THE SME BAROMETER

SMALL & MEDIUM SIZED BUSINESS INSIGHTS.

KEEP CALM AND GROW

A DETAILED LOOK AT SMEs AS SHOOTS OF GROWTH EMERGES

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FOREWORD

Last October's Budget measures have finally hit the cost base of the SME community, the engine of the UK economy, and it is the sector least well equipped to withstand them.

"On 30 October 2024, Chancellor Rachel Reeves delivered the Labour Party's first budget in 14 years, amidst cold and overcast weather at the Houses of Parliament. The weather that day was an accurate reflection of the nation's response to the content of the Autumn Budget," says Paul Rowland, Senior Partner, Invictus Risk Solutions.

INVEST, INVEST, INVEST

"The Chancellor repeatedly championed PR buzz words like "invest, invest, invest", "national renewal", "rebuild Britain", and "pounds in pockets" as she set out how the Labour Government would fixing public services and revive economic growth while filling an [alleged] £22 billion hole in the UK public purse."

"Every public service cut, and tax hike was delivered and met with rampant enthusiasm by her party, and utter incredulity by the melancholic sullen faced politicians no longer in power who could, and should, have done better," continues Rowland. "The opposition front bench appeared to suffer from a collective abysmal sadness of the soul as they realised that to publicly argue with the Chancellor's critical assessment of their own 14 years in power would be akin to looking for a gas leak with a lighted match!"

"The Chancellor, to her credit, kept going like a fine-tuned diesel engine, churning out her budget headline grabbing element from one to another like a nimble and sure-footed chamois goat leaping and springing from one Alpine rocky crag to another," says Rowland. "But nothing will introduce a sour note and the disappearance of confidence quicker than an empty cash till and the inability of a community of business owners to meet their workers' wages."

Fast forward to the Chancellor's Spring Statement on 26 March 2025 and adding to the business community's concerns is worry about their workforces. If the workforce suffers, then the business suffers as well. "The Chancellor previously promised that she would seek to halve food bank usage and develop a long-term strategy to reduce poverty. However, the realpolitik of the Spring Budget's "Benefit bill" appears to present a capacity to increase child poverty, increase food bank usage and to severely deepen the nation's spiralling mental health crisis and absenteeism from the workplace," says Rowland.

"The inherent financial problems that the UK SME business community continues to experience means that its growth cannot be triggered or sustained until it is protected from the huge risks and threats to their balance sheets through increased taxation, supply disruption, debtor non-payment and insolvency."

"In an unwelcome verification of the Chancellor's repeated reminders that we are living in a 'changing world', within hours of her Spring Statement her fiscal goal posts were facing an unceremonious relocation by the threat of 25% tariffs on all motor vehicles and parts exported into the USA," comments Nick Hood, Senior Advisor, Opus Business Advisory Group. "This followed hard on the heels of post-Statement observations by numerous economists that Rachel Reeves's measures might restore her lost economic wiggle room, but at a mere £9.9 billion against annual government spending of £1.5 trillion this offered precious little protection against the metaphorical puff of wind that could blow her back off course once more. These tariffs seem more like a Force 9 gale, if of course President Trump follows through on them."

"Immediately after the Spring Statement but before the tariff threat, business leaders were rushing onto the media with concerns about what the Chancellor might be forced to do about taxes and spending in the Autumn Budget, or even sooner than that. How much more risk averse must they feel now," continues Hood. "The timing of these developments could hardly be worse for business confidence, coming only days before the cost hikes imposed by last October's Budget finally morphed from anticipated threats into real financial pain as they landed at the beginning of April with a devastating and damaging thud on the cost bases of businesses right across the economy."

"But the centrepiece of the Spring Statement wasn't the numbers – it was the new framework. The fiscal rules now offer a degree of protection to public investment plans meaning the government can stick to its capital investment programme devised last Autumn, giving businesses the policy certainty about the future. That's good for confidence – and over time, good for private investment too," says Barret Kupelian, Chief Economist, PwC UK.

"A bold commitment to defence demonstrates what ambition can look like when you want to unlock growth," adds Rachel Taylor, Government and Health Industries Leader, PwC. "Now we need to see a similar focus for other priority sectors but given the overall spending envelope for the Spending Review, unprotected departments will be looking at real term reductions so finding similar levels of funding will be difficult. It will be critical for business and government to work together to identify ways to collaborate to invest into digital technology, infrastructure and skills, without relying on financial handouts from the government."

Taxation remains a concern for all UK SMEs. Tax policies play a crucial role in shaping the business landscape, yet the more of an employee's salary is owed in tax – whether paid by the employee or directly by the employer – the more costly it is for businesses to create and sustain jobs.

"Increasing taxes on employment harms businesses and workers alike," says Daniel Herring, Tax and Fiscal Researcher, Centre for Policy Studies (CPS). "By making it more expensive to employ people, the hikes in employer's National Insurance disproportionately affects the lowest paid or those who are looking to move back into work after being economically inactive."

"For higher wage positions, the increase cost of hiring workers translates into lower wages over time. For those on the minimum wage, where salaries cannot fall, businesses will instead hire fewer workers, which limits the opportunities for those in low paid work and the unemployed who are looking to get back into the workforce," warns the CPS.

THE INSTITUTE OF DIRECTORS (IOD) 2025 STATE OF THE NATION DIRECTORS SURVEY

Scotish respondents

The Institute of Directors (IOD) 2025 State of the Nation Directors Survey reveals that 63% of respondents in Scotland believing business tax rates are too high, while 75% feel the same about income tax rates. Furthermore, nearly half of respondents express serious unease over Scotland's tax divergence from the rest of the UK, with a 40% saying they believe the tax differences will impact hiring decisions and 34% fear it could deter investment.

Source: https://www.iod.com/resources/business-advice/iod-scotland-state-of-the-nation-survey-spring-2025/

"As we seek a sustained period of recovery and a time of buoyancy, I would very much hope that the current UK Government will grasp the thorny rose of taking the responsibility to cut inflation and drive positivity back into the heart of the UK economy by cutting government civil service spending, cutting taxes, helping more people (back) into work, reducing inflation, increasing GDP, and installing business investment programmes to fund and support key the growth sectors of the domestic aerospace, AI, automotive, green energy, film, and life-science industries," says Rowland.

"With the financial outlook of the UK remaining turbulent, it's understandable that businesses feel anxious about the changes that lie in the year ahead. However, it's important for businesses to remain proactive. By consistently analysing market trends, focusing on customer retention, and investing in Research & Development (R&D) to innovate products, businesses can better adapt to changing market conditions," says James Burgess, Head of Commercial and insolvency expert, Atradius UK.

"Strategic hiring is another vital component in equipping businesses to weather the storm. By continuously assessing the financial landscape, businesses can better protect themselves while also developing a skilled workforce," comments Burgess. "Additionally, the role of trade credit insurance cannot be overstated – it serves as a safety net that not only secures revenue streams but also enables sustainable expansion."

LATEST INSOLVENCY STATISTICS

The Chancellor's ruthless dumping of more than £20 billion of revenue raising measures into the unwilling and unwitting laps of British business last October produced instant and entirely reasonable howls of protest. "Predictions of financial Armageddon, especially for labour-intensive sectors such as retail, hospitality and leisure have been blood-curdling. Business leaders have queued up to warn of mass closures, as well as huge numbers of job losses. Yet, four months on from the Budget measures coming into effect there has been no sign of the anticipated surge of Company Directors throwing in the towel and putting their businesses into Creditors' Voluntary Liquidation (CVL)," says Nick Hood, Senior Advisor, Opus Business Advisory Group.

"The latest and more meaningful non-seasonally adjusted company insolvency numbers of 2,203 failures across the whole UK for June 2025 have fallen back after the previous month's total of 2,417, a drop of 9%. There had previously been on a rising trend. June's figure is also 11% lower than a year ago in June 2024. Nevertheless, company failures are still 38% higher than immediately pre-pandemic in February 2020. Creditor enforcement action is rising sharply, with the rolling 12-month figure for Compulsory Liquidations now up to 18% of failures compared to only 14% a year ago. At the same time, business rescues through the Administration route continue to fall away, dropping to only 5% of insolvencies this month as against 7% a year ago. These are ominous trends for struggling businesses," says Hood.

Insolvency statistics for June 2025 show the number of registered corporate insolvencies (also known as 'company insolvencies') in England and Wales stood at 2,043, down 8% from the 2,230 recorded for May 2025, and 16% lower compared to a year ago (June 2024) when 2,430 corporate insolvencies were recorded. Monthly company insolvency numbers in the first six months of 2025 were slightly higher than the second half of 2024 but remain lower than the 30-year annual high seen in 2023.

