Consumer Stress Barometer

Australia | December 2025

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Summary observations

While consumer default risk has fallen moderately in the September quarter, this has followed the typical seasonal cycle; the longer-term trend suggests that consumer risk is continuing to rise.

The Credit Stress Barometer for September 2025 indicates that, as a long-term trend, credit default risk continues to rise, even as the September quarter has shown some signs of improvement. On closer inspection however, this change in risk has followed the normal seasonal fluctuation, where typically, risk improves in the September quarter (post the Australian tax year) and deteriorates in the March quarter (post-Xmas).

The underlying trend paints a more sobering picture for the credit economy, showing that the default risk of Australian credit consumers has risen circa 3% over the last year and 12% since January 2022. Furthermore, while the improvement observed in the September quarter has followed a broadly similar path to that seen in Q3-2024, the current improvement has been moderately weaker (i.e. the default risk improving by 2.9%, as compared to 3.6% last year, QOQ).

At best, the prevailing conditions suggest that consumers may have received a short-term ‘sugar-hit’ in the new financial year (from, say, CPI led wage rises, government led financial assistance and FY24/25 tax refunds). However, there is no indication that a fundamental and sustainable improvement in risk is on the horizon.

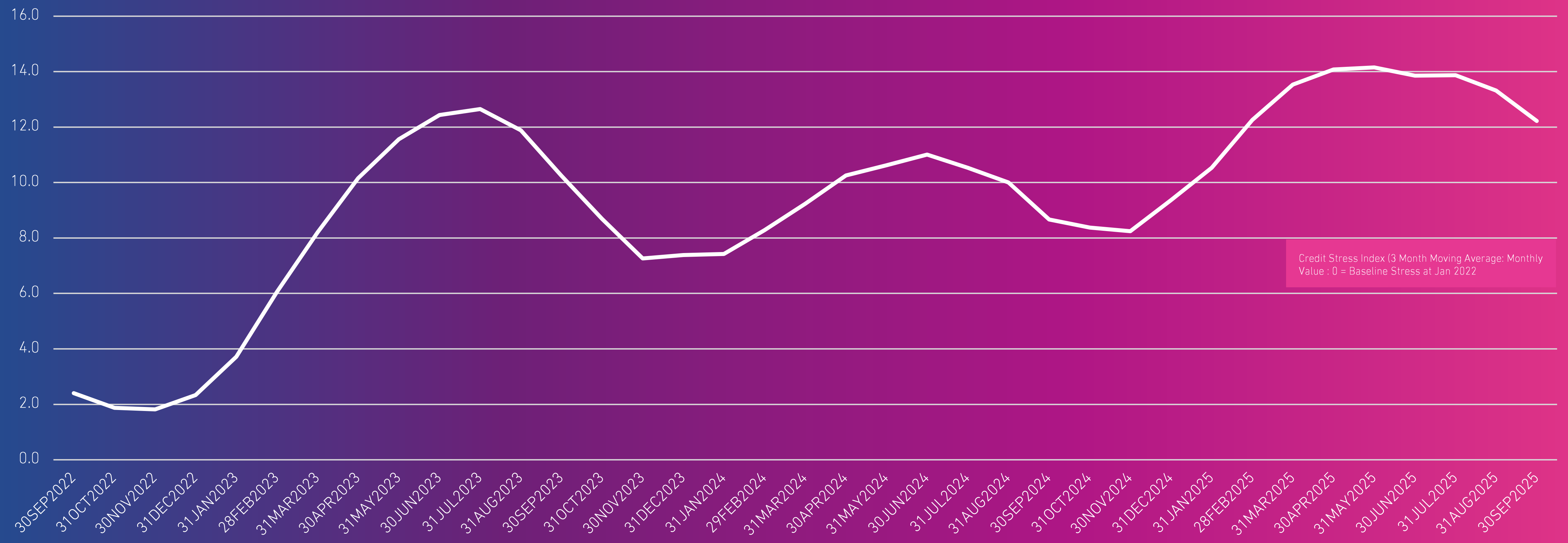
It is therefore difficult to forecast consumer credit risk through 2026, especially as the likelihood of imminent interest rate relief becomes less likely. In the short-term, we are not likely to see credit risk deteriorate, however, with rising expenses (especially around the Christmas spending period), we are less optimistic.

Particular observations from this quarter’s barometer include the following:

- Mortgage-holder, personal borrower and card-holder risk have all risen in the year to September 2025, while mortgage-holder risk has barely moved over Q3 (even as the broader risk sector has improved on a seasonal basis).
- While younger Australians continue to show the highest credit risk (in part, from higher housing and childcare costs), older Australians, who may not have benefitted as much from lower interest rates, have seen their credit risk deteriorating as well (potentially due to the completion of utility bill relief and the rising cost of medical expenses).

