SME FINANCE MONITOR

3 month rolling analysis to end September 2022

An independent report by
BVA BDRC, October 2022

Introduction

The SME Finance Monitor was established in 2011 and provides detailed analysis of SMEs and their access to finance, typically on a half yearly basis. The Q4 2021 report was published in March 2022 and the Q2 2022 chart pack was published in October 2022.

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

The most recent data point for this report is the 3 months from July to September 2022, ie Q3 2022.

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

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

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

Introduction – Changes to main SME Finance Monitor questionnaire and reporting

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

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

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

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

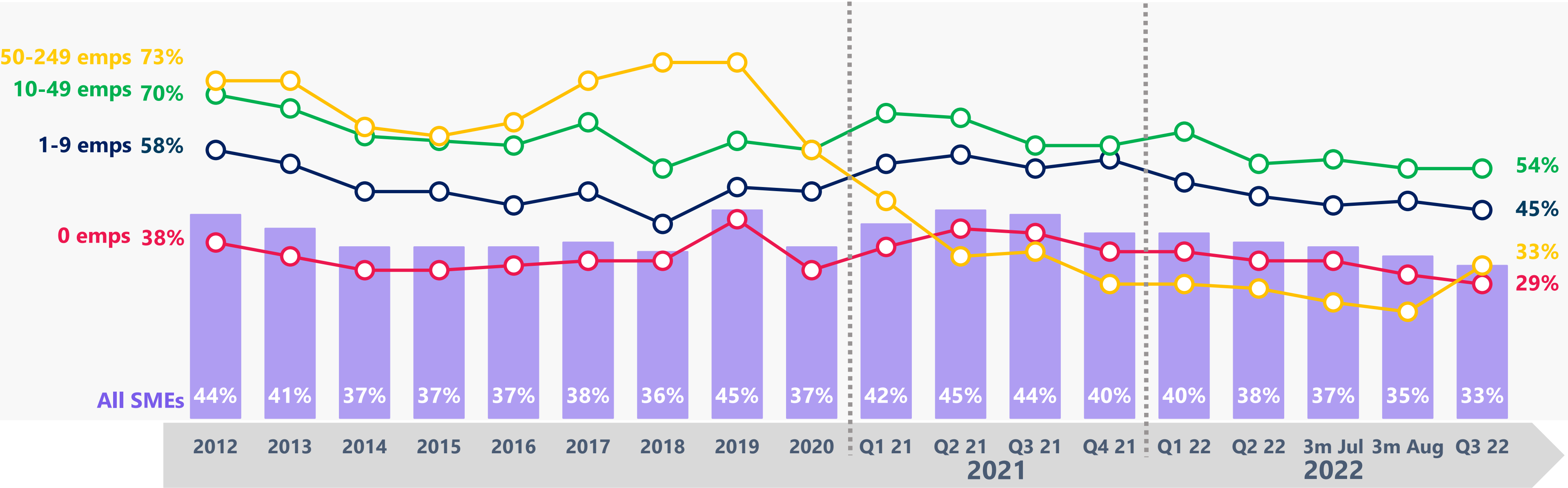
All of the changes have been reported on in full from the Q2 2019 SME Finance Monitor report, published in September 2019

This pack has been updated to reflect the new questionnaire and some new data included.

From March 2022, some additional charts have been included to cover topical issues such as increasing costs and the new trading arrangements with the EU.

33% of SMEs were using external finance, down from 40% in Q1 2022 overall and across all size bands but particularly the smallest SMEs, due to lower usage of loans and/or grants

Time series: use of external finance per quarter

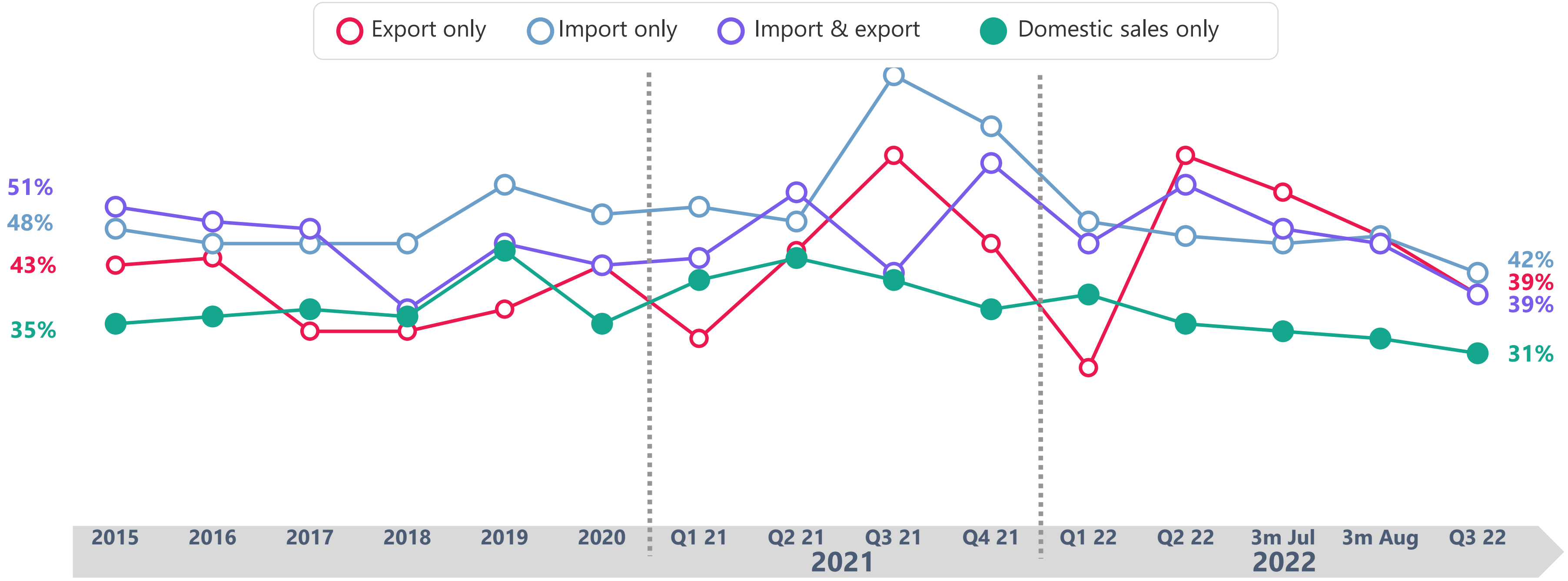


For 2019 as a whole, 45% of SMEs were using external finance, declining to 37% for 2020 as a whole. The increase in 2021 to 44-45% has not been maintained into 2022 (currently 33%) and that decline has been seen across all size bands, although the mid sized SMEs with 10-49 employees remained the most likely to be using external finance, and there has been an increase in use of finance in Q3 amongst those with 50-249 employees.

Q15 Base : All respondents 3mths to Sept 2022 4250 851/1463/1359/577

Use of external finance remained lowest (and declining) amongst Domestic only SMEs (31% currently), with little to choose between the groups of international SMEs and all at lower levels than in Q2 2022

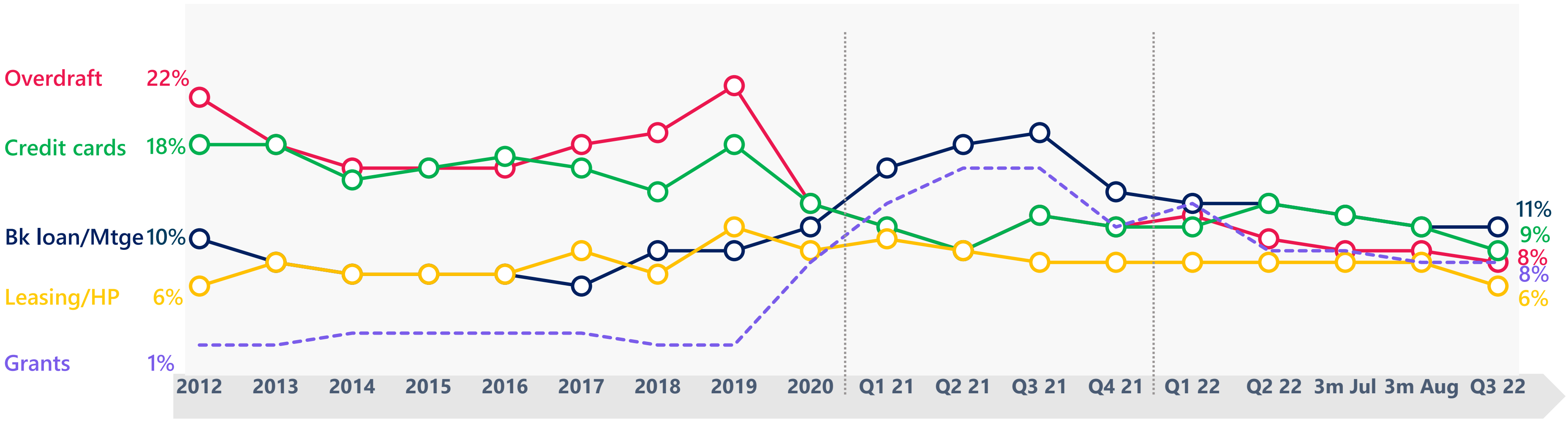
Time series: use of external finance by extent of international trade alongside domestic sales



Use any external finance

Loans/commercial mortgages remained the most common form of finance used, but at markedly lower levels than in 2021

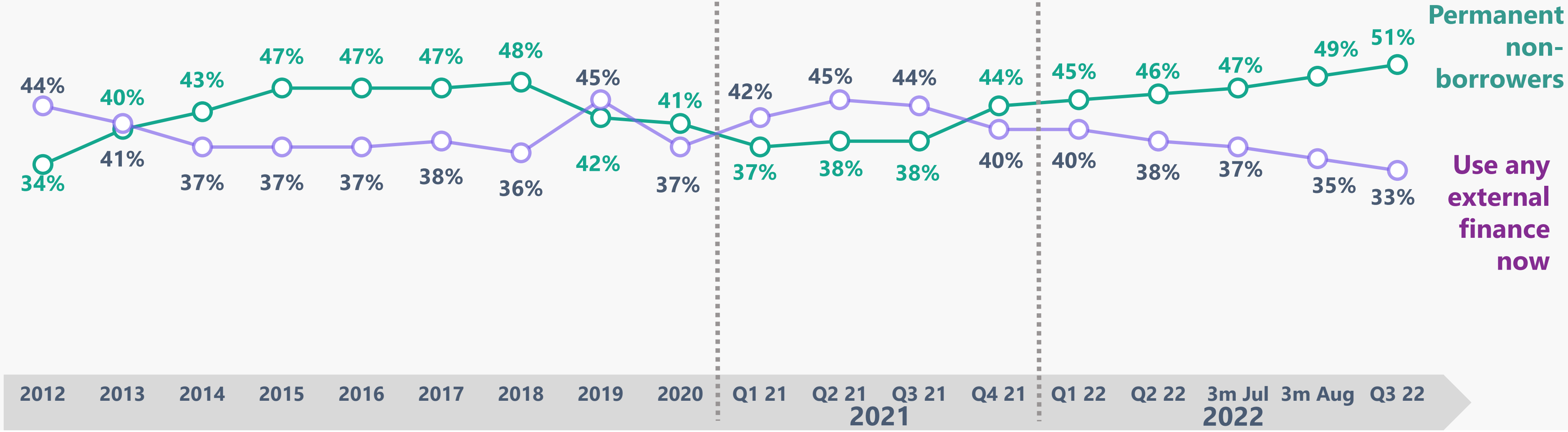
Annual time series: Main forms of finance used



Q15 all SMEs 3m Sept 4250

Since Q1 2022, the proportion of PNBs has increased as use of finance has decreased, with the gap between the two now 18 percentage points, the widest seen to date

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

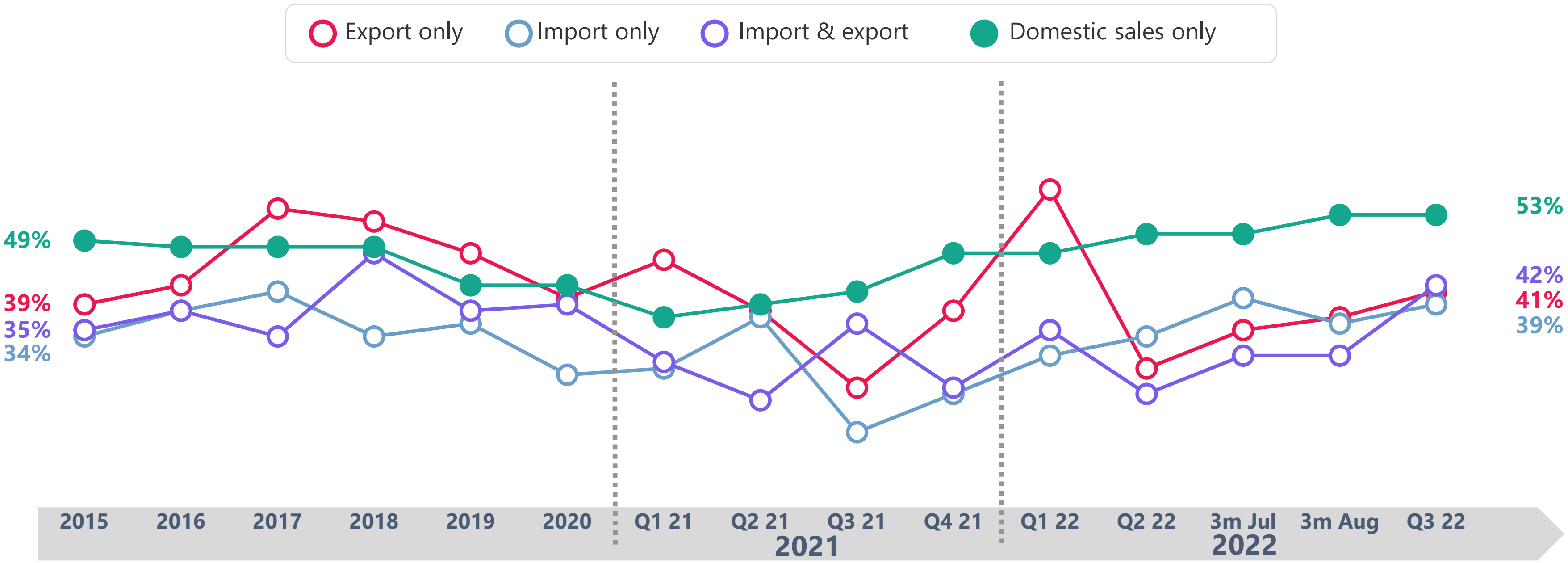


The '**Permanent non-borrowers**' are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. The latest figure of 51% is the highest seen post pandemic.

