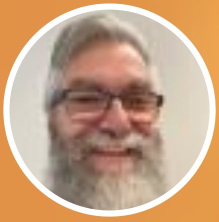
Consumer Stress Barometer



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Australia

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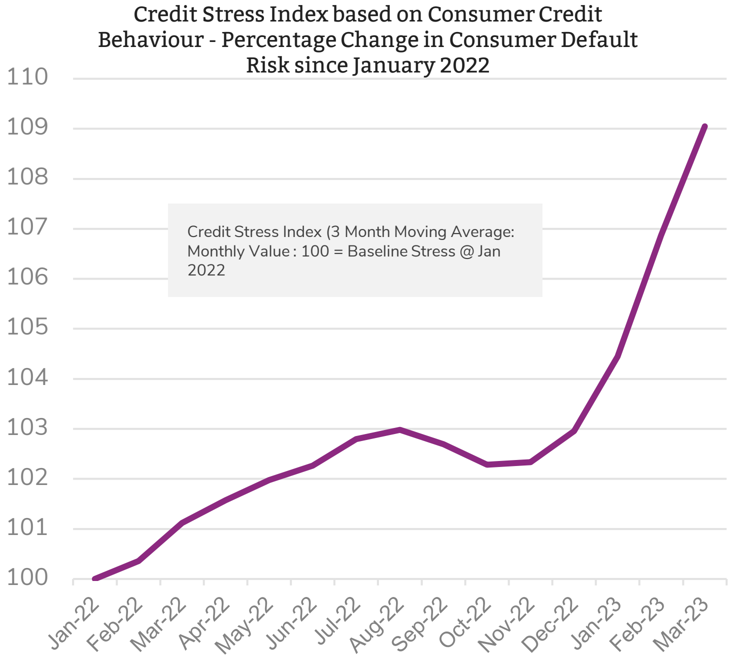
illion

March 2023 Credit Stress Barometer – Showing signs of Rising Credit Stress. Default Risk 8% higher 'year on year' : Continuing to trend higher through 2023



The inaugural illion Credit Stress Barometer for March 2023 is showing clear signs of deteriorating Credit Default Risk amongst Australian Consumers

- The Credit Default Risk of Australian Consumers has risen over 8% in the year to March 2023.
- After a period of relative stability in H1 2022, the default risk has climbed 7% since November 2022 and 4% since January 2023, as compared to only 1% in the 3 months between January and March 2022.
- The current trend suggests that the rise in Credit Stress will not end in the foreseeable future; 1) the rate of deterioration in Q1 2023 is outstripping the deterioration seen over the entire year in 2022; 2) this rising credit risk is showing no sign of moderating.

- Direct causes of this increased Credit Stress include:

