

June 2020

Business births and deaths trends in Queenstown-Lakes District to May 2020



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June 2020

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Foreword

This report provides timely insights about the number of businesses that are starting up and failing during the COVID-19 pandemic, as well as characteristics about these businesses.

The Global Financial Crisis (GFC) showed that entrepreneurship can help soften the immediate effects of a crisis and sustain the recovery in years to come. Following the GFC, business deaths rose, while even though business births were lower, they remained surprisingly high given the circumstances. In short, entrepreneurship can flourish in the unlikeliest of circumstances. Although the practical challenges of being entrepreneurial during the COVID-19 pandemic have been greater given public health measures, early evidence has suggested that entrepreneurship is already responding similarly to what it did following the GFC.

This report compares the local area against the rest of New Zealand, with analysis of the following:

- Long-term Entrepreneurship context from business demography:
 - o What have been the long-term trends for business births and deaths in the area?
 - o How have business births and deaths influenced employment over the long-term?
- Recent business births using the companies register:
 - o How many businesses were started each month since the beginning of 2020?
 - o Which industries were these new businesses in?
 - o Is the share of new businesses in a particular industry during the COVID-19 pandemic higher or lower than its share of the existing business stock?
- Recent business deaths using the companies register:
 - o How many businesses became inactive each month since the beginning of 2020?
 - o Which industries were these business deaths in?
 - o Is the share of businesses that die in a particular industry during the COVID-19 pandemic higher or lower than its share of the existing business stock?

About the dataset

Long-term entrepreneurship context is derived from Statistics New Zealand's Business Demography database (up to February 2019), while more recent monthly business births and deaths data since 2019 is based on a bulk data feed of New Zealand Business Numbers (NZBN) from the Companies Office.

Registered companies only, which represent close to 90% of new business structures are considered in the monthly feed. Companies leave a footprint in the administrative data from day dot so are conducive to regular and timely monitoring, while sole traders typically only enter the register in March each year as an accountant formalises the sole trading structure in preparation of their first set of accounts. Companies that were known to be a holding company in the month they started are excluded.

The NZBN register is a complex dataset of more than 1,000,000 entries that has dynamic changes each month as businesses enter the register or update their status. Our system identifies changes to the register and geocodes entities to local areas. Changes are attributed to business births or deaths, depending on the nature of the change. Reporting is based on companies' characteristics as at the month the data was extracted, but being a dynamic register, subsequent changes to each company may occur.

Key learnings

- Growth in the stock of businesses is the net result of the appearance (birth) and disappearance (death) of businesses over a given year. This process is often referred to as “creative destruction”.
- The GFC showed that entrepreneurship can flourish in the unlikely of circumstances. Following the GFC, business deaths rose with a lagged effect, while even though business births were lower, they remained surprisingly high given a tough business environment.
- Even under COVID-19 lockdown, there were still 39 businesses started in Queenstown-Lakes during April 2020, compared to 77 a year ago.
- As the country moved down the COVID-19 alert levels, the number of new businesses started in Queenstown-Lakes during May 2020 was 85.
- The rate of business births in Queenstown-Lakes District sat at a similar level to New Zealand from January to March, but pushed above the rest of the country in May.
- There were significant volumes of professional, financial and other services businesses started. These types of businesses can easily be started despite practical challenges surrounding the COVID-19 pandemic. These types of businesses lend themselves to remote working arrangements.
- Understandably with the demand outlook for tourism and entertainment being subdued, startups in the transport and arts and recreational services realm were very limited.
- Business deaths in Queenstown-Lakes sat at 10 in January, but peaked at 31 in March. As the country went into lockdown, business deaths declined to 17 in April and 14 in May.
- The low level of business deaths in April and May is unlikely to reflect the true extent of challenges in the business environment. There is often a lag of several months between when a business experiences hardship and when the decision to shut down is taken and actioned.
- The highest number of business closures were in industries related to the tourism and construction and property sectors.

