

Statistical bulletin

# Business demography, quarterly experimental statistics, UK: October to December 2020

Experimental quarterly statistics on business births and deaths from the Inter-Departmental Business Register with high-level breakdowns by industry and region.

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# 1 . Main points

- The number of businesses removed from the Inter-Departmental Business Register (IDBR) (business closures) in the UK in Quarter 4 (Oct to Dec) 2020 was 37% higher than the fourth quarter of 2019 and higher than any fourth quarter of the past four years.
- All industries, except motor trades, have more business closures in Quarter 4 2020 than in Quarter 4 2019.
- The number of businesses added to the IDBR (business creations) in the UK in Quarter 4 2020 was 24% higher than the fourth quarter of 2019 and higher than any fourth quarter of the past four years.
- Industries which showed the greatest increases in business creations, Quarter 4 2020 on Quarter 4 2019, were business administration and support, retail, professional and scientific, and transportation and storage.
- Data in this release are [experimental](#) and produced rapidly to support understanding of the impact of the coronavirus pandemic on the economy; our [annual business demography publication](#) remains the best source of information on business demography.

Quarterly data in this release are not entirely consistent with the annual business demography publication, which is a more accurate reflection of business births and deaths. The quarterly data in this release are broadly in line and provide new evidence using new methods.

## 2 . Trends in business closures

Business closures are those removed from the Inter-Departmental Business Register (IDBR) - a database of all businesses in the UK registered for Value Added Tax (VAT) and/or the Pay As You Earn (PAYE) income tax system, used as a sampling frame for ONS business surveys. A business is removed from the IDBR if its turnover and employment are zero for several periods, or the ONS is notified the business has ceased trading through an administrative source. These are referred to as business deaths in our [annual business demography publication](#) and other data. For more information see the [Measuring the data](#) and [Glossary](#) sections.

The number of business closures in the UK in Quarter 4 (Oct to Dec) 2020 was significantly higher than in Quarter 4 2019, and is the highest figure of all the Quarter 4 closures in the four years for which data are available. This follows two quarters for which the number of business closures was low.

It takes a relatively long time for a business to be removed from the IDBR, which may happen several months after the effective closure of the business. The legal and statistical processes are complex and are explained in more detail in the [Measuring the data](#) and [Strengths and limitations](#) sections.

Data from our annual business demography publication demonstrate that many businesses are added to, and removed from, the IDBR every year, so it is the extent to which this figure is greater than expected that we are interested in in order to identify an impact of the coronavirus (COVID-19) pandemic. Looking at the annual figures we see that the total number of business closures figure in 2020 is almost 17% higher than the average number of closures in the last three years.

However, the number of closures in Quarter 1 (Jan to Mar) 2020 (pre-pandemic in terms of any COVID-19 impact on register business creations and closures) is very high, which is boosting the annual number of closures in 2020. There is some evidence that a larger number of single employee companies were closed in Quarter 1 2020, and it is possible that this is due to those businesses getting ready for changes to taxation rules on contracting.

