# Australian Citizens Party

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MEDIA RELEASE

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# Miscalculated interest rate hikes could blow up the bubble and the banks

*The RBA is recklessly ignoring the mortgage stress of households that were lured into mortgages to prop up the bubble; Australia needs a foreclosure moratorium now!*

History is littered with catastrophes caused by authorities who denied or ignored reality, including: the sinking of the "unsinkable" *Titanic*; the slaughter of ANZACS at Gallipoli; the 2008 global financial crisis; and many, many more.

The Reserve Bank of Australia's decision to rein in high inflation through steep interest rate rises looks like it could be another, with dire implications for Australia's insane housing bubble and mortgage-heavy banking system.

In short, if the RBA is wrong in assuming that the one-third of Australian households with mortgages have the capacity to absorb these steep rate rises, it may already have lit a fuse that detonates Australia's entire financial system, and even if the RBA wises up, it may be too late to stop it.

Announcing the 0.5 per cent rise in the official cash rate on 7 June, RBA Governor Philip Lowe made the following claims: "Inflation is expected to increase further, but then decline back towards the 2-3 per cent range next year. … The Australian economy is resilient… *Household and business balance sheets are generally in good shape*… One source of uncertainty about the economic outlook is how household spending evolves, given the increasing pressure on Australian households' budgets from higher inflation. *The household saving rate also remains higher than it was before the pandemic and many households have built up large financial buffers.*" (Emphasis added.)

**Contradiction**

These so-called "buffers" may not reflect reality however, according to household survey data from Martin North's Digital Finance Analytics (DFA).

DFA gleans its data from a rolling survey of 1,000 new households per week, which adds up to 52,000 households per year; the survey has tracked a sharp rise in mortgage stress in the last two years, from 32.9 per cent of mortgaged households in February 2020, to 42.6 per cent in April 2022—*before* the two recent rate rises.

In a number of media appearances immediately following the RBA's rate rise decision, Martin North explained that the RBA's data on the mortgage repayment buffers many households have do not tell the whole story.

As he explained to Channel Nine's 8 June *Today* program, to prioritise their mortgage repayments, these households have already been foregoing expenses such as dental and new clothes for their children, etc.

In other words, they only have buffers on their mortgages because they have no buffers in their household expenditure.

"If interest rates go up another one per cent, that's a 15 per cent increase in the monthly repayment on the mortgage, so we're going to see more people really struggling", North warned on *Today*.

**Shooting the messenger**

In an extraordinary display of denial, Martin North has come under vicious attack, just for sharing his data that contradicts the RBA's narrative.

Establishment economist Stephen Koukoulos cheered on the RBA's interest rate decision, but quickly soured when the media reported North's mortgage stress figures.

In a series of tweets on 7 and 8 June, "the Kouk", as he calls himself, insisted there is nothing to worry about.

"Two thirds of households do not have a mortgage", he tweeted on 7 June, following up with: "RBA fact: ‘the overall share of borrowers with a loan six or more times their income and a buffer of less than one month of minimum repayments has declined since the beginning of the pandemic, to just below 1 per cent’ The media is focusing on this tiny cohort so it seems.”

The next day he attacked North personally: “Any media using DFA as a source of information on mortgage stress has the same credibility as those using Craig Kelly on the benefits to humans of Ivermectin as a cure for COVID. It's flawed in the extreme—ask for the source of the information and you'll know never to use it.”

A little later Koukoulos showed he is desperate for the RBA to be correct and Martin North to be wrong: “Household financial stress has never been lower”, he claimed. “Yep, you heard me. I trust RBA, APRA & the bank data for any assessment of household financial stress, not some manufactured data from [snake] oil sales people looking for media attention.”

**The stakes**

If the RBA and Koukoulos are correct, their plan to raise interest rates to smash inflation may succeed; if Martin North is correct, the RBA may have set off a chain reaction of mortgage defaults and a housing market crash, and in turn a collapse of Australia’s banks, which have the heaviest exposure to mortgages of any banks in the world.

Such a disaster could have happened many times in the last two decades, but the difference is this time the inflation threat is forcing the RBA to raise interest rates, whereas in the past it has cut interest rates to save the housing bubble.

In July 2019, the Morrison government’s Housing Minister Michael Sukkar urged young Australian families to sign up to a mortgage: “If you’ve got an opportunity to get a foot in the market before then you should take it, given I think the market is starting to improve,” Sukkar told *The Australian*. “*People who buy now I don’t think will regret it at all.*”

These are the very people now being smashed by the RBA’s rate rises.

Australia needs to address this crisis head-on with an entirely different approach to the economy.

As the Citizens Party has proposed, Australia urgently needs a moratorium on home foreclosures to stop the banks from mass-foreclosing on households to save themselves from the crisis they caused; a reorganisation of the banks; and to repurpose the RBA as a national bank to invest in industry and infrastructure so we again make production the engine of the economy, instead of destructive housing speculation.

Click here to sign the Citizens Party’s petition for a post office people’s bank.

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