

November 2024

01. Research Questions

Amid increasing media focus on record business insolvencies in recent months, many have attributed this to slowing economic conditions while some have considered this the post-pandemic catch-up effect. This research note sets out to explore the following questions to understand recent business dynamics in NSW:

1. Has the business sector shrunk in numbers as a result of recent record-high insolvencies?
2. What has been the appeal of NSW as a state for business start-up?
3. How has NSW compared to other states and territories in terms of running a business?
4. How has the number of business insolvencies in NSW compared to other states and territories?
5. Where were the recent business insolvencies in NSW, and what were the main reasons for business failure?

Data from the Australian Bureau of Statistics (ABS) and Australian Securities and Investments Commission (ASIC) are examined to answer the above questions.

Authors

Dr Sherman Chan
Chief Economist

Peter Jeffries
Economist

Media Contact

Ben Pike
Head of Marketing & Media
Ben.Pike@businessnsw.com

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Key Findings

- Despite rising insolvencies, the NSW business sector has been growing continuously, maintaining the highest share of business count (34% at the end of FY23-24) compared to other states and territories.
- NSW has also been the number 1 state with business start-ups. The 101,671 businesses set up in NSW during FY23-24 accounted for 34% of the total business births across Australia.
- However, NSW has had the highest number of net business movement to other states and territories, suggesting the relative difficulty to operate or expand in NSW compared to other parts of Australia.
- NSW has had a disproportionately high insolvency count in recent years. For FY23-24, the insolvency rate of 0.5% (the number of insolvencies as a proportion of the business count at the start of the year) was above the national average. Business insolvencies in NSW accounted for 42% of the national total in FY23-24. To account for potential 'post-pandemic catch-up effect' by comparing the average annual business insolvencies of the five years since the pandemic to the pre-pandemic (FY18-19) level, NSW was the only state to have experienced an increase in business insolvencies.
- Considering the industry breakdown, the Construction sector accounted for 30% of total insolvencies in NSW during FY23-24, followed by the Accommodation and Food Services sector (14%). By region, metropolitan areas (especially Eastern and Western Sydney) had the highest insolvency rates in FY23-24. In terms of the nominated causes of business failure, 'inadequate cash flow' was the most common reason.

Implications

NSW is the state with the largest business sector and also the most popular state for business start-ups. Although this may be partly attributed to the size of the NSW population (with NSW being the most populous state), the appeal of starting a business in NSW is still evident. However, the statistics examined in this research note suggest that it may be more difficult for businesses to survive and thrive in NSW, resulting in a net loss of businesses to other states and territories year after year. To improve trading conditions and business viability for businesses in NSW, the following two areas warrant special attention (drawing on our Business Conditions Survey from 2024 Q3):

- the cost of doing business has been the most common barrier to business expansion, affecting 67% of businesses in NSW
- 12% of businesses in NSW would be unable to raise emergency finance equivalent to one-month's operating expenses, which is a risk in cash flow management.

02. Business counts by state

Across all states and territories, business counts continuously increased throughout the pandemic. In NSW, the business count has increased by 123,714 from FY18-19 (the last financial year unaffected by the pandemic) to FY23-24. Thanks to the steady growth in business count, NSW has consistently maintained the largest share of businesses in Australia, accounting for 34% of the total in FY23-24. Victoria came in second – but by no means a close second – with a share of 28%.

