

SME FINANCE MONITOR

3 month rolling analysis to end
May 2019

An independent report by
BVA BDRC, June 2019



Introduction

The SME Finance Monitor was established in 2011 and provides detailed analysis of SMEs and their access to finance on a half yearly basis. The next full report to Q2 2018 will be published in September 2019.

As fieldwork takes place on a continuous basis, it is also possible to provide headline data on key issues in between these full reports. This pack will therefore be provided on a monthly basis and provide the latest 3 months rolling data across a range of issues.

The most recent data point for this report is the 3 months from March to May 2019.

Headline analysis is provided for all SMEs, with key questions split by size of SME. Some analysis is also provided by the type of international trade (if any) undertaken alongside domestic activity:

- Exporting but no importing (labelled as “export only”)
- Importing but no exporting (labelled as “import only”)
- Both importing and exporting (labelled as “import & export”)
- No international trade, SME only trades domestically (labelled as “domestic sales only”)

Differences shown month on month are not necessarily statistically significant. Differences of 4%+ month on month are needed for the total sample and up to 10%+ for some of the smaller groups (such as those trading internationally).

Introduction – Changes to main SME Finance Monitor questionnaire from Q1 2018


The SME Finance Monitor questionnaire has evolved gradually since it started in 2011.

In Q4 2017 it was decided that a more radical review was required to reflect changes in the finance market for SMEs, such as the rise of online platforms and other non-bank suppliers of finance. This was also an opportunity to focus on “need” for finance and how this translates into applications.

Most of the questions reported in this pack have remained unchanged.

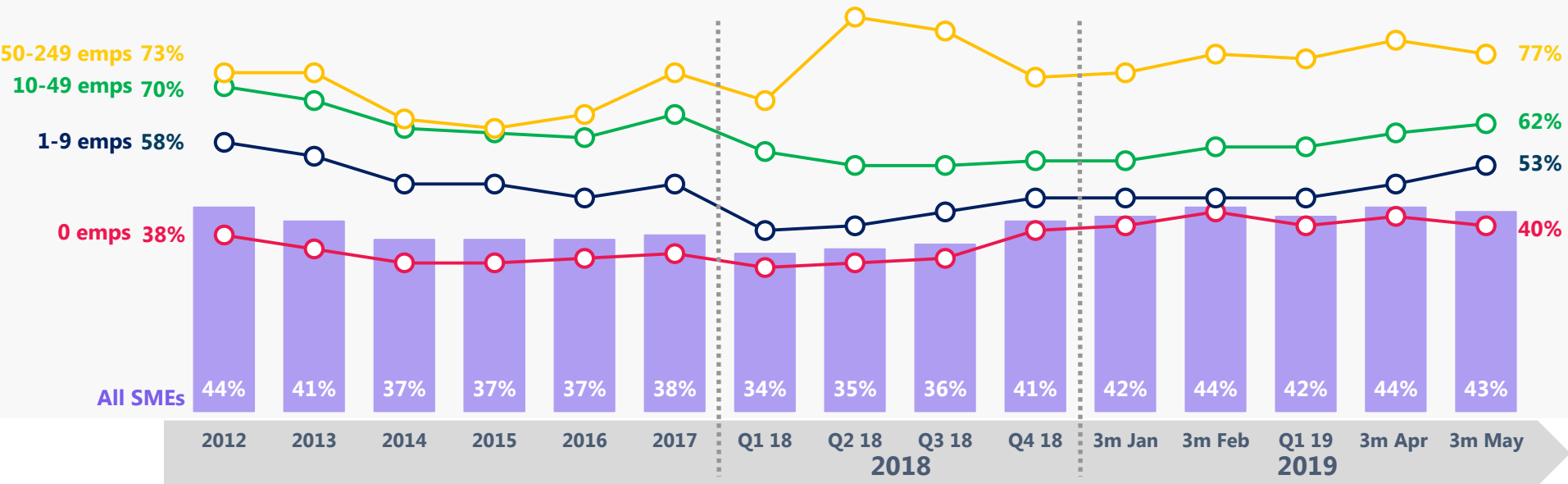
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

All of the changes have been reported on in full in the Q4 2018 SME Finance Monitor report, published in March 2019

This pack has been updated to reflect the new questionnaire and some new data included. New charts are indicated with a 

43% of SMEs were using external finance, little changed this year but above the 36% using finance in 2018 as a whole. SMEs with 1-9 and 10-49 employees have become more likely to use finance

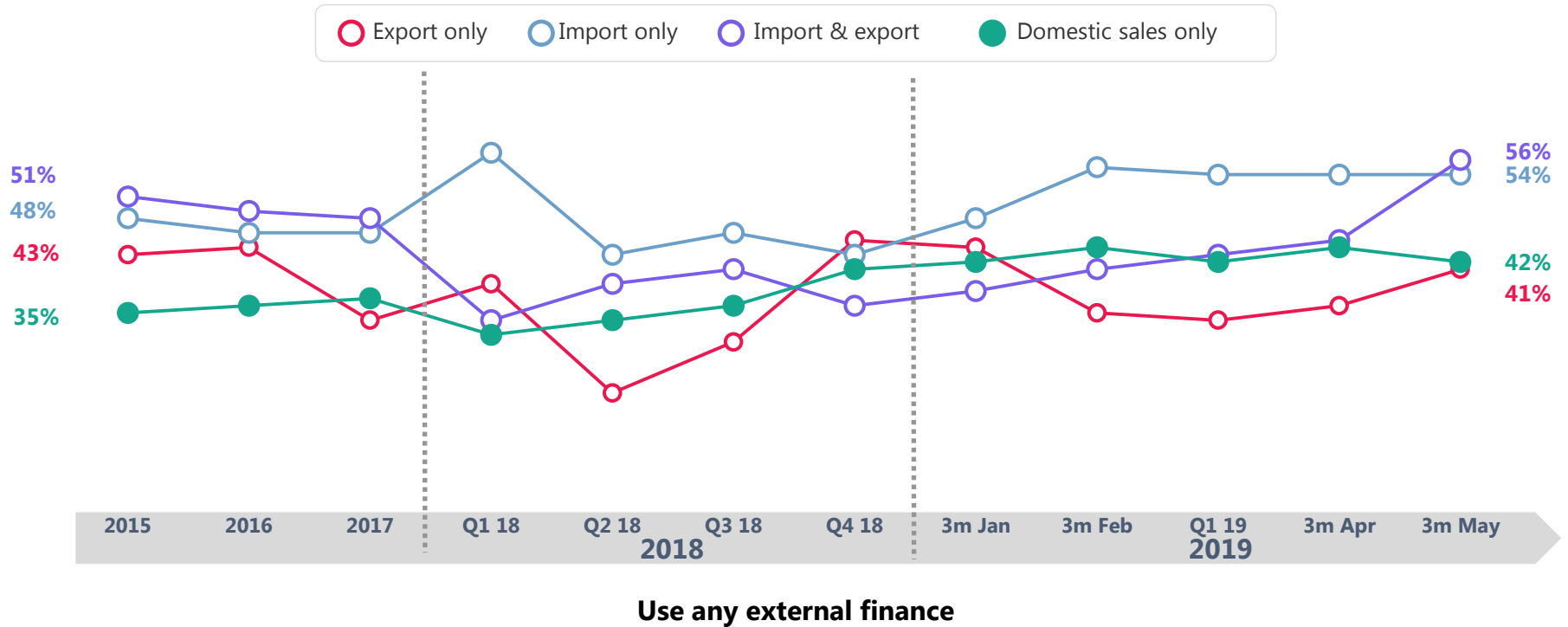
Time series: use of external finance per quarter



In 2018 as a whole, 36% of SMEs were using external finance, increasing by size of SME to 77% of those with 50-249 employees. Towards the end of 2018, use of finance started to increase, rising to 44% in the 3 months to February 2019, due to more of the smallest 0 employee SMEs using finance (34% for 2018 as a whole v 43% in the 3 months to February). Since then, use of finance overall and amongst 0 employee SMEs has been stable, but with more SMEs with 1-9 and 10-49 employees reporting that they are using finance in recent periods.

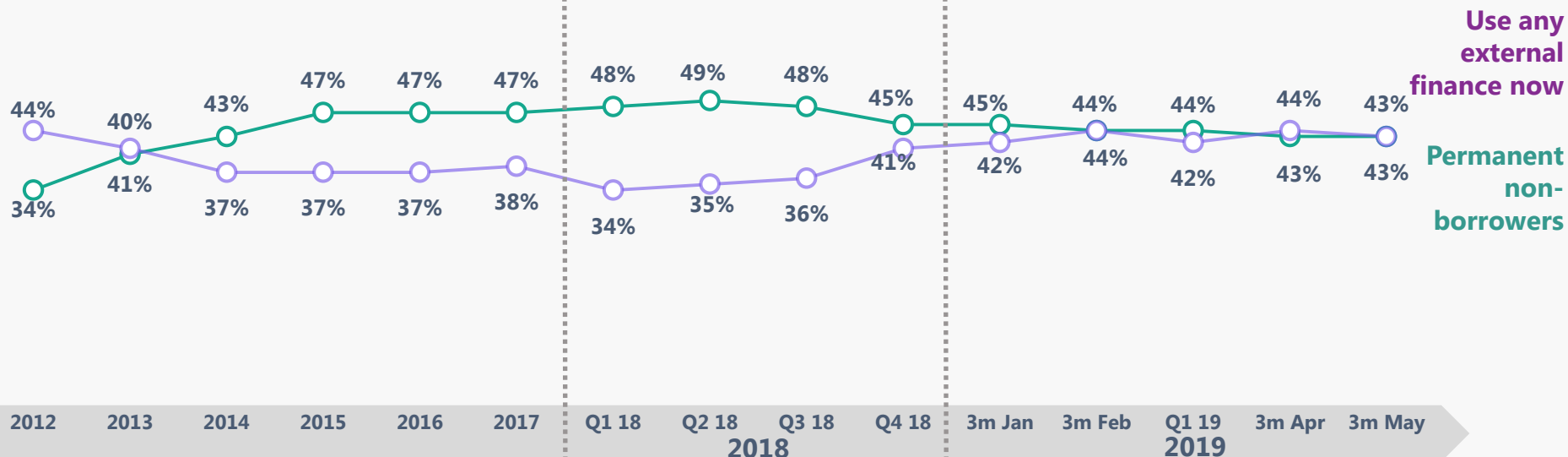
Those who both import and export have become more likely to be using external finance during 2019 to date, now in line with those who import-only

Time series: use of external finance by extent of international trade alongside domestic sales



Following the increase in use of external finance and slight decline in 'Permanent non-borrowers' there now remains nothing to choose between the two groups

