

# SME Confidence Tracker

Q1 2026



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# Higher costs absorbing profit gains and stifling SME growth



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**"Notwithstanding the continued burden of a higher interest rate environment and ongoing inflation, there are green shoots on the horizon as spring approaches."**

**The UK economy is precariously positioned at the start of 2026. In February, the Office for National Statistics reported growth of just 0.1 percent in the final three months of 2025. The forecast for the year ahead isn't much better. Consumer spending is set to remain flat, an economic reminder of just one of the pandemic's many residual effects. Similarly, global growth is expected to slow, owing to a combination of rising costs and tariff friction.**

On one hand, this shaky outlook is reflected in our Q1 SME Confidence Tracker with our Index showing a sharp decline in business confidence. Almost two thirds of SMEs (62%) report customers taking longer to pay than a year ago, and 42 percent say this has impacted their ability to pay employee salaries. It's no surprise therefore that more than half say the Government isn't doing enough to provide protection against late payment.

Though improving year-on-year, the adjacent issue of bad debt continues to hamper growth ambitions with 30 percent writing off an average of almost £30,000 due to customer insolvency or default. It's a shocking figure, and while larger firms are often insulated due to capital reserves, it's enough to subject smaller businesses to rack and ruin. This mounting supply chain pressure is further illustrated in this report, with over 60 percent of SMEs seeing

customers and suppliers ceasing to trade in the past six months alone.

Amid this heady mix of issues, costs remain the primary challenge keeping owners awake. In February, the ONS reported UK unemployment rose to 5.2 percent in the three months to December, with analysts predicting a further cooling of the jobs market through 2026. Such costs are also driving SMEs to look at alternatives to recruitment. Three quarters say they're using AI, mostly to support sales and marketing, operational efficiencies or financing strategies. However, it's clear technology acceptance among some is contrasted with a preference for human intervention, with most preferring guidance from accountants, brokers and other advisors when researching financial options.

On the other hand – notwithstanding the continued burden of a higher interest rate environment and ongoing inflation – there are green shoots on the horizon as spring approaches. In February, the Purchasing Managers Index indicated a strong start to the year for service sector firms following a sluggish final quarter, and forward-looking indicators show signs of recovery for construction. Furthermore, the once beating heart of the economy – manufacturers – saw export orders rise for the first time in four years in January, showing great resilience amid growing geopolitical tensions.

While overall confidence levels have markedly dropped, six in ten are expecting sales growth

between now and the summer, rising to 70 percent among those using external finance. The key now is for such ambitions to materialise. But growth needs to be incubated in conditions in which SMEs feel confident to invest in people; in technology and in new products and services that stimulate supply chains and create a positive multiplier effect.

As Prime Minister Keir Starmer and Chancellor Rachel Reeves gear up to deliver their second Spring Statement in government amid political turmoil, SMEs are evidently crying out for support to make this happen. Almost half of SME owners are holding off investment until after 3 March (Spring Statement), and a third are calling for the Government to support them with simplified taxes and by tackling soaring energy costs.

Overall, our Q1 SME Confidence Tracker depicts a fragmented SME population; split between those overburdened with cost challenges, and others striving for growth within a challenging macroeconomic environment.

With global uncertainty and tariff disruption set to continue for the foreseeable future, business owners who are able to strike the right balance between managing costs and investing for the future will be ideally positioned for the remainder of 2026 and beyond.

