



Barclays Small Business Survey

Start-ups and Closures Half One 2004

Overview

Start-ups and Closures

- Start-ups for mainstream businesses – defined as those holding a business current account – numbered approximately 288,200 in England and Wales in the first half of the year. This is an increase of 23 per cent on the first half of 2003.
- Closures increased overall by 18 per cent compared to the same period in 2003 to stand at 164,400 firms. However, this is against a background of exceptionally low levels of closures in the first half of 2003.
- The first half of 2004 saw rapid growth in business numbers, with the overall stock of firms increasing by more than 120,000. The stock has now increased by more than 190,000 firms or 7.4 per cent since the end of the first half of 2003.
- Outside of London, mainstream business formation rates were highest in Blackpool (139 new firms per 10,000 people of working age) and Somerset (138) during these six months.
- The South West had the greatest number of entries – four – in the top ten of start-up regions, but four other regions also had some representation.
- Stoke-on-Trent had the lowest formation rate during the half (46 new firms per 10,000) but the greatest number of local authorities in the bottom ten (four) came from the North East.

START-UPS HIT SURVEY PEAK

Initial estimates suggest the first half of 2004 saw the highest level of start-ups since tracking began in 1988. The figures confirm a longer term pick-up in start-up numbers seen over the past three years.

Mainstream business starts reached 288,200, a rise of 23 per cent compared to the same period last year. There are likely to be two main factors behind this.

Firstly, these figures are likely to be a reflection of the strength of the economy, which has seen growth pick up from less than two per cent to more than 3.5 per cent over the past 12 months. This strength has provided the means and opportunities for individuals to realise their business ambitions.

Secondly, we are probably seeing some residual impact from the 'boom' in tax-induced incorporations that ended with the new tax year (see following page).

There were 164,400 mainstream business closures in the first half of the year, an increase of 18 per cent on the same period in 2003. However, this increase is in part a reflection of an exceptionally low level of closures in the first quarter of 2003 – the lowest in the series. As the growth in the economy

slows, we would expect closures to increase to around 190,000-200,000 businesses every six months, based on current stock numbers. This would represent a more typical rate of business closure of seven per cent in a six-month period as opposed to the current rate of five to six per cent.

RAPID GROWTH IN BUSINESS NUMBERS

The combination of high volumes of start-ups and low volumes of closures since the beginning of 2003 has led to very rapid growth in the mainstream business stock (the overall numbers of firms using business current accounts).

In the year to the end of the first half of 2004, the number of mainstream businesses is estimated to have grown by more than 190,000 firms or 7.4 per cent to 2.796 million in total.

This growth has been particularly rapid in the latest six-month period with an increase of more than 120,000 firms since the beginning of the year.

As mentioned above, this rapid growth can be partly put down to above trend growth in the economy stimulating start-up activity and depressing numbers of business closures. However, it is also a reflection of the last surge of tax-induced incorporations inflating start-up volumes.

The past couple of years have seen a large rise in numbers of self-employed, many of whom now appear to be making a further commitment to their enterprise by operating using business as opposed to personal current accounts.

START-UP HOTSPOTS OUTSIDE LONDON – H1 2004

County council/ unitary authority	New firms per 10,000 people of working age
1. Blackpool	139
2. Somerset	138
3. Manchester	135
4. Pembrokeshire	125
5. Southend-on-Sea	122
6. Cornwall	122
7. Wiltshire	119
8. Trafford	118
9. Torbay	117
10. Leicester	116

TAX-INDUCED INCORPORATION

A minimum rate of Corporation Tax – 19 per cent – was introduced on dividends from 1 April 2004. For two years prior to this many sole traders had a strong incentive to incorporate in order to pay themselves tax-credited dividends out of profits not subject to Corporation Tax.

Sole traders can operate using personal accounts whereas companies require a distinct business account, so this incentive distorted start-up estimates by stimulating an inflow of firms into the mainstream stock that would not have occurred otherwise.

Barclays has used internal and external data to assess the impact this has had on start-up estimates. This suggests that mainstream start-up figures were 50,000 higher in 2002 and 80,000 higher in 2003 than would have been the case without the surge of incorporation.

With this adjustment, 2003 falls behind 1998 in terms of underlying start-up volumes. However, growth between 2001 and 2003 was still brisk at about 10 per cent a year.

Reversing incorporation is not straightforward, so the impact of these two years is

likely to remain in terms of mainstream stock numbers. In turn, incorporation is likely to move back to a more strategic decision that reflects the aims of the owner-manager.

HOW THE REGIONS COMPARE

The rate of mainstream business starts in the first half of the year was highest in London at 122 per 10,000 people of working age (57,200 firms).

Only the South West (104) and the South East (94) of the other nine regions recorded rates above the mean for England and Wales (90).