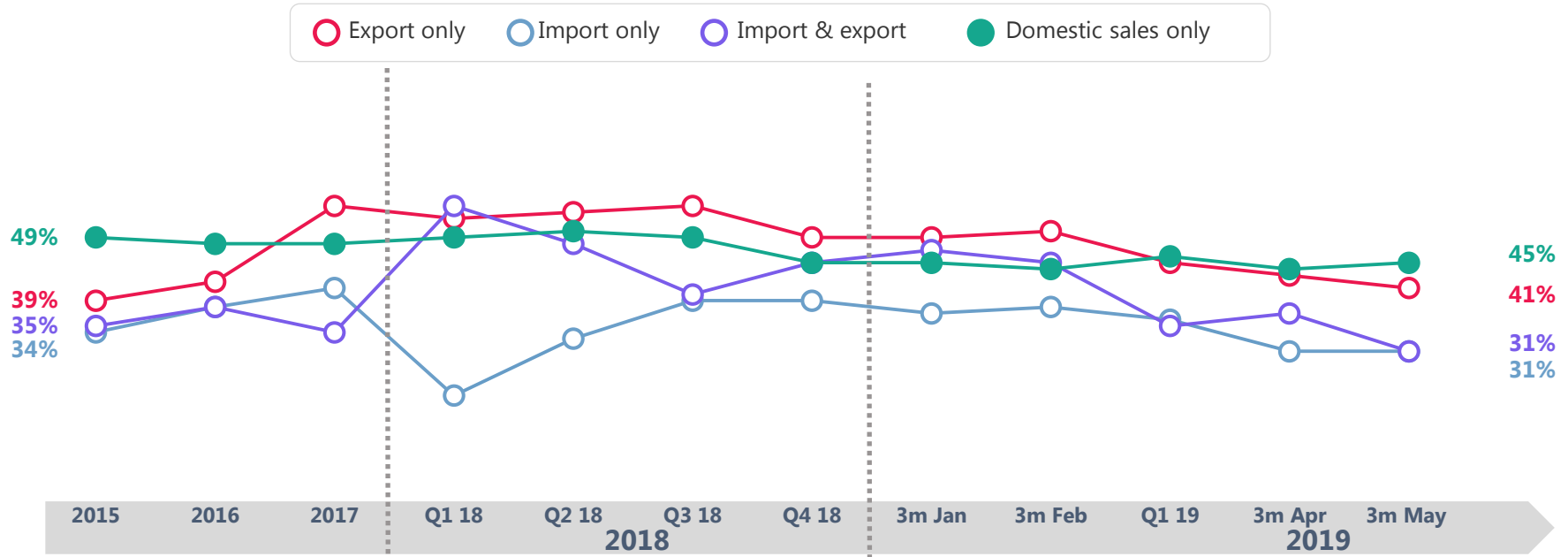
Time series: Permanent non-borrowers and users of external finance



The 'Permanent non-borrowers' are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. The 3 months to May figure of 43% is somewhat below 2018 as a whole (48%) and with the increased use in external finance there is currently no "gap" between the two groups compared to that typically seen since 2014.

Export-only and domestic SMEs remained-more likely to be a Permanent non-borrower than other SMEs (and less likely to be using external finance)

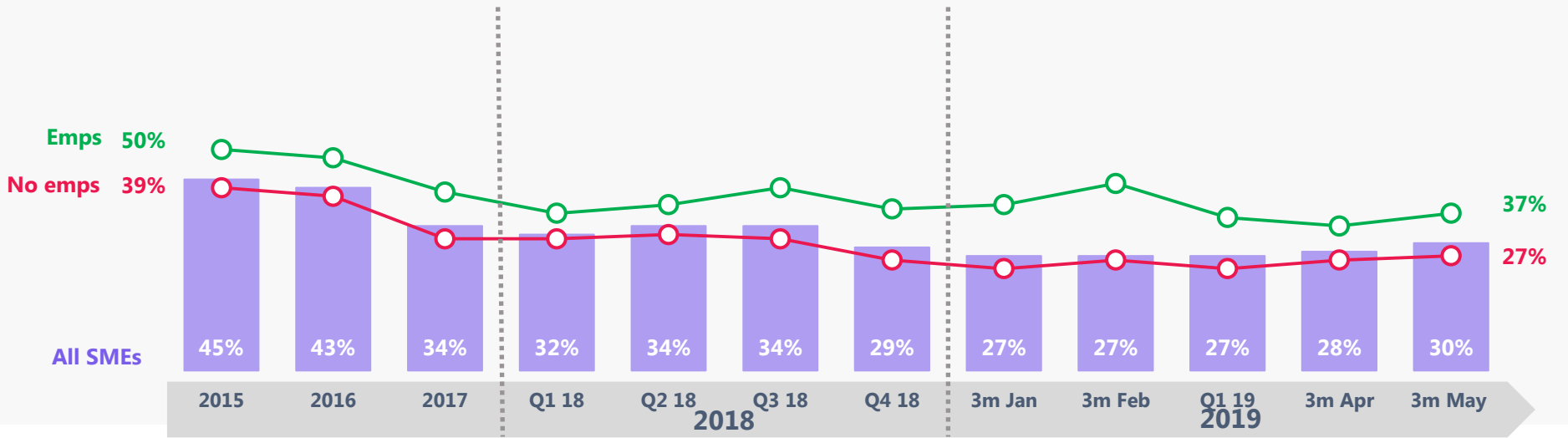
Time series: Permanent non-borrowers by extent of international trade alongside domestic sales



**Permanent non-borrowers
(no apparent appetite for finance)**

3 in 10 SMEs were 'happy to use finance to grow' in the 3 months to May, up slightly from Q1 2019 but still lower than the 1 in 3 previously seen in 2017 and Q1-3 2018

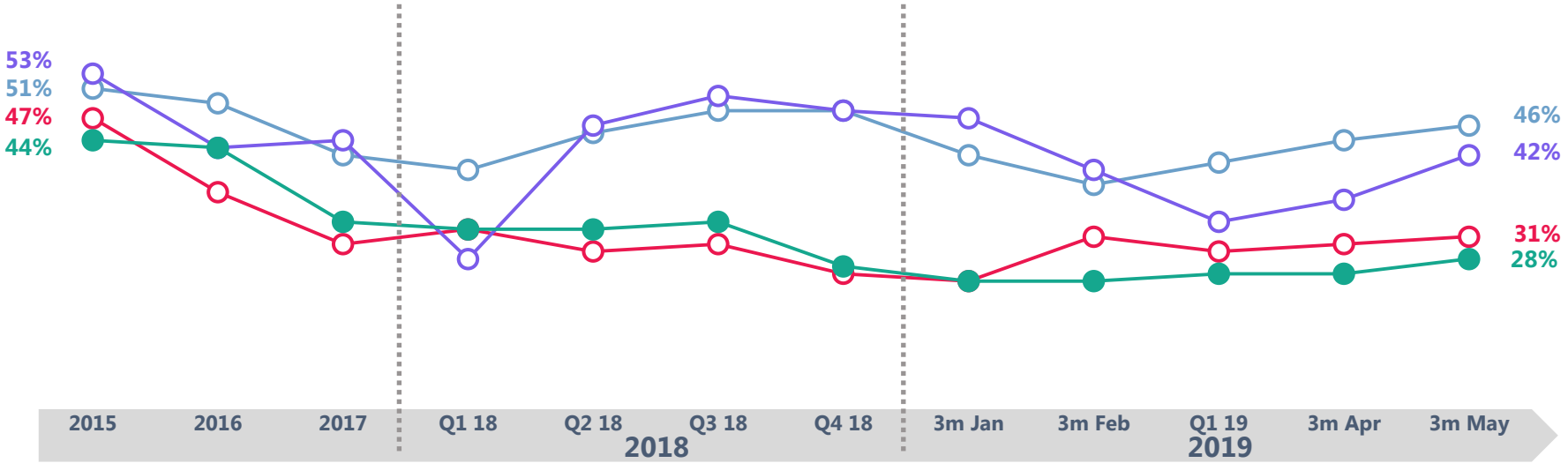
Time series: Agree that happy to use external finance to help business grow



After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined to 1 in 3 for 2017 and Q1-3 2018. By Q1 2019 the proportion had declined again to a quarter of SMEs (27%), with lower appetite amongst both 0 employee SMEs (24% in Q1 2019, down from 32% in Q3 2018) and those with employees (36% in Q1 2019, down from 43% in Q3 2018). Data for the latest period to May shows a slight improvement to 30% but still below the 1 in 3 seen previously.

SMEs that import-only or import and export were more likely to be happier to borrow to grow than their peers (and more likely to be using external finance and less likely to be a PNB)

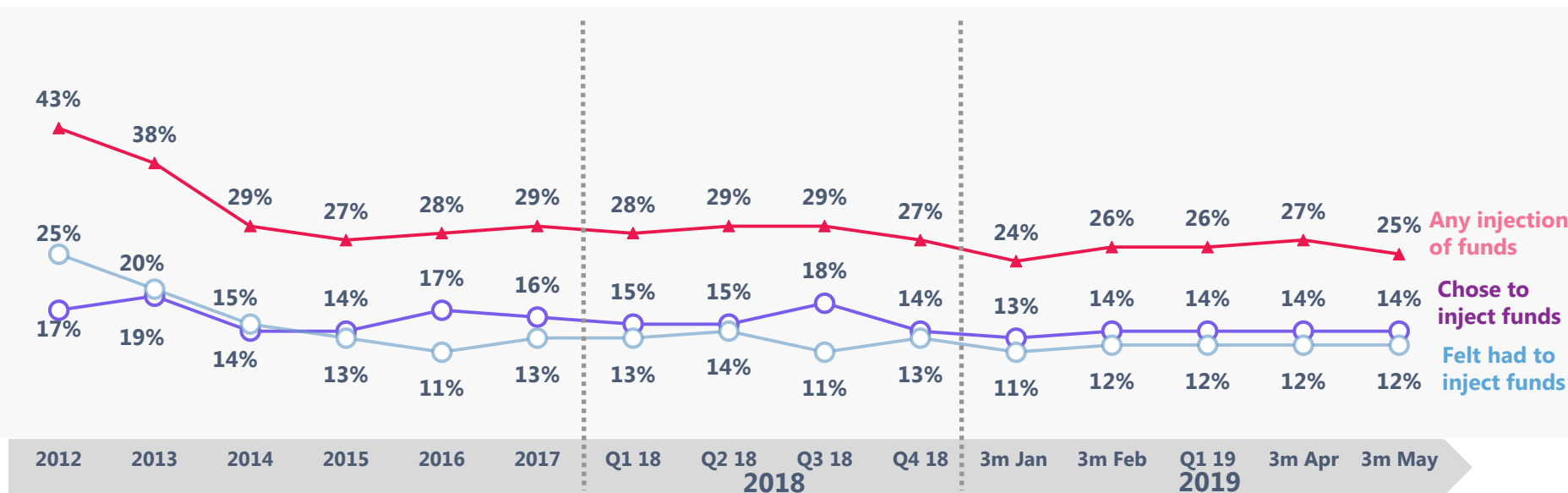
Time series: Agree that happy to use external finance to help business grow



Agree that happy to use external finance to grow

Around a quarter of SMEs have injected personal funds. SMEs were broadly as likely to have chosen to do so as to have felt that they had to.

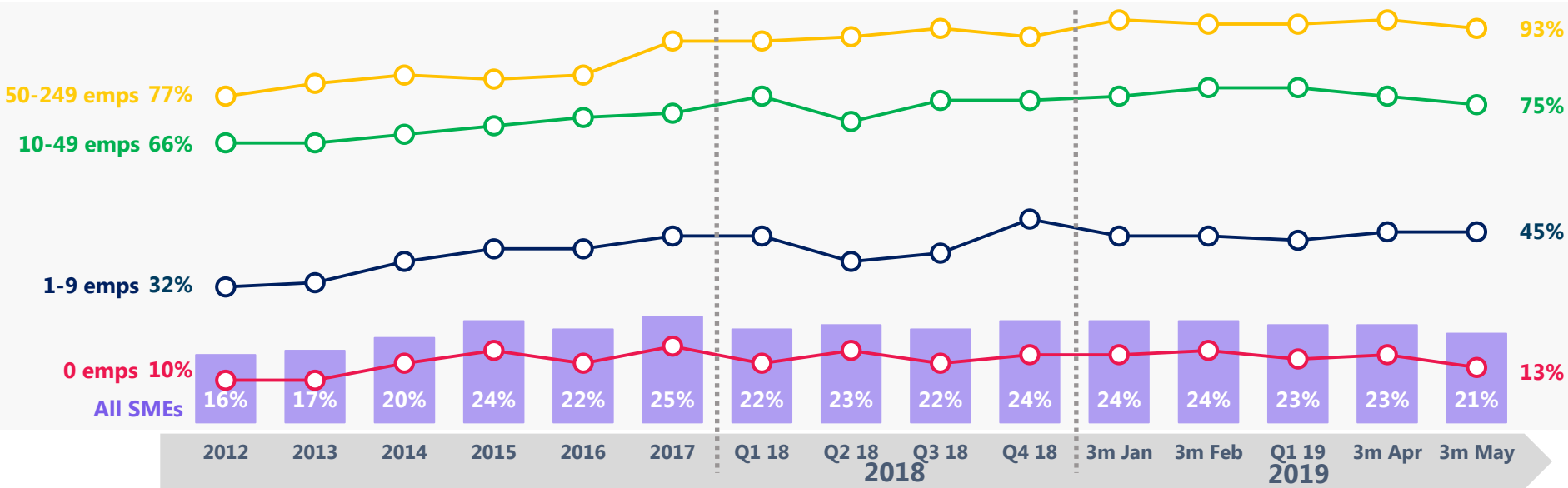
Time series: Injections of personal funds in previous 12 months



The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to 28-29% of SMEs from 2016 onwards (29% for 2018 as a whole). In the latter stages of 2018 and January 2019 the proportion fell slightly but has been stable since, at 25% for the 3 months to May.

