WoMEDA Economic Briefing 2024.1

May 30, 2024

Centre of Policy Studies, Victoria University

www.vu.edu.au/centre-of-policy-studies-cops

www.copsmodels.com

WoMEDA
WEST OF MELBOURNE ECONOMIC DEVELOPMENT ALLIANCE INCORPORATED

CoPS
SINCE 1975

Researchers at the Centre of Policy Studies have a forty year history of continuous achievement in the development, application and dissemination of large-scale economic models. Our models and software are used around the world to analyse a diverse range of economic issues. CoPS' clients include: Australian federal and state government departments; private firms and universities in many parts of the world; central government agencies such as finance and trade ministries in a number of countries, including the U.S. and China; and international development organisations. The Centre's GEMPACK software, used for solving large economic models, is used at more than 700 sites in over 90 countries.

Professor Janine Dixon

Dr Chris King

Centre of Policy Studies
Victoria University
Level 14, 300 Flinders St
Melbourne Victoria 3000
+61 3 9919 1877

Louise.Pinchen@vu.edu.au

The West of Melbourne Economic Development Alliance Incorporated, (WoMEDA), is an alliance of significant institutions operating across the West of Melbourne, working in tandem with local government and engaging with industry.

WoMEDA aims to develop and champion strategies that foster regional collaboration, sustainable economic development, greater local job opportunities and increased wellbeing for community members, and to promote synergistic and innovative employment precincts.

A priority for WoMEDA is to produce a strong evidence base drawn from high quality analysis and reports which focus on sustainable economic development, employment growth, and the wellbeing of those that live and work in the region.

These bi-annual briefs on the economy of the West of Melbourne, produced by the Centre of Policy Studies (a Centre at Victoria University, one of our foundation members), are integral to this mission.

Professor Peter Dawkins, Chair

Ms Aisha Nicolay, Executive Director

Contact@womeda.com.au

This paper is the first in a series of bi-annual briefs on the economy of the West of Melbourne. Each brief will include an updated description of the state of the economy, including the labour market in the West, and wider macroeconomic developments. The brief will also contain a detailed analysis of a topic of current interest. In this brief, we examine mortgage stress in the West.

Executive Summary

- Since the turn of the 21st century, the population of Melbourne's West has been the fastest-growing population in Australia, almost doubling in size in just over 20 years
- The West of Melbourne has a young population whose employment to population ratio is significantly higher than for the rest of Melbourne.
- However, the gap between male and female participation remains persistently higher than the national average and the average for Melbourne
- In order to be employed almost half of all employed residents commute out of the region for work with 32 per cent commuting to the city for work
- Commuting is particularly high for workers in Professional Services and Finance, industries that have grown rapidly for the West in recent years. As a result, it is likely that commuting has increased since the 2021 census.
- Nevertheless, "commuting" in the traditional sense of travelling from home to the workplace probably consists of fewer weekly journeys than it did before the start of the pandemic in 2020.
- Along with challenges with obtaining childcare, the need to commute to get jobs may explain the relatively low female labour force participation in the West.
- Manufacturing and Transport are disproportionately large employers in the West of Melbourne.
- Following a period of contraction in Manufacturing we are now forecasting a period of modest growth in the next decade.
- Forecasts show the largest increases in employment will be in the Health Care and Social Assistance sector.
- Distributional analysis shows that LGAs of Wyndham and Melton are over-represented in mortgage stress compared to the national average. Mortgage stress is not unusually high in other parts of Melbourne's West.
- Overall, mortgage stress has increased in all regions, with negative implications for disposable income and household consumption.

CONTENTS

Note

The employment and population analysis in this overview depends on survey collections of what the Australian Bureau of Statistics (ABS) classifies as "Melbourne's West", an area of 1410 km^2 covering the LGAs of Hobsons Bay and Maribyrnong on the edge of the Melbourne CBD, the western side of Port Philip Bay down to Wyndham and the Western Treatment plant, extending up to Melton in the north and with Brimbank on its north eastern boundary.

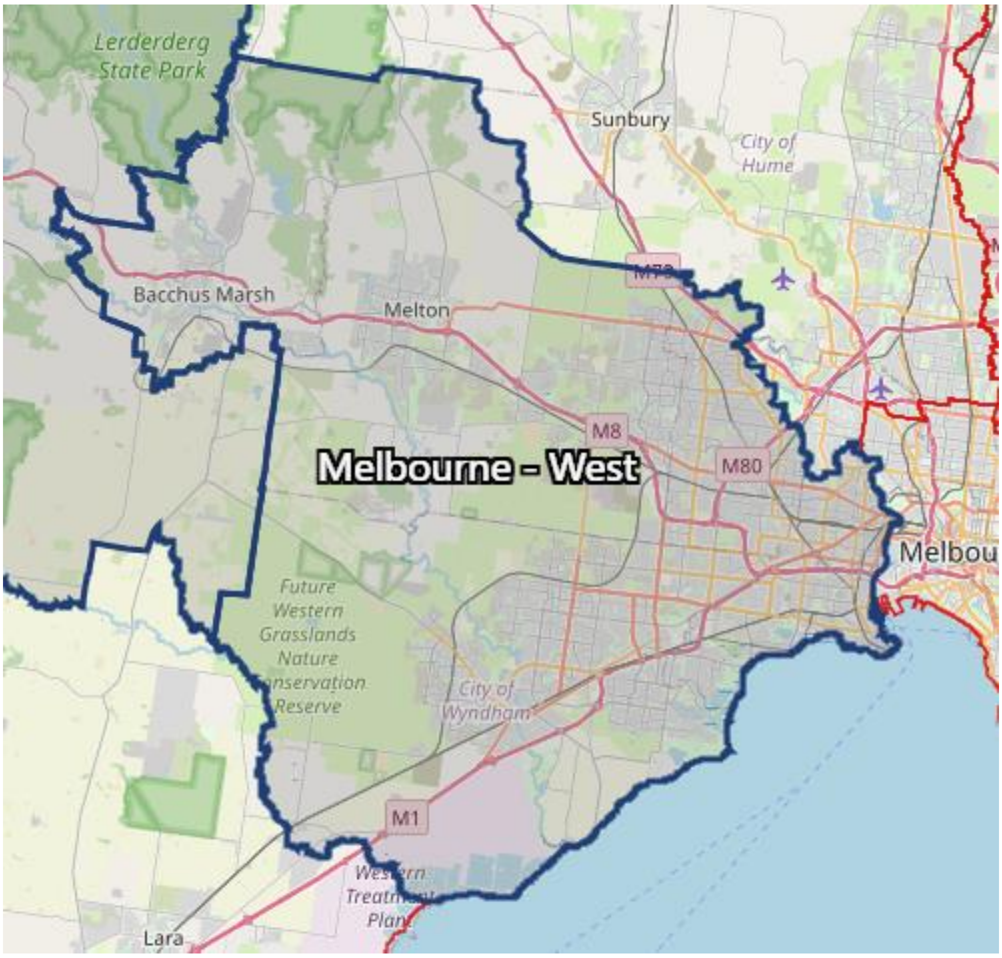

Figure 1: Melbourne-West SA4. Source: https://dbr.abs.gov.au/region.html?lyr=sa4&rgn=213

The Melbourne-West SA4 covers the local government areas of Hobsons Bay, Wyndham and Maribyrnong in their entireties, and covers more than 95 per cent of the working populations of Brimbank and Melton. The SA4 also includes a small portion of Moorabool.

The analysis of mortgage stress is based on census data and microsimulation modelling and covers the LGAs of Hobsons Bay, Wyndham, Maribyrnong, Brimbank, Melton and Moonee Valley.

THE POPULATION AND WORKERS OF MELBOURNE'S WEST

POPULATION

Since the turn of the 21st century, the population of Melbourne's West has been the fastest-growing population in Australia, almost doubling in size in just over 20 years.

Like many of Australia's fast-growing regions including Ipswich and Moreton Bay South in Queensland, Mandurah in Western Australia, and South West Sydney, Melbourne's West is essentially suburban. However, none of these regions comes close to the sheer volume of growth experienced in the last two decades in Melbourne's West, where the population has grown by 430,000 people. By comparison, the entire population of the Australian Capital Territory is just over 450,000.

