



# Commercial Risk Barometer

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# Overview

Business failure risk may be showing early signs of deterioration after a lengthy period of improvement. While the March quarter and early part of the June quarter saw a further improvement, there has been a recent return to higher failure risk.

The Commercial Risk Barometer for June 2025 shows that business failure risk has improved slightly over the quarter, but that this shift is explained by an improvement in April/May and deterioration in June.

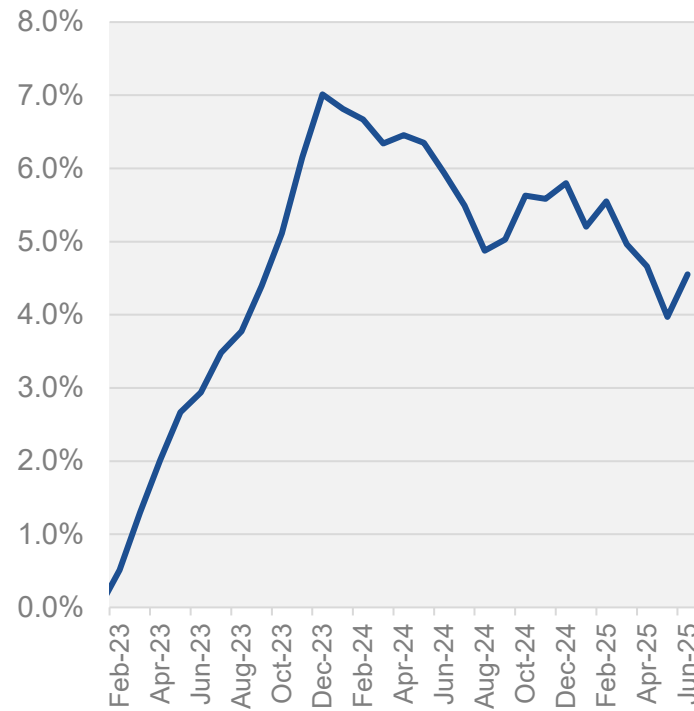
Furthermore, by June 2025, we have also seen the number of businesses at moderate risk of failure (or worse) rising faster than lower-risk businesses. This suggests that some significant, underlying risks are again evident in the business sector – especially the small business and immature business sectors.

This recent deterioration has also affected a broad range of industries, with traditionally high-risk sectors – Hospitality, Retail, Transport, Construction – beginning to show greater signs of stress again, with low-risk sectors – Manufacturing and Wholesale – also showing some early signs of stress.

The rising failure risk in lower-risk business sectors may be attributed to their relationship to the broader retail/consumer economy (i.e. between retail demand and its supply chain). Therefore, lower domestic demand and a cautious outlook for exports (due in part, to potential tariffs) may be having a dual impact on traditionally stable industries.

We are also seeing business conditions diverging moderately between industries in the same sector – examples are Health Services, Financial Services and Mining, which may be showing signs of a two-speed economy. While none of the results are severe yet, there are warning signs for the broader economy.

The Commercial Risk Barometer for June 2025 - Percentage change in the likelihood of business failure (Baseline: January 2023)



# Overview

## Key observations in this iteration of the barometer



Insolvency risk is potentially creeping up

While business failure risk gradually improved over FY24/25, June has seen a swing back to higher risk. While it's too early to say whether this is a longer-term trend, underlying issues in certain industries may suggest a worsening in failure risk over FY25/26. Notably, even as overall risk improved earlier in FY24/25, by June 2025, we had seen the number of businesses at moderate risk of failure rising 50% faster than the number of lower-risk businesses.



Less mature businesses are vulnerable, even if quite large

Micro and small businesses that have been trading for fewer than 6 years are the most vulnerable to failure. Eight per cent of these businesses, with a turnover less than \$500K, are at very high risk of failing, while 6% of small businesses (under \$10 million turnover) are also at very high risk. However, even large businesses (over \$250 million) have a significantly higher risk today if they have been trading for less than 6 years. Business tenure remains a significant indicator of trading risk.



Hospitality, Construction and Retail risk worsening

The Food/Hospitality, Construction and Retail sectors are seeing a return to more difficult trading conditions as consumer demand falls, and input costs continue to rise. Cost of tradespeople in construction and fewer people eating out, buying electrical goods, clothing, or footwear are having a negative impact on these higher-risk, cyclical business sectors.



Some Manufacturing and Wholesale segments at risk

Trading conditions affecting the above sectors may also be having a negative impact on business activity in Manufacturing and Wholesale trade. While these two industry sectors remain generally higher-growth and lower-risk, we have seen slowing growth in Bakery and Beverage Manufacturing, in Timber, Garden and Building Material Manufacturing and in Clothing and Footwear Wholesaling. Separately, this slowdown has also affected the Transport/Delivery/Postal industry.



Possible headwinds for Agriculture and Mining

Lower demand for fresh fruit and vegetables that are sold outside the Supermarket sector has had a negative effect on the Wholesale Market and Distribution sector. This change in demand may, in turn, also create risks for the Agricultural sector itself in FY25/26, and to internal economic balance. Separately, slower growth, observed in the Metal Ore Mining sector may create problems for Australia's export earnings and to external economic balance.



Health and Insurance growth is inconsistent

While the Health and Financial Services sectors have performed well in the June quarter, this has not been consistent across all segments. In particular, the Allied Health and Pathology sectors have grown slowly while Hospitals have grown substantially, health insurance spending has stagnated, and life insurance premium income has instead, grown substantially. People seem to be moving away from preventative medicine, and to taking greater risk.



