



SME CONFIDENCE TRACKER



Q2 2017

SMEs: SUMMER OF UNCERTAINTY

On 18 April Theresa May called a snap election intended to secure a mandate for Brexit and extend the Conservative Party's leadership for up to five years. Six weeks later, there was a hung parliament, with the Government losing its majority and subsequently turning to the DUP for support.

Such events have sent another wave of uncertainty through an already shaky economy.

In the wake of two elections and a referendum in little over two years, it is clear that much of the country has voter fatigue. More damaging, however, is the sense of nervousness and trepidation amongst SMEs.

The SME Confidence Tracker for Q2 reflects this mood.

Business confidence is down by ten percentage basis points compared with the start of the year. Bad debt – the value of unpaid customer invoices – has risen by more than 70% in the past 12 months. The annual amount written off by each business has now reached more than £20,000.

Investment decisions are being postponed and sales expectations, which rebounded in the first quarter of the year have yet again slumped. In Q2 2014 almost six in ten SMEs expected sales to grow over the months ahead. In Q2 2017 this had fallen to 40%.

SME attitudes towards Brexit appear to be changing too. In the first three months of the year two-fifths felt that Brexit would make no difference to their businesses. Nearly three-fifths (59%) now believe that uncertainty caused by Brexit is damaging to the Government's ambition of a more productive and prosperous economy.

With this in mind, we must not lose our focus on regional growth and prosperity. Clarity and action surrounding the Northern Powerhouse and Midlands Engine initiatives are long overdue.

Such strategies, however, are currently on wobbly ground. Over a quarter of SMEs in the North are unaware of the Northern Powerhouse and half of those in the Midlands have not heard of the Midlands Engine. This demonstrates a distinct lack of awareness from the very audiences the Government wishes to engage.

It is vital that businesses in these regions see tangible benefits from the billions of pounds that have been earmarked, but this must start with awareness of the opportunities available to them.

While Brexit negotiations are clearly a priority for big and small businesses alike, it would be unwise for the Government to neglect the regional strategies on which it once placed so much emphasis.

By driving regional wheels of growth now, Theresa May's minority Government, may stand a chance of preventing this summer's uncertainty from continuing into the autumn and winter months.



EDWARD WINTERTON

UK Chief Executive,
Bibby Financial Services
July 2017

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KEY FINDINGS IN Q2 2017



40% of SMEs expect to see sales growth between July and October, down from 48% in Q1



SMEs have written off £20,403 in bad debt over the past 12 months, up 22% from Q1 2017



Three-fifths (59%) say that uncertainty brought about by Brexit is damaging for the economy



Three-quarters (76%) invested in their business during Q2



Almost half (46%) say the cost of doing business is the biggest challenge to them right now



The top area of investment was existing staff with over a third (37%) investing in training and development



Nearly a third (29%) want the Government to prioritise lower business rates for small businesses



Two fifths (40%) of SMEs say they do not plan to invest in their business in Q3

SME CONFIDENCE INDEX

The SME Confidence Index is compiled by equally weighting SME sales performance over the past three months with expected sales performance over the three month period ahead. The combined results provide an overview of the order books and work volumes of SMEs dating back to Q1 2014.

The Index for Q2 shows a one point decrease in the last three months, sitting at 60.5. This indicates a fall in confidence towards the Index's historical low in Q4 2016.

CONFIDENCE INDEX



BREXIT: THE BIGGEST CHALLENGE

June saw the commencement of the first round of Brexit negotiations. The Government's negotiating stance has been outlined by The Department for Exiting the European Union as having several broad pillars. These include:

- Being out of the Single Market and out of the Customs Union
- Holding to the view that the UK's future relationship with the EU should be discussed at the same time as the 'divorce proceedings'
- Negotiating from a position that 'no deal is better than a bad deal'

For SMEs, these negotiation stances have significant implications and there is some concern amongst business owners. This concern is borne out in the SME Confidence Tracker for Q2.

Data for Q1 showed that two-fifths of SMEs felt that Brexit would make no difference to their businesses. During the second quarter of the year, however, three-fifths (59%) told us that they now believe that uncertainty brought about by Brexit is too damaging for the economy.

According to the ONS, the second GDP estimate shows that the UK economy grew by 0.2% in Q1 2017, easing from 0.7% in Q4 of 2016. There are also indications that price rises have impacted consumer spending and savings. The ONS said that the household savings ratio halved in Q2.

The Tracker shows SME owners voicing their own concerns over the cost of doing business. This was cited by nearly half (46%) of respondents as a key issue. The same proportion believe that the UK workforce lacks the skills needed to enable competitiveness, raising questions about how the UK will fair in accessing talent once it has officially exited the EU.

It's clear that many would like to see greater Government progress in negotiating a deal that works for both the UK economy and local business communities alike.

