THE SME BAROMETER

SMALL & MEDIUM SIZED BUSINESS INSIGHTS.

BRIGHT LIGHT AHEAD

WATCH OUT SMEs THERE COULD BE A TRAIN COMING

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Business confidence hit as chancellor unveils budget

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Export confidence on the rise

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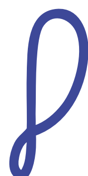

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FOREWORD

Prime Minister Sir Keir Starmer warned that the Budget would be 'painful' but all were unprepared for the Chancellor's hard hitting £40 billion tax raid.

When the Chancellor Rachel Reeves stood to deliver Labour's first budget in 14 years, those expecting a Budget that would take them back to the halcyon times seen in the early days of the Tony Blair and Gordon Brown's Labour Government were to be disappointed.

In the run up to the Autumn Budget, the Prime Minister Sir Keir Starmer's warning that the Budget would be 'painful' saw business confidence plummet with 78% of SMEs raising concern about the fiscal challenges post-budget, so when the Chancellor unveiled an eye-watering £40 billion array of tax rises far exceeding anything Labour had set out in its manifesto, commentators and economists were quick to point out that the Budget's maths wasn't adding up if the Chancellor wanted to grow the economy.

The Institute of Fiscal Studies (IFS) was quick to warn that higher public spending would only provide a "short-term sugar rush" leading to inflation staying higher for longer, with higher borrowing costs, higher prices, and lower UK growth – all factors confirmed by the Office of Budgetary Responsibility's (OBR) Economic and Fiscal Outlook released on the same day as the Budget.

Source: https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_Oct_2024.pdf

THE GOVERNMENT'S CLAIM THAT IT HAD BEEN LEFT WITH A £22 BILLION FISCAL BLACKHOLE BY THE PREVIOUS GOVERNMENT WAS BROUGHT INTO DOUBT when the OBR watchdog refused to endorse the Chancellor's claim at its press conference following the Budget. Previously, the OBR reported that the new Chancellor had been handed £9.5 billion of hidden costs from her predecessor Jeremy Hunt's final Budget – another factor picked up on by the IFS who accused the new Government of 'playing the same silly games'.

Source: https://www.msn.com/en-gb/money/other/obr-casts-doubt-on-reeves-s-22bn-black-hole-claim/ar-AA1tfmXO

All was enough to spook the financial markets with traders reporting an aggressive selling off of UK government debt. The Bond market – comprising of big institutional investors looking to invest huge sums of money in low-risk, income-paying assets turn primarily to government bonds with their low-risk gilt-edged securities. Seen as one of the safest forms of investment because it is thought to be very unlikely that the government would not be able to repay the money, the Bond market is bigger

than all the world's stock markets combined, and 'bond yields' are important because they are used as a guide for setting the rates on everyday loans and mortgages.

'Yields' are the interest rate that the government must pay lenders when it borrows money from them over a ten-year period. The higher the yield signifies to investors the higher the risk in lending money to the government. But with yields rising higher than those seen in the Liz Truss/Kwasi Kwarteng mini-Budget two years ago that crashed the economy, Chancellor Rachel Reeves and the Chief Secretary to the Treasury Darren Jones are frantically trying to calm market fears.

“”

WE'VE GOT STRONG FISCAL RULES IN PLACE SO THAT DAY-TO-DAY SPENDING ON PUBLIC SERVICES IS PAID FOR BY TAX RECEIPTS, NOT BORROWING EVERY SINGLE MONTH, WHICH IS WHAT THE LAST GOVERNMENT DID, AND WE'VE GOT A STRONG INVESTMENT RULE THAT MEANS THAT WHILE WE'RE INVESTING IN THE COUNTRY, DEBT IS FALLING AS A SHARE OF THE SIZE OF THE ECONOMY,

says Darren Jones, Chief Secretary to the Treasury.

Source: https://www.bbc.co.uk/news/articles/cx2n0eeep90o

The Chancellor had “overestimated” the market's desire to absorb more government debt,” says Kathleen Brooks, Research Director, XTB,

Source: https://www.cityam.com/gilts-sterling-and-ftse-250-slump-as-markets-digest-budget-borrowing-plans/

and Simon French, Head of Research at Panmure Liberum, warned on X (formally known as Twitter) that markets were “definitely moving into 'squeaky bum' territory'.”

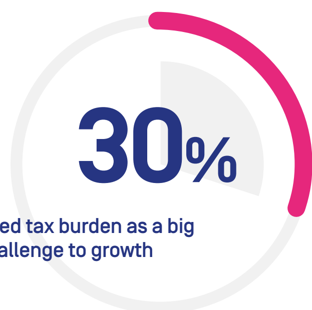
Source: https://x.com/Frencheconomics/status/1852007460698992675

As the markets digested the Budget, sterling suffered its biggest fall in 18 months with economists and analysts weighing up the impact. “The general consensus is that the scale of the tax rises will damage business in the UK and the cost of borrowing has started to rise,” says David Johnson, Founding Director, Halo Financial. “The Office for Budget Responsibility is challenging the government's numbers, as is the Institute for Fiscal Studies, and there is likely there will be further challenges in the weeks and months ahead leading to falls in sterling's buying power.”

“At first blush, there is precious little in the government's first Budget which offers anything other than short-term pain for the business community,” says Roger Barker, Director of Policy, Institute of Directors (IOD). “The government has chosen to impose a significant new tax burden on business as a means of achieving an immediate boost to its public sector spending priorities. The risk is that this will exert a negative impact on business confidence, with worrying implications for the economy's future growth trajectory.”

Source: https://www.iod.com/news/uk-economy/iod-press-release-a-painful-budget-for-business/

In a pre-Budget survey, nearly 30% of businesses cite tax burden as a big challenger to growth, with 44% of SMEs in the energy, water and mining sectors, and 38% in the property sector reporting that this was their biggest concern.



This is followed by 32% of firms in the retail and wholesale who state that they are increasingly worried about the tax burden they face.

Source: https://www.icaew.com/insights/viewpoints-on-the-news/2024/oct-2024/tax-concerns-drive-drop-in-business-confidence

The Chancellor's manipulation of fiscal rules to allow the Government to borrow more, rattled some commentators, whilst for others it was seen as a welcome move. "Changing the measure of debt used in the fiscal rules from public sector net debt to public sector net financial liabilities is a step in the right direction," says the National Institute of Economic Research (NIESR). "But it still restricts public investment by not leveraging the value of fixed assets on the government's balance sheet nor allowing enough time for public investment to generate returns through higher GDP."

"The Government's change to its fiscal rules to accommodate borrowing for the purposes of investment, and the publishing of a corporate tax roadmap – both of which we called for in our Budget submission – is seen as a welcome move," adds Barker. "The protection of public spending on Research & Development (R&D) and the announcement of various transport infrastructure projects are also welcome. The role of the National Wealth Fund in directing investment towards the industries of the future will hopefully make a positive contribution to the economy's long-term growth prospects."

But after the recent difficult years, SMEs will undoubtedly find it hard to look beyond the imminent tax increases set out by the Chancellor. "The broad changes to employers' National Insurance Contributions (NIC) and capital gains tax had been largely pre-briefed ahead of the statement, but the magnitude of the National Insurance tax rise is greater than expected and further adds to the burden on business," says Barker.

"The changes to employers' NIC represent a straightforward increase in business costs and take no account of whether a business is profitable or not. At a time when business confidence is low, hiring plans have already been hit by the Government's employment rights reforms, and the minimum wage is set to rise by more than inflation, this will hit employment prospects and earnings. The effects of higher NIC costs will hit profits in the near-term before being passed on in lower wages and lower employment. Although the increase in the employment allowance will alleviate the hit for the smallest enterprises, there is no doubt that this increase in employers' National Insurance is a major blow for most businesses."

"For some smaller SMEs, the cost of employers' NIC will be manageable, but for others, businesses should look to offshore talent for their back office and tech teams in successful offshoring destinations such as India, the Philippines, South Africa, and elsewhere in the world," comments Claire Sandbrook, CEO of international business consultancy firm, Shergroup, and a thought leader.

"In the Budget we saw a 1.2% rise in the rate of employers' NIC, taking the figure to 15%, with the threshold at which firms start paying these contributions falls from £9,100 to £5,000," comments Nick Hood, Senior Advisor, Opus Business Advisory Group. "For the Exchequer this will raise an estimated extra amount of £25 billion, a gross figure before any consequential negatives on Corporation Tax receipts or benefit payments. However, as a concession to SMEs with total NIC liabilities of £100,000 or less, the Employment Allowance they can claim against their employers' NIC liabilities has been raised from £5,000 to £10,500 in each tax year."

Despite this, the question is what will employers do in the face of an extra tax burden?

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FOR SMEs, THE INCREASE IN NATIONAL INSURANCE, HIGHER NATIONAL MINIMUM WAGE (NMW), AND DOUBLED BUSINESS RATES WILL ALL GO STRAIGHT TO THEIR BOTTOM LINES UNLESS THEY TAKE STEPS TO ALLEVIATE IT,

says Hood. "Their options are simple: raise prices, cut pay or cut staff, or a mix of any two or all three. The first will be difficult for those companies operating in price sensitive markets. The second is tricky in practical terms, except for new joiners. The third threatens their ability to operate efficiently or effectively."

