Consumer Stress Barometer

Australia | June 2025

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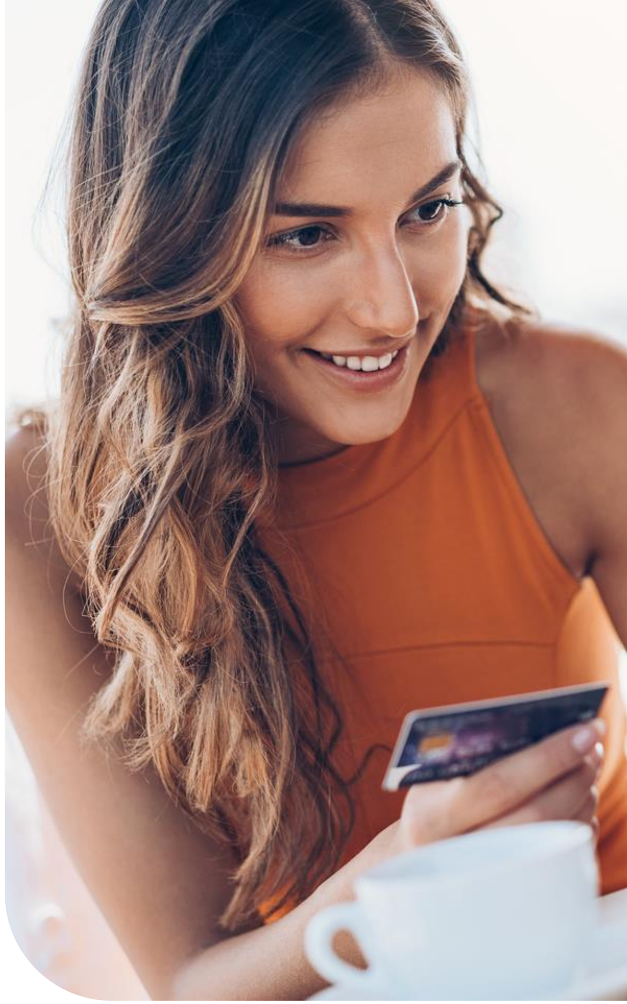
Summary observations

The Credit Stress Barometer reveals a return to rising credit risk, similar to that seen in 2023 (as interest rates rose substantially). This credit default risk is now higher than the previous peak in July 2023.



The Credit Stress Barometer for March 2025 indicates that the credit default risk of Australians is on the rise again, after having shown signs of stability (albeit, with seasonal fluctuations) up to late 2024. The rise in credit stress is showing no clear sign of peaking, increase uniformly, and reaching a new high. The overall trend since November 2024 suggests that credit risk may continue to rise through 2025 and become entrenched.

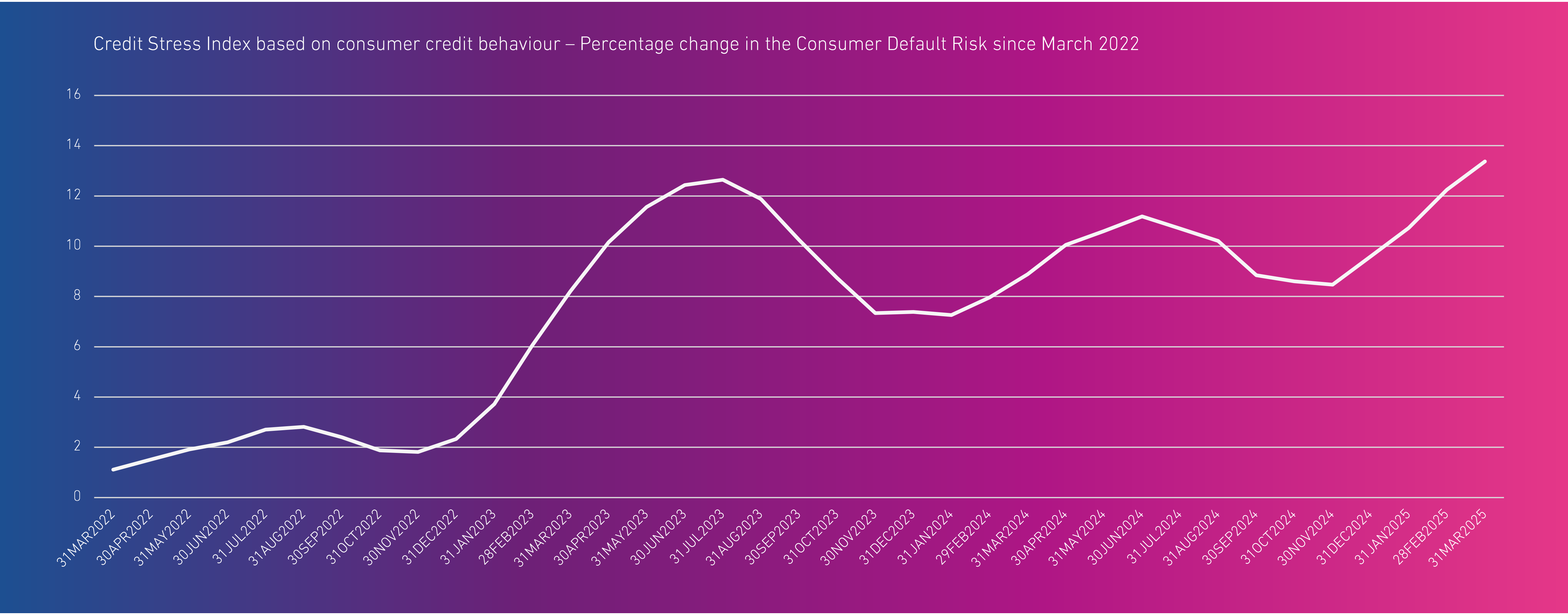
The rise in credit default risk is showing a similar trend to that seen in 2023, when higher inflation and interest rates were putting stress on household budgets. Therefore, while 2024 saw some respite in credit risk, 2025 may expose households to higher stress again. Overall, credit default risk is now nearly 14% higher than at the beginning of 2022 and higher than at any point post-COVID (even more than the previous peak in July 2023). This risk has risen substantially since November, climbing by over 60% in relative terms (or 5% in absolute terms).

