



## **SME Growth Tracker: Accelerated Revenue Growth Forecast for Manufacturing and Financial Services Despite Declining SME Confidence Seen Across the Country**

July 11, 2018

*Small British manufacturers expected to accelerate revenue growth to +2.2% in coming year, with financial services SMEs expected to grow +1.9%*

*Q2 2018 SME Growth Tracker Confidence Index scores remains in negative territory, with scores for business conditions down two points to -8, and for the UK economy down three points to -21*

**LONDON – 11 July 2018** – The Q2 2018 *SME Growth Tracker*, published today, reports that amongst small and medium-sized enterprises (SMEs) the Confidence Index score for their business has deteriorated from -6 earlier this year to -8. Confidence in business conditions has remained negative for all SMEs since the UK general election in 2017, when it was at its lowest point (-11), and has not been positive since March 2017.

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.

### **British manufacturers and financial services leading SME economy**

Small business owners in all regions of the UK expect conditions for their company to deteriorate, on average, over the coming year. However, those in financial services and manufacturing expect business conditions to improve in the coming year, with SME Confidence Index scores of +3 and +6 respectively.

Revenue expectations for the coming year in these two sectors are consistent with their views that business conditions will improve. Manufacturing SMEs expect revenues to rise by 2.2 per cent over the coming year, after a 1.4 per cent rise in revenues over the past twelve months. SMEs in UK financial services saw revenues rise by 1.7 per cent over the past year and expect to see an acceleration to 1.9 per cent growth in the coming year. These results are both higher than the national average, where SMEs surveyed indicated growth of 0.4 per cent for the coming year.

What's more, SMEs in the manufacturing and financial services sector are planning the greatest increase to investment in the year ahead. Manufacturing SMEs expect to increase headcount by 0.8 per cent next year and increase capital expenditure by 1.7 per cent, while financial services SMEs are planning for increased investment in these areas of 1.5 per cent and 0.6 per cent respectively.

"Although some sectors are showing more caution, manufacturers are leading the pack," said Doug Gurr, UK Country Manager, Amazon. "It's clear that where there is confidence in business conditions, small business owners are making plans for job creation, investment and growth. So the more that can be done to boost SME business confidence, the greater the benefits for the whole economy."

### **SMEs' trade with EU falls as Brexit nears**

Whilst exporting SMEs forecast export volumes over the coming year to increase by 0.5 per cent, SMEs who export to the EU forecast export volumes to the area to fall by 0.4 per cent over the coming year. A similar pattern is seen in expectations for export revenues. Exporting SMEs think that export revenues will increase by 0.3 per cent in the coming year after increasing by 0.2 per cent over the past year. Meanwhile, SMEs who exported to the EU in the past twelve months are forecasting their export revenue from the EU to fall by 0.7 per cent over the coming year, adding to a decline of 0.1 per cent over the past year.

"The result suggests EU export volumes and revenue from EU exports have declined in response to Brexit", said Giles Derrington, Head of Policy, Brexit, International and Economics, techUK. "To ensure the success of all sectors, the Government must provide greater clarity on future trading arrangements, and act now to support entrepreneurs and SMEs in preparing for a post-Brexit world by them adopt and utilise the digital tools and services available to increase their productivity and boost their growth."

### **Brexit not the biggest concern for business**

This quarter, SMEs continued to expect Brexit to have a negative impact on most business indicators; but higher price inflation, increasing competition and cybercrime were all more commonly cited risks for SME business leaders over the coming year. Almost nine-in-ten SMEs said that each of these were 'a risk' to their business over the next 12 months.

Although the majority of SMEs surveyed this quarter said that they have not delayed any business decisions due to Brexit, three-in-ten (31 per cent) said they had. The number of SMEs delaying decisions due to Brexit increases to 41 per cent for those that export and to 44 per cent for SMEs that specifically export to the EU. The most commonly delayed business decision cited by SME business leaders concerned new hiring, followed by upgrading business tools and new capital raising endeavours.

"SMEs continue to be negative about the conditions their businesses face. The last time the index was positive was in March 2017, and there is little to suggest any improvement in the near-term from the latest batch of results," added Mark Pragnell, Chief Project Economist at Capital Economics. Some of the negativity relates to concerns and uncertainties surrounding Brexit. Indeed, businesses are anticipating slight reductions in export volumes to the EU, and associated revenues. But other risks such as higher price inflation, increasing competition and cybercrime were more commonly cited."

### **SME e-commerce revenue set to rise in the coming year**

The *SME Growth Tracker* also finds that digital SMEs expect e-commerce revenue growth to rise by 1.0 per cent over the coming year, after it rose by 0.4 per cent over the past year. They also expect e-commerce to account for a greater share of revenue (36 pence in every pound) compared to the past year (33 pence in every pound). However, over half of SMEs surveyed (51 per cent) do not yet have a company website for selling goods or services. By comparison, 21 per cent of SMEs use a third party site for sales and this figure is expected to rise to 26 per cent of SMEs next year.

**-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 1,034 senior decision makers in SMEs. Fieldwork was undertaken between 18 May and 3 June 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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