The Barometer to September 2025

Credit Stress Index based on consumer credit behaviour – Percentage change in the Consumer Default Risk – Sept 2022 to Sept 2025



Overview

Key observations for the September 2025 quarter

Credit stress is following the seasonal trend but remains high.

While the average credit risk of consumers has fallen in the September quarter, this improvement has followed the usual post tax-year trend, rather than showed any material and sustainable improvement in risk. The overall risk of credit consumers remains over 12% higher than January 2022 and over 3% higher than at the same time in 2024.

The typical September quarter improvement has been moderately lower this year.

Although there has been improvement in the September quarter, this improvement has been no greater than at the same time last year. In fact, this quarter's improvement has been moderately lower, suggesting that there is no clear sign of a sustainable improvement in credit risk.

The credit risk of older, lower-income consumers has deteriorated in the year to September.

Higher credit default risk continues to persist for young consumers. However, the default risk of middle-aged and older Australians has also deteriorated in the past year; most notably, amongst those who are repaying consumptive credit debts, such as credit cards and personal loans. The default risk of single households has tended to deteriorate more than that of couples and families. Lower-income earners have suffered most, even when they have held significant assets, meaning that cash-poor, older Australians, who may also have owned their own residential property, could have been hardest hit.

Rising expense on staples that are incurred by young families and elderly consumers have hit budgets hard.

The last 12 months has seen a rise in housing and utility expenses. This has likely affected most consumers, as government rebates and subsidies on power bills have ended and rental costs have continued to rise (albeit, at a slower pace very recently). Young Australians may have been especially affected by higher childcare expenses, while older Australians may have been affected by higher health-care costs – both having risen substantially over the period.

The underlying trend for default risk shows that credit-holders are at greater risk today than 12-months ago

While the overall default risk of borrowers improved in the September quarter, this has merely followed the normal annual cycle. The underlying risk has continued to rise, while home borrower risk has scarcely improved in Q3.

While the overall credit risk of consumers improved slightly in the September quarter, three underlying trends cast significant doubt as to the sustainability of this improvement.

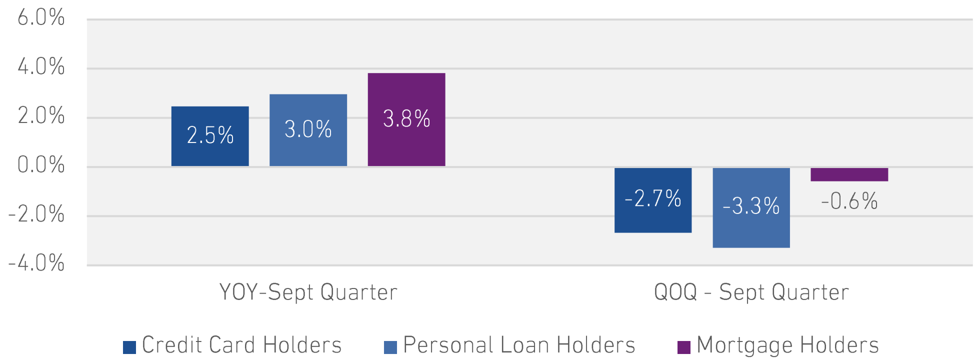
Firstly, as depicted in the adjacent graph, the underlying risk of prime credit card, personal loan and mortgage holders deteriorated by 2-4% year-on-year to September, suggesting that the longer-term trend for credit-holder risk continues to deteriorate (with this happening during a period of relative interest rate stability).

Secondly, even as the overall risk has improved in the September quarter, that of mortgage-holders has barely moved. This has occurred at a time when consumers tend to have better access to funds – e.g., tax refunds, financial year wage rises, additional government benefits. It has also happened during a period of lower and more stable interest rates when compared to 12-months earlier. As such, this stubbornly high mortgage-holder risk may be a warning sign for higher risk into 2026, as inflation appears to be rising again.

