



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

Background

This is the eighth and final 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, the sixth between 3 and 11 April and the seventh between 8 and 15 May.

The fieldwork for this survey took place between 7 and 14 September. The research was discontinued through the summer months as the low response rate predicted due to holidays would have invalidated the results.

Since the last report, the following have taken place:

- Interbank lending rates are currently at historically low levels
- British Bankers' Association (BBA) figures to June indicate a third successive month of increased lending to businesses with a turnover of less than £1 million.
- Lending to non financial businesses dropped in July.
- Many commentators now see June as the low point of the current recession.

Summary

A significant proportion of businesses have seen an improvement over the summer, although around a quarter have seen further deterioration.

Access to finance has dropped as businesses have lost small overdraft facilities or been refused credit extensions.

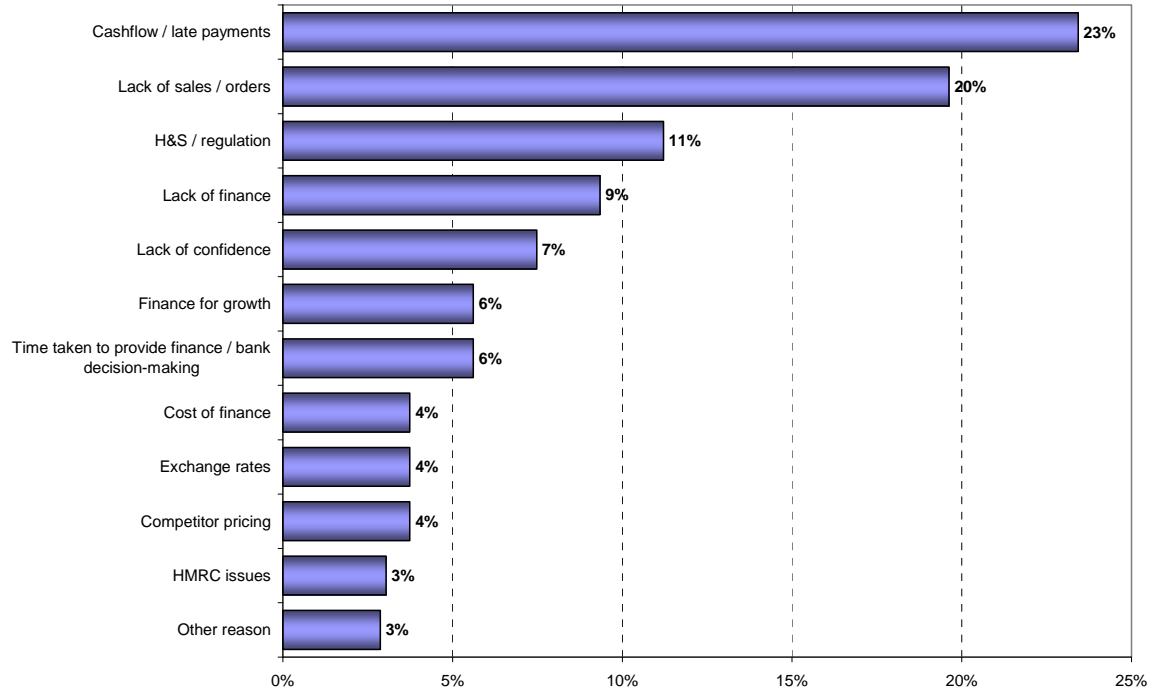
Cost of finance has increased marginally, with the mean lending rate for loans increasing by 0.1% and overdrafts by 0.2%.

12% of businesses have seen bank charges increase in the last 3 months, with 6% seeing a decrease in rates due to improved turnover.

Seasonal fluctuations in demand and the lack of emergency funds are hampering businesses' attempts to manage their cash flow. This is likely to have implications if the economy starts to grow. The main reason for cash flow problems for small and medium sized businesses remains late payment.

Supporting data

Cash flow is the most common issue mentioned by businesses at a similar level to May's figure. The problem of lack of orders has increased in prevalence from 16% to 20%, whilst increased costs are appear to be declining in importance. HMRC issues include businesses being fined for late or incorrect payment, but also by banks and financial institutions who are seeing businesses that have been helped by the time to pay legislation as being a greater risk than other businesses. Lack of finance and finance for growth do not have appeared to have changed significantly since May when they were recorded at 8% and 6% respectively. The key issues affecting panel members are shown below:



Change since May

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	39%	25%	36%	14%
Competition within the market	8%	31%	61%	-22%
Viability of your business	28%	22%	50%	6%
Cost of complying with regulations	0%	25%	75%	-25%
Late payment	3%	42%	56%	-39%
Risk management undertaken by financial services organisations (credit reference agencies, banks, trade insurers etc.)	7%	23%	70%	-17%
Government support for small firms	0%	22%	78%	-22%
Bank support for small firms	12%	29%	59%	-18%
Accuracy of media coverage	9%	17%	74%	-9%

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:

	Dec	Jan	Feb	March	April	May	Sept
Market for products/services	-64%	-38%	-54%	-12%	+2%	-8%	+14%
Competition within the market	-14%	-18%	-9%	-15%	-19%	+3%	-22%
Viability of your business	-38%	-20%	-34%	-17%	-12%	+13%	+6%
Cost of complying with regulations	-41%	-30%	-38%	-28%	-37%	-34%	-25%
Late payment	-61%	-68%	-61%	-34%	-56%	-57%	-39%
Risk management undertaken by financial services organisations	-51%	-41%	-36%	-47%	-21%	-15%	-17%
Government support for small firms	-30%	-6%	-21%	-30%	-20%	-24%	-22%
Bank support for small firms	-45%	-22%	-48%	-50%	-37%	-6%	-18%
Accuracy of media coverage	n/a	n/a	-40%	-31%	-18%	-16%	-9%

An improvement in the business climate has meant that most scores are improving. Late payment is a concern as is competition with larger businesses looking to undercut their rivals to increase orders even if they may lose money. This is particularly notable in industries such as supplying industries that have not yet seen any improvement in trade such as construction. Bank support for small firms is at relatively low levels despite a sharp increase from May.

Access to finance

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

	December	January	February	March	April	May	Sept
Improved	8%	12%	2%	0%	8%	9%	5%
Deteriorated	30%	18%	32%	18%	19%	12%	22%
No change	62%	71%	66%	82%	73%	79%	73%
Net balance	-22%	-6%	-30%	-18%	-11%	-3%	-16%

Despite almost 4 in 10 businesses seeing an improvement in trading conditions, a significant proportion of businesses are still seeing access to finance deteriorating. Over the last three months 22% have seen a deterioration of finance with business owners being refused personal as well as business finance. One or two businesses are reluctant to be pushed down the invoice finance route and others are hampered by the time it takes for a decision to be processed.

However in some areas there is lending being provided and the figures do not include those who stated that they have seen other businesses getting access to lending.

A number of panel members are having their quarterly or annual review with their bank manager in the next few weeks; some businesses have had positive indications from their banks whereas others have been much more negative.

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. A small number of loans were offered to panel members, however not all these were gratefully received as business owner had her overdraft replaced with a loan.

	December	January	February	March	April	May	September
Improved	17%	10%	3%	4%	4%	0%	2%
Deteriorated	27%	3%	6%	2%	11%	0%	10%
No change	57%	86%	91%	94%	85%	100%	88%
Net balance	-10%	+7%	-3%	+2%	-7%	-	-8%

The cost of lending has risen slightly with some businesses seeing their lending rate double. Generally businesses that have had their loans extended have been asked to pay an increased interest rate, however this is often still below the mean lending rate.

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

The total amount lent in commercial has dropped over the summer with loans to a handful of companies being withdrawn. In addition a number of loans were extended, although at a higher interest rate:

	November	December	January	February	March	April	May	September
Total (£000)	57,022	57,107	57,252	57,236	57,231	57,246	57,246	57,124
Change (£000)		85	145	-16	-5	15	-	-122

Overdrafts

The terms and conditions for overdrafts have returned to a negative net balance after showing signs of improvement in May.

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

	December	January	February	March	April	May	September
Improved	9%	12%	0%	3%	8%	8%	0%
Deteriorated	28%	12%	23%	16%	19%	3%	17%
No change	63%	76%	77%	81%	73%	90%	83%
Net balance	-19%	0%	-23%	-12%	-11%	+5%	-17%

The mean lending rate for overdrafts has returned to April's level . In addition, one business has been told that the cost of their overdraft will increase following their review in October, but not by how much.

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

A number of small level overdrafts have been reduced and one has been changed into a loan by their bank.

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	November	December	January	February	March	April	May	September
Total (£000)	7,001	6,856	7,021	6,943	6,923	6,911	6,884	6,853
Change (£000)		-145	165	-78	-20	-12	-25	-31

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	September
Additional security required	14%	12%	11%	7%	5%	2%	5%

Change in terms of banking fees over the last three months

12% of companies have reported increases in banking fees paid, but at the same time 6% saw their charges decrease, similar to May's figures but more than double the usual number.

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

	December	January	February	March	April	May	September
Increased	26%	5%	15%	24%	20%	15%	12%
Decreased	2%	11%	2%	3%	3%	6%	6%
Stayed the same	72%	84%	83%	74%	78%	79%	82%
Net balance	+24%	-6%	+13%	+21%	+18%	+9%	+6%

Cash flow issues

Since April, cash flow has been the key problem for businesses looking to develop in a challenging business climate.

11% of businesses are having no real cash flow problems. The main problem however is late payment by customers which then reverberates down the supply chain. 58% of panel members see this as an issue, with 36% struggling with the seasonal fluctuations in demand. Over a third are inhibited by the lack of emergency funds with a further 8% uncertain over whether the bank will remove vital credit. Unforeseen costs and staff costs are an issue and lack of confidence in the market have meant that businesses are reluctant to commit to orders in case orders further up the supply chain do not materialise.

