



Small firms experiencing downturn in growth says business survey.

Small firms are experiencing diminishing levels of growth with a decline in employment, sales turnover and investment, says a report by the Small Business Research Trust (SBRT). While small firms believe they are operating in a stable economy, the findings suggest there are warning signs that growth may be curtailed.

Simon Wainwright, Head of Small Business at HSBC Bank, which commissioned the report, said: "SMEs are clearly experiencing a more challenging environment. In this tougher operating climate, future growth will depend on winning market share through better customer service and product or service innovation, rather than economic growth. Our local commercial managers, based in more than 200 commercial centres across the UK, are ideally placed to help SMEs reach their business goals."

The SBRT quarterly survey took a random sample of 7,000 small firms across the UK and found that employment has declined, with over three per cent more firms reporting a decrease in employment compared with those reporting an increase. **This is the first time in the last three quarterly surveys that the proportion of firms reporting a drop in employment has exceeded those reporting an increase.** And while more firms increased, rather than decreased, turnover and investment, the figures showed a fall from those recorded in the last two quarterly surveys in 2004.

For instance, while in the last quarter of 2004 there were nine per cent more firms reporting sales growth than a reduction in sales, the first quarter of this year revealed that this figure had declined to 0.4%. The number of firms investing has also declined.

The three sectors that reported the biggest differences between the numbers reporting employment growth and those cutting jobs were hotels and restaurants, manufacturing, and agriculture and fishing. In the hotels and restaurants sector, the number reporting less employment was 17% more than those who had increased their workforce: while the figures for manufacturing were 10% and for agriculture and fishing 11%.

In the wholesale and retail sector employment seems to have remained relatively stable. However, over 10% more firms in this sector reported decreased, rather than increased, sales.

The region where small firms performed best was the North West. In this region 21% of the firms reported an increase in employment – six per cent more than the number whose workforce had declined. But in London, the South East and the South West, the number of firms reporting more employment was less than those where employment had decreased.

Dr Alan Southern, of the University of Liverpool Management School, who analysed the data behind the report, said that one likely reason why the North West was doing better than the Southern regions was that the slowdown in the housing market, and subsequently in consumer spending, were probably being felt more sharply in London and the South East.

“On top of this, there is the tremendous amount of regeneration that is taking place not only in major cities such as Liverpool and Manchester, but also in places like Preston, that is having a real impact on the regional economy”. This thought was echoed by Sally Robson, HSBC’s Area Director for Greater Manchester, who also said that many large firms were relocating to the region, bringing additional opportunities for small businesses.

The survey also found that small firms felt they are operating in a stable economic environment and were generally optimistic about growth, higher proportions believing that sales would grow and that investment and employment would remain stable.

The report says that taxation and employment regulation continued to be the most pressing concerns faced by small businesses. Brian Wolfe, chairman of the Small Business Research Trust, said that a recent comment from a minister in the Department of Trade and Industry (DTI) made it clear that “better regulation” (improved?) was top of the Government’s agenda. “With the economy apparently slowing down, what SMEs need is not just better regulation but less of it”, said Mr Wolfe.

Note to Editors: The SBRT survey was carried out during March and April 2005. 1161 firms responded: nine out of 10 of those surveyed employed less than 50 people and 55% were micro in size, employing less than 10 people.

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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