

12. The future



This chapter reports

on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.



Key findings

In Q2 2018 almost half of SMEs (48%) were planning to grow in the year ahead, including 3% planning to grow by 40% or more:

- This increased by size of SME from 42% of those with 0 employees to 90% of those with 50-249 employees.
- Excluding the PNBs increased the proportion of remaining SMEs planning to grow to 56%.
- International SMEs remained more likely to be planning to grow (6 in 10).

On an annual basis, the proportion of SMEs planning to grow declined from 49% in 2013 to 43% in 2016 but has since increased somewhat (47% in H1 2018), led by the 0 employee SMEs (40% in 2016 to 44% in H1 2018).

- Almost all of those planning to grow (97%) said they would achieve this through more sales in the UK. 12% planned to grow by selling (more) overseas, the equivalent of 6% of all SMEs.

A third of SMEs (37%) were planning any of a series of activities that might be related to growth. This included 18% planning to take on more staff, 15% investing in plant and machinery and 14% planning to develop a new product or service:

- The proportion planning any of these activities increased by size of SME (33% of those with 0 employees to 49% of those with 50-249 employees).
- 55% of those planning to grow were planning one or more of these activities, compared to 20% of those with no plans to grow.
- The proportion planning any activities was slightly lower in H1 2018 (39%) than H2 2017 (42%) when the question was first asked and was lower across all size bands.



1 in 10 SMEs (9%) in Q2 2018 were planning to apply for finance in the next 3 months, typically to fund UK expansion, a new business opportunity or plant and machinery. This was somewhat lower than the 14% to 12% recorded 2012 to 2017, and across all size bands.

In addition to the 9% planning to apply for finance, 12% of SMEs in Q2 2018 met the definition of a 'Future would-be seeker' of finance (who wanted to apply but thought that something would stop them), leaving the largest group as the 'Future happy non-seekers' (79%):

- Over time the proportion of FWBS declined (from 23% in 2012 to 10% in 2017) but was slightly higher in H1 2018 (13%). Their main reason for not borrowing remained the current economic climate (mentioned by 48% of FWBS in H1 2018), followed by the process of borrowing (28%, up from 14% in 2017 due to more mentions of the hassle of applying for finance and forms being hard to understand).
- The FHNS remained the largest group (63% in 2012 to 78% in 2017 and 77% for H1 2018).

In Q2 2018, 58% of those planning to apply for bank related finance were confident they would be successful, in line with 2015-16. Larger SMEs and those with a better risk rating remained more confident of success, but confidence levels remained below application success rates (currently 85% overall).

- Future happy non-seekers with no plans to apply remained the most confident of hypothetical success if they were to apply (62%) while the Future would-be seekers remained less confident (49%).
- Confidence amongst all SMEs (whether actually planning to apply or not) was 58% in H1 2018, down slightly from 65% in 2016.



In Q2 2018, 43% of SMEs rated one or more obstacles as a major barrier to their business in the year ahead. Most of these (31% of all SMEs) cited one or more of the top 3 barriers: Legislation and regulation (18%), Political uncertainty (15%) and/or the current economic climate (15%) and this proportion has increased over time from 24% in 2015.

- In 2012, 34% of SMEs rated the economic climate as a major obstacle to their business. This then reduced over time to 12% in 2016 but has started to increase again (15% for H1 2018).
- Political uncertainty was introduced as a factor in 2015 when 10% cited it as an obstacle, increasing to 16% in H1 2018.
- International SMEs were more likely to see political uncertainty, the economic climate and also changes in the value of sterling as major obstacles.
- Access to finance remained unlikely to be cited as an obstacle (6% of SMEs).



Having reviewed performance over the 12 months prior to interview, SMEs were then asked about the **future**. As this is looking forward, the results from each quarter can more easily be compared to each other, providing a guide to SME sentiment over time.

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will

not be applying for new/renewed finance in that time period.

Most of this chapter therefore is based on Q2 2018 data gathered between April and June 2018, as Brexit negotiations rumbled on amongst political uncertainty.

SMEs that trade internationally will potentially be anticipating more of an impact post-Brexit, so this chapter also includes a summary of how such SMEs have been feeling since the referendum result.



Growth plans for next 12 months

SMEs were asked about their growth plans for the next 12 months. From Q1 2018, the information collected on both past and future growth was extended to identify those that had grown / planned to grow by 40% or more (previously the highest growth rate recorded was 20% or more). This more detailed information is provided later in this section, but the first table, which looks at growth rate over time, combines the new 'More than 40%' answer with the new code 'Grow by 20-40%' to

match the previous 'Grow by more than 20%' code.

In Q2 2018, 48% of SMEs planned to grow, at the upper end of the range seen over recent quarters. Growth predictions in Q2 and Q3 2016 (immediately pre and post the Brexit referendum) were somewhat lower (41%) than were seen either at the end of 2015 (47% in Q4 2015), or since (48% in Q2 2018).

Growth in next 12 mths

All SMEs– over time By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Grow by 20% or more*	16%	16%	19%	15%	17%	18%	19%	17%	17%
Grow by less than 20%*	25%	25%	28%	28%	28%	27%	27%	30%	31%
All with objective to grow	41%	41%	47%	43%	45%	45%	46%	47%	48%
Stay the same size	47%	51%	44%	45%	45%	45%	44%	43%	41%
Become smaller	6%	4%	4%	6%	5%	5%	6%	4%	5%
Plan to sell/pass on/close	5%	4%	5%	5%	5%	5%	5%	6%	6%

Q91 (225) All SMEs



In Q2 2018, the largest SMEs were more likely to be planning to grow at all (90% v 43% of those with 0 employees), and also by more than 20% (33% v 15%):

Plans to grow in next 12 mths		0	1-9	10-49	50-249
Q2 18 only	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
Grow by more than 40%	3%	3%	4%	3%	1%
Grow by 20-40%	14%	12%	18%	17%	32%
Grow by less than 20%	31%	28%	37%	47%	57%
All with objective to grow	48%	43%	59%	67%	90%
Stay the same size	41%	44%	35%	30%	8%
Become smaller	5%	6%	3%	2%	1%
Plan to sell/pass on/close	6%	7%	3%	2%	1%

Q91 (225) All SMEs

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over recent quarters, including by size of SME. The overall figures are most influenced by the views of the smaller SMEs:

- For SMEs with 0 employees around 4 in 10 planned to grow (43% in Q2 2018)
- Amongst SMEs with 1-9 employees the proportion planning to grow has been more variable, but typically half have planned to grow (59% in Q2 2018)
- A fairly consistent 6 in 10 SMEs with 10-49 employees planned to grow, with a slightly higher proportion in Q2 2018 (67%) planning to do so
- Amongst SMEs with 50-249 employees, typically 7 in 10 have planned to grow in recent quarters. In Q2 2018, 90% were planning to grow and this will be monitored over future quarters



Objective to grow (any) in next 12 months

Over time – row percentages By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
All SMEs	41%	41%	47%	43%	45%	45%	46%	47%	48%
0 employee	38%	37%	44%	39%	41%	43%	43%	45%	43%
1-9 employees	50%	48%	56%	56%	54%	49%	52%	51%	59%
10-49 employees	60%	57%	61%	62%	65%	61%	68%	62%	67%
50-249 employees	60%	57%	61%	64%	72%	70%	67%	71%	90%
Minimal external risk rating	36%	45%	41%	41%	47%	37%	45%	44%	46%
Low external risk rating	37%	41%	46%	39%	44%	43%	47%	42%	40%
Average external risk rating	35%	39%	43%	42%	42%	38%	42%	41%	45%
Worse than average external risk rating	51%	41%	51%	50%	48%	53%	47%	52%	53%
Agriculture	28%	37%	37%	28%	38%	35%	39%	33%	42%
Manufacturing	52%	41%	37%	38%	46%	42%	49%	49%	57%
Construction	33%	30%	37%	32%	33%	37%	39%	39%	40%
Wholesale/Retail	49%	50%	53%	54%	51%	48%	54%	52%	54%
Hotels & Restaurants	50%	45%	46%	52%	47%	44%	45%	46%	49%
Transport	43%	43%	43%	48%	42%	42%	45%	46%	33%
Property/Business Services etc.	40%	42%	56%	45%	50%	52%	46%	50%	54%
Health	39%	39%	45%	37%	43%	56%	47%	48%	64%
Other Community	45%	42%	51%	53%	52%	40%	49%	53%	45%
All Permanent non-borrowers	33%	35%	38%	35%	38%	36%	38%	42%	40%
All excluding PNBs	49%	46%	53%	51%	51%	53%	52%	52%	56%

Q91 (225) All SMEs base size varies by category

The variability in predicted growth quarter on quarter makes trends harder to discern. The table below looks at annual growth plans since 2013 (due to previous changes to the question in Q4 2012) by key business demographics.



Overall, the proportion of SMEs planning to grow fell from 49% in 2013 to 43% in 2016 but was somewhat higher in 2017 (45%) and again in H1 2018 (47%). The increase between 2016 and 2017-18 was seen primarily amongst those with 50-249 employees and those in Manufacturing or the Health sector:

Objective to grow (any) in next 12 months						
Over time						H1
By date of interview – row percentages	2013	2014	2015	2016	2017	2018
All	49%	47%	45%	43%	45%	47%
0 emp	46%	43%	42%	40%	41%	44%
1-9 emps	54%	56%	54%	52%	53%	55%
10-49 emps	59%	67%	63%	59%	64%	64%
50-249 emps	67%	71%	66%	58%	69%	81%
Minimal external risk rating	45%	45%	40%	39%	42%	45%
Low	45%	45%	44%	42%	43%	41%
Average	41%	42%	39%	39%	41%	43%
Worse than average	54%	52%	51%	49%	49%	52%
Agriculture	43%	37%	34%	34%	35%	37%
Manufacturing	51%	55%	49%	43%	44%	53%
Construction	41%	37%	35%	35%	35%	40%
Wholesale/Retail	51%	54%	53%	51%	51%	53%
Hotels & Restaurants	46%	45%	46%	48%	47%	47%
Transport	48%	37%	44%	43%	44%	39%
Property/ Business Services	53%	49%	48%	46%	48%	52%
Health	49%	49%	48%	41%	46%	56%
Other	52%	57%	50%	47%	48%	49%
PNBs	43%	40%	38%	36%	37%	41%
All excl PNBs	52%	52%	51%	50%	52%	54%

Q91 (225) All SMEs



Amongst those who in H1 2018 said that their business had ‘developed significantly’ in the last 3 years, 63% expected to grow in the next year, compared to 36% of those who said the business was ‘recognisably the same’ and 31% who said the business had ‘retrenched’.

