



Business Credit Outlook

NZCFI – July 2021

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Welcome

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A long-exposure photograph of a city street at night. The image shows light trails from cars and a red arrow pointing down. In the background, a tall building with many lit windows and the CN Tower are visible against a dark sky. The foreground shows a street intersection with traffic lights and some pedestrians.

Market Insights

Consumer Credit Market

Credit Demand

98% (-1%)

Credit Demand Index
(Change in Last Month)

Financial Hardship

12,100 (-3%)

This Month vs Last Month

Arrears

Up 2%

This Month vs Last Month

Credit Scores

644 (-2)

This Month vs Last Month

Adverse Credit

14.13% (-0.22%)

This Quarter vs Last Quarter

New Lending \$

Down 3%

This Month vs Last Month

Business Credit Market

Credit Demand

138% (+8%)

Credit Demand Index
(Change in Last Month)

New Registrations

17,200 (+5%)

This Quarter vs Last Quarter

Liquidations

1,750 (-33%)

This Year vs Last Year

Credit Scores

761 (+5)

This Month vs Last Month

Company Closures

7,000 (+8%)

This Quarter vs Last Quarter

Defaults

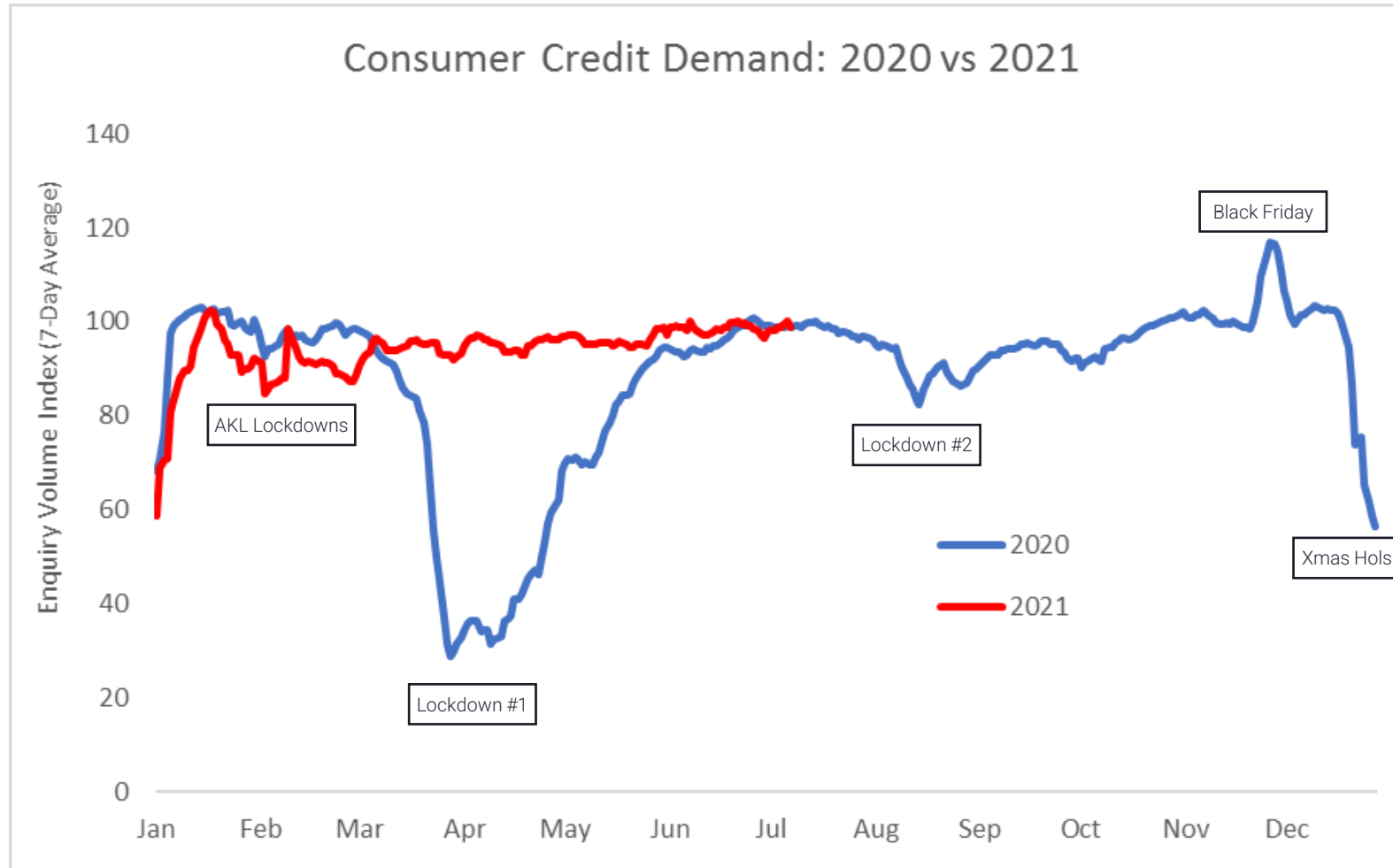
Up 6%

This Quarter vs Last Quarter

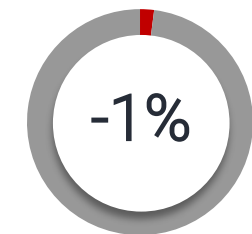


Consumer Credit Insights

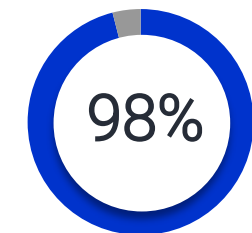
Strong bounce back following lockdowns



Credit Demand Change
In Last Month



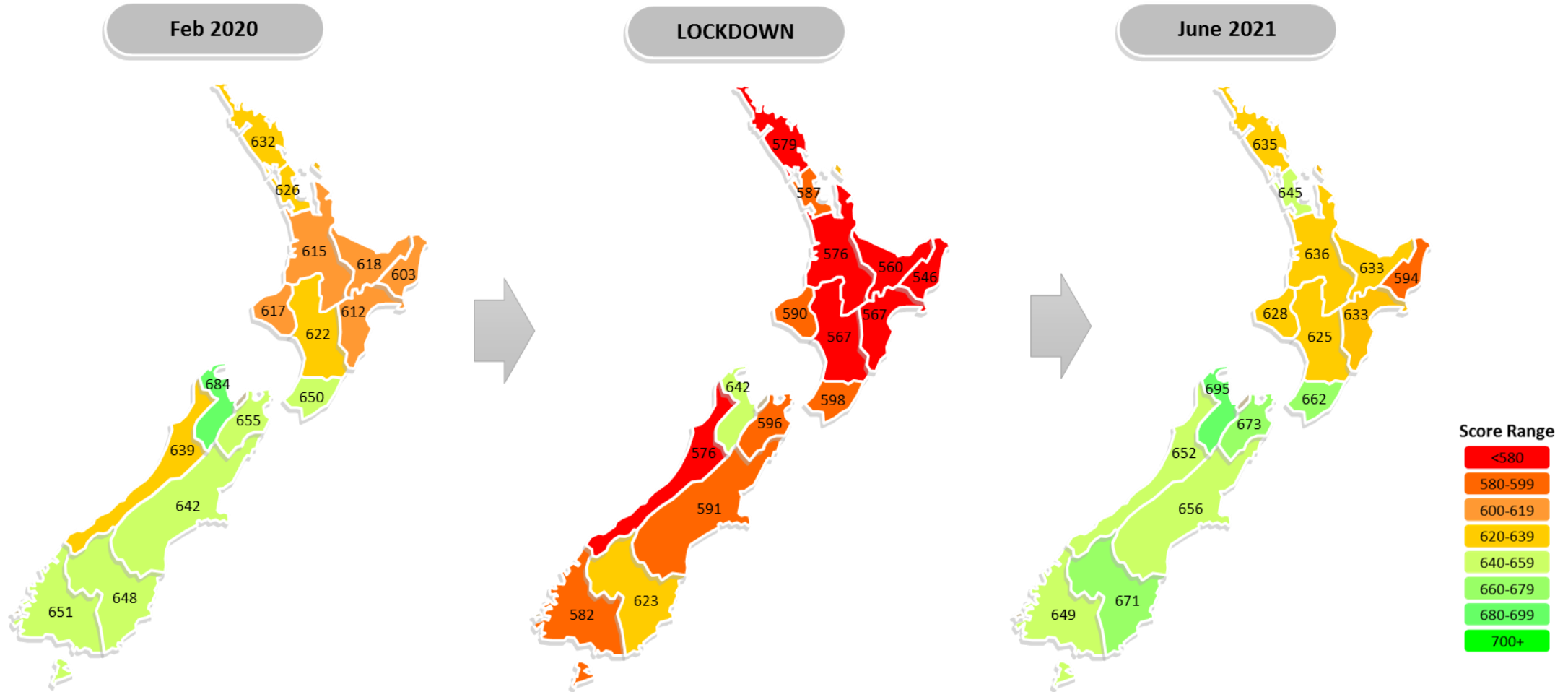
Credit Demand
Enquiry Volume Index



7-Day Rolling Average
100 = 2018/2019

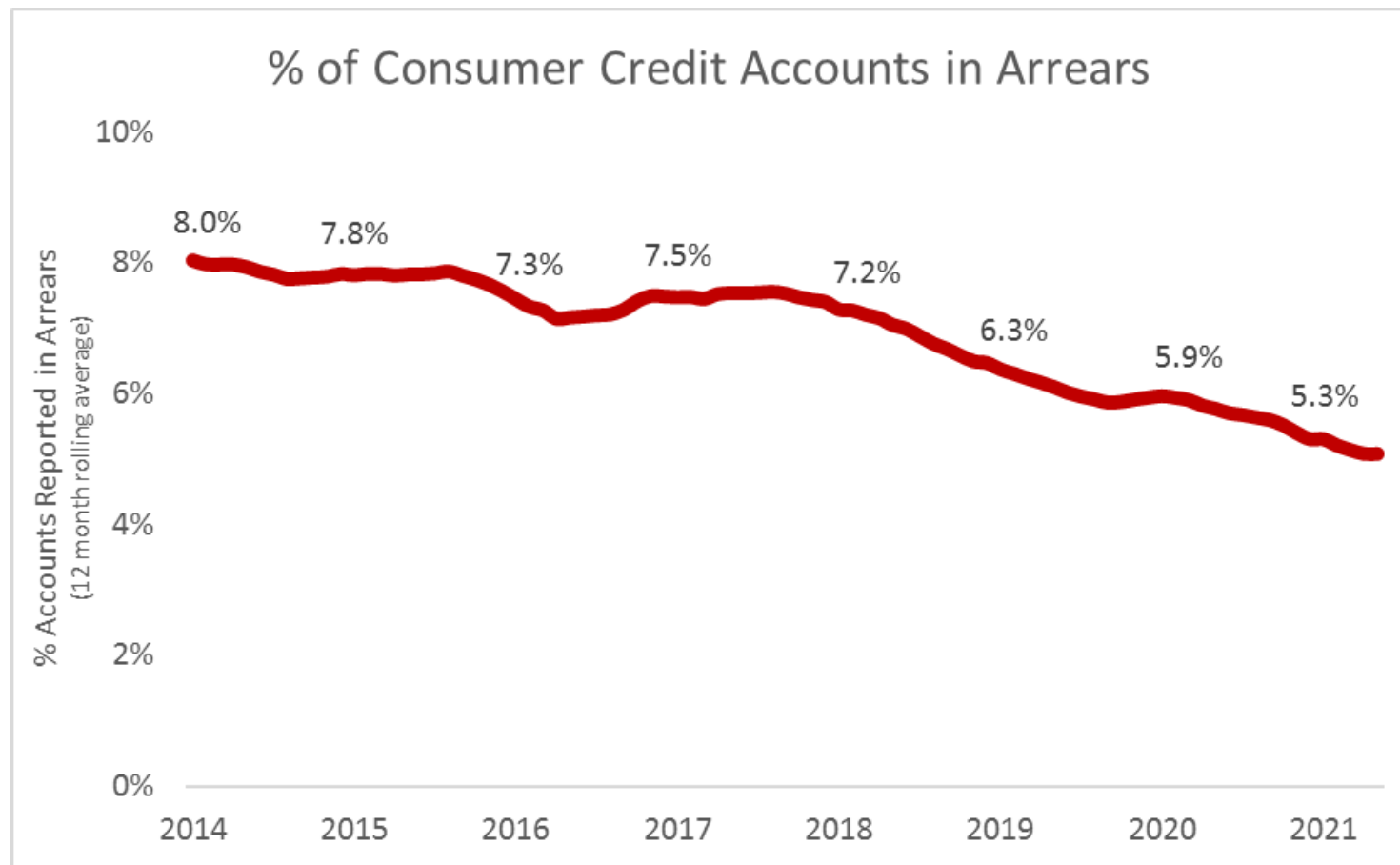
High scoring consumers back in market

Mean Credit Scores By Region



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Record low arrears levels....



