Westpac Banking Corporation
3Q20 Update

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Peter King, CEO

Michael Rowland, CFO

David Stephen, CRO

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Company: Westpac Banking Corporation

Start of Transcript

Andrew Bowden: Good morning and welcome to Westpac's First Quarter 2021 Update. I am Andrew Bowden, Head of Investor Relations. Joining me on the call today is our CEO, Peter King, our CFO, Michael Rowland, and our Chief Risk Officer, David Stephen.

This morning we released three disclosures - a media release, an investor discussion pack and our Pillar 3 report for the three months to December 2020. It would be great if you could have a copy of the discussion pack available, as we will refer to some of those slides. We will start by making some opening comments first, and before we take open for questions, but with that let me hand over to Peter.

Peter King: Well, good morning and thanks for dialling in. Sentiment has shifted since our results last year and I am pleased to be talking to you from a more optimistic standpoint. This year the better economy, global progress on vaccines and improving position of customers has made us more positive. Since we last reported, the number of mortgage customers on deferral packages has halved, while the number of small businesses on deferrals has declined from 79,000 to just under 2,500. Most customers will roll off by the end of March.

Much of the optimism is due to the economic improvement in Australia and New Zealand. I'm also pleased with our progress. Our balance sheet is stronger, we are turning around mortgage performance, and we are making headway on our strategic priorities.

There is much to do, but our path is clear.

Turning to our first quarter, we held our discipline on margins. Notable items were lower and costs before notable items were down. Of course we'll have more to say on costs at our half year results. Credit quality trends were positive, with more customers improving their financial position. Credit quality in almost every segment improved. A good starting point as government support unwinds.

Slide 2 summaries our progress on our strategic priorities over the quarter. Starting with our fixed priority, we have closed out several major issues and are on track to submit our plan on the Enforceable Undertaking to APRA at the end of the month. As part of our plan we are expanding our core program to cover both financial and non-financial aspects, as require in the EU.

In our first quarter we announced the sale of Westpac Pacific and General Insurance. We are streamlining our international operations. These are significant steps in simplifying our business portfolio.

On Perform, mortgage applications are improving. Our new lines of business model is helping to clear away issues and simplify processes. There's further change as we continue to streamline, automate and bring more activity onto the Customer Service Hub.

So in summary, the year has started well. We are seeing signs of improvement in the position of customers and in our business. We are confident that we are on the right path to turn Westpac around.

With that let me hand to Michael who will take you through the financial detail.

Michael Rowland: Thanks Peter and good morning everyone. Our financial performance in the first quarter has been solid, with improved cash earnings across all our operating businesses, along with a strong Treasury contribution and a credit impairment benefit. Notable items were significantly lower, although we have booked costs related to our Simplify agenda. Excluding notable items, cash earnings for the quarter was just below $2.2 billion.

Turning to slide 3, this summarises the key P&L line items, with slide 4 outlining the impact of notable items. Starting on slide 3, net interest income was up 1% from a strong Treasury result, better deposit spreads and lower funding costs. These helped to offset the continued mortgage spread contraction and the impact of low interest rates on the tractor profile.

Lending was lower as we continued to unwind our offshore trade finance, while lending to small business remained soft. Mortgage balances were relatively flat, with good owner-occupied growth, particularly from first home buyers, offset by a decline in the investor book.

Non-interest income was up modestly before notable items, however excluding the impact of some volatile items in the previous half, our performance was broadly flat. Expenses were down 2% excluding notable items. We still have a big Fix agenda this year that will see investment increase over the next three quarters.

Core earnings were up 28%, but if you back out notable items the increase was 3% - a good result for the quarter. There was a $267 million difference between cash earnings and net profit, with most of this due to the fair value impacts on economic hedges on our offshore funding.

Turning now to slide 4. Most of the notable items have been previously disclosed, with the exit of our IOOF arrangement and the loss on the sale of the Pacific business. These were partially offset by the final gains on the sale of Zip. We have also written down the value of goodwill in our LMI business, as we work towards its exit.

David Stephen will talk more about credit quality, but I do want to touch on capital. Our stronger earnings and improved credit quality contributed to a 74 basis point increase in our CET1 ratio to 11.9%. That places us above regulatory minimums and positions us well for APRAs proposed changes that were announced in December.

