

800 Bourke Street
Docklands VIC 3008
AUSTRALIA
www.nabgroup.com
800 Bourke Street
Docklands VIC 3008
AUSTRALIA
www.nabgroup.com



30 September 2020

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

NAB Response to the Committee's Request on COVID-19

Question:

The committee requests that you provide a written update (to be published on the committee's website) outlining the measures that NAB has taken in response to the COVID-19 pandemic. The first update is due by 30 April 2020 and ongoing updates should be provided at the end of every month thereafter until the next hearing.

Answer:

30 September 2020

This response provides NAB's update for September on actions in response to the COVID-19 pandemic.

Attached for the Committee's information are NAB's latest surveys and research including:

- NAB Economics Consumer Cashflow Analysis (released 16 September).
- NAB Economics Data Insights (week ending 12 September).

The Consumer Cashflow Analysis was developed to better understand stresses in household balance sheets and thereby extrapolate that to broader macroeconomic impacts on consumer spending behaviors. This is in essence an analysis of cash inflows (money earned) and cash outflows (money spent) to determine individual net positive or negative cashflow using data going back to 2007. Looking at the post GFC period leading into 2020 the analysis can be used to identify changing patterns of spending by product type and location.

Some key takeaways include that prior to COVID-19: -

- Consumers were spending more on eating out and takeaway, insurance and financial services whilst spending less on household goods, retail more generally including clothing and groceries. Health care spending was also down.
- The inflows side of the ledger reveals that most government tax refunds were used within 3 days of receipt and no more than 20% spent on consumption. Most were used to pay off debts and/or increase saving deposits.

This contrasts sharply to the post COVID-19 experience which showed a distinct change as of March 2020: -

- Cashflow became positive as credits started to increase with the commencement of Government revenue flows. Combined with a reduction in expenditure this led to massive increases in the April cashflows.
- Inflows were boosted by the receipt of the first superannuation early withdrawal in early May and the second round of withdrawals.

Implications that can be drawn from this are a future with softer growth due to: -

- Reduced consumption as a result of reduced Jobseeker/Jobkeeper payments.
- The effects of the stage 4 lockdown in Victoria; and
- Combined with the assumption that most of the superannuation early withdrawals have largely been used up; as well as
- Generally higher unemployment.

The Data Insights analysis tracks the impacts of coronavirus on consumption based spending and business payment inflows. Using aggregated customer data categorized by industry segment it is possible to gain insights into which segments of the economy have been most affected by the broader macroeconomic trends.

Key takeaways include:

- A 2.5% year-on-year decline in overall consumption spending in the week ending Sept 12.
- A widening gap in spending between Victoria and other States.
- Whilst retail trade is still above last year, fuel, clothing and motor vehicles are particularly weak while food (12.4%), hardware furniture, electrical garden supplies and pharmaceutical outperform.
- Spending on professional services was down 23.5% as well as for education and training which was down 16.8%.

Customer support

Our customer check in program includes conversations with customers approaching the end of their deferral period to discuss whether they can resume repayments or require further assistance.

Depending on the customer's situation (based on pre-COVID performance, transaction data, data gathered during check-ins and expiry conversations, including an assessment of their financial position), NAB will determine the best treatment option out of:

- Restarting repayments;
- Interest Only for 12 months;
- 2 or 4 month pause extension; or
- BAU hardship assistance.

Loan repayment deferrals

Loan repayment deferrals are continuing to provide vital assistance for customers.

As stated to the Committee on 11 September, NAB had \$32 billion in home loan balances deferred across a total of ~77,000 accounts as at 28 August. This represented a net reduction of ~8,500 home loan account deferrals and a ~\$3.2 billion reduction in balances deferred from the details provided in NAB's written update to the Committee dated 31 August 2020. Around 15% of home loan deferral customers contacted up to 3 September via our check-ins have elected to recommence repayments.

NAB has ~\$18bn in business loan balances deferred across ~37,000 accounts in the Business & Private Banking division (B&PB), as at 28 August 2020. This represented a net reduction of ~1,000 B&PB business loan account deferrals and a ~\$0.8bn decrease in B&PB balances deferred from 31 July 2020 to 28 August 2020.

By sector, commercial real estate represented 31% of the B&PB deferral balances as at 28 August. The next largest sector in dollar terms was discretionary retail trade, tourism, hospitality and entertainment

representing 21% of deferral balances. By geography, the three largest jurisdictions of deferrals were in NSW, Victoria, and Queensland. 34% of deferral balances are in NSW, 30% in Victoria, and 20% in Queensland. There has been a small increase in new business loan deferrals in Victoria.

As stated to the Committee on 11 September, mortgage deferral requests in Victoria now represent a larger percentage of total mortgage deferrals as customers in other states have cancelled deferrals at a faster rate. Victorian represented around 58% of mortgage deferral requests in the week commencing 7 September but declined in overall number. Deferral requests either fell or remained steady in other states, with sharpest decline in deferrals occurring in NSW.

