IN FOCUS

OCTOBER 2022

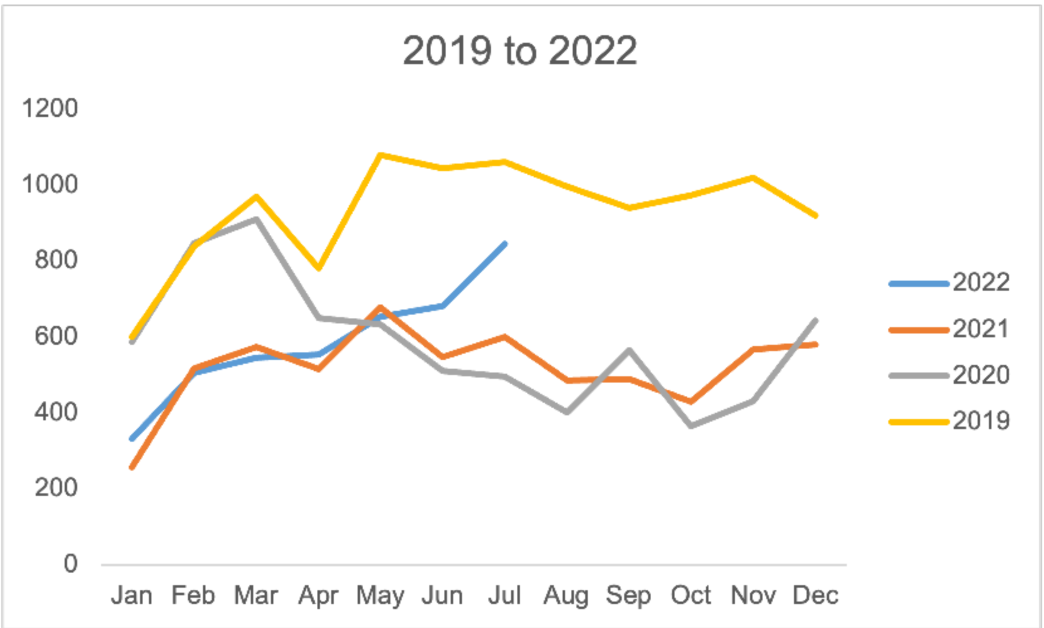
LATEST INSOLVENCY STATISTICS

HALL CHADWICK

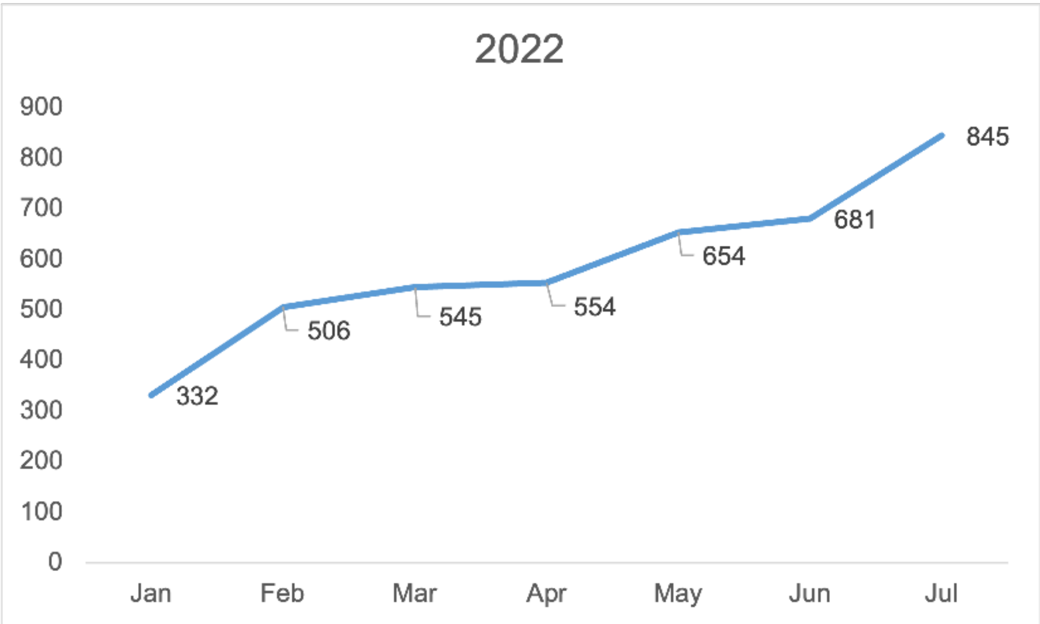
In response to the COVID pandemic, the Government previously implemented a range of 'temporary' measures to assist business weather the economic impact of the coronavirus epidemic.

All of these temporary measures have now expired and the impact of the withdrawal of these measures is now evident in the latest Insolvency Appointment Statistics up to July 2022 which have recently been published by the Australian Securities and Investments Commission ("ASIC").

The statistics highlight an increase in insolvencies in 2022 compared to 2020 and 2021.



