John Bennett:

I'd like to now introduce our first session hosted by Ivan Calhoun, chief economist for NAB Corporate and Institutional Banking. Ivan and his panelists will examine current economic trends and influences across key sectors including tourism, retail, construction, the labor market, and how this is impacting NAB's balance sheet. Welcome, Ivan.

Ivan Calhoun:

Thanks, John. Okay. I'm joined by, as you've heard, so we've firstly got with me in Sydney, Colin Meade, who is the group treasurer for TOGA. TOGA's a property investment company. It's in development and construction, also has hotel operations, so you're probably familiar with their brand's Adina, Vibe and Travelodge. It's got a Career Travelex, Boots the chemist, Hewlett Packard, Intel and degrees from University College Dublin and Trinity. So after I talk through a few slides, Colin and my other panelists are going to help make sense of what's happening in the real economy.

In Melbourne, we've got Kendra Banks. Kendra is managing director for SEEKs Australia and New Zealand Employment and learning businesses. Prior to being with SEEK, Kendra's been with Coles and Tesco and started out with McKinsey & Company. Kendra's a Fulbright Scholar, has a master's in European politics, so that could be very interesting to hear some of your geopolitical insights, Kendra and has a degree in economics and maths from Yale.

And last but no means least, is our other special guest, which is Shaun Dooley, who is the group Chief Risk Officer for National Australia Bank. So Shaun has worked across many divisions, senior areas of NAB. He's run the institutional banking area, corporate finance, financial institutions. He's been with the bank since 1992 and with his current role, he has to worry about everything that's happening in the world and Australia and make sure that the bank gets it right. So Shaun's got a bird's eye view of the Australian economy.

But let me start with 15 killer slides, which I'm going to attempt to do in a record of 10 minutes. So POV at the start of the year, I could talk about this slide for 45 minutes, but I think it's a good one. It's a framework for thinking about what's happening in the economy and why there's so many different things happening at the moment. So what I'm discussing is there's three large overlapping shocks and they're all very, very big shocks, which means that the economy can have some very big movements.

So firstly, we know we've been living with that for the last three years. It's actually, I'd say a package of shocks. There was the closure of the borders, now there's the reopening of the borders and that has implications for migration and tourism and students and for the labor market. We had a big shift to goods demand, which had very big implications for supply chain, freight rates, inventory holdings and goods inflation. And inflation's a really big part of the interest rate story. And now you've got reopening for the last year, and that's leading to pent up demand for certain sectors. We've seen shifts in working from home, changes in visitation to CBD, and of course China has recently changed its zero COVID policy.

So there's a host of factors related to COVID still working through the economy. And the questions I've got in red, which I think is really important for all businesses is what's permanently different and what's temporarily different. It was always going to be the case that people would travel again. It was always going to be the case that migration would return. So that's one big shock. The second big shock of course, was Russia invading Ukraine that pushed up energy prices very significantly last year. They've come down a bit, which is good news, but they're still quite a lot higher than they were two or three years ago. So that's still working through prices and the economy. And together both of those two shocks have been very inflationary, which I'll show on the next chart. So because central banks target low inflation, we are getting this third shock, which is the interest rate response that has been caused by that very high inflation.

And that third shock I think still has to work its way through the economy and we are already seeing it affect housing markets, but it will affect consumer spending as the year progresses. So one good piece of that high inflation story I guess is you'll see on the left slide that it's begun to turn down. So we passed the peak in inflation. We believe we passed the peak in inflation in Australia as well. In the US last night, the bottom line which says 6.3, it was 6.4 before yesterday. The question is how quickly does inflation come down and does it get back to two to three? And how much, much do interest rates have to further increase to bring inflation around 2% levels in much of the world between two to three in Australia? One point also is Australia has lagged this rise in inflation on the way up. We think it'll probably lag on the way down as well. There's a few specifics related to particularly rents but also airfares, which mean Australia's a little bit behind this inflation cycle. So that's one story.

The second story of course, out of COVID was the labor markets around the world. And I should have said all of these shocks, they're all global shocks. So you can look at different economies all around the world. They've all been hit by COVID, they've all been hit by the energy shock and they are all having monetary policy response or a lot of them are having significant monetary policy responses. So unemployment very low. You can see that the forecasts are for unemployment after a while through this year to begin to rise. One thing which is really interesting is that there's still a lot of job vacancies in Australia and there's still a lot of job openings in the US so we tend to think there's some unmet labor demand there. And of course we've got Kendra from SEEK who can give us a lot of insight into the labor market.

