

PRESS RELEASE SBRT 4th QUARTERLY SURVEY 2006

Increases in workers' entitlements could mean 300,000 less jobs created by small businesses, says survey.

Over 25% of smaller businesses surveyed by the independent Small Business Research Trust (SBRT) say that increases in the National Minimum Wage and holiday entitlement in the past 12 months have restricted their ability to employ more people. The SBRT report calculates that, since these firms typically estimated they could have employed an extra one or two people, this could represent the loss of a gross potential 300,000 jobs.

The owner-managers of 1,470 small and medium-sized companies took part in the survey, which is one of the biggest across the UK, and is sponsored by HSBC Bank plc. The claim that the failure of smaller businesses to create jobs has been affected by other factors than their trading success is supported by the survey findings over the past two years. In only one of the eight quarters in 2005 and 2006 (at the beginning of last year) have more smaller firms reported a decline in sales and investment rather than an increase. But in six of the quarterly surveys more firms said they were shedding jobs rather than creating new ones.

The survey, which is carried out by the University of Liverpool, also finds that interpreting and understanding employment regulations is seen by many smaller firms as the greatest disincentive to creating jobs (see below for further details).

Results for the final quarter of 2006 show that, after the strong upturn of the third quarter, performances in the last quarter weakened, although the figures for sales and investment remained positive. However, the final part of the year showed a negative figure (minus 1.5%) for employment, with more firms saying they had lost rather than created jobs.

Mark Berrisford-Smith, Chief Economist for HSBC Bank plc, commented: "The immediate outlook for smaller businesses has become more uncertain following the latest rise in Bank Rate to 5.25% and the news that consumer price inflation is right at the top of the permitted range. Borrowing costs are now at their highest since 2001 and there is a significant risk of further increases in the months ahead.

"Smaller firms enjoyed a modest expansion in their turnover in the final quarter of 2006. But with interest rates already on the way up it is no surprise that this was not translated into higher employment. The Christmas trading period turned out to be better than many retailers had feared, but surveys indicate that consumer sentiment is now softening, a trend which will be exacerbated by the present uncertainties. After a year in which the economy expanded by a healthy 2¾%, the pace of growth is likely to slacken in the coming months.

"If the recent surge in inflation proves to be only temporary, allowing the Bank of England to begin cutting rates later this year, then the slowdown will be a mild affair. If, on the other hand, inflation remains above 3% for any length of time, then all businesses, be they large or small, will be facing a much rockier ride."

Brian Wolfe, Chairman of the Small Business Research Trust, said: "Smaller businesses need, and deserve, better support rather than the approach of the present Government. This is exemplified by the failure of the Small Business Service, increased regulation and policies that are simply dull. The growth in sales of small and medium-sized enterprises has happened in spite of government. We can only wonder how much more small and private sector businesses would have grown, to the benefit of all, with a government that exercised more financial control in the public sector."

Industrial Sectors

Smaller businesses were markedly less optimistic about sales, jobs and investment in the first quarter of 2007 than they were in the second half of 2006. The gap between those firms expecting increased sales compared with those forecasting a decline, narrowed to 10%. Only 14% of firms expected employment to rise. Overall, employment is expected to remain static.

The final quarter of 2006 showed strong sales in manufacturing, transport and communications, and real estate. However, employment was down in manufacturing, with 21% of firms saying they had cut back compared with just 15% who said they had increased job numbers. But investment in manufacturing was up.

Sales were down in wholesale and retail, with 39% of firms saying there had been a decrease and just 33% reporting increases. The figures for employment in this sector were also negative. Employment was also sharply down in the hotels and restaurants' sector, with 33% downsizing and only 19% recruiting. But sales were slightly up, with 38% of restaurants and hotels saying they had increased their turnover, compared with 34% reporting it was down.

This business category was the only one to predict a decline in the next three months, with more firms saying they expected sales, employment and investment to fall than those predicting an increase. On balance, most sectors expect slower growth in the first quarter of this year.

Regions

All regions in the UK reported that, on balance, sales were up, apart from Yorkshire and Humberside. Wales had 51% of firms reporting that sales had increased, compared with 22% saying they were down. But Welsh employment in small businesses, while mostly stable, showed slightly more firms had shed rather than increased jobs.

The East Midlands also showed buoyant sales, with 28% more businesses reporting an increase rather than a decrease in sales (50% and 22% respectively). Employment was virtually stable.

In the South East, 42% of firms reported an increase in sales and 24% a decrease. However, slightly more firms said employment was down (20%) compared with those increasing jobs (18%).

Employment and investment in Scotland had declined since the third quarter of 2006, though it was still positive (41% compared with 27% of firms). Employment was virtually stable, with a difference of minus 1 per cent; and 5% more firms reported less investment compared with those saying it had increased.

Barriers to Growth

The report shows that the biggest barriers to the growth of smaller businesses were seen as taxation and employment regulations. Taxation, including National Insurance, was cited as a barrier by 63% of the business owners who responded, and 58% referred to employment regulations.

The findings suggest, as might be expected, that concern over employment regulations increases as companies grow in size. The main concern for micro businesses (0 – 9 employees) was taxation. However, for small businesses (10 – 50 employees), the biggest challenge was seen as employment regulations.

For these companies, employment regulations have moved ahead of taxation as their main problem since the previous quarter. Whereas in the third quarter of 2006, 15% of small firms said it was a priority concern, in the final quarter the number had increased to 22%.

Smaller firms said that the most time-consuming aspect of employment regulations was interpreting and understanding them. Over half the micro firms and more than 60% of the small firms said they found this either quite or very time consuming.

The next most time-consuming activity was providing reports and proof of compliance (47% of micro firms and 60% of small firms reported this).

Seventeen per cent of small firms said they spend 10 to 19 hours per week on compliance with regulations. For three quarters of micro and small firms, the figure is between 1 and 9 hours.

The costs of compliance were found to vary widely. One in six micro firms say they spend no time or money, which may further explain the reluctance of many companies to create jobs. For one quarter of micro firms, the cost per week was less than £50; and a further 40% had costs of £50 to £150. But for small firms, the costs are higher and nearly 30% had compliance costs of more than £250 a week. Nearly half paid out between £50 to £150 a week.



Notes for Editors

The HSBC/SBRT survey was carried out by the University of Liverpool Management School and is one of the largest regular surveys on smaller companies in the UK. Each quarter it provides evidence in key trends in business performance based on a random sample. For the report on the final quarter of 2006, 13,000 businesses were surveyed in November and December and more than 1,400 responses were 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 smaller businesses.

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