Table 1: Business counts at end of financial year

	FY18-19		FY19-20		FY20-21		FY21-22		FY22-23		FY23-24	
	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total
New South Wales	772,771	34%	786,403	34%	817,648	34%	854,527	34%	870,916	34%	896,485	34%
Victoria	611,754	27%	630,888	27%	655,395	27%	713,097	28%	719,233	28%	737,874	28%
Queensland	436,848	19%	443,729	19%	460,669	19%	482,215	19%	497,002	19%	510,417	19%
South Australia	143,045	6%	145,319	6%	149,404	6%	156,099	6%	159,553	6%	164,444	6%
Western Australia	221,765	10%	222,836	10%	230,220	10%	239,815	9%	246,661	10%	255,379	10%
Tasmania	37,795	2%	39,265	2%	40,718	2%	42,408	2%	43,415	2%	44,025	2%
Northern Territory	14,243	1%	14,540	1%	14,947	1%	15,729	1%	16,107	1%	16,380	1%
Australian Capital Territory	28,968	1%	29,767	1%	31,499	1%	33,808	1%	35,098	1%	36,315	1%
Other Territories/Currently Unknown	1,809	0%	1,701	0%	1,754	0%	2,026	0%	1,888	0%	1,679	0%
Australia	2,268,998	100%	2,314,448	100%	2,402,254	100%	2,539,724	100%	2,589,873	100%	2,662,998	100%

Source: ABS Counts of Australian Businesses, including Entries and Exits (2020-24, 2019-23, 2018-22)

03. Business counts by employment size

97% of businesses in NSW were classified as small business (defined as having up to 19 staff) at the end of FY23-24 (Table 2a). At a national level (note: state breakdown is not available), there was a net movement of 42,795 (or 6%) of micro-businesses (defined as having 1-4 staff) into other employment categories in FY23-24 (Table 2b). The majority shrank into non-employing, potentially reflecting the difficulty of micro-businesses to grow.

Table 2a: NSW business counts by employment size

	June 18		June 19		June 20		June 21		June 22		June 23	
	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total
Non-employing	466,745	60%	486,810	60%	470,976	60%	457,443	56%	486,416	57%	509,491	59%
1-19	297,041	38%	299,035	37%	295,567	38%	340,514	42%	347,593	41%	339,577	39%
20-199	17,737	2%	18,506	2%	18,129	2%	18,068	2%	18,880	2%	20,085	2%
200+	1,533	0%	1,647	0%	1,643	0%	1,592	0%	1,642	0%	1,770	0%
Total	783,066	100%	805,943	100%	786,290	100%	817,646	100%	854,529	100%	870,912	100%

Source: ABS Counts of Australian Businesses, including Entries and Exits (2020-24, 2019-23, 2018-22)

Table 2b: National net movement of surviving businesses by employment size

	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
Non-employing	27,372	23,788	20,286	24,516	15,617	14,832	14,402	14,171	13,949	14,953	26,805	-58,209	14,978	35,509	33,783
1-4	-21,857	-29,103	-29,766	-27,882	-19,482	-14,406	-18,726	-23,133	-24,405	-24,876	-31,308	50,336	-27,312	-50,391	-42,795
5-19	12,377	4,192	7,543	2,217	2,727	-732	3,349	6,693	6,968	7,044	4,312	7,504	8,501	8,513	4,378
20-199	-16,927	999	1,815	1,083	1,062	127	848	2,090	3,271	2,665	37	292	3,661	5,946	4,269
200+	-965	124	122	66	76	179	127	179	217	214	154	77	172	423	365
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: ABS Counts of Australian Businesses, including Entries and Exits (2020-24, 2019-23, 2018-22, 2017-21, 2016-20, 2015-19, 2014-18, 2013-17, 2012-16, 2011-15, 2010-14, 2009-13)

04. Business births by state

NSW has been the most popular state to start a business, accounting for 34% of total new businesses in FY23-24. This is followed by Victoria (28%) and Queensland (19%).

Table 3: Business entries (births)