PRIORITIES FOR THE NEW GOVERNMENT

When asked what this deal should look like, SMEs are almost split. One in five believe that the UK should negotiate a new deal with the EU and 15 per cent think the UK should revert to World Trade Organisation rules.

However, an issue outside of the Brexit debate is the key priority for Government, according to SMEs. Nearly a third (29%) want the Government to prioritise lower business rates for small businesses over the coming months.

This has been an ongoing concern for SMEs for some time and needs to be addressed effectively if the UK is to maintain its standing as a great place to do business.

TOP SME DEMANDS FROM THE NEW GOVERNMENT



Lower business rates



Negotiate a deal with the EU



Establish a deal with the EU under World Trade Organisation rules

INDUSTRIAL STRATEGY

The Northern Powerhouse and Midlands Engine initiatives were two hallmarks of the Cameron-Osborne Government, both intended to create a more balanced economy by driving regional growth.

However, both initiatives have been characterised by stop-start progress, hampered by referendums and elections.

So what now for these two key elements of the Government's Industrial Strategy and how will SMEs benefit?

SORRY, NEVER HEARD OF IT

In November of 2015, ComRes undertook a study commissioned by the BBC¹ that surveyed adults in the North of England to gain an understanding of their awareness of the Northern Powerhouse initiative. That survey found that more than 2 in 5 adults had never heard of it (44%).

Eighteen months later, the SME Confidence Tracker research paints a similar picture with 43% of all SMEs surveyed stating that they have never heard of the Northern Powerhouse. More surprisingly, a third (32%) of SMEs in the North West, a quarter (25%) in the North East and a third (31%) in Yorkshire and Humber are unaware of the initiative or how they could benefit from such regional investment.

National and regional awareness is even lower for Government plans in the Midlands. Two thirds of SMEs surveyed have never heard of the Midlands Engine (66%), including more than half of all business owners in the West and East Midlands (51% and 56% respectively).

Of those aware of the Northern Powerhouse and Midlands Engine, 40% think the initiative is too focused on Manchester (61% in the North East) and a third of SMEs nationally (33%) believe the Midlands Engine is centred too much on Birmingham.

LONDON CENTRIC?

With regard to wider Government support for business and industry, two thirds (66%) of SMEs think believe that inward investment is skewed towards London. This opinion is heightened in the North West (81%) and West Midlands (80%).

Over two thirds of business owners in the North East (72%) agreed.



NORTHERN POWERHOUSE

43% of UK SMEs have not heard of the Northern Powerhouse initiative

Including...

29% of businesses across the North West, Yorkshire and the North East

MIDLANDS ENGINE

66% of UK SMEs have not heard of the Midlands Engine initiative

Including...

54% of businesses across the East Midlands and West Midlands

¹BBC 'NORTHERN POWERHOUSE' POLL conducted by ComRes

INVESTMENT

Three quarters (76%) of SMEs invested in their businesses in Q2, a similar level to that seen over the last year. Where investment has taken place it was focused on new and existing staff, IT and equipment.

Top investment areas in Q2 were:



Existing staff training and development



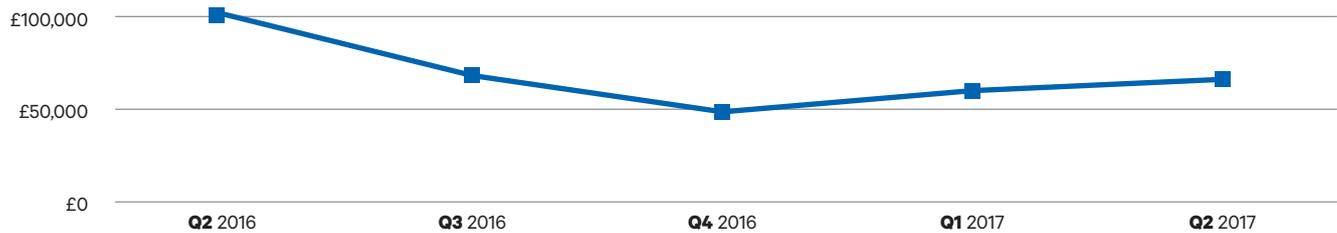
IT



Office equipment

While the number of SMEs investing has remained constant over recent months, the latest research shows a decline in investment levels when compared with the same period in 2016. Over the past year, average planned investment has reduced from £101,920 in Q2 2016 to £65,782 in Q2 2017.

