

Construction Master Builders Australia - Responses to Questions on Notice

Parliamentary Joint Committee on Corporations and Financial Services

Inquiry into Corporate Insolvency in Australia

Public Hearing on Tuesday, 21st March 2023

Question 1 from Dr Mulino (p 59)

That graph goes from 2014 to 2021, which is seven years. On notice, I'd just be interested in what the longer-term trend there is. Is that really just a reflection of construction having grown as a share of the economy, or is there something systemic in there?

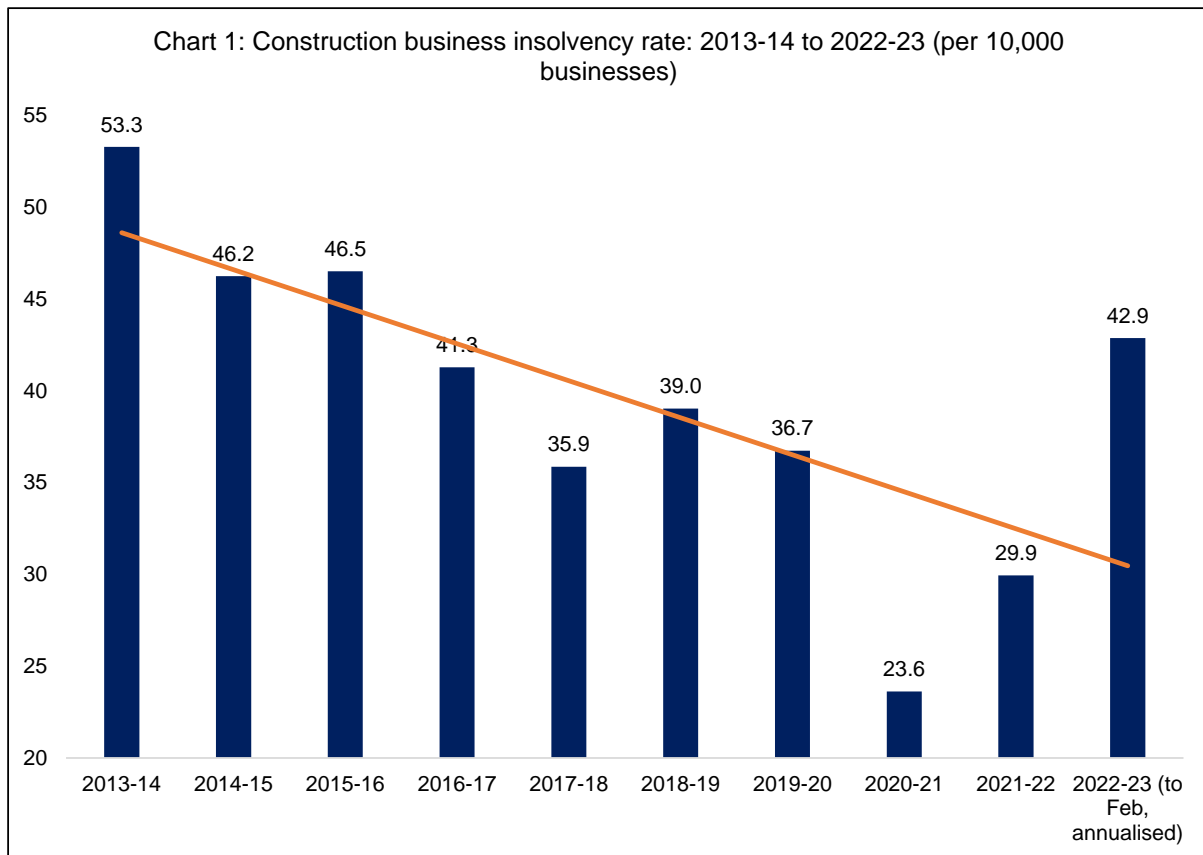
Response from Master Builders Australia

As noted during proceedings, Master Builders considers that current levels are not inconsistent with historical trends and reflective of the proposition put by Dr Mulino regarding the growing economic share of construction in the economy.

