Your monthly update

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Up, up, all the way!

Hi

The cold has settled in well across New Zealand as we navigate through the second half of winter. Despite thoughts of summer creeping into mind, it's evident winter isn't over yet.

According to economist Brad Olsen, Wellington's economy especially is struggling, if household spending on entertainment is anything to go by. Attendance at Sky Stadium for last Saturday's All Blacks game was only 72%. For context, the week before at Eden Park saw a sell-out crowd.

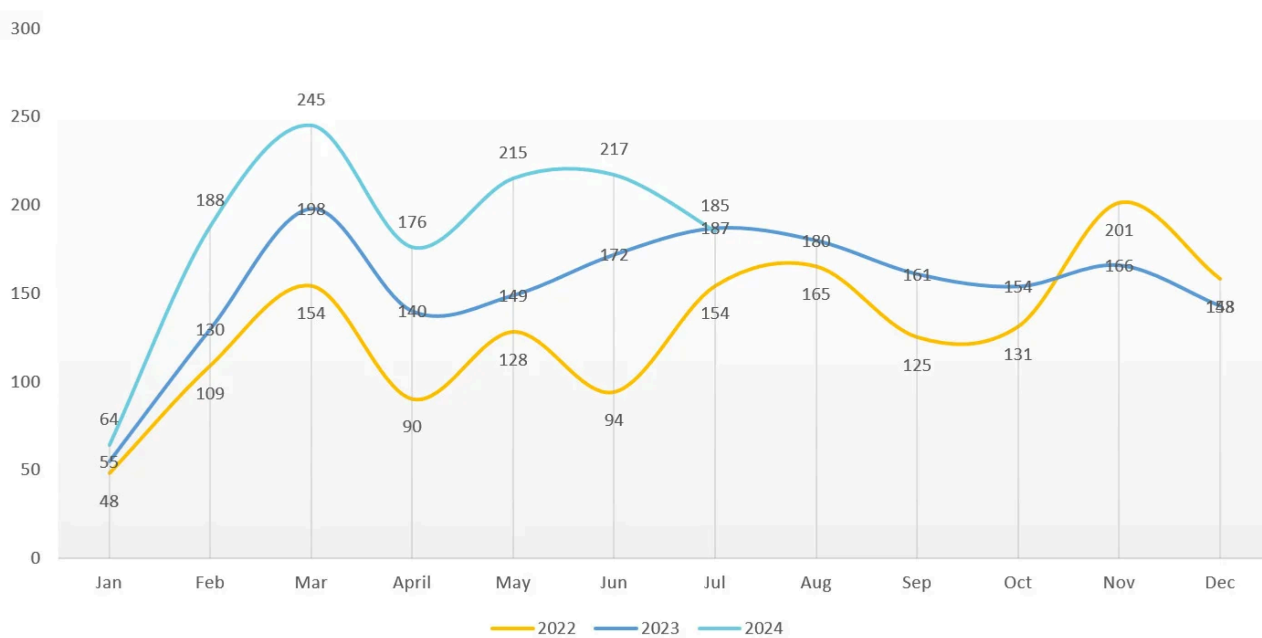
Looking at the economic climate at a national level, The Reserve Bank decided on the 14th of August to dip rates for the first time since March 2020. The reason for the change is reflected in the minutes of the RBNZ meeting; "the economy is contracting faster than anticipated". Just 3 months ago they had anticipated lowering the OCR in August 2025, still 12 months away. For many it brings into question the bank's forecasting abilities.

Unemployment is at 4.6 per cent in the June quarter, up from 4.3 per cent in the previous. This equates to 33,000 more unemployed people compared to this time last year.

Energy prices are on the up and have been making headlines for a few weeks now. According to RNZ, wholesale power prices have doubled in the past three weeks. This is set to catch up with domestic consumers shortly, while some industrial users have lost sight of light at the end of the tunnel.

Bucking the trend however, business confidence seems to be on the rise. According to the ANZ-Roy Morgan confidence survey, figures clawed back about half the March-April fall that coincided with 'recession' headlines. “The here and now is tough going for many, and nice-to-haves are increasingly being done without," says Morgan, but adds that there is a definite hint in this month's survey that consumers are perhaps starting to feel a little optimism that the worst will soon be past.

