

SME **Q2 2023** Barometer

An SME Led Recovery

AGRICULTURE



paragon



A word from **Ashley Butterfield**

Regional Director, Commercial Finance

If the UK economy is return to strong and sustained growth, it is essential that we have a successful agriculture sector.

Recent years have presented SMEs in our sector with a continuous series of challenges, but they have endured and fulfilled their vital role in the nation's economy – and now they are ready to take proactive steps that will support wider economic recovery.

That is the finding of the new report, An SME Led Recovery, published today by Paragon Bank. Featuring fresh research, commissioned by Paragon from leading polling organisation Opinium, the report uncovers plans for new investment, expanded workforces, and increased confidence.

Whilst our sector traditionally records seasonal rises and falls in staffing levels, that more firms are planning to increase their full-time staffing is a further welcome sign of confidence.

As SME lending specialists, Paragon works with agriculture SMEs on a daily basis to understand the challenges they face and deliver bespoke financing solutions to ensure they can fulfil their growth potential. We share their passion for their business and the sector, and we are committed to supporting them in driving growth in the economy.

With An SME Led Recovery uncovering a sector that is confident and investing in the future, it is clear that agriculture SMEs are going to help drive a return to growth in the UK economy – and I look forward to working with them to ensure they reach their full potential.

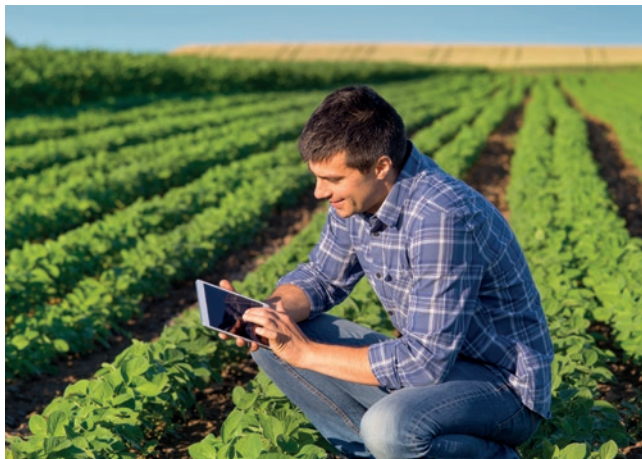
Plans for investment

Agriculture SMEs are planning to increase investment over the next six months, with fresh spending planned and under consideration across key operational areas.

Over a third (37%) will increase investment with 54% planning to maintain current investment levels and only 7% expected to reduce spending.

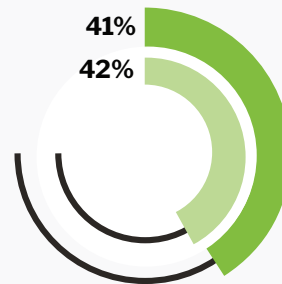
Equipment and machinery lead the planned investment of SMEs, with 41% and 37% of all agriculture SMEs planning to invest in each respectively.

The renewed investment will also see the number of SMEs investing in electric vehicles rise from 10% in the last six months to 14% across the next six

