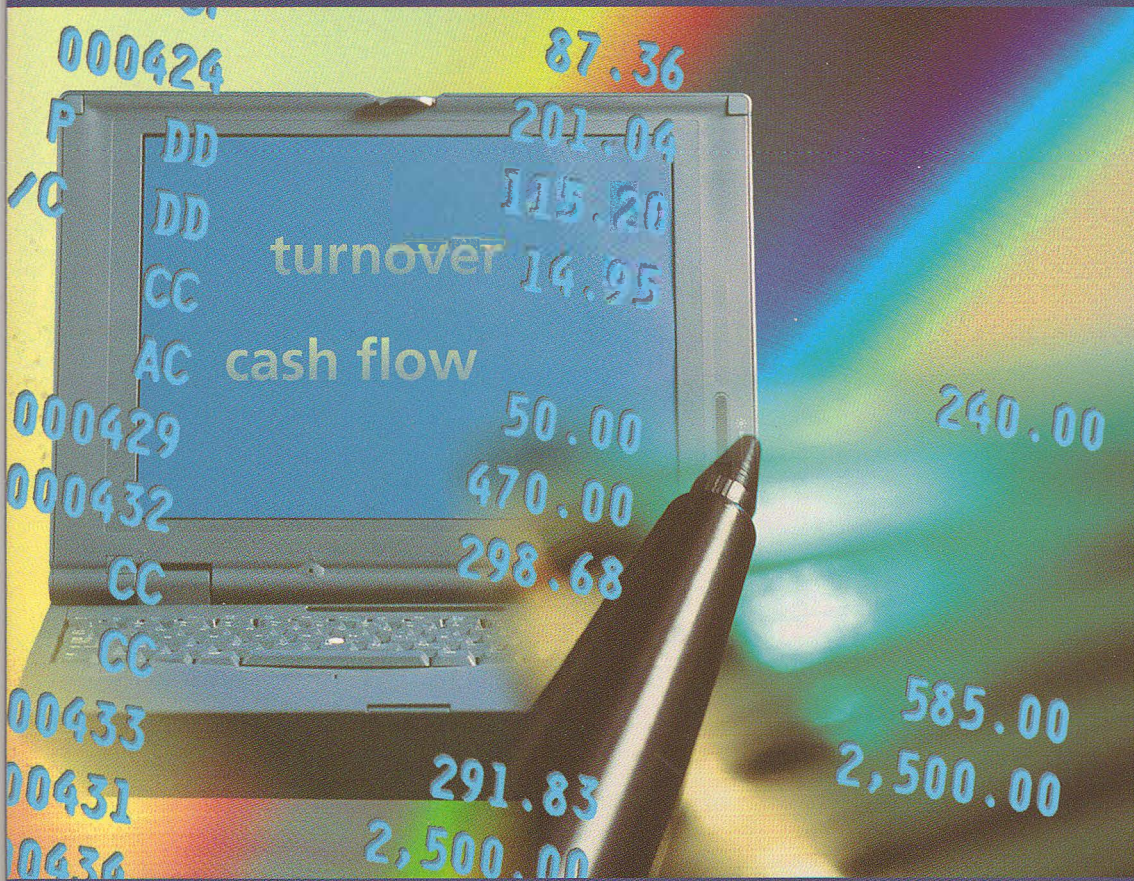


NatWest SBRT Quarterly Survey of Small Business in Britain



Sponsored by NatWest



Researched and Published
by The Small Business
Research Trust



Acknowledgements

The Small Business Research Trust thanks all responding firms for their time and effort in completing the questionnaire for this survey. The SBRT volunteer database is recruited from a wide range of sources including small business representative bodies and providers of small business development and training. **The SBRT would welcome additions to the sample from other businesses and organisations.**

It should be noted that the SBRT survey is not a panel, nor is it fully random among the total membership of the bodies mentioned above.

The Small Business Research Trust acknowledges the help provided by Bannock Consulting in designing the survey, processing data and analysing the results. The academic and administrative support provided by the Open University Business School is also very much appreciated. The SBRT is also particularly pleased to acknowledge the generous support provided by NatWest in sponsoring the research, analysis and publication of this report. However, it is important to note that any opinions expressed in this publication are not necessarily those of NatWest.

Highlights

Despite the events of September 11, which took place before this survey, there has been little change in the overall mood of UK small firms. However, over 70 per cent believe that the UK economy is heading for recession, probably within the next six months. Small firms are experiencing mixed fortunes - some more positive, some quite negative. Low turnover remains the biggest problem and a majority say this is because of the poor economic climate rather than their marketing strategies.

- Whilst there are marginal improvements in small firm performance, these are concealing some real differences between sectors.
- More of Britain's small firms than in the previous survey have increased their **turnover** over the past quarter, but also more than in the previous survey have seen turnover fall, leaving the overall balance relatively unchanged.
- Small **retailers** report poor performance during the third quarter, but small manufacturers have not seen things getting any worse.
- Overall **employment** and **investment** performance is also much the same as in the previous survey, with a majority reporting that these have not changed.
- The overall drop in **confidence** about **sales** prospects for the current quarter is only slightly more than the average at this time of year and **underlying confidence** remains higher than six months ago, though at a historically low level.
- Although the overall balance is relatively unchanged, some sectors are far less optimistic than they were. **Hotels & restaurants** are now the least optimistic, with the effects of both September 11 and foot and mouth disease affecting tourism.
- There has been no recovery of confidence in the **wholesaling** sector, already depressed in the previous survey.
- **Low turnover** remains overall the biggest problem for small businesses, followed by **government regulations** and a **lack of skilled/trained employees**. These have been constant as the top three problems throughout 2001.
- **Low turnover** is a particular problem for the **smallest** firms, **wholesalers** and **manufacturers**.
- **Construction** firms are most likely to report that **government regulations** are their biggest problem, while this is less of an issue for firms with no employees other than the proprietor or partners.
- Many other **construction** firms say that a lack of skilled employees is their biggest problem, along with **hotels & restaurants** and the **larger** firms taking part in the survey.
- **Competition from big business** is a particular problem for **retailers** and **hotels & restaurants**.
- The most common reason given for low turnover is a **poor economic climate**, followed by **increased competition** and then **marketing problems**.
- Unlike most economic commentators, over one-third of respondents believe a **recession** in the UK economy has already started and 70 per cent think that the UK will probably be in recession **within six months**.
- 40% of respondents have made some change to their **line of business** over the past year and 30% or more have seen their **own income** fall.



Index

Acknowledgements	1
Highlights	2
Survey Details	4
Actual Performance	5
Expectations	8
Expectations: Comparison Across Business Sectors	10
Expectations: Comparison Across Size Bands	12
Expectations: Comparison Across Regions	13
Problems	14
Business Climate	17
Appendix	23
Special Topics	23
Performance Tables	25

Survey Details

Respondents were asked to indicate whether their sales turnover, average employment, investment and selling prices were up, down or the same in the quarter most recently ended (July, August, September 2001) compared with the same quarter a year earlier, and also to indicate what they expect for the current quarter (October, November, December 2001) compared with the third quarter of 2001. The first of the responses to the two sets of questions is shown in Table 1.1 as the “Actual Change on Year” and the second as “Expected Change on Previous Quarter”.

Following the well-established practice of the CBI in its **Industrial Trends Survey**, a summary statistic, the **balance**, is used to monitor these changes, although the full results are also shown in the tables. The balance is the percentage of respondents replying ‘up’ minus the percentage replying ‘down’ (we ignore, for this purpose, the percentage replying ‘same’). Appendix Table A.1 on page 25 gives the percentage balances for both actual and expected changes since this survey began in the third quarter of 1984.

From 1989 the results of questions on performance, expectations and problems were split by industrial sector and re-weighted according to the sectoral distribution of all VAT registered businesses. Figures from 1995 onwards have been weighted using DTI estimates of total employment by firms with fewer than 50 employees. The aim of the weighting is to ensure that the results are as representative as possible of the business population in Britain. Please note, however, that other breakdowns by industrial sector, region and firm size and the tables in the special topic section use unweighted data and are not seasonally adjusted.

This survey (the 69th in the series) was mailed out on 16th October 2001 to 1,836 small firms who are members of the SBRT Volunteer database. By the cut-off date of 16th November, a total of 705 completed questionnaires (38 per cent) had been received.

As in the previous survey, a small number (14) of database members completed the survey by e-mail and special thanks must go to the one small business owner who managed to find and complete the survey form on our website (www.sbrt.co.uk).

Survey Details



Actual Performance

Marginal improvements in the balances of small firms reporting increases in sales, employment and investment conceal real differences between sectors.

Sales turnover experience

Britain's small firms continued to experience mixed economic conditions during the third quarter of 2001.

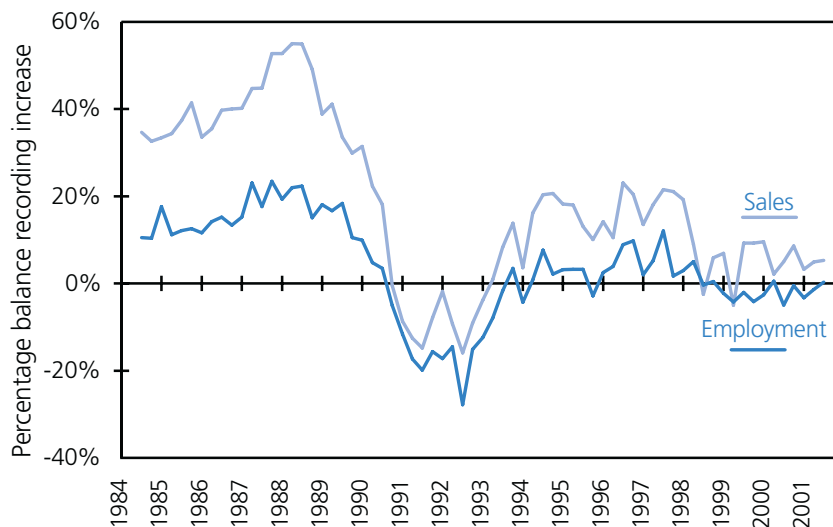
Only one-fifth of small firms report that their sales turnover was the same in the third quarter of 2001 as it had been in the third quarter of 2000, the lowest proportion for three years. Some 41.7 per cent of small firms said that their sales increased over the year, while almost as many, 36.4 per cent said that sales were down. Chart 1.1 shows that the resulting balance of +5.3 per cent is just marginally higher than in the previous survey.

Official figures for GDP growth in the third quarter also show a very modest improvement in quarter-on-quarter growth, up from +0.4 per cent to +0.5 per cent, although the increase over the year continues to slow.

The very smallest firms taking part in the survey (an annual turnover below £50,000) still report the worst performance over the past year, with a balance of -11.1 per cent showing that this group on balance saw sales fall over the year.

Official figures show overall retail sales in the UK recorded strong growth in the third quarter of 2001, though they did subsequently show a slight fall in October. However, small retailers taking part in this

Chart 1.1: Percentage balance for the actual change in sales and employment on year



survey report poor sales performance over the past year. Chart 1.2 shows a big fall in the balance compared with the previous survey, to -17.2 per cent, the lowest for almost nine years. The plight of small retailers seems to result from their losing out to the large multiples as well as from the general economic climate (see later sections).

