

Wednesday, 19 April 2011.

Credit proving a challenge for consumers

One in three expect difficulties meeting their upcoming credit commitments

Nearly one in three Kiwis believe they will experience some difficulty meeting credit commitments in the next three months and one third anticipate using their credit card to cover otherwise unaffordable expenses. At the same time 27 percent of people intend to apply for new credit in the June quarter of 2011.

These are some of the findings from the latest Dun & Bradstreet *Consumer Credit Expectations Survey* released today. The survey was conducted by Taylor Nelson Sofres in March* and examines peoples' expectations for credit applications, credit usage, and spending and debt performance in the June quarter 2011.

Key findings from the survey include:

- 27 percent of people expect to apply for a new credit product
- 19 percent of people expect a higher level of debt – this number jumps to 27 percent for people aged 50+ years
- 34 percent of people expect to use their credit card to pay for otherwise unaffordable expenses – the number jumps to 56 percent of people living in Christchurch
- 27 percent of households expect to make a major purchase, while 22 percent have decided to delay making a major purchase
- 28 percent of people anticipate difficulties in meeting their credit commitments
- 43 percent of people believe a rise in interest rates will have a negative impact on their finances.

Overall the survey indicates that while Kiwis have a reasonably strong appetite for credit they are concerned about their capacity to effectively manage debt levels. Expectations of relying on credit cards for otherwise unaffordable expenses and worries about meeting future credit commitments are the strongest indication of this concern.

Dun & Bradstreet General Manager John Scott believes the latest data points to the financial pressure many households are experiencing as a result of debt levels remaining at historic highs – around 150 percent - despite recent talk of household deleveraging following the Global Financial Crisis (GFC).

“Household de-leveraging has been a regular theme in economic commentary over recent months. However, debt levels remain at historic highs and many households continue to struggle balancing their income and credit commitments”, said Mr Scott.

“This survey shows that many Kiwis are using credit in ways that may eventually harm them and future interest rate rises later in the year may be the trigger that causes distress for many households.”

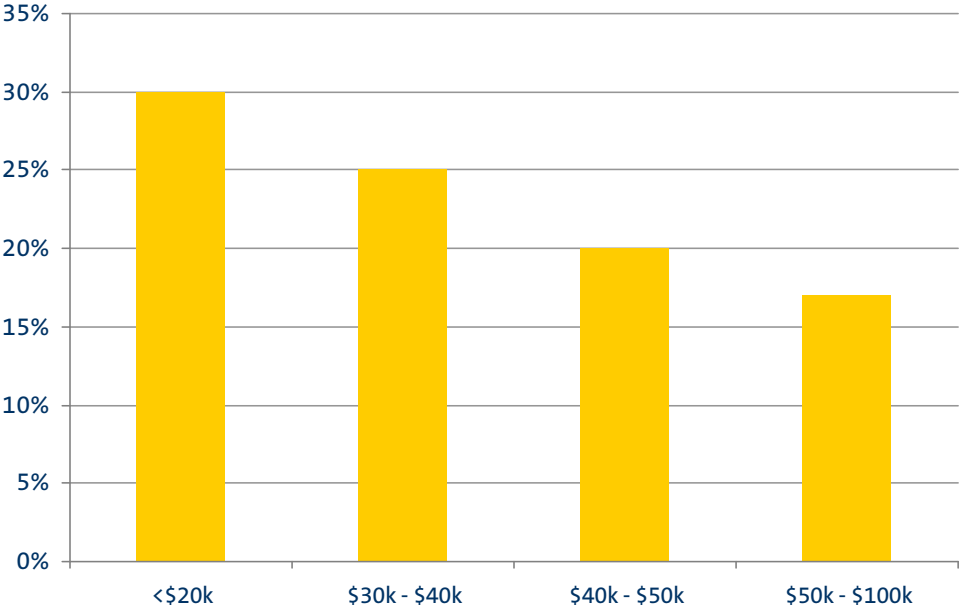
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Level of household debt

Nineteen percent of people expect to have a higher level of household debt by the end of June and 23 percent expect lower levels. Surprisingly, 27 percent of people aged 50 years and over expect to have higher debt levels by the end of the June quarter; a demographic that most would expect to be in the debt retirement phase.



Expectations of higher household debt level (income)

Use of credit card to pay for otherwise unaffordable expenses

Thirty-four percent of people expect to use their credit card to cover otherwise unaffordable expenses. The number jumps to 47 percent for people aged 18 – 34 years. The number is also higher than average (42 percent) for households with children.

Geographically, Christchurch is the region with the greatest need to use credit cards to pay for otherwise unaffordable expenses. Fifty-six percent of people in Christchurch said they would use their credit card in this way during the June quarter.

Meeting credit obligations in next three months

Twenty-eight percent of people expect to face a level of difficulty in meeting their credit obligations throughout the June quarter. Again it is older people who have the greatest concern. Thirty percent of people aged 50+ years expect some difficult in meeting their credit commitments over the next three months.

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Interestingly, given the high number of Christchurch residents who expect to use their credit card to cover expenses in the coming months, they have a lower number of people than average who expect difficulties meeting upcoming commitments (14 percent).

Impact of interest rates rises

Forty-three percent of people believe a further rise in interest rates would have a negative impact on their finances, with 29 percent anticipating a minor negative impact and 14 percent a major negative impact. Households with children have the greatest level of concern with 47 percent of these households reporting a negative impact if interest rates were to rise in the next three months.

Dun & Bradstreet believes that the solution to potential stress involves action by government, lenders and borrowers.

“Lenders need to ensure they are conducting rigorous credit checks that examine a borrower’s total credit exposure. Government can help in this regard by pushing ahead with its plan to introduce comprehensive credit reporting. This reform will ensure lenders have better information on which to base lending decisions”, said Mr Scott.

“Consumers are also part of the solution. They need to think carefully about the credit they are seeking and how they are going to use that credit. Any decision to apply for new credit or increase their credit card limit should begin with obtaining a copy of their personal credit report so they understand their current credit position.”

- ENDS -

Media notes

** This TNS survey was conducted online for Dun & Bradstreet, surveying 1000 adults aged 18-64 years.*

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