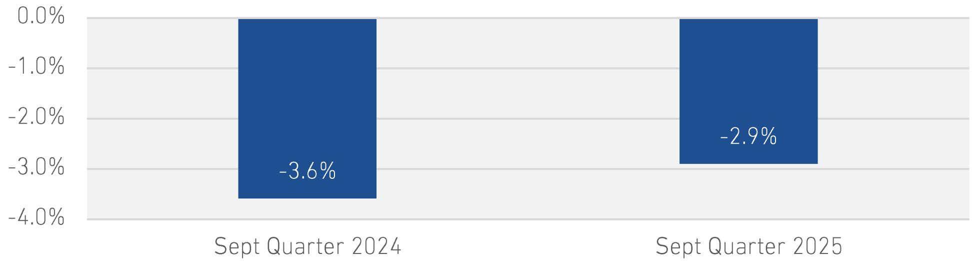
Thirdly, even though risk has improved in the quarter (by 2.9%), this improvement is lower than that observed in the previous year's September quarter (3.6%). Therefore, while there has been improvement, it has been purely seasonal and more muted than in previous years. Therefore, when viewed on a seasonal basis, the default risk of Australian consumers appears to be on the rise as we head into the high-consumption season.

Lenders and creditors will need to be especially watchful as we enter the higher spending time of the year. How much spending is driven by riskier debt will need to be monitored.

Change in Default Risk of Credit holders in September 2025 Quarter

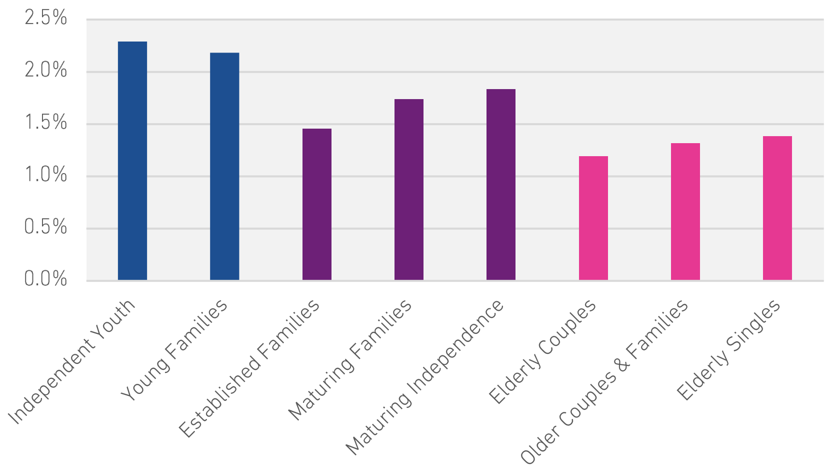


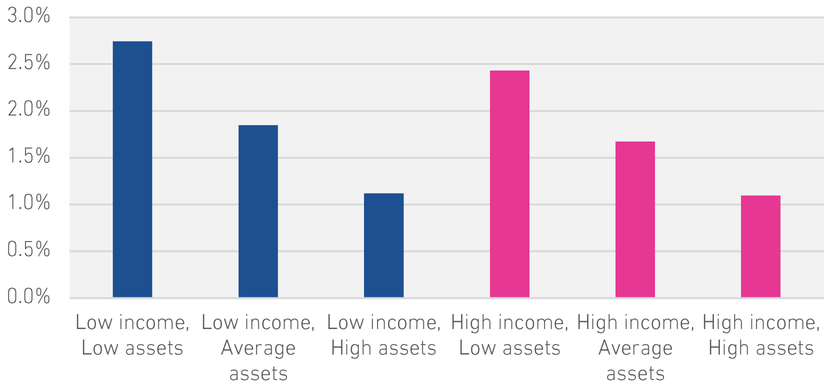
Change in Default Risk - QOQ in the Sept Quarter (all credit holders)



Younger Australians with lower asset-backing are showing the highest credit stress

Average Default Risk in Sept 2025 Quarter – by Life-stage and Affluence

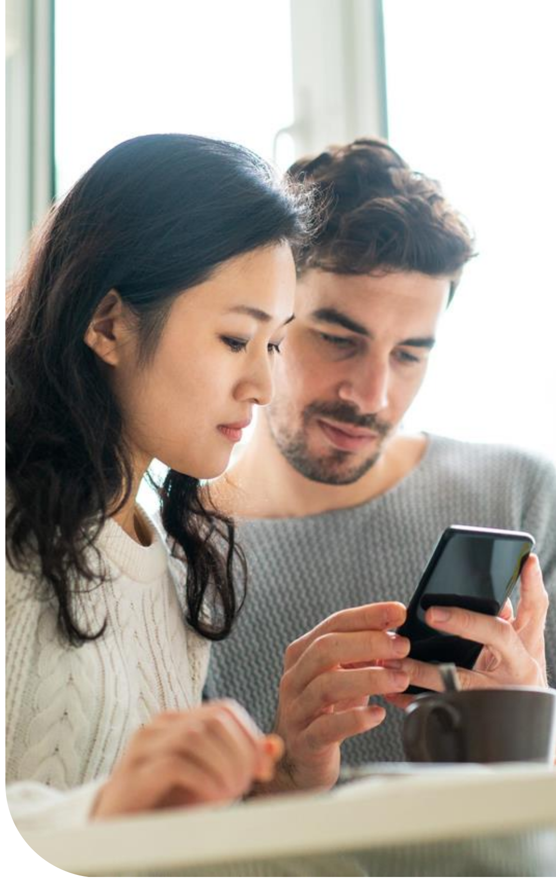




Our Q3-2025 analysis identified that young Australians continued to have the highest risk of credit default, with young singles and young families having a 2.3% and 2.2% default-risk respectively.