**February 2026**

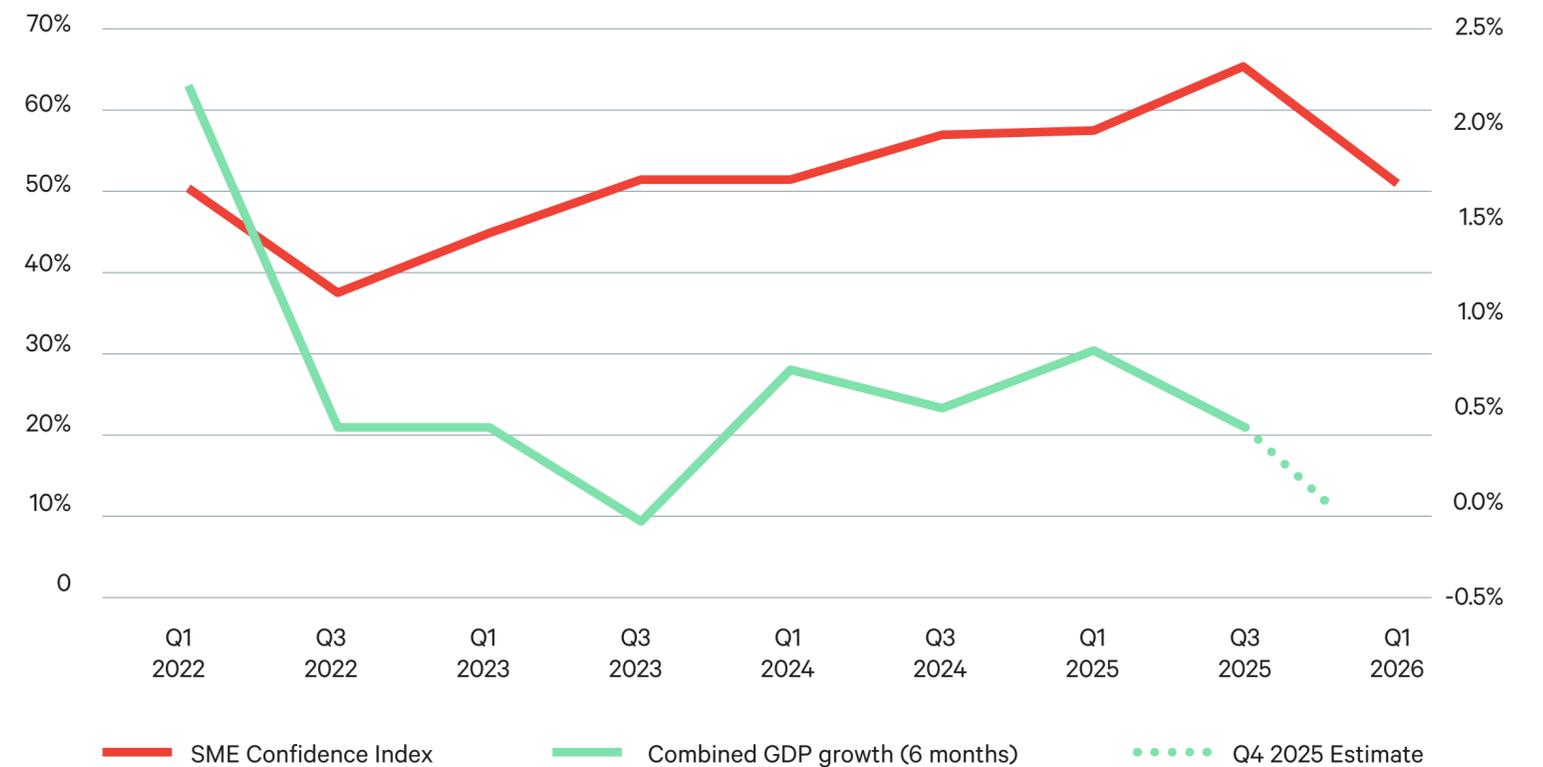
# SME Confidence Index

The SME Confidence Index is a composite measure combining the proportion of small and medium-sized businesses that consider themselves profitable with their expectations for sales growth over the following six months.

After several quarters of gradually improving sentiment among SME leaders – peaking at 66 percent in Q3 2025 – confidence has weakened sharply in Q1 2026, falling to 51 percent. This represents a return to levels last seen in late 2023 and early 2024, during a period marked by heightened political and economic uncertainty. Something which is set to return.

This decline reflects a more cautious outlook among SMEs as weaker growth, elevated costs and ongoing cashflow pressures continue to shape business decision-making.

## SME confidence declines in Q1 2026



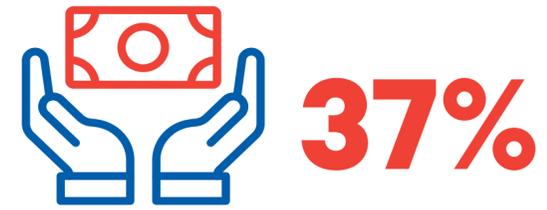
# Research highlights



expect sales to grow in the next six months



say they are a profitable business today



are confident in the UK Government's ability to support them in the current economic climate



