

SME Finance Monitor

3 month rolling analysis to end
October 2018

An independent report by
BVA BDRC, November 2018



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 latest full report to Q2 2018 was published in September 2018.

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 August to October 2018.

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 for 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.

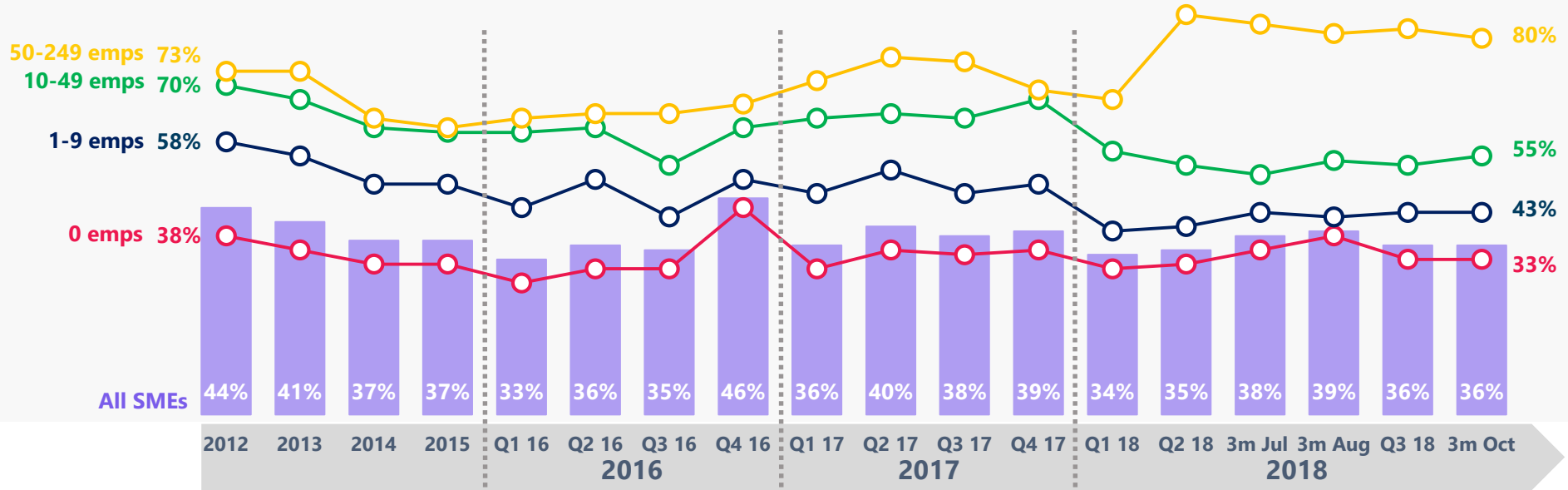
Most of the questions reported in this pack have remained unchanged.

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 Q2 2018 SME Finance Monitor report, published in September 2018

Use of external finance remains slightly below the 38% seen for 2017 as a whole. Those with 1-9 or 10-49 employees remain less likely to be using finance than in 2017

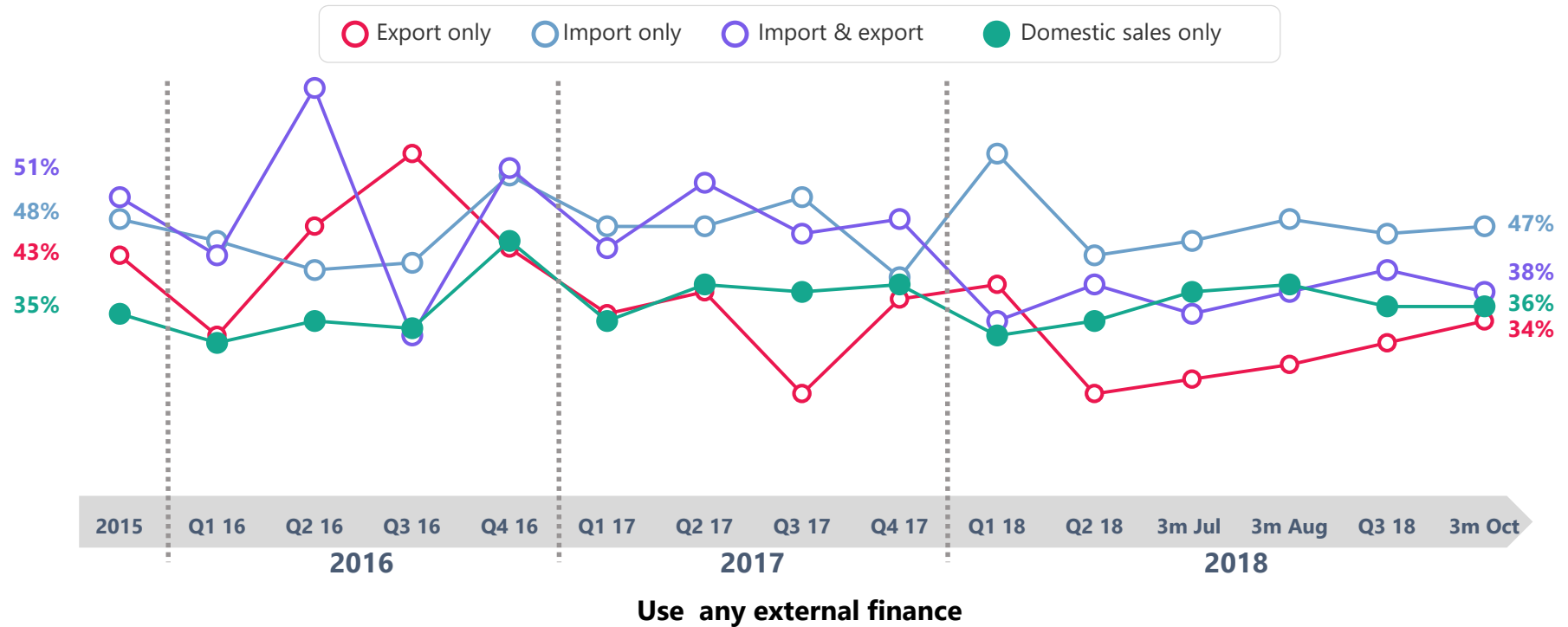
Time series: use of external finance per quarter



In 2017 as a whole, 38% of SMEs were using external finance, increasing by size of SME to 73% of those with 50-249 employees. Use of finance in 2018 to date has been somewhat lower with around a third of SMEs using finance and a mixed picture by size. Those with 0 employees are as likely to be using finance as they were in 2017. The largest SMEs are more likely, and use for those with 1-49 employees remains somewhat lower than in 2017

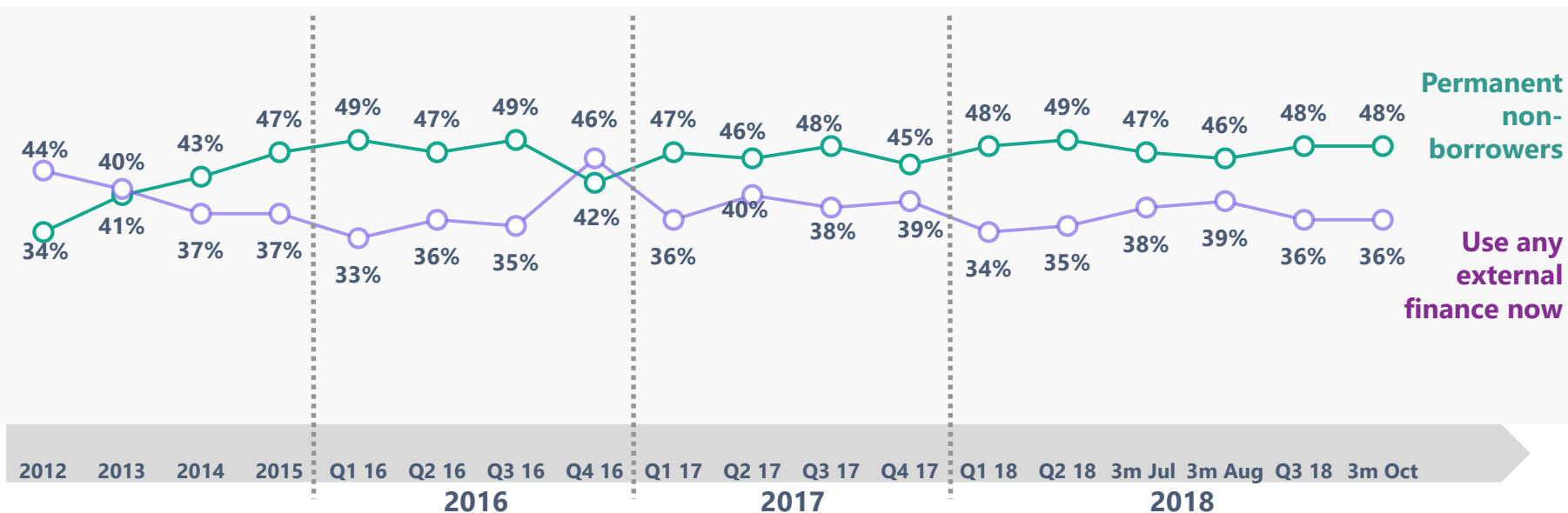
Use of finance amongst those who export only has improved somewhat since Q2 2018. Those who import only continue to be the most likely to be using finance in 2018