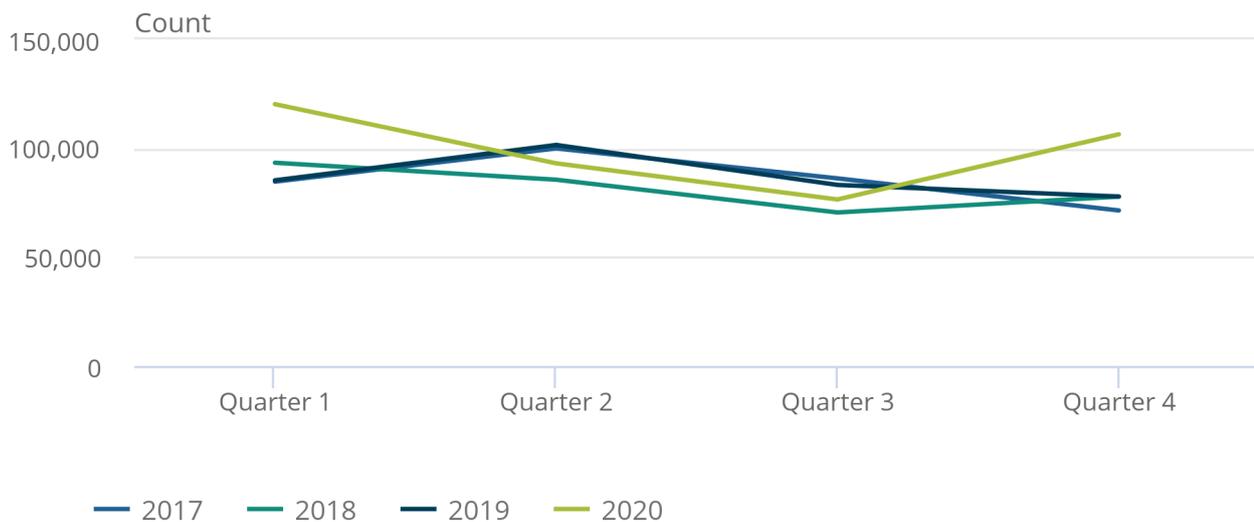
If we remove the first quarters from the calculation in all of the years 2017 to 2020 and only look at Quarters 2 (Apr to June) to 4 there is an increase of almost 10% in the number of closures in 2020 compared to the average of 2017 to 2019. Similarly, there is a 5% increase in business closures for 2020 Quarters 2 to 4 compared to 2019 Quarters 2 to 4.

**Figure 1: Business closures were higher in Quarter 4 2020 than in Quarter 4 2019**

Number of businesses removed from the Inter-Departmental Business Register (IDBR), quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020

Figure 1: Business closures were higher in Quarter 4 2020 than in Quarter 4 2019

Number of businesses removed from the Inter-Departmental Business Register (IDBR), quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Inter-Departmental Business Register (IDBR)

## Characteristics of business closures

Business closures appear to be seasonal: there tend to be more in the first half of the year than in the second half. This is true for most industries and regions.

Businesses in the information and communication industry (SIC07 section J) made up a larger proportion of all businesses removed from the IDBR in Quarter 4 2020 than in Quarter 4 2019. This continues a pattern first seen in Quarter 2 2020.

By contrast, businesses in the accommodation and food services industry made up a smaller share of business closures in Quarter 4 2020 than usual. This is despite this industry being adversely impacted by the coronavirus pandemic in the short term. This may be due to measures taken by the government to support industries through the pandemic.

The regional distribution of business closures is fairly stable in recent periods, with no region particularly standing out as taking a greater share of closures.

The average size of businesses that were removed from the IDBR in Quarter 4 2020, based on their employment, was 2.6, which is smaller than the figures seen in Quarter 4 for 2017 to 2019 and is almost 14% smaller than the average employment for closures in Quarter 4 2019.

## **Other data on business closures**

Monthly data from the insolvency service shows that in November the number of insolvencies remained low.

Data from Companies House are available only up to Quarter 3 (July to Sept) 2020, and at that time company dissolutions were down 21% compared with Quarter 3 2019. However, Companies House state that during September 2020 they restarted the voluntary strike-off process. This may be one of the reasons Quarter 4 deaths are relatively strong on IDBR.

## **3 . Trends in business creations**

Business creations are new enterprise entries onto the Inter-Departmental Business Register (IDBR). These are referred to as business births in our [annual business demography publication](#), and other data. For more information see the [Measuring the data](#) and [Glossary](#) sections.

The number of business creations in the UK in Quarter 4 (Oct to Dec) 2020 was up 24% on Quarter 4 2019 (Figure 2), following on from a relatively strong number of business creations in Quarter 3 (July to Sept). This is contrary to expectations that business creation would be lower due to the coronavirus (COVID-19) pandemic.