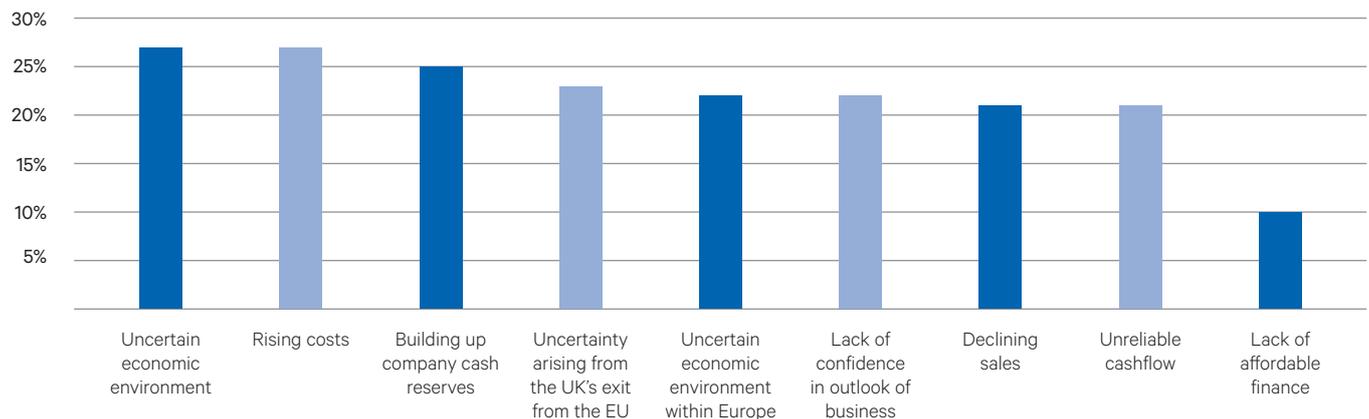
AVERAGE QUARTERLY INVESTMENT



Two-fifths (40%) do not plan to invest in their businesses between July and October. There are a number of factors why business owners are holding back investment: over a quarter (27%) cite the uncertain economic environment in the UK, a similar proportion (26%) blame rising costs and a fifth (22%) say Brexit uncertainty is preventing them from investing in Q3.

Of those investing over the coming months the top three reasons given were to replace equipment or technology that has deteriorated (20%), reduce operating costs and improve efficiency (16%) and to fund planned expansion within the UK (15%).

SME BARRIERS TO INVESTMENT

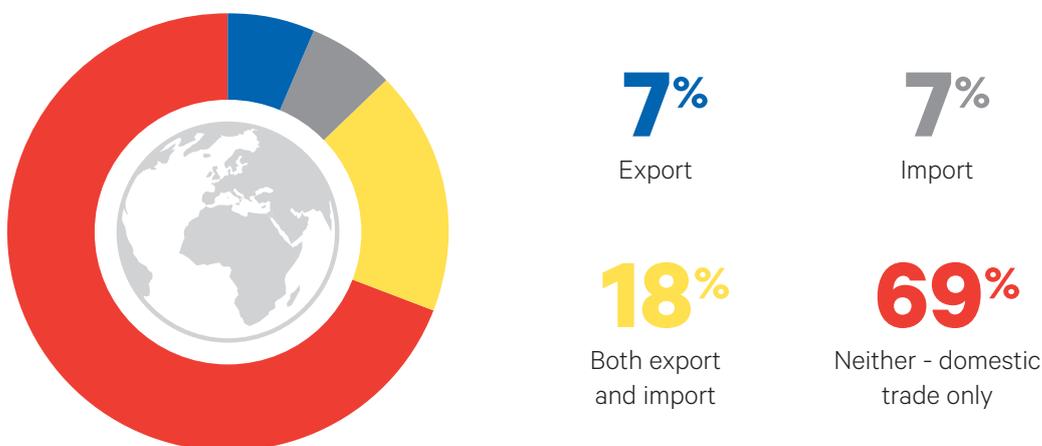




INTERNATIONAL TRADE: SEIZING OPPORTUNITY BEYOND THE UNCERTAINTY

Recent figures from the Office for National Statistics show that the UK's current account deficit – the difference between the value of goods imported and exported – expanded by £4.8bn to nearly £17bn in total in Q1 2017.

According to the SME Confidence Tracker for Q2, those taking part in international trade remains relatively low, with the majority of small businesses focusing on the domestic market only.



Despite this, the number of SMEs investing in preparing their businesses for overseas trade has increased in the past year. One in ten plan to invest in preparing their businesses to export over the next three months and 17% have ambitions to export over the next 12 months.



“With so much unknown, and speculation surrounding the UK’s relationship with the EU, the finer details of a trade deal and the impact of exit from the customs union and the single market - there is a real danger that the scale of the opportunity to export over the next few years is overlooked.

While the number of businesses exporting in the UK remains modest, we are certainly starting to see more SMEs researching overseas markets and looking to dip their toes in the international market. The key thing for SMEs is to have a plan and to take advantage of support available in helping them to overcome the complexities of trading overseas. Key challenges where support is available include foreign exchange fluctuations, language barriers, legal and cultural nuances, and freight and logistics management.”

