UK Quarterly Industry Report
Quarter 3 2020

NOVEMBER 2020

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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.

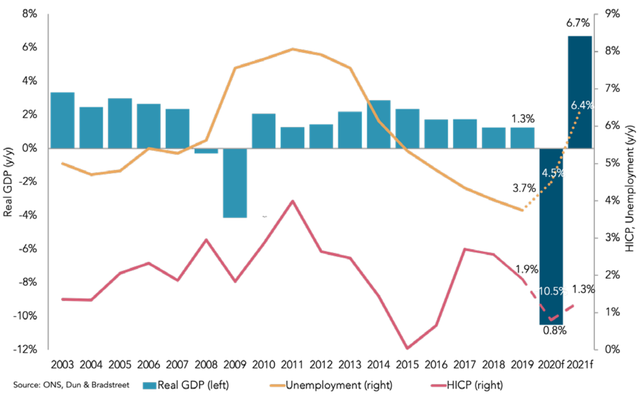
*Companies included in this report are those registered at Companies House.

1.0 UK ECONOMIC OUTLOOK

MORE HEADWINDS FOR THE ACCOMMODATION AND FOOD SECTORS

Data from Dun & Bradstreet's UK Covid-19 Impact Index shows that the accommodation and food sectors continue to be hit hard by the Covid-19 pandemic. Index data from 23 October, gives 'food and beverage service activities' a score of 20 and 'accommodation' a score of 27 (on a 1-100 scale, with 'no Covid-19 impact' indicated by a score of 100; the UK average is currently 51). Unfortunately, we forecast a further deterioration for both sectors as a result of the second national lockdown. In order to minimise the effects of the renewed lockdowns somewhat, the government launched new fiscal stimulus measures on 23 October, ranging from cash grants for companies located in so-called Tier 2 and Tier 3 areas to more support for the self-employed and a new furlough scheme (which will continue to artificially suppress unemployment).

INFLATION, EMPLOYMENT & GDP

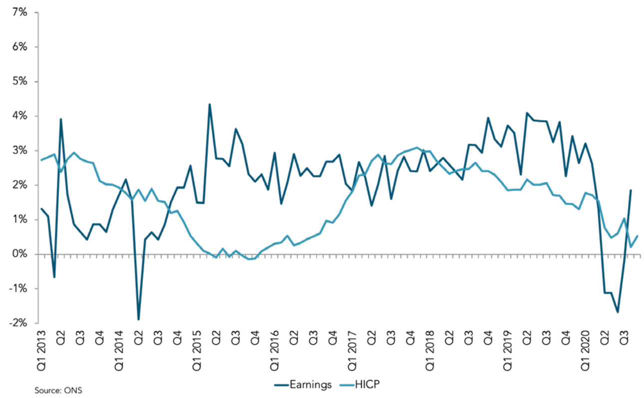


Also worryingly, latest GDP data from the Office for National Statistics shows that the economy had already switched into a lower gear in August, long before the government had started to tighten lockdown measures again. Real GDP growth came in at a meagre 2.1% q/q, the weakest rate of expansion since the end of the first nationwide lockdown in May. Manufacturing almost stagnated (growing by just 0.7%, down from 6.9% growth in July), while the service sector (which accounts for around 80% of UK GDP) also saw a sharp deceleration of growth in August (to 2.4%, from 5.9% in July). On the back of the disappointing August figures and the recently reintroduced lockdown measures, Dun & Bradstreet is downgrading its real GDP growth forecast for 2020: we now expect the UK economy to shrink by 10.5% this year, compared with a previous estimate of 9.8%. At the same time, we are downgrading the market environment outlook from 'stable' to 'deteriorating' to reflect the recent adverse developments.

TRADE TALKS WITH BRUSSELS STILL DEADLOCKED

Problematically for the UK's market potential, free-trade talks between London and the EU are still deadlocked. With the end of the standstill transition period quickly approaching, the risk of a no-deal Brexit on 31 December 2020 is rising rapidly. Even if a last-minute compromise is reached, trading regulations will change on a noteworthy scale and shippers to and from the EU will face increased red tape and costs. Worryingly, the sizeable service sector will not be included in any UK-EU deal: this will have adverse effects on growth prospects in the UK and the EU alike.