# Underlying business stress has continued in the June quarter

The June quarter has seen more businesses slipping into moderate (or worse) failure risk. This is affecting mainly smaller and younger businesses, but even larger businesses are feeling some strain.

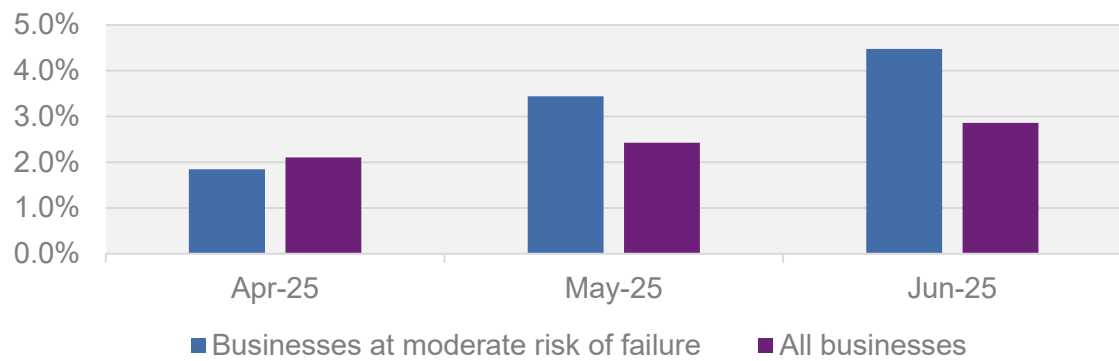
Though the June quarter gave some mixed insights into the overall health of businesses, one consistent trend was the continuing shift of businesses away from low risk to moderate (or worse) risk. While this does not indicate that businesses are at imminent risk of failure, it presents a possible warning sign of tougher conditions.

Specifically, while the number of businesses actively trading increased by around 2.9% in the nine months to June, the number of businesses at heightened risk of failure rose 4.5% (i.e. 50% faster). This heightened risk may suggest that trading conditions are challenging at the same time as government assistance may be waning. For example, businesses, who have already received help from the Small Business Debt Relief Scheme in 2024 (say through GST debt waivers) may now be falling back into debt because of higher input costs and lower consumer demand.

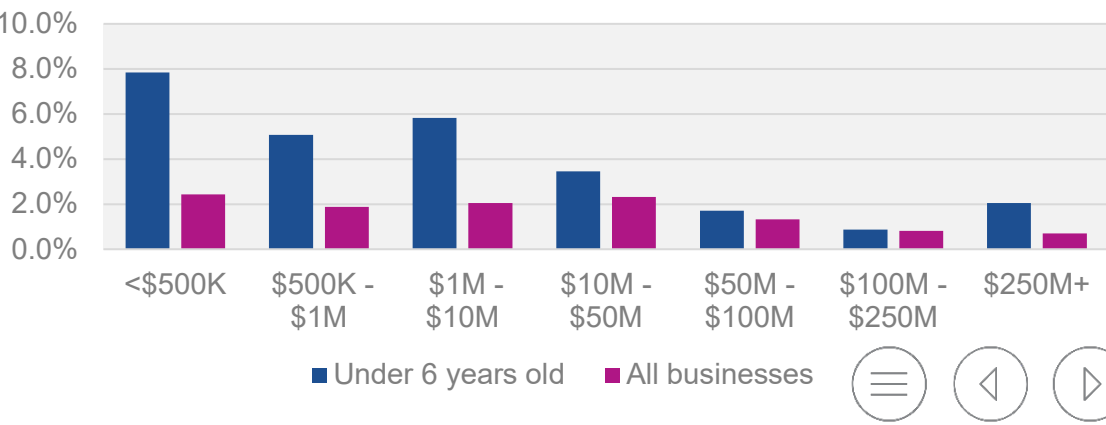
Furthermore, businesses with a shorter track record, less cash flow, lower levels of capital and less consumer goodwill may be faring worst. For example, 8% of micro businesses (with less than \$500K turnover) that have been trading for fewer than 6 years are at very high risk of failing in the next 12 months (4 times higher than the more established micro businesses). Also, between 5% and 6% of younger, small businesses (up to \$10 million turnover) are at very high risk of failing in FY25/26 (around 3 times higher risk than their established counterparts). This risk of failure may be a salient warning sign for finance underwriters of low document loans especially.

At the same time, we are seeing a deterioration in larger businesses (over \$250 million turnover) if they have been trading for fewer than 6 years, which suggests some more endemic problems for the economy in general. Substantially lower consumer demand, higher input costs for trades and contagion from lower retail and overseas demand for goods, as well as the heightened risk of tariffs may be impacting businesses that are susceptible to both consumer and export demand.

Percentage increase in actively trading businesses (Baseline: Sept 2024)  
(Metrics: All businesses, businesses at moderate (or worse) risk of failure)



Businesses at very high risk of failing @ June 2025 (by annual revenue of business - all businesses and young businesses)





# Key industries have deteriorated in Q2 after improving earlier



The June 2025 quarter saw generally tougher trading conditions, with several key industries deteriorating again (especially in June itself) after an extended period of improvement prior to Q2. While this rising risk has been moderate, it has also been quite uniform, which suggests that broad economic problems may be affecting businesses again.

To illustrate this point, while we saw improvement in the failure risk of Construction businesses in the six months to March (4%), following a long period of worsening trading conditions, their failure risk deteriorated again in the June quarter (1.2%). This affected both young and established businesses, suggesting that the underlying cause was widespread or that mature businesses were not well capitalised. Other higher-risk industries deteriorating in Q2 included Hospitality (1.5%), Retail (1.6%), Transport (1.6%) and Entertainment (2%), suggesting that consumer demand for discretionary services may be slowing again (or at least, be highly cyclical).

