

Growth outlook in 2024

Tracking small business outlook over time

Quarterly insights from the
Business Barometer Study

September 2024 Edition

Tomorrow. Together



Introduction



Welcome to the latest, quarterly Business Barometer insight bulletin from Novuna Business Finance.

Welcome to our second instalment in our series of reports on the growth outlook of small businesses in the UK. Building on the foundation of our previous report, which was a comprehensive dive into roughly a decade's worth of data, this report continues the journey, delving into the responses and sentiments of small businesses in the last year (between 2023 to 2024), comparing them against the rich mountain of data we now have.

In the following sections, we will explore detailed findings from our latest survey, providing an in-depth analysis of trends among small businesses in the UK, across different sectors and regions, and how these compare to previous years.

The past year has been characterised by significant challenges that have tested the resilience of small businesses across the UK. A general election always brings uncertainty to the business community, with the prolonged nature of the election announcement adding to this further. Meanwhile, inflation has been a dominant factor, squeezing business profits and contributing to an uncertain economic environment.

While it may now feel like a distant memory, the lingering effects of major events such as the COVID-19 pandemic and Brexit continue to shape the economic landscape. The pandemic caused unprecedented disruptions, leading to supply chain challenges, shifts in consumer behaviour, and heightened operational costs. Although we are now moving beyond the immediate impacts, the ripple effects are still felt.

The ongoing commitment of small businesses to adapt and thrive amidst adversity underscores their vital role in the UK economy.

The simple yet effective approach of asking businesses about their growth outlook for the next three months—ranging from significant or modest growth, no change, to significant or modest contraction—allows us to build a multifaceted picture over time. This diary of sentiment provides context and clarity for today's sentiment, giving us rich insights into the business landscape.

We hope you enjoy this report and if you have any discussion points or requests for further information, we would love to hear from you.

Geoff Maleham
Managing Director
Novuna Business Finance



About Novuna Business Finance

Novuna Business Finance provides business finance to SMEs and bigger corporations across the UK. This includes asset finance, stocking, block discounting and sustainable project finance provided through brokers, vendor organisations, manufacturers and direct to the business community.

With an asset portfolio of more than £1.7bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Service from an Asset Based Finance Provider at the 2024 Business Moneyfacts Awards.

The business' Sustainable Project Finance team is also supporting the development and construction of sustainable energy and transport projects, which are critical to the decarbonisation of the UK's infrastructure.

Novuna Business Finance is a trading style of Mitsubishi HC Capital UK PLC, part of Mitsubishi HC Capital Inc., one of the world's largest and most diversified financial groups, with over 11trn yen (£57bn) of assets.

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<https://www.novuna.co.uk/business-finance/>

Methodology

The research for this report was conducted by YouGov at quarterly intervals since 2014.

For each quarterly cycle of research, a nationally representative sample of more than 1,000 small business decision makers and owners of UK small businesses was surveyed.

The research was conducted online.

Growth outlook in summer 2024

In the two weeks following the July 2024 General Election, there was clear evidence of a welcome confidence boost for UK small businesses. The percentage of enterprises predicting growth for Q3 2024 hit its highest level for more than two years, after a period of slow decline since the start of 2022.

The latest Q3 2024 data revealed that 35% of UK small business owners predicted growth for the next three-months to September. This bounce-back restored business confidence to a level that was almost comparable to the years immediately before Covid - and the resurgence of small business confidence at the start of 2022, when Covid restrictions finally fell away.

Set against reports of sharp falls in business confidence in France and Germany - with fears that the Eurozone's two biggest economies could be set for a downturn - UK small business confidence enjoyed a positive upturn in the weeks following Labour's election win. Across most industry sectors and UK regions, more small businesses predicted growth than was the case in the three-month period to 30 June.

