Commercial Risk Barometer

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Overview

Business failure risk stabilised over the March 2025 quarter, reversing the Q4 2024 deterioration, with failure risk showing no clear trend over the FY24/25 financial year. The overall failure risk now sits at 5% above the January 2023 baseline.

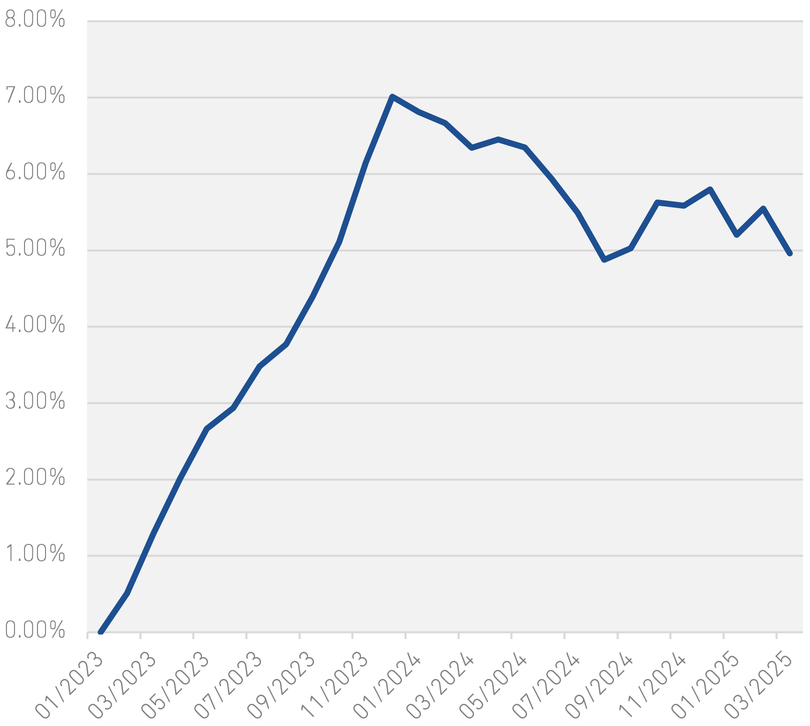
The Commercial Risk Barometer in March 2025 shows that business failure risk has improved slightly since the new year, meaning that we have seen no significant trend (either way) in failure risk over FY24/25.

While this modest improvement is a positive sign, there is no strong indication that failure risk will fall dramatically in 2025. The net result is that it is still 5% higher than at the start of 2023, with this risk ebbing and flowing month by month and being quite inconsistent between industries.

Adding to this economic uncertainty, 2024 has seen a fall in the number of young businesses that are actively trading; a trend that is only now starting to reverse modestly. Therefore, while businesses that close today may be less likely to carry unsustainable debt, their closure nonetheless, creates economic uncertainty as there is a reluctance amongst Australians to open new businesses.

Furthermore, the risk of US tariffs on the steel and agricultural sectors adds to this uncertainty, as it affects two of the highest growth sectors over the last 12 months. The outlook for businesses therefore remains fluid through 2025.

The Commercial Risk Barometer for March 2025 - Percentage change in the likelihood of business failure (Baseline: January 2023)



