



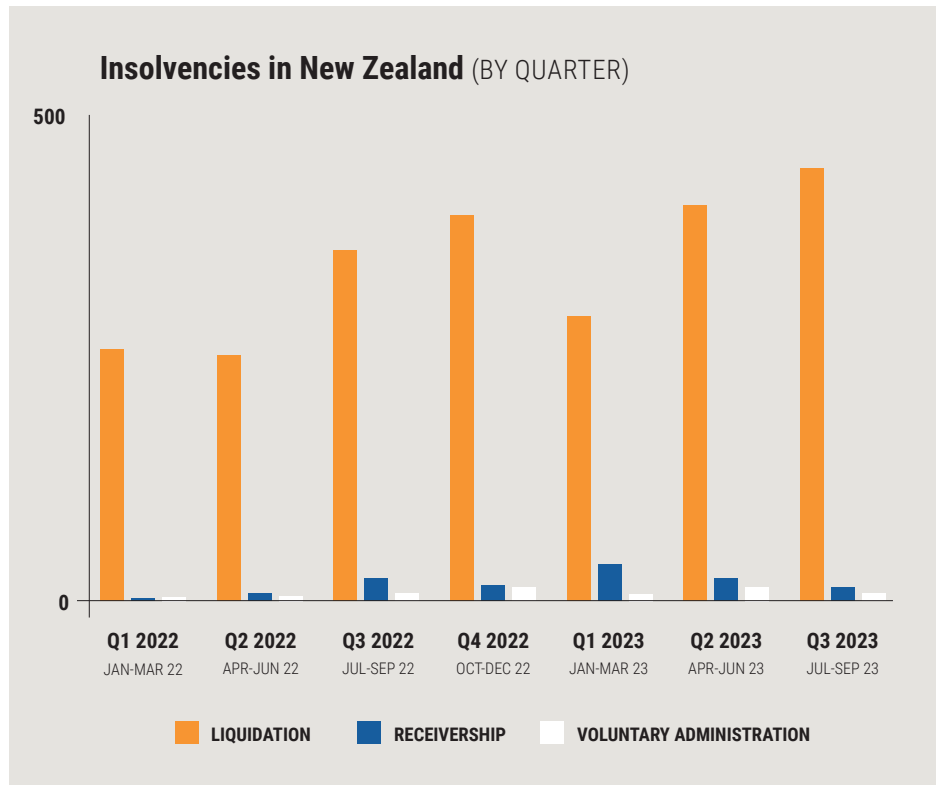
BWA Insolvency's quarterly update on business health and insolvencies in New Zealand | Q3 2023

In this quarter, there has been a significant increase in insolvencies across the food & beverage, retail, and agriculture sectors. These sectors have seen a 46%, 43%, and 130% increase respectively from the last quarter.

Across the board, insolvencies for the period July 1 to September 30 were up 5% from last quarter, and up 20% compared with the same period last year.

While we have seen a levelling of insolvencies from the previous quarter, we cannot assume this is good news for all. Instead, this most likely indicates that insolvent companies impacted by the pandemic have either recovered or ended their life.

There is a clear picture coming from the consumer-facing sectors. In Q3 2022, there were 28 insolvencies in the retail sector. In the same period this year, there were 53—an increase of 89%. Insolvencies in the food and beverage sector have increased marginally when compared to 12 months ago, however compared with Q2 2023, insolvencies have jumped from 26 to 38.



Insolvency is the consequence of commercial events that might have happened months, sometimes years ago.

The insolvent circumstances that cause a business to fail are rarely caused by current events. As the Reserve Bank continues its anti-inflationary measures to tighten liquidity across the economy, we can expect businesses that sell directly to consumers to continue to bear the brunt.

Quarterly Trends

What does insolvency data tell us about the future health of New Zealand's economy?

Caution is needed when viewing insolvency statistics as a predictor of the future. The reality is insolvency data is revealing the impact of commercial events that may have taken place months or even years ago. While today's data may not provide a clear indication of the economic outlook, it can offer valuable insights into specific industry sectors. This information becomes crucial for companies operating within these sectors, particularly those facing financial challenges. Vulnerable firms operating in challenging sectors are unlikely to survive.

