SME Confidence Tracker

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Foreword

Optimism amid challenge

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"While businesses may be confident about their own trading prospects, they remain cautious about the domestic and international landscapes in which they operate."

In our first SME Confidence Tracker of 2025 in the Spring, I wrote that there was cautious optimism among SMEs ahead of the Spring Statement. Six months on, caution has surprisingly been replaced with stoic optimism.

Sales expectations for the months ahead are at the highest level since 2022, and the proportion of businesses declaring themselves profitable has jumped to over two-thirds. Furthermore, 62 percent of firms say they are either on track or in growth mode.

While this sentiment may seem at odds with wider economic indicators and well publicised challenges - namely inflation, supply chain issues and other fiscal pressures - our latest report signals that while businesses may be confident about their own trading prospects, they remain cautious about the domestic and international landscapes in which they operate.

Despite headline optimism, challenges remain for SMEs across the UK. Undoubtedly, recent hikes in employer National Insurance Contributions (NICs) have inflated payroll costs, compelling SMEs to reconsider recruitment plans and reappraise resourcing levels. It's hardly surprising therefore that almost a quarter of firms call for the government to reverse the rise.

Additionally, March's Spring Statement is continuing to influence the cost of living (and doing business). In September, it was announced that inflation remained at 3.8 percent, largely driven by the cost of food, which many commentators attribute to supermarkets passing on increases in the minimum wage and NICs. As a result, UK inflation is almost double that of the Eurozone.

For these reasons, business owners and decision makers are looking ahead to 26 November 2025 when Chancellor Rachel Reeves will deliver her second Autumn Budget. Last October, the Chancellor delivered a record £40bn of tax rises, and stated she was not looking to repeat the same in 2025. However, with UK growth remaining weak and a fragile global environment, only time will tell as to whether the government can raise revenue by other means.

Cashflow and liquidity remain at the top of SMEs' wish-list with 37 percent calling for the Chancellor to announce measures to provide greater access to low-cost finance or grants. The need for cashflow support points to continued supply chain instability. Though the average bad debt suffered has fallen since Q1 2025, it remains three times higher than Q1 2022.

The percentage of businesses reporting one or more suppliers becoming insolvent has increased from 47 percent to 55 percent, with a similar increase in those experiencing the collapse of business customers.

So, while the optimism of SMEs is indeed something to celebrate, familiar challenges threaten to impact the output and performance of UK businesses over the coming months. As we look ahead to the government's next key announcement in its quest for growth and stability, this report's findings present a timely reminder that while SMEs have largely absorbed a first round of tax rises, additional hikes could see optimism turn to despair this winter.