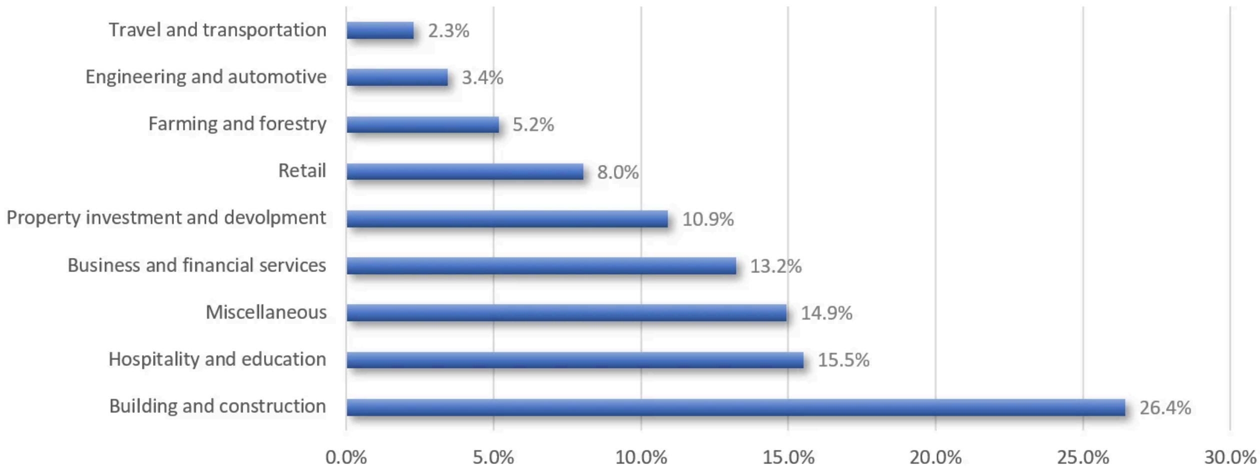
Insolvency Statistics - Total liquidations Jan2022 - July 2024



Total liquidations fell 15% from June to July, bucking usual trend from the following three years of insolvencies increasing. This may be due to the high numbers seen earlier in the year and a slow down in the corporate clean out.

Although liquidations make up the majority of insolvencies, let's compare how many other processes featured. Of 208 insolvencies in July, liquidations made up 89%, followed by receiverships at 7% and voluntary administrations at 4%.

July 2024 - Liquidations by industry



Our analysis shows that the distribution of liquidations across industries has remained mostly unchanged since our review in March. No sector has experienced a change exceeding 3.5%.

The building and construction sector continues to bear the brunt of insolvencies, accounting for a quarter of all liquidations. As the property market shifts towards a buyer's market, the construction industry is facing a crisis, with only 6% of liquidations in the sector reporting to be solvent. There are some industry specific factors that make construction companies more vulnerable during economic downturns:

- They often have long lead times with fixed costs and unpredictable revenues, making them vulnerable to cash flow challenges. Additionally, the industry is highly cyclical and closely linked to economic conditions and consumer confidence.
- Projects in this industry typically require substantial capital investment and are heavily dependent on financing.
- During a recession, both residential and commercial construction projects are among the first to be delayed or cancelled as investors grow weary.

Larger construction companies turning insolvent often lead to a trickle-down effect, leaving subcontractors and independent builders out of pocket. Looking forward, we don’t expect the sector's position to change for some time.

Statistical analysis by Waterstone Analyst, Ben Jury.
** Analysis compiled with data available at time of publication.*

How your company’s corporate governance is relevant to its insolvency

Insolvency processes centre on the rights of the insolvent company's creditors. Corporate governance is the system of rules, practices, and processes for a company to follow, including mechanisms that keep companies (and their directors) accountable to shareholders, creditors, and other stakeholders. For a SME, whose corporate governance may centre more on accountability to its shareholders and creditors, one might expect a reduction of financial risk.

The relationship between corporate governance and insolvency is significantly relevant to a company at all times; during a company's solvent trading, on the onset of any insolvency, and can prevent recovery actions taken during an insolvency process. Corporate governance mechanisms can provide a framework for financial stability and accountability, reducing the risk of insolvency.

Read the full article by Waterstone in-house counsel, Farah Tuteja.

Cautionary guide for investing in wholesale property development funds

Investing in wholesale property development funds can seem like an attractive opportunity. These funds promise returns that are generally higher than term deposit rates, making them attractive to investors seeking better yields. However, it is crucial to understand that these returns are often low compared to the substantial risks they carry.

Investors must be aware of the unique challenges and potential pitfalls associated with these investments. As an insolvency firm, we’ve seen first hand the pitfalls that can arise.

Read the full article by Waterstone Christchurch manager, Peter Drennan.

Hiving down:
The wrong way, and the right way

Hiving down is a corporate rescue technique which originated in England in the 1950s, the rules for which have been established in New Zealand by several pieces of case law*

The term originates from the practice of creating a new honeybee colony, by moving some bees and honey to a new hive. For companies, it is the procedure of selling at least part of a business, at market value, to a wholly owned subsidiary which may then be on-sold.

According to the Ministry of Business, Innovation and Employment, approximately 400 companies a year are engaged in this activity. It does however garner some negative attention when done incorrectly.

Read the full article by Waterstone Wellington manager, Bede Henderson.

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