Furthermore, while trading risk improved in late 2024, that improvement may have been partly due to the help businesses received from the Federal Government's Small Business Debt Relief Program. For businesses that received this benefit, a return to tighter trading conditions may be exposing them to new financial problems (and their debt burden may be resurfacing).

Lower-risk sectors, such as Manufacturing and Wholesale Trade, also deteriorated moderately (albeit from a low-risk base), which suggests that falling demand for consumables may have affected the underlying supply chain as well. Some minor deterioration was also observed in parts of the Agriculture sector (although this does not appear to be industry wide) and of the Health sector, which appears to be showing the traits of a two-tier economy.

On a positive note, the Mining sector continues to show some resilience overall (with one possible warning sign related to growth in the metal ore sector). Also, the Financial Services sector has rebounded in the June quarter (1.8% improvement in risk), which may be attributed to the growing demand for credit as interest rates fall, and also to a two-tier economy that seems to be appearing in the Insurance sector. In both cases, we may be seeing inconsistent trading conditions for the Broking sector, as some benefit from higher levels of credit and life insurance, while others suffer from lower levels of health insurance and certain general insurance cover.



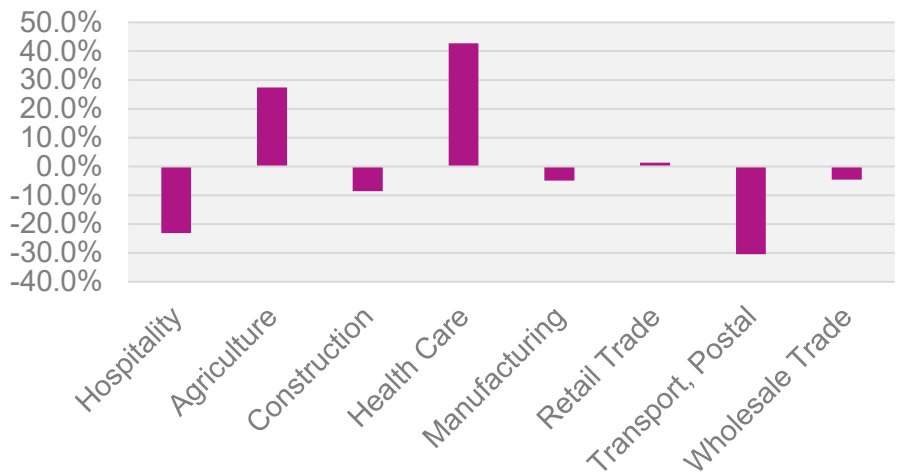
# Fewer businesses opening and more insolvencies

The June quarter saw tougher trading conditions returning to traditionally higher-risk industries. For example, as the hospitality sector's failure risk rose in the quarter, it also suffered a 15% rise in insolvencies and a 25% lower growth rate in new business incorporations (as compared to other industries). This suggests that business proprietors were reluctant to open new cafes and restaurants while existing proprietors saw their establishments faltering, as consumer spending on 'eating out' stagnated post the holiday period (i.e. barely above CPI over the June 2024 quarter).

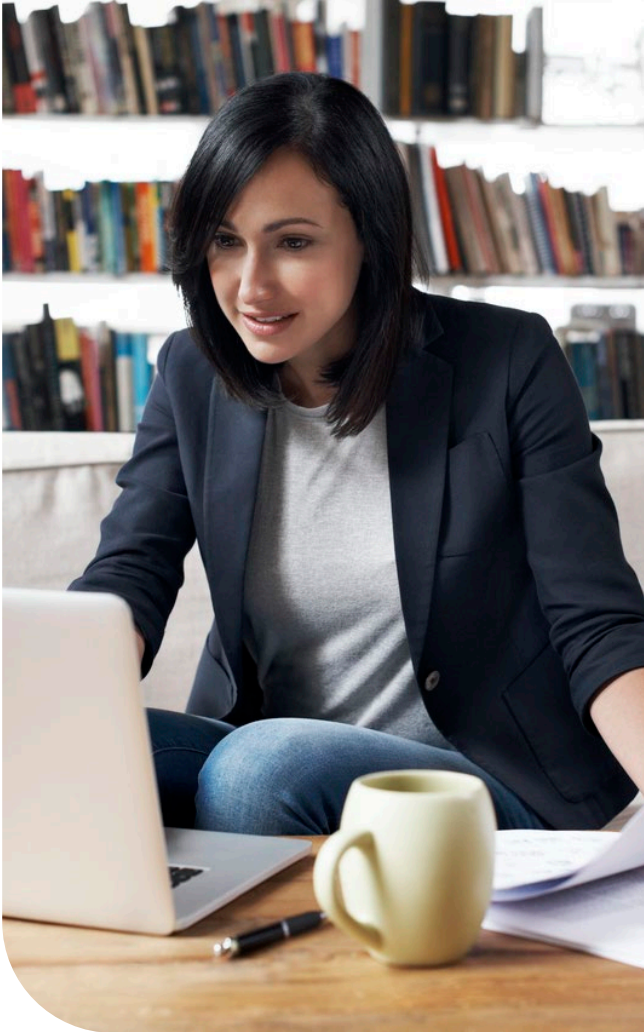
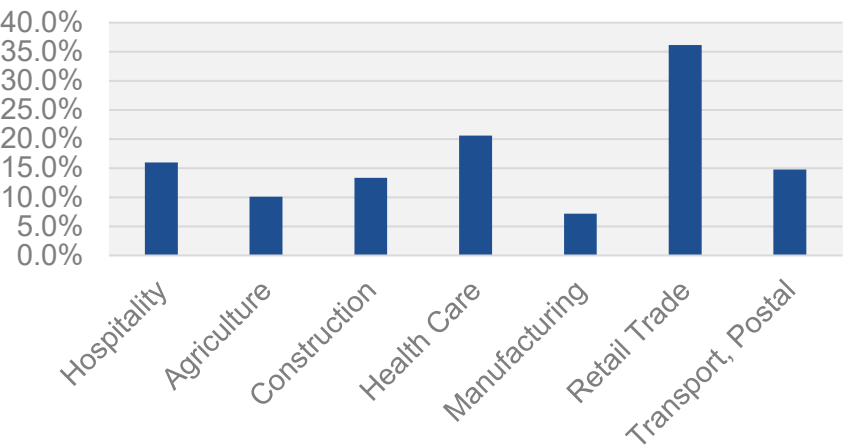
Conditions in the Construction, Retail and Transport sectors also slipped in Q2, with average to below-average increases in new businesses and substantially rising insolvencies occurring (13% higher in Construction, 36% higher in Retail and 15% higher in Transport over the June quarter - QOQ, and similarly YOY). Higher input costs from more expensive tradespeople may have affected the viability of some construction businesses, while lower demand for consumables may have impacted the Retail sector post Christmas (with overall spending barely above CPI - YOY). In particular, demand for clothing, furniture and books was seen to be lower in Q2. The deterioration in the Transport sector appeared to be confined to the Courier and Postal sector, which may have been due to the downturn in retail demand.