AVERAGE WEEKLY EARNINGS GROWTH AND INFLATION



More positively in this context, the UK has been able to roll over the EU-Japan free-trade agreement (in place since 2019). While UK-based companies will continue to have preferential access to the vast Japanese market (and vice versa), the Japanese side again stressed the importance of frictionless trade between the UK and the EU. This is of special importance for Japanese car manufacturers, whose considerable UK car production is largely destined for export to the EU. A no-deal Brexit would lead to the implementation of tariffs in this sector and hence a loss of price competitiveness; this could ultimately lead to the closure of Japanese-owned car plants in the UK.

2.0 GLOBAL ECONOMIC OUTLOOK: IMF'S 'BASELINE SCENARIO' IS OPTIMISTIC

Even with imminent, successful disease control, the global shock stemming from the coronavirus will be the biggest since at least the early twentieth century, easily eclipsing the 2008-09 crisis. While the baseline forecast in the IMF's October World Economic Outlook is for world output to regain its pre-pandemic level in 2021, our forecasts say this will not occur before 2022. The IMF's baseline scenario assumes that social distancing measures expire after 2021 and that community transmission largely ceases by end-2022. Its adverse scenario, by contrast, assumes a resurgence in the virus, a slow roll-out of vaccines and treatments, and unequal country access to the latter. Given the resurgence of the virus virtually everywhere that community transmission was not eliminated in Q2, and the uncertainty attendant on identifying and deploying vaccines and treatments, some elements of such an adverse scenario will inevitably be realised.

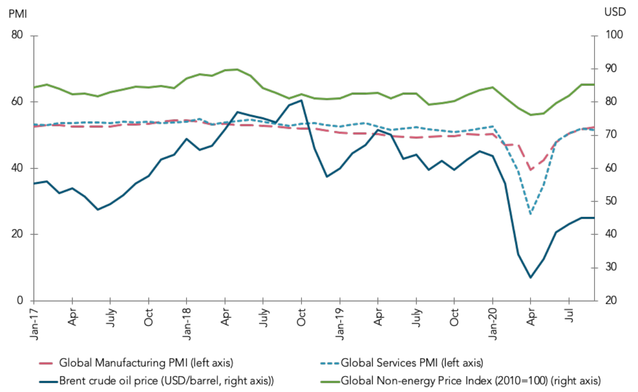
The realisation is dawning on policymakers that emergency controls on high-contact sectors are required to limit a second wave of the epidemic, but that these controls alone will not suffice to eliminate the virus, while still interrupting the recovery. In this scenario, no V-shaped recovery is possible without pharmaceutical interventions that do not exist, or are as yet unproven.

Accordingly, part of the large shocks seen to date in 2020 could endure in any 'new normal', including the 9% fall in global emissions in Q1-Q2, the 5-10% y/y drop in manufacturing output in many economies in July-August, and the 10% y/y drop in all worker earnings estimated by the ILO in Q1-Q3. The IEA's 'delayed recovery' energy demand scenario, assuming a 4% overall growth in energy consumption from 2019 to 2030, may in this case be optimistic. Meanwhile, annualised advanced country inflation was over 1% in June-August and annualised core CPI inflation in emerging markets accelerated to over 3%. This may partly reflect China's recent stockpiling of reserves of some essential commodities, but recovering inflation given depressed world demand may also indicate that the global supply-side has already sustained damage, lowering future potential output and growth.

KEY RISK: PANDEMIC'S SECTORAL SIGNATURE BECOMING CLEARER

The sectoral footprint of the crisis is becoming clearer. The pandemic is most of all a crisis of the transportation and hospitality sectors, and the services sector globally has been more shocked than manufacturing. The latter shrank 11.6% y/y in output terms in Q1-Q2, ahead of construction's 9.0% contraction, but short of the 14.6% decline in retail, wholesale, transportation and accommodation sectors. The impact has also been far from uniform within countries. Tourist regions in Indonesia, Thailand or Portugal face re-invention or ruin, while wealthy suburbs of home-workers have cruised through the crisis. Mass-transit-dependent metropolises like New York and London and their central business districts face more uncertainty than networks of smaller, less dense urban centres, as in Germany. Research from the Santa Fe Institute shows that the larger the city, the faster Covid-19 spreads, and resonating with this, mobility has troughed, and failed to recover, more dramatically in major cities: indeed, footfall in London, Toronto and Amsterdam started to fall again in early October.

