



# July Outlook

**CENTRIX**

## Businesses need to take action now to prepare for rising defaults

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Credit is critical to New Zealand's small businesses.

SMEs would struggle to grow without the ability to borrow and invest in capital. But credit also allows a business to purchase in advance from their suppliers, while extending credit helps them increase sales by allowing their customers to buy more.

But credit is also one of the greatest risks facing businesses. Small businesses can face a major cashflow crisis if a large customer is unable to pay their bill. This can quickly cause a ripple effect, with the impacted business suddenly finding itself also unable to meet its own obligations.

Too often, this cashflow crunch can prove fatal to a business's survivability. Despite our current strong economy, company closures increased 8% this quarter. While the reasons for each closure will be individual and different, it is no coincidence that over the same period, business credit defaults increased by 6%.

It is likely we will see credit defaults playing an increasing role in business failure over the coming year. While consumer arrears remain low by historical standards, rising interest rates will place increasing pressure on highly indebted households.

Inevitably, businesses can expect to see an increased proportion of missed payment as interest rates rise. This, alongside rising prices, staff shortages and increasing compliance costs, will see an increasing number of businesses struggle unless they take steps now to manage their credit risk.

**Keith McLaughlin**  
Managing Director



## Company closures up in the last quarter on the back of rising commercial defaults

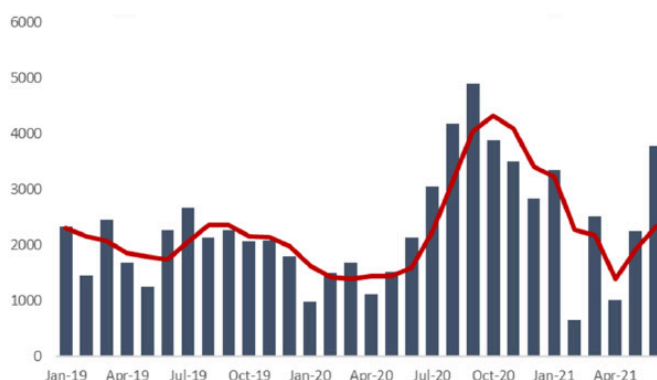
The second quarter of this year has seen a sharp increase in company closures, which were up 8% between April and June.

Over the same period, we have seen a steady increase in business credit defaults, which rose 6% over the quarter. The average business credit default was approximately \$4,000.

The increased closures appear to have been voluntary, with Companies Office data showing liquidations having fallen by 33% over the past year.

Despite this, the general business environment remains positive, with new company registrations remaining strong, up 5%.

## Company Closures Up 8% This Quarter



## Commercial Credit Defaults On The Rise

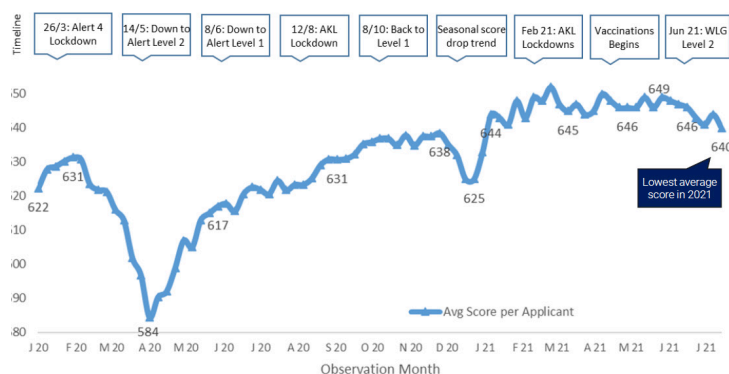


## Consumer Credit Scores Starting to Slowly Fall

This month saw a continuation of the recent downward trajectory in the average credit score, with the average credit score sitting at 640, the lowest this year.

This is likely the result of a cooling housing market, resulting in fewer mortgage applications, combined with an increased demand for personal loans and credit cards over the past month.

## Average Centrix Credit Score Since 2020



## New non-mortgage lending cools in June

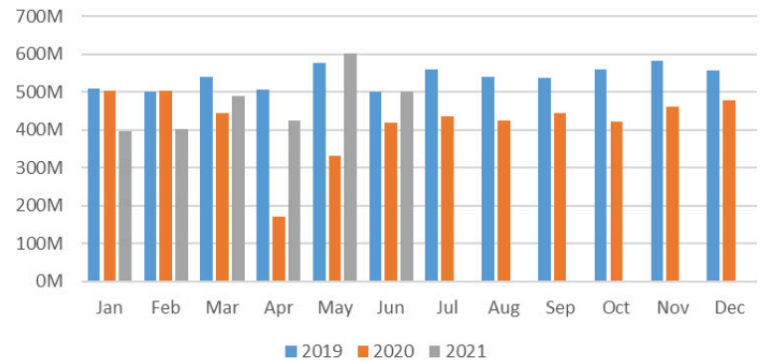
Non-mortgage consumer lending has fallen from its record high in May – down 17% month-on-month.