Around a fifth of SMEs held more than £10,000 of credit balances, slightly lower than at the start of 2019 due to fewer 0 employee SMEs holding such sums

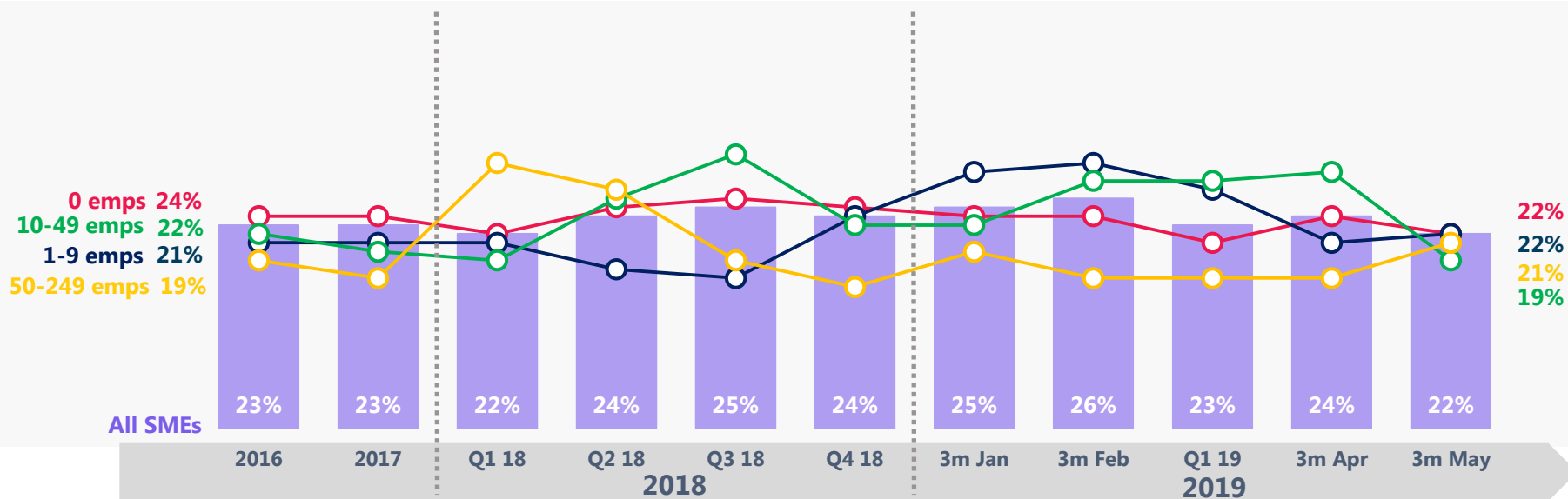
Time series: £10k credit balances held



The proportion of SMEs holding £10,000 or more in credit balances increased from 16% in 2012 to 24% in 2015 and has been broadly stable since (23% in 2018). It was somewhat lower in the 3 months to May (21%) due to fewer 0 employee SMEs holding such sums (13% compared to 16% in Q4 2018). Larger SMEs remain more likely to hold such sums.

On average SMEs held the equivalent of almost a quarter of their turnover as credit balances. There is currently little difference by size of SME

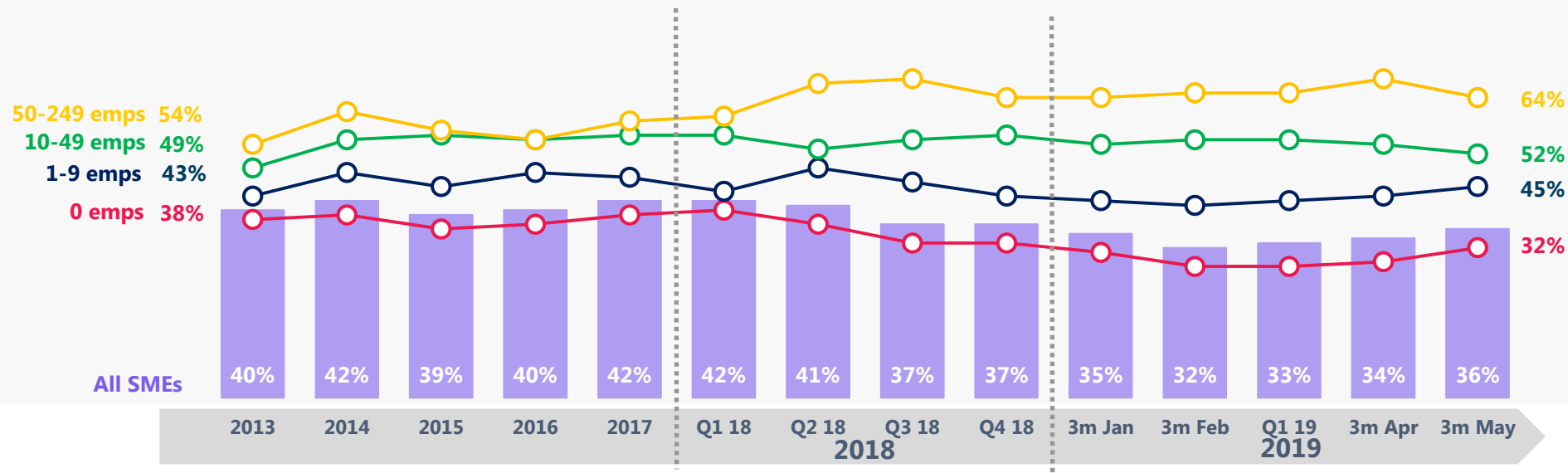
Time series: % of turnover held as credit balances



More recent analysis looks at credit balances held as a percentage of total turnover (both collected in bands, with mid-points used). For the 3 months to May 2019, SMEs held 22% of their turnover in credit balances on average, somewhat lower than was seen from Q2 2018 onwards. There is currently little to choose between SMEs by size.

The proportion of SMEs reporting growth declined between Q1 2018 and Q1 2019 but is currently showing some signs of improvement, lead by the smaller SMEs

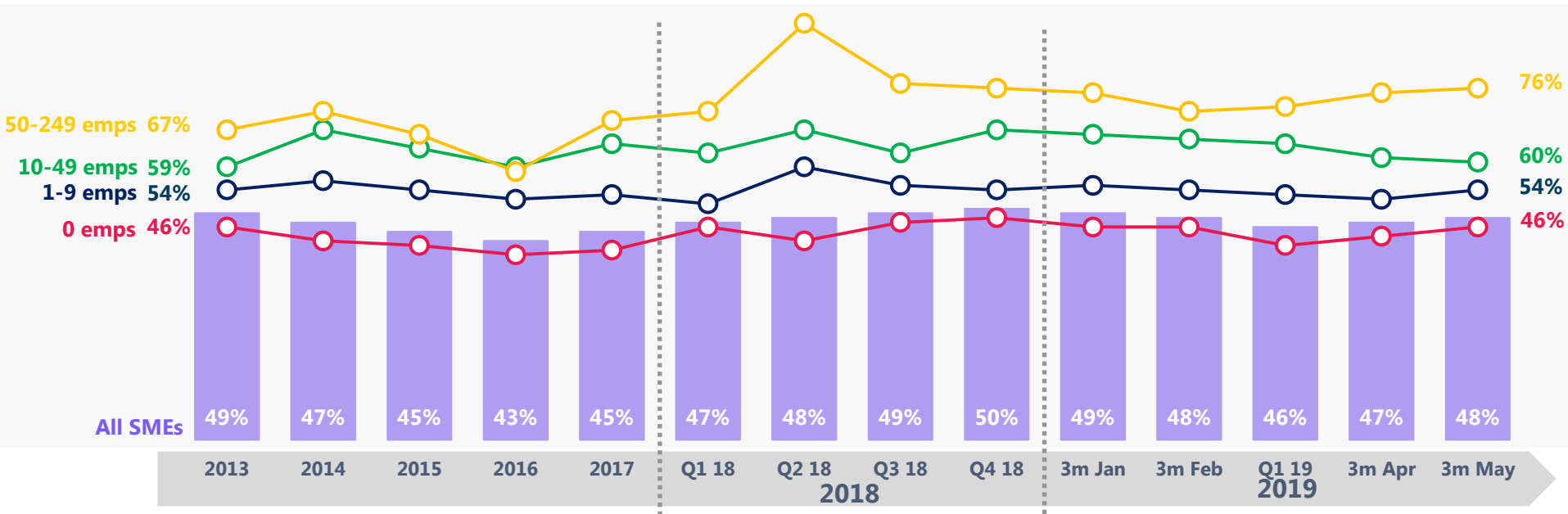
Time series: Have grown (excluding Starts)



Between 2012 and 2018, the proportion of SMEs (excluding Starts) reporting growth varied little (39-42%). It was at the lower end of this scale for 2018 as a whole (39%) with a declining proportion reporting growth from Q3 2018 onwards and into 2019 (the 32% in the 3 months to February was the lowest recorded on the SMEFM to date) but is 36% for the 3 months to April. This is lead by those with 0 employees where 32% reported having grown, compared to 28% in Q1 2019.

Despite fewer SMEs reporting growth, growth ambitions have broadly held up, increasing slightly over the course of 2018 to 50% and falling back only slightly through 2019, still currently at 48%.