Further information about NAB's mortgage and business lending portfolio will be included in NAB's full-year financial results to be published on 5 November.

Straight Up Card

On 9 September, NAB launched a new credit card (NAB Straight Up Card). The Straight Up Card has no interest, charges a fixed monthly fee based on the card's limit, and has no other fees or charges (including no annual or late payment fees). The monthly fees are as follows:

- \$1,000 limit, monthly fee of \$10;
- \$2,000 limit, monthly fee of \$15; and
- \$3,000 limit, monthly fee of \$20.

There is no monthly fee for customers if they do not make any purchases and have an outstanding balance of \$0 during the whole statement period. No gambling and cash advances will be allowed on the card.

Coronavirus SME Guarantee Scheme

Under the Coronavirus SME Guarantee Scheme, NAB has continued to provide eligible businesses with unsecured loans of up to \$250,000 over three years at 4.5% p.a. with no repayments required in the first six months. From its launch on 28 March to 18 September, NAB has approved 6,235 Business Support Loans under the Government's scheme.

NAB has also been engaging with the Department of Treasury on the final detail of phase two of the scheme, which launches on 1 October, and is working hard to be ready for this launch.

Support for MLC Wealth Customers

As at 20 September MLC's superannuation trustee has received 163,359 requests for early release payments, amounting to \$1.280 billion. The volume of those applying for access in the second round has been lower than in the first round and approximately 65 per cent of those applying for access in the second round, also applied for access to their money in the first round. We continue to process 95 per cent of requests for access to Early Release Superannuation within five days.

Advisers have played a key role throughout the pandemic in supporting their clients through this difficult financial time. MLC has in turn focused on supporting advisers as they undertake this critical role in the community. We recently announced an extension to a support package designed to help mitigate the impacts of COVID-19 on advisers' businesses.

