



Media Release

Australian businesses shrug off RBA rate hikes

(29 August 2006 – Australia) Latest research by East & Partners reveals that nearly one in three enterprises are not sensitive to Reserve Bank of Australia (RBA) interest rate increases.

Last month East interviewed a large structured sample of 2,507 enterprises Australia-wide. With the May interest rate rise still fresh in their minds, 31.6 percent of all enterprises spoken to said their businesses were not sensitive to interest rate increases. There is, however, substantial variation in this finding according to enterprise size, State and industry.

Using East's core market segmentation, a resounding 60.1 percent of Corporates said they were not sensitive to interest rate increases along with 38.1 percent of Commercial or "middle market" enterprises.

Smaller enterprises are considerably more attuned to interest rate rises, with only one in four SMEs reporting they were not sensitive to rate rises. Micro Businesses felt most vulnerable to the increasing cost of credit – almost 90 percent of enterprises spoken to reported being either very sensitive or somewhat sensitive to continuing interest rate hikes from the RBA.

Businesses in the growth States of Queensland and Western Australia reported being most dismissive on rate increases while their NSW and Victorian counterparts appear to be a lot more worried about rate rises. In NSW and Victoria, one fifth of businesses see increasing interest rates as having an impact on their demand for credit. By contrast, fully two thirds of business in Queensland and Western Australia (66.9 percent and 72.5 percent respectively) note their business development plans are not sensitive to continuing interest rate increases.

The impact of monetary tightening is likely to be most felt in the Manufacturing and Retail industries where about one third of enterprises see rate rises having the greatest impact on their business borrowing. The booming Mining sector, however, is unconcerned about rate rises with 70.9 percent of enterprises reporting they are not sensitive to interest rates.

Whilst many of these findings may have been reasonable *a priori* expectations, the impact of RBA's interest rate rises is not shared equally across the economy which is why they are so often dubbed a 'blunt instrument' in the economic management toolkit.

It seems highly probable that the Reserve Bank will lift the rates again before the end of the current year. While this move may well act to depress household spending, East's research suggests that the direct impact on Australia's businesses is likely to be muted.

Earlier this year JP Morgan / East & Partners Australian Corporate, Commercial and SME Banking Survey quantified the healthy and growing appetite for borrowing among Australia's small and medium businesses. The latest research by East & Partners confirms this finding, revealing that many businesses will continue to borrow even as interest rates rise.

While Manufacturing and Retail industries may moderate their borrowing plans, the Mining industry – spurred on by record commodity prices – will continue to borrow largely unabated. And while businesses in NSW and Victoria may be chary of further rate rises, business in the booming economies of Queensland and Western Australia will not scramble to waylay their borrowing plans in spite of the increasing cost of credit.

<i>Enterprises by Segment</i>			
	% of Enterprises		
N: 2,507	Very Sensitive	Somewhat Sensitive	Not Sensitive
Micro Business	30.8	56.1	13.1
SME	27.5	47.3	25.2
Commercial	21.9	40.0	38.1
Corporate	16.5	23.4	60.1
Total	25.0	43.4	31.6

<i>Enterprises by State</i>			
	% of Enterprises		
N: 2,507	Very Sensitive	Somewhat Sensitive	Not Sensitive
New South Wales	32.4	48.0	19.6
Victoria	28.9	50.1	21.0
Queensland	10.6	22.5	66.9
Western Australia	9.3	18.2	72.5
Other	21.3	68.0	10.7
Total	25.0	43.4	31.6

<i>Enterprises by Industry Sector</i>			
	% of Enterprises		
N: 2,507	Very Sensitive	Somewhat Sensitive	Not Sensitive
Manufacturing	30.2	48.2	21.6
Mining	11.0	18.1	70.9
Construction	22.2	46.0	31.8
Retail	31.2	48.1	20.7
Other	24.0	43.3	32.7
Total	25.0	43.4	31.6

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Note: East & Partners core research employs a market segmentation of enterprises based on the annual turnover. This approach yields four distinct enterprise segments – Top 500 Corporates (A\$340m plus), Commercial Markets (A\$20-340m), SMEs (A\$5-20m) and Micro Businesses (A\$1-5m)