

12

THE FUTURE

THIS CHAPTER PROVIDES

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

Future growth: In Q4 2018, 50% of SMEs were planning to grow in the next 12 months, increasing by size of SME from 48% of those with 0 employees to 76% of those with 50-249 employees

- In 2018 as a whole, 49% were planning to grow, the highest proportion recorded since 2013 (also 49%), up from 45% in 2017
- This was due to more of the 0 employee SMEs planning to grow (46% from 41% in 2017) and also those with 50-249 employees (79% from 69% in 2017)
- Almost all of those planning to grow (98%) said this would be achieved through more sales in the UK while 11% planned to sell more overseas (the equivalent of 5% of all SMEs)
- Exporters remained more likely to be planning to grow (60%) than non-exporters (47%) and to plan to grow overseas (23% of those planning to grow v 3% of non-exporters planning to grow)
- 34% of all SMEs were planning any of a series of activities usually associated with growth, such as taking on more staff or developing a new product or service. This increased by size of SME from 30% of those with 0 employees to 64% of those with 50-249 employees and to 51% of those planning to grow (compared to 17% of those with no such plans)
- The proportion planning any growth related activity has decreased from 42% in H2 2017, when the question was first asked, to 37% in H2 2018, and across all size bands except those with 50-249 employees

Future appetite for finance: In Q4 2018, 10% of SMEs expected to apply for new/renewed finance in the next 3 months, increasing by size of SME from 9% of those with 0 employees to 18% of those with 50-249 employees

- For 2018 as a whole, 10% planned to apply continuing the decline from 2012 when 14% planned to apply which was seen across all size bands. Most of those planning to apply (70%) were already using external finance, with just 3% of all SMEs being non-users of finance who were planning to apply
- The key reasons for planning to apply for finance were to fund UK expansion and/or for working capital to help cash flow and/or for plant and machinery (all mentioned by 26% of those planning to apply)
- Amongst those planning to apply for a bank product, 54% were confident that they would be successful, up from 50% in 2017 and back in line with 2015 and 2016 (53-55%). Across all SMEs, irrespective of their plans, 58% were confident that they would be successful if they were to apply. This has declined since the question was first asked in 2016 when 65% were confident.

Those not planning to apply: While 10% of SMEs planned to apply, 13% of SMEs met the definition of a Future would-be seeker of finance (who wanted to apply but thought something would stop them). The biggest group continued to be the Future happy non-seekers (77% of all SMEs)

- Over time the proportion of Future happy non-seekers has increased (from 63% in 2012 to 76% in 2015 and stable since) and the proportion of Future would-be seekers has declined (23% in 2012 to 11% in 2015 and broadly stable since)
- Amongst Future would-be seekers the key reason for not applying was the current economic climate, mentioned by 57% as their main reason for not applying. 20% cited issues with the process of borrowing while 13% felt discouraged from applying

Obstacles to running the business: The three main barriers to running the business as they would want remained ‘political uncertainty/government policy’ (24%), ‘legislation, regulation and red tape’ (22%) and ‘the current economic climate’ (also 22%). 41% of all SMEs mentioned at least one of these obstacles in Q4 2018

- Overall, 50% of SMEs rated at least one of the suggested obstacles as a major barrier, with little difference by size. SMEs planning to grow (55%) and those planning to apply for finance (61%) were more likely to identify obstacles
- There was an increase during 2018 in the proportion rating each of the top 3 factors a major obstacle. ‘Political uncertainty/government policy’ increased from 14% in 2017 to 19% in 2018, ‘legislation, regulation and red tape’ from 15% to 19% and ‘the current economic climate’ from 14% to 17%. 34% mentioned at least one of these barriers in 2018, up from 28% in 2017
- Mentions of other barriers were more stable over time, but the proportion mentioning cash flow/late payment as an issue, which had previously decreased as a barrier from 13% in 2012 to 7% in 2016 has increased again and was back to 13% in 2018
- Access to finance continued to be mentioned by a small minority of SMEs (5% each year since 2016)

International SMEs: SMEs that trade internationally remained more likely to be planning to grow and to apply for finance than domestic only SMEs but also more likely to cite political uncertainty as a barrier, as well as the value of sterling and, to a lesser extent, the current economic climate. Analysis over time showed that

- International SMEs remained more likely to be planning to grow than their domestic only peers but their appetite for finance has declined over time (although still ahead of their peers)

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 Q4 2018 data gathered between October and December 2018, as Brexit negotiations and parliamentary votes continued in a climate of 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). The table below provides the previous “Grown by 20% or more” code for all recent quarters but, where available, also now provides data on those who planned to grow by 40% or more (3% of SMEs in Q4 2018).

In Q4 2018, the largest SMEs were more likely to be planning to grow at all (76% v 48% of those with 0 employees):

Plans to grow in next 12 mths		0	1-9	10-49	50-249
Q4 18 only	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
Grow by more than 40%	3%	3%	3%	3%	2%
Grow by 20-40%	12%	12%	12%	15%	12%
Grow by less than 20%	35%	33%	39%	48%	62%
All with objective to grow	50%	48%	54%	66%	76%
Stay the same size	40%	41%	40%	31%	22%
Become smaller	4%	5%	2%	1%	1%
Plan to sell/pass on/close	5%	6%	3%	2%	1%

Q91 (225) All SMEs

Amongst those who in 2018 said that their business had ‘developed significantly’ in the last 3 years, 62% expected to grow in the next year, compared to 38% of those who said the business was ‘recognisably the same’ and 35% who said the business had ‘retrenched’.

LEVELS OF GROWTH OVER TIME

In Q4 2018, 50% of SMEs planned to grow, at the top of the range seen over recent quarters. Growth predictions in 2018 were somewhat higher (47-50%) than were seen in 2017 (43-46%):

Growth in next 12 mths

All SMEs– over time By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Grow by 20% or more*	19%	15%	17%	18%	19%	17%	17%	15%	15%
- Grow by 40% +	-	-	-	-	-	4%	3%	3%	3%
- Grow by 20-40%	-	-	-	-	-	13%	14%	13%	12%
Grow by less than 20%*	28%	28%	28%	27%	27%	30%	31%	33%	35%
All with objective to grow	47%	43%	45%	45%	46%	47%	48%	48%	50%
Stay the same size	44%	45%	45%	45%	44%	43%	41%	41%	40%
Become smaller	4%	6%	5%	5%	6%	4%	5%	4%	4%
Plan to sell/pass on/close	5%	5%	5%	5%	5%	6%	6%	6%	5%

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 almost half planned to grow (48% in Q4 2018) somewhat higher than the more usual 4 in 10 seen in other recent quarters.
- Amongst SMEs with 1-9 employees the proportion planning to grow has been more variable, but typically half have planned to grow (54% in Q4 2018).
- Over time a fairly consistent 6 in 10 SMEs with 10-49 employees have planned to grow, with a slightly higher proportion in Q4 2018 (66%) planning to do so.
- Amongst SMEs with 50-249 employees, 7 in 10 have typically been planning to grow in recent quarters, with the Q4 figure again somewhat higher (76%).

Objective to grow (any) in next 12 months

Over time – row percentages By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
All SMEs	47%	43%	45%	45%	46%	47%	48%	48%	50%
0 employee	44%	39%	41%	43%	43%	45%	43%	47%	48%
1-9 employees	56%	56%	54%	49%	52%	51%	59%	56%	54%
10-49 employees	61%	62%	65%	61%	68%	62%	67%	62%	66%
50-249 employees	61%	64%	72%	70%	67%	71%	90%	77%	76%
Minimal external risk rating	41%	41%	47%	37%	45%	44%	46%	44%	51%
Low external risk rating	46%	39%	44%	43%	47%	42%	40%	41%	47%
Average external risk rating	43%	42%	42%	38%	42%	41%	45%	40%	45%
Worse than average external risk rating	51%	50%	48%	53%	47%	52%	53%	57%	55%
Agriculture	37%	28%	38%	35%	39%	33%	42%	43%	41%
Manufacturing	37%	38%	46%	42%	49%	49%	57%	57%	58%
Construction	37%	32%	33%	37%	39%	39%	40%	39%	37%
Wholesale/Retail	53%	54%	51%	48%	54%	52%	54%	59%	54%
Hotels & Restaurants	46%	52%	47%	44%	45%	46%	49%	52%	45%
Transport	43%	48%	42%	42%	45%	46%	33%	53%	48%
Property/Business Services etc.	56%	45%	50%	52%	46%	50%	54%	52%	56%
Health	45%	37%	43%	56%	47%	48%	64%	48%	53%
Other Community	51%	53%	52%	40%	49%	53%	45%	44%	55%
All Permanent non-borrowers	38%	35%	38%	36%	38%	42%	40%	41%	41%
All excluding PNBs	53%	51%	51%	53%	52%	52%	56%	57%	58%

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.

Between 2013 and 2016 the proportion of SMEs planning to grow fell from 49% to 43% but was then somewhat higher in 2017 (45%) and increased again in 2018 (49%).