NAB ECONOMICS CONSUMER CASHFLOW ANALYSIS *AND ITS IMPLICATIONS FOR THE WIDER ECONOMY*



September 2020

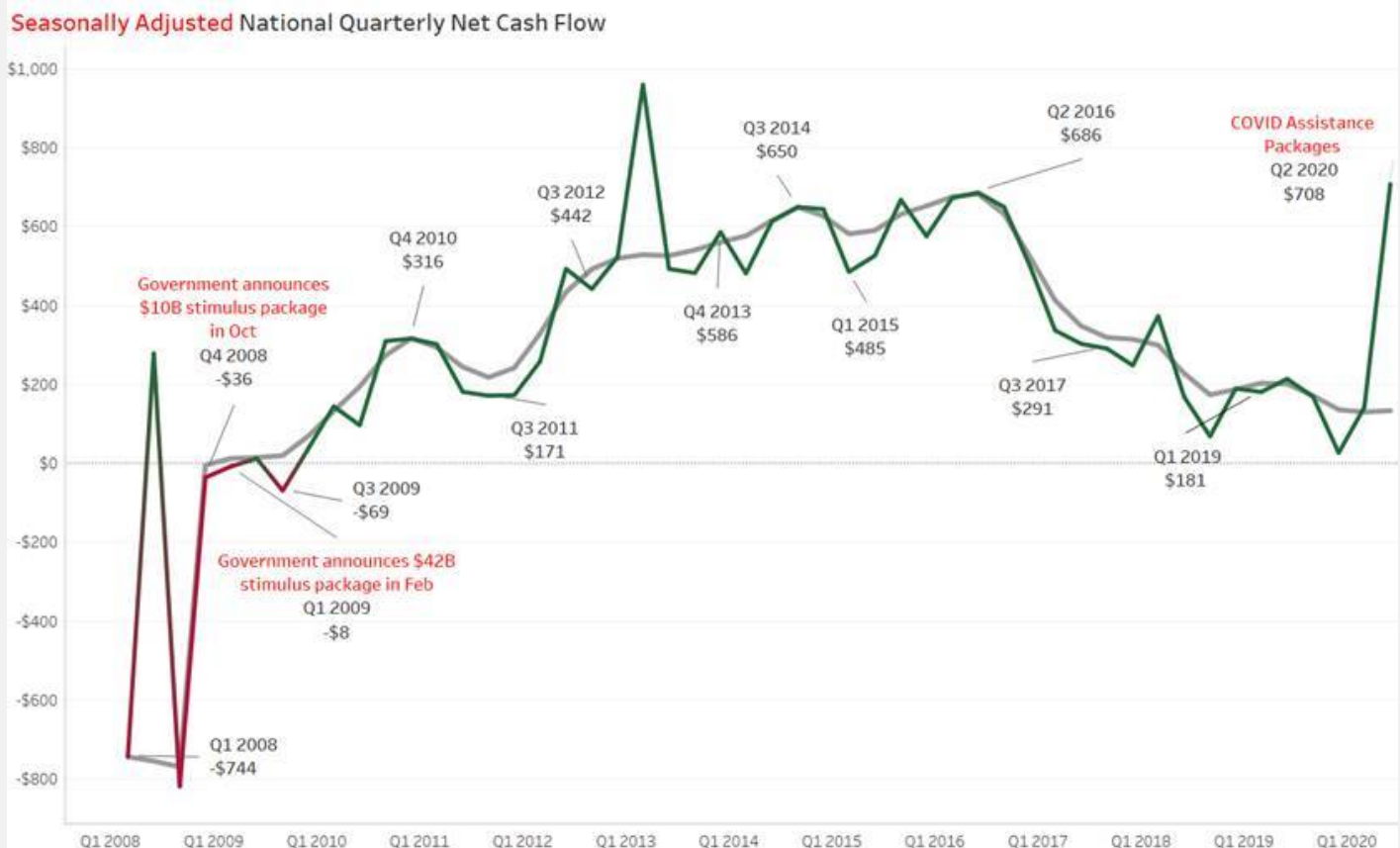
NAB Group Economics

For some time now NAB has been refining the ability to capture the personal “cashflow” of consumer accounts. (i.e. a measure of cash inflows - money earned - and cash outflows - money spent - to determine if an individual has a positive or negative net cashflow). The analysis does not cover a customer’s net assets but simply flows, into and out of individual accounts. Our focus is to better understand stresses in household balance sheets and hence macroeconomic impacts on consumers spending behaviours. Thus, for example, a customer with large debt funded assets (eg. investment properties) will only be captured to the extent that interest payments affect their cash outflows (that is, the loan itself is excluded). We have managed to create a database going back to 2007.

The main focus of the analysis is quarterly but monthly data is also captured. We can also see this data by Local Government Areas (and post codes in large cities). As part of that analysis we have identified sources of cash inflows (eg. wages, Government payments etc) and cash outflows (ie. where the money is spent by type of consumer activity).

That allows us, among other things, to measure consumers responses to certain stimulus. Thus for example, there are stable econometric relationships from things like changes in wage payments and interest rate movements to cash flow. Interestingly, econometrically (ie. looking at causality where one time series is useful in forecasting another) suggests credits cause subsequent changes in debits (such as consumer spend) but not the other way around. Put simply unless there is growth in inflows, the increase in outflows will slow.

The following chart shows a summary of the data in trend and seasonally adjusted terms from 2007 to Q2 2020. It reports customer net cash flows in ‘dollars per person’. It should also be noted that the further back in time we take the analysis the less robust the data becomes (and hence becomes more volatile). Individual large capital city charts are also shown in Appendix 1.

