

Chapter 2

Recent trends in small business finance

The role of small business in the economy

2.1 The small business sector makes a significant contribution to economic growth, accounting for 39 per cent of total value added by industry in 2007-08, and accounting for about half of employment.¹

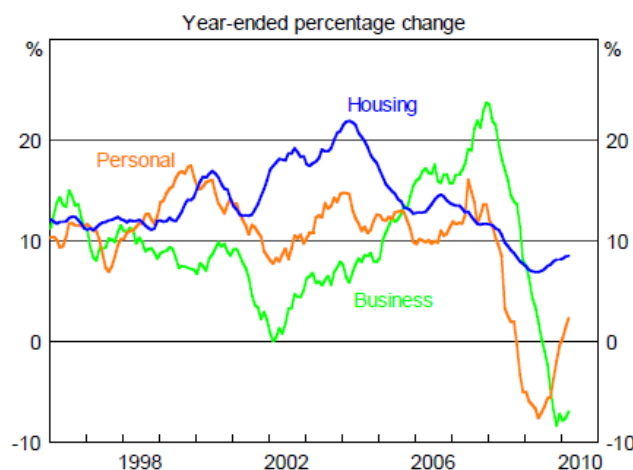
2.2 Treasury attested to the importance of small business having adequate access to finance:

Access to finance is important in allowing small businesses to maintain their important contribution to the economy and in allowing them to grow. The availability of reasonably placed credit allows small businesses to expand their activities, fund new and innovative investments, smooth cash flows and maintain employment.²

The extent of the lending slowdown

2.3 The Reserve Bank publishes monthly data on credit provided by financial intermediaries, split between business, housing and other personal lending (Chart 2.1). Business credit was expanding at annual rates of around 20 per cent before the crisis, but has contracted since 2009.

