illion Quarterly Report

Jan - Mar 2022

Australia

April 2022

illion

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Executive Summary

Over the past quarter, illion's data confirms that while the economic impact of Omicron appears to have been milder than previous COVID-19 outbreaks, conflict in Europe has created a new level of uncertainty.

GDP rebounded in December 2021 as a result of increased household consumption, and while this has continued to rise this year, a lack of confidence has suppressed the March 2022 quarterly figures.

Cost pressures are adding to this, especially as spikes in fuel prices cause disruption across many aspects of daily life. While this situation has improved somewhat with the recent Federal budget announcements, fuel is still generally more expensive than it has been in the recent past.

On the positive side, the ongoing removal of restrictions has allowed consumers and businesses to continue growing, and spending is likely to recover.

Confidence is higher in sectors such as property & business services, transport, postal & warehousing and agriculture. Supply and commodity price issues are emerging, however, due to the Russia-Ukraine conflict.

Risks

We are entering a new phase in 2022 – one where cash rates will go up, supply chain movements will be erratic, and payments times may continue to deteriorate in some sectors.

Some consumers will do well, but others are already financially stressed. Businesses and lenders need to be prepared to cope with ongoing change.

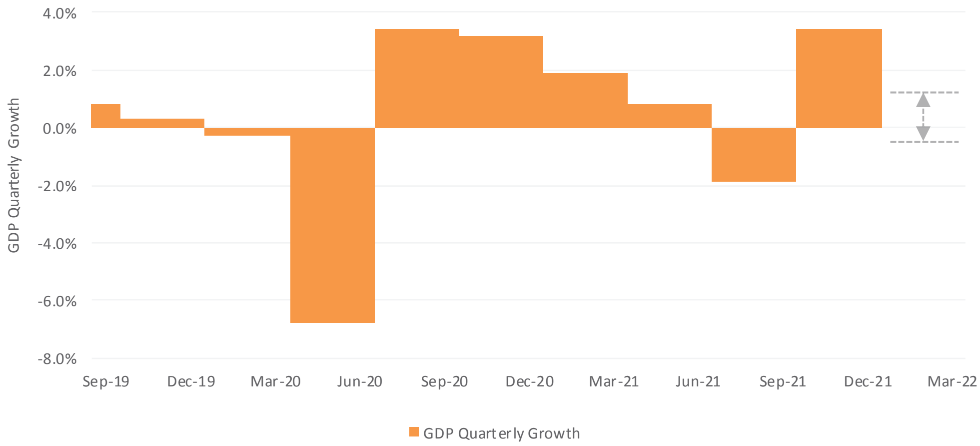
It is very important to keep track of how consumer spend and credit demand are structurally changing in order to stay ahead of the game. Being flexible and able to pivot as consumers change their consumption patterns continues to be the key to ensuring success in 2022.

The Australian economy

The economic impact of Omicron appears to have been milder than previous COVID-19 outbreaks, but the conflict in Europe has thrown another spanner in the works over the past quarter.

Gross Domestic Product

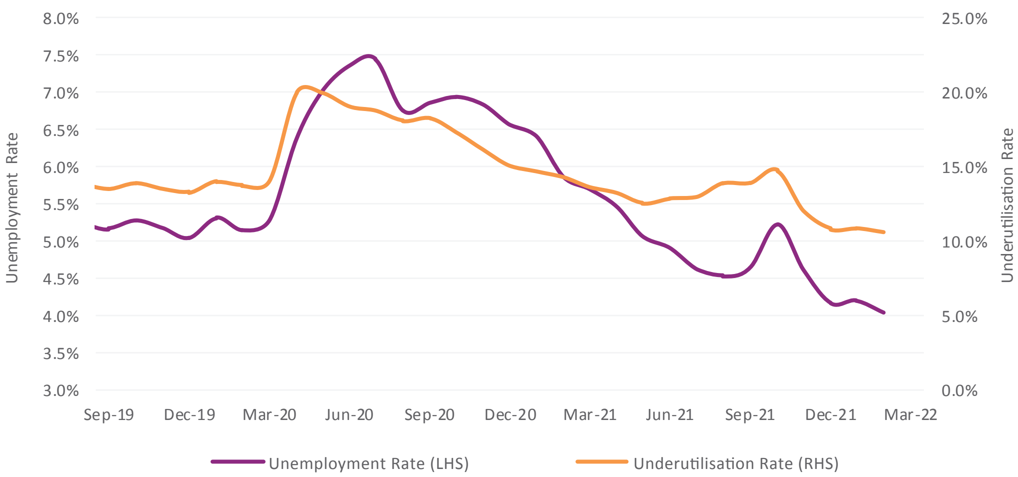
GDP rebounded in December 2021 as a result of increased household consumption. While spending has continued over the past few months, uncertainty in other areas has suppressed the March 2022 quarterly figures. Removal of restrictions will allow consumers and businesses to continue growing, and spending is likely to recover.



