



March Outlook



A big month for the housing market

After the housing market roared back to life last year, and with high levels of new mortgage lending occurring over summer, the Government has acted. While we will need to wait and see what the longer-term impact is, the changes to the tax deductibility of interest, alongside the reintroduction of LVRs, are likely to significantly dampen credit demand by property investors.

The ending of the Reserve Bank's mortgage deferral scheme is also likely to see an increase in mortgage arrears, which are running at a remarkably low 1.2%. At its peak, 7% (80,000) of all mortgages were on deferral, but this had fallen to 3,700 in late March.

An analysis of what happened to those mortgages provides some interesting insights. Over three-quarters of mortgages on deferral restarted paying principal and interest, while another 10% restarted interest-only payments. Interestingly, 7% of mortgages on deferral closed their account, a likely indication that they either sold their property or restructured their loan.

While the deferral scheme provided much needed relief to struggling homeowners, its ending will place some of those households under pressure once again. We will be watching closely to see whether we start to see increasing debt stress and a higher frequency of missed payments in the coming weeks as credit demand is a leading indicator of economic confidence.

Keith McLaughlin
Managing Director



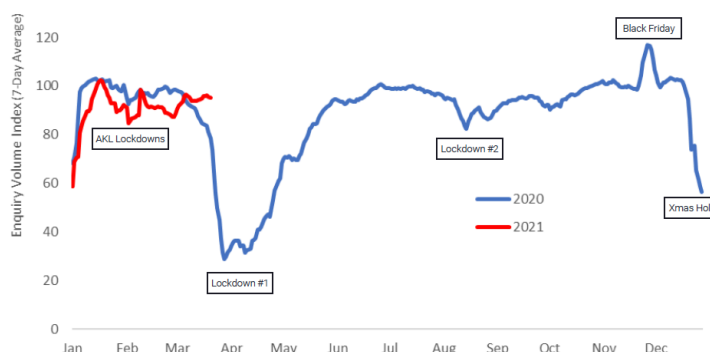
Credit demand remains strong one year from lockdown

One year on from the economic shock of the Alert Level Four lockdown, credit demand has recovered to 95% of pre-COVID levels.

While credit demand plummeted in March and April 2020, we are facing a different scenario this year following a steady recovery. Our latest data shows a 3% month-on-month increase in credit demand in March 2021 versus February.

Despite the increase, there have been significant fluctuations in credit demand in the first part of the year, coinciding with Auckland's snap shifts to Alert Level Three during February and March. The rapid recovery in demand is a sign, however, that these lockdowns have not had a lasting impact on consumer confidence.

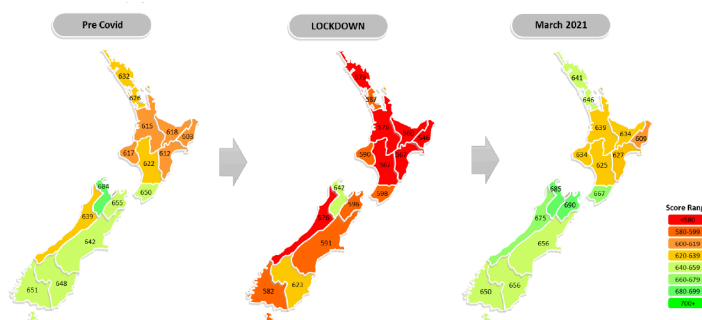
Consumer Credit Demand: 2020 vs 2021



Credit scores remain high across the country

New mortgage lending continues to drive strong average credit scores, with the average score of applicants sitting at 649 this month. This is only a slight drop from the record high of 652 reached earlier in the year.

We are seeing strong credit scores across the country, with the average credit score for new applicants uniformly up on pre-COVID levels. This month the top of the South Island has the strongest average score for new credit applicants.

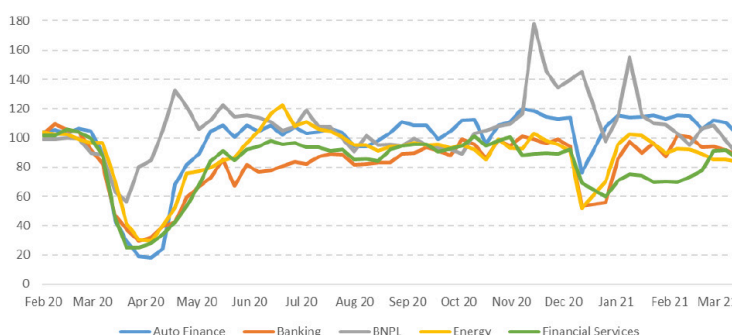


Buy Now Pay Later spending falls in March

After a spike during the 2020 holiday period, demand for Buy Now Pay Later has fallen to the lowest point recorded since April 2020. BNPL lends itself to online shopping because it provides an alternative payment method to credit cards.

Vehicle finance remains the most sought-after credit product for the second month in a row. Because people generally upgrade their car when they are feeling positive about their future, strong vehicle financing is a sign of consumer confidence.

Credit Demand By Industry Sector

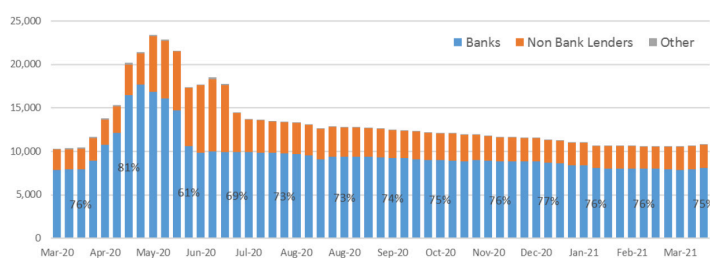


Hardship levels on the rise in March

Despite signs of strong consumer confidence, there are some signs of debt stress emerging with 10,800 accounts flagged in hardship, an increase of 2% from February 2021.

Breaking this down, 35% of accounts flagged for hardship are mortgages, while 32% are for credit cards, 24% for loans and 8% for overdrafts.

Furthermore, there were 3,700 active payment deferrals recorded when the scheme ended on 31 March.

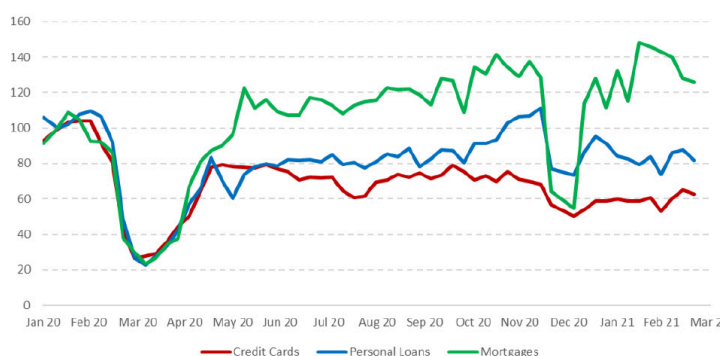


Mortgage lending falls slightly in March

After reaching a record high in February, mortgage applications fell slightly in March. The level of applications, however, remains well above baseline and lending in the housing market remains remarkably solid.

Credit card applications saw a slight month-on-month increase – up 5% on February 2021 – but they remain below their pre-COVID base level as Kiwis continue to make use of alternative payment options, such as BNPL.

Credit Demand By Product Type



Last updated 31 March 2021.

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