October Credit Indicator

The most up-to-date credit insights available in New Zealand

Ongoing economic crisis puts squeeze on energy arrears, company liquidations

The Reserve Bank made the call to hold Aotearoa New Zealand's official cash rate steady in October, retaining it at 5.5% for the third consecutive time.

As interest rates continue to construct economic activity, there remains hopes for reduced inflationary pressure as we head into 2024.

The ongoing financial conditions continue to have an impact on credit trends for both Kiwi consumers and businesses alike.

Credit demand is now trending back above pre-pandemic levels, driven by auto loans, retail energy, credit cards and personal loans in October 2023.

Arrears have also climbed, tracking close to 2018 levels – although it is important to remember these levels are coming off historic lows in the wake of the COVID-19 pandemic. The number of people behind on their repayments has risen month-on-month to 427,000.

Interestingly, many of the discretionary spending arrears have trended downwards month-on-month, while essentials like retail energy arrears have climbed in recent months.

Mortgage and vehicle loan arrears are also up year-on-year, which is a concerning trend to observe as these essential repayments are often the last households let slip when times get tough.

Turning to Aotearoa New Zealand's business sectors, the challenges also run deep through most sectors – especially those in retail and construction.

Across the board, company liquidations are up year-on-year in September as credit defaults continue to rise.

When it comes to business failures, we know the highest rate of failure happens within the first five years of existence.

Recent business failure trends found non-store retailing (e.g. online only stores) saw the highest rate, with almost one in four new businesses since 2020 closing followed by clothing and footwear retailers.

In fact, retail stores specialising in high cost products like motor vehicles, electrical appliances and household furniture are at a greater risk of liquidation than other business sectors.

It's clear the current climate remains tricky to navigate for a lot of Kiwis. As discretionary spending continues to scale back, many retailers are beginning to feel the pinch.

As we near the end of the year and begin turning our sights towards the Christmas and summer period, these concerns are likely to be weighing heavy on many minds across the country.

For anyone who is worried about the credit or financial status, now's the time to seek advice for mitigating any long-term damage to their credit rating.

And for business owners, ensuring extra vigilance around who credit is extended to can help avoid any pitfalls of late payments or bad debts.

Keith McLaughlin
Managing Director

Credit, mortgage demand up in October

Overall credit demand was up 5% year-on-year in October, trending above the 2019 pre-pandemic level. Leading the group are auto loans, with year-on-year demand up 14.4%.

Additionally, year-on-year demand is also up for retail energy (+9.1%), credit cards (+7.2%), personal loans (+7.0%) and Buy Now Pay Later products (+2.9%).

While mortgage demand is down year-on-year (-8.8%), there has been an upswing in enquiries since the result of the 2023 election. This could point to the expectation the new Government will restore mortgage interest deductibility for property investors.

Year on Year Change %

Mortgages	-8.8%
Auto Loans	+14.4%
Credit Cards	+7.2%
Personal Loans	+7.0%
BNPL	+2.9%
Retail Energy	+9.1%

