

# Zombies take their medicine as some companies accept reality



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Oct 14, 2020 – 12.01am

Victoria recorded a 24 per cent spike in business administrations in September while in NSW they decreased, CreditorWatch's latest data shows.

Last month the Morrison government extended insolvent trading relief out to 2021 in a bid to prevent further job losses and avoid another hit to the economy.

Since then, the number of days businesses have taken to pay their bills has improved by 10 per cent.

However, tough decisions on viability are finally starting to be made, leading to the first monthly spike in national business administrations since June.

CreditorWatch Business Risk Review reports that the number of businesses entering some form of administration rose 11 per cent in September to 436. The number of business defaults increased by 23 per cent in the month, the first increase recorded since May.

The states with the biggest rise in administrations were Victoria, which recorded a jump of 23.8 per cent in September following a 49.3 per cent decrease in August, and Queensland, which recorded a 24.1 per cent increase in September after a drop of 25.4 in August.

NSW fared better, recording a 1.6 per cent decrease in business administrations, following a 34.3 per cent decrease in August.

CreditorWatch chief executive Patrick Coghlan said that while average payment times were down 10 per cent to 38 days, the backlog of company administrations was starting to make its way through the economy.

## **Accepting reality**

"Payment times are usually a leading indicator but we are now seeing the first part of a backlog of insolvencies starting to be processed," Mr Coghlan said.

"Seeing businesses enter into administration is never something you want to celebrate. However, September's increase in default and administration rates does indicate that some businesses which have been reliant on government support are starting to accept the reality of their situation and are taking steps to settle with their creditors.

"What we don't want to see is businesses that are doomed to fail continuing to operate and taking healthy companies down with them.

"The long-term trend is that zombie companies will continue to survive on government support, and so the next six months are crucial in determining what position we start our economic recovery from."

The Reserve Bank reported in its semi-annual Financial Stability Review last Friday that government supports, particularly temporary insolvency relief, had reduced the number of business failures by about 4600 so far and would rescue more than 10,000 firms in total.

However, last week's budget shifted away from supporting unviable firms with schemes such as the \$102 billion JobKeeper wage subsidy and instead offered tax relief for businesses that have a better prospect of surviving in the new COVID-19 economy.

Industry experts say thousands of small businesses could still fail because they are unlikely to be able to pay employee entitlements required under the Morrison government's proposed new insolvency restructuring laws.

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