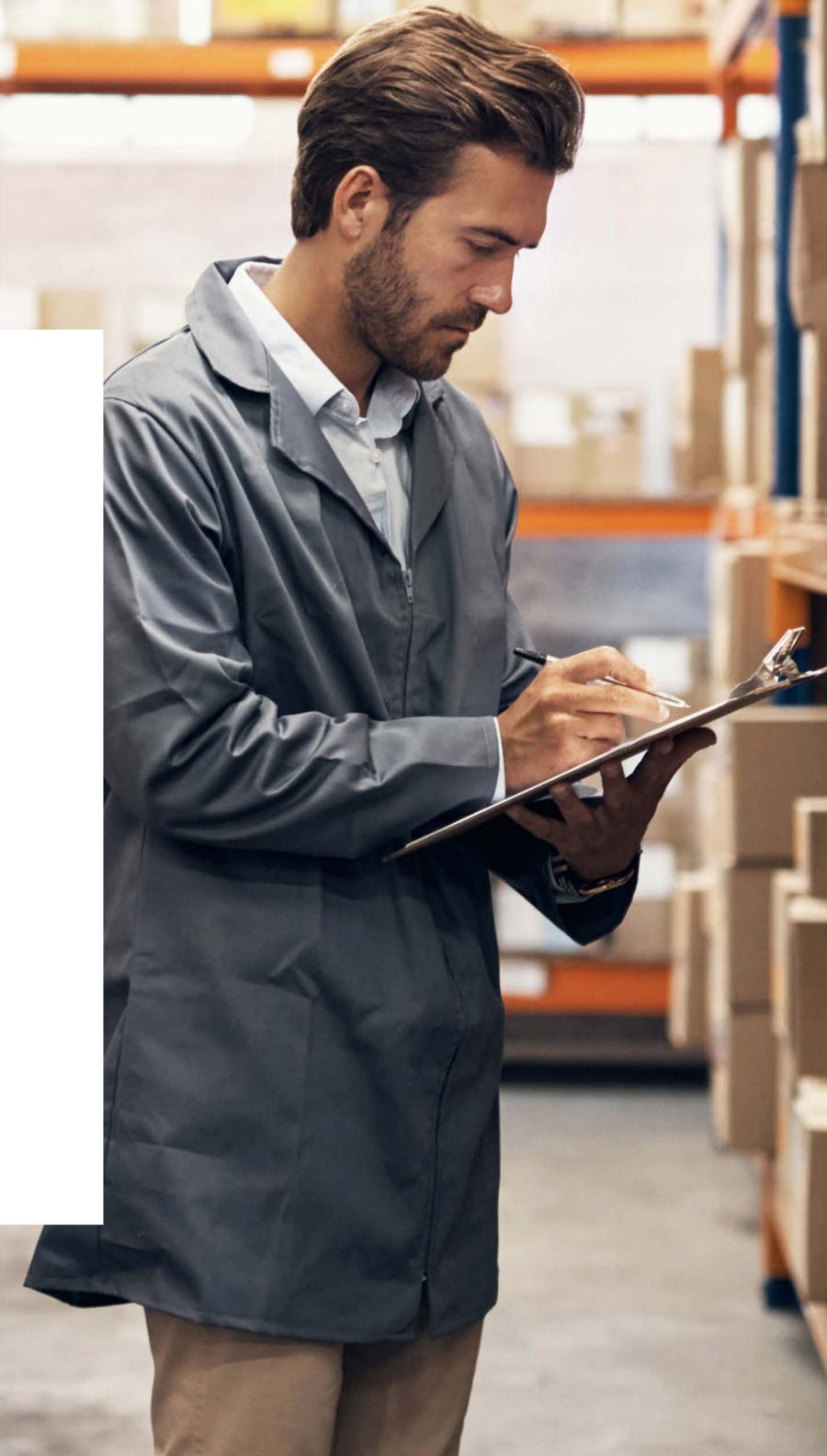
experienced bad debt in the past year



have paused hiring due to persistent late payments in the past year



have used AI for financial strategy and decision-making



# Growth stifled by high costs

**The Chancellor's Autumn Budget in November 2025 restored a degree of stability to the UK economy by removing deep uncertainty around key policy levers.**

However, consecutive quarters of deteriorating and weak economic growth throughout 2025 have done little to enhance the operating environment for SMEs. Meanwhile, a rise in the rate of consumer price inflation to 3.4 percent in December<sup>1</sup> overshoot the Bank of England's 2 percent target and kept input costs high. Against this backdrop, the mood of SMEs seems to be one of fragile confidence.

Data from our latest survey of 1,000 small and medium sized business leaders reveals a nuanced picture. Performance has been broadly resilient, with tentative ambitions for growth, but many businesses are operating with limited headroom and little margin for error.

Just over half (53%) of SMEs report an increase in sales over the past six months, reflecting continued determination to trade through a challenging environment. Looking ahead, 61 percent expect sales to grow between now and the summer, with stronger expectations among manufacturing (63%) and wholesale (68%) businesses – as well as those using external finance.