I also want to highlight that while the quarter earnings were solid and economic trends are improving the strong first quarter result is unlikely to be matched over the remainder of the year. Many of the trends we talked to last year have yet to emerge, but are still expected. In particular the positive margin outcomes from deposit pricing and Treasury will be difficult to repeat in the second half given low deposit rates and reduced Treasury opportunities, and because asset pricing remains very fierce in the market.

We have commenced our cost reset program and are reassessing our investment spend to align with our Fix and Simplified priorities. Costs will pick up throughout the year as these investments ramp up.

Finally, we expect this to be our last quarterly earnings update as we move back to our normal routine of quarterly capital and credit quality updates. With that let me hand over to David.

David Stephen: Thanks Michael and good morning everyone. As Peter indicated, credit quality improved over the quarter. You can see this on slide 5 with the fall in stressed assets to total committed exposures. The improvement in stress across sectors is summarised on slide 6. Of the 12 sectors, only the property sector weakened, with some companies experiencing lower income from the more difficult trading conditions.

Consumer credit quality also improved across Australian mortgages and unsecured lending. While the trends in New Zealand were even more pronounced. The fall in delinquencies is largely due to customers who were previously in hardship that have now been making scheduled repayments for over six months and have emerged from the serviceability period. Delinquencies are detailed on slide 7 and slide 8. Whilst it has been great to see so many customers return to repayment, we remain cautious as government stimulus measures unwind, and because of the risk of further COVID-19 outbreaks.

The impairment benefit was underpinned by better credit quality and an improved outlook. These developments were reflected in our models, and this is outlined on slide

9. We typically update our major judgements at the halves, and so we have not changed our economic scenario weights or the provision overlays we built up last year.

Pleasingly the number of customers on deferral arrangements has continued to decline. Around 2% of the Australian mortgage book remains on deferral, while in small business deferrals are already less than 1% of this portfolio. Most deferrals will have rolled off by the end of March.

Some customers will move from deferral to hardship, and this will begin to show up in higher 30 day delinquencies at the first half. Some will migrate to 90 day delinquencies at the full year. It has been encouraging to see the resilience of so many customers through the stresses of the last year. Although we will closely monitor the portfolio as stimulus measures unwind.

Let me hand back to Peter to sum up.

Peter King: Thanks David. I think I'd sum up by saying, it's clear the macro environment has improved. We're seeing that with increased spending, the better employment outcomes and improved growth. In turn this is contributing to stronger consumer and business sentiment and a more positive outlook.

In fact over the recent weeks I've spent a bit of time with our bankers and customers in Sydney and regional New South Wales. My big take-away is how positive customers are, and notwithstanding recent lockdowns, there's now a real light at the end of the tunnel. I'm particularly proud of the way our people have worked tirelessly through this period to support customers and each other.

For the Bank, our Fix, Simplify and Perform strategy is providing clarity and focus and we're getting on with it. As indicated earlier, we have much to do but the path is clear.

With that let me hand back to Andrew, and we welcome your questions.

Andrew Bowden: Thanks Peter. We've got a slightly different process here. I'll call out your name and company, we'll do some analysts first, and then we'll have time for media. Just a reminder, it is star one to ask a question or star two to cancel it.

So I might take the first call from Jonathan Mott from UBS please.

Jonathan Mott: (UBS, Analyst) Thank you Andrew. My question relates to slide 9. You give us the breakdown there between Stage 1, Stage 2 and Stage 3 collective provisions, as well as your individual provisions. But what we can see here is that the Stage 1 and Stage 2 have started to come down pretty quickly.

But two parts to the question. Firstly, do you expect if the economy continues to recover at the rate you're talking about and the vaccine works, that those Stage 1 and Stage 2 provisions will eventually revert to where they were back in September 2019 ?

Also the Stage 3, can you just talk through how that will progress? Just as a timing perspective, does that come down more slowly? Therefore should we expect more provision releases to come down as these Stage 1, Stage 2 and Stage 3 start to reverse?

Peter King: Thanks Jonathan. The way I think about that is credit quality of the portfolio is the fundamental piece that drives provisioning. So look at that stress chart on business and delinquencies and then the PD buckets within the Pillar 3. The speed of that improving is one of the fundamental pieces.

Then the other piece relates to the economic forecasts. So they're on that slide as well. You can see how much we have seen economic forecast improve, say, in 2022, with employment down from 6.7% in our previous forecast to 5.2%. It's both of those. Probably just I'll mention it for you, half of the move in the CAP were related to the economic outlook changes. So that was a big driver.

