

# 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

**Barriers to running the business:** In Q2 2019, the three key future barriers for SMEs remained political uncertainty (25%), the current economic climate (22%) and legislation/red tape (20%):

- Political uncertainty has increased as a barrier over the time it has been included, from 10% in both 2015 and 2016 to 23% in H1 2019. This increase was seen across all size bands, with larger SMEs currently somewhat more likely to see it as a barrier
- In 2012, 34% of SMEs rated the current economic climate as a major barrier. This proportion then declined to 12% in 2016 but has since increased again, to 20% in H1 2019. Again, this increase was seen across all size bands but notably the largest SMEs in H1 2019
- The proportion seeing legislation and red tape as a barrier declined somewhat 2012 to 2016 (13% to 10%) but has since increased again to 19% for both 2018 and H1 2019
- In Q2 2019, 41% of all SMEs gave one or more of these three potential barriers a score of 8-10 as a major barrier, with relatively little variation by size (38-44%). This proportion has increased over time from 24% of SMEs in 2015 to 38% in H1 2019
- Other factors were less likely to be rated as a major barrier, but there has been an increase in the proportion seeing cash flow/late payment as a barrier (from 7% in 2016 to 13% in both 2018 and H1 2019) back to levels seen in 2012
- Half of all SMEs (52%) said that none of the factors tested presented a major barrier, with little variation by size. Those planning to grow were more likely to see barriers (47% didn't see any) as were those who were not PNBs (46%). Over time the proportion of SMEs seeing no barriers has declined from around 7 in 10 to 5 in 10

**Growth related activities:** In Q2 2019, 38% of SMEs were planning one or more of a series of activities that might be associated with business growth, such as taking on staff or developing a new product or service. Over time, the proportion planning such activities has fallen slightly, from 42% in H2 2017 to 37% in H1 2019

- In Q2 2019, the most common growth related activities planned were taking on staff (17%) or investing in new plant/machinery/premises or developing a new product or service (both 15%)
- Larger SMEs were more likely to be planning any such activity (35% of 0 employee SMEs were planning activity compared to 59% of those with 50-249 employees), due to being more likely in particular to be planning to take on staff (37%) and/or invest in new plant/machinery/premises (26%). Also more likely to be planning activities were those with plans to grow (52%) and those with plans to apply for finance (66%)
- Over time the proportion planning any activity has fallen from 42% in H2 2017 to 37% in H1 2019, with no significant decline in any single activity. This decline was seen across all but the largest SMEs, and was highest for those with 10-49 employees (from 63% to 55%)

**Planned growth:** 54% of all SMEs were planning to grow in the 12 months after Q2 2019 (18% by 20% or more). The proportion planning to grow increased by size of SME and was higher for Starts, those who were not PNBs and those with a worse than average risk rating

- Growth plans in Q2 2019 increased by size of SME from 54% of those with 0 employees to 77% of those with 50-249 employees. Excluding the PNBs resulted in 64% of remaining SMEs planning to grow, and the same level of growth was seen amongst those with a worse than average risk rating. Starts were the most likely to be planning to grow (81%), declining by age of business to 40% of those trading for more than 15 years
- Amongst those planning to grow, most expected to sell more in the UK (97%) with 92% expecting to sell into existing markets and 17% into new UK markets. 11% thought they would sell more overseas, 6% into new markets

- Between 2013 and 2016 there was something of a decline in the proportion of SMEs planning to grow (49% to 43%), due to fewer of the smallest and largest SMEs planning to grow. Since then the proportion planning to grow has increased steadily and was 50% for H1 2019. This is somewhat in contrast to reported growth for the past 12 months, which was 36% for H1 2019, down slightly from 39% in 2018

**Future appetite for finance:** 13% of SMEs in Q2 2019 expected to be applying for finance in the following months, increasing by size of SME. Two thirds were planning to apply for business development purposes and just under half were confident of success. 16% of SMEs expected to reduce the amount of finance they used and this proportion has increased steadily over recent quarters, from 7% in Q2 2017

- Future appetite for finance increased by size of SME, from 12% of those with 0 employees planning to apply for finance to 19% of those with 50-249 employees. Excluding the PNBs increased the proportion planning to apply to 21% and those planning to grow were also slightly more likely to be planning to apply (16%)
- Future appetite for finance declined somewhat between 2012 (14%) and 2018 (10%) but was slightly higher in H1 2019 (12%) and across all size bands
- Although using finance is a good predictor of applying for more, the increase in use of finance in H1 2019 did not have a dramatic impact on the proportion planning to apply. The biggest change was in the group ‘using finance but not planning to apply’ which increased from 29% in 2018 to 37% in H1 2019, with no change in the size of the group that were ‘using finance and planning to apply’ (9% in H1 2019)
- In Q2 2019, 64% of those planning to apply said that they wanted the finance for business development purposes, such as UK expansion or plant and machinery, while 42% said that it was cash flow related

- 45% of those planning to apply for a typical bank product were confident the bank would say yes. Larger SMEs with 10-249 employees were more confident (70%) than those with 0-9 employees (43%)
- Confidence the bank would agree to a facility increased between 2012 (42%) and 2016 (55%), but has been more variable since (50% in H1 2019) due to lower levels of confidence amongst smaller applicants and those with a minimal or low external risk rating

**Future would-be seekers of finance:** 11% of SMEs in Q2 2019 met the definition of a Future would-be seeker of finance, although most of them (10% of all SMEs) did not have a specific need for finance identified. Two thirds were put off applying by the current economic climate

- There was no clear pattern by size of SME, varying between 7% of those with 1-9 employees and 12% of those with 0 employees
- In 2012, 23% of SMEs met the definition of a FWBS. Over time, this declined to 11% of SMEs in 2015 and has been broadly stable since (11% in H1 2019)
- 63% of FWBS in Q2 2019 said that they were put off applying by the current economic climate – either the climate generally (53%) or, less often, their performance in the current climate (10%). This has been mentioned more over recent quarters (57% in 2018 to 66% in H1 2019)
- When SMEs considered why they had not borrowed in the past, the ‘process’ of borrowing was mentioned by almost half of WBS (47% in H1 2019). By contrast this was mentioned by 13% of Future WBS in H1 2019
- Future WBS were the least confident that a bank would agree if they were to apply for finance (34%, compared to 45% planning to apply to a bank and 63% of Future happy non-seekers)

**Future happy non-seekers:** The largest group of SMEs (77% in Q2 2019) expected to be Future happy non-seekers of finance, but the majority were confident that if they were to apply for finance they would be successful (63%)

- The proportion of FHNS increased from 63% in 2012 to 78% in 2017 and has been stable since (77% in H1 2019)

**International SMEs:** In Q2 2019, SMEs that imported (either solely or alongside exporting) were more likely to be planning to grow and planning to apply for finance, but also more likely to see the economic climate and political uncertainty as barriers to the business

- International SMEs have typically been more likely to be planning to grow than SMEs overall and this continued to be the case in H1 2019 (56- 62% compared to 50% of SMEs overall)
- They also continued to be more likely to be planning to apply (16-21% compared to 12% of SMEs overall)

However they were also more likely to see barriers to running the business, especially if they both imported and exported: 22-26% saw the economic climate as a barrier (v 20% overall), 27-41% saw political uncertainty as a barrier (v 23% overall) and 16-30% saw changes in the value of sterling as a barrier (v 13% overall)

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

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

Most of this chapter therefore is based on Q2 2019 data gathered between April and June 2019, immediately after the initial March 31<sup>st</sup> deadline for the UK to leave the EU and 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 RELATED ACTIVITIES PLANNED FOR NEXT 12 MONTHS

A number of activities, listed below, are associated with growing a business. In Q2 2019, almost 4 in 10 of all SMEs (not just those planning to grow) planned to undertake at least one of these activities in the following year, increasing by size of SME:

Planned activities in next 12 mths		0	1-9	10-49	50-249
Q2 19 All SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Take on more staff	17%	14%	25%	37%	37%
Invest in new plant, machinery, premises	15%	13%	19%	24%	26%
Develop a new product or service	15%	15%	17%	19%	20%
Start to sell, or sell more, overseas	7%	6%	8%	10%	11%
Some other major expenditure	6%	6%	9%	11%	9%
<b>Any of these</b>	<b>38%</b>	<b>35%</b>	<b>45%</b>	<b>57%</b>	<b>59%</b>
None of these	62%	65%	55%	43%	41%

Q90 (240w) All SMEs

Those trading for 2-5 years were the most likely to be planning any activity (54%), with little difference otherwise by age of business:

Planned activities in next 12 mths		2-5	6-9	10-15	15
Q2 19 All SMEs	Starts	yrs	yrs	yrs	yrs+
<b>Unweighted base:</b>	<b>455</b>	<b>425</b>	<b>484</b>	<b>706</b>	<b>2430</b>
Take on more staff	20%	23%	15%	16%	14%
Invest in new plant, machinery, premises	13%	20%	14%	17%	13%
Develop a new product or service	12%	23%	17%	15%	13%
Start to sell, or sell more, overseas	4%	12%	4%	7%	6%
Some other major expenditure	3%	11%	6%	7%	6%
<b>Any of these</b>	<b>35%</b>	<b>54%</b>	<b>36%</b>	<b>39%</b>	<b>34%</b>
None of these	65%	46%	64%	61%	66%

Q90 (240w) All SMEs



Those in Wholesale/Retail were the most likely to be planning any activity (48%) together with those in the Other Community sector (47%), compared to 27% in Construction. Permanent non-borrowers were somewhat less likely to be planning such activities (32%) and excluding them increased the proportion planning to take any action slightly to 42% of remaining SMEs.

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

<b>Planned activities in next 12 mths</b>	<b>Plan to grow</b>	<b>No plans to grow</b>	<b>Plan to apply</b>	<b>FWBS</b>	<b>FHNS</b>
<b>Q2 19 All SMEs</b>					
<b>Unweighted base:</b>	<b>2679</b>	<b>1821</b>	<b>718</b>	<b>440</b>	<b>3342</b>
Take on more staff	25%	7%	35%	13%	14%
Invest in new plant, machinery , premises	21%	8%	26%	18%	13%
Develop a new product or service	21%	8%	25%	20%	13%
Start to sell, or sell more, overseas	10%	3%	16%	6%	5%
Some other major expenditure	8%	4%	13%	5%	6%
<b>Any of these</b>	<b>52%</b>	<b>28%</b>	<b>66%</b>	<b>39%</b>	<b>34%</b>
None of these	48%	78%	34%	61%	66%

#### Q90 (240w) All SMEs

Analysed as a group for YEQ2 2019, the 37% of SMEs that were planning to take any of these actions in the next 12 months were:

- More likely to have grown (50% v 29% of those not planning any activities) and to be planning to grow (71% v 37%).
- More likely to have employees (32% v 21%), to be prepared to take risks to grow (57% v 34%), to want to be a significantly bigger business (58% v 27%) and to be happy to use finance to grow (45% v 22%).
- More likely to be using finance (48% v 39%) and to plan to apply in future (20% v 7%) and less likely to be a PNB (36% v 49%).
- More likely to be international (26% v 10%) and innovative (52% v 25%) but more worried about possible barriers (55% nominated any v 42%) notably political uncertainty (26% v 20%), the current economic climate (23% v 18%) and recruitment of staff (13% v 5%).

