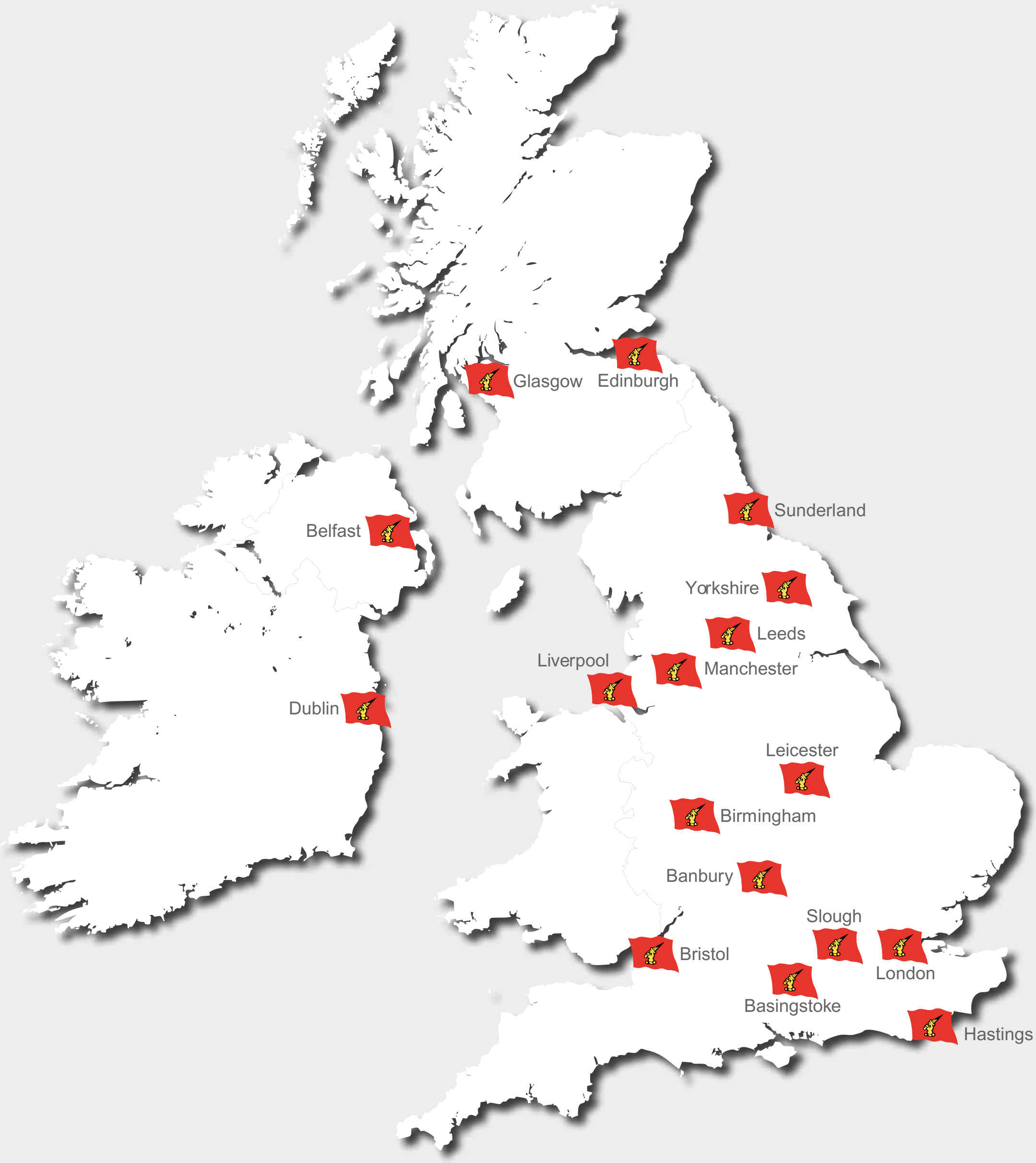
Bibby Financial Services
Business Factors Index

April 2010

Contents



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"Ending 2009 with the welcome news of a 0.1 per cent rise in GDP in Q4, the rate of business failures falling to its lowest point since June 2007, and returning consumer confidence, UK firms then found themselves facing a slow start to the year due to the severe weather conditions in January. However, over the latter part of the quarter the trading climate has showed signs of improving, and the country has begun to emerge from the economic turmoil of the last two years.

While it appears we have avoided a double-dip recession, there are still some unknowns facing businesses which will have make or break impacts. The General Election is looming, and we watch with interest to see if the Government will implement new initiatives to ensure that recovery is maintained. Alongside how cuts in public spending, potential National Insurance hikes and changing tax legislation will impact on the economy and the future success of small and medium-sized firms, May will indeed prove to be a critical month.

Other uncertainty clouding the prospects of small and medium-sized businesses, include the potential withdrawal of schemes such as the Time to Pay initiative, which to date has helped 2,000 firms avoid closure, as the prospect of a change in Government appears on the horizon. Reduced interest rates and a decrease in labour costs have also contributed to lower than expected insolvency figures, and these factors are likely to change as the UK moves into a period of sustained growth and these rates and costs return to pre-recession levels meaning that there will be a higher cost to some businesses.

Maintaining a steady and realistic increase in turnover and preparing for growth is now the order of the day for many business owners and after January's turbulent start, April's figures look set to emulate those from February and March in terms of demonstrating a further increase in the Index which at the end of March, stand at 128.1 points - the highest reading since the start of the Index's base in July 2007. Providing firms take a long term view and strive to maintain financial liquidity, we can expect the Index to show an upward trend over the remainder of 2010."