Really if there's no further improvement in economic forecast you're back to the fundamentals of the book. On the IAPs that’s just a factor of companies that really get into trouble. We've had a pretty lower quarter in terms of IAPs.

Jonathan Mott: (UBS, Analyst) So the changes in the economic forecast, that really drove that Stage 1 and Stage 2 recoveries that you're seeing coming through there. Is that correct?

Peter King: That and the underlying improvement in credit quality. So it's both this quarter.

Jonathan Mott: (UBS, Analyst) Okay, thank you.

Andrew Bowden: Okay, I'll take a question from Jarrod Martin from Credit Suisse please.

Jarrod Martin: (Credit Suisse, Analyst) Thanks Andrew, nice to hear Westpac talking more positively. Just a question on expenses. So your first quarter expenses are annualising at $10.3 billion, obviously you're flagging timing with project expenditure et cetera. Second half '20 expenses annualised at $10.5 billion. Should we be thinking that FY21 expenses will be able to be managed within that sort of additional envelope from $10.3 billion to $10.5 billion? Or is there additional investment that’s going to be required for your sort of cost program?

Michael Rowland: We are managing our expenses very tightly. We're very conscious of the environment we live in. But as we indicated at the full year, our Fix agenda does require us to increase our expenses in FY21. So that's why we've said that we don't expect the quarter to be replicated. So there will be a phasing issues with the quarter's expenses, and we do expect a little bit more from the Fix agenda that we've got in the final three quarters of the year.

Peter King: Jarrod, Michael's also spending a lot of time on the three-year plan. So it's not only this year, but we're very focused on the three years as well and we will have more to say about that at the half year.

Jarrod Martin: (Credit Suisse, Analyst) I read into that comment that there's potential that this year's expenses will be above $10.5 billion.

Peter King: No, we will give you an update at the half year mate. It's only a quarterly.

Jarrod Martin: (Credit Suisse, Analyst) Okay.

Andrew Bowden: We will take a question from Victor German from Macquarie please.

Victor German: (Macquarie, Analyst) Thank you Andrew. Could I just ask a question on margins? I appreciate, Michael, you pointed out that there are some headwinds coming in second half, but given very favourable deposit spreads would you be able to provide us a little bit of perhaps colour in terms of how much benefit you got from deposits in the quarter and do you think that that benefit could continue in second quarter given that deposit spreads continued to decline in January?

Michael Rowland: Yes, look I think there's a lot at play in the margin walk if you like. So yes, deposit spreads were favourable, so that gave us a couple of basis points. We are still getting some benefit from lower funding costs but we're suffering, as we indicated at the full year, on the lower tractor as that rolls through with lower rates. Also, we'd point out that asset competition remains very fierce in the market, particularly in the mortgage book as I'm sure you're aware, so you've got all those things at play.

We did manage the margin very tightly. That was a conscious decision we made. How much more we can get out of the second half, deposits are pretty lowly priced, we are pretty close to the floor, so I'm not sure that there's a lot more in the second half but we can assure you we will continue to manage that margin as tightly as we can.

Victor German: (Macquarie, Analyst) Thank you.

Andrew Bowden: Okay, we'll take a question from Matthew Wilson from Evans and Partners.

Matthew Wilson: (Evans and Partners, Analyst) Yes, good morning team. I wonder if you could just walk us through the Pillar 3 data. If we compare you to peers, your gross impaired at 90 days past due is 40 basis points or 70% higher. Your provision cover is half that of your peers, 50% lower, yet your credit risk weighted assets to exposure at default has stepped down to be sector leading at 32% and you wrote back $635 million of provisions.

The Pillar 3 data doesn't seem to all gel, particularly when you compare it to peers and also try and square the circle with what's happened to credit risk weighted assets versus what's happening to your impaireds.

Peter King: Yes Matt, what I'd say on that is on the risk weighted asset side is the change in RWA density is really reflecting the credit quality improvement and I think that's broad based. It also reflects a little bit of reduction in volumes. You look at credit cards as an example, over the year it has come down quite a lot.

On the coverage we are all using different models, so we look at our CAPs to RWA and yes that came down, but for the similar reasons that we spoke about, the economic forecast changes and the credit quality moves, but we think that the provisioning is fine from that perspective.