Source: ABS – latest data available references Dec-21. Next release in May-22

Unemployment and underutilisation

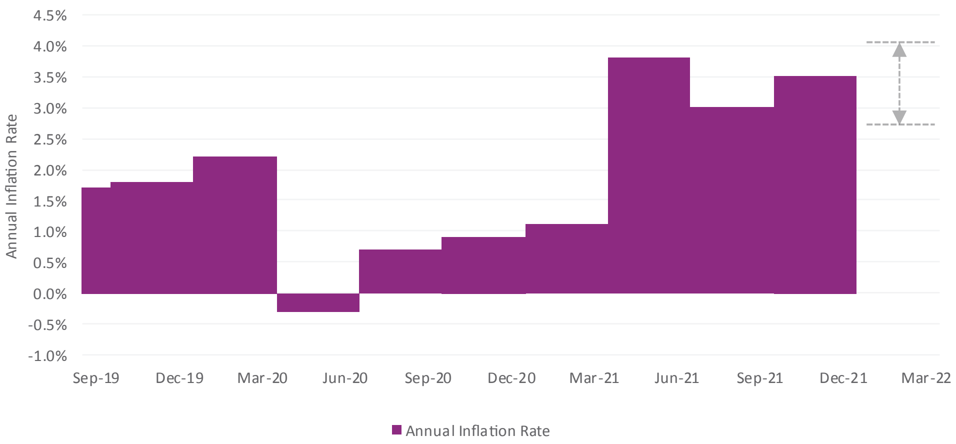
Unemployment and underutilisation continue to trend down, and the disruption from Omicron in hours worked was less than expected. Unemployment is the lowest it has been in a decade. The expected Omicron disruption was likely countered by Australia's strong vaccination response and adaptation of businesses to restrictions and outbreaks. If isolation rules are to be relaxed, strong demand for labour will translate to even lower unemployment rates.



Source: ABS – latest data available references Feb-22.

Inflation and cost pressures

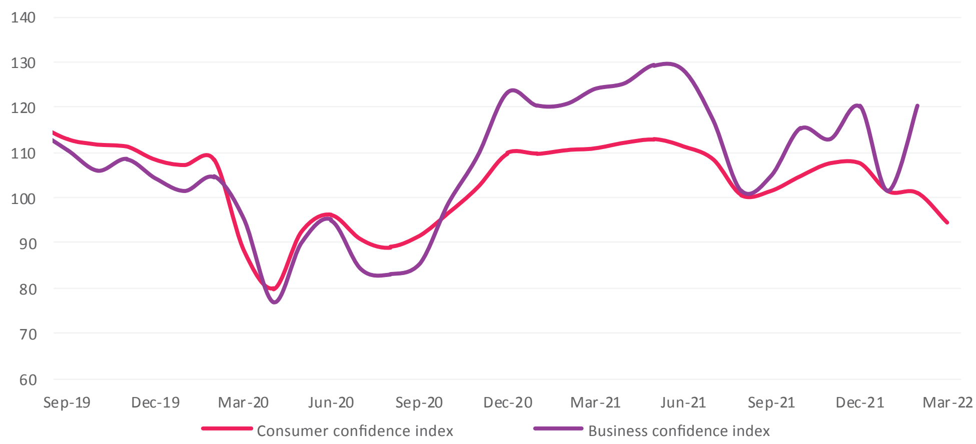
Inflation was elevated in the last quarter, but is still in line with many similar economies. Cost pressures remain as spikes in fuel prices cause disruption across many aspects of daily life. While this has improved with the recent budget announcements, fuel is still generally more expensive than it has been in the past.



Source: ABS – latest data available references Dec-21. Next released end of Apr-22.

Consumer and business confidence improving

Many businesses have defied Omicron disruption and confidence has generally bounced back. Confidence is highest in sectors such as Property & Business Services, Transport, Postal & Warehousing and Agriculture. Supply and commodity price issues are emerging, however, due to the Russia-Ukraine conflict.



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. The Roy Morgan Business Confidence Rating includes five component questions on prospects for the business economic conditions in Australia and whether now is a 'good time' or 'bad time' to invest in growing the business. Latest data available references Mar-22 (consumer) and Feb-22 (business).