Chart 1.2 also shows that, in contrast, small manufacturers continue, on balance, to report improvements in sales, despite the fact that the UK manufacturing sector as a whole is in recession. In the manufacturing downturn in the second half of 1998, for instance, the balance of small manufacturers reporting an increase in sales turned sharply downwards along with the Index of Production. During 2001, however, this has not been the case. It is worth noting that official figures for manufacturing have recently shown a less than clear-cut picture, with an increase in output in August followed by a sharp decline in September. The Office for National Statistics also notes that the sharpest recent falls have been in sectors including the manufacture of computers and mobile phones - sectors dominated by large firms.

Employment experience

Those small firms which increased employment in the year to the third quarter just outnumber those which cut it, for the first time in a year. This balance has been in the doldrums, stuck between -5.0 per cent and +0.5 per cent, for the past three years. Once again, over 60 per cent of small firms have not over the past year changed the number of people they employ.

In the economy as a whole the overall employment rate showed a fall in the third quarter and unemployment began to rise.

Actual investment and selling prices

The modest improvement in the overall sales balance is accompanied by a slight improvement in the balance of small firms increasing investment, but a majority invested the same amount in the third quarter of 2001 as in the third quarter of 2000.

The balance of small firms which increased prices over the year is down a little from the record high in the previous survey.

Chart 1.2: Percentage balance for the actual change in sales on year -manufacturing and retail

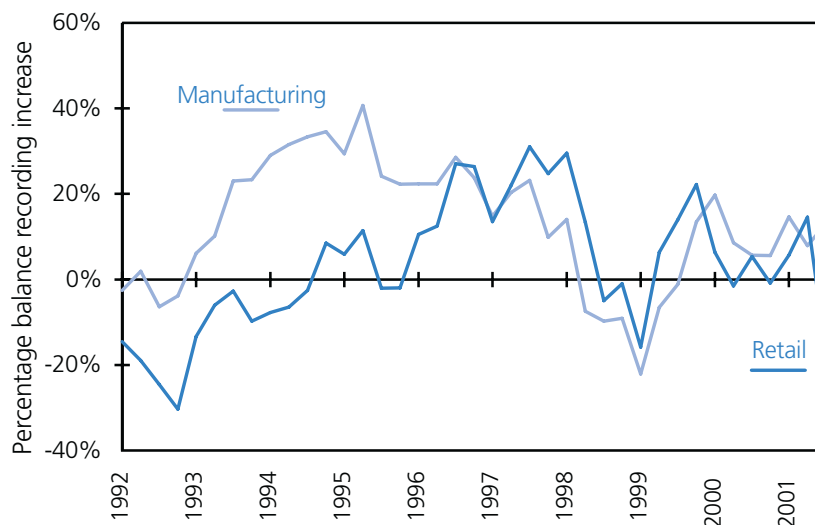




Table 1.1: Change and expected change in sales, employment, investment and selling prices

	Actual Change on Year				Expected Change on Previous Quarter			
	2000/4 on 1999/4	2001/1 on 2000/1	2001/2 on 2000/2	2001/3 on 2000/3	2001/1	2001/2	2001/3	2001/4
	66	67	68	69	66	67	68	69
Survey No	66	67	68	69	66	67	68	69
	SALES				SALES			
Up	41.7%	37.8%	39.8%	41.7%	33.1%	39.2%	35.6%	35.2%
Down	33.1%	34.6%	34.8%	36.4%	29.4%	27.1%	26.1%	31.5%
Same	23.0%	26.2%	24.3%	20.4%	35.7%	31.9%	37.1%	31.3%
No Response	2.2%	1.5%	1.1%	1.4%	1.8%	1.8%	1.2%	2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Balance	+8.6%	+3.2%	+4.9%	+5.3%	+3.7%	+12.1%	+9.5%	+3.7%
	EMPLOYMENT				EMPLOYMENT			
Up	17.2%	16.4%	16.9%	17.2%	10.4%	13.1%	13.9%	11.6%
Down	17.6%	19.7%	18.3%	16.9%	10.0%	11.4%	12.6%	14.5%
Same	61.8%	61.4%	62.8%	62.3%	76.2%	72.2%	70.9%	69.6%
No Response	3.4%	2.6%	1.9%	3.6%	3.4%	3.4%	2.6%	4.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Balance	-0.5%	-3.3%	-1.4%	+0.3%	+0.5%	+1.7%	+1.2%	-2.9%
	INVESTMENT				INVESTMENT			
Up	22.4%	20.6%	21.6%	21.0%	19.6%	16.3%	15.7%	13.5%
Down	18.1%	18.8%	18.5%	17.1%	15.8%	19.1%	17.8%	18.9%
Same	55.9%	57.2%	57.4%	56.9%	60.9%	60.0%	63.2%	61.5%
No Response	3.6%	3.4%	2.6%	5.0%	3.7%	4.6%	3.3%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Balance	+4.3%	+1.9%	+3.1%	+3.9%	+3.7%	-2.8%	-2.2%	-5.4%
	SELLING PRICES				SELLING PRICES			
Up	29.3%	29.6%	32.9%	29.8%	25.3%	25.4%	23.2%	16.6%
Down	12.6%	10.9%	10.5%	11.7%	9.0%	9.3%	9.0%	10.4%
Same	54.9%	56.6%	54.5%	55.5%	62.2%	61.5%	65.4%	69.4%
No Response	3.1%	2.9%	2.0%	3.0%	3.5%	3.9%	2.4%	3.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Balance	+16.7%	+18.7%	+22.4%	+18.2%	+16.3%	+16.2%	+14.2%	+6.2%
Base	726	856	720	705	726	856	720	705

Expectations

Confidence among Britain's small firms has been weak for some time, but at least the events of September 11 do not appear to have sent it plunging. Underlying confidence about sales remains higher than it was six months ago.

Sales expectations

Chart 2.1 and Table 1.1 on page 7 show that the balance of Britain's small firms expecting their sales to be higher in the current quarter than in the previous quarter has fallen since our previous survey. However, the overall balance normally falls a little between the third and fourth quarters of any year and when seasonally adjusted (Chart 2.2) it shows an even smaller drop, of only three percentage points.

Since our previous survey, the world has witnessed the horrific terrorist strikes in the United States on

September 11 and the subsequent military actions in Afghanistan. Psychological and emotional reactions to these events have been intense - not just at personal and family levels but also among businesses. Initially, the effects on business confidence seemed very severe but, as time has passed, some of those effects appear to have abated. Interest rate cuts in September and October may have played some part in restoring optimism (though almost all questionnaires were completed before the half-point cut in interest rates on 8 November).

Chart 2.1: Percentage balance for the expected change in sales and employment over previous quarter (not seasonally adjusted)

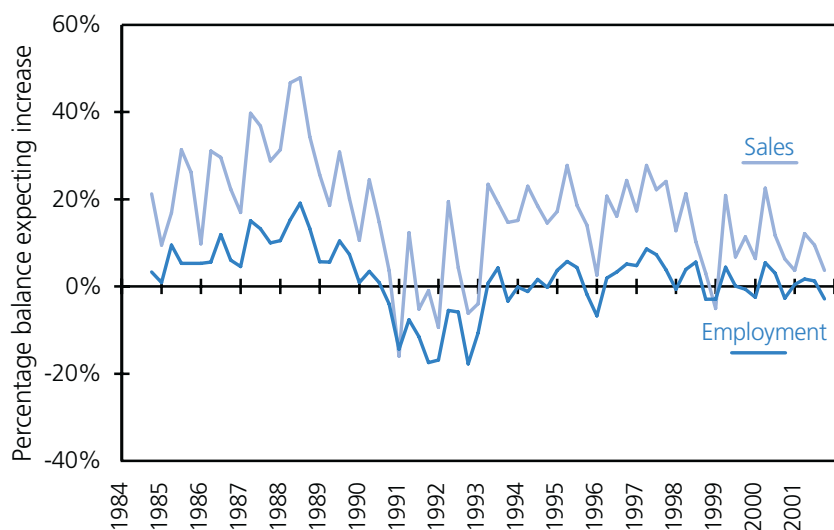
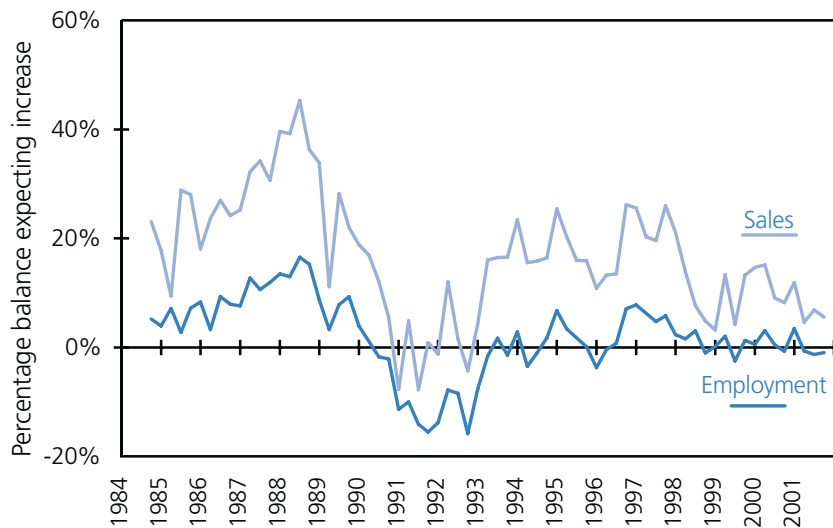


Chart 2.2: Percentage balance for the expected change in sales and employment over previous quarter (seasonally adjusted)



The economic situation, however, remains precarious, with the underlying confidence of Britain's small firms still at historically low levels. The seasonally adjusted sales balance has been below its current level as recently as 1999, when the UK narrowly avoided recession, but otherwise has only been lower in 1991 and 1992, when the economy was in deep recession. The topical section in this report looks in more detail at small firms' views on whether the UK economy is heading for recession on this occasion.

Employment expectations

Small firms' optimism about employment prospects within their firms is down by just under four percentage points, but this is about average for this time of year and so the seasonally adjusted balance is practically unchanged.

Investment intentions

Those small firms which intend to invest less in the final quarter of 2001 than in the third quarter continue to outnumber those which expect to increase investment. The balance of -5.4% is the lowest since the beginning of 1999.

Price expectations

The balance of small firms expecting to increase prices during the final quarter of 2001 has fallen from +14.2 per cent in the previous survey to only +6.2 per cent now. The balance for small retailers is, however, unchanged at +8.6 per cent, suggesting little immediate change in the rate of price increases seen by consumers. In wholesaling, however, more firms expect to cut than expect to increase prices, which may well feed through into retail prices in future.

