Transcript: Shayne Elliott with Neil Breen – 4BC Drive

Neil Breen: During the pandemic, people lost their minds on property prices. It was absolutely crazy. The (ANZ) bank has released a report saying the biggest factor driving prices down would be reduced borrowing capacity, not a rise in forced sales. So forced sale, is someone has borrowed too much, they can't afford it anymore and they've got to get out. But people would have their borrowing capacity reduced. They say, for the cash rate to reach 3.35%. That equates to a reduction in borrowing capacity of nearly 30%. The current cash rate is 1.85% and the RBA will meet next at the start of next month. I don't think we'll get another 0.5 next month I reckon it might be a .25, but then again, I've been wrong plenty of times in the past. Now the next guest of mine has been right a lot of times he's the CEO of ANZ Bank. His name is Shayne Elliott. Thanks for joining me, Shayne.

Shayne Elliott: Thanks for having me.

Neil Breen: I suppose it's a bit of a shock, Shayne, when people are waking up in the morning and having a piece of toast and a cup of tea, and they read that their house price might fall by 12% before the end of next year. But, you know, this is the world we're living in, right?

Shayne Elliott: That is the world we're living in and it will be a shock to many. But let's not forget, it's just retracing some of the boom and inflation we have had in pricing over the last two years. They'll still be well ahead over two years.

Neil Breen: Yeah, so they shouldn't worry, they shouldn't worry about it too much. Now, this situation.

Shayne Elliott: It depends when people got in, right. So, if people have had a house for a while, they'll be alright because you know, they're giving back a little bit of the game they had going.

Neil Breen: They're going up, they're going down.

Shayne Elliott: Yeah, the people really at risk are those who have just bought. Like, if you just bought a home in the last year, that's obviously going to be lot a scarier prospect, looking at a house price fall. It really depends on the specifics of who is the owner, when they got in etc.

Neil Breen: Yeah, I suppose my advice to those people, you know, I bought my first house when I was 22. My advice to those people is don't look at the price of your house, just keep paying the mortgage, just put the mouth guard in and the boots on and just cop it because things will get better for you over time and everything will be okay. I suppose it's people who might have a house, they might have an investment property who overextended themselves on a second investment property or a third one, might be the ones who get into a bit of trouble.

Shayne Elliott: Well, that's right Neil and I agree with your basic premise there, I agree. You know, you’ve got to grin and bear it. These things go up, they go down. What we know in Australia is that if people can afford to keep paying their home loan, their mortgage, they do. People who really get themselves into difficulty, it's not because your house price fell like you know, people don't want to pay or get themselves a deposit. It's because it's because your job, right? If you lose your job or you lose hours, or you don't have the same income. That's when people really get themselves into bother. So I agree. If people got in and they can afford to keep going, they should.

Neil Breen: Just keep going.

Shayne Elliott: And not worry too much about house prices. Now to your point maybe they're investors, well presumably they were smart enough and had the wherewithal and the money to go and do that. So they're probably going to be more mindful of where house prices are and think perhaps more a bit like stock market. You know, and they'll pay a bit more attention to where prices are.

Neil Breen: Exactly. Well, one of the guys I work with here at 4BC looks at his superannuation balance every day. And I said to him, "you're putting yourself in a grave, looking at your balance everyday". You shouldn't look at it until you're in your 50s like me, then you can start looking at it a little bit, just ignoring.

Shayne Elliott: Agreed. I'm not really sure what the point of that would be other than increase your stress level. I don't that's good advice to look at it every day.

Neil Breen: I wouldn't think so. Now when you talk about the fact the (housing) prices would fall would be because of a reduction in borrowing capacity. Can you explain that to us?

Shayne Elliott: So if you turn up to a bank and you say, I have a deposit, I need to borrow money. What the bank has got to figure out, based on your income, based on your household expenditure and really importantly, based on the level of interest rate and the home loan, how much can you afford to borrow? And all we are saying is if interest rates are higher, you're going to be able to borrow less. That's all. And that's what's happening here, because rates are going up. Now, let's not forget, they're still really low in historical terms, but they're going up a lot from where they were. And that means people today would be able to borrow less than they were able to six months ago. It's as simple as that. You know, it sounds quite scary, right? You say, hey, it's a 30% reduction in borrowing capacity. But that's because rates were so, so low recently and we all sort of normalize in thinking, hey, we're going to get a home loan at 2%. But as we know that that's historically quite extraordinary to have had that opportunity to borrow at 2%.

Neil Breen: There are some wages data out today, so there's something like a 2.6% increase in wages over the past year or so, not keeping up with inflation. Is that a worry as well?

Shayne Elliott: Yeah, that is a worry. And again, you've got to be careful here because these are always averages, aren't they. You know, nobody lives in that world. But some people will have had more and some people will have had less. And so the good news is that it's starting to look like wages are going up a lot faster than they have been, certainly over the last two years. But I think what's disappointing people, including the Reserve Bank, is that they were hoping that wage inflation, maybe even a little bit higher, actually. But that is it is better than it's been over the last two years. But clearly at 2.6%, given the cost of living, given the inflation numbers you lead the story with there, that means for many people they're going backwards in terms of their sort of real wages if you will. What they can afford to do with their pay, they'll be going backwards.

Neil Breen: What did you think about that UK inflation rate of 10.1?

Shayne Elliott: Oh, pretty scary, right. The UK is not alone. Most of the developed world has experienced this and the drivers have been the same. You know, we've got oil prices, supply chain issues, the terrible situation in the Ukraine all those things are driving the same outcomes here in Australia, New Zealand, the UK and the US. We're all have a very similar experience, although the UK does seem to be quite extreme.

Neil Breen: Shayne Elliott, CEO of ANZ Bank I know you're busy, I really appreciate you taking time to talk to me on Brisbane live and talking to the listeners. Much appreciated.

Shayne Elliott: Thank you.

For media enquiries contact:

Lucille Keen, +61 481 097 803