



Small businesses falter, with declines in jobs, sales and investment, says survey

A survey of small and medium-sized businesses reveals that in the first quarter of this year (2006), for the first time since the middle of 2004, a majority of firms reported decreases rather than increases in sales, jobs and investment. The survey, by the independent Small Business Research Trust (SBRT), shows that there has been a gradual decline over the past 7 quarters, with small majorities in 2006 reporting falls rather than growth in all three indicators (see graph at the end of this press release).

This decline has particularly affected employment and sales, while investment remained stable until this year. Yet in spite of these disappointing figures, optimism among smaller businesses remains relatively high, particularly regarding sales.

The SBRT quarterly survey was sponsored by HSBC Bank and carried out by the University of Liverpool, and is one of the largest in the UK among smaller companies. About 12,000 small firms were surveyed in January and February, and the results showed that the economic environment continues to be relatively stable. Of those responding, roughly a third reported that sales were steady, and about two thirds said that employment and investment remained the same.

Also, there were only small differences in the numbers of firms reporting decreases rather than increases in the three indicators. About 4% more firms reported less jobs rather than employment growth. For sales, about 2.5% more firms said there had been a decrease rather than increase; and for investment around 1% more reported a fall.

Brian Wolfe, SBRT Chairman, writes in his foreword: "The Government appears reluctant to stimulate economic growth and the consumer boom of last year has now ended. Small businesses cannot create growth on their own and the Government needs to introduce measures that will reduce the burden and cost of government inspired bureaucracy, thus re-stimulating the latent powerhouse of UK small businesses by reducing obstacles like the bureaucracy and tax burdens that hinder them."

Simon Wainwright, Head of Business Banking at HSBC, said: "Despite reports that UK confidence is falling, business for us is booming - we're bucking the trend. HSBC has welcomed more than 40,000 new business banking customers since the beginning of 2006 - that's over 3,200 customers a week. When asked, over 85 per cent of relationship managed business customers now say they would recommend HSBC."

SECTORS

The real estate and business services sector recorded high levels of growth in employment, sales and investment. Forty five per cent of businesses in this sector reported an increase in sales compared with 30% who said that sales were down.

Fourteen per cent more firms reported employment up rather than down; and 16% more said investment had increased rather than decreased.

The wholesale and retail sector fared less well, with declines in employment and sales, though investment remained steady. Almost 11% more firms in this sector reported employment down rather than up; and 17% more said sales had decreased rather than increased.

Employment, sales and investment were all down in the manufacturing sector. The differences between the numbers of firms reporting decreases rather than increases were 5% for employment, 4% for sales and 5% for investment.

In the construction industry, 42% of firms reported sales up compared with 29% who said they were down. However, while 10% reported more jobs created, 20% said they had shed labour. Seventy per cent of construction firms said investment had remained stable, though there was a small majority (4%) reporting an increase rather than a decrease.

REGIONS

Scotland is the only part of the UK that has had more businesses consistently reporting sales growth rather than decline over the past 7 quarters. However, only 2% more Scottish businesses reported sales growth rather than decline in the first quarter of 2006. This is well down from the last quarter of 2005 when 12% more Scottish firms reported that sales had grown rather than declined. Employment is down, with 14% more firms saying they are losing jobs rather than creating them; but investment is positive, with 4% more firms saying it has increased rather than decreased.

The decline in employment, sales and investment among small businesses in the North West, revealed in a survey taken in the final quarter of 2005, has continued this year. For the second successive quarter, 4 out of 10 businesses in the region reported that sales were in decline. But while 44% of firms said sales had decreased, only 29% said they had increased. Twenty seven per cent said sales had remained stable.

The survey also reveals that in the first quarter of this year **nine per cent more North West businesses reported employment down rather than up; and almost 7% more said investment had fallen rather than increased: the biggest decline in investment in any region.**

More North West firms also reported declines rather than growth in the three categories at the end of 2005. However, the first quarter figures for 2006 showed some improvement in sales. In the final quarter of last year, 25% more firms revealed

decreases rather than increases in sales, compared with 16% more this year. Other indicators showed a slight deterioration, with 7% more firms in 2005 saying employment was down, and 2% more reporting investment lower.

Smaller businesses in London also showed declines in jobs, sales and investments. Six per cent more firms said that the number of jobs had declined rather than increased; almost 8% more said sales were down; 2% more firms reported investment was down rather than up. This shows a decline since the last quarter of 2005, when more London firms reported growth in sales and investment rather than a decrease, but a small majority reported falling rather than increasing employment.

In the South West, 6% more firms reported an increase in sales rather than a decrease. However, while more than two thirds of firms reported no change in employment, 3% more firms reported employment down rather than up. Two per cent more reported investment growth rather than decline.

Wales saw a decline in sales, with 9% more firms reporting a decrease rather than growth. But employment and investment remained steady. Of the 8 English regions where the number of responses to the survey was high, Yorkshire and Humberside, and the East Midlands, were the only ones where more businesses reported employment was up rather than down.

In spite of the first quarter figures, businesses were more optimistic about the future than they were at the end of last year. A majority of those firms surveyed this time were optimistic about future sales, employment and investment. Almost 40% of firms expect sales to increase in the next quarter, with only 20% expecting a decline.

Dr Alan Southern of the University of Liverpool Management School, who carried out the research, said: "Although year on year since 2004 there has undoubtedly been a marked slowdown, the figures in the first quarter of this year may have been affected by seasonal factors. The findings of the survey in the next quarter will be particularly interesting."

In most regions the differences between the numbers of firms expecting increased growth in employment and investment, however, rather than a decrease, were small. Most businesses believed that employment and investment would remain stable. However, in the wholesale and retail sector, 43% of businesses believe they will experience lower sales in the future, while only 26% think that sales will grow.

GRAPH: Figure 2. Trend in net difference in business sales, employment and investment

Note to Editors: The SBRT first quarter survey for 2006 was carried out during January and February and 1119 firms responded.

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.

HSBC media enquiries should be directed to Neil Brazil 020 7992 1572.

For further information, SBRT comment, or copies of the report contact Brian Morris 0161 486 6441 (Data TV).