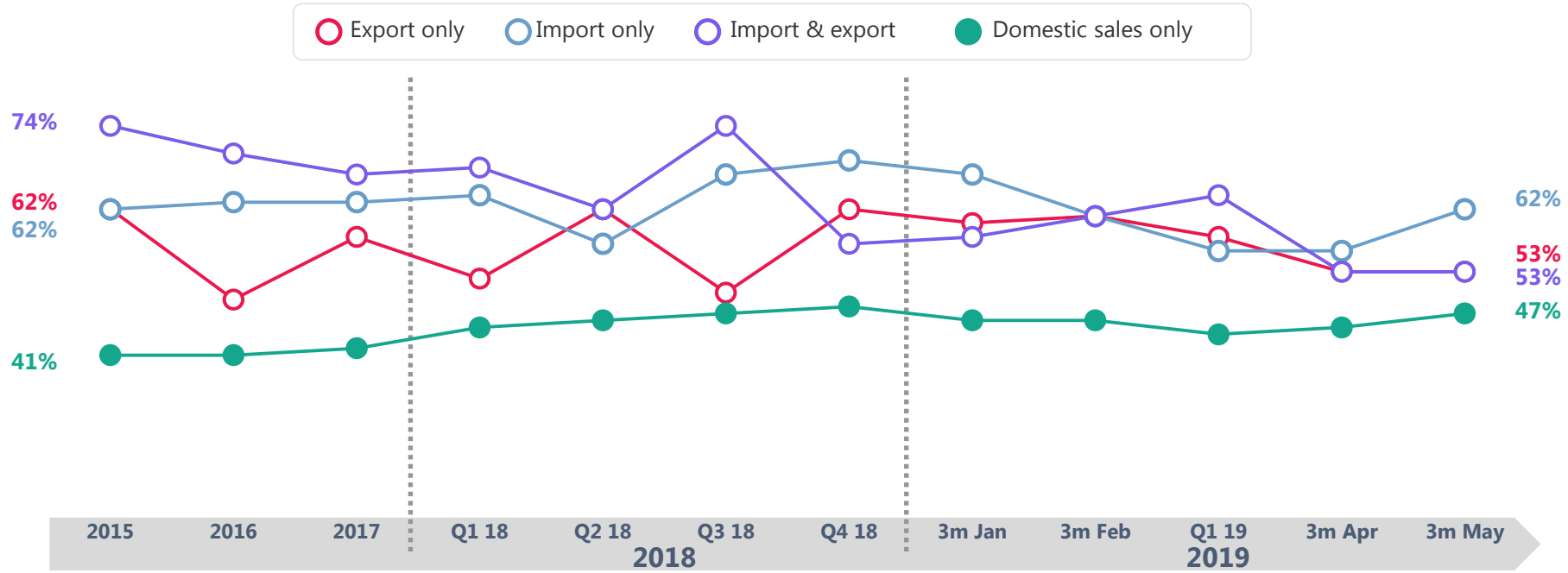
Time series: Have plans to grow



49% of SMEs planned to grow in 2018, up from 45% in 2017. This was due to more 0-employee SMEs planning to grow (46% in 2018 from 41% in 2017). In the 3 months to May, 48% of SMEs were planning to grow, with only those with 10-49 employees being somewhat less likely to be planning to grow than they were at the end of 2019.

International SMEs' ambition has been variable, and typically somewhat lower than in 2018, but they remain more likely to be planning to grow than domestic SMEs.

Time series: Growth plans by extent of international trade alongside domestic sales

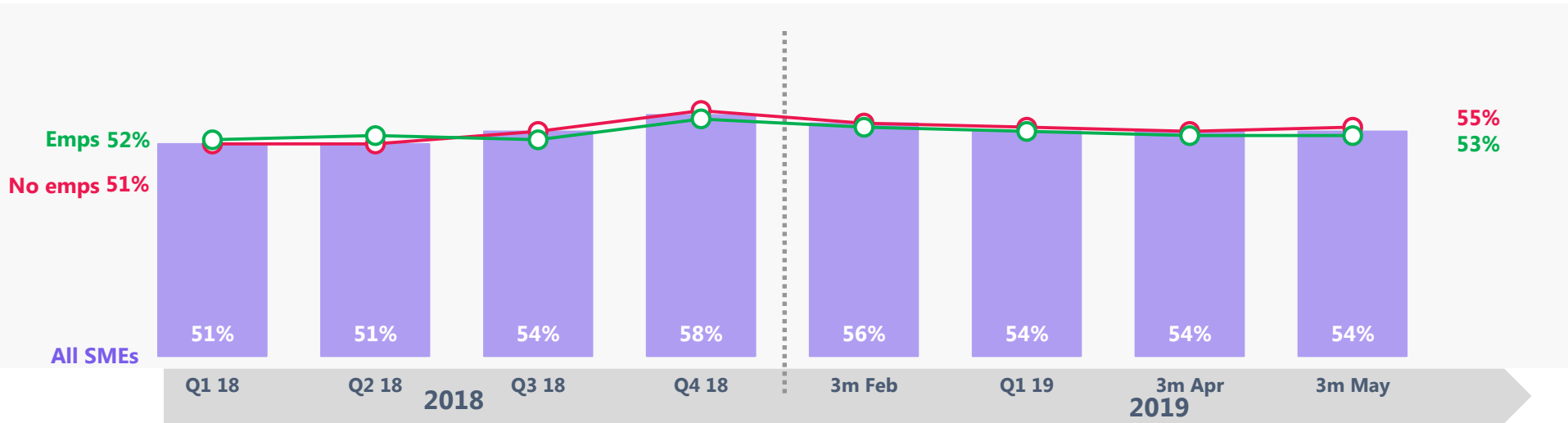


Plan to grow in next 12 months



The proportion of SMEs being cautious due to the future feeling uncertain increased from 51% to 58% during 2018. It is stable in 2019 at a slightly lower level (54%)

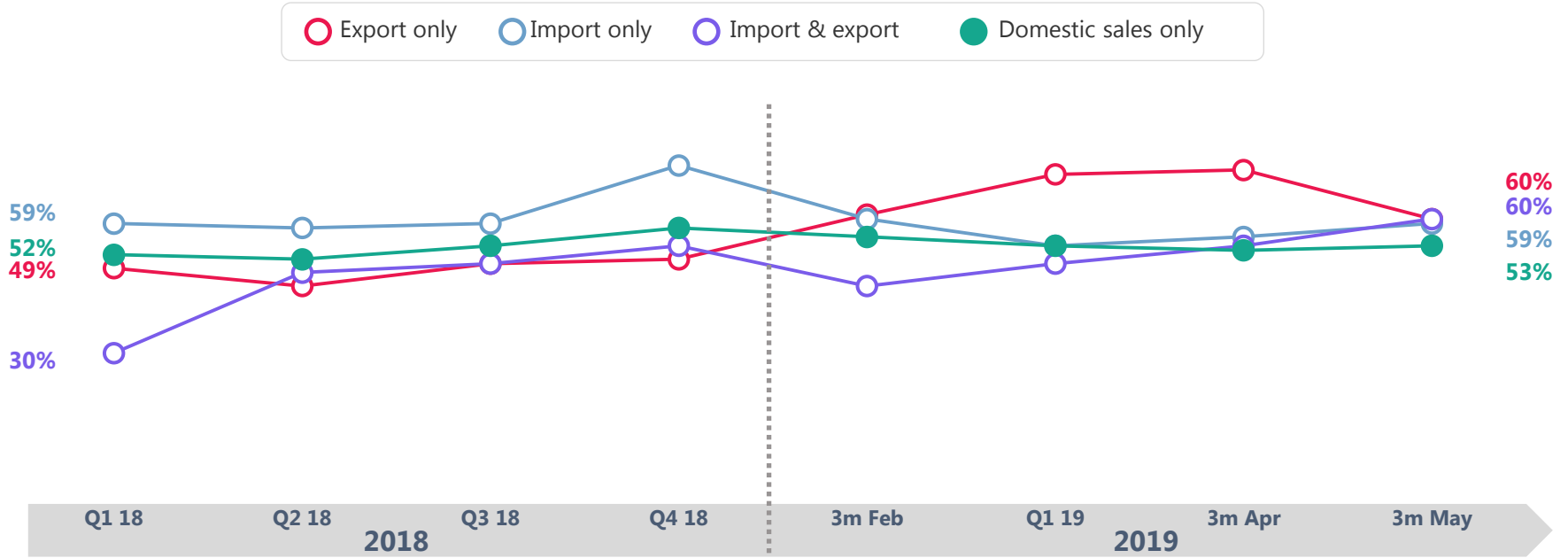
Time series: Agree that future is uncertain so being cautious



When this question was first asked in Q1 2018, half of SMEs agreed that they were being cautious, with little variation by size of SME. Over the course of 2018, that proportion increased to 58% in Q4, still with little variation by size, but there was no further increase in 2019 (currently at 54% for the 3 months to May)

Levels of caution are somewhat lower in 2019 than in Q4 2018, (led by domestic SMEs which are by far the largest cohort). Concern amongst export-only SMEs is now back in line with other international SMEs

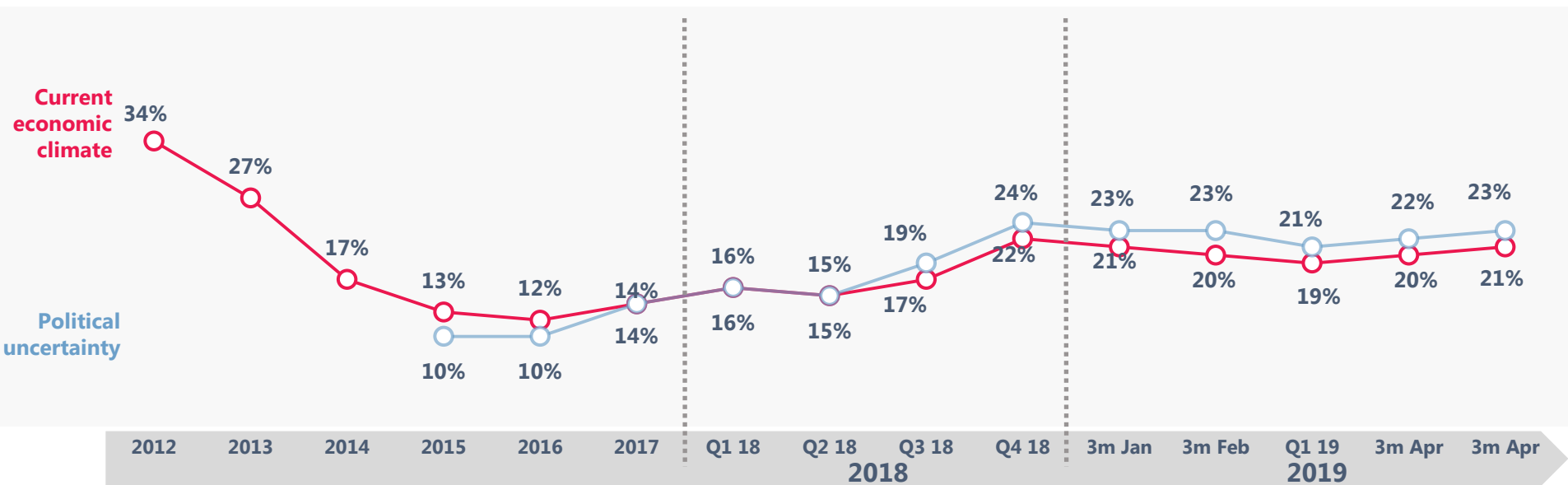
Time series: Agree that future is uncertain so being cautious



Future uncertain so being cautious

Levels of concern around the current economic climate and political uncertainty increased during 2018 and have been broadly stable in 2019 to date