The road ahead

Over the months ahead, the composition of industries and places in which businesses start may change. As we move towards a new normal, opportunities will emerge unevenly across industries. Not only is the crisis affecting patterns of customer demand, but business practices and supply chains will look different to before the crisis.

This process of change is a friend of entrepreneurship, with new gaps that emerge driving potential business ideas.

However, change will also leave some existing businesses in a position they are unable to adapt from. As a result, although not yet apparent in the data, there will be an increasing number of business deaths that emerge during the rest of the year.

The lessons from the Global Financial Crisis showed that there is a lagged response for business deaths, as business owners survive as long as they can. But the GFC also showed that entrepreneurial spirit to give something new a go persisted throughout, with business startup rates remaining surprisingly high at all stages of the crisis. When faced with reduced other prospects, the opportunity cost of failure for budding entrepreneurs is less. This flexibility to adapt is something that can help drive New Zealand’s economic recovery.

Long-term entrepreneurship context

This section gives long-term entrepreneurship context from Statistics New Zealand's Business Demography database for the years to 2019. The analysis provides background to how business births and deaths in the local area have behaved over the long-term, particularly in the period surrounding the GFC. More recent monthly trends in business births and deaths, for the period since the COVID-19 pandemic started, are provided in subsequent sections using data from the Companies Office.

Long-term business births and deaths trends before COVID-19

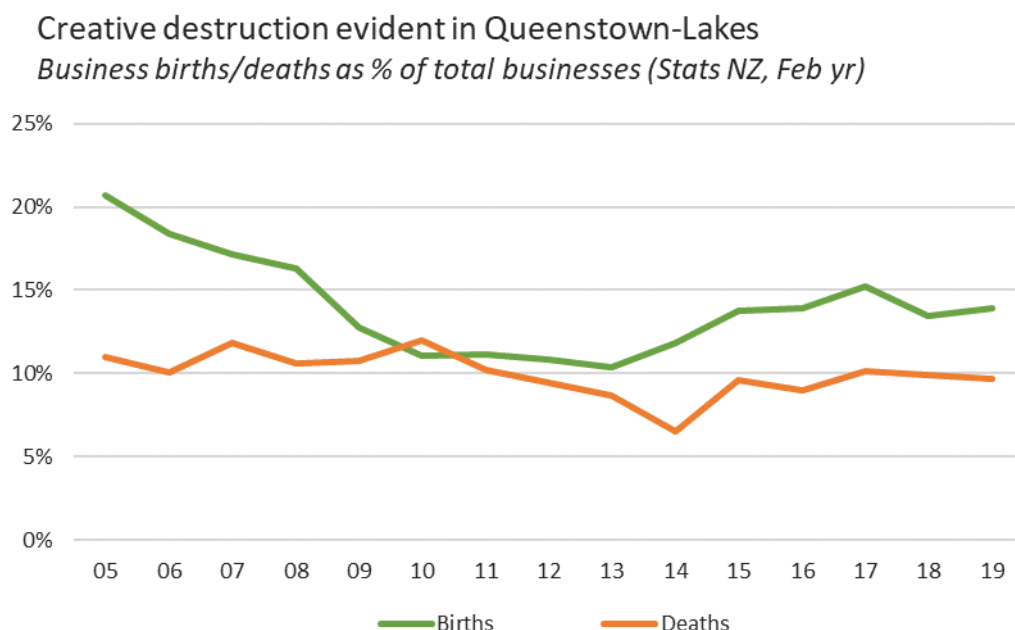
The total number of businesses across Queenstown-Lakes District recorded by Statistics New Zealand was 8,721 in 2019. Business numbers in Queenstown-Lakes were up 39% from ten years earlier in 2009 when there was a total of 6,267 businesses in Queenstown-Lakes.

Growth in the stock of businesses is the net result of the appearance (birth) and disappearance (death) of businesses over a given year. This process is often referred to as "creative destruction" and closer analysis shows it is alive and well in Queenstown-Lakes.

Creative destruction is a natural way of restructuring within an economy, where new, more innovative and productive firms replace less innovative ones. This more efficient reallocation of resources between growing and shrinking firms is critical to support a higher level and quality of employment in a local area.