KEY GLOBAL GROWTH INDICATORS



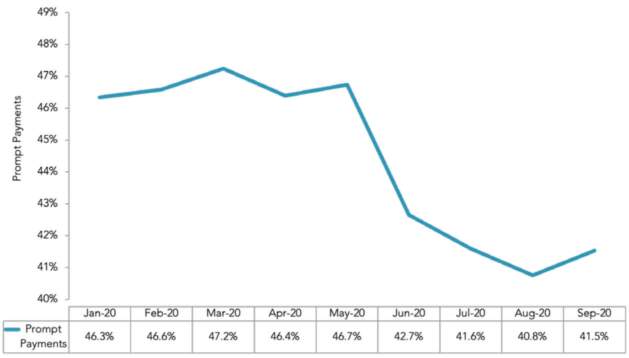
REAL GDP GROWTH (%)

	2019	2020f	2021f
World	2.2	-5.1	4.0
Advanced Economies	1.6	-6.3	3.7
US	2.2	-5.1	3.5
Euroland	1.2	-8.0	4.9
Japan	0.7	-5.6	1.7
UK	1.3	-10.5	6.7
Emerging Economies	3.4	-3.2	4.6
Brazil	1.1	-5.7	2.5
Russia	1.3	-4.5	2.6
India	4.2	-9.8	6.3
China	6.1	1.1	5.5

OECD governments with investment grade ratings have paid up to limit the contagion impacts of the shock, for example by maintaining household incomes. Central bank interventions, which were mostly complete by June, have masked solvency problems in stressed sectors with plentiful liquidity and loosened bankruptcy frameworks. The result has been a global financial crisis averted, limited credit impairments, and many financial sectors reporting a good Q2 despite the global crisis. However, all these feats only pay off if the disease is contained quickly. Given that escaping the crisis looks hard due to the epidemiological situation, such bail-outs may only delay insolvency in vulnerable sectors until 2021, failing to build a 'bridge to recovery', while inviting new challenges for fiscal debt servicing and bank capital. Indeed, the plunge in net savings rates into negative territory of OECD economies in Q2 is a concern in the US, but also for Canada, France, the UK, Italy and Spain. It reduces the financial resources of firms, household and governments – resources they need to rebound from the pandemic shock.

3.0 PAYMENT SNAPSHOT

PROMPT PAYMENTS TRENDLINE JANUARY 2020 TO SEPTEMBER 2020



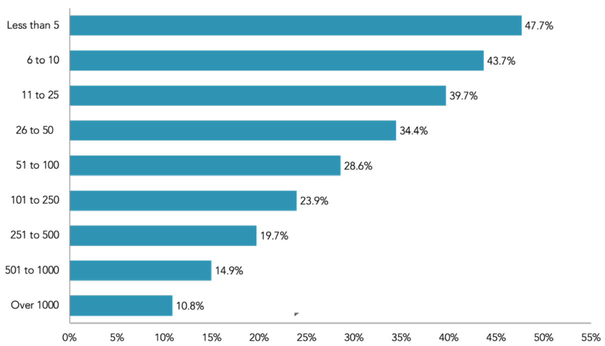
Source: Dun & Bradstreet; ONS

The chart above depicts how promptly all UK businesses have been paying their bills over the past nine months. With a small delay, payments performance started to react to the introduction of a nationwide lockdown in April and May (and the immense economic contraction this caused); the share of prompt payments fell from a multi-year high of 46.7% in March to 40.8% in August (which, however, still exceeds the 37.2% recorded in early 2019). With some of the lockdown measures having been withdrawn by the authorities over the summer months, payments performance improved in September, when the share of prompt payments rose to 41.5%. Looking ahead, Dun & Bradstreet expects a further deterioration in the final months of 2020 and in early 2021 as the government implements a second nationwide lockdown which will weigh on economic activity and increase the risk of a double-dip recession.