At the other end of the scale, the North East was well adrift of other regions with only 64 new firms per 10,000.

BLACKPOOL AND SOMERSET PROVIDE HIGH SPOTS

Local formation rates were, as usual, highest in London during the first half of the year. Local authorities from this area occupied the first eight places on the England and Wales ranking, a reflection of the unique characteristics of this area in terms of commuting numbers and business density.

Outside of London, the highest formation rates were

found in Blackpool (139 firms per 10,000), Somerset (138) and Manchester (135).

The South West had the highest representation among the top ten non-London areas (four of 15 local authorities), followed by the North West (three of 22), with a further three regions (East, East Midlands and Wales) also being represented.

Many parts of the South West appear to be exceptional in terms of their level of business formation, performing considerably better than would be expected on the basis of nationwide estimates of the relationship between personal characteristics and enterprise activity.

Aside from differences at regional level, it is also interesting to contrast the formation rates of neighbours and near-neighbours.

In the period under consideration the difference between Manchester (135 per 10,000) and Liverpool (65) is striking as is the difference between Bournemouth (112) and Poole (71) – particularly when the latter pair might be considered similar in other ways.

At the bottom of the non-London ranking over the six months was Stoke-on-Trent (46 per 10,000), closely followed by Halton (47) and Middlesbrough (48).

MAINSTREAM STARTS – H1 2004 BY REGION

REGION	Mainstream starts (000)	New firms per 10,000 people of working age
East	28.6	87
East Midlands	21.3	83
London	57.2	122
North East	9.8	64
North West	34.2	84
South East	46.3	94
South West	30.6	104
Wales	13.7	79
West Midlands	23.2	73
Yorkshire	23.3	77

MAINSTREAM STARTS – H1 2004 BY INDUSTRY

INDUSTRY	Mainstream starts (000)	Change 03H1-04H1
Agriculture	4.3	39%
Manufacturing	32.3	22%
Construction	12.3	-28%
Motor Trades	16.2	53%
Wholesale	5.4	10%
Retail	39.2	-3%
Hotels & Catering	13.1	72%
Transport & Communications	11.5	39%
Finance & Property	11.5	1%
Business & Professional	67.7	37%
Health & Education	23.1	7%
Leisure & Personal	51.5	58%

Four regions had local authorities in the bottom ten, with the North East having the greatest number of representatives (four of its 12 local authorities).

GROWTH AREAS BY SECTOR

Initial analysis of the data points to more than two-thirds of the increase in mainstream business starts between the first half of 2003 and the first half of 2004 coming from two sectors.

These were Business & Professional, which includes accountants, solicitors and a wide range of other business services, and Leisure & Personal, which covers businesses in sports and the arts as well as lifestyle support services such as domestic help or nannies.

These sectors recorded a combined increase in start-ups of 37,000. They represent growth areas of the economy and benefit from relatively low barriers to entry for those seeking to enter self-employment.

The highest rate of growth in new firms was found in the Hotels & Catering sector with an increase of more than 70 per cent. This may represent a recovery for the sector after a poor couple of years.

At the other end of the scale both Construction and Retail-based start-ups declined over the year.

Retail as a sector has been under pressure for some time, but a factor behind the decline in Construction may be tax rules (known as IR35) which mean that sub-contractors may be taxed as if they are employed rather than self-employed if they work more or less exclusively for one client.

