

Monday, 2 October 2023

A record high 1.57 million Australians are now 'At Risk' of 'mortgage stress' representing 30.2% of mortgage holders

New research from Roy Morgan shows a record high 1.57 million (30.2%) mortgage holders were 'At Risk' of 'mortgage stress' in the three months to August 2023. This period encompassed one interest rate increase of 0.25% taking official interest rates to 4.1% in June.

The figures for August represent a new record high and surpass the previous record high number reached only a month ago.

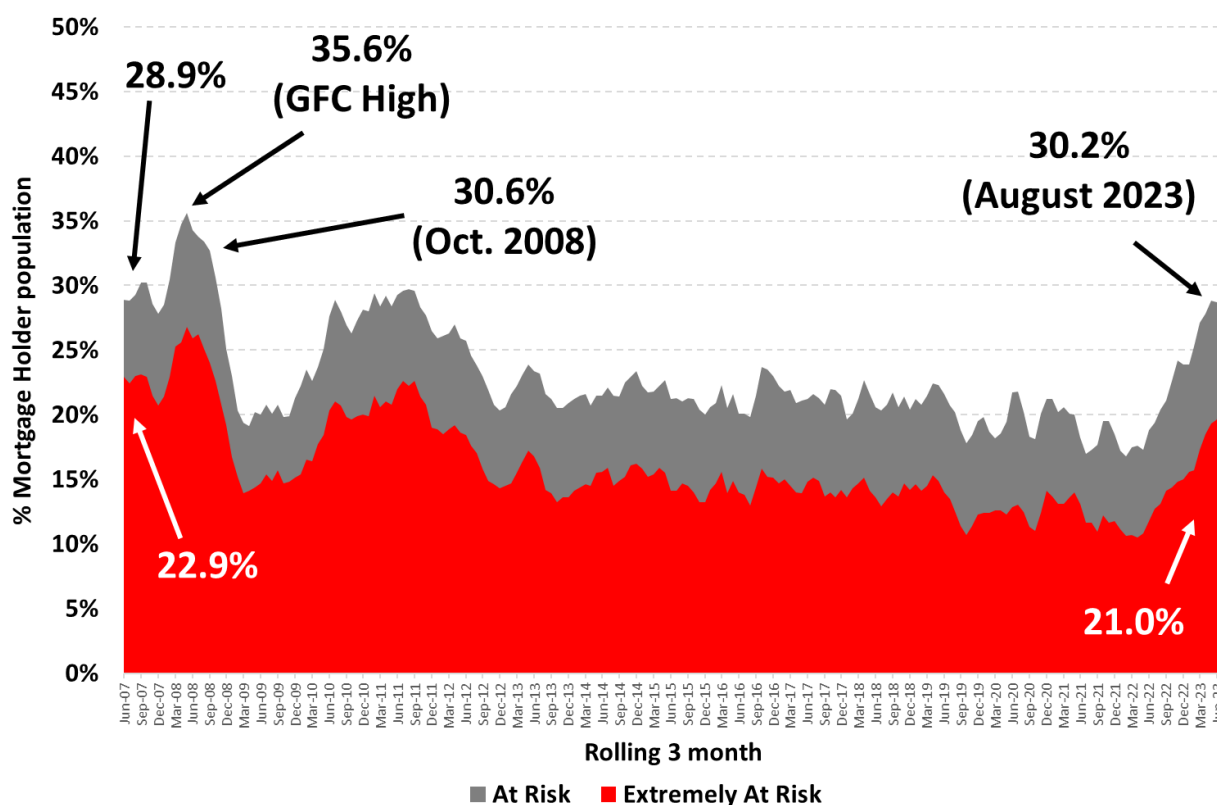
Over 750,000 more households at risk of mortgage stress after a year of interest rate increases

The number of Australians 'At Risk' of mortgage stress has increased by 759,000 since May 2022 when the RBA began a cycle of interest rate increases. Official interest rates are now at 4.1% in September 2023, the highest official interest rates since May 2012, over a decade ago.

The number of Australians 'At Risk' of mortgage stress (1,566,000) is at a record high. The proportion of mortgage holders at 30.2% remains below the record highs reached during the Global Financial Crisis of 15 years ago because of the larger size of the Australian mortgage market today. The record high of 35.6% of mortgage holders in mortgage stress was reached in mid-2008.