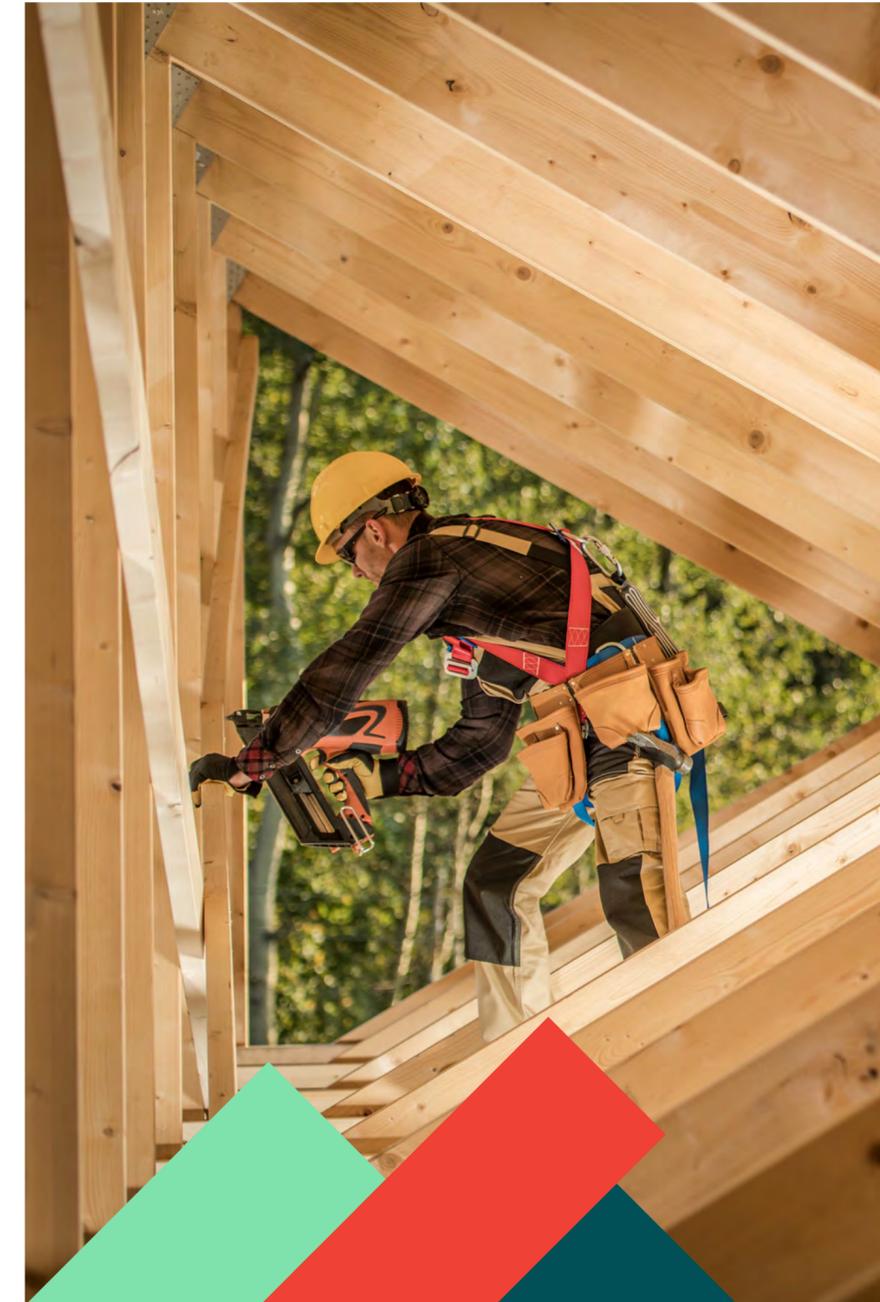
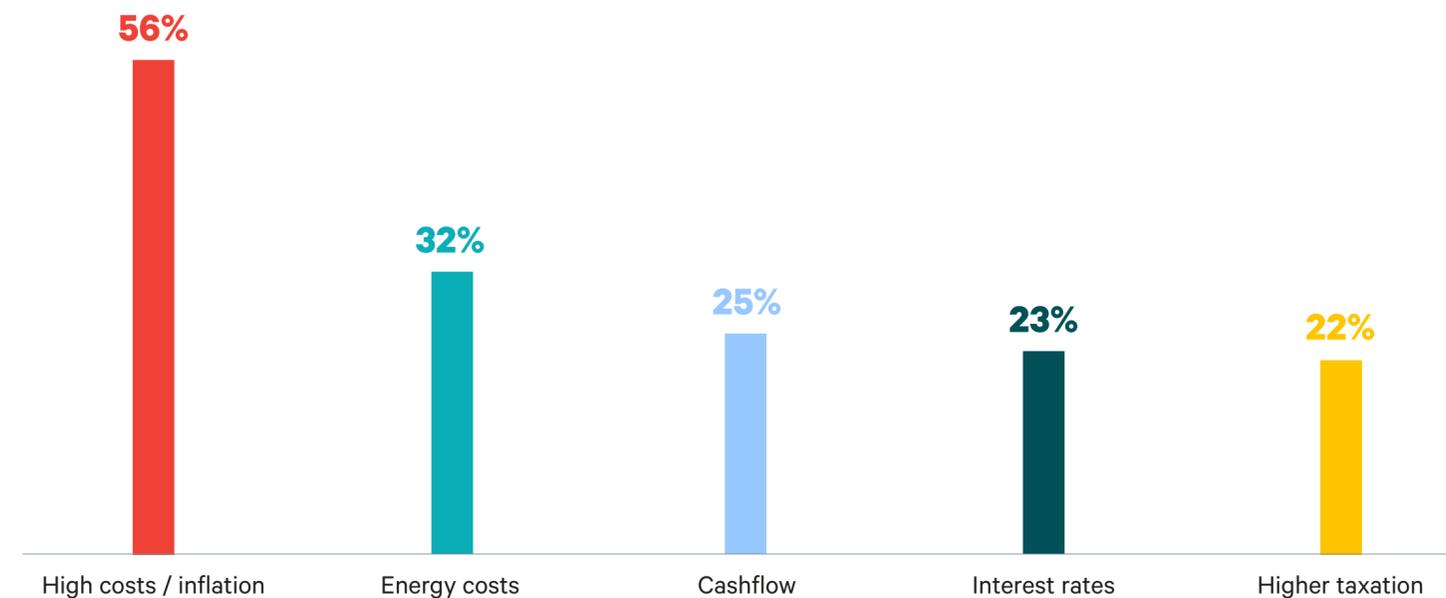
However, overall confidence has dipped compared to our surveys conducted in Q1 and Q3 2025, when sales expectations hit 66 percent and 72 percent, respectively.