Looking more closely into the credit stress of Australians, we have observed that Credit Card and Mortgage holder risk has climbed in 2025 (after a return to relative stability in 2024). Payment delinquency and hardship rates have together climbed significantly, with the overall credit risk of Mortgage holders in Q1-2025 climbing at 3-times the rate seen in Q1-2024.

Consumers at greatest risk of credit default are 20-something credit card holders and 30-something mortgage holders, although a fairly broad age-range has been affected by rising credit risk Lower wealth groups (even where incomes are moderate) are at greater risk, especially if they a renting, but mortgage-belt Australia is similarly affected, especially families with young children.

Renters continue to be directly affected by economic headwinds (through higher rents - up 10% in early 2025 YOY), while young families are affected by high mortgage servicing costs as well as higher child-care fees (up 10% YOY) and the rising price of meat (20% higher YOY). That said, young singles and older Australians are not immune to these risks. As such, this substantial deterioration is a warning sign for lenders to closely monitor the financial health of new customers and existing borrowers throughout 2025.

The barometer to March 2025



Overview

Key observations for the March 2025 quarter

Credit stress increase	Overall credit stress has risen quite substantially in the March quarter (by 3%), with that of Mortgage-holders rising 4.5% and Credit Card holders by 3.5%. Credit default risk is now higher than the levels seen at the height of inflation and rising interest rates.
Rising default risk	Credit default risk has risen consistently in the March quarter with no sign that this has peaked. This rising trend presents a warning sign for higher levels of mortgage stress (and broader consumer credit stress) through 2025.
Young mortgage-holders and renters vulnerable	Younger families and single parent households are looking most vulnerable, especially those living in outer suburbs and regional centres.
Higher expenses on staples leading to lower savings	Household expenses on rent and child-care have affected younger families, while the rising cost of meat will have affected the budgets of most Australian households. This has led to household savings falling by around 5% in the year to February).

Credit stress is rising again, especially amongst Credit Card and Mortgage holders

Credit stress has reappeared in 2025, especially amongst mortgage-holder, suggesting that housing affordability and debt servicing are still fundamental issues that require significant fiscal initiatives by households and governments.