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 in Q4 2018 (34%) was somewhat lower than other quarters where around 4 in 10 were planning any activity:

<b>Planned activities</b>								
By date of interview	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
All SMEs – over time	2017	2017	2018	2018	2018	2018	2019	2019
<b>Unweighted base:</b>	<b>4505</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Take on more staff	18%	19%	19%	18%	19%	17%	18%	17%
Invest in new plant, machinery etc	16%	18%	18%	15%	17%	13%	14%	15%
Develop a new product or service	17%	16%	17%	14%	18%	15%	14%	15%
Start to sell, or sell more, overseas	11%	7%	7%	6%	6%	7%	4%	7%
Some other major expenditure	7%	6%	6%	5%	5%	4%	6%	6%
<b>Any of these</b>	<b>42%</b>	<b>42%</b>	<b>41%</b>	<b>37%</b>	<b>40%</b>	<b>34%</b>	<b>36%</b>	<b>38%</b>
None of these	58%	58%	59%	63%	60%	66%	64%	62%

Q90 (240w) All SMEs

The table overleaf provides summary analysis over time:

- In H2 2017, when this question was first asked, 42% of SMEs reported one or more activities, dropping slightly to 38% in 2018 and then 37% for H1 2019.
- These lower levels of activity were seen across all but the largest SMEs, and notably amongst Starts and those in Manufacturing and Transport as well as those planning to grow.

<b>Plan any activity</b>	H2		H1
Over time by date of interview – row percentages	2017	2018	2019
All SMEs	42%	38%	37%
0 emp	38%	34%	34%
1-9 emps	50%	46%	44%
10-49 emps	63%	58%	55%
50-249 emps	60%	58%	62%
Minimal external risk rating	42%	40%	41%
Low	44%	39%	39%
Average	35%	34%	31%
Worse than average	45%	40%	41%
Agriculture	38%	37%	33%
Manufacturing	54%	46%	42%
Construction	36%	30%	29%
Wholesale/Retail	48%	44%	46%
Hotels & Restaurants	42%	38%	34%
Transport	40%	33%	29%
Property/ Business Services	41%	40%	41%
Health	44%	36%	36%
Other	43%	41%	40%
PNBs	36%	32%	30%
All excl PNBs	47%	43%	42%
Plan to grow	61%	55%	52%
Plan to apply for finance	62%	62%	64%
Starts	56%	42%	39%
2-5 years	48%	49%	51%
6-9 years	37%	41%	38%
10-15 years	38%	36%	40%
15 years+	34%	30%	30%

Q90 (240w) All SMEs

## GROWTH PLANS FOR NEXT 12 MONTHS

All 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 analysis 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 (4% of SMEs in Q2 2019).

In Q2 2019, the largest SMEs remained more likely to be planning to grow at all (77% v 54% of those with 0 employees), but smaller SMEs were more likely to have grown by 20% or more:

<b>Plans to grow in next 12 mths</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Q2 19 only</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Grow by more than 40%	4%	4%	5%	2%	1%
Grow by 20-40%	14%	14%	15%	12%	8%
Grow by less than 20%	36%	36%	36%	46%	68%
<b>All with objective to grow</b>	<b>54%</b>	<b>54%</b>	<b>56%</b>	<b>60%</b>	<b>77%</b>
Stay the same size	37%	37%	37%	37%	22%
Become smaller	4%	4%	3%	1%	1%
Plan to sell/pass on/close	4%	4%	4%	2%	*

Q91 (225) All SMEs

Amongst those who in Q2 2019 said that their business had ‘developed significantly’ in the last 3 years, many expected to grow again in the next year (69%), compared to 40% of those who said the business was ‘recognisably the same’ and 42% who said the business had ‘retrenched’.

## PLANNED GROWTH OVER TIME

In Q2 2019, 55% of SMEs planned to grow, the highest proportion seen over recent quarters:

### Growth in next 12 mths

All SMEs– over time By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Unweighted base:</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Grow by 20% or more*	17%	18%	19%	17%	17%	16%	15%	13%	18%
- Grow by 40% +	-	-	-	4%	3%	3%	3%	2%	4%
- Grow by 20-40%	-	-	-	13%	14%	13%	12%	10%	14%
Grow by less than 20%*	28%	27%	27%	30%	31%	33%	35%	33%	36%
<b>All with objective to grow</b>	<b>45%</b>	<b>45%</b>	<b>46%</b>	<b>47%</b>	<b>48%</b>	<b>49%</b>	<b>50%</b>	<b>46%</b>	<b>54%</b>
Stay the same size	45%	45%	44%	43%	41%	41%	40%	44%	37%
Become smaller	5%	5%	6%	4%	5%	4%	4%	6%	4%
Plan to sell/pass on/close	5%	5%	5%	6%	6%	6%	5%	4%	4%

Q91 (225) All SMEs

The table on the next page summarises these 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 over half planned to grow (54% in Q2 2019) somewhat higher than the more usual 4 in 10 seen in most recent quarters.
- Amongst SMEs with 1-9 employees the proportion planning to grow has been more variable, but typically half have planned to grow (56% in Q2 2019).
- Over time a fairly consistent 6 in 10 or more of SMEs with 10-49 employees have planned to grow, and this was also the case in Q2 2019 (60%).
- Amongst SMEs with 50-249 employees, 7 in 10 or more have typically been planning to grow in recent quarters, with the Q2 2019 figure at the upper end of the range seen (77%).

**Objective to grow (any) in next 12 months**

Over time – row percentages By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
All SMEs	45%	45%	46%	47%	48%	49%	50%	46%	54%
0 employee	41%	43%	43%	45%	43%	47%	48%	43%	54%
1-9 employees	54%	49%	52%	51%	59%	56%	54%	53%	56%
10-49 employees	65%	61%	68%	62%	67%	62%	66%	64%	60%
50-249 employees	72%	70%	67%	71%	90%	77%	76%	72%	77%
Minimal external risk rating	47%	37%	45%	44%	46%	44%	51%	53%	53%
Low external risk rating	44%	43%	47%	42%	40%	41%	47%	47%	50%
Average external risk rating	42%	38%	42%	41%	45%	40%	45%	38%	46%
Worse than average external risk rating	48%	53%	47%	52%	53%	57%	55%	52%	64%
Agriculture	38%	35%	39%	33%	42%	43%	41%	41%	39%
Manufacturing	46%	42%	49%	49%	57%	57%	58%	52%	56%
Construction	33%	37%	39%	39%	40%	39%	37%	41%	48%
Wholesale/Retail	51%	48%	54%	52%	54%	59%	54%	56%	58%
Hotels & Restaurants	47%	44%	45%	46%	49%	52%	45%	52%	44%
Transport	42%	42%	45%	46%	33%	53%	48%	42%	61%
Property/Business Services etc.	50%	52%	46%	50%	54%	52%	56%	46%	54%
Health	43%	56%	47%	48%	64%	48%	53%	52%	66%
Other Community	52%	40%	49%	53%	45%	44%	55%	40%	60%
All Permanent non-borrowers	38%	36%	38%	42%	40%	41%	41%	36%	39%
All excluding PNBs	51%	53%	52%	52%	56%	57%	58%	54%	64%
Starts	58%	67%	68%	70%	68%	70%	77%	75%	81%
2-5 years	58%	54%	50%	59%	62%	68%	64%	59%	66%
6-9 years	46%	45%	41%	47%	50%	44%	51%	50%	48%
10-15 years	39%	38%	45%	40%	41%	50%	40%	44%	48%
More than 15 years	33%	33%	33%	31%	33%	31%	35%	28%	40%

Q91 (225) All SMEs base size varies by category

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The variability in predicted growth quarter on quarter can make 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 has increased again since (50% for H1 2019).

The increase since 2016 was seen amongst the smallest and largest SMEs, and across all other demographics except those with an average risk rating, those in Hotels & Restaurants, the Other Community sector and PNBs.

Age of business has now been added to these tables. This shows that younger SMEs have typically been more ambitious than older ones. Planned growth amongst those trading for more than 15 years has not changed over time but since 2016, younger SMEs have become more ambitious, notably Starts (61% to 78%) and those trading for 2-5 years (51% to 63%).

<b>Objective to grow (any) in next 12 months</b>							
Over time							H1
By date of interview – row percentages	2013	2014	2015	2016	2017	2018	2019
All SMEs	49%	47%	45%	43%	45%	49%	50%
0 emp	46%	43%	42%	40%	41%	46%	48%
1-9 emps	54%	56%	54%	52%	53%	55%	54%
10-49 emps	59%	67%	63%	59%	64%	64%	62%
50-249 emps	67%	71%	66%	58%	69%	79%	74%
Minimal external risk rating	45%	45%	40%	39%	42%	47%	53%
Low	45%	45%	44%	42%	43%	43%	49%
Average	41%	42%	39%	39%	41%	43%	42%
Worse than average	54%	52%	51%	49%	49%	54%	58%
Agriculture	43%	37%	34%	34%	35%	40%	40%
Manufacturing	51%	55%	49%	43%	44%	56%	54%
Construction	41%	37%	35%	35%	35%	39%	45%
Wholesale/Retail	51%	54%	53%	51%	51%	55%	57%
Hotels & Restaurants	46%	45%	46%	48%	47%	48%	48%
Transport	48%	37%	44%	43%	44%	45%	51%
Property/ Business Services	53%	49%	48%	46%	48%	53%	50%
Health	49%	49%	48%	41%	46%	53%	59%
Other	52%	57%	50%	47%	48%	49%	50%
PNBs	43%	40%	38%	36%	37%	41%	37%
All excl PNBs	52%	52%	51%	50%	52%	56%	59%
Starts	69%	61%	62%	61%	63%	71%	78%
2-5 years	57%	59%	58%	51%	56%	63%	63%
6-9 years	45%	46%	44%	41%	43%	48%	49%
10-15 years	38%	41%	40%	41%	41%	43%	46%
More than 15 years	31%	33%	33%	31%	33%	33%	33%

Q91 (225) All SMEs



## HOW PREDICTED GROWTH WILL BE ACHIEVED

92% of those planning to grow said this would involve selling more to existing markets in the UK (the equivalent of 49% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (9% of all SMEs) than overseas (3%):

How plan to grow Q2 19	All planning to grow	All SMEs
<b>Unweighted base:</b>	<b>2625</b>	<b>4500</b>
Sell in the UK	97%	52%
<i>Increase sales in existing markets in UK</i>	92%	49%
<i>Sell in new markets in UK</i>	17%	9%
Sell overseas	11%	6%
<i>Increase sales in existing markets overseas</i>	7%	4%
<i>Sell in new markets overseas</i>	6%	3%

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

Exporters have typically been more likely to be predicting growth than their domestic peers (in Q4 2018, 59% reported that they planned to grow compared to 49% of non-exporters). However this was not the case in Q2 2019 when 56% of exporters and 55% of non-exporters planned to grow. Exporters did though remain more likely to be planning to grow by 20% or more (28% v 18%).

This was due to the growth ambitions of smaller SMEs with 0-9 employees, with larger exporters still more likely to be planning to grow than their non-exporting peers:

- Amongst SMEs with 0-9 employees: 54% of exporters interviewed in Q2 2019 planned to grow compared to 55% of non-exporters.
- Amongst SMEs with 10-249 employees: 75% of exporters interviewed in Q2 2019 planned to grow compared to 60% of non-exporters.

As the table below shows, those planning to grow who do not export were focussed on achieving growth in the UK, and in existing markets in particular (93%). Just 6% thought they would sell more overseas.