	FY17-18		FY18-19		FY19-20		FY20-21		FY21-22		FY22-23		FY23-24	
	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total
New South Wales	89,649	36%	88,094	35%	83,229	35%	92,324	35%	102,105	33%	98,068	34%	101,671	34%
Victoria	71,871	29%	71,701	29%	69,929	29%	72,162	28%	99,932	32%	80,461	28%	83,652	28%
Queensland	46,856	19%	45,837	18%	44,096	18%	49,713	19%	56,695	18%	56,135	19%	55,999	19%
South Australia	13,520	5%	13,731	5%	12,833	5%	13,889	5%	16,471	5%	16,312	6%	17,292	6%
Western Australia	21,848	9%	21,930	9%	20,095	8%	23,382	9%	26,815	9%	26,421	9%	28,683	10%
Tasmania	2,985	1%	3,337	1%	3,587	2%	3,758	1%	4,328	1%	4,103	1%	3,963	1%
Northern Territory	1,221	0%	1,435	1%	1,462	1%	1,598	1%	1,900	1%	1,932	1%	1,916	1%
Australian Capital Territory	3,616	1%	3,931	2%	3,632	2%	4,182	2%	4,868	2%	4,546	2%	4,661	2%
Other Territories/ Currently Unknown	180	0%	227	0%	193	0%	215	0%	215	0%	181	0%	172	0%
Australia	251,746	100%	250,223	100%	239,056	100%	261,223	100%	313,329	100%	288,159	100%	298,009	100%

Source: ABS Counts of Australian Businesses, including Entries and Exits (2020-24, 2019-23, 2018-22, 2017-21)

05. Interstate business movements

Despite being a popular state to start a business, NSW has not been a leader in keeping businesses within the state. In FY23-24, there was a net loss of 908 existing businesses to other states (following a net loss of 1,127 the year prior). Many of these businesses are likely to have moved to Queensland, which recorded a net increase of 1,380 existing businesses during the same year.

Table 4: Net movement of surviving businesses by state

	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
New South Wales	-88	-216	-108	-590	-716	-451	-933	-1,127	-908
Victoria	72	198	75	192	-81	-726	-1,012	-1,345	-357
Queensland	490	417	519	626	661	1,030	1,456	1,782	1,380
South Australia	-132	-52	-130	-111	69	102	223	304	34
Western Australia	-314	-340	-360	-315	-291	-174	-80	429	468
Tasmania	91	66	117	259	446	191	148	158	-199
Northern Territory	-80	-29	-54	-72	-69	-58	-62	-106	-123
Australian Capital Territory	-38	-52	-80	15	34	34	156	-69	-148
Other Territories/Currently Unknown	-1	8	21	-4	-53	52	104	-26	-147
Australia	0	0	0	0	0	0	0	0	0

Source: ABS Counts of Australian Businesses, including Entries and Exits (2020-24, 2019-23, 2018-22, 2017-21, 2016-20, 2015-19)

06. Business insolvencies by state

Business insolvency is a greater concern in NSW than in other states and territories, again highlighting the challenge of maintaining a business in NSW.

- In FY23-24, NSW accounted for 42% of all business insolvencies in Australia (Table 5a).
- NSW's business insolvency rate (0.5%) was the second highest across all states and territories, just behind ACT (0.6%) (Table 5a).
- Taking the average number of business insolvencies for the five years since the pandemic (i.e. from FY19-20 to FY23-24) and comparing it to the pre-pandemic level (FY18-19), NSW is the only state to have recorded an increase (2.8%) (Table 5b).

Table 5a: State insolvencies

	FY18-19			FY19-20			FY20-21			FY21-22			FY22-23			FY23-24		
	Count	% of total	Rate	Count	% of total	Rate	Count	% of total	Rate	Count	% of total	Rate	Count	% of total	Rate	Count	% of total	Rate
New South Wales	2,729	34%	0.4%	2,616	36%	0.3%	1,586	37%	0.2%	1,903	39%	0.2%	3,282	41%	0.4%	4,634	42%	0.5%
Victoria	2,281	28%	0.4%	2,235	30%	0.4%	1,325	31%	0.2%	1,307	27%	0.2%	2,144	27%	0.3%	2,863	26%	0.4%
Queensland	1,643	20%	0.4%	1,402	19%	0.3%	727	17%	0.2%	952	19%	0.2%	1,457	18%	0.3%	2,036	18%	0.4%
South Australia	347	4%	0.2%	281	4%	0.2%	139	3%	0.1%	220	4%	0.1%	304	4%	0.2%	455	4%	0.3%
Western Australia	857	11%	0.4%	632	9%	0.3%	338	8%	0.2%	372	8%	0.2%	556	7%	0.2%	733	7%	0.3%
Tasmania	60	1%	0.2%	26	0%	0.1%	13	0%	0.0%	39	1%	0.1%	38	0%	0.1%	94	1%	0.2%
Northern Territory	46	1%	0.3%	44	1%	0.3%	17	0%	0.1%	46	1%	0.3%	40	1%	0.3%	43	0%	0.3%
Australian Capital Territory	142	2%	0.5%	126	2%	0.4%	90	2%	0.3%	73	1%	0.2%	121	2%	0.4%	194	2%	0.6%
Australia	8,105	100%	0.4%	7,362	100%	0.3%	4,235	100%	0.2%	4,912	100%	0.2%	7,942	100%	0.3%	11,052	100%	0.4%