Maturing consumers were around a 20-30% lower default-risk, ranging from established families having had the lowest risk of this group (1.5%) to maturing singles having the highest (1.8%). This lower risk was, most likely, a reflection of their greater credit maturity (i.e. paying down debt, gaining equity and earning higher incomes).

The consumer life-stages with the lowest risk were older and elderly Australians, whose risk ranged from 1.2% for couples to 1.4% for singles – some 40-50% lower than young Australians. This lower-than-average risk will have been due to expected life-stage factors, such as longer-term incomes, rising incomes, dual incomes, larger accumulated savings and assets as well as fewer on-going expenses.

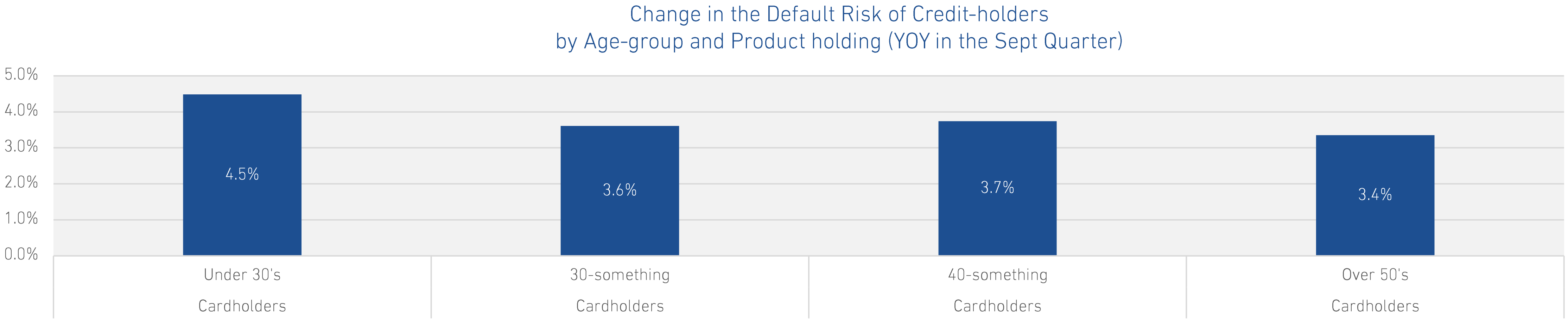


By illustration of the previous points, correlated with their life-stage, we observed that affluence played a significant part in this default risk, with people holding a larger tranche of assets having a much lower risk that consumers holding fewer assets (even if they held higher than average incomes). For example, even with lower incomes, consumers with larger assets were 60% less likely to default on credit than those with fewer assets (1.1% default risk compared with 2.7% default risk). A similar result was found with higher-income consumers.

This result shows that older people, when investing and saving (e.g. property and superannuation), were better risks than consumers with few savings, higher spending commitments and limited investment history.

Rising default risk is however also notable amongst older Australians

While young borrowers continue to show higher default risk, the recent deterioration has been equally notable amongst older borrowers that are using credit for personal consumption