## Figure 2: Business creations in Quarter 4 2020 were higher than in Quarter 4 2019

Number of businesses added to the Inter-Departmental Business Register (IDBR), quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020

### Figure 2: Business creations in Quarter 4 2020 were higher than in Quarter 4 2019

Number of businesses added to the Inter-Departmental Business Register (IDBR), quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Inter-Departmental Business Register (IDBR)

#### Notes:

1. There is strong seasonality in business creation: there tend to be more in the first half of the year than in the second half, especially in the first quarter, associated with the start of the financial year. This is true for most industries and regions, to a greater or lesser extent, but especially true for businesses in the financial and insurance and real estate industries.

There is typically a shorter lag in adding businesses to the IDBR after the effective creation of the business, than there is for removing businesses from the IDBR after their effective closure. As such, the rebound in births which started in Quarter 3 2020 is likely to reflect a genuine trend for increased business creation.

## Characteristics of business creations

Industries which showed the greatest increases in business creations, Quarter 4 2020 on Quarter 4 2019, were business administration and support, retail, professional and scientific, and transportation and storage. In Quarter 4 we have seen an increase of the share of all creations by sole proprietors.

The retail industry continued the strong growth shown in Quarter 3 2020 into Quarter 4. This is likely to be due to an increase in online retailers, [since there has been a large increase in online retail sales during the pandemic](#).

The number of businesses created in the health and social care industry continues to be at much lower levels from the start of the pandemic (around a third of the pre-pandemic levels). Further significant falls on the same quarter a year ago are seen in the education, arts and entertainment, accommodation and foods services, and construction industries. These were [all industries negatively affected by the pandemic](#).

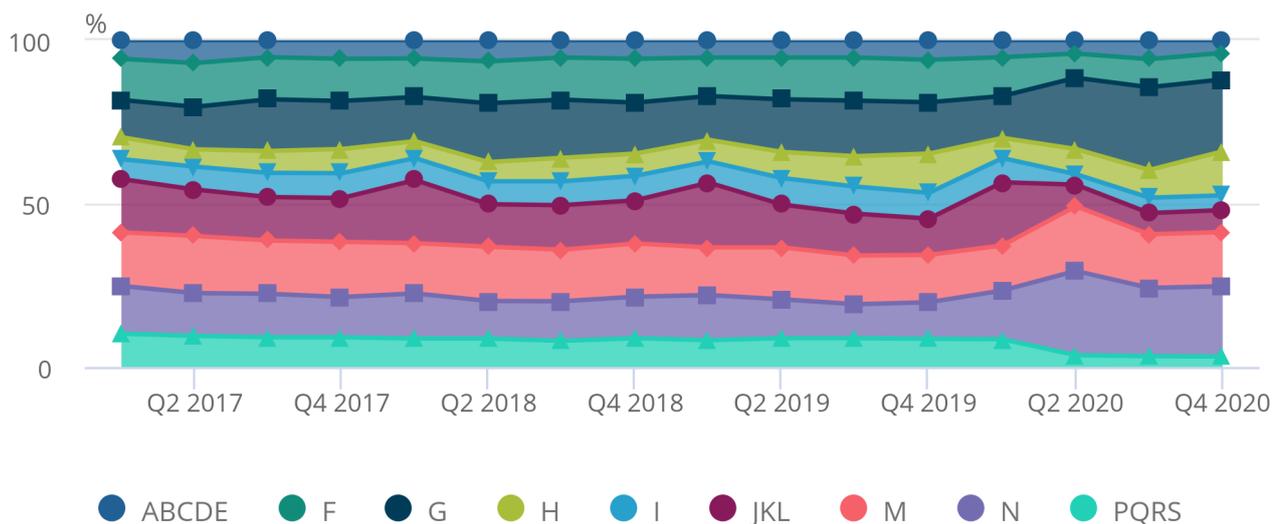
Business creations continue at low levels since the pandemic in the information and communication industry, but finance and insurance shows signs of recovering to near normal levels in Quarter 4 following two quarters of low creations.

