Article No. 8743
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ROY MORGAN

Monday, 19 July 2021

FOR IMMEDIATE RELEASE

'Mortgage stress' near record low in mid-2021

New research from Roy Morgan shows an estimated 677,000 mortgage holders (17.3%) were at risk of 'mortgage stress' in the three months to May 2021. This period encompassed the end of the JobKeeper wage subsidy (end of March 2021), low community transmission of COVID-19 and only a few 'short and sharp' lockdowns and border closures to deal with outbreaks.

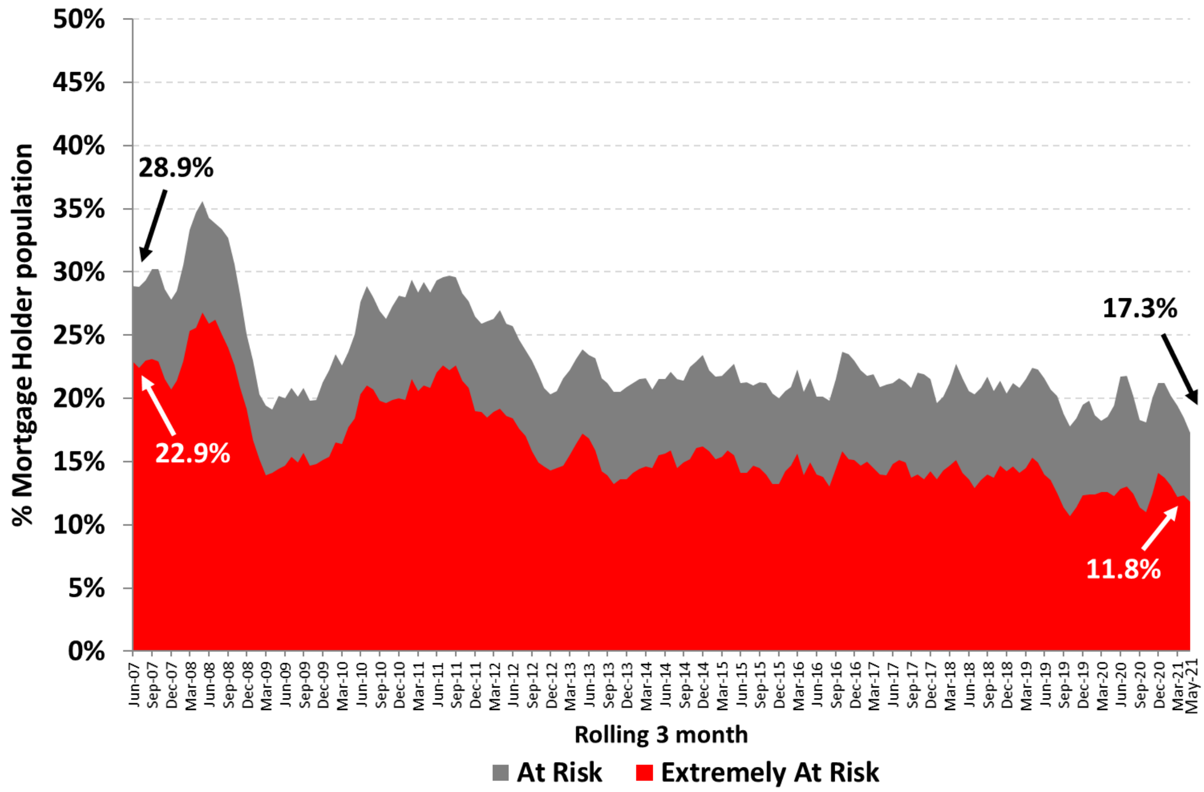
This level of mortgage stress is down sharply on a year ago when an estimated 794,000 mortgage holders (19.4%) were at risk during the early stages of the COVID-19 pandemic in the three months to May 2020.

The low rate of 'At Risk' mortgages since the pandemic began reflects the improvement in employment conditions in the first half of 2021 with full-time employment rising for eight straight months, the support provided to the economy by the Federal Government as well as measures taken by banks and financial institutions to support borrowers by giving borrowers in financial distress mortgage 'holidays' and record low interest rates during this period.

Although the level of financial support provided by Governments, banks and financial institutions has been scaled back, the emergency payments made in Melbourne's recent lockdown in May/June as well as the increasing support offered to those impacted by the current lockdown in Sydney show both Federal and State Governments stand ready to respond with assistance to those in financial hardship when required.

The enduring impact of the record financial support provided to Australians over the last 18 months as well as the record low interest rates, set by the RBA at only 0.1%, are providing an enduring level of support to mortgage holders during 2021 even after much of this support has been withdrawn.