Almost half of those who export planned to sell more overseas (typically in an existing market) but like their non-exporting peers, most of them saw some growth coming from UK markets, albeit they were slightly less likely to mention existing UK markets (83%):

<b>How plan to grow Q2 19</b>	<b>All planning to grow who export</b>	<b>All planning to grow who do not export</b>
<b>Unweighted base:</b>	<b>377</b>	<b>2248</b>
Sell in the UK	92%	98%
<i>Increase sales in existing markets in UK</i>	83%	93%
<i>Sell in new markets in UK</i>	31%	15%
Sell overseas	53%	6%
<i>Increase sales in existing markets overseas</i>	44%	3%
<i>Sell in new markets overseas</i>	25%	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 confirms that whilst exporters have typically been more likely to be planning to grow each quarter (typically around 6 in 10) than those that did not export (typically around 4 in 10), that was not the case for Q2 2019 when more non-exporters planned to grow, closing the “gap” to exporters:

#### **Objective to grow (any) in next 12 months**

<b>By date of interview Row percentages</b>	<b>Q2 2017</b>	<b>Q3 2017</b>	<b>Q4 2017</b>	<b>Q1 2018</b>	<b>Q2 2018</b>	<b>Q3 2018</b>	<b>Q4 2018</b>	<b>Q1 2019</b>	<b>Q2 2019</b>
Exporters	67%	66%	59%	60%	62%	60%	59%	61%	56%
Non-exporters	42%	42%	44%	46%	47%	48%	49%	44%	55%

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 (89%) and non-exporters (93%). Exporters remained more likely than non-exporters to also be contemplating new markets, especially overseas:

### How plan to grow

By date of interview	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2017	2017	2017	2018	2018	2018	2018	2019	2019
In existing markets:									
<i>Exporters</i>	96%	94%	91%	93%	89%	93%	97%	87%	89%
<i>Non-exporters</i>	91%	92%	90%	94%	94%	93%	97%	94%	93%
New UK markets:									
<i>Exporters</i>	38%	32%	30%	31%	26%	23%	23%	21%	31%
<i>Non-exporters</i>	23%	17%	23%	17%	13%	14%	15%	15%	15%
New overseas markets:									
<i>Exporters</i>	30%	30%	27%	23%	28%	22%	23%	16%	25%
<i>Non-exporters</i>	3%	6%	3%	4%	2%	4%	4%	2%	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 have typically been higher at around 6 in 10 compared to just under half of other SMEs. This was also true for H1 2019 but, at 59%, planned growth amongst exporters was at the lower end of the range seen. By comparison, the 50% of other SMEs planning to grow was at the top end of the range typically seen for them.

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%), increased for 2016 and 2017 (31-28%) but then declined again in H1 2019 (21%). The equivalent figures for non-exporters were stable but much lower (3-4%):

<b>Growth plans</b>							
<b>Over time</b>							
<b>By date of interview</b>							<b>H1</b>
<b>Row percentages</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>All SMEs:</b>							
Plan to grow	49%	47%	45%	43%	45%	49%	50%
<i>New markets overseas (if planning to grow)</i>	7%	6%	6%	7%	7%	6%	5%
<b>Exporters:</b>							
Plan to grow	60%	63%	65%	60%	63%	60%	59%
<i>New markets overseas (if planning to grow)</i>	30%	26%	20%	31%	28%	23%	21%
<b>Non exporters:</b>							
Plan to grow	48%	45%	43%	42%	43%	47%	50%
<i>New markets overseas (if planning to grow)</i>	4%	3%	4%	4%	4%	3%	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.

## 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 itself been added in Q3 2015.
- The existing code ‘Legislation and regulation’ was extended to include ‘red tape’.

The data for Q2 2019 was collected immediately after the original date for leaving the EU of 31<sup>st</sup> March, when the UK hadn’t left and the Brexit debate continued. Having increased during the latter half of 2018, at an overall level the proportion of SMEs rating either the current economic climate or ‘Political uncertainty and future government policy’ as major obstacles in the first half of 2019 was fairly stable. 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.

There remained three key issues for SMEs, with 4 in 10 citing at least one of them as a major obstacle in Q2 2019:

- These key issues were **political uncertainty/government policy** (rated a major obstacle by 25% of SMEs), the **current economic climate** (22%) and **legislation, regulation and red tape** (rated a major obstacle by 20% of SMEs). 41% of SMEs rated at least one of these barriers as a major obstacle.
- **Changes in the value of sterling**, was rated a major obstacle by 14% of SMEs.
- **Cash flow and issues with late payment** was rated a major obstacle by 13% of SMEs.
- 10% rated **recruiting and retaining staff** as a major obstacle.
- 8% saw **access to external finance** as a major obstacle for the year ahead.
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle.

## OBSTACLES IN Q2 2019

The analysis below looks in detail at the barriers perceived in Q2 2019, by size of SME. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months		0	1-9	10-49	50-249
Q2 19 – all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Political uncertainty/future govt policy	4.7	4.7	4.8	5.2	5.9
- 8-10 major obstacle	25%	25%	26%	26%	35%
- 5-7 moderate obstacle	28%	28%	27%	33%	37%
- 1-4 minor obstacle	44%	45%	44%	36%	26%
The current economic climate	4.7	4.7	4.6	5.0	4.8
- 8-10 major obstacle	22%	22%	21%	19%	23%
- 5-7 moderate obstacle	32%	32%	32%	39%	30%
- 1-4 minor obstacle	45%	45%	45%	39%	46%
Legislation, regulation, red tape	4.5	4.4	4.6	4.9	5.0
- 8-10 major obstacle	20%	19%	22%	23%	23%
- 5-7 moderate obstacle	29%	29%	29%	32%	32%
- 1-4 minor obstacle	50%	51%	48%	43%	43%

Continued

Continued

Changes in the value of sterling	3.5	3.4	3.5	3.9	4.4
- 8-10 major obstacle	14%	14%	13%	12%	21%
- 5-7 moderate obstacle	20%	20%	21%	30%	24%
- 1-4 minor obstacle	63%	64%	62%	55%	53%
Cash flow/issues with late payment	3.4	3.3	3.3	3.8	4.0
- 8-10 major obstacle	13%	13%	12%	14%	20%
- 5-7 moderate obstacle	18%	18%	19%	23%	15%
- 1-4 minor obstacle	68%	68%	68%	61%	64%
Recruiting/retaining staff	2.7	2.5	3.1	4.2	3.9
- 8-10 major obstacle	10%	9%	11%	17%	11%
- 5-7 moderate obstacle	12%	10%	17%	28%	23%
- 1-4 minor obstacle	76%	78%	71%	54%	64%
Availability of relevant advice	2.8	2.8	2.8	3.1	3.2
- 8-10 major obstacle	6%	6%	7%	7%	8%
- 5-7 moderate obstacle	18%	19%	17%	21%	22%
- 1-4 minor obstacle	74%	74%	74%	69%	69%
Access to external finance	2.7	2.7	2.5	2.8	2.8
- 8-10 major obstacle	8%	8%	7%	5%	5%
- 5-7 moderate obstacle	14%	14%	13%	19%	21%
- 1-4 minor obstacle	76%	76%	78%	72%	72%
<b>None of these are major obstacles</b>	<b>52%</b>	<b>52%</b>	<b>50%</b>	<b>52%</b>	<b>50%</b>

Q93 (227a) All SMEs

In Q2 2019, 52% 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 by many respondents.

## 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

Q2 19 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Political uncertainty/future govt policy	25%	25%	26%	26%	35%
The current economic climate	22%	22%	21%	19%	23%
Legislation, regulation and red tape	20%	19%	22%	23%	23%
Changes to value of sterling	14%	14%	13%	12%	21%
Cash flow/issues with late payment	13%	13%	12%	14%	20%
Recruiting/retaining staff	10%	9%	11%	17%	11%
Access to external finance	8%	8%	7%	5%	5%
Availability of relevant advice	6%	6%	7%	7%	8%
<b>None of these rated a major obstacle</b>	<b>52%</b>	<b>52%</b>	<b>50%</b>	<b>52%</b>	<b>50%</b>

Q93 (227a) All SMEs

SMEs with employees were no more likely to rate any of these factors as 'Major obstacles' with 49% nominating at least one factor compared to 48% 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 Q2 2019 (41%) mentioned one or more of these three factors as a major obstacle, with little variation by size of SME (41% for those with 0 or 1-9 employees, 38% for those with 10-49 employees and 44% for those with 50-249 employees).



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 recruiting/ retaining staff, but otherwise differences were limited.
- Those with an average external risk rating were more likely to say none of these were barriers (57%) compared to 49-51% for other risk ratings.

### Extent of obstacles in next 12 months

Q2 19 – all SMEs 8-10 impact score	Total	Min	Low	Avg	Worse/ Avg
<b><i>Unweighted base:</i></b>	<b>4500</b>	<b>794</b>	<b>1361</b>	<b>963</b>	<b>977</b>
Political uncertainty/future govt policy	25%	28%	26%	23%	26%
The current economic climate	22%	21%	24%	19%	23%
Legislation, regulation and red tape	20%	24%	22%	20%	17%
Changes to value of sterling	14%	16%	9%	13%	15%
Cash flow/issues with late payment	13%	14%	11%	10%	14%
Recruiting/retaining staff	10%	15%	10%	9%	9%
Access to external finance	8%	5%	6%	6%	10%
Availability of relevant advice	6%	4%	6%	6%	5%
<b><i>None of these rated a major obstacle</i></b>	<b>52%</b>	<b>51%</b>	<b>49%</b>	<b>57%</b>	<b>51%</b>

Q93 (227a) All SMEs where risk rating known

The top 3 barriers were slightly more likely to be mentioned by those with a low risk rating (44% mentioned any) than those with another risk rating (38-41%).

The table below shows that in Q2 2019 those with plans to grow were more likely to identify obstacles to that growth, notably political uncertainty, cash flow and changes to the value of sterling. 53% mentioned at least one obstacle (including 43% who mentioned one or more of the top 3 barriers) compared to 42% with no plans to grow (where 38% mentioned a top 3 barrier).

Clear differences were also 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 62% said that none of them were:

### Extent of obstacles in next 12 months

Q2 19 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
<b>Unweighted base:</b>	<b>4500</b>	<b>2679</b>	<b>1821</b>	<b>1344</b>	<b>3156</b>
Political uncertainty/future govt policy	25%	28%	21%	18%	29%
The current economic climate	22%	22%	21%	14%	27%
Legislation, regulation and red tape	20%	21%	19%	16%	23%
Changes to value of sterling	14%	17%	10%	9%	17%
Cash flow/issues with late payment	13%	16%	9%	4%	18%
Recruiting/retaining staff	10%	11%	8%	7%	12%
Access to external finance	8%	10%	5%	2%	11%
Availability of relevant advice	6%	6%	5%	3%	7%
<b>None of these rated a major obstacle</b>	<b>52%</b>	<b>47%</b>	<b>58%</b>	<b>62%</b>	<b>46%</b>

Q93 (227a) All SMEs

Analysis by age of business showed that

- Starts were more likely to rate each of the barriers as major obstacles: 57% mentioned any of them as major obstacles, including 34% for political uncertainty and 33% for the economic climate. Overall, 50% of Starts mentioned one of the top 3 barriers.
- Amongst older SMEs, the proportion rating any of these as major obstacles was lower and did not vary much by age (45-47%), nor was there much difference in the proportion mentioning a top 3 barrier (38-40%).

