Irish observers see ‘uncanny’ similarities in Australia, predict systemic crisis

Irish people in Australia and Ireland who experienced the 2008 Irish financial crisis see similarities in Australia today that they describe as “uncanny”. The similarities are warning signs of a systemic financial crisis.

Economist John Adams has reported being contacted by numerous Irish residents of Australia who are alarmed by the state of the housing market as well as other signs of economic downturn from reduced spending that remind them of the Irish experience.

The similarities have been detected all the way from Ireland, where writer and financial advisor Eddie Hobbs wrote a confronting 20 May article for the Irish Examiner, “Parallels with Ireland’s recent history uncanny as Australia faces possibility of systemic crisis”.

One of the similarities is the Australian “exceptionalism”—our market isn’t a bubble like the others that crashed, it’s different—which was also the refrain of Irish experts before 2008. It proved to be a myth in Ireland, but not before the government and top bankers led attacks on the critics of Irish exceptionalism.

“Systemic crises aren’t linear”, Hobbs warned. “Arrears begin low and steady until they cascade when cash buffers run dry. *There is no crisis, until it arrives.* Irish mortgage arrears hovered between zero and very low single digits before the teeth of the crisis, *just like in Australia today*.” (Emphasis added.)

This is an important observation. Australian mortgage arrears are around 1.5 per cent, but higher in Western Australia. Despite that they are slowly inching up, the low rate is held up as proof that mortgages are serviceable, on the assumption that they won’t suddenly rise.

The Irish experience shows that assumption to be wrong. Hobbs recounted: “Evidence from Ireland and elsewhere shows that arrears and defaults are in the first instance led by an inability to meet monthly bank direct debits because the cash isn’t there as work and savings runs out. This takes time. But as house values fall further, leading to greater negative equity, this shifts to ‘won’t pay’ strategic default especially among investors, when they determine that the pain of continuing outweighs the pain of defaulting”.

Hobbs cited a Central Bank study in 2012, four years after the crash, that revealed a quarter of the Irish mortgages were in some kind of trouble by 2012, and 11 per cent were 90 days in arrears. Within three years 40,000 mortgages were in arrears over 720 days and 40 per cent were deemed to be held by borrowers who couldn’t pay but who found it too hard to deal with, so-called “non-engagers”.

“Ireland and Australia have different economies that’s for sure, but not different people”, he said. “Why Irish data matters is because the Australian mortgage book looks to have much higher risk than Ireland before its crisis.”

Hobbs is shocked by the high percentage of Australian mortgages that are interest-only (IO), or investor loans. He called the 40 per cent of total IO mortgages “a huge number”, and the 34 per cent that are investor loans, 80 per cent of which are IO, “nose-bleeding numbers”. In Ireland, 15 per cent of mortgages were investor loans, and half of those were IO.

“So, have Australian banks been more carefully lending than Irish banks?” he asked. “No.”

Hobbs explained to his Irish readers the lending practices of Australian banks that have been well-documented in the AAS, and by Denise Brailey of the Banking and Finance Consumers Support Association, Philip Soos and Lindsay David of LF Economics, and Digital Finance Analytics’ Martin North and economist John Adams. He detailed findings of a thorough inquiry into mortgage risk by bank analyst Douglas Orr of Endeavour Equity, in a just-released technical paper.

“Despite its AAA status, high per capita wealth and low joblessness, Australia is in a trap”, was his blunt assessment. “Heaven help them because it is hard to see a way out that doesn’t involve taking a lot of pain. The economy is sitting on a huge speculative bubble. If Orr and others, like Banking analyst Martin North and Economist John Adams are right, Australia is staring into a full-blown systemic crisis for banks, for mortgage insurers and for sovereign debt as losses get socialised. *It may also play into deposit haircuts*.

“Cutting rates, loosening credit rules to reignite credit growth or adopting emergency fiscal policies to provide market supports, could delay and temporarily inflate the bubble further but it cannot be magicked away. ... Last weekend Australians voted not to switch horses midstream and returned its sitting Government, an organism politically incapable of accepting the unholy mess it faces. If that also sounds familiar”, Hobbs concluded, “it should.”

In a follow-up 25 May interview with Martin North and John Adams on their YouTube channel, In the Interests of the People, Eddie Hobbs warned that the “soft landing” narrative is intended to lure borrowers in so insiders can escape the crash. “The soft-landing narrative is that we’re now going to take another leg up. Meanwhile developers who have been very nervous and sitting on the sideline are beating their way back into the market, delighted, because there could be one last window of opportunity to develop out what they've got, and sell it, to the very last in to the source of the fire, before it become a conflagration."

Don't expect the public and politicians to see through the post-election hyping of the housing market to create the soft-landing though. "The closer to the precipice the greater the deafness grows", Hobbs said.

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