So what are the shocks? So obviously one big shock was there wasn't any migration for 18 months. I think that's part of the tight labor markets. It's part of the recent unemployment drop down also had a big impact on interstate migration flows. Unfortunately, lots of people that normally move to Victoria and Victoria's a wonderful place, but they didn't for two years because it was effectively closed. But that again, would be something I'd say isn't going to be permanent. People will start migrating to Victoria again and its population growth will recover. But we are now seeing migrants come back, students come back. When you're analyzing housing markets, you have to think about those migration flows. So that was one big effect.

The other big effect was this big switch in spending from services to goods. If you look at the left hand chart, goods demand in the US was 20% higher across the whole economy than it was a year ago. And I think that's a big part of those supply chain problems. No one budgets for goods demand to increase 20% across not only the whole of the US but in basically every other country in the world, services demand dropped and goods demand jumped. So when we look at the numbers now in the US, and I'm spending a lot of time looking at US numbers because I think the US is ahead of our data, you can see that supplier, deliveries indications, they're right back to normal. The backlog of orders is back down to very low levels and customers are no longer reporting that inventories are much too low. They're getting back to more normal levels. So the supply chain adjustment is running through.

And we're also seeing freight costs come down a lot in global shipping markets and that'll come through to Australia as well. There was a big shift in housing markets. People actually wanted to live with their partners. They had a brief experiment moving back in with their parents that reversed pretty quickly after that. I'm not sure which of the parties decided it wasn't sustainable, but you can see the result in residential vacancy rates. They've extremely low around Australia. So we are seeing a lot of rent increases and there was some news in the paper today about Sydney and Melbourne rents being up over 25% over the last year. That's still got to come through our CPI. Big shift, big signal for investors to invest in property.

I mentioned the Russia's invasion of Ukraine. You can see those energy prices in gas prices on the left chart. They've come right back down because the winter's been milder, but there's still a lot higher than they were two or three years ago. So there's still that energy cost feeding through the CPIs. And then you can see as I mentioned that Australia's picked up after the US. You can see the top left hand panel goods inflation is coming down, but services inflation is holding up. And that right hand chart, I'd make that a key chart to look at every month, what's happening to non-manufacturing or services inflation in the US? That's a key story for how long interest rates will remain high or how high they will actually go.

So this is what the market's pricing for interest rates now looking for Australian interest rates to get above 4%. A big adjustment since that last CPI and the reserve bank's statement and move in February in the US rates to get above 5%. Interestingly, the market is saying that after that interest rates will come down. So the market is thinking that the central banks will probably push them up a bit too high and then reverse course recently quickly, and we'll hopefully hear from Shaun about fixed interest rate mortgages, reverting to variable rate mortgages that's talked about being a mortgage cliff. I'm not as concerned about that. I think a lot of those people that fixed their mortgages actually just took advantage of lower interest rates. The big challenge will be the actual level of mortgage rates, the variable rates, is that too high or not too high?

So two few final indicators to track the NAB business survey. It's a really good indicator of how the economy's going right here, right now and last month, yesterday we released the January data plus 18. That's three times the normal level. So businesses in January were saying things are very, very good. My second server indicator, not just because Kendra Banks is joining us from SEEK, but I've always loved the SEEK job ad series gives you a really good indication of how the economy is going and it normally tells you what's going to happen to unemployment very, very well.

This time, I think it's a little bit different. You should always be scared when Economist says this time it's different. So I said this time it's a little bit different and I think we can still see that job ads are 40% above COVID levels. I think that's the important number. The recent drop. I think we are seeing more people coming back into the country, students, migrants, backpackers, and they're seeking some of those or soaking up some of those unmet jobs that we couldn't fill during COVID.

I also think we should be watching new orders. In the US manufacturing new orders are weak that fits. We're seeing this slowdown in the interest sensitive sectors and some of the good sectors that did so well during COVID. Services reopened a lot later or were closed for a lot, they're hanging up really strongly and that's what we can see in the data. And that's coming through in inflation and it's keeping the economy pretty robust even though we're seeing some softness in some of those sectors that did well.

And my final slide, just some advertising, when we circulate the slides at the end, if you're not subscribe to NAB Research, you can click on that red button or scan the QR code and subscribe to our research. So with that, I'm going to turn first to Colin and get you to tell us a little bit about what you can see through your industry lens about some of the themes that I was talking about from the macro lens.