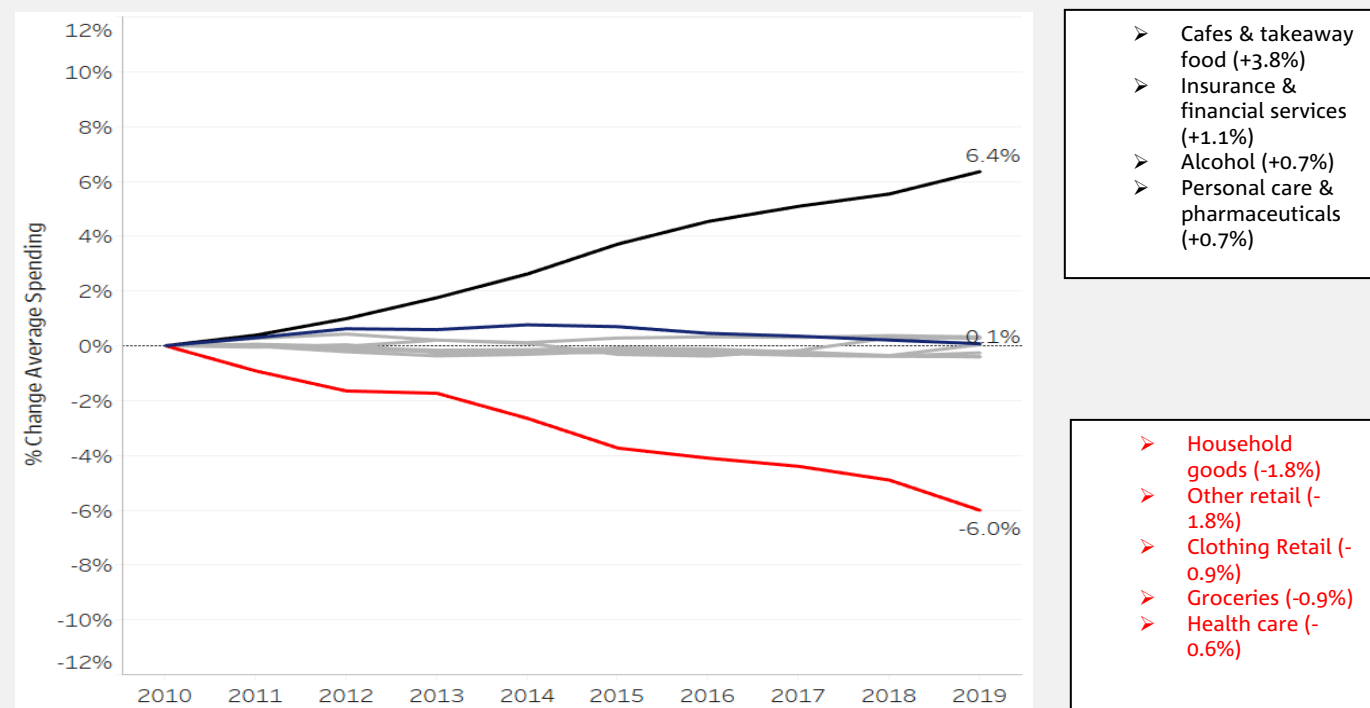


There are some obvious and interesting trends in the data:

- First, despite data volatility, households experienced large negative cash flows during the GFC (2007-2009);
- Second, cash flow positions were rebuilt all the way until mid 2017;
- Third, cash flows then deteriorated to end 2019 – which appears highly correlated with weaker than expected consumer spend in that period;
- And finally, Government packages have significantly altered cash flows during the COVID-19 period.

Looking at the post GFC period leading into 2020, the analysis can be used to identify changing patterns of spending by type of product and location. The following chart shows how consumer spending has changed since 2010 (the earliest data point) to end 2019, by product as a proportion of their incomes.

As a proportion of total average spend, consumers are spending more on eating out and takeaway (+3.8%), and insurance (+1.1%) and less on household goods (-1.8%) and retail in 2019, compared to 2010. Whereas spending on all utilities (relative to the other categories) has remained constant.



On the other side of the ledger, tax refunds last year can be identified and then matched to subsequent spending behaviour. What is fascinating, is that most refunds were used within 3 days of receipt and no more than 20% were spent on consumption. Most were put into bank accounts to pay off debts and/or increase saving deposits. As we will see that is very different to recent behaviours.

The Post COVID-19 Experience

To better understand the post COVID-19 experience we have provided a monthly split of the data. The key numbers in original data and seasonally adjusted cashflow (as well as the number of customers at around 2 million per month) are shown in the following table.

| YEAR | MONTH | Cash Flow in Seasonally Adjusted Terms | | |
|------|-------|--|----------|----------|
| | | CREDIT | DEBIT | CASHFLOW |
| 2020 | 1 | 3,732.52 | 3,830.85 | -46.07 |
| 2020 | 2 | 3,790.80 | 3,837.21 | 29.86 |
| 2020 | 3 | 3,834.79 | 3,847.26 | 189.72 |
| 2020 | 4 | 3,826.04 | 3,478.51 | 416.62 |
| 2020 | 5 | 3,816.39 | 3,688.57 | 171.6 |
| 2020 | 6 | 3,844.20 | 3,855.18 | 135.39 |
| 2020 | 7 | 3,898.24 | 3,986.99 | 334 |

Note: The Net does not equal to Credits – Debits due to variations in Seasonal Adjustment factors

Looking at the table it is apparent that in the first few months of 2020 nothing much changed re household cash flows – with the numbers either negative or close to it. By March credits started to increase as Government revenue flows increased. That continued into April, customers obviously cut expenditure during the early phase of the first lockdown leading to the massive increases in April cash flow. Inflows were boosted by the receipt of the first ‘superannuation early withdrawal’ income in early May and consumption continued at its current high level. The massive jump in credits and debits reflects two factors: the traditional boost to incomes from early tax returns (which the seasonal factor largely eliminates); and the even bigger second round of early withdrawals from superannuation.

While we will do another note on where the superannuation funds were spent, it is clear from our analysis that much of the government refunds and special payments have actually been spent in the shops this year - early estimates suggest more than 50% (in marked contrast to the 2019 tax refunds).

The table analysis clearly helps to explain the rapid turn around in retail and consumption spending from the lows of March/April. However it also comes with a warning. Many of the special JobKeeper/JobSeeker payments will be reduced by end September and it appears that the ‘superannuation early withdrawals’ for 2020/21 have already been largely used up. And as noted earlier, the causality runs from credits to debits. That suggests that consumption expenditure is likely to return to softer growth not just in Victoria (from stage 4 lockdown) but more broadly, from reduced revenue inflows and higher unemployment.

Our aim is to repeat this note every two months (or earlier if things change radically). We also aim to put out a more detailed note in coming weeks on where ‘early release superannuation funds’ were really spent/used.