Q15 and Disgeg Base : All respondents 3m Sept 4250

The latest increase in PNBs is led by Domestic SMEs but since Q2 2022 more international SMEs have met the definition

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

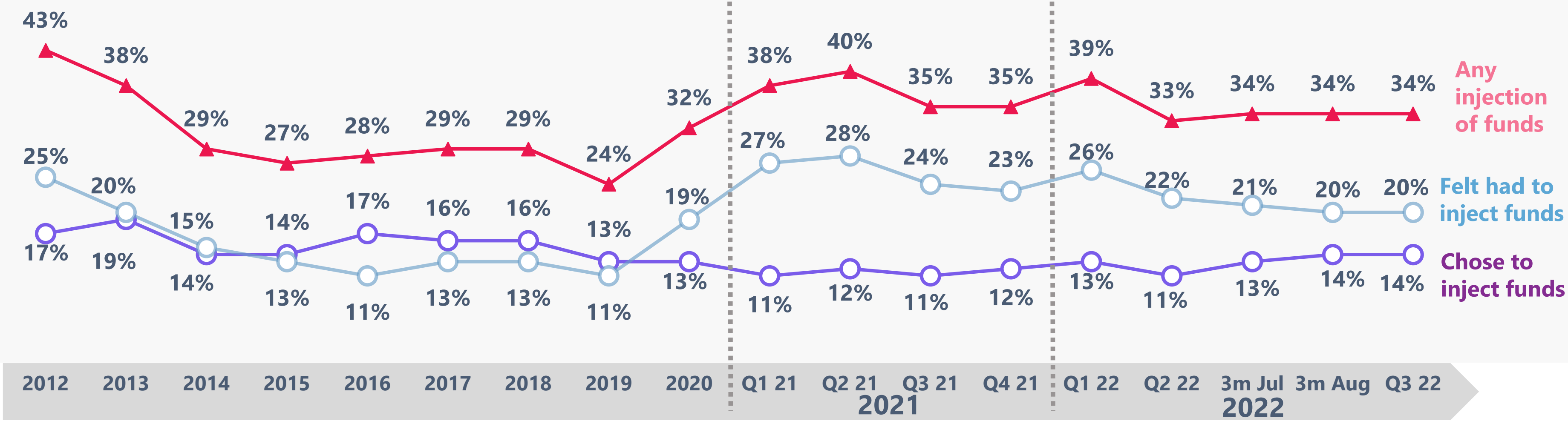


Permanent non-borrowers
(no apparent appetite for finance)

Disgeg Base: all 3mths to Sept 193/419/444/3194

34% of SMEs had injected personal funds in the past year, still somewhat higher than pre-pandemic but lower than in Q1 2022 (39%) as fewer SMEs felt they "had" to inject funds

Time series: Injections of personal funds in previous 12 months

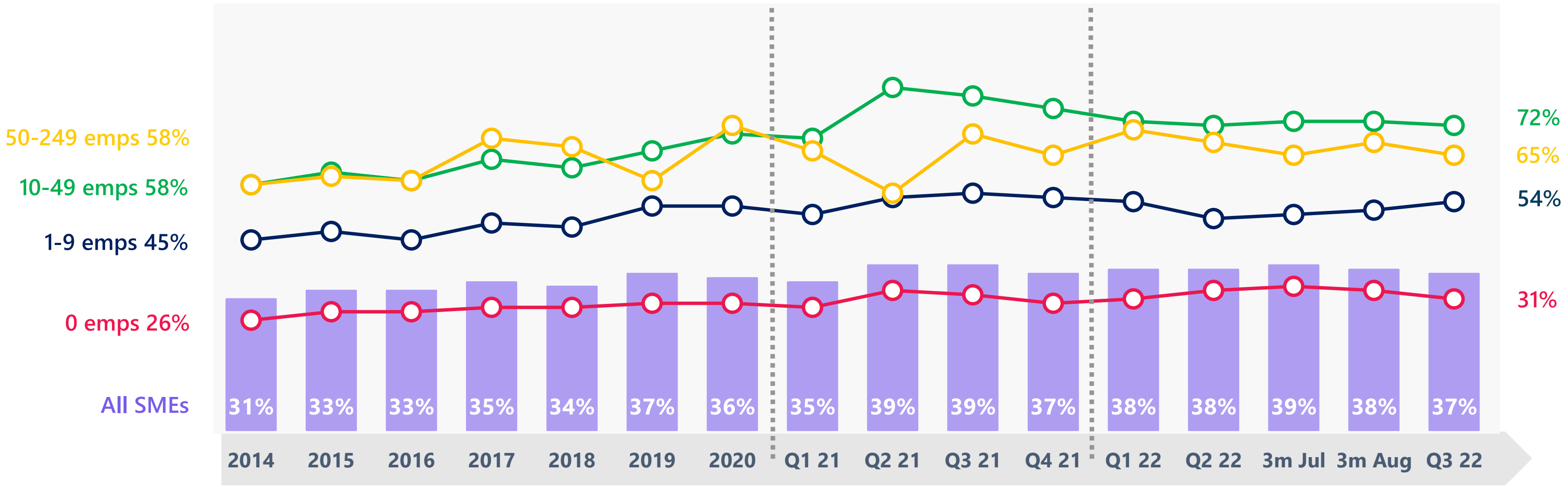


The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to 28-29% of SMEs from 2016 onwards. In 2019 the proportion dropped to a quarter of SMEs, but then increased to 32% in 2020 and 40% in Q2 2021. After a slight decline to 35% in the second half of 2021, 39% reported an injection in Q1 2022, but this proportion has been lower since, currently 34%. Unlike pre-pandemic, SMEs remained more likely to feel they had to inject funds (20%) than to have chosen to (14%), albeit the "gap" is now narrowing.

Q15d2 Base : All respondents 3m Sept 4250

37% of SMEs were using trade credit, stable since Q4 2021 and slightly higher than the proportion seen immediately pre-pandemic. Those with more than 10 employees remained the most likely to use trade credit

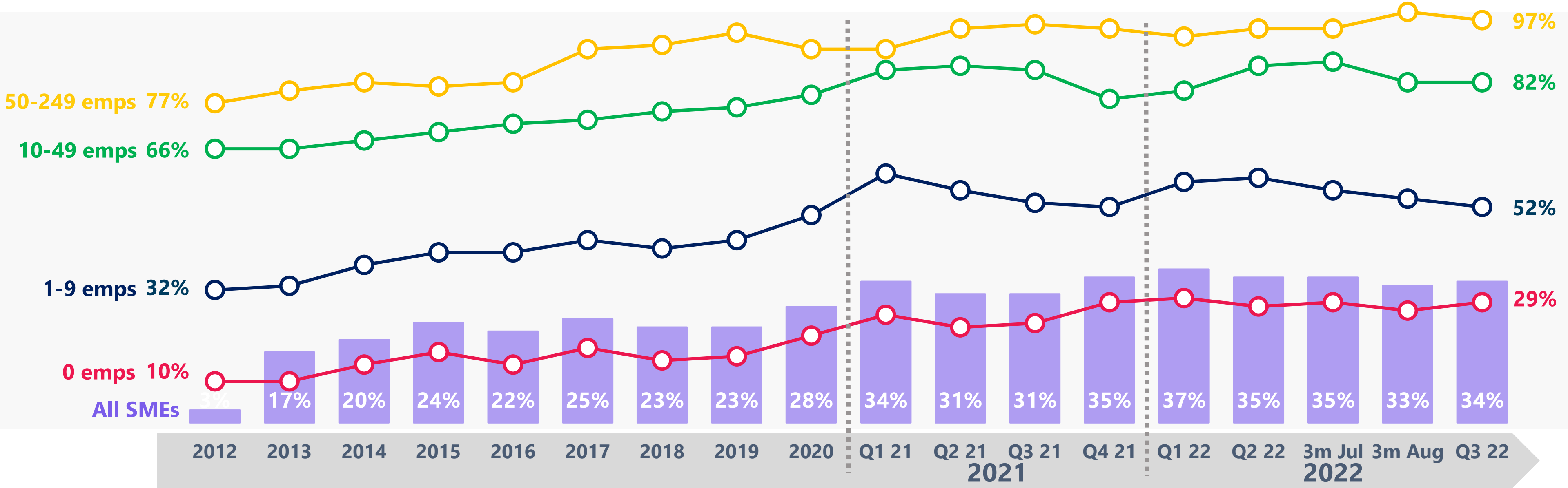
Time series: : Using trade credit



Q14 Base: All respondents 3m Sept 4250

Overall, 34% of SMEs held more than £10,000 of credit balances, somewhat lower than in Q1 2022 as fewer smaller SMEs with 1-9 employees reported having such sums

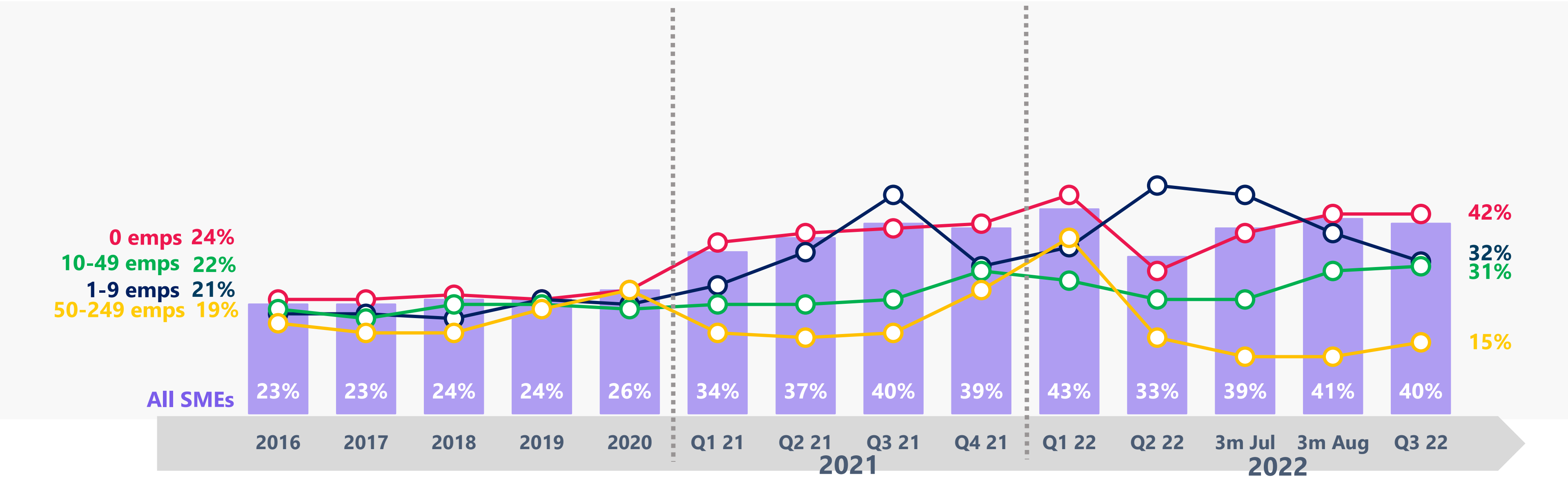
Time series: £10k credit balances held



The proportion of SMEs holding £10,000 or more in credit balances increased from 16% in 2012 to 24% in 2015 and remained broadly stable to 2019. During 2020, the proportion of SMEs holding such sums increased steadily, to 28% for the year as a whole. Over 30% of SMEs held such sums in each quarter of 2021, reaching 37% in Q1 2022 but declining very slightly since, currently 34%

SMEs held the equivalent of 40% of their turnover in credit balances. This remains higher than seen prior to 2021, albeit not as high as in Q1 2022

Time series: % of turnover held as credit balances

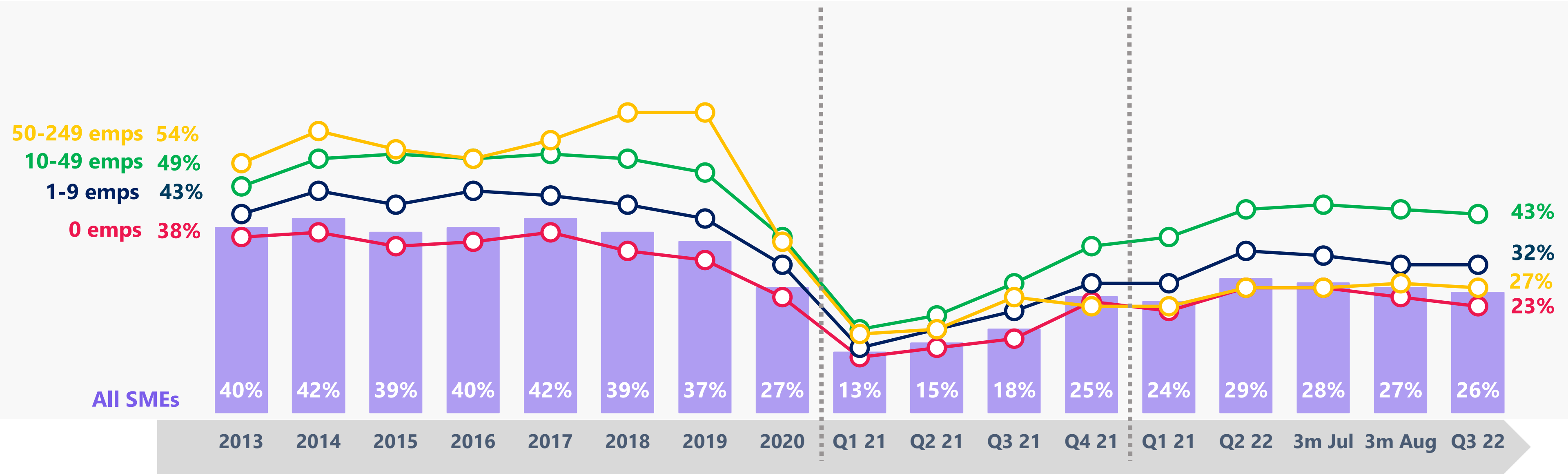


More recent analysis looks at credit balances held as a percentage of total turnover (both collected in bands, with mid-points used and noting that a number of SMEs will be reporting lower turnover now than pre-pandemic). For the 3 months to Sept 2022, SMEs held the equivalent of 40% of their turnover in credit balances on average, closer to the 43% in Q1 2022 due to a higher percentage amongst all but those with 1-9 employees (who have become somewhat less likely to hold such sums, see previous slide)

Q117/Q9 Base : All respondents 3mths to Sept excl DK 1290
Percentage cap imposed from Jan 2022 to prevent 1-2 respondents having disproportionate impact on average

26% of eligible SMEs reported growth in the last 12 months. After the steady increase in reported growth from 13% in Q1 2021 to 29% in Q2 2022, there has been no further increase and growth remains below pre-pandemic levels

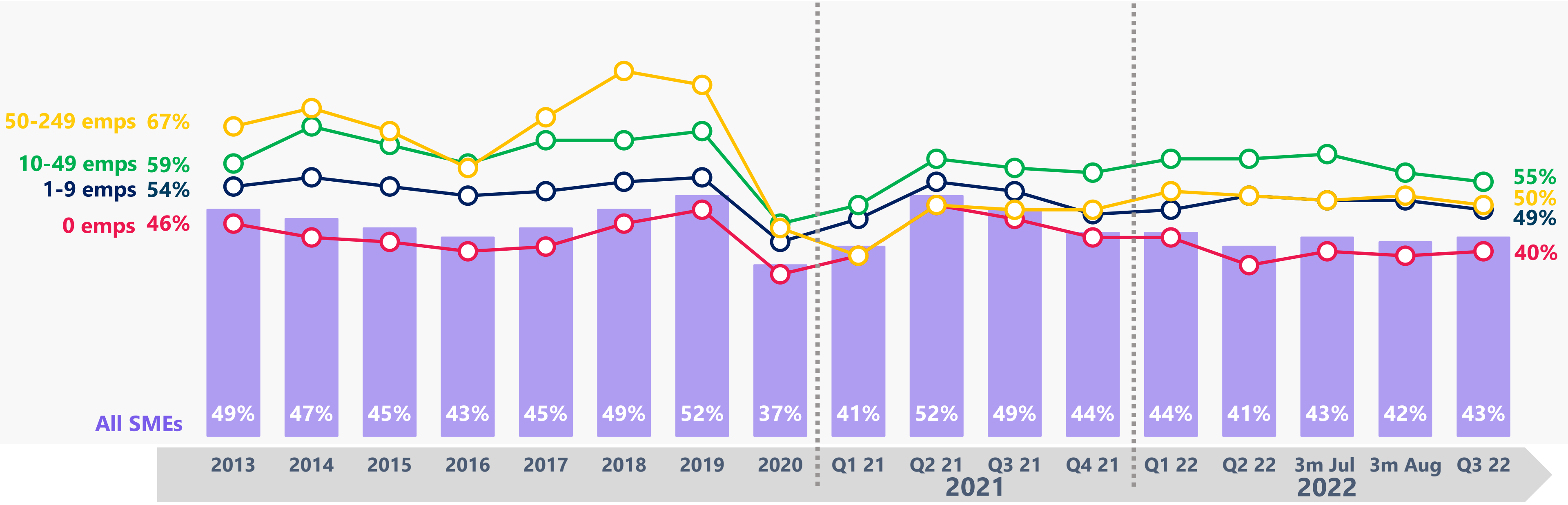
Time series: Have grown (excluding Starts)



2012 to 2019, the proportion of SMEs (excluding Starts) reporting growth varied little and was 37% for 2019. Reported growth in 2020 was initially broadly stable but then declined steadily across all size bands and was 27% for the year as a whole. It increased during 2021 to 25% in Q4 and to 26% currently. In 2019, 19% of SMEs had declined, remaining at a similar level for H1 2020, but as the pandemic made more of an impact on performance, the proportion increased to 65% in Q1 2021. It was 36% in the latest period, as 38% of SMEs remained the same size.