91% of those planning to grow said they would achieve this by selling more to existing markets in the UK (the equivalent of 42% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (7% of all SMEs) than overseas (2%):

How plan to grow Q2 18	All planning to grow	All SMEs
<i>Unweighted base:</i>	2759	4500
Sell in the UK	97%	45%
<i>Increase sales in existing markets in UK</i>	91%	42%
<i>Sell in new markets in UK</i>	14%	7%
Sell overseas	12%	6%
<i>Increase sales in existing markets overseas</i>	10%	5%
<i>Sell in new markets overseas</i>	5%	2%

Q92 (226) All SMEs planning to grow excluding DK/All SMEs

Exporters remained more likely to be predicting growth than their domestic peers and in Q2 2018, 62% reported that they planned to grow compared to 47% of non-exporters. They were also more likely to be planning to grow by 20% or more (24% v 16%). Exporters were typically larger SMEs but both larger and smaller exporters were more likely to report planned growth than their peers:

- Amongst SMEs with 0-9 employees: 61% of exporters interviewed in Q2 2018 planned to grow compared to 46% of non-exporters.
- Amongst SMEs with 10-249 employees: 79% of exporters interviewed in Q2 2018 planned to grow compared to 67% of non-exporters.



As the table below shows, the majority of both exporters and non-exporters who were planning to grow said that they would achieve that growth through sales in the UK. However, while two thirds of the exporters (67%) were planning to sell more overseas, just 5% of those who were not exporting planned to look overseas:

How plan to grow Q2 18	All planning to grow who export	All planning to grow who do not export
Unweighted base:	393	2366
Sell in the UK	90%	98%
<i>Increase sales in existing markets in UK</i>	84%	92%
<i>Sell in new markets in UK</i>	26%	13%
Sell overseas	67%	5%
<i>Increase sales in existing markets overseas</i>	58%	4%
<i>Sell in new markets overseas</i>	28%	2%

Q92 (226) All SMEs planning to grow excluding DK

The tables below summarise these differences between exporters and non-exporters over recent quarters. The first table below shows that exporters were more likely to be planning to grow each quarter (around 6 in 10) than those that did not export (currently just under half), albeit the current ‘gap’ between their respective growth aspirations (15 percentage points) was somewhat smaller than the more typical 20 percentage point gap usually seen:

Objective to grow (any) in next 12 months

By date of interview	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2016	2016	2016	2017	2017	2017	2017	2018	2018
Exporters	59%	62%	58%	59%	67%	66%	59%	60%	62%
Non-exporters	40%	39%	46%	42%	42%	42%	44%	46%	47%

Q91 (225) All SMEs



The second table is based on those planning to grow and summarises how this growth is to be achieved (excluding 'Don't know' answers). Existing markets remained the main target for both exporters and non-exporters, with exporters more likely than non-exporters to also be contemplating new markets, especially overseas:

How plan to grow

By date of interview	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2016	2016	2016	2017	2017	2017	2017	2018	2018
In existing markets:									
<i>Exporters</i>	88%	86%	88%	88%	96%	94%	91%	93%	89%
<i>Non-exporters</i>	89%	92%	87%	93%	91%	92%	90%	94%	94%
New UK markets:									
<i>Exporters</i>	35%	32%	36%	31%	38%	32%	30%	31%	26%
<i>Non-exporters</i>	22%	18%	23%	16%	23%	17%	23%	17%	13%
New overseas markets:									
<i>Exporters</i>	29%	24%	37%	25%	30%	30%	27%	23%	28%
<i>Non-exporters</i>	5%	3%	3%	4%	3%	6%	3%	4%	2%

Q92 (226) All SMEs planning to grow excluding DK



Taking a longer term view back to 2013, the table below shows that growth ambitions amongst exporters remained higher at around 6 in 10 (60-65%), compared to around half of other SMEs.

Amongst exporters planning to grow, the proportion planning to do so in new overseas markets (not necessarily within the EU) declined between 2013 and 2015 (30% to 20%) but has since recovered somewhat:

Growth plans						
Over time						
By date of interview						
Row percentages	2013	2014	2015	2016	2017	H1 2018
All SMEs:						
Plan to grow	49%	47%	45%	43%	45%	47%
<i>New markets overseas (of those planning to grow)</i>	7%	6%	6%	7%	7%	5%
Exporters:						
Plan to grow	60%	63%	65%	60%	63%	61%
<i>New markets overseas (of those planning to grow)</i>	30%	26%	20%	31%	28%	25%
Non exporters:						
Plan to grow	48%	45%	43%	42%	43%	46%
<i>New markets overseas (of those planning to grow)</i>	4%	3%	4%	4%	4%	3%

Q91/92 (225/226) All SMEs planning to grow excluding DK

More detailed analysis of the growth ambitions of international SMEs, not just exporters, is now provided at the end of this chapter.



Growth activities planned for next 12 months

A new question from Q3 2017 sought to understand the activities being planned by SMEs for the next year. As the table below shows, a third of SMEs planned to undertake at least one of these activities, increasing by size of SME:

Planned activities in next 12 mths		0	1-9	10-49	50-249
Q2 18 All SMEs	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
Take on more staff	18%	15%	27%	40%	36%
Invest in new plant, machinery, premises	15%	14%	18%	23%	19%
Develop a new product or service	14%	14%	16%	20%	14%
Start to sell, or sell more, overseas	6%	5%	7%	10%	9%
Some other major expenditure	5%	4%	6%	9%	10%
Any of these	37%	33%	46%	59%	49%
None of these	63%	67%	54%	41%	51%

Q90 (240w) All SMEs

Analysis by age of business showed that around 4 in 10 younger SMEs were planning any of these activities, compared to a third of SMEs trading for 10 years or more:

Planned activities in next 12 mths		2-5	6-9	10-15	15
Q2 18 All SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	456	408	515	815	2306
Take on more staff	25%	28%	20%	13%	13%
Invest in new plant, machinery, premises	14%	18%	17%	13%	15%
Develop a new product or service	18%	22%	16%	13%	10%
Start to sell, or sell more, overseas	7%	4%	5%	6%	5%
Some other major expenditure	4%	4%	5%	5%	5%
Any of these	40%	46%	40%	34%	31%
None of these	60%	54%	60%	66%	69%

Q90 (240w) All SMEs



By sector those in Manufacturing were the most likely to be planning action (51%) compared to 29% in Transport and 30% in Construction. Excluding the Permanent non-borrowers increased the proportion planning to take any action slightly to 42% of remaining SMEs.

Key differences in levels of planned activity were seen by future growth plans and future finance plans. Those planning to grow in the next 12 months and those planning to apply for finance were both more likely to be planning these activities:

Planned activities in next 12 mths	Plan to grow	No plans to grow	Plan to apply	FWBS	FHNS
Q2 18 All SMEs					
<i>Unweighted base:</i>	2822	1678	552	406	3542
Take on more staff	31%	7%	27%	18%	17%
Invest in new plant, machinery , premises	22%	10%	26%	15%	14%
Develop a new product or service	23%	6%	28%	22%	12%
Start to sell, or sell more, overseas	9%	2%	15%	5%	5%
Some other major expenditure	7%	2%	9%	3%	5%
<i>Any of these</i>	55%	20%	57%	40%	34%
None of these	45%	80%	43%	60%	66%

Q90 (240w) All SMEs

Analysed as a group, the 37% of SMEs planning to take any of these actions in the next 12 months were:

- Only slightly more likely to be using external finance (37% v 34% of those not planning any actions) but happier to use it in future to help the business grow (43% v 28%). They were less likely to meet the definition of a PNB (42% v 54%)
- No more likely to have had a past borrowing event (16% v 14%), but much more likely to be planning to apply for finance (14% v 6%)
- Much more likely to be planning to grow (72% v 34%)
- More likely to say they were prepared to take risks to grow the business (58% v 38%)
- More likely to say that the business has developed quite a bit compared to 3 years ago (39% v 18%)



Limited analysis over time is now available. As the table below shows, there has been relatively little change over time in the proportion of SMEs planning to undertake each of these activities, albeit the proportion planning any activity is somewhat lower in Q2 2018 (37%) than it was in the previous quarters (41-42%):

Planned activities

By date of interview All SMEs – over time	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	4505	4500	4500	4500
Take on more staff	18%	19%	19%	18%
Invest in new plant, machinery , premises	16%	18%	18%	15%
Develop a new product or service	17%	16%	17%	14%
Start to sell, or sell more, overseas	11%	7%	7%	6%
Some other major expenditure	7%	6%	6%	5%
Any of these	42%	42%	41%	37%
None of these	58%	58%	59%	63%

Q90 (240w) All SMEs

The table overleaf provides similar analysis at the half year level, to make trends easier to spot over time. In H2 2017, when this question was first asked, 42% of SMEs reported one or more activities, dropping slightly to 39% in H1 2018. These lower levels of activity were reported across size bands, and for those with a low or worse than average risk rating, and for those with plans to grow.



Plan any activity Over time By date of interview – row percentages	H2 2017	H1 2018
All	42%	39%
0 emp	38%	35%
1-9 emps	50%	47%
10-49 emps	63%	58%
50-249 emps	60%	53%
Minimal external risk rating	42%	42%
Low	44%	39%
Average	35%	36%
Worse than average	45%	40%
Agriculture	38%	40%
Manufacturing	54%	49%
Construction	36%	32%
Wholesale/Retail	48%	46%
Hotels & Restaurants	42%	39%
Transport	40%	34%
Property/ Business Services	41%	40%
Health	44%	38%
Other	43%	41%
PNBs	36%	33%
All excl PNBs	47%	44%
Plan to grow	61%	56%
No plans to grow	26%	23%

Q90 (240w) All SMEs



Obstacles to running the business in the next 12 months

SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale (where 1 meant the factor was not an obstacle at all, and 10 that it was seen as a major obstacle). Scores have been analysed in 3 bands:

- 1-4 = a minor obstacle
- 5-7 = a moderate obstacle
- 8-10 = a major obstacle.

Over time, some amendments have been made to the list of possible obstacles tested, including two changes for Q1 2017:

- ‘Changes in the value of sterling’ replaced ‘The quality of management and leadership in the business’ which had been added in Q3 2015.
- The existing code ‘Legislation and regulation’ was extended to include ‘red tape’.

The data for Q2 2018 was collected as the Brexit debate and negotiations continued. At an overall level there were no dramatic changes in the proportion of SMEs rating either the current economic climate or ‘Political uncertainty and future government policy’ as major obstacles, although both have increased slightly over time. Amongst larger SMEs and/or those who are international, both of these factors were mentioned more as major obstacles, although views remained somewhat volatile as is reported later in this section.



