TRANSCRIPT

NAB CEO on ABC Radio National

Friday, 3 March 2023

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Patricia Karvelas (PK): The latest hardship survey from the NAB shows four in 10 Australians are experiencing some form of financial difficulty. Ross McEwan is the bank's CEO, and he joins me in the studio. Ross McEwan, welcome.

Ross McEwan (RM): Good morning, Patricia**.**

PK: Your latest survey shows four in 10 people are experiencing financial difficulty, and one in three identified money as a significant form of stress. Can households afford another rate rise?

RM: You're quite right on the stats we are now starting to see. Households are starting to feel the pressure of not just interest rates going up but also power bills, grocery bills. Everything is moving up on them with inflation, and that's why the Reserve Bank has to stem the inflation flow we have at the moment. And the tool they have is interest rate rises.

We're still seeing an economy that's going forward, even if it's a little bit slower. And inflation is still a problem. So I think we're in for another at least two, possibly three interest rate rises over the next six months.

PK: You've been meeting with the NAB's hardship team. What sort of feedback are you getting from them about the people who are either struggling or going to struggle with coming rate hikes?

RM: The first thing is that when people ring our hardship or email in, within 90 days 95% of them are back actually in good shape. So, my first thing for all of your listeners is – if you're having difficulty, make the call or get online early. Don't leave it too long. There are things that the NAB team can do to help. NAB Assist – it's named accordingly. It's not 'NAB Recoveries' or 'NAB something strange', it's NAB Assist. It's there to assist. Make the call early.

We are finding that people can make the adjustments. There are things we can do to help them, to get them back on their feet, but please make the call early. And people are starting to adjust – we're seeing that in our surveys. They are starting to not do certain things to make sure the basics are done in life, and I think that a lot of families are getting back to some pretty basic things.

PK: Are they still able to meet their repayments?

RM: The vast majority of them are.

PK: Are some not being able to meet their repayments?

RM: A very, very small number.

PK: Is that going to grow?

RM: I think over the next six to 12 months we will see growth, but most of our customers are well advanced of their payments on their mortgage. We haven't seen credit card debt grow, which is also a good sign, but with interest rates going up it's inevitable that more people will have some difficulty.

PK: And what are your estimations around how bad it could get or how many it could be?

RM: It depends on how many rate rises we get. At this stage we don't see a major problem because our customers are in good shape, but can I just go back to the point Patricia, please call early, don't leave it too long. And if you do get a call from us – i.e. something is going wrong – could you make sure you ring back and get in touch with us, or at least email us so we know that we've got in touch.

PK: Have some not been calling back?

RM: The worst thing is when customers avoid getting the letter, they throw it in the bin, they don't make contact. It's probably the worst action they could take. We would just rather talk to them.

PK: OK. Why do you think that's happening? Do we know?

RM: Look, it's fear. There's a lot of concern going on, as the survey shows, that people get into a situation where they bury their heads, they hope it will go away. These things don't go away because it won't be just us they're having difficulties with. It's probably the power account or some of the other utility bills. So, make a call early please.

PK: Does the government need to be doing more, in your view, to drive down inflation. Are we putting too much weight on the RBA?

RM: Well, there is a lot of weight on the RBA, and the RBA has sort of one tool that is around.

PK: It's a blunt tool.

RM: It's a pretty blunt tool. It's the tool they have to play with and there are lots of other things in the economy that actually fuel inflation. Lots of spending by government can fuel inflation, it just keeps it moving.

PK: Do you think there's too much spending in the economy right now?

RM: Well, that's one of the things that they can look at, is where do they put their money. Can they put their money into things that don't create inflation but get the economy in better shape for the future. Some good infrastructure projects that are happening today, can we keep some of those going that add to productivity for Australia as well.

Look we're in a very lucky position being in Australia. We've got a commodities boom going on with all of our minerals and the food that's grown in Australia going offshore in absolute demand because of the devastations up in Ukraine. So, we're in a great position but it is creating inflation, and that needs to be stemmed.

PK: Do you think the Government could be doing more then?

