

Cash is not just a dirty word!

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Amid the current furore about whether cash is safe to use, it's timely to reflect that currency not only serves as a ready means of payment, but also a store of wealth. In a rush by some to abandon cash – or see its use side-lined – it is also important to consider that for many people around the world, cash is also often their only readily available means of payment.

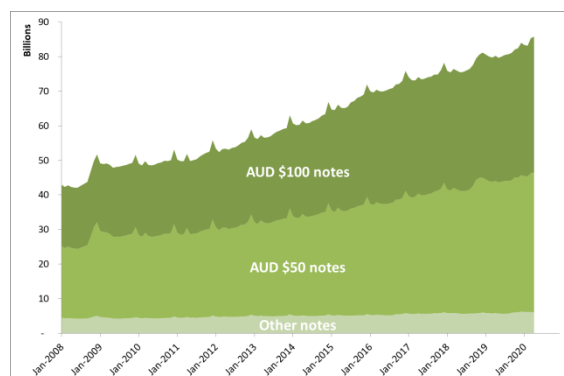
Cash is unique as it is both a way to pay and a store of value. This explains the contradiction between continued growth in currency in circulation, yet in many countries a decline in its transactional use. It is worth remembering that cash in its various physical forms – banknotes and coin of varying denominations - satisfy different public needs.

As data emerges from a range of sources, it is useful to dig a little deeper to see what we can learn about cash use in these uncertain times. Here in Australia, the Reserve Bank publishes monthly currency in circulation data by banknote denomination, one of only a few Central Banks to do so in such a timely and granular way. The Bank also publishes transactional payments statistics, but as these are gathered and compiled from a range of industry sources, they take a little longer to appear.

Just published currency in circulation figures for the end of April 2020 shows the value of Australian Dollars in circulation at a **new all-time high of \$85.7 billion**.

While, thankfully, COVID-19 infection and death rates in Australia are among the lowest in the world, the economic consequences of the country's lock down and social distancing measures to curb the spread of the virus, have been profound. So, the paradox, despite this huge hit to the economy, cash on issue is at record levels!

Growth of Australian Dollars in Circulation



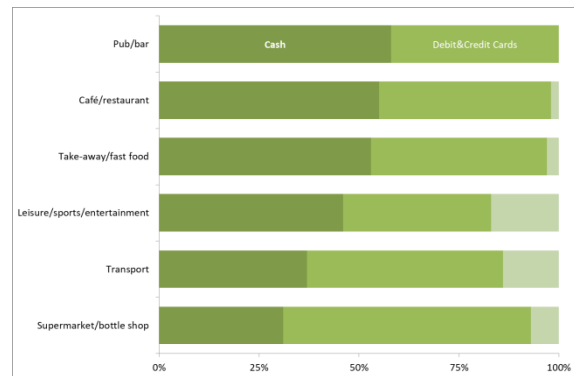
(Source: Reserve Bank of Australia/ Blond Group analysis)

Another valuable source of data is the Reserve Banks' Consumer Payments Survey. The Bank undertook its fifth survey in late 2019 with participants asked to record details about their payment transactions, preferences and attitudes. Findings from the latest survey show cash use - in terms of numbers of payments - has declined to **27% of all consumer payments**, compared with 37% in 2016 and as high as 69% in 2007. Supporting the preference for cash as a means of paying for lower value items, when measured by value, the share of cash payments has fallen to around 10% of the total, from nearer 40% in 2007.

As the full details from the 2019 survey are yet to be published, taking a deeper look at the 2016 results expose some interesting facts. Survey participants were asked how and where they paid for goods and services.

The survey revealed that cash was most likely to be used in pubs and bars (58% of all payments made at that merchant type), cafés and restaurants (55%), take away and fast food outlets (53%) and in leisure, sports and entertainment venues (46%).

Where cash is used



(Source: Reserve Bank Consumer Payments Survey 2016 – Ipsos)

Tough social distancing restrictions and Australia’s lockdown has seen the places where cash is most widely used as now those that are now most sharply affected. According to data released by the Australian Bureau of Statistics, the Coronavirus pandemic has had a staggering impact on business. Two-thirds of businesses have reported a hit to revenue and one in 10 have paused trading altogether. Nowhere has the impact been more apparent than in the hospitality sector, with about 78% of accommodation and food services businesses making changes to their workforce, including 70% that have temporarily reduced work hours.

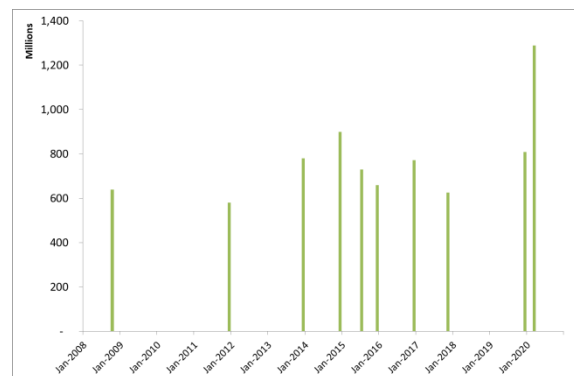
With a surge in online shopping, home deliveries (often with their associated in app payment capabilities), the use of faster payments via the New Payments Platform (NPP) gathering pace and temporary increases to the already generous - by world standards - contactless PIN free card limit (up from AUD \$100 to AUD \$200) you could conclude, the future for cash is dire.

