Economy Watch Report – April 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 third 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 began in February and will run to September 2010. The February questionnaire provided 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 and 31 March, and the fieldwork for the April report was undertaken between 21 and 28 April.

Summary

Overview

Confidence	Slight increase in confidence following an increase in turnover
Finance	No change, some improvement in overdrafts but increased problems with invoice discounters
Late payment	Has continued to deteriorate
Business investment	Overall increase in business investment in line with the capital allowance incentive outlined in the Budget, but future plans are reduced
Employment	Drop in employment, but an increase in vacancies amongst businesses

Confidence has increased from March and is now marginally higher than in February, in line with businesses seeing an improvement in trading conditions.

Orders and turnovers have been positive for the second month in a row, with marginally more firms seeing an increase in profitability than in March, when more firms saw a decrease. The cost of doing business continues to rise, with 26% of respondents seeing an increase in the last month due to the increase in fuel duty and taxation payment.

Access to finance and the cost of finance are broadly unchanged; businesses are looking to invest, but from their own cash reserves rather than by using external finance. Access to finance has been hit by continuing late payment affecting those using factoring and invoice discounting services.

Business owners see the upcoming election as an opportunity for change, with economic management, an improved tax regime and support for smaller firms being the most influential factors for respondents. One in ten business owners cited reversing the National Insurance Contributions rate increase as a significant voting consideration. A similar number indicated that reducing red tape would also be important; however, there was a note of scepticism amongst business owners about the delivery of this.

Supporting data

Confidence

Forty four per cent of respondents are confident their firms will grow in 2010 and 9% pessimistic. Overall confidence has increased, with fewer businesses indicating pessimism than previously.

Figure 1: Confidence of Economy Watch Panel

	February 2010	March 2010	April 2010
Very confident	12%	9%	6%
Confident	32%	30%	38%
Not very confident	34%	43%	44%
Pessimistic	12%	11%	6%
Very pessimistic	4%	2%	3%
Do not know	5%	5%	4%
Confidence score	0.36*	0.32*	0.38*

* 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.

Orders were not as encouraging as in March; however, turnover and profitability were overall more positive. Almost a third of businesses saw profitability reduce, with increases to fuel duty, late payment, market conditions and business investment blamed for this.

The cost of finance rose for some businesses, with banking charges in particular cited, rather than changes to the interest rate.

Figure 2: Indicators for March 2010

	Increase	Stay the same	Decrease	Current balance	March balance	Expectations for 2010*
Orders	35%	39%	25%	**10%**	25%	n/a
Turnover	38%	41%	21%	**18%**	11%	42%
Profitability	33%	35%	32%	**1%**	-6%	28%
Cost of finance	6%	93%	1%	**4%**	4%	17%
Amount of money on deposit	12%	63%	25%	**-12%**	-21%	n/a
Late payment	29%	67%	4%	**25%**	21%	2%
Other cash flow difficulties	15%	74%	11%	**5%**	8%	
Investment in machinery and equipment	22%	60%	18%	**4%**	-4%	9%
Investment in sales and marketing	24%	64%	11%	**13%**	18%	28%
Training for existing staff	17%	73%	10%	**7%**	5%	-0%
Cost of doing business (excluding tax)	36%	61%	3%	**33%**	41%	52%
Taxation burden	19%	78%	3%	**16%**	23%	60%

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

In comparison with the Economic Downturn Panel of last year, there is relatively little movement in terms of the cost of and access to finance, with 90% of businesses encountering no change in the cost of finance and 80% citing no change in access to finance.

Figure 3: Access to finance

	March 2010	April 2010
Improved	6%	3%
Deteriorated	13%	13%
No change	63%	66%
Not relevant	18%	15%

Respondents cited better financial performance as the main reason for the improvement in access to finance. Those who saw a deterioration blamed poor returns from invoice discounters, increased in late payment by debtors and increased charges being the most commonly mentioned issues. A small number of businesses have not been able to access finance for growth and one owner has had to take out a personal loan as the bank refused to grant a business loan.

Business priorities and needs

Business confidence and a noticeable improvement in the economy are uppermost in business owners' minds. The need for an improved tax regime has become more pressing following the increases in fuel duty and the greater emphasis put on taxation issues such as National Insurance.

Figure 4: Factors that would help their business to grow

	February 2010	March 2010	April 2010
Business/consumer confidence	23%	24%	26%
Stabilising/improvement in the economy	26%	25%	21%
Specific industry incentives	8%	12%	10%
Better tax regime	3%	6%	8%
Cash flow issues	3%	9%	8%
Finance issues	12%	6%	10%
Internal business development	22%	26%	24%
Reduced costs	6%	10%	7%
Training/recruitment	2%	4%	11%

There has been a noticeable increase in the number of respondents with training and recruitment issues, with funding for training and the lack of industry specialists becoming increasingly important.

Business support

These figures have not significantly changed from the last quarter. Sixteen per cent of respondents anticipate needing support in the coming month, with 66% stating that they intended to be self sufficient. 19% are uncertain, indicating the importance of a stable business environment.

