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New year debt woes likely

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Christmas costs, combined with interest rate rises will begin to bite

PAYING off debt is likely to be harder over the Christmas season and beyond as house prices rise and higher interest rates begin to bite, analysts warn.

Interest rates are still at record lows so debt collecting agencies are advising creditors to collect what they are owed 'while the going's good' before Christmas spending becomes a priority for families.

Prushka Fast Debt Recovery chief executive Roger Mendelson yesterday said people have been more able and willing to pay their debts since July but this would change as the Christmas season gets underway.

His company's analysis of overdue accounts indicated a 'marked increase' in householder debt repayment during the July-September quarter compared with the same quarter last year.

"The increased ability to repay debts was due to the unexpectedly strong economic conditions that continued throughout the period, further assisted by record low interest rates, low petrol prices, the stimulus package, and more recently by the rising dollar which has lowered overseas import prices," Mr Mendelson said.

However he warned that from December, debtors were likely to divert their money towards Christmas shopping, holidays, and back-to-school costs. This would make it hard for people to repay debt in the new year, as interest rates rose, he said.

ANZ head of financial system analysis Paul Braddick also warned it could be harder to juggle debt over the next six to nine months and to buy a house.

"Particularly if the market is right that expectations for the cash rate could get to 5.25 per cent by the end of next year or thereabouts," he said.

"It's really going to put a lot of pressure on households in terms of their servicing."

He said rising house prices would make housing affordability more difficult, adding that for the next six to nine months ANZ was expecting household income growth to be 'quite subdued'.

"So all of the things are pointing to the debt servicing question going the wrong way from the household's perspective over the next six or 12 months," Mr Braddick said.

Citigroup Global Markets director Paul Brennan said interest rates were still at record lows so if people were having problems now it was only going to get worse.

Mr Brennan said household pressures around Christmas and January were 'partly seasonal' but families would experience more mortgage and credit stress than earlier this year.

"At the end of the day, interest rates are still very low and if it's a problem for people with these levels of interest rates, then they better get ready for things getting a lot tougher," Mr Brennan said.

“Rates are going to get higher next year.”

He said the labour market was improving and employment was starting to grow again.

“People are more confident about the outlook and while rates are rising, they’re rising from extremely low levels.”

Many mortgagors decided not to lower their repayments when rates fell, so they were cushioned for some time, he said.

“The main concern is for the first homebuyers that were artificially encouraged into the housing market.”