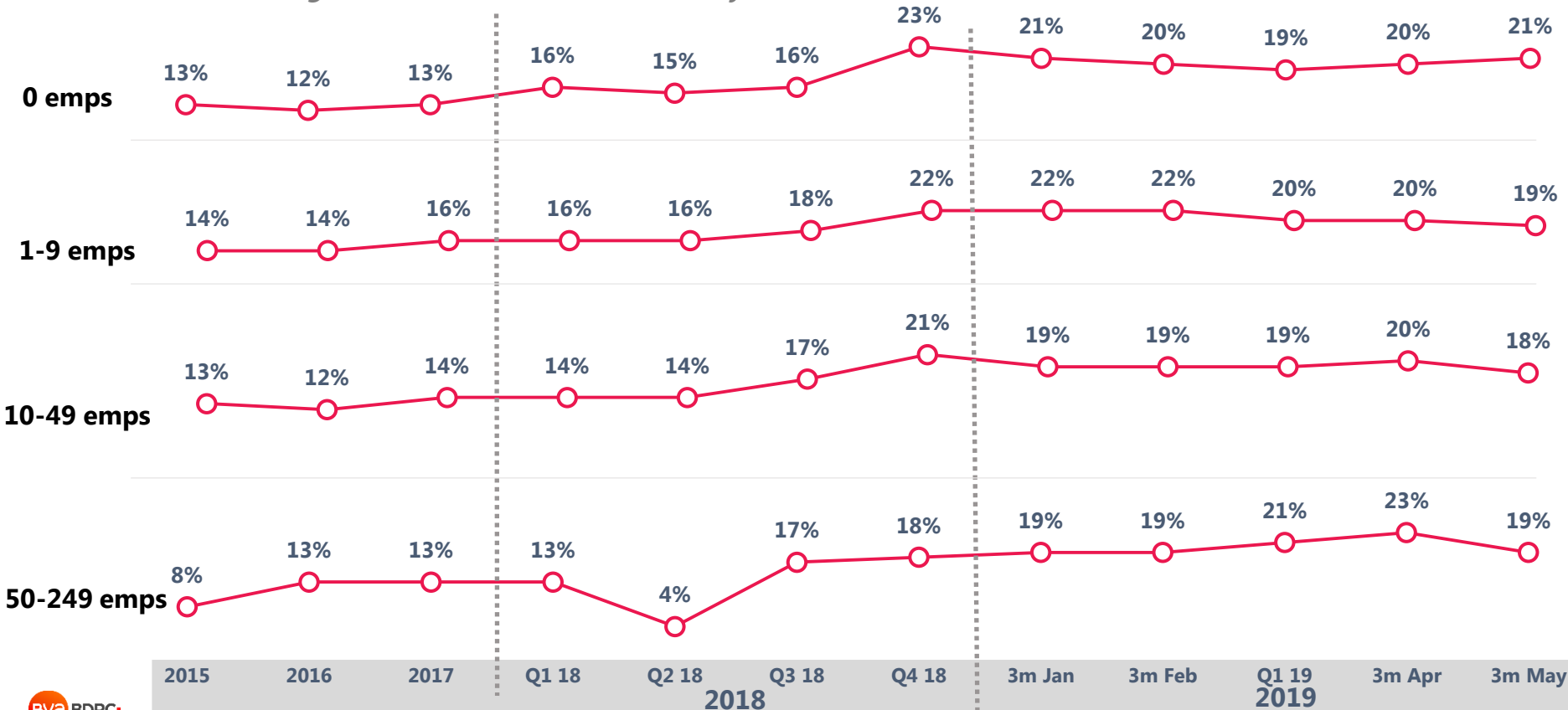
Time series: 8-10 Major obstacle to running business in next 12 months



During 2017, concerns about political uncertainty remained fairly stable (14% for the year as a whole) at a slightly higher level than in 2016 (10%) but increased steadily during 2018 (19% for 2018 as a whole). Concerns about the economic climate increased in 2017 (14% for the year as a whole) and again in 2018 (17% for the year as a whole). Levels of concern on both metrics are stable and the 3 months to May are in line with Q4 2018

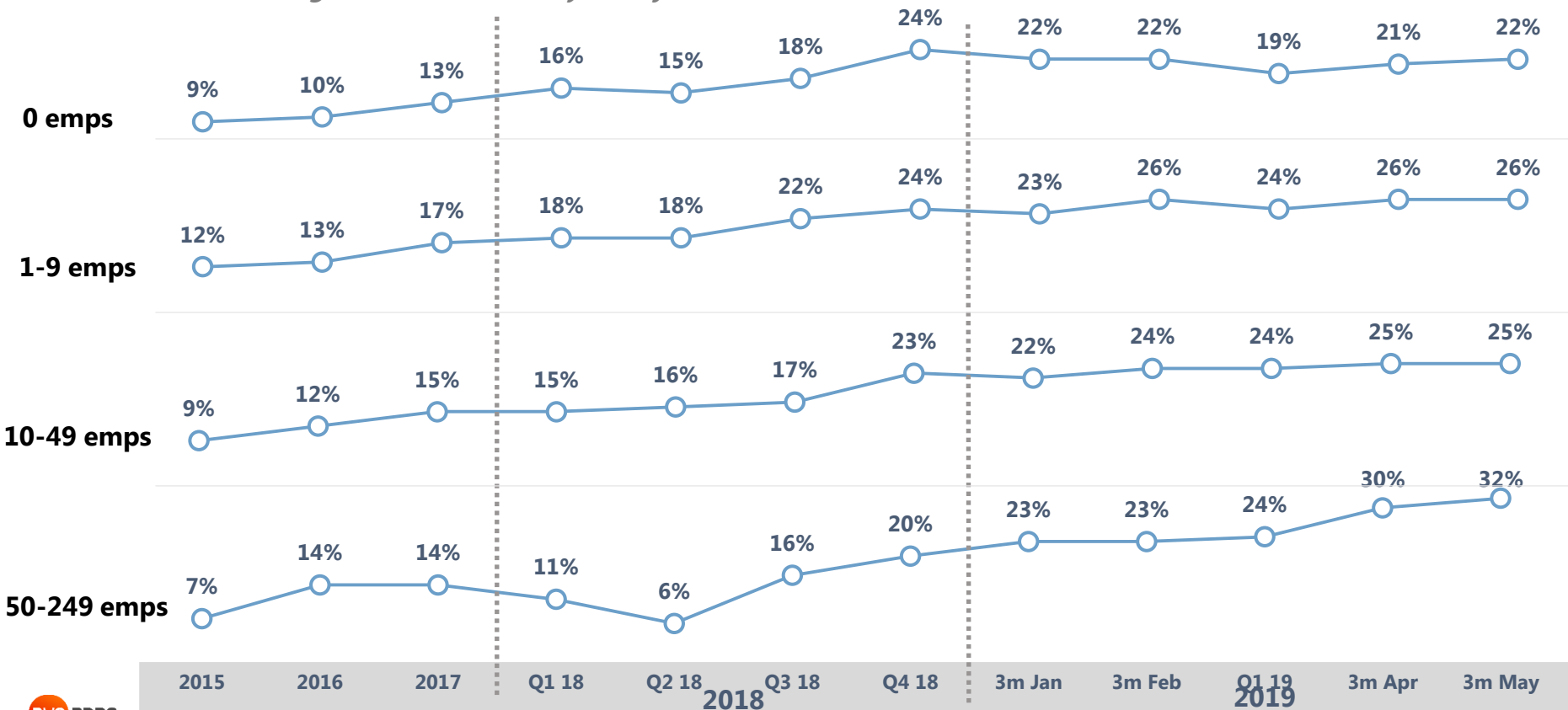
After all SMEs saw a rise in concern about the economic climate in 2018, concern in 2019 is more stable, with signs that larger SME employers' concerns about the economy are abating.

Time series: % Rating 'The economic climate'8-10 a major obstacle for next 12 mths



Concern about political uncertainty also increased in the second half of 2018, and remains higher in 2019 to date, notably for those with 50-249 employees.

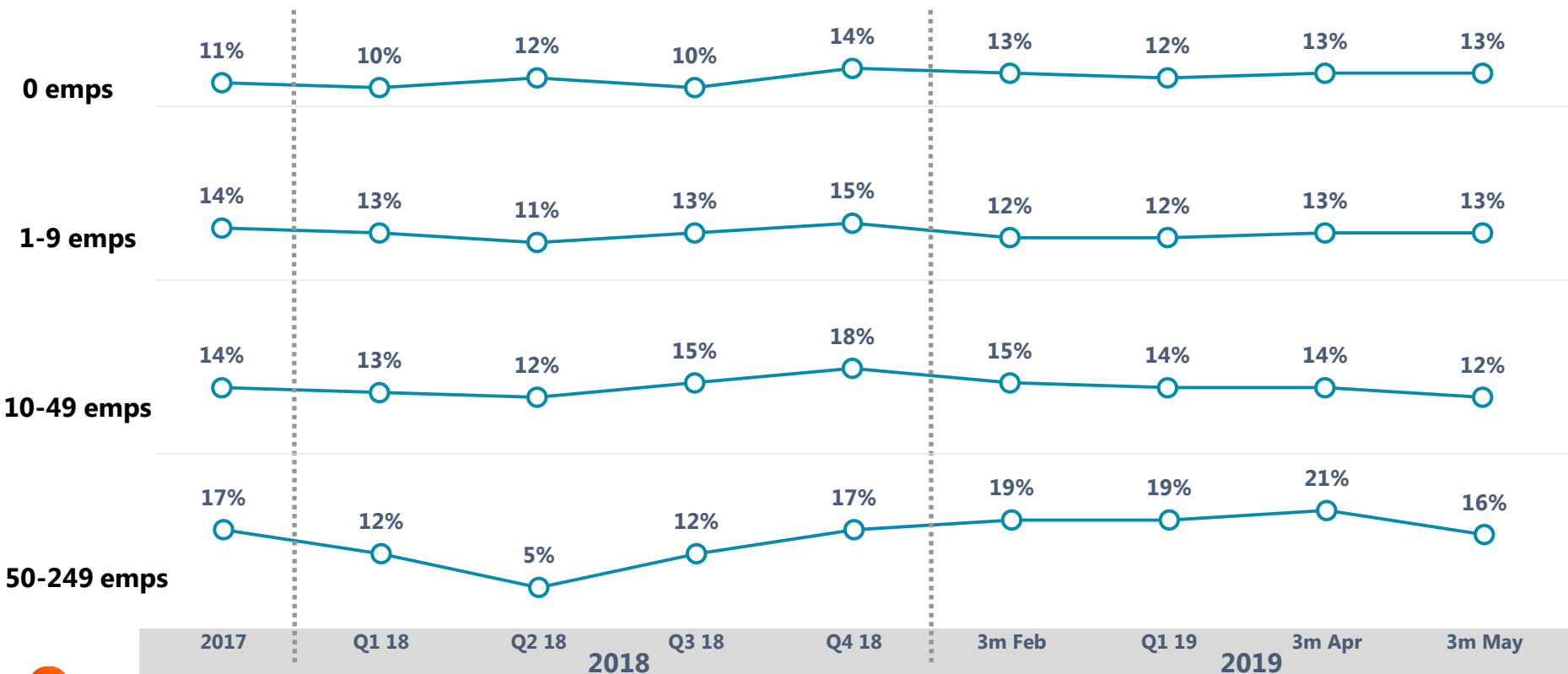
Time series: % Rating 'Political uncertainty' a major obstacle for next 12 mths



Concern about the value of sterling increased for all sizes of SME during 2018. In 2019 to date levels of concern are more stable, with signs that larger SMEs are now becoming less concerned about the pound.

