



Quarterly Insolvency Trends: Q1 2022

KPMG Deal Advisory

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Insolvency appointments and applications



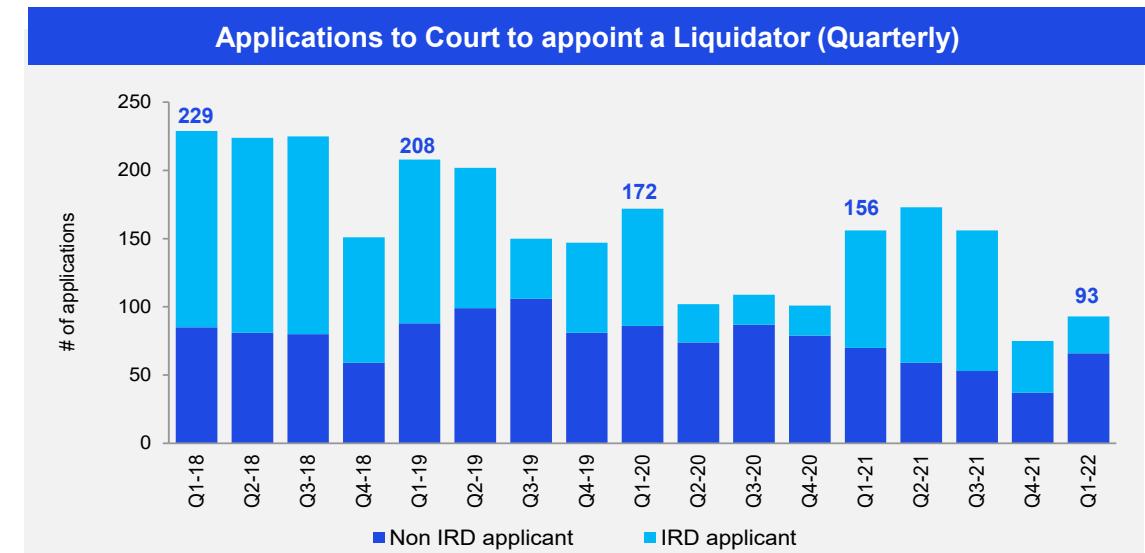
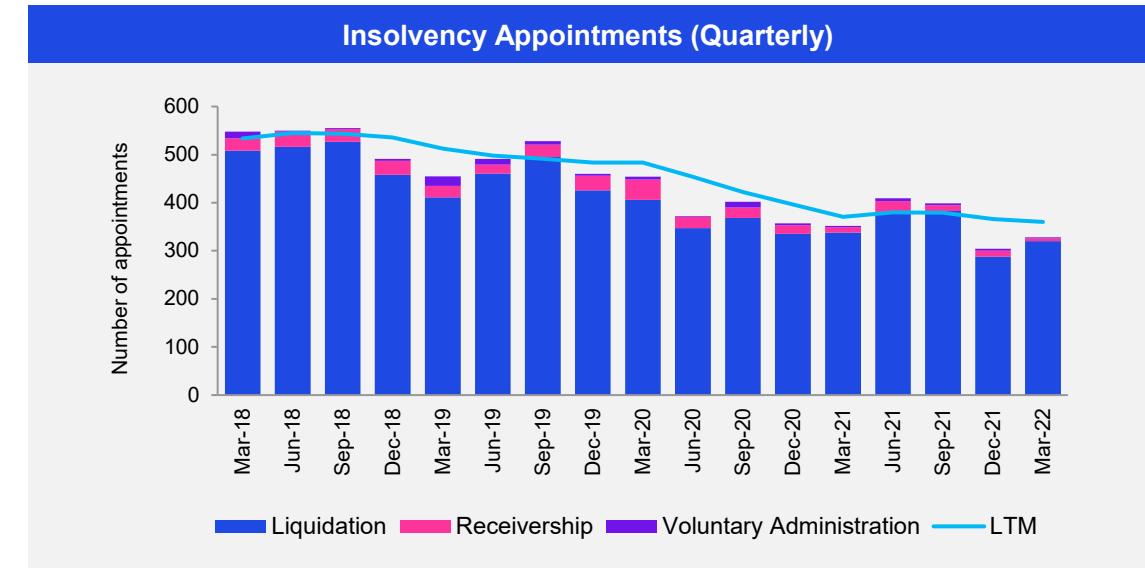
What were the trends in insolvency appointments and applications in Q1 2022?