With rapid growth comes pressure on physical and social infrastructure. Despite its population of nearly 1 million people, Melbourne's West is served by only three metropolitan train lines, with much of the area still serviced by V-Line regional trains. It has just one AFL club, the Western Bulldogs, and one university, Victoria University. Provision of health and education services, as evidenced by the proportion of the population working in these sectors, is low relative to the state and national averages.

Even the statistical geography of Melbourne's West lags behind. With its population of almost 900,000 people, the area defined by the Australian Statistical Geography Standard (ASGS) as Melbourne's West has well outgrown its own guidelines for defining an SA4 region, which in metropolitan areas, generally have populations of 300,000 to 500,000. There is no equivalent region in Melbourne's slower-growing East, which is divided into Inner East and Outer East. The different characteristics of the Inner and Outer West, which are likely to be as different as the Inner and Outer East, are not clear in data collections based on the ASGS.

The age structure of Melbourne's West is relatively young and extremely favourable for high labour market participation (Figure 2). Three-quarters of the population is under the age of 50, relative to just 65 per cent under the age of 50 in Australia as a whole. Melbourne's West has a very high proportion of residents of working age, particularly from the ages of 25 to 44.

This means that Melbourne's West also has a very favourable Dependency Ratio, that is, the ratio of old and young people to people of working age. The Dependency Ratio for Australia as a whole was 55% in 2022, indicating that for every 100 people of working age, there were 55 dependents (those aged below 14 or over 65). In Melbourne's West, there were just 49 dependents per 100 people of working age (Figure 3). This indicates that in the West, the economic burden of providing services for children and older people is less than that of Australia overall.

Even more favourable for the West is the composition of its dependents, with around two thirds being children who will enter the workforce in the coming decades. The Aged Dependency Ratio for the West is just 16%, relative to 26% for Australia as a whole. While Australia's Dependency Ratio is forecast[1] to increase over the next 40 years due to the ageing population, the Dependency Ratio in the West is forecast to fall,[2] as the Aged Dependency Ratio will remain stable and the Youth Dependency Ratio will fall. However, the relatively high Youth Dependency Ratio in the West emphasises the importance of immediate investment in schooling and child care in the region.

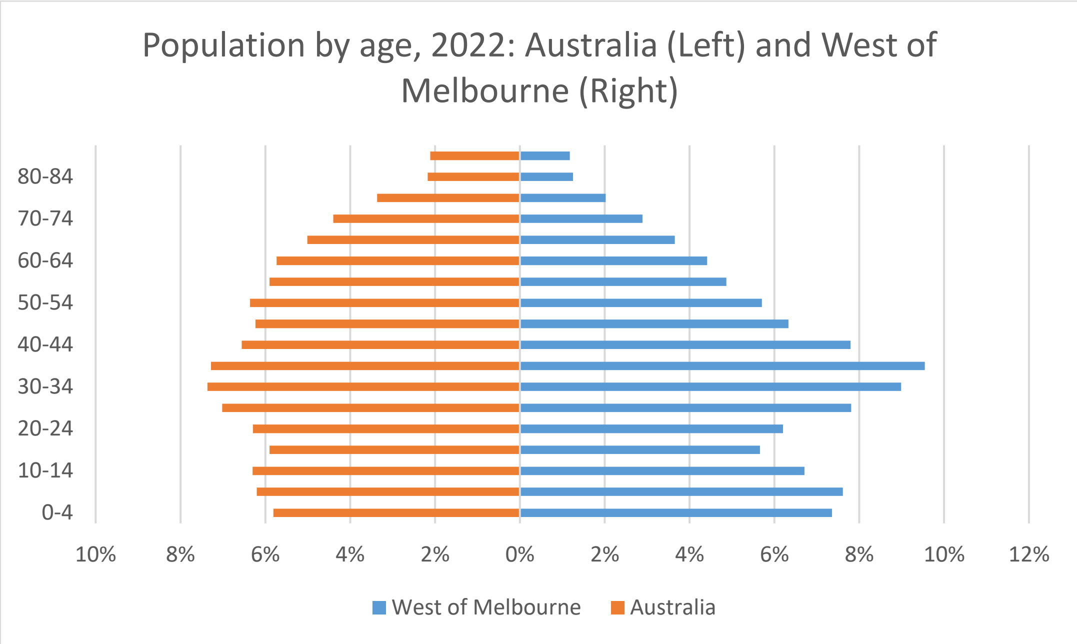

Figure 2: Population profiles, Australia and West of Melbourne, 2022

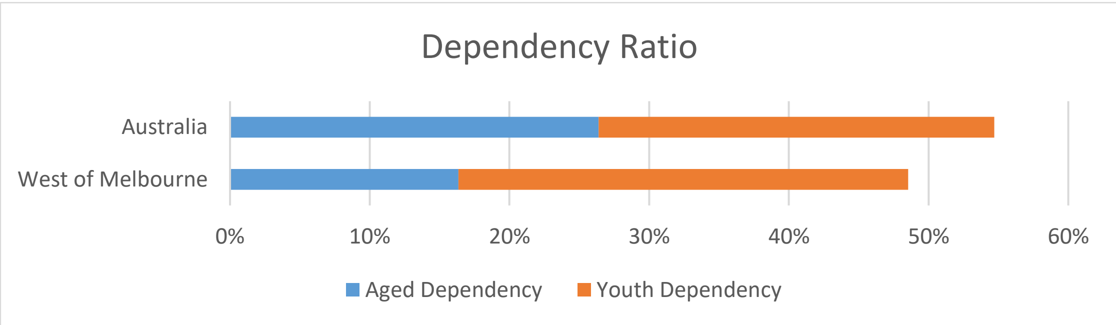

Figure 3: Dependency ratio, Australia and West of Melbourne, 2022

---

[1] Commonwealth Intergeneration Report, 2021

[2] Victoria in Future, 2023

EMPLOYMENT

OVERVIEW OF EMPLOYMENT

As of January 2024, the West of Melbourne had 487,000 employed residents, accounting for one sixth of the workforce of Greater Melbourne. Growth has been rapid, with employment increasing by 100,000 jobs in just the last 6 years.

The strong labour market participation of the population of Melbourne's West is underpinned by its favourable age structure. After a long period of relatively low participation, Melbourne's West has recently emerged as one of the strongest labour markets in Victoria, behind only the inner-city locations of the CBD and Inner South in terms of participation. While employment of residents of the West is high, it comes with substantial commuting out of the region, which is discussed in more detail below.