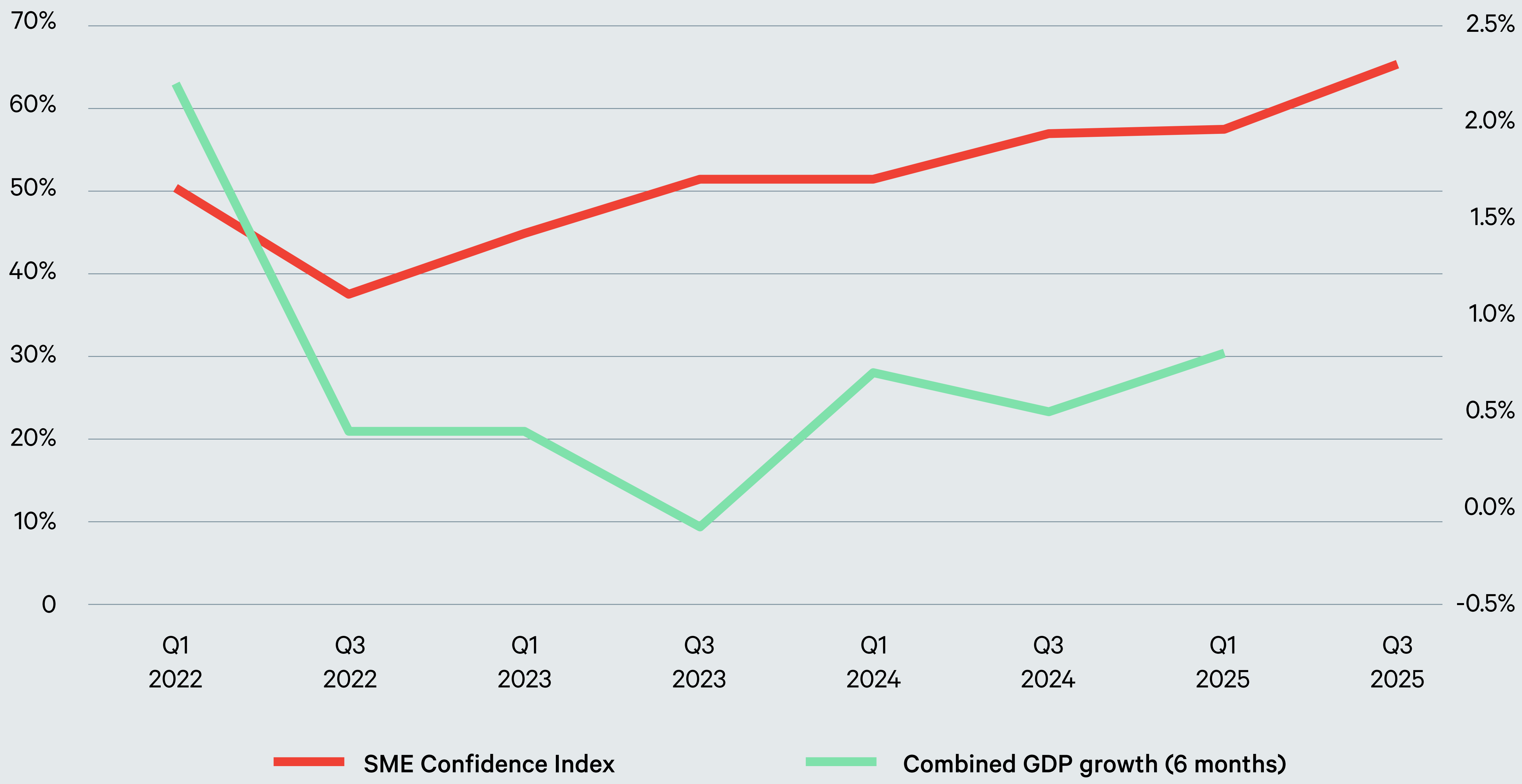
October 2025

SME Confidence Index

The SME Confidence Index is a composite index combining the percentage of businesses that consider themselves profitable with sales expectations over the following six months.

Despite challenges across all sectors, the proportion of profitable businesses and expectation of sales growth among manufacturing businesses helped push overall confidence within UK PLC.

SME confidence defies GDP stagnation



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Research highlights

72%

expect sales to increase in the next six months - up from 66% in Q1

69%

SMEs say they are a profitable business - up from 60% in Q1

66%

SME Confidence Index score - up from 58% in Q1

62%

say high costs and inflation are key challenges for their business

52%

of SMEs say government measures to tackle late payments are inadequate

41%

say measures introduced in the Spring Statement have made them less likely to invest in the next 6-12 months

