



PwC Restructuring Update - Q1 2023

Insolvency levels remain low

April 2023



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Foreword



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Q1 2023

- **23% increase since Q1 2022** - There was a 23% increase in the total number of insolvencies when comparing Q1 2022 and Q1 2023, 119 companies in Q1 2023 compared to 97 companies in Q1 2022. The annual business failure rate per 10,000 companies increased from 3.7 in Q1 2021 to 4.4 in Q1 2022.
- **Our PwC Insolvency Barometer indicates insolvency levels remain lower than pre pandemic levels** - While there was a significant increase in 2022 (from 14 per 10,000 businesses in 2021 to 20 per 10,000 businesses in 2022), the pre-pandemic rate of 36 in 2019 was nearly twice as high. Ireland's current insolvency rate of 21 per 10,000 companies is running at 19% of the peak rate from 2012 and is running at 41% of the average insolvency rate per 10,000 companies over the past 19 years.
- **Insolvency levels have decreased since the last quarter** - There was a 32% decrease from Q4 2022 to Q1 2023 in the total number of insolvencies. Some of this decrease can be explained through seasonality although the drop is lighter than Q1 2022 which was only 12% lower than Q4 2021.
- **SMEs are the main driver of insolvencies** - 99% of all insolvencies during Q1 2023 were SMEs which represents the main driver behind the overall general increase in insolvency levels, with most of these insolvencies being smaller businesses leaving behind debts of c. €2 million on average.
- **During Q1 there was a sharp decrease in SCARP appointments** - With only 4 SCARP appointments in this quarter, SCARP accounted for only 4% of the total insolvencies during Q1 2023. This contrasts with Q4 2022 where 12 SCARP appointments were recorded, accounting for 7% of total insolvencies in Q4 2022.
- **UK insolvency figures continue to rise** - The UK saw their highest ever absolute number of liquidations in Q4 2022 with 5,898 appointments. After a plateau in Q3, the number of liquidations in the UK increased 8% in Q4 2022 from 5,443 liquidations recorded in Q3 2022.
- **Most Impacted Sectors** - The arts, entertainment and recreation sector had the highest number of insolvencies in Q1 2023 with 21 per 10,000 companies. This aligns with previous trends shown in our last report where the art, entertainment and recreation sector was the most impact sector on a year basis for 2022.
- **Dublin accounts for over 50% of total insolvencies in Q1 2023** - In Q1 2023 Dublin accounted for 52% of total insolvencies, an increase from 42% in Q4 2022.

Local Economic Indicators



Irish inflation at 8.0%

The Irish inflation rate was 8.0% in February 2023, rising surprisingly from an inflation rate of 7.5% in January. This is still just below the inflation rate in December 2022 (8.2%). Irish inflation for February is lower than the EU average of 8.5%.



Unemployment rate at 4.3%

The unemployment rate has dropped slightly since previous months; October (4.5%), December (4.4%) and January (4.4%) and currently stands at 4.3% as of February 2023. The EU unemployment rate was significantly higher at 6.7% in January 2023. The unemployment rates in the UK and US were at 3.7% and 3.4% respectively in January 2023.



The ECB has increased their interest rate to 3.5%

In March, the European Central Bank ("ECB") raised its main refinancing operation interest rate to 3.5% in an effort to stabilise inflation in the eurozone. ECB rates have risen consecutively since July 2022; July 2022 (0.5%), September 2022 (1.25%), November 2022 (2.00%), December 2022 (2.5%), February 2023 (3.00%) and March 2023 (3.5%).



Ireland's GDP grew by 12.2% year on year in 2022

Ireland's Gross Domestic Product ("GDP") grew by 12.2% year on year in 2022, after a previous GDP Annual Growth Rate of 10.9% in 2021. This is attributed to a high quarter on quarter growth of 3.5% in Q4 of 2022. Meanwhile, Gross National Product ("GNP"), which is a more meaningful measure of economic activity in Ireland, grew by 6.7% year-on-year in 2022.



Consumer sentiment increased to 53.9

Ireland's Consumer Confidence decreased to 53.9 in March, from higher levels in both January (55.2) and February (55.6). Sentiment had been increasing from a low of 42.1 in September 2022.



