



Business Distress Index: Wave 11

From rescue to recovery?



September 2013

Methodology

BDRC Continental conducted 501 telephone interviews with small, medium and large business owners and Financial Directors between 1st-5th July 2013. Strict quotas are set by size, region and sector and the data weighted to be representative of the ONS profile of UK businesses, each with an annual turnover above £50,000. The respondent in each case is a senior financial decision maker.

Introduction by Liz Bingham, R3 President

In this latest edition of R3's Business Distress Index (BDI) we asked businesses whether they agreed with the comment by the chancellor of the exchequer that the outlook for the UK economy has moved from "rescue" to "recovery". The results make interesting reading, particularly alongside our regular indicators of growth, business distress, economic optimism, and business confidence.

Looking at the majority of indicators in this wave, alongside recent economic news, the impression is that things really do seem to be improving in the UK economy. The percentage of businesses showing signs of distress has continued to decline, growth indicators appear to be improving – particularly those relating to investment and expansion – and economic optimism is at its highest level since its first inclusion in the BDI in September 2011. Despite this, by a margin of 49% to 42%, respondents appeared to disagree with the chancellor's view. Notable, too, was the difference in strength of feeling between the two camps, with more than one-in-five (21%) strongly disagreeing with the comments, compared to just 5% who strongly agreed.

This disconnect between the various sets of results may, in part, be attributed to the particular source of the comments, with individuals either expressing their view of the chancellor himself or registering their disapproval of any perceived complacency within government.

Regardless of whether there is any political bias at play, one of the most noticeable aspects of this Business Distress Index is the disparity between how businesses view the prospects of the wider economy, and how they view their own.

While there have been improvements in the vast majority of indicators, the percentage of respondents who believe that their own business's activity will increase in the next year has barely budged for the last eighteen months: the positive vibes about the economy in general have not been translated into how businesses view their own affairs.

Furthermore, whilst indicators of growth do seem to be improving, we have been in this position before. In June 2012, for example, three out of five indicators of growth were more prevalent than they are now. In spite of the increase in general economic optimism, there is, therefore, an understandable reluctance on the part of business to explicitly herald the recovery before it has truly taken hold.

After five years of doom and gloom, it is going to take some time to restore business confidence. With a few more quarters of positive news, however, we may just start to see things change.




Liz Bingham, R3 President

Executive summary

1. Rescue to recovery?

- **49% of businesses disagreed** with recent comments by the chancellor of the Exchequer that the UK economy has now moved from “rescue” to “recovery”. **42% agreed whilst 9% of respondents said that they did not know.**
- **55% of larger businesses agreed** with the chancellor’s comments, as opposed to **35% who disagreed.** On the other hand, **51% of smaller businesses disagreed** with the comments, whilst **40% agreed.**

2. Business distress

- The percentage of businesses **experiencing one or more signs of distress continued to decline in the current wave, falling to 35%, from 40% in March 2013 and 53% in June 2012.**
- Only **one-in-five businesses (20%) reported experiencing decreased profits** in the current wave of the BDI. This continues the declining trend for this indicator having **fallen by seven percentage points from March 2013 and by 14 points from June 2012.**

3. Growth

- **53% of businesses reported experiencing one or more indicator of growth** in the current wave, an **increase of six percentage points from March 2013 (47%)** but slightly **lower than the 57% recorded in June 2012.**



- The percentages of businesses reporting **increased sales (27%), profits (21%) and market share (16%) are in line with figures recorded in March 2013**, but the percentage of **businesses reporting that they are expanding (25%) has risen by 11 percentage points since March** and currently stands at its highest level since the introduction of this indicator in September 2011.

4. Optimism and Business Confidence

- **54% of respondents reported feeling more optimistic** about the economy than three months ago. This is a **15 percentage point increase on the 39% recorded in March 2013** and is the highest recorded level of optimism since this was first measured in September 2011.
- **43% of respondents expected their business’s activity to increase** over the next year. This is a **six percentage point increase since March 2013** and the joint highest figure recorded since this question was first introduced in September 2011.

