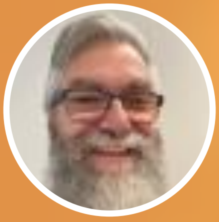
Consumer Stress Barometer



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Australia
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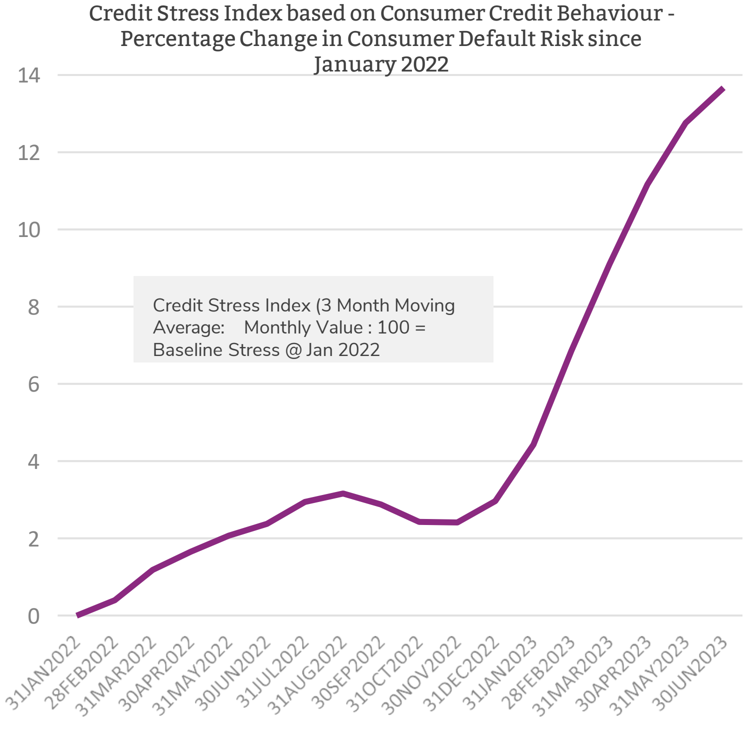
illion

Credit Stress Barometer @ June 2023 – Showing signs of Rising Credit Stress. Default Risk 11% higher 'year on year' : Continuing to trend higher through 2023



The illion Credit Stress Barometer for June 2023 is continuing to show signs of a deteriorating Credit Default Risk amongst Australian Consumers

- The Credit Default Risk of Australian Consumers has risen 11% in the year to June 2023 and, similarly (11%) since November 2022.
- It has climbed 5% in Q2 2023 (since the inaugural barometer in March 2023), as compared to only 1% over the same period last year (Q2 2022).
- The current trend suggests that Credit Stress is continuing to climb with no clear improvement in sight yet; 1) the rate of deterioration in Q2 2023 (5%) is outstripping that seen over 2022 (4%); 2) this deterioration is showing no clear sign yet of moderating, rising at a similar rate to Q1 2023.

- Direct causes of this increased Credit Stress include:

    Substantially higher overdue repayments on revolving and consumptive credit.

    A rising trend in overdue home loan repayments with no sign of moderation.

    Greater demand for consumptive credit

    Falling Rate of Home Loans Opened –lower affordability / capacity to refinance

    Substantially lower Savings Balances and higher Rental obligations

    Stretched Household Budgets affecting Personal Wellbeing

- Stress on consumer wellbeing is being felt through missed credit payments, higher expenditure on essential consumption and lower rates of insurance cover –consumers are taking on higher personal risk to help manage stretched budgets.

Lower Savings, Rising Credit Delinquency, Higher Revolving Credit Demand and Lower Home Loan Fulfilment are signals of Rising Credit Stress

