Transcript: Shayne Elliott with Neil Mitchell – 3AW

Neil Mitchell: The R word is getting thrown around at the moment. Is it possible Australia is headed for recession? Let's hope the RBA is wrong, they were wrong when the head of the bank said interest rates wouldn't go up – well they've gone up 9 times since. Yesterday in a statement, the RBA said the full impact on price rises, that's on everything, the full impact on price rises is yet to hit people. They said more interest rate rises are coming, they said there will be higher unemployment, fewer jobs. They said we are stuck with inflation for at least another two years. And they said it's going to be difficult to avoid recession. Terrific. Now, against that, the prime minister is talking about spending cuts, and there will be revenue raising somewhere. Spending cuts were always going to happen, they just didn't want to admit during the election campaign. Applications for home loans, according to some figures reported today have dropped 16%, car loans are down 14%, credit card applications are up 21%. Now presumably that's a bit of an indicator of what's going. You put it all together, it could be tough times ahead. We discussed the pizza index yesterday – the price of pizzas has gone up almost 30% since COVID because the price of the ingredients has gone up. The pizza index is under pressure. On the line, from Japan, the Chief Executive of ANZ Shayne Elliott – good morning.

Shayne Elliott: Good morning.

Neil Mitchell: Is the Reserve Bank right, we're headed for two years of pain?

Shayne Elliott: Well, I don't know that they're precisely right, but I think the trend is certainly correct. We are in for a period of further pain, as the economy, you know, the Reserve Bank tries to slow down, or take some heat out of the economy, to restrict the impact of inflation. And the only way they can do that, is to inflict some pain, and by increasing interest rates and trying to slow the economy down, and sadly, that has a very, very big impact on many in the community. Including probably higher unemployment and of course higher costs across the board, in particular for people who are borrowing money for their homes.

Neil Mitchell: I know you hate using the word and you're normally very optimistic, but are we looking at the possibility of recession?

Shayne Elliott: We are looking at the possibility – I think it's possible Neil. I, you know, we haven't at ANZ, and me personally, I don't think it likely we will have a recession, but it's certainly possible. The reason I don't think it's likely is that, despite the pain and despite the pressure that many people are under, Australian's have gone into this period in extraordinarily strong shape in terms of high levels of employment, high levels of confidence about their jobs, pay raises, people are getting pay increases they've not experienced before, saving levels are high. And of course, Australia, in comparison to here in Japan, Australia continues to do extraordinarily well in terms of trade and, you know, there is still great demand for things like iron ore and gas and other products from Australia. The country is in good shape. I don't think we will end up in a recession, and if it is one, it'll probably be what they will call a very shallow one. It might be a technical one, but it won't feel like a really dark period that we may have seen in the past

Neil Mitchell: The figures reported today from the Finance Brokers Association say thousands of Victorians have been forced out of their homes – is that what is appearing on your books? Are you finding distressed…

Shayne Elliott: No, I haven't seen that. No. Look people are under stress, there's no doubt. When you look at stress, we do it in a couple of ways. There are many ways you can think about stress, obviously people can feel stress – but if you talk about technically actually being in financial trouble – unable to make payments on their home loan. Those levels of, and all the banks do this, people who have been unable to keep up over a three-month period, those numbers are extraordinarily low still. Just to give you the numbers – on average, over a long period, normally it's about 1% of people, 1% of Australians with a home loan are in that category. Now doesn't mean they don't get themselves sorted out, but over three months they are sort of behind. At the moment, the levels are half that. Half. So, they are at record lows. They are still extraordinary low those levels. Is it starting to increase – perhaps? But it's very hard to see that there is a trend of an increase. So that level is one. Two, look at the people who are really in difficulty, people who lose their home, who have repossession – that number is at 25% of what it normally is. And it's always been extraordinarily low anyway. So look, there is no doubt people are under stress, there's no doubt people are worried, and there's no doubt people are struggling and need to make changes to their lifestyle. But at this point, I'm struggling to understand where that data comes from that says that people are losing their homes, we certainly don't see that, no.

