Nga Maramatanga

Insights to Week 32 2023

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Economic Stats Overview

GDP

Quarterly
Q1 2023

Annual
Q1 2023

-0.1%   2.9%

Next update
21 Sept 23

Official Cash Rate

As at August 2023

5.5%

Next review
4 October 23

Consumer Price Index

As at June 2023

6.0% Annual change

Down from 6.7% as at Q1 23
Next update 17 October 23

Consumer Confidence

As at July 2023

83.7 July 23

85.5 June 23

Unemployment

As at Q2 2023

3.6%

Up from 3.4% at at Q1 23
Next update 1 November 23

Business Confidence

As at July 2023

-13.0 July 23

-18.0 June 23

Source: StatsNZ, RBNZ, ANZ-Roy Morgan Consumer Confidence Survey, ANZ Business Outlook survey

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Commentary

- **Consumer confidence dipped in July 2023 to 83.7** (from 85.5 in June 2023). Retailers may feel the impact of the sharp fall in consumers who believe it's good time to buy a major household item (from -27% to -39%). However, the proportion of consumers who expect to be better off in 12 months time remains unchanged at 11%. [#1]

- The **August 16 Monetary Policy Committee agreed to hold the OCR at 5.5%**; this is reflective of the Committee's view that the rate is constraining inflationary pressures appropriately. There is mixed view as to whether this will prove successful or if a further OCR increase is likely before the end of the year.

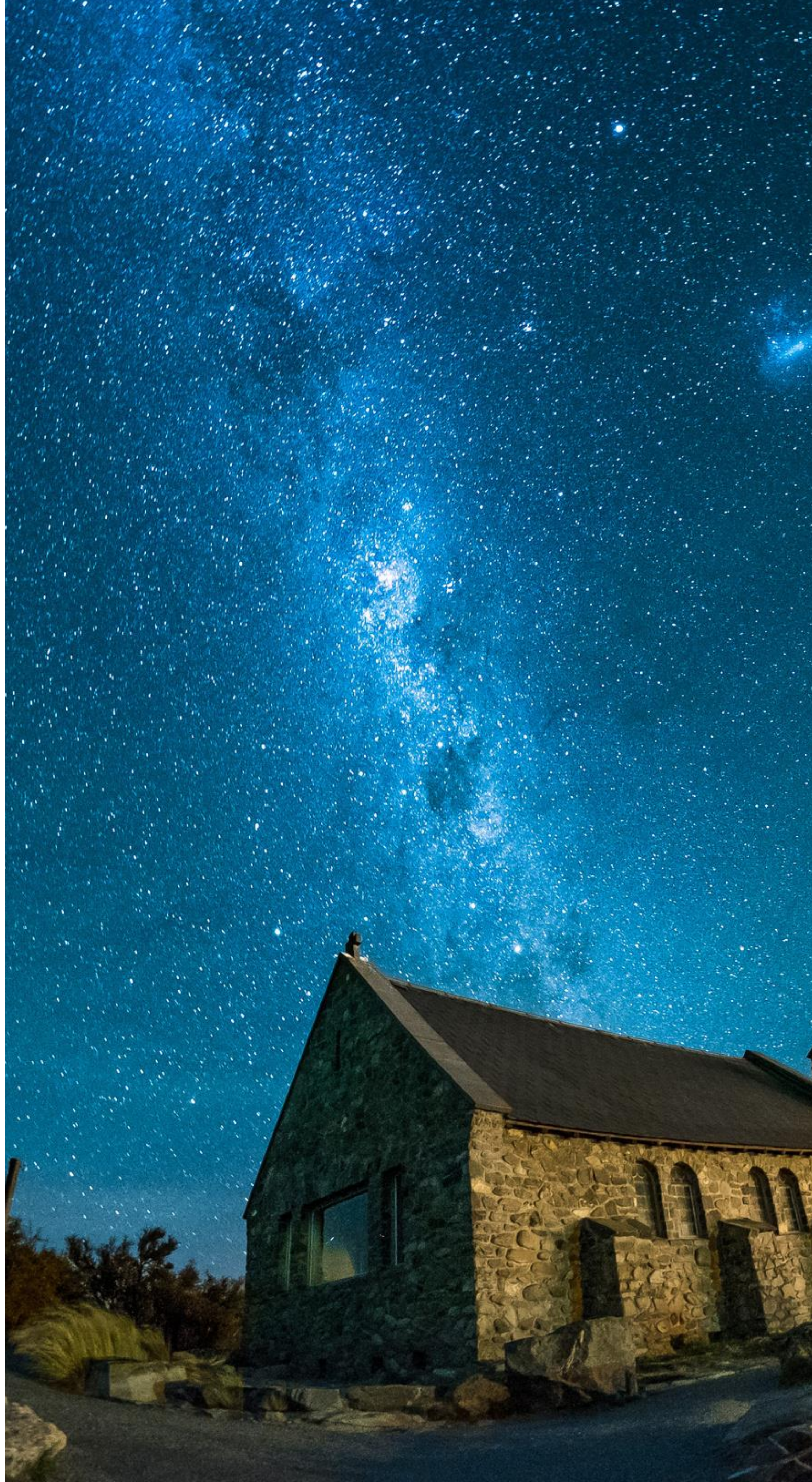
- While the NZ Government initially proposed a full affordability assessment on Buy Now, Pay Later (BNPL) applications above $600, the draft regulations propose modifying the affordability assessment requirements for BNPL lenders. Applications under $600 will be exempt but will need to obtain a credit check for new customers..

- There was a **5 point gain in business confidence in July to -13**,[#2] the highest since September 2021. While inflation indicators reduced slightly lower, cost expectations lifted. Also, the proportion of firms expecting to raise wages increased.

- For the second quarter in a row, the number of **new homes consented** in Q2 2023 was down 20% (to 9,888) vs Q2 2022. This reduction is across both multi-unit houses and stand-alone homes.[#3] While the numbers of consents remains strong, the slowdown is easing pressure on the construction materials supply chain. However, operating costs remain a concern together with reducing house prices.

- The **agri sector is struggling with reduced milk prices combined with higher costs and regulations putting profitability pressure on farmers**. As China has expanded its dairy herd (which is now in excess of 6.4m cows), and with a stockpile of milk powder, there is an expected negative impact to the NZ economy of $1.4bn.

#1 ANZ-Roy Morgan Consumer Confidence Survey
#2 ANZ Business Outlook survey
#3 Stats NZ



Consumer Credit Commentary

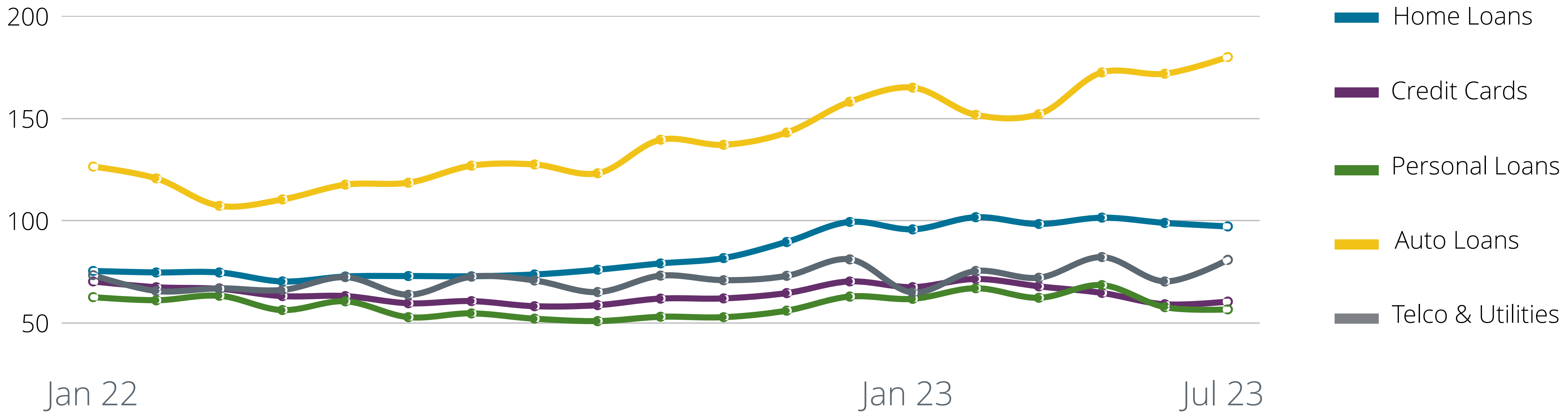
- With strength building across most consumer products, **average weekly consumer demand for 2023 to-date is now slightly above 2022 levels at +0.6%**. There are also improvements in average consumer application score across this period; however, this is likely - in part - to have been influenced by changes since revised CCCFA legislation was introduced on 1 December 2021.

- Consistent with global trends, **the number of missed payments on auto loan accounts continues to increase and is circa 120% of pre-pandemic volumes**. However, the **number of home loan accounts in arrears (by 1+ days) has reduced month-over-month for both June and July 2023** by -2.9% and -1.8%, respectively. The **+2.3% uplift in overall credit card arrears for July 2023** (vs June 2023) is influenced by a +3.8% increase in early arrears (1-29 days past due). See chart below.