New mortgage lending also fell 4% month-on-month but remains up by a staggering \$2 billion year-on-year.

Demand for new credit cards is increasing but remains down 30% on pre-Covid levels.

Personal loan applications are also at their highest level for the year, as an increasing number of consumers turn to unsecured finance.

## New Lending Exposure: Non Mortgages

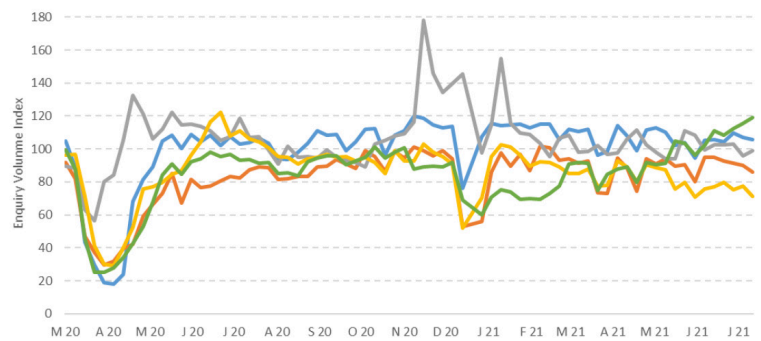


## Confidence across sectors remains stable

Credit demand is a leading indicator of consumer confidence. This month's data shows consumer confidence remains stable across most sectors, with credit demand remaining flat year-on-year.

July saw a slight decrease (-3%) due to a seasonal slowdown in new applications to open retail energy accounts.

## Credit Demand By Industry Sector

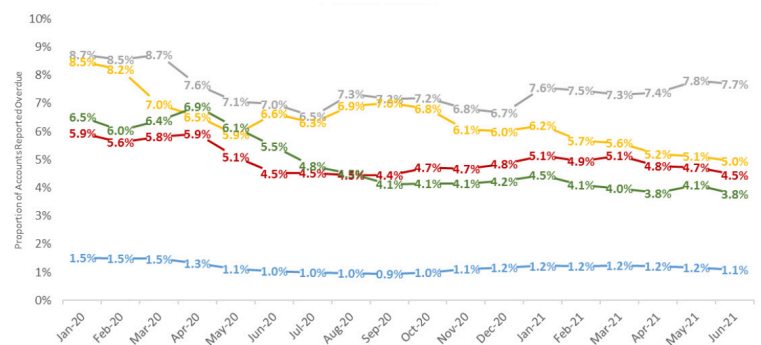


## Consumer arrears continuing to fall

The number of accounts reported in arrears fell 5% month-on-month in June across all account types, continuing their downward trajectory.

Mortgage delinquencies fell for the third month in a row. At the end of June, there were 15,250 residential mortgage accounts past due.

## Arrears Ratios



## Consumer hardships down month-on-month

The number of consumer accounts flagged for hardship decreased 7% month-on-month.

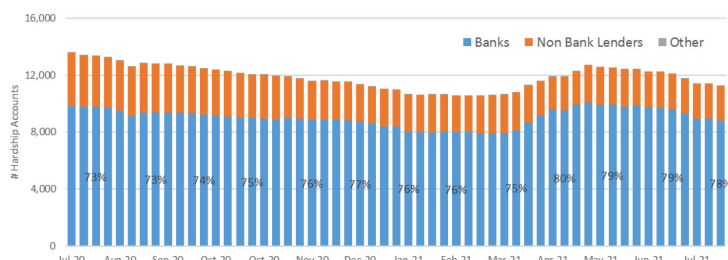
There are 11,250 accounts flagged for hardship at the end of July, with 78% of these held by bank lenders.

Of these hardship accounts, the majority are related to mortgages (37%), credit cards (30%) and personal loans (24%).

The proportion of new credit application enquiries with financial hardship alerts remains flat at 0.4%.

## Hardships down 7% month-on-month

Number of Customer Accounts flagged requiring Financial Hardship Assistance



Last updated 31 July 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.

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