25% is considered the estimated number of mortgage holders considered 'At Risk' increases by a further 62,000 to 1,075,000 (24.2%) – the highest for over nine years since July 2013.

"October marks the first time since September 2018 that over 1 million Australian mortgage holders have been considered 'At Risk'. Even so, with just over one-in-five mortgage holders considered 'At Risk' in October 2022 (22.6%) the level of mortgage stress is still below the long-term average over the last 15 years of 22.8% of mortgage holders considered 'At Risk'.

"The latest ABS CPI figures for the year to September 2022 show Australian inflation hitting a thirty year high of 7.3% - the highest June 1990 (7.7%). The rising inflation level in Australia, and all the indications from the RBA, suggest interest rates will increase again in December by either +0.25%, +0.40% or perhaps +0.50%.

"If the RBA does raise interest rates again by any of these suggested amounts (+0.25%, +0.40% or +0.50%) Roy Morgan forecasts that mortgage stress is set to increase to over 25% of mortgage holders considered 'At Risk' by January 2023 – well over 1.1 million mortgage holders.

"Of more concern is the rise in those mortgage holders considered 'Extremely At Risk', now estimated at 619,000 (14.4%) in October 2022 – the highest since May 2019, before anyone had even heard of the 'Coronavirus' or 'COVID-19'.

"It's important to consider that interest rates are but one variable that determines whether a mortgage holder is considered 'At Risk'. The variable that has the largest impact on whether a borrower falls into the 'At Risk' category is related to household income – which is directly related to employment.

"These figures show that as long as employment levels remain strong the number of mortgage holders considered 'At Risk' will not increase to anywhere near the levels experienced during the Global Financial Crisis in 2007-08-09 when well over 30% of mortgage holders were considered 'At Risk' – including a peak of 35.6% in May 2008.

"The latest Roy Morgan employment estimates show a near-record 13.5 million Australians were employed in October 2022, up by around 600,000 since February 2020 when there were 12.9 million employed pre-pandemic. The strong growth in the jobs market has attracted more Australians into the labour force and there are now over 1.36 million unemployed Australians (9.2% of the workforce) compared to 1.17 million pre-pandemic."

These are the latest findings from Roy Morgan's Single Source Survey, based on in-depth interviews conducted with over 60,000 Australians each year including over 10,000 owner-occupied mortgage-holders.

To understand more about mortgages in the full context of household finances and the uncertainties caused by the COVID-19 coronavirus and rising interest rates and inflation, ask Roy Morgan.

To learn more about Roy Morgan's mortgage data, call (+61) (3) 9224 5309 or email askroymorgan@roymorgan.com.

Please click on this link to the Roy Morgan Online Store.

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How are mortgage holders considered 'At Risk' or 'Extremely At Risk' determined?

Roy Morgan considers the risk of 'mortgage stress' among Mortgage holders in two ways:

Mortgage holders are considered 'At Risk'[1] if their mortgage repayments are greater than a certain percentage of household income – depending on income and spending.

Mortgage holders are considered 'Extremely at Risk'[2] if even the 'interest only' is over a certain proportion of household income.

About Roy Morgan

Roy Morgan is Australia's largest independent Australian research company, with offices in each state, as well as in the U.S. and U.K. A full-service research organisation, Roy Morgan has over 80 years' experience collecting objective, independent information on consumers.

Margin of Error

The margin of error to be allowed for in any estimate depends mainly on the number of interviews on which it is based. Margin of error gives indications of the likely range within which estimates would be 95% likely to fall, expressed as the number of percentage points above or below the actual estimate. Allowance for design effects (such as stratification and weighting) should be made as appropriate.

Sample Size	Percentage Estimate			
	40%-60%	25% or 75%	10% or 90%	5% or 95%
5,000	±1.4	±1.2	±0.8	±0.6
20,000	±0.7	±0.6	±0.4	±0.3
50,000	±0.4	±0.4	±0.3	±0.2

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[1] "At Risk" is based on those paying more than a certain proportion of their after-tax household income (25% to 45% depending on income and spending) into their home loan, based on the appropriate Standard Variable Rate reported by the RBA and the amount they initially borrowed.

[2] "Extremely at Risk" is also based on those paying more than a certain proportion of their after-tax household income into their home loan, based on the Standard Variable Rate set by the RBA and the amount now outstanding on their home loan.