Drop in Australia’s official jobless rate ends hope of mortgage interest rate relief

Mike Head
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Officially, Australia’s unemployment rate dipped last month from 4.1 percent to 3.9 percent, the Bureau of Statistics (ABS) reported last week.

These figures, however, mask the reality of a slowing economy, which would be in recession were it not for government spending. Income per head of population has already fallen for more than 18 months, compounding a near 10 percent drop in working-class living standards since 2021, the biggest fall in decades.

While employment increased by 35,600 last month in seasonally adjusted terms, monthly hours worked fell marginally by 100,000 to 1,965.3 million. This likely indicates that some part-time or casual workers had their hours cut.

Moreover, the bulk of job increases last month were in government-funded industries such as public service, healthcare and education. That is the result of some increases in spending by the Albanese Labor government to try to mask the economic slump and cost-of-living crisis in the lead-up to the next federal election, which must be held before May 17.

Nevertheless, the financial elite immediately declared that the jobless statistics ended any prospect of an early central bank cut to the interest rates that have had a devastating impact on millions of working-class households via huge home mortgage payments and rents.

Average mortgage payments have risen by 155 percent since May 2022, effectively delivering an historic cut to living conditions, especially to workers and the young people who can no longer afford to buy a home.

“‘Bye-bye’ February rate cut as unemployment rate falls to 3.9pc,” was the headline in Friday’s Australian Financial Review. It reported corporate and bank analysts, such as Betashares chief economist David Bassanese, saying that the Reserve Bank of Australia (RBA) was now likely to delay any rate cuts until later in 2025.

In line with the ruthless logic of the corporate ruling class, they predicted that the RBA board would want to see higher unemployment levels, and greater falls in workers’ real wages, before any move to cut its cash rate of 4.35 percent.

Previously, the RBA board, whose members are appointed by the government, had indicated that it expected the official jobless rate to rise to 4.5 percent—at the estimated cost of some 150,000 jobs—before it would start decreasing rates, after raising them rapidly 13 times, from near-zero, between May 2022 and November 2023.

Earlier statistics indicated that since the start of 2023, about 84 percent of the job growth has been in the “non-market sector.” By contrast, there were big falls in accommodation and food services jobs, which dropped 12 percent to 1.1 million roles in the year to September as consumers were hit by soaring prices and the elevated interest rates.

Pay data released last Thursday also showed that real wages are falling further, mostly enforced by the trade union bureaucracy via enterprise agreements with employers.

Average wage increases in new enterprise agreements fell from 4 percent a year in the June quarter to 3.6 percent in three months to September, according to the Department of Employment and Workplace Relations.

This is well below the latest ABS measure of the 4.7 percent cost-of-living rise for an “employee household” over the year to September.

Significantly, most of the fall in the nominal wage growth was in the public sector, where union membership still remains higher than in the private sector, where membership has dropped to below 8 percent. In the public sector, the average pay increase fell from 3.9 percent to 3.6 percent, while private sector agreement wage rises declined from 4 percent to 3.9 percent.

Yet this is not enough for the central bank. Last Wednesday, the RBA board announced its latest decision to keep rates high, rejecting calls for early interest rate cuts. It underlined its determination to keep the rates at punitive levels until real wages fell further. The board's statement complained of "high unit labour costs." It insisted:

"Wages growth appears to have peaked but is still above the level that can be sustained given trend productivity growth… The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome."

The statement also alluded to "a high level of uncertainty about the overseas outlook" and elevated "geopolitical uncertainties," with a "softening" outlook for the Chinese economy and falling commodity prices.

That is an indication of the nervousness within the Australian ruling class of the potentially disastrous impact of the incoming Trump administration's plans to escalate the US economic warfare against China, Australian capitalism's largest export market.

The RBA board is intent on keeping interest rates high in order to drive down wages. That is despite mounting evidence of a worsening housing affordability crisis and the likelihood of mortgage defaults, accentuated by soaring home insurance premiums.

•A Corelogic report calculated that a median-income household would now need 50.6 percent of its income to service a new mortgage on a median-value dwelling. Renters also faced using more than half their income to pay rent, even at the low end of rents. Anything above 30 percent is regarded as "housing stress."

•A report by the Actuaries Institute found 1.6 million homes around the country were experiencing "extreme home insurance affordability pressures," which meant they were paying more than a month's worth of pre-tax household income on insurance.

That figure had leapt from 1.2 million in just a year. As a result, close to 200,000 households were either already breaching their mortgage contracts, which require insurance, or risked doing so, as the surging cost of home insurance—up by 75 percent in a year in some cases—forced many to abandon their insurance policies.

Banks were owed around $57 billion in outstanding loan balances by those borrowers as of March 2024, representing 3 percent of all home loan assets. The report described this as "a very significant number" that should send alarm bells.

At the other end of the social scale, the 10th UBS Billionaire Ambitions report concluded that Australia's 43 billionaires increased their combined wealth by 16.3 percent to $316.8 billion over the past 12 months, including through real estate investment that is generating the housing crisis.

Iron ore magnate Gina Rinehart, who joined Donald Trump's election celebrations in Florida last month, is the country's richest person with a wealth of $50.48 billion. Her soaring fortune reflects the super profits still flowing from mining exports, but much of the billionaires' wealth comes from share market and property speculation.

UBS Global Wealth Management Australia investments chief Andrew McAuley said developed market equities and real estate were the asset classes of choice for Australian billionaires.

This immense social polarisation is part of a global enrichment of the oligarchs at the expense of the working class, including in the US and UK, facilitated by social democrat administrations as well as far-right ones. In Australia, the Albanese Labor government is delivering a bonanza for the rich, while slashing workers' living conditions, causing mounting social and political discontent.