UKBAB68 September 2008 Analysis

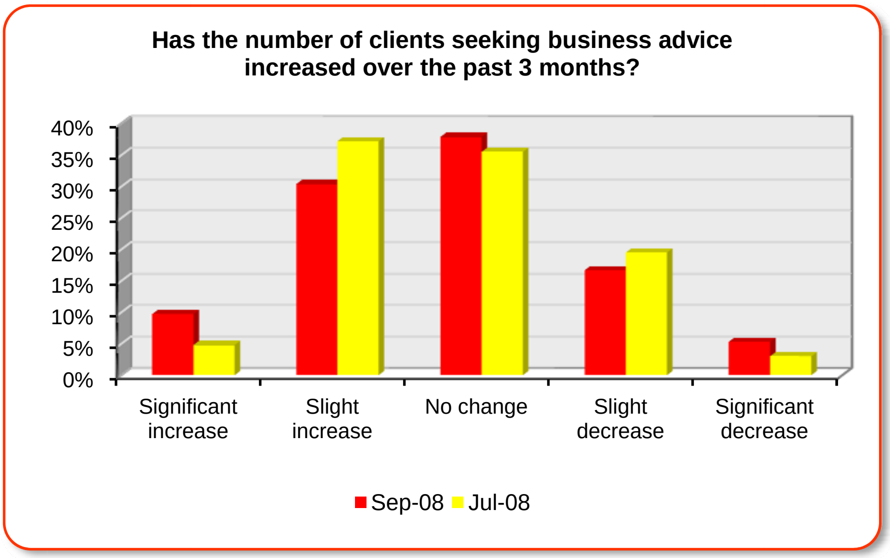
Since the July UKBAB survey there have been dramatic developments in both the UK and Global economies, with unprecedented government support being offered and accepted by three major UK banks and many major financial and commercial companies being under severe pressure. The knock on effects are beginning to be apparent throughout the economy and business advisers hear direct from clients what practical problems are being created as the situation develops.

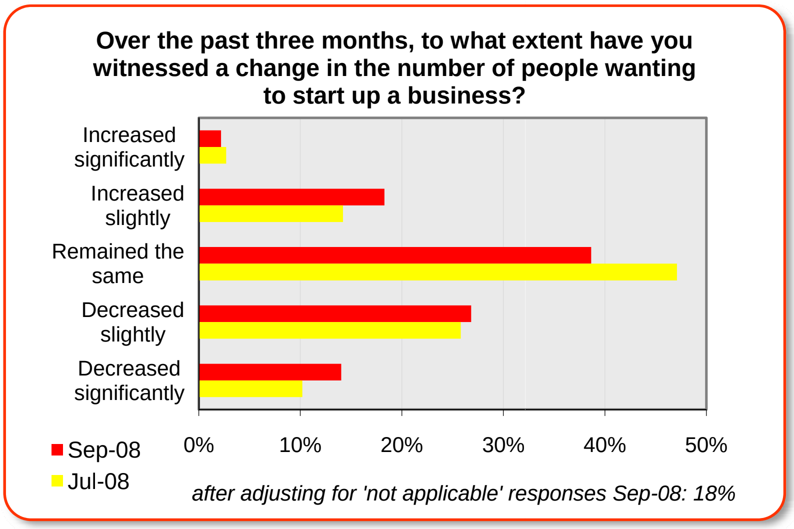
In the September survey, we repeated some of the July edition trends questions in order to keep pace with the rapidly changing economic conditions that prevail at present. We also included questions on how financial advice might have changed because of recent market conditions, low market demand, redundancy, potential business exits, the roots of late payment, becoming an Olympics supplier, and the outlook for the economy.

The total number of business advisers taking part in the September survey was 227 and as usual real-time results were published to the website during the course of the survey. This analysis is the outcome of further examination of those results.

Survey findings

Over the summer, businesses were not turning in much greater numbers than normal to business advisers responding to the survey. The average number of clients seeking business advice over the past 3 months increased by less than 1% compared with the three months to July 2008. 38% reported no change. The number of advisers experiencing increases in enquiries continued to outpace the number experiencing decreases in enquiries.





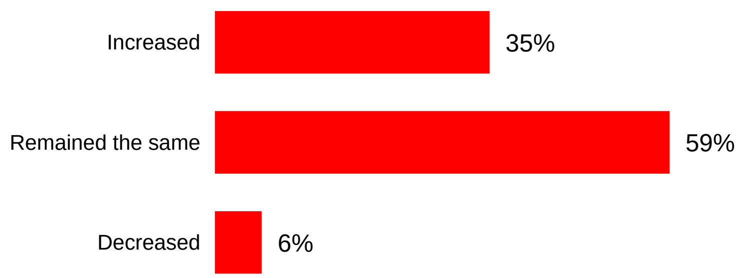
The average of the September 2008 three month period results for the number of people wanting to start a business decreased from July 2008 by a further 2% (following a 10% decrease from June 07 to July 08) but this is broadly in line with the normal seasonal variation.

