Consumer Stress Barometer

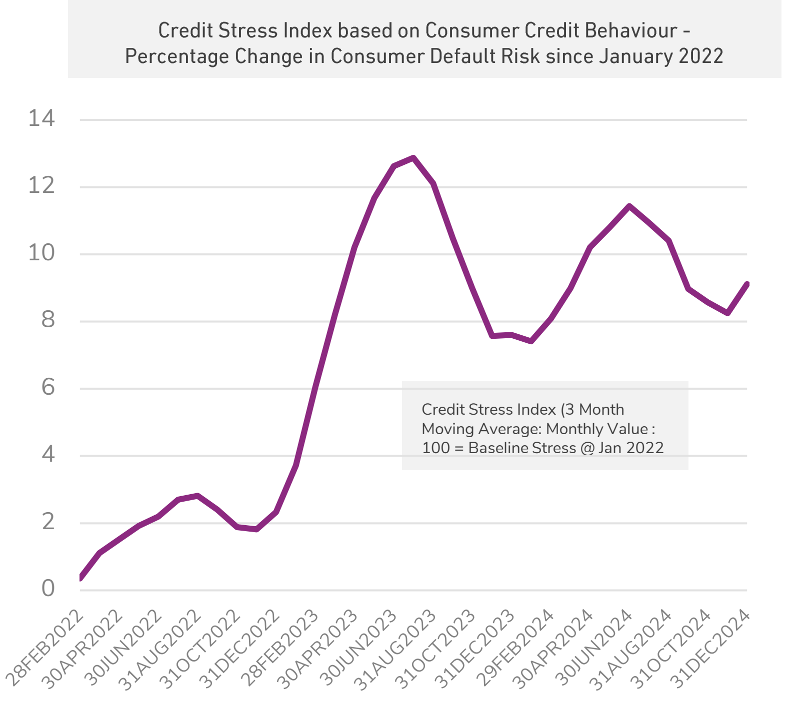
Authored by
Michael Landgraf
Manager, Bureau Analytics

Australia

March 2025

illion
An experian. company

Credit Stress Barometer @ Dec 2024: generally stable trend, but with an earlier kick-up to higher risk than last year; credit risk is 9% higher than in 2022 with a demographic shift now evident.



The illion Credit Stress Barometer for December 2024 indicates that the credit default risk of Australians is generally stable over the annual cycle. The overall trend over the last 24 months is now looking broadly harmonic, with deterioration occurring in H1 and improvement in H2 in both 2023 and 2024.

However, this improvement does appear to have tapered off earlier in 2024, kicking-up before Xmas, suggesting that we may be seeing some slightly higher stress YOY – i.e. the overall risk is 1% higher than 12 months ago. This may mean that higher risk is ‘here to stay’ until lower interest rates can be used to pay down debt - remaining around 8-9% higher than in early 2022. The recent fall in the cash rate may be the catalyst for any improvement.

Looking more closely into the credit stress of Australians, we have observed that Credit Card holder risk has improved over 2024, while Mortgage-holder risk has stabilised. However, by contrast, the credit risk of Personal Loan holders has risen markedly. While this is partly due to their respective economic circumstances, rising interest rates and bank lending policy have also changed the nature of the typical home loan borrower (i.e. in so far as they affect the amount of debt that Mortgage-holders can take on). The result is that today’s home loan consumer needs to be in a better financial position than their counterparts from earlier in the decade. This moderation in Mortgage-holder risk may therefore be an artefact of these external factors rather than from a change in a borrower’s credit behaviour.

That said, we have also observed at least one change to household budgets that would affect Mortgage-holders and Personal Loan holders differently. Throughout 2024, the cost of servicing a home loan has remained quite stable (from stable interest rates and property prices) whereas the cost of renting has continued to rise.

Therefore, we may be seeing signs of a two-tier economy, where credit stress is mainly confined to lower income and lower wealth groups, who are being impacted by rising rents and lower savings, while also being excluded from the home loan sector. While tax-cuts may have helped these consumers, the rise in Personal Loan holder risk suggests that their effect may have worn off, creating further uncertainty for lower income Australians.