The number of mortgage holders considered 'Extremely At Risk', has now increased to 1,066,000 (21.0%) which is now significantly above the long-term average over the last 15 years of 15.3%.

Mortgage Stress – Owner-Occupied Mortgage-Holders



Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – August 2023, n=2,754.

Base: Australians 14+ with owner occupied home loan.

Mortgages 'At Risk' set to increase to over 1.65 million if RBA raises rates by +0.25% in October

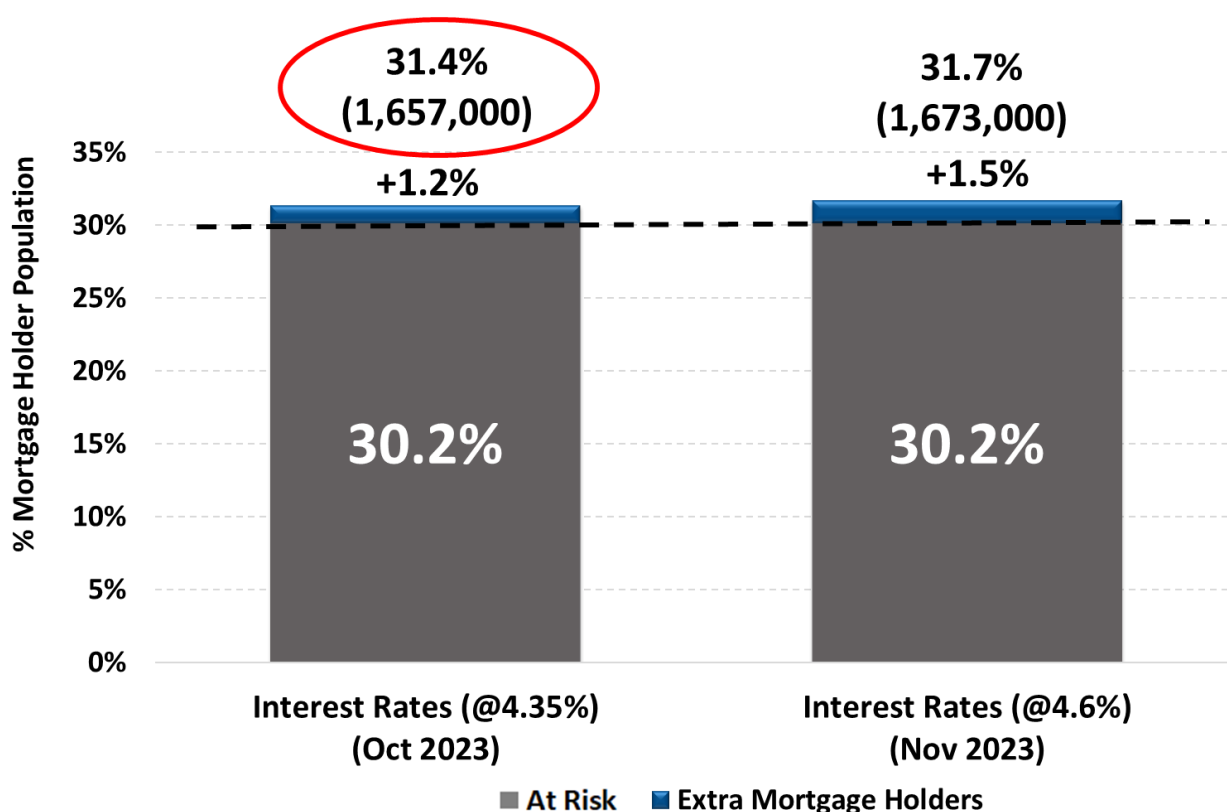
Roy Morgan has modelled the impact of two potential RBA interest rate increases of +0.25% in both October (+0.25% to 4.35%) and November (+0.25% to 4.6%).

In August, 30.2% of mortgage holders, 1,566,000, were considered 'At Risk' and this would increase to over 31% of mortgage holders by October 2023 if the RBA increases interest rates this week.

If the RBA raises interest rates by +0.25% in October to 4.35%, there will be 31.4% (up 1.2% points) of mortgage holders, 1,657,000, considered 'At Risk' in October 2023 – an increase of 91,000.

If the RBA raises interest rates by a further +0.25% in November to 4.6%, there will be 31.7% (up 1.5% points) of mortgage holders, 1,673,000, considered 'At Risk' in November 2023 – an increase of 107,000.