However, the average is

now 11.6% lower compared to September 2006. The balance between the percentage witnessing significant or slight increases and those witnessing significant or slight decreases in the number of people wanting to start a business moved from +5.6% in June 07 to -19.1% in July 08 and to -20.3% in September 2008.

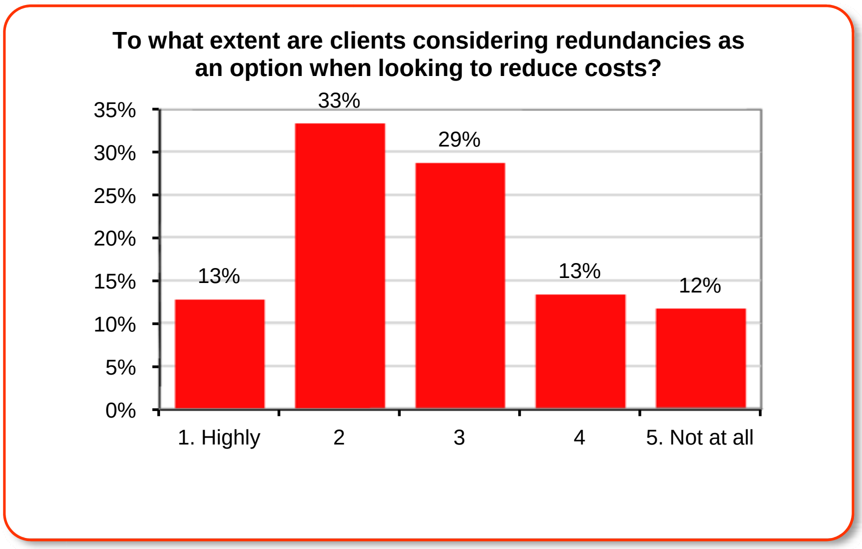
In the light of rising unemployment numbers, we also asked if there had been more enquiries about starting a business from people being made redundant. Statistics produced by the Office for National Statistics show that over the June to September 2008 period, redundancies were running at 5.5 per 1000 employees compared to the same period last year, when it was 4.5 per 1000 (+22%). The increase in enquiries experienced by the business support professionals responding to this survey is higher than this at 35%, although 6% have witnessed fewer of these enquiries.

Over the past three months, to what extent have you witnessed a change in the number of people looking to start up a business as a result of being made redundant?

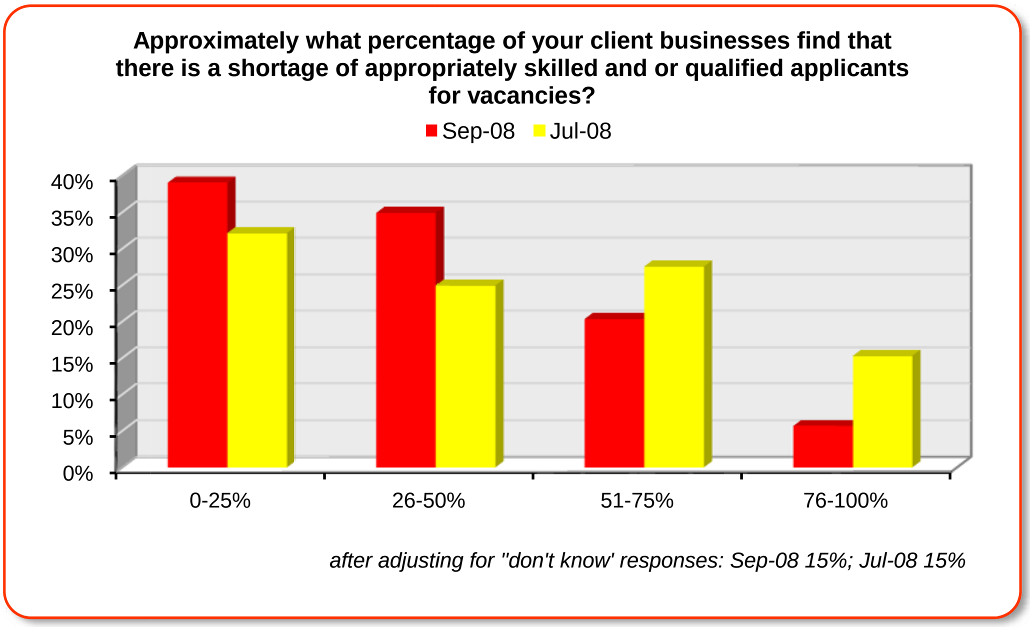


after adjusting for 'not applicable' responses Sep-08: 34%

From the employer's point of view, reducing staff costs by making posts redundant is an option that 46% of business advisers say is being considered by their clients to a high or relatively high extent. 25% say clients are either not considering it or are giving it very little consideration.