The increase between 2016 and 2018 was seen across all sizes of SME and more clearly for those with a minimal or worse than average risk rating, and those in Manufacturing:

Objective to grow (any) in next 12 months							
Over time							
By date of interview – row percentages	2013	2014	2015	2016	2017	2018	
All	49%	47%	45%	43%	45%	49%	
0 emp	46%	43%	42%	40%	41%	46%	
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%	79%	
Minimal external risk rating	45%	45%	40%	39%	42%	47%	
Low	45%	45%	44%	42%	43%	43%	
Average	41%	42%	39%	39%	41%	43%	
Worse than average	54%	52%	51%	49%	49%	54%	
Agriculture	43%	37%	34%	34%	35%	40%	
Manufacturing	51%	55%	49%	43%	44%	56%	
Construction	41%	37%	35%	35%	35%	39%	
Wholesale/Retail	51%	54%	53%	51%	51%	55%	
Hotels & Restaurants	46%	45%	46%	48%	47%	48%	
Transport	48%	37%	44%	43%	44%	45%	
Property/ Business Services	53%	49%	48%	46%	48%	53%	
Health	49%	49%	48%	41%	46%	53%	
Other	52%	57%	50%	47%	48%	49%	
PNBs	43%	40%	38%	36%	37%	41%	
All excl PNBs	52%	52%	51%	50%	52%	56%	

Q91 (225) All SMEs

HOW PREDICTED GROWTH WILL BE ACHIEVED

95% of those planning to grow said they would achieve this by selling more to existing markets in the UK (the equivalent of 47% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (8% of all SMEs) than overseas (3%):

How plan to grow Q4 18	All planning to grow	All SMEs
Unweighted base:	2601	4500
Sell in the UK	98%	49%
<i>Increase sales in existing markets in UK</i>	95%	47%
<i>Sell in new markets in UK</i>	16%	8%
Sell overseas	11%	5%
<i>Increase sales in existing markets overseas</i>	9%	4%
<i>Sell in new markets overseas</i>	6%	3%

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 Q4 2018, 59% reported that they planned to grow compared to 49% of non-exporters. They were also more likely to be planning to grow by 20% or more (23% v 15%).

Exporters are 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: 57% of exporters interviewed in Q4 2018 planned to grow compared to 49% of non-exporters.
- Amongst SMEs with 10-249 employees: 79% of exporters interviewed in Q4 2018 planned to grow compared to 65% 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 6 in 10 exporters (57%) were planning to sell more overseas, just 5% of those who were not exporting planned to look overseas:

How plan to grow Q4 18	All planning to grow who export	All planning to grow who do not export
Unweighted base:	410	2191
Sell in the UK	92%	99%
<i>Increase sales in existing markets in UK</i>	90%	96%
<i>Sell in new markets in UK</i>	23%	15%
Sell overseas	57%	5%
<i>Increase sales in existing markets overseas</i>	52%	3%
<i>Sell in new markets overseas</i>	23%	4%

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 shows that exporters were more likely to be planning to grow each quarter (typically around 6 in 10) than those that did not export (currently just under half), albeit the current 'gap' between their respective growth aspirations (10 percentage points) was somewhat smaller than previously seen:

Objective to grow (any) in next 12 months

By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Exporters	58%	59%	67%	66%	59%	60%	62%	60%	59%
Non-exporters	46%	42%	42%	42%	44%	46%	47%	48%	49%

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 almost all exporters and non-exporters. Exporters remained more likely than non-exporters to also be contemplating new markets, especially overseas, but these proportions are somewhat lower than previously seen, emphasising the reliance on growth in existing markets:

How plan to grow

By date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2016	2017	2017	2017	2017	2018	2018	2018	2018
In existing markets:									
<i>Exporters</i>	88%	88%	96%	94%	91%	93%	89%	93%	97%
<i>Non-exporters</i>	87%	93%	91%	92%	90%	94%	94%	93%	97%
New UK markets:									
<i>Exporters</i>	36%	31%	38%	32%	30%	31%	26%	23%	23%
<i>Non-exporters</i>	23%	16%	23%	17%	23%	17%	13%	14%	15%
New overseas markets:									
<i>Exporters</i>	37%	25%	30%	30%	27%	23%	28%	22%	23%
<i>Non-exporters</i>	3%	4%	3%	6%	3%	4%	2%	4%	4%

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 just under half of other SMEs (42-48%).

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 (currently 24%). The equivalent figures for non-exporters are stable but much lower (3-4%):

Growth plans						
Over time						
By date of interview						
Row percentages	2013	2014	2015	2016	2017	2018
All SMEs:						
Plan to grow	49%	47%	45%	43%	45%	49%
<i>New markets overseas (of those planning to grow)</i>	7%	6%	6%	7%	7%	6%
Exporters:						
Plan to grow	60%	63%	65%	60%	63%	60%
<i>New markets overseas (of those planning to grow)</i>	30%	26%	20%	31%	28%	23%
Non exporters:						
Plan to grow	48%	45%	43%	42%	43%	47%
<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.

OTHER GROWTH RELATED ACTIVITIES PLANNED FOR NEXT 12 MONTHS

A number of activities are associated with growing a business. In Q4 2018, a third of all SMEs planned to undertake at least one of these activities in the following year:

Planned activities in next 12 mths		0	1-9	10-49	50-249
Q4 18 All SMEs	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
Take on more staff	17%	14%	25%	39%	40%
Invest in new plant, machinery, premises	13%	11%	18%	24%	30%
Develop a new product or service	15%	15%	15%	19%	25%
Start to sell, or sell more, overseas	7%	6%	8%	9%	10%
Some other major expenditure	4%	3%	7%	8%	13%
Any of these	34%	30%	43%	56%	64%
None of these	66%	70%	57%	44%	36%

Q90 (240w) All SMEs

Analysis by age of business showed younger SMEs were more likely to be planning to take on staff, with those trading for 2-5 years the most likely to be planning any activity (47%):

Planned activities in next 12 mths		2-5	6-9	10-15	15
Q4 18 All SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	453	350	597	764	2336
Take on more staff	24%	26%	17%	17%	11%
Invest in new plant, machinery, premises	10%	17%	13%	11%	14%
Develop a new product or service	18%	22%	18%	13%	11%
Start to sell, or sell more, overseas	7%	10%	9%	5%	5%
Some other major expenditure	3%	5%	7%	3%	4%
Any of these	35%	47%	38%	32%	28%
None of these	65%	53%	62%	68%	72%

Q90 (240w) All SMEs

By sector those in Manufacturing were the most likely to be planning action (44%) compared to 28% in Transport and 26% in Construction. Permanent non-borrowers were less likely to be planning such activities (27%) and excluding them increased the proportion planning to take any action slightly to 40% 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 much 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
Q4 18 All SMEs					
Unweighted base:	2675	1825	620	425	3455
Take on more staff	29%	6%	36%	14%	15%
Invest in new plant, machinery , premises	20%	7%	28%	10%	12%
Develop a new product or service	24%	6%	31%	13%	13%
Start to sell, or sell more, overseas	11%	2%	11%	6%	6%
Some other major expenditure	7%	2%	10%	3%	4%
Any of these	51%	17%	63%	31%	31%
None of these	49%	83%	37%	69%	69%

Q90 (240w) All SMEs

Analysed as a group for 2018 as a whole, the 38% of SMEs that were planning to take any of these actions in the next 12 months were:

- More likely to have grown (51% v 31% of those not planning any activities) and to be planning to grow (70% v 35%).
- More likely to have employees (32% v 21%), to be prepared to take risks to grow (57% v 34%) and to want to be a significantly bigger business (30% v 14%).
- More likely to be using finance (41% v 34%) and to plan to apply in future (16% v 6%) and less likely to be a PNB (40% v 52%).
- More likely to be international (23% v 9%) and innovative (49% v 22%) but more worried about possible barriers (50% nominated any v 41%) notably political uncertainty (21% v 17%) and availability of staff (12% v 4%).

Some 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 Q4 2018 (34%) than it was in the previous quarters, when around 4 in 10 were planning any activity. This was due to slightly fewer SMEs planning to invest in new plant and machinery and/or be innovative:

Planned activities

By date of interview	Q3	Q4	Q1	Q2	Q3	Q4
All SMEs – over time	2017	2017	2018	2018	2018	2018
Unweighted base:	4505	4500	4500	4500	4502	4500
Take on more staff	18%	19%	19%	18%	19%	17%
Invest in new plant, machinery , premises	16%	18%	18%	15%	17%	13%
Develop a new product or service	17%	16%	17%	14%	18%	15%
Start to sell, or sell more, overseas	11%	7%	7%	6%	6%	7%
Some other major expenditure	7%	6%	6%	5%	5%	4%
Any of these	42%	42%	41%	37%	40%	34%
None of these	58%	58%	59%	63%	60%	66%

Q90 (240w) All SMEs

The table overleaf provides summary analysis at the half year level, to make trends easier to identify 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 and again to 37% in H2 2018.
- These lower levels of activity between H2 2017 and H2 2018 were seen across all size bands (except those with 50-249 employees) across all risk ratings and across most sectors.
- Those planning to grow remained more likely to be planning activities (53%) but this proportion has declined over time (from 61% in H2 2017).

