

## Economy Watch Report - May 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 fourth 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 this, the May report, was undertaken between 24 May and 2 June.

### Summary

Confidence	Confidence has dropped as businesses and consumers wait to see the implications of the emergency Budget in June
Business growth	Turnover dropped slightly in May, however some of these companies are reporting increased orders. Of most concern is the rise of business costs and its impact on profitability
Business investment and support needs	Business investment has increased slightly but support needs have remained the same.
Employment	Overall employment has dropped. The number of redundancies remained at a similar level but hiring and vacancies dropped.
Finance	There seems to be little change in the cost and accessibility of finance.
Late payment	More businesses reported an improvement to payment times with some large debts resolved. The number of business reporting a deterioration had reduce

### Supporting Data

#### Confidence

43% of businesses are confident that their business will grow in 2010 with 12% pessimistic. Overall confidence has decreased with far fewer companies reporting that they are very confident. Business confidence has dropped slightly due to an inconclusive election and fears about taxation increases in the emergency budget impacting on their business.

Figure 1: Confidence of Economy Watch Panel

	February 2010	March 2010	April 2010	May 2010
Very confident	12%	9%	6%	2%
Confident	32%	30%	38%	42%
Not very confident	34%	43%	44%	41%
Pessimistic	12%	11%	6%	8%
Very pessimistic	4%	2%	3%	4%
Do not know	5%	5%	4%	3%
Confidence score	0.36*	0.32*	0.38*	0.29*

\*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.

The cost of doing business has risen significantly over the last month, with fuel being the major factor cited by businesses. Currency costs and bank charges were also mentioned by business owners. Businesses have seen an increase in the taxation burden and this has had an impact on profitability and financial reserves.

**Figure 2: Indicators for May 2010**

	Increase	Stay the same	Decrease	Current balance
Orders	26%	53%	21%	5%
Turnover	25%	48%	28%	-3%
Profitability	22%	40%	37%	-15%
Cost of finance	4%	92%	4%	0%
Amount of money on deposit	6%	61%	33%	-27%
Late payment	18%	73%	9%	9%
Other cash flow difficulties	20%	72%	8%	12%
Investment in machinery and equipment	21%	66%	13%	8%
Investment in sales and marketing	17%	72%	11%	6%
Training for existing staff	18%	74%	8%	11%
Cost of doing business (excluding tax)	37%	62%	1%	35%
Taxation burden	24%	73%	3%	21%

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

More companies are seeing a reduction in turnover, a contrast to the relatively healthy balance of April and March. Part of this is due to the political hiatus as firms serving the public sector tended to be adversely affected. In contrast the majority of manufacturers saw a relatively health order book and turnover.

**Figure 3: Historical indicators**

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

In comparison with the Economic Downturn Panel there is relatively little movement in terms of the cost and access to finance, with 92% of businesses encountering no change in the cost of finance and 80% not seeing any change in access to finance.

Figure 4: Access to finance

	March 2010	April 2010	May 2010
Improved	6%	3%	3%
Deteriorated	13%	13%	4%
No change	63%	66%	75%
Not relevant	18%	15%	16%

Better financial performance was the main reasons why businesses had seen an improvement in access to finance with improved debt collection releasing money for working capital in a number of businesses. Overdrafts were the major reason for the overdraft deterioration with one business being refused a £5,000 overdraft despite a seven figure turnover, others have seen their overdraft facility reduced. Access to finance is increasingly tied to the cost of finance as a number of businesses see the increase in bank charges and fees as a factor in excluding them from new or further external finance.

### Business priorities and needs

In February the priority for businesses was sales, with 61% making this the main focus of their business. In May this is still the priority, but there is an increase in the number of businesses prioritising a stable business environment. This is thought to be due to instability in Europe, talk of a double dip recession and the possibility of a tax changes around VAT and Capital Gains Tax.

Figure 5: Business priorities

	Feb 2010	May 2010
Increasing sales/turnover	61%	47%
Reducing costs	13%	17%
Reducing time away from business development	1%	1%
Having a stable business environment	25%	35%

Improving confidence amongst businesses and consumers is seen as a priority as businesses are concerned about the potential reduction in disposable income following the emergency Budget.

Figure 6: Factors that would help their business to grow

	February 2010	March 2010	April 2010	May 2010
Business/consumer confidence	23%	24%	26%	29%
Stabilising/improvement in the economy	26%	25%	21%	20%
Specific industry incentives	8%	12%	10%	11%
Better tax regime	3%	6%	8%	8%
Cash flow issues	3%	9%	8%	3%
Finance issues	12%	6%	10%	3%
Internal business development	22%	26%	24%	18%
Reduced costs	6%	10%	7%	8%
Training/recruitment	2%	4%	11%	3%
Currency issues	n/a	n/a	n/a	4%

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

## Business support

These figures have not significantly changed from the last quarter. 16% anticipate needing support in the coming month, with 69% stating that they intended to be self sufficient. 15% were uncertain, indicating the importance of a stable business environment.

