Transcript: Shayne Elliott with Neil Mitchell – 3AW – 4/10/21

Neil Mitchell: Regularly, I speak to the chief executive of the ANZ bank, Shayne Elliott, and it's never been more important than it has through the last 20 months, or whatever it is, of the pandemic. Housing market in particular has been an area of great concern, and the Federal Government's been making noises about introducing some sort of rules, or with the banks to, if you like, tighten up on the lending a little bit. I saw some figures that, what was it? About six per cent of people had borrowed six times their income to buy a house to get a mortgage. That's getting into risky territory because obviously when interest rates go up, which they will, at some stage you've got to meet that payment and you could find yourself in a position, in fact, owing more and paying more than the house is worth. That has happened around the world various times on the lawn, is the chief executive, the ANZ. Shayne Elliott. Good morning.

Shayne Elliott: Good morning, Neil.

Neil Mitchell: Okay. What can be done? I read today that the banks are seriously looking at what can be done to alter the way or tighten the way money is being lent to home buyers. What can be done?

Shayne Elliott: Well, we can always make it a little bit harder, I guess for people to get those loans by putting in what the market calls macro prudential rules. And we've seen those in the past, APRA has done those things, which says they'll put in some sort of speed limits on the way that banks lend. So for example, if you borrow today the banks ... you might be able to get to get a mortgage at say two and a quarter per cent or something. The banks already assess you and assume that rates are above five. Just because we build in a bit of buffer. So for example, APRA could say no, don't use five, use five and a half, or use six or something. So we can put our thumbs on the scale, if you will, to sort of alter the way we assess loans. And that'll make it a little bit harder, so people might be able to borrow quite as much as they are today, and that will reduce demand.

Neil Mitchell: Do you think it's necessary?

Shayne Elliott: I think it's probably a reasonably good idea. Whenever markets move quickly up or down, it's always a time for concern. And what we're seeing is house prices accelerating quite strongly. And you've seen the numbers 20 odd per cent across the country this year and people forecasting even more increases next year, not at that same level. So it's probably something worth looking at. I heard your preamble there a little bit, Neil about six per cent of homeowners potentially more than six times debt to income. Actually the people borrowing today, so new borrowers, it's actually above 20 per cent according to the data. So more than one in five borrowers is borrowing six times their income or more. So that's obviously ... That's a that's a big number.

Neil Mitchell: That's dangerous?

Shayne Elliott: Not necessarily because ... here's another interesting, counterfactual to that. If you look at how much do households use of their household income, what percentage of their household income do they use to pay interest on their home loans? That's at a 20-year low. And if you look at how much of a household income is used to pay interest on all of their debt. That's at a 35 year low. So people actually do have the capacity if interest rates move higher. And when banks assess you today, we do assume that rates are going to be a lot higher than they are already today. So it's not necessarily a problem, but it's a flag. It's something we should think about.

Neil Mitchell: I remember when I first house I bought, I was allowed to borrow - it was the old Commonwealth Bank - 80 per cent, maximum of 80 per cent of the value of the property. I remember talking to Peter Costello about doing similar some years ago when he was still treasurer I think. Do such limits exist at the moment?

Shayne Elliott: They're not cast in stone, but generally as a rule of thumb, banks will generally only lend 80 per cent loan to value in that case. But there are exceptions and people who can get 90 per cent in certain situations and even a little bit higher, but generally the majority of the marketplace will be at that sort of 80 per cent level. Now, the people who got hired typically will be people who've got a really good track record, and people have got a strong savings history or, if they've got other sorts of security, et cetera. But generally, 80 per cent is a good rule of thumb.

Neil Mitchell: It's the first home buyers that concern me, obviously, because they've got to get into the market, the rest of us sort of buying and selling in the same market. Do you think there's any hope for them in the future and is it going to ... well, it's going to increase at the same rate, but it's going to go backwards, is it?

Shayne Elliott: No, it doesn't feel like that. I think that is the big sort of community concern ... and I don't want to dismiss it because I think it's a big concern, but that's been a concern people have been talking about for 20 years. As of today, about 10 or 11 per cent of loans being given by the banks at the moment are actually to first time buyer, so they're still there. Now, that hit a peak of more like 17 per cent last year because of all those grants and subsidies and promotions the government did, so it's come off a little bit. But, 10 or 11 per cent of the market that's pretty normal. So there's not a lot of evidence that they've been shut out of the market, but it may mean that first home buyers are being pushed into different parts of the market, more out of town, more apartments, cheaper, etc.

Neil Mitchell: A lot of state and federal treasurers are talking up how resilient the economy is and how it will bounce back. You've been fairly optimistic up until now. Do you maintain your optimism?

Shayne Elliott: Yes. When you look at the data, and we get loads of it, and even when you have a cynical look at it, the data suggests that the economy is very, very resilient. There's clearly people doing it very tough, no doubt there, but thankfully it's a relatively small part of the community either in small business or in terms of employment. But on average, the resilience is quite remarkable in terms of the flexibility of businesses and employers to get on with life. The levels of savings in the community are just extraordinarily high. And as I said, with low interest rates and all the other support we're seeing through government packages, those things have worked. And so we do think the economy is poised again, like it's done before, to bounce back when we get through this national plan and start opening up the economy.

Neil Mitchell: Do you think, you mentioned the assistance to business, when that ends, as Josh Frydenberg said it will, are we going to have trouble? Are we going to have businesses going to the wall?

