

(creditor) watch

Emerging Economic Threats
in Construction



Patrick Coghlan, CEO, CreditorWatch



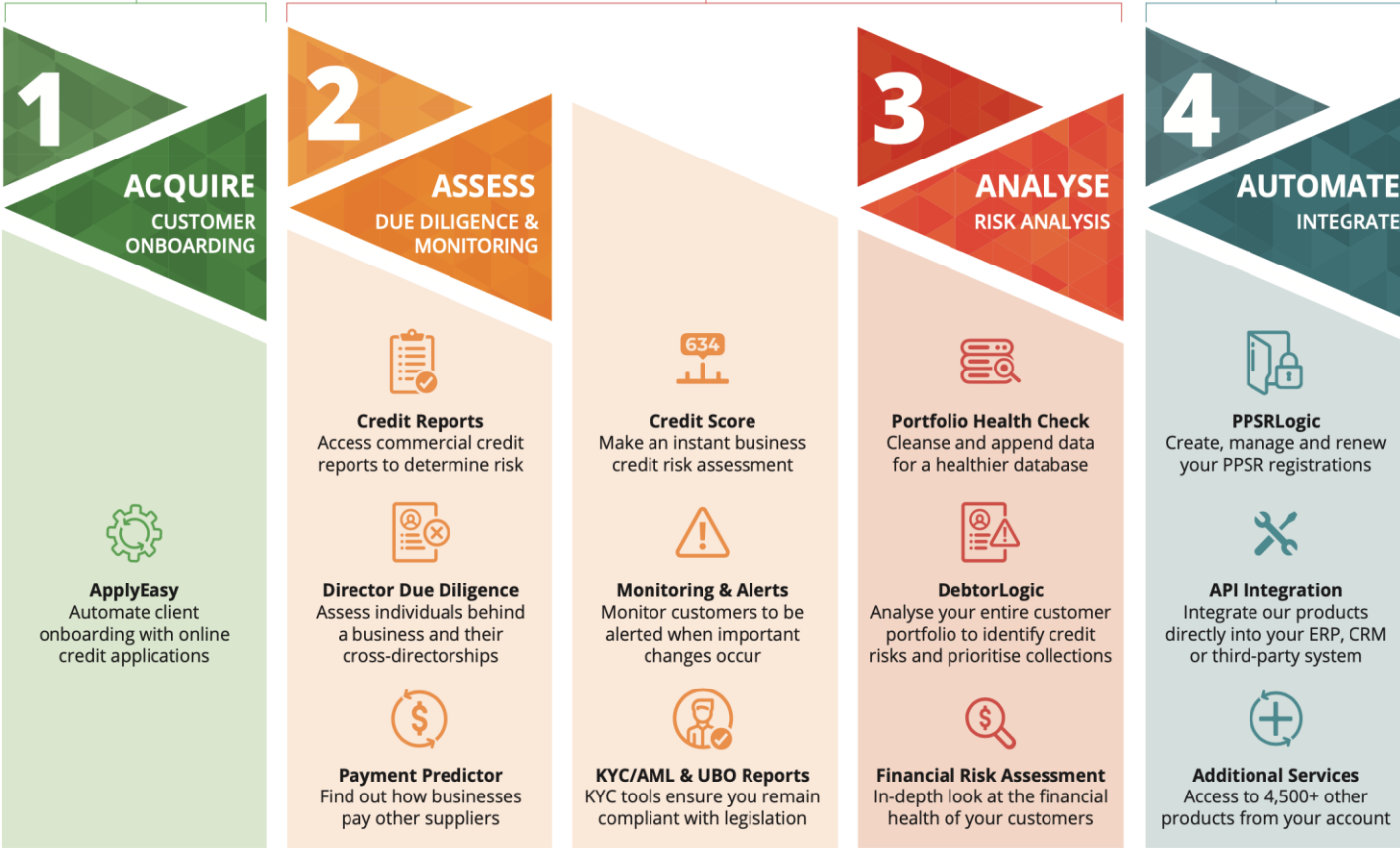
James O'Donnell, Managing Director,
Open Analytics

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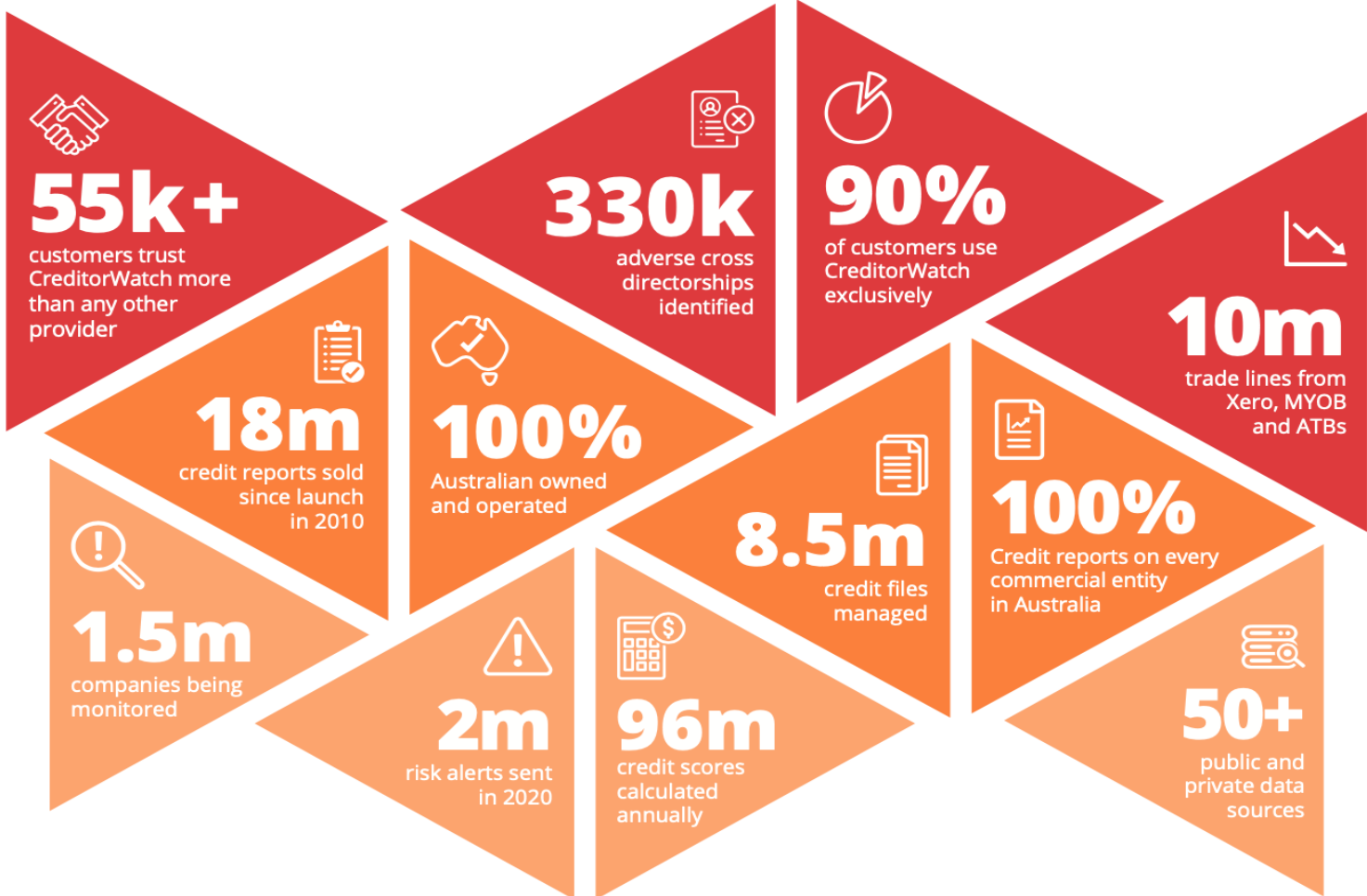


