



# THE IMPACT OF THE EUROZONE CRISIS ON UK BUSINESS

RESEARCH REPORT: MAY 2012

## A worsening of the eurozone crisis is expected to have a negative impact extending beyond those with direct business contact with the eurozone

Our latest research among senior finance professionals in the UK suggests that many expect a continued worsening of the eurozone crisis to have a detrimental impact on the turnover of their business over the next 12 months (Fig 1).

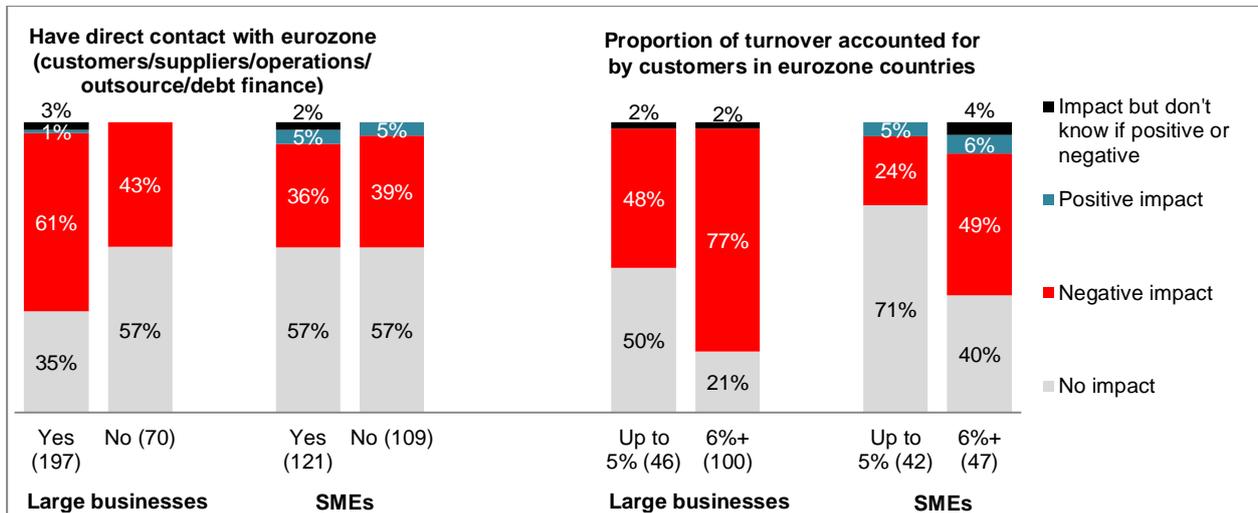
Those in larger companies (250+ FTEs) with direct interactions<sup>1</sup> with the eurozone are most likely to be negative. This is unsurprising given that they are more likely than their counterparts in SMEs (1-249 FTEs) to have a range of channels through which they have contact with eurozone, in the form of customers, suppliers, business functions, outsourcing or debt finance with eurozone-based banks.<sup>2</sup> The impact of the level of direct exposure to the eurozone is further evidenced when looking at the proportion of turnover which comes from customers in the eurozone: those with 6% or more of their turnover stemming from these customers are more likely to be negative.

'What's happening in the eurozone is creating huge uncertainty, which is leading to reluctance for eurozone customers to spend if they don't have to, which is restricting growth.'

'We have lots of customers in the eurozone and if there is economic meltdown our sales will drop significantly.'

'[It will lead to] a massive decrease in turnover due to reduced customer confidence and spending.'

'It is possible our supplier costs (the cost of freight) will increase and we may have bad/slow payment issues with some of our smaller customers.'



Base: All respondents

Base: All with customers in eurozone countries

This negative sentiment is not restricted to those with direct contact with the eurozone. Many of those with no direct exposure to the eurozone, both SMEs and larger businesses, anticipate that a worsening of the eurozone situation would have a negative impact on their business. This is largely due to the anticipated knock-on effect that such a collapse would have on UK customer confidence and the implications this would have for the UK economy overall.

