SME Confidence Tracker

Q1 2024

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Foreword

Green shoots of optimism this spring?

Two interwoven themes emerged in our SME Confidence Tracker throughout 2023: inflation and interest rates.

SMEs told us they were being squeezed at both ends; impacted by inflation triggered by geopolitical events, and negatively affected by monetary policy leveraged to ease price rises, leading to the highest interest rates the country has seen since the financial crisis of 2007/2008.

Concerns were compounded in February following the release of official figures showing that the UK economy entered a technical recession at the end of the year.

Just weeks later, however, the picture is different. While the Government remains behind its 2 per cent inflation target, economic indicators reflect an improved outlook for 2024 with EY upgrading its GDP growth expectations, and S&P Global's latest PMI showing a pickup in business activity among service sector companies. Amid improved forecasts, many believe it is only a matter of time before interest rates begin to fall.

With the Monetary Policy Committee's next meeting approaching at the time of writing, only time will tell. Whatever the case, a growing sense of optimism was felt by many of the UK's 5.6m SMEs throughout the first quarter of the year.

More than three-fifths (61%) predict sales to increase over the coming months, a seven per cent rise year-on-year. Though investment levels remain subdued, undoubtedly a pending general election is the reason many are delaying capital expenditure. In fact, almost half of those seeking external financing this year plan to invest in expansion, compared with just 11 per cent who propose to utilise borrowing to pay-off debt.

Despite renewed positivity - and cash deposits remaining 25 per cent above pre-Covid levels - findings point to an uncertain credit environment which could hamper these ambitions.

Two-fifths say their cashflow positions are precarious and 61 per cent believe high-street sources are less likely to lend to them today. Further still, a significant proportion say incumbent lenders have reduced credit availability since the autumn, representing shifting attitudes towards lending to UK SMEs. This was noted in a Treasury Committee inquiry published recently which showed that more than 140,000 SME bank accounts were closed by lenders, with "risk appetite" cited in a number of cases.

So, while the signs are improving for the economy this spring, a disconnect remains between SME ambitions and support available.

This support is front of mind for SMEs regarding the next general election too. When asked what they would like to see from the next government, business owners and decision makers ardently called for economic growth, job creation and access to affordable finance. And, while the small business community welcomed the 2-year extension of the Recovery Loan Scheme announced in the Spring Budget this month, more needs to be done to support them amid a tough credit environment.

As the UK looks set to return to the polling booth later this year, the party able to convey how they will return the UK to sustained growth - with SMEs at the heart of their policies - will take the business vote.

