Australian Trade Payments Analysis

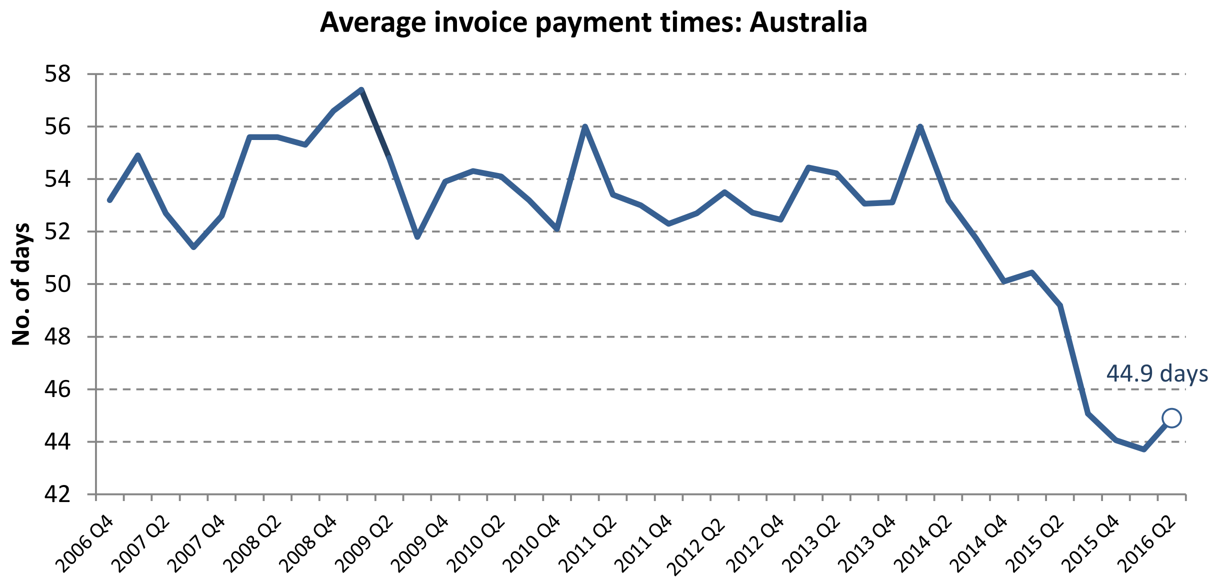
Dun & Bradstreet

Q2 2016

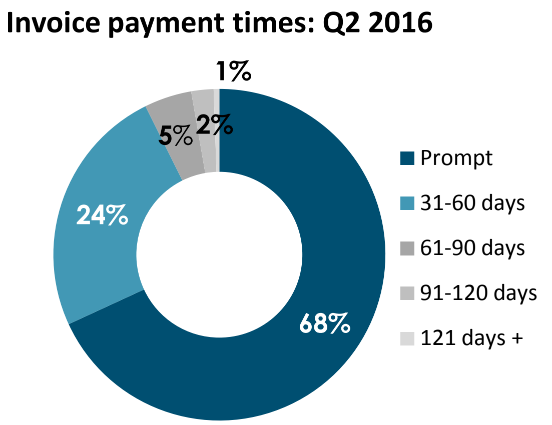
Payment times climb after record lows

The recent trend of increasingly faster payment times stalled during Q2, with Dun & Bradstreet's *Australian Trade Payments Analysis* revealing businesses in all states recorded a slight increase in the time taken to settle invoices. The result for the three months to June 2016 pushed the national average slightly higher at 44.9 days, still well below the corresponding 2015 result of 49.2 days. However, the rise marks the first increase in average payment times since the first quarter of 2015.

The results were gathered prior to the Federal election results, and on a global level they also predate the recent market upheaval triggered by Brexit. The Reserve Bank of Australia's May rate cut was expected to have a positive impact on payment times, but if anything businesses appear to have gone the other way, extending the time taken to settle invoices and ending an almost unbroken two-year run of consistently falling payment times.



The first quarter of 2016 saw 68 per cent of businesses settling their invoices within 1-30 days, unchanged from the previous quarter and a year earlier. The number of businesses paying bills between 31 and 60 days did increase slightly, from 21 per cent in the prior corresponding period to 24 per cent.



