

# Business Distress Index: Wave 13

*Business distress  
falls to record levels*

April 2014

## Methodology

BDRC Continental conducted 501 telephone interviews with small, medium and large business owners and Financial Directors in February 2014. Strict quotas are set by size, and softer ones for region and sector. The data is weighted to be representative of all UK businesses with an annual turnover above £50,000. The weights applied are based on the business population data from the Department for Business Innovation and Skills (BIS). The respondent in each case is a senior financial decision maker.

## Introduction by Liz Bingham, R3 President

*In our last edition of the Business Distress Index in October 2013, we raised the possibility that the economic recovery could be the 'real deal.' We are pleased to say the first survey of 2014 indicates this could still be the case.*

*This latest survey demonstrates a trend of positive economic indicators in the UK business community. Signs of business distress are down – again – and signs of business growth are still significantly higher than two years ago. These trends suggest a positive outlook for Britain's business community for the coming year, especially given the recent announcement in the Chancellor's Budget that the UK growth forecast for 2014 is revised up from 1.8% to 2.7%.*

*Last time we warned that while optimism about the wider economy increased, this failed to translate into businesses expressing confidence about their own fortunes. Looking at results in our latest survey, we have seen this improve. Economic optimism seems to be filtering through to how businesses feel about their own prospects, with record numbers of businesses expecting their activity to increase over the next year and the number of businesses making redundancies at its lowest level since our first survey in March 2012.*

*This does not mean, however, that it is time to be complacent. Results show there is still more work to do: businesses feel that government has not got to grips with deregulation, as more businesses think the burden of regulation has increased – rather than decreased – since the 2010 General Election.*

*A third of all businesses in the UK are still showing at least one sign of business distress and there remains a significant gap between smaller and larger businesses; with larger businesses still experiencing more signs of growth and less signs of distress than smaller businesses.*

*Furthermore, our latest Personal Debt Snapshot in February 2014 provides evidence of worrying levels of personal debt and a possible personal debt bubble. Given business growth largely depends on people having more money in their pockets to spend, should this personal debt bubble burst along with projected rises in interest rates, this positive trend of business growth could be halted sharply.*

*Nevertheless, our latest research adds weight to the idea that the positive news over the last year is more than just a blip. Looking forward into the rest of the year, businesses are clearly more confident about their own prospects and that of the wider economy.*

*It seems that the recovery is stretching to businesses in all corners of the UK, with encouraging economic signs for other regions and not just the expected Greater London and South East areas. Whilst it may be a stretch to say growth is well and truly back for all businesses, this survey is certainly another very encouraging update and suggests that growth is sustainable and gaining momentum.*



**Liz Bingham, R3 President**



## Executive summary

### 1. Business Distress

- **Signs of business distress have almost halved in less than two years:** The proportion of businesses experiencing one or more signs of business distress decreased by four percentage points to 33% since our last survey in October 2013. This is almost half the level of two years ago in March 2012, when 64% of businesses were experiencing one or more signs of business distress.
- The proportion of **businesses that have had to make redundancies is at its lowest level since March 2012 (4%)** and five percentage points down from the last survey in October 2013.
- The **North East and Yorkshire and Humberside regions are showing the fewest signs of business distress**, with 82% of businesses in the region experiencing no signs of business distress.

### 2. Growth

- **Almost two-thirds of businesses reported seeing one or more indicators of growth (65%),** a decrease of three percentage points from October 2013, but still 19 percentage points higher than the first time we asked this question in March 2012.
- Each of R3's growth indicators decreased by an average of six percentage points since our last survey in October 2013. Despite this slight drop, **the average for all five growth indicators is 35% - 12 percentage points higher than the average of 23% in our first survey** in March 2012.
- Businesses in **Scotland, Northern Ireland, and Greater London are experiencing the most signs of growth.** South West and Wales are experiencing the least.

### 3. Burden of Regulation

- **Businesses do not feel the burden of regulation has decreased since the 2010 General Election.**
- Only **11% of businesses feel the burden of regulation has decreased compared to 39% of businesses that feel it has increased.** 47% feel it has stayed the same.
- The **South East region feels the burden of regulation has increased the most,** followed by Greater London.