Expectations: Comparison Across Business Sectors

Table 2.1: Expected change in sales and employment by business sector
(current survey compared with previous surveys, percentage balances)

Business Sector	EXPECTED SALES BALANCE				EXPECTED EMPLOYMENT BALANCE				Sample Size (this survey)
	Survey Number				Survey Number				
	66	67	68	69	66	67	68	69	
Agriculture, Forestry, Fisheries	+5.9%	-3.8%	-25.0%	+9.1%	+0.0%	+0.0%	-5.0%	-4.5%	22
Manufacturing, Mining, Processing	+21.5%	+10.3%	+12.1%	+8.0%	+4.2%	+1.1%	-1.2%	+3.6%	138
Transport	-10.5%	+28.6%	-26.7%	+12.5%	-5.3%	-9.5%	-13.3%	+0.0%	16
Construction	-6.1%	+22.1%	+20.8%	-4.2%	+6.1%	+4.7%	+1.9%	-1.4%	72
Wholesale	+7.3%	+3.0%	-7.6%	-8.1%	+1.8%	-1.5%	-10.6%	-11.3%	62
Retail Trade	-8.0%	-0.9%	+12.6%	+9.7%	+1.8%	-2.8%	-3.9%	-1.1%	93
Hotels & Restaurants	-51.4%	+14.5%	+30.3%	-9.8%	-34.3%	+5.5%	+12.1%	-12.2%	41
Business Services	+12.6%	+14.7%	+9.5%	+10.9%	+9.9%	+7.1%	+5.0%	-2.7%	184
Other Services	+23.3%	+14.8%	+12.8%	-1.3%	-1.9%	+0.0%	+7.0%	-3.9%	77
Total	+7.2%	+11.4%	+9.4%	+4.4%	+2.2%	+2.2%	+0.6%	-2.6%	705

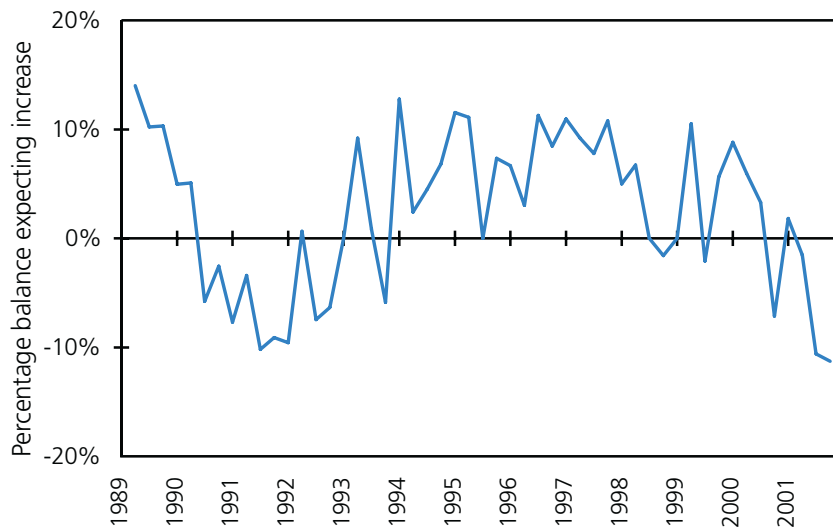
If there is one small business sector likely to be immediately affected by the consequences of the September 11 terrorist atrocities it is probably the tourism sector. This comes just after some of these firms were hoping for an improvement following easing of the Foot and Mouth crisis, which had effectively closed many areas of the countryside earlier in the year.

Indeed, Table 2.1 shows that the hotels & restaurants sector has since the last survey gone from being the most optimistic in terms of both sales and employment prospects for the third quarter of 2001 to being the most pessimistic about prospects for the final quarter. Although hotels & restaurants is a very seasonal sector and the balances subject to considerable fluctuation, the falls in this survey are much larger than usual at this time of year. The balance expecting an increase in sales is the lowest at this time of year since 1994. A number of firms in the hotels & restaurants sector which depend on foreign tourism specifically mention that the reduction in visitors since September 11 has





Chart 2.3: Percentage balance for the expected change in employment over previous quarter (not seasonally adjusted) - Wholesale



significantly affected their business. As many small businesses, however, commented on the lingering effects of the Foot and Mouth outbreak, including concern that farmers have been slow to re-open public rights of way and that the government warnings about a possible resurgence of the disease in winter conditions is hitting confidence.

The next most pessimistic sector is wholesaling. Small firms in this sector were already very downbeat in the previous survey and this time there has been no improvement, though at least the rate at which the balances are falling has slowed. Chart 2.3 shows that the balance of small wholesalers expecting to increase the number of people they employ over the current quarter is once again at a new record low. Difficult times for wholesalers generally reflect difficult times for the companies which they supply. Small wholesalers in this survey expecting their turnover to be down include those supplying parts to the computer and other electrical equipment industries (large-firm sectors which

have recently seen output fall), but also exporters, suppliers of outdoor leisure equipment and a wide variety of other wholesalers.

Those firms in the 'other services' sector which expect lower sales turnover in the current quarter than in the previous quarter outnumber those expecting an increase, for the first time in nine years. Firms expecting lower turnover include those in the leisure/recreation sector (including outdoor activities, leisure boat hire and a museum), which is still suffering from the effects of the Foot and Mouth epidemic as well as reduced visitor numbers post-September 11.

Small retailers remain more optimistic about their sales prospects for the final quarter of 2001 than firms in most other sectors, though it should be remembered that the balance normally rises as the Christmas season approaches, but in this survey it has fallen. The balance expecting an increase for the final quarter remains higher than at this point last year, even though these firms reported poor sales over the past year.

Expectations: Comparison Across Size Bands

Table 2.2: Expected change in sales and employment by turnover size band
(current survey compared with previous surveys, percentage balances)

Turnover Size Band	EXPECTED SALES BALANCE				EXPECTED EMPLOYMENT BALANCE				Sample Size (this survey)
	Survey Number				Survey Number				
	66	67	68	69	66	67	68	69	
Less than £20,000	+5.6%	-9.1%	-2.2%	-25.6%	+1.9%	+0.0%	-4.4%	-2.3%	43
£20,000 - 49,999	+2.4%	-1.1%	+0.0%	+0.0%	+0.0%	-4.4%	-5.3%	-7.6%	92
£50,000 - 149,999	+0.0%	+9.9%	+6.9%	+18.2%	-3.2%	-2.2%	-0.6%	-4.1%	148
£150,000 - 349,999	+6.2%	+9.9%	+11.6%	+0.7%	+2.1%	+0.0%	-3.1%	-2.1%	143
£350,000 - 749,999	+9.3%	+24.0%	+13.2%	+7.7%	+5.6%	+4.8%	+7.0%	-6.7%	104
£750,000 - 1,499,999	-2.5%	+8.3%	-1.3%	-6.7%	-3.7%	+0.9%	-5.0%	-4.0%	75
£1,500,000 and over	+34.8%	+23.8%	+25.7%	+12.6%	+16.9%	+16.2%	+8.6%	+10.3%	87
Total	+7.2%	+11.4%	+9.4%	+4.4%	+2.2%	+2.2%	+0.6%	-2.6%	705

In recent years, optimism among the firms taking part in this survey has generally been related to firm size, with the relatively larger firms being more optimistic. Over the past few surveys, however, the situation has been far less clear-cut and this time the pattern seems to have been broken completely.

Although the firms with a turnover of below £20,000 are the least optimistic about their sales prospects, those with a turnover between £50,000 and £150,000 are most optimistic (Table 2.2). Table 2.3 shows that

those firms where the proprietor or partners work on their own without employees this time are actually, on balance, more optimistic than those with 50 or more employees.

Although a year ago it was fair to say that the smallest firms were missing out on improvements other firms were seeing in the economy, it now seems that the mixed economic outlook is hitting the confidence of firms of all sizes.

Table 2.3: Expected change in sales and employment by employee size band¹
(current survey compared with previous surveys, percentage balances)

Number of employees (not including proprietor/partners)	EXPECTED SALES BALANCE				EXPECTED EMPLOYMENT BALANCE				Sample Size (this survey)
	Survey Number				Survey Number				
	66	67	68	69	66	67	68	69	
0	-2.5%	-6.6%	-5.0%	+1.0%	-0.8%	-5.0%	-6.0%	-6.2%	97
1-2	+6.1%	-1.1%	+3.8%	+0.0%	-0.7%	-2.3%	-1.3%	-3.8%	157
3-4	+7.4%	+13.9%	+7.9%	+9.3%	+0.0%	+2.6%	-2.0%	-2.1%	97
5-9	+10.5%	+15.5%	+4.6%	+6.3%	+4.2%	+0.6%	-0.8%	-1.4%	143
10-19	+4.2%	+27.0%	+16.7%	-3.1%	+2.1%	+7.3%	+5.9%	-5.2%	96
20-49	+12.8%	+21.4%	+27.3%	+18.2%	+5.3%	+12.6%	+10.1%	+8.0%	88
50+	+27.6%	+19.4%	+28.1%	-3.7%	+17.2%	+5.6%	-3.1%	-14.8%	27
Total	+7.2%	+11.4%	+9.4%	+4.4%	+2.2%	+2.2%	+0.6%	-2.6%	705



Expectations: Comparison Across Regions

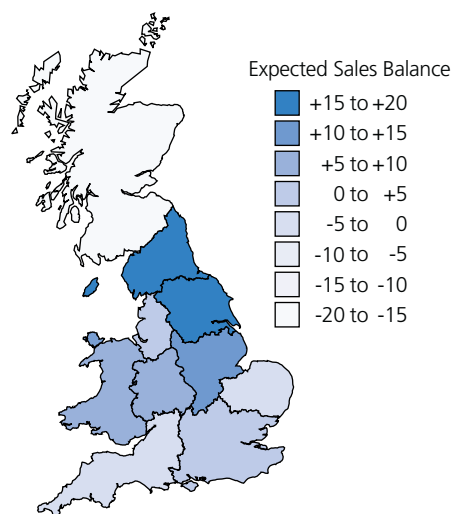
Small businesses in the North of England and Yorkshire & Humberside are, on balance, more optimistic about their sales prospects for the current quarter than they were in the previous survey and these have become the most positive regions. The West Midlands is the only

other region where firms are more optimistic than they were in the previous survey. The improved mood in the North of England does not extend into Scotland, where small firms remain the most pessimistic.

Table 2.4: Expected change in sales and employment by UK standard region (current survey compared with previous surveys, percentage balances)

Region	EXPECTED SALES BALANCE				EXPECTED EMPLOYMENT BALANCE				Sample Size (this survey)
	Survey Number				Survey Number				
	66	67	68	69	66	67	68	69	
North	-4.5%	+20.7%	+5.0%	+19.2%	-9.1%	+17.2%	+5.0%	+19.2%	26
Yorkshire & Humberside	+4.2%	+23.1%	-6.5%	+16.0%	+4.2%	+7.7%	-2.2%	-8.0%	50
North West	+0.0%	+8.6%	+13.3%	+3.0%	+7.7%	-4.3%	+6.7%	+1.5%	66
East Midlands	+7.8%	+17.4%	+26.4%	+12.7%	+0.0%	+1.4%	-5.7%	-4.8%	63
West Midlands	+15.3%	+1.4%	+6.7%	+8.5%	+0.0%	-1.4%	-5.0%	+4.3%	47
East Anglia	+25.5%	+4.8%	+10.2%	-6.8%	+4.3%	+6.5%	+8.2%	-2.3%	44
South East	+12.4%	+9.2%	+7.8%	+3.8%	+3.7%	+3.9%	+1.5%	-2.5%	239
South West	+1.4%	+16.5%	+11.8%	-2.7%	+1.4%	+3.3%	+5.3%	-4.0%	75
Wales	+16.7%	+26.3%	+25.0%	+9.1%	+0.0%	-5.3%	+0.0%	-9.1%	33
Scotland	-45.9%	+8.2%	-7.7%	-15.2%	-13.5%	+0.0%	-15.4%	-10.9%	46
Total	+7.2%	+11.4%	+9.4%	+4.4%	+2.2%	+2.2%	+0.6%	-2.6%	705

Chart 2.4: Percentage balance for the expected change in sales - by region



Problems

Low turnover is still the most common small business problem, followed by government regulations and paperwork, at its highest level for eighteen months. A lack of skilled employees remains important, especially for the larger firms and those in construction and hotels & restaurants.

