



Major change presented in banking industry briefing: East & Partners

(6 May 2013 – Australia) Asset and Equipment finance volumes are forecast to see strong growth in the second part of 2013 as Australian businesses re-equip after the global financial crisis, according to the latest research presented at East & Partners 3rd Quarterly Open Markets Briefing with strong attendance by bankers and industry stakeholders.

East's quarterly Open Markets Briefing in Sydney this week showed that Australian businesses – across all market segments – were forecasting a 12.8 percent increase in their asset finance balances by the end of 2013, and 13.4 percent by March 2014.

The research results come in the context of other East research which also indicates signs of increased credit demand, particularly in the corporate segment – those businesses turning over \$20-530 million a year.

47.1 percent of these businesses interviewed by East in January said they were planning borrowings in the next six months, 7.7 percent of which was new borrowings.

Asked to nominate the reasons for borrowing, 6.7 percent said they needed the funds for business acquisition.

East's research also shows strong contrasts in sentiment between business segments. 46.4 percent of larger businesses – or those turning over \$500 million or more each year – said their new asset and equipment needs were driven by a need for expansion.

Smaller businesses, however, were much less confident, with 66.7 percent of Small and Medium Sized Enterprises – turning over \$25-150 million - saying they were reducing their equipment finance in response to the state of the economy and their business.

Another significant theme for 2013 from East's research is the ongoing structural change among businesses in response to the high AUD environment.

The Open Markets Briefing was told that a growing number of Australian businesses are adopting an "importer only" profile. In February 2010, 22.4 percent of large institutional businesses were "import only" but that figure climbed to 32.1 percent by January this year.

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Other findings presented at the East & Partners Open Markets Briefing include:

- Micro businesses – turning over \$1-5 million – broke their deleveraging trend for the first time in over a year. This segment still deposits \$2.64 for every \$1 they borrow from the banking system, but this has come down from a high of \$2.78 in November last year.
- A wide disparity between the states in terms of banking satisfaction - New South Wales businesses are significantly more dissatisfied than their peers in Queensland.
- Increased churn in the corporate market with 40 percent of corporates indicating the likelihood to change banking provider. The same level of churn is evident in the institutional market, where as many as 40 of Australia's largest institutional businesses indicated they planned to change their primary banking provider.

Lachlan Colquhoun, Head of Market Analysis at East & Partners said the equipment finance and corporate borrowing intentions added to some early signs of returning credit demand.

“Clearly it is attractive for business to take assets off balance sheet, and that is one reason behind the momentum for equipment finance,” said Colquhoun.

“But we are also encouraged that the forecast increase in equipment finance, combined with increased borrowing intentions by corporates, could signal some welcome signs of business expansion in the second part of the year.”

“The issue remains, however, that this momentum is yet to spread to the smaller business segments.”

Sources:

- › East & Partners Deposit Funding & Debt Index
- › East & Partners Australian Institutional Banking Markets
- › East & Partners Australian Corporate Banking Markets
- › East & Partners Trade Finance
- › CBA Asset Financing Australia
- › Citi Trade Finance Index

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