



The business people – an extension to your team

## Economy Watch Report - March 2010

Economy Watch is a panel of 358 businesses set up by the Forum of Private Business to report monthly on changes to key areas of their business at a crucial time in the economy. This is the second report of the Economy Watch panel.

Specifically the research looks at:

- Business confidence
- Business growth
- Employment and business support needs
- Underlying financial health

The research will run from February to September 2010, with the February questionnaire providing a baseline for future reports. The fieldwork for the baseline was undertaken between 22 February and 1 March. The first update was undertaken between 22 March and 31 March.

### Summary

Confidence is more or less unchanged and unaffected by the Budget. There is a slight reduction in the polarisation of confidence, with fewer companies reporting that they were very confident or very pessimistic.

In spite of an increase in orders and turnover, increased costs and payment of tax has meant a significant portion of businesses have had to dip into their reserves and/or cut spending further. Late payment and bad debt are increasingly an issue for businesses, although the impact for firms is limited by the credit they receive in turn from their suppliers.

Access to finance and the cost of finance are broadly unchanged as businesses are not confident enough in the local economy to risk looking for further business investment. Businesses may be reluctant to seek additional funding while cash flow problems are significant and until the extent of taxation changes are apparent.

Businesses are also cutting training, a similar proportion of businesses are looking for support and training to develop their business as in February, but the emphasis is entirely on advice and business support rather than training staff.

There is significant latent demand in business investment and employment is being suppressed by the cost of employing as much as the economic conditions. 1 in 10 businesses have spare capacity and 29% have a business model that does not require employment in the near future.

Financial support, generic business advice and credit control support are the key areas sought by businesses in the last month. Finance for growth was an area where there was a weakness, although the sample size was very small.

## Supporting Data

### Confidence

39% of businesses are confident that their business will grow in 2010 with 13% pessimistic. The fieldwork took place over the budget week. The confidence rating before the budget was 0.34 and after this became 0.32, indicating the Budget did not make a significant difference to business confidence.

**Figure 1: Confidence of Economy Watch Panel**

	February 2010	March 2010
Very confident	12%	9%
Confident	32%	30%
Not very confident	34%	43%
Pessimistic	12%	11%
Very pessimistic	4%	2%
Do not know	5%	5%
Confidence score	0.36*	0.32*

\*The confidence score is created by using a score of +2 for very confident, +1 for confident, -1 for pessimistic and -2 for very pessimistic, divided by the total number of respondents.

56% of businesses expect their turnover to increase in 2010; this is lower than other figures anticipating turnover growth. However just 35% of firms have seen an increase in turnover in the last month. Businesses are still not investing as a large proportion of their capital is tied up in late payment and companies are less profitable than they expected. For some businesses this is seasonal, as they have to pay HMRC this month.

**Figure 2: Investment in March 2010**

	Increase	Stay the same	Decrease	Current balance	Expectations for 2010
Orders	43%	39%	18%	25%	n/a
Turnover	35%	40%	24%	11%	42%
Profitability	23%	48%	29%	-6%	28%
Cost of finance	7%	90%	3%	4%	17%
Amount of money on deposit	13%	53%	34%	-21%	n/a
Late payment	21%	78%	<1%	21%	2%
Other cash flow difficulties	20%	67%	13%	8%	
Investment in machinery and equipment	17%	63%	21%	-4%	9%
Investment in sales and marketing	29%	60%	11%	18%	28%
Training for existing staff	14%	77%	9%	5%	-0%
Cost of doing business (excluding tax)	41%	58%	<1%	41%	52%
Taxation burden	27%	70%	4%	23%	60%

In comparison with the Economic Downturn Panel there is relatively little movement in terms of the cost and access to finance, with 90% of businesses encountering no change in the cost of finance and 80% not seeing any change in access to finance.

Figure 3: Access to finance

	March 2010
Improved	6%
Deteriorated	13%
No change	63%
Not relevant	18%

Just over 80% of businesses on the panel are looking for an injection of finance to develop their business in 2010. Those reporting an improvement in access to finance included a number of businesses who required an extension to their overdraft and one business who reported improved financial planning had freed up money. Other improvements included greater cash flow from invoice financing and leasing deals.