RM: No, look at this stage I think we've got to be careful how much we expect our government to do. There are some things that we need to be doing to get ourselves back into shape as individuals. Businesses need to play their part in making sure we are not pushing inflation into the marketplace as well, so it's really a Team Australia activity.

PK: Why did NAB decide to increase the base variable rate 0.2% for new borrowers with deposits of less than 20% before next week's RBA meeting? Why have you pre-empted the outcome?

RM: I think it shows that the rates aren't always related to the RBA. The RBA's one factor that we put into our rates. Secondly, the other thing that affects where we put our rates is the risk profile of customers. The third one is around where we borrow to actually put into the lending. About 20% of what we lend out is borrowed from wholesale investors and their expectations have gone up on price as well, just as someone looking for a term deposit or a savings account, our wholesale investors are expecting more returns.

PK: But aren't these customers that you've just put the rates up for the customers most vulnerable to rate hikes?

RM: First off, they're new customers, so people can shop around and try and find a better rate than those ones. They're not existing customers. So, they can make the choice as to whether they want that rate or from somewhere else. And that was quite specific around customers have choice. It's not as though they are on the rate today and it's moved. That [rate] is a new proposition. If customers with less than 20% [deposit], that's the price of the money at the moment unfortunately.

PK: Will you put that rate up again for customers again if the RBA lifts rates when it meets next week, as it's widely expected to?

RM: Likely to, because the cost of that money will have gone up at the same time. And on the other side of the balance sheet, we're moving deposit rates. I think we've moved term deposit rates [up] around 50 times since the rates have been moving. And again, they move quite independently of home loan rates, based on how much money we need to fund our lending book.

PK: The big four banks are making record profits at a time when a lot of Australians are struggling to make ends meet. This is something that you know the public is quite frustrated by. They see your record profits, and as you say, they're getting letters that they're throwing out because they're so stressed.

RM: Yes. It is a trying time in a sense of interest rates going up for the first time in 11 years, banks do get an advantage of that. But that advantage in my mind will be limited, very short-term because it is going to be competed out with competition. We're already starting to see the competition in deposits, savings rates, term deposit rates stepping up dramatically. And we are going to have to compete in that market if we want those deposits. So, in my mind, within six months it will be competed out. And we'll find it more difficult on the difference between what we borrow at and what we lend at; it's getting squeezed again.

PK: Why aren't the interest rates for savings accounts increasing at the same rate. You say they've gone up 50 times, but the same rate as mortgage rates?

RM: Well, effectively they have. If you have a look at what a term deposit was getting two years ago, it was 0.25% or 0.1%. Now you get 4% for one-year, that's about the same rate that home loans have gone up. The same with savings accounts. You are getting a savings account at 3.75% to 4%. Those were about 0.1%, if you were getting anything on it. There is a spread that's pushed out on the other side as well. Again, a very competitive marketplace. Can I say to people – have a good look around, get yourself a good, competitive rate. I think that's what customers are starting to do, which is good.

PK: Real wages are falling pretty significantly, yet corporate profits are the highest they've been since the start of the pandemic, are corporate profits pushing up inflation?

RM: It depends what happens with those corporate profits. Most of those corporate profits end up in the hands of shareholders or in super funds, because the super funds are the big holders of some of these companies, including our own. So it helps with the super fund returns, which is pretty much all Australians are with a super fund now so I think that's helpful. It also depends what the organisation does with that money. Do they put it back into the economy and invest it back into – for us, it's technology development, it's a whole raft of things that we are investing in to make ourselves a better bank. But it's probably putting money back into the economy, which people spend. You could say the same thing about term deposits.

PK: So you concede the point that's been made by the union movement that it could be fuelling inflation?

RM: Anything that feeds money into an economy has a chance of fuelling inflation.

PK: You're saying it makes economic sense what they are saying?

RM: Yeah, but it's along with a lot of other things.

PK: Do you expect that the surge in corporate profits we saw in the December quarter will drive a push for higher wages?

