



Forum of Private Business (FPB)
Seventh Economic Downturn Panel Report

Background

This is the seventh report on the FPB's Economic Downturn Panel. Respondents were chosen at random, with the only criteria being that they were VAT-registered and had need of external finance.

The results of the first survey were reported at a meeting with Prime Minister Gordon Brown on 19 November 2008 and the second in the first week of December at a meeting of the Small Business Finance Forum. The fieldwork for the third survey took place between 21 and 26 January, the fourth between 5 and 10 February, the fifth between 4 and 11 March 2009 and the sixth between 3 and 11 April.

The fieldwork for this survey took place between 8 and 15 May.

Since the last report, the following have taken place:

- The Budget on 22 April
- The Bank of England voted to continue with its programme of asset purchases financed by the issuance of central bank reserves, and to increase its size by £50 billion to a total of £125 billion
- Interbank lending rates are currently at historically low levels
- British Bankers' Association (BBA) figures to March indicate a third successive month of increased lending to businesses with a turnover of less than £1 million.

Summary

There is an increased confidence amongst panel members as the liquidity crisis appears to be abating. Members' concerns are now based around dealing with the recession, in particular late payment, cutting costs and improving sales.

Although slightly more businesses saw a deterioration in the market for product and services than saw an improvement, businesses are much more positive about their own viability for the future. There are still concerns among businesses in manufacturing and construction.

Access to finance has deteriorated at its slowest rate since the Panel began, however some businesses report that bank managers are overly risk-averse in terms of lending money to certain sectors and for business growth/diversification.

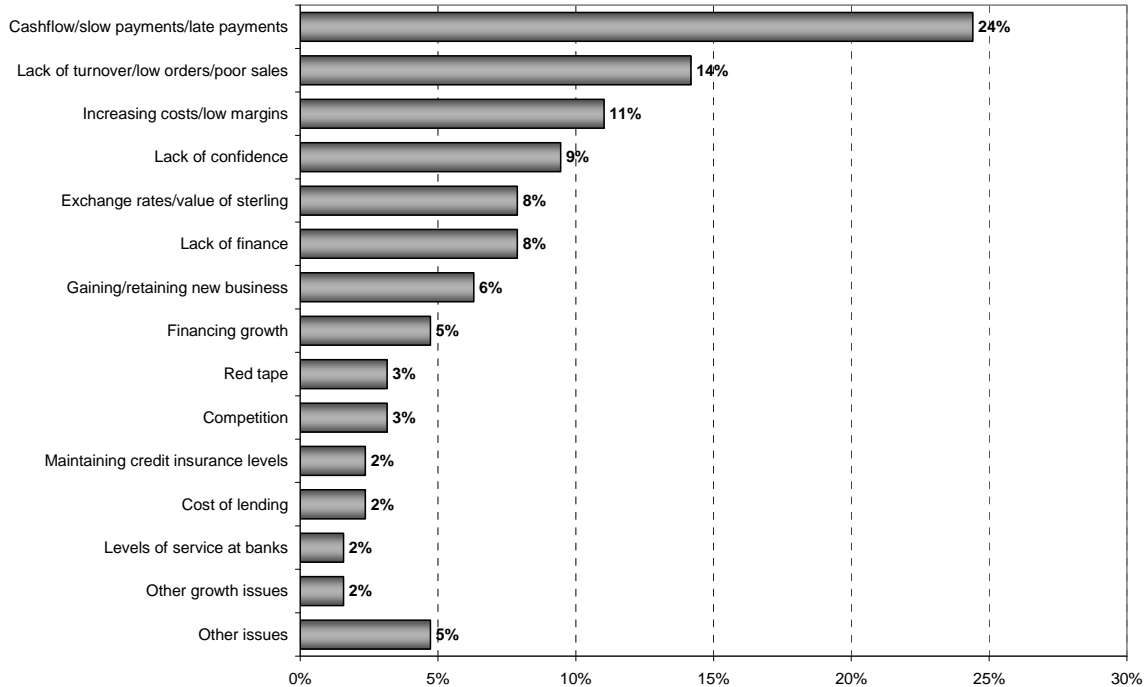
Cost of finance has decreased slightly for overdrafts and remained unchanged for term loans, this is the first decrease recorded by the Panel that has not been linked to base rate cuts by the bank of England.

The impact of the liquidity crisis has been significant with employment dropping by 12% and turnover dropping by 14%.

Supporting data

Late payment and cash-flow issues remain the main concerns for panel members, followed by lack of sales, orders or turnover. Low margins and increased costs have replaced lack of confidence as the third most cited issue facing businesses. 7% of the issues relate to growth, 8% deal with the general lack of finance and 2% deal with the cost of finance.