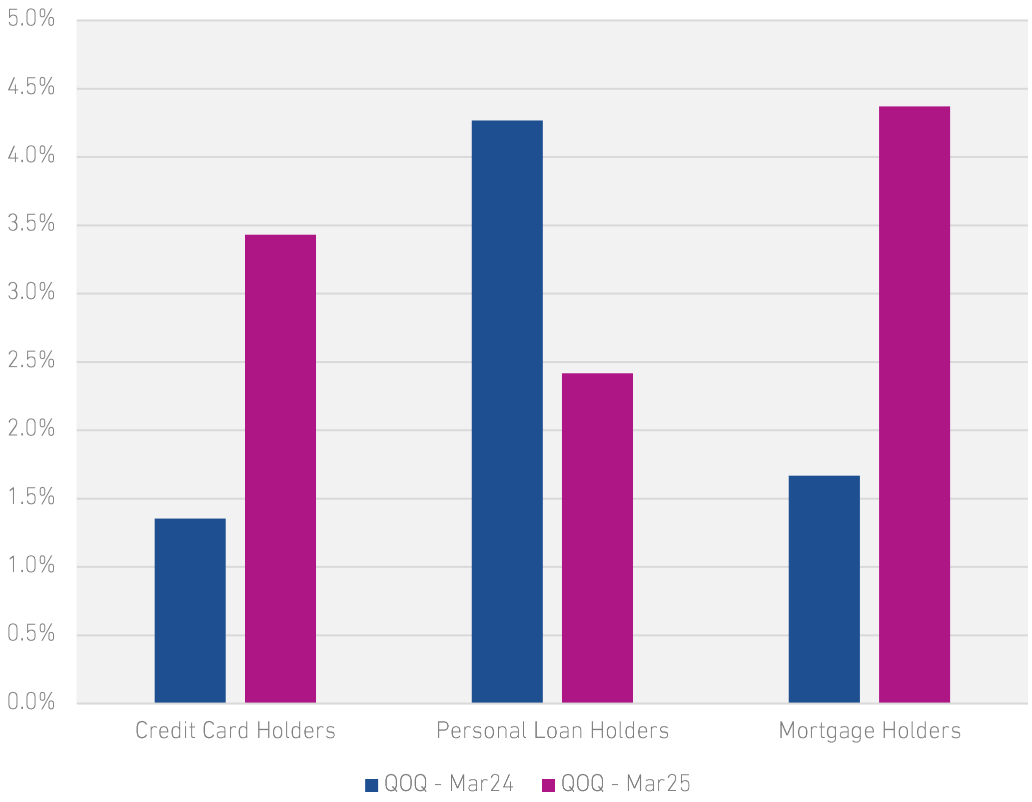
Whereas our last barometer report showed that mortgage-stress was potentially abating, after an extended period of deterioration, the March quarter has shown a sharp rise in mortgage-holder risk again. This suggests that mortgage-stress is still a key theme for 2025,

Looking at the adjacent diagram, while the 2023/24 period was known to be difficult for home loan borrowers (due to rising interest rates and household costs), the deterioration in default risk has been much higher in Q1-2025 (QOQ) when compared to Q1-2024 (4.4% higher in Q1-2025 against 1.6% higher in Q1-2024).

This will, in part, be explained by the significant improvement seen over 2024, which led to a lower risk baseline at the start of 2025. However, the near 3-times rise in default risk in Q1-2025 (as compared to Q1-2024) does suggest that mortgage-holder risk may again, be deteriorating significantly. The rise in credit-card holder risk is also notable, given the product's resurgence as a preferred payment vehicle. The adjacent graph shows that credit-card holder risk has deteriorated by 3.5% in the March quarter (over twice the level of deterioration seen at the same time last year).

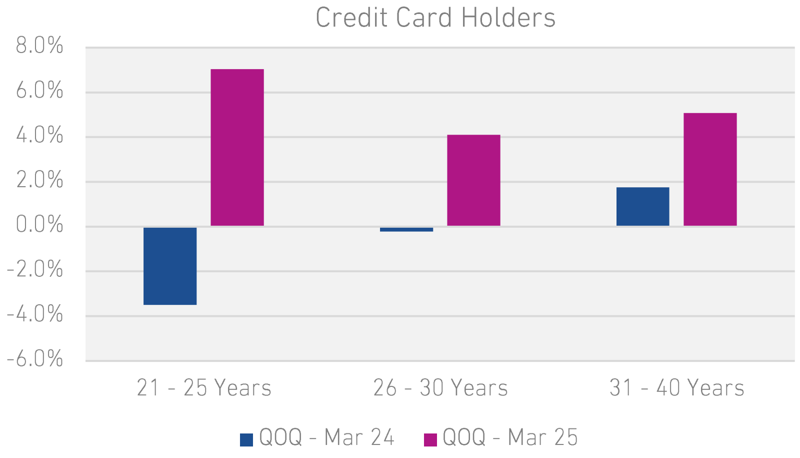
In both examples, this higher than usual deterioration may indicate a return to financial stress - materially affecting people's ability to service debt instead of just their spending choices. Access to timely credit and consumer spending information may be the key to helping households pro-actively manage this heightened risk (i.e. through the implementation of strategies that reduce debt exposure and manage debt-servicing through tailored payment plans).

