

Monday, 28 July 2025

Critical financial distress increases across the economy

Nearly 50,000 businesses in critical financial distress amid climate of volatile consumer spending, global economic turbulence and tax rises

Highlights:

- In Q2 2025, 'critical' financial distress leapt 21.4% year-on-year to 49,309 businesses (Q2 2024: 40,613); an 8.6% increase versus Q1 2025 (45,416)
- Of the 22 sectors covered by Red Flag Alert, all experienced an increase in 'critical' financial distress versus Q2 2024, as economic pressures impacted every corner of the economy
- Over the last 12 months, consumer-facing industries continued to experience some of the most extreme rises in 'critical' financial distress - Bars & Restaurants (+41.7%), Travel & Tourism (+39.0%) and General Retailers (+17.8%)
- 'Significant' financial distress also rose 10.8% year-on-year to 666,876 businesses (Q2 2024: 601,950), a 15.2% increase versus Q1 2025 (579,276)
- Only six out of 22 industries saw a year-on-year reduction in 'significant' distress, including Printing and Packaging (23.5%), Manufacturing (11.6%) and Industrial Transportation and Logistics (10.1%)

The latest "Red Flag Alert" report from Begbies Traynor, which has provided a snapshot of British corporate health for almost two decades, reveals how nearly 50,000 businesses are now in 'critical' financial distress amid the current climate of volatile consumer spending, global economic turbulence and rising taxes on business.

As of 30 June 2025, 49,309 businesses were in 'critical' financial distress, a 21.4% increase on Q2 2024 and an 8.6% increase on Q1 2025. The rise in 'critical' financial distress was felt in every corner of the UK economy with all 22 sectors covered by Red Flag Alert experiencing an increase over the last 12 months.

The latest research shows that the challenges currently being navigated by businesses are triggering concerning increases in 'critical' financial distress in consumer-facing sectors, including Bars & Restaurants (+41.7%), Travel & Tourism (+39.0%) and General Retailers (+17.8%).

After some signs of improvement in Q1, this latest research also shows a noticeable decline in the health of the UK economy in the second quarter of 2025. Some of the economy's key bellwether sectors worryingly saw critical distress rise at pace versus Q2 2024, including the Support Services (+31.3%) and Construction (+15.8%) sectors..

After a challenging second quarter, 'significant' financial distress rose by 10.8% year-on-year to 666,876 businesses (Q2 2024: 601,950), which represents a 15.2% increase versus Q1 2025 (579,276). In contrast to the wider picture, there were some positives, and six of the 22 sectors experienced a year-on-year fall in 'significant' distress, including Printing and Packaging (23.5%), Manufacturing (11.6%) and Industrial Transportation and Logistics (10.1%).

Julie Palmer, Partner at Begbies Traynor, said:

"Financial distress has intensified over the past twelve months in every corner of the economy. This means businesses across the UK are facing significant headwinds and many will have to review where they can tighten their budgets or restructure to give themselves more stability in the immediate future.

"This time last year, there was a degree of optimism amongst business leaders who were hoping to see a shift in fortunes in the second half of the year, but fast-forward 12 months and confidence is in short supply.

"Households are still grappling with their finances, and this is keeping consumer confidence volatile. The knock-on effect of this is clear to see in the consumer-facing sectors where margins are thin, growth is hard to come by, and the impact of higher employee costs is pushing many businesses to the brink of collapse.

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"So, it is of no surprise to me that while larger pub groups might be performing well, by squeezing out extra efficiencies to counteract onerous price rises, many independent players won't have the scale to withstand the pressures of this environment for another 12 months if nothing improves.

"In the face of these headwinds, a large proportion of the 50,000 businesses currently in 'critical' financial distress need to urgently investigate their options if they are going to weather the storm. With no end in sight to the current economic malaise, I fear the financial burdens companies are enduring at present are simply too high for many not to avoid collapse."

Ric Traynor, Executive Chairman of Begbies Traynor, said:

"The sharp rise in critical distress underscores just how tough the economic environment is for UK businesses and it's abundantly clear that tens of thousands of firms are struggling to stay afloat.

"Small and medium sized businesses across the UK are being put under immense strain by the recent increases to employer's NI as well as the increase to the national minimum wage. With limited financial headroom to absorb rising costs, many businesses are now reaching a tipping point.

"The result of this is reflected in the latest figures from Red Flag Alert. Critical financial distress is rising across every sector and trading conditions remain very difficult. Alongside this, policy decisions continue to add pressure, so there is a very real risk that more of these critically distressed businesses will move towards formal insolvency over the next 12 months.

"As we enter the second half of the year, the wider economy continues to show signs of strain. GDP fell in May after positive growth at the start of the year, inflation remains stubborn and unemployment has risen to a four year high. Taken together with geopolitical uncertainty, tariffs, dampening business confidence and continued financial pressures, UK businesses have many difficult decisions to make in the coming months."

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Most significantly Distressed Industries	Number of businesses in significant distress	Most critically distressed industries	Number of businesses in critical distress
Support Services	102,380	Support Services	7,560
Construction	102,285	Real Estate & Property Services	7,154
Real Estate & Property Services	81,516	Construction	6,999
Professional Services	60,427	General Retailers	3,666
General Retailers	44,631	Professional Services	3,416
Health & Education	44,253	Telecommunications & Information Technology	2,776
Telecommunications & Information Technology	44,019	Health & Education	2,722
Media	27,617	Bars & Restaurants	2,249
Food & Drug Retailers	18,229	Food & Drug Retailers	1,985
Financial Services	18,051	Media	1,764
Significant distress by region		Critical distress by region	
London	197,975	London	17,194
South East	113,494	South East	7,022
Midlands	80,847	Midlands	5,729
North West	69,565	North West	5,270
South West	46,384	Yorkshire	3,426
Yorkshire	45,842	South West	2,686
East of England	42,091	East of England	2,576
Scotland	31,251	Scotland	2,347
Wales	17,203	Wales	1,330
North East	11,711	North East	885
Northern Ireland	10,459	Northern Ireland	841
Misc	54	Misc	3

For further information, contact:

MHP Communications: Katie Hunt Charles Hirst Lizette Horne	07557 741 217 07770 753 544 BegbiesCorporate@mhpgroup.com
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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://www.begbies-traynorgroup.com/>

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