"From April 2025, NMW rises by 6.7% for workers aged 21 and above, whilst younger workers between 18 and 20 get an even bigger boost of 16.1%, with apprentices getting the biggest bump of all – a hike of 18%," continues Hood. "The trade body UKHospitality has already warned that this would add £1.9 billion to the industry's wage bill further impacting the already struggling hospitality industry."

£1.9

BILLION EXTRA TO THE INDUSTRY'S WAGE BILL

BUT THERE WAS SOME GOOD NEWS IN THE BUDGET.

"The business rate reliefs that were due to expire in March 2025 were renewed, and although the discount has been cut from 75% to 40%, without the continuation of the current reliefs, the rates bill for smaller premises would have quadrupled. Now they will only double," explains Hood.

Corporation Tax saw a reprieve in the Budget. "It's encouraging to see the Chancellor moving to address the uncertainty in the economy by committing to cap Corporation Tax at 25% for the remainder of the Parliament and persisting with key reliefs. As a firm believer in the ability of technology to drive increased productivity, we are delighted to see R&D Tax Credits maintained. This will allow innovative businesses to continue to invest in key areas such as AI and machine learning – both of which continue to be essential drivers of economic growth," comments Robert Doherty, Global Head of Insolvency, Aryza.

"One area of concern though is the likely impact on SMEs from the significant changes in NIC," says Doherty. "If this change prevents those businesses from hiring, then growth will be curtailed and the more positive news from the Budget may be lost."

In the run up to the Budget, the more florid sections of the media were awash with scare headlines predicting that hundreds if not thousands of entrepreneurs would flee the UK to avoid CGT increases. "Even more sober business pages have talked of panic selling of businesses to avoid tax rises and to take advantage of Business Assets Disposal Relief (BADR) in case it was cut. But the actual changes were the top rate rising from 20% to 24% for higher rate taxpayers; lower rate for standard rate taxpayers goes up from 10% to 18%; whilst the BADR lifetime limit of £1 million remains unchanged. Underlying all of this is the draft legislation of the Employment Rights Bill introduced to Parliament on 10 October 2024," comments Hood.

"" THIS WILL CERTAINLY IMPROVE WORKERS' RIGHTS BUT WILL BE BOUND TO HAVE COST AND OPERATIONAL IMPLICATIONS QUITE APART FROM ITS POTENTIAL EFFECT ON BUSINESS CONFIDENCE AS REGARDS HIRING INTENTIONS.

The Autumn Budget introduced a renewed focus on social welfare, infrastructure, and public spending – all policies aimed to stimulate economic growth and protect vulnerable populations, they also bring about changes in taxation and government priorities as well as impacting on private landlords which seems at odds with the need for more accessible housing stock. For Claire Sandbrook, CEO of international business consultancy firm, Shergroup, and a thought leader who oversees enforcement services that support the fair execution of court orders, this shift presents both opportunities and challenges. "The increase in public spending could mean greater demand for Shergroup's compliance and enforcement services, especially as local authorities may prioritise debt collection and enforcement as a means of bolstering public funds," says Sandbrook.

"That said, I am not a keen supporter of the use of High Court enforcement for routine local authority debt collection and believe that the fees earned from these operations should be fed back into local authority coffers."

"Although, High Court enforcement has a role to play in the enforcement of possession orders and the collection of rent arrears where this is possible, the civil courts remain slow to process routine paperwork and this needs to be resolved by His Majesty's Courts & Tribunals Service. The smooth and uncomplicated transfer of possession orders to the High Court for enforcement is something that Government has been stalling on since an inadvertent rule change in October 2001," comments Sandbrook.

LATEST INSOLVENCY STATISTICS

A surge in insolvencies post-Budget is predicted. “Business failures in the most heavily impacted sectors (hospitality, retail and entertainment) are almost a quarter of all corporate insolvencies. The total for the 12 months ended August 2024 for England and Wales was 5,845 out of 25,126. After the Budget measures and other announcements, it is difficult to imagine that failures in these vital industries won’t rise substantially as the extra cost burdens bite into profitability, suck out liquidity and threaten viability. Most at risk as always will be smaller businesses, which lack the financial reserves and resources to withstand the extra financial burdens they now face,” says Hood.

For July 2024 show the number of registered corporate insolvencies (also known as ‘company insolvencies’) in England and Wales stood at 2,191 for the month, 7% lower compared to June 2024 (2,363), but 16% higher at 1,890 recorded for the same month in July 2023.

Source: https://www.gov.uk/government/statistics/monthly-insolvency-statistics-november-2023

“Despite a decrease compared to June 2024, July’s corporate insolvency figures are the highest we’ve seen for this month since 2019, as a result of increases in Compulsory Liquidation, Administration, and Creditors’ Voluntary Liquidation (CVL) numbers compared to July 2023 and 2019,” comments Tim Cooper, President of R3, the UK’s insolvency trade body, and a Partner at Addleshaw Goddard LLP.

For the month of July 2024 there were 320 compulsory liquidations, 1,691 creditors’ voluntary liquidations (CVLs), 155 administrations and 25 company voluntary arrangements (CVAs). “CVLs continue to be the most common corporate insolvency process, although their numbers have fallen compared to June 2024 and July 2022. These processes are used predominantly by smaller businesses and their increased take-up compared to July of last year and July 2019 reflects the challenging trading conditions these businesses have operated in over the past four years,” continues Cooper.

MEANWHILE, THE RISE IN ADMINISTRATION NUMBERS COMPARED TO LAST YEAR IS POTENTIALLY POSITIVE FOR BUSINESS RESCUE PROSPECTS AND HIGHLIGHTS THE IMPORTANCE OF EARLY ADVICE FOR EXPLORING RESCUE PLANS, WHILE THE INCREASE IN COMPULSORY LIQUIDATION FIGURES SHOWS THE ONGOING FINANCIAL PRESSURES CREDITORS ARE FACING.

While there has been some variability between individual monthly insolvency figures, July 2024 saw a 14% increase over the same month in 2023 and a striking 47% hike from pre-pandemic levels in July 2019. “The more reliable measure of business distress comes from the rolling 12-month data. There was a new record for a calendar year in 2023 when there were 26,776 company insolvency filings, but July 2024 has now set a new peak of 27,138,” explains Hood.

INSOLVENCY FILINGS

Filings	Period
26,776	CALENDAR YEAR 2023
27,138	JULY 2024

"With six months of good if not exactly robust growth since the start of the year and the fall in interest rates, the expectation might be that business confidence will have been boosted, prompting some vulnerable firms to battle on through to better times ahead. Unfortunately, while business growth is all about confidence, business failure is generally the result of a specific financial problem or an accumulation of them."

Corporate insolvency figures fell in August 2024 by 9% to stand at 1,953 for the month compared to July's 2,144 figure and was 15% lower compared to August 2023 when the figure stood at 2,286. The month of August 2024 recorded 279 compulsory liquidations, 112 administrations, 20 company voluntary arrangements (CVAs), and 1,542 creditors' voluntary liquidations (CVLs) with CVLs accounting for 79% of all corporate insolvencies.

Source: https://www.gov.uk/government/statistics/company-insolvency-statistics-august-2024

"The monthly fall in corporate insolvency figures is likely to be a result of the traditional slowdown in appointments we see during August and shouldn't distract from the fact that businesses are still struggling, and many are still trying to manage high levels of debt at a time when trading conditions remain difficult," adds Cooper.

Despite the fall, the number of company insolvencies remained much higher than those seen both during the Covid-19 pandemic and between 2014 and 2019. "There is a knock-on effect of the pandemic, which left many company balance sheets severely damaged or else over-burdened with extra debt taken on under the various government Coronavirus loan schemes," explains Hood. "The 'no questions asked' Bounce Back loan was a worthy concept, except for any borrower that found bouncing back to be akin to 'mission impossible' after lockdowns, the working from home phenomenon, and endemic labour shortages wrecking their business models."

In September 2024, corporate insolvencies are once again on the rise standing 2% higher at 1,973 with 226 compulsory liquidations, 1,575 creditors' voluntary liquidations (CVLs), 155 administrations and 17 company voluntary arrangements (CVAs).

Source: https://www.gov.uk/government/statistics/company-insolvency-statistics-september-2024

"Although corporate insolvencies have only risen by a small percentage compared to figures for August 2024, the business climate remains difficult as firms face a multitude of issues including ongoing cost challenges, uncertainty around announcements in the Budget and the potential knock-on effects of the conflict in the Middle East," comments Cooper.

"The marginal monthly increase in corporate insolvencies is due to an increase in Creditors' Voluntary Liquidations and Administrations, while the year-on-year reduction in numbers is due to a fall in Creditors' Voluntary Liquidations and Compulsory Liquidations. The figures also show that Administration numbers have increased compared to August 2024 and September 2023, suggesting that directors are seeking early advice – something that R3 has been campaigning for since 2020. Our members are telling us that there's an increased demand for advice and support around Member Voluntary Liquidations as directors look to take steps to reorganise their business and its finances as they worry about the impact future tax rises could have on their bottom lines."

"Seeking early advice means there are more businesses that have the potential to be rescued via a sale out of Administration – the preferred outcome of an Administration process for

members of the profession, who always seek to rescue a business wherever this is possible," says Cooper. "If directors are proactive at seeking advice when the first signs of financial distress present themselves, we could see CVL numbers reduce in the medium-term and more businesses entering administration in the hope of being rescued through a sale."