Source: Centrix Comprehensive Credit Reporting (CCR) Data

- Consumer arrears levels at record low levels across all industry sectors
- Govt support packages (e.g. wage subsidy) and payment deferral schemes have helped to ease pressure on consumer debt stress.
- Mortgage loan repayment deferral expired on 31 March 2021.
- A growing number of consumers are sitting on large debt exposures. Impact of rising interest rates?
- But early signs of increasing arrears already emerging for some not all.

Younger consumers feeling the pinch...

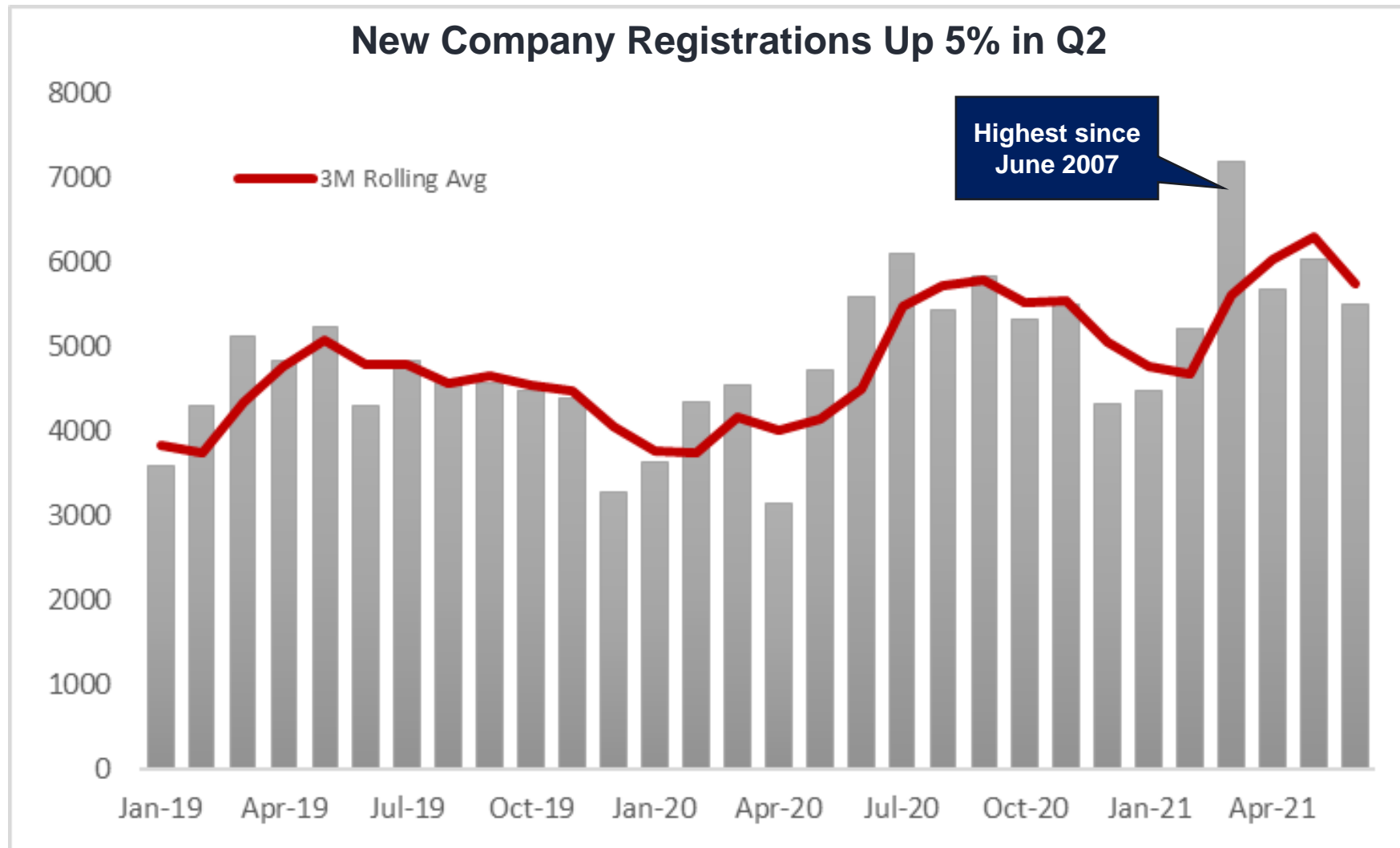
		ARREARS LEVEL BY CONSUMER AGE GROUP												
	AGE GROUP	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
↑↑	18-24	9.2%	9.3%	9.3%	10.1%	10.4%	10.3%	10.0%	10.2%	10.7%	10.8%	10.6%	10.4%	10.0%
↑	25-29	7.2%	7.2%	7.2%	7.7%	7.8%	7.7%	7.6%	7.8%	8.1%	8.2%	7.8%	7.5%	7.4%
↑	30-34	6.0%	6.0%	5.9%	6.2%	6.3%	6.2%	6.1%	6.3%	6.6%	6.6%	6.4%	6.2%	6.1%
↑	35-39	5.4%	5.5%	5.4%	5.5%	5.6%	5.5%	5.4%	5.5%	5.8%	5.8%	5.6%	5.4%	5.4%
↔	40-44	5.3%	5.3%	5.2%	5.4%	5.4%	5.3%	5.2%	5.3%	5.6%	5.5%	5.4%	5.1%	5.1%
↔	45-49	5.1%	5.1%	5.0%	5.1%	5.1%	5.0%	5.0%	5.0%	5.2%	5.3%	5.1%	4.9%	4.8%
↔	50-54	4.8%	4.8%	4.7%	4.8%	4.8%	4.7%	4.6%	4.7%	4.9%	4.9%	4.8%	4.5%	4.5%
↔	55-59	4.4%	4.4%	4.3%	4.4%	4.4%	4.2%	4.2%	4.3%	4.5%	4.4%	4.3%	4.0%	4.1%
↓	60-64	4.2%	4.0%	4.0%	4.0%	4.0%	3.8%	3.8%	3.9%	4.0%	4.0%	4.0%	3.7%	3.7%
↓	65-69	3.5%	3.2%	3.1%	3.1%	3.1%	3.0%	3.1%	3.1%	3.3%	3.3%	3.1%	2.9%	2.9%
↓	70-74	3.4%	2.9%	2.9%	2.7%	2.8%	2.7%	2.8%	2.9%	3.1%	3.0%	2.8%	2.7%	2.6%
↓↓	75-79	3.3%	2.7%	2.6%	2.4%	2.4%	2.4%	2.4%	2.5%	2.6%	2.6%	2.4%	2.3%	2.3%
↓↓	80+	3.2%	2.4%	2.3%	2.2%	2.2%	1.9%	2.0%	2.2%	2.2%	2.1%	1.9%	1.8%	1.8%