Our Key Products

CreditorWatch
bureau in Australia

Over
500

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Hi

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ATO Defaults – Live with CreditorWatch

Would you like to know if your customers have a large debt with the ATO?

CreditorWatch is currently the **only credit bureau** receiving this information.

Historically, businesses would take on customers with excessive tax debts but have no idea until the customer was wound up by the ATO.

For over 5 years, CreditorWatch has been lobbying and working with the ATO on getting business ATO Tax Defaults to be made public. Legislation was eventually passed in 2019, known as 'Disclosure of Business tax debts' (formerly 'Transparency of tax debt').

The ATO will register business tax debts under the following criteria where an entity with an ABN:

1. Has one or more tax debts and at least \$100,000 is overdue by more than 90 days
2. Is not engaging with the ATO to manage the tax debt
3. Doesn't have an active complaint with the Inspector-General of Taxation Ombudsman (IGTO)

Construction costs outpacing inflation

AND HAS BEEN FOR SOME TIME ...

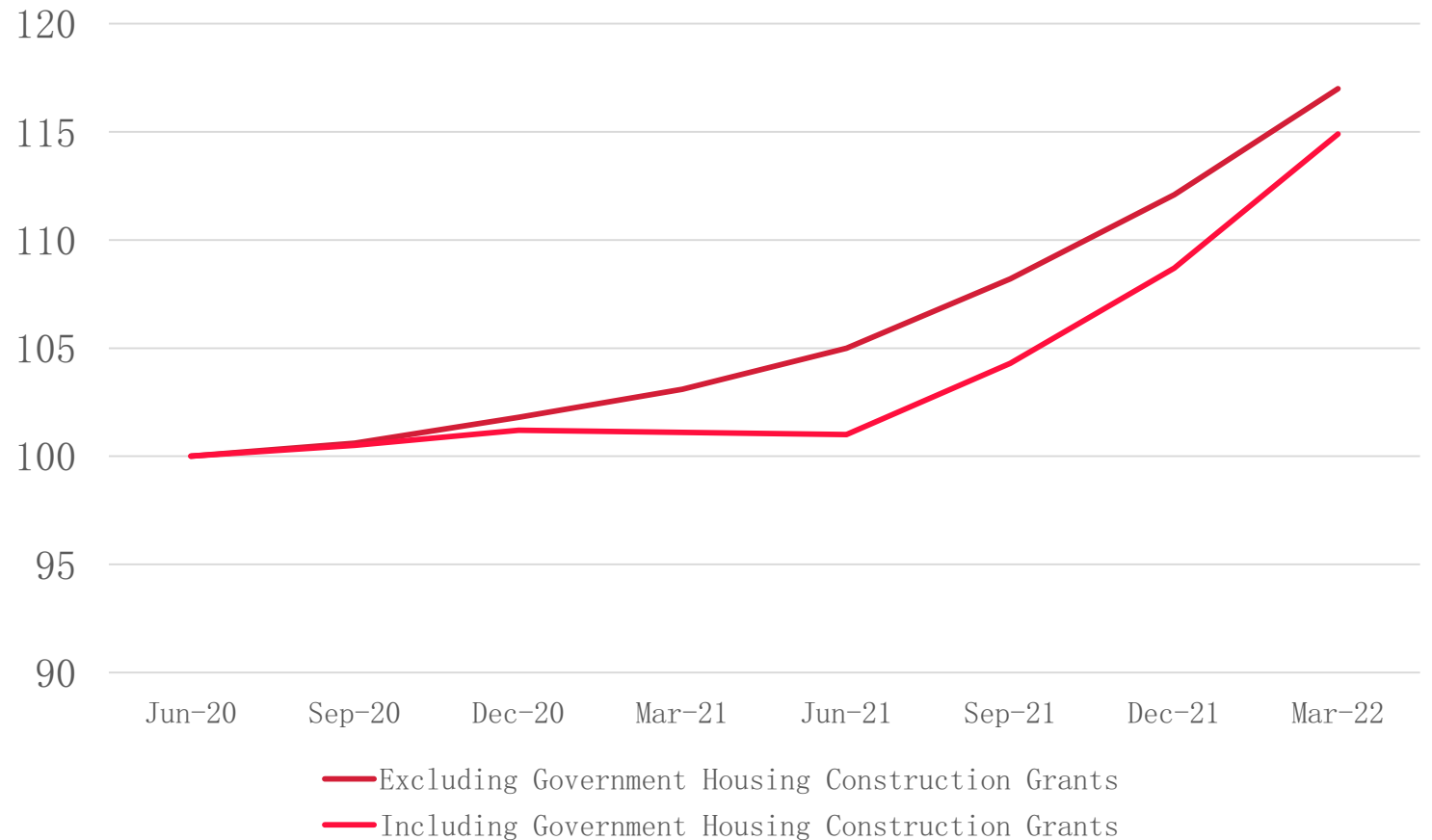
	Construction Cost change (%)	Inflation (%)	Construction Cost change <i>(f)</i> (%)	Inflation (%)
	<i>3 years to</i>	March 2019	March 2022	
Perth	1.4	3.1	18.8	6.7
Brisbane	10.5	5.2	6.8	4.0
Sydney	14.4	5.9	9.9	3.1
Melbourne	9.5	6.0	8.5	3.5
Adelaide	9.1	5.7	11.5	5.0
Canberra	9.3	6.6	10.7	4.9

