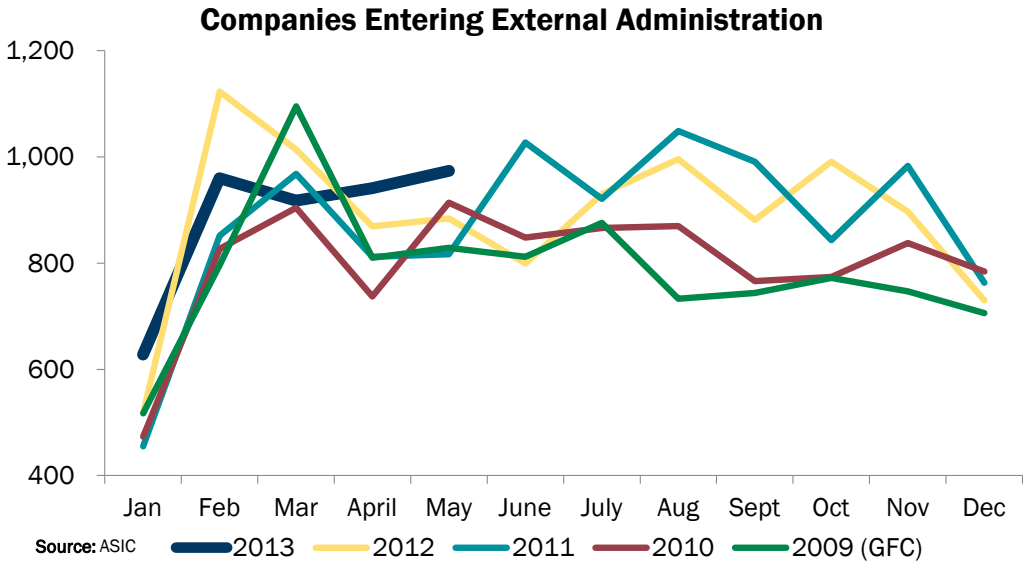
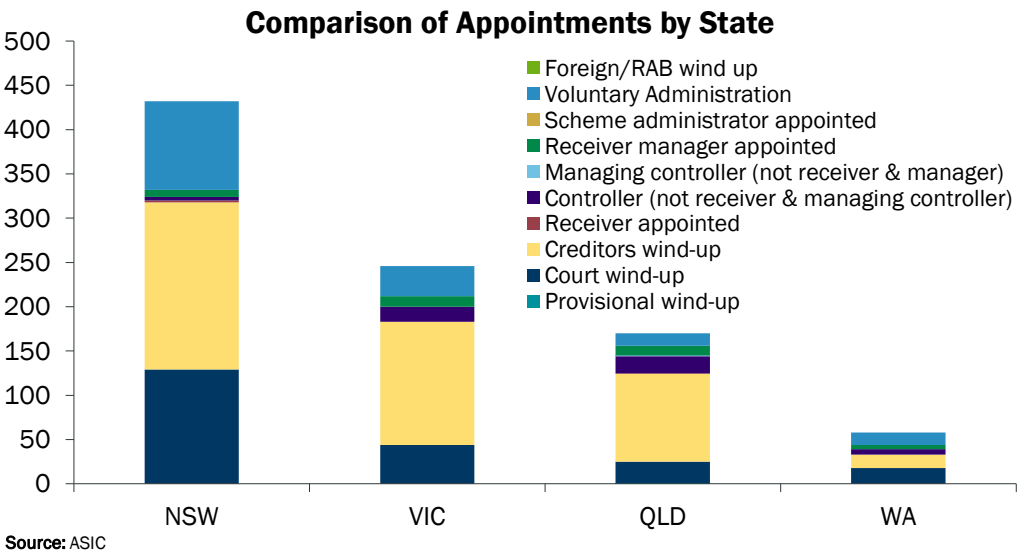
INSOLVENCY INSIGHTS

4 July 2013

Analysis of ASIC's latest External Administration Appointments Statistics (May 2013) from the Corporate Finance / Restructuring practice of FTI Consulting

The figures





What the latest figures show:

- The ASIC figures, released this week, revealed 974 companies entered external administration in Australia during May, the highest on record for the month of May. (The ASIC statistics date back to 1999.)
- This result follows the 941 companies that entered external administration in April, which was a record for the month of April.
- So far in 2013, 4,421 companies have entered administration, marking a record for the first five months of a year from when the statistics commenced.
- In a breakdown by type, voluntary administrations jumped to a four-year high. Creditor wind ups rose 11.7% from April, largely from a rise in NSW.
- A state-by-state breakdown found 432 companies entered external administration in NSW, the highest since February 2012. Elsewhere, a rise was recorded in WA and falls in Victoria and Queensland, when compared to April.