Figure 7: Business support required over the next month

	Percentage of sample	Proportion finding that this support was not readily available
Finance	4%	38%
- Finance for training	2%	50%
- Finance for working capital	1%	50%
Generic business support	3%	50%
Meeting taxation requirements	2%	38%
Compliance	1%	50%
Training	<1%	67%
Recruitment	<1%	67%

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

## 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.

Figure 8: Anticipated business investment to develop the business

	March 2010	April 2010	May 2010
None	24%	32%	29%
Machinery and equipment	18%	14%	21%
Sales and marketing	54%	45%	53%
Upgrading property	13%	12%	17%
Product and process development	25%	19%	17%
Training	n/a	22%	27%
Do not know	6%	n/a	n/a

Businesses were not asked about training part of the business investment in March, however this was included from April onwards.

## Taxation

Almost 60% of business owners felt that the HMRC had been broadly supportive of their business in the last few months, however a number of businesses commented that it was more a case of HMRC not being unsupportive rather than anything more positive.

28% felt that the levels of taxation were too high, whilst 19% had had problems speaking to a HMRC representative. Problems with online payment and the lack of flexibility in payment were also significant issues.

Just 1% felt that the advice given by HMRC had been inconsistent and 3% have had difficulty in accessing the Time to Pay scheme.

**Figure 9: Issues with the HMRC service**

	May 2010
No, they have been broadly supportive	58%
The general level of business taxation	28%
Difficulty in speaking to a HMRC representative	19%
Lack of flexibility in terms of payment	13%
Difficulties with completing tax returns on-line	12%
Unable to access the Time to Pay scheme	3%
Lack of consistency in taxation advice	1%

## Employment and training

Total employee numbers have dropped by 4% over the last year and around 8% of businesses have reduced their working hours. Some of the increases and reductions were in agency staff or use of contractors, however 23 employment positions were created and 42 were laid off. The number of businesses cutting staff has actually reduced slightly, but businesses appear to be waiting before taking on new staff.

The number of vacancies has dropped since April, however so has the number of redundancies.

**Figure 10: Changes in employee numbers**

	Feb 2009	Feb 2010	March	April	May
Total employee numbers	5129	4922	4919	4908	4889
Change	-	-207	-3	-11	-19
Vacancies	n/a	n/a	36	57	39
Redundancies	n/a	n/a	13	24	21

A number of the vacancies from April and March are still unfilled, despite relatively high levels of unemployment indicating that some businesses are looking for highly specialised staff.

Skills gaps appear similar to the figures outlined in the recently published National Employer Skills Survey (NESS) for England 2009 by the UK Commission for Employment and Skills (UKCES). Although the headline rate in the report is 19%, the figure for businesses with 5-50 staff is closer to 30%.

**Figure 11: Proportion of businesses with current or anticipated skills gaps**

	May 2010	NESS 2009 5-50 employees
Skills gap	32%	29%

Indications are that the skills base for smaller employers has slipped further since the economy went into recession.

29% have highly specialised skills gaps in most cases because the company is looking to develop new products or services. These range from specific ICT software requirements to the installation of environmentally-friendly buildings services (heat pumps, solar panels etc).