- **Credit card accounts in hardship have nudged slightly above pre-pandemic volumes**, with mixed influences by credit card providers. There are also **continuing signs of elevated stress for home loan accounts, which have experienced month-over-month increases in volumes since February 2023.**

Consumer Accounts in Arrears by 1 or more days

Indexed to Jan 20



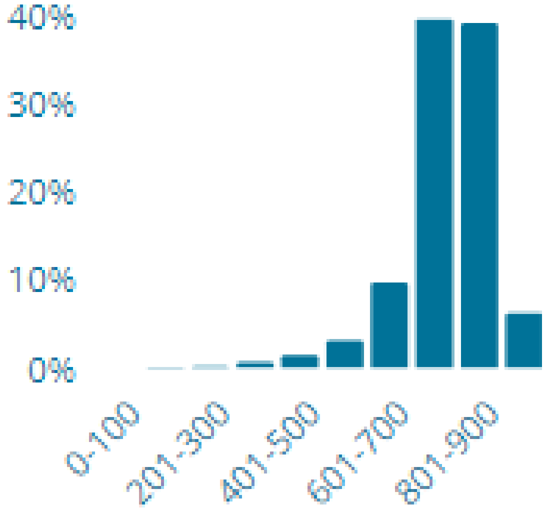
Consumer Credit Enquiry Score Observations

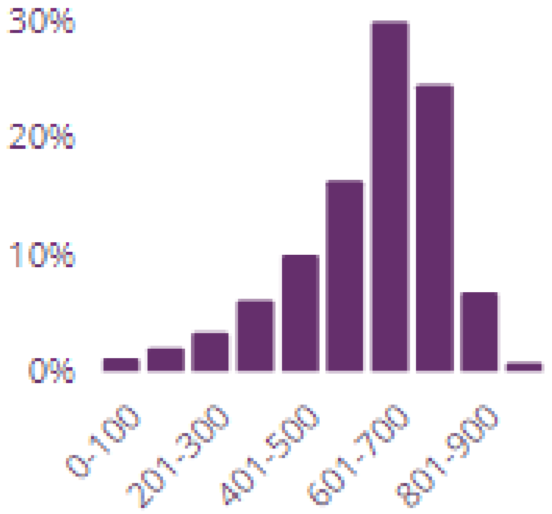
2023 to-date

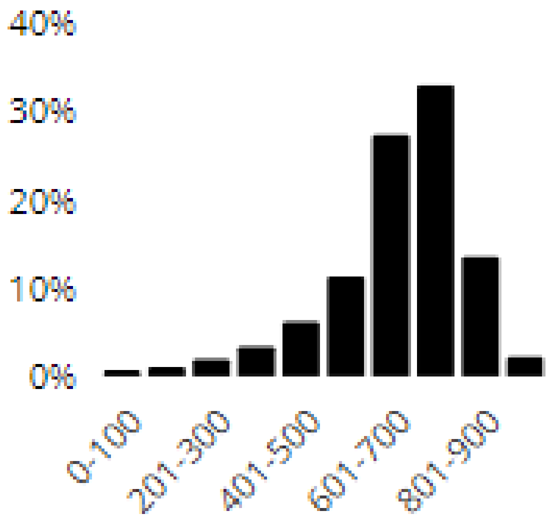
Average Annual Score

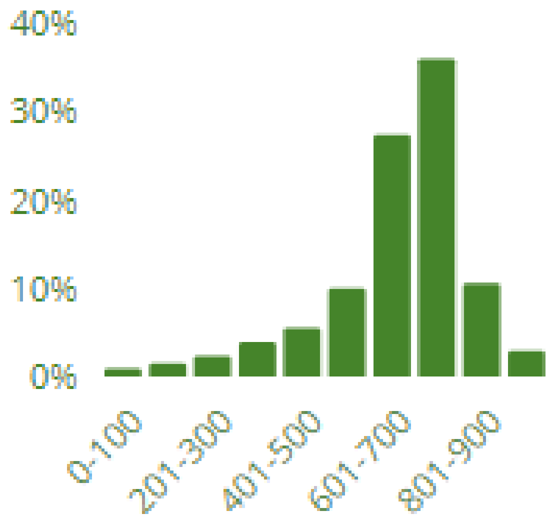
Home Loans	Personal Loans	Credit Cards	Telco & Utilities	Auto Loans
788	624	717	654	613
Up from **778** in 2022	Up from **611** in 2022	Up from **691** in 2022	Up from **646** in 2022	Up from **604** in 2022

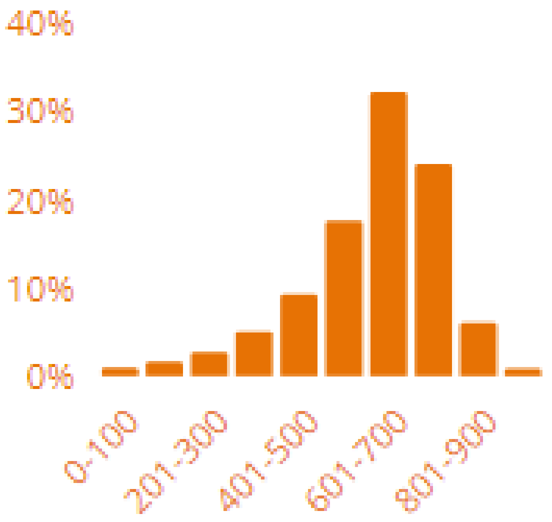
Equifax Apply Enquiry Score Distribution, 2023 to-date











A **enquiry score** measures the creditworthiness of Kiwis who have applied for credit

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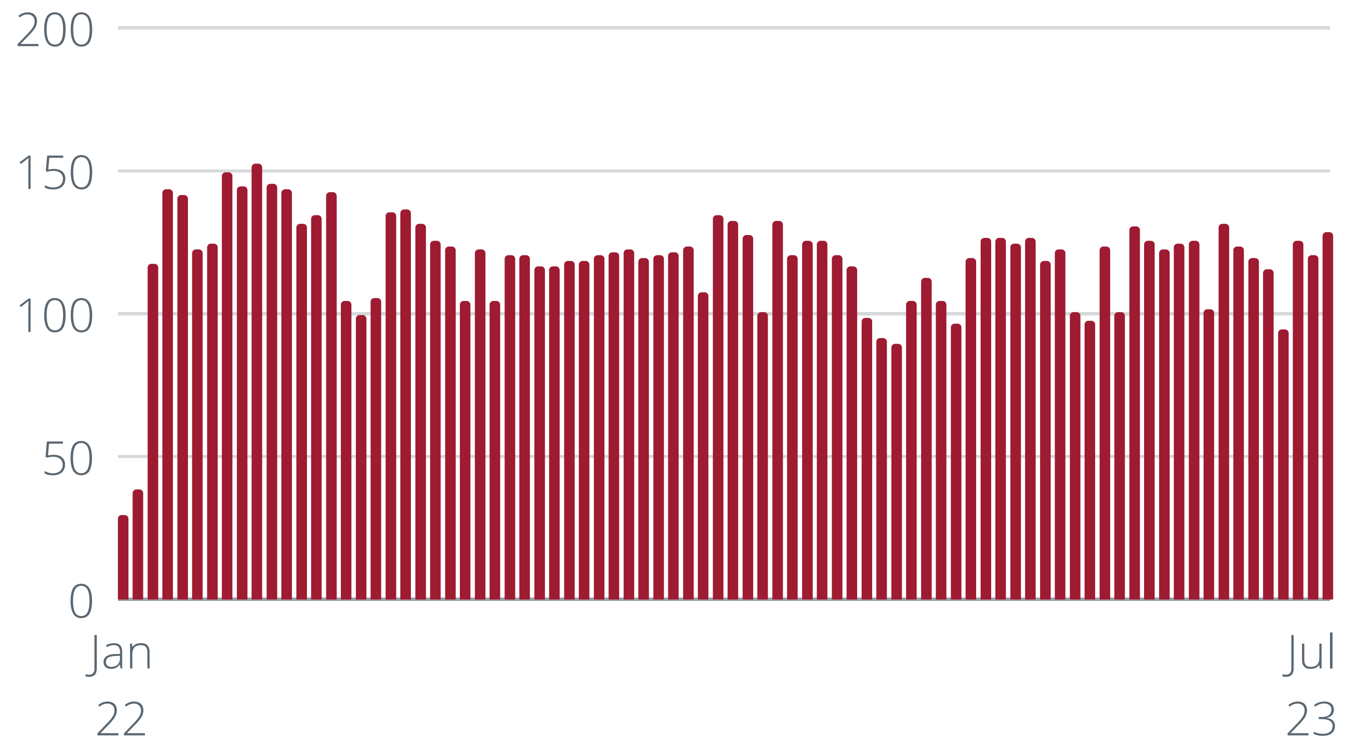
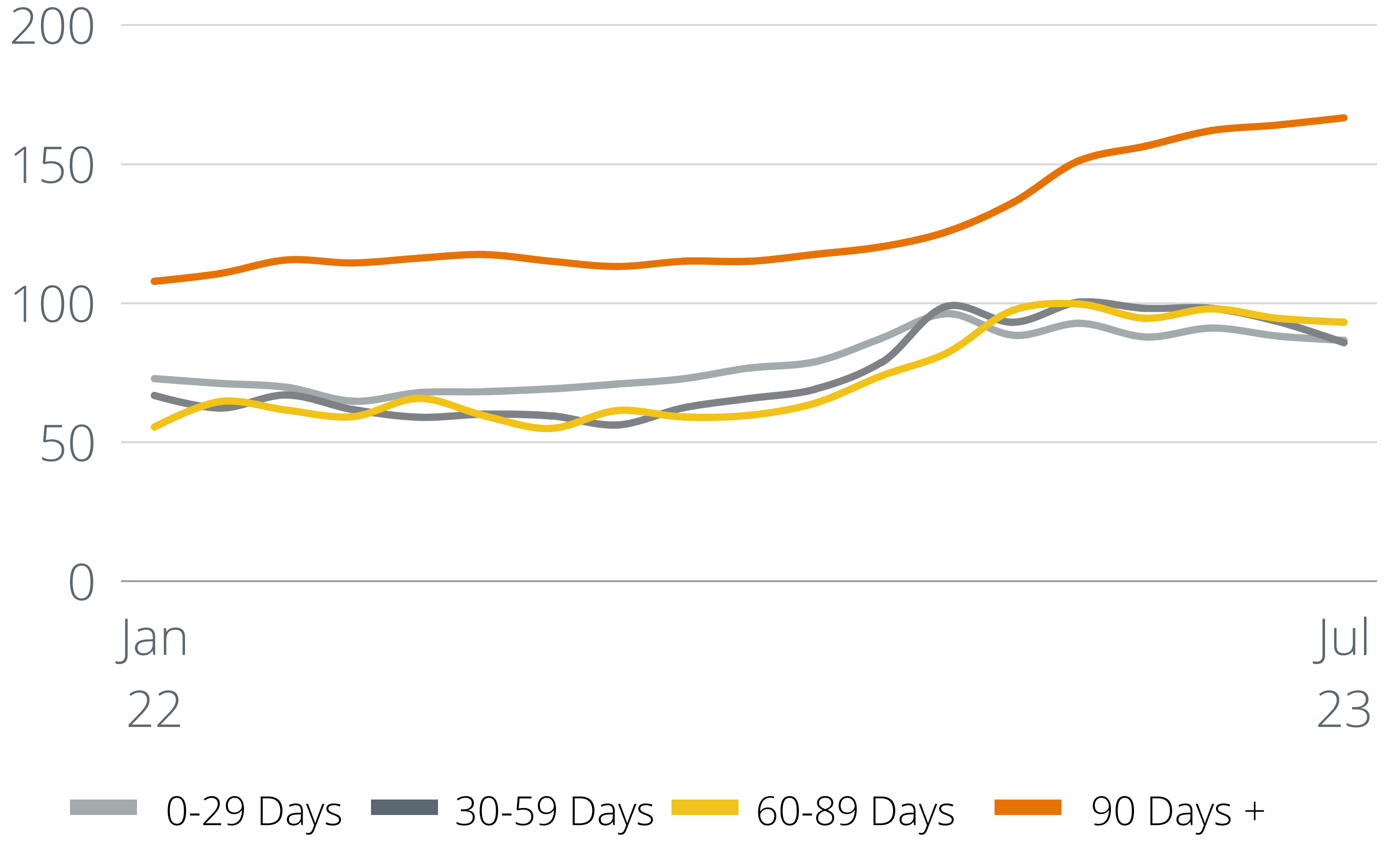
Home Loans