Data on the number of company insolvencies is published by ASIC. The data are currently available monthly from July 2013 to February 2023 by industry sector, including construction. Specifically, the data count the number of businesses entering external administration during the month in question.

Chart 1 below shows that the level of insolvencies involving building and construction industry businesses as a proportion of the total number of businesses in the sector has trended downwards over the relevant period.

In terms of the proposition put by Dr Mulino in the later part of his question, this chart goes to supporting the notion that not only are the numbers likely reflective of the proportion of economic share represented by building and construction, but that even on this measure the level of industry insolvencies have decreased proportionately.



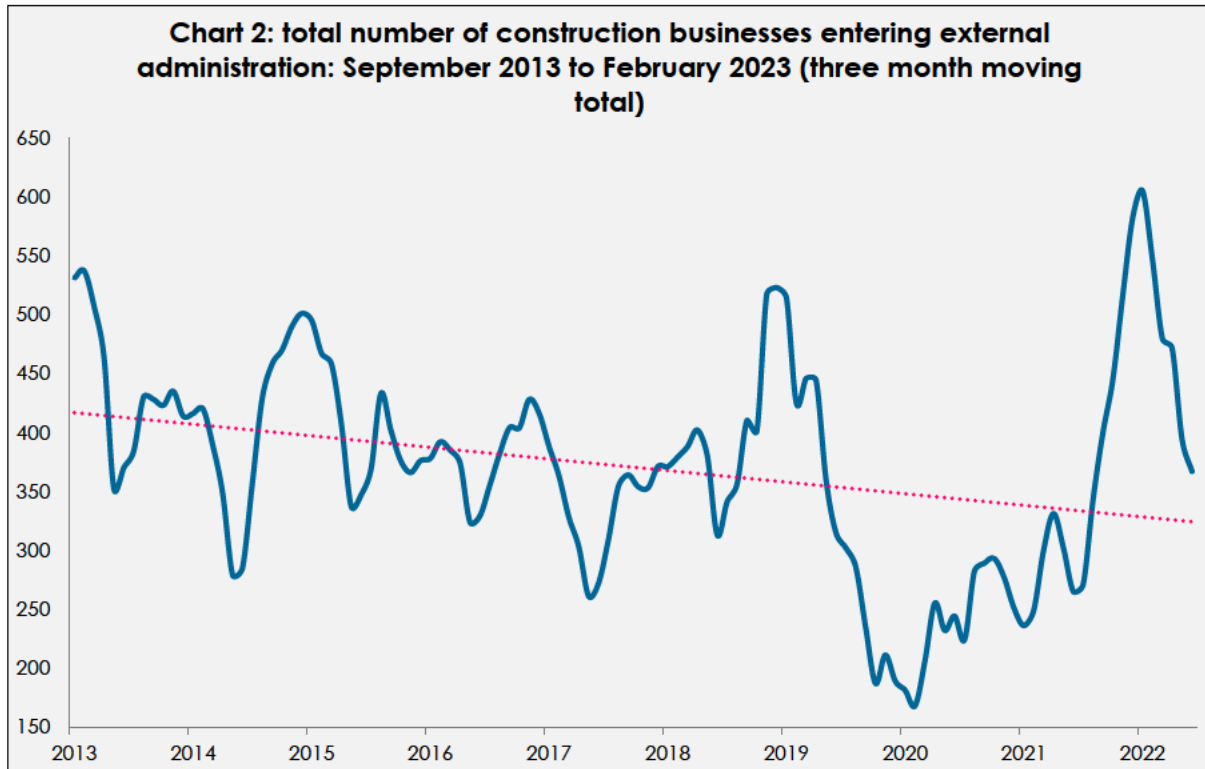
[Source: Master Builders Australia analysis of ASIC Insolvency data and ABS Counts of Australian Businesses including Entries and Exits](#)

Chart 2 below illustrates the three-month moving total for construction industry insolvencies for the period from September 2013 to February 2023. A simple linear trend line has been added to the chart and this indicates that the overall trend for construction insolvencies has been downward over the past decade.

However, the past few years have been very volatile: prior to the pandemic, construction insolvencies peaked at 517 during the three months to July 2019. Insolvency volumes then dropped very sharply and bottomed out at 168 over the three months to October 2020. This was the lowest number of insolvencies recorded in any of the three-month periods for which we have data.