**Figure 3: Retail and business services industries made up a larger proportion of business creations in Quarter 4 2020 than in recent years**

Proportion of businesses added to the Inter-Departmental Business Register (IDBR) by Standard Industrial Classification (SIC) 2007 industry, quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020

Figure 3: Retail and business services industries made up a larger proportion of business creations in Quarter 4 2020 than in recent years

Proportion of businesses added to the Inter-Departmental Business Register (IDBR) by Standard Industrial Classification (SIC) 2007 industry, quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Inter-Departmental Business Register (IDBR)

Notes:

- ABCDE - Agriculture, mining, manufacturing, energy, water and waste services
- F - Construction
- G - Wholesale, retail and motor trades
- H - Transportation and storage
- I - Accommodation and food services
- JKL - Information and communications, finance and insurance, real estate
- M - Professional, scientific and technical activities
- N - Administrative support services
- PQRS - Education, health and social care, arts and other services

The proportion of business creations in each country and region of the UK was similar in Quarter 4 2020 to that of Quarter 4 2019.

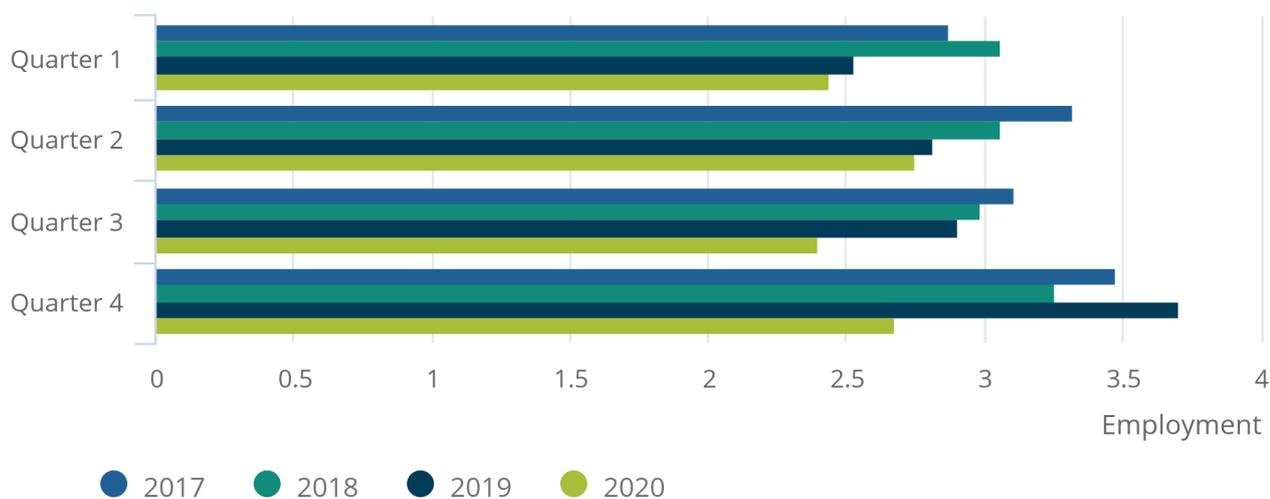
Businesses added to the IDBR in Quarter 4 2020 were substantially smaller on average, based on turnover and employment, than in the same quarter in the past few years (Figure 4). These data are in part based on predictions made when the company is registered and may therefore reflect expectations of harder trading conditions for new businesses in 2020. They may also reflect the types of businesses being created.

**Figure 4: Businesses created in Quarter 4 2020 had fewer employees on average than Quarter 4 2019**

Average employment of businesses added to the Inter-Departmental Business Register (IDBR) by Standard Industrial Classification (SIC) 2007 industry, quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020

### Figure 4: Businesses created in Quarter 4 2020 had fewer employees on average than Quarter 4 2019

Average employment of businesses added to the Inter-Departmental Business Register (IDBR) by Standard Industrial Classification (SIC) 2007 industry, quarterly, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Inter-Departmental Business Register (IDBR)

Between 2017 and 2019, the average new business created in Quarter 4 had around 3.5 employees. This fell to 2.7 employees in Quarter 4 2020. This fall reflects smaller average sizes in most industries. It also reflects that businesses are being created to a greater extent than before in industries where only a small number of employees are required, for example online retailing.

### Other data on business creation

We publish the number of new VAT returners monthly in our Faster Indicators release, including the figure for December published on 14 January. These show a pick-up in VAT registrations in Quarters 3 and 4 of 2020 after a big drop in April to June 2020.