The key issues affecting panel members are shown below:



Change over the last month

Business owners were asked whether they had experienced any change in access to finance over the last month. The results are shown in the table below:

	Improvement	Deterioration	No change	Balance
Market for products/services	21%	29%	50%	-8%
Competition within the market	16%	14%	70%	+3%
Viability of your business	26%	13%	61%	+13%
Cost of complying with regulations	0%	34%	66%	-34%
Late payment	0%	57%	43%	-57%
Risk management undertaken by financial services organisations (credit reference agencies, banks, trade insurers etc.)	3%	18%	79%	-15%
Government support for small firms	0%	24%	76%	-24%
Bank support for small firms	12%	18%	70%	-6%
Accuracy of media coverage	8%	24%	68%	-16%

Business viability has improved considerably as many of the businesses represented on the panel have survived the previous recession. One in five businesses are seeing an improvement in the market for their products and services, a similar proportion to last month. 29%, predominantly in manufacturing and construction, are seeing further deterioration in their market.

Trend figures based on the final column (entitled balance) can be compared to previous months as shown below:

	December	January	February	March	April	May
Market for products/services	-64%	-38%	-54%	-12%	+2%	-8%
Competition within the market	-14%	-18%	-9%	-15%	-19%	+3%
Viability of your business	-38%	-20%	-34%	-17%	-12%	+13%
Cost of complying with regulations	-41%	-30%	-38%	-28%	-37%	-34%
Late payment	-61%	-68%	-61%	-34%	-56%	-57%
Risk management undertaken by financial services organisations	-51%	-41%	-36%	-47%	-21%	-15%
Government support for small firms	-30%	-6%	-21%	-30%	-20%	-24%
Bank support for small firms	-45%	-22%	-48%	-50%	-37%	-6%
Accuracy of media coverage	n/a	n/a	-40%	-31%	-18%	-16%

Bank support for small firms is at its lowest levels of dissatisfaction since the issues over finance began and most indicators show an improvement. The exception is the market for products and services which has swung back to a negative net balance after being positive in April. The trend toward an improvement in market conditions remains.

Access to finance

Over the last month, access to finance has changed as follows:

	December	January	February	March	April	May
Improved	8%	12%	2%	0%	8%	9%
Deteriorated	30%	18%	32%	18%	19%	12%
No change	62%	71%	66%	82%	73%	79%
Net balance	-22%	-6%	-30%	-18%	-11%	-3%

Businesses are reporting a slight decrease in access to finance, yet the number doing so is proportionally less than at any time since the Panel began reporting. Almost one in ten businesses have seen access to finance improve, with the extending/renewing of borrowing facilities the most frequently cited reasons for this improvement.

Reasons given for deterioration included inflexibility and conservatism from the banks and lack of additional finance for businesses in sectors perceived as high risk.

Loans

Terms and conditions of loans have not changed at all this month, with all the businesses that had to renew their loans being successful. However no new loans were offered to members.

	December	January	February	March	April	May
Improved	17%	10%	3%	4%	4%	0%
Deteriorated	27%	3%	6%	2%	11%	0%
No change	57%	86%	91%	94%	85%	100%
Net balance	-10%	+7%	-3%	+2%	-7%	-

There has been no noticeable difference in the amount lent or the rate at which it is lent. This can be seen in the following table:

	November	December	January	February	March	April	May
Mean lending rate	7.6	8.0	6.5 ⁽¹⁾	6.9	6.6	6.4	6.4
Bank of England interest rate	3%	3%	1.5%	1.5% ⁽²⁾	1.0% ⁽³⁾	0.5%	0.5%

(1) Figure has increased from 6.4% based on additional firms reporting.

(2) As the reduction was made the day before the fieldwork was conducted, it was unlikely to have been factored into responses.

(3) As in February, the reduction was made the day before fieldwork started, so cannot be factored in to the results.

Total amount lent in commercial loans did not change either:

	November	December	January	February	March	April	May
Total	57,022,000	57,107,000	57,252,000	57,236,000	57,231,000	57,246,000	57,246,000
Change		85,000	145,000	-16,000	-5,000	15,000	-

Overdrafts

Overdrafts showed their first positive net balance since the Panel began, with costs decreasing slightly and businesses tending to see an increase in the facility when required.

Over the last month, terms and conditions on overdrafts have changed as follows:

	December	January	February	March	April	May
Improved	9%	12%	0%	3%	8%	8%
Deteriorated	28%	12%	23%	16%	19%	3%
No change	63%	76%	77%	81%	73%	90%
Net balance	-19%	0%	-23%	-12%	-11%	+5%

Businesses have seen a reduction in the cost of lending that cannot be explained by the reduction in the Bank of England base rate.

	November	December	January	February	March	April	May
Mean lending rate	8.1	8.4	7.0	7.1	6.9	6.8	6.6
Bank of England interest rate	3%	3%	1.5%	1.5% ⁽¹⁾	1.0% ⁽²⁾	0.5%	0.5%

(1) As the reduction was made the day before the fieldwork was conducted, it was unlikely to have been factored into responses.

(2) As in February, the reduction was made the day before fieldwork started and so cannot be factored in to the results.