PROMPT PAYMENT (CATEGORISED BY NUMBER OF EMPLOYEES)

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: 10.8% in Q3 2020 for the former (it was 14.2% in Q1) as opposed to the latter's 47.7% (compared with 54.6% in January-March 2020).

AVERAGE PROMPT PAYMENT BY EMPLOYEE SIZE Q3 2020



Source: Dun & Bradstreet

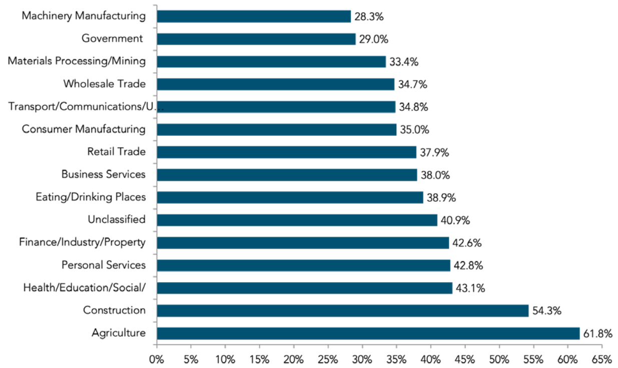
Late payments remain a major problem for UK-based small and medium-sized enterprises (SMEs). Figures from early 2020 show that British SMEs are owed (often by large companies) GBP50bn, with the average amount owed per invoice standing at GBP8,500. In order to help small enterprises, the government set up the Office of the Small Business Commissioner (in the Enterprise Act of 2016), and recently transferred the responsibility for the Prompt Payment Code from the Chartered Institute of Credit Management to the Small Business Commissioner. With the cash reserves of SMEs generally being low, the poor economic performance during the coronavirus pandemic is likely to have a significant adverse impact on prompt payments performance in the remainder of 2020 and early 2021. Positively, the government is specifically targeting SMEs in its coronavirus support packages, but the impact remains uncertain, as most measures are loan guarantees rather than grants. As these loans must be serviced from April 2021 onwards, payments performance could deteriorate further in mid-2021.

PROMPT PAYMENT (CATEGORISED BY INDUSTRY)

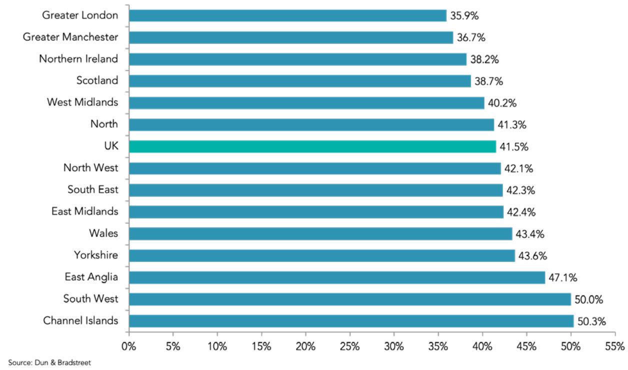
As Dun & Bradstreet data shows, 11 sectors (out of 14) covered in our Industry Report saw quarter-on-quarter deteriorations in the share of prompt payments in July-September 2020. This compares with all 14 sectors reporting deteriorating payment patterns in the second quarter of 2020 (when a nationwide lockdown was largely in place). In the July to September period, the biggest deterioration was recorded in the finance and insurance industries, where the share of prompt payments fell from 45.7% to 42.6%. Business services (-2.0 percentage points, pp) and retail trade (-2.0pp) also saw significant drops. While eating and drinking places showed no change in the third quarter, agriculture as well as consumer manufacturing both saw marginal improvements: both sectors recorded a 0.3pp increase in the number of prompt payments.

Overall, significant differences across industries remain clearly visible: while only 28.3% of all bills get paid on time in the machinery manufacturing sector (down almost 1pp from Q2 2020), this percentage rises to 54.3% in the construction sector and an even higher 61.8% in agriculture. Meanwhile, the public sector remains close to the bottom of the league, with only 29.0% of all bills having been paid on time in Q3 2020, significantly below the national average of 41.5% (which has fallen from 42.6% in Q2 2020).

