



## Press Release

### **Construction and Manufacturing Firms Show Greatest Risk of Default Among UK SMEs, says S&P Risk Solutions**

LONDON, September 18, 2008-- Standard & Poor's Risk Solutions' analysis of the 2007 year end financial returns of UK SMEs shows, not surprisingly, that the sector with the highest default risk in 2008 is construction. Even the best of the bottom quartile of the industry is showing a one -year probability of default (PD) of 2.65%. Conversely the top quartile starts with PDs of just 0.7% and strengthens from there.

Manufacturing too is showing significant risk of default, with the bottom quartile starting at a PD of 1.9%. The 'wholesale and retail trade' sector however has an average PD of 0.7%, an upper quartile starting at 0.3% and a bottom quartile starting at just 1.3%.

"These results show the dramatic differences in default risk between sectors in the UK, even among sectors most exposed to the credit crunch" says Stuart Shipperlee, head of PD model products for Standard & Poor's Risk Solutions. "The bottom 25% of the construction industry is twice as likely to default as the equivalent firms in the trade sector and more than 10 times as likely that the strongest 25% of wholesale and retail traders."

The research covers UK SMEs with annual turnover between £0.5m and £50m and reflects a review of the 2007 year end accounts of 200,000 companies out of a total universe of 575,000 companies.

"The results may worsen as more accounts are received" says Mr. Shipperlee, "since later filing of financial returns can be more common among weaker firms. Certainly, the results are unlikely to improve."

Among the strongest sectors are those whose customers are often in the public sector (such as 'Defence, Education and Social Work') and primary industries such as 'Agriculture' and "Mining and Quarrying".

While risk of default is clearly increasing in most sectors, having improved from 2003 to 2006, Shipperlee notes that the main risk factors are industry driven as much as a function of the economic cycle. "Construction has shown approximately three times the default risk of the 'Education' sector throughout the last five years," he said.

The analysis was conducted using Standard & Poor's Risk Solutions proprietary SME credit scoring service, Credit Risk Tracker UK. Ten different sector specific models covering 50 individual industries are available, along with PDs on over 575,000 UK firms.

#### **Contacts:**

Stuart Shipperlee, Head of PD Model Products  
S&P Risk Solutions

Tel: +44-207-176-3903

[stuart\\_shipperlee@standardandpoors.com](mailto:stuart_shipperlee@standardandpoors.com)

Florence Henderson, Head of Administration and Marketing Communications  
S&P Risk Solutions

Tel: +44 (0)20 7176 3767

[florence\\_henderson@standardandpoors.com](mailto:florence_henderson@standardandpoors.com)

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