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Overview

Key observations in this iteration of the barometer

Caution creeping into businesses	While the business failure risk has remained stable over the last 6 months, the number of young businesses (less than 3 years old) actively operating in Australia has fallen by 10% since the start of 2024. This has been due to a combination of more young business closing (more so now before they carry unsustainable debts) and a reluctance or inability to open new businesses while economic conditions are tough. That said, there has been a modest turnaround in the March quarter.
Insolvency risk still apparent	At a time when the overall business failure risk has fallen, we have seen a 1.7% rise in the number of businesses having a moderate (or worse) risk of failure in the next 12 months. Therefore, trading risks are still apparent, with the outlook for businesses unclear.
Small businesses are vulnerable	While we've seen a 6% reduction in the number of large businesses (over $100mill revenue) at moderate risk of failure, we have seen a 3.5% rise amongst small businesses. Therefore, the fall in failure risk needs to be treated with caution, as small businesses continue to show signs of trading stress.
Everyday industries could drag on economy	The Utility sector has seen the largest rise in failure risk over the March quarter. In addition, although other sectors have not experienced a rise in failure risk, several have seen below-average trading growth or a sluggish rise in newly trading businesses. These industries include Hospitality and Entertainment, Education, Transport and Information Storage Services.
Agriculture and health are driving economy	Farming, agricultural services, the health sector and steel/aluminium manufacturing businesses have grown substantially, both from a rise in new businesses and from increased trading. On current estimates, these industries are the foundation of Australia's immediate economic growth.
Tariffs impact best performing sectors	Should US tariffs be introduced on key Australian exports, such as steel, aluminium and beef, we note that this would affect the highest growing sectors over the last 12 months (as seen in our business trading data). That said, given the high growth rate of these industries, if Australia were to withstand any fall-out from US tariffs by finding new markets, this could bode well for the economy.

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Overall failure risk is stable but underlying stress is present

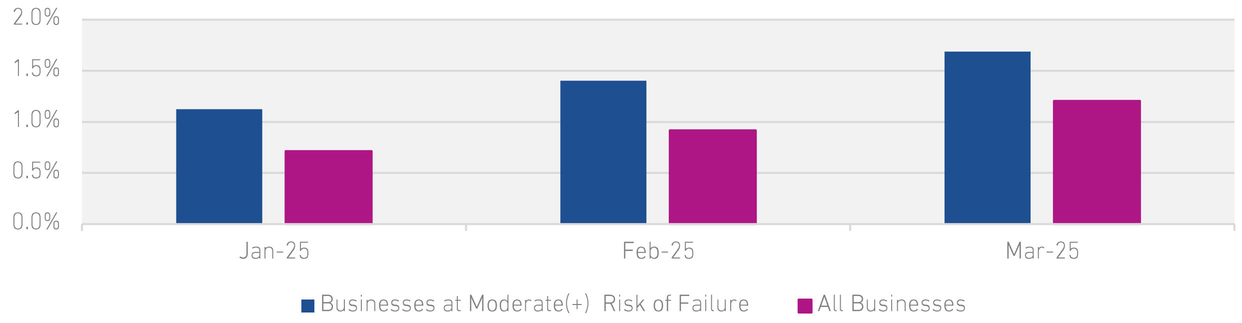
The March quarter saw a modest improvement in failure risk, but more businesses find themselves at a moderate risk of failure compared to September 2024. This is especially affecting the Small Business sector

While the March quarter saw an overall improvement in failure risk (0.8% down for the quarter), the situation was somewhat different when focusing on the longer, half-year period and when comparing the risk of different types of businesses.

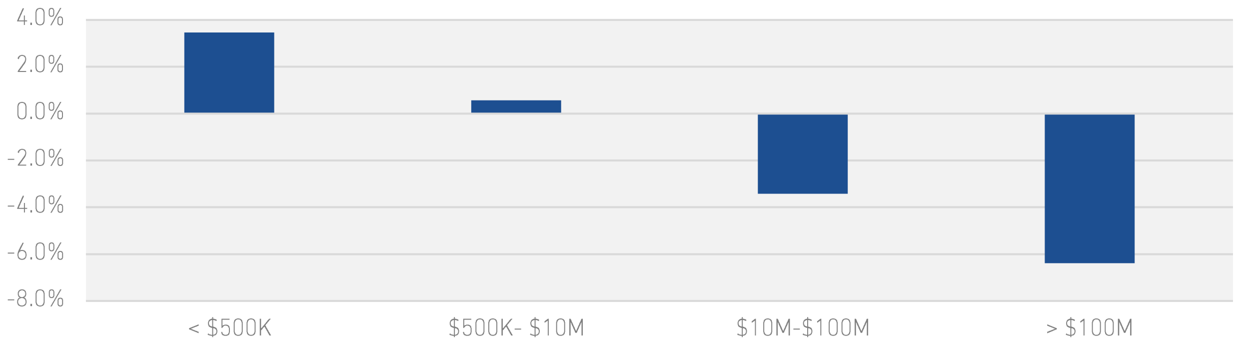
The first observation concerns the number of businesses whose risk deteriorated over the six-months to March 2025. From the adjacent graph, we see that by March 2025, 1.7% of businesses moved from a low-risk to a moderate failure risk (or worse). While this shift does not imply that businesses are at imminent danger of collapse, it shows that trading conditions continue to be difficult (and that business solvency is still fragile). Therefore, while the recent improvement is positive, the overall health of businesses remains a month-by-month proposition.