Overall insolvency appointments are decreasing, with the LTM¹ curve consistently falling since Sep-18. Appointments between Jun-21 and Mar-22 totalled 328 appointments, a decrease of 24 from the equivalent Jun-20 to Mar-21 period.

Applications to Court to appoint a liquidator have increased in Q1 2022 to 93 applications, from 75 applications in Q4 2021. Both these periods are materially lower than preceding quarters and when compared to Q1 historically.

Overall trends remain impacted by creditor behaviour during lockdown periods, when enforcement activity was reduced. Companies in the construction and property development sector represent the highest portion of companies either going into insolvency or subject to insolvency proceedings, reflecting the pressures in the sector around funding, cost inflation, supply chain challenges, and labour shortages. We anticipate this trend will continue in the near future and stakeholders in the construction and property development sector will need to closely monitor their exposure.

¹ Last Twelve Months





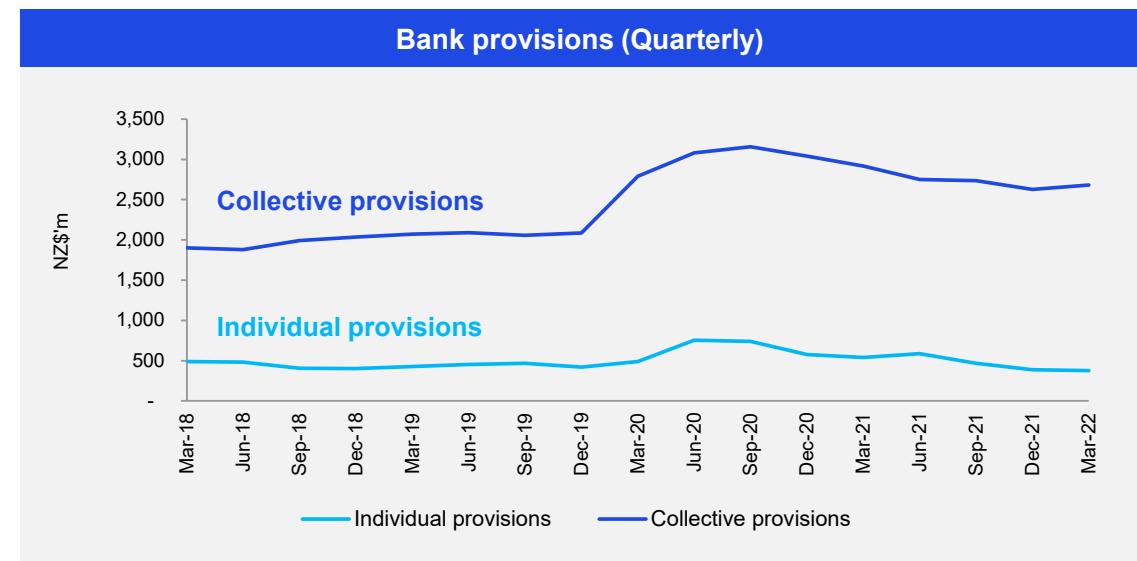
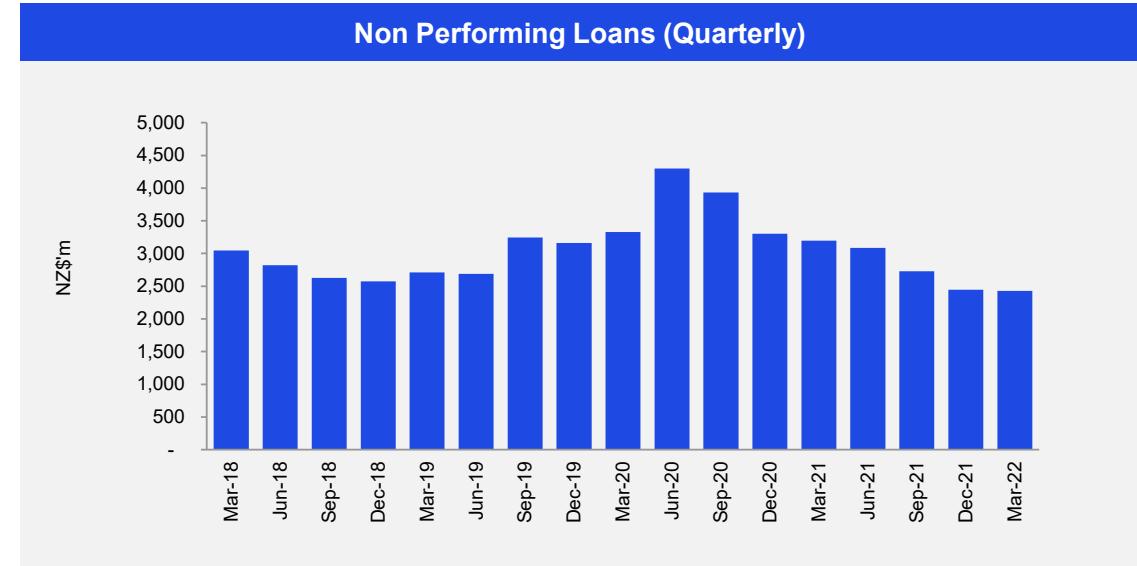
Non-performing loans and bank provisions



