



Are we there yet?

Anyone who has experienced a long journey with five year olds will be familiar with this question. Usually the answer is not yet!

This is unfortunately similar to the general feeling that UK plc may be some time from arriving at an improved economic destination. We hear mixed reports from clients in the banking and asset-based sectors of successes and some set backs, but to gain a greater understanding of the recession's impact on the UK, MCR recently held a focus group with invited senior leaders from the banking and ABL sectors. Our aim was to probe, discuss and debate the current credit risk issues and the economic prospects for the UK in 2009 and beyond and we are pleased to share our findings with **Business Money**.

What is different about this recession?

The consensus and main views from our attendees were that the current recession is potentially far worse in comparison to previous economic downturns.

It was argued that the negative perception was being fuelled by the increased speed of today's media with live broadcasts, e-mail and internet and that this may make this recession feel longer than recent recessions.

Other findings:

- Unemployment levels are likely to continue to increase even beyond the first sign of a recovery and may reach circa three million during 2010, with many more support sectors, including financial services being adversely affected.
- An unusual aspect of this recession is the extent of corporate greed and the subsequent increased levels of unsustainable borrowings. A future challenge for business leaders is linking corporate achievement to a sustainable level of borrowing.

- One of the more interesting findings was that many business leaders believed that regardless of this recession's severity, so far it had been less emotive than other economic downturns, mainly because there has been limited large scale industrialised failures.
- Historically, the UK has associated economic hardship with strike action, mass layoffs across industries such as mining and manufacturing, and outcry from the predominantly working class public. Today however, the recession is predominantly seen as a white-collar issue.

Views on the road out of recession

Our panel predicted that it will be at least two years before the UK will start to emerge from this current recession.

There was also speculation as to whether the recession will be sustained for at least four to five consecutive quarters, and that continued reliance on the United States will be of significant importance.

Likely outcomes:

- it was acknowledged that the pace of the upturn may follow a similar trend to that of the downturn;
- that both commercial and residential property values will decrease further during 2010;
- that a decline in asset-base values is impacting on recovery strategies;
- the size of risk portfolios within a number of lender organisations has increased by 50%;
- growth in portfolios has necessitated growth in teams and that there is a mix of various experience levels and expertise in these teams; and
- it was also acknowledged that lending is actively being encouraged.

Hard ground or quick sand?

There is little doubt that what remains of 2009 will be tough for most organisations, regardless of sector and uniqueness. As economic conditions look set to challenge even the most resilient organisation it is likely that more businesses and people will feel financial pressure.

The overwhelming conclusion from our panel of attendees was that economic recovery is likely to be a slow process with a few false starts before we really get back to anything like normal conditions.

During this time the importance of understanding client specific issues and where appropriate getting external advisors to assist with the assessment of business strategy and survival.

In this respect MCR continues to be at the forefront in developing and supporting a rescue culture and has an established specialist business consulting team to deliver business recovery solutions. We are currently providing a range of alternative development strategies to directors, lenders and stakeholders, by providing hands-on, practical turnaround guidance and support across a wide range of sectors.

Finally our panel suggested that structure within many businesses will be tested and for lenders there will be a number of decision points – not least as we move toward Q4 of 2009 – in deciding if the business is one that can be maintained and developed or if the lack of revenue and margin is too great a challenge.



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