The second observation concerns the type of businesses whose risk is not improving. In this respect, we are seeing a continuation of the two diverging narratives covered in our previous reports – namely, the failure risk between small businesses and medium to larger businesses. While those entities with over $10 million annual revenue continue to improve (the risk of $10m-$100m business down 3% and of $100m+ businesses down 6%), smaller businesses (under $10m) continue to deteriorate - 0.6% deterioration for businesses above $500K revenue and 4% deterioration for those with less than $500K revenue (essentially micro-businesses). This continuing rise in risk amongst smaller entities is a potential red-flag for rising unemployment and underemployment.

Percentage increase in actively trading businesses (Baseline : September 2024)
(Metrics: All Business, Businesses at moderate (or worse) risk of failure)



Change in percentage of businesses at moderate (or worse) risk of failure – September 2024 to March 2025



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Most industries have seen an improvement in failure risk

The failure risk of most industries improved in the half-year to March 2025. Standout performers included Mining (7% improvement), Construction (4%), Health (3%), Professional Services (3%) and Manufacturing (3%), while the Utilities sector continued to deteriorate (6% higher risk) and Financial Services did not change over the period.

While the Agriculture sector improved more modestly (2%), its much lower overall risk, compared to its peers, and high business growth-rate makes this improvement in risk especially noteworthy. (This significant increase in business growth will be covered later in the report). As such, the Agricultural, Mining, Health and Manufacturing sectors appear to be the keystones for driving lower-risk economic activity in the current environment.

Other industries to show a lower failure risk were hospitality, recreation and entertainment, education and information management, but these improvements need to be qualified, as the business growth observed in these industries fell well short of their peers. Therefore, we believe that this improvement is more symptomatic of a contraction and/or consolidation of businesses in these industries. We could potentially add construction into that industry-mix as well, which would suggest that the deteriorating risk observed over the last 12-18 months, from higher input costs and lower demand (from higher interest rates and higher inflation), has abated, at least for the time-being.

Also, as the most vulnerable businesses in construction, hospitality and entertainment may no longer be trading, those remaining, may have weathered the financial storm. These remaining businesses may now be better able to service the current level of demand, if it is offset by lower competition.

While the utility sector remains relatively low-risk, the recent deterioration appears to be an on-going trend and raises some red-flags amongst smaller energy retailers. We hold a similar view of the education sector. (These sectors were covered in our previous barometer report).

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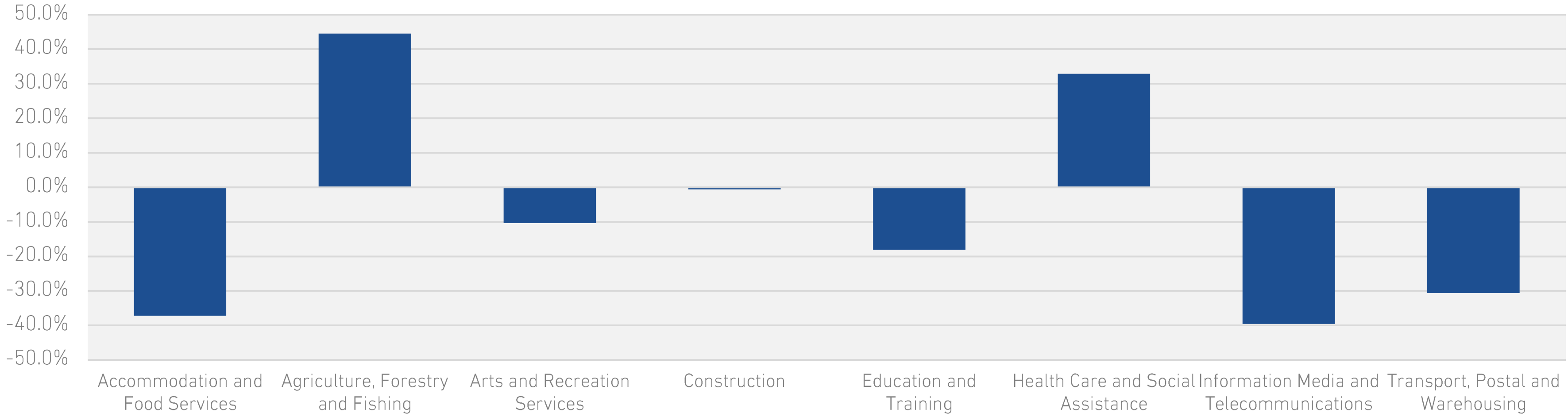
Business growth in Agriculture and Health