Source: RLB Tender Price Index, ABS CPI March 2022

Housing construction Grants during Covid

KEPT A LID ON HOUSING INFLATION FOR A TIME

New dwelling purchase by owner-occupier



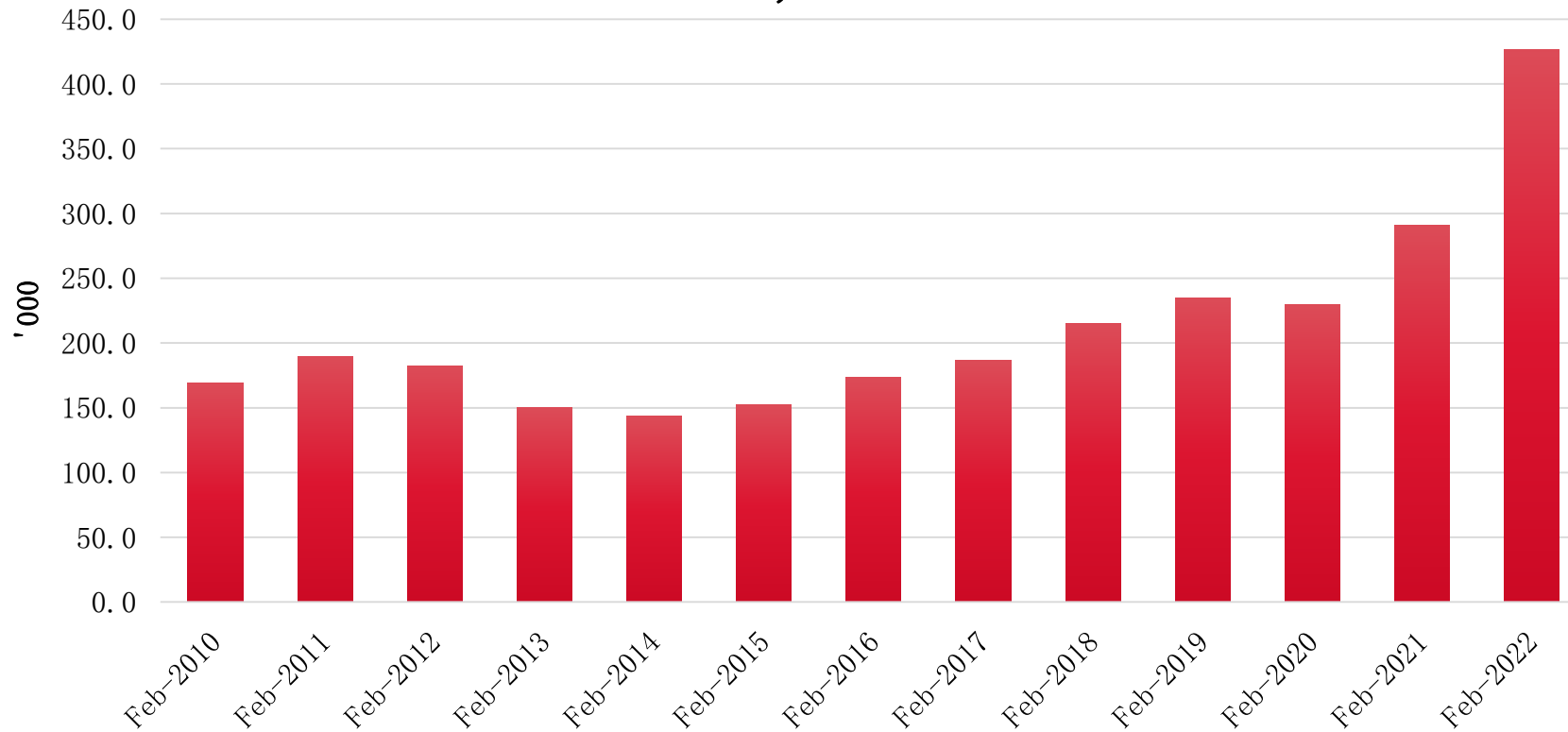
TAPERING OFF OF GOVT GRANTS CONTRIBUTING TO INFLATION

- The difference has to be made up by the purchaser
- May impact demand for new housing
- We may still have a few election promises coming our way!