While being of much lower risk, the Manufacturing and Wholesale sectors appear to be affected by slower retail and food consumption, while the Health Services sector appears to be showing the signs of a two-speed economy, with generally high growth but also, higher insolvencies in certain pockets. Higher insolvencies in Agriculture may have been driven by weather events and a lower demand for fruit and vegetables.

Net new businesses opened in June 2025 quarter – Index to national average over all industries



Percentage rise in insolvencies in June 2025 quarter (QOQ)



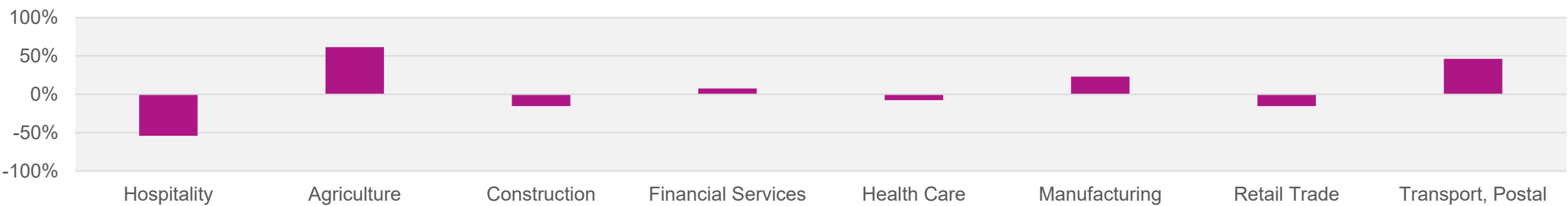
# Business activity in higher-risk industries is below average

In the year to June 2025, business activity (as measured by the value of consumer spending and trade invoice payments) was at its lowest in the three highest-risk business sectors. While the Hospitality, Retail and Construction sectors showed a return to rising failure risk in June, their actively operating businesses also showed below-average trading growth in the lead up to June. Hospitality was the worst performing sector, with its annual growth in business activity over 50% lower than the average growth over all industries. Similarly, growth in Construction and Retail was 15% lower, thereby serving a warning to lenders and investors of further insolvencies in FY25/26 if their growth slows further.

The trading growth of active businesses in the other higher-risk sector, Transport, grew by over 40% above the national average, meaning that actively trading businesses were, on average, performing well, even as some businesses in this sector were more likely to be 'closing their doors'; some owing money, and others struggling to pay invoices while potential new entrants were reluctant to enter the industry. While this appears to be contradictory, it can be explained simply by the existence of a two-speed economy in the Transport sector. Whereas the Courier and Postal industry (i.e. directly linked to retail consumption) contracted by 5% in absolute terms, the large-scale Rail Freight and Road Freight industries grew by 17% and 21%, respectively. Therefore, Transport that was linked to Agriculture, Mining, Manufacturing and Wholesaling grew substantially while Transport linked to retail consumption contracted. This does present a warning sign for the Freight industry if lower consumption has an adverse impact on primary and secondary industry production.

By contrast, the Agricultural sector grew substantially (60% higher than the national average) in the year to June and, as such, the higher risk observed in this sector is not yet concerning, as it is offset by higher growth and a lower-risk baseline. That said, it is an industry affected by both climate change and weather events, as well as possible tariffs into the future. It is therefore vulnerable to cyclical and structural problems, as seen by the rise in insolvencies and in failure risk over Q2). Similarly, business activity in Manufacturing has grown mainly through inputs from the Agricultural and Mining sectors (i.e. it is not uniform) and may therefore be vulnerable to the same issues as Freight, while business activity in Financial Services and Healthcare has grown on par with the national average. In both cases, these industries are supporting a two-speed economy, which has been touched on earlier.