Finally let me stress NAB takes data privacy very seriously. All customer transaction data has been aggregated and no individual's data is specifically identified or analysed as part of this process. The data used in this report will not be sold or made publicly available, but insights from the data will be shared with the Australian people.

Alan Oster, Group Chief Economist

alan.oster@nab.com.au

+61 0 414 444 652

Appendix 1

Consumer Cash Flow since 2007 By Major Capital Cities

Big Four States (SA)



Alan Oster

Group Chief Economist
Alan.Oster@nab.com.au
+61 (0)414 444 652

Brien McDonald

Associate Director - Economics
Brien.McDonald@nab.com.au
+613 8634 3837

Steven Wu

Associate Director - Economics
Steven.A.Wu@nab.com.au
+(613) 9208 2929

Dean Pearson

Head of Behavioural & Industry Economics
Dean.Pearson@nab.com.au
+613 8634 2331

Robert De lure

Associate Director - Economics
Robert.De.lure@nab.com.au
+613 8634 4611

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.



NAB ECONOMICS DATA INSIGHTS

IMPACTS OF CORONAVIRUS ON CONSUMPTION BASED SPENDING AND BUSINESS PAYMENT INFLOWS

NAB Group Economics

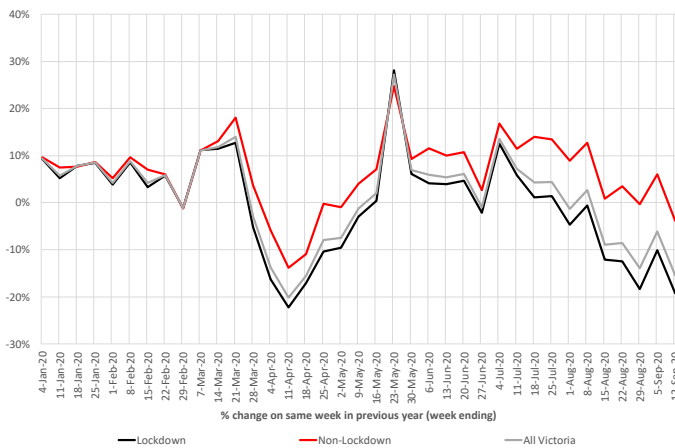
September 2020

During these extraordinary times, NAB has taken the decision to publish aggregated customer data categorised by industry segment with the view to helping provide clarity around which segments of the economy have been most affected by the broader macroeconomic trends at play. NAB takes data privacy very seriously. All customer transaction data has been aggregated and no individual's data is specifically identified or analysed as part of this process. The data used in this report will not be sold or made publicly available, but insights from the data will be shared with the Australian people.

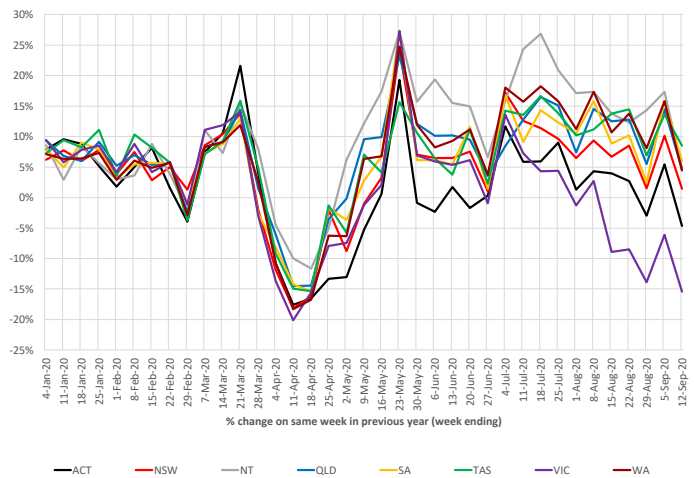
For the week ended September 12, NAB data showed a -2.5% year-on-year fall in overall consumption spending. Heavy falls in VIC (-15.4%) - in lockdown areas (-19.2%) and non-lockdown areas (-3.8%) - continue weighing heavily on the national result. That said, spending also fell in the ACT and was weaker (but positive) in all other states as well. Across key sectors, Retail is still above last year, though it has eased noticeably relative to last week. The slide in Hospitality spend looks to have levelled out, but at very weak levels.

Total payment inflows into NAB merchants grew 5.6% in 6-week rolling year-on-year terms in the period ending September 12. While this represented the fastest rate of growth since mid-June, a jump in Jobkeeper payments in the final week seems to have distorted the data. Inflows rebounded and were positive across all business sizes for the first time since late-March. By industry, Hospitality, Transport, Postal & Warehousing, and Mining are still very weak (but better than last week). Retail, Other Services, Construction, Manufacturing, Arts & Recreation Services, and Healthcare are strongest, with inflows into these industries growing at double-digit levels in the most recent 6-week period.