Plan any activity Over time By date of interview – row percentages	H2 2017	H1 2018	H2 2018
All	42%	39%	37%
0 emp	38%	35%	33%
1-9 emps	50%	47%	46%
10-49 emps	63%	58%	58%
50-249 emps	60%	53%	64%
Minimal external risk rating	42%	42%	37%
Low	44%	39%	38%
Average	35%	36%	32%
Worse than average	45%	40%	40%
Agriculture	38%	40%	34%
Manufacturing	54%	49%	44%
Construction	36%	32%	28%
Wholesale/Retail	48%	46%	43%
Hotels & Restaurants	42%	39%	38%
Transport	40%	34%	32%
Property/ Business Services	41%	40%	41%
Health	44%	38%	34%
Other	43%	41%	41%
PNBs	36%	33%	31%
All excl PNBs	47%	44%	42%
Plan to grow	61%	56%	53%
No plans to grow	26%	23%	21%

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 Q4 2018 was collected as the Brexit debate continued and a ‘meaningful vote’ in Parliament was planned and then cancelled. At an overall level the proportion of SMEs rating either the current economic climate or ‘Political uncertainty and future government policy’ as major obstacles, continued to increase quarter by quarter. Amongst international SMEs 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 Q4 2018 were **political uncertainty/government policy** (rated a major obstacle by 24% of SMEs), **legislation, regulation and red tape** and the **current economic climate** (both rated a major obstacle by 22% of SMEs). 41% 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 15% of SMEs.
- **Changes in the value of sterling**, was rated a major obstacle by 15% of SMEs.
- 7% of SMEs rated **availability of relevant advice** for their business as a major obstacle.
- 7% rated **recruiting and retaining staff** as a major obstacle.
- 5% saw **access to external finance** as a major obstacle for the year ahead.

OBSTACLES IN Q4 2018

The analysis below looks in detail at the barriers perceived in Q4 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
Q4 18 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
Legislation, regulation and red tape	4.6	4.5	4.9	5.3	5.2
- 8-10 major obstacle	22%	22%	23%	24%	20%
- 5-7 moderate obstacle	29%	28%	33%	40%	42%
- 1-4 minor obstacle	46%	48%	41%	32%	34%
The current economic climate (mean score)	4.8	4.7	5.0	5.3	5.2
- 8-10 major obstacle	22%	23%	22%	21%	18%
- 5-7 moderate obstacle	35%	34%	39%	45%	43%
- 1-4 minor obstacle	41%	43%	37%	31%	35%
Political uncertainty/future govt policy	4.7	4.6	4.9	5.3	5.5
- 8-10 major obstacle	24%	24%	24%	23%	20%
- 5-7 moderate obstacle	28%	27%	32%	39%	45%
- 1-4 minor obstacle	44%	45%	41%	32%	28%

Continued

Continued

Changes in the value of sterling	3.6	3.4	3.8	4.3	4.2
- 8-10 major obstacle	15%	14%	15%	18%	17%
- 5-7 moderate obstacle	22%	21%	25%	29%	27%
- 1-4 minor obstacle	60%	62%	57%	48%	52%
Cash flow/issues with late payment	3.5	3.5	3.4	4.0	3.9
- 8-10 major obstacle	15%	16%	12%	16%	13%
- 5-7 moderate obstacle	19%	19%	20%	26%	25%
- 1-4 minor obstacle	65%	65%	66%	56%	59%
Recruiting/retaining staff	2.5	2.2	3.4	4.3	4.5
- 8-10 major obstacle	7%	5%	12%	17%	15%
- 5-7 moderate obstacle	13%	10%	20%	30%	34%
- 1-4 minor obstacle	77%	81%	66%	51%	48%
Availability of relevant advice	3.0	3.0	3.0	3.3	3.3
- 8-10 major obstacle	7%	8%	7%	7%	6%
- 5-7 moderate obstacle	21%	21%	21%	23%	24%
- 1-4 minor obstacle	69%	69%	70%	66%	66%
Access to external finance	2.5	2.4	2.6	3.0	2.8
- 8-10 major obstacle	5%	5%	7%	6%	5%
- 5-7 moderate obstacle	16%	15%	16%	23%	19%
- 1-4 minor obstacle	76%	77%	74%	66%	72%
None of these are major obstacles	50%	51%	49%	47%	54%

Q93 (227a) All SMEs

In Q4 2018, 50% 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 (95%) said that there weren't, and no single factor was mentioned more than any other.

OBSTACLES TO RUNNING THE BUSINESS - BY KEY DEMOGRAPHICS

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

Q4 18 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4500	900	1450	1450	700
Political uncertainty/future govt policy	24%	24%	24%	23%	20%
Legislation, regulation and red tape	22%	22%	23%	24%	20%
The current economic climate	22%	23%	22%	21%	18%
Cash flow/issues with late payment	15%	16%	12%	16%	13%
Changes to value of sterling	15%	14%	15%	18%	17%
Availability of relevant advice	7%	8%	7%	7%	6%
Recruiting/retaining staff	7%	5%	12%	17%	15%
Access to external finance	5%	5%	7%	6%	5%
None of these rated a major obstacle	50%	51%	49%	47%	54%

Q93 (227a) All SMEs

SMEs with employees were no more likely to rate any of these factors as 'Major obstacles' with 51% nominating at least one factor compared to 49% of those with 0 employees.

The top 3 major obstacles (the economic climate, political uncertainty and legislation) were key issues for all sizes of SME.

- 4 in 10 SMEs in Q4 2018 (41%) mentioned one or more of these three factors as a major obstacle, with little variation by size of SME (41% for all size bands except 50-249 employees where 36% mentioned at least one of these as an 8-10 issue).

Analysis by risk rating showed the same three key obstacles for each risk rating. Those with a better external risk rating were slightly more concerned about legislation and regulation, and political uncertainty, but otherwise differences were limited and a similar proportion identified any obstacle (50-53%):

Extent of obstacles in next 12 months

Q4 18 – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	4500	868	1312	992	894
Political uncertainty/future govt policy	24%	28%	21%	23%	24%
Legislation, regulation and red tape	22%	27%	24%	22%	21%
The current economic climate	22%	23%	22%	20%	23%
Cash flow/issues with late payment	15%	16%	14%	15%	14%
Changes to value of sterling	15%	13%	17%	15%	14%
Availability of relevant advice	7%	4%	9%	8%	7%
Recruiting/retaining staff	7%	8%	8%	7%	5%
Access to external finance	5%	4%	5%	5%	5%
None of these rated a major obstacle	50%	47%	50%	51%	51%

Q93 (227a) All SMEs where risk rating known

The top 3 barriers were slightly more likely to be mentioned by those with a minimal risk rating (45% mentioned any) than those with another risk rating (40-41%).

The table below shows that in Q4 2018 those with plans to grow were more likely to identify obstacles to that growth, notably cash flow, changes to the value of sterling and political uncertainty. 55% mentioned at least one obstacle (including 43% who mentioned one or more of the top 3 barriers) compared to 44% with no plans to grow (where 38% mentioned a top 3 barrier).

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 60% said that none of them were:

Extent of obstacles in next 12 months

Q4 18 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
Unweighted base:	4500	2675	1825	1657	2843
Political uncertainty/future govt policy	24%	26%	22%	19%	28%
Legislation, regulation and red tape	22%	23%	21%	18%	26%
The current economic climate	22%	24%	21%	16%	28%
Cash flow/issues with late payment	15%	21%	9%	6%	22%
Changes to value of sterling	15%	19%	11%	8%	21%
Availability of relevant advice	7%	10%	5%	5%	9%
Recruiting/retaining staff	7%	8%	6%	6%	8%
Access to external finance	5%	7%	3%	1%	8%
None of these rated a major obstacle	50%	45%	56%	60%	43%

Q93 (227a) All SMEs

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. 61% nominated at least one major obstacle, compared to 46% of Future happy non-seekers. Those with a future appetite for finance were more likely to mention any of the top 3 barriers (50%) than Happy non-seekers were (38%):

Extent of obstacles in next 12 months		Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Q4 18 – all SMEs	Total			
8-10 impact score				
<i>Unweighted base:</i>	4500	1045	3455	1798
Political uncertainty/future govt policy	24%	32%	22%	26%
Legislation, regulation and red tape	22%	28%	21%	24%
The current economic climate	22%	30%	20%	26%
Cash flow/issues with late payment	15%	26%	12%	20%
Changes to value of sterling	15%	21%	13%	21%
Availability of relevant advice	7%	12%	6%	8%
Recruiting/retaining staff	7%	12%	6%	5%
Access to external finance	5%	11%	4%	6%
<i>None of these rated a major obstacle</i>	50%	39%	54%	46%

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 and changes in the value of sterling as issues. Once the PNBs have been excluded, 45% of remaining happy non seekers mentioned one or more of the top 3 barriers.