What did Q1 hold for non-performing loans?

Despite the RBNZ's decision to increase the OCR in Oct-21, Nov-21 and Feb-22 (each by 0.25 points) to combat inflationary pressure, total non-performing loans have declined from a peak of \$4,300m in Jun-20, down to \$2,426m in Mar-22, a reduction of 44%.

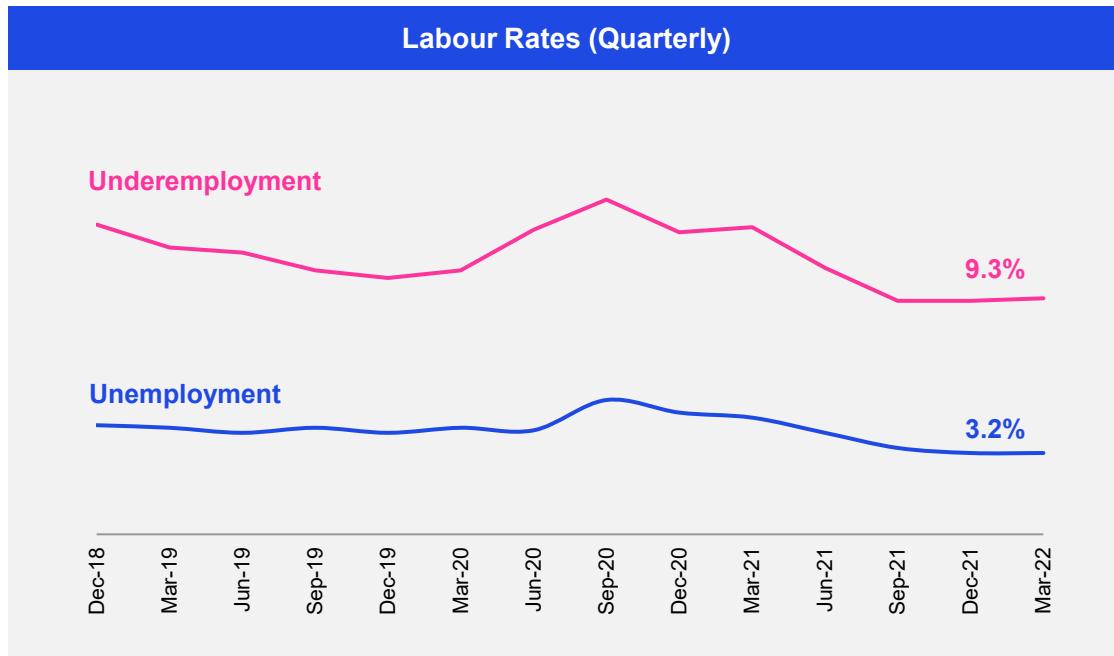
Non-performing loans have continued to decline in 2022, with the total impairment expense markedly lower than 2020. Overall asset quality remains high with low levels of non-performance at this stage. However, rising interest rates and increased economic uncertainty may impact these trends during the remainder of 2022.



