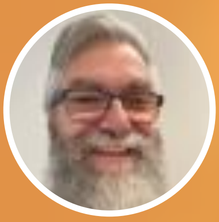
Consumer Stress Barometer



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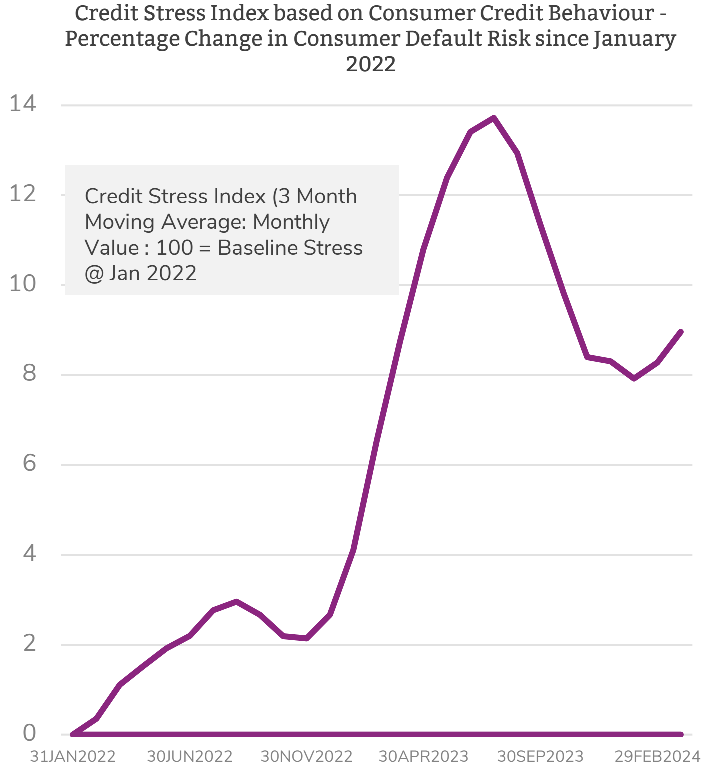
illion

Credit Stress Barometer @ Mar 2024 – After improving in H2 '23 Credit Stress hit a threshold by end 2023 and has deteriorated in Q1 '24.



The illion Credit Stress Barometer for March 2024 indicates that consumer credit stress is on the rise again. After improving over H2 '23, credit default risk has deteriorated to a level last seen in October 2023, with both February and March 2024 showing signs of higher risk. As a long-term trend, it is now 9% higher than at the start of 2022.

While the worsening risk of Victorians with Credit Cards and Home Loans (discussed in our last report) continues to be stubborn, the deterioration in default risk observed in the March quarter has been largely caused by a new stress. Younger Australians (mostly excluded from home ownership) are struggling to 'get ahead' financially, being burdened with higher rents and now also, with high servicing costs on their personal borrowings.

How this stress plays out in 2024 will be contingent on household budgets, which will be largely influenced by movements in interest rates, CPI (especially rents) and Australians' ability to stay employed (if a broad recession occurs from lower consumption). If circumstances cause an even greater shift in this stress, Australia risks having a social divide between young and old Australia.

Specific observations for Q1 2024 are:

