

We have provided indicators in four key areas:

1. Indicative estimates of material hardship

We cannot forecast material hardship. As a proxy, we produce indicative estimates of future levels of material hardship from projections of AHC50 (fixed line) rates, based on the historic relationship between AHC50 and material hardship. AHC50 and material hardship rates have tended to move together, and the Budget 25 forecast for AHC50 has been used to estimate current material hardship levels.

The period of economic shocks and wider challenges, including the COVID-19 pandemic, may have impacted this relationship. We will observe any change and impact in the relationship over time, as more data is produced.

2. Key driver of material hardship - Benefit receipt and parental employment

There has been an increase of around 1,200 children (0.5%) in benefit-receiving households from Quarter 4 2024, to 234,000 children in Quarter 4 2025. The number of children has increased by around 100 children since Quarter 3 2025.

3. Key driver of material hardship - Cost of living

Increases in the cost of living have fluctuated over 2025, with the cost of living remaining elevated. The cost of living for the average New Zealand household increased 2.2% in the 12 months to the December 2025 quarter, following a 2.4% increase in the 12 months to the September 2025 quarter.

The HLPI and CPI measures moved in different directions over 2025, due to the different treatment of households and the trends around different housing-related costs.

4. Proxy for hardship - Household Credit Arrears

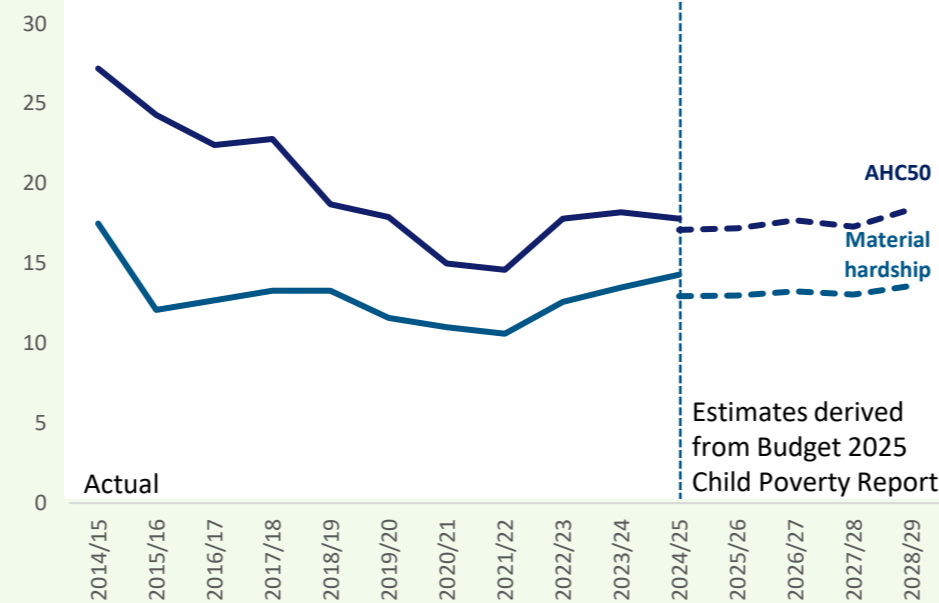
Household credit arrears rose slightly from Quarter 3 2025 to Quarter 4 2025. Arrears remain high, relative to previous years.

Implications for levels of material hardship

Overall, the mix of indicators suggest that pressure on households remains and levels of material hardship are likely to have remained similar from Quarter 3 2025 to Quarter 4 2025.

1. Indicative estimate of material hardship

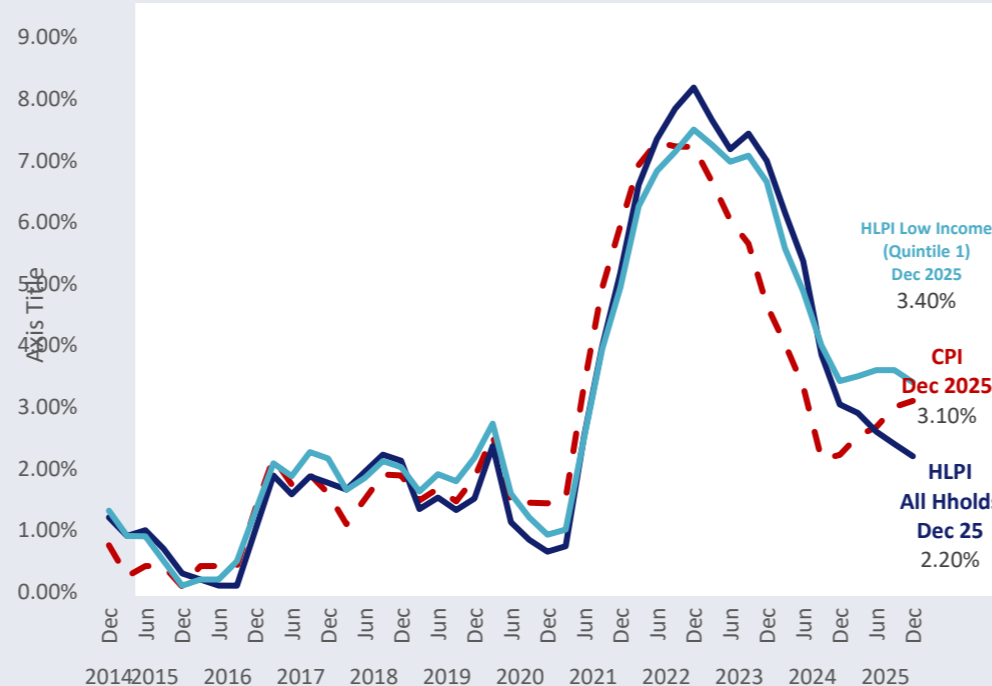
Lead Indicator: Rates and indicative estimates of material hardship



Based on the Budget 25 Treasury forecasts for AHC50 (fixed line) and the historic relationship between AHC50 and material hardship, we would expect material hardship to remain steady before beginning to increase at the end of the forecast period.