Colin Meade:

Sure. Well, I might start with tourism, taking that into hotels and then talk a little later about the property side of things. So if you look at flight capacity into Australia, flight slots are back to roughly where they were pre COVID in terms of number of flights arriving, but the planes are smaller, so there's actually less people coming in and you could see that in the tourism stats from the abs. The November figures are the latest. We have December's out tomorrow and outbound is still very high. It's almost back to pre COVID levels in terms of Australians traveling overseas. The good old Aussie holiday and spend is back, but unfortunately international inbound is still about 40% below pre COVID and we haven't had that big a gap previously. If you look back pre COVID, if anything inbound was higher than outbound. So that's a big gap in terms of people arriving.

Of those arriving, about 50% are what we call visiting family, friends and relations. So they're not actually staying in hotels, often they're staying with friends and family. So it benefits the broader economy, but that doesn't feed through into occupancy in hotels. It's well known that occupancy in hotels is much lower now than it was pre COVID, that's still rebuilding. Rate is higher. If you're booking a room, the rate you'll pay is higher than you've seen pre COVID and that's been a function of the segments that have been booking hotels. So it's domestic leisure has been really strong since March, April last year. So for the last nine, 10 months, that's been very helpful for the hotel sector.

However, we've seen signs just prior to Christmas of that moderating. I think we've reached a plateau and even it's starting to ease off and we're assuming that's to do with cost of living pressure starting to come through or some of that revenge travel just abating. People have done their Moscow to the Northern Territory, a Moscow across the country, they've caught up with family and friends and now they're starting to belt tighten. So I know a lot of people look at retail spending, et cetera. For us, we saw some cancellations just before Christmas.

Our hotels are predominantly in capital cities, but we're hearing through the industry that regional areas are also starting to see a softening in domestic demand. So going forward, we're looking for the corporate sector to continue to rebuild. That's still below where it was pre COVID, but we think it'll be back there in the next two to three months. So that'll hopefully replace some of the lost demand from domestic travel. International, the China borders reopened much sooner than we expected, but we think it'll take a while for that to result in demand and guests coming through to Australia.

We've heard that a lot of agents are blog booking hotels, not so much in our properties. Our portfolios change through COVID. We've got less of the three star product now where a lot of that group and inbound business would tend to book. But we just wonder how much of that will materialize, how much of that is speculative booking on behalf of those agents if they can't get flights out of China because the planes are too small, the seats are full, how much of that is going to result in increased business? So we're watching that closely.

I'm sure we'll talk more about hotels going forward, but just turning to property sales, TOGA builds mixed use developments. We tend to retain the non-residential components, hotel office retail, but we sell on the residential. So even in early COVID we saw demand continuing, but with the interest rate rises starting in May, sales per month on developments that we have, and I'm just talking about units in Sydney, inner city or middle rings we don't develop elsewhere in Australia. Demand fell to about 25% of what it had been in terms of sales we were closing per month. People got nervous spooked by interest rates, worried about borrowing capacity, but that started to turn again just before Christmas we started to get an uplift in sales and also visitor traffic.

So our thought process is people are thinking rates are nearing a peak. We're just wondering now how much the RBAs moved last week and the more hawkish language might have spooked people again. And I know NAB have just revised the forecast up, another two rate rises to 4.1. So we're looking to see with interest how that translates through into whether the emerging signs of investor interest starts to cool again until people really feel confident that rates are leveling out.

Ivan Calhoun:

Fantastic. Great insights there. Thank you Colin. I'm going to turn now to Kendra who can give us her lens through the labor market, the statistics that she has access to and studies every single day.

Kendra Banks:

Absolutely, that's right. Thanks Ivan. And thanks for your plug for the SEEK jobs index. That is obviously our favorite start as well. Yeah. So at SEEK we spent 2022 or late 2021 and mid 2022 talking about the great jobs boom. We were seeing more ads on our platform than ever before across Australia and New Zealand. We were trying to use our position as the leading jobs board across these markets to stimulate candidates to apply because application rates per ad were lower than we'd ever seen. Now, fast forward seven or eight months from the peak in May, 2022, that's certainly not the case anymore, but the labor market remains quite tight, just not at these peaks that we saw through 2022. So as Ivan said, job ads are still about 40% above where they were pre pandemic. That's 18% off the peak of last year.

