

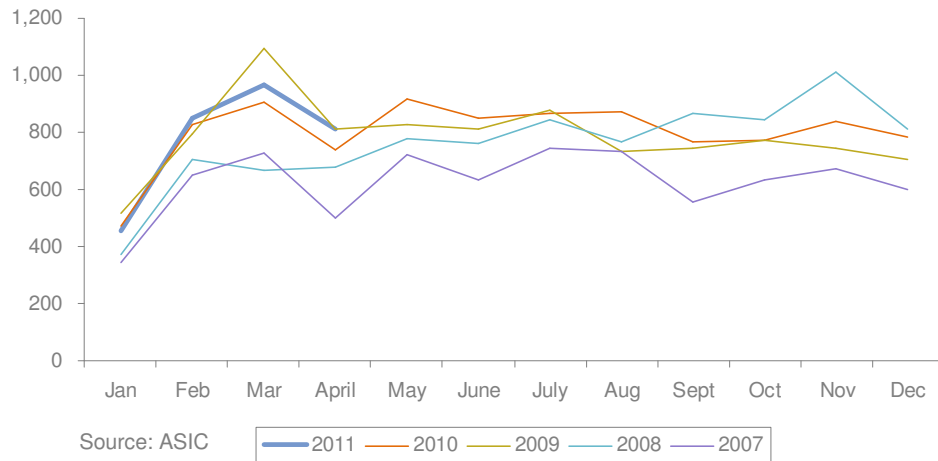
# Insolvency Insights – April 2011

Taylor Woodings' Analysis of ASIC's Latest External Administration Appointments Statistics

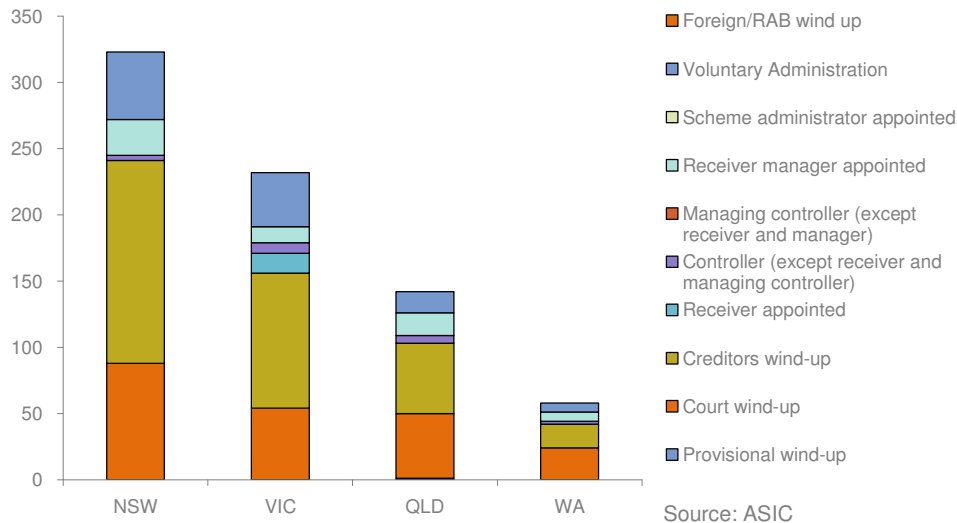
6 June 2011



Companies Entering External Administration



Comparison of Appointments by State



## The Figures

What these latest figures suggest

- As predicted in last month's edition of Insolvency Insights, company collapses fell in April to 812. Despite the drop, collapses are at a record high for April, up 10% on April 2010 and the second highest ever for the financial year to April.
- As the financial year draws to a close, total company collapses stand at 7,985 – 466 higher than for the same period last year and at an average of 798.5 per month. This compares with an average monthly rate of 751.9 in 2009/10 and 836.4 in 2008/09.
- The financial YTD figure for 2010/11 is only 10% lower than the financial YTD figure for 2008/09 during the Global Financial Crisis (“GFC”).
- South Australia bucked the national trend with insolvencies increasing by almost 20% on the previous month to a record high for April of 37. Western Australia also experienced record high external administrations for April, recording 58 company failures.
- Voluntary administrations have continued to decrease and levels of creditor-led winding up applications remain strong due to legislative changes that make the creditor voluntary liquidation process easier.

## Economic Influences

What's happening in the broader market with particular attention to macro influences on insolvency?