Some natural pruning is warranted to weed out business models that are out-of-sync with longer-term trends in supply and demand, but there are also some businesses that fail because they have insufficient resilience to weather short-term storms. The necessity to build up resilience provides relevancy to the work that economic development practitioners do with existing enterprises to help them become more cost efficient, productive, competitive, and sustainably financed.

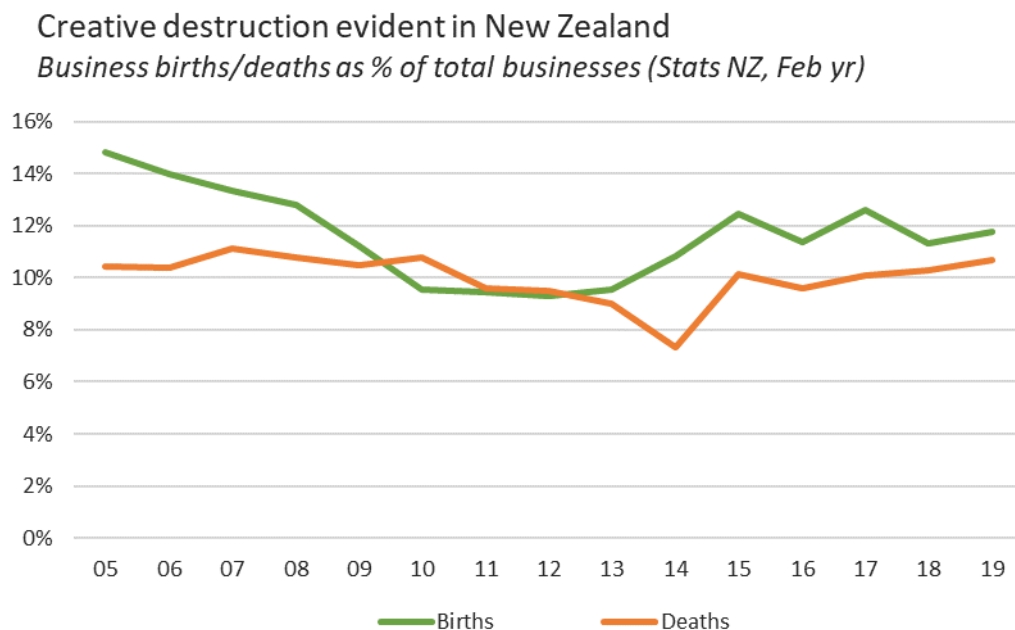
Graph 1



The business birth rate in Queenstown-Lakes fell from about 21% in 2005 to close to 10% in the years following the GFC, which hit in 2008. Over more recent years, business births rose strongly again as economic conditions improved. This pattern was consistent with the rest of New Zealand.

Deaths of existing businesses in Queenstown-Lakes peaked at 12% of businesses in 2010, but declined in the following years as the tourism boom supported flourishing business conditions in the local economy. Business deaths began to push higher again as the economic cycle matured. These patterns are consistent with the rest of the New Zealand.

Graph 2



Have new or existing businesses created the most jobs?