### 4. Economic Optimism and Business Confidence

- **This latest survey is further evidence of a continuing trend of economic optimism and business confidence** amongst the UK's business community.
- **57% of businesses reported feeling more optimistic about the economy than three months ago.** Whilst this is a decrease of two percentage points from our last survey in October 2013, it is still significantly higher than a year ago in March 2013 (39%).
- **A record 57% of businesses expect their activity to increase over the next year,** an increase of four percentage points from our last survey in October 2013.
- Greater London and the South East are the most optimistic about the economy, and **Greater London has the highest level of business confidence.**

## 1. Business Distress

Liz Bingham comments:

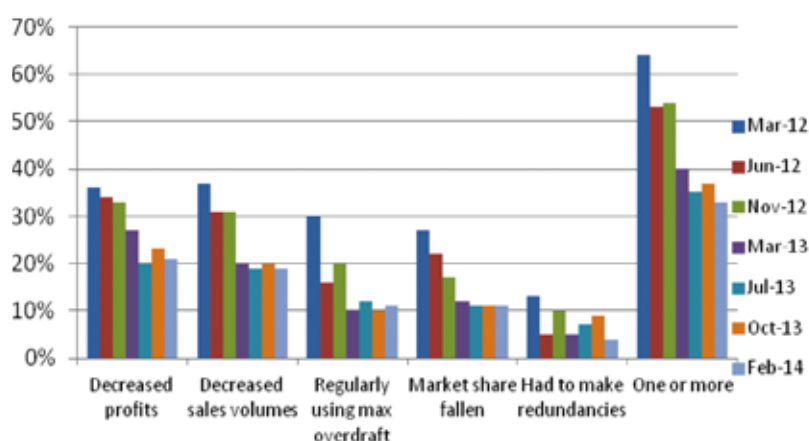
“The share of businesses reporting some form of stress has dropped to its lowest level since our first survey in early 2012. This record breaking result is a very positive sign for businesses in the UK and suggests the recovery is feeling very real for the majority of businesses; especially since only less than half of all businesses have been experiencing some form of distress since March 2013.

There is reason to believe this fall in business distress is having a significant, positive impact on businesses and individuals – with the lowest levels of businesses making redundancies and a drop in the number of businesses experiencing decreased profits. Even for those businesses that are still regularly using their maximum overdraft, they may be doing so to fund and invest in further growth.

Results indicate the recovery is starting to see some momentum, as businesses seem to be finding things slightly easier than three months ago, and significantly better than two years ago.

As long as these signs of distress continue to decrease over the next few surveys in 2014, we can be even more confident the economic recovery is becoming real for many businesses.”

- **A third of all businesses in the UK are showing at least one sign of business distress (33%),** a decrease of four percentage points since October 2013 and half the number of businesses from two years ago in March 2012 (64%).
- The **proportion of businesses that have had to make redundancies is at its lowest level since March 2012 (4%),** and down five percentage points from the last survey.





- **11% of businesses stated they had been regularly using their maximum overdraft** in February 2014, representing an increase of one percentage point since October 2013.
- **Just over one in five (21%) businesses is experiencing decreased profits**, a decrease of two percentage points from October 2013.
- **Similarly, almost one in five businesses (19%) reported a reduction in sales volumes**, a decrease of one percentage point from October 2013.
- The **proportion of businesses recording a fall in market share, remains at 11%**, following a steady fall from 27% in March 2012.
- Since October 2013, the **proportion of larger businesses that are experiencing one or more signs of distress has significantly decreased by nine percentage points to 21%**. Similarly, the proportion for smaller businesses has decreased by five percentage points to 35%.
- The **proportion of larger and smaller businesses that have had to make redundancies has halved since our last survey**, from 12% to 6% for larger businesses, and from 8% to 4% for smaller businesses.
- **North East and Yorkshire and Humberside is showing the fewest signs of business distress** with 82% of businesses in the region experiencing no signs of business distress.



- The South East is where most businesses are experiencing at least one sign of business distress (42%).
- **10% of businesses in the South East have had to make redundancies compared to just 1% in Greater London.**
- Almost **half of the construction sector is experiencing at least one sign of business distress (43%)**, along with just over a third of the manufacturing industry (34%).