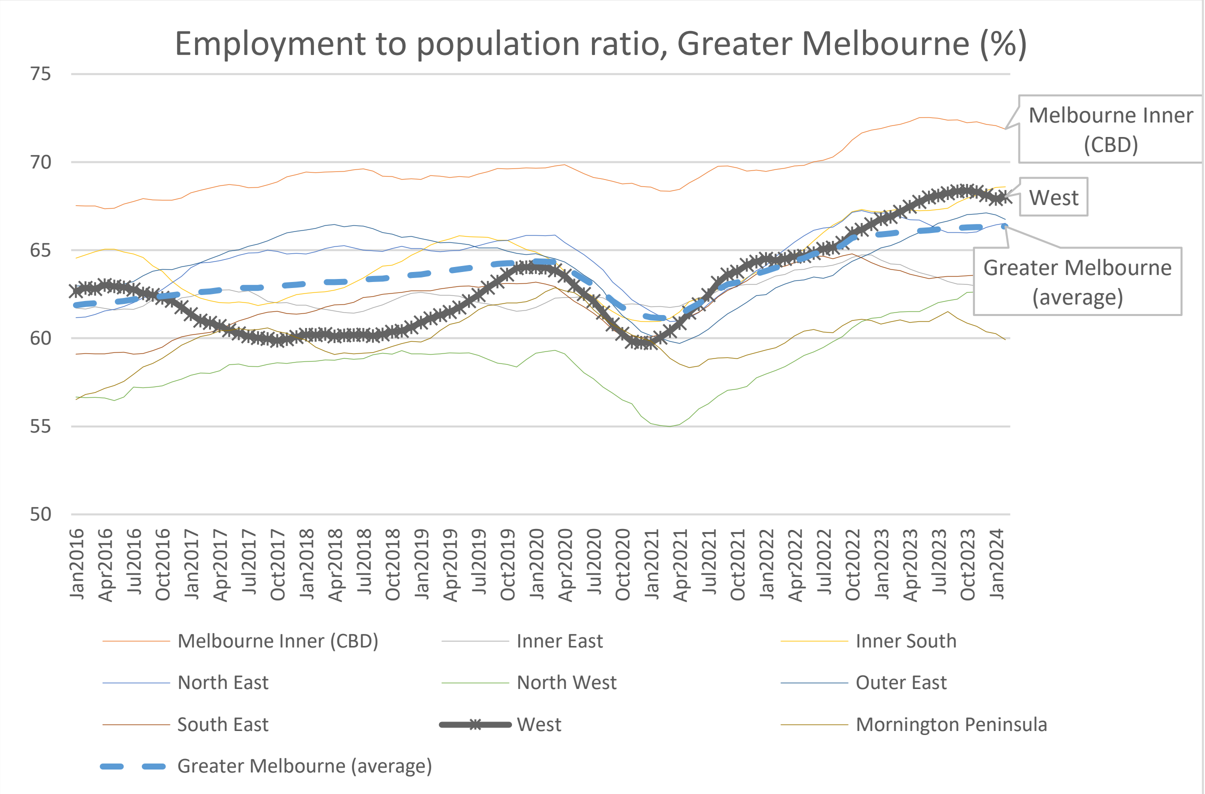

Figure 4: Employment to population ratio[3], Greater Melbourne and its regions. Source: ABS Labour Force Statistics

Despite strong overall labour market participation, the gap between male and female participation remains persistently high relative to the national average. With a 7.4 per cent of the population of the West aged 4 or younger (relative to 5.8 per cent in Australia as a whole) this is perhaps

[3] Ratio of employed persons to population aged 15 and over

unsurprising, but does indicate a vulnerability in the labour force, particularly for women. This gender gap potentially reveals an absence or shortage of good quality, local childcare, which is vital for getting parents back to work and safeguarding against career-damaging long breaks from employment. Further, the gender gap in labour market participation suggests that parental leave is either not available or not being taken up by fathers to the same extent as it is by mothers.

Figure 5 below illustrates the difference between male and female labour market participation in Melbourne's West, compared to regional averages. A gap of, say, 12 per cent, indicates that labour market participation is 12 percentage points higher for males than it is for females. In general, the gap has been closing over a long period in the larger labour markets of Australia, Victoria, and Greater Melbourne. For Melbourne's West, the gap has fluctuated in recent years, reaching as high as 18 per cent in early 2017. As of January 2024, the gap stood at just over 10 per cent, relative to the national average of 7.6 per cent.

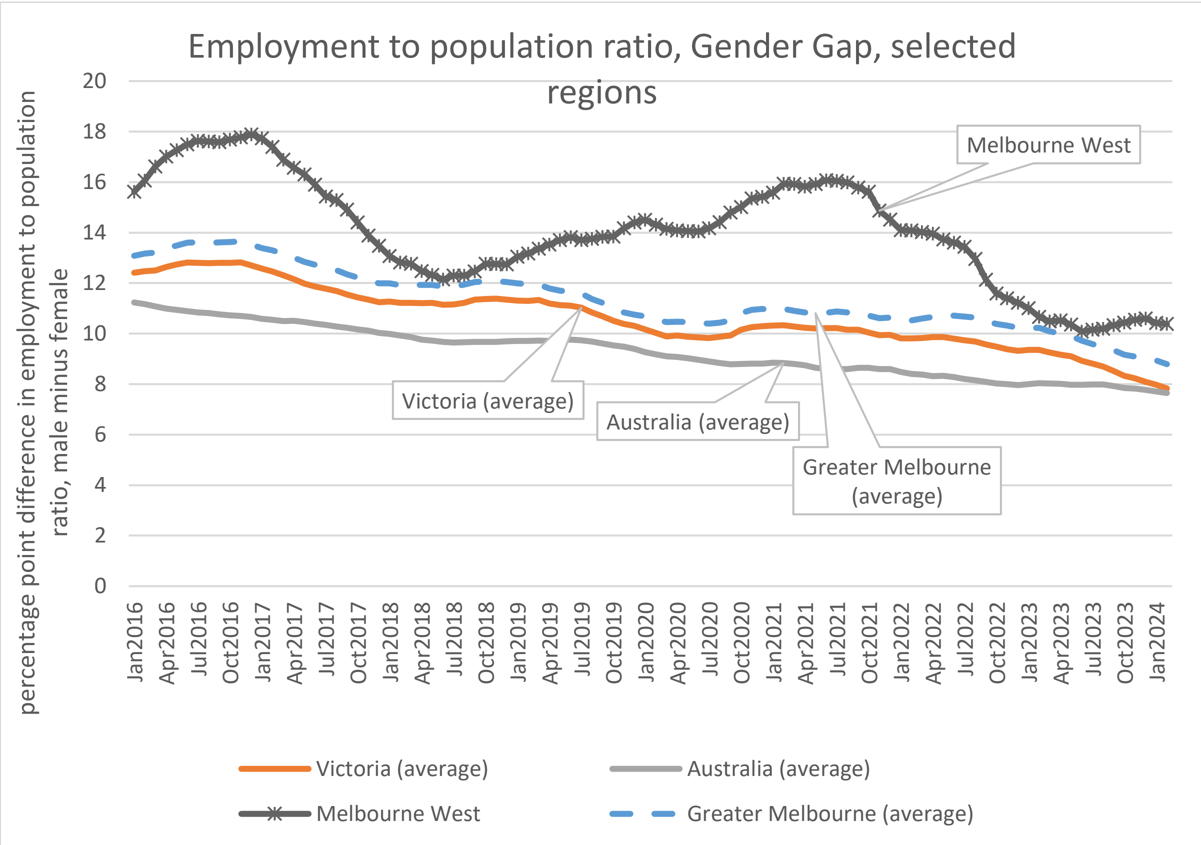

Figure 5: Gender gap (Male minus Female) in the employment to population ratio

INDUSTRY EMPLOYMENT

The breakdown of employment by industry for residents of the West contains some features that are broadly typical of the Australian labour market as a whole, and some features that are particular to the West.