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



The proportion of 'Permanent Non-Borrowers' remain in line with Q1 and Q2 2018, maintaining a significant 'gap' between them and users of finance

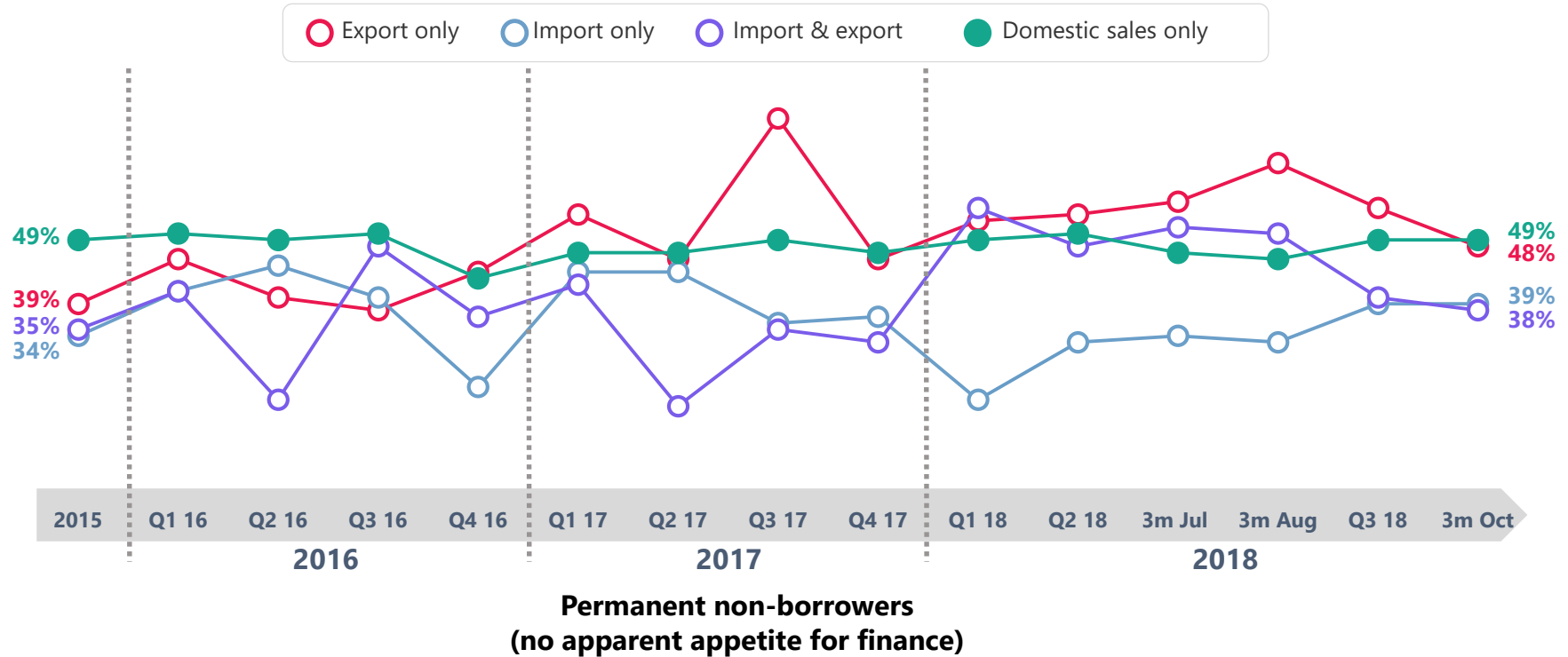
Time series: Permanent non-borrowers and users of external finance



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 October figure of 48% is in line with 2017 (when 47% were PNBs). The "gap" between the PNBs and those using external finance (as was seen for most of 2016 and 2017) has widened again, as fewer SMEs report using finance and more meet the PNB definition.

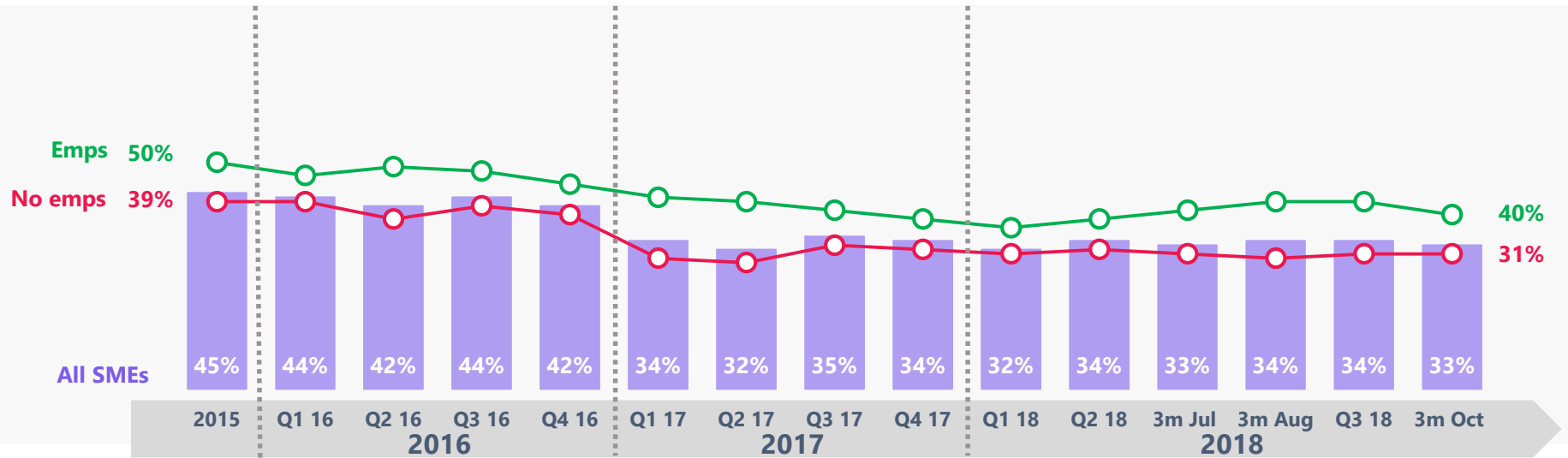
SMEs that import only or both import and export were somewhat less likely to be a Permanent non-borrower in recent months.

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



The proportion of SMEs 'happy to use finance to grow' is stable overall in 2018

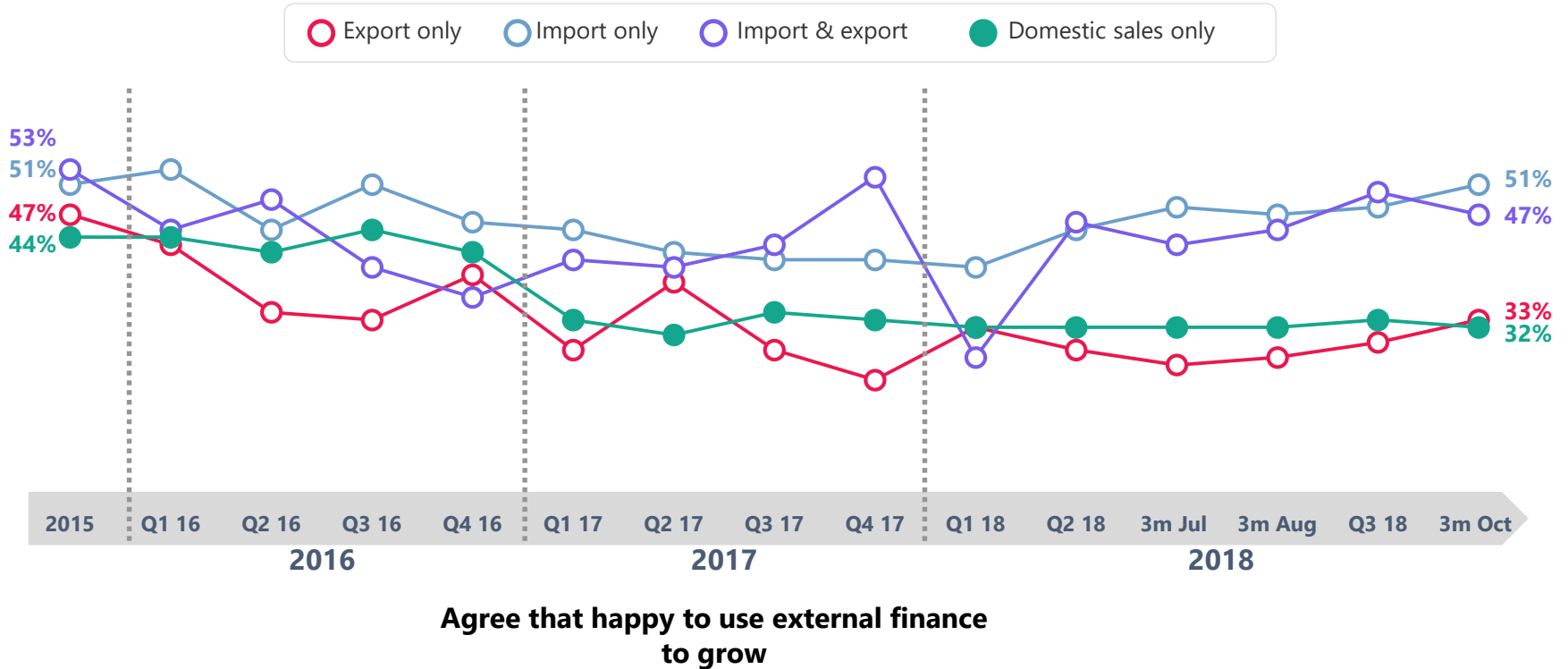
Time series: Agree that happy to use external finance to help business grow



After remaining stable during 2016, the proportion of SMEs happy to use finance to grow was consistently lower from Q1 2017 onwards, albeit with some increase in willingness to use finance amongst those with employees between Q1 2018 and Q3 2018.

