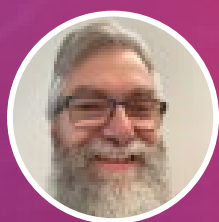


Commercial Risk Barometer



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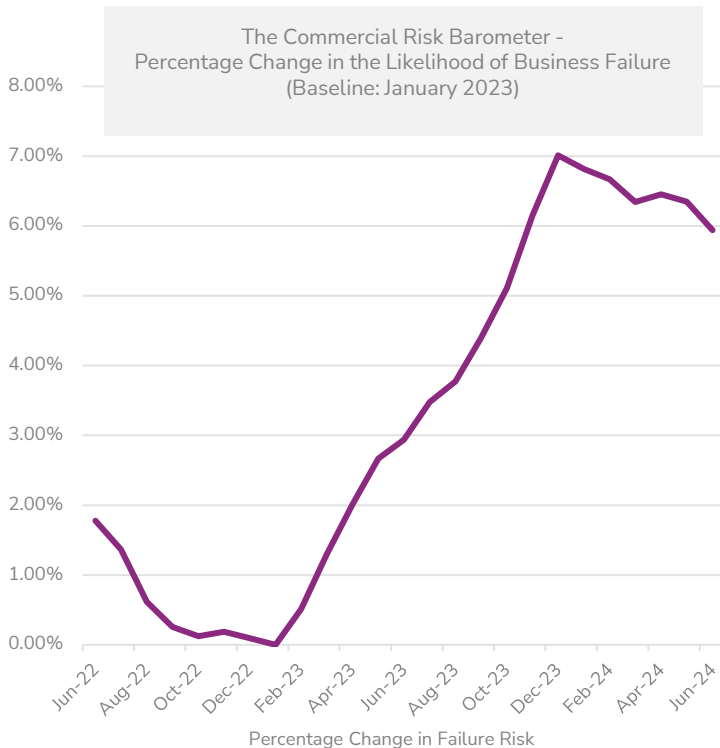
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After deteriorating in 2023, business failure risk has gradually improved over H1 2024. The minor re-trace to June 2024 is not yet compelling, making the outlook in H2 unclear



The Commercial Risk Barometer for June 2024 shows that, after an extended period of deterioration throughout 2023, the risk of business failure has improved slightly over H1 2024. While this is positive news for commerce generally, the small re-trace (1% in six months) has had limited impact at this stage, given the significant deterioration last year (7%). This means that business risk remains as high as it was in Oct-23 and still 6% higher than 18 months ago.

While the trend may ultimately point to a long-term improvement in business risk, the small magnitude means that we need to be cautious with any forecasts. This is especially true as we are also seeing some early signs of rising business stress, especially within certain risk groups and industries.

In addition, we are seeing falls in consumer and business confidence and in business growth..

Our optimism is especially muted, when considering the outlook for certain industries and business segments, as the risk trend is not uniform. This is shown in the differences by geography, business age, business size and industry.

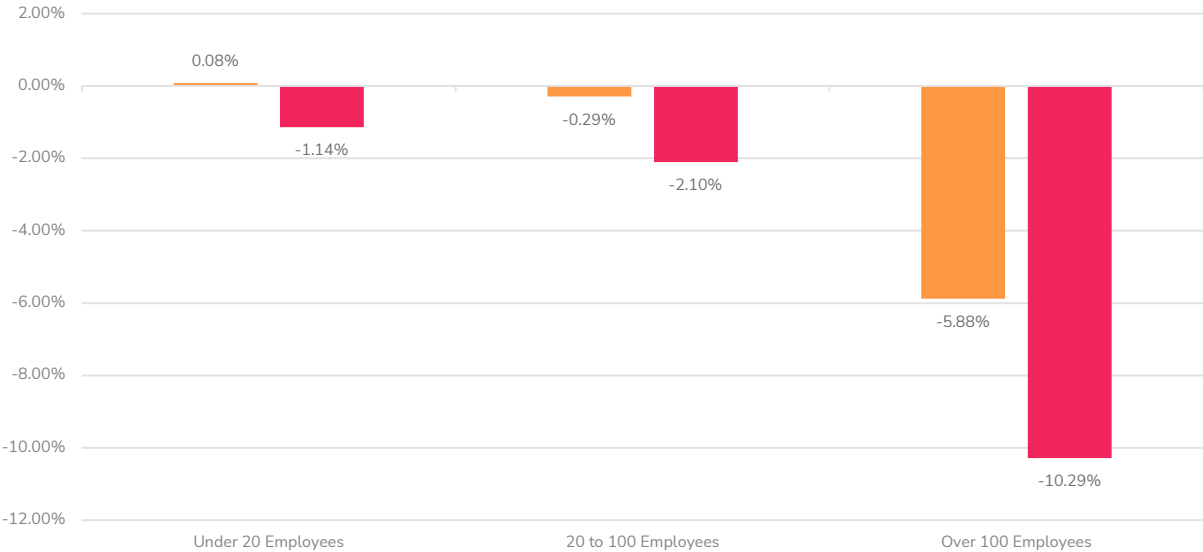
Key observations in this iteration of the barometer are:

- The general improvement in business failure risk has been led by mainly larger and mature businesses, with large businesses improving at 10-times the rate of small businesses and mature businesses improving, while younger businesses continue to deteriorate (albeit mildly)..
- Victorian businesses are trending counter to other states, with the failure rate continuing to rise, while the rate in most other states appears to have turned around. That said, the trend in NSW is unclear.
- While there are fewer businesses at imminent risk of failure in Q2-2024, historically low risk businesses are beginning to deteriorate, potentially being burdened by lower consumer spending and business activity..
- Consumer confidence trends indicate that economic headwinds may be returning to the business sector, as business confidence is now also being affected.
- Business growth appears to be below-par in the retail sector, but the construction sector may finally be seeing some sort of turnaround as building activity rises.

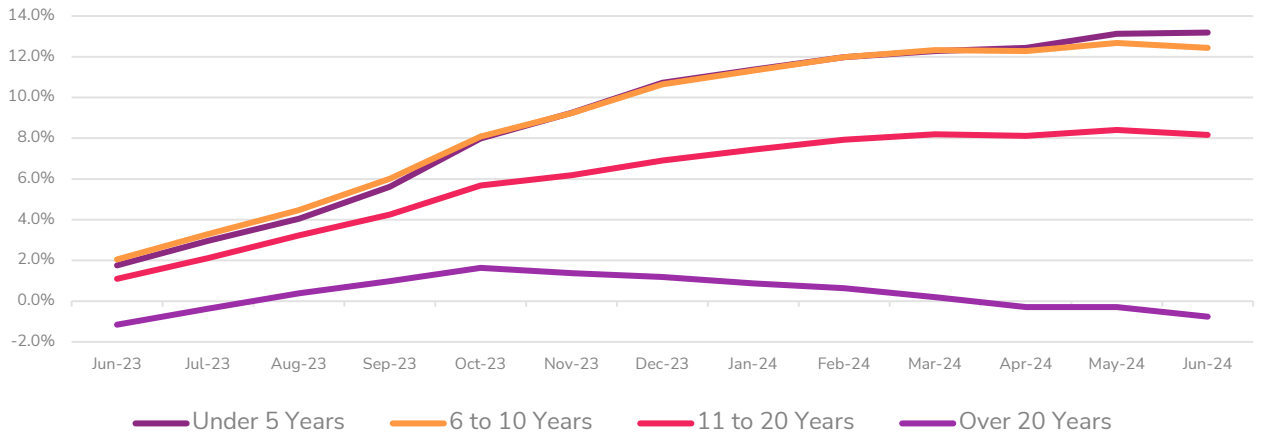
The mild turnaround in Business Failure Risk is a result of significant improvement in mature and larger businesses, while young, small to medium enterprise continue to struggle after a stressful 2023.

- While we have seen an overall improvement in business failure risk, we continue to see this in mainly older and larger businesses, which are more likely to withstand economic headwinds (i.e. through a larger capital base, lower unit cost base and stronger brand presence). Comparing businesses by their size, we can see that the risk of those employing fewer than 20 people only fell 1% between April and June 2024, whereas it fell 2% for businesses employing up to 100 people and by 10% in those employing more than 100 people. Similarly, the risk of young businesses (i.e. operating less than 5 years) did not fall at all; rising from 12.4% above the January 2023 baseline in April to 13.2% in June (an additional 7% rise relative to April '24). In fact, only businesses operating for more than 20 years saw their risk fall below the level seen 18 months ago, Businesses older than 10 years are still 8% riskier than they were 18 months ago and businesses under 10 years old are now over 13% riskier.
- While the barometer showed a mild, nationwide fall in failure risk in Q2 '24, this fall was not uniform across all Australian states. In fact, while QLD, SA and WA saw falls, NSW remained stubbornly fixed (still 8.6% higher than 18 months ago) and Victoria's business failure risk continued to rise (from 6.3% higher in March to 7.2% higher in June – a relative increase of 15%). While the deterioration in Victorian businesses still trails both NSW and SA, the worrying sign for Victorians is that its trend continues to worsen, other than for a brief spell post Xmas. This may serve as a warning for business conditions in Victoria, as we head into 2025. While SA has seen the highest business deterioration over the last 18 months, it is now beginning to improve, albeit marginally (i.e. it fell from 17.2% above the January 2023 risk in March to 16.3% in June - a relative improvement of 5%). Businesses in QLD continued to operate with the best economic outlook, having the lowest long-term rise in risk (2.9% higher than in Jan 2023) and a substantial improvement in Q2 '24 alone – down from 3.4% higher in March (a 15% relative improvement). While not depicted, WA also had a material improvement, being similar to that observed in QLD.