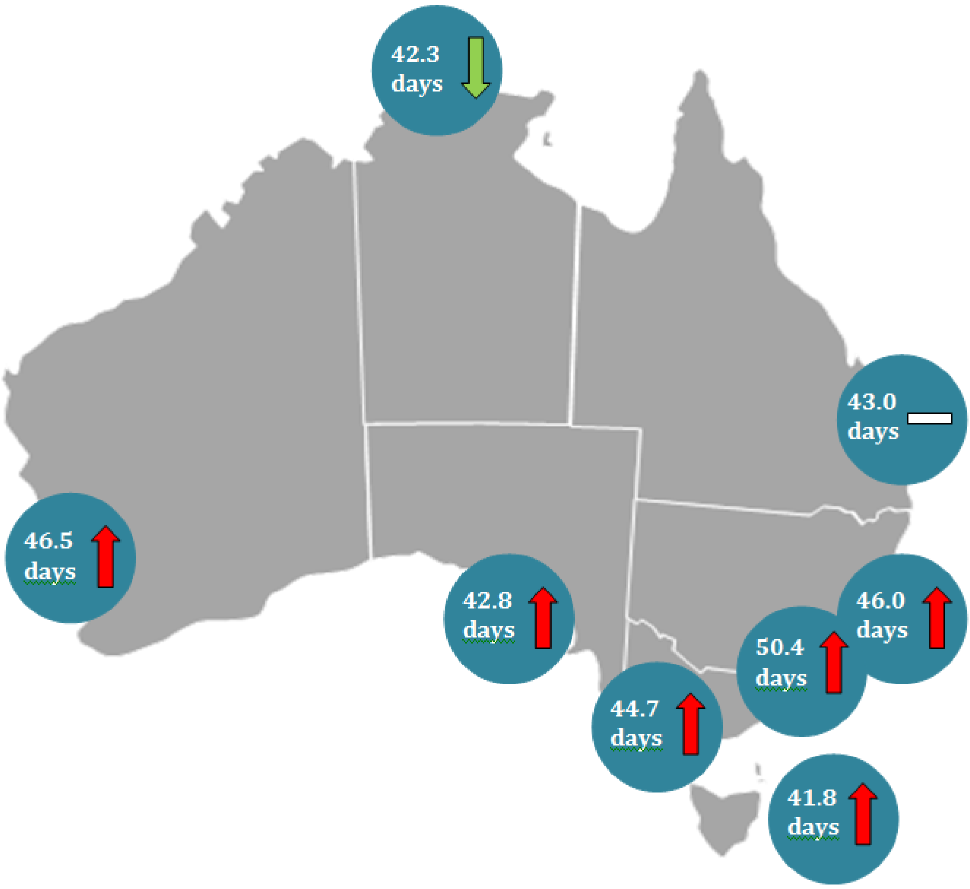
According to Stephen Koukoulas, Economics Advisor to Dun & Bradstreet: "Trade payments times remain near historical lows, notwithstanding the uptick during Q2. The still low payment times for most firms suggests favourable cash flow positions, which is no doubt aided by record low interest rates and the ongoing moderate rate of economic expansion."

Koukoulas added: "The trade payments data are often volatile on a quarter by quarter basis, which means it is too early to be sure whether the slight rise in payment times is a sign of a weaker performance from the business sector or part of that volatility. Another quarter or two of rising trade payments times would suggest the economy is softer and would point to the need for further interest rate cuts from the Reserve Bank."

According to Dun & Bradstreet's June *Business Expectations Survey*, 43.4 per cent of businesses would choose to miss a payment to a trade supplier if they were unable to pay all of their bills. This was followed by a business credit card at 21.0%, and a business loan or overdraft, at 16.3%. After consumer confidence, cash flow remains the largest factor respondents cited when asked what will influence their business operations most in the coming quarter.