Neil Mitchell: Well, I remember you and I talking, as I did to Ross McEwan at the NAB, back in 2020 / 2021 – when the property market was really hot. And I was worried about the amount of money that people were borrowing to buy million dollar plus houses on low interest rates, and you and I said interest rates will go up eventually, so how do we know we won't end up with a bunch of people with negative equity who can't afford to pay. And you said, well we are putting in a buffer, and so did Ross McEwan, we are putting in a buffer, so we are not lending the amounts, if it's going to be… Is that working? Do you think people have been protected by that policy, or wasn't it strong enough?

Shayne Elliott: Yes. It's a great question. The lowest rate we ever lent, and I'm sure all the banks are pretty much the same, the lowest rate we ever gave to any customer was 1.94%, that was a fixed rate for a couple years in the middle of COVID – it was about as cheap as anyone ever got. But at that time, what we did was, when you walked into a bank and talked to a broker, we assessed you, from the calculations we did, we assumed rates would be, I think, at 5.25%, we thought that was the buffer. And you know we weren't predicting it would go 5.25%, but we were saying just in case we built in that buffer. The reality is that's about where we are now. So, the buffer has worked, and that means even those people who got 1.94%, we assessed their ability to repay as if it was at five and a quarter, and so yes the buffer has worked very well. And that's why we don't have lots and lots of people, really, – there are people under stress – but we don't have those people losing their homes because we built in that buffer. I think it has worked pretty well. And of course today, if you come in and borrow, we're assessing more like at 8% – so we've continued the buffer, the number keeps going up. I think it works pretty well.

Neil Mitchell: Those fixed rates are about to end though, some people are going to hit a bit of a wall, or a cliff, aren't they?

Shayne Elliott: Absolutely – interestingly though, for ANZ anyway, we've already passed that peak – so a lot of our people have already moved from the end of their fixed rate period, their one or two year fix, and moved into floating. What's interesting, again, I don't want be delusional here, but what's interesting is when you look at that cohort of people, those people that were on a really low rate, that have now moved to floating, those people are actually less stressed than everybody else – surprisingly. That might feel very surprising. But when we look at our data, they are under even less stress. I think it's because, you know, people are not foolish, people are smart – and people know and they plan ahead, they think very cautiously about their personal finances. So people have been able to get through this. I think we're at a very, very interesting, well interesting is not the right word, difficult, pivot point. Today, with the new rate increase that came on Tuesday, in my mind we are right at this pivot point. Up to now, most people have been able to get through and make changes, people are ok. It's really from here forward, that it gets really difficult. Because of that buffer. Because suddenly we're over the buffer. And it's starting to really bite in people's spending for their home. So I don't know when it's going to end, and neither does the Reserve Bank, neither does anybody. It all depends on how people behave.

Neil Mitchell: Yeah, but that's very disturbing. Because the Reserve Bank is saying there are more interest rate rises ahead, which the experts are saying that's at least the next two. And we could still be nudging 4%, we've reached that buffer now, in the extent that it's been stretched the buffer. The Reserve Bank said yesterday, more interest rate rises ahead – so that's got to cause pain.

Shayne Elliott: Well this is all part of, you know, I don't presume to know what's going through the mind of the Reserve Bank governor – a lot of this is messaging. Just as they said in the past, there would be no rate rises for the next couple years. They're trying to send a signal to the market. They are trying to say to people – stop spending, slow down, like, stop. Because at the end of the day, they're trying to take inflation out of the system, and the only way you can do that at the moment, is people need to stop spending money. And so they're trying to take money out of your pocket, and out of your home loan – so they're signalling – hey, please slow down. And obviously if people do slow down, and inflation comes down, they won't need to raise rates as much as they're forecasting – it's all part of a bit of psychological game with the market and consumers, as we know.

Neil Mitchell: Well do you think when they say that the worst of the price rises is yet to hit, and our pizza index found yesterday that people weren't buying as many pizzas because they'd gone up 30%. Do you agree that the worst of price rises are yet to hit, or is that more posturing by the bank?

Shayne Elliott: Look, that's a good question. It's interesting when you break down inflation and where its coming from – there are some areas where that is undoubtedly true, but there are other areas where it is not. You know, one of the big drivers of inflation has been the cost of energy – in particular oil, gas, going to the petrol pump. And that is coming down, and really for Australia in particular, a lot of inflation we have is imported from somewhere else, a lot of goods we buy, not necessarily the stuff that goes into a pizza, but the thing that goes into everyday expenditure comes from somewhere else. And so, some of the inflation is not really controlled by us, and oil is a good example. Look I'm not so sure that that's true. I'm sure in some areas it was undoubtedly true, again I'm not an expert on pizza ingredients. But I imagine that may well be the case for pizza, but I'm not sure it's true right across the board.