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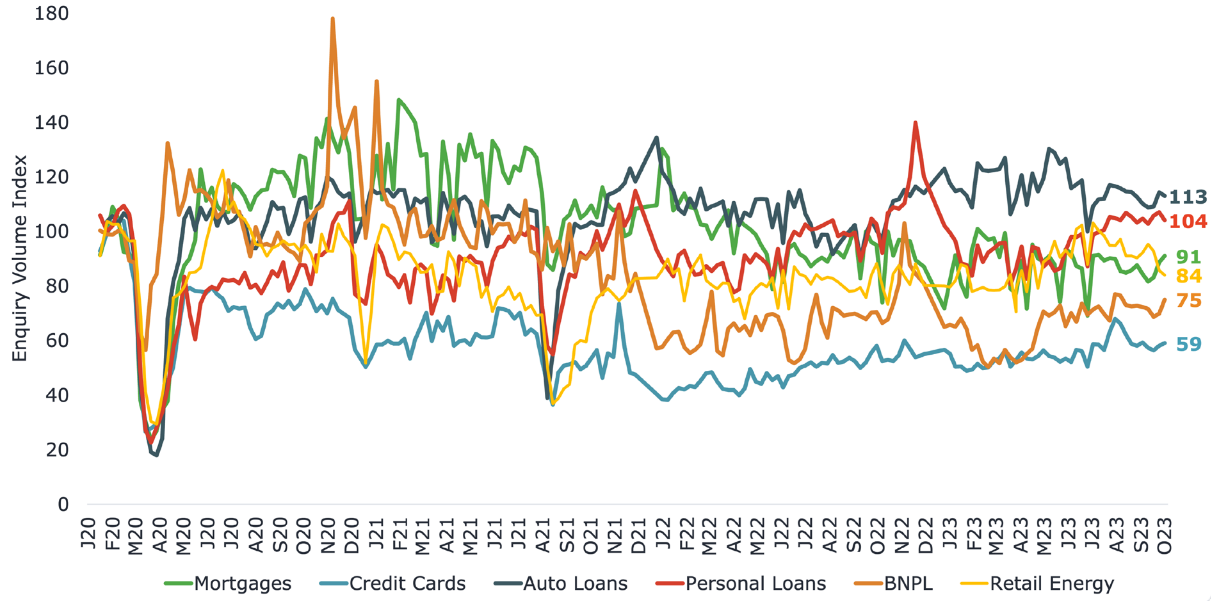
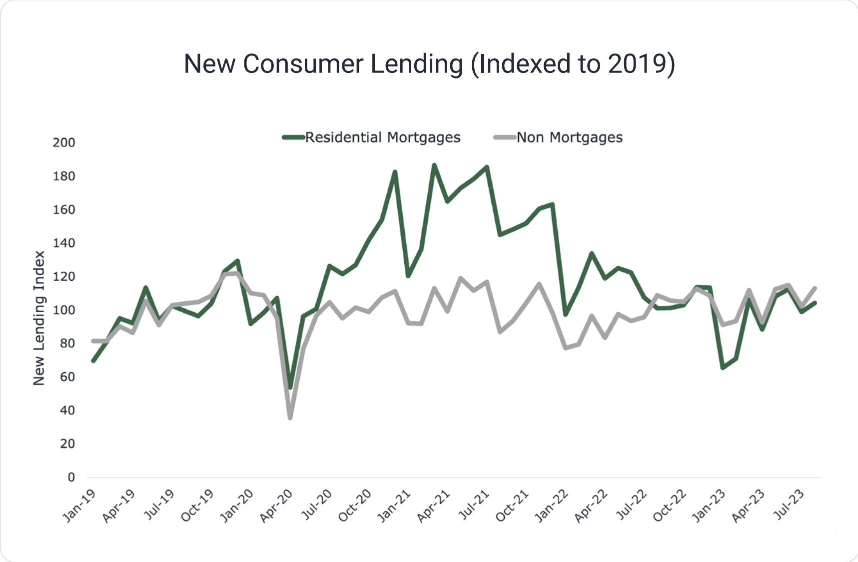
Credit Demand By Product Type



New lending remains relatively unchanged year-on-year

While demand is up, this is yet to appear materially in actual lending figures. For example, new mortgage lending in September 2023 remains unchanged year-on-year (+0.4%) and was down slightly month-on-month (-2.4%).

Additionally, overall non-mortgage new lending for vehicle and personal loans, BNPL products and overdrafts was down year-on-year (-1.0%), reflecting a general slowdown in borrowing in the lead up to the 2023 election and uncertainty regarding the Government moving forward.



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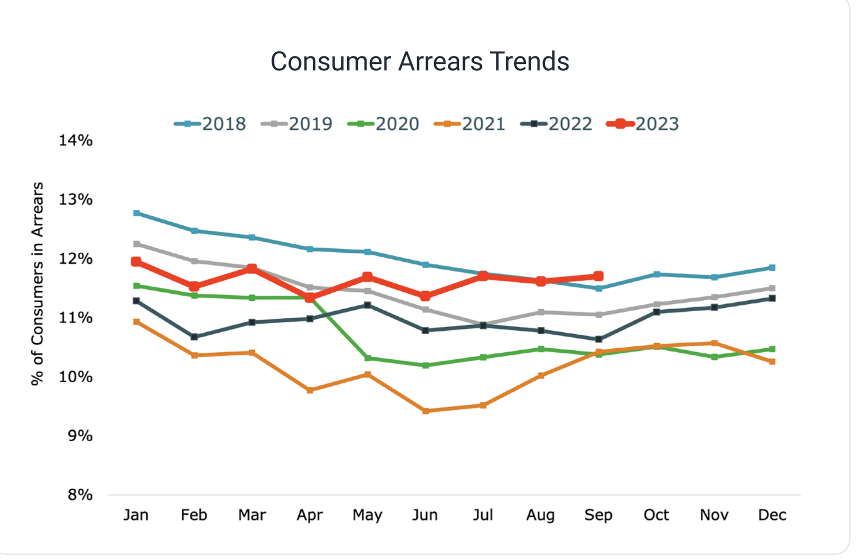
Overall consumer arrears climb month-on-month