## 2. Growth

Liz Bingham comments:

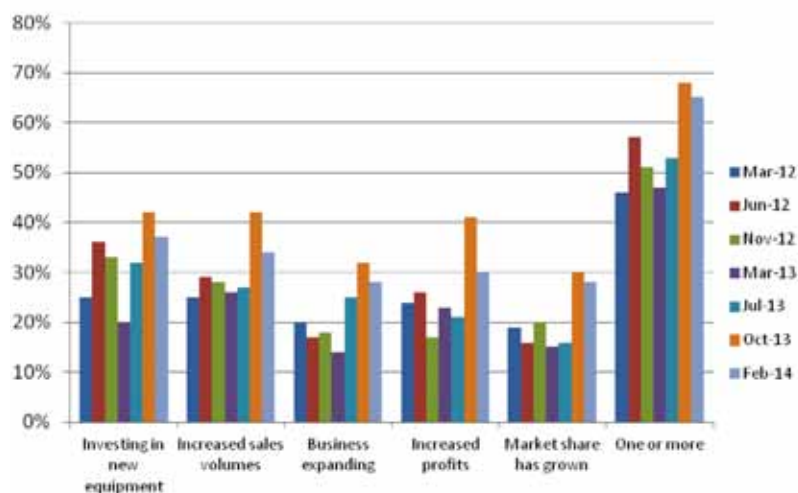
“The last Business Distress Index saw all our growth indicators at record levels, with five out of six growth indicators experiencing almost double-digit growth. Whilst it was always unlikely that we were going to see the same ‘growth spurt’ this time around, we are pleased to see a continuation of this upward trend, suggesting the last survey’s surge was not a one-off.

There are similarly high levels of growth for businesses compared to last survey’s results, with almost two-thirds of all businesses experiencing at least one indicator of growth. Even though the share of businesses reporting some form of growth has decreased very slightly from the last survey, this is unsurprising given it is the first survey after the Christmas period, where businesses may not have the same boost to their figures compared to the run up to Christmas.

Results are still consistently higher than a year ago and they indicate towards a positive, long-term, trend of growth.

Nevertheless, this finding should not cover the fact that larger businesses are continuing to show stronger growth indicators than smaller firms – something we will continue to monitor throughout 2014.”

- **65% of businesses reported experiencing one or more indicators of growth.** This is a decrease of three percentage points from October 2013, yet still 12 percentage points higher than July 2013.
- Since the last survey in October 2013, all five growth indicators have decreased by an average of six percentage points.



- Despite this slight drop, the **average for all five growth indicators is 35% - 12 percentage points higher than the average of 23% in our first survey** in March 2012.
- The percentage of **businesses investing in new equipment (37%) remains the highest out of all five indicators.**
- **34% of businesses are reporting increased sales volumes, 30% are experiencing increased profits, 28% of businesses are expanding and 28% of businesses' market share has grown.**
- **75% of businesses in Scotland and Northern Ireland are experiencing one or more signs of growth**, followed by Greater London (67%). The **South West and Wales region has the lowest proportion** of businesses experiencing one or more signs of growth **(50%)**.
- **Most business market share has grown in Greater London (29%)**. Most businesses are expanding either geographically, by increasing staff numbers or in new areas of business (38%) in the North East and Yorkshire and Humberside.
- 40% of businesses in Greater London, the North East and Yorkshire and Humberside are experiencing an increase in sales volumes.
- **71% of the retail and distribution industry is showing one or more signs of growth**, followed by 64% of the services industry, 58% of the manufacturing industry, and 56% of the construction industry.



- Larger businesses continue to exhibit stronger positive indicators of growth than smaller businesses.
- **81% of larger businesses** (those with a turnover of over £1 million) **reported experiencing at least one positive indicator** in February 2014.
- **The percentage of smaller businesses** (those with a turnover of £50,000 to £1 million) **that reported at least one growth indicator has decreased by three percentage points**, from 66% in October 2013 to 63% in February 2014.