Source: https://www.gov.uk/government/statistics/company-insolvencies-june-2025/commentary-company-insolvency-statistics-june-2025

"The number of corporate insolvencies fell in June, reaching their lowest level for this month since 2022. The yearly decline has been driven by a drop in the number of Creditors' Voluntary Liquidations (CVLs) and Administrations, alongside a slight fall in Company Voluntary Arrangements (CVAs). Whilst a single month of data does not indicate a long-term trend, it may signal that some directors are holding back from taking formal action for now, either due to improvements in trading conditions or in the hope that the summer months bring a significant boost," comments Tom Russell, President of R3, the UK's restructuring, turnaround and insolvency trade body, and a Licensed Insolvency Practitioner and Director at James Cowper Kreston.

"Compulsory Liquidations, however, have risen compared to June last year and remain significantly above pre-pandemic levels. This reflects a growing willingness among creditors to pursue debts through the courts – led by HMRC, which continues to take a more assertive approach to recovering money for the public purse."

Whilst a fall in formal corporate insolvencies is welcome, the broader economic mood remains subdued. "Businesses and households alike are low in confidence and as a result key decisions are on hold as a 'wait and see' attitude is adopted. With GDP growth declining for the second month in a row in May and unemployment levels recently increasing, it remains to be seen whether this negative economic trend will continue," continues Russell.

Lack of confidence is playing out across several key sectors. Retail sales fell sharply in May as consumers pulled back on non-essential spending, while significant job losses in the hospitality sector point to mounting financial strain, with staff cuts often a last resort for businesses trying to stay afloat. The British Beer and Pub Association (BBPA), the industry body that represents more than 20,000 pubs reporting that one pub per day (an estimated 378 a year across the UK) are set to close for the final time across the UK resulting in 5,600 direct job losses.

Source: https://beerandpub.com/news/britain-set-to-see-a-pub-close-every-single-day-in-2025-bbpa-warns/

With the beer and pub sector pouring more than £34 billion into the economy in one year alone and supporting more than a million jobs, the BBPA warns that pub closures will have a further impact on those who are part of the supply chain, including farmers, brewers and other industries who form part of the sector's wider ecosystem.

"We're calling on Government to proceed with meaningful business rates reform, mitigate these eye-watering new employment and EPR costs, and cut beer duty," says Emma McClarkin, CEO, British Beer and Pub Association (BBPA). "Pubs are trading well but most of the money that goes into the till goes straight back out in bills and taxes. For many it's impossible to make a profit which all too often leads to pubs turning off the lights for the last time."

Increasing costs and uncertainty are continuing to drive corporate insolvencies. "Uncertainty around tariffs continue to be a concern. Whilst the recent UK-US trade agreement is a welcome development for some SME exporters, it is not a transformative deal for the wider economy. Speculation about tax increases in the autumn is also adding to the sense of uncertainty. For business owners trying to plan, hire and invest, not knowing whether or when further cost increases are coming makes decision-making far more difficult. Many feel stuck in limbo – unable to move forward confidently without a clearer view of what lies ahead," says Russell.

"The turmoil from the Trump tariff wars destabilises not just the UK economy, but world trade in general," adds Hood. "No matter what the eventual outcome of the current White House policy hokey cokey, the uncertainty will be devastating for the business investment that is vital for generating growth in our economy. How can any CEO possibly sign off on a capex project now?"

The impact of the tariffs on purchase and sale prices, margins and profits, and potentially firms' ability to service debt and source rescue funding means that Restructuring Plans remain a key topic of discussion in the insolvency profession, with HMRC's recent support in the Enzen and OutsideClinic cases sparking hope that this might further improve take-up of this process among mid-market firms.

Questions remain around how Restructuring Plans can be made accessible to SMEs, with cost being the biggest issue to resolve. This is something that the insolvency professional continues to explore as it works to find a solution.

INTEREST RATES

"Inflation is back with a bang: like an unwanted house guest breaking down the door, emptying the fridge and bleeding you dry. The spike in prices is the biggest we've seen since the cost-of-living crisis, and even larger than had been forecast It demonstrates just how awful April was this year for our pockets. Unfortunately, there's every sign this unwanted guest could end up sticking around for months," warns Sarah Coles, Head of Personal Finance, Hargreaves Lansdown.

At its meeting ending on 18 June 2025, the Monetary Policy Committee (MPC) had voted by a majority of 6–3 to maintain Bank Rate at 4.25%, with three members preferring to reduce Bank Rate by 0.25 percentage points, to 4%.

Source: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/june-2025

But with the Office of National Statistics (ONS) reporting that inflation rose more than economists had expected to 3.6% in June, up from 3.4% the previous month, inflation is at its highest level for almost a year and a half. Transport costs were cited by the ONS as a main driving force keeping inflation high because whilst fuel prices are coming down, they are not falling as fast as they did in June 2024. Adding this to the underlying pressures from the tax rises in April, and economists say they are expecting inflation to peak at 4% in the autumn.

Although the rise in inflation put an end to the Bank of England cutting interest rates at its June meeting, commentators say that an interest rate cut in August may still be on the cards.

Source: https://www.ons.gov.uk/economy inflationandpriceindices/bulletins/consumerpriceinflation/june2025

"The uptick in inflation will no doubt reignite concerns about further monetary tightening, especially as businesses continue to feel the pressure from prolonged high interest rates and subdued demand," explains James Burgess, Head of Commercial and Insolvency expert, Atradius UK.

"Rising costs for raw materials, wages, and energy are squeezing margins, particularly for SMEs operating on tight budgets. In such an uncertain environment, businesses must act decisively to mitigate financial risk. Strengthening cash flow, enhancing supply chain visibility, and leveraging trade credit insurance are key strategies to build resilience and maintain trading confidence."

For households already struggling after the April price rises which saw the price of household services rising a whopping 7% year-on-year while water and sewerage cost alone up 26.1% month-on-month. "April was always going to be awful in terms of price rises for consumers," says Susannah Streeter, Head of Money and Markets, Hargreaves Lansdown. "While rises in gas, electricity, water, transport, and mobile phone calls were forecast, consumers also had to pay higher prices if they splashed out on enjoying themselves, with leisure and recreation cost also rising with consumers keener to spend money on enjoying themselves rather than buying more stuff and seem more inclined to swallow higher prices if they are being entertained."

But with higher living wages and employers' national insurance already hurting labour intensive industries like retail and leisure, "the macro-economic picture is uncertain, and taxes look set to rise substantially at the next budget," adds Nicholas Hyett, Investment Manager at Wealth Club. "Both weather and markets may be stuck on hot, but ultimately it's the economy that matters and if cooling turns to economic deep freeze, you might see the government start to sweat."

SMEs are facing a perfect storm of cost pressures which is fuelling inflation alongside rising household bills. "Businesses are already telling us they are putting up their prices, as they battle with rising employment costs," says Stuart Morrison, Research Manager, British Chambers of Commerce (BCC). "With CPI rising by 3.6% in June, off the back of fuel price changes, the daily inflation headache for businesses should not be underestimated. Easing cost pressures on business is a crucial piece of the jigsaw to help control inflation. A clear tax roadmap, which includes national insurance, would give firms the certainty they need to plan their investment."

"Rising inflation was inevitable following the wave of additional cost hitting employers, and particularly retailers who employ over three million people across the country. For months retailers have been warning that rising cost would lead to higher prices," says Kris Hamer, Director of Insight, British Retail Consortium. "To mitigate this, the government must now find ways to help reduce business cost and regulatory burden. It is imperative that its Employment Rights Bill targets unscrupulous employers and avoids burdening responsible businesses with additional cost which could put retail job numbers into reverse."

Source: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflationjune2025

THE CALM BEFORE THE STORM

For millions of UK households who dared to believe that the worst was behind them, the inflationary spikes are coming as hard blows as headline inflation rises to 3.6% and food inflation rising to 4.5%.

"Despite fierce competition between retailers, the ongoing impact of the last budget and poor harvests caused by the extreme weather have resulted in prices for consumers rising," comments Kris Hamer, Director of Insight, British Retail Consortium. "With rising costs already driving up prices at the till, the Chancellor must take action now to protect consumers from inflation rising further. The proposed business rates reform would drive up costs for many high street stores, limiting investment and pushing up prices for everyone. If the Government wants to support households and high streets, they should ensure that no shop pays more as a result of these changes."

"After years of punishing price rises, every corner of the household budget already feels stretched," adds Kevin Brown, Savings Expert, Scottish Friendly. "Households were already hit with prices rises when a raft of providers – from water and energy firms to broadband and mobile networks – hit households with their annual price hikes. Now Ofgem's energy price cap change adds more fuel to the fire."

Gas prices rose by 7.5% in April compared with a fall of 15.8% a year ago, whilst electricity prices rose by 2.9%, compared with a fall of 10.2% in 2024. For an average household paying by direct debit for dual fuel (gas and electric), Ofgem estimates that the price cap will equate to £1,849, a rise of £111 over the course of a year.