ONE IN 182 COMPANIES ON THE COMPANIES HOUSE EFFECTIVE REGISTER (AT A RATE OF 55.0 PER 10,000 COMPANIES) ENTERED INSOLVENCY BETWEEN 1 OCTOBER 2023 AND 30 SEPTEMBER 2024, MEANING WE ARE ON TRACK FOR ANOTHER RECORD-BREAKING YEAR ON THE INSOLVENCY FRONT.

"Looking at overall numbers for company insolvencies is interesting, but the real stories lie in what is happening with the various types of insolvency: business rescues through Administrations and Company Voluntary Arrangements (CVAs) compared to burials through Liquidations and as between the two types of Liquidation (Creditor's Voluntary and Compulsory)," explains Hood.

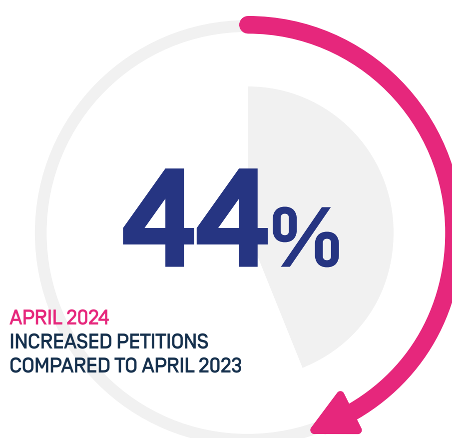
"Liquidation is now the route for 93% of failures, but within that overall statistic there is a clear shift away from director-initiated Creditor's Voluntary Liquidations towards creditor-enforced Compulsory Liquidations, which is not good news for businesses struggling to manage their debts."

"Back before the pandemic moved a whole lot of commercial goalposts, Compulsory Liquidations (imposed by creditors on insolvent companies through the Court) made up 20% of business failures. Further back still and before the global financial crisis, they represented a third of insolvencies," continues Hood.

"When the government intervened to protect struggling businesses during the pandemic by severely restricting creditor enforcement action, Compulsory Liquidations plummeted. They were just 4% of insolvencies in 2021 and 10% in 2022."

"Then in 2023, something started to stir in the debt collection jungle. Creditor action pushed 13% of failed companies into Court and thence onwards over the financial cliff. Now in 2024, this percentage has edged up again, this time to 14%," says Hood.

"The precursor to Compulsory Liquidation, the issuing of a Winding Up Petition (WUP) by an unpaid creditor has soared in 2024. In Q1 2024, petitions were 17% up on Q1 2023. In April 2024, they were 44% ahead of the figure for April 2023."



By far the largest player in this process is HMRC, which is taking an increasingly hard line over tax arrears following the long period of government-prompted indulgence during the pandemic. "Winding Up Petitions (WUPs) initiated by HMRC were up 350% in 2023, compared to 2022. The ban on issuing WUPs up to March 2022 under Covid-19 restrictions will account for this huge increase, but certainly not all of it," says Hood.

"Another factor behind rising Compulsory Liquidations will be the aftermath of the widespread abuse of the Covid-19 government-backed loan schemes, the investigation and punishment of which is very much an ongoing process. Proactive management of payables and other liabilities must be a priority, especially where there are substantial arrears owed to HMRC. It seems that the era of patience and understanding by creditors is over."

INTEREST RATES

All eyes were on the Bank of England at its November meeting coming a week after the Autumn Budget. As expected, the Bank of England cut interest rates by 25 basis points taking the interest rate down to 4.75%. "If the economy evolves as we expect, it's likely that interest rates will continue to fall gradually from here," says Andrew Bailey, Governor of the Bank of England.

Source: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/november-2024

"At a time of deep uncertainty about where inflation will head next, this decision will help provide some reassurance. But the waters ahead look murkier as the implications of Trump heading to the White House for a second term collide with the impact of the UK Budget," says Susannah Streeter, Head of Money and Markets, Hargreaves Lansdown. "The Bank is expecting the Budget to boost inflation by just under half of a percentage point, due to direct and indirect effects of Rachel Reeves' policies."

Commenting on the interest rate cut, William Marshall, Chief Investment Officer, Hymans Robertson Investment Services adds, "If a Budget the size of Labour's had come out of the blue then we would have expected the Monetary Policy Committee (MPC) to be more cautious with cutting rates. However, given that the Budget was heavily signposted it wasn't enough to stop the rate cut. The extent of the size of the borrowing communicated in the Budget may have slightly surprised the MPC, given that Rachel Reeves hinted that she would not borrow for day-to-day spending (she is). The consequence is that we may see a slower pace of rate cuts next year."

Given low inflation and slow growth, some commentators believe the Bank of England should have cut rates by more.

A FURTHER AND FASTER RATE CUT IS NEEDED TO SUPPORT ECONOMIC RECOVERY. THE BANK OF ENGLAND CONFIRMED THAT THE NEW GOVERNMENT'S BUDGET WILL LIKELY IMPROVE ECONOMIC GROWTH. WE THINK IT IS UNLIKELY TO PUT MUCH UPWARD PRESSURE ON INFLATION, CONSISTENT WITH RECENT EVIDENCE FROM THE US. THIS SHOULD ENCOURAGE THE BANK OF ENGLAND TO BE BOLDER IN REDUCING INTEREST RATES,

comments Carsten Jung, Head of Macroeconomics, the Institute of Public Policy Research (IPPR).

"As businesses continue to digest the difficult implications of the Autumn Budget, a further interest rate cut is some good news for firms," says David Bharier, Head of Research, British Chambers of Commerce (BCC). "The continued easing of inflation is likely to translate into further gradual rate cuts. However, there could be some bumps on the way. Services inflation remains stubborn, and major global conflicts continue to bring uncertainty. A decisive Trump presidential victory has powered US stocks to all-time highs, but a policy of tariffs could be inflationary."

"The rate cut is in line with the gradual loosening in monetary policy that the Bank of England has signalled so far. But while the worst of inflationary pressures are behind us, the MPC is treading an increasingly fine line," comments Alpesh Paleja, Interim Deputy Chief Economist, Confederation of British Industry (CBI). "That line has become even finer after the Autumn Budget. The loosening in fiscal policy is set to stoke inflation a little further, with the resulting short-term boost to demand not matched by a boost to supply potential. On balance, the MPC is still likely to proceed with more rate cuts going forward. But renewed inflationary pressures underscore that the pace will likely be gradual, with the prospect of a faster loosening in monetary policy now fading".

IT IS IMPORTANT THAT THE RATE CUT IS PASSED ON TO SMEs SWIFTLY.

"The fall in the base rate will slightly ease the pressures small businesses face on their margins, but the success rates for small firms' finance applications are still notably lower than they were on average before the pandemic, indicating that many SMEs looking to grow and invest are being held back by the borrowing environment being less welcoming than previously," says Martin McTague, Chair, Federation of Small Businesses (FSB). "It's important that when SMEs apply for funding to grow, they are not put off by blanket demands for personal guarantees from lenders. Personal guarantees turn what should be a business loan into a personal finance product, but without the consumer lending protections which cover other forms of individual borrowing – a situation we think should be looked at by regulators, to protect small businesses."

GDP

After showing no growth in June and July, real Gross Domestic Product (GDP) grew by 0.2% in August 2024, with Services output being the main contributor to growth in the three months to August. The largest positive contribution to the growth in the services sector came from the professional, scientific and technical activities subsector where output rose by 1.6% in the month, driven mainly by increases in accounting, bookkeeping and auditing activities (4.3%); tax consultancy and legal activities (1.7%) and scientific research and development (2.8%); with information and communication output rising by 0.9%.

Of the 14 subsectors in the Services category, the next largest positive contribution at the subsector level for August 2024 was a 2.5% growth in other service activities where the other personal service activities industry rose by 4.1% in the month, after three consecutive monthly falls.

Despite output in the services sector rising overall in August 2024, there were negative contributions from seven subsectors including: the arts, entertainment and recreation category which fell by 2.5%; administration and support activities dropped by 0.5%; while the transportation and the storage sector decreased by 0.8%. Additionally, human health and social work activities fell by 1.1% on the three months to August 2024 and represents the largest negative contribution to August's GPD figures.

Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/august2024

The S&P Global Flash UK Manufacturing Purchasing Managers' Index (PMI) that measures the performance of the manufacturing sector fell to 49.9 in October 2024 from 51.5 in the previous month (revised from the preliminary estimate of 50.3 and sharply below initial market expectations of 51.4) indicating the first decline in factory activity since April 2024. In turn, production edged higher through factories' efforts to deplete backlogs of work. Looking forward, business optimism recovered only slightly from the nine-month low in September 2024.

Source: S&P Global

It will be interesting to see how GDP pans out in the months ahead. On an international level with the USA being one of the biggest markets for UK businesses and the threat of proposed tariffs imposed by the new Trump administration on goods being imported into the US will be 'chilling' for the UK economy. Its impact on the gilt market – and therefore, mortgage and loans in the UK – has led investment bank Goldman Sachs to cut the UK's growth forecast down to 1.4% from its previous forecast of 1.6%, with the bank forecasting growth will remain at 1.4% into 2026.

Source: https://www.cityam.com/goldman-sachs-cuts-uk-growth-forecast-following-trumps-election-victory/

"Fresh nervousness has been sweeping bond markets amid fears that Trump's policies look set to increase inflationary pressures and swell the US deficit even further, with knock-on effects expected for the UK economy. UK gilt yields were already jittery following the big borrowing plan outlined in the UK Budget," explains Streeter.

