Economists have noticed a significant tightening in liquidity and cash flow.

Sky News Australia, Sky Business Report Interview with Ian Box, NCI Group Pty Ltd.

Interviewer Richard Lindell.

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Introduced by David Koch:

Economists predict the boom which has delivered more than a decade of economic growth will continue for the foreseeable future in Australia. But in a sign conditions for business may be waning, NCI – which controls seventy per cent of the trade credit insurance market – has noticed a significant tightening in liquidity and cash flow.

NCI gains further insight into business health through clients providing actually and forecast sales. Sky Business Reporter Richard Lindell spoke with NCI's Joint Managing Director Ian Box and asked how those numbers stacked up.

IAN BOX – NCI GROUP PTY LTD:

We are seeing that business is moving forward but the expectations are of reasonably flat growth, perhaps as much as only three per cent. Five per cent is the maximum, in our view. The outcomes forecast previously… twelve months prior, have come through. Where they were forecasting flat they've probably had about five per cent growth. So, I think, the economy has certainly been okay for the last twelve months but the expectation is pretty flat moving forward.

LINDELL:

Well, how do you reconcile that view with macro economic data coming out showing business conditions as good as they've ever been really? Company profits are at record levels, and we expect to see company profits again - this reporting season - beat their previous records?

BOX:

Well, I mentioned sales figures as opposed to profit figures. I think there's been a lot of pressure on businesses to extract more profit from the same sales numbers, which is placing a lot of pressure on pricing, extracting more value out of the supply chain and certainly pressure on cash flow as well. But sales figures are flatter. The inflation rate has been reasonably flat. Sales figures are reasonably flat. So I don't think there's a lot of growth coming out of sales from the top line. The last 12 months has been all about pressure on the bottom line.

LINDELL:

In your business you get a unique view of the cash flow of businesses going forward. You're seeing some worrying trends. What are they?

BOX:

Yes we are. We are seeing the reporting of debts. At the end of every month there's reporting of accounts that have debts over ninety days. Levels have risen since February. We're also seeing a rise in the poor collection of accounts beyond ninety and a hundred and twenty days. Eighty-five per cent of debts handed to us to … for collection support have been able to be recovered typically in the past without going to legal. In April that drifted right back to sixty-five per cent. So there's a lot more pressure on having to go to legal action to recover old debt rather than there being just slow funds that we can extract.

LINDELL:

So those issues of liquidity that you've just mentioned, what does that tell you about the health or otherwise of the broader economy and business sector?

BOX:

We also watch our client's average debtors' days and they've drifted out by about five days over the last six months. Cash flow is tighter. Five days is probably an increase of ten per cent, so the average collectable debt has gone out by about ten per cent.

We're seeing a lot of larger businesses putting pressure on the smaller customers by refusing to pay before sixty days, in fact, suggesting there's no hope being paid any earlier. So that causes a lot of friction, if you like, in

terms of the businesses who are not being able to pay their suppliers on time as well. Generally the trend has been an increase of about ten per cent in the last six months.

LINDELL:

So is there anything a small business can do when a large business says to it, I'm not going to pay you for sixty days?

BOX:

It's tough. I mean, most small businesses are happy to have large customers. They're happy to have the orders coming through but they really have to address the issue of whether or not they're making money out of the client when they look at their margin. They've probably had a lot of pressure already and I think it's still going to be there (on keeping their pricing down). They've then got to factor in the cost of money and say to themselves, well, are we really making money out of this customer or not.

But certainly, I think the chance of bringing cash flow earlier, bringing it forward, there's no hope in the next six months at least.

LINDELL:

There's also been an increase in insolvencies across business in Australia. What's causing that?

BOX:

Well, I think the general move to more debts having to be collected legally is going to push that. In the past, insolvencies have rarely come from action by creditors. It's typically been driven by voluntary administrations and banks appointing administrators. But we are seeing an increase in unpaid debt causing pressure legally, but we've also seen a very rapid rise in the activity of the taxation department.

It's our view that there's a lot of unremitted GST still. Recent insolvency figures show that the insolvencies caused by action by the taxation office has risen enormously, about three-fold in the most recent statistics.

DAVID KOCH:
A bit of an early warning there for us all.

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