Chart 2.1: Credit by sector

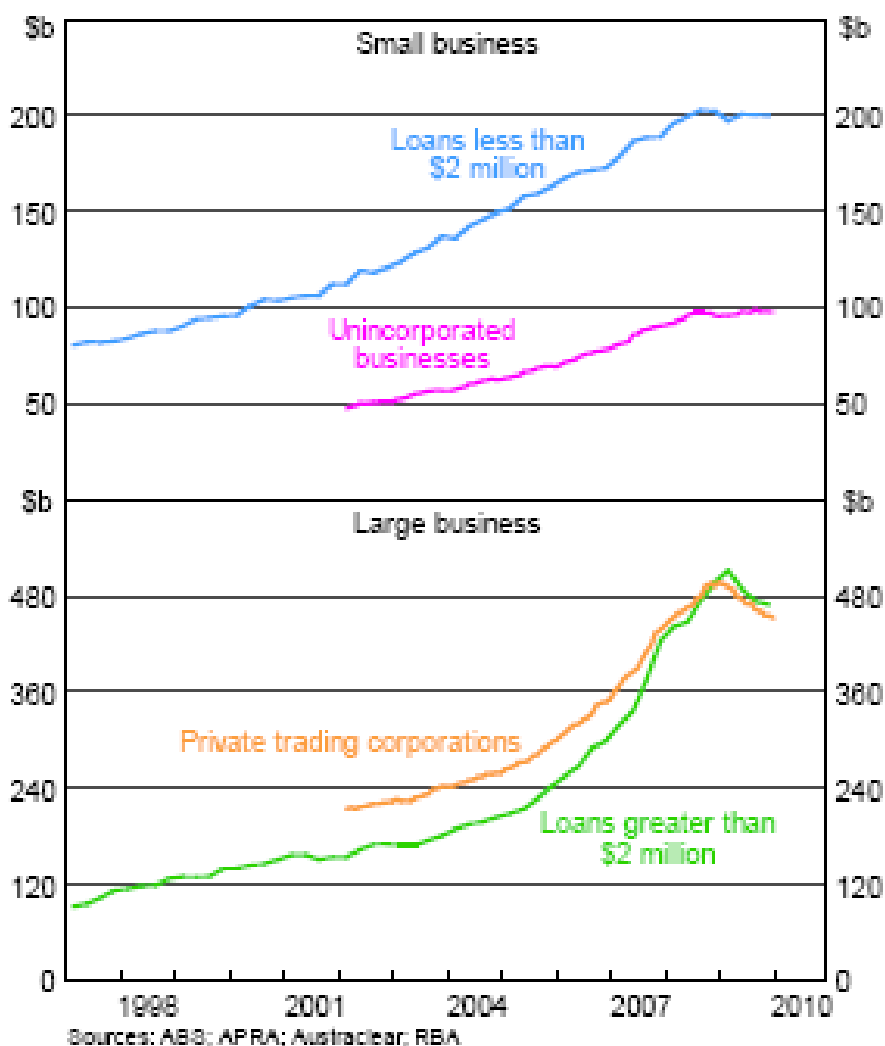


Source: Reserve Bank of Australia (www.rba.gov.au)

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- 1 Treasury, *Submission 50*, p. 1, citing ABS data. The ABS defines a small business as one employing fewer than 20 people.
 - 2 Mr Jim Murphy, Executive Director, Markets Group, Treasury, *Proof Committee Hansard*, 10 May 2010, p. 2.

2.4 These commonly-cited data do not distinguish between credit provided to large companies and small businesses. APRA collects quarterly data from banks on lending to business classified by the size of the loan, which is likely to be a reasonable proxy for the size of the borrower. It shows that the cutbacks in outstanding credit have occurred in the larger loans rather than smaller loans (Chart 2.2).³

Chart 2.2: Bank lending to small and large businesses



Source: Reserve Bank of Australia, *Submission 2*, p. 2.

2.5 There are signs of recovery in lending to small businesses:

... [major] banks have generally increased their lending to smaller unincorporated businesses over the past year.⁴

3 The drift from 'small' to 'large' loans apparent over the 15 years covered by the chart would be, at least partly, attributable to inflation.

4 Reserve Bank of Australia, *Financial Stability Review*, March 2010, p. 30.

Small business loans by industry and sector

2.6 The outstanding value of smaller loans (under \$500,000) has fallen in the agricultural, manufacturing and financial sectors (Table 2.1)

Table 2.1: Bank loans outstanding under \$500,000 at end-year

(\$ billion)	2007	2008	2009
Agriculture	16.1	16.0	15.4
Mining	0.9	1.1	1.1
Manufacturing	6.1	6.3	6.0
Construction	7.3	7.8	8.7
Wholesale & retail trade, transport & storage	20.8	22.7	21.1
Finance and insurance	3.8	5.6	4.2
Other	39.2	38.4	41.2
Total	94.1	98.0	97.8

Source: Secretariat based on APRA data reported in www.rba.gov.au, table D7.

2.7 Looking at new lending by purpose, the slowdown in credit provision to small business borrowers appears to be concentrated in loans for the purchase of real property (Table 2.2).

Table 2.2: Banks' new fixed business loan approvals under \$500,000

(\$ billion)	2007	2008	2009
Construction	1.3	2.0	1.8
Purchase of real property	4.5	4.3	3.2
Wholesale finance	0.1	0.3	0.6
Purchase of plant & equipment	3.3	3.3	4.8
Refinancing	2.1	1.8	1.9
Other	9.5	8.8	9.5

Source: Secretariat based on APRA data reported on www.rba.gov.au, table D7.

2.8 The banks referred to commercial property as a particularly weak sector:

...banks are very wary of lending to commercial property because commercial property prices have fallen, as they always do during an economic downturn. I think the banks are also remembering the early 90s

when they got into quite a bit of trouble with being over exposed to commercial property during the recession then.⁵

2.9 Another area where lending has contracted has been in finance for international trade:

The problem was even more dramatic for those small businesses that were seeking trade finance—those small businesses that were seeking to maintain some degree of export activity. Competition and other providers in that market dried up dramatically... the banks were in the very comfortable position of openly saying that they did not see themselves as needing to come to the table in this market, irrespective of the level of business information about the export activities that the SME was going to provide... They saw market conditions overseas as vulnerable, fluky and fluctuating.⁶

5 Mr Steven Münchenberg, Chief Executive Officer, Australian Bankers' Association, *Committee Hansard*, 12 April 2010, p. 12.

6 Mr Peter Anderson, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, 10 May 2010, p. 15.