Derek Ryan
UK Managing Director
Bibby Financial Services

Derek Ryan

Research highlights

61%
of SMEs predict an increase in sales in the next six months

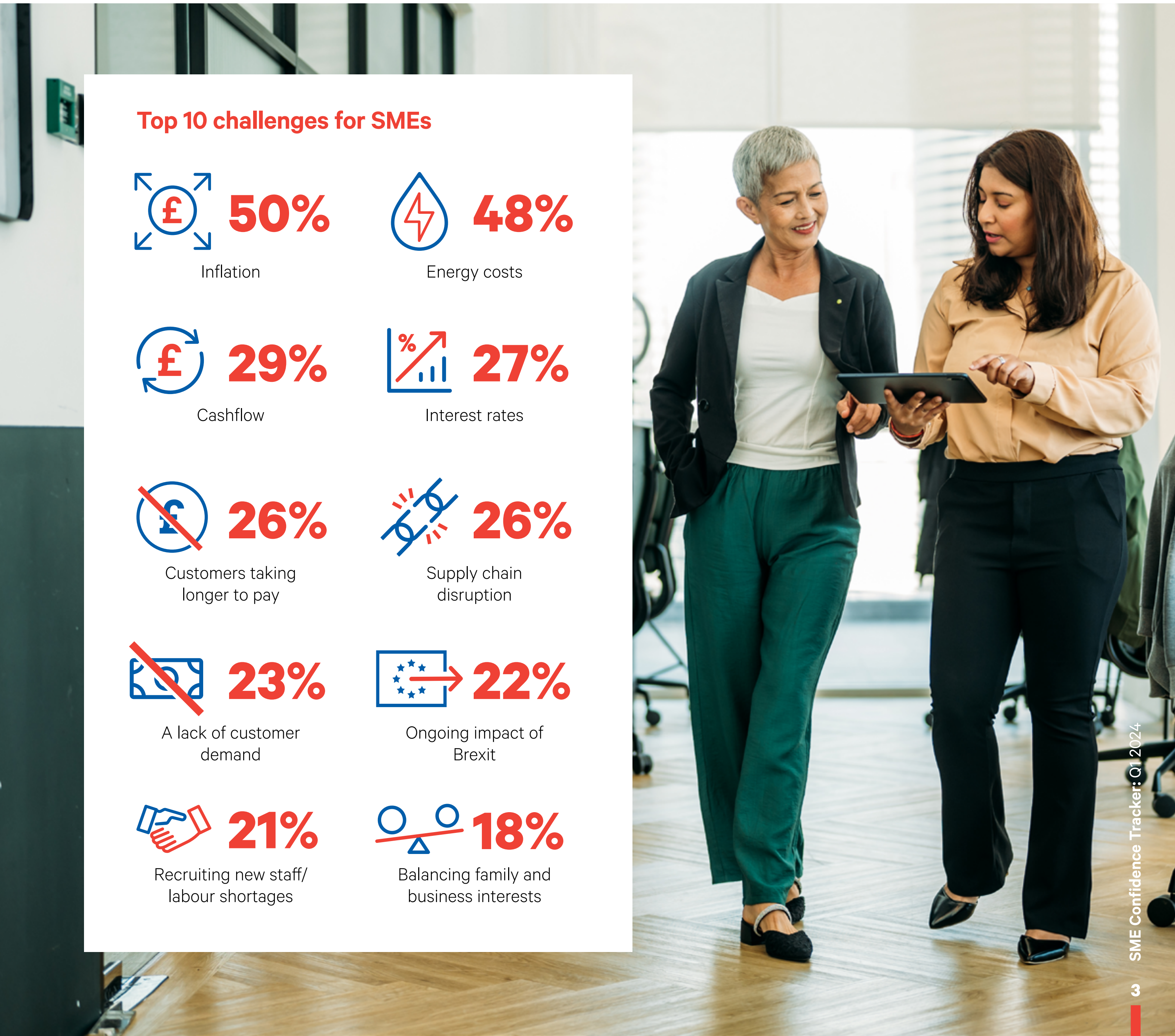
57%
of SMEs are profitable today

53%
of SMEs are putting off major investments until interest rates drop

48%
of female founders think external finance is harder to secure for women-owned businesses

46%
of SMEs say it's more difficult to access external finance than it was six months ago

43%
of SMEs are delaying investments until the next general election



Top 10 challenges for SMEs

50%
Inflation

48%
Energy costs

29%
Cashflow

27%
Interest rates

26%
Customers taking longer to pay

26%
Supply chain disruption

23%
A lack of customer demand

22%
Ongoing impact of Brexit

21%
Recruiting new staff/ labour shortages

18%
Balancing family and business interests

SME Confidence: Caught in a holding pattern

2023 was challenging for the UK's SME population, characterised by persistent inflation, escalating interest and insolvency rates, and a technical recession in the final quarter of the year.

In 2024, it's hoped that the macroeconomic environment will be more favourable for business - and this spring, SMEs wait with bated breath for greater clarity on the economic outlook and what, if any measures, the UK Government might implement to stimulate growth.