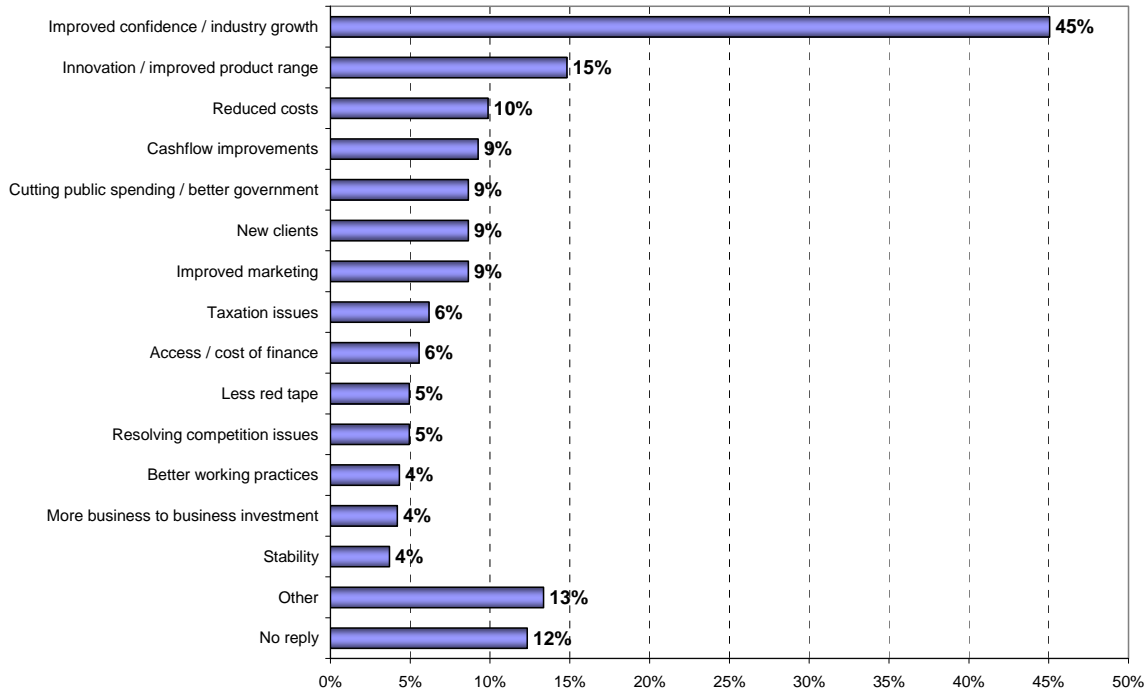
Deterioration was due to reduction in credit ratings, inability to get access to EFG funding, credit card issues and problems in getting loans for growth or training.

### Business priorities and needs

Improved confidence/growth in their industry is the main factor that would help businesses grow, this has remained a key issue for just under half of the businesses in the panel (the figure for February being 47%).

Reducing cost and taxation have increased as issues with increased business rates frequently mentioned as a taxation problem. Other taxation issues are National Insurance and increases to fuel duty whilst reducing costs was more general. Costs mentioned as increasing significantly included insurance and utilities.

Figure 4: Factors that would help their business to grow



Better government support includes those wanting further cuts in public spending and a general change of government.

## Business support

16% anticipate needing support in the coming month, with 68% stating that they intended to be self sufficient. More importantly 15% were uncertain indicating the importance of a stable business environment. These figures have not significantly changed from the last quarter.

Figure 5: Business support required over the next month

	Percentage of sample	Proportion finding that this support was unavailable
Finance	6%	59%
- Finance for training	2%	33%
- Finance for growth	3%	80%
General business advice	3%	22%
Credit control	3%	44%
Marketing/website	2%	25%
Training for new staff	1%	50%
Support with unfair competition issues	<1%	100%

Samples sizes are extremely low however 'finance for business growth' is a particular issue where there is no support available. Marketing support was available but at a price, and credit control was not always available due to issues with fluctuating costs.

## Business investment

Businesses held off investing in their businesses in March, with more businesses cutting their investment in machinery and equipment than increasing it and 8% of panel members increasing their sales and marketing spend compared to the proportions decreasing it. As can be seen, business owners are aware that they need business investment but lack of profits and cash flow mean that there is still latent demand.

Figure 6: Anticipated business investment to develop the business

	March 2010
None	24%
Machinery and equipment	18%
Sales and marketing	54%
Upgrading property	13%
Product and process development	25%
Do not know	6%

## Employment

Total employee numbers have dropped by 4% over the last year and around 8% of businesses have reduced their working hours. In addition there were 487 owners, partners etc.

Some of the increases and reductions were in agency staff or use of contractors, however 46 employment positions were created and 49 were laid off. Similar numbers of jobs are expected in the next month or so, but with fewer redundancies.