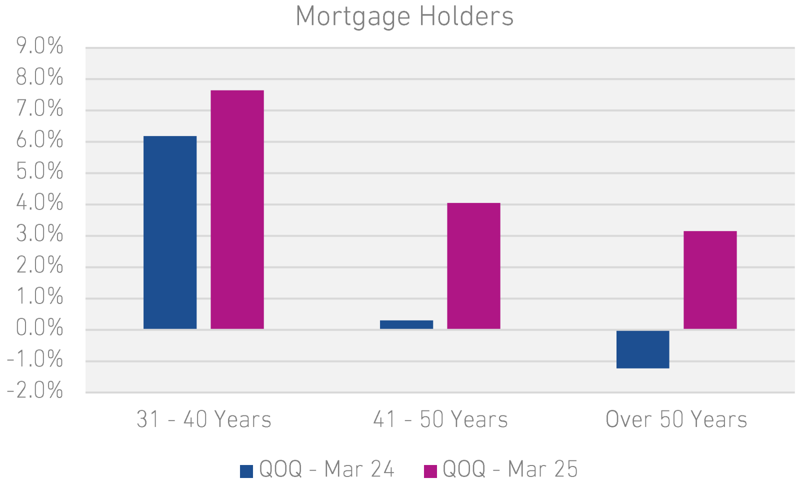
Percentage change in credit default risk in the March quarter



Rising credit stress deteriorating amongst younger Credit Card users and Mortgage holders

Consumers with the highest deterioration in default risk – March 2025 quarter compared to March 2024 quarter





The deterioration in credit risk has been especially notable amongst less mature Credit Card and Home Loan borrowers.

Focusing firstly on Credit Card borrowers we found that, with the resurgence of the credit card as a preferred payment vehicle, younger borrowers may now be struggling to service this debt (especially after a concentrated shopping period over as Xmas).

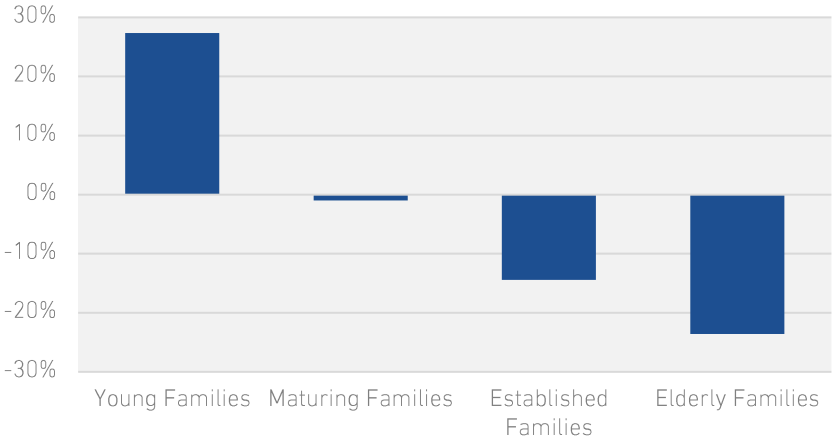
For example, whereas 12 months ago, under 25's were showing a markedly better risk (4% lower as compared to Q1-2023), the opposite is now true in Q1-2025 (i.e. their risk having deteriorated by near 7% YOY). Similarly, for the 26-40 age group, their risk has deteriorated by near 5%.

As we observed in previous reports, during a time when budgets were especially tight, some consumers may have resorted to increasing their credit exposure as a means of amortising expenses and spreading risks. While, in the short-term, this may have offered a stop-gap to financial problems, it may now be exacerbating their financial strain. Close monitoring of young, Credit Card borrower expenditure and debt servicing may now be essential for preventing any possible risk of over indebtedness.

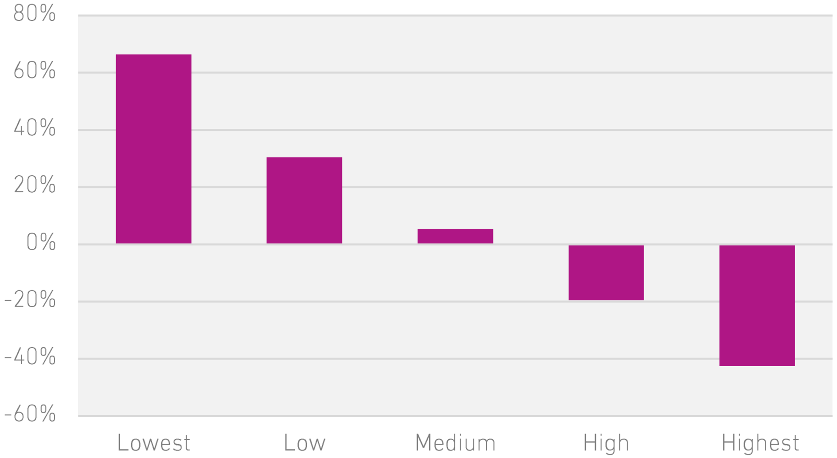
The same is true of young Home Loan borrowers. Most notably, the risk of under-40's has risen by near 8% in the March quarter (higher YOY and over twice the rate of older age groups). Mortgage-belt Australia appears to be especially vulnerable again to economic headwinds, requiring lenders to be especially vigilant through 2025 when monitoring the risk of their younger home loan borrowers, as more requests for hardship provisions may become evident.