Source: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2025

"With inflation creeping up to 3.6% in June after coming in at 3.4% in May there is a real threat of stagflation as the rate of inflation moves higher and the economy is stuck in the mud. It puts the Bank of England in a tricky situation with regards to monetary policy decisions. Interest rates shot up between 2022 and 2023 to fight off the rapid rise in inflation. The central bank then began its journey in August 2024 to bring rates back down and markets were expecting the cost of borrowing to fall to 3.75% later this year. If the return of higher inflation becomes a trend, then the Bank might find it hard to keep lowering rates at a decent clip," says Dan Coatsworth, Investment Analyst, AJ Bell.

"As it stands, the market expects an 81.9% chance of a rate cut in August, but there is a lot less confidence in future cuts. The latest inflation figures might encourage the Bank to sit on its hands and wait for more data to see if the spike in the cost of living is only temporary. However, its rate decisions are also influenced by what's happening in the jobs market and the outlook is far from rosy."

"Plenty of companies are feeling the pressure of extra employment-related costs and they're reluctant to hire new people when someone leaves; others are already cutting positions," continues Coatsworth. "This means the Bank is stuck between a rock and hard place. It suggests that the Bank might adopt a slowly, slowly approach to rate cuts, bringing them down gradually rather than the rapid pace which many had expected earlier this year."

GROSS DOMESTIC PRODUCT (GDP)

The Office of National Statistics (ONS) announcement that GDP fell by 0.1% month-on-month in May, following a 0.3% fall in April, versus market expectations of 0.1%. Overall, real GDP is estimated to have grown by 0.5% in the three months to May 2025, compared with the three months to February 2025, largely driven by growth in the services sector.

Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2025)

"Some strength in the IT and professional services sectors mean services growth as a whole scraped into positive territory for the month. However, that was not enough to offset contractions in manufacturing and construction sectors, meaning the UK economy shrank unexpectedly in May," comments Nicholas Hyett, Investment Manager, Wealth Club.

"Flatlining growth in May highlights the ongoing pressures facing the UK economy, with manufacturing and retail struggling, alongside a patchy performance across other parts of the services sector. Data suggests that a sluggish recovery remains the likeliest path in the near-term amid persistent trade uncertainty, a loosening labour market and slowing growth in real incomes. But with business costs rising, many firms are maintaining a cautious approach to investment," says Ben Jones, Lead Economist, Confederation of British Industry (CBI).

Kevin Brown, Savings Expert, Scottish Friendly agrees, "GDP data for May is another bitter pill for the Chancellor. The UK's finances were already showing real strain, and this leaves the Chancellor with more holes to fill. It is the fiscal equivalent of whack-a-mole – every time Rachel Reeves solves one problem, another emerges."

"Real challenges lie ahead. The Government's failure to push through welfare cuts has blown a hole in its budget likely to be filled by tax rises in the Autumn. While there remains considerable speculation on what those tax rises might be, they could slow UK economic growth even further," continues Brown.

"The UK economy also continues to struggle with a lack of confidence. While many households have more disposable income thanks to wage increases that have outpaced inflation, large numbers remain hesitant to spend. A more optimistic take is that the UK still has the capacity to turn its fortunes around. It just needs a period of stability, but that has proved elusive."

But with the latest GDP data showing a weak economy, SMEs remain under acute pressure as the cost-of-living squeeze persists and geopolitical instability accelerates. "Businesses urgently need to rethink their financial frameworks to strengthen stability and resilience. Regular budget reviews, agile supply chains, and strategic bulk purchasing can help offset rising costs, while embracing new technologies and streamlining operations will drive productivity and efficiency gains," says Douglas Grant, Group CEO, Manx Financial Group

"Recent research from Manx Financial Group found that nearly a third of UK SMEs have had to pause or stop parts of their business over the last two years due to lack of finance. Moreover, 38% expect stagnant growth in the year ahead, up from 25% in 2024, highlighting the need for a more stable and inclusive lending environment.

"SMEs face a rapidly shifting landscape shaped by economic, political, and technological change. Business leaders must reassess their strategies to navigate these challenges and capitalise on opportunities. SMEs should seek to secure affordable credit and take advantage of any monetary easing to adapt and grow. Supporting this dynamic is crucial to sustaining recovery and ensuring SMEs remain at the heart of the UK economy."

As the UK economy braces itself for the impact from US President Donald Trump's trade tariffs, consumer and investment spending is set to push down activity in the coming months. "The sharp rise in uncertainty means that firms are delaying decision-making and increase their desire for precautionary saving buffers. This pushes down further on investment appetite among businesses already seeing profits pressured by rising costs," warns Anna Leach, Chief Economist, Institute of Directors (IOD).

"With the winds of tariff turmoil whipping up economic seas and the impact from the tariff induced storm pitching the economy on to a different path – at least in the short term – navigating back to port is likely only to get harder in the coming months due to the higher living wage and national insurance rises that came into effect in April, coupled with the tariff turmoil, this could make for a bumpy economic ride for the rest of the year," Isaac Stell, Investment Manager, Wealth Club.

But the winds of the tariff turmoil have yet to be fully appreciated in the figures. "With the growing fiscal challenges and the Autumn Budget on the horizon, the Chancellor must provide clear reassurance – no new taxes on business and instead offer a commitment to work alongside firms to dismantle barriers to growth. An open and collaborative partnership between business and government is crucial to deliver the conditions for sustained economic growth," says Jones.

Against this backdrop, the NIESR is forecasting that UK GDP will grow to 1.2% in 2025, with inflation rising to 3.7% in the third quarter and to average 3.3% over the year.

TARIFFS FROM CROSS THE POND IMPACTING ON SMES

"The UK is in somewhat of a precarious position right now, caught in the crossfire of the constantly changing economic policy of the US. The government will need to think creatively and find some quick wins to sustain this positive reading and negate the economic impact tariffs will bring," says Marcus Brookes, Chief Investment Officer, Quilter Investors.

Although the UK and the US has reached a deal to reduced or remove tariffs on some of the UK's exports, including cars, steel and aluminium, President Donald Trump's blanket 10% tariffs on imports from countries around the world still applies to most UK goods entering the US.

"Tariffs, in any form, impose costs on businesses and households, particularly in the country imposing them. However, history shows how devastating a full-scale tariff war can be. In today's highly integrated global economy, such a race to the bottom could disrupt supply chains and send shockwaves across the world, affecting businesses and households far beyond the directly impacted countries," adds Principal Economist Ahmet Kaya, Principal Economist, National Institute of Economic and Social Research (NIESR).

NIESR estimates show that the UK economy is vulnerable to the negative effects of US tariffs through both direct and indirect channels. "We find that tariffs raise prices and weaken economic activity in the UK, with the size of the effects depending on the scope of the tariffs," says Kaya. "Even if the UK were exempt from these tariffs, economic activity could still suffer due to broader global disruptions. In a worst-case scenario where high tariffs are applied, UK GDP growth could fall to zero next year."

But this need not be the case, explains Claire Sandbrook, CEO of international business consultancy firm, Shergroup, and a thought leader who has expanded Shergroup both sides of the pond. "As a company working in both the US and UK in the delivery of services, we've seen firsthand how SMEs can successfully establish a presence in Florida without facing the tariff barriers that affect goods. Professional services – including legal practices, accountancy firms, engineering consultancies, architectural studios, surveying companies, IT solution providers, management consultants, marketing agencies, and financial advisors – can offer British entrepreneurs a unique opportunity to expand their horizons."

"The American market, particularly Florida, often values the British approach to service delivery. What's especially refreshing about Florida is the noticeably reduced red tape in running a business – something that I have seen continue to creep into UK business life, adding unnecessary complexity and costs. That said, the use of an experienced immigration attorney is vital to navigate the complexities of establishing a business presence in the US," continues Sandbrook. "From our experience with Shergroup's expansion, proper guidance on visas, corporate structures, and compliance requirements makes all the difference between a smooth transition and a frustrating ordeal."

As the trade war continues, UK firms focusing on the domestic market could be in the best position to weather tariff turbulence, although some will still be exposed to incoming duties. "Whisper it quietly, were it not for a global trade war, the UK consumer would be in excellent shape," comments Jonathan Moyes, Head of Investment Research, Wealth Club. "Wage growth is running at 5.6%, a further three interest rate cuts this year will drive mortgage rates lower, food inflation is slowing, as is eating out and travel. Plus, with the oil price in the low 60s, energy prices look to have peaked. If the UK can escape the worst of the global trade war, it might not all be doom and gloom for the UK consumer this year, and we haven't said that for a while."

But with the International Monetary Fund (IMF) slashing Global growth forecast over tariff impact more than half from 3.8% last year to 1.7% in 2025, the IMF predicts that the UK economy will be among the hardest hit by the global trade war and has cut its forecast for the UK by a third, predicting that the UK economy will now grow by 1.1% this year.