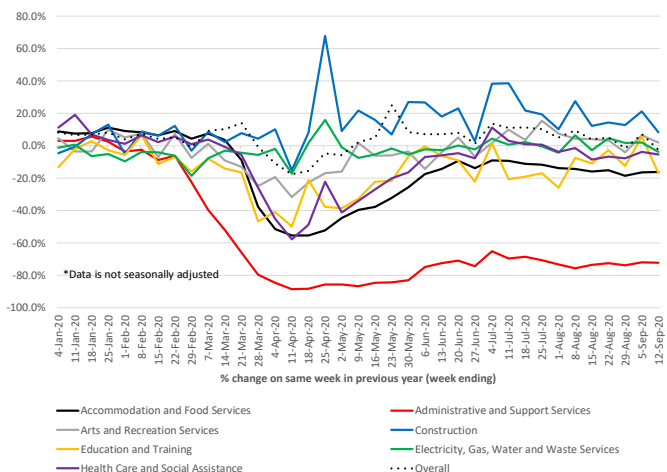
**CONSUMPTION SPENDING DATA: WEEKLY CHANGE (Y/Y)
VICTORIA - LOCKDOWN AREAS**



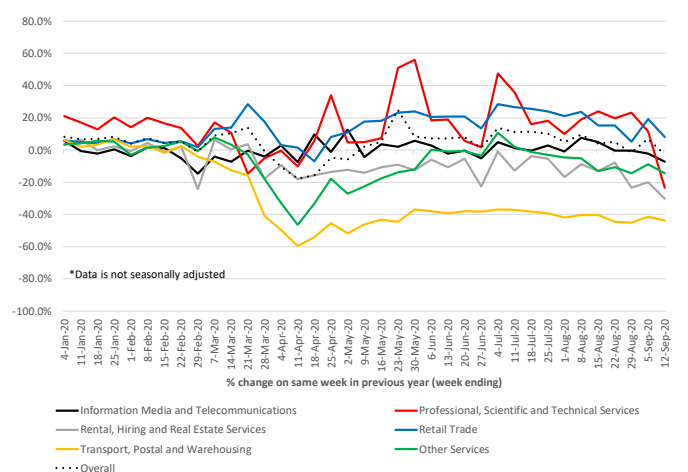
CONSUMPTION SPENDING BY STATE



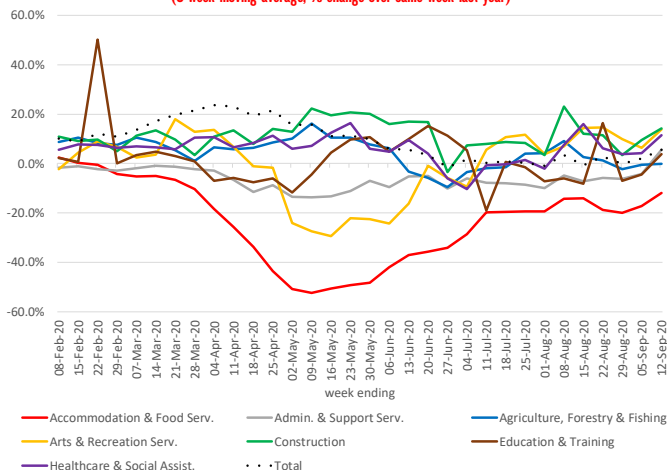
CONSUMPTION SPENDING: BY INDUSTRY



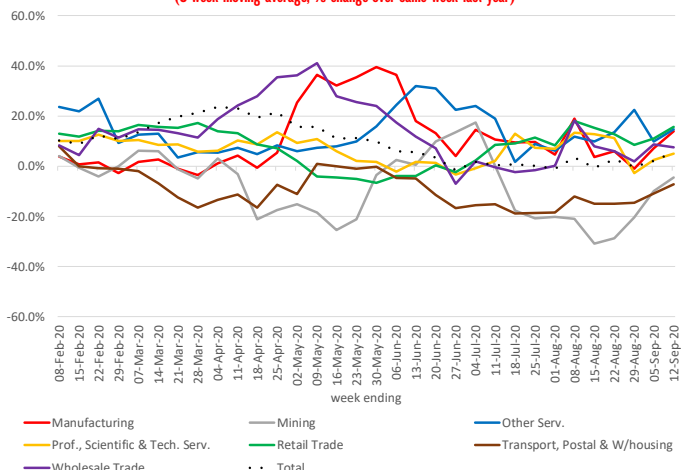
CONSUMPTION SPENDING: BY INDUSTRY



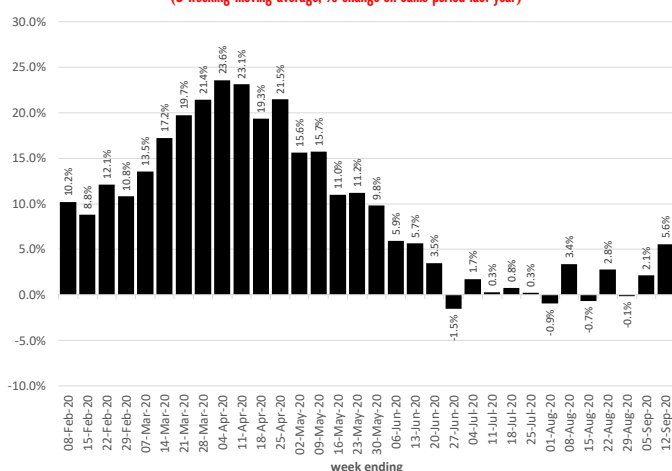
PAYMENT INFLOWS INTO NAB MERCHANTS
(6-week moving average, % change over same week last year)



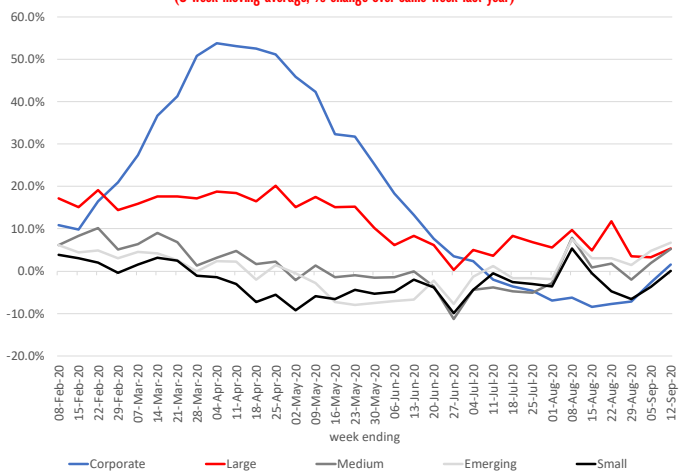
PAYMENT INFLOWS INTO NAB MERCHANTS
(6-week moving average, % change over same week last year)



PAYMENT INFLOWS INTO NAB MERCHANTS
(6-week moving average, % change on same period last year)



PAYMENT INFLOWS INTO NAB MERCHANTS - BY MERCHANT SIZE
(6-week moving average, % change over same week last year)



- NAB's latest Data Insights point to a -2.5% y/y decline in overall consumption spending in the week ending September 12, from a revised 7.0% in the previous week.
- The gap between VIC (-15.4%) and other states widened, and continues to weigh heavily on the national average. In VIC lockdown areas, spending fell -19.2% (-10.1% last week), with non-lockdown VIC areas negative as well (-3.8%). Overall spending also fell in the ACT (-4.7%), and was positive (but weaker) in all other states and territories. It was highest in TAS (8.5%) and SA (6.0%), while large spend state, NSW, was third slowest (1.4%).
- By industry, spending is still down most for Admin & Support Services (-72.1%). Transport, Postal & Warehousing also down further (-43.8%), with heavy spending falls in transport, offsetting modest growth in postal and warehousing activities. Spending weakness was also evident in Rental, Hiring & Real Estate Services (-30.1%), particularly motor vehicle hiring, other goods & equipment