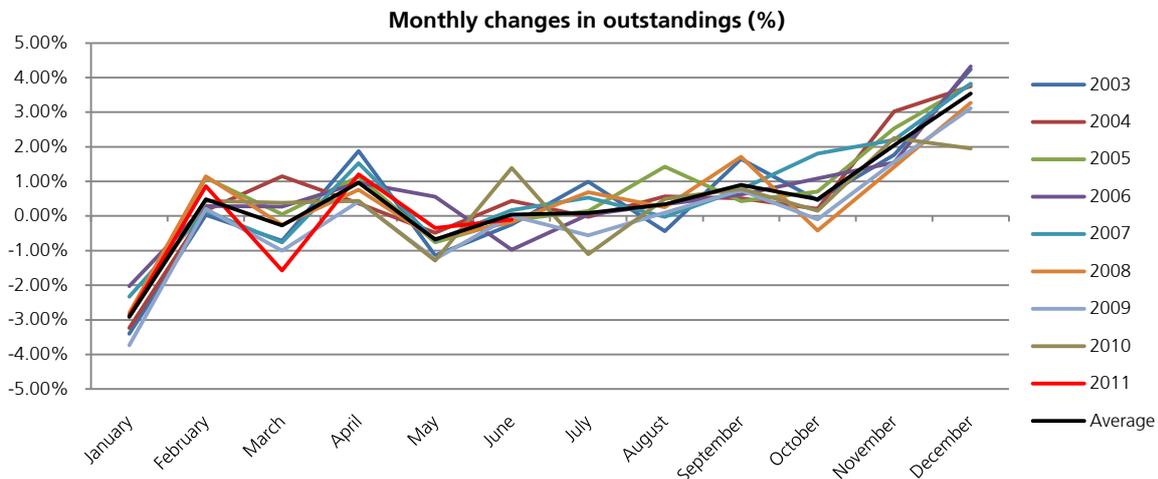


June 2011

When months matter



Executive Summary

One of the best ways to capture a market at any given time is to take a decent step back and compare trends. Not only does it give us an idea about how things are tracking comparatively, it also helps put a contextual framework on what we might be able to expect in the future.

We've taken key graphs this month (each of which have

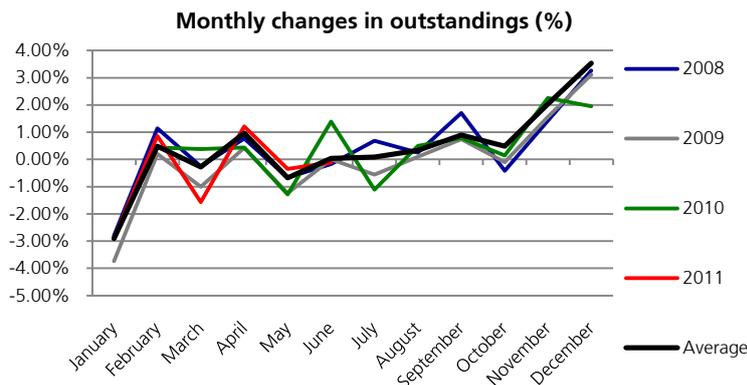
been used before, but never together) to do precisely that.

We've often said that month on month movements read in isolation are largely pointless, but they do help build trend stories. So each graph this month looks at how one particular indicator moves on a monthly basis and compares those monthly moves over the course of a year.

Balances

Let's begin with total Balances. We've put two versions of the same graph (which tracks monthly movements in credit card balances) on this page – the top version includes all years since 2003, as well as the average (black line). The version at the bottom of the page has only the most recent few years and the average.