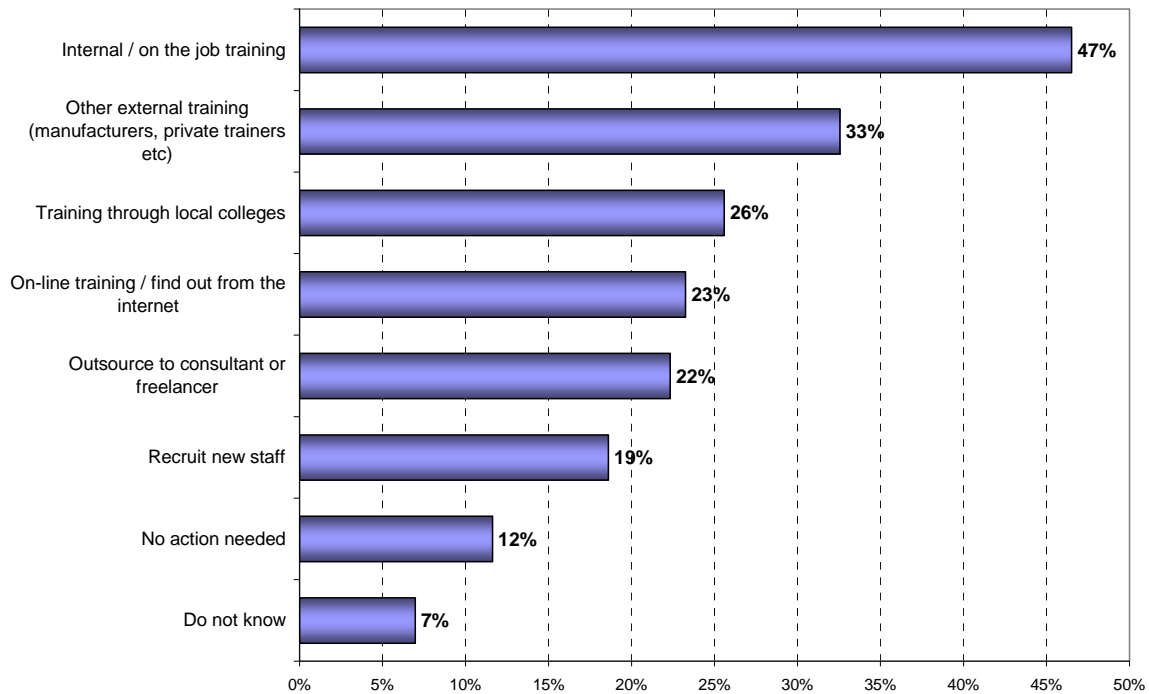
Compared to previous Forum skills surveys, employability attributes are less important due to the reduced demand for new recruits in 2010. Some businesses are still looking for good sales staff and high quality skilled manual workers such as mechanics and workshop engineers.

Figure 12: Proportion of businesses with current or anticipated skills gaps

Type of skills gap	Proportion of businesses
Specialist (e.g. training on specific products)	29%
Generic technical/vocation skills	24%
Sales	19%
Employment attributes	14%
Customer service	12%
Admin	10%
Professionals	7%
Warehousing	10%
Current staff (where defined)	58%
New/recent recruits (where defined)	42%

On-the-job training is still the main solution to skills gaps, with colleges and external training also popular. Online training has increased, however businesses are more likely to outsource to a consultant or freelancer than recruit new staff.

Figure 13: Solution for skills gap



## Underlying financial information

The majority of the statistics are financial. Economy Watch panel members reported earning £114,000 per employee or £103,850 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 14: Key financial indicators

	Annual total	April 2010 monthly total	Change on March	Proportion of turnover
Turnover	£558,111,695	£48,807,095	-95,252	100%
Overdraft facilities	£13,211,800	£1,100,983	-24,000	2.4%
Loans	£69,162,100	£5,763,508	-7,000	12.4%
Capital tied up in late payment	n/a	£17,657,500	-204,400	36.2%
Money reserve	£15,465,840	n/a	-190,700	2.8%

Although there is significant latent demand there has in fact been a reduction in lending to a small proportion of businesses.

Figure 15: Demand for finance

	May monthly lending
Overdrafts	-24,000
Loans	-7,000
Other (leasing, factoring, credit cards)	-1,500 <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

Business owners who currently have external financial arrangements were asked about how confident they would be in asking for further finance. 49% were confident that they would be able to access working capital and 45% were confident that they could access growth finance. Figure 16 shows the full results and compares the confidence in external finance with the overall business finance of the panel.

Figure 16: Demand for finance

	Working capital	Growth finance	Business confidence
Very confident	11%	12%	2%
Confident	38%	33%	42%
Not very confident	36%	35%	41%
Pessimistic	4%	4%	8%
Very pessimistic	2%	2%	4%
Do not know	9%	14%	3%
Confidence score	0.53*	0.49*	0.29*

\*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.

## Cost of finance

The affordability of finance question was not asked this month as the results have been fairly consistent. Anecdotal evidence suggests that external finance will remain comparatively affordable to businesses while interest rates remain at a similar level.

**Figure 17: 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 facilities and in the cost of loans. A further group of businesses have reporting increased charges and banking fees.

**Figure 18: Comparison of the cost of credit with the Forum's Economic Downturn Panel**

	Economy Watch				Economic Downturn Panel
	Feb 2010	March	April 2010	May 2010	Sept 2009
Cost of overdraft lending	5.7%	5.7%	5.8%	5.8%	6.5%
Cost of secured lending	4.4%	4.4%	4.4%	4.4%	6.8%
Cost of unsecured lending	11.5%	11.6%	11.6%	11.8%	
Cost of loans from directors etc.	1.4%	1.4%	1.8%	1.8%	n/a