"There are concerns that the increase in employers' NIC could be passed on in the form of higher prices of goods and services. Now these worries have been exacerbated by US Treasury movements and the knock-on effects of Trump's policies, and there is concern that Trump's trade policies could hold back Britain's economic growth. The fear of a stagflation scenario emerging appears once again to be stalling markets and it's going to make decisions at the Bank of England even more tricky in the months ahead. Financial markets are now expecting the Bank to go even slower on rate cuts than they were before Trump's win, with an implied rate of 4.1% forecast for December next year."

Coming at a time when the OBR reports that GDP growth will struggle because of the Chancellor's Autumn Budget then the 'Light at the end of the Tunnel' that the Prime Minister Sir Keir Starmer so often alludes to is, as many commentators fear, likely to be an oncoming express train. If so, it's going to take all the agility that SMEs can muster to step out of its path.

Backed up by independent research and commentary from some of the leading industry experts, our Autumn Barometer continues to put 200 SMEs under the microscope. SMEs may not have much confidence in the new UK Government right now – but they certainly seem to have it in themselves. While that confidence remains – there is hope!

BUSINESS CONFIDENCE HIT AS CHANCELLOR UNVEILS BUDGET

Business confidence falls to its lowest level in three months driven by SMEs lack of confidence in the economy and is only mitigated by an improvement in firms' own trading prospects.

Source: Lloyds Bank Business Barometer

SMEs now have greater confidence in themselves compared to their confidence in the economy. Of the businesses surveyed by the Institute of Directors (IOD), 34.1% report being 'quite' or 'very' optimistic about their firm's performance, with over half (53.5%) expecting to increase revenue. A quarter of firms expect to increase the size of their workforces, although we can now expect that to change in the light of increases to NIC announced in the Autumn Budget.

53.5% EXPECTING INCREASED REVENUE

Source: https://www.iod.com/news/uk-economy/iod-press-release-business-confidence-falls-further-in-september/

Pre-budget, 63% of SMEs were anticipating stronger output, with only 7% forecasting weaker returns. Now to cope with the fall out of the Autumn Budget and protect profit margins 67% of SMEs are planning to increase their prices, while only 2% say they intend to either hold or lower their prices.

Source: Lloyds Bank Business Barometer

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WE CONTINUE TO SEE ROBUST CONFIDENCE LEVELS IN THE KEY SECTORS AND REGIONS, WHILE FIRMS SHOW INCREASING CONFIDENCE IN THEMSELVES AS EVIDENCED BY THE JOINT-HIGHEST TRADING PROSPECTS RESULTS THIS YEAR, says Paul Gordon, Managing Director for Relationship Management, Lloyds Bank Business & Commercial Banking.

Of the UK's 12 regions and nations reporting stronger confidence, London, the North East and Scotland were the most upbeat. The most notable rise was the West Midlands which gained 17 points to 59% to take joint pole position with London, and while there was little change in confidence in the North West it remains strong, but confidence in the North East fell.

Source: Lloyds Bank Business Barometer

Across the UK, the IOD's Economic Confidence Index showed 40.5% of firms reporting that they felt 'quite optimistic' or 'very optimistic' about their firms' performance over the next 12 months. However, 54.6% report being 'quite or very pessimistic' in the wider economy leading the Index to record that business confidence and investment expectations fell in September 2024 down to -38, from -12 in August 2024 – the lowest result registered in the Index since the fall of -58 in December 2022.

Source: https://www.iod.com/news/uk-economy/iod-press-release-business-confidence-falls-further-in-september/

"Ongoing concerns over likely tax increases, the cost of workers' rights, international competitiveness, broader cost pressures and the general outlook for UK economic growth saw business confidence and investment expectations take a larger dive in September," says Anna Leach, Chief Economist, Institute of Directors.

A snap poll following the Chancellor's Budget Statement found two-thirds (67%) of IOD members reacting negatively to the Autumn Budget with 38% of members saying they feel 'quite pessimistic' and 26.5% 'very pessimistic' about the next 12 months.

"Even before the Chancellor had risen to deliver her Budget speech, the confidence of business leaders had hit its lowest level since December 2022," says Dr Roger Barker, Director of Policy, Institute of Directors. "Based on the results of our snap post-Budget poll, it seems likely that sentiment will have deteriorated even further."

A boost to confidence comes from November's interest rate cut, following the previous week's Autumn Budget. "For businesses, this cut brings a surge of confidence heading into the festive season, a prime time for sales and growth. With more disposable income, consumers, too, are likely to spend more freely, driving up demand and lifting business optimism – a promising setup for investment as we move into the New Year," says James Burgess, Head of Commercial and Insolvency, Atradius UK.

"While extreme tax hikes from the Budget may weigh on the progress made, this rate cut is a step in the right direction for the UK economy. It's a positive sign for businesses and consumers alike, though global uncertainties keep financial planning a priority. To guard against insolvency and ensure resilience, businesses should focus on boosting liquidity, diversifying supply chains, and securing trade credit insurance," continues Burgess.

ALTHOUGH OUR DATA SHOWS A 10% RISE IN LATE AND FAILED PAYMENTS FROM Q2 TO Q3 2024, THERE'S STILL TIME TO TURN THINGS AROUND AND FINISH THE YEAR STRONG. BUSINESSES ACROSS THE UK ARE EAGER TO START 2025 ON A HIGH NOTE.

"The new Labour administration came into power in July 2024 with an election manifesto commitment to "stamp down" on late payments to SMEs. In September 2024, it announced a fresh 'crackdown' on late payment, with measures including

broader reporting rules, a Fair Payment Code and consultation on 'tough new laws'," says Nick Hood, Senior Advisor, Opus Business Advisory Group. "While large companies are already obliged to report on their pay performance, the Government has said new legislation will force companies to detail their payment practices in annual reports. This revives plans announced by the previous government in November last year and puts the "onus on [companies] to provide clarity [...] about how they treat small firms", adding that "company boards and international investors will be able to see how firms are operating."

Additionally, the Government has also vowed to use existing laws to "step up" enforcement of large companies not complying with their pay performance obligations – threatening them with "potentially unlimited fines and criminal records.

A new Fair Payment Code will replace the Prompt Payment Code.

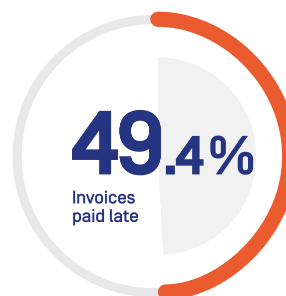
Source: https://www.smallbusinesscommissioner.gov.uk/new-fair-payment-code/

Overseen by the current Small Business Commissioner, Liz Barclay, will include a set of fair payment principles which companies are required to sign up to, as well as three award categories:

- **Gold** For companies paying 95% of their suppliers within 30 days;
- **Silver** For companies paying 95% of their small business suppliers within 30 days and all other suppliers within 60 days;
- **Bronze** For companies paying 95% of suppliers within 60 days.

"The new Fair Payment Code will be more ambitious in setting higher standards including an exemplar 'Gold' category for those firms paying suppliers within 30 days. This goes beyond the existing Code's requirements," explains Liz Barclay, Small Business Commissioner. "The new Code will also be more aspirational by supporting businesses which wish to improve payment practices and helping them move up from Bronze to Silver, and to Gold over time. There will also be a more rigorous application process, a two-year limit on awards and a more robust approach to enforcement."

Research of 150,000 SMEs using FreeAgent accounting software found that from June 2023 to June 2024, 49.4% of invoices sent by SMEs were paid late. This varied depending on the business location. At the top of the league is Ipswich with only 21.5% of firms saying they experience late payment; followed by Llandrindod Wells (32.2%), Hereford (32.5%), Wolverhampton (34.4%) and Bolton (37.9%).



Source: https://www.freeagent.com/blog/best-areas-for-getting-paid/

Regionally, 46.9% of firms in East of England has invoices paid late, followed by the South West at 47.4%, and Wales and Scotland at 48% and 48.5% respectively. London had 54% of invoices paid late, and the North East (51.8%). On a national level, Northern Ireland is trailing a long way behind on 62.4%.

The worst areas for late payments were for firms based in the Isle of Man (73.2%), and East Central London (72.6%). This was followed by Nottingham where 64.4% of invoices are paid late, Jersey (63%) and Blackburn at 60.8%.

According to research by Xero, delayed payments cost SMEs £1.6 billion in 2023, double the impact seen in 2021.

Source: https://www.xero.com/uk/media-releases/uk-small-business-insights-to-december/

and it is on the rise. Between April 2024 and June 2024, payments to SMEs were made 7.3 days late with late payment increasing for retail firms (+3.1 days to 5.5 days), and hospitality firms (+3.0 days to 4.4 days) – both sectors typically paid the fastest. SMEs also waited an average of 29.1 days to be paid over the last three months, 1.2 days longer than the previous quarter.

TO WAIT OVER A WEEK FOR PAYMENT OWED IS AN UNACCEPTABLE AND UNSUSTAINABLE FINANCIAL MODEL FOR SMALL BUSINESSES. OUR LATEST DATA ONCE AGAIN HIGHLIGHTS THE CHALLENGING ECONOMIC ENVIRONMENT THAT SMALL BUSINESSES NATIONWIDE ARE FACING, WITHOUT HAVING TO CHASE DOWN 'UNAPPROVED DEBT' BEING HOARDED BY CUSTOMERS, PLACING IMMENSE STRAIN ON BOTH CASH FLOW AND BUSINESS OWNERS' LIVELIHOODS,

says Kate Hayward, UK Country Manager, Xero.