3. Key driver - Cost of living

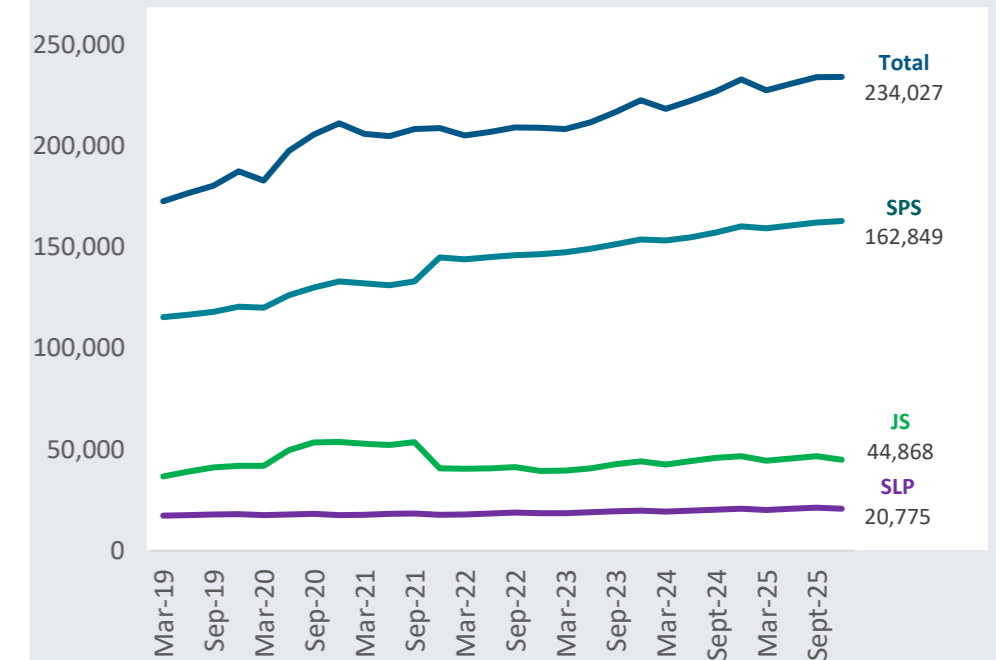
Lead Indicator: Household Living Price Index: Low income



CPI inflation rose to 3.1% in the 12 months to the December 2025 quarter, following a 3% increase in the 12 months to the September 2025 quarter. The cost of living for the average New Zealand household increased to 2.2% in the 12 months to the December 2025 quarter, following a 2.4% increase in the 12 months to the September 2025 quarter. Consistent with Quarter 3 2025, a fall in interest payments was the main contributor keeping the cost of living, as measured by HLPI, lower than the overall inflation rate measured by CPI.

2. Key driver - Benefit receipt and employment for parents

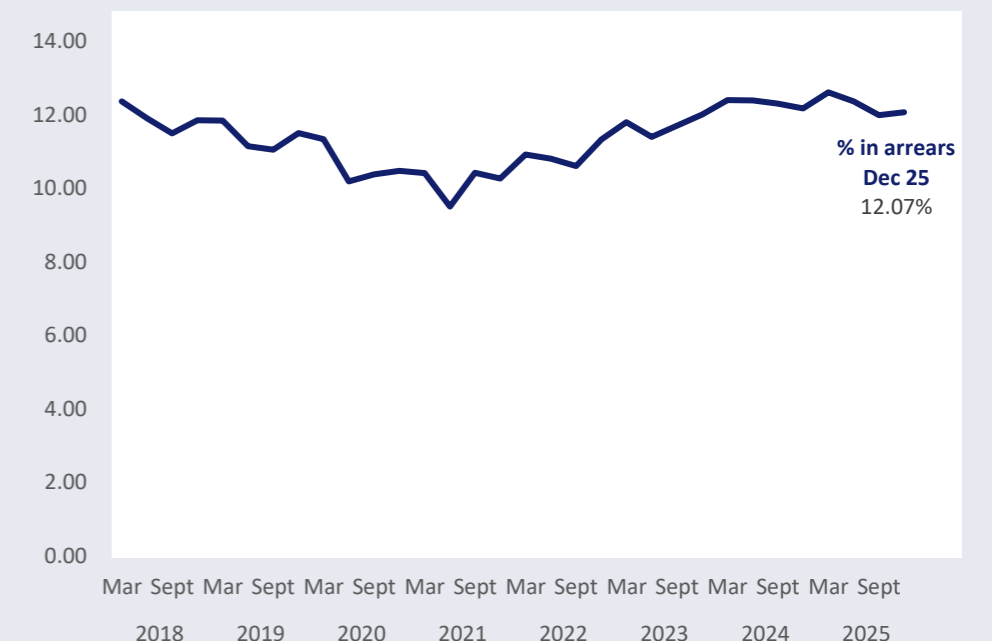
Lead Indicator: Children in Benefit-Dependent Families



The number of children in benefit-dependent families increased slightly from Quarter 3 to Quarter 4 2025.

4. Proxy for hardship and financial strain

Lead Indicator: Household Credit Arrears (Centrix)



The number of people behind on their credit payments has been rising since 2021, likely due to cost-of-living pressures. Consumer arrears increased modestly from Quarter 3 to Quarter 4, in line with seasonal patterns.