

Australia's net new businesses growth rate up 0.4 per cent



June 17, 2014 – Australia's net rate of business creation grew by just 0.4 per cent in the year to 2013*, with the creation of 9,000 new companies, according to a global survey of official data by RSM, the seventh largest global network of independent audit, tax and advisory firms.

Enterprise births and deaths in Australia diverged in 2008-09, producing net company formation of over 74,000 companies. Rates then converged on a downward trend, with new company entries marginally surpassing exits between 2010 and 2012.

Neil Cribb, Partner and National Head of the Turnaround & Insolvency Group of RSM Bird Cameron, said: "Notwithstanding an economic environment with falling interest rates to historical lows in the first quarter of 2013/14, going forward we would expect to see a continuing decline in net business creation. This comes as a result of the continuing pressure of high operating costs for most Australian businesses (particularly when compared to our Asian neighbours). A particular case in hand the manufacturing sector as evidenced by the necessary restructure of the Australian motor vehicle industry, which has struggled to be competitive over an extended period even with extensive industry and government consultation and support."

Construction was the leading source of business churn in Australia from 2008-2012, with more than 400,000 company births and deaths. Manufacturing registered the lowest aggregate business churn with 83,000 births and deaths.

Financial services accounted for the highest level of net business formation (nearly 18,500 organisations) from 2008-2012, a noteworthy achievement given the weak performance of financial start-ups in other OECD countries.

Measured by company size, micro enterprises (1-4 employees) exhibited the highest level of new business formation in Australia in 2008-12. Sole proprietorships (no employees) and small enterprises (20-199 employees) incurred net company losses during the period. Large enterprises (200+ employees) displayed virtually no change in net business formation.

New company survival rates in Australia show considerable differences between industries. One-year survival rates of Australian companies founded in 2008 ranged from 89.3 per cent in agriculture to 81.9 per cent in hospitality. Industry survival rates then diverged. By 2012, only 53.6 per cent of hospitality companies formed in 2008 had survived against 73.1 per cent of health care companies.

In 2011-12, the G7** countries were led by France in term of net new business births. France exhibited a 16.7 percent growth rate (588,000 new companies), the fastest of the 38 countries RSM reviewed. A major contributor to this success was France's "Auto Entrepreneur" programme, launched in 2009 to stimulate company start-ups.

The USA, Japan, Germany and the UK all showed modest growth rates of 0.6 per cent, 0.8 per cent, 1.1 per cent and 1.2 per cent respectively, while Italy declined by 0.3 per cent and Canada dropped by 13.6 per cent, the worst performance all 38 countries.

RSM's research also shows that the net rate of business creation among the G7 economies has increased relative to the BRICS*** countries. Between 2011 and 2012, the G7 countries posted a 1.9 per cent growth in the active company register, an addition of 531,000 businesses, versus a CAGR of only 0.8 percent from 2007-2011. By comparison, the BRICS generated 1.2 million new enterprises from 2011-2012, a growth of 4.9 per cent compared to a CAGR of 5.8 per cent net new business growth rate from 2007-2011.

The BRICS were led by China (9.1 percent). Brazil grew by 3.4 per cent but the other economies all showed negative growth: Russia (-0.4 percent), India (-3.2 percent) and South Africa (-10.0 percent).

Jean Stephens, Chief Executive of RSM, comments: "Entrepreneurs all over the world are continuing to start businesses, the most active sectors being wholesale and retail trade, and professional services, which have relatively low barriers to entry. However, nearly a third of the countries we reviewed exhibited a decline in the number of active enterprises. Creative destruction and the reallocation of capital to more efficient existing and new

businesses will have a large part to play in this process but the global economy remains fragile. The watch phrase for the next year must be no more than cautious optimism as individuals and companies respond carefully to government actions and macro indicators.”

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* 2012 (most recent globally comparable data available; Australia data from the Australian Bureau of Statistics)

** Canada, France, Germany, Italy, Japan, UK and US

** Brazil, Russia, India, China and South Africa

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In March 2013, RSM was awarded the prestigious Editor's Special Award for Global Initiative of the Year at the International Accounting Bulletin annual awards. The award recognises the outstanding achievement of the RSM network for its global initiative - RSM World Day – which was praised for being a unique and powerful cross-network initiative that enhanced both employee and client engagement. The judges highlighted the campaign as a shining example of how to successfully connect independent member firms around the world under a common vision and set of values.

RSM International actively engages in promoting and celebrating the very best in entrepreneurship, championing the role of the entrepreneur in today's world economy. RSM International is the lead sponsor and corporate champion of the European Business Awards promoting commercial excellence and recognition of entrepreneurial brilliance.

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