SMEs in Manufacturing were more likely to nominate one or more barriers (58%) with higher mentions of political uncertainty, the economic climate and changes to the value of sterling. Those in Agriculture were also likely to mention political uncertainty, along with legislation, regulation and red tape. Those in Transport were the least likely to mention any barriers (44%):

Extent of obstacles in next 12 months

Q4 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	500	900	375	500
Political uncertainty	28%	28%	23%	25%	25%	22%	27%	19%	21%
Legislation, regulation and red tape	32%	19%	20%	22%	26%	20%	21%	28%	24%
The current economic climate	23%	30%	20%	23%	21%	17%	24%	23%	26%
Cash flow/issues with late payment	13%	14%	15%	17%	14%	10%	16%	17%	18%
Changes to sterling	15%	20%	14%	18%	19%	14%	12%	14%	18%
Availability of relevant advice	9%	9%	10%	4%	8%	9%	5%	2%	11%
Recruiting/retaining staff	10%	7%	8%	7%	9%	6%	7%	3%	8%
Access to external finance	3%	5%	6%	7%	5%	3%	5%	2%	7%
None of these rated a major obstacle	47%	42%	53%	48%	52%	56%	51%	51%	46%

Q93 (227a) All SMEs

48% of SMEs in Manufacturing and 47% of SMEs in Agriculture mentioned one or more of these top 3 barriers. Those in the Transport (35%) and Construction (37%) sectors were the least likely to mention any of them. Amongst other sectors they were mentioned by between 41% and 43% 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. In recent quarters there have been more mentions of political uncertainty, the current economic climate and legislation and regulation as barriers. As a result, the proportion citing any of the Top 3 obstacles has increased from around a quarter to 4 in 10 in Q4 2018:

Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of

interview

	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Political uncertainty	12%	14%	13%	14%	15%	16%	15%	19%	24%
Legislation, regs and red tape	10%	15%	14%	15%	15%	17%	18%	19%	22%
The current economic climate	13%	11%	13%	16%	14%	16%	15%	17%	22%
Any Top 3 issue	23%	26%	27%	29%	29%	31%	31%	34%	41%
Cash flow/issues with late payment	5%	8%	8%	12%	9%	11%	12%	13%	15%
Changes in sterling	-	11%	10%	15%	10%	11%	11%	11%	15%
Availability of relevant advice	6%	3%	4%	5%	4%	6%	8%	8%	7%
Recruiting/retaining staff	6%	5%	7%	6%	8%	7%	7%	8%	7%
Access to external finance	5%	4%	4%	5%	5%	5%	6%	5%	5%
None of these rated a major obstacle	70%	66%	64%	62%	61%	59%	57%	54%	50%

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 5 in 10 by the end of 2018.

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 became no more of a barrier than political uncertainty or legislation and regulation.

In 2018 there were once again more mentions of the economic climate (to 17%) alongside increased mentions of political uncertainty (19%) and legislation and regulation (19%). As a result, 34% of SMEs mentioned one or more of these barriers in 2018, up from 24% in 2015:

Extent of obstacles in next 12 months							
Over time – all SMEs							
8-10 impact score	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	20,055	20,036	20,055	20,046	18,000	18,012	18,002
Political uncertainty/future govt policy	-	-	-	10%	10%	14%	19%
Legislation, regulation and red tape	13%	13%	12%	11%	10%	15%	19%
The current economic climate	34%	27%	17%	13%	12%	14%	17%
Any top 3 mentions	-	-	-	24%	22%	28%	34%
Cash flow/issues with late payment	13%	11%	9%	9%	7%	9%	13%
Changes in sterling	-	-	-	-	-	11%	12%
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 of SMEs citing cash flow/late payment declined from 13% in 2012 to 7% in 2016 but was once again 13% in 2018.

The table below provides another longer term view back to 2012, this time excluding the Permanent non-borrowers which increases the 8-10 impact scores for individual measures by around 3-4 percentage points. The exception is cash flow/ late payment where the score in 2018 increased from 13% of all SMEs to 20% when the PNBs were excluded:

Extent of obstacles in next 12 months							
Over time – all SMEs excl PNBs							
8-10 impact score	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	15,312	14,578	13,613	13,011	11,634	11,940	11,294
Political uncertainty/future govt policy	-	-	-	13%	13%	17%	22%
Legislation, regulation and red tape	15%	16%	14%	14%	12%	18%	22%
The current economic climate	39%	31%	20%	17%	15%	17%	21%
Any top 3 mentions	-	-	-	30%	25%	33%	40%
Cash flow/issues with late payment	18%	15%	12%	12%	9%	14%	20%
Changes in sterling	-	-	-	-	-	16%	16%
Availability of relevant advice	8%	8%	7%	6%	6%	6%	9%
Recruiting/retaining staff	3%	4%	6%	8%	7%	9%	9%
Access to external finance	16%	15%	11%	9%	8%	7%	8%

Q93 (227a) All SMEs excluding PNBs

The proportion of SMEs excluding the PNBs mentioning any of the top 3 barriers has varied somewhat over time but was at the highest level seen to date in 2018 (40%) ahead of SMEs overall (34%).

The on-going 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 became somewhat more of a barrier 2015 to 2017 and then increased again during 2018, across all sizes of SME, to the highest levels seen to date:

Political uncertainty

8-10 impact score				Q1	Q2	Q3	Q4
Row percentages	2015	2016	2017	2018	2018	2018	2018
All SMEs	9%	10%	14%	16%	15%	19%	24%
0 employees	9%	10%	13%	16%	15%	18%	24%
1-9 employees	12%	13%	17%	18%	18%	22%	24%
10-49 employees	9%	12%	15%	15%	16%	17%	23%
50-249 employees	7%	14%	14%	11%	6%	16%	20%

Q93 (227a) All SMEs

Overall, the proportion of SMEs seeing the current economic climate as a barrier was broadly stable 2015-2017. During 2018, levels of concern increased amongst all sizes of SME, led by those with 0 employees:

The current economic climate

8-10 impact score				Q1	Q2	Q3	Q4
Row percentages	2015	2016	2017	2018	2018	2018	2018
All SMEs	13%	12%	14%	16%	15%	17%	22%
0 employees	12%	12%	13%	16%	15%	16%	23%
1-9 employees	14%	14%	16%	16%	16%	18%	22%
10-49 employees	10%	12%	14%	14%	14%	17%	21%
50-249 employees	8%	13%	13%	13%	4%	17%	18%

Q93 (227a) All SMEs

Access to finance is the key theme of this report but an issue that has been less likely than others to be rated a barrier by SMEs. The table below shows a stable picture over recent quarters, with those expressing an appetite for finance remaining more likely to see it as a barrier:

Access to finance – 8-10 impact scores

Over time – row percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	16	17	17	17	17	18	18	18	18
All SMEs	5%	4%	4%	5%	5%	5%	6%	5%	5%
0 employee	4%	4%	4%	5%	5%	5%	6%	5%	5%
1-9 employees	7%	5%	5%	4%	5%	6%	5%	6%	7%
10-49 employees	5%	5%	4%	4%	4%	5%	6%	4%	6%
50-249 employees	4%	4%	1%	4%	2%	4%	2%	6%	5%
Minimal external risk rating	2%	1%	3%	3%	3%	2%	2%	4%	4%
Low external risk rating	4%	4%	4%	5%	4%	4%	4%	6%	5%
Average external risk rating	4%	4%	2%	3%	4%	5%	6%	5%	5%
Worse than average external risk rating	6%	4%	5%	7%	6%	6%	6%	5%	5%
Agriculture	1%	4%	3%	7%	7%	4%	5%	5%	3%
Manufacturing	2%	4%	4%	5%	5%	2%	10%	7%	5%
Construction	4%	5%	3%	7%	3%	6%	5%	3%	6%
Wholesale/Retail	4%	6%	6%	4%	3%	4%	5%	6%	7%
Hotels & Restaurants	9%	8%	8%	4%	6%	11%	5%	8%	5%
Transport	4%	4%	5%	8%	8%	8%	4%	8%	3%
Property/Business Services etc.	6%	3%	3%	3%	5%	2%	5%	4%	5%
Health	5%	1%	5%	5%	9%	3%	7%	5%	2%
Other Community	6%	3%	3%	5%	5%	9%	6%	7%	7%
Use external finance	6%	7%	7%	9%	8%	9%	9%	8%	8%
Plan to borrow/FWBS	13%	13%	14%	14%	11%	11%	11%	12%	11%
Future Happy non-seekers	2%	2%	1%	3%	3%	3%	4%	3%	4%
All SMEs excluding PNBs	7%	6%	7%	9%	8%	8%	9%	8%	8%

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 from Q1 2018. The slight increase in planned applications seen at the end of 2017 (14% in Q4) was not maintained into 2018 (in Q4 2018, 10% planned to apply):

% likely in next 3 months									
All SMEs – over time By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Will have a need for (more) external finance	7%	7%	8%	9%	10%	8%	7%	7%	7%
Will apply for more external finance	7%	6%	6%	6%	8%	6%	5%	5%	5%
Renew existing borrowing at same level	7%	6%	8%	8%	8%	6%	6%	8%	6%
Any apply/renew	11%	10%	12%	12%	14%	9%	9%	11%	10%
Reduce the amount of external finance used	7%	4%	7%	8%	8%	8%	12%	11%	15%
Inject personal funds into business	15%	12%	13%	13%	15%	13%	9%	14%	11%

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 2018.