Edward Rimmer,
Chief Executive UK
Bibby Financial Services

What does the Index show?

With so many different economic indicators offering conflicting views on the current state of the UK economy, it can be a challenge for the small business community to grasp an accurate understanding of the financial climate and what this means to their business. Gaining insight into the economy by looking at how these businesses are faring, and what their predictions are for the future can add an additional facet to current forecasts.

Bibby Financial Services provides a quarterly Index which explores the trading conditions and experiences of UK based firms funded by Bibby Financial Services. The only survey of its kind, the Index aims to illustrate the reality of what is happening to the economy, and how this is impacting on the small business community by identifying the peaks and troughs within it.

It measures the average monthly turnover of these firms and spans a broad range of businesses - from new starts to large scale organisations trading for 30 years or more – across a variety of industry sectors.

By doing so, the Index offers business owners and managers a valuable and realistic 'snapshot' of the financial situation since July 2007 where it began at a base of 100. July 2007 saw confidence in financial markets at an all time high and a Bank of England (BoE) base rate of 5.75, the highest level during the course of the Bibby Index thus far.

Bibby Financial Services is a market-leading specialist in the provision of a range of business cash flow solutions to small and medium-sized enterprises. As the UK's largest independent invoice finance provider Bibby Financial Services currently provides cash flow funding for nearly 3,500 businesses, handles annual client turnover of more than £3.2 billion and advances in the region of £290 million every year to help small and medium-sized firms grow and realise their potential.

The Index at the start of 2010

Despite a somewhat sluggish start to the year, the Index ended on a high in March at 108.1, its peak since October 2007 and the effective beginning of the downturn. With figures from the Office for National Statistics (ONS) also revealing a 0.1 per cent rise in GDP over the last quarter of 2009, together with the 0.3 positive quarter-on-quarter growth, the economy appears - officially - to have pulled itself out of recession.

The severe weather in January hit the economy hard, impacting on most business sectors and creating a bigger than expected slowdown for the opening month of Q1. It also caused the Index to drop to 77 points from 90.8 in December 2009.

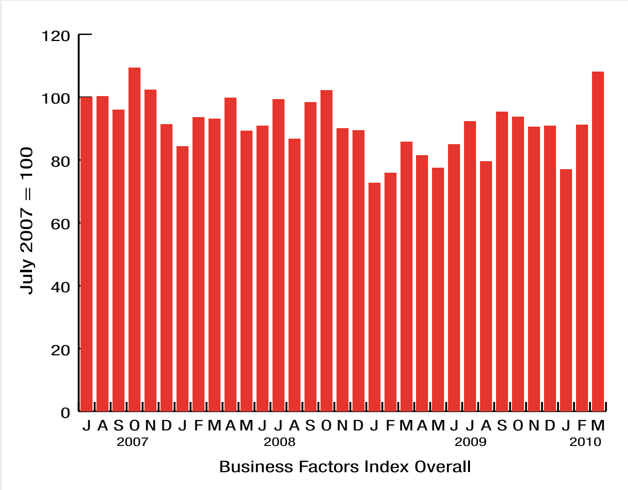
Indeed, as a result of the worst winter in decades, the UK's small and medium-sized businesses were faced with losses of more than £7billion and 70 per cent of firms were affected by the freezing conditions, with premises being closed or cut off, disrupted supply channels or obstructed delivery routes.

However, following a quiet January, many companies managed to shake off the harsh weather to see conditions improve in the following months. This is reflected in the Index, which shows an increase in value across all sectors between February and March, culminating in a total rise of 16.9 points.

The construction industry in particular – one of the hardest hit by the recession – experienced considerable growth in March, with output reaching 128.1 points, the highest reading since the start of the Index's base in July 2007. As a result, construction is now the strongest performing sector in the UK, according to the Index.

Similarly, the manufacturing industry – often seen as the country's barometer industry - reached its peak to date in March due to an increase in output and orders as well as other factors such as the continued weakness of Sterling. The manufacturing Index in March stood at 122.5, compared with a figure of 81.8 for the corresponding period last year.

In summary, we are seeing many positive signs of growth occurring in the economy and there are opportunities for this to continue in 2010, if access to finance - which remains the biggest hurdle for businesses this year - is made easier.



That said, the recovery could remain sluggish for many firms and it will take some time for full recovery to occur. Looking forward, there are challenges on the horizon for businesses across the UK and the economy still faces unpredictable times ahead, not least as a result of the forthcoming general election.

It is clear businesses are showing resilience despite difficult and uncertain trading conditions and confidence is building. Whatever the outcome of the election, the ruling party in May must nurture this with well thought-out policies that support business growth in order to sustain the lifeblood of the economy.

"The results of the Business Factors Index for the first quarter of the year are indicative of the volatile conditions still faced by many UK businesses as the country begins to recover from recession. Although the recent Budget contained a number of measures designed to support small and medium-sized businesses, access to finance remains a key challenge as high street banks remain cautious, and the practical application of Government funding for small businesses remains fraught with issues."

"In order to continue the positive growth seen in March, firms must keep their financial options open and seek solutions which can benefit them in the short and long term. Members of the Asset Based Finance Association are currently advancing around £14 billion to businesses in the UK and, although recent Government measures should help begin to free up funding to companies, the Business Factors Index shows the importance to small and medium-sized businesses - the lifeblood of Britain's economy - of a consistent stream of funding."