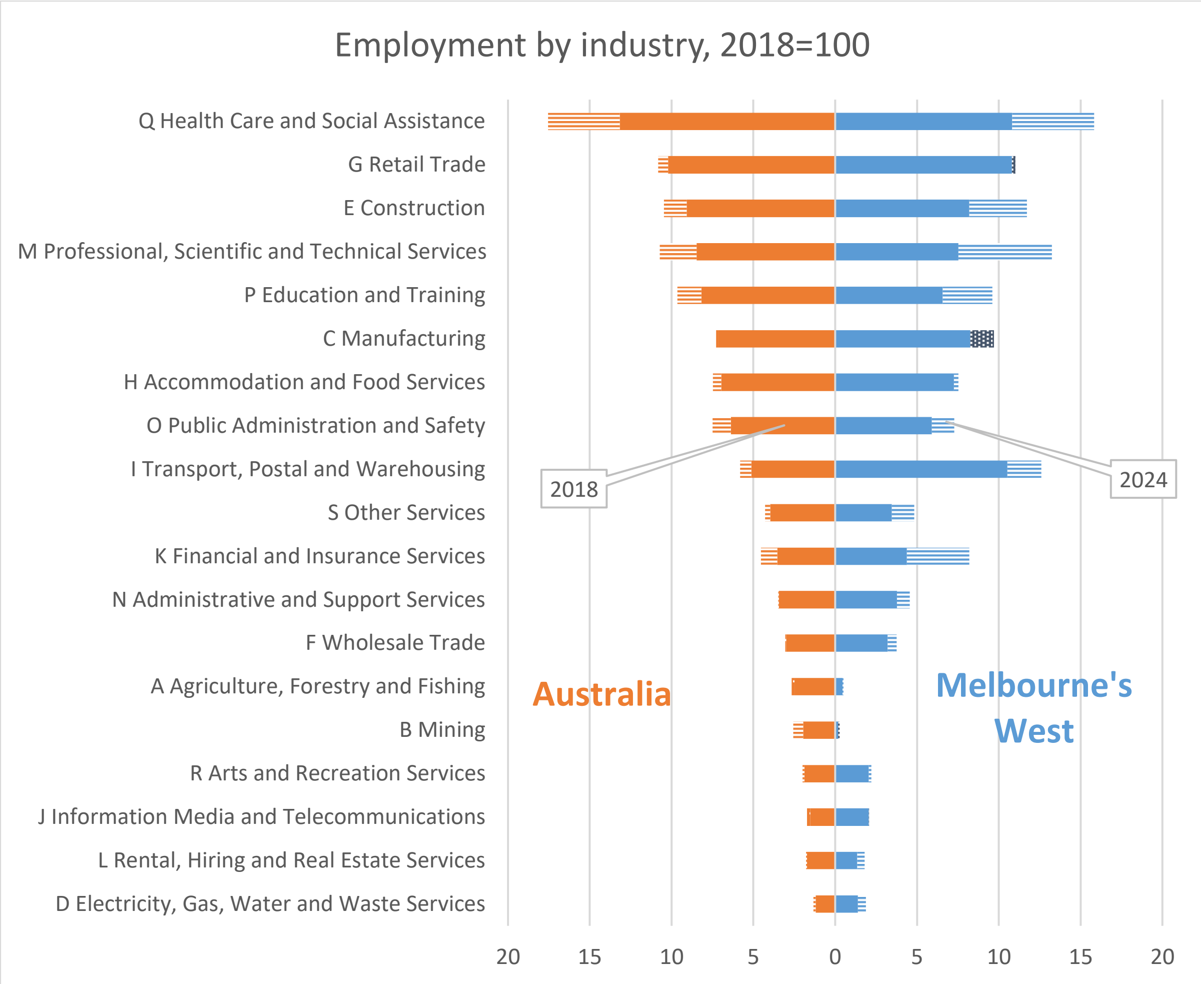

Figure 6: Employment in Australia and Melbourne's West, 2018 and 2024 (2018=100)

Figure 6 illustrates employment in Melbourne’s West in comparison to Australia as a whole. Both regions are scaled such that total employment in 2018 is equal to 100. Industries are ranked on the vertical axis in order of employment in Australia as of 2018. The solid bars indicate employment in 2018 while the striped bars indicate growth from 2018 to 2024. Declining employment is indicated by the spotted bars.

Several features of Melbourne’s West are apparent from this chart. Firstly, the growth rate in the West has been much faster than it has in Australia as a whole, with the West growing by 27 per cent compared with 14 per cent for Australia. Sectors including Health Care and Social Assistance, Construction, Professional, Scientific and Technical Services, Education and Training, Financial and

Insurance Services, and Transport, Postal and Warehousing have all seen significant growth in the West.

The West is slowly becoming more like the national average, with correlation in the two labour markets increasing between 2018 and 2024. Most obviously, Health Care and Social Assistance has emerged as the largest employer of residents of the West since 2018, as it is in the Australia as a whole.

Significant growth has occurred in Professional, Scientific and Technical Services and Financial and Insurance Services. These industries generally employ highly educated professionals and pay above-average wages. However, the downside is that jobs in these industries tend not to be local, so growth in these industries may be exacerbating already-high rates of outward commuting from the West.

Two industries that are uniquely large in the West are Manufacturing and Transport, Postal and Warehousing. Manufacturing is the only industry to experience a decline in employment in the West, as the region has transitioned rapidly into a more service-oriented labour market. On the other hand, Transport, Postal and Warehousing has continued to grow. This industry consists of services supporting the Port of Melbourne, along with other transport services such as taxi and delivery drivers.

The unique composition of employment in the West, exposes the region to both opportunities and vulnerabilities that are further discussed in the section on employment forecasts.

COMMUTING

Commuting is high in the West, as it is in other outer urban areas in Melbourne, with almost half of the workforce commuting out of the West as of the 2021 census. This rate of commuting is equivalent to 236,000 persons commuting out of the West for employment as of January 2024. The main commuting destination for West of Melbourne residents is the CBD, with 32 per cent of residents commuting to the city for work.

“Commuting” in the traditional sense of travelling from home to the workplace in 2024 may not be comparable in the sense of weekly journeys taken pre-COVID, as CBD office occupancy rates remain low. However, towards the end of 2023, employers around the country started issuing return to work mandates which appeared to have the backing of the Fair Work Commission. This suggests that weekly journeys and office occupancy rates will increase in the near term, but it is still unclear whether pre-COVID commuting behaviour will return in full.

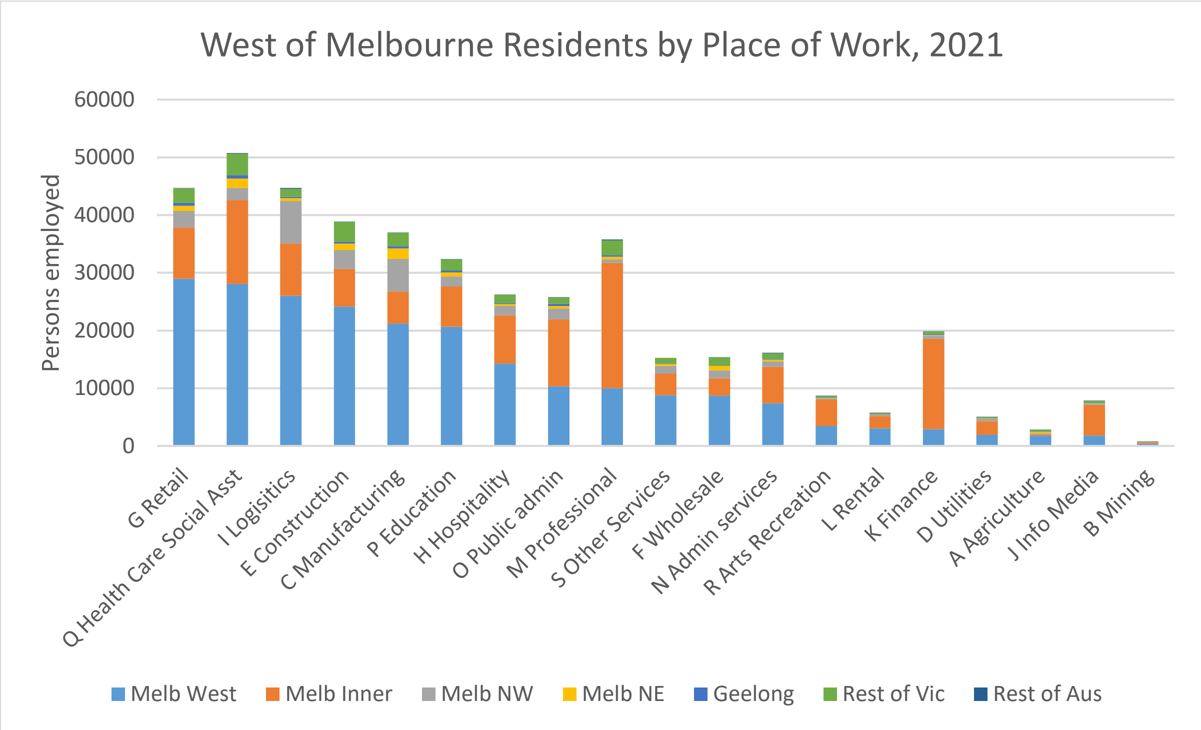

Figure 7: Regional Distribution of employment of West of Melbourne residents, 2021. Source: Census and Dixon (2022)[4]

Figure 7 shows employment by region and industry as of the 2021 Census, illustrating that commuting was particularly high for workers in Professional Services and Finance. These industries have grown rapidly for the West in recent years. It is likely therefore that commuting (in the sense of working for an employer outside the region) has grown since the 2021 census. Over the coming years as workers continue to seek highly paid jobs in Professional Services and Finance, and return-to-work mandates take effect, there is a risk that commuting will increase, impacting negatively on quality of life and the liveability of the West.

On the other hand, high proportions of jobs in Manufacturing, Logistics and Transport, Education and Health Care are located in Melbourne's West. Growth in these industries would naturally provide more local jobs for the West. Policies to promote these industries, accompanied by new initiatives to bring jobs in Professional Services, Finance and Public Administration to the West, would start to address the burden of commuting.