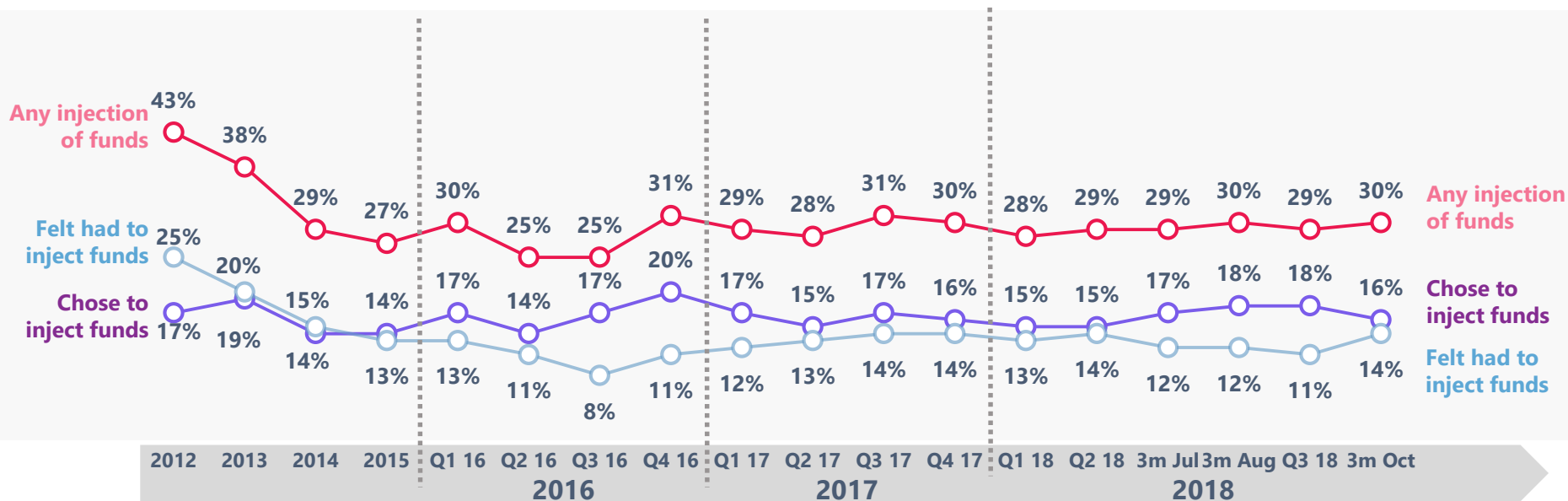
Import/export and import-only SMEs remain more likely to be happy to borrow to grow, with appetite increasing since Q1 2018

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



A stable 3 in 10 SMEs have injected personal funds. As in Q1 and Q2 2018, SMEs are currently as likely to have chosen to do so as to have felt that they had to.

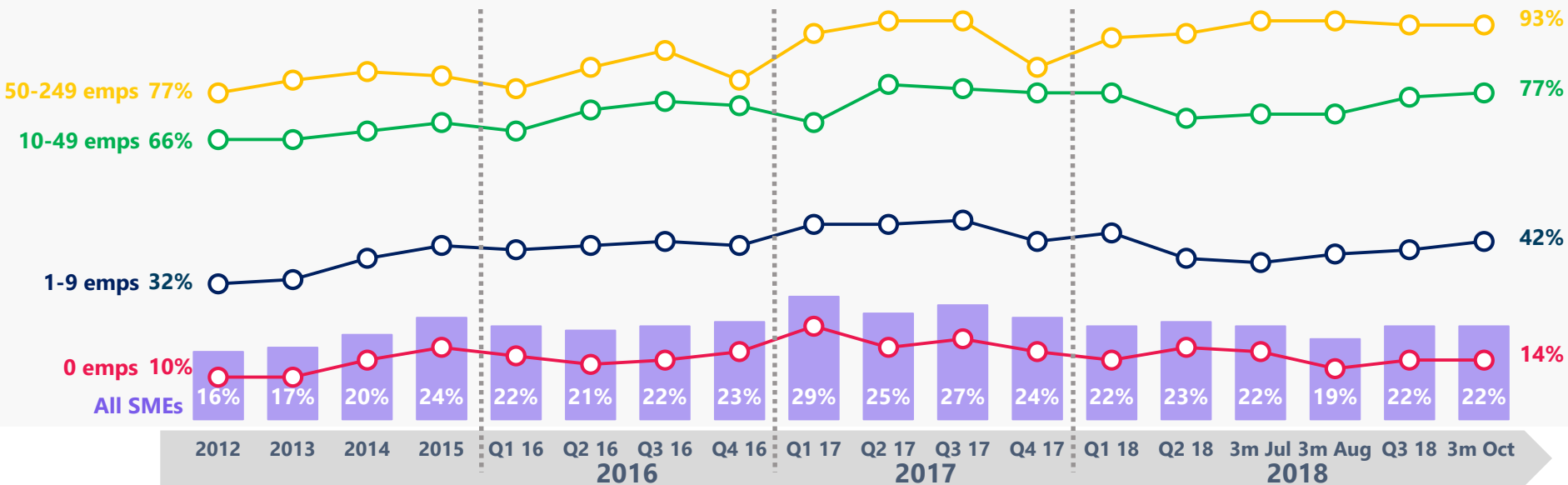
Time series: Injections of personal funds in previous 12 months



The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to around a quarter of SMEs in mid-2016. Since the start of 2017 around 3 in 10 have reported an injection of funds. Between Q1 and Q3 2018 there was a slight increase in the proportion saying they chose to inject funds, to 18%, which was not maintained in the current period when more said they felt they had to inject funds (14%).

The proportion of SMEs holding more than £10,000 of credit balances is back in line with H1 2018. Larger SMEs remain more likely to hold such sums

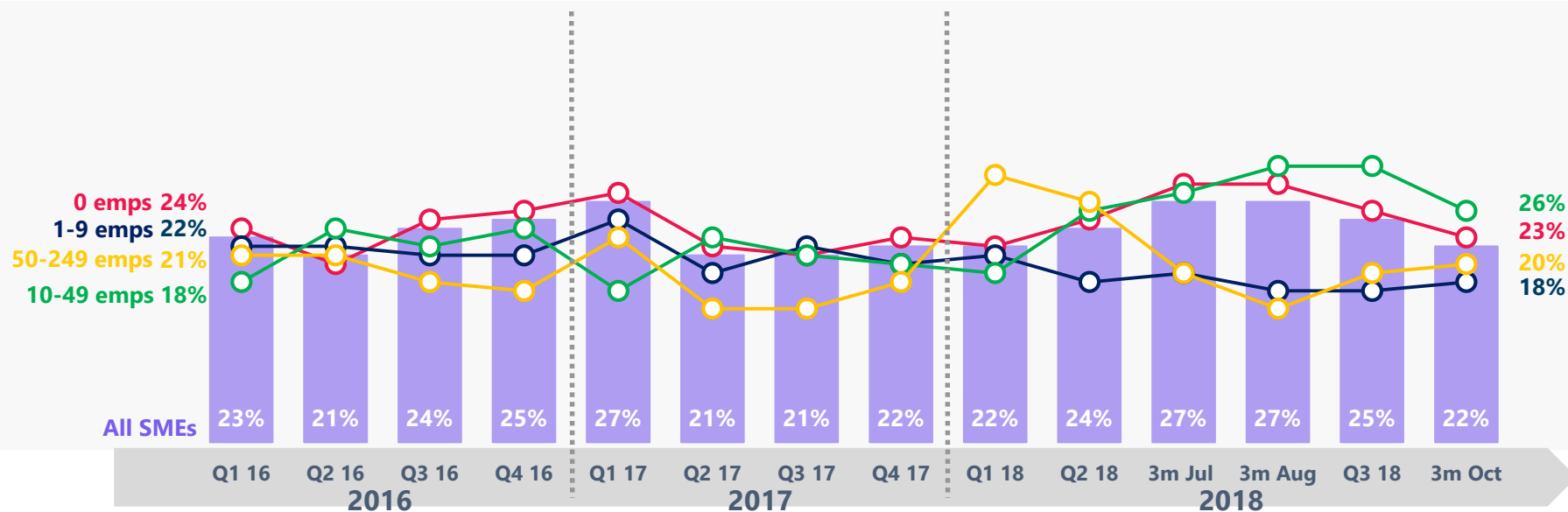
Time series: £10k credit balances held



In 2015, 24% of SMEs held £10,000 or more in credit balances. In 2016, 22% held such sums with little change overall during the year, increasing to 25% in 2017 as a whole. Current data for 2018 suggests a somewhat lower percentage, more in line with 2016 (22%) but this is due to fewer 0-employee SMEs holding such sums. Amongst those with employees, there has been a gentle increase since mid-2018.