MAINSTREAM BUSINESS STARTS, 2004H1

by County Council/Unitary Authority

Name	Starts (000)	Rate*	Name	Starts (000)	Rate*	Name	Starts (000)	Rate*
Anglesey, Isle of	0.3	86	Haringey	1.5	104	Richmond upon Thames	1.3	113
Barking and Dagenham	0.6	64	Harrow	1.6	120	Rochdale	0.8	64
Barnet	4.1	208	Hartlepool	0.4	71	Rotherham	0.8	53
Barnsley	1.1	84	Havering	1.0	73	Salford	1.3	99
Bath and North East Somerset	1.1	103	Herefordshire, County of	0.8	78	Sandwell	1.3	75
Bedfordshire	1.8	75	Hertfordshire	5.5	86	Sefton	1.6	97
Bexley	0.9	65	Hillingdon	1.4	92	Sheffield	2.5	78
Birmingham	4.2	71	Hounslow	1.2	89	Shropshire	1.4	81
Blackburn with Darwen	0.6	73	Isle of Wight	0.8	108	Slough	0.6	81
Blackpool	1.2	139	Islington	1.7	136	Solihull	1.2	99
Blaenau Gwent	0.2	58	Kensington and Chelsea	1.8	163	Somerset	4.0	138
Bolton	1.4	89	Kent	7.3	92	South Gloucestershire	1.1	74
Bournemouth	1.1	112	Kingston upon Hull, City of	1.1	73	South Tyneside	0.5	51
Bracknell Forest	0.6	83	Kingston upon Thames	1.0	101	Southampton	1.1	81
Bradford	2.1	74	Kirklees	1.7	71	Southend-on-Sea	1.1	122
Brent	2.8	158	Knowsley	0.7	79	Southwark	1.4	82
Bridgend	0.7	85	Lambeth	2.3	124	St. Helens	0.6	58
Brighton and Hove	1.6	101	Lancashire	5.6	81	Staffordshire	3.5	69
Bristol, City of	2.2	92	Leeds	3.4	76	Stockport	1.6	93
Bromley	1.2	67	Leicester	2.0	116	Stockton-on-Tees	0.6	56
Buckinghamshire	3.2	106	Leicestershire & Rutland †	3.4	85	Stoke-on-Trent	0.7	46
Bury	0.8	73	Lewisham	1.3	81	Suffolk	3.4	86
Caerphilly	0.6	63	Lincolnshire	3.7	97	Sunderland	1.0	57
Calderdale	0.9	76	Liverpool	1.8	65	Surrey	7.1	108
Cambridgeshire	3.3	93	Luton	0.9	81	Sutton	0.8	75
Camden	2.6	182	Manchester	3.4	135	Swansea	0.9	69
Cardiff	1.6	82	Medway	1.1	73	Swindon	1.0	91
Carmarthenshire	1.0	99	Merthyr Tydfil	0.3	78	Tameside	1.0	77
Ceredigion	0.4	93	Merton	1.3	105	Telford and Wrekin	0.8	84
Cheshire	3.4	84	Middlesbrough	0.4	48	The Vale of Glamorgan	0.7	101
Conwy	0.6	94	Milton Keynes	1.3	95	Thurrock	0.6	65
Cornwall	3.6	122	Monmouthshire	0.6	116	Torbay	0.9	117
Coventry	1.3	71	Neath Port Talbot	0.4	56	Torfaen	0.3	56
Croydon	2.3	108	Newcastle upon Tyne	1.2	75	Tower Hamlets	1.8	138
Cumbria	2.3	77	Newham	1.5	100	Trafford	1.5	118
Darlington	0.4	75	Newport	0.5	65	Wakefield	1.3	66
Denbighshire	0.4	75	Norfolk	3.7	79	Walsall	0.8	52
Derby	0.8	57	North East Lincolnshire	0.8	86	Waltham Forest	1.1	80
Derbyshire	3.3	73	North Lincolnshire	0.5	55	Wandsworth	2.7	146
Devon	4.2	104	North Somerset	1.1	100	Warrington	1.1	93
Doncaster	1.3	74	North Tyneside	0.8	67	Warwickshire	2.3	73
Dorset	1.9	88	North Yorkshire	3.3	98	West Berkshire	0.9	103
Dudley	1.1	57	Northamptonshire	3.3	84	West Sussex	4.1	93
Durham	1.7	57	Northumberland	1.6	85	Westminster & London, City of †	5.0	368
Ealing	3.2	161	Nottingham	1.2	73	Wigan	1.1	59
East Riding of Yorkshire	1.7	90	Nottinghamshire	3.6	78	Wiltshire	3.1	119
East Sussex	2.5	91	Oldham	0.8	59	Windsor and Maidenhead	0.8	94
Enfield	1.6	91	Oxfordshire	3.2	83	Wirral	1.3	73
Essex	7.5	94	Pembrokeshire	0.8	125	Wokingham	0.9	88
Flintshire	0.6	61	Peterborough	0.8	80	Wolverhampton	0.9	67
Gateshead	0.8	66	Plymouth	0.9	59	Worcestershire	3.1	92
Gloucestershire	3.8	111	Poole	0.6	71	Wrexham	0.6	73
Greenwich	0.9	65	Portsmouth	1.2	105	York	0.9	82
Gwynedd	0.6	89	Powys	0.7	90			
Hackney	1.3	95	Reading	0.8	83	ENGLAND & WALES	288.2	90
Halton	0.3	47	Redbridge	1.7	116			
Hammersmith and Fulham	2.2	187	Redcar and Cleveland	0.4	50			
Hampshire	7.2	94	Rhondda, Cynon, Taff	0.9	61			

* per 10,000 people of working age

† local authorities combined due to data limitations

SOURCES

Data in this report was produced by Barclays SME Market Research team.

The data in this report provides estimates of the number of mainstream business starts and closures, along with the corresponding stock of firms in England and Wales. All sizes of firms are included, although the vast majority are small (under £1 million sales per year).

These estimates are generated by combining actual Barclays data on start-ups with estimates of the bank's market share.

Historical information on business starts and closures can be viewed along with information for people considering starting a business on our website at www.makingastart.co.uk