Source: ASIC, ABS Counts of Australian Businesses, including Entries and Exits (2020-24, 2019-23, 2018-22)

Table 5b: State insolvency average over the last 5 years

	FY18-19		Average of FY19-20 to FY23-24		(pre and post pandemic)
	Count	% of total	Count	% of total	% change
New South Wales	2,729	34%	2,804	39%	2.8%
Victoria	2,281	28%	1,975	28%	-13.4%
Queensland	1,643	20%	1,315	19%	-20.0%
Western Australia	857	11%	526	7%	-38.6%
South Australia	347	4%	280	4%	-19.4%
Australian Capital Territory	142	2%	121	2%	-14.9%
Tasmania	60	1%	42	1%	-30.0%
Northern Territory	46	1%	38	1%	-17.4%
Australia	8,105	100%	7,101	100%	-12.4%

Source: ASIC

07. Business insolvencies by industry

In FY23-24, 30% of business insolvencies in NSW were attributed to the Construction industry. This is followed by the Accommodation and Food Services industry, which accounted for 14% of business insolvencies in NSW.

Table 6: NSW business insolvencies by industry

	FY21-22		FY22-23		FY23-24	
	Count	% of total	Count	% of total	Count	% of total
Accommodation and Food Services	280	15%	476	15%	637	14%
Administrative and Support Services	93	5%	168	5%	250	5%
Agriculture, Forestry and Fishing	12	1%	19	1%	68	1%
Arts and Recreation Services	27	1%	67	2%	83	2%
Construction	513	27%	981	30%	1,409	30%
Education and Training	14	1%	30	1%	35	1%
Electricity, Gas, Water and Waste Services	34	2%	44	1%	54	1%
Financial and Insurance Services	74	4%	145	4%	144	3%
Health Care and Social Assistance	30	2%	66	2%	115	2%
Information Media and Telecommunications	57	3%	97	3%	132	3%
Manufacturing	69	4%	181	6%	193	4%
Mining	18	1%	18	1%	21	0%
Other Services	310	16%	251	8%	410	9%
Professional, Scientific and Technical Services	87	5%	170	5%	275	6%
Public Administration and Safety	13	1%	20	1%	42	1%
Rental, Hiring and Real Estate Services	50	3%	120	4%	172	4%
Retail Trade	112	6%	220	7%	286	6%
Transport, Postal and Warehousing	67	4%	147	4%	201	4%
Wholesale Trade	41	2%	55	2%	90	2%
Unknown	2	0%	7	0%	18	0%
Total	1,903	100%	3,282	100%	4,635	100%

Source: ASIC

08. Business insolvencies by NSW region

Geographically, about one in two cases of business insolvency in FY23-24 was in Eastern Sydney and a further 29.3% were in Western Sydney. As a proportion of regional business counts, Eastern Sydney, Western Sydney and Central Coast were the three regions that recorded the highest insolvency rate of 0.6% in FY23-24. The second highest insolvency rate of 0.5% was recorded in Newcastle and Lake Macquarie and the Illawarra. These findings suggest that business conditions were likely more difficult in metropolitan areas.

