

Credit crunch doesn't bite on contractors

Is the credit crunch just media hype? Contractors will hear about it every day in the news, yet we find that in our day-to-day working life, we don't see much change beyond the depressing tone of the drive-time news shows.

A new study released on March 31 by the London-based [Confederation of British Industry](#) shows that small business in the UK isn't suffering in any marked way from what is properly referred to as a banking liquidity crisis.

Do You Need To Borrow?

It does not require a Phd economics to understand the reasons why. Small businesses, like we contractors, just don't borrow that much. It's only when you need to borrow that the high rates of interest become a problem for you.

The CBI study confirms all this: "At this stage, the effect of tightened credit conditions on small business looks to be relatively modest, with only a small number of companies seriously affected."

The survey that offers these conclusions is no small local affair. They are based on a survey of 500 owners or senior financial decision makers within small and medium sized UK enterprises (5-250 employees). Of these, 44% were members of the CBI, the other 56% a sample of the general UK SME population.

Postponing Plans for Expansion

It is true that, according to the survey, a good part of the small businesses interviewed have decided to hold off on growth plans. For contractors, this might mean taking on some extra expense, or even putting off a holiday, but not much more. Clearly the companies that contractors work for are cutting down and postponing too, but not nearly as much as you might believe if you listen to radio while you're going round on the M25 in the morning.

“ At this stage, the effect of tightened credit conditions on small business looks to be relatively modest, with only a small number of companies seriously affected ”

CBI Study

Contractors Rarely Finance with Loans

As the study makes clear, contractors like most small businesses rarely finance their activities with loans. You might have a healthy balance on your credit card, and this will cost you more in the next year or so than it did in the past. But even if you are seeking finance, the study shows that it hasn't yet become impossible to obtain at a reasonable cost.

Decline in Confidence; Increase in Business Volume

With all this, it is somewhat remarkable to constate that the decline in confidence for small business has been very considerable, greater than it has been seen in 10 years the study shows.

Even more surprisingly, this decline in confidence is paired with a rise in the volume of actual business done! Small businesses actually grew in January on average according to CBI statistics. And not just in terms of sales, but also the numbers of staff employed increase, albeit only slightly.

So Why the Long Faces?

You have to wonder why everyone is pulling such long faces. Here's what the CBI says: "Over the last three months, the volume of total new business continued to rise for the fifth consecutive survey [of SMEs]. "

The fault here of course lies in the terribly low level of economic analysis in the mass market press, which has taken an internal banking issue and tried to turn it into the Stock Market Crash of 1929. Pay no attention, and watch for our Market Report on April 8 which will show that the crunch isn't biting the companies that contract with us either.

“ Small business volumes actually increased in January ”

CBI Study

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