AVERAGE PROMPT PAYMENT BY INDUSTRY Q3 2020



AVERAGE PROMPT PAYMENT BY REGION Q3 2020



PROMPT PAYMENT (CATEGORISED BY REGION)

Analysing Q3 data from a regional angle does not deliver a clear-cut result: out of the 14 regions surveyed, 6 reported a higher share of prompt payments in the July-September, while 8 saw a drop in the number of prompt payments. Worst performer was Scotland (where the share of prompt payments dropped by a sizable 4.7pp), followed by the South East (-2.6pp) and Greater London (-1.4pp). The biggest improvements were seen in Wales (+0.4pp), the Channel Islands (up 1.6pp) and Northern Ireland (+2.4pp).

The significant improvement in prompt payments in Northern Ireland in Q3 means that the region no longer displays the worst payments performance in the UK. The urban areas of Greater London (35.9% of payments being prompt) and Greater Manchester (36.7%) are ranked bottom of the table. At the other end of the spectrum, the Channel Islands have overtaken the South West and are now displaying the best payments performance out of all 14 regions included in our report. More than 50% of invoices are settled promptly (50.3%), closely followed by the South West (50.0%) and East Anglia (47.1%), far ahead of the UK average (41.5% in Q3 2020).

In a European comparison, proprietary data from Dun & Bradstreet and our World Wide Network confirms the UK's average position: in April-June 2020 (latest available data) the average payment delay in the UK was 13.8 days (up from 13.0 days in Q1 2020), compared with the European average of 13.6 days. The UK lags some of its neighbours considerably, most notably the Netherlands (where the average payment delay stood at 4.1 days in Q2 2020) and Germany (6.6 days). Positively, the UK outperforms Spain (14.7 days), Italy (18.4 days) and Portugal (28.0 days).

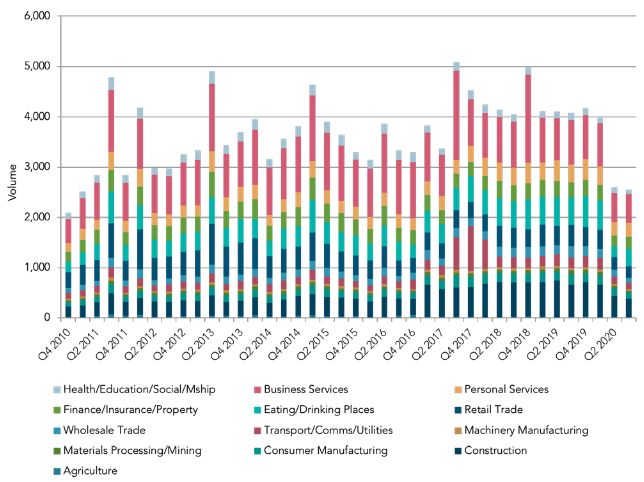
4.0 CORPORATE LIQUIDATIONS

While the impact of Covid-19 is clearly visible in B2B payments performance, the pandemic is yet to lead to an increase in the number of business liquidations. Quite the contrary, in fact: Q3 2020 saw another drop, resulting in the lowest number of liquidations in more than nine years: overall, 2,553 companies were liquidated in July to September, down by 2.1% q/q and by an immense 37.5% y/y.

However, this huge improvement is entirely due to recently implemented changes in the UK's insolvency regulations. In order to give companies 'breathing space', a moratorium was introduced by the government, during which creditors will not be able to enforce debts accrued by companies that are hit by Covid-19. This, coupled with the Covid-19 support packages the government has launched, has led to an artificial drop in corporate liquidations.

Unfortunately, Dun & Bradstreet expects this development to be only temporary; we forecast a significant rise in the number of business liquidations in 2021 – when companies will have to start servicing their Covid-19-related loans (government regulations stipulate that no payments on interest and principal have to be made in the first twelve months; most loans were granted in mid-2020). The worst recession in 90 years will inevitably have a significantly adverse effect on companies' ability to pay their suppliers and lenders.

BUSINESS LIQUIDATIONS



A sectoral breakdown shows that 11 of 14 sectors covered recorded a decrease in the number of liquidations in the third quarter of the year, ranging from a 2.7% q/q fall in machinery manufacturing to a 80.0% contraction in the government sector (from a very low base though: the number of business liquidations fell from 5 in Q2 to 1 in Q3). Three sectors saw increases, with eating and drinking places recording the biggest rise (up 54.3% q/q), followed by finance/insurance/property (13.6% q/q) and personal services (8.0%).

