



The business people – an extension to your team

## Economy Watch Report - July 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 fifth report of the 'Economy watch' panel. 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 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.

### Summary

Confidence	The confidence score has increased slightly this month, however there is an increased number of businesses uncertain about the future.
Business growth	More businesses have seen an increase in orders, turnover and profitability than have seen a decrease, however rising costs continue to dampen business growth
Business investment and support needs	Levels of anticipated business investment have remained fairly constant although the proportion of businesses that anticipate property upgrades has halved. This may have further consequences for the construction industry.
Employment	Employment is relatively positive with an increase in the aggregated number of employees. There are also a far higher number of vacancies compared to May
Finance	There has been a deterioration in the number of business owners able to access finance and an there has also been a noticeable increase in the cost of finance
Late payment	Late payment continues to harm panel members with around 37% of capital tied up in late payment. The rate of deterioration has slowed since April.

## Supporting Data

### Confidence

35% of businesses are confident that their business will grow in the next six months, and 10% pessimistic. Overall confidence has decreased with far fewer companies reporting that they are very confident. Business confidence has increased slightly following the emergency budget, although there has been a large increase in the businesses that are unsure, perhaps uncertain about the impact of public sector cuts will have on consumer confidence.

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

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

Around 40% of businesses have seen improved financial performance over the last month; however 30% are seeing a clear decline in turnover or profitability. General costs of doing business have increased with finance, taxation etc increasing alongside late payment.

**Figure 2: Indicators for July 2010**

	Increase	Stay the same	Decrease	Current balance
Orders	43%	33%	24%	19%
Turnover	36%	35%	29%	8%
Profitability	31%	46%	23%	8%
Cost of finance	14%	86%	<1%	14%
Amount of money on deposit	21%	65%	15%	6%
Late payment	19%	73%	8%	11%
Other cash flow difficulties	14%	82%	4%	11%
Investment in machinery and equipment	15%	72%	13%	2%
Investment in sales and marketing	23%	68%	10%	13%
Training for existing staff	8%	81%	11%	-3%
Cost of doing business (excluding tax)	51%	46%	3%	48%
Taxation burden	27%	68%	5%	22%

Historically there is an improvement in orders, turnover and profitability, particularly when compared to May. Training has declined but other areas of investment are still at similar levels. Late payment is increasing although the rate has halved since March/April.

Figure 3: Historical indicators

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

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

Compared to May, when access to and cost of finance was relatively stable, there has been a noticeable deterioration in the ability of businesses to access affordable finance. The most common complaint was an increase in bank charges. For a few businesses the cost of finance had increased for positive reasons due to their improved turnover, however others have seen increases to overdrafts, credit cards and secured loans.

Figure 4: Access to finance

	Mar-10	Apr-10	May-10	Jul-10
Improved	6%	3%	3%	1%
Deteriorated	13%	13%	4%	15%
No change	63%	66%	75%	67%
Not relevant	18%	15%	16%	17%

67% have seen no change to the access to finance however a number have had overdrafts reduced, sometimes by over 50% or even cancelled. Some secured lending has also been refused although accessing funds through invoice finance has been cut for some businesses due to late payment by customers. One business was also concerned that their proposed loan through the Enterprise Finance Guarantee scheme could be curtailed.

## Business priorities and needs

The proportion of businesses that have seen an increase in energy costs has reduced and is expected to continue to do so in the future. A similar proportion of businesses expect raw materials to rise next year. Businesses are also positive about future costs, with the numbers of business owners expecting bank charges to rise next year expected to halve next year. A similar trend can be seen from the cost of compliance as owners feel that there is sufficient political will to reform these areas.

Figure 5: Costs to the business

	June 2008	June 2009	Current	Anticipated
Energy costs	88%	82%	47%	40%
Raw materials	60%	53%	59%	52%
Transport costs	75%	60%	58%	42%
Property costs	37%	30%	26%	15%
Staff costs	61%	38%	52%	35%
Bank charges	34% <sup>(1)</sup>	27% <sup>(1)</sup>	55%	26%
Cost of complying with regulations	n/a	n/a	50%	26%
None of these	n/a	n/a	5%	6%

<sup>(1)</sup> National Business Survey is more general referring to "cost of finance" rather than bank charges

Improving confidence amongst businesses and consumers remains a key priority as does stabilising the economy. Business development internally, through marketing, innovation and increased training has dropped slightly. Specific industry incentives dropped overall, however these were almost entirely related to the construction industry.

Figure 6: Factors that would help their business to grow

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

Currency issues were also mentioned, however opinions were split roughly equally between strengthening, weakening and stabilising the level of sterling.