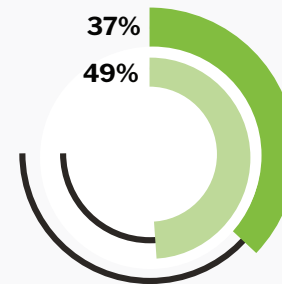


Past vs. planned investment

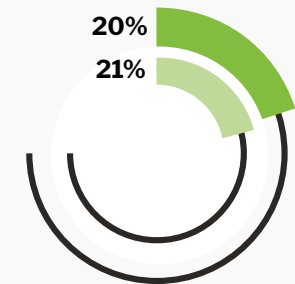
■ Last six months
 ■ Next six months



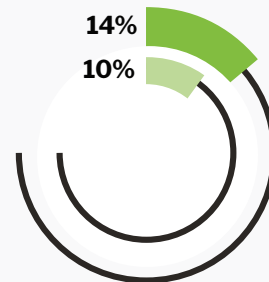
Equipment



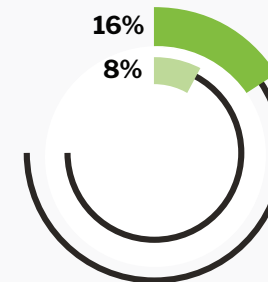
Machinery



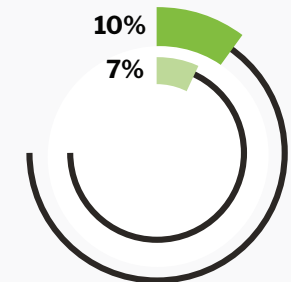
Recruitment



Electric Vehicles



HGVs



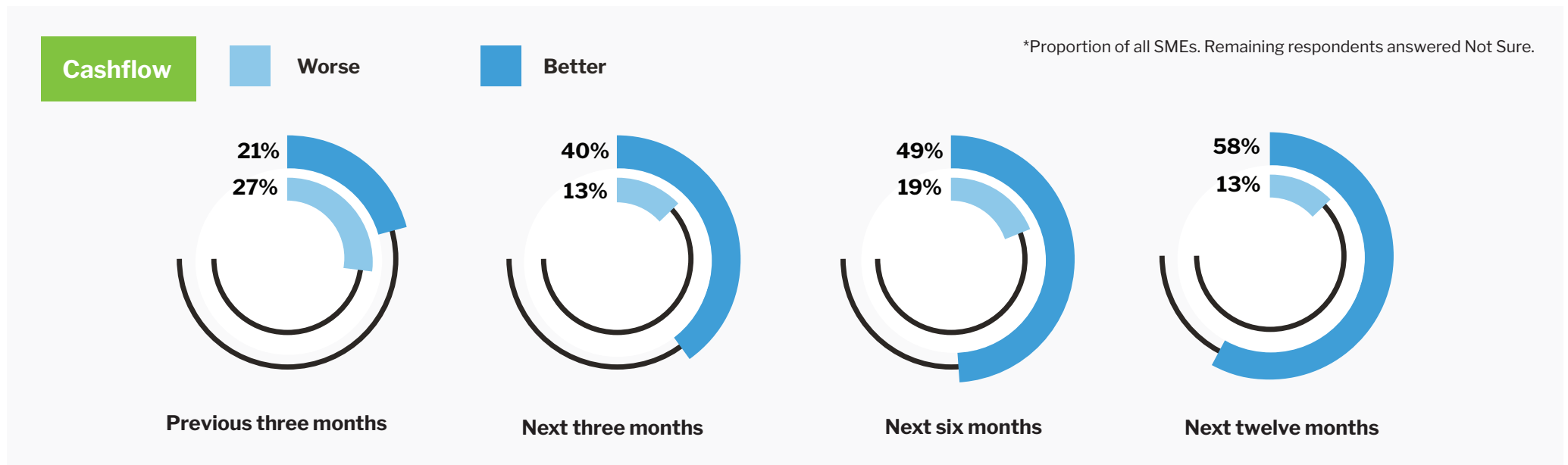
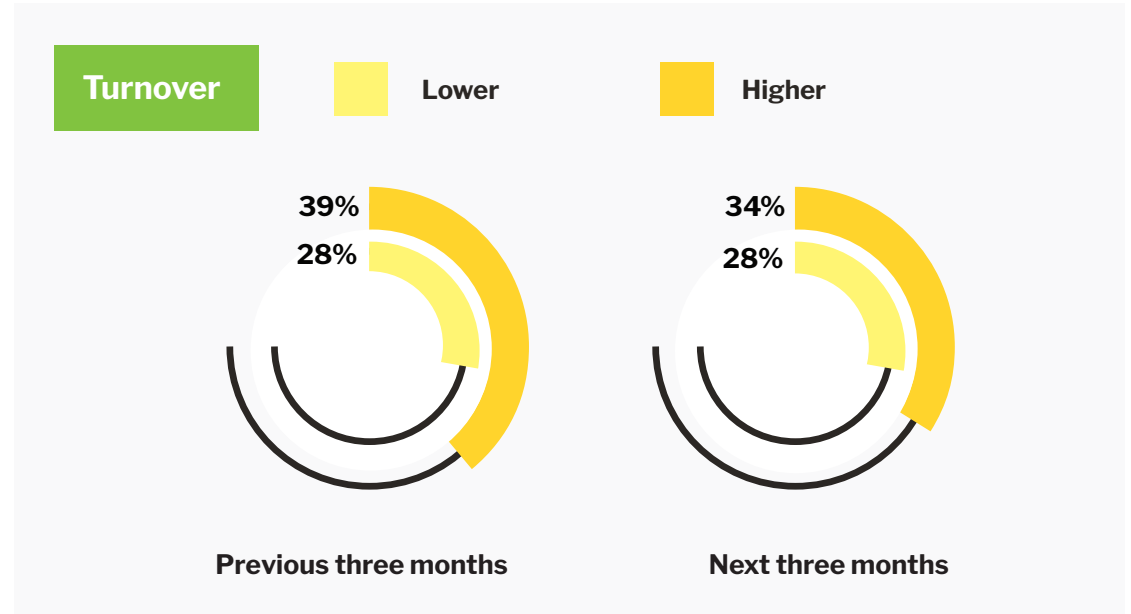
LCVs