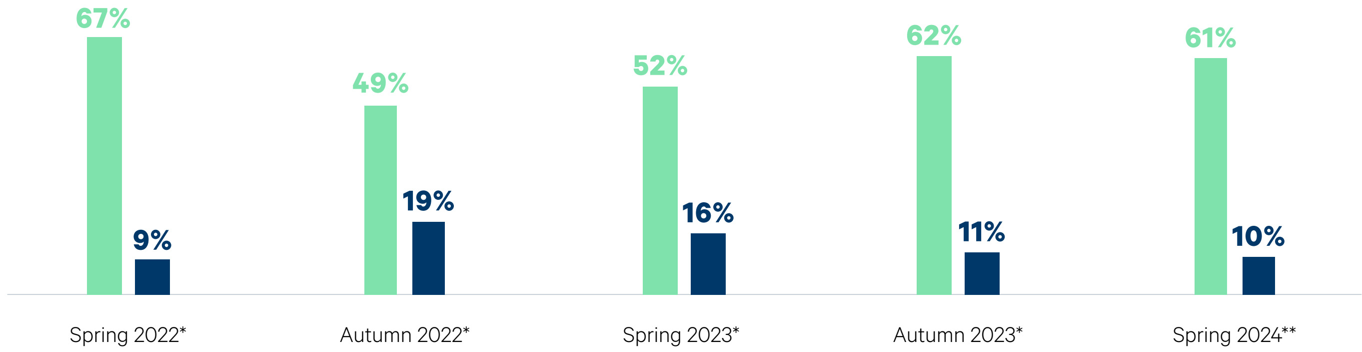
From interest rate decisions to an impending general election, to volatile geopolitics, our research of 1,000 SME owners and decision makers reveals that uncertainty is the biggest blocker to their success this spring. Yet, despite this uncertainty, there are green shoots of optimism.

Optimism bounces back

Looking ahead to the next six months, SMEs are largely optimistic about business growth. 61 per cent predict a net increase in sales. A year ago, that figure was 54 per cent. Similarly, just 10 per cent foresee a decrease in sales over the coming six months versus 16 per cent who projected falling sales over six months in Spring 2023.

This evident upswing in SME confidence is likely the result of businesses having had time to adjust to a more settled interest rate environment and feeling less pressured by the high cost of doing business.

Sales expectations for the next six months



*Survey sample: 500 UK SME leaders **Survey sample: 1,000 UK SME leaders

Investment remains at a standstill

While inflation seems to be subsiding - with the January CPI rate at 4 per cent - and the Bank of England indicating rates are unlikely to rise above their peak of 5.25 per cent, it's unclear when and how quickly either of these metrics will come down further. There is also uncertainty about whether the Government will achieve its 2 per cent inflationary target which, according to the current Chancellor of the Exchequer, 'reflects the primacy of price stability' that enables businesses to thrive.

With the cost of borrowing still high, many businesses are evidently waiting for rates to fall before committing to taking on debt and investing in growth. In fact, over half (53%) of SMEs are putting off making major investments until interest rates fall.

This is creating stagnation in the market, which is only being made worse by the upcoming general election, as businesses wait to see how the economic landscape might change in the near future. 43 per cent of SMEs report holding-off on major investments until after the general election.

Given that SMEs make up 99.2 per cent[1] of the UK's total business population, this hiatus could slow the pace of the country's broader economic recovery. Businesses delaying their investment plans will result in missed opportunities for productivity gains, jobs creation, and a lag in supply chain expansion.

53% of SMEs are putting off major investments until interest rates drop

43% of SMEs are delaying investments until the next general election

[1]Department for Business & Trade, Business population estimates for the UK and regions 2023: statistical release, October 2023

SME Confidence: Caught in a holding pattern

Cashflow remains a major challenge

The data shows that the business landscape is making it challenging enough for many SMEs to stay afloat, let alone grow. Currently, 57 per cent describe their business as profitable, and over a third (36%) report to be only just breaking even, with five per cent running at a loss. Worryingly, two per cent say they don't know.

Looking ahead, this means cashflow will continue to be one of the most important issues for businesses to get a grip of. In fact, our research finds cashflow is the third most significant challenge for SMEs in 2024.

This is reflected by the corporate insolvency rate, which hit a 30-year high in 2023 as 25,158 businesses fell foul of high costs and tough trading conditions.[2]

Over half (54%) of SMEs have experienced at least one supplier becoming insolvent or ceasing trading over the past six months, and a similar number (51%) have experienced one or more customers ceasing to trade in the same time frame.

Cashflow is also being impacted by customers failing to pay invoices on time, or at all. Two thirds (68%) say it's taking longer for customers to pay invoices in full compared with a year ago. Meanwhile, nearly a third (30%) suffered a bad debt due to customer non-payment over the past 12 months, having to write-off £17,500 on average during this period.