Then I think the other thing was the impaired piece. I haven't got that analysis in front of me but certainly we did see the 90 day trends in unsecured and mortgages actually come down a little bit in the quarter.

Matthew Wilson: (Evans and Partners, Analyst) Okay, yes, obviously the models are different and it's difficult, but even when you do it onto gross loans you are 40 basis points below where some of your peers are, or maybe 30 basis points where some of your peers are. Is it a more optimistic outlook in your provisioning?

Peter King: Yes, I think that's right because I think, as David said, we didn't change the scenario weight, so we moved those last half to be further weighted to the downside, but as we said, the forecasts we're looking now are more positive so we haven't moved the weightings. We have also got the impact of both the forecast outlooks in the models and the credit quality and stepping back the new accounting standard is more volatile. That's what we expected. It was volatile on the way up, it increased pretty quickly and with these new forecasts that could come out a little bit.

Matthew Wilson: (Evans and Partners, Analyst) Thanks for that guys.

Andrew Bowden: We'll take a question from Brian Johnson from Jefferies please.

Brian Johnson: (Jefferies, Analyst) Congratulations on the big improvement. I am just interested, given that you've had this great asset quality outcome and the scenarios have changed, does this change the procyclical rise in credit risk weightings that we were expecting? I mean CommBank have basically taken them out because their provision cover is so strong and they basically haven't done the big net write backs. What should we be thinking on yours Peter? Have you exploited that capital by writing it back so you've still got the procyclical risk in the credit risk weighted assets? Can you just update us on that please?

Peter King: Yes, well we haven't put updated estimates, but I would say what we have disclosed historically is based off a modelled scenario and what we're looking at in terms of the forecast is a much better picture of the forecast than what we used in the model, so procyclicality won't be what we set out historically.

Brian Johnson: (Jefferies, Analyst) So will it be zero though Peter potentially?

Peter King: Well, for it to be zero from here, you've got to say there's no further step down in the economy, so that will just depend on your view of the forecast.

Brian Johnson: (Jefferies, Analyst) Sorry, just to labour the point though Peter, is that - when we have a look at CommBank their provisioning is strong, but it's so strong that they're telling you they're more than covered for their base case. You guys have written back your provision. I'm just trying to get a feeling, is there still in the base case at this stage, do you think there would still be a rise in the procyclical capital weight or should we just take that out?

Peter King: I think based on the forecasts it's improving from here. Each bank is at a different position. they've got different credit quality, they've got different growth settings and activities in the market, so you've got to look at each bank on how they're running the business, where they're growing and then what the credit quality looks like.

Brian Johnson: (Jefferies, Analyst) Okay. The next one Peter if I may, is just where are we up to on shrinking that institutional business? How much risk weighted assets are to go or has it already all happened?

Michael Rowland: Michael here. So look, we're a reasonable way through that. There's still a little bit more to go in the half but we're well progressed.

Brian Johnson: (Jefferies, Analyst) Thank you. Thank you very much.

Andrew Bowden: We will take a question from Brendan Sproules from Citi thanks.

Brendan Sproules: (Citi Analyst) Yes, good morning. I've just got a question on some of the improved mortgage momentum that you refer to on slide 2. Is that momentum in applications expected to drive credit growth in mortgages in the second quarter and could you tell us how your momentum is going in the Business Bank?

Peter King: Yes, so on mortgages we have seen a few months now of positive growth in the mortgage portfolio, so that's a turnaround from the shrinkage that we saw for the majority of the second half and I think you can see that in the stats that come out in APRA. The lead measure for us is the apps and that has turned into mortgage growth and that has been predominately in our consumer business. The next phase for us is to also get that flowing through into small business where we have still got improvements in process that we can put through there.

Brendan Sproules: (Citi Analyst) Thanks for that.

Andrew Bowden: We will take a question from Richard Wiles from Morgan Stanley please.

Richard Wiles: (Morgan Stanley, Analyst) Good morning. A couple of questions please. It sounds like the Treasury and Markets income was up reasonably versus second half 2020 average. What would the growth rate have been in the income and non-interest income if you exclude that benefit? Secondly, just to follow up Brendan's question on the mortgages. Obviously - we see the APRA data, you're seeing the applications, what's happening in the investor book? Are you seeing a pick up in the investor loans?

Peter King: Not at the margin on investors Richard, so I wouldn't say we have seen them come back into the market yet, but conditions are looking like that's a possibility, I think.

