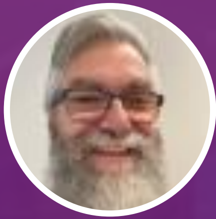
Commercial Risk Barometer



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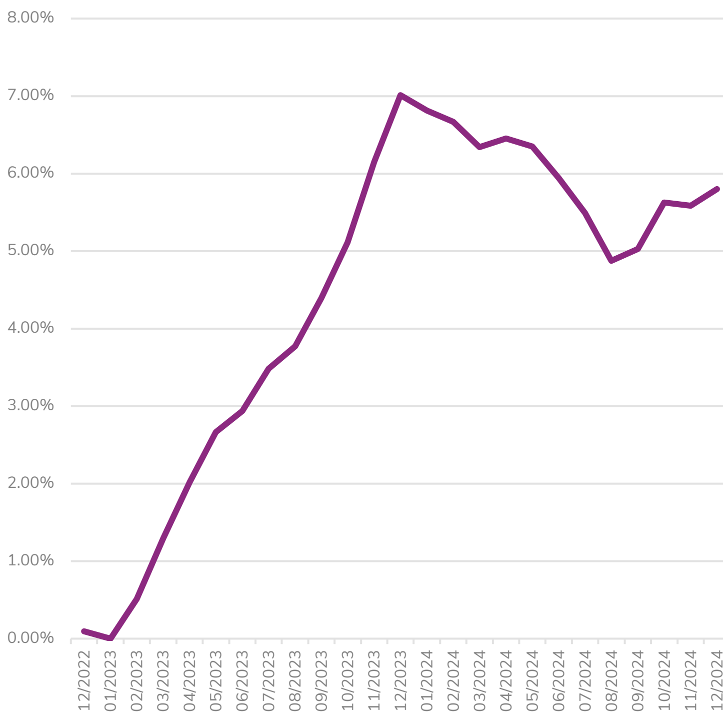
Business failure risk deteriorated moderately over the final quarter of 2024 after improving over the first three quarters. The outlook into 2025 is uncertain as the stress on industries is inconsistent.



The Commercial Risk Barometer @ December 2024 shows that business failure risk has begun to deteriorate again, negating half of the improvement seen in the first three quarters of 2024.

While not rising at the rate seen in 2023, the deterioration in Q4 2024 is a sign of a return to tougher trading conditions and follows the lower business confidence shown in the preceding commercial barometer reports.

The net result is that failure risk is now 6% higher than 2 years ago and only marginally under the peak reached in late 2023 (down from around 1% over 2024).

Although history suggests that improvement could occur with little notice, the last 3 months' behaviour offers limited evidence of a strong turnaround in the immediate future. At best, we may see an uneven trend in failure risk, where industries perform quite differently (given their reliance on their customers' unique consumptive behaviour).

That said, business and consumer confidence has risen in Q4, which may point to some improvement through 2025.

Key observations in this iteration of the barometer are:

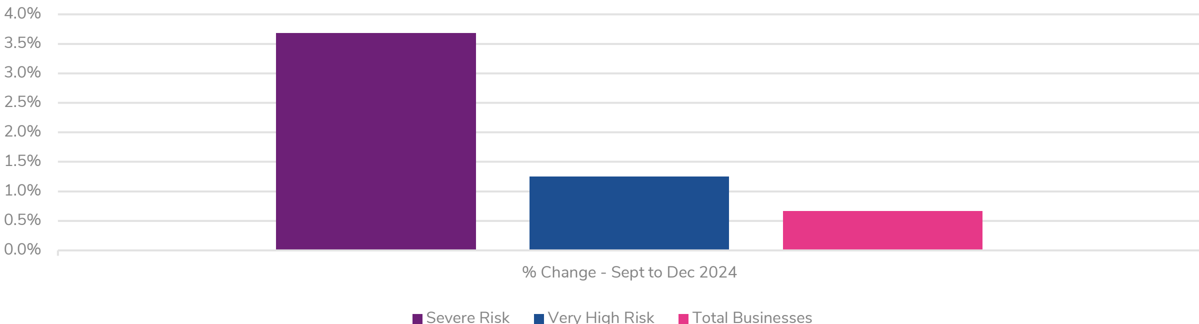
- The percentage of businesses at very high risk of failure has increased at near twice the rate of lower risk businesses (rising by 1.3% in the December quarter).
- The failure risk of traditionally stressed industries has stabilised, with the food services and construction sectors not deteriorating further in the December quarter. In contrast, lower-risk sectors – financial/insurance services, utilities and education - have deteriorated, mainly due to separate trading issues unique to each of these industries.
- Even relatively mature businesses in these sectors have deteriorated at a faster rate than those in other industries – as such, they appear to be suffering from adverse business conditions that are unique to their industries.
- Consumers have moved away from direct commercial relationships with retailers in favour of BNPL intermediaries. They have also reduced their consumption of insurance services, reduced their education spend and energy consumption, while also reducing take-up of traditional credit products.
- Financial services businesses have become less able to meet their invoice payment obligations in the December quarter.
- The stability seen in higher risk industries, together with the deterioration in lower-risk sectors suggests that business conditions are inconsistent, making the outlook for risk unclear. We continue to recommend close monitoring of businesses, at least for the foreseeable future.