A monthly breakdown of insolvencies in 2022 is as follows:

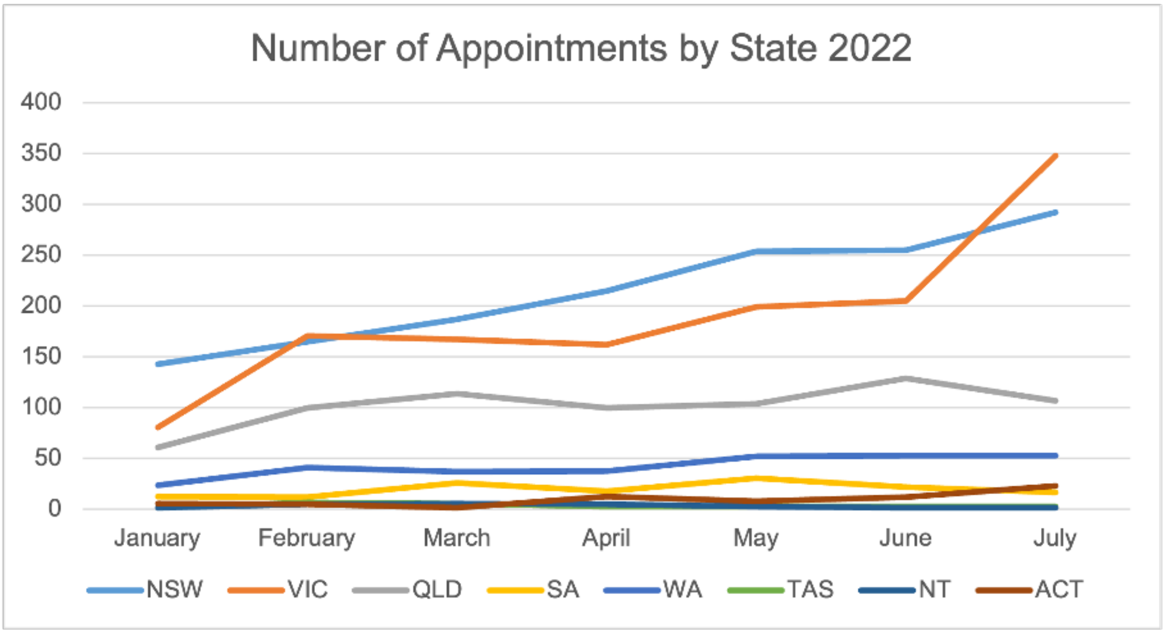


A summary of the statistics below shows that between January 2022 and July 2022, 4,177 formal insolvency appointments were made, compared to a total of 6,243 appointments during 2021. Based on the current 2022 figures, it is likely that the total number of insolvencies in 2022 will increase significantly compared to both 2020 and 2021.

The breakdown by appointment type is as follows:

	Court Liquidations	Creditors Voluntary Liquidations	Receiverships	Voluntary Administration	Deed Administration	Total
2019	2,665.00	5,501.00	1,333.00	1,342.00	383.00	**11,224.00**
2020	946.00	3,757.00	1,013.00	917.00	408.00	**7,041.00**
2021	932.00	3,353.00	793.00	792.00	373.00	**6,243.00**
2022 (to July 2022)	481.00	2,498.00	467.00	518.00	183.00	**4,117.00**

A state by state analysis for 2022 is as follows:



In additon to the withdrawl of the COVID-19 relief measures, the following factors are contributing to the increase in insolvencies.

ATO Enforcement Action

As noted in our recent IN Focus article https://www.hallchadwick.com.au/in-focus-director-penalty-notices-return/, the Australian Taxation Office ("ATO") has recently increased its enforcement activities to ensure businesses are maintaining their taxation obligations.

The rise in insolvency appointments can be partially attributed to the increased enforcement action being taken by the ATO with Director Penalty Notice's being received by Directors of Companies which have outstanding taxation liabilities with respect to both pre and post COVID liabilities.

Supply Chain Issues

COVID had a material impact on global supply chains through both demand and supply effects.

It has been evident in the current “post covid” climate there are ongoing disruptions still being faced by many industries with respect to supply and distribution of goods, delays in imports and exports, availability of products, labour supply, worker mobility, and other pandemic related barriers to production.

The Building and Construction Industry is a sector that does appear to have been adversely impacted by these issues particularly as fixed price contracts may have been in place.

Inflation and Interest Rate Rises

The following factors have contributed to inflation at an unacceptable level:

- Post COVID supply chain shortages
- Inclement weather on the East Coast of Australia
- The situation in Ukraine has led to pressure on global food supply and energy shortages

The RBA board has recently lifted the cash rate by another 50 basis points to 2.35%, with the increase reflecting the fifth increase in in as many meetings, meaning the benchmark rate is now at its highest since early 2015.

It is likely that the impact (if any) of interest rate rises will be reflected in the insolvency statistics into 2023.

An element of the increase in insolvencies is a normalization in the market after the withdrawal of the COVID relief measures. It remains to be seen whether the post COVID economic conditions drives the level of insolvencies beyond pre COVID levels.

Clients and/or their advisors who are experiencing financial distress should consult their Hall Chadwick contact with respect to their debt restructuring options.

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