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. 66% nominated at least one major obstacle, compared to 42% of Future happy non-seekers. Those with a future appetite for finance were also more likely to mention any of the top 3 barriers (52%) than Happy non-seekers were (37%):

<b>Extent of obstacles in next 12 months</b>		<b>Plan to apply or FWBS</b>	<b>Future HNS</b>	<b>Future HNS excl. PNB</b>
<b>Q2 19 – all SMEs</b>	<b>Total</b>			
<b>8-10 impact score</b>				
<b><i>Unweighted base:</i></b>	<b>4500</b>	<b>1158</b>	<b>3342</b>	<b>1998</b>
Political uncertainty/future govt policy	25%	31%	23%	29%
The current economic climate	22%	34%	18%	22%
Legislation, regulation and red tape	20%	27%	18%	20%
Changes to value of sterling	14%	17%	13%	18%
Cash flow/issues with late payment	13%	21%	10%	17%
Recruiting/retaining staff	10%	17%	8%	9%
Access to external finance	8%	17%	5%	7%
Availability of relevant advice	6%	11%	4%	5%
<b><i>None of these rated a major obstacle</i></b>	<b>52%</b>	<b>34%</b>	<b>58%</b>	<b>53%</b>

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 of political uncertainty, cash flow and changes in the value of sterling as barriers. Once the PNBs have been excluded, 47% of remaining Future happy non-seekers mentioned one or more of the top 3 barriers.

The top 3 barriers were more likely to be mentioned by those in Health (47%) or Agriculture (46%) compared to 35% in Manufacturing, who were also one of the sectors more likely to say that none of these presented a barrier (55%) along with those in Property/Business Services (58%) and Hotels & Restaurants (55%):

#### Extent of obstacles in next 12 months

Q2 19 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>300</b>	<b>375</b>	<b>800</b>	<b>450</b>	<b>300</b>	<b>500</b>	<b>900</b>	<b>375</b>	<b>500</b>
Political uncertainty	28%	26%	26%	28%	24%	27%	21%	26%	27%
The current economic climate	22%	22%	28%	26%	20%	23%	16%	25%	20%
Legislation, regulation and red tape	29%	17%	22%	20%	18%	17%	20%	24%	17%
Changes to sterling	14%	16%	17%	21%	10%	13%	9%	18%	16%
Cash flow/issues with late payment	7%	15%	22%	12%	9%	12%	9%	10%	12%
Recruiting/retaining staff	11%	11%	12%	7%	10%	8%	9%	12%	13%
Access to external finance	8%	5%	12%	6%	4%	9%	4%	13%	7%
Availability of relevant advice	3%	8%	9%	6%	7%	4%	3%	9%	6%
<b>None of these rated a major obstacle</b>	<b>49%</b>	<b>55%</b>	<b>48%</b>	<b>50%</b>	<b>55%</b>	<b>50%</b>	<b>58%</b>	<b>50%</b>	<b>47%</b>

Q93 (227a) All 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 (27% in Q2 2017) to around 4 in 10 (41% in Q2 2019):

### Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of

interview

	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
<b>Unweighted base:</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Political uncertainty	13%	14%	15%	16%	15%	19%	24%	21%	25%
Legislation, regs and red tape	14%	15%	15%	17%	18%	19%	22%	17%	20%
The current economic climate	13%	16%	14%	16%	15%	17%	22%	19%	22%
<b>Any Top 3 issue</b>	<b>27%</b>	<b>29%</b>	<b>29%</b>	<b>31%</b>	<b>31%</b>	<b>34%</b>	<b>41%</b>	<b>36%</b>	<b>41%</b>
Cash flow/issues with late payment	8%	12%	9%	11%	12%	13%	15%	13%	13%
Changes in sterling	10%	15%	10%	11%	11%	11%	15%	12%	14%
Availability of relevant advice	4%	5%	4%	6%	8%	8%	7%	6%	6%
Recruiting/retaining staff	7%	6%	8%	7%	7%	8%	7%	7%	10%
Access to external finance	4%	5%	5%	5%	6%	5%	5%	5%	8%
<b>None of these rated a major obstacle</b>	<b>64%</b>	<b>62%</b>	<b>61%</b>	<b>59%</b>	<b>57%</b>	<b>54%</b>	<b>50%</b>	<b>54%</b>	<b>52%</b>

Q93 (227a) All SMEs

The proportion saying that ‘none of these’ were a barrier has declined over time. Having previously been around 7 in 10, it has been around 5 in 10 since the latter half 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 at that stage it was no more of a barrier than political uncertainty or legislation and regulation.

During 2018 and H1 2019 there were once again more mentions of the economic climate as a barrier (to 20%) alongside increased mentions of political uncertainty (23%) and legislation and regulation (19%). As a result, 38% of SMEs mentioned one or more of these barriers in H1 2019, up from 24% in 2015:

<b>Extent of obstacles in next 12 months</b>								
<b>Over time – all SMEs</b>								
<b>8-10 impact score</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>H1 2019</b>
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	18,000	18,012	18,002	9000
Political uncertainty/future govt policy	-	-	-	10%	10%	14%	19%	23%
Legislation, regulation and red tape	13%	13%	12%	11%	10%	15%	19%	19%
The current economic climate	34%	27%	17%	13%	12%	14%	17%	20%
<b>Any top 3 mentions</b>	-	-	-	<b>24%</b>	<b>22%</b>	<b>28%</b>	<b>34%</b>	<b>38%</b>
Cash flow/issues with late payment	13%	11%	9%	9%	7%	9%	13%	13%
Changes in sterling	-	-	-	-	-	11%	12%	13%
Availability of relevant advice	6%	6%	5%	5%	4%	4%	7%	6%
Recruiting/retaining staff	3%	3%	5%	6%	6%	6%	7%	8%
Access to external finance	11%	10%	7%	6%	5%	5%	5%	6%

#### Q93 (227a) All SMEs

The proportion of SMEs citing cash flow/late payment declined from 13% in 2012 to 7% in 2016 but was 13% again in both 2018 and H1 2019.

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 3-4 percentage points. The exceptions are the current economic climate, which increased from 20% of all SMEs to 25% once the PNBs were excluded, and cash flow/ late payment where the score increased from 13% of all SMEs to 18% when the PNBs were excluded:

<b>Extent of obstacles in next 12 months</b>								
Over time – all SMEs excl PNBs	2012	2013	2014	2015	2016	2017	2018	H1 2019
8-10 impact score								
<b>Unweighted base:</b>	<b>15,312</b>	<b>14,578</b>	<b>13,613</b>	<b>13,011</b>	<b>11,634</b>	<b>11,940</b>	<b>11,294</b>	<b>6062</b>
Political uncertainty/future govt policy	-	-	-	13%	13%	17%	22%	26%
Legislation, regulation and red tape	15%	16%	14%	14%	12%	18%	22%	22%
The current economic climate	39%	31%	20%	17%	15%	17%	21%	25%
<b>Any top 3 mentions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30%</b>	<b>25%</b>	<b>33%</b>	<b>40%</b>	<b>44%</b>
Cash flow/issues with late payment	18%	15%	12%	12%	9%	14%	20%	18%
Changes in sterling	-	-	-	-	-	16%	16%	17%
Availability of relevant advice	8%	8%	7%	6%	6%	6%	9%	7%
Recruiting/retaining staff	3%	4%	6%	8%	7%	9%	9%	11%
Access to external finance	16%	15%	11%	9%	8%	7%	8%	9%

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 H1 2019 (44%) ahead of SMEs overall (38%).

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 2018 and then increased again in the first half of 2019, across all sizes of SME, to the highest levels seen to date:

### Political uncertainty

8-10 impact score Row percentages	2015	2016	2017	2018	Q1 2019	Q2 2019
All SMEs	9%	10%	14%	19%	21%	25%
0 employees	9%	10%	13%	18%	19%	25%
1-9 employees	12%	13%	17%	21%	24%	26%
10-49 employees	9%	12%	15%	18%	24%	26%
50-249 employees	7%	14%	14%	13%	24%	35%

Q93 (227a) All SMEs

Overall, the proportion of SMEs seeing the current economic climate as a barrier was broadly stable 2015-2017. During 2018 and H1 2019, levels of concern increased across all sizes of SME and markedly for those with 50-249 employees:

### The current economic climate

8-10 impact score Row percentages	2015	2016	2017	2018	Q1 2019	Q2 2019
All SMEs	13%	12%	14%	17%	19%	22%
0 employees	12%	12%	13%	17%	19%	22%
1-9 employees	14%	14%	16%	18%	20%	21%
10-49 employees	10%	12%	14%	16%	19%	19%
50-249 employees	8%	13%	13%	13%	21%	23%

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 broadly stable picture over recent quarters (albeit 8% saw this as a barrier in Q2 2019 compared to the more typical 5%), 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	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	17	17	17	18	18	18	18	19	19
<b>All SMEs</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>6%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>8%</b>
0 employee	4%	5%	5%	5%	6%	5%	5%	5%	8%
1-9 employees	5%	4%	5%	6%	5%	6%	7%	6%	7%
10-49 employees	4%	4%	4%	5%	6%	4%	6%	5%	5%
50-249 employees	1%	4%	2%	4%	2%	6%	5%	7%	5%
Minimal external risk rating	3%	3%	3%	2%	2%	4%	4%	5%	5%
Low external risk rating	4%	5%	4%	4%	4%	6%	5%	4%	6%
Average external risk rating	2%	3%	4%	5%	6%	5%	5%	5%	6%
Worse than average external risk rating	5%	7%	6%	6%	6%	5%	5%	6%	10%
Agriculture	3%	7%	7%	4%	5%	5%	3%	3%	8%
Manufacturing	4%	5%	5%	2%	10%	7%	5%	3%	5%
Construction	3%	7%	3%	6%	5%	3%	6%	3%	12%
Wholesale/Retail	6%	4%	3%	4%	5%	6%	7%	6%	6%
Hotels & Restaurants	8%	4%	6%	11%	5%	8%	5%	7%	4%
Transport	5%	8%	8%	8%	4%	8%	3%	7%	9%
Property/Business Services etc.	3%	3%	5%	2%	5%	4%	5%	4%	4%
Health	5%	5%	9%	3%	7%	5%	2%	8%	13%
Other Community	3%	5%	5%	9%	6%	7%	7%	6%	7%
Use external finance	7%	9%	8%	9%	9%	8%	8%	7%	10%
Plan to borrow/FWBS	14%	14%	11%	11%	11%	12%	11%	10%	17%
Future Happy non-seekers	1%	3%	3%	3%	4%	3%	4%	3%	5%
All SMEs excluding PNBS	7%	9%	8%	8%	9%	8%	8%	7%	11%

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 for the revised questionnaire from Q1 2018. The proportion planning to apply/renew was somewhat lower in Q1 and Q2 2018 (9%) but was re-established at previously seen levels for Q1 and Q2 2019:

<b>% likely in next 3 months</b>									
<b>All SMEs – over time</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>
<b>By date of interview</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
<b><i>Unweighted base:</i></b>	<b>4507</b>	<b>4505</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Will have a need for (more) external finance	8%	9%	10%	8%	7%	7%	7%	7%	9%
Will apply for more external finance	6%	6%	8%	6%	5%	5%	5%	6%	7%
Renew existing borrowing at same level	8%	8%	8%	6%	6%	8%	6%	8%	9%
<b><i>Any apply/renew</i></b>	<b>12%</b>	<b>12%</b>	<b>14%</b>	<b>9%</b>	<b>9%</b>	<b>11%</b>	<b>10%</b>	<b>12%</b>	<b>13%</b>
Reduce the amount of external finance used	7%	8%	8%	8%	12%	11%	15%	14%	16%
Inject personal funds into business	13%	13%	15%	13%	9%	14%	11%	12%	15%

### 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). Around 10% of SMEs in 2018 had been planning to apply for finance but 4% reported a Type 1 event YE Q2 2019.

