



SME Growth Tracker: Small business confidence inches upwards but stays negative for 4th consecutive quarter following last year's general election

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Q1 2018 SME Growth Tracker Confidence Index score for business conditions up 1 point to -6 and for the UK economy up 6 points to -18

Small businesses that use e-commerce continue to project faster overall revenue growth in the coming 12 months, with North East and West Midlands SMEs showing high rates of digital adoption (69 per cent)

Company website is the most popular channel for e-commerce (52 per cent), followed by third party social media website (37 per cent), third party retail website (20 per cent) and a company's own mobile app (13 per cent)

LONDON – Thursday 1 May 2018 – The first *SME Growth Tracker* of 2018, published today, reports that confidence amongst small and medium-sized enterprises (SMEs) is gradually increasing. The quarterly report by Capital Economics, commissioned by Amazon UK and Enterprise Nation, assesses growth prospects and views on the broader UK economy from SMEs based on a YouGov survey of over 1,000 UK SMEs.

"It's clear that British SMEs are open for business, and those taking advantage of the opportunities presented by e-commerce can grow at a faster rate," said Doug Gurr, UK Country Manager, Amazon. "The commercial benefits to be found by the adoption of digital technology can be enjoyed by all businesses. In fact, last month we published findings showing that more digital adoption in rural areas could add over £26bn to the economy's gross value added, so the more SMEs we can support and help adopt digital, the better for the UK economy."

High confidence in British manufacturing to bring revenue growth and SME job creation

Overall, the *SME Growth Tracker* Confidence Index score for individual company performance was up 1 point to -6 and up 6 points to -18 for confidence in the broader UK economy, continuing to recover each quarter following the lowest levels reported after the snap election in June 2017. Whilst manufacturing is the only sector expecting business conditions faced by their company to improve (+6), the retail industry shows promising signs of improvement and increasing confidence, with a Confidence Index score for their company of -5 up from -17.

Overall SMEs reported a rise in revenue of 1.0 per cent and a rise in employment of 0.3 percent, indicating an increase in productivity of 0.7 per cent over the past twelve months. Looking to the future, SMEs expect revenue and jobs growth to accelerate to 1.5 per cent and 0.9 per cent respectively over the coming twelve months, around the same as the expected increase in revenue and jobs expected last quarter.

"With business indicators reflecting a rising confidence amongst SMEs, today's results suggest that businesses are feeling the benefits of digital technology, helping them to connect to a wider customer base," said Emma Jones MBE, founder of Enterprise Nation, which represents over 70,000 SMEs across the UK. "As global economic uncertainty continues to pose a threat to stable business conditions, it is essential that SMEs adopt agile and innovative ways of working to stay competitive."

SMEs invest in technology, with E-commerce users forecasting highest growth

The *SME Growth Tracker* finds that email and websites are now commonplace for selling to customers: after emails, company websites are the most popular channel for e-commerce, with over half of SMEs using company websites to sell online. This trend is expected to increase further in the next twelve months, with adoption rising from 52 per cent of SMEs to over 65 per cent. The use of third party social media platforms for marketing continues to grow as well, with 37 per cent of SMEs now using this digital tool, while 23 per cent of SMEs use third party retail sites for sales and 13 per cent use their own company mobile app to reach customers.

E-commerce adoption is similar across all UK regions, with surveyed SMEs in the North East and West Midlands reporting the highest levels of e-commerce uptake at 69 per cent. In contrast, Scotland and the South-East represent areas with the lowest levels of adoption at 61 per cent. SMEs who use e-commerce forecast stronger growth in profit than all other UK SMEs, even when less optimistic about business conditions. Businesses that use e-commerce expect to see revenue increase of 1.6 per cent over the next twelve months, compared to 1.3 per cent of those businesses that do not.

Brexit Does Not Delay Business Decisions, But SMEs Concerned About Supply Costs

The *SME Growth Tracker* found that 73 per cent of SMEs have not delayed any business decisions due to Brexit, but 13 per cent said they delayed hiring additional staff and 7 per cent delayed international expansion plans since the 2016 referendum vote on the UK's membership of the European Union. The biggest negative impact of Brexit is still expected to be its effect on pushing up supply costs, with a score of -25.

Mark Pragnell, Chief Project Economist at Capital Economics, added: "Since launching the *SME Growth Tracker* soon after the EU referendum in 2016, we've seen a pattern emerge showing SMEs in the majority of regions which primarily voted to leave the EU, consistently more optimistic than

SMEs in regions that voted remain. For example, this quarter, both the East and West Midlands – which had the highest share of the electorate vote leave in the Brexit referendum – have reported greater confidence than SMEs in Scotland and London where the majority voted to remain. But confidence does not appear to correlate with revenue growth expectations, with London and Scottish SMEs forecasting higher revenue growth than SMEs in the East and West Midlands.”

-ENDS-

Notes to Editors

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All figures, unless otherwise stated, are from YouGov Plc. or are calculated by Capital Economics using figures from You Gov Plc. Total sample size was 1,049 senior decision makers in SMEs. Fieldwork was undertaken between 16 February and 5 March 2018. The survey was carried out online. The figures have been weighted and are representative of all UK businesses in terms of size (i.e. number of employees). Numbers may not add up due to rounding.

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Capital Economics *SME Growth Tracker*: Confidence Index scores

The Confidence Index score is calculated on the basis of responses to the question: "Do you think overall business conditions (e.g. economic growth, customer demand, employment etc.) will have improved, deteriorated or will have stayed about the same for my company?" The Confidence Index score would be +100 if every SME expected business conditions for their company to improve significantly and -100 if every SME expected them to deteriorate significantly. The scores allocated to each answer were: +100 for "significantly improved", +50 for "somewhat improved", 0 for "stayed about the same", -50 for "somewhat deteriorated" and -100 for "significantly deteriorated".

Capital Economics

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