June Credit Indicator

CENTRIX

Consumer and business credit demand softens as confidence waivers and inflation bites

This month demand for both consumer and business credit soften, as confidence weakens, and rising inflation and mortgage rates eat into disposable incomes.

This is demonstrated in the value of new lending – all new household lending was 33% down in May, compared to the same month last year, and business credit demand fell 13% year-on-year.

Customer enquiries for Buy Now Pay Later (BNPL) and new credit card demand also dropped during the month by 32% and 22% year-on-year, respectively.

New residential mortgage lending is 34% down, compared to the same time last year 2021. But this is only 4% down compared to May 2019, suggesting a return to pre-pandemic levels. As Credit Contract and Consumer Finance Act (CCCFA) rules change from July 7, it will be interesting to see if these legislation changes buoy lending.

On a positive note, financial hardship cases across New Zealand continue to drop. We're yet again experiencing another record low in hardship levels since December 2019, with only 8,750 borrower accounts flagged in financial hardship. So, while spending is low, people are generally not getting into severe financial distress.

Similarly, the proportion of home loans with missed payments is still low, at only 1% in May. This means there are still no signs of mortgage stress, despite the recent rate hikes and higher costs of living.

But, as the economy tightens, we expect more households will struggle to pay all their bills. We are already seeing the beginning of this trend. While mortgage repayments are holding up and hardships remain low, the number of people missing some of their repayments across all bills rose for the third month in a row.

Turning to business, low company closure and liquidation rates demonstrate a level of resilience for the economy. Closures were down 37% in this quarter, compared to the previous quarter, and company liquidations were also down 14% year-on-year.

However, company credit defaults are beginning to increase, specifically in the building and hospitality sectors, as they have experienced the highest default rates since the final quarter of 2019. Similarly, credit demand in the hospitality sector fell sharply at 21% year-on-year, and agriculture credit demand is down 24% year-on-year.

As we manage these changing economic times, it is now more important than ever for businesses to manage their credit risk and for Kiwis to proactively manage their personal debt. We recommend people talk to their lenders sooner rather than later if they are experiencing any financial distress.

Keith McLaughlin
Managing Director

Flagged financial hardships down, but consumer payment arrears on the rise

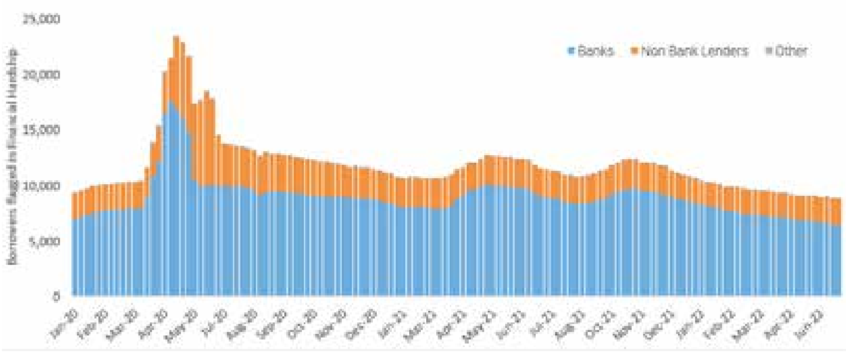
There were 8,750 borrower accounts flagged in financial hardship. This is the lowest level reported since December 2019 and down 3% on the previous month, meaning people are not experiencing severe financial distress.

However, across May the number of people missing repayments rose for the third month in a row, which runs contrary to the seasonal trend that's typical this time of year.

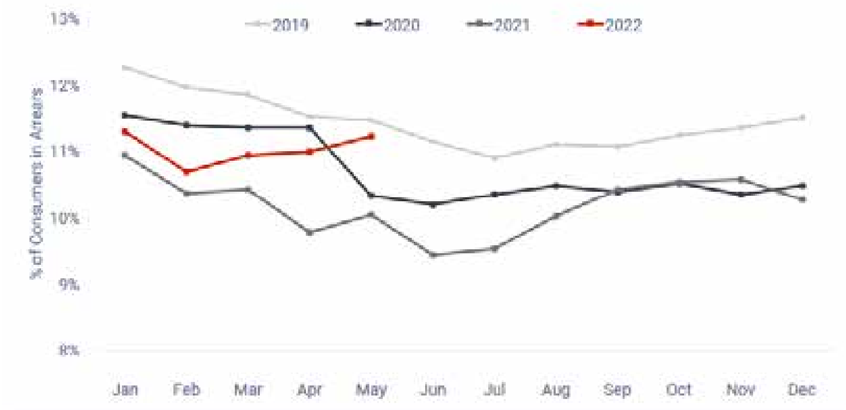
The total number of people who are behind on payments is up 11.7% compared to the same time last year, indicating some consumers are starting to experience financial strain.