Q4 has seen a rise in the number of businesses at risk of failure. This rise has been inconsistent across industries and regions. Some low-risk industries have shown a heightened level of stress recently.

The December quarter saw a rise in the number businesses at significant risk of failure. While the number of businesses actively operating in Australia rose by 0.7% in the quarter, the number of businesses at very high risk of failure rose by near double that rate (1.3%) and those at severe risk of failure, by 5-times that rate (3.7%). These estimates can be seen in the graph below.

Percentage Change in the Number of Businesses – Sept 2024 to Dec 2024

(Metrics: All Business, Very High Failure Risk Businesses, Severe Failure Risk Businesses)

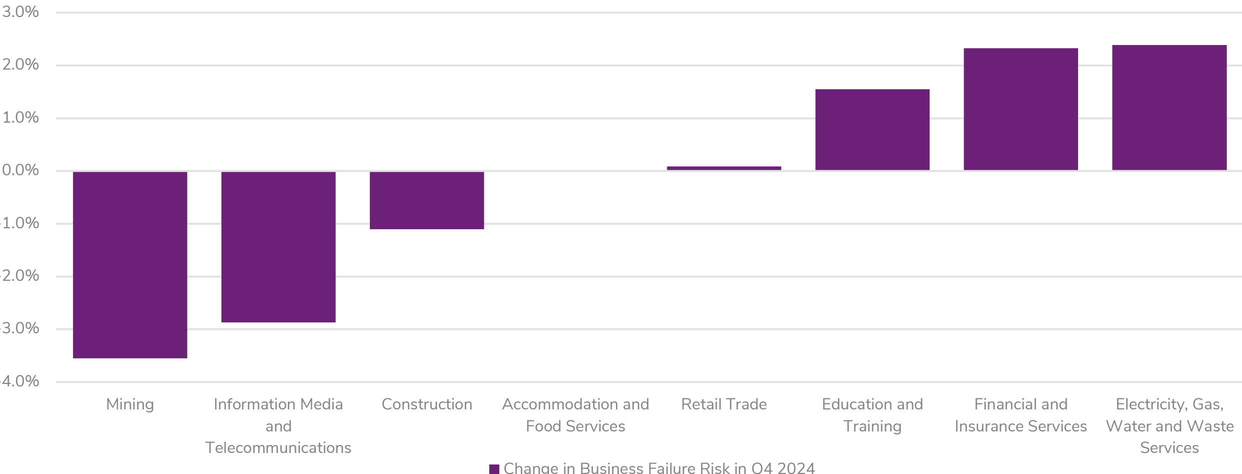


These results suggest that Australia may see a moderate rise in business insolvencies over 2025 (at least initially), with 1.5% of businesses now at heightened risk of failure. On current forecasts, a 2%-3% rise in failures is feasible over 2025, when compared to the estimates obtained in September 2024.

At an industry level, the deterioration in failure risk has not been consistent, with some riskier industries finally stabilising, but previously lower risk industries now showing signs of higher trading stress. This suggests that the business landscape is changing, with both positive and negative consequences for the Australian economy.

On the plus side, although the Food Services sector remains the most vulnerable to failure (its risk being near 50% higher than the Australian average), we can see from the diagram below that the industry has not deteriorated further in Q4 2024 Equally, other previously higher risk sectors have also managed to maintain or even reduce their risk of financial failure.