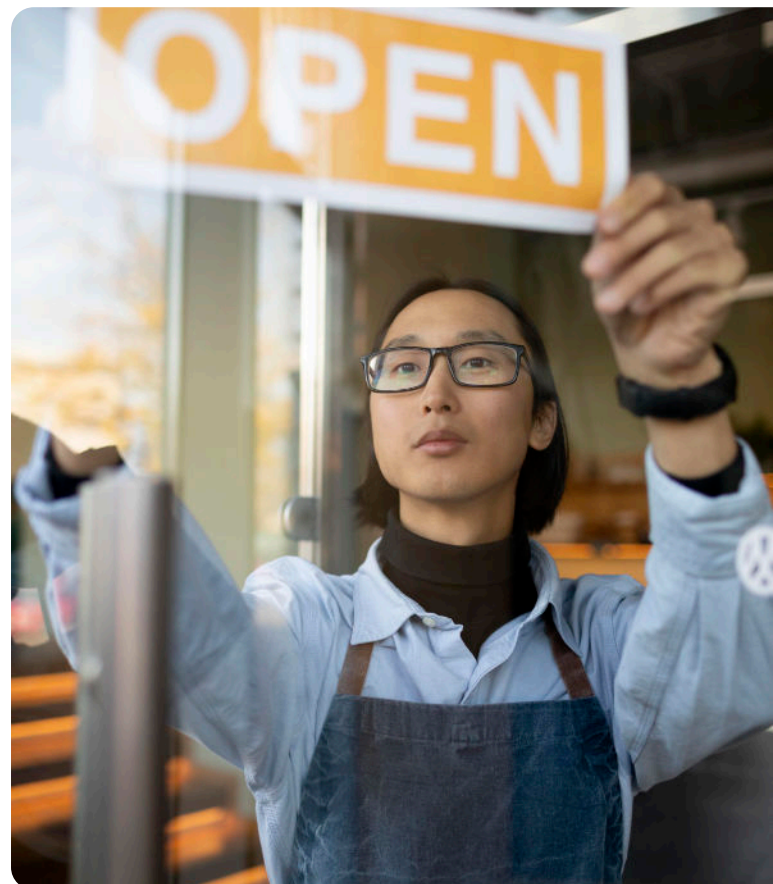
Growth forecasts by sector – summer 2024

Across nine industry sectors, Q3 2024 saw a rise, quarter on quarter, in the percentage of small businesses predicting growth for the next three months (up to 30 September). Compared to the three months leading up to the General Election, significant rises in growth predictions were reported in Construction (from 15% to 36%), Agriculture (from 28% to 40%), and IT/Telecoms (from 28% to 38%). There was also a welcome boost for the Retail sector, rising from 26% to 37%. Overall, small businesses in the Finance, Agriculture, and Media sectors were most likely to predict

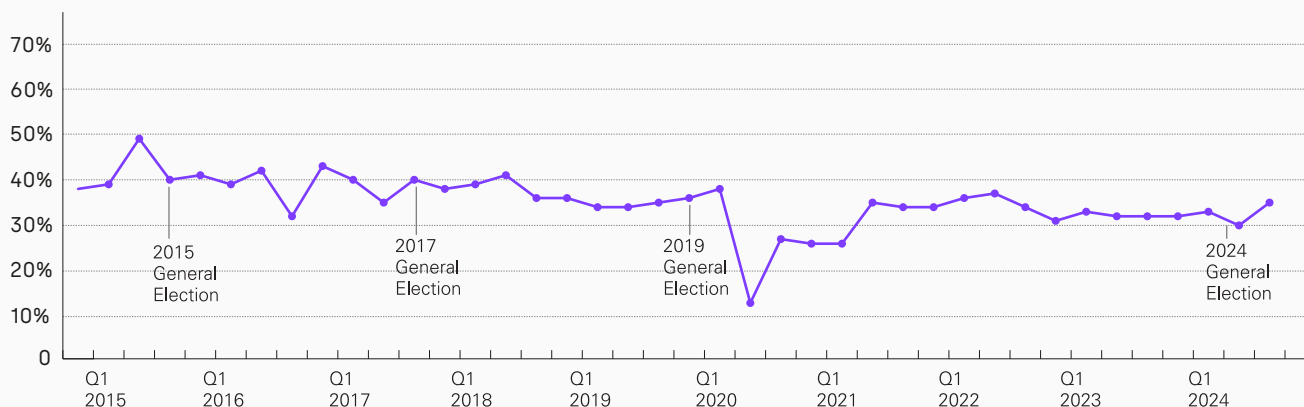
growth over the next three months. Notably, the percentage of small business owners in the Agriculture sector predicting growth hit a 10-year high in July 2024 (40%).

