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Small businesses still shedding jobs in spite of slight upturn, says survey

Small businesses continued to shed jobs in the second quarter of this year, in spite of a slight overall recovery, says a survey by the independent Small Business Research Trust (SBRT).

The survey, sponsored by the HSBC Bank, shows that since the first quarter of 2006 investment has picked up and that slightly more firms report increasing rather than decreasing sales. But while the employment situation has marginally improved, 3% more firms report they are cutting back on jobs rather than increasing employment.

Last year, in three of the quarters, a majority of firms reported that they had cut rather than created jobs. Only in the second quarter was there a small positive difference in recruitment over job losses.

Mark Beresford-Smith, Chief Economist for the HSBC Bank, commented: "It is quite likely that smaller firms have had a harder time than their larger counterparts during recent months. But it is also clear that the economy's overall growth rate has been boosted to a significant extent by a build-up of inventories by manufacturers and distributors. These unsold goods are, obviously, not reflected in business turnover. In fact, during the first quarter spending by households, which is a key driver of demand for many smaller firms, rose in real terms by just 0.3%."

The SBRT survey, which was carried out by the University of Liverpool, finds that UK small businesses are optimistic about the prospects in the next quarter for investment, sales and employment. Optimism is particularly strong regarding sales, with nearly 40% of firms expecting sales growth compared with 20% believing they will decline.

However, Mr Beresford-Smith cautioned: “These bullish expectations are, once again, likely to be disappointed. The pace of economic growth is expected to slacken during the second half of the year. The strong increase in inventories was probably a temporary phenomenon. Also, the disposable incomes of households will continue to come under pressure from higher energy bills and sluggish income growth. With the number of people unemployed continuing to rise and with households burdened by outstanding borrowings of £1.2 trillion, sentiment is softening, especially in respect to making ‘big ticket’ purchases.”

Brian Wolfe, SBRT Chairman, also expressed pessimism about small business prospects. “While our Q2 survey indicates that small businesses have been ‘holding up’ over the past six months, this ‘feel good’ factor may rapidly change against a background of increasing energy costs together with inflationary pressures that have now forced the Bank of England to increase interest rates. Small businesses would have difficulty in recovering these additional costs by increasing prices. This would no doubt cause a slow down in the business performance of UK small firms.”

The SBRT surveys show that micro business (fewer than 10 employees) have over the past year and three quarters performed particularly badly when it comes to creating jobs. In fact since the end of 2004, more micro businesses have recorded job losses rather than increases in every quarter. In each quarterly survey, covering the period from the end of the third quarter of 2004, up to and including the second quarter of this year, more micro firms have reported cutting jobs than increasing them.

They have, in fact, performed less well than small businesses (between 10 and 50 employees) in all three survey indicators: sales, employment and investment. These figures are part of a trend which has continued since the end of 2004.

In sales, although there has been a slight pick-up, in the second quarter of this year slightly more micro businesses report declines rather than increases. In fact since the end of 2004, more micro firms have reported sales down rather than up in every quarter except one.

More small businesses have reported increased sales throughout 2005 and the first quarter of this year. But in the second quarter of this year, the positive difference, between those firms saying sales have increased and those saying they have decreased, is small.

More small businesses have reported job creation rather than job losses since the end of 2004, with the exception of two quarters. In the first quarter of this year slightly more companies said they had increased rather than decreased their pay role.

In the second quarter of 2006, investment in micro businesses balanced between those companies which had increased spending and those which had cut back. A majority of small businesses, on the other hand, showed a sharp pick-up in investment after the first quarter of this year; and their figures have been positive throughout 2005.

Investment in micro businesses has been negative since the end of 2004 with the exception of one quarter. While over the same period investment for small businesses has varied in scale, the figures have all been positive.

For micro businesses, the most pressing concern and barrier to growth is taxation. Small businesses identify employment regulations as their biggest problem.

Notes for Editors

The SBRT quarterly survey was carried out by the University of Liverpool and is one of the largest in the UK among smaller companies. Three thousand businesses were surveyed in April and May and over 500 responses received.

The Small Business Research Trust (SBRT) is an independent research organisation that aims to educate and inform in order to increase understanding of issues affecting small businesses.

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