The Bank of England's decision in February to hold base rates at 3.75%, continued weak domestic demand, and ongoing international trade friction, mean SMEs face pressures from all sides. The result is constrained financial headroom and margin erosion. Today, 55 percent of SMEs describe themselves as profitable, down from 69 percent in our survey last autumn and 60 percent a year ago. A further 38 percent are just breaking even.

While high costs and inflation remain a persistent challenge, there is a sense that such conditions are now viewed as the 'new normal' for SMEs. Though down from 66 percent 12 months ago, over half (56%) of SMEs still see these factors as the biggest challenge they face. Continuing steady wage growth and successive recent increases in the corporate tax burden are significant factors. Recent ONS data<sup>2</sup> reinforces this picture, with businesses citing labour and materials costs as key pressures.

Developing strategies to manage these structural pressures will be critical for SMEs seeking to protect margins, maintain cashflow and pursue growth.

## Top five challenges for SMEs in 2026



1. ONS, Consumer price inflation, UK: December 2025 2. ONS, Business insights and impact on the UK economy: 22 January 2026

# Access to finance remains key to unlocking growth

While many SMEs are looking to invest – particularly in technology, AI and machinery – the scale of planned investment has softened. Access to external finance remains central to unlocking these ambitions, but barriers persist.

Digital technology continues to be the leading investment priority. Over a third (36%) plan to invest in IT or digital tools in the next six months, rising to 43 percent of businesses in wholesale and 41 percent in the transport sector. Meanwhile, 27 percent intend to invest in machinery or equipment, with manufacturing businesses most likely to prioritise this area (40%).