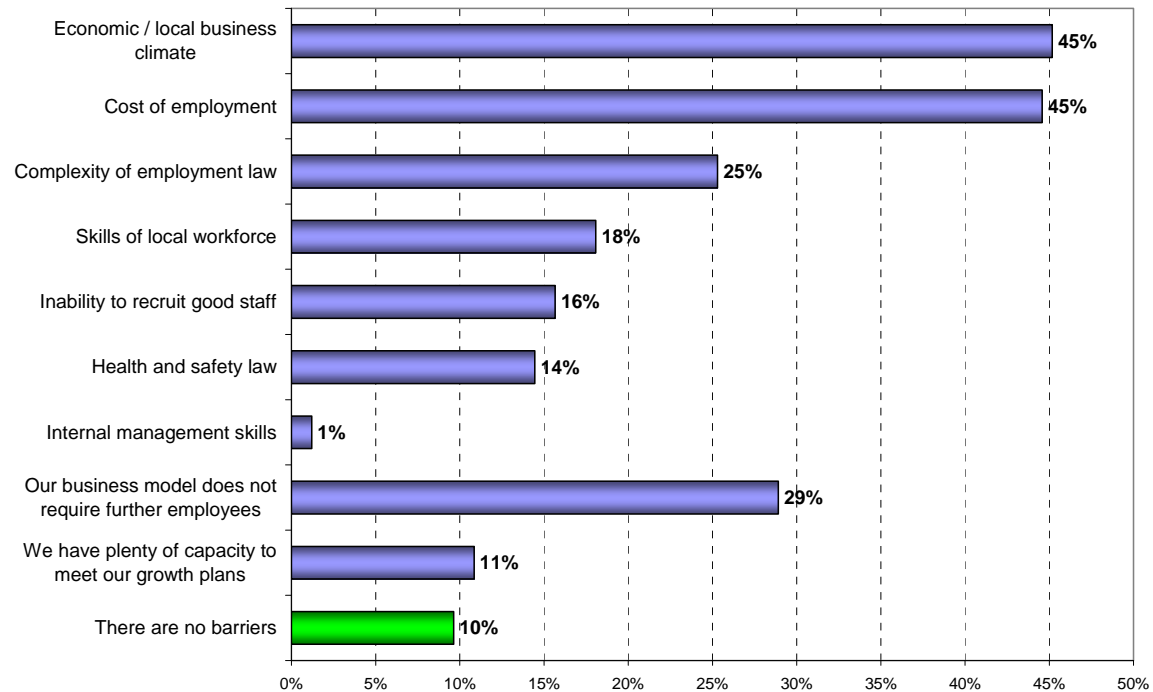
Figure 7: Changes in employee numbers

	Feb 2009	Feb 2010	March
Total employee numbers	5129	4922	4919
Change	-	-207	-3
Vacancies	n/a	n/a	36
Redundancies	n/a	n/a	13

A total of 13 redundancies are in process and 3 companies (just under 1%) stated that they are currently considering redundancies unless there is a change in business performance.

One of the biggest barriers to recruitment is the cost of employment, which has become as frequent a barrier as the local business/economic climate. 45% cited these as significant barriers for employment, with 25% citing the complexity of employment law. 11% felt that there was plenty of capacity within the current business, this is unsurprising as 8% reported having staff on reduced hours as a result of the recession.

Figure 8: Current barriers to employment



28% feel that their business model does not require further employees, indicating that many businesses do not anticipate rapid growth in the next year.

## Underlying financial information

The majority of the statistics are financial. Economy watch panel members reported earning £113,000 per person. The 2008 BIS data<sup>(5)</sup> would give an equivalent figure of just over £117,000.

Figure 8 indicates that late payment has increased as an issue for panel members, however it is also apparent that businesses are in turn paying late to improve their cash flow.

**Figure 9: Key financial indicators**

	Annual total	March 2010 monthly total	Change on February	Proportion of turnover
Turnover	£556,113,000	£46,808,400	508,000	100%
Overdraft facilities	£13,093,800	£1,098,700	8,200	2.4%
Loans	£69,177,100	£5,359,700	-44,000	12.4%
Capital tied up in late payment	n/a	£16,608,500	1,014,780	35.5%
Money reserve	£15,797,740	n/a	-365,260	2.8%

Although there is significant latent demand there has in fact been a reduction in lending to a small proportion of businesses. A small number of businesses were unable to borrow because of a reduction in the credit rating for their industry and cutting costs.

**Figure 10: Demand for finance**

	March monthly lending
Overdrafts	8,200
Loans	-44,000
Other (leasing, finance, credit cards)	11,900
Anticipated requirement each month from external sources	1,057,000

In general most businesses are holding off asking for growth finance until there is greater confidence in the market.

## Cost of finance

The number of businesses feeling that the cost of finance was affordable has dropped slightly, with a notable increase in the proportion that are uncertain about the affordability of finance. A reported increase in banking charges and the impact of the Budget may be responsible for this change.

**Figure 11: Affordability of finance**

	February 2010	March 2010
Very affordable	11%	10%
Affordable	70%	68%
Unaffordable	8%	9%
Very unaffordable	2%	1%
Do not know	9%	12%

There has been a slight increase in overdraft payments and unsecured lending this month. There was no change in the cost of loans from director or family friends.

**Figure 12: Comparison of the cost of credit with the Forum's Economic Downturn Panel**

	Economy Watch		Economic Downturn Panel <sup>(8)</sup>
	Feb 2010	March	Sept 2009
Cost of overdraft lending	5.7%	5.7%	6.5%
Cost of secured lending	4.4%	4.4%	6.8%
Cost of unsecured lending	11.5%	11.6%	
Cost of loans from directors etc.	1.4%	1.4%	n/a