Kate Sharp,
CEO Asset Based Finance Association

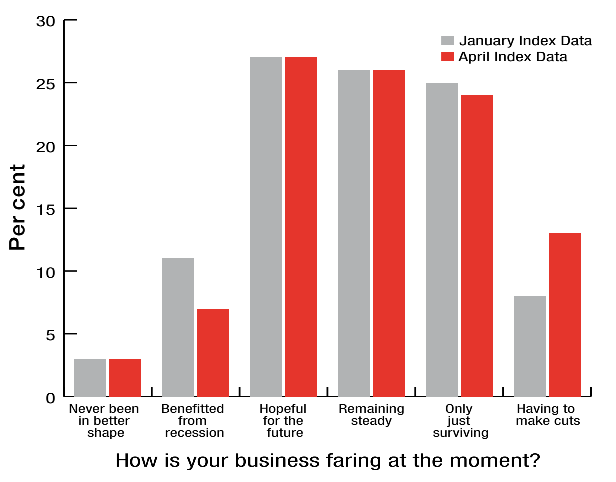
How does the Index compare to the attitudes of the nation's business owners?

Bibby Financial Services recently interviewed owners and directors of small and medium-sized businesses across the UK regarding their thoughts on both past and current trading environments, as well as expectations for the future.

How is business at the moment?

Almost two thirds (63 per cent) responded positively, while one in ten (10 per cent) feel that their business is either doing well, having actually benefited from the recession, or that it's never been in better shape - a similar figure to the previous Index, down slightly by four per cent on both occasions. Similarly, one in four (26 per cent) state that business is steady and in keeping with normal levels of activity. Encouragingly, this has not altered since the previous Index.

On the flip side, almost a quarter (24 per cent) of business owners and managers surveyed were finding the market incredibly tough and are only just surviving, while 13 per cent have been forced to make some difficult decisions to rationalise their business such as pay freezes or cuts, reduced working hours, lowering overheads or optimising resources. This compares with just eight per cent in the previous Index, suggesting that the start of the New Year has prompted some businesses to take action to reduce their costs.



How do trading conditions differ across the regions?

When reviewing trading conditions across the regions, it appears that businesses in the South East are struggling most, with almost half (47 per cent) stating that trading conditions are tough and that they are only just surviving or have been forced to make cuts to rationalise the business.

Firms in Greater London have also experienced significant hardship, with 45 per cent feeling the same – a reading that has not changed since the previous Index, suggesting that conditions remain challenging with no evidence of improvement over the last quarter.

Furthermore, a considerable 40 per cent of London based firms state that conditions have worsened over the last six months. This is most likely due to the lagging effect of rising unemployment on the business services sector, which reached 9.1 per cent in London in the three months to December, one of the highest in the country, according to the Office for National Statistics (ONS).

In contrast, firms in the East Midlands appear to be faring better, with only 18 per cent stating that trading conditions are tough and they are making cut backs, which is a significant reduction from the 27 per cent in the previous survey. Indeed, almost half (49 per cent) are faring well or have actually benefited from the recession, suggesting the region has seen an improvement in conditions.

Furthermore, businesses in the region have experienced the greatest uplift over the past six months, with half (50 per cent) seeing an improvement in trading conditions - a figure which has not changed since the last survey indicating steady growth in the region.

Firms in Yorkshire and Humberside are also feeling positive, with a significant 82 per cent stating that trading conditions are steady, or their business has never been in better shape. This remains the same as the previous Index reading of 75 per cent, indicating that trading conditions have stabilised in the region.

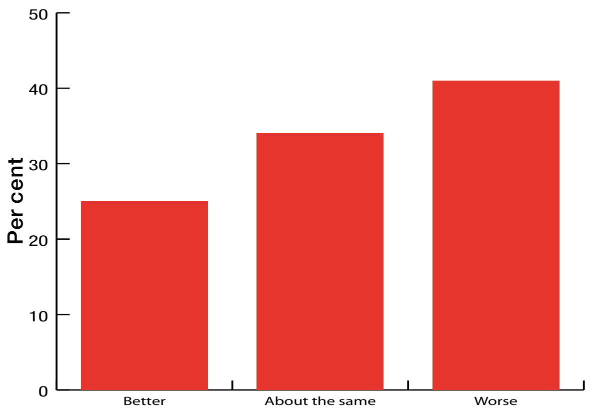
How has this changed over the last 12 months?

When asked how current trading conditions compare to 12 months ago, a quarter (25 per cent) of firms feel that conditions have improved on last year, while a third (34 per cent) state that conditions are the same.

This reading has only declined by two per cent since the previous Index, suggesting that views have generally remained the same over the last quarter and that opinions about the recovery in 2010 are stationary.

However, when asked how trading conditions compare to six months ago, almost half (47 per cent) of owners and managers state that their business is experiencing the same conditions, indicating that recessionary pressures have lifted in the last six months.

On the contrary, newer firms, which began trading within the last four years, have experienced significant hardships over the past six months, with almost half (46 per cent) stating that conditions have deteriorated in that time, which compares to just 12 per cent in the previous survey.



Would you say your business is doing better, about the same or worse than a year ago?

What has changed across the regions in the last year?

The Index shows that businesses in the South East appear to have borne the brunt of the recession and have found trading conditions toughest, with over half (57 per cent) claiming they have deteriorated.

