



February Outlook

CENTRIX

Monetary policy supporting confidence for now.

The latest lockdown in Auckland was exactly why the Reserve Bank is in no hurry to relax monetary policy.

While many businesses have adjusted to remote working, others are facing significant difficulties, with the latest lockdown in Auckland estimated to have cost \$200m per week.

This supports the Reserve Bank's latest Monetary Policy Statement stating they'll be continuing with stimulatory monetary settings for some time to come, meaning low interest rates until at least the end of the year.

We are seeing consumers take advantage with high levels of mortgage lending and a heated housing market. Rising average credit scores are also a sign that high-quality credit applicants are looking to borrow.

Of course, businesses and consumers generally only borrow when they remain confident that they can meet their repayment obligations, which is why credit demand is one of the leading indicators of economic confidence.

Whether the recent consumer confidence is dented by the latest outbreak remains to be seen, but we'll be watching closely for any changes in credit demand over the coming weeks for indications of a change in the economic winds.

Keith McLaughlin
Managing Director



Credit demand dips only slightly despite Auckland lockdown

The shift in Alert Levels in mid-February showed a small but expected dip on credit demand.

This shows that some businesses and consumers have adapted to operating under tighter restrictions, and the impact of changed alert levels in February has only had a temporary impact on credit demand, compared to the crash experienced last year when the country went into lockdown.

Consumer Credit Demand: 2020 vs 2021



Credit scores hit record high

The average credit score of applicants for credit has continued to rise and is now at a record high of 649. A rising average credit score indicates increasing numbers of high-quality borrowers entering the credit market

This is a signal of consumer confidence as the economy rebounds stronger than expected. Fewer Kiwis were worried about job security in recent times, and with record low interest rates and a booming property market – more people are looking to take advantage of the cheap money that is available to invest or spend.

Centrix Bureau Score Last 12 Months

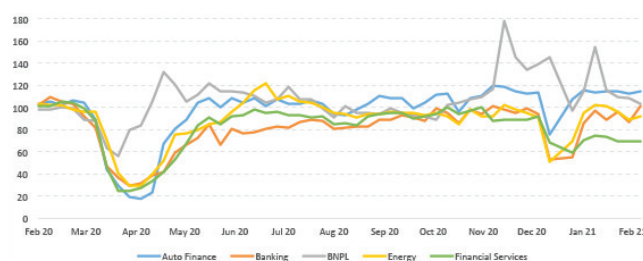


Kiwis spending on vehicles increases

By industry, vehicle finance was the top source of credit demand in February, up nearly 15% year-on-year, another sign of confidence as consumers look to borrow for discretionary items.

Following the Christmas spending season, Buy Now Pay Later demand has eased back to more regular levels but might surge again given current lockdown restrictions. Interestingly non-bank financial services products like credit cards and unsecured loans are at the lowest levels recorded since May 2020, as Kiwis seem to be shying away from higher-interest credit products.

Credit Demand By Industry Sector



Arrears, while low, are now starting to climb

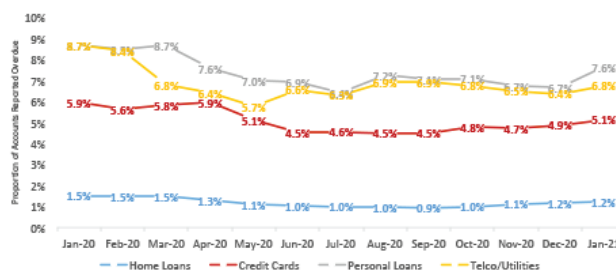
After an historically low month in December, arrears levels have climbed almost across the board in January.

While still at low levels, the overall proportion of accounts reported in arrears went up 10% in January with seasonal increases seen across all credit types.

In fact, credit cards arrears have increased to the same level as April 2020 when we were in the middle of the Alert Level Four lockdown. This might be an early warning that some households are facing significant financial strain.

Residential mortgage arrears increased for the 4th month running, with 17,000 mortgage accounts currently past due. With the mortgage deferral scheme scheduled to end on 31 March, we will be watching very closely what happens with mortgage arrears next month.

Arrears Ratios



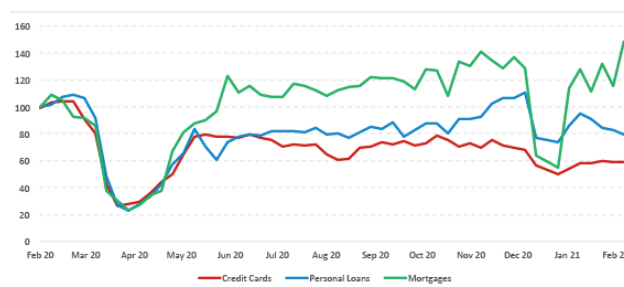
Mortgage lending continues to rule the roost

Mortgage lending has continued to climb and is now up 50% year-on-year as the booming housing market continues to drive credit demand.

At the same time, new credit card applications are down 60% on pre-COVID figures as people took steps to pay down their credit cards last year and diversify their spending through options like debit cards and Buy Now Pay Later.

With recent consumer confidence stable, and retail spending remaining strong, we will be interested to see if there is a reversal in the downward trend for credit card demand.

Credit Demand By Product Type



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