Consumer arrears climbed to 11.70% of the credit active population in September (up from 11.62% in August 2023) with the number of people behind on their payments rising to 427,000.

These arrears levels are up year-on-year (+10.0%) and tracking closely to levels recorded in 2018. It's important to remember these figures are coming off historic lows recorded since the April 2020 COVID-19 lockdown.

There are 162,000 consumers currently 30+ days past due. Within this subsection, 107,000 consumers are recorded 60+ days past due.



September 2023	1+ Days in Arrears	30+ Days in Arrears	60+ Days in Arrears	90+ Days in Arrears
# Consumers	427,000	162,000	107,000	87,000
% Credit Actives	11.70%	4.45%	2.95%	2.40%
vs Aug 2022	+10.0%	+19.6%	+19.8%	+17.0%
vs Aug 2021	+12.3%	+22.8%	+30.3%	+31.8%
vs Aug 2020	+12.7%	+25.6%	+25.7%	+19.1%
vs Aug 2019	+5.9%	+11.8%	+18.7%	+19.5%
vs Aug 2018	+1.8%	+0.5%	+0.7%	+5.3%
vs Aug 2017	-1.2%	-2.4%	-2.6%	-1.6%

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Retail energy arrears highest since March 2020

Looking at specific product arrears, the number of people behind on their retail energy payments has climbed to 4.6% in September - the highest level recorded since March 2020.

Personal loan arrears have also climbed slightly to 9.2% of accounts. On the other hand, BNPL product arrears continue to decline – down to 7.8% of accounts, the lowest level reported since January 2022.