However, across May the number of people missing repayments rose for the third month in a row

Number of Borrower Accounts Flagged in Financial Hardship



Consumer Arrears Trends



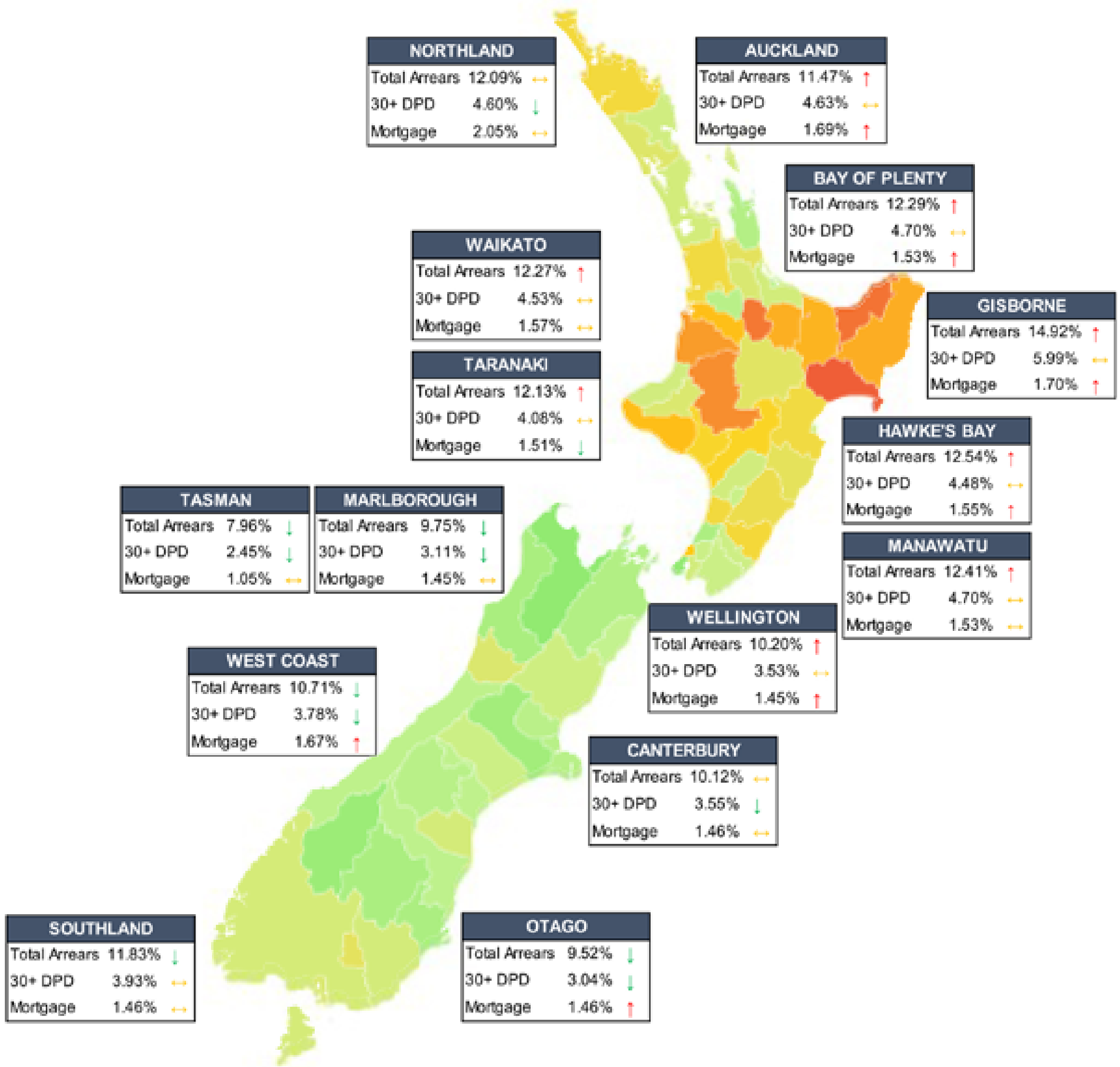
South Island total arrears improve, as North Island slips

Total arrears rose again for all North Island regions as payments slipped in the north. But arrears improved across the South Island.

The Nelson/Tasman region still has the lowest reported total arrears across NZ, with only 8% of borrowers in arrears.

Gisborne, on the other hand, has the highest overall arrears (14.9%) while Northland has the highest proportion of mortgage borrowers past due, with 2.1%.

Mortgage arrears were up slightly for most regions in May, but only marginally. The proportion of home loans with missed payments lifted 0.04 percentage points from April to 1.00% during May.



Key	Definition
Total Arrears	Proportion of borrowers with at least one credit account currently in arrears
30+ DPD	Proportion of borrowers with at least one credit account 30+ days past due
Mortgage	Proportion of mortgage borrowers with at least one mortgage account in arrears

New lending figures continues to show downturn

The value of all new household lending is down 33% in May, compared to the same month last year.

New residential mortgage lending is down 34% year-on-year. But it's worth noting this is only 4% down on pre-pandemic May 2019.

Consumer lending continues to decline, down 20% on last year, and down 19% on the same time in 2019.

Following a similar trend, mortgage applications are down 25%, due to the housing market downturn.

