# Australian Citizens Party

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MEDIA RELEASE

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## NZ’s interest rate pin precariously close to Australia’s property bubble

Mortgage stress now grips 42 per cent of Australian households, according to a UNSW City Futures Research Centre survey. This is a sharp increase from 30 per cent in February 2020. The UNSW survey defines mortgage stress as households with less than 5 per cent of residual household income left over after paying normal household expenses, including on housing. In large areas of Sydney, where the median house value is now $1.3 million, and Melbourne, where the median value is $955,000, more than 70 per cent of households are in mortgage stress. Yet interest rates in Australia are at all-time record lows—the Reserve Bank of Australia’s official cash rate is 0.10 per cent.

These mortgage stress figures reveal the underlying fragility of Australia’s housing bubble. Now our closest neighbouring economy has done what would be unthinkable in Australia, and raised interest rates, by 0.25 percentage points to 0.5 per cent. The Reserve Bank of New Zealand’s rate rise makes it the fourth central bank globally to raise rates in the last two months, behind South Korea, Norway and the Czech Republic. It is possible that these are early signs of a reversal of the recent global trend of cutting interest rates towards zero and even negative rates. The RBNZ’s decision was based on concerns about rising inflation, which it is required by law to keep within a band of 1-3 per cent, but which broke through that band in the June quarter of this year, to 3.3 per cent; changing interest rates is a central bank’s primary tool for controlling rising consumer prices, which is how inflation is measured. Inflation is spiking globally, including in Australia: a core US inflation index, the “personal consumer expenditure gauge”, rose in August to its highest rate since 1991—4.3 per cent. Inflation across the EU is at its highest level since 2008, but inflation in Germany is higher than any time since 1993. In Australia, the annual inflation rate hit 3.8 per cent in the June quarter—higher than NZ’s—but the RBA has said it has no plans to raise rates, on the assumption that it is a temporary spike. However, in “Why we won’t dodge the global inflation spike” in *The Australian* on 5 October, James Kirby reported GSFM investment strategist Stephen Miller saying: “In Australia we have to be realistic, we can’t isolate ourselves from rising global inflation—it is going to be higher or longer.”

Australian experts are conveniently assuming the inflation spike is temporary, because the prospect of the RBA having to raise interest rates is their worst nightmare. Unaffordable housing should be regarded as the greatest scourge of the Australian economy, but the RBA and Morrison-Frydenberg government have only one trick to create the appearance of an economic recovery, which is to drive up house prices even further. But there’s a hard limit, which is the ability of households to pay their mortgages: across Australia, the 42 per cent already in mortgage stress amounts to 1,571,542 households; if the RBA raised rates by just 0.5 percentage points—which can happen quickly, as it did between October and December 2003—another 158,593 households would fall into mortgage stress, according to Digital Finance Analytics. In the two years between March 2005 and March 2007 rates increased by a full 2 percentage points, which would trigger economic Armageddon if it happened today. If the inflation spike isn’t temporary, such rate rises cannot be ruled out.

NZ’s interest rate rise comes amid rising concern over Australia’s housing bubble being expressed by institutions without and within Australia, including some of the banks themselves. In September the Organisation for Economic Cooperation and Development (OECD) criticised Australia’s big four banks for their lack of lending to small business, which in fact is a function of the banks’ obsession with mortgage lending that has fuelled the bubble. Around 65 per cent of bank lending in Australia goes into property, leaving around 35 per cent for lending to business, whereas in the early 1990s it was the opposite—banks loaned more to businesses than for property. The OECD has called on Australia’s banks not to require residential property as the only collateral they will accept for small-business loans, and called on the bank regulator, the Australian Prudential Regulation Authority (APRA), to adjust its prudential requirements to encourage more small-business lending. The International Monetary Fund (IMF) has called for a review of the RBA, the first in 40 years, in the context of the changing global financial environment. And in late September Australia’s biggest bank, the CBA, added its voice to calls for APRA to implement “modest” measures to temper the current housing boom, which APRA duly did this week, with an emphasis on “modest”, prompting Martin North of Digital Finance Analytics to describe the measures as “APRA bowls a wet lettuce”. Australia’s authorities clearly hope to engineer a soft landing if that’s possible, but their best laid plans are at risk if inflationary pressure makes it impossible to hold interest rates down.

Australia is in a catch-22: destroy the economy through an inflationary housing bubble, which is the path we've been on for two decades, or destroy it through a housing bubble crash. It's time to recognise that the system itself is not fit for purpose and cut the Gordian knot, while taking precautions to protect the Australian people. The Government and RBA should stop supporting the bubble, and instead use the tried-and-true measures of national banking to pour credit into the real economy through great, nation-building infrastructure projects, and a crash-program of reviving the manufacturing sector, so that once again the basis of our economy, and employment, can be productive economic activity instead of just financial services and housing construction. The Citizens Party has drafted legislation for a national bank to achieve this transition, as well as for a moratorium on home foreclosures so that when house prices inevitably crash millions of people are not forced out onto the streets. Australia's structural economic crisis can be solved—we just need the courage to face the crisis, and the political will to embrace these solutions.

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