Weekly indicators of company incorporations using Companies House data in our [weekly Faster Indicators publication](#) also show an increase in business creations in the weeks of Quarter 4 2020, relative to the same time last year.

## 4 . Business demography, quarterly experimental estimates data

[Business demography, quarterly experimental statistics, UK](#)

Dataset | Released 27 January 2021

Experimental quarterly statistics on business creations or births and closures or deaths from the Inter-Departmental Business Register (IDBR) with high-level breakdowns by industry and region.

## 5 . Glossary

### Business

For this release, the term "business" is used to represent an enterprise. An enterprise can be defined as the smallest combination of legal units (generally based on Value Added Tax (VAT) and/or Pay As You Earn (PAYE) records) that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may also be a sole legal unit.

### Business creations

Often referred to as business births, we refer to enterprises added to the Inter-Departmental Business Register (IDBR) as business creations in this release. Enterprises are added to the IDBR when a new business is identified from administrative sources, usually the VAT or PAYE systems.

### Business closures

Business closures are removals from the IDBR. A business is removed from the IDBR if its turnover and employment are zero for several periods, or the ONS is notified the business has ceased trading through an administrative source. These are referred to as business deaths in our [annual business demography publication](#) and other data.

This should not be confused with temporary business closures due to the coronavirus (COVID-19) pandemic, whereby a business pauses trading but is still an active business.

### The Inter-Departmental Business Register (IDBR)

A database of all businesses in the UK registered for VAT and/or the PAYE income tax system. There are approximately 2.7 million businesses on the IDBR. The IDBR is the register of UK businesses used as a sampling frame for ONS business surveys.

## 6 . Measuring the data

This section outlines important information about the data in this release. This is a new release of [experimental statistics](#), and the information in this section is important to correctly interpret it.

## Time of recording

Business creations and closures in these data are based on the date on which the action occurs on the Inter-Departmental Business Register (IDBR). Data for this release are extracted from the IDBR weekly and are allocated to quarters according to the date of the Friday of that week, since most major updates to the IDBR occur at the end of the working week. This may lead to some misallocation between quarters.

The date a business is added to the IDBR is generally on the same day, or within a few days, of the legal creation of the business as a company with Companies House. However, this can be several weeks after the effective birth of the business.

For business closures, the registration process can take a little longer, as the death of a business may be long and complex. The "effective" death of a business may occur several months before its actual death from a legal perspective. A business is removed from the IDBR if information from HM Revenue and Customs (HMRC), Office for National Statistics (ONS) business surveys, Companies House or The Insolvency Service indicates it is no longer active. The ONS proves deaths by contacting companies if necessary.

## Frequency of data

The IDBR is updated from four main sources:

- Value Added Tax (VAT)
- Pay As You Earn (PAYE)
- ONS business surveys
- Companies House

The updates occur in various frequencies from daily to annual. Because the important PAYE update is quarterly, a shorter time period analysis of business creations and closures would be very volatile. As such, this source is best suited to quarterly publications.

## Turnover and employment data

The turnover data on the IDBR is mostly derived from VAT or ONS business survey records. Employment data on the IDBR is derived from PAYE or ONS business survey records. In some cases, values are imputed from administrative data. The turnover data are updated annually, every September, from available data. Employment data are updated more frequently for some businesses but at least annually for all businesses.

The turnover and employment data for business closures are the stored values at the last update while the business was active on the IDBR, often the last annual update. These figures are not adjusted for inflation, so the average turnover would be expected to rise slowly over time in line with inflation.

For business creations, the value for turnover is usually that estimated by the business upon registration with HMRC for VAT. The employment value is the number of actually registered employees on their PAYE scheme if they have one, and it is imputed if they do not. This value is revised on the IDBR when more up-to-date data are received, but it is not revised in these statistics.

Data on turnover and employment on the IDBR should not be used to measure economic growth or the growth of the labour market; other ONS sources are preferred for these purposes. Data points are generally reasonably current for larger businesses, but they are less so for smaller businesses.