During 2018, an increasing (albeit minority) proportion of SMEs planned to reduce the amount of finance being used. For 2018 as a whole, 12% had such plans, up from 7-8% in 2015 to 2017. The increase was seen across all size bands, but most markedly for those with 50-249 employees where, in 2018, 38% planned to reduce their use of finance (up from 8% in 2015 and 2016).

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	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	2714	2846	2753	2948	2709	2851	2760	2853	2964
Any new equity	4%	2%	4%	4%	5%	4%	2%	3%	4%

Q99 (229) All companies

In Q4 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 were more likely to anticipate an injection of personal funds (12%) than an application for new/renewed finance (9%). The largest SMEs with 50-249 employees were the most likely to be planning to apply (18%) but also the most likely to be planning to reduce the amount of finance being used (24%):

% likely in next 3 months

Q4 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%	8%	8%	7%
Will apply for more external finance	5%	4%	6%	7%	6%
Renew existing borrowing at same level	6%	5%	9%	12%	13%
Any apply/renew	10%	9%	13%	16%	18%
Reduce the amount of external finance used	15%	15%	14%	14%	24%
Inject personal funds into business	11%	12%	11%	7%	4%

Q99 (229) All SMEs

Amongst SMEs with employees, 14% had plans to apply/renew in the next 3 months and 8% 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. The proportion of SMEs planning to inject personal funds has declined over time, from 24% in 2012 to 12% in 2018. Between 2012 and 2014 there was also a decline in the proportion of SMEs that had injected personal funds, from 43% to 29% but reported injections of funds remain twice as high as the levels planned (29% v 12%):

Injections of personal funds past and future							
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	18,002
Have injected personal funds	43%	38%	29%	28%	28%	29%	29%
Plan to inject personal funds	24%	20%	16%	16%	15%	13%	12%

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

The table below shows how the injections of personal funds past and future have combined and presents a broadly stable picture. Over recent quarters two thirds of SMEs had neither put in funds, nor thought it likely they would do so (69% in Q4 2018). Typically, 1 in 10 SMEs had both injected funds and planned to do so again, but this was slightly lower in Q4 (7%):

Injections of personal funds

Over time – All SMEs	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Have injected personal funds and likely to do so again	10%	9%	9%	10%	10%	9%	5%	9%	7%
Have not put in personal funds but likely to do so	5%	3%	4%	4%	4%	4%	4%	6%	4%
Have injected personal funds but unlikely to do so again	21%	20%	18%	21%	20%	19%	23%	21%	20%
Have not put in personal funds and not likely to do so	65%	68%	68%	66%	66%	68%	68%	65%	69%

Q99 (229)/Q15d-d2 All SMEs

Turning back to future applications for external finance, the Q4 2018 figure of 10% planning to apply was in line with recent quarters. Excluding the PNBs increases the proportion of remaining SMEs planning to apply to 19%, in line with previous quarters with the exception of the 23-26% seen in the second half of 2017:

% likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
All SMEs	11%	10%	12%	12%	14%	9%	9%	11%	10%
0 employee	10%	8%	11%	11%	13%	8%	7%	11%	9%
1-9 employees	14%	16%	14%	13%	16%	12%	13%	13%	13%
10-49 employees	16%	16%	15%	16%	18%	14%	15%	18%	16%
50-249 employees	13%	12%	23%	19%	12%	14%	11%	25%	18%
Minimal external risk rating	10%	9%	9%	9%	16%	6%	9%	10%	13%
Low external risk rating	13%	13%	13%	13%	14%	10%	10%	12%	13%
Average external risk rating	9%	8%	9%	11%	12%	9%	8%	11%	9%
Worse than average external risk rating	10%	11%	13%	13%	16%	10%	9%	12%	10%
Agriculture	15%	12%	11%	7%	16%	14%	10%	13%	8%
Manufacturing	11%	7%	20%	10%	20%	12%	14%	12%	16%
Construction	11%	10%	7%	11%	12%	11%	7%	10%	6%
Wholesale/Retail	12%	13%	11%	14%	15%	8%	12%	13%	12%
Hotels & Restaurants	11%	15%	13%	11%	21%	12%	9%	11%	10%
Transport	14%	13%	12%	11%	16%	10%	5%	16%	11%
Property/Business Services etc.	12%	7%	11%	12%	12%	6%	8%	11%	11%
Health	9%	9%	11%	16%	15%	10%	12%	11%	13%
Other Community	8%	13%	15%	13%	12%	9%	12%	10%	11%
Objective to grow	14%	16%	18%	17%	19%	12%	12%	16%	14%
No objective to grow	9%	5%	6%	7%	10%	7%	6%	8%	7%
All SMEs excluding PNBs	19%	19%	21%	23%	26%	18%	18%	22%	19%

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 2018 was somewhat lower than in recent periods, overall and for smaller SMEs and once the PNBs were excluded:

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

Q99 (229) All SMEs

Amongst those planning to grow, future appetite for finance remained somewhat higher than for those not planning to grow (13% v 7% in 2018) but 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 (more) finance than those not currently using it.

- In 2018, 7% 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 (61%) neither used finance nor had plans to apply for any.

This means that most of the 10% of SMEs planning to apply for finance in 2018 were already using it (70%):

Plans to apply/renew v use of external finance						
Over time – all SMEs	2013	2014	2015	2016	2017	2018
Unweighted base:	20,036	20,055	20,046	18,000	18,012	18,002
Use external finance and plan to apply	10%	10%	10%	8%	9%	7%
Use external finance, no plans to apply	30%	27%	27%	29%	29%	29%
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%	61%
% of future applicants using finance	77%	77%	71%	67%	78%	70%

Q15 and futfin All SMEs

7% of all SMEs were both using finance and planning to apply, increasing by size of SME. 70% of all future applicants were already using external finance and this also increased by size of SME:

- 6% of 0 employee SMEs were using external finance and planned to apply for more. 67% of all future applicants with 0 employees were already using finance.
- 10% of 1-9 employee SMEs were using external finance and planned to apply for more. 74% of all these future applicants were already using finance.
- 12% of 10-49 employee SMEs were using external finance and planned to apply for more. 77% of all these 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 these future applicants were already using finance.

Future funding requirements

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 previous ‘working capital/cash flow’ code was mentioned by a consistent 6 in 10 of those looking to apply for finance since 2012. In 2018, this proportion dropped as more options were presented that could be working capital related (‘new business opportunity’, ‘working capital to help cash flow’, ‘short term funding’ and ‘trading difficulties’). In Q4 2018 these codes were mentioned collectively by 59% of those planning to apply for finance.

Whilst there are fewer mentions specifically of ‘working capital’ in 2018 than previously, there were more mentions in the second half of 2018 than in the first:

Use of new/renewed facility

All planning to seek/renew

Over time excl DK

By date of interview

	2016	2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	2563	2616	546	540	716	618
To fund UK expansion	28%	23%	28%	30%	24%	24%
Plant & machinery	21%	20%	24%	22%	31%	25%
A new business opportunity	-	-	15%	24%	20%	15%
Working capital to help cashflow*	-	-	15%	17%	31%	36%
Cover short term funding gap	-	-	10%	14%	9%	12%
Help through trading difficulties	-	-	9%	11%	9%	7%
Take on staff	-	9%	9%	9%	12%	17%
Fund new premises	8%	7%	5%	7%	9%	5%
Fund expansion overseas	5%	4%	3%	6%	5%	5%
Take over another business	-	-	1%	1%	2%	2%

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

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 in 2016 and 2017:

Use of new/renewed facility							
All planning to seek/renew– over time	2012	2013	2014	2015	2016	2017	2018
<i>Unweighted base:</i>	3717	3316	3310	3200	2563	2616	2420
To fund UK expansion	21%	28%	30%	28%	28%	23%	26%
Plant & machinery	27%	27%	26%	25%	21%	20%	26%
A new business opportunity							18%
Working capital to help cashflow	-	-	-	-	-	-	26%
Cover short term funding gap	-	-	-	-	-	-	11%
Help through trading difficulties	-	-	-	-	-	-	9%
Take on staff	-	-	-	-	-	9%	12%
Fund new premises	7%	7%	10%	7%	8%	7%	6%
Fund expansion overseas	3%	5%	6%	6%	5%	4%	5%
Take over another business	-	-	-	-	-	-	2%

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 somewhat higher in Q4 2018 (59%), back to levels seen in Q2 2017, after a period of stability at lower levels:

% of those seeking/renewing finance that would consider form of funding								
Over time	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2017	2017	2017	2017	2018	2018	2018	2018
Unweighted base:	616	698	667	687	551	552	719	620
Core product (loan, O/D, credit card)	55%	61%	54%	54%	54%	54%	51%	59%
Commercial mortgage	13%	12%	24%	15%	15%	12%	12%	15%
Leasing/invoice finance	18%	15%	22%	16%	19%	18%	16%	21%
Other	22%	19%	27%	30%	25%	21%	17%	33%
None of these	34%	32%	37%	32%	35%	33%	37%	30%

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

In all quarters consideration was highest for the core products. In Q4 2018, 59% of future applicants were considering a core form of finance, compared to 33% 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 for this 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 finance they might use or because they were considering another form of finance not listed. In 2018, 70% said that they had not decided, while 30% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants in 2018, 66% were considering one or more of the forms of finance listed, 10% were considering another form of finance and 24% hadn't yet decided what they might use.