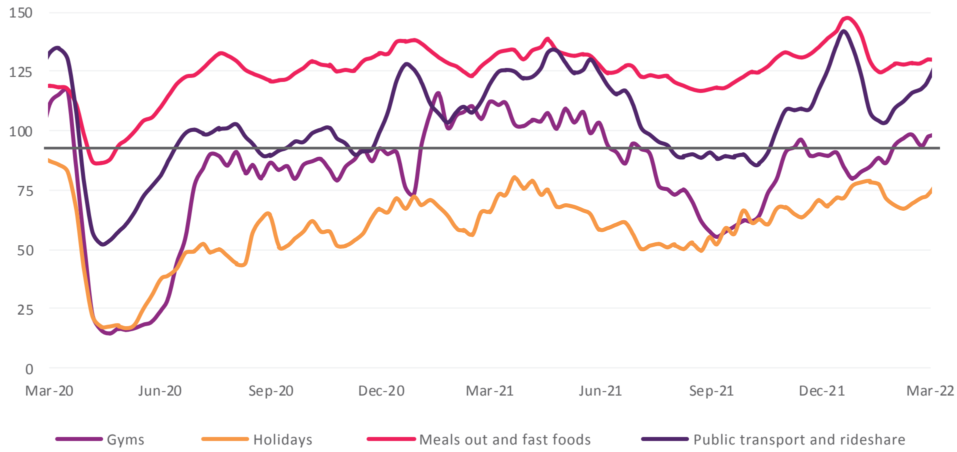
What are consumers doing?

Businesses and lenders must keep track of how consumer spend and credit demand have structurally changed in order to stay ahead of change.

As consumers change their consumption patterns, make sure your business is equipped to monitor this change and adapt efficiently.

Spending Trends - Social

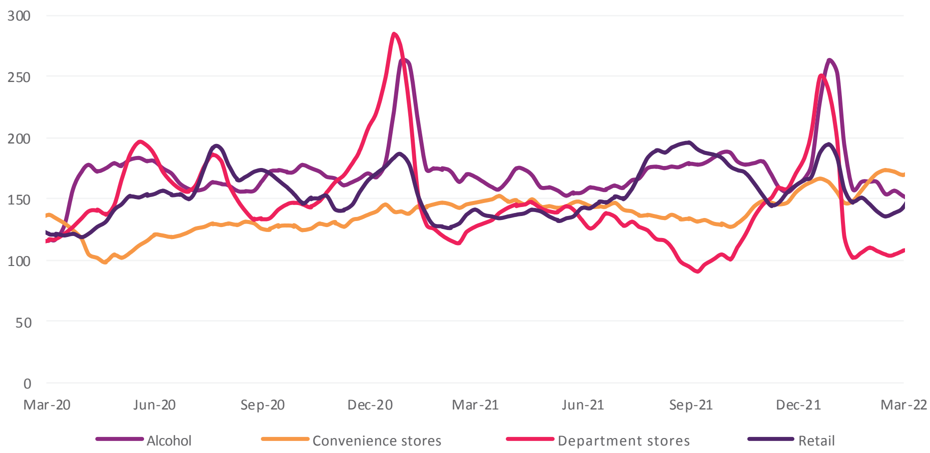
Australians are spending again. But the last two years have changed how we spend - and are changing our behaviours structurally. Movement-dependent sectors, having been freed, are now back in full swing. In particular, meal take-out and delivery services have really adapted. However, it will come as no surprise to anyone that tourism and holiday spending are still struggling.



Weekly Index of spend per person compared to a normal week. 100 represents a 'normal' week. Latest data references Mar-22.

Spending Trends - Retail

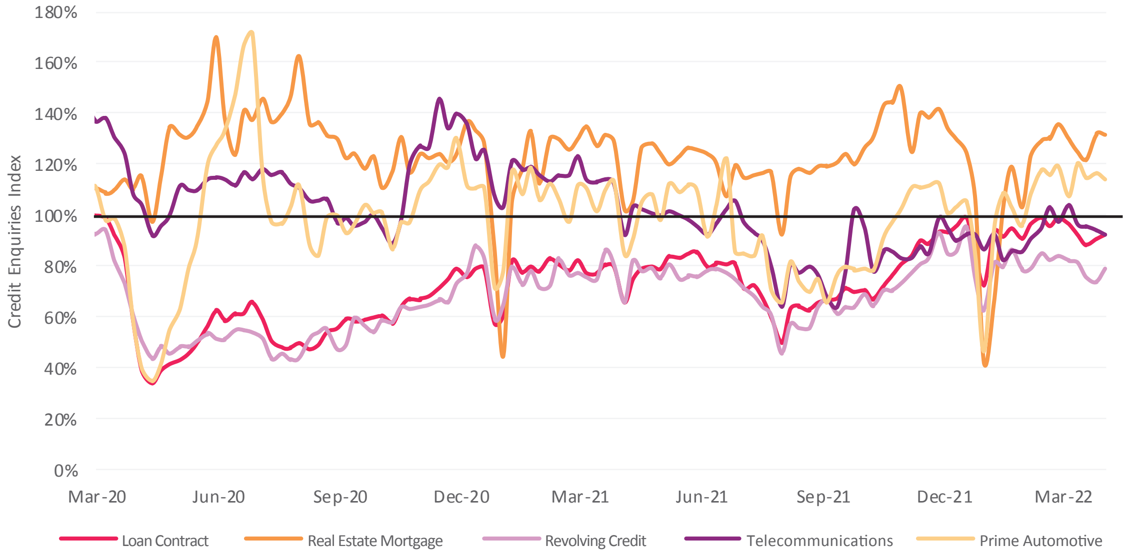
Over the last quarter, spending has been more subdued. Are consumers reacting to the increased cost of living and closing the purse strings? Businesses who want to continue moving forward need to focus on more flexible ways to get things done. For instance, the data shows department stores are not doing as well as other retail channels, suggesting flexibility in delivery may be the key to ensuring their consumers keep coming back.