Construction index at 49.8

BNP Paribas Real Estate Ireland's construction index measures the growth in Irish construction activity. The index was 49.8 in February 2023, an increase from the previous month (47.7) and the highest it has been since October 2022 after recovering from a dip in December (43.2). Q4 FY 2022's fall is being accredited to a decline in housing and civil engineering activity.

Global Headwinds

1. Interest rates

Since our Q4 2022 restructuring report “A look back at 2022 and what to expect in 2023” the current US Federal Reserve interest rate has increased to a targeted range of 4.75% and 5.00%. This is the 9th consecutive increase in interest rate that the US Federal Reserve has undertaken in the past 12 months, from a rate of 0.25% in March 2022 to the current interest rate of 5.00% in March 2023. The Bank of England (“BoE”) increased their interest rate to 4.25% in March having already increased by 0.5% in December and February. The increase in March is the eleventh consecutive increase and it’s now at a rate not experienced since 2008. The ECB interest rate is far below that of the US and UK at 3.5% but is the fourth consecutive increase in interest rate this year. Further increases are expected from the ECB, BoE and US Federal Reserve in 2023.

2. Inflation

The current annual inflation rate in the EU is 10% in January 2023, (eurozone area - 8.6%) with the Irish inflation below this level at 8.0% according to Eurostat. Elsewhere in the EU certain countries recorded annual inflation rates which were at or over double the EU average: Hungary (26.2%), Latvia (21.4%) and Czech Republic (19.1%). Luxembourg currently has the lowest annual inflation rate in the EU at 5.8%. The US inflation rate is currently at 6.04% and the UK at 10.4%. With high inflation rates, pressure is placed on businesses across the globe as consumers tighten their spending habits and wage demands increase.





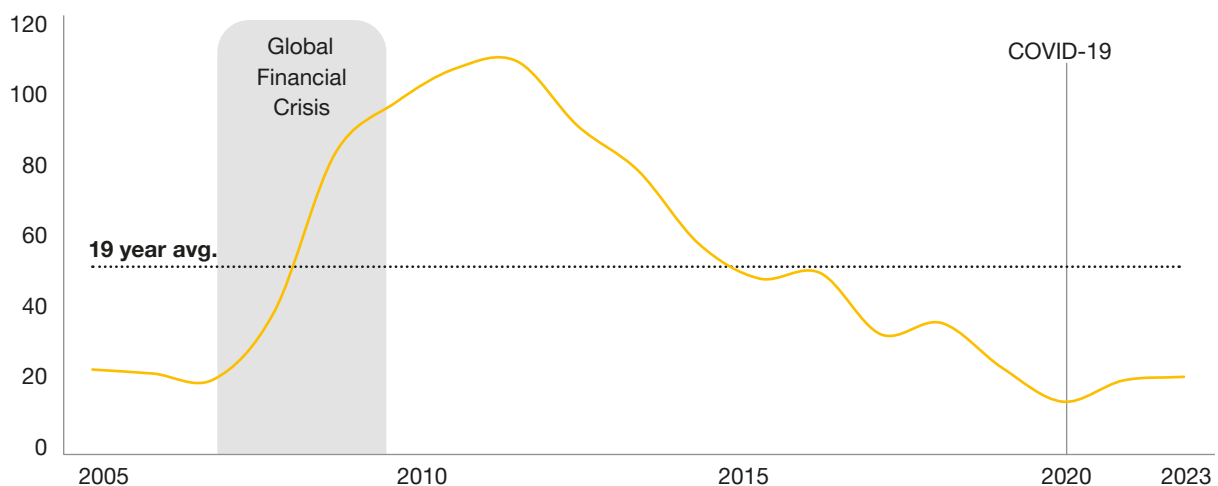
Quarterly Update - Q1 2023

Q1 Business Failure Highlights

Why we use a per 10,000 business measure - Business Failure Rate

Our analysis is based on a per 10,000 measure which has become all too common to hear since the pandemic. It is also widely used when comparing the birth or death rates across different regions or countries. It is a simple yet effective statistic for comparison purposes between different periods, industries, towns, counties or countries with different population sizes. It provides meaningful context to the numbers rather than simply looking at them in absolute terms.