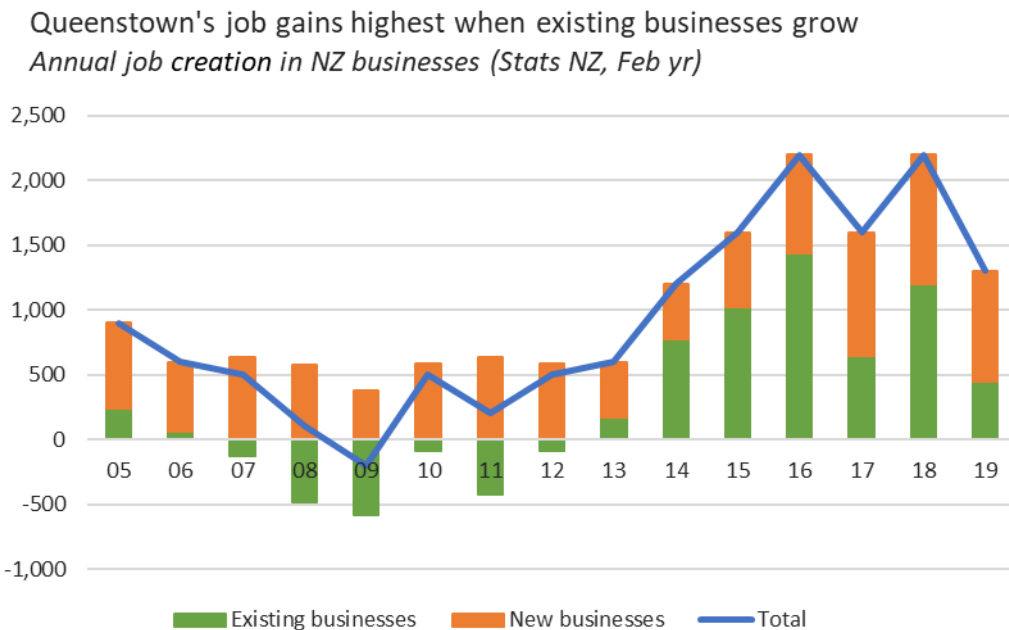
The previous section showed how business numbers have evolved over recent years. It also highlighted the process of creative destruction, where a flow of new businesses replaces those that cease operations.

This section looks at the upshot for what is happening in terms of the number of jobs provided by businesses. After all, it is nice to see how business numbers are changing, but the real goal for improving wellbeing is to translate this entrepreneurial spirit into jobs on the ground!

The following graph shows the total number of jobs created by businesses each year, split into those from new and those from existing businesses¹. Immediately obvious is that new businesses consistently create jobs through thick and thin. Existing businesses, on the other hand, are a frequent detractor from overall job creation. Swings in the fortunes of existing businesses are particularly detrimental to employment levels during a crisis.

¹ Estimates capture all those employed in businesses that are maintained on Statistics New Zealand's business register. Those that are self-employed and derive income as a contractor or from informal enterprises not on the business register are not captured within business employment and are excluded from the analysis.

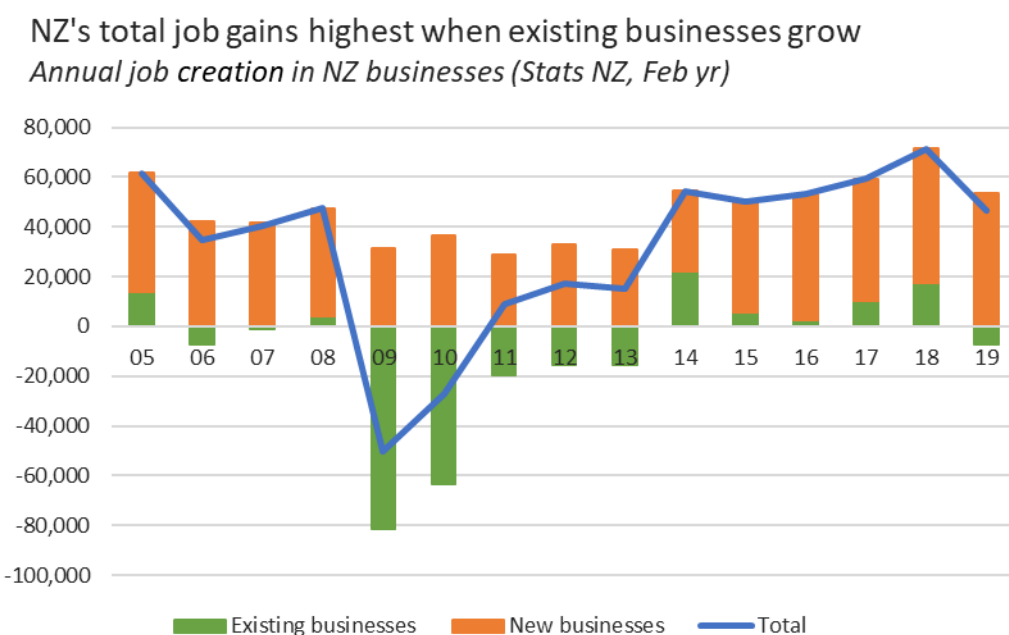
Graph 3



Since 2005 there has only been one year where the total number of people employed within businesses fell. But there were an additional five years where existing businesses shed workers. In these extra years, total jobs would have also fallen had it not been for new businesses adding employees to the workforce.