GDP and labour rates

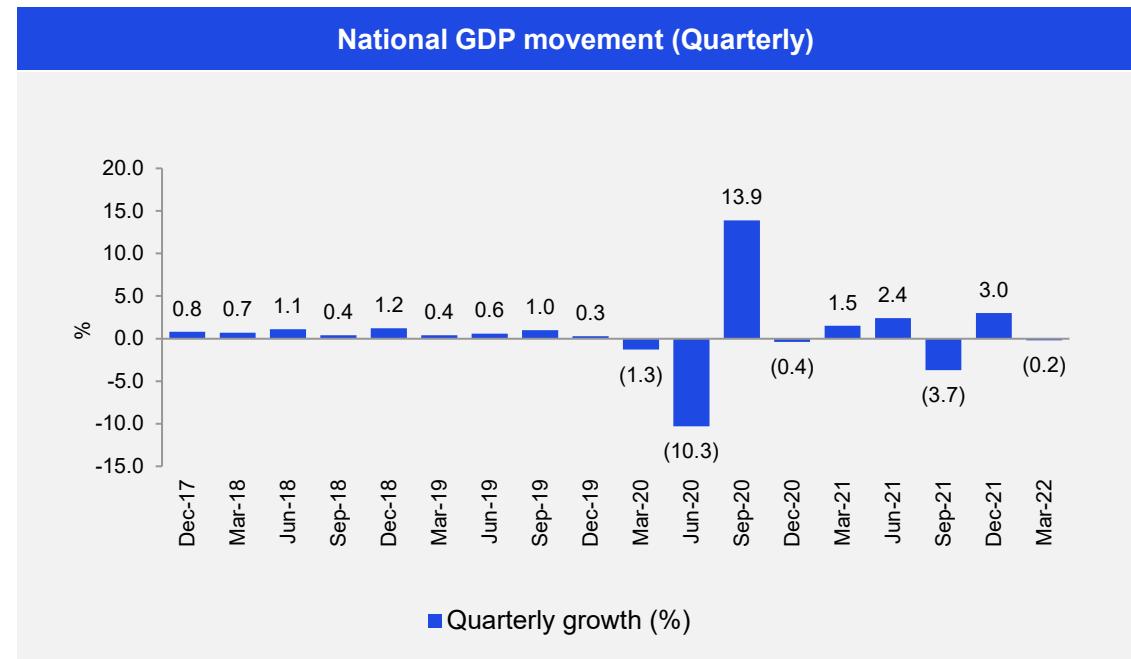
What was the trend in unemployment levels?

Unemployment levels have remained consistent with the previous quarter, at historic lows of 3.2%. The last time New Zealand recorded unemployment close to this level during the past 36 years was in 2007 at 3.4%.



What happened to GDP first quarter of the year?

GDP figures for the quarter ending March 2022 recorded a net decrease of (0.2)%, driven predominantly by reduced output in primary industries. Despite this quarterly decline, annual growth remained positive at 5.1%. We note however that Mar-22 is the first quarter to record a net decrease in GDP, where a Covid-19 lockdown was not an impacting factor¹, and should negative GDP growth in the quarter ending June-22 be recorded, NZ will officially enter a recession.



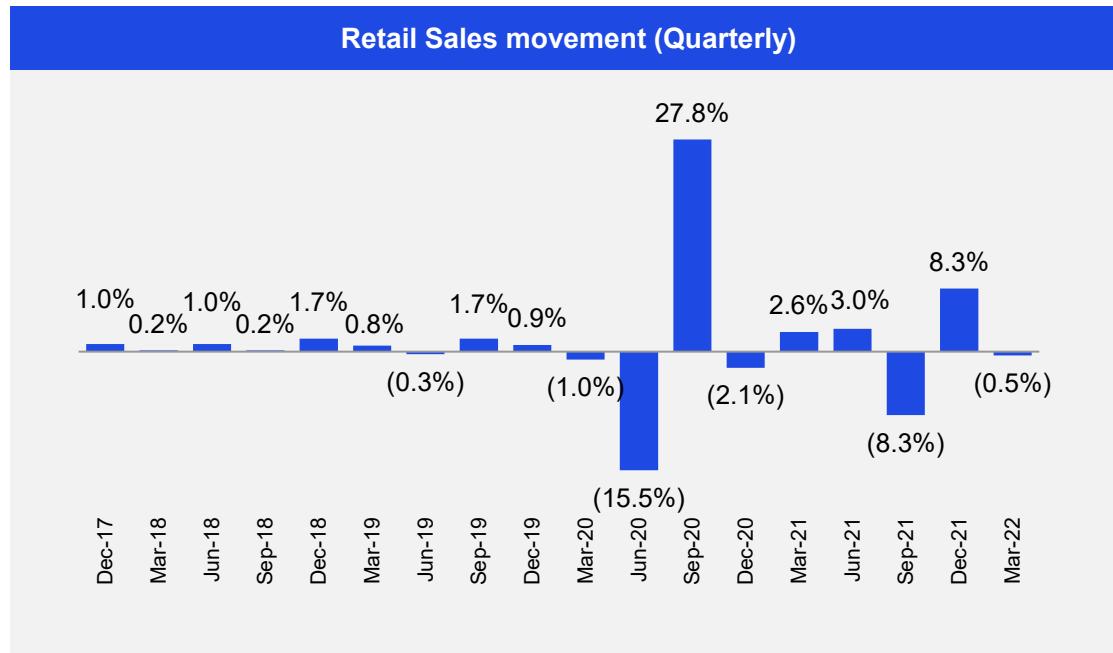
¹ Based on the time series presented in the chart above.



