



## East predicts 2.8 percent business credit growth 2013

(20 November 2012 – Australia) Larger businesses are showing clear signs of ending the deleveraging cycle after the global financial crisis, while micro businesses are still deleveraging, “bank shy” of engaging more business banking products.

These are some of the key findings delivered by East & Partners in the research firm’s inaugural Business Banking markets update held this week, strongly attended by senior bankers and stakeholders in the financial services industry.

East highlighted the results of its Deposit Funding and Debt Index (DFDI), which showed in September that micro businesses had a DFDI ratio of 2.73, and are depositing \$2.73 for every \$1 they borrow from the banking system. SME’s are depositing \$2.46 for every dollar borrowed, but at the larger end of town the situation is reversed, with both corporate and institutions being net borrowers. Corporates had a DFDI of 0.87, with institutional customers at 0.45.

East’s research also showed that the DFDI ratio for SME’s looks to be at an inflexion point and falling, suggesting the segment had come to the end of its de-leveraging cycle.

The quarterly update reviewed the 2013 outlook for business credit, with 5.6 percent of SME’s and 6.6 percent of corporate indicating they have planned new borrowings in the next six months – the lowest result for both sectors in four years.

The Institutional segment is showing sharply stronger borrowing intentions over the coming six months, with 7.0 percent of institutional respondents indicating they planned new borrowings.

Based on these figures, East is forecasting an overall 2.8 percent increase in business credit across the board over 2013.

In other findings presented at the markets update session:

- Businesses are moving out of At Call deposits and into Term depositing, although preferring short tenors of between three and six months
- Churn ratios in Call deposits are accelerating, with 41.9 percent of business customers across all segments planning to switch in the coming months, while 38.6 percent executed a switch last month. Consumers are showing similar deposit switching aggression with differential rate triggers encouraging a switch of 42.9 percent of the total market in the coming month.
- Business expects the Australian dollar to appreciate in the first half of 2013 before falling slightly, but both importers and exporters believe the AUD will remain above parity through to the end of 2013 at an average of 1.014 by the end of June 2013. Importers are most bullish on the AUD, forecasting a level of 1.019 against the USD by the end of 2013.

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East & Partners' Head of Markets Analysis Lachlan Colquhoun commented, "This quarterly update on Australia's banking markets catches the market at a very interesting inflection point, particularly in the results for Micro businesses and SME's.

"While Micros show no sign of ending their de-leveraging, SME's are at a clear switch point and may well have turned the corner, with DFDI levels on the way down. The next quarterly result for SME's will be a telling one."

"The overall message though is that the appetite for new borrowings is still low, and our 2.8 percent forecast for business credit expansion over 2013 is anaemic by any standard."

East & Partners will be holding quarterly Market Updates with the next Market Update scheduled for February 2013. These updates provide a series of snapshots of the current banking markets, and unique market segments.

**Sources**

East & Partners Deposit Funding & Debt Index Report (October 2012)  
CBA Aussie Dollar Barometer  
East & Partners Business Banking Index

**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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