### Limited confidence that EU leaders will solve the crisis in the next 12 months

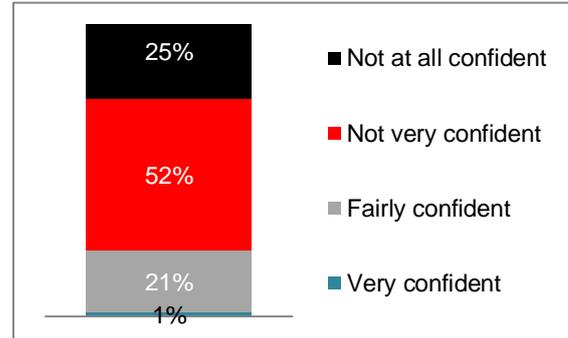
Less than one quarter (22%) are confident that EU leaders and policy-makers will resolve the eurozone crisis within the next 12 months (Fig 2).

This low level of confidence that EU leaders will resolve the crisis in the next 12 months are driven by views that:

- the situation is too complex, with too many parties involved with different agendas;
- the low level of progress to date does not suggest that it will be resolved in the next 12 months.

Even those that are 'fairly confident' that it will be resolved give little by way of concrete reasoning for this view. Rather, this sentiment is born from a feeling that it is such a major issue, and the implications of failing to resolve it too great, that the relevant parties have no choice but to resolve it soon.

**Fig 2: Level of confidence in the ability of EU leaders and policy-makers to resolve the euro crisis in the next 12 months**



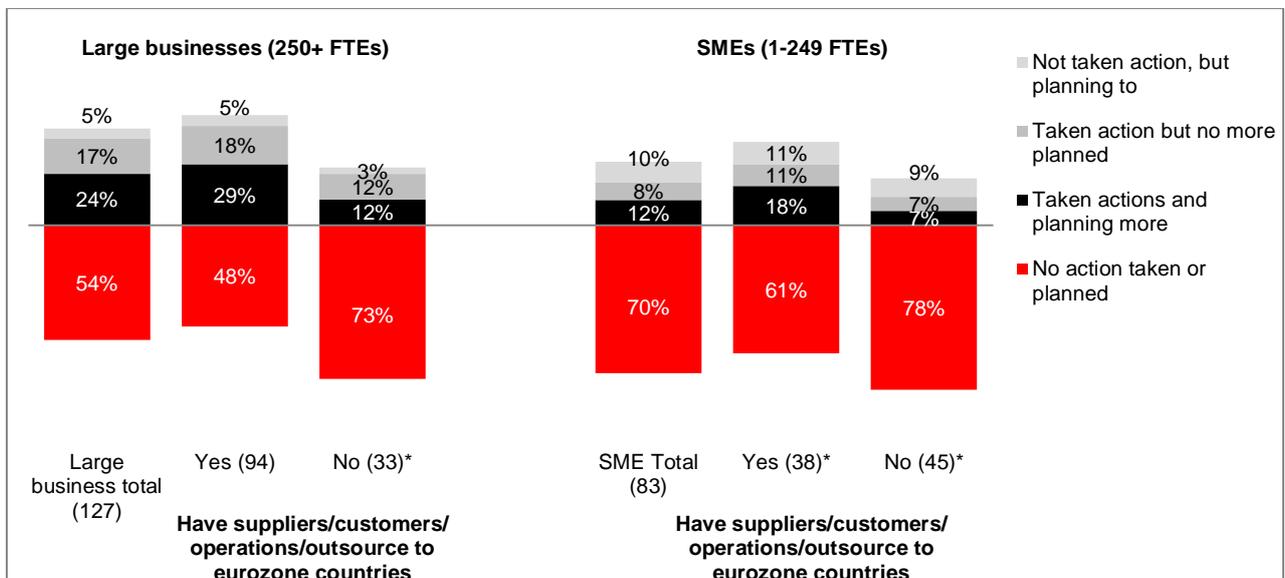
Base: All respondents (503)

### Relatively few have implemented or are planning their own contingency measures

Despite having little confidence that EU leaders will resolve the eurozone crisis in the next 12 months, most of those that would be negatively impacted by a worsening of the crisis have not put any contingency measures in place, nor are they planning to, especially those in SMEs (Fig 3).

Overall, it is large companies with suppliers/customers/ operations/outsource to eurozone countries that are most likely to have contingency plans, either in place or to come. For many of these, this reflects their greater breadth of exposure to the eurozone compared with their counterparts in SMEs. But even among these large businesses with direct contact with the eurozone, almost half have no specific contingency plans.