Enquiries
Weekly, indexed to Jan 20



- The average number of weekly enquiries for 2023 to-date is currently -10% below 2022 volumes, and -14.8% below pre-pandemic volumes (for 2019).

Home Loan Account Health
'Days Past Due' bands, indexed to Jan 20



- Month-over-month for Jul 2023, there was a -1.8% reduction in overall home loan arrears vs June 2023 volumes; this drop was influenced by reductions across early to mid-arrears bands experienced across the majority of DPD bands. There continues to be mixed arrears performance by home loan provider.

- Year-on-year, the number of home loan accounts with missed payments is +33.4% above June 2022 levels, and +33.7 above June 2023 levels.

Housing Insights

Powered by Valocity

- House values continued to soften nationally, down by $18k from April 2023. Weaknesses continued across the market, with little signs of a market rebound occurring. 13 of the 16 regions continued to see values decline in the past quarter; the rate of decline was -1.9%, similar to the -2.0% in the previous quarter, but down from -3.4% at the end of 2022. These declines are suggesting a pent up demand from buyers when conditions improve in their favour.
- Mortgage rates remained at decades high levels, constraining the impact of the loosening of LVR and CCFA regulations to only a minor lift in mortgage registration volumes.
- Sales volume in May/June/July 2023 fell by 2,200 compared to the same three months in 2022. Median sales prices also fell below $800k, a level last seen in 2021. Sales volumes are at historically low levels compared with the same quarter a year ago and even the immediate post-GFC period. This figure would be lower still if considered as a percentage of housing stock.
- More news of companies within the construction sector filing for liquidation as many struggled with reduced margins. Other developers are reportedly missing sales targets. 'Off the plan' pre sales are critical to future housing market supply, as developers cannot commence large scale projects without them.

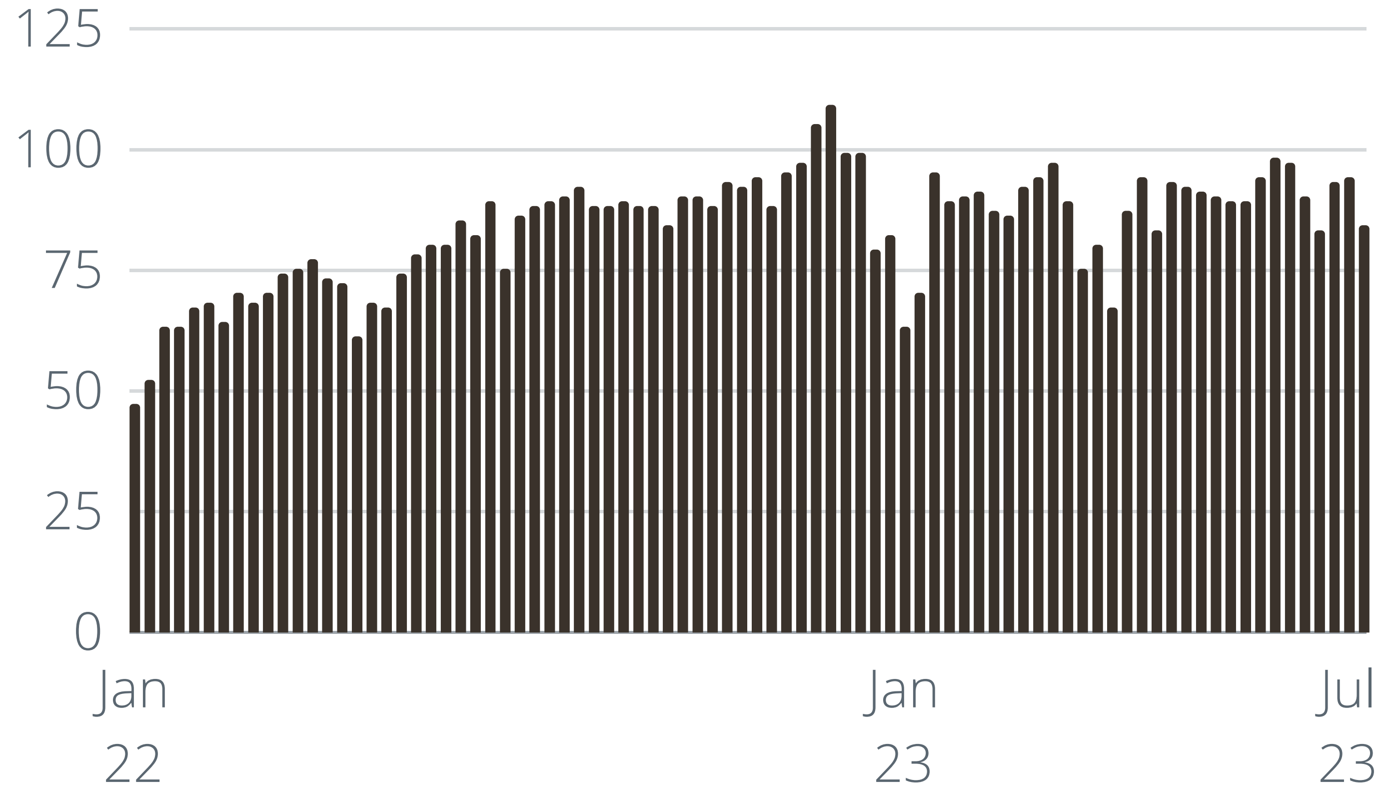
Things to watch

- New home pipeline will be slower; developers are now completing homes that commenced over 12 months ago. Many developers were reluctant to break ground on complex new projects in 2022 due to market uncertainties. Newly completed homes arriving on the market are likely to fall.
- Net migration returned to the 2010s high. However, most arrivals are on temporary visas and cannot buy. Therefore, the high net migration is likely to lift rental demand instead of purchasing demand.
- General Election in October, investors are taking a "wait-and-see" approach, particularly with interest rates at their current levels and other costs such as insurance seeing recent steep increases.

Credit Cards

Enquiries

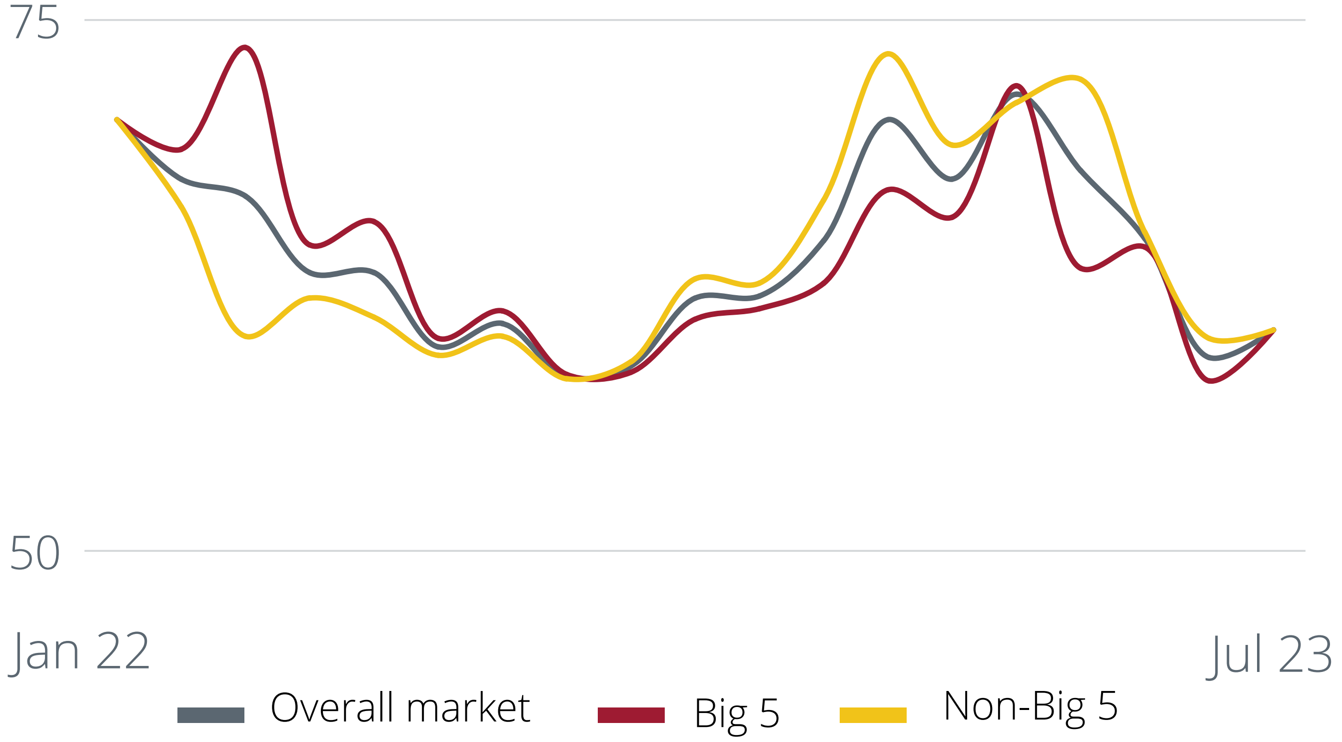
Weekly indexed to Jan 20



- Credit card enquiry volumes continue to improve in 2023, with average weekly demand for the week to-date up +8.4% against 2022 levels. However, credit card demand remains below pre-pandemic levels.