Cashflow and turnover improvements

Plans to increase investment are matched by the expectations of transport agriculture for strong improvements to cashflow over the next year.

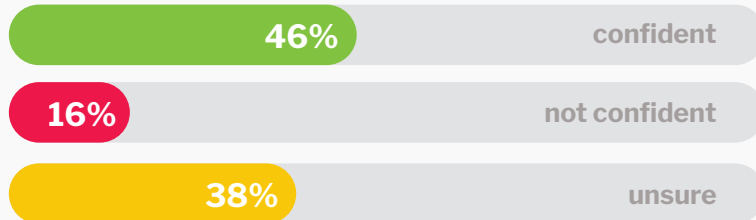
The research found that 45% of SMEs predict that their cashflow will improve substantially over the next three months, rising to 49% over the next six months and 51% over the next year. Only 23% of SMEs had seen their cashflow improve over the previous three months.

Turnover is also set to improve – 39% of transport SMEs reported rising turnover levels during the first quarter of the year, with 34% expecting turnover to improve further during the second quarter, compared to 28% that forecast a fall.

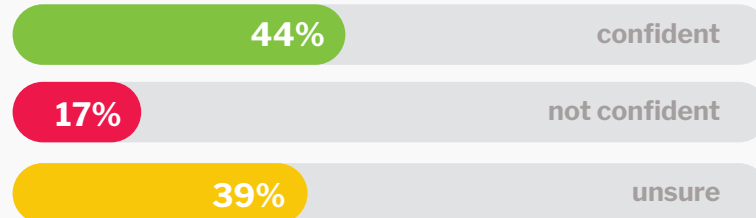


Confidence in the next three months

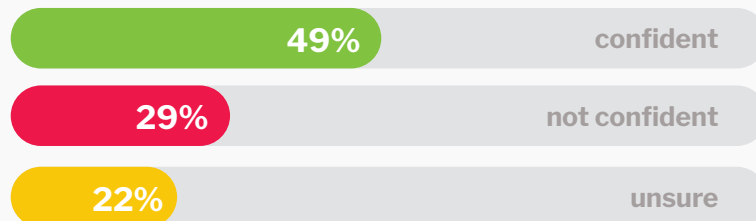
Own Business



Own Sector



UK Economy



*Other respondents Prefer not to Say.

Renewed confidence

Transport SMEs expressed confidence in their prospects for their own businesses and the sector in which they operate – with concurrent confidence in the macro environment.