Businesses in Greater London and East Anglia have also suffered significantly, with half (50 per cent) of firms in both regions claiming that business is worse than a year ago. While London saw towering levels of unemployment, East Anglia experienced a seasonal spike in unemployment in January, with the number of people out of work and claiming benefits rising by more than 2,800.

In contrast, firms in the North appear to have turned around fastest and have witnessed the greatest improvement over the last year as a whole. Indeed, a considerable 52 per cent (the highest regional reading) claim that trading conditions are better than they were the same time twelve months ago. This is the highest reading in the UK and shows a dramatic increase on the six per cent recorded in the previous Index which, interestingly, was at the time the lowest reading in the UK.

This is likely due to an improved performance in the manufacturing sector in the North which is considered to be the backbone of the region's economy. The National Business Survey, released by the Regional Development Agency Network and Invest Northern Ireland on 1st March, also reveals that high numbers of businesses in the North are reporting increased volumes of output, export orders and profit margins, contributing heavily towards the region's overall economy.

Comparing business sectors

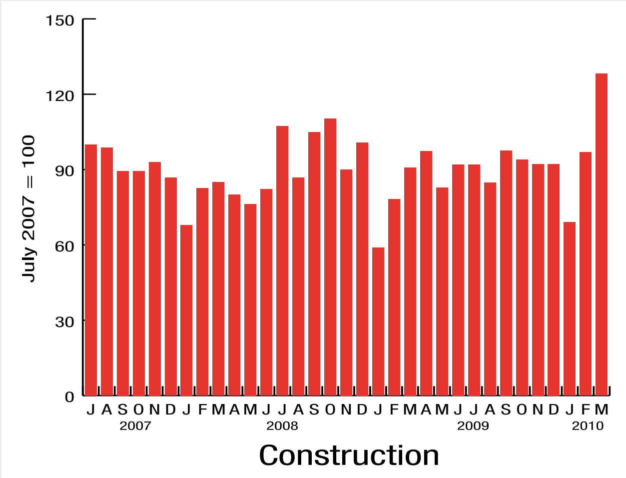
Construction

The construction industry, which has been one of the hardest hit by the recession, has experienced a dramatic turnaround, with output not only reaching its peak to date, but also the highest reading in the Index, making it the best performing sector within the survey.

The start of the year is traditionally a period of low activity for the construction sector and this was stalled further by the severe weather in January. A sharp fall in activity within the commercial and industrial sectors, combined with a tough private housing sector, meant that the start of 2010 was an extremely challenging period for the industry. This is reflected in the Index for January, which stood at 69, compared to a reading of 92.2 in the previous month.

February saw an improvement over the same period last year, standing at 96.9, the highest point since September 2009. This was then followed by a period of significant growth in March, where the construction industry flourished and rose by 31.2 points in the Index, reaching its highest level of productivity to date. This is reflected in research from the monthly CIPS/Markit construction purchasing managers' index (PMI), which shows that the sector returned to growth for the first time in more than two years.

Nonetheless, with the upcoming general election and debated cuts in public sector construction spending, the future of the industry remains uncertain. With the sector relying so heavily on the investment and support of the Government, the threat to cut capital spending significantly between now and 2014 could have a detrimental effect on its growth. This is particularly significant, as public sector spending on construction projects represents about 40 per cent of the industry's turnover which could, in turn, impact on the momentum the sector has gained in the first few months of the year.



Construction attitudes

On the whole, the outlook of owners and managers working in the construction industry is fairly split, but they feel conditions have improved significantly over the quarter, which reflects the positive figures in the Index.

The majority (27 per cent) feel their business is steady and has experienced little change in the current economic climate, which compares with just 15 per cent in the previous Index, suggesting that firms are feeling more stable than they were three months ago.

Indeed, 21 per cent believe their business has never been in better shape or has actually benefited from the recession, which is a slight increase on the 17 per cent reading in the last survey. This is the highest reading across the sectors, reinforcing the construction industry's position as the best performing, according to the Index.

This is reflected in the decreased number of businesses that feel things are really tough and are only just surviving, which has dropped from 30 per cent to 19 per cent since the last Index.

Furthermore, almost half (48 per cent) feel that conditions are better than they were six months ago – a significant increase on the 27 per cent recorded in the previous Index – suggesting that outlook in the industry has become more positive. Again, this is the highest reading compared to other sectors (by 16 per cent), which suggests that the construction industry has experienced the greatest level of recovery within the last six months.

Despite this general improvement within the sector, responses from business owners and managers are mixed when questioned about when they expect signs of recovery to appear. Almost a third (32 per cent) anticipate conditions to improve by the end of the year, while 34 per cent predict this will not occur for at least a year. However, almost three quarters (70 per cent) of firms agree that recovery of the sector will remain in line with that of the wider economy.

When asked how they are preparing their business for recovery, a significant majority (76 per cent) stated they are managing suppliers more carefully, while 68 per cent are cutting costs, indicating that key measures have had to be made to stabilise business.

Overall, the outlook for a number of construction owners and managers looks promising and trading conditions, though still challenging, have improved since the end of 2009.

"We've seen a steady start to 2010 although some negative attitudes still linger within the sector. Despite this, conditions are undoubtedly much better than they were six months or a year ago. I believe we are now embarking upon a slow turn for the better, which will hopefully signal a brighter future and offer cause to be optimistic."