Credit Card Account Health

'Days Past Due' bands, indexed to Jan 20

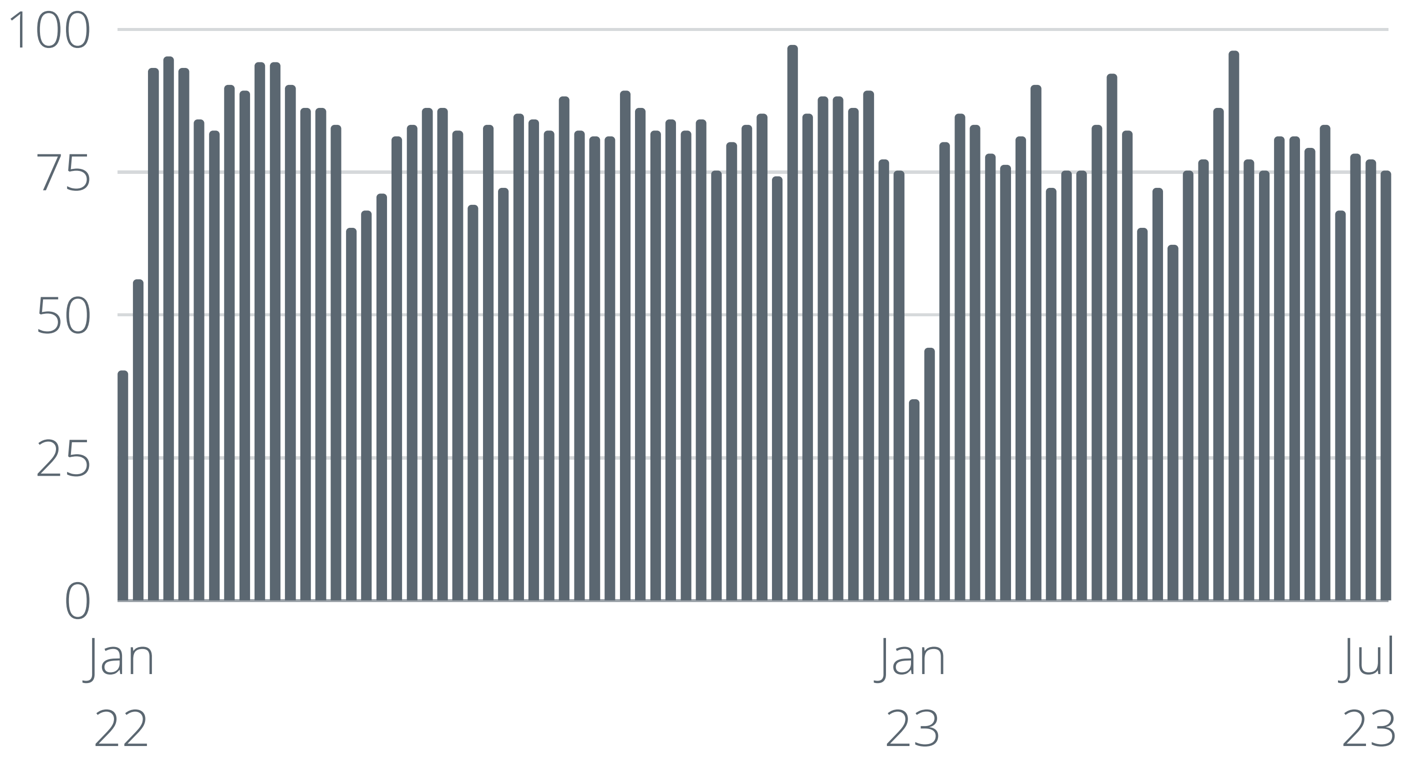


- As at July 2023, the number of credit card accounts in arrears by 1 or more days is 65% below pre-pandemic volumes, with a reasonable consistency across the Big 5 and rest of market segments.

- The +2.3% uplift in overall arrears volumes for July 2023 vs June 2023 is influenced by early arrears (up +3.8% for 1-29 days past due). For this period, there has also been a +9.1% increase in credit card accounts moving into 180+ days past due; however, this is influenced by customer care process cyclicality with some credit card providers.

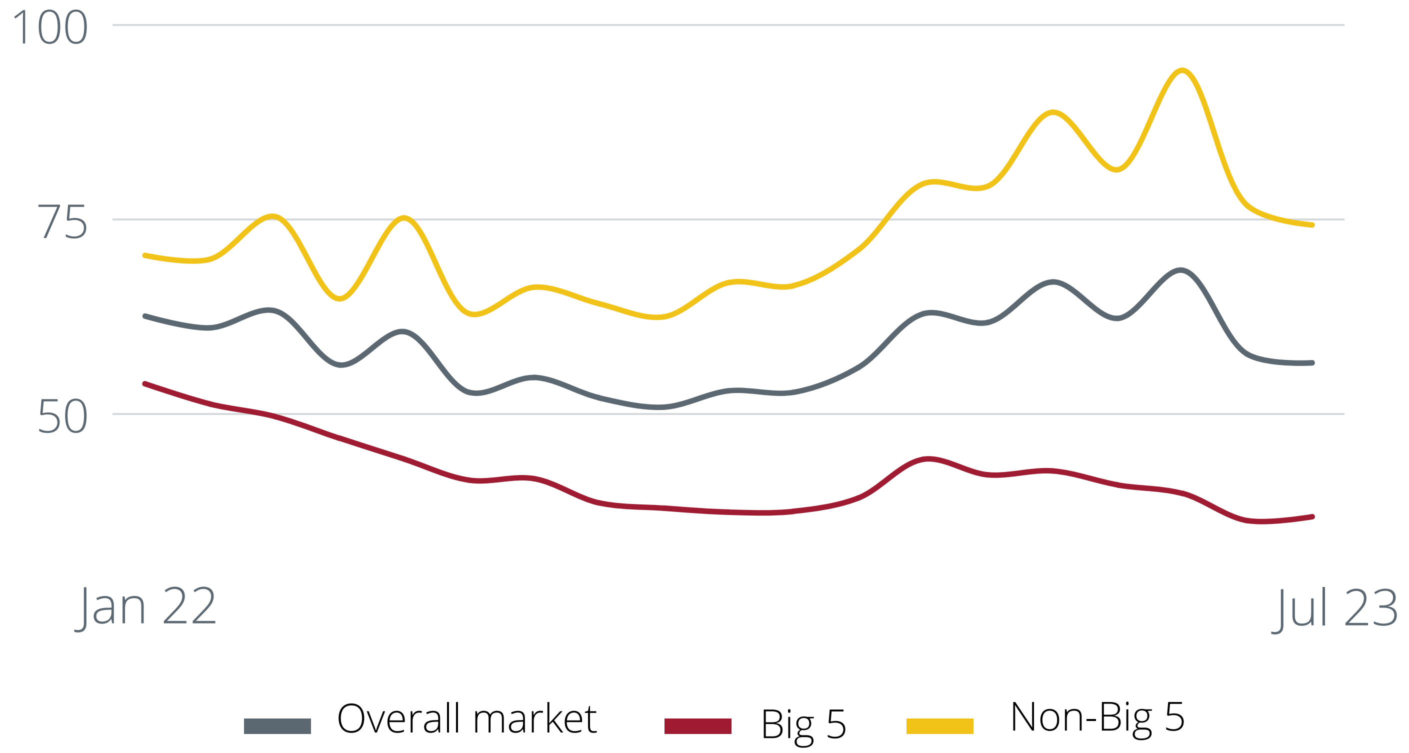
Personal Loans

Enquiries
Weekly indexed to Jan 20



- Momentum in personal loan demand continues with average weekly enquiries for 2023 to-date now on par with 2022 volumes. While volumes are circa -16% down against both 2021 and 2020 volumes, the elevated lending appetite during a large proportion of that period may not allow for a direct comparison with the current state.

Personal Loan Account Health
'Days Past Due' bands, indexed to Jan 20



- Month-over-month for July 2023, there was a -1.3% reduction in personal loan accounts in arrears against June 2023. While early arrears (1-29 DPD) was down -1.1% during this period, late arrears (90+ DPD) fell by -7.9%.

- Personal loan accounts with missed payments of 1+ days are circa 60% of pre-pandemic volumes. This has been influenced by changes in consumer spending habits together with restrictions from CCCFA legislation introduced on 1 December 2021.