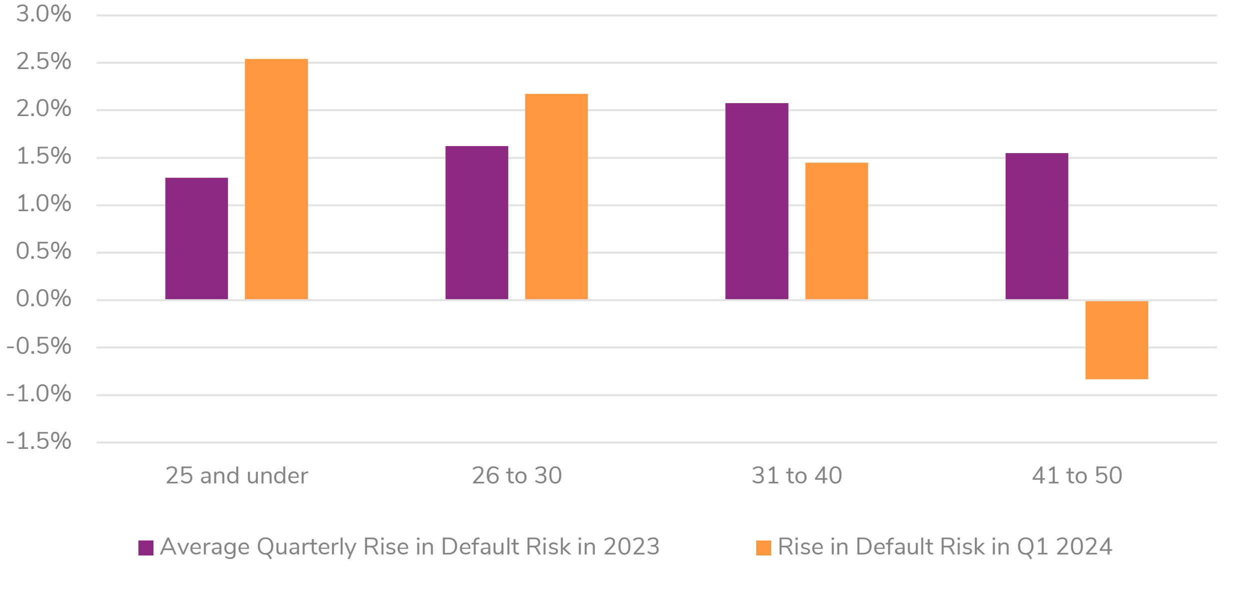
- The Credit Default Risk of Young Australians (under 30) and Australians holding non-mortgage loans (e.g. Personal Loans and Lines of Credit) has risen substantially (both up 2-2.5% in the March quarter). This means that credit stress is spilling over into social groups that are less stable economically – ie. Australians with lower savings, lower incomes, fewer assets and limited employment experience.
- This credit stress coincides with Australians suffering from broader economic woes that are affecting their propensity (and ability) to spend, irrespective of whether that spending is for consumptive or productive purposes. Specific observations in support of this are that,
    - consumer confidence has fallen consistently in the last quarter (ie. trending lower in each month)
    - far fewer new mortgages have been taken out by Australians on lower incomes relative to their debt
    - rents have risen substantially YOY so that renters are now further 'under water' financially

While 2023 saw mortgage holders suffering Credit Stress, 2024 shows that young consumers and those with personal loans in the major Australian states are now suffering Credit Stress.

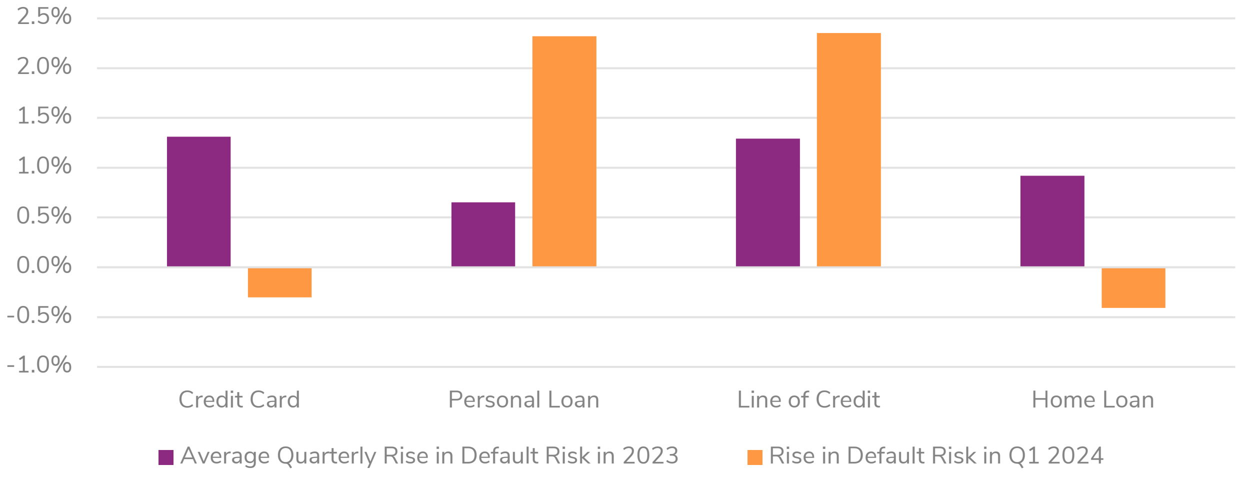
Signs of an economic divide – older Australians are comfortable / younger borrowers are struggling

