



18 October 2024

Uncertain outlook for the UK economy pushes a record number of businesses into significant financial distress

- 632,756 UK businesses are in 'significant' financial distress, up 5.1% on the prior quarter (Q2 2024: 601,950) and 32.3% higher than Q3 2023 (478,176)
- 'Significant' financial distress increased in 21 of the 22 sectors covered by Red Flag Alert in Q3 2024 versus Q2 2024
- In Q3 2024 'significant' financial distress rose particularly rapidly in Utilities (+19.3%), Food & Drug Retailers (+10.4%), Financial Services (+9.94%) and Bars & Restaurants (+8.7%)
- The number of businesses in 'critical' financial distress fell quarter on quarter by 23.2% to 31,201 in Q3 2024 (Q2 2024: 40,613), 17.3% lower than Q3 2023 (37,772)
- This trend was seen in the Hotels & Accommodation (-33.5%), Construction (-28.5%) and Real Estate & Property Services sectors (-26.5%), in particular, with all experiencing a reduction in 'critical' financial distress versus Q2 2024.
- The sectors experiencing the highest numbers of companies in 'critical' financial distress were Support Services (4,860), Construction (4,324) and Real Estate & Property Services (4,099).

The latest Begbies Traynor "Red Flag Alert" research, which has provided a snapshot of British corporate health for almost two decades, highlights the challenging conditions UK businesses continue to face, with the number of companies facing 'significant' financial distress up c.5% in Q3 2024 to 632,756 businesses (Q2 2024: 601,950).

The steady increase in companies experiencing 'significant' financial distress was driven by noticeable increases in distress in the Utilities (+19.3%), Food & Drug Retailers (+10.4%), Financial Services (+9.94%) and Bars & Restaurants (+8.7%) sectors.

With 21 of the 22 sectors monitored by Red Flag Alert reporting the level of 'significant' financial distress increasing in Q3 2024 versus the prior quarter, the latest data highlights how the heightened level of economic uncertainty is impacting businesses in almost every corner of the economy across the UK and pushing another 30,000 companies into financial distress.

Julie Palmer, Partner at Begbies Traynor, said: *"With the end of the year now in sight, many British companies must be looking ahead to the finish line with a cautious degree of optimism for what 2025 has to offer after a difficult year. So far, there is no hiding from the fact that 2024 has been hard to navigate for companies and the final quarter looks no different as a high degree of uncertainty weighs on the UK economy."*

"With over 630,000 firms now in significant financial distress, more than thirty per cent higher than this time last year, no section of the country's economy is immune from the legacy debt built up by many businesses during the pandemic."

"It is also apparent that the toxic effect of high inflation is still filtering down to businesses. The construction sector in particular continues to struggle with the legacy of high materials and labour inflation which have led to some high-profile insolvencies recently. This is a trend that I expect to continue, and I do not believe ISG will be the only major casualty in this sector with the domino effect likely to hit the sub-contractor community in due course."

"For some, the prospect of a change of government was viewed as a potential catalyst for a much-needed economic boost, but there are significant concerns surrounding what the next Budget might hold for the economy and the knock-on effect could be

there are significant concerns surrounding what the next Budget might hold for the economy and the knock-on effect could be damaging for many businesses teetering on the edge of collapse, as it seems certain many will have to deal with higher employee related taxes.

Ric Traynor, Executive Chairman of Begbies Traynor, commented: "As we move into the final quarter of 2024, the decline we have seen in 'critical' financial distress is a welcome surprise after a challenging year. That said, it is too early to say if this is a trend that will continue into the autumn - traditionally a busy period for corporate insolvencies.

"While there are tentative signs of a recovery, uncertainty continues to loom over UK businesses. In response, many business leaders are holding their breath as they await clarity over what the forthcoming Budget will bring.

"So far, the mood music in the lead up to the Budget has led many business leaders to expect companies and investors to bear the brunt of changes to the tax regime.

"On top of this, the government's Employment Rights Bill could cause further pain, making it more difficult and more expensive to employ staff at a time when businesses are seeking flexibility through an uncertain period, whilst they grapple with an array of other issues.

"Companies must also contend with considerable geopolitical risks that could derail any domestic policy, including the escalating conflict in the Middle East, which could at the very least result in a spike in energy prices and bring back the spectre of high inflation. Added to this is the upcoming election in the US, which has the potential to impact both foreign and economic policy.