Younger, lower wealth groups most at risk

Current default risk of consumers by their life stage – Higher / lower than national average at December 2024



Current default risk of consumers by their relative wealth – Higher / lower than national average at December 2024



Profiling the demographic attributes of Australian neighbourhoods (using Experian's Mosaic consumer segmentation tool) we isolated the prevailing attributes of people who lived in higher-risk catchments. Our observations are listed as follows.

Young families had a significantly higher risk of credit default than their peers. Specifically, young families had a near 30% greater likelihood of credit default while established and elderly families had a 20% lower likelihood.

In addition, consumers, who lived in areas with the lowest level of wealth were 60% more likely to default on the credit obligations, while those in the highest wealth pockets were around 20-40% less likely to default. These lower wealth-groups can have included people on higher incomes, but whose spending was also likely to be commensurately high.

While not depicted here, we also found that consumers who were more likely to have lived at their address for less than 2 years had a 30% higher risk of default (their risk having deteriorated by 10% YOY by the end of 2024), while households, that were likely to have very young children had a 15% higher risk (with much of this risk already apparent by end 2023).

These results tend to suggest that younger, recent home buyers or itinerant renters, living in areas with lower wealth and likely to be either single parents or newer families are most vulnerable (as they have insufficient financial means to materially reduce their risk). To prevent such consumers falling into indebtedness, lenders may need to give particular attention to identifying the current demographic make-up their customers so that their default risk can be forecast in advance of any credit problems being evident.

Renters are at greatest risk, but deterioration is apparent amongst homeowners as the price of consumer staples rises

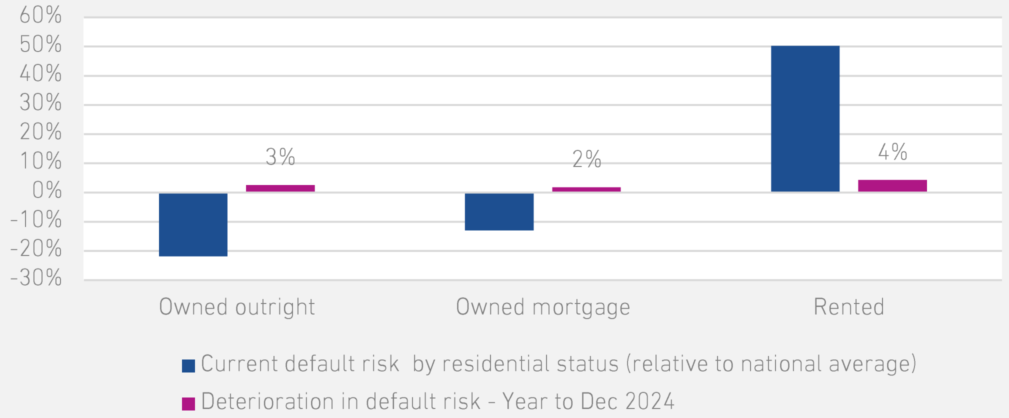
While credit stress is affecting several different demographic groups, the adjacent graph shows how this stress is especially affecting people living in rental areas of Australia. Households in high rental geo-catchments have a 50% higher credit default risk today than their peers.

That said, it also appears that all types of home dwellers have been affected by credit stress over the last 12 months, with the default risk of renters rising by 4% and that, of home-owners, by 2-3%. Particular note may need to be made with regards to the rising risk of home-owners, as rising household costs are also affecting their budgets even when they have fully paid off their own home.

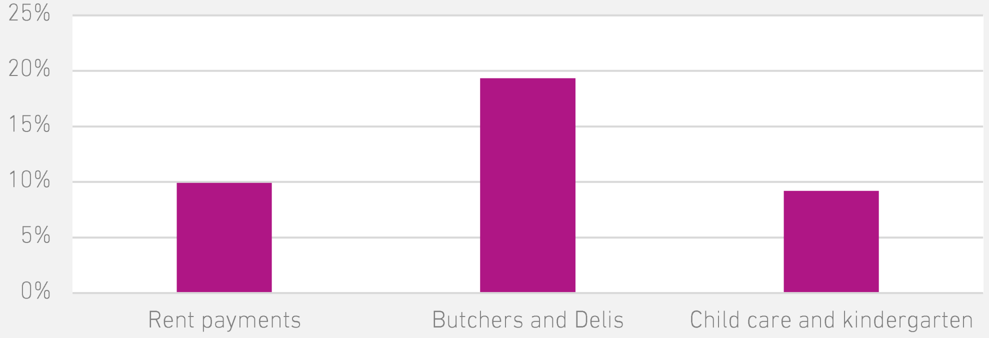
Lenders may therefore need to pay special attention to consumers who have higher household costs and whose household assets are relatively low (e.g. people living in regional towns and suburbs on the urban fringe). In addition, older families (including home-owners) with adult children may also have a higher risk today, due to their children's debt obligations.