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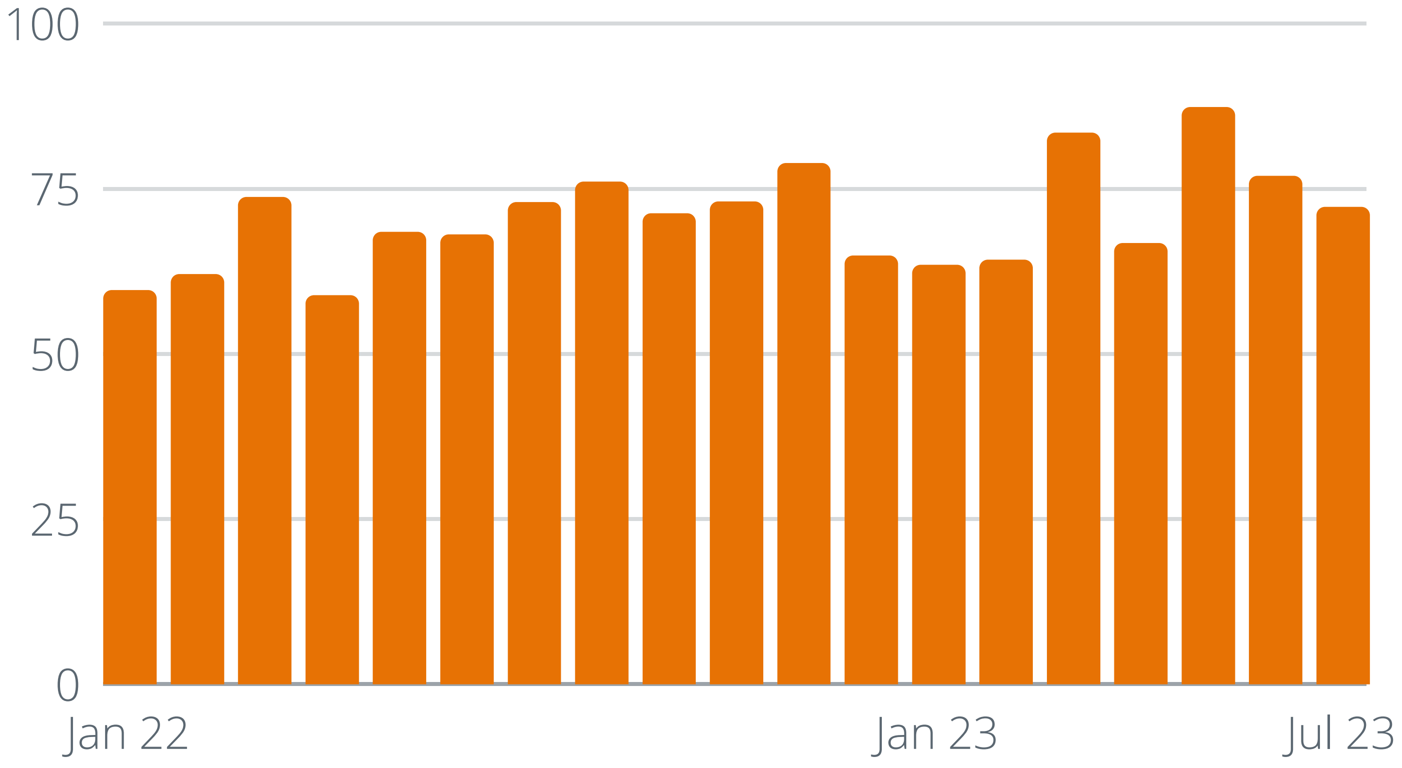
Auto Loans

Enquiries

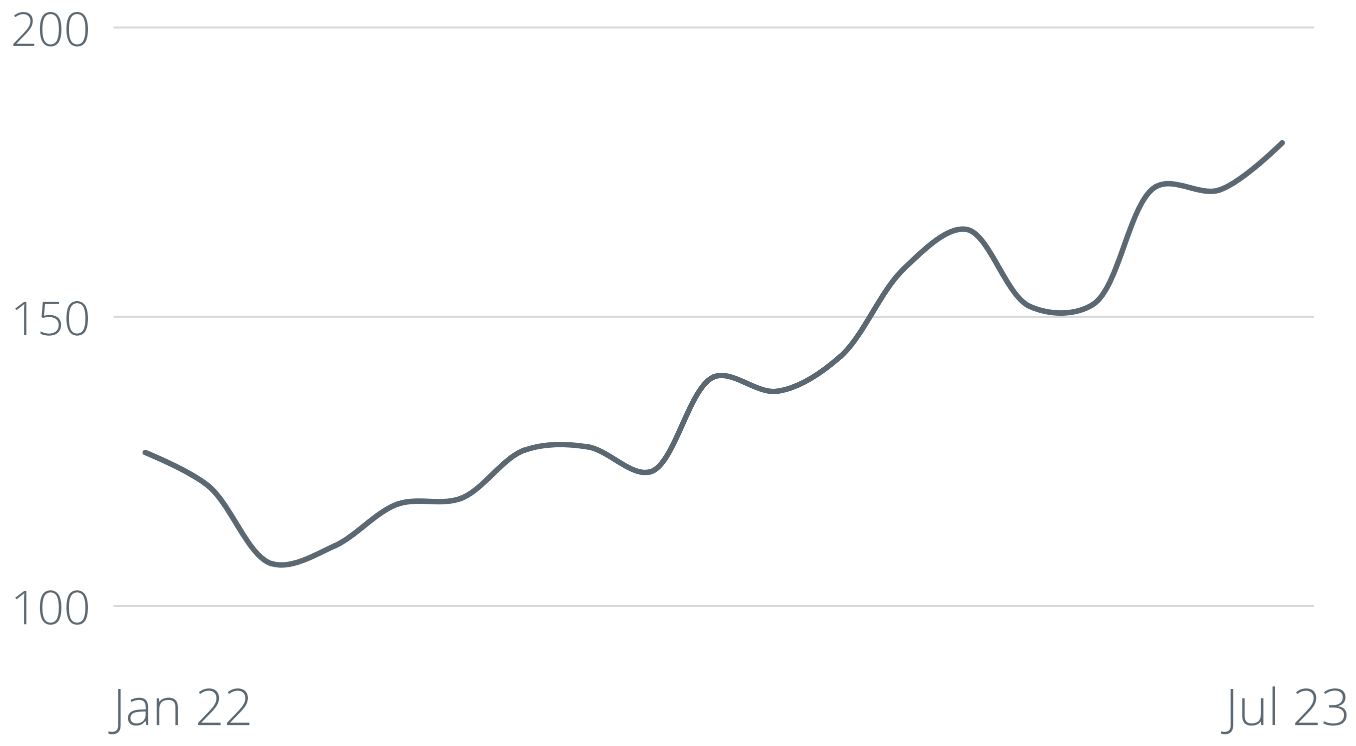
Monthly, indexed to Jan 20



- Following the introduction of the Clean Car Discount fee structure from 1 July 2023, there was a -6.6% dip in monthly enquiries for July 23 vs June 23.
- For this period, Marlborough and the West Coast experienced the largest fall in demand at -35% and -26%, respectively, and Auckland auto lending enquiries dipped by -4.4%. However, other regions experienced an uplift: Nelson (+15%), Taranaki (+7%), Northland (+6%), Tasman (+3%), and Hawke's Bay (+2%).

Auto Loan Account Health

'Days Past Due' bands, Indexed to Jan 20



- Across the market, auto loan providers are experiencing mixed arrears performance.
- Month-over-month for July 2023, auto loan arrears volumes have increased by +4.7%; of this, early arrears (1-29 DPD) has increased by +5.5%.

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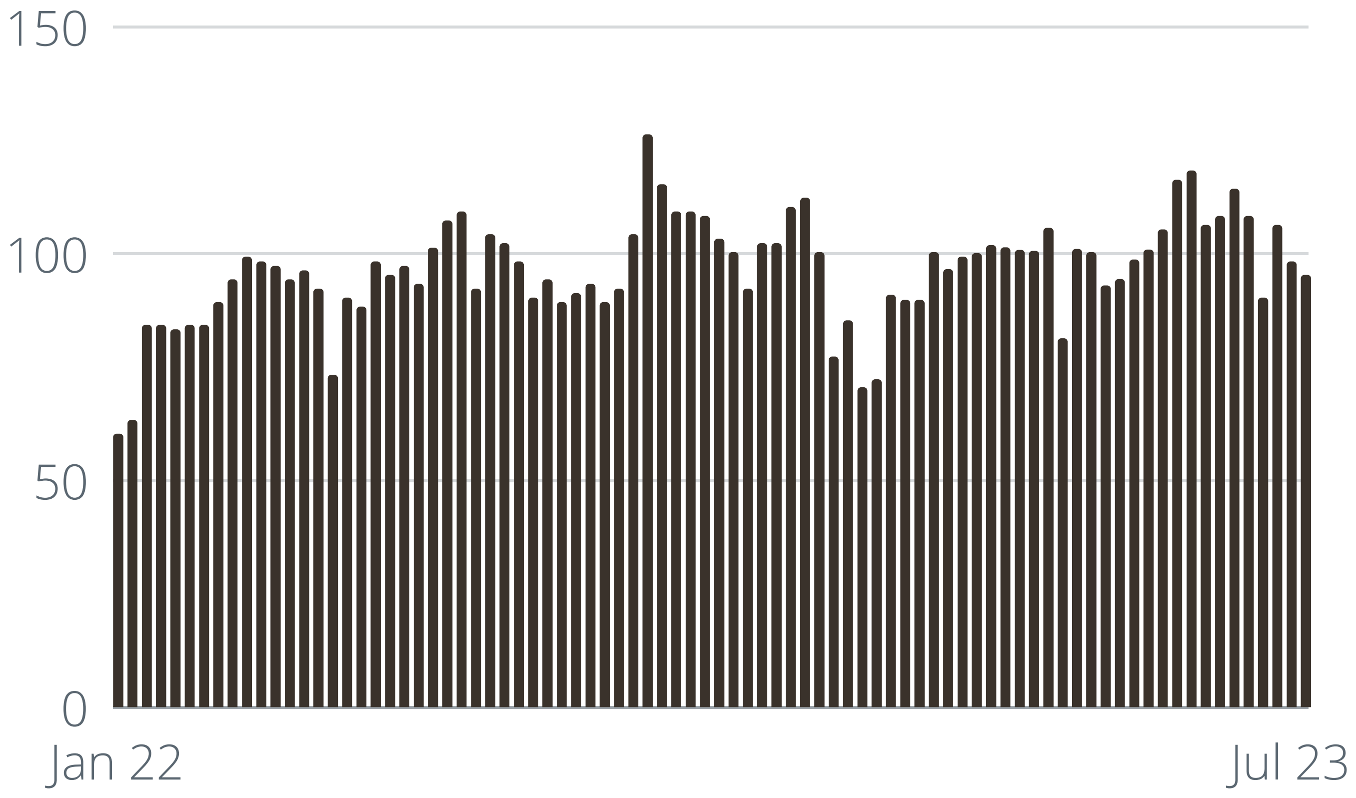
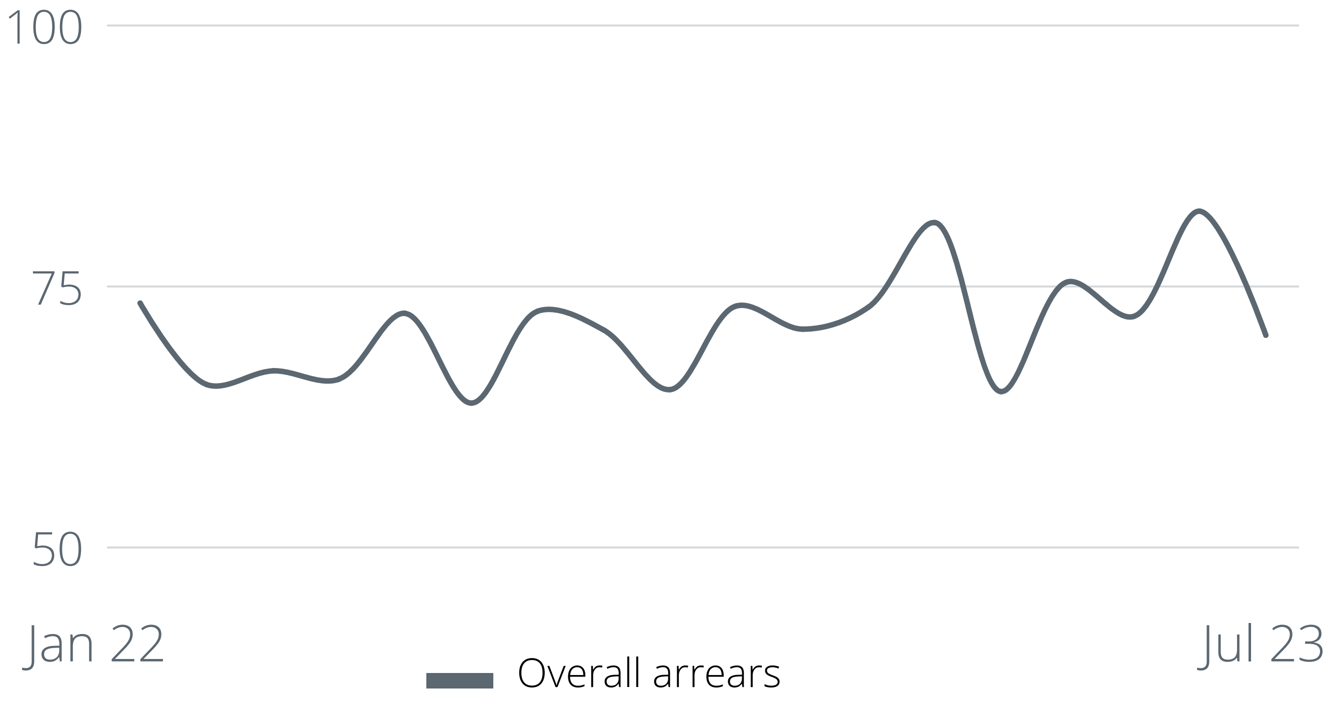
Telco & Utilities