Weekly Index of spend per person compared to a normal week. 100 represents a 'normal' week. Latest data references Mar-22.

Consumer Credit Demand by Product

Consumers continue to borrow, and most credit products have returned to 'normal' levels, but credit cards are still lagging behind. Strong mortgage credit demand continues, despite looming cash rate rises in 2022. Credit card demand has been lower over the quarter, as consumers adjust their spending habits due to cost pressures.



Indexed to Jan 2020

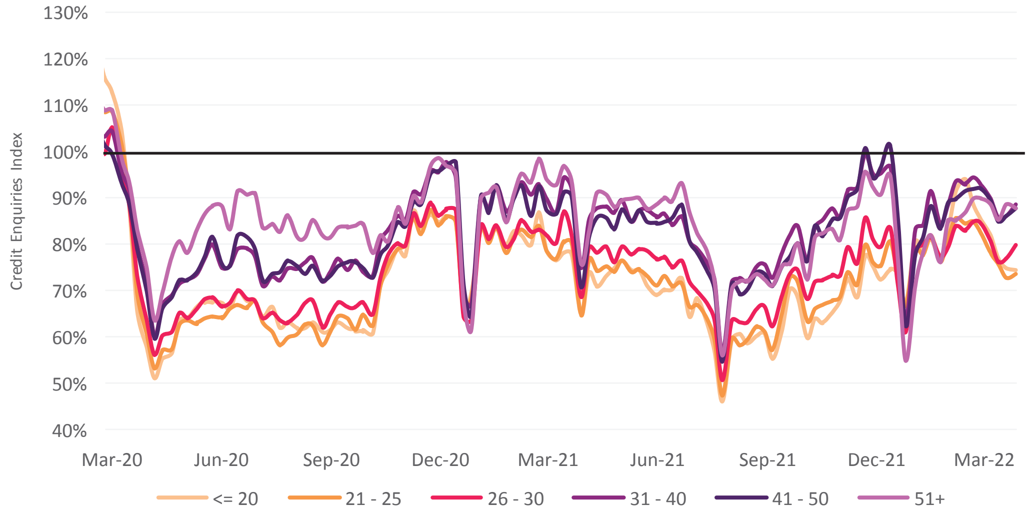
Stay ahead by embracing new products and data

Buy now, pay later (BNPL) is here to stay, and lenders need to understand why the BNPL structure is so successful and adapt their learnings into future credit products.

Do your customers want BNPL? What is your target market and how have they changed?

Consumer Credit Demand by Age Group

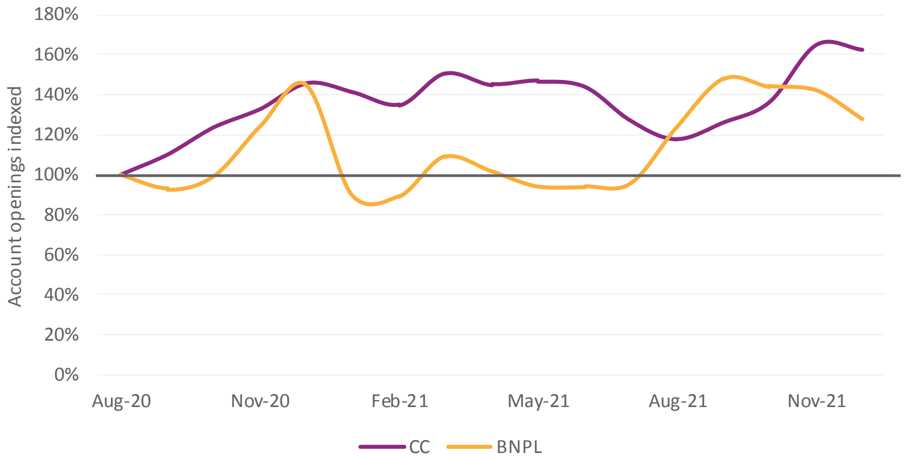
Traditional credit demand from younger groups appears to be weaker when compared with pre-COVID levels. Is BNPL influencing this demand?



