What is the data telling us about 2024?

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Looking back on 2023, what should we expect in 2024?

illion's Head of Analytics, Louis Tsang has summarised the key commercial risk data points from 2023 and looks closely at the numbers to suggest what we might expect to see in 2024.

Areas to look out for in 2024

- Built up stress will materialise further into higher insolvencies across troubled sectors. Accommodation, Food Services and Retail are the sectors to watch for.
- Monitoring hardship trends will be important for home loan portfolios. 75% of home loan accounts prior to entering Hardship are not yet behind in their payments.
- Consumers with multiple credit commitments will struggle more and will have to prioritise repayments so monitoring risk across portfolios is vital.

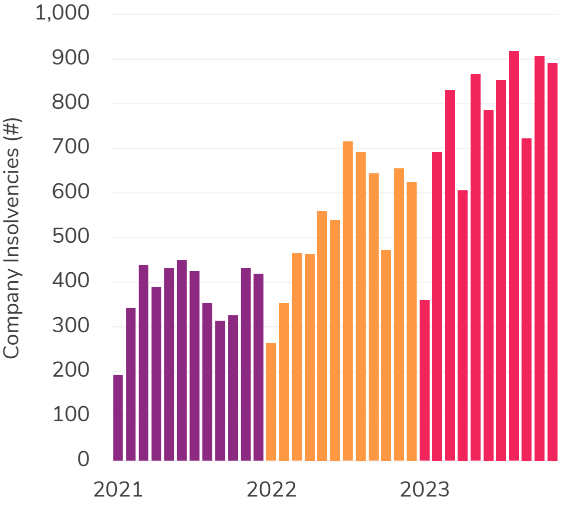
Commercial Risk

Company Insolvencies

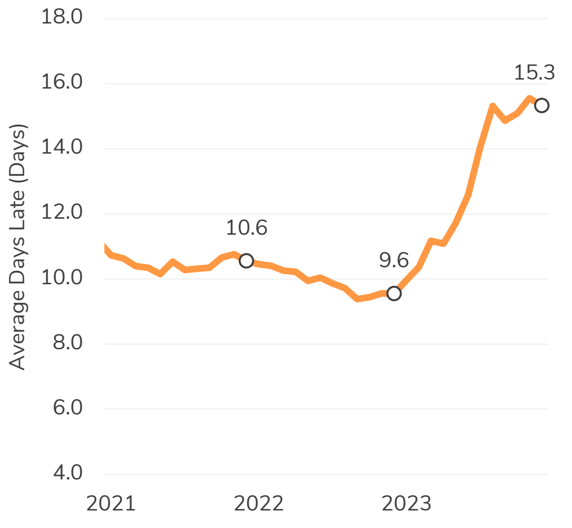
In 2023, businesses have gone through a turbulent ride. No surprise, a higher number (+43%) of businesses becoming insolvent in 2023 compared to prior year.

Over a quarter of insolvencies came from the construction (28%) industry, followed by accommodation and food services (15%).

We should see a small seasonal reprieve in early 2024 numbers but expect the elevated monthly trend to continue through 2024 as built-up stress which businesses are facing to materialise as company failures.



Commercial Risk (cont.)



Trade Late Payments

Average late payment days[1] have increased sharply in the first half of 2023, although since Aug-23 we have seen this trend flatten somewhat. Overall, the year ended 60% higher year-on-year.

Accommodation and food services and Retail were amongst the worst performing industries (up 30% and 42% y-o-y), being heavily impacted by unexpected events and consumer spending downturns. The deteriorating trends (across most sub-groups e.g. pubs, cafes, restaurants, hotels) is likely to continue into 2024.

(1) Trade late payments measure how late, beyond agreed terms, business are paying other business. Average Days Late measures the average of all companies in AU / NZ.

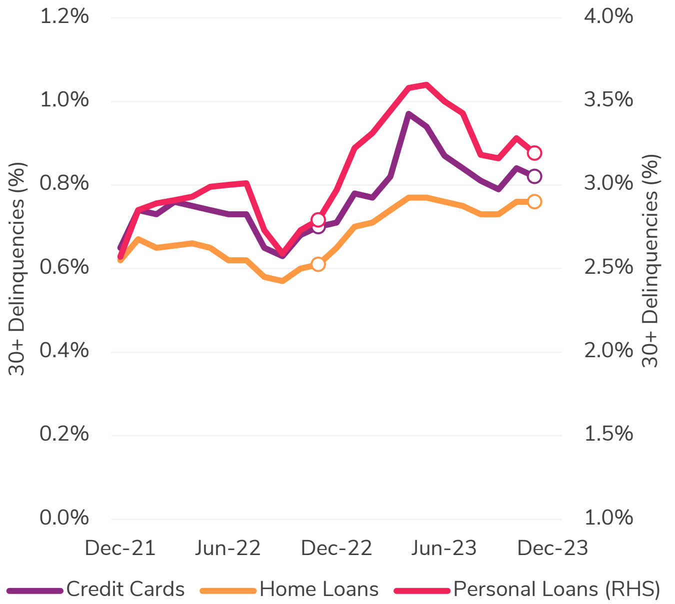
Trade Late Payments (cont.)