Prior to the pandemic, public discussion about planning for Melbourne as a polycentric city had gained traction. With continued rapid population growth forecast for the West, and strong growth expected in traditionally CBD-based professional services jobs, this discussion will continue to be important over the coming years.

[4] Dixon, J. (2021), VUEF forecasts for the West of Melbourne, unpublished manuscript available on request

FORECASTS

Employment in Melbourne's West is forecast to grow at 1.75 per cent per annum over the next decade, outstripping the forecast national growth rate of 1.4 per cent. Growth of 84,000 jobs is forecast for the West between January 2024 and mid-2033.

As the population continues to grow rapidly, Figure 8 shows that more than 4 in 5 new jobs in the West will be in Health, Education, Business Services[5], Construction, and Other Services (including Retail, Hospitality, Arts and Recreation and Personal Services), all population-servicing industries. Some of this growth, particularly in Health and Education, will take place in sectors with a high share of local employment, which will help to reduce the overall burden of commuting. However, this is offset by relatively low growth in other sectors with a high share of local employment, including manufacturing, construction and transport.

Employment in the high-wage sectors of Professional, Scientific and Technical Services and Finance and Insurance will continue to be strong, however, the rapid growth of recent years is forecast to give way as the health care sector absorbs a growing share of the workforce.

The traditional sectors of the West, Manufacturing and Transport, Postal and Warehousing, will make a modest contribution to growth. A positive sign is that Manufacturing is forecast to grow rather than to continue its recent decline in employment. In the past, technological change has been significant in replacing human labour in routine manual occupations. Future growth for manufacturing will be oriented towards skilled trades, management and logistics and professionals. This bodes well for residents of the West as a potential source of well-paid, local employment.

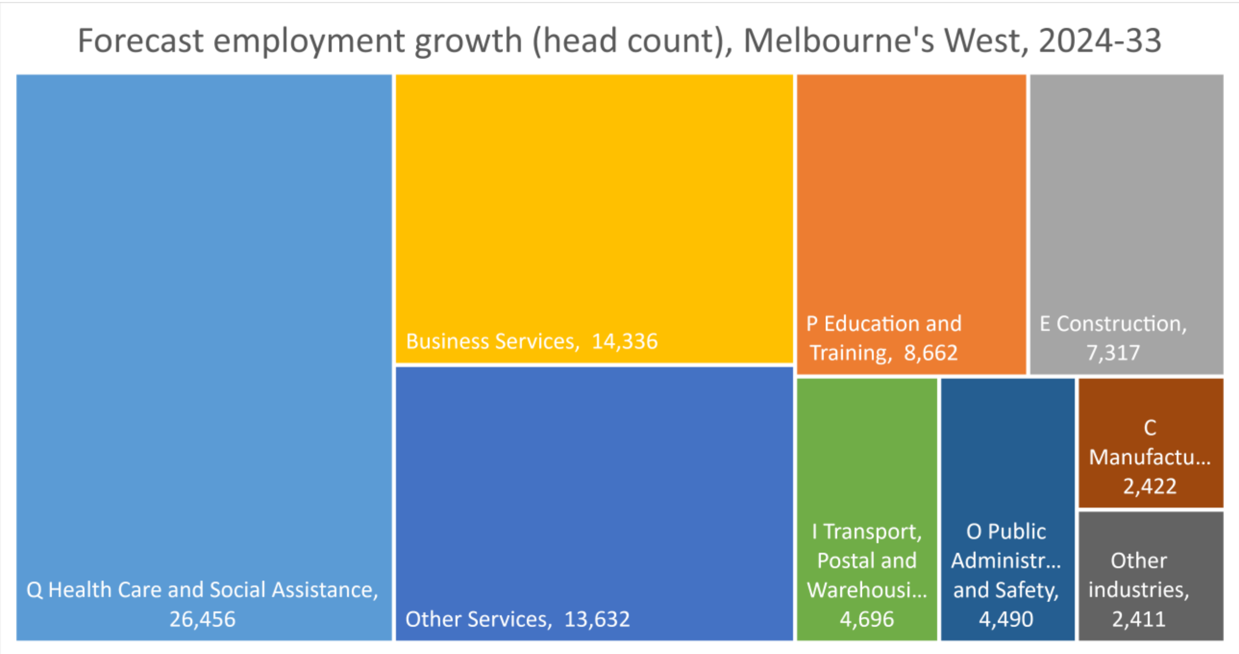

Figure 8: Forecast employment growth in Melbourne's West

[5] Information, Media and Telecommunications, Financial and Insurance Services, Rental, Hiring and Real Estate Services, Professional Services, and Administrative and Support Services.

Australia's economic growth through 2023 has been weak. Gross Domestic Product (GDP) grew by 1.5 per cent in 2023, while employment grew by 3 per cent, indicating a significant decline in output per person unlike anything seen in the last 30 years with the exception of the pandemic period. Economic growth is best summarised by the measure that directly impacts material welfare: real net national disposable income per capita, as illustrated in Figure 9. This measure passes aggregate economic output through several transformations. These are:

- The value of output is adjusted (deflated) to reflect the cost of domestic expenditure, creating a "real" measure. If the prices of exports (something we produce) changes relative to the value of imports (something we consume), this has an impact on our ability to transform the things we make into the things we want to consume. For example, the fall in income from 2011 to 2015 reflects a weakening Australian dollar over this period.
- The value of capital depreciated, or used up, is subtracted, meaning that we have a "net" measure.
- Net foreign transfers are deducted, making it a "national, disposable" measure. These transfers include remittances of profits to foreign business owners and interest payments to foreign lenders. Outgoing transfers are deducted and incoming transfers are added.

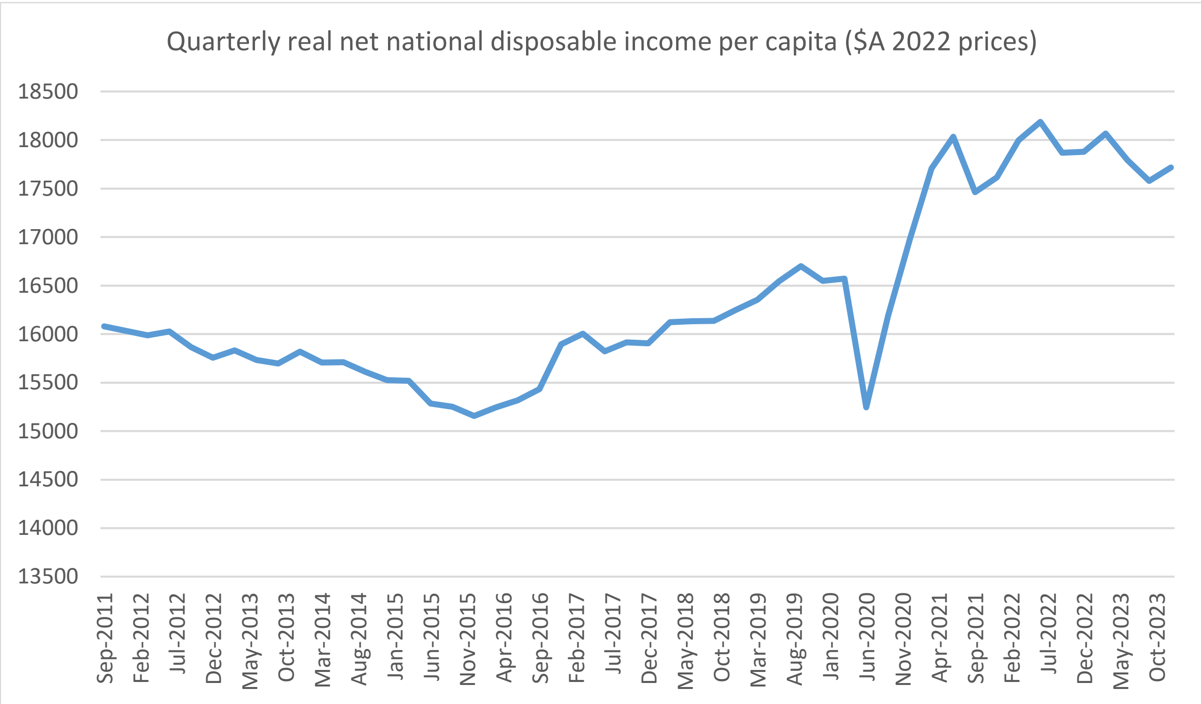

Figure 9: Quarterly real net national disposable income per capita. Source: ABS

As shown in Figure 9, quarterly real net national disposable income peaked in June 2022 at $18187 per person, and has since fallen to be almost $500 lower per person. This means that a household of

4 people on average had almost $2000 less in the last three months of 2023 than they had in April to June of 2022.