Indexed to Jan 2020

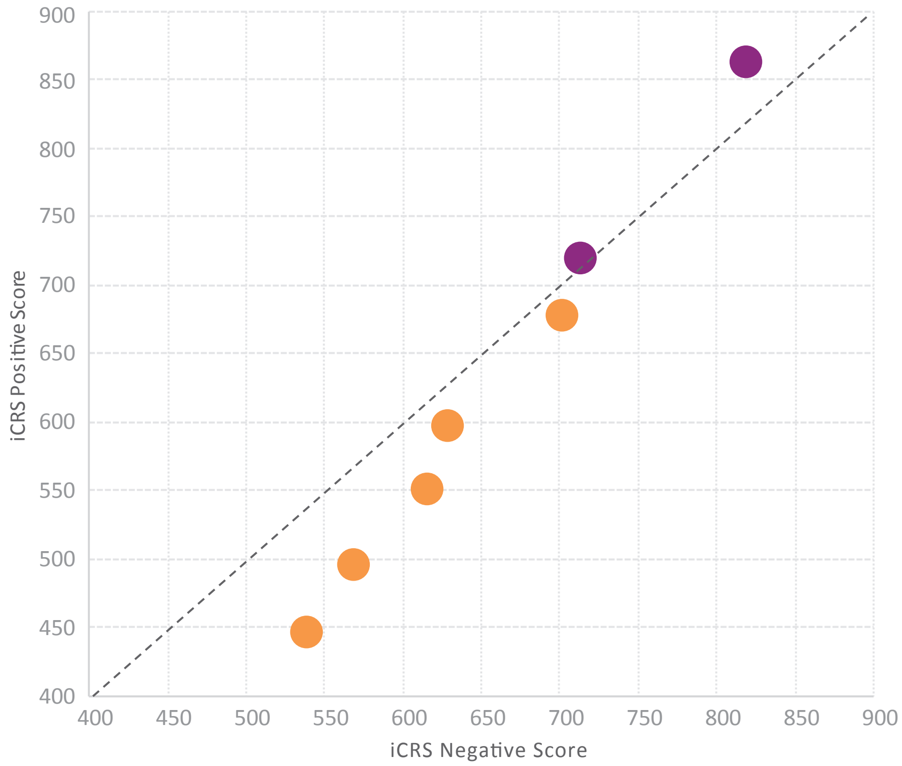
Credit Card and BNPL Credit Activity

BNPL demand has been strong, with lots of new offerings hitting the market. Some of the bigger banks have also recently started competing in this market – exposing more consumers to the advantages of this unique product structure.



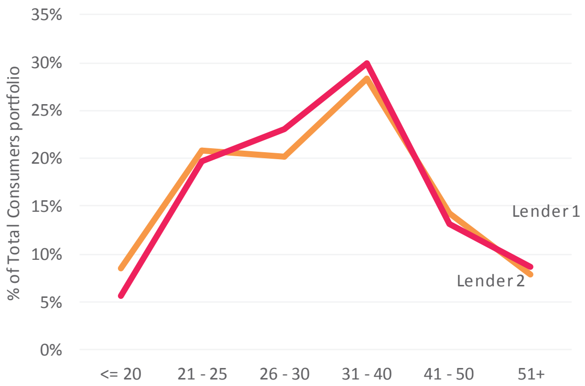
Risk Scores Comparison

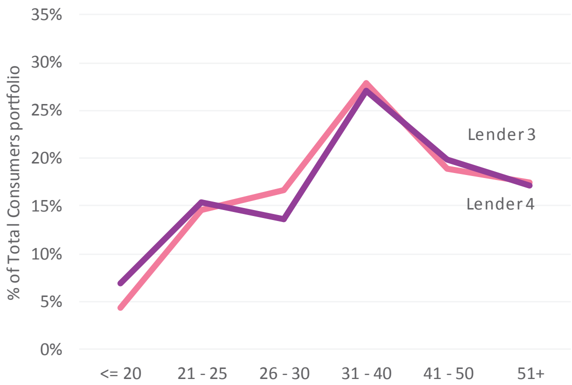
Not all BNPL providers are the same – a sample of the market shows a wide risk distribution range. Lenders positioned above the dotted line indicate that on average, their applicants have a good/better repayment history. Lenders positioned below the dotted line indicate, on average that their applicants are being scored down because of unfavourable repayment history. The wide range could indicate a very different customer base, different target markets, and differences in how customers use BNPL.



Age Distribution Across BNPL

BNPL is popular not just amongst younger groups, but across a wide range of consumers. BNPL account holders may use this facility for different purposes (e.g. cash flow management vs. primary credit tool).





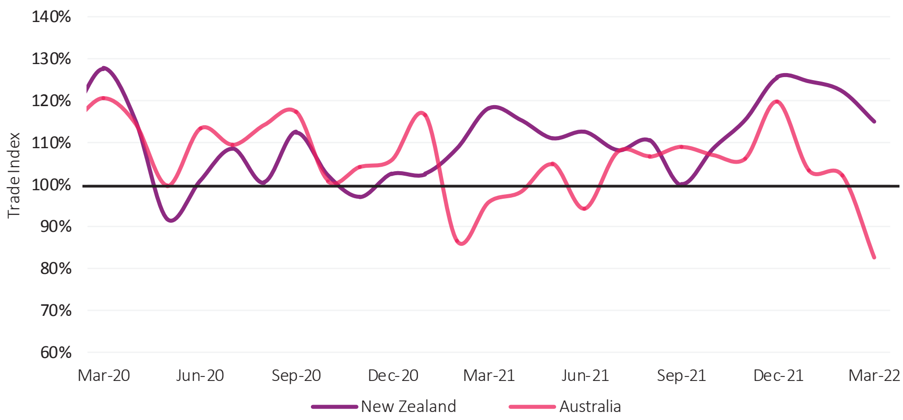
How are businesses coping?