Percentage Change in Business Failure Risk by Key Industry over Q4-2024



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To illustrate this, while the overall failure risk in Australia has increased by 0.8% in the December quarter, the risk in the retail and food sectors has not deteriorated and the risk within the construction sector has fallen by 1.1%. While these are not huge changes, they suggest that the stress seen in all three sectors over 2023 (from higher input costs and lower demand) may have abated for now.

Greater demand for building and maintenance services, resulting from new building works and home renovations, have helped the construction sector, while more stable household budgets, from lower inflation, may have helped to promote higher retail spending. That said, retail spending is quite uneven, as we'll show later in the document.

Certain lower risk industries have also continued to show signs of greater financial strength, with the mining and information/telecoms sectors both having lower levels of financial stress (down 3.6% and 3% respectively). This does suggest that industries less affected by consumer behaviour (either by being less reliant on discretionary spending or driven more by export markets) continue to do well.

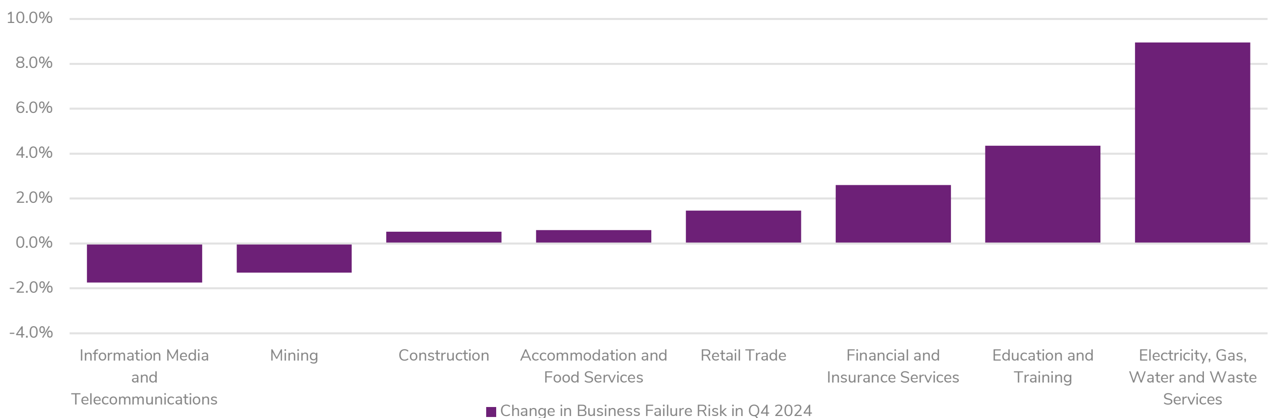
By contrast, some low-risk industries have deteriorated in the December quarter, suggesting that their financial well-being may be affected by tighter household budgets, lower demand, lower migration rates, higher input costs and higher underwriting risks. Stand-out industries are the financial/insurance services, utility and education sectors, which, while still at lower-than-average risk, are seeing higher levels of stress. In the case of the financial/insurance services and utilities sectors, we are seeing an increase in failure risk of near 2.5% (three times the national average) and in the education sector, a rise of 1.6% (near double the increase nationally).

In the case of insurance, this deterioration may be due to less new premium business being written or to lower premium cover being taken out (i.e. from tighter household budgets), even as premium income itself may be rising - thereby affecting agent/broker income especially. In the finance sector, this may be due to lower credit take-up by consumers (i.e. as higher interest rates impact on serviceability) – thereby affecting finance and broker income.

As for the education sector, tighter budgets may have affected school income, while lower migration may have affected the tertiary, skills and training sectors. Finally, utilities may have been affected by volatile wholesale prices and greater shopping around by consumers.

The risk observed in these industries appears to be affecting both young and mature businesses, suggesting that adverse trading conditions are becoming more common; even affecting businesses with a track record. For example, the diagram below shows that the failure risk of mature education businesses is 4% higher in Q4; of mature utility businesses, 9% higher and of mature finance businesses, 2.6% higher. However, the results also suggest that the deterioration has been largely confined to these sectors, meaning that they may be suffering from unique financial conditions, as noted earlier (e.g. borrowing and insurance costs) or from a change in industry or government policy.