Table 3.1: Most important problem
(current survey compared with previous surveys)

Problem	Survey Number							
	66		67		68		69	
Low Turnover/Lack of Business	31.4%	(1)	27.2%	(1)	30.0%	(1)	27.4%	(1)
Gov't Regulations & Paperwork	14.4%	(2)	15.4%	(2)	13.8%	(2)	16.5%	(2)
Lack of Skilled/Trained Employees	11.1%	(3)	10.8%	(3)	13.5%	(3)	11.7%	(3)
Cashflow/Payments/Debtors	9.2%	(4)	7.0%	(5)	7.3%	(5)	8.2%	(4)
Total Tax Burden	6.7%	(5)	7.9%	(4)	9.6%	(4)	6.7%	(5)
Competition from Big Business	6.3%	(6)	5.9%	(6)	6.4%	(6)	5.2%	(6)
Premises/Rent/Rates	2.8%	(7)	3.2%	(7)	3.1%	(7)	2.9%	(7)
Access to Finance	2.0%	(8)	1.3%	(10)	0.7%	(10)	2.0%	(8)
High Rates of Pay	0.8%	(10)	2.7%	(8)	0.8%	(9)	1.3%	(9)
Internal Management Difficulties	1.9%	(9)	2.6%	(9)	1.2%	(8)	1.1%	(10)
Shortages of Materials, Supplies, etc.	0.3%	(12)	0.4%	(12)	0.4%	(11)	0.5%	(11)
Inflation	0.1%	(13)	0.2%	(13)	0.0%	(12)	0.1%	(12)
Interest Rates	0.4%	(11)	0.8%	(11)	0.0%	(12)	0.0%	(13)
Other	10.9%		13.7%		12.8%		15.0%	
No response	1.8%		1.0%		0.5%		1.3%	
Base	726		856		720		705	

Notes: All figures shown in this table are weighted to the sectoral distribution of small firm employment. Number in brackets refers to the problem's ranking each quarter.

Respondents were asked to select, from a list of thirteen, the most important problem facing their business on that day. Every firm faces many problems, but we focus in this question on the single most important problem at the time.

Low turnover/lack of business remains the top-ranked problem. Some 27.4 per cent of respondents say that this is the biggest single problem facing their

business. This proportion is down a little on the 30.0% in the previous survey (Table 3.1). The topical section in this report examines in more detail the reasons respondents feel they are suffering from a lack of business.

Chart 3.1 (and Table 3.2 on Page 16) clearly shows that **low turnover** is the most important problem for a higher proportion of the smallest firms taking part in

the survey, with those businesses where the proprietor or partners work on their own without employees three times as likely as those firms with 50 or more employees to say that **low turnover/lack of business** is their single biggest problem. However, as in recent surveys, small **wholesalers** (who are particularly pessimistic about their immediate prospects) and **manufacturing** firms most commonly say that **low turnover** is the most important problem facing their business at the moment, despite the fact that both of these types of firm are on average larger than those in other sectors.

Government regulations & paperwork remains ranked as the second most important problem. The proportion saying that this is their biggest problem has risen, to its highest level in eighteen months. This is a particularly important issue for **construction** firms, one quarter of which say that it is the biggest problem facing their business. One respondent noted that “*CIS [the Inland Revenue’s Construction Industry Scheme], VAT and the so called Quality Mark Scheme are causing*

much damage to very small construction companies” and that the Quality Mark Scheme in particular has, “*driven many good small firms underground*”. As much regulation is related to employment law, **government regulations & paperwork** is much less of a problem for those firms with no employees apart from the proprietor or partners (Table 3.2).

Ranked in third place overall is **lack of skilled/trained employees**, which is the single most important problem facing 11.7 per cent of small firms. Chart 3.1 and Table 3.2 show that this problem rises in importance with firm size. For the (relatively few) firms with 50 or more employees taking part in this survey, this is the top-ranked issue, with more suffering from a skills shortage than from low turnover. This is also (as in recent surveys) the top-ranked problem for **construction** firms, although they are smaller than average. Firms in the **hotels & restaurants** sector also have a particular problem with a lack of skilled employees (it is the most important problem for 17.1 per cent of these).

Chart 3.1: Selected most important business problems, by size of business

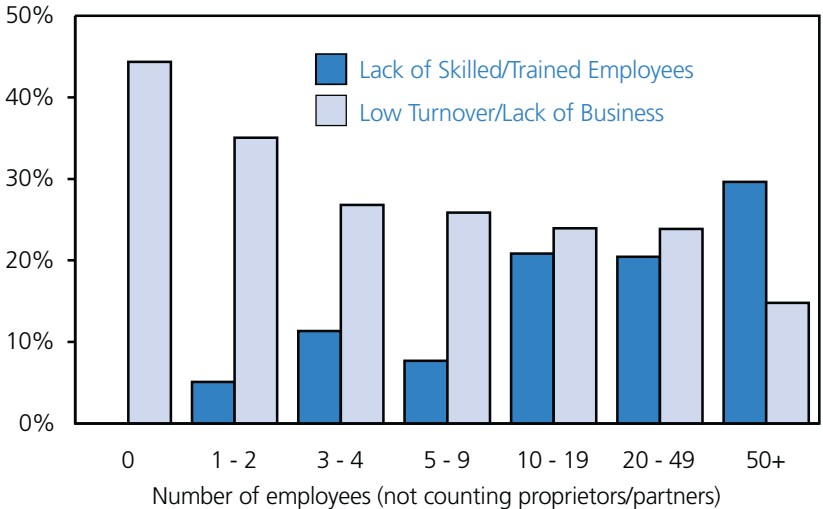


Table 3.2: Most important problem by number of people employed, not including proprietors and partners

Employment Size Band	0	1 - 2	3 - 4	5 - 9	10 - 19	20 - 49	50+	All
Inflation	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Interest Rates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Access to Finance	0.0%	3.8%	2.1%	2.1%	2.1%	2.3%	0.0%	2.1%
Lack of Skilled/Trained Employees	0.0%	5.1%	11.3%	7.7%	20.8%	20.5%	29.6%	10.8%
Total Tax Burden	5.2%	6.4%	10.3%	7.0%	3.1%	3.4%	3.7%	6.0%
Low Turnover/Lack of Business	44.3%	35.0%	26.8%	25.9%	24.0%	23.9%	14.8%	29.6%
Competition from Big Business	2.1%	4.5%	4.1%	7.0%	6.3%	3.4%	7.4%	4.8%
Gov't Regulations & Paperwork	8.2%	17.8%	15.5%	22.4%	19.8%	13.6%	14.8%	16.7%
High Rates of Pay	0.0%	0.6%	0.0%	2.1%	2.1%	2.3%	3.7%	1.3%
Shortages of Materials, Supplies, etc.	2.1%	0.0%	1.0%	1.4%	0.0%	0.0%	0.0%	0.7%
Internal Management Difficulties	0.0%	0.6%	2.1%	1.4%	4.2%	1.1%	0.0%	1.4%
Cashflow/Payments/Debtors	9.3%	8.3%	6.2%	9.1%	4.2%	11.4%	3.7%	7.9%
Premises/Rent/Rates	4.1%	0.0%	5.2%	3.5%	3.1%	2.3%	0.0%	2.7%
Other	21.6%	15.3%	14.4%	8.4%	10.4%	15.9%	22.2%	14.3%
No Response	3.1%	2.5%	0.0%	2.1%	0.0%	0.0%	0.0%	1.4%
Base	97	157	97	143	96	88	27	705

Note: Unweighted data

Cashflow/payments debtors and the **total tax burden** have switched places in the rankings of the problems since the previous survey, due to relatively small changes in the proportions selecting each problem. Both of these issues are more important for the relatively few **transport** firms taking part in this survey (each is the single most important problem for one-quarter of transport firms). One freight company explicitly mentioned that they feel the pump price of diesel is still too high, making the **total tax burden** their biggest problem.

Competition from big business is the most important problem for 5.2 per cent of small firms, but is much more significant for small **retailers** (10.8 per cent). Comparison of the 'actual performance' results from this survey with economy-wide figures also suggests that small retailers have recently been losing out to their larger competitors. Small **hotels & restaurants** are even more likely to say that competition from big business is their biggest single problem (14.6 per cent do so). One respondent from a catering business said, "the local council are allowing the city centre to be swamped with 'chains', outlets that are clearly running at a loss in their efforts to destroy one another. Small businesses like mine are the collateral victims of this cut-price crossfire".

Under 'other' problems some respondents specifically mentioned the effects of September 11, but more (1.0 per cent of the total, down from 2.6 per cent three months ago) mentioned the repercussions of **foot and mouth** disease. Others mentioned the level of exchange rates, particularly the continuing weakness of the euro.



Business Climate

A generally poor economic climate is the most important reason for low turnover within these small firms. A majority believe that the UK economy is heading for recession. Many have changed their line of business over the past year and a substantial minority have seen their own income fall.

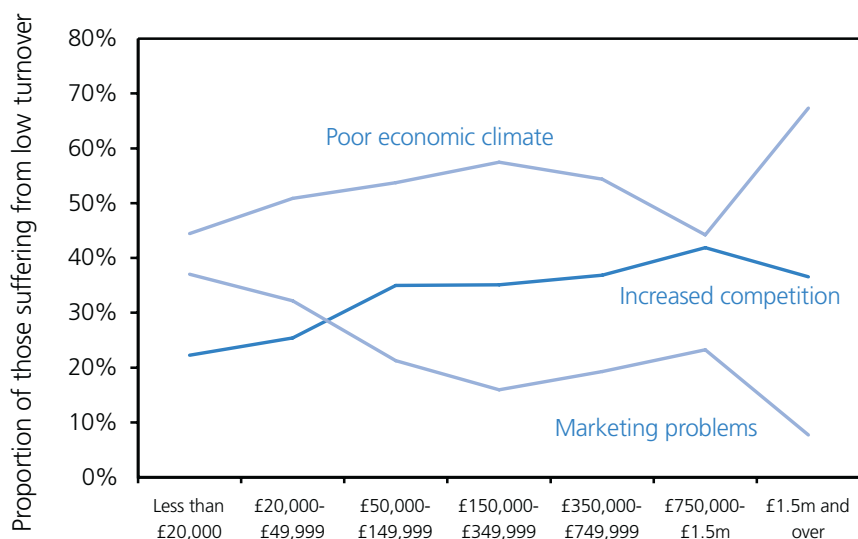
Reasons for low turnover

Low turnover/lack of business has been the top-ranked most important problem for small businesses taking part in this survey for over ten years. In order to understand this issue better, small firms were in this survey asked, if they are currently suffering from low turnover/lack of business, whether they thought this was mainly due to a generally poor economic climate, increased competition or because marketing problems mean that they have been less successful than others in attracting business. 40.9 per cent of respondents either indicated that low turnover is not a problem for them, or were unable to answer the question. The following

charts and tables show the responses from those which indicated at least one of the three reasons (a few indicated a combination of reasons, which is why the percentages sum to more than 100%).