  Rising overdue repayments on consumptive credit contracts since Sept 2022

  Rising overdue home loan repayments since January 2023

  Greater credit demand for consumptive credit coinciding with this overdue credit

  Falling deposit balances since September 2022 with no apparent turnaround

  Substantially higher rental obligations since early 2022, which continue to rise

  Stretched budget expenditure on essential categories since October 2021

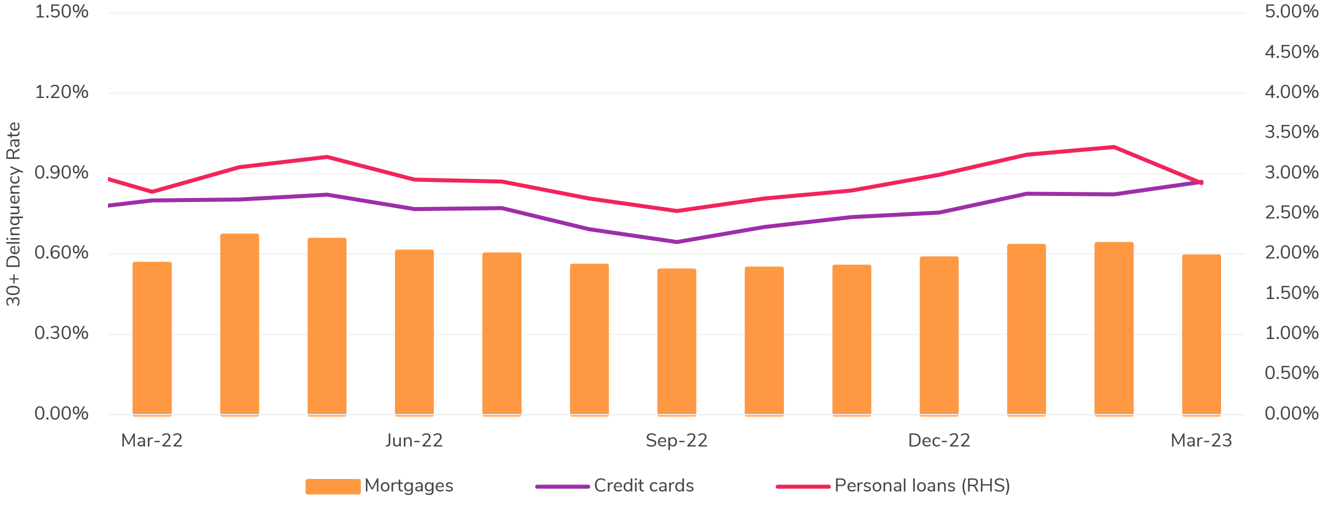
- Credit Stress, being a trailing indicator of financial problems, suggests that financial stress is, at least for the time-being, ingrained in the budgets of vulnerable Australians.

Overdue Credit Obligations and Credit Demand are signals of Credit Stress – Shown by both rising Credit Delinquency and Revolving Credit Applications

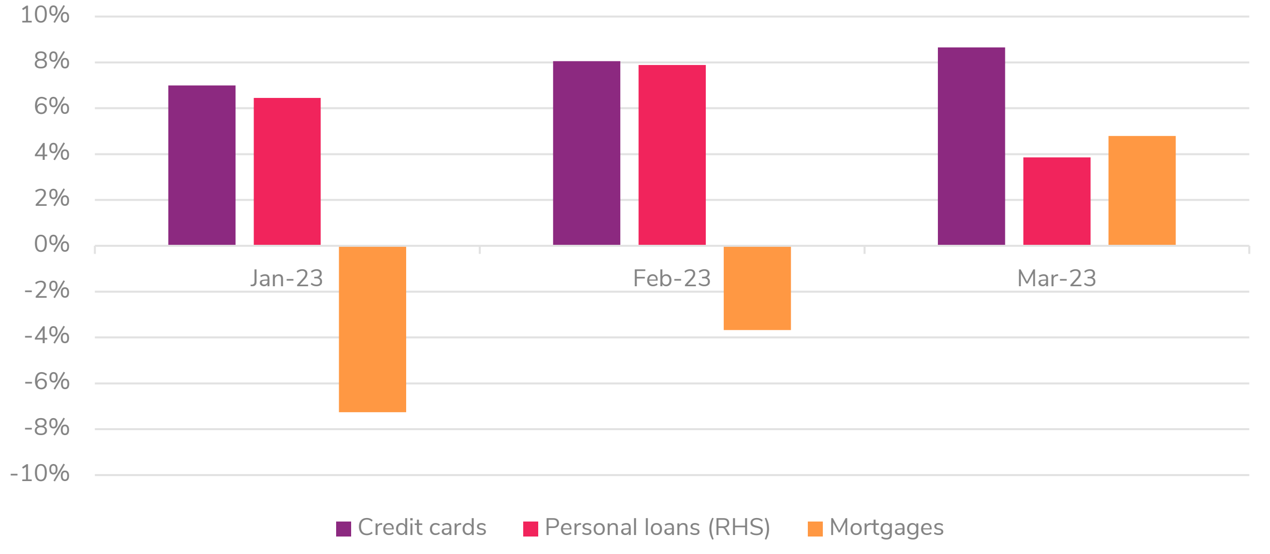
Signs of deteriorating Credit Repayment Behaviour and higher Credit Demand

- Rising Credit Delinquency Rates across consumptive credit products (personal loans and credit cards) – up around 5-10% YOY in Q1 2023.
- Mortgages remained resilient in 2022 but March '23 update suggests HL delinquency rates may now be on the rise (up 5% YOY in March '23 and trending worse YOY over Q1 2023).
- Credit demand has increased significantly YOY to April '23 (14% higher demand for consumer loans and 40% higher demand for revolving credit).
- Credit Default Risk is exacerbated by credit hardship, falling savings and higher base costs coinciding with higher demand for credit, higher delinquency rates on consumptive credit and potentially higher delinquency rates of home loan borrowings.