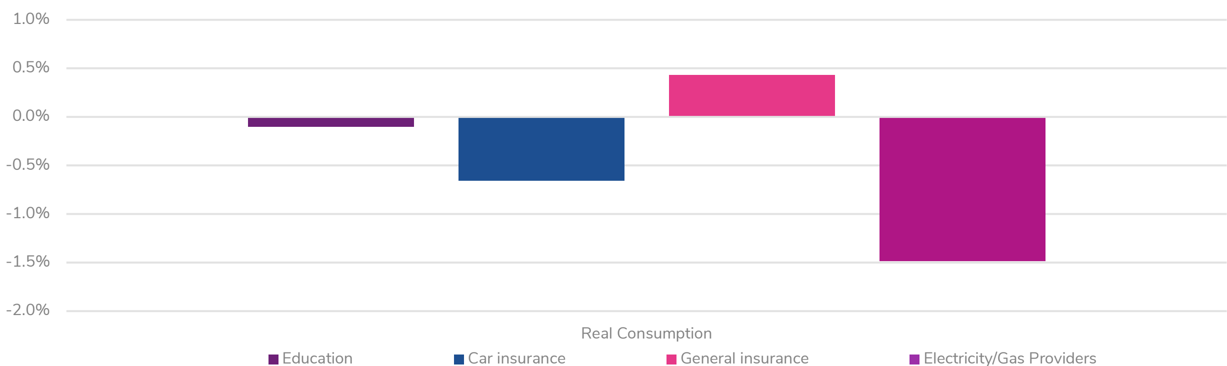
Percentage Change in Business Failure Risk by Key Industry over Q4-2024 – Mature Businesses (between 10-20 years old).



Lower risk industries are now impacted by the economic stresses that previously affected high risk sectors – lower consumer spending on Education, Energy and Financial Services (the latter paying its bills later)

While the education, financial and utilities sectors have a significantly lower failure risk than sectors such as, food services, transport, construction and retail, we have seen changes in business conditions and consumer behaviour that are uniquely affecting these industries. As seen earlier, while these sectors remain lower risk, they have deteriorated over the December quarter. Much of this deterioration can be attributed to lower real spending by consumers (i.e. lower consumption), which may have contributed to stressed trading (i.e. tighter cash-flow and later payment of invoices).

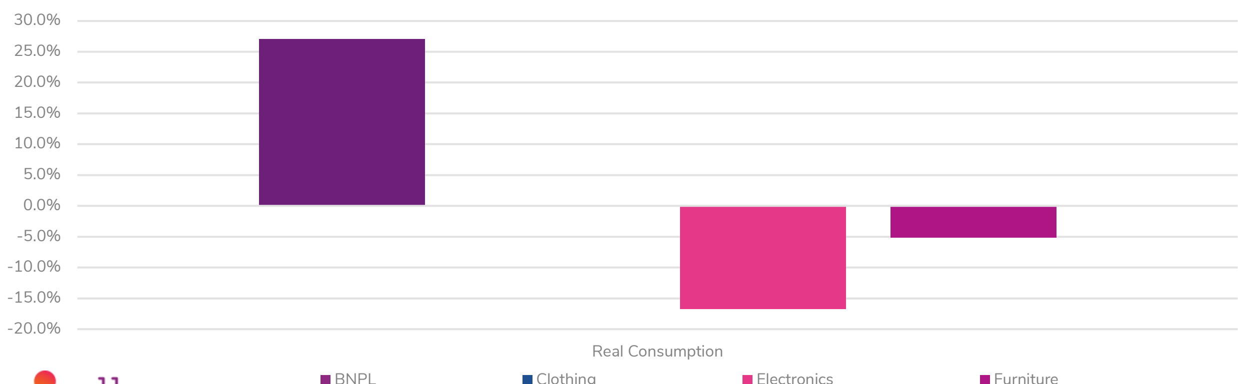
Percentage Change in Average Real Spending by Consumers in Q4 2024 - Compared to Q4 2023 (YOY) - Indexed to Published CPI per Sector



The above graph shows the change in real consumer spending in key industries whose risk has deteriorated during Q4 2024. When compared with the same period in 2023 (and allowing for CPI), it shows that real spending on education has stagnated in Q4 2024, while real spending on utility services has fallen 1.5%. The insurance sector has had mixed fortunes, with general insurance spending (excl auto) being muted (rising by less than 0.5% after allowing for price rises) and car insurance spend falling (down 0.5%).