On average SMEs held the equivalent of a fifth of their turnover as credit balances in the latest period, down from a quarter in mid-2018

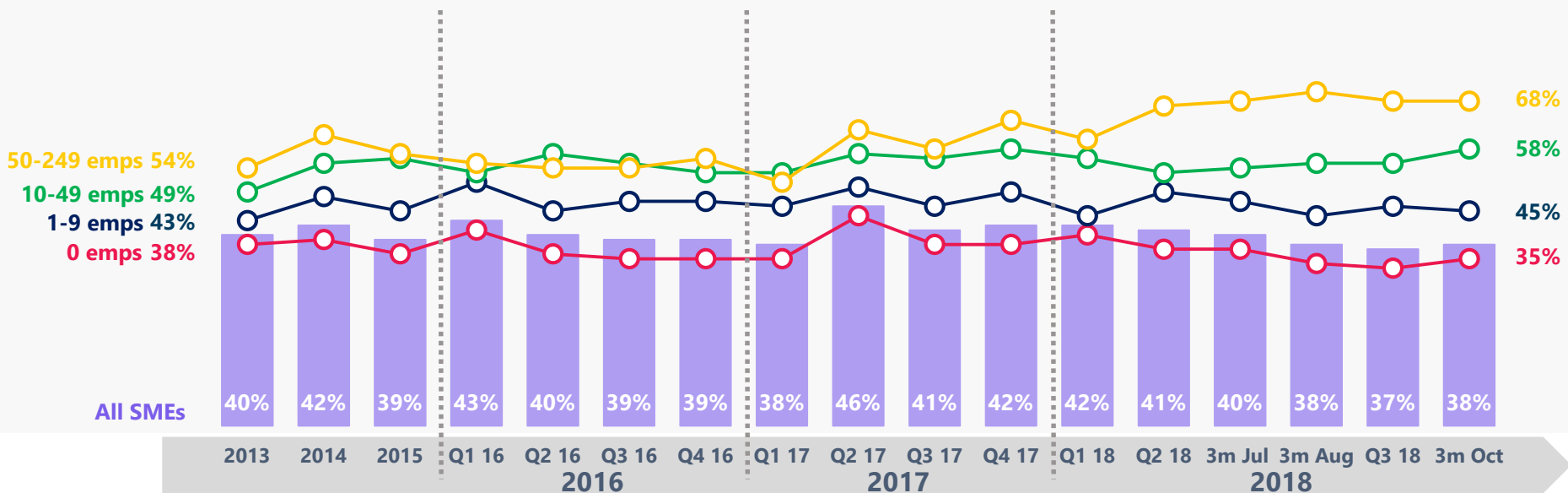
Time series: % of turnover held as credit balances



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 October 2018, SMEs held 22% of their turnover in credit balances on average, compared to 27% mid-year. This is due to SMEs with 0 or 10-49 employees holding a lower proportion of credit balances compared to turnover.

The proportion of SMEs reporting growth has stabilised after declining slightly overall between Q1 and Q3 2018. Changes driven by the 0-employee SMEs

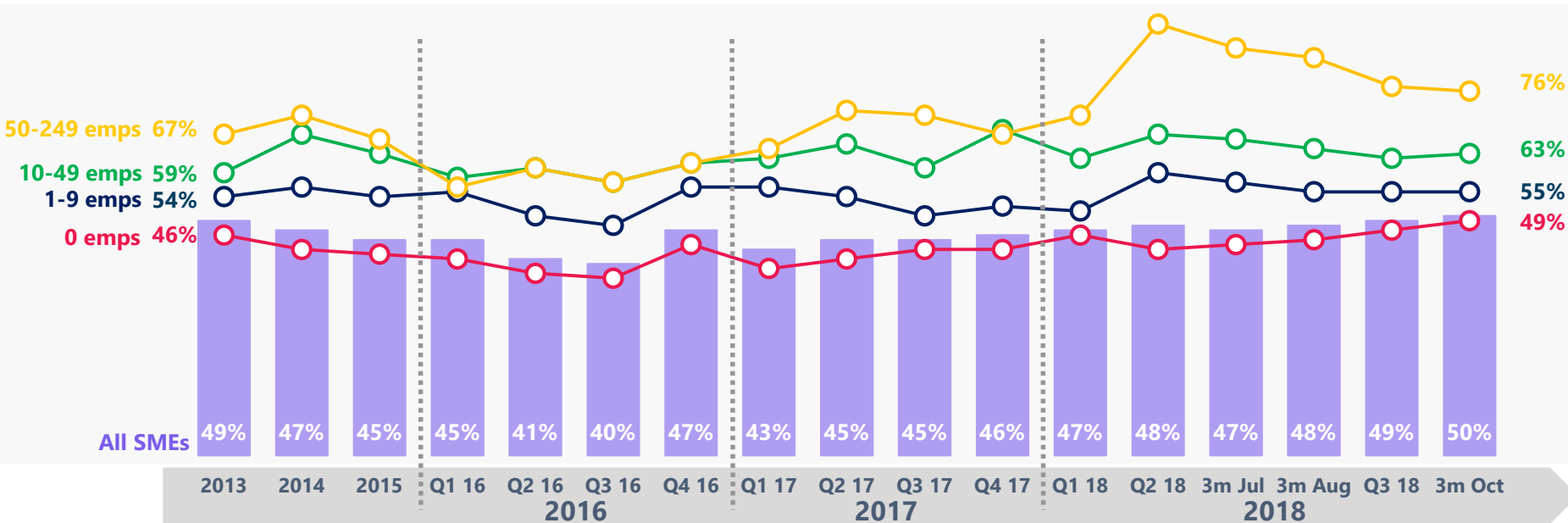
Time series: Have grown (excluding Starts)



Since 2012, the proportion of SMEs (excluding Starts) reporting growth has varied little over time. It was 40% for 2016 as a whole and 42% for 2017. The current overall figure of 38% is somewhat lower, due to fewer SMEs with 0 employees reporting growth in recent periods (currently 35%).

Growth ambitions have increased slightly during 2018 as more 0-employee SMEs planned to grow

Time series: Have plans to grow



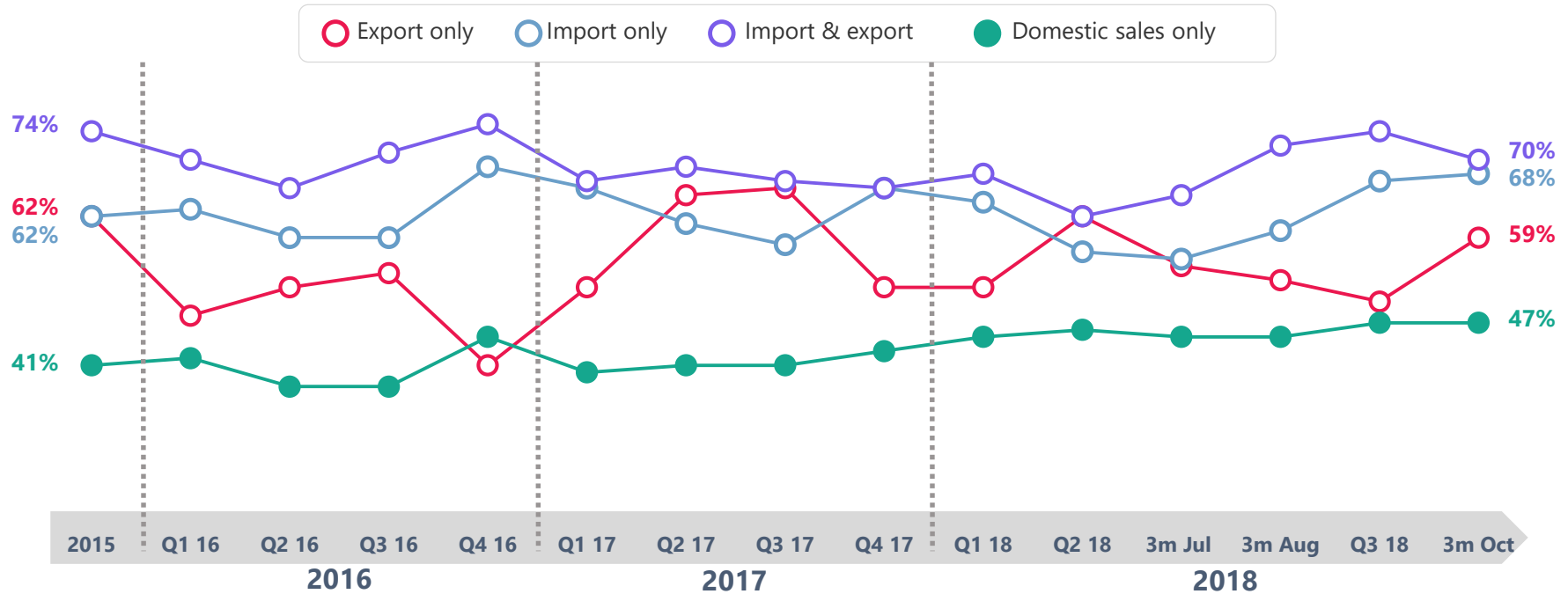
For 2016 as a whole, 43% of SMEs planned to grow, continuing the slight decline seen since 2013, but there was no further decline in 2017 (45% for the year as a whole). Growth ambitions are somewhat higher in 2018 to date (currently 50% are planning to grow), due to increased ambition amongst those with 0 employees but the increased growth aspirations seen amongst medium-sized SMEs in Q2 2018 have not been maintained.

