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21 February 2012

SMALL BUSINESS FAILURES UP 48 PER CENT

National insolvencies jump 40 per cent in the last 12 months

The number of small businesses going bankrupt jumped by 48 per cent over the last 12 months, while small business start-ups fell by 95 per cent over the same period.

Analysis by Dun & Bradstreet of business start-ups and failures for the December quarter 2011 found that across the economy, business failures were down 10 per cent on the September quarter 2011, but up more than 40 per cent for the year.

This coincides with Dun & Bradstreet's downgrades during the December quarter of more than 128,000 firms that are likely to experience financial distress over the coming twelve months.

According to Dun & Bradstreet CEO, Christine Christian, Australian business failures have trended steadily upwards since 2008, growing over 30 per cent in the last three years.

"There is an increasing risk that the global economic slowdown will intensify the upward trend in insolvencies," Ms Christian said.

"Despite recent rate cuts, there is a palpable lack of confidence in the current operating environment. This is obviously one of the side effects of long standing global uncertainty and can often be enough to deter businesses from entering the market, irrespective of actual conditions."

Key findings of the *D&B Business Failures and Start-ups Analysis* for the December quarter 2011:

- Nationwide, insolvencies rose 42 per cent year-on-year while the number of new businesses fell 11 per cent over the same period;
- Small business failures grew 57 per cent over the year among firms with less than five employees and 40 per cent over the year among firms with six to 19 employees;
- Small business start-ups among firms with less than five employees fell 95 per cent in the year;
- Failures were most pronounced within the service (up 58%), finance (up 58%) and construction (up 66%) sectors; and
- Start-ups during the December quarter in the manufacturing, service and finance sectors fell by nearly 100 per cent.

"Outside the mining sector, sentiment is generally still poor and the strong Australian dollar is straining profits. This could lead to an increase in business failures in 2012."

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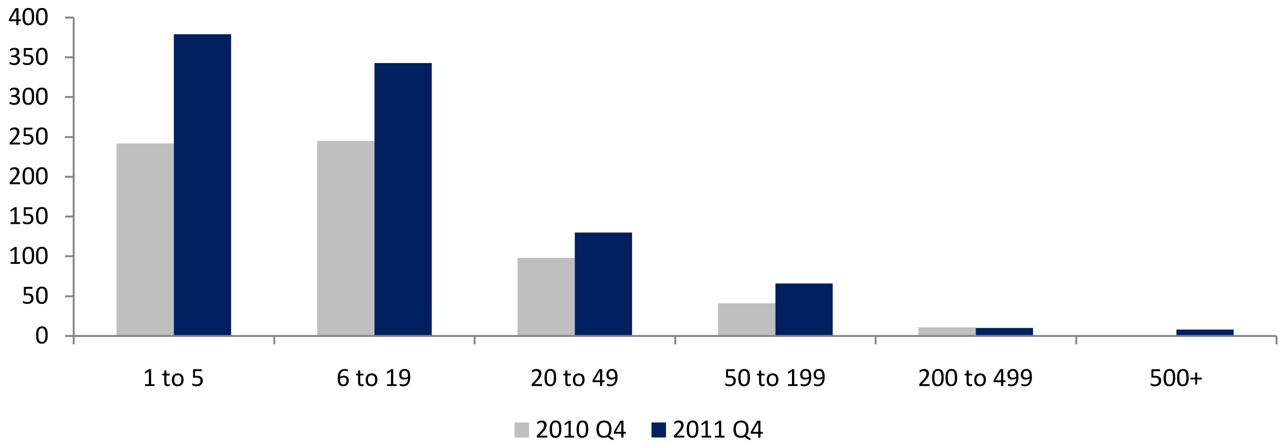
Business Failures by Firm Size Q4 2010 – Q4 2011