At its peak in 2013, 1 in 3 SMEs saw the economic climate as a major obstacle. Over time though, it has declined in importance and so other issues have become as important to SMEs:

- The three top issues in Q2 2018 were **Legislation, regulation and red tape** (rated a major obstacle by 18% of SMEs) together with **political uncertainty/government policy**, and the **current economic climate** (both rated a major obstacle by 15% of SMEs). 31% of SMEs rated at least one of these barriers as a major obstacle.
- **Cash flow and issues with late payment** was rated a major obstacle by 12% of SMEs.
- The most recently added factor, **changes in the value of sterling**, was rated a major obstacle by 11% of SMEs.
- 8% of SMEs rated **availability of relevant advice** for their business as a major obstacle
- 7% rated **recruiting and retaining staff** as a major obstacle.
- 6% saw **access to external finance** as a major obstacle for the year ahead.

The analysis below looks in detail at the barriers perceived in Q2 2018, by size of SME. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months		0	1-9	10-49	50-249
Q2 18 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
Legislation, regulation and red tape	4.3	4.3	4.5	4.7	2.6
- 8-10 major obstacle	18%	18%	20%	20%	6%
- 5-7 moderate obstacle	29%	28%	30%	35%	17%
- 1-4 minor obstacle	50%	51%	48%	43%	76%
The current economic climate (mean score)	4.3	4.3	4.4	4.6	2.8
- 8-10 major obstacle	15%	15%	16%	14%	4%
- 5-7 moderate obstacle	35%	35%	36%	41%	19%
- 1-4 minor obstacle	48%	48%	46%	42%	75%
Political uncertainty/future govt policy	4.1	4.0	4.2	4.4	3.2
- 8-10 major obstacle	15%	15%	18%	16%	6%
- 5-7 moderate obstacle	30%	31%	29%	34%	20%
- 1-4 minor obstacle	50%	50%	49%	44%	71%

Continued



Continued

Changes in the value of sterling	3.3	3.3	3.3	3.7	2.2
- 8-10 major obstacle	11%	12%	11%	12%	5%
- 5-7 moderate obstacle	22%	22%	24%	26%	11%
- 1-4 minor obstacle	63%	63%	63%	59%	83%
Cash flow/issues with late payment	3.3	3.2	3.3	3.6	2.7
- 8-10 major obstacle	12%	12%	13%	13%	6%
- 5-7 moderate obstacle	19%	19%	19%	23%	9%
- 1-4 minor obstacle	67%	67%	67%	62%	83%
Recruiting/retaining staff	2.5	2.2	3.1	4.1	2.8
- 8-10 major obstacle	7%	6%	11%	17%	4%
- 5-7 moderate obstacle	13%	11%	18%	28%	17%
- 1-4 minor obstacle	75%	78%	69%	54%	79%
Availability of relevant advice	2.8	2.8	2.8	2.9	1.8
- 8-10 major obstacle	8%	8%	7%	6%	2%
- 5-7 moderate obstacle	18%	18%	19%	20%	9%
- 1-4 minor obstacle	71%	71%	72%	71%	89%
Access to external finance	2.5	2.5	2.5	2.7	1.8
- 8-10 major obstacle	6%	6%	5%	6%	2%
- 5-7 moderate obstacle	16%	16%	16%	18%	9%
- 1-4 minor obstacle	75%	75%	76%	73%	88%
None of these are major obstacles	57%	58%	56%	54%	82%

Q93 (227a) All SMEs

SMEs with employees were no more likely to rate any of these factors as 'Major obstacles' with 44% nominating at least one factor compared to 42% of those with 0 employees.



In Q2 2018, 57% of SMEs did not rate any of these factors as a major obstacle (scoring 8-10).

All those who did not score 8-10 for *any* of these factors were asked if there were any barriers missing from the list. Almost all (96%) said that there weren't.

The tables below focus on those scoring 8-10 for each potential obstacle. For ease, the analysis by size of SME (provided in more detail in the previous table) is also summarised below:

Extent of obstacles in next 12 months

Q2 18 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50- 249 emps
<i>Unweighted base:</i>	4500	900	1450	1450	700
Legislation, regulation and red tape	18%	18%	20%	20%	6%
Political uncertainty/future govt policy	15%	15%	18%	16%	6%
The current economic climate	15%	15%	16%	14%	4%
Cash flow/issues with late payment	12%	12%	13%	13%	6%
Changes to value of sterling	11%	12%	11%	12%	5%
Availability of relevant advice	8%	8%	7%	6%	2%
Recruiting/retaining staff	7%	6%	11%	17%	4%
Access to external finance	6%	6%	5%	6%	2%
<i>None of these rated a major obstacle</i>	57%	58%	56%	54%	82%

Q93 (227a) All SMEs

This shows that the top 3 major obstacles (the economic climate, political uncertainty and legislation) were key issues for all sizes of SME, with the exception in Q2 2018 of those with 50-249 employees, who were much less likely to cite any of these factors as barriers.

- 3 in 10 SMEs in Q2 2018 (31%) mentioned one or more of these three factors as a major obstacle. They were mentioned by a third of those with up to 50 employees, compared to 12% of those with 50-249 employees



Analysis by risk rating showed the same three key obstacles. Those with a better external risk rating were slightly more concerned about legislation and regulation, while those with a worse than average risk rating were more concerned about the economic climate, cash flow and late payment and changes to the value of sterling:

Extent of obstacles in next 12 months

Q2 18 – all SMEs

8-10 impact score

	Total	Min	Low	Avg	Worse/ Avg
Unweighted base:	4500	738	1419	1027	991
Legislation, regulation and red tape	18%	22%	20%	16%	18%
Political uncertainty/future govt policy	15%	18%	14%	12%	17%
The current economic climate	15%	11%	13%	11%	18%
Cash flow/issues with late payment	12%	7%	9%	11%	15%
Changes to value of sterling	11%	7%	9%	8%	16%
Availability of relevant advice	8%	3%	5%	5%	11%
Recruiting/retaining staff	7%	10%	10%	6%	7%
Access to external finance	6%	2%	4%	6%	6%
None of these rated a major obstacle	57%	59%	59%	61%	54%

Q93 (227a) All SMEs where risk rating known

The top 3 barriers were more likely to be mentioned by those with a minimal risk rating (37% mentioned any) than those with another risk rating (26-34%).



The table below shows that in Q2 2018 there were limited differences in perceived obstacles between those with plans to grow and those with no plans, with the exception of cash flow. 46% of those planning to grow rated any of these as major obstacles compared to 39% of those with no plans to grow.

This table also shows that clear differences were seen on all factors depending on whether the SME was a Permanent non-borrower or not. PNBs remained less likely to see any of these issues as major barriers and 65% said that none of them were:

Extent of obstacles in next 12 months

Q2 18 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
Unweighted base:	4500	2822	1678	1632	2868
Legislation, regulation and red tape	18%	18%	19%	16%	21%
Political uncertainty/future govt policy	15%	16%	15%	13%	18%
The current economic climate	15%	15%	14%	13%	17%
Cash flow/issues with late payment	12%	16%	9%	5%	19%
Changes to value of sterling	11%	13%	10%	8%	15%
Availability of relevant advice	8%	9%	6%	5%	10%
Recruiting/retaining staff	7%	9%	6%	6%	8%
Access to external finance	6%	7%	4%	3%	9%
None of these rated a major obstacle	57%	54%	61%	65%	50%

Q93 (227a) All SMEs

Mentions of any of the top 3 barriers were no different amongst those with no plans to grow (32% v 31% of those planning to grow) but were mentioned slightly less by PNBs (27% v 35% that did not meet the definition of a PNB).



Those planning to apply for new/renewed facilities in the next three months, or who would have liked to, were much more likely to see these issues as major obstacles, including access to finance. 56% nominated at least one major obstacle, compared to 39% of Future happy non-seekers:

Extent of obstacles in next 12 months		Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Q2 18 – all SMEs	Total			
8-10 impact score				
<i>Unweighted base:</i>	4500	958	3542	1910
Legislation, regulation and red tape	18%	24%	17%	18%
Political uncertainty/future govt policy	15%	22%	13%	15%
The current economic climate	15%	20%	13%	14%
Cash flow/issues with late payment	12%	21%	10%	17%
Changes to value of sterling	11%	16%	10%	14%
Availability of relevant advice	8%	9%	7%	10%
Recruiting/retaining staff	7%	10%	7%	7%
Access to external finance	6%	11%	4%	7%
<i>None of these rated a major obstacle</i>	57%	44%	61%	55%

Q93 (227a) All SMEs

The Future happy non-seeker category described above includes those SMEs that met the definition of a Permanent non-borrower, which indicates that they were not using finance nor were they likely to borrow. Such SMEs have been excluded from the Future happy non-seeker definition in the final column above, with a

modest impact on most scores, but an increase in mentions for Cash flow as an issue.

Those with a future appetite for finance were more likely to mention any of the top 3 barriers (40%) than Happy non-seekers were (29% and 32% once the PNBs were excluded).



Those in Agriculture (51%) were the most likely to nominate at least one barrier as a major obstacle while those in the Other Community (35%) and Health (38%) sectors were the least likely to nominate any barriers:

Extent of obstacles in next 12 months

Q2 18 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	300	375	800	450	300	501	899	375	500
Legislation, regulation and red tape	30%	15%	19%	20%	17%	22%	19%	14%	12%
Political uncertainty	24%	17%	14%	18%	10%	17%	16%	9%	13%
The current economic climate	17%	15%	15%	19%	15%	11%	15%	12%	15%
Cash flow/issues with late payment	11%	16%	13%	12%	9%	11%	13%	11%	11%
Changes to sterling	14%	11%	9%	19%	10%	12%	11%	7%	11%
Availability of relevant advice	6%	6%	9%	7%	6%	6%	10%	9%	4%
Recruiting/retaining staff	8%	7%	7%	11%	15%	8%	6%	6%	4%
Access to external finance	5%	10%	5%	5%	5%	4%	5%	7%	6%
None of these rated a major obstacle	49%	58%	56%	54%	57%	59%	55%	62%	65%

Q93 (227a) All SMEs

Of the top 3 obstacles, legislation and political uncertainty were more of an obstacle for those in Agriculture, while the economic climate was mentioned slightly more by those in Wholesale/Retail.

47% of SMEs in Agriculture mentioned one or more of these top 3 barriers. Those in the Health (23%) and Other Community (25%) sectors were the least likely to mention any of them. Amongst other sectors they were mentioned by between 27% and 35% of SMEs.