68%

of SMEs say it's taking longer for customers to pay invoices in full

30%

of SMEs have suffered a bad debt over the past 12 months

£17,500

is the average bad debt written-off by SMEs over the last 12 months

[2] The Insolvency Service, Company Insolvency Statistics, January 2024

Playing a waiting game

Against a backdrop of high interest rates, many SMEs today find themselves playing a waiting game, too uncertain to seek finance, despite four in ten (41%) of them admitting their need for external finance has increased over the past six months. With banks also hesitant to lend, SMEs face an uphill battle.

Primary reasons for using or considering the use of external finance:

48%
Expansion or investment

40%
Fund day-to-day operations

11%
Pay off debt

Banks reticent to lend

Over half (53%) of SMEs believe it is more difficult to access finance now compared to six months ago, and six in ten (61%) believe that banks are less willing to lend to small businesses like theirs today.

In this context, it follows that SME leaders are doubting the likelihood of securing finance at all. Only just over half (54%) claim to feel confident in their business' ability to pitch for and secure external finance.

These statistics echo perspectives from the most recent Bank of England Financial Stability Report,[3] which highlights the potential impact of the current interest rate environment on third-party finance for SMEs. According to the report, the threat of an increase in corporate loan repayment defaults could prompt lenders to re-evaluate their credit risk. Similarly, the continued higher costs of borrowing might further discourage SMEs from seeking external finance in the first place. The report states: 'Aggregate net lending remains subdued, driven by reduced demand for credit and a tightening in banks' risk appetites.'

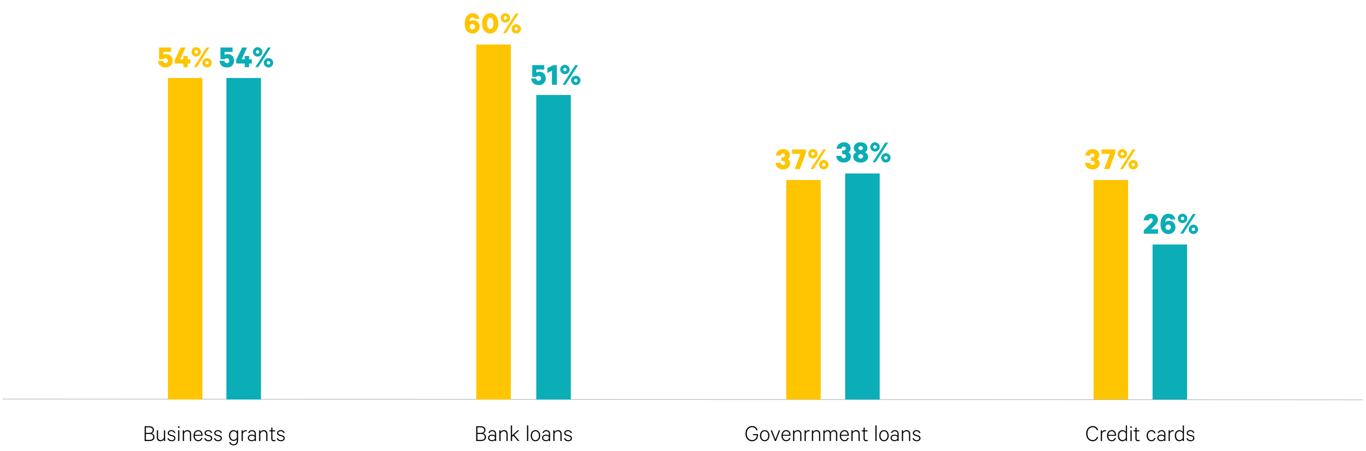
SMEs wary of debt

This reduced demand for loans is corroborated by the SME community who readily admit borrowing costs remain front of mind. Two-thirds (66%) claim to pay more attention to rates now than they used to when considering external finance.

Despite changing attitudes toward the use of external finance, many SMEs still judge the risk as being too high. Over half (54%) report not to be using external finance currently, up from 49 per cent last September.