There is still uncertainty around - international supply chain concerns, local weather events, cost pressures, but confidence is returning.

Can your business identify high-performing customers, those struggling from supply shocks, and those needing relief and support?

Trade Revenue Trends

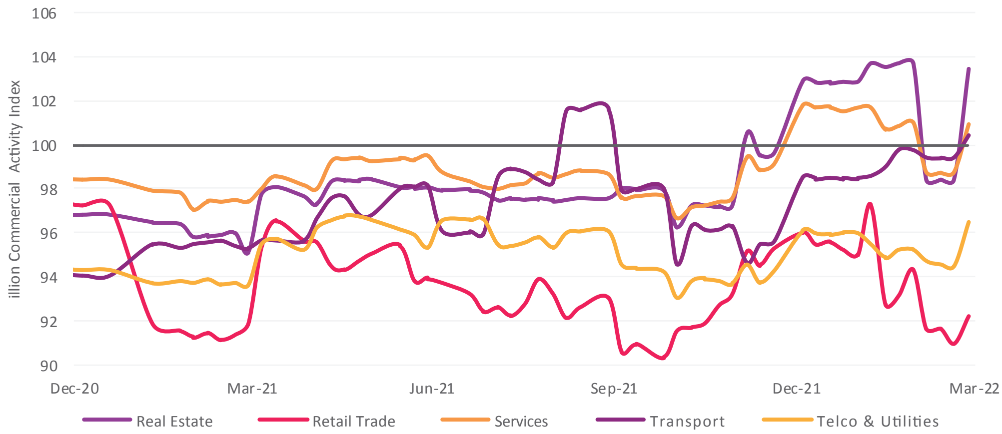
An uptick in business confidence has yet to translate to any permanent increase in trade activity, but the next few months will be telling. Revenue and activity between suppliers is still unstable across industries. Across the Tasman, different approaches in pandemic management are yielding different outcomes.



Index is baselined to March 2019 - tracks a constant pop. of c.250k companies across AU / NZ. Mar-22 data is incomplete.

illion Commercial Activity Index (By Industry)

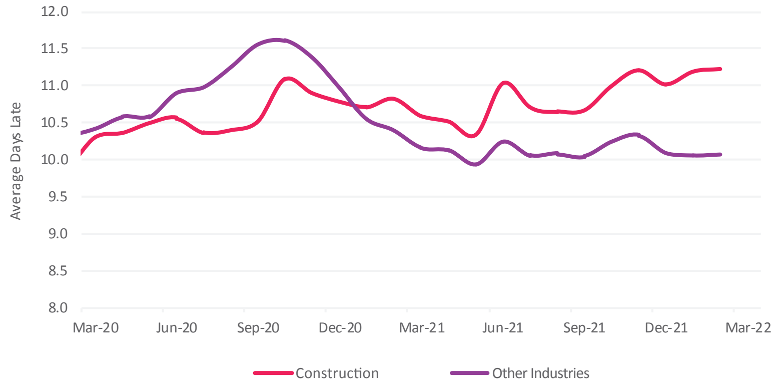
But it looks very different across different industries. Most industries are recovering. Telcos and Utilities continue to struggle, likely due to reduced industrial and commercial demand for electricity, as well as historically low wholesale electricity prices.

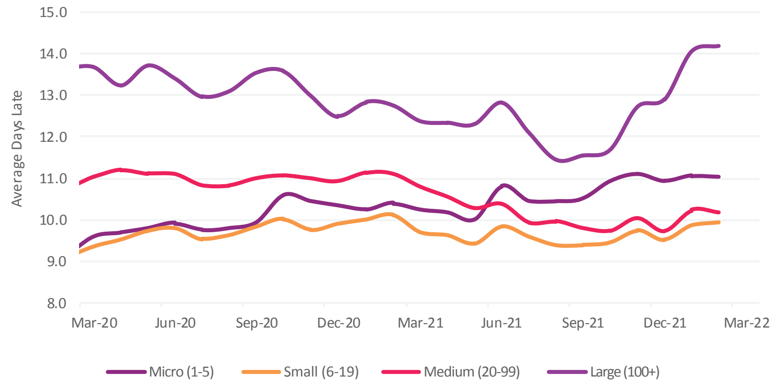


Index Interpretation: An index of 50 represents that current revenues are expected to be half what they were pre-COVID. 100 represents that current revenues are expected to be approximately the same as pre-2020. 150 represents that current revenues are approximately 50% (or more) higher than pre-2020 revenues.