Chart 4.1 shows that for firms of all sizes, a 'poor economic climate' was the most often quoted reason for low turnover. In second place overall is 'increased competition', followed by 'marketing problems' (Table 4.1 overleaf). Chart 4.1, however, shows that for the smallest firms taking part in the survey (those with a turnover of less than £50,000 per year), marketing problems are mentioned more than increased competition.

Chart 4.1: Proportion of those indicating low turnover is a problem selecting each reason, by size of business



Reasons of those suffering most

A measure of how much small firms are suffering from low turnover is how their own turnover has changed over the past year. Table 4.1 uses this measure to analyse the results on reasons for low turnover. This demonstrates clearly that those firms experiencing falling turnover most commonly blame this on 'poor economic climate'. However it also shows that for these firms with falling turnover 'increased competition' is twice as important as 'marketing problems'.

Table 4.1 also shows that some of the firms which have increased their turnover over the past year nevertheless seem to believe that they could have done better and

are still suffering from low turnover/lack of business. In these cases, however, they are less likely to blame the economic climate and far more likely to give 'increased competition' or 'marketing problems' as their most important reason than those whose turnover is down.

These findings seem to reinforce those from elsewhere in this survey, suggesting a very mixed economic climate. Firms in certain sectors and areas seem to be finding that conditions are such that there is simply little work around. Other types of firms believe that there is still business to be won, but some of these that they have been less successful than their competition in winning that business.

Table 4.1: Proportion of those indicating low turnover is a problem selecting each reason - by turnover change over past year

	Up	Same	Down	All
Poor economic climate	33.9%	57.5%	64.9%	54.3%
Increased competition	43.5%	26.3%	30.8%	33.7%
Marketing problems	29.0%	26.3%	14.4%	21.1%
Number suffering from low turnover/lack of business	124	80	208	418



Recession

In mid-November, after nearly all questionnaires for this report were completed, the deputy governor of the Bank of England said that, "the probability of a recession is still very small". In early December the Chancellor, Gordon Brown, in his pre-budget report predicted that economic growth, although slowing, will remain above 2% in 2002, with an upturn in 2003. Chart 4.2, however, shows that this confidence is not generally shared by the small firms taking part in this survey.

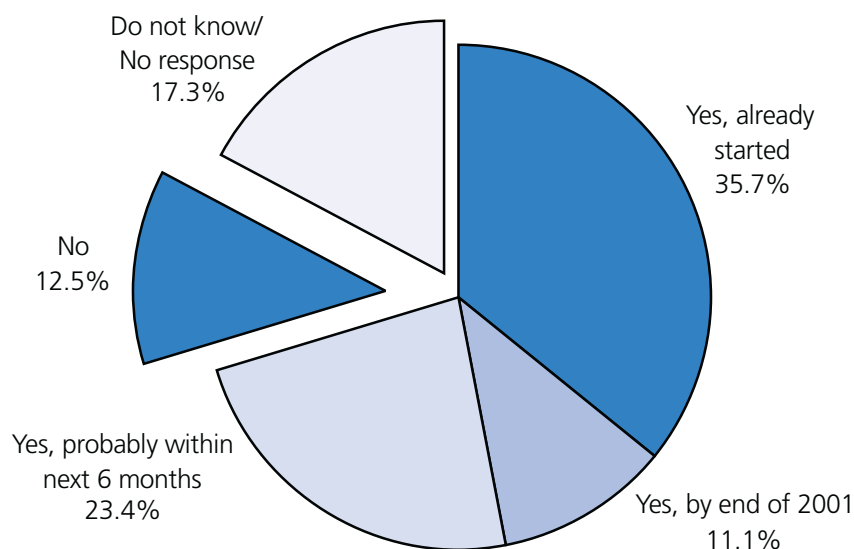
Only one-eighth of the firms taking part in this survey are confident that the UK is not in, or heading for, recession. Although 17.3 per cent say that they 'do not know' (one specifically said that, "*global uncertainty precludes any prediction*"), or did not answer the question, even if all of these are added to those believing that the UK will not enter recession, they are still easily outnumbered by those small firms believing

that the UK economy will be in recession within six months. Over one-third think that the economy is already in recession.

Unsurprisingly, respondents' views on recession are coloured by their own performance. A greater proportion of those who say 'low turnover/lack of business' is their most important problem (46.4 per cent) and those whose own turnover was down over the past year (49.0 per cent) believe that the economy is already in recession. This is also evident for 54.2 per cent of those who believe that the 'poor economic climate' is the main reason for their low turnover.

Although well outnumbered, those small firm owners which (like many economic commentators, as well as the Chancellor and the Bank of England deputy governor) believe that the economy is not headed for recession, are quite vocal. A number suggested that there was a danger of people "*trying to talk ourselves into*" recession.

Chart 4.2: "Do you think that the UK economy is in, or heading for, recession?"



Changes in business

Small businesses do not remain unchanged in the face of difficult economic conditions. Table 4.2 shows that almost forty per cent of small businesses taking part in this survey say that they have to some extent changed their line of business or switched industries within the past year. Over the past three years almost 18 per cent say that they have changed their business ‘substantially’ or ‘completely’.

It is very difficult to quantify the amount of change which a business has undergone and also to separate changes due to the business owner moving from one venture to another from true transformation of an existing business. However, considering those businesses which say that they have changed completely, it is possible to compare for some the business descriptions given by respondents over three years ago with those given now. In most cases, firms have stayed within the same basic industry sector (for instance ‘engineering’, ‘manufacture of electronic components’, ‘aquaculture’) but have presumably changed the products or services which they offer. One company, for instance, previously offered the hire of musical equipment and a studio but now also sells and hires video equipment. Only in a few cases (one

previously a landlord/letting company which now offers contract cleaning, another an individual who previously offered specialist legal advice and now runs a fast food outlet) was a complete change of business sector apparent.

Wholesalers and retailers are more likely than average to have made ‘some minor changes’ to their business. This makes sense, as it is relatively easy for many of these firms to change the types of products which they stock.

There appears to be no evidence that the smallest firms are more or less flexible than their larger counterparts, with there being no clear relationship between firm size and changes made to the business over the past year or three years.

Although the number of agricultural firms taking part in this survey is small and so the results may not be particularly representative, it does seem worthy of note that these firms are by far the most likely to have made ‘substantial’ changes to their business over the past year (27.3 per cent have done, compared with only 8.8 per cent of all firms). At least some of these will undoubtedly have been affected by the Foot and Mouth outbreak this year and consequently been forced to change their business.

Table 4.2: “To what extent have you changed your line of business or switched industries over the past year and past three years?”

	Over past three years	Over past year
Completely	1.7%	0.7%
Substantially	16.2%	8.8%
Some minor changes	26.8%	29.6%
Not, but intend to within next year/3 years	1.6%	3.8%
No significant changes	49.5%	54.6%
No response	4.3%	2.4%
Sample	705	705



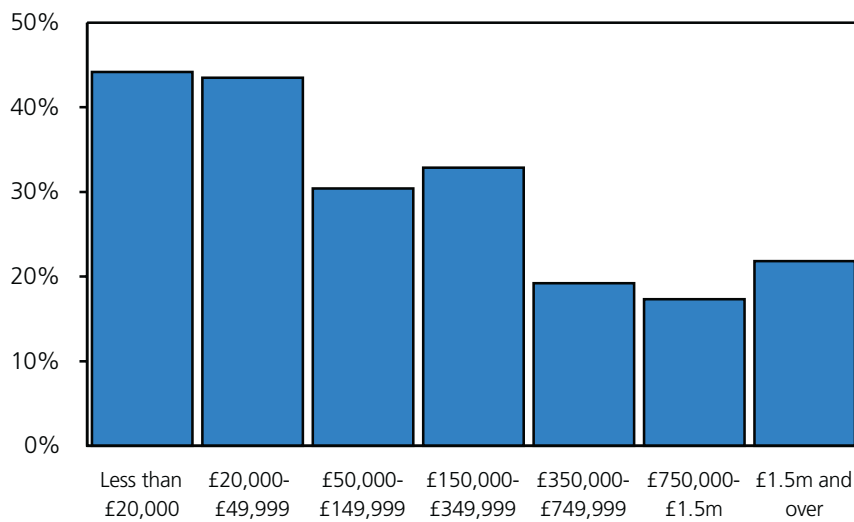
Owner's income

Small firms were also asked how their annual income (drawings) from the business has changed over the past year and the past three years. Unfortunately, in a minority of cases (11.9 per cent for the change over the past year), respondents gave a percentage but did not clearly indicate whether this was up or down. It is thought that most of these were indicating an increase in income, but some may have experienced a decrease.

What is clear, however, is that a very considerable proportion of small firm owners have seen their income drop over the past year. Even if none of those with an

ambiguous answer experienced a drop, 29.6 per cent of small firm owners clearly indicated that their own income has fallen over the past year. This is more than the 23.0 per cent which say that income has fallen over the past three years, suggesting that the situation is worsening. Chart 4.3 clearly shows that owners of the smallest businesses are most likely to have seen their income drop over the past year - with well over 40 per cent of those with a business turnover under £50,000 saying their own income has fallen.

Chart 4.3: Proportion of small firm owners reporting that their income from the business has fallen over the past year - by size of business



Conclusions

For over ten years, 'low turnover/lack of business' has been the top-ranked small business problem in this survey. The proportion of firms saying this is the single most important problem facing their business has usually been highest for the very smallest firms. The reasons for this are probably two-fold. Firstly, our survey has shown that the smallest firms have not been performing as well as their larger counterparts, especially in periods of economic growth. Secondly, some of the other problems selected by the larger firms (such as management difficulties and lack of skilled employees) are less relevant for the smallest firms.

A 'generally poor economic climate' is the main reason given for low turnover, followed by 'increased competition'. 'Marketing problems' are a particular problem for the smallest firms, but for firms with falling turnover, even the smallest, 'the economic climate' and 'increased competition' are more important.

The concerns about low turnover are such that (in contrast to the messages coming from the authorities and organisations such as the OECD) most small firms taking part in this survey believe that the UK economy is heading for recession within the next six months.

Rather than passively facing difficult economic conditions, this survey shows that many small firms change their business to areas where they can be more successful.

This survey also reminds us just how variable the income of a small business owner can be, compared with that of an employee. Many respondents, especially those owning and managing the smallest businesses, have seen their own income drop sharply over the past year.

Conclusions

Appendix

The survey reports in each issue on changes in sales, employment, investment and priced and on the ranking of most important problems experienced by small firms. The percentage balances for sales, employment, investment and prices are shown in Appendix Table A.1

and the percentage mention of problems are shown in Appendix Table A.2 for each of the surveys carried out to date. In addition, each issue covers one or more special topics, designed to contribute to knowledge about small business in Britain.