But what's interesting is the decline has been relatively across the board. So we track ads in 28 industries and in all 28 industries ads are off their mid 2022 peak, but almost all of them are still above pre pandemic. Some of the more interest rate affected sectors like banking financial services, property, those areas are seeing advertising below where they were pre pandemic, obviously related to rate rises. And interestingly IT, which we may come on to talk a bit about the tech industry. IT job advertising is also below where it was pre pandemic as of the January numbers.

But still a very tight labor market and we see that on the supply side as well. Applications per ad, which for us is the key stat in terms of are we satisfying our advertisers needs to make placements, how many applications are they getting for every ad they invest on SEEK? That number is also up quite considerably since the tightness of last year. But again, about 40% below where it was pre pandemic. So advertisers are finding it easier to find staff. However, it's still pretty challenging in some areas. Where we see particular challenge areas like healthcare and aged care, these have continued just shot through the roof during the pandemic and have continued to be really difficult to find staff.

The third data point that we look at is our advertised salary index and it's obviously of interest as a leading indicator for wages. So every ad that comes on SEEK is advertised with a salary. That salary is sometimes hidden from candidates looking on the website, but that the salary is there in the background. So we can look at how that index of advertised salaries is growing or shrinking over time. And in December we saw advertised salary growth of 4.7% on the previous year, which is the highest we've seen for some time.

So as a leading indicator of wage growth, that does show that we're still in this significantly high wage increase environment. However, that is well below where inflation is tracking. So for those of us on paychecks, obviously they're not going as far as they used to. And it's interesting to hear from the bank's perspective what you're seeing in that regard. But overall, I think what we're hearing from our clients and market is a cautious optimism. Some sectors more leaning on the caution and a bit lean more on the optimism. But because the labor market remains relatively tight, still continued good hiring volumes and unemployment forecast to remain below historical averages for the next year or so.

Ivan Calhoun:

Okay, that's great, Kendra. Can I also just remind people if they would like to send through questions, please use the Q&A chat button and then we can ask some questions of my guests here. Shaun, do you want to give us a view of how you are seeing the economy from your vantage point, what you're worrying about, what's keeping you awake?

Shaun Dooley:

Okay. Thank you Ivan, and good morning to everyone and thank you very much for everyone who's online and particularly from a NAB perspective. Thank you for the support that you provide to our business and for being customers. Certainly the outlook has a lot of concern. I think with rising interest rates and high inflation, the ability to manage that carefully over all of the jurisdictions, not just what we operate in, but certainly in Northern Hemisphere ensures that we're very focused on the credit portfolio and how that'll perform over time. It's pleasing to hear Kendra talk about the strength and employment because all of our stress testing will tell us that high unemployment is probably the biggest variable that we worry about in terms of the performance of the book. That being said, the interest rate environment is certainly accelerating with the hawkish comments from the RBA earlier last week.

So when we think about the book, we think about resilience more broadly and if I break it down into, and it really is a bifurcated book, those customers that have been on books for some time with mortgages have generally seen house price inflation, which means the dynamic LBR. So that's what we look at in terms of market prices to average loans has certainly improved over time. If you look at our results presentation back in November, you'll see that dynamic LBR was roughly about 40% of the book that had deteriorated slightly over the six month period. And that really reflected some of the house price declines that we saw last year. But what it means is those customers that have been on the books for some time have got a lot of equity. Similarly, we saw deposit balances grow for many of those customers over time and the pay ahead statistics for those customers are pretty healthy. Customers were on average paid ahead quite a number of years actually, and offset balances had continued to increase.

So there's a number of our customers have got financial resilience that is able to withstand some period of higher interest rates for some time. But certainly there's a lot of customers that came onto the books on all of the banks probably from mid 2019. And we talk about this a lot now, investor presentation that have got less capacity available. Clearly they'd borrowed higher LVRs. That being said, we assessed their serviceability on a pretty conservative basis. We looked at at least 3% over the customer rate to ensure that they could withstand a period of higher interest rates and all of the banks were doing that. That being said, it's the capacity of customers to continue to maintain their spending patterns and be conservative and be able to react to those higher interest rates. That'll be the test.

And it is pretty early, is still in the process for many of our customers. Their repayments were only adjusting towards the end of last year into this period and there'll be quite a period of time over the course of this year as we see customers change their repayment levels as they're contracted away from what they were on previously. As we review their current repayment schedules and we talk to them and we spend a lot of time talking to our customers getting ahead of those conversations to see how they're going, how they're feeling about it, and generally the customers are saying, "Thank you for the call. We're okay at the moment," but we will still remain very focused on how this will play out over the next year.