hiring and real estate services. Spending on Professional Services was down -23.5%, its first negative read since early April, reversing a trend of consistently strong weekly growth rates in recent months. Spending on Education & Training also fell (-16.8%) and was weaker across all industry sub-divisions, along with Other Services (-14.5%), especially personal care services.
- Retail Trade is still above last year, but eased to 8.1% (19.1% last week). Fuel, clothing, and motor vehicle are particularly weak, while food, hardware, furniture, electrical garden supplies, and pharmaceutical outperform. The slide in Hospitality spend levelled off (unchanged from last week at -16.3%), with weakness mainly driven by heavier falls in Accommodation spend (-50.3%), compared with Food & Beverage (-3.7%).
- Overall, payment inflows into NAB Merchants rose 5.6% in 6 week rolling year-on-year terms in the week ending September 12. This was impacted by ATO payments (JobKeeper) received last week of around \$1.5 billion - twice as much as received the week before and represents 4.3% of overall inflows. Removing JobKeeper, the 6-week rolling change is around 3.9% and largely unchanged from last week.
- Inflows rebounded across all business sizes with positive gains ranging from 6.7% in emerging firms to just 0.1% in small firms. Inflows into corporates (1.6%) were positive for the first time since early-July.
- By industry, inflows still falling in Hospitality (-11.9%), Transport, Postal & Warehousing (-7.1%) and Mining (-4.5%) - although the pace of decline eased in all 3 industries relative to last week. Inflows into all other industries were positive, with growth strongest in Retail Trade (15.6%), Other Services (14.7%), Construction (14.3%), Manufacturing (14.0%), Arts & Recreation Services (13.8%) and Healthcare (11.5%).