"As our data has shown, small businesses are being held at the mercy of late paying customers. Labour pledged a robust stance on late payments in their manifesto, and we urge them to swiftly convert their commitments into action through introducing legislation as part of the Draft Audit Committee Bill."

The financial burden of late payment is heavy for any business, particularly SMEs. "The additional interest cost of £1.6 billion borne by SMEs because of late payments not only affects their profitability and viability, but also their ability to invest and grow their businesses," says Hood. "Having to spend 10% of the day chasing unpaid invoices causes a work backlog for many businesses and is a big distraction for management and damages business productivity. Add this to the impact on wellbeing and it's easy to see why Xero data finds 52% of business owners are concerned about overdue debts and worry about their cash flow as a result. Unrecognised mental health issues are common across the economy, with cash flow issues and their potential consequences among the most prevalent causes."

Late payment represents unauthorized use of a firm's borrowing facilities and cash flow. "The interest received, or interest saved by the late payer has been stolen from the supplier. To the extent that it's discretionary on a 'won't pay yet' rather than a 'can't pay yet' basis, it's commercial blackmail and an abuse of power within a commercial relationship," comments Hood.

"It's also dangerous to the integrity of supply chains. These are already fragile enough after the pandemic, the Ukraine war and the Middle East crisis, without debtors gratuitously forcing suppliers to the brink of and even over the financial cliff edge by delaying payments. It's no wonder that corporate insolvencies are at an all-time high, with late payment persisting as a pernicious practice across the UK business world."

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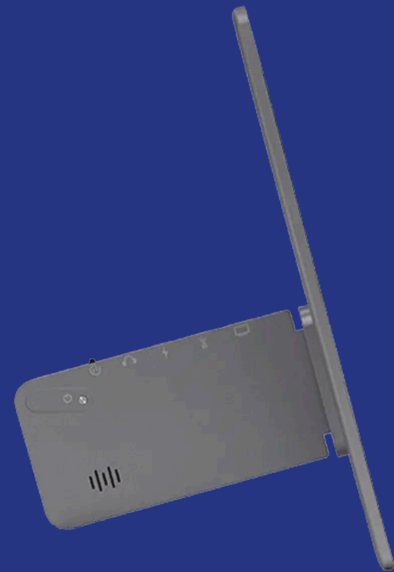

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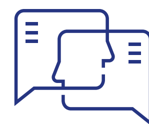


Engage | By Prism

LONG-TERM GAME OF INVESTMENT

UK Government is being urged to supply more funding to address the challenges facing the next generation of AI startups as research reveals US investors now supply more capital to UK startups than domestic backers.

Investment in startups grows as first half of 2024 sees 225 startups secured a staggering £750.5 billion in venture capital funding.

“”

WITH THE RIGHT LEVEL OF GOVERNMENT SUPPORT, IT'S ESTIMATED THAT THIS SECTOR COULD ADD A STAGGERING £400 BILLION TO THE UK ECONOMY AT A TIME WHEN IT MOST NEEDS IT, MAKING IT IMPERATIVE THAT POLICY MAKERS ACT NOW,

says Claire Trachet, AI industry expert and CEO and Founder, Trachet.

While generative AI startups are on track to potentially exceed last year's record of £17.6 billion, many investors are approaching the AI sector with caution due to looming legal and regulatory challenges. “Investors may benefit from diversifying their portfolios by exploring high-growth sectors beyond AI as we head into 2025,” says Mark-Bower Easton, Head of Distribution, Oxford Capital.

“Investments in renewable energy, sustainable urban planning, and green transportation are surging, with global investment in green infrastructure expected to reach £1.5 trillion by 2030. This sector benefits from strong regulatory backing and public demand for eco-friendly innovations, making it an attractive investment opportunity. We see climate-focused startups driving innovation in energy and clean technology. With a growing emphasis on decarbonisation and increasing regulatory support for green technologies, both green infrastructure and climate tech present significant market opportunities for investors seeking high returns.”

Biotech & Healthtech attracted approximately £5.1 billion in investments last year fuelled by advancements in digital health and medical devices. “Unlike AI, the Biotech and Healthtech sectors are benefiting from strong governmental support and an ageing global population, which ensures a sustained demand for healthcare solutions, making the sector a more stable and promising investment option,” comments Easton.

As fintech continues to evolve the sector's resilience and potential for continued expansion in a rapidly changing financial landscape is paving the way for substantial returns for investors. “The UK fintech sector hit £5.5 billion in H1 2024 – almost triple the amount during H1 2023,”

continues Easton. “Compared to AI, fintech offers more immediate commercial applications and scalability, driven by the global shift toward digital payments and decentralised financial systems. This positions fintech as a dynamic and potentially more stable investment option, with clear pathways to near-term returns.”

“With substantial investments pouring into sectors like climate tech, biotech, and fintech, these industries promise strong returns while aligning with societal goals,” says Easton. Diversifying your portfolio outside of AI can help you tap into these emerging opportunities.”

The report from Startup Coalition, Onward, and the Tony Blair Institute for Global Change has set out the key issues which the government must address to ensure the UK can continue to be a leader within the AI startup space. This comes at a time when the government needs to take a serious look at its strategy towards startup investment as for the first time in a year, US investors have topped domestic ones as the largest funding source for UK startups. Currently, 37% of venture capital attracted by UK companies this quarter has come from US sources, compared to just 31% from domestic investors.

Over 51%

Capital attracted from US sources

Under 49%

Capital from domestic investors

Source: https://institute.global/insights/tech-and-digitalisation/the-uk-must-embrace-ai-to-build-the-giants-of-tomorrows-global-economy

The report calls for the government to deliver on the implementation of the Mansion House Compact, reform R&D tax credits and increase HMRC’s Enterprise Investment Scheme and Seed Enterprise Investment Scheme capacities to tackle bureaucracy.

“The UK has long been a leader in the European tech race, but now countries such as France and Germany are hot on its heels, with late-stage tech funding having fallen at a faster rate in the UK. The government’s Mansion House reforms represent an excellent step towards freeing up the trillions of pounds worth of capital locked away in pension funds, delivering an open, green, and technologically advanced financial sector that can support the huge untapped potential of Britain’s AI startups. With the right level of government support, it’s estimated that this sector could add a staggering £400 billion to the UK economy at a time when it most needs it, making it imperative that policy makers act now,” comments Trachet.

Investment is a major challenge for startups. While the UK is still a global leader in the tech space, it risks losing this spot due to a sharper decrease in investment compared to its European investors.

“The UK’s business investment record has been poor for decades,” says Nick Hood, Senior Advisor, Opus Business Advisory Group. “The International Monetary Fund (IMF) confirms that real-term business investment in the UK was still at a marginally lower level by the end of 2022 than in 2016 and before the pandemic in 2019, while other G7 economies experienced a 14% increase on average over this period. This indicates that while the rest of the G7 has overcome the disruption caused by the pandemic and the invasion of Ukraine, the UK has failed to rise to the challenges. The extent to which Brexit is a factor in this under performance is open to debate.”

Pre-Budget there were many stories of expansion plans being put on hold as 17% of SMEs say they lack the confidence in pursuing their investment goals, particularly worrying given that 23% of mainstream banks are adopting stricter lending criteria. This leaves 14% of UK SMEs using bridging or short-term loans for growth, while a further 21% admit to not understanding their funding needs.

Source: https://togethermoney.com/news/65-of-uk-smes-are-eager-to-invest-100k-each-over-two-years

The recent cut in interest rates by the Bank of England provides a potential boost for UK investments after a period of economic stagnation. "But high input costs and possible inflationary pressures from the Chancellor's measures mean that businesses must adapt their lending strategies to stay resilient in a still uncertain market," says Douglas Grant, Group CEO, Manx Financial Group.

"Our research shows that nearly a third of UK SMEs have paused or reduced operations due to financial constraints – an improvement from 40% in 2023 but still significant, with around 10% of SMEs struggling to access external finance. Given SMEs' role in driving growth, employment, and innovation, the Labour Government must foster a supportive lending environment for their resilience and expansion. Both traditional and alternative lenders are key to this, as inadequate financing could hinder recovery amid rising taxes, geopolitical tensions, and cost-of-living pressures."

BUT BUSINESS INVESTMENT IS A LONG-TERM GAME, AND EVEN RELATIVELY SMALL INVESTMENT PROJECTS ARE LONG IN THE GESTATION AND EVEN LONGER IN THE DELIVERY.

"Trying to drive capital spend increases with tax reliefs that only last two years, or which are announced as temporary before being made permanent only a year later, is an insult to proper business planning and development," comments Hood.

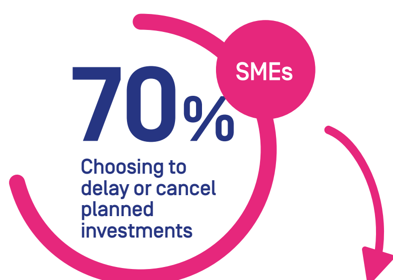
Despite the investment challenges, 28% of SMEs are looking to establish additional property to expand business growth.