The effect on younger families is also shown in the adjacent diagram, which has been produced from illion's Consumer Spending database. Here, we can see that rents have continued to rise over the last 12 months (by 10%), while childcare costs have also risen by 10%. In addition, although 'meat' may not be seen as a pure consumer staple, it is estimated that around 88% of Australians consume meat (figures obtained from Roy Morgan research). As such, the significantly higher cost of meat products (20% rise in the last 12 months) will have affected most households (and the less wealthy households disproportionately).

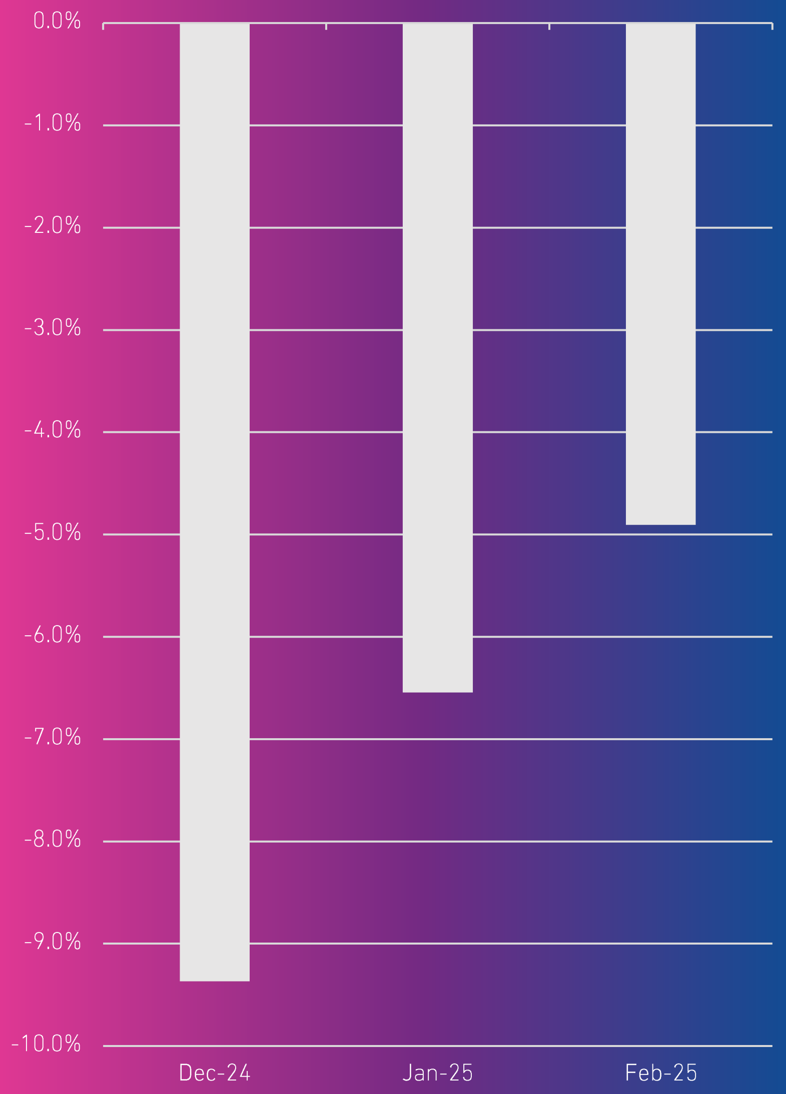
Default risk of consumers by their residential ownership status



Increase in expenditure on consumer staples – February 2025 compared to February 2024



Change in the personal savings of Australian consumers – compared to 12 months prior



Personal savings continue to fall

While we have observed consumers' savings balances slowly beginning to stabilise in recent barometer reports, the adjacent diagram tells a mixed story.

On the one hand, the fall in average household savings has continued to slow, possibly meaning that a larger number of households have been able to modify their spending as the price of goods and services has risen. However, this slowdown in falling savings (down from 9% YOY in Dec '24 to 5% in Feb '25) may also be symptomatic of fewer funds being available (both in the short-term, due to Christmas spending, and in the long-term, due to dwindling cash reserves being available as prices have risen) thereby forcing households to 'tighten the belt'.