Q225

Base : All respondents 3m Oct 4196

The growth ambitions of SMEs that import or both import and export are higher than domestic SMEs, with more variation over time for those that export only

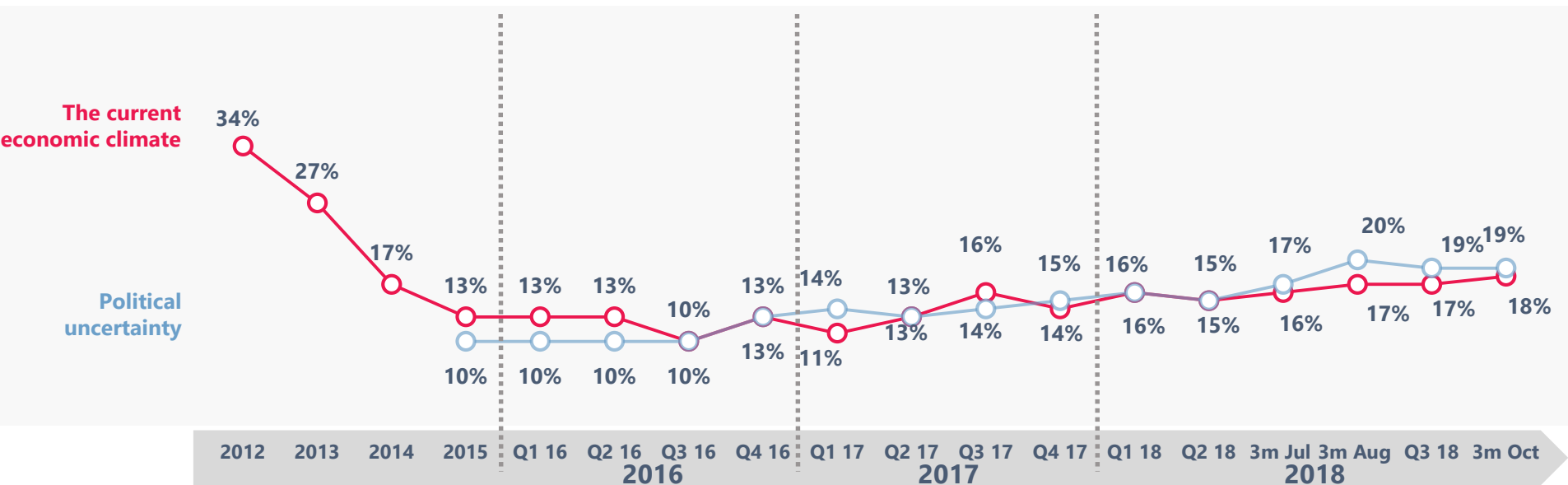
Time series: Growth plans by extent of international trade alongside domestic sales



Plan to grow in next 12 months

Levels of concern around the current economic climate and political uncertainty have increased during 2018, and are higher than they were at the start of 2017

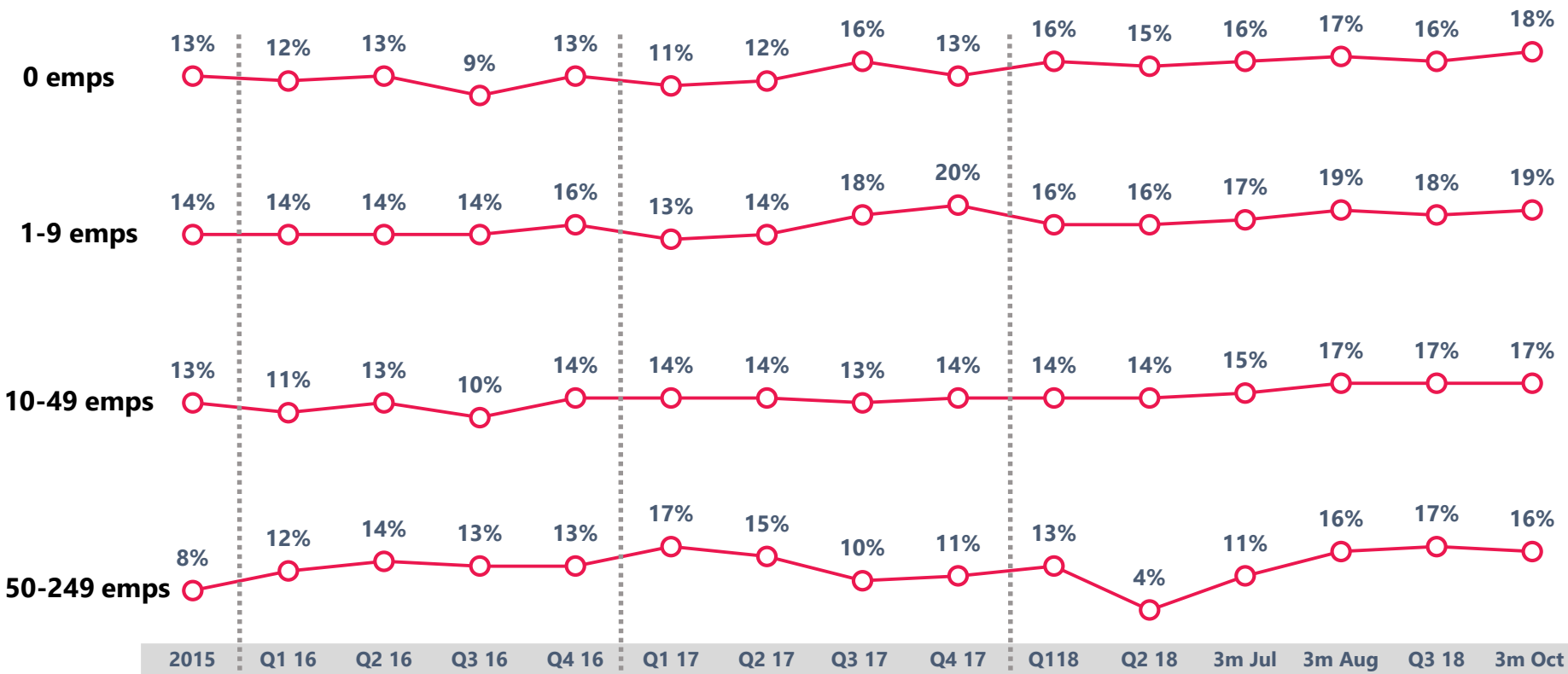
Time series: 8-10 Major obstacle to running business in next 12 months



During 2017, concerns about political uncertainty remained fairly stable (13-15%) at a slightly higher level than in 2016 and have increased again in 2018 (now 19%). Concerns about the economic climate increased in 2017 from 11% in Q1 to 16% in Q3 and have increased only slightly since (now 18%).

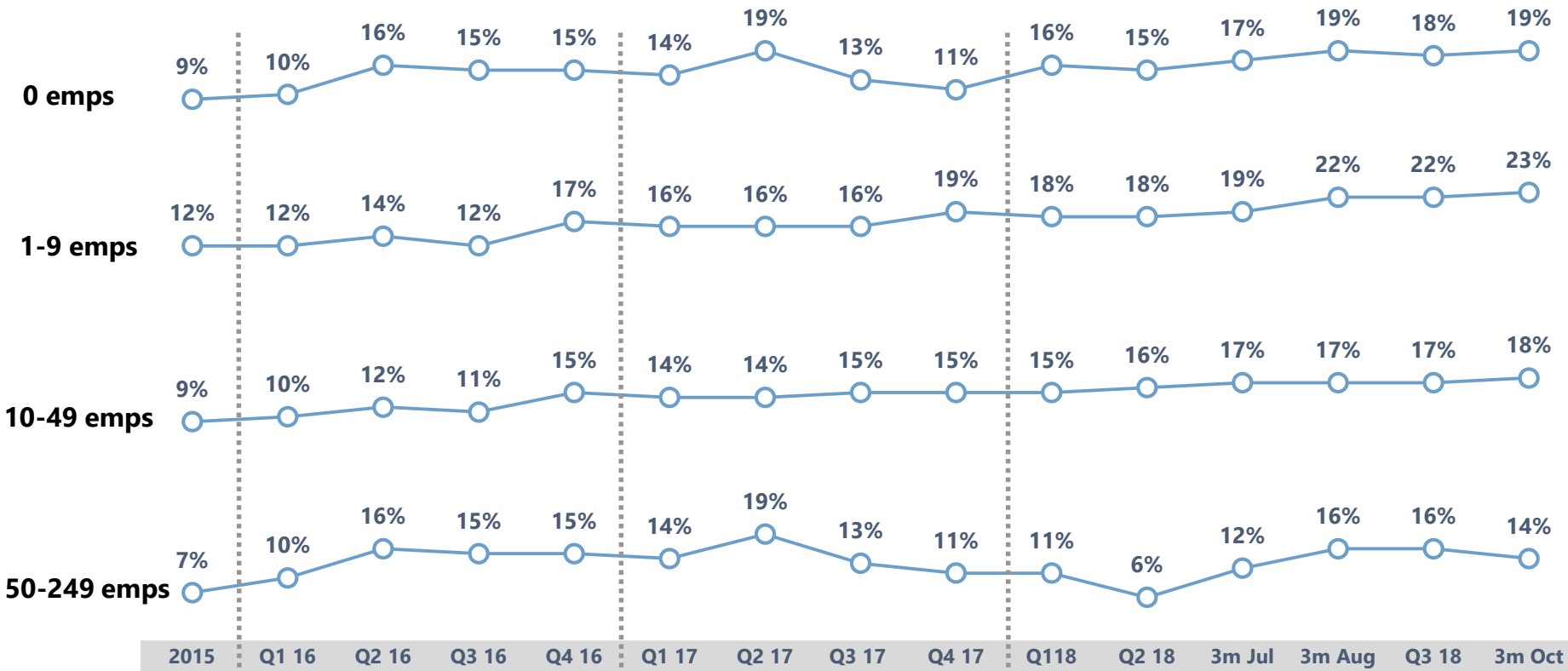
Smaller and larger SMEs alike have seen some increase in concern about the economic climate compared to the second half of 2016