Specific observations for the 2024 calendar year are as follows:

- While overall credit stress has risen by 1%, that of Personal Loan consumers has risen by 2.5%. This is partly due to a 5% rise in Personal Loan arrears.
- The default risk of young consumers (under 30) has risen by 3.5% overall and by over 6% for Personal Loan holders. The risk of older Personal Loan holders (over 50) has also deteriorated; rising by near 4%.
- While mortgage rates have remained stable, rents have increased by around 6% on average, with the rents of some lower income Australians rising by near 15%.
- Expenses continue to be heavily amortised (BNPL spending rising by 30%), while consumers are also reducing their insurance cover (taking on greater personal risk).

Credit Stress may be returning to a more typical trend, where Personal Loan holders show the greatest deterioration

After a fairly long period of heightened credit stress amongst Mortgage holders, we may be seeing a return to higher risk amongst young borrowers and Personal Loan holders.

Two opposing themes describe the current state of credit stress in Australia. On one hand, after seeing it rising significantly in 2023, Mortgage holder risk is now beginning to stabilise; having risen by only 0.5% in the last 12 months. However, by contrast, the credit risk of Personal Loan consumers has risen by 5-times that rate (i.e. 2.5%). As such, the improvement in the risk of Personal Loan borrowers (as seen in previous barometer reports) has begun to evaporate.

Home Loan borrowers seem to be adapting to their tougher financial circumstances – possibly because their stretched budgets have been helped by stable interest rates over the last 12 months. Equally, their apparent lower-risk may be due to a combination of today’s higher interest rates (as compared to pre-2022) and tighter credit policy (as covered later in this report).

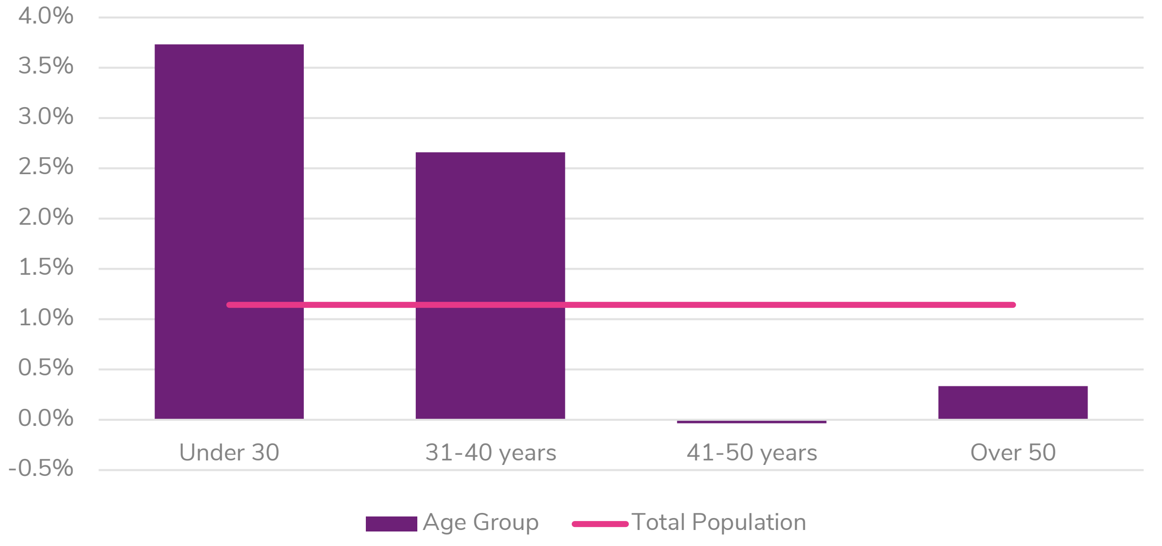
Credit Card holder risk has also improved over 2024 (falling by 1.5%), suggesting that, by being more seasoned users of credit, they have chosen to service (and possibly even pay down) debt rather than over-commit themselves, or alternatively, chosen to use BNPL services instead. For Personal Loan borrowers, who are less likely to be buying a home, the situation has not been as kind, as rents have continued to rise.