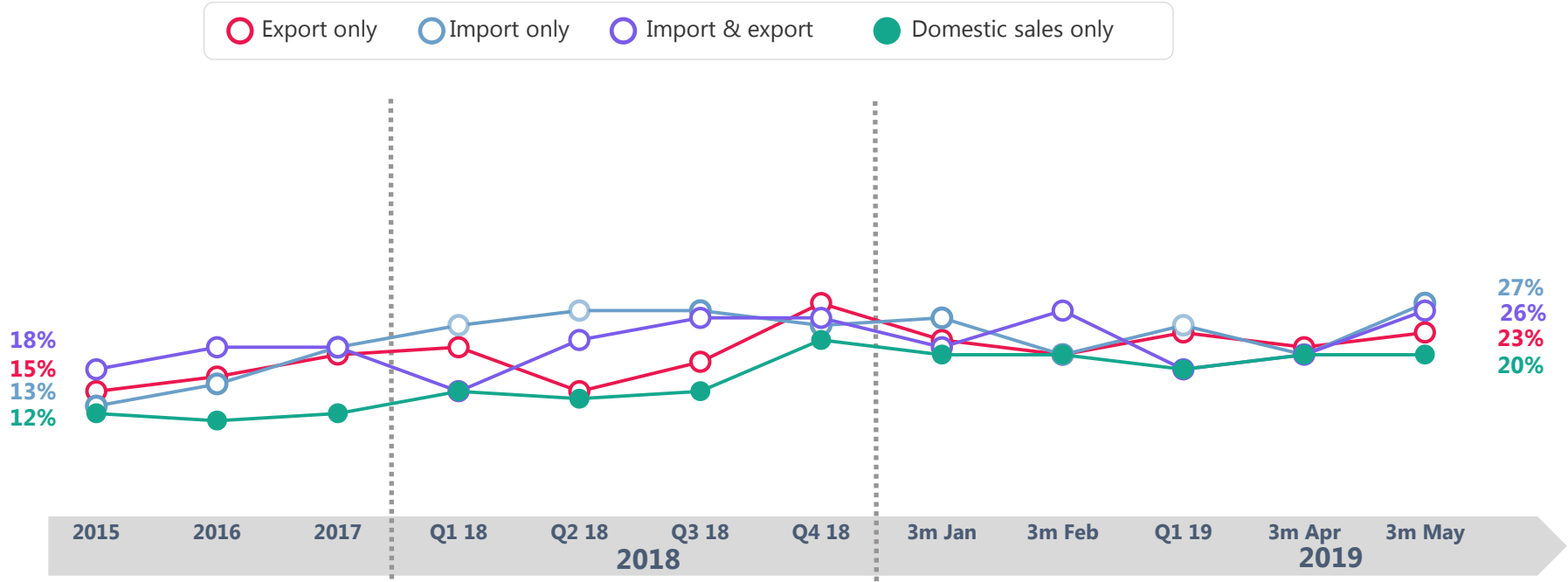


Time series: % Rating 'Changes in the value of sterling' a major obstacle for next 12 mths



In contrast to 2017 and 2018, there remains little to choose between domestic and international SMEs in 2019 in terms of their concern about the economic climate

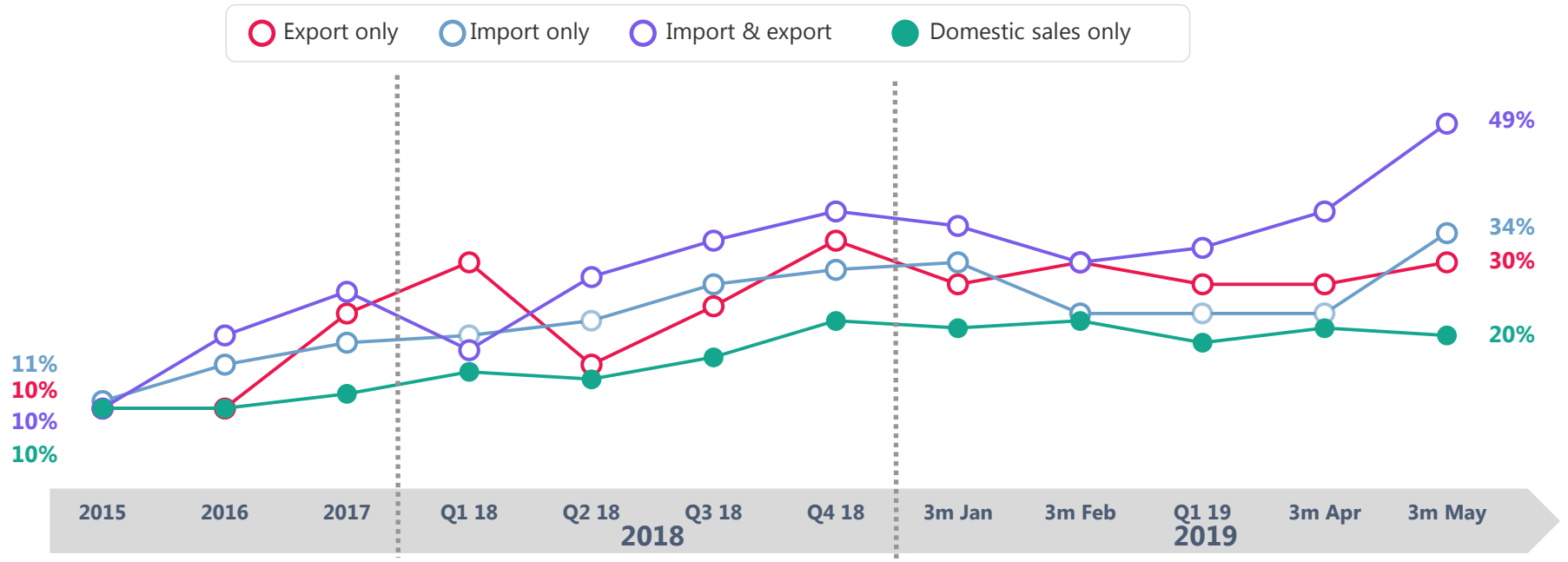
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



Rating the current economic climate a major obstacle (8-10)

After a noticeable increase during 2018, import/export and import-only SMEs have become even more concerned about political uncertainty in the latest period

Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales

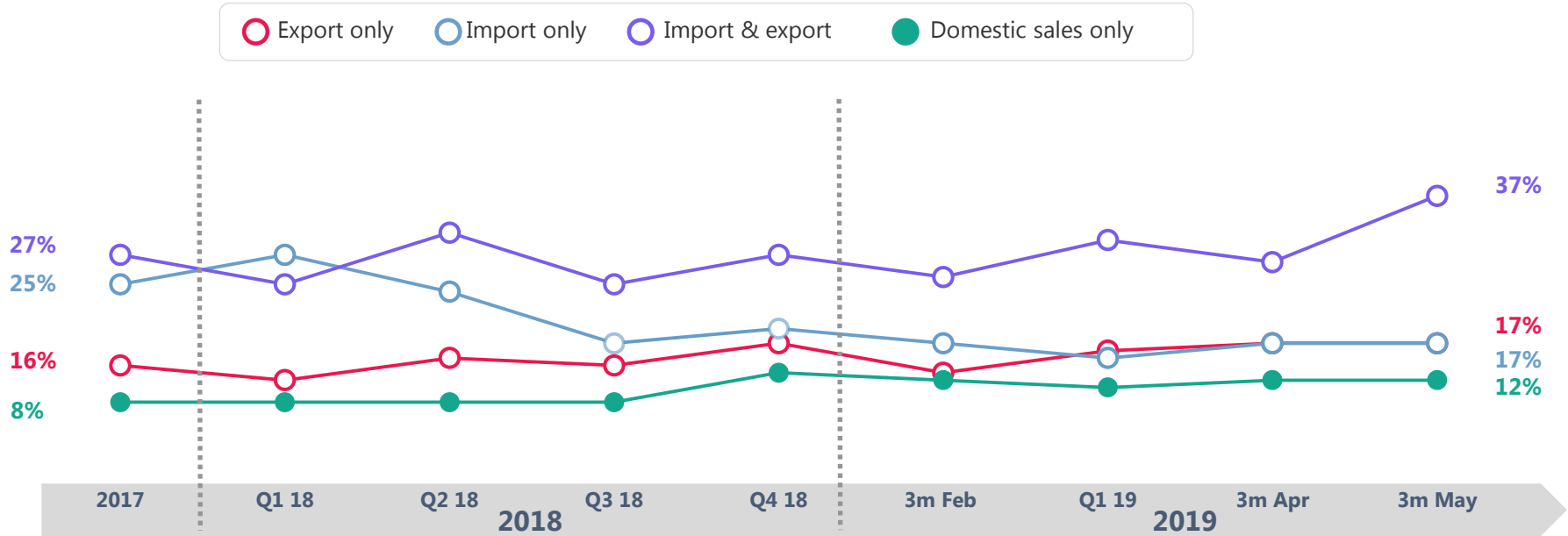


Rating political uncertainty a major obstacle (8-10)



Those who both import and export have been consistently more concerned about changes in the value of sterling, increasingly so in 2019 to date

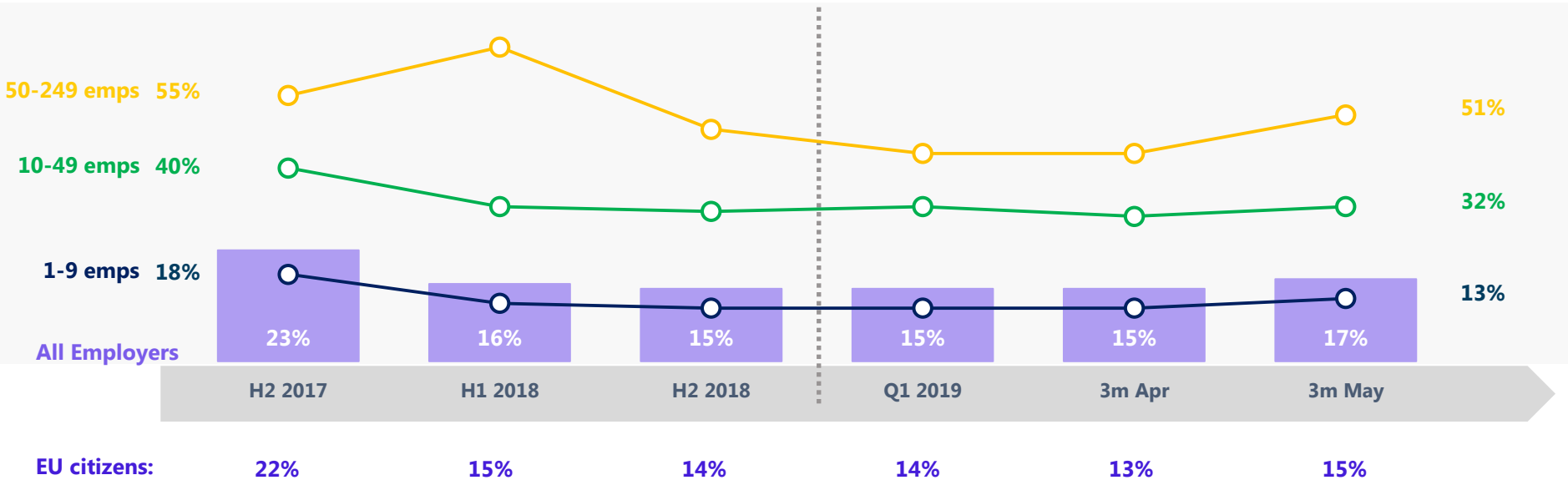
Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales



Rating changes in the value of sterling a major obstacle (8-10)

1 in 7 employers have employees from overseas, typically from the EU. The proportion is currently stable, but lower than was seen in the latter half of 2017

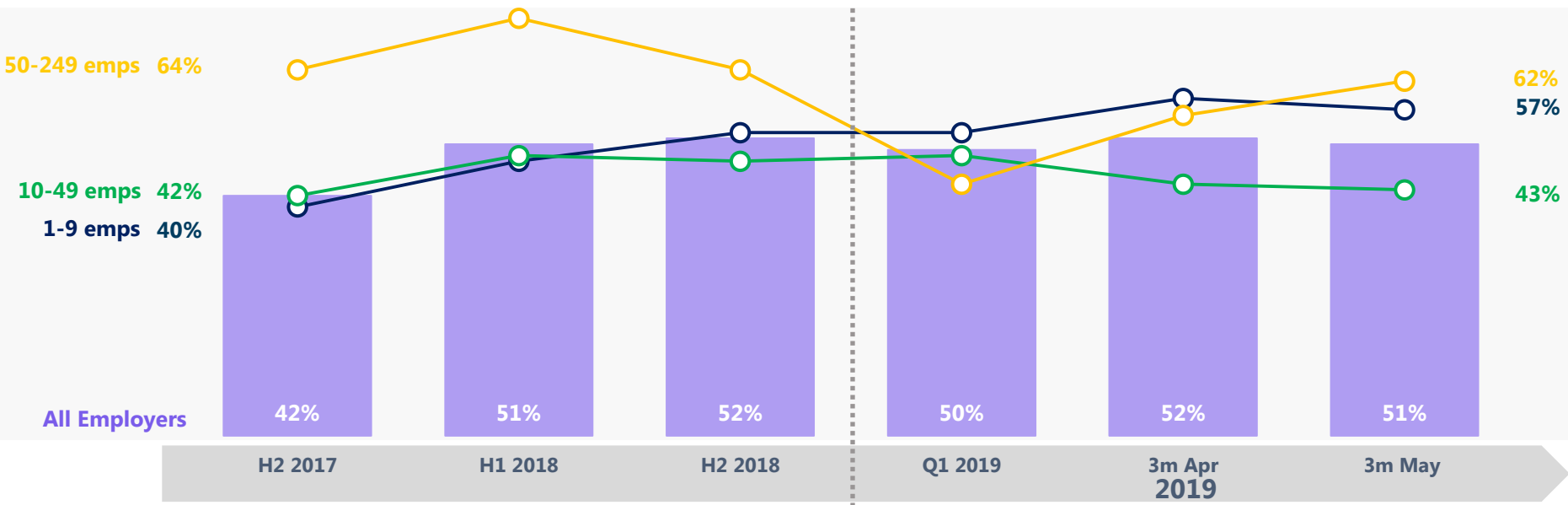
Time series: Employ staff from the EU or elsewhere overseas



When this question was first asked in H2 2017, a quarter (23%) of employers had staff from overseas. Since the start of 2018 this proportion has been lower, currently 17%, across all sizes of business. In the 3 months to May, 15% of employers had staff from the EU and 5% had staff from elsewhere.