Jobs available will add to price pressures

JOB VACANCIES AT RECORD HIGHS

Job vacancies, all industries



- Lots of talk of 'jobs, jobs, jobs' during the election, but a lack of jobs doesn't isn't problem right now
- The industry that needs the most workers – and by a long way – is healthcare and social assistance (15% of all job vacancies)
- The next most understaffed industry is accommodation & food services (11%)
- Wage decision from Fair Work Commission upcoming

source: ABS

Consumer Confidence, Reality Bites

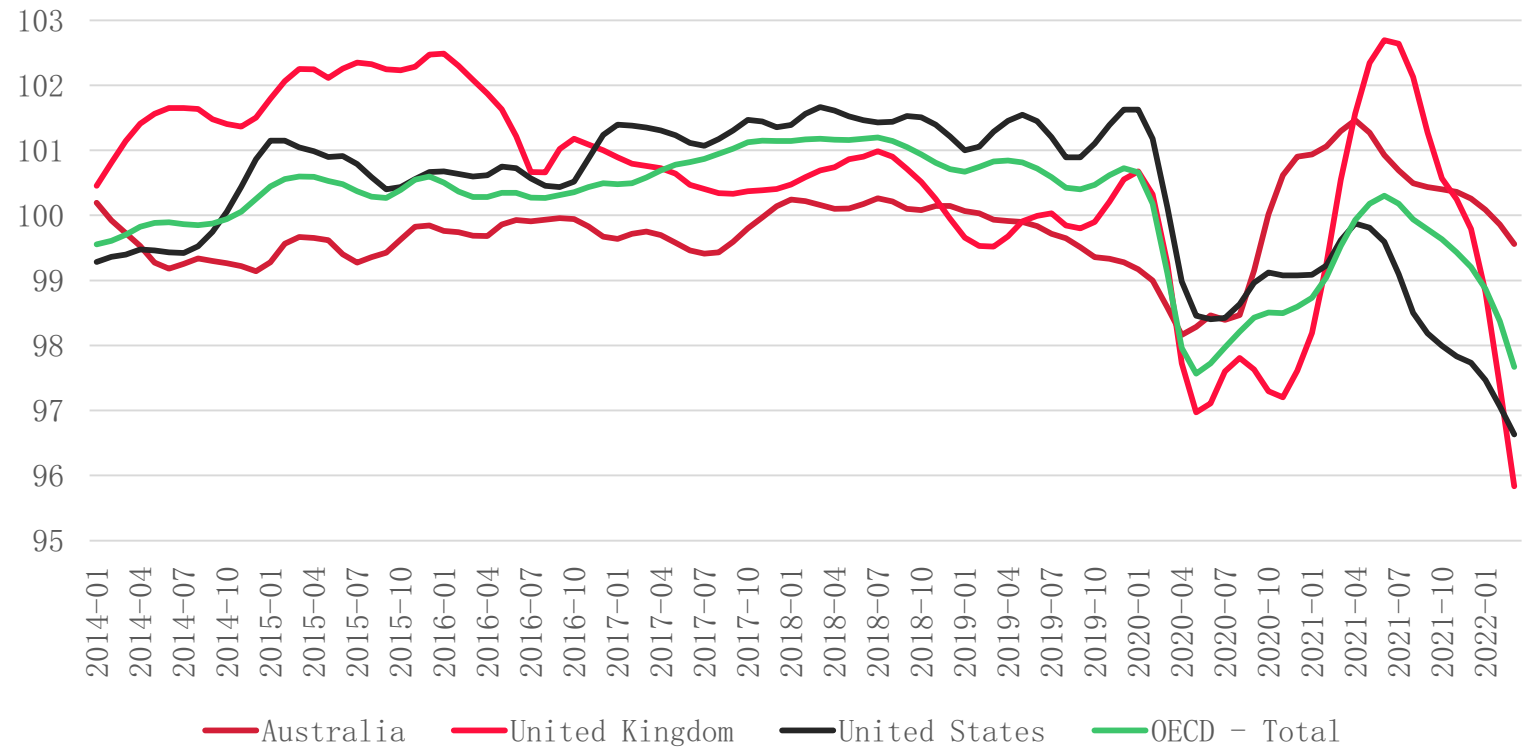
MAY HELP TO EASE INFLATION PRESSURES

Overseas data gives us a lead indicator of what's to come

- Consumer confidence almost a mirror to inflation
- Add a few cash rate increases, and it looks set to get worse
- These are 'unprecedented' times for many young adults

Many wage earners have never experienced an inflationary environment. Will be quite the shock.

