May Outlook

CENTRIX

Consumer credit remains strong, but for how long?

Credit demand remained strong in May, as consumers continued to take advantage of record low interest rates.

The continued strength of the credit market is the result of ongoing expansionary monetary policy. Despite asset prices (including the housing market) growing rapidly, consumer inflation has remained subdued for some time. This has allowed the Reserve Bank to keep the Official Cash Rate (OCR) at aggressively low levels.

But, we are now beginning to see early signs of inflationary pressure on the horizon. With more money being pumped into the economy, including in last month's Budget, the Reserve Bank is signalling the need to start increasing interest rates from next year.

This will require the Reserve Bank to enter a careful balancing act. Inevitably, this will hit borrowers in the back pocket as they face higher interest rates. While most borrowers will be able to absorb moderate increases, rapid rises will dampen both credit demand and consumer spending. It will likely also see arrears and hardship levels increase.

This is one of the reasons why credit demand is a leading economic indicator, and why it will be worth watching closely as the economy moves to the next phase of its recovery.

Keith McLaughlin
Managing Director

Consumer credit health strengthens in past year.

During the past year, average credit scores have steadily improved - with the number of New Zealanders having a prime or super prime credit score increasing from 69.8% to 71%.

At the same time, the number considered to be sub-prime has fallen from 11.6% to 10.6%. This indicates individuals have been able to manage their finances, at least in the short-term, despite the economic uncertainty caused by the pandemic.

The average overall credit score in New Zealand now sits at 750, while the average credit score for new credit applicants is 649.

Credit Active Population Trends

Key Measure		Period				
		Apr-20	Jul-20	Oct-20	Jan-21	**Apr-21**
Mean Credit Score	Credit Active*	742	745	746	747	**750**
% Super Prime	Scores 900-999	16.9%	17.0%	17.2%	17.3%	**17.7%**
% Prime	Scores 700-899	52.2%	52.7%	52.8%	53.3%	**53.3%**
% Near Prime	Scores 500-699	19.4%	19.2%	19.1%	18.8%	**18.4%**
% Sub Prime	Scores 1-499	11.6%	11.1%	11.0%	10.6%	**10.6%**
Total Credit Limits	YoY growth rate	8.30%	3.70%	7.20%	9.20%	**10.14%**
Consumers with Active Arrears	% of credit active	10.64%	9.73%	9.90%	10.31%	**9.21%**
Consumers with 30+ DPD**	% of credit active	3.98%	3.56%	3.46%	3.90%	**3.35%**
Consumers with Adverse Credit**	% of credit active	14.07%	14.31%	14.14%	13.89%	**13.82%**

** Credit active population defined as consumers with at least one currently active account (as reported in CCR) or a credit default on file*
*** DPD = Days Past Due; Adverse credit refers to any record of defaults, 90+ DPD, judgments or insolvency*

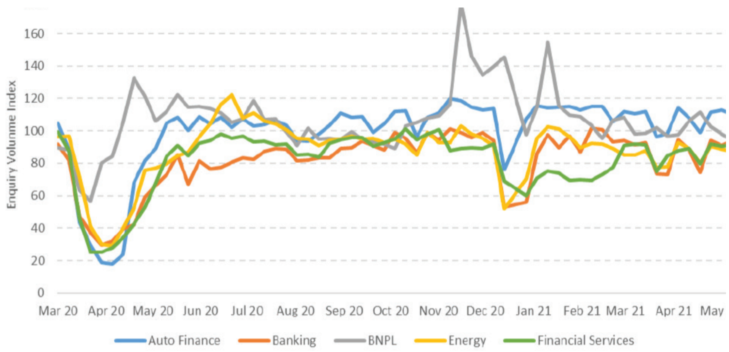
Credit demand remains strong but flat.

While credit demand is up 41% year-on-year, this is more reflective of the collapse in the credit market during last year's lockdown.

Overall, credit demand remains strong but consistent with the month prior. Auto-finance, however, is particularly strong, indicating strong consumer confidence given buying a new car tends to be a discretionary spend.

We have seen some softening of Buy Now Pay Later (BNPL) purchases, which was not unexpected given the lack of big retail events during May.

