

Q2 SME Growth Tracker - SME Confidence Falls Sharply after General Election, but SMEs Still Projecting Revenue and Jobs Growth

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The comprehensive survey of over 1,000 small and medium sized enterprises (SMEs) provides a quarterly assessment of the health and confidence of British SMEs carried out by YouGov and analysed by Capital Economics. It monitors key financial and economic trends of businesses that account for 60% of United Kingdom private sector employment.

The SME Growth Tracker Confidence Index score for their own companies for Q2 2017 is -11 (down from +3 in Q1 2017 and lower than Q4 2016's -4). The Index score for expectations of the broader economy is -27 (down from -11 in Q1 2017 and -15 in Q4 2016).

Twenty one per cent of SMEs believe that, in twelve months' time, the overall business conditions for their company will be "significantly" or "somewhat" improved compared to today. In contrast, 36% said they will have deteriorated. The share of SMEs expecting business conditions for their own

company to deteriorate "significantly" has doubled since Q1 2017. SMEs in all industries, of all sizes (by employment), and in all regions have a negative confidence index score this quarter.

Despite expecting a tougher business climate, SMEs are optimistic about their company's ability to grow in the coming twelve months. They expect revenue growth to accelerate from 0.8% over the past twelve months to 1.7% over the coming twelvemonths. This is lower than SMEs' prediction of 2.3% revenue growth for the year ahead in Q1's *SME Growth Tracker* and Q4 2016's 1.8%.

SMEs expect to increase headcount by 0.7% over the coming year, after a slight rise of 0.2% over the past year. SMEs predicted they would increase staff levels by a similar rate in Q1 2017 and Q4 2016's *SME Growth Trackers* (0.9% and 0.7%). Employees' remuneration is set to grow by 1.5% in the coming year - equal to its reported increase in the past year.

SMEs expect to raise prices charged by 2.5% after they increased them by 1.8% over the past twelve months. Supply costs have risen relatively sharply in the year to June, by 4.1%, and are expected to increase by more, 4.6%, over the coming year. Meanwhile, the outlook for capital investment is positive; it is set to

increase by 0.7% over the coming year after increasing by 0.4% over the past year. Overall, SMEs' profits are set to rise by 0.4% over the coming twelve months after reportedly increasing by 0.3% over the past year.

"SMEs clearly see the overall economic climate out there as cause for concern, but there's also plenty of light amongst the shade," said Doug Gurr, UK Country Manager, Amazon. "SMEs are once again demonstrating their importance to the UK economy by keeping calm and carrying on, anticipating revenue, hiring and profit growth as well as ramping up capital investment."

Regionally, SMEs in the capital are most pessimistic about business conditions for their company with a score of -21, well below the national average. These London SMEs also expect the lowest job growth (0.3%) over

the coming twelve months. These SMEs are not however, the ones expecting the lowest revenue and profit growth over the coming year – a post held by SMEs in the East Midlands. SMEs in Yorkshire and the Humber expect the highest increase in revenue in the coming year at 2.9%; they are also most optimistic about business conditions for their company and expect them to remain broadly unchanged.

When it comes to exports, the outlook in general is positive, with SMEs expecting 1.0% growth in export revenues in the next 12 months. However, of SMEs that export to the EU, more expect export revenues from the trade block to decrease than increase in the year ahead, in contrast to exporters to all other parts of the world where more SMEs expect an increase in export revenues rather than a decrease.