Source: PRISM research

Over 30% of SMEs are planning to scale up production, while 18% plan to invest in new plant and machinery.

Source: TogetherMoney

Research by Equals Money, the innovative payment solutions provider, found pre-Budget, 70% of SMEs were choosing to delay or cancel planned investments.



Looking ahead to 2025, ESG initiatives were among the lowest priorities at 14% for business investment for SMEs in finance and insurance (11%), business administration services (11%), technology (10%) and hospitality (6%). Employee well-being and benefits were also ranked lowest in priority at 14% particularly for those SMEs in the manufacturing (11%), technology (10%), construction (8%) and hospitality (6%) sectors.

"Managing business spend is complex at the best of times, but when you throw in a new Government and an uncertain market, it only heightens the challenge," says Steve Paul, Deputy Chief Financial Officer, Equals Money. "However, market uncertainty does not need to prevent businesses from growing. With the right tools in place, such as currency hedging and clear budget oversight, SMEs can still make smart and safe investments."

The new Government's commitment to invest in research and innovation to drive economic growth needs to be built on strong foundations. "The headline announcement of further investment into Research & Development (R&D) is a positive step forward, but the UK needs to truly shift the dial on private investment, including private investment into R&D. This requires a competitive and supportive environment. The cumulative impact of tax rises will have an impact on investment and could make it harder for businesses to start, scale and grow here," says Rosalind Gill, Head of Policy and Engagement, National Centre for Universities and Business (NCUB).

"Businesses tell us that the strength of the UK's university system is a significant reason they choose to invest here. In many parts of the UK, universities are major employers and economic engines. This Budget may well have significant unintended consequences for the sustainability of the UK's world-leading university system. The prospect of increased employer National Insurance contributions will significantly raise staffing costs. Just the change in rate to 15% will cost universities well more than £150 million a year, and the changing threshold is likely to have an even greater impact. Only through more sustainable funding can universities focus on their public mission rather than financial survival. We implore the Government to recognise this, before it's too late."

On the Mergers and Acquisitions (M&A) front for SMEs, smaller M&A deals are dominating the landscape with 61.2% valued at £10 million or less. The Food and Beverage Sector stood in prime position rising 32.4% year-on-year with 24.5% of deal notably in the bakery sub-category.

Source: Oghma Partners

WORKERS KEEP POSITIVE OUTLOOK DESPITE A TIGHTENING LABOUR MARKET

The Autumn Budget 2024 introduced significant adjustments across the UK's tax landscape in a bid to increase government revenue, but for SME employers the rise in National Insurance Contributions (NIC) will inadvertently have negative consequences on recruitment and, subsequently, economic growth.

"October has been a milestone month for the Labour Government's 'Making Work Pay' initiative, marked by the introduction of the Employment Rights Bill, significant increases to the National Living Wage (NLW), and the announcement of an increase in Employer's National Insurance Contributions (NIC) in the Budget. Beyond the additional requirements and costs associated with the Employment Rights Bill, the combined rise in the NLW and employer's NIC will lead to a significant increase in employer costs. The stark reduction in the earning threshold at which employers start paying NIC from £9,100 to £5,000 exacerbates this issue and will lead to those sectors with a higher volume of part time workers seeing a larger increase in their overall workforce costs. However, some form of relief is provided by the extension of the employment allowance, says Paula Letorey, Workforce Partner, PriceWaterhouseCoopers (PwC). "These changes will have a significant impact on businesses as they adjust to the additional costs. This may influence broader business and commercial decisions that could result in higher prices and impact inflation more broadly."

"While employers' contributions to NICs haven't been increased by as much as was speculated, we are worried that this has the potential to inadvertently hinder permanent and temporary recruitment. For the UK's SMEs in that economically critical 10-250 employee banding, the financial burden this will place on them will only reduce the investment they can channel into new hiring," adds Tania Bowers, Global Public Policy Director, The Association of Professional Staffing Companies (APSCo).

“”

THE OVERALL COST OF ENGAGING CONTRACTORS IS ALSO A CONCERN, PARTICULARLY FOR THE MANY SMEs IN THE RECRUITMENT SECTOR WHO WON'T BE IN A STRONG BARGAINING POSITION TO PASS THE ADDITIONAL TAX RATE ON THEIR PAYROLL UP THEIR SUPPLY CHAINS TO ALL THEIR CLIENTS.

When we add this to the extra costs of hiring that are being built into the employment rights reforms, it makes conditions for business, recruitment and economic growth difficult. A more positive macro-

economic environment, given the infrastructure investments announced, may alleviate some of the pain and create the dynamic landscape that the Chancellor is striving for, but it is a question of timing."

KPMG's and REC's latest UK Report on Jobs survey compiled by S&P Global, reports of reduced demand and hiring freezes at firms with further declines in both permanent and temporary placements during October 2024. This is the steepest decline since March 2024 with some recruitment consultants saying that the Autumn Budget had led to uncertainty and reduced activity.

Source: https://kpmg.com/uk/en/home/media/press-releases/2024/11/uk-reports-on-jobs.html

"Uncertainty over the Autumn Budget saw businesses continue to put hiring plans on hold during October leading to the steepest contraction in permanent staff appointments since March. But employers didn't turn to temporary staff to fill gaps, with these appointments also facing their biggest reduction in seven months," comments Jon Holt, Group Chief Executive and UK Senior Partner, KPMG. **"While businesses are still willing to pay more for top talent, the growing pool of available candidates means salary inflation was at its weakest since early 2021. With many of the tax rises announced in the Autumn Budget impacting businesses, the expectation from some chief execs is that this could further dampen hiring as companies grapple with absorbing any extra costs."**

Despite the upheaval, the job market is proving resilient. Robert Half's latest Jobs Confidence Index (JCI) – an economic confidence tracker produced in partnership with the Centre for Economic and Business Research (Cebr), reveals that job confidence has reached its highest peak in almost two years rising to 51.6 in Q2 2024, up by 5.3 points from the previous quarter's reading of 46.3. Improvement in the JCI's pay pillar saw it rise to 23.1 its largest quarterly rise to bring the pillar back into positive territory at a value of 12.1. Overall, the JCI rose to 51.6 in Q2 2024, up by 5.3 points from the previous quarter's reading of 46.3.

Source: https://www.roberthalf.com/gb/en/insights/jobs-confidence-index

Continued easing of inflation has led to real wage growth of 1.6% in Q2 2024, and job security remains the second-highest reading on record with 61.4% of employees saying they feel increasingly confident about their job security over the next six months.

61.4% EMPLOYEES FEEL CONFIDENT

Businesses are hoarding staff as employers seek to retain staff in light of continued uncertainty in the economy and growing skills shortages. "The ongoing skills shortages is fuelling a bullish attitude that not only harms employees, but also hinders companies – therefore national – growth, productivity, and innovation," says Matt Weston, Senior Managing Director UK & Ireland, Robert Half. "Conversely, the need for skilled talent continues to keep the ball in workers' courts where bargaining power is concerned. Armed with confidence in their niche skill sets and experience, they can jump ship to pursue new opportunities if their employer doesn't meet their reward and career expectations."

This can be particularly seen by firms who are unwilling to meet the pay demands of younger demographics. Robert Half's research reveals 73% of those aged 18-34 expect to receive a

pay rise within the next year, and if not awarded appropriately, 81% say they would take steps ranging from moving employers to looking for additional sources of income if their remuneration didn't change as they expect. This is significantly above the national average of 68% and higher than all other age groups.

"With widespread reports of skills shortages and labour hoarding being noted across many businesses, it's perhaps no surprise that these individuals are confident in their ability to secure the work and pay they want," comments Gareth Gage, Regional Managing Director, Robert Half. "However, salary increases aren't necessarily feasible on the scale that some are asking, which means employers could be at risk of losing some of their future superstars at a pivotal time in the economic landscape. Ensuring that attractive and holistic employment packages are being offered will be crucial to attract and retain core talent in the immediate future."

"For Q3 2024, we forecast regular pay growth at 4.7%, and 3.9% if we include bonuses. Lower total pay growth is due to base effects from the one-off public sector bonus payments last year. Early forecasts expect these figures at 5.0% and 4.8% in Q4 2024. Most notably, growth in services sector wage growth continued to fall faster than expected, recording 3.6% compared to an average of 5.6% in the first half of this year. This is positive news for inflation and might provide the Bank of England with increased confidence regarding interest rate cuts," adds Monica George Michail, Associate Economist, National Institute of Economic and Social Research (NIESR). "The vacancy-to-unemployment ratio remains above pre-pandemic levels, although it has fallen in recent months amidst the labour market gradually cooling. The overall fall in this ratio will gradually reduce wage pressure, as companies don't have to compete as hard to find workers."

"Average earnings are expected to grow more slowly over the forecast period but continue to remain above inflation. Annual wage growth is expected to be 4.0% in Q4 2024, remaining at the same level in Q4 2025, before falling to 3.5% in Q4 2026," says Vicky Pryce, Chair of the Economic Advisory Council, British Chambers of Commerce (BCC). "The average unemployment rate is expected to be 4.3% in 2024, rising slightly next year to 4.4%, before easing to 4.1% in 2025. That is a slight decrease from last quarter's forecast. However, youth unemployment will remain high, with the percentage out of work forecast to be 13.3% this year, 13.4% in 2025 and 13.1% in 2026."