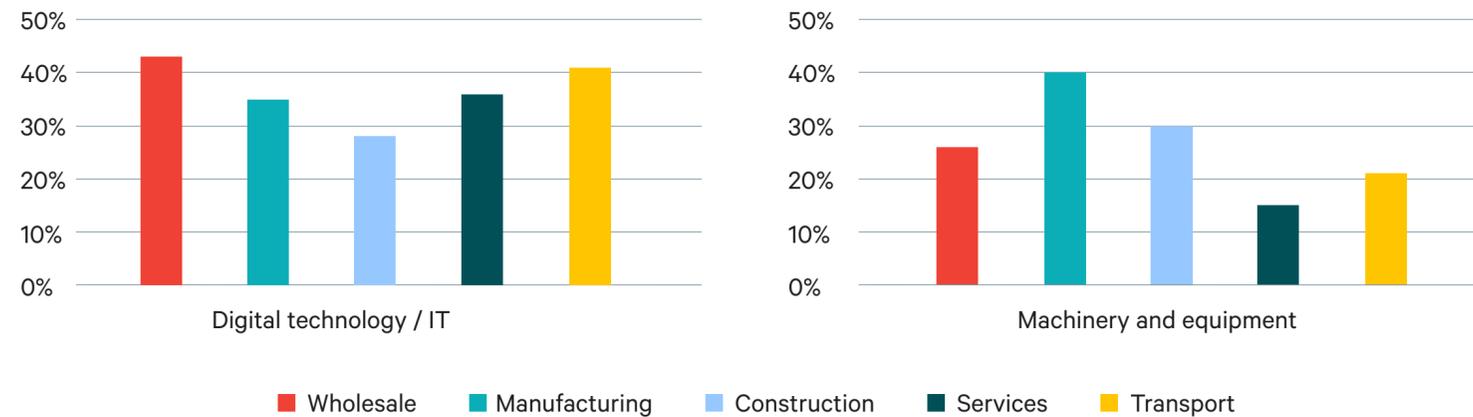
However, investment appetite has dampened compared with last year. The average amount SMEs

expect to invest over the next 12 months has fallen by nearly a quarter (24%), from £270,377 in Q1 2025 to £205,915 today.

Where investment is planned, external finance plays a critical role. Among businesses using or considering external finance, 40 percent primarily use it to fund expansion or investment, while 32 percent rely on it to support day-to-day operations.

However, access to finance remains a barrier to cashflow and growth. Half (50%) of SMEs say it is now harder to access external finance than it was six months ago. Over the same period, more than a quarter (27%) of SMEs have witnessed a reduction in the availability of funding or credit from their bank or financier, while a fifth (22%) have had an application for external finance rejected.

## Investment intentions in the next six months



## AI is influencing SME investment and decision-making

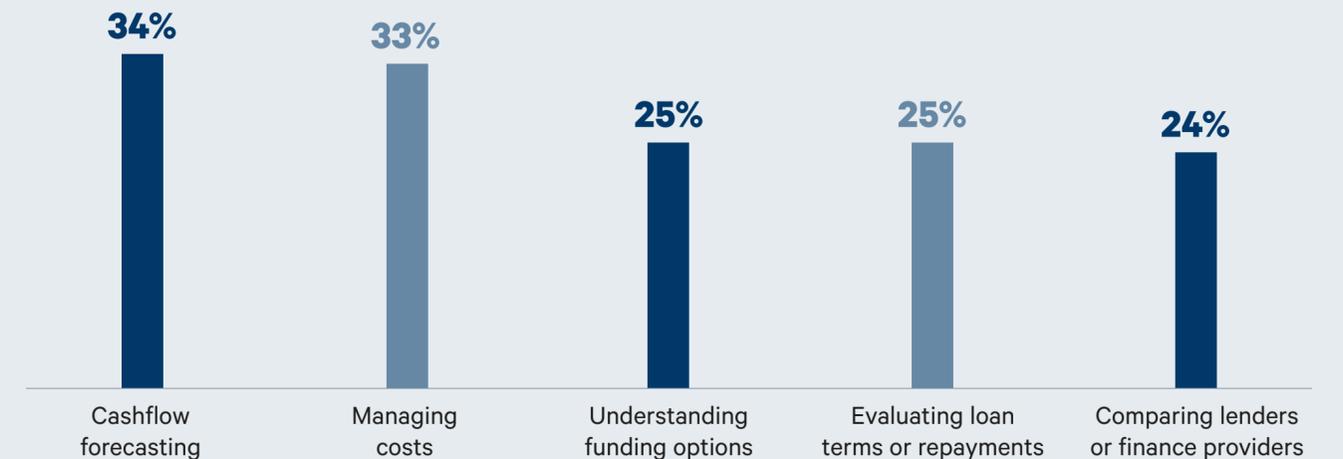
AI is emerging as a growing focus for SMEs. Seventeen percent say it will be their primary investment area over the next six months, reflecting its expanding role across business functions.