Economic influences

The broader market and its potential impacts on insolvency levels:

- Economic indicators for May pointed to ongoing mixed conditions. The AIG Performance of Manufacturing Index hit 43.8 points – the 23rd consecutive month of manufacturing contraction, the Westpac Melbourne Institute of Consumer Sentiment slipped back into negative territory at 97.6 points, while unemployment fell 0.1% from April to 5.5%, due to part-time job creation.
- The increase in voluntary administrations could indicate trading businesses were getting into trouble and sought to restructure, while the increase in creditor wind ups was likely to be with companies where there was no hope of resurrection and the owners decided to end their businesses.
- Generally, business owners have been using equity in homes and money from alternative sources in light of challenging economic conditions. As these sources of funds dry up, coupled with a flat or possibly deteriorating economy, this has forced business closure and an increase in insolvencies.

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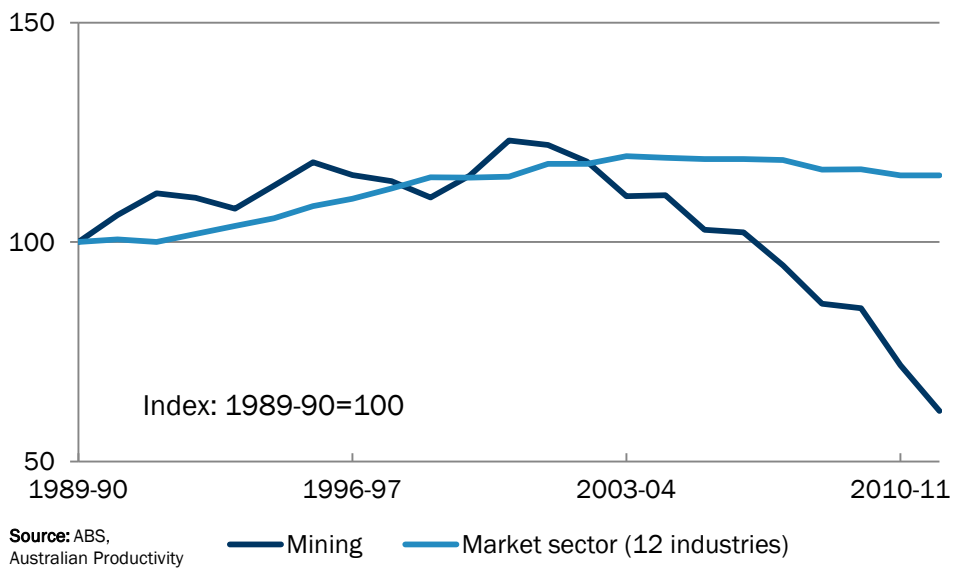
Special focus: Productivity

Multi-factor productivity in mining, 1989-90 to 2011-12



Source: ABS, Australian Productivity Commission

- A Productivity Commission report released in May outlined factors behind Australia's stagnating productivity growth over recent years.
- The mining sector was the biggest drag on productivity growth, down 8.4% between 2007-08 to 2011-12 (vs a 0.7% fall overall). This was caused by:
  1. Higher input costs for output, with development and production at complex, marginal deposits pursued due to high commodity prices.
  2. Mining boom capital investment that has not yet flowed to output.
- With commodity prices falling, we expect productivity increases will be key for producers to ensure a return on investments and remain viable.

Outlook

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

- There are some positive conditions, such as low interest rates and a falling currency, which could benefit recently underperforming industries, however the impacts are yet to be seen.
- The RBA decided to keep the cash rate steady at historical lows of 2.75%, citing scope for further falls in the value of the Australian dollar. This should provide a significant boost to retailers and manufacturers competing with cheap imported goods, and benefit exporters, and may prove vital for struggling businesses in those sectors.
- As previously forecast by FTI Consulting, challenges facing those companies servicing the mining sector (i.e. from miners managing costs and reducing investment) are beginning to have an impact on the ongoing viability of some businesses. We expect this trend to continue in the near term.
- Many resources companies in production are beginning to face an extended period of weak commodity prices and high input costs, and if this continues we anticipate businesses in this sector will come under increasing pressure to look to their cost bases.
- Latest housing figures such as new homes sales and building approvals will provide further evidence as to whether non-mining sectors can fill this gap.

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About FTI Consulting

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