Source: https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025

This is slightly higher than the Office for Budget Responsibility's (OBR) forecast of 1% in March 2025. "Some of this has to do with some of the underlying monetary policy assumptions for the UK. Our assumption is that the Bank of England will make four cuts to interest rates this year. One cut has already happened. We expect three more," says Pierre-Olivier Gourinchas, Chief Economist, International Monetary Fund (IMF).

"Fresh from the disappointing analysis from the IMF that noted a sharp growth slowdown for the UK this year, the latest public sector borrowing costs make difficult reading for the UK government. It was forced to go into the red more than forecast for the year to the end of March. UK borrowing rose to 151.9 billion, £14.6 billion more than expected. With growth this year expected to slow to 1.1% according to the IMF, down from 1.6%, tax receipts will also be lower," comments Streeter.

"Rachel Reeves is between a rock and a hard place, as the tariff turmoil takes its toll, and some businesses become more cautious about investing following the rise to payroll costs introduced in the Budget. While Reeves keeps deflecting rumours about tax rises, something will have to give, to enable to her to meet her fiscal rules."

"Our revision in inflation in the UK is coming, again, from domestic factors, and in particular some change in regulated energy prices. While that's expected to be temporary, it is also very UK specific," comments Gourinchas.

The global economy "still bears significant scars" from the "severe shocks of the past four years" and is "now being severely tested once again," says Gourinchas.

"Escalating trade tensions and financial market adjustments, coupled with divergent and swiftly changing policy positions or deteriorating sentiment could lead to even tighter global financial conditions," warns the IMF.

"The commercial world is being turned upside down by unpredictable flip-flopping political decision making, which is complete outside their control or even just their influence," says Hood.

"Right now, all most of them are doing is working out how to counteract the £20 billion plus extra costs dumped in their lap by the government in last October's Budget, and for some simply how to survive. All the possible remedies are negative, whether its increasing pricings, reducing profit margins, slashing staffing or cancelling their growth plans."

It is against this background that the SME must learn to thrive. "It is always impressive to see the enthusiasm, grit and resilience of the UK SME business community to just dig deep and get on in the face of adversity. Even the most positive of commentators are saying they can still clearly hear the hoof beats of the economic horsemen of the apocalypse," comments Rowland.

"With commemorations marking the 80th anniversary of VE Day (Victory in Europe Day) continuing, it is apt to say that the UK SME business community demonstrates the characteristic dogged determination of the speech Winston Churchill gave to the House of Commons on the 10 May 1940. A mere two weeks after Churchill came into power, France had capitulated and 340,000 British and allied troops had escaped Dunkirk while Germany had successfully annexed, invaded, and taken absolute control of whole swathes of Europe," comments Rowland. "It appeared impossible that Britain would not be next. However, Churchill exhorted the British people and their Commonwealth Allies of every creed and colour:

As SMEs continue to operate in a tremendously volatile trading environment now is the time to buckle up and brace ready for the turbulent ride ahead.

In the words of the late 17th century as English theologian and historian Thomas Fuller and echoed by Paul Rowland (who is ever the optimist), "The brightest dawn always follows the darkest night."

Something for us all to remember, as our Spring Barometer continues to put SMEs under the microscope. Backed up by independent research and commentary from some of the leading industry experts, we go looking for some growth amongst all the doom and gloom.

"IF YOU'RE GOING THROUGH HELL, KEEP GOING. NEVER, NEVER, NEVER GIVE UP."

Sir Winston Churchill

BUSINESS CONFIDENCE BEGINS A SLOW RISE

Trump's tariffs may be causing turmoil, but business confidence is on the rise as SMEs ready themselves to deal with rising costs, and the UK is well placed to attract inward investment potentially invigorating the SME landscape.

Despite the rising tide of costs, business confidence is slowly creeping up. According to the latest CBI Industrial Trends Survey business confidence increased to -33 in Q2 2025 from -47 in Q1 2025.

Source: https://www.cbi.org.uk/media-centre/articles/cbi-industrial-trends-survey-april-2025/

While the Federation of Small Business' Small Business Index (SBI) for Q1 2025 shows a modest improvement in SME business confidence, now at -40.7, compared to -64.5 in Q4 2024, although in Scotland business confidence has risen by more than 50 points in Q1 2025.

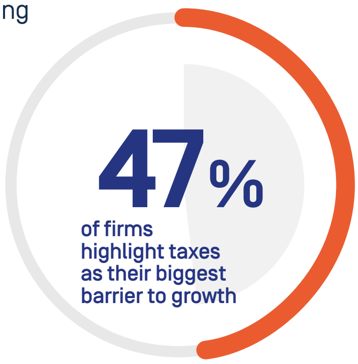
Source: https://www.fsb.org.uk/media-centre/press-release/small-business-confidence-remains-sluggish-as-scale-of-rising-cost-crisis-reveal-MCSEC5UAPG5VFRXBYOLIZGTPYMA4

Additionally, the latest ONS Business Insights and Impact on the UK Economy report for April 2025 shows more than one in eight (18%) of trading businesses reported that their turnover had increased in March 2025 compared with the previous calendar month, up 3 percentage points from February, although 22% reported that their turnover had fallen, down 4 percentage points over the same period.

Source: https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/24april2025

"Businesses are currently on the front line of a three-pronged attack from higher national insurance contributions, rising wage bills and a global trade war. Sentiment remains very weak despite the better figures for Q2," comments Isaac Stell, Investment Manager, Wealth Club. "However, there is only so much that businesses can burden. With UK borrowing costs exceeding forecasts, it is likely the UK Chancellor will announce further tax increases in the autumn. Some of this may once again fall on businesses. Adding additional taxes to the heavy burden already weighing on businesses does not bode well for confidence and puts jobs, investment, and profits at risk."

"There is no way to sugarcoat the impact that rising costs and higher taxes are having on small firms," says Tina McKenzie, Policy Chair, Federation of Small Business (FSB). "According to our survey, a striking 85% report rising costs, compared to the same period last year, with nearly a quarter (23%) saying their costs had increased by more than 10% – a clear sign of mounting financial pressure. Nearly 50% (47%) of firms highlight taxes as their biggest barrier to growth."



"Our latest survey shows that confidence levels among small businesses are at their lowest since the first year of the pandemic. That needs to be turned around, and fast. Freeing up funds for small firms to invest in their business rather than having money swallowed up in high taxes is the best way to achieve growth."

In contrast, business confidence in the UK remained robust at 49% in March, maintaining its highest level since August 2024, according to the latest Lloyds Business Barometer. Business confidence among retail firms rises seven points to 58%, the highest seen since August 2015, although manufacturing firms' confidence is faltering amid uncertainty surrounding supply chains.

Source: https://www.lloydsbankinggroup.com/media/press-releases/2025/lloyds-bank-2025/business-confidence-rebound-continues.html

This correlates to the political and economic uncertainty, alongside weakness in demand cited by manufacturers according to S&P Global Sector PMI data that recorded 17 of the 21 sectors within manufacturing signalling a lower level of optimism in the outlook for output in the next year.

Source: https://www.spglobal.com/marketintelligence/en/mi/research-analysis/global-manufacturing-sectors-struggle-in-opening-quarter-of-20.html

Overall, the Lloyds Business Barometer found businesses confidence levels in March were significantly above the long-term average, with 60% of businesses saying they felt more optimistic about the economy, down from 63% in February. Although 19% say they were less optimistic, the net balance for economic optimism was only down one point to 40% – but this remains the highest levels since August 2024.

Nearly two-thirds (64%) of firms expect stronger activity in the coming year, with businesses in the West Midlands and London seeing highest confidence levels, followed by the North West and Scotland. Sentiment in Wales, the South East and Yorkshire and the Humber saw significant increases, placing them above the national average. Although, the North East and East of England saw substantial declines in confidence, from their highs of 69% and 61% respectively, down to 43% and 29%.

"Our research suggest that firms may have been waiting to see the impact of government decisions at home and globally. But with confidence maintaining a high, business leaders are optimistic, noting that investing in their development and workforce will position them well to seize future growth opportunities," says Hann-Ju Ho, Senior Economist, Lloyds Commercial Banking.

According to the latest Lloyds UK Sector Tracker, of the 14 UK sectors, four saw growth in March, holding steady month-on-month, with the real estate sector reporting that services had expanded for the first time in 2025 with firms citing a flurry of property purchases ahead of changes to Stamp Duty. Food and drink manufacturers, software services and financial services sector also report growth, although UK goods production fell with six out of its seven manufacturing sectors monitored by the Tracker dropping in output.

Source: https://www.lloydsbankinggroup.com/assets/pdfs/media/press-releases/2025-press-releases/lloyds-bank/lb-uk-sector-tracker-april-150425.pdf

Business activity rose for the 16th month in a row, with SMEs continuing to outperform the wider economy according to the March NatWest Regional Growth Tracker. London and South West led regional growth with upturns seen in South East and Yorkshire & Humber, with firms in the service sector registering the fastest increase in output for six months.