Enquiries
Weekly indexed to Jan 20



- Average weekly demand in 2023 to-date continues to improve and is +3.5% up against 2022 levels.
- Also, demand remains -13.3% below pre-pandemic volumes (observations across 2019).

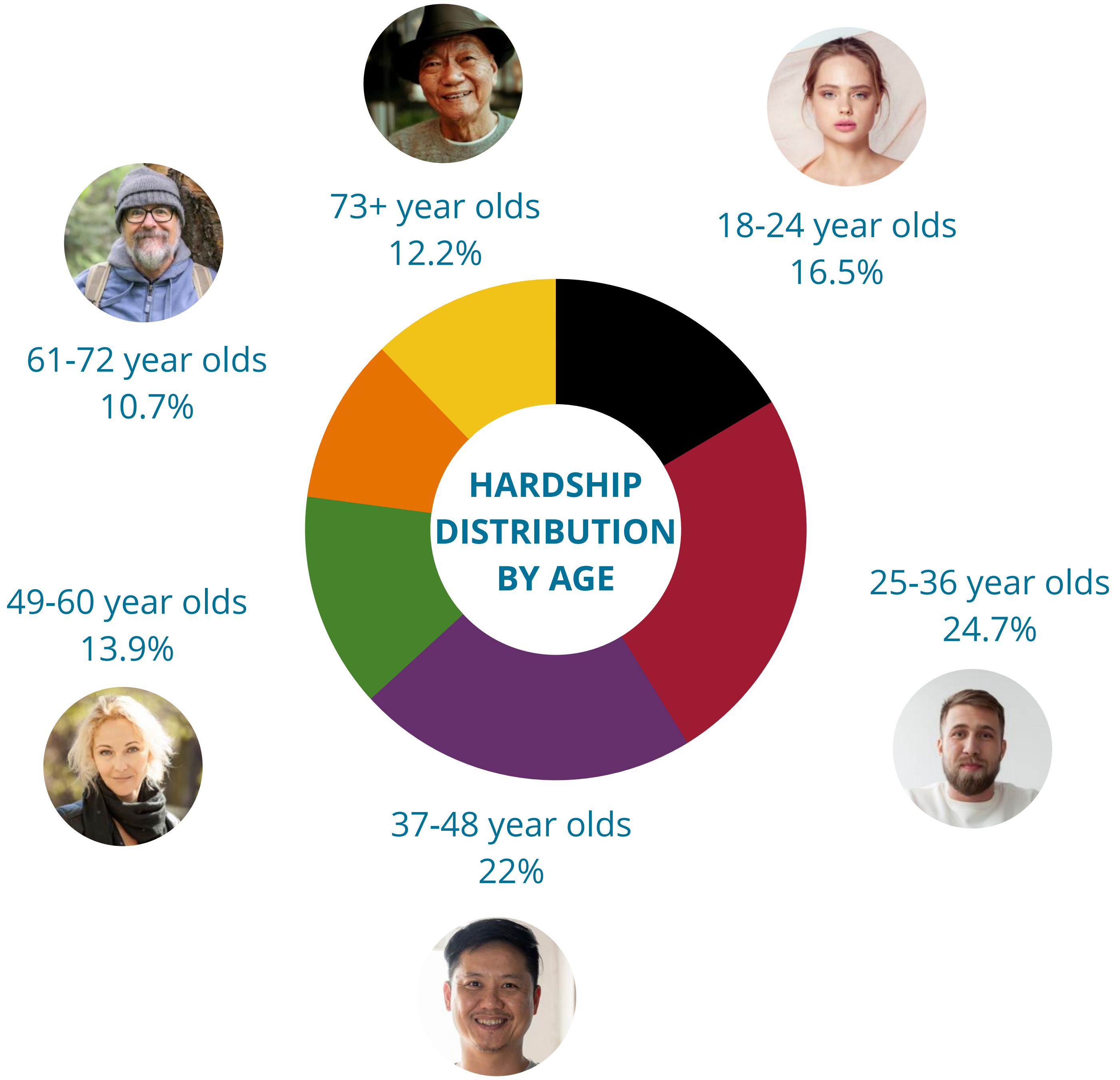
Telco & Utility Account Health
'Days Past Due' bands, Indexed to Jan 20



- Month-over-month for June 2023, there has been a -14.4% dip in overall arrears vs May 2023. While the majority of arrears bands have followed this trend, there has been a notable 10.6% uplift in volumes of consumers moving into the 30-59 days past due arrears band.

Consumer Hardship - Deep Dive Insights

While Hardship can impact all consumer segments, most Hardship requests are from 'under banked' in terms of lines of credit. Also, while 85.9% of consumers in hardship have no prior credit defaults, 14.1% have one or more prior credit defaults.



82% of consumers in hardship don't have a home loan

1/3 of the consumers in hardship WITH a home loan have opened their home loan account within that last 7 months

64% of consumers in hardship have no credit card

Almost 3/4 of the consumers in hardship WITH a credit card have their card less than 7.5 years


OPEN
Commercial
Credit Update

EQUIFAX

Commercial Commentary

- **Commercial credit enquiries increased +6.3% year-on-year in Q2 2023 (vs Q2 2022)**, a positive sign for NZ businesses and the economy as demand returns to pre-pandemic volumes. Towards the end of Q1 2023 there was some recovery in commercial credit demand which flowed into Q2 2023. Business credit demand growth for Q2 was exhibited across the lender landscape, which indicates broad based demand growth.

- The rise in demand was led by Transport (+29.7%), Accommodation and Food Services (+16.2%), Manufacturing (+15.4%), Agriculture, Forestry and Fishing (+10.9%), Construction (+9.1%) and Retail Trade (+8.3%) who experienced an increase in applications across all forms of commercial credit. A notable decline was Rental, Hiring and Real Estate Services (-3.4%).

- Activity in both services and asset building segments is an encouraging sign for broader cross sector activity. Businesses investing in productive assets, either as upgrades or new, indicates broader economic activity and productivity. **Trade credit applications (+1.1%) still remained relatively soft**, with an expectation that it will remain subdued as businesses tighten trading terms to cope with the cash flow squeeze as costs continue to rise.

- **Month-over-month for June 2023, overall commercial arrears increased by +2.0%**; this was influenced by the 30-59 days past due band, which experienced a +5.0% uplift during this period.