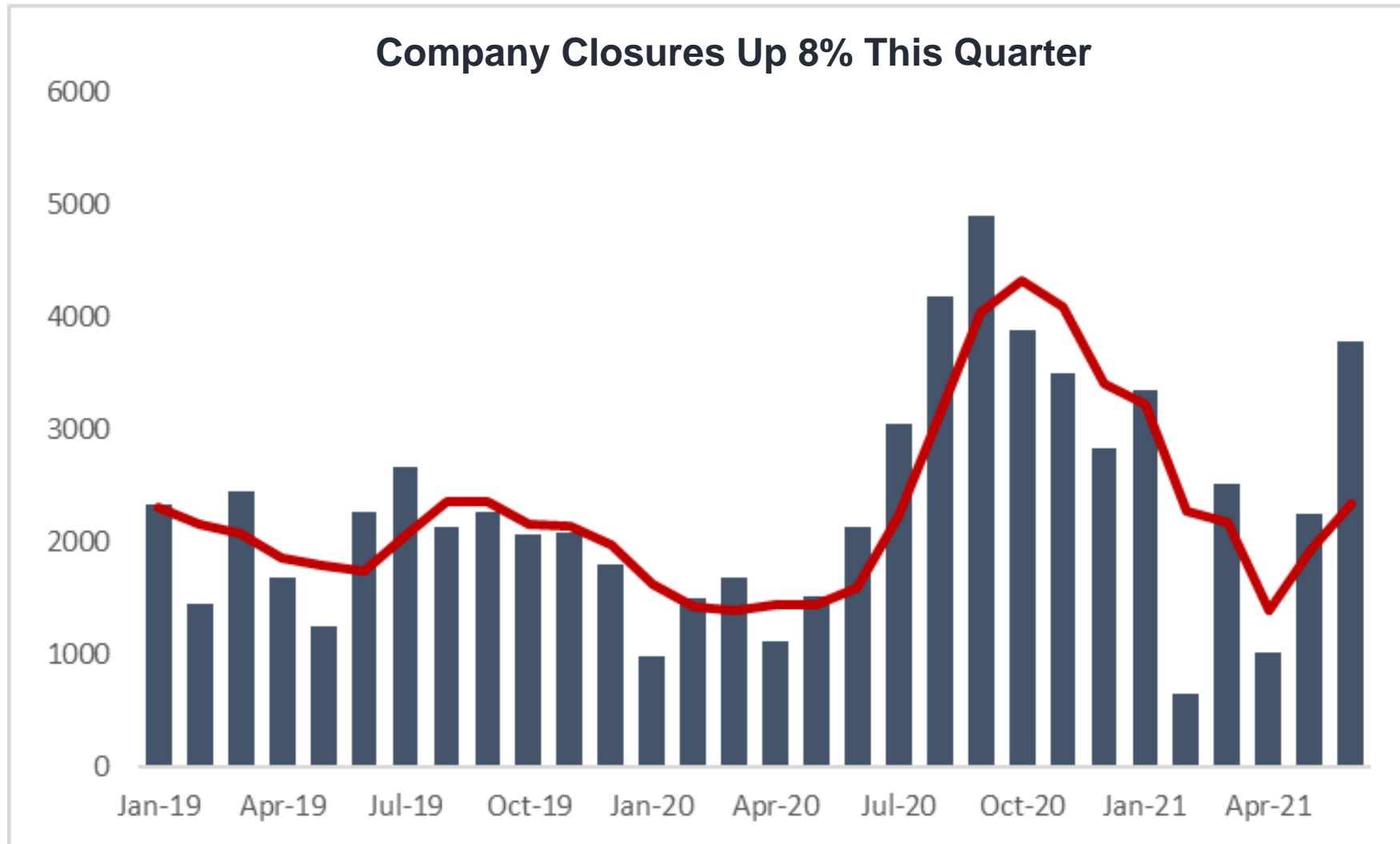
Business Credit Trends

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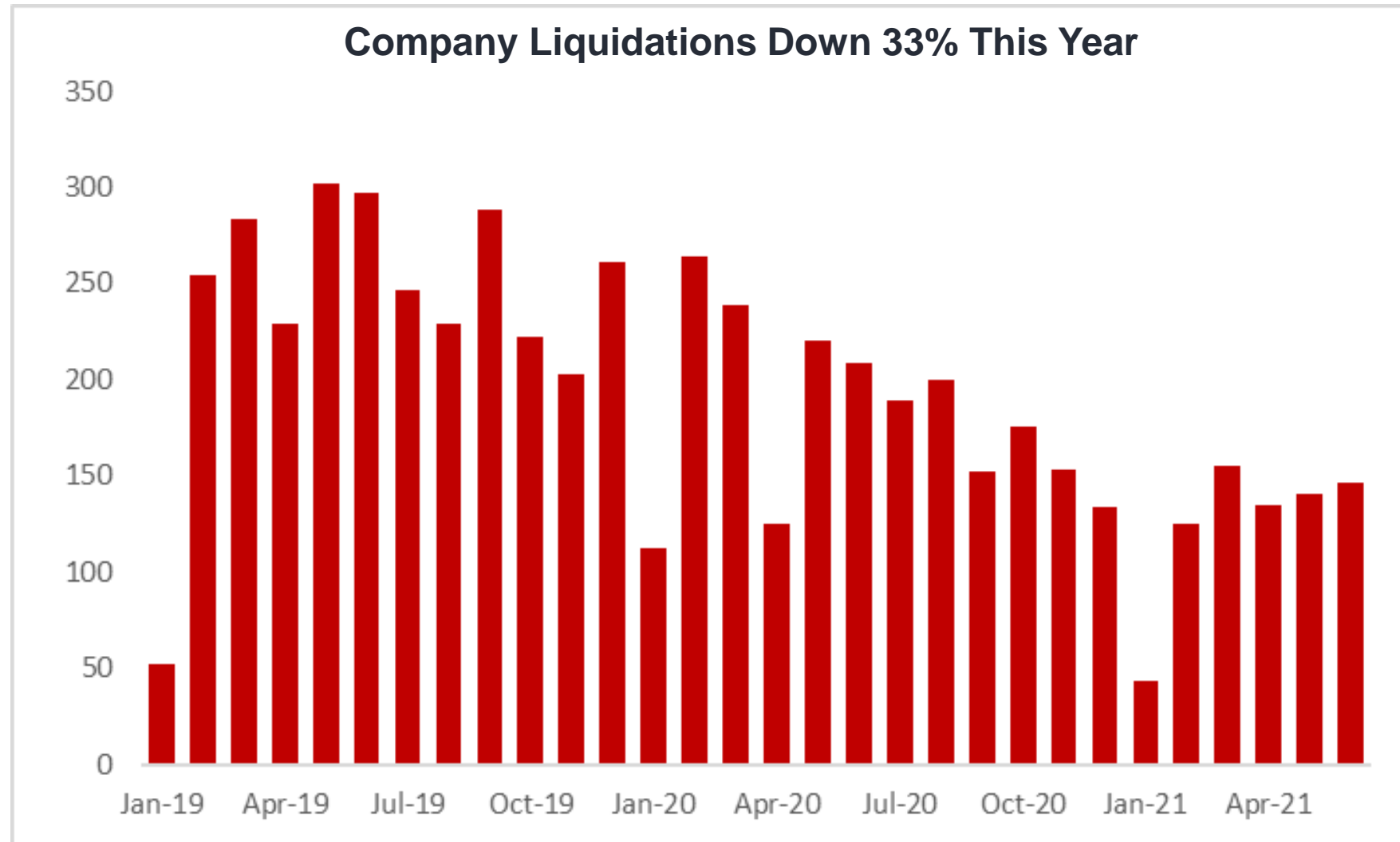