Thereafter, insolvencies drifted higher before surging from the start of 2022 onwards and the three months to September 2022 saw 605 construction company insolvencies, the highest total for a three-month period since the start of the data series. This may also be reflective of factors such as the ending of various Government moratoriums relevant to debt and insolvency. Developments since then suggest that the absolute

volume of construction insolvencies may have peaked. A total of 367 construction insolvencies were recorded over the three months to February 2023, a reduction of 39.3 per cent since the peak.

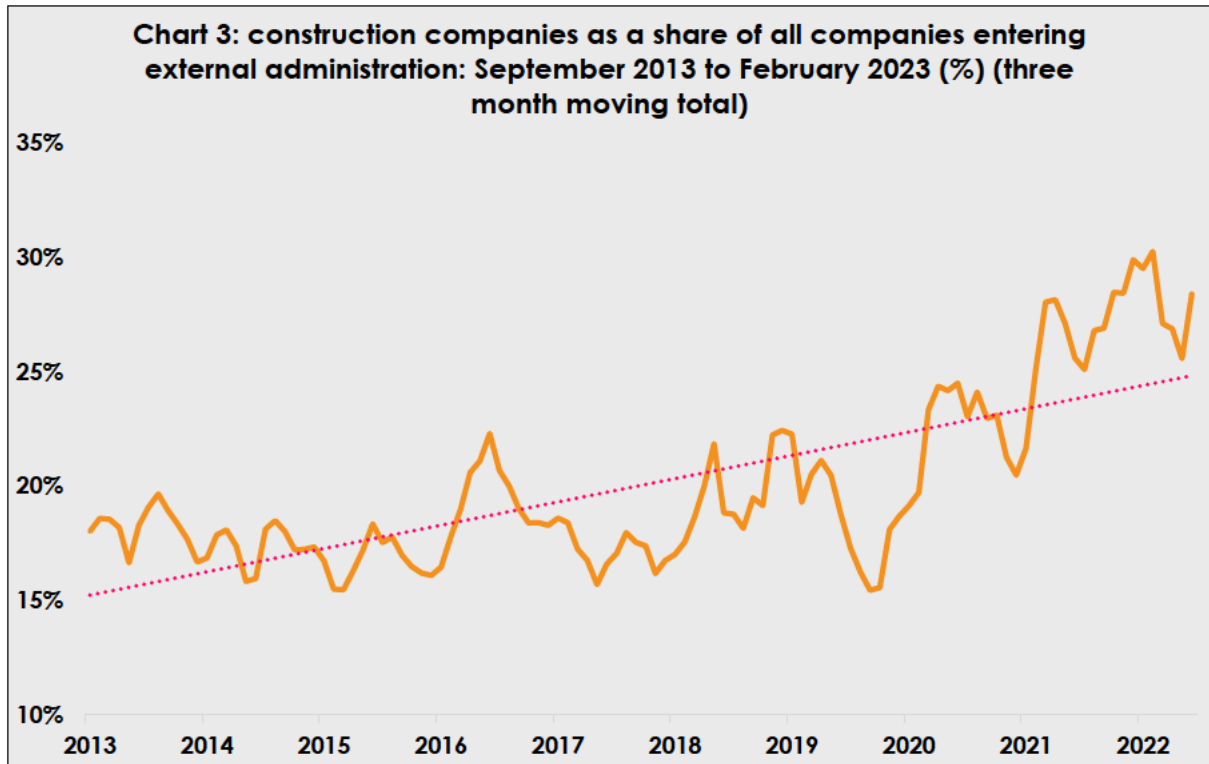


[Source: Master Builders Australia analysis of ASIC Insolvency data](#)