The lower failure risk observed in the Agriculture and Health sectors has coincided with a significant rise in the number of businesses actively trading in these sectors. Since September 2024, both sectors have had the highest increase when compared to all other industries (on a standardised percentage basis). Specifically, the percentage increase in the number of businesses actively trading in the Agriculture sector has been 40% higher than the national average (across all industries) and in the Health sector, 30% higher. Therefore, we're not just seeing a lower failure risk in these sectors, but also the economic conditions for greater demand and production. Both sectors therefore appear to be key growth industries through 2025.

By contrast, the Hospitality and Information/Telecom Services sectors have had a very sluggish rise in the number of businesses actively trading (both 40% lower than the average across all industries), while Transport and Education have also seen slow growth (30% and 20% below the nationwide average across all sectors). As such, while their risk has not deteriorated fundamentally, we believe there is a significant level of consolidation in these sectors; possibly due to lower discretionary spend on food and entertainment, less spending by households on private education and training, less use of transport for commuting to and from work, and for travelling to hospitality and recreation venues, and cloud services being preferred by customers over the use of physical data hosting services.

Percentage growth in businesses actively operating (Sept 2024 to March 2025) by industry (higher/lower than national average across all industries)



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New businesses finally on the rise again

The March quarter finally saw a return to (at least modest) net growth in young businesses. This suggests that there are finally some tentative steps being taken to open new businesses again

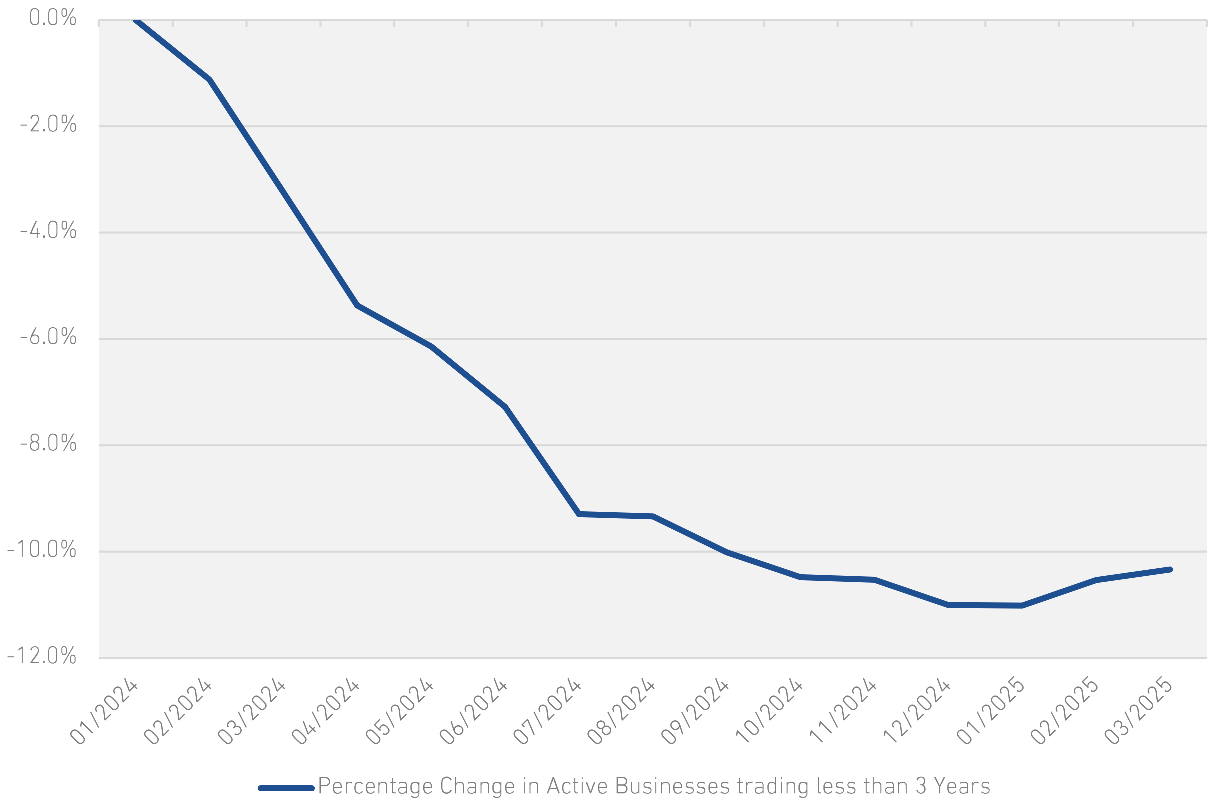
While we saw a 2% rise in the number of active businesses trading over 2024, the story was significantly different amongst young businesses. The number of active businesses under 3 years-old fell by 10% over the same period, meaning that growth in new businesses stalled significantly over 2024.

