18 October 2011

CONSUMERS CAUTIOUS HEADING INTO CHRISTMAS

New Zealand consumers are putting their credit cards away in the lead up to Christmas.

According to the Dun & Bradstreet survey[1] of *Consumer Credit Expectations*, nearly half of all consumers will use their own savings to pay for additional expenses over Christmas.

Dun & Bradstreet general manager, John Scott says it is unusual for consumers to be so reserved with credit cards during the Christmas period.

"Kiwi consumers have had a turbulent year and it shows in their approach to spending this Christmas. In particular, there is an unusually conservative attitude to new lines of credit or limit increases heading in to the holidays," Mr Scott said.

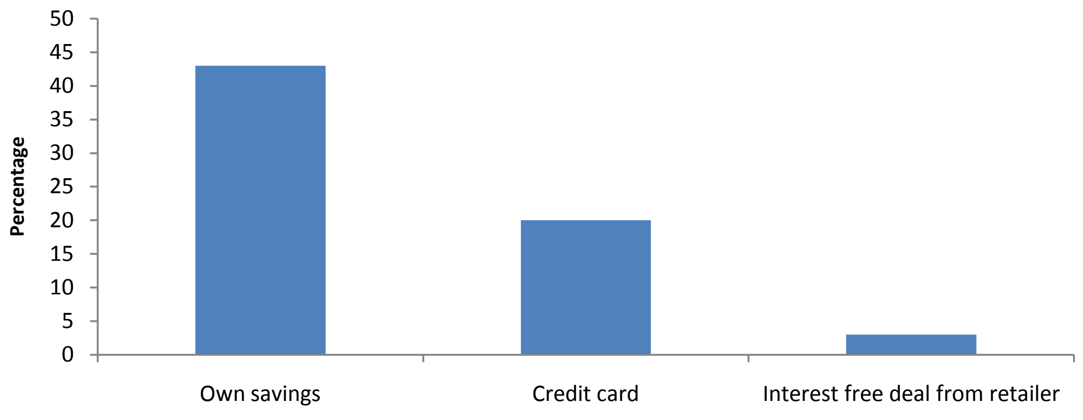
The survey, which focuses on New Zealander's expectations for savings, credit usage, spending and debt performance, also found that only five per cent planned to apply for a new credit card.

Likewise, only nine per cent of Kiwi consumers plan to apply for a credit limit increase

This correlates with findings that many consumers will avoid holiday spending altogether; with three quarters of consumers saying they had no plans to make a major purchase over the next three months. Of those planning a major purchase, 72 per cent said they would use their savings.

"This does not bode well for key sectors, particularly retail, which has already experienced soft demand this year. At this stage it is doubtful whether consumers will deliver as expected this Christmas."

Paying for Additional Expenses in the December Quarter



"Of particular concern is the fact that potentially exposed demographics, including younger consumers, low income households and families with children are continuing to access credit despite the prospect of increasing financial stress," Mr Scott said.

"This indicates that default risk will remain prominent for credit providers in the months ahead. It also suggests that certain demographics could find themselves in further trouble early next year."

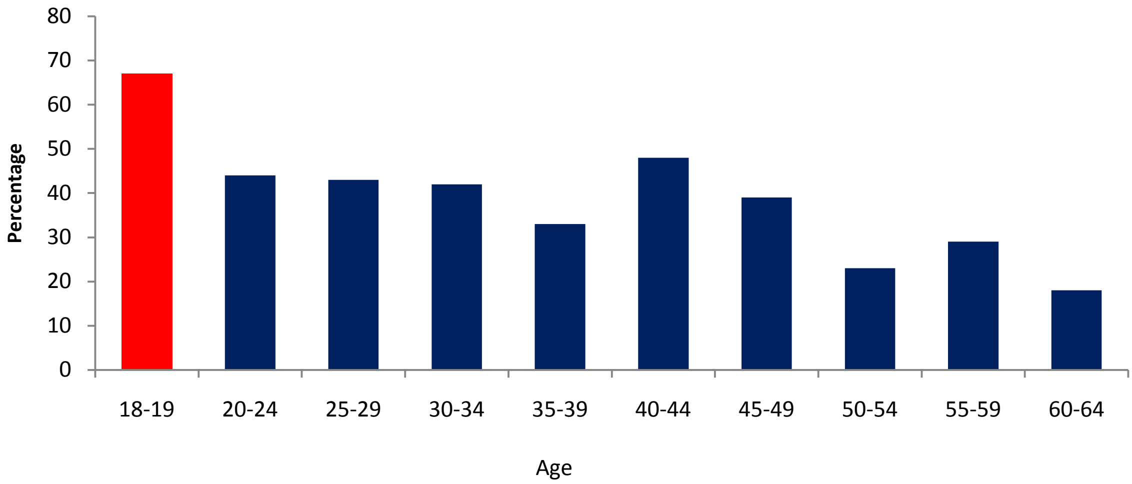
One in five low income households (<$40K p.a.) report their debt levels will rise leading up to Christmas, and over one third expect they will have difficulty meeting credit commitments over Christmas.