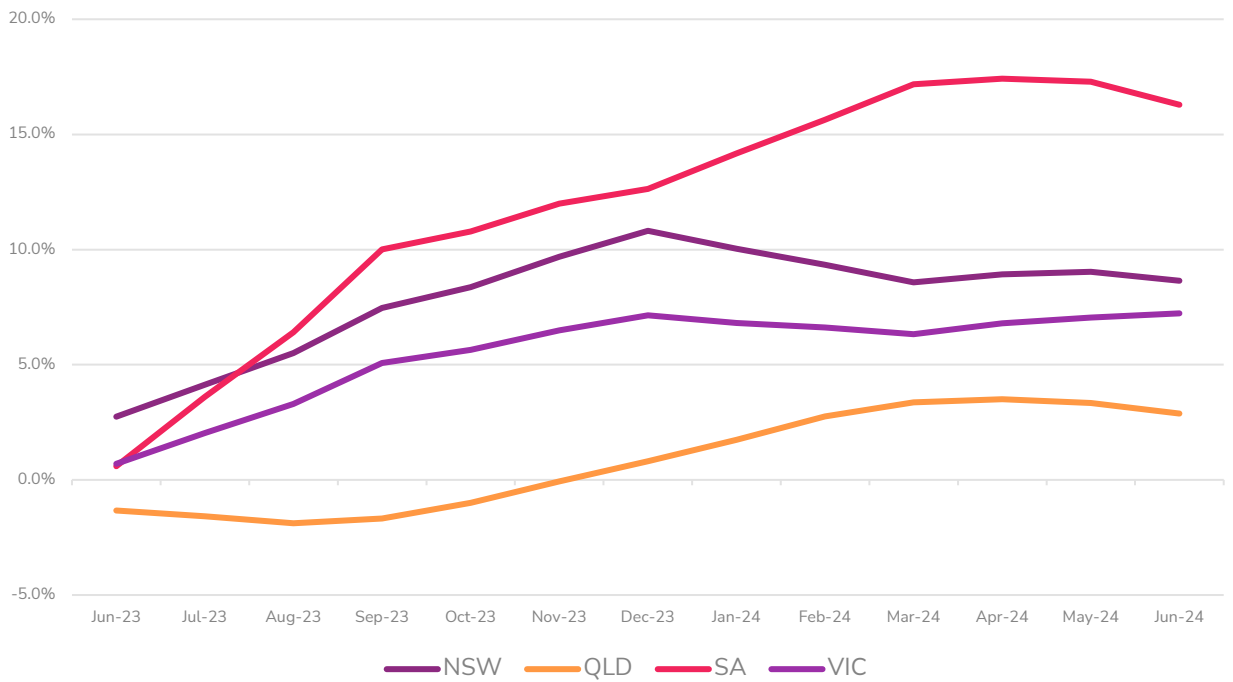
Percentage Change in Business Failure Risk by Business Size – May/June 2024 against April '24 baseline



Percentage Change in Business Failure Risk by Business Age – Year to June 2024 - baseline January 2023