Source: https://www.natwestgroup.com/news-and-insights/news-room/press-releases/economic-analysis/2025/apr/natwest-uk-business-growth-tracker-march-2025.html)

Recording the fast downturn in business activity is SME construction companies (index at 42.5), followed by SME manufacturers (44.5), while the service sector showed the most resilience at 49.5. "Across the mid-market, the services economy was the bright spot (index at 56.3), having recorded its quickest increase in output for seven months. Mid-market manufacturers meanwhile signalled the steepest reduction in production for just over a year (46.3)," says the report.

"Across the private sector as a whole, business output grew modestly in the first quarter of 2025, though the experiences of companies vary substantially by their size, sector and location," says Sebastian Burnside, Chief Economist, NatWest Group Plc. "Mid-market businesses continue to play a leading role in driving economic growth – as seen in the improvement in business output and new orders recorded in March's data. However, SMEs have found the first quarter of the year more challenging, with subdued demand conditions and rising costs continuing to exert pressure on their margins. Price pressures remain high across the board and businesses of all sizes are looking to control costs."

INVESTMENT LEADS TO GROWTH

"A failure to invest, more than anything, simply represents a missed opportunity for the businesses and the UK economy. By investing, businesses can profit in many ways – including through better productivity, increased efficiency, greater innovation or simply having greater production capability for their products and services," says Louis Taylor CBE, CEO, British Business Bank.

But investment is not just advantageous to businesses. "When businesses benefit, the wider economy benefits too through job creation, increased GDP and higher living standards," says Taylor. "Investing in the right areas of the economy can also help achieve other important policy goals, such as meeting the country's net zero ambitions through both adoption and development of new and more efficient technologies, and supporting the key sectors identified in 'Invest 2035' the UK's modern industrial strategy."

BANK'S THE POWER OF 10: 10 YEAR IMPACT REPORT

British Business Bank are projected to generate

£97 billion ADDITIONAL TURNOVER

£43 billion ADDITIONAL ECONOMIC OUTPUT

SMEs supported by the British Business Bank are projected to generate £97 billion in additional turnover and around £43 billion additional economic output over the lifetime of their finance, according to the Bank's The Power of 10: 10 Year Impact Report.

Source: https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2025-01/uk-power-of-10-year-report-2025.pdf

Access to a diverse range of finance is central to meeting the diverse needs of the UK's highly varied SME community. Challenger banks now share 60% of total bank lending to the SME market, and the British Business Bank has played a key role in catalysing the development and success of the market for challenger banks, as well as crowdfunding, debt funds and asset finance amongst others, helping to achieve a diverse range of lenders to smaller businesses that didn't exist before.

Many SMEs are already making the most of available funding, and greater awareness of financial options is supporting their ability to grow, and lenders are reporting that the overall availability of credit to SMEs is on the rise, and default rates are remaining stable say lenders. This is good news given that many businesses have been holding off on seeking funding and investment.

Source: https://www.bankofengland.co.uk/credit-conditions-survey/2024/2024-q4

A recent Barclays Eagle Lab survey found that 67.7% of respondents feel more informed about their funding options, although 74.7% believe there is still room for improvement in finance options in their region. Over 55% (56.6%) of respondents agree that public and local grant schemes adequately support their tech ecosystem, but there needs to be greater awareness and improved accessibility if businesses are to better leverage resources.

Source: https://labs.uk.barclays/media/ohzbwhtb/tech_in_the_uk_2024_report.pdf

Government-back initiatives such as the Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS) play a crucial role, particularly in unlocking capital for early-stage companies. While a network of incubators and accelerators programmes across the country offer funding, mentorship, business expertise and critical industry connections – factors which are often just as important as capital when attempting to grow a business.

However, access to funding remains uneven. Addressing the geographical and ethnically imbalances, 84% of businesses supported by the British Business Bank are located outside London with its new generation of Nations and Regions Investment Funds making available an additional £1.6 billion to SMEs. Additionally, the British Business Bank's Start Up Loans programme is supporting the Community Development Finance sector with the newly introduced Community ENABLE Funding programme to address the funding to the ethnic minority and female-led businesses, both of which find it particularly difficult to access finance.

Likewise, programmes such as the Barclays Black Venture Growth Programme and the Barclays Female Founder Accelerator, backed by government funding, provides tailored support to underrepresented entrepreneurs.

Venture capital continues to be attracted by the scalability potential of startups, with AI startups accounting for 45% of all new unicorns in 2024 (source: Altindex), and Morgan McKinley reports it expects to see a 44% surge in job vacancies in the fintech sector, driven by venture capital investment and AI.

Source: https://www.morganmckinley.com/uk/article/ai-and-investment-trends-reshape-financial-job-market

IN HEALTHCARE, DEVELOPMENTS IN AI-DRIVEN DIAGNOSTICS, TELEMEDICINE AND PERSONALISED MEDICINE WILL SEE STARTUPS LEADING THE WAY AS HEALTH TECHNOLOGY AND BIOTECHNOLOGY BEGIN REVOLUTIONISING HEALTHCARE.

But it is environmental sustainability that is due to become the central focus for startups attracting investment in 2025, with venture capital keen to invest in startups with eco-friendly products, innovations in renewable energy, and those dealing with sustainable agriculture likely to gain the most traction with investors. Fuelled by a focus on green services and AI, Morgan McKinley forecasts a 29% rise in the number of vacancies in the accountancy sector.

Source: https://www.morganmckinley.com/uk/article/ai-and-investment-trends-reshape-financial-job-market

When it comes to tech innovation, the Global STEM competitive index released by STEM consultancy SThree and the Centre for Economics and Business Research (Cebr) reports that countries which foster a solid foundation in Science, Technology, Engineering, and Mathematics (STEM) will be able to develop strong STEM workforces, create environments where skilled professionals can flourish, and drive innovation across sectors.

Source: https://www.sthree.com/en-gb/insights-and-research/stem-skills-index/

Heading into Q2 2025, AI is expected to remain the primary driver of venture capital investment globally.

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INDUSTRY-FOCUSED AI SOLUTIONS ARE LIKELY TO ATTRACT GROWING INTEREST, ALONGSIDE ADVANCED ROBOTICS AND ENABLING TECHNOLOGIES SUCH AS LIDAR. AMID ONGOING GEOPOLITICAL TENSIONS, SECTORS LIKE DEFENCE-TECH AND CYBERSECURITY ARE ALSO PROJECTED TO SEE INCREASED VENTURE CAPITAL ACTIVITY,

says Conor Moore, Global Head, KPMG Private Enterprise, KPMG International.

“We’re noticing that a lot of venture capital investors right now are looking for companies that are going to be relatively quick to profitability,” adds Nicole Lowe, UK Head of Emerging Giants, KPMG UK. “In the UK, this has made it challenging for startups in IP-rich areas like biotech to attract sufficient funding. These kinds of companies require patient capital, which is not very favourable now. It feels like a real shame given the innovative companies we have here in the UK and these IP-rich sectors are not getting the support that they might need.”

Source: https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/2025/04/kpmg-private-enterprise-quarterly-q1-25-global-report-on-venture-capital-trends.pdf.coredownload.inline.pdf

“Anecdotal evidence suggests that businesses of all sizes across all sectors of the UK economy are holding off on capex decisions until conditions improve, especially until the effect of the trade wars launched by the USA on global trade and the UK economy in particular becomes clearer. Unfortunately, without a significant increase in business investment, there cannot be any meaningful growth in UK GDP,” comments Nick Hood, Senior Business Advisor, Opus Business Advisory Group.

Which is why the Government’s research and development (R&D) spending plays a critical role in the UK’s ‘hub for global innovation’ – and a key driver for future growth. “Public investment in research and innovation fuels not only transformative, life-changing research but also stimulates substantial private sector R&D,” says Dr Joe Marshall, CEO, National Centre for Universities and Business (NCUB).

NCUB's analysis shows that every £1 of public investment in research and innovation unlocks up to £4 in private funding. This business investment creates opportunity, improved productivity and new markets. "Despite progress, both public and private sector R&D investment continues to trail behind that of key global competitors. To preserve the UK's position as a leader in global R&D, the government must take decisive action in the upcoming Spending Review to continue to support innovation-driven growth," adds Rosalind Gill, Head of Policy and Engagement, NCUB. "The UK's universities are recognised as amongst our strongest competitive advantages, and their financial sustainability and success must be ensured. Equally, we are seeing declines in private R&D investment in the UK, which needs to be tackled to propel innovation forward."

"Recent evidence from NCUB that SMEs are investing significantly less in R&D than they have in the past. Between 2022 and 2023, SMEs spent 6.5% less on R&D, while large business R&D investment fell by less than 1%," comments Michael Breslin, Data and Policy Analyst, NCUB.

