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CreditorWatch: August shows greatest growth in 'zombie' businesses

09 September 2020: Just as the government extended Safe Harbour measures preventing business insolvencies to December, new data from leading digital credit agency CreditorWatch has revealed the biggest rise in 'zombie' companies since the legislation was introduced. Business administrations fell 37.1 percent from July to August and are 59 percent lower than the average across 2019, meaning that thousands of Australian businesses are now relying on government support to stay afloat.

With some sectors showing strong resilience, and credit enquiries showing consistent month-on-month increases, CreditorWatch is calling for Safe Harbour measures to be eased off now to prevent a tsunami of insolvencies in January 2021.

According to the CreditorWatch Small Business Risk Review data for August 2020:

- **Victoria** business administrations fell 49.3 percent in August from July
- **NSW** recorded a 34.3 percent decrease in business administrations, following an 8.8 percent decrease in July
- **QLD** has been particularly impacted by government measures, with a 25.4 percent decrease in external administrations in August, off the back of a 38.8 percent decrease in July

Credit enquiries on the CreditorWatch platform, a live indicator of business activity, increased for the fourth month in a row. August showed a 7.5 percent increase in enquiries, following increases of 6.1 percent, 11.8 percent and 10.2 percent in July, June and May respectively.

"Whilst Safe Harbour legislation was critical in stabilising the Australian economy as it went into recession, the measures are now becoming counterproductive because they are propping up companies that should be allowed to fail. By extending the moratorium to December, the government is wasting taxpayer money by kicking the can down the road. It means that solvent businesses are having to trade with otherwise insolvent debtors, risking their own health, whilst doomed businesses are able to put off paying creditors or even the ATO.

"In fact, some business sectors are performing well. The 'made in Australia' brand is flourishing and there are healthy companies out there. That's why this legislation needs to be eased off gradually running up to the December deadline. Otherwise we could see an astonishing collapse come January." - **Patrick Coghlan, CEO, CreditorWatch**

Payment times show businesses struggling for cash flow

Payment times, a key indicator of business cash flow, remain extremely high. Nationally, payment times grew by one day (2.4 percent) to an average of 43 days. It means that businesses are waiting 2.9x longer to be paid than in 2019.

Best performing industries

Industry	Days overdue in August 2020	Increase on August 2019	Change vs July 2020
Mining	7	-12.5%	-1 day
Agriculture, Forestry and Fishing	19	111.1%	-1 day
Electricity, Gas, Water and Waste Services	26	188.9%	-6 days
Manufacturing	29	222.2%	No change
Education and Training	30	650%	-1 day

Most impacted industries

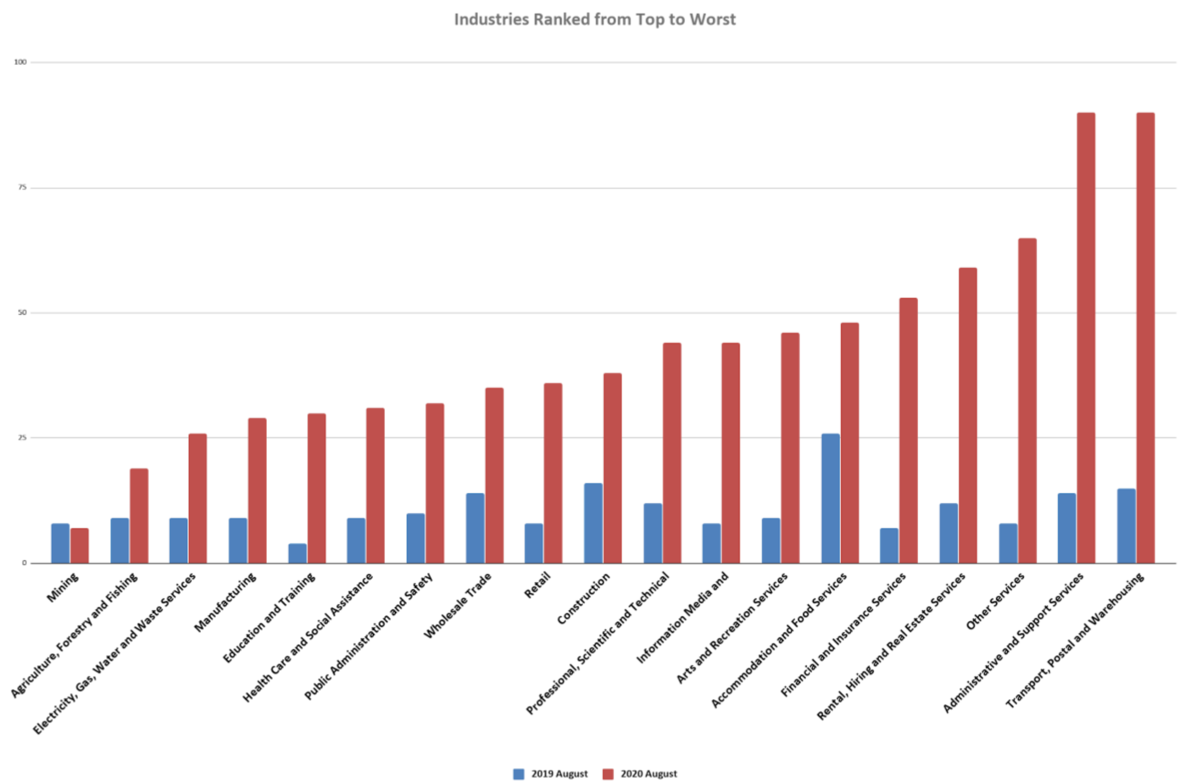
Industry	Days overdue in August 2020	Change vs August 2019	Change vs July 2020
Transport, Postal and Warehousing	90	500%	0 days
Administrative and Support Services	90	542.9%	+4 days
Rental, Hiring and Real Estate Services	59	391.7%	-3 days
Financial and Insurance Services	53	657.1%	+11 days
Accommodation and Food Services	48	84.6%	+1 day

**Note does not include 'other industries' which was the third most impacted category*

"CreditorWatch's monthly Small Business Risk Review paints a stark picture of Australia's economic landscape. With payment times staying stubbornly high, it's clear that the SME sector is struggling to generate cash flow outside of government support, indicating that there is a mountain of trouble behind the curtain of stability. It sounds harsh, but these businesses need to be allowed to fail so that government focus can be aimed at companies that can stand on their own two feet.

"This is a much bigger cog in the wheel of Australia's economy than policy makers realise. Winding back Safe Harbour measures, whilst ensuring borderline companies receive the assistance required from restructuring bodies, is crucial to ensuring Australia passes through the next 'economic gate' without taking a massive blow at the beginning of 2021." - ***Harley Dale, Chief Economist, CreditorWatch***

Average Number of Days Payments Overdue - (by industry)



Ends

Disclaimer

All data accurate as of 7th September 2020. ASIC data is subject to change.

About CreditorWatch

CreditorWatch is a digital credit reporting agency, headquartered in Sydney. From sole traders through to ASX listed companies, more than 50,000 Australian businesses now use CreditorWatch to make affordable, informed credit decisions, avoid high-risk customers and ensure they get paid on time. CreditorWatch customers can easily search for and monitor the credit history, court actions, payment defaults and insolvency notices associated with any business entity in Australia (including sole traders, trusts and partnerships) giving them an incredibly accurate picture of the risk posed to their business.

The company was founded in 2011 and has offices in Sydney, Melbourne and Brisbane. Find out more at www.creditorwatch.com.au

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