Percentage growth in businesses activity by industry (year to June 2025) - taken from the illion Growth Index – depicted as higher/lower than the national average over all industries



# Trade invoice payments are being paid later

Businesses in certain industries (including low-risk industries) are showing signs of trade payment stress, which may be due to lower retail demand and a reprioritisation of medical intervention choices.

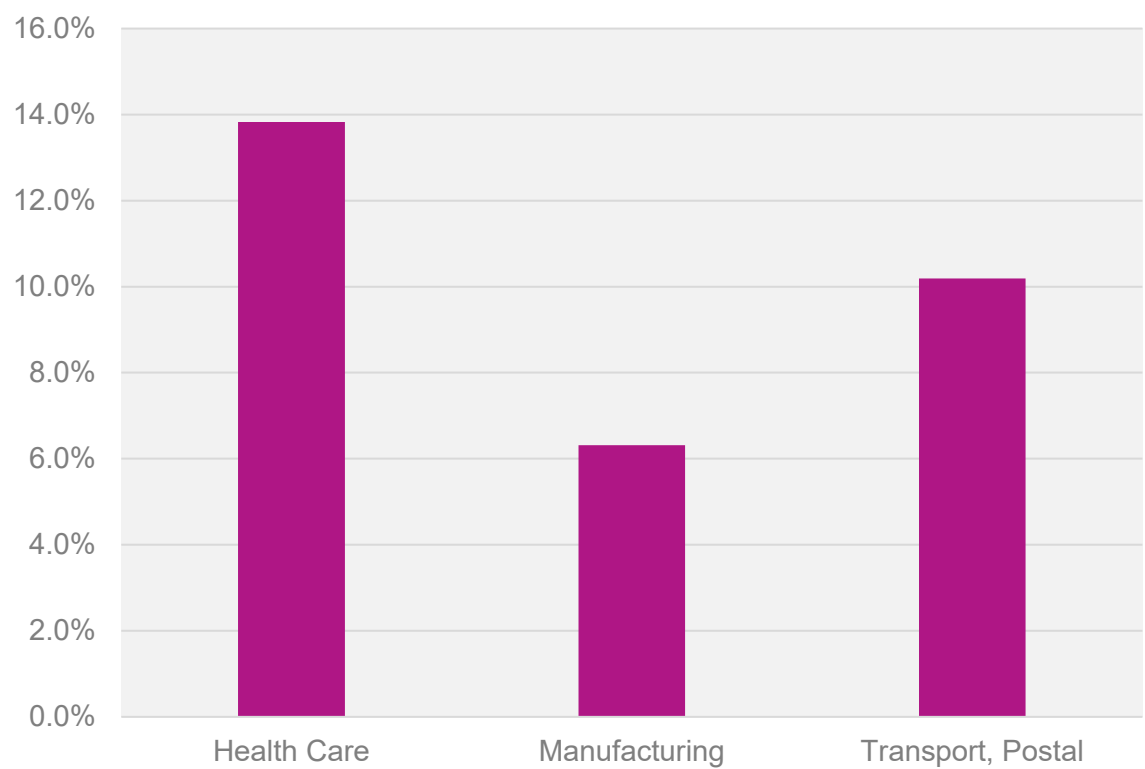
As well as insolvencies having risen moderately in the Healthcare and Transport sectors (albeit on small volumes), we have also seen some sizeable worsening in the number of days that trade payments are overdue. As such, there appears to be some evidence of higher risk amongst a range of businesses, from 'cradle to grave'. And while the Manufacturing sector has not shown the same level of stress, their trade payment behaviour did worsen moderately in Q2.

The worst deterioration in Q2 was apparent in the Health Services sector, where invoices were being paid 14% later in June 2025, as compared to six months earlier. Coinciding with this, the risk of mature health businesses rose faster than that of younger ones, suggesting that the financial problems present in health businesses may have been unique to this industry. As discussed later, we believe that there is a two-tier economy operating in Health Services, where some segments are struggling, while others are trading well.

From the adjacent graph, we also see that businesses in the Transport and Manufacturing sectors paid invoices 10% and 6% later in June 2025. Therefore, while both sectors had already seen a slowing in new businesses trading, those that were already operating in the industry were more likely to be struggling with their financial commitments. In both industries, three core operating risks were all pointing to harder times: 1) the number of businesses opening and closing, 2) the number of insolvencies and 3) the lateness with which their invoices were being paid. Furthermore, their strong reliance on the Retail sector (as the catalyst for higher production and transporting of goods, whose key business indicators were also pointing negative) suggests that headwinds could buffet them further in FY25/26.

Finally, the uncertainty of US tariffs being imposed on Australian businesses may also add to trading risks, especially in Manufacturing and Health (e.g. pharmaceutical production).

Percentage deterioration in the average days trade payments are overdue (over H1 2025)