Construction had a historical 6-year high, but average late days have tapered in the past 3 months. It hasn't been even across the segment as well, with electricians and plumbers seem to be managing better compared to painters and tilers.

Some sectors are, however, diverging away from the deteriorating trend and doing relatively well. We're seeing manufacturing and wholesale trade performing much closer to long-term numbers.

Trade Late Payments Average Days Late	Historical Average ('18-21')	2022 Average	2023 Average
Accom. and Food	14.6	12.8	**16.7**
Construction	10.7	10.9	**13.5**
Manufacturing	12.0	10.5	**12.2**
Retail	11.6	10.2	**14.5**
Wholesale Trade	11.5	10.3	**11.7**

Consumer Risk



(1) *30+ Delinquencies are calculated as [number of accounts 1 payment behind] / [number of accounts].*

Consumer Delinquencies[1]

Credit cards delinquencies have been trending to seasonal expectations - the sharp increase seen in personal loans in early 2023 have seasonally subsided but still ended the year 14% higher.

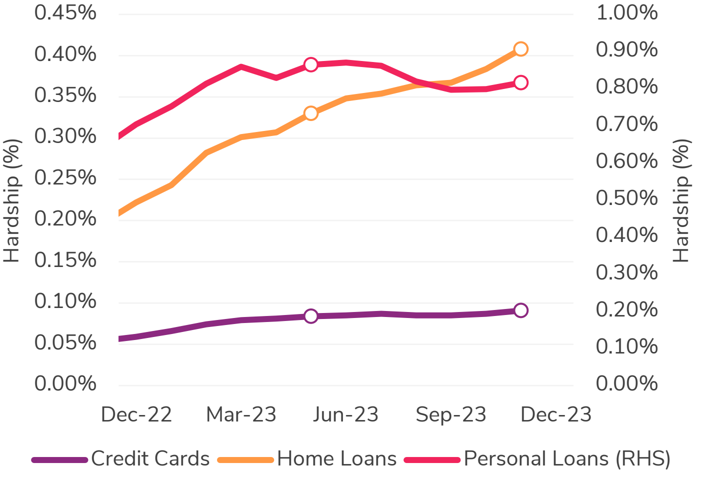
The number of home loans with payments behind have increase 25% y-o-y. Recent vintages written after mid-2022 are driving this increase (i.e. some loans going to arrears much quicker).

The increases observed in early 2023 seem to be tapering off, but it seems like home loan 30+ delinquencies will stabilise at a higher base in 2024.

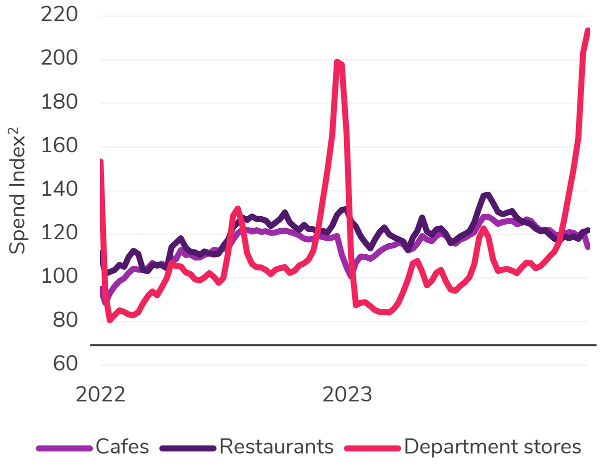
Hardship

More consumers have entered into Hardship arrangments[1] in 2023, especially in the home loans portfolio where 0.4% of all home loan accounts (roughly 23,000 accounts) are in some sort of temporary hardship arrangement.

Even though inflation has slowed if credit repayments remain high throughout the year, we will see more consumers seeking support from their lenders in 2024.



Consumer Risk (cont.)



Consumer Spending

Despite the clear challenges consumers are facing, there has been no significant decrease in consumer spending.

Spend at cafes and restaurants over the last 6 months of 2023 have been roughly the same compared to the same period in 2022.

Spend data at department stores in the months leading to Black Friday/Holiday sales showed signs of slowing down – but consumers have been out in force spending (roughly 3% more in the last 6 weeks compared to the same period last year).

(1) Hardship % calculated as [number of accounts flagged as "A" (Temporary arrangement)] / [number of accounts]. Mandatory reporting of Hardship volumes started in July 2022.
(2) Indexed to the average weekly spend in 2021.

How can we help?

illion can help you to prepare for any headwinds you may face in 2024.

Contact us at **clientrelationshipteam@illion.com.au** or call **13 23 33**.

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