

Tuesday, 21 November 2023

## Mortgage stress eased in October before the RBA raised interest rates on Melbourne Cup Day

New research from Roy Morgan shows 1,514,000 mortgage holders (30.1%) were 'At Risk' of 'mortgage stress' in the three months to October 2023. This period included three RBA meetings at which interest rates were left unchanged and was before the increase on Melbourne Cup Day.

The figure for October represented a slight decrease on a month earlier as mortgage stress eased due to a combination of several factors including increased household incomes, increased employment and reduced amounts borrowed and outstanding.

However, despite the slight easing in mortgage stress this was only the third time in the history of the index that over 1.5 million mortgage holders were considered 'At Risk'.

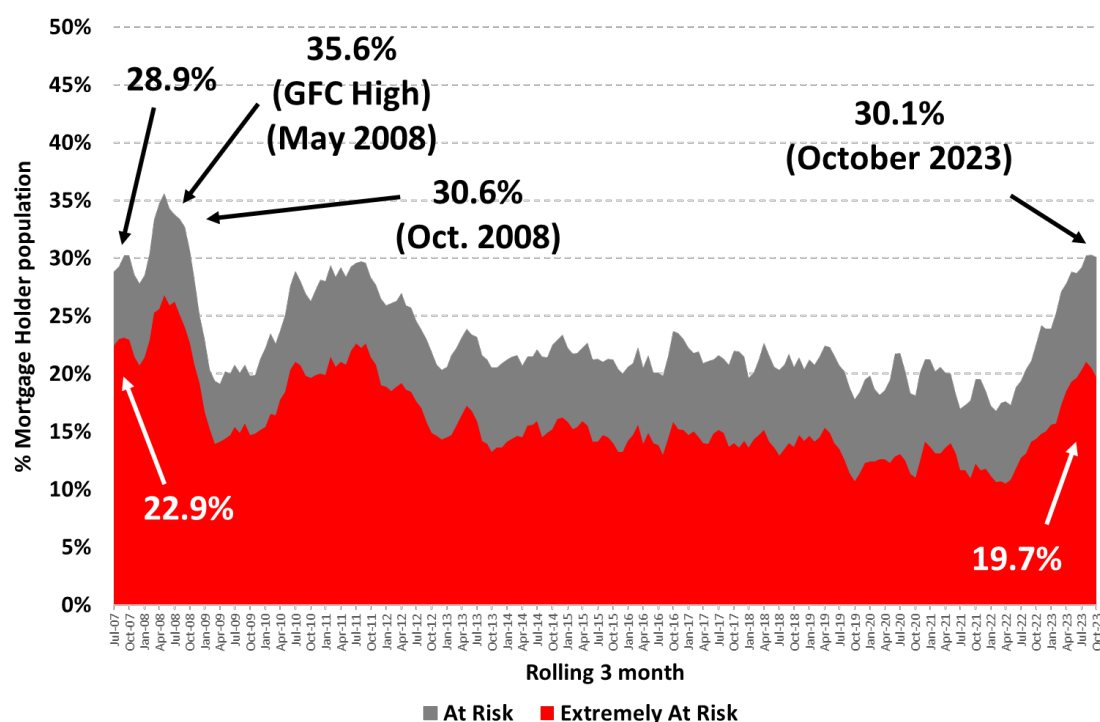
### Over 700,000 more households 'At Risk' of mortgage stress after a year of interest rate increases

The number of Australians 'At Risk' of mortgage stress has increased by 707,000 since May 2022 when the RBA began a cycle of interest rate increases. Official interest rates are now at 4.35%, the highest interest rates have been since December 2011, over a decade ago.

The number of Australians 'At Risk' of mortgage stress (1,514,000) remains near the record high reached a month ago. The proportion of mortgage holders 'At Risk' (30.1%) is below the record high 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', is now numbered at 967,000 (19.7% of mortgage holders) which is significantly above the long-term average over the last 10 years of 14.1%.

### Mortgage Stress – % of Owner-Occupied Mortgage-Holders



**Source:** Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – October 2023, n=2,764.  
**Base:** Australians 14+ with owner occupied home loan.

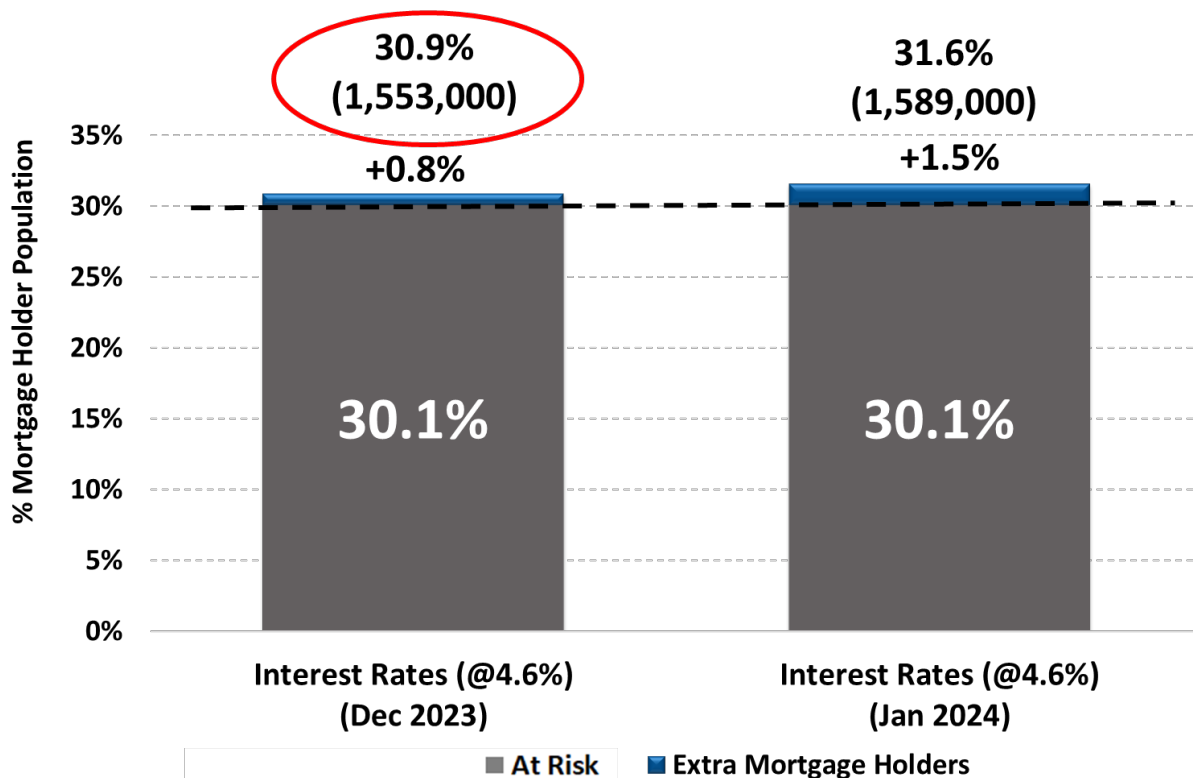
## Mortgages 'At Risk' set to increase to over 1.55 million if RBA raises rates by +0.25% in December