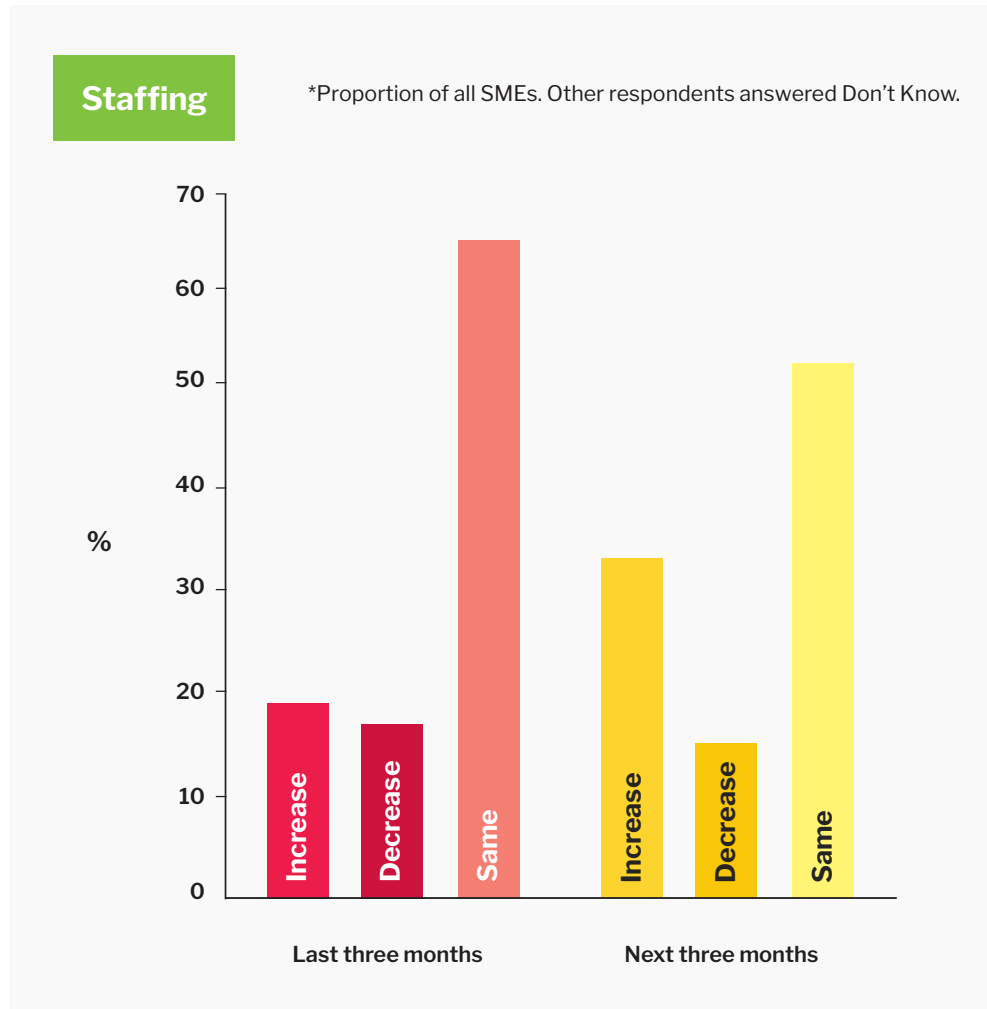
Just under half of SMEs said they were confident in their own business (46%) and their sector (44%) in the next three months, compared to 16% and 17% respectively that were not confident. Confidence in the wider UK economy was marginally higher than that for the agriculture sector, with 49% of SMEs surveyed responding positively.



Staffing increases

Along with increased asset investment and improved cashflows, agriculture SMEs are also planning to increase their full-time work forces to meet the needs of increased activity.

A third (33%) of businesses planning to recruit over the next six months, with only 15% planning on reductions.



Planned financing

The research found that 38% of agriculture SMEs sought additional financing over the last three months, with 44% of those businesses seeking over £100,000.

While 3% of this group received no additional financing, 17% received some of the finance they were seeking, and the remaining 18% received all of the financing they sought.