Growth forecasts by region– summer 2024

Across nine UK regions, Novuna Business Finance's July 2024 data revealed a quarter-on-quarter rise in the percentage of small businesses predicting growth. Confidence was strongest in London, with 49% predicting growth for the next three months. There were also significant quarter-on-quarter rises for small businesses based in the East (up from 36% to 43%), Scotland (up from 27% to 34%), Wales (up from 15% to 32%), the North East (up from 19% to 31%) and the East Midlands (up from 24% to 32%).



Long-term trends: fewer businesses predicting growth over the past decade



The long term picture

Every quarter since 2014, Novuna Business Finance has tracked the growth forecasts of a representative sample of more than 1,000 small businesses. From those that predict significant expansion and those that foresee modest organic growth, a net growth score is ascertained each quarter. Typically, the ratio of modest growth to significant expansion is consistent each quarter, at a ratio of around five to one.

Whilst on first glance fewer small businesses predicted growth in 2024 compared to 2015, an understanding of growth forecasts over time needs to be contextualised to external events. The period since 2014 has been one of great turbulence. A Scottish referendum, the Brexit referendum, a global pandemic, a seismic cost-of-living crisis – not to mention soaring interest rates and inflation – all these things created enormous challenges and uncertainty for business owners. Given the scale of these external challenges, the percentage of small business owners predicting growth each quarter is, in many respects, remarkably robust.

Following the Brexit referendum of June 2016, the percentage of small businesses predicting growth fell from a seven consecutive quarter run at 40% down to 32%, but confidence recovered quickly – and went on to peak at a record-high 43% by the final quarter of 2016.

The percentage of small businesses predicting growth slid to the mid 30s for three quarters in 2019, probably a reflection of the ongoing political and economic uncertainty that surrounded the actual terms of the UK's exit from the EU. Whilst this showed signs of recovery at the start of 2020, following the General Election, everything then changed as the UK went into a national lockdown with the onset of the Covid pandemic.

The impact of the pandemic on small business growth forecasts was seismic and immediate: The percentage of small businesses predicting growth fell sharply from 38% to 13% within a matter of weeks at the start of quarter two – and the percentage of enterprises fearing they would go out of business soared from 5% to a record-high 29% in just three months.

Despite the huge shocks, small businesses showed a will to adapt to a period of unprecedented change. Three months into the first lockdown, growth forecasts returned to 26-27% and this was maintained for three consecutive quarters. Whilst some way below pre-pandemic levels, the consistency of quarterly growth forecasts from summer 2020 showed an underlying resilience and a willingness to adapt.

By summer 2021 the percentage of small businesses predicting growth hit 36%, a step change that was maintained for nine months. But as the impact of war in Ukraine triggered a cost-of-living crisis in the UK - with soaring

energy prices and volatility in world markets - the post-Covid high in confidence receded from the mid 30s to the low thirties. Midst this uncertainty, small business leaders pointed to a range of macro market factors that were holding their enterprises back - economic uncertainty (36%) coupled with labour shortages (16%), the economic impact of Brexit (24%) and the long tail of Covid disruption on UK operations (14%). In addition to this, 80% of business owners reported they were refocusing on exploring growth opportunities in the domestic UK market.

With fears of a recession following the Covid restrictions era, 31% of small business owners finished 2022 predicting growth for 2023. We then saw a static period of little change in growth outlook, but our findings for July 2024 showed a sudden leap in growth outlook to 35%. This may be a short-term and positive reaction to a new government – or it may be the start of a new trend. We will watch this closely in the coming months.