After a sharp decline in Q2 2020, growth aspirations initially increased steadily, reaching 52% in Q2 2021. The proportion planning to grow then declined, to 41% in Q2 2022, and has been broadly stable since

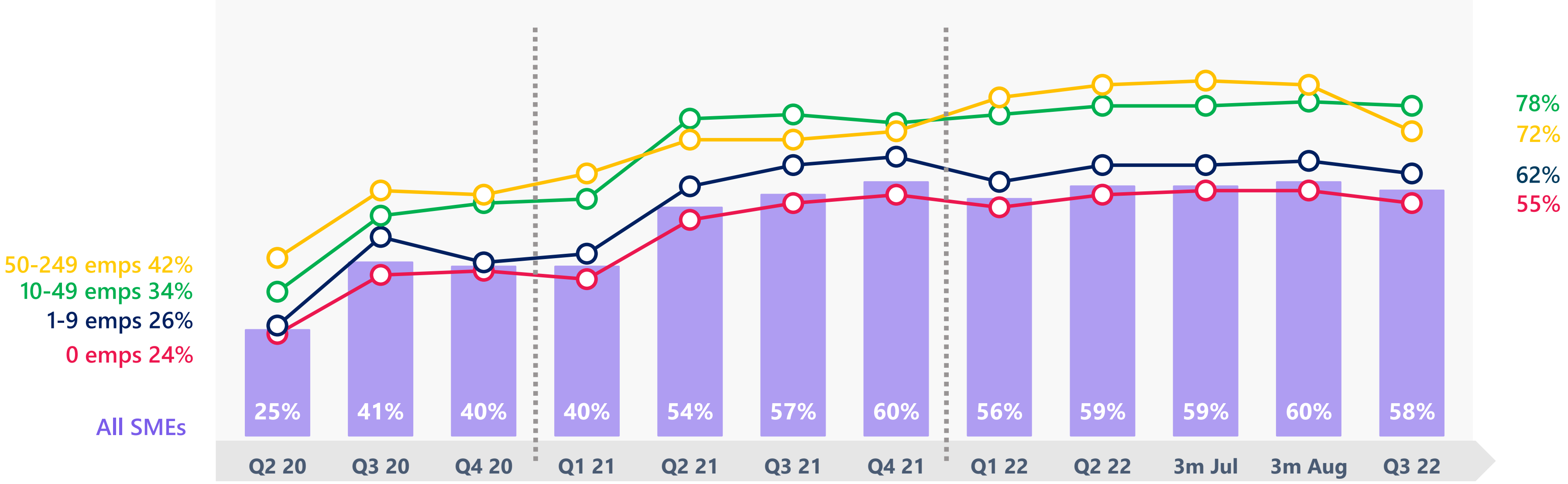
Time series: Have plans to grow



For 2019 as a whole, 52% of SMEs expected to grow, up from 49% in 2018 and the highest level seen to date on SMEFM. In the first half of 2020 those aspirations lowered significantly, to 24% for Q2 and 37% for the year as a whole. In 2021, growth aspirations initially increased, to 52% for Q2 2021 but this was not maintained and in the latest period a stable 43% were planning to grow, lower than seen immediately pre-pandemic

From 25% in a good mood in Q2 2020, there was a steady increase in the proportion of SMEs in a 'good mood' about their business, notably the larger ones, to 68% in Q1 2022. Mood since then has been somewhat lower, but stable (currently 58%), back in line with the latter half of 2021

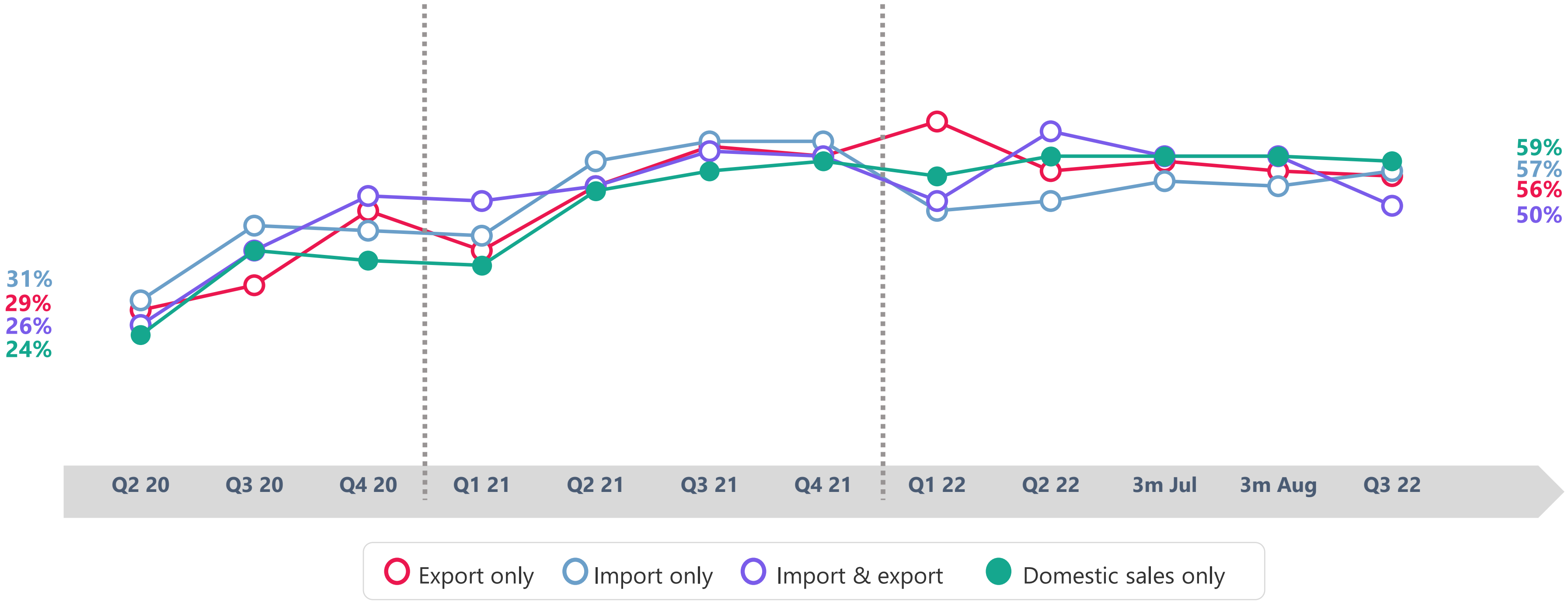
NEW Time series: In a 'good' mood about the business (7-10)



Qcv1 all SMEs 3m to Sept 4250

There remained little difference in mood between domestic only SMEs and those trading internationally, although fully international SMEs were now the least likely to be in a "good" mood

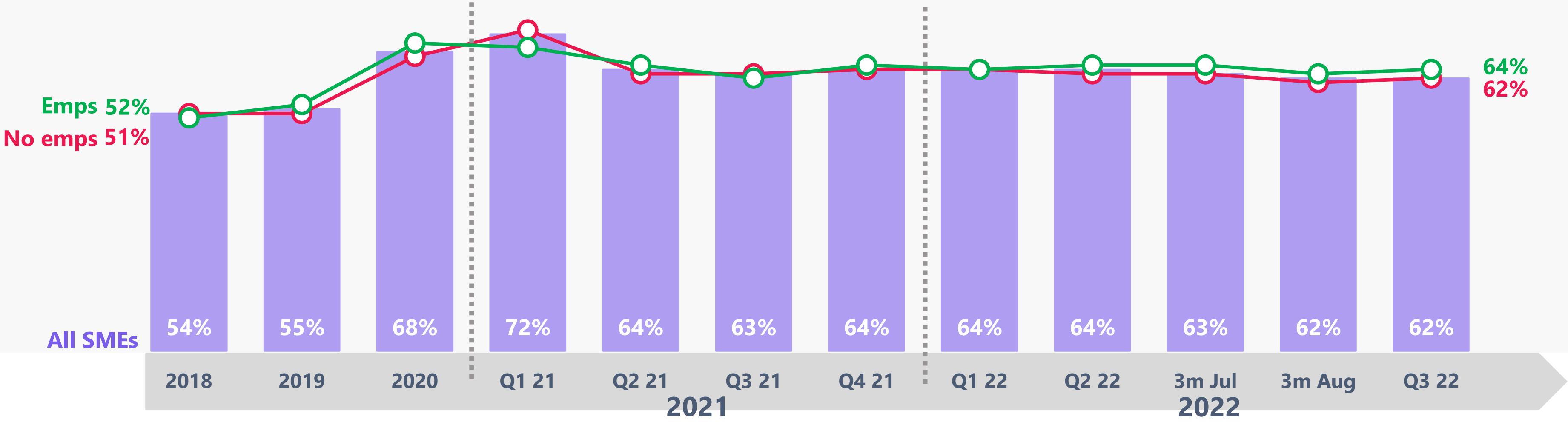
NEW Time series: In a 'good' mood about the business (7-10) by extent of international trade



Qcv1 Base: All 3mths to Sept 193/419/444/3194

A stable 6 in 10 SMEs were being cautious due to the future feeling uncertain, still markedly higher than in 2019 but lower than the 72% feeling cautious in Q1 2021

Time series: Agree that future is uncertain so being cautious

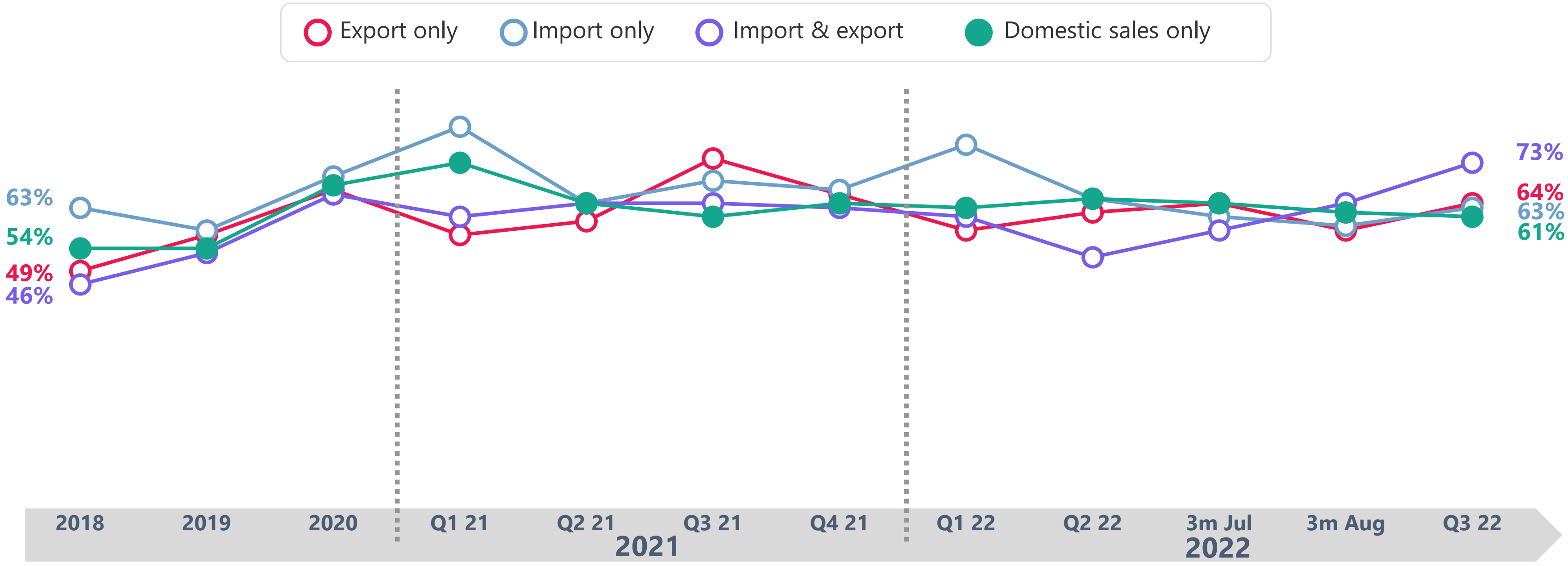


When this question was first asked in Q1 2018, half of SMEs agreed that they were being cautious, with little variation by size of SME. Over the course of 2018, that proportion increased to 58% in Q4, still with little variation by size. In 2019, just over half of SMEs were feeling cautious with concern increasing during 2020 and reaching 72% in Q1 2021. By Q2 2021, the proportion had declined to 64% and has been stable since, but remains higher than pre-pandemic levels.

Q96 Base : All respondents 3mths to Sept 4250

Fully international SMEs have become increasingly likely to be feeling cautious in the current climate from 52% in Q2 to 73% in Q3

Time series: Agree that future is uncertain so being cautious

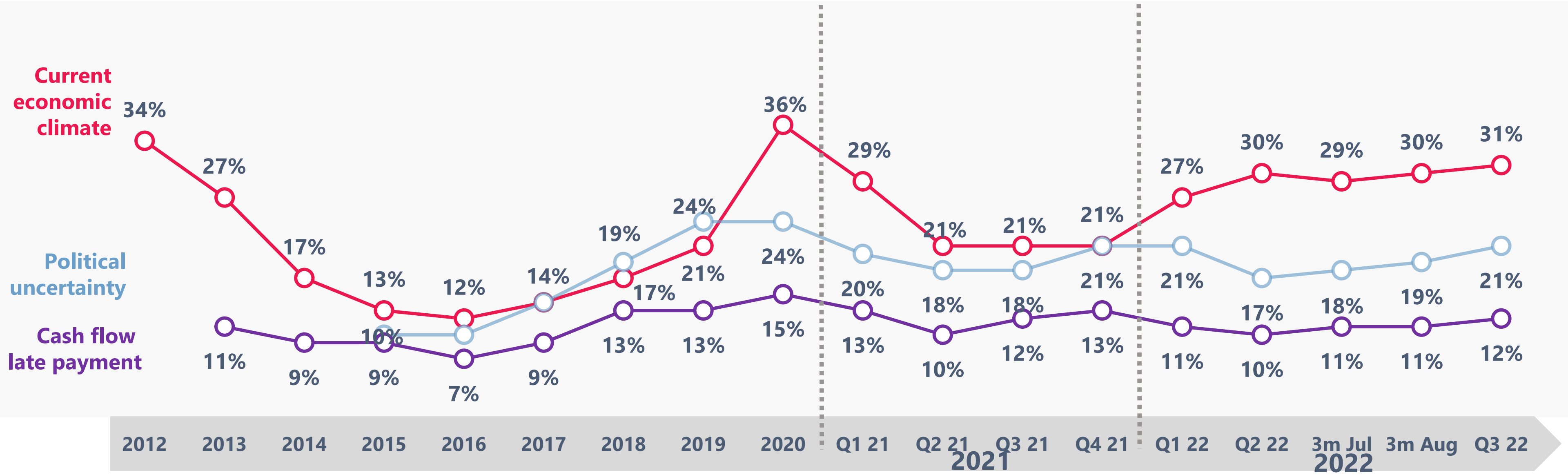


Future uncertain so being cautious

Q96 Base : All 3mths to Sept 193/419/444/3194

31% of SMEs saw the current economic climate as a major obstacle, well below the peak of 47% in Q2 2020, but higher than seen in 2021. Concerns around political uncertainty and cash flow / late payments are both broadly stable.

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

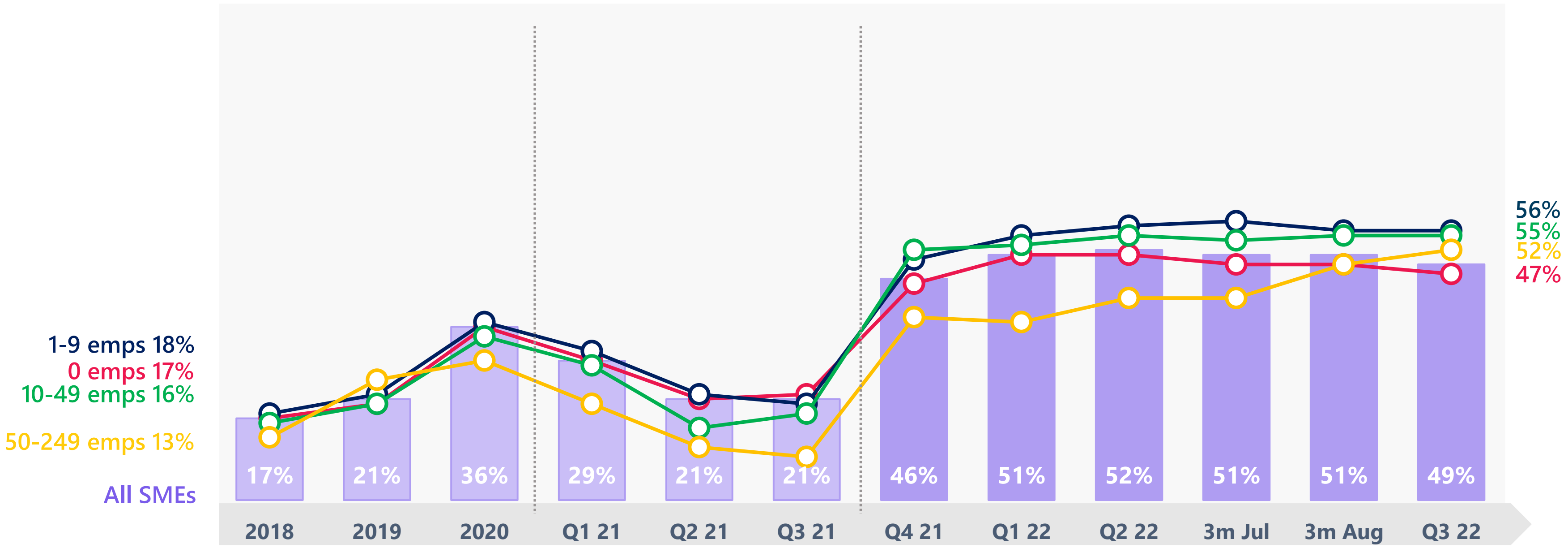


Concern for the economic climate increased most markedly from Q1 to Q2 2020 (20% in Q1 to 47% in Q2), the highest level seen to date. It then declined, to 21% in Q2 2021, but has increased since the start of 2022 to 30% in Q2 2022 and 31% in the current 3 month period. Concern about political uncertainty and cash flow/late payment have remained more stable in 2022 to date