Retail sales and consumer confidence

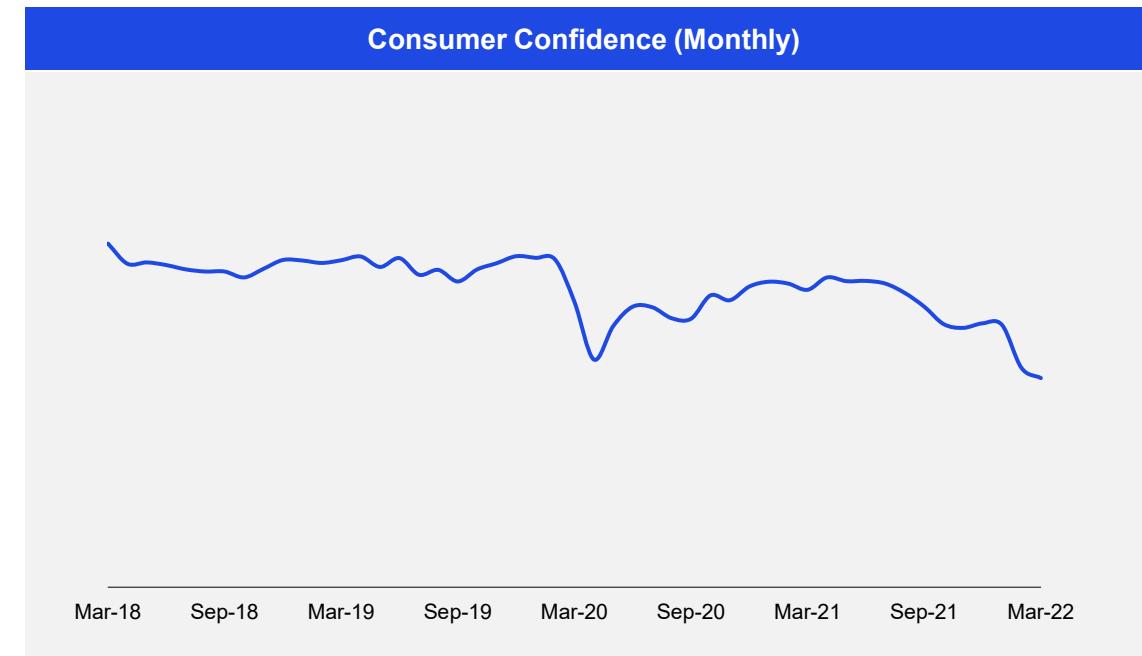
What should I know about retail sales for the quarter?

Retail sales decreased by \$133m or (0.5)% between Dec-21 and Mar-22. A rebound from the Delta outbreak was achieved in the Dec-21 quarter; however, the impact from the Omicron outbreaks and the ongoing development of what is seen as the 'trifecta' of soaring living costs, weaker household balance sheets and sluggish population growth have impacted retail sales.



Where did consumer confidence sit?

Consumer confidence continues to fall in response to rising inflation (with inflation increasing to an annualised rate of 6.9% in March 2022), cost of living and geopolitical turmoil, and is now at the lowest since recording began in 2001 at 77.9%. This is both lower than during the GFC and the beginning of the Covid-19 pandemic.





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