Cost pressures impact growth

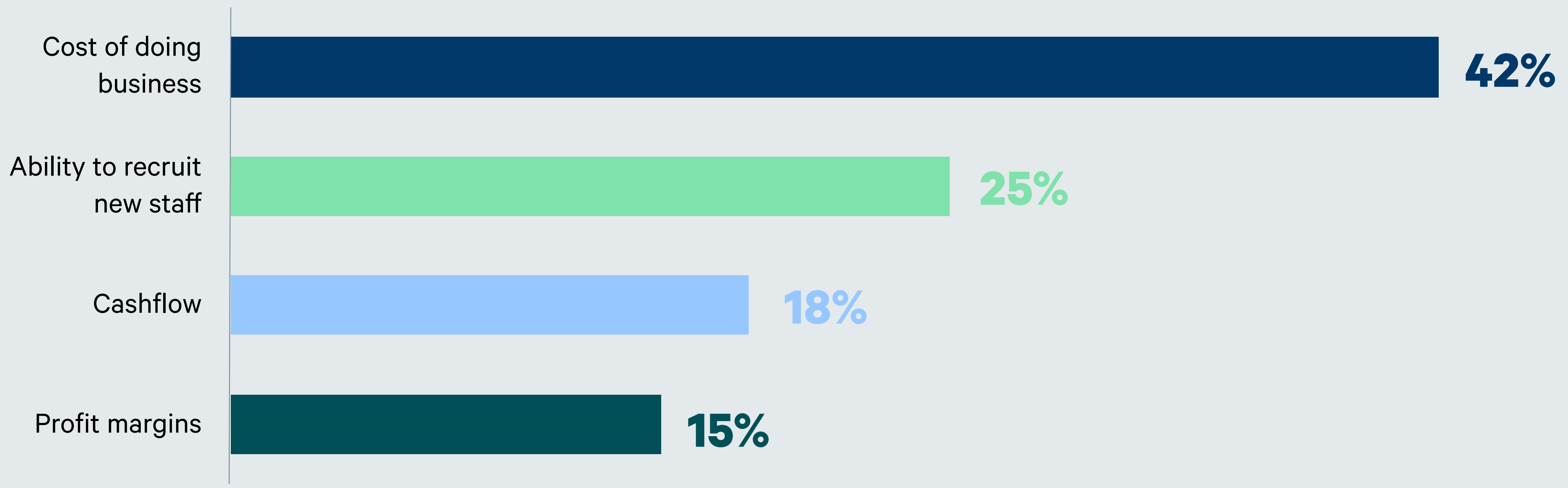
Despite high levels of confidence, SMEs are feeling the pinch. The cost of doing business, still elevated after years of economic turbulence, remains their most pressing concern.

Nearly two-thirds (62%) cite inflation and rising expenses as the biggest challenge they face. While this has fallen marginally from 66 percent, the latest findings reflect continued pressure on the UK's SME community.

This pressure has been amplified by recent policy shifts. In April 2025, the Treasury lifted the National Minimum Wage for workers aged over 21 to £12.21 an hour. At the same time, employers saw their National Insurance Contributions (NICs) rise from 13.8 percent to 15 percent, while the threshold for payments was cut from £9,100 to £5,000.

For 42 percent of SMEs, this double blow has already affected performance. Around 18 percent say the changes have impacted cashflow, 15 percent report weaker profitability, and a quarter (25%) claim the extra burden has curbed their ability to hire. The Low Pay Commission calculates that higher NICs have pushed up the average cost of employing a full-time minimum-wage worker from £1,872 to £2,879 a month - a daunting outlay for many smaller firms.

Impact of National Insurance increase



Sentiment and performance across sectors

Manufacturers are most bullish with almost three-quarters (74%) saying they are profitable, outpacing the overall average of 69 percent. Confidence is higher too: 79 percent expect sales to rise in the next six months, compared with 72 percent across the total sample.