Q93 Barriers to running business as would want in next 12 months
Base : All respondents 3m to Sept 4250

Since the new metric was created for Q4 2021, around half of SMEs have reported broader economic concerns. The largest SMEs are now as likely to have been affected as their peers

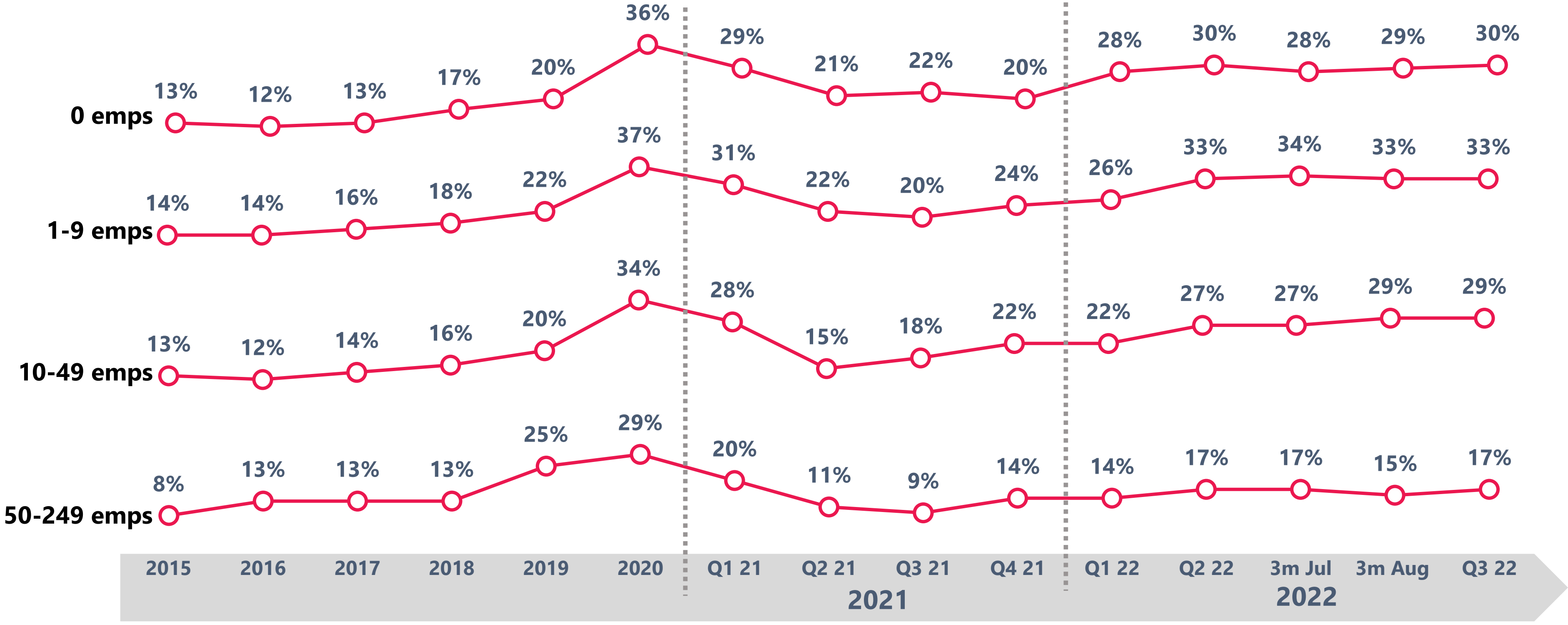
NEW Broader economic concerns (from Q4 2021 – previously only "Current economic climate")



Q93 Base : All SMEs 3m to Sept 4250 score 8-10 for any of "Current economic climate", "Increasing costs" or "Supply chain issues"

Concern about the economic climate is little changed from Q2 2022 and remains at its highest since Q1 2021 amongst all but the largest SMEs

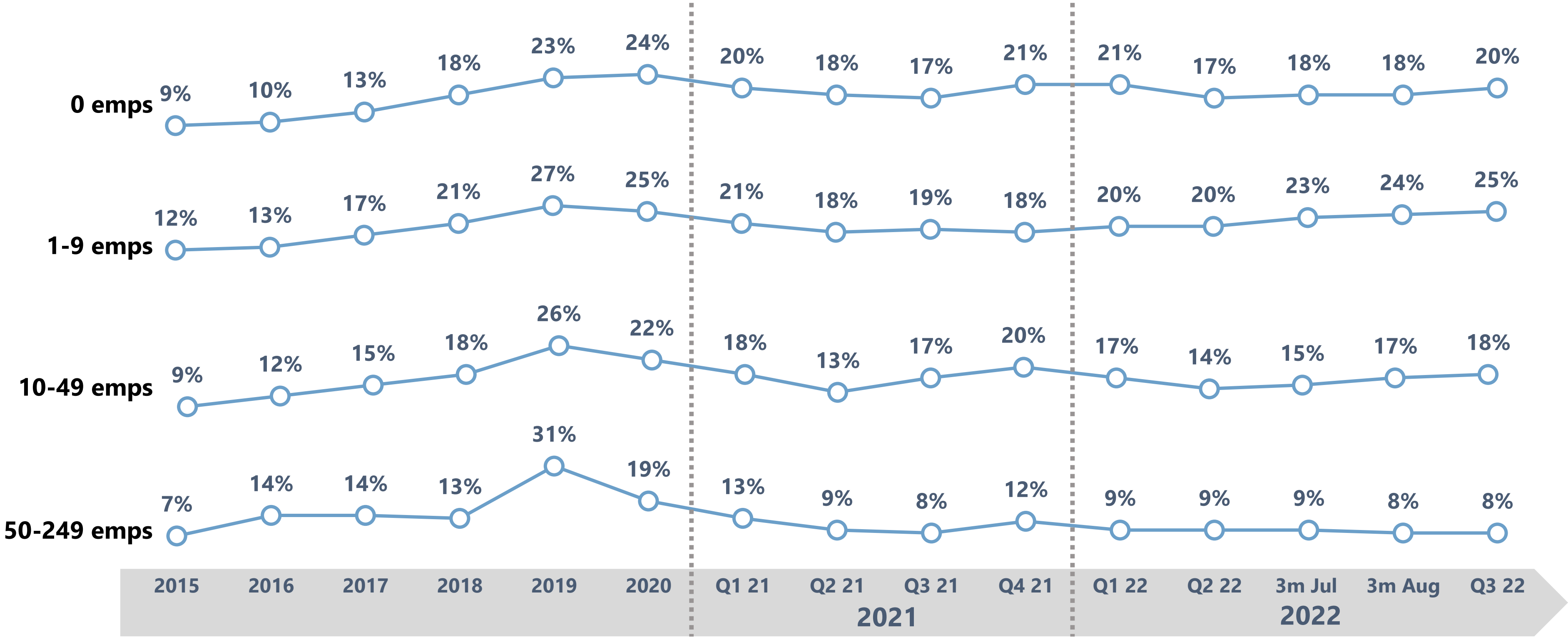
Time series: % Rating 'The economic climate' 8-10 a major obstacle for next 12 mths



Q93 Base: All

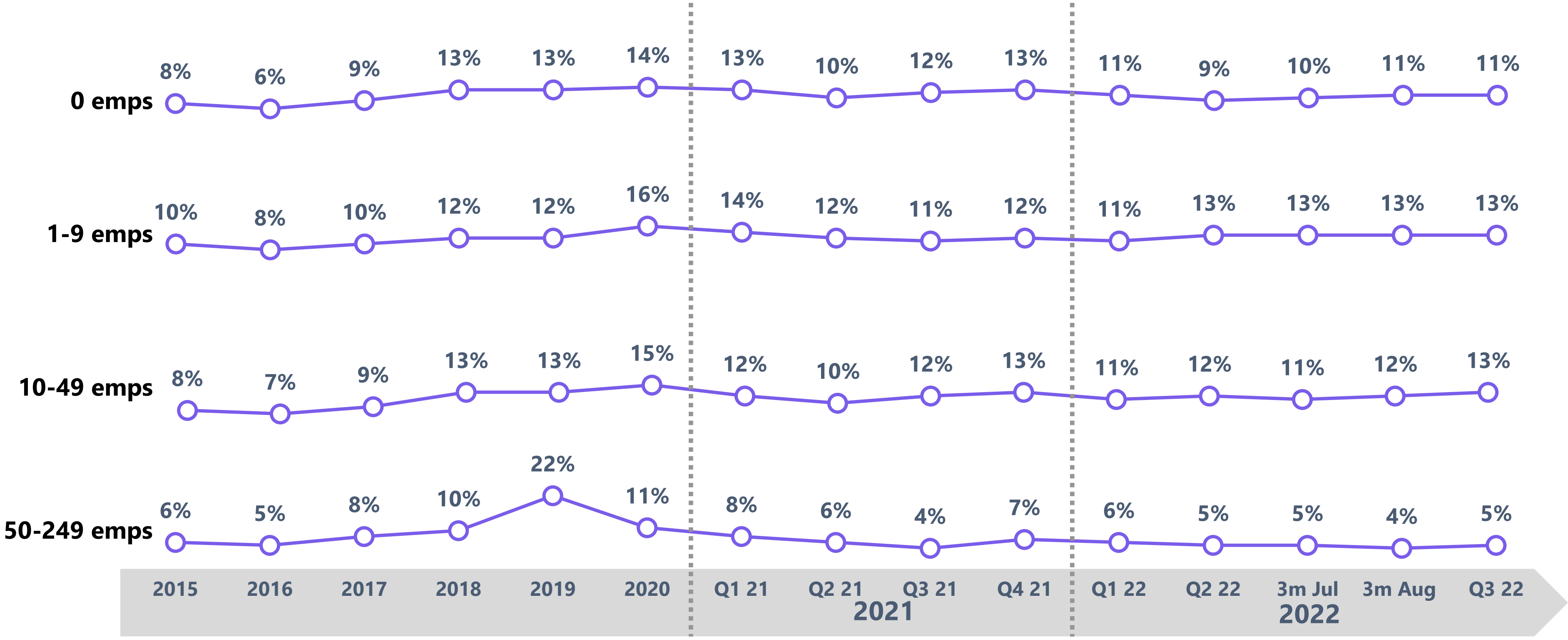
Concerns about political uncertainty remained highest amongst those with 1-9 employees, now back to 2020 levels

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



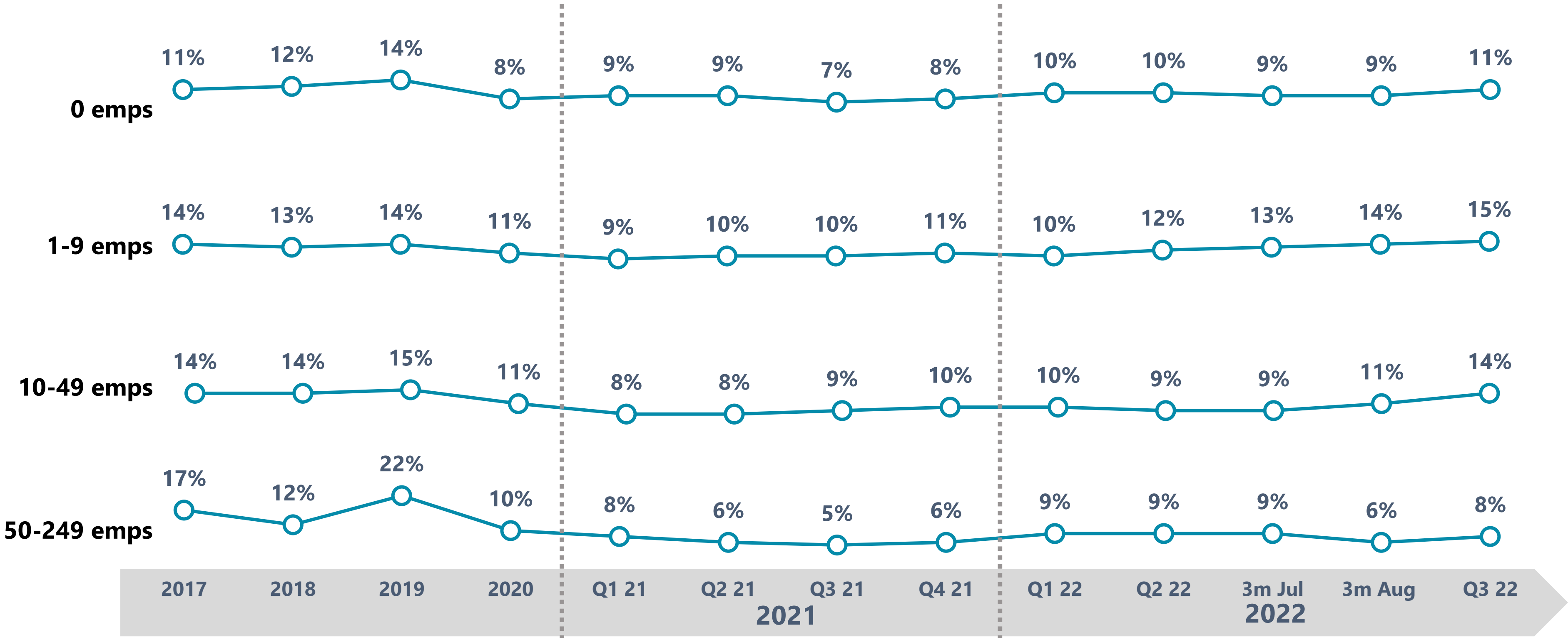
Levels of concern about cash flow and late payment have remained broadly stable and still slightly below 2020 levels

Time series: % Rating "Cash flow or issues with late payment' a major obstacle for next 12 mths



Since the start of 2022, levels of concern about the value of sterling have increased somewhat for those with 1-9 or 10-49 employees

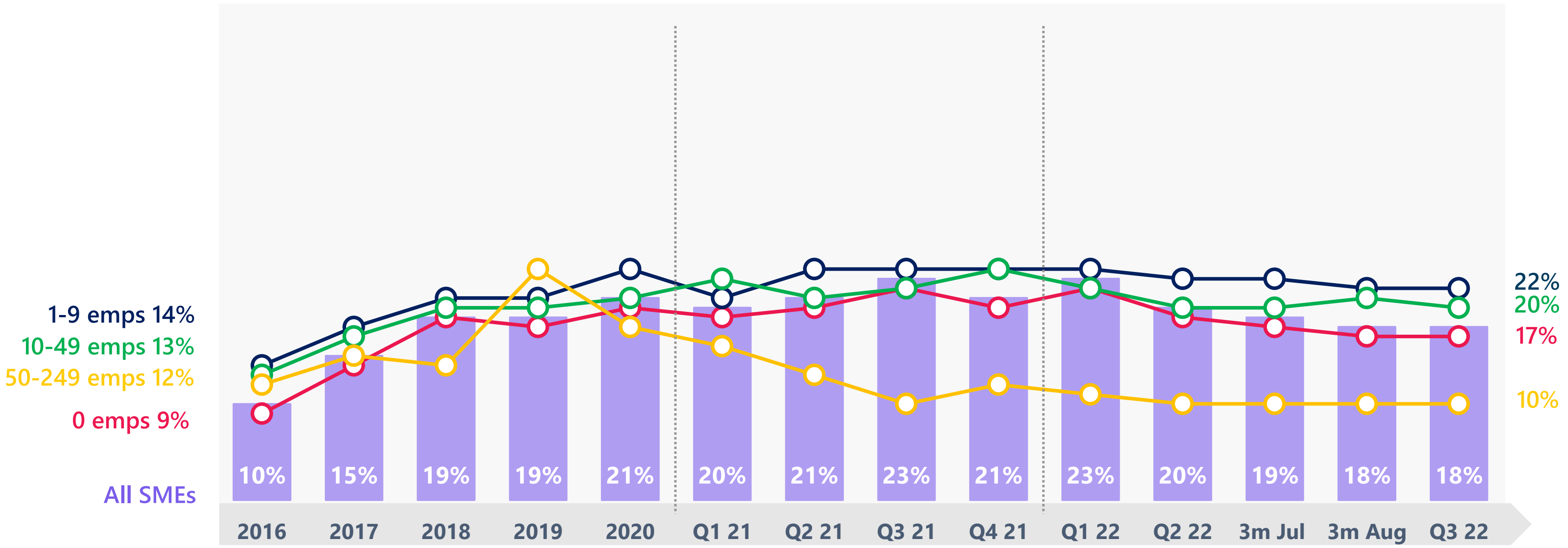
Time series: % Rating 'Changes in the value of sterling' a major obstacle for next 12 mths