Roy Morgan has modelled the impact of a potential RBA interest rate increase of +0.25% in December (+0.25% to 4.6%).

In October, 30.1% of mortgage holders, 1,514,000, were considered 'At Risk'. If the RBA raises interest rates by +0.25% in December to 4.6%, there will be 30.9% (up 0.8% points) of mortgage holders, 1,553,000, considered 'At Risk' in December 2023 – an increase of 39,000 on October 2023.

This number would climb further in January 2024, up by a total of 1.5% points to 31.6% of mortgage holders, equivalent to a record high of 1,589,000 considered 'At Risk' – an increase of 75,000 on October 2023.

## Mortgage Risk projected forward following an interest rate increase of +0.25% in December 2023



**Source:** Roy Morgan Single Source (Australia), August – October 2023, n=3,720. **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'<sup>1</sup> 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'<sup>2</sup> if even the 'interest only' is over a certain proportion of household income.

<sup>1</sup> "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.

<sup>2</sup> "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 key 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. The latest Roy Morgan unemployment estimates for October show over one-in-five Australian workers are either unemployed or under-employed – 3,119,000 (20.1% of the workforce); [\(Over 3 million Australians were either unemployed \(1.54 million\) or under-employed \(1.58 million\) in October – the highest for three years\)](#) – an increase of 203,000 (+0.4% points) on a year ago.

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 eased slightly in October, after four months of unchanged interest rates, due to a combination of factors including increased household incomes and employment and reduced amounts borrowed and outstanding:

*"The latest Roy Morgan data shows 1,514,000 mortgage holders were 'At Risk' of mortgage stress in October 2023. Although this was down slightly on a month earlier, this represents a substantial increase of 707,000 mortgage holders since the RBA began a record-breaking series of interest rate increases just over eighteen months ago in May 2022.*

*"The figures take into account the interest rate increases from May 2022 to June 2023, but not the most recent increase in early November. The extended pause in official interest rate increases from July – October 2023 has played a part in reducing mortgage stress in the latest figures.*

*"A close analysis of the underlying factors shows that a combination of factors led to the easing of mortgage stress in the latest figures. Over the last several months household incomes and employment have both increased strongly while there's been a reduction in the amounts borrowed and outstanding.*

*"While banks are less likely to lend to those who might be 'stretched', people seem to be doing everything to reduce their mortgage such as downsizing and selling other assets.*

*"When home loan interest rates were low, people used their home loans to fund what we might call the 'business of life' – small businesses, trips, home improvements, school fees, second and holiday homes etc. etc. During this period home loans were a cheap form of financing. The increase in interest rates has encouraged people to think again about this kind of funding – and they're making different choices.*

*"Although this is a welcome development, the RBA's decision to increase interest rates in early November came after a renewed rise in the official inflation numbers. The latest [ABS CPI monthly figures for the year to September 2023 show Australian inflation at 5.6%](#), up 0.4% points from August and up 0.7% points over the last two months.*

*"This is the first-time official inflation has increased for two straight months so far this year – the last time was at the cyclical peak in December 2022 at 8.4%. The increases to inflation are not surprising though considering the increase in energy and fuel prices in recent months.*

*"The average retail petrol price has averaged above \$1.90 per litre for a record 15 straight weeks since early August – beating a previous record run at such a high price in May-July 2022. During mid-2022 Inflation Expectations increased rapidly from 5.3% to 5.9% - up 0.6% points. The [latest weekly Inflation Expectations data for mid-November shows the measure at 5.6% for the week to November 19](#) – up a large 0.7% points since mid-September.*

*"These pressures are a key factor for why we have modelled another interest rate increase in December. If the RBA does raise interest rates by 0.25% in December, Roy Morgan forecasts mortgage stress is set to increase to over 1.58 million mortgage holders (31.6%) considered 'At Risk' by early next year.*



*“The latest figures for October show that 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’ of mortgage stress.*

*“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 employment market in Australia has been exceptionally strong over the last year and this has underpinned rising household incomes which played a part in reducing overall mortgage stress in October.*

*“However, rising interest rates over the last year have caused a large increase in the number of mortgage holders considered ‘At Risk’ and further increases in the months ahead will spike these numbers even further even as people adjust their lifestyle choices to deal with increased payments.”*

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](mailto: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