The new Labour government under Sir Keir Starmer has pledged to focus on economic stability and growth, with plans to reform business rates, tackle late payments, and enhance access to finance for small businesses. These measures come at a critical time for small business owners, who are keenly watching for steps that will reignite the economy and return to a time when more are predicting growth.

Turnover of business and growth forecasts

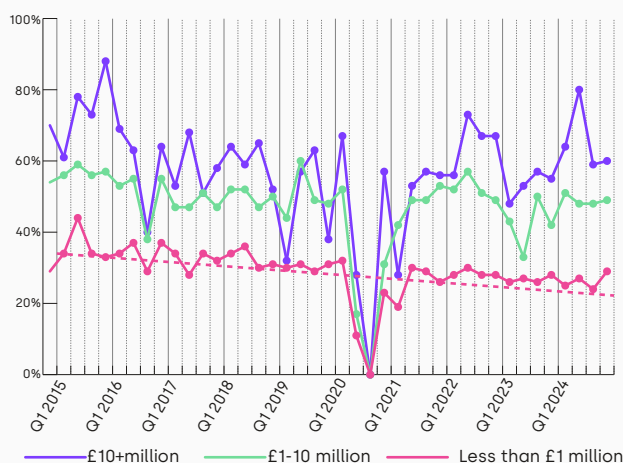
Digging deeper into the data, a good illustration of how small businesses have responded and resettled in 2024, particularly in relation to the subsequent years after the COVID pandemic, can be seen when we compare businesses by their turnover.

The last 12 months for businesses with a turnover of more than £10 million have been

relatively positive. As many as 80% of these businesses predicted growth at one point, the highest proportion since 2015, with the average for the year being broadly on par with pre-2019 levels. The same trend could be seen, albeit to a lesser extent, for businesses with a turnover of £1-10 million.

The interesting observation comes from businesses with a turnover of less than £1 million. Reflecting the national average seen above, this proportion has been on the decline for the last 10 years. In 2014-2015, the average for businesses of this turnover hovered around the 35% mark. However, in the last year, this proportion has fallen to around 25%. This drop was most noticeable after the COVID pandemic, and particularly in the last 12 months, we have seen a notable decline.

Small businesses with turnover under £1 million: a gradual decline in growth predictions



Sector assessment

From one sector to another, the challenges and opportunities presented over the last 12 months has meant growth predictions have been vastly different.

In Q3 2024, as many as 41% of small businesses in the finance sector said they anticipated a period of growth, a figure that has remained consistently high for the past 10 consecutive quarters, and broadly in line with the pre-2019

Sector Insights: Manufacturing and construction small business outlook since 2022

	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24
Manufacturing	35%	44%	34%	32%	24%	44%	37%	35%
Construction	27%	25%	31%	24%	21%	23%	15%	36%
National avg.	31%	33%	32%	32%	32%	33%	30%	35%

average. Similarly, in the Manufacturing sector, the year started with 44% of small businesses predicting growth – the highest figure for 12 quarters – which has remained high throughout this year.

In other sectors however, this was not the case at all, with the Construction sector being a good example. In the build up to the election, the proportion of businesses in the Construction sector predicting growth fell to the lowest figure outside of the Covid pandemic, and roughly half the proportion from 12 months previously. With so much debate surrounding the development of brownfield sites for affordable housing, with the new Labour Government offering incentives to builders, the horizon for businesses in this sector understandably changed. We can see this in the proportion predicting growth, more than doubling to 36% this quarter - the highest proportion in 12 quarters.

Welsh business outlook

Given the context of a new government that appears to be more actively engaging with the nations and principalities of the UK, it is apt for us to examine the national picture in these regions. This section focuses on the current business climate in Wales, analysing the unique challenges and opportunities faced by Welsh small businesses over the past year.

As the research found in our Welsh growth report, published last year, the growth outlook in Wales has consistently remained below the national average for the last 10 years.