Comparisons can also be made to what occurred nationally. The following chart splits total jobs created by businesses nationally into those from new and those from existing businesses. The chart shows that nationally there were only two years where total employment fell, but there were an additional six years where employment in existing business declined. In these additional six years, total jobs in businesses would have gone backwards had it not been for new businesses adding employees to the workforce.

Graph 4



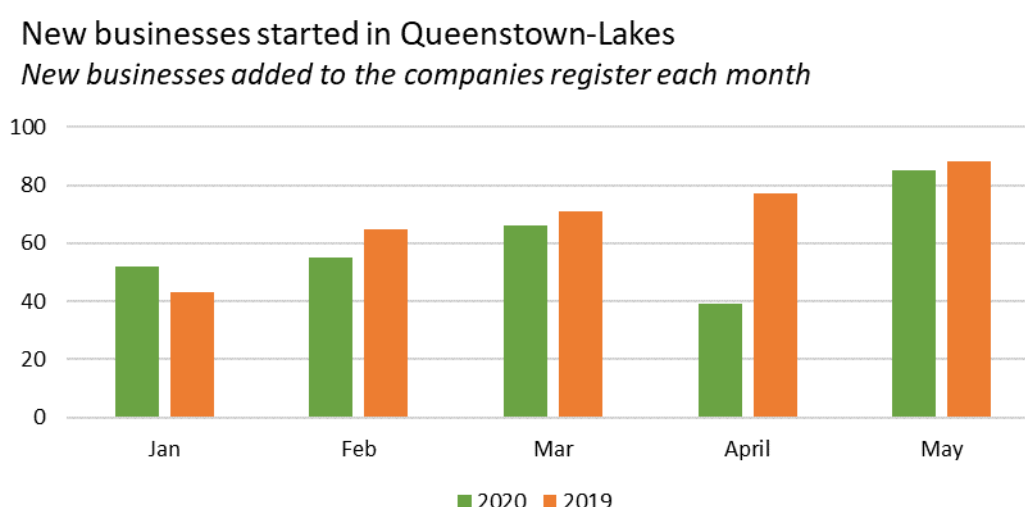
Recent business births using the companies register

This section gives recent monthly trends in business births in 2019 and 2020 using data from the Companies Office. The information can help show the extent to which entrepreneurship has held up in the period since the COVID-19 pandemic started.

How many businesses have started in 2020 to date?

The following chart shows monthly business births trends over the 2020 year to date, compared with the same months in 2019.

Graph 5



There were 66 businesses started in Queenstown-Lakes District during March 2020 immediately before the COVID-19 nationwide lockdown.

Nevertheless, even under COVID-19 lockdown, there were still 39 businesses started in Queenstown-Lakes during April 2020. Compared to the 77 businesses started during April 2019, the 39 businesses started this April may not seem particularly high, but just think of the practical challenges of being entrepreneurial under lockdown. Not only was the formation of businesses limited by the inability to visit site and equipment, but many industries face an uncertain and lengthy path back to normal.

These lockdown entrepreneurs may have been people who lost their jobs, or just had more time to pursue an idea. When faced with reduced other prospects, the opportunity cost of failure for budding entrepreneurs is less and this flexibility to adapt is something that can help drive New Zealand's economic recovery.

As the country moved down the COVID-19 alert levels, practical impediments to starting a business lessened and the changing economic environment created opportunities for new ideas. In May 2020, the number of new businesses started in Queenstown-Lakes was 85, close to its May 2019 level of 88 new businesses.

The following table summarises the number of businesses started each month in 2020 to date, compared to the same month in 2019.