1. Rescue or recovery?

- In this wave of the BDI, we asked businesses whether, thinking about their business and their sector, they agreed with comments made by the chancellor at the time of the Budget that the UK economy has now moved from “rescue” to “recovery”.
- **49% of respondents disagreed** with the chancellor, whilst **42% agreed**. **9% of respondents said that they did not know**.
- There was some divergence in the strength of feeling amongst the two camps. Just **5% of respondents strongly agreed** that the UK economy has moved from “rescue” to “recovery”, whilst **21% strongly disagreed**.
- **55% of large businesses (those with a turnover of over £1 million) agreed** with the chancellor’s comments, as opposed to **35% who disagreed**. On the other hand, **51% of smaller businesses (those with a turnover of between £50,000 and £1 million) disagreed** with the comments, whilst **40% agreed**.
- Whilst the **largest businesses (those with a turnover in excess of £20 million) tended to agree with the chancellor – by 45% compared to 27%**, these companies also had the **highest incidence of those who did not know whether they agreed or disagreed (28%)¹**.

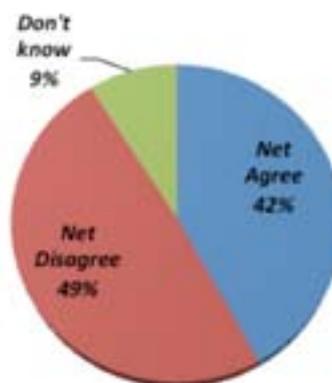


Figure 1 - The economy has moved from ‘rescue to recovery’

Liz Bingham comments:

“Having experienced a number of false dawns in recent years, there is an understandable reluctance on the part of business to herald the recovery, although larger businesses appear more willing than their smaller counterparts to do so.

This in part reflects the difference in trading conditions between the two, with smaller businesses still facing significant pressures. It may also reflect the confidence of larger businesses in their ability to ride out further economic bumps on the road to recovery.

The strength of feeling amongst those who disagree with the chancellor should act as a warning against complacency in government.”

¹ Figures for these companies should be considered in the light of a relatively low sample size of 53.

1. Rescue or recovery? (continued)

- The sectors with the highest incidence of businesses **disagreeing with the chancellor's comments were the Retail sector (65%), Education/Health and Public Administration sector (69%)** and the **Arts and Leisure sector (71%)**².
- The sectors with the highest incidence of businesses **agreeing with the comments were the Wholesale sector (59%) and the Hotel & Catering sector (60%)**³.
- There is a significant regional split in businesses' views of the chancellor's statement. In just **two** regions – the East and South East of England – there was overall agreement with the chancellor (**59% of businesses in both regions agreed versus 22% and 38% disagreeing respectively**). In all other regions, **disagreement routinely topped 55%, with agreement never rising above 38%**.
- The region most in opposition to the chancellor was London, with a 65-33% split between disagreement and agreement.

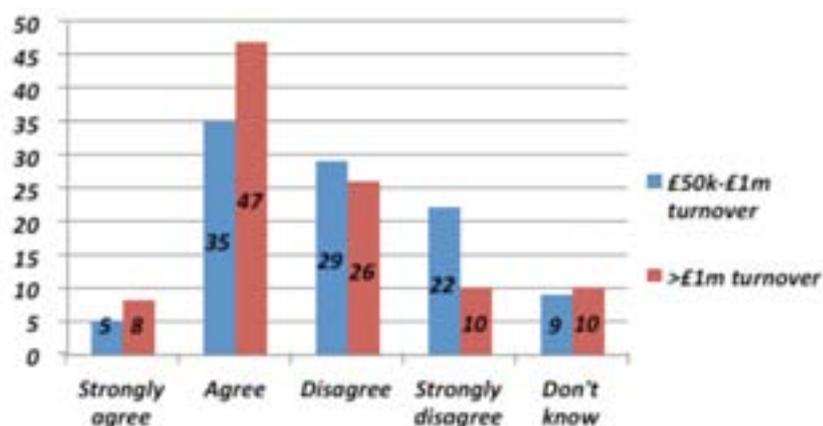


Figure 2 - Agreement with the chancellor, by business size

² Figures for these companies should be considered in the light of a relatively low sample size of 52 (Retail), 45 (Education/Health and Public Administration) and 45 (Arts, leisure & other).