RM: There's certainly a sharing of – if you're making those profits, where's our share of that. And I think that's a fair ask. At the end of last year, we moved 5% for our colleagues. And it's a fair ask to say 'where's our share of this'?

But I think one of the things that Australia needs to get back to is where do we find the productivity so it's not a one-off increase. We get the productivity so we can keep sharing this in this great country of Australia. We happen to be in one of the luckiest positions, because of the resources that we have, to actually create greater productivity here in this country and everyone can share in it.

PK: Are you confident we're going to avoid a recession?

RM: I actually still am confident we're going to avoid a recession this year, yes. But it's going to feel as if things have got tighter.

PK: I think it already does for a lot of people.

RM: It does. It's starting to feel like it's got harder, and it has because interest rates have gone up, prices have gone up - it's hard. People are going to have to make adjustments and the problem we have is every time an interest rate goes up, people then adjust to that, and then it goes again. I think what needs to happen is we need to get to the top of the cycle reasonably quickly so people can then adjust. And I think that's what they're struggling with.

PK: You mentioned superannuation before. I must ask you then, because there's the elephant in the room, the big policy change this week that was announced. Do you think it's a reasonable change?

RM: Actually, I think it was. Three million is a lot of money to have in a super fund. I'm sure I'll put myself out there and people will say 'he should never have said that', but I think three million is a lot of money and a four per cent return on that... I'm pretty sure after tax somebody could live on $120,000. It's not a bad sum of money.

PK: Ok, so it's-

RM: I think it's a move that probably needed to be made.

PK: That's interesting. That's not the view of some. Some think that, actually, because it's not indexed, for instance, more and more Australians will be caught up in it in the future. Do you think that's an issue?

RM: Well I think that's something the government could look at - should they be indexing from that point of view, indexing around inflation or the like. I think they need to consider that. But let's consider, it didn't affect 99.5% of Australians. It affected a small group of people who have a huge amount of money in those funds. I'm sure they'll find other things to do with it. That's just the reality of where we are. We're all going to have to play our part to get this economy back into shape, get the debt down of the country, that's what we're going to have to pay.

PK: So you think that's a reasonable change. Do you think they should be looking at more changes in that sort of-

RM: Well, I haven't gone into that space at all. I'm just responding to this week's change Patricia-

PK: Of course, I just can't help myself.

RM: It's come out. I think we just have to take it and move on. There's lots of decisions we don't like but we get a chance every three odd years to make our decisions at that point.

PK: Just finally, new workplace data from the NAB shows the Great Resignation is continuing. How so, given the economy is slowing? You would have thought people would be a little bit more nervous but it's continuing.

RM: It certainly continued at the end of last year. Last quarter I think there was about eight per cent of people who went to another job, probably for more money because of the pressures we've been talking about Patricia. We've actually seen that resignation level slowing down at the moment, which is probably because of a number of factors from our perspective. But I think people started to realise if I needed some more money, maybe I needed to move if my employer's not looking after me. So I think that's what we saw at the end of last year, but we certainly are seeing a slowdown at the moment of resignation.

PK: I must ask you before I let you go, in the past five years there has been a 30% drop in the number of bank branches in Australia, with the closure rate even faster in remote and very remote areas. How many more NAB branches are slated to close?

RM: We haven't got a number but what you're seeing is less usage. You talk about a 30% reduction in branches but the actual what we call 'over-the-counter' transactions have fallen by much greater than that. So customers are finding different ways of doing things. 94% of all of our transactions are electronic today. Now that is a complete reversal of probably 20 years ago. So you're seeing a big shift in how customers respond. We're still the largest branch network in rural Australia and we believe it will continue to be that way, but we're making changes where our customers aren't walking in the door. For many of the things they walk in the door for, they could do it at an ATM. Or, we have a contract with the Australia Post, 3,500 branches that take the money, give them money, both at a business and at a personal level. So we're trying to keep all of that connected into rural communities but I understand the huge emotion around it – a branch that gets closed down is another piece of that rural community that gets disconnected.

PK: Ross McEwan, thanks for coming in.

RM: Thanks Patricia.

PK: That's the NAB CEO, Ross McEwan.