Table 7: NSW Regional Insolvencies

	FY21-22			FY22-23			FY23-24		
	Count	% of total	Rate	Count	% of total	Rate	Count	% of total	Rate
Capital Region	22	1.2%	0.1%	42	1.3%	0.2%	69	1.5%	0.3%
Central Coast	57	3.0%	0.2%	181	5.5%	0.7%	154	3.3%	0.6%
Central West	16	0.8%	0.1%	32	1.0%	0.1%	52	1.1%	0.2%
Coffs Harbour - Grafton	9	0.5%	0.1%	20	0.6%	0.2%	28	0.6%	0.2%
Eastern Sydney	1,016	53.4%	0.3%	1,565	47.7%	0.4%	2,276	49.1%	0.6%
Far West and Orana	4	0.2%	0.0%	14	0.4%	0.1%	25	0.5%	0.2%
Hunter Valley exc Newcastle	37	1.9%	0.2%	47	1.4%	0.2%	93	2.0%	0.4%
Illawarra	33	1.7%	0.2%	75	2.3%	0.4%	108	2.3%	0.5%
Mid North Coast	15	0.8%	0.1%	24	0.7%	0.1%	53	1.1%	0.3%
Murray	13	0.7%	0.1%	10	0.3%	0.1%	28	0.6%	0.2%
New England and North West	10	0.5%	0.0%	22	0.7%	0.1%	33	0.7%	0.2%
Newcastle and Lake Macquarie	56	2.9%	0.2%	102	3.1%	0.3%	150	3.2%	0.5%
Richmond - Tweed	31	1.6%	0.1%	63	1.9%	0.2%	85	1.8%	0.3%
Riverina	13	0.7%	0.1%	36	1.1%	0.2%	56	1.2%	0.3%
Southern Highlands and Shoalhaven	32	1.7%	0.2%	41	1.2%	0.3%	65	1.4%	0.4%
Western Sydney	536	28.2%	0.3%	1,007	30.7%	0.5%	1,357	29.3%	0.6%
Unknown	3	0.2%	NA	1	0.0%	NA	3	0.1%	NA
NSW	1,903	100.0%	0.2%	3,282	100.0%	0.4%	4,635	100.0%	0.5%

Source: ASIC, ABS Counts of Australian Businesses, including Entries and Exits (2020-24)