- By sector, **Wholesale Trade (up +28.1%), Agriculture (up +14.1%) and Transport (up +7.2%) experienced the largest uplift in arrears volumes in June 2023 vs May 2023.**

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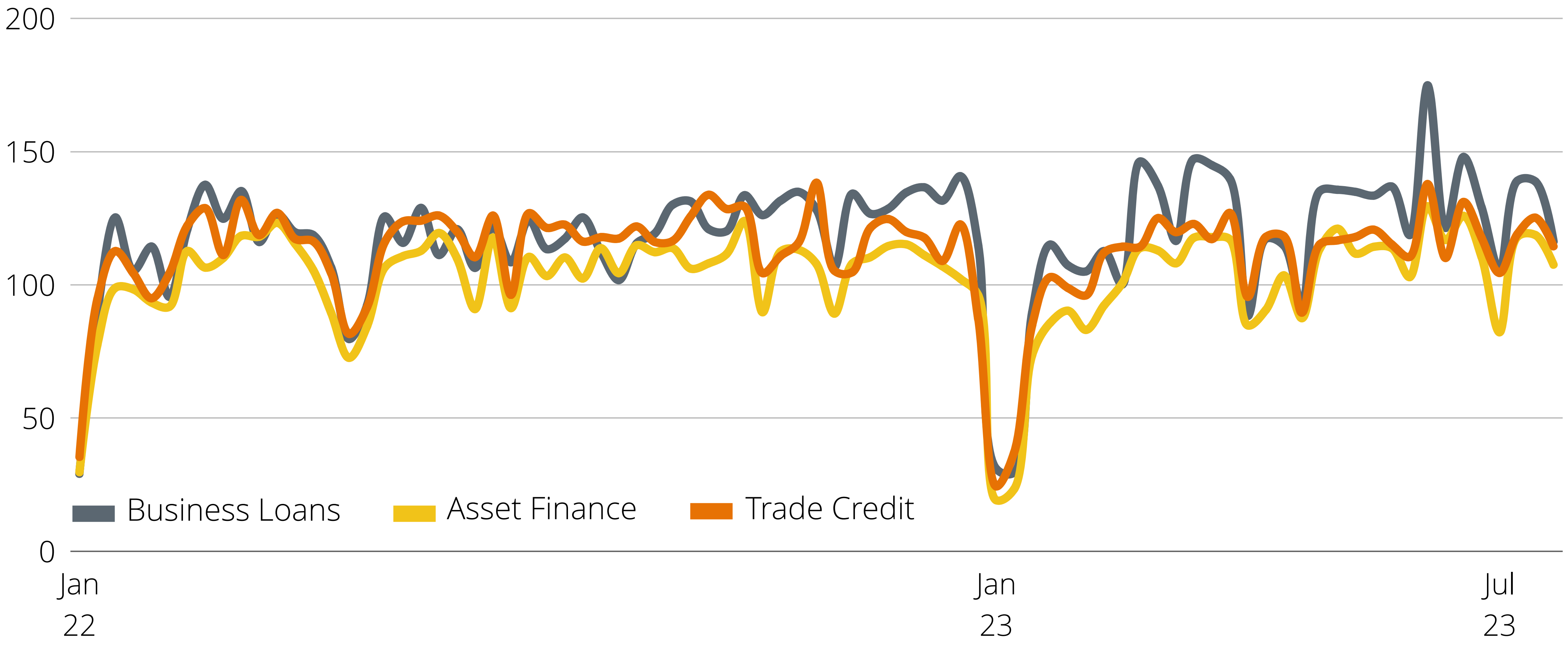
Commercial Credit Demand

Average overall weekly commercial enquiries continues to improves as the year progress and is down -1.5% for the year to-date against volumes in 2022. However, volumes are -12.4% below 2019 weekly averages.

Weekly Commercial Credit Demand by Business Lending Product

Indexed to Jan 20



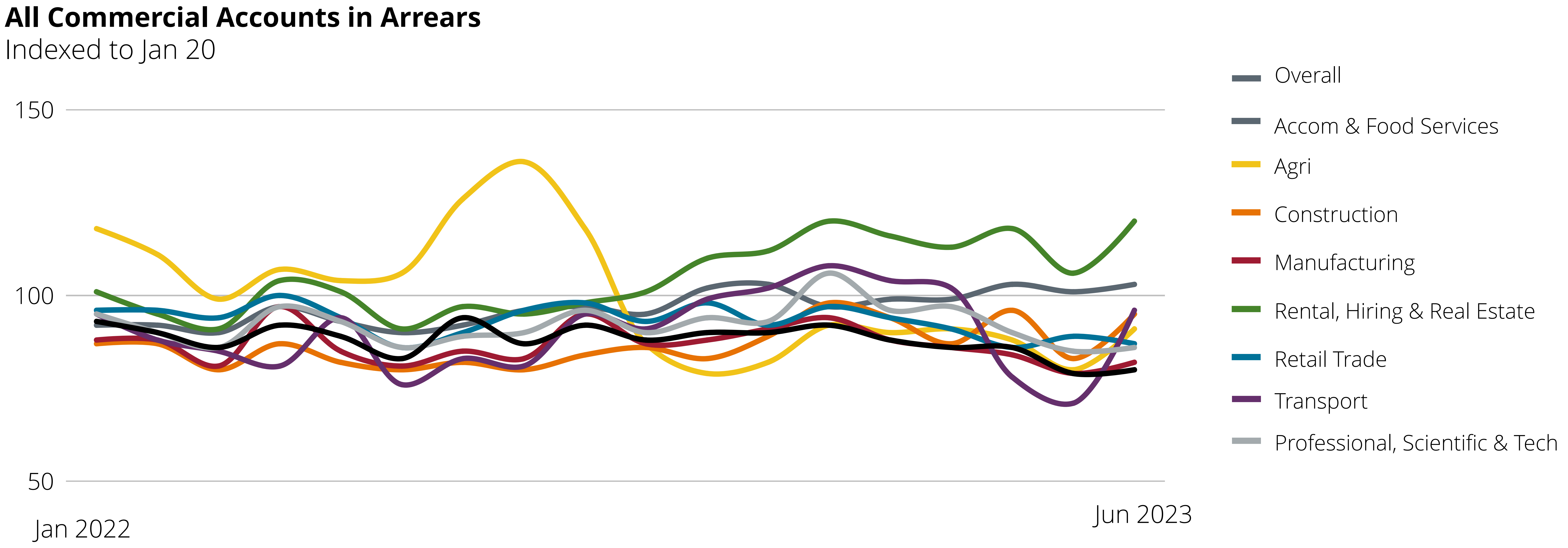
Change in average weekly demand 2023 to-date vs 2022

Construction	**-0.6%**
Rental, Hiring & Real Est Services	**-5.8%**
Retail Trade	**-3.3%**
Prof, Scientific & Tech Services	**-3.8%**
Accommodation & Food Services	**+7.1%**
Agriculture, Forestry & Fishing	**+0.8%**
Transport, Postal & Warehousing	**+17.8%**
Wholesale Trade	**-1.9%**
Manufacturing	**+3.7%**

Commercial Credit Health by Key Sectors

While overall commercial arrears remain -15.6% below pre-pandemic level, the 60-89 arrears band is now +7.7% above levels experienced in late 2019/early 2020. This uplift in mid-arrears is showing across a number of sectors, including Accommodation, Construction, Manufacturing and Rental, Hiring & Real Estate.

While Construction is -4.1% below pre-pandemic volumes, the last 14 months have experienced month-over-month increases in arrears volumes. Also, the Manufacturing sector arrears volumes is currently on a par with late 2019/early 2020, with month-over-month increases in each of the last 12 months.



Global Insights

Canada

Business Credit Trends Q1 2023

Key points

- Data suggests a pattern of credit expansion and a significant shift in credit usage, indicating potential challenges for businesses. The total outstanding balance on bank-issued installment loans in Canada is $12.9bn, which experienced a YoY decline of -2.4 %, a first since 2019. By contrast, during the same period, credit card balances grew by +15%, while lines of credit showed an increase of +11%.

- Of particular significance is the decline in loan balances, considering that installment loan balances grew by more than +35% compared to 2020. This suggests that borrowers could increasingly gravitate towards credit products that don’t lock them into fixed repayment periods and offer greater flexibility in terms of interest rates. The recent hikes in interest rates by the Bank of Canada may have contributed to this shifting trend.

- In Q1 2023, there was a slowdown in new business openings, which is a deviation from the previous growth trajectory. For the past two years, the first 3 months of the year showed a consistent month-over-month increase in business establishments as the economy began to recover from the impacts of the pandemic. However, in 2023, there has been a noticeable dip in new business starts at the start of the year. As of the end of February, new business starts are down year-over-year by +16.5% in Ontario, +14.2% in British Columbia, +11.4% in Alberta and +7.5% in Quebec.

- There are also indications of growing financial stress in the industrial and financial trades. Delinquencies in industrial trades are nearing pre-pandemic levels, with late delinquencies rising by nine per cent within a 60-day window annually. We’re seeing this primarily in trades located in British Columbia and Alberta, suggesting that businesses operating in these regions are facing a particularly challenging economic environment. The persistent rise in early delinquency rates in these trades suggests that businesses are struggling to meet their financial obligations. Typically, businesses prioritise paying their suppliers to maintain operations, but it is disturbing to see consecutive quarterly increases in delinquencies on the supplier side as well.

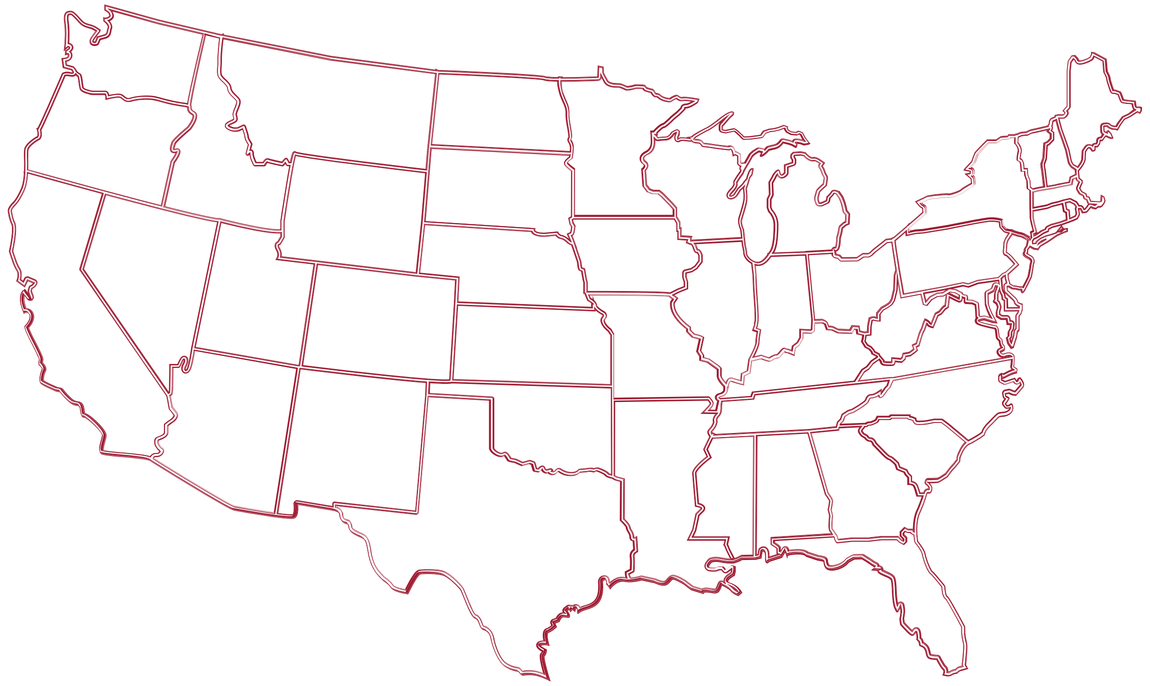
- Despite the challenges posed by rising interest rates and high inflation, Statistics Canada data shows that 73.5% of businesses surveyed are optimistic about their future over the next 12 months. Equifax data also suggests some regional gains in the demand for commercial credit, which is a positive sign and speaks to the resilience and optimism of Canadian businesses.