³ Figures for these companies should be considered in the light of a relatively low sample size of 56 (Wholesale) and 43 (Hotels & Catering).

2. Business distress

- The percentage of businesses **experiencing one or more of these signs of distress continued to decline in the current wave, falling to 35%, from 40% in March 2013 and 53% in June 2012.**
- Only **one-in-five businesses (20%) reported experiencing decreased profits** in the current wave of the BDI. This continues the declining trend for this indicator, which has **fallen by seven percentage points from March 2013 and by 14 points from June 2012.**
- **19% of business reported a reduction in sales** in the current wave, compared to **20% in March 2013 and 31% in June 2012.**
- The percentage of businesses **reporting a fall in market share also continued to decline, to 11%, from 12% in March 2013 and 22% in June 2012.**
- The current wave of the BDI saw a **slight increase in the percentage of businesses reporting that they have had to make redundancies, up to 7% from 5% in March.** However, this still **compares favourably to 13%, recorded in March 2012 and 10%, recorded in November 2012.**
- The percentage of businesses reporting **regularly using their maximum overdraft has also increased by two percentage points from 10% in March 2013 to 12% in the current wave.** Again, this still represents a **significant drop from the 30% of March 2012 and 20% of November 2012.**

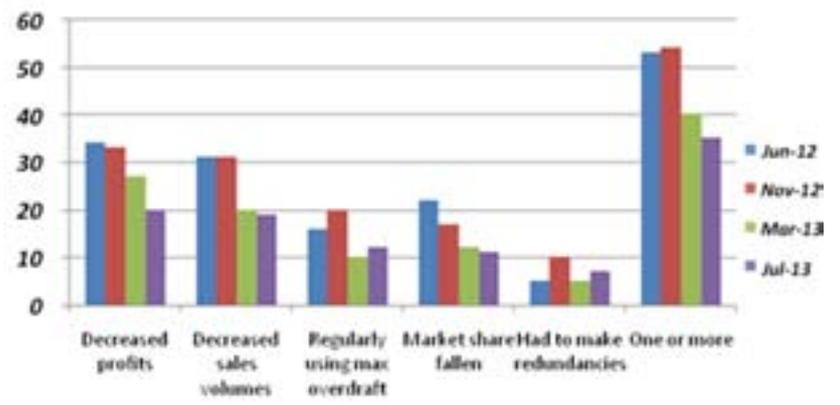


Figure 3 - Business Distress Indicators

Liz Bingham comments:

“The continued decline in businesses experiencing indicators of distress is welcome news. Of slight concern is the small increase in businesses reporting that they are making redundancies and regularly using their maximum overdraft.

Neither of these are necessarily negatives though: the former, whilst it clearly has a cost to the individuals concerned, could suggest that businesses are facing up to fundamental issues and restructuring; the latter could be evidence of businesses financing expansion.

Nevertheless, businesses need to ensure that they are approaching issues of both headcount and credit strategically, making decisions and acting when it is in the best interest of the business to do so, rather than when it has reached crisis point.”

2. Business distress (continued)

- Having to make redundancies continues to be more prevalent amongst larger businesses. **21% of businesses with a turnover from £5m-£20m reported having to make redundancies** in the current wave, as well as **16% of those with a turnover above £20m**. This compares to **7% of those with a turnover of £50k-£100k and just 3% of those with a turnover of £100k-£250k⁴**.
- The percentage of **larger businesses (those with a turnover of over £1m) reporting one or more indicator of distress has remained stable at 29%**. Whilst **smaller businesses (those with a turnover of £50k-£1m)** currently have a higher percentage of businesses experiencing one or more indicator of distress **(35%) this has fallen by six percentage points since March**.