"Against this backdrop, the only certainty is uncertainty, and we know this is bad for both business and investment alike. Combine this high level of uncertainty with the expectation of higher business costs post the Autumn Budget and it is clear that the UK economy is far from being out of the woods."

Top 10 Sector Ranking - Critical Financial Distress

1.	Support Services	4,860
2.	Construction	4,324
		4,099
3.	Real Estate & Property Services	
4.	Professional Services	2,280
5.	General Retailers	2,212
	Telecommunications & Information Technology	1,858
6.		
		1,666
7.	Health & Education	
8.	Media	1,354
9.	Bars & Restaurants	1,188
10.	Food and Drug Retailers	1,108

Top 10 Sector Ranking - Significant Financial Distress

1.	Support Services	97,178
2.	Construction	90,375
	Real Estate & Property Services	69,111
3.		
4.	Professional Services	52,082
5.	General Retailers	46,288
		41,222
6.	Health & Education	
	Telecommunications & Information Technology	40,817
7.		
8.	Media	26,389
9.	Food & Drug Retailers	19,260
10.	Financial Services	18,664

Critical Distress by Region

1.	London	10,448
2.	South East	4,704
3.	Midlands	3,517
4.	North West	3,296
5.	Yorkshire	2,096
6.	South West	1,900
7.	East of England	1,787
8.	Scotland	1,504
9.	Wales	851
10.	Northern Ireland	569
11.	North East	525
12.	Misc	4

Significant Distress by Region

1.	London	185,494
2.	South East	105,083
3.	Midlands	76,902
4.	North West	65,777
5.	Yorkshire	43,827
6.	South West	43,757
7.	Scotland	31,338
8.	East of England	39,613
9.	Wales	19,261
10.	North East	11,643
11.	Northern Ireland	9,985
12.	Misc	76

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Notes to Editors

About Red Flag Alert

Red Flag Alert has been measuring and reporting corporate financial distress since 2004. It has become a benchmark on the underlying health of companies across every sector and region of the UK.

Red Flag Alert's algorithm measures corporate distress signals, drawing on company accounts and factual, legal and financial data from a wide range of relevant sources, including intelligence from the UK's leading insolvency business, Begbies Traynor. The algorithm was refreshed in H1 2023 to enhance the risk factors

analysed in the data. The reported results have been backdated to ensure the consistency of comparative data.

Algorithms which drive Red Flag Alert were improved at the end of 2023, with companies now measured against a new scorecard of indicators to give greater insight and accuracy into the health of businesses. Two years of work by data scientists analysing eight years of data, taking into consideration pre, during and post-pandemic insights to find signals and patterns indicating businesses in distress, combined with AI tools, means that Red Flag Alert aims soon to be able to predict how many companies in trouble will go on to fail.

The release refers to the number of companies experiencing "Significant" or "Critical" problems, which are those that have been identified by Red Flag Alert's proprietary credit risk scoring system which screens companies for a sustained or marked deterioration in key financial ratios and indicators including those measuring working capital, contingent liabilities, retained profits and net worth.

Red Flag Alert is commercially available to all businesses, on an annual subscription basis, to help them better understand risk and exposure and help subscribers to plan for the future. Further information about Red Flag Alert can be found at: www.redflagalert.com

Economically active businesses exclude those that are flagged by Companies House as being, Non-trading, Listed for Strike off / Strike off pending, Insolvent or Dissolved. Companies where there is insufficient information available for RFA to assign a health rating are also excluded.

About Begbies Traynor Group plc

Begbies Traynor Group plc is a leading UK advisory firm with expertise in business recovery, advisory and corporate finance, valuations, asset sales and property consultancy.

We have over 900 fee earners operating from 45 locations across the UK, together with four offshore offices. Our multidisciplinary professional teams include insolvency practitioners, accountants, lawyers, funding professionals and chartered surveyors.

- **Business recovery**
 - Corporate and personal insolvency; business restructuring and turnaround; contentious insolvency; creditor services
- **Advisory and corporate finance**
 - Debt advisory and finance broking; corporate finance; special situations M&A; financial advisory
- **Valuations**
 - Property, business and asset valuations
- **Asset sales**
 - Property, plant and machinery auctions; property and business sales agency
- **Property consultancy**
 - Building consultancy; transport planning; commercial property management; insurance and protection

Further information can be accessed via the group's website at <https://ir.begbies-traynorgroup.com/>

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