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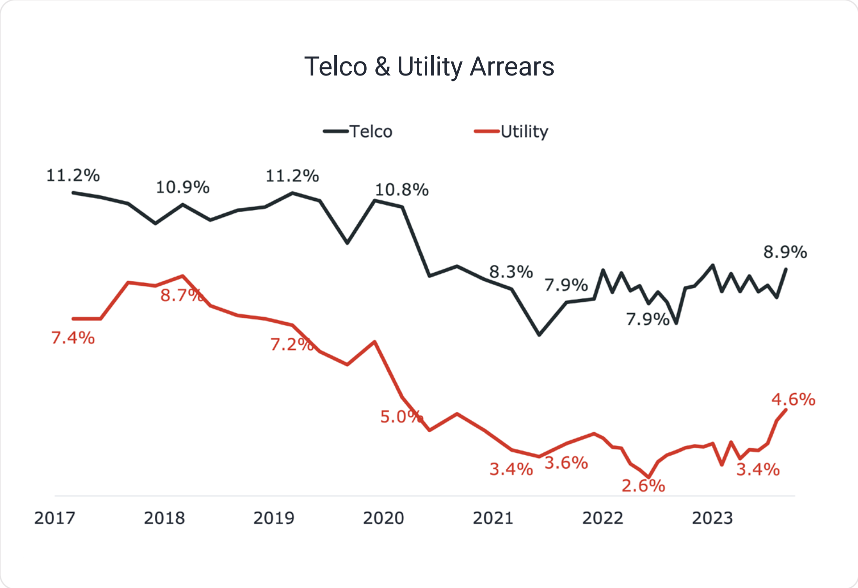
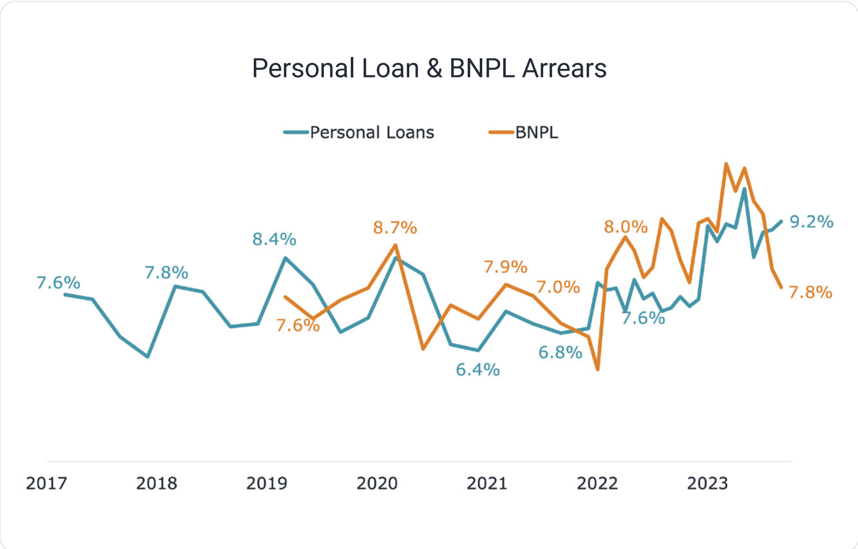
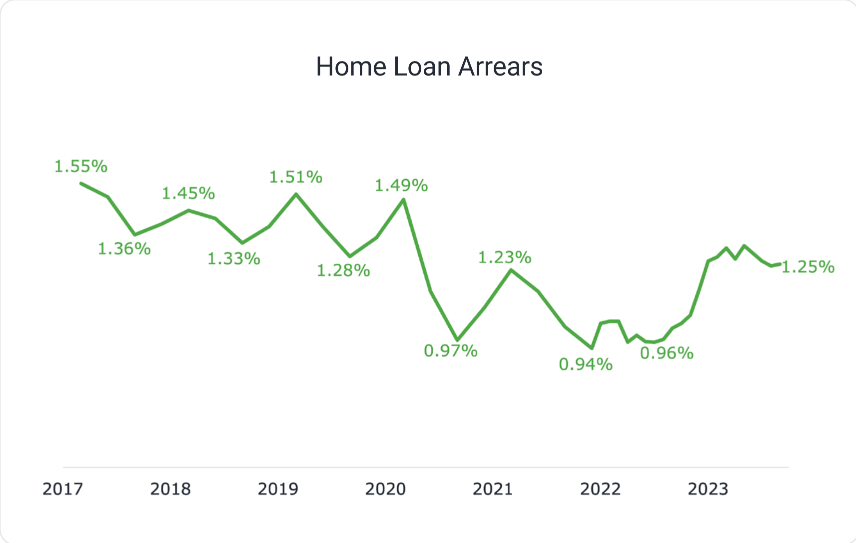




Mortgage, vehicle arrears remain up year-on-year

Mortgage delinquencies remained unchanged month-on-month in September, with 1.25% of home loans in arrears. Despite this levelling out, the number of mortgage arrears was up year-on-year (+23%), with many expected to be repriced in the next six to twelve months.

Additionally, vehicle loans are down to 5.4% month-on-month but remain up significantly year-on-year (+22%).



