Picture worsening for businesses across the UK as one-in-four reports signs of distress

R3 Business Distress Index
November 2017

Fewer UK companies are reporting signs of growth, and more firms say they have recently experienced at least one sign of distress, according to new research by R3, the insolvency and restructuring trade body.

The research, part of a long-running survey of business distress by R3 and BDRC Continental, found that the number of companies reporting one or more signs of growth fell to 53% in September 2017, down from 64% in April 2017 and 62% in September 2016, and is the lowest figure since July 2013 (also 53%).

Meanwhile, firms which say they had experienced one or more signs of distress jumped to one-in-four (25%), up from one-in-five (20%) in April this year and 21% in September 2016. The record low for the proportion of companies reporting one or more signs of distress is 17% in December 2015.

Other findings

- 'Decreased sales volumes' was the sign of distress reported by the greatest proportion of firms surveyed at 12% - up from 7% in April 2017.
- Companies' financial room for manoeuvre may be shrinking too, as 11% of firms surveyed said they were regularly using their maximum overdraft, up from 8% in April, and nearly three times the 4% of firms who were in this position in September 2016.
- However, fewer firms are reporting decreased profits, with only 6% of respondents saying this was the case for them – the lowest proportion on record, down from 7% in April 2017, 8% in September 2016, and 36% all the way back in March 2012.
- Companies which said they had to make redundancies continued to make up a tiny fraction of UK firms, at just 2%, a figure which has remained steady since September 2016, and which fits in with official labour market statistics from the ONS, showing the unemployment rate sitting at 4.3%, a level last seen in the 1970's.

Signs of growth on a downward trend

- Of the five signs of growth monitored by R3, all of them experienced a drop compared with April of this year, while only one indicator – whether or not a business is expanding – was higher than in September 2016 (20% in Sep 2017; 16% in Sep 2016).
- The number of companies saying they are investing in new equipment experienced the sharpest drop between April and September, from 33% to 22% – a fall of one-third. With many business leaders concerned over the prospects for UK plc, company directors may be taking a lead from predictions of trouble ahead and building up cash reserves to take them through tougher times.
- The number of firms reporting increased profits fell from 32% in September 2016 and 33% in April 2017 to 30% in the latest round of research, while the number which has seen increased sales volumes fell more sharply, from 38% to 33%, and then to 26% over the same period.

R3 Commentary

Adrian Hyde, President of R3, said: "There's been a very firm increase in distress levels over the last 18 months, alongside a drop in growth. Businesses have moved on from record high growth levels and record low distress levels, and it looks like a new phase of the economic cycle has started.

"With sales volumes falling for a larger number of companies, and with more firms reaching the limit of their financial facilities, the economic picture is getting murkier. For a lot of companies existing on the edge, just one shock - such as a rise in the cost of borrowing, the failure of a major supplier or customer, or a fall in consumer confidence – could be enough to push them into insolvency. The insolvency practitioners and business advisory experts among R3's membership are reporting a rise in the volume of enquiries they are receiving from business people who want to get a clear picture of their options.

"Many companies have seen their fixed costs rise over the past year, whether due to higher business rates, an increase in the National Minimum Wage, inflation's upward trajectory, higher fuel prices, or the fall in the pound pushing up import prices. Meanwhile the economy's growth has not been rapid enough to offset these greater outlays, leaving some firms in a precarious position.

"With only just over a quarter of firms growing their sales volumes, down from nearly four-in-ten a year ago, the overall outlook for the UK's business community is more downbeat than it has been for some time.

"The question of balancing competing needs – whether to prioritise solidifying their cash position or investing in their businesses, a key concern in the digital age – is more urgent than ever for many companies, especially with the economic landscape becoming more unsettled. There are no easy answers as to which choice firms should opt for, although talking any big decisions over with an external advisor may help directors to work out a way forward.

"There are always other options for firms which are experiencing distress, and the regulated advisors within the insolvency and restructuring profession can often help directors to make the best choices for their companies. The sooner the directors of a company reach out for expert advice from a regulated professional, the more can be done to provide the best possible outcome for a distressed firm."

About R3: R3 is the trade association for the UK's insolvency, restructuring, advisory, and turnaround professionals. From senior partners at global accountancy and legal firms to practitioners who run their own small and microbusinesses, our members have extensive experience of helping businesses and individuals in financial distress. Please contact R3's Communications and Public Affairs Assistant, Alex Clarke, on 020 7566 4202 or alex.clarke@r3.org.uk.

About BDRC Continental: Research undertaken by BDRC Continental, an award-winning insight agency. Questions were put to 500 UK businesses via BDRC Continental's monthly Business Opinion Omnibus. Telephone based interviews with a nationally representative sample of senior financial decision makers across the UK, weighted by size, region and sector. Fieldwork dates 4th – 14th September.