Business failures jump 25 percent

Retail and service-based startups fall dramatically as failures rise

25 August 2011

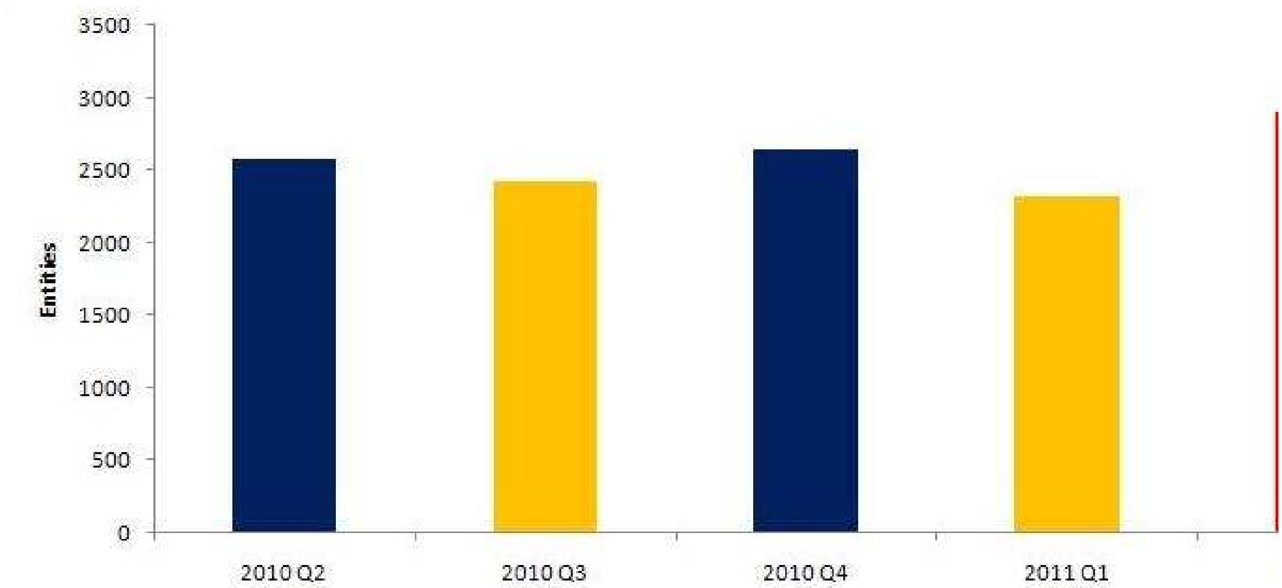
Business failures rose 25 percent during the June quarter to reach their highest level in 12 months. Smaller businesses and those in the retail, finance and service sectors recorded the highest failure rates, indicating firms in troubled sectors of the economy are struggling to stay afloat during periods of reduced cash flow.

According to the latest Dun & Bradstreet *Business Failures and Start-ups Analysis*, almost 3000 firms failed in the second quarter of 2011.

Preliminary 2011 data indicates the number of insolvencies is increasing year on year. If rates continue at this pace, this number will comfortably surpass the 2010 figure of over 10,000.

The data coincide with Dun & Bradstreet's downgrades of more than 75,000 firms during the June quarter, making them more likely to experience financial distress.

During the same period, over 41,000 new businesses entered the market - a rise of 16 percent since the March quarter. However, while this figure grew overall the number of new businesses in the retail and service sectors fell dramatically, indicating the majority of new ventures in these troubled sectors prefer online trade to the uncertainty of bricks-and-mortar trade.



Key findings:

- 2898 firms failed during the June quarter 2011, an increase of 25 percent compared with the March quarter
- The number of start-ups grew 16 percent, to reach 41,067
- Firm insolvencies grew most noticeably in NSW and Victoria, at 22 percent and 26 percent respectively
- Failures in Construction rose 53 percent followed by Retail at 40 percent
- The number of new retail and service businesses dropped 91 percent and 85 percent respectively

Failures

Size:
Firms employing between 1 and 49 staff members had more than double the number of failures while businesses with 500 or more employees experienced a drop in insolvencies during this time.