The Reserve Bank (RBA) forecasts accompanying the February 2024 statement are reproduced in Appendix 1. The forecasters expect further weak growth in economic output in the near term, with employment growth continuing to outpace growth in GDP in the first half of 2024. Wage growth barely kept pace with inflation over 2023, but the RBA forecasters optimistically forecast wages to grow faster than inflation (“real wage growth”) from early 2024 onwards. With output per person expected to fall, this wage growth is presumably not driven by productivity growth. The most likely driver of wage growth other than productivity is a decline in the share of profits taken by employers.

A bright spot for the West of Melbourne, with its proximity to the Port of Melbourne, is the strong forecast for exports and imports. Both are forecast to grow faster than GDP. High trade volumes are stimulatory to the Transport, Postal and Warehousing sector which is an important employer in the West.

The RBA forecasts for dwelling investment nationally are weak, with investment forecast to decline throughout 2024. With its growing population, the West of Melbourne is still experiencing significant construction activity. Building approvals for the financial year to date (July 2023 to February 2024) indicate that the West still has a strong pipeline with more than 7,000 dwellings approved. It is possible therefore that the RBA forecast will play out in areas other than the West.

MORTGAGE STRESS IN THE WEST OF MELBOURNE

BACKGROUND

Since 2021 central banks around the world have increased cash rates to address post-pandemic inflation. In Australia, the Reserve Bank of Australia (RBA) increased rates from a historical low of 0.1% in mid-2021 to a 10-year high of 4.35% as of November 2023[6] (Figure 10). These increases in the cash rate have caused a flow-on effect for mortgage holders, with average mortgage rates climbing from 3.06% in July 2021 to 6.18% in September 2023[7] (Figure 11). This drastic increase in mortgage rates has resulted in a significant number of households entering into mortgage stress.

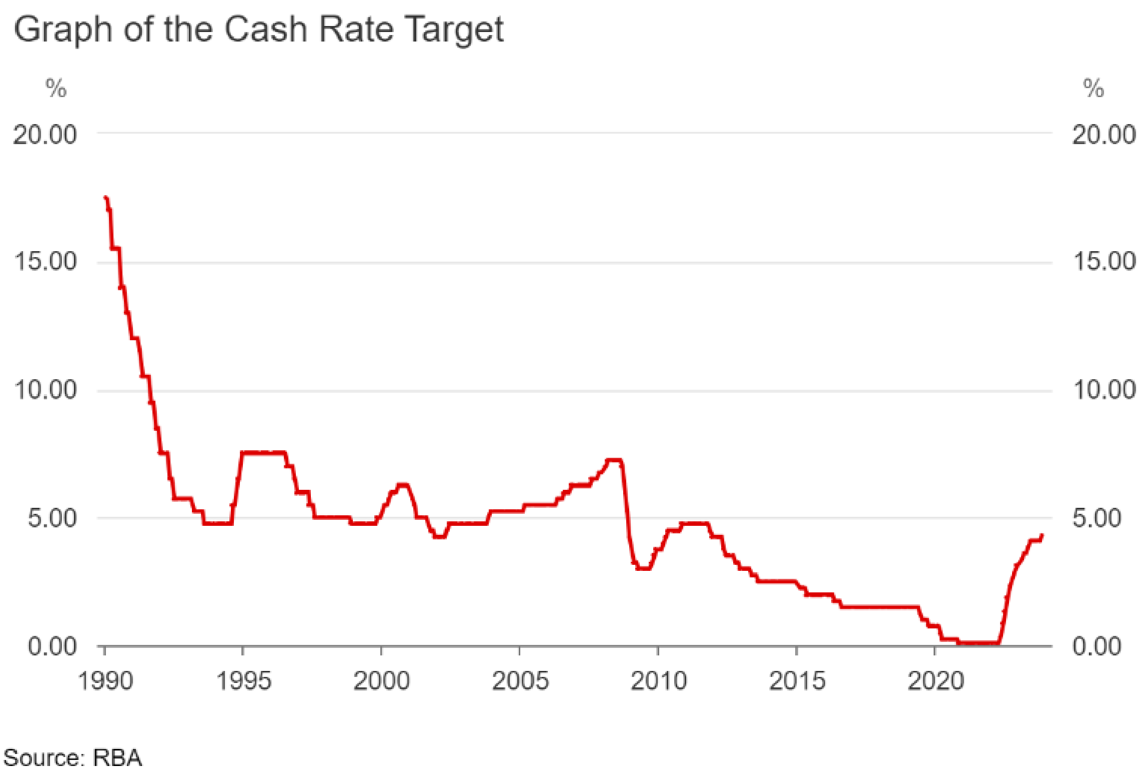

Figure 10: Cash Rate Target, 1990-2024

A household is defined to be in mortgage stress if it allocates more than 30% of its income to mortgage repayments. At an individual level, this may indicate the household is struggling or will soon struggle to repay their mortgage. This can lead to forced house sales and reduced spending on other consumption goods. At a macroeconomic level, a significant volume of defaults could impact the broader financial sector, affecting house prices, credit supply, and overall economic activity.

[6] https://www.rba.gov.au/statistics/cash-rate/

[7] https://www.rba.gov.au/statistics/interest-rates/

It is important to note that mortgage stress does not always imply financial stress. Some households may choose to allocate a higher proportion of their income to mortgages for discretionary reasons, such as living closer to work or viewing their house as an investment.

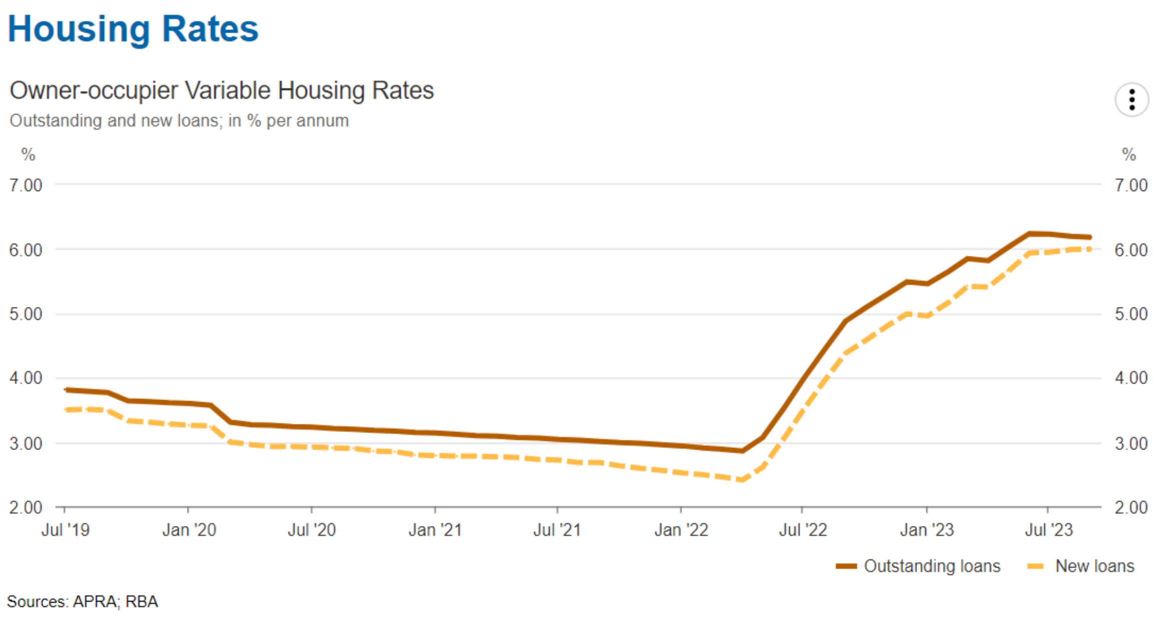

Figure 11: Housing rates, 2019 to 2023

In the remainder of this section we examine mortgage stress in the LGAs of Melbourne's West. We report our estimates of mortgage stress by LGA in 2021 and again in 2023 when interest rates were at a 10-year high. Over this time we estimate that the number of Australian households in mortgage stress increased from 4.48% of all households to 6.54% of households.