Percentage Change in Credit Default Risk over 2024

Similarly, we are also seeing that ‘young Australians’ are struggling to service their loans. As shown in the following graph, the credit default risk of 20-something Australians deteriorated by near 4% in 2024 (4 times the average rate of all credit consumers), while that of 30-somethings deteriorated by 3%. This contrasts significantly with older Australians, whose risk remained broadly stable (no change for 40-somethings and a 0.3% rise for those aged over 50 years).

Credit stress therefore appears to widening between the ‘haves’ and have nots’, worsening most amongst consumers who have limited, or no home equity, limited savings on which to draw, lower income and/or shorter time in the workforce and, who are most likely to be renting and therefore, less able to take advantage of cheaper forms of credit. This is all likely happening, while they are still struggling with rising costs (on top of their already stretched budgets at the start of 2024).

Change in Credit Default Risk over 2024 (by Age Group)



The problem affecting Personal Loan borrowers is depicted in the following graph, which shows that their credit risk deteriorated by substantially more than the national average of 1% in 2024 (irrespective of their age). In particular, the credit risk of mature Personal Loan borrowers, (those aged 30-plus and 40-plus, rose by 2.5%, while that of the over-50's rose by an even greater 3.5%. This compares unfavourably to their mature Credit Card counterparts, whose risk either remained stable or improved significantly.

Not having a Home Loan, nor sufficient savings, equity or collateral (to reduce their borrowing cost) these mature Personal Loan consumers may have instead, resorted to taking out higher priced credit. If so, then while they already had limited financial security (noting from our expenditure data that average household savings fell by 19% in 2024), it is feasible that they have been simultaneously hit by higher housing costs (i.e. from higher rents) and higher borrowing costs (from unsecured personal finance), while also managing a tighter household budget. Worse still, as their cost base is generally independent of falling interest rates (i.e. rental fees and fixed personal loans), their financial situation may deteriorate further through 2025.

Even worse than those problems facing older Australians, younger Personal Loan borrowers appear to be at the greatest risk of default; their stress rising 6.5% in 2024 (or 6.5 times the national average). This adds weight to the argument that having limited funds, limited workforce experience and limited credit history can set borrowers up for credit default.

Change in Credit Default Risk of Personal Loan Borrowers over 2024

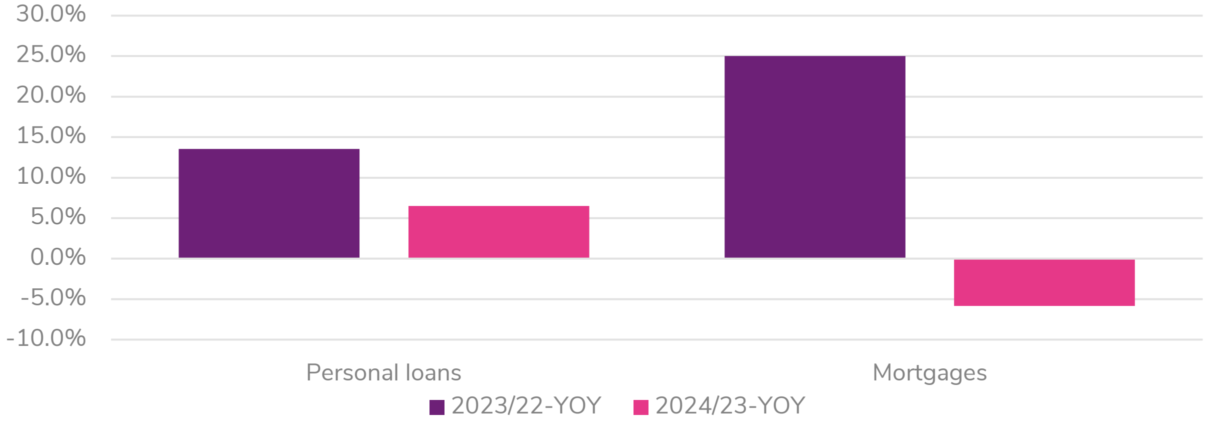
Stable Home Loan Risk has been achieved through tighter Credit Controls and Stable Borrowing Costs. Heightened Personal Loan Risk may now however affect Mainstream Borrowers.

Consumptive Loan Borrowers have been hit by a dependence on renting while being excluded from the Home Loan sector. Their Credit Risk may affect Mainstream Lenders, as well as their own Financial and Personal Wellbeing.