# Business activity of suppliers aligned to consumer demand

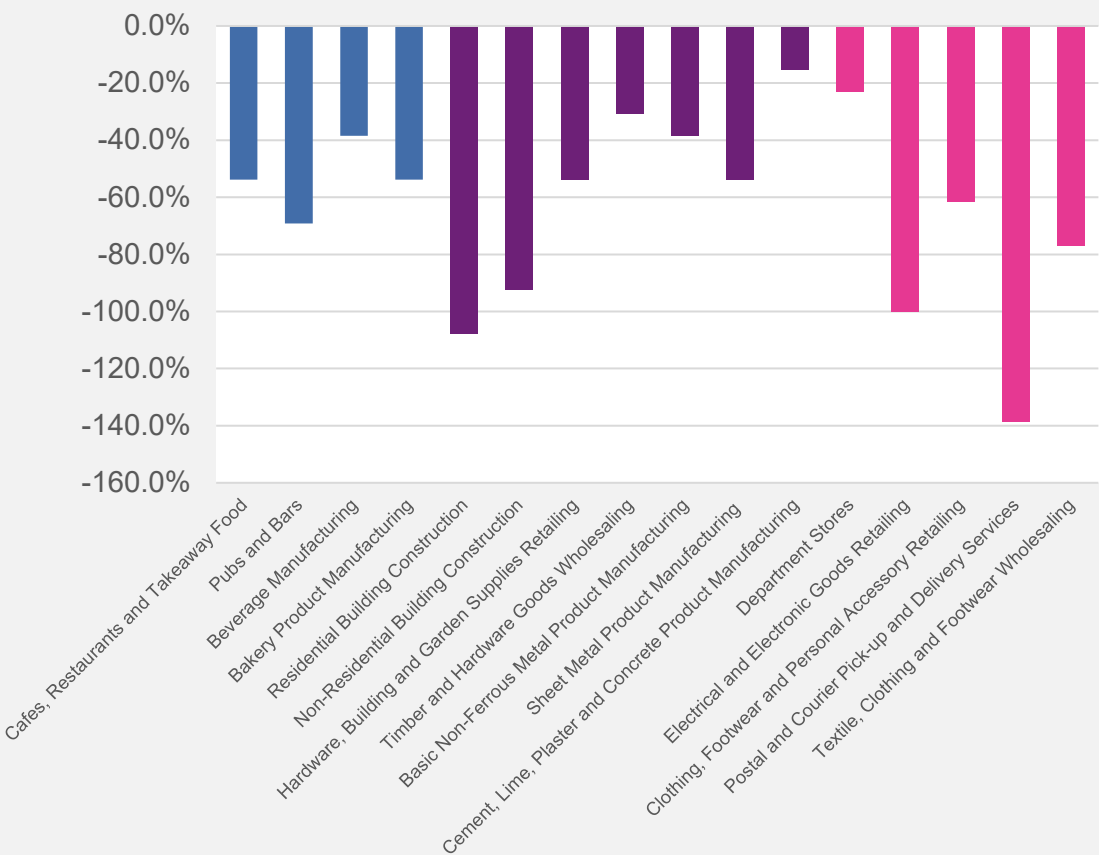
The relationship between consumer-driven businesses and their suppliers is strongly linked, as depicted in the adjacent graph, which shows the trading growth of businesses that operate in or support three key consumer facing industries – Hospitality, Construction, Retail. Specifically, while the Manufacturing and Wholesale trade sectors are both lower-risk and growing at a higher rate than the Hospitality, Construction and Retail sectors, the graph shows that segments within these industries are highly affected by the performance of consumer-driven businesses.

For example, whereas the growth of the Manufacturing sector has grown by more than 20% above the national average, Manufacturing businesses that have a commercial relationship with the Hospitality sector have stagnated - i.e. beverage and baking businesses growing by around 40-50% less than the national average (comparable to the growth observed in the restaurant, bar and cafe sectors – i.e. 50-60% below the national average).

Similarly, retailers, wholesalers and manufacturers of timber, hardware, garden, metal and building products have grown by 30-60% less than the national average, at the same time as residential and non-residential construction has grown by 100% less than the national average (i.e. no growth and even some modest contraction in the last 12 months). The situation is similar for businesses supplying the Retail sector where, below-average trading growth amongst department stores, electrical, electronics, clothing and footwear retailers has been coupled with a substantial contraction in the Courier/Delivery/Postal sector and in the Clothing and Footwear wholesaling sector.

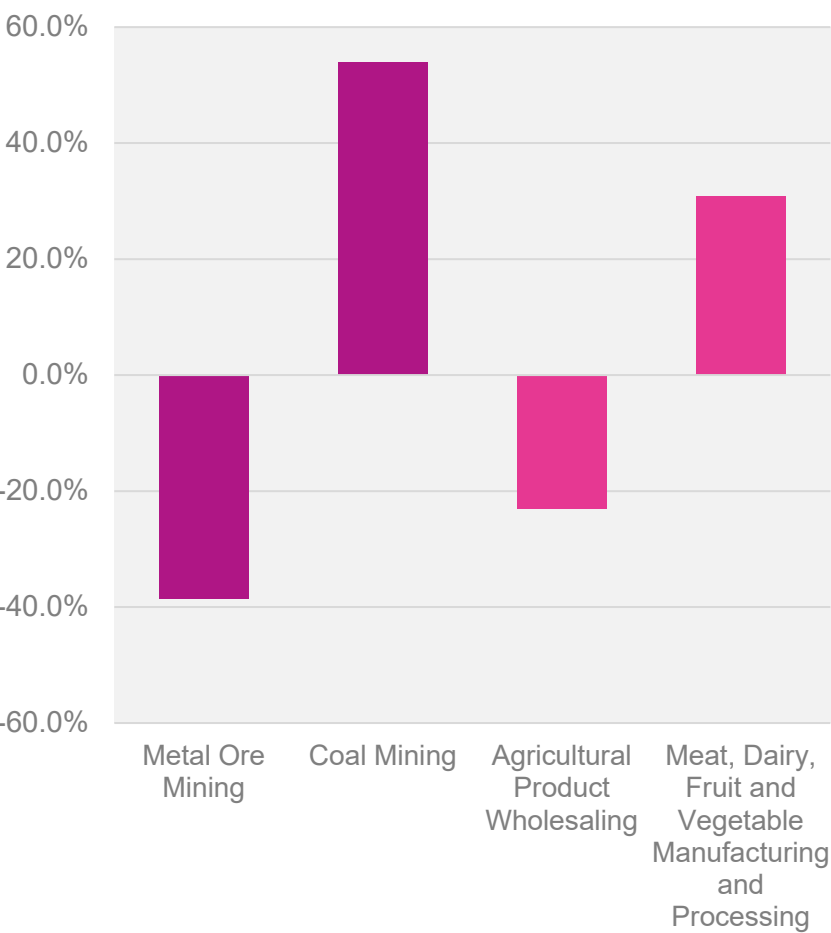
The above results suggest that the slowdown in the Construction, Retail and Food Services sector is likely to have had a contagious effect on the Manufacturing and Wholesale sectors (and possibly even Agriculture going forward). As a result, lenders will need to ensure they monitor higher-risk segments within what are otherwise low-risk industries, as consumer demand becomes a bellwether for the trading risk of suppliers.