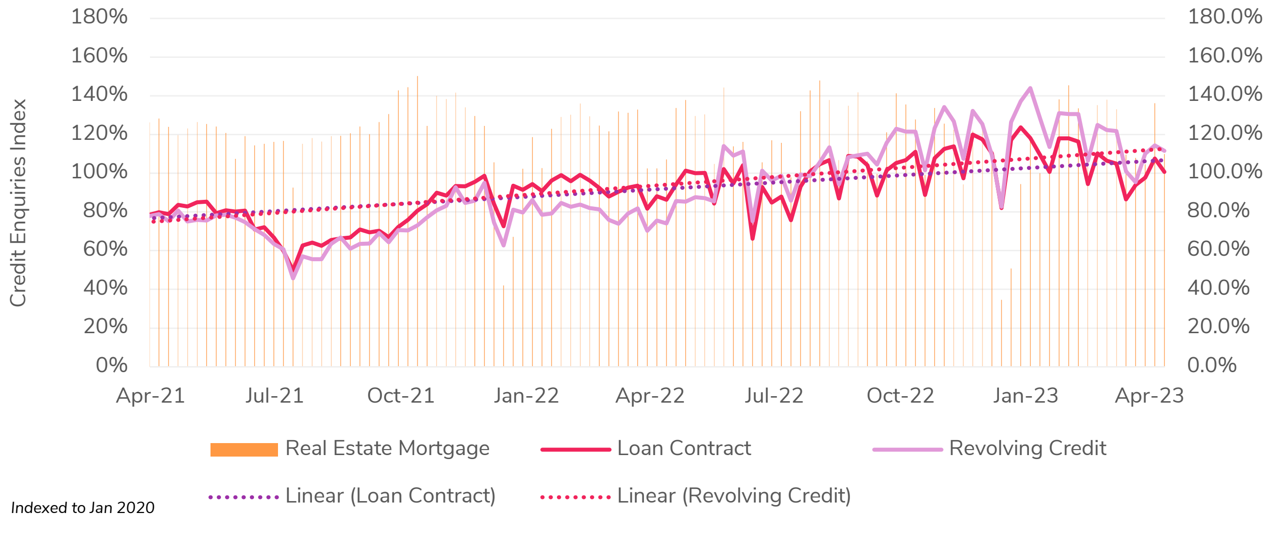
Monthly 30+ Days Delinquency Rates by Credit Product over last 12 Months



Year on Year Change in 30+ DPD Delinquency Rates – Q1 2023 to Q1 2022



Average Monthly Enquires by Credit Product – Index of Monthly Volumes to Jan 2020 Baseline



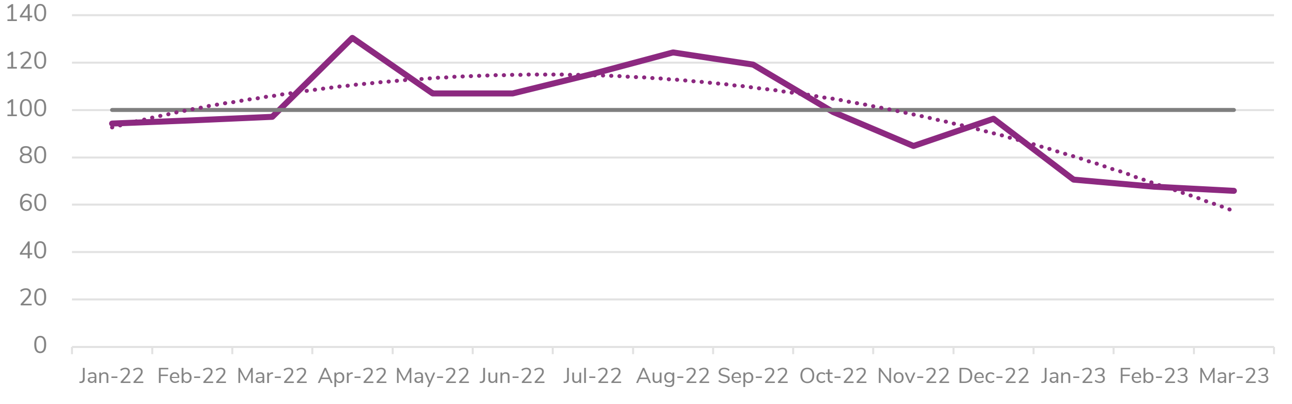
Indexed to Jan 2020

Stretched Household Budgets evident amongst the Financially Vulnerable - Shown by Rising Rental Costs; Taut Grocery Spend; Falling Savings Balances

