

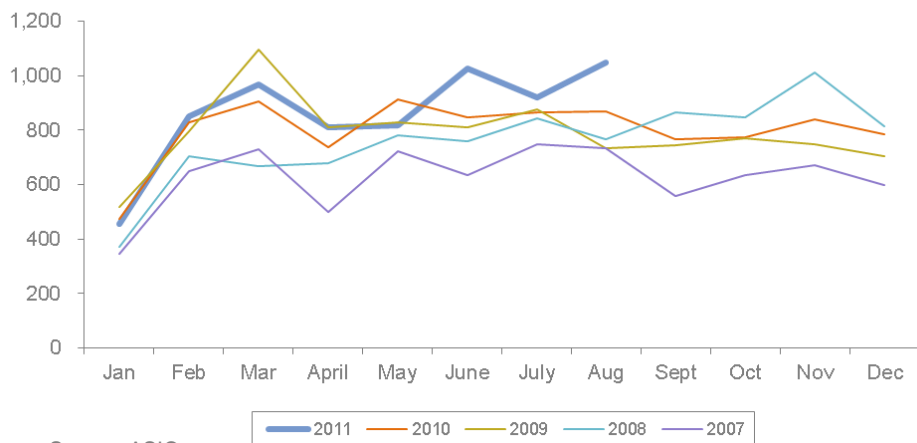
# Insolvency Insights – August 2011

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

11 October 2011

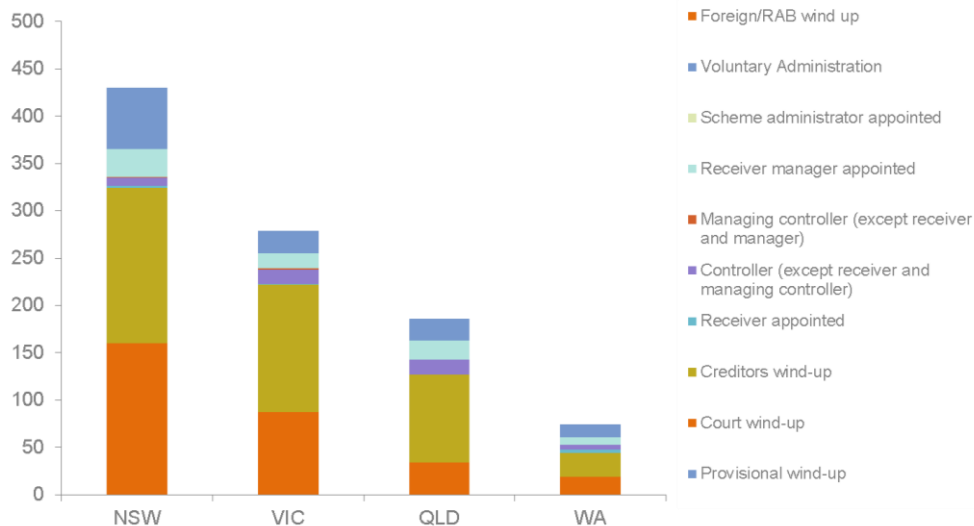


Companies Entering External Administration



Source: ASIC

Comparison of Appointments by State



Source: ASIC

## The Figures

What these latest figures suggest

- Total external administrations for August 2011 are up 13.9% to 1,049 – the second highest monthly figure and the highest for August on record.
- The August result cements the trend in 2011 of markedly higher levels of company collapses. The historically high Australian dollar and generally low consumer confidence caused increased financial stress on businesses, particularly in the SME sector, ultimately driving up insolvencies.
- The number of external administrations for the three months ending 31 August 2011 totals 2,997 and is up 16% on the same period last year and 23% higher than the same period in 2009 at the height of the Global Financial Crisis.
- Company collapses increased significantly in New South Wales (up 13.5%), Victoria (up 26.8%) and the Australian Capital Territory (up 125%) on July.
- Court wind-ups have continued to increase, up 17.4%, on July to their highest level in twenty-seven months – a sign the Australian Taxation Office is continuing enforcement actions against companies. Victoria recorded a sharp increase in court wind-ups, up 47.4% on the previous month and the highest monthly record for the state.
- In New South Wales, Voluntary Administrations jumped 71% on the previous month, suggesting many struggling businesses are restructuring using the Voluntary Administration process.

