

VISTAGE

UK SME Confidence Index

June 2017





Jan Chmiel

Managing Director, Vistage UK

We have been surveying the opinions of Vistage members, all leaders of small & medium sized business, since 2003 in the US. I am delighted that for the first time we can now also share the views of our UK members alongside those of the US Vistage community.

Roger Martin-Fagg shares his thoughts on the findings from the UK survey in light of the wider UK economic landscape that he closely monitors.

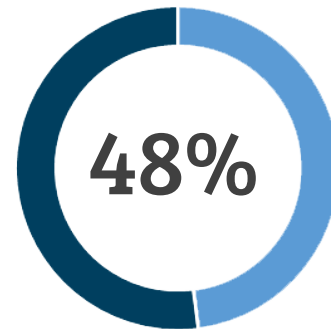
In addition to his comments, my key reflection is on the variations between US and UK surveys. The US economy is seen to be performing much stronger than the UK and respondents expect this to continue: **55% of Vistage US members say that their economy has improved vs. only 14% for the UK**; 38% believe the US economy will improve over next year vs. only 8% for UK. The natural assumption is that this is the Brexit effect.

However, when looking at expectations for their own businesses, UK members are equally as positive as their US counterparts, .e.g. **70% of UK respondents expect their sales revenues to increase in the next year** which is in line with 73% of US respondents.

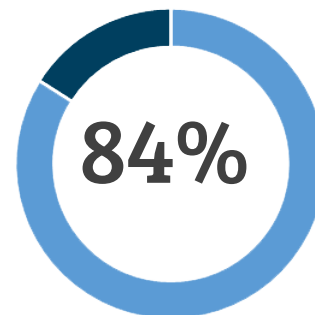
As SMEs are the cornerstone of the UK's economic growth, this gives me great confidence for the future.

It is also interesting to note that SMEs generally have not made major changes as a result of Brexit to date. Where changes have been made, it is on increasing prices, reducing overheads and, interestingly, changing suppliers.

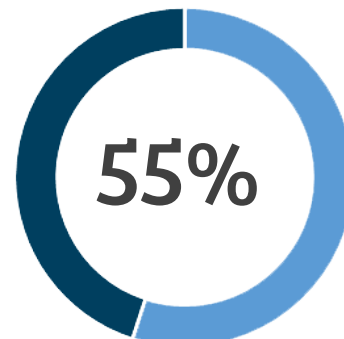
UK Key Highlights



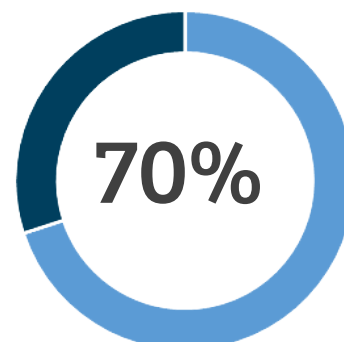
Nearly half believe that Europe offers the greatest long-term opportunity for effective trade deals with the UK



84% feel that overall economic conditions have remained the same or worsened over the last 12 months



55% expect their organisations total headcount to increase over the next 12 months



70% anticipate sales revenues to increase over the next 12 months

“SMEs produce **nearly 60% of UK economic output**. And higher investment levels increase productivity”



Roger Martin-Fagg
Vistage UK Economist

The results from this unique sample of over 400 UK SME business leaders are in line with UK national data.

The key points are **39% of respondents say economic conditions have worsened** over the past 12 months and **50% expect them to worsen over the next 12 months**. 8% expect economic conditions to improve: it is good to be optimistic!

A key finding is **41% expect to increase their investment spending**, and 44% to maintain it at current levels. This is encouraging. SMEs produce nearly 60% of UK economic output. And higher investment levels increase productivity.

51% expect profitability to increase (NB this can mean different things to different people: profitability is usually recorded as a return on capital employed, if the respondents mean this then it implies their investment spending plans have a quick pay back). 16% expect profitability to decrease.

The profitability improvement will be linked to the **48% who expect to raise prices**. This is consistent with the Bank of England's recent statement which now forecast CPI inflation to be higher for longer.

55% expect to increase their head count, only 10% plan to reduce it. With unemployment now at just 4.6% and the steady decline in EU net migration this will prove challenging. The good news is it should boost earnings, with luck ahead of inflation, and thus maintain the growth rate via consumer spending.