"By the end of the year I expect to see some definite improvement across the industry but, realistically, I don't envisage a full recovery until 2011 and as a finishing trade, construction may well lag slightly behind other sectors. Looking forward, better access to finance would go a long way to assisting a speedier economic recovery with bank lending still too strict on small businesses."

John Arnold – A&M Electrical Solutions Limited

Comparing business sectors

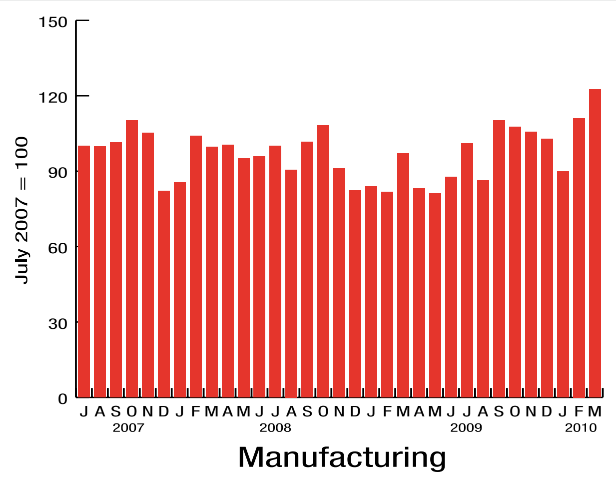
Manufacturing

While other sectors have struggled to recover from the effects of recession, the manufacturing industry has experienced a significant turnaround, with output reaching its peak since the start of the Index's base in July 2007. According to the Index, manufacturing is now the UK's second best performing sector and shows positive signs of recovery.

Following a quiet period of activity in January, due to disruptions caused by the severe weather conditions, the manufacturing industry reached its highest point to date in both February and March, ending the quarter at 122.5 points. This is a significant increase on the 97 reading for the corresponding period last year, signalling that the sector is showing strong signs of recovery.

This is reflected in CIPS/Markit data, which reveals that manufacturing orders rose at their fastest pace in six years at the start of 2010. The increase in output and orders, combined with the levelling off of job losses and the continued weakness of Sterling, is having a positive effect on the sector and the growth of the industry. This may also then aid recovery in the wider economy, as manufacturing currently represents around 13 per cent of the UK's GDP.

However, these positive signs are offered with caution. The manufacturers' organisation EEF has identified a number of risk factors which are likely to impact growth. The threat of a reduction in public sector spending, coupled with the difficulty in accessing finance, could hinder recovery within the industry. As a result, the manufacturing sector must be nurtured and supported to ensure that firms protect their workforce in order not to lose their skills base.



"Over the last three months the general feeling in the sector has been one of positivity and optimism. We have seen a slow and steady increase in business and also a slight influx of new customers. Any progress is quite gradual, but it's progress nonetheless and we are certainly in a much better position than we were six months ago."

"I have noticed that many of our customers are now putting their energies into planning ahead and focusing on the future, which I think is a positive sign for further growth in the industry. I believe that stability is the key to economic recovery, but it will be perhaps another 18 months before we see a return to pre-recession conditions."

James Stone – MCT ReMan

Manufacturing attitudes

A significant majority (72 per cent) of manufacturers feel that their business is steady, or is performing well, having actually benefited from the recession. This increase from 68 per cent in the previous Index indicates that trading conditions have slightly improved since the end of Q4 2009. This is a similar reading to that of the construction industry, indicating that these two industries are faring the best.

The upturn in productivity and orders over the quarter is reflected in the research, with a significant number experiencing a rise in enquiries (33 per cent) or new customers (16 per cent), while over a third (36 per cent) have seen an increase in lapsed customers returning. An additional 43 per cent have seen supplier relationships improve.

Optimism in the industry is the highest of all the sectors, and has increased, with 36 per cent of business owners and managers stating they feel hopeful for the future, compared with just 27 per cent in the previous survey.

This positive outlook is reflected in the CBI's February 2010 Industrial Trends Survey, which shows manufacturers are feeling more positive about output than at any other point in the last two years.

Transport and Storage

There are positive signs of growth within the transport and storage sector with figures from the Index showing an improvement over the same period last year as well as an increase in productivity in Q1. However, recovery within the sector remains fragile and according to the Index, it is now the UK's third best performing sector behind construction and manufacturing. Increasing fuel prices, lack of demand and the rise in VAT are likely to continue to impact recovery in the future.

Following a three month period of consistent output in Q4 2009, the transport industry suffered a decline in productivity during January 2010, largely due to the disruptive weather conditions in the New Year.

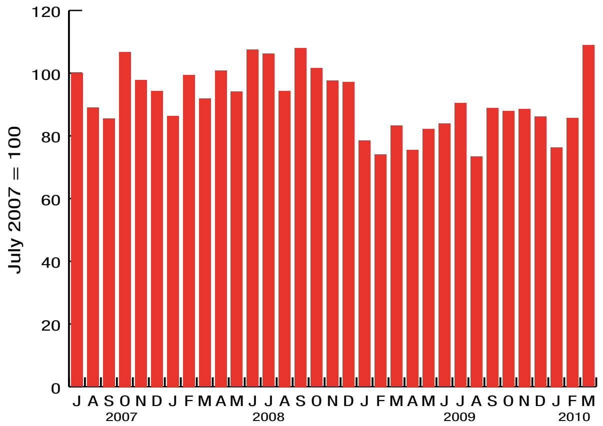
The Index dropped to 76.3 in January, the lowest measurement since August 2009, traditionally a quiet month for the sector. However, the industry experienced a slight increase of 9.5 points between January and February, signaling that momentum was picking up once again. This continued into March, where the Index rose by 16.2 points to a reading of 108.9, exceeding its peak of September 2008 and becoming the highest reading for the sector so far.