Obstacles to running the business – over time

The summary table below shows the proportion of SMEs that rated each factor a major obstacle across the most recent nine waves of the Monitor. Since the end of 2016 there have been more mentions of legislation and regulation as a barrier and this is now mentioned slightly more (18%) than political uncertainty or the economic climate (both 15%):

Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of

interview

	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Legislation, regs and red tape	11%	8%	10%	15%	14%	15%	15%	17%	18%
Political uncertainty	10%	10%	12%	14%	13%	14%	15%	16%	15%
The current economic climate	13%	10%	13%	11%	13%	16%	14%	16%	15%
Cash flow/issues with late payment	7%	6%	5%	8%	8%	12%	9%	11%	12%
Changes in sterling	-	-	-	11%	10%	15%	10%	11%	11%
Availability of relevant advice	4%	4%	6%	3%	4%	5%	4%	6%	8%
Recruiting/retaining staff	6%	5%	6%	5%	7%	6%	8%	7%	7%
Access to external finance	5%	4%	5%	4%	4%	5%	5%	5%	6%
None of these rated a major obstacle	68%	74%	70%	66%	64%	62%	61%	59%	57%

Q93 (227a) All SMEs

The proportion saying that ‘none of these’ were a barrier has declined over time, from around 7 in 10 to around 6 in 10. The last additional barrier (sterling) was introduced in Q1 2017.



The table below provides a longer term view back to 2012 to help identify changes over time. This shows the marked decline in the proportion of SMEs citing the current economic climate as a barrier between 2012 and 2015, such that it is now no more of a barrier than political uncertainty or legislation and regulation, where scores have increased somewhat in 2017-18 after a period of stability:

Extent of obstacles in next 12 months							
Over time – all SMEs 8-10 impact score	2012	2013	2014	2015	2016	2017	H1 2018
Unweighted base:	20,055	20,036	20,055	20,046	18,000	18,012	9000
Legislation, regulation and red tape	13%	13%	12%	11%	10%	15%	18%
The current economic climate	34%	27%	17%	13%	12%	14%	15%
Political uncertainty/future govt policy	-	-	-	10%	10%	14%	16%
Any top 3 mentions	-	-	-	24%	22%	28%	31%
Cash flow/issues with late payment	13%	11%	9%	9%	7%	9%	12%
Changes in sterling	-	-	-	-	-	11%	11%
Availability of relevant advice	6%	6%	5%	5%	4%	4%	7%
Recruiting/retaining staff	3%	3%	5%	6%	6%	6%	7%
Access to external finance	11%	10%	7%	6%	5%	5%	5%

Q93 (227a) All SMEs

The proportion mentioning any of the top 3 barriers was stable in 2016 (22%) but increased to 28% for 2017 and 31% for the first half of 2018. Excluding the 0 employee SMEs increased the proportion mentioning any of these barriers in 2016 to 26% and the subsequent increase was to 33% in H1 2018.

The current uncertainty around Brexit and other issues may have affected perceptions about the future. The table below shows the changes since 2015 for two key barriers, the economic climate and political uncertainty, by size of SME. Analysis for those engaged in international trade is provided at the end of this chapter.



Political uncertainty remained more of a barrier than it was in 2015, across all size bands except those with 50-249 employees:

Political uncertainty and future govt policy

8-10 impact score			Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2015	2016	2017	2017	2017	2017	2018	2018
All SMEs	9%	10%	14%	13%	14%	15%	16%	15%
0 employees	9%	10%	13%	12%	14%	14%	16%	15%
1-9 employees	12%	13%	16%	16%	16%	19%	18%	18%
10-49 employees	9%	12%	14%	14%	15%	15%	15%	16%
50-249 employees	7%	14%	14%	19%	13%	11%	11%	6%

Q93 (227a) All SMEs

Overall, the proportion of SMEs seeing the current economic climate as a barrier has been broadly stable since mid-2017, at a slightly higher level than in 2015-16. During 2017, those with 1-9 employees became more concerned about the economic climate but were somewhat less concerned in the first half of 2018, while those with 50-249 employees have become less concerned since the start of 2017:

The current economic climate

8-10 impact score			Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2015	2016	2017	2017	2017	2017	2018	2018
All SMEs	13%	12%	11%	13%	16%	14%	16%	15%
0 employees	12%	12%	11%	12%	16%	13%	16%	15%
1-9 employees	14%	14%	13%	14%	18%	20%	16%	16%
10-49 employees	10%	12%	14%	14%	13%	14%	14%	14%
50-249 employees	8%	13%	17%	15%	10%	11%	13%	4%

Q93 (227a) All SMEs



Access to finance is the key theme of this report but an issue that has been less likely to be rated a barrier by SMEs over time. The table below shows a stable picture over recent quarters.

Access to finance – 8-10 impact scores

Over time – row percentages	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	16	16	16	17	17	17	17	18	18
All SMEs	5%	4%	5%	4%	4%	5%	5%	5%	6%
0 employee	5%	4%	4%	4%	4%	5%	5%	5%	6%
1-9 employees	6%	5%	7%	5%	5%	4%	5%	6%	5%
10-49 employees	4%	3%	5%	5%	4%	4%	4%	5%	6%
50-249 employees	2%	3%	4%	4%	1%	4%	2%	4%	2%
Minimal external risk rating	2%	6%	2%	1%	3%	3%	3%	2%	2%
Low external risk rating	4%	2%	4%	4%	4%	5%	4%	4%	4%
Average external risk rating	3%	5%	4%	4%	2%	3%	4%	5%	6%
Worse than average external risk rating	8%	5%	6%	4%	5%	7%	6%	6%	6%
Agriculture	4%	8%	1%	4%	3%	7%	7%	4%	5%
Manufacturing	5%	3%	2%	4%	4%	5%	5%	2%	10%
Construction	5%	3%	4%	5%	3%	7%	3%	6%	5%
Wholesale/Retail	7%	3%	4%	6%	6%	4%	3%	4%	5%
Hotels & Restaurants	6%	8%	9%	8%	8%	4%	6%	11%	5%
Transport	8%	5%	4%	4%	5%	8%	8%	8%	4%
Property/Business Services etc.	3%	3%	6%	3%	3%	3%	5%	2%	5%
Health	7%	5%	5%	1%	5%	5%	9%	3%	7%
Other Community	4%	6%	6%	3%	3%	5%	5%	9%	6%
Use external finance	6%	4%	6%	7%	7%	9%	8%	9%	9%
Plan to borrow/FWBS	13%	11%	13%	13%	14%	14%	11%	11%	11%
Future Happy non-seekers	2%	2%	2%	2%	1%	3%	3%	3%	4%
All SMEs excluding PNBs	8%	7%	7%	6%	7%	9%	8%	8%	9%

Q93 (227a) All SMEs



Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. No changes were made to this question in the revised questionnaire. The slight increase in planned applications seen at the end of 2017 (14% in Q4) was not maintained into 2018 (In Q2, 9% planned to apply):

% likely in next 3 months									
All SMEs – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2016	2016	2016	2017	2017	2017	2017	2018	2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Will have a need for (more) external finance	9%	7%	7%	7%	8%	9%	10%	8%	7%
Will apply for more external finance	7%	6%	7%	6%	6%	6%	8%	6%	5%
Renew existing borrowing at same level	7%	7%	7%	6%	8%	8%	8%	6%	6%
Any apply/renew	11%	11%	11%	10%	12%	12%	14%	9%	9%
Reduce the amount of external finance used	7%	7%	7%	4%	7%	8%	8%	8%	12%
Inject personal funds into business	15%	14%	15%	12%	13%	13%	15%	13%	9%

Q99 (229) All SMEs

SMEs were typically somewhat more likely to identify a need for finance than to think they would apply for it. The predicted level of applications/renewals in the coming quarter has consistently been higher than the actual level of applications/renewals reported subsequently (by different SMEs). 10-14% of SMEs had been planning to apply for finance in 2017 but 4% reported a Type 1 event when interviewed in H1 2018



Amongst those SMEs that are companies, there continued to be limited interest in seeking new equity finance:

% likely in next 3 months

All companies- over time By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	2833	2839	2714	2846	2753	2948	2709	2851	2760
Any new equity	4%	3%	4%	2%	4%	4%	5%	4%	2%

Q99 (229) All companies

In Q2 2018 as in previous quarters, there continued to be a difference in future appetite for finance by size of business. Appetite was lower amongst those with 0 employees compared to those with employees and these smaller SMEs remained as likely to anticipate an injection of personal funds (8%) as an application for new/renewed finance (7%). A majority of the largest SMEs with 50-249 employees were planning to reduce the amount of finance being used (this will be monitored going forward – in previous quarters around a quarter of these SMEs planned to reduce the amount of finance used):

% likely in next 3 months

Q2 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4500	900	1450	1450	700
Will have a need for (more) external finance	7%	7%	9%	10%	9%
Will apply for more external finance	5%	4%	8%	8%	4%
Renew existing borrowing at same level	6%	5%	9%	10%	8%
Any apply/renew	9%	7%	13%	15%	11%
Reduce the amount of external finance used	12%	11%	15%	15%	67%
Inject personal funds into business	9%	8%	12%	8%	4%

Q99 (229) All SMEs

Amongst SMEs with employees, 14% had plans to apply/renew in the next 3 months and 9% believed they would have a need for (more) external finance.