### 3. Burden of Regulation

Liz Bingham comments:

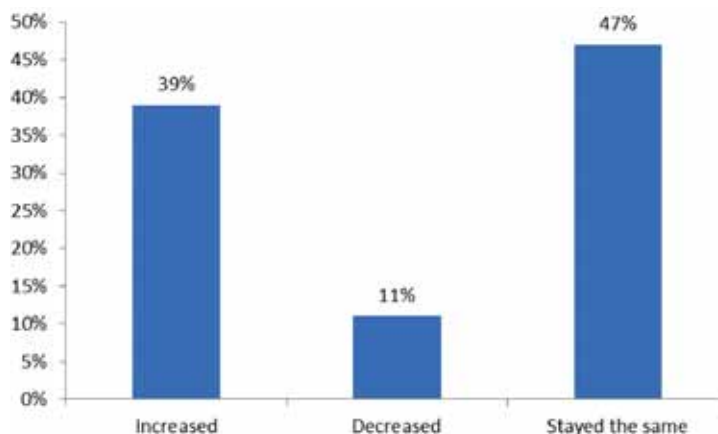
“Given the continued wave of good news about the economy, it is surprising to see that the majority of businesses do not feel the burden of regulation has decreased since the last general election in 2010. It appears that even though businesses are experiencing growth, they still feel constrained by regulation and do not feel the government has gone far enough to roll back the burden of red tape.

It may be that the Coalition government's attempt to roll back red tape is proving more difficult than initially anticipated – as exemplified with the government's current Deregulation Bill which has been heavily criticised for not going far enough and even producing legislation that is in fact regulatory.

Although this doesn't tell us much about specific burdens businesses are experiencing, it does shed some light on how businesses – and in particular larger businesses - perceive how far government is helping them.”

- Despite signs of increased growth and decreased business distress, **only 11% of businesses feel the burden of regulation has decreased.**
- This is in comparison to **39% of businesses that feel the burden of regulation has increased, and almost half of all businesses (47%) feel the burden of regulation has stayed the same.**

- **Larger businesses feel the burden of regulation has increased more than smaller businesses, with 46% and 38% respectively**, and 12% of smaller businesses feel the burden of regulation has decreased compared to just 4% of larger businesses.
- The **South East is the region which feels the burden of regulation has increased the most (51%)**, followed by Greater London (48%).
- **38% of the manufacturing industry feels the burden of regulation has increased**, along with 41% of the retail industry and 43% of the construction industry.



## 4. Economic Optimism and Business Confidence

Liz Bingham comments:

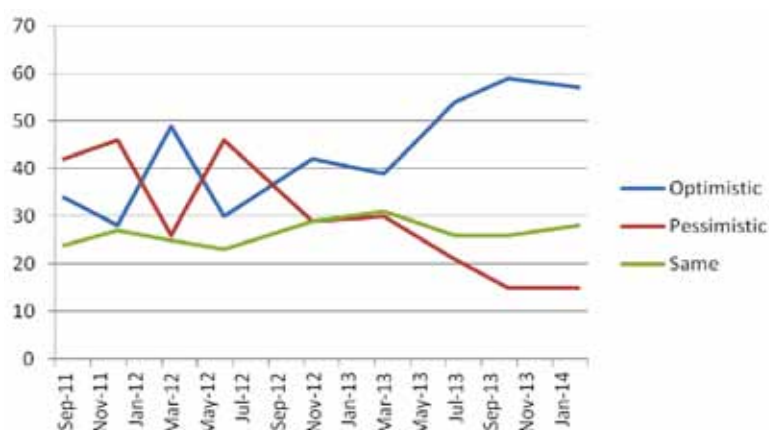
“Given the wave of positive growth signs and reduced distress signs, it is not surprising that more businesses feel confident about their own prospects over the next year than they did in the last survey.

Although economic optimism has dipped slightly, it is still significantly higher than the first time this question was asked back in September 2011, and economic pessimism has not increased since the last survey. This means we are in a much better state than we were in the early days of austerity, and businesses expect this good news to continue.

Whilst there is still a difference between the experiences of larger and smaller businesses, a majority of both types of businesses are confident their activity will increase. It appears that broader economic optimism is beginning to translate into confidence amongst businesses about their own prospects.”