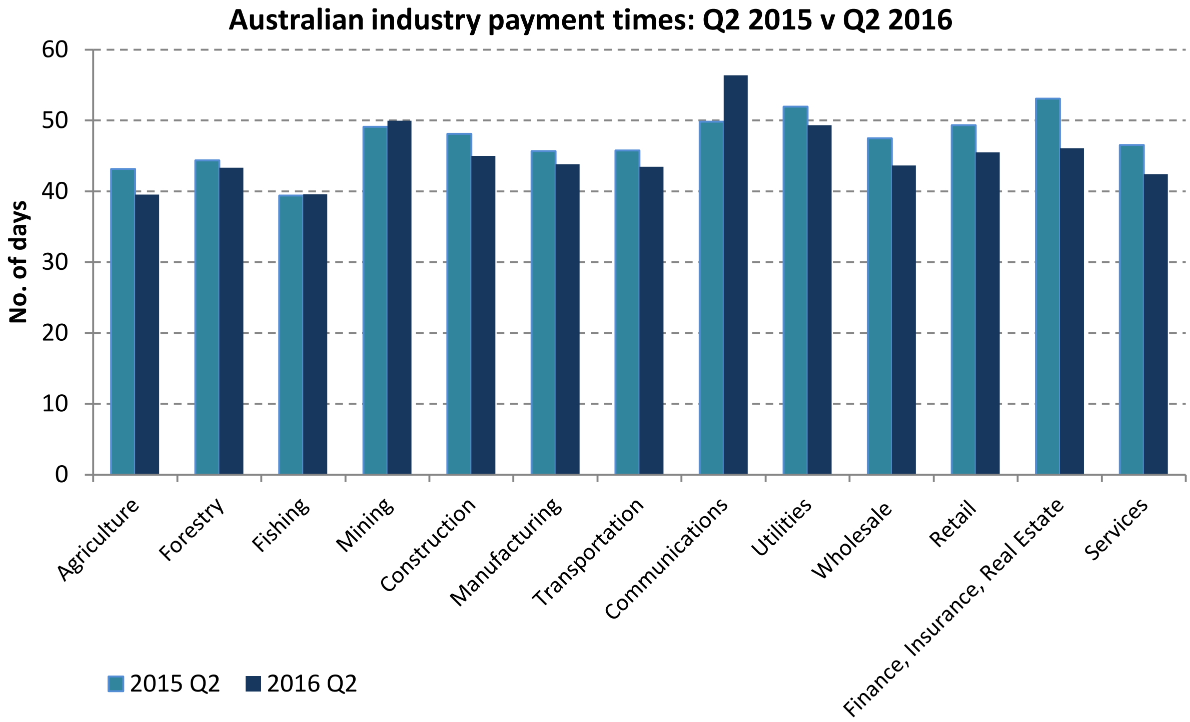
All states and territories saw payment times either increase or remain unchanged, with the exception of the Northern Territory, which saw payment times drop a negligible amount, from 42.5 days in Q1 to 43.3 days. The ACT remains the laggard of the states, with average payment times of 50.4 days making it the only region still in the 50+ bracket. Meanwhile Tasmania is the fastest paying region, with an average payment time across all sectors of 41.8 days. Payment times in Queensland remained flat quarter to quarter.

Average payment times trend: states and territories, Q2 2016



The Communications industry stood out as one of only two sectors to report higher payment times year-on-year during Q2, the other being the Mining sector. Businesses operating in Communications saw payment times spike from 49.9 days in Q2 2015 to 56.4 days during the most recent period. The sharpest rise was recorded for the state of Victoria, with Communications companies showing an annual jump in payment times from 47.9 days to 58.2 days. The consolidated nature of the Communications industry, characterised by a smaller number of large industry players, means that changes in payment behaviour by individual companies can disproportionately impact the overall industry payment times recorded, relative to other sectors.

The Finance, Insurance and Real Estate industry saw the largest annual fall, dropping seven days from 53.1 days to 46.1 days. Interestingly, the Forestry, Mining and Utilities sectors all continued the trend of falling payment times when compared to the preceding quarter. Payment times for all sectors remain well below their long-term averages.



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About *Trade Payments Analysis*

Business-to-business payment information is a highly predictive data set and a critical element in credit risk scores and business failures forecasting.

The distinct advantage of trade information over other forms of company data is its ability to provide insight into current performance. Company financials, which are considered to be critical to effective decision making, are reported relatively infrequently and as a consequence, organisations may be required to make decisions using data that is up to 12-months old. Conversely, because trade information is reported monthly, it reveals how an organisation is paying its existing obligation.

Trade data is also effective across all business sizes, being the most predictive element in SME scores and the second most predictive (behind financials) in other credit scores. The predictive nature of trade data combined with its timely availability enables businesses to properly assess credit risk.

This includes the identification of both high and low risk customers, thereby enabling firms to minimise the risk of late payments and bad debts and identify the good credit accounts that will create long-term, profitable credit relationships.

About Dun & Bradstreet

Established in 1887, Dun & Bradstreet is Australia and New Zealand's longest-established credit information bureau. Backed by its extensive database, D&B helps businesses to make informed credit decisions, and consumers to access personal credit information.

D&B works across the entire credit lifecycle to deliver data-driven solutions in sales and marketing, credit reporting and debt management.

Through analysis of financial and behavioural information, D&B also provides current and predictive assessments of the economy, business conditions and credit activity.