Before looking at future applications for finance in more detail, the analysis below explores the role of personal funding of SMEs. Between 2012 and 2014 there was a decline in the proportion of SMEs that had injected personal funds, from 43% to 29%. Since then, each year around 3 in 10 SMEs have reported an injection of funds. Having been stable for a while, the proportion of SMEs planning to inject personal funds declined further in 2017 and H1 2018, to 11%, but in reality twice as many went on to inject funds:

Injections of personal funds past and future							H1
Over time – All SMEs	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	20,055	20,036	20,055	20,046	18,000	18,012	9000
Have injected personal funds	43%	38%	29%	28%	28%	29%	28%
Plan to inject personal funds	24%	20%	16%	16%	15%	13%	11%

Q15d/Q99-5 (229-5) All companies

The table below shows how the injections of personal funds past and future have combined. Over recent quarters around two thirds of SMEs had neither put in funds, nor thought it likely they would do so (68% in Q2 2018). Also in Q2 2018, 5% of SMEs had both injected personal funds and planned to do so again, down from 1 in 10 in previous quarters:

Injections of personal funds									
Over time – All SMEs	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Have injected personal funds and likely to do so again	9%	8%	10%	9%	9%	10%	10%	9%	5%
Have not put in personal funds but likely to do so	6%	6%	5%	3%	4%	4%	4%	4%	4%
Have injected personal funds but unlikely to do so again	16%	17%	21%	20%	18%	21%	20%	19%	23%
Have not put in personal funds and not likely to do so	69%	69%	65%	68%	68%	66%	66%	68%	68%

Q99 (229)/Q15d-d2 All SMEs



Turning back to future applications for external finance, the Q2 2018 figure of 9% was slightly lower than seen in recent quarters (10-12% since Q2 2016 but 14% in Q4 2017), due to lower appetite across all sizes of SME. Excluding the PNBs increases the proportion of remaining SMEs planning to apply (18%) but this is also lower than previously seen (26% in Q4 2017):

% likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
All SMEs	11%	11%	11%	10%	12%	12%	14%	9%	9%
0 employee	10%	10%	10%	8%	11%	11%	13%	8%	7%
1-9 employees	15%	14%	14%	16%	14%	13%	16%	12%	13%
10-49 employees	16%	13%	16%	16%	15%	16%	18%	14%	15%
50-249 employees	13%	12%	13%	12%	23%	19%	12%	14%	11%
Minimal external risk rating	10%	11%	10%	9%	9%	9%	16%	6%	9%
Low external risk rating	13%	11%	13%	13%	13%	13%	14%	10%	10%
Average external risk rating	10%	11%	9%	8%	9%	11%	12%	9%	8%
Worse than average external risk rating	14%	12%	10%	11%	13%	13%	16%	10%	9%
Agriculture	13%	17%	15%	12%	11%	7%	16%	14%	10%
Manufacturing	15%	11%	11%	7%	20%	10%	20%	12%	14%
Construction	8%	9%	11%	10%	7%	11%	12%	11%	7%
Wholesale/Retail	12%	14%	12%	13%	11%	14%	15%	8%	12%
Hotels & Restaurants	13%	13%	11%	15%	13%	11%	21%	12%	9%
Transport	16%	15%	14%	13%	12%	11%	16%	10%	5%
Property/Business Services etc.	10%	9%	12%	7%	11%	12%	12%	6%	8%
Health	11%	8%	9%	9%	11%	16%	15%	10%	12%
Other Community	15%	11%	8%	13%	15%	13%	12%	9%	12%
Objective to grow	18%	15%	14%	16%	18%	17%	19%	12%	12%
No objective to grow	7%	8%	9%	5%	6%	7%	10%	7%	6%
All SMEs excluding PNBs	22%	22%	19%	19%	21%	23%	26%	18%	18%

Q99 (229) All SMEs base size varies by category



The variability in predicted appetite for finance quarter on quarter makes trends harder to discern. The table below looks at annual appetite for finance since 2012 by key business demographics. This shows that overall appetite for finance in H1 2018 was somewhat lower than in recent periods, both overall and across all size bands and once the PNBs were excluded:

% likely to apply or renew in next 3 months								
Over time								H1
By date of interview – row percentages	2012	2013	2014	2015	2016	2017		2018
All	14%	14%	13%	13%	12%	12%		9%
0 emp	12%	12%	11%	12%	11%	11%		8%
1-9 emps	20%	19%	20%	17%	15%	15%		13%
10-49 emps	21%	17%	18%	19%	16%	16%		14%
50-249 emps	19%	16%	14%	14%	13%	17%		12%
Minimal external risk rating	16%	12%	13%	13%	11%	11%		7%
Low	17%	13%	14%	15%	13%	13%		10%
Average	13%	13%	12%	14%	10%	10%		9%
Worse than average	15%	14%	14%	12%	13%	13%		9%
Agriculture	18%	16%	15%	18%	15%	11%		12%
Manufacturing	16%	13%	16%	16%	13%	14%		13%
Construction	14%	13%	11%	11%	11%	10%		9%
Wholesale/Retail	16%	18%	19%	15%	13%	13%		10%
Hotels & Restaurants	17%	15%	16%	16%	14%	15%		10%
Transport	14%	16%	15%	13%	15%	13%		8%
Property/ Business Services	12%	13%	11%	13%	11%	11%		7%
Health	11%	12%	11%	9%	10%	13%		11%
Other	16%	12%	14%	13%	12%	13%		10%
All excl PNBs	21%	23%	24%	25%	23%	22%		18%

Q99 (229) All SMEs

Amongst those planning to grow, future appetite for finance remained somewhat higher than for those not planning to grow (12% v 7% in H1 2018) but was lower than previously seen (17-19% 2013-17).



Previous analysis has shown that those already using external finance were more likely to consider applying for finance than those not currently using it. In H1 2018, 6% of all SMEs were using finance and planned to apply for more, twice as many as the 3% not currently using finance but planning to apply for some. A steady 3 in 10 were using finance but had no plans to apply for more and the largest group of SMEs (63%) neither used finance nor had plans to apply for any.

This means that most of the 9% of SMEs planning to apply for finance were already using it (67%):

Plans to apply v use of external finance						H1
Over time – all SMEs	2013	2014	2015	2016	2017	2018
Unweighted base:	20,036	20,055	20,046	18,000	18,012	9000
Use external finance and plan to apply	10%	10%	10%	8%	9%	6%
Use external finance, no plans to apply	30%	27%	27%	29%	29%	28%
Do not use finance but plan to apply	3%	3%	4%	4%	3%	3%
Do not use finance, no plans to apply	56%	60%	59%	59%	59%	63%
% of future applicants using finance	77%	77%	71%	67%	78%	67%

Q15 and futfin All SMEs

Analysis of the H1 2018 results showed that the proportion of SMEs that were both using finance and planning to apply increased by size of SME. The proportion of future applicants that were already using finance also increased by size of SME from 65% to 90%:

- 5% of 0 employee SMEs were using external finance and planned to apply for more. 65% of all future applicants with 0 employees were already using finance
- 8% of 1-9 employee SMEs were using external finance and planned to apply for more. 66% of all future applicants were already using finance
- 12% of 10-49 employee SMEs were using external finance and planned to apply for more. 83% of all future applicants were already using finance
- 15% of 50-249 employee SMEs were using external finance and planned to apply for more. 90% of all future applicants were already using finance.



The list of options regarding the purpose of the new/renewed facility was extensively revised for Q1 2018. The new list is shown below, with indicative data for 2016 and 2017 where similar codes were asked previously. The increased options available mean that there are fewer mentions of ‘working capital’ in 2018 than previously:

Use of new/renewed facility

All planning to seek/renew

Over time excl DK

By date of interview

	2016	2017	Q1 2018	Q2 2018
Unweighted base:	2563	2616	546	540
To fund UK expansion	28%	23%	28%	30%
Plant & machinery	21%	20%	24%	22%
A new business opportunity	-	-	15%	24%
Working capital to help cashflow*	62%	63%	15%	17%
Cover short term funding gap	-	-	10%	14%
Help through trading difficulties	-	-	9%	11%
Take on staff	-	9%	9%	9%
Fund new premises	8%	7%	5%	7%
Fund expansion overseas	5%	4%	3%	6%
Take over another business	-	-	1%	1%

Q100 (230) All planning to apply for/renew facilities in next 3 months. EXCL DK New codes from Q1 2018

The purpose of finance is less concentrated on ‘working capital’ than it was in previous years, but this is partly a function of having a wider range of alternatives available – total mentions of things for which working capital might have previously been cited (‘new business opportunity’, ‘working capital’, ‘short term funding’ and ‘trading difficulties’) were 54% in Q2 2018, not that different to the 6 in 10 citing working capital in 2016 and 2017.



Working capital aside, a longer term view back to 2012 showed relatively little variation in the proposed purpose of future funding, with slightly fewer mentions of funding for plant and machinery since 2016:

Use of new/renewed facility							H1
All planning to seek/renew- over time	2012	2013	2014	2015	2016	2017	2018
<i>Unweighted base:</i>	3717	3316	3310	3200	2563	2616	1086
To fund UK expansion	21%	28%	30%	28%	28%	23%	29%
Plant & machinery	27%	27%	26%	25%	21%	20%	23%
A new business opportunity							19%
Working capital to help cashflow	63%	62%	57%	59%	62%	63%	16%
Cover short term funding gap	-	-	-	-	-	-	12%
Help through trading difficulties	-	-	-	-	-	-	10%
Take on staff	-	-	-	-	-	9%	9%
Fund new premises	7%	7%	10%	7%	8%	7%	6%
Fund expansion overseas	3%	5%	6%	6%	5%	4%	5%
Take over another business	-	-	-	-	-	-	1%

Q100 (230) All planning to apply for/renew facilities in next 3 months excl DK. New codes from Q1 2018



The table below details what types of finance those planning to apply would consider for their new/renewed funding. From Q1 2016 data has been collected at a headline level rather than for each possible type of finance.

Consideration over time of any of the core lending products (overdrafts, loans and/or credit cards) and/or other forms of borrowing, is shown below for those planning to apply, using those new summary categories. It shows consideration of core finance was stable (54%) but remained at lower levels than previously seen (in H2 2015 6 in 10 were considering core finance):

% of those seeking/renewing finance that would consider form of funding

Over time	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2016	2016	2017	2017	2017	2017	2018	2018
Unweighted base:	554	639	616	698	667	687	551	552
Core product (loan, O/D, credit card)	47%	55%	55%	61%	54%	54%	54%	54%
Commercial mortgage	14%	16%	13%	12%	24%	15%	15%	12%
Leasing/invoice finance	15%	16%	18%	15%	22%	16%	19%	18%
Other	21%	26%	22%	19%	27%	30%	25%	21%
None of these	45%	32%	34%	32%	37%	32%	35%	33%

Q101 (233) All SMEs seeking new/renewing finance in next 3 months

In all quarters consideration was highest for the core products. In Q2 2018, 54% of future applicants were considering a core form of finance, compared to 21% considering any of the other forms of finance.

The proportion saying ‘none of these’ was previously stable at around 1 in 4 but increased after the new format question was introduced at the start of 2016 (37% for 2016 as a whole). It has been more stable since the start of 2017 at around a third of future applicants.

These undecided potential applicants were asked whether this was because they had not decided what they might use or because they were considering another form of finance not listed. In H1 2018, 68% said that they had not decided, while 32% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants in H1 2018, 66% were considering one or more of the forms of finance listed, 11% were considering another form of finance and 23% hadn’t yet decided what they might use.



In order to maximise base sizes, the table below shows levels of consideration in H1 2018 by the size of SME considering funding.

