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Newman & Partners
Licensed Insolvency Practitioners

RECOVERY & REVIVAL BULLETIN

Welcome to the latest issue of our Recovery and Revival Bulletin, designed to keep you up-to-date on insolvency matters that may be of interest to you. If you have any feedback on this bulletin, or would like to know more about our services or how we can help you, please contact us on **020 8357 2727** or at **insolvency@newmanandpartners.co.uk**

UK services sector suffers from 'worst spell' since 2009

New data from economists Markit has indicated that the UK service sector is stagnating, partly as a result of the poor performance of the pound. The pound has rebounded and fallen several times, although any gains have been limited by election uncertainty and the Bank of England's (BoE) monetary policy meeting, which decided to suspend any rise in interest rates.

Data has shown that the UK services sector struggled in October as 'new business' fell for the second month in a row, with Brexit uncertainty blamed for dragging the country's largest sector down to its lowest recorded level in the last decade. The IHS Markit UK Business Outlook survey has also shown a fall in confidence amongst businesses since June. As a result, positive sentiments about trading conditions are at a 10-year low.

According to Markit, the net balance of UK private sector firms anticipating an increase in business activity during the next 12 months is +31 per cent in October, down from +32 per cent in June and well below the +44 per cent average PMI reading since the start of the survey in 2009. The survey also indicates a slight drop in optimism since June, with the degree of positive sentiment remaining close to the 10-year low recorded at the beginning of 2019.

Profits expectations were also subdued across the UK private sector, with the net balance of firms predicting an improvement slipping to +14 per cent in October, down one per cent from June. However, the overall drop in profits expectations is more focused in the manufacturing sectors, where optimism has slumped to the lowest level in the last three years.

Growth expectations in the manufacturing sector also slipped to the lowest since October 2011. This mirrors trends recorded by the latest IHS Markit Business Global Outlook surveys in other major developed markets, particularly in the US and Europe. The only positive to take from the latest report is that staff hiring plans have picked up amongst some service providers.

Markit's Chief Business Economist, Chris Williamson said: "The UK PMI surveys collectively indicated a further overall decline in private sector output in October. Contractions have now been recorded in four of the past five months, marking the worst spell since 2009 during the global financial crisis."

With signs that the UK's manufacturing and service sectors are slowing down it has never been more important to have professional advice at hand to assist with business restructuring and insolvency. Our team has spent years helping businesses and their professional advisers so, why not give us a call.

Business insolvency rates at the highest level for almost six years

The latest figures from the Insolvency Service show that underlying corporate insolvencies rose by 0.4 per cent in the third quarter of 2019 compared to Q2 and rose by 1.6 per cent compared to the third quarter of 2018. Meanwhile, the report found that the number of businesses entering administration jumped by 20 per cent.

The latest figures show the extent to which the economic and political uncertainty of the last 12 months have taken their toll on businesses, with consumers focusing on the essential items rather than big purchases. The retail sector was particularly badly hit, with 1,252 insolvencies in the industry in the last year compared to 1,232 in 2018, taking the number of closures to a five-year high. The number of insolvencies in the sector was also 31 per cent higher than the 958 recorded in 2015, before the Brexit referendum.

According to one commentator, one of the reasons behind the increase in insolvencies in this sector is because funding from lenders or private equity backers has become extremely hard to find, particularly for smaller retailers. This is a problem in the industry, as retailers need to increase their investment to ensure they can capitalise on, and survive, the growing trend of consumers shifting towards online retail.

The Insolvency Service report also found that the number of individuals entering financial distress in the third quarter of this year rose to 30,879, a 23 per cent rise on Q3 2018, reaching an almost 10-year high.

A similar study, the Red Flag Alert, also found that the number of businesses in significant financial distress has increased by 40 per cent since the EU referendum three years ago. The Alert revealed that 489,000 UK businesses were in difficulty by the end of September. It found that the real estate and property, construction, retail and travel sectors were most severely affected. There was also an eight per cent year-on-year rise in companies facing critical financial distress, which the report says is an “indicator of looming insolvency”.

The increase in insolvencies and administrations is very concerning and it is important that you carefully monitor your client’s performance and seek help at the first sign of distress. Early action can be critical in the turnaround of a business, so please contact us.

UK retailers suffer worst September on record, BRC says

The British Retail Consortium (BRC) has said that shops faced their worst September since the mid-1990s as consumers focus spending on entertainment instead of goods. The BRC’s latest research shows that household demand for retailers’ goods is in decline and that total retail sales values declined 1.3 per cent in September compared to the previous year as a result.

Average growth for the sector over the last 12 months also slowed to 0.2 per cent, which is the weakest rate since the BRC began its survey more than 20 years ago. The BRC’s survey suggests household spending is starting to decline, raising concerns about a recession.

BRC chief executive Helen Dickinson said: “With four months of negative sales growth since March, the ongoing political gridlock surrounding Brexit is harming both consumers and retailers.”

Separate data from Barclaycard showed broader consumer spending, including retail goods, only rose by a “modest” 1.6 per cent in annual terms in September. According to the Barclaycard report, 41 per cent of Britons were “actively pessimistic” about their ability to spend on discretionary items, up five percentage points from August. The same study showed that entertainment — which includes cinema, sports and theatre tickets — increased by 4.7 per cent in annual terms in September. It also revealed greater spending on digital entertainment such as Netflix and Spotify, which indicates that peoples’ priorities may be changing.

Some of this is being fuelled by the uncertainty surrounding Brexit and the election, with supermarkets Asda, Morrisons and home improvement group Kingfisher providing evidence that customers were restricting spending due to these factors. However, clothing retailer Next said that it wasn’t just Brexit to blame and that autumn trading was down to unusually warm weather in parts of Britain, rather than shoppers holding back on buying new items.

The retail sector is facing a number of pressures, including increased wage costs, inflated rents and high business rates. If you have a client in this sector that is struggling, please contact us.

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