Those employing overseas staff became more concerned about possible migration changes in 2018, lead by those with 1-9 employees. Overall concern in 2019 is currently stable

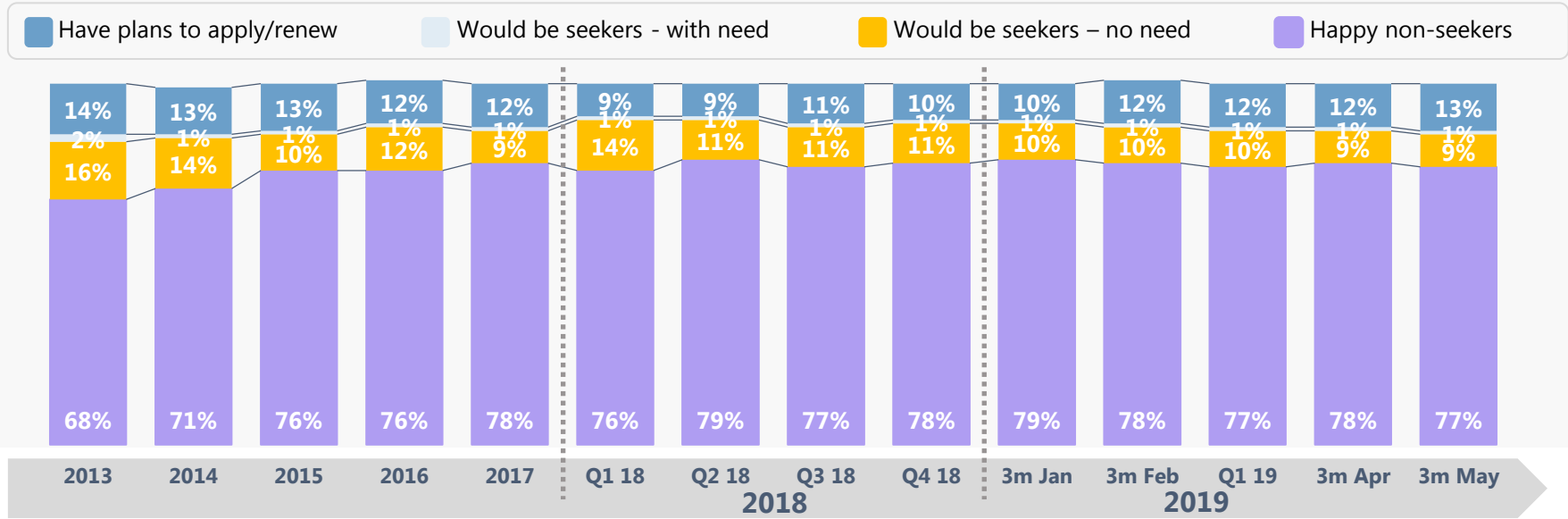
Time series: Employers of overseas staff concerned about possible migration changes



When this question was first asked in H2 2017, 4 in 10 (42%) of employers with staff from overseas were very/fairly concerned about possible future changes to migration laws. Since the start of 2018 this proportion has been higher, currently 51%, driven by increased concern amongst those with 1-9 employees (currently 57%) and those with 50-249 employees (62%). Concern amongst those with 10-49 employees is little changed

Most SMEs were 'Future happy non-seekers' of finance. The proportion planning to apply in 2019 (currently 13%) is slightly higher than was seen in 2018

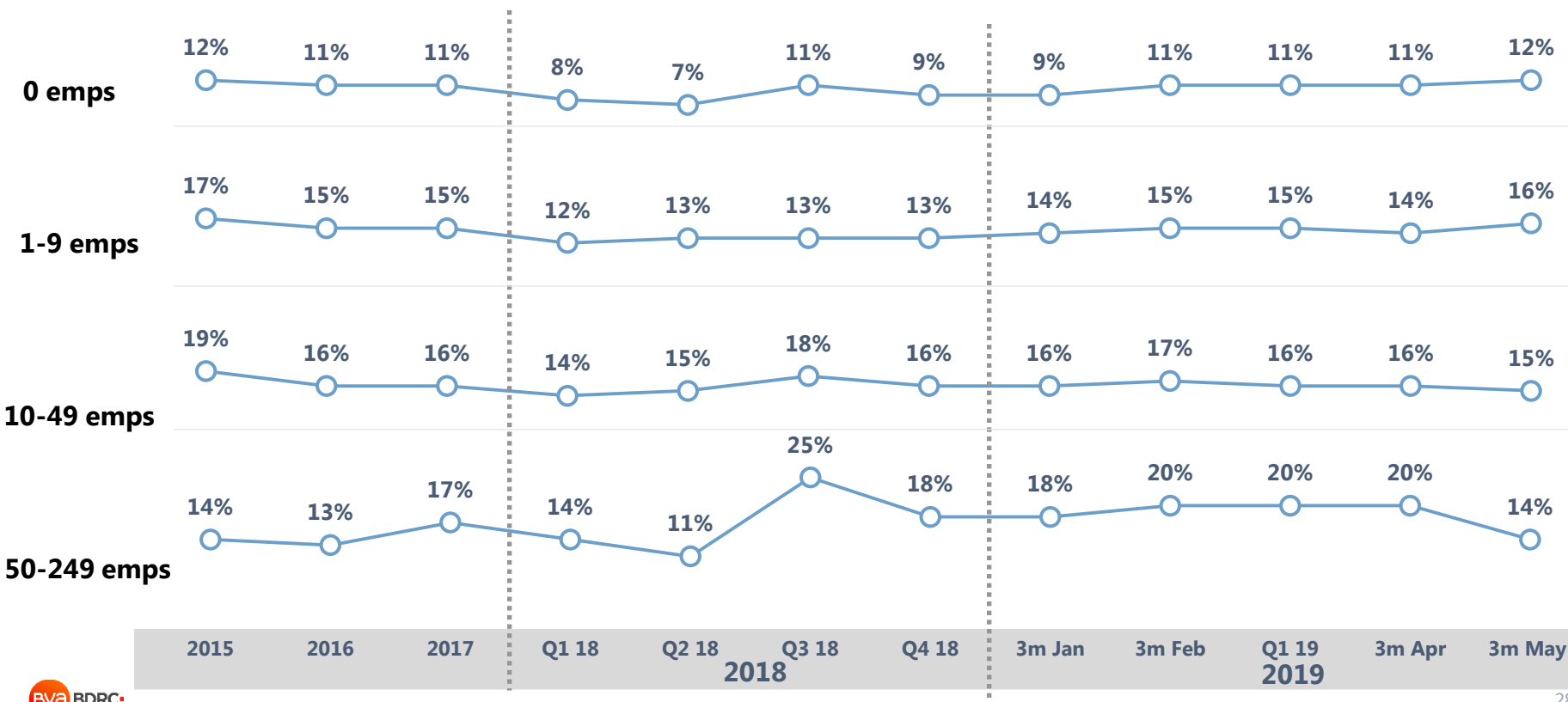
Time series: Anticipated borrowing profile for next 3 months after ...



Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of HNS has increased over time, conversely, the proportion of “Future would-be seekers” who could see a barrier that would stop them applying for finance, reached a low in 2017 of 9% and has since risen somewhat. The proportion of SMEs with any *potential* appetite for finance (planning to apply or a future “would-be seeker”) rose steadily to 24% in Q1 2018 and is currently 23%

Future appetite for finance is currently broadly stable; albeit the largest SMEs with 50-249 employees have seen something of a decline in appetite for finance in the latest period

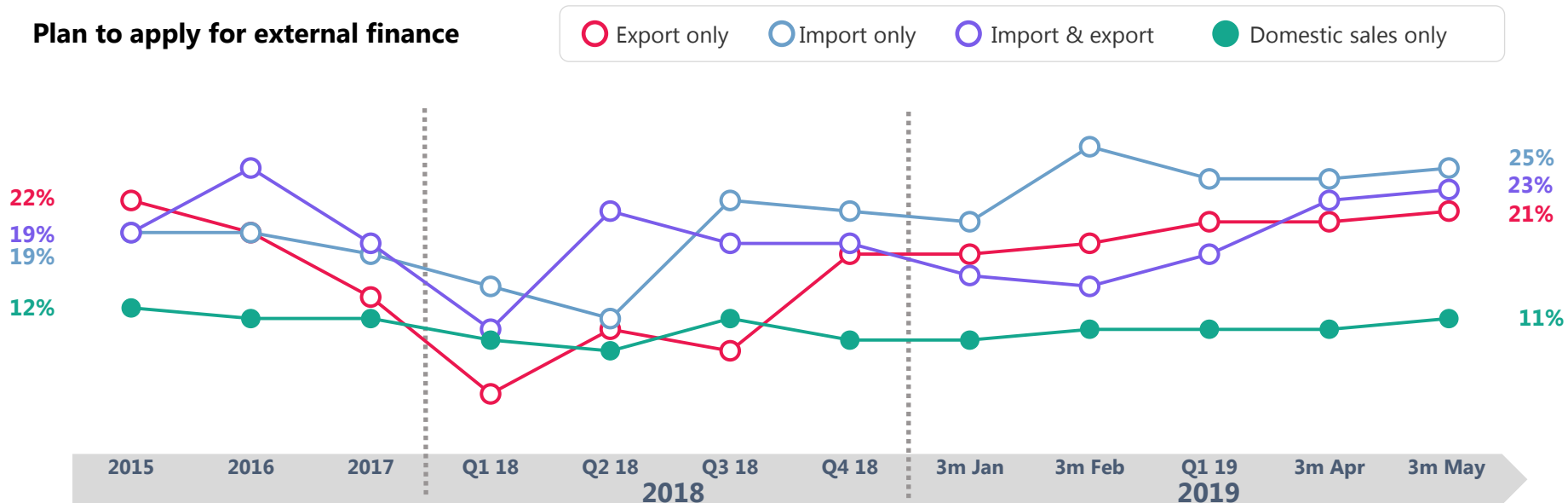
Time series: % planning to apply



Appetite for external finance remains higher in 2019 for international SMEs, with more of a gap than has been seen recently compared to domestic SMEs

Time series: plan to apply for finance by extent of international trade alongside domestic sales