Construction Focus

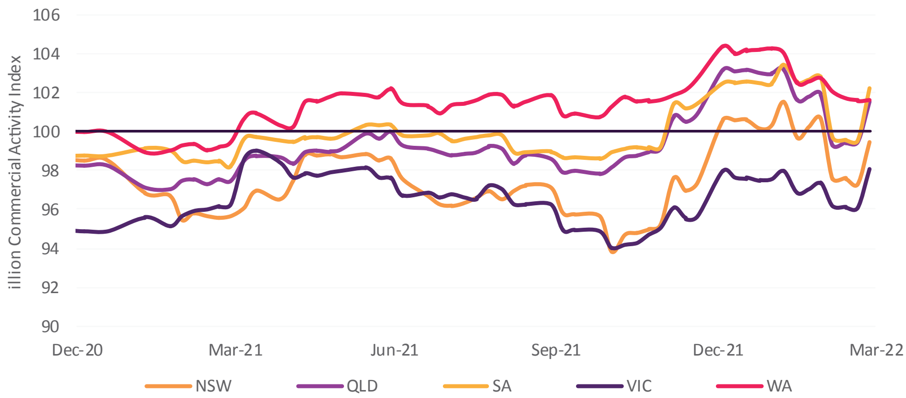
There are signs of stress in the construction industry. By comparison with other industries, payment behaviour in the construction sector is deteriorating. The construction industry has dropped 5 rankings since Jan 2020 for payment arrears. Previously they were the 4th best industry for paying suppliers on time, but are now the 9th, ahead of only the retail sector. Late payments are a key early indicator of organisations facing financial difficulty. Large construction businesses are showing signs of stress in the last two quarters with average late payments increasing by 23%. Sole traders and micro businesses have also been in a gradual decline since the start of the pandemic.





illion Commercial Activity Index (By State)

Formerly known as the illion Commercial COVID index, this measures the level of activity now compared to 'pre-2020' levels, providing a more accurate picture of how a business is performing in real terms. While business activity is back to pre-COVID levels in most states, Victoria is still lagging behind, and appears to have been most impacted by both the Delta and Omicron waves.



Index Interpretation: An index of 50 represents that current revenues are expected to be half what they were pre-COVID. 100 represents that current revenues are expected to be approximately the same as pre-2020. 150 represents that current revenues are approximately 50% (or more) higher than pre-2020 revenues.

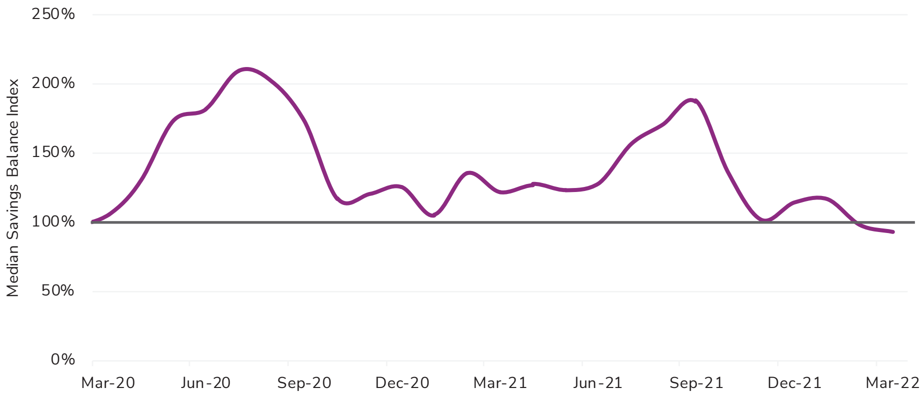
The risks

We are entering a new phase in 2022 – one where cash rates will go up, supply chain movements will be erratic, and payment times may continue to deteriorate in some sectors. Some consumers will do well, but others are already financially stressed. Businesses and lenders need to be prepared to cope with ongoing change.

illion can help navigate these challenges.

Saving Trends

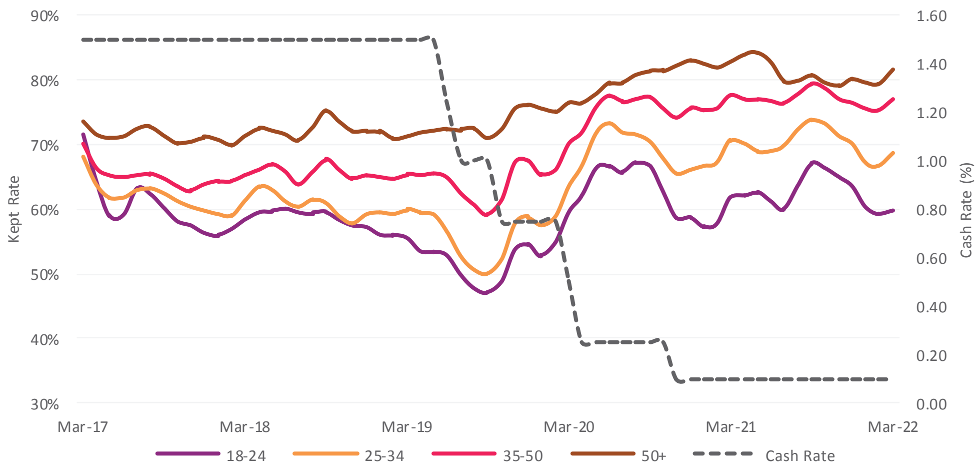
Savings tend to drop when activity picks up, but inflation is putting higher pressure on consumers. Savings balances are starting to dip to their lowest levels since 2020.