⁴ Figures for certain brackets should be considered in the light of a relatively low sample size of 53 (£5m-£20m), 53 (£20m+) and 54 (£100k-£250k).

3. Growth

- **53% of businesses reported experiencing one or more indicator of growth** in the current wave. This is an **increase of six percentage points from March 2013 (47%)** but slightly **lower than the 57% recorded in June 2012**.
- The percentage of businesses **investing in new equipment has significantly improved from the 20% recorded in March 2013 to 32%** in the current wave. This is **comparable to the levels seen in June 2012 (36%) and November 2012 (33%)**.
- The current wave sees a **significant increase in the percentage of businesses reporting that they are currently expanding, from 14% in March 2013 to 25%** in the current wave. This is the highest level seen since this indicator was first included in September 2011.
- The **percentage of businesses reporting increased sales volumes has been broadly stable over the last year, currently at 27%** compared to 26% in March 2013 and 29% in June 2012. The **percentage reporting an increasing market share has also remained stable, currently 16%**, up marginally from 15% in March 2012 and equal to the 16% recorded in June 2012.
- **21% of businesses reported experiencing increased profits** in the latest BDI. This has declined slightly from **the 24% in March 2012**, though this is four percentage points higher than the **17% recorded in November 2012**.

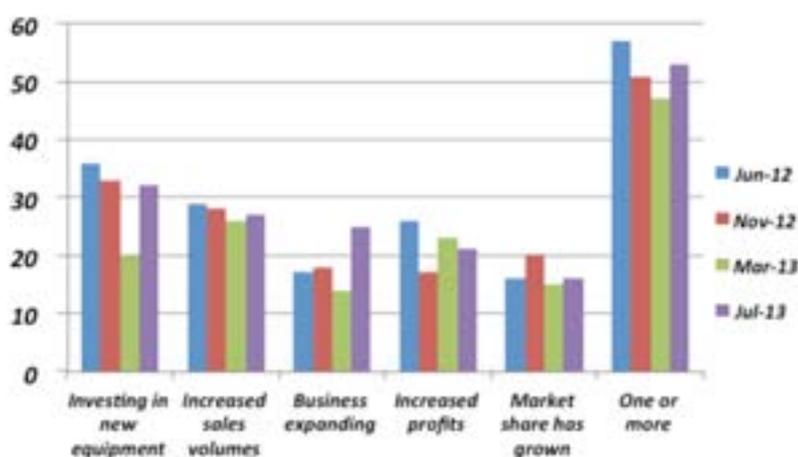


Figure 4 - Business Growth Indicators

Liz Bingham comments:

“Businesses are more likely to invest and expand when they are confident about the future. The positive change in both of these areas is particularly welcome news, particularly as the government has consistently sought to build the recovery on private sector investment.

It is of some concern, though, that the numbers of businesses reporting increased sales and growing market share have stagnated somewhat and that the number of businesses reporting increased profits has actually declined since June last year. If investment and expansion are to be sustained, we will need to see improvement in related indicators in the coming months.”

3. Growth (continued)

- Larger businesses continue to exhibit stronger positive indicators than smaller businesses and the gap appears to be widening. **70% of larger businesses (those with a turnover of over £1m) reported experiencing at least one positive indicator** in the current wave, an **increase of 13 percentage points from the 57% recorded in March 2013**. The **percentage of smaller businesses (those with a turnover of £50k-£1m) reporting at least one of these indicators has risen** over the period, but **by only six percentage points, currently standing at 51%**.

4. Optimism and business confidence

Optimism

- In the latest wave of the BDI, **54% of respondents reported feeling more optimistic** about the economy than three months ago. This is a **15 percentage point increase on the 39% recorded in March 2013** and is the highest recorded level of optimism since this was first measured in September 2011.
- **52% of businesses with a turnover of £50k-£1m reported feeling more optimistic** about the economy than three months ago, compared to **65% of businesses with a turnover of over £1m**.
- **21% of respondents in the latest wave reported feeling more pessimistic** than three months ago, whilst **26% reported feeling the same**.