Figure 5: Business support required over the next month

	Percentage of sample	Proportion finding that this support was not readily available
Finance	6%	44%
- Finance for training	1%	50%
- Cheaper finance	1%	25%
General business advice	2%	67%
Credit control	3%	25%
Business development	3%	50%
Training for new staff	3%	40%
Meeting taxation requirements	<1%	100%

Many business owners were uncertain as to whether the support was currently available, rather than believing that it did not exist.

Business investment

Respondents saw a modest increase in machinery and equipment, perhaps being incentivised by budget changes, reversing the pre-Budget trend, when businesses were more likely to cut equipment spending.

Investment in training and marketing also remained positive in April; however, as figure 6 shows, an increased proportion of businesses are not looking to invest at the moment. The rise is only marginal, at around 2%, as we have dropped the 'Do not know' category to clarify our focus on 'probable' rather than 'possible' business investment.

Figure 6: Anticipated business investment to develop the business

	March 2010	April 2010
None	24%	32%
Machinery and equipment	18%	14%
Sales and marketing	54%	45%
Upgrading property	13%	12%
Product and process development	25%	19%
Training	n/a	22%
Do not know	6%	n/a

Training was not previously listed as an option for business investment in March; however, it has been added from April onwards.

Employment

Total employee numbers have dropped by 4% over the last year and around 8% of businesses have reduced their working hours. If the reduction in employee numbers from the last two months continues for the rest of the year, employee numbers will drop a further 2% in 2010.

Some of the increases and reductions were in agency staff or use of contractors; however, 42 positions were created and 63 people were laid off. Similar numbers of jobs are expected to be created in the next month or so, but with fewer redundancies.

Figure 7: Changes in employee numbers

	February 2009	February 2010	March 2010	April 2010
Total employee numbers	5129	4922	4919	4908
Change	-	-207	-3	-11
Vacancies	n/a	n/a	36	57
Redundancies	n/a	n/a	13	24

A number of the vacancies from March are still unfilled, despite relatively high levels of unemployment. This might indicate that the businesses in question are looking for highly specialised staff to fill these roles.

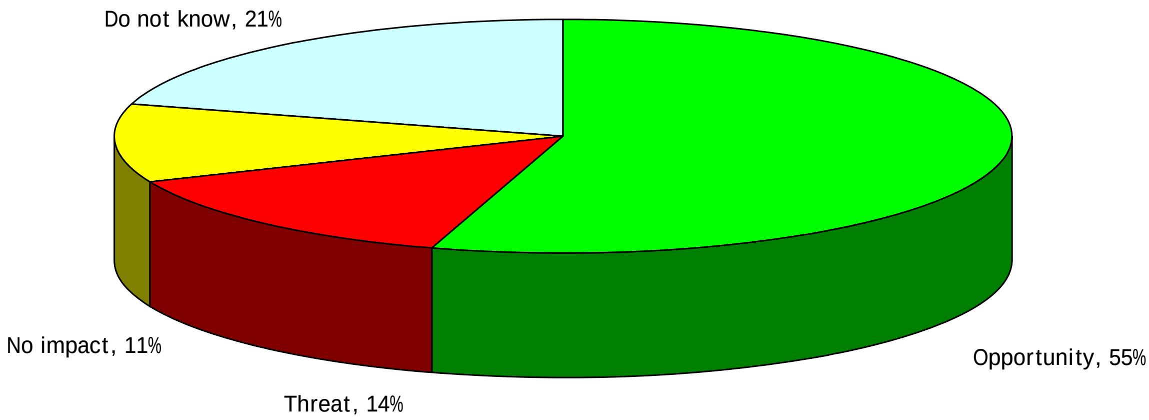
Impact of the election

Fifty five per cent of respondents see the impact of the upcoming election as an opportunity to highlight the major issues that their business have. Red tape, economic management and taxation issues were mentioned most frequently.

Fourteen per cent of businesses see the election as a threat due to the uncertainty for their plans. It is also seen as a threat by businesses which undertake a significant proportion of work in the public sector.