In terms of the types of finance SMEs leverage, the picture is mixed. Unsurprisingly, bank loans - the most widely recognised form of lending - continue to be a top choice. However, our data reveals a changing credit environment. Just over half (51%) of SMEs chose bank loans as their preferred lending option, down from 60 per cent in September, again reflecting the impact of high interest rates. Credit card lending too, saw a dip, with 26 per cent of SMEs selecting this method as their preferred lending type, down from 37 per cent in September.

SMEs' preferred types of finance



*Survey sample: 500 UK SME leaders **Survey sample: 1,000 UK SME leaders

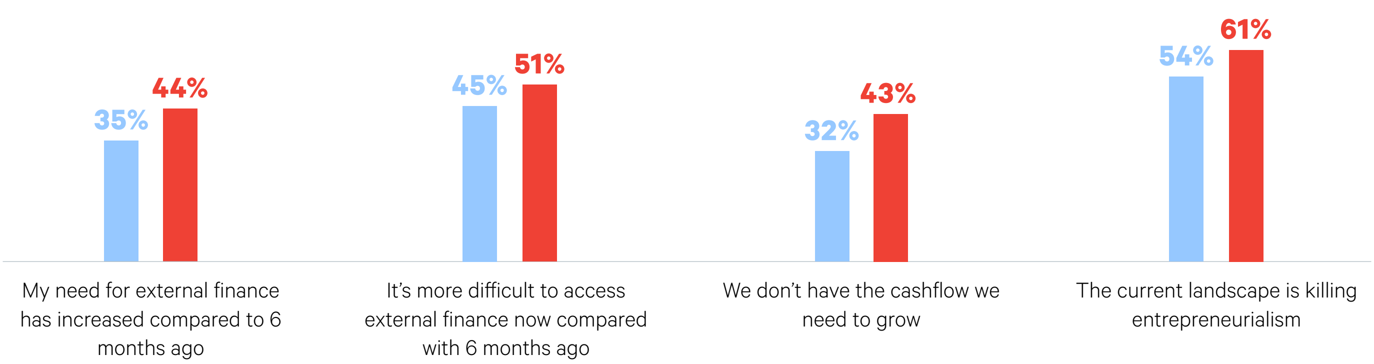
[3] Bank of England Financial Stability Report, December 2023

SME Confidence: Closing the gender funding gap

In addition to the universal economic challenges that UK SMEs face, our findings expose a worrying set of challenges unique to female founded and managed businesses. Nearly half (48%) of female founders/owners feel that external finance is more difficult to secure for those businesses owned by women, than for those owned by men.

In addition, 50 per cent of female survey respondents said they have experienced their bank or financier reducing their credit availability over the past six months. And these adverse conditions may be impacting confidence, with only 35 per cent of female founders/owners claiming to feel confident in their business' ability to pitch for and secure external finance, compared to 44 per cent of male founders/owners and 52 per cent of overall respondents.

Attitudes of female founders vs male founders



Yet there's no shortage of ambition from female founders in the UK. According to a recent NatWest report[4], the growth in female founded businesses continues to increase year-on-year, with a record 164,000 companies incorporated by women in 2023. This takes growth in the five years between 2019 and 2023 to 26 per cent overall. It's critical that the finance industry collaborates to address gendered biases, or it risks limiting the ultimate growth and success of the SME population, the lending industry and the UK as a whole.

"Our data uncovers a stark and worrying truth: women business leaders are not currently afforded the same access to finance as their male counterparts. Not only does this have serious repercussions on the health and prosperity of UK SMEs, but it's also a missed opportunity for funders.

"There are many reasons behind this inequality of funding. Chief among these is a lack of financial education, and a lack of allies and developed networks for women-led SMEs. It is more crucial than ever that the Government continues to review funding policies to understand the barriers female business leaders are facing.

"However, the financial services industry also has a key role to play. Lenders and funders must make the effort to ensure appropriate resources are available for women-run small businesses. They also need to better understand the challenges that stand in the way of these companies and take action to improve equity in funding for these businesses, which should include considering whether women-led end-to-end funding propositions are available."

Lucile Flamand
Chief Strategic Development Officer, Bibby Financial Services

[4] NatWest and Beauhurst New Startup Index, 2024

Spotlight on construction

Though stalled economic growth is having an impact on all sectors, construction is the most beleaguered. From rising costs and supply chain issues to falling construction starts, SMEs in the construction sector face a specific set of challenges to overcome.