From 2014 to 2017, the proportion of SMEs planning to reduce the amount of finance they used was stable (7-8%). During 2018, an increasing (albeit still minority) proportion of SMEs planned to reduce the amount of finance being used (12%) and this trend continued into 2019, with 16% planning to reduce the amount of finance in Q2 2019. The increase was seen across all size bands, notably the largest SMEs, where the increase started in 2017:

- All SMEs: 7% in 2017 planned to reduce the amount of finance being used, to 12% in 2018 and 15% in H1 2019
- 0 employee SMEs: 6% in 2017 to 11% in 2018 and 15% in H1 2019
- 1-9 employees: 8% in 2017 to 12% in 2018 and 14% in H1 2019
- 10-49 employees: 10% in 2017 to 14% in 2018 and 16% in H1 2019
- 50-249 employees: 8% in 2016, 16% in 2017, 38% in 2018 and 20% in H1 2019.

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

#### % likely in next 3 months

All companies– over time By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Unweighted base:</b>	<b>2753</b>	<b>2948</b>	<b>2709</b>	<b>2851</b>	<b>2760</b>	<b>2853</b>	<b>2964</b>	<b>2931</b>	<b>2929</b>
Any new equity	4%	4%	5%	4%	2%	3%	4%	3%	3%

Q99\_6 (229) All companies

In Q2 2019 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 (16%) than an application for new/renewed finance (12%).
- The largest SMEs with 50-249 employees were the most likely to be planning to apply (19%) but also the most likely to be planning to reduce the amount of finance being used (24%).

% likely in next 3 months		0	1-9	10-49	50-249
Q2 19 – all SMEs		emp	emps	emps	emps
Total					
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Will have a need for (more) external finance	9%	9%	11%	10%	8%
Will apply for more external finance	7%	6%	8%	8%	8%
Renew existing borrowing at same level	9%	8%	11%	12%	17%
<b>Any apply/renew</b>	<b>13%</b>	<b>12%</b>	<b>16%</b>	<b>16%</b>	<b>19%</b>
Reduce the amount of external finance used	16%	17%	16%	14%	24%
Inject personal funds into business	15%	16%	15%	8%	4%

Q99 (229) All SMEs

Amongst SMEs with employees, 16% had plans to apply/renew in the next 3 months and 10% 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 for SMEs. The proportion of SMEs planning to inject personal funds declined over time, from 24% in 2012 to 12% in 2018 and was 14% for H1 2019. There was also a decline in the proportion of SMEs that had actually injected personal funds, from 43% in 2012 to 29% in 2014, followed by little change until H1 2019 (26%), so actual injections remained at twice the level planned:

<b>Injections of personal funds past and future</b>								
Over time – All SMEs	2012	2013	2014	2015	2016	2017	2018	H1 2019
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	18,000	18,012	18,002	9000
Have injected personal funds	43%	38%	29%	28%	28%	29%	29%	26%
Plan to inject personal funds	24%	20%	16%	16%	15%	13%	12%	14%

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 (66% in Q2 2019). With the exception of Q2 2018, typically 1 in 10 SMEs had both injected funds and planned to do so again (9% for Q2 2019):

<b>Injections of personal funds</b>									
Over time – All SMEs	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<i>Unweighted base:</i>	4507	4505	4500	4500	4500	4502	4500	4500	4500
Have injected personal funds and likely to do so again	9%	10%	10%	9%	5%	9%	7%	8%	9%
Have not put in personal funds but likely to do so	4%	4%	4%	4%	4%	6%	4%	5%	6%
Have injected personal funds but unlikely to do so again	18%	21%	20%	19%	23%	21%	20%	18%	18%
Have not put in personal funds and not likely to do so	68%	66%	66%	68%	68%	65%	69%	69%	66%

Q99 (229)/Q15d-d2 All SMEs

Turning back to future applications for external finance, the Q2 2019 figure of 13% planning to apply was in line with most recent quarters. Excluding the PNBs increased the proportion of remaining SMEs planning to apply to 21%, in line with previous quarters with the exception of H2 2017 when 23-26% were planning to apply/renew:

### % likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>All SMEs</b>	<b>12%</b>	<b>12%</b>	<b>14%</b>	<b>9%</b>	<b>9%</b>	<b>11%</b>	<b>10%</b>	<b>12%</b>	<b>13%</b>
0 employee	11%	11%	13%	8%	7%	11%	9%	11%	12%
1-9 employees	14%	13%	16%	12%	13%	13%	13%	15%	16%
10-49 employees	15%	16%	18%	14%	15%	18%	16%	16%	16%
50-249 employees	23%	19%	12%	14%	11%	25%	18%	20%	19%
Minimal external risk rating	9%	9%	16%	6%	9%	10%	13%	9%	8%
Low external risk rating	13%	13%	14%	10%	10%	12%	13%	12%	12%
Average external risk rating	9%	11%	12%	9%	8%	11%	9%	10%	12%
Worse than average external risk rating	13%	13%	16%	10%	9%	12%	10%	14%	14%
Agriculture	11%	7%	16%	14%	10%	13%	8%	17%	13%
Manufacturing	20%	10%	20%	12%	14%	12%	16%	14%	11%
Construction	7%	11%	12%	11%	7%	10%	6%	10%	13%
Wholesale/Retail	11%	14%	15%	8%	12%	13%	12%	14%	15%
Hotels & Restaurants	13%	11%	21%	12%	9%	11%	10%	15%	15%
Transport	12%	11%	16%	10%	5%	16%	11%	15%	15%
Property/Business Services etc.	11%	12%	12%	6%	8%	11%	11%	10%	10%
Health	11%	16%	15%	10%	12%	11%	13%	9%	8%
Other Community	15%	13%	12%	9%	12%	10%	11%	11%	19%
Objective to grow	18%	17%	19%	12%	12%	16%	14%	16%	16%
No objective to grow	6%	7%	10%	7%	6%	8%	7%	9%	9%
All SMEs excluding PNBs	21%	23%	26%	18%	18%	22%	19%	21%	21%

Q99 (229) All SMEs base size varies by category

The variability in predicted appetite for finance quarter on quarter makes trends harder to discern. The table below looks at annual appetite for finance since 2012 by key business demographics. This shows that overall appetite for finance in H1 2019 was typically in line with 2017, after a slight dip in 2018, due to the appetite of those with 0 employees. Amongst those with 1-9 or 10-49 employees, future appetite for finance has declined somewhat over time:

% likely to apply or renew in next 3 months								
Over time								
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	H1 2019
All SMEs	14%	14%	13%	13%	12%	12%	10%	12%
0 emp	12%	12%	11%	12%	11%	11%	9%	11%
1-9 emps	20%	19%	20%	17%	15%	15%	13%	15%
10-49 emps	21%	17%	18%	19%	16%	16%	15%	16%
50-249 emps	19%	16%	14%	14%	13%	17%	17%	20%
Minimal external risk rating	16%	12%	13%	13%	11%	11%	10%	8%
Low	17%	13%	14%	15%	13%	13%	11%	12%
Average	13%	13%	12%	14%	10%	10%	9%	11%
Worse than average	15%	14%	14%	12%	13%	13%	10%	14%
Agriculture	18%	16%	15%	18%	15%	11%	11%	15%
Manufacturing	16%	13%	16%	16%	13%	14%	13%	13%
Construction	14%	13%	11%	11%	11%	10%	8%	11%
Wholesale/Retail	16%	18%	19%	15%	13%	13%	11%	15%
Hotels & Restaurants	17%	15%	16%	16%	14%	15%	10%	15%
Transport	14%	16%	15%	13%	15%	13%	11%	15%
Property/ Business Services	12%	13%	11%	13%	11%	11%	9%	10%
Health	11%	12%	11%	9%	10%	13%	12%	8%
Other	16%	12%	14%	13%	12%	13%	10%	15%
All excl PNBs	21%	23%	24%	25%	23%	22%	19%	21%

Q99 (229) All SMEs

Amongst those planning to grow, future appetite for finance has typically been somewhat higher (17-19% 2013-17) than for SMEs overall. Having been slightly lower for 2018 as a whole (13%), in H1 2019 it was more in line with previous years (16% v 9% not planning to grow).

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 H1 2019, 9% of all SMEs were using finance and planned to apply for more, three times as many as the 3% not currently using finance but planning to apply for some.
- 37% were using finance but had no plans to apply for more, somewhat higher than the 3 in 10 more usually seen, and the largest group of SMEs (51%) neither used finance nor had plans to apply for any.

This means that of the 12% of SMEs planning to apply for finance in H1 2019, most (75%) were already using it:

<b>Plans to apply/renew v use of external finance</b>							<b>H1</b>
<b>Over time – all SMEs</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Unweighted base:</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>	<b>18,002</b>	<b>9000</b>
Use external finance and plan to apply	10%	10%	10%	8%	9%	7%	9%
Use external finance, no plans to apply	30%	27%	27%	29%	29%	29%	37%
Do not use finance but plan to apply	3%	3%	4%	4%	3%	3%	3%
Do not use finance, no plans to apply	56%	60%	59%	59%	59%	61%	51%
<b>% of future applicants using finance</b>	<b>77%</b>	<b>77%</b>	<b>71%</b>	<b>67%</b>	<b>78%</b>	<b>70%</b>	<b>75%</b>

#### Q15 and futfin All SMEs

9% of all SMEs were both using finance and planning to apply, increasing by size of SME. 75% of all future applicants were already using external finance and this also increased by size of SME:

- 8% of 0 employee SMEs were using external finance and planned to apply for more. 70% of all future applicants with 0 employees were already using finance.
- 13% of 1-9 employee SMEs were using external finance and planned to apply for more. 82% of all these future applicants were already using finance.
- 15% of 10-49 employee SMEs were using external finance and planned to apply for more. 89% of all these future applicants were already using finance.
- 17% of 50-249 employee SMEs were using external finance and planned to apply for more. 97% 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, now split into the two groups also used to analyse a past need for funding earlier in this report. Since H1 2018, an increasing number of planned applications have been cash flow related and there have also been more mentions in recent quarters of funding to take on staff:

### Use of new/renewed facility

#### All planning to seek/renew

Over time excl DK

By date of interview

Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
------------	------------	------------	------------	------------	------------

<b>Unweighted base:</b>	<b>546</b>	<b>540</b>	<b>716</b>	<b>618</b>	<b>675</b>	<b>716</b>
<b>Cash flow related</b>	<b>28%</b>	<b>32%</b>	<b>41%</b>	<b>48%</b>	<b>43%</b>	<b>42%</b>
Working capital to help cashflow*	15%	17%	31%	36%	35%	31%
Cover short term funding gap	10%	14%	9%	12%	8%	12%
Help through trading difficulties	9%	11%	9%	7%	11%	10%
<b>Business development related</b>	<b>69%</b>	<b>70%</b>	<b>69%</b>	<b>63%</b>	<b>66%</b>	<b>64%</b>
To fund UK expansion	28%	30%	24%	24%	26%	25%
Plant & machinery	24%	22%	31%	25%	30%	22%
A new business opportunity	15%	24%	20%	15%	12%	17%
Take on staff	9%	9%	12%	17%	16%	18%
Fund new premises	5%	7%	9%	5%	7%	8%
Fund expansion overseas	3%	6%	5%	5%	3%	3%
Take over another business	1%	1%	2%	2%	1%	3%

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

A longer term view back to 2012 showed relatively little variation in the proposed purpose of future funding for those codes available over several years:

<b>Use of new/renewed facility</b>								<b>H1</b>
<b>All planning to seek/renew</b>								<b>2019</b>
<b>– over time</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Unweighted base:</b>	<b>3717</b>	<b>3316</b>	<b>3310</b>	<b>3200</b>	<b>2563</b>	<b>2616</b>	<b>2420</b>	<b>1391</b>
<b>Cash flow related</b>	-	-	-	-	-	-	<b>38%</b>	<b>42%</b>
Working capital to help cashflow	-	-	-	-	-	-	26%	33%
Cover short term funding gap	-	-	-	-	-	-	11%	10%
Help through trading difficulties	-	-	-	-	-	-	9%	11%
<b>Business development related</b>	-	-	-	-	-	-	<b>68%</b>	<b>65%</b>
To fund UK expansion	21%	28%	30%	28%	28%	23%	26%	26%
Plant & machinery	27%	27%	26%	25%	21%	20%	26%	26%
A new business opportunity	-	-	-	-	-	-	18%	15%
Take on staff	-	-	-	-	-	9%	12%	17%
Fund new premises	7%	7%	10%	7%	8%	7%	6%	8%
Fund expansion overseas	3%	5%	6%	6%	5%	4%	5%	3%
Take over another business	-	-	-	-	-	-	2%	2%

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

Earlier in this report similar data was provided for those who had reported a need for finance in the previous 12 months. On limited base sizes for H1 2019:

- A steady 6 in 10 of those with a need for funding said it had been for something related to the development of the business – expansion, new plant and machinery etc. The figure for those planning to apply is very similar (65% H1 2019).
- An increasing proportion over time said that the funding need had been cash flow related – whether general cash flow or for funding gaps or trading difficulties (52% for H1 2019). The proportion planning to apply for such a purpose was somewhat lower than this but had also increased since 2018 (42% for H1 2019).