Signs of deteriorating Credit Risk, falling Savings, higher Credit Demand

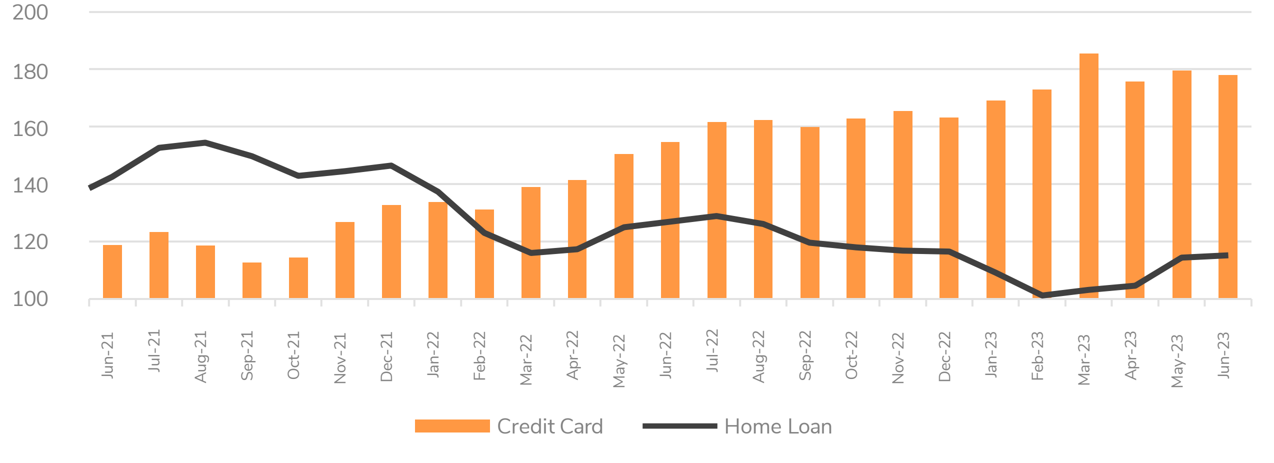
- Credit Delinquency Rates across consumptive credit and productive credit are rising substantially (credit card arrears up 30-40% YOY in Q2 2023 and home loans rising steadily (15% higher @ June 2023)).

- The risk of all types of credit now appear to be deteriorating, although it is possible that revolving credit arrears may have stabilised (albeit, having reached a far higher rate now compared to last year) – Home Loan arrears are however deteriorating further by trend with no sign of stabilisation yet.

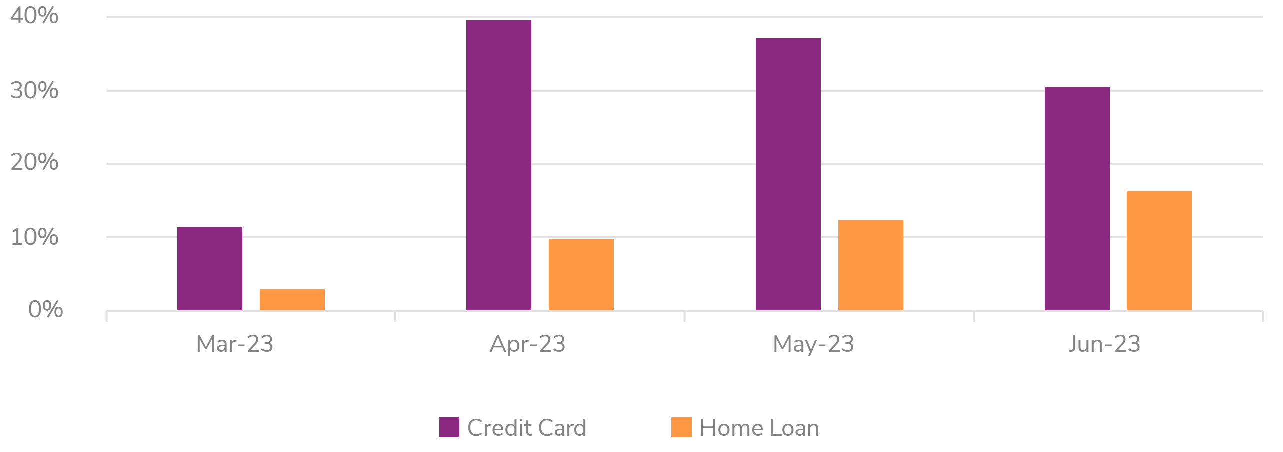
- Monthly demand for Revolving Credit has grown substantially over the last 2 years (new accounts opened are up 80% in June 2023 over January 2021; up 50% on June 2021 and up 15% on June 2022, suggesting a need for flexible credit. The number of new Home Loans opened has fallen substantially in the year to June 2023 -down 10% YOY in June 2023 –suggesting a fall in housing demand, in refinancing options or in home loan approvals from lower affordability has occurred in 2023.

- Savings balances have been depleted, falling YOY by an average 25-30% in most months to June 2023 (excluding months where savings are traditionally low, such as post Xmas). This consistent fall in savings levels suggests that many household budgets are 'hand to mouth', with limited scope currently for generating surplus funds.