Consumer Confidence Index

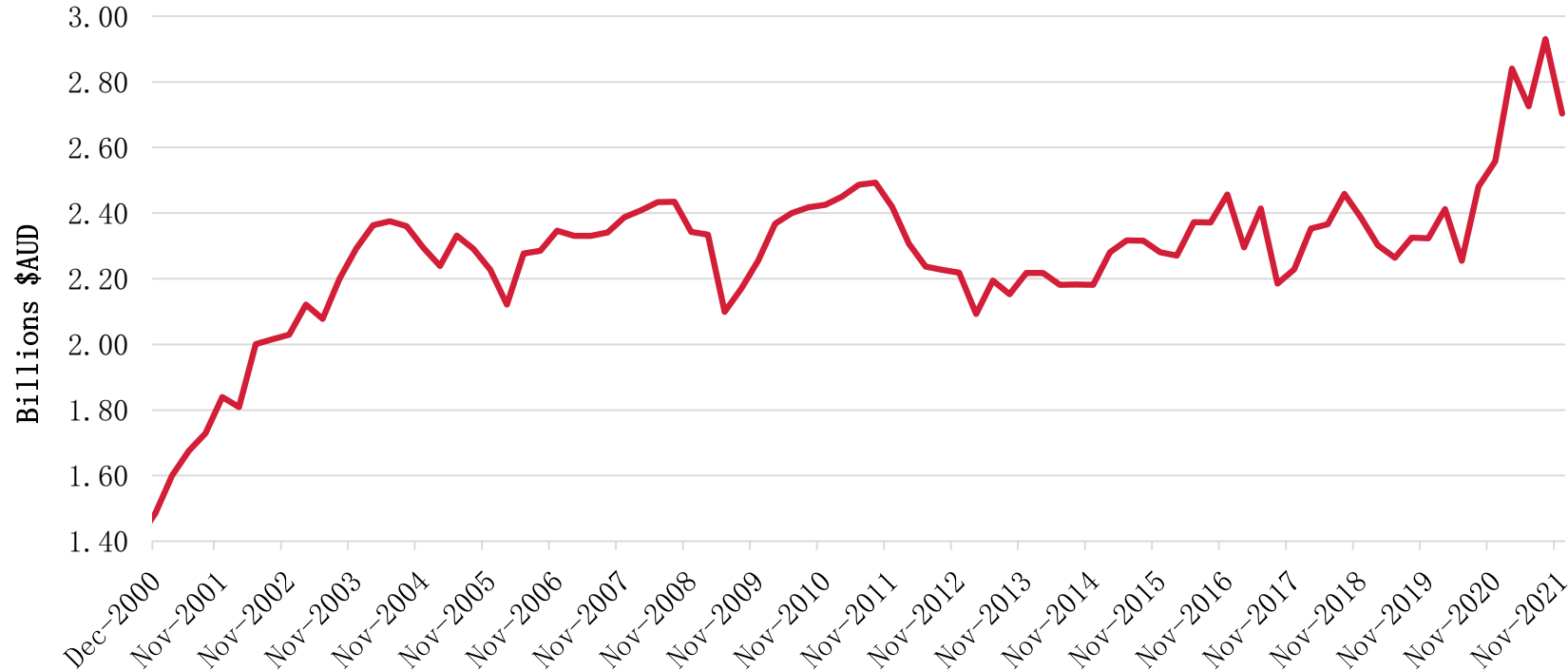


source: OECD

Renovation boom looks to have peaked

MAY TAKE SOME PRESSURE OFF PRICE RISES

Value of Residential work done, Alterations and additions to residential buildings



- Renovation work increased by 27% from pre-Covid levels
- Has tapered off
- Extreme price rises in the industry may moderate if demand gets hit by rising prices and interest rates, as well as lack of labour to do the work

source: ABS

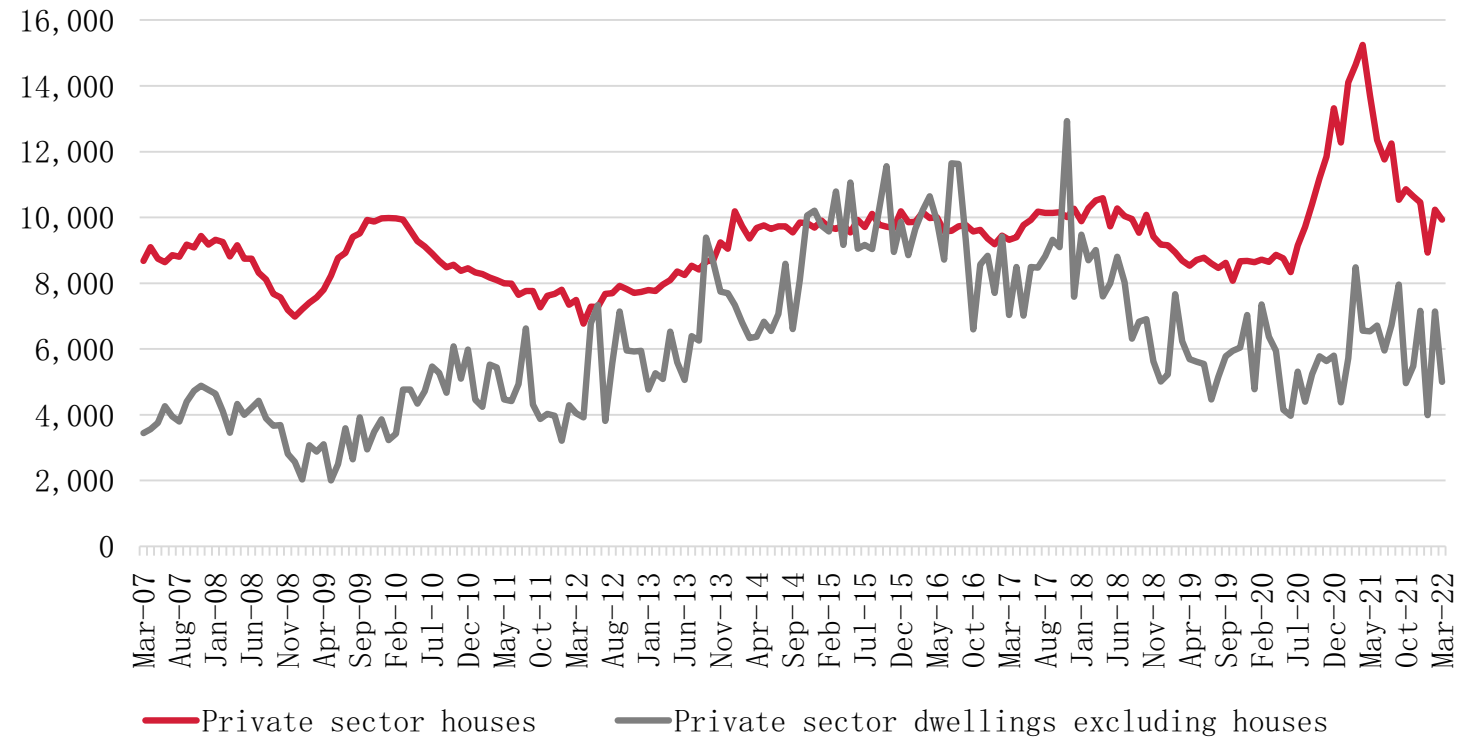
Building approvals also falling

WILL FURTHER EASE DEMAND PRESSURE

Total dwelling units approved are down by over 35%

- Fiscal policy could continue to add fuel to the pricing fire
- Both major parties making large promises during the election