Table 1

New businesses started in Queenstown-Lakes District
New businesses added to the companies register

Month	2020	2019
Jan	52	43
Feb	55	65
Mar	66	71
April	39	77
May	85	88
Total	297	344

How do recent business births compare to New Zealand?

Entrepreneurship in Queenstown-Lakes District was at a similar level to New Zealand from January to March, but pushed above the rest of the country in May.

Cumulatively throughout 2020 the businesses that have started in Queenstown-Lakes have been equivalent to 3.4% of the business stock, compared to 3.5% of the business stock nationally.

These trends are summarised in the following table.

Table 2

Business births during 2020 as share of existing business stock
Companies register births as % of stock in Stats NZ business demography (Feb-19 estimate)

Month	Queenstown-Lakes District	New Zealand
Jan	0.6%	0.6%
Feb	0.6%	0.7%
Mar	0.8%	0.8%
April	0.4%	0.5%
May	1.0%	0.8%
Cumulative	3.4%	3.5%

Which industries have recent business births been in?

Business births over recent months have been across a range of industries. The following table summarises the industry breakdown of business births over the past three months.

There were significant volumes of professional, financial and other services businesses started. These types of businesses can easily be started despite practical challenges surrounding the COVID-19 pandemic, as they don't normally require a lot of capital and are a 'weightless' good where proximity to customers does not matter. These types of businesses lend themselves to remote working arrangements for people that have based themselves out of the Southern Lakes area for lifestyle reasons.

The data also shows that there were surprising volumes of construction, hiring and real estate, manufacturing, and retail businesses started over recent months.

Understandably with the demand outlook for tourism and entertainment being subdued, startups in the transport and arts and recreational services realm were very limited.

Table 3

Industry breakdown of business births over past three months*Companies office registrations in Queenstown-Lakes District, March 2020 to May 2020*

Industry	New Companies	Share
Professional, Scientific and Technical Services	33	18.0%
Construction	27	14.8%
Financial and Insurance Services	18	9.8%
Rental, Hiring and Real Estate Services	17	9.3%
Administrative and Support Services	15	8.2%
Manufacturing	14	7.7%
Retail Trade	13	7.1%
Wholesale Trade	8	4.4%
Accommodation and Food Services	7	3.8%
Other Services	7	3.8%
Agriculture, Forestry and Fishing	5	2.7%
Arts and Recreation Services	4	2.2%
Transport, Postal and Warehousing	3	1.6%
Information Media and Telecommunications	3	1.6%
Health Care and Social Assistance	3	1.6%
Public Administration and Safety	2	1.1%
Education and Training	2	1.1%
Mining	1	0.5%
Electricity, Gas, Water and Waste Services	1	0.5%
Not stated	7	-
Total	190	100%

Comparing the industries of births against the existing stock

It is interesting to compare the industries in which businesses have started against their share of the existing business stock in Queenstown-Lakes. Industries with higher shares of business births than their share of the existing stock are ones that have relatively higher rates of entrepreneurship at present.

Many of the industries with high rates of entrepreneurship are small, so one or two extra businesses can distort the statistics. Nevertheless, high rates of entrepreneurship in manufacturing and wholesaling stand out. The higher rate of wholesaling startups is not surprising, given that online retailing's prominence has risen throughout the crisis and businesses have also had more transacting at arm's length from each other.

A weak outlook for industries with high exposures to international tourism is highlighted again in the relatively low current levels of entrepreneurship in accommodation and food services, transport, and arts and recreational services.

