

Monday, 24 June 2024

Mortgage stress down in May and set to fall further in the months ahead after the Stage 3 tax cuts begin

New research from Roy Morgan shows there are now 1,514,000 mortgage holders (29.7%) 'At Risk' of 'mortgage stress' in the three months to May 2024. This represents a decrease of 46,000 (-1.1%) on a month earlier and is now the lowest level of mortgage stress reached so far this year.

The RBA left interest rates on hold during their June board meeting and there is no RBA board meeting to decide upon interest rates during the month of July.

The level of mortgage holders 'At Risk' of 'mortgage stress' in May (29.7% of mortgage holders) is the lowest rate for nearly a year since July 2023 (29.2%) and the first time this year the rate has dropped below 30% of mortgage holders. The lower level of mortgage stress in recent months has been driven by rising household incomes which has reduced the financial pressure on some mortgage holders.

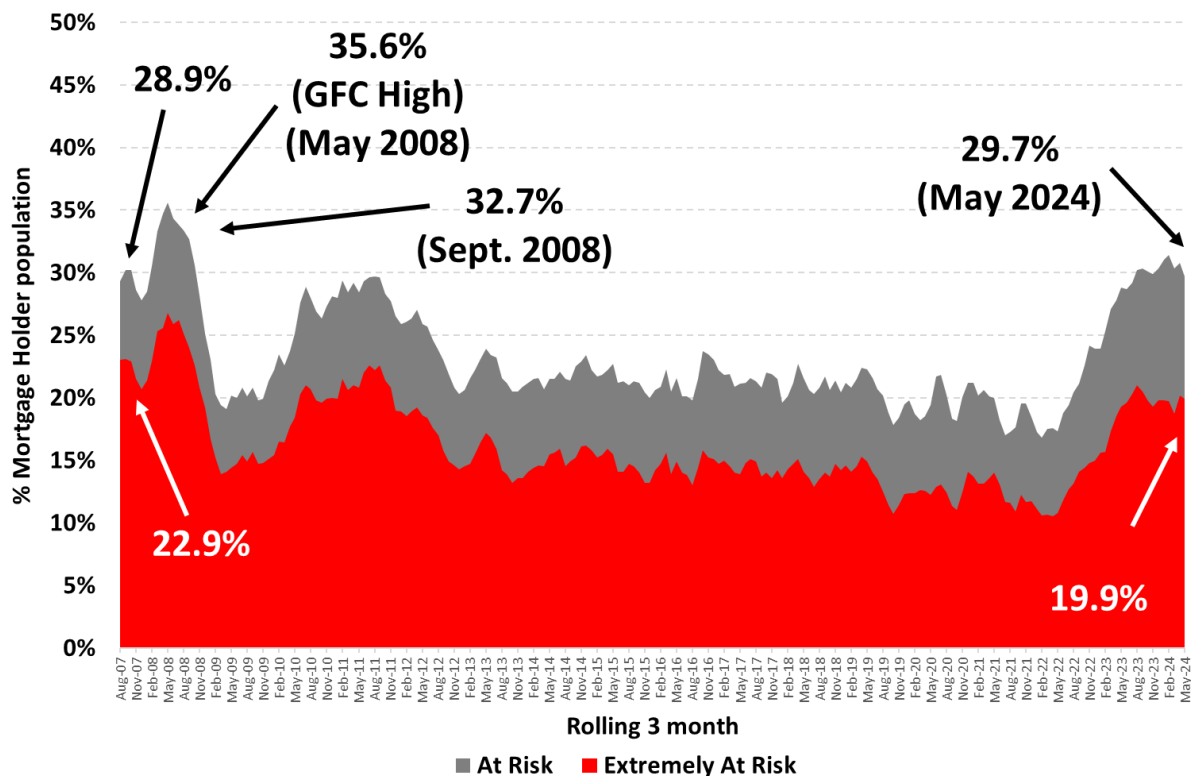
The record high of 35.6% of mortgage holders in mortgage stress was reached in mid-2008.