The following topics have been examined to date:

(note, the results from two surveys were published in Volume 1 Number 1)

Special Topics

Year	Volume	Number	Survey Number	Topic
1985	Vol. 1	No 1	1 & 2	Some Characteristics of the Respondents
		No 2	3	Changes in Employment, New Business
		No 3	4	Part-time Employees, Computers in Small Firms
		No 4	5	Employment
1986	Vol. 2	No 1	6	Finance, Membership of Representative Bodies
		No 2	7	Exports, The Business Expansion Scheme
		No 3	8	Employment, Skill Shortage
		No 4	9	Incorporated and Unincorporated Business, Expanding Firms, Small Firms in the Service Sectors
1987	Vol. 3	No 1	10	Domestic versus Business Telephone Usage, Employment
		No 2	11	Most Important Problem Facing Declining and Growing Businesses, Characteristics of our Respondents
		No 3	12	Employment, Slow Payment Problems
		No 4	13	Use of Accountants
1988	Vol. 4	No 1	14	Use of Solicitors
		No 2	15	Training background of managers and arrangements for staff training
		No 3	16	Access to external information
		No 4	17	Present and future use of Telecommunications products and services, Characteristics of Respondents
1989	Vol. 5	No 1	18	Employee Turnover, National Chamber of Trade Survey, National Westminster Digest Survey
		No 2	19	The effects of 1992 on small firms
		No 3	20	Intergenerational and previous business background of respondents
		No 4	21	Origins of new employees
1990	Vol. 6	No 1	22	European Community Special Directorate DG23
		No 2	23	Motivation and Objectives of respondents for setting up their own business
		No 3	24	School-leaver Training
		No 4	25	School-leaver Training Problems

Year	Volume	Number	Survey Number	Topic
1991	Vol. 7	No 1	26	Training and Enterprise Councils
		No 2	27	Use of Computers
		No 3	28	Business Growth Objectives, Gender of Owner
		No 4	29	Sources of Small Business Finance
1992	Vol. 8	No 1	30	Co-operatives
		No 2	31	Exports
		No 3	32	Quality Standards (BS 5750)
		No 4	33	Impact of the Recession on Incomes and Prices
1993	Vol. 9	No 1	34	Business Premises and the UBR
		No 2	35	Rented Business Premises
		No 3	36	Delayed Payments
		No 4	37	External Sources of Information
1994	Vol. 10	No 1	38	The Single Market
		No 2	39	Pensions
		No 3	40	The Past Ten Years
		No 4	41	Minimum Wage
1995	Vol. 11	No 1	42	Capacity Utilisation
		No 2	43	Succession and Ownership
		No 3	44	Staff Recruitment
		No 4	45	Employee Turnover and Training
1996	Vol. 12	No 1	46	Compliance Costs
		No 2	47	IT - Communications and Computers
		No 3	48	Business Support Organisations
		No 4	49	Motivations, Objectives and Targets
1997	Vol. 13	No 1	50	50th Survey (employment change, hours worked, satisfaction)
		No 2	51	Incomes and Prices
		No 3	52	Minimum Wage
		No 4	53	Slow Payment
1998	Vol. 14	No 1	54	VAT Compliance Costs
		No 2	55	Low Turnover, Advertising and Promotion
		No 3	56	Lack of Skills, Training and the 'New Deal'
		No 4	57	The euro
1999	Vol. 15	No 1	58	IT, Communications and Year 2000
		No 2	59	Business Finance
		No 3	60	Government Regulations and Paperwork
		No 4	61	Motivations, Objectives and Targets
2000	Vol. 16	No 1	62	Changes
		No 2	63	Slow Payment
		No 3	64	Government Regulations and Paperwork
		No 4	65	Skills Shortages and Training
2001	Vol. 17	No 1	66	Employee Turnover and Retirement
		No 2	67	Exports and the Euro
		No 3	68	IT and the Internet
		No 4	69	Business Climate

Performance Tables

Table A.1: Actual and expected changes, percentage balance

Survey	Sample Size	Past Quarter Date	Actual Change, past quarter compared with same quarter last year				Expected Change, next quarter compared to past quarter					
			Sales		Investment		Sales		Employment		Investment Prices	
			Employment	Prices	U	S	U	S	U	U		
Vol.1 No.1a	3,056	1984/3	+34.7%	+10.5%	-	-	+21.2%	+23.0%	+3.3%	+5.2%	-	-
Vol.1 No.1b	1,795	1984/4	+32.6%	+10.4%	-	-	+9.5%	+17.7%	+0.9%	+3.9%	-	-
Vol.1 No.2	1,181	1985/1	+33.4%	+17.6%	-	-	+16.9%	+9.4%	+9.5%	+7.1%	-	-
Vol.1 No.3	1,090	1985/2	+34.4%	+11.2%	-	-	+31.4%	+28.8%	+5.3%	+2.7%	-	-
Vol.1 No.4	1,072	1985/3	+37.4%	+12.1%	-	-	+26.2%	+28.0%	+5.3%	+7.2%	-	-
Vol.2 No.1	1,326	1985/4	+41.4%	+12.6%	-	-	+9.8%	+18.0%	+5.3%	+8.3%	-	-
Vol.2 No.2	1,052	1986/1	+33.6%	+11.6%	-	-	+31.1%	+23.6%	+5.6%	+3.2%	-	-
Vol.2 No.3	1,285	1986/2	+35.5%	+14.2%	-	-	+29.6%	+27.0%	+11.9%	+9.3%	-	-
Vol.2 No.4	1,435	1986/3	+39.7%	+15.2%	-	-	+22.3%	+24.1%	+6.0%	+7.9%	-	-
Vol.3 No.1	1,116	1986/4	+40.0%	+13.4%	-	-	+17.0%	+25.2%	+4.6%	+7.6%	-	-
Vol.3 No.2	1,746	1987/1	+40.2%	+15.2%	-	-	+39.7%	+32.2%	+15.1%	+12.7%	-	-
Vol.3 No.3	1,113	1987/2	+44.7%	+23.1%	-	-	+36.8%	+34.2%	+13.2%	+10.6%	-	-
Vol.3 No.4	977	1987/3	+44.8%	+17.6%	-	-	+28.8%	+30.6%	+10.0%	+11.9%	-	-
Vol.4 No.1	1,042	1987/4	+52.7%	+23.4%	-	-	+31.4%	+39.6%	+10.5%	+13.5%	-	-
Vol.4 No.2	933	1988/1	+52.7%	+19.3%	-	-	+46.7%	+39.2%	+15.3%	+12.9%	-	-
Vol.4 No.3	983	1988/2	+55.0%	+22.0%	-	-	+47.9%	+45.3%	+19.1%	+16.5%	-	-
Vol.4 No.4	950	1988/3	+54.9%	+22.3%	-	-	+34.4%	+36.2%	+13.3%	+15.2%	-	-
Vol.5 No.1A	1,523	1988/4	+49.2%	+15.1%	-	-	+25.6%	+33.9%	+5.7%	+8.7%	-	-
Vol.5 No.2	947	1989/1	+38.8%	+18.1%	-	-	+18.6%	+11.1%	+5.6%	+3.2%	-	-
Vol.5 No.3	2,274	1989/2	+41.1%	+16.7%	-	-	+30.8%	+28.2%	+10.4%	+7.8%	-	-
Vol.5 No.4	795	1989/3	+33.5%	+18.3%	-	-	+20.2%	+22.0%	+7.4%	+9.3%	-	-
Vol.6 No.1	1,091	1989/4	+29.9%	+10.5%	-	-	+10.6%	+18.8%	+0.9%	+3.9%	-	-
Vol.6 No.2	1,384	1990/1	+31.4%	+9.9%	-	-	+24.4%	+17.0%	+3.5%	+1.1%	-	-
Vol.6 No.3	1,043	1990/2	+22.3%	+4.8%	-	-	+14.7%	+12.1%	+0.9%	-1.7%	-	-
Vol.6 No.4	1,312	1990/3	+18.2%	+3.5%	-	-	+3.6%	+5.4%	-4.1%	-2.1%	-	-
Vol.7 No.1	1,239	1990/4	-0.5%	-5.1%	-	-	-16.0%	-7.7%	-14.4%	-11.4%	-	-
Vol.7 No.2	984	1991/1	-8.6%	-11.6%	-12.7%	-	+12.3%	+4.9%	-7.6%	-10.0%	-15.0%	-
Vol.7 No.3	1,718	1991/2	-12.5%	-17.3%	-20.0%	-	-5.2%	-7.8%	-11.5%	-14.1%	-20.6%	-
Vol.7 No.4	835	1991/3	-14.8%	-19.9%	-15.0%	-	-1.0%	+0.9%	-17.5%	-15.5%	-15.1%	-
Vol.8 No.1	1,684	1991/4	-7.9%	-15.6%	-20.5%	-	-9.4%	-1.2%	-16.9%	-13.9%	-13.3%	-
Vol.8 No.2	1,359	1992/1	-1.8%	-17.2%	-13.9%	-	+19.5%	+12.0%	-5.5%	-7.8%	-6.8%	-
Vol.8 No.3	1,527	1992/2	-9.2%	-14.6%	-18.7%	-	+4.2%	+1.6%	-5.9%	-8.4%	-11.8%	-
Vol.8 No.4	921	1992/3	-15.9%	-27.8%	-32.7%	-	-6.2%	-4.3%	-17.7%	-15.8%	-24.1%	-
Vol.9 No.1	1,339	1992/4	-9.1%	-15.1%	-21.0%	-	-4.0%	+4.3%	-10.7%	-7.7%	-13.1%	-
Vol.9 No.2	1,021	1993/1	-3.8%	-12.4%	-11.3%	-	+23.5%	+16.0%	+0.7%	-1.6%	-0.8%	-
Vol.9 No.3	1,310	1993/2	+0.9%	-7.9%	-7.4%	-	+19.1%	+16.5%	+4.3%	+1.7%	-0.5%	-
Vol.9 No.4	1,076	1993/3	+8.3%	-1.6%	-7.0%	-	+14.7%	+16.5%	-3.4%	-1.4%	-4.5%	-
Vol.10 No.1	1,295	1993/4	+13.8%	+3.5%	-3.3%	-	+15.1%	+23.4%	-0.2%	+2.8%	+3.3%	-
Vol.10 No.2	861	1994/1	+3.6%	-4.3%	-3.8%	-	+23.0%	+15.5%	-1.1%	-3.5%	+3.7%	-
Vol.10 No.3	2,327	1994/2	+16.2%	+0.8%	-3.3%	-	+18.4%	+15.8%	+1.6%	-1.0%	-2.2%	-
Vol.10 No.4	1,046	1994/3	+20.3%	+7.6%	+0.6%	-	+14.6%	+16.4%	-0.2%	+1.7%	+1.9%	-
Vol.11 No.1B	983	1994/4	+20.6%	+2.1%	+4.1%	-	+17.2%	+25.4%	+3.7%	+6.7%	+2.4%	-
Vol.11 No.2	1,295	1995/1	+18.2%	+3.2%	+1.4%	-	+27.8%	+20.3%	+5.7%	+3.4%	+5.0%	-
Vol.11 No.3	669	1995/2	+18.0%	+3.2%	+1.1%	-	+18.6%	+16.0%	+4.3%	+1.7%	-1.5%	-
Vol.11 No.4	1,047	1995/3	+13.1%	+3.3%	+3.1%	-	+14.0%	+15.9%	-1.9%	+0.1%	-2.1%	-

continued ...