Michael Rowland: Richard, Michael here. So yes, we are seeing a few growths in owner occupied. On treasury- this is only a quarter result and not a half, but we did have a good result in Treasury. Underlying result, as I think we indicated in the pack, was relatively flat on non-interest income and a little bit up on interest income, so we'll stick with that.

Richard Wiles: (Morgan Stanley, Analyst) That includes the Treasury benefit.

Peter King: Yes. Treasury added one basis point to the margin mate, that’s on slide 3.

Richard Wiles: (Morgan Stanley, Analyst) Yes, okay. Thank you.

Andrew Bowden: We'll take a question from Brett Le Mesurier from Velocity please.

Brett Le Mesurier: (Velocity, Analyst) Thanks very much Andrew. You talked about some problems you were having with business lending. When I look in the Pillar 3 the business lending category hasn't changed that much in the last three months, it's down a bit over the past year, but the biggest decline is in the corporate category which is down from $62 billion to $53 billion on balance sheet, from December 2019 to December 2020. That's larger exposures, isn't it?

Michael Rowland: Yes, so Michael here. So that's both the WIB exposure trade finance roll off but also non-mortgage business lending.

Brett Le Mesurier: (Velocity, Analyst) How much of that - sorry.

Michael Rowland: I was just going to say, part of the reducing the footprint offshore will come through in that corporate line.

Brett Le Mesurier: (Velocity, Analyst) How much of that $9 billion reduction is trade finance?

Michael Rowland: Oh, a little bit less than half.

Brett Le Mesurier: (Velocity, Analyst) Okay, so your focus is more away from larger borrowers I gather and focusing more on small business, because small business exposure can change.

Peter King: I would say there's a bit of demand in there Brett. I think about March last year, we had big drawdowns on unused lines as people took liquidity going into that first phase COVID. That has come back so you've got a bit of demand in there as well as choices we're making in terms of the portfolio. I don't think it's right to say we're not growing in corporate, it's just how it's worked. In fact, one of the interesting things is we're starting to see more activity in M&A interest and so that if it does come through will come through in that corporate line.

Brett Le Mesurier: (Velocity, Analyst) Okay, good. Thank you. They're all the questions I have.

Andrew Bowden: The next question from Andrew Triggs from JP Morgan please.

Andrew Triggs: (JP Morgan, Analyst) Thanks Andrew. Hi Peter. A question just to follow up on deposit costs. We can obviously track retail deposit offerings quite closely, but just interested in the other bits and pieces in the deposit book including institutional deposits and I guess more negotiated deposits. For larger volumes, have these come down more than retail deposits have given just the surplus of liquidity and funding in the system? Then just another follow up on margins, I guess. I'm just interested how meaningful the cashback offers have become in terms of the NIM headwind that you quoted on the mortgage growth please.

Michael Rowland: Yes, so just on the institutional deposits. They're quite volatile because it follows government spending, government drawdown, so it has come off particularly in the quarter but that's more just a cyclical movement. On the cashbacks, look it's a very competitive market out there and we're doing our best to compete and do the right thing for our customers. Different banks are doing different things. It's part of our broader proposition.

Andrew Triggs: (JP Morgan, Analyst) Just to follow up on that, Michael, so the timing of the cashback offers in the market which have been around obviously for a while now, when is the peak period for pressure from the amortisation impact of that upfront cashback?

Michael Rowland: Well, that's actualised through the portfolio, so you'll just see it through the portfolio margin over time as you normally would with the - as the loan tenure rolls through.

Peter King: The other thing going on in the mortgage market is fixed rates are much higher in terms of percentage of flow, probably historically around 20%. They're more 35% to 40% now. So we've got the dynamic of fixed vs variable and what happens to three year - swap rates will probably be the best indicator of fixed rate pricing I think. So as usual, you've got lots of moving bits, in the margin, we've got to manage all of them.

Andrew Triggs: (JP Morgan, Analyst) Thanks Peter.

Andrew Bowden: Take a question from Andrew Lyons from Goldman Sachs, please.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks Andrew. Morning. Peter, recognise it's just a quarterly but hoping you could make some comments just around the thinking on dividends. A very strong capital result today, pro forma capital greater than 12%. Traditionally, Westpac has thought about a consistent increase in the DPS. I'm just wondering going forward, is this likely to remain the case or will the shift focus more towards the payout ratio?