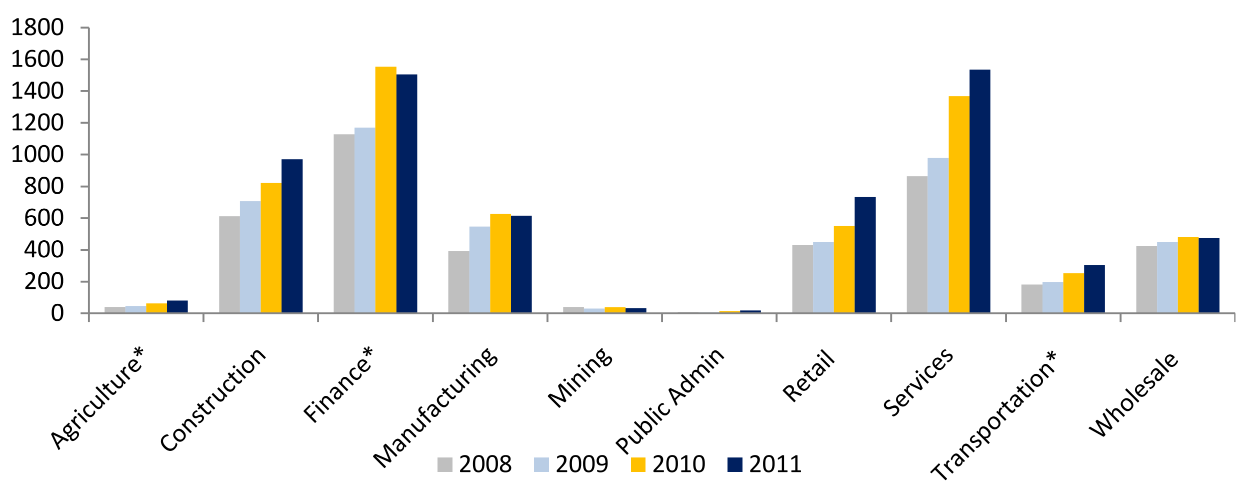


While most sectors saw some improvement during the fourth quarter, failures in the retail sector rose 11 per cent for the quarter and were up 115 per cent for the year. This corresponds with similar jumps in the traditional manufacturing states of New South Wales and Victoria where insolvencies increased 59 per cent and 35 per cent respectively for the period.

Since the Global Financial Crisis in 2008, failures in the services sector have risen by 77 per cent, while failures in the manufacturing industry have increased by 57 percent.

In contrast, not surprisingly, the mining industry recorded almost no insolvency activity during the December quarter. Over the last three years failures in the mining industry have fallen by 20 per cent.

Business Failures by Industry 2008-2011



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These findings correlate with a recent D&B *Global Business Failures Report*, which revealed that Australian businesses continue to present a high insolvency risk when compared with the rest of the world.

The report indicated that with its steady increase in bankruptcies, Australia is now being classified in the same risk category as a number of countries being impacted by the euro-zone debt crisis, such as Italy, Portugal, Spain and the United Kingdom.

"In Australia, rising insolvencies are largely being driven by poor sentiment outside the mining sector and a tightening of credit. This will have a knock-on effect on businesses as cash flow becomes more strained," Ms Christian said.

“Cash flow is the mitigating factor here, particularly for small businesses who feel the effects a lot faster than larger companies with cash reserves to match.”

"Businesses should take precautionary measures to reduce their level of financial and operating risk. Changing market conditions will no doubt have an impact on all businesses, but it is above all good cash flow management that is the key to running a successful enterprise."

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Business Failures and Start-ups Analysis December quarter 2011:

Industry

During the December quarter, the majority of sectors recorded a drop in the number of failed entities, in particular among manufacturing firms (down 19%). Finance and wholesale firms also recorded a notable quarter on quarter drop, at 14 per cent and 13 per cent respectively. Retail firms were the only businesses to record an increase in failures during the fourth quarter, up 11 per cent.

Year on year however, all firms recorded some increase in insolvencies, from a small rise among mining and public administration firms to significant increases in construction (up 66%), finance and services firms (up 58 per cent respectively) and manufacturing (up 29%). Retail firms recorded a 115 percent rise in insolvencies during this time.

Start-ups fell across sectors, particularly among construction, finance, manufacturing and services firms where a near 100 per cent drop in new business was recorded year on year. During the December quarter, finance and construction firms recorded an equally severe drop in start-ups.

Size

Firms with less than 20 employees recorded a dramatic spike in business failures, rising by an average 48 per cent year on year.

During the December quarter, however, firms of most sizes reduced insolvencies except those employing between 50 and 199 staff where insolvencies rose 20 per cent quarter on quarter and 61 per cent year on year.

Smaller firms (1-19 staff) recorded the biggest slump in new businesses during the December quarter, with start-ups falling an average of 81 per cent, while larger firms remained relatively flat.

State/Territory

Firms across the country were able to reduce insolvencies during the December quarter. This occurred most noticeably among NSW-based firms (down 13%) and Victorian businesses (down 7%). However, firms in NSW also recorded the most noticeable year on year rise in failures, spiking 59 per cent since the December quarter 2010. In Queensland and Victoria, businesses also recorded a rise in insolvencies of 37 per cent and 35 per cent respectively. Little movement was recorded in the Territories or among firms in Tasmania however in South Australia insolvencies rose 41 per cent year on year and 21 per cent in WA.

Conversely, the number of new businesses plummeted in NSW, Victoria and Queensland where start-up rates fell 75 per cent, 74 per cent and 72 per cent respectively quarter on quarter.