Illion Growth Index 12 months to June 2025 - Key industries affected by slower Hospitality/Construction/Retail growth  
Index value 0 = Average national growth over all industries



# Lower growth pockets in low-risk industries

Illion Growth Index 12 months to June 2025 - Industries within Mining and Agricultural sectors - Index Value 0 = Average national growth over all industries



Following on from the previous discussion, the adjacent graph offers an additional warning sign for historically low-risk industry segments, as a result of lower consumer demand and higher competition.

Focusing on Agriculture specifically, we have seen that the core Farming and Manufacturing sectors have remained strong up to June 2025 – as depicted in the graph, which shows that meat, dairy, fruit and vegetable processing has grown by over 30% above the national average (over all industries).

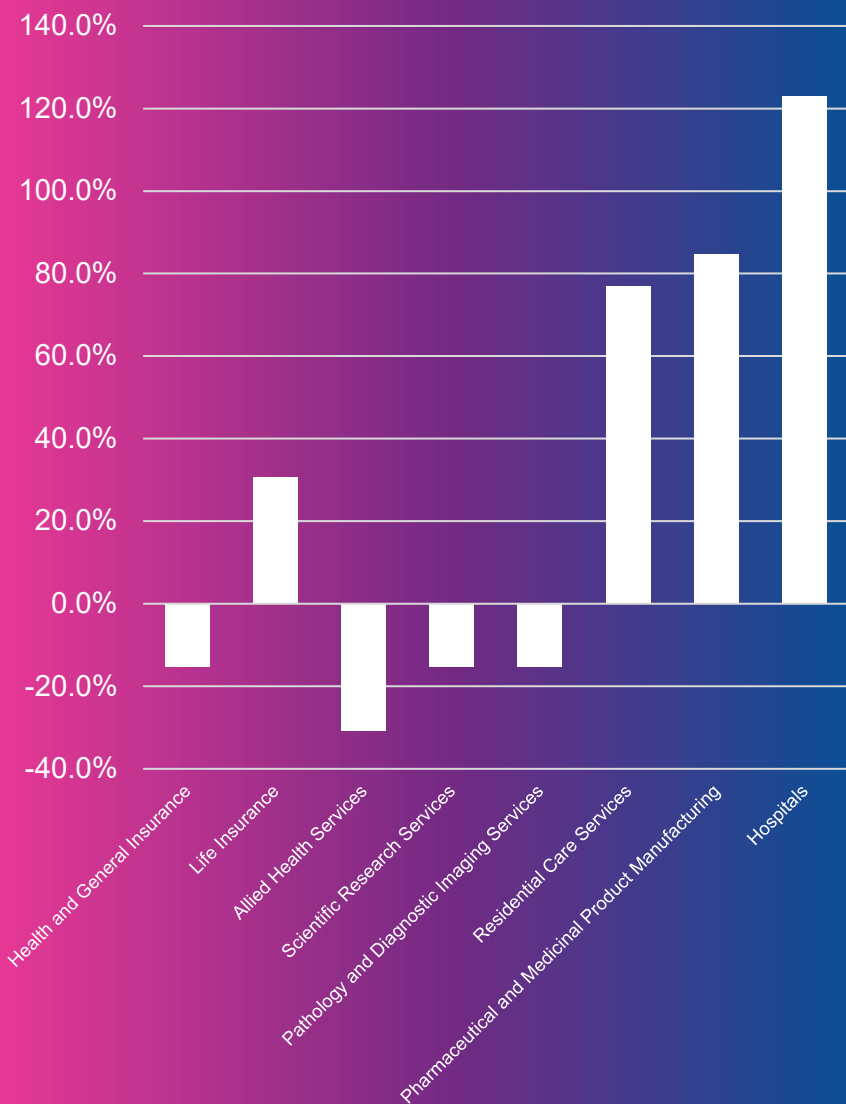
However, this strength has not translated to the same high growth in the agricultural wholesaling industry, which, at the same time, has had below-average growth (20% below the national average). Therefore, while wholesaling remains a growth industry overall (and lower risk), some finer industry segments are telling a different story.

A possible explanation for this is that, while consumer spending at supermarkets has remained stable (if unspectacular), spending at specialist fruit and vegetable retailers has fallen significantly (7% lower QOQ and 12% down YOY in Q2-25). The result is that wholesalers to markets and greengrocers may have suffered financially from lower consumer demand and, if so, this is a warning sign for the broader economy, should this below-average growth spill over into the Food Manufacturing and Agricultural sectors ( i.e. for growers who are reliant on specialist retailers).