Dwelling approvals, by building type, seasonally adjusted



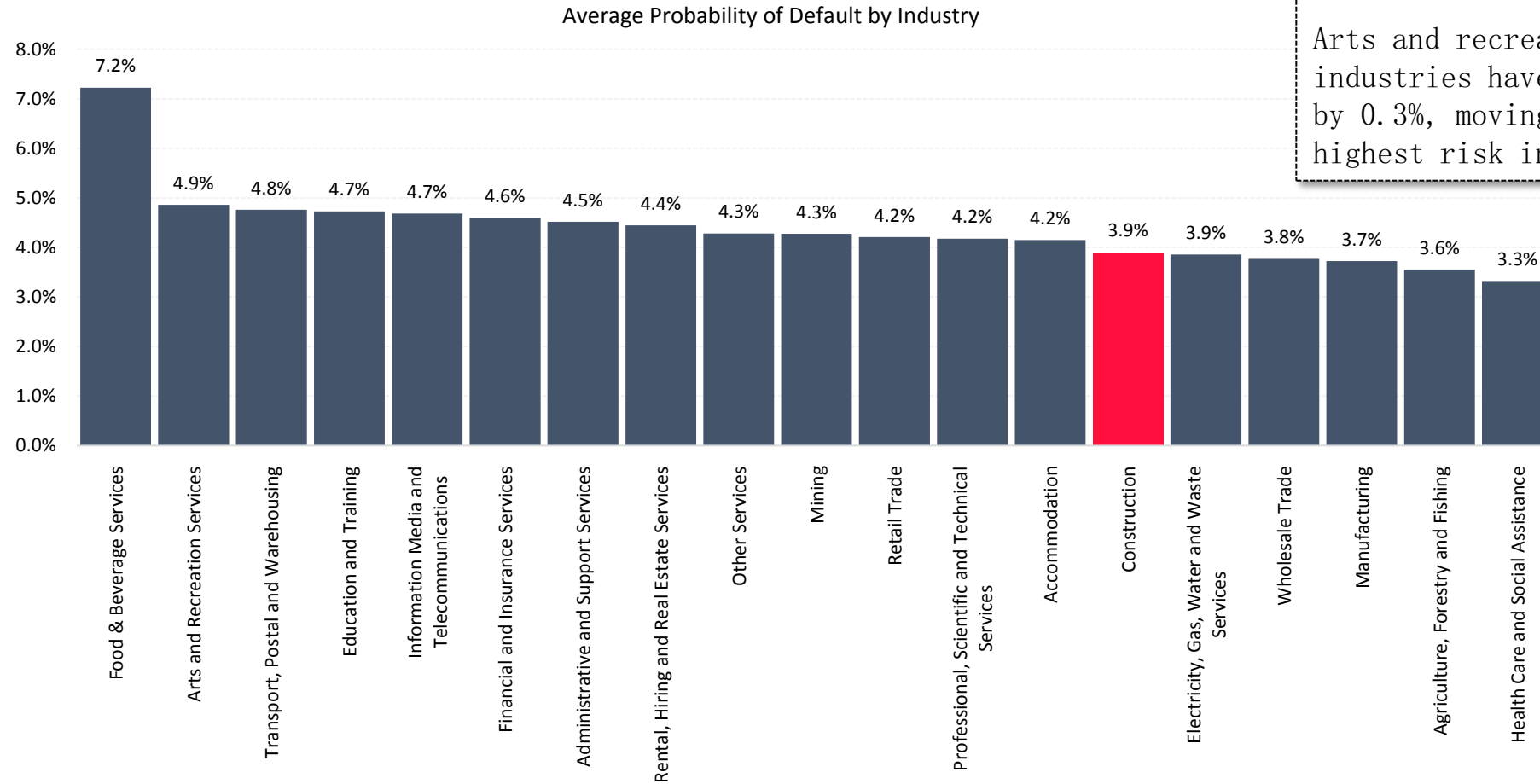
source: ABS

Probability of default – by industry

MARCH 2022

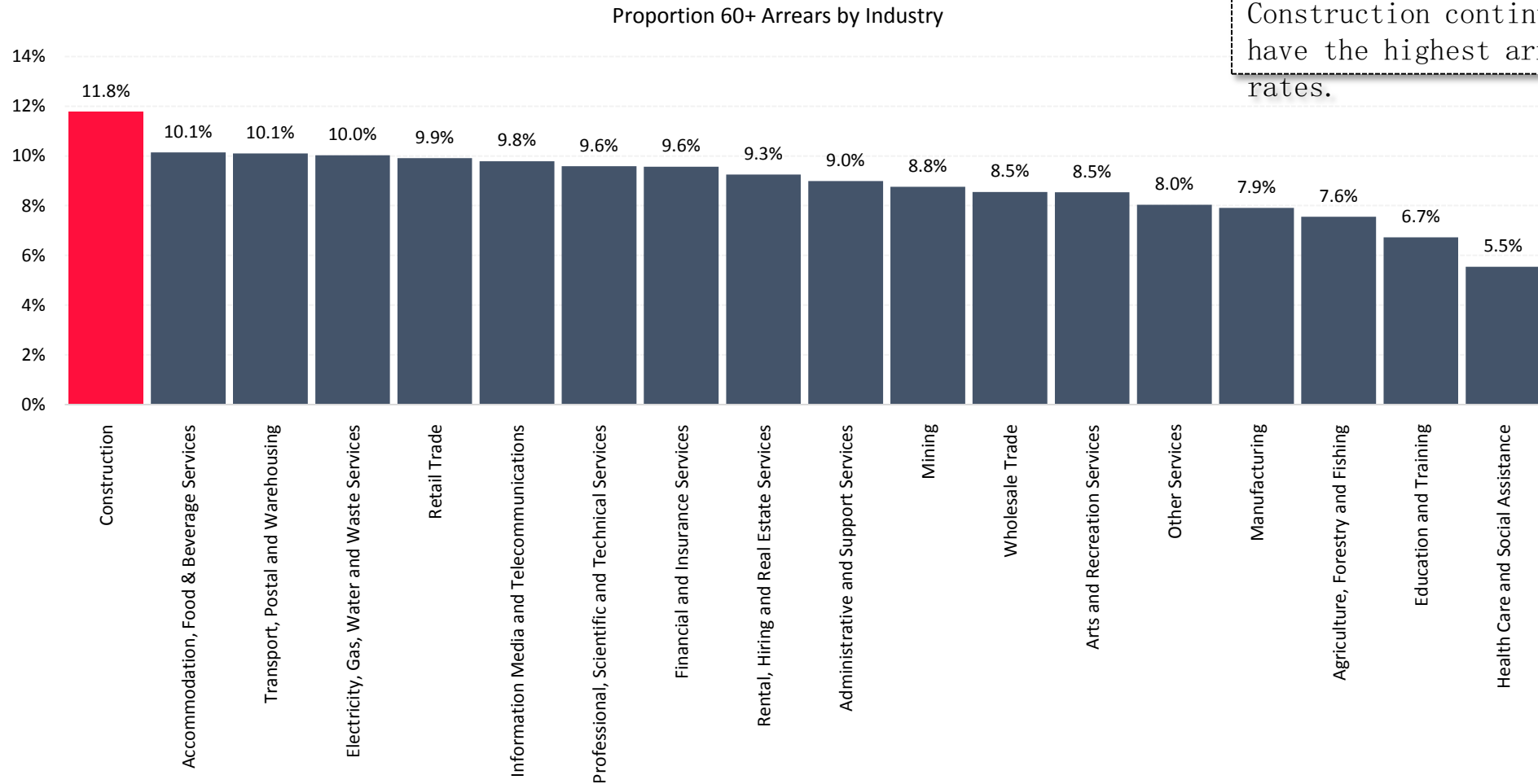
Food and beverage services industry has deteriorated significantly from 6.7 to 7.2%.