- While 2023 saw the credit default risk of 30-somethings (and even 40-somethings) rise quite substantially, the picture in 2024 appears to be quite different. The rise in the default risk of 30-somethings slowed by 25% in the March quarter (1.5% rise against an average 2% quarterly rise in 2023), while the default risk of 40-something Australians fell by around 1% in the quarter after rising by an average 1.5% per quarter in 2023.
- Conversely, younger Australians struggled with their credit obligations in the March quarter, with the rise in the default risk of Australians, aged 26-30 accelerating by one-third when compared to the average quarterly rise in 2023 (from 1.5% to 2%). Worse still, the rise for Australians, aged under 26 accelerated by 100% (from 1.25% to 2.5%).
- In addition, Australians holding Personal Loans, or 'Lines of Credit' also found it harder to service their credit obligations in the March quarter. In the case of Personal Loan borrowers, the rise in their default risk accelerated by 300% over the 2023 quarterly average (from 0.6% to 2.4%) and by around 85% for borrowers with a revolving 'Line of Credit' (from 1.3% to 2.4%). As such, consumers with little or no access to mortgage capital, to cheaper mortgage debt or to savings showed worsening signs of credit stress. This change in risk affected prime borrowers equally with near and sub-prime borrowers, meaning that a broad range of renters and young Australians are currently suffering financially.
- The March quarter also saw the default risk of Personal Loan consumers rise across all five major Australian states. Consumers in WA deteriorated the most (4% rise in default risk), followed by those in NSW (3% rise) and then VIC, QLD and SA (all around 2% higher). The smaller states and territories saw a fall in credit risk amongst Personal Loan consumers (although it should be noted that home loan risk appears to be on the rise in Tasmania; suggesting that there are local economic issues affecting Tasmanian consumers).

Change in Credit Default Risk by Age Group



Change in Credit Default Risk by Lending Product held by Consumer



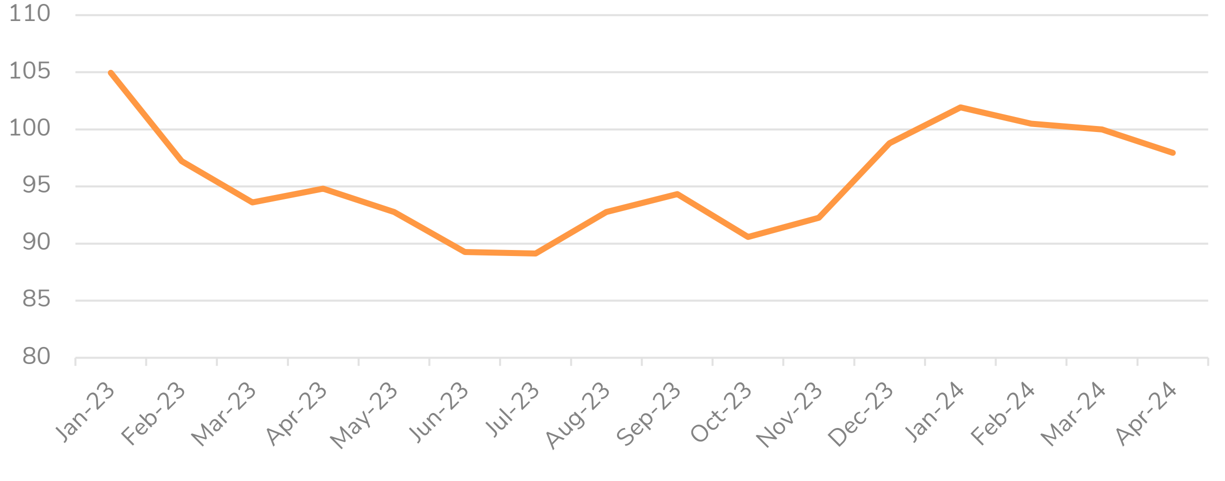
Change in Credit Default Risk of Personal Loan Consumers in Q1 2024

Confidence has taken a hit in the March quarter, with struggling Australians continuing to be burdened by higher rents as their Australian dream becomes more elusive than ever.

Consumer confidence is dwindling as economically challenged Australians are priced out of the property market and are forced to endure rising rents