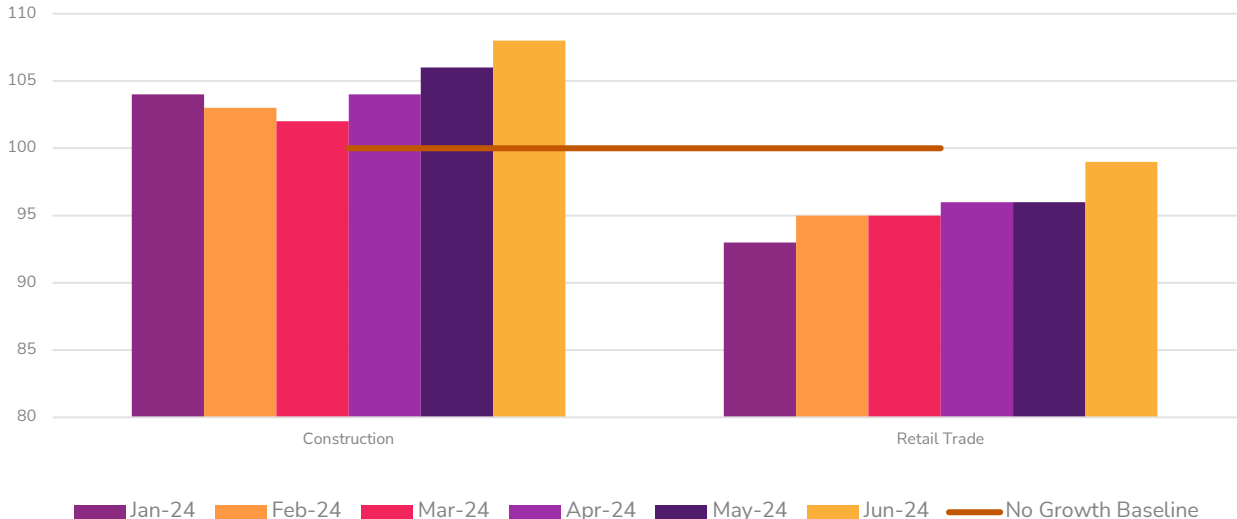
Percentage Change in Business Failure Risk by State – Year to June 2024 - baseline January 2023



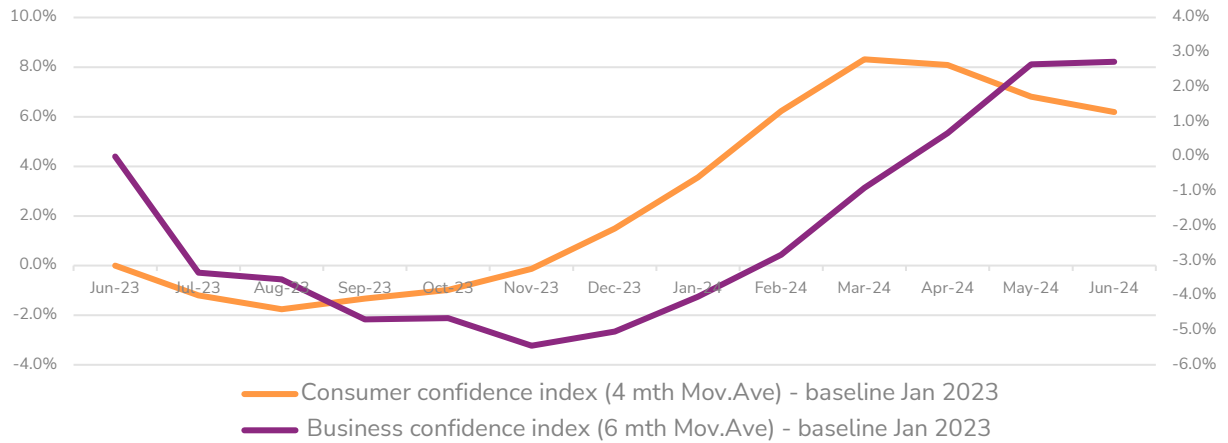
A noticeable shift in medium-term risk was observed in Q2, even though this has not yet translated into imminent business failure. This shift to ‘worse than average’ risk is a warning sign for 2024/25, especially as business confidence is fragile.

- Improvement in very high-risk businesses is masking the deterioration in traditionally low-risk businesses :** Q2 saw a material improvement in short-term business risk, with a 14.6% fall observed in the number of businesses at imminent threat of failure. However, by contrast, Q2 also saw a 7.7% rise in businesses moving from low to moderate or worse risk (these businesses may be considered longer-term candidates for business failure, as they are showing early signs of stress). As such, while Q2 saw an overall improvement, this heightened stress may be a warning sign that conditions will deteriorate through 2024/25. Industries showing early signs of stress are Food Services, Financial Services and Education/Training, meaning we may see insolvency rates rise in these sectors in 2025. Retail, Transport and Food Services remain industries with the highest risk businesses today, suggesting we will continue to see insolvencies in these sectors through 2024. Specific attention should be placed on businesses in the Food Services sector as they are showing signs of short-term trading problems and longer-term stress.
- Falling Consumer Confidence is having an adverse effect on businesses, which may flow into higher Business Risk by 2025 :** We have observed that consumer confidence is closely aligned with business confidence 3-4 months later. The dip in consumer confidence from March ‘24 onwards and the plateauing in business confidence in June ‘24 are therefore worrying signs for the medium-term outlook, especially when we combine this result with the deterioration in low-risk businesses over Q2. These indicators may be pointing to business failure-risk rising again by late 2024.
- Business trading has fallen below 2023 levels in the Retail sector :** Other than in June-24 (mainly due to EOFY sales) trading in the retail sector has fallen below 2023 levels in H1 (5% lower). This is problematic for the retail economy, especially when we also consider that inflation has contributed to some of this growth. Any predicted deterioration in business failure risk through 2024/25 may therefore be particularly harmful to retail businesses. By contrast however, growth in the construction sector is trending higher month-on-month, meaning that we may see a two-tier economy in 2024/25, where the retail sector continues to falter, while construction may be Australia’s growth engine.