Three quarters (75%) of SMEs report having used AI in the past year. The most common applications are sales and marketing (34%), operations and administration (27%), and financial strategy and decision-making (23%).

AI is also increasingly being used by SMEs for financial planning – most notably cashflow forecasting (43%) and understanding external funding options (41%).

However, while many SMEs recognise the value of AI-generated insights, human expertise remains central. Nearly seven in ten (69%) would feel confident acting on financial guidance from AI, but 93 percent emphasise the importance of human input when navigating complex or high-value decisions.

## Use of AI in financial decision-making in the last 12 months



# Counting the true cost of late payments

**Late payments continue to have a material impact on SMEs' ability to operate and grow. Over the past year, payment delays have disrupted salary payments for 42 percent of SMEs, rising to 48 percent of manufacturing firms.**

More than four in ten (41%) have drawn on emergency funds because of late payments, eroding cash reserves intended to support resilience and investment.

For many businesses, late payment has become a routine feature of trading rather than an exception. This is particularly evident in construction and manufacturing, where 58 percent and 56 percent respectively say they now expect customers to pay late, compared with 52 percent of SMEs overall.

The wider economic impact is evident. In the past 12 months, a quarter (24%) of SMEs have paused hiring due to persistent late payments, directly suppressing capacity and job creation.

The Government's much anticipated overhaul of late payments legislation is yet to resolve the issue for SMEs. Despite the intentions to tighten payment terms, enforce statutory interest, and impose penalties on the worst offenders, payment timescales are actually lengthening.

Over six in 10 (62%) SMEs say it's taking longer for customers to pay invoices in full compared to a year ago. Today, SMEs are owed an average of £66,770 in unpaid invoices – up 10 percent on last year.

Unpaid invoices also impact productivity, further affecting costs. SMEs spend an average of almost 9.5 hours per month chasing late payments. For construction firms, and small businesses with more than 51 employees, the monthly average increases to nearly 10.5 and 11.3 hours, respectively.

This damages supplier relationships and weakens supply chain resilience over time. Over six in 10 (61%) say that large customers know they can get away with paying late, with those in construction hit hardest at 64 percent. These actions erode trust, with seven in 10 (69%) saying that once a customer pays late, they trust them less.

However, the House of Commons Business and Trade Committee's latest Small business strategy<sup>3</sup>, reiterates the importance of addressing the late payments issue. It recommends that the Government should mandate 30-day payment terms by the end of this Parliament; and that Companies House should include information from the Fair Payment Code within its register, so SMEs have greater clarity about companies' payment practices.

## From isolated failures to systemic risk

Insolvencies are becoming an increasingly common feature of the SME landscape. 61 percent of SMEs report one or more of their suppliers having become insolvent in the last six months – markedly higher than a year ago (55%).

Customer insolvencies are also rising. Nearly two thirds (63%) report that one or more of their customers have gone under, pointing to growing fragility across supply chains. This has risen from 56 percent a year ago.

Small businesses in retail and hospitality, in particular, have been acutely impacted by the ongoing slow-down in discretionary spending from their customers. The result is a squeeze on margins, leaving many SMEs in critical financial distress.

Recent analysis<sup>4</sup> highlights a growing number of these so-called "zombie" companies: firms that can cover interest payments but lacking the capacity to invest or reduce debt.

The interconnection between rising numbers of SME insolvencies, late payments and credit risk points to underlying structural issues and increased systemic risk that only undermine the overall strength of the UK economy.



3. House of Commons Business and Trade Committee, Small business strategy 4. Begbies Traynor, Thousands of UK businesses at 'critical' tipping point