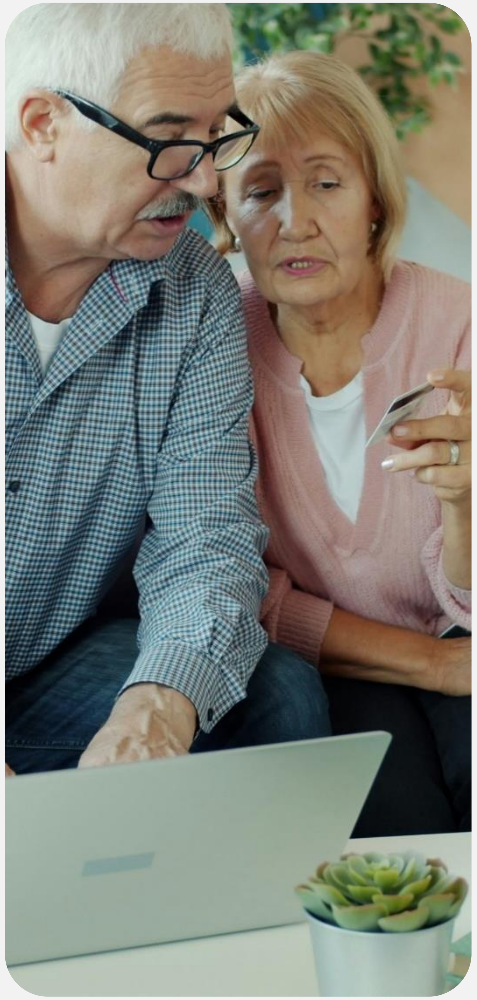


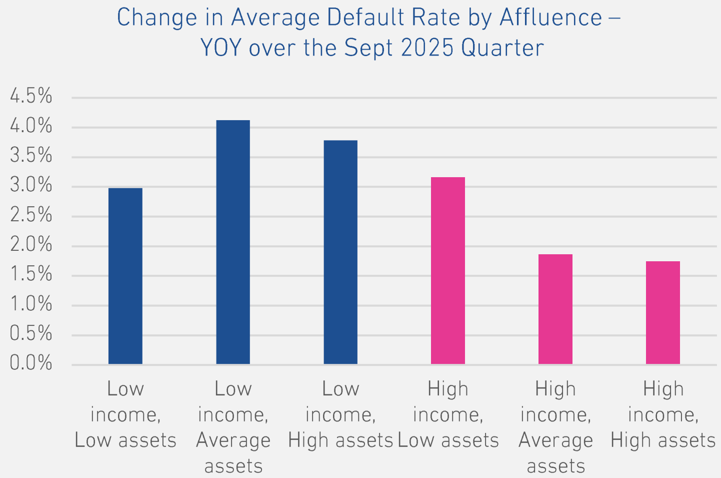
The credit risk of both younger and older credit-holders, who used credit for consumptive purposes, deteriorated at a broadly similar rate over the last 12 months. This finding is illustrated in the above graph, which shows the rise in risk of people who held credit cards. It highlights that card-holder risk deteriorated, irrespective of the card-holder's age – respectively, ranging from 3.4% to 3.7% higher than 12 months ago for consumers aged over-50 to those aged in their 30's. Only the very youngest (under 30's) showed moderately higher deterioration – 4.5%.

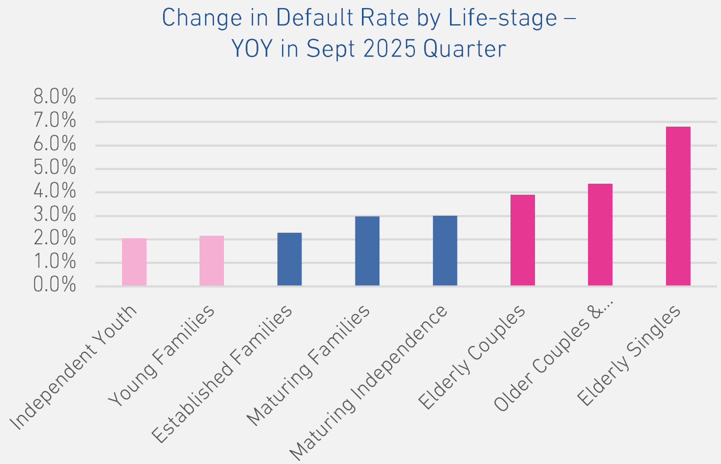
We found broadly similar results when analysing the risk of Personal Loan consumers as well, with the highest deterioration found in people aged from 30 to 50. Here, the highest deterioration was seen in the mid-aged demographic, who would ordinarily be establishing their financial well-being, instead of struggling with debt that is used for personal consumption. A similar finding was made when we moved the focus to BNPL consumers. Again, while younger BNPL consumers showed generally stable credit behaviour, it was mid-aged (40-somethings) who showed the highest deterioration (5% higher).

The above findings indicate that a change may be occurring to the make-up of Australian credit consumers. That is, that more mature Australians, who would have traditionally accumulated wealth, are today using credit for consumption and when doing so, are showing higher credit stress than their predecessors. It is therefore feasible that older consumers are having to use credit, while simultaneously managing tight budgets, suggesting that they are experiencing higher cost-of-living pressures today. The warning for lenders is that they may need to manage broader, multi-generational, consumer credit risks in future.