09. NSW business counts by region

Table 8: NSW Business counts by region

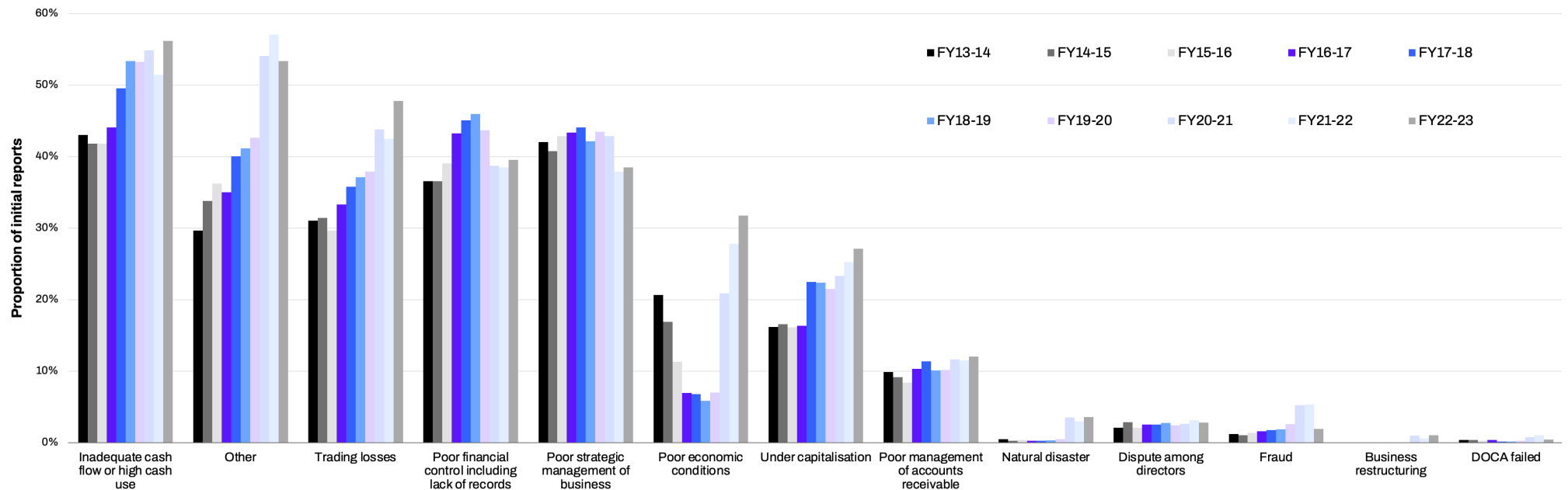
	June 2021		June 2022		June 2023	
	Count	% of total	Count	% of total	Count	% of total
Capital Region	22,075	3%	23,282	3%	23,817	3%
Central Coast	24,488	3%	25,667	3%	26,308	3%
Central West	20,672	3%	21,817	3%	22,217	3%
Coffs Harbour - Grafton	11,420	1%	11,979	1%	12,195	1%
Eastern Sydney	355,028	44%	366,070	43%	369,218	43%
Far West and Orana	11,868	1%	12,421	1%	12,631	1%
Hunter Valley exc Newcastle	19,218	2%	20,313	2%	20,889	2%
Illawarra	19,794	2%	21,172	2%	21,652	3%
Mid North Coast	16,934	2%	17,887	2%	18,473	2%
Murray	12,325	2%	12,963	2%	13,277	2%
New England and North West	20,130	2%	20,928	2%	21,128	2%
Newcastle and Lake Macquarie	27,531	3%	29,174	3%	30,006	3%
Richmond - Tweed	25,092	3%	26,382	3%	27,105	3%
Riverina	16,251	2%	17,104	2%	17,298	2%
Southern Highlands and Shoalhaven	13,613	2%	14,398	2%	14,560	2%
Western Sydney	194,545	24%	206,708	24%	213,649	25%
NSW	810,984	100%	848,265	100%	864,423	100%

Source: ABS Counts of Australian Businesses, including Entries and Exits (2020-24)

10. Nominated causes of business failure

Cash flow issues have been the most common reason for business failure in recent years, cited in more than half of all cases of business failure in NSW. Poor financial control and poor strategic management of business have also been amongst the top five reasons for business failure. Although there was a surge in attribution to poor economic conditions in the last three financial years, the frequency of citation remained lower than the abovementioned reasons for business failure.

Figure 9: Nominated causes of failure over initial reports (NSW)



Note: Multiple causes of failure can be nominated per initial report. "Business restructuring" was added to the list of potential causes of failure in FY20-21.

Source: ASIC

Appendix – National data for comparison

Table A: National business counts by employment size

End of FY	FY18-19		FY19-20		FY20-21		FY21-22		FY22-23		FY23-24	
	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total	Count	% of total
Non-employing	1,386,743	61%	1,441,105	62%	1,410,049	59%	1,521,428	60%	1,585,693	61%	1,663,837	62%
1-4	608,930	27%	599,516	26%	711,364	30%	727,457	29%	703,467	27%	693,558	26%
5-19	212,243	9%	213,218	9%	220,427	9%	226,968	9%	231,259	9%	232,200	9%
20-199	56,824	3%	56,252	2%	56,046	2%	59,338	2%	64,559	2%	68,214	3%
200+	4,258	0%	4,357	0%	4,368	0%	4,533	0%	4,895	0%	5,189	0%
Total employing	882,255	39%	873,343	38%	992,205	41%	1,018,296	40%	1,004,180	39%	999,161	38%
Total	2,268,998	100%	2,314,448	100%	2,402,254	100%	2,539,724	100%	2,589,873	100%	2,662,998	100%