- While the size of the drop in Gross Domestic Product (“GDP”) by 1.2% surprised many and painted a grim picture of the Australian economy, Retail Trade figures for April rose by 1.1%, signifying consumer confidence may be rebounding.
- At the same time, the construction industry is flailing with housing starts down 1.3% and SME's are finding credit tight with business lending also down in April (-0.6%) after gains in February and March bringing total business lending down 1.1% for the year.
- According to the NAB Monthly Business Survey, business sentiment has softened (particularly in the mining and manufacturing sectors) falling by two points to plus seven points, due to the high Australian dollar and anticipated interest rate rises.
- Australia's unemployment level stayed steady at a low 4.9%.
- General uncertainty over the health of the Australian economy is reflected in these mixed economic figures. This uncertainty may persist until there is a reversal in the GDP figures.

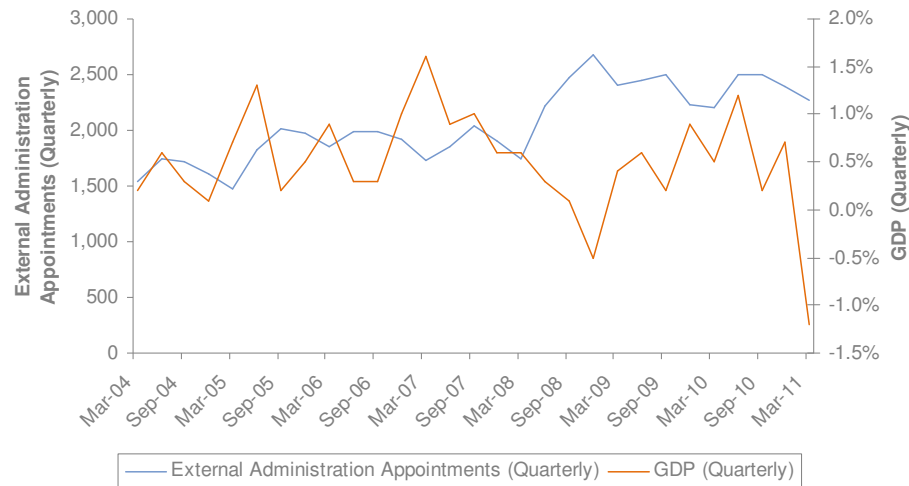
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External Administration Appointments vs GDP



Source: ASIC and ABS Australian National Accounts: National Income, Expenditure and Product, Mar 2011

## For More Information

Taylor Woodings is a national independent accounting firm specialising in the areas of restructuring, corporate recovery, advisory and transaction services and forensic services. For more information please contact:

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- The high Australian dollar continues to reduce income levels for tourism operators and many are saying the 3.4% increase to the minimum wage announced recently will make business conditions extremely difficult.

## Comparative Analysis

- Released quarterly, Australia's GDP measures the country's economic output, including private and public consumption, government outlays and investment.
- An analysis of Australia's GDP figures against insolvency rates since March 2004 reveals a broadly inverse, albeit weak, relationship between the figures.
- As GDP falls, there is a lagging effect on insolvencies with company collapses increasing approximately one to two quarters later.
- The exception to this trend is in mid 2009 when company collapses increased only marginally notwithstanding the dramatic fall in GDP in late 2008, which we consider was as a result of the governments stimulus measures and the leniency of the Australian Taxation Office's repayment plans.
- The generally inverse relationship between the figures seen in recent years suggests that following the steep fall in GDP, company collapses could rise sharply later this calendar year.

## Outlook

*What we predict for the future and what inferences we can draw*

- While the fall in GDP – the worst since 1991 – is being downplayed by many, including the Treasurer, as a 'one-off' due to recent natural disasters, we believe it could signal a rise in corporate insolvencies. A lag-effect on company collapses could be felt in the short to medium-term.
- The fall in GDP and its potential to put a dampener on consumer and business confidence levels could breed new insolvencies. In addition, we believe the impact of the high Australian dollar on company insolvency rates will continue to be felt – especially in the hospitality, tourism and manufacturing industries.
- In recent times, the Australian Tax Office has adopted a more rigorous approach to recovery of tax debts and this may be impacting businesses' cash flow.
- Continued weakness in the property sector, coupled with a possible rate rise later this year may have an ongoing impact on confidence. In turn, this could soften demand for new houses and lead to a rise in insolvencies in the construction sector. Softening residential property prices may also constrain lending to the SME sector which is often supported by property-backed security.