Peter King: Well it's not really something I'm going to comment on today because we need to sit down at the half year with the full information with the Board and think about it, but I think you're right to say the conditions are better than what we thought last year. So it'll be a good discussion to have at the half year.

Andrew Bowden: Take a question from Azib Khan from Morgans.

Azib Khan: (Morgans, Analyst) Thanks Andrew. Morning team. Peter, so you've been looking to onshore parts of the mortgage process, particularly the loan doc prep that was being carried out in processing centres in the Philippines and in India. How much of that onshoring is now complete and is that what's contributing to the improvement in your home loan turnaround times?

Peter King: We've got about 300 of 1000 roles just over, complete. So we're about 30% complete and I would say to quote our head of the mortgage line of business, he talks about 41%-ers. So it's not a single big silver bullet solution. It's just going through and improving and renovating our process. We're really just stepping back and taking complexity out of it and looking at it from a customer perspective end-to-end.

So it's not a - it's not one thing, it's the 41 percenters that he's doing.

Andrew Bowden: Okay I'll take a question now from John Rolfe please from The Daily Telegraph.

John Rolfe: (The Daily Telegraph, Journalist) Thanks very much. Peter, in your opening remarks, you mentioned you'd recently visited areas of Sydney and regional New South Wales and people were positive. I'm wondering how positive were they, how surprised were you by that and was it different in the bush to the burbs?

Peter King: Yes, I was out in the Riverina of New South Wales and it's obviously been a very good season out there from a farming perspective. It was noticeably different in the region. So very, very positive, off the back of a good season but you know, some quiet confidence about the next period as well. They're talking about difficulties in getting housing, so similar to other regional areas.

So I think the regions are very positive. If I come back to the city, I think it's that the CBDs are probably most challenged and the suburbs are probably a little bit better and certainly as you go around and you look at activity in the CBDs, it's noticeably better this week I must say. It just does feel like there's been a lot more people come back into town, particularly this week, but still - talking to small businesses, the activity is still well below what they had same period last year.

That's not a surprise because the social distancing does impact how many people we can bring back into our large towers. It's just nowhere near what we had back in March this year. So I think it's about acknowledging the impact of those who are in areas that are in lockdown, but things are tending to swing back pretty quickly and it's all about this social distancing requirement and how we're managing that. Yes, I was struck at how positive the regions were.

John Rolfe: (The Daily Telegraph, Journalist) Okay, if I could just ask a follow up. What do you think will happen when JobKeeper goes? Are we no longer going to head off a fiscal cliff?

Peter King: Well the way I think about this is in steps. So I don't like this cliff analogy. We're just going through stages and I think they're steps now. So we've managed in aggregate the transitions pretty well. If I reflect on my conversations with CEOs overseas, they're remarking on how well the Australian and New Zealand economies have managed this. In fact I had one CEO ask me, you sure the data's right, that you guys are doing that well.

So I think that's the global context. Then if you look at how we move forward, yes we've got further changes coming with government stimulus but we've got a banking system that's in great shape to help people through the period. We've got low interest rates which will help. We've got domestic activity hopefully continuing to pick up.

So there's positive signs there. I think we do tend to focus on the negative a little bit too much and so we've got to balance it up and talk about the positives as well.

John Rolfe: (The Daily Telegraph, Journalist) Thank you.

Andrew Bowden: I'll take a question from Clancy Yeates from The Sydney Morning Herald.

Clancy Yeates: (The Sydney Morning Herald, Journalist) Hi Peter. The Reserve Bank has sort of acknowledged things are improving but there are also risks to financial stability from very low interest rates sort of driving people to take more leverage in property.

What are your views on this issue? Are you concerned that ultralow rates and the quickening rise in house prices could lead to sort of riskier borrowing behaviour from your customers?

Peter King: If I just touch on the housing market, if I look at supply and demand of housing, one of the big drivers at the moment is there's no supply, there's not enough supply in the market and so it's not a surprise that prices are going up because there's plenty of people that want to buy. So there is a bit of - not enough stock in the market at the moment and you're seeing the clearance rates at record highs. So they're interrelated.

In relation to borrowing, it's probably just worth the reminder that the banks all use interest rate floors in their capacity assessments. So we’re not assessing people on 2% interest rates, it’s more like 5%. So that gives the ability for people to afford the mortgage at higher interest rates.