We observed that Personal Loan and Mortgage holder risk was caused by a credit holder's ability to service their primary debts. Therefore, the heightened risk of PL holders was directly linked to their mainstream PL (and not necessarily, to an alternative finance product, such as a SACC or MACC loan, which they may have also held). As such, any lender may be affected by this risk; mainstream or alternative alike.

To illustrate the relationship between the credit holder's risk and the underlying credit product risk, we have shown the following graph. Looking back at 2023, while both PL and HL arrears deteriorated, HLs deteriorated at twice the rate, illustrating the effects of Mortgage stress back then. Panning forward to 2024, HL arrears improved (pulling back 6% against the 25% rise in 2023). However, by contrast, PL arrears rose by over 6% in 2024. While not shown in the graph, this deterioration in Personal Loan arrears was observed amongst tier-1, tier-2 and smaller lenders alike, suggesting that all non-mortgage lenders should closely monitor risk over 2025. That said, Mortgage lenders, may still be carrying additional risk from the progressive rises in interest rates over 2022/23. While there are positive signs, Mortgage stress may still be a problem into 2025, as the improvement has not negated the deterioration of 2023.

Change in 30+ DPD Arrears by Credit Product – Average in Q4 '24 to Q4 '23 ; Q4 '23 to Q4 '22

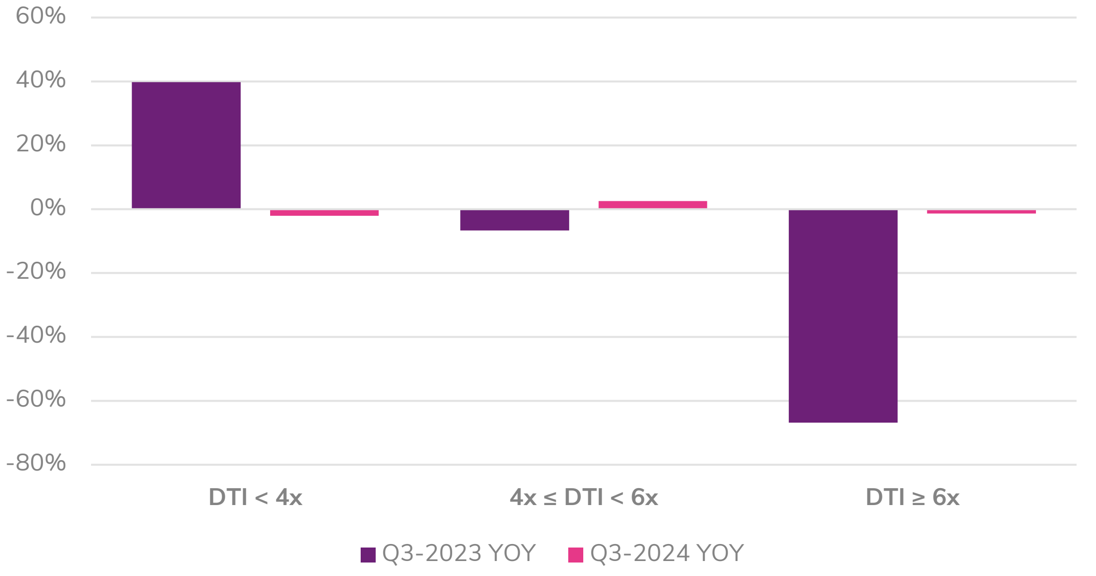


Also, coinciding with this lower mortgage risk, it is evident that many borrowers, who would have been eligible for a home loan in the past, would be refused one today. This is due in part, to today's higher borrowing costs, higher serviceability requirements and tighter lending policies, as compared to 2022. Therefore, while slightly better borrowing conditions may have helped to reduce this risk, many lower wealth consumers may have simply been excluded from taking on mortgage debt.

The following graph shows this change in credit affordability. For example, as compared to 2 years ago, the amount lent to borrowers, whose debt is less than 4-times their income, has grown 40%, while the amount lent to borrowers, whose debt exceeds 6-times their income, has fallen by 67%. While there hasn't been a shift between 2023 and 2024, the graphs suggest that the effects of higher interest rates and tighter policy continue to affect borrowers today.