Q93 Base: All

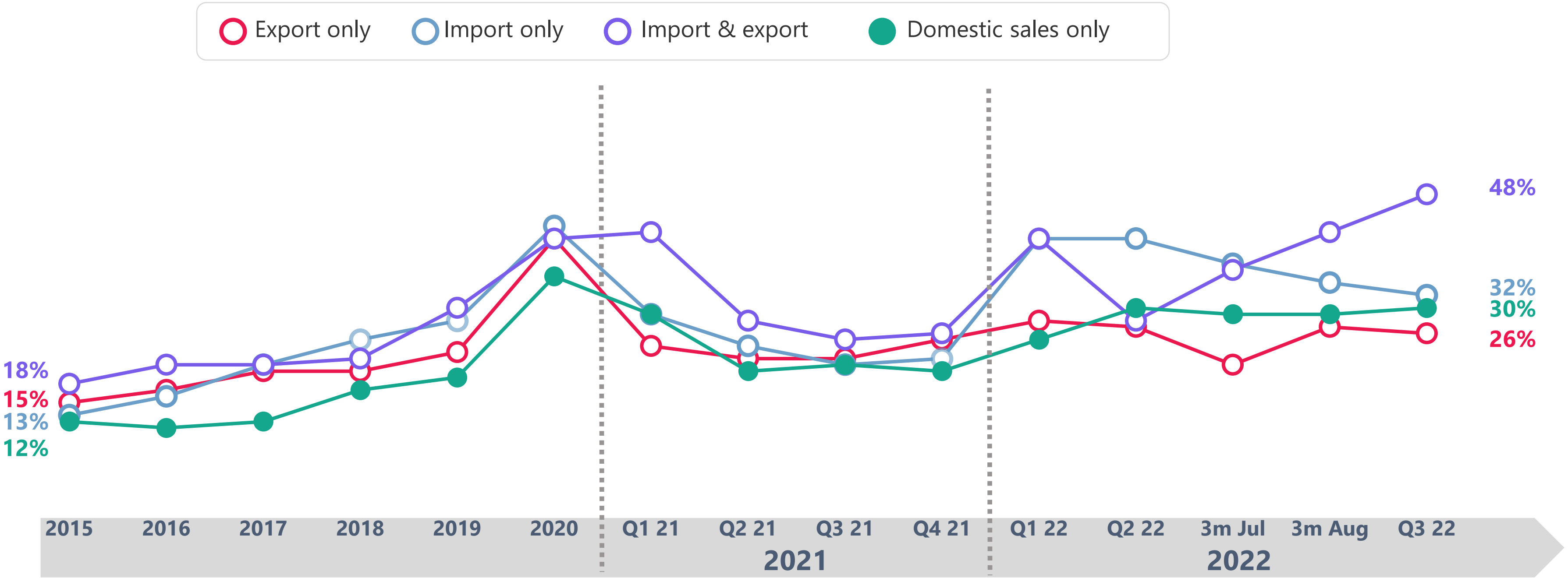
Almost 1 in 5 SMEs considered the legislative / regulatory landscape a barrier, somewhat lower than in Q1 2022. The largest SMEs remained least likely to see it as a barrier

Annual time series: % legislation/regulation / red tape 8-10 barrier



Fully international SMEs remained the most concerned about the economic climate, above levels seen for 2020 or Q1 2021, as concern reduced again for Import only SMEs

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

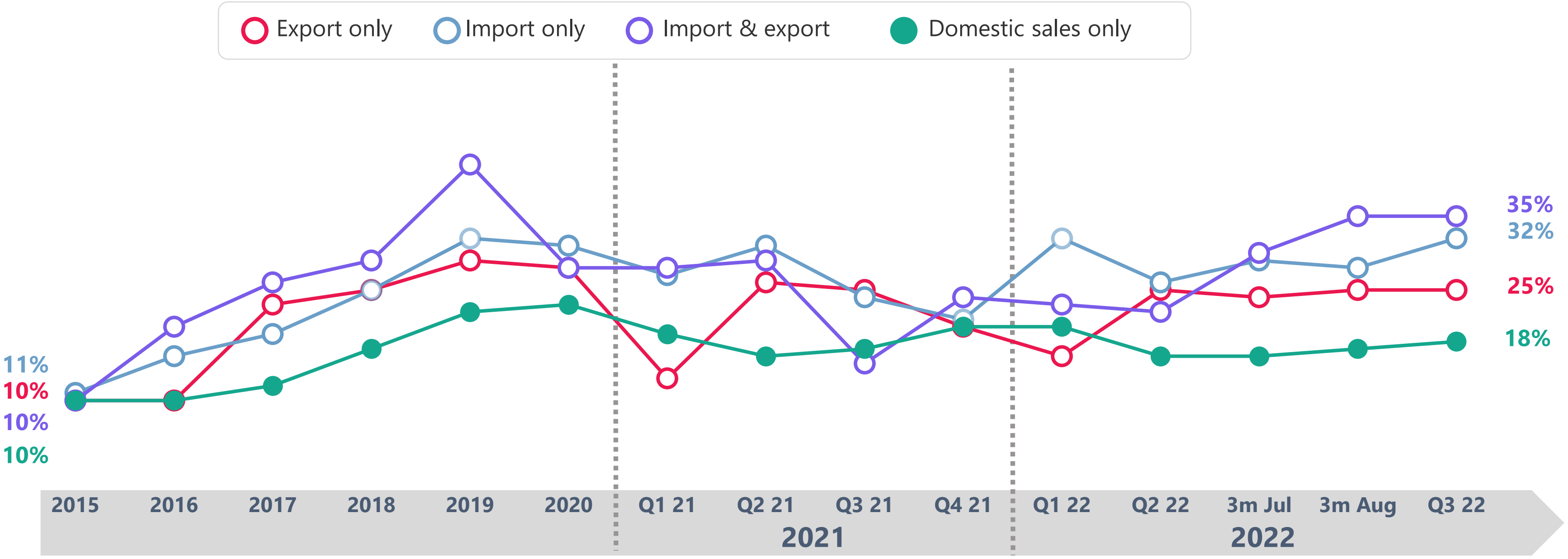


Rating the current economic climate a major obstacle (8-10)

Q93 Base: All 3mths to Sept 193/419/444/3194

Concern re political uncertainty remained more of an issue for International SMEs, notably those with an element of importing to their business

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

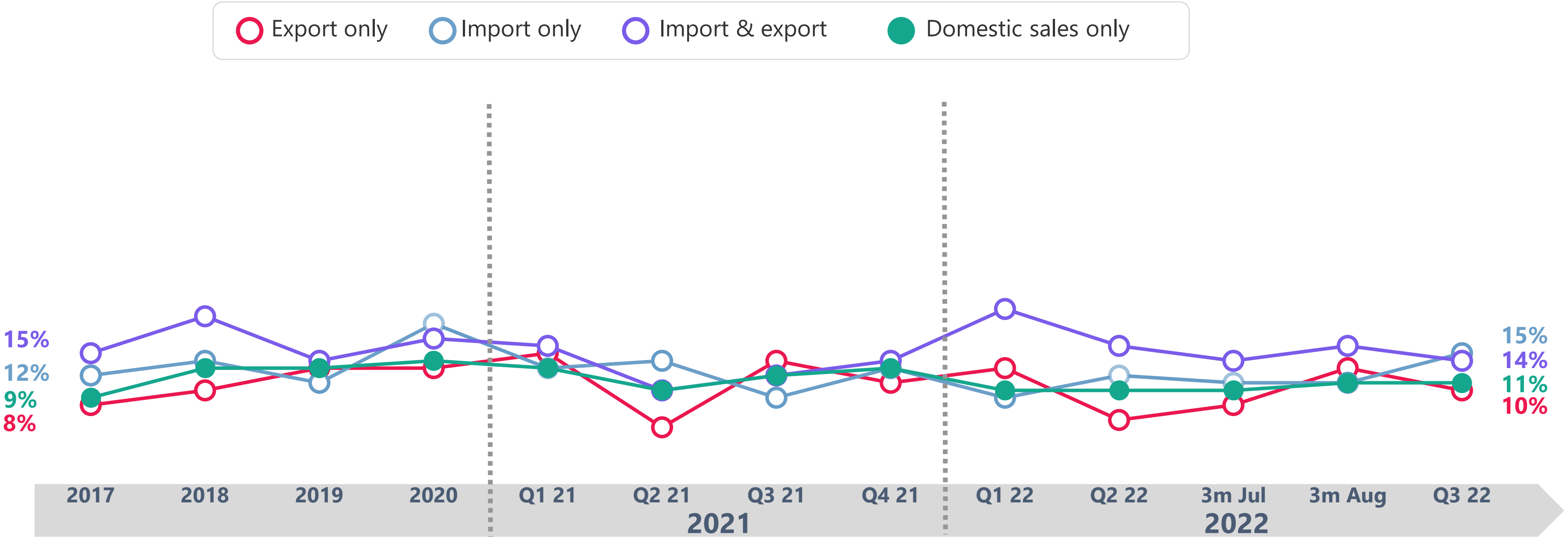


Rating political uncertainty a major obstacle (8-10)

Q93 Base: All 3mths to Sept 193/419/444/3194

Cash flow concerns have been broadly stable since Q4 2021, with little to choose currently between International and Domestic only SMEs

Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales

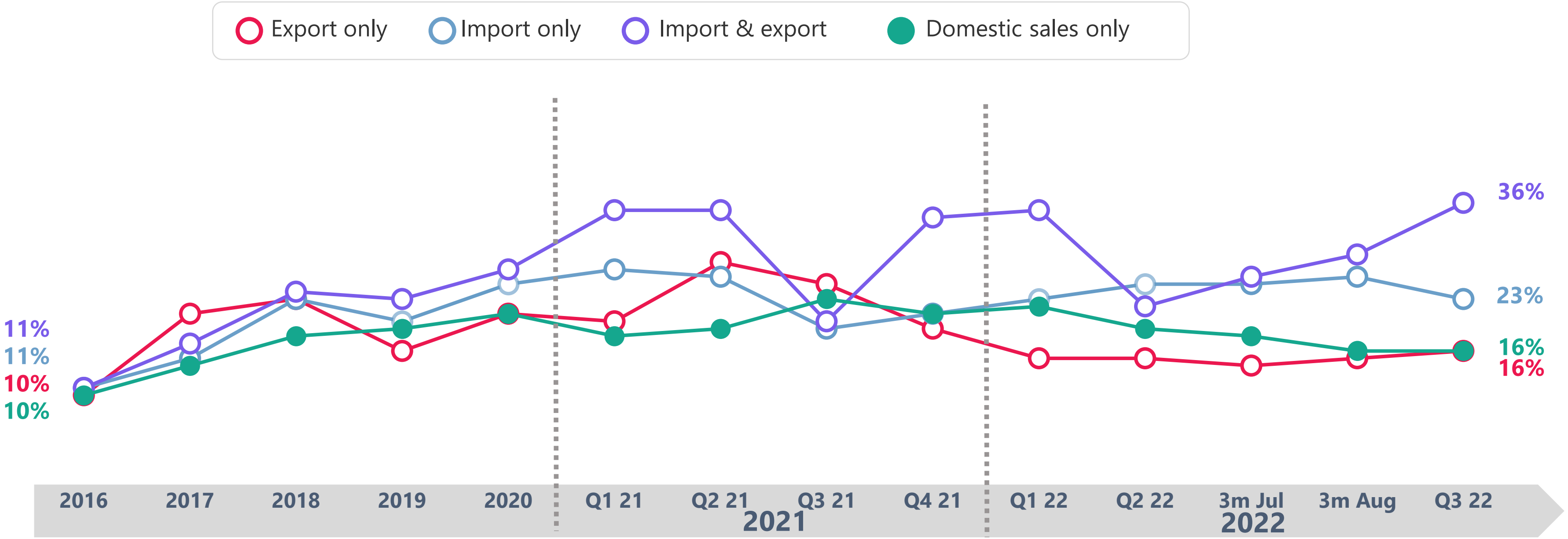


Rating cash flow / late payment a major obstacle (8-10)

Q93 Base: All 3mths to Sept 193/419/444/3194

Amongst those that are fully international, concerns about legislation and regulation are back to levels seen in for most of 2021 and also in Q1 2022

Time series: 8-10 changes in "legislation/regulation/red tape" by extent of international trade alongside domestic sales

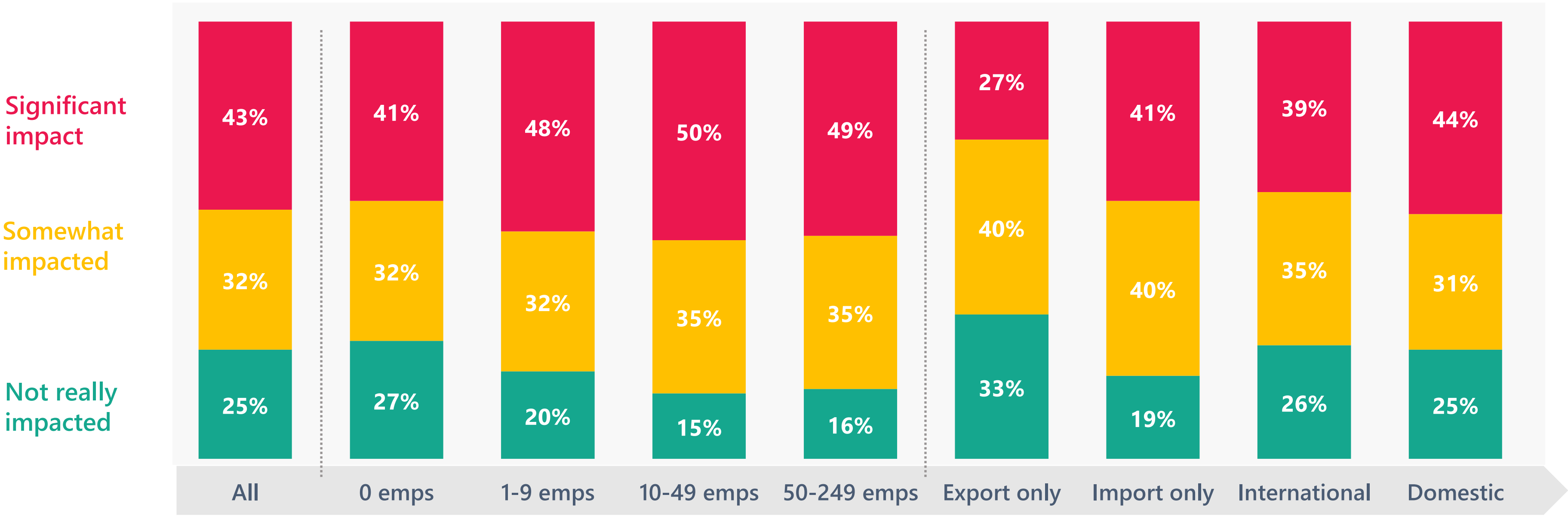


Rating changes in legislation/regulation/red tape a major obstacle (8-10)

Q93 Base: All 3mths to Sept 193/419/444/3194

4 in 10 of all SMEs and 5 in 10 of all employers had been 'significantly impacted' by increasing costs. Export only SMEs were somewhat less likely to have been impacted

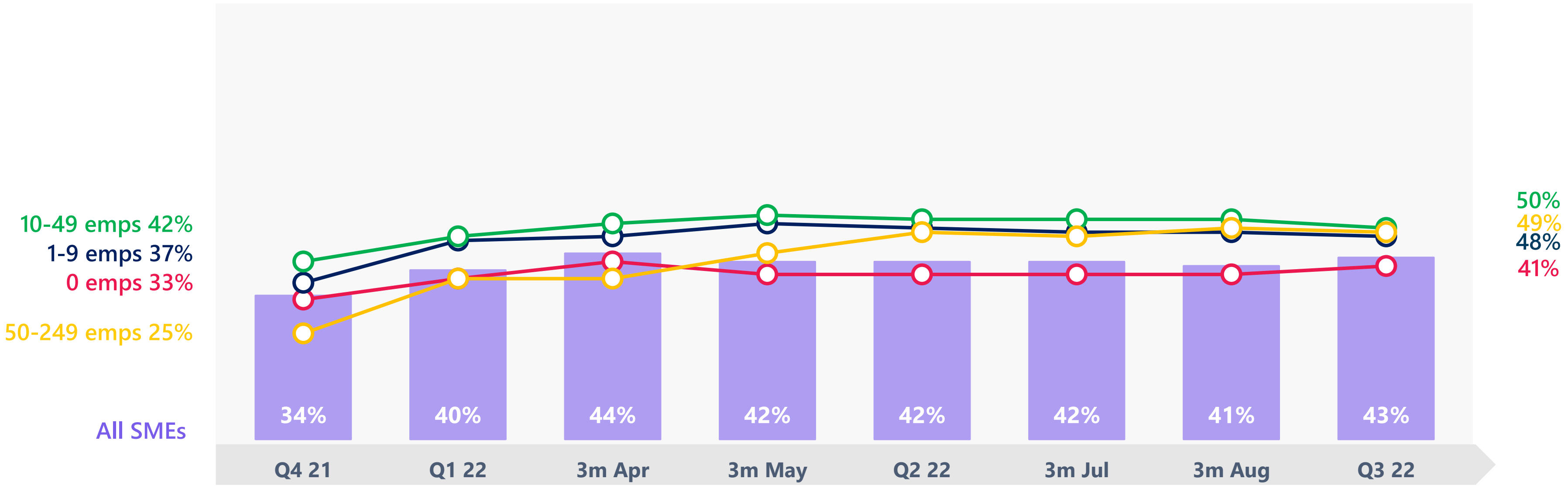
NEW: Any impact of increasing costs: 3 mths to Sept 2022



