

Leverage balance shifts for small business

(27 May 2013 – Australia) Small businesses have broken their post GFC pattern of higher savings and lower lending, exhibiting a deleveraging bias for the first time in over a year, according to the latest research from industry analysts East & Partners.

East's Deposit Funding & Debt Index (DFDI) closely examines borrowing ratios across Micro, SME, Corporate and Institutional business segments, and has shown a strong trend for Micro businesses – those turning over A\$1-5 million – to deposit more than they borrow as the other market segments have de-leveraged.

The latest analysis indicates a DFDI ratio for Micro Businesses of 2.60, down from a peak of 2.78 in December 2012. This means that for every \$1 they borrow, Micro businesses are depositing \$2.60 into the banking system.

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

Segment	Bank Ratios			
	Jun 2012	Sep 2012	Dec 2012	Mar 2013
Micro Business	2.63	2.70	2.78	2.60
SME	2.62	2.43	2.38	2.00
Corporate	0.87	0.87	0.80	0.75
Institutional	0.45	0.45	0.48	0.56

Source: East & Partners Deposit Funding & Debt Index – April 2013

Coupled with a shift in borrowing intention from ‘no’ to ‘uncertain’, the first signs of green shoots in lending activity are evident within the small business segment. Earlier research from East has found 5.6 percent of SME's, a segment of which Micro businesses are a part, intend fresh borrowings over the next six months.

On the other side of the spectrum, the institutional segment's stable DFDI ratio has again increased, climbing to 0.56 in March 2013. This means that institutional businesses with A\$530 million or more in annual revenues are depositing 56 cents for every \$1 they borrow.

This divergence in borrowing intentions between small and large businesses typifies the specific and complex challenge banks face encouraging lending growth.

Among the banks, ANZ is increasingly targeting small businesses in order to improve its market share position as opposed to poaching competitors' customers. On the back of strong half year results the bank is garnering more mind share among small businesses facing a multitude of challenges sourcing cost effective financing solutions.

East & Partners Pty Ltd

Level 39, 2 Park St Sydney NSW 2000 Australia

phone: +61 2 9004 7848 fax: +61 2 9004 7070

www.east.com.au

ABN: 23 151 025 599

As competition for deposits continues, business depositors have moved away from 6 month term deposit tenures, as the preference for flexible 3 month term deposits rises from 55.5 percent last year to 68.5 percent currently.

Lachlan Colquhoun, East & Partners Head of Markets Analysis, said the latest DFDI once again showed where “rubber hits the road” for the banks.

“The DFDI shows just how money is flowing into and out of the banking system, and who is deleveraging or leveraging at any one time,” said Colquhoun.

“Signs of slowing de-leveraging by Micro businesses adds to our cautious optimism about returning credit demand at the smaller end of the business segments.”

“At the same time, we can see how depositors – both business and retail – are responding to falling interest rates by chasing the best deals, even though this means a lot of account churn for the banks.”

About the East & Partners Deposit Funding & Debt Index

East & Partners’ monthly Deposit Funding and Debt Index (DFDI) provides insightful research supporting the implementation of bank funding strategies within a constrained and competitive lending market. The industry benchmarks are based on monthly deposit and lending data released by the Australian Prudential Regulation Authority (ARPA). Capturing trending data across core deposit funding and lending metrics allows unique insights to be derived, including Business to Retail deposit volume ratios, Deposit and Lending Market Share, Rate triggers for deposit switching, Deposit churn levels and Tenure of term deposits.

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, please contact:

Sian Dowling
Marcomms & Client Services
East & Partners
t: 02 9004 7848
m: 0420 583 553
e: sian.d@east.com.au