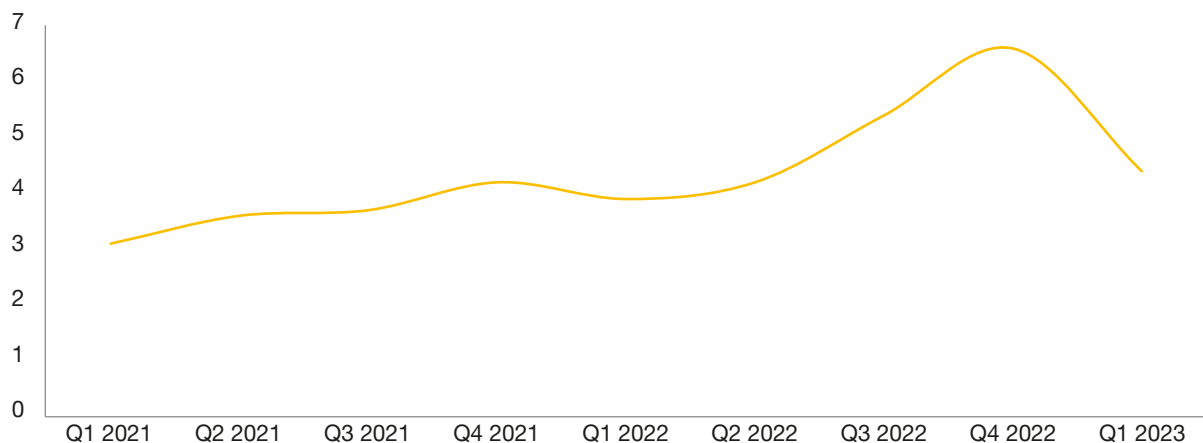
Business Failure Rate per 10,000 companies



PwC Insolvency Barometer

	Business Failure Rate per 10,000	Year
Current	21	2023
19 Year Average	51	Past 19 Years
Highest	109	2012
Lowest	14	2021

Quarterly Business Failure Rate per 10,000



Irish quarterly business failure rate per 10,000 businesses

Insolvency Type	Q1 2023	Q4 2022	Q1 2022	Q1 2021
Total Corporate Insolvencies	4.4	6.6	3.7	3.1
Liquidations	3.7	5.3	2.3	2.2
Receiverships	0.5	0.8	1.2	0.9
Examinerships	0.0	0.1	0.2	0.0
SCARP	0.2	0.5	0.0	0.0

1. The business failure rate has increased by 19% when Q1 2023 is compared to the same period last year

The business failure rate of 4.4 per 10,000 businesses during Q1 2023 represents a 19% increase when compared to the same quarter last year (3.7 failures per 10,000 businesses).

2. Insolvencies have decreased quarter on quarter for the first time since Q1 2022. (32% decrease)

Q1 2023 is the first quarter since Q1 2022 to see a decrease in overall insolvency figures. SCARPs have had the sharpest decrease with 59% from 12 SCARP appointments in Q4 2022 to 5 appointments in Q1 2023.

Total number of Irish quarterly business failures

Insolvency Type	Q1 2023	Q4 2022	Q1 2022	Q1 2021
Total Corporate Insolvencies	119	175	97	80
Liquidations	99	140	60	57
Receiverships	14	21	32	22
Examinerships	1	2	5	1
SCARP	5	12	0	0



Business Failures in the UK

Liquidations in the UK peak further in Q4 2022

As highlighted in our previous reports, during the first two quarters of 2022 the UK had seen a record number of liquidations comparable with trends not seen since the global financial crisis. Q4 saw a large jump with 5,898 recorded liquidations. This is an increase of 8.4% in Q4 2022 from Q3 2022 when 5,443 liquidations were reported. The number of liquidations in the UK during Q4 2022 increased by 29% when compared to the same period in 2021.

