EQUIFAX MARKET INSIGHT

Commercial credit insights

Opinion piece by Moses Samaha, Executive General Manager, 3 April 2020

The new vernacular of flattening the curve is not a term that anyone could have anticipated as being the most used phrase of 2020, but it is, so what does that mean for lending decisions and how is it impacting the Australian economy?

Equifax had reported multiple quarters of decline in credit demand since October 2018, however it appeared the commercial market bottomed out in November 2019. Equifax observed credit demand activity lift over the December 2019 to January 2020 period indicating that the market had turned for the better and positioned for growth. These positive signs of growth continued up until mid-March 2020.

On 18 March 2020 COVID-19 was declared a global pandemic, and the world braced itself for the impact this would have on global economies and measures were ramped up to help protect the health of populations.

The Australian economy has always shown resilience and we have invariably faced adversity head on. How our economy weathers the impact of COVID-19 remains to be seen but if history is an indication, we have reason to hope. Multiple levers are being pulled, with government stimulus packages being regularly announced and initiatives put in place to try and buffer the impact.

So far Equifax has reported a drop in commercial credit enquiries of 16% since 18 March 2020. Australian businesses are pivoting and reacting and, more importantly, many are remaining open. Australians are adapting and endeavouring to do everything possible to keep the economy in motion. There will be differing views on whether the magnitude of this decline is encouraging or not. While it is still early days to be drawing conclusions on the impact, Equifax will monitor credit demand closely to observe any emerging trends.

The Federal Government continues to release new stimulus packages that the market reacts to. Regulatory changes are designed to mitigate the economic impact with the banking and finance industry working together to support business to manage this once in a lifetime event.

There are many industry groups that have been significantly impacted by social distancing measures and have had to make hard decisions to close doors and let staff go – tourism and retail being the hardest hit sectors. Shops being shut and staff being laid off does not necessarily mean these businesses will not survive, with hope it may be about hibernation and reinvention.

While we hope to see a positive impact from government stimulus measures, the uncertainty around COVID-19 and the rapidly changing landscape has created much disruption. Small businesses have had little time to adjust and assess their financial needs. Many are facing cash-flow crises for the first time in the life of their business and may struggle to know how to go about getting credit or increasing their credit lines. Business owners need to deal with the effects on their staff, negotiate current payments to suppliers, figure out how to deal with upcoming forward orders, seek rent relief and revise cash-flow forecasts.

For lenders, credit reporting and ratings will be important. Generally, organisations with long-term, good credit standing have displayed a willingness to meet their commitments. While the effects of COVID-19 may have an impact, these organisations are likely to continue to do their best to meet their obligations. In commercial lending, an important measure for assessing the expected performance of a small business is the quality of its financial reporting. Organisations that can show how various scenarios could impact their cash flow forecast will likely have the best chance of survival through this crisis.

Equifax will continue to provide insights into emerging trends on small and medium-sized enterprises (SMEs) and commercial credit to help navigate through these uncertain times. We are constantly analysing our commercial data to further understand the market impacts on days sales outstanding (DSO), credit activity by industry segment, defaults, insolvency and deregistration’s, and will continue to provide further analysis as time progresses and more data becomes available.