"This suggests that more universities are seeking out collaboration and partnership with private enterprise, especially small businesses. However, due to limited R&D investment by SMEs, these collaborations are smaller and cheaper."

To reverse the trend, requires government working more closely with universities and businesses. "Collaboration is good for universities – for whom it provides willing and eager private sector sponsors, as well as for businesses seeking access to world-leading research staff, knowledge exchange, facilities, and other informal resources. It is also good for the UK economy as it unlocks innovation and encourages technological, scientific, and economic progress. The UK must provide a level of support for collaboration which matches its importance."

According to the NatWest and Beauhurst New Startup Index, the UK set a new record of 5.63 million active companies registered at the start of 2025.

Source: https://www.natwestgroup.com/news-and-insights/news-room/press-releases/enterprise/2025/feb/number-of-businesses-operating-in-the-uk-hits-record-high-natwes.html

"Whilst there was a slight decline in company incorporations last year, UK entrepreneurs are still starting lots of new businesses," comments Henry Whorwood, Managing Director, Beauhurst. "In 2024 Companies House began phasing in greater checks to ensure the legitimacy of companies so it's reasonable to suspect that alongside this growth in the base population that the share of fraudulent activity has gone down."

"It's a testament to the UK's reputation as a nation of entrepreneurs that the number of active companies operating in the UK stands at a record high," says James Holian, Head of Business Banking, NatWest.

"Seeing a record number of active businesses shows the ambition of our country's entrepreneurs and that the UK is a fantastic place to start and grow a company," comments Gareth Thomas, Minister for Small Business. "Our Plan for Change will continue to back businesses to grow the economy and help business owners turn their ideas into long-term success."

BRAND BRITAIN GETS INTERNATIONAL PUSH

Trading internationally can make SMEs more productive, profitable and resilient, and creates a solid platform for investment. But getting the trade strategy right, grasping opportunities and building the right environment for Brand Britain means that SMEs need to show greater resilience, agility and creativity.

International markets offer unique advantages for Brand Britain. "It is no exaggeration to say that 2025 will be one of the most significant for global trade in years," says Shevaun Haviland, Director General, British Chambers of Commerce (BCC). "The biggest challenges for those that trade has been adapting to the massive disruption with our largest trading partner. Brexit has not gone away. Next year marks ten years since the day of the vote, and businesses are still feeling the strain. Despite the best efforts of firms to adapt, structural barriers to trade with the EU persist, in both goods and services."

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CHANGES IN INTERNATIONAL TRADE TARIFFS IS NOTHING NEW. THE FEATURES OF THESE NEW US TARIFFS WHICH ARE NEW, ARE THE SCALE, PACE AND PROCESS BY WHICH THEY HAVE BEEN ANNOUNCED AND, AT LEAST INITIALLY, IMPLEMENTED,

says Tim Cooper, Immediate Past President of R3, the UK's insolvency and restructuring trade body, and a Partner at Addleshaw Goddard LLP.

"From a sectoral perspective, the introduction of the tariffs is likely to have the biggest impact on the manufacturing, food and drink, and automotive sectors, all of whom have been under pressure since the end of the pandemic from issues with rising costs, customer pricing pressures, extending late payments and liquidity issues, coupled with most jurisdictions experiencing higher borrower costs and tax regimes. It may also have implications for the UK's steel industry, given the size of the tariff that has been imposed, and the importance of the US market to the steel industry, not to mention Scotland's whisky industry – although this will not be the first time Scotland's distillers and exporters have faced this issue over the years," says Cooper.

As the application of "reciprocal" tariffs and a broader spillover of policy uncertainty continues, the World Trade Organization (WTO) is forecasting that global trade will fall this year because of Trump's tariffs. "I am deeply concerned by the uncertainty surrounding trade policy, including the US-China stand-off. The recent de-escalation of tariff tensions has temporarily relieved some of the pressure on global trade. However, the enduring uncertainty threatens to act as a brake on global growth, with severe negative consequences for the world, the most vulnerable economies in particular," comments Ngozi Okonjo-Iweala, Director-General, World Trade Organisation (WTO).

The IMF warns that "trade policy uncertainty is literally off the charts". "Our new growth projections will include notable markdowns, but not recession," says Kristalina Georgieva, Managing Director, International Monetary Fund (IMF). "Trade tensions are like a pot that was bubbling for a long time and is now boiling over to a large extent. What we see is the result of an erosion of trust, trust in the international system and trust between countries. Countries must redouble efforts to put their own houses in order."

Since the introduction of the Trump tariffs, WTO economists have needed to reassess the trade situation, resulting in a substantial downgrade to their forecast for merchandise trade and a smaller reduction in their outlook for services trade which at the start of the year they had predicted to grow in line with world GDP.

Source: https://www.wto.org/english/news_e/news25_e/tfore_16apr25_e.htm

"The UK's SME business community has had to withstand the impact on its survival of the Covid-19 crisis, a North American recession under the previous Biden administration, a European economic stagnation, the loss of UK Government focus (occasioned by the socio-economic impact of class politics, callous public spending cuts and mass migration) the geo political and humanitarian troubles across the Middle East, Israel, and the spectre of a continued conflict with a belligerent Putin – all elements which carry the hallmarks of a sustained crippling disruption of Europe's economies alongside escalating energy and block chain supply prices," says Paul Rowland, Senior Partner, Invictus Risk Solutions.

Trump's so called 'Liberation Day' tariffs have changed the game for global trade. "Liberation Day will not feel very liberating for those shippers caught in the eye of the tariff storm. It is tough to make important decisions on your supply chain when the rules of the game keep changing," says Peter Sand, Chief Analyst, Xeneta – the ocean and air freight intelligence platform. "The tariffs will increase the overall landed cost of importing goods, but at this point we do not expect to see a significant upward pressure on ocean container freight rates. Although once the tariff situation becomes clearer and shippers begin to diversify supply chains across regions, it is possible we could see disruption in ocean supply chains and upward pressure on rates, but this may be a little further down the line."

"Time and again, air cargo supply chain professionals have proven their resilience, and they will show the same calm determination in the face of the tariff threat," adds Niall van de Wouw, Chief Airfreight Officer, Xeneta. "We saw an uptick in air cargo rates from China and Europe to the US at the end of March but nothing to set alarm bells ringing. The more likely scenario is a decrease in air cargo rates if tariffs result in higher prices and lower consumer demand. Consumer sentiment has the potential to be even more powerful than tariffs."

But more worrying is the proposed fees on Chinese vessels and carriers entering US ports could impact and congest supply chains globally, causing shippers to move more goods by air. "With around 98% of the world's goods transported by ocean it doesn't take much of a percentage shift to have major implications for air freight, as we saw during Covid-19 and the Red Sea crisis," says van de Wouw.

AGAINST THE CONTEXT OF SUCH A TROUBLING LANDSCAPE, THOSE UK SME BUSINESSES WITH THE COURAGE AND FINANCIAL RESERVES TO KEEP FIGHTING, COULD BE ENTERING BETTER TIMES.

"Despite post-Brexit protests and blatantly obstructive animus from our European "friends", the UK economy has not sunk without a trace, while the EU continues to demonstrably shrink," says Rowland. "Post Brexit, the previous UK Government was able to sign circa 80 bilateral trade agreements that are now coming into fruition."

The UK still operates as one of the World's largest exporters of goods and services, and there are green shoots of activity that genuine traction is being enjoyed through the UK's membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Also known as the TP11, the free trade agreement spans a number of Indo Pacific countries that collectively constitute the world's single largest trading block. Outside of China and India, the CPTPP represents the collective business interests of some of the most dominant and fastest-growing Asian and Far Eastern economies in the world: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

"We should recall that the previous UK Government's Department for Business and trade (DBT) Secretary Kemi Badenoch, executed memorandums of understanding trade deals with the USA states of Florida, Indiana, North Carolina, Oklahoma, South Carolina, Utah, and Washington that represented an unfettered access to a massive pipeline of £3.3 trillion GDP of strategic deals for British legal, financial, fintech, and manufacturing service industries," continues Rowland.

"If the current UK Government can match these efforts and energy, our UK SME business community should once again be able to trumpet the effectiveness and durability of its engineering and manufactured goods, the accuracy and cutting-edge technology of our financial services and the quality assured nature of our imperious post sales service and warranties."

It is against this climate of financial volatility, an endemic trend of liquidity problems and a weakened trading position that the UK SME business community must survive. "Whether they trade domestically or internationally, our companies must shake off the burden of successive financial upheavals, implement, monitor and review prudent and watertight credit control procedures while reappraising the quality of their order book to ensure contract certainty and payment," says Rowland.

As one door closes another one opens. "Trump's tariffs have a huge potential to completely destabilise the UK car manufacturing industry, as well as the many SMEs supplying the sector – putting the government's growth plans at jeopardy," says Pranesh Narayanan, Research Fellow, the Institute for Public Policy Research (IPPR).

