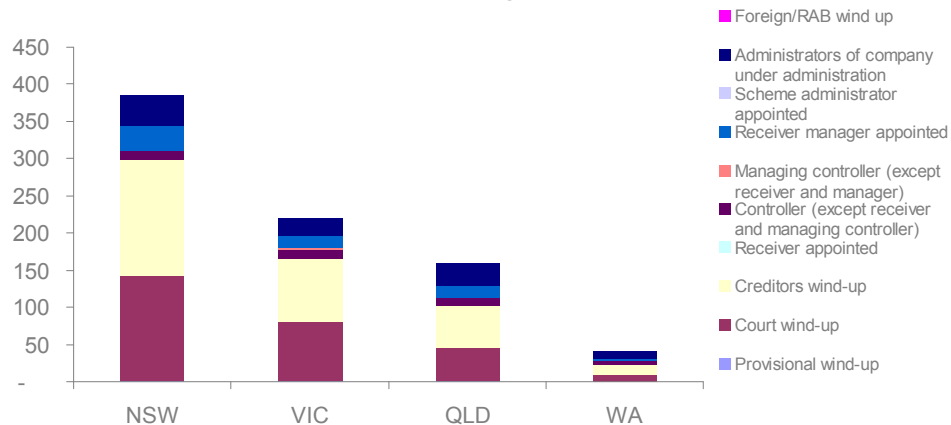


Insolvency Insights – July 2010

Taylor Woodings' analysis of ASIC's latest external administration appointments statistics

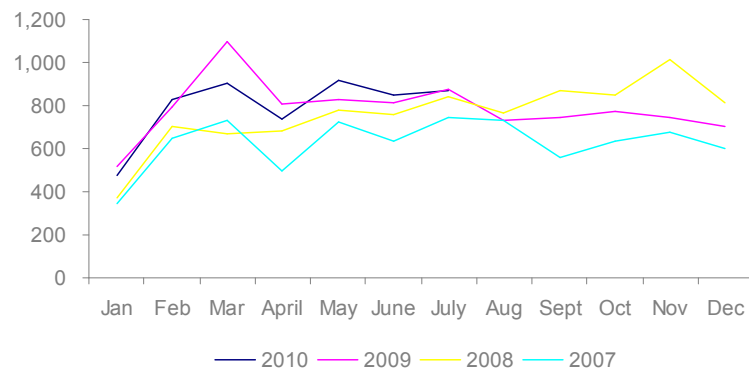


Comparison of Appointments by State



Source: ASIC

Companies Entering External Administration



Source: ASIC

The Figures

What these latest figures suggest

- The start of the new financial year has seen a modest increase in Australian company failures up 18 to 866 representing a 2.12% increase from 848 the previous month.
- Compared with the same time last year, external administrations are down 0.9% - possibly signalling an end to the trend of recent months which has seen 2010 company failures tracking above 2009 levels.
- Bucking the national trend, New South Wales and Victoria have seen increases of 6.0% and 8.0% respectively when compared with July 2009.
- By contrast, Queensland has seen appointments drop by almost 20.0% from the same time last year.
- Indicative of an emerging trend of secured creditors dealing with distressed loans internally, total receiver and manager appointments have dropped by 34.0% when compared with July 2009.
- Overall, levels of company failures for July have remained quite static providing little indication of any trend emerging.

Economic Influences

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

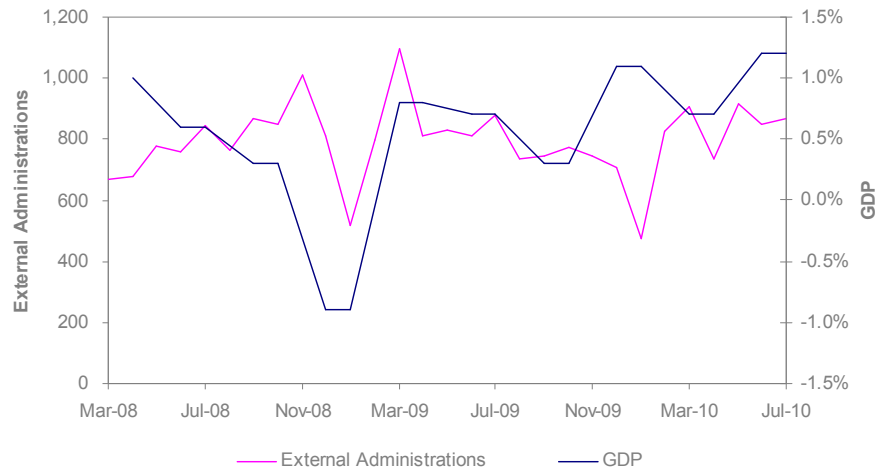
- Amid mixed messages from economic data, according to the RBA's analysis, Australia's economy is growing 'around trend' despite some persistent caution in the market.
- In July, the National Australia Bank's monthly business confidence index fell by 2 points to its lowest level in 14 months while consumer confidence rose by 5.4% in August according to the Westpac-Melbourne Institute's index of consumer sentiment, helping to keep Australia's economy out of a technical recession.
- The RBA's decision to keep interest rates on hold at 4.5% for four consecutive months reflects the continued uncertainty over Australia's economic future.
- ABS statistics for July reveal a fall of 2.5% in total dwellings approved, continuing a five month downward trend, and flat levels (0.0%) for new housing finance.

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GDP vs External Administration Appointments



Source: ASIC and the RBA

For more information

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Comparative Analysis

Comparing the statistics with an economic indicator

- Released quarterly, Australia's Gross Domestic Product (GDP) measures the country's economic output including private and public consumption, government outlays and investments.
- An analysis of Australia's GDP figures against insolvency figures over the last ten quarters reveals an inverse relationship, albeit weak, between the figures. This relationship can be best seen in the December 2008 quarter when GDP was -0.9% and external administration appointments spiked in November 2008 to 1,011.
- The obvious anomaly occurs in December 2008 where external administration appointments dropped despite negative GDP however, this is typical of the holiday period.
- It is interesting to note that despite growth in the first two quarters of 2010 the number of external administrations has been relatively consistent with the number of external administrations during the GFC.
- We believe this highlights the lagging impact the GFC is continuing to have on the SME market.

Outlook

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

- The Australian economy is at a cross road. The RBA forecasts the global economic growth will slow to "about trend" in the coming 12 months while in Australia, "business investment could increase strongly" and growth likely to continue "close to trend".
- Again, the RBA's prognosis for the global economy is that it remains, "somewhat uncertain".
- We forecast insolvency numbers to remain at a constant level, however further predicted interest rate rises later in the year will put increasing pressure on SMEs with a lagging effect on external administration figures.
- With the Federal political uncertainty over recent weeks behind us, this may now give many Australian businesses confidence to make investment decisions.
- Perhaps the outlook is best summarised by RBA Governor Glenn Stevens. Speaking about the economic upheaval of recent years, he said: "But big events echo for many years..... the full ramifications are still in train...".