In order to maximise base sizes, the table below shows levels of consideration in H2 2018 by the size of SME considering funding.

% of those seeking/renewing finance would consider funding

H2 2018	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	1339	170	395	485	289
Core product (loan, od, credit card)	55%	55%	56%	49%	68%
Commercial mortgage	14%	12%	16%	21%	30%
Leasing/invoice finance	18%	17%	20%	24%	30%
Other	24%	25%	23%	18%	20%
<i>None of these</i>	34%	34%	32%	37%	21%

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, 55% would consider one or more core products for their future lending, 17% a commercial mortgage, 21% leasing or invoice finance and 22% some other form of funding. 33% said they would not consider any of these.

Application confidence – applying for ‘bank’ products

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, and confidence in Q4 2018 was somewhat lower (48%) than in Q2 or Q3 (both 58%), but back in line with Q1 2018:

Confidence bank would lend

All planning to seek finance Over time by date of interview	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Unweighted base:	362	389	437	421	401	327	353	456	415
Very confident	22%	17%	14%	12%	14%	16%	23%	15%	17%
Fairly confident	37%	32%	41%	47%	27%	32%	35%	43%	31%
Overall confidence	59%	49%	55%	59%	41%	48%	58%	58%	48%
Neither/nor	22%	22%	21%	26%	26%	23%	20%	19%	26%
Not confident	19%	28%	23%	15%	33%	29%	23%	23%	25%
Net confidence (confident – not confident)	+40	+21	+32	+44	+8	+19	+35	+35	+23

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

Confidence amongst prospective applicants with employees was 46% in Q4 2018.

As the table below shows, the decrease in confidence in Q4 2018 compared to Q2 and Q3 was seen predominantly amongst smaller applicants and those with an average or worse than average risk rating:

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
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%
Q3 2018	58%	58%	64%	65%	59%
Q4 2018	48%	47%	74%	68%	42%

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

Over the longer term, there was a steady increase in levels of confidence between 2012 and 2016 from 42% to 55%. This was not maintained in 2017 (50%), but the 2018 annual score of 54% was back in line with 2016:

Confidence bank would agree to lend							
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	2933	2477	2337	2194	1467	1648	1551
Very confident	15%	14%	24%	24%	23%	14%	18%
Fairly confident	27%	25%	23%	29%	32%	36%	36%
Overall confidence	42%	39%	47%	53%	55%	50%	54%
Neither/nor	23%	30%	24%	21%	25%	24%	22%
Not confident	35%	31%	29%	26%	21%	26%	25%
Net confidence (confident – not confident)	+10	+8	+18	+27	+34	+24	+29

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

Current confidence (54%) is very similar to that in 2016. In 2018, confidence amongst those with 0-9 employees increased to 52%, back to 2016 levels, while confidence amongst larger SMEs declined somewhat (75% to 69%):

Confidence bank would agree to lend							
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018
Row percentages							
All	42%	39%	47%	53%	55%	50%	54%
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%	49%

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 2018, two thirds of those planning to renew were confident (67%) compared to 4 in 10 of those planning to apply for new facilities (39%). These levels of confidence also remain lower than actual success levels (currently 80% overall).

APPLICATION CONFIDENCE – FURTHER ANALYSIS

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 Q4 2018, when 6 in 10 were confident of success with a potentially hypothetical application. This ‘hypothetical’ confidence increased by size of SME from 54% of those with no employees to 77% of those with 50-249 employees:

Confidence bank would say yes if asked		0	1-9	10-49	50-249
Q4 18 - All not planning to apply to bank	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	4085	847	1326	1299	613
Very confident	21%	18%	31%	38%	40%
Fairly confident	37%	36%	39%	34%	37%
<i>Overall confidence</i>	58%	54%	70%	72%	77%
Neither/nor	28%	31%	20%	22%	16%
Not confident	14%	15%	9%	7%	7%
<i>Net confidence (confident – not confident)</i>	+44	+39	+61	+65	+70

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, as well as those with no plans to apply. The table below summarises the confidence of all SMEs in Q4 2018, based on their future application plans, which shows that:

- Those planning to apply to a bank were somewhat less confident of success (48%) than those looking to apply but for another form of finance (56% confident).
- Future would-be seekers of finance were similarly less confident of success (45%).
- 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 (60%).

Confidence bank would say yes if asked	All planning to apply to bank	All others planning to apply	Future WBS	Future HNS
Q4 18 – all SMEs				
Unweighted base:	415	205	425	3455
Very confident	17%	29%	15%	22%
Fairly confident	31%	27%	30%	38%
Overall confidence	48%	56%	45%	60%
Neither/nor	26%	29%	35%	27%
Not confident	25%	15%	20%	12%
Net confidence (confident – not confident)	+23	+41	+25	+48

Q103/106 (238/ 239b) All SMEs

Across all SMEs (those planning to apply and those answering hypothetically) around 6 in 10 have been confident in each quarter with the exception of Q1 2018 (55%) when those planning to apply but not to a bank were somewhat less confident:

Confidence bank would say yes									
Over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	16	17	17	17	17	18	18	18	18
All SMEs	68%	64%	61%	62%	60%	55%	60%	58%	58%
Planning to apply to bank	59%	49%	55%	59%	41%	48%	58%	58%	48%
Others planning to apply	51%	67%	50%	74%	61%	44%	56%	62%	56%
No plans – Future would-be seekers	57%	51%	37%	37%	43%	43%	49%	49%	45%
No plans – Future happy non-seekers	72%	66%	65%	65%	64%	58%	62%	59%	60%

Q103/106 (238/239b) All SMEs

The summary table below shows that, on an annual basis, overall confidence amongst all SMEs decreased slightly from 65% in 2016 to 62% in 2017 and 58% in 2018:

- This was driven by the Future happy non-seekers as the largest group, where confidence has moved from 69% in 2016 to 60% in 2018.
- Those planning to apply to a bank saw confidence dip 2016 to 2017 (55% to 50%) but then increase again (54% in 2018). It was a similar story for Future would-be seekers (50% to 42% and then 46% in 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. In 2018 however, confidence amongst this group was back to 54%.

The summary table also shows overall confidence (whether the SME planned to apply or not) for other key groups over time. The lower level of confidence in 2018 (58%) compared to 2016 and 2017 was seen across all size bands. Overall, larger SMEs remained more confident of success, while those with a worse than average risk rating were less confident. By sector, confidence ranged from 54% of those in Property/Business Services to 63% in Agriculture. Back in 2016, Permanent non-borrowers were more confident than other SMEs (68% v 62%) but this is no longer the case (57% v 58%).

Confidence bank will say yes (whether planning to apply or not)			
Over time			
By date of interview – row percentages	2016	2017	2018
All	65%	62%	58%
0 emp	62%	59%	55%
1-9 emps	70%	66%	65%
10-49 emps	80%	79%	73%
50-249 emps	85%	84%	80%
Minimal external risk rating	73%	73%	70%
Low	73%	70%	67%
Average	67%	61%	61%
Worse than average	61%	58%	51%
Agriculture	71%	67%	63%
Manufacturing	67%	61%	61%
Construction	65%	62%	60%
Wholesale/Retail	70%	66%	62%
Hotels & Restaurants	62%	63%	58%
Transport	61%	59%	58%
Property/ Business Services	65%	62%	54%
Health	64%	59%	57%
Other	62%	59%	54%
PNBs	68%	63%	57%
All excl PNBs	62%	61%	58%
Planning to apply to bank	55%	50%	54%
Planning to apply elsewhere	55%	63%	54%
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 Q4 2018, 10% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (90%) with no such plans. Analysis showed that overall, 56% of all SMEs in Q4 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 and has been stable since (58-59% for 2015 to 2017 and 61% in 2018).