Therefore, while businesses that had sufficient trading stability (through longer trading, higher capital and stronger customer goodwill) survived, prevailing economic conditions meant that 1) immature businesses tended to fail quickly and 2) that people then lacked the confidence to open new businesses.

The new year (2025) however has shown some possible green-shoots opening, where the net growth in young businesses has begun to rise again (0.7%). Together with some stability in failure risk, this may be showing the first tentative steps to better business trading conditions returning to the Australian economy.

That said, this modest improvement has not been consistent across all regions of Australia. The number of young businesses actively trading in Victoria and regional SA contracted by 1% and in the ACT by 3.5% over the half-year to March 2025. Conversely, the number rose by 0.5% in WA and regional NSW and by 1% in metro SA. As such, areas in Australia influenced by mining and agriculture gained most in the period leading up to March 2025, while Adelaide (and Perth) were the standout capital cities for having positive business activity. Conversely, VIC remains a laggard, while Canberra has seen the largest stagnation in new businesses opening.

Net growth in actively trading businesses – Percentage higher since January 2024



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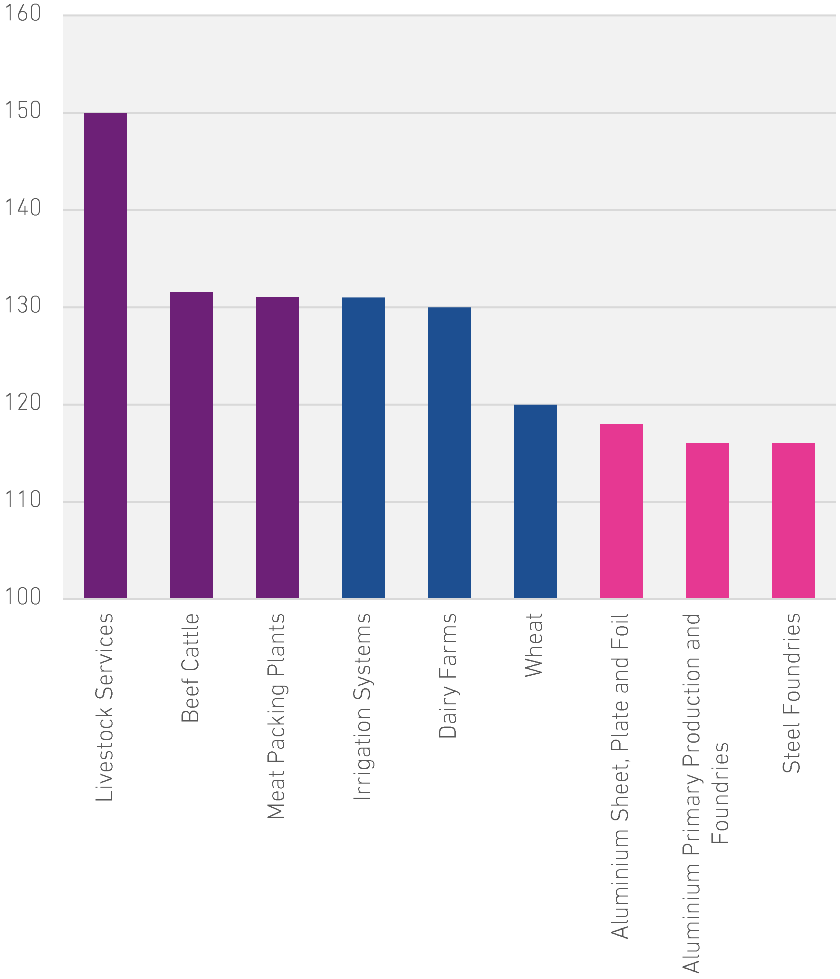
Agriculture growth driven by beef – Tariff risk