New business start-ups the highest since pre GFC



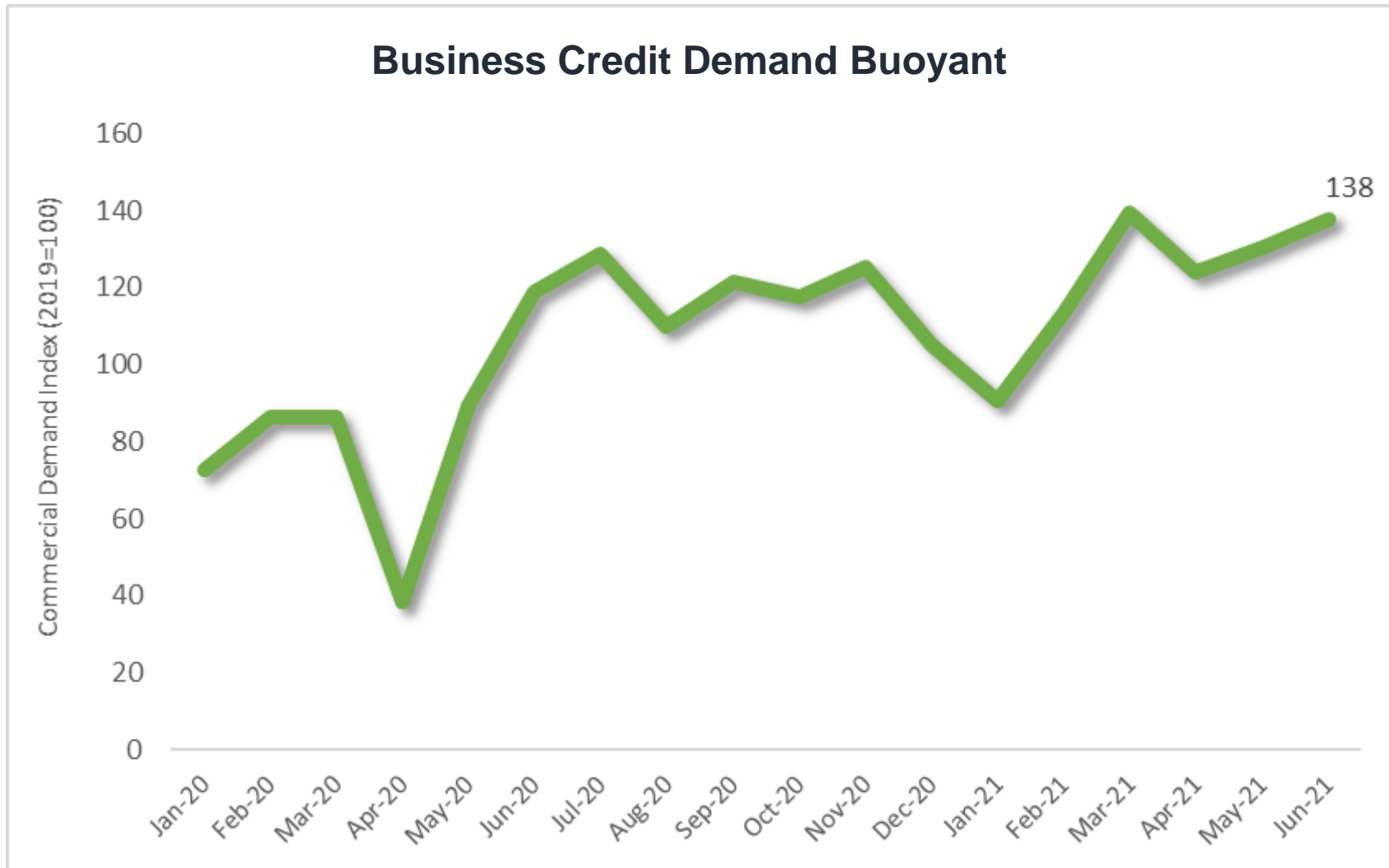
Business closures peaked in Q3 last year but is on the rise again