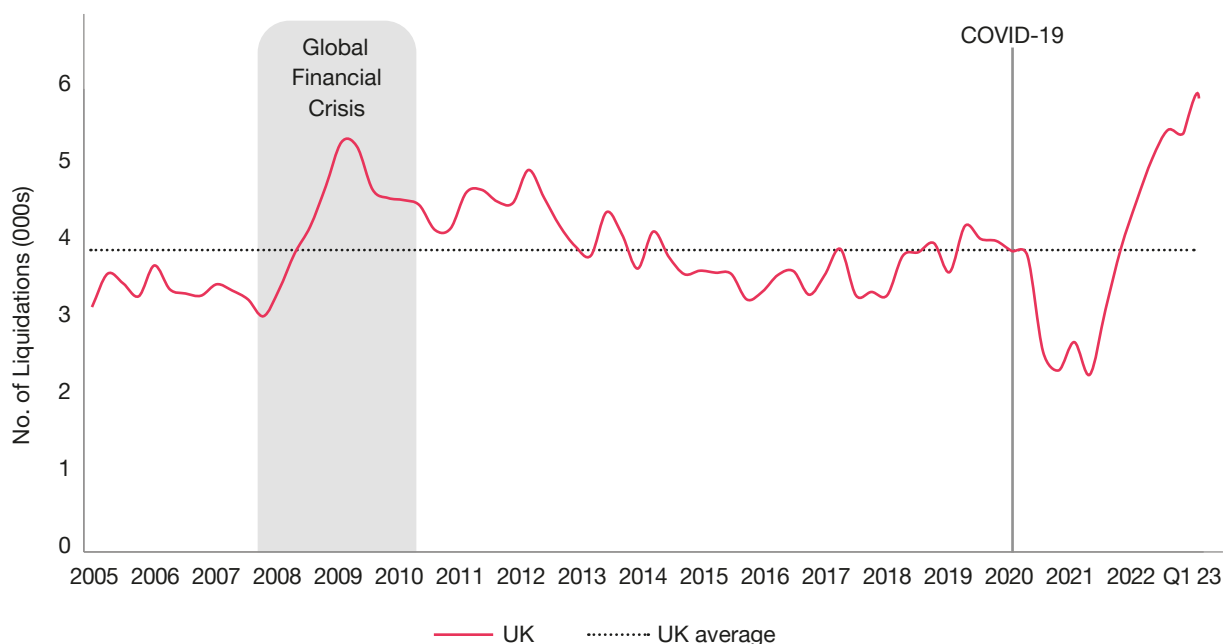
Although the absolute number of liquidations in the UK are at an all time high, the Q4 2022 per 10,000 figures

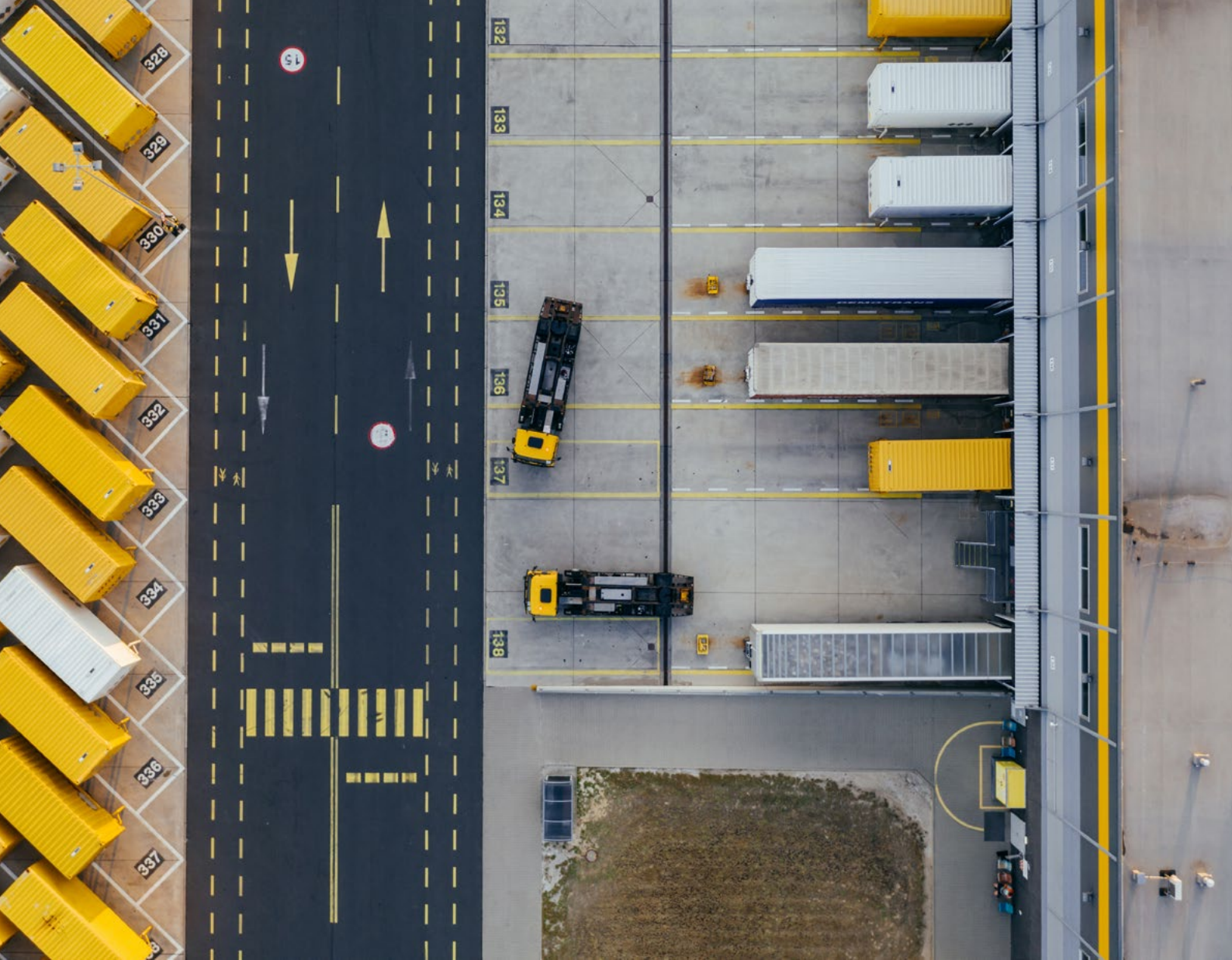
are running at less than half of the figures seen during the global financial crisis due to an increase in registered companies.