Financing sought

Under £50,000	<div></div>	18%
£50,001 to £75,000	<div></div>	13%
£75,001 to £100,000	<div></div>	11%
£100,001 to £250,000	<div></div>	13%
£250,001 to £500,000	<div></div>	21%
£500,001 to £1,000,000	<div></div>	11%
£1,000,001 to £2,500,000	<div></div>	11%
More than £2,500,000	<div></div>	0%

Financing received

Under £50,000	<div></div>	29%
£50,001 to £75,000	<div></div>	29%
£75,001 to £100,000	<div></div>	24%
£100,001 to £250,000	<div></div>	12%
£250,001 to £500,000	<div></div>	0%
£500,001 to £1,000,000	<div></div>	6%
£1,000,001 to £2,500,000	<div></div>	0%
More than £2,500,000	<div></div>	0%

*Proportion of all SMEs. Remaining respondents answered Prefer not to say.

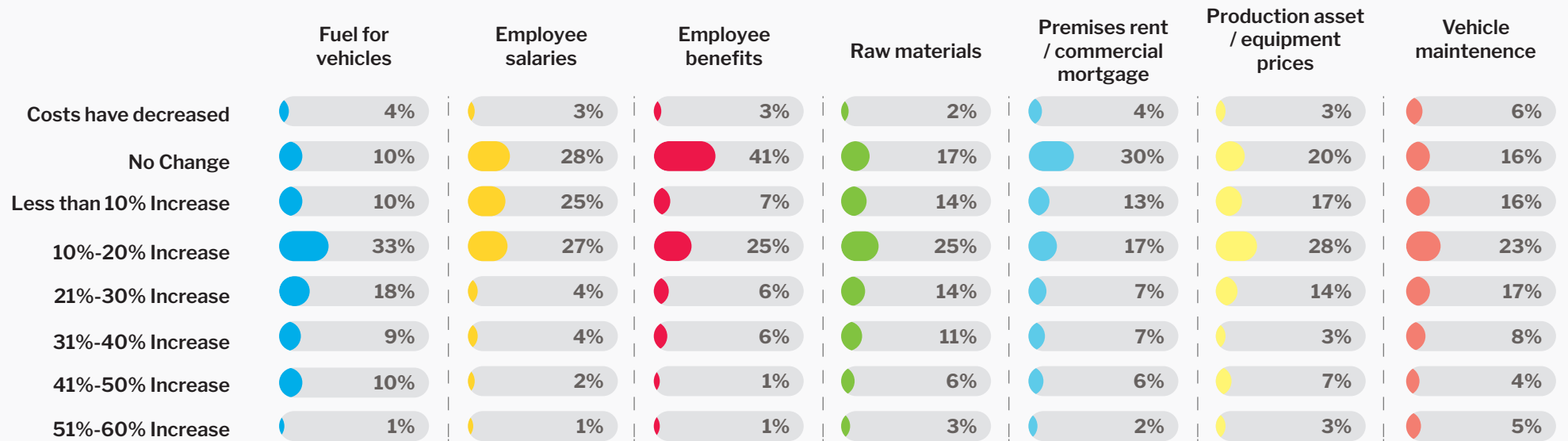
Business costs

Increases to vehicle fuel costs impacted 86% of agriculture SMEs over the previous three months, closely followed by raw materials with 81% reporting increases.

Vehicle maintenance increases affected 78% of firms surveyed.

Agriculture SMEs also reported increases to asset and equipment costs, with increases reported by 77% of firms.

Businesses not reporting increases to their operating costs may be a result of their benefiting from prior fixed-pricing agreements with suppliers covering the period in question.



