Exits and entries of Austrian firms during the pandemic – preliminary results[24]

Dieser Beitrag gibt einen Einblick in die laufende Analyse der OeNB der Entwicklung von nicht-finanziellen Unternehmen in Österreich vor und während der Covid-Krise. Dargestellt werden vorläufige Ergebnisse auf Basis experimenteller Statistiken, die neben dem Insolvenzgeschehen auch Unternehmensgründungen sowie nicht insolvenzbedingte Marktaustritte miteinbeziehen. Hintergrund ist die Frage, ob das bislang unter dem Vorkrisenniveau – und unter dem von der OeNB und vielen anderen Experten erwarteten Niveau – zurückbleibende Insolvenzgeschehen durch vermehrte Marktaustritte ohne Insolvenz oder weniger Unternehmensgründungen kompensiert wird. Die Ergebnisse zeigen, dass diese Phänomene nur einen Teil der beobachtbaren Insolvenzlücke erklären können. Erstens kam es nicht zu einer Kompensation der niedrigeren Insolvenzen durch zusätzliche Exits. Im Gegenteil sind auch die Exits stark gesunken. Zweitens kam es zu etwa gleich vielen Gründungen. Dies bedeutet allerdings einen starken Einbruch im positiven Trend bei Neugründungen der letzten Jahre. In der Krise verließen weniger Firmen den Markt via Insolvenzen und Exits, aber es kamen weniger neue Firmen auf den Markt als es dem langjährigen Trend entsprochen hätte.

Background

This short note describes preliminary main results with regard to firm exits and entries in Austria before and during the pandemic given the significant impact COVID-19 has had on corporate financial conditions. Due to mitigating measures, the insolvency rates observed so far have been below the 2019 pre-crisis levels. This is not only true for 2020 but also for 2021 for all months currently available (up to October 2021). In this context, we sought to establish if the lower rates of insolvencies might have been offset by higher rates of firms exiting the market without insolvency (exits) or lower rates of firms entering the market (entries). To deliver some preliminary insights, we use a range of data sources available to the OeNB.

Specifically, we employ an experimental dataset combining data from the Austrian juridical system with OeNB master data (OBServ), as well as the SABINA balance sheet database and the so called Statistics Austria's structural business statistics. Note that in one important respect our data differ from other data sources on insolvencies, such as figures provided by Kreditschutzverband von 1870 (KSV 1870) or Österreichischer Verband Creditreform (Creditreform). We explicitly exclude sole proprietors and apply a sectoral approach, working with a well-defined set of firms, namely all entities registered in the Austrian business register apart from registered sole-proprietors in Austria. Our database therefore consists mostly of limited liability companies, limited partnerships, general partnerships and stock corporations.[25]

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[25] For our motivation and a detailed description of this database, see the OeNB's latest financial stability report: Elsinger, H., Fessler, P., Kerbl, S., Schneider, A., Schürz, M., Wiesinger, S. (2021): Calm before the storm? Insolvencies during the Covid-19 Pandemic. Financial Stability Report 41, p.57-76. OeNB,

Given our limited information on 2021, we also exclude 2021 from our analysis of exits and entries. These data will be added and assessed in future publications upon availability, but so far – given the data on insolvencies we already can observe up to October 2021 – we see no reason to believe that the results for 2021 would differ substantially from 2020. Finally, there is one more caveat to our analysis which we will be able to address in future work in more detail. For this analysis, exits and entries might also include firms which just changed their corporate form (e.g. from a limited partnership to a limited liability company) or firms whose identifiers have changed (e.g. following a takeover or merger). We are confident that such technicalities do not bias our preliminary results very strongly, especially when it comes to our main results with regard to the development over time. However, in principle the OeNB has all the information to investigate this issue in greater detail in future work.

Three main preliminary results

Table 1 shows a short summary of exits, entries and insolvencies for 2019 and 2020, as well as the insolvency-to-exit ratio and the stock of firms (available in our database, based on our definition excluding sole proprietors). In total, firm entries exceeded exits and insolvencies combined in both years. Insolvencies accounted for about 15% to 16% of exits, implying that the number of non-insolvency-related exits was about 5 times larger than the number of insolvencies in both years. However, while the number of firm entries was only marginally larger in 2020 than in 2019, the number of both insolvencies and exits was substantially lower in 2020 than in 2019. While the decrease in insolvencies was about 32%, the decrease in exits was about 34%.