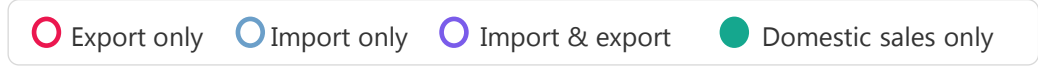
Plan to apply for external finance



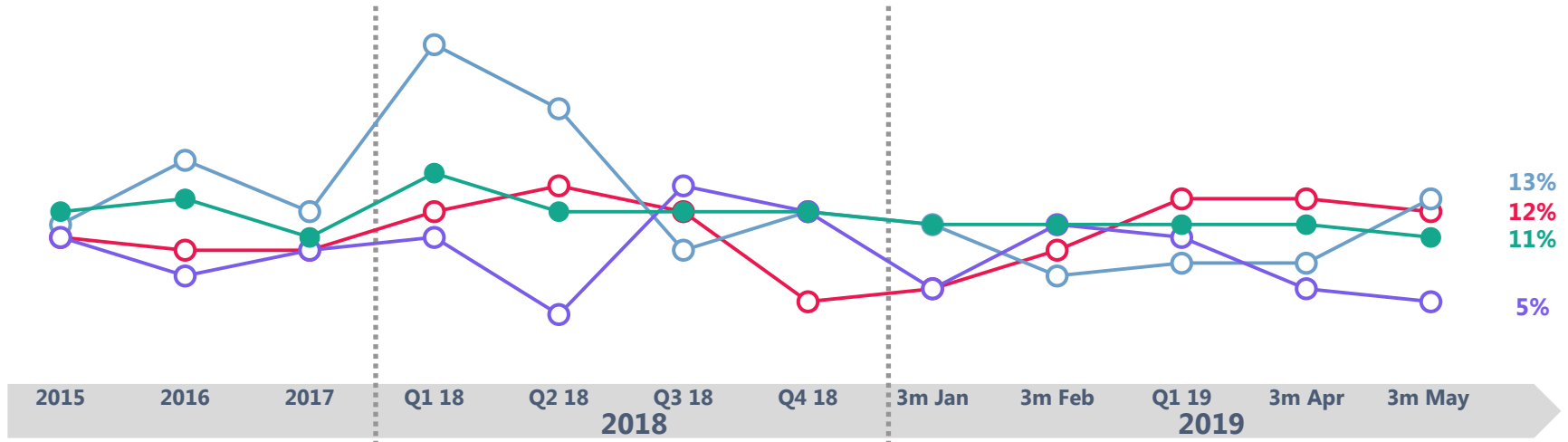
Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 29% in the 3 months to December 2017 to 10% in Q1 2018 and is currently 23%. Import-only SMEs are somewhat more likely to have appetite for finance (and to be using external finance already)

Those who both import and export have become less likely to be a Future would-be seeker of finance

Time series: future would be seekers by extent of international trade alongside domestic sales



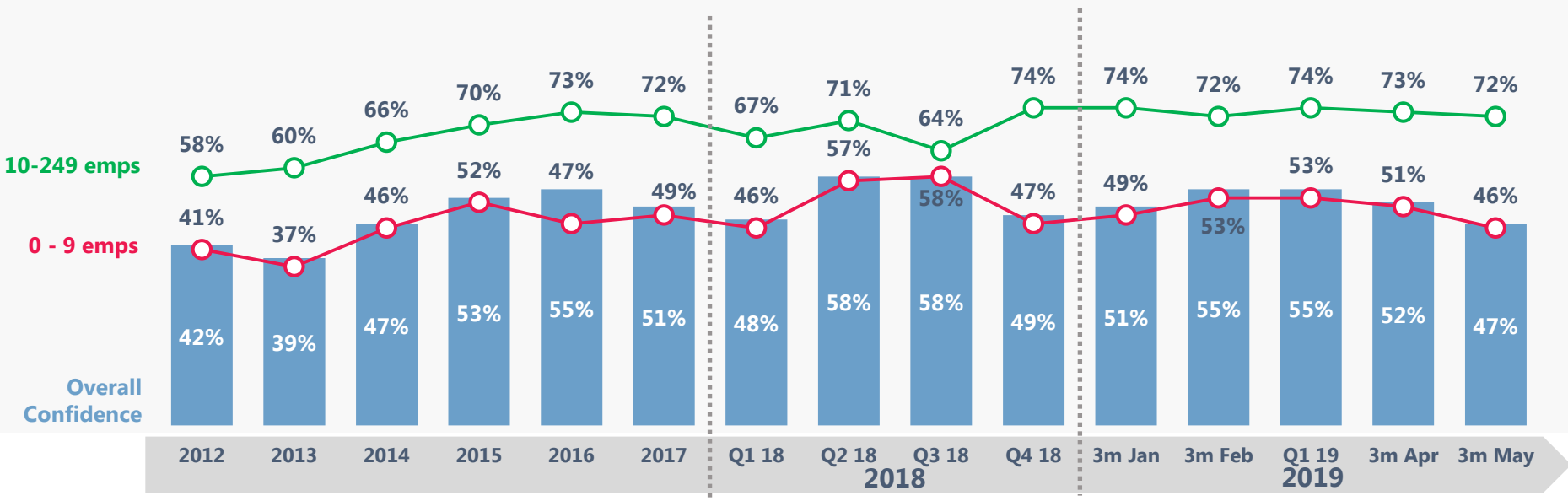
Expect to be a future would-be seeker of finance



Would-be seekers of finance are those who can see a barrier to them making an application for loan or overdraft finance in future, such as the current economic climate or a belief that they would not be successful if they applied. Recently, those who import and export have become more likely to be planning to apply and less likely to be a future would-be seeker of finance. (See previous slide, for planning to apply)

Confidence amongst smaller SMEs planning to apply for bank finance has declined somewhat in the most recent periods, back to levels seen in Q1 2018

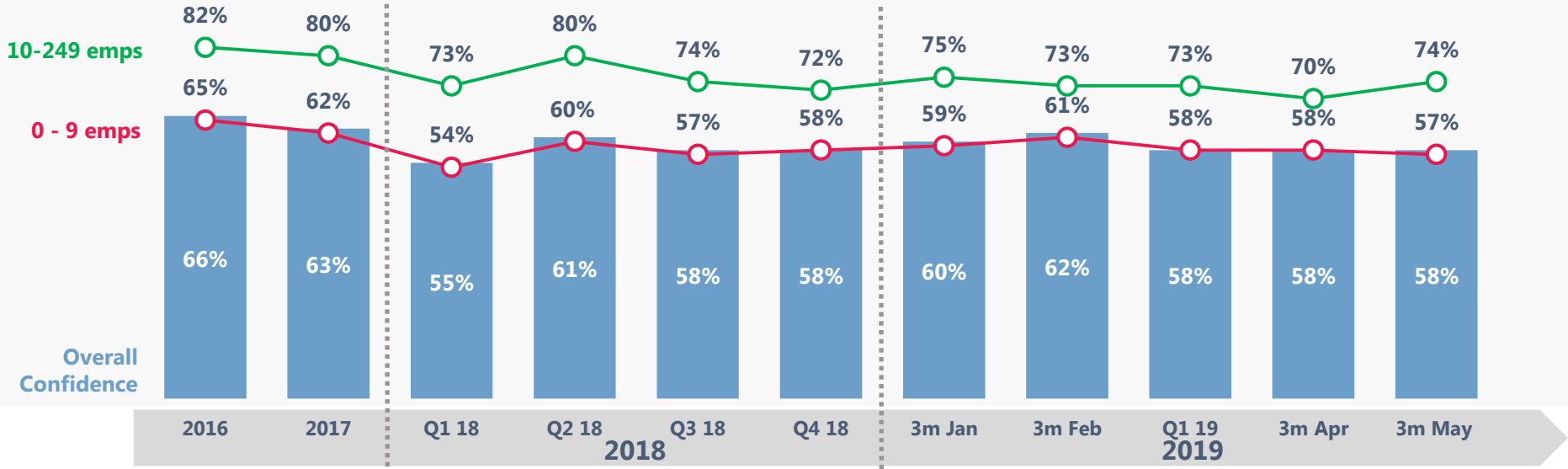
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



During 2017 51% were confident of success compared to 55% in 2016. In 2018, there was further variation and for the year as a whole 54% were confident, back in line with 2016. Confidence in the 3 months to May 2019 (47%) was somewhat lower than earlier in the year due to lower confidence amongst smaller potential applicants.

Confidence for hypothetical applicants was unchanged in the current period compared to H2 2018 and higher than for SMEs actually planning to apply.

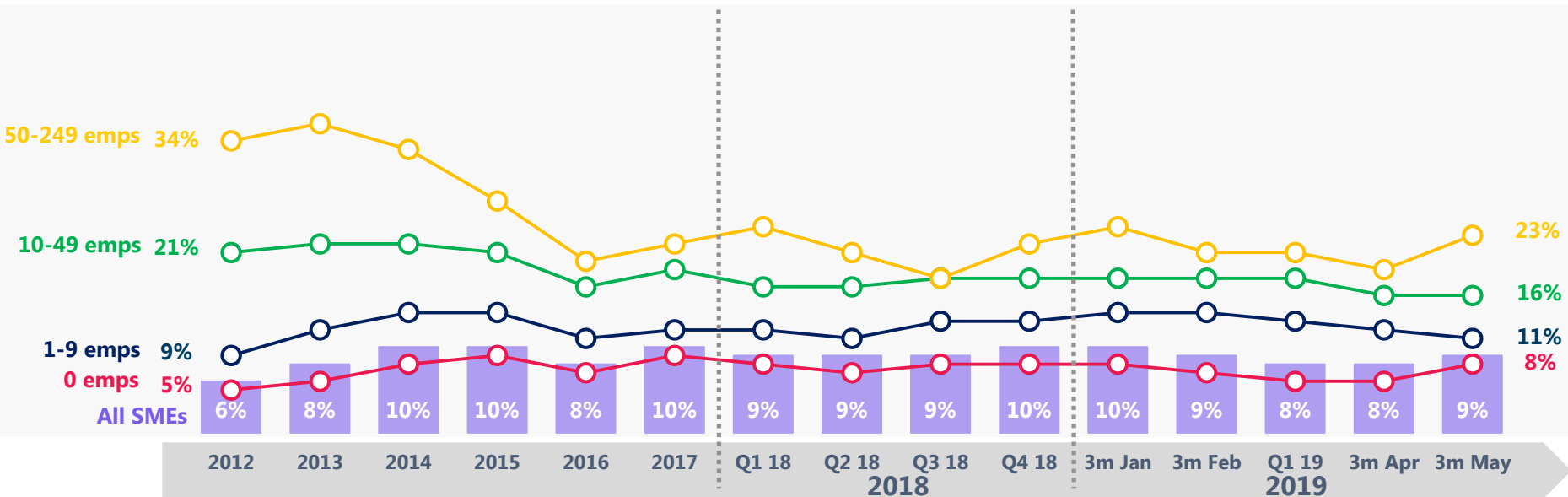
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



6 in 10 (58%) of those with **no plans** to apply to a bank for finance are confident of a hypothetical success. Larger hypothetical applicants remain somewhat more confident than smaller ones, and in line with those of a similar size who are planning to apply. Smaller hypothetical applicants remain more confident than those planning to apply (see previous slide for those *with plans*) that the bank would say yes.

The proportion of SMEs that export has risen, driven especially by the proportion of 0-employee firms that are exporting.

Time series: Exporters



The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. Since then the proportion has been fairly stable (8-10%, 9% for 2018 as a whole and for the current period).

Quality Standards and Other Details

BDRC is certified to ISO 20252 and 27001, the recognised international quality standards for market research and information security.

- Adherence to the standard is independently audited once per year.
- Where subcontractors are used by BDRC, they are assessed to ensure any outsourced parts of the research are conducted in adherence to ISO 20252 and 27001.

All work will be carried out in conformity to these standards, the MRS Code of Conduct, and all relevant legal requirements