More than a third of families with children anticipate having trouble meeting their credit obligations over the next three months compared with just over 20 per cent of households without children.

The survey also found younger Kiwis were the most likely to rely on credit for purchases, with more than two-thirds of 18-19 year-olds expecting to use credit over Christmas.

"Younger consumers find credit-related debt easy to accumulate and very hard to get rid of. We often see younger people with debt well above manageable levels and of course bad debt can haunt you long after the purchase is made and forgotten," Mr Scott said.

**Use of Credit Card by Age Group
in the December Quarter**



"Debt levels are becoming increasingly difficult for families to manage, particularly for low income households. Unmanageable personal debt is never just one person's problem, it ultimately affects the economy as a whole," Mr Scott said.

"While consumers appear to be shying away from new credit-related debt as Christmas approaches, many are struggling to manage existing debt levels, in particular the most vulnerable households such as those with children or a low combined income."

Just two per cent of those surveyed would prioritise their mobile phone bill over other commitments if they found themselves short of cash over the holidays. The vast majority would prefer to repay their mortgage (30%) or credit card (17%).

Mr Scott said it is unsurprising that phone bills are one of the first to be delayed when times are tight, but this raises significant issues under the new positive credit reporting system to be introduced in New Zealand next year.

“Consumers need to understand that mobile and home phone payment behaviours will start having an impact on their credit rating under the new system. Consumers can no longer afford to be blasé about their phone bill.”

Consumers can obtain a copy of their personal credit report at www.dnbcreditreport.co.nz

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Notes
* This TNS survey was conducted online for Dun & Bradstreet in September for the December quarter, surveying 1000 adults aged 18-70 years.

Dun & Bradstreet Consumer Credit Expectations Survey

Key findings for December quarter:

D&B's survey reveals that the demographics demonstrating the highest level of financial stress are predominantly low-income earners, unemployed individuals, families with four or more children and surprisingly, those of workforce age (30-44 years).

These demographics are more likely to put big purchases on credit and apply for a new credit card. However, they are also more likely to encounter difficulties paying off their credit card bills and expect an interest rate rise to have a negative impact on their finances.

Location

Almost 40 percent of Auckland and Wellington residents will use their credit card to pay for items they couldn't otherwise afford with cash, as compared to the national average of 34 percent.

The majority of people living in these two cities also expect to make a major purchase in the next three months, with more than three-quarters not expecting to delay any of these purchases. Auckland residents are also the most likely to apply for a credit limit increase.

"While the spending habits of people living in New Zealand's biggest city are not out of the ordinary, they likely reflect the stimulus of the ongoing Rugby World Cup, which is expected to generate up to NZ$267 million in direct economic benefits for Auckland," said Mr Scott.

"However, the booster effects of the event are likely to be temporary and it would be interesting to see if Kiwis revert to a more cautionary nature after the event."

In contrast, Christchurch residents are the least likely to apply for new financial products such as a new home loan or new rental property loan, despite the need to rebuild houses after the February earthquakes.

Only 15 percent of people in this area anticipate difficulties in meeting credit obligations, consistent with the fact that 82 percent of Christchurch residents would pay for major items from their savings rather than on credit (40 percent).

Income

Those earning below $40,000 per annum are showing the most financial distress, with 33 percent of people in this group indicating they will face difficulties in paying off their credit cards as compared to the 25 percent national average. This figure falls to 12 percent for people earning more than $100,000 per annum.

However, the most important bill to pay for low income earners is not their credit card bill but their electricity bill (23 percent). Only 15 percent of low income earners rank paying their credit card bill as the most important, two percent below the national average.

On the other hand, high income earners with salaries above $100,000 per annum indicate their mortgage to be the most urgent bill over their credit card, insurance, phone and electricity bills.

People in this group are also less likely to encounter difficulties in meeting credit obligations with only 12 percent falling into this category, as compared to 33 percent of low income earners.

Despite data indicating that wealthier individuals are better off credit-wise, a potential interest rate rise is expected to negatively impact people across all income brackets and is particularly true for those earning over $40,000.

Age

D&B data reveals that individuals aged 30-44 years are more likely to experience financial stress with over a third intending to delay major purchases they had previously planned to make, as compared to the national average of 25 percent.

In particular, 30-34 year olds would rather pay from their savings (73 percent) than on their credit card (35 percent). Thirty percent of those in this age group are also the most likely to experience difficulties in meeting credit obligations as compared to 13 percent of youths.

However, this number jumps to more than a third for people aged 55 and over. In addition, 16 percent of those in this age group expect to access money through their mortgage to pay for major purchases.

“This is quite surprising as we would normally expect people at the retirement age to easily meet credit card commitments but this has not been the case. Although the workforce-age group has exhibited potential for significant financial distress, the fact that retirees are using their mortgage money is extremely worrying and is a sign of poor financial planning.”