The update from 2021 to 2023 was modelled as follows:

- We increased interest rates by 4 percentage points, paid by each mortgage-holding household.
- We increased labour income proportionate to the increase in the Wage Price Index (WPI) between the period of September 2021 and September 2023.
- We increased investment income proportionate to the increase in GDP between the period of September 2021 and September 2023.
- We increased government transfers proportionate to the change in the Consumer Price Index (CPI).

This ensured that both the income and expenditure side of each household's balance sheet was proportionately adjusted.

REGIONS IN MORTGAGE STRESS

Mortgage stress is not uniformly distributed across regions in Australia. In Victoria, the worst affected mortgage stress areas tend to be located in the outer suburbs which are over-represented in the construction of new housing estates. Specifically, eight of Victoria's top ten regions experiencing mortgage stress are located in the outer suburbs of Melbourne (Figure 12). Moreover, Golden Plains, which is not part of Melbourne, is experiencing growth in housing developments and is located in the fringes of Geelong. This pattern illustrates how mortgage stress is likely affecting young families or recent migrants who might be attracted to these suburbs in the pursuit of lower house prices.

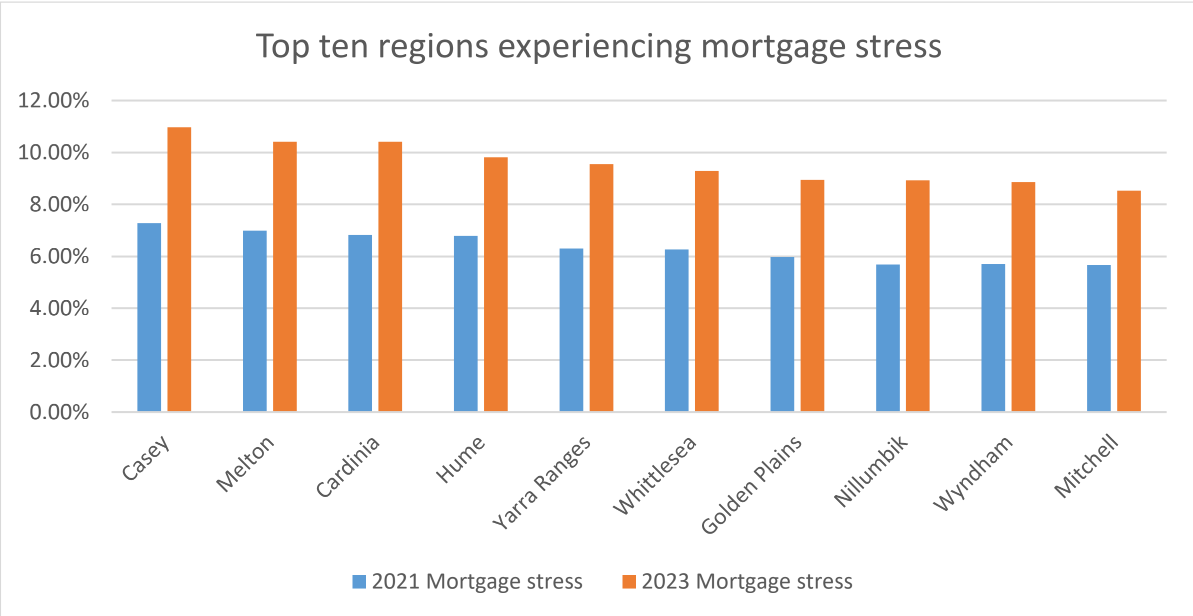

Figure 12: Top ten regions in Victoria experiencing mortgage stress

Regions	2021 Mortgage stress	2023 Mortgage stress
Casey	7.28%	10.97%
Melton	**6.99%**	**10.41%**
Cardinia	6.83%	10.41%
Hume	6.79%	9.81%
Yarra Ranges	6.30%	9.55%
Whittlesea	6.26%	9.30%
Golden Plains	5.98%	8.95%
Nillumbik	5.69%	8.92%
Wyndham	**5.71%**	**8.86%**
Mitchell	5.67%	8.53%

Table 1: Top 10 regions experiencing mortgage stress in 2023

MORTGAGE STRESS IN MELBOURNE'S WEST

The trend towards greater mortgage stress in outer suburbs, observed across Australia, is mirrored in the West of Melbourne. The two LGAs in the West of Melbourne with above-average levels of mortgage stress estimated in 2023 are located in Melton (10.41%) and Wyndham (8.86%). Both are outer-west suburbs with strong population growth (Figure 13). Figure 14 shows that the LGAs of Melbourne's West fit into the middle to high range of LGAs in Australia for mortgage stress.

Figure 13: Mortgage stress in West of Melbourne LGAs, 2021 and 2023

Regions	2021 Mortgage stress	2023 Mortgage stress
Brimbank	4.07%	5.80%
Hobsons Bay	4.20%	6.39%
Maribyrnong	3.90%	5.91%
Melton	6.99%	10.41%
Moonee Valley	4.02%	5.93%
Wyndham	5.71%	8.86%
Australia	4.48%	6.54%

Table 2: Mortgage stress in the West of Melbourne in 2021 and 2023

A more detailed profile of mortgage stress given in Table 3 below shows that Melton and Wyndham have higher levels of mortgage stress because those suburbs have higher levels of mortgage holders, with 41.78% and 37.64% of households being mortgage holders, respectively. The average level of mortgage holders for Australia is 25.58%. The difference in mortgage stress across West of Melbourne suburbs almost disappears when considering the level of mortgage stress limited to mortgage holding households, where the highest level of mortgage stress is 26.09% and the lowest level is 23.53%.