You mentioned customers coming off fixed rate, so about 33% of our book last year at September was on fixed rate, but a lot of those are actually on principle and interest rate payment. So the cliff from fixed rate to variable rate is not as great as if it would be if they're on interest only to variable rate. And that proportion of the book back in September was running at about just under 14%. So that's clearly a cohort of borrowers that will continue to work with and stay focused on our message to all of our customers is talk to us early and let's work through how they're going in terms of servicing their debt. But as I said, unemployment is going to be a key driver and one of the, I guess, encouraging features of what's happening in the economy at the moment is business confidence and business conditions is actually proving to be resilient.

Ivan, as we published our surveys only what yesterday and we're seeing both business conditions and business confidence above averages and actually have rebounded somewhat since December. And if I step back and think about the mood pre December to January, we're probably seeing in the words we used before, cautious optimism. I've seen more cautious optimism in probably the first couple of weeks of this year relative to last year. So all in all, our book is pretty resilient. We're working with our customers, but there's definitely issues that we need to stay focused on working with our customers as interest rates increase. Many of our customers will be experiencing more of that stress, particularly those customers that have been originated in the last couple of years.

Ivan Calhoun:

Okay, that's great. Shaun, Colin and Kendra. Keep shooting your questions through online and then I'll also ask a few questions. I might start with you Colin. You talked about property and development. Can you give us a sense of property input costs, your labor availability both in the hotels and also for construction and any supply chain, how you see supply chains as well through the business for building materials for example?

Colin Meade:

Sure. So staffing shortages are impacting us right across our business. Yes, they're easing, but we still have those challenges. Hotels has been an interesting one. Through COVID, initially it was the regions that saw the uptick in travel were not in the region, so we were much quieter. When the business came back to the hotels, it was very much weekends only because there was no corporate travel, it was just domestic weekend travel. Pay rates are higher on a weekend, if you can't get the staff, you're having to pay overtime. That business now has spread through the week as corporate has come back. But because we're still short on staff and trying to attract people back to the industry is difficult, pay rates are higher, we're having to pay overtime.

On the property side of things, I think it's quite well known that construction costs are well above historical averages. We're seeing trades pricing jobs now at 15 to 20% higher than they were last year. Now I know the supply chain is improving and freight costs have come right back down, but a lot of these trades built up inventories themselves of tiles, drywall, et cetera, when prices were higher and they have to keep prices high until they clear that inventory. So we're hoping that construction costs will start to decline by mid-year, but we're not there yet. As I say, 10 to 15% is a minimum as to how much prices have increased compared to last year.

So on the other side then we can't pass that on. We know that the housing market is under pressure. We can't increase prices. Units didn't go up as much during COVID as houses did and their prices haven't fallen by as much, but we can't pass on those cost increases. So feasibility are under pressure at the same time as interest rates are rising. It's a challenging time in the property development business trying to get feasibility to stack up and make them bankable.

Ivan Calhoun:

Okay. Thank you. And Kendra, is there anything you'll noticing in variation amongst the states in your job advertising or any comments? You could talk about the mining industry because that seems to be pretty hot. I was in Perth last week and they seem very confident over there.

Kendra Banks:

On the cautious optimism scale, they're more on the optimism than the cautious, whereas retail clients would be far more on the cautious. Look, I think the geographic splits tend to be more driven by industry. So we've seen Victoria and New South Wales struggle a bit more with ad volume declining a little bit more recently. But again, that's related more to the industries that in the big cities. Western Australia has held up well. Queensland, as you noted from a population perspective has been booming and we've seen really strong growth in Queensland over the last months. But yes, I'd say mining does feel to be one of the more optimistic sectors.

The strange thing we experienced during the pandemic and the recovery from the pandemic pandemic was how uniform the impact of the pandemic was on the industries. Obviously it wasn't so from a business perspective, but most industries went up and now are starting to go down and we're now starting to go back to what at least we've seen in the past is a bit more normal, which is some advertisers or some industries advertise are much more impacted by the cycle than others and therefore we see a lot more variation in how advertising is happening between different industries.

