



The business people – an extension to your team

Economy Watch Report - November 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 sixth report of the 'Economy Watch' panel. The research has been running since February, 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 and the fieldwork for the April report was undertaken between 21 and 28 April. The fieldwork for the May report was undertaken between 24 May and 2 June. The July research was undertaken between 8 and 15 July, to allow companies to digest the implications of the Emergency Budget on 22 June. The fieldwork for the October report was undertaken between 9 and 18 October to provide a final report before the Comprehensive Spending Review (CSR) on 20 October.

The fieldwork for the November report was undertaken between 19 and 31 November.

Summary

| | |
|---------------------------------------|--|
| Confidence | Confidence has improved slightly after the Comprehensive Spending Review. However uncertainty has increased amongst business owners as a reaction to the increased cost of doing business. |
| Business growth | Businesses are showing turnover growth in most cases but increased costs such as raw materials, fuel and energy are leading to businesses seeing a weakening in profitability. |
| Business investment and support needs | The majority of businesses are looking to invest in the new year with the proportion looking to invest in equipment doubling and 70% anticipating increased expenditure in sales and marketing. The outlook for training is also relatively positive. |
| Employment | Employment continues to rise following a strong increase in the number of vacancies last month. Next year there is an anticipated increase of 3% in employment, equivalent to one job for every two small employers. |
| Finance | No significant changes to access to finance overall as a handful of businesses affected by increased bank charges or reduced access to lending due to cash flow issues. There are positive and negative reports about the HMRC and the time that businesses are being given to settle bills. |
| Late payment | Has increased overall as some companies are still stocking up for the Christmas period, but has dropped marginally as a proportion of turnover is due to strong sales growth. |

Supporting data

Confidence

41% of businesses are confident that their business will grow in the next six months, and 12% pessimistic. Confidence remains fragile, despite an increase in the number of businesses feeling positive, due to uncertainty over the impact of increases in taxation, with VAT and potential business rate increases causing the most concern. This partly explains the greater uncertainty following the Comprehensive Spending Review.

Figure 1: Confidence of Economy Watch Panel

| | Feb-10 | Mar-10 | Apr-10 | May-10 | Jul-10 | Oct-10 | Nov-10 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|
| Very confident | 12% | 9% | 6% | 2% | 8% | 7% | 5% |
| Confident | 32% | 30% | 38% | 42% | 27% | 33% | 36% |
| Not very confident | 34% | 43% | 44% | 41% | 45% | 41% | 39% |
| Pessimistic | 12% | 11% | 6% | 8% | 8% | 12% | 5% |
| Very pessimistic | 4% | 2% | 3% | 4% | 2% | 5% | 7% |
| Do not know | 5% | 5% | 4% | 3% | 11% | 2% | 8% |
| Confidence score | 0.36* | 0.32* | 0.38* | 0.29* | 0.32* | 0.24* | 0.28* |

*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.

Around 30% of businesses have seen improved financial performance over the last month, however 18% are seeing a clear decline in turnover or orders. Increased cost of doing business, particularly increases in energy prices and raw materials, have become a big issue for business owners. Business owners have also seen an increase in the taxation burden, leading 1 in 3 companies to see a decline in profitability.

Figure 2: Indicators for November 2010

| | Increase | Stay the same | Decrease | Current balance |
|--|----------|---------------|----------|-----------------|
| Orders | 29% | 56% | 15% | 15% |
| Turnover | 31% | 51% | 17% | 14% |
| Profitability | 14% | 59% | 27% | -13% |
| Cost of finance | 6% | 93% | 1% | 5% |
| Amount of money on deposit | 17% | 62% | 20% | -3% |
| Late payment | 20% | 76% | 4% | 16% |
| Other cash flow difficulties | 15% | 77% | 7% | 8% |
| Investment in machinery and equipment | 22% | 63% | 15% | 7% |
| Investment in sales and marketing | 33% | 58% | 9% | 23% |
| Training for existing staff | 16% | 78% | 6% | 10% |
| Cost of doing business (excluding tax) | 46% | 53% | 1% | 46% |
| Taxation burden | 25% | 70% | 5% | 20% |

Orders and turnover have continued to increase, however profitability has dropped significantly. The cost of doing business has continued to increase as the cost of raw materials and energy has continued to rise.

Figure 3: Historical indicators

| | November balance | October balance | July balance | May balance | April balance | March balance | Expectations for 2010* |
|--|------------------|-----------------|--------------|-------------|---------------|---------------|------------------------|
| Orders | 15% | 15% | 19% | 5% | 10% | 25% | n/a |
| Turnover | 14% | 16% | 8% | -3% | 18% | 11% | 42% |
| Profitability | -13% | 2% | 8% | -15% | 1% | -6% | 28% |
| Cost of finance | 5% | 3% | 14% | 0% | 4% | 4% | 17% |
| Amount of money on deposit | -3% | -19% | 6% | -27% | -12% | -21% | n/a |
| Late payment | 16% | 22% | 11% | 9% | 25% | 21% | 2% |
| Other cash flow difficulties | 8% | 10% | 11% | 12% | 5% | 8% | |
| Investment in machinery and equipment | 7% | -2% | 2% | 8% | 4% | -4% | 9% |
| Investment in sales and marketing | 23% | 22% | 13% | 6% | 13% | 18% | 28% |
| Training for existing staff | 10% | 0% | -3% | 11% | 7% | 5% | -0% |
| Cost of doing business (excluding tax) | 46% | 42% | 48% | 35% | 33% | 41% | 52% |
| Taxation burden | 20% | 31% | 22% | 21% | 16% | 23% | 60% |

* Businesses in February were asked their expectations overall for 2010, rather than the last month.