NAB CONSUMPTION-BASED SPENDING BY INDUSTRY SECTOR & SELECTED SUB-INDUSTRIES (year-on-year change on same week in previous year - week ending 12 September 2020)

| | % change on same week in previous year** |
|--|---|
| Accommodation & Food Services | -16.3% |
| Administrative & Support Services (incl. Travel Agents) | -72.1% |
| Arts & Recreation Services | 1.9% |
| Construction | 8.2% |
| Education & Training | -16.8% |
| Electricity, Gas & Water & Waste Services | -3.6% |
| Healthcare & Social Assistance | -5.5% |
| Information, Media & Telecommunications | -7.2% |
| Other Services | -14.5% |
| Professional, Scientific & Technical Services | -23.5% |
| Rental, Hiring & Real Estate Services | -30.1% |
| Retail Trade | 8.1% |
| Transport, Postal & Warehousing | -43.8% |
| TOTAL | -2.5% |
| Best Performers (Sub-Division) | |
| - Gambling Activities | 38.4% |
| - Publishing (except Internet & Music Publishing) | 35.2% |
| - Internet Publishing & Broadcasting | 25.4% |
| - Food Retailing | 12.4% |
| - Waste Collection, Treatment & Disposal Services | 11.2% |
| - Other Store-Based Retailing | 10.9% |
| - Construction Services | 9.7% |
| - Building Cleaning, Pest Control & Other Support Services | 5.3% |
| - Postal & Courier Pick-Up & Delivery Services | 5.3% |
| Worst Performers (Sub-Division) | |
| - Air & Space Transport | -91.5% |
| - Rail Transport | -79.0% |
| - Other Transport | -76.3% |
| - Administrative Services | -74.6% |
| - Creative & Performing Arts Activities | -73.9% |
| - Motion Picture & Sound Recording Activities | -56.7% |
| - Rental & Hiring Services (except Real Estate) | -56.6% |
| - Accommodation | -50.3% |

*This data excludes government services, taxes, direct to consumer manufacturers, mortgage and other credit facility repayments. Spending includes both online and offline transactions. Transaction data may include EFTPOS, Credit Card, BPAY, Bank Transfers, Direct Debits and PayPal services where available.

**Data is not seasonally adjusted.

PAYMENT INFLOWS INTO NAB MERCHANTS BY INDUSTRY SECTOR & SELECTED SUB INDUSTRIES (6-week moving avg, year-on-year chg on same period in previous year, 6-wks ended 12 September 2020)

| | 6-weeks ending 12 September 2020 |
|--|-------------------------------------|
| Accommodation & Food Services | -11.9% |
| Administration & Support Services | 5.7% |
| Agriculture, Forestry & Fishing | -0.1% |
| Arts & Recreation Services | 13.8% |
| Construction | 14.3% |
| Education & Training | 3.9% |
| Healthcare & Social Assistance | 11.5% |
| Manufacturing | 14.0% |
| Mining | -4.5% |
| Other Services | 14.7% |
| Professional, Scientific & Technical Services | 5.1% |
| Retail Trade | 15.6% |
| Transport, Postal & Warehousing | -7.1% |
| Wholesale Trade | 7.5% |
| TOTAL | 5.6% |
| Business Size | |
| - Small | 0.1% |
| - Emerging | 6.7% |
| - Medium | 5.2% |
| - Large | 5.3% |
| - Corporate | 1.6% |
| Best Performers (Sub-Division) | |
| - Postal & Courier Pick-Up & Delivery Services | 80.4% |
| - Non-Metallic Mineral Product Manufacturing | 72.9% |
| - Rail Transport | 65.2% |
| - Private H/holds Emp. Staff & Undiff. Goods & Services Activities | 59.5% |
| - Gambling Activities | 45.8% |
| - Exploration & Other Mining Support Services | 43.9% |
| - Food Retailing | 30.8% |
| Worst Performers (Sub-Division) | |
| - Air & Space Transport | -56.3% |
| - Coal Mining | -43.3% |
| - Forestry & Logging | -35.1% |
| - Creative & Performing Arts Activities | -34.5% |
| - Accommodation | -29.9% |
| - Warehousing & Storage Services | -25.6% |
| - Adult, Community & Other Education | -24.3% |

* Payment Inflows are credits to a NAB merchant's account that is not a financing credit from NAB or a transfer from related accounts.

AUTHORS

Alan Oster

Group Chief Economist
Alan.Oster@nab.com.au
+61 (0)414 444 652

Brien McDonald

Associate Director - Economics
Brien.McDonald@nab.com.au
+613 8634 3837

Steven Wu

Associate Director - Economics
Steven.A.Wu@nab.com.au
+(613) 9208 2929

Dean Pearson

Head of Behavioural & Industry Economics
Dean.Pearson@nab.com.au
+613 8634 2331

Robert De lure

Associate Director - Economics
Robert.De.lure@nab.com.au
+613 8634 4611

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.