Arts and recreation and transport industries have also deteriorated by 0.3%, moving into 2nd and 3rd highest risk industry ranking.



Payment arrears – by industry

MARCH 2022



Construction continues to have the highest arrears rates.

Data Sources:

- *CreditorWatch payment arrears data, proportion 60 days or more arrears by Industry*

Best and worst regions

MARCH 2022

- = Better than Average (BRI > 50)
- = Increased Risk (BRI 20 to 35)
- = Highest Risk (BRI < 20)

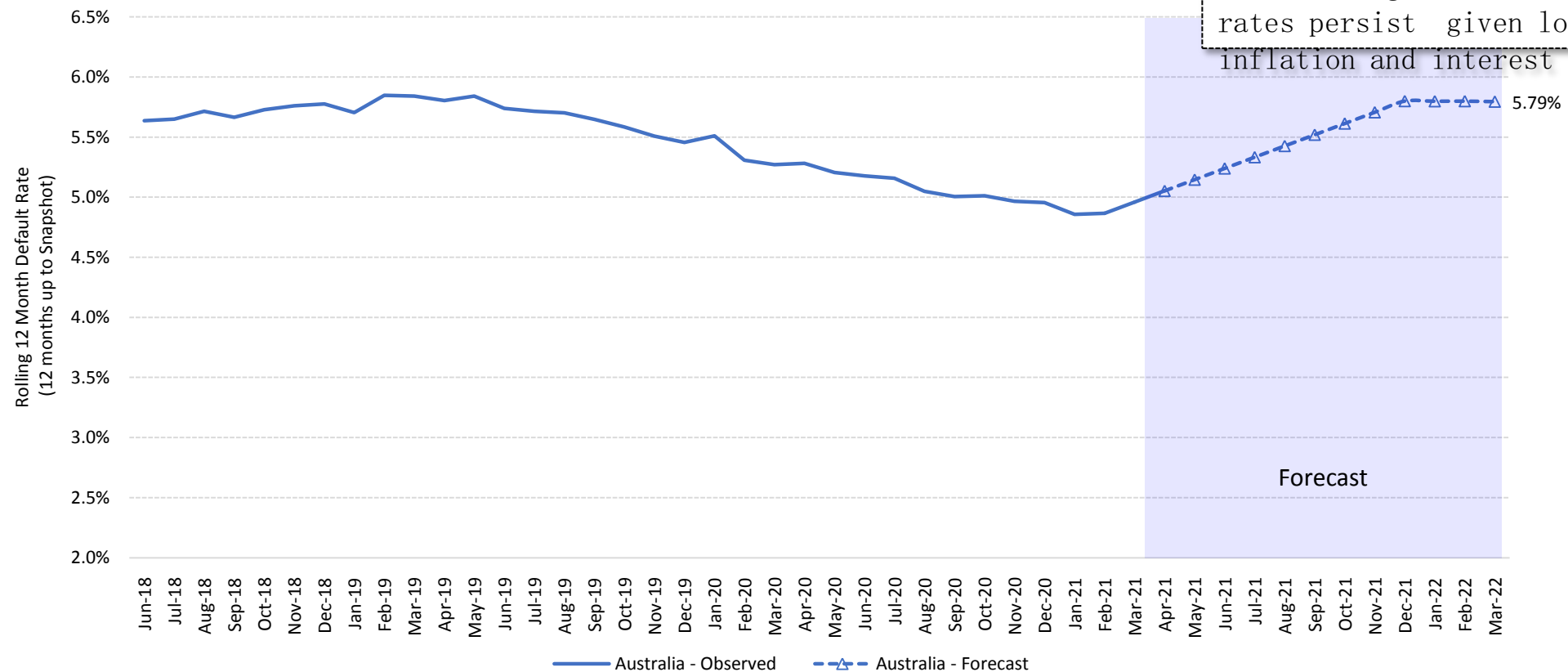
Region	State	Default Rate Last 12 Month	Default Rate Next 12 Months	Projected Change	Index(t)
Wheat Belt - South	WA	2.45%	3.48%	1.03%	99.7
Glenelg - Southern Grampians	VIC	4.67%	3.56%	-1.11%	99.4
Mid North	SA	4.55%	3.67%	-0.88%	99.1
Murray River - Swan Hill	VIC	2.56%	3.70%	1.14%	98.8
Esperance	WA	2.87%	3.71%	0.84%	98.5
Grampians	VIC	2.82%	3.72%	0.90%	98.2
Outback - South	QLD	4.29%	3.72%	-0.57%	97.9
Limestone Coast	SA	3.01%	3.80%	0.79%	97.6
Lachlan Valley	NSW	3.74%	3.84%	0.10%	97.3
Broken Hill and Far West	NSW	1.42%	3.84%	2.42%	97.0
Adelaide CBD	SA	3.82%	4.99%	1.18%	66.6
Perth CBD	WA	4.57%	5.33%	0.76%	52.4
Sydney CBD	NSW	5.28%	6.26%	0.98%	25.9
Melbourne CBD	VIC	5.02%	6.32%	1.30%	24.4
Brisbane CBD	QLD	5.06%	6.42%	1.36%	20.2
Bankstown	NSW	6.49%	7.36%	0.87%	2.7
Jimboomba	QLD	6.49%	7.40%	0.91%	2.4
Ormeau - Oxenford	QLD	6.33%	7.45%	1.12%	2.1
Springfield - Redbank	QLD	5.91%	7.46%	1.55%	1.8
Coolangatta	QLD	7.98%	7.47%	-0.52%	1.5
Surfers Paradise	QLD	5.65%	7.47%	1.83%	1.2
Canterbury	NSW	6.70%	7.57%	0.87%	0.9
Gold Coast - North	QLD	6.77%	7.67%	0.90%	0.6
Merrylands - Guildford	NSW	7.06%	7.80%	0.74%	0.3
Bringelly - Green Valley	NSW	7.25%	7.83%	0.58%	0.0

