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We hope you find this report of use – please feel free to share it with others within your own organisation.

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GLOSSARY OF TERMS

Dun & Bradstreet defines specific terms as follows:

Business failure – A ‘Failed Business’ means any business that seeks legal relief from its creditors or ceases operations without paying all its creditors in full.

Company* – A legal entity, made up of an association of people (be they natural, legal, or a mixture of both), for carrying on a commercial or industrial enterprise.

Corporations – A ‘Corporation’ is a company or group of people authorised to act as a single entity (legally a person) and recognised as such in law.

Non-registered business – A business that is not recognised as a separate legal entity and not registered at that country’s official companies registry (e.g. Companies House in the UK).

Firm – A business organisation that sells goods or services to make a profit, regardless of registration status.

*Companies included in this report are those registered at Companies House.
PAYMENTS PERFORMANCE STILL A SOURCE OF CONCERN

The recent Payment Study 2018 produced by Dun & Bradstreet’s World Wide Network shows that payments performance in the UK remains a source of concern. Overall, the share of prompt payments (as a percentage of total payments) came in at 30.3% last year, according to our proprietary data. This is almost unchanged from the 2016 value (30.4%) but compares unfavourably against the European average, which was 41.7% last year. Our data shows that the average payment delay in the UK (around 15 days) is also higher than the European average (13 days). Positively, the share of payments made 90 or more days late in the UK remains comfortably below the European average (2.5% versus 3.7%) and our analysis highlights that 92.4% of all payments in the UK are paid within 30 days after due date, compared with the European average of 90.5%.

PROGRESS ON BREXIT WITHDRAWAL BILL

Positively, the government managed to push the EU Withdrawal Bill through parliament in June. A last-minute compromise with rebels from within the government meant that the law passed with a narrow majority and received royal assent on 26 June. The bill will repeal the European Communities Act from 1972 and provides the legal base for Brexit. Although the adoption of the Withdrawal Bill creates more clarity about the Brexit roadmap, it remains unclear what the EU-UK trade and investment relationship will look like after Brexit. Given the divisions within parliament (and indeed between the government’s inner core of ministers) it seems unlikely that any swift progress on the issue will be made. Dun & Bradstreet expects some progress towards the EU summit in October, as this is the final opportunity for a deal, given that any agreement will have to be voted on by the British and the European Parliament before the UK leaves the EU on 29 March 2019.

NEW RUNWAY FOR HEATHROW

Positively for the country’s infrastructure, parliament has approved the construction of a third runway at Heathrow airport. Despite the sizeable majority in parliament it seems unlikely that construction will begin any time soon: four local councils on the airport’s flight path have already announced legal action and, even in the best-case scenario, the runway would not be operational before the middle of the next decade. In the medium term, the expansion of Heathrow will help to improve the UK’s poor airport infrastructure (ranked 28th out of 137 countries in the Global Competitiveness Report 2017-18).
President Trump's assertive 'America First' policy has set in train a cycle of tit-for-tat tariff measures, not just between the US and China but also other countries and blocs such as the EU and the US. These are threatening global trade flows. The uncertainty caused by the raising of the barriers is affecting global financial markets, encouraging a flight to safe havens. As a result, the US dollar has strengthened, and vulnerable emerging currencies, such as Argentina, Brazil, India, Mexico, Russia and Turkey, have come under pressure. However, other emerging economies, particularly in the Far East and Southeast Asia, are proving more resilient.

Meanwhile, we are concerned about the levels of debt as a percentage of GDP – household, non-financial corporate and government – at a time when interest rates are rising or are set to rise. Household debt is now 33% higher than at end-2007 (before the global financial crisis), while non-financial corporate debt is over 40% higher in the same period and government debt over 100% higher. Furthermore, depreciating currencies will add to the servicing costs of foreign debts.

**KEY RISK: HOLES IN THE GROWTH NARRATIVE WIDEN**

No sooner had the spectres of the last crisis been laid to rest, symbolically, in the form of a euro-zone deal on Greek sovereign debt, than our trend outlook on Western Europe moved from ‘stable’ to ‘deteriorating’ after only a month since its downgrade to ‘stable’ from ‘improving’.