Growth Index 12 Months to March 2025 – Agriculture (Farming and Support Industries) - Index 100 = No Growth



The growth observed in the agricultural sector can be directly attributed to the beef, dairy and wheat sectors (all staples of the Australian economy), which saw between 20 and 30 per cent higher trading growth over the last 12 months (as shown by illion's Growth Index, which takes information from the trade payment behaviour of businesses as well as from the spending of its customers).

The high growth of these agricultural businesses has also had a knock-on effect to the manufacturing sector, as meat packing businesses, irrigation system developers and livestock support businesses have all seen similar (or higher) growth.

While the beef industry has provided strong growth for the Australian economy, this growth comes with a cautionary note, as the industry is being directly targeted by the US government's implementation of tariffs. While the US makes up only a proportion of the industry's revenue, these tariffs could impact a key driver of Australia's recent economic growth and thereby, have consequences for the near-term state of the economy.

Similarly, the aluminium and steel industries have also shown strong growth over the last 12 months (growing between 15 and 20 per cent). Like the beef industry, this presents both a benefit and a risk for the Australian economy, as it places two key growth drivers in the sights of US tariffs (directly and indirectly). These policy challenges may therefore lead to some economic volatility through 2025.

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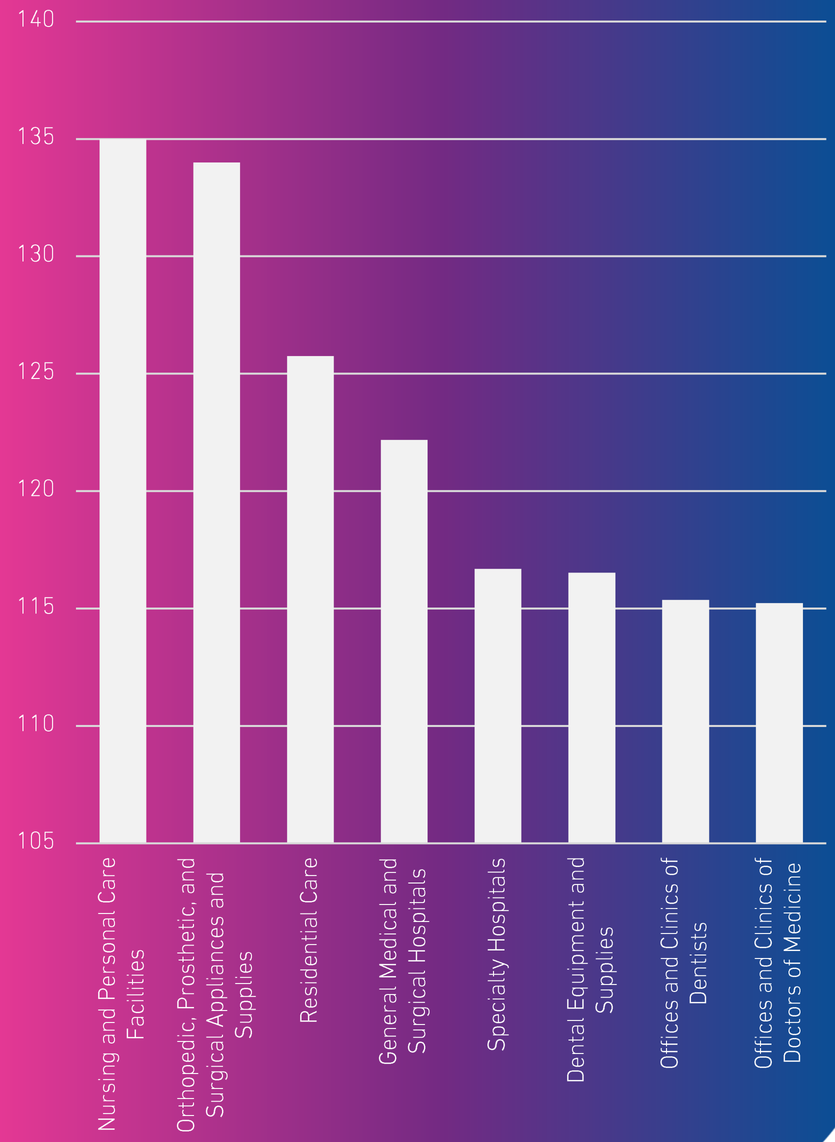
Growth Index 12 Months to March 2025 – Health and Medical Support Services - Index 100 = No Growth