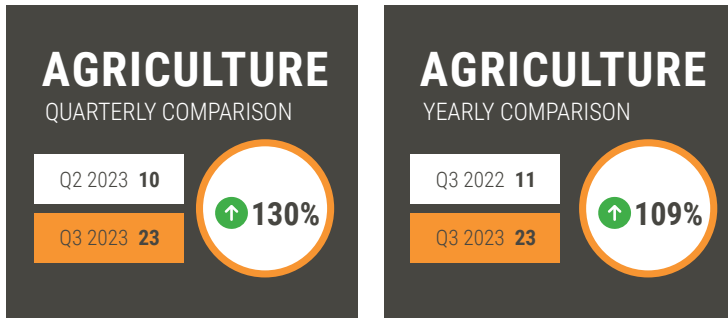
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Insolvencies have stabilised in many sectors this quarter with the exception of food and beverage, retail, agriculture and business services. Other sectors have seen only slight increases in insolvencies, and in some cases, the rate of insolvencies has decelerated.

However, a second wave of economic impact is approaching. The decrease in consumer spending alone may lead to the collapse of vulnerable companies. However, if we also consider the gradual slowdown of global economies, it is almost certain that many companies will face an existential threat in the next few months.



The agriculture industry has seen a significant increase in insolvencies – up 130% compared to last quarter and 109% year-on-year.



This increase can be explained by the significant weather events New Zealand has faced this year, particularly the flooding events of February. Floods wiped out crops, and these latest insolvency figures show that many farmers could not recover.

We can expect a trickle-down effect to come into play in the produce supply chain this quarter. All New Zealanders are aware of the increase in the price of produce, in part caused by a shortage of supply due to weather events. While this lack of supply initially affects the agricultural industry, we can see from the insolvency figures that there has been a flow-on effect on the food and beverage industry, which will struggle to deal with the increase in costs and supply.

Economic Insights

THE IMPACT OF DECREASED CONSUMER SPENDING

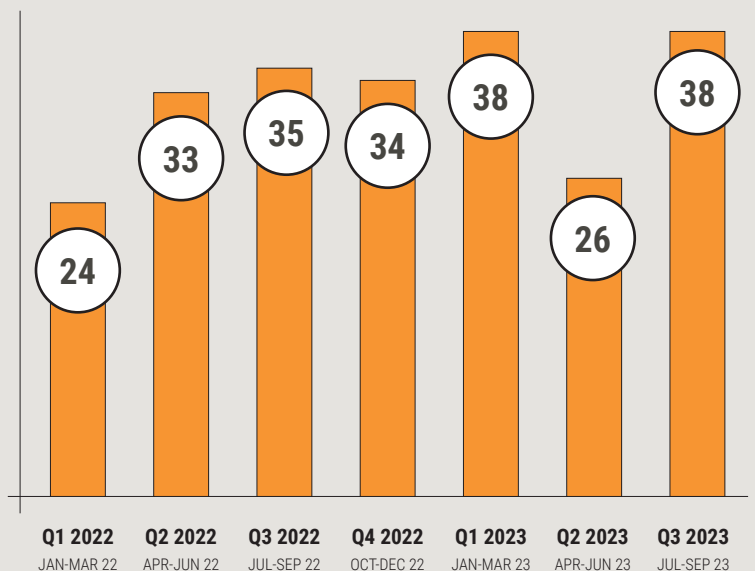
A combination of the imposed reduction in discretionary expenditure, increased cost inputs and decreased international demand suggests that the New Zealand economy will be facing severe headwinds in the coming months.

This will likely impact frontline providers meeting consumer demands – hospitality and retail are clear candidates. While going out for dinner or a hit of retail therapy still occurs, modified spending is becoming evident.

Decisions to purchase larger ticket items, such as cars, whiteware and furniture, may well be deferred until the future looks brighter.

In good news, the tourism industry has seen an improvement in insolvencies, which is unsurprising given the resurgence of international travel and the learnings earned from the hard years the industry has faced. There is also an improvement in the professional sectors, specifically the legal and accounting services, although it should be noted that this sector typically accounts for small numbers of insolvencies in New Zealand.

Food and Beverage (BY QUARTER)



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