Despite these positive indications of growth, there are several key risks affecting recovery in the sector. Further rises in fuel duty will cause additional pressure and may result in the demise of some transport companies as well as have a detrimental impact on the wider economy. The future of the transport industry remains uncertain and this is reflected in the outlook of those working within it.

"The transport sector has experienced a similar pattern for the last two years, constantly playing catch up due to spiralling fuel prices. This is a difficult position to maintain, as you find yourself implementing an ever-changing fuel surcharge. However, I have noticed some improvements over the last three months and, although we had a tough January, February was a good month and I remain optimistic for the future."

"It appears that customers are regaining confidence and with it, increasing their stock levels after a period of reducing stock to keep costs down. If positive signs like this continue to emerge I hope to see recovery towards the end of 2010 but, as ever, fuel prices will dictate the level of improvement experienced by the transport sector. Looking to the near future I feel that the biggest factor to speed up economic recovery will be a change in Government, which will provide a much needed confidence boost."

Ray Fairfoull – Logic Trading Ltd



Transport and Storage

Transport and storage attitudes

Despite signs of positive growth indicated in the Index, the majority (49 per cent) of owners and managers in the sector feel that trading conditions are extremely tough and they are only just surviving or having to make cuts to rationalise the business.

This compares to just 32 per cent in the previous survey, indicating that general feeling has deteriorated over the last quarter. This is reinforced by the fact that over a third (34 per cent) feel that business is worse than it was six months ago, which is the highest percentage of all the sectors, suggesting that the last six months have been particularly hard on the industry.

This is also reflected in the decline in optimism within the transport and storage sector, with only one in ten (11 per cent) business owners stating they are hopeful for the future, compared to one in four (25 per cent) in the previous Index. Indeed, this again is the lowest reading across the sectors, positioning transport and storage as the most pessimistic of the industries.

Furthermore, over half (57 per cent) expect the UK economy will not show real signs of recovery for at least a year, perhaps due to the factors which determine the future of the industry, such as rising fuel costs. This is reinforced by the fact that 37 per cent of owners and managers believe a change in Government, and therefore an alternative policy on fuel, would aid a faster recovery.

Comparing business sectors

Wholesale

The wholesale industry experienced a difficult start to the year, with the bad weather disrupting operations and hindering recovery in the sector. However, despite March seeing a period of considerable growth with the Index reaching 105.7 points, the highest reading since November 2007, wholesale is the second poorest performing sector according to the Index.

The run up to Christmas saw an improvement in the output of the wholesale industry, with September's Index rising to 105.2 points, the highest point during the whole of 2009. However, the severe weather conditions and the seasonal nature of the wholesale industry meant that momentum was not maintained over the turn of the year. This led to a dip in demand and productivity, which caused the Index to decline to 76.5 in January – the lowest reading since December 2008, when the Index stood at 81.

This is supported by findings from the CBI Distributive Trade survey, which found that sales volumes in the wholesale sector fell sharply in January, with a balance of -38 per cent.

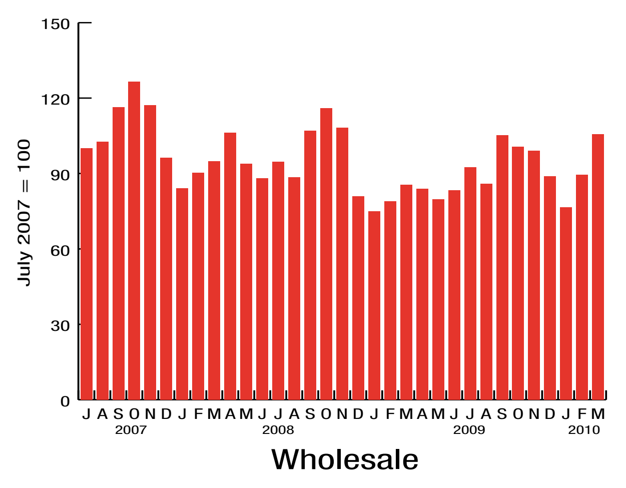
February, however, showed signs of recovery and an improvement over the same period last year, with a reading of 89.5, compared to 78.9 in 2009. The industry continued to grow into March, rising by 16.2 points in the Index to a reading of 105.7 at the end of the month.

There are positive signs of growth in the wholesale industry looking forward, but the challenge now for the sector is to continue to build the momentum gained since the turn of the year in order to increase productivity and aid recovery.

"We have been fairly busy over the past two years, despite the recession, but have certainly seen an improvement in business over the last six months. We have even experienced certain benefits as a result of the recession, for example, many customers have been scaling down their orders, often causing them to shift from using larger competitors to smaller companies such as ourselves."

"This has caused an increase in business for us, as has the constantly increasing price of materials, as customers shop around more to find the best deal. However, this can create a false economy, as it does not mean that the sector as a whole has increased its customer base, so I feel there is a need to tread with caution. With this in mind, I feel that better credit availability is without a doubt the key to speeding up the economic recovery, although I do not expect to see real signs of recovery until at least next spring."

Roger Browning – Naphtha Plastics Limited



Wholesale attitudes

Despite the Index revealing a significant decline in productivity and output since the last quarter, attitudes in relation to the economy among the wholesale sector have remained in line with previous readings.