Credit Stress influenced by falling Deposit Balances and stressed Household Budgets

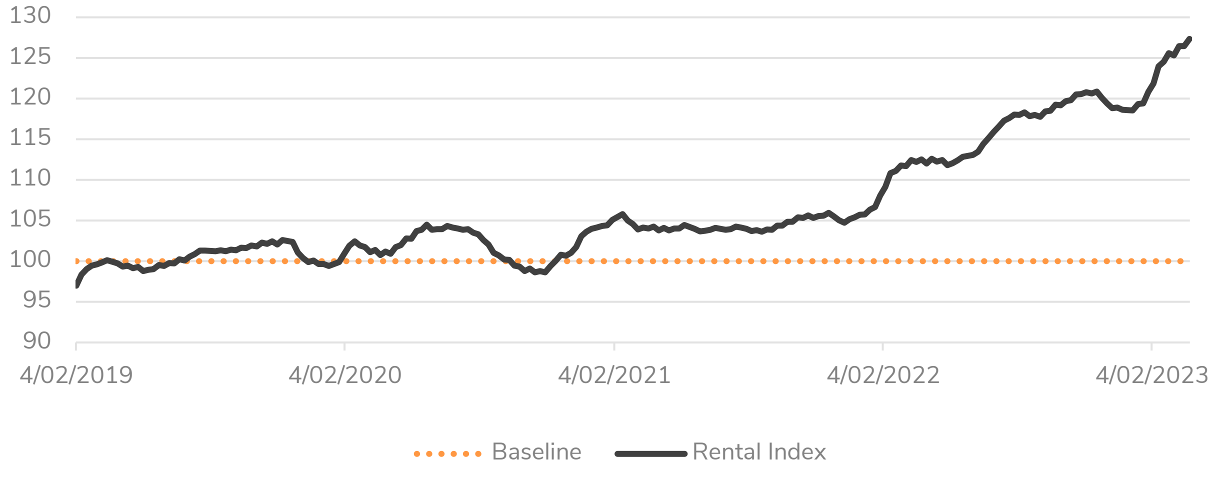
- Current spending trends suggest a move to stressed budgets by the credit vulnerable with essential expenses rising and/or at full-stretch, savings balances declining.
- Savings balances falling substantially since August 2022 after period of stagnation - increasingly affected by cash flow stress with monthly savings balances down over 20% in Q1 '23 YOY.
- This risk is driven by substantially higher rental costs since mid 2022 (with the rental price index up 13% YOY to end Q1 2023 and 20% since January 2022). Rental costs show no sign of abating, rising at the highest rate in recent memory with no indication of a turnaround.
- This risk is also driven by fully stretched expenditure on shopping– with supermarket/grocery spend up around 5% YOY in Q1 2023 and up to 8% since 2021. The financially vulnerable, whose budgets are fully stretched, show little room for additional spending or falls in spending, unlike previous years, which saw a drop post Christmas and post tax year.

Median Monthly Savings Balance:
Index of Monthly Savings ($) to May 2021 Baseline