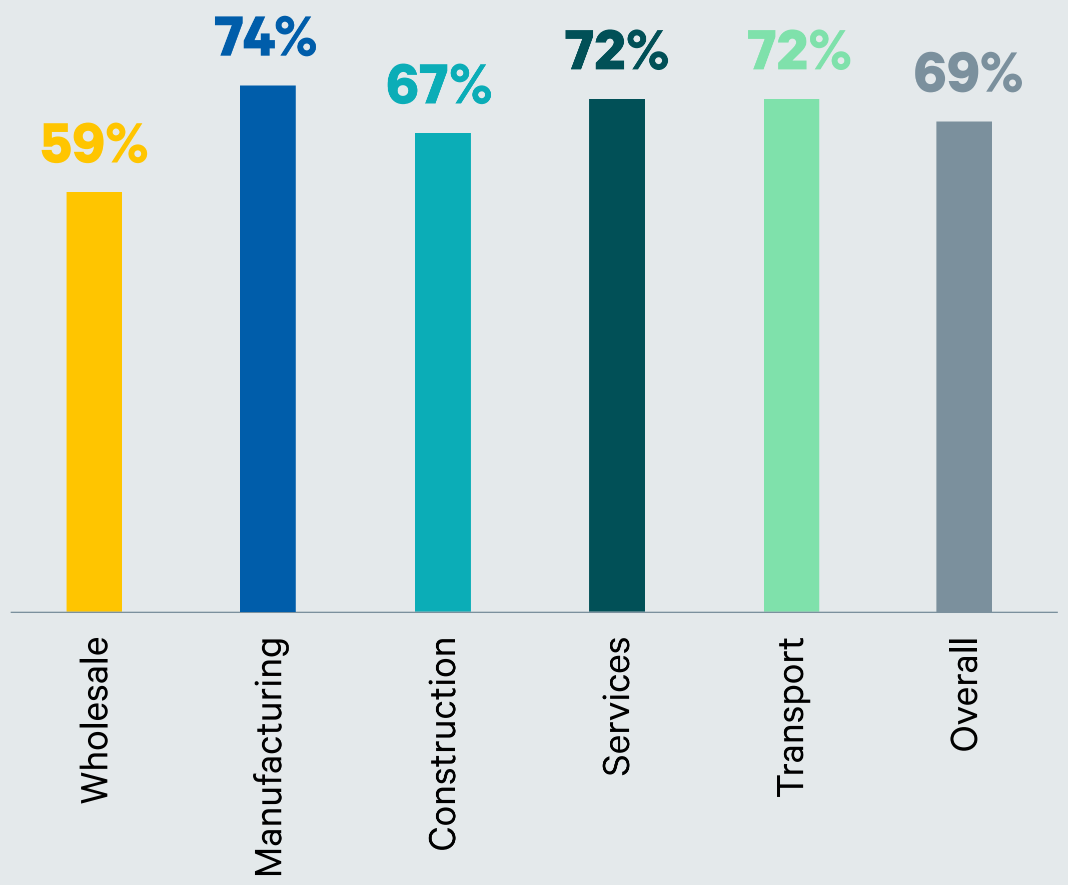
Yet the sector's underlying health is fragile. In August 2025, the UK's manufacturing PMI slipped from 48 to 47, its eleventh straight contraction, as global trade tensions and rising costs continued to suppress output.

Our survey finds 64 percent of manufacturers cite elevated costs as their main challenge. In this labour and energy intensive sector, employer NICs have increased the cost per full time employee, while energy costs have also risen. In Q4 2024 the average electricity price for a non-domestic user in the UK was already 75 percent higher than the average price at the start of 2021. Indeed, according to Make UK, the UK manufacturing sector's energy bills are 46 percent higher than the global average.

Construction SMEs are more downbeat with just 63 percent of firms we surveyed expecting sales to grow in the coming half year, well below average (72%). And only one in five (21%) believe themselves to be in "growth mode". This gloomier outlook is understandable. The August 2025 S&P Global UK Construction PMI revealed new orders have fallen for eight months in a row due to subdued demand and a lack of new projects, particularly in housebuilding and civil engineering.

Wholesale firms appear to be struggling the most with higher labour costs. Over a fifth (22%) say increases in NICs and the minimum wage have eroded profitability, the largest share of any sector. A third (34%) report insufficient cashflow to fund growth, and 18 percent admit they are "surviving, not thriving", versus a cross-sector average of 15 percent. Meanwhile, with shipping costs having spiked this summer, driven by US tariffs, it may be that the full impact of yet more high costs are still yet to be felt by the wholesale industry.

Profitability among SMEs



Insolvencies, bad debt & late payments continue to threaten future profits

SMEs may be resilient, but they are far from unencumbered. A trio of persistent challenges - increasing insolvencies, mounting bad debt and late payments - continues to hold back their ability to grow.

SMEs reporting one or more suppliers becoming insolvent (within the last six months) has climbed 8 percentage points, from 47 to 55 percent. Looking at customer insolvencies, SMEs have seen a 7 percentage point increase; 52 percent say one or more of their clients have gone bust, up from 45 percent half a year ago.