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

Consideration over recent quarters 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 the summary categories. It shows consideration of core finance in Q2 2019 (53%) was in line with most other recent quarters with the exception of Q4 2018 (59%):

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

Over time By date of interview	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Unweighted base:</b>	<b>667</b>	<b>687</b>	<b>551</b>	<b>552</b>	<b>719</b>	<b>620</b>	<b>678</b>	<b>718</b>
Core product (loan, O/D, credit card)	54%	54%	54%	54%	51%	59%	49%	53%
Commercial mortgage	24%	15%	15%	12%	12%	15%	17%	21%
Leasing/invoice finance	22%	16%	19%	18%	16%	21%	17%	19%
Other	27%	30%	25%	21%	17%	33%	26%	32%
<b>None of these</b>	<b>37%</b>	<b>32%</b>	<b>35%</b>	<b>33%</b>	<b>37%</b>	<b>30%</b>	<b>36%</b>	<b>34%</b>

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

In all quarters consideration was highest for the core products. In Q2 2019, 53% of future applicants were considering a core form of finance, compared to 1 in 5 considering a commercial mortgage or leasing and 1 in 3 considering any of the other forms of finance.

The proportion saying 'none of these' had been 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. For YEQ2 2019, 71% said that they had not decided, while 29% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants YEQ2 2019, 65% were considering one or more of the forms of finance listed, 10% were considering another form of finance and 25% hadn't yet decided what they might use.

In order to maximise base sizes, the table below shows levels of consideration in H1 2019 by the size of SME considering applying for funding.

**% of those seeking/renewing finance would consider funding**

H1 2019	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>1396</b>	<b>198</b>	<b>431</b>	<b>471</b>	<b>296</b>
Core product (loan, od, credit card)	51%	52%	47%	56%	80%
Commercial mortgage	19%	20%	15%	17%	61%
Leasing/invoice finance	18%	17%	18%	23%	62%
Other	29%	31%	26%	22%	30%
<b>None of these</b>	<b>35%</b>	<b>35%</b>	<b>38%</b>	<b>30%</b>	<b>9%</b>

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 remained more likely to also consider commercial mortgages or leasing/invoice finance.

Amongst SMEs with employees, 49% would consider one or more core products for their future lending, 16% a commercial mortgage, 20% leasing or invoice finance and 26% some other form of funding. 36% said they would not consider any of these.

Comparing these intentions to the products actually applied for Q3 17 to Q2 19 (albeit these are not the same SMEs so it is not a direct comparison) shows that core products were both the most likely to be considered and to be applied for:

- 68% of applications made were for a core product, increasing to 75% if 'other' overdrafts and loans are included
- 6% of applications were for a commercial mortgage
- 8% were for leasing/hp.

## 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 Q2 2019 was somewhat lower (45%) than was seen during 2018:

### Confidence bank would lend

All planning to seek finance Over time by date of interview	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	17	17	17	18	18	18	18	19	19
<b>Unweighted base:</b>	<b>437</b>	<b>421</b>	<b>401</b>	<b>327</b>	<b>353</b>	<b>456</b>	<b>415</b>	<b>445</b>	<b>496</b>
Very confident	14%	12%	14%	16%	23%	15%	17%	14%	12%
Fairly confident	41%	47%	27%	32%	35%	43%	31%	41%	33%
<b>Overall confidence</b>	<b>55%</b>	<b>59%</b>	<b>41%</b>	<b>48%</b>	<b>58%</b>	<b>58%</b>	<b>48%</b>	<b>55%</b>	<b>45%</b>
Neither/nor	21%	26%	26%	23%	20%	19%	26%	26%	32%
Not confident	23%	15%	33%	29%	23%	23%	25%	19%	24%
<b>Net confidence (confident – not confident)</b>	<b>+32</b>	<b>+44</b>	<b>+8</b>	<b>+19</b>	<b>+35</b>	<b>+35</b>	<b>+23</b>	<b>+36</b>	<b>+21</b>

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

Confidence amongst prospective applicants with employees was 56% in Q2 2019.

As the table below shows, the decrease in confidence in Q2 2019 was seen predominantly amongst smaller applicants but across risk ratings:

### 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%
Q1 2019	55%	53%	74%	61%	51%
Q2 2019	45%	43%	70%	48%	43%

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%. Since then levels of confidence have been more variable but have remained at 50% or more:

<b>Confidence bank would agree to lend</b>								H1
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018	2019
<b>Unweighted base:</b>	<b>2933</b>	<b>2477</b>	<b>2337</b>	<b>2194</b>	<b>1467</b>	<b>1648</b>	<b>1551</b>	<b>941</b>
Very confident	15%	14%	24%	24%	23%	14%	18%	13%
Fairly confident	27%	25%	23%	29%	32%	36%	36%	37%
<b>Overall confidence</b>	<b>42%</b>	<b>39%</b>	<b>47%</b>	<b>53%</b>	<b>55%</b>	<b>50%</b>	<b>54%</b>	<b>50%</b>
Neither/nor	23%	30%	24%	21%	25%	24%	22%	29%
Not confident	35%	31%	29%	26%	21%	26%	25%	22%
<b>Net confidence (confident – not confident)</b>	<b>+10</b>	<b>+8</b>	<b>+18</b>	<b>+27</b>	<b>+34</b>	<b>+24</b>	<b>+29</b>	<b>+28</b>

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

Confidence for H1 2019 as a whole (50%) was very similar to that in 2017 with confidence amongst those with 0-9 employees at 2017 levels. Confidence amongst those with an average or worse than average risk rating has remained stable, and lower, since 2015, but those with a minimal or low risk rating were less confident in H1 2019 than at any time since 2012:

<b>Confidence bank would agree to lend</b>								H1
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018	2019
<b>Row percentages</b>								
<b>All</b>	<b>42%</b>	<b>39%</b>	<b>47%</b>	<b>53%</b>	<b>55%</b>	<b>50%</b>	<b>54%</b>	<b>50%</b>
0-9 employees	41%	37%	46%	52%	53%	49%	52%	48%
10-49 employees	58%	60%	66%	70%	75%	72%	69%	72%
Minimum/Low risk rating	57%	67%	65%	66%	74%	68%	67%	55%
Average/WTA risk rating	40%	35%	45%	48%	51%	48%	49%	47%

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

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis showed that in H1 2019:

- A third of those planning to apply for new facilities were confident of success (35%). Levels of confidence amongst this group were somewhat lower in H2 2018 and H1 2019 (both 35%) compared to the 4 in 10 seen in 2017 and the first half of 2018.
- 6 in 10 of those planning to renew were confident (57%). Levels of confidence amongst this group increased from 58% in H1 2017 to 70% in H1 2018 but were back to 57% for H1 2019.
- These levels of confidence remained lower than actual success levels (currently around 8 in 10).

## 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 Q1 2019, when 6 in 10 were confident of success with a potentially hypothetical application. This ‘hypothetical’ confidence increased by size of SME from 55% of those with no employees to 78% of those with 50-249 employees:

<b>Confidence bank would say yes if asked</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Q2 19 - All not planning to apply to bank</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b><i>Unweighted base:</i></b>	<b>4004</b>	<b>835</b>	<b>1324</b>	<b>1288</b>	<b>557</b>
Very confident	23%	19%	32%	41%	36%
Fairly confident	36%	36%	35%	32%	42%
<b><i>Overall confidence</i></b>	<b>59%</b>	<b>55%</b>	<b>67%</b>	<b>73%</b>	<b>78%</b>
Neither/nor	28%	30%	23%	21%	16%
Not confident	13%	15%	10%	6%	5%
<b><i>Net confidence (confident – not confident)</i></b>	<b>+46</b>	<b>+40</b>	<b>+57</b>	<b>+67</b>	<b>+73</b>

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 Q2 2019, based on their future application plans. This shows that:

- Those planning to apply for a form of bank finance were somewhat less confident of success at their main bank (45%) than those looking to apply for something else (54% confident).
- Future would-be seekers of finance were the least confident of success (34%).
- 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 (63%).

<b>Confidence bank would say yes if asked</b>	<b>All planning to apply to bank</b>	<b>All others planning to apply</b>	<b>Future WBS</b>	<b>Future HNS</b>
Q2 19 – all SMEs				
<b><i>Unweighted base:</i></b>	<b>496</b>	<b>222</b>	<b>440</b>	<b>3342</b>
Very confident	12%	25%	15%	24%
Fairly confident	33%	29%	19%	39%
<b><i>Overall confidence</i></b>	<b>45%</b>	<b>54%</b>	<b>34%</b>	<b>63%</b>
Neither/nor	32%	21%	38%	27%
Not confident	24%	25%	28%	10%
<b><i>Net confidence (confident – not confident)</i></b>	<b>+21</b>	<b>+29</b>	<b>+6</b>	<b>+53</b>

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%):

<b>Confidence bank would say yes</b>									
Over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	17	17	17	18	18	18	18	19	19
<b>All SMEs</b>	<b>61%</b>	<b>62%</b>	<b>60%</b>	<b>55%</b>	<b>60%</b>	<b>58%</b>	<b>58%</b>	<b>58%</b>	<b>58%</b>
Planning to apply to bank	55%	59%	41%	48%	58%	58%	48%	55%	45%
Others planning to apply	50%	74%	61%	44%	56%	62%	56%	51%	54%
No plans – Future would-be seekers	37%	37%	43%	43%	49%	49%	45%	41%	34%
No plans – Future happy non-seekers	65%	65%	64%	58%	62%	59%	60%	61%	63%

#### 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 58% in 2018 and H1 2019:

- 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 and 62% in H1 2019.
- Confidence amongst those planning to apply to a bank has varied over time (50-55%) and is currently at the lower end of that range. It was a similar story for Future would-be seekers (37-50%) and again currently at the lower end of the range.
- The only group to see a clear increase in confidence were those planning to apply (but not to a bank) where confidence was 55% in 2016 and 63% in 2017, but then returned to previous levels for 2018 and H1 2019 (53-54%).

The summary table also shows overall confidence (whether the SME planned to apply or not) for other key groups over time.

- The lower levels of confidence in 2018 and H1 2019 (58%) compared to 2016 and 2017 were 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 in H1 2019 ranged from 51% of those in the Other Community sector to 69% in Agriculture.
- Back in 2016, Permanent non-borrowers were more confident than other SMEs (68% v 62%) and this is still the case but at a lower level and by a narrower margin (60% v 57%).

