

Media Release

Vital period for banks looking to snare new lending business

(2nd December 2003 – Australia) The next six to nine months will be critical for Australian banks looking to profit from the upsurge in business lending in the middle market and SME sectors, according to East & Partners.

While business lending among Australia's top 500 corporations remains subdued because of the strengthening Australian dollar, concerns over the global economy and low capex plans, the middle commercial and SME markets have firmed into vital target areas for banks.

East & Partners principal analyst Paul Dowling said East's demand side analyses indicated lending would grow at about 10 to 11 percent over the next 12 months.

"Engagement by mid commercial enterprises of Overdraft Facilities and A\$ Term Loans have grown by a significant 5.2 percent and 7.4 percent respectively over the past year, which represents a large chunk of new business for banks," Mr Dowling said.

% of mid commercial enterprises using debt products			
	July 2003	January 2003	July 2002
Overdraft Facilities	84.8	81.9	80.6
A\$ Term Loans	66.5	64.4	61.9
Source: East & Partners Australian Commercial Treasury Banking Markets			

Mr Dowling said the traditionally conservative middle market was looking to borrow after low capital expenditure over the past five years. As for the SME sector, he said wealth creation in property equity had freed up funds that were now being used to drive new business.

“We’ve been saying for some 10 months that this upswing in business lending was on the horizon and we’re now seeing demonstrable signs of that. Given the prospective softening of the housing market this is very good news for banks,” Mr Dowling said.

“However, the next six to nine months will be critical in terms of how well banks position themselves to take advantage of these burgeoning markets. It presents a major opportunity for St George and regionals such as Bank of Queensland and BankWest to grow share in what has historically been their core markets.

“Among the Big Four, Commonwealth Bank and National Australia Bank have strong client relationships with the middle-market and SME sectors, and are thus well placed to grow share. ANZ and Westpac, on the other hand, have some work to do if they are to succeed in what are clearly vital markets in Australia,” Mr Dowling said.

Mr Dowling said East had launched a new research program centred upon the SME segment of the market to provide sector specific metrics in what is increasingly Australia’s business banking hotspot.

He said East was looking to reconcile its demand side data with supply side data provided by the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of Australia (RBA) in the first quarter of 2004 to produce an accurate picture of the boom in business lending.

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