Equally, while the erosion in household savings may be slowing, it is also clear that savings continue to fall and that there is no evidence yet that households are able to accumulate savings. Therefore, the 'hand to mouth' nature of household budgets may point to a longer-term financial strain, which could lead to an increase in high-risk/high-cost borrowing going forward or a marked fall in new credit being written. The question is whether we are entering a period of credit stagnation or higher credit stress.

Irrespective, managing consumer's debt servicing (by obtaining updated information on spending obligations, choices and patterns) could play a crucial part in consumers avoiding over indebtedness and in lenders preventing higher levels of credit risk.

Higher delinquency and hardship has returned in the March quarter

Credit problems are manifesting themselves in the form of significantly higher levels of early delinquency and hardship when compared to 12 months ago

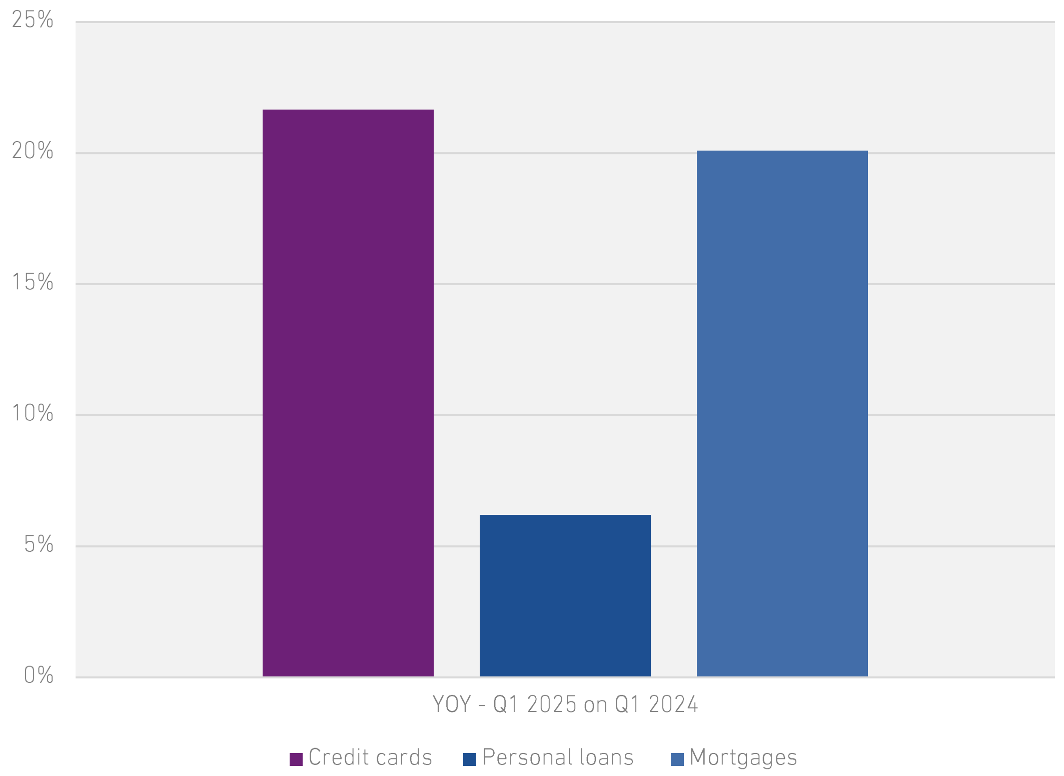
The underlying problems to the risks discussed in this latest barometer report are illustrated in the adjacent diagram, which shows that households are again, struggling to service their loans.

Across both '30+ day' delinquency and hardship levels, households are significantly more likely to struggle with servicing their loans today, as compared to 12 months ago. Looking at the March quarter figures, the combined credit-card delinquency and hardship rate is now 20% higher than 12 months ago (mainly due to a rise in 30-day arrears). This suggests that consumers who opened credit card accounts (especially outside the banking sector) to supplement their spending, or as a way of amortising larger expenses, are showing some signs of financial difficulty.