Figure 7: Impact of the emergency Budget

Increased opportunities	15%
Decreased opportunities	34%
It will have no impact	22%
Do not know	29%

Around 15% of businesses felt that the emergency Budget would increase opportunities for their business, however double that number expected opportunities to decrease. 1 in 5 felt it would

not have any impact with the remainder of the sample uncertain about the impact the cuts would have on the local business climate.

## Business support

These figures have increased in terms of businesses that require support with almost one in four businesses looking for support. The change heralded in the emergency Budget has meant that a far higher number of businesses are uncertain whether the support they need is available to them.

Figure 8: Support needed:

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

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

Again, finance was the key type of business support wanted by panel members. Just over 50% of these businesses felt that the support may not be available at all.

Figure 9: Business support required over the next month

	Percentage of sample	Proportion believing that this support is not readily available
Finance	11%	56%
- Finance for growth	7%	67%
Generic business support	8%	83%
Training	4%	33%
Sales support	1%	75%
Support with cash flow	1%	67%
Production management	1%	50%
Export support	1%	50%

Many businesses were uncertain as to whether the support was currently available rather than believing that it did not exist and a number had not investigated the matter fully.

## Business investment

Anticipated business investment is likely to increase slightly in the next month, with businesses likely to continue increased investment in sales and marketing. Property investment has dropped considerably but other areas of investment have remained at a similar level.

Figure 10: Anticipated business investment to develop the business

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

Anticipated investment in training is expected to increase despite more businesses reducing training activities than increasing them in the last month. Businesses were however not asked about training part of the business investment in March, although this was included from April onwards.

## Employment

Total employee numbers have risen, reversing the trend in terms of job reductions. Almost twice as many businesses indicated an increase in staff compared to those that indicated a decrease. However there are still one or two large scale reductions of staff that has reduced the actual aggregated totals are limited.

Figure 11: Changes in employee numbers

	Feb 2009	Feb-10	Mar-10	Apr-10	May-10	Jul-10
Total employee numbers	5129	4922	4919	4908	4889	4902
Change	-	-207	-3	-11	-19	13
Vacancies	n/a	n/a	36	57	39	71
Redundancies	n/a	n/a	13	24	21	15

## Underlying financial information

The majority of the statistics are financial. Economy Watch panel members reported earning £113,800 per employee or £103,350 if the employers are included in these figures. 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 8 indicates that late payment has improved slightly for businesses as a number of large outstanding contracts have been paid and some business have seen better debt collection achieve results. Many business owners do still resent the time spent chasing invoices rather than increasing turnover.

Figure 12: Key financial indicators

	Annual total	July 2010 monthly total	Change on last month	Proportion of turnover
Turnover	£558,402,045	£49,097,445	290,350	100%
Overdraft facilities	£13,177,300	£1,098,108	-34,500	2.36%
Loans	£69,096,100	£5,758,008	-66,000	12.37%
Capital tied up in late payment	n/a	£18,009,400	351,900	36.68%
Money reserve	£15,648,640	n/a	182,800	2.80%

Although there is significant latent demand there has in fact been a reduction in lending to a small proportion of businesses. A majority of the businesses reporting a reduction did so in overdraft facilities, however the biggest single reductions were as in refusal of loans and withdrawal of credit by factorers.

Figure 13: Demand for finance

	July monthly lending
Overdrafts	-34,500
Loans	-66,000
Other (leasing, factoring, credit cards)	-18,900 <sup>1</sup>
Anticipated requirement each month from external sources <sup>2</sup>	1,057,000

<sup>1</sup> Excludes improvement access to finance by better debt collection possibly due to invoice financing

<sup>2</sup> Demand for external finance in 2010 divided by 12 to give a monthly figure

## Cost of finance

There has been a slight increase in the cost of loans whilst some overdrafts have seen an considerable increases in the cost of the facility. A small group of businesses have reported increased charges to areas such as credit card usage and hire purchase..

Figure 14: Comparison of the cost of credit with the Forum's Economic Downturn Panel

	Economy Watch					Economic Downturn Panel
	Feb-10	Mar-10	Apr-10	May-10	Jul-10	Sep-09
Cost of overdraft lending	5.7%	5.7%	5.8%	5.8%	5.8%	6.5%
Cost of secured lending	4.4%	4.4%	4.4%	4.4%	4.5%	6.8%
Cost of unsecured lending	11.5%	11.6%	11.6%	11.8%	11.8%	
Cost of loans from directors etc.	1.4%	1.4%	1.8%	1.8%	1.8%	n/a