**Fig 3: Contingency measures in place or planned in the event that the eurozone crisis worsens, among those that think that a worsening eurozone crisis would impact their business negatively**



Base: Think that worsening eurozone crisis would have a negative impact on their business (210)

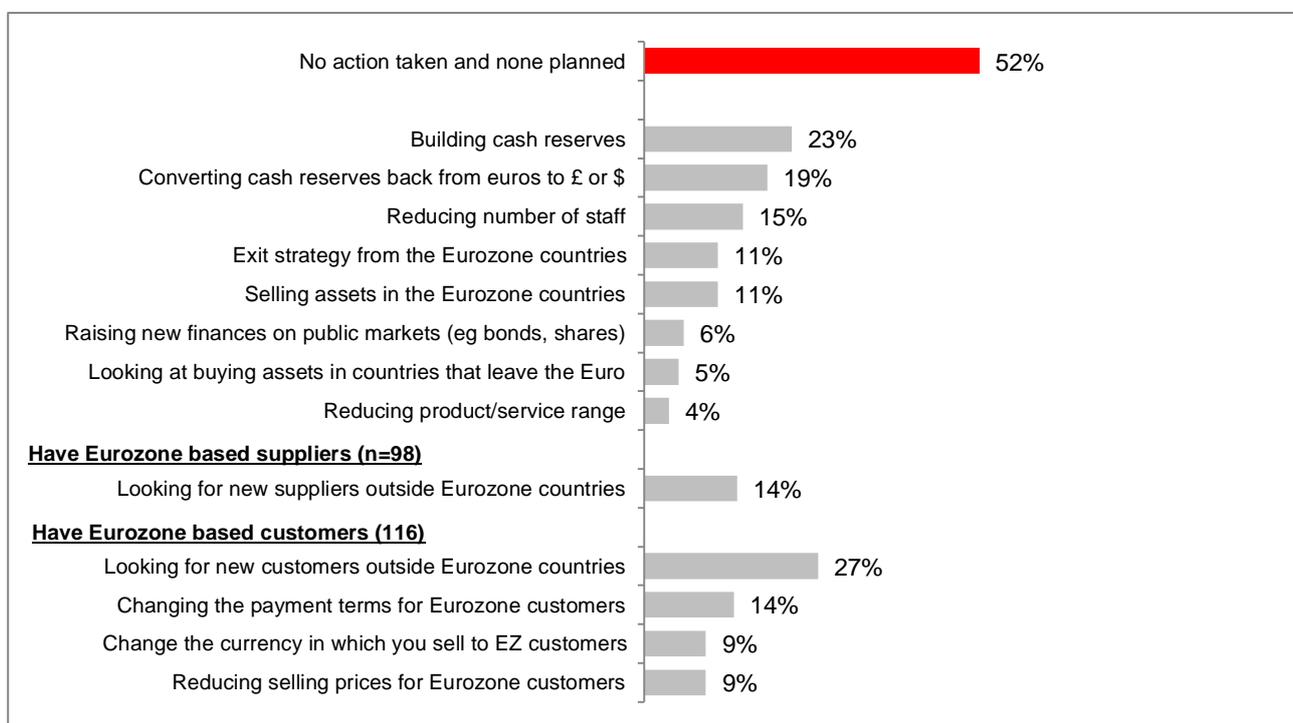
\* Caution low base

In terms of specific measures planned or taken by those with suppliers/customers/operations/outsource to eurozone countries and feel that their business would be negatively impacted:

- 23% have or plan to build their cash reserves; and
- slightly fewer (19%) are converting cash reserves back from euros to sterling or dollars.

Of those with customers in the eurozone, 27% are looking for new customers outside the eurozone.

**Fig 3: Contingency measures in place or planned in the event that the eurozone crisis worsens**



Base: Have suppliers/customers/operations/outsource to eurozone countries and expect that a worsening of the eurozone crisis would have a negative effect on their business (132)

## METHOD

This report is based on 508 telephone interviews conducted among ICAEW members working in commercial businesses. The sample was controlled to ensure a reasonable representation by region, company size and sector. Fieldwork was conducted by Kudos Research between 9 January and 24 February 2012.