Table A.1: Actual and expected changes, percentage balance (continued)

Survey	Sample Size	Past Quarter Date	Actual Change, past quarter compared with same quarter last year				Expected Change, next quarter compared to past quarter					
			Sales	Investment	Prices	-	Sales		Employment		Investment Prices	
			Employment	Prices			U	S	U	S	U	U
Vol.12 No.1	700	1995/4	+10.0%	-2.9%	+1.9%	-	+2.6%	+10.8%	-6.7%	-3.7%	-5.2%	-
Vol.12 No.2	1,099	1996/1	+14.2%	+2.5%	+1.0%	-	+20.7%	+13.3%	+1.9%	-0.4%	-2.8%	-
Vol.12 No.3	742	1996/2	+10.5%	+3.9%	+5.1%	-	+16.1%	+13.5%	+3.3%	+0.8%	-2.7%	-
Vol.12 No.4	753	1996/3	+23.1%	+8.9%	+7.2%	-	+24.3%	+26.2%	+5.1%	+7.0%	+6.1%	-
Vol.13 No.1	912	1996/4	+20.4%	+9.8%	+10.9%	-	+17.4%	+25.6%	+4.8%	+7.8%	+7.2%	-
Vol.13 No.2	720	1997/1	+13.6%	+2.0%	+9.9%	-	+27.7%	+20.3%	+8.6%	+6.3%	+7.0%	-
Vol.13 No.3	909	1997/2	+18.0%	+5.3%	+5.2%	-	+22.2%	+19.6%	+7.3%	+4.7%	+2.4%	-
Vol.13 No.4	634	1997/3	+21.5%	+12.1%	+10.7%	-	+24.1%	+26.0%	+3.9%	+5.8%	+3.8%	-
Vol.14 No.1	783	1997/4	+21.1%	+1.7%	+10.4%	-	+12.8%	+21.1%	-0.7%	+2.3%	+3.9%	-
Vol.14 No.2	1,273	1998/1	+19.3%	+3.0%	+12.4%	-	+21.3%	+13.8%	+3.9%	+1.6%	+2.2%	-
Vol.14 No.3	682	1998/2	+9.0%	+5.0%	+5.0%	-	+10.3%	+7.7%	+5.6%	+3.0%	+2.0%	-
Vol.14 No.4	654	1998/3	-2.5%	-0.4%	+4.6%	+10.0%	+3.0%	+4.9%	-2.9%	-1.0%	-8.0%	+0.5%
Vol.15 No.1	601	1998/4	+5.9%	+0.5%	+2.8%	+9.3%	-5.0%	+3.2%	-2.9%	+0.1%	-5.7%	+5.6%
Vol.15 No.2	619	1999/1	+6.9%	-2.3%	+3.4%	+15.7%	+20.8%	+13.4%	+4.4%	+2.0%	+1.3%	+14.6%
Vol.15 No.3	507	1999/2	-4.9%	-4.3%	-2.7%	+8.5%	+6.8%	+4.2%	+0.1%	-2.5%	-5.0%	+4.8%
Vol.15 No.4	1,121	1999/3	+9.2%	-2.0%	+2.5%	+13.7%	+11.4%	+13.2%	-0.7%	+1.3%	+0.1%	+5.8%
Vol.16 No.1	812	1999/4	+9.3%	-4.2%	+1.8%	+16.0%	+6.4%	+14.7%	-2.5%	+0.5%	+1.9%	+15.2%
Vol.16 No.2	866	2000/1	+9.6%	-2.6%	+2.2%	+16.9%	+22.6%	+15.1%	+5.4%	+3.1%	+2.8%	+14.0%
Vol.16 No.3	758	2000/2	+2.1%	+0.5%	-1.5%	+17.0%	+11.7%	+9.1%	+3.0%	+0.5%	-1.2%	+9.2%
Vol.16 No.4	803	2000/3	+5.0%	-5.0%	+3.1%	+15.3%	+6.3%	+8.2%	-2.7%	-0.8%	-0.7%	+12.4%
Vol.17 No.1	726	2000/4	+8.6%	-0.5%	+4.3%	+16.7%	+3.7%	+11.9%	+0.5%	+3.5%	+3.7%	+16.3%
Vol.17 No.2	856	2001/1	+3.2%	-3.3%	+1.9%	+18.7%	+12.1%	+4.6%	+1.7%	-0.7%	-2.8%	+16.2%
Vol.17 No.3	720	2001/2	+4.9%	-1.4%	+3.1%	+22.4%	+9.5%	+6.9%	+1.2%	-1.3%	-2.2%	+14.2%
Vol.17 No.4	705	2001/3	+5.3%	+0.3%	+3.9%	+18.2%	+3.7%	+5.6%	-2.9%	-1.0%	-5.4%	+6.2%

Notes: Because the balances referring to the expected sales turnover and employment in the next quarter have a pronounced seasonal trend we have also constructed seasonally-adjusted figures for these balances. These are listed in Appendix Table A.1 above. The breakdowns by size, sector and region are not seasonally adjusted, neither are the figures in Table 1.1.

a, b – The results from two surveys were published in Volume 1 Number 1

A – From Volume 5 Number 1, all results were weighted to the sectoral distribution of firms according to VAT statistics.

B – From Volume 11 Number 1, all results have been weighted to the sectoral distribution of employment in firms with under 50 employees according to DTI statistics.

Key: U – Unadjusted, S – Seasonally adjusted

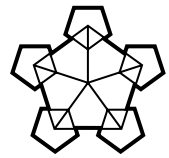
Table A.2: Problems experienced by respondents (from 1989/1 figures are weighted - see notes on previous page)

	Inflation	Interest Rates	Access to Finance	Lack of Skilled Employees	Total Tax Burden	Low T/Over or Lack of Business	Competition from Big Business	Govt Regs and Paperwork	High Rates of Pay	Shortage of Materials, Supplies etc.	Internal Management Difficulties	Cashflow/ Payments/ Debtors	Premises, Rents, Rates	Other	No Response	Number of Replies Analysed
1984/4	3.5%	17.1%	-	5.4%	15.9%	15.3%	12.0%	12.6%	4.2%	1.1%	-	-	-	10.9%	1.4%	3,056
1985/1	3.8%	19.4%	-	4.4%	15.9%	14.5%	10.0%	15.7%	3.4%	1.3%	-	-	-	9.5%	1.5%	1,795
1985/2	5.0%	22.1%	-	4.3%	16.1%	14.3%	10.8%	12.5%	2.4%	1.3%	-	-	-	9.1%	1.5%	1,181
1985/3	2.0%	23.6%	-	4.9%	12.8%	13.8%	11.2%	13.1%	3.7%	1.9%	-	-	-	8.6%	3.8%	1,090
1985/4	2.2%	24.0%	-	5.6%	16.6%	15.7%	11.0%	10.2%	2.0%	0.9%	-	-	-	9.2%	2.0%	1,072
1986/1	3.0%	21.4%	-	7.2%	17.1%	14.4%	11.7%	9.6%	2.0%	1.8%	-	-	-	9.9%	1.3%	1,326
1986/2	1.7%	29.9%	-	7.3%	16.3%	12.6%	9.1%	9.9%	2.2%	1.2%	-	-	-	9.4%	0.6%	1,052
1986/3	0.9%	21.3%	-	7.3%	16.6%	17.0%	11.5%	7.3%	1.4%	0.9%	-	-	-	13.7%	2.0%	1,285
1986/4	1.1%	25.0%	-	7.2%	17.7%	14.7%	11.8%	6.8%	1.3%	1.3%	-	-	-	10.0%	3.1%	1,435
1987/1	0.9%	26.4%	-	8.0%	16.0%	13.0%	12.0%	7.4%	1.6%	1.3%	-	-	-	9.1%	4.2%	1,166
1987/2	1.0%	23.7%	-	9.6%	17.7%	12.0%	10.7%	7.6%	2.6%	1.5%	-	-	-	10.3%	3.3%	1,746
1987/3	1.1%	20.3%	-	11.8%	17.9%	12.9%	11.5%	6.6%	1.9%	2.2%	-	-	-	10.5%	3.5%	1,113
1987/4	1.1%	18.0%	-	11.1%	21.3%	13.0%	12.5%	6.3%	1.3%	1.3%	-	-	-	9.6%	4.5%	977
1988/1	0.7%	21.6%	-	11.1%	20.1%	9.6%	11.4%	6.1%	2.3%	1.9%	-	-	-	14.9%	0.3%	1,042
1988/2	1.0%	19.4%	-	12.7%	15.5%	10.2%	14.4%	8.0%	1.8%	2.3%	-	-	-	13.7%	1.4%	933
1988/3	0.9%	17.6%	-	17.7%	13.7%	11.3%	11.4%	8.3%	2.4%	2.7%	-	-	-	11.4%	2.4%	983
1988/4	2.8%	25.5%	-	16.9%	12.5%	8.7%	10.4%	6.0%	1.3%	3.3%	-	-	-	10.6%	1.9%	950
1989/1A	5.3%	23.4%	-	16.4%	11.1%	5.7%	5.9%	7.2%	1.4%	0.3%	-	-	-	19.0%	4.3%	1,523
1989/2	6.3%	28.4%	-	14.0%	12.2%	7.1%	5.9%	5.2%	1.0%	0.8%	-	-	-	14.5%	4.7%	947
1989/3	6.1%	32.9%	-	13.3%	7.1%	13.1%	6.0%	5.9%	1.5%	0.5%	-	-	-	12.1%	1.6%	2,274
1989/4	6.9%	39.2%	-	10.4%	5.4%	12.9%	4.7%	5.1%	1.1%	0.6%	-	-	-	12.2%	1.4%	795
1990/1	4.2%	31.3%	3.1%	6.7%	5.3%	13.3%	-	5.5%	2.5%	0.7%	0.6%	11.5%	8.4%	5.3%	1.7%	1,091
1990/2	6.7%	27.9%	3.2%	7.8%	2.9%	14.6%	-	5.6%	1.5%	0.3%	1.6%	11.6%	6.6%	8.2%	1.4%	1,384
1990/3	4.3%	29.9%	3.6%	6.4%	3.7%	14.7%	3.1%	4.3%	1.6%	0.0%	1.9%	13.6%	4.8%	5.5%	2.5%	1,043
1990/4	7.5%	26.6%	2.3%	5.7%	4.4%	18.9%	3.8%	6.3%	0.2%	0.3%	0.8%	8.6%	4.7%	7.9%	1.9%	1,250
1991/1	6.0%	29.4%	2.7%	3.4%	4.2%	21.1%	2.6%	5.6%	0.9%	0.5%	0.8%	11.4%	4.2%	5.5%	1.9%	1,239
1991/2	4.0%	21.2%	4.3%	2.9%	5.1%	25.2%	2.9%	4.0%	0.4%	0.4%	0.6%	14.9%	7.1%	6.0%	1.0%	984
1991/3	3.3%	15.0%	3.0%	2.3%	4.7%	37.5%	2.4%	6.7%	1.2%	0.3%	1.2%	11.0%	3.3%	6.7%	1.5%	1,718
1991/4	1.2%	7.5%	4.6%	4.5%	4.1%	38.1%	3.4%	3.9%	0.7%	0.3%	1.3%	13.2%	5.7%	10.7%	0.8%	835
1992/1	2.0%	9.1%	5.2%	2.1%	5.6%	36.3%	3.2%	5.6%	0.5%	0.4%	1.2%	15.8%	4.0%	7.1%	1.8%	1,684
1992/2	2.2%	11.6%	4.4%	3.4%	5.4%	34.3%	4.5%	5.3%	0.4%	0.3%	1.1%	13.4%	5.0%	7.4%	1.3%	1,359
1992/3	1.6%	7.6%	3.9%	2.9%	5.1%	43.3%	2.1%	8.1%	0.3%	1.0%	0.8%	13.5%	3.0%	5.9%	0.8%	1,527
1992/4	1.0%	8.8%	3.6%	1.6%	6.0%	44.3%	4.0%	8.0%	0.5%	0.3%	0.2%	11.5%	3.0%	5.2%	2.0%	921
1993/1	0.6%	3.7%	3.2%	3.2%	4.1%	47.7%	3.0%	6.2%	0.3%	1.2%	0.6%	13.1%	2.9%	8.4%	1.8%	1,339
1993/2	0.5%	1.4%	5.4%	3.3%	5.4%	43.1%	4.0%	7.6%	0.5%	0.7%	1.6%	14.3%	2.9%	7.4%	1.8%	1,021
1993/3	0.4%	2.1%	5.5%	4.5%	5.4%	41.2%	4.2%	12.6%	0.3%	0.7%	0.9%	10.9%	3.7%	5.9%	1.6%	1,310
1993/4	1.0%	2.8%	6.9%	3.0%	6.5%	36.8%	4.3%	10.0%	0.3%	0.6%	2.5%	15.5%	3.3%	4.6%	2.0%	1,076

continued ...