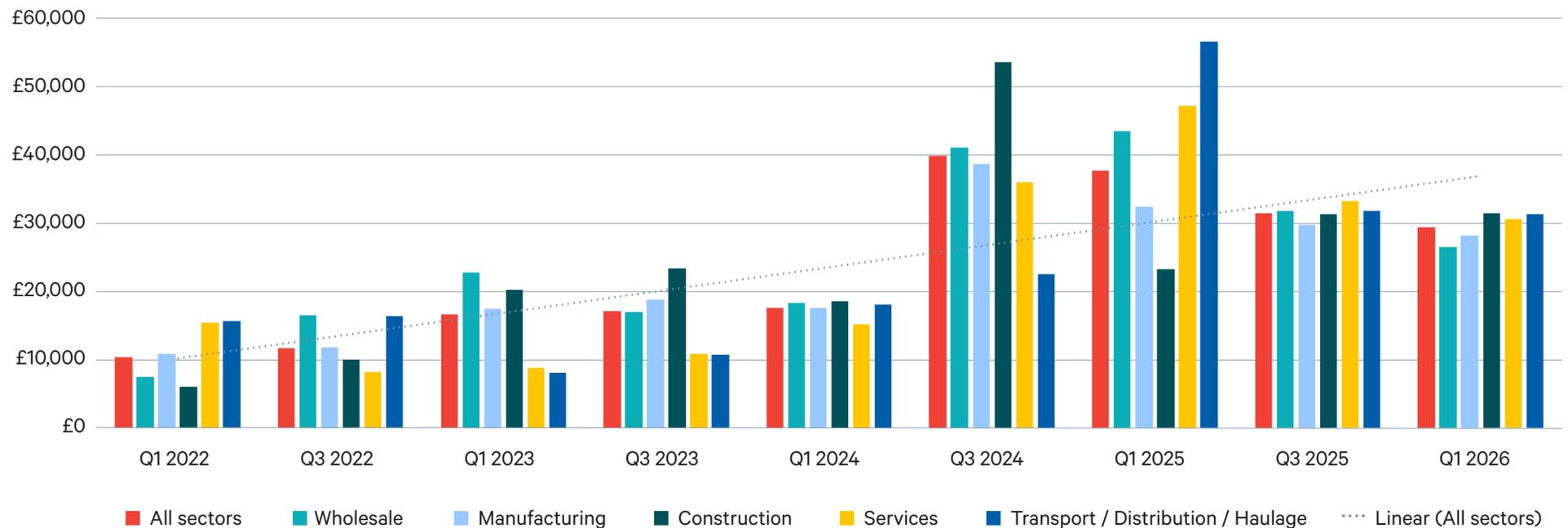
# Supply chain issues persist

## Bad debt eases, but risk remains

Bad debt, through irrecoverable unpaid invoices, continues to impact SMEs. Three in 10 (30%) experienced losses in the past year – with the manufacturing sector one of the most exposed (36%).

The average loss has fallen to £29,376, down from recent quarters, suggesting that some businesses are strengthening financial controls and risk management. However, the scale of losses remains significant, and ongoing exposure reinforces the importance of cashflow resilience as SMEs navigate continued uncertainty.

## Bad debt over the past 12 months



# Weakened confidence shapes Spring Statement priorities

While over half of SMEs (55%) feel confident that the UK economy is set up for the future, this sentiment has yet to translate into decisive action. Nearly half (46%) are delaying major investment decisions until after the Spring Statement, with larger SMEs (52%) and those in manufacturing and transport (each 50%) most likely to pause.

Weakened confidence in government support is clearly a contributing factor. Just 37 percent of SMEs say they are confident that the Government can and will help them in the current economic climate, down nine percentage points since Q3 2025.

Levels of confidence vary sharply according to business size, rising from just 27 percent among the smallest firms (with up to nine employees) to 44 percent of mid-size businesses (50-249 employees) – highlighting a substantial confidence gap.

However, overall, there remains a clear need for practical measures that reduce costs and improve predictability. SMEs' top requests are for simplified taxes and the introduction of incentives, such as reductions in corporation tax or business rates (35%); measures to lower or stabilise energy bills (33%); and a reversal of the recent rise in employer National Insurance (NI) contributions (30%).

Calls to reverse last year's increases to employers' NICs have risen since Q3 2025, indicating that employment costs are biting for SMEs. This is a greater priority among the smallest firms (34%), where the disproportionate impact of rising employment costs directly hits the bottom line.

Late payment remains a central concern. More than two-thirds (69%) believe there should be serious consequences for repeat offenders, while 27 percent want new legislation to reduce late or non-payment. With the groundwork already laid through consultation, SMEs see an opportunity for the Government to strengthen enforcement and restore confidence, particularly where power imbalances exist between large customers and smaller suppliers.

So, ahead of the Chancellor's 2026 Spring Statement, SMEs are calling on the Government to prioritise three critical areas of support: simplify taxes and introduce incentives, lower energy bills and employment costs, and deliver tougher action on late payments.

## SMEs want the Government to:



Simplify taxes and introduce incentives



Lower energy bills and employer NICs



Take tougher action against late payments



## 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 7th and 15th January 2026.

## About Bibby Financial Services

Bibby Financial Services (BFS) is a leading family-owned financial services partner to over 8,000 businesses worldwide.

We provide specialist working capital, asset finance and foreign exchange solutions helping businesses to grow and thrive 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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