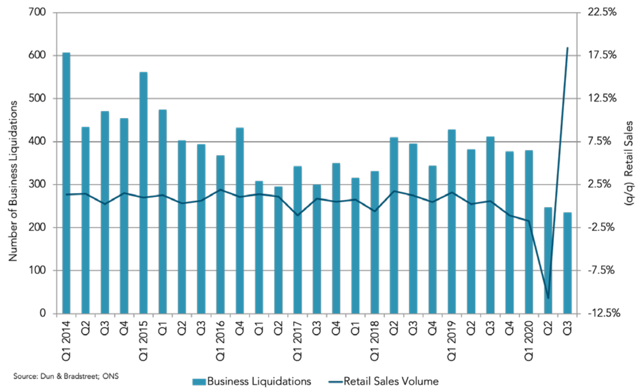
According to Dun & Bradstreeet's UK Covid-19 Impact Index from late October, food and beverage service activities as well as accommodation are very exposed to the pandemic, and we hence predict another rise in business liquidations in these sectors in the quarters ahead.

As in previous quarters, the sector with the most failures was business services, where the number of liquidations stood at 565 in July-September (down from 3.1% q/q), followed by construction (362 in Q3) and eating and drinking places (341).

CORPORATE LIQUIDATIONS: RETAIL TRADE

In the retail sector, the number of business liquidations fell in a quarter-on-quarter comparison (down by 4.9%) as well as in year-on-year terms (-43.0%). Overall, 235 businesses were liquidated in Q3, the lowest number in a decade. That said, this positive picture was caused by the above-mentioned changes to UK insolvency law, and will not last: pressure on most retailers is growing – at least those with a physical presence. Retail sales collapsed in Q2 (when the first lockdown closed non-essential stores, a category under which many retailers fell). Since then, however, sales figures have been rising again: in July-September the Retail Sales Volumes Index grew by 18.4% q/q (compared with a 10.7% q/q drop in Q2) as pent-up demand was unleashed and households used a part of their holiday budget to purchase consumer goods.

RETAIL SECTOR INSOLVENCIES & SALES VOLUME

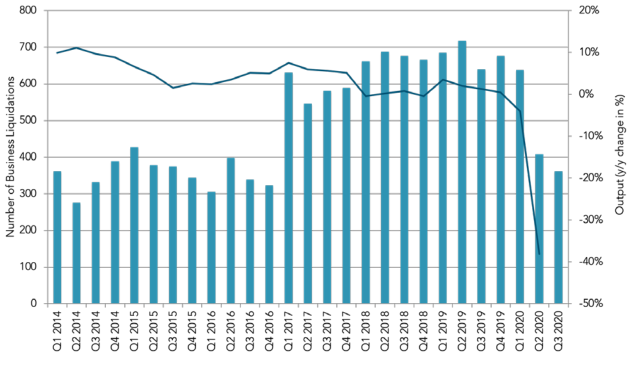


The outlook for the sector is less rosy. An expected rise in unemployment figures over the coming quarters and a higher amount of household precautionary savings will weigh on consumer spending, while local lockdowns in certain parts of the country (such as Wales) has already led to renewed closures of non-essential shops with full national lockdown in Wales and England highly likely. With the number of Covid-19 cases likely to rise over the next weeks and months, bricks and mortar retailers are likely to suffer, while internet-based companies are likely to benefit. Internet sales (as share of total retail sales) rose from 20.1% in January to 32.8% in May before gradually dropping back to 26.1% in September. Ahead of the important Christmas period, we expect another increase in this metric as the long-term trend of consumers shifting away from high street retailers to web-based firms is accelerated by a second national lockdown.

CORPORATE LIQUIDATIONS: CONSTRUCTION

Dun & Bradstreet business failure data for the construction sector shows an immense 43.4% year-on-year decrease in the number of corporate liquidations (11.3% quarter on quarter). Overall, 362 companies were liquidated in July-September, down from 640 in the previous year, and the Q3 value is the lowest reading since late 2016. The sector is important for the UK economy, as it contributes some GBP90bn in gross value added and supports almost 3m jobs.