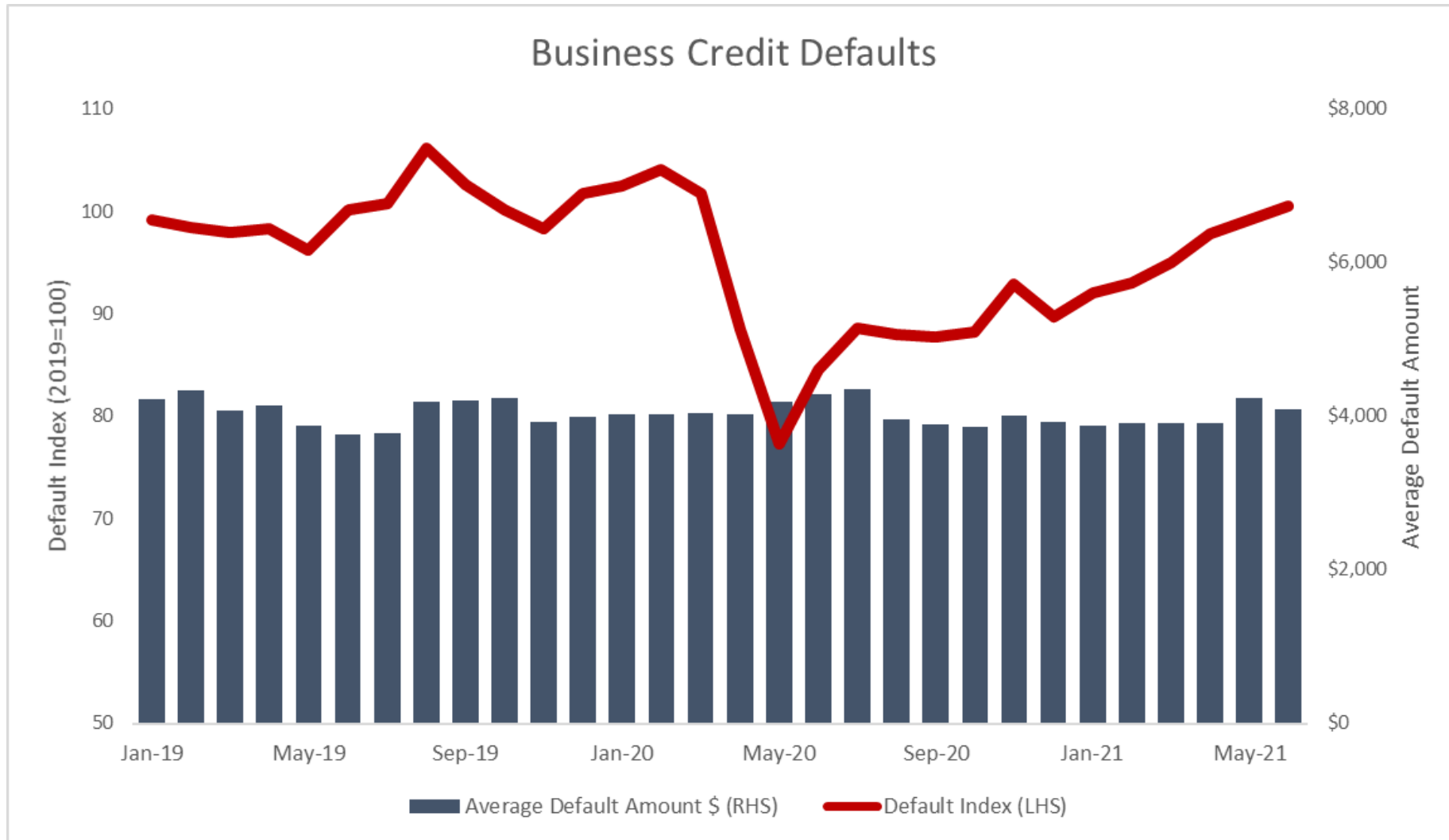
Business failures lowest level for over 2 years