CV3b All SMEs 3m to Sept 4250

A consistent half of all SMEs with employees have been significantly affected by increased costs, compared to 4 in 10 with no employees (and 4 in 10 of all SMEs)

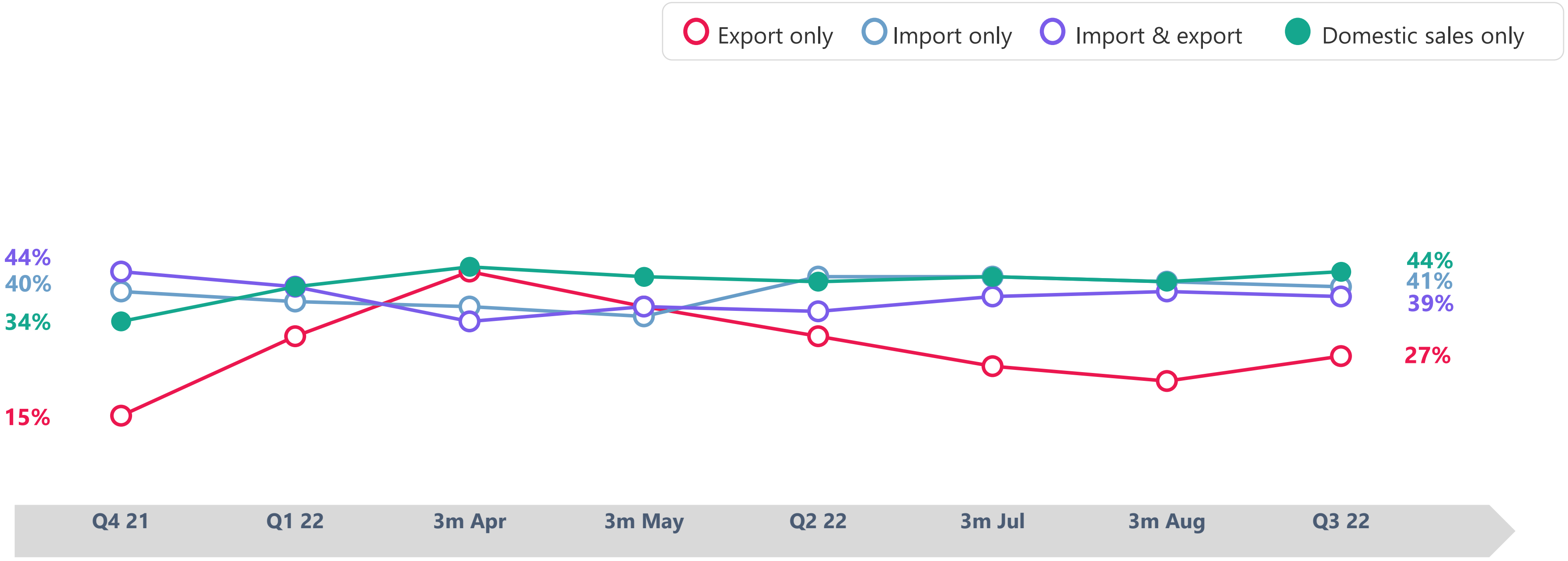
NEW Time series: Significantly affected by increasing costs



QCV3b Base: All respondents 3 mths to Sept 4250

Export only SMEs remained somewhat less likely than their peers to be significantly impacted by cost increases, with little difference currently between the other groups

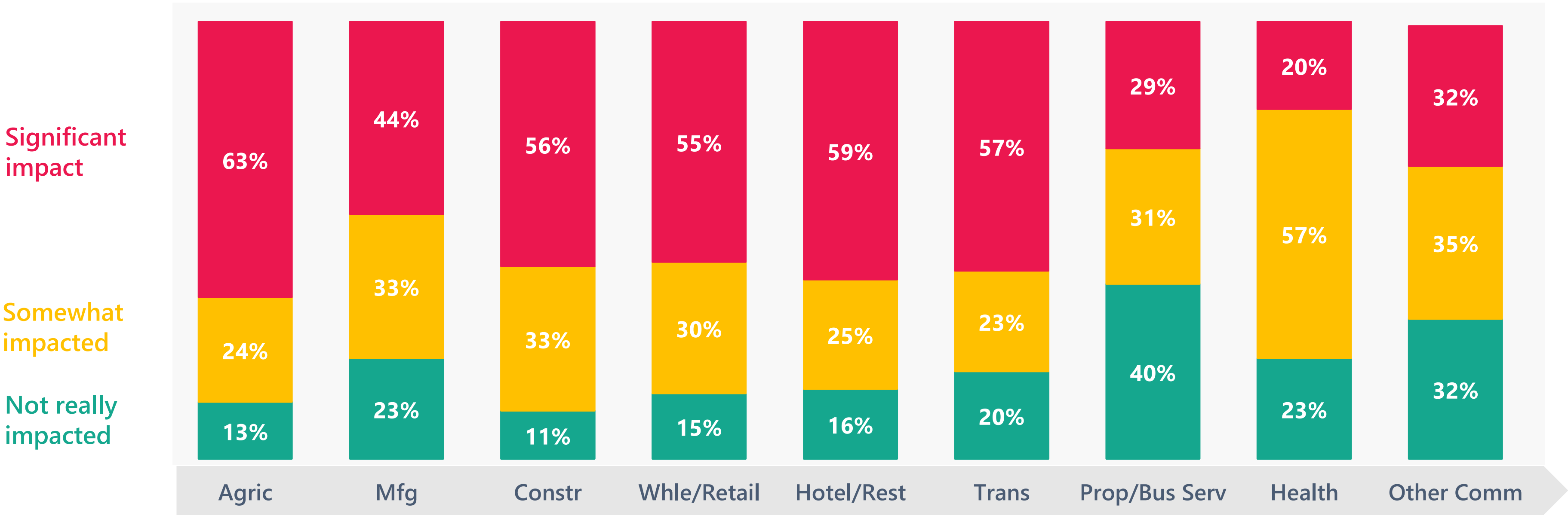
NEW Time series: Significantly affected by increasing costs by extent of international trade



QCV3B Base: All 3mths to Sept 193/419/444/3194

There is a clear sector split by sector in terms of the impact of increasing costs, with those in the broad Service sector less likely to be significantly impacted, compared to almost two thirds of those in Agriculture

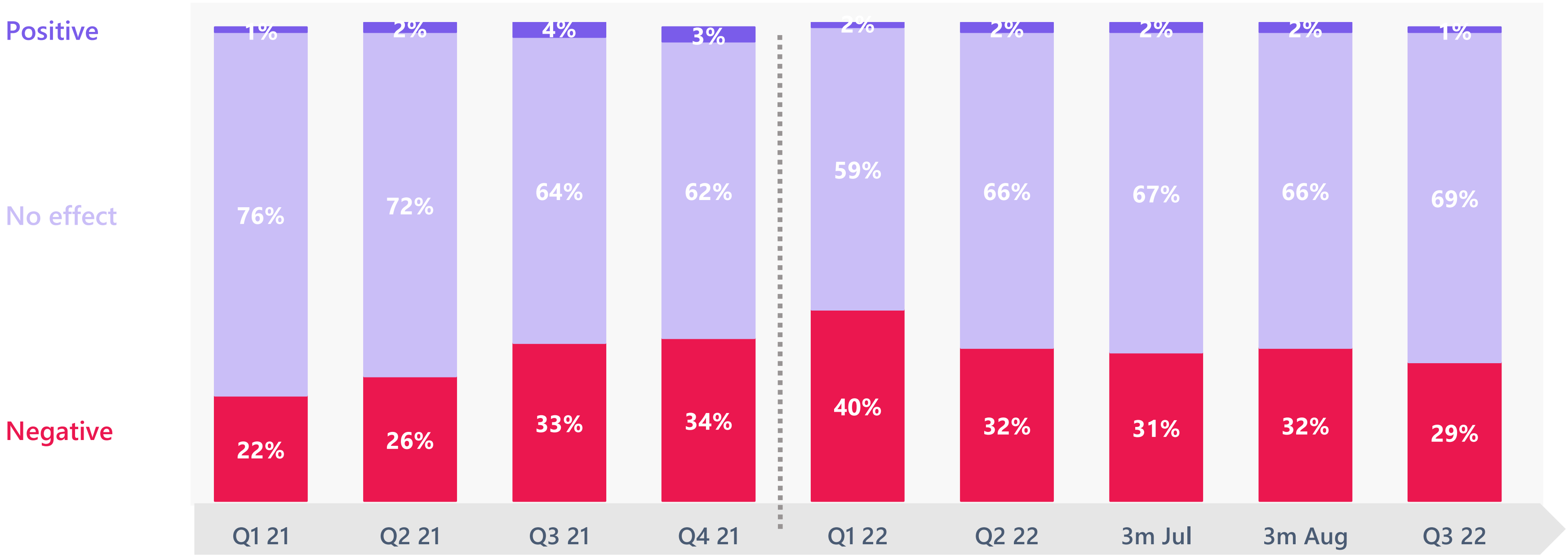
NEW Impact of increasing costs: by sector 3 mths to Sept 2022



CV3b All SMEs 3m to Sept 4250

3 in 10 SMEs reported a negative impact on their business caused by the new trading arrangements with the EU, down from 40% in Q1 2022. As before most, 7 in 10, reported 'no impact'

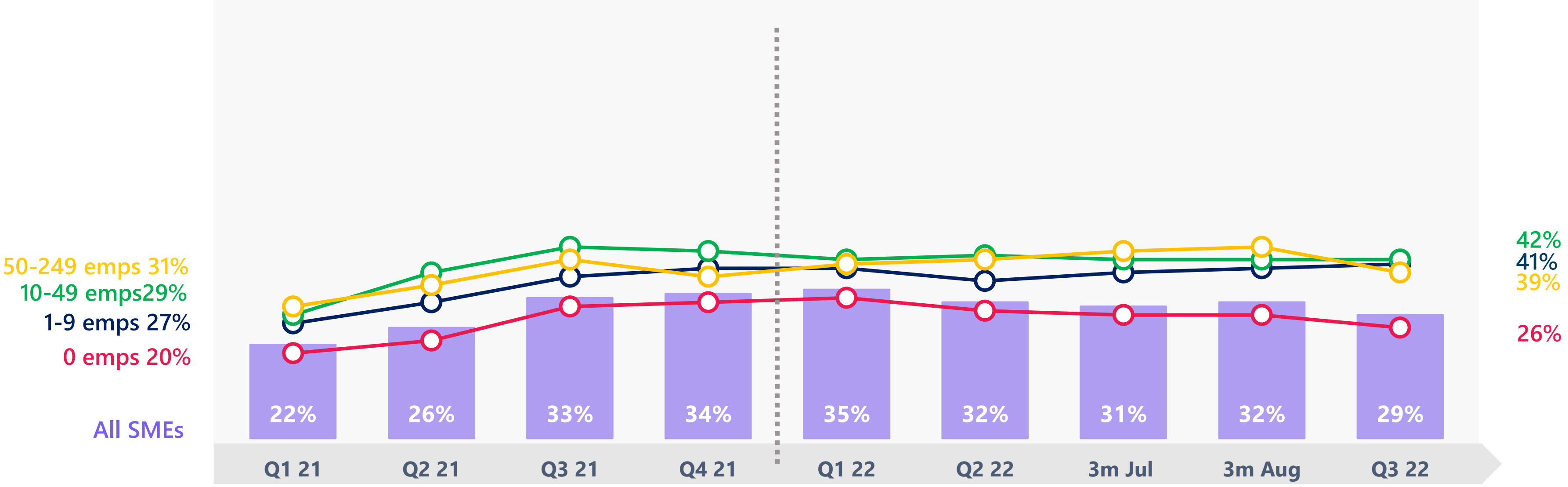
NEW Time series: Impact of the new trading arrangements with the EU



Q84c all SMEs excluding Dk 3m Sept 4041

The increase in negative impact to Q1 2022 was seen across all size bands. The decline since has been due primarily to 0 employee SMEs

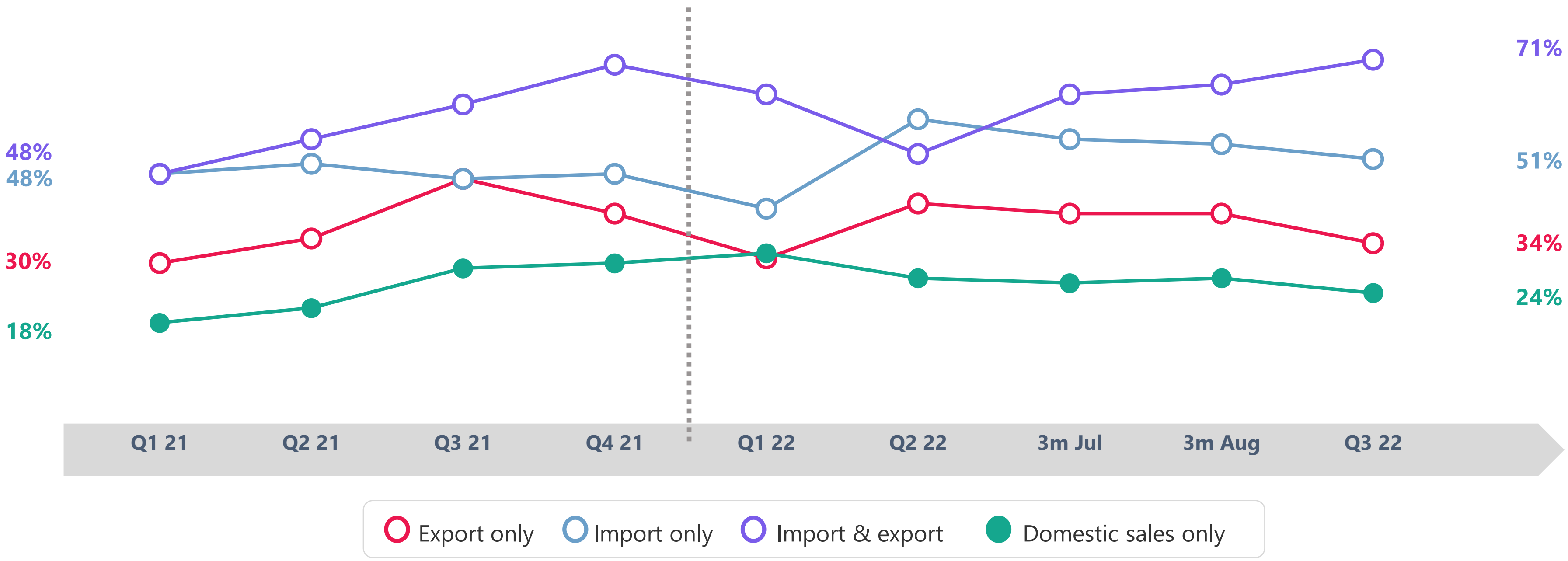
NEW Time series: Negatively impacted by new EU trading arrangements



Q84c all SMEs excluding DK 3m to Sept 4041

Fully international SMEs remained the most likely to have been negatively impacted, back to levels seen in Q4 2021 with all other groups less likely to report a negative impact

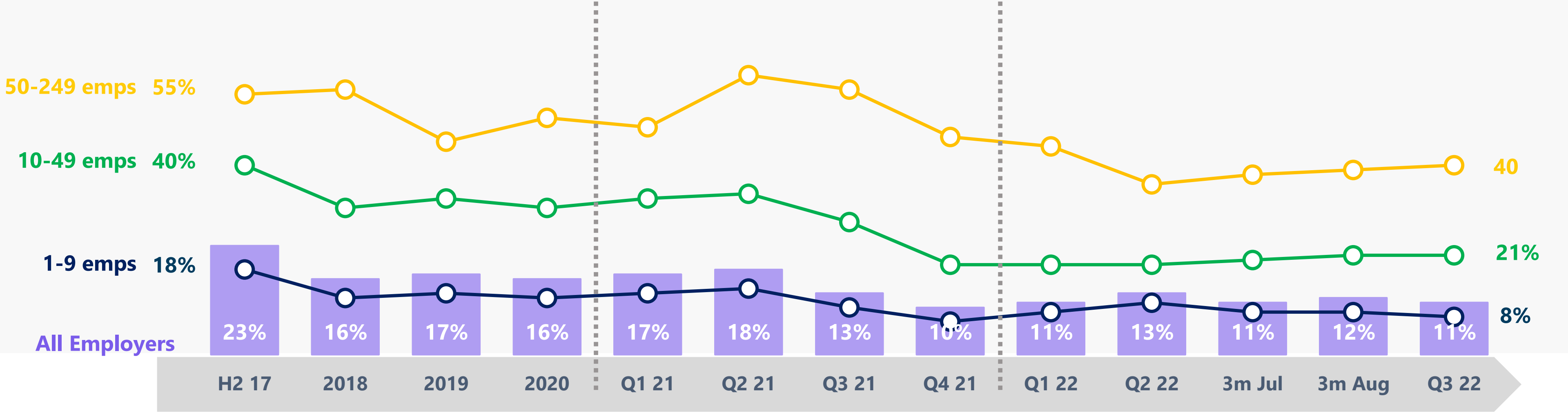
NEW Time series: Negatively impacted by new EU trading arrangements by extent of international trade