Neil Mitchell: You know this question is inevitable. You've increased rates already, 0.25. What about on deposits – when will that increase?

Shayne Elliott: Well we did increase deposits. And again, you know, we've increased what we call our hero product, our ANZ Plus product, we did put the rate up 25 points there as well. We are very aware that, you know, people are in different circumstances. It's interesting and we've talked about it before, just to remind people, most Australian's don't have a mortgage. I understand that many do, but it's only 36% of Australian's who have a home loan, so there's a whole bunch of people that don't. Almost everybody has a deposit, and for many people that's an important part of their household income, especially if you're retired. And we are very aware of that. And so, we have passed on rates. And people, just like they do with home loans, they should be aware of the prices. They should shop around, look for the best deal, and make sure they are in the right product, because banks, we've got a handful of different things. But if that's important to you, if it's a saving issue, you can get, when we definitely put the rates up as well.

Neil Mitchell: You're the economist. But I might run a pizza shop again, and not have a house mortgage – but my customers do. So they buy fewer pizzas, which hurts me.

Shayne Elliott: Absolutely. You know, sadly that's a reality of the situation we're in, and the Reserve Bank, they've got a difficult job to do, they're very, very clear on their role to take inflation out. They need people to stop buying pizzas in that case, or buy less. And so, they're trying to reduce demand, they're trying to reduce demand, because that demand for pizzas means, and we're stretching it here, but that pizza shop says I've got to go and employ more and more people, and I've got to expand and get more ingredients – and that increases demand for those goods. Whether it's flour, tomatoes, or whatever it is, and people, in particular labour, and that's inflationary. So yes, as I said, people spend less on pizzas or whatever it might, or flavoured milk, or whatever it was that it is going on at the moment.

Neil Mitchell: I really need to let you go I know, but two quick questions. Wage increases of about 4%, are wage increases an issue in all of this?

Shayne Elliott: Well, that's potentially a problem. I mean it's a good thing, it's a good thing. It's a good thing people have higher incomes. That's a great thing. The difficultly is what everybody is worried about is, you end up in an awful spiral where the pizza shop has to pay more for people working there, and therefore it puts the prices of pizza up, and then you end up in this horrible cycle. That's what people are worried about. If wage increases are up because people are working, being more productive, and we're being more successful – that's a good thing. We want a high wage economy. But at the moment, I think the jury is out. And there's loads of debate, and people won't be interested, but if you look around the world, and there's loads of debate everywhere, whether we're in this wage price spiral, or not. I don't know any more than anybody else does, but that is a concern. But I think at the moment, when you talk to businesses, yes. Many businesses, the problem they've got, if you're a pizza shop, in this case – great, people need to earn more, but can you put prices up for your pizza. Now many businesses, some can – but many can't actually, so they're getting really squeezed. And that's really where the pain will hit, in a lot of those small businesses, they can't pay more, because they can't charge more for their goods.

Neil Mitchell: And, final question, do you have any 35-year loans?

Shayne Elliott: No.

Neil Mitchell: Is that too long? 35 years, mortgage.

Shayne Elliott: No, no we don't. Well technically we would have many people who have a 30-year mortgage. What happens in most of those, and they're a floating rate, and what happens is most people pay it off before then, or refinance. We have 30 years, but not 35. But very, very few people would borrow money for 30 years and stay with that same bank over that period. The average life of a home loan in Australia before somebody changes, is about four and a half years. And they change their bank, every about eight or nine years, if that makes sense. So no, but there are some people who obviously stay for the 30, but it's pretty small.

Neil Mitchell: I noted the NAB subsidiary UBank has a 35-year mortgage loan, that seemed to me a bit, almost dangerous.

Shayne Elliott: It seems a long time. It's hard to imagine what would happen over 35 years. As I said, I can't imagine that's selling particularly well, but who knows, I can't presume to know.

Neil Mitchell: Thank you very much for your time, thank you Shayne Elliott in Japan, Chief Executive of the ANZ, really appreciate your time.

ENDS

For media enquiries contact:

Lachlan McNaughton; +61 457 494 414
Lucille Keen; +61 481 097 803