Demand for business credit running close to record high levels



Business credit defaults on the rise

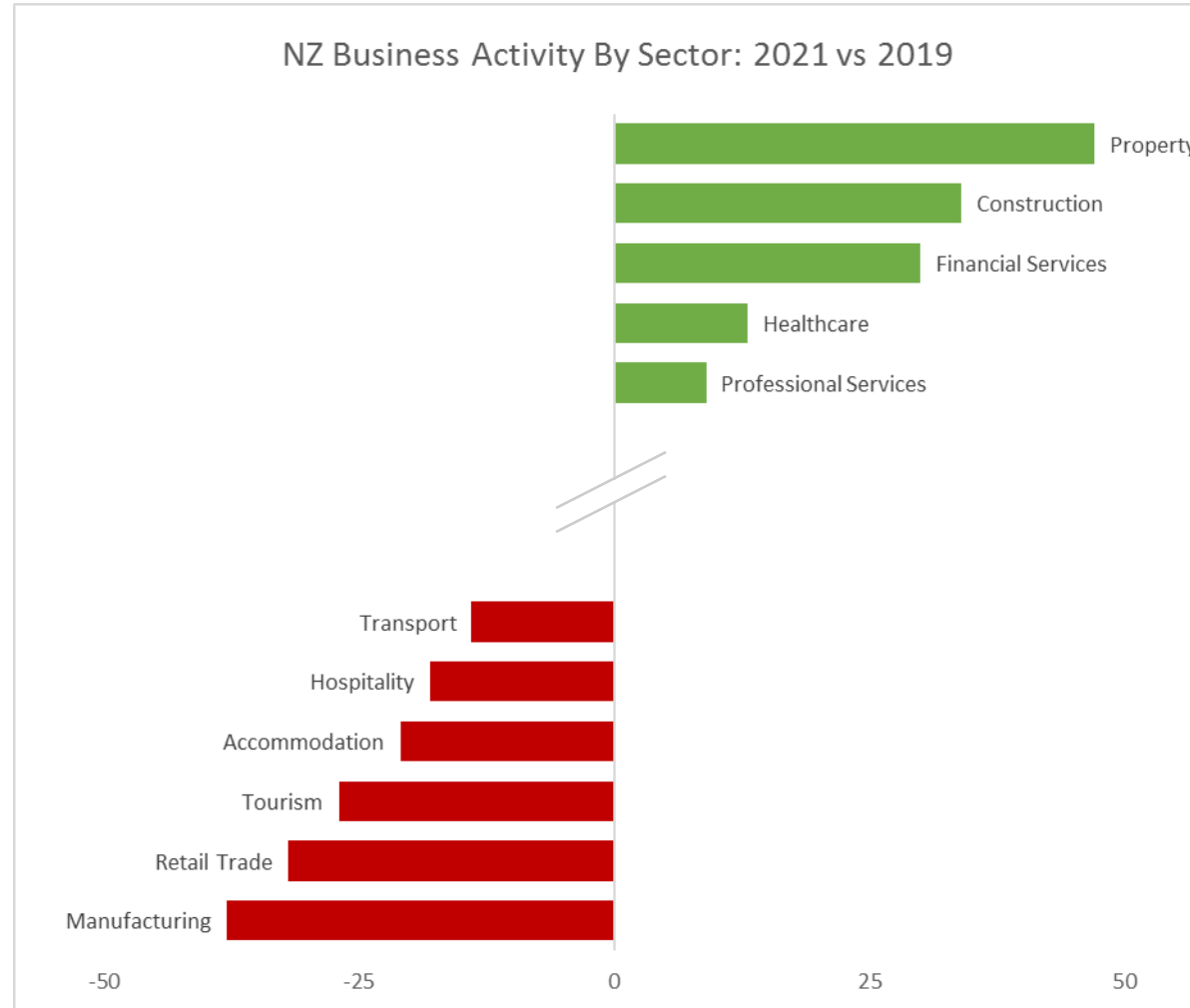


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Still challenges remain

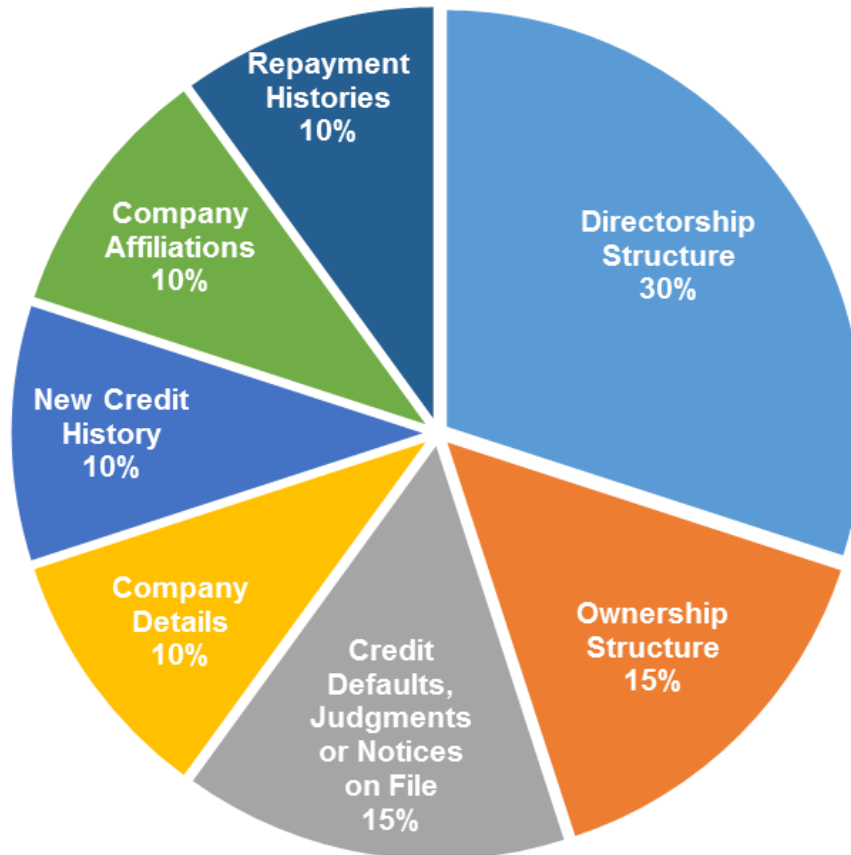
- Supply chain disruptions
- Brain drain risk. Migration to Australia.
- Labour is in short supply
- Construction is roaring hot but have shortages of skilled workers, building supplies, rising costs and delays with building consents
- Property market cooling down
- Tourism waiting for overseas borders to open
- New Government and Regulatory policies
- Remote working practices and impacts

NZ's Two Speed Economy



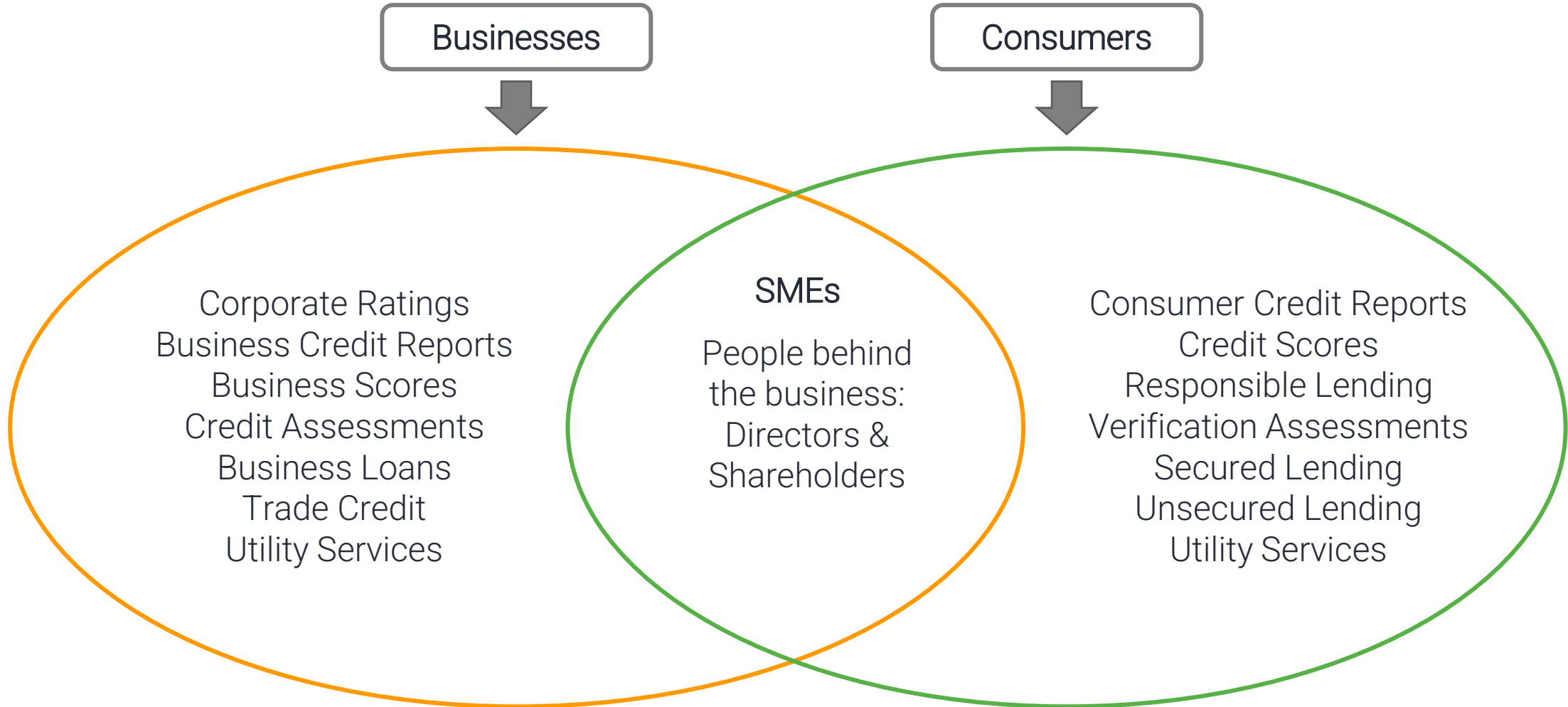
- Business activity movements for 2019 vs 2021
- Booming industries – Property, Construction, Financial Services, Healthcare and Professional Services
- Struggling industries - Manufacturing, Retail Trade, Tourism, Accommodation, Hospitality and Transport