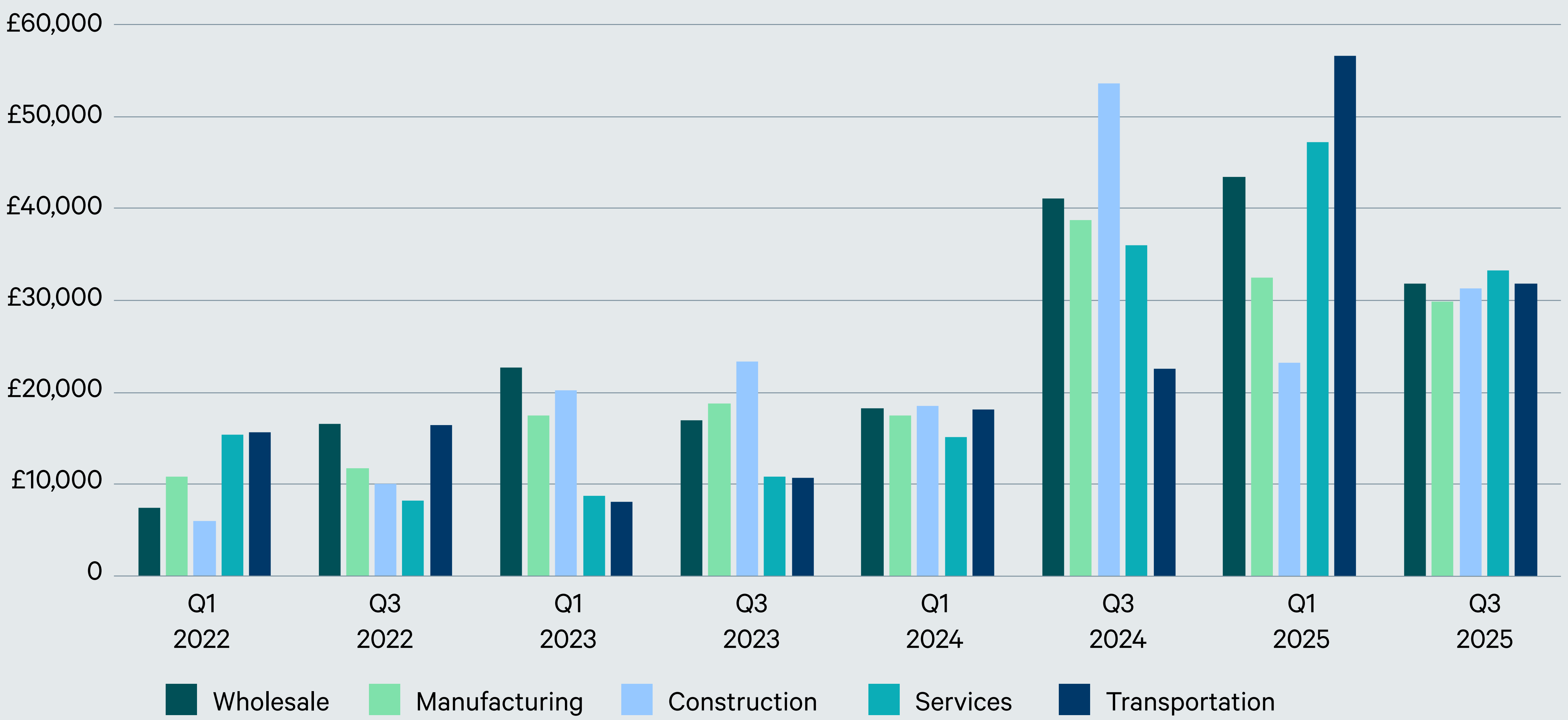
These findings echo official data: the government's Insolvency Service reports that monthly company insolvencies in the first seven months of 2025 outpaced those in the latter half of 2024. This upwards trend, though modest, hinders economic growth, demonstrating the risk to small firms.

SMEs are owed an average of £64,108 in unpaid invoices, up from £59,700 in the spring. Nearly three in ten (29%) have suffered a bad debt in the past year, whereby they have written off unpaid invoices. And close to four in ten (39%) have had to write off up to £10,000. On average, write-downs total £31,456. While bad debt is down since Q1, the level of debt SMEs are having to write off remains worryingly high.