Mortgage Stress – Owner-Occupied Mortgage-Holders



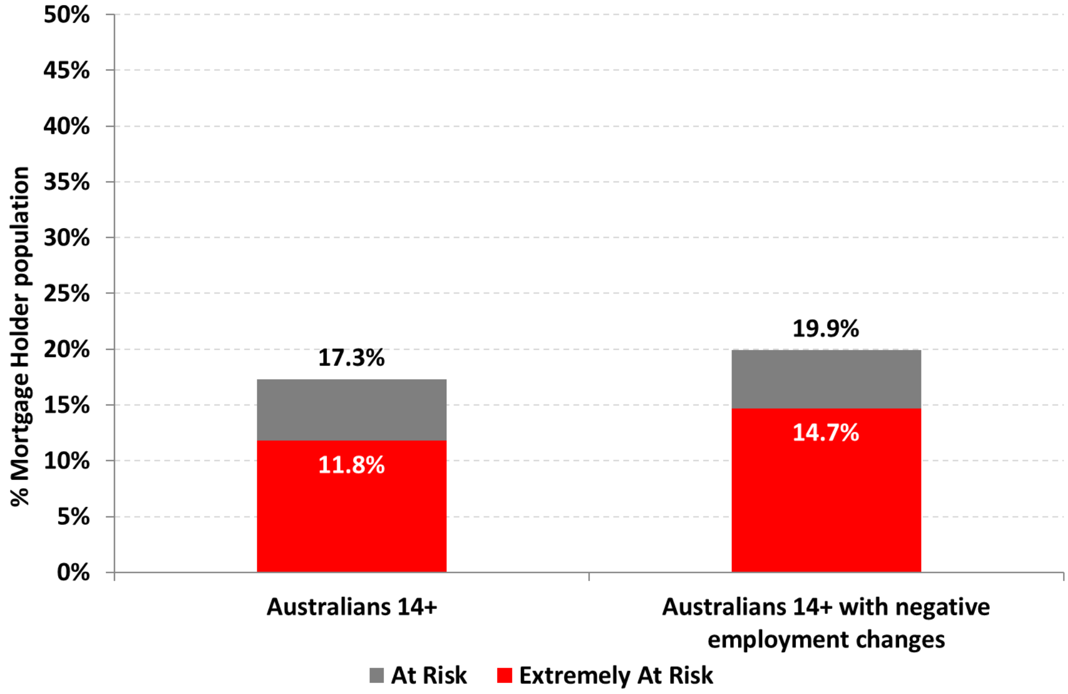
Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – May 2021, n=2,674.
Base: Australians 14+ with owner occupied home loan.

Roy Morgan has also tracked the impact of COVID-19 on the employment situations of Australians. In May 2020, 11.2 million working Australians (72%) reported a change to their employment circumstances because of COVID-19, and in June 2021 just prior to the current lockdowns in Melbourne and Sydney there were still over 9.6 million reporting their employment situation had changed – see more detail here.

Many of these employment changes are negative and include having *'work hours reduced', 'not having any work offered', 'have been stood down for a period of time', 'business has slowed or stopped completely', 'had pay reduced for the same number of work hours'* or being *'made redundant'.*

For Australians with negative employment changes due to COVID-19 mortgage stress is higher with 19.9% now in 'mortgage stress' – over 2% points higher than for all mortgage holders. In addition, over one-in-seven, 14.7%, are 'extremely at risk'.

Mortgage Risk for those with negative employment changes due to COVID-19



Source: Roy Morgan Single Source (Australia), March – May 2021, n=2,942. **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.

A near record low of only 1-in-6 mortgage holders were 'At Risk' in May 2021 as the wild swings of the pandemic contributed to rises and falls in those considered 'At Risk' over the last year

In the three months to May 2021, only 17.3% of mortgage holders were 'At Risk' (677,000) which is well down on a year ago during the early stages of the pandemic. In the three months to May 2020 there were 794,000 (19.4%) mortgage holders 'At Risk' which quickly increased to 834,000 (21.7%) in the three months to June 2020 in the early period of the pandemic as the nationwide lockdown was imposed.

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[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 into their home loan, based on the Standard Variable Rate set by the RBA and the amount now outstanding on their home loan.

The Government support and mortgage holidays provided by banks and other financial institutions softened the situation for many over the next few months as most of the country emerged quickly from the lockdown and, with the exception of Victoria, didn't face another sustained lockdown last year.

