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Hidden ‘villain’ that could crush mortgage holders amid shock inflation

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5–6 minutes

Skyrocketing insurance premiums and building costs are the hidden “villain” driving the country’s unexpectedly high inflation and could force the RBA to initiate another [crippling interest rate hike](#).

Higher inflation could in turn plunge the construction industry into further crisis, reducing building capacity at a time when housing is urgently needed, experts claim.

ABS figures published Wednesday showed the Consumer Price Index lifted from 3.4 per cent in February to a staggering 4 per cent in May.

It meant inflation was well off the 2-3 per cent target [being chased by the Reserve Bank](#), increasing [the prospect of another interest rate hike](#).



High inflation will drain the construction industry of building capacity.

Canstar group executive of financial services Steve Mickenbecker said it was hard to envisage a scenario where the RBA did not raise the cash rate.

“With scant evidence that inflation is moving towards the target band, the Reserve Bank will feel uncomfortable waiting a further three months ... and will surely lift rates in August,” he said.

“It’s worrying news for borrowers with an increase of 0.25 per cent adding \$100 to the monthly repayment on a \$600,000 loan over 30 years.”

MCG Quantity Surveyors director Marty Sadlier said an insurance crisis was at the heart of Australia’s inflation problems.



Canstar’s group executive financial services Steve Mickenbecker said homeowners would get a pricey blow from another rate hike.

A deep dive into the inflation categories showed insurance premiums rose a staggering 14 per cent during over the year to May – the highest percentage gain across every expenditure class in the analysis.

Additional Finder analysis showed the median home and contents insurance premium surged by more than 19 per cent in the last 12 months, reaching a high of \$2,434. Inflation in the building sector and an increase in natural disasters was to blame, according to the comparison group.

“Premiums are, quite frankly, out of control,” Mr Sadlier said.

“This relentless increase in insurance premiums, well beyond increases in other cost categories, is an inflation villain that could see us all suffer from higher interest rates this year.”



The high inflation may force RBA governor Michelle Bullock's hand.

Insurance affected the economy in ways many people didn't realise, Mr Sadler added.

"People need to realise the fallout from rising premiums isn't isolated to policy holders. The impact flows through to us all in myriad ways," he said.

"While a rate hike will be the most immediate widespread affect, rising premiums are devastating us in other ways ... businesses across the country (have) to reduce spending and staffing levels and, in some cases, close their doors altogether.

"Higher insurance and interest rates result in less construction activity, so fewer homes built in the middle of an accommodation crisis."



High inflation may have further political repercussions. Picture: Martin Ollman



Building activity is already struggling to keep pace with population growth.

Mr Sadler said rising insurance premiums had the added effect of putting more homeowners at risk.

“I know of several instances where runaway premiums have seen property owners choose not to insure their premises – both for residential and commercial real estate,” he said. “This puts them one tragic event away from financial ruin.”

Mr Sadlier said the answer to explosive insurance premiums is multi-prong.

“Firstly, I’m calling for immediate regulation of the insurance industry,” he said.

“It’s crucial government step in and stop insurers from quoting outrageous premiums that are decimating businesses, driving inflation and leaving Australians at risk of going broke.

“Owners must also ensure they are accurately insuring their properties. Be certain you have adequate cover, and that you are right across the terms and conditions in your policy.”