As a result, people who were once eligible for a HL, may have been pushed into the rental market (where costs have continued to rise, even as interest rates have stabilised) and into more costly finance products. Both scenarios mean that mortgage-holder risk may not fully describe the financial strain on Australian households, and that non-mortgage holder risk may instead, be a better indicator.

Change in Amount Funded for New Home Loans – by the Debt-to-Income Ratio of Borrowers (Q3 ‘22 to ‘23 ; Q3 ‘23 to ‘24)

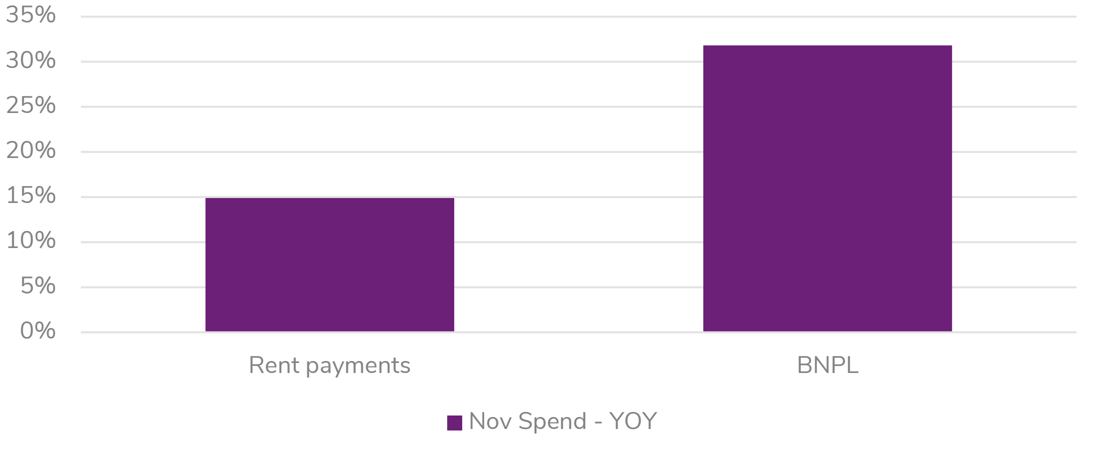


From our previous point, we contend that certain consumer groups have been pushed into the rental market and that they have therefore, had to weather higher costs in 2024 that their HL counterparts have avoided. To illustrate the magnitude of the financial problems afflicting non-mortgage borrowers, we have analysed the increase in the amount of money that households spend on rent and on general expenses.

While rents have slowly begun to stabilise, we note from ABS[1] figures, that they have still risen, on average, by around 6% in 2024. Furthermore, analysing illion’s household expenditure data, it appears that the rents of lower-wealth groups have risen by around 15%, YOY to November 2024. While this rise will have applied to less expensive housing, it has affected lower income households.

Although direct spending with retailers has fallen, we have also seen people’s use of BNPL services continuing to rise substantially - by 32% in 2024. As such, while household costs continue to rise, so does people’s use of payment terms to amortise expenses (with no sign of this expenditure falling any time soon). It is therefore possible that credit cards are becoming the consumptive product for wealthier people or instead, that they are being used more sparingly (hence their falling risk), while BNPL is being used more widely as a payment vehicle (especially by struggling households).

Change in Rental Expense and BNPL Spend of Australian Consumers – (Nov 2024 Year-on-Year)



[1] Source: Australian Bureau of Statistics, Monthly Consumer Price Index Indicator November 2024