Indeed, over half (56 per cent) feel that their business is steady, doing really well, or has even benefited from the recession. Similarly, 43 per cent are finding it tough and are only just surviving or having to make cuts to rationalise – a decline of only one per cent since the last Index. This is a similar reading to that of the transport and storage sector (49 per cent), which is likely due to the severe weather at the start of the year causing disruptions in transport networks which both sectors rely heavily on.

The majority of firms (59 per cent) have seen an increase in new customers, compared with just 22 per cent in the previous Index, signaling that activity is already picking up.

Interestingly, this does not affect the sector's predictions of when recovery will occur. Over half (55 per cent) believe that conditions will not improve for at least a year or longer, which aligns to the previous reading of 57 per cent. This suggests that, despite some green shoots, the majority feel it will take time for the sector to get back on track and increase output.

A change in Government and decreasing VAT back to 15 per cent are the two measures the industry believes need to be implemented to enable a faster recovery, with 25 per cent voting for the latter, suggesting that increased rates of tax are having a damaging effect.

Business Services

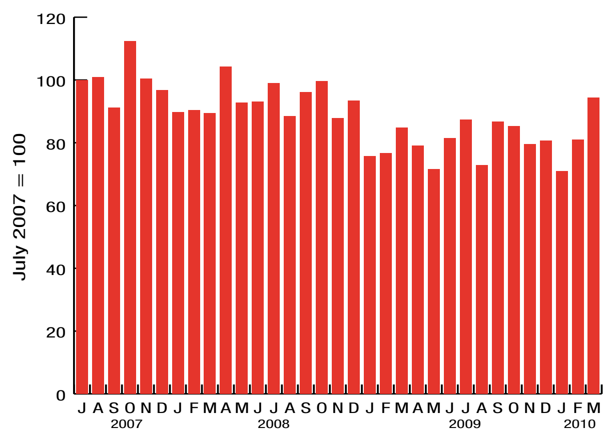
At 94.3 points, business services remains the weakest performing sector within the Index. However, there has been some improvement over the same period last year indicating a stabilisation in the market which must be upheld to enable recovery to occur.

The improvement seen in the last quarter of 2009 (an average reading of 81.8) was not sustained at the start of the New Year and the sector was operating at a lower, yet steady, level with an average of 76 for January and February.

Despite this disappointing start to Q1, March saw a period of considerable growth in the sector, as the Index rose to 94.3, the highest reading since October 2008, signaling a brighter future ahead.

Nonetheless, there are still a number of challenges and risks which are likely to impact growth in the industry. The recent CBI Service Sector Survey February 2010 found that prices in the business services sector continue to fall, reducing profits and making conditions tougher in the marketplace. The report also shows that the difficulty in raising funds, domestic competition and the level of demand remain the greatest obstacles to growth.

However, the UK labour market is now much more flexible than in previous recessions and, as long as the sector remains adaptable during the recovery, the chances of productivity recovering are much higher and the risks damaging Britain's growth prospects are lower.



Business Services

"Our business is currently performing well, not least thanks to a recent upsurge in demand for I.T engineers in general, but particularly for I.T contractors. Through this renewed demand we have seen an increase in new clients and have been able to build some strong relationships.

"The outlook throughout the sector has definitely improved as many companies are now looking to reinstate programmes that had previously been put on the backburner. This will certainly help us on our way to recovery, but the road will still be long and complicated. Clear policies for the future that will ensure the base rate remains low, a reduction in the tax burden and greater incentives for companies to invest are all key factors in promoting economic recovery."

Steve Emden – Cerco I.T (Staffing Solutions) Ltd

Business services attitudes

As a whole, the majority (30 per cent) of business services firms state that trading conditions are steady, while over half (53 per cent) feel that trading conditions are about the same as they were six months ago. This is the highest percentage of stability across all sectors and reinforces the suggestion that the market has remained the same within this time.

However, over a third (39 per cent) - an increase of 16 per cent on the last survey - feel that conditions are really tough or that they are only just surviving, with some being forced to make cuts, suggesting there are still challenges facing the industry.

Asked when they expect signs of economic recovery to appear, two thirds (65 per cent) predict that conditions will not improve for at least a year, which suggests that there is a long way for the sector to go before it bounces back.

The majority of firms (36 per cent) also believe that the loosening of lending criteria and credit availability would be the quickest way for the industry to recover – this feeling is more so in the business services sector than any other industry and has actually increased by 12 per cent on the last Index. This alludes to the fact that access to finance is becoming a greater barrier to the recovery and growth of the industry.

That said, over two thirds (64 per cent) of business owners expect their business to pick up at around the same time as others, suggesting that the business services industry will play a key part in the recovery of other sectors in the economy.

What does the future hold?

The findings from the Index paint a brightening picture of the current state of the UK economy, showing signs of improvement across all sectors and the total Index peaking for the first time since October 2007.