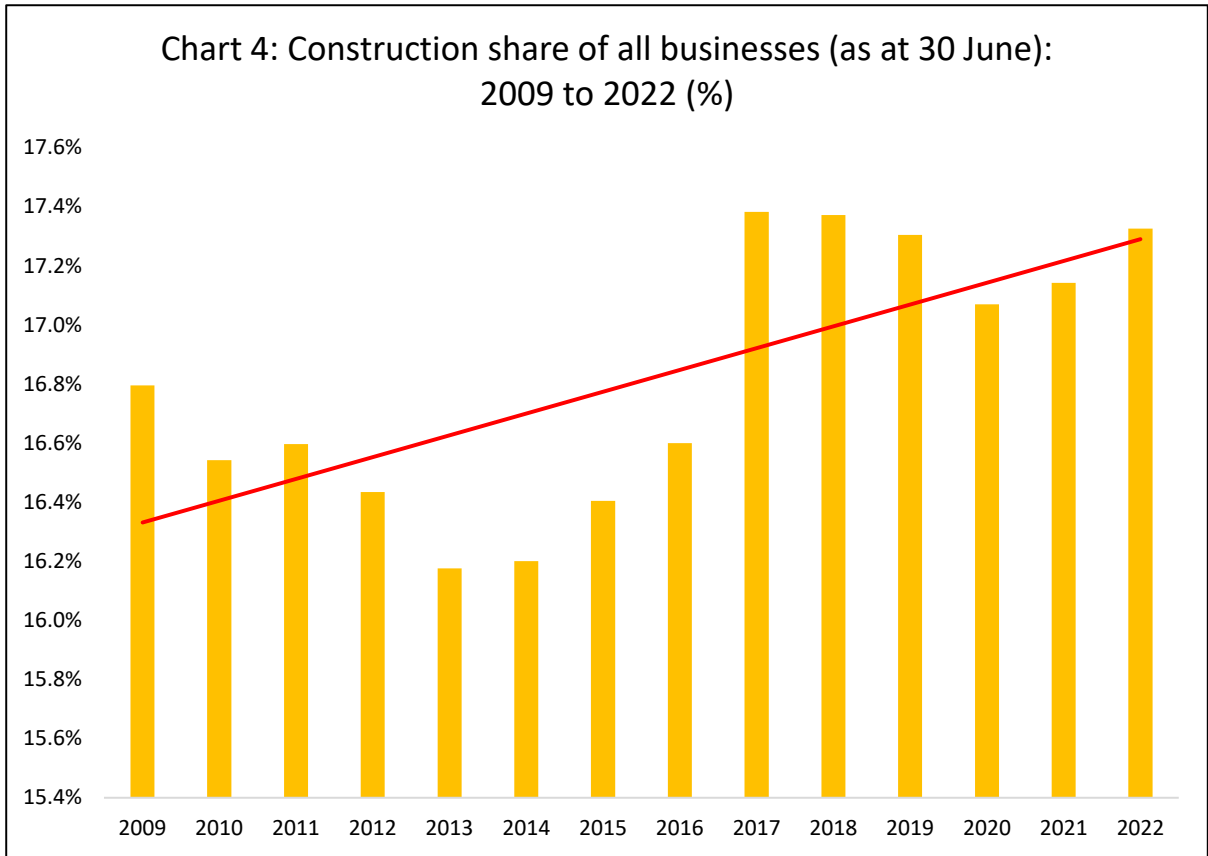
Chart 3 below illustrates the share of total insolvencies accounted for by construction companies. While the absolute number of construction insolvencies appears to have been on a downward trend, the share of insolvencies accounted for by the construction industry has trended higher over the same period.

Construction's share of insolvency activity has grown particularly strongly since the pandemic. Over the three months to May 2020, construction accounted for 15.4 per cent of all insolvencies – the lowest share it has ever fallen to. It has increased fairly steadily since then and hit 30.3 per cent over the three months to October 2022. It has since retreated a little but remains very elevated. Latest data show that construction companies accounted for 28.4 per cent of all insolvencies over the three months to February 2023. However, as **Chart 4** below shows, construction's share of the economy's total business count has also risen over the past decade. As at 30th June

2022, construction is estimated to have accounted for 17.3 per cent of all businesses in the economy.



[Source: Master Builders Australia analysis of ASIC Insolvency data](#)



[Source: Master Builders Australia analysis of ABS Counts of Australian Businesses including Entries and Exits](#)