So that’s an important thing. I’m sure that the regulators will continue to look at it and if prices continue to go up, they may look at macroprudential but that doesn’t feel like it’s close. A lot of the price activity is actually driven by people that have already got cash so it’s not just people borrowing.

So all in all, I think it - it’s being managed well at the moment. There’s controls in the system and we’ve just got to manage the COVID virus and hopefully we do well on the rollout of the vaccine in the second half.

Clancy Yeates: (The Sydney Morning Herald, Journalist) Yes, thanks.

Andrew Bowden: Thanks, I’ll take a question from James Frost from the Australian Financial Review.

James Frost: (Australian Financial Review, Journalist) Hi, Peter. I’m just curious about the running off of deferrals. You seem to be lagging your peers a little bit. The APRA stats seem to indicate you’re extending or entering into new deferrals at a higher rate than some of them. Can you tell us a little bit about some of the challenges you’ve faced there?

Peter King: It’s - the simple answer is, it’s timing based on our choice, James. So if I think about at the three-month point, so if you go back last year, our deferrals came back faster than the market because we chose to do check-ins, as opposed to just rolling them.

Then from right now, we chose not to have any contact with customers over the Christmas period so we rolled the deferrals out to February, March, effectively. So I don’t read anything into the fact that we’re a little bit higher at the moment and as I said, I expect the majority of the deferrals to roll off pre-March.

Andrew Bowden: Okay, I might - I'll take the last question from Joyce Moullakis, please. From News Corp.

Joyce Moullakis: (News Corp, Journalist) Yes, hi, Peter. Thanks for taking the questions. I just wanted to ask - I mean, I know you're talking about focussing on the positives but in terms of sporadic lockdowns in states, even if they're short, sharp lockdowns, how are you factoring that into your thinking going forward?

Secondly, following up from one of the analysts on the cashback offers. They seem to be coming more of a feature in this market given the cheap funding that's available at the moment through the TFF. Are they a permanent feature, do you think, for 2021?

Peter King: So on lockdowns, I think they're pretty tricky for people to manage so I do reflect on the individual impacts, whether they be business or people and the big thing for me, is certainty. So people do well when there's certainty in terms of what's happening.

So I think that's probably the biggest thing I think about is how do we get certainty? I'm not going to comment on the effectiveness of them. I think that's for government to work through how and what the right health response is but I would highlight that when they come off, we do see rebound in activity pretty quick.

So yes, we're probably going to have a few. No system's perfect in terms of containing a virus so they'll probably be here but they do bounce back quickly.

Just on cashbacks, they're just a feature of the market. I wouldn't link them to TFFs. They're a feature of competition, fixed rates, variable rates. That's a bigger feature in the market at the moment and cashbacks just will be here, I think. I don't think it's anything to do with TFF.

Joyce Moullakis: (News Corp, Journalist) Okay, thank you.

Andrew Bowden: I do have one more question from Richard Gluyas, please, form News Corp.

Richard Gluyas: (News Corp. Journalist) Good morning. I'm just wondering in relation to those quite dramatic improvements in your economic forecasts between September and December, can you pinpoint two reasons, Peter, perhaps what drove that? What was going on in the economy that suddenly switched course?

Peter King: Well I think it's two things. One is the actual economic performance was better than what we thought so probably a faster rebound than what was was built in.

One of the stats I look at is actually the number of people that are employed and we had about 13 million people employed back in March 2020 and we're back at 12.9 million people being employed now.

What that says is, that we're not exactly back there yet but the amount of employment in the economy has come back so I think that has therefore underpinned obviously incomes. Savings rates are higher. Spending has been a bit higher and so the rebound has probably been a little bit faster than what people thought.

Now, that's not saying that we know there's more people that - would like to work and they're unemployed but that rebound was probably a bit faster than what we thought in previous forecasts.

Richard Gluyas: (News Corp. Journalist) Was there another? You mentioned two factors, is there another one?

Peter King Well I think the actual economic outcome was the first one. So it was a bit better and then employment coming back.

Richard Gluyas: (News Corp. Journalist) Oh, okay.

Peter King: They're the two that I would point to.

Richard Gluyas: (News Corp. Journalist) Great.

Andrew Bowden: Okay, I think that's all we've got for today so thank you very - I'd like to thank everyone for coming - dialling in today and we'll be around to take further questions during the day if you need. Thank you very much and good morning.

End of Transcript