

Small business cautious borrowings continue

(25 February 2013 – Australia) Smaller Australian businesses continue to save more than they borrow and are the only business segment which continues to de-leverage, according to the latest research from industry analysts East & Partners.

East's latest Deposit Funding and Debt Index (DFDI) shows that for every \$1 they borrow, Micro businesses – those with \$1-5 million in annual turnover – are depositing \$2.78 into the banking system.

This is in direct contrast with Institutional businesses – those with \$530 million or more in turnover – which are borrowing just over \$2 for every \$1 deposited.

The DFDI shows that SME business have reached a point of inflection and are now reducing their deposits against their lending, but still have deposits of \$2.38 for every \$1 they borrow.

The Corporate segment continues to be a net borrower from the banking system, depositing 80 cents for each \$1 borrowed.

“The Ratio” Business Deposit Balances / Business Lending Balances by Segment

Bank Ratios

Segment	Mar 2012	Jun 2012	Sep 2012	Dec 2012
Micro Business	2.56	2.63	2.70	2.78
SME	2.56	2.62	2.43	2.38
Corporate	0.86	0.87	0.87	0.80
Institutional	0.47	0.45	0.45	0.48

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

The DFDI also covers borrower behaviour in the deposit market, clearly showing that short term tenors are the most popular among business depositors as rates come down.

64.9 percent of the total market has their deposits on 3 month tenors, with shorter tenors more popular among larger businesses.

As depositors chase better rates from banks, churn levels are also high with a market total of 43.5 percent of businesses indicating they plan to switch accounts in the next month.

With around \$689 billion in total business deposits in the banking system, this amounts to approximately \$270 billion moving around the banking system.

Lachlan Colquhoun, East & Partners Head of Markets Analysis, said the DFDI continued to deliver unique insights on the state of play among Australian businesses.

“The disparity in the behaviour of the business segments tells us that small businesses – whose finances are often tied up in household issues such as mortgages – are still overwhelmingly cautious and determined to de-leverage,” said Colquhoun.

“And when you consider that Institutional businesses often have other sources of funding available to them through the capital market, their low ratio of deposits indicates that the GFC and post GFC balance sheet restructuring process has been largely worked through.

“And then there is the issue of account churn, which is accelerating and continues to present issues for the banks, who want ‘stickier’ deposits.”

About East & Partners’ Deposit Funding & Debt Index

A monthly analysis across Australia’s total business and consumer deposit and lending markets, enhancing data provided by 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 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

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