Business confidence

- In the latest wave, **43% of respondents expected their business's activity to increase** over the next year. This is a **six percentage point increase since March 2013**.
- **63% of businesses with a turnover of over £1m expected their business's activity to increase** over the next year, compared to **40% of businesses with a turnover of £50k-£1m**.
- **7% of respondents in the latest wave expected their business's activity to decrease** in the next year, whilst **50% believed it would remain at the same level**.

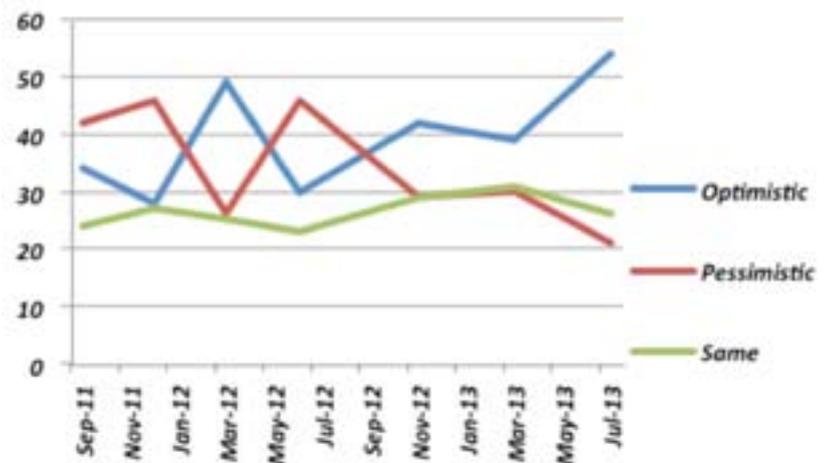


Figure 5 – Business optimism on economy

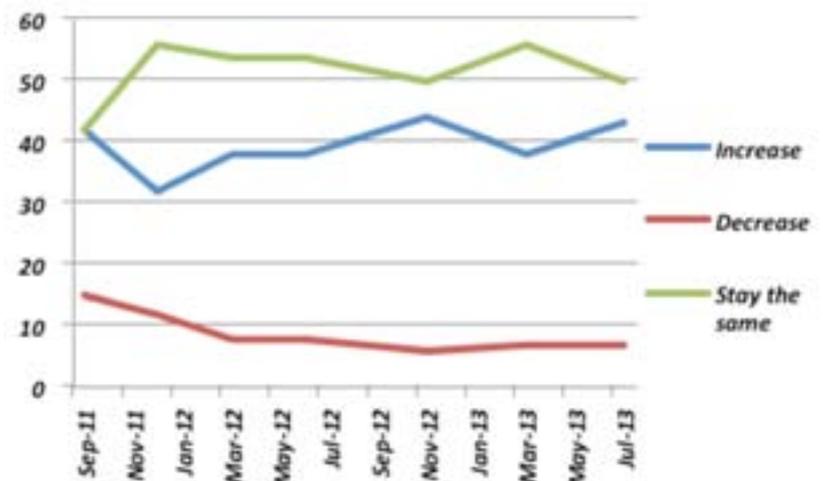


Figure 6 – Own Business Confidence

4. Optimism and business confidence (continued)

Liz Bingham comments:

“On the back of a spate of positive economic news in recent months, it is perhaps unsurprising to see a large increase in economic optimism amongst respondents in this latest wave.

There appears to be a slight disconnect, however, between this general economic optimism and respondents' views of their own business' prospects. Despite an improvement in the latest wave in the number of respondents who believe that their business's activity will increase, this has yet to break through the 50% barrier.

Meanwhile, the number believing that their business' activity will neither get better or worse in the coming year remains high, suggesting that whilst respondents' general outlook may be positive, they have seen too many false dawns to confidently translate this optimism to their own business' prospects.”

**About R3:**

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