Q84c Base: All 3mths to Sept excl DK 186/407/437/3011

A stable 1 in 10 SMEs employed non-UK staff in the three months to September

Time series: Employ non-UK staff (from the EU or elsewhere overseas)



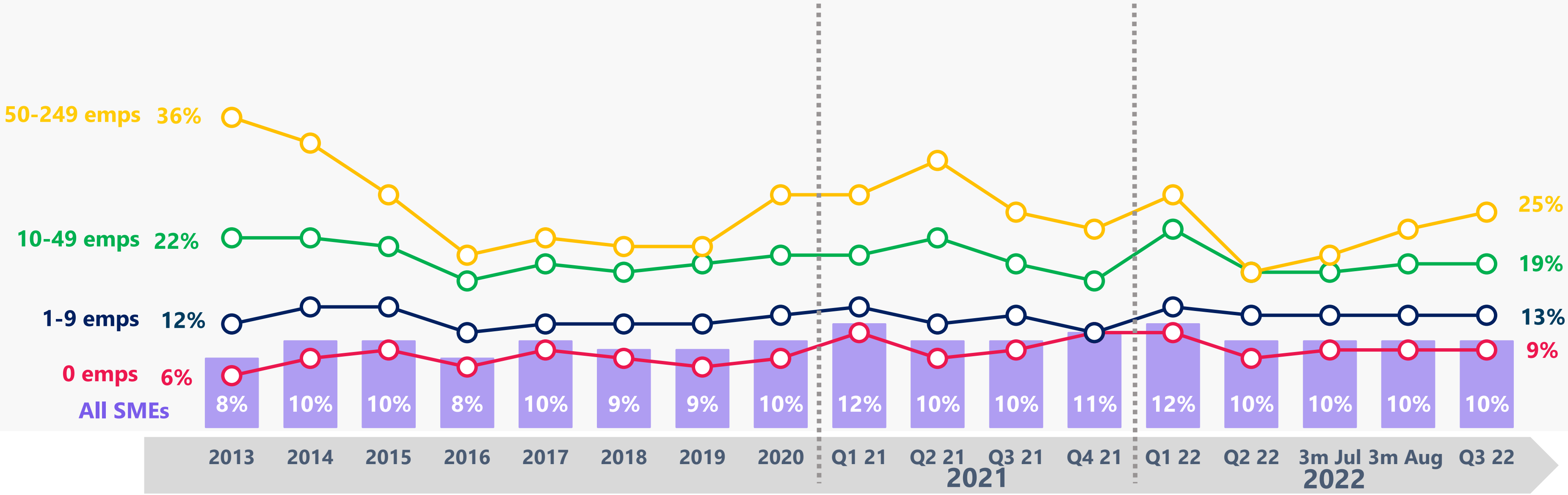
	H2 17	2018	2019	2020	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	3m Jul	3m Aug	Q3 22
Employing EU citizens:	22%	14%	15%	14%	14%	15%	11%	9%	10%	10%	10%	10%	10%

When this question was first asked in H2 2017, a quarter (23%) of employers had staff from overseas. From 2018 to Q2 2021 the proportion was lower but stable, then fell to 13% in Q3 2021 and broadly stable since: 10% of employers had staff from the EU and 4% had staff from elsewhere.

Q84 Base : All employers 3mths to Sept 3399

10% of all SMEs exported with little change since 2017, with larger SMEs more likely than their smaller peers to be exporting

Time series: Exporters

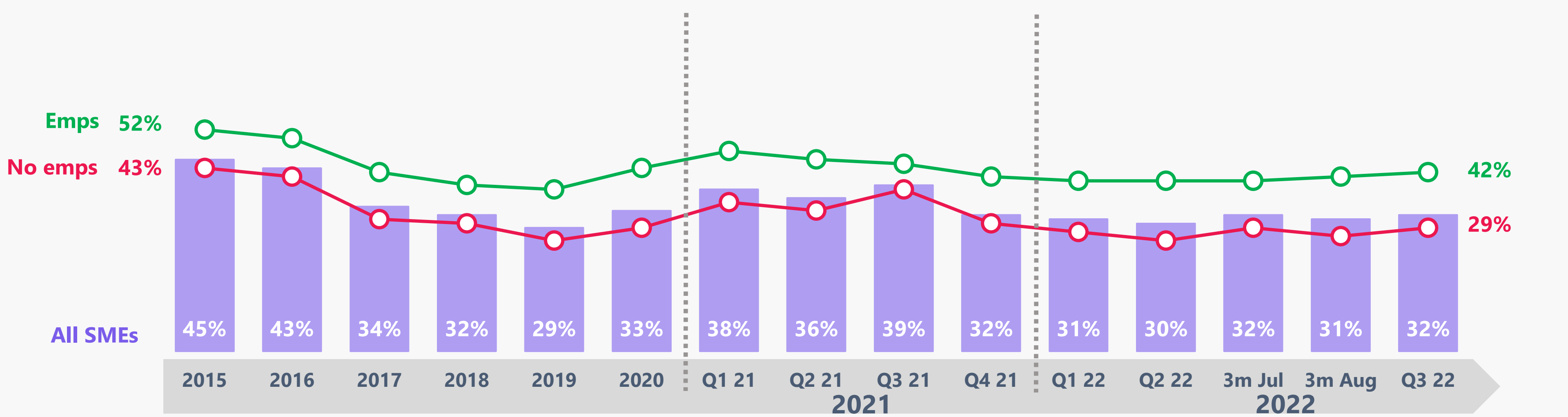


The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. In Q1 21, 12% of SMEs were exporters and there has been little change since, with larger SMEs still more likely to be selling overseas than their peers, albeit by a narrower margin than seen in 2020-21

Q84 Base: All respondents 3mths to Sept 4250

The proportion of SMEs that were happy to use finance to grow has remained stable in 2022, currently 32%

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

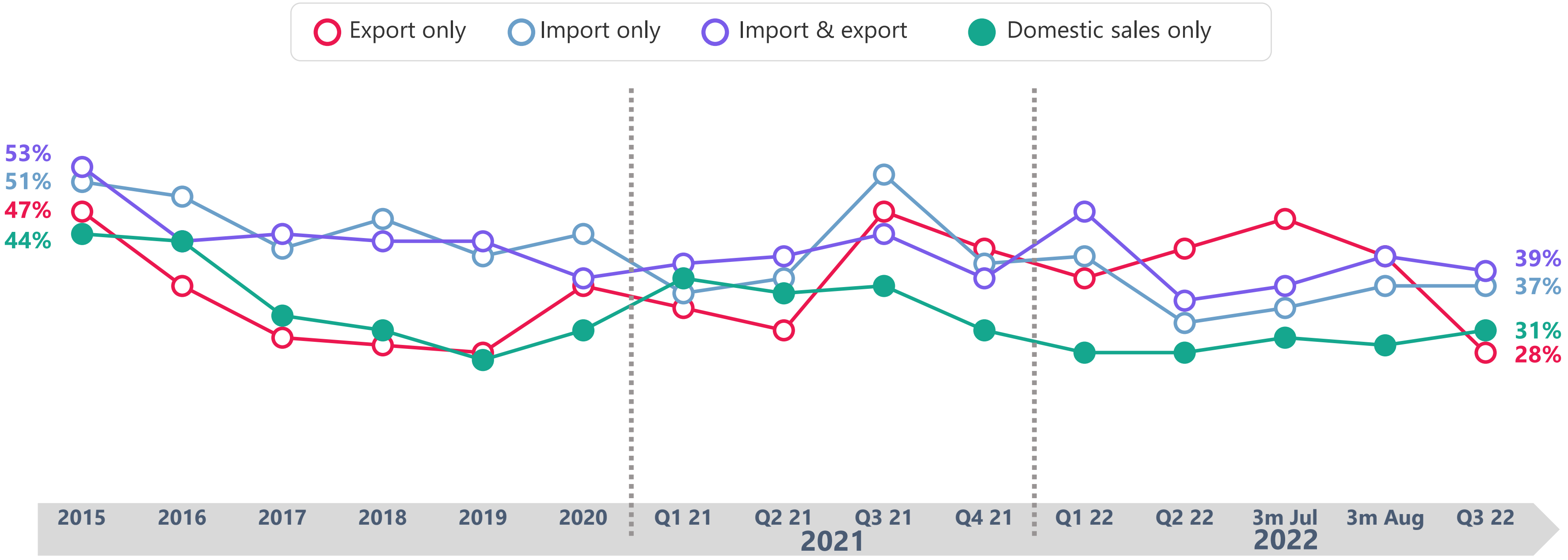


After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined over time to 3 in 10 SMEs in 2019. It then increased steadily to 38% for Q1 2021 and remained broadly stable to Q3 2021, before settling at 32% in Q4 2021 and 32% currently. After a "peak" at 38% in Q3 2021, appetite for finance amongst the smallest SMEs declined, reaching 26% in Q2 2022, the lowest level seen since 2019, and 29% currently

Q96 Base : All respondents 3mths to Sept 4250

Appetite for finance remained higher for International SMEs with an element of importing to their business , but has declined recently for Export-only SMEs

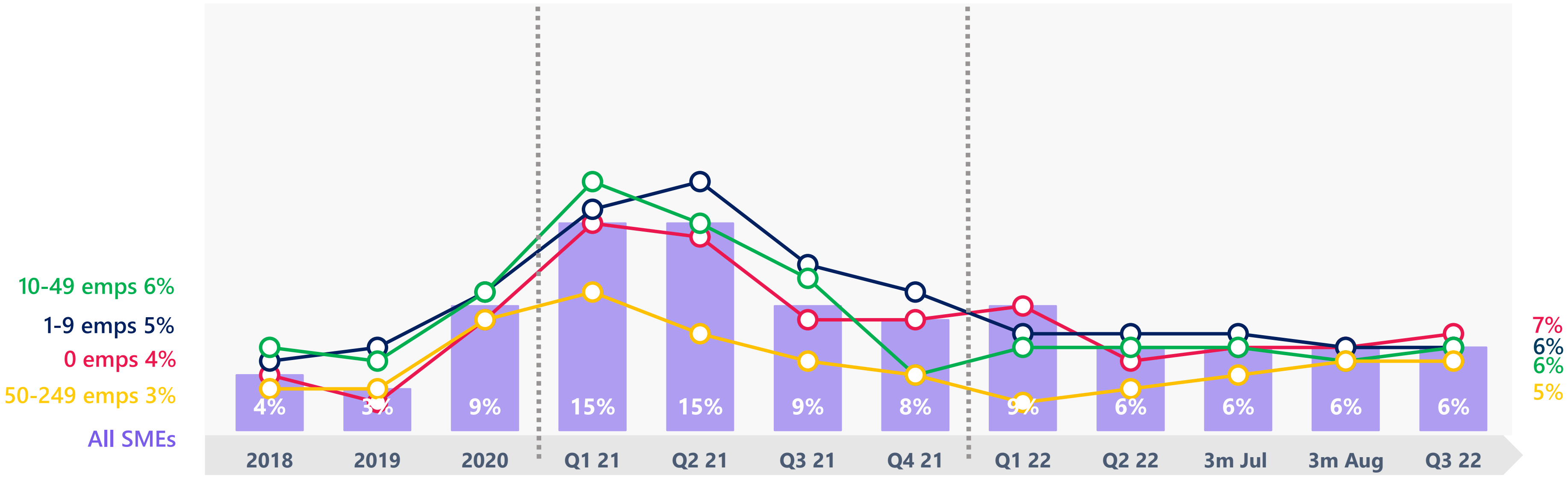
Time series: Agree that happy to use external finance to help business grow



Agree that happy to use external finance to grow

6% of SMEs reported having a need for external funding in the last 12 months, unchanged from Q2 but lower than the 15% of SMEs with such a need in H1 21 and closer to pre-pandemic levels

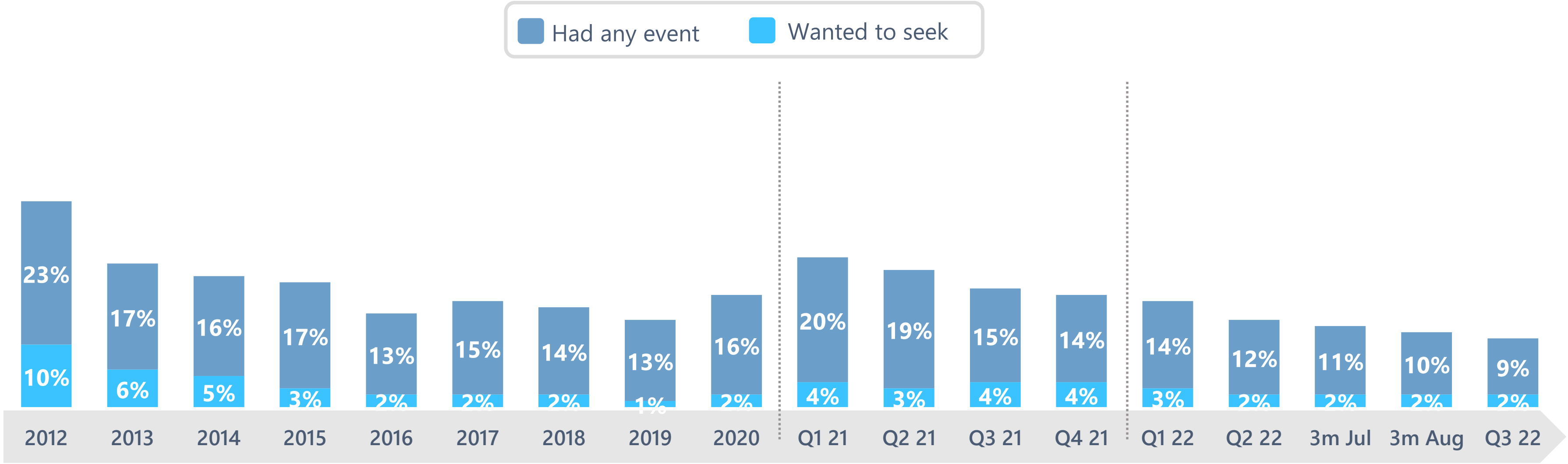
Time series: Had a need for external funding in past 12 months (whether applied or not)



Q25 Base: All SMEs 3 mths to Sept 4250

As need for finance remained lower, so to does the proportion reporting a borrowing event or an unfulfilled wish to apply, now amongst the lowest seen on SMEFM

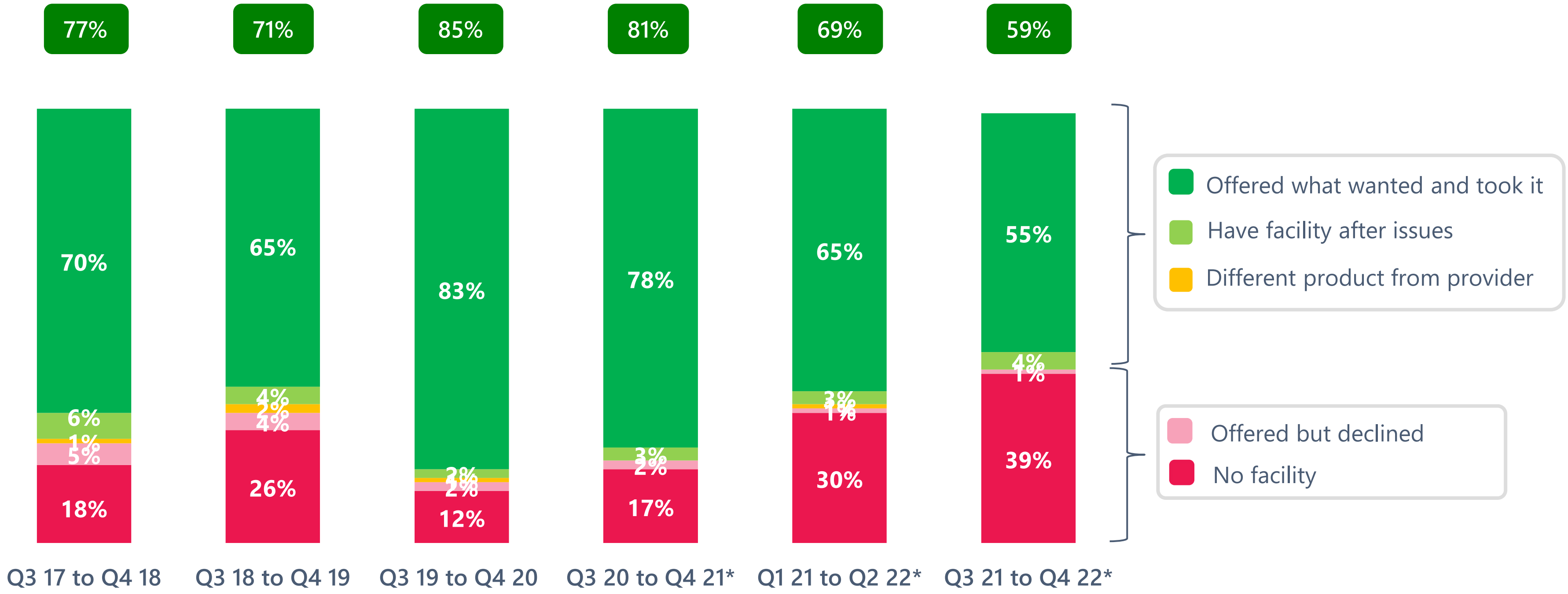
Time series: Any appetite for finance in 12 months prior to interview