Lower spending in the education sector may be attributed to tighter household budgets, with a possible move away from training and fee-paying courses, as well from spending on support materials. In addition, lower levels of migration may have also affected tertiary, skills and training spend. Lower utility spend may be, in part, due to cheaper wholesale prices and government grants/subsidies, but it also appears that real consumption has fallen. This means that consumers may also be economising on energy utilisation. Flat insurance consumption may be due to falling insurance cover, even as premiums rise, which may then have affected the commission income of insurance brokers and intermediaries.

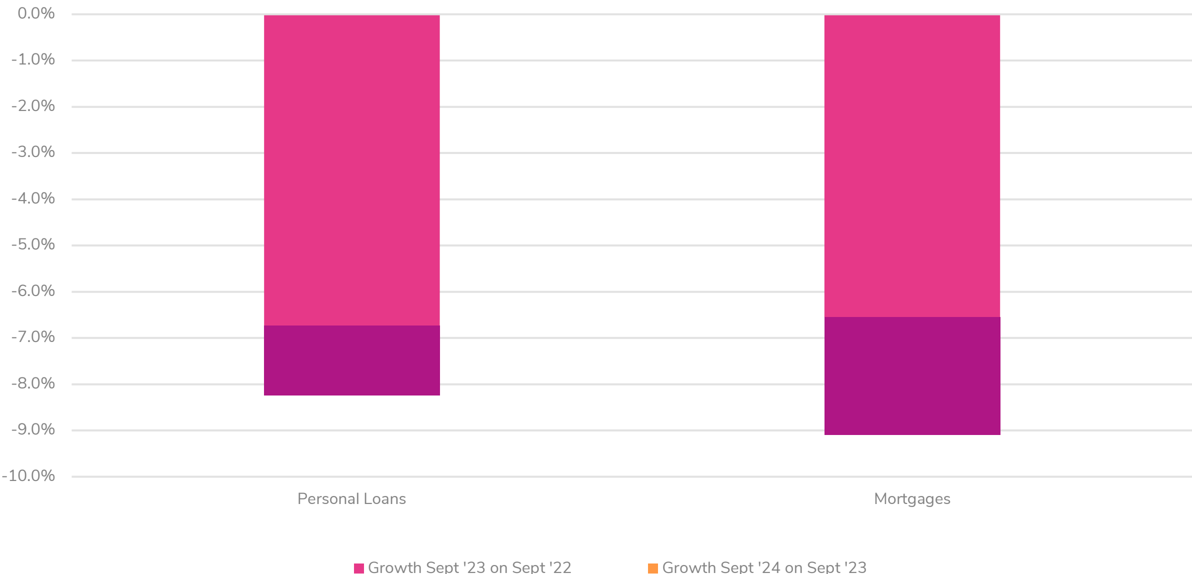
Percentage Change in Average Real Spending in the Q4 2024 - Compared to Q4 2023 (YOY) - Indexed to Published CPI per Sector



Though the issues affecting the insurance industry may explain part of the risk observed in the broader financial services sector, the changing credit habits of consumers may also be partly responsible for the rise in failure risk. The above diagram shows this change in consumers' real retail spending habits – comparing spending in the last quarter of 2024 to the same period in 2023.

From the above diagram, we can see that real consumption of BNPL services rose by over 25 per cent while, over the same period, direct spending on clothing stagnated in real terms, direct spending on electronics fell by around 15% and on furniture, fell by around 5%. This shift away from direct spending with retailers to the use of BNPL is clearly beneficial for the BNPL sector. However, by contrast, smaller finance operations and finance brokers may have been adversely affected if, as a result of BNPL, fewer loans or lines of credit have been written. This fall in lending is illustrated further in the following diagram, which considers the change in the volume of new loans taken out by consumers.