## Feedback

The ONS welcomes feedback from users on whether they find this release on business creations and closures to be helpful. Please email us at [ldbrdas@ons.gov.uk](mailto:ldbrdas@ons.gov.uk) regarding whether you would like to see an ongoing quarterly release of these figures.

## Other releases

Alongside this release, we have introduced a weekly indicator of company incorporations and dissolutions with Companies House in our [weekly faster indicators publication](#). There is also a blog available that explains some of the important things to bear in mind about these data.

# 7 . Strengths and limitations

## Timeliness

In line with international guidance from Eurostat and the Organisation for Economic Co-operation and Development (OECD), our [official statistics](#) on business demography are published a year after the reference period to allow for reactivations before deaths figures are calculated. We have published these quarterly data to provide a more timely indicator of business creations and closures to support understanding of the impact of the coronavirus (COVID-19) pandemic on the UK economy, but these data will not be entirely consistent with our [annual publication](#), and that remains the superior measure of business demography.

More detail about the [Inter-Departmental Business Register \(IDBR\)](#) the [annual official statistics on business demography](#) is available.

## Relationship with other data

This publication provides the first quarterly estimates of businesses added to, and removed from, the IDBR. However, there are many other publications drawing on other data sources to provide estimates of either business creation or business closures at different frequencies. These are briefly outlined in this section.

Quarterly official statistics from Companies House include the number of company incorporations, dissolutions and removals from their register. Companies and businesses are not the same in these statistics -- companies are legal entities, as registered with Companies House; businesses are statistical entities, arranged by the Office for National Statistics (ONS) on the IDBR, which better reflect their economic activity. Some types of company are present with Companies House but not on the IDBR or in Value Added Tax (VAT) returns, such as small single-person limited companies.

We have published new weekly indicators of company incorporations and voluntary dissolutions using data from Companies House in our [faster indicators publication](#), but this covers only one route for a business to be removed from the IDBR.

There are many ways for a business to close or die, of which "insolvency" is only one. Data from the Insolvency Service on company insolvencies therefore do not reflect all business closures -- insolvencies typically account for a small fraction of business closures, although they tend to be the highest profile.

Data from the Business Impact of Coronavirus (COVID-19) Survey (BICS) include estimates of the proportion of surveyed businesses that have "temporarily ceased trading". Businesses that are still active but temporarily ceased trading because of the coronavirus pandemic are not removed from the IDBR and therefore are not reflected in the data in this release.

BICS also reports data on the proportion of responding businesses that have permanently ceased trading. This is based on a filter question in the survey to reduce burden for those businesses that have closed down, as the survey is not relevant for them. As such, those estimates are not intended to capture business closures, so the data in this release are preferred.

The data in this release are most similar to the concepts of business births and deaths in [the annual business demography statistics](#), which are badged as [National Statistics](#). The calculation of business births and deaths in the annual publication is more robust than in this publication and follows international guidance. The data in this release have been created rapidly to provide insight on the coronavirus pandemic, and they should be treated with caution.

## 8 . Related links

### [Business demography UK: 2019](#)

Bulletin | Released 17 November 2020

Annual change in the number of UK businesses broken down by sector of the economy.

### [Coronavirus and the economic impacts on the UK](#)

Statistical bulletin | Released fortnightly

The indicators and analysis presented in this bulletin are based on responses from the voluntary fortnightly business survey, which captures businesses' responses on how their turnover, workforce prices, trade and business resilience have been affected.

### [Multiple business registrations at a single postcode: 2019](#)

Article | Released 17 November 2020

Business demography explainer covering additional information on the impact of multiple registrations at a single postcode.

### [Business dynamism in the UK economy: Quarter 1 \(Jan to Mar\) 1999 to Quarter 4 \(Oct to Dec\) 2019](#)

Statistical Bulletin | Released 15 October 2020

Experimental statistics on business dynamism at a firm level using the Inter-Departmental Business Register (IDBR). The analysis includes changes in quarterly job creation and destruction by different firm characteristics since 1999 to 2019 for the UK.