Median Savings Balance indexed to the Jan-20 value. Latest data references Jan-22.

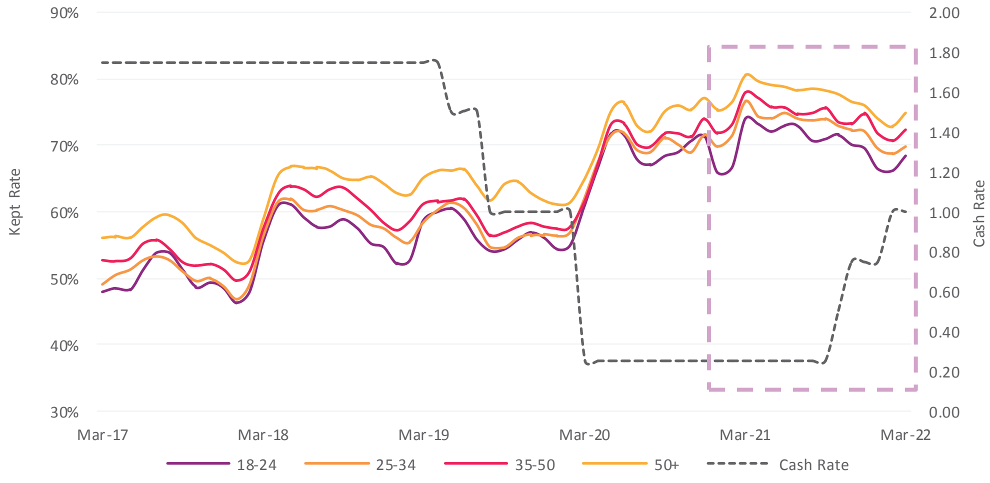
Collections Behaviours - AU

Kept rates have been relatively high over the past 24 months courtesy of a lower interest rate environment. However, there will be stress over the next 6-12 months. Low cash rates are helping consumers to sort out their finances, but there is concern over people's ability to repay debt and lenders' ability to collect as interest rates rise.



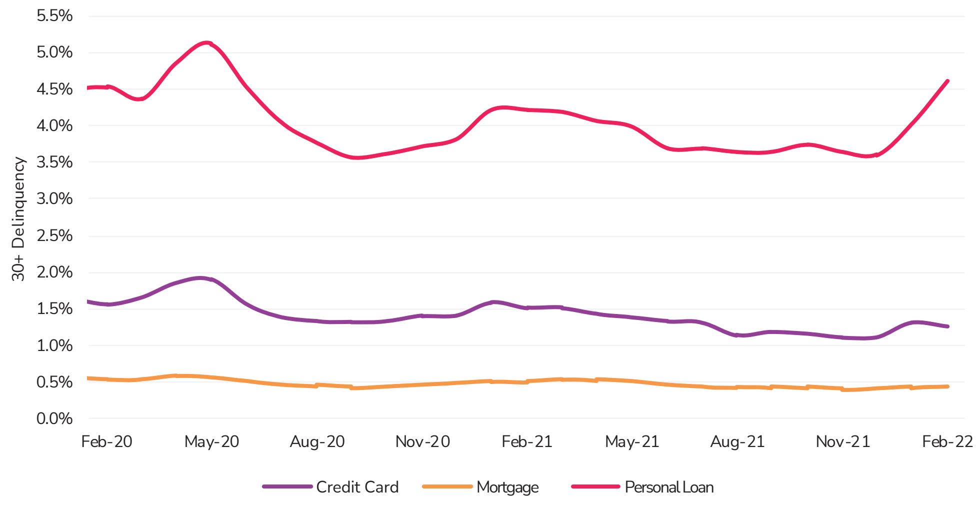
Collections Behaviours - NZ

We can see this materialising already across the Tasman. High inflation rates have forced RBNZ to raise cash rates to 1.00%. Collection kept rates have already began to taper off and decrease.



Consumer Delinquencies

Financial stress is starting to show in some segments. Delinquencies have previously remained subdued because of large-scale and broad-based support. However, stress is now starting to show, as consumers struggle with a number of different stressors.



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