Pastfin Base: All SMEs 3m to Sept 4250

Analysis by application period showed higher success rates for applications when Government backed schemes were available. Success rates for the most recent applications are notably lower

Global success rate: all applications reported from Q1 2018 to Q3 2022, occurring in the periods shown

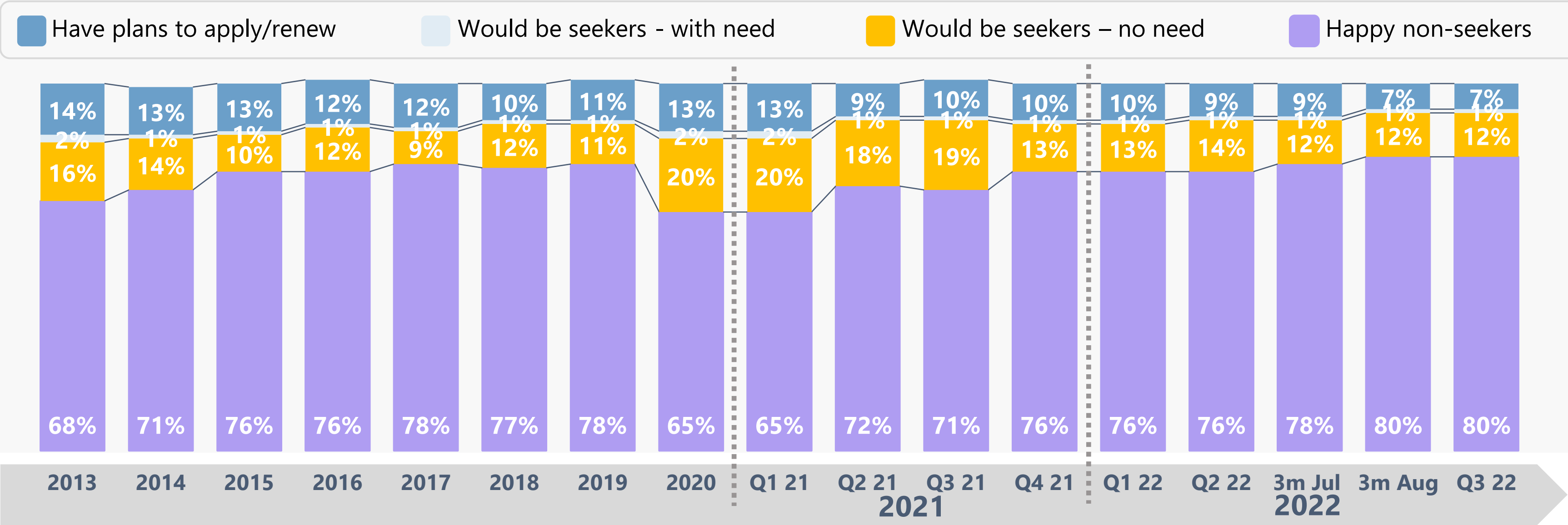


This chart will be updated every quarter end
Last updated Q3 2022

Q39/57 Base : All Type 1a/b applications with a response 1620/1552/3698/2190/1201/685

The marked increase seen in *any* future appetite for finance in 2020 was maintained to Q1 2021. Since then, like past demand, future demand has gradually declined, now at one of the lowest levels seen on SMEFM

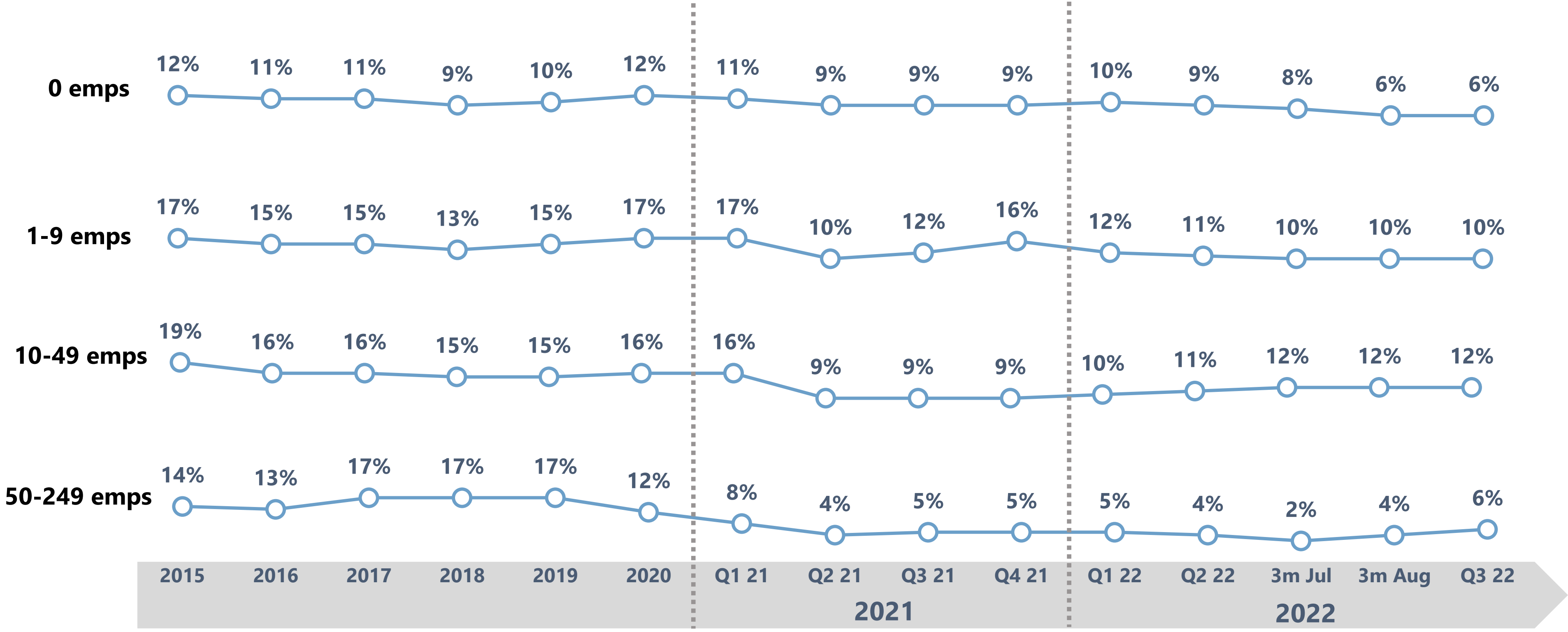
Time series: Anticipated borrowing profile for next 3 months after …



Each quarter, the majority of SMEs have expected to be "Future happy non-seekers" of finance. The proportion of FHNS initially increased over time, to 80% in Q4 2019. It then reduced, to 65% for 2020 but as future demand for finance dropped slightly, the proportion of Future happy non-seekers has increased and is currently 80%. The proportion with *any* future demand for finance reached 35% in 2020, but had reduced to 24% by Q4 2021 and is 20% for the current period

The proportion planning to apply for finance is stable but remains somewhat lower than previously seen

Time series: % planning to apply

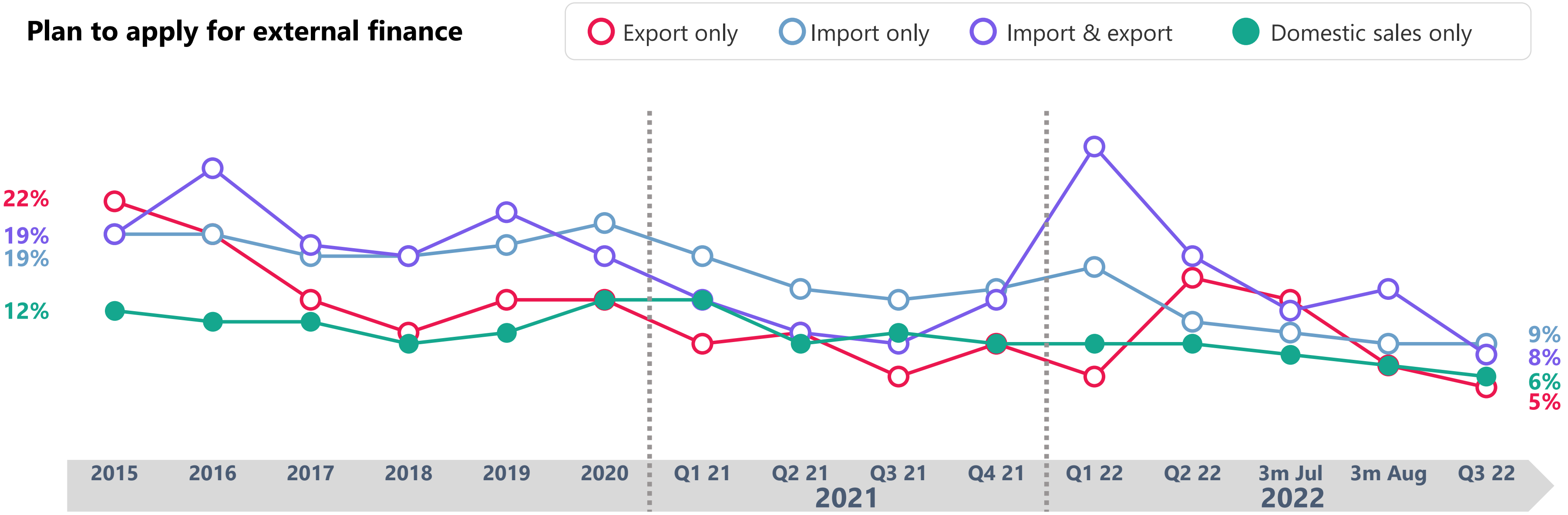


Futfin Base : All

Future appetite for finance remained more volatile for international SMEs, but is notably lower for those with an element of importing to their business

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

Plan to apply for external finance

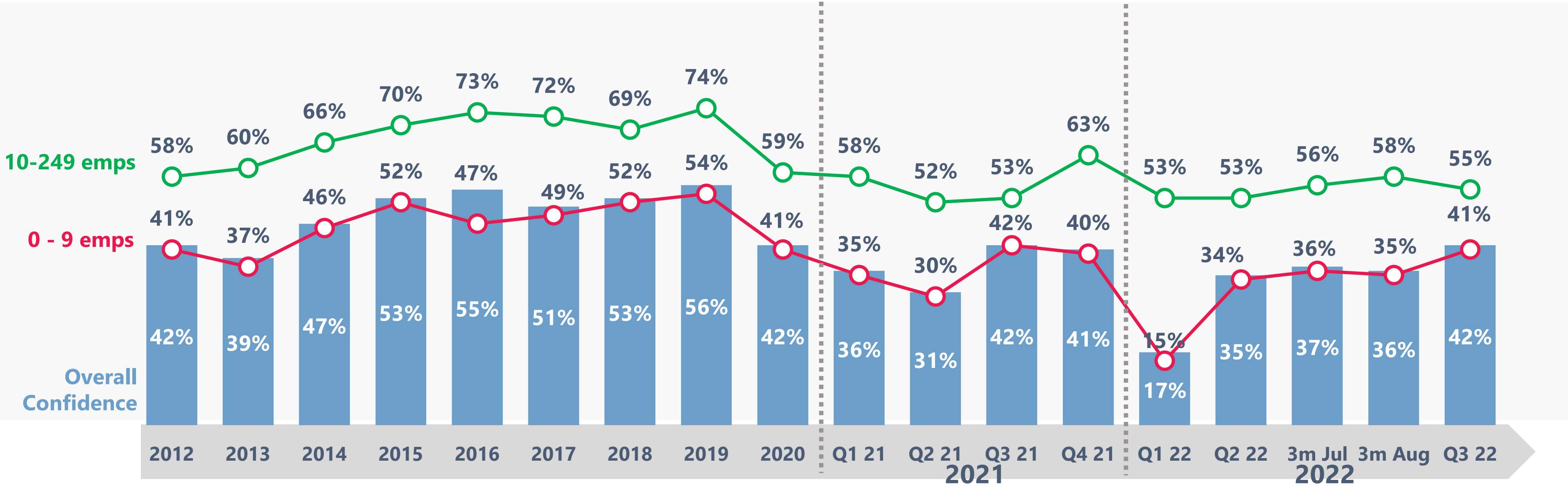


Appetite for finance amongst those with an element of international to their business has varied over time, but as now, has typically been slightly higher than for Domestic only SMEs

Futfin Base: All 3mths to Sept 193/419/444/3194

Amongst the small group planning to apply, overall levels of confidence in a successful application are back to levels seen in the second half of 2021, still somewhat lower than pre-pandemic

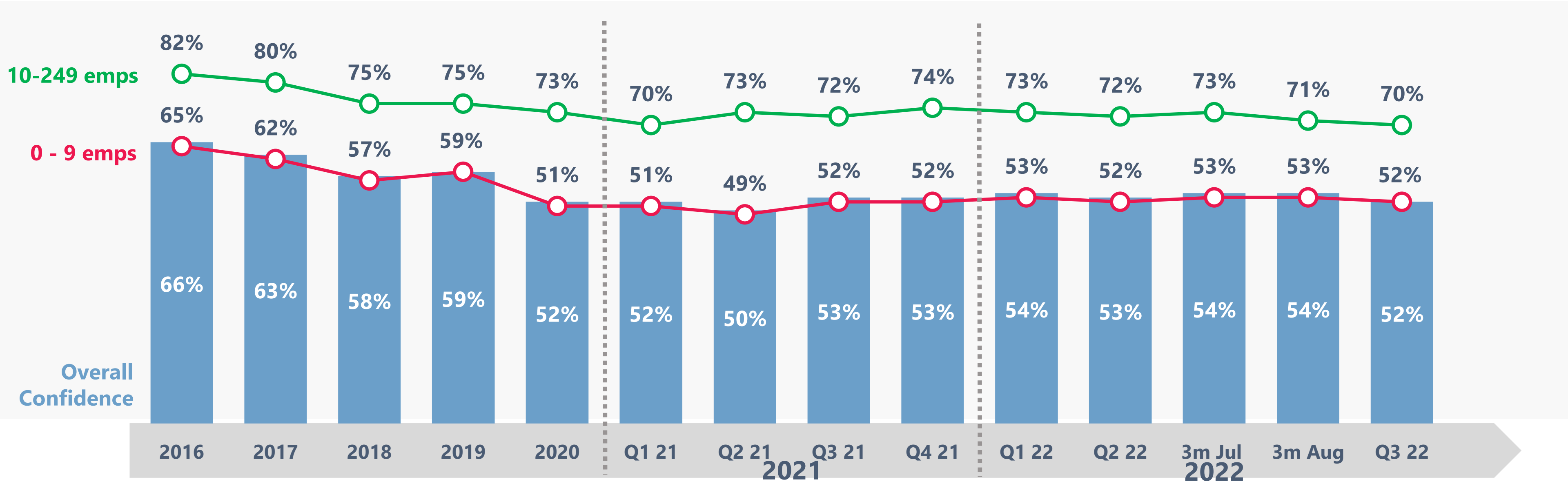
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



Confidence amongst those planning to apply that they would be successful increased to 55% in 2016 but has been more variable since (and always below actual success rates). After improvements in the second half of 2021, confidence declined to Q1 2022, due to more smaller potential applicants saying they were "not sure" whether their bank would lend to them, but in Q3 2022 is back in line with H2 2021 at 42%

Confidence amongst hypothetical applicants has been stable since mid-2021 at a higher level than those planning to apply.

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



Half (52%) of those with **no plans** to apply to a bank for finance are confident of a hypothetical success, stable since 2020. Larger hypothetical applicants remain more confident than smaller ones, and once again more confident than those of a similar size who are planning to apply (70% v 55%). Smaller hypothetical applicants are less confident of success, compared to larger hypothetical applicants but they are also more confident than those of a similar size planning to apply (52% v 41%, see previous slide for those *with* plans)

Q106 Base: All not planning to apply for new/renewed facilities 3m Sept 4023 2208/1815

Quality Standards and Other Details

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

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

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