In a more recent report published by the UK Government, it was highlighted that the number of total business failures increased in January 2023. It was 7% higher than in January 2022 and 11% higher than the number in January 2020. The February 2023 number of total business failures was 17% higher than in February 2022 and 33% higher than the number in February 2020.

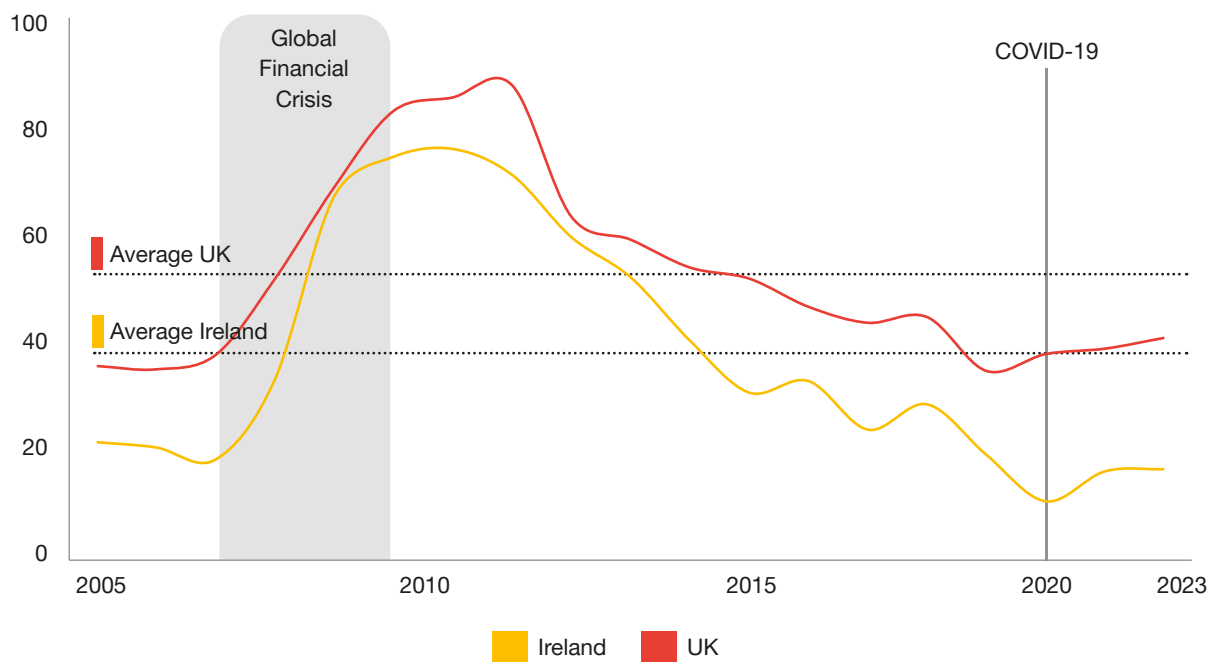
Creditor voluntary liquidations are the most commonly used insolvency process in the UK.