Growth performance has been broadly positive across much of the developing world and the emerging markets. The fundamentals after the decade of restructuring and emergency policy support still look supportive. Many low-profile emerging markets are performing well in GDP terms. In the developed world, key manufacturing sectors are approaching peak utilisation, while the recovery is broadening from profits into wage compensation, if not necessarily consumer spending. However, the shake-out is already under way as the cost of capital edges up in line with US short-term rates and 10-year Treasury yields. The associated return of US dollar strength is highlighting economies with poor balance of payments and debt dynamics and will exert a tightening effect over the working capital chains of international trade. The politics of parallel trade talks and the outlook for oil prices add further layers of potential caution and confusion.

Reversing the new wave of investment in emerging markets will be a recurring theme in the quarters ahead. Many have bought into local currency assets and the associated FX risk. The casualties became clearer in May: Argentina and Turkey saw their currencies lose 17% and 18% of their US dollar value in the 60 days to late May, the peso having already lost a quarter of its value year-on-year by end-April. The risk of contagion exists, with Eastern Europe equities excluding Russia down almost 11% year-to-date, according to MSCI indices. The euro also felt the effects from Italy’s political challenges in May. The journey into 2019 will accordingly depend on the balance between support from the real economy’s fundamentals and shifting investor sentiment.
The chart above depicts how promptly all UK businesses have been paying their bills over the past nine months (blue line). Prompt payments deteriorated slightly in the three months to June, according to Dun & Bradstreet’s latest data: an average of 31.5% of payments were made on time in Q1 versus 31.3% in Q2. Weaker retail sales data, as well as the uncertainty triggered by Brexit (which might have affected UK businesses’ capacity – and/or willingness – to pay promptly) is likely to have contributed to the deterioration of payment habits. Looking ahead, we expect a further deterioration in prompt payments due to rising headwinds triggered by the Brexit vote.

**PROMPT PAYMENT, BY EMPLOYEE NUMBERS**

As the data in the charts below reflects, larger businesses continue to squeeze their suppliers by paying in a much slower manner than their smaller counterparts. The differential in payment habits between those companies employing 1,000 workers or more and those employing fewer than five is significant: 6.2% (it was 5.7% in Q1 2018) as opposed to some 36.7% (from 37.7% in Q1).

Late payments remain a major problem for UK-based small and medium-sized enterprises (SMEs). While legislation is in place to assist small businesses with their struggle against late payments, most businesses, especially SMEs, elect to take no action for fear of alienating their larger customers. Indeed, according to the Association of Chartered Certified Accountants (ACCA), firms with fewer than 50 employees are typically twice as likely to experience late payment issues compared with larger businesses. Besides giving rise to tighter financial conditions and higher administrative, transaction and financial costs (external financing may be necessary to manage cash flows), late payments can cause insolvency and ultimately lead to bankruptcy.

**PROMPT PAYMENT, BY INDUSTRY**

As Dun & Bradstreet data shows, improvements and deteriorations in payment habits in Q2 were equally split among the sectors of the economy. The data, broken down by industrial sector, reveals that between Q1 and Q2 2018 the largest improvement in payment performance was recorded in the ‘Consumer Manufacturing’ sector, followed by the ‘Eating and Drinking’ and ‘Materials Processing/Mining’ sectors. The ‘Health/Education/Social’ and ‘Finance/Industry/Property’ sectors recorded the sharpest deterioration in payment performance (down by 1.7% q/q and by 1.4% q/q, respectively).
3.0 PAYMENT SNAPSHOT

PROMPT PAYMENT, BY REGION

Dun & Bradstreet’s Q2 data reveals that overall payment performance deteriorated by an average of 0.1 percentage points (pp) between Q1 and Q2 2018 across the regions.

The ‘Channel Islands’ and the ‘North’ areas recorded the largest improvement in average prompt payments (as a percentage of total payments), rising by 0.8 pp and 0.3 pp respectively, to an average of 34.8% and 30.0%, respectively. The Greater London area and Northern Island experienced the steepest deterioration in their payment performance, dropping by 0.6 pp and by 0.4 pp respectively, to 26.0% and 30.7% respectively. The Greater Manchester area, where the average of prompt payments rose by 0.1 pp, continues to lag behind all the other regions (only 24.8% of payments were made promptly, compared to a UK average of 31.3%), followed by the Greater London area (26.0%, up from 26.5% previously). The South West and the East Anglia areas exhibit the best payment performance times (37.5% and 38.5%, respectively).