Access to finance has deteriorated marginally, with businesses indicating that cash flow is the main issue.

Figure 4: Access to finance

| | Mar-10 | Apr-10 | May-10 | Jul-10 | Oct-10 | Nov-10 |
|--------------|--------|--------|--------|--------|--------|--------|
| Improved | 6% | 3% | 3% | 1% | 4% | 3% |
| Deteriorated | 13% | 13% | 4% | 15% | 21% | 9% |
| No change | 63% | 66% | 75% | 67% | 56% | 72% |
| Not relevant | 18% | 15% | 16% | 17% | 19% | 16% |

A small proportion of businesses have mentioned HMRC and the time for businesses to pay bills, with some businesses seeing their attitude to not to press for payment as a short term solution to working capital problems whilst others feel that they are being asked to repay the amount too quickly. A handful of businesses (fewer than 1%) perceive that the cost of finance (predominantly banking fees) have made the cost of finance unaffordable.

Business priorities and needs

A better economic climate was the business priority for almost 1 in 4 businesses. A similar number also mentioned business and consumer confidence as a worry. 9% would like to see the tax regime improved with the VAT reduction and business rates the main examples of where improvement would be wanted.

Figure 5: Factors that would help their business to grow

| | Feb-10 | Mar-10 | Apr-10 | May-10 | Jul-10 | Oct-10 | Nov-10 |
|--|--------|--------|--------|--------|--------|--------|--------|
| Business/consumer confidence | 23% | 24% | 26% | 29% | 26% | 28% | 21% |
| Stabilising/improvement in the economy | 26% | 25% | 21% | 20% | 18% | 26% | 23% |
| Specific industry incentives | 8% | 12% | 10% | 11% | 8% | 4% | 8% |
| Better tax regime | 3% | 6% | 8% | 8% | 3% | <1% | 9% |
| Cash flow issues | 3% | 9% | 8% | 3% | 2% | 7% | 3% |
| Finance issues | 12% | 6% | 10% | 3% | 6% | 11% | 8% |
| Internal business development | 22% | 26% | 24% | 18% | 15% | 29% | 19% |
| Reduced costs | 6% | 10% | 7% | 8% | 4% | 1% | 3% |
| Training/recruitment | 2% | 4% | 11% | 3% | 2% | 4% | 4% |
| Currency issues | n/a | n/a | n/a | 4% | 2% | 3% | 3% |
| Cutting red tape | n/a | n/a | n/a | n/a | n/a | n/a | 5% |
| Competition | n/a | n/a | n/a | n/a | n/a | n/a | 2% |

Businesses are continuing to focus heavily on being masters of their own destiny, with increased investment in marketing, promotion and new product development.

Despite concern about the increase in VAT, most businesses feel that the coalition is handling the economy relatively well, as before the Comprehensive Spending Review (CSR) 48% were positive about the handling of the economy, this has now risen to 57%.

Figure 6: The coalition's handling of the economy

| | Oct 2010 (Before CSR) | Nov 2010 (After CSR) |
|----------------|--------------------------|-------------------------|
| Excellent | 7% | 5% |
| Good | 42% | 52% |
| Fair | 28% | 30% |
| Poor/Very poor | 8% | 10% |
| Do not know | 15% | 3% |

Business support

The Forum did not ask about the support needed in the next month as the figure would be liable to significant seasonal variation.

Figure 7: Support needed:

| | Feb-10 | Mar-10 | Apr-10 | May-10 | Jul-10 | Oct-10 |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Yes | 17% | 16% | 15% | 16% | 24% | 18% |
| -support is available | 15% | 6% | 6% | 6% | 5% | 7% |
| -support may not be available | 2% | 11%* | 9% | 10% | 19% | 11% |
| No | 64% | 69% | 56% | 69% | 43% | 66% |
| Do not know | 18% | 15% | 19% | 15% | 19% | 16% |

*Do not know option added and taken as not evidence the support may not be readily available.

Instead the Forum asked about the probable impact on their business of the change from Regional Development Agencies (RDA) to Local Enterprise Partnerships (LEPs). Just 7% believed that the change would improve business support solutions and 4% felt there would be a deterioration.