Data Sources:

- *CreditorWatch Business Risk Index*

Default prediction – small business

MARCH 2022



Business default rates are rising on average and we expect to peak at around 5.8%.

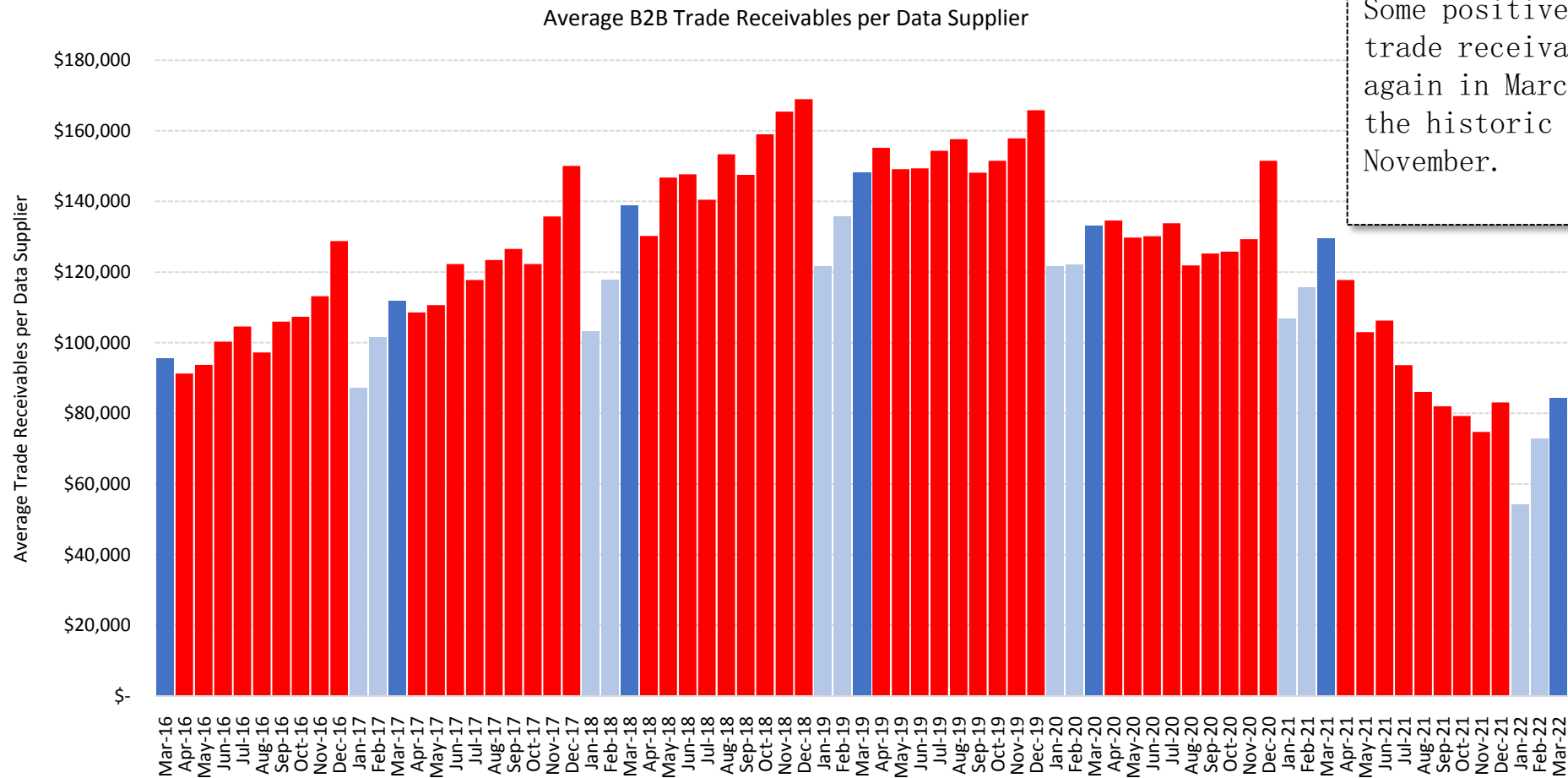
Risks of higher than forecast default rates persist given looming impacts of inflation and interest rate rises.

Data Sources:

- CreditorWatch Business Risk Index

Trade Receivables

MARCH 2022



Some positive signs as B2B trade receivables increased again in March, up 55% on the historic low in November.

Data Sources:

- *CreditorWatch Business Risk Index*

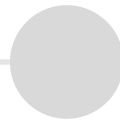
The next few years will expose **already flailing businesses**

THE ERA OF GOVT AND RBA SUPPORT IS OVER



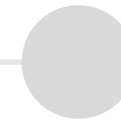
Low margin businesses on fixed contracts will be in trouble

Already hearing reports of smaller contractors pulling out of the industry, unable to operate in these conditions



What about a house price correction?

Long term, housing always a good investment. But those using house as a collateral for business loans may find their LVRs stretched



China

We have no insight in to what China's long term plan to deal with Covid is. We shouldn't assume that supply chains will smooth out any time soon. It's not just product that is made there, but also shipping containers, which are stuck in Chinese ports

Thank You

Contact Us

1300 501 312

support@creditorwatch.com.au

creditorwatch.com.au