Important factors to consider when assessing the credit risk of companies

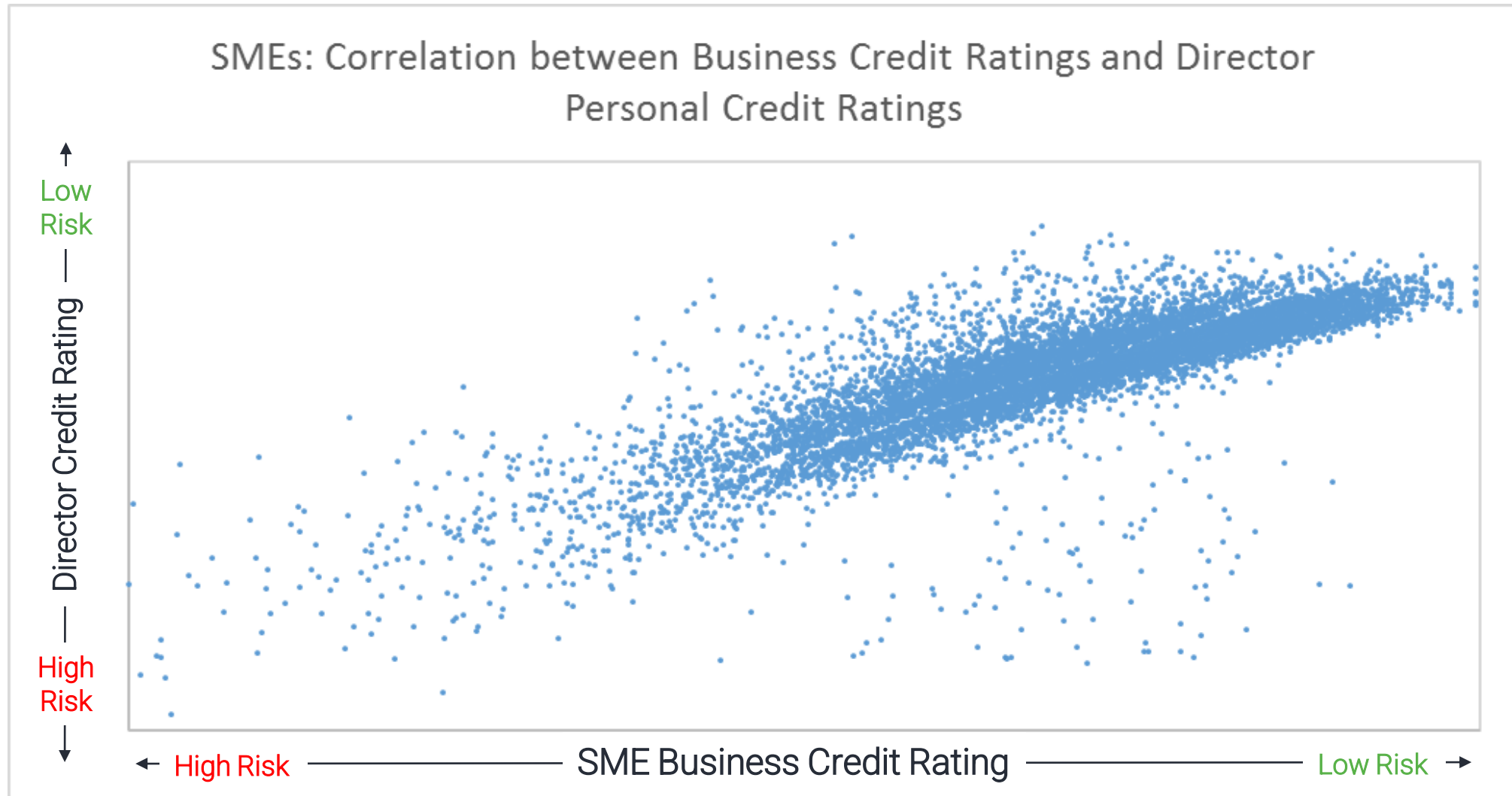


- Key contributing factors of the Centrix business score
- Designed to predict the likelihood of default or business failure.
- Directors, company details, ownership structure, company affiliations, new credit history, credit defaults, court judgments and repayment histories.

People behind the business are key for SMEs



Strong relationship between director credit ratings and SME business rating



Benefits of building a good business credit rating

- Help SMEs grow by accessing new credit faster
- Requesting higher trade credit limits
- Negotiate better terms
- Winning and bidding on more contracts
- Securing loans and capital
- Seeking more favourable interest rates
- Applying for funds to cover emergencies



Final Thoughts

Outlook for 2021/22

- **Credit conditions** look healthy for now. Record high credit scores, rising credit demand, property/construction sectors running hot and arrears at record lows. But there's still some uncertainty in the market....
- Will there be any further **outbreaks**?
- When will we reach mass vaccination? Execution of vaccine roll out plan.
- When will the **borders open vs fully open**?
- When will we start to see the Reserve Bank **tightening their monetary policy**? Impact of the rising interest rates.
- Will the **housing market** slow down as the govt measures begin to bite?
- Market conditions “too good to believe”. **Forecasting** models... “too hard”.
- We're expecting a **change in the economic winds** over the coming year.

Thank you