CRAIG DURNELL

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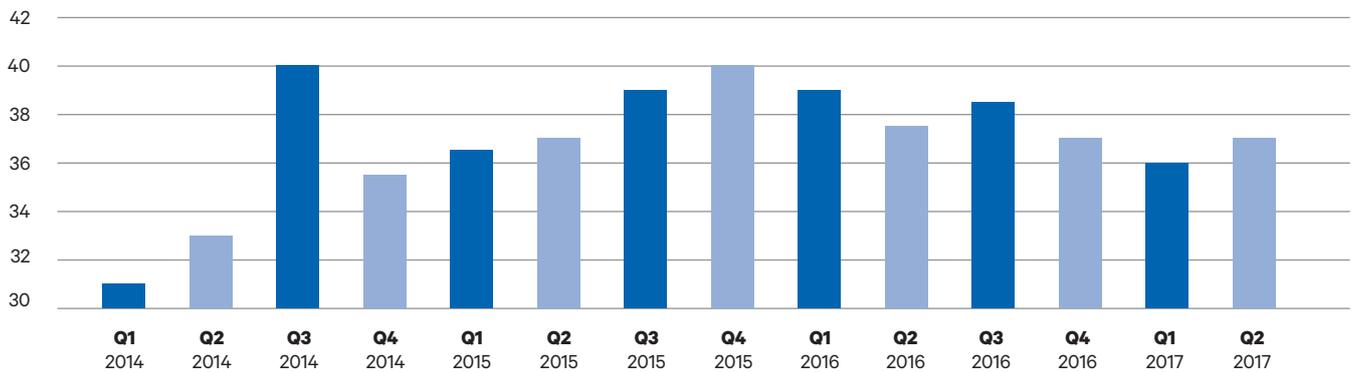
CHALLENGES

LATE PAYMENTS

A combination of Brexit and the general election moved the debate away from the UK’s culture of late payment, however, this remains a key issue for many businesses across the country.

Data for Q2 reveal that average payment times have plateaued somewhat since Q1, remaining at 36 days. The data also show that companies trading internationally have to wait the longest for payment at 44 days, with companies that only trade domestically on average waiting ten days less.

AVERAGE PAYMENT TIMES (DAYS)



BAD DEBT – EARLY WARNING SIGNS OF A RECESSION?

Bad debt – the value of unpaid invoices written off by each business – has jumped to £20,403 in Q2 2017, an increase of 72% compared to just a year ago. Similarly the proportion of businesses to have suffered a bad debt in the last year hit 35%, a record high for the SME Confidence Tracker which dates back to Q1 2014.



“SME activity is often a barometer of wider economic performance. When SMEs are taking on more work, hiring staff and investing in equipment and machinery, it is reflected in the performance of the wider UK economy.

However, right now we are now seeing signs that businesses are delaying investment decisions. Furthermore, data showing rising bad debts amongst SMEs could indicate a build-up of pressure in supply chains throughout the country.

It is possible that this is a sign that the UK is heading for a recession, but it’s still too early to call. We will know for sure over the coming months.”

DAVID POSTINGS

Global Chief Executive, Bibby Financial Services

REGIONAL HIGHLIGHTS

For a second successive quarter, Yorkshire and Humberside is the most confident region, with 40% expecting sales to increase over the next quarter. Businesses in Scotland are among the least confident with less than a third (32%) expecting sales to increase. However, the North West holds the highest percentage of businesses that expect sales to decrease next quarter (13%), closely followed by East Anglia, the South West and the North East, each at 12%.

East Anglia has the highest number of businesses looking to invest over the course of the next quarter at 76%. In contrast, 55% of respondent in the East Midlands said they would look to invest over the next three months, with one in ten (9%) stating they would not look to invest at all throughout Q3, the highest of all the regions.



WHAT IS THE SME CONFIDENCE TRACKER?

The SME Confidence Tracker surveys over 1,000 of the UK's small and medium sized businesses on a quarterly basis. The Tracker charts the confidence of owners and senior decision-makers of businesses in manufacturing, construction, wholesale, transport and services sectors. Field work took place in May and June 2017 with businesses that had an average annual turnover of £2.1 million.

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services (UK) is a leading funding partner to over 7,000 small and medium sized enterprises and the country's largest independent invoice finance specialist.

Formed in 1982, we are members of the Asset Based Finance Association and support businesses in over 300 industry sectors through our 18 local offices in the UK.

With over 40 operations in 13 countries spanning Europe, North America and Asia, we provide specialist and adaptable trade, asset and working capital funding, helping businesses to grow in domestic and overseas markets.

In 2011, 2012, 2014, 2015, 2016 and 2017 the business was awarded a place in The Sunday Times 100 Best Companies to Work For, ranking 33rd in the most recent poll.

To find out more about Bibby Financial Services, visit:

www.bibbyfinancialservices.com

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