

Credit demand: Signs of Green Shoots

(18 February 2013 – Australia) The demand for credit from Australian businesses is finally beginning to increase, suggesting the emergence of “green shoots” for lenders and also the wider economy.

This was among the key findings delivered by East & Partners second Open Markets Briefing held on Thursday, February 14, in Sydney, and attended by senior bankers and stakeholders in the financial industry.

East research delivered at the briefing shows that 6.3 percent of Australian businesses across all market segments planned new borrowings over the next six months, the first time this figure has been above 6 percent since the Global Financial Crisis.

Most encouraging was the fact that 7.8 percent of Micro and SME businesses said they planned new borrowings, the best result for this segment since 2009.

In the largest institutional segment 5.0 percent of respondents reported plans for new borrowing, although this segment also has access to debt funding through the capital markets.

With institutional borrowers either accessing funding markets directly or having completed balance sheet restructurings, smaller business is where forward borrowing plans appear strongest.

% of Businesses Looking to New Borrowings in Next 6 Months

	All Lenders			
	SME & Micro	Corporate	Institutional	Total
1 April 2008	10.2	8.0	1.1	5.6
1 April 2009	9.5	8.6	2.0	5.3
1 April 2010	6.3	6.7	5.2	5.4
1 April 2011	6.3	6.9	5.5	5.9
1 April 2012	7.8	6.5	4.2	5.4
1 January 2013	7.8	7.0	5.0	6.3

Source: East & Partners Deposit Funding & Debt Index- January 2013

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Other findings presented at the Open Markets Briefing include:

- Forecasts of a gradual fall in the value of AUD through to September 2013 to near parity, but still above
- Short term tenors continue to be the most popular term deposits as interest rates come down with 64.5 percent of the total market with term deposits in a tenor of 3 months. According to research conducted by East & Partners, the bigger the business, the shorter the tenor
- East presented the latest findings from its Deposit Funding and Debt Index (DFDI), revealing contrasting behaviour amongst the different business segments. Micro Businesses are still deleveraging, depositing \$2.70 for every \$1 that is borrowed, while the Institutional segment is borrowing \$2 for every \$1 deposited
- East's Business Banking Index of customer advocacy continues to fall – only four out of eleven banks scored higher than the average score
- Satisfaction is a driver of customer retention, but not acquisition
- Demand from all segments for business banking is marginally lower for 2013 than 2012 highlights fragility of the recovery
- Small businesses are still unwilling to engage with banking products

East & Partners' Head of Markets Analysis Lachlan Colquhoun said that the business lending intention could be an interesting inflection point for the economy and for banks.

"We need to keep it in perspective, however," said Colquhoun

"6.3 percent of businesses indicating borrowing intentions are an improvement, but it is not hockey stick recovery.

"The way to look at it is as a sign of some very welcome green shoots we have been waiting for some time."

Sources:

East & Partners Deposit Funding & Debt Index Report
CBA Aussie Dollar Barometer
East & Partners Business Banking Index

Business Depositor Segments:

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

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