"However, there is huge untapped potential in manufacturing green planes, trains and automobiles and selling them at home and abroad. If the government uses the upcoming industrial strategy to drive investment in these sectors, this could be the spark that leads thousands of new consumers to start buying British and buying green."

"Commentary around changes to tariffs has not reduced the appetite of UK businesses to trade internationally," says Stuart Tait, Head of Commercial Banking at HSBC UK. According to HSBC's Going global for growth report, 82% of UK businesses that trade overseas expect to grow over the next two years. Over 60% of UK businesses who trade internationally say it has had a positive impact on their competitiveness, with 29% (+10% vs 2023) indicating that they are making use of free trade agreements, with a further 33% planning to do so.

Source: https://www.business.hsbc.uk/en-gb/campaigns/supporting-your-global-ambitions

"Far from retreating to more cautious positions, growing businesses remain as ambitious as ever and are adapting to changes as they arise," continues Tait. "Businesses are finding creative ways to ensure they continue to trade overseas successfully, whether that's looking to different international markets or diversifying their supply chains."

"What we're seeing is a clear shift in mindset," adds John Carroll, Head of International and Transactional Banking, Santander.

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BUSINESSES – PARTICULARLY THOSE WITH GLOBAL AMBITIONS – ARE INCREASINGLY AWARE THAT TRADE POLICY UNCERTAINTY IS NO LONGER ABSTRACT. WHETHER IT'S US-CHINA TENSIONS OR SHIFTING EU POSITIONS, TARIFFS ARE BACK ON THE BOARDROOM AGENDA. MANY ARE RETHINKING THEIR INTERNATIONAL FOOTPRINT IN RESPONSE AND WILL NEED FURTHER SUPPORT AS THEY LOOK TO NAVIGATE THE EVERCHANGING LANDSCAPE AND CREATE NEW GROWTH OPPORTUNITIES.

SHOOTS OF GROWTH IN THE LABOUR MARKET

Economic headwinds may be battering SMEs, but the employment market is beginning to show shoots of growth bolstered by the shortage in skills with both workers and firms reporting an increase in confidence in recruitment and retention.

According to data from the Hiring Trends analysis produced by the Association of Professional Staffing Companies (APSCo) in conjunction with Bullhorn, permanent placements were up 12% and contract 11% month-on-month in March. "This latest uptick is promising news and is indicative of more confidence in the labour market. Our hope is that this translates into further positivity throughout the coming months once the initial impact of NICs is out of the way and employers can plan for growth once again," says Samantha Hurley, UK Managing Director, Association of Professional Staffing Companies (APSCo).

"The March data is encouraging, specifically the month-over-month boost in permanent and contract placements in the UK. This data mirrors an upswing of growth and stabilisation documented in March 2020, pre-pandemic. The market should keep a cautiously optimistic eye on this data in the months ahead," adds Andy Ingham, Senior Vice President Sales, EMEA and APAC, Bullhorn.

Despite economic uncertainty, research finds only 11% say they are concerned about the impact on recruitment and retention challenges.

Source: THE SME BAROMETER.

According to ONS figures, the number of payrolled employees in the UK fell by 21,000 (0.1%) over the quarter but rose by 50,000 (0.2%) over the year, when looking at December 2024 to February 2025, with early ONS estimates for March 2025 predict a decrease by 78,000 (0.3%) on the month and a decrease by 70,000 (0.2%) on the year to 30.3 million.

Source: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/april2025

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THE CUMULATIVE IMPACT OF APRIL'S INCREASES TO EMPLOYER NATIONAL INSURANCE CONTRIBUTIONS AND THE NATIONAL LIVING WAGE, COUPLED WITH A FAILURE TO MEANINGFULLY REFORM THE EMPLOYMENT RIGHTS BILL IN RESPONSE TO EMPLOYER CONCERNS, HAS SIGNIFICANTLY WEAKENED THE BUSINESS CASE FOR HIRING,

says Alex Hall-Chen, Principal Policy Advisor for Employment, Institute of Directors (IOD).

"Our data shows that half (47%) of business leaders facing higher National Insurance bills plan to reduce employment in response, and that business hiring intentions over the next year remain around lows last seen at the height of the Covid-19 pandemic."

Alex Veitch, Director of Policy, British Chambers of Commerce (BCC) says its members liken the situation as one where they are "sitting on a powder keg of costs". "Firms are telling us that in response to the National Insurance rise, they will need to raise prices and reconsider recruitment plans, whilst aspects of the government's employment rights legislation means that some of the proposals are completely disproportionate to the reality of how businesses are operating."

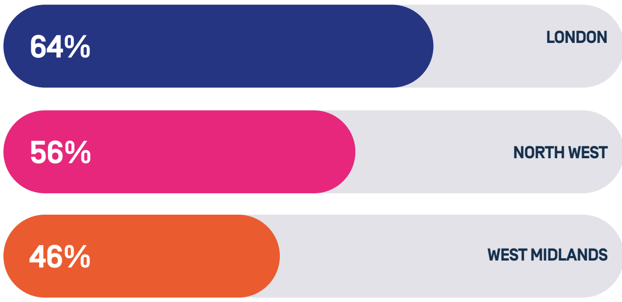
The rising cost of employment is a major challenge for employers. "Wage growth, including bonuses, continues to significantly outpace inflation. Added to this, the employer national insurance hike ramping up staffing costs and it will be some time before we will fully understand the true impact of these increases on jobs, investment, and the extent to which firms can absorb and adjust to the rising costs," comments Jane Gratton, Deputy Director Public Policy, British Chambers of Commerce (BCC).

"Forward looking evidence from the KPMG REC survey shows starting salaries remaining close to a four-year low, while firms are also reporting a fall in long term pay settlement expectations. We expect pay growth to moderate this year, with vacancies continuing to decline coupled with a marked improvement in staff availability," says Yael Selfin, Vice Chair and Chief Economist, KPMG UK.

Despite the fall in vacancies, workers confidence is on the rise. Research from Robert Half finds 55% of the workforce saying that they remain confident about their job security over the next six months, with 50% citing their performance and niche skills as the main driver. Interestingly, only 20% indicate that jobs confidence is related to the strength of the industry they are in. The findings suggest that the on-going skills shortages and a tight labour market is continuing to put the power in the hands of highly skilled workers.

Although the data reveals that worker confidence is high across the board, the statistics also highlight regional divides when it comes to worker sentiment. In the London region, 64% of employees are confident in their job security, however this falls to 56% in the North West and 46% in the West Midlands.

WORKER CONFIDENCE IN THEIR JOB SECURITY -
Regional differences



"The professional services sector continues to experience strong demand for talent, boosting worker confidence despite conflicting economic headlines. Our recent Hiring Intentions survey highlights UK business leaders' plans to increase the hiring of specialised professionals. According to our data, 82% of businesses plan to make hires in finance and accounting, IT, customer service, and marketing & creative roles across all types of employment (permanent, contract and project based) during the first half of 2025, which in fact is a 5% increase on H2 2024. Nonetheless, the regional disparities that we see in worker confidence, likely driven by the availability or lack of nearby opportunities, suggests that the levelling up and growth agenda hasn't yet created a level playing field across the country," comments Matt Weston, Senior Managing Director UK & Ireland, Robert Half.

"The fact that 50% of employees cite their performance and skillset as the main driver for their job security confidence, compared to 20% who mention industry strength, indicates that systemic skills shortages will likely continue shaping a complex labour market in 2025. In this scenario, candidates, particularly in highly skilled professional services, hold the upper hand in the hiring process. Their expertise and in-demand skills give them the power to set expectations, negotiate favourable terms, and choose from multiple opportunities in their career progression. Given confident employees and a tight market, employers must adapt their talent strategies to align with regional workforce sentiments, invest in targeted training programs, and offer competitive compensation packages to stay ahead when attracting skilled professionals."

According to the latest Jobs Confidence Index (JCI) produced by Robert Half and the Centre for Economic and Business Research (Cebr), 54.8% of staff remain confident in their job security, although 43% say salaries are still the dominate driver for career moves, with 25% saying that they plan to move jobs as part of their career progression.

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

"Further positive news is that the pay confidence pillar in the JCI fell only slightly, by 0.5 points. As per recent ONS data, regular annual pay growth stands at 6.2% for the private sector, and 4.7% for the public sector in the last quarter of 2024," says Weston. "While wage growth may not rise as quickly in 2025, it's likely to outpace inflation, putting more money into employees' pockets and into the economy."

“”

WHILE THERE WILL BE A WIDER LABOUR POOL TO DRAW FROM, THE NEW CHALLENGE FOR EMPLOYERS WILL BE TO UPSKILL WORKERS WITH THE SKILLS THEY NEED TODAY AND, IN THE FUTURE – HELPING TO BUILD LOYALTY, ENGAGEMENT AND RETENTION. IF EMPLOYEES DO NOT FEEL FULFILLED BY THEIR CURRENT ROLES, THEY ARE LIKELY TO LOOK ELSEWHERE. MORE THAN A THIRD OF UK WORKERS SAID THEY WERE LIKELY TO LOOK FOR A NEW ROLE IN 2025, WITH 13% ALREADY ACTIVELY SEARCHING FOR A NEW JOB,

continues Weston.