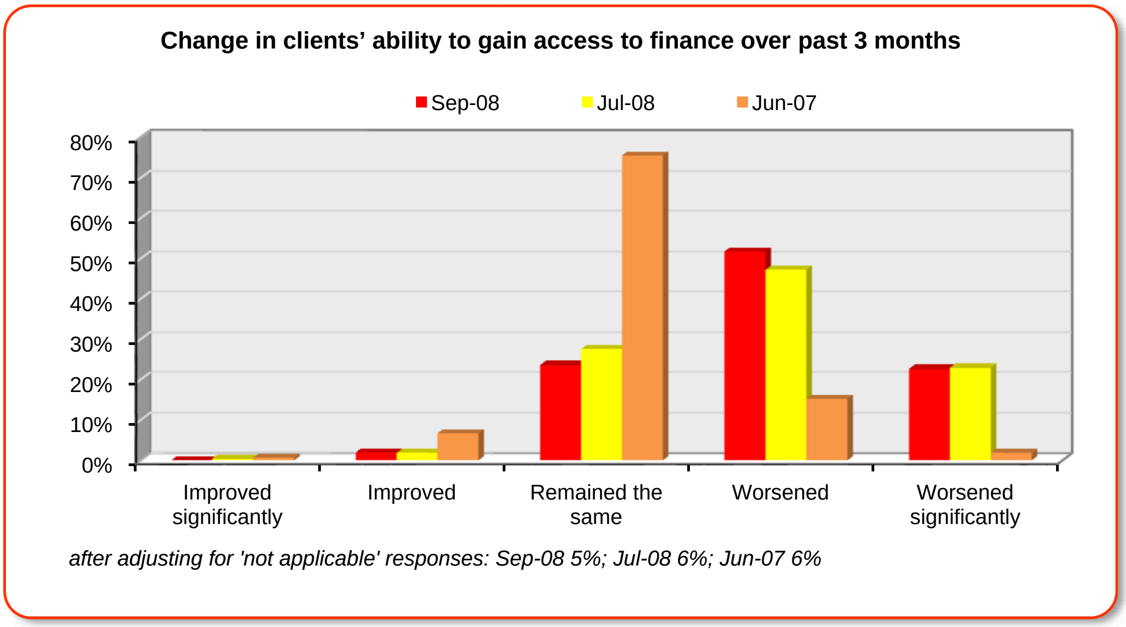


One area showing a marked change is that of skills shortages for vacancies. Since the July 2008 survey, the average percentage of clients experiencing shortages of appropriately skilled applicants has decreased from 44% to 36%.



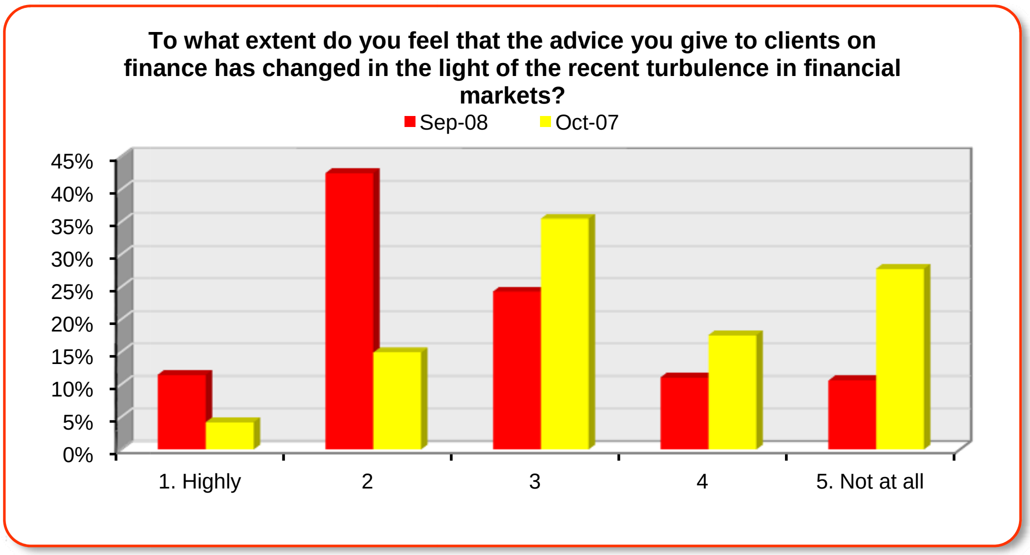
The measure of clients' ability to gain access to finance showed a marked fall between June 2007 and July2008, intensified by a further fall between July 2008 and September 2008. The balance between the percentage whose clients' ability to gain access to finance has improved or improved significantly, and those whose clients' ability to gain access to finance has worsened or worsened significantly has moved from -10% in June 2007 to -72% in September 2008 and the index average has decreased by 29% over the same period.