Preliminary result 1

These results already point to a clear answer to the question if more exits compensated for fewer insolvencies. They did not. On the contrary, there was also an additional sharp decrease in firm exits. Due to the diminished number of exits and insolvencies, the almost stable entry numbers were able to offset this outflow. Ultimately, the number of firms increased by about 10,000 firms in our database during the first pandemic year.[26]

Table 1

	Entries	Exits	Insolvencies	End-of-year stocks	Beginning-of-year stocks	Insolvency-to-exit ratio
	Thousands					%
2019	15.8	14.4	2.2	372.7	380.5	15.0
2020	15.9	9.4	1.5	380.5	389.7	15.6
Source: OeNB, OeNB master data (OBServ)						

As a next step, we investigate entries in more detail with regard to two aspects. First, we look at the annual trend before the pandemic. Second, we look at monthly developments during 2020 to investigate the impact of the first lockdown when the crisis hit.

https://www.oenb.at/dam/jcr:6875cdad-dd4f-4859-8a4e-d0233ded0bbb/08_PB_FSR_41_The%20calm%20before%20the%20storm.pdf

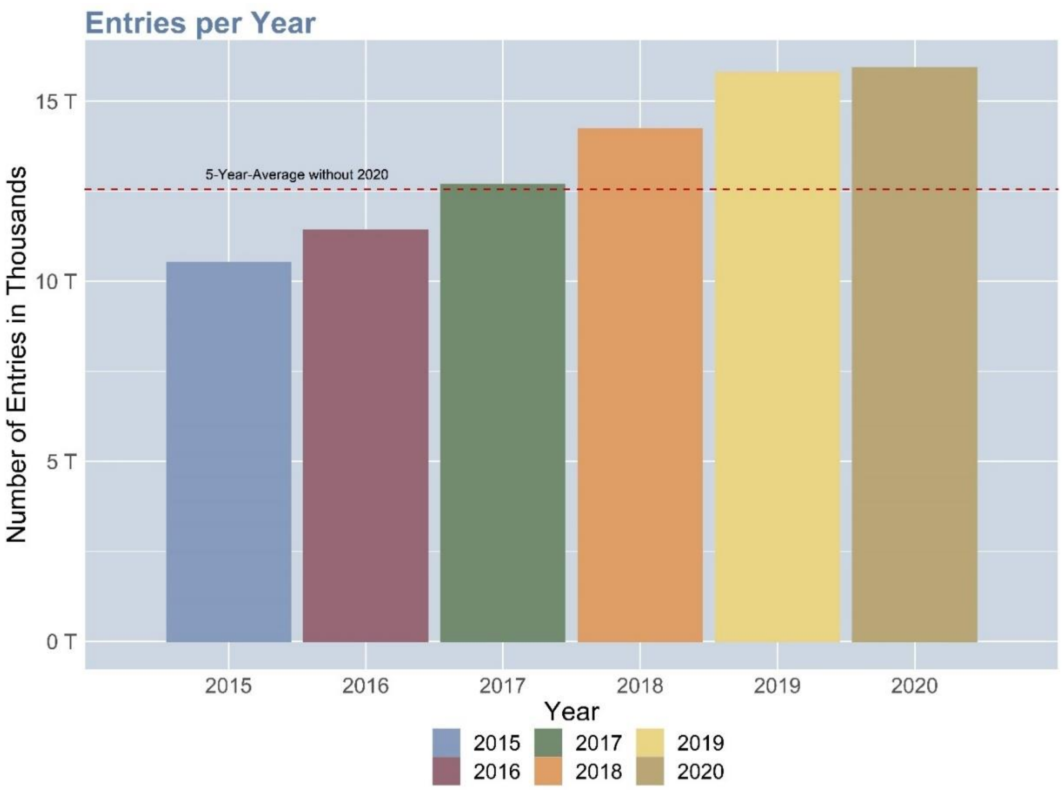
[26] The difference between the stock increase and the net flow of entries resulting from exits and insolvencies comes from the fact that not every entry date in the dataset is known and thus cannot be accounted for in the entry figure.

Chart 1 below shows the development of yearly firm entries since 2015 up to 2020. We clearly see that there was a strong positive trend in firm entries. The number of yearly firm entries actually increased by almost 50% from 2015 to 2019 (from 10,521 to 15,796), with significant yearly increases also between 2017 and 2018 as well as 2018 and 2019. In 2020, however, there was a clear break, with the growth of firm entries more or less stagnating at the 2019 level (15,926 entries).

Preliminary result 2

Given the yearly time trend before the pandemic, we can identify a gap of potentially a few thousand firm entries one would have expected under the assumption of continued trends without the pandemic.

Chart 1



Source: OeNB, OeNB Master Data (OBServ)