Table A.2: continued

	Inflation	Interest Rates	Access to Finance	Lack of Skilled Employees	Total Tax Burden	Low T/over or Lack of Business	Competition from Big Business	Govt Regs and Paperwork	High Rates of Pay	Shortage of Materials, Supplies etc.	Internal Management Difficulties	Cashflow/ Payments/ Debtors	Premises, Rents, Rates	Other	No Response	Number of Replies Analysed
1994/1	0.6%	1.9%	5.5%	4.2%	6.8%	34.1%	6.9%	11.0%	0.1%	0.6%	1.1%	14.4%	4.1%	6.9%	1.7%	1,295
1994/2	1.1%	1.6%	3.8%	5.4%	7.0%	35.3%	5.2%	13.9%	0.1%	0.4%	1.4%	14.0%	3.2%	6.4%	1.3%	861
1994/3	0.9%	1.5%	3.6%	4.9%	5.9%	37.7%	5.9%	9.7%	0.9%	0.8%	2.1%	13.3%	3.1%	7.6%	2.0%	2,327
1994/4	1.1%	1.2%	4.7%	4.8%	6.4%	35.7%	6.3%	10.4%	0.1%	1.1%	1.6%	12.9%	3.8%	7.6%	2.5%	1,046
1995/1B	0.8%	2.7%	4.0%	6.1%	6.2%	37.7%	6.9%	6.7%	0.6%	1.1%	3.0%	12.5%	2.0%	7.4%	2.2%	983
1995/2	1.2%	2.0%	3.4%	5.1%	6.9%	36.7%	6.1%	8.0%	0.6%	0.9%	2.7%	12.2%	3.8%	9.4%	1.0%	1,295
1995/3	1.1%	3.8%	4.2%	4.0%	6.8%	37.6%	8.8%	7.1%	0.5%	0.5%	1.1%	11.4%	5.9%	6.8%	0.4%	669
1995/4	1.1%	0.8%	3.4%	6.0%	6.0%	39.1%	6.3%	9.1%	0.7%	0.3%	2.4%	12.0%	2.8%	9.3%	0.9%	1,047
1996/1	2.2%	0.6%	3.3%	4.5%	6.5%	38.2%	6.7%	5.1%	0.3%	0.7%	1.7%	12.8%	3.7%	11.5%	2.1%	700
1996/2	0.4%	0.7%	2.6%	4.4%	6.5%	36.6%	6.1%	8.8%	0.4%	0.5%	2.6%	13.1%	3.4%	13.1%	1.0%	1,099
1996/3	0.2%	0.7%	3.7%	6.1%	6.3%	31.8%	8.1%	8.6%	0.3%	0.5%	1.4%	12.2%	4.9%	14.3%	1.2%	742
1996/4	0.6%	1.0%	2.5%	7.6%	6.5%	34.6%	7.5%	10.3%	0.4%	0.2%	2.5%	9.5%	4.2%	11.6%	1.0%	753
1997/1	0.3%	1.4%	2.9%	8.2%	6.6%	29.9%	7.4%	10.8%	0.3%	0.5%	2.1%	14.6%	3.9%	10.2%	1.0%	912
1997/2	0.1%	1.2%	2.0%	9.5%	5.1%	31.9%	7.2%	10.5%	1.4%	0.3%	2.5%	11.2%	3.5%	12.6%	1.1%	720
1997/3	0.2%	2.7%	3.4%	8.1%	8.1%	27.6%	9.2%	10.3%	0.5%	0.5%	2.0%	10.5%	5.3%	11.1%	0.5%	909
1997/4	0.7%	1.9%	2.5%	12.1%	5.6%	29.4%	7.0%	10.9%	0.6%	0.6%	2.5%	10.3%	4.9%	9.7%	1.3%	634
1998/1	0.2%	3.4%	1.8%	8.9%	5.8%	27.7%	8.1%	11.8%	0.9%	0.5%	1.6%	12.1%	3.4%	12.6%	1.3%	783
1998/2	0.2%	3.4%	2.9%	10.1%	5.0%	25.6%	8.2%	8.4%	1.1%	0.3%	1.9%	10.7%	3.2%	18.1%	0.9%	1,273
1998/3	1.8%	3.4%	2.2%	7.7%	5.0%	29.3%	6.3%	9.6%	0.8%	0.1%	2.6%	9.7%	4.9%	16.0%	0.7%	682
1998/4	0.8%	6.3%	1.8%	9.7%	7.1%	30.8%	7.6%	6.1%	1.4%	0.7%	1.6%	10.5%	2.0%	13.0%	0.6%	654
1999/1	0.1%	1.7%	1.9%	8.9%	7.2%	31.0%	5.3%	11.1%	1.1%	0.9%	1.9%	8.3%	4.3%	15.2%	1.1%	601
1999/2	0.2%	1.0%	1.2%	8.0%	6.3%	31.6%	7.6%	14.8%	1.1%	0.1%	1.0%	9.2%	3.9%	12.9%	1.0%	619
1999/3	0.1%	0.7%	2.8%	11.2%	7.7%	25.3%	8.0%	13.6%	2.1%	0.9%	3.3%	8.2%	4.4%	10.2%	1.5%	507
1999/4	0.4%	0.8%	2.9%	11.4%	6.1%	26.3%	7.3%	14.2%	1.1%	0.5%	2.0%	9.6%	3.9%	12.6%	0.9%	1,121
2000/1	0.3%	1.0%	1.7%	9.5%	6.4%	26.2%	8.7%	18.6%	1.4%	0.3%	2.2%	8.8%	3.7%	10.4%	0.6%	812
2000/2	0.3%	1.6%	1.3%	8.7%	6.7%	25.9%	6.3%	19.0%	1.4%	1.1%	1.8%	7.2%	3.3%	14.9%	0.6%	866
2000/3	0.3%	0.8%	2.2%	12.2%	7.3%	26.7%	6.3%	12.5%	1.4%	1.1%	2.4%	9.6%	2.8%	12.6%	1.9%	758
2000/4	0.4%	0.7%	1.6%	7.9%	7.2%	27.4%	6.9%	15.7%	0.8%	0.9%	1.4%	10.2%	4.1%	14.3%	0.4%	803
2001/1	0.1%	0.4%	2.0%	11.1%	6.7%	31.4%	6.3%	14.4%	0.8%	0.3%	1.9%	9.2%	2.8%	10.9%	1.8%	726
2001/2	0.2%	0.8%	1.3%	10.8%	7.9%	27.2%	5.9%	15.4%	2.7%	0.4%	2.6%	7.0%	3.2%	13.7%	1.0%	856
2001/3	0.0%	0.0%	0.7%	13.5%	9.6%	30.0%	6.4%	13.8%	0.8%	0.4%	1.2%	7.3%	3.1%	12.8%	0.5%	720
2001/4	0.1%	0.0%	2.0%	11.7%	6.7%	27.4%	5.2%	16.5%	1.3%	0.5%	1.1%	8.2%	2.9%	15.0%	1.3%	705



Confidential

Please circle the appropriate letters or fill in the blanks. Your answers will remain confidential.

1 Please indicate your firm's annual turnover (excluding VAT):

- a. Less than £20,000 c. £50,000-£149,999 e. £350,000-£749,999 g. £1,500,000 and over
 b. £20,000-£49,999 d. £150,000-£349,999 f. £750,000-£1,499,999

2a Employment: How many people (including yourself) work in the business? _____

2b If your business is not a limited company, how many of these people are self-employed proprietors or partners? _____

3 How many years has your present business been trading? _____

4a Please classify your business activity by circling one of these categories:

- a. Agriculture, Forestry, Fisheries d. Construction g. Hotels & Restaurants i. Other Services
 b. Manufacturing, Mining, Processing e. Wholesale h. Business Services
 c. Transport f. Retail Trade (Finance, Consultants, Designers, etc.)

4b Please also describe in a few words the precise nature of your business: _____

5 By roughly what total percentage has your annual income (drawings) from the business changed over the past year and the past three years (e.g. 'UP 20%' or 'DOWN 15%')?

- a. PAST YEAR: Income in 2000-2001 compared with 1999-2000: UP / DOWN _____ %
 b. PAST 3 YEARS: Income in 2000-2001 compared with 1997-1998: UP / DOWN _____ %

6 Do you think that the UK economy is in, or heading for, recession?

- a. Yes, already started b. Yes, by end of 2001 c. Yes, probably within next 6 months d. No e. I do not know

7 To what extent have you changed your line of business or switched industries over the past year and past three years?

- (i) Over past year: a. Completely b. Substantially c. Some minor changes d. Not, but intend to within next year e. No significant changes
 (ii) Over past 3 years: a. Completely b. Substantially c. Some minor changes d. Not, but intend to within next 3 years e. No significant changes

8 If your business is currently suffering from low turnover/lack of business is this mainly due to a generally poor economic climate, increased competition or because marketing problems mean that you have been less successful than others in attracting business?

- a. Poor economic climate b. Increased competition c. Marketing problems d. Low turnover not a problem

9 How did your sales turnover, average employment, investment (in plant, equipment and premises) and average selling prices in the past quarter compare with the same period in 2000? What do you expect to happen in the current quarter? Please complete the table by ticking 8 boxes only:

	ACTUAL			EXPECTED		
	July, August, September 2001 compared with the same period 2000			October, November, December 2001 compared with July, August, September 2001		
	UP	DOWN	SAME	UP	DOWN	SAME
Sales Turnover						
Average Employment						
Investment						
Selling Prices						

10 What is the MOST important problem facing your business today? Please circle ONE ONLY:

- a. Inflation f. Low Turnover/Lack of Business k. Internal Management Difficulties
 b. Interest Rates g. Competition from Big Business l. Cashflow/Payments/Debtors
 c. Access to Finance h. Gov't Regulations and Paperwork m. Premises, Rents, Rates
 d. Lack of Skilled/Trained Employees i. High Rates of Pay n. Other (Please specify)
 e. Total Tax Burden j. Shortage of Materials, Supplies, etc. _____

11 Please indicate the sex of the owner(s) of the business:

- a. Male b. Female c. Joint Male/Female ownership