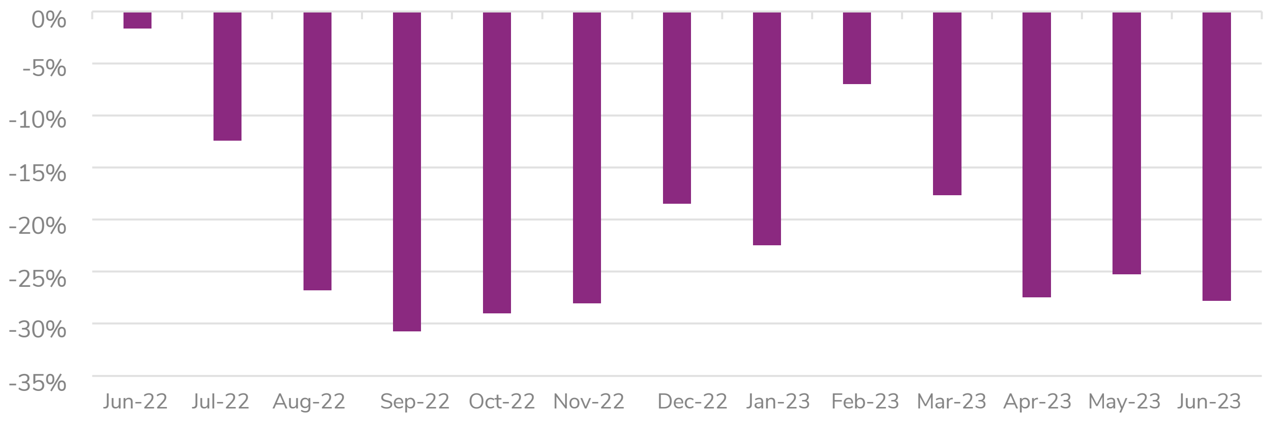
Index of New Accounts Opened - June 2021 to June 2023
Baseline : January 2021



Year on Year Change in 30+ DPD Delinquency Rates - March to June 2023



Year on Year change in Savings Balances - June 2022 to June 2023



Stretched Household Budgets are evident - Rising Rental Costs and Grocery Spend. Higher Personal Risk underwritten by Households through lower Insurance Cover

Consumer Stress is illustrated by rising Housing and Grocery Expenses and Lower Insurance Cover

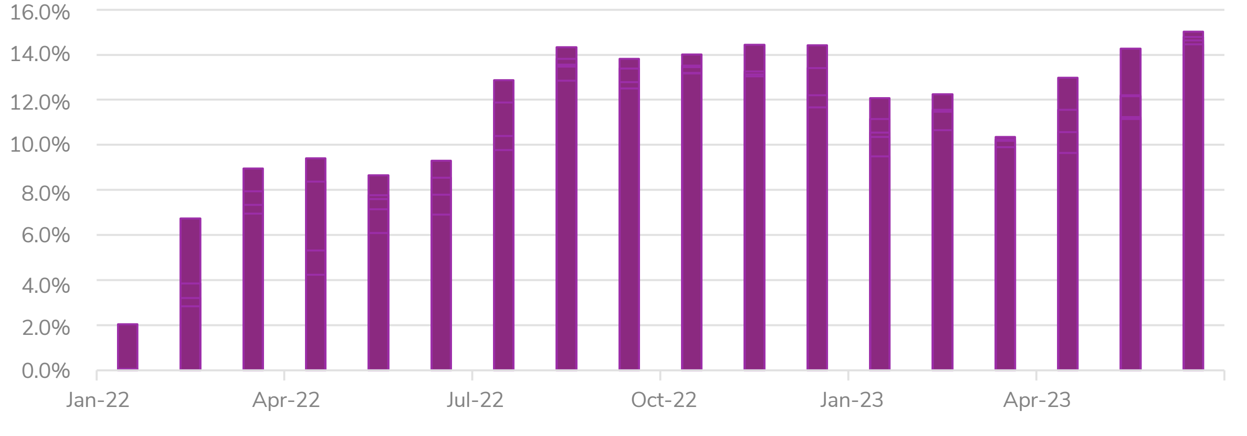
- Current spending suggests that, rather than just affecting people's lifestyle, stressed budgets are affecting their general welfare and livelihood.

- Firstly, we are seeing substantially higher rental costs (up around 14% YOY in each month over FY2022/23, following an 8% rise in H2 of FY2021/22). Household budgets have therefore, had to withstand a 20-25% rise in rent over the last 2 years and while there are minor fluctuations, this cost shows no sign yet of a turnaround or even, of moderating.