<b>Confidence bank will say yes (whether planning to apply or not)</b>				
Over time				H1
By date of interview – row percentages	2016	2017	2018	2019
All SMEs	65%	62%	58%	58%
0 emp	62%	59%	55%	55%
1-9 emps	70%	66%	65%	64%
10-49 emps	80%	79%	73%	73%
50-249 emps	85%	84%	80%	77%
Minimal external risk rating	73%	73%	70%	69%
Low	73%	70%	67%	67%
Average	67%	61%	61%	57%
Worse than average	61%	58%	51%	52%
Agriculture	71%	67%	63%	69%
Manufacturing	67%	61%	61%	59%
Construction	65%	62%	60%	64%
Wholesale/Retail	70%	66%	62%	61%
Hotels & Restaurants	62%	63%	58%	59%
Transport	61%	59%	58%	52%
Property/ Business Services	65%	62%	54%	55%
Health	64%	59%	57%	61%
Other	62%	59%	54%	51%
PNBs	68%	63%	57%	60%
All excl PNBs	62%	61%	58%	57%
Planning to apply to bank	55%	50%	54%	50%
Planning to apply elsewhere	55%	63%	54%	53%
Future would-be seeker	50%	42%	46%	37%
Future happy non-seeker	69%	65%	60%	62%

Q103/106 (238/239b) All SMEs

## THOSE NOT PLANNING TO SEEK OR RENEW FACILITIES IN THE NEXT 3 MONTHS

In Q2 2019, 13% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (87%) with no such plans. Analysis showed that overall, 48% of all SMEs in Q2 2019 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 was then stable (58-61%) for 2015 to 2018. In H1 2019, with more SMEs using external finance and a slightly higher appetite for future finance, this proportion was lower again, at 51%.

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 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 continue to be asked in the same way as they were in 2017 and previous waves.

The picture for recent quarters is reported below. Three quarters of SMEs in Q2 2019 met the definition of a Future happy non-seeker (76%) and they remained the largest group:

### Future finance plans

All SMEs – over time By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Unweighted base:</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Plan to apply/renew	12%	12%	14%	9%	9%	11%	10%	12%	13%
Future would-be seekers – with identified need	1%	1%	1%	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	9%	8%	9%	13%	11%	11%	11%	10%	10%
Future happy non-seekers	79%	79%	76%	76%	79%	77%	78%	78%	76%

Q99/104 (230/239) All SMEs

Amongst SMEs with employees in Q2 2019, 16% had plans to apply/renew while 8% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 76%.

4 in 10 Future happy non-seekers were using external finance (42% in H1 2019) and this was somewhat higher than was seen in previous years (31-33% 2016-2018).

On an annual basis, future demand for finance declined somewhat from 14% in 2012 to 10% in 2018 and then 12% in H1 2019. More markedly, the proportion of Future would-be seekers halved (23% to 11% currently), 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	H1 2019
<b>Unweighted base:</b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>	<b>18,002</b>	<b>9000</b>
Plan to apply/renew	14%	14%	13%	13%	12%	12%	10%	12%
Future would-be seekers	23%	18%	16%	11%	13%	10%	13%	11%
Future happy non-seekers	63%	68%	71%	76%	76%	78%	77%	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 14% in 2018, then slightly higher in H1 2019 (16%).
- Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 10%) and was 9% for H1 2019.
- This left the Future happy non-seekers of finance as an increasingly large group (60% to 76%) and 75% for H1 2019.

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 (21% in Q2 2019) and fewer Future happy non-seekers (62% – although they remained the largest single group):

### Future finance plans

#### SMEs excluding PNB

– over time

By date of interview

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<b>Unweighted base:</b>	<b>3038</b>	<b>2890</b>	<b>3001</b>	<b>2735</b>	<b>2868</b>	<b>2848</b>	<b>2843</b>	<b>2906</b>	<b>3156</b>
Plan to apply/renew	21%	23%	26%	18%	18%	22%	19%	21%	21%
Future would-be seekers – with identified need	2%	2%	2%	3%	2%	2%	1%	1%	1%
Future would-be seekers – no immediate identified need	16%	15%	17%	26%	22%	21%	20%	18%	16%
Future happy non-seekers	61%	59%	55%	53%	58%	55%	60%	60%	62%

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 has been around 1 in 5, with the exception of 2014 and 2015 when a quarter were planning to apply.
- The proportion of Future would-be seekers declined from 35% in 2012 to 19% in 2017 but has been more variable since (18% for H1 2019).
- The largest group remained the Future happy non-seekers of finance and the group increased from 44% of these SMEs in 2012 to 61% in H1 2019.

<b>Future finance plans</b>								
Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016	2017	2018	H1 2019
<i>Unweighted base:</i>	15,312	14,578	13,613	13,011	11,634	11,940	11,294	6062
Plan to apply/renew	21%	23%	24%	25%	23%	22%	19%	21%
Future would-be seekers	35%	30%	28%	21%	23%	19%	24%	18%
Future happy non-seekers	44%	47%	49%	54%	54%	59%	57%	61%

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. With the exception of Q1 2018 (when 15% were FWBS) around 1 in 10 SMEs have met the definition in recent quarters, with the smallest SMEs more likely to do so:

### Future would-be seekers

Over time – row

percentages By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
All SMEs	10%	9%	10%	15%	12%	12%	12%	11%	11%
0 employee	10%	9%	11%	16%	13%	12%	12%	11%	12%
1-9 employees	10%	9%	9%	12%	10%	11%	11%	10%	7%
10-49 employees	6%	6%	6%	8%	7%	7%	9%	8%	11%
50-249 employees	4%	5%	3%	6%	3%	8%	6%	5%	8%
Minimal external risk rating	11%	5%	3%	7%	6%	11%	9%	9%	6%
Low external risk rating	7%	6%	8%	15%	8%	7%	7%	9%	11%
Average external risk rating	9%	9%	10%	14%	13%	11%	13%	11%	10%
Worse than average external risk rating	11%	9%	12%	16%	15%	13%	12%	10%	11%
Agriculture	13%	10%	10%	9%	9%	10%	11%	12%	10%
Manufacturing	5%	8%	9%	10%	15%	18%	12%	9%	16%
Construction	9%	10%	10%	16%	11%	11%	13%	12%	12%
Wholesale/Retail	14%	9%	8%	13%	11%	13%	14%	15%	10%
Hotels & Restaurants	7%	7%	10%	13%	17%	13%	15%	10%	9%
Transport	10%	10%	13%	14%	14%	15%	17%	10%	9%
Property/Business Services	10%	8%	10%	17%	11%	11%	9%	9%	10%
Health	7%	6%	11%	18%	8%	8%	7%	9%	9%
Other Community	10%	11%	13%	14%	18%	10%	10%	9%	14%
All SMEs excluding PNBs	18%	18%	19%	29%	24%	23%	21%	19%	17%

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



To understand this further, the table below shows all the reasons given by Future would-be seekers in Q2 2019 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:

<b>Reasons for not applying (all mentions)</b>		<b>0-9 emps</b>	<b>10-249 emps</b>
All Future would-be seekers Q2 19	Total		
<b>Unweighted base:</b>	<b>440</b>	<b>229</b>	<b>211</b>
<b>Reluctant to borrow now (any)</b>	<b>66%</b>	<b>64%</b>	<b>89%</b>
-Prefer not to borrow in economic climate	56%	55%	60%
-Predicted performance of business	11%	10%	30%
<b>Issues with <u>principle</u> of borrowing</b>	<b>8%</b>	<b>8%</b>	<b>4%</b>
-Not lose control of business	2%	3%	2%
-Can raise personal funds if needed	5%	5%	1%
-Prefer other forms of finance	1%	1%	*
-Go to family and friends	1%	1%	*
<b>Issues with <u>process</u> of borrowing</b>	<b>21%</b>	<b>21%</b>	<b>4%</b>
-Would be too much hassle	10%	10%	2%
-Thought would be too expensive	9%	10%	-
-Bank would want too much security	4%	4%	1%
-Too many terms and conditions	1%	1%	1%
-Did not want to go through process	*	-	*
-Forms too hard to understand	2%	2%	1%
<b>Discouraged (any)</b>	<b>14%</b>	<b>14%</b>	<b>3%</b>
-Direct (Put off by bank)	*	*	-
-Indirect (Think I would be turned down)	14%	14%	3%

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.

In Q2 2019, a reluctance to borrow, at 63%, remained the main reason for not applying for external finance. The proportion citing it as their main reason has varied over time (from 39% to 69%), but from Q3 2018 it has been mentioned more than had been seen since early 2017. Mentions of discouragement also varied over recent quarters (8-28%) and in Q2 2019 were at the lower end of the range seen (10%):

### Main reason for not applying

#### Future would-be seekers – over

time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	17	17	17	18	18	18	18	19	19
<b>Unweighted base:</b>	<b>335</b>	<b>318</b>	<b>344</b>	<b>445</b>	<b>406</b>	<b>424</b>	<b>425</b>	<b>386</b>	<b>440</b>
Reluctant to borrow now (any)	39%	44%	53%	41%	55%	66%	68%	69%	63%
-Prefer not to borrow in economic climate	25%	33%	31%	32%	52%	60%	61%	55%	53%
-Predicted performance of business	13%	11%	21%	9%	3%	6%	8%	14%	10%
Issues with <u>process</u> of borrowing	19%	13%	11%	38%	16%	13%	9%	11%	15%
Discouraged (any)	25%	18%	28%	12%	22%	8%	8%	9%	10%
-Direct (Put off by bank)	2%	*	2%	*	2%	*	*	-	-
-Indirect (Think I would be turned down)	23%	18%	26%	12%	20%	8%	8%	9%	10%
Issues with <u>principle</u> of borrowing	2%	5%	2%	2%	1%	2%	5%	4%	5%

#### 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 between 2013 (64%) and 2017 (50%), but with more mentions again in 2018 (57%) and a further increase for H1 2019 (66%). It remained the most mentioned reason, with fewer mentions of discouragement than previously seen:

<b>Main reason for not applying</b>							H1
Future would-be seekers – over time	2013	2014	2015	2016	2017	2018	2019
<b><i>Unweighted base:</i></b>	<b>3241</b>	<b>2765</b>	<b>1939</b>	<b>1967</b>	<b>1416</b>	<b>1700</b>	<b>826</b>
Reluctant to borrow now (any)	64%	59%	55%	57%	50%	57%	66%
Issues with <u>process</u> of borrowing	12%	15%	18%	16%	14%	20%	13%
Discouraged (any)	14%	13%	14%	15%	22%	13%	10%
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%	3%	3%	4%

Q239/239a Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where there was a more even spread of reasons for not applying.

Further analysis of the main reasons given by Future would-be seekers, including by size and risk rating, is based on the latest quarter (Q2 2019).

A 'reluctance to borrow now' was the main reason for thinking they would not apply, given by two thirds of these SMEs (63%) with larger FWBS more likely to mention the predicted performance of their business within this category. 1 in 10 FWBS mentioned discouragement (10%, all of it indirect), with more mentions from smaller SMEs:

<b>Main reason for not applying</b>			
<b>Future would-be seekers by size</b>		<b>0-9</b>	<b>10-249</b>
<b>Q2 19</b>	<b>Total</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>440</b>	<b>229</b>	<b>211</b>
Reluctant to borrow now (any)	63%	62%	87%
-Prefer not to borrow in economic climate	53%	53%	59%
-Predicted performance of business	10%	9%	29%
Issues with <u>process</u> of borrowing	15%	15%	4%
Discouraged (any)	10%	10%	3%
-Direct (Put off by bank)	-	-	-
-Indirect (Think I would be turned down)	10%	10%	3%
Issues with <u>principle</u> of borrowing	5%	5%	3%

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

Amongst Future would-be seekers with employees, 71% mentioned a reluctance to borrow now compared to 10% citing the process of borrowing and 8% each mentioning discouragement / the principle of borrowing.

