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Begbies Traynor

Mixed picture as consumer spending buoys retail economy while Yorkshire's service sector and SMEs struggle



The latest Red Flag Alert research from Begbies Traynor for Q3 2013 reveals that in Yorkshire, while overall levels of business distress continue to see a downward trend year on year, the region's financial health has deteriorated compared to the previous three months. With a marked spike in distress levels among the region's service industries, SMEs in general are continuing to struggle and are showing increased levels of financial problems.

The total number of Yorkshire companies displaying 'critical' problems has risen by five per cent in Q3 of this year compared to the previous quarter, lagging behind much of the UK that saw an average fall of two per cent. Firms in the region with less serious 'significant' problems increased in number by a more substantial 22 per cent to 13,575, largely down to seasonal factors, and more or less tracking the UK average rise of 23 per cent.

Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire, commented: "That we have seen a rise of five per cent in critical distress in Yorkshire when compared to the UK average that saw a slight fall, is of course concerning, but despite this there are enough positive signs that the economy here is starting to pick up in some important sectors."

Year on year, the downward trend in business distress continues. In Yorkshire, levels of 'significant' distress were down by seven per cent in Q3 2013 compared to the same quarter a year ago, from 14,661 to 13,575 businesses. 'Critical' distress levels dropped 36 per cent over the same period from 334 businesses last year to 214.

Improvements in Yorkshire's consumer facing industries, such as food and drugs retailing and sports and recreation, which experienced quarter-on-quarter falls in 'critical' distress levels of 67 per cent and 86 per cent respectively, is, according to the report, going some way to masking a declining trend in some other less buoyant sectors in Yorkshire and across the UK as a whole.

In the services industries 'critical' problems have shown a significant increase in the third quarter of this year, with real estate and property services businesses displaying a 113 per cent upsurge compared to Q2 of 2013. Companies in the region's professional services sector also saw an 80per cent increase in 'critical' problems.

"It is welcome news that Yorkshire's consumer-facing sectors have seen significant reductions in 'critical' distress levels, both on a quarterly and annual basis, following a strong summer of sales aided by the extended period of good weather. With market sentiment improving and rising house prices giving homeowners increased confidence, consumer spending is proving to be the engine driving this recovery; good news for the consumer-facing sectors, which are so dependent on a positive Christmas trading period," added Mr Pitts.

"However, with pay growth still lagging behind inflation, this consumer-led improvement could have worrying consequences for the wider economy as new research from the British Bankers' Association¹ suggests that this resurgence is being funded by a rise in household credit, which has increased for the first time in four years. With rising property values prompting still more consumers to increase borrowing, even amid fears of an imminent housing bubble, we are reminded of the boom years prior to the economic downturn of 2008, and hope that this is not a sign of UK consumers repeating past mistakes," he said.

The figures also show that in Yorkshire, as in the UK as a whole, SMEs are increasingly bearing the brunt of business distress, their fortunes contrasting starkly with an improving picture for larger companies and highlighting the UK's dual-track economy. In Yorkshire, smaller companies accounted for 94 per cent of all distressed business across the region in Q3, one per cent more of the total than in the previous quarter, while business distress among larger organisations fell by the same rate.

Julian Pitts commented: "Unfortunately, in Yorkshire as elsewhere, SMEs are still bearing the brunt as endemic late payments and higher costs of funding take their toll on smaller companies' cash flows, thus adding further fuel to the fire of the UK zombie problem. Our statistics show that the SME community in Yorkshire and the UK generally needs swift action on late payments, reducing the regulatory burden and business rates, and improving funding availability; without a rapid improvement in funding for the



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working capital and investment required to compete effectively with larger companies during the economic recovery, we could see an increase in insolvencies in the new year.”

Regional comparison

Comparing financial problems by region on a yearly basis, all regions across the UK experienced an improvement in ‘critical’ distress, with Northern Ireland and the North East seeing the largest reduction in distress levels, falling 61 per cent and 44 per cent respectively. When comparing regions on a quarterly basis, the research reveals a mixed picture, with the North East (20 per cent) and Northern Ireland (18 per cent) showing the greatest improvement in ‘critical’ distress during the quarter, alongside the East of England (nine per cent), Midlands (seven per cent) and the North West (seven per cent). The UK as a whole showed a two per cent decrease in levels of ‘critical’ distress.

Following a marginal improvement in Q2 2013, London has experienced an increase in ‘critical’ distress, up three per cent during Q3 2013, suggesting that the capital’s recovery has slowed relative to the rest of the country. Other regions which have seen a quarterly deterioration in ‘Critical’ distress levels include Yorkshire & Humberside (five per cent), the South West (nine per cent) and Scotland, which has increased a significant 23 per cent over the period.

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Photo shows: Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire

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About Begbies Traynor Group

Begbies Traynor Group plc is a specialist professional services consultancy providing independent professional advice and solutions to businesses, financial institutions, the accountancy and legal professions and individuals in the areas of recovery, corporate finance, investigations and risk management. It is listed on AIM (Ticker: BEG). Further information can be found at: www.begbies-traynorgroup.com.

About Red Flag Alert

Red Flag Alert measures corporate distress signals through a comprehensive and complex methodology, drawing on factual legal and financial data from a wide range of relevant sources for companies that have been trading for over a year.

The release refers to the numbers of companies experiencing ‘critical’ and ‘significant’ problems. Businesses experiencing ‘critical’ problems refer to those with CCJs totalling over £5,000 within a three month period or winding-up petitions against them or which have entered Corporate Voluntary

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Arrangements. Businesses experiencing 'significant' problems include those with either a court action against them and/or very poor, insolvent or out of date accounts.

Red Flag Alert is commercially available to all businesses, on an annual subscription basis, to help them better understand risk and exposure and help prepare them for the future. Further information about Red Flag Alert can be found at: www.redflagalert.com