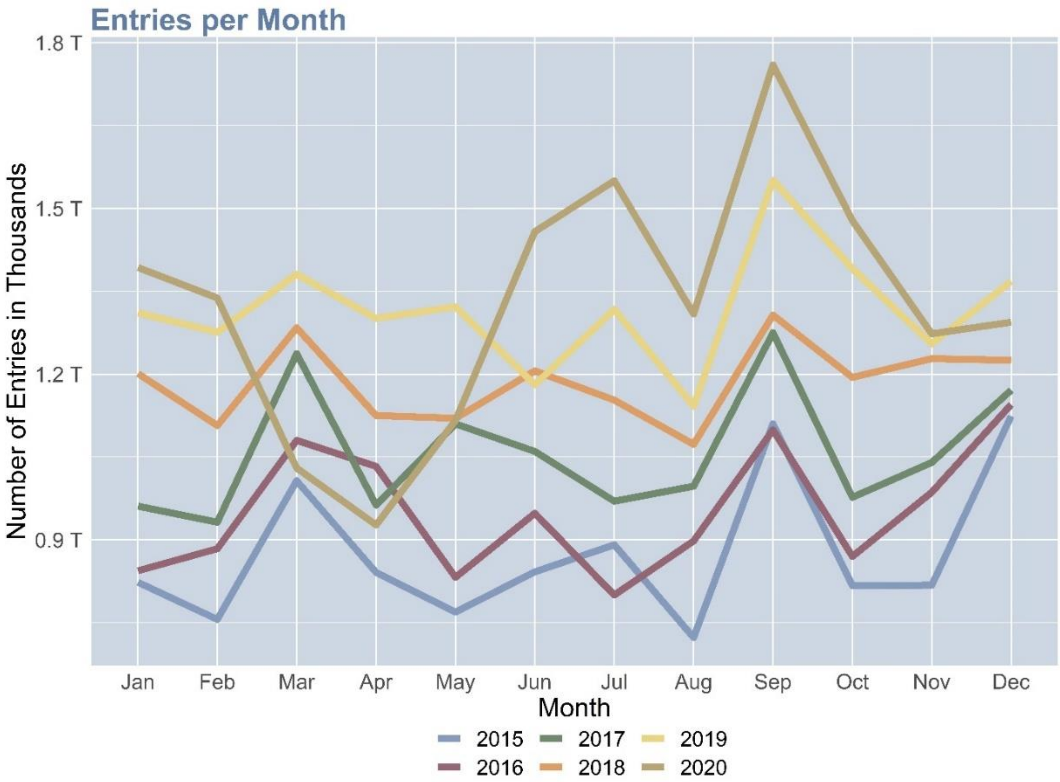
As a next step, we zoom in on the development of monthly firm entries across the years since 2015 and the overall increase in entry numbers year upon year. Chart 2 reveals that entries tend to fluctuate across the year, with typical spikes in March and in September. The year 2020 stands out in two dimensions. First, instead of a spike in March, there was a sharp decrease during and shortly after the first lockdown in March and April. While already rising in May, entry numbers remained low. Thereafter, we see some compensation in the summer numbers and another decrease in November and December during the second lockdown. Overall, it is the lockdown-period entries that explain why the number of entries in 2020 remained below the 2019 figures. While chart 1 shows descriptively on a yearly basis that entries stagnated in 2020, chart 2 delivers suggestive evidence on a monthly basis, that the reason for fewer entries might indeed be related to the pandemic or counter measures such as lockdowns.

Preliminary result 3

On a monthly basis within 2020 lockdown periods coincide with lower entry numbers. At the same time we observe a strong rebound after the first lockdown – which, however, did not compensate completely for the fewer entries within the lockdown. We see that as suggestive evidence, that the reason for lower market entries might indeed be related to the pandemic or counter measures such as lockdowns.

Our preliminary analysis does not establish a causal relationship, but further investigations seem worthwhile. Further research is necessary to investigate if the observed effects are indeed lockdown-related or have other reasons, such as potential impacts on founders' expectations or finances.

Chart 2



Source: OeNB, OeNB Master Data (OBServ)

Some additional preliminary results

Preliminary investigation yielded some additional results, as briefly summarized here.

- Our main results are not driven by some specific sectors but seem to hold quite generally across most economic sectors.
- Firms exiting through insolvencies are on average less well capitalized than firms exiting through exits proper. It is likely that state interventions during the pandemic also allowed firms to exit without insolvency.
- In terms of asset base, firms exiting through insolvencies were somewhat smaller on average in 2020 compared to 2019 while firms exiting without insolvency were marginally larger in 2020 compared to 2019.

- With regard to regions, Vienna stands out with a comparably higher and rising (from 2019 to 2020) insolvency-to-exit ratio.
- Insolvent firms tend to have more employees than their exit counterparts.
- Firms leaving markets without insolvency are usually older than those leaving through insolvency.

Conclusion

Employing a broad-based experimental micro dataset on Austrian firms (excluding sole proprietors) as available to the OeNB, we investigated the question if observed lower rates of insolvencies during the first year of the COVID-19 pandemic might have been compensated by higher rates of firms exiting the market without insolvency (exits) or lower rates of firms entering the market (entries).

We established three preliminary results: (i) Exits did not increase and compensate for lower insolvency rates. (ii) Entries almost stagnated, which implies that a positive trend was broken, which in turn might suggest that the pandemic led to a lower increase of entries. (iii) Lower entry numbers indeed coincide with lockdown periods for 2020.

It is important to note that (ii) and (iii) are descriptive findings and we cannot establish a causal relationship at this point. Further investigations seem appropriate. However, as highlighted before, we would need firm-level data on lockdown-related government support measures – which are available but not accessible at this point – to be able to address the urgent need for a deeper understanding of insolvency/exit-related financial stability risks that may have been building up during the pandemic crisis.