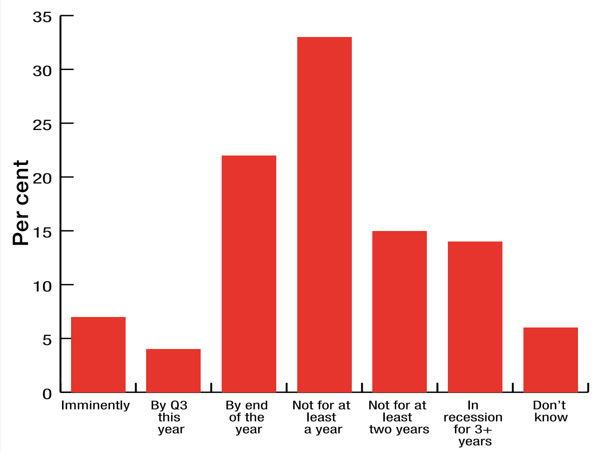
However, despite these green shoots of economic revival occurring now, recovery in the future remains turbulent and the risks facing the recovery longer term remain at the fore. Businesses are still sounding a note of caution and this is reflected in the findings from the Index. Indeed, an astonishing 62 per cent of all owners and managers do not anticipate signs of recovery by the end of 2010. This outlook is reflected in the view of CBI and the British Chamber of Commerce, which predict growth of just one per cent by the end of 2010.

Furthermore, a third (33 per cent) of business owners do not expect trading conditions to improve for at least a year, the same reading as the previous Index, which suggests that despite overall upturn over the past quarter, optimism for the future has not really increased. This is reinforced by the fact that 15 per cent do not predict improvements for two years, while 14 per cent forecast the market will remain in recession for three years or more – figures which have not changed significantly since the last report.

More encouragingly, however, a third (33 per cent) believe that we will see signs of recovery by the end of the year, a decline of only five per cent since the previous Index, suggesting that an equal proportion of businesses remain as optimistic as they were last quarter.

Nonetheless, while positive signs are emerging within some sectors and regions across the UK, there are still obstacles to overcome before the UK reaches recovery and it will be sometime before growth picks up.

Indeed, the outcome of the general election will play a major part in determining the fate of the economy and the rate at which recovery may occur. Similarly, there are key challenges facing individual sectors in the near future, which may affect their ability to play their part in driving economic growth and overall recovery.



When do you expect the UK economy to show real signs of recovery?

What would aid a more rapid recovery?

A change in Government leadership and the loosening of lending criteria and credit availability appear to be the two biggest factors that could help or hinder a quicker recovery, according to UK businesses. Equal numbers of firms (25 per cent) state they would like to see one of these occur, which suggests that trust in both the Government's economic strategy and the banks continues to wane.

Indeed, recent research by the Institute of Directors (IoD) shows that 60 per cent of small businesses seeking finance are still being denied by their banks and 83 per cent of those denied funding were not offered alternative forms of finance, for example, the Enterprise Finance Guarantee. This serves to demonstrate there is still a long way to go before firms feel they are fully supported financially.

Furthermore, the fact that more than 20 per cent of small businesses turned down for bank funding have no idea why their applications were rejected suggests there is a also lack of communication between businesses and what are considered to be mainstream lenders.

Whatever the future holds, it is more important than ever for the Government – which ever party takes power - to recognise the future potential of smaller and newer - as well as longer-established businesses and take measures to provide them with greater financial support to help them contribute towards driving economic growth and recovery.

Edward Rimmer, Chief Executive for Bibby Financial Services in the UK concluded:

"Culminating in a total rise of 16.9 points, growth in the Index signals returning confidence and increasing business performance for many of the UK's small and medium-sized firms.

However, the outcome of the General Election will determine if this confidence will continue depending on what support will be available for businesses via new Government initiatives. These will be essential in maintaining a steady recovery – particularly as some Government schemes such as the EFG have not hit the mark or indeed the access to them been effectively communicated in order for the businesses community to fully feel any benefit at all.

The Index shows UK firms have used the recession in their favour to rationalise and streamline business practices, and the experience they have gained during these tough times should ensure that when business is booming again, they are fully equipped to tackle any eventuality head-on.

Despite business failure rates dropping at the end of last year, the latest report from Experian reveals that the rate of insolvencies actually climbed in the UK during March. And with a report from accountants and business advisers BDO recently forecasting a high incidence of business failures in coming years, with one in 86 predicted this year and one in 100 in 2011, businesses should remain cautiously optimistic.

The issue of late payment and its knock-on effect through supply chains remains a key concern in the coming months, and could have a significant impact on the Index reading over 2010 as businesses continue to be subjected to the lag effect caused by the recession.

However, there are opportunities out there and it is time for firms to look for ways in which business can be optimised in the coming months. Having survived the worst recession in living memory, small and medium-sized businesses in the UK are better placed than ever to seek out new growth areas, consider export opportunities, or even look at new start-ups having identified market niches which may prove profitable.

It is important that businesses prepare for both survival and growth by continuing, first and foremost, to review their finances. The reality is that, according to a poll from insurance provider Hiscox, one in five small business owners invested an average of £17,000 of their own personal savings into their business last year, while one in three slashed their own salary to increase cash flow. However, other credible forms of finance with less restrictive lending criteria, such as invoice finance exist and are growing in popularity. Invoice finance is not limited to helping fund business in troubled times, and at Bibby Financial Services we have a funding pot to support firms whether they are preparing for growth, coping with late paying customers, or even looking to hire more staff.

While fiscal growth remains uncertain, companies cannot afford to have a "quick fix" approach to their finances but, with the help of invoice finance, for example, can ensure they are best equipped to attack long-term growth plans and survive any other "cold spells" that come their way."

Bibby Financial Services is proud to be supported by our parent, Bibby Line Group which has 200 years of trading experience that we draw upon to truly understand the challenges you face year after year and why we know how vital flexible, responsive solutions are to growing your business.

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