Martin Joy | Head of Public Policy | Communications and Public Affairs

May 2023

Select Committee on Cost of Living
PO Box 6100
Parliament House
Canberra ACT 2600

By email: costofliving.sen@aph.gov.au

Dear Senators

Cost of Living Inquiry

Thank you for the opportunity to provide a submission to the above inquiry. We have set out some points that may be helpful to you as you look into this issue.

Cost increases

We note that Australians are facing higher costs. Some observations from our economic research that may assist you are the following:

- New housing prices rose 30% between March 2020 and March 2023, largely due to higher materials costs, but also due to rising wages.

  Prices for house building material inputs were still rising in the March quarter of 2023, although the pace of increases has slowed.

- Rents rose 4.9% in the year to March 2023 and seem likely to continue to rise given the 12% lift in newly advertised rents.

  Rents initially fell in the early months of the pandemic but bottomed out in the September quarter 2020.

  Strong rental demand was influenced by a desire for more space in the pandemic. This led to a drop in average household size, which increased the demand for new homes.

  The RBA estimates this alone added around 140,000 new households which would require an extra 140,000 homes.

  With international borders reopening and immigration rising at a record rate, pressure on the rental market has intensified.

- Utility costs are up 15% over the past year.

- Food prices are up 8% in the year to March 2023, with broad-based gains across both fresh and packaged food.

Interest rates

Our customers are now facing higher interest rates after many years of a very low interest rate environment. Some of ANZ's most recent public data concerning how our customers are going indicates that:

- As of 31 March 2023:
    - The average loan to value ratio at origination of our portfolio was 65% (down slightly on 1H22 at 70% and 1H21 at 71%).[1]
    - 70% of our home loan accounts were ahead on their repayments, up slightly on H122 (68%) and down slightly on H121 (72%).[2]
    - 89% of customers who took out a loan in 1H23 had surplus repayment capacity; 9% had minimal repayment capacity and 2% were at capacity.[3]
    - The loss rate at 1H23 was 0.01%, stable from 1H22 and an improvement over 1H21 when it was 0.05%.[4]
- As of 31 March 2023, fixed rate home loans will roll off as:
    - $20 billion in 2H23
    - $24 billion in 1H24
    - $11 billion in 2H24
    - $9 billion in >2H24[5]

  For context, ANZ held $293 billion in home loans as at 31 March 2023.[6]
- Australian retail customer deposits were $156 billion as at 31 March 2023, an increase of $6 billion from September 2022 and a further increase of $3 billion from March 2022. Offset account balances were $44 billion as 31 March 2023.[7]

While these figures suggest there are some buffers, an increasing number of Australians may experience difficulties because of rising interest rates.

For customers facing hardship, our Customer Connect team can help provide assistance.[8] ANZ proactively seeks to identify customers that may be getting into difficulties as early as possible so that we can help them get on top of any challenges as effectively as possible.

Bank cost structures

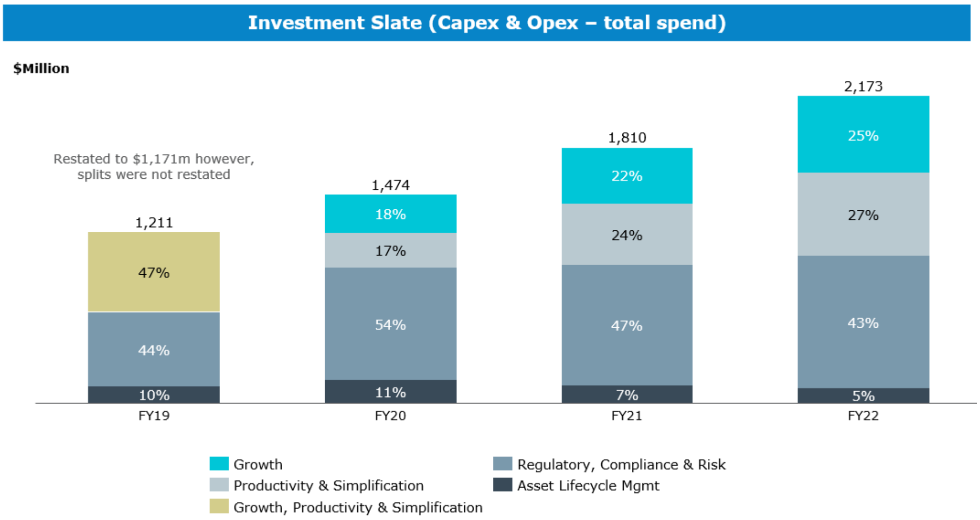
We understand that you are interested in understanding the drivers of corporate costs and what could be done to reduce these so that Australians pay less.

ANZ's total expenses (on an FX adjusted and cash continuing basis, excluding large and notable items) were $9,170 million in FY22, up on $8,609 million in FY21.[9]

Of these FY22 expenses, $7,349 million were incurred in running the bank, while $1,776 million were incurred in changing the bank (i.e., investment). Our investment spend in FY22 was up noticeably over FY21 when it was $1,288 million while the 'run the bank' spend was largely flat (on a FX adjusted basis).[10]

Our investment spend reflects the money we spend on our services and on making the bank more efficient. As such, these expenses should improve consumer outcomes over time. In addition, a significant part of our investment goes into regulatory compliance ($935 million in FY22).[11]

The chart below, drawn from our public results, shows how our investment spend (both expensed through the profit and loss and capitalised on the balance sheet) is broken up.



Our investment spend for 1H23, relative to FY22 levels (as depicted above), showed an increase in the proportion of spending allocated to productivity and simplification (35% of total spend) and a decrease in the proportion allocated to regulatory, compliance and risk (30%), following the completion of some key initiatives across the group.[12]

Regulatory spend helps ensure that the financial system is stable and that consumers are protected. You may, however, like to consider whether the degree or timing of expenditure on regulation could be further optimised to produce these public goods more efficiently. It may be possible to identify areas where regulation could be reprioritised so that costs are moderated to the extent possible given the Government's policy priorities.

We look forward to assisting the Committee with its inquiry.

Yours sincerely

Dr Martin Joy
Head of Public Policy

---

[1] ANZ 2023 Half Year Results, 126; available at: 2023-half-year-results-presentation-and-investor-discussion-pack (anz.com)
[2] Ibid, 126.
[3] Ibid, 130.
[4] Ibid, 126.
[5] Ibid, 130.
[6] Ibid, 126.
[7] Ibid, 9.
[8] https://www.anz.com.au/support/financial-hardship/
[9] ANZ 2022 Full Year Results, 32; available at: https://www.anz.com/content/dam/anzcom/shareholder/2022-full-year-results-investor-discussion-pack.pdf
[10] Ibid, 32.
[11] Ibid, 31.
[12] ANZ 2023 Half Year Results, 71; available at: 2023-half-year-results-presentation-and-investor-discussion-pack (anz.com)