Key points

United States

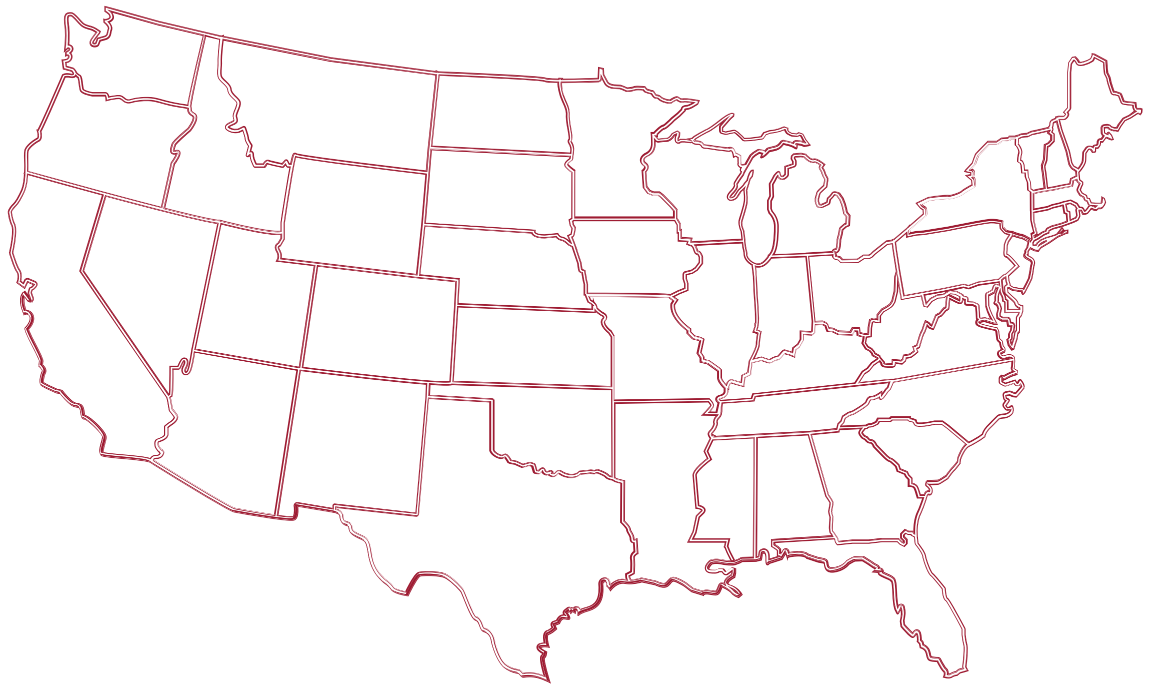
Macroeconomic & Consumer Overview

- The U.S. economy is doing a “side shuffle" and may be likely to keep its head above water if labour market momentum continues, bank stresses fade away and energy prices stay down.
- However, a recession may be more likely if tech layoffs spread to finance/business/professional services, inflation remains persistent, household spending weakens as real income growth stagnates, and manufacturing orders continue to soften/inventory overhang worsens.
- Labor market is showing signs of cooling, but no collapse. The pace of job growth has slowed while job openings decreased by ~500K in May 23.
- Banking pressures are expected to rise in the coming months. Banks are tightening lending standards, face falling commercial real estate valuations, and will have to pay higher interest rates for deposits.
- The annualised inflation rate in key service sector categories continues to decline but remains well above the Fed’s 2% target. The Fed worries that service-sector inflation can be difficult to rein in.
- U.S. consumer spending was boosted by “dry powder” from stimulus checks and pent-up demand in 2021 and early 2022. But “dry powder” is now mostly gone.
- Revolving credit continues to rise as consumers rely more and more on credit cards for daily necessities, and most households now are reporting that they are in poorer financial shape than they were experiencing a year ago.
- Delinquency rates are still below their pre-pandemic levels; however, they are on the rise as auto loan borrowers and young borrowers being hit the hardest.
- Student loan repayments will restart October 1st and this could have implications for consumer spending as borrowers might cut back on their spending habits. Student loan borrowers are planning to cut leisure activities as well as daily necessities when loan payment restarts.



United States

Small Business Demand



Key points

- The Equifax Small Business Lending Index (SBLI) ticked down in June 2023 but remains circa 5% above its year-ago reading, aligning with other measures of economic activity pointing to slower but still positive growth. After a stronger-than-expected performance in Q1 2023, the economy again exceeded expectations in Q2 2023, with growth estimated at a seasonally adjusted 2.4% (annualised).

- Although consumer spending slowed significantly, improved business investment activity offset the decline, with transportation equipment leading the way. Meanwhile, although higher interest rates continued to weigh on residential investment (which contracted for the 9th consecutive quarter), the decline was relatively modest.

- Overall, the economy continues to demonstrate more resilience to higher borrowing costs than many economists anticipated.

- However, Main Street isn't out of the woods yet. While headline inflation has eased significantly, the large decline in June was mostly due to lower energy costs compared to last summer. Core inflation, which excludes volatile food and energy costs, has been running much hotter - around 5% for most of the year (though June data was more encouraging).

- Meanwhile, loan demand among small businesses appears to be softening: per the Kansas City Fed's Small Business Lending Survey*, commercial and industrial (C&I) lending fell in Q1 2023 for the fourth consecutive quarter, with the largest share of respondents in the history of the survey reporting weaker demand. If Main Street demand weakens significantly, it will likely lead to slower hiring later this year and potentially derail the odds of a soft landing.

* www.kansascityfed.org/surveys/small-business-lending-survey

Summary

Australia

Consumer Demand

Financial stress for Australian consumers remained largely stables in Q2 23. Late arrears for mortgages, credit cards and personal loans was similar across Q1 and Q2 23; however, prolonged challenges in the auto industry are taking a toll with auto loan arrears hitting a 5-year high.

The effect of rate hikes are flowing through to mortgage arrears with a +33% year-on-year increase in accounts falling 30-89 days past due in Q2 23 vs Q2 22.

Consumers reliance on unsecured credit facilities slowed down as inflation cooled for the quarter.

Overall, unsecured credit demand growth fell by -8.3% in Q2 23 vs Q2 22. Credit card demand, however, grew by +5.9% during the same period; by comparison, personal loan enquiries dropped by -5.9% across the same period. Market consolidation continued to dampen BNPL demand, with enquiries falling -26% in Q2 23 vs Q2 22.

Quarterly Demand Change | Q2 2023

Mortgage	-2.8%
Auto Loans	-5.4%

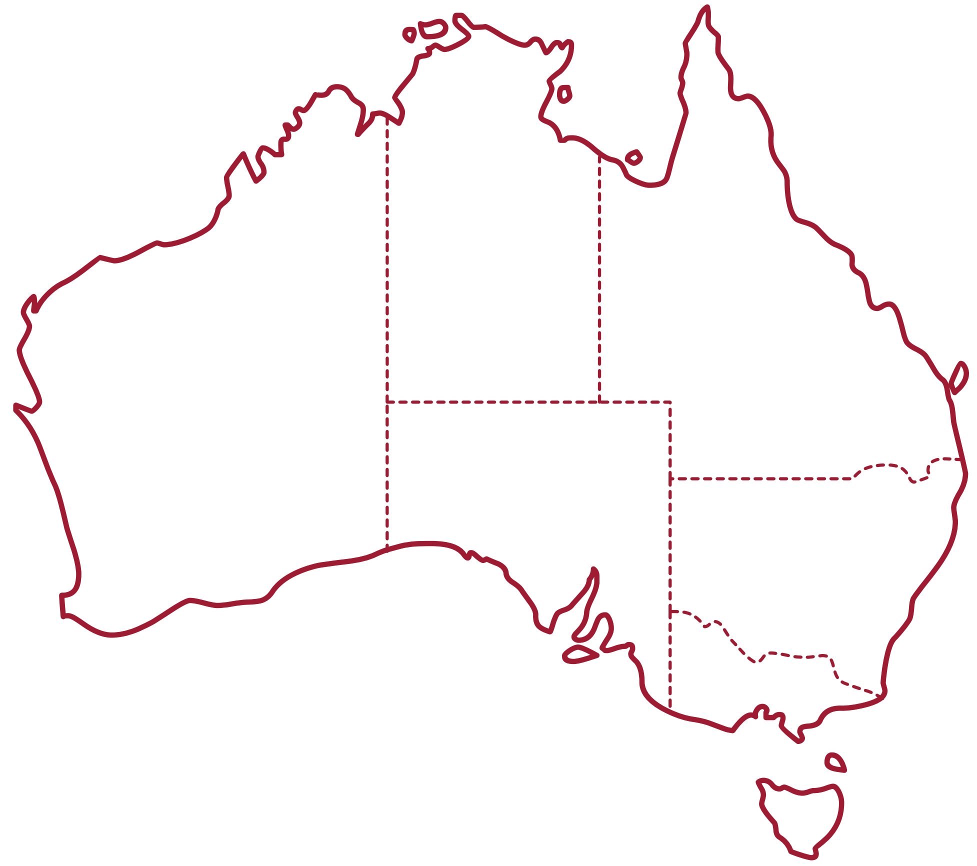
-3.3% vs Q2 2022

Secured Credit Demand

-8.3% vs Q2 2022

Unsecured Credit Demand

Credit Card	+5.9%
Buy Now Pay Later	-26.3%
Personal Loans	-5.9%



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