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. Almost 8 in 10 SMEs in Q4 2018 met the definition of a Future happy non-seeker (78%) and they remained the largest group:

Future finance plans

All SMEs – over time By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Plan to apply/renew	11%	10%	12%	12%	14%	9%	9%	11%	10%
Future would-be seekers – with identified need	1%	1%	1%	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	13%	10%	9%	8%	9%	13%	11%	11%	11%
Future happy non-seekers	75%	80%	79%	79%	76%	76%	79%	77%	78%

Q99/104 (230/239) All SMEs

Amongst SMEs with employees in Q4 2018, 14% had plans to apply/renew while 10% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 76%.

A third of Future happy non-seekers were using external finance (33% in 2018) and this has changed little over time (31% in 2016 and 33% in 2017).

On an annual basis, future demand for finance has declined somewhat since 2012 (14% to 10% for 2018). More markedly, the proportion of Future would-be seekers halved in that time, and so the proportion of Future happy non-seekers has increased:

Future finance plans

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	18,002
Plan to apply/renew	14%	14%	13%	13%	12%	12%	10%
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 14% in 2018.
- Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 10%).
- This left the Future happy non-seekers of finance as an increasingly large group (60% to 76%).

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 (19% in Q4 2018) and fewer Future happy non-seekers (60% – although they remained the largest single group):

Future finance plans

SMEs excluding PNB

– over time

By date of interview

	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2016	2017	2017	2017	2017	2018	2018	2018	2018
Unweighted base:	3017	3011	3038	2890	3001	2735	2868	2848	2843
Plan to apply/renew	19%	19%	21%	23%	26%	18%	18%	22%	19%
Future would-be seekers – with identified need	1%	1%	2%	2%	2%	3%	2%	2%	1%
Future would-be seekers – no immediate identified need	22%	18%	16%	15%	17%	26%	22%	21%	20%
Future happy non-seekers	58%	62%	61%	59%	55%	53%	58%	55%	60%

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

Looking over the longer term, once the PNBs were excluded:

- The proportion planning to apply increased slightly between 2012 and 2015 (21% to 25%) but then declined again to 19% for 2018.
- The proportion of Future would-be seekers declined from 35% in 2012 to 19% in 2017 but was 24% for 2018.
- The largest group remained the Future happy non-seekers of finance (57% in 2018).

Future finance plans							
Over time – all SMEs excluding PNBs							
	2012	2013	2014	2015	2016	2017	2018
<i>Unweighted base:</i>	15,312	14,578	13,613	13,011	11,634	11,940	11,294
Plan to apply/renew	21%	23%	24%	25%	23%	22%	19%
Future would-be seekers	35%	30%	28%	21%	23%	19%	24%
Future happy non-seekers	44%	47%	49%	54%	54%	59%	57%

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

FUTURE WOULD-BE SEEKERS

The Future would-be seekers are a group of interest as they represent a measure of future ‘unmet’ demand. The table below looks at this group over recent quarters. The proportion of FWBS was 13% for 2018 as a whole, up from 10% in 2017, due to more of the smallest SMEs meeting the definition:

Future would-be seekers

Over time – row percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2016	2017	2017	2017	2017	2018	2018	2018	2018
All SMEs	14%	10%	10%	9%	10%	15%	12%	12%	12%
0 employee	14%	11%	10%	9%	11%	16%	13%	12%	12%
1-9 employees	13%	10%	10%	9%	9%	12%	10%	11%	11%
10-49 employees	9%	6%	6%	6%	6%	8%	7%	7%	9%
50-249 employees	12%	10%	4%	5%	3%	6%	3%	8%	6%
Minimal external risk rating	9%	6%	11%	5%	3%	7%	6%	11%	9%
Low external risk rating	7%	8%	7%	6%	8%	15%	8%	7%	7%
Average external risk rating	14%	11%	9%	9%	10%	14%	13%	11%	13%
Worse than average external risk rating	17%	10%	11%	9%	12%	16%	15%	13%	12%
Agriculture	10%	7%	13%	10%	10%	9%	9%	10%	11%
Manufacturing	10%	12%	5%	8%	9%	10%	15%	18%	12%
Construction	11%	10%	9%	10%	10%	16%	11%	11%	13%
Wholesale/Retail	11%	9%	14%	9%	8%	13%	11%	13%	14%
Hotels & Restaurants	13%	15%	7%	7%	10%	13%	17%	13%	15%
Transport	16%	12%	10%	10%	13%	14%	14%	15%	17%
Property/Business Services	17%	9%	10%	8%	10%	17%	11%	11%	9%
Health	11%	8%	7%	6%	11%	18%	8%	8%	7%
Other Community	15%	12%	10%	11%	13%	14%	18%	10%	10%
All SMEs excluding PNBs	19%	19%	18%	18%	19%	29%	24%	23%	21%

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 Q4 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)			
All Future would-be seekers Q4 18	Total	0-9 emps	10-249 emps
Unweighted base:	425	250	175
Reluctant to borrow now (any)	69%	68%	80%
-Prefer not to borrow in economic climate	62%	62%	64%
-Predicted performance of business	8%	8%	16%
Issues with <u>principle</u> of borrowing	7%	7%	3%
-Not lose control of business	3%	3%	2%
-Can raise personal funds if needed	3%	3%	1%
-Prefer other forms of finance	2%	2%	*
-Go to family and friends	1%	1%	1%
Issues with <u>process</u> of borrowing	11%	11%	9%
-Would be too much hassle	7%	7%	6%
-Thought would be too expensive	5%	5%	1%
-Bank would want too much security	1%	1%	3%
-Too many terms and conditions	2%	2%	3%
-Did not want to go through process	1%	1%	-
-Forms too hard to understand	*	*	-
Discouraged (any)	9%	9%	10%
-Direct (Put off by bank)	*	*	1%
-Indirect (Think I would be turned down)	8%	8%	10%

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 68%, remained the main reason for not applying for external finance in Q4 2018. The proportion citing it as their main reason has varied over time (from 39% to 68%), but in the latter half of 2018 it was mentioned more than has been seen in other recent quarters. Mentions of discouragement have also varied over recent quarters (8-28%) and in Q4 2018 were at the lower end of the range seen:

Main reason for not applying

Future would-be seekers – over

time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	16	17	17	17	17	18	18	18	18
Unweighted base:	524	419	335	318	344	445	406	424	425
Reluctant to borrow now (any)	58%	63%	39%	44%	53%	41%	55%	66%	68%
-Prefer not to borrow in economic climate	23%	41%	25%	33%	31%	32%	52%	60%	61%
-Predicted performance of business	35%	22%	13%	11%	21%	9%	3%	6%	8%
Issues with <u>principle</u> of borrowing	6%	2%	2%	5%	2%	2%	1%	2%	5%
Issues with <u>process</u> of borrowing	13%	11%	19%	13%	11%	38%	16%	13%	9%
Discouraged (any)	16%	16%	25%	18%	28%	12%	22%	8%	8%
-Direct (Put off by bank)	2%	*	2%	*	2%	*	2%	*	*
-Indirect (Think I would be turned down)	14%	16%	23%	18%	26%	12%	20%	8%	8%

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 showed a steady decline in the proportion mentioning a reluctance to borrow now between 2013 (64%) and 2017 (50%), but there were more mentions again in 2018 (57%). It remained the most mentioned reason, with fewer mentions of discouragement:

Main reason for not applying						
Future would-be seekers – over time	2013	2014	2015	2016	2017	2018
<i>Unweighted base:</i>	3241	2765	1939	1967	1416	1700
Reluctant to borrow now (any)	64%	59%	55%	57%	50%	57%
Discouraged (any)	14%	13%	14%	15%	22%	13%
Issues with <u>process</u> of borrowing	12%	15%	18%	16%	14%	20%
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%	3%	3%

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 options available.

Further analysis of the main reasons given by Future would-be seekers, including by size and risk rating, is based on the latest quarter (Q4 2018).

A 'reluctance to borrow now', especially in the current economic climate, was the top reason, given by two thirds of these SMEs (68%) and by both larger and smaller FWBS. Fewer than 1 in 10 mentioned discouragement (8%, almost all of it indirect):

Main reason for not applying

Future would-be seekers by size Q4 18	Total	0-9 emps	10-249 emps
Unweighted base:	425	250	175
Reluctant to borrow now (any)	68%	68%	80%
-Prefer not to borrow in economic climate	61%	61%	64%
-Predicted performance of business	8%	7%	16%
Issues with <u>principle</u> of borrowing	5%	5%	2%
Issues with <u>process</u> of borrowing	9%	9%	7%
Discouraged (any)	8%	8%	9%
-Direct (Put off by bank)	*	*	-
-Indirect (Think I would be turned down)	8%	8%	9%

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

Amongst Future would-be seekers with employees, 69% mentioned a reluctance to borrow now compared to 8% mentioning discouragement and 14% the process of borrowing.

