

Small businesses across the UK are continuing to experience unprecedented levels of deflation resulting in rapidly declining operating [costs](#). The cost of running a small business has fallen to -1.4 per cent deflation over Q1 2009, according to the latest [Business Inflation Guide](#) (BIG) from MORE TH>N BUSINESS. But ongoing volatility makes [planning](#) challenging.

The sharp decline marks the second consecutive quarter of sustained deflation for the small business community. In Q4 2008 costs plunged to -2.9 per cent deflation. Declining labour, advertising, vehicle and raw material costs have all contributed to the continuing falls in Q1 2009, however MORE TH>N BUSINESS warns profit margins still remain under huge stress due to low demand for products and services.

Head of MORE TH>N BUSINESS, Mike Bowman, said: 'The fact that we're experiencing such sustained deflationary conditions demonstrates just how deep the recession has become in the UK. While it is cheaper to run a small business, it is clear that demand for goods and services is dropping off considerably and that is why prices are spiralling downwards.'

Developed in conjunction with Warwick Business School, the BIG is a quarterly index that measures a basket of 20 of the most important expenditure items for small businesses. The index has been measuring the health of the small business economy for the last year.

Now in its fourth quarter, the BIG has recorded one of the most turbulent periods in history for small businesses, measuring record levels of inflation and deflation. For Q2 2008, the inaugural BIG recorded a cost inflation of 9.9 per cent. This eased to 9.4 per cent inflation in Q3, before plummeting to -2.9 per cent deflation in Q4 and -1.4 percent in Q1 of 2009.

Mr Bowman said the last four quarters of extreme instability has made planning very challenging. 'The volatility has made it very difficult to plan and invest, placing tremendous pressure on cash flows and managing stock and staffing levels. There are a lot of small businesses which have never experienced anything like this before.'

With widespread redundancies across the UK, thousands of displaced workers are expected to launch small businesses this year. Mike Bowman continued: 'While weak market conditions mean it is not an ideal time to start a new business, it will be somewhat easier for new services companies. They are largely labour-based and will benefit from the current decline in labour costs. New manufacturing businesses on the other hand are likely to face increasing material input prices in the year to come.'

Stephen Roper, Professor of Enterprise at the Centre for Small and Medium Sized Enterprises, Warwick Business School, said: 'Looking forward it is genuinely quite hard to predict which way the small business economy will move over the next year. I doubt we will get back to the very sharp inflation we have seen, but I suspect we will move closer to cost stability next quarter.'

In comparison, the UK's Consumer Price Index (CPI) currently sits at 2.3 per cent inflation, and the Retail Prices Index (RPI) currently sits at -1.2 per cent deflation.

To view the Business Inflation Guide visit www.morethanbusiness.com/BIG