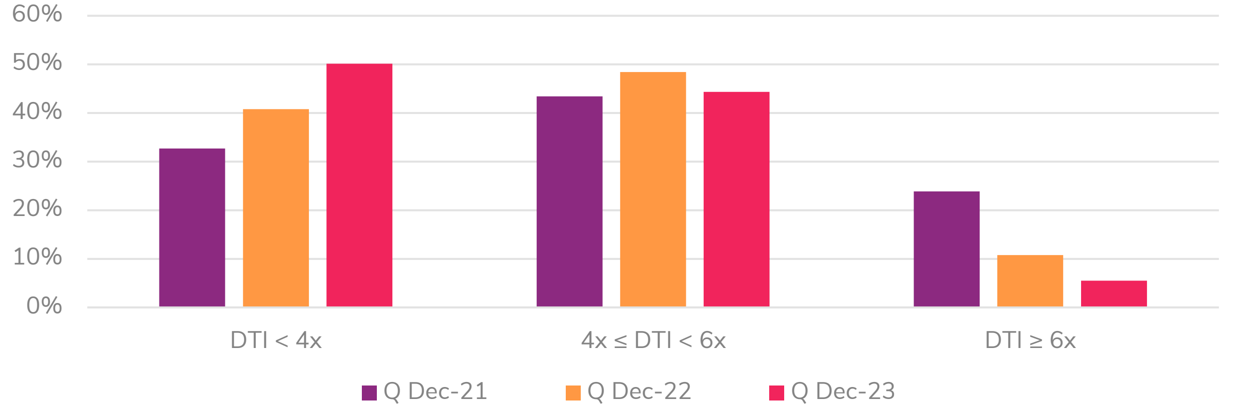
- The March quarter saw Australians' confidence 'take a hit' after a strong turnaround in Q4 '23. While this fall (4%) was not as substantial as the previous quarter's rise, the downward trend was consistent over all three months with no clear sign of a turnaround evident. Therefore, while the March quarter saw a period of heightened credit stress amongst the young and economically challenged, it also saw Australians show lower confidence in their finances. This does not bode well for consumer spending over the foreseeable future and may point to a growing risk of recession in 2024; especially if this economic blow translates into higher levels of unemployment.
- With lower confidence, higher credit stress, dwindling savings and fewer assets, Australians are suffering through even greater increases in rents; rising 12% YOY @ March 2024. As these higher rents continue to erode savings, the young and economically challenged are being priced out of the home ownership market. Specifically, relative to the size of their debt, lower to middle income Australians (i.e. whose debt is more than six-times their income) now make up only 5% of new mortgagors, compared with 24% in late 2021. As such, without any financial relief, these Australians will have an 'up-hill battle', trying to escape the rental trap.
- While we're not suggesting that tighter Debt-to-Income policy is wrong (ultimately, it follows prudent lending practices in risky economic times), the consequences for young and lower to middle income Australians is stark. When their budgets are already stretched, aggressively rising rents are putting these Australians 'deeper under water' financially, with no clear 'light at the end of the tunnel'. With little possibility of owning a home or of accumulating savings, Australia can't rely on the young to support the broader economy in the short term – the risk of recession in 2024 therefore needs to be closely monitored.

Consumer Confidence Index - Baseline : Dec '22



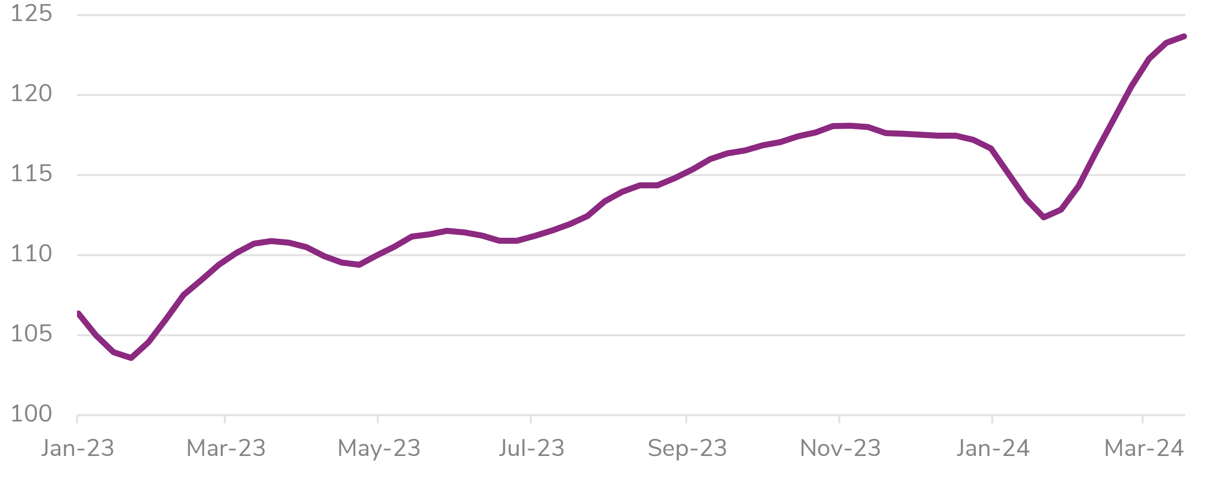
Source: ANZ-Roy Morgan Consumer Confidence Rating includes the five component questions on personal finance, the Australian economy and whether now is a 'good' or 'bad' time to buy.

Percentage of Home Loans written by Lenders (by the Consumer's Debt to Income Ratio) - Comparing Q4 2021/22/23



Source: APRA - Quarterly authorised deposit-taking institution property exposures. Latest data references Dec-23 Quarter. Labels show % of that quarter's funding.

Change in Rental Expense - Index baselined to Dec '22



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 – i.e.. trends in credit repayment performance across various types of credit contracts
- Current and historical credit demand – i.e.. 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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