% of those seeking/renewing finance would consider funding

H1 2018	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1103	139	379	411	174
Core product (loan, od, credit card)	54%	58%	47%	47%	62%
Commercial mortgage	14%	12%	17%	18%	22%
Leasing/invoice finance	19%	18%	18%	26%	36%
Other	23%	23%	24%	20%	14%
None of these	34%	32%	38%	36%	25%

Q101 (233) All SMEs seeking new/renewing finance in next 3 months

The balance between consideration of core and other forms of funding changed by size of SME. Core finance was the most likely source of funding to be considered in all size bands, but larger SMEs were more likely to also consider commercial mortgages and leasing/invoice finance.

Amongst SMEs with employees, 47% would consider one or more core products for their future lending, 18% a commercial mortgage, 20% leasing or invoice finance and 23% some other form of funding. 38% said they would not consider any of these.

Core forms of finance were more likely to be mentioned whatever the purpose the funds were needed for, but especially for UK expansion, taking on staff and short term funding gaps. Both leasing and commercial mortgages were mentioned by those looking to expand overseas (and commercial mortgages were also mentioned for premises).



Application confidence

Those planning to apply via typical bank products (loan, commercial mortgage, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they were that their main bank would agree to their request. Those planning to apply who were either only considering one of the other forms of finance specified or who did not nominate any form of

finance were asked an alternative question, reported below. This part of the questionnaire was not changed for Q1 2018.

There have been significant variations in levels of application confidence since the start of 2017, but confidence in Q2 2018 is higher, back to levels seen in Q3 2017:

Confidence bank would lend

All planning to seek finance Over time by date of interview	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Unweighted base:	377	295	362	389	437	421	401	327	353
Very confident	22%	23%	22%	17%	14%	12%	14%	16%	23%
Fairly confident	31%	38%	37%	32%	41%	47%	27%	32%	35%
Overall confidence	53%	61%	59%	49%	55%	59%	41%	48%	58%
Neither/nor	22%	20%	22%	22%	21%	26%	26%	23%	20%
Not confident	25%	19%	19%	28%	23%	15%	33%	29%	23%
Net confidence (confident – not confident)	+26	+42	+40	+21	+32	+44	+8	+19	+35

Q103 (238) All SMEs seeking new/renewing finance in next 3 months

Confidence amongst prospective applicants with employees was 54% in Q2 2018.



As the table below shows, the increase in confidence in Q2 2018 was seen predominantly amongst smaller applicants and those with an average or worse than average risk rating, albeit larger applicants and those with a minimal or low risk rating remained more confident of success:

Overall confidence bank would lend

All planning to seek finance – over time
By date of interview

	Total	0-9 emps	10-249 emps	Min/low	Av/Worse than avge
Q1 2015	49%	49%	66%	71%	38%
Q2 2015	49%	48%	77%	63%	45%
Q3 2015	60%	60%	66%	67%	55%
Q4 2015	52%	52%	71%	57%	52%
Q1 2016	48%	47%	73%	71%	41%
Q2 2016	53%	51%	74%	83%	47%
Q3 2016	61%	60%	81%	71%	59%
Q4 2016	59%	58%	74%	71%	60%
Q1 2017	49%	48%	66%	74%	44%
Q2 2017	55%	54%	79%	69%	51%
Q3 2017	59%	57%	78%	72%	61%
Q4 2017	41%	40%	65%	58%	37%
Q1 2018	48%	46%	67%	68%	45%
Q2 2018	58%	57%	71%	66%	52%

Q103 (238) All SMEs seeking new/renewing finance in next 3 months



Over the longer term, the steady increase in levels of confidence seen between 2012 and 2016 was not maintained in 2017, but showed signs of recovering in H1 2018:

Confidence bank would agree to lend							H1
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	2933	2477	2337	2194	1467	1648	680
Very confident	15%	14%	24%	24%	23%	14%	19%
Fairly confident	27%	25%	23%	29%	32%	36%	34%
Overall confidence	42%	39%	47%	53%	55%	50%	53%
Neither/nor	23%	30%	24%	21%	25%	24%	21%
Not confident	35%	31%	29%	26%	21%	26%	26%
Net confidence (confident – not confident)	+10	+8	+18	+27	+34	+24	+27

Q103 (238) All SMEs seeking new/renewing finance in next 3 months

Current confidence (53%) is very similar to that in 2015, by size and risk rating, and only slightly lower than the 55% confidence level seen in 2016. Larger SMEs and those with a better risk rating were less confident in H1 2018 than they were in 2016 (but still more confident than their peers):

Confidence bank would agree to lend							H1
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018
Row percentages	2012	2013	2014	2015	2016	2017	2018
All	42%	39%	47%	53%	55%	50%	53%
0-9 employees	41%	37%	46%	52%	53%	49%	52%
10-49 employees	58%	60%	66%	70%	75%	72%	69%
Minimum/Low risk rating	57%	67%	65%	66%	74%	68%	67%
Average/WTA risk rating	40%	35%	45%	48%	51%	48%	48%

Q103 (238) All SMEs seeking new/renewing finance in next 3 months

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis showed that in H1 2018, 7 in 10 of those planning to renew were confident (70%) compared to 4 in 10 of those planning to apply for new facilities (42%). These levels of confidence also remain lower than actual success levels (currently 85% overall).



Analysis over time showed improvements in confidence between 2014 and 2016 with some variability since:

- For renewals confidence was 56% for 2014, increasing to 67% for 2016, then 61% for 2017 before returning to previous levels for H1 2018 (70%)
- For new facilities confidence was 39% for 2014, increasing to 46% for 2016, but was back to 39% for 2017 then 42% for H1 2018.

In a new question asked from Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they were to apply. This includes both those planning to apply for a non-bank product and those with no plans to apply for anything. The table below shows the results for Q2 2018, when 6 in 10 were confident of success with a potentially hypothetical application (a very similar proportion to those planning to apply to a bank). This ‘hypothetical’ confidence increased by size of SME from 57% of those with no employees to 92% of those with 50-249 employees:

Confidence bank would say yes if asked		0	1-9	10-49	50-249
All not planning to apply to bank Q2 18	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	4147	859	1342	1319	627
Very confident	25%	21%	32%	42%	74%
Fairly confident	36%	36%	35%	36%	18%
<i>Overall confidence</i>	61%	57%	67%	78%	92%
Neither/nor	26%	27%	24%	16%	6%
Not confident	14%	15%	10%	6%	2%
<i>Net confidence (confident – not confident)</i>	+47	+42	+57	+72	+90

Q106 (239b) All SMEs not seeking new/renewing finance from bank in next 3 months



Included in the table above are those who planned to renew/apply but then did not nominate any bank products (or indeed any products) for consideration. The table below summarises the confidence of all SMEs in Q2 2018, whether they were planning to apply to a bank (58% confident), apply but for another form of finance (56% confident), or not apply because they were a Would-be seeker of finance (49% confident). The largest group, those who had no need or plans to apply (the Future happy non-seekers) remained the most confident that if they were to approach their bank they would be successful (62%):

Confidence bank would say yes if asked	All planning to apply to bank	All others planning to apply	Future WBS	Future HNS
Q2 18 – all SMEs				
<i>Unweighted base:</i>	353	199	406	3542
Very confident	23%	24%	14%	26%
Fairly confident	35%	32%	35%	36%
<i>Overall confidence</i>	58%	56%	49%	62%
Neither/nor	20%	21%	23%	27%
Not confident	23%	23%	28%	11%
<i>Net confidence (confident – not confident)</i>	+35	+33	+21	+51

Q103/106 (238/ 239b) All SMEs



This hypothetical confidence question has only been asked since Q1 2016 so trend data is more limited than for some other metrics. The table below shows that across all SMEs (those planning to apply and those answering hypothetically) confidence improved during 2016 (60% to 68%) but then decreased and has typically been 6 in 10 again since Q2 2017:

Confidence bank would say yes										
Over time	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	16	16	16	16	17	17	17	17	18	18
All SMEs	60%	64%	67%	68%	64%	61%	62%	60%	55%	60%
Planning to apply to bank	48%	53%	61%	59%	49%	55%	59%	41%	48%	58%
Others planning to apply	49%	66%	56%	51%	67%	50%	74%	61%	44%	56%
No plans – Future would-be seekers	38%	48%	53%	57%	51%	37%	37%	43%	43%	49%
No plans – Future happy non-seekers	66%	68%	70%	72%	66%	65%	65%	64%	58%	62%

Q103/106 (238/239b) All SMEs

On an annual basis, overall confidence amongst all SMEs decreased slightly from 65% in 2016 to 62% in 2017 and 58% in H1 2018.

- This was driven by the Future happy non-seekers as the largest group, where confidence has moved from 69% to 60%.
- Those planning to apply to a bank (55% to 53%) and Future would-be seekers (50% to 46%) were less confident in 2017 than in 2016 but confidence increased somewhat in H1 2018.
- The only group to see an increase in confidence in 2017 were those planning to apply (but not to a bank) where confidence was 55% in 2016 and 63% in 2017. Confidence amongst this group however in H1 2018 was back to 50%.

The summary table below also shows overall confidence (whether the SME planned to apply or not) for other key groups by year. In addition to the Future happy non-seekers mentioned above, the lower level of confidence in H1 2018 (58%) was due to changes in confidence amongst all but those with 50-249 employees.

Larger SMEs and those with a minimal or low risk rating remained more confident of success. By sector, those in the Property/Business Services and the Other Community sectors were less confident (54%) but otherwise confidence did not vary much by sector (56%-63%). Back in 2016, Permanent non-borrowers were more confident than other SMEs (68% v 62% in 2016) but this is no longer the case (57% v 58%).



Confidence bank will say yes (whether planning to apply or not)			
Over time			H1
By date of interview – row percentages	2016	2017	2018
All	65%	62%	58%
0 emp	62%	59%	55%
1-9 emps	70%	66%	63%
10-49 emps	80%	79%	74%
50-249 emps	85%	84%	84%
Minimal external risk rating	73%	73%	70%
Low	73%	70%	67%
Average	67%	61%	60%
Worse than average	61%	58%	50%
Agriculture	71%	67%	62%
Manufacturing	67%	61%	63%
Construction	65%	62%	62%
Wholesale/Retail	70%	66%	62%
Hotels & Restaurants	62%	63%	59%
Transport	61%	59%	56%
Property/ Business Services	65%	62%	54%
Health	64%	59%	58%
Other	62%	59%	54%
PNBs	68%	63%	57%
All excl PNBs	62%	61%	58%
Planning to apply to bank	55%	50%	53%
Planning to apply elsewhere	55%	63%	50%
Future would-be seeker	50%	42%	46%
Future happy non-seeker	69%	65%	60%

Q103/106 (238/239b) All SMEs



Those not planning to seek or renew facilities in the next 3 months

In Q2 2018, 9% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (91%) with no such plans. Analysis showed that overall, 63% of all SMEs in Q2 2018 neither used external finance nor had any immediate plans to apply for any.