Reduction in New Loans Opened in September 2024: Baselined to September 2023 and September 2022

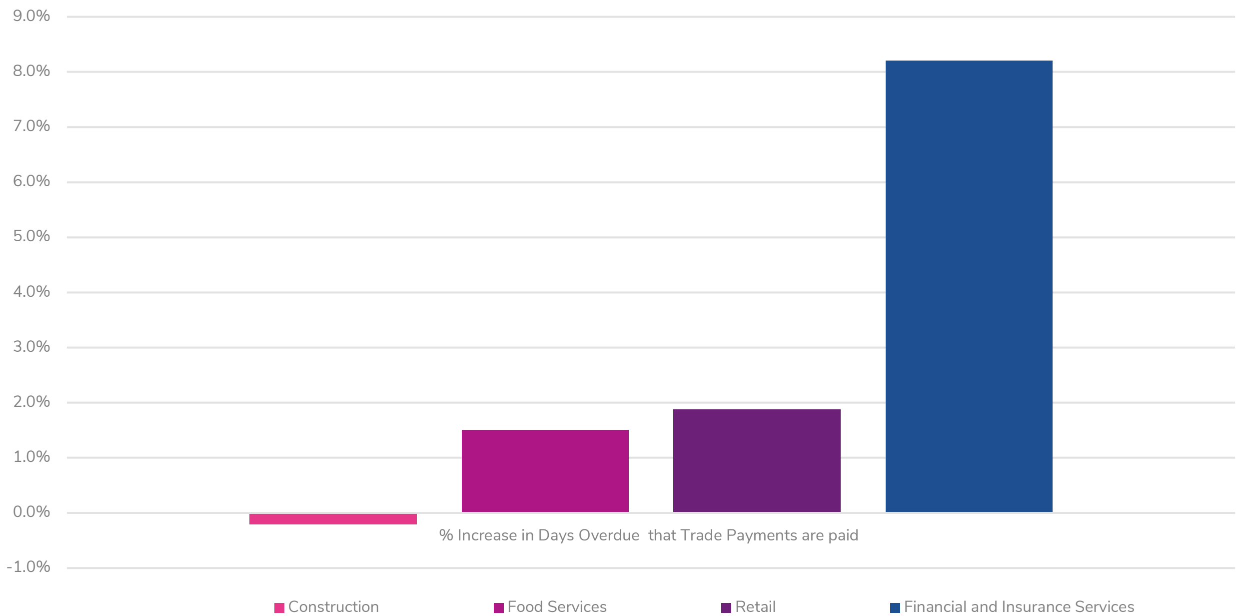


Comparing the take-up of new loans by consumers in late 2024, against the same period in 2023 and 2022, we can see that there has been a consistent fall in personal lending. Focusing on Personal Loans specifically, the number of new loans written dropped by 6.5% in 2023 and then by a further 1.5% in 2024. Therefore, while we have seen a rise in BNPL spending, we have also seen direct consumer spending and the underwriting of new credit both falling. This shift away from new loans will have had an adverse impact on the revenue of term loan providers and finance brokers alike – i.e. from lower credit income and finance commissions.

Adding to the financial impact on lenders and brokers, the above diagram also shows a substantial fall in the number of new housing loans underwritten (dropping 6.5% in 2023 and a further 2.5% in 2024). Again, this reduced demand for credit will have negatively impacted finance related revenue, even as interest rates have risen. Finance brokers and similar intermediaries may have been hit hardest by this change in consumer behaviour, with smaller businesses possibly struggling to meet trade payment obligations as their revenues have fallen.

To demonstrate this relationship, we reviewed the trade payment behaviour of the financial services sector, contrasting this to the behaviour of other industries. The following diagram shows this relationship.

Increase in the Average Number of Days that Trade Invoices are Overdue – Baseline @ September 2024 : Increment @ December 2024



The above diagram shows the percentage increase in days that trade invoices are overdue – comparing December 2024 to September 2024. The deterioration observed in the financial service sector is then compared to that seen in the three traditionally high-risk sectors highlighted in previous barometer reports.

The results show that, while the food, construction and retail sectors may remain higher risk industries overall, the financial services sector has suffered the largest deterioration in overdue invoices over Q4 2024; rising by 8% compared to a 0.2% improvement in the construction sector, 1.5% deterioration in food services and 2% deterioration in retail services.

Therefore, there are some early signs that financial/insurance services businesses are struggling slightly more now to pay invoices on time, as their revenue is impacted by changes in consumer behaviour. The possible consequence of these tougher trading conditions is a rise in financial stress and, while it remains a lower risk sector, an increase in its business failure risk.

Furthermore, this may be an early warning sign of a gradual and progressive deterioration into 2025. The sector should therefore be monitored closely by businesses taking on B2B relationships with financial services firms (at least smaller firms) until there is some evidence of a return to more stable cash-flows.

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.

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Empowering Intelligent Decision Making

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