Figure 8: Impact of Local Enterprise Partnerships (LEPS) on organisations

| | Percentage of sample |
|--|----------------------|
| LEPs will improve public sector business support solutions | 7% |
| LEPs will make public sector business support worse | 4% |
| LEPs will make no difference to business support | 21% |
| We do not use business support from the public sector | 68% |

21% of businesses felt that the change would make no difference to business support, with some feeling that the standards set by the RDAs would be continued. The vast proportion of businesses did not however use business support services from the public sector or had not done so for a number of years.

Business investment

Businesses are looking to increased business investment in the future. This may be a seasonal issue as businesses plan for the new year or may be a result of a clearer business climate caused by reduced talk of a double dip recession and clarification of taxation changes.

Figure 9: Anticipated business investment to develop the business

| | Mar-10 | Apr-10 | May-10 | Jul-10 | Oct-10 | Nov-10 |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| None | 24% | 32% | 29% | 32% | 29% | 14% |
| Machinery and equipment | 18% | 14% | 21% | 21% | 21% | 36% |
| Sales and marketing | 54% | 45% | 53% | 56% | 45% | 70% |
| Upgrading property | 13% | 12% | 17% | 8% | 13% | 18% |
| Product and process development | 25% | 19% | 17% | 17% | 36% | 33% |
| Training | n/a | 22% | 27% | 27% | 25% | 34% |
| Do not know | 6% | n/a | n/a | n/a | n/a | n/a |

Most notable is the anticipated increase in investment in equipment and sales and marketing.

Employment

The positive increase in employee numbers has continued in line with the high vacancy figures last month. Employee numbers are expected to increase in 2011 by around 3%. This will however only take the level of employees just above the figure from February 2009.

Figure 10: Changes in employee numbers

| | Feb 2009 | Feb-10 | Mar-10 | Apr-10 | May-10 | Jul-10 | Oct-10 | Nov-10 | 2011 |
|------------------------|----------|--------|--------|--------|--------|--------|--------|--------|------|
| Total employee numbers | 5129 | 4922 | 4919 | 4908 | 4889 | 4902 | 4974 | 5020 | 5181 |
| Change | - | -207 | -3 | -11 | -19 | 13 | 72 | 46 | 161 |
| Vacancies | n/a | n/a | 36 | 57 | 39 | 71 | 125 | 73 | n/a |
| Redundancies | n/a | n/a | 13 | 24 | 21 | 15 | 30 | 24 | n/a |

Underlying financial information

The majority of the statistics are financial. Economy Watch panel members reported earning £110,900 per employee or £100,100 if the employers are included in these figures. The figure is a reduction on figures in October due to an increased number of employees. The 2008 BIS data on the size and structure of the UK economy would give an equivalent figure of just over £117,000. This is however due to the reduction in staff rather than any improvement in turnover.

Figure 11 indicates that late payment has shown a continued decline. Businesses have reported that some suppliers have wanted paying earlier and key customers continue to pay later. Some businesses report that the industry standard is now 50-60 days rather than 30.

Figure 11: Key financial indicators

| | Annual total | November 2010 monthly total | Change on last month | Proportion of turnover |
|---------------------------------|--------------|-----------------------------|----------------------|------------------------|
| Turnover | £559,705,869 | £50,401,179 | £820,619 | 100% |
| Overdraft facilities | £13,154,300 | £1,075,100 | -£2,000 | 2.35% |
| Loans | £68,919,345 | £5,581,225 | -£48,675 | 12.31% |
| Capital tied up in late payment | n/a | £18,868,900 | £272,500 | 37.44% |
| Money reserve | £15,641,648 | n/a | £57,548 | 2.79% |

Although some businesses are reporting a more positive approach to lending from the banks, overall there has been a decrease in lending.

Figure 12: Demand for finance¹

| | December monthly lending |
|---|--------------------------|
| Overdrafts | -48,675 |
| Loans | -2,000 |
| Other (leasing, factoring, credit cards) | -10,100 |
| Anticipated requirement each month from external sources ² | 1,057,000 |

¹ Excludes improvement access to finance by better debt collection possibly due to invoice financing

² Demand for external finance in 2010 divided by 12 to give a monthly figure

Businesses anticipate an average of £45,500 in investment for business development; this is an increase on the amount anticipated by around 20% which is unsurprising if businesses are looking to grow. However the amount coming from internal sources has risen from 10% for 2010 to 45% for 2011. In contrast the amount sought from external sources (predominantly banks) has decreased by 27%.

Figure 13: Anticipated funding for then next 12 months

| | Anticipated for 2010 | | Anticipated for 2011 | Change from 2010 |
|----------------------------|---------------------------------------|------------------------|------------------------|------------------|
| | Forum/Graydon Dec 2009 ⁽¹⁾ | Economy Watch Feb 2010 | Economy Watch Nov 2010 | |
| Total required lending | 383,780,000 | 13,870,000 | 16,300,000 | 2,430,000 |
| Average (mean) per company | 51,000 | 38,000 | 45,500 | 7,500 |
| Internal | 7,905 | 3,600 | 18,365 | 14,765 |
| Internal % | 15.50% | 9.50% | 40.4% | 30.9% |
| External | 43,095 | 34,400 | 27,135 | -7,265 |