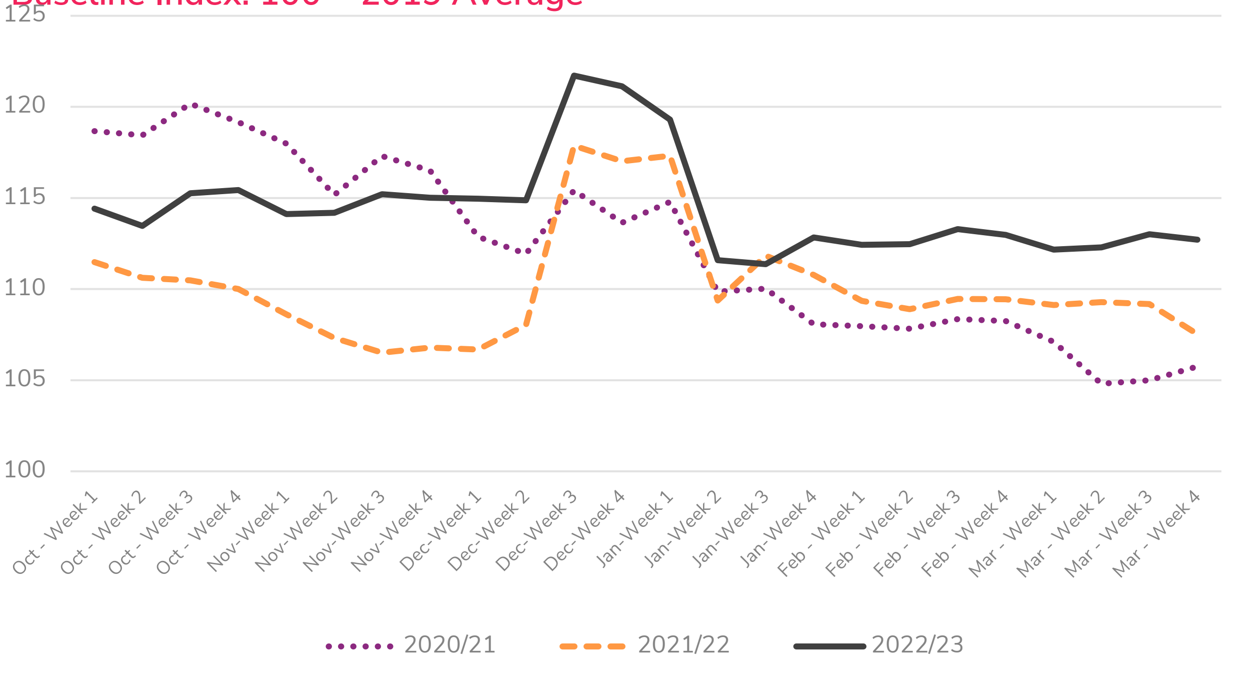
Median Savings Balance indexed to the May-2021 value. Latest data references Mar-2023.

National Rental Payments Index: Baseline Index: 2019 Average



Index of rental payments compared to baseline - 100 represents 2019 average notionally . Latest data references Apr-23.

Index of Supermarket Spend: Baseline Index: 100 = 2019 Average



Index of spend per person compared to a 'normal 'week. : baseline 100 represents 2019 Average. Latest data references Mar-23.

Appendix: Definition of the Credit Stress Barometer

Background Notes: Basis of Credit Stress Barometer

illion's Credit Stress Barometer shows the risk of Australian Consumers defaulting on Consumer Credit contracts in the next 12 months. The barometer is a,

- metric, showing the percentage of consumers at risk of defaulting on their credit agreements
- forward looking prediction of this default risk
- trend-line, showing the changing nature of credit stress, both directionally and in magnitude.

The barometer is created by modelling the risk of credit default from a consumer's

- Current and historical credit performance – ie. trends in credit repayment performance across various types of credit contracts
- Current and historical credit demand – ie. the appetite for credit by considering application volumes and loan take-up; this is across different types of credit, including housing, investment and consumptive credit agreements.
- Financial exposure to different types of credit products – fixed loans, revolving loans, housing finance, car finance, investment loans
- Demand for credit in various industry risk sectors – e.g. the level of credit demand and repayment performance on borrowings from the Prime, Near Prime and Sub Prime lenders segments.

The Credit Stress Barometer is shown as the change in the percentage of consumers at risk of Credit Default, with the percentage calculated relative to a Baseline @ January 2022. This baseline has been chosen to a) remove the early biases/effects from COVID and to b) focus on current economic impacts from broad-based inflation and higher interest rates on borrowings.

In order to smooth monthly fluctuations, these trends are calculated as moving averages over a rolling 3-month period to the month shown in the trend diagram (Slide 2).

Additional insights into savings and expenditure patterns are incorporated in this Credit Stress Barometer pack to show financial trends that are likely to have an impact on the Credit Risk of Australian consumers.

The source data used in the creation of this report was derived from illion's proprietary credit and expenditure databases.

About illion

As one of Australasia's leading consumer and commercial credit bureaus, our unique data, software, analytics and risk management solutions form an integral part of the region's financial ecosystem.

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