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



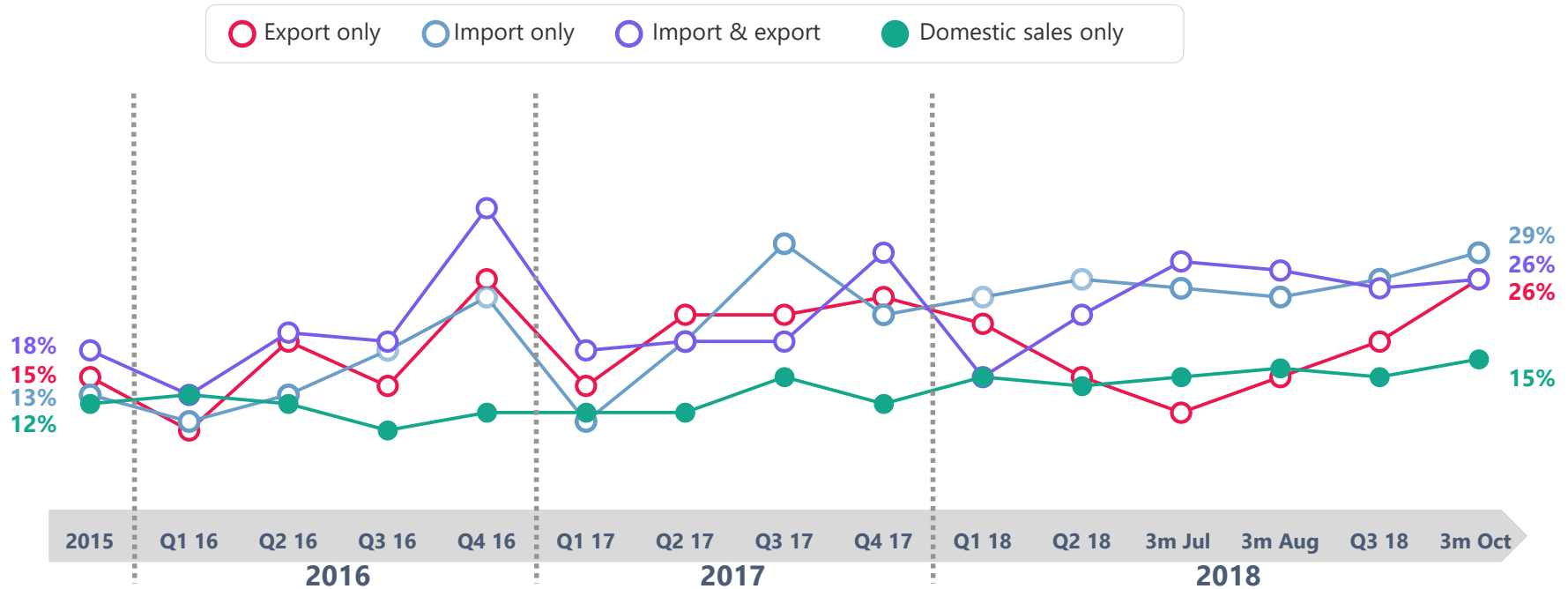
SMEs are currently more concerned about political uncertainty than they were in the second half of 2016, with the exception of the largest SMEs

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



SMEs that only export only have become more concerned about the economic climate, creating a clear gap between international and domestic SMEs

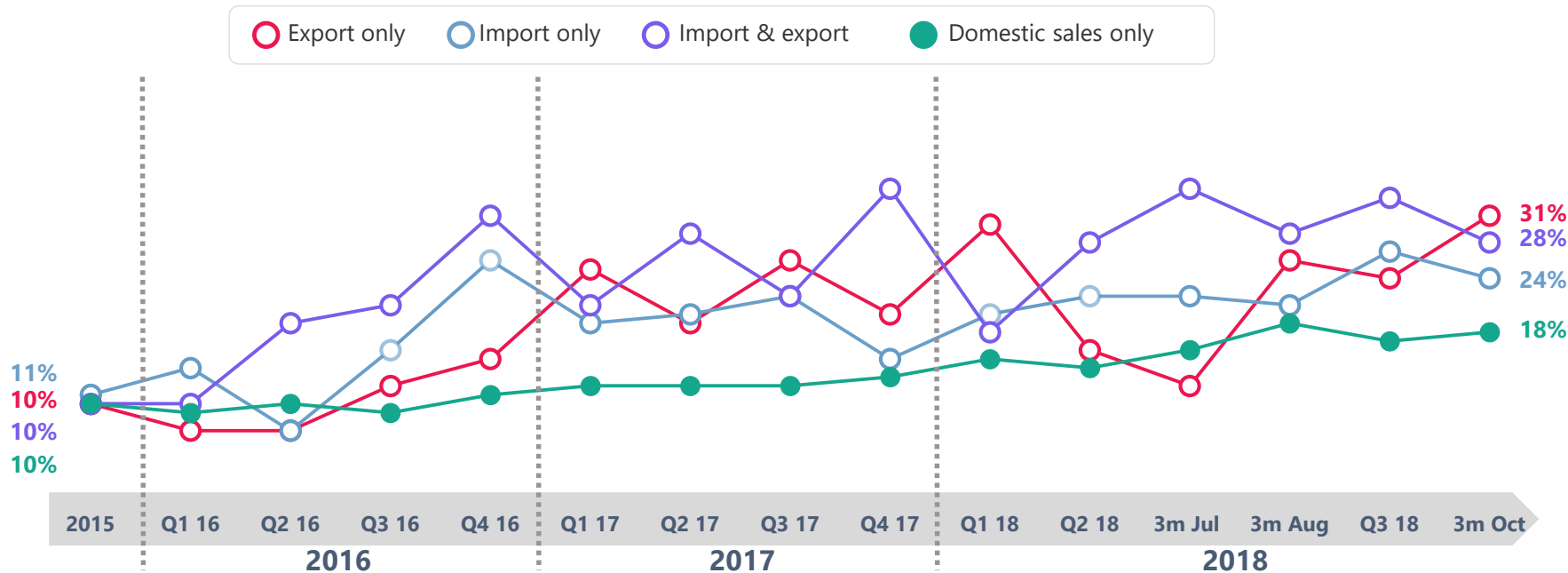
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



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

SMEs that export only have also become more concerned about political uncertainty, and there is now more of a gap between international and domestic SMEs

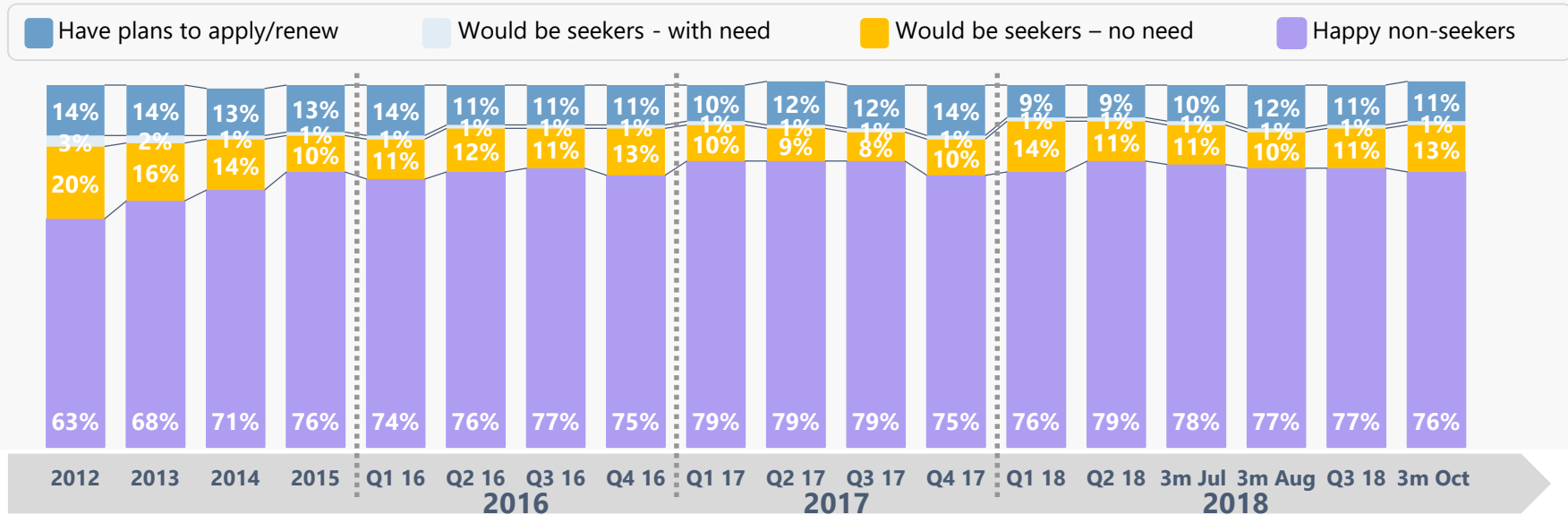
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