Health Services driving growth

Illion's Growth Index has also shown that the Health and Medical Services sectors have grown substantially over the last 12 months. Industries that have shown this medium to high growth include everyday service providers, such as GP's and Dentists (15% growth), but it is in the Nursing, Hospital, Residential Care and Medical Devices sectors that we have seen even higher growth.

The Nursing sector has seen the highest growth (35% higher than 12 months ago), with the surgical devices sector growing at a similar pace. Aged and residential care has grown by 25%, while customer spending and business trading in the hospital sector has grown by around 20%.

While some of this increase in wholesale and retail spending has been driven by inflation, the total increase is substantially higher than CPI and therefore, potentially, a reflection of Australia's ageing population as well as a rise in surgical procedures post-COVID (and delayed by COVID).

However, in contrast to this rising use of health services, we have seen a stagnation in health insurance spend (1% higher and substantially below inflation), meaning that much of the growth in medical services may have been funded directly by consumers and/or through government (either from taxation or through debt). As such, this growth may have occurred at the expense of broader consumer spending and government spending. It may therefore be a mixed blessing; in that it has funded essential services but not necessarily added directly to broad economic growth.

Real growth falling in businesses affected by living costs

Supporting our earlier observations as regards to the hospitality and entertainment industries, we have included the adjacent diagram, which shows the average business trading growth over the year to March 2025. From the diagram, we can discern a variety of core hospitality and entertainment categories, which all struggled to grow.