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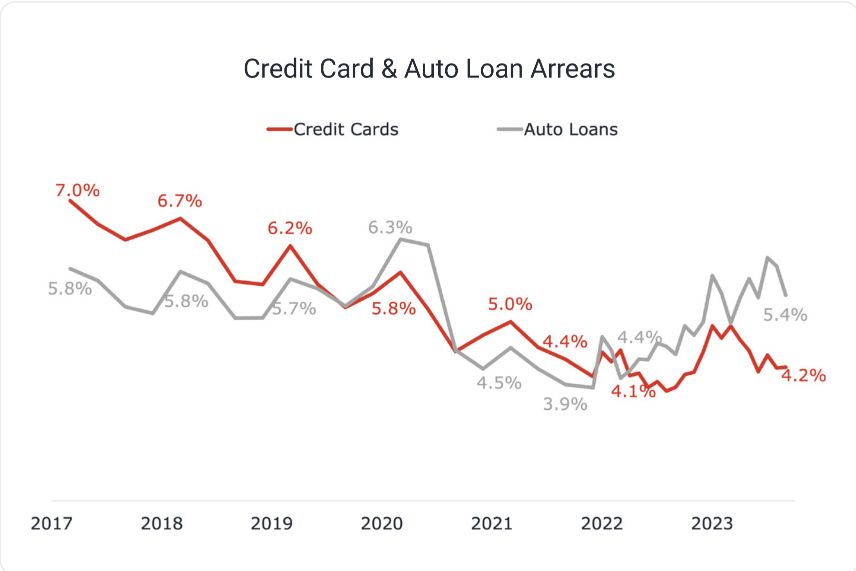
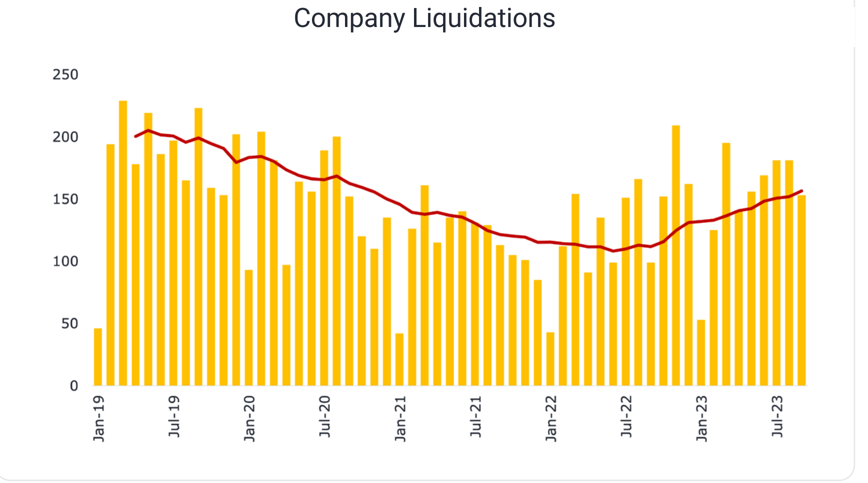


Year-on-year liquidations up for retail, construction

Overall company liquidations are up year-on-year (+40%) in September 2023, with the retail and construction sectors experiencing significantly higher levels of companies filing for liquidation – up 87% and 57% respectively.

We've seen credit defaults climb across the board in September – particularly in the property and retail spaces – which could be an indication of further hurt in the future.



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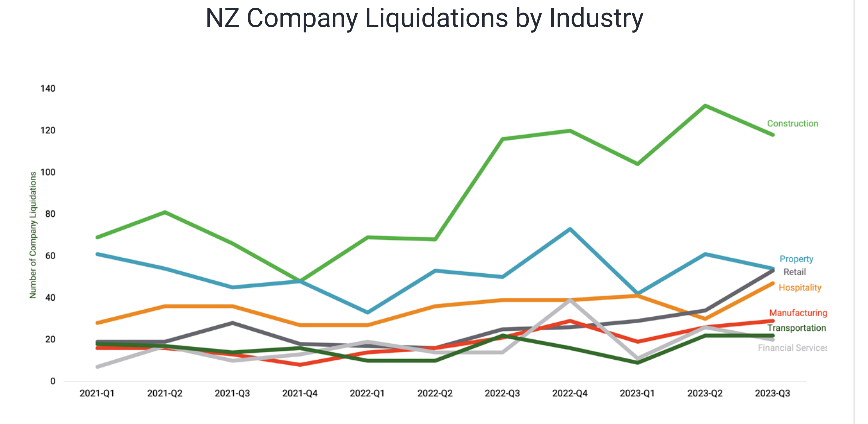

Sector	Δ Credit Demand	Δ Credit Defaults	Avg Credit Score	Δ Company Liquidations	Liquidation Rating
Construction	-3%	+9%	761 ↓	+57%	2.2X
Hospitality	+15%	+4%	743 ↓	+22%	2.1X
Retail Trade	+4%	+20%	772 ↓	+87%	1.3X
Transport	+8%	+10%	734 ↓	+19%	1.6X
Property / Rental	-7%	+46%	819 ↓	+25%	0.7X
All Sectors	+0%	+14%	789 ↓	+40%	1.0X

High business failure rates for online retailers

Non-store retailing (e.g. online only stores) have the highest failure rate, with almost one in four new businesses since 2020 failing (24.4%).

This is followed by clothing and footwear retailers, as well as manufacturing businesses. We know businesses have the highest rate of failure in their first 5 years of existence.

Hospitality clubs, cosmetic manufacturing and advertising services have also faced elevated levels of company closure, as many consumers and businesses cut back on discretionary spend.