Lower-income groups with larger assets have deteriorated most





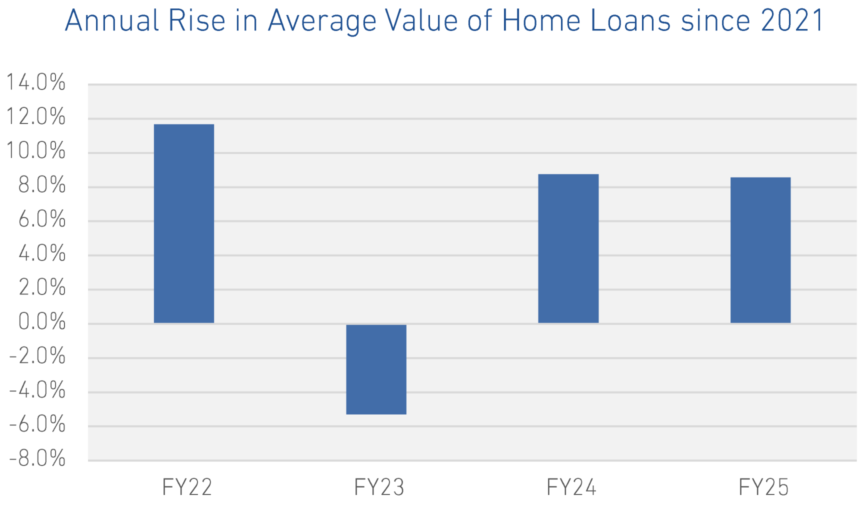


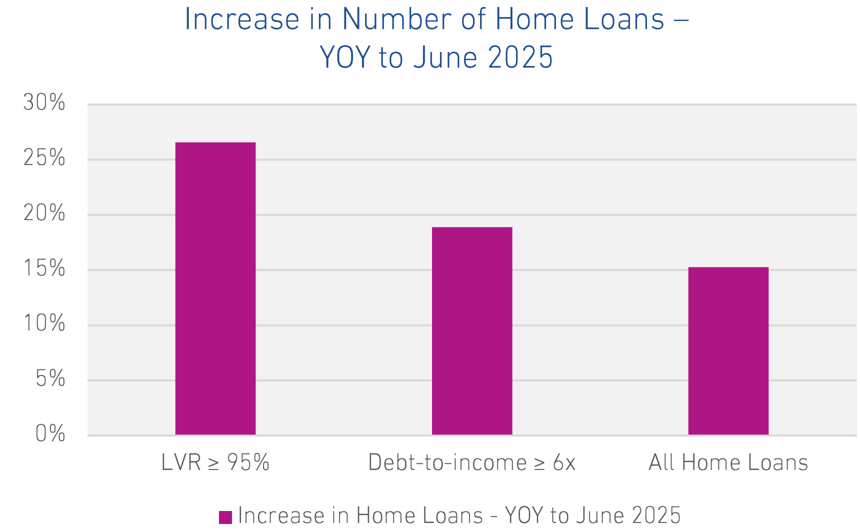
Further to the previous findings, the largest deterioration in credit risk was observed in people who were living in areas that are populated by older and lower income Australians (including those with a relatively large pool of assets).

This may suggest that people, who were less likely to benefit from lower interest rates, stable incomes and falling tax-rates did relatively poorly in comparison to their peers. Those, who were reliant on aged pensions or other welfare payments or were taking on casual work to supplement a basic income may have been the most affected. Equally affected could have been people that owned a basic family home (more likely in a less expensive, regional area) and who had some unvested superannuation savings, but also stretched daily cash-flows. Finally, renters that were more reliant on lower-paid jobs, may also have struggled in the last 12-months, as rising costs may have out-paced any tax relief or rental subsidies.

By further illustration, we can see from the lower graph that the credit risk of people living in areas with a higher concentration of elderly singles increased the most (near 7%), while the risk of elderly couples and families increased significantly as well (around 4%) – both, substantially higher than that of younger householders. While the deterioration was generally age-related, a person's relationship status also played a role. For instance, the risk of older families tended to deteriorate more slowly than that of older singles. This may have been due to the relatively high real-costs that older singles incur (as couples are able to share household expenses at the same time as singles receive lower welfare payments and have fewer life-savings). This financial burden will be further exacerbated by the carrying of outstanding debts, as is the case here.

Home Loan default risk is coupled with higher risk exposure





As noted earlier, the risk of mortgage-holders deteriorated more than that of their credit counterparts over the last 12 months (3.8%), while it improved the least over the September quarter (0.6%). To uncover potential reasons for this higher mortgage risk, we have included some analysis of APRA reporting.

Firstly, while interest rates have stabilised, we have seen a rise in new home loan debt, as shown in the adjacent graph. Nationally, new home loan exposure has risen by over 8% per annum over the last 2 years, and while FY23 saw a fall in the value of new home loans, the rises that occurred around FY23 mean that the average 'new home loan' exposure has risen 17% in the last 2 years and 24% over the last 4 years.