Mortgage Risk at different level of interest rate increases in October & November 2023



Source: Roy Morgan Single Source (Australia), June – August 2023, n=3,872. Base: Australians 14+ with owner occupied home loan.

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.

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 (25% to 45% depending on income and spending) into their home loan, based on the Standard Variable Rate set by the RBA and the amount now outstanding on their home loan.

Unemployment is the factor which has the largest impact on income and mortgage stress

It is worth understanding that this is a conservative model, essentially assuming all other factors remain the same. Given this, it is concerning that Roy Morgan's latest unemployment estimates show unemployment increasing in August, up 1.9% points to 11%.

Even more worryingly, when under-employment is factored in, a total of over one-in-five Australian workers are either unemployed or under-employed – 3,083,000 (20.1% of the workforce): ([Real unemployment up to 11% in August – over 3 million are either unemployed or under-employed – September 11, 2023](#)).

While all eyes are on interest rates 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.

Michele Levine, CEO Roy Morgan, says mortgage stress increased to a new record high in August with 1.57 million mortgage holders considered 'At Risk' of mortgage stress as the RBA's interest rate increases early in 2023 continued to flow through to the wider mortgage market:

"The latest Roy Morgan data shows mortgage stress in the Australian housing market has increased to a new record high of 1.57 million mortgage holders defined as 'At Risk' in August 2023. This represents a substantial increase of 759,000 since the RBA began a record-breaking series of interest rate increases in May 2022.

"The figures for August 2023 take into account all twelve RBA interest rate increases which lifted official interest rates from 0.1% in May last year to 4.1% by June 2023. Since then, the RBA has decided to leave interest rates unchanged at its last three meetings in July, August and September.

"The RBA's decision to leave interest rates unchanged in recent months comes as inflation has reduced compared to earlier this year and there are increasing indications that higher interest rates are eating into household deposits. [ABS data released last week showed overall household deposits shrank by \\$6 billion in the June quarter 2023](#) – the first quarterly decline since June quarter 2007.

"The [ABS CPI figures for the year to August 2023 show Australian inflation at 5.2%](#), up 0.3% points from a month earlier. This is the first increase in the monthly annual inflation reading since April 2023, although official inflation is still well below the cycle high of 7.8% in the year to December 2022.

"The monthly increase in inflation is concerning, but also not surprising as energy prices have increased rapidly in recent months. The average retail petrol price has increased by around 40 cents per litre since mid-July and averaged over \$2 per litre for seven straight weeks since mid-August.

"This is the highest petrol prices have been for over a year since mid-July 2022. On both occasions in 2022 when petrol prices increased to over \$2 per litre (March 2022 and July 2022), Inflation Expectations rapidly increased. The latest ANZ-Roy Morgan Inflation Expectations for the week to September 24 appear to have shown the first inkling of rising petrol prices as the weekly measure increased by 0.5% points to 5.4%.

"The increases to petrol prices are being driven by a decline in the value of the Australian Dollar which dropped below 64 US cents in mid-September to its lowest for nearly a year since November 2022. As long as the Australian Dollar stays low and petrol prices stay high, and even increase further, there will be additional inflationary pressures in the economy.

"Therefore, although many have suggested the RBA has finished its cycle of interest rate increases, the low Australian Dollar and high petrol and energy prices adding to inflation may force their hand for further interest rate increases in the months ahead.

"These possibilities are a key factor in why we have modelled two further interest rate increases. If the RBA does raise interest rates this week by 0.25%, Roy Morgan forecasts mortgage stress is set to increase to over 1.65 million mortgage holders (31.4%) considered 'At Risk'.



“Of even more concern is the rise in mortgage holders considered ‘Extremely At Risk’, now estimated at 1,066,000 in August 2023 – a new record high. This figure has more than doubled since the RBA began raising interest rates, representing an increase of over 580,000 mortgage holders.

“When considering the data on mortgage stress, it is always important to appreciate interest rates are only one of the variables 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.

“The latest figures on mortgage stress show that rising interest rates are causing a large increase in the number of mortgage holders considered ‘At Risk’ and further increases will spike these numbers even further. If there is a sharp rise in unemployment, mortgage stress is set to increase even more.”

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](#).

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
60,000	±0.4	±0.4	±0.2	±0.2