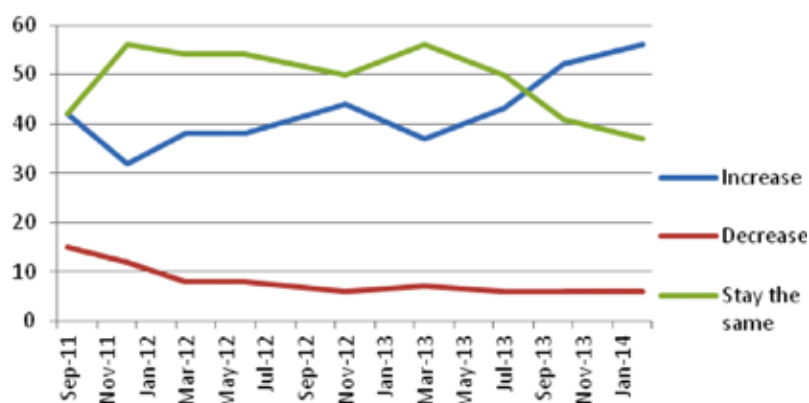
### Economic Optimism

- **57% of businesses reported that they felt more optimistic about the economy than three months ago.** This is down two percentage points from the previous survey in October 2013 (59%), but still significantly higher than a year ago in March 2013 (39%).
- The **proportion of businesses that are pessimistic about the economy has remained the same** as the last survey at 15%, but is still a significant decrease from September 2011 where 42% of businesses were pessimistic about the economy.
- **Larger businesses are still more likely to be optimistic about the economy than smaller businesses;** results showed 69% of larger businesses are optimistic about the economy compared to 56% of smaller businesses.
- **70% of businesses in Greater London and 60% of businesses in the South East are optimistic about the economy;** the most optimistic regions in the UK.
- Just **over half (56%) of the manufacturing industry is optimistic about the economy** along with just under half (47%) of the construction industry.



## Business Confidence

- **A record 56% of respondents expected their business activity to increase over the next year**, compared to 52% in October 2013 – an increase of four percentage points.
- **6% of businesses expect business activity to decrease over the next year whilst 37% expect it to stay at the same level.**
- This follows a trend from March last year, where **business confidence has been steadily increasing over the last 12 months.**
- **Business confidence is 14 percentage points higher than the first survey in September 2011**, and the proportion of businesses who feel their business activity would decrease is down 9 percentage points since September 2011.
- **Larger businesses are more likely to expect increased business activity than smaller businesses by a margin of 18 percentage points** (72% larger businesses to 54% smaller businesses). This is an increase of 6 percentage points from the last survey in October 2013, where it was 62% for larger businesses and 50% for smaller businesses. This shows that whilst business confidence has increased for both larger and smaller firms, the gap between the two is widening.
- **Greater London has the highest level of business confidence (74%) and South West and South Wales businesses have the lowest levels of business confidence (45%).**
- **Almost half (49%) of the manufacturing industry expects business activity to increase** in the next 6 months, along with 44% of the construction sector.



## 5. Conclusion

Liz Bingham concludes:

“In our last survey we suggested that it may be time to start believing the good news about the economy – this survey adds further weight and evidence to that assertion. The fact that there is a clear declining trend in signs of business distress from 2013 into 2014 is particularly promising.

This does not mean, however, that we are completely out of the woods. Whilst indicators show economic growth for businesses looks sustainable, there are also signs that prospects are looking better for larger rather than smaller businesses, and the burden of red tape is still being felt.

The fact that one third of all businesses in the UK are still showing signs of distress suggests there is still some way to go before we have fully recovered from the recession. It would not take much for this trend to be knocked off course – further external economic shocks, big political changes, a personal debt crisis or increased interest rates for example, could change some of the results we have been seeing.

We wanted to see a more broad-based improvement in businesses' fortunes – and this has been the case with greater improvements for businesses in different regions and in different sectors.

It is safe to say that this latest Business Distress Index provides supporting evidence of an economic recovery that is very real for many businesses across the country. Providing there are no big shocks to jolt it off course, 2014 looks like it will be a very positive year for the UK's business community.”

## About R3:

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