Although earnings growth has slowed and services price inflation has eased, levels remain elevated. "Brexit caused an estimated shortfall of 330,000 workers in the UK labour force, shrinking the available talent pool in high-skill sectors," says Weston. "A perfect storm of economic inactivity (early retirement, elevated long-term sickness levels, etc.), a 0.3% drop in labour productivity for Q2, and stubborn wage growth could jeopardise attempts to keep inflation on a downward turn."

"The labour market has been surprisingly resilient but challenging for business leaders. There's been little sign of things loosening for employers in the wake of recent market improvements. The Government's New Deal on day one rights throws a wild card into the mix that may make businesses more cautious, especially when hiring permanent staff," says Weston.

The 'New Deal for Working People' will require a collaborative approach to ensure businesses – especially SMEs – can implement the new regulations without harm to their prospects. According to the JCI, 39.5% of UK workers believe that the New Deal for Working People will have a positive impact on their daily work life with the proposal most likely to be seen as beneficial is the provision of day-one rights on unfair dismissal, parental leave, and sick pay, with 27.7% of workers selecting this option according to research. However, any hesitancy in firms' commitment to the new regulations could slow hiring, impacting on an already tight hiring market.

THE GOVERNMENT'S 'NEW DEAL FOR WORKING PEOPLE' AIMS TO ADDRESS THE ONGOING MARGINALISATION AND DISENFRANCHISEMENT OF MANY, PARTICULARLY, INEQUALITY IN THE WORKING CLASS. Despite this, our latest JCI survey results show the reception has been surprisingly lukewarm," comments Weston. "Although the JCI shows that workers are more likely to say this incoming boost to employment rights will have no impact (44%) rather than a positive impact, more than half (51.4%) of younger UK workers anticipate a positive impact. This could be due to young employees having a long-term vested interest in the improvement of their workplace rights."

The Growth and Skills Levy will require partnership with employers and academia to reach its full potential. But without increased support from the government and businesses, systemic skills shortages combined with the tight labour market could cause a significant drag on economic prospects.

"There is a hidden yet widespread lack of basic digital skills and confidence among working-age adults. **Nearly 22 million adults are missing the digital essentials for work and risk being left behind.** The rapid rise of artificial intelligence (AI) and automation adds urgency, given the risk of major workforce displacement," says Liz Williams MBE, CEO, FutureDotNow, the digital skills charity who has launched the Digital Skills Charter.

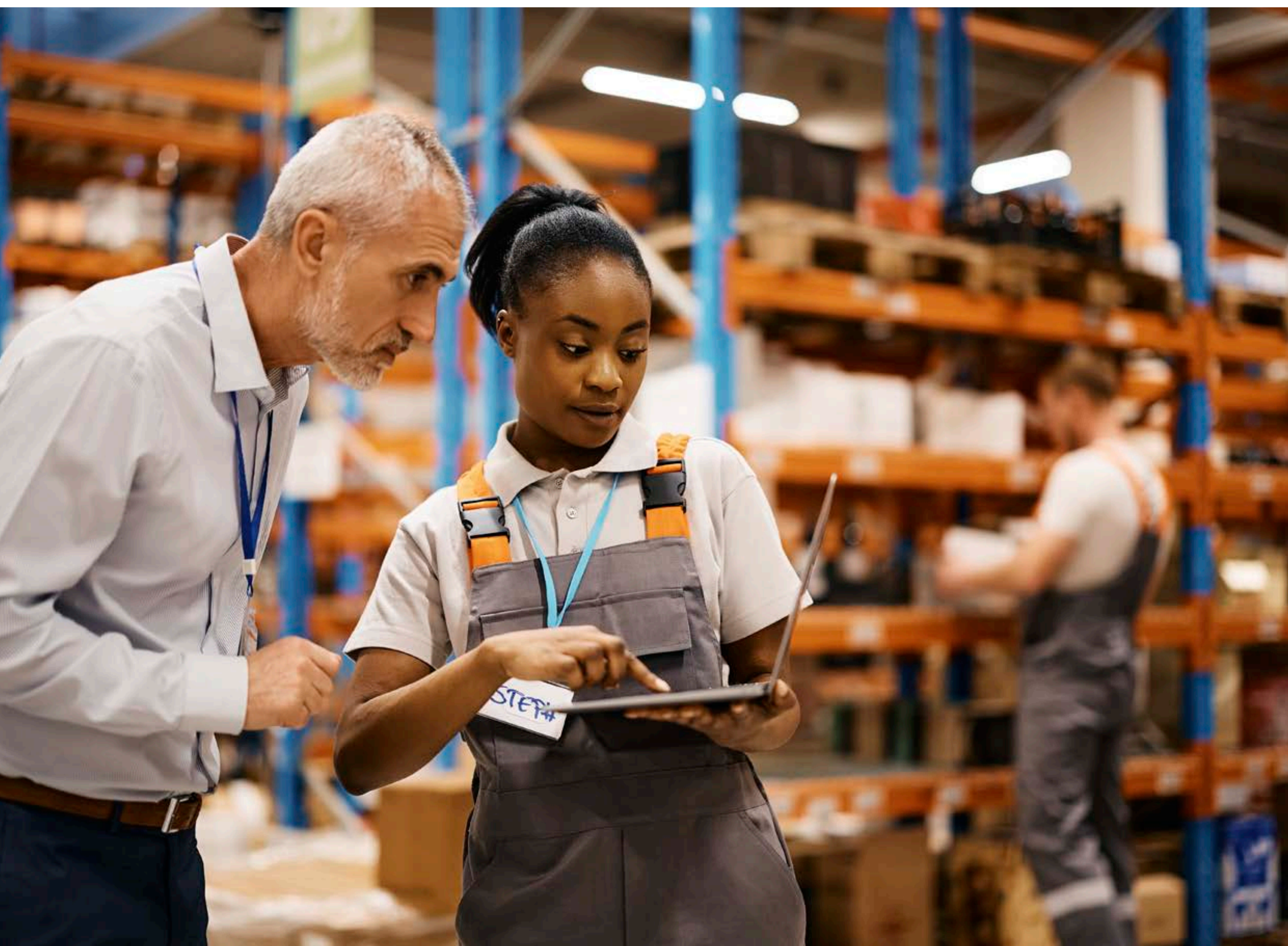
"The world has become digital by default, and it is vital that we take action to help adults build strong digital foundations and confidence. Many businesses are already leading the way, and the Workforce Digital Skills Charter represents a public commitment to take action, both individually and collectively, to build a future-fit, digitally confident workforce. A digitally capable workforce can secure economic growth, provide opportunities for all and ensure the UK keeps pace with the rest of the world. It will also fortify against cyber threats, reducing risks for individuals and organisations alike.

FutureDotNow is calling on the new Government to support a much-needed Great Digital Catch Up to positively impact economic growth and break down barriers to opportunity for all.

“Emerging digital technologies like generative AI are revolutionising how businesses interact with customers and the way we work,” says Zahra Bahrololoumi CBE, CEO, Salesforce UKI. “The UK AI market alone is predicted to reach over $1 trillion by 2035, with the potential to drive major growth for UK business. However, to capitalise on this opportunity we need to ensure our workforce is digitally equipped. Our insights highlight that AI is ranked as the most important skill to have in the next four years, yet just one in ten UK workers feel they have AI skills – evidencing the digital skills shortage facing the UK.”

“It is clear the closure of the digital skills gap can only be achieved through robust cross-sector collaboration and imperative to also recognise that closing this gap is crucial for driving the UK growth agenda, optimising productivity, and unlocking new opportunities,” adds Deborah O’Neill, Partner, and Head of Digital Europe, Oliver Wyman. “Through this pioneering initiative, the Charter serves as a unifying force, providing a focal point that brings together industry, government, and civil society in a collective effort to address the significant digital skills gap within the UK workforce.”

“Having identified this digital skills gap and its implications, it is vital we work together to close it,” comments Peter Cheese, Chief Executive, Chartered Institute of Personnel and Development (CIPD). “Cross-sector engagement, government support, and education will all be needed to ensure we are equipping our workforce for a more digital future. The Workforce Digital Skills Charter is an excellent opportunity for employers to coalesce around a collective mission to make sure this happens.”



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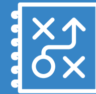
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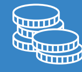
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Andrea Maria Cosentino
Founder & CEO – Impact Fundry

EXPORT CONFIDENCE ON THE RISE

Worries around geopolitical issues continue as President-elect Donald Trump returns to the White House and businesses trading internationally brace themselves for a raft of new tariffs, but SMEs are open to the challenge.

According to economists at the University of Sussex Centre for Inclusive Trade Policy (CITP), if Donald Trump imposes a blanket 20% tariff on all imports into the US the UK could face a £22 billion hit to its exports.

Source: https://www.bbc.co.uk/news/articles/cz9x32eeegko

THE MUCH-QUOTED CHAOS THEORY OF SCHOOLBOY ECONOMICS COINED IN 1929 DURING THE AFTERMATH OF THE WALL STREET CRASH: 'WHEN AMERICA SNEEZES, EUROPE CATCHES COLD!' HAS NEW SIGNIFICANCE AS DONALD TRUMP RETURNS TO THE WHITE HOUSE AND INTERNATIONAL TRADE BRACES ITSELF FOR A RAFT OF IMPOSED TARIFFS,

comments Paul Rowland, Senior Partner, Invictus Risk Solutions.

