

Where is local deposit funding really coming from?

(29 November 2011 – Australia) A continued diminishing appetite for debt among Australian businesses and a static level of low deposits relative to borrowings in the consumer markets is reinforcing an ever expanding gap between the two sectors, research from East & Partners' latest Deposit Funding and Debt Index (DFDI) has shown.

East's research shows an increasing ratio of deposits over borrowing is taking place amongst business customers, climbing from 1.22 a year ago to 1.30 in September of this year. A ratio of 1.30 reflects that businesses are depositing \$1.30 for every dollar they are borrowing.

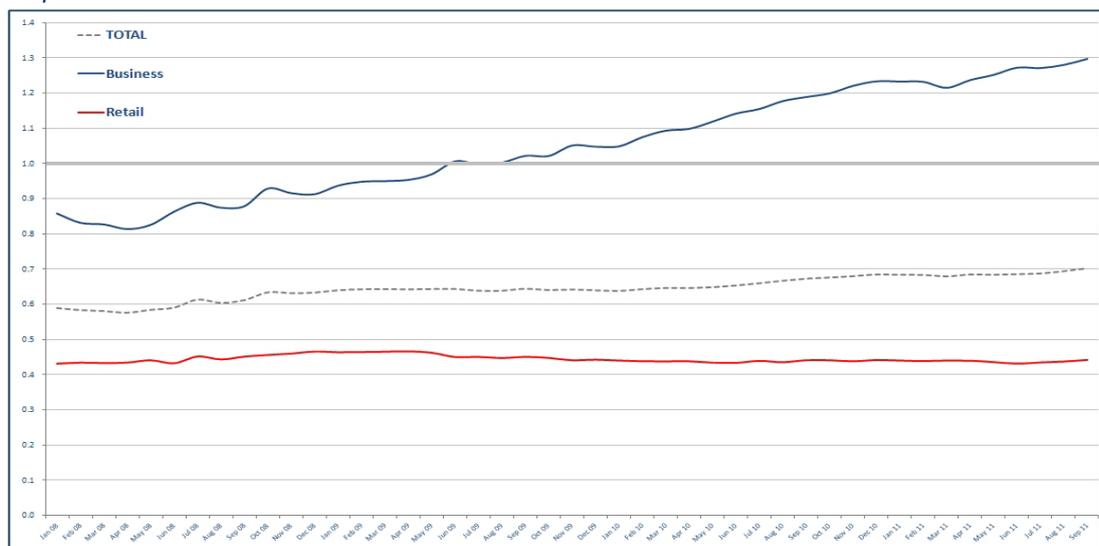
By contrast, the DFDI ratio in the consumer markets has remained static over the last two years at 0.44, as consumers pay down debt rather than net deposit with their banks.

Since January 2008 Australian businesses have completely reversed their depositing and borrowing behaviour (Graph 1). Pre-GFC they were depositing 86 cents to every dollar they borrowed by mid 2009 this had flipped on its head with businesses currently depositing \$1.30 for every dollar they borrow.

Amy Nixon, East & Partners' Head of Client Services commented, "The business sector's appetite for debt is staying flat and having already de-leveraged much of their balance sheet have been depositing free funds back into their banks rather than continuing to pay down debt."

"This reflects the uncertainty business, especially small business, has around 2012 and the largely uncontrollable risks they feel they are confronting," Ms Nixon added.

Graph 1



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About East & Partners' Deposit Funding & Debt Index

A monthly analysis across Australia's total business and consumer deposit and lending markets, based on data sourced from APRA. The ADI data is overlaid with a set of demand-side analyses based on East & Partners' continuous whole-of-market customer research programs to produce the Index's set of ratio indicators. The Index focuses on critical market measures including business versus retail deposit volume ratios, the ratio of deposit versus lending by bank by market segment, deposit market share and the total market deposit funding index.

Also reported each month are unique segmentations based on depositor size and, importantly given BASEL III's impact, the Index also splits On Call and HYOD deposit volumes by segment from Term Deposits across 3, 6 and 12 month tenures – hot and sticky deposit business flows, tied versus free deposit balances, deposit churn forecasts and rate triggers for depositor switching.

Note: Business Depositor Segments:

- › Institutional – A\$530 million plus
- › Corporate – A\$20-530 million
- › SME – A\$5-20 million
- › Micro – A\$1-5 million

For more information or for further interview based insights from East & Partners on this DFDI Index, please contact:

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