Ivan Calhoun:

Okay. There's a few questions coming through. I think they're mainly for me actually, but I'll just answer a couple of them. So has NAB's view on the neutral cash rate changed and when does NAB forecast getting back to a neutral cash rate? That's an interesting one. I think in a general sense in my presentation, this is a very unusual cycle. There's a lot of special factors keeping activity stronger at the moment, even though rates have gone up and they are going to have an impact on the interest rate sensitive sectors as we've heard. There's other sectors, categories of spending reopening sectors that, as I think Colin said, visiting friends and relatives travel. People who haven't seen their grandkids or their parents or aging parents for three years, they're traveling no matter what the price at the moment and the capacity isn't as much. So the price gets squeezed up. Again, that's not going to be a permanent state of affairs, those very, very high prices, but they are higher.

So I think in terms of the inflation response that interest rates have to probably go, or they've already gone up more than people expected. And the neutral rate is a longer term or equilibrium concept. So this is saying there's some special factors. So I think the longer term view is, hasn't changed. We think the neutral cash rate's probably something around two and a half to three, but it's above that. But it's above that because of these special factors at the moment. And we are forecasting that in 2024 the reserve bank will be cutting interest rates and the Fed will be cutting interest rates.

I think Shaun's covered the question about the impact on fixed rate mortgages. One other question I got was about that increase in goods demand, obviously was at the expense of services demand, but when we've got finite disposable house incomes, will we see that shift back to services and rates going up actually cause a bit of slowing and growth. And I think we will. I think we're starting to see that. Colin mentioned some cancellations before Christmas might be. It might be that some of that overseas travel. People may have booked domestically and hoped to go overseas, so it is complex. There are those substitutions going on as well.

I might turn a question to Shaun, but I'm going to ask each of you actually because our next session in just under 10 minutes is about geopolitics and obviously we've seen Russia invade Ukraine and then of course we've got Australian and China. But how do each of you see geopolitics? How has it affected your business to the extent it has and how is it affecting your business strategy or your business preparations or scenario planning? Shaun.

Shaun Dooley:

Yeah, okay. I might lead off. So certainly China is a very important trading partner for Australia. So I think strong dialogue and relationships between Australia and China, and the region is really important for the health of the economy here. So I am concerned about further deterioration. I'm pleased to see some progress in the last six to 12 months. So I think that's really encouraging, but I would be concerned if that was to deteriorate because of the impact that it may have on exports. Now we've certainly seen some actions from China recently to open up export markets that had previously been closed and many of our customers were able to withstand. That being said, they weren't in the major part of those that export trade areas that we rely upon. So I'm watching that pretty closely and what that means.

Clearly geopolitical issues create volatility in capital markets as well that can be expressed through either demand and price. The credit markets have actually probably been more resilient than we expected six months ago and certainly through the January period, all the Australian banks were able to raise pretty significant amounts of funding from offshore markets at all bad high prices, but still in reasonable shape. So we'll watch that pretty closely in terms of what it means for both our own funding position, but more particularly for the trade flows between our customers and their customers.

Ivan Calhoun:

Thank you. Kendra, do you have any perspective from your stable of investments and also how you are thinking about it in Australia and New Zealand?

Kendra Banks:

Sure. So at SEEK our footprint is primarily APAC, so our biggest business is in Australia. We also have the leading employment platforms, mostly across most of the Southeast Asian markets. We also have a minority stake in a business in China that they tend to operate quite independently. We just heard an update from our Chinese business yesterday. Actually, they're now at the reopening excitement phase in the labor market that we experienced about a year, 18 month or 14, 15 months ago in Australia. So they're feeling very optimistic.

But across APAC, the extent of the geopolitical risks has not been as dramatic within the APAC footprint. Obviously from all of our clients' perspectives, they're impacted in their own industries in their own ways. From the SEEK perspective, really the main geopolitical impact, I suppose is the migration question and the extent to which migration will continue at the levels we're seeing now the international students are returning and that we continue to see that thriving population growth supported by migration.

Ivan Calhoun:

Okay, thanks. And Colin, I know you have been asked this question a bit overseas.

Colin Meade:

Yes. As we were discussing before we came on air, I was in Europe and November meeting our lenders over there, about 25% of our hotel revenue is in Germany and surrounding countries. And I was getting more questions from our banks about energy costs than I was going to cope with rising interest rates, which surprised me. But what we're seeing there is energy despite, even though there's been a mild winter, which has been very helpful and some of the pressure has come back a little bit, people have been able to build up supplies in Europe. Supplies I'm hearing are full of gas and oil, costs are still up 60% year-on-year. So that's again a hit to the cost space for hotels in Europe. We're not seeing the same pressure here in Australia, partly because of the action that the government took to cap energy costs.