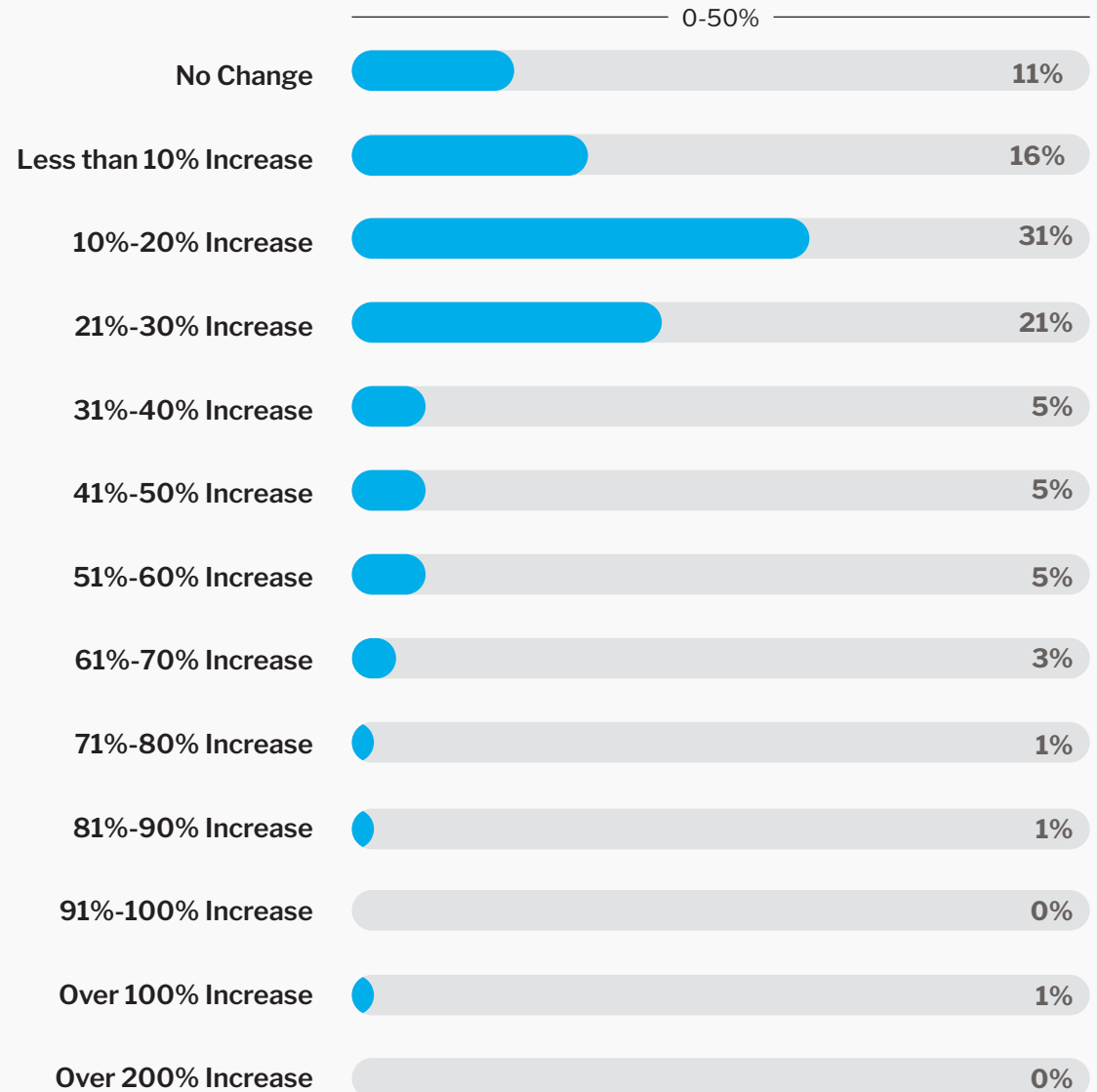
*Respondents asked to select all that apply to their business.

Energy costs

Almost nine in 10 (89%) agriculture SMEs have reported increases in their energy costs in 2023, including 31% reporting an increase of between 20% and 50% - and 11% recording an energy bill hike in excess of this.

John Phillipou, Paragon Bank SME Lending Managing Director, said: "The cost of energy has negatively impacted the majority of business throughout the UK, even with the Government support package.

"However, it's also positive that companies have been looking at ways they can reduce their energy bills by making themselves more efficient. We have seen businesses invest in their operations with the addition of more energy efficient equipment, whilst we have also funded changes to premises, such as the addition of solar panels. These are positive steps towards a greener future."