The table below shows the main reasons given for not applying in Q2 2019 by risk rating, with a 'reluctance to borrow now' still the main barrier across the risk ratings. Across the other reasons:

- Those with an average or worse than average rating were more likely to mention the process of borrowing (18%).
- Those with a minimal or low rating were more likely to mention discouragement (19%).

### Main reason for not applying

Future would-be seekers by risk rating Q2 19	Total	Min/Low	Avge/ Worse Avg
<b>Unweighted base:</b>	<b>440</b>	<b>197</b>	<b>199</b>
Reluctant to borrow now (any)	63%	61%	63%
-Prefer not to borrow in economic climate	53%	42%	55%
-Predicted performance of business	10%	19%	8%
Issues with <u>process</u> of borrowing	15%	8%	18%
Discouraged (any)	10%	19%	7%
-Direct (Put off by bank)	-	-	-
-Indirect (Think I would be turned down)	10%	19%	7%
Issues with <u>principle</u> of borrowing	5%	2%	6%

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 very limited, but some analysis on an annual basis is possible:

- The small group that had a need for finance identified gave a range of reasons, with discouragement and issues with the process of borrowing being mentioned more in H1 2019 than a reluctance to borrow now.
- Amongst those with no immediate need for finance, a reluctance to borrow was the main, and increasingly mentioned, reason for not applying for finance (69% in H1 2019).

Main reason for not applying	Immediate need			No immediate need		
	2017	2018	H1 2019	2017	2018	H1 2019
<b>Future would-be seekers – over time</b>						
<i>Unweighted base:</i>	<b>99</b>	<b>125</b>	<b>58*</b>	<b>1317</b>	<b>1575</b>	<b>768</b>
Reluctant to borrow now (any)	26%	39%	21%	52%	58%	69%
Issues with <u>process</u> of borrowing	24%	35%	37%	13%	19%	11%
Discouraged (any)	35%	21%	36%	21%	12%	8%
Issues with <u>principle</u> of borrowing	10%	1%	6%	2%	3%	4%

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

To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q2 2019.

7% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but were reluctant to borrow, mainly because of the current climate. 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), 11% were reluctant to borrow now, mostly due to the current economic climate:

<b>Reasons for not applying</b>	<b>Main reason</b>	<b>All SMEs</b>	<b>All SMEs excl. PNB</b>
<b>Q2 19 – Future would-be seekers</b>			
<b>Unweighted base:</b>	<b>440</b>	<b>4500</b>	<b>3156</b>
Reluctant to borrow now (any)	63%	7%	11%
-Prefer not to borrow in economic climate	53%	6%	9%
-Predicted performance of business	10%	1%	2%
Issues with <u>process</u> of borrowing	15%	2%	3%
Discouraged (any)	10%	1%	2%
-Direct (Put off by bank)	-	-	-
-Indirect (Think I would be turned down)	10%	1%	2%
Issues with <u>principle</u> of borrowing	5%	*	1%

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

## HOW HAVE INTERNATIONAL SMES RESPONDED TO CURRENT CONDITIONS?

When the Q2 2019 interviews were conducted, the date and terms under which the UK will leave the EU remained 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 sizes of these groups have changed very little since 2016, and in H1 2019:

- 4% of SMEs exported but did not import (increasing by size from 4% to 6%).
- 7% of SMEs imported but did not export (increasing by size from 6% with 0 employees to 9-11% with employees).
- 5% of SMEs both imported and exported (increasing by size of SME from 4% to 15%).

Key results for Q2 2019 are shown below:

### Future outlook summary table

Q2 19- all SMEs row percentages	All SMEs	Export	Import	Both
<b>Unweighted base:</b>	<b>4500</b>	<b>223</b>	<b>362</b>	<b>330</b>
Plan to grow	55%	54%	68%	58%
Economic climate 8-10 barrier	22%	22%	28%	30%
Political uncertainty 8-10 barrier	25%	26%	36%	50%
Sterling 8-10 barrier	14%	22%	17%	30%
Plan to apply for finance	13%	13%	16%	25%
Future would-be seeker of finance	11%	9%	12%	6%

Compared to SMEs overall, SMEs that imported (either solely or alongside exporting) were more likely to be planning to grow and to have an appetite for finance but also to see barriers to the business.

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 both import and export less likely to be planning to grow than previously and more concerned about the various barriers to running the business, notably political uncertainty:



<b>Future outlook summary table</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>
<b>Over time – all SMEs</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>19</b>
<b>Plan to grow</b>									
• All SMEs	45%	45%	46%	47%	48%	48%	50%	46%	54%
• Export only	65%	65%	51%	52%	62%	50%	63%	59%	54%
• Import only	61%	58%	66%	63%	58%	66%	69%	56%	68%
• Import and export	69%	67%	66%	67%	62%	74%	57%	64%	58%
<b>Plan to apply for finance</b>									
• All SMEs	12%	12%	14%	9%	9%	11%	10%	12%	13%
• Export only	21%	8%	13%	4%	10%	8%	17%	20%	13%
• Import only	12%	23%	18%	14%	11%	22%	21%	24%	16%
• Import and export	18%	10%	29%	10%	21%	18%	18%	17%	25%
<b>Economic climate 8-10</b>									
• All SMEs	13%	16%	14%	16%	15%	17%	22%	19%	22%
• Export only	22%	22%	24%	21%	15%	19%	27%	23%	22%
• Import only	19%	30%	22%	24%	26%	26%	24%	24%	28%
• Import and export	19%	19%	29%	15%	22%	25%	25%	18%	30%
<b>Political uncertainty 8-10</b>									
• All SMEs	13%	14%	15%	16%	15%	19%	24%	21%	25%
• Export only	19%	26%	20%	30%	16%	24%	33%	27%	26%
• Import only	20%	22%	15%	20%	22%	27%	29%	23%	36%
• Import and export	29%	22%	34%	18%	28%	33%	37%	32%	50%
<b>Changes in sterling 8-10</b>									
• All SMEs	10%	15%	10%	11%	11%	11%	15%	12%	14%
• Export only	17%	12%	13%	12%	15%	14%	17%	16%	22%
• Import only	20%	29%	25%	29%	24%	17%	19%	15%	17%
• Import and export	26%	32%	31%	25%	32%	25%	29%	31%	30%

The second table takes a longer term view back to 2013 where data exists. This shows some volatility over time, with international SMEs typically more likely to be planning to grow and/or apply for finance than their domestic peers:

International	Summary analysis over time
Exporters	<p>This groups has always been more likely to be planning to grow than domestic SMEs, but ambition dipped in 2016 (49%), before recovering from 2017 onwards (56-58%).</p> <p>Their future appetite for finance peaked at 22% in 2015 and then declined (to 10% in 2018) before increasing somewhat in H1 2019 (16%).</p> <p>They became more worried about political uncertainty in 2017 and maintained this concern in 2018 and H1 2019 (27%), while concerns about the economic climate have been more stable (currently 22% and in line with the market).</p>
Importers	<p>This group has also always been more likely to be planning to grow than domestic SMEs, and a stable 6 in 10 have been planning to grow.</p> <p>Their appetite for finance declined between 2014 and 2018 but, at 20% in H1 2019, remained ahead of SMEs overall.</p> <p>Levels of concern about both the economic climate and political uncertainty have increased somewhat since 2015 with just over a quarter concerned about each barrier but concern about changes in the value of sterling was somewhat lower in H1 2019 (16%).</p>
Import and export	<p>This group has also always been more likely to be planning to grow than domestic SMEs, peaking at 72% in 2015 but declining since (to 61% in H1 2019).</p> <p>They have typically also had more of an appetite for finance, but it has varied over time and has been somewhat lower since 2017 (21% in H1 2019 and still ahead of the market).</p> <p>Levels of concern about the economic climate were broadly stable and slightly higher than for SMEs overall, as were concerns regarding the change in value of sterling, while levels of concern about political uncertainty increased markedly in H1 2019 to 41%.</p>

<b>Future outlook summary table</b>							H1
Over time – all SMEs	2013	2014	2015	2016	2017	2018	2019
<b>Plan to grow</b>							
• All SMEs	49%	47%	45%	43%	45%	49%	50%
• Export only	54%	56%	59%	49%	58%	56%	56%
• Import only	63%	65%	62%	63%	63%	64%	62%
• Import and export	66%	69%	72%	70%	67%	64%	61%
<b>Plan to apply for finance</b>							
• All SMEs	14%	13%	13%	12%	12%	10%	12%
• Export only	19%	20%	22%	19%	13%	10%	16%
• Import only	19%	24%	19%	19%	17%	17%	20%
• Import and export	21%	24%	19%	25%	18%	17%	21%
<b>Economic climate 8-10 barrier</b>							
• All SMEs	27%	17%	13%	12%	14%	17%	20%
• Export only	29%	14%	19%	17%	20%	20%	22%
• Import only	26%	20%	12%	16%	21%	25%	26%
• Import and export	24%	15%	17%	21%	21%	22%	24%
<b>Political uncertainty 8-10 barrier</b>							
• All SMEs	-	-	9%	10%	14%	19%	23%
• Export only	-	-	9%	10%	23%	25%	27%
• Import only	-	-	11%	16%	19%	25%	29%
• Import and export	-	-	8%	20%	26%	29%	41%
<b>Change in value of sterling 8-10 barrier</b>							
• All SMEs	-	-	-	-	11%	12%	13%
• Export only	-	-	-	-	14%	15%	19%
• Import only	-	-	-	-	25%	22%	16%
• Import and export	-	-	-	-	29%	28%	30%

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 have become less likely to be planning to grow (47% in H1 2019) and they continue to be more concerned about political uncertainty (43%). The growth prospects of those who do not sell to the EU were more stable, as was their appetite for finance after a dip in H1 2018. They were less concerned than previously about the economic climate but more concerned about changes to the value of sterling:

<b>Future outlook summary table</b>	H2	H1	H2	H1	H2	H1
<b>Over time – Exporters row percentages</b>	<b>16</b>	<b>17</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>19</b>
<b>Plan to grow</b>						
• All/most sales to EU	54%	57%	60%	65%	51%	47%
• Some sales to EU	64%	68%	66%	61%	65%	65%
• No sales to EU	54%	57%	56%	54%	56%	57%
<b>Plan to apply for finance</b>						
• All/most sales to EU	20%	12%	14%	10%	11%	13%
• Some sales to EU	19%	17%	14%	13%	15%	22%
• No sales to EU	20%	21%	16%	8%	20%	19%
<b>Economic climate 8-10 barrier</b>						
• All/most sales to EU	26%	29%	25%	23%	29%	25%
• Some sales to EU	21%	14%	20%	13%	20%	25%
• No sales to EU	29%	14%	30%	23%	31%	18%
<b>Political uncertainty 8-10 barrier</b>						
• All/most sales to EU	31%	37%	33%	31%	43%	43%
• Some sales to EU	17%	18%	21%	21%	28%	33%
• No sales to EU	14%	19%	30%	15%	26%	26%
<b>Changes in sterling 8-10 barrier</b>						
• All/most sales to EU	-	35%	27%	29%	24%	31%
• Some sales to EU	-	18%	21%	16%	22%	21%
• No sales to EU	-	9%	21%	24%	14%	27%

Q86 All exporters