707,000 more 'At Risk' of mortgage stress two years after interest rate increases began

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 mortgage holders considered 'Extremely At Risk', is now numbered at 976,000 (19.9% of mortgage holders) which is significantly above the long-term average over the last 10 years of 14.4%.

Mortgage Stress – % of Owner-Occupied Mortgage-Holders



Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – May 2024, n=2,793.
Base: Australians 14+ with owner occupied home loan.

Mortgages 'At Risk' set to fall in July and August after income tax cuts boost incomes – even if there is a further interest rate increase in August by +0.25% to 4.6%

Roy Morgan has modelled the impact of a potential RBA interest rate increase of +0.25% in August 2024 (+0.25% to 4.6%). There were no RBA interest rate changes at the meeting held in mid-June and there is no RBA meeting set for the month of July 2024.

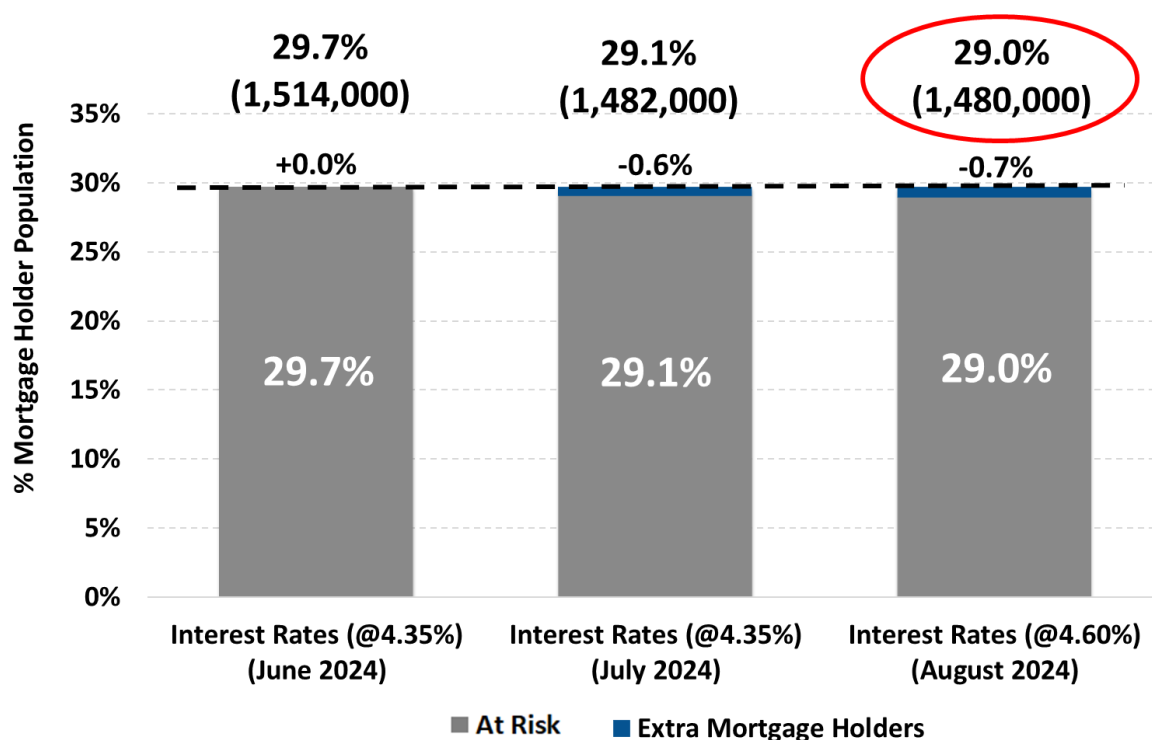
Roy Morgan's mortgage stress forecasts for July and August also take into account the Stage 3 income tax cuts which begin in the first week of July and significantly boost the take home incomes of many Australians.

In May, 29.7% of mortgage holders, 1,514,000, were considered 'At Risk' and this figure is forecast to remain unchanged in June after the RBA decided to leave interest rates unchanged in mid-June.