“Evolving working arrangements after the pandemic appear to have taken another shift this quarter and are less of an issue for employees considering their future. The JCI reports a fall (down 17-percentage points year-on-year) in the number of professionals believing a lack of remote working options will have a negative impact on an organization’s ability to recruit new staff, suggesting businesses and workers may have finally come to a compromise on the return to office debate, and workers are accepting the return to the office.

“Regardless of the general sentiment around hiring in the UK as a whole, there are clearly still pockets of optimism in core sectors, with finance and accounting leading the way,” says Steve Sully, Regional Director, Finance & Accounting, Robert Half. “We have seen a steady demand for permanent and temporary resources, which is unsurprising given the critical role that these professionals play in business operations. The growth in contract and project hiring planned for the beginning of this year is a trend we would always expect to see during periods of economic uncertainty. However, the permanent hiring statistics paint a far more positive picture for the sector than many perhaps had anticipated at the start of 2025.”

In the employment arena, President Donald Trump sparked a rush by US employers to ditch Diversity, Equality and Inclusion (DEI) policies when he signed an executive order aimed at eradicating them, but UK employers are in no hurry to follow suit.

"Whilst developments in DEI in the US may have some spillover effect in the UK, most UK workplaces will see no change. But some global employers will undoubtedly have to tread a difficult line between avoiding divergence with US counterparts and meeting the expectations of UK stakeholders," warns Alex Hall-Chen, Principal Policy Advisor for Employment, Institute of Directors (IOD).

According to a poll by the IOD, over 70% of UK SMEs say they have no plans to change their DEI strategies, with a further 4.3% saying they expect to scale up their DEI activities in the near future. Of the 605 firms surveyed only 10% say they expect their organisations to scale down DEI activities.

Source: https://www.iod.com/news/inclusion-and-diversity/iod-press-release-majority-of-uk-businesses-are-not-planning-to-alter-their-edi-policies-in-response-to-trump/

"Artificial Intelligence (AI) is often heralded as a great equaliser in the workplace – a transformative tool that holds the potential to break down traditional barriers to inclusion and upward mobility," comments Weston. "In theory, AI can help level the playing field by enabling individuals, regardless of their educational background, socioeconomic status, or formal qualifications, to access knowledge, automate tasks, and enhance their productivity. For those from historically underrepresented or disadvantaged backgrounds, AI offers a chance to bridge longstanding gaps in opportunity, opening pathways to more skilled roles and career progression."

However, the reality is more complex. While AI presents new opportunities, it also risks entrenching or even exacerbating existing inequalities if its adoption is not handled with care. "Data from our 2025 Salary Guide reveals that 72% of businesses are encouraging employees to explore generative AI for routine tasks, but with more than a third (38%) of men saying they plan to develop their AI knowledge this year, compared to 27% of women who say they plan to do so, the data indicates that without deliberate, inclusive strategies, the benefits of AI may not be evenly distributed – and in some cases, progress in areas like gender equality could even be reversed."

Source: https://www.roberthalf.com/gb/en/insights/salary-guide

"If left unaddressed, this could pave the way for a new iteration of the 'glass ceiling' – one where digital fluency and AI competency become gatekeepers for progression, leaving many talented individuals behind," warns Weston. "Employers are increasingly expecting their workforce to adopt AI tools as part of day-to-day operations. Yet, if this expectation is not supported by comprehensive, accessible training and a clear framework for responsible usage, it can lead to disparities in who benefits most from the technology.

"Ultimately, AI's impact on workplace inclusion will depend less on the technology itself and more on how we choose to implement it. Done right, it can be a catalyst for unprecedented opportunity. Done poorly, it risks reinforcing the very barriers we are trying to dismantle."

CREATING A GREEN BUSINESS FUTURE

As the UK transitions to a greener economy and SMEs create a green business model, the Tony Blair Institute for Global Change warns that based on the current trends, the 650,000 new jobs touted by Ed Milliband, Labour's Net Zero chief is more likely to be 350,000. It will take two or three decades to reach 425,000 green manufacturing jobs by 2050, says the think tank.

"Political leaders need a new approach to climate resilience and adaptation – one that shifts the focus from disaster response to proactive economic resilience. Leaders must bolster national resilience by putting climate preparedness at the heart of economic strategy instead of reacting disaster to disaster," says the Tony Blair Institute for Global Change.

"Innovative financing mechanisms are creating new opportunities to finance adaptation and resilience projects, easing the financial burden that has traditionally rested on the public sector. By helping to price climate risk more accurately and better quantifying the economic value of adaptation benefits, these mechanisms boost investment confidence and direct capital towards projects aimed at building resilience."

According to research, 78% SMEs see green initiative a top priority. (source: THE SME BAROMETER). The British Business Bank reports that 71% of SMEs have already undertaken at least one action to become more environmentally sustainable, with 88% of SMEs saying they have used internal funding when developing green business models.

Source: British Business Bank

Founders of some of the UK's most successful climate entrepreneurs' startups are calling on the government to commit to further funding for the renewal of the Net Zero Innovation Portfolio, that was introduced in 2020 ahead of COP26.

Source: https://www.linkedin.com/posts/charliemercer_nzip-open-letter-sent-activity-7308034604421054464-gPuV/

Over the last four years, the Portfolio has invested over £1 billion in innovative technologies from carbon removal and EV charge points to decarbonising Scotch Whisky production, with Startup Coalition's analysis suggesting that between £200 million and £300 million of the total funds that have been allocated to startups, £500 million has been returned in private investment.

REFRAMING ADAPTATION AS AN ECONOMIC IMPERATIVE, NOT JUST A CLIMATE POLICY, ENABLES LEADERS TO DEMONSTRATE TANGIBLE PAYOFFS – FROM SUPPLY-CHAIN SECURITY TO INFRASTRUCTURE RESILIENCE TO LONG-TERM FINANCIAL STABILITY,

says Tony Blair Institute for Global Change.

But as businesses beginning pushing their Environmental, Social and Governance (ESG) responsibilities to the bottom of the corporate agenda as attentions focus on other macroeconomic issues, Matt Weston, Senior Managing Director UK & Ireland, Robert Half warns that the move has a potentially dangerous impact on workforce relationships.

According to research almost half (47%) of workers revealed that they care more about their employer's environmental impact than they did three years ago. A further 60% stated that organizations need to do more on ESG, while 67% said that businesses have a responsibility to reduce their environmental impact. Despite this, 56% believe that most employers only talk about ESG 'for show', which signals talent pools can be sensitive to green washing and the ESG U-turns some companies make.

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

But it isn't just an issue for Gen Z workers, who have historically placed a greater focus on choosing a company based on its commitment to ESG, but also those aged 35-54 (61%) believing that organisations need to do more on ESG issues, with 71% of this age group indicating that organizations have a responsibility to reduce their environmental impact, higher than those aged 18-34 (63%).

"It appears that ESG has slid down the corporate agenda for some companies. However, as our data clearly demonstrates, employees still place a significant value on businesses that can balance profit with purpose. With workers already stating that they feel leaders are paying 'lip service' to ESG and more firms reducing their efforts, there is a risk of a disconnect between workers and employers. A weakened employer brand will only result in a challenge for talent acquisition and management strategies in the longer term in a skills short job market," comment Weston.

"What is certainly of interest is that this is no longer an issue that matters more to the younger generations, which has historically been the case. The fact that all employees in the workforce are increasingly placing a level of importance on a firm's ESG commitment demonstrates that employers really are at risk of damaging their ability to both attract and retain core staff. This also underscores the need for businesses to honestly and transparently communicate their commitment to workplace culture, ethical leadership, and sustainability."

Company values play a significant role in workers' decisions. Robert Half's research finds that nearly 50% agree they care more about their employer's environmental impact now than three years ago, with 78% agreeing that organisations have a responsibility to look after their people as well as those in the supply chain.

Interestingly, this is no longer an issue that matters more to the younger generations. The fact that all employees in the workforce are increasingly placing a level of importance on a firm's ESG commitment underscores the need for SMEs to honestly and transparently communicate their commitment to workplace culture, ethical leadership, sustainability, and their wider impact on society.

As we head into the next SME Barometer, to adapt to the volatile journey ahead, one thing is clear – SMEs will need a change in mindset to one that places their purpose above profit. Those SMEs that do, find they accelerate their innovation, inspire employees, and build customer and brand loyalty, gain a competitive advantage – and interestingly, in clarifying their purpose, SMEs can also boost their bottom line as well.

LOOK OUT FOR THE NEXT EDITION OF THE SME BAROMETER

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