Figures are skewed by one business reducing their overdraft size by £50,000 as a cost-cutting measure, as such the level of lending through overdrafts has *increased* by £25,000. The figures are shown in the table below:

	November	December	January	February	March	April	May
Total	7,001,000	6,856,000	7,021,000	6,943,000	6,923,000	6,911,000	6,884,000
Change		-145,000	165,000	-78,000	-20,000	-12,000	-25,000

Security

The security required by the banks has steadily reduced over the last few months, and in one case the amount of collateral required has been reduced (due to a significant reduction in the size of their overdraft facility).

	December	January	February	March	April	May
Additional security required	14%	12%	11%	7%	5%	2%

Change in terms of banking fees over the last six months

15% of companies have reported increases in banking fees paid, but at the same time 6% saw their charges decrease, more than double the usual number.

Changes to banking fees over the last month were as follows:

	December	January	February	March	April	May
Increased	26%	5%	15%	24%	20%	15%
Decreased	2%	11%	2%	3%	3%	6%
Stayed the same	72%	84%	83%	74%	78%	79%
Net balance	+24%	-6%	+13%	+21%	+18%	+9%

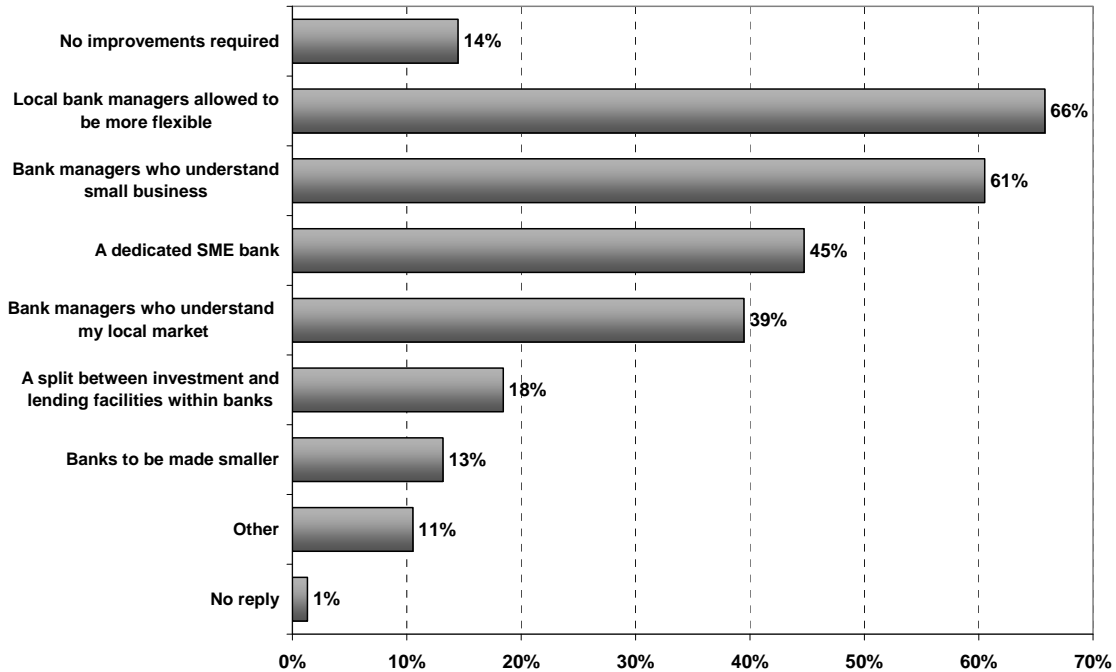
Future banking requirements

14% stated that the banks do not need to improve at all and 2% suggested that all bank managers should be like their local bank managers.

45% would support a dedicated bank for small and medium-sized businesses, but more businesses would welcome more localised support from local bank managers who understood their needs as a small employer and were less constrained by centralised systems.

Understanding the needs and pressures on small and medium-sized businesses is more important for banks than understanding the industry that they are in.

There was no significant support for the suggestion of making banks smaller, however a number of businesses wanted the banks to act in a less corporate way, with clearer, more personalised communication and less red tape.



Impact of the last six months

Smaller employers have been hit hardest by the economic downturn, with overall employment in the Panel dropping by 11.8%. Using this as a basis to assess claimant counts, employment in the UK has probably dropped by around 8% over this period.

	Percentage
Unemployment through companies stopping trading	-8.2%
Unemployment from companies still trading	-6.3%
Employment from Small and Medium Sized Panels	+2.7%
Net balance	-11.8%

The figures are slightly skewed by one medium-sized business going into administration during the term the Panel was reporting, but in general small and medium-sized businesses have retained staff in a difficult climate. A small proportion of businesses have also employed additional staff in this period, a sure sign of their confidence in their business.

Within this period, 13% of businesses have seen an increase in turnover, compared to the 36% that have seen a decline and 7% that have stopped trading. Anecdotal reports from panel members at the start of the year suggested that a significant drop in orders (down 40%+) was not uncommon, but when asked, less than 5% mentioned that this was the case now.

	Percentage
Proportion showing increase	13%
Proportion showing a decrease	36%
Proportion showing no noticeable change	44%
Proportion going out of business	7%
Change in turnover (those still in business)	-8%
Reduction of turnover (those in liquidation)	-6%
Total change in turnover	-14%