In July, the number of mortgage holders considered 'At Risk' is forecast to fall by 32,000 to 1,482,000 (29.1%, down 0.6% points) of mortgage holders after the Stage 3 tax cuts come in.

Looking forward into August, the number of mortgage holders considered 'At Risk' is forecast to decrease slightly more to 1,480,000 (29.0%, down 0.7% points from May 2024) – a decrease of 34,000 on May 2024.

Mortgage Risk projected forward following income tax cuts in July and a forecast interest rate increase of +0.25% to 4.60% in August 2024



Source: Roy Morgan Single Source (Australia), February – May 2024, n=3,742.

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 apart from interest rates and income tax changes remain the same.

The latest Roy Morgan unemployment estimates for May show over one-in-six Australian workers are either unemployed or under-employed – 2,703,000 (17.2% of the workforce); ([Australian employment increases to a new record high of over 14.3 million; driving a drop in unemployment to 8.7% in May](#)) – a massive increase of 503,000 on a year ago.

Although 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.

The imminent income tax cuts, which are due to start boosting disposable income for the vast majority of working Australians in the next few weeks, are also set to ease mortgage stress for many.

Michele Levine, CEO Roy Morgan, says mortgage stress eased slightly in May, with 1.51 million mortgage holders (down 46,000) now considered 'At Risk', and the number is set to ease further in the next few weeks as the Stage 3 income tax cuts ease the burden for many:

"The latest Roy Morgan data shows 1,514,000 mortgage holders were 'At Risk' of mortgage stress in May 2024, down 46,000 from April, and the lowest level so far this year. The pause in rate increases since November 2023 has reduced the pressure on mortgage holders and allowed growth in several areas of the economy to 'catch up'.

"Rising household incomes so far this year have been a significant driver of reducing mortgage stress from the highs above 1.6 million reached earlier in the year. The same reduction in mortgage stress was seen after the RBA paused rate increases for four months from July – October 2023.

"The figures for May 2024 represent an increase of 707,000 mortgage holders considered 'At Risk' since the RBA began raising interest rates over two years ago in May 2022. The figures take into account 13 rate increases which raised interest rates by a total of 4.25% points to 4.35%.

"The latest [ABS monthly inflation figures for April 2024](#) showed annual inflation at 3.6% - up 0.2% points from the figures for December 2023 – February 2024 and the highest figure so far this year.

"The renewed increases in inflation in recent months have moved the official level of inflation further away from the Reserve Bank's preferred target range of 2-3%. In addition, key inflation indicators such as petrol prices remain high - for the first time in history average retail petrol prices have been above \$1.80 per litre for a record 50 straight weeks – equivalent to over eleven months.

"For these reasons we have modelled an interest rate increase of +0.25% in August 2024. However, although interest rate increases would normally lead to a higher level of mortgage stress, the significant Stage 3 income tax cuts due to be delivered to millions of Australians in July are set to have a larger impact on driving down mortgage stress over the next few months.

"Even if the RBA increases interest rates by +0.25% to 4.6% in August, the level of mortgage stress would still drop by 34,000 to 1,480,000 mortgage holders (29.0%) considered 'At Risk' in the three months to August 2024. This would be the lowest level of mortgage stress for a year since June 2023.

"The latest figures for mortgage stress show that when considering the data on mortgage stress, it is always important to appreciate that interest rates are only one of the variables that determines whether a mortgage holder is considered 'At Risk' of mortgage stress. The Stage 3 income tax cuts are set to deliver significant financial relief to many Australians in the coming weeks as take home pay is boosted for a large majority of taxpayers – including many mortgage holders.

"As these figures indicate, the variable that has the largest impact on whether a borrower falls into the 'At Risk' category is related to household income – directly related to employment. The employment market has been exceptionally strong over the last year ([the latest Roy Morgan employment estimates show 603,000 new jobs created compared to a year ago](#)) and this has underpinned rising household incomes that have helped to moderate the increases in mortgage stress since mid-2023."

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