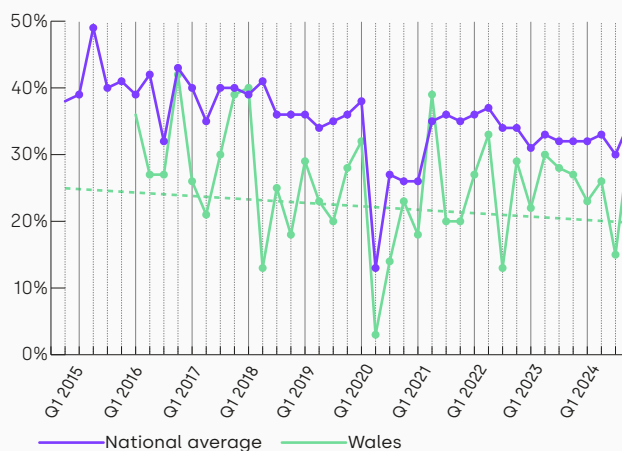
The last two quarters saw a surge in confidence levels with the proportion predicting growth

more than doubling from 15% in Q2 to 36% in Q3. Again though, while this is positive it is concealing a different overall narrative.

When we stand back and look at the data series over a longer period, we see another falling trend in confidence levels, from roughly 30% in 2016 to 22% today. This decline reflects broader economic challenges and specific regional issues that have impacted Welsh businesses more severely than those in other parts of the UK.

Several factors may contribute to this trend. The Welsh economy, traditionally reliant on sectors such as Manufacturing and Agriculture, has faced significant headwinds, including Brexit-related uncertainties and global supply chain disruptions. Additionally, the COVID-19 pandemic has disproportionately affected small businesses, exacerbating existing vulnerabilities and stifling growth prospects.

Welsh Business outlook: Decline in Growth Predictions over last 10 years





Scottish Business Confidence: Proportion (%) of small businesses predicting growth over the last 10 years

	Q1	Q2	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	22	22	22	22	22	23	23	23	23	24	24	24
Scotland	35	28	37	24	29	29	28	35	23	31	27	34
National avg.	36	37	34	34	31	33	32	32	32	33	30	35

Scottish business outlook

Meanwhile, in Scotland, the business outlook has been characterised by significant fluctuations compared to the national average. Over the past 12 months, the proportion of small businesses predicting growth has seen peaks and troughs, rising to 35% in Q3 2023 but not maintaining a consistently higher trajectory than the national average. The more significant variability in business confidence points to underlying regional challenges that cause greater sensitivity to broader economic shifts compared to the UK average.

Since the COVID-19 pandemic, the average proportion of small businesses in Scotland predicting growth has hovered around the 29% mark, driven by robust sectors such as Technology, Financial Services, and Renewable Energy. Yet, the presence of strong sectors is juxtaposed with regional issues such as Brexit-related uncertainties and specific sectoral vulnerabilities, which exacerbate these peaks and troughs in business confidence.

Assessment



A reflection on the research

By Jo Morris, Head of Insight, Novuna Business Finance

“The ups and downs of the past five or so years have taken their cumulative toll on British small business owners. What they have been craving is a period of certainty, stability, and economic security. Labour’s landslide victory - the third-largest in post-war history, could just be that breath of fresh air they have been gasping for.

“It could be a watershed moment. Following the lockdown era, small business growth outlook has been stubbornly unchanged over the last four years – and then, following the General Election, we saw the biggest quarter-on-quarter rise in small business confidence for some time.

“As this new report indicates there is the basis for hope going forward. Many business owners are cautiously optimistic about the future, and with the promises of change spelled out clearly by the new Government, there is hope for a stabilising economic environment and boosts for growth.

“In light of the current economic landscape, businesses are emphasising financial resilience as a cornerstone for growth strategies. This focus involves tackling challenges like late payments and maintaining robust cash flow. At Novuna Business Finance, we are dedicated to supporting established businesses in their growth journeys. We recognise the unique phases of growth that small enterprises experience and provide tailored products and comprehensive toolkits designed to help them achieve their ambitious goals.”

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