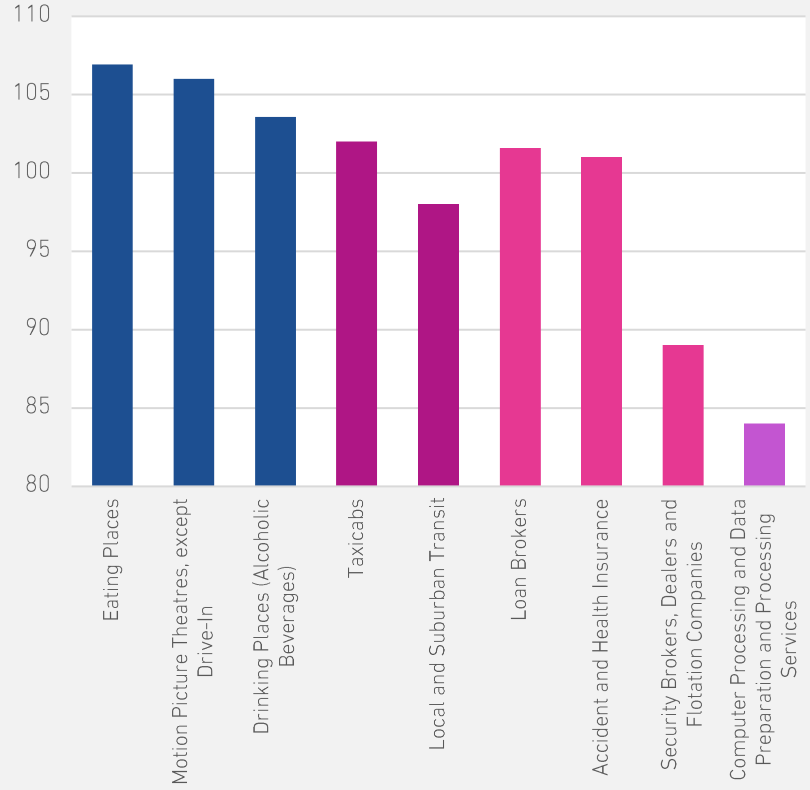
Specifically, restaurants, cafes, hotels, bars and cinemas all largely stagnated over the last 12 months (their trading activity growing by only 4 to 6 percent before discounting this growth for inflation). Therefore, while their failure risk may not have risen in the last quarter, these sectors continued to suffer from ‘flat’ consumer spending, with this stagnant growth spilling over into the transport industry; especially into the taxi/uber sector (2% growth) and mass transit sector (2% decline), which both grew at well below the rate of CPI.

In addition, as we highlighted in our last barometer report, financial services businesses have been impacted by falling household incomes and/or lower housing affordability. As depicted in the adjacent diagram, the most affected financial businesses are private health insurers and loan brokers (neither growing in the year to March 2025) as well as securities brokerages (which have declined substantially).

These results suggest that Australians had limited finances to use for discretionary expenditure, insurance protection and investment. In the year leading up to March 2025.

Separately, from a B2B perspective, we are now also seeing a shift away from businesses using local information management and storage services. This is likely due to the availability of global, cloud-based information storage providers, which have disrupted specialist data houses, diminishing their business activity by 15%.

Growth Index 12 Months to March 2025 – Hospitality / Entertainment / Transport / Finance / Information - Index 100 = No Growth



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Definition of the Commercial Risk Barometer

Background notes: Basis of the Commercial Risk Barometer

Tracking

The Commercial Risk Barometer tracks the risk of Australian businesses being unable to trade within the next 12 months with money owing and forced into closure – this includes businesses entering liquidation and/or being involuntarily deregistered. The barometer is:

- A metric, showing the percentage change in the probability of businesses failing with monies owing
- A 12-month forward looking prediction of this failure risk
- A trend-line, showing the changing nature of this risk, both directionally and in percentage magnitude
- Aggregated over all active businesses operating at the time of risk assessment

Leading indicators

The barometer is created by modelling leading indicators against subsequent business performance. These indicators include:

- Current and historical legal actions taken out on businesses and their directors
- Current and historical debt collection activity on businesses
- Changes in trading activity including the aggregate value of business invoice payments
- Changes in financial stress through the late payment of trading obligations
- The underlying risk of the business's profile – e.g. industry and geographic business profile
- Credit risk of business directors on their business and consumer credit holdings – including their credit exposure and payment delinquency

Trends

The barometer is shown as the percentage change in failure risk, with the percentage calculated relative to the risk observed at the baseline point in time – as at January 2023. This baseline has been chosen to a) remove the early biases/effects from COVID and to b) focus on current economic impacts from broad-based inflationary pressures and higher interest rates on consumers and businesses.

To smooth monthly fluctuations, these trends are calculated as moving averages over a rolling 3-month period to the month shown in the trend diagram (page 2).

Additional insights into business trading activity, business and director legal actions, industry risk, business size, consumer confidence and expenditure patterns may be incorporated in this insights pack to show trends that are likely to have an impact on the failure risk of businesses.

The data used to create the risk index is derived from the illion, an Experian company, proprietary commercial databases, comprising the largest commercial information bureau and trade credit payment program available on Australia's 2.5mill+ active businesses.

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