CONSTRUCTION OUTPUT AND INSOLVENCIES



Source: Dun & Bradstreet; ONS

Regardless of the improvements seen in Q2-Q3 2020, readers should assume that a significant, coronavirus-induced deterioration will be visible in 2021, as the pandemic will have caused an immense economic contraction. The construction sector will not be shielded from this significant recession, although it was one of the sectors that was not legally forced to close. The latest Purchasing Managers' Index data for the sector (published in early October) shows another improvement in sectoral activity: the PMI rose from 54.6 points in August to 56.8 (which was above the neutral 50-points line that divides expansion in sectoral activity from contraction). New order inflow was the strongest in four months on the back of released pent-up demand. That said, cost burdens for construction companies continued to rise and employment levels continued to fall in September, albeit at the slowest pace in seven months.

With the outlook for the sector darkening –unemployment is likely to rise, and access to finance will be more complicated – the government will continue to provide support to mitigate some of the Covid-19-related effects. Subsidies to make homes more energy-efficient, alongside a temporary abolition of stamp duty, will create some additional demand for construction companies going forward. But overall, Dun & Bradstreet forecasts a deterioration in the sector's operating environment in 2021. Indeed, the construction sector scores a meagre 40 in Dun & Bradstreet's UK Covid-19 Impact Index, released on 23 October (on a 1-100 scale with 100 representing no Covid-19 impact at all). This compares unfavourable to the UK average (51) as well as most other sectors.

5.0 RISK OF FAILURE AND PAYMENT DELINQUENCY – INDUSTRY SECTOR COMPARISON

		RISK OF FAILURE	
		RISK (Rating 1,2,3) Minimal to above average risk	**HIGH RISK** (Rating 4)
RISK OF VERY SLOW PAYMENT	**HIGH RISK** (Delinquency Score <=10)	**CASH VULTURES** UK AVERAGE – 27% RETAIL – 12% CONSTRUCTION – 18% Offer discount for prompt payment Charge interest on late payments Reset payment terms accordingly Improve relationship with client to induce prompt payment	**TROUBLE – LET YOUR COMPETITORS HAVE THEM** UK AVERAGE – 4% RETAIL – 4% CONSTRUCTION – 4% Increase prices to cover risk Reduce exposure – stop orders until paid Take guarantees Monitor vigorously Avoid new clients with this profile Up-front payment
	RISK Minimal to above average risk (Delinquency Score >=11)	**IDEAL CUSTOMERS – CULTIVATE** UK AVERAGE – 68% RETAIL – 80% CONSTRUCTION – 77% Push for more sales Strengthen relationship with client	**MONITOR CLOSELY** UK AVERAGE – 2% RETAIL – 4% CONSTRUCTION – 1% Reduce exposure – minimise outstanding orders Monitor vigorously Take guarantees

Dun & Bradstreet's statistical analysis reveals that, at the end of Q3 2020, 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 68% offer a low risk both of failure and of slow payment (down from 80% in the Q3 2019). Sales emphasis towards these latter businesses will enhance opportunities and enable suppliers to reduce risks of non-payment. Additionally, some 27% 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. We expect changes to these figures in the months ahead as the damage caused by the coronavirus pandemic becomes more visible.

DUN & BRADSTREET'S OVERALL RECOMMENDATIONS

- Remember that the drop in business liquidations seen in Q2 and Q3 2020 will be a temporary effect: count on a significant rise in 2021.
- In this light, monitor counterparty risk frequently and adjust payment terms in order to reflect changing risk levels.
- Monitor the significant regional and sectoral difference in payments performance and expect B2B payment patterns to deteriorate in Q4 2020 and in 2021.
- Assume that most leisure, entertainment, non-food retail and tourism will be hit the hardest by the coronavirus pandemic.
- As a baseline scenario, expect the economy to shrink by more than 10% in 2020 before a relatively robust recovery in 2021 reverses some of the immense economic losses.
- The robust recovery in 2021 is based on the assumption of a vaccine becoming available in early 2021; monitor the newsflow closely.
- Stay informed about the government's support measures during the coronavirus outbreak; measures range from cash grants to loans and loan guarantees.

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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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