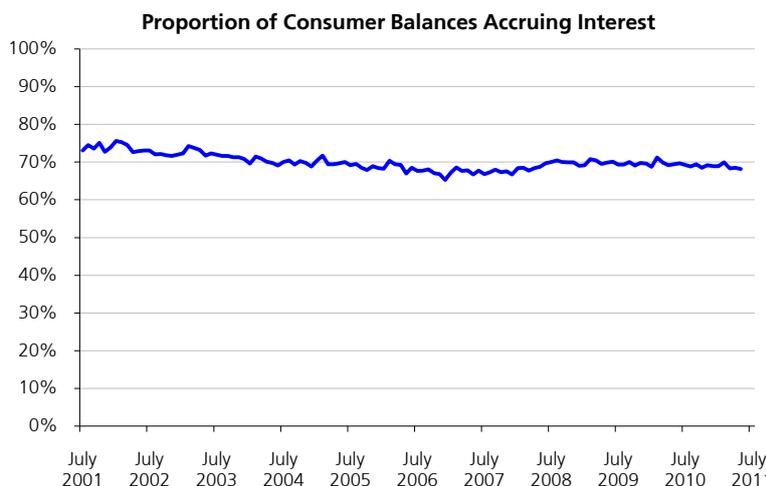
Looking at the first graph, what is most striking is how closely aligned trends through the year are. We've said this before but it's worth saying again – balances (or 'outstandings' as the industry describes them) tend to be predictable in the sense that annual highs and lows reflect those of spending highs and lows, particularly at the start and end of the year.



That's because balances can be influenced by a number of things including, importantly, consumer sentiment.

When consumer confidence is high, it can be generally reflective of strong sentiment toward employment security. Credit cardholders feel safer carrying higher balances knowing they are in a strong position to repay. On the other hand, lower consumer confidence can result in a reduction in balances. It can also lead to unpredictable volatility.

And that brings us neatly onto the second graph on the previous page, which underlines that precise point. The numbers are all over the place, with movements from month to month much greater than we would usually see. It's telling that much of the movement at the end of the last few years has



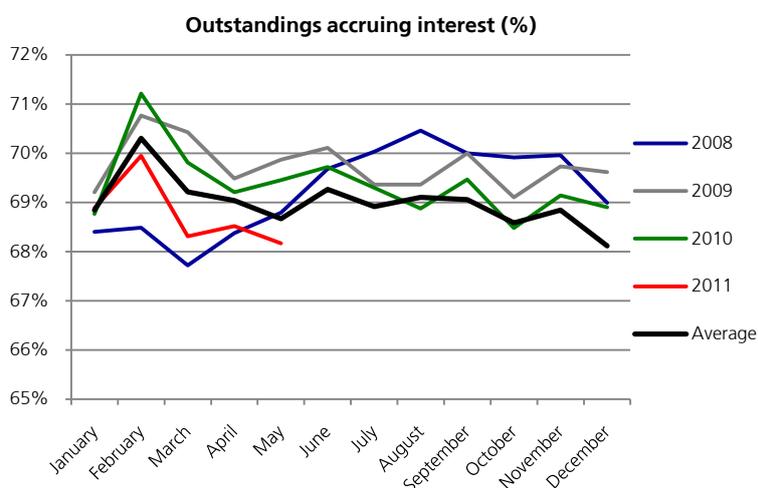
been below the average which is tracked against the black line. Nothing better illustrates the point that consumers are showing great caution than the fact that at the time of the year credit card balances tend to grow most quickly, they have tracked below trend since 2008.

Balances Accruing Interest

An even better way to reinforce this is to watch the proportion

of consumer credit card balances actually having interest accrued against it. We've graphed this in the two charts on this page.

The top chart shows that, at its simplest, there has been very little movement in the numbers since the RBNZ began tracking them in 2001. But when we take a closer look by splitting out monthly positions, there's a different story. What is most evident in the chart below is that after three years tracking above the average, 2011 has started below. To the point we made earlier, that could show a couple of things – either a reduction in confidence as to the future of the economy or greater cash at hand. Both are evidence of conscious decisions by New Zealanders that they want to reduce their balances accruing interest. Either way, it's a sign that we are smart users of our available credit limits.



The statistics in this paper are sourced from Statistics NZ and the RBNZ's monthly release of payments data. They do not represent MasterCard financial performance.

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