For many firms operating on tight margins, the effect is a slow but steady squeeze on cashflow, leaving less room for investment or hiring. Unpaid invoices present both a challenge and opportunity for small businesses regarding managing their cashflow more effectively, when used as assets to unlock working capital.

Policymakers have not been blind to problems associated with late payment and bad debt. In January 2025, the government introduced the Fair Payment Code, replacing the Prompt Payment Code, as part of a broader Small Business Plan aimed at curbing late payments. But the scheme has struggled to gain traction. More than a third (35%) of SMEs in our survey had never heard of it, and while this figure is down from nearly half (47%) in the spring, it's still troubling. Worse, even among the informed, confidence is low: 52 percent of SMEs say government measures to tackle late payments remain inadequate.

Scale of bad debt by sector



Confidence at odds with market reality

The optimism denoted in these results is yet to be translated into direct investment by many businesses. Even so, data highlights an intention for greater capital expenditure over the coming months, driven by a desire for modernisation.

Nearly half of SMEs (48%) say that digital technology and IT is their priority; unsurprising given the fast-growing adoption of AI and automation across industries. Meanwhile, over a third (36%) are looking to expand their offering with new products or services.

Over half (53%) of those surveyed say they expect to fund such investment though using external finance, and a similar proportion (50%) say their need for external finance is greater than it was just six months ago.

Naturally, investment priorities vary sector by sector. While services firms are most eager to invest in digital and IT (59%), the same sentiment is echoed by only a third of construction firms (32%).

What is driving these investment plans? For many, the imperative is to stay ahead of competitors: nearly a third (31%) cite this as their primary reason, while others cite efficiency gains (25%), domestic expansion (18%), or the replacement of outdated equipment (17%).

On average, SMEs expect to invest £242,284 in the coming year - less than the £270,377 reported in the first quarter. The fall likely reflects political and macroeconomic jitters: 41 percent of businesses say measures in the 2025 Spring Statement dampened their willingness to invest over the next year.

Reasons for these lingering anxieties are not hard to find. Inflation ticked up from 3.6 percent in June to 3.8 percent in July and remained at that level in September. The UK is now forecast to see the highest rate of inflation of the G7 advanced economies this year, according to the Organization for Economic Co-operation and Development. As a result, many SMEs will be watching the Chancellor's Autumn Budget for signals before loosening their purse strings.

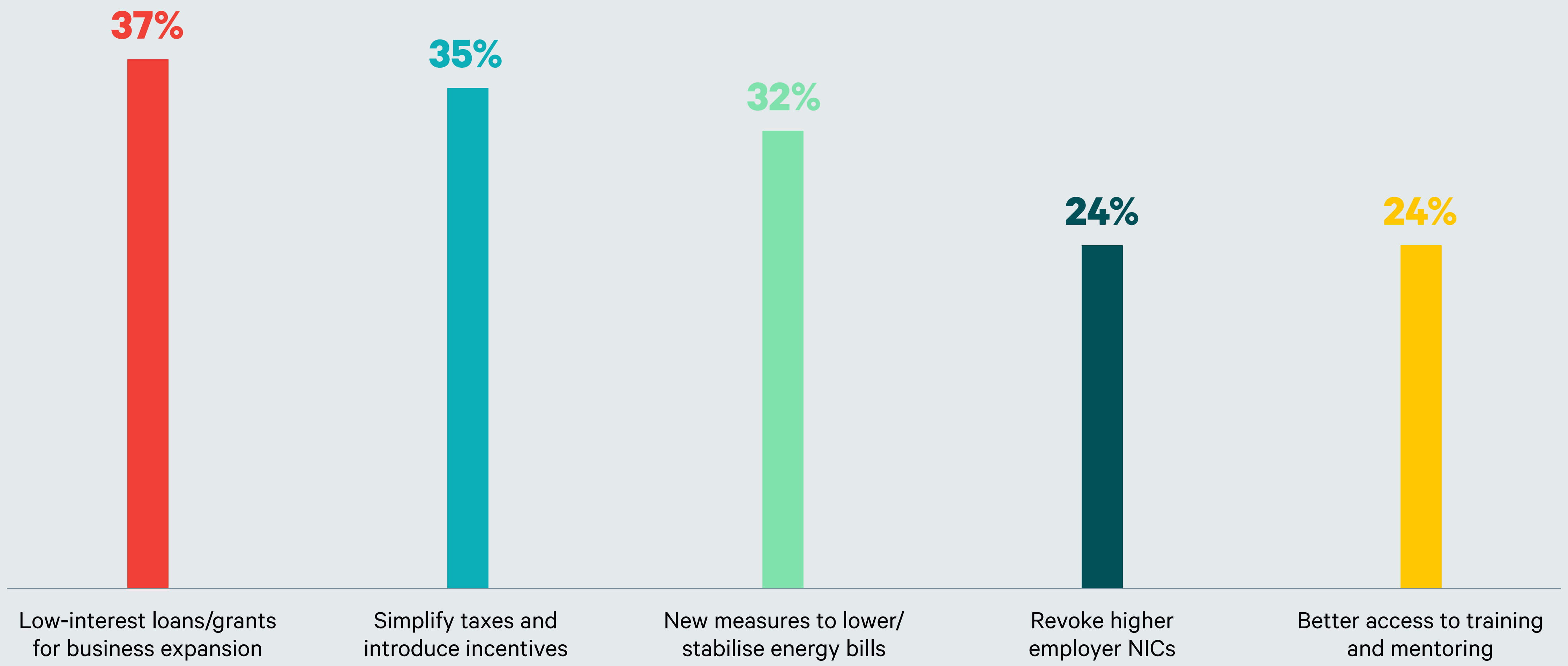
Autumn Budget: a chance to stimulate growth