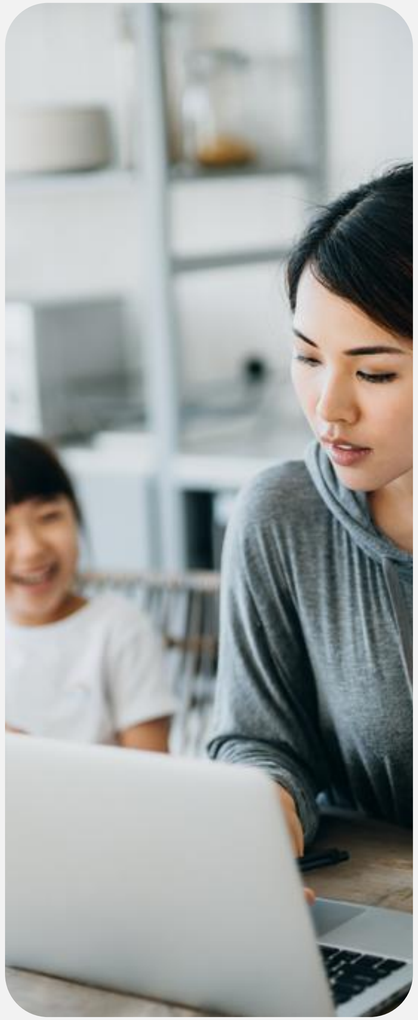
This is also supported by the slowing in new credit cards opened (either through tighter policy or through lower levels of affordability). illion's core credit bureau shows that the growth in new credit card business over the six-months is no higher than over the same period 12 months earlier. It is therefore feasible that lenders may need to compete more aggressively going forward to increase their market share. If so, a strong understanding of consumer credit risk and financial stress will need to underpin greater competition.

We have also seen a 20% rise in combined home-loan delinquency and hardship (YOY) in the March quarter. This is mainly due to a rise in the hardship rate, meaning that today's household budgets are already over-stretched. Close monitoring of existing customers must therefore be a high priority for lenders.

YOY rise in delinquency and hardship rates by product – March quarter (2024 to 2025)



Demographic groups currently with high levels of credit stress



In support of this report's key findings, we profiled the risk of Australians according to their neighbourhood characteristics using the Experian Mosaic segmentation tool. Four geo-demographic groups with some of the highest default risks currently and with the highest deterioration in the last 12 months are listed below. Their demographic description aligns closely with the consumer groups highlighted in the body of this report.

Geo-demographic description of the **highest risk credit consumers currently**

- Single parents and home sharers employed in low skilled jobs living in established regional or rural towns
- Young families and solo parents with small children, living in new housing estates on the metro fringe
- Young, solo parents with multiple young children and low incomes, working in blue-collar professions, living in outer-suburban housing estates
- Singles and solo parents, renting in regional and rural towns, working in blue collar jobs with many experiencing financial hardship

Geo-demographic description of credit consumers with the **greatest deterioration in the past 12 months**

- Home sharers and singles with low incomes working in low-skill or entry level jobs and renting in rural NSW and QLD
- Culturally diverse families and single parents with older children and average incomes, enjoying long tenures in their outer suburban homes
- Well educated, single and home sharing Millennials with minimal wealth, earning low incomes
- Millennial and Gen-X parents of young children, living in outer-suburban or large, developed coastal areas, earning high incomes

Definition of the Credit Stress Barometer

Background notes: Basis of the Credit Stress Barometer

Tracking

The Credit Stress Barometer shows the risk of Australian consumers defaulting on Consumer Credit contracts in the next 12 months. The barometer is a:

- Metric, showing the percentage of consumers at risk of defaulting on their credit agreements
- Forward looking prediction of this default risk
- Trend-line, showing the changing nature of credit stress, both directionally and in magnitude.

Leading indicators

The barometer is created by modelling the risk of credit default from a consumer's:

- Current and historical credit performance – i.e.. trends in credit repayment performance across various types of credit contracts
- Current and historical credit demand – i.e.. the appetite for credit by considering application volumes and loan take-up; this is across different types of credit, including housing, investment and consumptive credit agreements.
- Financial exposure to different types of credit products – fixed loans, revolving loans, housing finance, car finance, investment loans
- Demand for credit in various industry risk sectors – e.g. the level of credit demand and repayment performance on borrowings from the Prime, Near Prime and Sub Prime lenders segments.

Trends

The Credit Stress Barometer is shown as the change in the percentage of consumers at risk of credit default, with the percentage calculated relative to a baseline at January 2022. This baseline has been chosen to

a) Remove the early biases/effects from COVID and to
b) Focus on current economic impacts from broad-based inflation and higher interest rates on borrowings.

In order to smooth monthly fluctuations, these trends are calculated as moving averages over a rolling 3-month period to the month shown in the trend diagram (page 3).

Additional insights into savings and expenditure patterns are incorporated in this Credit Stress Barometer pack to show financial trends that are likely to have an impact on the Credit Risk of Australian consumers.

The source data used in the creation of this report was derived from illion's, an Experian company, proprietary credit and expenditure databases.

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