The EU is seen as the biggest market opportunity (48%), the USA comes a long way second (24%), Asia third (16%). Africa, the Middle East, and South America are not seen as places of opportunity. I hope Liam Fox takes notice.

And I hope too that he takes notice of the fact that US SME bosses think Trump should make a trade deal with the EU a priority rather than the UK.

Roger Martin-Fagg is an economist turned strategist. He has been external examiner to Bath University, worked with the Bank of England, three of the major UK clearing banks, advised a major London recording studio for 15 years, and regularly talks to SME owners in the UK and Europe about economic trends. He is a visiting fellow to Ashridge, Warwick and Henley business schools. He also speaks at conferences around the world on the economic outlook and its impact on business.

About the Survey

Statistics based on 410 UK respondents and 1490 US respondents, all leaders of small and medium sized organisations. Vistage Research curates subject matter from the Vistage community and collaborates with top thought leaders to create unique content. Vistage Research provides the data and expert perspectives to help you make better decisions.

Visit vistage.co.uk to learn more.

	Question	Answer	UK %	US %
Q1	Compared with a year ago, have overall economic conditions improved, remained the same, or worsened?	Improved	14%	55%
		Remained about the same	46%	38%
		Worsened	39%	6%
		Don't Know/No opinion	2%	1%
Q2	During the next 12 months, do you expect overall economic conditions will be better, about the same, or worse than now?	Better	8%	38%
		About the same	41%	47%
		Worse	50%	13%
		Don't Know/No opinion	1%	2%
Q3	Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	41%	48%
		Remain the same	44%	43%
		Decrease	13%	8%
		Don't Know/No opinion	2%	1%
Q4	Do you anticipate that your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?	Increase	70%	73%
		Remain the same	21%	21%
		Decrease	8%	6%
		Don't Know/No opinion	1%	1%
Q5	Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?	Improve	51%	60%
		Remain the same	31%	30%
		Worsen	16%	9%
		Don't Know/No opinion	1%	0%
Q6	Do you expect prices for your product or service to increase, remain about the same, or decrease during the next 12 months?	Increase	48%	41%
		About the same	46%	52%
		Decrease	5%	6%
		Don't Know/No opinion	1%	0%
Q7	Do you expect your firm's total number of employees will increase, remain about the same, or decrease during the next 12 months?	Increase	55%	61%
		Remain the same	34%	34%
		Decrease	10%	5%
		Don't Know/No opinion	0%	0%
Q8	When do you plan to increase your firm's total number of employees over the next 12 months?	Q3 2017	13%	18%
		Q4 2017	9%	10%
		Q1 2018	5%	6%
		Q2 2018	4%	4%
		Steadily throughout next 12 months	33%	35%
		I do not intend to increase my total number of employees in the next 12 months	36%	28%

UK members were also asked:

Q9

What changes have you made / do you plan to make to your business as a consequence of Brexit?

	I've already made this change	I plan to make this change	No changes have been/will be made	I don't know
Made redundancies	8%	5%	78%	8%
Employed fewer EU workers	1%	3%	88%	7%
Frozen headcount	12%	6%	77%	5%
Increased prices	26%	21%	48%	5%
Salary freezes	9%	7%	76%	8%
Reduced overheads	22%	24%	51%	3%
Reduced benefits for staff	3%	3%	90%	4%
Changed suppliers	13%	17%	63%	7%
Set up bank accounts in alternative currencies (not GBP)	20%	3%	71%	6%
Reduced imports/exports from/to the EU	3%	3%	88%	7%
Stopped looking for investment in the business	4%	2%	88%	6%
Paused investment in the business (eg. marketing, staff, premises etc.)	9%	7%	80%	4%
Other	2%	1%	73%	23%

Q10

Of the following regions, which offers the greatest long-term opportunity for your business in terms of an effective trade deal with the UK?

	Greatest opportunity			Least/no opportunity	
	1	2	3	4	5
EU	48%	25%	14%	6%	5%
US	24%	23%	18%	14%	13%
Asia-Pacific	16%	20%	17%	15%	16%
South America	3%	8%	15%	23%	23%
Africa	3%	7%	15%	22%	25%
Middle East	6%	17%	21%	20%	17%

US members were also asked:

Q11

Which trade deal should be more of a priority for the Trump administration, a deal with the UK or with Europe?

UK	11%
Europe	35%
Don't know	54%

VISTAGE

Private advisory groups for MDs,
executives and business owners.

www.vistage.co.uk

Copyright 2017 © Vistage International (UK)