RBA lifts cash rate by another 0.5%

5th July 2022

The increase has increased repayments on a $1m home loan by about $700 per month. These repayments are set to increase by about $1,200 per month by the end of the year if the RBA's predictions are accurate.

These rate rises are dependent on whether inflation and the cost of living continues to increase or whether taking away disposable income from people by making then pay more for their home loans works.

Many of the price increases are as a result of international factors and not dependent on what happens in Australia, according to some experts. If they are correct, the rising mortgage rates causing Australians to have less money to spend may drive Australian into a recession and not have much of an impact on the inflation rates, thereby causing interest rates to continue increasing.

Another school of thought is that the rate rises are merely taking the excess money out of the economy now that we supposedly no longer have a COVID health crisis and stimulus is not required for businesses or the economy.

My thought is that due to the high indebtedness of Australians, it shouldn't take many rate hikes to figure out whether they are working to tame the inflation monster. We have approximately a 140% debt to income ratio meaning even slight interest rate rises will put a lot of pressure on a lot of people. In the 90's, mortgage rates had to move significantly to have an impact as the debt-to-income ratio was only approximately 30%.

Either way, focussing on the things people and businesses can influence makes more sense than focussing on the things they can't change. i.e., refinancing loans to lower rates, consolidating debts, accessing equity, managing the business better, identifying and mitigating obvious risks, having a clear personal and business budget, etc. are all examples of what people can do to put them in a better position to weather the financial storm which is on the horizon and fast approaching.