On an annual basis, the proportion neither using finance nor planning to apply for it increased from 50% of SMEs in 2011 to 60% for 2014, was then stable 2015-2017 (58-59%) and was slightly higher in the first half of 2018 (63%).

When thinking about SMEs with no plans to apply/renew, it is important to distinguish between two groups:

- Those that were happy with the decision because they did not need to borrow (more) or already had the facilities they needed – the Future happy non-seekers
- Those that felt that there were barriers that might stop them making an application (such as discouragement, the economy or the principle or process of borrowing) – the Future would-be seekers.

These Future would-be seekers can then be split into 2 further groups:

- Those that had already identified that they were likely to need external finance in the coming 3 months (and could foresee barriers to an application that met that need).
- Those that thought it unlikely that they would have a need for external finance in the next 3 months but who thought there would be barriers to their applying, were a need to emerge.

As reported later in this chapter, very few of the Future would-be seekers had an actual need for finance already identified, and thus they were a wider group than the Would-be seekers of the past 12 months, *all* of whom reported having an identified need for finance that they had not applied for.

There have been no changes over time to these definitions, and these questions have been asked in 2018 in the same way as they were in 2017 and previous waves.



The picture for recent quarters is reported below. 8 in 10 SMEs in Q2 2018 met the definition of a Future happy non-seeker and they remained the largest group:

Future finance plans

All SMEs – over time By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Plan to apply/renew	11%	11%	11%	10%	12%	12%	14%	9%	9%
Future would-be seekers – with identified need	1%	1%	1%	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	12%	11%	13%	10%	9%	8%	9%	13%	11%
Future happy non-seekers	76%	77%	75%	80%	79%	79%	76%	76%	79%

Q99/104 (230/239) All SMEs

Amongst SMEs with employees in Q2 2018, 14% had plans to apply/renew while 9% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 77%.

3 in 10 Future happy non-seekers used external finance (31% in H1 2018) and this has changed little over time (31% in 2016 and 33% in 2017).



Around half of SMEs can be described as Permanent non-borrowers based on their past and indicated future behaviour. The table below shows future plans over recent quarters once this group was excluded, resulting in a higher proportion of remaining SMEs planning to apply (18% in Q2 2018, albeit lower than the 26% reported for Q4 2017) and fewer Future happy non-seekers (58% – although they remained the largest single group):

Future finance plans

SMEs excluding PNB

– over time

By date of interview

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	3008	2755	3017	3011	3038	2890	3001	2735	2868
Plan to apply/renew	22%	22%	19%	19%	21%	23%	26%	18%	18%
Future would-be seekers – with identified need	1%	2%	1%	1%	2%	2%	2%	3%	2%
Future would-be seekers – no immediate identified need	22%	22%	22%	18%	16%	15%	17%	26%	22%
Future happy non-seekers	55%	55%	58%	62%	61%	59%	55%	53%	58%

Q99/104 (230/239) All SMEs excluding the Permanent non-borrowers

The tables below take a longer term view on changes in future appetite for finance since 2012, both overall and once the Permanent non-borrowers were excluded.



Future demand for finance has declined somewhat since 2012 (14% to 12% in both 2016 and 2017 and 9% for H1 2018). More markedly, the proportion of Future would-be seekers halved in that time, and so the proportion of Future happy non-seekers increased:

Future finance plans							H1
Over time – all SMEs	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	20,055	20,036	20,055	20,046	18,000	18,012	9000
Plan to apply/renew	14%	14%	13%	13%	12%	12%	9%
Future would-be seekers	23%	18%	16%	11%	13%	10%	13%
Future happy non-seekers	63%	68%	71%	76%	76%	78%	77%

Q99/104 (230/239) All SMEs

Amongst SMEs with employees:

- The proportion planning to apply/renew was higher but had also declined over time, from 20% in 2012 to 15% in 2017 and 13% in H1 2018.
- Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 11%)
- This left the Future happy non-seekers of finance as an increasingly large group (60% to 77%).

Once the Permanent non-borrowers were excluded, more of the remaining SMEs were planning to apply or renew. The proportion increased slightly between 2012 and 2015 (21% to 25%) but then declined steadily again to 18% for H1 2018. The proportion of Future would-be seekers had declined from 35% in 2012 to 19% in 2017, but was 27% for H1 2018. The largest group remained the Future happy non-seekers of finance (56% in H1 2018):

Future finance plans							H1
Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	15,312	14,578	13,613	13,011	11,634	11,940	5603
Plan to apply/renew	21%	23%	24%	25%	23%	22%	18%
Future would-be seekers	35%	30%	28%	21%	23%	19%	27%
Future happy non-seekers	44%	47%	49%	54%	54%	59%	56%

Q99/104 (230/239) All SMEs excluding PNBs



The Future would-be seekers are a group of interest as they represent a measure of ‘unmet’ demand. The table below looks at this group over recent quarters. The proportion of FWBS was lower in 2017 than in 2016, but somewhat higher again in the first half of 2018, due to more smaller SMEs meeting the definition:

Future would-be seekers

Over time – row

percentages By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
All SMEs	12%	12%	14%	10%	10%	9%	10%	15%	12%
0 employee	13%	12%	14%	11%	10%	9%	11%	16%	13%
1-9 employees	13%	10%	13%	10%	10%	9%	9%	12%	10%
10-49 employees	8%	8%	9%	6%	6%	6%	6%	8%	7%
50-249 employees	14%	10%	12%	10%	4%	5%	3%	6%	3%
Minimal external risk rating	11%	8%	9%	6%	11%	5%	3%	7%	6%
Low external risk rating	6%	9%	7%	8%	7%	6%	8%	15%	8%
Average external risk rating	11%	11%	14%	11%	9%	9%	10%	14%	13%
Worse than average external risk rating	14%	13%	17%	10%	11%	9%	12%	16%	15%
Agriculture	11%	12%	10%	7%	13%	10%	10%	9%	9%
Manufacturing	12%	19%	10%	12%	5%	8%	9%	10%	15%
Construction	17%	11%	11%	10%	9%	10%	10%	16%	11%
Wholesale/Retail	13%	13%	11%	9%	14%	9%	8%	13%	11%
Hotels & Restaurants	14%	9%	13%	15%	7%	7%	10%	13%	17%
Transport	14%	14%	16%	12%	10%	10%	13%	14%	14%
Property/Business Services	10%	8%	17%	9%	10%	8%	10%	17%	11%
Health	11%	13%	11%	8%	7%	6%	11%	18%	8%
Other Community	10%	13%	15%	12%	10%	11%	13%	14%	18%
All SMEs excluding PNBs	24%	22%	19%	19%	18%	18%	19%	29%	24%

Q99/104 (230/239) All SMEs * shows overall base size, which varies by category



To understand this further, the table below shows all the reasons given by Future would-be seekers in Q2 2018 for thinking that they would not apply for finance in the next three months. It highlights their continued reluctance to borrow in the current environment, mainly due to the general economic climate:

Reasons for not applying (all mentions)		0-9 emps	10-249 emps
All Future would-be seekers Q2 18	Total		
Unweighted base:	406	284	122
Reluctant to borrow now (any)	56%	55%	69%
-Prefer not to borrow in economic climate	52%	52%	60%
-Predicted performance of business	5%	4%	9%
Issues with <u>principle</u> of borrowing	4%	4%	1%
-Not lose control of business	2%	2%	-
-Can raise personal funds if needed	2%	2%	-
-Prefer other forms of finance	1%	1%	*
-Go to family and friends	1%	1%	1%
Issues with <u>process</u> of borrowing	18%	18%	16%
-Would be too much hassle	11%	11%	5%
-Thought would be too expensive	3%	3%	4%
-Bank would want too much security	*	*	4%
-Too many terms and conditions	1%	1%	2%
-Did not want to go through process	-	-	-
-Forms too hard to understand	5%	5%	2%
Discouraged (any)	22%	22%	15%
-Direct (Put off by bank)	4%	4%	1%
-Indirect (Think I would be turned down)	22%	22%	14%

Q104 (239) Future would-be seekers SMEs



Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

A reluctance to borrow, at 55%, remained the main reason for not applying for external finance in Q2 2018, but the proportion citing it as their main reason has varied over time (39% to 71% and currently 55%). Mentions of discouragement have also varied over recent quarters (9-28%) and at 22% in Q2 2018 was at the higher end of the range seen:

Main reason for not applying

Future would-be seekers – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	16	16	16	17	17	17	17	18	18
Unweighted base:	520	457	524	419	335	318	344	445	406
Reluctant to borrow now (any)	56%	71%	58%	63%	39%	44%	53%	41%	55%
-Prefer not to borrow in economic climate	40%	49%	23%	41%	25%	33%	31%	32%	52%
-Predicted performance of business	16%	22%	35%	22%	13%	11%	21%	9%	3%
Issues with <u>principle</u> of borrowing	4%	3%	6%	2%	2%	5%	2%	2%	1%
Issues with <u>process</u> of borrowing	22%	11%	13%	11%	19%	13%	11%	38%	16%
Discouraged (any)	12%	9%	16%	16%	25%	18%	28%	12%	22%
-Direct (Put off by bank)	2%	*	2%	*	2%	*	2%	*	2%
-Indirect (Think I would be turned down)	10%	9%	14%	16%	23%	18%	26%	12%	20%

Q105 (239/239a) Future would-be seekers SMEs

The higher figure for the process of borrowing in Q1 2018 (38%) was due to more mentions that bank forms and literature were hard to understand.



Analysis over the longer term from 2013 showed a steady decline in the proportion mentioning a reluctance to borrow now, although it remained the most mentioned reason. There have been more mentions in 2018 of the process of borrowing than have been seen previously (with mentions of hassle and bank forms/literature being hard to understand):

Main reason for not applying						H1
Future would-be seekers – over time	2013	2014	2015	2016	2017	2018
<i>Unweighted base:</i>	3241	2765	1939	1967	1416	851
Reluctant to borrow now (any)	64%	59%	55%	57%	50%	48%
Discouraged (any)	14%	13%	14%	15%	22%	17%
Issues with <u>process</u> of borrowing	12%	15%	18%	16%	14%	28%
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%	3%	2%

Q239/239a Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where reasons for not applying are somewhat more evenly distributed amongst the reasons available.

When these Future would-be seekers were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified. With the reducing proportion of Future would-be seekers, the sample size of those with an identified need for finance has fallen below the threshold required and so analysis on the different reasons given by each group will not be run until base sizes increase.