Rating political uncertainty a major obstacle (8-10)

Most SMEs are 'Future happy non-seekers'. Potential appetite for finance is broadly stable, at levels seen over the last 3 years

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

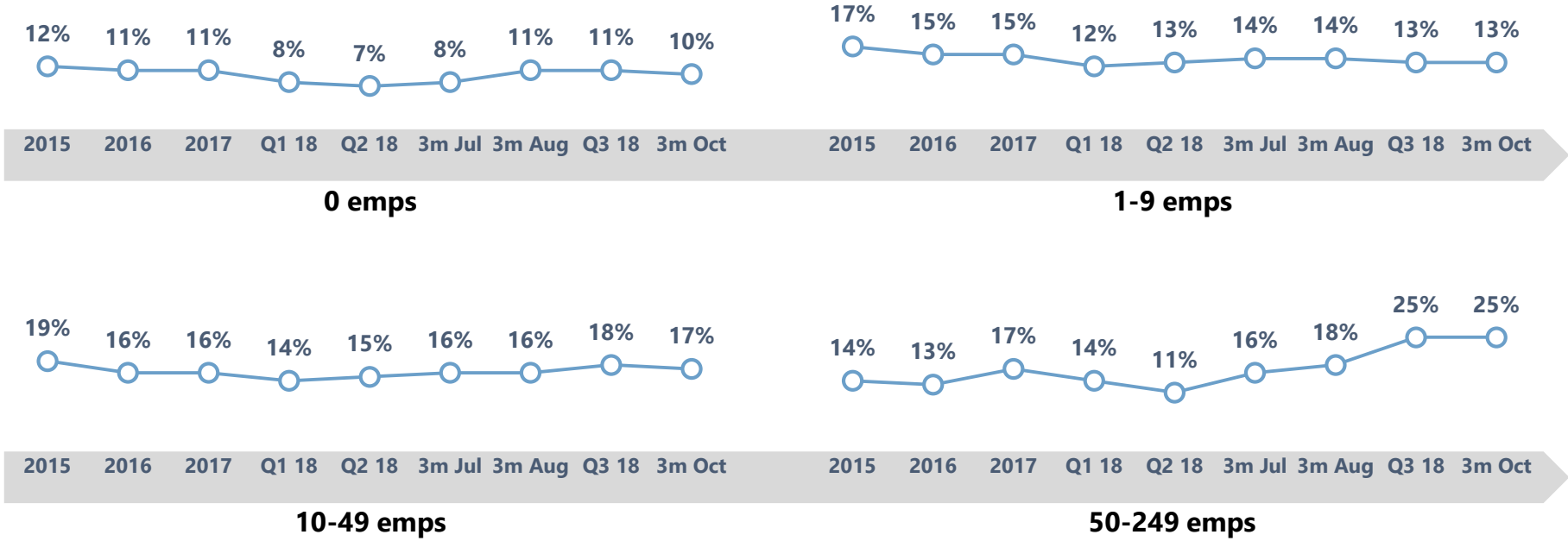


Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of HNS has increased over time, conversely, the proportion of “Future would-be seekers” who could see a barrier that would stop them applying for finance, reached a low around Q3 2017 of 9% and 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 over the last year, to 24% in Q1 2018 and is back to that level in the current period (25%)

Future appetite for finance has increased since Q2 2018 for all but SMEs with 1-9 employees, with larger SMEs reporting a sharper increase

Time series: % planning to apply

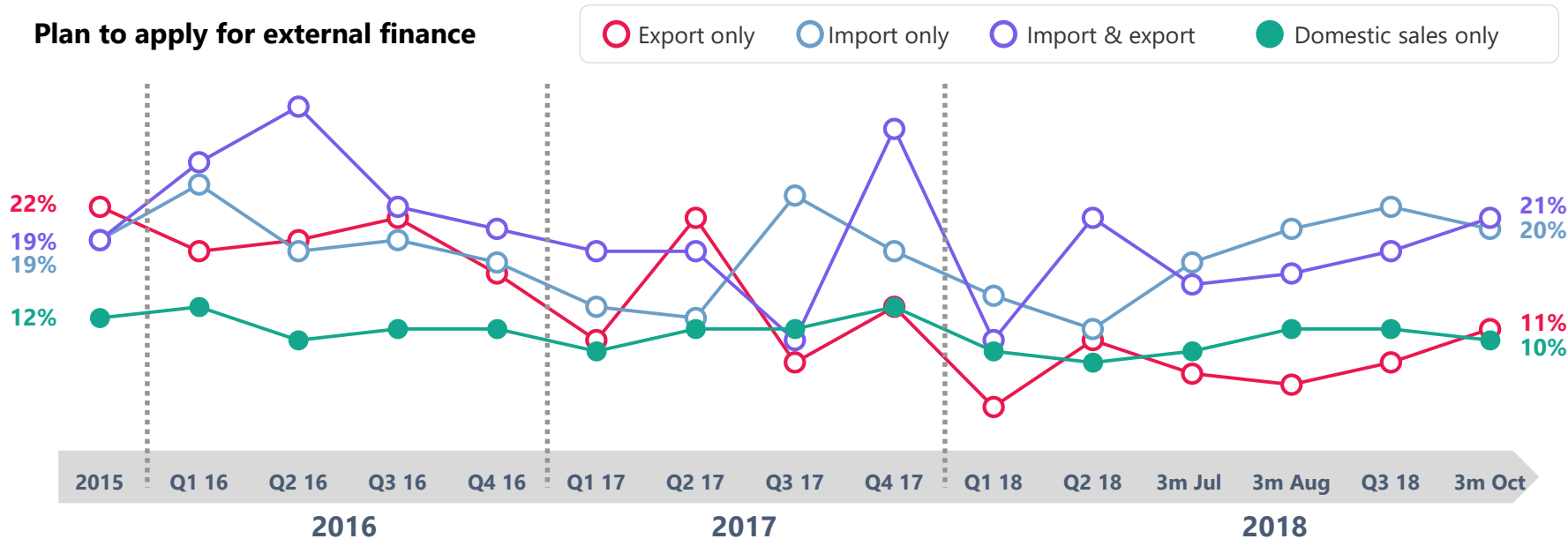
○ Plan to apply



Appetite for external finance has been volatile amongst all types of international SMEs over the last 2 years, but importers are more likely than other SMEs to plan to apply for finance

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

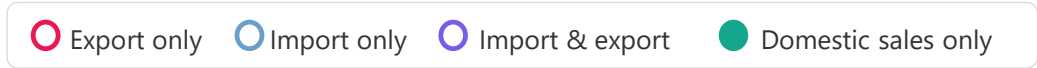
Plan to apply for external finance



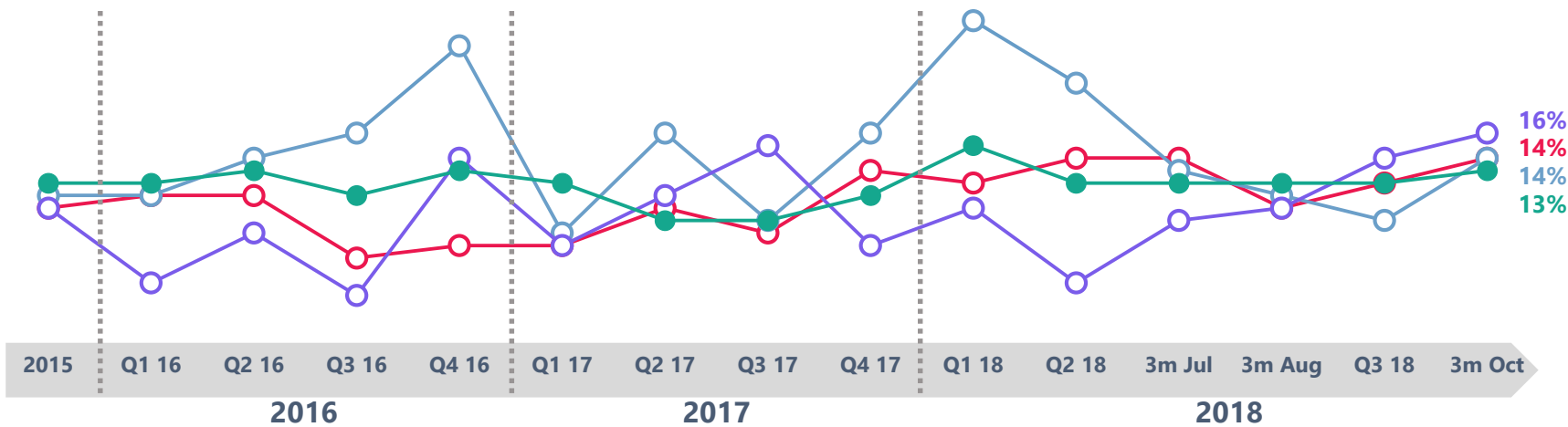
Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the recent peak of 29% in the 3 months to December 2017 to 10% in Q1 2018 and is currently 21%.