CORPORATE LIQUIDATIONS

That said, our data reveals that the sectors of the economy that saw a decrease in corporate insolvencies between Q1 and Q2 2018 were outnumbered by those experiencing an increase. Liquidations dropped in ‘Transport/Comms/Utilities’ (down by 64.2% q/q), followed by ‘Health/Education/Social/Mship’ (down by 11.8% q/q) and ‘Consumer Manufacturing’ (down by 1.1% q/q). On the other hand, ‘Retail Trade’, ‘Finance/Insurance/Property’ and ‘Wholesale Trade’ were the sectors recording the sharpest increase in the amount of liquidations, up by 23.5%, 20.4%, and 19.3% respectively in q/q terms.

CORPORATE LIQUIDATIONS: RETAIL TRADE

In line with what we had anticipated in our previous UK Industry Report, our latest proprietary data for Q2 shows a significant increase in the number of corporate insolvencies in the retail sector over the quarter – a rise of 23.5% q/q. In y/y terms, insolvencies went up by some 36.7%. A robust increase in retail sales over the same period (up by 2.1% q/q, as per the ONS’s data) was not enough to prevent a quarterly rise in the number of bankruptcies.

Looking ahead, we expect a slight increase in the unemployment rate on account of headwinds from Brexit, and so we expect retail sales growth to remain modest in the quarters ahead. A slowdown in sales growth means that the number of liquidations could rise in the coming quarters. Indeed, the uncertainty surrounding the retail sales outlook remains high, with risks tilted to the downside. On the upside, meanwhile, the still-low unemployment rate will continue to provide a boost to domestic sales volumes. Negatively, a slowdown in overall economic growth, Brexit, and lower real wage growth (on account of rising inflation), as well as a progressive tightening of monetary policy could weigh on consumer spending.
Dun & Bradstreet’s data shows a small rise in the number of construction companies liquidating in Q2: 688 companies failed in Q2, while 662 liquidated in Q1. The construction industry plays an important role in the UK economy; the entire sector contributes some £90bn in gross value added to the UK economy and supports 2.9m jobs. Lower momentum in this sector is likely to weigh on real GDP growth in the quarters ahead.

Despite the rise in the number of bankruptcies, some recent data bodes well for future sectorial activity: the seasonally adjusted IHS Markit/CIPS UK Construction Purchasing Managers’ Index edged up to 53.1 in June, from 52.5 in May (well above the 50.0-point no-change threshold), with the latest reading signalling the sharpest overall rise in construction output since November 2017. Markit’s report reveals that there were also positive signs regarding the near-term outlook for growth, as signalled by the strongest rise in new orders since May 2017 and the largest upturn in input-buying for two-and-a-half years. Improved demand for construction materials resulted in longer lead times from suppliers and the most marked increase in input prices since September 2017.
Dun & Bradstreet’s statistical analysis reveals that some 4% of UK businesses are deemed to be at high risk of liquidation and are highly likely to pay in a severely delinquent manner, while 83% offer a low risk of failure and of slow payment. Sales emphasis towards these latter businesses will enhance opportunities and enable suppliers to reduce risks of non-payment. Additionally, some 12% of UK businesses fall within the lower risk categories and are thus less likely to fail; however, the payment habits they exhibit are somewhat slow, and while suppliers can be fairly secure in the knowledge that the business will not fail, payment may be somewhat protracted.

**DUN & BRADSTREET’S OVERALL RECOMMENDATIONS**

– Assume that international trade and investment regulations will initially not change after Brexit in March 2019.
– Count on a transition phase to begin immediately after Brexit; this will last until at least December 2020.
– Expect the government to invoke Article 50 of the Treaty of the EU (the legal basis for EU exit) in early 2017, setting the EU exit date for early 2019.
– Monitor the ongoing talks between the EU and the UK closely as, over the long run, international trade and investment regulations will depend on their outcome.
– As a baseline scenario, anticipate that the UK will remain a member of the EU’s customs union until the mid-2020s.
– Expect real GDP growth to fall to 1.4% this year and then to accelerate gradually until 2022.
– Keep a close eye on payments performance, which has been poorer than the European average for several quarters.
ABOUT DUN & BRADSTREET

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Dun and Bradstreet also have a team of economists dedicated to analysing the risks and opportunities of doing business across the world, monitoring 132 countries on a daily basis. For further details please contact Country Risk Services on 01628 492595 or email CountryRisk@dnb.com. Classification: Commercial in Confidence

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