Article No. 9389
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ROY MORGAN

Tuesday, 16 January 2024

Mortgage stress continued to ease in November despite the RBA raising interest rates on Melbourne Cup Day

New research from Roy Morgan shows 1,490,000 mortgage holders (29.9%) were ‘At Risk’ of ‘mortgage stress’ in the three months to November 2023. This period included only one interest rate increase on Melbourne Cup Day with the RBA raising interest rates by +0.25% to 4.35%.

The figure for November represented a second straight monthly decrease as mortgage stress continued to ease due to a combination of several factors including increased household incomes, increased employment and reduced amounts borrowed and outstanding.

This is the first time since January 2022 (before the RBA began raising interest rates) that mortgage stress has decreased for two straight months. However, despite the easing in mortgage stress this was only the sixth time in the history of the index that over 1.45 million mortgage holders were considered ‘At Risk’.

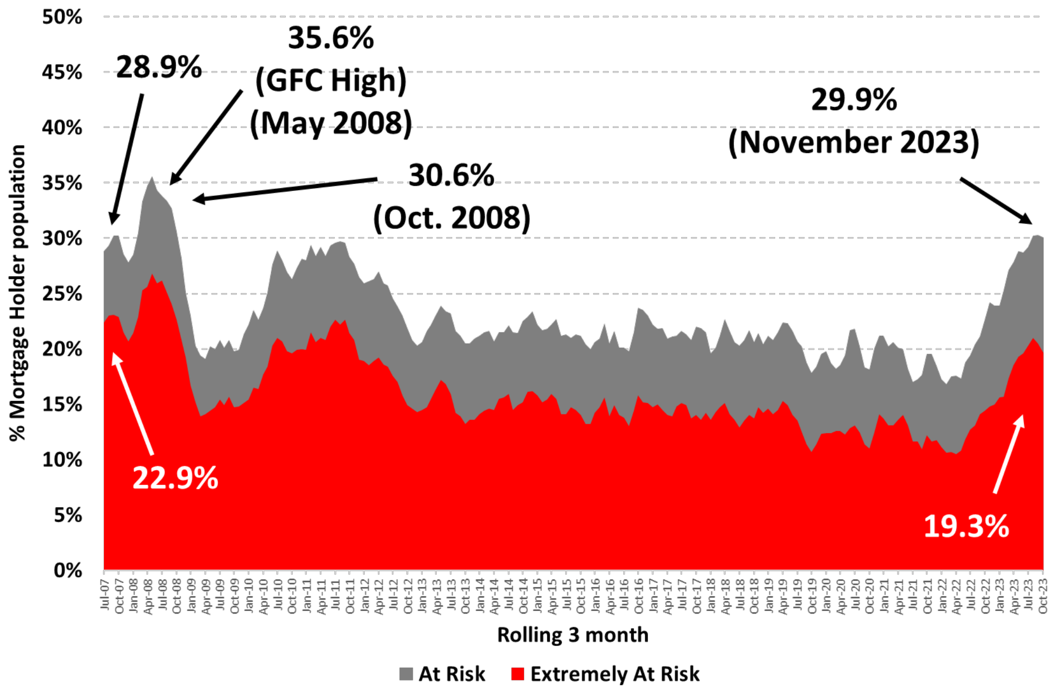
Over 680,000 more households ‘At Risk’ of mortgage stress after 18 months of interest rate increases

The number of Australians ‘At Risk’ of mortgage stress has increased by 683,000 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 (1,490,000) remains near the record high reached in September 2023 (1,573,000). The proportion of mortgage holders ‘At Risk’ (29.9%) is well below the record high reached during the Global Financial Crisis 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 934,000 (19.3% of mortgage holders) which is significantly above the long-term average over the last 10 years of 14.2%.