Index of YOY Business Growth per Month by Key Industry – 100 = No Growth

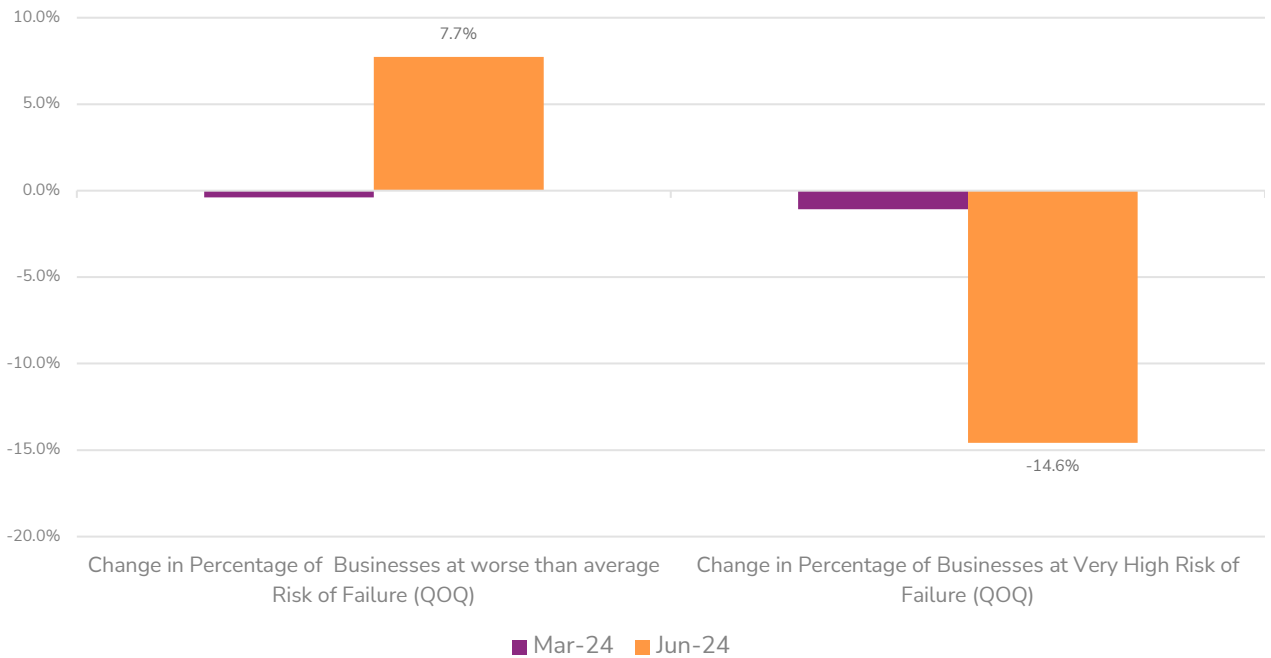


Change in Consumer and Business Confidence (June 2023 - June 2024)



Source: The ANZ-Roy Morgan Consumer Confidence Rating includes the five component questions on personal finance, the Australian economy and whether now is a 'good' or 'bad' time to buy. The Roy Morgan Business Confidence Rating includes five component questions on prospects for the business economic conditions in Australia and whether now is a 'good time' or 'bad time' to invest in growing the business.

Change in Percentage of Businesses whose Failure Risk has deteriorated in the March '24 and June '24 Quarters



Appendix: Definition of the Commercial Risk Barometer



Background Notes: Basis of Commercial Risk Barometer

Illion's 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
- smeared over all active businesses operating at the time of risk assessment.

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.

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 - @ 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 (Slide 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 illion's proprietary commercial databases, comprising the largest commercial information bureau and trade credit payment program available on Australia's 2.5mill+ active businesses.

Empowering Intelligent Decision Making

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About illion

As one of Australasia's leading consumer and commercial credit bureaus, our unique data, software, analytics and risk management solutions form an integral part of the region's financial ecosystem.

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