Further analysis of all Future would-be seekers, including by size and risk rating, is based on the latest quarter (Q2 2018).

A ‘reluctance to borrow now’ , especially in the current economic climate, was the top reason, given by just over half of these SMEs (55%). Just over a fifth mentioned discouragement (22%, most of it indirect) and this was more likely to be the case for smaller Future would-be seekers:

Main reason for not applying

Future would-be seekers by size Q2 18	Total	0-9 emps	10-249 emps
Unweighted base:	406	284	122
Reluctant to borrow now (any)	55%	55%	68%
-Prefer not to borrow in economic climate	52%	52%	60%
-Predicted performance of business	3%	3%	8%
Issues with <u>principle</u> of borrowing	1%	1%	*
Issues with <u>process</u> of borrowing	16%	16%	16%
Discouraged (any)	22%	22%	14%
-Direct (Put off by bank)	2%	2%	1%
-Indirect (Think I would be turned down)	20%	20%	13%

Q105 (239/239a) Future would-be seekers SMEs

Amongst Future would-be seekers with employees, 61% mentioned a reluctance to borrow now compared to 15% mentioning discouragement and 18% the process of borrowing.



The table below shows the main reasons given for not applying in Q2 2018 by risk rating. A 'reluctance to borrow now' remained the main barrier across the risk ratings. Those with an average or worse than average rating were more likely to mention discouragement (24%) than those with a minimal or low risk rating (8%):

Main reason for not applying

Future would-be seekers by risk rating Q2 18	Total	Min/Low	Average/ Worse Avg
Unweighted base:	406	135	237
Reluctant to borrow now (any)	55%	64%	53%
-Prefer not to borrow in economic climate	52%	56%	50%
-Predicted performance of business	3%	8%	3%
Issues with <u>principle</u> of borrowing	1%	*	2%
Issues with <u>process</u> of borrowing	16%	11%	17%
Discouraged (any)	22%	8%	24%
-Direct (Put off by bank)	2%	-	1%
-Indirect (Think I would be turned down)	20%	8%	23%

Q105 (239/239a) Future would-be seekers SMEs



To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q2 2018.

7% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but were reluctant to borrow, mainly because of the current climate:

Reasons for not applying Q2 18 – Future would-be seekers	Main reason	All SMEs	All SMEs excl. PNB
Unweighted base:	406	4500	2868
Reluctant to borrow now (any)	55%	7%	13%
-Prefer not to borrow in economic climate	52%	6%	12%
-Predicted performance of business	3%	*	1%
Issues with <u>principle</u> of borrowing	1%	*	*
Issues with <u>process</u> of borrowing	16%	2%	4%
Discouraged (any)	22%	3%	6%
-Direct (Put off by bank)	2%	*	*
-Indirect (Think I would be turned down)	20%	2%	5%

Q105 (239/239a) Future would-be seekers SMEs

The table above also shows the equivalent proportion of SMEs *excluding* the Permanent non-borrowers. Of those SMEs that *might* be interested in seeking finance (ie once the PNBs were excluded), 13% were reluctant to borrow now, mostly due to the current economic climate.



How have international SMEs responded to current conditions?

The EU referendum took place at the end of June 2016 but the terms under which Brexit will take place are still to be agreed. As highlighted at the start of this chapter, those SMEs that trade internationally are potentially more likely to anticipate an impact on their business, not least because of the change in the value of sterling since the vote.

This section summarises how international SMEs have felt since the start of 2016 in comparison to 2015. SMEs have been split into three groups, based on the ways in which they trade internationally alongside their domestic trade. The size of these groups has changed very little since 2016, and in H1 2018:

- 4% of SMEs exported but did not import (increasing by size from 4% to 10%)
- 5% of SMEs imported but did not export (increasing by size from 4% to 9%)
- 5% of SMEs both imported and exported (increasing by size of SME from 4% to 13%).

Key results for Q2 2018 are shown below:

Future outlook summary table

Q2 18- all SMEs row percentages	All SMEs	Export	Import	Both
Unweighted base:	4500	239	309	299
Plan to grow	48%	62%	58%	62%
Economic climate 8-10 barrier	15%	15%	26%	22%
Political uncertainty 8-10 barrier	15%	16%	22%	28%
Sterling 8-10 barrier	11%	15%	24%	32%
Plan to apply for finance	9%	10%	11%	21%
Future would-be seeker of finance	12%	14%	20%	4%

Compared to SMEs overall, international SMEs of any kind were more likely to be planning to grow but also to see barriers to the business, especially if they imported. While those who both import and export were more likely to be planning to apply for finance (21%) they were also more likely to be concerned about political uncertainty (28%) and changes in the value of sterling (32%).

The tables below show how these views have changed over time. Those who import or who were fully international have typically been more ambitious but also more worried about changes to sterling.



Future outlook summary table	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Over time – all SMEs	16	16	16	17	17	17	17	18	18
Plan to grow									
• All SMEs	41%	41%	47%	43%	45%	45%	46%	47%	48%
• Export only	52%	54%	40%	52%	65%	65%	51%	52%	62%
• Import only	59%	59%	70%	65%	61%	58%	66%	63%	58%
• Import and export	66%	70%	75%	67%	69%	67%	66%	67%	62%
Plan to apply for finance									
• All SMEs	11%	11%	11%	10%	12%	12%	14%	9%	9%
• Export only	19%	21%	16%	10%	21%	8%	13%	4%	10%
• Import only	18%	19%	17%	13%	12%	23%	18%	14%	11%
• Import and export	31%	22%	18%	18%	18%	10%	29%	10%	21%
Economic climate 8-10									
• All SMEs	13%	10%	13%	11%	13%	16%	14%	16%	15%
• Export only	19%	13%	27%	14%	22%	22%	24%	21%	15%
• Import only	13%	18%	24%	10%	19%	30%	22%	24%	26%
• Import and export	20%	20%	35%	18%	19%	19%	29%	15%	22%
Political uncertainty 8-10									
• All SMEs	10%	10%	12%	14%	13%	14%	15%	16%	15%
• Export only	7%	12%	15%	25%	19%	26%	20%	30%	16%
• Import only	7%	16%	26%	19%	20%	22%	15%	20%	22%
• Import and export	19%	21%	32%	21%	29%	22%	34%	18%	28%
Changes in sterling 8-10									
• All SMEs	-	-	-	11%	10%	15%	10%	11%	11%
• Export only	-	-	-	16%	17%	12%	13%	12%	15%
• Import only	-	-	-	25%	20%	29%	25%	29%	24%
• Import and export	-	-	-	27%	26%	32%	31%	25%	32%



The second table takes a longer term view back to 2013 where data exists. This shows the following patterns:

- **Exporters** have always been more likely to be planning to grow than SMEs generally but ambition dipped in 2016, before recovering in 2017 and H1 2018. Their future appetite for finance peaked at 22% in 2015 but is currently 7%, in line with the market. They became more worried about political uncertainty in 2017 and maintained this concern in H1 2018, while concerns about the economic climate have been more stable since 2015
- **Importers** too have always been more likely to be planning to grow than SMEs generally, and a stable 6 in 10 have been planning to grow. Their appetite for finance has declined since 2014 and is now only slightly ahead of SMEs overall. Levels of concern about both the economic climate and political uncertainty have increased somewhat since 2015 and a quarter of them are concerned about changes in the value of sterling
- **Those who import and export** have also always been more likely to be planning to grow than SMEs generally, with typically 7 in 10 planning to grow (albeit somewhat lower in H1 2018 at 65%). They have more of an appetite for finance than SMEs generally but it has varied over time and was somewhat lower in 2017 and H1 2018 than in 2016. Levels of concern about political uncertainty, the economic climate and changes in the value of sterling are stable but higher than for SMEs overall



Future outlook summary table

Over time – all SMEs	2013	2014	2015	2016	2017	H1 2018
Plan to grow						
• All SMEs	49%	47%	45%	43%	45%	47%
• Export only	54%	56%	59%	49%	58%	57%
• Import only	63%	65%	62%	63%	63%	60%
• Import and export	66%	69%	72%	70%	67%	65%
Plan to apply for finance						
• All SMEs	14%	13%	13%	12%	12%	9%
• Export only	19%	20%	22%	19%	13%	7%
• Import only	19%	24%	19%	19%	17%	12%
• Import and export	21%	24%	19%	25%	18%	15%
Economic climate 8-10 barrier						
• All SMEs	27%	17%	13%	12%	14%	15%
• Export only	29%	14%	19%	17%	20%	18%
• Import only	26%	20%	12%	16%	21%	25%
• Import and export	24%	15%	17%	21%	21%	18%
Political uncertainty 8-10 barrier						
• All SMEs	-	-	9%	10%	14%	16%
• Export only	-	-	9%	10%	23%	23%
• Import only	-	-	11%	16%	19%	21%
• Import and export	-	-	8%	20%	26%	23%
Change in value of sterling 8-10 barrier						
• All SMEs	-	-	-	-	11%	11%
• Export only	-	-	-	-	14%	13%
• Import only	-	-	-	-	25%	26%
• Import and export	-	-	-	-	29%	28%



From Q3 2016 it has been possible to analyse the views of exporters depending on the extent to which they exported to the EU.

Those making all or most of their sales to the EU (28% of all exporters) were now more likely to be planning to grow, but less likely to be planning to apply for finance (as are all groups). They were slightly less concerned about the

economic climate and the value of sterling than they were in the first half of 2017. Growth aspirations amongst those who did no trade with the EU (18% of all exporters) were stable, and they were somewhat less concerned than previously about the economic climate and political uncertainty, but they had also become less likely to be planning to apply for finance:

Future outlook summary table

Over time – Exporters row percentages	H2 16	H1 17	H2 17	H1 18
Plan to grow				
• All/most sales to EU	54%	57%	60%	65%
• Some sales to EU	64%	68%	66%	61%
• No sales to EU	54%	57%	56%	54%
Plan to apply for finance				
• All/most sales to EU	20%	12%	14%	10%
• Some sales to EU	19%	17%	14%	13%
• No sales to EU	20%	21%	16%	8%
Economic climate 8-10 barrier				
• All/most sales to EU	26%	29%	25%	23%
• Some sales to EU	21%	14%	20%	13%
• No sales to EU	29%	14%	30%	23%
Political uncertainty 8-10 barrier				
• All/most sales to EU	31%	37%	33%	31%
• Some sales to EU	17%	18%	21%	21%
• No sales to EU	14%	19%	30%	15%
Changes in sterling 8-10 barrier				
• All/most sales to EU	-	35%	27%	29%
• Some sales to EU	-	18%	21%	16%
• No sales to EU	-	9%	21%	24%

Q86 All exporters