## Economic Influences

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

- The August economic data generally reflects continued consumer uncertainty. The Westpac-Melbourne Institute Consumer Sentiment Index fell 3.5% to 89.6 points, while the Housing Industry Association's New Home Sales figures stayed at a near decade low – rising only 1.1% in August.
- Australia's unemployment figures increased to a 10 month high, from 5.1% to 5.3%, further impacting consumer confidence.
- Australian business confidence was also down, falling to the lowest levels since April 2009 due to heightened global uncertainty. The National Australia Bank's Monthly Business Survey dropped 10 points, from two points in July to minus eight points in August.
- Conditions for Australia's construction industry further deteriorated due to a lack of new work. In August, the Australian Industry Group-Housing Industry Association's Performance of Construction Index fell for the fifteenth consecutive month to 32.1 points.

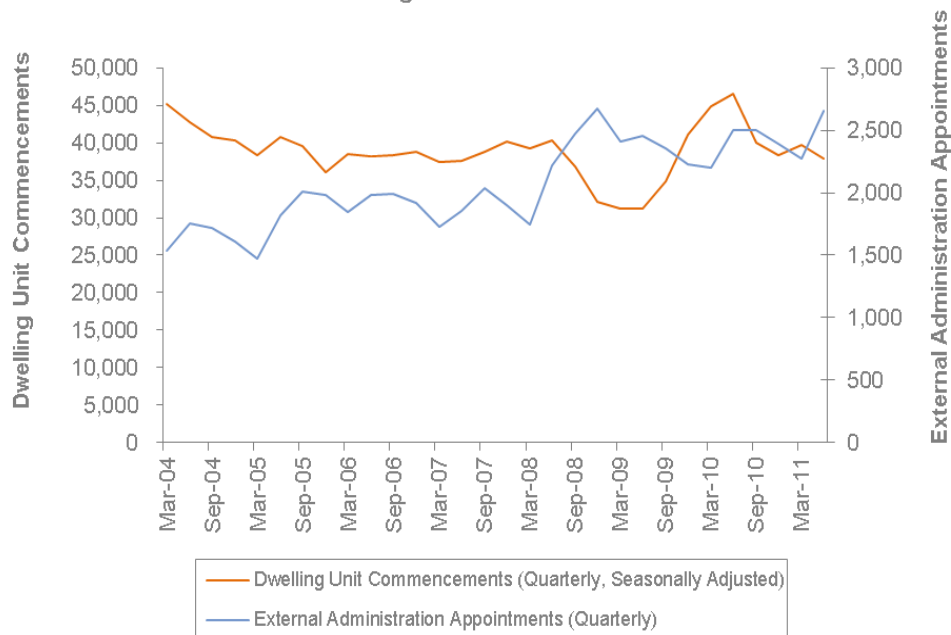
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External Administration Appointments vs Dwelling Unit Commencements



Source: ABS and ASIC

## 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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- Despite global economic concerns, the Australian Bureau of Statistics (“ABS”) Sales of New Motor Vehicles figures rose 3.3% in August and the ABS Retail Trade figures surprised many commentators, rising for the second month in a row by 0.6% to \$20,813 billion, seasonally adjusted.

## Comparative Analysis

- The quarterly ABS Dwelling Unit Commencements (“Dwelling Commencements”) data provides preliminary estimates of the Quarterly Building Activity Survey of the number of dwelling units commenced during the current quarter and revised estimates for the previous two quarters.
- A comparative analysis of Dwelling Commencements data and insolvency figures shows an inverse relationship – when Dwelling Commencements increase, insolvency levels fall.
- Dwelling Commencements have fallen from a high of 46,477 in June 2010 to 37,820 in June 2011 – a reflection of weakening consumer confidence.

## Outlook

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

- Until consumer confidence improves and stabilises, we expect the number of external administrations to remain stubbornly high for a period of time.
- There appears to be a trend emerging of an increased number of Voluntary Administrations. This could indicate more businesses which are currently trading (as opposed to single purpose property development vehicles or businesses which ceased trading some time ago) are now being affected by the downturn.
- Cautious households and the strong Australian dollar will continue to have a dampening effect on many Australian industries, including retail, SMEs, export focused manufacturing and property.
- Due to current economic uncertainty, we expect consumers to continue to save and direct surplus cash to debt reduction. This will continue to place a strain on industries reliant on discretionary spending such as retail, housing, entertainment, restaurants and tourism.
- Despite recent rallies on global share markets, the outlook for the world economy remains subdued. International Monetary Fund Managing Director Christine Lagarde recently said in the World Economic Outlook: “The global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing”.