Mortgage Stress – % of Owner-Occupied Mortgage-Holders



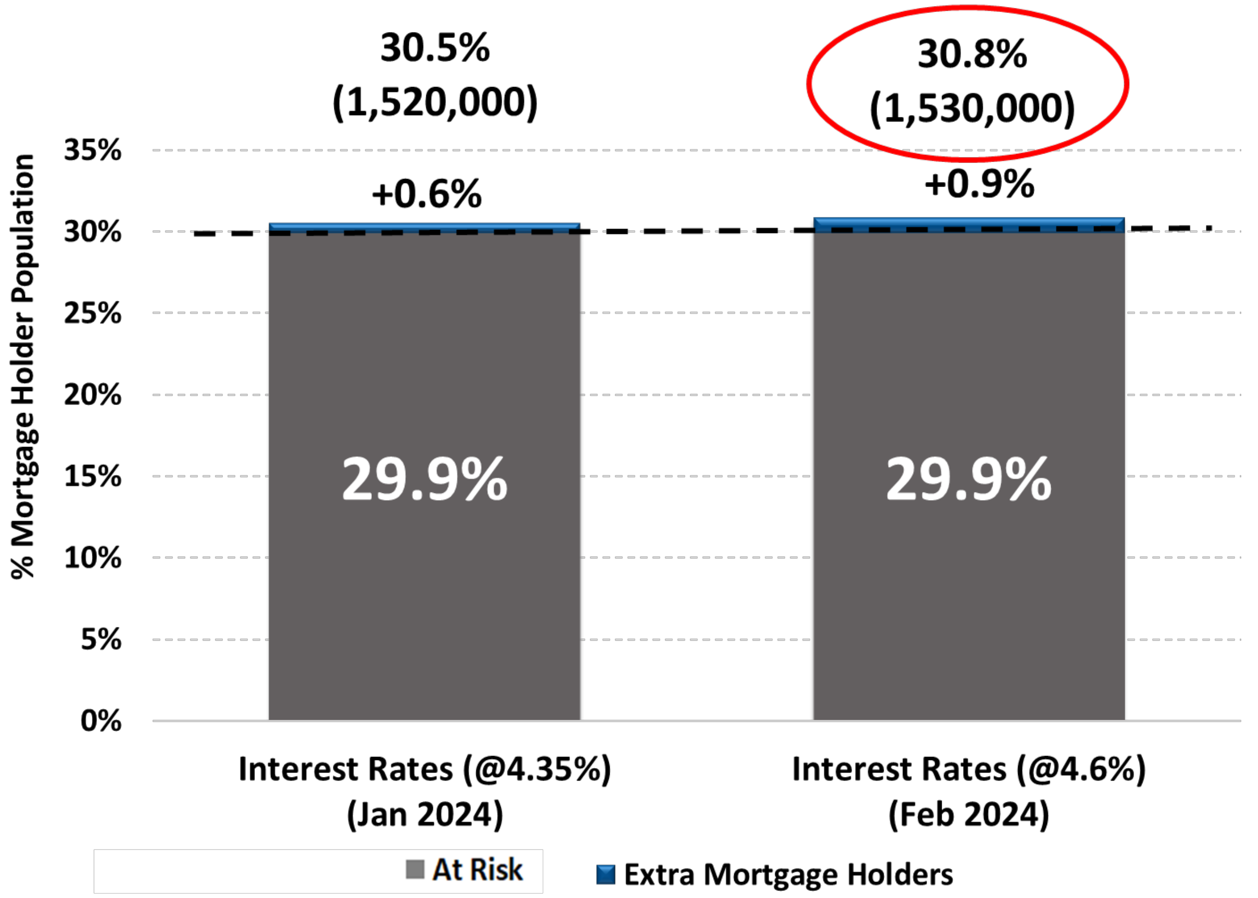
Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – November 2023, n=2,769.
Base: Australians 14+ with owner occupied home loan.

Mortgages 'At Risk' set to increase to 1.53 million if RBA raises rates by +0.25% in February

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

In November, 29.9% of mortgage holders, 1,490,000, were considered 'At Risk'. If the RBA raises interest rates by +0.25% in February to 4.6%, there will be 30.8% (up 0.9% points) of mortgage holders, 1,530,000, considered 'At Risk' in February 2024 – an increase of 40,000 on November 2023.

Mortgage Risk projected forward following an interest rate increase of +0.25% in February 2024



Source: Roy Morgan Single Source (Australia), Sept. – Nov. 2023, n=3,676. **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 key factor which has the largest impact on income and mortgage stress

It is worth understanding that this is a conservative forecasting model, essentially assuming all other factors remain the same.

The latest Roy Morgan unemployment estimates for November show almost one-in-five Australian workers are either unemployed or under-employed – 3,037,000 (19.6% of the workforce); (**Australian employment increased to over 14 million for the first time in November, but still over 3 million unemployed or under-employed**) – an increase of 322,000 (+1.4% points) on a year ago.

While all eyes are on the latest inflation figures and their potential influence on future movements in interest rates, the fact remains that 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 for a second straight month in November, despite an RBA interest rate increase, due to a combination of factors including increased household incomes and employment and reduced amounts borrowed and outstanding:

> *"The latest Roy Morgan data shows 1,490,000 mortgage holders were 'At Risk' of mortgage stress in November 2023. This represented a second successive monthly decline in mortgage stress, down 83,000 from September 2023. However, the latest figure is still up 683,000 mortgage holders over the last 18 months since the RBA began raising interest rates in May 2022.*
>
> *"The figures take into account 13 interest rate increases from May 2022 to November 2023 which increased interest rates by a total of 4.25% points to 4.35%. The extended pause in official interest rate increases for four months from July – October 2023 reduced the pressure on mortgage holders and allowed growth in several areas of the economy to 'catch up' and reduce mortgage stress.*
>
> *"A deeper analysis of the underlying factors affecting mortgage holders shows a combination of factors leading to the easing of mortgage stress in the last few months. In recent 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 with mortgages tend to do everything within their power to reduce their mortgage size including by downsizing and selling other assets to maintain their mortgage payments and avoid defaulting.*
>
> *"When home loan interest rates were low during the pandemic, 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.*
>
> *"There is further good news with the release of the latest ABS monthly inflation figures for November 2023 which showed a sharp decline in the indicator to 4.3% (down 0.6% points from a month earlier). This is the lowest annual inflation in Australia for two years since January 2022 – and the upcoming figure for December 2023 is expected to drop further and well below 4%.*
>
> *"Although inflation pressures appear to be easing, there is the possibility a higher-than-expected inflation reading for December would re-ignite fears that inflation is set to persist during 2024. For these reasons we have modelled another interest rate increase next month in February.*
>
> *"If the RBA does raise interest rates by 0.25% in February, Roy Morgan forecasts mortgage stress would increase to 1.53 million mortgage holders (30.8%) considered 'At Risk'. Although concerning, this level would still be below the high above 1.57 million reached in September 2022.*
>
> *"The latest figures for November 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 have played a part in reducing overall mortgage stress in November.

"However, rising interest rates over the last 18 months since May 2022 have caused a large increase in the number of mortgage holders considered 'At Risk'. If there is a reacceleration in inflation over the months ahead that results in further interest rate increases in 2024 levels of mortgage stress will start trending upwards again despite easing in recent months."

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.

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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