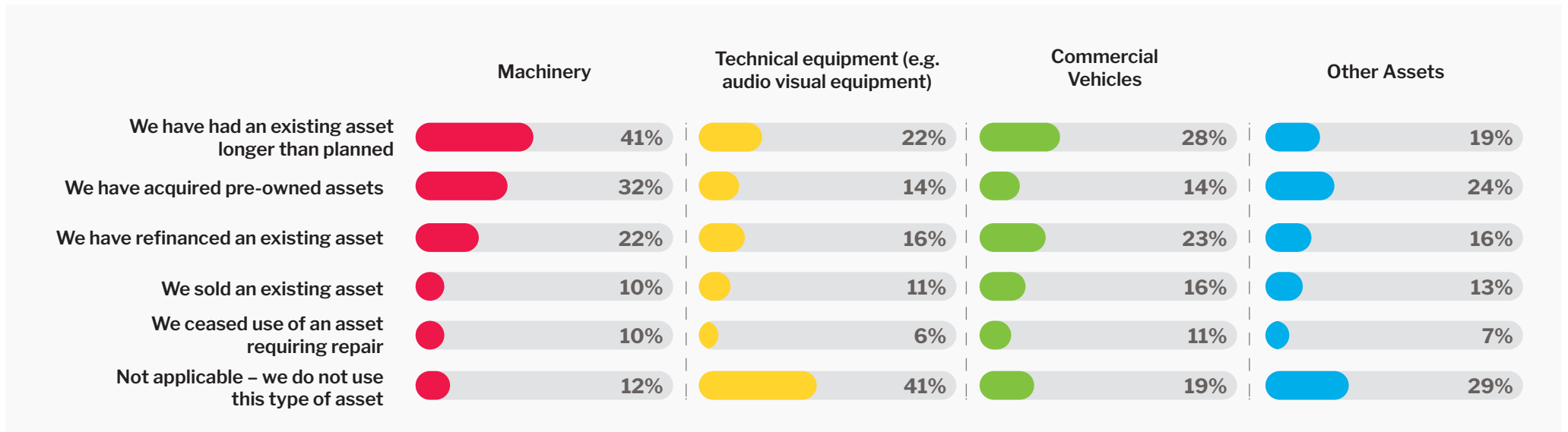


Supply chains

Agriculture SMEs have been forced to extend the life of their existing assets as global supply chain issues reduce the availability of new assets.

Over four in 10 (41%) had operated existing machinery longer than planned in the past 12 months, with 32% acquiring pre-owned assets due to the unavailability of new assets – and 22% reported that they had refinanced existing equipment.

A similar story was reported with commercial vehicles, with 28% of SMEs running these for longer than planned and 14% acquiring pre-owned equipment.



Case study

Conwy-based fencing contractor S.E. Metcalfe has added a new post driver to its operations after securing asset financing from Paragon Bank.

The Llanrwst firm, which specialises in livestock, habitual, and environmental fencing, acquired the EVO Compact Post Driver thanks to a £50,000 funding package provided by the Paragon's SME Lending division after being introduced by the manufacturer, Protech Machinery.

Equipped with a 300kg hammer and a 2-way mast tilt, S.E. Metcalfe will use the post driver to support their work throughout North Wales and the wider region – which has included working with the National Trust, Snowdonia National Park and the Forestry Commission.

A provider of bespoke, environmentally friendly fencing solutions, S.E. Metcalfe worked closely with Paragon's Agriculture team to develop a funding solution that complimented their business plans and growth goals.

Commenting on the funding arranged for S.E Metcalfe, Kyle Johnson, Business Development Manager in Paragon's Agriculture team, said: "It has been fantastic to work with S.E. Metcalfe and to see the real benefit the new EVO Compact Post Driver will bring to their business. If our countryside is to be cared for and protected it is essential that businesses are able to acquire the right equipment for their operations – and Paragon is ready to work with them to ensure that they do."

