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Begbies Traynor

Yorkshire shows 'patchy recovery' as improvement lags behind UK as whole



Latest Red Flag Alert Report for Q1 2013

Ahead of the release of the latest GDP figures this week, the most recent Begbies Traynor Red Flag Alert research for Q1 2013, which monitors companies' financial health, shows some signs of recovery in Yorkshire, although improvements in the region's economic health are less robust than across the UK as a whole.

In Yorkshire, across all sectors, businesses experiencing 'Critical' financial problems decreased by 21%, falling from 315 companies in Q1 2012 to 248 companies in Q1 2013. Across the UK as a whole critical business distress reduced from 5,000 businesses in Q1 2012 to 3,283 in the same quarter this year - a decrease of 34%.

However compared with the last quarter of 2012, business in Yorkshire saw a 16% increase in critical business distress, compared to an average UK rise of only 8%. Seasonal trends tend to produce a peak of distress in the months after Christmas, due to seasonal factors such as the propensity for creditors and directors to take action ahead of having to file accounts for the new tax year. But decreased consumer spending combined with particularly cold weather conditions have also hit consumer facing sectors hard, causing greater business distress over the winter. General retailing, sports and recreation, and hotels have all seen increases in distress levels in Yorkshire, as well as the UK as a whole.

Business services leading the recovery

Yorkshire's year-on-year improvement in business distress masks a patchy recovery that is being led by the region's business services sector. Critical distress among professional services firms affected just two businesses in Q1 2013, down from six in Q4 2012, representing just 3% of businesses facing serious distress in the region. Meanwhile sectors reliant on the consumer economy (general retail, bars and restaurants, and media) as well as real estate, witnessed an ongoing decline in fortunes.

Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire, commented: "Thanks to improving business confidence, increasing demand for advisory services and a revival of transactions, the support and professional services sectors are flourishing. The situation has certainly been helped by the fact that many of these businesses have reduced their cost bases significantly during the downturn such that any upturn in activity quickly improves their bottom line.

"This trend may also be a positive sign of what to expect from the GDP figures later this week, as the significant improvement in the UK Services sector could well push an otherwise flat market into growth territory."

Construction remains fragile

The construction industry continues to decline both nationally and in Yorkshire, where incidences of critical distress, such as companies with CCJs totalling over £5,000 within a three month period, those with winding-up petitions against them or which have entered Corporate Voluntary Arrangements, increased by 18% from Q3 of 2012 to Q1 of this year, from 45 businesses to 53. Construction companies now account for 27% of distressed businesses in Yorkshire and 25% of business distress in the UK as a whole.

David Wilson, regional senior partner for Begbies Traynor in Yorkshire said: "No doubt the unusually heavy snow has depressed activity in the construction sector but this does not disguise the main reasons for construction companies suffering financial distress which can largely be put down to continuing weak demand and a lack of new projects.

"Nevertheless our Red Flag figures do show some cause for optimism in Yorkshire's construction sector. The less serious 'significant' distress levels fell by 14% from 1,023 businesses in Q4 2012 to 881 in the first quarter of this year. That suggests we may see some improvement in the sector later this year."

SME funding drought

Meanwhile the on going lack of funding to support the important SME sector is a growing concern for the UK economy. Begbies Traynor's analysis of new lending to business across its Red Flag database, which is predominantly SMEs, found that the number of companies that secured new funding, at 15,804 in Q1 2013, was down 14.5% from 18,943 companies in Q1 2012 and down 11% from 17,823 in Q4 2012.

Julian Pitts concluded: "The 21% fall in distress levels in Yorkshire is another welcome sign ahead of this week's GDP announcement and indicates that the economy may have finally turned a corner, even if only to historically low levels of growth. The return to strength of the important business services sector is particularly encouraging for the whole economy but the ongoing lack of funding to the SME sector,



media relations and profile

which is the lifeblood of any developed economy, remains the greatest obstacle to a stronger and sustained recovery.”

- Ends –

Photo shows: L to R: Julian Pitts & David Wilson of 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’ problems which are those with CCJs totalling over £5,000 within a three month period or winding-up petitions against them or which have entered Corporate Voluntary Arrangements.

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