Overall, failure rates for firms with one to five employees rose 20 percent and for those with 6-19 employees, 30 percent quarter on quarter.

Industry:
The Finance, Insurance and Real Estate sector followed by Services, Construction and Retail had the highest failure rates (an average of 40 percent) during the June quarter, despite a brief drop in insolvencies during the March quarter.

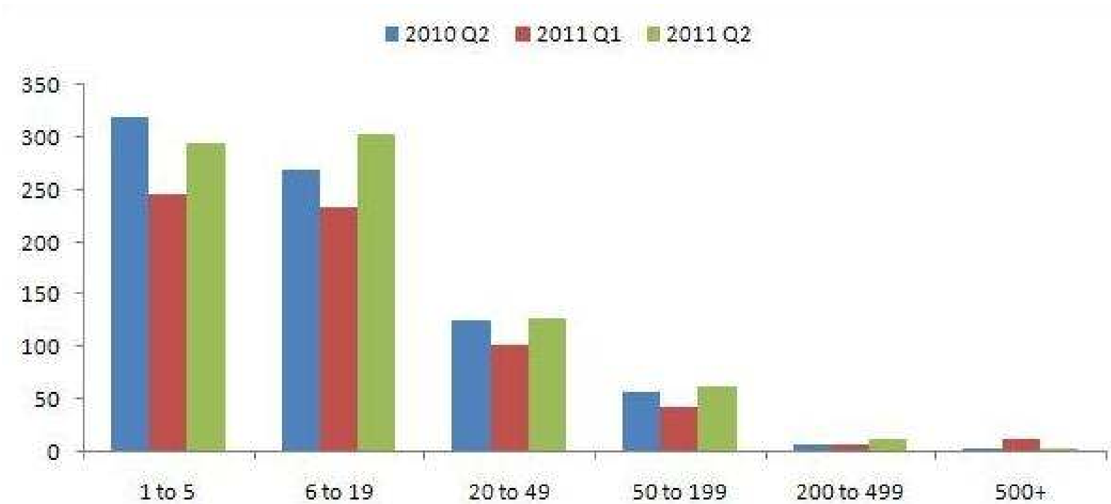
Overall, failures in the Finance, Insurance and Real Estate sector rose 30 percent, Services 36 percent, Construction 53 percent and Retail failures grew by 49 percent during the second quarter.

The best performers were Mining, Public Administration, Agriculture, Forestry and Fishing, with failures in the Mining and Public Administration sectors in the single digits; the only two sectors to show an improvement during the June quarter.

Area:
In NSW, firm failures reached over 1200 - a rise of 22 percent compared to the March quarter - the highest failure rate in the country.

Victoria came in second at 615, representing an increase of 26 percent, with Queensland third at 462, a rise of 25 percent.

The best performing areas were the Northern Territory and Tasmania, both recording double digit insolvencies - only a slight increase from the March quarter.



Start-ups

The number of new businesses rose to over 41,000 during the second quarter, however the number of new firms in the Finance, Insurance and Real Estate sectors fell to single digits. Retail start-ups fell 91 percent and the number of new Service-based firms fell 85 percent in the 12 months to June 2011.

NSW, Victoria and Queensland recorded the most new firms, although new start-ups in these areas have dropped an average of 20 percent since the March quarter.

Business movement:

Of all businesses that relocated the primary place of business to a new interstate location:

- 35 percent moved to NSW
- 28 percent moved to Victoria and;
- 17 percent moved to Queensland

However these same states also recorded the highest number of departures:

- 28 percent departed NSW
- 28 percent departed Queensland and;

- 23 percent departed Victoria

Dun & Bradstreet CEO, Christine Christian, said the data corresponds with other key economic indicators to suggest a number of economic challenges for the business community heading into 2012.

"Our recent trade payment data recorded a 20 percent jump in delinquent payments, and Dynamic Risk Score data showed us a significant number of firms with downgraded risk scores - all occurring within this same three month period."

"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," said Ms Christian.

"An almost non-existent start-up rate in key consumer-driven industries shows a lack of confidence in the current market and often a lack of credit access. The drop in the number new smaller businesses indicates credit providers are failing to identify key credit markets," Ms Christian said.

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