As such, new home loan borrowers are holding substantially higher exposure than consumers who took out home loans in 2021. Although this exposure may be manageable today, the exposure risk faced by immature home loan borrowers may need to be monitored closely, especially, as the outlook for interest rates is uncertain at present.

Furthermore, during a time when home loan exposure is rising, the debt being taken on by borrowers, relative to their income, is rising as well – this is shown in the lower graph. We are today seeing a large rise in the number of new loans whose loan-to-valuation exceeds 95% and whose debt is greater than 6-times the borrower's household income. To illustrate this, as the overall number of new loan written today is 15% higher than 12 months ago, the number of high-LVR loans has increased by 27% (around 80% higher relatively) and the number of high DTI loans has increased by 19% (around 25% higher relatively).

The result is that credit exposure and credit affordability may be stretched in 2026, especially if we return to an environment in which consumers face rising household costs and higher interest rates again.

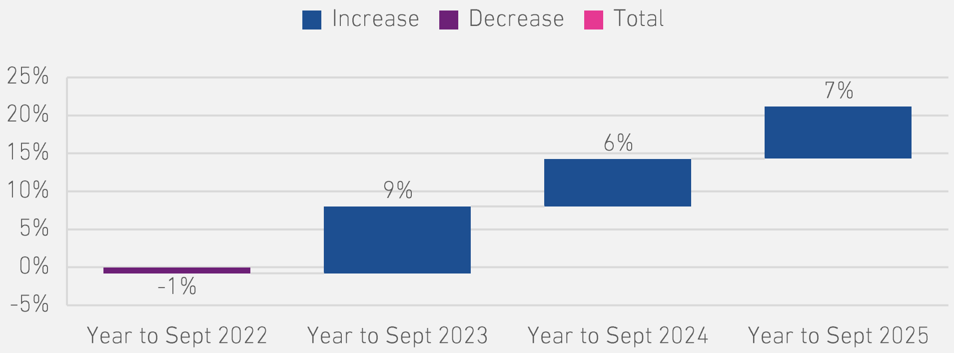
Lower wealth groups impacted by substantially higher housing expenses, while utility expense is up again as government subsidies end

The higher default risk of lower-income earners and lower-wealth Australians may be explained by the rise in household expenditure on basic staples over the last 12 months. In particular, over this time, Australian consumers have battled consistently higher costs for basic items such as, rental housing, power, gas and water (when these services have not been subsidised by governments).

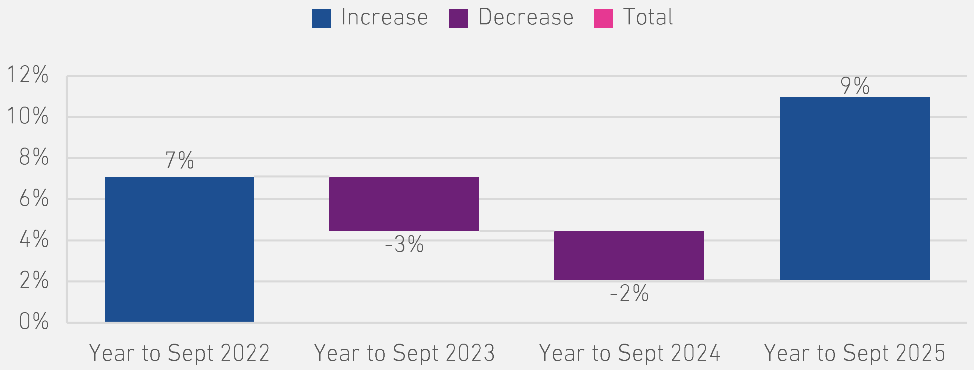
This impact to households can be seen in the adjacent graphs and while rents and utility bills can affect all age-groups, their impact is felt disproportionately – i.e. greater in lower income households. To illustrate, spending on rent rose substantially over the last 3 years – around 22% - and while this cost stabilised recently, the year to September 2025 still saw a significant rise (around 7%). The rise over 2025, may have been attributable to the higher interest rate environment of 2023/24, which affected the cost of owning an investment property initially, which then translated to a rise in rents. For a low-income earner, this would have placed an additional burden on their budget where, for example, a 22% rise in rents may have extracted an additional 5-8% from a household's budget, depending on the magnitude of wage rises over the same period.