Interestingly, dairy farmers have some of the lowest failure rates (2.0%) despite the challenges facing the industry with regards to international export.

Highest Failure Rates for New Businesses since 2020			Lowest Failure Rates for New Businesses since 2020		
	Industry	**Fail %**		**Industry**	**Fail %**
1	Non-Store Retailing	24.4%	1	Dairy Cattle Farming	2.3%
2	Clothing, Footwear and Personal Accessories Retailing	21.9%	2	Sheep, Beef Cattle and Grain Farming	3.7%
3	Cleaning Compound and Toiletry Preparation Manufacturing	20.0%	3	Auxiliary Finance and Investment Services	4.3%
4	Clubs (Hospitality)	19.7%	4	Farm Animal and Bloodstock Leasing	4.3%
5	Clothing and Footwear Manufacturing	19.1%	5	Medical Services	4.4%
6	Civic, Professional and Other Interest Group Services	18.6%	6	Waste Collection Services	6.2%
7	Advertising Services	17.8%	7	Electricity Generation	6.3%
8	Internet Publishing and Broadcasting	17.6%	8	Other Machinery and Equipment Manufacturing	7.0%
9	Waste Treatment, Disposal and Remediation Services	17.3%	9	Property Operators	7.0%
10	Specialised Food Retailing	16.5%	10	Timber and Hardware Goods Wholesaling	7.1%

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Spotlight on the retail sector

Retailers are experiencing higher costs and changing customer spending behavior, with many households continuing to cut back discretionary spending as the cost-of-living crisis persists.

There are nearly 44,000 registered companies in the retail trade sector (6% of all registered companies).

Looking at the different retail sectors, those specialising in high cost products, such as motor vehicles, electrical appliances and household furniture, are at greater risk of liquidation (more than 1.5X) than typical NZ businesses.

Industry Classification Description	Registered Companies		Key Credit Indicators (YoY Change)			
	#	%	∆ Credit Demand	∆ Defaults	Credit Score	Liquidation Rating
Retail Trade	**43,674**	**6.1%**	**4%**	**20%**	**772**	**1.3X**
Food Retailing	7,485	1.0%	6%	24%	744	1.5X
Fuel Retailing	550	0.1%	-	-	801	-
Motor Vehicle and Motor Vehicle Parts Retailing	3,264	0.5%	15%	3%	756	1.8X
Non-Store Retailing and Commission Based Trade	6,882	1.0%	-6%	27%	755	0.3X
Clothing, Footwear and Personal Accessories Retailing	5,582	0.8%	-2%	0%	763	1.3X
Department Stores	112	0.0%	-	-	738	-
Electrical and Electronic Goods Retailing	1,979	0.3%	9%	50%	762	1.7X
Furniture, Floor, Houseware and Textile Goods	2,144	0.3%	-7%	59%	779	1.4X
Hardware, Building and Garden Supplies Retailing	1,566	0.2%	2%	-26%	793	1.1X
Pharmaceutical and Other Store-Based Retailing	7,260	1.0%	4%	79%	766	1.5X
Recreational Goods Retailing	2,522	0.4%	-8%	37%	790	1.7X

Those specialising in high cost products, such as motor vehicles, electrical appliances and household furniture, are at greater risk of liquidation.

Last updated October 31, 2023.

Centrix data

Centrix provides the most up-to-date credit insights available in NZ and holds the richest dataset of payment 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:

- 88 registered banks, finance companies, utility companies, telcos, and other business contributors to Comprehensive Credit Reporting (CCR), providing payment behaviour data. Major bank contributors include ANZ, ASB, BNZ, Westpac, Kiwibank, TSB Bank, and The Co-Operative Bank.
- 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 and most credit active businesses within New Zealand.
- Defaults loaded by collections agencies and credit providers.

Glossary of Terms:

- Credit demand - real time - a leading indicator of consumer and business confidence.
  - Consumer - applies to individuals that apply for finance, telco, broadband, power, tenancy, and utility accounts.
  - Business - applies to businesses that apply for credit terms with any goods and services providers including finance.
- Payment arrears - a one month lag indicator – data contributors typically report the payment status of their customers the month after the payment is due.
- Defaults - a lag indicator - a default will be listed on a credit file where a payment over $125 is overdue by at least 30 days and the credit provider has tried to recover the money.

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