UK Quarterly Liquidations





Ireland's Liquidation Rate Compared to the UK (rolling twelve month average)



Q1 Industry Highlights

Quarterly business failure rate per 10,000 by industry:

Industry	Q1 2023	Q4 2022	Q1 2022
Energy and utility	11	33	0
Arts, entertainment and recreation	21	26	17
Hospitality	7	21	3
Health	4	8	6
Real estate	2	8	20
Manufacturing	7	7	1
Construction	3	7	2
Education	6	6	0
Retail	6	6	3
Finance and insurance	5	5	11
Professional, scientific and technical activities	2	5	2
Travel and transport	8	4	10
Information and communication	2	2	1
Administration and support services	0	1	0
Mining and quarrying	0	0	0
Other	3	0	0

1. In Q1 2023, the arts, entertainment and recreation sector had the highest number of business failures per 10,000 businesses

The arts, entertainment and recreation sector had the highest quarterly failure rate per 10,000 businesses with 21 per 10,000 companies during Q1 2023. This continues the trend seen in 2022 where the arts, entertainment and recreation sector had the highest yearly failure rate per 10,000 businesses.

2. Retail, construction and hospitality continue to have large numbers of insolvencies

In absolute terms the retail sector accounted for 30% of this quarter's insolvencies. The construction sector accounted for 13% and hospitality accounted for 11%. These 3 sectors accounted for 54% of total insolvencies in Q1 2023 in absolute terms

3. No business failures recorded in two sectors

The mining and quarrying and administration industries did not record any business failures during Q1 2023

4. Travel and transport and other are the only sectors whose per 10,000 business rate increased since Q4 2022

In line with overall decrease in insolvency figures this quarter from Q4 2022, the travel and transport sector and the other sector are the only sectors to see an increase in their per 10,000 business insolvency figures from Q4 2022.



Q1 County Highlights

County	Q1 2023	Q4 2022	Q1 2022
Cavan	0	10	5
Dublin	7	9	7
Wicklow	5	9	4
Leitrim	0	9	0
Offaly	0	9	0
Monaghan	3	9	6
Westmeath	4	8	0
Meath	4	8	1
Galway	6	7	4
Clare	3	6	6
Wexford	4	6	3
Kildare	7	6	3
Louth	4	5	5
Longford	0	5	0
Kerry	1	5	0
Cork	3	5	2
Donegal	1	5	0
Limerick	1	4	4
Tipperary	2	4	1
Waterford	0	4	0
Carlow	0	3	3
Mayo	3	3	1
Roscommon	3	3	0
Laois	3	3	0
Sligo	0	3	9
Kilkenny	8	2	2