Table 4

Comparing business births from March 2020 to May 2020 to the existing business stock*Companies register births by industry against stock in Stats NZ business demography (at Feb-19)*

Industry	Share of business births	Share of existing businesses	Ratio
Mining	0.5%	0.1%	3.97
Public Administration and Safety	1.1%	0.4%	2.89
Manufacturing	7.7%	2.7%	2.85
Wholesale Trade	4.4%	1.7%	2.59
Electricity, Gas, Water and Waste Services	0.5%	0.2%	2.27
Professional, Scientific and Technical Services	18.0%	9.8%	1.85
Administrative and Support Services	8.2%	4.5%	1.83
Other Services	3.8%	2.9%	1.34
Financial and Insurance Services	9.8%	7.6%	1.29
Retail Trade	7.1%	5.8%	1.21
Information Media and Telecommunications	1.6%	1.5%	1.08
Education and Training	1.1%	1.0%	1.06
Construction	14.8%	16.5%	0.89
Agriculture, Forestry and Fishing	2.7%	3.7%	0.74
Health Care and Social Assistance	1.6%	2.4%	0.69
Arts and Recreation Services	2.2%	3.3%	0.67
Transport, Postal and Warehousing	1.6%	3.6%	0.45
Accommodation and Food Services	3.8%	8.5%	0.45
Rental, Hiring and Real Estate Services	9.3%	23.7%	0.39
Total	100%	100%	

Recent business deaths using the companies register

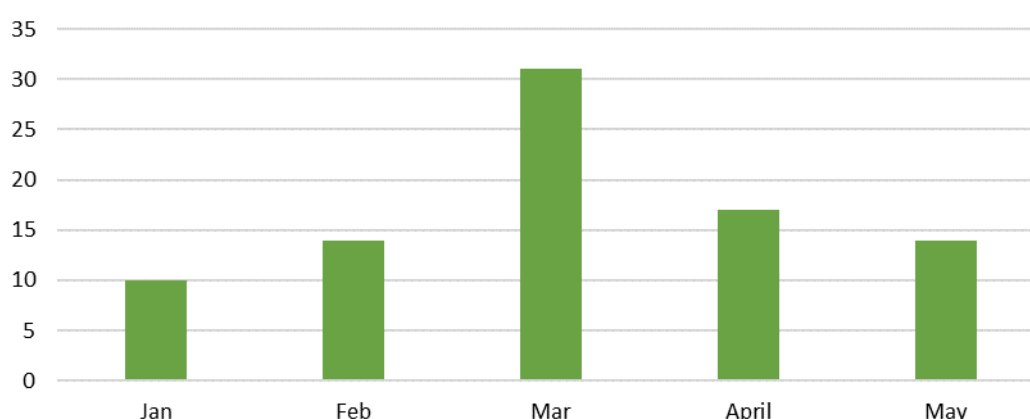
This section gives monthly trends in business deaths during 2020 using data from the Companies Office. Business deaths are defined as companies that have been removed from the register or are in liquidation, receivership, or voluntary administration. The information can help show the number of businesses that have actioned a formal decision to cease operations in the period since the COVID-19 pandemic started. There can be a lag between when a business owner decides to shutdown and the date on which their accountant formalises that action by updating the business' Companies Office record.

How have monthly business deaths evolved during 2020?

The following chart shows monthly business deaths trends for 2020 to date. The data shows how many businesses died during the months immediately before and after the COVID-19 lockdown, which was at its strictest during April.

Graph 6

Business deaths in Queenstown-Lakes in 2020
Businesses removed from the companies register each month



Business deaths in Queenstown-Lakes sat at 10 in January, but peaked at 31 in March. As the country went into lockdown, business deaths declined to 17 in April and 14 in May.

The low level of business deaths in April and May is unlikely to reflect the true extent of challenges in the business environment. There is often a lag of several months between when a business experiences hardship and when the decision to shut down is taken and actioned by the business' accountant.

In the current situation there were some companies that delayed the decision to shutdown because of government measures such as the availability of wage subsidies and softening of liability for directors of companies trading while insolvent. Mortgage holidays from banks and rent relief during lockdown from some commercial property owners, as well as the practical impediments to disposing of equipment during lockdown will have also contributed to lower levels of business deaths.

It is anticipated that business deaths will creep higher during the second half of 2020 as some extraordinary support ends and business owners make reasoned decisions about their future given a more challenging economic environment.

The following table summarises the monthly numbers of business deaths for the year to date.

