

## **SLOW DOWN IN DEPOSITS WILL PUT PRESSURE ON BANK PROFITABILITY: RESEARCH FROM MACQUARIE EQUITIES RESEARCH AND EAST & PARTNERS**

### ***'SPOTLIGHT' BANK SECTOR REPORT - A WORLD-FIRST INITIATIVE IN HELPING INVESTOR OUTLOOK AND EXPECTATIONS***

**11 April 2012:** Research from Macquarie and East reveals there is a very clear link between demand side, customer predictive measures of market behaviour and bank deposit growth within the Australian economy. The East/Macquarie predictive model of business deposit growth suggest that growth is likely to slow to around 4 to 5 per cent and with it, bank profitability.

*The Macquarie Equities Research and East & Partners 'Spotlight'* bank sector report series is building a suite of predictive analyses around bank sector and individual bank stock performance in a response to the headwinds now confronting Australia's banks.

Macquarie and East's research has revealed a strong shift away from Term deposits towards At Call deposits, with businesses turning to cash over debt facilities for working capital and liquidity needs.

According to East & Partners Principal Analyst, Paul Dowling, a key takeout from the research was that "Given the importance of cash, businesses across all segments have become more price sensitive".

"The research clearly demonstrates that bank customers are switching more frequently and at lower rate points than they were pre-GFC, testing individual bank abilities to hold deposits on their books."

Macquarie Securities Banking Analyst, Michael Wiblin, added: "The research has shown us that growth will slow to 4 to 5 percent as profit growth moderates'.

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“Significant and clear linkages have been established between both system-wide/top-down profit growth and bottom-up profit/cash on balance sheet growth”.

Flat demand for lending, increasing funding costs and Basel III capital adequacy requirements are confronting the banks with significant margin and profitability challenges. Macquarie and Easts’ forecasting of likely outcomes using leading demand-side predictors is a world first initiative in helping investor outlook and expectations for the bank sector.

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