

Cards key to SME Credit

(and masking declines in consumer card balances)

Credit Cards increasingly supporting businesses

Australian credit card debt hit a record A\$50 billion in November 2011 according to numbers from the Reserve Bank of Australia. East estimates have Business customers comprising \$14 billion – or almost 30 percent – of this total card balance figure, with SME's in particular turning increasingly to credit cards amid difficulties accessing traditional debt funding over the past few years.

Use of credit cards among SME's is historically high and has grown since the global financial crisis with many experiencing heightened security requirements from lenders and higher access hurdles around new credit.

Why turn to Credit Cards?

Although interest rates charged on credit cards are a very high cost form of borrowing, SME's are turning to cards as an easy, default means of accessing short-term credit and supporting their working capital and cash-flow needs.

The Reserve Bank figures do not break down the figure according to sector. This is difficult to do for card issuers as credit card use by SMEs often occurs through the use of personal cards.

East has been able to develop these estimates (exhibit 1) based on large scale business research programs.

Where to from here?

Over the past five years, Australia's credit card debt has grown by more than 30 percent. Although the latest number continues the upward trend, the figure shows the rate of credit card debt growth has slowed to a crawl. The increased use of credit cards by business owners for business expenses is clearly masking a steeper fall in consumer usage of credit cards as households continue to deleverage going into 2012.

East forecasts business usage of credit cards will continue climbing to represent 37 percent total Australian credit card balances by the end of calendar 2012.

Exhibit 1

East Estimates of Credit Card Balances

	% Total Outstanding Balances			
	2008	2009	2010	2011
Business Balance %	15.1	18.8	24.6	27.4
<i>Growth %</i>	8.0	28.3	38.1	14.6
Consumer Balance %	84.9	81.2	75.4	72.6
<i>Growth %</i>	-6.2	11.7	-2.0	-1.0
Total Value (A\$ Bn)	44.690	46.049	48.613	50.011
<i>Value Growth %</i>	6.6	3.0	5.6	2.9