The table below shows the main reasons given for not applying in Q4 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 the process of borrowing (11%) while those with a minimal or low rating were more likely to mention discouragement (15%):

Main reason for not applying

Future would-be seekers by risk rating Q4 18	Total	Min/Low	Avg/ Worse Avg
Unweighted base:	425	172	203
Reluctant to borrow now (any)	68%	77%	65%
-Prefer not to borrow in economic climate	61%	68%	57%
-Predicted performance of business	8%	9%	8%
Issues with <u>principle</u> of borrowing	5%	1%	5%
Issues with <u>process</u> of borrowing	9%	6%	11%
Discouraged (any)	8%	15%	7%
-Direct (Put off by bank)	*	-	-
-Indirect (Think I would be turned down)	8%	15%	7%

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

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.

The sample size of those with an identified need for finance is limited, but some analysis on an annual basis is possible:

- Amongst those with no immediate need for finance, a reluctance to borrow was the main reason for not applying for finance, mentioned slightly more in 2018 than in 2017 (58% v 52%).
- The small group with a need for finance identified gave more of a range of reasons, with a reluctance to borrow now being mentioned alongside issues with the process of borrowing in 2018.

Main reason for not applying	2017 – immediate need	2018 – immediate need	2017 – no immediate need	2018 – no immediate need
Future would-be seekers – over time				
<i>Unweighted base:</i>	99	125	1317	1575
Reluctant to borrow now (any)	26%	39%	52%	58%
Discouraged (any)	35%	21%	21%	12%
Issues with <u>process</u> of borrowing	24%	35%	13%	19%
Issues with <u>principle</u> of borrowing	10%	1%	2%	3%

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 Q4 2018.

8% 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. The table 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), 14% were reluctant to borrow now, mostly due to the current economic climate:

Reasons for not applying	Main reason	All SMEs	All SMEs excl. PNB
Q4 18 – Future would-be seekers			
Unweighted base:	425	4502	2843
Reluctant to borrow now (any)	68%	8%	14%
-Prefer not to borrow in economic climate	61%	7%	13%
-Predicted performance of business	8%	1%	1%
Issues with <u>principle</u> of borrowing	5%	*	1%
Issues with <u>process</u> of borrowing	9%	1%	2%
Discouraged (any)	8%	1%	2%
-Direct (Put off by bank)	*	*	*
-Indirect (Think I would be turned down)	8%	1%	2%

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

HOW HAVE INTERNATIONAL SMES RESPONDED TO CURRENT CONDITIONS?

When these interviews were conducted, the terms under which the UK will leave the EU were still uncertain. 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 referendum vote.

This section summarises how international SMEs have felt from 2015 onwards, 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 2018:

- 5% of SMEs exported but did not import (increasing by size from 4% to 7%)
- 5% of SMEs imported but did not export (increasing by size from 5% to 9%)
- 5% of SMEs both imported and exported (increasing by size of SME from 4% to 14%).

Key results for Q4 2018 are shown below:

Future outlook summary table

Q4 18– all SMEs row percentages	All SMEs	Export	Import	Both
Unweighted base:	4500	183	349	404
Plan to grow	50%	63%	69%	57%
Economic climate 8-10 barrier	22%	27%	24%	25%
Political uncertainty 8-10 barrier	24%	33%	29%	37%
Sterling 8-10 barrier	15%	17%	19%	29%
Plan to apply for finance	10%	17%	21%	18%
Future would-be seeker of finance	12%	5%	11%	12%

Compared to SMEs overall, international SMEs of any kind were more likely to be planning to grow and to have an appetite for finance but also to see barriers to the business. Those who import and export were more concerned about political uncertainty (37%) and changes to the value of sterling (29%).

The table below shows how these views have changed over recent quarters. With relatively limited base sizes there is some natural volatility quarter to quarter with those who only export being more likely to plan to apply for finance, but also more concerned about the economic climate and political uncertainty in Q4 2018 than earlier in the year.

Future outlook summary table	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Over time – all SMEs	16	17	17	17	17	18	18	18	18
Plan to grow									
• All SMEs	47%	43%	45%	45%	46%	47%	48%	48%	50%
• Export only	40%	52%	65%	65%	51%	52%	62%	50%	63%
• Import only	70%	65%	61%	58%	66%	63%	58%	66%	69%
• Import and export	75%	67%	69%	67%	66%	67%	62%	74%	57%
Plan to apply for finance									
• All SMEs	11%	10%	12%	12%	14%	9%	9%	11%	10%
• Export only	16%	10%	21%	8%	13%	4%	10%	8%	17%
• Import only	17%	13%	12%	23%	18%	14%	11%	22%	21%
• Import and export	18%	18%	18%	10%	29%	10%	21%	18%	18%
Economic climate 8-10									
• All SMEs	13%	11%	13%	16%	14%	16%	15%	17%	22%
• Export only	27%	14%	22%	22%	24%	21%	15%	19%	27%
• Import only	24%	10%	19%	30%	22%	24%	26%	26%	24%
• Import and export	35%	18%	19%	19%	29%	15%	22%	25%	25%
Political uncertainty 8-10									
• All SMEs	12%	14%	13%	14%	15%	16%	15%	19%	24%
• Export only	15%	25%	19%	26%	20%	30%	16%	24%	33%
• Import only	26%	19%	20%	22%	15%	20%	22%	27%	29%
• Import and export	32%	21%	29%	22%	34%	18%	28%	33%	37%
Changes in sterling 8-10									
• All SMEs	-	11%	10%	15%	10%	11%	11%	11%	15%
• Export only	-	16%	17%	12%	13%	12%	15%	14%	17%
• Import only	-	25%	20%	29%	25%	29%	24%	17%	19%
• Import and export	-	27%	26%	32%	31%	25%	32%	25%	29%

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 2018 (56%). Their future appetite for finance peaked at 22% in 2015 and is currently 10%, albeit this is in line with the market. They became more worried about political uncertainty in 2017 and maintained this concern in 2018 (25%), 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 but at 17% in 2018 is ahead of SMEs overall. Levels of concern about both the economic climate and political uncertainty have increased somewhat since 2015 with a quarter concerned about each barrier and also 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, peaking at 72% in 2015 and declining somewhat since (to 64% in 2018). They have more of an appetite for finance than SMEs generally, but it has varied over time and was somewhat lower in 2017 and 2018 than in 2016. Levels of concern about the economic climate and changes in the value of sterling are stable but higher than for SMEs overall, with a slight increase seen in levels of concern about political uncertainty in 2018.

Future outlook summary table

Over time – all SMEs	2013	2014	2015	2016	2017	2018
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Plan to grow

• All SMEs	49%	47%	45%	43%	45%	49%
• Export only	54%	56%	59%	49%	58%	56%
• Import only	63%	65%	62%	63%	63%	64%
• Import and export	66%	69%	72%	70%	67%	64%

Plan to apply for finance

• All SMEs	14%	13%	13%	12%	12%	10%
• Export only	19%	20%	22%	19%	13%	10%
• Import only	19%	24%	19%	19%	17%	17%
• Import and export	21%	24%	19%	25%	18%	17%

Economic climate 8-10 barrier

• All SMEs	27%	17%	13%	12%	14%	17%
• Export only	29%	14%	19%	17%	20%	20%
• Import only	26%	20%	12%	16%	21%	25%
• Import and export	24%	15%	17%	21%	21%	22%

Political uncertainty 8-10 barrier

• All SMEs	-	-	9%	10%	14%	19%
• Export only	-	-	9%	10%	23%	25%
• Import only	-	-	11%	16%	19%	25%
• Import and export	-	-	8%	20%	26%	29%

Change in value of sterling 8-10 barrier

• All SMEs	-	-	-	-	11%	12%
• Export only	-	-	-	-	14%	15%
• Import only	-	-	-	-	25%	22%
• 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 were somewhat less ambitious in H2 2018 with increased concern about political uncertainty and the economic climate. The growth prospects of those who do not sell to the EU were more stable and their appetite for finance increased after a dip in H1 2018. They had also become more concerned about political uncertainty and the economic climate, but somewhat less concerned about changes in sterling:

Future outlook summary table

Over time – Exporters row percentages	H2 16	H1 17	H2 17	H1 18	H2 18
Plan to grow					
• All/most sales to EU	54%	57%	60%	65%	51%
• Some sales to EU	64%	68%	66%	61%	65%
• No sales to EU	54%	57%	56%	54%	56%
Plan to apply for finance					
• All/most sales to EU	20%	12%	14%	10%	11%
• Some sales to EU	19%	17%	14%	13%	15%
• No sales to EU	20%	21%	16%	8%	20%
Economic climate 8-10 barrier					
• All/most sales to EU	26%	29%	25%	23%	29%
• Some sales to EU	21%	14%	20%	13%	20%
• No sales to EU	29%	14%	30%	23%	31%
Political uncertainty 8-10 barrier					
• All/most sales to EU	31%	37%	33%	31%	43%
• Some sales to EU	17%	18%	21%	21%	28%
• No sales to EU	14%	19%	30%	15%	26%
Changes in sterling 8-10 barrier					
• All/most sales to EU	-	35%	27%	29%	24%
• Some sales to EU	-	18%	21%	16%	22%
• No sales to EU	-	9%	21%	24%	14%

Q86 All exporters