Similarly, while the Mining sector is still high growth and low risk, we can see from the graph that lower export demand may be affecting growth in the core metal ore mining sector – 40% below average in FY24/25. As a mainstay of Australian exports, this may be a warning sign for export earnings through FY25/26.



Illion Growth Index 12 months to June 2025 – Health Services and Insurance sectors –  
Index Value 0 = Average national growth over all industries



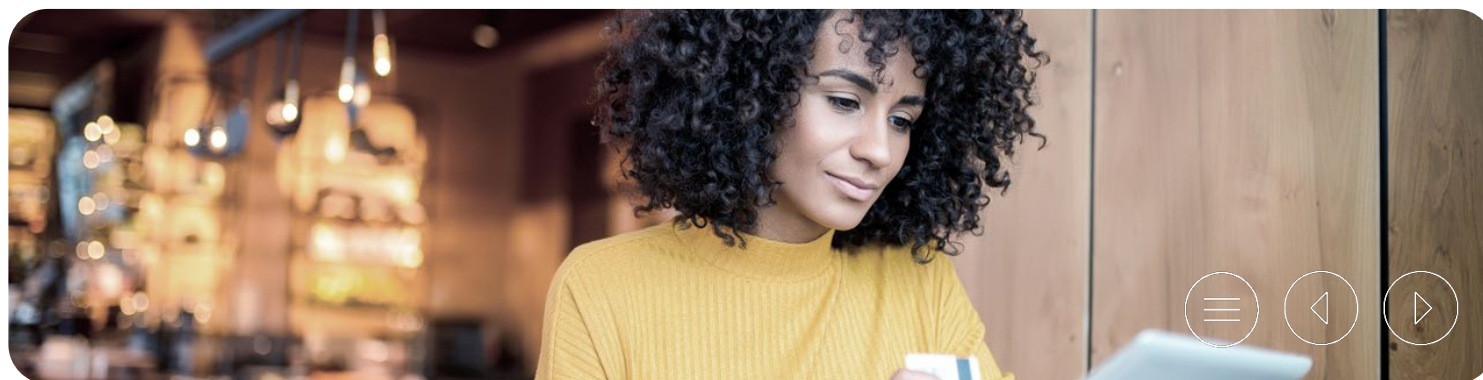
## Health and Insurance: A two-tier economy

Though we have seen improvements in the trading risk of Financial Services and Health businesses in the June quarter, a close review of illion's Growth Index tells a different story, when applied to key industry segments.

Firstly, in the Health Services sector, we see that core service providers, such as hospitals, residential care and pharmaceutical manufacturing have grown significantly (twice the national average). But in contrast, we have seen below-average growth in pathology, scientific research and allied health services (15-30% lower than the national average). Basic medical-services businesses, such as GPs, have grown by moderately above the national average (15% higher). Similarly, the Insurance sector has seen high growth in life insurance (30% above the national average) but low growth in general insurance and health insurance (15% below average).

This suggests that Australians may be spending less on preventative and diagnostic health measures and more on significant health procedures. For example, illion's spend data shows that total consumer spending on health insurance has barely exceeded inflation (meaning that there has been little policy underwriting growth) and growth on health support services, such as occupational therapy, podiatry, physiotherapy, psychology, pharmacy and optometry, has only grown by a third of the growth seen in hospital care.

Equally, Australians are spending more on protecting their families' finances in the event of mortality and morbidity than on their own wellbeing – noting that this may be due to a rise in home lending again. Therefore, with tighter consumer spending, interested parties such as health policy makers and commercial lenders, will need to understand the trading stress on fine segments within the health services and insurance sectors – e.g. life insurance brokers against general/health insurance brokers, general medical practices against pharmacists and physiotherapists.



# Definition of the Commercial Risk Barometer

## Background notes: Basis of the Commercial Risk Barometer

### Tracking

The Commercial Risk Barometer tracks the risk of Australian businesses being unable to trade within the next 12 months with money owing and being forced into closure – this includes businesses entering liquidation and/or being involuntarily deregistered. The barometer is:

- A metric, showing the percentage change in the probability of businesses failing with monies owing
- A 12-month forward-looking prediction of this failure risk
- A trend-line, showing the changing nature of this risk, both directionally and in percentage magnitude
- Aggregated over all active businesses operating at the time of risk assessment

### Leading indicators

The barometer is created by modelling leading indicators against subsequent business performance. These indicators include:

- Current and historical legal actions taken out on businesses and their directors
- Current and historical debt collection activity on businesses
- Changes in trading activity including the aggregate value of business invoice payments
- Changes in financial stress through the late payment of trading obligations
- The underlying risk of the business's profile – e.g. industry and geographic business profile
- Credit risk of business directors on their business and consumer credit holdings – including their credit exposure and payment delinquency

### Trends

The barometer is shown as the percentage change in failure risk, with the percentage calculated relative to the risk observed at the baseline point in time – as at January 2023. This baseline has been chosen to a) remove the early biases/effects from COVID and to b) focus on current economic impacts from broad-based inflationary pressures and higher interest rates on consumers and businesses.

To smooth monthly fluctuations, these trends are calculated as moving averages over a rolling 3-month period to the month shown in the trend diagram (page 2).

Additional insights into business trading activity, business and director legal actions, industry risk, business size, consumer confidence and expenditure patterns may be incorporated in this insights pack to show trends that are likely to have an impact on the failure risk of businesses.

The data used to create the risk index is derived from the illion, an Experian company, proprietary commercial databases, comprising the largest commercial information bureau and trade credit payment program available on Australia's more than 2.5 million active businesses.



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