Although there is demonstrable intention to invest, when this investment will materialise remains in the balance. Forty four percent say they will hold off on major investment until after the 2025 Autumn Budget.

Domestic economic conditions remain tough and for those trading overseas, the situation is compounded by continuing volatility. While the UK Government has successfully secured trade deals with the US, India, and the EU, SMEs still face challenges from ever-changing tariff policies. The US administration's recent decision to cut the "de minimis" tax exemption for parcels under $800, for example, has pushed up costs for SMEs trading overseas, creating an unnecessary barrier to growth.

Unsurprisingly, almost a quarter (23%) want the government to strike further agreements to expand market access, while a fifth (19%) seek targeted relief from international tariffs.

Top measures SMEs want Government to implement



As the Budget looms, SMEs are demanding more tangible measures to support growth. Their priorities fall into three categories:

1 **Provide relief for rising costs**

Inflation and high borrowing rates weigh heavily on small firms. Although ministers have promised some cuts or control, businesses need broader relief. Energy remains a particularly sore point. The government has pledged to slash electricity bills for 7,000 energy-intensive manufacturers in sectors such as aerospace and chemicals - but not until 2027. SMEs need help sooner - it shouldn't be limited for the industrial giants.

2 **Tangible action on late payment (and don't forget bad debt)**

The government's consultation on late payments has raised hopes, but businesses want more than promises. Chronic delays in payment are a drag on investment, innovation and growth. SMEs, the backbone of the economy, need confidence that the forthcoming measures will have real bite. 2026 should be the year that the government takes on late payments. It's also critical the government encourage SMEs to consider how they protect against protracted default or non-payment of customers too.

3 **Address taxation**

The recent rise in national-insurance contributions has undoubtedly impacted SMEs, which make up over 99% of the UK's businesses. More than a third (35%) now call for simpler taxes and better incentives. The government's manifesto promised to make Britain the best place in the world to start and grow a business. The Autumn Budget will be the moment to show it was not just talk.

Methodology

This study is based on research of 1,000 UK SME owners and decision makers across the manufacturing, construction, wholesale, transport and services sectors. Research was commissioned by BFS and conducted by independent specialists, Critical Research, between 12 and 27 August 2025.

About Bibby Financial Services

Bibby Financial Services (BFS) is a leading family-owned financial services partner to over 8,500 businesses worldwide.

We provide specialist and adaptable working capital finance and FX solutions, helping businesses grow in domestic and international markets.

Formed in 1982, BFS is part of the Bibby Line Group (BLG), a diverse and forward-looking family business delivering personal, responsive and flexible customer solutions for over 215 years.

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