However, auto loan and personal loan demand both remain stable compared to the same period last year, with lending up 1% and 0.3%, respectively. New car registrations were also up 5% during the month.

Personal lending is low, with BNPL new customer enquiries down 32% year-on-year and new credit card demand down 22% year-on-year.

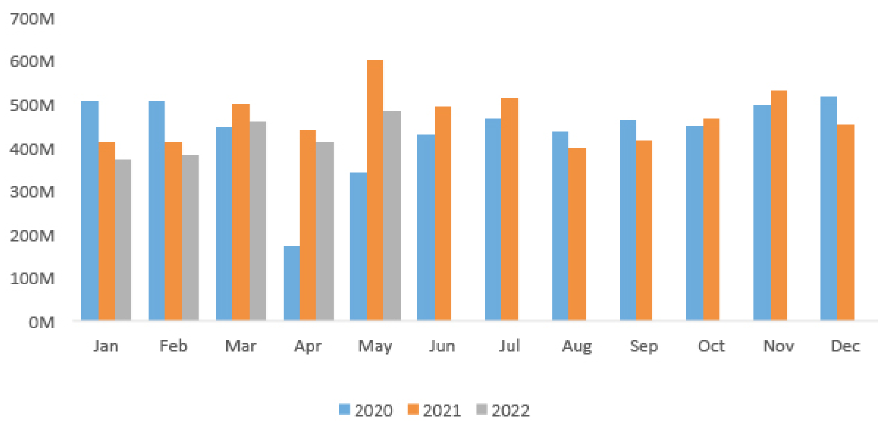
The value of all new household lending is down 33% in May, compared to the same month last year.

Credit Demand by Product Type

Consumer Credit Demand: 2020 to 2022

New Lending Amount: Mortgages

New Lending Amount: Consumer Loans



Company closures and liquidation rate drop, as credit demand weakens

Company closures were down 37% in the three months to May 2022 versus the previous quarter. Company liquidations are also down, with a 14% year-on-year reduction, showing signs of business resilience.

However, business credit demand fell 13% year-on-year, likely due to falling business confidence and rising costs. Average credit scores for new business credit applications have also fallen back to 763.

Credit demand across sectors varies widely – the hospitality sector fell particularly sharply at 21% year-on-year, but it was up 6% in the education sector

Company credit defaults are beginning to surge specifically in the building and hospitality sectors, as they experience the highest default rates since Q4 2019.

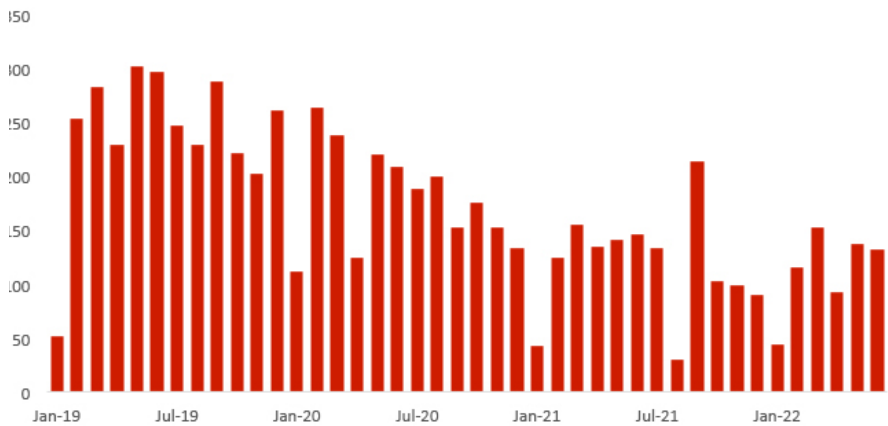
In contrast, wholesale trade, mining and the education sectors were the best performing sectors, versus the same time last year.

Business Credit Demand:2020 to 2022

Industry Sector Year on Year	Credit Demand	Credit Defaults	Credit Score
Construction	+10%	+10%	-8 points
Tourism	+13%	+4%	-5 points
Agriculture	+24%	+6%	-5 points
Retail Trade	-6%	+4%	-2 points
Hospitality	-21%	+9%	-1 points
Wholesale Trade	-2%	-3%	+1 points
Mining	+5%	-10%	+3 points
Education	+6%	-6%	+6 points

Company credit defaults are beginning to surge specifically in the building and hospitality sectors

Company Liquidations Down 14% This Year



Construction Woes

Construction companies are facing significant challenges as material shortages, rising costs, and the housing market downturn continue to place pressure on the sector.

More than 100 construction companies have been placed into liquidation so far this year and defaults are up 10% compared to same time in 2021. Across the country, 25% of all company liquidations in May were from the construction sector.

Credit scores for the sector are also plunging. The average credit score for new credit applications across the sector is down 8 points, as the potential risk of default increases across the sector.

More than 100 construction companies have been placed into liquidation so far this year

Construction Sector: Average Credit Score

Last updated June 30, 2022.

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:

- 74 registered banks and 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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