To complement the above finding, the lower graph shows an alignment between the rising cost of utility bills and the increased credit risk of low-income earners. Whereas the average increase in total utility expense rose by around 11% over the last few years, the bulk of this impact will have been felt in the last 12 months – with a 9% rise noted in the year to Q3-2025. While it appears that universal government subsidies and additional means-tested financial support benefitted low-income households in 2023 and 2024 (through lower power prices), once these subsidies ceased (or slowed), the full expense of power rose significantly – this rise coinciding with a near 4% rise in the credit risk of low-income earners and a 4-6% rise in the credit risk of elderly households.

Rise in Rental Housing Costs per annum since 2021



Rise in Utility Expense per annum since 2021 – Power, Water, Gas, Telecoms



Younger families are affected by rising childcare costs; older Australians by rising medical costs

In addition to the rising cost of universal services – housing, power, water and gas – our analysis has also found that spending on life-stage related services increased substantially over the last 4 years (and notably, in the last 12 months).

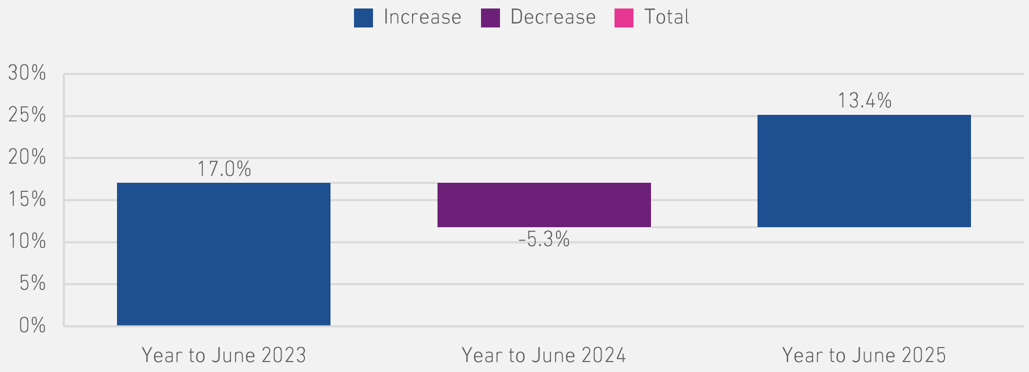
Focusing on the younger age-groups first, we can see from the adjacent graph that spending on child-care and kindergartens rose by 13% in the year to June 2025 and by 25% over the last 3 years. This higher expenditure may have been partly attributable to rising costs within the sectors, but also, to households making greater use of these services; mainly because of a need to operate as a two-income household. Younger, low to middle income, two-parent households and single-parent households will have been affected most by these higher expenses.

Unfortunately, these households will have had little leverage when trying to manage these costs, as housing, utility bills and child-care are inelastic expenses. As such, if rising credit consumption coincided with higher household expenses, worsening credit default risk may have been a logical consequence.

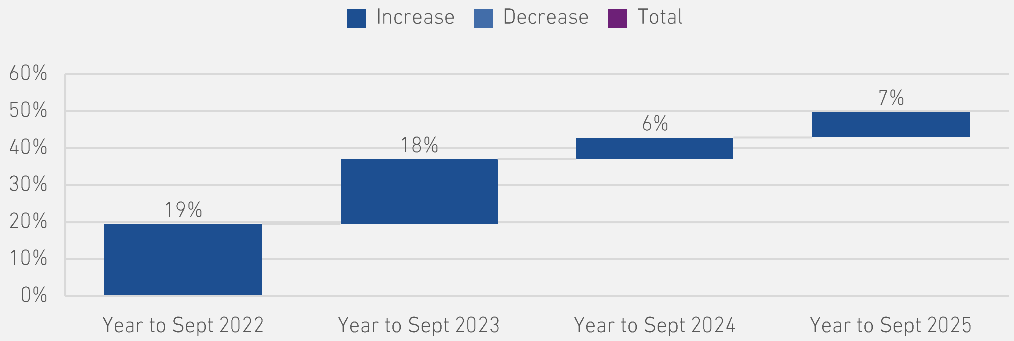
Similarly, a rise in medical expenses will have affected older households disproportionately. The lower diagram shows the change in spending on health practitioner visits, this expense rising near 50% in the last 4 years and 7% in the last year (well above CPI).

In both cases, if these rising costs are adding to the credit default risk of consumers, there may be an argument for ensuring that child-care support and bulk-billing services are widened and strengthen further, as part of a 'cost of living' initiative.

Rise in Childcare(*) and Pre-school Expense per annum since 2022



Rise in Spending on Health Practitioners per annum since 2021



(*) Child-care figures taken from 2022 onwards due to COVID. Also taken up to June 2025 due to data immaturity and volatility in September quarter

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 the barometer report was primarily derived from Experian's proprietary credit and expenditure databases (unless commented otherwise).

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