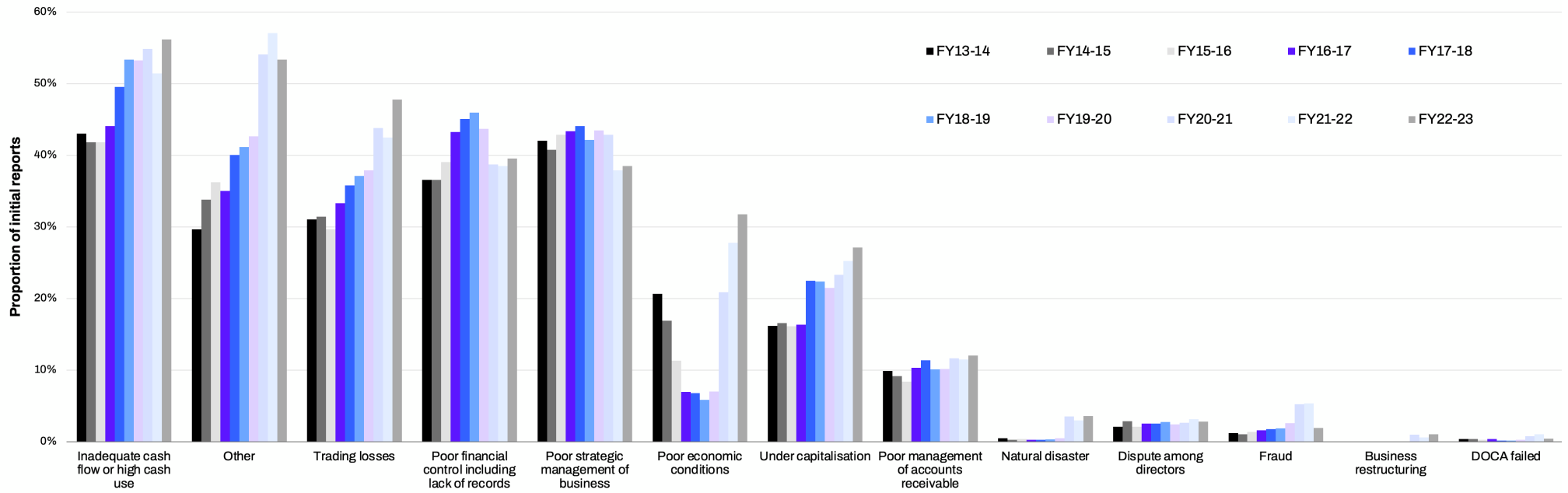
Source: ABS Counts of Australian Businesses, including Entries and Exits (2020-24, 2019-23, 2018-22)

Table B: National business insolvencies by industry

	FY21-22		FY22-23		FY23-24	
	Count	% of total	Count	% of total	Count	% of total
Accommodation and Food Services	738	15%	1,114	14%	1,668	15%
Administrative and Support Services	222	5%	409	5%	547	5%
Agriculture, Forestry and Fishing	59	1%	95	1%	175	2%
Arts and Recreation Services	67	1%	149	2%	200	2%
Construction	1,284	26%	2,213	28%	2,977	27%
Education and Training	38	1%	73	1%	94	1%
Electricity, Gas, Water and Waste Services	82	2%	104	1%	137	1%
Financial and Insurance Services	184	4%	284	4%	310	3%
Health Care and Social Assistance	73	1%	160	2%	281	3%
Information Media and Telecommunications	124	3%	203	3%	260	2%
Manufacturing	181	4%	458	6%	578	5%
Mining	72	1%	140	2%	138	1%
Other Services	707	14%	670	8%	1,040	9%
Professional, Scientific and Technical Services	249	5%	433	5%	656	6%
Public Administration and Safety	25	1%	45	1%	69	1%
Rental, Hiring and Real Estate Services	172	4%	325	4%	397	4%
Retail Trade	319	6%	540	7%	768	7%
Transport, Postal and Warehousing	196	4%	347	4%	495	4%
Wholesale Trade	112	2%	158	2%	216	2%
Unknown	8	0%	22	0%	47	0%
Total	4,912	100%	7,942	100%	11,053	100%

Source: ASIC

Figure C: Nominated causes of failure over initial reports (Australia)



Note: Multiple causes of failure can be nominated per initial report. "Business restructuring" was added to the list of potential causes of failure in FY20-21.

Source: ASIC