Table 5

Business deaths in Queenstown-Lakes
Removed from the companies register

Month	2020
Jan	10
Feb	14
Mar	31
April	17
May	14
Total	86

How do recent business deaths compare to New Zealand?

Business death rates in Queenstown-Lakes District were higher than the New Zealand average in March, but have sat at a similar level to the rest of the country across other months during the year to date.

Cumulatively throughout 2020 the businesses that have closed down in Queenstown-Lakes have been equivalent to 1.0% of the business stock, compared to 1.0% of the business stock nationally.

These trends are summarised in the following table.

Table 6

Business deaths during 2020 as share of existing business stock

Companies register deaths as % of stock in Stats NZ business demography (Feb-19 estimate)

Month	Queenstown-Lakes District	New Zealand
Jan	0.1%	0.2%
Feb	0.2%	0.2%
Mar	0.4%	0.2%
April	0.2%	0.1%
May	0.2%	0.2%
Cumulative	1.0%	1.0%

Which industries have recent business deaths been in?

Business deaths over recent months have been across a range of industries. The following table summarises the industry breakdown of business deaths over the past three months.

As would be expected, the highest number of business closures were in industries related to the tourism and construction and property sectors.

Table 7

Industry breakdown of business deaths over past three months*Companies office deaths in Queenstown-Lakes District, March 2020 to May 2020*

Industry	Number	Share
Rental, Hiring and Real Estate Services	7	20.0%
Accommodation and Food Services	6	17.1%
Construction	5	14.3%
Manufacturing	3	8.6%
Professional, Scientific and Technical Services	3	8.6%
Wholesale Trade	2	5.7%
Retail Trade	2	5.7%
Information Media and Telecommunications	2	5.7%
Financial and Insurance Services	1	2.9%
Administrative and Support Services	1	2.9%
Health Care and Social Assistance	1	2.9%
Arts and Recreation Services	1	2.9%
Other Services	1	2.9%
Agriculture, Forestry and Fishing	0	0.0%
Mining	0	0.0%
Electricity, Gas, Water and Waste Services	0	0.0%
Transport, Postal and Warehousing	0	0.0%
Public Administration and Safety	0	0.0%
Education and Training	0	0.0%
Not stated	27	-
Total	62	100%

Comparing industries of business deaths to the existing stock

It is interesting to compare the industries in which businesses have died against their share of the existing business stock in Queenstown-Lakes. Industries with higher shares of business deaths than their share of the existing stock are ones that face relatively more challenging conditions.

It is difficult to draw interpretations from some of the smaller industries, as one or two closures distort the statistics.

However, the data reaffirms that the business death rate in accommodation and food services has been particularly high compared with the sector's share of existing businesses.

Table 8

Comparing business deaths from March 2020 to May 2020 to the existing business stock*Companies register deaths by industry against stock in Stats NZ business demography (at Feb-19)*

Industry	Share of business deaths	Share of existing businesses	Ratio
Information Media and Telecommunications	5.7%	1.5%	3.78
Wholesale Trade	5.7%	1.7%	3.39
Manufacturing	8.6%	2.7%	3.19
Accommodation and Food Services	17.1%	8.5%	2.01
Health Care and Social Assistance	2.9%	2.4%	1.20
Other Services	2.9%	2.9%	1.00
Retail Trade	5.7%	5.8%	0.98
Professional, Scientific and Technical Services	8.6%	9.8%	0.88
Arts and Recreation Services	2.9%	3.3%	0.87
Construction	14.3%	16.5%	0.86
Rental, Hiring and Real Estate Services	20.0%	23.7%	0.85
Administrative and Support Services	2.9%	4.5%	0.64
Financial and Insurance Services	2.9%	7.6%	0.38
Agriculture, Forestry and Fishing	0.0%	3.7%	-
Mining	0.0%	0.1%	-
Electricity, Gas, Water and Waste Services	0.0%	0.2%	-
Transport, Postal and Warehousing	0.0%	3.6%	-
Public Administration and Safety	0.0%	0.4%	-
Education and Training	0.0%	1.0%	-
Total	100%	100%	