	Sep-08	Jul-08	Jun-07
Improved	2%	2%	7%
No change	24%	28%	76%
Worsened	74%	70%	17%
Balance increased	-72%	-68%	-10%

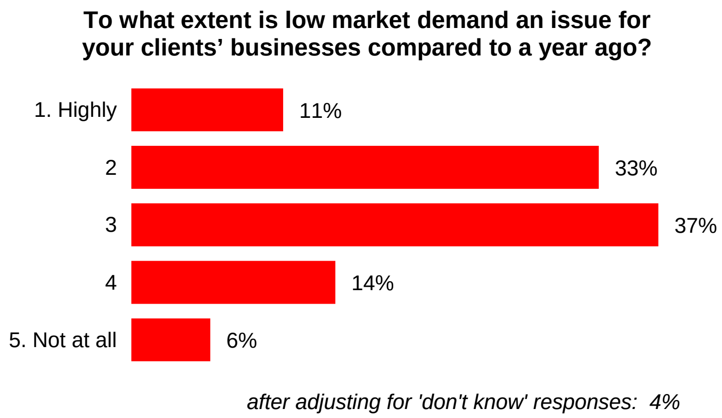


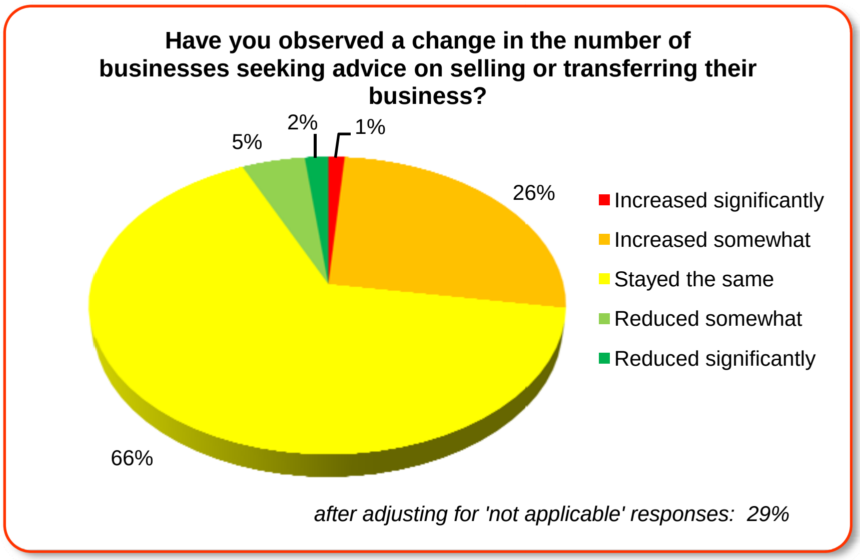
In the pre-budget report of October 2007, the Chancellor, Alistair Darling, said that the UK economy's growth had been damaged by the 2007 summer's financial turmoil. The global credit crunch and the weakening US housing market were the prime factors that were likely to make it harder and more expensive to borrow money in the UK in 2008. The following 11 months saw the credit crunch worsen and the UK housing market radically slowing, as well as higher oil and food prices (both now showing signs of decreasing), but interest rates have been held down, while the retail sector has recorded six months of consecutive sales decline.

Last October panellists were asked to what extent their advice to clients had changed in the light of the recent financial market turbulence, and 19% said their advice had changed highly or relatively highly. This compares with 54% who have now changed their advice on finance. Also, last October 46% said that their financial advice had not been affected very much, if at all, whereas that figure is now down to 22%. It remains to be seen whether the impact has yet been fully felt.