Credit Demand By Sector



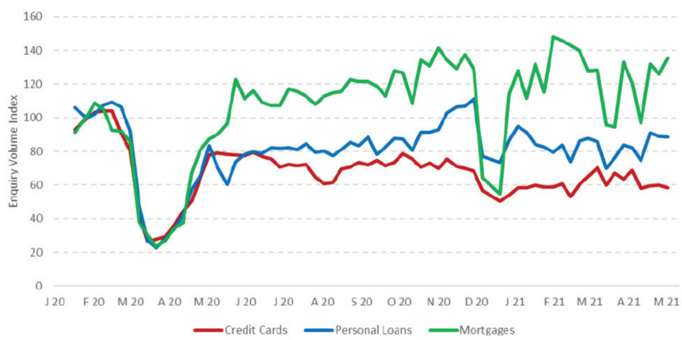
Mortgage lending remains strong but early signs of weakening.

Mortgage applications remained strong in May but are down from their February peak.

It is too early to know whether this is weakening is reflective of low winter demand, or the impact of Government housing policy.

Personal loan volumes are up 7% on the prior month but are still well below the pre-Covid baseline level. New credit card applications also remain weak, at 60% of pre-Covid baseline. This indicates that consumers are exercising greater caution before taking on higher interest credit.

Credit Demand By Product



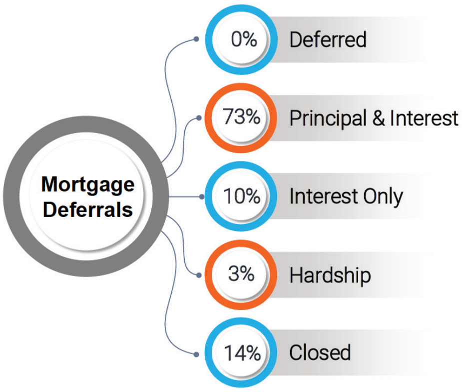
One-in-four deferral mortgages not able to start full repayments.

More than one in four mortgages that participated in the Reserve Bank's mortgage deferral scheme have either closed their accounts, applied for hardship or moved to interest-only.

The closure of the mortgage accounts indicates that home was likely sold, and the mortgage repaid or they have closed their account and have sourced alternative finance.

Overall, the deferral scheme was successful, with nearly three quarters of deferred mortgages able to move to principal payments.

Mortgage Deferalls



Mortgages and credit cards contribute to uptick in hardships.

The number of customer accounts in hardship increased 5% month-on-month in May, reaching 12,520.

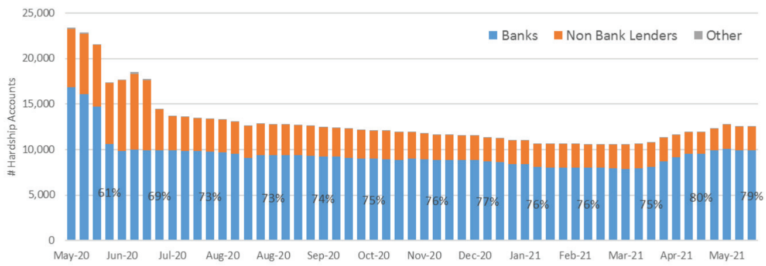
Currently, 67% of hardship cases relate to mortgages and credit card accounts.

Despite the increase in hardships, arrears levels have actually improved 3% in April and remain lower than in previous years.

Approximately 5.6% of telco and utility accounts are in arrears, while 4.8% of credit cards are in arrears.

Customer Accounts in Hardship up 5%

Number of Customer Accounts flagged requiring Financial Hardship Assistance



There are 12,520 accounts in hardship which is a 5% increase on last month

Last updated 31 May 2021.

Centrix data

Centrix holds the richest dataset of consumer credit information available in New Zealand. Our extensive and unique credit information database comprises of comprehensive credit information, utility data and supporting credit risk information aggregated from a wide range of sources.

Specifically our data comes from:

- Registered banks and 53 other contributors to Comprehensive credit reporting (CCR), providing payment behaviour data. Contributors include finance companies, telco's and utilities.
- Credit enquiries, when businesses or individuals apply for finance – indicative of real time credit demand.
- Monthly snapshots of arrears trends and exposure (open accounts and credit limits)
- Fintech providers such as Buy Now Pay Later (BNPL) etc.
- Payment history on more than 95% of individuals.