Shayne Elliott: I think inevitably we will have some, although I think hopefully - and I think the data would support - if it does happen it will be quite narrow and relatively constrained to certain areas. And the reason I say that, Neil, is that what we know - and we've talked about this before - the savings balances of small businesses have been remarkably strong. They've actually done everything right. They've socked away money, so even when government support starts to diminish, they've got their own savings to draw on to get them through. And so we monitor by industry what those savings balances are. It surprised me, it may surprise you that the industry with the highest levels of savings balances is actually the accommodation, cafes and restaurants sector. So that sector, they know they're in a vulnerable position and so they run their businesses quite conservatively. They have reasonably high savings balances relative to the scale of their businesses. So look, it's not going to be easy. There are going to be people who can't continue. But let's not forget, we're coming off a low base, insolvencies at the moment are at record lows. So, yes it's inevitable it will go a little bit higher, but it's probably not going to be extreme like we've seen in '92 or something like that

Neil Mitchell: After going through this are people going to ... Are businesses going to want to spend, though? I saw some financial planning association figures today, you know, 52 per cent of people have - this isn't just business - but have saved more and they're putting money away for saving rather than a holiday. So, you know, you come out of this crushing period, you're tentatively starting to rebuild your business. Are you going to want to spend it or are you going to keep some money stuck away there rather than invested in the business?

Shayne Elliott: Look, I don't have any data on this. My gut says that people will sit on those, they'll be scared and they lack the ... What have we learnt over the last 20 months? We've learnt that things change and that despite best laid plans and commitments about dates, things change. So I think people will be very, very cautious and nervous about any sort of long term investments anyway, new plant, new machinery, new hiring. I think people are going to be really cautious for a period of time until they get much more confidence that we're in a new world and they can rely on the fact that the economy is going to stay open for a long, long period of time. So I think people are going to be cautious and I think they're right to be.

Neil Mitchell: Yeah. What about ... I'll ask for calls from small business about that in a moment, just how you will rebuild. Hey, what about China? I keep looking at these reports about Evergrande going under owing billions, not millions, but billions. Is all this going to affect Australia?

Shayne Elliott: Look, not, directly. I don't think it has a direct impact, but it's a big deal in China. I think it's three, $400 billion. It's big money. I think the real issue here is not 'is there a direct exposure, are people going to lose money' or anything like that? No, but it's going to have an impact on China and about how China views the world. And so there's a lot of leverage we've seen in China. There was a lot of big conglomerates borrowing, expanding, trying to grow. And like anything, some of them aren't going to succeed. And so it starts have social impacts and how does China deal with it? The good news is the Chinese government has vast resources, they've shown over time they can, and they will, deal with these things well. So I'm pretty confident it will be dealt with, but I don't think you can dismiss it and say it has no impact. It must do. It must have an impact on the community over there. We're talking about mums and dads, investors in China who have lost a whole bunch of money here. And so it will have longer term implications, just like ... people have referred to it as like the Lehman Brothers, I don't think it's quite the same as that. But, these things will have impacts on the way that regulators and politicians and businesses react over the long term.

Neil Mitchell: Couple of quick ones; digital spending, online shopping, obviously that's been propping things up, any signs of a tapering off, yet?

Shayne Elliott: No? So digital continues to be the way of the world. What we're seeing though, within digital, people are moving more and more to using their phones as opposed to even using the internet on a desktop. So actually desktop is actually falling a little bit. But digital online, using your telephone has continued to rise.

Neil Mitchell: Are you having to cut back opening hours at any of the branches because of, you know, the staff being unavailable because they have to quarantine? I know supermarkets are and I had a few calls about banks.

Shayne Elliott: A little bit, not really. Not much. It has happened where we've had branches that have had to isolate, if they're in a shopping centre, they shut down or something like that. But as a general observation, no, not really. We've managed that pretty well, thankfully.

Neil Mitchell: I assume most of your workers are essential workers. Are you comfortable with them being told they must be vaccinated?

Shayne Elliott: Well, they're not actually deemed to be technically essential workers, but we have certain parts of our staff. So we've done, just did a survey last week, Neil, I think we're on track for about 93 per cent of our staff already double vaccinated, already had their first, already booked in for their first. And of the balance, most of the balance is just a bit unsure. So we'll get there. We've got a really strong vaccination population at this point and I think it's a matter of time and we'll get to pretty close to a hundred per cent

Neil Mitchell: Will you mandate it?

Shayne Elliott: It's something we're looking at. I don't know that we need to. I think we're getting there on our own. Those that aren't vaccinated or don't want to be - and there's always some people with a reasonably good reason - we'll just make sure we put in place arrangements where they can continue their work safely.

Neil Mitchell: 245 days of lockdown. What have you learnt in 245 days?

Shayne Elliott: I don't like lockdowns, that's what I've learnt. I I've learnt some positives. I've learnt to be a lot more thankful for the things that we had prior. I think we've got to be positive. I've actually just learnt about the incredible flexibility and resilience of people. I mean, it's easy to get down about it and I just had a week's holiday stuck at home and it's easy to be a bit miserable, to be perfectly honest. But, you look around the resilience at the place. I think there's also a lot to be thankful for.

Neil Mitchell: Very well said. Thank you so much for your time.

Shayne Elliott: Thank you.

Neil Mitchell: Chief executive the ANZ Bank Shayne Elliott. That's one of the things, one of the themes today, what - and I like the way you describe that, he's learnt a lot about the flexibility ... yeah, of course you get miserable and down, but what are the what are the good and bad things about the 245, 246 days which made us the world leader?