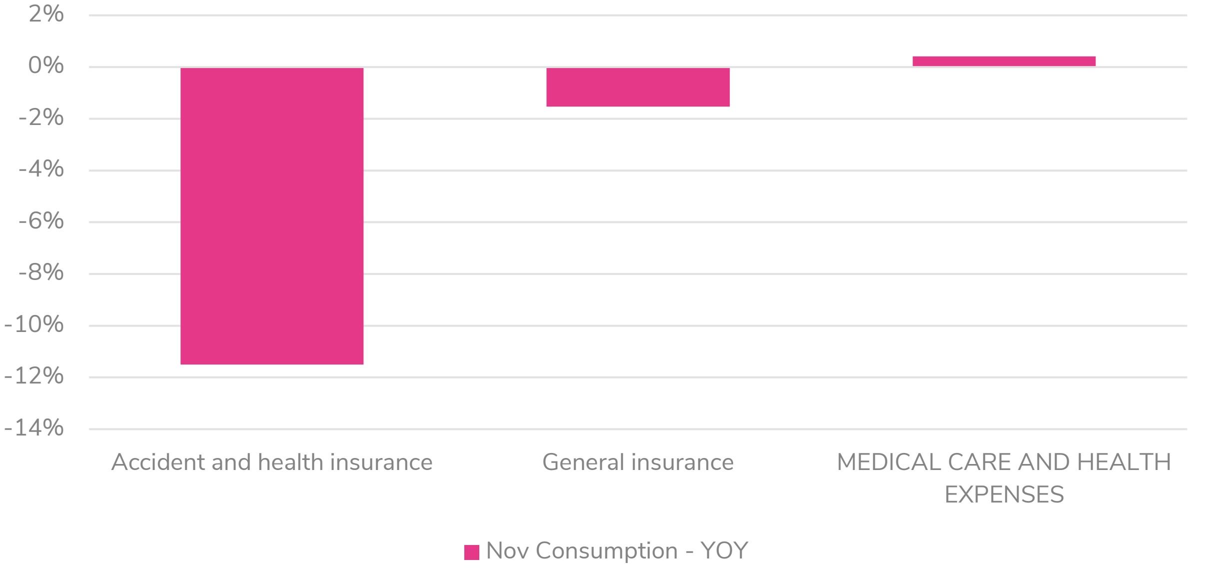
Furthermore, the fragility of Australians' personal finances is also shown by the level of personal risk they are continuing to take with their health and welfare. For instance, we know from ABS[1] statistics, that the inflation rate on insurance service was 11% in 2024 and on medical services, 4% – this is on top of the 16% rise in insurance costs and 6% rise in medical costs in 2023. Given the large increase in these costs, we have found that, while both medical and insurance spending has risen over the last year, converting this to 'real' spend by factoring in the inflation rate, consumption of these services has either 'flat-lined' or fallen (and in some cases, by a quite substantial amount).

As depicted below, 'real' spending on health insurance has fallen significantly over the last 12 months (down 11%) and on general insurance (largely on house, contents and automotive) has fallen moderately (by 2%). Therefore, it appears that Australians are continuing to make significant changes to their consumption of certain services, sacrificing health insurance by either reducing their cover (to say, hospital cover only), increasing the excess they are willing to pay or just dropping private health cover altogether. While not so high, the level of 'real' general insurance spending is likely to be falling, as consumers take on higher excesses or reduce their total cover (or sum assured from loss) in the hope that they either defer the cost or avoid it altogether.

The picture being painted, especially as regards struggling households, is that rising costs are forcing them to make significant decisions that could affect their livelihood, especially if their health becomes compromised or if they suffer major damage to their personal property. By reducing their financial burden today, they risk suffering a major loss in the future (an even larger problem if they are heavily cost constrained).

Looking at the actual health costs of consumers, we haven't seen a significant rise in medical expenses (beyond inflationary factors). This either suggests that medical services consumption is quite inelastic (i.e. it remains in high demand and isn't highly influenced by finances) or that people are choosing to avoid the additional medical cost from lower insurance cover by reducing their use of services (e.g. dentistry, physio, hospital). We will monitor the change in medical expenses over 2025 to assess the impact of lower insurance cover.

Change in Real Spending (Consumption) on Insurance and Medical Services– (Nov 2024 Year-on-Year)



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

illion, an Experian company, is a leading provider of data and analytics products and services in Australia and New Zealand. illion is now owned by Experian, one of the world's leading global data and technology companies.

About Experian

Experian is a global data and technology company, powering opportunities for people and businesses around the world. We help to redefine lending practices, uncover and prevent fraud, simplify healthcare, deliver digital marketing solutions, and gain deeper insights into the automotive market, all using our unique combination of data, analytics and software. We also assist millions of people to realise their financial goals and help them to save time and money. We operate across a range of markets, from financial services to healthcare, automotive, agribusiness, insurance, and many more industry segments.

www.illion.com.au **www.experian.com.au**

illion
An experian. company

Empowering Intelligent Decision Making