During the middle part of last year the number of mortgage holders 'At Risk' dropped from the peak in June 2020 and was below 800,000 for a few months before rising again into the end of 2020 as Government support was progressively withdrawn and mortgage holidays came to an end.

The opening of State borders and relaxing of onerous restrictions during the first half of 2021 then led to sustained improvements in the employment markets with full-time jobs increasing for eight straight months and the number of mortgage holders 'At Risk' has dropped consistently over the last few months.

Over half of 'At Risk' mortgage holders are considered 'Extremely At Risk'

Of those mortgage holders considered 'At Risk' in the three months to May 2021 more than half, 440,000 or 11.8% of all mortgage holders, were considered 'Extremely at Risk', down from 480,000 (12.3%) mortgage holders 'Extremely at Risk' a year ago in the three months to May 2020.

The trend of mortgage holders considered 'Extremely at Risk' has followed a similar trend to the larger group considered 'At Risk' since the pandemic began. There was an initial spike in mortgage holders considered 'Extremely at Risk' during the early period of the pandemic before extensive Government support and mortgage holidays for those in financial distress kicked in to support the economy.

During this period those mortgage holders considered 'Extremely at Risk' dropped considerably to a record low of 384,000 (11.0%) in the three months to October 2020 before beginning to rise again as Government support was progressively withdrawn and mortgage holidays began to end.

However, the rise in mortgage holders considered 'Extremely at Risk' was short-lived and peaked at 526,000 (13.7%) in the three months to January 2021.Since then a fast growing employment market throughout the first half of 2021 has increased full-time jobs to a new record and with record low interest rates during this period mortgage holders considered 'Extremely at Risk' has dropped every month since.

These are the latest findings from Roy Morgan's Single Source Survey, based on in-depth interviews conducted with over 50,000 Australians each year including over 10,000 owner-occupied mortgage-holders.

Michele Levine, Chief Executive Roy Morgan, says contrary to fears at the outset of the COVID-19 pandemic the support provided by the Federal Government and banking and financial institutions to those in financial distress has led to a sustained period of low mortgage stress:

> *"The latest Roy Morgan data into the Australian housing market shows mortgage stress is near record lows in mid-2021 despite the end of the Federal Government's $89 billion JobKeeper wage subsidy at the end of March 2021.*
>
> *"In the three months to May 2021 there were 677,000 mortgage holders considered 'At Risk' (17.3% of mortgage holders) and 440,000 considered 'Extremely at Risk' (11.8% of mortgage holders). Both measures of mortgage stress have dropped during the first half of 2021 as strong employment markets and record low interest rates have combined to support the economy despite the end of the elevated Government financial support.*
>
> *"The level of support provided via Government programs such as JobKeeper, and the increased JobSeeker payment, as well as the mortgage holidays provided to mortgage holders by banking and financial institutions are still providing a dividend to those hit hardest by COVID-19 and have helped power employment to new record highs mid-way through 2021.*
>
> *"The latest Roy Morgan employment estimates for June show full-time employment growing for a record eighth straight month to a record high of over 8.8 million while the strong rebound of the economy is demonstrated by the ABS GDP figures for the year to March 2021 showing an economy growing by 1.1% despite last year's deep recession.*

"A special survey by Roy Morgan into the employment impact of COVID-19 showed 11.2 million working Australians (72%) in May 2020 had experienced a change to their employment due to the pandemic, and in June 2021, before the most recent lockdowns in Melbourne and Sydney, there were still over 9.6 million working Australians reporting a change. Most of these were negative changes such as having 'work hours reduced', 'being stood down for a period of time', 'not having any work offered' or being 'made redundant' – or a combination of the above.

"The latest outbreaks of COVID-19 in Sydney and Melbourne are causing renewed concern as hundreds of thousands of workers in both cities are forced to stop working as part of the lockdowns across industries such as retail, hospitality, recreation and in Sydney, the construction industry.

"The good news is that one of the lessons of the pandemic, to provide financial support to those forced into financial distress by lockdowns, has been learnt – with both Federal and State Governments increasing the level of new financial support available in both States in the last week.

"Many years of research into mortgage stress has shown that the biggest driver of increased mortgage stress is the reduction in income caused by the loss of a job which causes an immediate jump into a 'risk' category. Over two-in-three mortgages rely on more than one income and our analysis shows losing even the lower of these two incomes causes an immediate four-fold increase in the likelihood of those mortgage holders becoming 'At Risk' or 'Extremely at Risk'."

To understand more about mortgages in the full context of household finances and the uncertainties caused by the COVID-19 coronavirus, 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 75 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
50,000	±0.4	±0.4	±0.3	±0.2