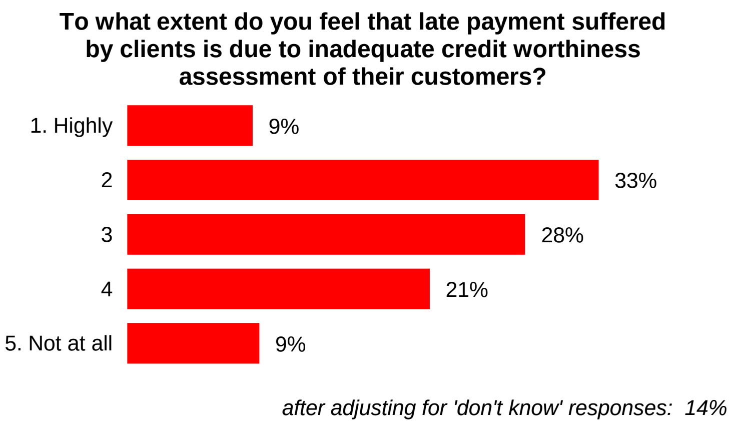
In the parallel survey of smaller businesses this month, panellists were asked to what extent their businesses were constrained by low market demand at this time. 41% said they were highly or relatively highly constrained, 37% were neutral and 22% said they were not at all or were relatively lightly constrained by low demand. These are close results to those found by asking business advisers in this survey to what extent low market demand is an issue for their clients' businesses compared to a year ago: 44% said low market demand is an issue to a high or reasonably high extent, 37% were neutral and 20% said that it is not an issue or only a small issue for clients businesses.



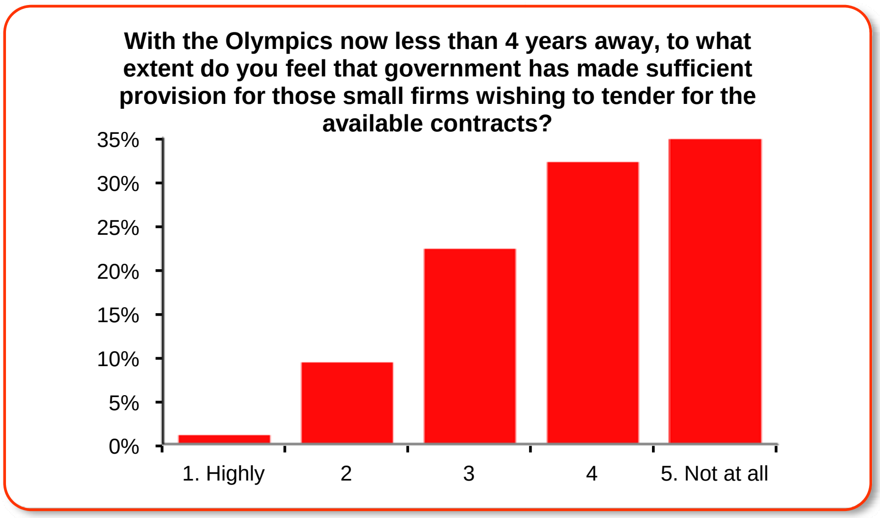


27% of business advisers are seeing increases in the numbers of businesses seeking advice on selling or transferring their businesses while only 6% are seeing decreases. At present 66% are seeing no change in this area.

Major businesses advisory bodies have recently been highlighting the wisdom of credit-checking all customers before agreeing to supply them. Credit worthiness scoring usually assigns about 35% of its weighting to the customer's payment history and about 30% to the current amount of outstanding debt, so these scores can provide a strong historical indicator. 42% of responding business advisers feel to a high or reasonably high extent that inadequate credit worthiness assessment of customers gives rise to late payments but 30% think there is little or no causality in this.



By June 2008, 70% of the 650 companies that had already signed supply contracts for the 2012 Olympic Games were SMEs and 48% of them were based outside London, 98% within the UK. The Olympic Delivery Authority took a road show to every UK region in 2007 and have set up CompeteFor, a business 'dating agency' to match registering companies to supply chain opportunities for the 2012 Games – this is expected to be the route used for selecting up to 20% of official supply contractors.



However only 10% of respondents are strongly or fairly strongly convinced that government has made sufficient provision for smaller firms that would like to tender for contracts, while 67% think that very little or no provision for them has been made.

Since Government and other commentators have been referring to the credit crunch for a year now, and world financial systems have sustained multiple major shocks, panellists of this survey were asked how gloomy they perceive the outlook to be for business in general. The balance of findings was strongly negative, with 66% more choosing ‘very gloomy’ or ‘quite gloomy’ than choosing ‘quite bright’ or ‘very bright’.

Panellists of the parallel survey of smaller businesses, the UKBB, were asked how gloomy they perceive the outlook to be for their own business. The balance of findings to this question was much less negative with 22% more choosing ‘very gloomy’ or ‘quite gloomy’ than choosing ‘quite bright’ or ‘very bright’

The two sets of results are presented in the chart below.