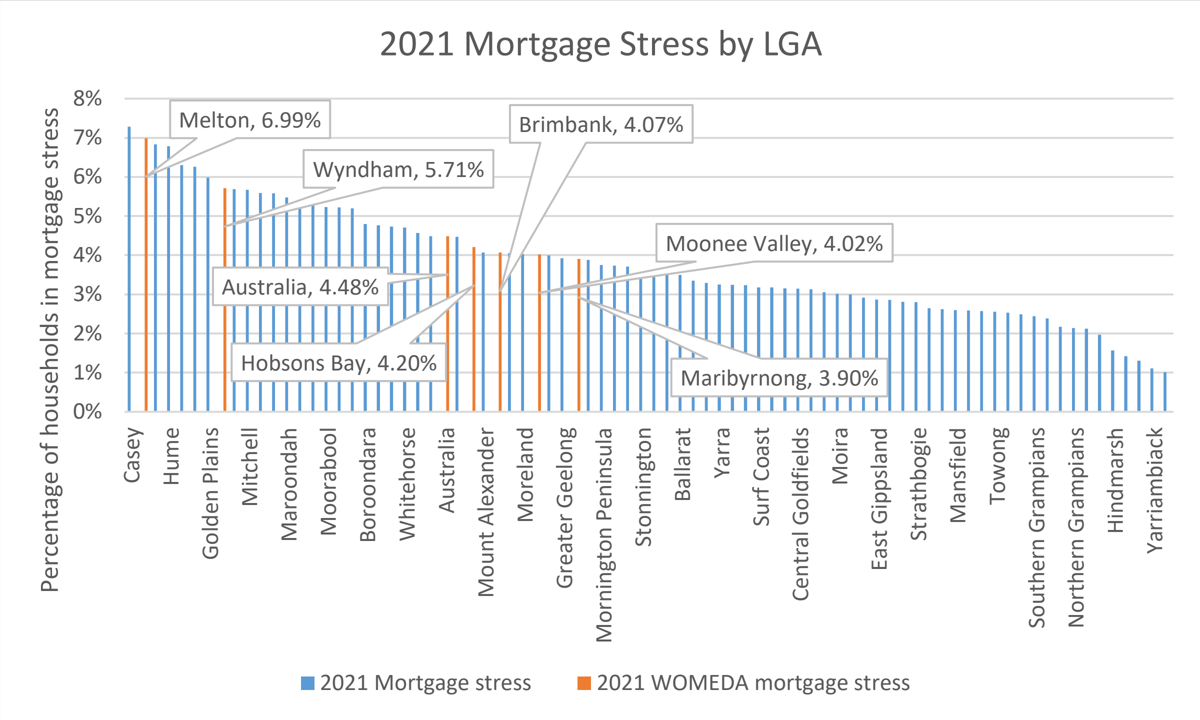

Figure 14: Mortgage stress, all Australian LGAs, 2021

Region	Household income	Mortgage repayment	Mortgaged stressed mortgage holders	Mortgage holders	Mortgage principal	House prices
Brimbank	$1,985.00	$552.00	23.61%	24.59%	$250,000	$765,813
Hobsons Bay	$2,357.00	$707.00	24.63%	25.95%	$301,155	$1,011,429
Maribyrnong	$2,357.00	$703.00	24.64%	23.98%	$300,000	$961,357
Melton	$2,277.00	$587.00	24.92%	41.78%	$270,000	$638,590
Moonee Valley	$2,363.00	$752.00	26.09%	22.74%	$316,509	$1,209,591
Wyndham	$2,382.00	$606.00	23.53%	37.64%	$282,359	$664,818
Australia	$2,111.00	$603.00	25.56%	25.58%	$270,000	$900,143

Table 3: Profile of Mortgage stress, West of Melbourne and Australia

Notes to Table 3**:**

1. Household income is median household income per month
2. Mortgage repayments are weekly median mortgage repayments for all households with a mortgage
3. Mortgage stressed mortgage holders are the fraction of mortgage holders spending more than 30% of their income on their mortgage
4. Mortgage holders is the fraction of all households who have a mortgage on their house in which they are living
5. Mortgage principal is the median amount outstanding on a house which has a mortgage
6. House Prices is the share-weighted average of median house prices LGA, Jan to March 2023.

LGA PROFILES

Brimbank, the least affluent region of the West of Melbourne, has the region's lowest proportion of mortgage holders at 24.59%. Despite its economic challenges, Brimbank surprisingly records one of the lowest rates of mortgage stress in the West of Melbourne with 23.59% of households experiencing mortgage stress. Overall, only 5.80% of households are in mortgage stress. These low levels of mortgage stress can primarily be attributed to the area's affordable housing and fewer local amenities.

Hobsons Bay is less homogenous than the other suburbs, with high-income suburbs like Williamstown which is closer to the CBD, and Altona which has lower incomes and has less amenities. The diversity makes it challenging to explain trends which occur in Hobsons Bay. Overall, the area features slightly higher-than-average income levels, moderately high percentage of mortgage holders (25.95%) and below-average mortgage stress (24.63%).

Maribyrnong, which is located near the CBD, enjoys above-average income when compared to the rest of Australia. Only 23.98% of households in Maribyrnong have a mortgage, a consequence of its high house prices. Mortgage stress is below the Australia-wide average at 24.64%. The area's high household income helps mitigate potential mortgage stress from costly real estate prices.

Melton, ranking as the second least affluent region in the West of Melbourne, has the highest level of mortgage holders with 41.78% of households possessing a mortgage. This trend is largely driven by the area's housing affordability, with the median house price only $638,590. Despite its economic status, the level of mortgage stress is lower than average at 24.92%, a benefit of lower housing costs.

Moonee Valley, the second wealthiest area in the West of Melbourne, is situated in close proximity to the CBD. This is reflected in its house prices, which are the most expensive in the West of Melbourne ($1,209,591). The prohibitive costs of housing results in a lower percentage of households with mortgages (22.4%) and positions it as the area with the highest level of mortgage stress in the West of Melbourne at 26.09%.

Wyndham, somewhat unexpectedly, is the most affluent region in the West of Melbourne, despite its status as a growth suburb and relatively inexpensive housing at $664,818. It has the second-highest rate of home ownership in the West of Melbourne, with 37.64% of households owning their homes, a consequence of cheap real estate. A combination of high incomes and cheap housing results in the lowest level of mortgage stress at 23.53%.

CONCLUSIONS ON MORTGAGE STRESS

Mortgage stress has increased throughout Australia in the last two years. Among mortgage holders, the lower the income the more likely an individual is to be experiencing mortgage stress. The higher the price of a house, the more likely a household is to be experiencing mortgage stress. Of course, mortgage stress is conditional upon having a mortgage. Individuals who have low income and cannot afford a mortgage do not suffer directly from mortgage stress.

If a household is located in New South Wales it is more likely to be in mortgage stress, and if it is located in Queensland, Tasmania or South Australia it is less likely. Melbourne's West has medium to high levels of mortgage stress.

Insights from trends at the LGA level do not necessarily explain characteristics of individual households in mortgage stress. For example, analysing individual-level data shows that mortgage-holders with low income are more likely to be experiencing mortgage stress. However, at the LGA level, Brimbank has the lowest median income in the West, yet it has the lowest levels of mortgage stress in the West measured in terms of total population and in terms of mortgage holders.

From a macroeconomic perspective, the potential for contagion effects is higher if a larger segment of the population is struggling with mortgage stress. For example, if many people were forced to sell their houses simultaneously due to mortgage stress, this would have a greater effect on a suburb's overall property prices. Such a scenario would have significant wealth effects for the residents of the affected areas.

Appendix 1: RBA forecasts, February 2024

Table 3.1: Detailed Forecast Table[a]

Percentage change through the four quarters to quarter shown, unless otherwise specified[b]

	Dec 2023	Jun 2024	Dec 2024	Jun 2025	Dec 2025	Jun 2026
Activity						
Gross domestic product	1.5	1.3	1.8	2.1	2.3	2.4
Household consumption	0.4	0.8	1.7	2.4	2.6	2.6
Dwelling investment	−0.2	−1.6	−1.5	0.3	2.0	3.5
Business investment	7.6	1.2	1.2	1.6	1.8	2.2
Public demand	4.0	2.2	1.1	2.1	2.8	3.0
Gross national expenditure	1.4	1.5	1.9	2.4	2.7	2.7
Major trading partner (export-weighted) GDP	3.5	3.1	3.1	3.1	3.0	3.0
Trade						
Imports	6.0	2.6	3.9	4.0	3.9	4.2
Exports	5.3	2.1	3.1	2.5	2.4	2.7
Terms of trade	−4.1	−1.1	−4.2	−5.0	−3.6	−2.5
Labour market						
Employment	3.0	2.0	1.2	1.2	1.4	1.5
Unemployment rate (quarterly, %)	3.8	4.2	4.3	4.4	4.4	4.4
Hours-based underutilisation rate (quarterly, %)	5.2	5.8	6	6.2	6.2	6.2
Income						
Wage Price Index	4.1	4.1	3.7	3.6	3.4	3.2
Nominal average earnings per hour (non-farm)	5.5	7.0	4.3	3.9	3.8	3.7
Real household disposable income	−1.5	−0.8	2.5	3.9	3.5	2.7
Inflation						
Consumer Price Index	4.1	3.3	3.2	3.1	2.8	2.6
Trimmed mean inflation	4.2	3.6	3.1	3.0	2.8	2.6
Assumptions						
Cash rate (%)[c]	4.2	4.3	3.9	3.6	3.4	3.2
Trade-weighted index (index)[d]	60.9	61.6	61.6	61.6	61.6	61.6
Brent crude oil price (US$/bbl)[e]	83.2	80.4	80.4	80.4	80.4	80.4
Estimated resident population[f]	2.4	2.0	1.6	1.4	1.4	1.4
Memo items						
Labour productivity[g]	−0.5	3.0	1.4	1.1	1.2	1.1
Household savings rate (%)[h]	0.9	1.0	1.7	2.4	2.7	2.7
Real Wage Price Index[i]	0.1	0.8	0.4	0.5	0.6	0.6
Real average earnings per hour (non-farm)[i]	1.4	3.5	1.0	0.8	1.0	1.1

(a) Forecasts finalised on 31 January.

(b) Forecasts are rounded to the first decimal point. Shading indicates historical data.