So with cash use in decline, why is cash on issue, (perhaps a better term to use than cash in circulation), at its highest ever level? Let’s delve deeper. As the pandemic took hold, in the month between the end of February to the end of March 2020, total Australian Dollar currency in circulation **grew by \$2,200 million (2.6%)** as people safeguarded their cash positions. This is the 15th largest single monthly rise on record and the highest (by value) March increase ever. Other top monthly rises have been to cover traditional Christmas demands in the month of December and outside this in October and November 2008, following the Lehman Brothers collapse at the start of the Global Financial Crises, another occasion when there was a flight to cash as a safe haven store of wealth.

Perhaps even more insightful is the denominational breakdown of this growth.

Of the \$2,200M increase, (the net figure between commercial banks drawing new and returning old or surplus banknotes to the Central Bank), \$50 notes accounted for **\$897M** (40.8% of the total increase) and \$100s surged by **\$1,288M** (58.5%).

Top 10 monthly changes in \$100 in Circulation

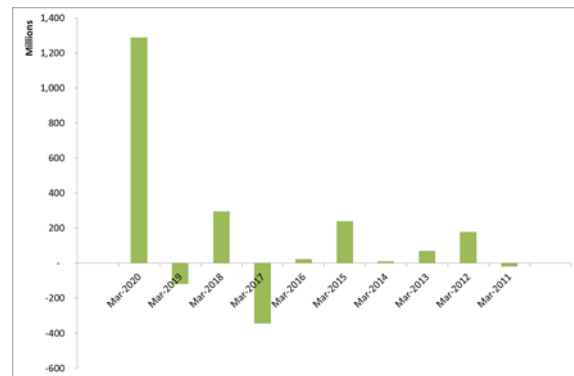


(Source: Reserve Bank of Australia /Blond Group analysis)

The sharp increase in \$100s was the highest ever monthly jump for Australia's top denomination and surpassed the second highest monthly jump in December 2014 by more than 40%. By comparison, last year in March 2019, \$100s in circulation actually fell by nearly \$120M and over the past 20 years the monthly March growth rates have averaged around \$110M.

So how do you account for a more than ten-fold increase to the average?

March monthly changes in \$100 in Circulation



(Source: Reserve Bank of Australia/Blond Group analysis)

The increase is a function of commercial banks drawing more money from the Reserve Bank than they return, so in part, you can attribute this to a precautionary increase in stock levels to meet anticipated customer demand, perhaps not wishing to be caught out by the experiences of huge demand at the height of the GFC! Anecdotal evidence suggests that while there may be buffer or contingency stock growth, actual consumer demand has been strong. Certainly from evidence here and around the world in times of trouble – Australia only just coming out of the horrors of the summer bushfires that ravaged large parts of the country - many have turned to cash not only as a store of wealth, but also as a means of payment in case other infrastructure might fail.

It has certainly been a busy time for the Reserve Bank with the bulk of those currency movements in the last two weeks of March, making for the fourth highest two consecutive week increase in currency in circulation and the first time this has occurred outside December.

Following this surge in demand, the change in currency in circulation in April saw a further, but more modest, \$372M growth, again almost exclusively in higher value \$50 and \$100 notes.

With a new design \$100 note – the last denomination in the 'Next Generational Banknote' family - slated for issue in late 2020, it will be fascinating to see whether or not the old \$100 notes come flooding back and if they are exchanged - like for like - with the shiny new notes.

While the focus of this piece has been on money in and out of the Reserve Bank, none of this would have been possible without the activities of the commercial banks and the cash logistics industry. Supporting these additional drawings and at the same time - following the Government's direction to close pubs and clubs - managing a clear out of notes and a great deal of coin, has made for a busy time for many cash management companies. For now, with large parts of the economy in lock down and with the active promotion of non-cash payment alternatives to the public, it is a challenging time for these companies, with many scaling back their operations to meet reduced retail demand.

While crunching the data makes for some interesting insights, it will be even more vital to track the numbers to see whether the cash that has been safeguarded during this pandemic will flow back into the economy. In countries like Australia where many people have ready access to alternative means of payment, will this catastrophic event change the shape of cash use for ever?

About the author



With more than 30 years extensive industry experience **Paul Blond** is a leading international authority on cash management, cash processing logistics and the cash handling supply chain.

the blond group is an independent specialist consultancy, research and project management practice focused on shaping strategic thought and executing operational change in the cash handling and payments world.

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