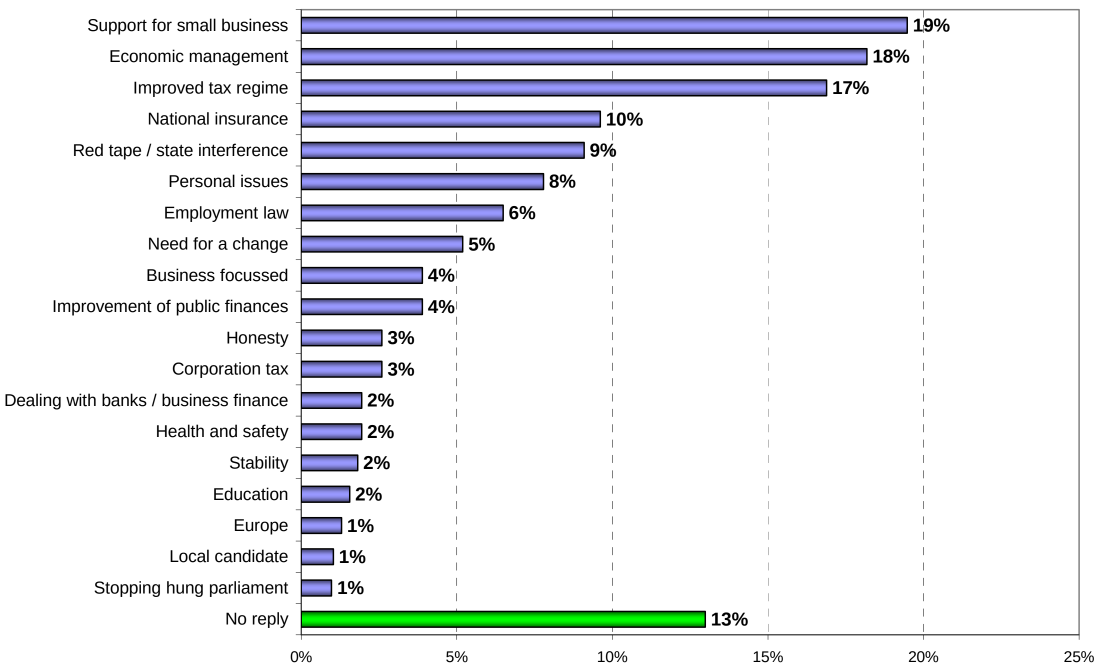
One in five respondents are uncertain about the impact of the election, with many highlighting the lack of information on taxation plans and the possibility of a hung parliament as the reasons for their uncertainty.

Figure 8: Impact of the election



One in five businesses were looking for more assistance for small businesses from the election, with 18% voting for the party that would provide the most effective management of the economy and a similar proportion looking for an improved tax regime.

Figure 9: Significant voting factors



10% of respondents cited the increase in National Insurance Contributions, as outlined in the Budget, as a significant voting factor. This was the key tax issue – mentioned three times more frequently than corporation tax.

Some businesses also showed scepticism about the ability of any party to deliver, particularly on the issues of being honest about the state of the public finances and the reduction of red tape.

Underlying financial information

The majority of the statistics are financial. Economy Watch panel members reported earning £113,000 per employee; £102,800 if employers are included in these figures. 2008 data from the Department for Business, Innovation and Skills on the size and structure of the UK economy would give an equivalent figure of just over £117,000.

Figure 10 indicates that late payment has increased as an issue for panel members. Public sector organisations - local authorities and government departments in particular - are specifically mentioned due to the delaying of payment in March until the new financial year.

Figure 10: Key financial indicators

	Annual total	April 2010 monthly total	Change on March	Proportion of turnover
Turnover	£558,206,947	£48,902,347	2,093,947	100%
Overdraft facilities	£13,235,800	£1,240,700	142,000	2.4%
Loans	£69,169,100	£5,351,700	-8,000	12.4%
Capital tied up in late payment	n/a	£17,861,900	1,253,400	36.5%
Money reserve	£15,656,540	n/a	-141,200	2.8%

Although there is significant latent demand, there has actually been a reduction in lending to a small proportion of businesses. A small number of businesses have recorded that they have been unable to borrow for growth reasons or because their sector is considered high risk.

Figure 11: Demand for finance

	March monthly lending
Overdrafts	142,000
Loans	-8,000
Other (leasing, factoring, credit cards)	-6,500
Anticipated requirement each month from external sources*	1,057,000

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

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 stating that the cost of finance was affordable has risen slightly. Around 10% feel that the current cost of finance is unaffordable for their businesses, which is consistent with the data from the last two months.

Figure 12: Affordability of finance

	February 2010	March 2010	April 2010
Very affordable	11%	10%	11%
Affordable	70%	68%	74%
Unaffordable	8%	9%	8%
Very unaffordable	2%	1%	2%
Do not know	9%	12%	11%

There has been a slight increase in the cost of overdraft payments and of loans from directors etc. In general, the low Bank of England base rate has meant the cost of finance remains relatively affordable. There has been a noticeable increase of businesses reporting increased charges and a reduction in working capital from invoice discounting.

Figure 13: Comparison of the cost of credit with the Forum's Economic Downturn Panel

<table>
<tr><th></th><th colspan="3">Economy Watch</th><th>Economic Downturn Panel</th></tr>
<tr><th></th><th>Feb 2010</th><th>March 2010</th><th>April 2010</th><th>September 2009</th></tr>
<tr><td>Cost of overdraft lending</td><td>5.7%</td><td>5.7%</td><td>5.8%</td><td>6.5%</td></tr>
<tr><td>Cost of secured lending</td><td>4.4%</td><td>4.4%</td><td>4.4%</td><td rowspan="2">6.8%</td></tr>
<tr><td>Cost of unsecured lending</td><td>11.5%</td><td>11.6%</td><td>11.6%</td></tr>
<tr><td>Cost of loans from directors etc.</td><td>1.4%</td><td>1.4%</td><td>1.8%</td><td>n/a</td></tr>
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