So I will give a plug to the government on another aspect which ties into this geopolitics and that's visa processing. Visa processing, they've really dedicated a lot of extra resource and sped up the response time to approve visas. And the thing is though, that takes some time for people to actually pack up their lives overseas and move here. So we're yet really to see the benefit of that coming through. Student visas they used to be, which are a big part of housekeeping and hotels for example, I used to be capped at 20 hours a week. They've temporarily lifted the cap on that until 30 June so they can work fuller hours. So they are taking steps to ease supply, which we all know the RBA governor is very keenly watching wage price inflation. So I think that's going to be a big part of it, the migration.

On the property side then a lot of the trades, joinery, tiling, Gyprock, they're heavily sourced from China and they just weren't able to travel here while borders were closed. So we need those relations to continue to be healthy, to enable people who want to migrate to be able to do so and meet the demand that is here. Until we get that increased supply or indeed until the unemployment starts ratcheting up in the economy more generally, we think we're going to continue to see construction costs remaining high and making new construction difficult to commence.

Ivan Calhoun:

I've got a question that follows on from that. It's and says, Ivan, it seems clear there is an accommodation shortage in the major capital cities. As shelter costs are directly influenced by interest rates, would a rate cut be more effective than trying to cause a recession in getting inflation lower?

Now I think there's a number of angles to that question, but in general, the situation is still that this is a really complex set of circumstances and one of the set of circumstances is there hasn't been migration, but there's extra demand from Australian residents for more space during COVID. So people moved out with their partners, people took an extra room in a house or in a unit because they didn't want to be working from their bedroom all day and then obviously living there overnight. So the demand is definitely there. The cost of, as you explained Colin, the cost of producing new dwellings is very elevated, but coming down we can see that. We've seen students coming back. So that all takes time to work its way through.

And I think it is correct or I think it would be wise if the Central Bank was looking at some of these special factors on the inflation front, just as when we saw good supply, really strong and goods prices really elevated and freight costs, they're unwinding. So to me, I don't think we'll see a rate cut that wouldn't be the right policy, but maybe not pushing rates too high or as soon as you think that inflation is moderating, bringing rates back down a bit so that you don't have the economy slow too much. We are almost out of time. Has anyone got a final word, and maybe I'll get a final word from Kendra on you're feeling reasonable about the economy? You said cautious optimism, any final observation?

Kendra Banks:

Yeah, absolutely. What we're hearing from our clients is cautious optimism and again, quite varied by industry. So if it's public sector, community services, healthcare, feeling very concerned about staffing shortages, still really trying to hire aggressively tech may be more of a temporary lull in tech hiring and then the range in the middle from the cautious to the optimistic, but certainly on the more positive side.

Ivan Calhoun:

Yeah, that's interesting because certainly tech is one of those sectors that I think really did over expand in COVID. We saw a lot of online shopping and a lot of use of technology and they're coming back probably still to levels of employment well above where they were. Shaun, a final-

Shaun Dooley:

For me, probably a word for me is resilience. I think we've certainly, as an organization, we've spent a lot of time over the last couple of years building our resilience. Not just financial resilience, but operational resilience. And I think many of our customers have also focused on their own resilience, whether they be business customers or households. Now there'd be clearly those that are less resilient than others, and I talked about that earlier, but that gives me a more biased to cautiousness. That's part of my remit. But there is some optimism there that resilience will help dampen some of the shocks that will come.

Ivan Calhoun:

Okay. Colin, 10 seconds because we are out of time.

Colin Meade:

Property fundamentals remain strong in residential. You look at migration, it's only picking up, we know suppliers constrained by both financing concerns and construction costs. I don't think there's any rent relief coming anytime soon.

Ivan Calhoun:

Okay. Thank you very much to each of my panelists and back to JB and Sarah.

Shaun Dooley:

Thank you.

Colin Meade:

Thank you.

John Bennett:

Thanks Ivan, Kendra, Colin, and Shaun for your insights. Look, the economy has certainly seen its fair show of challenges over the recent years, so it's going to be very interesting to see how the next six to 12 months unfolds and what opportunities this is going to present. Our next session featuring Nick Bryant, renowned former BBC correspondent and author will commence after we have a short break. So please stay tuned.