Inflation taking its toll

While half (50%) of all SMEs surveyed cite inflation as a key challenge, for construction this figure jumps to 56 per cent, due in part to the sector's reliance on materials which have become costly. According to recent government statistics[5], between 2022 and 2023 the price of ready-mix concrete and metal doors and windows both saw significant year-on-year price increases of 13.4 per cent and 18.2 per cent, respectively.

In fact, two thirds (65%) of business owners cite the high cost of materials as one of the key challenges impacting their business.

The consequences of inflation are apparent across several of the challenges identified by construction SMEs.

Top factors impacting construction businesses

65% High cost of materials

45% Late payments /payment defaults

42% Supply chain disruption

40% Uncertain economic outlook

36% Availability of skilled workers

24% Access to large contracts / low demand for services

Skilled workers

The availability of skilled workers is also a significant barrier to the success of SMEs in the construction sector, with over a third (36%) of SME leaders in the space identifying it as one of the top three factors most impacting their business. Four years on from the UK officially leaving the EU, this data suggests the influence of Brexit is continuing to cause disruption. As the number of those being trained in construction skills continues to fail to reach pre-pandemic levels, and with 224,900 more construction workers[6] required to meet industry need, this is set to be an ongoing issue.

Despite the challenges construction leaders face, they display a boldness not seen elsewhere. While one third (35%) of construction companies are putting off major hiring and investment decisions until interest rates drop, this figure rises to 53 per cent across other sectors. Furthermore, over half (58%) of construction SME owners say they are optimistic that orders will increase in 2025.

Although such positivity is not unexpected, given forecasted slow and steady economic growth through 2024 and into 2025, SMEs in this sector will require support from the finance industry and government alike to overcome systemic barriers such as talent shortages.

Primary reasons for labour shortages

63% There is a lack of skilled labour available in the UK

30% It's difficult to offer long-term contracts

27% It's difficult for us to offer competitive salaries

21% It's too difficult to obtain visas for foreign workers

[5] Department of Business and Trade, Monthly Statistics of Building Materials and Components, January 2024
[6] Construction Industrial Training Board, 2023

Out with the old in with the new?

It's critical to set this data in the political context of spring 2024, at the beginning of what is, almost certainly, an election year. The research exposes a mixed picture of hesitancy and optimism felt by the SME community, but above all, a desire for political leadership to present a concrete vision for growth.

Asked to think about the upcoming general election, seven in ten (71%) SMEs cite economic growth and job creation as a critical issue for their business, and 65 per cent of SMEs believe that the most important outcome for the general election is that the winning party supports long-term business growth.

Most critical business issues ahead of the next general election

71% Economic growth and job creation

68% Tax policies and incentives

52% Access to affordable financing and loans

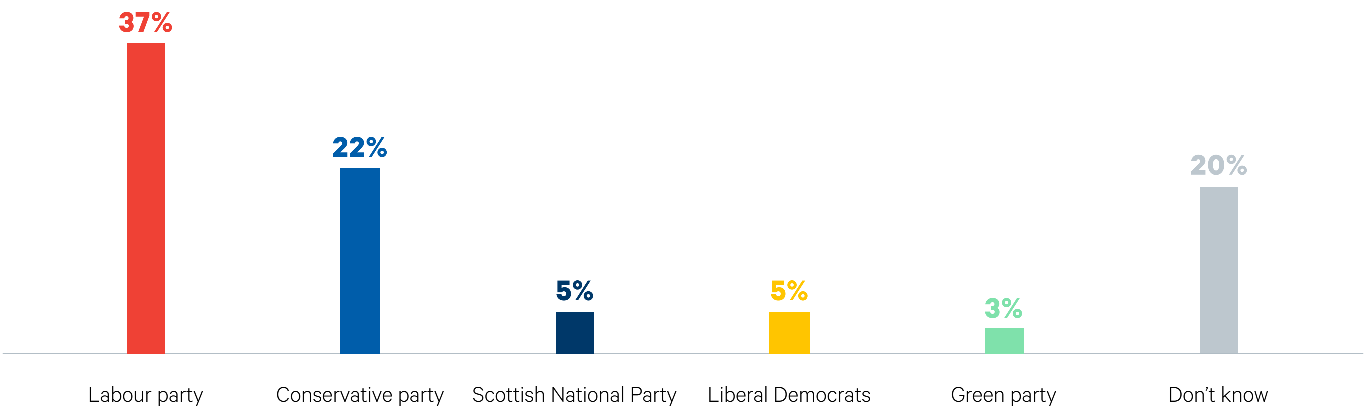
42% Trade policies and international market access