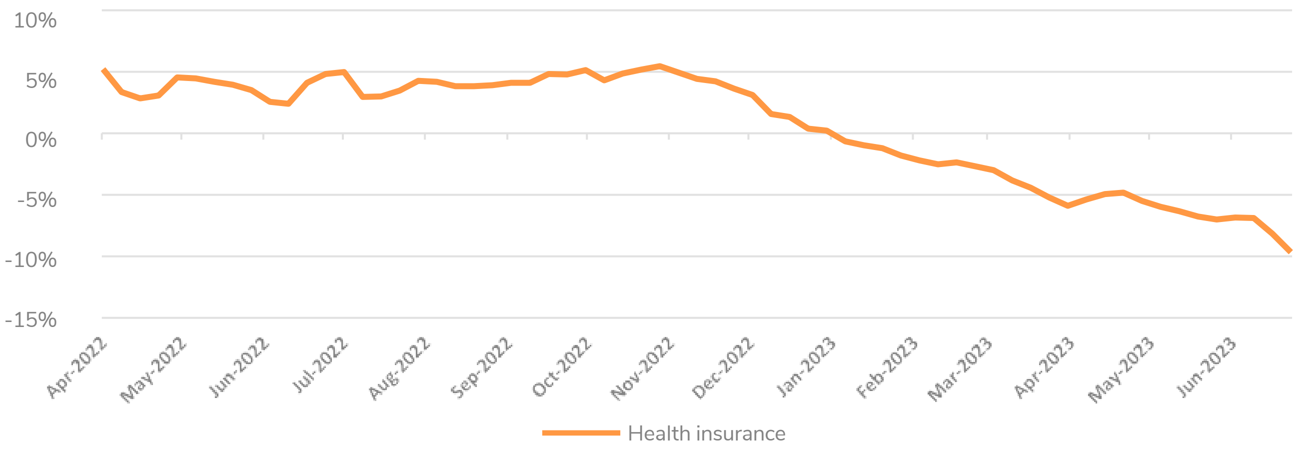
- Secondly, supermarket expenses continue to rise, even with some monthly fluctuations apparent. While consumers may be reducing this expense slightly in some months, as grocery prices are now much higher than 12 months ago, this may be a sign that they are opting for a smaller and lower quality grocery basket. Nonetheless, the average weekly grocery bill is 7% higher in June 2023 than at the same time in 2022 and 10% higher than in 2021.

- Thirdly, a substantial fall in health insurance spend is apparent since October 2022, with this expense now 10% lower in June 2023 YOY. This gradual fall implies that, to reduce costs, Australians are choosing to drop cover, reduce cover or increase the insurance claims excess. Whichever is the case, they are now opting to carry a significant personal risk in the event of failing health.

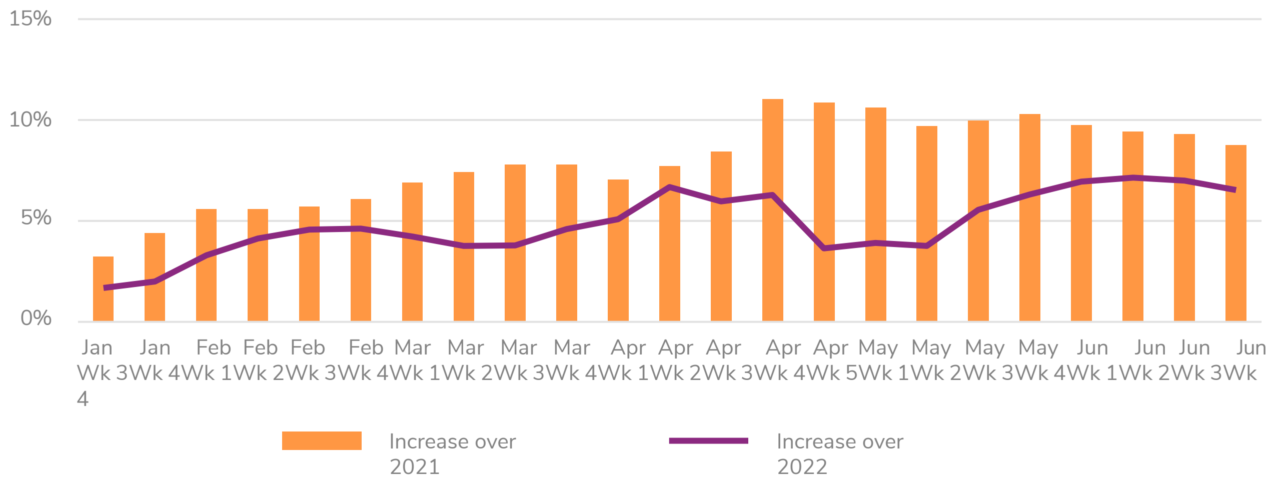
Year on Year Change in Rental Expense - January 2022 to June 2023



Year on Year Change in Health Insurance Spend - April 2022 to June 2023



Year on Year Change in Supermarket Spend (per week, January to June)
Percent Increase in 2023 over 2021/2022



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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