There is currently little difference in the proportion of future 'would be seekers' of finance when analysed by international trade

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



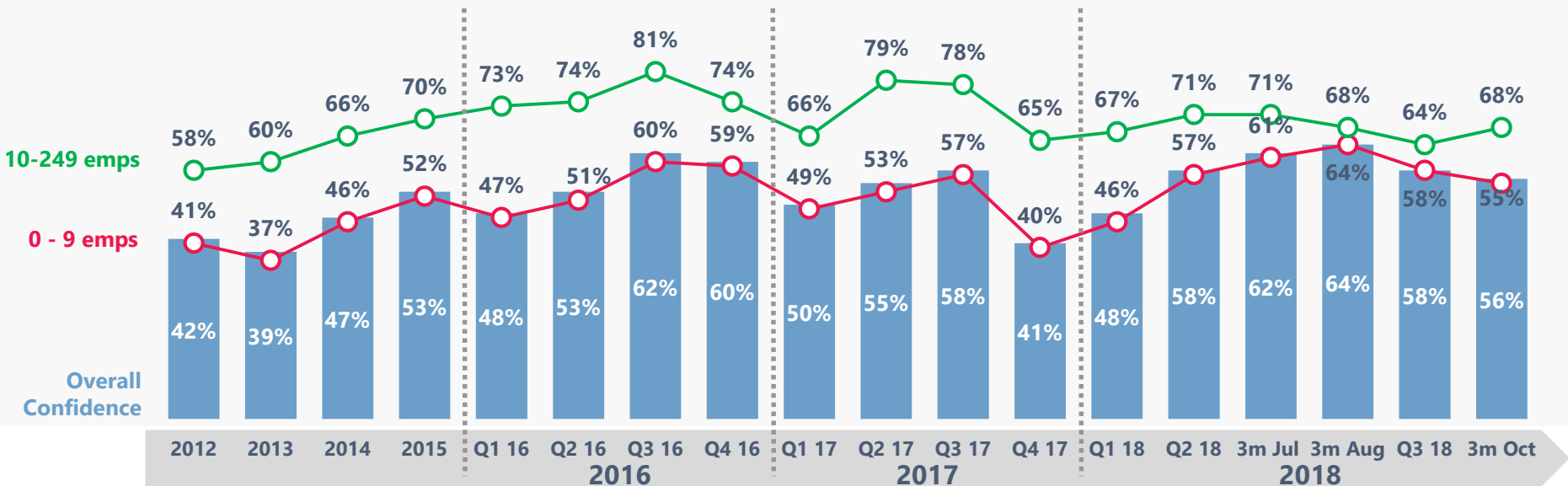
Expect to be a future would-be seeker of finance



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. Those who only import have typically been more likely to expect to be a would-be seeker of finance, but there is currently little difference between the groups. * See previous slide, for planning to apply

Confidence amongst SMEs planning to apply for bank finance has declined recently as 0 employee SMEs feel less confident, but remains ahead of confidence in Q1 2018

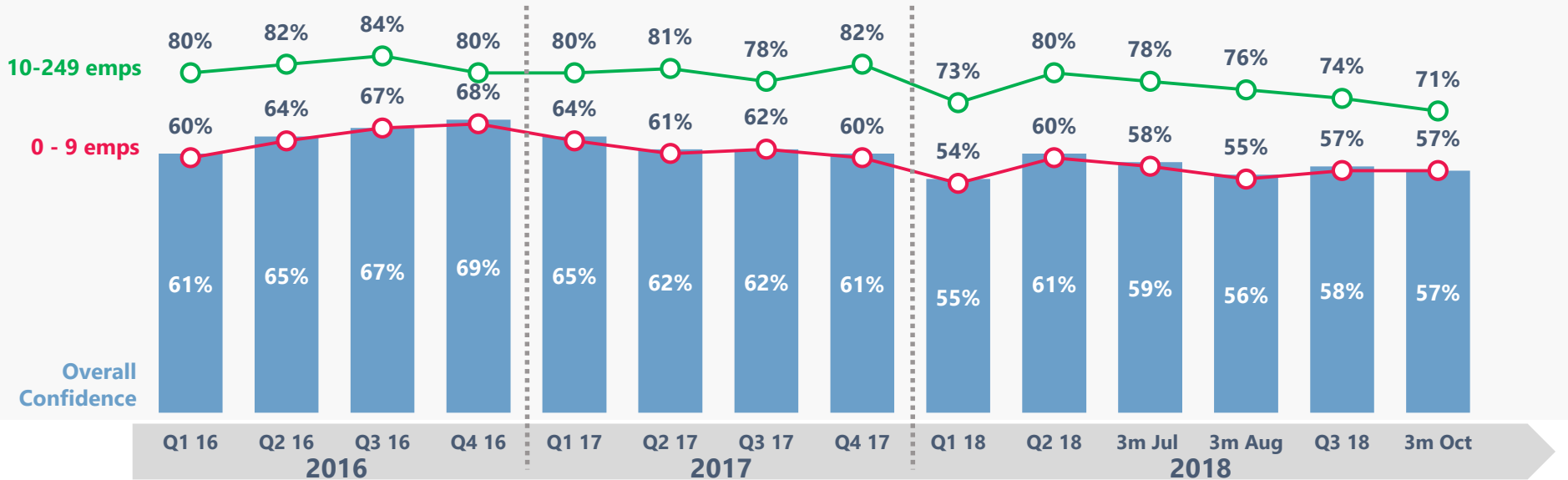
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



During 2017 confidence was somewhat lower and more volatile (it was 50% for the year as a whole compared to 55% in 2016). In 2018, overall confidence improved to 64% for the 3 months to August, but fell back to 56% in the for the 3 months to October albeit still ahead of 2017 overall.

Confidence for hypothetical applicants is stable but somewhat lower in 2018 than in 2017 and is now similar to applicants' confidence

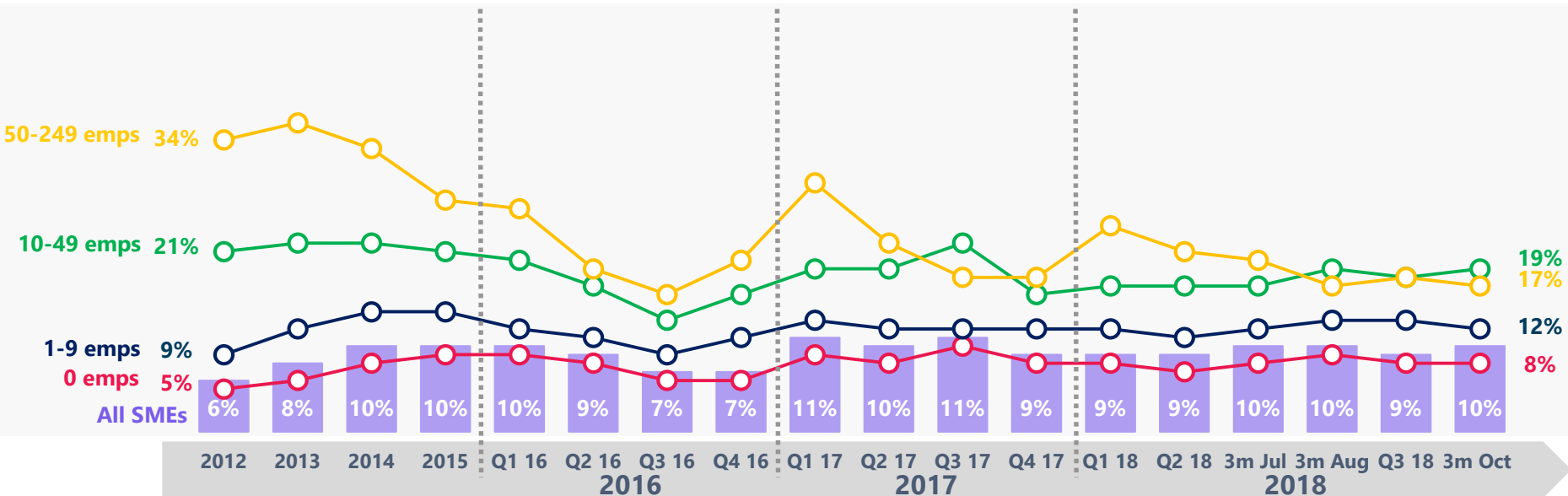
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Just under 6 in 10 (57%) 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, but that confidence has declined somewhat since Q2 2018. Hypothetical applicants are now as confident as those planning to apply (see previous slide for those *with* plans) that the bank would say yes.

The proportion of SMEs that export has been broadly stable since the start of 2017

Time series: Exporters



The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. In 2016, the proportion exporting was slightly lower (8%), but was back to 10% for 2017. It has been 1 in 10 consistently in 2018 to date.

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



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