35% Regulatory environment and compliance burden

32% Climate readiness and support reaching net zero targets

The majority (37%) of SMEs believe Labour would best serve the needs of businesses like theirs today, up from 33 per cent opting for Labour last September, indicating a slow but steady creep to the left. This is compared to only 22 per cent of SMEs who believe the Conservatives best serve their interests. A concerningly high 20 per cent of SMEs claim not to know which party best represents their needs, pointing to significant disillusionment with party politics.

SMEs views on which political party best serves the needs of businesses like theirs today



Out with the old in with the new?

Further darkening the outlook for the Conservatives, over half (55%) of SMEs believe the incumbent government has taken too much of a short-term mindset on growth and six in ten (59%) believe it does not prioritise the needs of small businesses. Time will tell what difference, if any, the recent launch of the Small Business Council might make, but the chances are that it will be too little too late to positively impact SMEs' views of the current government.

The specific measures or reforms that SMEs would most like to see from a new government include tax incentives including reduced corporate tax and business rates (61%), access to low interest loans or grants for business expansion and job creation (47%), and support with energy bills (46%).

Specific measures or reforms SMEs would like to see the next government implement

61% Tax incentives (e.g. reduced corporation tax, business rates, etc.)

47% Access to low-interest loans or grants for business expansion and job creation

46% Support with energy bills

30% Small business educational resources

29% Streamlined and simplified regulatory processes, to navigate compliance requirements

29% New international trade agreements to enhance access to overseas markets

Moving forward

Regardless of any potential future interventions from government, SME owners and managers would do well to think about what they can do for themselves to ensure their business has the best possible chances of surviving, thriving and expanding.

Three considerations seem particularly relevant in the current environment:

1. **Unlocking working capital**

   Given that traditional lenders are reviewing their risk appetite for certain customers, SMEs should ensure they can maintain clear access to third-party funding lines where additional working capital is required to help them fulfil their growth ambitions. Beyond the traditional lenders, specialist independent funding partners, such as BFS, have a wealth of expertise that SMEs can tap into.

2. **Reviewing supply chains**

   While macro-economic conditions continue to fluctuate precipitating a degree of uncertainty, SMEs should pay even closer attention to their supply chains than normal. Now could be a good time to review existing suppliers and forge partnerships with new suppliers where necessary. This will help to mitigate any potential negative impacts on cashflow from suppliers who are struggling to pay and / or debt write downs as the result of suppliers becoming insolvent.

3. **Short-term investment for long-term growth**

   SME owners and managers who are already planning to invest in their businesses would do well to accelerate these plans. While there may be some short-term comfort from delaying capital expenditure, businesses that are prepared to take the plunge early, could benefit considerably from an early mover competitive advantage enabling themselves to capitalise on opportunities as trading conditions ease. For example, early investment in plant, R&D, or staff could make all the difference in being able to respond quickly and efficiently to an uptick in demand from customers as confidence returns to domestic and international markets.

Methodology

This study is based on a poll of 1,000 UK SME owners and decision makers across the manufacturing, construction, wholesale, transport and services sectors.

Research was conducted by independent specialists, Critical Research, between 24th January and 1st February 2024.

About Bibby Financial Services

Bibby Financial Services (BFS) is a leading independent financial services partner to over 8,500 SMEs worldwide.

We provide specialist working capital, asset finance and foreign exchange solutions helping businesses to grow and thrive in domestic and international markets.

Formed in 1982, BFS is part of the Bibby Line Group (BLG), a diverse and forward-looking family business delivering personal, responsive and flexible customer solutions for over 200 years.

To find out more about Bibby Financial Services, visit:
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