1. In overall numbers, Dublin had by far the highest number of insolvencies in the last quarter

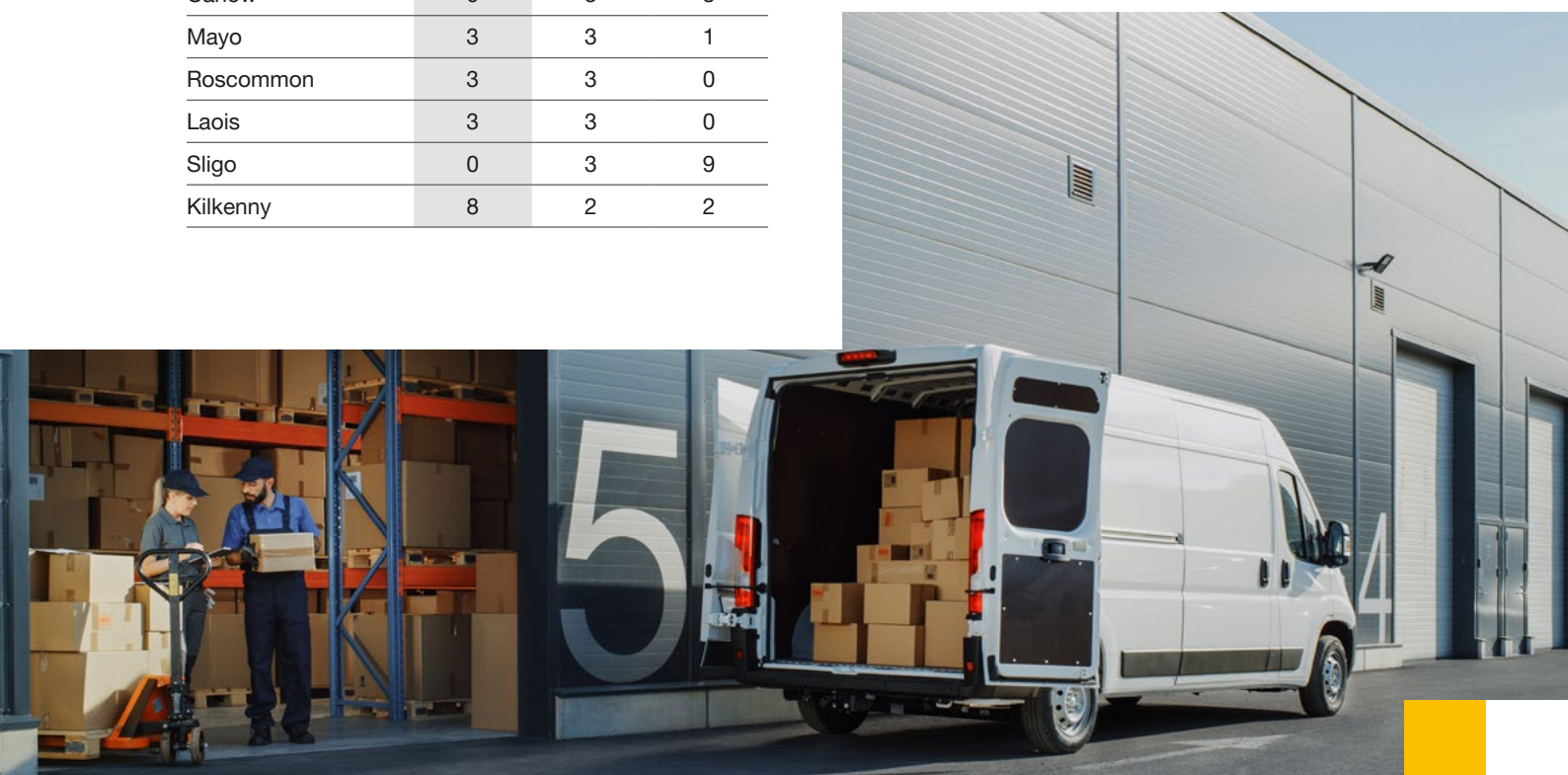
Dublin had the highest total number of total business failures with 52% of the overall total during Q1 which is up from 42% in the previous quarter.

2. 66% of all insolvencies for the quarter occurred in Dublin, Cork and Galway

Dublin, Cork and Galway accounted for 79 of the 119 insolvencies in Q1 2023 representing 52%, 7% and 7% respectively.

3. Kilkenny had the highest failure rate per 10,000 businesses

Kilkenny had 8 failures per 10,000 businesses during Q1 2023. Dublin and Kildare followed with 7 failures per 10,000 businesses each.



Act Now

Assess your working capital

Companies must re-appraise and shore up their liquidity and working capital requirements to address the unwinding of government support and debts accrued during the pandemic, while meeting renewed customer demand and delivering delayed investment.

Identify multiple funding sources

The limited availability of further government support will increase reliance on existing lenders, shareholders and access to the capital markets, which may be less forthcoming in sectors where the prospects for recovery and long-term growth are less clear.

Monitor your cash flow

In this uncertain and potentially stop-start pathway to recovery and economic growth, it's essential to monitor cash flow and develop realistic forecasts which take account of potential varying recovery scenarios and, in particular, increasing interest rates and inflation in Ireland as well as around the world.

Revise business plans

The immediate demands don't just include day-to-day expenses, but also funding for future growth and adapting to the trends reshaping marketplaces and economies. Revised and flexible business plans will be required to allow for quick forecasting and reacting to market changes. Robust data driven reporting will enable a fast response to changes and prevent profit leakage.

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Appendix - Sources

- Bloomberg
- BNP Paribas Real Estate
- Central Bank of Ireland
- Central Statistics Office
- Companies Registration Office
- Courtsdesk
- ESRI
- European Central Bank
- Eurostat
- Experian Gazette
- Financial Times
- Gov.ie
- Gov.uk
- Irish League of Credit Unions
- PwC UK
- Reuters
- Revenue Commissioners
- Vision-net
- Wall Street Journal

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