"No matter the political shifts, it is important for SMEs to be able to leverage her deep industry knowledge and have strategic foresight. After all, change is a constant and with each shift, SMEs need to position themselves to move forward no matter the economic climate," says Claire Sandbrook, CEO of international business consultancy firm, Shergroup, and a thought leader.

As a trailblazer in both the UK and US markets, Claire Sandbrook has witnessed first-hand the dynamic shifts that politics can bring to the world of business and enforcement. With the recent Labour budget announcement in the UK and the change of President in the US, Claire faces two distinct landscapes that will influence how she leads Shergroup's operations on both sides of the Atlantic.

"Across the pond, the new US President brings a fresh set of policies focused on economic recovery, international relations, and infrastructure investment. With Shergroup's expansion into the US market, we are keenly aware of how these changes may affect our business operations. The President's commitment to strengthening the economy and supporting SMEs aligns with my own vision for Shergroup's growth in the US," explains Sandbrook. "Additionally, any regulatory changes in security and enforcement practices could open doors for Shergroup's security division, as well as

our consultancy services, and our digitalisation and AI services where we work globally across many industry sectors helping clients to transform their businesses to cope with the global challenges they face."

Research shows that 52.5% of SMEs are optimistic about their business growth in international markets despite the export challenges.

Source: PRISM research

Over the first half of 2024, the Office of Budgetary Responsibility (OBR) reports exports declined slightly over the first half of 2024, but growth is expected to resume in 2025 and average 0.5% over 2026 to 2029.

Source: https://obr.uk/efo/economic-and-fiscal-outlook-october-2024/#chapter-1

After an uptick in Q2 2024, the Trade Confidence Outlook, conducted by the British Chambers of Commerce's Insights Unit, shows the percentage of SME exporters reporting exports have fallen back in Q3 by five percentage points, although 22% of SME exporters are reporting an increase in export sales with 19% of SMEs reporting an increase in advance orders. Over 50% (54%) of SME exporters report there has been no change, although for 24% sales have fallen. In contrast, domestic demand for SME exporters remains consistently more buoyant, with 32% reporting an increase in domestic sales in Q3 2024, against 22% for overseas sales.

Source: https://www.britishchambers.org.uk/news/2024/10/sme-exporters-fighting-to-make-headway/

SME manufacturers are slightly more likely to report increased overseas sales, with 26% reporting a rise in exports, while 33% of SME exporters are reporting an increase in advance orders with 16% being business-to-consumer (B2C), and 17% business-to-business (B2B). This compares to SME services exporters who are supplying end customers (B2C), where 20% saw an increase, while 20% of firms supplying services to other businesses (B2B) saw a rise.
"The Government's forthcoming Trade Strategy needs to be laser focused on addressing the issues which are holding back exporters of both goods and services, although there are some positive actions already underway. These include significant trade negotiations restarting, the UK's imminent accession to the Pacific region's largest trade bloc, more focus on digital trade, and a commitment to an improved EU trading relationship," says William Bain, Head of Trade Policy, British Chambers of Commerce. "But business will want to work with Government at pace, to put in place a framework that makes use of all the UK's advantages to unleash our exporting potential. The Government's recent announcement of a new supply chain taskforce, to increase resilience, is also an essential step."

Many UK SMEs report being exposed to currency fluctuations when trading overseas. "When trading internationally, SMEs are faced with dealing with multiple currencies and firms are exposed to the danger of exchange rates shifting out of favour. **Not only does this cause unpredictability, but it also impacts the overall value of international transactions**," says Steve Paul, Deputy Chief Financial Officer, Equals Money.

Traditionally associated with large multinational corporations, advancements in financial services have made currency hedging strategies more accessible to the SME market. "Online platforms and fintech companies now offer hedging solutions tailored to the needs of smaller

businesses, enabling them to protect their operations from currency risks without needing extensive financial expertise," continues Paul.

Hedging can be particularly valuable during periods of significant political or economic uncertainty, such as budgets and election periods, which often leads to volatile currency markets. "Take the 2010 election for example, which saw David Cameron's Conservatives enter a coalition with the Lib Dems. Following this outcome, sterling stumbled losing almost two cents to both the euro and the US dollar overnight. The 2016 Brexit vote was another harsh blow, dropping sterling down 11% to a 31-year low, from $1.50 to $1.33. Now we have just had the Autumn Budget from the new Labour Government, and once again the price of sterling fell," says Paul. "Whilst sterling did eventually stabilise after each instance, it is volatility such as this that can have a huge impact on businesses that have failed to use currency hedging for future payments."

HEDGING REMOVES THE RISK OF MARKET UPS AND DOWNTURNS BY CHOOSING A SET CURRENCY EXCHANGE RATE AND LOCKING THIS IN FOR FUTURE PAYMENTS. FOR SMES THIS CAN HELP TO PROTECT PROFIT MARGINS AND ENHANCE FINANCIAL PREDICTABILITY.

SUSTAINABILITY – THE NEW VALUE-CREATING VECTOR

SMEs are encouraged to adopt sustainable practices to reduce their environmental impact if they want to enhance their operational efficiency and profitability, cut costs, attract talent, and unlock new growth opportunities.

SMEs PLAY A PIVOTAL ROLE IN THE PURSUIT OF CLIMATE OBJECTIVES.

Collectively, SMEs have a significant carbon footprint, but through their innovations and commitment to use environmentally friendly practices, they can contribute to reaching net zero.

Sustainability creates a new vector offering multiple value-creating routes for addressing SMEs' highest-ranking challenges such as growth and expansion, talent acquisition and retention, funding and access to finance. "Sustainability is de facto becoming the next wave of good management, in the sense that it can drive innovation, operational efficiency, risk mitigation, and employee engagement," says Professor Tensie Whelan, Director of the Centre for Sustainable Business, NYU's Stern School of Business. "It is therefore important to see sustainability as a management approach for long-term success rather than a compliance issue."

"It also offers SMEs an opportunity to gain reputational benefits as champions of sustainable strategies," stresses the World Economic Forum. "This is not only key to the survival and success of individual companies, but also key for our collective capacity as a society to successfully shape the nature of growth, innovation and sustainability of our global, regional and local economies."

As they strive to reduce emissions across the whole supply chain, SMEs are finding customers both business-to-business and business-to-consumer have a clear set of expectations. Some are willing to pay a higher price, although this differs across industry sectors with those in highly technical and innovation-driven industries such as automation technology, semiconductors, aerospace and defence for example, where there is a greater willingness to pay 15% higher than the average price premium, finds the global research consultancy, Simon-Kucher.

Source: https://www.simon-kucher.com/en/insights/sustainability-b2b-driving-purpose-and-commercial-value]

But companies often lack dedicated sustainability budgets, and for those that do, the budgets are significantly lower than the willingness to pay. Simon-Kucher research shows 51% of firms – although willing to pay a premium price – do not have the budget in which to do so. This is particularly evident in the Paper & Packaging industry [-15%], Industrial Goods & Machinery [-10%], Automotive suppliers [-8%] and Wholesale & Distribution [-7%].

For SMEs dealing with the consumer market, a recent study by Clear Channel reveals that 30% of consumers are willing to pay up to 10% more, whilst Gen Z and younger Millennials are willing to pay as much as 60% more for a sustainable product. But consumers are becoming more selective Clear Channel's data shows with nearly 10% boycotting their go-to brands in the past year because of sustainability-related concerns and now only buy products from sustainable brands.

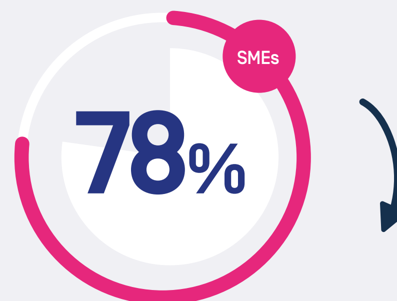
Source: https://www.clearchannel.co.uk/latest/the-rise-of-sustainable-consumers-and-how-to-market-to-them

"Our study has shown that while there is a high demand for sustainable products, one in five consumers rarely believe brand sustainability claims and around half only sometimes trust them," says Ben Hope, Marketing Director, Clear Channel. "The data would suggest brands are not communicating their messaging effectively, and it's important for retailers to be aligned with consumers and encourage brands to embrace more effective communication strategies."

To help SME manufacturers, the World Economic Forum's Centre for Advanced Manufacturing and Supply Chains is collaborating with Schneider Electric to establish the SME Sustainability Accelerator. This will help SME manufacturers accelerate their sustainability transformation and provide an actionable framework to simplify and energise the sustainability journey and informs both the public and private sectors when it comes to developing support mechanisms tailored to the specific needs of SMEs on their path to sustainability.

SUSTAINABILITY INITIATIVES REMAIN A KEY PRIORITY FOR 78% OF SMEs.

Source: PRISM research



In the past 12 months, firms who prioritise sustainability have seen their revenues grow, but despite this only 52% of businesses saw sustainability as a significant area of focus for their business.

Source: https://www.b2binternational.com/publications/how-sustainability-can-lead-to-profitability/

This points to a missed opportunity for SMEs.

As we head into our Q4 Barometer, the fall-out from the Autumn Budget is set to continue. Commentators and economists warn the tension between what needs to happen and the reality of where the UK economy is heading next, means the 'light at the end of the tunnel' could be challenging. If so, once again, it will be up to SMEs to sort things out. After all, SMEs are the backbone of the economy and collectively, have greater power than they realise!

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